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## National Strategy for Development of the Capital Market in the Czech Republic 2019 - 2023

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## Introduction

 The Ministry of Finance introduces a National Strategy for the Development of the Capital Market in the Czech Republic. This Strategy includes 27 measures for more efficient functioning of the capital market.

## The importance of a capital market

 A Capital market supports the state's productivity and economic growth. Its basic function is to make the most effective distribution of capital from those who have it, to those who need it.

### Households

- Increase in value of savings
- Savings for pension
- Diversification

### State

- Growth of GDP
- Employment growth
- Investments growth



### Enterprises

- Increase in efficiency
- Competitiveness
- Alternative to bank financing, diversification

### Intermediaries

- Distribution of capital
- Growth of provisions

## The Czech economy is financed mainly by bank loans

### Bank Based

- Prevalence of bank loan financing
- Unnecessary adaptation of business plans



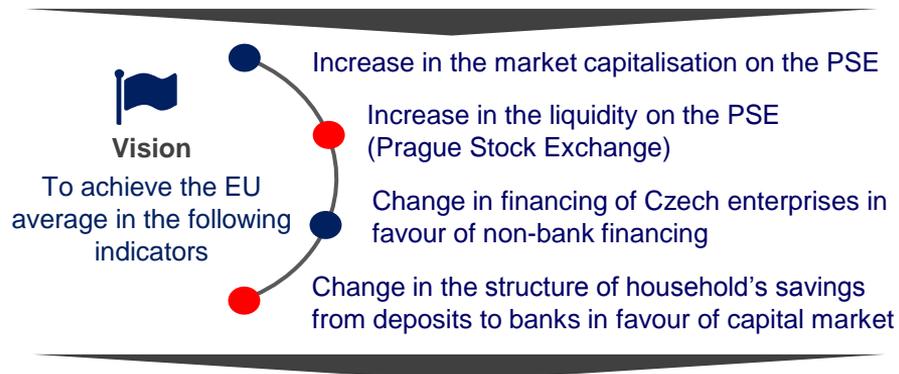
### Market Based

- Prevalence of capital market financing
- Limits disadvantages of bank based model

 The most appropriate solution is a combination of both models. Efforts should be made to complement alternative financing and investment opportunities.

## Why strategy

 The absence of a long-term vision for the Czech capital market reduces its involvement in the development of the real economy and thus doesn't utilise full GDP growth potential. The Strategy is a guide for investors to predict the direction of the Czech capital market.



## How to achieve the vision

-  Review structure of the private sector, including infrastructure organization and market operations.
-  Identify the reform areas with the greatest potential to improve the functioning of the capital market in the Czech Republic
-  Develop and implement the selected reform measures according to a concrete time-frame (an Action plan)
-  Conduct a comprehensive yearly review of the current state of the indicators, single measures and the regulatory environment.
-  Review the current status of the strategy after five years from the approval and update the strategy

## Suggestions for specific measures

### Measures to support households (investors)

1. Long-term investments account

2. Make the investment funds more attractive upon the investors's initiative

3. Education of retail investors and consultants about the capital market

4. Creation of web centre for consolidated information on securities

5. Analysis of the availability of currency hedging

6. Improvement of the flow of information from issuers to security holders

### Measures to support companies (issuers)

7. Education of CFOs of SMEs on the possibilities of capital market financing

8. Improvement of the conditions for functioning of business angels

9. Analysis of possibilities of investment crowdfunding development

10. Analysis of the possibility of creating a simpler form of joint stock company

11. Standardisation of information provided by issuers in English

12. Internationalisation of financial reporting

13. Introduction and implementation of the „corporate governance scorecard“

14. Support of the money market development

### Measures to support the professional market participants

15. Enable pension funds to invest in private equity funds

16. Make sub-funds more attractive

17. Support of XML usage when requesting information from fin. institutions

18. Analysis of possibility of dematerialised securities register modernisation

19. Support of corporate bonds trading on the capital market

20. Development of instructions on initial due diligence for foreign inv. funds

### Measures to support the Czech Republic (state)

21. Analysis of other options of government securities market development

22. Active involvement in pan-European and global initiatives

23. Active involvement in law-making process in the European Union

24. Securing internships for regulators

25. Monitoring the MSCI status criteria for the developed capital market

26. Education of state-controlled companies about capital market financing

27. Make available the laws regulating the capital market in English

## Appendix 1: Analytic part: Limited awarness by enterprises of the advantage of capital market financing techniques

### Dependency on funding through retained profits and bank loans

 Czech businesses are highly dependent on bank financing, the enterprise's own resources and subsidies from the European Union

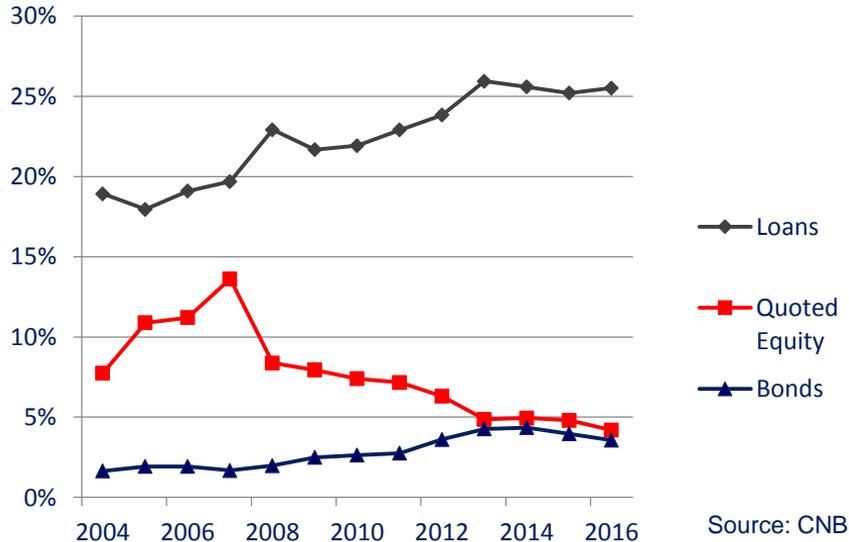
 Loans have 26 % share on the financing of Czech non-financial companies. The Czech capital market plays a much less significant role. Debt securities are only used to finance 4 % of the companies' operations. Quoted equities account for only 4.2 %.

### Bigger obviousness of unutilized capital market in international comparison

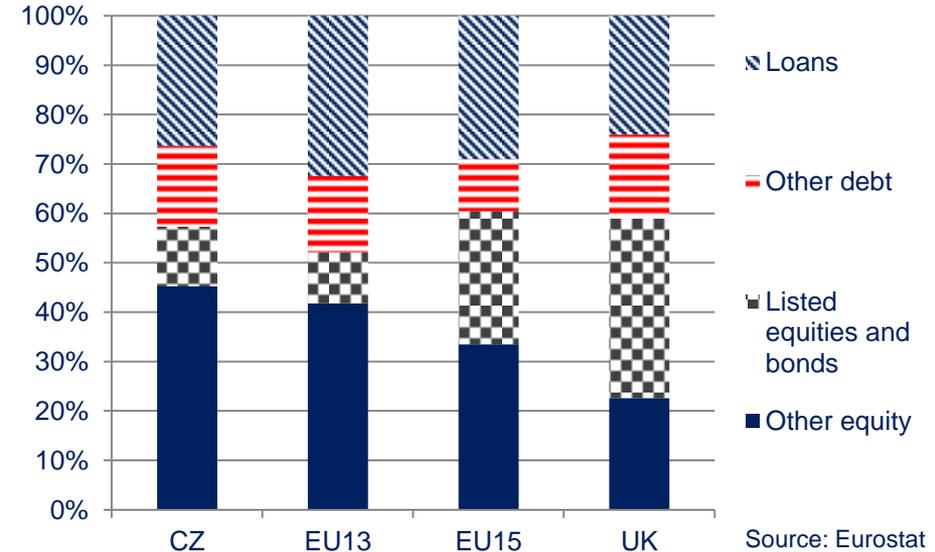
 Insufficient diversification is more obvious in international comparison, where the share of corporate financing through listed shares and bonds is one third compared to the UK.

 In comparison with EU15 (member states before 2004) this share is more than one half. Compared to EU13 (member states joined 2004 and later) the Czech Republic is doing slightly better.

### Capital structure of non-financial companies in CZ (% assets)



### Capital structure comparison in CZ, EU13, EU15 and UK

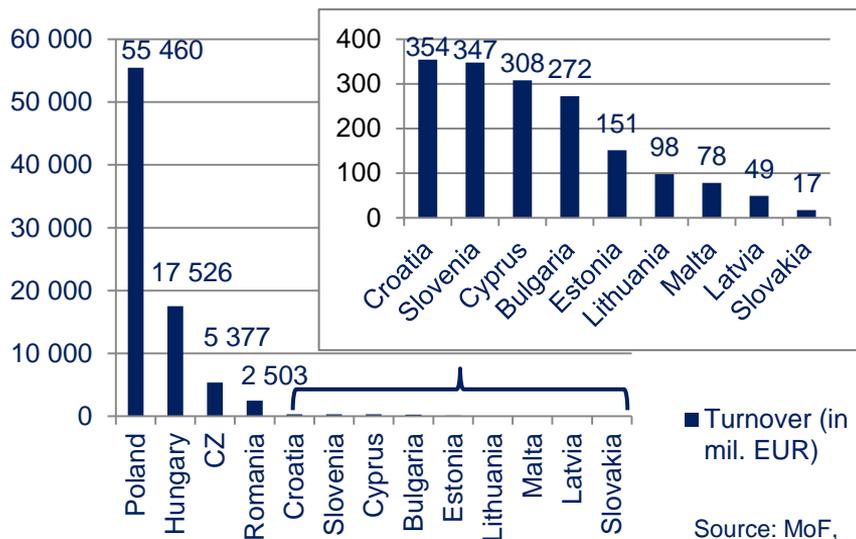


Lower market capitalization and liquidity can discourage foreign investors

 The seemingly small and illiquid Czech capital market is in third place compared to the volume of trades on EU13 stock exchanges.

 On the other hand, compared to Poland, Hungary and the world average, it is struggling with low emissions and market capitalization and mentioned lower trades. This may hamper the growth of interest in foreign investment in the Czech Republic.

Comparison of turnovers at stock exchanges of EU13 in 2017



Inefficiently valued funds despite high savings

 Czech citizens tend to allocate their portfolios conservatively and hold their resources primarily in financial products that do not allow them to effectively appreciate accumulated resources.

 As a result, the wealth of Czech households lags behind their western neighbours, despite a high level of savings (one of the highest in the European Union).

Comparison of the assets of average Czech, EU13 and EU15 citizen

