Ministerstvo financí
ČESKÉ REPUBLIKY

REPORT ON FINANCIAL MARKET DEVELOPMENTS IN 2010

June 2011

CONTENTS

SUMMARY

Economy

In 2010 the Czech economy's gross domestic product in real terms registered growth of 2.3% . The biggest factors influencing the GDP growth in the Czech Republic were the increase in inventories and foreign trade, which was supported by global economic recovery. The average rate of inflation grew to 1.5% in 2010, mainly in consequence of administrative measures.

Funds for use in the financial market

The economic growth led to a continuous increase in the amount of funds for use in the financial market, which grew to CZK 3.7 tn. Growth was registered in all the categories comprising funds for use in the financial market.

Structure of household savings

Household savings grew year-on-year by 6.8% to reach a total of approx. CZK 2.3 tn. The structure of household savings is changing only very gradually. The most significant growth can be observed in the proportion of non-term deposits, with term deposits registering a decline.

Entities in the financial market

The Czech financial sector is fairly stable, and neither the numbers nor structure of entities has changed much since 2009.

Banking sector

The banking sector withstood the negative impacts of the global financial crisis and came out of the crisis stronger. Banks continued to have sufficiently strong capital, with capital positions, with capital adequacy increasing and reaching a level of 15.5%. The reported deposits to loans ratio was also stable at 137%. Although non-performing loans relative to total client loans grew to 6.6%, the expected losses are to a large extent covered by provisions. The banking sector's stability was therefore not jeopardised.

Interest rates

The CNB moved to reduce the key interest rate once, cutting the 2-week repo rate by 0.25 pp to 0.75%. The APR for consumption was almost unchanged during the year around 15.7%. By contrast, the APR on acquisition of real estate fell by 0.8 pp year-on-year to 4.8%.

Deposits and loans

The total volume of loans grew by 3.3% over the course of 2010 to a final value of almost CZK 2.8 tn. The speed of growth of loans matched that of deposits – a year-on-year increase of 3.5% to CZK 2.2 tn. Total household indebtedness with banks and non-bank financial institutions grew year-on-year by 2.7% to reach CZK 1,138.0 bn at the end of 2010.

Building societies

The total number of contracts in the saving stage fell to 4.85 mil. 532,800 new contracts were signed in 2010 (a fall of 7.4%). The number of loans increased slightly to 993,000 and their volume reached CZK 293.4 bn. The state building savings contribution amounted to CZK 11.74 bn.

Mortgage market

The volume of mortgage loans provided to the population attained a value of CZK 604.7 billion, an increase of 9.1% or CZK 50.3 billion in absolute terms. Hypoindex rate fell gradually during the year to 4.23%. In this way the hypoindex is reacting, with a slight time lag, to the fall in the CNB key interest rate that began in 2008.

Credit unions

The sector's total assets registered growth of approx. CZK 8 bn to reach CZK almost CZK 20 bn. There was also strong growth in deposits to CZK 17.7 bn and loans to CZK 12.6 bn.

Regulated markets

The main PX index ranged from 1,100 to 1,300 points during 2010, ending the year 9.6% stronger at 1,224.8 points. The total volume of trades fell by 12.4% to CZK 926.4 bn. After three years of dominance by shares, trading was for the second year again dominated by government bonds. The Prague Stock Exchange successfully floated new shares issues. Shares in KIT Digital have been dual-listed since 25.1.2010. On 22.10.2010 Fortuna performed the first IPO since 2008, when mining company NWR joined the market.

Having taken over the records from the Prague Securities Centre, the Central Securities Depository began operating in June 2010. This fundamentally changed the infrastructure and clearing and settlement process of securities trading in the Czech Republic.

Investment firms and asset management

Banking investment firms strongly dominate the volumes of own-account trades other than asset management transactions and the volume of clients' assets. Non-banking investment firms and management companies operating in the area of assets management concentrate on the management of their clients' assets. The volume of managed assets grew by 5.7% in 2010 to a final level of CZK 796.4 bn.

Collective investments

The volume of finances invested in open-ended pension funds grew by 5.5% to CZK 247.5 bn. The year 2010 confirmed the long-term trend whereby non-Czech funds attract a larger volume of finances (CZK 125.1 bn) than Czech funds (CZK 122.4 bn).

Insurance companies

The development of the insurance market in the past year was influenced by several extraordinary weather events. Gross written insurance premiums increased by 8.2% to CZK 156 bn. After two years of lower increments there was more marked acceleration in market growth, mainly owing to greater demand for life insurance (19.2% increase). Written insurance premiums on the non-life insurance market were practically unchanged from the previous year (growth of just 0.3%).

Supplementary pension insurance

The number of participants in supplementary pension insurance grew at a slower rate than in previous years, reaching 4.5 mil. at year end. A total of CZK 216.1 bn was deposited in pension funds by the year end (increase of 7.7%). The share of participants on whose behalf contributions were paid by an employer was 20.3%.

Government sector

The state budget ended with a deficit of CZK 156.4 bn, i.e. slightly lower than planned. Although there were shortfalls on the revenue side in almost all the significant income tax categories, the overall fall in revenues was lower than the savings achieved on the expenditure side. Government debt was CZK 1,413.5 bn at the end of 2010 (38.5% of GDP).

Foreign exchange market

The Czech koruna exchange rate against the two leading global currencies was influenced mainly by developments on the global financial markets. The koruna / US dollar exchange rate fluctuated considerably during 2010, while the exchange rate with the euro was relatively stable. Eventually, the koruna fell year-on-year 2.1% against the dollar to 18.75 CZK/USD. By contrast, it strengthened by 5.3% against the euro to 25.06 CZK/EUR.

Financial markets legislation

The legislative process was completed for the act on consumer credit, the act on financial collateral, the act transposing the directive on bank deposit guarantee schemes, the act adapting regulation of the EP and of the Council on credit rating agencies, the act transposing the directive on settlement finality in payment systems and securities settlement systems and the directive on electronic money, and the act amending certain acts in connection with the stipulation of capital requirements and oversight procedures over banks, building societies and credit unions and investment firms (CRD II and CRD III).

In the second half of 2010 an amendment of the act on building savings schemes, which aims to reduce the burden on the state budget from state contribution for building saving, was debated. This act was repealed by Finding of the Constitutional Court No. 119/2011 on the grounds that it had been passed in a state of legislative emergency. The legislators were given a deadline of 31 December 2011 by which to adopt a new act in the standard legislative process, as the finding repeals the act upon the elapse of 31 December 2011.

Consumer protection in the financial market

In May 2010 the government approved the National Strategy Identifying the Key Actors in the Field of Financial Education and Setting Specific Tasks Designed to Improve the Financial Literacy of the Population of the Czech Republic. One of the key legislative activities for the MoF in the domain of consumer protection on the financial market is preparing the harmonisation of the rules governing the distribution of financial products and services.

1. MACROECONOMIC SITUATION

In 2010 GDP in real terms grew by 2.3% . The consequences of economic interconnectedness can be observed in the year-on-year GDP in the Czech Republic and in the global economic areas listed in Table 1.1. Mutual trade and common dependence on the global economic environment resulted in largely similar development in the economies of the USA and the EU. As a small open economy the Czech Republic's dependence on its trading partners' growth is displayed in the similar pace of both the economic downturn in 2009 and of the recovery in 2010, as registered by the entire EU. As regards the data for the EU 27 and the eurozone it should be noticed that this is a weighted average of the national economies with specific growth patterns. While the German economy managed to make use of the investment boom in BRIC countries[1] and was thus the motor for EU growth, the general stagnation in the peripheral countries of the eurozone reduced the average growth rate in the EU 27 and eurozone.

Table 1.1: GDP growth rates[2]

(Annual, %)	2005	2006	2007	2008	2009	2010
Czech Republic	6.3	6.8	6.1	2.5	-4.1	2.3
EU-27	2.0	3.2	3.0	0.5	-4.2	1.8
Eurozone	1.7	3.0	2.8	0.4	-4.1	1.7
USA	3.1	2.7	1.9	0.0	-2.6	2.8

Source: Eurostat

The key factors driving the GDP growth in the Czech Republic were an increase in inventories and foreign trade, which was supported by the global economic recovery. For 2010 brought a recovery of foreign trade growth, with both exports and imports growing by 18% in real terms year-on-year. This development was mainly caused by growth in export markets and in general by the recovery in global trade. Conversely, the development of gross fixed capital formation hindered Czech economic growth. Household consumption was negatively influenced by the situation on the labour market and limited growth of real wages. The low growth in government consumption was a consequence of government fiscal policy, intended to reduce the government deficit as a proportion of GDP. Investment activity remained lower year-on-year, which is due partly to the lower volume of both internal and external investment financing resources and, above all, by the average degree of utilisation of capacities and therefore firms' limited need to invest.

Table 1.2: Macroeconomic indicators of the Czech economy[3]

	2007	2008	2009	2010
GDP growth (%, constant prices)	6.1	2.5	-4.1	2.3
Household consumption (change, %, constant prices)	4.9	3.6	-0.3	0.4
Government consumption (change, %, constant prices)	0.5	1.1	2.6	0.3
Gross fixed capital formation (change, %, constant prices)	10.8	-1.5	-7.9	-4.6
Inflation (CPI, average for period, %)	2.8	6.3	1.0	1.5
Unemployment rate (MLSA, average for period, %)	5.3	4.4	6.7	7.3
Current account balance for GDP (%, current prices)	-3.2	-0.6	-3.2	-3.8
Balance of trade for GDP (%, current prices)	3.4	2.8	2.2	1.5

Source: CZSO, CNB, MLSA

The average rate of inflation measured by the consumer price index (CPI) increased to 1.5% in 2010. Administrative measures, most notably the 1 pp increase in both VAT rates and increase in excises,

[1] Brazil, Russia, India and China.
[2] Data published as at 11 April 2010.
[3] The balance of trade and current account time series up to 2008 have not yet been revised according to the new methodology and are therefore not comparable with the data for 2009 and 2010.

were a major factor in the rising inflation rate. Developments of commodity prices on global markets also pushed up market prices. Conversely, the current phase of the economic cycle, with the Czech economy finding itself in a negative output gap, held back the inflation rate. Another inflation alleviating factor was the negative situation on the labour market – limited pressure on wage growth and thus, at the given work productivity, minimal pressure on the growth of the unit costs of labour, which did not change in 2010.

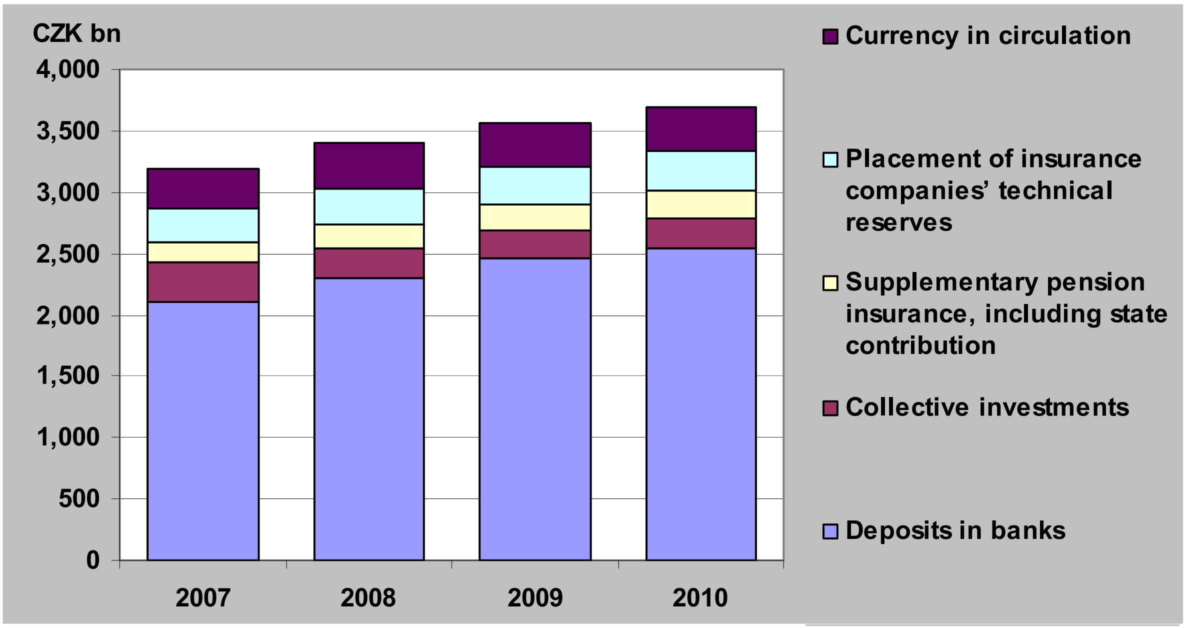
According to the Labour Force Survey the rate of unemployment increased slightly to 8.0% at the beginning of the year and then fell back, remaining close to 7.0% for the rest of the year. If we compare the average unemployment figures over the years, the latest three-year period has seen a gradual increase to the rate of 7.3% in 2010. This development is partly a consequence of the global economic crisis' impact on economic performance.

The negative balance of the balance of payments current account as a proportion of nominal GDP reached 3.8% in 2010. Therefore, the Czech economy, similarly as in the previous years, is in the position of a debtor on the global financial market; its position moreover deteriorated slightly compared to 2009. On the other hand, the balance of trade relative to GDP is in surplus, but this surplus fell compared to previous years, as nominal imports increased more than nominal exports.

2. FUNDS FOR USE IN THE FINANCIAL MARKET

In connection with the economic growth and the related need for a greater volume of funds for servicing and mediating financial transactions there was also a gradual increase in the funds for use in the financial market, which have reached CZK 3.7 tn. There were increases in all the items comprising funds for use in the financial market.

Graph 2.1: Funds for use in the financial market



Source: MoF, CNB, AKAT

The biggest relative growth was registered in the placement of insurance companies' technical reserves (8.44%), followed by supplementary pension insurance (7.73%). Both categories are a reflection of long-term products and their growth can generally be regarded as a positive precondition for further stable economic growth. Nevertheless, as explained in greater detail in Section 4.3, the increase in life insurance was driven mainly by single premium, which do not entail regular payments and thus the promise of continual growth over time.
Expressed in absolute terms, the Czech market remained dominated by banks – most finances, specifically around CZK 2.5 tn, are administered by banks.

Table 2.1: Funds for use in the financial market[4]

As at 31 Dec (CZK bn)	2009	2010	Year-on-year change	
			Abs.	(%)
Deposits in banks[5]	2,457.5	2,545.6	88.2	3.59
of which building savings schemes	415.2	430.1	15.0	3.61
Collective investments	234.5	247.5	12.9	5.52
Supplementary pension insurance, including state contribution	200.6	216.1	15.5	7.73
Placement of insurance companies' technical reserves	345.2	374.3	29.1	8.44
Currency in circulation	353.6	357.5	3.9	1.12
Total	3,591.3	3,741.0	149.7	4.17

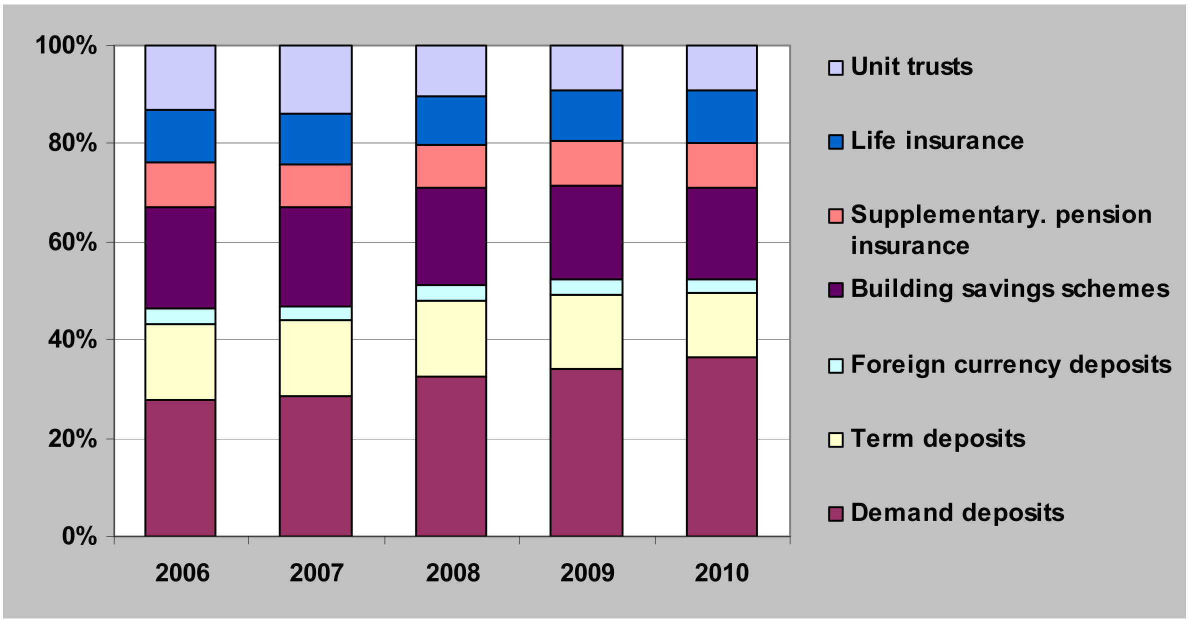
Source: MoF, CNB – ARAD, CNB, AKAT

[4] Data published as at 15 May 2010.
[5] Including CZK deposits of clients according sectoral classification.

3. STRUCTURE OF HOUSEHOLD SAVINGS

Household savings grew by 6.8% year-on-year to reach a total volume of roughly CZK 2.3 tn. The biggest growth was registered by finances deposited in demand deposits (14.1%) and long-term finances of a non-banking nature – supplementary pension insurance (11.5%) and life insurance (10.4%). The decline in foreign-currency deposits is a result of the long-term trend of the Czech koruna strengthening against the main foreign currencies.

Graph 3.1: Development of the structure of private savings in the Czech Republic[6]



Source: MoF, CNB, AKAT

Very gradual changes are taking place in the structure of household savings. Demand deposits have registered the most significant long-term growth, with term deposits declining. Conservative Czech households have a number of negative experiences from previous years and prefer more liquid savings. This requirement is sufficiently covered by certain bank savings accounts combining reasonable interest that at least covers inflation growth with immediate liquidity.

[6] Unit trusts: The value of assets under management of open-ended unit trusts and investment funds, including foreign funds, for natural persons in the estimated amount of 85 % of the funds' total assets. Life insurance: Based on the volume of insurance companies' technical reserves.

4. FINANCIAL MARKET ENTITIES

The Czech financial sector is relatively stable, so neither the number nor the structure of entities experienced major changes. The minor changes in the number of entities that naturally occur in the key sectors of the financial markets do not constitute any new trends in the institutional structure of the Czech Republic's financial market.

Table 4.1: Numbers of selected entities providing services in the financial market[7]

As at 31 Dec	2006	2007	2008	2009	2010
Banks	37	37	37	39	41
of which: foreign banks branches	13	14	16	18	19
of which: building societies	6	6	5	5	5
Cooperative banks	20	19	17	17	14
Securities dealers	46	44	38	39	37
Investment funds	0	7	16	25	47
Management companies	13	18	19	22	23
Open-ended unit trusts	77	121	142	139	150
of which: special OUT	51	83	101	103	113
standard OUT	26	38	41	36	37
Foreign funds /sub-funds	1,282	1,499	1,596	1,480	1,320
of which based on common Europ. licence	1,271	1,479	1,569	1,453	1,293
of which special funds	11	20	27	27	27
Investment intermediaries	10,600	13,370	12,870	9,112	9,064
Pension funds	11	11	10	10	10
Insurance companies	49	52	53	52	52
of which branches of for. insur. companies	16	18	18	17	17
reinsurance companies	0	0	1	1	1
Insurance intermediaries	50,100	67,500	86,230	105,980	126,123
Tied agents	-	-	-	9,123	11,250

Source: CNB

The structure of the banking sector in the Czech Republic has not changed significantly. Several major entities play a key role in the sector. The group of "large banks", among which the CNB ranks the four biggest institutions, account for an almost unchanging share of the sector's total balance, i.e. approximately 58%.

Two new entities joined the banking sector in 2010. Fio banka, which obtained a bank licence in May 2010, was formed by the transformation of Fio burzovní společnost. In the course of the year it integrated the banking services of Fio družstevní záložna into its product portfolio. The bank offers its products in approximately 60 locations via the places of business of RM System, which is also part of the Fio financial group. In June 2010 a new branch of foreign bank ZUNO BANK AG obtained a licence but did not actually commence operations before the year end.

The numbers of management companies, investment funds and open-ended unit trusts have been rising slightly for some time, which is testimony to the potential for further growth in this sector of the financial market. The collective investment sector's increased interest in establishing special funds of qualified investors targeting investments in real estate and real estate companies (set up as externally managed investment funds) can be attributed to the more favourable tax regime compared to the general taxation on legal entities. These structures have become popular among property development companies, for example. By contrast, the falling trend in the number of investment intermediaries continued as a result of the amendment of the act on capital market undertakings. A

[7] Only active entities (not in liquidation) are included.

number of investment intermediaries continue to operate but are registered as tied agents (11,250 persons).

Competition on the financial market is boosted by entities that enjoy the freedom of movement on the basis of a single licence (the European Passport). These entities have no reporting duty to and are not supervised by the CNB, so there are no detailed data on the scale of their activities. According to expert estimates, however, their influence compared to "internally licensed entities" in the Czech Republic is limited, as they operate on a smaller scale or have a narrow specialisation. Nevertheless, they are regarded as an integral part of the financial market in the Czech Republic with a supplementary function in the overall financial services market. Their numbers are not negligible, though: there are more than 600 "passporting entities" in the insurance sector alone, almost 300 in the banking sector and over 2,000 on the capital market.

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

As at 31 Dec	Banks	Insurance companies	Funds	Management companies	Providers of investment services
2008	252	554	1,569	40	840
2009	275	614	1,457	49	958
2010	296	658	1,347	48	1,233

Source: CNB

The economy measures adopted throughout the national economy led to a fall in employment in financial organisations (with the exception of non-bank financial institutions, whose workforce grew slightly). The cutting of staff and wage costs was reflected positively in the overall cost levels and business results. Profitability in the various sectors of the financial market was relatively good, with the fading consequences of the financial crisis only affecting management companies' bottom line.

Table 4.3: Economic results of financial institutions (year-on-year comparison)

		Banking financial institutions	Non-banking financial institutions [8]	Insurance companies	Pension funds	Financial leasing companies	Management companies [9]
Average headcount [10]	**as at 31 Dec2009**	38,263	14,174	14,498	484	2,724	347
	as at 31 Dec2010	38,189	14,311	14,359	452	2,630	336
	change (%)	-0.19	0.97	-0.96	-6.61	-3.45	-3.17
Profit/loss before tax (CZK bn)	**as at 31 Dec2009**	71.3	35.2	23.1	2.8	3.4	13.6
	as at 31 Dec2010	65.9	48.5	28.4	4.6	4.9	6.5
	change (%)	-7.60	37.99	22.60	63.12	42.73	-52.21

Source: CZSO

4.1. Banking sector

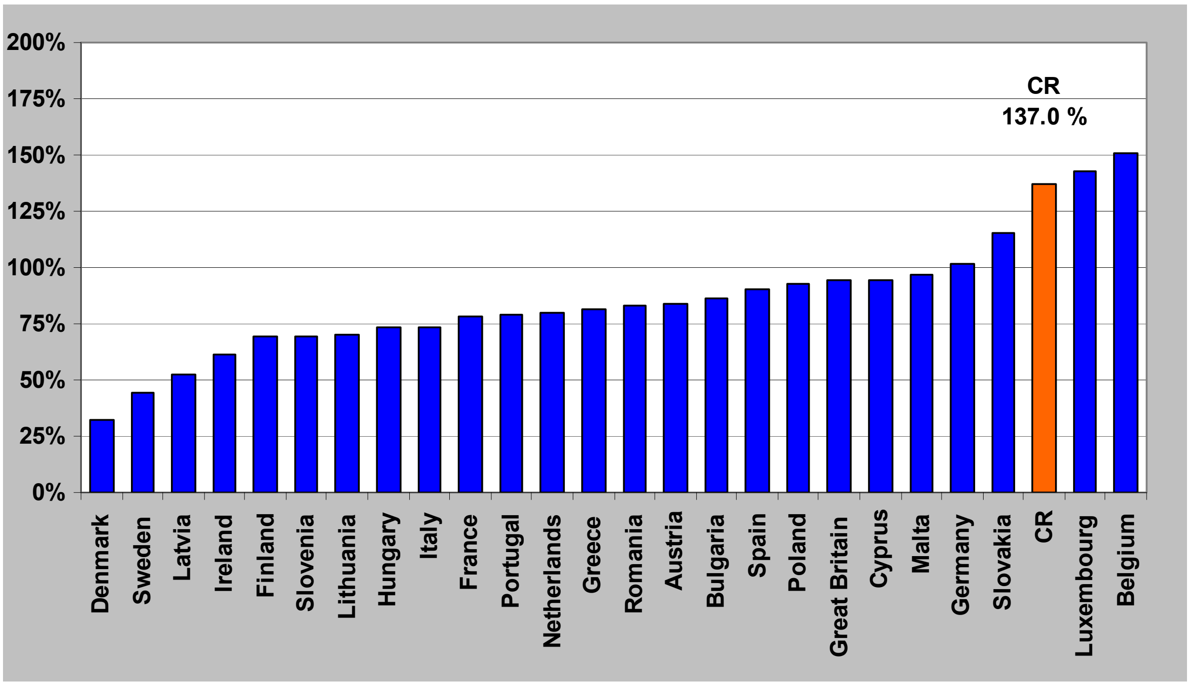
Looking back at the recent economic downturn it is fair to say that the banking sector withstood the negative impacts of the global financial crisis on the real domestic economy and came out of the crisis stronger. That can be illustrated by the developments in several areas.

[8] Institutions according to "OKEČ" methodology 652 and 67.
[9] Investment companies and unit trusts and investment funds managed by those companies.
[10] Average headcount (full-time equivalent), individuals, for the year ending on the stated date.

The banking sector in the Czech Republic has been highly capitalized and these figures even improved during the global financial crisis. The capital adequacy ratio has risen in recent years, hitting relatively high levels compared to other countries. Whereas at the end of 2007 it was 11.6%, three years later at the end of 2010 it reached 15.5%. Banks in the Czech Republic thus increased their capital significantly, which can be used to cover unforeseen future losses.

The banking sector can also be seen to be bolstered by a high proportion of external financing from client deposits. In times of liquidity problems client deposits are usually more stable source of financing than funds from the interbank market. The deposits to loans ratio is stable at nearly 140%. That means that the volume of credit outstanding is more than fully financed by received deposits. This structure of financing consequently provides a cushion for stabilisation of the banking sector in times of uncertainty in the financial markets. In this sense the banking sector in the Czech Republic is among the most stable in Europe. As Graph 4.1 shows, Belgium has the highest ratio at over 150%. However, the arithmetic mean for the sample of scrutinised countries is close to 86%, which is substantially less than the Czech Republic. Denmark has the lowest ratio (32%).

Graph 4.1: Client deposits to loans ratio at the end of 2010



Source: ECB

The banks' balance sheets are relatively healthy despite the continued impacts of the real economy downturn, which generally tends to worsen the quality of loan portfolios. At the end of 2007 the proportion of non-performing client loans was at 2.8%. Three years later the figure reached 6.6%. Although this is a significant increase, the banking sector's stability was not jeopardised as the expected losses have been covered to a large extent by provisions.

Nor have changes in the domestic currency's exchange rate had a directly negative impact on debtors ability to repay their liabilites or the quality of credit institutions' assets, as is the case in Hungary, for example. Although foreign-currency loans to firms have ranged from 15% to 20% of all corporate credit in recent years, the relevant cash flow is usually offset by export revenues in foreign currencies. In comparison, household indebtedness in foreign currencies measures around a tenth of a percent and is thus negligible.

The balance sheet total of the banking sector in the Czech Republic, including building societies, was CZK 4,192.3 bn at the end of 2010. The year-on-year growth rate was double that of the previous year, reaching 2.4%. This is an indication of economic recovery and the related increase in loans.

Pre-tax profit in the banking sector was almost CZK 66 bn in 2010[11]. Although that represented a fall of more than CZK 4 bn from the previous year, it should be remembered that banking institutions had achieved record profits in 2009. The faster fall in interest costs relative to interest earned meant that the development of net interest (year-on-year growth of 2.1%) contributed to improved profits, as it had the previous year. Net revenues from bank charges and commissions alone amounted to CZK 38.4 bn, i.e. 24% of the category *profits from financial activities*. The biggest single item of *profits from financial activities*, which, at 67%, is almost triple that share.

4.1.1. Interest rates development

Although the CNB again moved to cut its key interest rate in 2010, unlike in previous years it did so just once. The 2T repo rate fell by 0.25 pp to 0.75%. Compared to previous years there was therefore a considerable slowdown in the monetary policy loosening. In 2009 the CNB had cut the 2W repo rate four times by 1.25 pp in total. The decrease of the usual spread between the 2W repo rate and the discount rate is also worth noticing. The spread had previously been 1 pp; in 2009 it fell to 0.75% and is now 0.5%. The reason is the need for a non-zero discount rate, as a number of legal regulations and other rules use it as a reference rate. The spread between the Lombard rate and the 2W repo rate remained at the previous value of 1 pp.

The monetary policy rates in the Czech Republic do not differ markedly from the rates of the world's key central banks. The CNB's main rate was just slightly lower than the ECB's key rate at the end of 2010 (1.0%, raised to 1.25% in April 2011) and higher than the basic rates of the Bank of England (0.5%) and the US Fed (0.0 – 0.25%).

Table 4.4: CNB interest rates

(%)	30 Jun 2008	31 Dec 2008	30 Jun 2009	31 Dec 2009	30 Jun 2010	31 Dec 2010
2T repo	3.75	2.25	1.50	1.00	0.75	0.75
Discount	2.75	1.25	0.50	0.25	0.25	0.25
Lombard	4.75	3.25	2.50	2.00	1.75	1.75

Source: CNB

Changes in interest rates for end clients differed depending on the type of loan. The APR[12] rate for consumer credit hardly changed during the year and at the end of the year returned to its starting value. This put an end to its growth trend that saw it register a year-on-year increase of 1.2 pp in 2009. Conversely, the APR rate for residential real estate purchases, which had stagnated somewhat in the previous year, registered a year-on-year fall of 0.8 pp to 4.8%. There are a number of factors behind this, among them the overall stabilisation of the financial markets, a response to the trend of cheaper money provided to the market by central banks, floating-rate mortgages and the effects of competition among credit providers.

Table 4.5: APR of CZK loans provided by banks in the CR

New loans (%)	I-10	II-10	III-10	IV-10	V-10	VI-10	VII-10	VIII-10	IX-10	X-10	XI-10	XII-10
Consumer credit	15.7	15.8	15.7	15.5	15.0	15.6	15.7	16.1	15.9	15.8	16.1	15.7
For residential real estate	5.6	5.6	5.6	5.5	5.4	5.3	5.2	5.2	5.0	4.9	4.9	4.8

Source: CNB

[11] CZSO data.
[12] APR indicates the percentage share of the outstanding amount which must be paid by a client for the period of one year in excess of the redemption of the outstanding amount – in connection with payments, administration, and other expenses associated with loans. It is the APR of CZK loans provided by banks in the Czech Republic (new transactions).

4.1.2. Deposits and loans

The total volume of deposits grew by 3.3% during 2010 to reach a final value of almost CZK 2.8 tn at the end of the year. The rate of growth of the outstanding part of loans matched that of deposits – year-on-year growth of 3.5% to CZK 2.2 tn. The pattern of growth in both categories was therefore similiar, but the dynamics differed. While the growth in loans accelerated by 2.2 pp in 2010, there was a slowdown of 1.7 pp in deposits.

Table 4.6: Breakdown of deposits and loans with banks by sectors

As at 31 Dec, Sector[13]	Bank deposits (CZK bn)				Loan beneficiaries (CZK bn)			
	2009	2010	Change	Change (%)	2009	2010	Change	Change (%)
Non-financial companies	610.7	632.9	22.2	3.64	782.2	779.7	-2.5	-0.32
Households	118.0	116.6	-1.4	-1.22	129.8	118.4	-11.4	-8.77
Government institutions	306.4	284.6	-21.7	-7.09	66.2	64.9	-1.4	-2.04
Financial institutions	1,551.3	1,641.6	90.4	5.83	940.5	1,028.2	87.7	9.32
Other[14]	37.7	23.2	-14.5	-38.40	34.3	15.9	-18.3	-53.52
Non-residents	74.2	89.1	14.9	20.14	149.1	167.6	18.5	12.44
Total	2,698.2	2,788.1	89.9	3.33	2,102.1	2,174.8	72.7	3.46

Source: CNB - ARAD

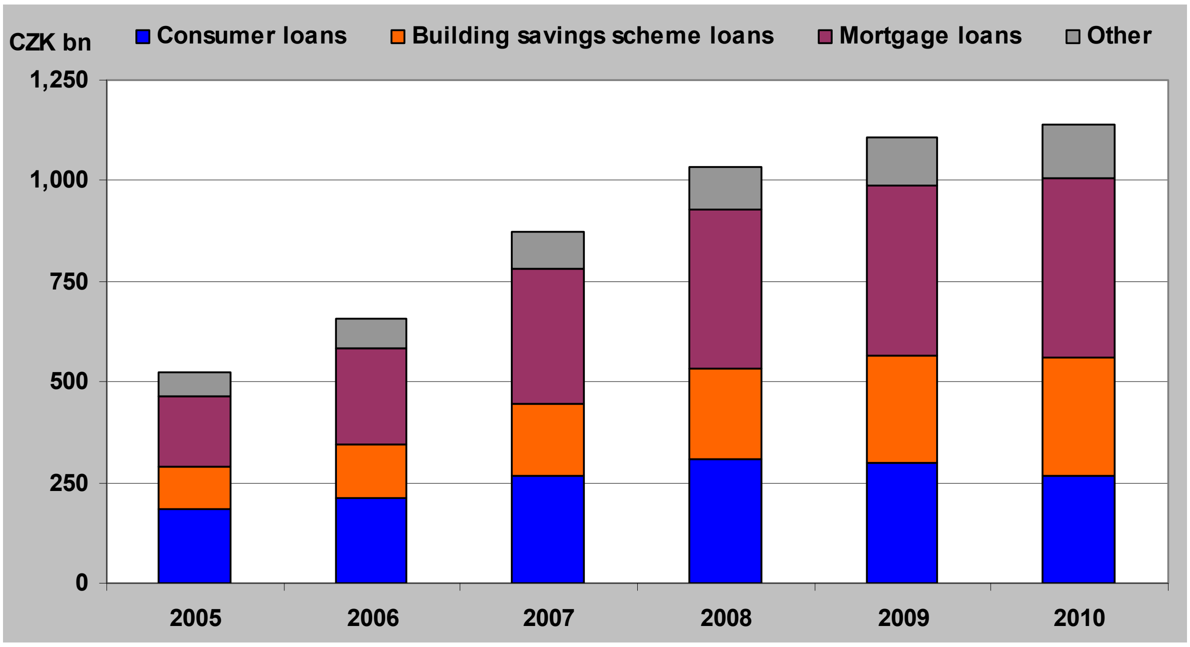
The largest sector last year, households, again registered the biggest absolute increase in the volume of deposits (up CZK 90.4 bn). It also displayed the greatest year-on-year increase, specifically by 5.8%. There was another increase in deposits in the non-financial companies sector (increasing by 3.6% or CZK 22.2 bn). Other sectors registered year-on-year falls.

Credit activity differed considerably from sector to sector. Households again registered the greatest absolute increase last year (up CZK 87.7 bn). Households and non-residents (12.44%) were the only sectors to show year-on-year growth in the total volume of loans (up 9.3%). Financial institutions continued in the trend from the previous year and the volume of loans fell by almost 9% year-on-year. The volume of loans provided to non-financial companies effectively stagnated (down 0.3%), while the fall in 2009 had been 7.8%.

Total household indebtedness with banks and non-banking financial institutions grew by 2.7% year-on-year to reach CZK 1,138.0 bn at the end of 2010[15]. This means there has been a further year-on-year slowdown in the rate of growth of the indebtedness levels (by 4.5 pp).

[13] Client accounts and loans based on ARAD banking statistics.
[14] This category includes non-profit organisations and non-residents.
[15] This figure includes koruna and foreign-currency loans to households (residents) and non-profit institutions serving households (NISH) and finances provided by other financial institutions.

Graph 4.2: Total household indebtedness[16]



Source: CNB - ARAD

The development of indebtedness level differed considerably across the different segments. While the volume of outstanding consumer loans fell by more than 10%, the balances of housing loans (mortgages and loans under the building savings scheme) registered year-on-year growth of 6.8% (a fall of 4.8 pp in the rate of growth). For this reason the proportion of total indebtedness accounted for by housing loans increased again, reaching 64.9% at the end of 2010 (a year-on-year increase of 2.5%). In absolute terms, the strongest growth again showed up in housing loans (up CZK 46.7 bn). Consumer loans registered the biggest fall of CZK 30.1 bn.

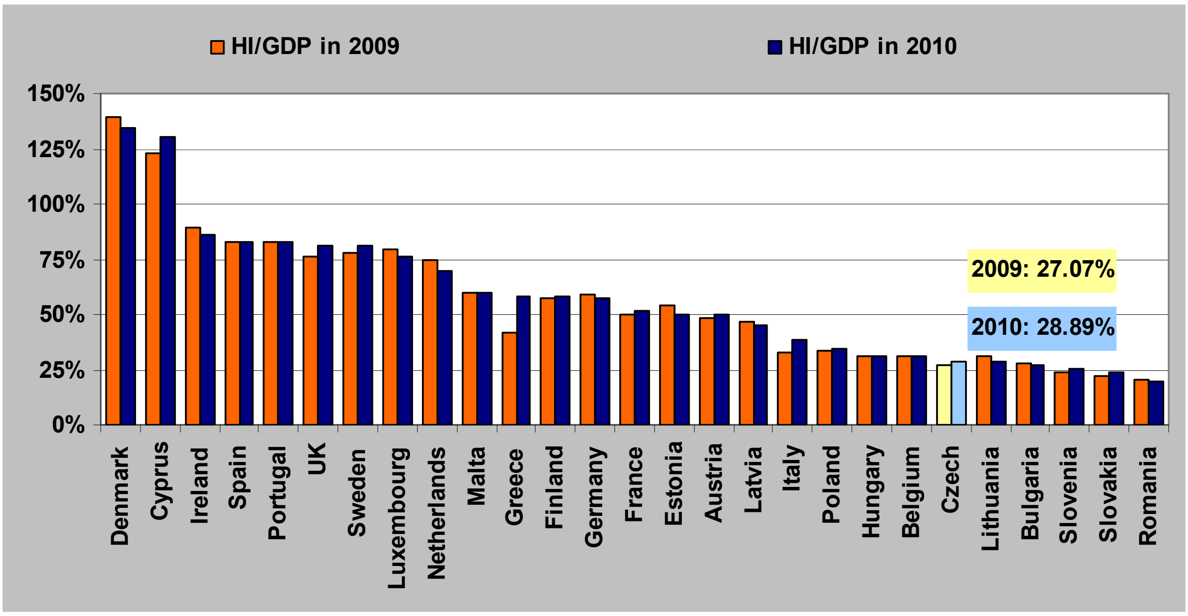
Graph 4.3 illustrates that household indebtedness relative to the size of the domestic economy remains relatively low in the Czech Republic (around 28.9% of GDP) compared to the rest of the EU[17]. Therefore, costs of servicing household financial commitments are still not a major factor that could constrain private consumption as it could be the case in countries with higher debt levels. The graph shows clearly that other new member states from central Europe also have low debt levels. One reason may be the relatively recent transition to market economy in these countries, as a result of which the relative loan volumes typical for western Europe have not yet had time to mount up.

The fact that more than 99% of household commitments in the Czech Republic are denominated in the domestic currency has for long contributed to the relatively stable repayment of these commitments. The volatility of the exchange rate thus does not affect the size of repayments expressed in Czech koruna, as it is the case in certain other countries in the geographical region of central and eastern Europe. Conversely, countries with higher rates of foreign-currency debt face negative effects in two areas. Primarily, the higher volatility of repayments expressed in domestic currency is reflected in fluctuations in private consumption and thus destabilises domestic aggregate demand. Besides that, if the cushion of consumer expenditure is insufficient to cover these fluctuations, the exchange rate volatility may subsequently be reflected in a decline in the rate of repayment of loans and a deterioration in the quality of bank assets. The banking sector in the Czech Republic, with its low level of retail foreign-currency debt, thus has a significant advantage in this area.

[16] In this case, loans granted by building societies represent the sum of volumes of bridging loans and standard building savings scheme loans.
[17] The year-on-year development of this indicator has limited interpretability in economies with a different domestic currency from the euro. In these cases there is a risk of year-on-year fluctuations caused by fluctuations in the domestic currency's exchange rate with the euro, which is subsequently used to express household's commitments in domestic currency in units of the single European currency.

Moreover it should be noted that the aggregate proportional indicator of the overall debt level to aggregate GDP, does not, because of its aggregate macroeconomic nature sufficiently reflect certain microeconomic specifics, such as the differences among specific income groups of the population or regional differences in debt levels.

Graph 4.3: Comparison of household indebtedness in the EU[18]



Source: ECB, Eurostat

4.1.3. Building societies

532.8 thousand new building savings contracts were concluded in 2010, with a total target value of CZK 160 bn.[19] However, the number of new contracts fell by 7.4% from the previous year. The trend has continued from previous years, whereby building savings are not viewed by the public as appealing compared to other more liquid types of deposit products. The average target amount for individuals was CZK 301 thousand, representing the first year-on-year decline since 2002, namely by 2.7%.

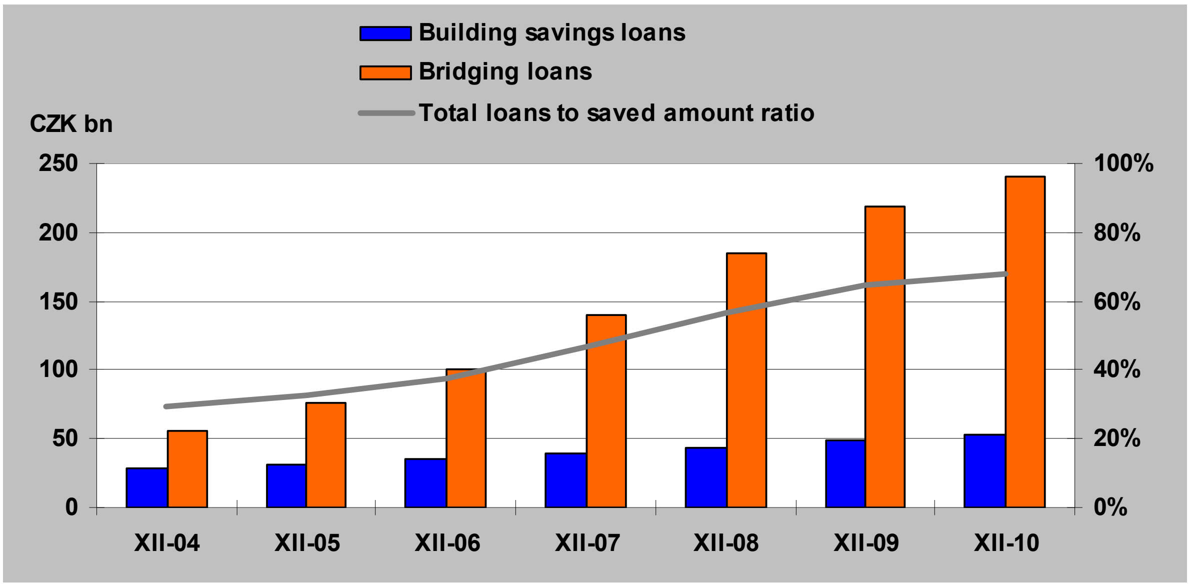
As in the previous period, the absolute number of terminated contracts exceeded the number of new contracts, which led to a further decline in the total number of contracts in the savings phase to 4.85 mil. The sector thus registered a year-on-year decrease of 80.9 thousand contracts. This is the continuation of a trend whereby "old contracts"[20] with a maximum state contribution of CZK 4,500 comprised the vast majority of terminated contracts. The share of "new contracts" at the end of 2010 was approx. 60%. In total CZK 11.74 bn was paid out in state contributions to building savings in 2010. That is CZK 1.5 bn less than in 2009. State contribution should cease to be influenced by the structure of contracts in the following years, as under the proposed amendment the level of contribution should be unified at a maximum of CZK 2,000 per participant, regardless of whether the claims arise from contracts concluded before 1 January 2004 or after.

The total number of loans increased by 5 thousand year-on-year to 993 thousand, while the volume of outstanding amounts grew by CZK 25.9 bn to CZK 293.4 bn. This fact was reflected in the repeated growth in the ratio of the volume of loans and saved amounts to 68.2% (an increase of 3.8 pp). The

[18] MoF's own calculations based on data from ECB and Eurostat, which differs from CNB and CZSO data.
[19] See Table 7.3 in Appendix 2.
[20] Contracts concluded up to 31 December 2003.

average size of new loans was CZK 508 thousand in 2010. According to data from the building societies, the largest share (83%) of the total number of new loans under the building savings scheme was used to pay off bridging loans. 42% of new bridging loans were intended for renovation and modernisation.

Graph 4.4: Development of loans in building savings schemes sector



Source: MoF

The structure of loans is clear from the graph above. The structure has undergone a gradual change since 2004 – although the volume of building savings loans grows annually, it lags far behind the growth of bridging loans. Bridging loans also dominate in absolute terms: their reported value in 2010 was CZK 240.3 bn, i.e. 81.9% of the value of all loans, while building savings loans amounted to just CZK 53.1 bn (18.1%). Here it should be pointed out, that bridging loans are repaid not gradually but with a one-off repayment when they are converted into building savings loans. Throughout their existence they are therefore statistically reported in their full amount.

4.1.4. Mortgage market

The outstanding volume of mortgage loans provided to the population (hereinafter "volume of mortgage loans") at the end of 2010 was CZK 604.7 bn. That represents an increase of CZK 50.3 bn (9.1%) from 2009, as Table 4.7 reveals. However, the time series is negatively influenced, by a change in the reporting methodolog[21]. For that reason, the year-on-year changes are not subjected to further analysis.

[21] Analysis of the developments of mortgage loans data for 2008 and 2009 should take into account the fact that there was a change in classification in the CNB statistics in the sense that now all loans secured to at least 50% are included in this set, and not just 100% secured loans as was the case before. This change affected mortgage loans for residential and non-residential real estate. The jump in volumes was thus caused primarily by this administrative adjustment. This is also linked to a change in the volume of bridging loans reported in the CNB statistics (does not apply to the data reported by the MoF). Some of the bridging loans are not 100% secured, so these were formerly classified in these CNB statistics as bridging loans and are now classified as mortgage loans. In reality, however these are still the same bridging loans provided by building societies.

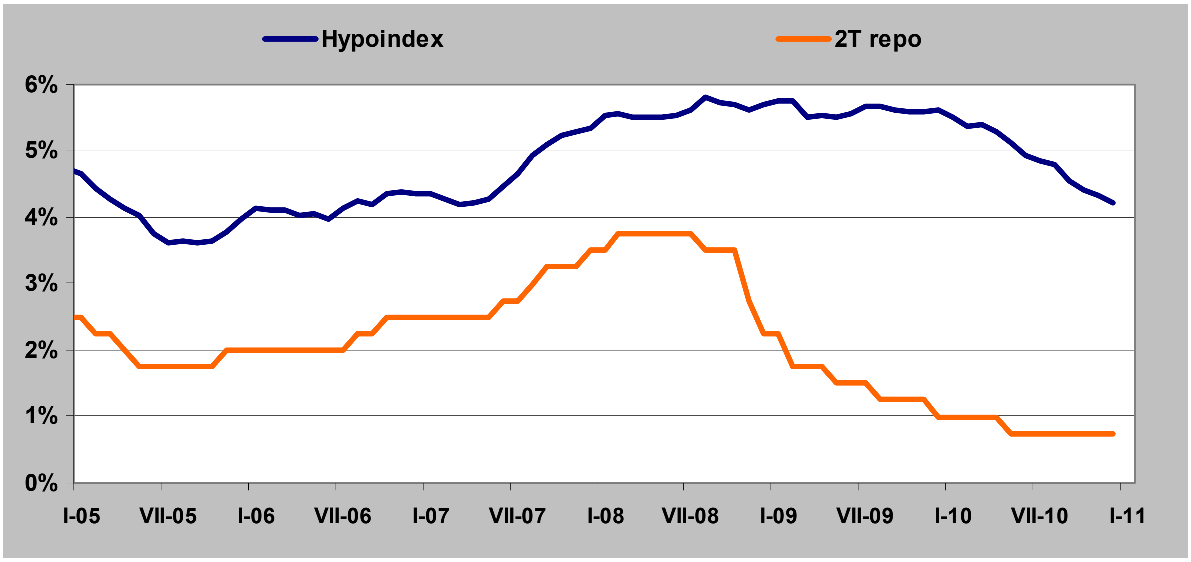
Table 4.7: Balance of mortgage loans (ML) to households

As at 31 Dec	2007	2008	2009	2010	Year-on-year change	
					Abs.	(%)
Number of mortgage loans (000s)	339.0	406.5	450.8	501.5	50.8	11.26
Agreed principal (CZK bn)	469.6	589.7	663.5	748.3	84.8	12.78
Volume of loans (CZK bn)	333.6	397.1	554.4	604.7	50.3	9.07

Source: MRD, CNB - ARAD

The volume of mortgage loans is influenced by a number of factors. The market could be bolstered by low interest rates if the existing trend were to persist. Continuing economic recovery, which could lead to falling unemployment and reduce the uncertainty surrounding household incomes, could be a favourable factor for the future. The key factor for future developments is whether the interest rates on loans increase. Demand for mortgage loans may also be influenced by price expectations and the overall outcome remains uncertain, as these factors may counteract one another. Factors that could lead to higher demand – e.g. economic recovery – indirectly support an increase in the rates on mortgage loans and thus work against price rises, because the growth of the economy and rising wages may be reflected in increased demand for real estate, but at the same time inflation pressures lead to an increase in nominal interest rates or force the central bank to increase its own key interest rate. Interest costs would subsequently rise, making mortgages less attractive, which would impact the demand negatively.

Graph 4.5: Selected interest rates' development[22]



Source: Fincentrum, CNB

In 2010 rates on the Czech mortgages market reported via the Hypoindex registered a sharp decline, reaching 4.23% at the end of the year. This is a year-on-year fall of 1.4 pp (almost a quarter in relative terms). That marked a turnaround of the previous trend, whereby since 2005 rates first rose and then remained essentially unchanged in 2008 and 2009. As Graph 4.5 illustrates, the trend whereby the Hypoindex rate diverged from the CNB's 2W repo rate also ended. The difference between the two rates peaked at the end of 2009 when it was 4.6%. A year later the difference was 1.1 pp less, i.e. 3.5%. With a slight time lag the Hypoindex has thus reacted to the reduction in the CNB's basic interest rate that had begun in 2008. The reasons for this fall include competition pushing down mortgage rates, contracts with floating rates, and, of course, cheaper money as a result of the central bank's policy.

[22] The FINCENTRUM HYPOINDEX indicator is a weighted average interest rate applied to new mortgage loans to individuals in the given calendar month. The graph above depicts a time series of this interest rate.

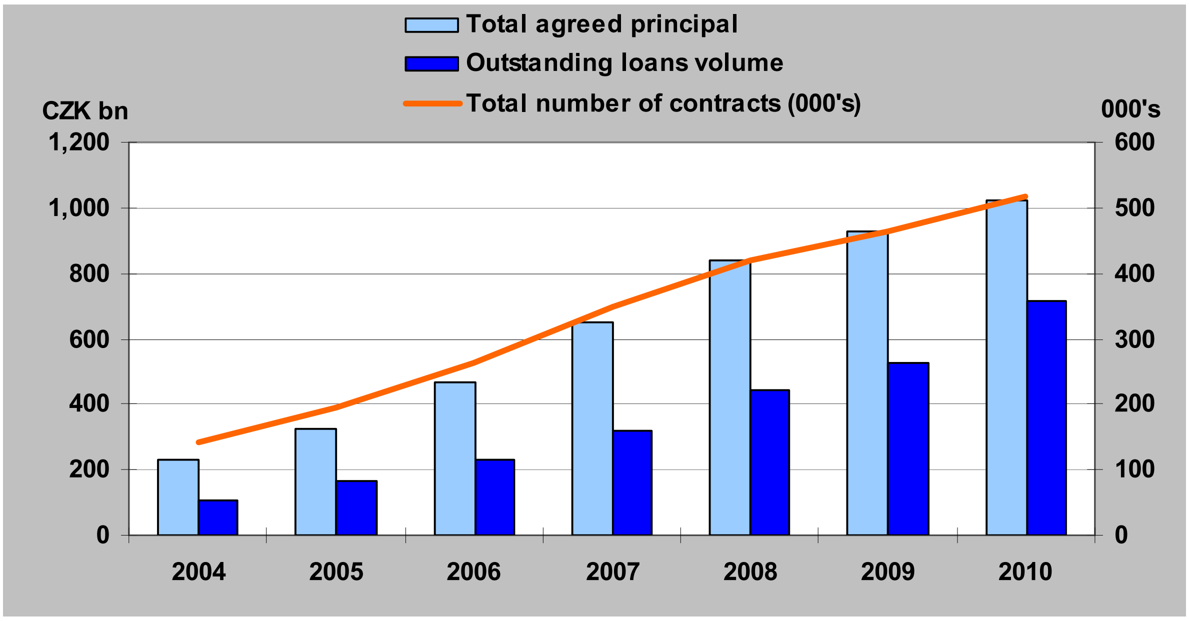
Table 4.8: Mortgage loan (ML) balances

As at 31 Dec		2008	2009	2010	Year-on-year change	
					Abs.	(%)
Individuals	total (000's)	406.5	450.8	501.5	50.8	11.26
	total agreed principal (CZK bn)	589.7	663.5	748.3	84.8	12.78
Business entities	total (000's)	11.9	12.8	14.1	1.3	9.79
	total agreed principal (CZK bn)	239.1	254.5	265.4	10.9	4.29
Municipalities	total (000's)	0.9	0.9	0.9	0.0	1.88
	total agreed principal (CZK bn)	8.5	9.0	9.2	0.2	1.81
Total	total (000's)	419.3	464.5	516.6	52.0	11.21
	total agreed principal (CZK bn)	837.3	927.0	1,022.9	95.9	10.34
Loans volume (CZK bn)		479.0	634.7	682.7	48.0	7.56

Source: MRD, CNB - ARAD

Table 4.8 shows the state of mortgage loans provided to households, businesses and municipalities. The total number of mortgage loans grew by more than 50,000, which is over 6,000 more than the previous year. A further acceleration in the growth of the total number of mortgages can thus be observed. The year-on-year growth of CZK 95.9 bn in the total agreed principal was driven by the individuals segment, which accounted for CZK 84.8 bn of that. The total reported volume of mortgage loans grew by CZK 48.0 bn (7.6%). The development of the indicator of the volume of mortgage loans cannot, however, be compared with the situation during 2009 because of the aforementioned change in the CNB's reporting methodology.

Graph 4.6: Aggregate mortgage market indicators



Source: MRD, CNB - ARAD

Graph 4.6 shows the trend in the aggregate indicators of the mortgage market. The data on the total number of contracts and principals in this graph include businesses and municipalities as well as individuals. The volume of loans comprises mortgage loans for residential and non-residential real estate. It should be understood that this is the total volume of the unrepaid principal. For that reason a change in this indicator cannot automatically be interpreted as an increase in lending by the banks or an increase in their willingness to provide loans. That is because an increase in this indicator need not be caused solely by new loans – it may also be a consequence of debtors' growing inability to honour their commitments. Conversely, an improvement in households' ability to pay off loans automatically leads to this indicator falling, as it signifies a reduction in the unrepaid principal of the provided loans.

4.1.5. Credit unions

At the end of 2010 credit unions again constituted one of the least significant segments of the Czech financial market in quantitative terms. The year 2010 was very important for the credit unions segment, however. One of the most significant entities – Fio družstevní záložna – was wound up. For that reason the number of members of credit unions at the end of the year fell back below the level of two years earlier, when there were 34,000. By contrast, without Fio družstevní záložna the balance sheet indicator registered sharp growth (see e.g. total assets in Table 4.9). Total assets reached a value of almost CZK 20 bn, an increase of almost CZK 8 bn. Client deposits (liabilities to clients) are the dominant source of financing of assets and amount to CZK 17.7 bn (up CZK 6.8 bn).

Loans provided (claims on clients) grew by CZK 6 bn to almost double at CZK 12.6 bn. Attention should be paid to the growth in the proportion of default claims on clients, which reached 10.3% at the end of 2010 (a year-on-year increase of 3.2 pp). Two years ago this indicator was just 3.6%. At the end of 2010 the proportion of client loans was significantly higher than in the banking sector, where they accounted for 6.2%; the year-on-year growth was also more favourable at just 1.0 pp.

At the end of 2010 the number of credit unions operating in the sector fell by 3 to 14. Besides the aforementioned case of Fio družstevní záložna, on 15 March 2010 the CNB announced that the PDW Praha credit union's licence had been officially revoked. According to the CNB, the reason was its finding of shortcomings so serious that revoking the licence was the only possible solution. It is worth noting that PDW Praha was not a big credit union. At the end of 2009 it had just 367 members and its balance sheet total ran to just CZK 62.8 mil. In December 2010 the CNB also revoked the licence of Vojenská družstevní záložna.

Table 4.9: Credit unions – selected indicators

As at 31 Dec	2008	2009	2010
Number of members of credit unions	35,942	47,952	34,006
Total assets (CZK mn)	7,899.4	11,994.2	19,934.1
Claims on clients (CZK mn)	5,460.9	6,609.9	12,613.9
Liabilities to clients (CZK mn)	6,521.5	10,415.4	17,727.9
Share of standard loans (%)	3.61	7.10	10.32

Source: CNB

After-tax profits in the credit unions sector improved by almost CZK 48 mil. over the previous year. The CZK 16 mil. loss in 2009 was followed by profits of just less than CZK 32 mil. in 2010. Despite this improvement, the profitability of assets in the credit unions sector remains relatively low at 0.2%. The profitability of assets in the banking sector is six times higher, exceeding 1.3%[23].

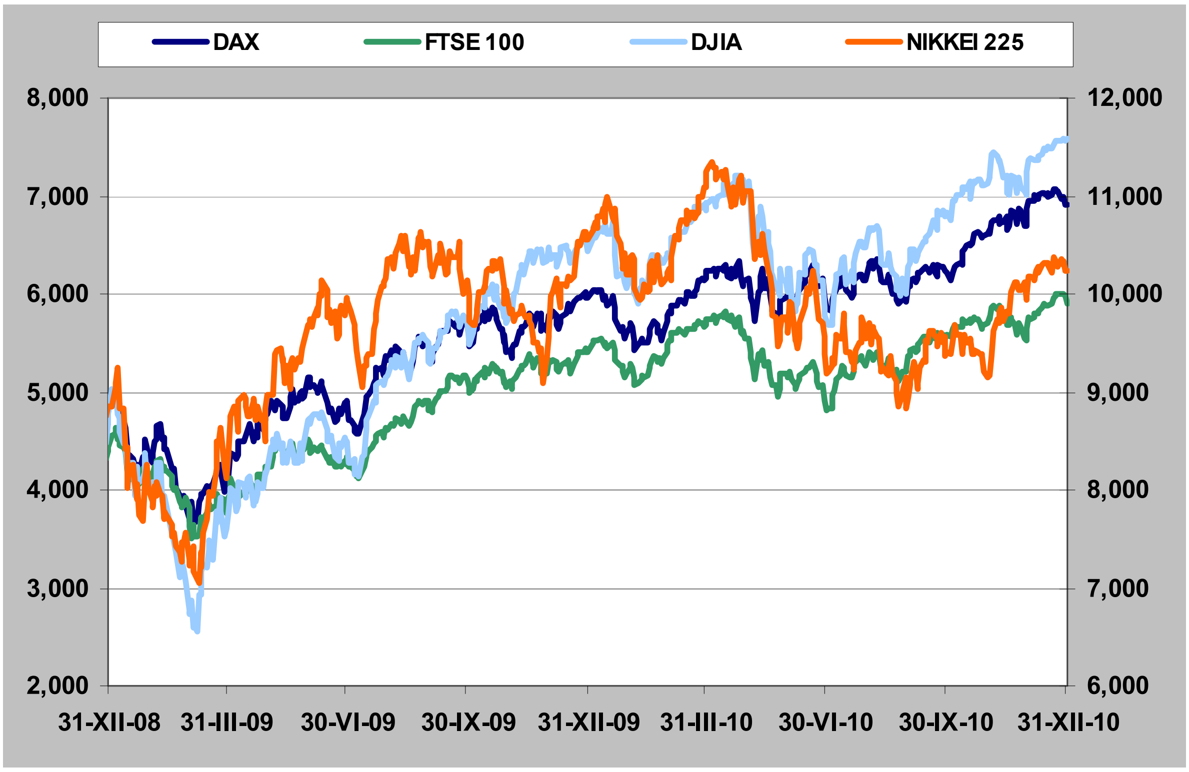
4.2. Capital market

The most important events influencing developments on the capital markets were the EU countries' excessive debt problems and the quantitative easing by the FED, a step taken by the US central bank to support economic recovery. The unconvincing results of the adopted measures brought about fluctuations in investor confidence in shares and in economic recovery. That was reflected in

[23] The ratio between annual after-tax profits and the average balance sheet total as at 31 December 2010.

increased price volatility on all the world's key share markets. Movements on the main indices of these markets were very similar to 2008 and 2009; the overall outcome was a growth trend.

Graph 4.7: Development of major global indices

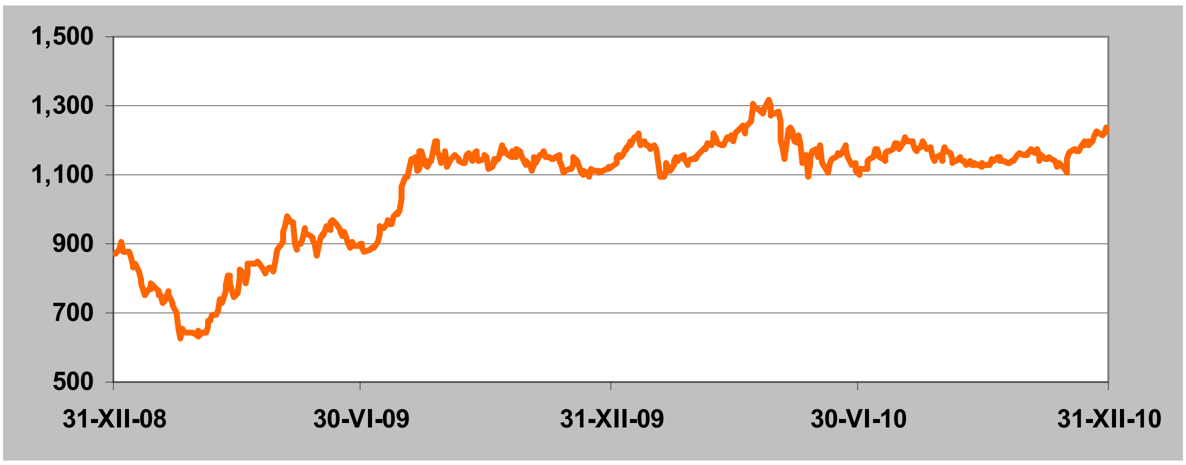


Source: Market organizers.

4.2.1. Regulated markets

The developments on the Prague stock exchange copy those on global markets but were additionally influenced by the weaker recovery of the Czech economy. The main PX index ranged from 1,100 to 1,300 points during 2010, ending the year 9.6% up on 1,224.8 points. The main drivers of this slight growth were shares in Erste Group and Unipetrol. The index is still a long way from its pre-crisis values of above 1,800 points.

Graph 4.8: PX index development



Source: PSE

The slight recovery of the domestic economy and favourable developments in western Europe helped stabilise the PX index. In the first quarter of 2010 prices were pushed up mainly by macroeconomic data showing strong growth, primarily in the German economy. This powerful impulse did not have the expected impact on the domestic economy, however, and share prices fell back slightly and the index stabilised.

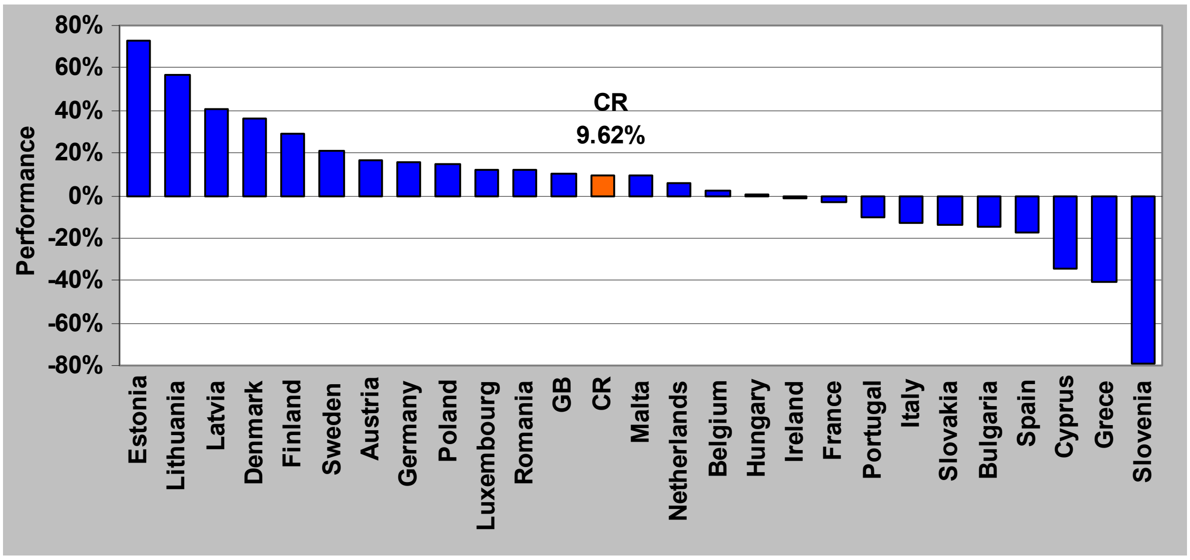
Table 4.10: PX index development

		2005	2006	2007	2008	2009	2010
PX	as at 31 Dec	1,473.0	1,588.9	1,815.1	858.2	1,117.3	1,224.8
	change (%)	42.73	7.87	14.24	-52.72	30.19	9.62

Source: PSE

The Prague Stock Exchange's performance placed it in the middle of the performance scale of the main stock exchanges in the EU. The growth in the PX index (9.62%) was at the same level as in neighbouring countries, e.g. Germany and Poland. The Prague bourse was in a similar situation in 2009 as well.

Graph 4.9: Performance of significant stock exchange indexes in EU Member States in 2010[24]



Source: FESE

As well as price movements, the volume of trading is also fundamental to any assessment of the capital markets. The activity of investors on the Prague Stock Exchange again dwindled slightly, with the total volume of trading falling by 12.4% to CZK 926.4 bn. The last time such a low value occurred was in 1997. The decline in trading affected all types of securities, but share trading fell the most. Derivatives trading is still marginal.

Table 4.11: Trade value

Annual (CZK bn)			2007	2008	2009	2010	Year-on-year change (%)
PSE	Shares and units		1,013.0	852.0	463.9	389.9	-16.0
	Bonds		508.9	643.2	585.7	529.9	-9.5
	Deri-	Futures	1.9	0.6	0.2	0.2	-5.5

[24] Austria: ATX, Belgium: BEL 20, Bulgaria: SOFIX, Cyprus: FTSE/CySE 20, Czech Republic: PX, Denmark: OMXC 20, Estonia: OMXT, Finland: OMXH 25, France: CAC 40, Germany: DAX, Greece: FTSE/ATHEX 20, Hungary: BUX, Ireland: ISEQ, Italy: FTSE MIB, Latvia: OMXR, Lithuania: OMXV, Luxembourg: LuxX, Malta: MSE, Netherlands: AEX, Poland: WIG 20, Portugal: PSI 20, Romania: BET, Slovakia: SAX, Slovenia: SBI 20, Spain: IBEX-35, Sweden: OMXS 30, United Kingdom: FTSE 100.

	vatives	**Certificates and warrants**	1.2	0.5	0.3	0.2	-34.6
		Total	3.1	1.1	0.5	0.4	-22.0
	Total		1,525.0	1,496.2	1,050.0	920.1	-12.4
RM-S			7.7	6.9	7.9	6.3	-20.1
Total			1,532.6	1,503.1	1,057.9	926.4	-12.4

Source: PSE, RM-S

Although the number of stocks traded on the bourse fell to 183, the PSE managed to launch new share issues. At the start of the year (25 January 2010) shares in KIT DIGITAL were dual-listed on the Prague bourse; the shares are also traded on the US Nasdaq stock exchange. The company Fortuna performed the first IPO since 2008, when mining company NWR joined the stock exchange. By contrast, the number of bonds continued its decline, which has been going on since 2007 and has reduced the total number of bonds traded on the PSE by a fifth. Overall the PSE is dominated by bonds trades, with the highest trading volumes falling to government bonds, rather than trades in shares, where ČEZ shares account for the highest trading volumes. The predominance of bonds trades is characteristic of the PSE: it persisted from the PSE's opening until 2005, when shares began a three-year period of dominance.

Table 4.12: Number of registered issues[25]

As at 31 Dec		2006	2007	2008	2009	2010
Shares	**Main market**	10	21	17	13	15
	Secondary market	11	-	-	-	-
	Free market	11	11	11	12	12
	Total	32	32	28	25	27
Bonds	**Main market**	28	41	38	36	33
	Secondary market	15	-	-	-	-
	Free market	67	91	83	80	73
	Total	110	132	121	116	106
Derivatives and other products	**Futures**	2	6	6	6	6
	Investment certificates	7	39	46	65	42
	Warrants	0	2	2	2	2
	Total	9	47	54	73	50
Total		151	211	203	214	183

Source: PSE

On 14 August 2009 the company Univyc acquired a licence from the CNB to act as a central securities depository. Univyc originally carried out transactions clearing and settlement on the PSE. Univyc was transformed into Centrální depozitář cenných papírů (Central Securities Depository, hereinafter "CSD"). In the first half of 2010 the takeover of records from the Securities Centre was completed, so the CSD could start operating. This has significantly changed the infrastructure and process of the clearing and settlement of securities transactions in the Czech Republic. The securities register has changed from a one-level to a two-level register.

4.2.2. Energy exchange

The Prague energy exchange also failed to avoid a decline in the volume of trading, which fell by 16.1% to EUR 1.2 bn. In 2010, as in previous years, futures were the leading type of transaction. A recovery is clearly evident on the spot market, which almost froze in 2009. It is still the case, however, that the energy exchange is mainly used for derivatives contracts. The increase in the total number of traded products is linked mainly to the PSE's territorial expansion into Hungary.

[25] On 1 July 2007, the main and the secondary markets merged.

Table 4.13: Main indicators of trading on PXE

Indicator	Market	2009	2010	Change	
				Abs.	(%)
Trade value (EUR mn)	Futures	1,396.1	1,171.0	-225.1	-16.12
	Spot	0.2	3.9	3.7	1,829.50
	Total	1,396.3	1,174.9	-221.5	-15.86
Number of products (at the end of period)	Futures	58	98	40	68.97

Source: PXE

4.2.3. Investment firms and asset management

The roles of individual entities in the investment firms sector continued to be clearly distinct in 2010. Banking investment firms significantly dominate the volume of own-account trading and are slightly less dominant in asset management transactions and the volume of clients' assets. What is more, in all three indicators they strengthened their position in 2010. Non-banking investment firms and management companies operating in the area of asset management concentrate on managing their clients' assets. Here too, however, banking investment firms managed to increase their market share. The passing of the worst phase of the economic crisis brought a number of clients back to trading, as shown by the growth in the number of clients in the sector. The decline registered in management companies is negligible in terms of total numbers in view of their majority share of the market.

Table 4.14: Selected indicators of investment firm sector (by segment)[26]

As at 31 Dec (excl. derivatives, CZK bn)	2010			Change (%)[27]		
	Banking IF	Non-banking IF	Management companies[28]	Banking IF	Non-banking IF	Management companies[28]
Total number of licensed entities	23	30	5	-2,0	-2,0	-1,0
Total transactions value[29]	37 920,7	2 733,7	95,8	56,1	10,5	-38,8
of which: management	75,1	657,7	86,1	-99,6	-30,5	-
procurement	8 320,2	1 160,6	9,7	-	88,5	-93,8
for own account	29 525,4	915,3	0,0	755,4	0,2	-
Value of managed funds	47,7	427,3	107,5	4,3	12,8	11,1
Value of clients' assets	1 573,9	485,7	205,4	52,6	3,1	10,2
Number of clients (according to contracts, 000s)	728,3	153,1	1,3	4,6	8,7	-9,8

Source: CNB
NB: The data for management companies was not available as at 15 June 2011.

Asset management

The value of assets under management grew again in 2010, by 5.7% to the amount of CZK 796.4 bn at the end of the period. The process of concentration on the asset management market stopped in 2010. The three biggest firms' share decreased by 0.7 pp to 62.9%. The 5 biggest asset managers' share fell by 1.1 pp to 85.8%.

[26] Because a derivatives contract's value is available only at the underlying asset value, derivatives are not included in the table.
[27] Change in the total number of licensed entities in absolute terms.
[28] Management companies managing customer assets.
[29] All trades (purchase and sale) concluded at PSE, RM-S, foreign markets and direct trading; accumulated for shares, unit certificates and bonds.

Table 4.15: Financial groups by value of assets under management

As at 31 Dec (CZK bn)	Value of assets under management		
	2009	2010	change (%)
Generali PPF Asset Management	185.5	202.9	9.38
Česká spořitelna	139.3	151.6	8.89
ČSOB investiční společnost	154.4	146.8	-4.92
ING Investment Management (C.R.), a.s.	95.4	99.6	4.40
Investiční kapitálová společnost KB	80.0	82.4	3.07
AXA investiční společnost	43.0	49.0	14.16
UniCredit Bank + Pioneer Investments	16.0	17.3	7.84
Conseq Investment Management	12.5	13.6	8.54
Raiffeisenbank	7.0	9.9	41.12
AMISTA investiční společnost	3.8	8.2	117.59
Others	16.4	15.1	-8.17
Total	753.2	796.4	5.74

Source: AKAT

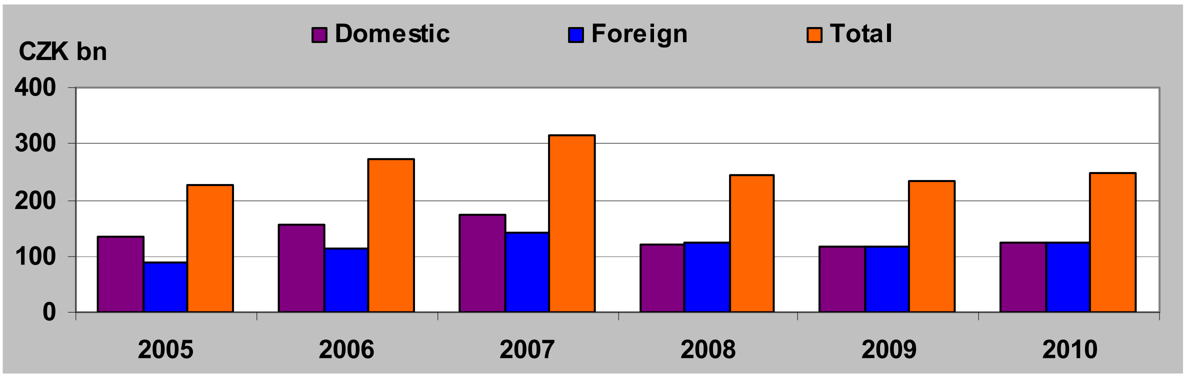
Investment intermediaries

The number of investment intermediaries stabilised in 2010. At the end of the year there were 9,052 operating in the Czech Republic, which is just 48 fewer than in 2009. The big fall of 3,738 in 2009 was a consequence of the amendment of the amendment of the act on capital market undertakings, which transformed level 2 investment intermediaries into tied agents. These tied agents are no longer listed in the register of investment intermediaries but have a separate register. At the end of 2010 11,109 were registered with the CNB, 1,943 more than at the end of 2009.

4.2.4. Collective investments

The overcoming of the worst phase of the economic crisis had a positive impact on the volumes invested in open-ended unit trusts, which grew by 5.5%. At the end of 2010, CZK 247.5 bn was invested in open-ended unit trusts. The year 2010 confirmed the long-term trend whereby foreign unit trusts have attracted a larger volume of finances (CZK 125.1 bn) than domestic ones (CZK 122.4 bn).

Graph 4.10: Development of investments in unit trusts



Source: AKAT

Bond funds achieved the biggest success, increasing their assets by 25% and 140% in the case of domestic and foreign unit trusts respectively. In other categories, too, foreign funds attained a bigger increase in the volume of finances than their domestic competitors. Real estate funds turned around their fortunes after their difficulties in 2009, with their assets growing almost by half. Their 2% market share is still small, however. In 2010 it was the turn of pension funds and guaranteed funds to get into difficulties and write off assets.

Table 4.16: Assets in individual types of unit trusts by domicile

As at 31 Dec (CZK bn)	2009			2010			Year-on-year change (%)		
Unit trust type	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
Money market	46.9	30.9	77.8	43.4	25.1	68.5	-7.3	-18.7	-11.9
Bond	14.4	6.2	20.5	17.9	14.8	32.7	24.5	139.6	59.0
Equity	13.5	20.0	33.5	15.2	26.2	41.4	12.5	31.3	23.7
Mixed	20.1	6.6	26.7	22.9	9.2	32.1	13.6	38.8	19.9
Funds of funds	12.7	0.4	13.0	15.0	0.6	15.6	18.7	72.4	20.2
Guaranteed	8.3	53.3	61.6	6.0	49.1	55.1	-27.5	-7.9	-10.6
Real estate	1.3	0.0	1.3	1.9	0.1	2.0	46.2	-	51.9
Total	117.2	117.4	234.5	122.4	125.1	247.5	4.4	6.6	5.5

Source: AKAT

The changes in the assets under management are affected by two factors – the increase of value achieved by the funds and net sales. The net sales of unit certificates represent the change in unit trusts' assets resulting from subscriptions and redemptions of shares, which affects only total assets and not the unit trusts' performance. Table 4.17 below shows that no type of unit trust lost money in 2010. The reduction in the assets of money market funds was due to high redemptions of shares, evidently as a consequence of the relatively low yields compared to other types of conservative funds. It is also clear that the pronounced increases in the volume of assets with bond funds are caused mainly by the greater volume of new resources. Funds of funds and mixed funds registered the biggest increase in assets.

Table 4.17: Unit sales and redemptions in 2010

Sales and redemptions of shares (CZK bn)	Equity	Bond	Money market	Funds of funds	Mixed	Real estate	Total
Sales	4.1	7.3	15.1	4.6	4.1	0.8	35.9
Redemptions	3.4	4.1	18.9	3.5	3.1	0.2	33.2
Net sales	0.6	3.2	-3.9	1.1	1.0	0.6	2.7
Change in the asset value (year-on-year)	1.7	3.5	-3.4	2.4	2.7	0.6	7.5
Change adjusted for net sales	1.1	0.3	0.4	1.3	1.7	0.0	4.8

Source: AKAT

4.3. Insurance companies

The insurance market was affected in 2010 by several extraordinary weather events the insurance companies had to deal with. These were mainly the snow calamity at the beginning of the year, the spring floods in Moravia and Silesia and the August floods in north Bohemia. The August hailstorms in Prague and the immediate vicinity also caused considerable property damage[30].

Damages caused by natural disasters are proving to recur more and more frequently, which gives rise to a legitimate question whether they can still be properly regarded as "extraordinary". Their more frequent occurrence will evidently make it necessary to consider them partly as a standard cycle of fluctuations in the climatic conditions that will also become a standard factor in the risk calculation underpinning insurance premiums. This phenomenon is not confined to the Czech Republic[31]. The higher frequency of extraordinary fluctuations in the climate and of other natural events (e.g.

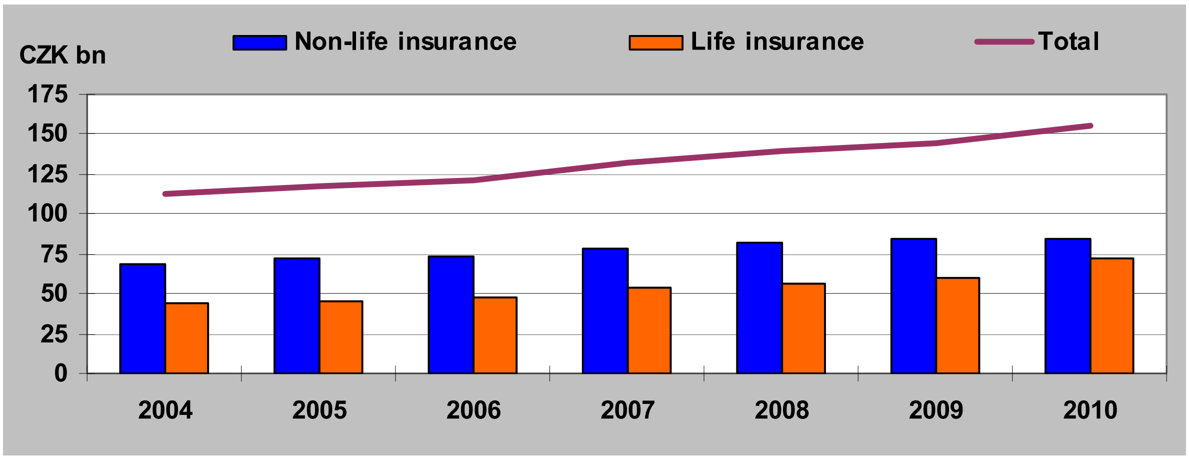
[30] According to the Czech Insurance Association, the value of insured events covered by insurance against natural disasters was almost CZK 8 bn in 2010.

[31] According to a study by reinsurer Swiss Re, in 2010 insurance companies had to pay out approx. USD 43 bn on natural disasters.

earthquakes) impacts on reinsurance schemes and is becoming a general argument for reinsurers to raise the price of reinsurance.

The insurance sector reported relatively good results for 2010. The development of the insurance market is characterised mainly by an increase in gross insurance premiums written, which grew to 8.2% to attain a value of CZK 156 bn. After two years of low increments there was a marked acceleration in the market's growth. In addition, the other key economic indicators depicting the development of the insurance market show relatively favourable results. It is clear that the mediated impacts of the financial crisis on the insurance sector were minor in 2010 and most entities had already dealt with them.

Graph 4.11: Development of gross premiums written



Source: CNB

On the non-life insurance market premiums written were, at CZK 84.2 bn, practically unchanged from the previous year (up just 0.3%). This stagnation was mainly influenced by motor vehicle insurance. Although the total number of registered vehicles rose, there was a fall in gross premiums written. That is because strong competition is pushing down the average premium as companies seek to hold on to clients and win new ones. The trend whereby insurance rates are kept very low is also evident in mandatory third-party insurance[32] but also applies to comprehensive accident insurance. This relatively favourable trend for policyholders is evidently unsustainable in view of the constantly rising cost of motor vehicle repairs.

In life insurance, on the other hand, a marked increase (19.2%) was observed, with premiums written attaining a value of CZK 71.7 bn. This stronger growth confirms the long-term trend whereby life insurance is coming to take a bigger share of total premiums written. In 2010 this share reached 46%. This figure still holds growth potential when compared to the European average (approx. 60%). The marked increase in life insurance was driven mainly by single premium payments, which grew by approx. 55%. These are products where there is minimal risk coverage. Instead, the main emphasis is placed on the investment component, i.e. increasing financial value. The fall in the total number of policies indicates that the individual's absolute insured sum is growing. The number of individuals with secured life risks fell, however.

According to CNB data, insurance companies' profits hit a record CZK 21.5 bn, a year-on-year rise of 39%. The profits are driven both by cost-cutting measures and by yields on investments following the recovery in the financial markets. Capital strength, expressed in terms of insurance companies' equity, also grew strongly (up 11.9%). The solvency rate in non-life insurance exceeded the required threshold by 4.5 times and in life insurance by almost twice (2.95)[33]. The balance sheet total of

[32] According to Czech Insurance Association data, the average mandatory third-party insurance is CZK 3,370; in 2006 it was CZK 3,900, i.e. it has fallen by 14% (not taking into account inflation).
[33] The data on solvency are for 2009; complete data are not available for 2010.

insurance companies grew by 7.6% to CZK 426.5 bn. The most significant item in insurance companies' assets is financial allocations with 76.8%; debt securities account for 78.9% of that amount.

Table 4.18: Results of insurance companies[34]

As at 31 Dec	2008	2009	2010	Year-on-year change	
				Abs.	(%)
Number of policies (000's)	28,250	27,703	27,569	-134	-0.48
Of which: non-life insurance	18,146	18,354	18,428	74	0.40
Life insurance	10,104	9,349	9,141	-208	-2.22
Number of newly concluded policies (000's)	10,666	10,467	10,665	198	1.89
Of which: non-life insurance	9,425	9,333	9,190	-143	-1.53
Life insurance	1,241	1,134	1,475	341	30.07
Total gross premiums written (CZK bn)	139.5	144.2	155.9	11.8	8.17
Of which: non-life insurance	82.6	84.0	84.2	0.2	0.29
Life insurance	56.9	60.2	71.7	11.5	19.17
Total insurance penetration (%)	3.77	3.97	4.30	0.33	-

Source: CNB

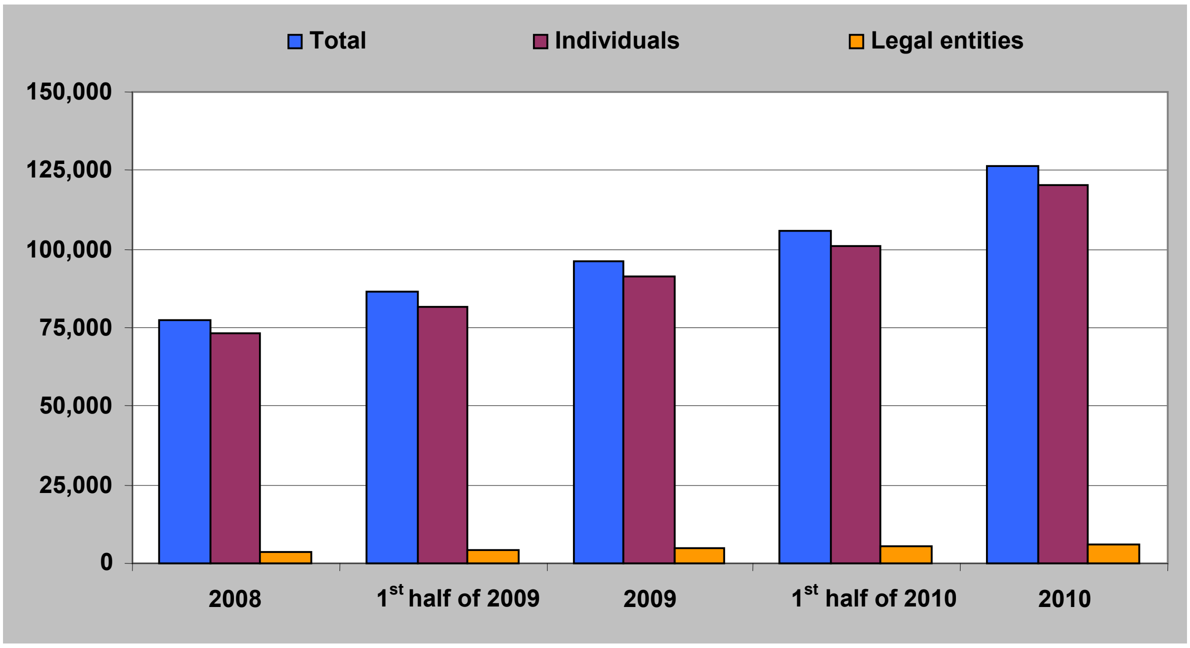
In February 2010 the Czech National Bank decided to raise the technical interest rate from 2.4% to 2.5%. The technical interest rate represents the increase in the value of the life insurance premium reserve a client is contractually entitled to (the guaranteed share of the earnings from financial allocations). The CNB lays down the maximum technical interest rate by decree.

The number of entities on the market and their structure have been stable for a long time. At the end of 2010 52[35] insurance companies were licensed to provide insurance in the Czech Republic; 17 of that number were branches of foreign insurance companies. There was also one reinsurer on the market and 658 entities, 164 of which were branches of EU/EEA insurance companies, offered insurance services under a "European passport". The two biggest groups of insurance companies, PPF (Česká pojišťovna and Generali pojišťovna) and VIG (Kooperativa pojišťovna, Česká podnikatelská pojišťovna and Pojišťovna České spořitelny), have roughly the same market share, together accounting for more than 60% of the market.

In 2010 insurance companies investigated more than 5,000 suspicious insurance events, a year-on-year increase of approx. 14%. The value of proven insurance fraud was CZK 625 bn, i.e. 0.8% of insurance companies' total indemnification. Market experts estimate that the real value is much higher (as much as 10-12% higher). The most frequent insurance fraud concerns motor vehicle insurance. In connection with property and liability insurance, certain clients – organisations – sought to resolve their difficult financial situation by making improper indemnification claims, some running to the value of several mil. Czech koruna.

[34] The number of life insurance policies does not include supplementary insurance policies.
[35] This figure does not include the Czech Insurers' Bureau.

Graph 4.12: Development of the number of insurance intermediaries



Source: CNB

The number of insurance intermediaries continued to rise. There were over 126,000 registered insurance intermediaries at the end of 2010. At the same time, 10,400 (8% of the total number) had their licences withdrawn. The largest categories continue to be subordinated insurance intermediaries (56.4%) and exclusive insurance brokers (25%). The MoF reacted to the high number of entities in the sector, the confusing system of enterprise licences and the need to strengthen consumer protection in the insurance sector by drawing up an amendment of the act on insurance intermediaries. It can be expected that in the following years the amendment will make the market less confused and will evidently also bring about a fall in the number of registered entities, as expert estimates put the number of inactive intermediaries with a licence in the tens of thousands.

Table 4.19: Insurance intermediaries by position (category)[36]

Entity registered as at 31 Dec	2009			2010			Year-on-year change (%)		
	IN	LE	Total	IN	LE	Total	IN	LE	Total
TIE	11,480	287	11,767	12,389	315	12,704	7.92	9.76	7.96
SII	56,384	1,652	58,036	69,154	1,975	71,129	22.65	19.55	22.56
EIA	25,850	161	26,011	31,338	223	31,561	21.23	38.51	21.34
IA	531	755	1,286	556	858	1,414	4.71	13.64	9.95
IB	167	538	705	176	585	761	5.39	8.74	7.94
ILA	64	108	172	65	119	184	1.56	10.19	6.98
FII	6,345	1,658	8,003	6,453	1,917	8,370	1.70	15.62	4.59
Total	100,821	5,159	105,980	120,131	5,992	126,123	19.15	16.15	19.01

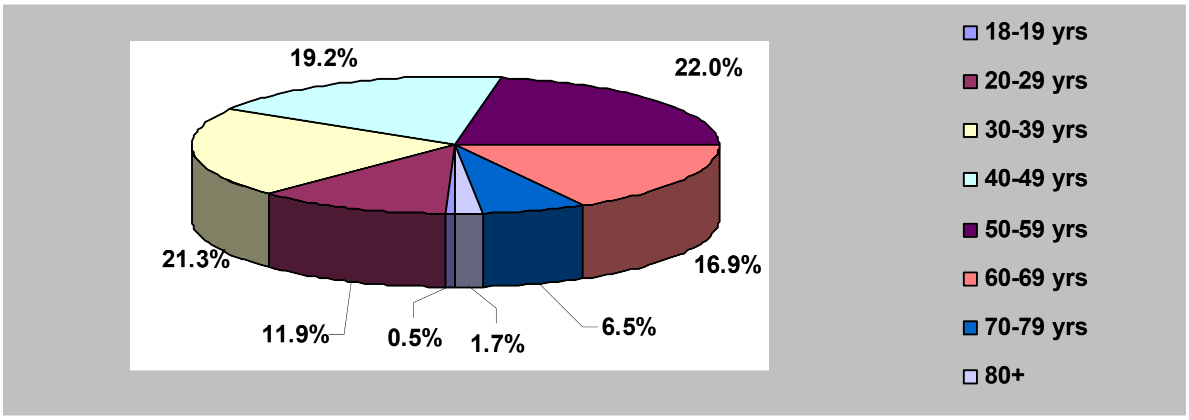
Source: CNB

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

4.4. Supplementary pension insurance

The number of participants in supplementary pension insurance rose by 133.3 thousand (3%) to 4.5 mil.in 2010. The rate of growth was lower than in previous year. At the end of 2010 the participants had CZK 216.1 bn deposited in pension funds, a year-on-year increase of 7.7%.

Graph 4.13: Age structure of participants in supplementary pension insurance Source: MoF



Source: MoF

In keeping with tradition, the highest absolute increase in the number of participants (by 37.7 thousand) occurred in the 30-39 age group. The 80+ age group had the biggest relative increments, but this group only has a minority share of the total client base. Other categories of retirement age also registered above-average relative increments. This confirms the trend whereby the over-60s are making up a bigger proportion, which has grown from 21.4% in 2006 to 25.1% in 2010. A substantial part of the increase in participants in these categories is down to the simple transition of participants into a higher category as they age. Upon turning age of 60 supplementary pension insurance is a safe short-term to medium-term form of saving with a subsidy in the form of a state contribution. The relative year-on-year fall of 5.5% in the under-20s category and the stagnation in the number of participants aged 20-29 are unique phenomena, most probably caused by these two age categories' expectations regarding the pension reform outcome.

Table 4.20: Participants in supplementary pension insurance by age

As at 30 Dec	2006	2007	2008	2009	2010	Year-on-year change	
						Abs.	(%)
18-19 yrs	16,513	21,461	22,526	23,433	22,150	-1,283	-5.48
20-29 yrs	420,387	475,887	512,496	530,382	537,701	7,319	1.38
30-39 yrs	686,156	786,781	867,574	927,964	965,683	37,719	4.06
40-49 yrs	735,250	777,167	807,665	839,614	867,483	27,869	3.32
50-59 yrs	966,952	996,474	1,010,509	1,008,265	998,104	-10,161	-1.01
60-69 yrs	530,932	610,778	682,601	729,339	765,997	36,658	5.03
70-79 yrs	196,484	218,919	245,558	267,966	292,809	24,843	9.27
80+	40,971	48,890	58,307	67,559	77,847	10,288	15.23
Total	3,593,645	3,936,357	4,207,236	4,394,522	4,527,774	133,252	3.03

Source: MoF

The number of participants receiving employers' contributions to their supplementary pension insurance grew slightly by 1.5% to 920.8 thousand. After the crisis passed, employers have thus begun to provide contributions to their employees' supplementary pension insurance on a larger scale again. Even so, these people account for just one fifth (20.3%) of all participants. The biggest fall in the number of participants receiving employers' contributions came in the 20-29 age group; the biggest increase was in the 40-49 age group.

Table 4.21: Share of policies with employer's contribution by age group and gender[37]

As at 30 Dec	2007	2008	2009	2010	Year-on-year change	
					Abs.	(%)
18-19 yrs	459	461	292	236	-56	-19.18
20-29 yrs	83,203	86,224	80,770	77,514	-3,256	-4.03
30-39 yrs	218,108	238,090	240,473	245,550	5,077	2.11
40-49 yrs	242,993	257,048	260,305	268,673	8,368	3.21
50-59 yrs	279,464	290,310	280,546	280,288	-258	-0.09
60-69 yrs	37,468	43,315	43,558	47,353	3,795	8.71
70-79 yrs	756	907	973	1,123	150	15.42
80+	28	43	35	54	19	54.29
Total	862,479	916,398	906,952	920,791	13,839	1.53

Source: MoF

In 2010 acquisition costs, i.e. the cost of gaining new supplementary pension insurance policies, fell year-on-year by 5.4% to CZK 3,184 per policy. These costs have doubled compared to the acquisition costs in 2007, however, which may be an upshot of market saturation – the number of participants in supplementary pension insurance accounts for 85.9% of the workforce in the Czech Republic and growth is slowing down markedly. Unlike in the past, when pension funds could grow by attracting new individuals into the system, now they have to concentrate mainly on retaining their current participants and expand by winning over clients from their competitors. And that entails considerable acquisition costs.

Table 4.22: Cost incurred in connection with new policies

CZK / average	2007	2008	2009	2010	Year-on-year change	
					Abs.	%
Costs incurred in connection with a new policy	1,592	2,033	3,365	3,184	-181	-5.38
Deferred expenses to a number of existing supplementary pension insurance policies	876	959	883	777	-106	-12.02

Source: MoF, CNB

Acquisition costs are linked to the balance-sheet item of deferred expenses, which fell to CZK 3.5 bn year-on-year. CZK 777 in deferred expenses was attributable to one ongoing supplementary pension insurance policy, which is 12% less than in 2009. Deferred expenses are the cumulated costs of new policies that have not yet been written off. Pension funds thus write off the cost of new policies more quickly than in the past, as the relative fall in total acquisition costs is lower than the relative fall in deferred expenses.

The amount of average monthly contributions by participants registered a slight year-on-year decrease of 1% to CZK 439.60. This low contribution will not ensure a sufficient pension from supplementary pension insurance in the future. That is why reform to the system has been proposed that would lead to an increase in participants' contributions. The lower average contribution by participants was also reflected in the amount of the average monthly state contribution, which fell slightly year-on-year by 2% to CZK 105.

[37] Data as at 31 December of the given year.

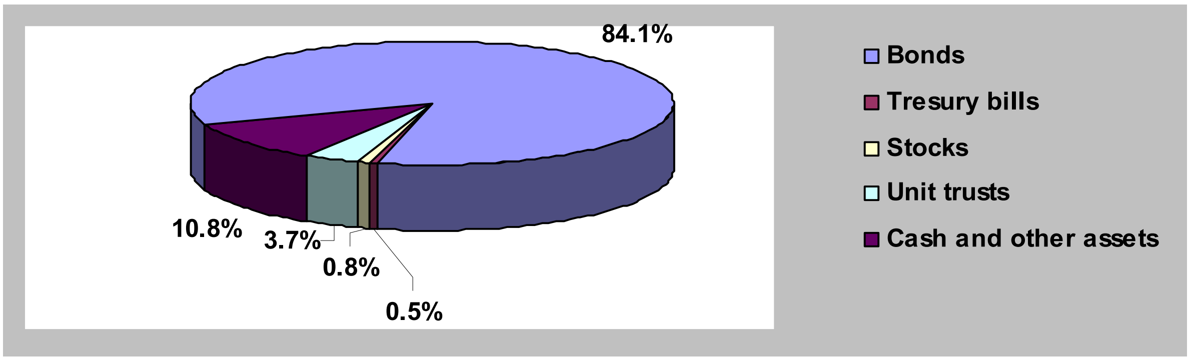
Table 4.23: Breakdown of average monthly contributions amount

CZK/month	2006	2007	2008	2009	2010	Year-on-year change	
						Abs.	(%)
Participant's contribution	430.8	449.7	450.5	443.9	439.6	-4.4	-1.0
State contribution	102.2	103.9	104.9	105.2	105.0	-0.2	-0.2

Source: MoF

Pension funds' investment portfolio has been markedly conservative in recent years. The proportion of bonds in the portfolio has now reached 84.1%, worth CZK 195.3 bn in market prices. The proportion of shares fell by 50% and is negligible, making up just 0.8% of the portfolio at the end of 2010. The proportion of treasury bills and cash is also on a downward trend. Besides bonds, there was growth in the proportion of unit trusts (CZK 8.66 bn in market prices at the end of 2010).

Graph 4.14: Allocation of assets of pension funds as at 31 December 2010[38]



Source: APF CR

[38] See table 8.6 in Appendix 2.

5. RELATION OF THE GOVERNMENT SECTOR TO THE FINANCIAL MARKET

5.1. General government balance

Government sector finances were positively influenced in the past years by the culmination of the economic cycle, but the recession from the turn of 2008 and 2009 gave rise to a profoundly negative production gap, which started to close in the first three quarters of 2010. The recession, which substantially affected the government sector's revenues, again highlighted the structure of the government sector deficit. A closer look at the **structure of the balance of the government institutions sector** reveals that all its sub-sectors ended 2010 in deficit. The highest deficit was recorded within the central government sub-sector (CZK 151.1 bn, 4.1% of GDP), followed by local government institutions (CZK 12.7 bn, 0.4% of GDP) and social security funds (CZK 8.6 bn, 0.2% of GDP). The government debt was CZK 1,413.5 bn (38.5% of GDP) at the end of 2010.

On the revenue side in 2010 the government sector's finances were positively impacted by the recovery in economic growth – after two years of stagnation and decline revenues began to rise again. The development of the revenue side was a reflection of the gradual economic upturn and tax measures effective since the beginning of 2010. The fiscal results were thus influenced mainly by the increase in both VAT rates by 1 pp, in excise tax rates (on fuel, spirits, beer and tobacco products) and the doubling of real estate tax, as well as by the abolishing of or the diminishing effect of the majority of measures adopted to counter the crisis (most notably the deferral of advance payments on income tax and discounts on social security insurance premiums for employers). Other factors affecting the revenue side of the government sector are the impacts of government measures that, for example, annulled the tax exemption on constitutional officials' benefits and the reduction in the expenses flat rates for entrepreneurs in the fields of "freelance occupations" and copyright. Regarding insurance premiums for social security and health insurance it is worth mentioning the impact of the postponement of the 0.9 pp reduction in the rate of sickness insurance premiums, the raising of the ceiling for the assessment base for social security and health insurance and the abolition of discounts on insurance premiums. The government sector's total revenues were CZK 1,487.7 bn, a year-on-year increase of CZK 33.3 bn.

The **expenditure side** was also affected by the "anti-crisis" measures which primarily sought to increase spending on transport services and the construction of transport infrastructure, support for research and development and increasing the capital of ČEB and the insurance coverage of EGAP. Preparations for "exit strategy" measures, including for example new rules governing the assessment base for state payments into the public health insurance system and the government's decision not to increase pensions as of the start of the year, began in the second half of the year. To make it possible to meet the fiscal target contained in the Convergence Programme, the government moved to compensate the shortfalls on the revenue side by tying the expenditure of individual state budget chapters (by approx. CZK 15.5 bn) and reducing claims on unrealised expenditure of organisational components of the state (by CZK 4.0 bn). The payment of the costs of clearing up "old ecological damages" out of privatisation proceeds was also restricted. On the expenditure side there was also a reduction in subsidies, capital transfers, gross capital formation and, given the lower volume of assigned amount units[39] sold, the net acquisition of non-produced non-financial assets. Regarding wages and pay, in 2010 vacant positions were abolished and part of expenditure was cut. The above meant it was possible to observe a fall in benefits paid to employees and in interim consumption, i.e. expenditure concerning the operation of state administration. The rate of growth of social benefits was also significantly reduced and therefore the growth in mandatory expenditure. The development of interest costs, which only slightly increased despite the relatively fast growth of the state debt, can

[39] An Assigned Amount Unit is a unit defined by the Kyoto Protocol as a tradable right of a state to emit one tonne of greenhouse gases into the atmosphere in the 2008-2012 period. Under the Kyoto commitment the Czech Republic has the right to emit a total of approx. 900 mil. tonnes of CO_2 into the atmosphere in that time period. A country that has cut its emissions by more than its commitment in the Kyoto Protocol may sell its surplus emissions. According to current analyse the actual quantity of emissions will be approx. 17% less than the Czech Republic's targets,

also be viewed positively. This fact can mainly be attributed to the fall in interest rates in all maturities of issued government bonds along the revenue curve. At the same time, developments in the rest of Europe, the positively received elections and the expected consolidation of public finances stabilised the risk premiums of Czech government bonds, both year-on-year and in comparison with the majority of EU countries. Total expenditure of the government sector was approx. CZK 1,693.6 bn, a year-on-year fall of approx. CZK 18.6 bn.

In 2011 the ratio between the negative balance of the government sector and GDP is expected to decrease to 4.2% (CZK 154.3 bn). This should mean a year-on-year fall in the government deficit's share of GDP by 0.6 pp. The fiscal target defined in the consolidation strategy set out in the Convergence Programme[40] for this year will thus be met thanks to the measures taken. The fiscal effort will amount to 0.5 pp, or even 0.9 pp after adjustment for the cyclical component and one-off factors. The fragile economic growth and the slight increase in the rate of unemployment, which is also linked to the relatively low growth in household consumption, are still impacting on developement of government sector finances. In line with the adopted stabilisation measures and the approved consolidation strategy government institutions are expected to behave thriftily (decrease in government spending on final consumption) as regards both employment and purchases of goods and services. A resumption of investment growth can be expected across the entire national economy. Furthermore, the gradual economic recovery of the Czech Republic's main trading partners should also have a positive impact. These factors are directly reflected in the development of the revenue side and expenditure side of the government sector. The impacts of the government's anti-crisis measures are largely fading away and active measures to reduce the deficit are being reflected in the government's finances. A large part of the consolidation measures targets **the revenue side of public budgets**; only a lesser part entails reduced spending. VAT collection will be affected by the increase in the rates in 2010, much of whose impact will only be felt after a delay of one year. The impact of accelerated depreciation will be evident in legal persons' income tax. Despite that, the collection of this tax is negatively influenced by the reduction in the statutory rate in 2010, a year-on-year increase can be expected because of the system of advance payments and the deadline for filing tax returns. Taxes on goods and services will be influenced by payments levied on solar electricity generation that were introduced in 2011. Property taxes will register a sharp jump as a result of the introduction of a gift tax on the free acquisition of greenhouse gas emissions allowances. Revenues from European funds are expected to grow only slightly in the coming years. Only part of national financing influences the development of the government balance, but European resources have a pronounced impact on the development of government investments, where they are partly a substitute for national finances. Although **the rate of the development of the expenditure side** is no longer negative, it remains markedly lower than rate of the revenue side. Compared to last year there will be an increase in miscellaneous subsidies for electricity generation, which is linked to the government's endeavour to eliminate the rise in electricity prices caused by the guarantee on the purchase prices of electricity from renewables and the rapid increase in the number of solar power plants. An increase in the volume of investment subsidies to other sectors of the economy can also be observed in connection with the effort to maximise the Czech Republic's absorption capacity for co-financing for private projects out of European funds. A slight increase in social transfers is expected. The biggest reduction is evident in expenditure on employees' benefits. The development of the interest costs of the state debt, which is directly affected by volatility on the financial markets, represents a risk.

The expected **government deficit structure for 2011** indicates continuing deficits in all sub-sectors of the government institutions sector. Most of the adopted consolidation measures will be reflected in the finances of the central government institutions sub-sector, which is under the direct authority of the government. It displays a year-on-year improvement of approx. CZK 19.8 bn (0.6 pp of GDP))

[40] On 2 December 2009 the Excessive Deficit Procedure was begun with the Czech Republic. The Council of the EU recommended that the Czech Republic end the excessive deficit situation by 2013 by reducing the government deficit below the reference 3% level of GDP in a credible and sustainable manner. The Council's recommendation instructed the Czech authorities i) to implement measures in 2010 designed to reduce the deficit in line with the planned state budget for 2010; ii) to make an annual fiscal effort of 1% of GDP in the 2010-2013 period (improving the structural balance); and iii) to specify the measures necessary to achieve the correction of the excessive deficit by 2013 (cyclical conditions permitting) and accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.

and its deficit should attain a value of CZK 131.7 bn (3.5% of GDP). In the local government institutions sub-sector a deficit of CZK 19.0 bn (0.5% of GDP) is envisaged, meaning a year-on-year deterioration by CZK 6.3 bn (0.2 pp of GDP). A year-on-year improvement is expected in the social security funds sub-sector, envisaged to improve by CZK 5.0 bn (0.1 pp of GDP) to CZK -3.6 bn (-0.1% of GDP). Privatisation proceeds (revenues from sales of shares and other equity stakes) for 2010 and 2011 are envisaged to be negligible. Dividends amounting to or planned for CZK 16.8 bn and CZK 15.9 bn respectively are thus the main source of privatisation account revenues. These dividends mainly derive from the companies ČEZ, ČEPRO and MERO ČR. As in 2010, privatisation revenues will primarily be used to eliminate ecological damages and the consequences of mining activity, for appropriations to the State Fund for Transport Infrastructure and in support of land development projects for industrial use.

The **government sector debt** will be CZK 1,537.8 bn in 2011, which is 41.4% of GDP. Another very substantial year-on-year increase is expected (by CZK 124.3 bn, i.e. 2.8 pp of GDP). Although the rate of growth will decrease year-on-year, it remains very high (fall from 10.5% to 8.8%). Unlike in previous years, however, its rate of growth is not held back so strongly by drawing on debt reserves issued in previous periods. The largest share of the consolidated government debt goes to the contribution[41] of the central government institutions sub-sector (CZK 1,441.9 bn, of which the government debt accounts for CZK 1,439.1 bn, i.e. almost 99.9% of the total value of the central government units contribution), followed by the contribution of the local government institutions sub-sector debt (CZK 99.1 bn). The social security funds sub-sector (health insurance companies) will contribute CZK 0.1 bn in debt. CZK 21.2 bn of the total government debt (i.e. 1.4% of the total consolidated government debt) comprises imputed loans, i.e. is not actually covered by existing debt instruments (imputed state guarantees, lease of Gripen fighter planes etc.). The largest part of the government debt is in the form of debt securities. The share of loans in the government debt has been falling steadily since 2001.

5.2. State budget

The state budget for 2010 was approved with a deficit of CZK 162.7 bn. Total expenditure of CZK 1,184.9 bn and total revenues of CZK 1,022.2 bn were planned. Actual expenditure was CZK 1,156.8 bn and revenues CZK 1,000.4 bn. The state budget therefore ended with a deficit of CZK 156.4 bn, i.e. slightly smaller than planned.

The main reason for the failure to achieve the planned **revenues** was shortfalls in all the major categories of tax revenues. Although total revenues grew year-on-year by CZK 25.8 bn, this part of the approved budget had a CZK 21.8 bn shortfall. The collection of legal persons’ income tax and excise taxes performed the worst (86.0% and 92.7% of the planned budget respectively). The budgeted collection of natural persons’ income tax was almost fulfilled (99.1%). Revenues from value added tax also nearly met the budget target (99.6%). Viewed in terms of year-on-year changes, an increase of approx. CZK 8 bn can be observed in revenues from social security insurance premiums, but here too the budgeted amount was not reached (96.9% of the budget). As regards the structure of state budget tax revenues, the share of indirect taxes continues to grow, from 61.9% to 62.7%. Conversely, there was a year-on-year decline of CZK 4.9 bn in non-tax and capital revenues and received transfers. A year-on-year comparison in this category is strongly influenced, however, by the transfer of CZK 31.7 bn from the reserve funds of organisational components of the state that reduced the state budget deficit in 2009. With the exception of the state budget compilation methodology, these operations are not regarded as revenues. They are revenues achieved in previous budgetary periods that are now merely internal transfers. Nevertheless, these funds play a significant role in the state’s debt policy. The low level of transfers received from the EU (including the National Fund),

[41] The contribution of individual sub-sectors to the total government debt is calculated as the sub-sector’s gross debt consolidated solely within the given sub-sector. Mutual debt receivables and liabilities of institutional units from other sub-sectors of the government sector are not eliminated.

which attained just 78.7% of the budgeted amount after adjustments (approx. CZK 96.8 bn, i.e. CZK 37.0 bn more than in 2009) is an unfavourable result.

Total state budget expenditure fell by CZK 10.2 bn year-on-year, with current expenditure amounting to CZK 1,026.6 bn (88.7% of total expenditure, which is 96% of the budgeted level) and capital expenditure of CZK 130.2 bn (11.3% of total expenditure, i.e. 112.8% of the budgeted level). The biggest share of current expenditure (37.3%) comprises social benefits, which grew by CZK 1.6 bn year-on-year, i.e. by 0.4%. Mandatory expenditure accounts for 54.3% of total expenditure (i.e. CZK 628.1 bn). Compared to the previous year mandatory expenditure rose by 1.0% and its share of total expenditure increased by 1 pp to 54.3%. The year-on-year increase is driven mainly by the increased spending on pension insurance benefits (up CZK 6.4 bn) and the state's payment into the health insurance system (up CZK 3.2 bn). Conversely, a year-on-year fall can be observed in expenditure on sickness insurance benefits (down CZK 3.2 bn) and servicing the government debt (down CZK 4.3 bn). This segment of the state budget poses the biggest potential risk for the further development of public budgets. In future the impacts of population ageing and the existing unsustainable nature of public policies will impact directly on this segment. The pension insurance system ended 2010 with a CZK 35.6 bn deficit[42]. A sum of CZK 32.2 bn was paid into EU budget (CZK 4.6 bn as the VAT-based resource and CZK 27.7 bn as the GNI-based resource). CZK 4.7 bn was paid into the EU budget from traditional own resources, which are collected on off-balance accounts (customs duties as well as sugar levies remitted by the State Agricultural Intervention Fund). The Czech Republic received CZK 84.4 bn from the EU budget during the year. The net position is therefore positive, with the Czech Republic receiving CZK 47.3 bn more than it contributed to the EU budget. The earlier transfers to reserve funds were replaced by the establishment of claims on unrealised unspent expenditures. These amounted to CZK 101.2 bn as at 1 January 2011 (CZK 25.0 bn of that amount was claims from 2008 and 2009, and CZK 76.2 bn new claims from 2010). These claims were reduced by CZK 64.9 bn during 2010 (around CZK 60 bn of that amount comprised actual expenditure over and above budgeted expenditure).

The total state budget balance in 2010 was CZK 156.4 bn (CZK 157.8 bn after adjustment for internal transfers). This deficit was covered by an issue of state bonds (domestic CZK 84.4 bn, foreign CZK 49.7 bn, treasury bills CZK 25.1 bn), the taking of long-term loans (CZK 10.0 bn) and a change in the levels of the state financial assets accounts (CZK -3.0 bn). The difference is then linked to the creation of a debt reserve, repayments on EIB loans and a loan provided by ČEB.

The proposed state budget **for 2011** put before the Chamber of Deputies reckoned with a deficit of CZK 135.0 bn (i.e. CZK 27.7 bn lower than envisaged by the budget for 2010). The budget's total revenues are CZK 1,044.0 bn (i.e. 2.1% more than the previous year's budget) and total expenditure of CZK 1,179.0 bn (i.e. a 0.5% reduction year-on-year). The state budget's proposed revenues and expenditure were intended to result in the government sector balance (using ESA 95 methodology) amounting to 4.3% of GDP.

[42] The deficit is calculated as the difference between revenues from pension insurance premiums, including accessories, plus revenues from voluntary pension insurance (CZK 317.9 bn) and expenditure on pension insurance benefits and on administration (CZK 353.5 bn).

Table 5.1: Development of state budget revenues, expenditures and balance[43]

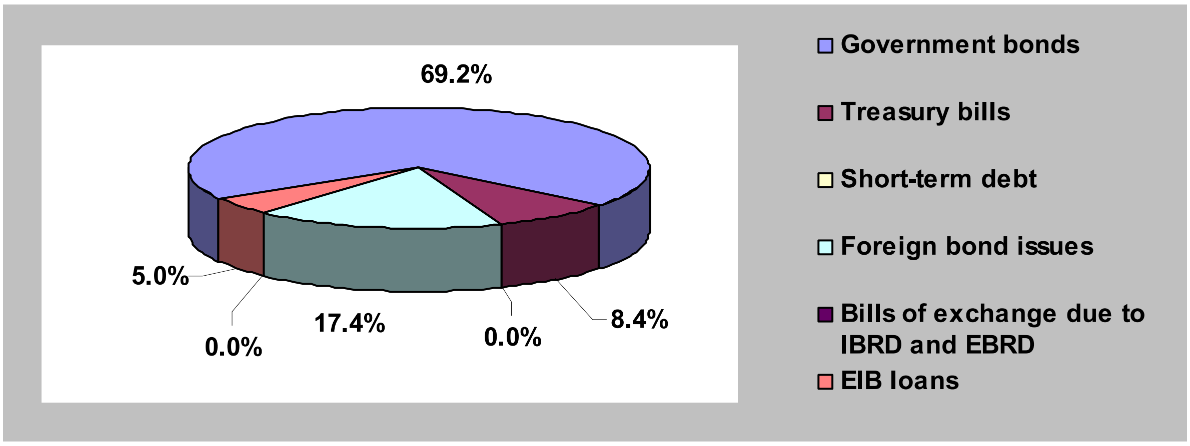
As at 31 Dec (CZK bn)	2006	2007	2008	2009	2010	2011[44]	Year-on-year change (%)
Revenues incl. repayments	858.0	959.0	982.5	918.2	984.7	1,041.7	5.78
Expenditures incl. gross borrowings	965.1	1,007.3	1,063.0	1,152.3	1,142.5	1,174.1	2.77
Balance	-107.2	-48.3	-80.5	-234.0	-157.8	-132.4	-16.05

Source: MoF

5.3. Government debt and state guarantees

At the end of 2010 the unconsolidated government debt was CZK 1,344.1 bn, expected to rise to CZK 1,448.8 bn in 2011. The government debt will thus amount to 38.9% of GDP. The internal government debt will increase to CZK 1,102.3 bn (71.6%), while the external government debt will reach CZK 342.4 bn (21.2%). The increase is a result of the state budget deficit. The rate of growth had gradually slowed since 2003 but has started to accelerate again since 2009.

Graph 5.1: Government debt by type of instrument as at 31 December 2010



Source: MoF

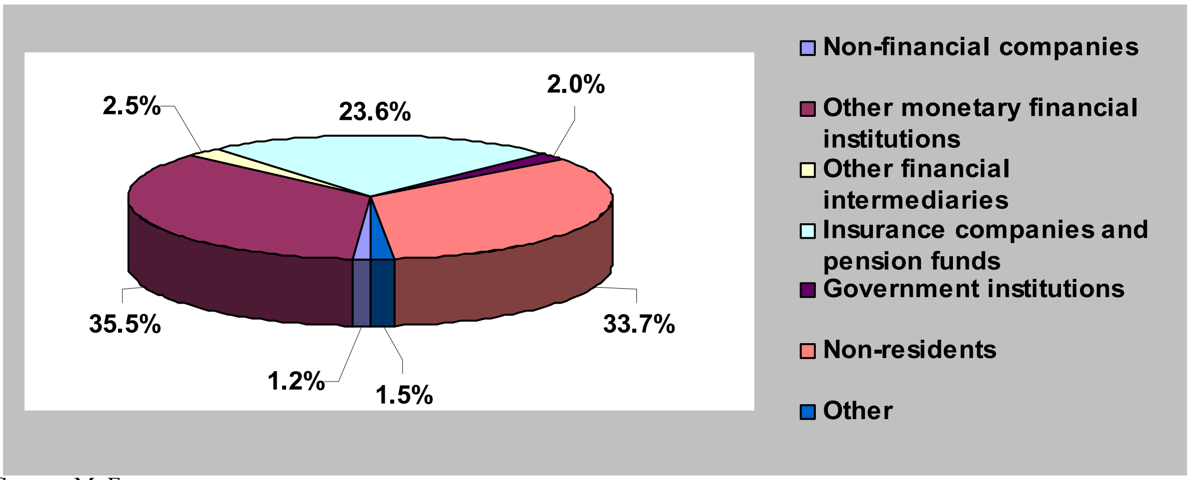
The average maturity of the government debt registered a fall to a value of 6.0 years as at the end of the first quarter of 2011. Net costs of the government debt servicing amounted to approx. CZK 3.4 bn as at the end of the first quarter of 2011. As at the end of the first quarter CZK 1,337.3 bn of the total value of the government debt was in the form of negotiable debt and CZK 67.1 bn was non-negotiable debt. 9.8% is foreign-currency debt. The share of short-term government debt grew by 1.1 pp from the end of the previous year to reach 17.2%. 12.6% of the government debt carries variable interest. Only a slight decrease in variable-interest debt is expected in the coming three years (to 12%). In 2011 there is a further fall in the value of the portfolio of high-risk state guarantees, which are refinanced within state budget expenditures. Their importance relative to government debt fell below 6% and their structure thus cannot significantly cause the monitored quantitative criteria to deviate from the

[43] The methodology of revenues and expenditures specified in Table 5.1 does not correspond to the data presented on the State final account, which are commented in the wording of the Report. GFSM 2001 methodology is used for the specification thereof. The main methodological differences consist in the fact that revenues and expenditures are reduced by received interest and premiums on government debt (i.e. consolidation of costs of debt service), granted loans reduced by their installments are not part of revenues and expenditures, expenditures for an execution of risky state guarantees with uncertain recoverability are included in expenditure capital transfers (their potential payments are classified as incomes/revenue). Furthermore, revenues and expenditures are adjusted in the time series for the so-called internal transfers (to and from reserve funds and state guarantees fund).

[44] Planned figures.

announced target values. It can be inferred from the size and structure of the government debt that an increase in interest rates by on average 1 pp along the entire yield curve in 2011 would lead to increased interest expenditures on the state debt issued before 2011 by approx. CZK 4.3 bn. The structure of the government debt of the Czech Republic in terms of the holders of the debt is typified by the relatively low proportion of households and non-profit institutions. This state of affairs is a consequence of the fact that government issues have so far concentrated on financial institutions. The MoF is preparing a system of direct sales of government bonds to households and non-profit institutions and expects to launch it in the 4th quarter of 2011.

Graph 5.2: Government debt by creditor as at 31 December 2010



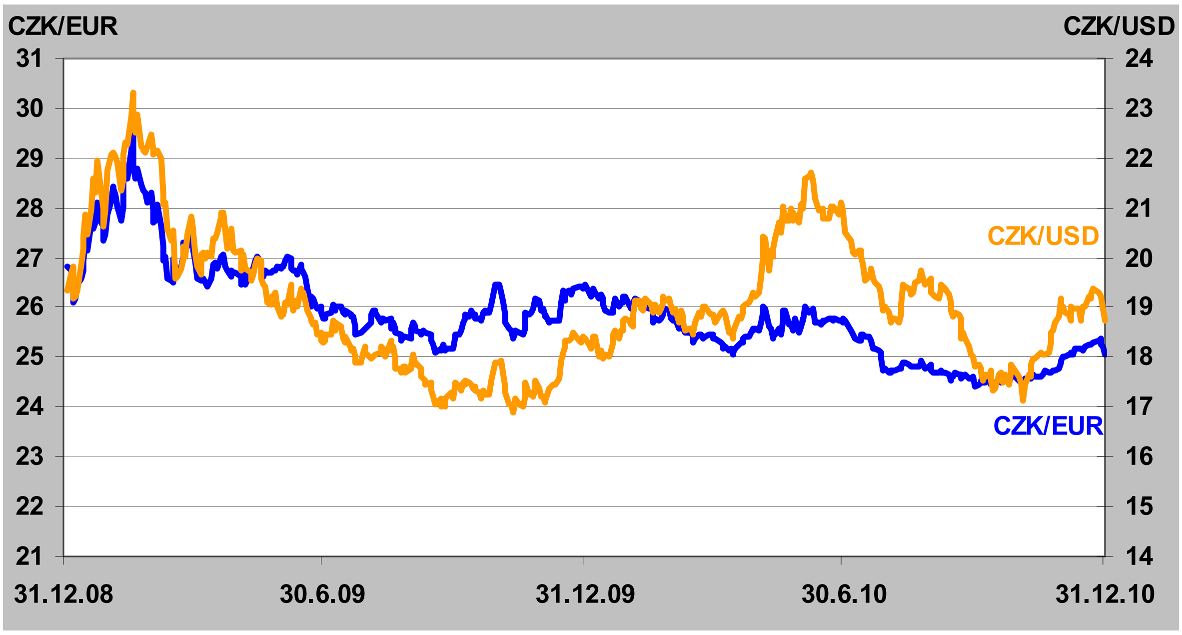
Source: MoF

Under the Government Debt Financing and Management Strategy for 2011 the planned government borrowing requirement, without the influence of asset operations in 2011, will be CZK 135.0 bn. This sum is composed of the primary balance of the state budget without re-borrowing and of net expenditure on servicing the government debt amounting to CZK 68.5 bn. The planned net borrowing requirement for the 2011-2013 period is much lower than originally planned, mainly in connection with the lower budgeted deficits that are a reflection of the process of fiscal consolidation implemented as part of the government reform programme and the drawdown of the cumulated financial reserve from issues performed in previous years.

6. FOREIGN EXCHANGE MARKET

2010 differed from a number of previous years in terms of the development of the Czech koruna exchange rate against the two leading global currencies. The koruna depreciated by 2.1% against the US dollar to 18.75 CZK/USD at the end of the period. Conversely, against the euro it appreciated by 5.3% to 25.06 CZK/EUR.

Graph 6.1: CZK exchange rates relative to major currencies



Source: CNB

Table 6.1: CZK exchange rates relative to major currencies

Average exchange rate						
	2006	2007	2008	2009	2010	Year-on-year change (%)
CZK/EUR	28.34	27.76	24.94	26.45	25.29	-4.37
CZK/USD	22.61	20.31	17.04	19.06	19.11	0.28
Exchange rate as at the end of						
	2006	2007	2008	2009	2010	Year-on-year change (%)
CZK/EUR	27.50	26.62	26.93	26.47	25.06	-5.31
CZK/USD	20.88	18.08	19.35	18.37	18.75	2.09

Source: CNB, CZSO

The koruna exchange rate against the two leading global currencies was mainly influenced by developments on the global financial markets. Unfavourable reports on the state of the economy and public finances in the USA and the eurozone crossed from one side of the Atlantic to the other. The resulting high level of volatility in the euro/dollar exchange rate subsequently influenced the changing developments in the koruna exchange rate with the dollar and with the euro. The Czech koruna exchange rate's greater close ties with the euro is mainly due to the territorial structure of exports, most of which head to eurozone countries. By contrast, there were considerable fluctuations in the koruna/dollar exchange rate.

Table 6.2: External financial relations

Annual (CZK bn)	2006	2007	2008	2009	2010
Payment balance - current account	-77.2	-113.1	-22.9	-114.8	-139.2
Trade balance	65.1	120.6	102.7	81.2	54.0
Payment balance - capital account	8.5	19.6	30.4	41.8	34.0
Payment balance - financial account	92.4	125.8	59.0	154.2	182.1

Source: CNB - ARAD

The economic situation in the Czech Republic did not have a significant impact on the koruna exchange rate. The economy retained a considerable trade surplus, albeit at a lower level than in the previous 3 years. The interest rate differential changed only slightly, however. Only the opposite development of inflation in the Czech Republic and the USA created to some extent grounds for the koruna to fall against the dollar. In the case of the eurozone the development of inflation was very similar.

Table 6.3: Comparison of economic indicators

2010 (%)	Inflation (year-on-year)			Key interest rate of central bank[45]		
	Czech Republic	Eurozone	USA	Czech Republic	Eurozone	USA
January	0.7	0.9	2,63	1.00	1.00	0,00-0,25
February	0.6	0.8	2,14	1.00	1.00	0,00-0,25
March	0.7	1.6	2,31	1.00	1.00	0,00-0,25
April	1.1	1.6	2,24	1.00	1.00	0,00-0,25
May	1.2	1.7	2,02	0.75	1.00	0,00-0,25
June	1.2	1.5	1,05	0.75	1.00	0,00-0,25
July	1.9	1.7	1,24	0.75	1.00	0,00-0,25
August	1.9	1.6	1,15	0.75	1.00	0,00-0,25
September	2.0	1.9	1,14	0.75	1.00	0,00-0,25
October	2.0	1.9	1,17	0.75	1.00	0,00-0,25
November	2.0	1.9	1,14	0.75	1.00	0,00-0,25
December	2.3	2.2	1,50	0.75	1.00	0,00-0,25

Source: CZSO, CNB, Eurostat, ECB, Fed

[45] CR: 2T repo rate of CNB, eurozone: ECB's main refinancing operations (minimum bid rate, or fixed rate), and USA: the Fed's intended federal funds rate.

7. FINANCIAL MARKET ACTIVITIES OF THE MOF

7.1. Ministry of Finance's activities on an international level

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

The Financial Services Committee (FSC) and the Economic and Financial Committee (EFC) are two of the expert committees of the Ecofin Council. The FSC is a forum for preliminary discussion of issues relating to financial services on an expert level and, together with the EFC, it takes part in the preparation of individual meetings of the Ecofin Council. The FSC's work is carried out by representatives of the member states' finance ministries, the EU, EC, ECB, and Level 2 and Level 3 Lamfalussy Committees.[46]

The EFC was established on the basis of Article 134 of the Treaty on the Functioning of the EU. It mainly handles the advisory and preparatory tasks set by this article of the Treaty or delegated directly by the Council. The core of the EFC's activity is monitoring the economic and financial situation in individual member states and the EU, presenting reports to the Ecofin Council and the EC, and contributing to the preparation of the Council's activities within the economic and financial sector. The committee comprises representatives of the member states' finance ministries, the EU, EC and ECB, and national central banks. The MoF regularly attends meetings of both committees and plays an active role at these meetings. The MoF cooperates with the CNB when preparing standpoints for the committees' meetings.

As in 2009, in 2010 the two committees mainly dealt with topics responding to the financial crisis. The main topic of discussion was the European Commission's crisis management initiative and the possible imposition of levies on financial institutions and the taxation of the financial sector. At their meetings the committees also dealt with the issues of the stress-testing of banks, developments on the financial markets, exit strategies, the new framework for supervision over the financial markets, sanctioning regimes in the field of financial services, remuneration in the financial sector, changes in the management and administration of financial institutions, selected accounting questions, the SEPA project (i.e. the Single European Payments Area) and derivatives regulation. The committees also participated in preparing a common position on matters to be discussed by the FSB and at G20 meetings.

In 2011 the committees continue to discuss issues linked to crisis management. Other topics of discussion are systemically important financial institutions, the strengthening of sanctioning regimes in the financial sector, derivatives and problems concerning ratings and credit rating agencies.

Ecofin Council

The Ecofin Council is one of ten configurations of the Council of the EU and is composed of finance ministers of EU member states (budget ministers also attend meetings at which budgetary matters are discussed). Its authority covers the adoption of measures in areas such as the coordination of economic policies and supervision over these policies, monitoring budgetary policy and the state of public finances in member states, the single currency, taxes, financial markets, the free movement of capital and economic cooperation with third countries. In conjunction with the EP the Ecofin Council also prepares and adopts the EU budget every year. The chair of the Council rotates every half-year based on a pre-approved order (the Czech Republic chaired the Council in the first half of 2009). The Ecofin Council usually meets once a month. Every six months the economic and finance ministers

[46] As at 1 January 2011 the level 3 committees (CEBS, CESR, CEIOPS) were transformed into new financial market supervisory bodies (EBA, ESMA, EIOPA).

also meet informally in the chair country. These informal meetings are attended by the governors of central banks.

The Ecofin Council's priority topics in 2010 mainly comprised the reform of financial markets supervision, crisis management, the possible introduction of a system of payments and taxes for financial institutions, and a legislative proposal concerning the alternative investment funds manager.

In 2010 the Ecofin Council:

- took note of the work programme of the Spanish presidency regarding economic and financial affairs: signs of stabilisation and recovery were beginning to appear and the greatest challenge in the coming months would be to outline an ambitious exit strategy, in both the short term and the long term (19 January 2010);
- took note of the proposals presented by the United States government concerning systemically important financial institutions and the work taking place in the Council in this area (16 February 2010);
- welcomed the EFC report on exit strategies; it took note that in certain areas of the banking sector problems persisted that would need to be addressed urgently by adequate restructuring; it invited the EFC to promote a coordinated phasing out of support measures among member states, to analyse how to avoid negative spill-over effects considering specific circumstances in member states and to monitor the developments in the financial markets and report to the Council on a regular basis as well as in view of the European Council of June 2010 (16 March 2010);
- underlined the need for rapid progress on financial market regulation and supervision, in particular with regard to derivative markets and role of credit rating agencies, the need to continue to work on other initiatives (e.g. the stability fee), which aim at ensuring that the financial sector in future bears its share of burden in case of a crisis and also exploring the possibility of a global financial transaction tax; the Council also agreed to speed up work on crisis management and resolution (extraordinary meeting, 9 May 2010);
- agreed on a general approach regarding a draft directive aimed at introducing harmonised EU rules for entities engaged in the alternative investment funds management; adopted conclusions concerning the avoidance, management and resolution of crises, acknowledging that the current EU coordination framework needs to be strengthened further; it invited the EC to concentrate, when developing an EU crisis management framework in the short-term to medium-term outlook, on a sufficiently broad set of instruments for prevention, timely intervention and problem-solving that would be harmonised among countries, as well as on strengthened supervisory powers and an appropriate coordination mechanism and, in the long term, to address problems that are specific to individual sectors in connection with the widening of the framework's scope to other types of financial institutions (18 May 2010);
- approved a report for the European Council concerning the progress made in strengthening financial regulation in response to the crisis in global financial markets; it took note of information from the presidency regarding ongoing negotiations with the EP on reform of the EU framework for the supervision of financial markets and draft EU rules for entities engaged in the management of alternative investment funds, as well as information from the EC concerning its work programme for financial services, including a communication on the possible establishment of funds to enable orderly resolution in the event of the failure of financial institutions (8 June 2010);
- took note of the Belgian presidency's work programme on economic and financial affairs (seeking to ensure the new supervisory mechanisms were introduced by the end of the year and continuing to work on the regulation of hedge funds and private equity firms, derivatives, short selling of credit default swaps and bank deposit guarantee systems); it adopted a political guideline for negotiations with the EP on a package of measures intended to reform the European framework for supervision of the financial system in the wake of the global financial crisis (13 July 2010);

- endorsed an agreement with the EP on a reform of the EU framework for financial supervision; it discussed the coordination of levies on banks and other financial institutions as part of the new framework for crisis management at EU level for the financial sector and also the introduction of a tax on financial transactions (7 September 2010);
- reached agreement on a draft directive concerning the management of hedge funds and other alternative investment funds with a view to concluding negotiations with the EP and thus enabling the adoption of the directive at the first reading; as part of the preparations for the October European Council it approved a report concerning levies and taxes on financial institutions in which it proposes focusing attention in the short term on achieving a minimum level of coordination, and in particular on eliminating the multiple burden on banks operating in several member states, and so that the creation of crisis resolution structures can be discussed in the medium-term outlook on the basis of the Commission's proposals (19 October 2010, Luxembourg);
- adopted legal texts underpinning a reform of the EU framework for supervision of the financial system and agreed on a general approach to a draft directive aimed at adapting the supervision of financial entities operating as a conglomerate to the new EU framework for the supervision of financial markets (17 November 2010);
- approved a report on the mechanisms for levies on banks that examined how the various introduced systems should be coordinated to prevent a multiple burden on banks operating in several member states; it took note of the presentation of a EC communication entitled "EU Framework for Crisis Management in the Financial Sector" and in this context adopted the appropriate conclusions, among them a road map with deadlines for the individual phases of the framework's adoption; it took note of a presidency progress report which dealt with work on a draft regulation on short selling and certain aspects of credit default swaps; it also took note of the presidency's compromise proposal (7 December 2010).

During its meetings, the Ecofin Council also addressed preparations for European Council meetings and the preparation of common position for the G20 meeting.

There were two informal meetings of finance minister and central bank governors in 2010. The first of these took place in April 2010 during the Spanish presidency and primarily discussed crisis management and also the financial services proposals being drawn up by the EC. The second meeting was held in September 2010 during the Belgian presidency. Among the topics under discussion were risks on the financial markets, credit rating agencies, the new structure of financial markets supervision, financial reform in the USA, Basel III and, last but not least, the introduction of levies and taxes on banks.

At the start of 2011 the Ecofin Council dealt with stress-testing on banks, reforms in the EU financial market and matters linked to financial stability and the new supervisory architecture.

Ecofin Council Working Party on Financial Services (WP D3)

The Ecofin Council Working Party on Financial Services is one of the preparatory bodies of the Council of the EU. It discusses the relevant legislative proposals of the EC regarding the financial markets before they are submitted to the Ecofin Council. The working party thus deals with a broader range of topics; their specific number depends on the discussion stage the individual legislative proposals are currently in and whether any new proposals have been published. The working party's meetings are attended by experts from EU member states; the working party is chaired by an expert from the EU presidency country.

During 2010 the Working Group on Financial Services continued to discuss draft regulations concerning the new financial markets supervision framework in the EU. This involved a package of 5 legislative proposals, based on which a two-pillar structure should be created. The first pillar would be the European Systemic Risk Board (ESRB), responsible for oversight and assessment of risks threatening financial stability in the EU, if necessary issuing warnings and recommendations. The second pillar is the European Supervisory Authorities, which comprises the ESRB, national supervisory authorities and three new European bodies (EBA – for banking; ESMA – for capital markets; and EIOPA – for insurance and occupational pension insurance) created out of the previous supervisory bodies (CEBS, CESR, CEIOPS). Besides carrying out their predecessors' existing tasks, these new supervisory bodies have been given additional powers (e.g. binding settlement of disputes between national supervisory authorities, issuing binding technical standards, a reinforced role in crisis situations, powers in the event of violations of EU law by national supervisory authorities).

In connection with the reform of supervision WP D3 also discussed the draft Omnibus Directive, which contains changes that need to be made in the sectoral legislation to take into account the new supervisory bodies.

In September 2010 the Council reached a compromise with the EP on the form of the new financial markets supervisory framework. It was approved on 22 September 2010 at a plenary session of the EP and subsequently on 17 November 2010 by the Ecofin Council. The legislation was published in the Official Bulletin on 15 December 2010. The new supervisory framework thus took effect on 1 January 2011.

Guarantee schemes in the field of banking and the capital markets were another item on WP D3's agenda.

After the EC published its legislative proposal for a new Deposit Guarantee Schemes Directive (DGS) in July 2010, negotiations began at the level of the Council, where several meetings of the expert DGS working group were held in the second half of 2010. The presented legislative proposal was reworked by the Belgian (and subsequently Hungarian) presidency several times in response to comments made by member states at the negotiations and put forward in writing. It was then consulted in the form of compromise proposals with a view to finding a common consensus. The most problematic and widely discussed points included the time limit for paying out reimbursement, the DGS financing system and the set of protected deposits and depositors. In addition, the link between the DGS and crisis management is another core topic. The publishing of a general approach is expected in the middle of 2011, followed by the adoption of the DGS directive.

The negotiations on compensation for investors are based on the draft amendment of the directive on investor compensation systems (ICS) of the EC of 12 July 2010, which was discussed at several meetings of the ICS working party, first at expert level and then at attaché level in the following months. At present (May 2011) there exists a third compromise text drawn up by the Belgian and then the Hungarian presidencies, based on member states' comments, and a new compromise text and further meetings of the working party are envisaged. The main topics of discussion include the question of ex ante and ex post financing (and the structure for collecting existing contributions by market actors), the size of the maximum compensation and the set of entities and services to be covered. Another point under discussion is the possibility of introducing a mutual borrowing facility between schemes in different member states and the preliminary payout of part of the anticipated entitlement in an effort to prevent payout delays, or alternatively at least to divide claims into contentious and non-contentious parts. A general approach is expected to be adopted in the 2nd half of 2011.

The EC published its draft regulation on OTC derivatives, central counterparties and trade repositories in September 2010. At the end of the 1st half of 2011 the draft was being discussed in the Council; it is expected to take effect from 1 January 2012. The regulation's primary objective is to reduce or possibly even eliminate systemic risk by means of several fundamental principles – greater standardisation of OTC derivative instruments, settlement of transactions through central counterparties, massive regulation of central counterparties, greater transparency, and a reporting duty. Besides the central counterparties and trade repositories, entities subject to regulation would include both financial and non-financial institutions.

The EC published its draft regulation establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) 924/2009 in December 2010. The regulation's main objective is to set deadlines for the termination of existing national payment schemes for credit transfers and direct debits in euros, to ensure these schemes are fully replaced by SEPA instruments and to define their technical requirements. Discussion of the regulation in the Ecofin working group began in January 2011; the regulation is expected to take effect at the end of 2011.

On 6 January 2010 Directive 2009/138/EC of the EP and of the Council on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) entered into effect. One of the main priorities for 2010 was to prepare a draft Omnibus II directive which, in the manner of Omnibus I, would amend certain regulations in connection with the formation of the European supervisory authorities. Besides the prospectus directive, this directive would mainly amend the Solvency II directive, for which it *inter alia* moves the transposition deadline to 1 January 2013, establishes EIOPA's mediation powers, contains an empowerment to adopt technical standards and proposes a number of transitory provisions to ensure a smooth transition to regulation under Solvency II.

A decision was made in 2010 to revise Directive 2002/87/EC on financial conglomerates in two steps. First, in August 2010 the EC presented a technical amendment of this directive aimed at modifying problematic aspects of supervision of financial conglomerates which arose in consequence of this directive colliding with the regulation of the banking and insurance sector and which need to be eliminated as soon as possible. The second phase should bring a fundamental revision of the entire directive, mainly as regards the subject of regulation, identification of financial conglomerates and the performance of supervision. The technical amendment of the FICOD should enter into force at the end of 2012. The fundamental revision is planned for a later date.

Another step was taken to modify the regulation of credit rating agencies in 2010. Based on a EC proposal adopted on 2 June 2010 a draft regulation of the EP and of the Council amending Regulation (EC) 1060/2009 on credit rating agencies. The final form of the draft was approved on 11 April 2011 and it is expected to be published in the EU Official Bulletin very soon. The draft is intended to transpose into the credit rating agencies regulation institutes that are linked to the new regulatory structure of the European financial markets. Above all, the draft scraps the current credit rating agencies registration method (through the relevant authorities of individual member states with the assistance of their colleagues and the Committee of European Securities Regulators) and entrusts to ESMA bodies the authority to permit and supervise credit rating agencies for the entire EU. In addition, the ESMA is supposed to be given direct supervisory powers over persons involved in rating activities in individual member states.

The MoF also participated in an expert-level meeting in the Council of the EU on 24 November 2010 in connection with the draft regulation on short selling and certain aspects of credit default swaps; the outcome was the adoption of a compromise proposal. According to the EC, the chief objective of the proposal under discussion is to address the potential risks that short selling of securities or naked credit default swaps pose to market stability and confidence. The intention is to harmonise the requirements concerning short selling throughout the EU, to harmonise the powers the regulatory authorities can apply in exceptional situations where there is a serious threat to financial stability or market confidence and to ensure greater coordination and uniformity between member states in such situations. Under the proposal, the ESMA should also be equipped by extensive powers to prohibit or restrict short selling or certain credit default swaps in EU member states.

Given the original text proposed by the EC, in particular the current wording of the second sub-paragraph of Article 24 (1) can be considered a success – here the Czech Republic and the other concerned member states pushed through a modification enabling the ESMA to regulate transactions in government bond instruments solely with the prior consent of the relevant authority of the affected member state. Further discussion of the proposal in the Ecofin Council is currently expected.

European Council

The European Council is the most important political body of the EU, comprising top-level officials of member states (heads of states or prime ministers) and the EC President. The European Council meets at least four times a year, determining the general political direction of the EU.

At its meetings during 2010, the European Council focussed on financial services regulation issues, specifically: the new framework for financial markets supervision; legislative proposals regarding alternative investment fund managers; derivatives markets; and bank levies and taxes. At its June meeting, it was agreed that the Member States should implement a systems of levies and taxes that would ensure that the burden is shared fairly between financial institions and provide motivation to limit system risks, with the Czech Republic reserving the right to not implement this measure.

Level 2 committees of the Lamfalussy process

European Banking Committee

The EBC is an advisory committee to the EC composed of high officials of member states and EC representatives. It acts as an advisory body for the drafting of EU legislation on banking.

The committee met four times in 2010. The principal item on the agenda was proposals relating to the reform of banking regulation to make the banking sector more resilient. Important aspects of the draft regulation and draft Capital Requirement Directive (CRD IV), which will transpose the recommendations of the BCBS (adopted in December 2010, known as Basel III) into European legislation, were discussed. The main topics were the rules on regulatory capital, the creation of capital cushions, leverage, the definition of liquidity standards and the tightening of the prudential rules governing the banks' trading portfolio.

Other topics discussed by the committee included questions concerning the organisation of supervision at EU level, the issue of bank guarantee schemes and the Commission's concept for the creation of a new crisis management framework in the banking sector.

European Insurance and Occupational Pensions Committee (EIOPC)

The EIOPC is an advisory body to the EC which deals with both expert and political questions linked to the insurance sector, including pension funds. It is composed of representatives of member states' governments at ministry level and EC representatives. Representatives of EIOPA (up to 1 January 2011 CEIOPS) and EEA countries attend as observers. Its mission is to assess any questions relating to the application of EU regulations on insurance and occupational employee insurance.

The committee mainly focused on the Solvency II directive and the related impact study (QIS5). It also dealt with the preparation of implementing regulations for the Solvency II directive, with a special working group set up for this purpose. In relation to Solvency II the committee also discussed the preparation of the Omnibus II directive that will revise Solvency II in order to adapt it to the newly formed European supervisory authorities. During 2010 the EIOPC also paid attention to the creation of technical standards (level 3 guidelines) that will be drawn up by the European supervisory body EIOPA.

The EIOPC also deals with the revision of the Insurance Mediation Directive (IMD). At the same time it monitors the initiative in the area of retail investment products.

In the longer term the EIOPC's work should also cover the harmonisation of the introduction and modalities of insurance guarantee schemes and the new approach to the management of risk and capital requirements in connection with the directive on institutions for occupational retirement provision (IORP) within the wider area of topics introduced by the EC in respect of pensions.

Last but not least, the committee discussed the impacts of the judgement of the European Court of Justice in the case of C-236/09 (not published until 1 March 2011), which repeals Article 5 (2) of Directive 2004/113/EC with effect from 21 December 2012. This judgement will have an impact on the insurance sector, for insurance companies will now lose their exemption from sex discrimination on that date and will thus not be able to factor gender into their calculations of insurance premiums and benefits.

European Securities Committee (ESC)

The MoF attended all five meetings of the committee in 2010. Among other things, the committee discussed the proposed modifications of the implementing regulations for Directive 2009/65/EC of the EP and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), which were later implemented by EC Regulations 583/2010/EU and 584/2010/EU.

OECD

Committee on Financial Markets (CMF under OECD)

The CMF is the main OECD body dealing with issues in financial markets. It monitors and studies measures intended to improve the operation of national financial markets and the international financial and foreign exchange market and discusses conceptual and strategic trends. It is part of the international network of authorities that supervise the development of the financial system and strive for international cooperation and coordination and greater consistency of financial markets regulation. Its members are representatives of finance ministries and central banks of OECD member states. Specific aspects of the committee's work include meetings with representatives of the private financial sphere at which topics of common interest between the public and private sectors relating to development trends in the global financial market are discussed.

The MoF representative attended both sessions of the committee in 2010, which addressed general questions of the situation and future direction of the financial markets. Specifically, the committee dealt with the impact of low interest rates on future market development, the consequences of uncertainty surrounding the impact of governments' debt financing on financial sector stability, changes in the regulation of the banking sector, crisis management, consumer protection in the financial market and financial education and literacy.

In 2011 the MoF took part in the one meeting held to date, at which committee members exchanged experiences with financial sector reforms aimed at promoting long-term investments and ecological projects, systemically important financial institutions and deposit guarantee schemes.

Insurance and Private Pensions Committee (IPPC under OECD)

The IPPC is the main OECD body dealing with the insurance market, supervision in the insurance sector and private pensions, i.e. the non-public sector of pension security (within the IPPC the issue of private pensions is dealt with by the Working Party for Private Pensions, or WPPP). The IPPC strives for international cooperation, coordination and greater consistency of the regulation of the said financial market sectors. Its members are representatives of finance ministries and those state authorities dealing with the insurance sector and private pensions; they are also attended by representatives of the supervisory authorities of OECD member states.

The key points on the agenda in 2010 were the Guidelines on Insurance Governance, financial education, consumer protection in the insurance sector, catastrophic risks and the effectiveness and efficiency of regulation.

G20

The G20 group, composed of the finance ministers and governors of the central banks of 19 countries[47] and the EU (represented by the current presidency country and the ECB), was established in 1999 to provide a forum for exchange of opinions between the leading world economies on key questions affecting the global economy. In 2010 the group was chaired by South Korea, and the group convened in Toronto in June and in Seoul in November.

At its June summit the G20 leaders issued a Declaration stating that the financial sector reform rests on four pillars:

- 1st pillar – a strong regulatory framework: the G20 leaders supported the work done and progress made by the BCBS towards a new global regime for bank capital and liquidity. The leaders also agreed to strengthen financial market infrastructure by accelerating the implementation of measures to improve transparency and oversight of hedge funds, credit rating agencies and OTC derivatives;
- 2nd pillar – effective supervision: the G20 leaders agreed that new, stronger rules must be complemented with effective oversight;
- 3rd pillar – systemically important financial institutions: the leaders made a commitment to design and implement a system providing the powers and tools to restructure or resolve all types of financial institutions in crisis without taxpayers ultimately paying the burden;
- 4th pillar – transparent international assessment and peer review: in this context the G20 leaders are addressing non-cooperating jurisdictions, among other things.

At the November summit the G20 leaders:

- endorsed the agreement reached by the BCBS on the new framework which increases the resilience of the global banking system by raising the quality, quantity and international consistency of bank capital and liquidity;
- reaffirmed their view that no firm should be too big to fail and that taxpayers should not bear the costs of resolution;
- reaffirmed their Toronto commitment to national-level implementation of the BCBS's cross-border resolution recommendations;
- endorsed the policy recommendations prepared by the FSB in consultation with the IMF on increasing supervisory intensity and effectiveness.

Other selected platforms of the European Commission

European Financial Conglomerates Committee (EFCC)

The EFCC is a Level 2 committee mainly dealing with expert issues directly associated with conglomerates. It comprises representatives of member states' governments at ministry level as well as EC representatives. Representatives of Level 3 committees – most frequently EIOPA or ESMA (CEIOPS or CEBS up to 1 January 2011) – attend the committee meetings as observers.

The committee dealt with the revision of the Financial Conglomerates Directive (FICOD), which is meant to take place in two steps. In August 2010 the EC published the technical amendment of the directive, which also amends the CRD directive, the IGD directive (Insurance Group Directive) and

[47] The member states 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 United States of America.

the Solvency II Directive with a view to widening sectoral supervision to cover mixed financial holding companies that would otherwise only be subject to supplementary supervision at conglomerate level. The FICOD revision makes cooperation between the concerned supervisory authorities and the coordinator more effective, makes the definition of a financial conglomerate and the definition of "participation" more precise, and now includes management companies under supplementary supervision. Last but not least, it establishes certain powers for the newly created European supervisory authorities, EIOPA, EBA and their Joint Committee.

In the second phase there should be a fundamental revision of FICOD. That should focus on including as yet unregulated entities under the directive's regulatory scope, changing the definition of a financial conglomerate in the light of the disappearing boundaries between sectors, harmonising regulatory capital across all the directives and revising the powers of the relevant supervisory bodies.

Government Expert Group on Retail Financial Services (GEGRFS)

The GEGRFS is an expert group of the EC dealing with issues relating to retail financial services. The work of this group is mainly based on the Green Paper on Retail Financial Services in the Single Market published in May 2007. Both specific legislative/non-legislative proposals of the EC and topics in the expert discussion stage are presented during the group's meetings. MoF representatives attend all meetings of this group.

The main topics of discussion in the GEGRFS in 2010 were questions concerning bank charges, what are known as tied retail products, the consumer's right of access to a basic payment account, collective compensation systems and out-of-court settlement of consumer disputes. The EC has for long mapped these issues with a view to formulating the kind of policy in future that would adequately resolve problems of consumer protection and the development of the retail financial market. There was also discussion in the expert group concerning the Insurance Mediation Directive (IMD) revision under preparation and the preparation of regulation of "packaged retail investment products" (PRIPs) that is taking place in coordination with it. The principal aim of both legislative initiatives is to strengthen and unify consumer protection in the financial market and to develop the EU single market in financial services.

Government Expert Group on Mortgage Credit (GEGMC)

The GEGMC was set up in 2005 as an advisory body to the EC. It is composed of representatives of EU member states and certain EFTA states. Its key task is to assist the EC in developing its strategy in the area of mortgage credit.

A meeting of the GEGMC was held on 8 September 2010. The Commission's representative at the meeting presented a plan to submit to the Council at the start of 2011 a draft directive on responsible mortgage lending and borrowing, which included a working document outlining the Commission's basic ideas for the new directive. The working document reveals that the draft will be derived to a large extent from Directive 2008/48/EC on credit agreements for consumers, whereby in many regards the draft elaborates the individual institutes based on experiences with the aforementioned directive and also reflects the differences between consumer and mortgage credit.

Early Intervention Working Group (EIWG)

The Commission's EIWG acts as an expert forum for discussing proposals relating to crisis management of banking institutions. Here, member states may present their view of various aspects of the crisis management framework being prepared.

In 2010 and at the start of 2011 the EIWG discussed the basic sets of topics relating to the banking sector crisis management framework under preparation; this framework should reflect member states' negative experiences with resolving bank failures. The entire framework should rest on three pillars: preventive measures reducing the likelihood of financial stress in a specific institution; early intervention measures to be applied before a crisis situation arises; and the actual resolution of an existing crisis situation by means of a set of tools specially designed for the needs of financial institutions (bridge bank tool, sale of business tool, debt write-down tool etc.). The financing of these measures is a chapter unto itself: the EC is promoting the concept of a special crisis fund financed by an ex ante levy imposed on selected bank liabilities. The framework's cross-border dimension is a highly sensitive topic covered by EIWG's discussions.

On 20 October 2010 the EC published a communication entitled EU Framework for Crisis Management in the Financial Sector, setting out its idea about the basic form of the framework. Public consultation on the technical details of the prepared framework was launched on 6 January 2011. The EC announced it would present the concrete legislative form of the crisis management framework in September 2011.

Deposit Guarantee Schemes Working Group (DGSWG)

The DGSWG operates as a special platform of the EC and member states for expert-level discussion of changes affecting the legislative framework of the deposit guarantee schemes. The opinions of the EC and individual countries on various aspects of deposit guarantees are harmonised and clarified here.

In 2010 the EC went ahead with the process of drafting a new Deposit Guarantee Schemes Directive. Meetings of the DGS working group, attended by MoF representatives, discussed various aspects of the future working of the DGS (with particular regard to the level of guarantee coverage, the shortening of time limits for paying out reimbursements, funding, geographical aspects, the level of mutual cooperation and impacts on the crisis management area), with a view to making the deposit guarantee schemes more effective. In July 2010 a draft of the new DGS directive was published (in a joint package with proposals concerning guarantee schemes on the capital market and in insurance). The discussions then moved to the Council's expert working group.

Capital Requirement Directive Working Group (CRDWG)

The CRDWG is an expert working group of the EC composed of representatives of member states and the EC. The working group discusses European banking regulation. The meetings mainly deal with the Commission's legislative proposals concerning changes to the Capital Requirement Directive (CRD).

In connection with the ongoing preparations for the reform of the global regulatory framework (Basel III), whose definitive form was published by the BCBS in December 2010, work went ahead at EC level on a revision of the capital requirements directive, known as CRD IV, in December 2010. Negotiations on the Commission's proposals were held within the CRDWG with the active involvement of MoF representatives, preparing proposals and comments in cooperation with the Czech National Bank. The discussions mainly covered the rules on regulatory capital, the creation of capital cushions, the introduction of a leverage ratio and liquidity standards, and tighter prudential rules for the banks' trading book (counterparty risk). In addition, a proposal to restrict the discretion contained in the CRD in order to unify the rules for banking regulation within the EU ("single rule book") was discussed.

As part of the revision of the directive the creation of provisions (referred to as "dynamic provisioning") and the question of systemically important institutions that should be subject to the most stringent requirements were discussed. As both issues are relatively complex and still being resolved at international level, the EC decided that these areas would not be part of CRD IV and that work on these two issues would continue in the coming period.

The draft CRD IV legislation in the form of a directive and a regulation will be presented by the EC at the turn of June and July 2011 at the latest. Once they have been approved by the Council and the EP both the directive and the regulation will be transposed into Czech law.

Payments Committee (PC)

The Payments Committee is a standing advisory committee to the EC on legislative matters related to payment services. At present the key issues are the implementation of the directives on payment services (PSD), electronic money (EMD) and the transition to SEPA. Meetings are held twice a year, chaired by the EC. Representatives of all EU countries are invited. Representatives of EFTA and EEA countries, EU candidate countries and the European Central Bank are invited as observers.

Market Infrastructure Working Group – Central Securities Depositories (CSDWG)

The CSDWG is a EC working group dealing with the preparation of regulation covering central securities depositories. The regulation proposal should be published by the EC in 2011. The aim is two-fold: to increase certainty in the provision of central securities depository services and to create a framework for better cross-border operation.

Securities Law Directive Working Group (SLDWG)

The SLDWG is a working group dealing with the finalisation of the draft directive harmonising the law on indirectly held securities. The Commission’s proposal will be based on the work of the Legal Certainty Group (a EC advisory group). The SLDWG was established at the end of 2009; several meetings of the group were held in 2010; and the EC proposal should be published in the first half of 2011. The aim of the draft directive is to harmonise material law concerning indirectly held securities, which should lead to greater uniformity of the rules and thus increase the legal certainty of investors, make cross-border operations cheaper and reduce transaction costs.

Close-out Netting Working Group (CoNWG)

The CoNWG is a EC working group focusing on the unification of material law on close-out netting. A draft directive should be published by the EC in 2011.

7.2. Financial markets legislation

7.2.1. Law of the European Union

Financial markets supervision

In September 2010 the Council reached a compromise with the EP on the form of the new financial markets supervisory framework, which was subsequently approved at a plenary session of the EP on 22 September 2010 and was formally confirmed by the Ecofin Council on 17 November 2010.

The new supervision system took effect on 1 January 2011 and is composed of the ESRB, responsible for what is known as macro-supervision, whose role is to supervise and assess risks jeopardising financial stability in the EU and, if necessary, to issue warnings and recommendations, and the European Supervisory Authorities, which consists of the ESRB and national supervisory bodies and the three new European bodies (EBA – for banking, ESMA – for capital markets, and EIOPA – for insurance and occupational pension insurance) created out of the previous supervisory committees (CEBS, CESR, CEIOPS). Besides carrying on with their predecessors' roles, the new supervisory bodies have been given some additional powers (e.g. binding settlement of disputes between national supervisory authorities, issuing binding technical standards, a reinforced role in crisis situations and powers in the event of violations of EU law by national supervisory authorities).

In connection with the supervisory reform, in autumn 2010 a draft of the Omnibus Directive was approved, containing changes that need to be made in the sectoral legislation to take account of the new supervisory bodies. The deadline for the transposition of this directive into member states' national law has been set at 31 December 2011.

Guarantee schemes

In the second half of 2010 the EC published legislative proposals concerning the revision of guarantee schemes for the banking and insurance sectors. The principal aims of the new draft Directive on Deposit Guarantee Schemes are to harmonise the working of national schemes and to provide improved protection of depositors. The draft amendment of the Directive on Investor Compensation Scheme is primarily a response to the new conditions on the capital market since the original directive was promulgated in 1997 and takes into account the need to close the loopholes that have emerged in the practice of investor protection. The said draft directives are currently being discussed in both the Council and the EP. The programme of the Hungarian presidency anticipates that a general approach to the draft new Directive on Deposit Guarantee Schemes will be approved by the Ecofin Council at its June meeting.

Crisis management

The EC issued two communications concerning crisis management during 2010: the Communication on Bank Resolution Funds and the Communication on a New EU Framework for Crisis Management in the Financial Sector. The ultimate goal of the European crisis management framework is to bring about a state of affairs where every institution in difficulty, regardless of its type, size or systemic importance, can fail without jeopardising financial stability and needing taxpayers' money. The EC plans to present the relevant legislative proposals in September 2011.

CRD III

Discussion of the draft amendment of the Capital Requirements Directive, known as CRD III, went ahead in 2010, above all in the EP. This directive was published in the Official Bulletin under number 2010/76/EU in autumn. The directive was prepared in response to the crisis in the financial markets and primarily strengthens the capital requirements for credit institutions' trading portfolio, sets out rules on re-securitisation and requirements for remuneration policies within the framework of institutions' management and control system.

CRD IV

Negotiations on further changes to banking regulation, i.e. CRD IV, also took place in the EC during 2010. These changes to be made within the EU in connection with the Basel III document approved by the BCBS are intended to put in place the right conditions for strengthening the resilience of the banking system. The amendments of the existing directives 2006/48/EC and 2006/49/EC should be adopted in the form of a regulation of the EP and Council and a directive of the EP and Council.

The EC should publish the drafts of the said European regulations in the middle of 2011. The principal legislative changes include strengthening the quality and quantity of capital, introducing capital cushions with a view to mitigating the pro-cyclical effects of the existing legislation on capital requirements, introducing a leverage ratio in order to restrict excessive growth in institutions' balance sheets, defining liquidity standards and tighter prudential rules for the banks' trading book. The Commission's legislative proposals also put restrictions on the discretion allowed for in the CRD in order to unify the rules for banks ("single rule book").

Basic bank account

In the second half of 2010 the EC opened a public consultation on access to a basic bank account. The MoF played an active role in this consultation. In line with the consultation's results a legislative initiative is expected in 2011 (probably a draft regulation) on access to a basic bank account. The purpose of the initiative should be to guarantee every EU citizen the right of access and use to a bank account irrespective of their place of residence in the EU. The basic bank account should enable the owner to deposit and withdraw cash and perform payment transactions.

Insurance

On 6 January 2010 Directive 2009/138/EC of the EP and of the Council on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II) began to apply. The Czech Republic played a significant role in the completion of the directive during its presidency of the Council of the EU. The EC very actively worked on drafting extensive implementing measures for this directive (level 2 Lamfalussy process) in 2009 and 2010; this process is still ongoing. The discussion of these measures, which will take the form of a European EC regulation, is planned to be completed during 2012. At the same time, level 3 draft regulations (technical standards) are being drawn up for the Solvency II directive; these standards will be binding, but unlike the level 2 regulations they will be discussed and adopted gradually up to 2017.

The draft Omnibus II Directive was also prepared during 2010. Like Omnibus I, Omnibus II amends certain regulations in connection with the creation of the European supervisory authorities, specifically the Prospectus Directive and, most notably, the Solvency II directive, for which Omnibus II moves the transposition deadline to 1 January 2013.

Following extensive discussions, a decision was made to revise Directive 2002/87/EC on financial conglomerates, and to do so in two steps. First, in August 2010 the EC presented a technical amendment of this directive aimed at modifying problematic aspects of the supervision of financial conglomerates which arose in consequence of this directive colliding with the regulation of the banking and insurance sector and which need to be eliminated as soon as possible. The second phase should bring a fundamental revision of the identification and supervision of financial conglomerates. The technical amendment of the Financial Conglomerates Directive should enter into force at the end of 2012. The fundamental revision is planned for the following years.

7.2.2. National legislation

Financial markets supervision

The reform of the financial markets supervision in the EU made it necessary to adapt Czech law to the regulation on the new regulatory framework, which was done through an amendment of Act No. 6/1993, on the Czech National Bank. Work on this amendment began in autumn 2010 and the amendment took effect at the start of March 2011.

Since the end of 2010 the MoF has also worked on transposing the Omnibus I directive through a draft act amending certain acts in consequence with the reform of the financial markets supervision in the EU. This draft act was opened for interdepartmental comments in April 2011; the deadline for submitting the draft act to the government was set at 30 June 2011.

Transposition of CRD II and CRD III

The legislative process for an act amending certain acts in connection with the capital requirements and supervision of banks, building societies and credit unions, and investment firms took place during 2010. This act amended the acts on banks, the act on savings and credit unions and the act on capital market undertakings. Both Directive 2009/111/EC of the EP and of the Council amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds, large exposures, supervisory arrangements and crisis management (CRD II) and Directive 2010/76/EC of the EP and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies (CRD III) were transposed into the said piece of Czech legislation. Besides transposing these two European directives, the act also enables the transformation of credit unions into banks. The act entered into effect on 28 February 2011 (certain provisions on 31 December 2011).

Amendment of the act on building savings schemes

An amendment of the act on building savings schemes was discussed in the 2nd half of 2010. Its aim was to reduce the burden on the expenditure side of the state budget derived from the payment of state support for building savings. This amendment also levelled the conditions for taxing interest revenues from building savings deposits to match the conditions for taxing equivalent revenues from other bank deposit products. The act entered into effect on 1 January 2011 but was then repealed by Constitutional Court finding no. 119/2011 on the grounds it was adopted in a state of legislative emergency. Legislators were given until 31 December 2011 to adopt new legislation by standard legislative process, as the act repealed by the finding is repealed as of 1 January 2012. For that reason, a further amendment of the act on building savings will be submitted in the 1st half of 2011 – the new amendment will be substantively identical to the repealed act, with the exception of the special withholding tax of 50% on state support for building savings which the repealed act introduced and which the Constitutional Court found to be unconstitutional.

Amendment of the act on the Czech National Bank

The preparation of an amendment of Act No. 6/1993, on the Czech National Bank, as amended, was begun at the end of 2010 with a view to eliminating the shortcomings in the national legislation identified by the European Central Bank and thus brining this act into line with the provisions of the Treaty on the Functioning of the EU and the Statute of the European System of Central Banks and of the European Central Bank.

Amendment of the act on banks and certain other acts in connection with the change in approach to the branches of foreign banks domiciled in countries outside the EU/EEA

In the 2nd half of 2010 the MoF began work on another amendment of the act on banks and the act on credit unions introducing new rules for the start-up and operation of branches of third-country domiciled banks in the territory of the Czech Republic.

Standard funds undertakings

With regard to the capital market legislative work began in 2010 to transpose Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS IV). The purpose of the directive is to deepen the harmonisation of legislation on standard funds in the EU. The key changes that will be incorporated into the amendment of Act No. 189/2004, on collective investment, as amended, is to enable cross-border transformations of standard funds, allow the use of master-feeder structures, introduce an obligation to provide key information instead of the Simplified Prospectus and to establish in law the "European passport" for management company.

Financial collateral

A uniform act on financial collateral arrangements was adopted in 2010. The new act regulates the procedure for collateralising claims by means of a contract on financial collateral, the persons authorised to negotiate financial collateral, their rights and obligations, and other matters linked to financial collateral.

Credit rating agencies
The upshot of the legislative work begun at the start of 2010 was the adoption of Act No. 160/2010, amending certain acts in connection with the adoption of the regulation of the EP and of the Council on credit rating agencies. The act is an adaptive piece of legislation based on Regulation 1060/2009 on credit rating agencies, which imposes rights and obligations directly on those entities covered by the regulation. The purpose of the act was therefore to fulfil the obligation imposed on member states and to define rules for issuing ratings and for the supervision system covering the work of credit rating agencies and to lay down a registration obligation for credit rating agencies.

Electronic money and clearing/settlement finality
A draft act on new rules for the issuance of electronic money and new rules on settlement finality in payment and securities settlement systems passed through the legislative process in the 2nd half of 2010 and the 1st half of 2011. This was Act 139/2011, amending Act 284/2009, on payment, as amended by Act 156/2010, and amending certain other acts.[48] The effective date is 27 May 2011.

Circulation of banknotes and coins
In December 2009 a draft act on the circulation of banks and coins was submitted to the government. The draft act is intended to regulate the circulation and protection of legal tender, both the European single currency and the Czech koruna. The act takes up certain provisions hitherto contained in Decree 37/1994, which it repeals. These provisions are to a certain degree loosened so that there is greater scope for agreement between the involved parties. The draft act also introduces a completely new obligation for the registration of legal persons that handle cash for other entities. The legislative process was completed in the first half of 2011 and Act 136/2011, on the circulation of banknotes and coins and amending Act 6/1993, on the Czech National Bank, as amended, will take effect on 1 July 2011.

Consumer credit
The joint legislative work by the Ministry of Industry and Trade, as the principal authority, and the MoF, as a co-authority, to transpose Directive 2008/48/EC on credit agreements for consumer into Czech law was completed at the start of 2010. The effective date was deferred to 1 January 2011 out of concerns whether the legislative process would be completed by the proposed effective date in line with the transposition deadline that was originally set by the directive. The actual act on consumer credit entered began to apply on 20 May 2010 upon its promulgation in the Collection of Laws under no. 145/2010.

The core of the new act is the strengthening of the consumer's position vis-à-vis consumer credit providers through extensive information duties in various phases of the negotiation of consumer credit contracts and in advertising and the course of the contractual relationship, the option of repudiating the contract within 14 days after its conclusion, the obligation to assess the consumer's creditworthiness, and the option of early repayment of consumer credit with a legally limited reimbursement of costs.

Guarantees of deposits with banks and credit unions
In the first half of 2010 Act 156/2010 was adopted, transposing the Deposit Guarantee Scheme Directive (DGS). The act amended the act on banks and other related regulations. Among the most important changes this amendment brings are the doubling of the level of the guarantee on deposits with credit institutions (i.e. to EUR 100,000), which took effect on 31 December 2010 and the

[48] In connection with the transposition of Directive 2009/110/EC of the EP and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC, and Directive 2009/44/EC amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims.

substantial shortening of certain time limits – mainly time limits for payment of reimbursement on claims on deposits that are provided out of the Deposit Insurance Fund.

In order to implement the legal empowerment stemming from the act on banks the MoF began work on a decree governing the form, structure and manner of maintaining and providing the data which banks and branches of foreign banks are obliged to keep and which they are obliged to provide to the Deposit Insurance Fund. In order to speed up the payment of reimbursements the legislation requires banks and branches of foreign banks to keep and hand over to the Deposit Insurance Fund records of data concerning the insured claims on deposits. The implementing regulation – a MoF decree – defines the form, structure and manner of maintaining and providing these data regarding insured claims on deposits. The decree was published in the Collection of Laws with effect from 1 April 2011 under no. 71/2011.

Financial arbiter

The amendment of the act on the financial arbiter that was intended to widen the financial arbiter's scope of authority was originally submitted by the MoF (as the co-authority) as part of the new act on consumer credit, but during the legislative process this amendment was made into a separate act intended to switch the financing of the financial arbiter from the Czech National Bank to the state, while simultaneously establishing a new organisational component of the state called the Office of the Financial Arbiter. It was put before the Chamber of Deputies as a government bill, but the Chamber of Deputies did not manage to debate it before its dissolution in spring 2010.

The MoF therefore prepared a new amendment of the act on the financial arbiter which, besides broadening the scope of the financial arbiter's authority to cover consumer credit and switch the responsibility for its financing, is intended to give the financial arbiter powers over collective investment disputes as well (in connection with the amendment of the act on collective investments that transposes UCITS IV). The need for switching the financing responsibility is substantiated by conflict with EU primary and secondary law, specifically ensuring the central bank's independence and the ban on monetary financing of requirements the member state is obliged to provide for. The government approved this amendment on 22 December 2010 and it was put before the Chamber of Deputies as a government bill.

Distribution of financial services

The MoF has begun to prepare a new act on the distribution of financial services that unifies the rules for offering and mediating financial products and services and for the provision of financial consulting. The MoF has also begun to prepare an amendment of the act on insurance intermediaries and loss adjusters. The principal aim of both legislative initiatives is to boost consumer protection and to unify the system of business licences in the financial market. The draft acts should be submitted during 2011.

Insurance

Act 277/2009, on insurance, took effect on 1 January 2010, having been discussed in the legislative process since 2008. This act superseded the previous legislation and transposed the directive on reinsurance.

Work was also begun on an amendment of Act 340/2006, on the activities of occupational pension insurance institutions from EU member states or other states signatories to the Agreement on the European Economic Area in the territory of the Czech Republic, with a view to responding to the January 2010 judgement of the European Court of Justice reproaching the Czech Republic for insufficient transposition of the directive on occupational pension insurance. The amendment is expected to take effect in September 2011.

7.3. Consumer protection in the financial market

Financial education

Since the start of 2010 work has been taking place under the guidance of the MoF on updating the Financial Education Strategy, which was approved by the government as the National Strategy Identifying the Key Actors in the Field of Financial Education and Setting Specific Tasks to Increase the Financial Literacy of the Population of the Czech Republic. Within the Working Group on Financial Education, an independent platform for the exchange of information and experience regarding financial education comprising representatives from the concerned ministries, the CNB, professional associations operating in the financial market, representatives of the providers of educational projects, consumer associations and education experts, an Executive Committee was established, composed of finance ministry, education ministry and CNB representatives, whose main tasks are to make the Working Group more effective, to coordinate its members, issue recommendations and draw up opinions on questions of financial education. Also during the year a joint MoF and CNB project was implemented as the first attempt to provide a comprehensive objective measurement of the financial literacy of the adult population of the Czech Republic as a starting point for further educational projects and activities. The full outputs of the measurement are published on the MoF web site.

Alternative dispute resolution

The alternative resolution of consumer disputes was widely discussed in 2010. In connection with the abuse of arbitration clauses in consumer agreements, discussions were held at the Ministry of Justice on possible changes to the law governing arbitration proceedings with a view to strengthening consumer protection (see below). In addition, a public tender was held after the completion of the pilot phase of the Alternative Resolution of Consumer Disputes Project of the Ministry of Industry and Trade to select the implementer of the this project. This issue was also discussed in the Platform of the Ministry of Industry and Trade for Alternative Resolution of Consumer Disputes, which the MoF actively participates in as a member. Last but not least, the MoF performed legislative work in connection with the widening of the scope of the financial arbiter’s powers to cover consumer agreement and collective investment disputes (see above).

Working Group on the Amendment of the Act on Arbitration

In 2010 the MoF took part in meetings of the Working Group on the Amendment of the Act on Arbitration. This working group was set up by the Ministry of Justice in September 2010 prior to the preparation of the relevant amendment of the act on arbitration. Other members were representatives of lawyers, judges, arbiters, the Court of Arbitration attached to the Chamber of Commerce of the Czech Republic and the Agrarian Chamber of the Czech Republic, academia and the Ministry of Industry and Trade. The working group primarily discussed the following topics: raising the qualifications of arbiters, introducing records of and effective supervision of arbiters, resolving the issue of arbitration clauses in consumer agreements etc. Possible versions of the amendment of the arbitration act and specific resources that were subsequently incorporated into the amendment were discussed with the working group. The Ministry of Justice opened this amendment of the arbitration act for comments at the end of 2010.

Distribution of financial services

One of the MoF’s key legislative activities in the field of consumer protection in the financial market is to prepare the harmonisation of the rules governing the distribution of financial products and services.

With a view to defining expertise standards for persons taking part in the distribution of financial products and services in individual sectors and activities in the financial market the MoF went ahead with expert discussions in the platform of the Working Group on Distribution in the Financial Market, a working group which is set up and which consists of representatives of the MoF, CNB, professional associations and consumer associations. By drawing up expertise standards the Working Group is complementing its previous outputs in the form of recommendations regarding the regulation system for business licences for financial intermediaries, their registration, and the rules governing their dealings with customers. These proposals and recommendations will define a basic framework for the new legislation under preparation, i.e. the act on the distribution of financial products and services and for the amendment of Act 38/2004, on insurance intermediaries and loss adjusters, which will constitute the pilot implementation of the new regulatory framework for distribution in the insurance sector.

The legislation being prepared respects the relevant legislative initiatives of the EC, above all the new rules being drawn up for mortgage loans and the rules for "packaged retail investment products" (PRIPs), which is coordinated with consultations on the revision of the IMD and the markets in financial instruments directive (MiFID). As part of this agenda (IMD and PRIPs) the EC launched a public consultation at the end of 2010 with a view to outlining the basic features of the future legislation. The key goal is to generally strengthen and unify consumer protection in individual sectors of the financial market, to develop the single market in financial services and to make supervision more effective.

The PRIPs initiative is primarily a response to the need to unify the degree of protection afforded to consumers in the case of investment products, which are currently subject to differing degrees of regulation even though they fulfil an identical economic function. According to the EC, the directive is intended to create a single and adequate legal framework of rules governing dealings with customers and the provision of information on retail financial services with an investment component. The revision of the IMD should focus mainly on widening the directive's scope to cover the direct distribution of insurance products by insurance companies, making the provisions on cross-border provision of services more precise, improving consumers' awareness about the intermediary and the insurance product being negotiated and underlining the requirements for the distributor's expertise when entering and operating in the sector. The drafts of both directives should be published by the end of 2011. In addition to the above, a new directive regulating the provision and mediation of mortgage loans was published on 31 March 2011. Seeing as this significant part of the credit market remained uncovered by regulation after the transposition of Directive 2008/48/EC on consumer credit agreements, the MoF welcomes and supports this initiative.

7.4. Other activities of the Ministry of Finance

Transfer of the records of the Prague Securities Centre

On 2 July 2010 the Central Securities Depository took over the records of book-entered and immobilised securities maintained by the Prague Securities Centre and commenced its activities under Act No. 256/2004, on capital market undertakings, as amended. As of that day the Prague Securities Centre simultaneously ceased to carry on its activities under the previous legislation. The MoF issued a communication concerning this circumstance in the Collection of Laws under no. 234/2010.

LIST OF ABBREVIATIONS

abs.	Absolute
ACMU	Act on capital market undertakings
AIFMD	Alternative Investment Fund Managers Directive
AKAT	Asociace pro kapitálový trh (The Czech Capital Market Association)
APF CR	Association of Pension Funds of the Czech Republic
APR	Annual percentage rate
ARAD	Time series database - Czech National Bank
BCBS	Basel Committee on Banking Supervision
bn	billion
CD	Central Securities Depository (Centrální depozitář cenných papírů, a.s.)
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of Securities Regulators
CMF	Committee on Financial Markets
CNB	Czech National Bank
COREPER	Committee of Permanent Representatives
CPI	Consumer price index
CR	Czech Republic
CRA	Credit rating agencies
CRD	Capital Requirements Directive
CZK	International code for Czech koruna
CZSO	Czech Statistical Office
DE	Deferred Expenses
DGS	Deposit Guarantee Schemes
EBA	European Banking Authority
EBC	European Banking Committee
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EFCC	European Financial Conglomerates Committee
EGAP	Exportní garanční a pojišťovací společnost, a. s. (Czech Export Credit Agency)
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
EIOPC	European Insurance and Pensions Committee
EIWG	Early Intervention Working Group
EMD	Electronic Money Directive
EP	European Parliament
ESAs	European Supervisory Authorities
ESC	European Securities Committee
ESFS	European System of Financial Supervisors
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	International code for euro
Fed	Federal Reserve System
FESE	Federation of European Securities Exchanges
FICOD	Financial Conglomerates Directive
FICOWG	Financial Conglomerates Working Group
FSB	Financial Stability Board
FSC	Financial Services Committee
FSF	Financial Stability Forum
GDP	Gross Domestic Product
GEGMC	Government Expert Group on Mortgage Credit
GEGRFS	Government Expert Group on Retail Financial Services

IASB	International Accounting Standards Board
IBRD	International Bank for Reconstruction and Development
IC	Insurance Contract
ICMA	International Capital Market Association
ICPM	International Centre for Pension Management
ICSD	Investor Compensation Schemes Directive
IF	Investment Firm
IGD	Insurance Group Directive
IMD	Insurance Mediation Directive
IMF	International Monetary Fund
IOPS	International Organization of Pension Supervisors
IORP	Directive on the activities and supervision of Institutions for Occupational Retirement Provisions
IPO	Initial public offering
IPPC	Insurance and Private Pensions Committee
LI	Life insurance
MEYS	Ministry of Education, Youth and Sports
MiFID	Markets in Financial Instruments Directive
mil.	million
MIT	Ministry of Industry and Trade of the Czech Republic
ML	Mortgage loan
MoF	Ministry of Finance of the Czech Republic
MRD	Ministry for Regional Development of the Czech Republic
NISH	Non-profit institutions serving households
NLI	Non-life insurance
OECD	Organization for Economic Co-operation and Development
OKEČ	Branch classification of economic activities
OPF	Open-ended pension fund
OTC	Over-the-counter
OUT	Open-ended unit trust
PC	Payment Committee
PF	Pension funds
pp	Percentage point
PRIPs	Packaged Retail Investment Products
PSD	Payment Services Directive
PSE	Prague Stock Exchange
PXE	Power Exchange Central Europe
RM-S	RM-Systém
SEPA	Single Euro Payments Area
SIFIs	Systemically Important Financial Institutions
SLDWG	Securities Law Directive Working Group
tn	trillion
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
UNIDROIT	Convention on harmonized substantive rules regarding securities held with an intermediary
USA	United States of America
USD	International Code for US dollar
VAT	Value added tax
WPPP	Working Party on Private Pensions

LIST OF TABLES

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APPENDIX 1: FINANCIAL MARKET LEGISLATION

In 2010, the following changes were made in the legislation of the Czech Republic and European Communities in the financial market sphere:

1.1. Cross-sectoral regulations in the sphere of financial markets

1) European legislation and other initiatives published in 2010:

- Proposal for a Directive of the EP and of the Council amending Directive 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate.
- **Regulation (EU) 1902/2010 of the EP and of the Council** of 14 November 2010 on European Union macro-prudential oversight of the financial system and establishing a ESRB.
- **Council Regulation (EU) 1096/2010** of 17 November 2010 conferring specific tasks on the European Central Bank concerning the functioning of the ESRB.
- **Regulation (EU) 1093/2010 of the EP and of the Council** of 24 November 2010 establishing a European Supervisory Authority (EBA), amending Decision 716/2009/EC and repealing EC Decision 2009/78/EC.
- **Regulation (EU) 1094/2010 of the EP and of the Council** of 24 November 2010 establishing a European Supervisory Authority (EIOPA), amending Decision 716/2009/EC and repealing EC Decision 2009/79/EC.
- **Regulation (EU) 1095/2010 of the EP and of the Council** of 24 November 2010 establishing a European Supervisory Authority (ESMA), amending Decision 716/2009/EC and repealing EC Decision 2009/77/EC.
- **Directive 2010/78/EU of the EP and of the Council** of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (EBA), the European Supervisory Authority (EIOPA) and the European Supervisory Authority (ESMA).

2) Pending European legislation, including legislation published after 31 December 2010) and other initiatives of the European Commission

- Proposal for a Directive of the EP and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the EIOPA and the ESMA (Omnibus II).
- Proposal for a Directive on the approximation of sanctioning regimes in the financial sector.

3) Acts that took effect in 2010:

- None

4) Pending acts (including acts already adopted that have taken effect or will take effect after 31 December 2010):

- Act No. 92/2011, amending Act No. 6/1993, on the Czech National Bank. This is an adaptation of the individual European financial supervision package of regulations (Regulations Nos 1092/2010, 1096/2010, 1093/2010, 1094/2010 a 1095/2010 of the EP and of the Council).
- Draft act amending certain acts in connection with the reform of the financial market supervision in the EU (Acts Nos. 21/0992, on banks, 87/1995, on savings and credit cooperatives, 15/1998, on supervision in the field of the capital market, 256/2004, on capital market undertakings, 189/2004, on collective investment, 377/2005, on financial conglomerates, 284/2009, on payments, 634/2004, on administrative fees). This draft act is intended to transpose Directive 2010/78/EU of the EP and of the Council (the Omnibus directive).

5) Secondary legislation
- None

1.2. Legislation in the sphere of capital markets

1) European legislation and other initiatives published in 2010:
- **EC Regulation (EU) 583/2010** of 1 July 2010 **implementing Directive 2009/65/EC of the EP and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper of by means of a website.**
- **EC Regulation (EU) 584/2010** of 1 July 2010 **implementing Directive 2009/65/EC of the EP and of the Council as regards the form and content of the standard notification letter and UCITS attestation, the use of electronic communication between competent authorities for the purpose of notification, and procedures for on-the-spot verifications and investigations and the exchange of information between competent authorities.**
- **EC Directive 2010/44/EU** of 1 July 2010 **implementing Directive 2009/65/EC of the EP and of the Council as regards certain provisions concerning fund mergers, master-feeder structures and notification procedure.**
- **EC Directive 2010/43/EU** of 1 July 2010 **implementing Directive 2009/65/EC of the EP and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company.**
- **Directive 2010/73/EU** of the EP and of the Council of 24 November 2010 **amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.**
- EC Decision (K 2010 3853) of 18 June 2010 exempting the Banque de France from the application of Regulation (EC) 1060/2009 of the EP and of the Council on credit rating agencies.
- **EC Decision (K 2010 6418) on the recognition of the legal and supervisory framework of Japan as equivalent to the requirements of Regulation (EC) 1060/2009 of the EP and of the Council on credit rating agencies.**
- EC Consultation **on the modernisation of Directive 2004/109/EC** of the EP and of the Council **on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitting to trading on a regulated market and on an amendment of Directive 2001/34/EC** (28 May 2010).
- EC Consultation on a review of **Directive 2004/39/EC** of the EP and of the Council **on insider dealing and market manipulation (market abuse)** (28 June 2010).
- EC Consultation on possible regulation on **short selling and certain aspects of credit default swaps (short selling)** (10 July 2010).
- EC Consultation on a review of **Directive 2004/39/EC** of the EP and of the Council on markets in financial instruments (8 December 2010).
- EC Consultation on a review of **Directive 2009/65/EC** of the EP and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities **(UCITS IV)** as regards the UCITS depository function and on the UCITS managers' remuneration.
- ESMA/CESR Guidelines – Common Definition of European Money Market Funds (19 May 2010).
- **ESMA/CESR Guidelines** – Methodology for the calculation of the synthetic risk and reward indicator in the Key Investor Information Document (2 July 2010).
- **ESMA/CESR Guidelines** – Methodology for calculation of the ongoing charges figure in the Key Investor Information Document (2 July 2010).

- **ESMA/CESR Guidelines** – Guidelines on the selection and presentation of performance scenarios in the Key Investor Information document for structured UCITS (28 July 2010).
- **ESMA/CESR Guidelines** – Guidance on the enforcement practices and activities to be conducted under Article 21 (3) (a) of Regulation 1060/2009 of the EP and of the Council on credit rating agencies (30 August 2010).
- **ESMA/CESR Guidelines** – Guidance under Article 21 (3) (a) of Regulation 1060/2009 of the EP and of the Council on credit rating agencies on common standards for assessment of compliance of credit rating methodologies with the requirements set out in Article 8 (3) of the Regulation (30 August 2010).
- **ESMA/CESR Guidelines** – Selection and presentation of performance scenarios in the Key Investor Information document (KII) for structured UCITS (20 December 2010).
- **ESMA/CESR Guidelines** – Transition from the Simplified Prospectus to the Key Investor Information document (20 December 2010).
- **ESMA/CESR Guidelines** – Guide to clear language and layout for the Key Investor Information document (20 December 2010).
- **ESMA/CESR Guidelines** – Template for the Key Investor Information document (20 December 2010).

2) Pending European legislation (including legislation published after 31 December 2010) and other initiatives of the European Commission:

- Proposal for a Directive of the EP and of the Council amending Directive 97/9/EC of the EP and of the Council on investor compensation schemes (COM (2010) 371 final; 12346/10). This is an amendment of Directive 79/9/EC on investor compensation schemes by which the EC reacts primarily to changes in the conditions that have occurred on the capital markets.
- Proposal for a Directive of the European EC amending Regulation 1060/2009 of the EP and of the Council on credit rating agencies.
- Proposal for a Directive of the EP and of the Council on short selling and certain aspects of credit default swaps.
- Proposal for a Directive[49] of the EP and of the Council on alternative investment fund managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) 1060/2009 and (EU) 1095/2010. The Council of the EU published the resulting directive on alternative investment fund managers on its website.

3) Acts that took effect in 2010:

- Act No. 160/2010 of 22 April 2010 amending certain acts in connection with the adoption of the EP and Council Regulation on Credit rating agencies.

4) Pending acts (including acts already adopted that have taken effect or will take effect after 31 December 2010):

- Act No. 199/2010 of 24 May 2010, amending Act No. 586/2010, on income tax, as amended, and Act No. 218/2000, on the budgetary rules and amending certain related acts (budgetary rules), as amended, and certain other acts (effective from 1 January 2011).
- Act No. 408/2010 of 9 December 2010, on financial collateral. This act and Act No. 409/2010, amending certain acts in connection with the adoption of the act on financial collateral, transposed into Czech law Directive (EC) 2002/47 of the EP and of the Council of 6 June 2002 on financial collateral arrangements. They also transpose Articles 2 and 3 of Directive 2009/44/EC of the EP and of the Council amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims, and Article 9 of Directive 98/26/EC of the EP and of the Council on settlement finality in payment and securities settlement systems as amended by Directive 2009/44/EC (effective from 1 January 2011).

[49] The directive is expected to be published in the EU Official Bulletin on 1 July 2011 under no. 2011/61/EU.

- Act No. 409/2010 of 9 December 2010, amending acts in connection with the adoption of the act on financial collateral. This act is an accompaniment to the act on financial collateral that supersedes the existing regulation of financial collateral in Act No. 513/1991, Commercial Code, as amended by Act No. 377/2005 and Act No. 344/2007. It also deals with the relationship between financial collateral and the legal regulations on insolvency, composition and distraint, entry into liquidation, compulsory administration and other legal regulations (effective from 1 January 2011).
- Act No. 41/2011, amending certain acts in connection with the capital requirements and procedures for supervision of banks, credit unions and investment firms (effective from 28 February 2011), with the exception of Section 16a (8) and Section 136 (2) (f) and (i), which take effect on 31 December 2011.
- Draft act amending Act No. 189/2004, on collective investment, as amended, and other related acts. Transposition of Directive 2009/65/EC of the EP and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS IV), European legislation implementing UCITS IV, known as the prospectus directive and transparency directive (expected to take effect in 2011 on the day of promulgation).
- Draft government regulation on the communication of key information of special collective investment funds. The regulation implements Act No. 189/2004, on collective investment, as regards the requisite features of the document containing key investor information. The communication of key information is intended to replace the existing institute of the “Simplified Prospectus” of a collective investment fund. The reason for the change is the fact that Directive 2009/65/EC of the EP and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities introduces the institute of key information for standard funds, i.e. funds whose regulation is the subject of harmonisation at EU level (expected to take effect in 2011 on the day of promulgation of the act amending Act No. 189/2004).
- Draft government regulation laying down limits for certain amounts in euros as regards the public offer of investment securities, the prospectus of a security and the information obligation of the issuer of certain investment securities and other persons. The regulation implements Act No. 256/2004, on capital market undertakings, as regards the transposition of Directive 2010/73/EU of the EP and of the Council of 24 October 2010 amending Directives 2001/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (expected to take effect in 2011 on the day of promulgation of the act amending Act No. 189/2004).

5) Secondary legislation

- Decree No. 212/2010, **on the manner of defining the amount of expended substantive costs and the manner of payment thereof in the event of the provision of data by the central depository and a person maintaining independent records of investment instruments (with effect from 1 July 2010).**
- Decree No. 358/2010, **on the presentation of statements and other information by management companies and collective investment funds to the Czech National Bank (with effect from 1 January 2011).**
- Decree No. 303/2010, on the more detailed regulation of certain rules on the provision of investment services (with effect from 1 January 2011).
- Decree No. 276/2010, on the presentation of statements and other information by securities firms to the Czech National Bank (effective from 1 January 2011).

1.3. Legislation in the sphere of banking, building savings schemes and credit unions

1) European legislation and other initiatives published in 2010:

- EC Directive 2010/16/EU of 9 March 2010 amending Directive 2006/48/EC of the EP and of the Council as regards the exclusion of a certain institution from the scope of application. The directive includes Slovenian bank SID among the entities listed in Article 2 of Directive 2006/48/EC not subject to the said directive's requirements.
- Directive 2010/67/EU of the EP and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies. The directive was issued in response to the financial markets crisis and primarily tightens the capital requirements for credit institutions' trading book and regulates re-securitisation and the requirements for introducing remuneration policies in credit institutions.

2) Pending European legislation (including legislation published after 31 December 2010) and other initiatives of the European Commission:

- Proposal for a Regulation of the EP and of the Council and a Directive of the EP and of the Council (referred to as CRD IV) amending the capital requirements directives 2006/48/EC and 2006/49/EC. The legislative proposal should be published by the EC in the middle of 2011.
- Proposal for a Directive of the EP and of the Council on deposit guarantee schemes (recast version) (COM (2010) 368 final; 12386/10. The aim of the proposal is to make the deposit guarantee scheme more effective by strengthening the position of depositors, improving the working of national guarantee schemes and cross-border cooperation.
- EC Communication to the EP, the Council, the European Economic and Social Committee and the European Central Bank – Bank Resolution Funds (COM(2010) 254 final). In this communication the EC proposes the creation of a network of national funds to finance restructuring and liquidation when financial institutions get into difficulties. The funds should be financed by an ex ante levy on banks.
- EC Communication to the EP, the Council, the European Economic and Social Committee and the European Central Bank – An EU Framework for Crisis Management in the Financial Sector (COM(2010) 579 final). The communication sets out the direction the EC intends to take in crisis management of in the banking sector.

3) Acts that took effect in 2010:

- Act No. 156/2010 of 22 April 2010, amending Act No. 21/1992, on banks, as amended, and other related acts (effective from 5 June 2010).
- Act No. 160/2010, amending certain acts in connection with the adoption of the Regulation of the EP and of the Council on Credit rating agencies. This act also amended the act on banks in connection with the adaptation of the credit rating agencies adaptation.
- Act No. 348/2010, amending Act No. 96/1993, on building savings schemes and state support for building savings and amending Czech National Council Act No. 586/1992, on income tax, as amended by Czech National Council Act No. 35/1993, as amended, and Act No. 586/1992, on income tax, as amended. The act was adopted with a view to reducing the burden on the expenditure side of the state budget in connection with the payout of state support for building savings, which is not used exclusively to finance housing requirements and takes money from all taxpayers in favour of a part of the population and with a view to levelling the conditions for taxing interest revenues on deposits in building saving schemes to match the conditions for taxing an equivalent type of revenue from other bank deposit products. The act takes effect on 1 January 2011.

4) Pending acts (including acts already adopted that have taken effect or will take effect after 31 December 2010):

- Act No. 41/2011, amending certain acts in connection with the capital requirements and procedures for supervision of banks, savings and credit unions and investment firms. This act primarily transposes Directives of the EP and of the Council 2009/111/EC of 16 September 2011 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management, and transposes Directive of the EP and of the Council 2010/76/EU of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards the capital requirements for the trading book and for re-securitisations and the supervisory review of remuneration policies. Besides transposing these European directives the act contains rules allowing the transformation of cooperative savings banks into banks.
- Draft act amending Act No. 21/1992, on banks, as amended, and other related acts. This act will both set out rules for the start-up and operation of branches of non-EU/EEA foreign banks in the territory of the Czech Republic and eliminate certain substantive shortcomings, discrepancies or unjustified differences in the act on banks and the act on and credit unions.
- Draft act amending Act No. 96/1993, on building savings schemes and state support for building savings and amending Czech National Council Act No. 586/1992, on income tax, as amended by Czech National Council Act No. 35/1993, as amended, and other related acts. This act will make certain conceptual changes in the field of building savings schemes.
- Draft amendment of Act No. 6/1993, on the Czech National Bank. The aim of this amendment is to eliminate the shortcomings in the national legislation identified by the European Central Bank and thus bring it into line with the provisions of the Treaty on the Functioning of the EU and the Statute of the European System of Central Banks and the European Central Bank.

5) Secondary legislation:

- Czech National Bank Decree No. 380/2010, amending Decree No. 123/2007, stipulating prudential rules for banks, credit unions and investment firms, as amended by Decree No. 282/2008. As Act No. 41/2011 only partially transposes Directive 2009/111/EC of the EP and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds, large exposures, supervisory arrangements and crisis management and transposes Directive 2010/76/EU of the EP and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards the capital requirements for the trading book and re-securitisation and supervisory review of remuneration policy, this decree contains more detailed rules.
- Czech National Bank Decree No. 292/2010, amending Czech National Bank Decree No. 164/2002, on the conditions of access to information in the information database of the Czech National Bank – Central Register of Credits.
- Official Communication No. 23/2010 (CBO) regarding applications for Czech National Bank consent in matters of the disposal of undertakings, winding up or transformation of credit institutions, reduction of banks' registered capital, assumption of the debts of banks in compulsory administration or reduction of the basic membership contribution of the member of a credit union.
- Official Communication No. 30/2010 (CBO) regarding the prudential rules for banks, credit unions and investment firms.

1.4. Legislation in the sphere of payments

1) European legislation and other initiatives published in 2010:

- None

2) Pending European legislation (including legislation published after 31 December 2010) and other initiatives of the European Commission:

- Proposal for a Regulation of the EP and of the Council establishing technical requirements for credit transfers and direct debits in euros and amending Regulation (EC) 924/2009. The aim of the regulation is to create a single European market for payments in euros without differentiation between internal and cross-border payments.
- Regulation on (OTC) derivatives, central counterparties and trade repositories (EMIR). The aim of the regulation is to eliminate systemic risks in the course of derivatives transactions.
- Other initiatives of the EC concern central depositories of securities, the unification of material law on securities and rules for close-out netting in relation to crisis management.

3) Acts that took effect in 2010:

- None

4) Pending acts (including acts already adopted that have taken effect or will take effect after 31 December 2010):

- Act No. 139/2011 amending Act No. 284/2009, on payments, and certain other acts. A draft act transposing the directive on electronic money and the amendment of the directive on settlement finality in payment and securities settlement systems (with effect from 27 May 2011).
- Draft act on the circulation of banknotes and coins. A draft act intended to regulate the circulation and protection of legal tender, both the single European currency and the Czech koruna. The act takes up certain provisions hitherto contained in Decree No. 37/1994, which it repeals. These provisions are to a certain degree loosened so that there is greater scope for agreement between the involved parties. The draft act also introduces a completely new obligation for the registration of legal persons that handle cash for other entities. The act is expected to take effect at the end of 2011.

5) Secondary legislation

- None

1.5. Legislation in the sphere of insurance and supplementary pension insurance

1) European legislation and other initiatives published in 2010:

- Proposal for a Directive of the EP and of the Council amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate.

2) Pending European legislation (including legislation published after 31 December 2010) and other initiatives of the European Commission:

- Proposal for a Directive of the EP and of the Council amending Directives 2003/71/EC and 2009/138/EC in respect of the powers of the EIOPA and the ESMA (Omnibus II).
- Preparation of implementing regulations (level 2) relating to Directive 2009/138/EC (Solvency II).
- Preparation of technical standards (level 3) relating to Directive 2009/138/EC (Solvency II).
- Preparation of a fundamental revision of Directive 2002/87/EC on supplementary supervision of credit institutions, insurance companies and investment firms in a financial conglomerate.
- Preparation of a review of Directive 2003/41 on the activities and supervision of institutions for occupational retirement provision.
- Preparation of a review of Directive 2002/92 on insurance mediation.
- Preparation of a directive on insurance guarantee schemes.

- White Paper on Insurance Guarantee Schemes. This initiative is intended to lead to a directive regulating insurance guarantee schemes.

3) Acts that took effect in 2010:

- Act No. 277/2009, on insurance (effective from 1 January 2010).
- Act No. 278/2009, amending acts in connection with the adoption of the act on insurance (effective from 1 January 2010).

4) Pending acts (including acts already adopted that have taken effect or will take effect after 31 December 2010):

- Amendment of Act No. 340/2006, on the activities of occupational pension insurance institutions from EU member states or other states signatories to the Agreement on the European Economic Area in the territory of the Czech Republic.
- Act on pension savings.
- Act on supplementary pension savings.

5) Secondary legislation:

- Decree No. 433/2009, on the manner of submission, form and requisites of insurance companies' and reinsurance companies' statements (effective from 1 January 2010).
- Decree No. 434/2009, implementing certain provisions of the act on insurance (effective from 1 January 2010).

APPENDIX 2: SUPPLEMENTARY TABLES

Table 7.1: Average interest rate

As at 31 Dec (%)		2006	2007	2008	2009	2010
Deposits	households and small entrepreneurs	1.23	1.34	1.55	1.38	1.25
	non-financial businesses	0.97	1.17	1.80	0.87	0.56
Loans	to households and small entrepreneurs	7.46	8.06	6.81	7.00	7.00
	for consumption	14.26	14.99	13.40	13.93	14.28
	for real estate	5.51	6.11	5.05	5.22	5.26
	to non-financial enterprises	4.22	4.57	5.59	4.58	4.10

Source: CNB - ARAD

Table 7.2: Loans by type

As at 31 Dec (CZK bn)	2008	2009	2010	Year-on-year change	
				Abs.	(%)
Overdrafts and debit balances of current accounts	161.1	148.3	141.1	-7.2	-4.86
Consumer loans (excl. overdrafts and debit balances of current accounts)	161.8	177.8	190.2	12.4	6.95
Housing loans excl. mortgages	236.1	161.0	149.1	-11.9	-7.39
Mortgage loans for residential properties	479.0	634.7	682.7	48.0	7.56
Mortgage loans for non-residential properties	50.0	79.0	82.5	3.5	4.47
Other loans	414.8	369.0	393.0	24.0	6.51
Investment loans	522.3	492.0	501.2	9.2	1.87
Bridging loans	5.2	4.3	2.2	-2.1	-48.22
Trade receivables	45.4	36.1	32.8	-3.3	-9.08
Total	2,075.7	2,102.1	2,174.8	72.7	3.46

Source: CNB - ARAD

Table 7.3: Basic indicators of building savings development in the Czech Republic

As at 31 Dec		2005	2006	2007	2008	2009	2010
New building savings contracts	number	430,233	516,385	579,730	705,463	575,292	532,765
	change (%)	36.73	20.02	12.30	21.70	-18.45	-7.40
Average target value for new building s. contracts with private individuals	value (CZK th.)	227.9	235.8	284.9	302.8	308.7	300.5
	change (%)	2.29	3.47	20.82	6.28	1.95	-2.66
Building savings contracts in savings phase[50]	number	5,573,874	5,297,522	5,132,595	5,070,510	4,926,183	4,845,319
	change (%)	-5.52	-4.96	-3.10	-1.21	-2.85	-1.64
Awarded state contribution	value (CZK bn)	16.1	15.8	15.0	14.2	13.3	11.7
	change (%)	4.88	-1.95	-5.00	-5.05	-6.74	-11.45
Average state contribution awarded per building savings contract for the relevant year	value (CZK)	3,242	3,173	3,090	2,927	2,776	n/a
	change (%)	-0.43	-2.10	-2.62	-5.28	-5.16	n/a
Saved amount[50]	value (CZK bn)	329	360	385	401	415	430
	change (%)	14.60	9.38	6.90	4.23	3.51	3.61
Loans total	number	857,875	900,653	942,944	971,176	988,353	993,357
of which: building saving schemes	number	582,867	587,501	580,352	569,870	565,485	564,633
bridging[51]	number	275,008	313,152	362,592	401,306	422,868	428,724
	change (%)	9.08	4.99	4.70	2.99	1.77	0.51
Loans total[50]	value (CZK bn)	108.1	135.5	179.3	227.4	267.5	293.4
of which: building saving schemes	value (CZK bn)	31.8	35.1	38.9	42.9	48.9	53.1
bridging[51]	value (CZK bn)	76.3	100.4	140.4	184.5	218.6	240.3
	change (%)	28.37	25.34	32.37	26.84	17.63	9.66
Loans total/saved amount	ratio (%)	32.85	37.64	46.60	56.70	64.44	68.20

Source: MoF

[50] Closing balance of the period.
[51] Under Section 5 (5) of Act No. 96/1993 Coll., on building savings schemes and state support for building savings schemes, as subsequently amended.

Table 7.4: Net assets in trusts domiciled abroad, by distributors

As at 31 Dec 2010	Net assets (CZK bn)	Share in total value (%)	Year-on-year change (%)
ČSOB investiční společnost	68.4	54.65	-6.05
ING Investment Management (C.R.)	16.3	13.02	174.42
Česká spořitelna	15.2	12.12	-11.10
Conseq Investment Management	7.8	6.27	30.95
Komerční banka	5.8	4.63	5.48
Raiffeisenbank	4.7	3.75	63.83
Pioneer Asset Management	1.9	1.50	20.46
UniCredit Bank Czech Republic	1.8	1.40	59.91
Citibank Europe	0.9	0.71	-34.30
Other	2.4	1.96	186.55
Total	125.1	100.00	6.60

Source: AKAT

Table 7.5: Net assets of domestic trusts, by management companies

As at 31 Dec 2010	Net assets (CZK bn)	Share in total value (%)	Year-on-year change (%)
Investiční společnost České spořitelny	55.6	45.47	11.86
Investiční kapitálová společnost KB	28.7	23.49	-13.99
ČP INVEST investiční společnost	10.2	8.32	16.08
Pioneer investiční společnost	9.4	7.67	9.54
ČSOB investiční společnost	7.3	6.00	-0.58
AXA investiční společnost a.s.	4.8	3.96	38.78
REICO investiční společnost ČS, a.s.	1.8	1.45	44.79
J&T ASSET MANAGEMENT, IS	1.7	1.38	12.63
PROSPERITA investiční společnost, a.s.	1.0	0.85	-8.89
AKRO investiční společnost	0.6	0.53	-1.38
Other	1.7	1.40	-10.58
Total	122.4	100.00	4.44

Source: AKAT

Table 7.6: Allocation of assets of pension funds

As at 31 Dec (market prices, CZK bn)	2006	2007	2008	2009	2010	Share in 2010 (%)
Bonds	110.2	119.4	144.8	171.6	195.3	84.14
Treasury bills	5.5	7.4	6.4	2.2	1.1	0.46
Shares	9.6	9.8	5.7	3.5	1.9	0.82
Unit certificates	4.8	7.6	6.2	6.9	8.7	3.73
Money and other assets	15.2	22.8	28.4	31.5	25.2	10.85
Total	145.4	167.0	191.5	215.7	232.1	100.00

Source: CNB

Table 7.7: Placement of technical reserves

As at 31 Dec (CZK bn)	2009			2010			Abs. Change			Year-on-year change (%)		
	LI	NLI	total	LI	NLI	total	LI	NLI	total	LI	NLI	total
Debt securities	150.9	63.7	237.7	159.8	65.8	247.0	8.8	2.1	9.3	5.86	3.24	3.89
Of which: bonds issued by the Member State or its national central bank	98.4	44.0	152.0	102.9	48.8	158.7	4.5	4.8	6.7	4.58	10.81	4.42
Bonds issued by banks of Member States	15.2	3.4	20.3	15.0	4.5	21.3	-0.2	1.0	0.9	-1.13	29.98	4.51
Listed bonds issued by corporations	10.6	3.3	20.8	10.9	4.6	20.8	0.4	1.3	-0.1	3.49	39.11	-0.47
Treasury bills	2.1	3.2	5.4	1.6	0.5	3.1	-0.5	-2.6	-2.3	-23.13	-82.99	-42.10
Listed municipal bonds	2.6	0.9	3.4	2.3	0.6	3.0	-0.2	-0.2	-0.5	-9.19	-28.61	-13.64
Mortgage bonds	11.6	7.0	19.9	11.7	3.8	18.3	0.2	-3.1	-1.6	1.55	-45.04	-7.89
Bonds issued by EIB, ECB, EBRD or IBRD	6.0	0.9	7.6	6.6	0.9	7.7	0.6	0.0	0.1	10.06	-4.38	0.95
Foreign debt securities traded on any regulated market of OECD Member States	4.6	1.0	7.7	6.7	1.6	10.5	2.1	0.6	2.8	45.26	63.99	36.42
Equities	31.3	5.2	52.3	40.6	5.1	65.5	9.2	-0.1	13.2	29.38	-2.57	25.31
Of which: listed shares	4.5	0.2	4.9	5.1	0.1	5.4	0.6	0.0	0.4	13.08	-28.21	9.04
Securities by unit trusts complying with EC regulations	20.6	2.1	23.9	25.7	3.1	31.1	5.1	1.0	7.2	24.98	44.93	30.24
Credits, loans and other receivables	0.0	0.0	0.6	0.0	0.1	0.6	0.0	0.1	0.0	-	-	-1.19
Other receivables	0.0	0.0	0.5	0.5	1.2	2.6	0.5	1.2	2.0	-	-	390.06
Bills	0.0	0.1	0.2	0.0	0.1	0.3	0.0	-0.1	0.1	-100.00	-57.29	70.46
Real estate	0.4	2.3	4.8	0.4	2.3	4.9	0.0	0.0	0.1	-12.19	-0.45	2.19
Deposits and certificates of deposits or depository bonds	9.1	6.5	26.8	10.9	5.1	27.8	1.7	-1.4	1.0	19.15	-21.12	3.60
Items and works of artistic/cultural value	0.0	0.1	0.3	0.0	0.1	0.3	0.0	0.0	0.0	-	-3.88	10.50
Receivables from reinsurance companies	0.7	13.1	20.3	0.6	14.2	22.9	-0.1	1.1	2.6	-8.45	8.40	12.70
Derivatives	0.0	0.0	-0.6	0.1	0.0	-0.1	0.1	0.0	0.5	-	-	-91.16
Other financial placement	0.6	0.0	2.3	2.5	0.0	2.5	1.9	0.0	0.3	334.44	-	11.70
Financial placements total	193.1	91.0	345.2	215.3	93.9	374.3	22.2	2.9	29.1	11.52	3.24	8.44

Source: CNB