REPORT ON FINANCIAL MARKET DEVELOPMENTS IN 2020

July 2021

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The data presented in this report were obtained from the specified sources in April and in May 2021 and may differ from data presented in previous editions of this publication because of revisions made in the meantime.

SUMMARY OF DEVELOPMENTS IN 2020

Macroeconomic Situation

Gross domestic product declined by 5.6%, pushed down by the effects of the COVID-19 pandemic, but this was broadly in line with EU developments. Government consumption expenditure was the only area to cushion the fall in domestic GDP. The consumer price index rose at its highest annual rate in five years, climbing by 3.2%. The unemployment rate nudged up only slightly to 2.6%, remaining the lowest in the EU and well below the EU average. For the first time in four years, the general government sector posted a deficit, which amounted to 6.2% of GDP. This, coupled with the economic downturn, was reflected in a 7.8 pp rise in the general government debt ratio to 38.1% of GDP.

Monetary Policy and Foreign Exchange Market

In the context of the expected impact of the COVID-19 pandemic, the CNB cut monetary policy rates three times. Consequently, the two-week repo rate fell by 2.0 pp to 0.25% p.a. The average CZK/EUR exchange rate weakened only slightly year on year to CZK 26.4 per EUR.

Placement of Funds in the Financial Market

The volume of funds placed on the financial market rose by 8.5% to CZK 7.5 trillion, the highest absolute rise and the second highest growth rate in the last five years. In absolute terms, it was deposits in credit institutions that again increased the most year on year (by CZK 422.7 billion) and thus strengthened their position as the most important item in terms of share in total funds to 68.8%.

Structure of Household Savings

The volume of household savings placed in financial market products and instruments rose by 14.0% to almost CZK 5.0 trillion. This leap was partly due to a methodological change that refined and consequently increased the reported volume of listed shares held by households. As in the last five years, the largest absolute year-on-year increase (by CZK 384.4 billion) was again reported by demand deposits. In doing so, they increased their share in total household savings (to 53.5%) more than any other product compared to the end of 2015. At the other end of the scale, the largest decline in household savings in 2020 (by 1.8 pp) and compared to the end of 2015 (by 4.6 pp) was recorded by term deposits.

Household Indebtedness

Household indebtedness rose by 5.9% year on year to CZK 1.9 trillion. In the long term, the most significant and gradually increasing share was accounted for by loans for house purchase (74.7%). Despite the increase in the volume of debt and the decline in GDP, the relative household-debt-to-GDP ratio remained relatively low compared to the rest of the EU (34.0% of GDP).

Financial Market Entities

There were no major changes in the number of entities in each sector, except for the continued decline in the number of capital-market intermediaries and insurance intermediaries. In the main sector of credit institutions, the credit union Družstevní záložna PSD went into liquidation. In the insurance sector, four branches of foreign insurance companies closed down and one branch opened.

Banking Sector

The banking sector (including building savings banks) recorded asset growth by 5.2% to CZK 8.0 trillion, and in doing so kept to tradition and confirmed its dominant position. The total capital ratio, a key factor in the sector's resilience, rose again year on year to a new all-time high of 24.4%. The effects of the COVID-19 pandemic did not have a major impact on developments in most of the sector's year-end composite indicators. Pre-tax profit was an exception, almost halving to CZK 57.1 billion, mainly due to an increase in provisioning and a decline in net interest income. The ratio of non-performing loans to total client loans rose only slightly year on year (by 0.2 pp) to 2.7%.

Interest Rates

The CNB's reduction in monetary-policy rates was gradually reflected in a decline in average annual client deposit and lending rates for most key sectors, which, for the most part, fell to levels close to their troughs. As for interest rates on loans for consumption extended to households, the 0.6 pp year-on-year decline to 9.0% easily surpassed the all-time low from 2019.

Deposits and Loans

The volume of client bank deposits rose by 8.9% indicating a year-on-year increase in growth momentum. Over the past five years, deposits expanded by 46.6% to an all-time high of CZK 5.2 trillion. The volume of client bank loans grew at a similar rate to 2019 (by 4.2%) to CZK 3.6 trillion, also an all-time high. The ratio of client deposits to client loans in the banking sector was 143.6%, again among the highest in the EU.

Mortgage Market

The volume of new mortgage loans more than doubled year on year, rising by 106.4% to CZK 979.1 billion. Purely new mortgage loans (i.e. net of any refixed or refinanced mortgages) granted to the private individuals by banks and building savings banks rose by 34.3% to a record CZK 216.8 billion. There were 312,700 newly concluded contracts, a 75.4% year-on-year increase. The average amount for a new mortgage broke through CZK 3 million. The total outstanding volume of mortgage loans increased by 9.9% to almost CZK 2.2 trillion. This means that within five years the owed amount of mortgage loans has risen by 73.6%.

Building Savings Banks

Building savings banks concluded 462,000 contracts under building savings schemes (down by 4.8%) and 55,000 loan contracts. The volume of newly granted loans increased by 36.8% to CZK 65.4 billion, the fifth highest value in the history of building savings scheme. Savings increased slightly (by 0.8%) to CZK 362.7 billion. However, the share of household deposits with building savings banks in total household deposits fell by 1.2 pp to 11.2%. The total volume of outstanding loans rose by 5.5% to a record CZK 293.5 billion. The loan-to-savings ratio increased by 3.6 pp to an all-time high of 80.9%. The state paid CZK 4.1 billion in direct state contributions.

Credit Unions

Total assets in the credit union sector were down by 1.7% year on year to CZK 10.0 billion and continued to account for just 0.1% of the assets of all credit institutions. The ratio of non-performing loans and receivables to total loans and receivables rose to 28.9%, the highest level since 2017. Although the total capital ratio fell to 26.4%, this was the second best result historically and was still above the average recorded for the past five years.

Non-Bank Financing Providers

After four years of continuous growth, the non-bank sector's total assets fell by 4.7% year on year to CZK 417.4 billion. The volume of loans granted decreased year on year for the first time in six years, falling by 2.6% to CZK 321.1 billion. Least affected by this decline were finance-leasing companies (down 1.7%), which dominated the sector with a share of around three quarters. A 5.4% decline was recorded both by companies providing other forms of lending and by factoring and forfaiting companies.

Regulated and OTC Markets

The PX, the main Czech stock market index, fell by 7.9% year on year to 1,027.1 points. This was a trend similar to numerous indices in other countries, especially within the EU. In contrast to this, the volume of stock exchange trading rebounded from its previous year-on-year decline to post a modest 11.2% rise to CZK 134.5 billion. The volume of trading within RM-S, which focuses mainly on retail investors, more than doubled to CZK 4.6 billion.

Investment Firms and Asset Management

The volume of assets of non-bank investment firms rose again year on year (by 12.3%) to CZK 29.6 billion, thus reaching a new peak. The volume of assets entrusted to asset managers grew at half the rate (by 5.8%) to a total of CZK 1.7 trillion.

Investment Funds

Assets under management in funds increased by 7.0% to a record CZK 735.8 billion. Here, qualified investor funds grew twice as fast (by 11.8% to CZK 146.1 billion) as the sector-dominating collective investment funds (by 5.9% to CZK 589.7 billion). In terms of the placement of funds in individual types of mutual funds, the share of mixed funds increased among domestic funds (by 8.0 pp to 43.5%), whereas equity funds enjoyed the highest share among foreign funds (34.3%) for the first time in a reporting period.

Insurance Companies

Gross premiums written continued to grow for the fourth year, increasing by 1.2% to CZK 168.0 billion. The overall strengthening of the insurance sector was driven by the non-life segment (up 3.2%). Life insurance, on the other hand, declined (by 3.0%). The total number of insurance contracts decreased slightly year on year (by 0.5%). The numbers of new contracts also fell (by 24.2%), both in the non-life (by 24.7%) and life segments (down 14.7%).

Supplementary Pension Insurance and Supplementary Pension Savings

The assets of participants in the Pillar 3 of the pension system increased by 8.4% to CZK 527.9 billion, while the total number of participants decreased slightly by 0.7% year on year to 4.42 million persons. The average monthly participant's contribution increased to CZK 754 in supplementary pension insurance scheme and to CZK 812 in supplementary pension savings scheme. The share of contracts with an employer's contribution increased by 0.6 pp to 23.5% and the average monthly employer's contribution in both supplementary pension insurance and supplementary pension savings schemes recorded its highest annual increase in the last five years, climbing to CZK 1,017 and CZK 1,099, respectively. The total direct state support paid to participants rose slightly to CZK 7.4 billion. Despite the slump on the financial markets in spring 2020, the majority of participation funds with dynamic and balanced investment strategies managed to outperform the average annual inflation rate with their average yield rates at the end of 2020. Once again, none of the mandatory conservative participation funds or transformed funds offered returns even at the level of price growth.

Financial Market Legislation

The COVID-19 pandemic prompted the adoption of several laws (an amendment to the CNB Act, the Act on Certain Loan Repayment Measures in Connection with the COVID-19 Pandemic, an amendment to the Consumer Credit Act, the Act on the Provision of a State Guarantee of the Czech Republic to Secure the Debts of Českomoravská záruční a rozvojová banka, a.s. Arising from the Guarantee of Debts on Loans in Connection with the Mitigation of Negative Impacts Caused by the SARS CoV-2 Virus, and an amendment to the Insurance and Reinsurance Distribution Act). The Act Amending Certain Financial Market Regulation Acts took effect. On a European scale, the Regulation on a framework for the recovery and resolution of central counterparties, the Regulation on European Crowdfunding Service Providers (ECSP) for Business, an amendment to the regulation on prudential requirements in response to the COVID-19 pandemic, and the Capital Markets Recovery Package to counter the economic impact of the COVID-19 pandemic were approved.

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 5.6% decline in 2020 due to the impact of the COVID-19 pandemic (Table 1.1). Against the background of the pandemic's international impact, this pace was broadly in line with developments in the EU and some economies in the region (Hungary and Slovakia). The US and Poland recorded less of a decline (around 3%), while the deepest slump was in the UK (almost 10%). China was the only one of the economies monitored to record year-on-year growth (1.8%), despite a slowdown in its momentum.

Table 1.1: Annual GDP growth

As at 31 Dec (%)	2015	2016	2017	2018	2019	2020	Year-on-year change (pp)
United States	3.1	1.7	2.3	3.0	2.2	-3.5	-5.7
China	6.9	6.7	7.0	6.8	6.0	1.8	-4.2
European Union (27)	**2.2**	**2.0**	**2.9**	**2.1**	**1.6**	**-6.3**	**-7.9**
Eurozone (19)	1.9	1.8	2.7	1.9	1.3	-6.8	-8.1
Germany	1.2	2.1	2.9	1.3	0.6	-5.3	-5.9
Austria	0.9	2.0	2.5	2.5	1.4	-6.7	-8.1
United Kingdom	2.4	1.7	1.7	1.3	1.4	-9.8	-11.2
Poland	4.2	3.2	4.9	5.4	4.6	-2.7	-7.3
Czech Republic	**5.5**	**2.4**	**5.4**	**3.2**	**2.2**	**-5.6**	**-7.8**
Hungary	3.8	2.1	4.5	5.4	4.6	-5.1	-9.7
Slovakia	4.8	2.1	3.0	3.8	2.3	-5.2	-7.5

Source: MoF – Macroeconomic Forecast (seasonally adjusted data)

Looking through the prism of domestic GDP expenditure components (Table 1.2), most components – especially the decline in gross capital formation (3.6 pp) and household final consumption (2.4 pp) – had a negative impact on GDP. By contrast, general government consumption expenditure was the only sector to cushion the GDP decline by making a positive 0.7 pp contribution to GDP growth.

The trend of a steady decline in the unemployment rate stalled in 2020 due to the effects of the COVID-19 pandemic. Even so, unemployment growth was comparatively mild (0.6 pp), as it was dampened by supportive fiscal measures. The Czech Republic continued to report the lowest unemployment rate in the EU, well below the EU average of 7.5%.

For the first time in four years, the general government sector posted a deficit, which amounted to 6.2% of GDP. This, coupled with the downturn in GDP, was reflected in a 7.8 pp rise in the general government debt ratio to 38.1% of GDP. However, during the reporting period the decline in previous years led to a slight reduction in debt compared to the end of 2015 (by 1.6 pp).

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

As at 31 Dec	2015	2016	2017	2018	2019	2020
Gross domestic product (real growth in %)	5.4	2.5	5.2	3.2	2.3	-5.6
of which: final consumption expenditure of households (pp)	1.9	1.8	1.9	1.7	1.4	-2.4
final consumption expenditure of government (pp)	0.3	0.5	0.3	0.7	0.4	0.7
gross capital formation (pp)	3.4	-1.1	1.7	2.0	0.4	-3.6
net exports (pp)	-0.2	1.4	1.2	-1.2	0.0	-0.3
Unemployment rate[1] (% annual average)	5.1	4.0	2.9	2.2	2.0	2.6
General government balance (% GDP)	-0.6	0.7	1.5	0.9	0.3	-6.2
General government debt (% GDP)	39.7	36.6	34.2	32.1	30.3	38.1

Source: MoF

[1] Measured by the Labour Force Survey Method.

The consumer price index in the Czech Republic rose again year on year, by 3.2%. This was the highest rate of growth in the reporting period (Table 1.3). Globally, however, in consumer price developments in 2020 in the economies monitored, the impact of the COVID-19 pandemic and the associated anti-inflationary decline in aggregate demand dominated over the potentially inflationary consequences of supply-side restrictive measures and demand-side loosened monetary and fiscal policy. The rate of price level growth thus slowed in most of the other economies monitored, with the exception of Poland and Hungary. As usual, Japan reported the lowest rate of price growth. Other major economies such as Germany, the US, and the UK also reported low levels.

Table 1.3: Consumer price indices in selected economies

Average in given year (%)	2015	2016	2017	2018	2019	2020
United States	0.1	1.3	2.1	2.4	1.8	1.2
China	1.4	2.0	1.6	2.1	2.9	----
Japan	0.8	-0.1	0.5	1.0	0.5	0.0
Russia	15.5	7.0	3.7	2.9	4.5	3.4
European Union (27)	**0.1**	**0.2**	**1.6**	**1.8**	**1.4**	**0.7**
Eurozone (19)	0.2	0.2	1.5	1.8	1.2	0.3
Germany	0.5	0.5	1.5	1.7	1.4	0.5
Austria	0.9	0.9	2.1	2.0	1.5	1.4
United Kingdom	0.4	1.0	2.6	2.3	1.7	1.0
Poland	-0.9	-0.6	2.0	1.7	2.3	3.4
Czech Republic	**0.3**	**0.7**	**2.5**	**2.1**	**2.8**	**3.2**
Hungary	-0.1	0.4	2.3	2.9	3.3	3.3
Slovakia	-0.3	-0.5	1.3	2.5	2.7	1.9

Source: CZSO, OECD

1.2 Monetary Policy and Foreign Exchange Market

The previous three-year trend of tightening monetary policy in the Czech Republic was reversed in 2020 when the CNB initially raised the basic 2W repo rate to 2.25% in February in response to inflationary pressures, only to gradually reduce it by 2.00 percentage points to 0.25% in March and May. The move placed it among other central banks that decided cut their key rate in 2020. Indeed, most major central banks around the world responded to the effects of the COVID-19 pandemic by cutting their monetary-policy rates (Table 1.4). The only exceptions were the central banks of Japan and the euro area, which kept rates unchanged for the fifth consecutive year. It should be noted, however, that both these central banks already had the lowest rates, and cutting them any further would mean an even deeper drop below zero.

Table 1.4: Key monetary policy rates of selected central banks[2]

As at 31 Dec (% p.a.)		2015	2016	2017	2018	2019	2020
United States	Fed	0.25–0.50	0.50–0.75	1.25–1.50	2.25–2.50	1.50–1.75	0–0.25
Eurozone	**ECB**	**0.05**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Japan	BoJ	0.00	-0.10	-0.10	-0.10	-0.10	-0.10
United Kingdom	BoE	0.50	0.25	0.50	0.75	0.75	0.10
Poland	NBP	1.50	1.50	1.50	1.50	1.50	0.10
Czech Republic	**CNB**	**0.05**	**0.05**	**0.50**	**1.75**	**2.00**	**0.25**
Hungary	MNB	1.35	0.90	0.90	0.90	0.90	0.60

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

The US central bank (the Fed) was the only central bank monitored to embark on a gradual reduction in its rates back in 2019. Responding to the uncertainty associated with the COVID-19 pandemic, it cut its key rate

[2] 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.

by an even sharper 1.5 pp to 0-0.25% in March 2020. Notwithstanding the different trends witnessed in the individual years, all the monitored central banks around the world set key rates to their lowest level in the six-year reporting period.

Besides adjusting the level of their interest rates, the monetary policy of the world's major central banks – unlike that of the CNB – responded to the effects of the COVID-19 pandemic with other far-reaching measures, e.g. by expanding asset purchase programmes or providing preferential financing to the banking sector.

The Czech koruna's exchange rate against selected currencies (Table 1.5) was also affected by the consequences of the COVID-19 pandemic, i.e. heightened uncertainty about how financial markets would respond and about the slump in global trade volumes. In particular, at the beginning of the pandemic in March 2020, currencies considered more vulnerable found themselves depreciating. This decline was subsequently partially corrected during the year when the accommodative monetary policy pursued by the world's major central banks took effect and hopes were raised that the COVID-19 vaccination would have a positive economic impact.

The Czech koruna's average annual exchange rate subsequently depreciated primarily against currencies regarded by investors as safe havens at a time of elevated uncertainty – by 3.2% against the Japanese yen, 3.0% against the euro, and 1.1% against the US dollar. Conversely, the Czech koruna appreciated against the Russian rouble by 9.0%, the Hungarian forint by 4.6%, and the Polish zloty by a slight 0.3%. With all three of these currencies, this was a continuation of the prevailing trend of the past six years of the reporting period.

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

Average exchange rate		2015	2016	2017	2018	2019	2020	Year-on-year change (%)
United States dollar	CZK/USD	24.6	24.4	23.4	21.7	22.9	23.2	1.1
Euro	**CZK/EUR**	**27.3**	**27.0**	**26.3**	**25.6**	**25.7**	**26.4**	**3.0**
Chinese yuan	CZK/CNY	3.9	3.7	3.5	3.3	3.3	3.4	1.2
Japanese yen	CZK/100 JPY	20.3	22.5	20.8	19.7	21.0	21.7	3.2
British pound	CZK/GBP	37.6	33.1	30.1	29.0	29.3	29.7	1.6
Russian rouble	CZK/100 RUB	40.6	36.6	40.1	34.7	35.4	32.2	-9.0
Polish zloty	CZK/PLN	6.5	6.2	6.2	6.0	6.0	6.0	-0.3
Hungarian forint	CZK/100 HUF	8.8	8.7	8.5	8.0	7.9	7.5	-4.6

Source: CNB, MoF calculations

2 PLACEMENT OF FUNDS ON THE FINANCIAL MARKET

The volume of funds placed on the financial market[3] continued along a path of long-term growth, increasing by CZK 586.0 billion (8.5%) to CZK 7.5 trillion in 2020 (Table 2.1). This was the highest absolute increase and the second highest rate of growth in funds in the reporting period since 2015.

Table 2.1: Placement of funds on the financial market

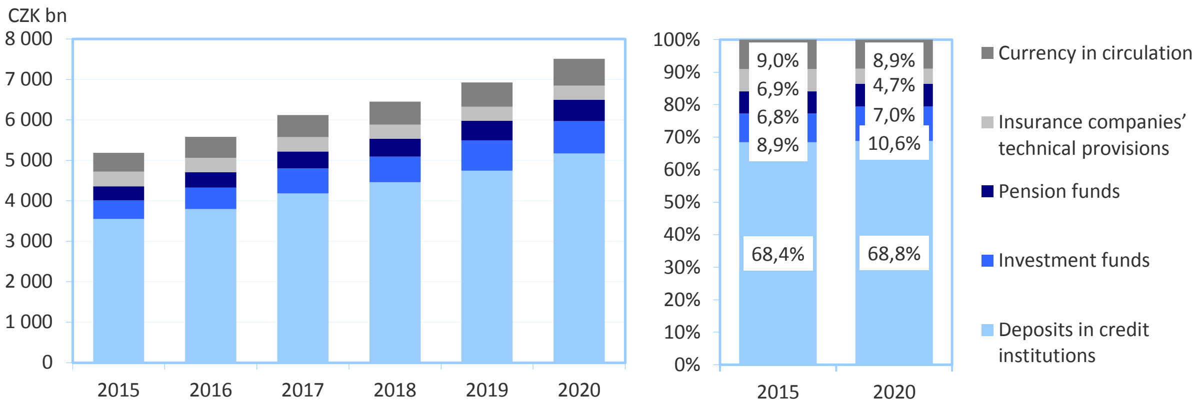
As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Deposits in credit institutions[4]	3,548.5	3,796.4	4,188.1	4,461.5	4,747.4	5,170.1	422.7	8.9
of which: building savings schemes	384.2	362.6	358.9	355.0	359.7	362.7	2.9	0.8
Investment funds	459.4	528.4	614.2	627.8	746.0	798.2	52.2	7.0
Pension funds	352.6	381.6	413.9	447.1	487.1	527.9	40.8	8.4
Insurance companies' technical provisions	359.5	358.6	359.5	345.3	348.3	349.6	1.3	0.4
Currency in circulation	467.1	514.3	548.3	571.2	598.9	668.1	69.1	11.5
Total	5,187.1	5,579.3	6,124.0	6,452.8	6,927.8	7,513.8	586.0	8.5

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

The highest absolute increase in the volume of funds, as in the reporting period as a whole, was again in the most significant volume-related item, i.e. deposits in credit institutions. In fact, in 2020 the volume of deposits recorded its highest absolute growth in the reporting period. This subsequently contributed to a slight increase in the share of deposits in credit institutions in total funds to 68.8% (Graph 2.1).

Unusually, the highest growth rate among the monitored categories of funds was recorded by currency in circulation. Here, absolute growth in 2020 was a record high for the reporting period. As a result, after its previous slight decline the share of currency in circulation in total funds increased to a level last reached in 2018. Despite their below-average growth in 2020, assets held in investment funds were the item that saw their share increase the most compared to the end of 2015 in terms of developments in how the placement of funds is structured, rising by 1.8 pp to 10.6%. In contrast, the share of insurance companies' technical provisions decreased the most (by 2.3 pp). Since 2015, the share of assets in pension funds remained stable at between 6.8% and 7.0% of total funds.

Graph 2.1: Placement of funds on the financial market



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

Note: The right side of the graph shows the comparison of funds placement structure (in %) between 2015 and 2020.

3 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 on 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.

4 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[5] continued its long-term growth during 2020, increasing by CZK 612.3 billion (14.0%) to almost CZK 5.0 trillion (Table 3.1). However, the growth in the total volume of household savings and the changes in their structure, as described below, were heavily affected in 2020 by a methodological change resulting in the refinement of estimates of the volume of shares and other equity interests held by households. This was the main reason for the significant increase in the volume of listed shares (i.e. shares traded on regulated markets) in the first quarter of 2020 (by CZK 158.7 billion). However, even if that methodological change had not been made and the volume of listed shares at the end of 2020 had remained unchanged year on year, this would still have been the highest year-on-year absolute and relative increase in total savings in the reporting period since 2015.

Table 3.1: Structure of household savings

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Demand deposits	1,550.6	1,755.7	1,958.5	2,139.7	2,276.6	2,661.0	384.4	16.9
Term deposits	663.6	623.3	563.3	571.3	591.1	537.8	-53.3	-9.0
of which: building savings schemes	379.7	358.3	292.2	349.9	356.6	359.8	3.2	0.9
Pension funds	351.1	380.8	412.8	446.3	483.5	522.9	39.5	8.2
Life insurance	270.8	278.8	277.1	265.2	267.6	268.4	0.8	0.3
Investment funds	332.8	375.8	433.7	451.6	520.4	566.5	46.1	8.9
Debt securities	232.2	197.8	161.5	128.6	145.3	158.3	13.1	9.0
Listed shares	53.5	58.1	71.8	69.7	78.9	260.6	181.7	230.1
Total	3,454.8	3,670.3	3,878.7	4,072.4	4,363.3	4,975.6	612.3	14.0

Source: CNB – ARAD, MoF, MoF calculations

Of the products monitored, the largest absolute year-on-year growth was again recorded – as in the whole reporting period – in demand deposits, which rose by CZK 384.4 billion to approx. CZK 2.7 trillion. The growth of demand deposits in both absolute and relative terms was also the highest registered in the reporting period. The share of demand deposits in the household savings structure rose by 1.3 pp year on year. Taking the reporting period as a whole, demand deposits were the product that increased their share in total household savings the most compared to the end of 2015, climbing by 8.6 pp (Graph 3.1).

By contrast, the product reporting the largest decline as a share of household savings in 2020, and also compared to the end of 2015, was term deposits (excluding building savings schemes), followed by building savings schemes, even though household savings in the building savings sector increased slightly in absolute terms (as in 2019). Deposit products accounted for 64.3% of household savings in 2020. Following a rise and peak in 2018 (66.6%), the share of deposit products returned to around the same level as at the end of 2015.

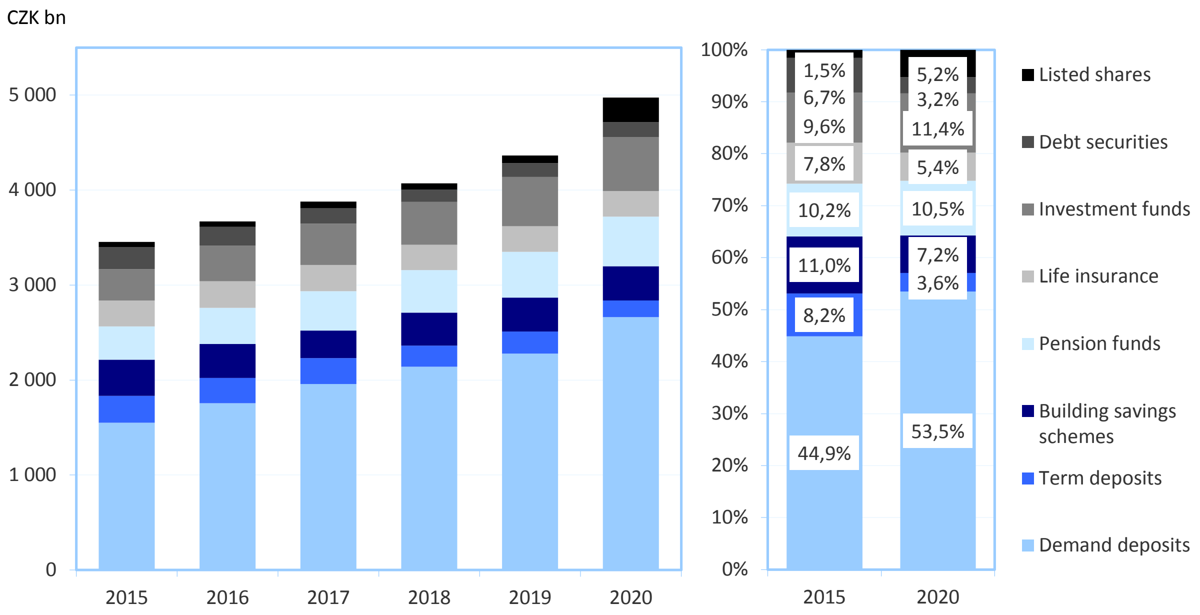
The highest growth rate in 2020 was recorded by listed shares, which more than tripled their volume to CZK 260.6 billion. Their share in total savings increased year on year to 5.2%. This growth, however, was influenced considerably by the methodological change mentioned in the introduction. The remaining increase in the volume of shares during the last three quarters of 2020 (by CZK 23.0 billion) was due to both their revaluation and an increase in transactions, which may have been linked to households' efforts to take advantage of potential investment opportunities after the sharp stock market decline in March triggered by the COVID-19 pandemic, while direct investment in capital market instruments is also becoming increasingly accessible and less costly for the general public thanks to modern technological capabilities.

Household savings in investment and pension funds showed below-average growth in 2020 from the perspective of the reporting period, with the shares of both products in total savings – having gradually increased in previous years – contracting slightly in 2020. The volume of debt securities held by households gradually declined until 2018, but in 2020 – as in the previous year – increased. Their share in total savings

[5] The term "savings" is used throughout the chapter to refer to household financial assets; these include households' CZK-denominated and foreign-currency funds placed on the financial market within the framework of 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.

remained at around 3.2%. By contrast, household savings in financially accumulating life insurance products, despite a slight rebound, continued their steady decline in importance in 2020.

Graph 3.1: Structure of household savings



Source: CNB – ARAD, MoF, MoF calculations

Note: The right side of the graph shows the comparison of structure of household savings (in %) between 2015 and 2020.

4 INSTITUTIONAL ASPECTS OF THE FINANCIAL MARKET

4.1 Number of Financial Market Entities

In 2020, there were no significant changes in the number of entities in each sector, except for a continued decline in the number of capital-market intermediaries and insurance intermediaries.

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

As at 31 Dec	2015	2016	2017	2018	2019	2020	Year-on-year change
Credit institutions							
Banks	46	45	46	50	49	49	0
of which: foreign banks branches	23	23	23	27	25	25	0
of which: building savings banks	5	5	5	5	5	5	0
Credit unions	11	11	10	10	9	8	-1
Capital market							
Investment firms (incl. foreign branches)	62	64	66	79	76	77	1
Investment funds having legal personality	92	108	125	138	156	188	32
Management companies	29	28	30	31	35	39	4
Mutual funds	195	201	227	242	252	234	-18
of which: qualified investor funds	55	60	79	89	94	90	-4
of which: collective investment funds	140	141	148	153	158	144	-14
Investment intermediaries	7,459	7,335	7,043	6,847	191	163	-28
Tied agents	26,658	26,612	26,448	21,409	18,409	13,470	-4,939
Pension management companies	8	8	8	8	8	9	1
Pension funds	35	35	36	36	38	39	1
Insurance							
Insurance companies	55	54	49	48	47	44	-3
of which: branches of foreign insurance companies	23	24	21	20	20	17	-3
Reinsurance companies	1	1	1	1	1	1	0
Insurance intermediaries	169,024	174,092	181,121	185,125	38,481	38,001	-480

Source: CNB, MoF calculations

In the dominant **banking sector** , the number of entities remained unchanged. In April 2020, Wüstenrot - stavební spořitelna a.s. became part of the MONETA Group and in July it was renamed MONETA Stavební spořitelna, a.s.

As regards the **credit union** sector, Družstevní záložna PSD went into liquidation (as previously planned), and the number of entities here thus fell from nine to eight.

In the **capital market** area, the number of investment funds with legal personality and management companies continued to rise (by 32 and 4, respectively). Conversely, there was a decline in the number of mutual funds for the first time in the reporting period, down to 18 – 4 qualified investor funds and 14 collective investment funds. The number of investment firms increased by one.

There was another significant fall in **investment service intermediaries** in 2020, particularly among tied agents. The drop by almost 5,000 exceeded even the previous reduction reported in 2019. This led into a decline in the total number of tied agents by a third between 2019 and 2020. Investment intermediaries witnessed a smaller reduction in 2020, with numbers contracting by just 28. This continued to reflect the new licensing rules in place for these entities.[6]

In the **pension management company** sector, Rentea penzijní společnost, a.s. obtained a licence in November 2020, bringing the number of entities to nine after six years. The number of pension funds also increased when Akciový účastnický fond AXA penzijní společnosti a.s. was launched in May 2020.

In the **insurance company sector**, four branches of foreign insurance companies closed down in 2020: Basler Lebensversicherungs-Aktiengesellschaft, pobočka pro Českou republiku, Basler Sachversicherungs - Aktiengesellschaft, pobočka pro Českou republiku, Merkur Versicherung Aktiengesellschaft - Merkur pojišťovna, organizační složka, and NN Životná poisťovňa, a.s., pobočka pro Českou republiku. In the other direction, one branch of the foreign insurance company STARR EUROPE INSURANCE LIMITED, pobočka pro Českou republiku, opened for business.

There was a fall in the number of **insurance intermediaries** in 2020 by 480.

The number of entities operating on the Czech financial market on the basis of a **single European passport** increased in 2020 in the credit institution, investment fund and management company sectors, but decreased in the insurance company sector (Table 4.2). The trend of a gradual continuous increase in the number of credit institutions and investment funds thus continued for the reporting period as a whole.

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

As at 31 Dec	2015	2016	2017	2018	2019	2020	Year-on-year change
Credit institutions	382	404	429	443	467	470	3
Insurance companies	825	864	890	966	976	974	-2
Investment funds	1,192	1,268	1,368	1,659	1,723	1,835	112
Management companies	39	41	39	41	51	55	4

Source: CNB – JERRS, MoF calculations

4.2 Guarantee Schemes

Two guarantee schemes, intended to strengthen the protection of clients and the market as a whole, are integral to the Czech Republic's financial market. These are the Financial Market Guarantee Scheme and the Guarantee Fund of Investment Firms.

The **Financial Market Guarantee System** (GSFT), more significant in terms of the volume and scale of the use of bailout funds, was established in early 2016 by the transformation of the Deposit Insurance Fund (DIF) in the wake of changes to the regulatory framework.[7] 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 for deposits under DIF in cases where banks, building savings banks or credit unions are flagged as insolvent by the CNB, or in cases where 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 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.[8]

[6] Besides a general obligation to pay an annual renewal fee, the transition period to prove professional competence came to an end in January 2020. In addition, from April 2020, tied investment agents were removed from the category of tied pension product agents, spelling a decline among those authorised only under the Supplementary Pension Savings Act, but not under the Capital Market Business Act.

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

[8] 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.

In 2020, credit institutions participating in the deposit guarantee scheme paid contributions[9] of CZK 1.1 billion to the DIF (Table 4.3). Financial reserves at the end of 2020 reached CZK 35.5 billion. No compensation was paid out of the DIF in 2020.

Table 4.3: Basic indicators of DIF

As at 31 Dec	2015	2016	2017	2018	2019	2020
Contributions (CZK bn)	4.4	2.1	0.9	1.0	1.1	1.1
Compensation payments (CZK mn)	235	3,291	261	25	-7[10]	0
Financial reserves (CZK bn)	28.8	27.9	30.3	31.7	34.1	35.5

Source: GSFT

The CRF is intended to finance crisis resolution for banks and selected investment firms. The CRF is where resources are pooled for use in the event of any 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 2020, the CRF received contributions of CZK 3.8 billion from mandatory institutions, the highest amount since it was established.[11] Since 2016, its financial reserves have risen to CZK 16.7 billion.

Table 4.4: Basic indicators of CRF

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

Source: GSFT

The second guarantee system on the Czech Republic's financial market is the **Guarantee Fund of Investment Firms** (GFOCP), set up to ensure that compensation is paid to clients of investment companies that are unable to meet their obligations towards their clients. The GFOCP therefore does not 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 Business Act,[12] up a maximum of EUR 20,000.

The main source of the GFOCP's assets is contributions made by the entities involved, i.e. investment firms dealers and management companies managing client assets. In 2020, the GFOCP received contributions of CZK 223.4 million, a decrease by approximately 10% year on year and the second highest amount for the reporting period. Financial reserves at the end of 2020 reached CZK 1.2 billion. No compensation was paid out of the GFOCP in 2020.

Table 4.5: Basic GFOCP indicators

As at 31 Dec	2015	2016	2017	2018	2019	2020
Contributions (CZK mn)	168.9	164.6	191.7	198.9	249.5	223.4
Compensation payments (CZK mn)	0.6	1.1	0.3	0.1	0.0	0.0
Financial reserves (CZK bn)	0.8	1.0	1.1	1.3	1.1	1.2

Source: GFOCP

9 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.

10 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.

11 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.

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

4.3 Financial Arbitrator

The Financial Arbitrator (FA), as a body for the out-of-court resolution of certain disputes between consumers and financial institutions, has been active on the financial market since 2003. Its remit has gradually expanded, and since its scope of competence was last extended in 2018 to include disputes arising from the provision of investment services by foreign institutions, it is now authorised to resolve consumer disputes across almost the entire financial market.

The FA's competence covers the out-of-court settlement of consumer disputes related to payment services, non-payment accounts and passbooks, electronic money, consumer loans, 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 2020, the FA initiated 1,228 new proceedings and dealt with 2,425 disputes as a further 1,197 previously initiated proceedings remained pending alongside the newly initiated proceedings. In the year-on-year comparison, this meant an increase in newly initiated proceedings (by 50) and a decrease in pending proceedings (by 717). The most common new disputes (64%) were again related to consumer credit, with a year-on-year increase by 122. The lowest number of disputes related to exchange activities (1 proposal) and collective investment (1 proposal). Of all the disputes heard, half were related to consumer credit (1,276 proceedings), a fifth to life insurance (536 proceedings), and a sixth to payment services (378 proceedings). In 2020, the FA finally ended 1,312 proceedings.

Table 4.6: Number of proceedings commenced in individual years

As at 31 Dec	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Proceedings commenced	964	1,948	1,344	1,401	1,178	1,228	50	4.2
of which: payment services	110	117	138	130	141	179	38	27.0
consumers credit	190	233	338	513	664	786	122	18.4
life insurance	639	1,132	734	626	246	172	-74	-30.1

Source: FA, MoF calculations

4.4 Economic Results of Financial Institutions

All the financial market sectors tracked below reported a pre-tax profit in 2020 (Table 4.7). Banks and insurance companies witnessed a year-on-year decline in profits, with a nearly 48% drop for banks.[13] Pension management companies and management companies reported profits around the same level as in 2019. Contrary, non-bank investment firms (including foreign branches) made their highest profits in the reporting period, which rose by 58% year on year. Of all the financial market sectors monitored, banks again generated the largest volume of profit, even though it was nearly halved (approx. 72%).

Table 4.7: Profit/loss of financial institutions before tax

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Banks	80.5	87.9	90.3	98.0	109.2	57.1	-52.1	-47.7
Insurance companies	10.0	13.2	10.4	17.4	20.0	17.7	-2.3	-11.5
Pension management companies	0.8	1.4	1.6	1.7	2.3	2.3	-0.1	-2.3
Management companies	0.8	1.1	1.2	1.4	1.5	1.5	0.0	0.5
Non-bank investment firms	1.0	0.8	1.0	0.8	0.8	1.2	0.5	58.3

Source: CNB – ARAD, MoF calculations

13 An explanation of banks' economic performance is provided in Chapter 5.3.

5 CREDIT INSTITUTIONS AND OTHER PROVIDERS OF ASSET FINANCING

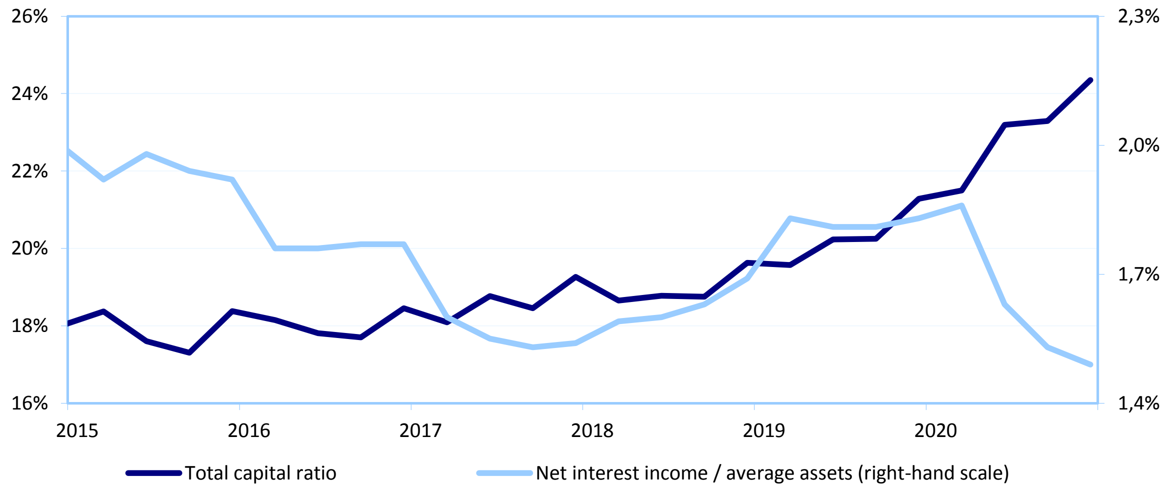
This chapter primarily focuses on credit institutions, specifically banks (the bulk of the chapter), including building savings banks (Chapter 5.7), and credit unions (Chapter 5.8). Specific topics are also covered, such as interest rates (Chapter 5.4), deposits and loans (Chapter 5.5) and mortgage loans (Chapter 5.6). The next chapter (Chapter 5.9) deals primarily with the developments in the segment of non-bank financing providers. The sub-sector covered in the last section of this chapter offers products[14] that are fairly close substitutes for bank loans and, if they are offered to retail clients, contribute towards the indicator of overall household indebtedness which is the subject of the last chapter (5.10).

5.1 Main Developments in the Banking Sector

Economic developments in 2020 were heavily influenced by the effects of the COVID-19 pandemic, although this impact did not significantly affect the development of most of the aggregate banking sector indicators. Total volume of assets, client deposits and loans reached new highs, and there was no major deterioration in credit quality. One exception in this respect was profit before tax, which fell by almost half year on year, mainly due to a large increase in provisions in response to the deterioration expected in the quality of the loan portfolio and a decline in net interest income. At the same time, however, long-term factors supporting the overall resilience of the sector remained in place. These include the generally high and long-term rising 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, rose by a pronounced 3.1 pp year on year to an all-time high of 24.4% (Graph 5.1). However, there were slight differences in the level of the total capital ratio across groups of banks by size or specialization, with large banks[15] again reporting a value close to the average (24.8%), medium-sized banks slightly above average (25.4%), and small banks (20.8%) and building savings banks below average (20.7%). The interest margin on assets, one of the key profitability factors, fell year on year (by 0.34 pp to 1.5% p.a.), reversing the trend of the previous two years in connection with the decline in the CNB's monetary-policy rates.

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



Source: CNB – ARAD

The sector's total assets increased by 5.2% (Table 5.1), which was lower rate than the average growth rate recorded during the reporting period since the end of 2015 (7.6%). Client loans also recorded a slight

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

[15] 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.

slowdown in year-on-year growth. Client deposits, on the contrary, reported a higher growth rate than in 2019 (by 2.3 pp to 8.9 %). This development was reflected in a 6.2 pp increase in the deposit-to-loan ratio to 143.6%, the highest level for the reporting period.

Table 5.1: Basic indicators of the banking sector

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Total assets[16]	5,549.7	6,019.4	7,064.5	7,329.5	7,623.6	8,018.0	394.4	5.2
Client loans	2,782.4	2,950.4	3,085.5	3,306.4	3,450.5	3,595.6	145.1	4.2
Client deposits	3,520.7	3,767.2	4,169.1	4,445.6	4,739.3	5,162.0	422.6	8.9
Ratio of client deposits to loans (%)	126.5	127.7	135.1	134.5	137.4	143.6	6.2	4.5
Total capital ratio (%)	18.4	18.5	19.3	19.6	21.3	24.4	3.1	14.4

Source: CNB – ARAD, MoF calculations

5.2 Banking Sector Assets and the Credit Portfolio Quality

Total banking sector assets, including those of building savings banks (Table 5.1), reached a new high of CZK 8.0 trillion at the end of 2020.[17] The structure of assets remained essentially unchanged year on year in terms of the most significant items. Client loans and other receivables from clients remained the dominant component (44.8%), which also accounted for approximately one third of the increase in assets. Almost thirty per cent of assets (28.6%) were held by banks in the form of exposures to central banks;[18] the share of this balance sheet item in the total fell by 3.0 pp year on year. Domestic central government bonds accounted for almost 10% of assets, rising in volume by almost 60% year on year. The year-on-year increase in liabilities was again mainly due to a rise in deposits from clients (by 8.9%); while a decline in deposits from other credit institutions (by 28.6%) acted in the opposite direction.

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 rose slightly year on year, climbing by 0.2 pp to 2.7%.[19] The long-running improvements in the quality of loan portfolios therefore came to a halt in 2020 due to the economic fallout from the COVID-19 pandemic. However, factors such as supportive fiscal economic-policy measures, moratoria on loan repayments, and the progression of economic and financial processes over time meant that the extent of the deterioration in total client loans at the end of the year was cushioned somewhat.

However, the evolution of the non-performing loans ratio varied across client sectors and industries (Graph 5.2). The share of non-performing loans for house purchase to households (individuals)[20] reported a renewed improvement (by 0.1 pp) to 1.1%, i.e. to the lowest December level since 2002. The share of non-performing loans to non-residents fell (by 1.0 pp) to 5.4%, the i.e. lowest level in more than 10 years. By contrast, the share of non-performing loans to non-financial corporations increased (by 1.0 pp) to 4.2%. Different developments were also reflected in the quality of credit by sector of economic activity. The highest increase in the share of non-performing loans (by 7.7 pp to 12.4%) was recorded in HORECA. Slight increases were recorded by construction (to 7.2%) and manufacturing (to 5.8%), as tracked in the graph. Conversely, the energy and water sectors (the production and distribution of electricity, gas, heat, air, water; wastewater) and agriculture, forestry and fisheries improved overall.

16 According to the CNB's information, banks have optimized the structure of balance sheets since 2015 in connection with new regulatory requirements regarding contributions to the CRF.

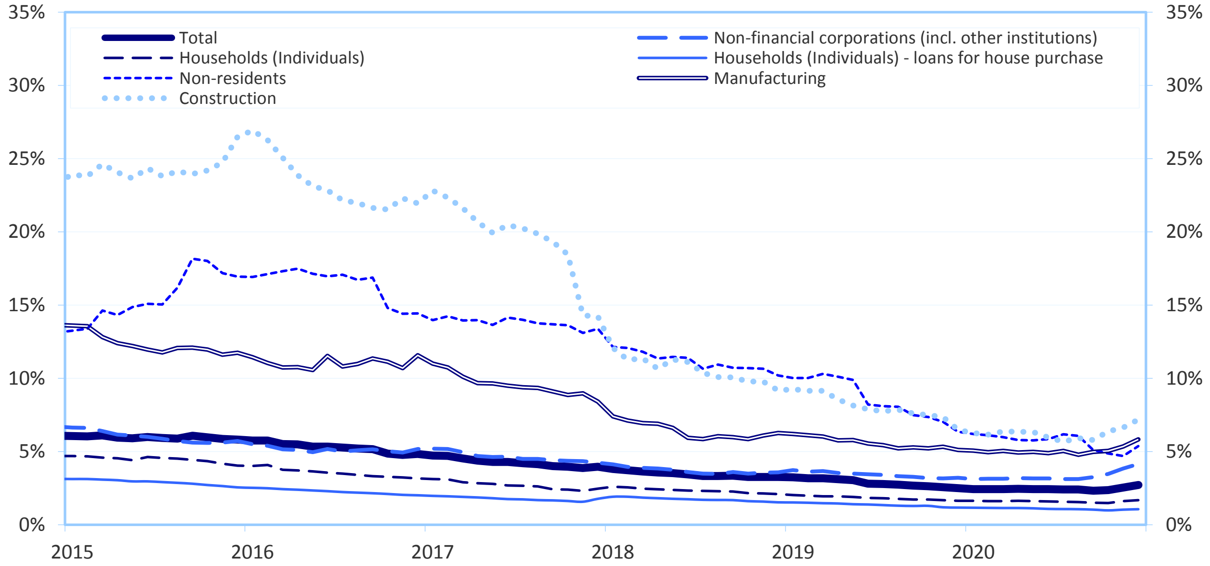
17 These values, published in the CNB's time series ARAD system, differ from the values published by the CNB for example in its Supervisory Report due to different methodologies. These differences then may appear, for example, in the case of indicators of the share of non-performing loans.

18 These tend to be repo transactions.

19 The reporting methodology follows prudential rules, which have changed over time, and therefore the data are not fully comparable.

20 Private individuals 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.

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



Source: CNB – ARAD, MoF calculations

The share of foreign-currency loans in total client loans rose by a modest 0.6 pp year on year to 20.1%, but varied considerably across the different client sectors. This year-on-year growth was also affected by the slight appreciation of the main foreign currencies' exchange rate against the Czech koruna, which is used to convert foreign-currency liabilities. The main contributors to the overall year-on-year growth were non-residents (up 2.1 pp to 75.2%) and non-financial corporations (up 1.9 pp to 35.2%), which, together with financial institutions (up 0.7 pp to 29.1%), reported above-average shares of foreign-currency loans on account of their particular incentives or operations. By contrast, households have long maintained a negligible share of foreign-currency loans (around 0.2%). In the six-year reporting period, the highest growth in this share was observed among non-financial corporations (by 12.4 pp). However, in the case of non-financial corporations' repayments, the resulting foreign-exchange risk may be indirectly mitigated by foreign-exchange earnings from exports or via other hedging instruments.

5.3 Economic Results and Profitability of the Banking Sector

The banking sector's 2020 pre-tax profit was CZK 57.1 billion. Almost halving, it stooped to the lowest level recorded in the reporting period (Table 5.2).

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

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Net interest income	110.9	109.9	112.1	129.8	145.7	126.9	-18.9	-12.9
Interest income	150.9	143.4	146.7	179.2	225.9	186.1	-39.9	-17.6
Interest expenses	40.0	33.6	34.6	49.4	80.2	59.2	-21.0	-26.2
Net fee and commission income	34.6	32.4	32.1	33.6	33.1	30.8	-2.2	-6.7
Fee and commission income	47.9	44.8	44.6	46.1	44.3	42.8	-1.5	-3.3
Fee and commission expenses	13.3	12.4	12.5	12.4	11.2	11.9	0.7	6.5
Administration costs	70.7	71.7	73.6	76.7	77.7	73.6	-4.2	-5.3
Other net income	5.7	17.3	19.7	11.4	8.1	-27.0	-35.2	-432.6
Total profit or loss before tax	80.5	87.9	90.3	98.0	109.2	57.1	-52.1	-47.7

Source: CNB – ARAD, MoF calculations

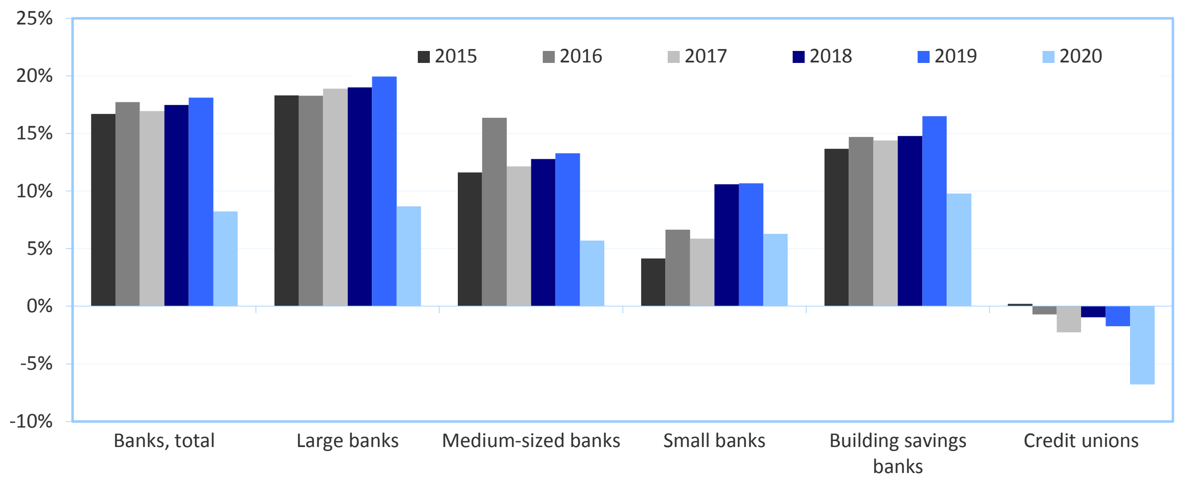
Of the three aggregated items monitored, other net income had the most significant impact on year-on-year profit development, declining by CZK 35.2 billion over the year. This aggregate category, comprising several profit and loss account sub-items, was negatively impacted in particular by an increase in impairment losses (by CZK 25.2 billion), a decrease in dividend income (by CZK 5.4 billion) and a decrease in foreign-exchange gains (by CZK 3.4 billion). Conversely, the increase in the profit on financial assets and liabilities held for trading (by CZK 5.5 billion) was particularly positive.

The decline in total profit was also driven by a 12.9% drop in net interest income to CZK 126.9 billion. Although interest expense fell faster (by 26.2%) than income (by 17.6%), in absolute terms the decline in income was higher than in expenses. Much of the decline in net interest income can be attributed to a fall in the interest rate on funds allocated under repo operations at the central bank, as well as to a decline in the interest on certain loan categories. Net fee and commission income also declined, albeit more moderately than net interest income, by 6.7% to CZK 30.8 billion, pushed down both by a 3.3% decline in income and a 6.5% increase in related expenses. Over the reporting period, relative to the growing size of the banking sector's assets, the importance of net fee and commission income fell by almost 40%.

On the other hand, administrative costs had a moderately positive impact on profit as they decreased by 5.3% year on year to CZK 73.6 billion.

As a whole, the banking sector reported a return (or profitability) on Tier 1 equity of 8.2%, a year-on-year annual decline by more than half (Graph 5.3). There was a year-on-year decrease in all segments of banks, depending on their size or specialization. With the exception of small banks, all segments recorded their lowest levels in the reporting period, the highest among building savings banks (9.8%) and the lowest among medium-sized banks (5.7%). For the sake of comparison, the credit union sector is also presented – it reported a decline in profitability in 2020 by 5.0 pp to -6.8%. Compared internationally, the profitability of the Czech banking sector (measured by the return on assets) exceeded that of the banking sector in the euro area, especially in comparison with the largest euro area countries.

Graph 5.3: Profit (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 initially raised the 2W repo base monetary-policy rate to 2.25% in February 2020, the highest level in the reporting period. Subsequently, in the aftermath of the COVID-19 pandemic, the central bank cut monetary-policy rates for the first time since 2012. After three reductions in March and May, the basic 2W repo rate fell to 0.25%, the lowest since 2017. With the individual rates again approaching zero, the spread between them narrowed (Table 5.3).

Table 5.3: CNB interest rates

As at 31 Dec (% p.a.)	2015	2016	2017	2018	2019	2020
2W repo	0.05	0.05	0.50	1.75	2.00	0.25
Discount	0.05	0.05	0.05	0.75	1.00	0.05
Lombard	0.25	0.25	1.00	2.75	3.00	1.00

Source: CNB – ARAD

The cut in monetary-policy rates gradually resulted in a decline in average annual client deposit and lending rates (Table 5.4). There was a slight year-on-year decline in the average annual rates for deposits held by households and non-financial corporations, but this did not lead to new all-time lows. The average annual interest rate on loans in all the categories monitored also fell and was again close to long-term lows. The average annual interest rate on loans for consumption extended to households actually surpassed the previous low considerably.

Table 5.4: Average interest rate

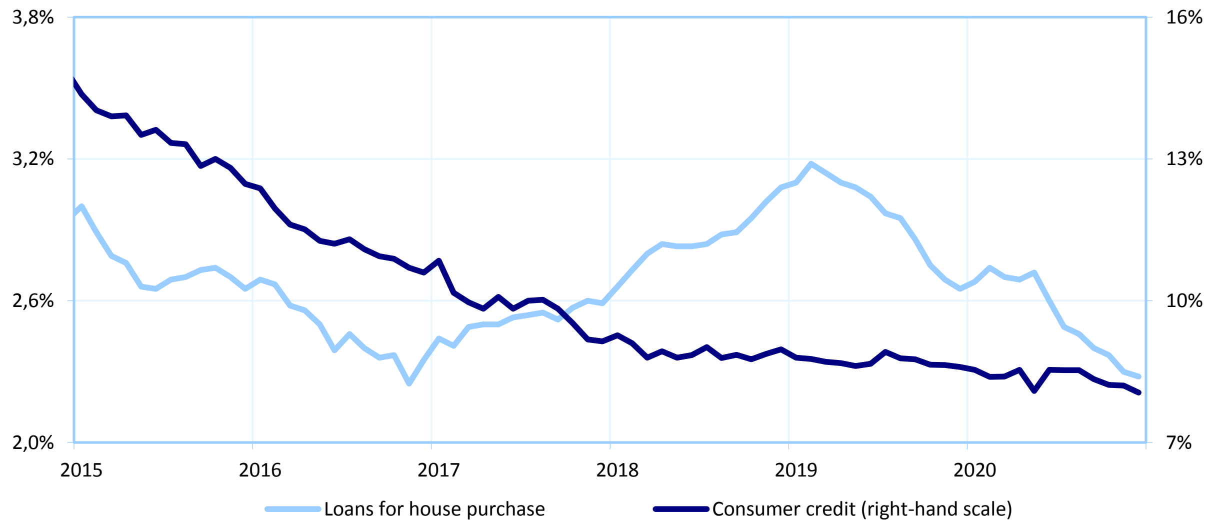
Average in given year (% p.a.)		2015	2016	2017	2018	2019	2020
Deposits	households	0.6	0.5	0.4	0.3	0.4	0.3
	non-financial corporations	0.2	0.1	0.0	0.1	0.4	0.2
Loans	households	5.1	4.6	4.1	3.8	3.7	3.5
	for consumption	13.9	12.8	11.4	10.2	9.5	9.0
	for house purchase	3.5	3.1	2.7	2.5	2.5	2.5
	non-financial corporations	2.8	2.6	2.6	3.1	3.8	2.9

Source: CNB - ARAD, MoF calculations

Note: Data refers to bank interest rates on CZK-denominated loans and deposits.

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.[21] As in 2019, there was a year-on-year fall in the APR on newly granted consumer credit and the APR on new loans for house purchase, by 0.5 and 0.4 pp, respectively (Graph 5.4). The APR on new consumer credit fell gradually over the reporting period, with a certain deceleration between 2018 and 2020, to a low of 8.1% p.a. The APR on new loans for house purchase first declined, then rose in 2017 and 2018, only to fall again to 2.3% p.a. in 2019 and 2020, coming close to the low reported in November 2016.

Graph 5.4: 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[22] increased by 8.9% year on year and stood at CZK 5.2 trillion (Table 5.5). This was the second-highest growth rate in the reporting period, driven mainly by the largest sectors by volume, non-financial corporations and households, which posted double-digit annual growth rates.

[21] 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.

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

The absolute rise in total client deposits (by CZK 422.6 billion) was the highest in the reporting period. As usual, households recorded the highest absolute year-on-year growth in deposits of all sectors, with their share in total deposits long exceeding half and rising to 59.2% in 2020. Household deposits in 2020, including the contribution of deferred consumption related to the effects of the COVID-19 pandemic, grew at an annual rate almost 70% higher than the average annual growth over the rest of the reporting period. Non-financial corporations accounted for more than one fifth of the total (23.6%).

In terms of the structure of deposits by maturity, the share of demand deposits increased by 5.7 pp to 82.8%, the highest level recorded so far. This was a continuation of the previous long-term trend, which had been interrupted in the previous two years due to the rise in interest rates on term deposits.

Table 5.5: Breakdown of deposits with banks by client sectors[23]

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Households	2,034.7	2,209.3	2,370.2	2,558.5	2,725.5	3,056.8	331.4	12.2
Non-financial corporations (including other institutions)	921.6	916.1	996.9	1,041.2	1,094.8	1,217.9	123.1	11.2
Government institutions	214.3	234.1	264.7	278.8	301.7	302.4	0.7	0.2
Financial institutions	150.3	161.7	260.4	282.5	310.8	260.2	-50.6	-16.3
Non-residents	167.9	209.5	237.2	244.9	262.8	274.7	11.8	4.5
Non-profit institutions	31.9	36.5	39.7	39.8	43.8	49.9	6.2	14.1
Total	3,520.7	3,767.2	4,169.1	4,445.6	4,739.3	5,162.0	422.6	8.9

Source: CNB - ARAD, MoF calculations

The volume of client loans grew by 4.2% to CZK 3.6 trillion (Table 5.6). This represented a further slight year-on-year slowdown in credit growth by 0.2 pp, resulting in the lowest growth rate over the reporting period.

Almost all sectors other than financial institutions and non-financial corporations reported significant year-on-year credit expansion. Most of the sectors tracked reported not only a year-on-year rise in volume, but also an increase in momentum – households by 0.3 pp, government institutions by 8.3 pp, and non-residents by 9.7 pp. Conversely, there was a slowdown in the growth rate of loans to non-financial corporations by 3.4 pp; consequently, the volume of loans here did not change significantly year on year. In absolute terms, as in previous years the highest year-on-year rise was reported for loans to households (by CZK 113.7 billion).

Table 5.6: Breakdown of loans with banks by client sectors

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Households	1,321.4	1,417.4	1,527.2	1,642.7	1,745.0	1,858.7	113.7	6.5
Non-financial corporations (including other institutions)	920.9	975.6	1,022.0	1,080.3	1,119.9	1,123.0	3.1	0.3
Government institutions	58.2	48.1	44.4	48.8	49.3	54.0	4.6	9.4
Financial institutions	158.7	188.3	193.3	206.3	213.4	210.5	-2.8	-1.3
Non-residents	320.9	318.6	296.0	325.2	319.8	345.7	25.8	8.1
Non-profit institutions	2.3	2.4	2.7	3.2	3.0	3.7	0.7	22.4
Total	2,782.4	2,950.4	3,085.5	3,306.4	3,450.5	3,595.6	145.1	4.2

Source: CNB - ARAD, MoF calculations

“Loan moratoria” were a specific factor that exerted a certain degree of influence over the above trends in bank lending in 2020 (see Box 1).

[23] 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).

Box 1: Loan moratoria

In light of the potential negative impacts of the COVID-19 pandemic on borrowers' economic situation, a number of credit institutions in the Czech Republic allowed clients to defer or otherwise modify loan repayments on a case-by-case basis as early as March 2020. However, not all institutions offered these **individually agreed moratoria** , and the terms of these deferrals also varied.

In April 2020, these individually agreed moratoria were followed by a "**statutory moratorium**" based on a special law (Act No 177/2020 on certain loan repayment measures in connection with the COVID-19 pandemic). This law established a uniform framework for the deferral of loan repayments over a statutory period of time. Debtors had to apply for a moratorium by 30 September 2020, and were subsequently granted a deferral period of up to six months, to end no later than 31 October 2020 (however, individually agreed moratoria could continue). The statutory moratorium applied only to performing loans contracted and drawn down before 26 March 2020. The deferral of repayments effectively meant that they would extend beyond the end of the protection period, i.e. beyond 31 October 2020. In this respect, the repayment schedule, or redemption scheme, was modified. Loans continued to be charged interest over the deferral period, but the law set a maximum allowable interest rate for consumer (i.e. not business) loans. This interest over the deferral period should then have been paid additionally at the end of the loan term. The law also provided for the extension of selected time limits under loan agreements, e.g. when fixing mortgage interest rates.

The statutory moratorium and individually agreed moratoria were reflected in reported loan volumes as "other new arrangements under existing contracts constituting new business", i.e. as refixing. Consequently, the volume of new refixing was, in principle, increased by the outstanding amount of loans for which moratoria were approved.

The CNB introduced extraordinary reporting to monitor data on repayment deferrals, in relation both to the statutory moratorium and to other deferrals granted by banks. These figures show that, in 2020, applications for repayment deferrals and other forms of relief were approved for loans worth CZK 454.8 billion, i.e. for 14.2% of all bank loans granted to households and non-financial corporations. Of this, CZK 254.4 billion was approved for households and CZK 200.3 billion for non-financial corporations. At the end of 2020, the volume of loans under moratoria had fallen by CZK 78 billion, bringing the volume of such claims to CZK 376.8 billion, or 11.8% of the banks' loan portfolios, of which 10.9% was in the household sector and 13.1% in the non-financial corporations sector (Table 5.7).

Table 5.7: Statutory moratorium and individually agreed loan moratoria in 2020

<table>
<tr><th colspan="2">As at 31. 12. 2020</th><th>Approved applications during the year (CZK bn)</th><th>Loans with moratorium by the year's end (CZK bn)</th><th>Total loans (CZK bn)</th><th>Share of approved applications during the year (%)</th><th>Share of loans with moratorium by the year's end (%)</th></tr>
<tr><td rowspan="4">Households</td><td>Mortgage</td><td>181.1</td><td>154.0</td><td>1,517.7</td><td>11.9</td><td>10.1</td></tr>
<tr><td>Consumer</td><td>62.3</td><td>46.4</td><td>265.4</td><td>23.5</td><td>17.5</td></tr>
<tr><td>Other</td><td>11.0</td><td>8.6</td><td>130.2</td><td>8.5</td><td>6.6</td></tr>
<tr><td>Total</td><td>254.4</td><td>208.9</td><td>1,913.4</td><td>13.3</td><td>10.9</td></tr>
<tr><td rowspan="3">Non-financial corporations</td><td>Small/medium -sized comp.</td><td>81.5</td><td>74.0</td><td>461.5</td><td>17.7</td><td>16.0</td></tr>
<tr><td>Other</td><td>118.8</td><td>93.9</td><td>820.0</td><td>14.5</td><td>11.5</td></tr>
<tr><td>Total</td><td>200.3</td><td>167.9</td><td>1,281.5</td><td>15.6</td><td>13.1</td></tr>
<tr><td colspan="2">Total</td><td>454.8</td><td>376.8</td><td>3,194.9</td><td>14.2</td><td>11.8</td></tr>
</table>

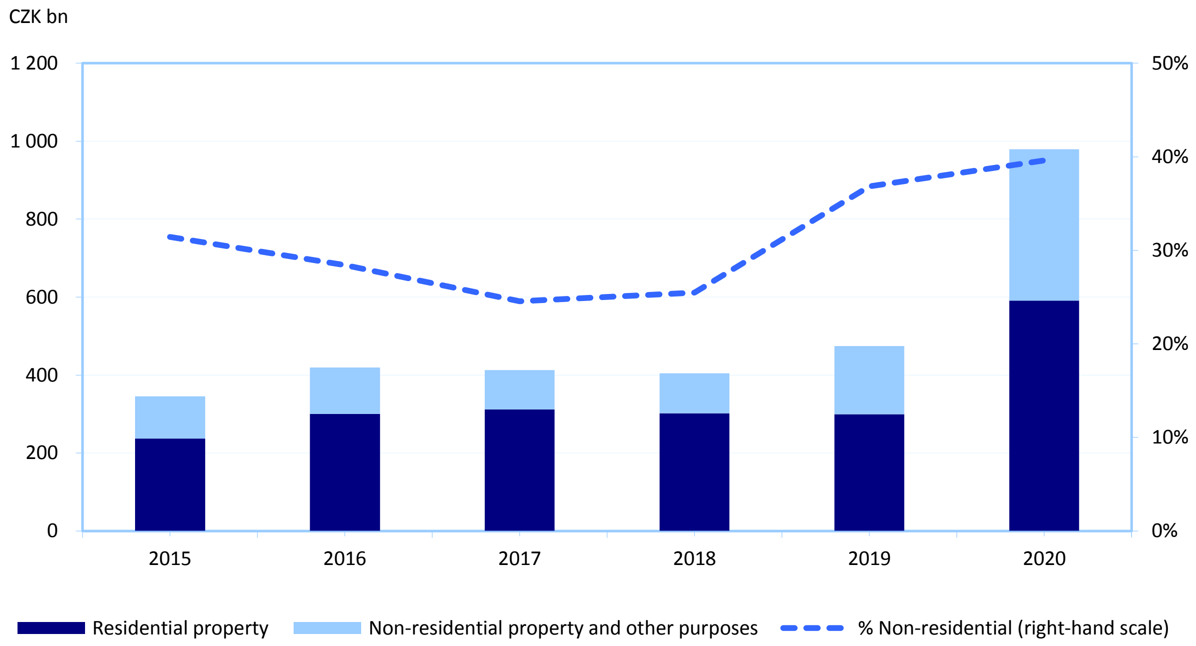
Note: The source of the data is the CNB's extraordinary reporting.

5.6 Mortgage Market

In 2020, the mortgage market[24] remained in the sway of low interest rates related to competition within the banking sector and the CNB's reduction in monetary-policy rates in response to the COVID-19 pandemic. Demand for real estate was also boosted by the abolition of the real estate acquisition tax and the CNB's easing of mortgage lending conditions.[25] As the supply of real estate remained limited, prices further increased, particularly for residential property. These factors then prompted a substantial increase in the volume of new mortgages.

The total volume of newly granted mortgage loans (Table 5.8) doubled year on year to CZK 979.1 billion, having increased by 106.4%. The number of new contracts rose by 75.4% to 312,700. The average amount of new loans thus increased by 17.7% to CZK 3.1 million. However, this strong growth was also affected by the fact that loan moratoria were included among new loans.[26] Through the prism of developments in the two main sub-segments, this sharp increase in new mortgages for residential property (by around 97% in volume and 73% in number) was slightly lower than that for new loans for non-residential property and other purposes (up by around 122% in volume and 96% in number). The share of newly granted mortgages for non-residential property and other purposes in the volume of newly granted mortgage loans (Graph 5.5) thus rose further by 2.8 pp year on year to 39.6%, the highest level over the reporting period.

Graph 5.5: New mortgage loans by manner of acquisition



Source: CNB – ARAD, MoF calculations

Rising residential property prices and the continued growth in lending for non-residential property and other purposes were reflected in an increase in the average amount of new mortgages. During 2015-2018, the average stood at around CZK 2 million. In 2019 it jumped to CZK 2.7 million, and in 2020 it surpassed CZK 3 million (Table 5.8).

[24] 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.

[25] The CNB has been setting credit indicators since 2015 in the form of Recommendations, which, until October 2018, set a maximum loan term and LTV (loan-to-value) ratio. Two additional ratios, DSTI and DTI, were introduced in October 2018. The LTV ratio was relaxed on 1 April 2020. The DSTI ratio was also relaxed on 1 April 2020, before being abolished as of 8 July 2020, and the DTI ratio was abolished on 1 April 2020.

[26] Under the moratorium, repayments were deferred for around 12% of loans secured by residential property and granted by banks to households (see Box 1 in Chapter 5.5).

Table 5.8: New mortgage loans by manner of acquisition

	As at 31. 12.	2015	2016	2017	2018	2019	2020	Year-on-year change	
								Abs.	(%)
Residential property	number (000's)	159.9	188.2	171.4	164.6	155.7	268.5	112.8	72.5
	volume (CZK bn)	236.8	300.3	311.7	301.7	299.6	591.4	291.8	97.4
	share on volume (%)	68.6	71.6	75.4	77.1	63.2	60.4	-2.8	-4.4
	average volume (CZK mn)	1.5	1.6	1.8	1.8	1.9	2.2	0.3	14.5
Non-residential property and other purposes	number (000's)	21.3	23.5	21.2	19.1	22.6	44.2	21.6	95.9
	volume (CZK mn)	108.6	119.3	101.5	89.6	174.8	387.7	212.9	121.8
	share on volume (%)	31.4	28.4	24.6	22.9	36.8	39.6	2.8	7.5
	average volume (CZK mn)	5.1	5.1	4.8	4.7	7.7	8.8	1.0	13.2
Total	number (000's)	181.2	211.6	192.6	183.7	178.2	312.7	134.5	75.4
	volume (CZK bn)	345.4	419.7	413.2	391.2	474.4	979.1	504.8	106.4
	average volume (CZK mn)	1.9	2.0	2.1	2.1	2.7	3.1	0.5	17.7

Source: CNB – ARAD, MoF calculations

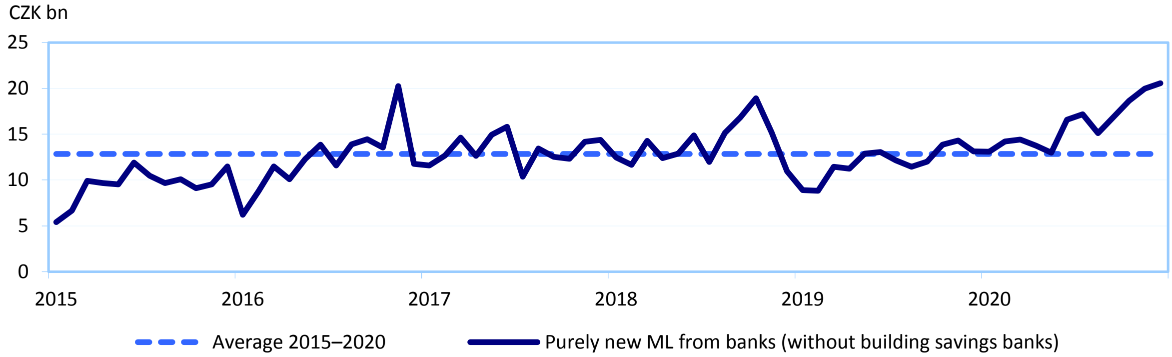
The strong growth in new mortgage lending in 2020 is also confirmed by the narrower definition of purely new mortgages[27] for residential properties granted to private individuals[28] by banks (not including building savings banks). In 2020, these climbed to a record CZK 193.4 billion (Table 5.9), a 35.0% year-on-year increase. For each month in 2020, these volumes were higher than in the corresponding month of the previous year. At the same time, on average the monthly volumes in 2020 were CZK 3.3 billion above the average for the reporting period, i.e. CZK 12.8 billion; this difference increased from mid-2020 (Graph 5.6). Purely new residential mortgages granted to private individuals by banks, including building savings banks, reported similar relative growth of 34.3%, rising to CZK 216.8 billion.

Table 5.9: Purely new mortgage loans (ML) for residential housing granted to private individuals

As at 31. 12. (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
From banks	113.5	148.2	159.4	167.5	143.2	193.4	50.2	35.0
From building savings banks	5.5	10.3	14.4	19.5	18.3	23.4	5.2	28.3
Total purely new ML	118.9	158.5	173.8	186.9	161.5	216.8	55.3	34.3
Share of purely new ML from banks (%)	95.4	93.5	91.7	89.6	88.7	89.2	0.5	0.6

Source: CNB – ARAD, MoF calculations

Graph 5.6: Purely new mortgage loans (ML) for residential housing granted by banks to private individuals



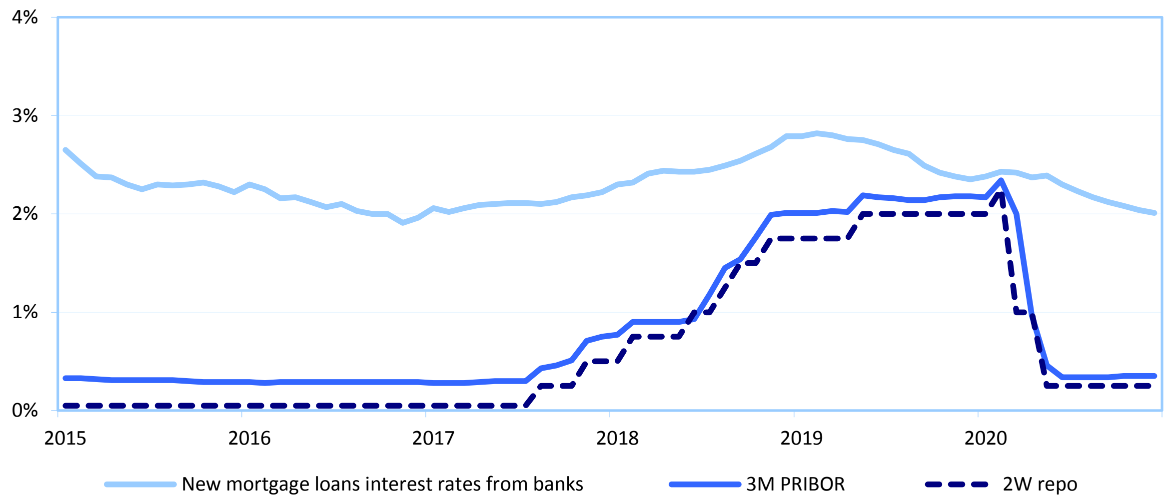
Source: CNB – ARAD, MoF calculations

[27] These are new mortgages, including increases, but without refinancing or other loan arrangements (i.e. refixing and consolidated loans).

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

The average monthly mortgage rates for new mortgage loans for residential properties fell for seven months in a row as of May 2020, reaching an annual low of 2.01% at the end of the year (Graph 5.7). In each month of 2020, rates were lower than in the corresponding month a year earlier by an average of 0.38 pp. In February, the spread between the average mortgage rate and the CNB's base monetary-policy rate (i.e. the 2W repo rate) reached its lowest level – 0.18 pp – for the reporting period as a whole. This spread then expanded as of March, mainly due to the CNB's cuts in base interest rates, and peaked in May (2.14 pp). After this, the gradual convergence between market bank loan rates and CNB rates saw this spread contract each month until it came to 1.76 pp at the end of the year.

Graph 5.7: Selected interest rates



Source: CNB – ARAD

The strong year-on-year growth in mortgage loans volumes, together with the decline in interest rates, were probably the main factors that led to a year-on-year reduction in the share of the previously dominant category of loans with a fixation period of between 1 and 5 years. Among new mortgages, this share decreased by 3.3 pp, particularly in favour of fixation of between 5 and 10 years and even fixation of up to one year, which accounted for the highest share (32.8%) among new mortgage loans in 2020 (Table 5.10). In terms of the structure of the volume of outstanding loans, however, mortgage loans with a fixation period of between 1 and 5 years maintained their largest share in 2020, despite a 6.2 pp year-on-year decrease to 37.7%.

Table 5.10: Mortgage loans by period of interest rate fixation

As at 31 Dec (CZK bn)		2015	2016	2017	2018	2019	2020	Year-on-year change	
								Abs.	%
New mortgage loans	floating/fixed up to 1 year	106.4	109.2	84.6	74.8	133.7	320.9	187.2	140.0
	over 1 and up to 5 years	183.2	201.4	212.9	182.6	164.7	307.5	142.8	86.7
	over 5 and up to 10 years	47.4	96.3	103.2	115.0	150.3	316.9	166.6	110.9
	over 10 years	8.4	12.8	12.4	18.9	25.6	33.8	8.1	31.7
	Total	345.4	419.7	413.2	391.2	474.4	979.1	504.8	106.4
Total unpaid principal	floating/fixed up to 1 year	302.5	300.4	285.7	309.3	466.6	518.0	51.4	11.0
	over 1 and up to 5 years	716.7	802.7	843.6	848.1	871.4	821.6	-49.8	-5.7
	over 5 and up to 10 years	117.9	219.4	304.2	419.1	549.9	741.8	191.9	34.9
	over 10 years	120.0	66.0	65.0	75.1	98.2	100.4	2.2	2.2
	Total	1,257.1	1,388.5	1,498.5	1,651.6	1,986.1	2,181.7	195.6	9.9

Source: CNB – ARAD, MoF calculations

In terms of the total owed amount of mortgage loans (i.e. the outstanding volume), the year-on-year growth rate in 2020 was half that of 2019, the most dynamic year so far, falling from 20.3% to 9.9%. Even so, this is 0.9 pp higher than the average growth rate for 2015-2018 (Table 5.11). The year-on-year rate of growth in the total number of loans fell from an all-time high of 7.7% in 2019 to 4.2%. However, this is just only 0.5 pp lower than the average year-on-year annual growth rate in the number of loans in 2015-2018. The average amount owed increased again, to CZK 2.0 million. This was mainly due to the increase in the average volume of mortgages for non-residential property and other purposes. In 2020, for the fifth year running, the strong growth rate of approximately 9% in the volume of outstanding residential mortgages also continued, resulting in a rise to CZK 1.4 trillion.

Table 5.11: Mortgage loans by manner of acquisition

As at 31 Dec		2015	2016	2017	2018	2019	2020	Year-on-year change	
								Abs.	(%)
Residential property	number (000's)	757.7	779.3	824.3	858.3	920.8	956.6	35.8	3.9
	volume (CZK bn)	913.1	996.4	1,088.3	1,185.8	1,301.1	1,413.3	112.2	8.6
	share on volume (%)	72.6	71.8	72.6	71.8	65.5	64.8	-0.7	-1.1
	average outstanding amount (CZK mn)	1.2	1.3	1.3	1.4	1.4	1.5	0.1	4.6
Non-residential property and other purposes	number (000's)	100.1	108.4	113.2	115.6	128.5	137.3	8.8	6.8
	volume (CZK bn)	344.1	392.1	410.2	465.8	685.0	768.4	83.4	12.2
	share on volume (%)	27.4	28.2	27.4	28.2	34.5	35.2	0.7	2.1
	average outstanding amount (CZK mn)	3.4	3.6	3.6	4.0	5.3	5.6	0.3	5.0
Total	number (000's)	857.9	887.7	937.4	974.0	1 049.3	1 093.9	44.6	4.2
	volume (CZK bn)	1,257.1	1,388.5	1,498.5	1,651.6	1,986.1	2,181.7	195.6	9.9
	average (CZK mn)	1.5	1.6	1.6	1.7	1.9	2.0	0.1	5.4

Source: CNB – ARAD, MoF calculations

The share of non-performing mortgages at the end of 2020 climbed to 2.0%, up 0.6 pp from the all-time December low of 1.4% recorded in 2018. This was more or less the year-end average for the reporting period as a whole (Table 5.12). The total volume of non-performing mortgages reported the highest absolute year-on-year growth (CZK 10.4 billion) and the second highest year-on-year growth rate (31.1%) in the reporting period. However, this development was reflected in the growth of the non-performing loans ratio to a lesser extent due to the concurrent 10% year-on-year growth in the total volume of mortgages granted.

Table 5.12: Mortgage loans (ML) by categorisation

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Performing ML	1,216.1	1,356.4	1,470.1	1,627.9	1,952.5	2,137.7	185.2	9.5
Non-performing ML	41.1	32.1	28.4	23.7	33.6	44.0	10.4	31.1
Total outstanding ML	1,257.1	1,388.5	1,498.5	1,651.6	1,986.1	2,181.7	195.6	9.9
Non-performing share (%)	3.3	2.3	1.9	1.4	1.7	2.0	0.3	19.4

Source: CNB – ARAD, MoF calculations

5.7 Building Savings Banks

Building savings banks faced a nearly 5% decline in the number of new building savings contracts concluded in 2020, but this was only because the previous year, 2019, had recorded the highest number of new contracts in the reporting period. With around 462,000 new contracts, 2020 was still the second strongest year over that period (Table 5.13). Furthermore, the average target amount of these contracts, CZK 455,900, was the second highest for the reporting period. Conversely, the number of newly increased[29] contracts dropped by 4.2% to its second lowest value, 57,800. Even so, the volume of the increase, CZK 271,400, was still above the average for the reporting period.

[29] 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.

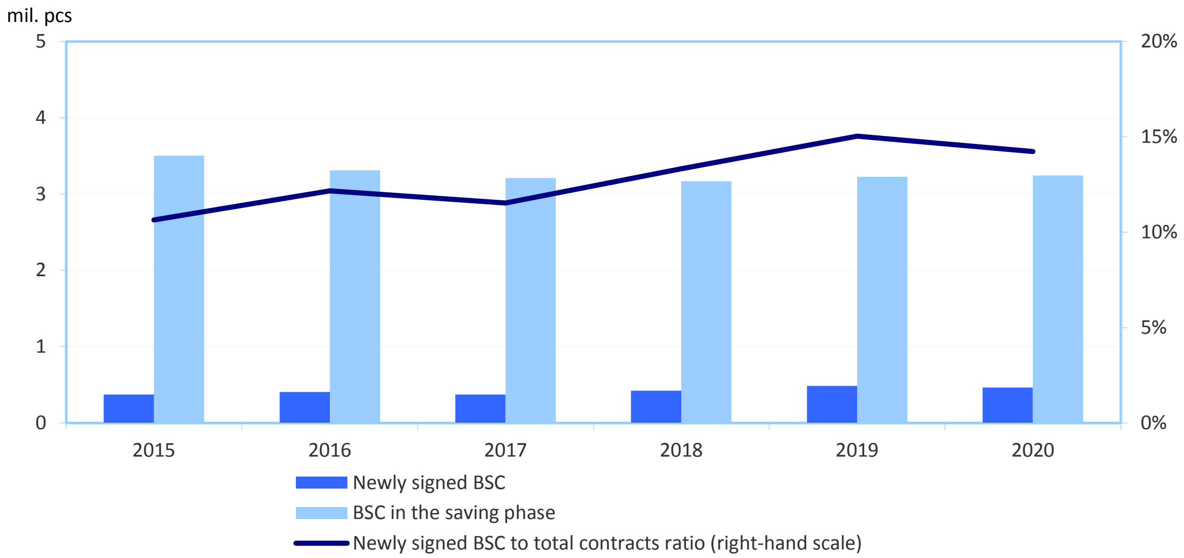
Table 5.13: Main indicators of building savings bank sector – savings

As at 31 Dec	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Newly signed contracts (thousands)	373.1	403.3	370.7	422.0	485.2	461.9	-23.3	-4.8
Average target value (CZK thousands)[30]	371.1	383.9	396.5	470.1	430.5	455.9	25.4	5.9
Newly increased contracts (thousands)	85.5	70.5	55.7	64.3	60.3	57.8	-2.5	-4.2
Average increase (CZK thousands)[30]	201.0	224.5	214.8	343.6	333.0	271.4	-61.6	-18.5
Contracts in the saving phase (thousands)	3,503.3	3,312.1	3,212.4	3,166.8	3,226.7	3,242.7	16.0	0.5
Savings (CZK bn)	384.2	362.6	358.9	355.0	359.7	362.7	2.9	0.8
Average saved amount (CZK thousands)	109.7	109.5	111.7	112.1	111.5	111.8	0.4	0.3
Share of savings in the building savings banks on total household savings (%)	17.1	15.1	11.6	12.9	12.4	11.2	-1.2	-9.5
State contributions paid (CZK bn)	4.6	4.3	3.9	3.9	4.0	4.1	0.1	3.5

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

The number of contracts in the savings phase rose again slightly year on year, up by 16,000 to 3.2 million contracts, confirming the reversal of the trend from 2019, when it increased year on year for the first time after 15 years of continuous decline. The total savings of CZK 362.7 billion were also the second highest amount recorded in the reporting period. Despite this, household deposits held at building savings banks as a share of total household deposits held at all credit institutions declined by a further 1.2 pp to a low of 11.2%. The state contributions paid, CZK 4.1 billion, was slightly higher than in the previous three years. At 14.2%, the share of new contracts in the total number of contracts in the savings phase was the second highest in the reporting period (Graph 5.8).

Graph 5.8: Number of building savings contracts (BSC)



Source: Building savings banks, MoF, MoF calculations

In their lending, in 2020 building savings banks granted new loans of CZK 65.4 billion[31], the second highest volume over the reporting period and an increase of almost 37% compared to 2019 (Table 5.14). There were

[30] Private individuals.
[31] In 2020, the increase in new lending was also affected to some extent by the loan moratoria (see Box 1 in Chapter 5.5 for more details).

55,000 new loans, a figure virtually the same as the previous year. This translates into an increase in the average amount of new loans by an all-time high of CZK 309,000 to approximately CZK 1.2 million. Of these new loans, bridging loans accounted for 99.6% of the volume, the highest level recorded for the reporting period.

The total volume of loans from building savings banks rose by 5.5% year on year to an all-time high of CZK 293.5 billion. This was 0.04% (CZK 128,000) more than in the previous record year of 2010. The average amount of outstanding loans also rose approximately 13% to a high of CZK 564,000. This was a repeat of the situation in 2019, in that a nearly 6% increase in the total volume of loans, combined with a slight 1% increase in the amount saved, translated into another significant increase in the loan-to-savings ratio, this time by 3.6 pp to 80.9%. In 2020, this figure climbed to the highest level recorded in the history of building savings schemes. This shows that building savings banks have steadfastly continued to increase the use of resources from participants for lending.[32]

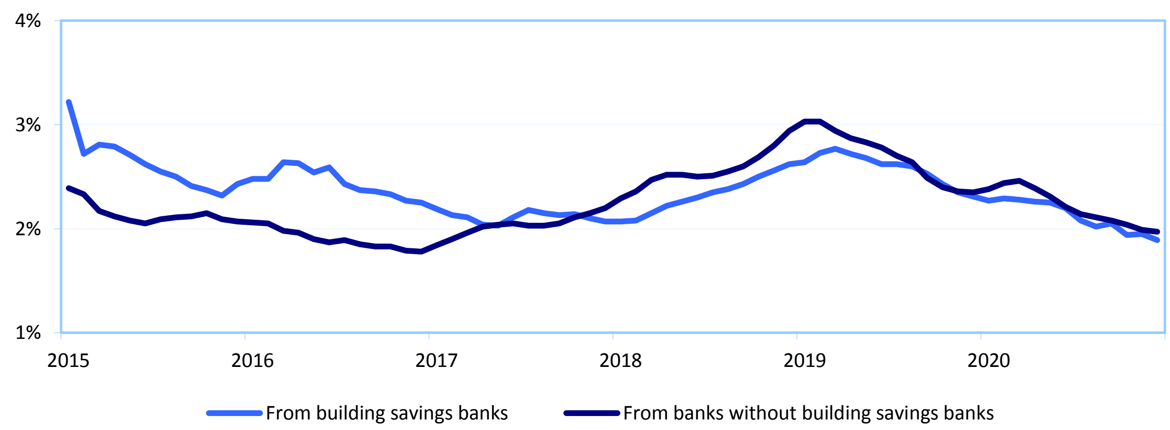
Table 5.14: Main indicators of building savings bank sector – loans

As at 31 Dec		2015	2016	2017	2018	2019	2020	Year-on-year change	
								Abs.	(%)
New loans	volume (CZK bn)	45.8	47.9	55.3	67.4	47.8	65.4	17.6	36,8
	contracts ('000s)	75.0	77.5	72.7	73.0	54.3	55.0	0.7	1,3
	average (CZK thousands)	610.0	617.8	761.0	923.8	879.5	1,188.5	309.0	35,1
Total loans	volume (CZK bn)	242.7	240.6	245.7	262.9	278.1	293.5	15.4	5,5
	contracts ('000s)	695.4	650.2	613.0	588.2	555.4	520.3	-35.0	-6,3
	average (CZK thousands)	348.9	370.0	400.8	447.1	500.8	564.0	63.3	12,6
Loans-to-savings ratio (%)		63.2	66.4	68.5	74.1	77.3	80.9	3.6	4.7

Source: Building savings banks, MoF, MoF calculations

Building savings banks competed with commercial banks' interest rates on mortgages in 2020. Their interest rates were lower than those of commercial banks each month in 2020 by an average of 0.09 pp (Graph 5.9). The smallest rate spread was in June, whereas, from the point of view of applicants, the most favourable rates available from building savings banks were offered in March 2020, when they were 0.18 pp lower than the average rates of commercial banks.

Graph 5.9: Interest rates of purely new mortgage loans for residential property purchase

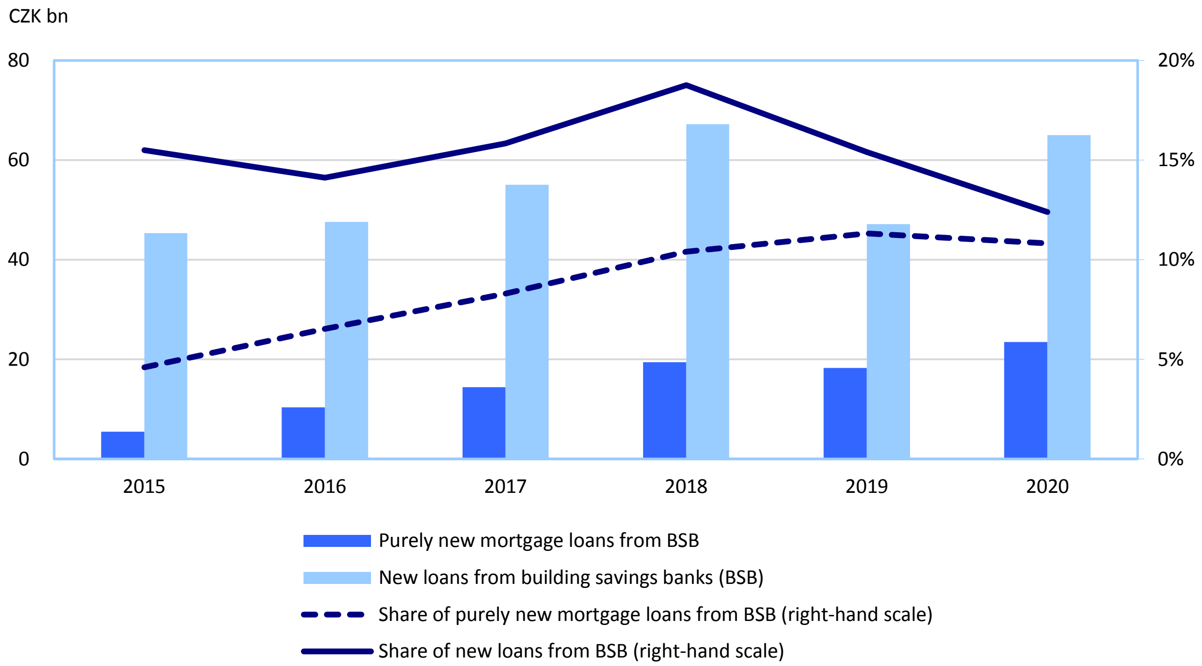


Source: CNB – ARAD

At 12.4%, the share of building savings banks in the market for new loans granted to households and secured by residential property was the lowest recorded in the reporting period. However, this could also be related to developments in the mortgage market (see Chapter 5.6 for more details). Building savings banks maintained their share of purely new mortgages at around 11%. Down by just 0.5 pp year on year to 10.8%, this was the second highest result in the reporting period (Graph 5.10).

[32] Countries with a tradition of building savings have a higher loan-to-savings ratio, e.g. about 88% in Germany and 102% in Austria in 2020.

Graph 5.10: 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

5.8 Credit Unions

Total assets in the credit union sector were down a modest CZK 0.2 billion year on year to CZK 10.0 billion and continued to account for just 0.1% of the assets of all credit institutions.[33] The volume of loans fell by 11.7% and, with deposits almost unchanged, the deposit-to-loan ratio rose to 126.5% year on year (Table 5.15).

Table 5.15: Selected indicators of the credit union sector

As at 31 Dec	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Total assets (CZK bn)	32.3	34.2	23.1	20.2	10.2	10.0	-0.2	-1.7
Loans and receivables (CZK bn)	21.7	22.5	14.8	14.7	7.3	6.4	-0.9	-11.7
Deposits (CZK bn)	27.8	29.2	19.0	15.9	8.1	8.1	0.0	0.2
Deposit-to-loan ratio (%)	128.1	130.0	127.8	108.4	111.5	126.5	15.0	13.5
Share of quick assets to total assets (%)	26.6	25.9	30.1	30.1	51.4	49.1	-2.2	-4.3
NPL ratio (%)[34]	-	36.3	22.1	28.1	24.1	28.9	4.8	20.0
Total capital ratio (%)	15.4	16.2	18.9	21.1	29.2	26.4	-2.8	-9.6
Profit/loss before tax (CZK mn)	60.2	-13.0	-76.0	-52.9	-30.3	-109.5	-79.1	-260.7
Return on Tier 1 capital (%)	0.2	-0.7	-2.3	-1.0	-1.7	-6.8	-5.0	-289.7
Number of members of credit unions (thousands)	51.2	51.6	30.9	22.6	12.2	12.0	-0.2	-1.9

Source: CNB – ARAD, MoF calculations

[33] The total assets reported for the credit institution sector (i.e. banks including building savings banks and credit unions) at the end of 2020 were CZK 8.0 trillion.

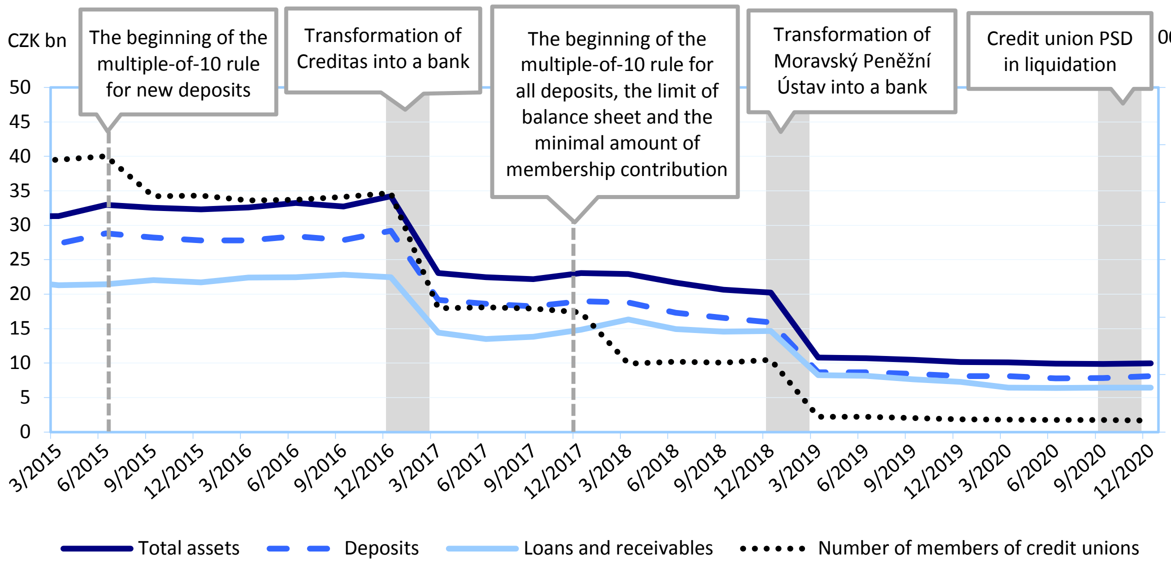
[34] The ratio of non-performing loans and receivables is relative to the total exposure of loans and receivables other than those held for trading, measured by gross book value, excluding exposures to the central bank. Loans and receivables, expressed in the table in CZK billions, are presented at their net book value, i.e. loans and receivables measured at amortised cost are presented at their value adjusted for provisions and accumulated depreciation. The ratio of non-performing loans and receivables to total loans and receivables other than those held for trading has only been available since 2016 due to the different concept applicable to categorisation.

In terms of the stability of the credit union sector, all selected economic indicators deteriorated compared to 2019, especially the ratio of non-performing loans and receivables to total loans and receivables, which increased by 4.8 pp to 28.9%, the highest level since 2017. The share of quick assets to total assets fell by 2.2 pp to 49.1% and the total capital ratio was down by 2.8 pp to 26.4%. Even so, these ratios were the second best and still above average values for the reporting period since 2015.

Credit unions as a whole again reported a pre-tax loss. The incurred loss of CZK 109.5 million was the highest for the reporting period. The year-on-year deepening of the loss by CZK 79.1 billion was mainly due to a decline in interest income and an increase in impairment losses on financial assets. Nevertheless, just three of the eight credit unions accounted for almost all of the sector's pre-tax loss, with the loss of one of these entities taking up more than half of the sector's loss.

The number of credit union members decreased by about 200 year on year to 12,000. Considering that this decline in membership was partly due to the fact that Družstevní záložna PSD went into voluntary liquidation on 6 November 2020, the number of members since the end of 2019 can be regarded as relatively stable compared with developments in previous years (Graph 5.11).

Graph 5.11: 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 when it comes to debt financing options.[35] The total assets of these providers had hovered around 6% of the banking sector's total assets for a long time,[36] but this ratio has been steadily decreasing since 2019 and reached a low of 5.2% in 2020. Moreover, at the end of 2020 the four-year streak of growth in the sector's total assets was interrupted, with assets falling by 4.7% year on year to CZK 417.4 billion (Table 5.16).

The sector is split into three sub-segments – finance-leasing companies, other lending companies, and factoring and forfaiting companies. The breakdown of the sector's **total assets** among these sub-segments has long been stable and remained virtually unchanged in 2020. Although finance-leasing companies lost 0.2 pp year on year to other lending companies, they were still the strongest representative among non-bank lenders, with a share of 78.6%. The above-mentioned reduction in the sector's total assets affected other lending companies the least (down 3.2%); the other two sub-segments saw their assets fall by around 5%.

[35] In terms of client orientation, non-bank lenders are an important alternative source of financing for business and retail requirements. These entities are often linked by ownership and financially with the banking sector through financial groups. Their product portfolio partly corresponds to the structure of bank loans (instalment sales, any-purpose loans, credit cards, revolving products). However, 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).

[36] The banking sector's assets in 2020 were CZK 8.0 trillion.

Table 5.16: Structure of assets by segments in the non-bank financing provider sector

As at 31 Dec		2015	2016	2017	2018	2019	2020	Year-on-year change Abs.	Year-on-year change (%)
Assets (CZK bn)	Financial leasing companies	280.9	301.4	322.7	335.1	345.3	328.3	-17.0	-4,9
	Other lending companies	49.8	59.5	63.9	66.2	66.7	64.6	-2.1	-3,2
	Factoring and forfaiting comp.	19.3	22.5	25.3	27.2	25.9	24.6	-1.3	-5,1
Share of the sector's assets (%)	Financial leasing companies	80.3	78.6	78.3	78.2	78.8	78.6	-0.2	-0,3
	Other lending companies	14.2	15.5	15.5	15.5	15.2	15.5	0.2	1,5
	Factoring and forfaiting comp.	5.5	5.9	6.1	6.4	5.9	5.9	0.0	-0,4
Total assets (CZK bn)		350.0	383.4	411.9	428.6	437.9	417.4	-20.4	-4.7

Source: CNB - ARAD, MoF calculations

The volume of **loans** granted (Table 5.17) also declined year on year for the first time in the reporting period, slipping by 2.6% to CZK 321.1 billion. Of this volume, the majority (78.2%) comprised loans to non-financial corporations (CZK 251.0 million), while loans to households accounted for 18.8% (CZK 60.4 million). The year-on-year decline in the volume of loans granted affected finance-leasing companies the least (a decrease of 1.7%); they had granted CZK 250.1 billion at the end of 2020, the second highest result in the reporting period.

Table 5.17: Structure of loans by segments in the non-bank financing provider sector

As at 31 Dec		2015	2016	2017	2018	2019	2020	Year-on-year change Abs.	Year-on-year change (%)
Loans (CZK bn)	Financial leasing companies	204.2	219.0	234.2	243.6	254.5	250.1	-4.4	-1,7
	Other lending companies	37.1	44.9	48.9	51.6	51.1	48.4	-2.8	-5,4
	Factoring and forfaiting comp.	16.8	20.1	23.2	25.1	24.0	22.7	-1.3	-5,4
Share of the sector's loans (%)	Financial leasing companies	79.1	77.1	76.5	76.1	77.2	77.9	0.7	0,9
	Other lending companies	14.4	15.8	16.0	16.1	15.5	15.1	-0.5	-2,9
	Factoring and forfaiting comp.	6.5	7.1	7.6	7.8	7.3	7.1	-0.2	-2,9
Total loans (CZK bn)		258.1	284.0	306.2	320.3	329.6	321.1	-8.5	-2.6

Source: CNB - ARAD, MoF calculations

5.10 Household Indebtedness

The share of households in total bank loans to clients rose steadily during the reporting period, climbing to a new high (51.7%). 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.

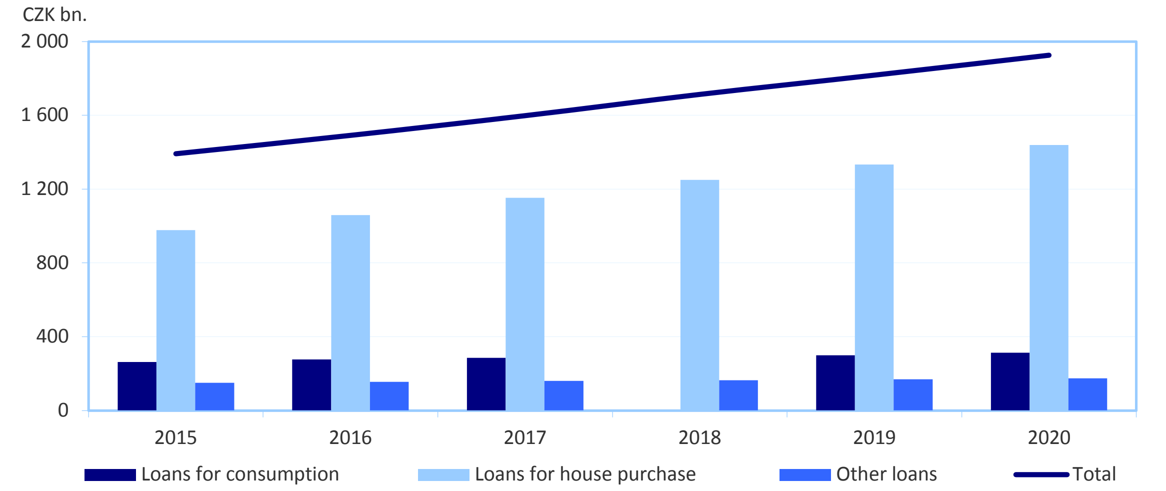
Total household indebtedness in relation to banks and non-bank financial institutions increased by CZK 107.9 billion to CZK 1.9 trillion (Graph 5.12). The growth rate declined slightly year on year to 5.9%. It hovered around 6% to 7% throughout the reporting period.

In absolute terms, loans for house purchase (CZK 1.4 trillion[37]) have long dominated, followed by loans for consumption (CZK 312.7 billion) and other loans (CZK 174.3 billion), which mainly include loans granted to self-employed persons for business purposes. The growth rate of loans for house purchase rose by 1.4 pp year on year to 8.0%; this was also the average growth rate during the reporting period. By contrast, loans for consumption reported a slight 0.8% year-on-year decline, reversing the growth trend witnessed since the end

[37] 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 property, 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) from non-bank financing providers.

of 2015. The growth rate of "other loans" came to 2.6% and hovered around 3% throughout the reporting period. The share of loans for house purchase in total household indebtedness rose again by 1.4 pp year on year to 74.7%, and by 4.4 pp during the reporting period.

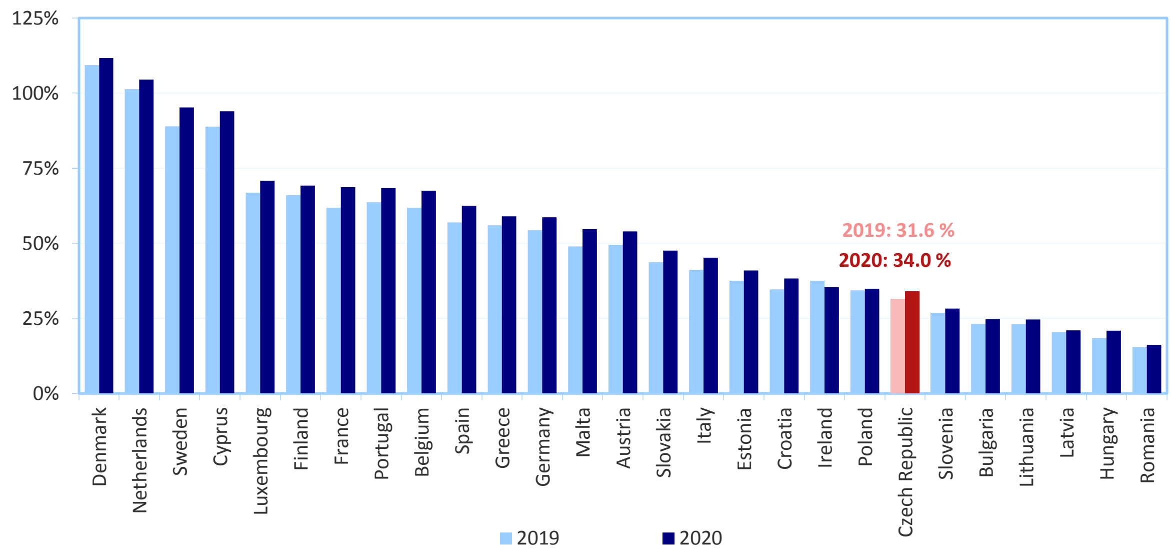
Graph 5.12: Total household indebtedness



Source: CNB - ARAD, MoF, MoF calculations

Although household indebtedness in the Czech Republic relative to GDP increased by 2.4 pp year on year to 34.0% of GDP,[38] it remained relatively low compared to the rest of the EU (Graph 5.13).

Graph 5.13: Volume of household indebtedness in countries in the EU relative to GDP



Source: ESRB

Household indebtedness increased most year on year in France (6.9 pp), Sweden (6.3 pp), Malta (5.8 pp), Belgium (5.7 pp), and Spain (5.6 pp). Overall, however, the key factor behind developments in the EU was the decline in GDP, against which indebtedness is compared.

In the reporting period since the end of 2015, there was a modest drop in household indebtedness in EU countries, dipping by an average of 0.3 pp. However, there was considerable variation from one country to another. The Czech Republic reported growth of 3.9 pp. The highest increases were recorded in Slovakia and Sweden (12.9 pp), followed by France (12.6 pp).

38 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

Developments in global capital markets were affected by the impact of the COVID-19 pandemic, i.e. heightened uncertainty in financial markets and doubts about the recovery of economic growth in individual countries. The value of individual stock market indices fell dramatically worldwide particularly at the beginning of the pandemic in March 2020. There was a subsequent correction during the year in response to the effects of accommodative monetary policy adopted by the major central banks around the world (see Chapter 1), certain additional economic policy measures in individual countries, and the hope that the COVID-19 vaccination would trigger positive economic effects.

The value of the global stock index MSCI ACWI Standard went up by 14.1% year on year. Expectations of a structurally and territorially uneven economic recovery contributed to divergent trends among indices (Table 6.1). Stock indices with a higher share of sectors dependent on interpersonal contact or sensitive to the economic slowdown reported weaker growth, or even a decline. Conversely, the above-average growth of the main stock market index in the US, the S&P 500 (by 16.3%), was largely due to a sharp rise in the share prices of global technology companies. Asian stocks also did well, with the Japanese index up by 16.0% and the Chinese index by 13.9%. The main stock market index in Germany rose by 3.5%, but the Euronext 100 index reported a 3.6% decline due to falling share prices in other countries. However, the appreciation of the euro also played a role in the international comparison. Brexit uncertainty probably contributed to the decline in the UK headline index (down 14.3%). In Central Europe, all of the indices monitored reported a year-on-year decline – falling most steeply in Austria (12.8%) and the least in Slovakia (1.7%). The indices in Poland, the Czech Republic and Hungary declined by around 8% to 9%.

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

As at 31 Dec (%)	Index	2015	2016	2017	2018	2019	2020
World	MSCI ACWI	-4.3	5.6	21.6	-10.4	25.2	14.1
USA	S&P 500	-0.7	9.5	19.4	-6.2	28.9	16.3
China	SSE Index	9.4	-12.3	6.6	-24.6	22.3	13.9
Japan	Nikkei 225	9.1	0.4	19.1	-12.1	18.2	16.0
United Kingdom	FTSE 100	-4.9	14.4	7.6	-12.5	12.1	-14.3
Russia	MOEX	26.1	26.8	-5.5	12.3	28.6	8.0
Eurozone	**Euronext 100**	**8.0**	**3.0**	**10.6**	**-11.2**	**24.8**	**-3.6**
Germany	DAX	9.6	6.9	12.5	-18.3	25.5	3.5
Austria	ATX	11.0	10.6	29.1	-19.7	16.1	-12.8
Poland	WIG 20	-18.9	4.7	26.1	-7.5	-5.6	-7.7
Czech Republic	**PX**	**1.0**	**-3.6**	**17.0**	**-8.5**	**13.1**	**-7.9**
Hungary	BUX	43.8	33.8	23.0	-0.6	17.7	-8.6
Slovakia	SAX	31.5	9.0	2.2	2.1	5.6	-1.7

Source: Market organizers, MoF calculations

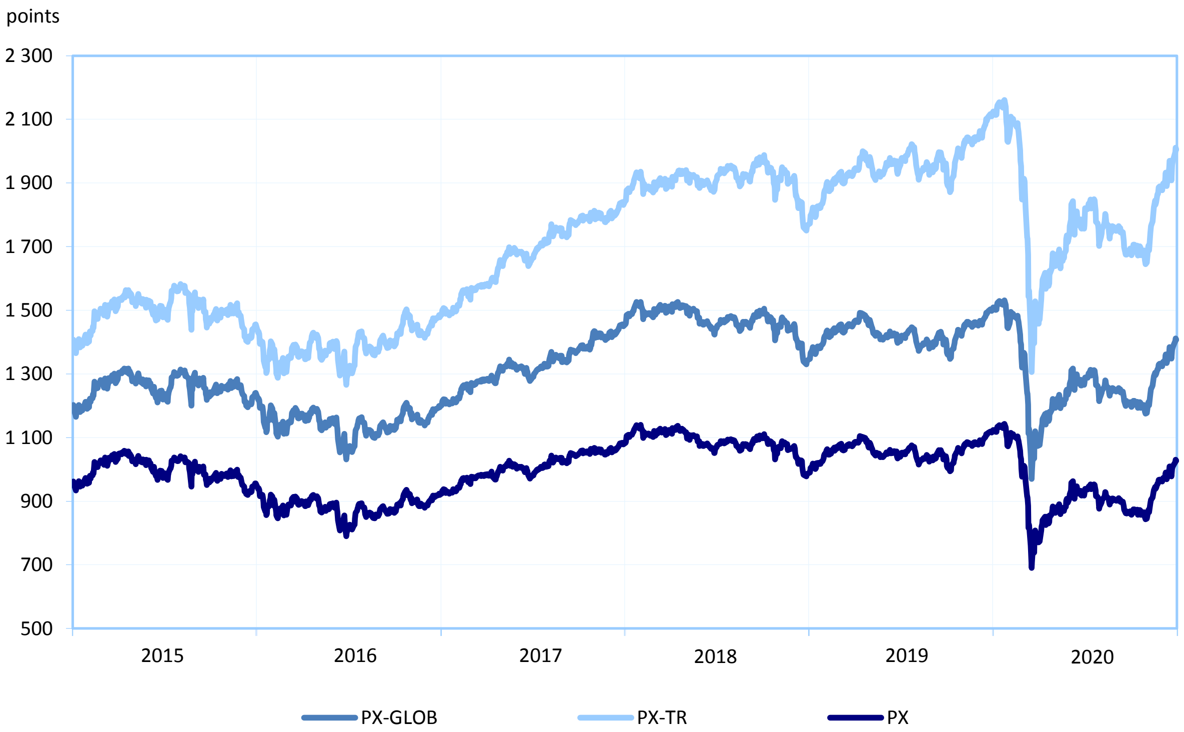
Note: The figures show year-on-year changes in the closing prices of the given indices.

6.2 Regulated and OTC Market in the Czech Republic

The main stock index of the Prague Stock Exchange (PSE), the PX, briefly stooped as low as 690 points at the beginning of the COVID-19 pandemic in March 2020. Thanks to growth in the later part of 2020, it went on to erase much of the initial losses and thus fell by 7.9% year on year to 1,027.1 points (Graph 6.1). Similarly, the PX-GLOB index, which includes all stocks traded on the PSE, posted a 6.1% year-on-year decline. The PX-TR, the last of the monitored PSE indices, encompasses dividend yield as well as capital appreciation. It also recorded a 5.0% year-on-year decline. In this case, capital losses were mitigated by dividend yields, which, together with other ordinary (i.e. non-equity) yields, amounted to approximately 3% p.a.

The overall capitalisation of Prague Stock Exchange shares fell by 9.0% year on year. Comparisons across the reporting period are hampered by the fact that selected foreign equity titles started to be traded in the Free Market segment in May 2018, which increased its size more than eightfold and its share to more than 90% of the exchange's capitalisation. Therefore, to track trends in the capitalisation of domestic and more traded stocks, it is more appropriate to monitor developments in the capitalisation of segments other than the Free Market segment, which declined 10.2% year on year and went down by 43.8% cumulatively during the reporting period since the end of 2015.

Graph 6.1: Daily closing values PSE indices



Source: PSE

The total volume of stock exchange trades (Table 6.2) increased by 11.2% year on year, mainly due to the growth in the volume of shares, despite the year-on-year decline in their prices. The decline in the volume of trades in corporate bonds in particular had the opposite effect. Both equities and corporate bonds thus reversed their year-on-year trends, with equities increasing their share in total trades year on year to 93.2%. However, despite the growth recorded in 2020, total trading volumes fell by more than a fifth within the framework of the reporting period.

Table 6.2: Volume of exchange trades on the PSE

Annual (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Shares	167.9	168.0	138.8	142.6	108.8	125.3	16.5	15.2
Corporate debt securities	5.1	4.2	6.1	9.2	11.9	8.5	-3.3	-28.1
Other assets[39]	0.3	0.2	0.4	0.3	0.3	0.6	0.3	114.8
Total	173.3	172.4	145.3	152.0	120.9	134.5	13.5	11.2

Source: PSE, MoF calculations

The number of registered issues traded on the PSE fell by 27 year on year to 265 (Table 6.3), mainly due to a decline in corporate and financial sector bonds and structured products; there was also a slight decline in investment fund instruments. Conversely, there was a modest increase in the number of issues of public sector bonds and equities. This means that, within the reporting period since the end of 2015, the year 2020 saw

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

a reversal of the earlier trend of a gradual increase in the number of corporate sector bonds. This development, again, was consistent with the trend in the total volume of long-term bonds issued by the corporate sector (Graph 6.2).

Table 6.3: Number of registered issues on the PSE

As at 31 Dec	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Shares	25	25	23	53	54	55	1	1.9
Debt securities	112	115	116	112	118	105	-13	-11.0
of which: public sector	26	25	25	24	21	24	3	14.3
corporate sector	42	49	54	55	63	51	-12	-19.0
financial sector	44	41	37	33	34	30	-4	-11.8
Structured products	89	71	61	72	84	73	-11	-13.1
Investment funds	17	37	32	38	33	32	-1	-3.0
Other	-	-	-	3	3	-	-3	-100.0
Total	243	248	232	278	292	265	-27	-9.2

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. Even so, it more than doubled year on year to CZK 4.6 billion. Parallel to this, the predominance of equity trades over trading in bonds, which had become quite marginal, became even stronger.

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

Annual (CZK mn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Shares	3,776.3	3,334.5	2,908.6	2,596.5	2,184.4	4,604.9	2,420.5	110.8
Debt securities	8.7	12.2	8.8	3.0	6.0	0.3	-5.7	-94.4
Total	3,785.0	3,346.6	2,917.4	2,599.5	2,190.4	4,605.2	2,414.8	110.2

Source: RMS, MoF calculations

The volume of over-the-counter transactions settled within the Central Securities Depository (CSD) exceeded the activity of exchange trades by an throughout the reporting period (Table 6.5).[40] Year-on-year growth continued for a second year (by 12.2%) after declines in 2016 and 2018, but was slightly lower than the average annual growth rate for the reporting period (14.7%).

Table 6.5: Volume of OTC transactions within CSDP

Annual (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Total	2,362.3	2,137.0	5,180.7	3,202.7	4,365.3	4,897.7	532.5	12.2

Source: CSDP, MoF calculations

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

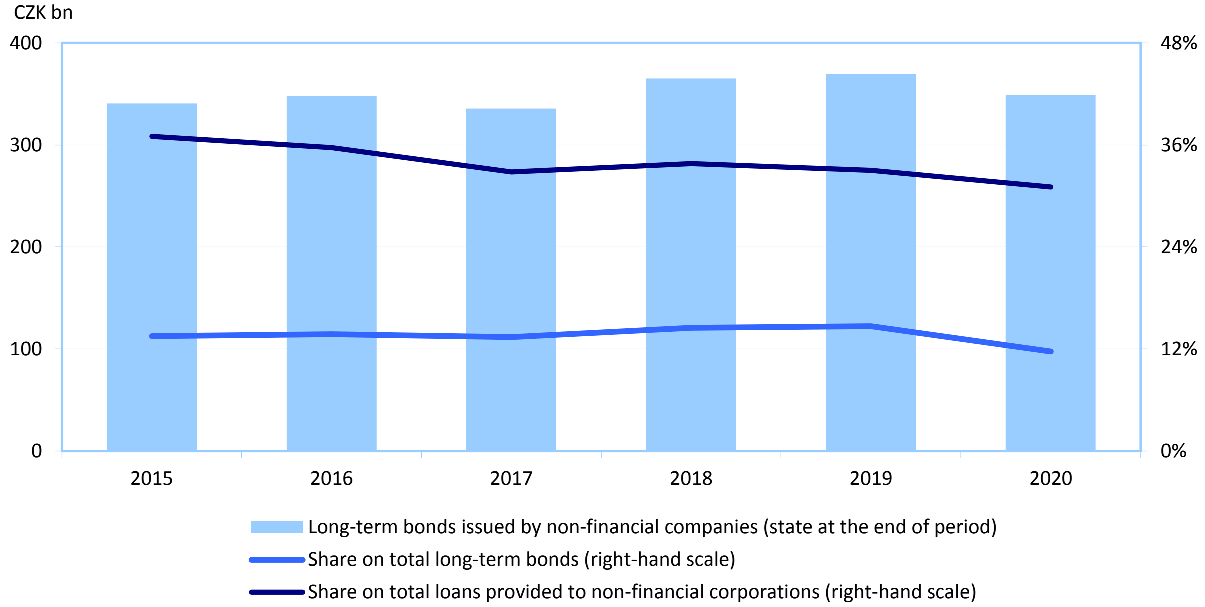
Long-term bonds are a complementary source of financing for non-financial corporations, i.e. manufacturing and trading companies, and an important area of the capital market not described in detail in the previous chapter. At the end of the year, the total volume of long-term bonds issued by non-financial corporations fell by 5.6% year on year to CZK 348.8 billion (Graph 6.2). This second and fastest decline for the reporting period

[40] 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.

can be attributed to a combination of factors, including heightened uncertainty related to the COVID-19 pandemic and the partial exhaustion of the potential for further growth in previous years, as the volume of such bonds more than quadrupled 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 1.1 trillion (see Chapter 5.5). Funds equivalent to 31.1% 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 5.9 pp) was mainly due to a rise in volume of bank lending of more than 20%, while the total volume outstanding of bonds was almost stagnant (2.4% growth).

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



Source: CNB – ARAD, MoF calculations

6.4 Investment Firms and Asset Management

Investment Firms

The volume of non-bank investment firms' assets (Table 6.6) rose again, climbing by 12.3% to CZK 29.6 billion[41] and thus reaching a new high for the second year in a row. The rate of growth in the volume of assets of branches of foreign entities (83.5%) was almost eight times higher than that of domestic entities (10.8%). However, this higher relative growth in the volume of foreign branches' assets was due to their lower initial size. In this respect, in terms of the volume of assets the share of foreign entities increased from 2.1% to 3.5% year on year, and the predominance of domestic non-bank investment firms did not change substantially over the reporting period.

Table 6.6: Assets of the non-bank investment firms

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Domestic investment firms	20.9	23.7	24.1	23.3	25.8	28.5	2.8	10.8
Branches of foreign investment firms	0.5	0.5	0.5	0.4	0.6	1.0	0.5	83.5
Total	21.4	24.2	24.6	23.7	26.3	29.6	3.2	12.3

Source: CNB – ARAD, MoF calculations

[41] 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 data, such as the volume of funds under management or client assets, has been suspended.

Asset Management

The volume of assets entrusted to members of the Capital Market Association of the Czech Republic (AKAT) for management increased by 5.8% to a total of CZK 1.7 trillion in 2020 (Table 6.7). 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 76%.

Table 6.7: Value of managed assets by AKAT members

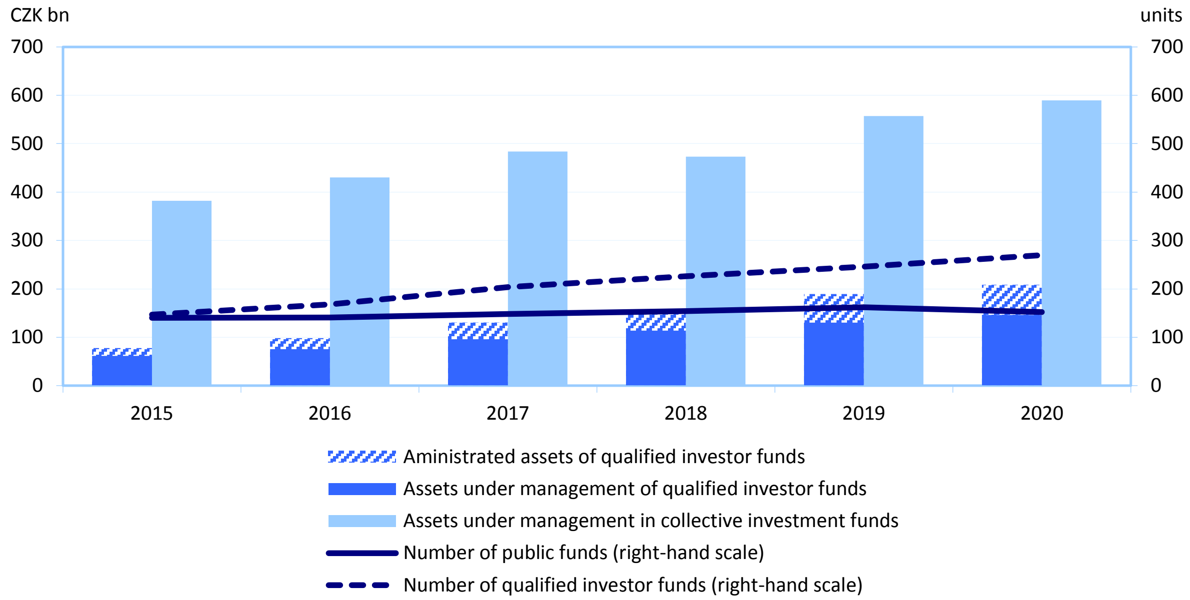
As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Total	1,159.7	1,288.4	1,378.1	1,368.1	1,565.0	1,655.8	90.8	5.8

Source: AKAT, MoF calculations

6.5 Investment Funds

Investment funds, comprising collective investment funds and qualified investor funds,[42] had CZK 735.8 billion in assets under management in 2020, the highest level for the reporting period. This was the result of a year-on-year increase by CZK 48.2 billion (7.0%), again helped by a rise in asset prices on global financial markets, particularly in the second half of the year, despite their sharp decline and possible outflows of client investments due to increased uncertainty at the time of the global onset of the COVID-19 pandemic in March 2020 (Graph 6.3).

Graph 6.3: Structure of collective investment funds



Source: AKAT, CNB – ARAD

The volume of resources in **collective investment funds** increased by almost 6% year on year to a record CZK 589.7 billion (Table 6.8). Of this volume, CZK 375.0 billion (63.6% of the total) was in domestic funds and CZK 214.6 billion (36.4% of the total) was in foreign funds. At the same time, resources increased year on year by 6.8% in domestic funds and by 4.4% in foreign funds.

In terms of placement of resources into the various types of mutual funds, differences between domestic and foreign funds persisted in 2020, but the overall structure of fund categories by size remained broadly unchanged (Table 6.8). Among domestic funds, there was a substantial increase in the dominant share of domestic mixed funds (by 43.5%, up 8 pp year on year) and, conversely, a weakening in the importance of domestic bond funds (down 3 pp year on year to 27.2%). The share of domestic real estate funds grew

[42] 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, on the other hand, collect funds from professional clients to the extent of transactions or investment services relating to the securities on offer.

continuously over the reporting period, increasing by a further 0.5 pp year on year to reach a high of 11.3% in 2020. Among foreign funds, on the other hand, mixed funds lost their primacy for the first time since 2015, with their share falling by 1.1 pp year on year to 31.3%, overtaken by equity funds with a share of 34.3% (year-on-year growth of 3 pp).

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

As at 31 Dec (CZK bn)	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Domestic	**201.8**	**234.6**	**280.2**	**284.0**	**351.3**	**375.0**	**23.8**	**6.8**
Bond	64.8	70.7	71.1	60.1	106.6	102.0	-4.6	-4.3
Equity	27.1	33.6	44.3	46.2	51.2	66.5	15.3	29.8
Structured	0.3	0.3	0.2	0.0	0.7	0.7	0.0	2.9
Mixed	80.1	92.4	117.6	116.3	124.6	163.3	38.7	31.0
Funds of funds	17.7	20.0	24.1	24.8	30.0	0.0	-30.0	-
Money market	0.6	0.5	0.4	6.8	0.0	0.0	0.0	-
Real estate	11.3	17.0	22.4	29.8	38.1	42.6	4.4	11.6
Foreign	**180.2**	**195.5**	**203.3**	**189.0**	**205.6**	**214.6**	**9.0**	**4.4**
Bond	47.0	53.4	47.6	39.6	45.7	49.1	3.3	7.3
Equity	42.3	47.7	55.0	53.7	64.3	73.6	9.3	14.5
Structured	28.0	27.2	26.7	24.0	23.8	20.5	-3.3	-14.0
Mixed	57.8	63.4	71.0	66.9	66.5	67.2	0.6	0.9
Funds of funds	0.2	0.2	0.3	0.3	0.3	0.0	-0.3	-100.0
Money market	3.8	2.6	2.2	4.1	4.5	3.5	-1.0	-22.7
Real estate	1.2	1.1	0.5	0.4	0.4	0.9	0.5	117.3
Total	**382.0**	**430.1**	**483.5**	**473.0**	**556.9**	**589.7**	**32.8**	**5.9**

Source: AKAT, MoF calculations

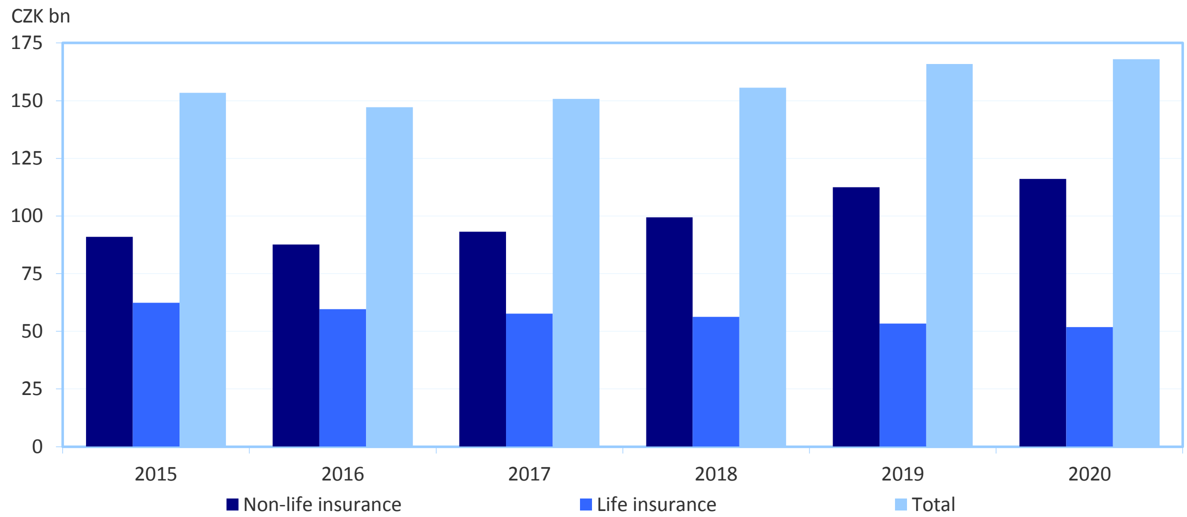
Qualified investor funds recorded an almost 12% year-on-year increase in funds under management to CZK 146.1 billion (Graph 6.3), thus increasing their share in total assets managed by investment funds by a further 0.9 pp to 19.9%. In the reporting period from the end of 2015, their share went up by 5.9 pp. The volume of administered assets, which had increased by at least 15% each year throughout the reporting period, saw its growth rate decelerate. This resulted in a rise by only 6.9% to CZK 62.4 billion. Despite this, the growth in the volume of total assets managed and administered by qualified investor funds has maintained a double-digit pace since 2016, reaching 10.3% in 2020 (a year-on-year increase in volume by CZK 19.4 billion to CZK 208.5 billion).

7 INSURANCE

7.1 Insurance Companies

In terms of gross premiums written, in 2020 the insurance sector continued the upward trend started in 2017. Total year-on-year premium growth reached 1.2%, driven by growth in non-life insurance (up 3.2%), although this was significantly lower than in 2019. On the other hand, life insurance segment reported a 3.0% decline, leading into a year-on-year slowdown in the long-term downward trend of this segment. In absolute terms, the total volume of gross premiums written was CZK 168.0 billion (Graph 7.1). Although the insurance sector witnessed relatively weaker growth in 2020 compared with the previous period, the ratio of gross premiums written to nominal GDP increased slightly by 0.1 percentage point to 3.0%. The increase in the value of this ratio can be attributed not only to growth in gross premiums written, but also to the fact that the economy entered a recession as a result of the COVID-19 pandemic.

Graph 7.1: The volume of gross premiums written



Source: CNB – ARAD

The ongoing growth of the non-life segment and the steady decline of the life segment were reflected in the market shares of both segments. At the end of 2020, the ratio was 69:31 in favour of non-life insurance, which led to a further skewing of both segments of the insurance market compared to Western Europe's developed countries, where the ratio is reversed, i.e. in favour of life insurance. The other Visegrad Four countries also reported a higher share of non-life insurance in the insurance market.[43]

In terms of the number of contracts, the life insurance segment kept to the downward trend that started in 2013, as the total number of contracts decreased by 2.0% year on year (Table 7.1). There was a 14.7% decrease in the category of newly concluded life insurance contracts, a 2.1 pp increase compared to the previous year. The falling number of contracts was also reflected in a drop in gross premiums written, which amounted to CZK 51.8 billion, down 3.0% year on year. However, the decline in the volume of premiums was 2.0 pp lower in comparison to the previous year. Of the total gross premiums written in the life insurance segment, CZK 10.6 billion was attributable to single-premium contracts. Table 7.1 summarises selected life and non-life insurance indicators.

The stronger segment, non-life insurance, stagnated in terms of the total number of insurance contracts in 2020 (down 0.2%). Contrary, the number of newly concluded contracts recorded a significant decline (24.7%) compared to 2019, when the number of newly concluded contracts fell by 3.3%. The volume of gross premiums written in the non-life segment rised by 3.2% to CZK 116.1 billion, the lowest premium growth pace since 2017. The most significant contributors to the increase in written premiums were the motor insurance segment (14.6%), followed by liability insurance (up 8.8%) and fire and other property damage insurance (up 8.5%).

[43] According to EIOPA statistics, the shares of non-life and life insurance in other European countries at the end of 2020 were as follows: UK 23:77; France 40:60; Germany 34:66; Hungary 56:44; Slovakia 57:43; Poland 67:33.

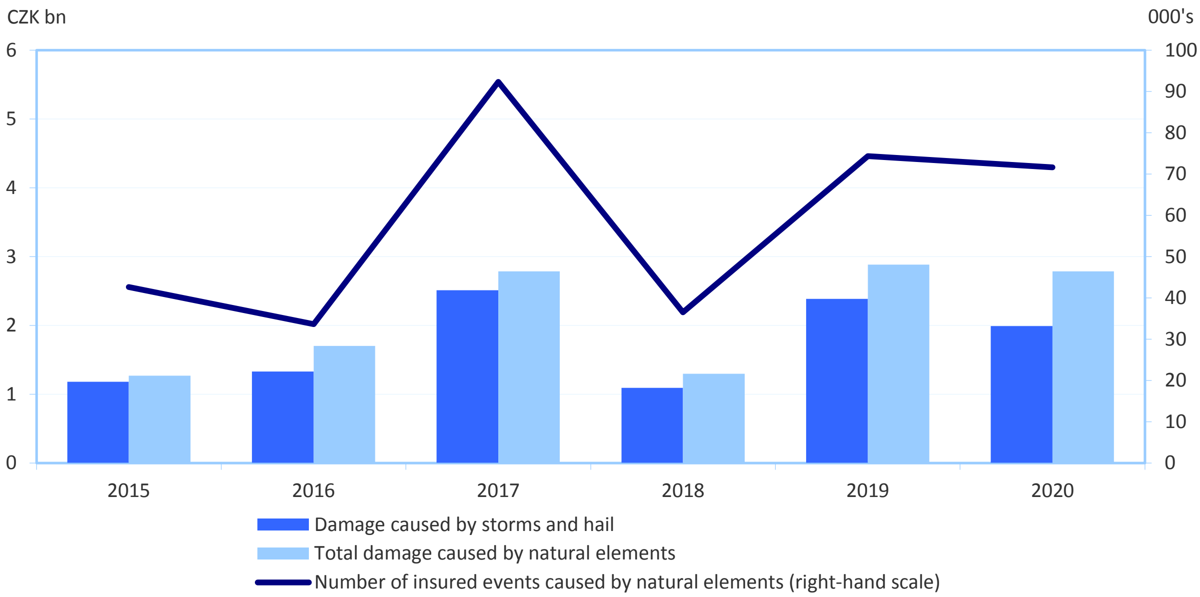
Table 7.1: Main indicators for insurance sector

As at 31 Dec	2015	2016[44]	2017	2018	2019	2020	Year-on-year change Abs.	Year-on-year change (%)
Policies (000's)	27,777	27,119	27,945	28,789	28,514	28,363	-151	-0.5
of which: non-life insurance	20,384	21,099	22,080	23,031	23,144	23,098	-46	-0.2
life insurance	7,393	6,020	5,865	5,758	5,370	5,264	-106	-2.0
Newly concluded policies (000's)	10,861	11,353	12,006	13,138	12,651	9,584	-3,067	-24.2
of which: non-life insurance	9,920	10,669	11,372	12,516	12,108	9,120	-2,987	-24.7
life insurance	941	684	634	621	543	464	-80	-14.7
Total gross premiums written (CZK bn)	153.4	147.2	150.8	155.6	165.9	168.0	2.1	1.2
of which: non-life insurance	91.0	87.6	93.2	99.4	112.5	116.1	3.6	3.2
life insurance	62.4	59.6	57.6	56.2	53.4	51.8	-1.6	-3.0
Gross claim settlement costs (CZK bn)	99.7	95.7	96.6	92.6	101.2	91.8	-9.4	-9.3
of which: non-life insurance	48.5	50.6	53.9	49.4	58.0	54.3	-3.7	-6.4
life insurance	51.2	45.1	42.6	43.2	43.2	37.5	-5.7	-13.2
Total insurance penetration (%)	3.3	3.1	3.0	2.9	2.9	3.0	0.1	-

Source: CNB – ARAD, MoF calculations

The last main indicator, gross claim settlement costs, declined year on year in both insurance segments. In absolute terms, it reached CZK 91.8 billion, i.e. an overall year-on-year drop by CZK 9.4 billion, largely due to a fall in life insurance costs. The decrease in costs can also be attributed to lower claims paid out for damage caused by natural elements (Graph 7.2).

Graph 7.2: Insured events caused by natural elements



Source: Czech Insurance Association, MoF calculations

Figures from the Czech Insurance Association show that the total volume of natural-disaster claims fell by 3.5% and the number of loss events decreased by 3.7% year on year. Although there were declines in both categories, insurers handled the third highest number of claims in the last decade, driven by Hurricane Sabine in February and flood damage in June and October. In 2020, windstorm and hail claims accounted for 71.5% of total natural-disaster claims (measured as CZK), with flood claims accounting for 28.3% of the volume of natural-disaster claims.

[44] 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.

Fire damage (17.5%) and water damage (11.0%) accounted for a major share of the total volume of property insurance claims. While fire damage accounted for a relatively high proportion measured in CZK, the number of claims accounted for a relatively small proportion of the total number of claims (1.9%). The opposite was true for water damage, which covered a relatively larger share of the total number of property insurance claims (16.3%).

From the perspective of sector´s profitability, the insurance sector reported a pre-tax profit of CZK 17.7 billion in 2020. Despite the 11.5% year-on-year decline in profit, this was the second highest profit recorded by the insurance sector in the reporting period. The technical account result for life insurance decreased by 17.5%, driven by a drop in investment income (down 6.8%) and an increase in investment expenses, which rose by 33.1% year on year. Contrary, the result of the technical account for non-life insurance reported an increase that was quite pronounced (99.8%), mainly due to a fall in claims costs (by 7.1%) linked to a decrease in gross claims (by 3.8%). This can be attributed to an overall decrease in the number of claims reported (by 11.9%) in this insurance segment.

Total assets in the insurance sector increased by a slight 1.3% to CZK 493.4 billion in 2020. The growth in assets was fuelled by a 1.9% increase in investments where the policyholder bears the investment risk; these were the second most significant asset item (20.3% of total assets). Receivables also grew, by 20.1%, year on year. In contrast, the most significant asset item, i.e. the volume of investments for which the policyholder does not bear the investment risk, fell slightly. This volume decreased by 0.6% year on year and accounted for 65.7% of total assets. There were no significant changes in the amount of technical provisions (i.e. the liability side of the balance sheet), and their volume can be described as flat (down by 0.2%). The slight decrease in provisions was mainly due to life insurance provisions (down 1.5%) and provisions for claims relating to non-life insurance (down by 2.2%). The exception was the provision for unearned premiums, which increased by 4.2% compared to 2019. This growth was mainly driven by the formation of this provision in relation to non-life insurance.

The economic performance of the insurance sector is heavily influenced by the ability of individual insurers to detect insurance fraud. According to Czech Insurance Association data, in 2020 insurance companies investigated 9,632 suspicious insurance claims. Here, fraud aggregating CZK 1.2 billion was detected. The average amount of insurance fraud detected was CZK 288,000. Thus, in the year-on-year comparison, all three indicators increased, i.e. the number of suspicious events investigated (by 13.7%), the volume of fraud (by 8.7%), and the average amount of fraud (by 25.2%).

7.2 Insurance Intermediation

At the end of 2020, approximately 38,000 persons were authorised to intermediate insurance. Compared to 2019, the total number of intermediaries slightly decreased (Table 7.2). Developments in the number of insurance intermediaries from 2019 onwards was affected considerably by changes in the regulatory framework for insurance and reinsurance distribution[45] that were adopted in 2018. These resulted in a decline in persons authorised to intermediate insurance and reinsurance between 2018 and 2019, with more than 185,000 licences recorded for the full year at the end of 2018, 95% of which were for individuals.

Table 7.2: Number of insurance intermediaries

As at 31 Dec	2019	2020	Year-on-year change	
			Abs.	(%)
Independent intermediaries	1,164	1,121	-43	-3.7
Tied agents	35,049	34,648	-401	-1.1
Supplementary pension insurance intermediaries	2,268	2,232	-36	-1.6
Total	38,481	38,001	-480	-1.2

Source: CNB – JERRS, MoF calculations

[45] Act No 170/2018 on insurance and reinsurance distribution, as amended. The regulatory framework also changed in response to the COVID-19 pandemic – see Chapter 9 for more details.

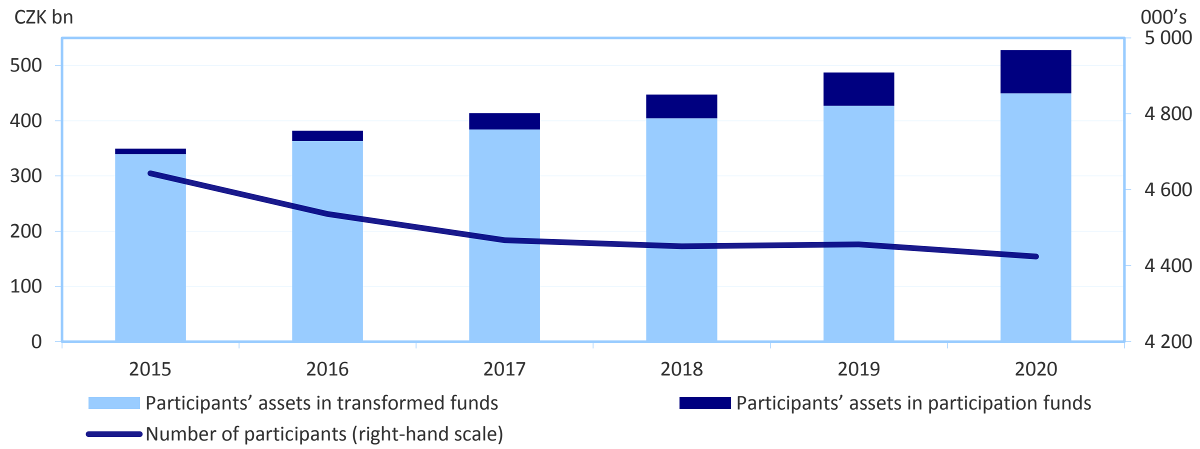
8 PRIVATE PENSION SYSTEM

8.1 Supplementary Pension Insurance and Supplementary Pension Savings

Participants' Assets and Number of Participants

The assets of participants in the Pillar 3 of the pension system,[46] which consists of supplementary pension insurance scheme and supplementary pension savings scheme, totalled CZK 527.9 billion (Graph 8.1) after growing by 8.4% year on year, i.e. at a slightly lower rate than in 2019. In 2020, third-pillar assets continued to be managed primarily by "transformed funds". Here, they amounted to CZK 449.4 billion (85.1%). In the context of the major reform of the private pension system in 2013, participants in the supplementary pension insurance scheme were automatically transferred to these funds, but the terms and conditions of their supplementary pension insurance contracts were preserved (in particular the guarantee of non-negative appreciation), and no new participants are allowed to join them. Since 2013, the Pillar 3 of the pension system has been open to supplementary pension savings. Here, participants' savings are deposited in "participation funds", which increased by CZK 18.4 billion to CZK 78.5 billion in 2020.

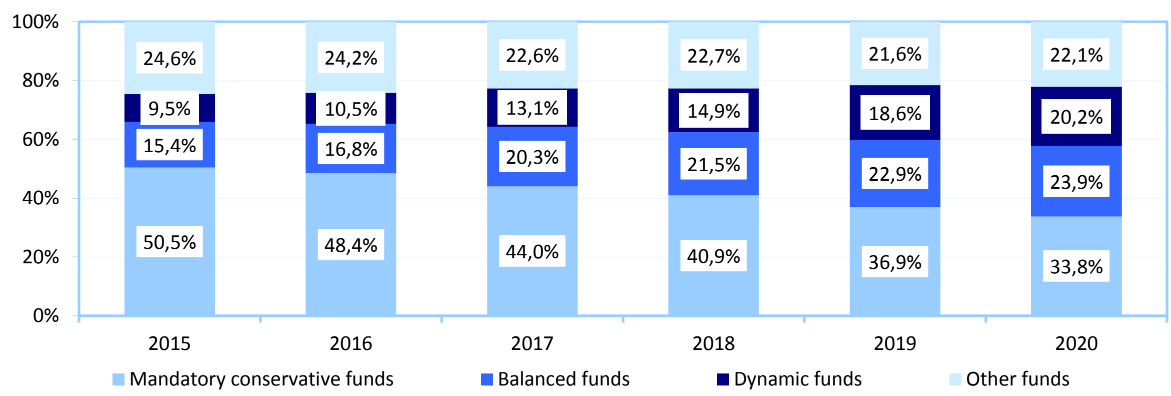
Graph 8.1: Participants' assets and number of participants in Pillar 3



Source: APS CR, MoF

Under the supplementary pension savings scheme, participants' assets are placed in selected participation funds according to the investment strategy chosen by the participants from what is offered by the pension management company. In terms of the distribution of assets managed in the different types of participation funds, the trend of increasing the share of assets in funds with less conservative investment strategies, i.e. in balanced and dynamic funds that invest at least part of their resources in shares, continued (Graph 8.2).

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



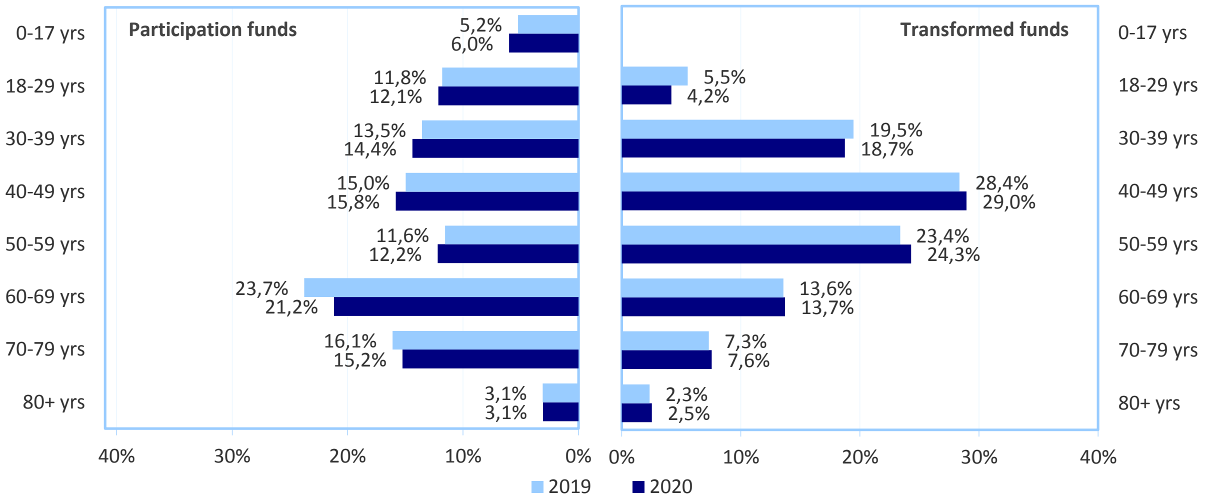
Source: APS CR, MoF calculations

46 Pillar 1 represents a mandatory pay-as-you-go pension system financed by the state. Pillar 2, which was represented by voluntary retirement savings scheme, was started in 2013 and in 2016 was discontinued.

After a slight year-on-year increase in 2019, the first since the private pension reform in 2013, the total number of third-pillar participants decreased by 0.7% year on year to 4.42 million persons (Graph 8.1). 3.15 million participants had their assets deposited with transformed funds; their number fell by 5.2% year on year. The number of participants in participation funds grew by 12.6% to 1.27 million persons, with a 5.3 pp lower rate of growth than in 2019.

Within the framework of the age structure of third-pillar participants, as usual persons aged 40 to 49 years were the most represented, with their share increasing slightly to 25.2%. Although 20,000 fewer new participants joined participation funds in 2020 year on year, the gradual trend of a rejuvenating age structure continued in the supplementary pension savings scheme thanks to the increasing share of younger age groups among new participants. Whereas, in 2015, the share of participants up to 49 years of age in the total number of new entrants for that year was only 29%, by 2020 it had climbed to 57%. The share of child participants in the supplementary pension savings scheme increased by 0.8 pp to 6.0%, just as it had in 2019 (Graph 8.3).

Graph 8.3: Age structure of participants in participation and transformed funds

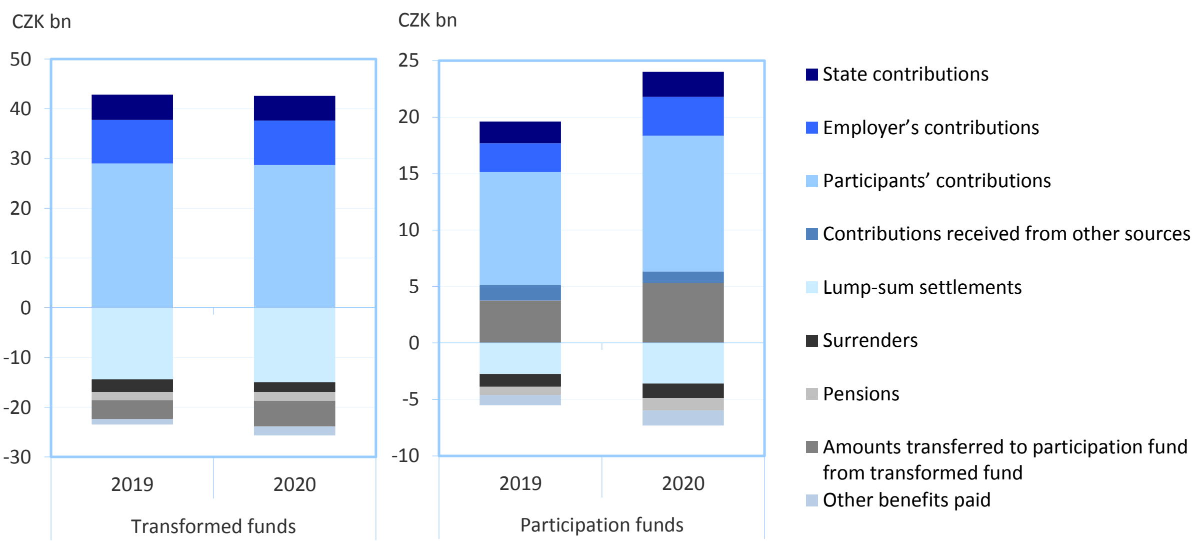


Source: MoF

Contributions and Benefits

Participants themselves have long been the largest contributors to the total annual volume of assets flowing into pension funds. In 2020, participants' own contributions to both types of pension funds grew by 4.6% to CZK 40.6 billion and accounted for 67.5% of all contributions received. Employer's contributions increased by 9.1% to CZK 12.4 billion and their share in total annual contributions increased slightly to 20.6% compared to 2019. State contributions accounted for the remaining 11.9% of funds received.

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



Source: CNB – ARAD, MoF calculations

Benefits paid from transformed funds, excluding amounts transferred to participation funds, continued mostly (around 73%) to be in the form of lump-sum settlements (Graph 8.4), while the share of pensions paid out was 8.8%. In the case of participation funds, lump-sum settlements accounted for around 49% of all benefits paid out, while pensions increased their share to 15.2%.

The average monthly participant's contribution in the supplementary pension insurance scheme increased by a lower amount than in 2019, climbing by CZK 32 to CZK 754 (Table 8.1). The average monthly participant's contribution in the supplementary pension savings scheme increased by CZK 12 to CZK 812, reporting slightly higher absolute and relative growth compared to 2019. However, both types of pension funds posted below-average absolute and relative increases in participant's contributions within the framework of the reporting period.

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

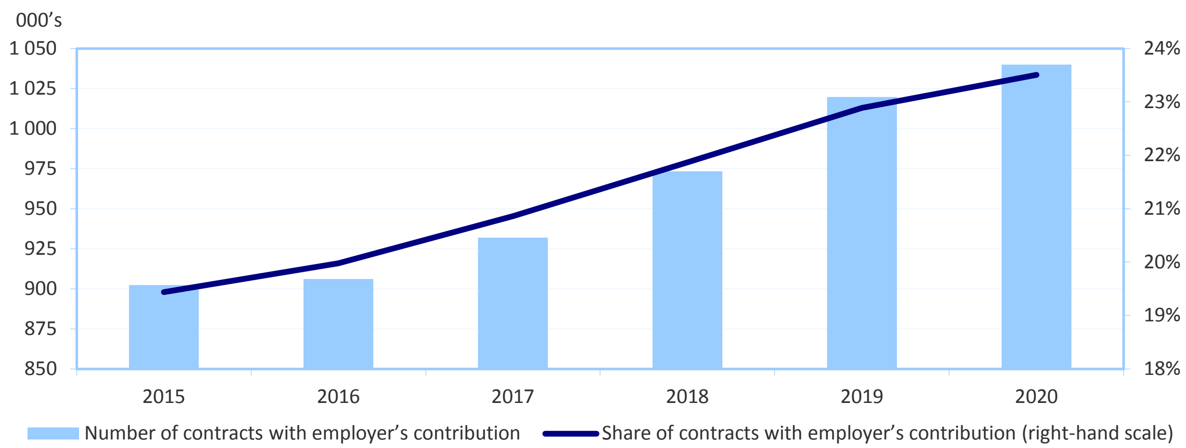
	Average CZK/month	2015	2016	2017	2018	2019	2020	Year-on-year change	
								Abs.	(%)
TF	Participant's contribution	589	606	624	680	722	754	32	4.4
	Employer's contribution	741	770	837	877	914	1,017	103	11.3
	State contribution	122	124	120	128	133	137	4	3.0
PF	Participant's contribution	722	741	776	790	800	812	12	1.5
	Employer's contribution	857	846	885	973	989	1,099	110	11.1
	State contribution	152	156	159	160	160	161	1	0.6

Source: APS CR, MoF, MoF calculations

The average monthly employer's contribution in both the supplementary pension insurance and the supplementary pension savings schemes recorded the highest year-on-year absolute and relative increase since 2015, by more than CZK 100 to CZK 1,017 and CZK 1,099, respectively (Table 8.1).

The number of participants currently benefiting from an employer's contribution to their retirement savings increased for the fifth consecutive year, rising by 2.0% year on year to 1,039,800 in 2020 (Graph 8.5). This represented a decline in the year-on-year growth rate by more than half compared to 2018 and 2019. This also slowed down the increase in the share of these participants in the total number of participants in 2020, with the share of contracts with employer's contributions increasing by 0.6 pp to 23.5%. For economically active participants aged 18 to 64, the share of contracts with employer's contributions increased to 29.3%, with the highest share reported among participants aged 50 to 59 (34.4%).

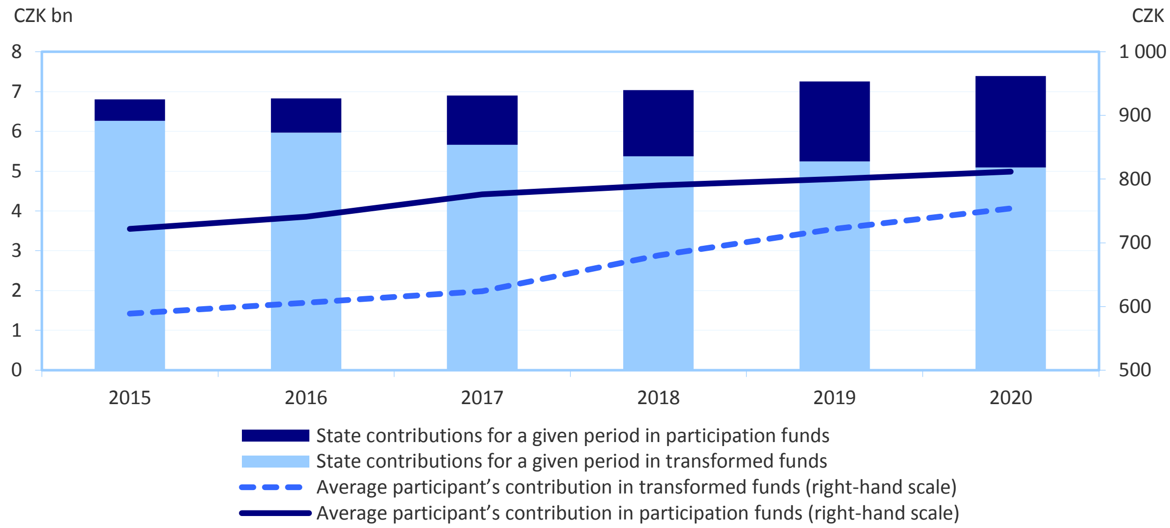
Graph 8.5: Number of contracts in Pillar 3 with an employer's contribution



Source: MoF

The total amount of state contributions paid out to participants in the supplementary pension insurance and supplementary pension savings schemes in 2020 came to CZK 7.4 billion, with an increase by CZK 136 million year on year. Of the total volume of state contributions paid, CZK 2.3 billion was disbursed to participants in supplementary pension savings scheme (Graph 8.6).

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



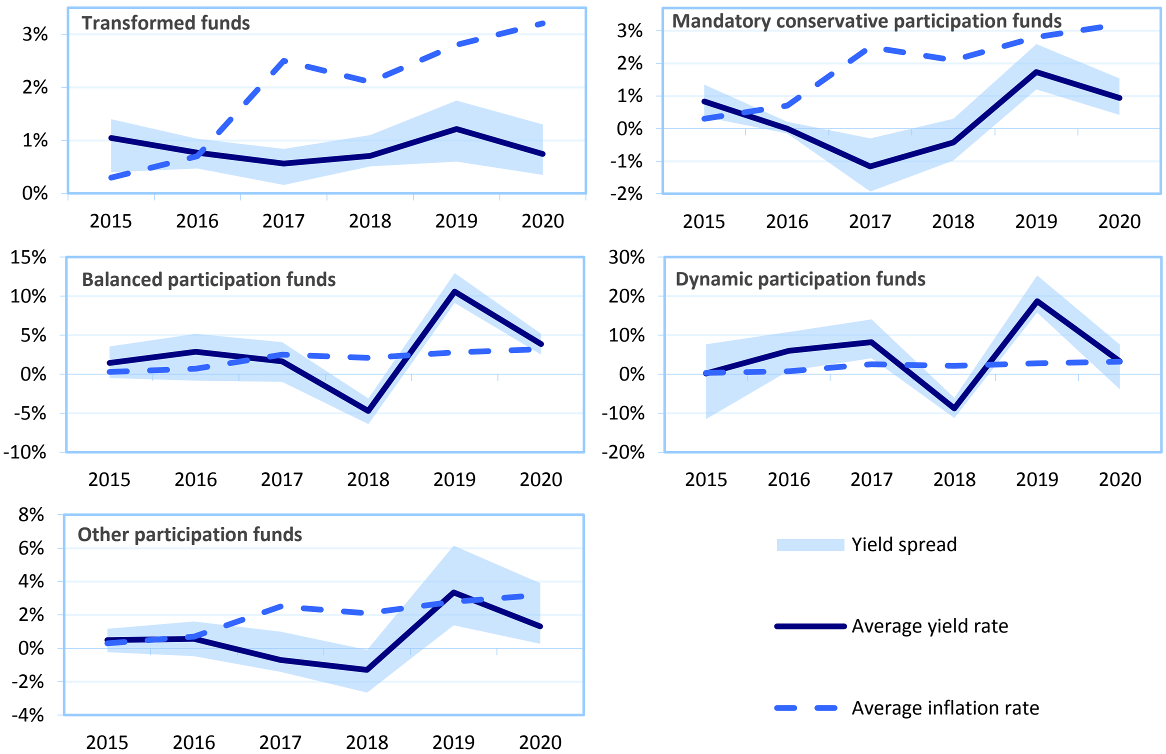
Source: MoF

Profitability and Allocation of Pension Funds' Assets

The economic profits of both participation and transformed funds declined compared to 2019, but still reported the second highest levels since 2015. Although assets in participation funds accounted for only 14.9% of all assets in the Pillar 3, the share of participation funds in total pension fund profits was 33.7%.

Despite the strong downturn in the financial markets following the outbreak of the COVID-19 pandemic in spring 2020, by the end of 2020 most participation funds with dynamic and balanced strategies had managed to outperform at least slightly the average annual inflation rate of 3.2%, reporting average yield rates of 3.3% and 3.9% p.a., respectively. Conversely, as in 2017 to 2019, none of the mandatory conservative participation funds or transformed funds offered returns in excess of the annual average consumer price index increase in 2020 (Graph 8.7).

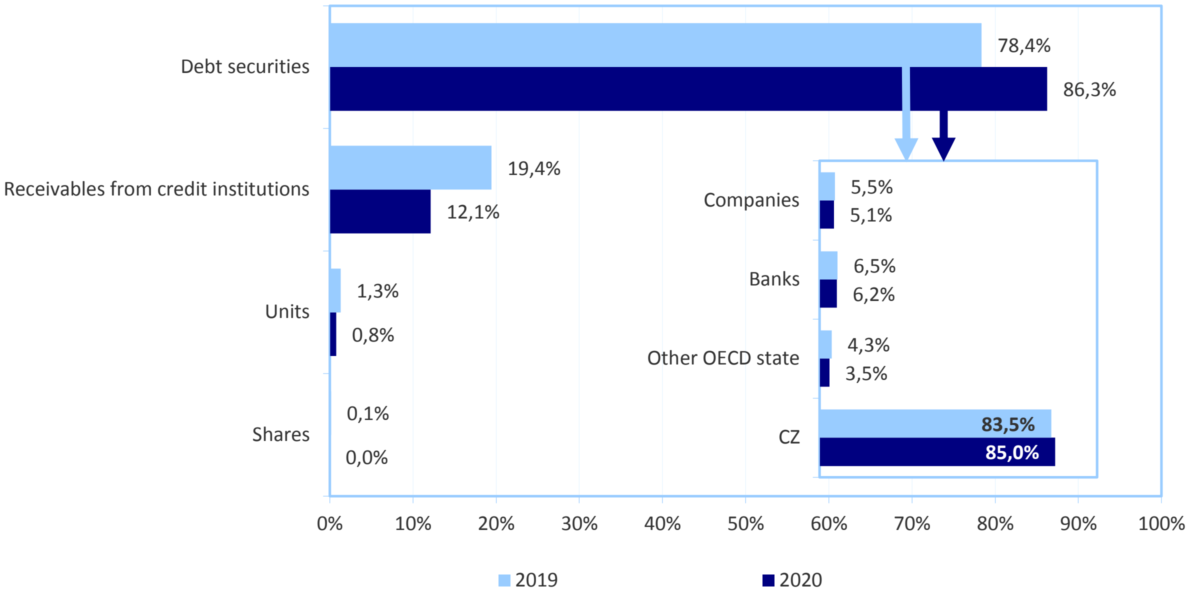
Graph 8.7: Average yield rate in different types of pension funds



Source: APS CR, MoF calculations

Within the still very conservative investment portfolio of the transformed funds, the share of debt securities increased at the expense of receivables from credit institutions (Graph 8.8). In the debt securities portfolio, the share of Czech government bonds and treasury bills increased slightly.

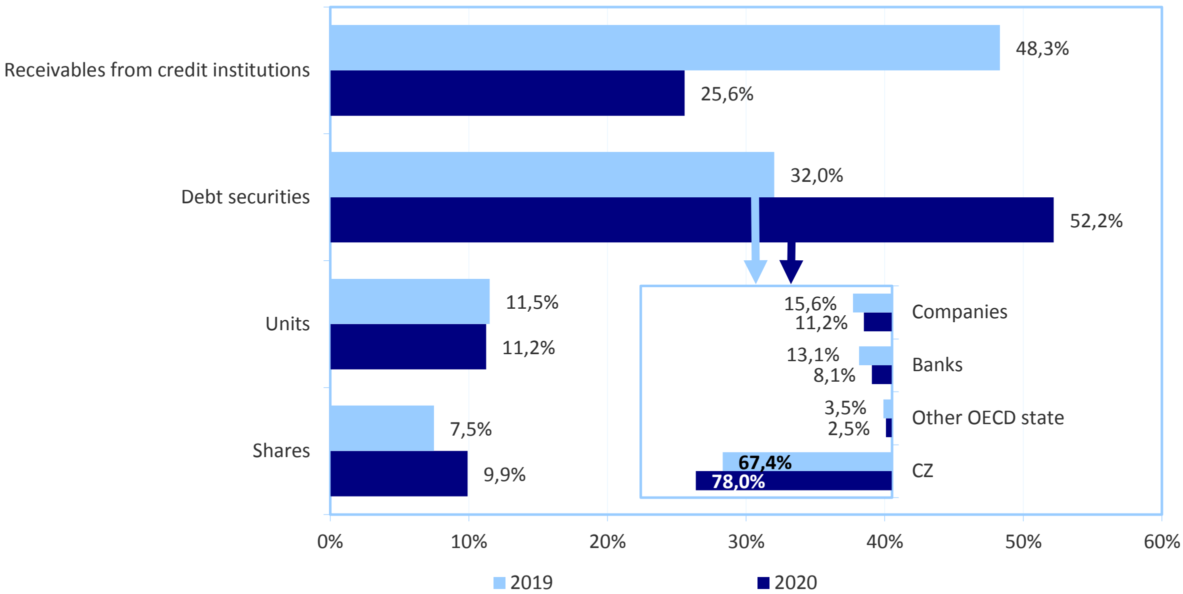
Graph 8.8: Allocation of transformed funds' assets and structure of debt securities according to their issuers



Source: CNB – ARAD, MoF calculations

During 2020, the investment portfolio of participation funds followed a trend similar to that of the transformed funds, but with a higher intensity both in the decline in the share of deposits made with credit institutions and the increase in the share of bonds (Graph 8.9). In the debt securities portfolio, government bonds issued by the Czech Republic consolidated their predominance. Equity markets' relatively rapid recovery after their March slump and the growing share of assets placed in funds with a dynamic and balanced investment strategy helped to increase the share of shares in total assets.

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



Source: CNB – ARAD, MoF calculations

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. Profit before tax from ordinary activities in the pension management company sector declined slightly in 2020 (Table 8.2), breaking the trend of rising profits that had begun in 2014.

The ratio of the regulatory capital of pension management companies to their aggregate capital requirement reached the highest level (215.6%) recorded over the duration of their existence, driven by both a significant 19.5% increase in capital and a simultaneous decrease in capital requirements due to a change in the portfolio structure of transformed funds towards safer risk-weighted instruments (Graph 8.8).

Table 8.2: Selected indicators in pension management company sector

As at 31 Dec	2015	2016	2017	2018	2019	2020	Year-on-year change	
							Abs.	(%)
Profit (loss) before tax (CZK bn)	0.8	1.4	1.6	1.7	2.3	2.3	-0.1	-2.3
Equity, total (CZK bn)	8.8	8.9	9.0	9.3	10.4	12.5	2.0	19.5
Capital ratio (%)	132.6	119.9	139.7	153.8	167.8	215.6	47.8	28.5

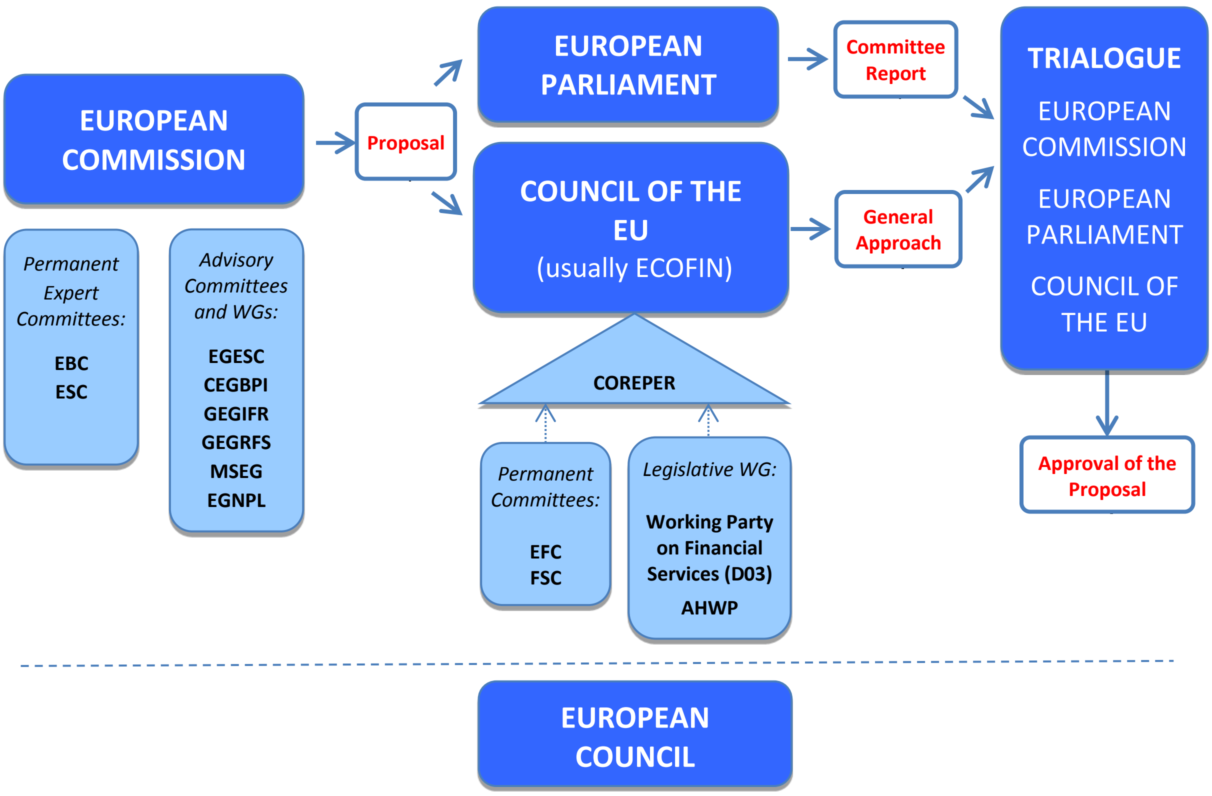
Source: CNB - ARAD, MoF calculations

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 (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 groups. 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 European Parliament Committee on Economic and Monetary Affairs – ECON Committee). The output from the discussions is the approved Committee Report that includes revisions to the original proposal submitted by the Commission. As far as the Council is concerned, the proposals are discussed by the representatives of the Member States within the applicable working party (WP) (in the case of financial services it is the D03 WP on Financial Services), and various ad hoc working parties that are established as required. The result from the meetings consists of a revised version that is submitted for approval in the form of a General Approach document, first to the Permanent Representatives Committee (usually COREPER II), and then to the Council (most often in its ECOFIN configuration). The General Approach document and the Report prepared by the appropriate committee of the European Parliament are the input materials for a "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 supranational organs, which acts independently of the Member States and protects the Union's interests. The term "Commission" is used in two different ways: either in the sense of the College of Commissioners or to also include the full administrative body. The Commission participates at almost all levels of the decision-making process and, of all of the EU's organs, has the largest administrative and expert body at its disposal. Most importantly, the Commission is the "guardian of the treaties", which means that it ensures compliance with the basic treaties establishing the European Union and one of the Commission's official obligations is to 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), European Free Trade Association (EFTA) and European Economic Area (EEA) Member States, and the candidate states to the European Union participate as observers.

Permanent Expert Committees

<u>European Banking Committee (EBC)</u>
The ECB acts as the Commission's advisory body during the preparation of EU implementing acts in the banking sector. This committee did not meet in 2020.

<u>European Securities Committee (ESC)</u>
The ESC is a committee of representatives of Member States that has the right to vote on implementing acts of the Commission within regulatory procedure with scrutiny (this does not apply to technical standards, which the Commission only formally approves). In 2020, the ESC voted twice in November. First, in the context of the UK's withdrawal from the EU and the effort to ensure financial stability, a vote was held on a draft temporary implementing decision on the equivalence of the legal framework applicable to central securities depositories in the UK with the Central Securities Depositories Regulation (CSDR).[47] The draft was approved and the implementing decision is valid until 30 June 2021. The other vote was held on an amendment to the Implementing Decision on the equivalence of the legal and supervisory framework applicable to authorised exchanges and recognised market operators in Singapore in accordance with the Markets in Financial Instruments Regulation (MiFIR).[48] Here, the list of regulated entities was extended to include market operators established in Singapore and authorised by the Monetary Authority of Singapore.

So far in 2021, the ESC has made two decisions, both in relation to the US. In January, a draft implementing decision on the equivalence of the US regulatory framework for central counterparties authorised and supervised by the Securities and Exchange Commission (SEC) with the requirements of the OTC Derivatives, Central Counterparties and Trade Repositories Regulation (EMIR) was approved. In March, the implementing decision on the equivalence of designated contract markets in the United States was amended.

[47] 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.

[48] 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.

Other selected European Commission platforms

Expert Group of the European Securities Committee (EGESC)
EGESC meetings are often held on the same day as ESC meetings if the ESC needs to physically meet (see above). However, 2020 was an exception in this respect due to the COVID-19 pandemic. The ESC Expert Group met seven times in 2020 to address topics other than those voted on by the ESC itself.

In May, June and July, when the Expert Group met twice, the Commission held discussions with Member States on appropriate measures for economic recovery after the COVID-19 pandemic crisis with a view to facilitating investment in the real economy and allowing for the rapid recapitalisation of EU companies. On the basis of these discussions, the "CMRP" package was then prepared (see below). A second topic of discussion was the revision of the Benchmarks Regulation (see below).

In September, the Expert Group discussed the possible shape of any future revision of the CSDR regulation. 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.

In October, the Expert Group discussed the adaptation of the Settlement Finality Directive (SFD)[49] and the closely related Financial Collateral Directive (FCD)[50] in relation to systems governed by third-country law. The discussion centred in particular on the functioning of both directives in an evolving business and regulatory environment.

The outcome of the discussion on the CSDR regulation and the two directives, as well as the results of the subsequent public consultation, will serve as input for the reports the Commission is required to draw up under these regulations.

The agenda for the last meeting of 2020, held in November, was wide-ranging in its themes. The Expert Group discussed changes to the reporting requirements for weekly position limits and heard updates on the revision of the European Long-term Investment Funds (ELTIF)[51] Regulation and the Alternative Investment Fund Managers Directive (AIFMD).[52] In November, the Expert Group also had the opportunity to assess the approach planned by the Commission to the EMIR implementing regulation, which is intended to set out the FRANDT principle, i.e. the conditions under which (direct and indirect) access to clearing can be considered fair, reasonable, non-discriminatory and transparent.

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). Its objective is to provide the Commission with assistance 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 its banking section, 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[54]). In the its banking section, the CEGBPI addressed the implementation of the final elements of Basel III standards on several occasions in 2020, with the Commission aiming to publish a legislative proposal in mid-2021 (the deadline was subsequently

49 Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems, as amended.

50 Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements, 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 Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, as amended.

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 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.

postponed to the second half of 2021). Legislative proposals for further changes over and above Basel III have been included. For this reason, the CEGBPI discussed macro-prudential tools (in particular the setting of a capital buffer to cover systemic risk) at two meetings. Discussions were also held on penalty regimes, the powers of supervisory authorities, the regulation of outsourcing, and the consideration of environmental and social responsibility risks.

The CEGBPI also engaged in intensive discussions on a revision of the Deposit Guarantee Schemes Directive (DGSD)[55] aimed at ensuring the equal treatment of depositors and increasing their level of protection across the EU by removing existing differences in the application of the Directive from one Member State to another, in particular as regards the scope of deposit protection and the process of repayment. In the field of crisis management, the topics discussed were early intervention measures, DGS preventive measures, the public interest test, resolution triggers, the introduction of a transfer instrument for the insolvency framework, and funding banks' resolution and insolvency.

The payment services and payments section met in May, June, and October during 2020, and has met in March in 2021. The PSP section addressed Member States' readiness to introduce strong online card payment authentication, instant payments, and cash and non-cash payments. There was also a discussion on the Cross-border Payments Regulation, the introduction of the digital euro and a discussion among Member States on an increase in the limit for contactless payments in the context of measures to tackle the COVID-19 pandemic. The Commission informed Member States on the publication of the retail payments strategy. All meetings were held remotely.

The CEGBPI's insurance section met in February, May, November, and December 2020. A key topic of all 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. Discussions were also held on the possibility of introducing national insurance guarantee schemes in the insurance sector and on the possibility of setting up a harmonised framework for them. The guarantee fund system is likely to be addressed separately from the revision of Solvency II. The CEGBPI also discussed the crisis caused by the COVID-19 pandemic and the mitigation of its impacts on the insurance sector, and assessed the current status of the EU-US bilateral agreement on prudential rules on insurance and reinsurance. At EU level, the adoption of legislative changes is almost complete, but on the US side the process is hampered by the need for state-by-state adoption, and progress remains very limited. Commission representatives have consulted the CEGBPI on proposals for two regulations complementing the pan-European Personal Pension Product (PEPP) Regulation[56] in relation to additional information for the purposes of supervisory reporting convergence and product intervention.

Government Expert Group on the Interchange Fee Regulation (GEGIFR)

This expert group was established in 2015 as part of the process of implementing the Interchange Fee Regulation (IFR)[57] into Member States' legal systems. It mainly discusses issues arising from the implementation process. The meetings are also an opportunity to present Member States' observations and experiences, and to discuss cooperation between Member States. In 2020, meetings were held in January and October. A further meeting was held in March 2021. The meetings presented the results of a study aimed at assessing the IFR implementation process; the regulation has been in force since 2015. The GEGIFR group evaluated a questionnaire survey conducted among Member States and provided the Commission with information on the implementation of sanctions, dispute resolution procedures, out-of-court complaint handling, and redress. At each meeting, Member States share their experiences with executing the IFR. At the last meeting, the Commission informed Members of MasterCard and VISA's intentions for the UK after its withdrawal from the EU.

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

[55] Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes, as amended.
[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.

been a revision of the Mortgage Credit Directive (MCD)[58] and financial education. In 2020, it was mainly involved in the monitoring of national measures to help financial consumers affected by the COVID-19 pandemic. In parallel to this, it is working on a revision of the Payment Accounts Directive (PAD).[59]

Member States Expert Group on Sustainable Finance (MSEG)
In general, the Expert Group on Sustainable Finance serves as a source of information on upcoming primary and secondary legislation (and, where appropriate, non-legislative actions) on the part of the Commission in the field of sustainable finance and as a follow-up means of dialogue between Member States and the Commission on these topics. The MSEG has been meeting at roughly three-month intervals since June 2018, with the exception of the period from October 2020 to April 2021, when, following the publication of the draft delegated act laying down technical criteria for the sustainability of economic activities according to taxonomy,[60] i.e. for the objectives of the mitigation of and adaptation to climate change, of 20 November 2020, it met at one-month intervals due to intensity of discussions on the aforementioned delegated act.

Expert Group on Non-performing loans (EGNPL)
The EGNPL was created in 2017 to further discuss proposed approaches to reducing the current high levels of non-performing loans (NPLs) in some Member States and preventing their future resurgence, following the approval of the Action Plan to tackle NPLs by the Council of the EU in July 2017. The Action Plan on NPLs, which sets out draft procedures for individual European institutions and a timetable for their implementation, encompasses a number of areas: improvements in financial market surveillance, the development of the liquidity of a secondary market for NPLs, the recovery of receivables, including insolvency proceedings, and restructuring of the EU banking sector. In 2020, the EGNPL convened two meetings, one in September (in the form of a roundtable with private-sector representatives) and the other in October (attended by national experts only), to prepare a follow-up to the original Action Plan on NPLs. In November, the EGNPL's insolvency benchmarking group met to inform members of the EBA's findings from a quantitative survey analysing individual and collective recovery of receivables in Member States. The survey of around 160 institutions (more than 1.2 million loans currently in recovery) identified key characteristics contributing to improvements in factors related to the recovery rate. These formed the basis for a public consultation paving the way for further efforts at harmonisation in the field of insolvency frameworks.

Then, in December 2020, a Communication from the Commission to the European Parliament, the Council and the European Central Bank to address non-performing loans (NPLs) in the wake of the COVID-19 pandemic was published. This followed on directly from the previous Action Plan on NPLs. The Communication does not introduce fundamentally new ideas. Instead, it highlights unfinished parts of the original 2017 Action Plan and develops instruments that have not yet been used much. In particular, the Commission has focused on the development of secondary markets for NPLs, the reform and harmonisation of insolvency and recovery frameworks, efforts to create an interconnected network of national asset management companies (AMCs) and, last but not least, clarification of the use of preventive measures.

Council of the European Union / ECOFIN Council

The Council of the European Union (informally referred to as the Council of the EU or the Council) brings together the ministers from the Member States, who meet and adopt legislative acts and co-ordinate the functioning of individual policies. The key tasks performed by the Council of the EU include approving the EU's legislation, co-ordinating the main direction of the economic policies of the Member States, signing agreements between the EU and other countries, approving the annual budget, developing the EU's foreign and defence policies, and co-ordinating the co-operation between the judicial organs and the police authorities in the Member States. The presidency of the 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 2020, the presidency was held by Croatia and Germany, in the first half of 2021 by Portugal). 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

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.

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 Council of the EU thus meets in various configuration (there are ten in total) according to the area to which the discussed materials belong.

The ECOFIN Council is the Council of the EU configuration consisting of the economics and finance ministers from the Member States (if budget issues are on the agenda to be discussed, the budget ministers also attend the 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 conjunction with the European Parliament to prepare and approve the EU budget. As a rule, the ECOFIN Council meets once a month. In addition, the economics and finance ministers meet informally in the presiding country once during its term. The governors of the central banks also participate in these informal meetings. In addition, budgetary ECOFIN is usually convened once a year.

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

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

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

In the course of 2020, the ECOFIN configuration of the Council approved the General Approach documents for the Commission's proposals discussed by the Working Party on Financial Services. 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 briefed at meetings on progress in the negotiation of legislative proposals relating to financial services and on the state of implementation, at national level, of financial market legislation already adopted.

At individual meetings, the ECOFIN Council:

- took note of information on negotiations with the European Parliament concerning financial market legislation (the Motor Insurance Directive, legislation to tackle non-performing loans, the Regulation on Recovery and Resolution for Central Counterparties); it also discussed the economic and financial aspects of the European Green Deal (21 January 2020);
- approved the update of the EU list of non-cooperative jurisdictions and took note of information on negotiations with the European Parliament concerning financial market legislation (18 February 2020);
- discussed the economic impact of the crisis caused by the COVID-19 pandemic and an appropriate response by the EU and individual Member States, and unanimously adopted the Statement of EU ministers of finance on the Stability and Growth Pact in light of the COVID-19 crisis (23 March 2020);
- addressed measures to mitigate the impact of the COVID-19 pandemic and the Action Plan on preventing money laundering and terrorist financing, issued on 7 May 2020; it also addressed new methodology for establishing a list of high-risk third countries (19 May 2020);
- exchanged views on the EU's recovery from the COVID-19 pandemic crisis, focusing on needs related to remediation, recovery and resilience (9 June 2020);
- exchanged views on priorities for progress in the capital markets union and assessed the convergence reports published by the Commission and the ECB on 10 June 2020, which examine whether Member

States outside the euro area meet the necessary conditions to adopt the single currency (10 July 2020);

- discussed the impacts of the COVID-19 pandemic on the European economy and evaluated opportunities to make use of existing measures; it also discussed the need to reform the international tax system and rethink financial markets in the digital age (12 September 2020);
- discussed the new digital finance legislative package and the Capital Markets Union Action Plan, where there was interest in adopting the Council's conclusions by the end of the year; it also discussed matters such as the appointment of a member of the Executive Board of the European Central Bank and preparations for international meetings (G20, IMF) (6 October 2020);
- confirmed the Council's conclusions on money laundering and terrorist financing and was briefed on the current state of play of legislative proposals related to financial services and reducing the proportion of non-performing loans (NPLs) (4 November 2020);
- took note of the presidency's regular progress report on the strengthening of the banking union, was briefed on the state of play of financial service legislative proposals, and confirmed its agreement on the draft Council conclusions on the Commission's Action Plan on Capital Markets Union (4 December 2020).

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

The Financial Services Committee (FSC) and the Economic and Financial Committee (EFC) are two of the ECOFIN Council's permanent committees. They have a permanent chairperson and do not apply a rotating presidency 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 Council 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 the ECOFIN Council and to the Commission, and participating in the preparation of the Council'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.

Financial market topics discussed by these committees during 2020 included the planned revision of the Solvency II Directive, methodological changes to the EU common stress tests for 2020, the proposed conclusions of the Council on the Commission's Capital Markets Union Action Plan, the facilitation of bank loans during the COVID-19 pandemic, the monitoring of measures introduced in the context of the COVID-19 pandemic, proposed Council conclusions on money laundering and terrorist financing, the digital euro, cyber threats in the financial services sector, proposed Council conclusions in response to the European Court of Auditors report on the audit of state aid to financial institutions in the EU, and national measures taken by Member States in the financial service sector in the event of a no-deal Brexit.

Working Party on Financial Services (D03)

The Working Party on Financial Services is one of the Council's preparatory bodies. It discusses the Commission's relevant financial market legislative proposals before they are submitted to the COREPER II and the ECOFIN Council. The working party thus covers a wide range of topics which vary according to the current stage of negotiations regarding a particular legislative proposal and if any new proposals were published. The meetings of this working party include the participation of experts from the individual EU Member States. The group is headed by an expert from the country holding the EU presidency. In most cases, the Member States are represented by their financial attachés particularly during later phases of the discussion on proposals.

Negotiations were held in 2020 on the Motor Insurance Directive, legislation to address non-performing loans, the Regulation on Recovery and Resolution for Central Counterparties, the proposal for a quick fix to the Capital Requirements Regulation (CRR/CRRII) in order to maximise institutions' lending capacity and to minimise losses related to the COVID-19 pandemic, a set of legislative proposals adopted by the Commission in response to the COVID-19 pandemic (the "Capital Markets Recovery Package") in order to mitigate the economic consequences and support the rapid recovery of capital market players, a regulation amending the existing regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, a regulation on cryptoasset markets, a regulation on a pilot regime for market infrastructure based on distributed ledger technology (DLT), and a regulation on digital operational resilience of financial institutions.

Ad Hoc Working Party on Strengthening the Banking Union (AHWP)

The Ad Hoc Working Party on Strengthening the Banking Union, whose first meeting took place in January 2016, was set up to discuss the Commission's proposal to establish a European deposit insurance scheme (EDIS) and the Commission's communication on the completion of the banking union, dealing in particular with the mitigation of financial system risks. During 2020, the AHWP discussed matters such as the key parameters of the "EDIS hybrid model" (see below). The methodology for calculating risk-weighted contributions and the scope of the EDIS, i.e. which institutions operating in each Member State participating in the banking union would be covered by EDIS protection, were also discussed. Topics such as the harmonisation of the creditor hierarchy, early intervention measures, and crisis management for medium-sized banks were also brought up in the second half of 2020. Lastly, the stronger integration of the EU banking sector was raised, including the possibility of loosening prudential requirements at the level of individual subsidiaries. This issue prompted a response from the "host" countries (i.e. Member States in whose banking sector subsidiaries of banking groups established in other – "home" – Member States play a significant role) in the form of a joint paper explaining concerns about upsetting the existing balance between the interests of home and host supervisory authorities.

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 most important political body and comprises the highest representatives from the Member States (heads of state and prime ministers) and the President of the Commission. The 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 each meeting of the EC are 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 places, with a few exceptions, through consensus. After each of its meetings it is obliged to submit a report on its meeting to the European Parliament. The EP also receives an annual written report prepared by the EC regarding the progress achieved by the EU (this will be discussed by both the Council of the EU and the European Parliament).

At its meetings during 2020, the EC focused on the banking union and the capital markets union. At the Euro summit, leaders invited the Eurogroup to draw up a work plan with individual steps and a timetable for all remaining elements needed to complete the banking union. Leaders welcomed the Eurogroup's inclusive agreement on the reform of the European Stability Mechanism (ESM), based on its June 2018 mandate. The reform, among other things, introduces a common backstop for the Single Resolution Fund in the form of a credit line from the ESM, which will be in place in early 2022 – two years earlier than originally planned. EU leaders also called for swift progress on the Commission's new Action Plan for a Capital Markets Union. In a statement, they said that it was essential to move forward swiftly on short-term elements as set out in the Council's conclusions of 3 December 2020, as well as on the measures necessary to promote EU leadership in green finance. Progress will be reviewed at the June 2021 meeting. EU leaders also discussed the economic challenges facing Europe in the wake of the COVID-19 pandemic.

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-seven[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

[61] Colombia became a new member (April 2020). Costa Rica was officially invited (May 2020) to become another member.

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 more than 130 countries.

<u>Committee for Financial Markets (CFM)</u>

The CFM is the OECD's main body involved in financial market issues. It provides a platform for discussing the developments and trends in financial markets and the relevant measures for improving their functioning both in individual countries as well as at the broader supranational level. The members of the 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 in Basel, also participate in the committee's meetings, along with representatives from associated emerging economies. The CFM therefore provides a geographically broader platform for the debate and exchange of experience than is provided by other mechanisms, such as discussions between EU Member States.

A very 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 development trends in the global financial market. Several meetings in 2020, held by in the form of teleconference, focused primarily on the potential implications of the COVID-19 pandemic for financial markets and possible measures, including a response to any growth in the volume of non-performing loans. The OECD's digitalisation activities (including in the fields of blockchain, fintech and asset tokenisation) and sustainable finance (ESG factors), as well as issues related to climate change, were other important topics on the agenda. The meetings in early 2021 covered similar topics – again, sustainable finance and the response to climate change, measures responding to the COVID-19 pandemic, technological innovations (artificial intelligence), and strategies to deal with non-performing loans.

<u>Advisory Task Force on the OECD Codes of Liberalisation (ATFC)</u>

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 2020, held in the form of teleconferencing, mainly focused on actions taken in response to changes in capital flows and measures taken as a result of the impact of the COVID-19 pandemic.

<u>Task Force on Financial Consumer Protection (TFFCP)</u>

The objective of the OECD TFFCP is to prepare international standards for consumer protection on the financial market, particularly as regards the supervisory architecture, the rules for dealing with clients, the resolution of consumer disputes, financial education, and financial inclusion. These high-level principles are reflected, to a considerable degree, by examples of regulatory practices already functioning in the EU. However, the process also acts retroactively as a model for fledgling regulation (particularly for the OECD countries that are not EU Member States). In 2020, 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.

<u>Insurance and Private Pensions Committee (IPPC)</u>

The IPPC is the main OECD body addressing insurance market issues, the supervision of the insurance sector, and private pension issues (i.e. non-public pension security schemes). Within the IPPC, the Working Party for Private Pensions (WPPP) deals specifically with private pension issues. 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 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 2020, the Committee primarily discussed the impact of the COVID-19 pandemic on the insurance sector, the limited coverage of business interruption losses and catastrophic risks in general, uninsurable risks, and the desirability of public sector participation. It also addressed the possibility of integrating ESG criteria into the investment decision-making process of institutional investors and public-private engagement in the long-term care and healthcare sectors. In September, a webinar was held focusing on pension savings options in an era affected by the COVID-19 pandemic, new trends in pandemic and catastrophe risk modelling, and the medium-term impact of the pandemic on the insurance industry and policyholders. The December meeting discussed the use of cloud and IT technologies in the insurance sector and the possible outsourcing of these services. Two long-term care and healthcare projects were presented to promote the availability of this insurance and to improve the level of insurance coverage. The Committee also regularly monitors global insurance market trends based on OECD data collection.

Working Party for Private Pensions (WPPP)

The WPPP addresses similar topics as 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 2020, the Committee met virtually in June and December. In June, the main issues addressed were the impact of the COVID-19 pandemic on pension savings, strategies for assessing the adequacy of retirement income, the strengthening of the role of pension savings schemes for workers in non-standard forms of work, investment strategies, sustainability risk sharing, and risk mitigation techniques. The December meeting addressed pension inequality between men and women and how to close this gap. It also discussed longevity trends and their modelling, project proposals aimed at developing a successful communication strategy for pension schemes and analysing the impact of different charging structures on the performance of pension savings for participants, investment that factors in ESG factors, and other anticipated developments in private pension savings schemes.

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[62] 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 2020, the OECD Council's recommendations on financial education were published. These consolidate and update all the financial education standards, recommendations and tools issued since the INFE was established. During the year, a report and a comparison of the results of an international survey on the level of financial literacy among the adult population, in which the Czech Republic also participated, were published. Methodology for measuring the level of financial literacy at micro, small and medium-sized enterprises was also published.

The INFE also addressed support for seniors to ensure financial well-being in later life. More recently, the INFE has started to focus on improving 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 new issues. In 2021, for the first time, the INFE became the global coordinator of Global Money Week, a financial education week held in March.

The INFE also addresses digital financial education in terms of the use of digital tools and from the perspective of access to digital financial services and potential exclusion. Financial inclusion is important for an ageing population. In 2020, the INFE's materials focused on the inclusion of women, young people and SMEs, and on the use of personal data in financial services and their role in financial education. The INFE also collected suggestions and good practices on the digital dissemination of financial education, which it published collectively in January 2021.

G20

The G20 brings together the finance ministers and the central bank governors from nineteen countries[63] 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

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

[63] 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 Saudi Arabia and the summit was held in Riyadh on 21-22 November 2020. Here, G20 leaders:

- committed to working together to overcome the COVID-19 pandemic;
- committed themselves to the Financial Stability Board (FSB) principles underpinning national and international responses to the COVID-19 pandemic, including the need to act consistently with international standards;
- endorsed the G20 plan to improve cross-border payments;
- called on the FSB to complete its assessment of the effects of reforms aimed at global systemically important banks in 2021 in order to reduce the "too-big-to-fail" problem;
- confirmed the importance of an orderly transition from LIBOR to alternative reference rates by the end of 2021;
- agreed that no "global stablecoins" should commence operations until all relevant legal, regulatory and oversight requirements have been adequately addressed through appropriate design and by adhering to applicable standards;
- endorsed anti-money laundering policy responses detailed in the Financial Action Task Force (FATF) paper on COVID-19 and reaffirmed support for the FATF as the global standard-setting body for the prevention of money laundering and terrorist financing;
- reaffirmed their commitment to strengthening the FATF's global network of regional bodies, including by increasing their expertise in mutual evaluations, and called for the full, effective and swift implementation of FATF standards worldwide.

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 2020, representatives from member countries met regularly both at the FSB (plenary) level and within the individual Regional Consultative Groups. Discussions included global and regional vulnerabilities to the financial system, the impact of the COVID-19 pandemic on financial stability, and policy measures taken by individual jurisdictions to mitigate these impacts. In the context of the COVID-19 pandemic, the FSB coordinated measures to maintain global financial stability, the functioning of markets and the preservation of the financial system's capacity to develop, and regularly shared information on emerging and evolving risks to financial stability and measures taken by financial authorities.

The FSB also dealt with:

- an evaluation of the effects of reforms aimed at global systemically important banks in order to reduce the "too-big-to-fail" problem;
- an assessment of progress in implementing measures to improve the resolvability of systemically important financial institutions (banks, insurance companies and central counterparties);
- an assessment of global trends and risks in the non-bank financial intermediation sector, which consists mainly of pension funds, insurance companies and other financial intermediaries such as investment funds, central counterparties and brokers;
- ensuring the continuity of access to financial market infrastructure for institutions in resolution;

- a solution to market fragmentation;
- regulatory and supervisory issues relating to outsourcing and financial institutions' relationships with third parties;
- the potential problems of transition from LIBOR to other reference rates; and
- the spread of climate-related risks within the financial system and the experience of financial authorities in incorporating these risks into financial stability monitoring.

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.

In response to the COVID-19 pandemic, the BCBS extended the deadlines for implementing the remaining Basel III standards by one year, until 1 January 2023 and, for some transitional measures, until 1 January 2028, in order to provide banks and supervisory authorities with additional operational capacity to focus on ensuring financial stability as a priority. As part of the efforts to mitigate the impact of the COVID-19 pandemic on the global banking system, the BCBS issued technical recommendations on the handling of capital requirements for credit risk in relation to loans backed by sovereign guarantees or loans whose repayments have been suspended, so that banks can take into account the effects of these extraordinary measures when calculating their capital requirements. In this respect, the BCBS also recommended transitional measures for the accounting of expected credit losses in a bid to make the spreading of the associated impact on regulatory capital more flexible.

In order to achieve a coordinated response to the crisis, maintain a global level playing field, and avoid regulatory fragmentation, the BCBS continuously monitored and assessed the risks to the global banking system caused by the COVID-19 pandemic during 2020, shared supervisory information and experience, promoted the use of the flexibility inherent in the BCBS standards where relevant, and monitored the implementation of temporary changes to the standards to mitigate risks to the banking system.

In terms of setting and modifying international standards, the BCBS issued a technical amendment in 2020 setting capital treatment of securitisations of non-performing loans, revised the standard on credit valuation adjustment risk and, together with the International Organisation of Securities Commissions (IOSCO), extended by one year the deadline for completing the implementation of the last two stages of margin requirements for non-centrally cleared derivatives.

In addition to the above activities, the BCBS:

- regularly monitored progress in the implementation of Basel III rules and reviewed their impact on banks;
- published an assessment report on regulatory and supervisory initiatives relating to climate-related financial risks implemented in individual member jurisdictions;
- proposed modifications to its previously issued principles for the sound management of operational risk;
- published a consultative document setting out principles aimed at improving banks' operational resilience;
- supplemented its guidelines on the sound management of risks related to money laundering and financing of terrorism with instructions for cooperation and information exchanges between prudential and AML/CFT supervisors for banks; and

- assessed, as part of its Regulatory Consistency Assessment Programme, the compliance of selected countries' national legislation with international standards.

9.3 European Financial Market Legislation

European Deposit Insurance Scheme (EDIS)
In November 2015, the Commission published a proposal for a regulation supplementing the Single Resolution Mechanism Regulation (SRMR)[64] 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 Council conclusions of June 2016, work on EDIS is continuing at a purely technical level.

Current discussions on the EDIS are focusing 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.

Capital Markets Union (CMU)
The CMU is an initiative to deepen and further integrate the capital markets of the 27 EU Member States. The purpose of the CMU is to provide new sources of finance for businesses, especially SMEs, to reduce the cost of raising capital, to increase opportunities for savers across the EU, to facilitate cross-border investment, to attract more foreign investment to the EU, to promote long-term projects, and to increase the stability, resilience and competitiveness of the EU financial system. The first stage of the CMU was largely finalised in the first half of 2019, although it could hardly be claimed that the ultimate goal of creating a CMU had been achieved. Since the second half of 2019, discussions on the future direction of this initiative have been ongoing more or less up to the present day. The most important achievements in 2020 were: the High-Level Forum's June 2020 report A New Vision for Europe's Capital Markets, which was the culmination of ad hoc expert group's work on formulating theses for the further development of the CMU; the September 2020 Communication from the Commission entitled A Capital Markets Union for People and Business – New Action Plan, followed by the Council Conclusions on the CMU Action Plan, which were approved in December 2020. However, the final shape of the next stage of the CMU is likely to be influenced in part by the European Court of Auditors' November 2020 Report "Capital Markets Union – Slow start towards an ambitious goal", together with the Council Conclusions on this report, which were approved in March 2021.

Solvency II
The planned revision of the Solvency II Directive was discussed in 2020. In particular, the revision covers long-term guarantees and long-term investments, proportionality, cross-border cooperation and group supervision, reporting and disclosure, new insurance regulatory tools in macro-prudential supervision, rules on recovery processes, and resolution plans. In January 2020, the Czech Republic attended a conference focusing on the challenges and opportunities arising from the planned revision of Solvency II. In October, it participated in the Commission's public consultation on the key themes of the revision. During the year, discussions were also held on the possibility of introducing national insurance guarantee schemes in the insurance sector and on the possibility of setting up a harmonised framework for them. The guarantee fund system is likely to be addressed separately from the revision of Solvency II. The EIOPA has taken into account the feedback from the public consultation and the expert group in the requested technical advice to the Commission on the review of key areas of Solvency II. As a result of the COVID-19 pandemic, the finalisation of the recommendation was postponed to the end of 2020 to allow for the inclusion of data from the COVID-19 pandemic. The Commission is expected to present a proposal for the revision of the Solvency II Directive in September 2021.

[64] 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.

Amendment of the Motor Insurance Directive (MID)

In May 2018, the Commission adopted a proposal for an amendment to the Motor Insurance Directive.[65] This proposal 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. In February 2019, the proposal was debated by the European Parliament. A Council's general approach was approved in June 2019. In terms of timing, the negotiations on the proposal were adversely affected by the COVID-19 pandemic. Trilogue negotiations remain ongoing.

Pan-European Personal Pension Product (PEPP)

The pan-European Personal Pension Product (PEPP) Regulation was published in the Journal in July 2019. The effect of the Regulation has yet to be determined as this is linked 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.[66] The PEPP Regulation will then apply 12 months after the publication of that Commission Delegated Regulation in the Journal. In addition, the Commission worked on the proposals of further implementing regulations for the PEPP Regulation during 2020.[67] The Commission published the proposals in February and March 2021. The approval of these implementing regulations and their subsequent publication in the Journal can be expected in June 2021.

Insurance Distribution (IDD)

In accordance with the mandates contained in the Insurance Distribution Directive (IDD),[68] a Commission Delegated Regulation amending the IDD with regard to the regulatory technical standards adapting the base euro amounts for professional indemnity insurance and for the financial capacity of insurance and reinsurance intermediaries[69] was published in the Journal in November 2019. The regulation updates the conditions set out in the IDD that insurance and reinsurance intermediaries must fulfil in their activities. These include a minimum limit of professional indemnity insurance cover for these intermediaries and the minimum amount of permanently liquid financial security they must maintain. The regulation has been in force since 12 June 2020.

OTC Derivatives, Central Counterparties and Trade Repository (EMIR)

The Regulation on OTC derivatives, central counterparties (CCPs) and trade repositories (EMIR) entered into force back in 2012, but it is becoming effective gradually as particular implementing legislation is issued. This includes, in particular, legislation confirming the equivalence of the regulatory framework for the CCPs of third countries, i.e. non-EU countries (the US, India, Singapore, etc.), and legislation specifying the clearing obligation, including reporting requirements. Another such regulation was added in early 2020. In the context the United Kingdom's departure from the EU, the Commission Implementing Decision determining, for a limited period of time, that the regulatory framework applicable to the CCPs of the United Kingdom is

65 Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/103/EC of the European Parliament and the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to ensure against such liability.

66 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.

67 Proposal for a Commission Delegated Regulation (EU) of 24 February 2021 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to product intervention; Proposal for a Commission Delegated Regulation (EU) 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; Proposal for a Commission Implementing Regulation (EU) 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.

68 Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, as amended.

69 Commission Delegated Regulation (EU) 2019/1935 of 13 May 2019 amending Directive (EU) 2016/97 of the European Parliament and of the Council with regard to regulatory technical standards adapting the base euro amounts for professional indemnity insurance and for financial capacity of insurance and reinsurance intermediaries.

equivalent in accordance with the EMIR was adopted. This decision is only valid for one and a half years, i.e. until 30 June 2022.

It is important to note that the EMIR's main objective was to address the shortcomings in the functioning of the OTC derivatives market identified during the financial crisis, in particular to limit systemic risk by increasing the transparency of the OTC derivatives market, mitigating counterparty credit risk and reducing the operational risk associated with OTC derivatives. Besides CCPs, entities subject to regulation are trade repositories and both financial and non-financial institutions.

Central Securities Depositories (CSDR)
The Central Securities Depositories Regulation is part of a recent broader trend in the regulation of market infrastructure. Although it came into force in 2014, it is taking effect in stages. The main objective of the regulation is to increase the security of settlement system operations and to remove the legal obstacles that exist due to national law on the functioning of the systems and the central securities depositories as the operators of these systems, particularly the obstacles associated with differing provisions for settlement periods and the standards for central securities depositories from the perspective of prudential regulation and the ability to access national central securities depositories and the systems operated by them. In the long run, there should be full dematerialisation or immobilisation of all securities traded on organised markets.

In 2020, in connection with the regulation and the United Kingdom's departure from the EU, a Commission implementing decision was adopted determining, for a limited period of time, that the regulatory framework applicable to the central securities depository in the United Kingdom is equivalent in accordance with the CSDR. This measure will allow a central depository authorised in the UK to provide its services for six months so that issuers can migrate their issues to the EU during this period.

Central Counterparty Crisis Resolution (CCPRR)
The Commission's proposal for a regulation on CCP recovery and resolution was published in 2016. It aims to adopt a consistent approach in addressing the systemic risk of CCPs in a proportionate way that safeguards financial stability, preserves essential financial market functions, and protects taxpayers. In line with this objective, the proposal introduces new concepts, 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.

As the proposal for the regulation was largely linked to the parallel proposals dealing with the new supervisory concept (the ESAs Regulation and EMIR CCP Supervision Regulation), following the temporary suspension of negotiations in 2018, they were resumed in the second quarter of 2019 after an interim policy agreement was reached on both defining proposals. In the second half of 2019, technical aspects of the proposal and, above all, all politically sensitive issues, such as governance (the composition and role of resolution colleges, the allocation of powers and the distribution of supervisory and fiscal responsibilities) and recovery and resolution costs (loss allocation, taxpayer protection, and safeguards) were satisfactorily resolved and the Council's discussions came to a conclusion. Trilogues were launched in early 2020 and resulted in an informal policy agreement in June. The proposal was approved in October 2020 and published in the Journal in January 2021.[70]

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 instruments. 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.

Cross-border Payments (CBPR)
In March 2019, a regulation amending the Cross-Border Payments Regulation[71] as regards certain charges on cross-border payments in the EU and currency conversion charges[72] was published in the Journal. The

[70] 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.

[71] 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.

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) 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 also 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.

Crowdfunding (CRFR)
In October 2020, the regulation on European crowdfunding service providers for businesses[73] (the "Crowdfunding Regulation") was published in the Journal. The regulation aims to harmonise legislation and simplify the cross-border provision of crowdfunding services. The regulation introduces a new licensed category of crowdfunding service providers and establishes the conditions under which crowdfunding services can be provided. The scope of the regulation is limited to those crowdfunding projects where funding is requested by an enterprise, i.e. it does not apply to consumer funding. The regulation is set to take effect on 10 November 2021. Crowdfunding platforms that will now have to comply with the obligations set out in the regulation must apply for a licence to operate by 10 November 2022, unless the deadline is extended by the Commission.

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 the recovery of debts under secured loans granted to businesses.

The proposal for the directive centres on the protection of 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 the management of loans 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).

[72] 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.

[73] Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937.

The proposals were discussed by the Council at two speeds. The proposal for the directive was split into two parts. The part concerning secondary markets was approved by COREPER II in March 2019. The part on the out-of-court enforcement of collateral was separated and a general approach to this part was adopted at COREPER II in November 2019. In January 2021, the European Parliament's committee adopted a report on the secondary-market part of the proposal for the directive. Trilogues under PT PRES leadership began in February. The European Parliament drew on the Council's proposal as a basis, but adopted a number of additional amendments. So far, there have been three political trilogues and several technical trilogues.

The proposal for the regulation was approved in its first reading in the European Parliament in March 2019, and was subsequently approved by the Council in April 2019. The regulation was then published in the Journal[74]. The new instrument of the prudential backstop will apply to all non-performing exposures arising after the regulation takes effect.

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

No negotiations on legislative acts were held in 2020, but a number of discussions took place, in particular at the dedicated Expert Group on Sustainable Finance (MSEG), where the talks focused in particular on the draft delegated act planned and subsequently published in November 2020, which sets out the technical criteria for the sustainability of economic activities under the Taxonomy Regulation[75] for climate change mitigation and adaptation objectives. The Commission's forthcoming activities in this area in the current term were also discussed. These should be summarised in the "Renewed Sustainable Finance Strategy", expected to be published in the second quarter of 2021. The planned legislation known at this point in time includes the legislative anchoring of the green bond standard, the regulation of sustainable corporate governance, and a revision of the Non-financial Reporting Directive (NFRD).[76]

CRR Quick fix
In April 2020, the Commission published a proposal for an amendment to the CRR (known as the "CRR Quick fix") as part of measures to address the severe economic shock caused by the COVID-19 pandemic. Building on the legislative proposal, the Commission issued a related non-legislative Interpretative Communication on the application of the accounting and prudential framework to facilitate EU bank lending. The CRR Quick fix was designed to ensure the proper functioning of the financial sector, in particular its continued ability to lend to the various national economies. This was to be achieved by modifying the transitional provisions in the CRR to reflect changes under the IFRS 9 accounting framework in regulatory capital, by extending the preferential treatment of guarantees for the purposes of the minimum coverage of losses on non-performing loans (a "prudential backstop"), by modifying the discretion to exempt certain exposures to central banks from leverage ratio requirements and, not least, by changing the applicability dates of certain parts of the previous amendment to the CRR.

The Council debated the CRR Quick fix in May/June 2020. As there was a broad consensus on individual measures of the proposal, the proposal was closed as early as mid-June 2020. After accelerated trilogues, the proposal was adopted on 24 June 2020 and published in the Journal two days later.

Capital Market Recovery Package (CMRP)
In July 2020, the Commission published the Capital Market Recovery Package (CMRP), which aims to cushion 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[77]

[74] 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.

[75] 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.

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

[77] 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,

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 freeing up banks' capital and increasing their capacity to lend to the real economy without reducing prudential requirements.

There was broad support for the individual measures in the CMR package, so the Council negotiations initiated in September 2020 came to a conclusion the very next month. A preliminary policy agreement was reached in December 2020 and the sub-proposals were approved in early 2021 (MiFID II and the Prospectus Regulation in February 2021 and the Securitisation Regulation and CRR in March 2021). All proposals have been published in the Journal (MiFID II and the Prospectus Regulation in February 2021 and the Securitisation Regulation and CRR in April 2021).

Benchmarks Regulation (BMR)

In July 2020, the Commission published a proposal for an amendment to the Benchmarks Regulation 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 proposal for a 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 benchmark in question is retired.

The Council's discussions on the proposal for a regulation started in September 2020 and concluded the following month. Trilogues were held in November 2020, and a preliminary policy agreement was reached at the same time. The proposal was approved in February 2021 and published in the Journal.

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. The proposal for the regulation distinguishes between three types of cryptoassets, i.e. asset-referenced tokens (whose value is based on a certain "basket" of assets), e-money tokens (i.e. tokens whose regulation is linked to the regulation of electronic money) and other tokens, which include, for example, utility tokens. The proposal contains general rules governing the issuance and offering of cryptoassets and provides for specific rules on authorisation to issue asset-referenced tokens and e-money tokens. It also sets out rules on the supervision of their issuers, including the regulation of when a particular e-money or asset-referenced token 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 market integrity and the prevention of market abuse.

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 DORA Regulation, once adopted, is intended to stand alongside the current regulation of individual financial institutions, auditors and audit firms and will establish a uniform approach to risks arising from the use of computer technology, the duty to notify supervisory authorities in the event of

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.

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 regulation promotes the sharing of cyber threat information among financial institutions, and between financial institutions and supervisory authorities.

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.

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 Directive, the Solvency II Directive, the AIFMD, the CRD, the MiFID II Directive, the PSD II Directive, and the IORP II Directive. 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. In addition, the definition of a financial instrument under MiFID II will be changed. It will now be explicitly stipulated that financial instruments include those issued via DLT technology.

In its Retail Payments Strategy, the Commission presents future developments expected in the regulation of payments and the steps it plans to take in the future. The strategy focuses on four main pillars:

1. increasingly digital and instant payment solutions with pan-European reach;
2. innovative and competitive retail payments markets;
3. efficient and interoperable retail payment systems and other support infrastructures; and
4. efficient international payments, including remittances.

Under each of the central pillars, the Commission presents the challenges it sets itself. Many tasks are linked to the forthcoming PSD II review. Space is also devoted to SEPA payments and instant payments. One of the areas mentioned is the mandatory acceptance of cash payments in the euro area. The Commission also promises to consider, as part of the SFD review, allowing payment institutions and electronic money institutions to access payment systems with settlement finality.

The Digital Finance Strategy aims to unify the digital market, provide a single legal framework for digital innovation, create a common data space, and address the challenges of digitalising the financial market, always with a view to maximising opportunities for and protecting consumers. The Digital Finance Strategy sets out the main priorities and objectives that the Commission will focus on in the context of the financial market's digital transformation in the period up to 2024. In addition to providing context, outlining trends in digital innovation, and defining broad strategic objectives, the document addresses four main priorities for the digital transformation of the European financial sector:

1. removing fragmentation in the digital single market;
2. adapting the EU regulatory framework to facilitate digital innovation;
3. promoting data-driven innovation in finance by establishing a common financial data space; and
4. addressing the challenges and risks associated with digital transformation.

9.4 National Financial Market Legislation

Czech National Bank

During 2020, the legislative process of amendment to the CNB Act made progress. The draft was submitted to the Chamber of Deputies in June 2019 as Parliamentary document No 532. The draft amendment contains 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 include 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 is 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 will take effect on 1 August 2021 as Act No 219/2021 Coll.

Credit Institutions

In June 2020, the Government approved an amendment to the Banking Act and certain other laws. The Chamber of Deputies is now debating this as 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 include 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 includes 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 are marginally affected.

Act No 338/2020 Coll. amending the Banking Act and the Savings and Credit Unions Act took effect in October 2020. The Act is partly a technical amendment, but also introduced some individual substantive changes. One of these substantive changes is the reinforcement of protection for bank clients in cases where an arm of the bank, or part thereof, is transformed or disposed of in any way. In addition, if any administrative appeal is lodged against a decision to withdraw a bank's licence, it now carries suspensive effect. Another fundamental substantive change related to the process of licence revocation now links the enforceability of a regional court's decision in the administrative judiciary to annul a CNB decision annulling a bank's licence or a credit union's authorisation to the moment when the time limit in which to lodge an appeal on a point of law expires without any such appeal being lodged. The law also covered several amendments aimed at lightening the administrative burden faced by market entities. One of these was the abolition of the banks' obligation to submit a list of all shareholders and managers from an issue of bank shares to the supervisory body prior to the general meeting.

Financial Crisis Resolution

In June 2020, the Government approved and forwarded to the Chamber of Deputies, as Parliamentary document No 904, a draft bill amending the Act on recovery and resolution in the financial market and other related acts,[78] which implements an amendment to the Recovery and Resolution Directive (BRRD II) forming part of the RRM 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 present bill, is to boost the resilience of regulated financial 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 are those related to the implementation of the total loss-absorbing capacity (TLAC) standard, the distinction between the two main models for group resolution resolving the crisis of a group institution, the harmonisation of the instrument for deferring the maturity of liabilities (the moratorium), and the modification of provisions relating to the contractual recognition of bail-in the depreciation or conversion of depreciable liabilities.

Capital Market

In April 2020, Act No 119/2020 Coll., amending some acts in the area of regulation of the capital market business, took effect. This law mainly amends the Capital Market Business Act. In particular, it contains amendments adapting National legislation to the Prospectus Regulation, which came into effect in July 2019. The Prospectus Regulation is the first EU regulation to be approved as part of the initiative to build a capital markets union. In particular, the regulation aims to facilitate access to capital markets for small and medium-sized issuers of shares and bonds. For example, frequent issuers will find it easier to produce individual prospectuses, and they will benefit from a shorter time for approval by the supervisory authority, i.e. the CNB. For small issuers, there is a simpler form of prospectus, i.e. the EU Growth Prospectus. The

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

Prospectus Regulation also revises the "prospectus summary", making it a shorter document containing key investor information presented in a comprehensible form. It also repeals the relevant original transposition provisions linked to the original Prospectus Directive,[79] which the new regulation replaced. This amendment also adapts the Capital Market Business Act to the Money Market Funds Regulation[80] and the Transparency of Securities Financing Transactions and Reuse Regulation.[81] The law also includes an amendment to the Insurance and Reinsurance Distribution Act laying down conditions for offering fleet insurance (a restriction on the range of insurance that can be arranged in this way, the introduction of an insurance company's obligation to report to the CNB on fleets) and adding information obligations – arising from the Solvency II Directive – when reserve-forming life insurance is arranged (the modelling of capital value development under different market developments).

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 implements the legislative measures resulting from the Concept in the legal system. The draft bill amending some acts in connection with the development of the capital market was approved by the Government in August 2020 and referred to the Chamber of Deputies for debate (Parliamentary document No 993). The bill aims primarily to introduce a long-term investment account and an alternative participation fund. The long-term investment account, a new product on the financial market, is an alternative to existing financial products offering tax-assisted old-age 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 introduces a limited partnership for investment certificates. This sort of entity which will be able to create sub-funds. It also proposes the mandatory use of XML format for execution purposes, which should cut the cost of executions in the financial market. 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) are 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 proposes measures to allow for greater mobility between transformed funds and participation funds. The competence of exchange arbitration courts is also extended, both for the organiser of a regulated market (the Exchange Arbitration Court) and for commodity exchanges (the International Arbitration Court of the Czech Commodity Exchange).

Another amendment related to the capital market is the draft bill amending some acts in the area of the financial market, especially in connection with the implementation of European Union legislation concerning the Union of Capital Markets, which was approved by the Government in December 2020 and subsequently referred to the Chamber of Deputies (Parliamentary document No 1117). This amendment introduces a revision of the legislation on capital requirements for investment firms. Until now, investment firms have been governed by capital requirements for banks, which is unnecessarily burdensome for most of them, and therefore the regime is being relaxed. Another area is legislation on covered bonds, which have yet to be harmonised at European level. Transposition into Czech law is rather minimalist as, for the most part, national legislation already meets the requirements of the directive. Furthermore, this amendment proposes the transposition, into Czech law, of new rules on the cross-border offering of collective investment funds, which is to be made much easier and more transparent. The bill also implements regulations on sustainable finance, known as green finance, and the provision of crowdfunding services. In addition, certain minor changes are made in connection with the revision of the rules governing the European System of Financial Supervision.

Pan-European Personal Pension Product

In 2020, legislative work progressed 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 bill was approved by the Government in January 2021 and is now being debated by the Chamber of Deputies as Parliamentary

[79] Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC.

[80] Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, as amended.

[81] Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012.

document No 1145. This PEPP Regulation is binding in its entirety and directly applicable in all Member States. In this regard, the new legislation aims 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 is the introduction of a pan-European Personal Pension Product. This will make it possible to offer a harmonised long-term financial pension product with benefits, in particular, for EU citizens working in multiple 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 is 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 supply 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.

COVID-19-related Acts

In addition to the above-mentioned amendment to the CNB Act, another amendment to the same piece of legislation was prepared in March 2020 as a rapid response by the Government and the central bank to the prevailing situation stemming from the COVID-19 pandemic. This amendment temporarily relaxed the existing restrictions imposed on the central bank's open-market trading until the end of 2021 with a view to strengthening the stability of the Czech financial market and contributing to the CNB monetary policy's effectiveness in maintaining price stability in the Czech Republic. The amendment was published in the Collection of Legislative Acts as Act No 192/2020 on 24 April 2020, when it took effect.

In April 2020, the Act on some measures regarding the repayment of credit in the context of the COVID-19 pandemic took effect.[82] The Act introduced the borrower's right to use a "protection period" (moratorium) in the repayment of agreed commercial loans.[83] Borrowers availing themselves of this possibility could postpone until 31 October 2020 the repayment of loans contracted and, in most cases, drawn down before 26 March 2020. The moratorium was available to consumers, the self-employed, and legal entities who had taken out loans. The act also brought relief to borrowers by temporarily lowering the interest rate on consumer credit (in those cases where the agreed rate exceeded the statutory ceiling, i.e. the CNB repo rate + 8 pp) and by ensuring that, for the duration of the law's effect, lenders were not entitled to any default-related payments from borrowers who were natural persons. The aim of this act was to prevent default and the related consequences both for borrowers and for credit institutions as lenders. The use of protection-period instruments, if reported by the lender to the "client information registers", must not have an adverse impact on borrowers' credit history when negotiating any new loans in the future. After the expiry of the blanket statutory credit moratorium on 30 October 2020, "individually agreed" moratoria could be taken up in a number of cases. These moratoria are essentially a form of socially responsible self-regulation consisting of individual agreements on the deferral of repayments or a temporary reduction in repayments negotiated between the credit providers (banks and non-bank providers of consumer credit) and their borrowers (consumers, the self-employed, and legal entities) affected by the negative economic consequences of the ongoing COVID-19 pandemic. The individually agreed moratoria are based, for banks, on a public Czech Banking Association commitment and, for individual non-bank companies, on signing up to commitments arising from the "Declaration" following a call by the Minister of Finance.

In April 2020, an amendment to the Consumer Credit Act took effect in the form of Act No 186/2020 Coll.[84] This limited the agreed interest rate to the level of the statutory default interest rate for consumers who are more than 90 days in arrears with the repayment of their debt. For natural persons engaging in business, it limited the default penalties and the agreed interest rate in such a situation in a similar manner as for consumers. The aim was to prevent long-term outstanding debt from escalating to a level that the debtor would no longer be able to repay.

In May 2020, Act No 228/2020 Coll. on guarantees provided by the Czech Republic to loans secured by Českomoravské záruční a rozvojová banka, a.s., regarding guarantees on loans granted to mitigate negative

[82] Act No 177/2020 Coll. on some measures regarding the repayment of credit in the context of the COVID-19 pandemic.
[83] See Box 1 in Chapter 5.5.
[84] Act No 257/2016 Coll, on Consumer Credit, as amended.

effects caused by the SARS CoV-2 virus took effect. In order to mitigate the adverse effects, the Czech Republic provided a State guarantee for the debts of Českomoravská záruční a rozvojová banka, a.s. arising from liability for debts deriving from loans granted by banks, foreign banks operating in the Czech Republic through a branch, and savings and credit unions. This guarantee was granted up to CZK 150 billion for loans contracted by 31 December 2020 for the operational financing of an enterprise with no more than 500 employees. This guarantee programme is known as COVID III. Subsequently, in November 2020,[85] an amendment to this act was adopted that extended the period for the contracting of supported loans and extended their purpose beyond operational financing to include investment financing. The other parameters of this support were maintained.

In December 2020, an amendment to the Insurance and Reinsurance Distribution Act[86] took effect that, in the context of the COVID-19 pandemic, adjusted the length of the transition period for special rules governing proof of the expertise and skills required for the distribution of insurance and reinsurance. The time limit for passing a professional examination was extended by six months and ended on 1 June 2021. To accommodate the extension to the transition period, the mechanism established for original insurance agents' and insurance brokers' first renewal of operating authorisation was also modified so that they no longer needed to pass the professional examination in order to have their authorisation renewed. The amendment also included a one-month extension to the transition period for passing the *maturita* (school-leaving) examination (i.e. until 1 July 2022).

9.5 Non-Legislative Financial Market Activities of the MoF

Financial Education

In January 2020, the Government approved the National Financial Education Strategy 2.0 (NSFV 2.0). This replaced the previous strategy from 2010 and set the basic direction that financial education in the Czech Republic should take in the coming years. The most important changes include an extension of coverage to include selected adult population groups and the establishment of the National Financial Education Projects Register. The implementation of NSFV 2.0 will be supported by the Financial Education Working Group (FEWG), which contributes to the fulfilment of NSFV 2.0 objectives and enables relevant stakeholders to meet and exchange information and experience. The FEWG's members are representatives from the public sector, representatives of professional associations operating in the financial market, entities that implement financial education projects (NGOs, consumer associations, debt advisory entities), representatives from the academic sector, and education experts. The Ministry of Finance sets up FEWG subgroups on an ad hoc basis to address specific tasks. Data were collected in January 2020 to measure financial literacy among the adult population in the Czech Republic. A final report with the results was published in June 2020, along with an OECD report comparing the results of other participating countries.

The "Why get financially educated?" Portal

The Ministry of Finance 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: 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 services that provide free assistance in the event of disputes with financial market institutions or, for example, in a difficult life situation; dispute resolution, advice and instructions focused primarily on over-indebtedness, debt relief and enforcement; and links to interesting sites with projects, games and calculators in the Czech Republic and abroad. In June 2020, the National Financial Education Projects Register was also launched on the portal.

Translation of Some Laws into English

In 2020, further financial market legislation was translated into English for information purposes. Translations related to the capital market include an amendment to the Management Companies and Investment Funds Act (published in May 2020), an amendment to the Bonds Act, and an amendment to the Capital Market

[85] Act No 451/2020 Coll., amending Act No 228/2020 Coll., on guarantees provided by the Czech Republic to loans secured by Českomoravské záruční a rozvojová banka, a.s., regarding guarantees on loans granted to mitigate negative effects caused by the SARS CoV-2 virus.

[86] Act No 524/2020 Coll. amending Act No 170/2018 Coll., on Insurance and Reinsurance Distribution as amended by Act No 119/2020 Coll., and Act No 634/2004 Coll., on administrative fees, as amended.

Business Act (published in June 2020). A draft bill amending some acts in connection with the development of the capital market (Parliamentary document No 993) was also translated for informational purposes. Translations of laws are available on the Ministry of Finance website under Legislation and Legislative Documents.

Consultation on a Retail Payments Strategy for the EU

In April 2020, the Commission published a consultation on the EU Retail Payments Strategy, setting June 2020 as a deadline for responses. The Commission held the public consultation to gain information for the EU Retail Payments Strategy. The consultation was structured around four areas:

1. fast, convenient, safe, affordable and transparent payment instruments, with pan-European reach and “same-as-domestic” customer experience;
2. an innovative, competitive, and contestable European retail payments market;
3. access to safe, efficient and interoperable retail payments systems and other support infrastructures;
4. improved cross-border payments, including remittances, facilitating the international role of the euro.

The MoF only answered questions focused on instant payments, the use of cash, and the Second Payment Services Directive. The other categories of questions were not answered as they were not relevant to the MoF as a respondent.

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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)
AMCs	Asset Management Companies
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
COREPER	Comité des Représentants Permanents
CR	Czech Republic
CRD	Capital Requirements Directive
CRF	Crisis Resolution Fund
CRFR	Crowdfunding
CRR	Capital Requirements Regulation
CSDP	Central Securities Depository Prague
CSDR	Central Securities Depositories Regulation
CZK	Czech koruna (crown) – International currency code
CZSO	Czech Statistical Office
D03	Working Party on Financial Services
DAX	German stock index (Deutscher Aktienindex)
DCC	Dynamic Currency Conversion
DGS	Deposit Guarantee Schemes
DGSD	Deposit Guarantee Schemes Directive
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
EMIR	European Market Infrastructure Regulation
ESAs	European supervisory authorities
ESC	European Securities Committee
ESG	environmental, social and governance (factors)
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro – International currency code
Euronext 100	European New Exchange Technology 100 Index
FA	Financial Arbitrator
FAC	Foreign Affairs Council
FATF	Financial Action Task Force
FCD	Financial Collateral Directive
Fed	Federal Reserve System
FinTECH	Financial Technology
FRANDT	Fair, Reasonable, Non-Discriminatory and Transparent
FSB	Financial Stability Board
FSC	Financial Services Committee
FSF	Financial Stability Forum
FTSE 100	Financial Times Stock Exchange 100 Index
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	Guarentee Fund of Investment Firms (Garanční fond obchodníků s cennými papíry)
GSFT	Financial Market Guarantee System (Garanční systém finančního trhu)
HORECA	Hotel/Restaurant/Café
HUF	Hungarian forint – International currency code
IAIS	International Association of Insurance Supervisors
IASC	International Accounting Standards Committee
ICT	Information and Communication Technologies
IDD	Insurance Distribution Directive
IFR	Interchange Fee Regulation
IFRS	International Financial Reporting Standards
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
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
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	Japan's 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
PEPP	Pan-European Personal Pension Products
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	Working Group on Financial Education (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
RMS	RM-SYSTÉM Czech Stock Exchange
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)
SEC	Securities and Exchange Commission
SF	Sustainable finance
SFD	Settlement Finality Directive (směrnice o neodvolatelnosti zúčtování v platebních systémech a v systémech vypořádání obchodů s cennými papíry)
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
USA	United States of America
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
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 2020 (the content of Appendix 1 reflects the state as of 30 April 2021):

A1.1 Cross-Sectoral Financial Market Regulations

1) European legislation and other initiatives published in 2020:

- Directive (EU) 2020/1504 of the European Parliament and of the Council of 7 October 2020 amending Directive 2014/65/EU on markets in financial instruments;
- Recommendation of the European Systemic Risk Board of 24 September 2020 on the identification of legal entities (ESRB / 2020/12);
- Decision of the EEA Joint Committee No 305/2019 of 13 December 2019 amending Annex IX (Financial services) to the EEA Agreement [2020/323];
- Decision of the EEA Joint Committee No 92/2018 of 27 April 2018 amending Annex IX (Financial services) to the EEA Agreement [2020/1452].

2) Pending European legislation (including legislation published after 31 December 2020) and other initiatives of the European Commission:

- Draft regulatory technical standards on the contractual recognition of stay powers under Article71a(5) of Directive2014/59/EU (EBA/RTS/2020/10).

3) Acts that took effect in 2020:

- Act No 119/2020 Coll., amending some acts in the area of regulation of the capital market business (in effect as of 1 April 2020 and 1 May 2020);
- Act No 177/2020 Coll. on some measures regarding the repayment of credit in the context of the COVID-19 pandemic (in effect as of 17 April 2020);
- Act No 186/2020 Coll., amending Act No 257/2016 Coll, on Consumer Credit, as amended (in effect as of 23 April 2020).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2020):

- Draft Bill amending Act No 374/2015 Coll., on recovery and resolution in the financial market, as amended and other related acts (expected effectiveness during 2021);
- Draft Bill amending some acts in the area of the financial market, especially in connection with the implementation of European Union legislation concerning the Union of Capital Markets (expected effectiveness divided from 2 August 2021, 31 December 2021, 1 February 2022 and 8 July 2022 and the date of publication).

5) Secondary legislation:

- Decree No 518/2020 Coll., on the submission of information by financial services intermediaries to the Czech National Bank (in effect as of 1 January 2021);
- Draft Decree amending Decree No 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms, as amended (expected to take effect during 2021).

A1.2 Capital Market Legislation

1) European legislation and other initiatives published in 2020:

- 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;
- Commission Delegated Regulation (EU) 2020/1272 of 4 June 2020 amending and correcting Delegated Regulation (EU) 2019/979 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council with regard to regulatory technical standards on key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal;
- Commission Delegated Regulation (EU) 2020/1273 of 4 June 2020 amending and correcting Delegated Regulation (EU) 2019/980 supplementing Regulation (EU) 2017/1129 of the European

Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market;

- Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published;
- Commission Delegated Regulation (EU) 2020/1817 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the minimum content of the explanation on how environmental, social and governance factors are reflected in the benchmark methodology;
- Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks;
- Commission Delegated Regulation (EU) 2020/1732 of 18 September 2020 supplementing Regulation (EU) 2017/2402 of the European Parliament and of the Council with regard to fees charged by the European Securities and Markets Authority to securitisation repositories;
- Commission Delegated Regulation (EU) 2020/1989 of 6 November 2020 amending Delegated Regulation (EU) 2019/815 as regards the 2020 update of the taxonomy laid down in the regulatory technical standards for the single electronic reporting format;
- Commission Implementing Regulation (EU) 2020/1406 of 2 October 2020 laying down implementing technical standards with regard to procedures and forms for exchange of information and cooperation between competent authorities, ESMA, the Commission and other entities under Articles 24(2) and 25 of Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse;
- Commission Implementing Decision (EU) 2020/2127 of 16 December 2020 amending Commission Implementing Decision (EU) 2019/541 on the equivalence of the legal and supervisory framework applicable to approved exchanges and recognised market operators in Singapore in accordance with Regulation (EU) No 600/2014 of the European Parliament and of the Council;
- Decision (EU) 2020/187 of the European Central Bank of 3 February 2020 on the implementation of the third covered bond purchase programme;
- Decisions of the EEA Joint Committee for which the constitutional requirements under Article 103 of the EEA Agreement have been fulfilled in 2019 and related Decisions;
- Recommendation of the European systemic risk board of 6 May 2020 on liquidity risks in investment funds (ESRB/2020/4) 2020/C 200/01.

2) Pending European legislation (including legislation published after 31 December 2020) and other initiatives of the European Commission:

- Regulation (EU) 2021/168 of the European Parliament and of the Council of 10 February 2021 amending Regulation (EU) 2016/1011 as regards the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation, and amending Regulation (EU) No 648/2012;
- 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;
- Proposal for a Regulation of the European Parliament and of the Council of 24 July 2020 amending Regulation (EU) 2017/2402 establishing a general framework for securitization and creating a specific framework for simple, transparent and standardized securitization, in order to help recovery the COVID-19 pandemic;
- Proposal for a Commission Delegated Regulation (EU) of 8 June 2020 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organizational requirements and operating conditions for investment firms businesses;
- Proposal for a Commission Delegated Regulation (EU) of 20 November 2020 supplementing Regulation (EU) 2020/852 by establishing technical screening criteria for determining the conditions under which an economic activity is eligible to make a significant contribution to mitigating change

climate change or adaptation to climate change, and to determine whether the activity does not significantly harm any of the other environmental objectives;

- 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;
- Proposal for a Commission Delegated Directive (EU) of 8 June 2020 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors and preferences into product administration and management responsibilities;
- Proposal for a Commission Delegated Directive (EU) of 24 July 2020 amending Delegated Directive (EU) 2017/593 as regards the research regime for small and medium-sized issuers and fixed income instruments, in order to help recovery from the COVID-19 pandemic;
- European Securities and Markets Authority Decision (EU) 2021/272 of 16 December 2020 renewing the temporary requirement to natural or legal persons who have net short positions to lower the notification thresholds of net short positions in relation to the issued share capital of companies whose shares are admitted to trading on a regulated market to notify the competent authorities above a certain threshold in accordance with point (a) of Article 28(1) of Regulation (EU) No 236/2012 of the European Parliament and of the Council.

3) Acts that took effect in 2020:

- none

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2020):

- Draft Bill amending some acts in connection with the development of the capital market (expected to take effect on 1 January 2022).

5) Secondary legislation:

- Decree No 201/2020 Coll., amending Decree No 247/2013 Coll., on applications under the Act on Investment Companies and Investment Funds, as amended by Decree No 344/2014 Coll. (effective from 1 May 2020);
- Decree No 267/2020 Coll., on the reporting of data by the manager and administrator of the investment fund and the foreign investment fund to the Czech National Bank (effective from 1 July 2020);
- 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** (effective from 1 January 2021).

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

1) European legislation and other initiatives published in 2020:

- Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic;
- Commission Delegated Regulation (EU) 2020/866 of 28 May 2020 amending Delegated Regulation (EU) 2016/101 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105(14) of Regulation (EU) No 575/2013;
- Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items;
- Commission Implementing Regulation (EU) 2020/125 of 29 January 2020 amending Implementing Regulation (EU) No 945/2014 laying down implementing technical standards with regard to relevant appropriately diversified indices in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2020/429 of 14 February 2020 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to

supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;

- Council Implementing Decision (EU) 2020/216 of 17 February 2020 on the appointment of the Vice-Chair and two further full-time members of the Single Resolution Board;
- Decision of the EEA Joint Committee No 80/2019 of 29 March 2019 amending Annex IX (Financial services) to the EEA Agreement [2020/830];
- Decision of the EEA Joint Committee No 81/2019 of 29 March 2019 amending Annex IX (Financial services) to the EEA Agreement [2020/831];
- Decision of the EEA Joint Committee No 82/2019 of 29 March 2019 amending Annex IX (Financial services) to the EEA Agreement [2020/832];
- Decision of the EEA Joint Committee No 83/2019 of 29 March 2019 amending Annex IX (Financial services) to the EEA Agreement [2020/833];
- Opinion of the European Systemic Risk Board of 6 February 2020 regarding Dutch notification of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (ESRB/2020/1);
- Opinion of the European Systemic Risk Board of 26 February 2020 regarding Belgian notification of an extension of the period of application of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (ESRB/2020/2);
- Opinion of the European Systemic Risk Board of 19 May 2020 regarding French notification of an extension of the period of application of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (ESRB/2020/5);
- Opinion of the European Systemic Risk Board of 14 October 2020 regarding Swedish notification of an extension of the period of application of a stricter national measure based on Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (ESRB/2020/13);
- Recommendations of the European Systemic Risk Board of 27 May 2020 on restriction of distribution during the COVID-19 pandemic (ESRB/2020/7);
- Recommendation of the European Systemic Risk Board of 27 May 2020 on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic (ESRB/2020/8);
- Recommendation of the European Systemic Risk Board of 2 June 2020 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2020/9);
- Recommendation of the European Systemic Risk Board of 15 December 2020 amending Recommendation ESRB/2020/7 on restriction of distributions during the COVID-19 pandemic (ESRB/2020/15);
- Recommendation of the European Systemic Risk Board of 22 December 2020 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2020/16);
- Guideline of the European Banking Authority on loan origination and monitoring of 29 May 2020 (EBA/GL/2020/06);
- Decision (EU) 2020/586 of the Single Resolution Board of 25 March 2020 on discharge in respect of the implementation of the budget and on the closure of the accounts of the Single Resolution Board for the financial year 2018 (SRB/PS/2020/11).

2) Pending European legislation (including legislation published after 31 December 2020) 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;
- Commission Delegated Regulation (EU) 2021/424 of 17 December 2019 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the alternative standardized approach for market risk;

- 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) 2021/539 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;
- 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.

3) Acts that took effect in 2020:

- Act No 39/2020 Coll., on real estate brokerage and other related acts (amending Act No 21/1992 Coll., on Banks, as amended, in effect as of 3 March 2020);
- Act No 192/2018 Coll., amending Act No 6/1993 Coll., on the Czech National Bank, as amended (in effect as of 24 April 2020);
- Act No 228/2020 Coll., on guarantees provided by the Czech Republic to loans secured by Českomoravské záruční a rozvojová banka, a.s., regarding guarantees on loans granted to mitigate negative effects caused by the SARS CoV-2 virus(in effect as of 6 May 2020);
- Act No 238/2020 Coll., amending Act No 634/1992 Coll., on consumer protection, as amended, and other related acts (amending Act No 21/1992 Coll., on Banks, as amended, Act No 87/1995 Coll., on Savings and Credit Unions and other related measures and supplementing Act of the Czech National Council No 586/1992 Coll., on Income Taxes, as amended, as amended and Act No 6/1993 Coll., on the Czech National Bank, as amended, in effect as of 1 July 2020);
- Act No 338/2020 Coll., amending Act No 21/1992 Coll., on Banks, as amended, and amending Act No 87/1995 Coll., on Savings and Credit Unions and other related measures and supplementing Act of the Czech National Council No 586/1992 Coll., on Income Taxes, as amended, as amended (in effect as of 1 October 2020);
- Act No 451/2020 Coll., amending Act No 228/2020 Coll., on guarantees provided by Czech republic to loans secured by Českomoravské záruční a rozvojová banka, a.s., regarding guarantees on loans granted to reduce negative effects caused by SARS CoV-2 (in effect as of 3 November 2020).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2020):

- 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);
- Draft Bill 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, expected to take effect on 1 February 2022).

5) Secondary legislation:

- Decree No 355/2020 Coll., on applications and some information under Act on Banks and Act on Savings and Credit Unions (in effect as of 1 October 2020).

A1.4 Payment Services and Market Infrastructure Legislation

1) European legislation and other initiatives published in 2020:

- Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937;

- Commission Delegated Regulation (EU) 2020/1423 of 14 March 2019 on supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards on the criteria for appointing central contact points within the field of payment services and on the functions of those central contact points;
- Commission Delegated Regulation (EU) 2020/447 of 16 December 2019 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on the specification of criteria for establishing the arrangements to adequately mitigate counterparty credit risk associated with covered bonds and securitisations, and amending Delegated Regulations (EU) 2015/2205 and (EU) 2016/1178;
- Commission Delegated Regulation (EU) 2020/448 of 17 December 2019 amending Delegated Regulation (EU) 2016/2251 as regards the specification of the treatment of OTC derivatives in connection with certain simple, transparent and standardised securitisations for hedging purposes;
- Commission Delegated Regulation (EU) 2020/1212 of 8 May 2020 amending Delegated Regulation (EU) 2018/1229 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline;
- Commission Delegated Regulation (EU) 2020/1302 of 14 July 2020 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to fees charged by the European Securities and Markets Authority to central counterparties established in third countries;
- Commission Delegated Regulation (EU) 2020/1303 of 14 July 2020 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to the criteria that ESMA should take into account to determine whether a central counterparty established in a third country is systemically important or likely to become systemically important for the financial stability of the Union or of one or more of its Member States;
- Commission Delegated Regulation (EU) 2020/1304 of 14 July 2020 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to the minimum elements to be assessed by ESMA when assessing third-country CCPs' requests for comparable compliance and the modalities and conditions of that assessment;
- Commission Delegated Regulation (EU) 2020/2145 of 1 September 2020 amending Delegated Regulation (EU) No 876/2013 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council as regards changes to the composition, functioning and management of colleges for central counterparties;
- Commission Implementing Decision (EU) 2020/1308 of 21 September 2020 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;
- Commission Implementing Decision (EU) 2020/1766 of 25 November 2020 determining, for a limited period of time, that the regulatory framework applicable to central securities depositories of the United Kingdom of Great Britain and Northern Ireland is equivalent in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council;
- Communication from the Commission to the European Parliament, the Council the European Economic and social Committee and the Committee of the Regions of 24 September 2020 on a Retail Payments Strategy for the EU.

2) Pending European legislation (including legislation published after 31 December 2020) and other initiatives of the European Commission:

- 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;
- Proposal for a Regulation of the European Parliament and of the Council of 24 September 2020 on Markets in Crypto-assets, and amending Directive (EU) 2019/1937;
- Proposal for a Regulation of the European Parliament and of the Council of 24 September 2020 on a pilot regime for market infrastructures based on distributed ledger technology;
- Proposal for a Regulation of the European Parliament and of the Council of 24 September 2020 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014;

- Commission Delegated Regulation (EU) 2021/70 of 23 October 2020 amending Delegated Regulation (EU) 2018/1229 concerning the regulatory technical standards on settlement discipline, as regards its entry into force;
- Commission Delegated Regulation (EU) 2021/236 of 21 December 2020 amending technical standards laid down in Delegated Regulation (EU) 2016/2251 as regards to the timing of when certain risk management procedures will start to apply for the purpose of the exchange of collateral;
- Commission Delegated Regulation (EU) 2021/237 of 21 December 2020 amending regulatory technical standards laid down in Delegated Regulations (EU) 2015/2205, (EU) 2016/592 and (EU) 2016/1178 as regards the date at which the clearing obligation takes effect for certain types of contracts
- Proposal for a Directive of the European Parliament and of the Council of 14 March 2018 on credit servicers, credit purchasers and the recovery of collateral;
- Proposal for a Directive of the European Parliament and of the Council of 24 September 2020 amending Directives 2006/43/EC, 2009/65/EC, 2009/138/EU, 2011/61/EU, EU/2013/36, 2014/65/EU, (EU) 2015/2366 and EU/2016/2341;
- 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.

3) Acts that took effect in 2020:

- none

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2020):

- Draft Bill amending Act No 370/2017 Coll., on Payments, as amended by Act No 5/2019 Coll. and other related acts (expected to take effect in January 2021).

5) Secondary legislation:

- none

A1.5 Insurance and Private Pension Systems Legislation

1) European legislation and other initiatives published in 2020:

- Commission Delegated Regulation (EU) 2020/442 of 17 December 2019 correcting 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 Implementing Regulation (EU) 2020/193 of 12 February 2020 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 December 2019 until 30 March 2020 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) 2020/641 of 12 May 2020 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 March 2020 until 29 June 2020 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) 2020/744 of 4 June 2020 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) 2020/1145 of 31 July 2020 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June 2020 until 29 September 2020 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) 2020/1647 of 9 November 2020 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September 2020 until 30 December 2020 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 Decision (EU) 2020/1358 of 28 September 2020 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 Bosnia and Herzegovina;
- Decision of the EEA Joint Committee No 62/2018 of 23 March 2018 amending Annex IX (Financial services) to the EEA Agreement [2020/79];
- Decision of the EEA Joint Committee No 111/2018 of 31 May 2018 amending Annex IX (Financial services) to the EEA Agreement [2020/1615].

2) Pending European legislation (including legislation published after 31 December 2020) and other initiatives of the European Commission:

- 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;
- Proposal for a Commission Delegated Regulation (EU) 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;
- Proposal for a Commission Delegated Regulation (EU) of 24 February 2021 supplementing Regulation (EU) 2019/1238 of the European Parliament and of the Council with regard to product intervention;
- 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 2020 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 May 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;
- Proposal for a Commission Implementing Regulation (EU) 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;
- Proposal for a Commission Implementing Regulation (EU) with regard to regulatory technical standards correcting Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) 286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents;
- Proposal for a Directive of the European Parliament and of the Council of 24 May 2018 amending Directive 2009/103/EC of the European Parliament and the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the supervision of the obligation to take out insurance in the event of such liability;
- The Solvency II Directive review and the related recovery and resolution initiative for insurance / reinsurance undertakings and the guarantee system in insurance sector.

3) Acts that took effect in 2020:

- Act No 524/2020 Coll. amending Act No 170/2018 Coll., on Insurance and Reinsurance Distribution as amended by Act No. 119/2020 Coll., and Act No. 634/2004 Coll., on administrative fees, as amended (in effect as of 11 December 2020).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2020):

- 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);
- Draft Bill on a pan-European Personal Pension Product and amending related acts (in effect as of the day when the PEPP Regulation enters into force, which is linked to the publication of implementing regulations, i.e. 22 March 2022).

5) Secondary legislation:

- Decree No 199/2020 Coll., on Applications under Act on Supplementary Pension Savings (in effect as of 1 May 2020);
- Draft Decree amending Decree No 305/2016 Coll., on reporting by insurance undertakings and reinsurance undertakings to the Czech National Bank.

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	2019	Year-on-year change		2020	Year-on-year change	
Balance sheet	CZK 7,623.6 bn	+4.0%	↑	CZK 8,018.0 bn	+5.2%	↑
Total capital ratio	21.3%	+1.7 pp	↑	24.4%	+3.1 pp	↑
Ratio of client deposits to loans	137.4%	+2.9 pp	↑	143.6%	+6.2 pp	↑
NPL ratio	2.5%	-0.8 pp	↓	2.7%	+0.2 pp	↑
Client deposits	CZK 4,739.3 bn	+6.6%	↑	CZK 5,162.0 bn	+8.9%	↑
Client loans	CZK 3,450.5 bn	+4.4%	↑	CZK 3,595.6 bn	+4.2%	↑

Building savings banks	2019	Year-on-year change		2020	Year-on-year change	
Number of contracts	3.23 million	+1.9%	↑	3.24 million	+0.5%	↑
Savings	CZK 359.7 bn	+1.3%	↑	CZK 362.7 bn	+0.8%	↑
State contributions	CZK 4.0 bn	+1.6%	↑	CZK 4.1 bn	+3.5%	↑
Total loans	CZK 278.1 bn	+5.8%	↑	CZK 293.5 bn	+5.5%	↑
New loans	CZK 47.8 bn	-29.1%	↓	CZK 65.4 bn	+36.8%	↓
Loan-to-savings ratio	77.3%	+3.2 pp	↑	80.9%	+3.6 pp	↑

Mortgage loans	2019	Year-on-year change		2020	Year-on-year change	
Purely new mortgage loans	CZK 161.5 bn	-13.6%	↓	CZK 216.8 bn	+34.3%	↑
Total loans	CZK 1,986.1 bn	+20.3%	↑	CZK 2,181.7 bn	+9.9%	↑

Credit associations	2019	Year-on-year change		2020	Year-on-year change	
Number of members	12.2 thousand	-45.9%	↓	12.0 thousand	-1.9%	↓
Balance sheet	CZK 10.2 bn	-49.7%	↓	CZK 10.0 bn	-1.7%	↓
NPL ratio	24.1%	-4.0 pp	↓	28.9%	+4.8 pp	↑
Total capital ratio	29.2%	+8.1 pp	↑	26.4%	-2.8 pp	↓

Non-bank financing providers	2019	Year-on-year change		2020	Year-on-year change	
Balance sheet	CZK 437.9 bn	+2.2%	↑	CZK 417.4 bn	-4.7%	↓
Total loans	CZK 329.6 bn	+2.9%	↑	CZK 321.1 bn	-2.6%	↓

Regulated and OTC market	2019	Year-on-year change		2020	Year-on-year change	
PX index	1,115.6 points	+13.1%	↑	1,027.1 points	-7.9%	↓
Volume of exchange trades on the PSE	CZK 120.9 bn	-20.4%	↓	CZK 134.5 bn	+11.2%	↑
Volume of exchange trades on the RM-System	CZK 2.2 bn	-15.7%	↓	CZK 4.6 bn	+110.2%	↑
Volume of OTC transactions	CZK 4,365.3 bn	+ 36.3%	↑	CZK 4,897.7 bn	+12.2%	↑

Investment funds	2019	Year-on-year change		2020	Year-on-year change	
Assets under management in collective investment funds	CZK 556.9 bn	+17.7%	↑	CZK 589.7 bn	+5.9%	↑
Assets under management in qualified investor funds	CZK 130.7 bn	+14.5%	↑	CZK 146.1 bn	+11.8%	↑

Insurance companies	2019	Year-on-year change		2020	Year-on-year change	
Balance sheet	CZK 487.1 bn	-6.3%	↓	CZK 493.4 billion	+1.3%	↑
Total gross premiums written	CZK 165.9 bn	+6.6%	↑	CZK 168.0 billion	+1.2%	↑
Gross claim settlement costs	CZK 101.2 bn	+9.3%	↑	CZK 91.8 billion	-9.3%	↓
Total insurance penetration	2.9%	0.0 pp	↔	3. %	+0,1 pp	↑

Pension funds	2019	Year-on-year change		2020	Year-on-year change	
Number of participants	4,455.6 thousand	+0.1%	↑	4,424.0 thousand	-0.7%	↓
Participants’ assets	CZK 487.1 bn	+9.0%	↑	CZK 527.9 bn	+8.4%	↑
Share of contracts with an employer’s contribution	22.9%	+1.0 pp	↑	23.5%	+0.6 pp	↑
Participant’s average monthly contribution in transformed funds	CZK 722	+6.2%	↑	CZK 754	+4.4%	↑
Participant’s average monthly contribution in participation funds	CZK 800	+1.3%	↑	CZK 812	+1.5%	↑
State contributions	CZK 7.3 bn	+3.1%	↑	CZK 7.4 bn	+1.9%	↑

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

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

As at 31 Dec		2015	2016	2017	2018	2019	2020
New building savings contracts	number	373,096	403,259	370,707	422,048	485,176	461,885
	change (%)	-22.5	8.1	-8.1	13.8	15.0	-4.8
Average target value for new building savings contracts with private individuals	value (CZK thousands)	371.1	383.9	396.5	470.1	430.5	455.9
	change (%)	10.5	3.4	3.3	18.6	-8.4	5.9
Building savings contracts in savings phase	number	3,503,349	3,312,077	3,212,427	3,166,824	3,226,733	3,242,740
	change (%)	-8.4	-5.5	-3.0	-1.4	1.9	0.5
Paid state contributions	value (CZK bn)	4.6	4.3	3.9	3.9	4.0	4.1
	change (%)	-4.2	-6.2	-7.8	-0.8	1.6	3.5
Average state contribution[87]	value (CZK)	1,327	1,342	1,373	1,397	1,434	-
	change (%)	0.9	1.2	2.3	1.7	2.6	-
Saved amount	value (CZK bn)	384.2	362.6	358.9	355.0	359.7	362.7
	change (%)	-7.1	-5.6	-1.0	-1.1	1.3	0.8
Loans in total	number	695,439	650,214	612,982	588,165	555,368	520,333
of which: building savings loans	number	380,873	339,809	307,668	282,587	267,225	254,630
bridging loans[88]	number	314,566	310,405	305,314	305,578	288,143	265,703
	change (%)	-7.6	-6.5	-5.7	-4.0	-5.6	-6.3
Loans in total	value (CZK bn)	242.7	240.6	245.7	262.9	278.1	293.5
of which: building savings loans	value (CZK bn)	43.9	40.0	38.2	38.5	48.2	60.0
bridging loans[88]	value (CZK bn)	198.7	200.6	207.5	224.4	229.9	233.5
	change (%)	-2.8	-0.8	2.1	7.0	5.8	5.5
Loans-to-savings ratio	ratio (%)	63.2	66.4	68.5	74.1	77.3	80.9

Source: Building savings banks, MF

87 The value is published in the course of the subsequent year.
88 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: Main indicators for the supplementary pension insurance in transformed funds

As at 31 Dec		2013	2014	2015	2016	2017	2018	2019	2020
Supplementary pension insurance contracts[89]	number	4,886,675	4,585,149	4,281,621	3,999,304	3,709,605	3,494,140	3,327,507	3,154,028
	change (%)	-4.8	-6.2	-6.6	-6.6	-7.2	-5.8	-4.8	-5.2
State contributions for a given period	value (CZK bn)	6.8	6.6	6.3	6.0	5.7	5.4	5.3	5.1
	change (%)	15.0	-3.3	-4.8	-4.7	-5.2	-5.1	-2.3	-2.9
Participants' contributions[90]	value (CZK bn)	33.0	31.6	30.1	29.6	29.4	28.4	28.2	27.7
	change (%)	29.3	-4.3	-4.6	-1.5	-1.0	-3.2	-0.6	-1.9
Average monthly state contribution	value (CZK)	117	119	122	124	120	128	133	137
	change (%)	8.3	2.1	2.5	1.6	-3.2	6.7	3.9	3.0
Average monthly participant's contribution	value (CZK)	568	574	589	606	624	680	722	754
	change (%)	22.2	1.1	2.6	2.9	3.0	9.0	6.2	4.4

Source: MoF

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

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

Table A2.4: Main indicators for the supplementary pension savings in participation funds

As at 31 Dec		2013	2014	2015	2016	2017	2018	2019	2020
Supplementary pension savings contracts[91]	number	76,669	217,985	361,395	536,759	757,549	956,820	1,128,131	1,269,989
	change (%)	-	184.3	65.8	48.5	41.1	26.3	17.9	12.6
New supplementary pension savings contracts	number	77,771	145,841	156,062	195,508	251,818	262,167	257,666	241,895
	change (%)	-	87.5	7.0	25.3	28.8	4.1	-1.7	-6.1
of which transfer from supplementary pension insurance[92]	number	1,284	14,221	12,959	17,705	41,671	41,506	29,142	33,298
State contributions for a given period	value (CZK bn)	0.06	0.27	0.54	0.86	1.24	1.66	2.00	2.29
	change (%)	-	335.5	99.6	59.0	44.3	34.1	20.8	14.5
Participants' contributions[93]	value (CZK bn)	0.34	1.34	2.57	4.07	6.07	8.24	10.01	11.59
	change (%)	-	292.1	91.9	58.3	49.1	35.7	21.5	15.8
Average monthly state contribution	value (CZK)	143	148	152	156	159	160	160	161
	change (%)	-	3.5	2.7	2.6	1.9	0.6	0.0	0.6
Average monthly participant's contribution	value (CZK)	749	722	722	741	776	790	800	812
	change (%)	-	-3.6	0.0	2.6	4.7	1.8	1.3	1.5

Source: MoF

91 Data reflects number of policies, which are not closed in the relevant MoF records.
92 Participant's assets were transferred from transformed fund to participation fund according to § 191 Act 427/2011 Coll.
93 Participants' contributions are reported without the contributions paid by employers for their employees.

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