REPORT ON FINANCIAL MARKET DEVELOPMENTS IN 2018

August 2019

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The data presented in this report were obtained from the specified sources in April and in May 2019.

SUMMARY OF DEVELOPMENTS IN 2018

Macroeconomic Situation

Gross domestic product continued to grow for the fifth consecutive year, though the year-on-year momentum slipped to 2.9%, which was 1 pp above the EU average. The main pro-growth factors were fixed-capital investments and final consumption expenditure. Price trends saw average consumer pricing return to a growth rate of 2.1%, drawing it closer to the CNB's 2% inflation target. The 2.3% unemployment rate was the lowest reported by any country in the EU and was well below the EU average (6.6%).

Monetary Policy and Foreign Exchange Market

The CNB increased its money monetary-policy rates five times. The year-end two-week repo rate was at 1.75% p.a. The Czech koruna kept to the 2017 rate of appreciation versus the euro (2.6%), appreciating to an average of CZK 25.6 per EUR.

Placement of Funds in the Financial Market

Total funds placed on the financial market climbed by 5.3% to CZK 6.45 trillion, a growth rate slightly below the five-year average. Pension funds reported the highest relative growth in resources, rising by 8.0%. The largest absolute year-on-year increase was once again recorded in credit institution deposits (by CZK 273.4 billion), which remained the most significant item with a 69.2% share of total funds..

Structure of Household Savings

Total household savings held in intermediary financial market products rose by 6.5% to CZK 3.72 trillion. The greatest absolute year-on-year rise was again reported by demand deposits, which continued the long-running expansion of their share in total household savings (to 51.8%). On the contrary, the building savings schemes have reported steady decrease (to 9.5%).

Household Indebtedness

Household indebtedness was up for the third consecutive year, growing by approximately 7% year on year to nearly CZK 1.7 trillion. The largest slice of the debt (73%) has long been constituted by housing loans. In spite of the increase, the debt-to-GDP ratio of domestic households relative to the rest of the EU remains low (31.0% of GDP).

Financial Market Entities

There were only slight changes in the number of financial market participants, without any impact on the market's overall structure. In the key credit institution sector, the savings association Moravský peněžní Ústav – spořitelní družstvo was transformed into TRINITY BANK a.s., and four branches of foreign banks launched operations, one of which was from outside the EU (Bank of Communications Co., Ltd., Prague Branch odštěpný závod). In the insurance company sector, the merger of two Vienna Insurance Group AG entities was completed at the end of the year. As the year came to a close, the process of re-licensing insurance intermediaries commenced, which should slash the numbers and structure of such intermediaries by the time it is finished.

Banking Sector

The banking sector reported growth and underscored its dominant position and stability. Total banking sector assets, including those of building savings banks, lost some growth momentum, rising by 3.8% to CZK 7.33 trillion. The total capital ratio increased moderately to 19.6%, keeping it well above the regulatory minimum. In the last six years, it has grown by 3.2 pp. By contrast, the non-performing loans ratio fell to its lowest level (3.2%) in 10 years. The sector's pre-tax profit increased by 9.1% to post a record CZK 98.5 billion.

Interest Rates

The gradual increases in the CNB's monetary-policy rate were not considerably reflected in an increase in average market interest rates on client deposits or loans. These rates kept to their long-term low levels. The average interest earned by the deposits of non-financial businesses (0.1% p.a.) remained below that for household deposits (0.3% p.a.). Average interest rates on household loans declined to 3.8% p.a., while those of non-financial corporations climbed slightly to 3.1% p.a.

Deposits and Loans

The volume of client bank deposits increased by 6.6% to CZK 4.4 trillion. Client bank loans also grew at a similar pace (by 7.2%), reaching CZK 3.3 trillion at the year's end. Viewed in the medium term (from the end of 2013), client deposits grew by 32% and loans by 33%. The ratio of client deposits to client loans in the banking sector was 134.5%. Since the end of 2009, the sector has kept this ratio above 120%, making it one of the highest within the EU.

Mortgage Market

The mortgage market experienced another year of keen client interest. The volume of new mortgage loans for residential property granted to private individuals came to a record CZK 278.7 billion, of which purely new mortgage loans amounted to CZK 167.5 billion. There was a year-on-year decline in the share of new one-to-five-year fixed-rate loans in favour of longer fixed-rate periods that became more prominent. At the end of the year, households owed CZK 1.13 trillion in mortgage loans for residential property, keeping to a robust 9% growth rate for the third year in a row.

Building Savings Banks

Building savings banks concluded 422,000 building savings contracts (a 13.8% rise) and granted CZK 67.4 billion in new loans (a 21.9% increase), the highest volume in the past 10 years. Bridging loans once again dominated new lending. Total lending from building savings banks rose to its highest volume in six years, climbing by 7.0 % year on year to CZK 262.9 billion. The total savings of those participating in building savings schemes dipped by 1.1 % to CZK 355.0 billion. The state subsidisation of these schemes was CZK 3.9 billion, the same as in the previous year.

Credit Unions

Total assets in the credit union sector were down 12.3% year on year to CZK 20.2 billion, accounting for just 0.3% of the assets of all credit institutions. As previously adopted regulatory measures took effect, the number of members of credit unions dropped by 9,000 to approximately 22,000, with the volume of deposits contracting by 16.1% to CZK 15.9 billion. The total capital ratio came to a record high of 21.4%. The non-performing loans ratio was up by 3.1 pp to 22.8%.

Non-Bank Financing Providers

For the third consecutive year, the sector of non-bank financing providers reported an increase in total assets, which this time were up 3.5 % to a final CZK 426.5 billion. However, this fell short of the momentum reported in the banking sector. The rate of growth in the volume of loans granted mirrored the tempo recorded by total assets (there was a 4.0% rise) and came to CZK 318.6 billion. The ratio of loans to total assets exceeded 70% and has remained more or less static in the last four years.

Regulated and OTC Markets

The main Czech stock index, the PX, fell by 8.5% over the year to end up at 987 points, reflecting the declines exhibited by equity markets around the world. Standing in contrast to this, the volume of stock exchange trading made a modest 6.7% rise to CZK 152.0 billion.

Investment Firms and Asset Management

The year-end drop in asset prices on global financial markets was also felt in the securities trading sector. The volume of client assets dipped by 7.6% to CZK 4.3 trillion, while assets under management tumbled by 13.9% to CZK 770.6 billion. Debt securities and collective investment securities remained the key items of the allocation structure. The volume of assets entrusted to asset managers was down a slight 0.7% to CZK 1.37 trillion.

Investment Funds

The volume of assets managed by funds increased by CZK 10.1 billion (1.7%) to CZK 596.8 billion, driven up by the rise of qualified investor funds by CZK 20.6 billion (20.0%) to CZK 123.8 billion. Conversely, the volume of resources held in collective investment funds fell by CZK 10.6 billion (2.2%) to CZK 472.9 billion. From the perspective of the individual types of mutual funds in which resources are placed, mixed funds – both domestic (approximately 41%) and foreign (approximately 35%) funds – continued to dominate.

Insurance Companies

Gross premiums written went up by 2.8% to CZK 155.0 billion. Non-life insurance (climbing by 6.0%) accounted for all of this growth. Life insurance, on the other hand, saw its six-year erosion continue as it slipped by 2.4% year on year. In the sector as a whole, the numbers of overall and newly concluded insurance contracts were down (by 1.6% and 1.0%, respectively). Favourable climatic conditions contributed to the reduction in the gross claim settlement costs by 4.4%. This was reflected in the insurance sector's economic results. The total pre-tax profit was CZK 18.0 billion, the best result in any reporting period since 2013.

Supplementary Pension Insurance and Supplementary Pension Savings

Participants' assets in transformed and participation funds in the Pillar 3 increased by 8.0% to a total of CZK 447.1 billion. Although the number of participants narrowed year on year by approximately 16,000 to 4.45 million, the fourth quarter of 2018 was the first to report quarter-on-quarter growth (albeit very small) in the overall number of participants since the beginning of 2013. The average monthly contribution made by participants increased to CZK 680 in supplementary pension insurance scheme and to CZK 790 in supplementary pension savings scheme. The share of participants benefiting from employer's contributions increased to 21.9%, a return to the level prior to the financial crisis, and the average monthly employer's contribution also went up both for transformed funds (to CZK 877) and for participation funds (to CZK 973). The total direct state support paid to Pillar 3 participants rose slightly to CZK 7.0 billion.

Financial Market Legislation

New legislation adopted included the Insurance and Reinsurance Distribution Act, an amendment to the CNB Act, an amendment to the Bonds Act, and an amendment to the Currency Exchange Act. The priority themes in Europe remained the mitigation of risk in the EU banking sector, a review of the European System of Financial Supervision and the creation of a union of capital markets, where the proposals tabled primarily focused on a review of securities trading legislation, sustainable financing and covered bonds. Brexit-related legislative acts were also adopted. These were mainly decisions relating to the central counterparties.

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

1 MACROECONOMIC SITUATION AND EXTERNAL DEVELOPMENTS

1.1 Macroeconomic Situation

The economic growth of the Czech Republic, measured by the year-on-year change in real gross domestic product, fell to 2.9% in 2018. Even so, the Czech economy outstripped the EU average by 1.0 pp. Breaking down the components forming domestic GDP, the most dynamic growth was reported by fixed-capital investments, driven by positive trends in both government and private investment. Final consumption expenditure also made a significant positive contribution.

It was not just in the Czech Republic that the GDP growth rate slackened; a slowdown was also reported by other economies monitored (Table 1.1). The EU, China and Japan recorded a year-on-year decline in their growth rate (by between 0.2 and 0.8 pp). Conversely, growth momentum picked up slightly in the US (by 0.7 pp) and in Central European countries and Russia (by between 0.1 and 0.9 pp).

Table 1.1: Annual GDP growth[1]

Selected countries (%)	2013	2014	2015	2016	2017	2018	Year-on-year change (pp)
United States	1.8	2.5	2.9	1.6	2.2	2.9	0.7
European Union (28)	**0.3**	**1.8**	**2.3**	**2.0**	**2.4**	**1.9**	**-0.5**
Eurozone (19)	-0.2	1.4	2.1	2.0	2.4	1.8	-0.6
China	7.8	7.3	6.9	6.7	6.8	6.6	-0.2
Japan	2.0	0.4	1.4	0.9	1.7	0.9	-0.8
Germany	0.5	2.2	1.7	2.2	2.2	1.4	-0.8
United Kingdom	2.0	2.9	2.3	1.8	1.8	1.4	-0.4
Russia	1.8	0.7	-2.8	-0.2	1.5	1.6	0.1
Poland	1.4	3.3	3.8	3.1	4.8	5.1	0.3
Austria	0.0	0.7	1.1	2.0	2.6	2.7	0.1
Czech Republic	**-0.5**	**2.7**	**5.3**	**2.5**	**4.4**	**2.9**	**-1.5**
Hungary	2.1	4.2	3.5	2.3	4.1	4.9	0.8
Slovakia	1.5	2.8	4.2	3.1	3.2	4.1	0.9

Source: MoF, OECD

The enduring growth of the domestic economy has impacted the domestic labour market (Table 1.2). Between 2013 and 2018, the general unemployment rate dwindled to 2.3%. The labour shortage has been the main barrier to further extensive growth in production. This has motivated larger companies in particular to invest in better labour productivity. Internationally, the Czech Republic continued to report the lowest unemployment rate in the EU, well below the EU average of 6.6%.

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

Indicators	2013	2014	2015	2016	2017	2018
Gross domestic product (real growth in %)	-0.5	2.7	5.3	2.5	4.4	2.9
of which gross capital formation (pp)	-1.3	2.1	3.4	-1.2	1.0	1.4
of which consumption (pp)	0.8	1.1	2.2	2.2	2.3	2.2
of which net exports (pp)	0.1	-0.5	-0.2	1.4	1.1	-0.7
Unemployment rate[2] (% of average for period)	7.0	6.2	5.1	4.0	2.9	2.3
General government balance (% GDP)	-1.3	-2.1	-0.6	0.7	1.6	0.9
General government debt (% GDP)	44.9	42.2	40.0	36.8	34.7	32.7

Source: MoF

1 As final GDP figures were not published in 2018, the monitored economies are ranked throughout the chapter according to their nominal 2017 GDP.

2 Measured by the Labour Force Survey Method.

In 2018, the general government sector reported a surplus amounting to 0.9% of GDP (see Table 1.2). This surplus was also reflected in total debt, which fell by 2.0 pp year on year to 32.7% of GDP.

It was not just in the general government balance, but also in the main monitored ratios of the balance of payments, i.e. external relations (Table 1.3), that the Czech Republic reported a positive balance in 2018. Although the surplus of the current account of the balance of payments narrowed year on year, it still remained at a positive 0.3% of GDP. Analysing the factors influencing developments here, the positive balance of goods gradually fell in the face of greater domestic demand for imports, which was driven by growth in domestic investments and consumption. This was compounded by uncertainty in global trade. Despite this year-on-year decline, the balance of goods and services exceeded the primary and secondary income deficit for the fifth consecutive year, so the current account balance was in the black figures. Other ratios related to the balance of payments fell year on year, but here again – mirroring the current account situation – there was a surplus, with the capital account balance ending up at 0.3% of GDP and the financial account standing at 0.2% of GDP.

Table 1.3: Basic indicators of external relations

Indicators	2013	2014	2015	2016	2017	2018
Current account (CZK bn)	-21.8	7.9	11.3	74.2	83.5	15.5
of which balance of goods and services	237.3	275.6	266.1	353.3	386.8	337.9
of which balance of primary and secondary income	-259.1	-267.7	-254.8	-279.1	-303.4	-322.4
Capital account (CZK bn)	82.4	32.3	101.9	53.5	40.6	14.0
Financial account (CZK bn)	68.3	63.6	175.3	116.9	120.5	12.2
Current account balance to GDP (%, current prices)	-0.5	0.2	0.2	1.6	1.7	0.3
Capital account balance to GDP (%, current prices)	2.0	0.7	2.2	1.1	0.8	0.3
Financial account balance to GDP (%, current prices)	1.7	1.5	3.8	2.4	2.4	0.2

Source: CNB-ARAD, MoF

Since the beginning of 2017, year-on-year growth in consumer prices has tended to hover in the upper half of the tolerance band of the CNB's 2% inflation target. The annual average of the consumer price index (Table 1.4) was shaved to 2.1% in 2018. The root cause of this was the interruption in the growth trend of food prices from the beginning of the second quarter of 2018, which outstripped the pro-inflationary factors of rising wages and oil prices to some degree. Internationally, Czech inflation was again just above that in the EU and the euro area (1.9% and 1.8%, respectively).

Table 1.4: Consumer price indices in selected economies

Average in given year (%)	2013	2014	2015	2016	2017	2018
United States	1.5	1.6	0.1	1.3	2.1	2.4
European Union (28)	**1.5**	**0.6**	**0.1**	**0.2**	**1.7**	**1.9**
Eurozone (19)	1.3	0.4	0.2	0.2	1.5	1.8
China	2.6	2.0	1.4	2.0	1.6	2.1
Japan	0.4	2.8	0.8	-0.1	0.5	1.0
Germany	1.5	0.9	0.5	0.5	1.5	1.7
United Kingdom	2.3	1.5	0.4	1.0	2.6	2.3
Russia	6.8	7.8	15.5	7.0	3.7	2.9
Poland	0.9	0.0	-0.9	-0.6	2.0	1.7
Austria	2.0	1.6	0.9	0.9	2.1	2.0
Czech Republic	**1.4**	**0.4**	**0.3**	**0.7**	**2.5**	**2.1**
Hungary	1.7	-0.2	-0.1	0.4	2.4	2.9
Slovakia	1.4	-0.1	-0.3	-0.5	1.3	2.5

Source: CZSO, OECD

1.2 Monetary Policy and Foreign Exchange Market

There was a further tightening of monetary policy in the Czech Republic in 2018 (Table 1.5). The CNB followed up on its double hike in monetary-policy rates in the second half of 2017 by voting for a change in its key rate – the 2T repo rate – five times in 2018. This saw the repo rate increased twice in the first half-year and three times in the second half-year, by 0.25 pp on each occasion, taking it up from 0.50% to a final 1.75%. Until the August vote, the discount rate remained at 0.05%, but went on to end 2018 at 0.75% after a triple rise. These changes were subsequently reflected in interbank interest rates (see Chapter 5).

Whereas 2017 saw some of the world's large central banks taking only their first steps in rate-hiking policy, 2018 – after 10 years of an accommodative monetary policy stance – was quite overtly affected by the tightening of monetary conditions. This was most evident with the US Fed, which increased the monetary-policy rate four times – namely in March, June, September and December – taking it up by an aggregate 1.00 pp. The Fed raised the rates repeatedly in response to improved estimates of US economic growth and positive developments in unemployment. At the end of 2018, the key interest rate in the US ranged from 2.25% to 2.50%. Similarly, the Bank of England stifled growing inflation by also increasing interest rates. In August 2018, it raised the key interest rate by 0.25 pp to 0.75%, while maintaining its GBP 10 billion corporate bond purchase programme and the GBP 435 billion government bond purchase programme.

In contrast, the European Central Bank (ECB) has kept its key interest rates unchanged since 2016. Even so, a paradigm shift was prompted by the long-awaited termination of the Asset Purchase Programme (APP). Though the programme continued to run from April 2017 until the end of 2018, it did so at a reduced level of EUR 60 billion per month. In December, the ECB Governing Council decided to wind up net purchases under the APP. Going forward, it now only plans to reinvest principal payments from maturing securities previously purchased under the programme. The Japanese Central Bank (BoJ) also continued its qualitative and quantitative easing (QQE) programme in pursuit of its 2% inflation target. In 2018, the BoJ kept its key rate unchanged at -0.1%.

Of the Visegrad Four countries, only the Czech Republic made further increases in monetary-policy rates. The other central banks in the region (including, in Slovakia's case, the ECB) held back from tightening monetary policy in this regard. The Polish and Hungarian central banks have kept their key interest rates at higher levels than the Czech Republic in recent years, and have not changed them at all in the past four or three years, respectively.

Table 1.5: Key monetary policy rates of selected central banks[3]

As at 31 Dec (% p.a.)		2013	2014	2015	2016	2017	2018
United States	Fed	0.00-0.25	0.00-0.25	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50
Eurozone	**ECB**	**0.25**	**0.05**	**0.05**	**0.00**	**0.00**	**0.00**
Japan	BoJ	0.00	0.00	0.00	-0.10	-0.10	-0.10
United Kingdom	BoE	0.50	0.50	0.50	0.25	0.50	0.75
Poland	NBP	2.50	2.00	1.50	1.50	1.50	1.50
Czech Republic	**CNB**	**0.05**	**0.05**	**0.05**	**0.05**	**0.50**	**1.75**
Hungary	MNB	3.00	2.10	1.35	0.90	0.90	0.90

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

Developments in the exchange rates of the Czech koruna versus foreign currencies (selected currencies used in the Czech Republic's international trade or in the region, Table 1.6) were heavily influenced not only by the strong domestic economy and the CNB's monetary-policy rate hikes, but also by other key factors. Appreciation was recorded for all of the currency pairs monitored. In relation to the euro, the koruna kept to the same 2.6% rate of appreciation as in 2017, reporting an average CZK 25.6 per EUR.

In 2018, the US dollar gradually appreciated against the euro. This was also reflected in the exchange rate with the Czech koruna: uncertainty in the emerging markets, stirred by fears of American protectionism, initially

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

weakened it against the dollar, but it then went on to wipe out those losses and appreciate to an average CZK 21.7 per USD. In the basket of currencies monitored, the Czech koruna appreciated most strikingly against the Russian rouble (by 13.5% to an average CZK 34.7 per RUB 100).

The koruna made almost identical gains (approximately 5% to 6%) against the Japanese yen (to an average CZK 19.7 per JPY 100), the Hungarian forint (to an average CZK 8.0 per HUF 100) and the Chinese renminbi (to an average CZK 3.3 per CNY). The Czech koruna appreciated more modestly against the pound sterling (by 3.6% to an average CZK 29.0 per GBP) and the Polish zloty (by 2.7% to an average CZK 6.0 per PLN).

Table 1.6: CZK exchange rates to major and regional currencies

Average exchange rate		2013	2014	2015	2016	2017	2018	Year-on-year change (%)
United States dollar	CZK/USD	19.6	20.7	24.6	24.4	23.4	21.7	-7.0
Euro	**CZK/EUR**	**26.0**	**27.5**	**27.3**	**27.0**	**26.3**	**25.6**	**-2.6**
Chinese yuan	CZK/CNY	3.2	3.4	3.9	3.7	3.5	3.3	-5.0
Japanese yen	CZK/100 JPY	20.1	19.6	20.3	22.5	20.8	19.7	-5.6
British pound	CZK/GBP	30.6	34.2	37.6	33.1	30.1	29.0	-3.6
Russian rouble	CZK/100 RUB	61.4	54.9	40.6	36.6	40.1	34.7	-13.5
Polish zloty	CZK/PLN	6.2	6.6	6.5	6.2	6.2	6.0	-2.7
Hungarian forint	CZK/100 HUF	8.7	8.9	8.8	8.7	8.5	8.0	-5.5

Source: CNB

2 PLACEMENT OF FUNDS ON THE FINANCIAL MARKET

The volume of funds placed on the financial market[4] (Table 2.1) continued along its long-term trajectory in 2018, rising by CZK 327.3 billion (5.3%) to CZK 6.45 trillion. This was lower absolute growth than in 2016 and 2017 and it was slightly below the average relative growth for the reporting period covered since 2013, in which the annual gains have run the gamut from approximately 4% to 10%.

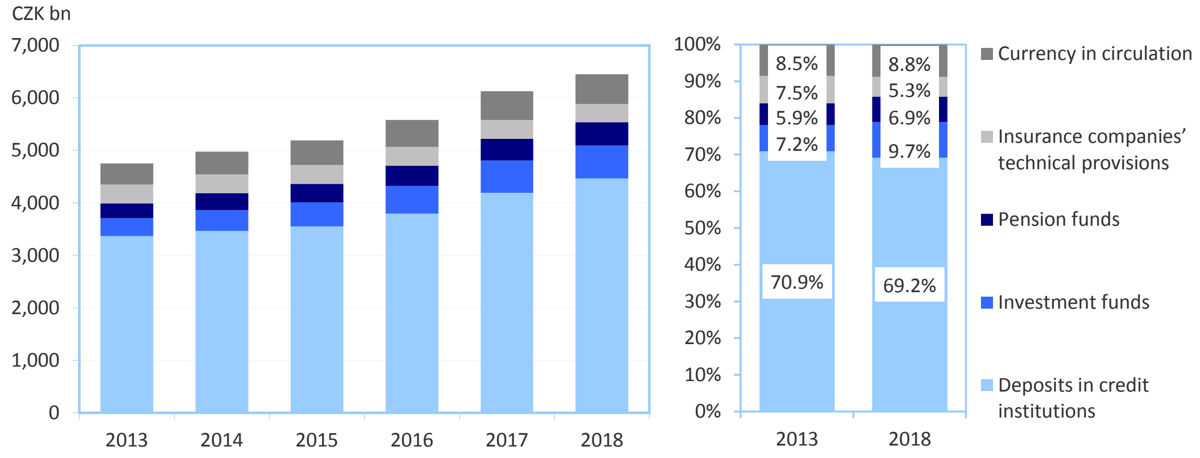
Table 2.1: Placement of funds on the financial market

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Deposits in credit institutions[5]	3,367.6	3,462.5	3,548.5	3,796.4	4,188.1	4,461.5	273.4	6.5
of which: building savings schemes	429.1	413.6	384.2	362.6	358.9	355.0	-3.9	-1.1
Investment funds	339.9	400.6	459.4	528.4	614.2	627.7	13.6	2.2
Pension funds	282.3	318.7	352.6	381.6	413.9	447.1	33.1	8.0
Insurance companies' technical provisions	356.1	363.4	359.5	358.6	359.5	344.3	-15.2	-4.2
Currency in circulation	405.4	432.2	467.1	514.3	548.3	570.8	22.4	4.1
Total	4,751.4	4,977.3	5,187.1	5,579.3	6,124.0	6,451.4	327.3	5.3

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

Taken from the perspective of relative changes in the various sectors, the growth momentum of resources placed in pension funds may have gradually fallen over the reporting period, but pension funds still recorded their highest relative increase in resources (by 8.0%) in 2018. This punctured the long-running trend, since 2012, that had seen investment funds report the highest relative gains in resources every year. In 2018, investment funds saw their volume of resources climb by just 2.2%, a rise that can be fully attributed to an increase in one of their components – resources in qualified investor funds. The volume of resources in collective investment funds contracted year on year following an asset revaluation prompted by a steep fall in share and bond prices in the final quarter of 2018. Compared to 2017, the growth rate of both deposits and currency in circulation tailed off. Insurance companies' technical provisions were down by 4.2% as they reported their biggest drop at any time during the reporting period.

Graph 2.1: Placement of funds on the financial market



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

Note: The right side of the graph shows the differences in structure between 2013 and 2018.

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

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

The highest growth in the absolute level of resources was again recorded in the item with the biggest volume, i.e. credit institution deposits, as has been the case throughout the reporting period. Nevertheless, in 2018 its rise was lower than in the previous year. Only pension funds saw their volume of resources grow slightly in absolute terms compared to 2017.

Various trends have been reported in the volumes of funds in the individual categories between 2013 and 2018. As can be seen on the right side of Graph 2.1, despite the unfavourable period towards the end of 2018 the largest increase during the reporting period was in the proportion of resources placed in investment funds (by 2.6 pp), followed by pension funds (by 1.0 pp). While there was an overall drop in the proportion of credit institution deposits by 1.7 pp, the steady decline in the share of deposits since 2013 was interrupted in 2017. In 2018, the share of deposits went up by 0.8 pp, i.e. twice as much as in the year previous.

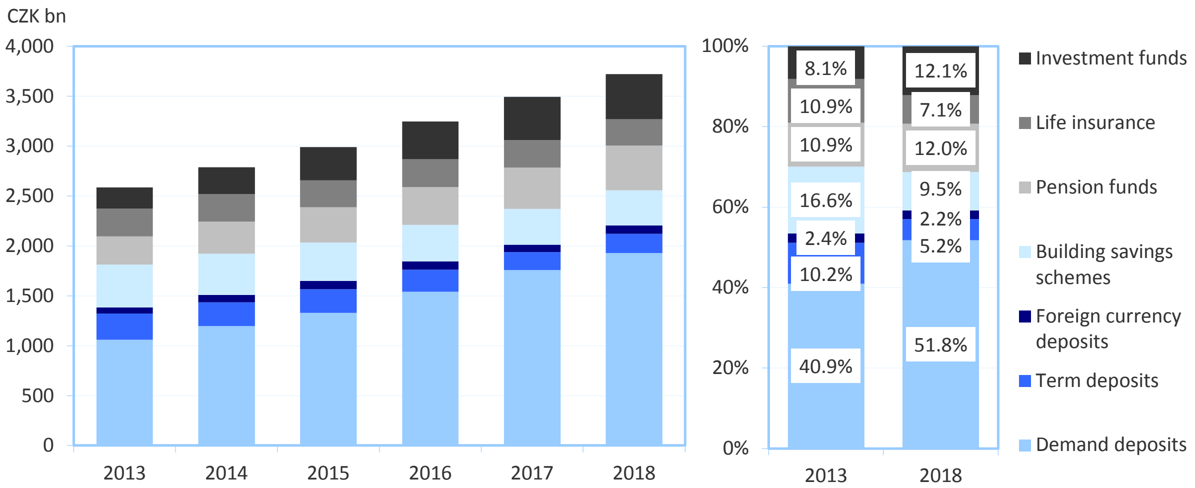
The proportion of currency in circulation relative to total funds ranged between 8.5% and 9.2% in the reporting period. It has been descending since reaching a peak in 2016. The share of insurance companies' technical provisions fell by 2.2 pp in the reporting period. This was the greatest decline in any of the monitored categories of funds placed on the financial market.

Despite 2018 being a poor year for the yields of investment funds, the strong growth witnessed on the capital markets in early 2019 could – provided it is not interrupted – have a positive impact on the full-year return on their resources. Consequently, investment funds could once again record the highest relative growth in the volume of their resources. As in previous years, credit institution deposits can be expected to report the highest absolute growth in funds. Unless there is a major fluctuation on the equity and bond markets, the volume of funds placed on the financial market – regardless of the expected slowdown in economic growth in 2019 – could show a higher rate of growth than in 2018.

3 STRUCTURE OF HOUSEHOLD SAVINGS

The volume of household savings[6] held in intermediary financial market products[7] has gradually risen over the reporting period since 2013 (Graph 3.1), although some momentum has been lost in the past two years. In 2018, total savings reached a total of CZK 3.72 trillion, up 6.5% year on year, i.e. 1.2 pp less than in 2017.

Graph 3.1: Structure of household savings



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

Note: The right side of the graph shows the differences in structure between 2013 and 2018.

Demand deposits reported the highest year-on-year absolute increase of any of the products monitored between 2013 and 2018. In 2018, they rose by CZK 170.1 billion (9.7%) to CZK 1.93 trillion. This pushed up their share within the structure of household savings by 1.5 pp to 51.8%. Demand deposits were also the product that upped their share in total household savings the most during the reporting period (by 10.9 pp). After six years of steady decline, in 2018 the volume of term deposits (excluding building savings schemes) also increased, rising by CZK 14.7 billion (8.2%) to CZK 194.0 billion. This may have been prompted by the fact that, during 2018, several banks put up the interest rates on their term deposits significantly.

One item whose importance has been consistently declining, both in absolute and relative terms, is savings in the sector of building savings schemes. During the reporting period, their share in total savings was down 7.1 pp, which is the most of all the products presented. Foreign currency deposits, following a drop in 2017, resumed their growth to the extent that they reported the highest relative increase (9.9%) of any of the products monitored. Here, however, the conversion effect of developments in the domestic currency's exchange rate also played a role. The increase in the volume of term deposits and foreign-currency deposits therefore helped to stall the long-term trend of the shrinking share of banking institutions' products (the various categories of deposits and building savings schemes) in the overall structure of household savings. The proportion of banking products went up by 0.9 pp to 68.7% in 2018.

Household savings in investment funds reported their lowest absolute (CZK 17.9 billion) and relative (4.1%) growth for the reporting period. However, much of this result can be attributed to a decline in the value of investment resources, triggered by plunging share and bond prices in the final quarter of 2018. The share of household savings allocated to collective investment instruments therefore dipped to 12.1% in 2018. After three years' stagnation, the share of funds placed by households in pension products nudged up to 12.0%. The downtrend in the placement of savings in financially accumulating products of life insurance continued. Their share in overall savings went down by 0.8 pp to 7.1%.

On the issue of future changes in the structure of savings, growth in the volume of demand deposits is forecast in 2019 on account of the conservatism prevailing among Czech households. Assuming the positive

[6] The term "savings" is used in this chapter as meaning a stock financial quantity denoting the financial assets of households.

[7] Includes household savings that are placed in the financial market through financial products offered by bank institutions, insurance companies and pension management companies (previously the pension funds), and collective investment instruments. Direct investments made by households in securities, commodities, and real estate are not monitored.

capital-market developments from the beginning of 2019 hold up, there may also be a significant uptick in the growth rate of resources placed in investment funds. A more detailed analysis of the individual sectors is provided in Chapters 5 to 8.

4 INSTITUTIONAL ASPECTS OF THE FINANCIAL MARKET

4.1 Number of Financial Market Entities

There was no straying from the trends in the number of Czech financial market participants in 2018 (Table 4.1). There were only minor changes in numbers in individual sectors, a situation which could indirectly reflect the relatively satisfactory coverage of demand for financial services. Slight year-on-year variations in the number of entities point, if anything, to natural evolution and are not changes that would fundamentally change the institutional structure of the Czech financial market.

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

As at 31 Dec	2013	2014	2015	2016	2017	2018
Credit institutions						
Banks	44	45	46	45	47	50
of which: foreign banks branches	21	22	23	23	24	27
of which: building savings banks	5	5	5	5	5	5
Credit unions	12	11	11	11	10	10
Capital market						
Investment firms and branches of foreign investment firms	64	58	62	65	67	79
Investment funds having legal personality	88	83	92	108	125	138
Management companies	24	26	28	27	29	30
Mutual funds	176	191	195	201	227	242
of which: qualified investor funds	56	53	55	60	79	89
of which: collective investment funds	120	138	140	141	148	153
Investment intermediaries	7,667	7,551	7,459	7,335	7,043	6,847
Tied agents[8]	25,821	26,056	26,659	26,612	26,448	21,409
Pension management companies	10	9	8	8	8	8
Insurance						
Insurance companies	52	53	55	54	49	48
of which: branches of foreign insurance companies	18	20	23	24	21	20
Reinsurance companies	1	1	1	1	1	1
Insurance intermediaries[9]	156,217	163,204	169,024	174,092	181,121	185,125

Source: CNB

The Czech financial market has traditionally been dominated by a well-developed banking sector which, at the end of 2018, was managing approximately four fifths of all assets. The banking sector is highly diversified with a spread of both composite and specialised banks. The big four – Československá obchodní banka, a.s., Česká spořitelna, a.s., Komerční banka, a.s., and UniCredit Bank Czech Republic and Slovakia, a.s. – engage in comprehensive operations that cover the vast majority of core financial services for the broadest of retail and corporate clients. Mid-sized and small banks, including the branches of foreign banks, complement the overall range of banking services on the domestic market.

In 2018, cooperation with rapidly developing tech companies – which influence banking services in the traditional banking sector – started to intensify across this sector.

Minor changes in the numbers of entities at **credit institutions**, including the launch of operations by four new branches of foreign banks, specifically Bank of Communications Co., Ltd., Prague Branch odštěpný závod, HSBC

8 Excluding tied agents of pension management companies.
9 Where this concerns insurance intermediaries, these are the numbers of licences issued.

France – pobočka Praha, PARTNER BANK AKTIENGESELLSCHAFT, odštěpný závod, and SMBC Bank EU AG Prague Branch. Conversely, one branch closed down (BNP Paribas Fortis SA/NV, pobočka Česká republika).

In the credit union sector, the largest such entity, Moravský peněžní Ústav – spořitelní družstvo, discontinued operations and was transformed into TRINITY BANK a.s. as of 1 January 2019.

In the second half of 2018, preparations were made for the merger of Moneta Money bank, a.s. and Air Bank a.s. with the Czech Home Credit a.s. and the Slovak Home Credit Slovakia a.s. This was going to be one of the largest transactions in the history of the Czech banking market. Had it been completed, it would have given rise to the second-biggest bank on the Czech market in consumer lending and the third-biggest in terms of banking network. However, the planned merger did not go ahead because the various participants were unable to agree on the price of the transaction. Even though the transaction did not proceed, it shows that, in the future, the financial market could be headed for further mergers and acquisitions among the existing entities looking to harness synergies and economies of scale while increasing making it more concentrated.

There was a modest increase in the numbers of most institutional entities on the **capital market**. This may be due to the continuing boom of the Czech and other economies and the related higher demand for investment products and services. The stagnating interest rates on bank deposits may have led some investors to try to make returns on their assets via capital market products, especially collective investment funds. There was a rise in the number of mutual funds (by 15), especially in the category of qualified investors (10 new entities) specialising in more experienced and wealthier clients, where participation requires a certain minimum investment amount. There was a moderate rise in the number of investment firms (by 12), especially among non-bank investment firms (eight new entities). The ranks of bank investment firms were expanded by four entities.

There was a fall in the number of investment service intermediaries, indicating the further consolidation of this market segment. The previous trend for entities to switch from investment intermediaries to tied agents – following the legislative redefinition of categories of intermediaries – stabilised. The situation among pension management companies is on an even keel, with no changes in number in the past four years.

In the **insurance company sector**, two foreign branches closed down. These were AIG Europe Limited, organizační složka pro Českou republiku, and Steward Title Limited, organizační složka. One branch of a foreign insurance company was set up (ASPEKTA Assurance International AG, pobočka pro Českou republiku). At the end of the year, the insurance market witnessed a major merger between two autonomously operating entities owned by Vienna Insurance Group AG. The merger of Kooperativa Pojišťovna, a. s., Vienna Insurance Group with Pojišťovna České spořitelny, a. s., Vienna Insurance Group as of 2019 created the biggest entity on the insurance market measured in terms of subscribed gross premiums written 2019. The previously biggest insurer in this respect was Česká pojišťovna a.s. The long-term moderate rise in numbers of insurance intermediaries continued.

Entities that operate on the financial market in the Czech Republic by taking advantage of the EU's freedom to provide services on the basis of a single European passport complement and extend the financial products offered by CNB-licensed entities. Their numbers in the sectors of credit institutions, insurance companies and investment funds have steadily increased in the reporting period since 2013; management companies are an exception as they have tended to stagnate in the reporting period. Table 4.2 below shows how the numbers of entities in selected sectors have developed.

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

As at 31 Dec	2013	2014	2015	2016	2017	2018
Credit institutions	335	351	383	406	432	443
Insurance companies	744	790	825	864	890	966
Investment funds	1,059	1,131	1,192	1,270	1,370	1,666
Management companies	42	42	41	43	41	43

Source: CNB

4.2 Guarantee Schemes

Two guarantee funds – the Financial Market Guarantee Scheme and the Securities Traders Guarantee Fund – are integral to the Czech financial market. Their job is to reinforce the protection of clients and the market as a whole.

The **Financial Market Guarantee System** (GSFT) is the more significant in terms of the volume and scope of use of bailout funds. Established in early 2016 on the basis of the Act on Recovery and Resolution in the Financial Market,[10] it was formed by the transformation of the Deposit Insurance Fund (DIF). The GSFT manages not only funds that may be used as compensation for deposits, but also funds to deal with any problems faced by credit institutions and certain investment firms in order to avert their bankruptcy. For this reason, the Crisis Resolution Fund (CRF) was established. On the establishment of the GSFT, the original DIF and the newly formed CRF became its internal units with separate assets and accounting.

The GSFT manages and takes decisions on the use of funds intended to safeguard and maintain the stability of the entire Czech financial market. To this end, it cooperates mainly with the MoF, the CNB and, where necessary, with similar systems in other EU Member States. The establishment of the GSFT has resulted in a more comprehensive system of depositor protection and support for stability on the financial market than the original autonomous DIF was capable of. The changes in how financial market safeguards are configured, reflecting the requirements of EU regulations, should ensure a stable and strong safety net that will minimise any problems faced by financial markets in individual countries and the EU as a whole.

The GSFT is responsible for the disbursement of deposit compensation in cases where banks, building savings banks or credit unions are flagged as insolvent by the CNB, or in cases where a court decides on the bankruptcy of such an institution. The deposit guarantee scheme guarantees compensation for deposits in banks, building savings banks and credit unions established in the Czech Republic. This compensation covers 100% of deposits, including interest, up to EUR 100,000 per client per institution. In certain statutory cases, the maximum compensation is increased to an amount equal to EUR 200,000.[11]

Deposits of clients in branches of foreign banks whose parent is established in the EU are insured under the deposit guarantee scheme in place in the Member State where the parent is established. Any compensation for deposits payable to the clients of such branches would be paid by the GSFT further to instructions from and on the account of the competent foreign deposit guarantee scheme. Developments in the DIF's core indicators characterising its main revenue and expenditure sides for the previous six-year period are shown in Table 4.3.

Table 4.3: Basic indicators of DIF

As at 31 Dec	2013	2014	2015	2016	2017	2018
Contributions (CZK bn)[12]	3.7	4.3	4.4	2.1	0.9	1.0
Compensation payments (CZK mn)	30	14.526	235	3.291	261	25
Financial reserves (CZK bn)	28.6	18.9	28.8	27.9	30.3	31.7

Source: GSFT

Banks contributed most to the structure of contributions to the DIF (81.0%), followed by building savings banks (just under 18%), while credit unions contributed just over 1%. The amount of compensation paid out was linked to compensation for deposits at ERB bank, a.s.

The CRF exists to finance the management of crisis situations faced by banks and certain investment firms. The CRF is where resources are pooled for use in the event of any threat to the stability of any financial institution so that, bearing in mind the potential essential functions carried out by such an institution in the financial sector and the economy as a whole, it is not necessary to close it down or, where applicable, commence the compensation of deposits for its clients. Financial institutions' total contributions to the CRF over its three-year existence came to CZK 9.2 billion (Table 4.4).

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

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

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

Table 4.4: Basic indicators of CRF

As at 31 Dec	2016	2017	2018
Contributions (CZK bn)	3.0	3.0	3.1
Financial reserves (CZK bn)	3.0	6.0	9.2

Source: GSFT

The second guarantee system on the financial market in the Czech Republic is the **Guarentee Fund of Investment Firms** (GFOCP). It is responsible for the disbursement of compensation to clients of investment firms who are not able to meet their obligations towards clients. The GFOCP therefore does not cover the risk of the impairment of the value of investments in securities. Clients receive compensation of 90% of the value calculated in accordance with the applicable provisions of the Capital Market Act,[13] up a maximum of EUR 20,000, within three months after their claim has been verified.

The main source of the GFOCP's assets is contributions made by the entities involved, i.e. investment firms and management companies managing client assets. As the client assets covered remain (unlike deposits covered by the DIF) in the hands of the investment firm only for a relatively short period of time, but repeatedly, the annual contribution is calculated differently, i.e. as 2% of the amount of fees and commissions collected for investment services during the past year. The contributions collected by the GFOCP from investment firms in 2018 totalled CZK 191.8 million. Over the same period, it disbursed CZK 54,000 in compensation to clients of former investment firms.

4.3 Financial Arbitrator

The Financial Arbitrator (FA), as a body for the out-of-court resolution of certain disputes between consumers and financial institutions, has been active on the financial market for 17 years. Over time, it has steadily expanded its scope of operations. In 2018, when its competence was last expanded, this time to include disputes arising from the provision of investment services in the Czech Republic by a foreign entity licensed by the supervisory body of another EU Member State, it had the authority to address consumer disputes across virtually the entire financial market.

The FA's competence currently covers the out-of-court settlement of consumer disputes related to payments, non-payment accounts and passbooks, electronic money, loans, including mortgages and loans under building savings schemes, collective investment and investment services, currency exchange transactions and life insurance. Thus, when it comes to financial services, the FA's scope of competence excludes only products and services under the Pillar 3 (supplementary pension insurance and supplementary pension savings), non-life insurance products, shareholder and bondholder disputes, and disputes deriving from bills of exchange.

The FA is a free body for the out-of-court resolution of consumer disputes that has been set up by the state. Consumers do not need legal counsel in proceedings before the FA. The FA is also required to help consumers draw up an application for the initiation of proceedings, and during the course thereof where appropriate, so that they can duly raise their justified claims. The FA must not favour any of the parties to the dispute, including the consumer, because it is duty bound to take decisions on the basis of the underlying documentation that has been gathered and in accordance with the law. The FA's decisions are subject to judicial review.

The FA's primary objective is to find an amicable solution to disputes. An amicable solution is also taken to mean procedure where consumers withdraw their publications because the FA persuades them, with its arguments, that their publication (the dispute) is baseless. In most of the disputes that it hears and that are justified, this objective is pursued successfully by the FA. Life insurance is an exception. Here, the opinions of the counterparties diverge so much that, more often than not, neither of them is satisfied by the FA's decisions. Disputes arising from life insurance are then judicially reviewed.

In 2018, the FA received 1,399 applications for the initiation of proceedings and heard a total of 3,619 disputes (pending or interrupted proceedings). It fielded more than 5,000 enquiries from the public. A general overview of the number of proceedings initiated is set out in Table 4.5.

[13] Act No 256/2004 Coll., on Capital Market Business, as amended.

Table 4.5: Number of proceedings initiated in individual years

As at 31 Dec	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Number of proceedings commenced	706	629	962	1.951	1.337	1.399	62	4.6
of which: payment services	187	67	110	117	138	130	- 8	-5.8
consumers credit	502	317	190	233	338	514	176	52.1
life insurance	13	224	639	1.132	734	626	-108	-14.7

Source: Annual reports of FA

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

As in previous years, in 2018 life insurance and consumer credit were the most common subjects of disputes and queries. Life insurance disputes had a common denominator – the fees (intermediaries' commission) charged by the insurance companies in the first few years of the policy against the premiums paid. The premiums paid in the first two or three years after the conclusion of a life insurance contract usually do not cover the one-off fees charged at the beginning of life insurance arrangements.

In order to raise the general public's awareness of the cases it handles, the FA makes its key decisions available in full (after anonymising the applicants' personal data) in the Collection of Decisions on its website. At the same time, this helps to increase the predictability of the FA´s decision-making activity. The Collection of Decisions currently contains more than 500 anonymised FA decisions issued since 2012. Procedural decisions, decisions on the discontinuance of proceedings due to the consumer's inactivity, and decisions on the discontinuance of proceedings because consumers have withdrawn their applications are not published.

The numbers of proceedings initiated and enquiries answered indicate that the public is interested in the option of having disputes resolved through the FA. Claim proceedings with a financial institution, initiated to comply with the consumer's obligations crucial for proceedings to be opened before the FA, are often enough to resolve the dispute amicably. In this respect, the mere existence of the FA, the past experience of financial institutions with FA proceedings and, undoubtedly, the FA Collection of Decisions are helping factors. Simpler proceedings last for a minimum of four months when all procedural rights and obligations are respected, assuming that the two parties are cooperative and applicable case-law already exists. More complicated cases last for between 10 and 12 months. There are extreme instances when proceedings may last even longer, where the FA's primary focus is on resolving the dispute amicably, or where the FA or consumers themselves are waiting for the outcome of a judicial review of a similar case.

4.4 Economic Results and Number of Employees of Financial Institutions

All financial market sectors monitored reported a pre-tax profit (Table 4.6). In 2018, such as earnings posted by banks, insurance companies, pension management companies and management companies were at their highest level at any time in the reporting period. In these four sectors, developments in profits might be described as a rising trend, the one exception being the result reported by insurance companies in 2017. Only investment firms made a profit at anything like the same amount. The highest relative year-on-year profit growth was reported for insurance companies (almost 70%), while it is the banks who have long generated the biggest volume of profits (approximately 80%). In the key banking sector, the main factor affecting profit was the rise in net interest income (see Table 5.2).

Table 4.6: Profit/loss of financial institutions before tax

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Banks	73.3	76.1	80.5	87.9	90.8	98.5	7.7	8.5
Insurance companies	13.2	8.7	10.0	13.2	10.6	18.0	7.4	69.8
Pension management companies	-0.3	0.5	0.8	1.4	1.6	1.7	0.1	6.2
Management companies	0.6	0.7	0.8	1.1	1.3	1.4	0.1	7.7
Investment firms	1.1	0.9	1.0	0.8	1.0	0.9	-0.1	-10.0

Source: CNB – ARAD

A more detailed analysis of developments in the various sectors, reflected in the profits made, can be found in Chapters 5 to 8.

In 2018, total employment in financial market sectors grew slightly. The average number of workers (FTE) was just shy of 75,000, translating into a year-on-year 2.2% increase (Table 4.7). Almost all growth in financial sector employment can be attributed to the rising numbers of staff at non-bank financial institutions (an increase by nearly 2,000 persons). Moderate growth was also recorded in the banking sector (246 persons). In other sectors, workforce savings were made, perhaps reflecting the rationalisation of processes – especially in administration – following the expansion of new technologies.

Table 4.7: Average headcount of financial institutions

Average for the period	2013	2014	2015	2016	2017	2018
Banking monetary institutions	39.375	39.105	39.216	40.006	40.553	40.799
Non-banking monetary institutions[14]	14,598	15,272	15,689	16,278	17,237	19,110
Insurance companies	14,213	13,993	13,768	13,724	13,099	12,611
Financial leasing companies	2,277	2,064	2,020	2,060	2,071	2,055
Pension management companies	629	550	521	514	484	364
Total	71,092	70,984	71,214	72,582	73,444	74,939

Source: CZSO

[14] The CZSO includes in this indicator credit unions, holding companies, management companies, investment funds, leasing companies, pawnshops, non-bank credit providers, foreign currency exchangers, brokers, factoring companies, investment firms, investment advisors and brokers, and insurance agents and brokers.

5 CREDIT INSTITUTIONS AND OTHER PROVIDERS OF ASSET FINANCING

This chapter primarily focuses on credit institutions, specifically banks (the bulk of the chapter), including building savings banks (Chapter 5.7), and credit unions (Chapter 5.8). Specific topics are also covered, such as interest rates (Chapter 5.4), deposits and loans (Chapter 5.5) and mortgage loans (Chapter 5.6). The next chapter (Chapter 5.9) deals primarily with the developments in the segment of non-bank financing providers. The sub-sector covered in the last section of this chapter offers products[15] that are fairly close substitutes for bank loans and, if they are offered to retail clients, contribute towards the indicator of overall household indebtedness.

Given the importance of households as the key client segment, the last chapter (Chapter 5.10) addresses the development of their indebtedness in relation to both bank as well as non-bank financing providers.

5.1 Main Developments in the Banking Sector

In 2018, the banking sector kept to the stable results reported in the previous years. Ongoing growth trends can be observed in numerous indicators. Though the overall volume of sector assets reported a slowdown in growth momentum, new highest absolute figures were still achieved (Table 5.1). As in the previous three years, the favourable economic conditions were a factor contributing to improvements in certain indicators. This was reflected in lending activity and in the downtrend in the non-performing loans ratio (see Chapter 5.2), and in the increase in the sector's overall profit (see Chapter 5.3). The trend of declining interest margins for assets or was halted. Specifically, these margins posted a rise by 0.15 pp to 1.7% p.a., boosted by the CNB's growing monetary-policy rates (Graph 5.1 and Chapter 5.3).

Factors contributing to the sector's overall resilience also remained in place. These included the generally high and long-increasing capital adequacy ratio (a cushion to cover any unexpected sector losses), above-average profitability (Graph 5.3) as a source for potential raising capital internally, the long-term high coverage of client loans with deposits, the relatively low non-performing loans ratio, and a low share of foreign-currency loans to households.

Development of Capital Adequacy

The banking sector's overall capital adequacy ratio (Table 5.1) recorded a modest year-on-year rise by 0.4 pp to 19.6%.[16] Since the beginning of the 2013, this ratio has reported steady, solid growth, rising by a total of 3.2 pp (Graph 5.1). In general, however, increasing capital adequacy may not only be the result of a greater volume of capital, but could also be due to a decrease in risk exposures. There was an increase in both of these categories in the reporting period since 2013, with the volume of capital rising at a faster rate than the overall volume of risk exposures.

There have long been minor differences in the amount of the total capital ratio across the groups of banks classified by size (or specialisation). The 19.4% ratio for the large-bank segment,[17] in view of its dominance within the sector, was closest to the values of the sector as a whole and posted growth of 0.7 pp in 2018. The mid-sized bank segment continued to report an above-average 20.7% (a dip by 0.7 pp). Small banks saw their capital adequacy climbed by 0.8 pp to 19.8%, bringing them close to the average. The capital adequacy of building savings banks declined year on year by 1.0 pp to 17.8%. It should be noted, however, that the

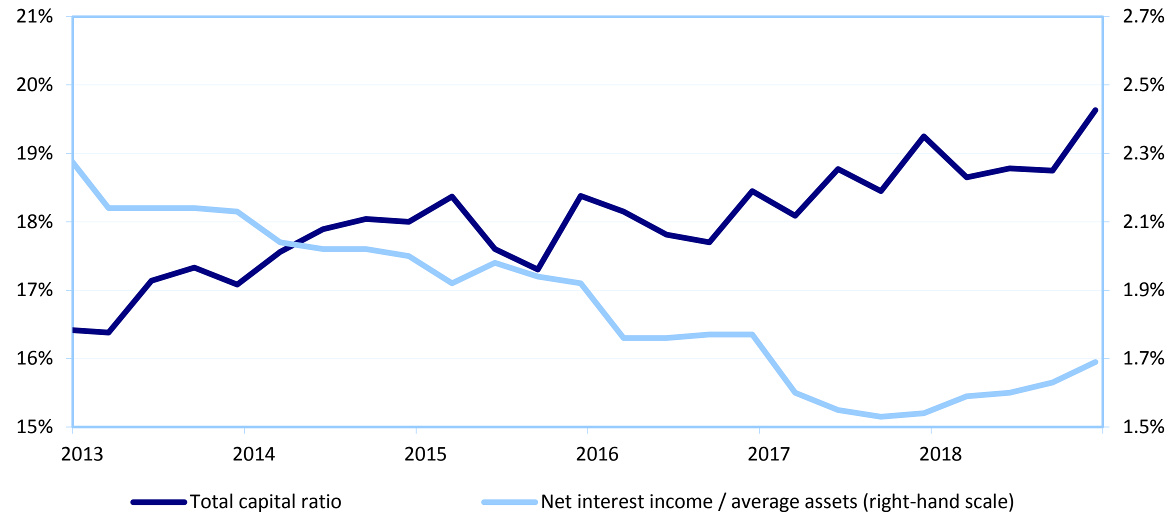
15 Some similar services and products (for example, in the area of the payment system or provision of foreign resources) are offered by entities on the border of the financial sector and information technology (FinTech) in areas such as peer-to-peer lending, crowd-funding, etc.

16 The minimal regulatory requirement is 8% of TREA (total risk exposure amount), i.e. the total volume of risk exposures. It can be higher, though, in particular due to, updates resulting from changes of the Capital Requirements Regulation and Directive several years ago. Factors influencing the overall capital requirement rate that individual entities have to meet include, inter alia, the macro-financial cycle development, the so-called system significance or the consequences of the supervisory process of individual institutions.

17 The CNB has constantly revised its classification of banks by total assets. This has a subsequent impact on the classification of the various banks and on the trends reported by indicators and ratios. Starting in 2012 (inclusive), the classification was as follows: large banks with total assets exceeding CZK 250 billion, mid-sized banks with total assets of CZK 50-250 billion, and small banks with total assets of less than CZK 50 billion. Since 2016, large banks have been taken to mean banks with total assets exceeding 10% of the volume of total assets for the sector as a whole, while mid-sized banks have assets of 2-10% relative to the sector's total assets, and small banks have total assets below 2% of those of the sector as a whole.

different value of the capital ratio does not necessarily fully indicate future resilience because specific risks may affect each segment differently in the future.

Graph 5.1: Total capital ratio and net interest income to average assets



Source: CNB – ARAD

Development of Deposit-to-Loan Ratio[18]

As can be seen from Table 5.1, domestic banks have long been predominantly funded through client deposits. As a result, they have been less dependent on the interbank market to finance the loans provided to clients, thus contributing to the resilience of the banking sector as a whole. In principle, during a period of acute lack of liquidity, difficulties usually appear first in the interbank market, where banks and financial institutions lend to each other. By contrast, client deposits are usually a more reliable and stable source of funding if there is a liquidity crisis, as long as the public continues to have confidence in the deposit guarantee scheme.

Table 5.1: Basic indicators of the banking sector

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Total assets	5,200.6	5,388.0	5,549.7	6,019.4	7,064.5	7,331.6	267.1	3.8
Client loans	2,514.3	2,634.9	2,782.4	2,950.4	3,085.5	3,306.4	221.0	7.2
Client deposits	3,340.1	3,435.1	3,520.7	3,767.2	4,169.1	4,445.6	276.5	6.6
Ratio of client deposits to loans (%)	132.8	130.4	126.5	127.7	135.1	134.5	-0.7	-0.5
Total capital ratio (%)	17.1	18.0	18.4	18.5	19.3	19.6	0.4	2.0

Source: CNB – ARAD

The deposit-to-loan ratio has long been relatively stable, standing at 134.5% at the end of 2018 (an increase of 0.7 pp). This figure has long been among the highest in a European context. Conversely, a number of EU countries have reported significantly less favourable values. The lowest such ratios are in Denmark and Sweden (less than 50%). These countries are then more dependent on other sources of funding for the domestic banking sector in this respect.

This ratio should be placed in context. After 2009, there was generally a significant and steady rise in the share of demand deposits in the domestic banking sector.[19] The share of sources of funding with a shorter maturity thus rose within banks' liabilities (see Chapter 5.5). Another change in recent years has been the rise of banks' deposits at the central bank and growth in deposits from other credit institutions; the shares of these two categories essentially remained unchanged year on year (see Chapter 5.2).

18 This issue is also addressed in Chapter 5.5.

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

Bank Stress Tests

The banking sector's high resilience to any possible negative shocks has been repeatedly confirmed in the past by the results of stress tests regularly performed by the CNB. These tests analyse the effects of the baseline and adverse scenarios, i.e. a theoretical deterioration in economic developments. The CNB differentiates between two types of stress tests. The supervisory stress test covering a three-year horizon envisaged economic decline right at the start of the testing period and encompassed 76% of the domestic sector's assets. In contrast, the macro stress test covering a five-year horizon assessed, in its negative scenario, the impact of an economic downturn as of the second year.

The results of the supervisory stress test from December 2018 indicated that the capital adequacy of the sector as a whole would remain above the 8% regulatory minimum even in the case of the less likely highly unfavourable stress scenario. In this model scenario, capital adequacy would only just slip below 13%. In the baseline scenario, the impact of the projected economic developments would lead to a rise in the total capital ratio by 1.0 pp.

In the theoretical negative scenario, the macro stress test would prompt a decline in the total capital ratio to 9.9%. The non-performing loans ratio would rise in case of housing loans (5.6%), consumer loans (9.3%), and non-financial corporations (5.1%). The voluntary holding of a capital surplus and a sufficient level of capital buffers to cover cyclical risks (a countercyclical capital buffer and capital conservation buffer) are regarded as important in order to maintain the capitalisation of the banking sector.

Beyond stress tests, it is appropriate to point out, from a more general perspective, the concept of the "financial stability paradox". This concept highlights the risk that, during a period of higher stability and favourable financial sector developments, individual entities may be more likely to act less prudently. This situation may be exacerbated by low yields prevailing on the financial markets. In a period of financial stability, imbalances may occur that lead (if the risks materialise) to the lower resilience of the financial system in the future. Therefore, it is appropriate to respond to these potential risks of lower resilience in advance, at a time when the system as a whole appears to be generally stable.

5.2 Banking Sector Assets and the Credit Portfolio Quality

Total banking sector assets, including those of building savings banks (Table 5.1), amounted to CZK 7.3 trillion at the end of 2018.[20, 21] The growth rate of total assets in 2018 was 3.8%, i.e. a slowdown in momentum compared to 2017. Nevertheless, in view of the growth throughout the reporting period, total assets still reached a new high. More than 80% of the growth in the volume of assets can be attributed to increased lending and other receivables from clients, which went up by 7.2% year on year.

Structurally, the dominant component of banking assets, reporting the highest share (45.1%), has traditionally been lending and other receivables from clients. The share of deposits and loans at central banks[22] in the assets of banks (31.4%) remained more or less unchanged year on year. Six years ago, however, this share was only in the region of 8%. This category rose to prominence following a change in the allocation of the sector's surplus resources and on the back of rising monetary-policy rates used for purposes of interest on those deposits. By contrast, the share of investments in other debt securities issued by domestic central government institutions recorded a decline from 13.7% to 6.7% in the same period.

The year-on-year growth in liabilities was fuelled primarily by an increase in deposits from clients (by 6.6%). Other categories did not have much of an impact on the structure of liabilities, with the exception of a slight fall in deposits at other credit institutions (by 4.0%) and a rise in capital and reserves (by 4.6%).

As noted above, client loans have long been a key category for the balance sheets of banks. It is therefore important to focus in greater detail not only on their volume, but also on their quality. As illustrated by Graph 5.2, the ratio of non-performing loans to total client loans (provided to residents and non-residents) decreased

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

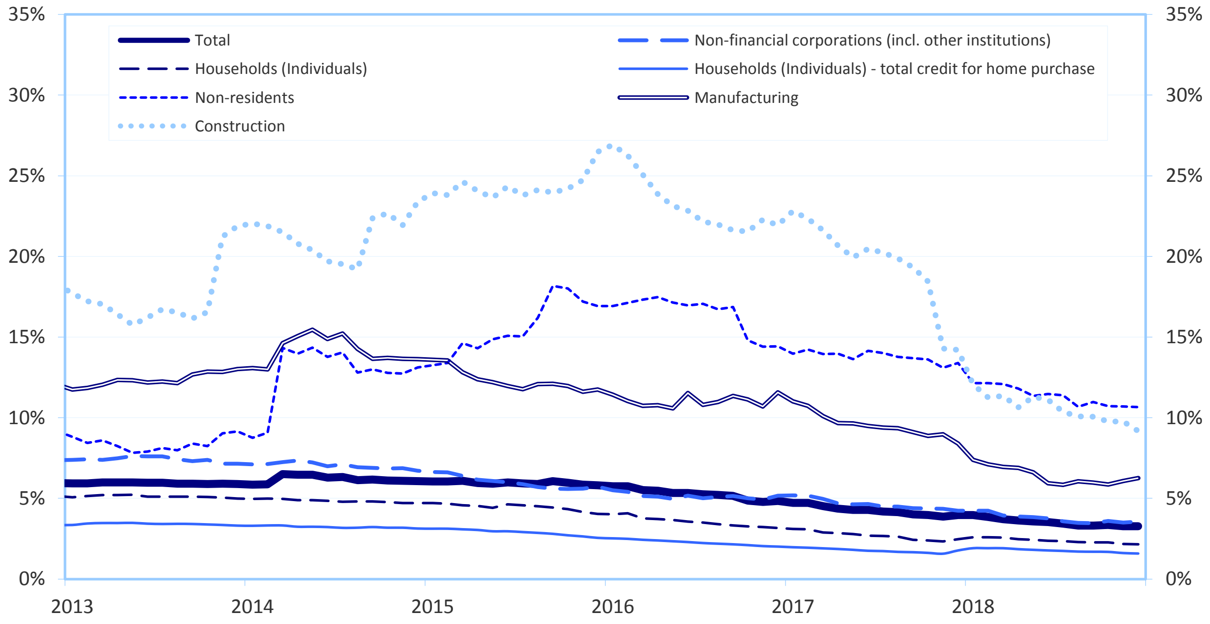
[21] According to the CNB's information, banks have optimized the structure of balance sheets since 2015 in connection with new regulatory requirements regarding contributions to the CRF. This fact influenced the development of some balance sheet items and the balance sheet total.

[22] These tend to be repo transactions.

again year on year, this time by 0.7 pp to 3.2**%**, which is the lowest value in ten years.[23] This indicator has virtually halved in the space of three years because the ongoing favourable economic conditions and debtors' higher ability to keep up with their liabilities, combined with the loan growth momentum, have pushed down the non-performing loans ratio. By contrast, earlier on in the reporting period the non-performing loans ratio had remained steady at around 6%. If the good economic developments continue, a further slight decline in this ratio to around 3% can be expected.

With non-performing loans, it is also appropriate to keep track of the level of coverage through book impairment and provisioning. In the Czech Republic, this is on the high side compared to other Member States across the EU, and is reflected in the higher accumulated impairment figures and in the figures for accumulated fair value changes due to credit risk and provisions for non-performing exposures, which stood at 51.9%, i.e. year-on-year growth of 7.5 pp.

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



Source: CNB – ARAD, MoF calculations

Long-term improvements in the quality of loan portfolios were reflected not only on a general scale, but also in all of the client sectors and branches of economic activity monitored in 2018 (Graph 5.2). Consequently, all sub-sectors and branches of residents reported the lowest value yet in the reporting period.

The ratio of non-performing loans granted to non-financial corporations fell by 0.7 pp to 3.6%. Likewise, loans to households (private individuals)[24] again registered a year-on-year drop in the non-performing loans ratio, this time by 0.4 pp to 2.1%. As such, this was the second consecutive year in which this ratio achieved its lowest value. Households have long reported a lower non-performing loans ratio than non-financial corporations. This can be mainly attributed to housing loans, which again witnessed a decrease, this time by 0.2 pp to 1.5%. However, as in 2017, the year-on-year decline in total loans to households was also attributed to a significant reduction in the share of non-performing loans among consumer loans (including current account debit balances) by 0.9 pp to 5.1%. Although the non-resident sector saw a more significant decrease (of 3.2 pp), the resultant ratio in this sector remained the highest of the main client sectors (10.7%).

For the sake of comparison, Graph 5.2 also presents figures for selected categories of entities by branch of economic activity. Here, too, the upbeat economic situation suppressed the non-performing loans ratio further. Manufacturing reported a decrease by 2.1 pp to 6.3%, while the drop in the construction industry was 5.0 pp to 9.2%.

[23] The non-performing receivable methodology takes its cue from prudential rules applicable in the relevant years, which have evolved to some degree.

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

The share of foreign-currency loans in total client loans increased slightly by 0.9 pp year on year to 19.8%. During the reporting period, this ratio has hovered around 18-20%, with the exception of early 2013, when it amounted to 15.3%. During the reporting period, values across the individual sectors varied. Households have long accounted for only a negligible proportion of foreign-currency loans (around 0.2%), which has benefited their resilience in the face of exchange rate movements. Non-financial corporations have long reported a much higher proportion (31.1%), and there was year-on-year growth in 2018. Nevertheless, exporters often covered loan repayments with foreign-currency revenue from exports, which helped to mitigate the currency risk. Other sectors, in view of their specific motivation or operations, also reported higher shares – 77.0% among non-residents and 30.3% among financial institutions.

5.3 Economic Results and Profitability of the Banking Sector

The banking sector's pre-tax profit in 2018 was CZK 98.5 billion (Table 5.2). This translated into a year-on-year relative increase of 9.1%. The profit growth rate was essentially the same as in 2016, when the profit grew at the fastest pace for the reporting period as a whole (by 9.2%).

The rise in net interest income and in net fee and commission income helped to push up overall profit. Year-on-year developments in administration costs and certain other categories of the profit and loss account, jointly denoted as "other net income" in the following table, had the opposite effect on profit.

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

Item (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Net interest income	105.5	110.4	110.9	109.9	112.1	129.8	17.7	15.8
Interest income	154.8	158.9	150.9	143.4	146.7	179.2	32.5	22.2
Interest expenses	49.3	48.4	40.0	33.6	34.6	49.4	14.8	42.8
Net fee and commission income	37.1	36.0	34.6	32.4	32.1	33.7	1.6	5.1
Fee and commission income	49.9	49.0	47.9	44.8	44.6	46.1	1.5	3.4
Fee and commission expenses	12.8	12.9	13.3	12.4	12.5	12.4	-0.1	-0.8
Administration costs	65.8	70.2	70.7	71.7	73.6	76.7	3.1	4.2
Other net income	-3.4	-0.1	5.7	17.3	19.7	11.7	-8.0	-40.7
Total profit or loss before tax	73.3	76.1	80.5	87.9	90.3	98.5	8.2	9.1

Source: CNB – ARAD, MoF calculations

Net interest income increased by CZK 17.7 billion year on year. Total interest income grew by as much as CZK 32.5 billion (to CZK 179.2 billion) year on year, thus climbing to the highest level achieved yet in the reporting period. Though interest expense rose at a faster pace than interest income (by 42.8% versus 22.2%), because interest expense was smaller the absolute growth reported was CZK 14.8 billion. The increase in net interest income benefited considerably from the rise in interest borne by a high volume of funds allocated within repo transactions at the central bank. For the first time in the reporting period, there was a rise in the net interest margin (net interest income relative to average assets), which, at the end of the fourth quarter, reported year-on-year growth by 0.15 pp to 1.7% p.a. (see Graph 5.1).

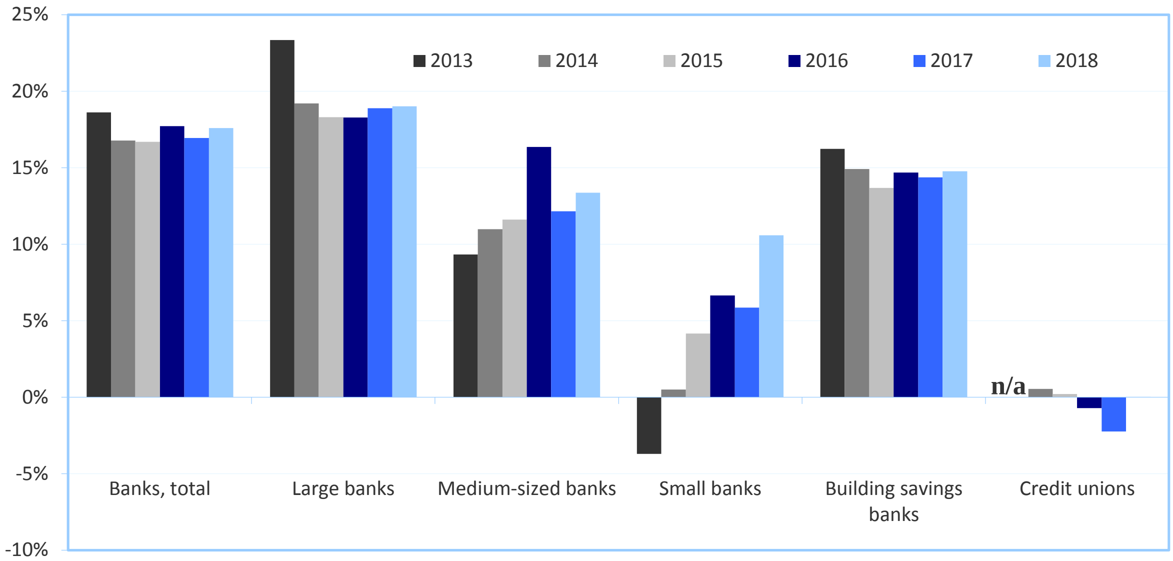
Net fee and commission income increased for the first time in the reporting period, rising by a modest CZK 1.6 billion to CZK 33.7 billion. The slight increase in income (by 3.4%) and the decline in the respective expenses (by 0.8%) contributed to a rise in the resulting net figure. In the six-year reporting period, net fee income declined by 9.1%, despite a rise in the volume of the banking sector's balance sheet over the same period (by 41.0%).

In 2018, just as throughout the reporting period, administration costs had a slightly negative impact on profit. These costs went up year on year by 4.2% to CZK 76.7 billion. Even so, relative to assets (on account of the growing size of the balance sheet year on year) the level of these costs barely changed. Within the scope of the reporting period, they actually fell by roughly a fifth in relative terms. The category of "other net income", slipping year on year by CZK 8.0 billion, also had a negative impact on year-on-year profit growth. This aggregate category encompasses a number of sub-items of the profit and loss account and therefore its overall development was affected by numerous specific factors. The decline in gains from the derecognition of financial assets and liabilities not measured at fair value, the decrease in gains from financial assets and liabilities held for trading, and the drop in gains from exchange differences had a particularly negative effect. By contrast, the fall in impairment losses and the increased gain on financial assets and liabilities not held for trading had a favourable impact. The low level of impairment losses was a key factor underpinning the rise in profitability over the reporting period and was boosted in the long run by improvements in the quality of assets during the macro-financial cycle. The low level of impairment losses is also crucial for maintaining the existing profitability of banks into the future.

Profitability Indicators

As a whole, the banking sector reported a return (or profitability) on Tier 1 equity of 17.6%, a year-on-year increase of 0.6 pp (Graph 5.3). Following a year-on-year decline in 2014, this indicator remained more or less unchanged in the reporting period, hovering within a band of around one percentage point. The segments of large banks (growth by 0.1 pp year on year to 19.0%) and building savings banks (by 0.4 pp to 14.8%) mirrored trends in the sector as a whole. While the other bank segments reported a lower indicator value, they experienced higher growth year on year even during the reporting period. Mid-sized banks achieved year-on-year growth by 1.2 pp to 13.4%, while small banks rose by 4.7 pp to 10.6%. For the sake of comparison, the sector of credit unions is also presented. In 2018, this sector also reported an improvement, rising from a loss to a slightly above zero rate of profitability.[25]

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



Source: CNB – ARAD

In the future, it can be assumed that the expected favourable economic conditions will have a positive effect on maintaining the relatively high profitability of the banking sector. Net fee and commission income will probably continue along the current trends of long-standing stagnation in the face of competition between banks. Developments in banks' net interest margins, and hence their profitability, will be heavily affected by the direction taken by monetary policy. If monetary-policy interest rates were to be maintained at least at the current level, and the competitive environment and sufficient liquidity do not force banks to increase the interest earned by deposits, this should have a positive impact on developments in banks' profits in this area.

5.4 Interest Rate Development

The development of market interest rates is in particular influenced by the effects of the central bank's monetary policy. In 2018, the CNB hiked its key monetary-policy rate five times, each time by 0.25 pp to reach 1.75% p.a. In doing so, it was following up on two rate hikes in 2017 after scrapping its "exchange-rate commitment" regime (see Chapter 1.2). As illustrated by Table 5.3, on the strength of these rate increases the

[25] The data for profitability of credit unions is not listed for 2013 as in that year the information value of the data from the profit and loss statement was influenced by different reporting periods of entities in the credit union sector.

spread of other monetary-policy rates relative to the 2W repo rate returned to the values from the period before these rates approached zero. At the end of the year, the Lombard rate was one percentage point higher (2.75% p.a.), whereas the discount rate was one percentage point lower (0.75% p.a.), than the repo rate.

Table 5.3: CNB interest rates

As at 31 Dec (% p.a.)	2013	2014	2015	2016	2017	2018
2W repo	0.05	0.05	0.05	0.05	0.50	1.75
Discount	0.05	0.05	0.05	0.05	0.05	0.75
Lombard	0.25	0.25	0.25	0.25	1.00	2.75

Source: CNB – ARAD

The average interest rates for CZK-denominated deposits and loans (Table 5.4) continued, for the most part, along the downward trend of the past few years. Consequently, they were generally close to all-time lows in 2018. Nevertheless, certain differences can be spotted in interest-related developments in certain categories.

Regarding household loans, the average interest rates of total (i.e. not just new) client loans fell to new lowest levels. However, the year-on-year decline in some of these rates was not as much as in 2017. The interest rates applicable to the overall volume of housing loans went down over the 12 months by 0.2 pp, whereas in the previous years of the reporting period the decline had always been reported at twice this level (by 0.4 pp). In this respect, the continuing growth in the interest earned on new housing loans granted to households (a rise by 0.5 pp to 2.9% p.a. in 2018) slowed down the decline in the level of interest applicable to the overall volume of this loan category. The interest on consumer loans extended to households fell to 10.2% p.a. This decline was at a rate similar to that witnessed in the previous three years. Conversely, the interest on loans for non-financial corporations was at its highest level in the last five years, i.e. 3.1% p.a. A key factor in this development was the increase in the interest on new loans, particularly those with a shorter maturity.

Yields from the overall volume of household deposits found itself moving in the opposite direction from those made by non-financial corporations. Households deposits experienced a slight decline of average interest rate (by 0.1 pp) to 0.3% p.a., whereas the deposits of non-financial corporations reported modest interest growth (also by 0.1 pp) to 0.1% p.a. This halved the spread between the two rates (0.2 pp).

Table 5.4: Average interest rate

Average for the period (% p.a.)		2013	2014	2015	2016	2017	2018
Deposits	households	1.0	0.8	0.6	0.5	0.4	0.3
	non-financial corporations	0.4	0.3	0.2	0.1	0.0	0.1
Loans	to households	6.0	5.6	5.1	4.6	4.1	3.8
	for consumption	14.6	14.5	13.9	12.8	11.4	10.2
	for residential property	4.3	3.9	3.5	3.1	2.7	2.5
	to non-financial enterprises	3.2	3.0	2.8	2.6	2.6	3.1

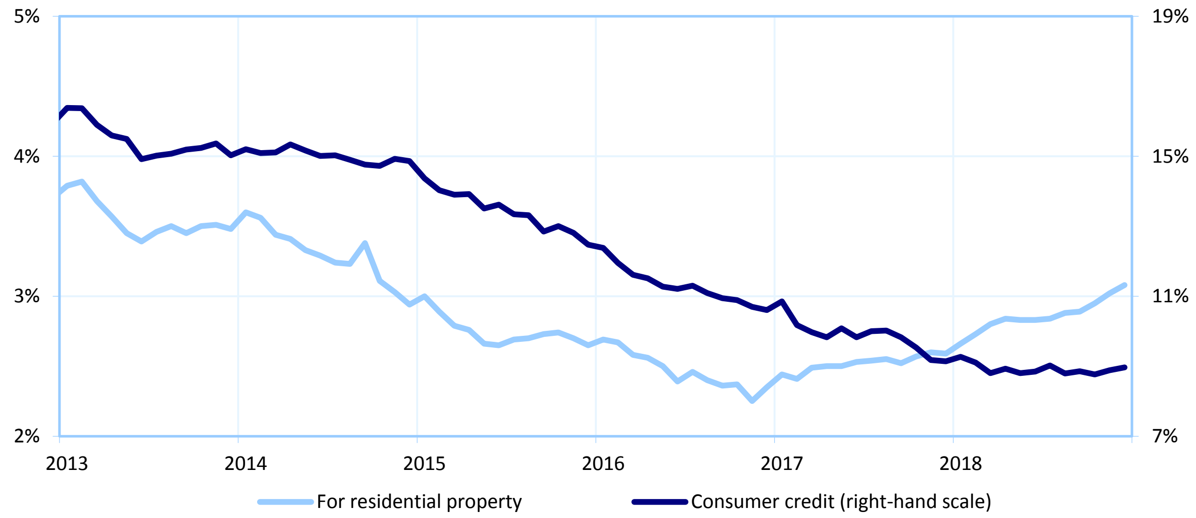
Source: CNB – ARAD, MoF calculations

Note: The average rates for the total volume (i.e. not only new) of CZK-denominated deposits and loans.

In the case of household loans, it is appropriate to monitor not only the interest rate (as the main yardstick for the price of such loans), but also a more comprehensive indicator that encompasses other loan costs in the form of APR.[26] In the reporting period up to 2016, the APRC declined in case of both new housing loans and new consumer loans (Graph 5.4). As of 2017, however, this indicator started evolving along different lines for each of the loan categories. The APRC on housing loans picked up momentum in 2018, rising by 0.5 pp to 3.1%. In 2017, the increase had been just 0.2 pp. The APRC on consumer loans went down by 0.2 pp. However, given that the fall in 2017 was 1.5 pp, this development in consumer loan APRC might be a sign of a potential turning point of the previous trend obesereved in the reporting period before 2018.

[26] The APRC (annual percentage rate of charge) represents the percentage of the amount due that the client must pay over the period of one year in addition to the amortisation of the loan amount, specifically in relation to fees, loan administration, and other costs associated with using the loan.

Graph 5.4: Annual Percentage Rate of Charge (APRC) of CZK loans provided by banks



Source: CNB – ARAD

5.5 Client Bank Deposits and Loans

The volume of client deposits[27] increased year on year by 6.6 % and stood at CZK 4.4 trillion (Table 5.5). The year-on-year growth rate thus took a dip (by 4.1 pp) and return to the momentum reported for 2016. All of the sectors monitored reported an absolute increase year on year. The highest growth momentum was reported by financial institutions (8.5%), followed by households (7.9%). Government institutions (5.3%) and non-financial corporations (4.4%) registered a growth rate that was just below average. The year on year growth rate declined in all sectors with the exception of households (which grew by 0.6 pp).

The absolute increase in total client deposits (by CZK 276.5 billion) was the second highest in the reporting period. In the sectors of financial institutions, non-financial corporations, and non-residents the record growth in deposits achieved in 2017 was not repeated. In contrast, households recorded the highest absolute rise in deposits not only among all sectors, but also for the reporting period (by CZK 188.2 billion), mainly on account of economic growth and increased household income as a source to generate savings.

Table 5.5: Breakdown of deposits with banks by client sectors[28]

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Households	1,812.2	1,923.2	2,034.7	2,209.3	2,370.2	2,558.5	188.2	7.9
Non-financial corporations (including other institutions)	776.7	838.3	921.6	916.1	996.9	1,041.2	44.3	4.4
Government institutions	428.1	339.3	214.3	234.1	264.7	278.8	14.0	5.3
Financial institutions	164.6	146.7	150.3	161.7	260.4	282.5	22.2	8.5
Non-residents	132.1	156.9	167.9	209.5	237.2	244.9	7.7	3.2
Non-profit institutions	26.3	30.8	31.9	36.5	39.7	39.8	0.1	0.3
Total	3,340.1	3,435.1	3,520.7	3,767.2	4,169.1	4,445.7	276.5	6.6

Source: CNB – ARAD

In terms of the structure of deposits[29] by maturity, in previous years there had been a long-term decline in the share of term deposits and an increase in demand deposits. However, 2018 was the first year since 2008 when

27 The data do not include central bank or credit unions deposits or loans.
28 The table lists bank deposits. The values are therefore different from Table 2.1, which shows all credit institutions deposits and only Czech koruna deposits.
29 This issue is also dealt with, from the point of view of households, by Graph 3.1, which shows separately deposits in building savings and in a foreign currency.

the share of term deposits reported year-on-year (albeit very modest) growth, rising by 1.6 pp to 21.7%. Even so, in the long-term comparison the share of term deposits remains low because, 10 years ago it had been double. This development could potentially have an impact on, in particular, individual banks in terms of their financing structure and resilience.

As noted above, the total volume of client loans in the banking sector has long been lower than that of client deposits. The volume of loans amounted to CZK 3.3 trillion (Table 5.6) and increased at the highest year-on-year rate observed thus far in the reporting period (by 7.2%). Economic growth, optimism in terms of demand for loans, and competition among banks were reflected to varying degrees in this overall momentum across the individual client sectors.

Table 5.6: Breakdown of loans with banks by client sectors

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Households	1,180.7	1,228.4	1,321.4	1,417.4	1,527.2	1,642.7	115.4	7.6
Non-financial corporations (including other institutions)	867.1	874.7	920.9	975.6	1,022.0	1,080.3	58.3	5.7
Government institutions	57.5	59.1	58.2	48.1	44.4	48.8	4.4	10.0
Financial institutions	119.7	148.7	158.7	188.3	193.3	206.3	13.0	6.7
Non-residents	287.1	322.0	320.9	318.6	296.0	325.2	29.2	9.9
Non-profit institutions	2.1	2.0	2.3	2.4	2.7	3.2	0.5	19.5
Total	2,514.3	2,634.9	2,782.4	2,950.4	3,085.5	3,306.4	221.0	7.2

Source: CNB – ARAD

Looking at the dynamics underpinning the developments here, all sectors recorded growth. The highest relative increase was achieved by loans granted to the two smallest sectors – non-profit institutions (19.5%) and government institutions (10%). Non-residents (9.9%) and households (7.6%) also reported above-average growth. From a medium-term perspective, the volume of loans granted to households and non-financial corporations had kept to a relatively stable growth rate over the past four years (7% for households and 5% for non-financial corporations).

In absolute terms, as in previous years the highest year-on-year rise was reported for loans to households (by CZK 115.4 billion). This was the highest gain recorded by this segment in the reporting period. The rise in loans to non-financial corporations was also the highest reported thus far (CZK 58.3 billion). The sector of non-residents enjoyed a strong resurgence in the volume of loans granted (growth by CZK 29.2 billion), having plunged by CZK 22.6 billion in the previous year.

Assuming the favourable macroeconomic situation countinues, in the future one can expect to see the trend of volumes of client loans rising to the order of several per cent continue. On the demand side, this should be helped along by the relatively low indebtedness of the private sector, when compared internationally. On the demand side, there has also long been a surplus of client deposits over loans at banks. Nevertheless, the CNB rules limiting the provision of mortgages could slow down the growth momentum among households somewhat. Continued economic growth should contribute to an increase in private-sector savings. Bearing in mind how traditionally conservative domestic savers are, this should be reflected, within the financial sector, primarily as a rise in bank deposits.

5.6 Mortgage Market

In 2018, the mortgage market experienced another year of keen client interest. The upbeat economic situation, rising property prices, forecasts of increased interest rates and a review of mortgaging conditions by the CNB were reflected in demand for mortgages. Although the volume and number of new contracts contracted by about 7%, the volume of all newly granted mortgages[30] (specifically, newly granted mortgages,

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

refinanced mortgages, or mortgages for which the contract had otherwise been amended) came to CZK 383.8 billion (Table 5.7). This was still 11.1% higher than in 2015, when the number of loans granted was similar to 2018 (i.e. approximately 180,000).

The volume of new mortgages granted for the purchase of residential properties to private individuals went down by 4.9% to CZK 296.6 billion. There were 6.0% fewer new contracts (161,200). The average loan amount was the highest ever, at CZK 1.84 million. In contrast, new mortgages for non-residential properties and other purposes reported an even greater decline, both in terms of volume (by CZK 14.3 billion) and number (a drop by 3,000), i.e. in both cases the contraction was approximately 14%. The ratio of mortgages newly granted for the purchase of residential properties relative to all newly granted mortgage loans therefore further increased by 2 pp to the highest level recorded to date, i.e. 77.3%.

Table 5.7: New mortgage loans by manner of acquisition

As at 31 Dec		2013	2014	2015	2015	2017	2018	Year-on-year change	
								Abs.	(%)
Residential property	number (000's)	102.8	131.6	159.9	188.2	171.4	161.2	-10.2	-6.0
	volume (CZK bn)	166.4	195	236.8	300.3	311.7	296.6	-15.1	-4.9
	share on volume (%)	68.6	62	68.6	71.6	75.4	77.3	1.9	2.5
Non-residential property and other purposes	number (000's)	13.3	19.2	21.3	23.5	21.2	18.2	-3.0	-14.2
	volume (CZK bn)	76.3	119.3	108.6	119.3	101.5	87.2	-14.3	-14.1
	share on volume (%)	31.4	38	31.4	28.4	24.6	22.7	-1.9	-7.6
Total	total (000's)	116.1	150.8	181.2	211.6	192.6	179.4	-13.2	-6.9
	volume (CZK bn)	242.6	314.3	345.4	419.7	413.2	383.8	-29.4	-7.1

Source: CNB – ARAD

From the point of view of the narrower definition of mortgages for residential properties granted by banks (not including building savings banks) to private individuals,[31] the mortgage market reported another record result in terms of new mortgages, i.e. CZK 278.7 billion (Table 5.8). Of this, purely new mortgage loans (i.e. new loans including increases, but excluding refinancing and other amendments to loan contracts) amounted to a record CZK 167.5 billion. As such, the portfolio rejuvenation trend continued, with purely new mortgages accounting for 60.1% of the overall volume of new mortgage loans in 2018, compared to 50.5% in 2014.

Table 5.8: Newly granted residential property mortgage loans (ML) for private individuals from banks[32]

As at 31 Dec	2014	2015	2016	2017	2018	Year-on-year change	
						Abs.	(%)
New ML (CZK bn)	171.8	209.1	261.5	274.9	278.7	3.8	1.4
out of it: purely new ML (CZK bn)	86.8	113.5	148.2	159.4	167.5	8.1	5.1
Share of purely new ML (%)	50.5	54.3	56.7	58.0	60.1	2.1	3.6

Source: CNB – ARAD

While growing household demand for mortgages was boosted by the favourable economic conditions and the situation on the labour market, the volume of mortgage loans was fuelled by the rising property prices.[33] The uncertainty cloaking future developments was also reflected in the demand. Contributory factors here were the forecast of higher interest rates on loans in response to the tightening of the CNB's monetary policy and the reduced availability of owner occupancy given the rising property prices. The CNB also announced that it

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

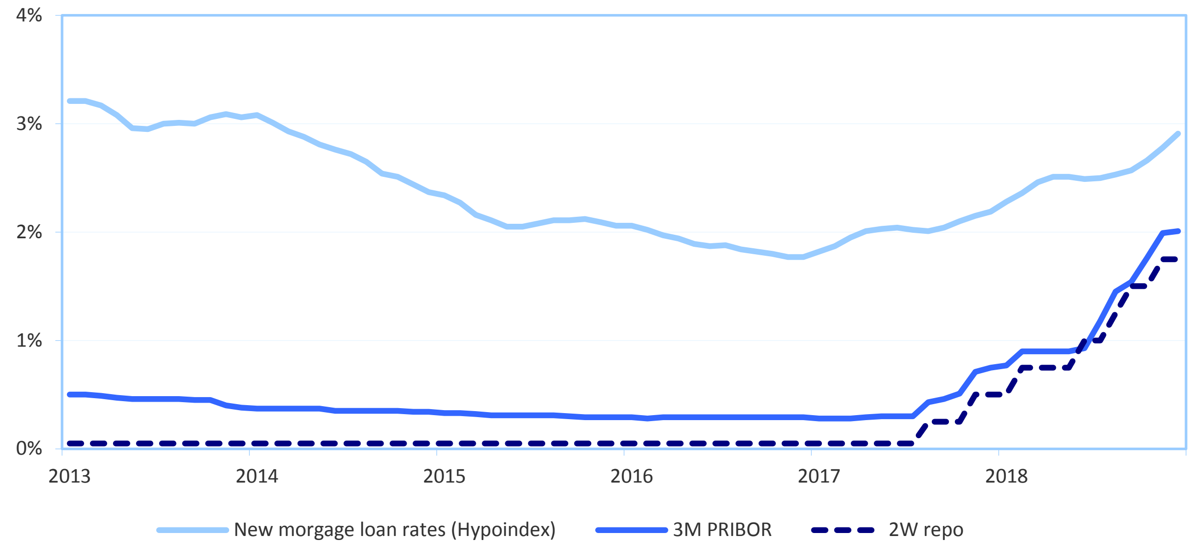
[32] The five-year monitored period was used due to availability of data.

[33] According to Eurostat, in 2018 the growth rate of prices for the residential properties purchased by households in the Czech Republic was 9.9%, i.e. the third highest in the EU and more than double the EU average (4.2%). This development followed up on the growth in 2017, which itself was also significant (8.4%).

would be making mortgaging conditions even more stringent[34] from October 2018 by revising requirements regarding the share of applicants' own funds on the mortgage, their income, and their ability to honour their liabilities.

Mortgage interest rates went up throughout 2018 (Graph 5.5). Hypoindex[35] rates climbed by 0.72 pp year on year to almost 3% p.a. as at December 2018. Nevertheless, the gap between the interest rate on newly granted mortgages and the base monetary-policy rate (i.e. the Hypoindex versus the 2T repo rate) continued to narrow during 2018, with the CNB hiking the repo rate on five occasions, taking it up from 0.5% p.a. to 1.75% p.a., while mortgage lenders increased their interest rates more slowly, evidently in a bid to keep hold of the market share. Consequently, in November 2018 the gap had closed to 1.03 pp, i.e. the narrowest recorded difference in the reporting period.

Graph 5.5: Selected interest rates



Source: Fincentrum, CNB – ARAD

Table 5.9: Mortgage loans by period of interest rate fixation

As at 31 Dec		2013	2014	2015	2016	2017	2018	Year-on-year change	
								Abs.	(%)
New mortgage loans (CZK bn)	Floating/fixed up to 1 year	82.9	123.3	106.4	109.2	84.6	73.1	-11.5	-13.6
	Over 1 and up to 5 years	137.0	159.6	183.2	201.4	212.9	178.1	-34.8	-16.4
	Over 5 and up to 10 years	10.7	25.4	47.4	96.3	103.2	113.8	10.6	10.2
	Over 10 years	12.1	6.0	8.4	12.8	12.4	18.9	6.5	52.1
	Total	242.6	314.3	345.4	419.7	413.2	383.8	-29.4	-7.1
Total unpaid principal (CZK bn)	Floating/fixed up to 1 year	273.0	307.6	302.5	300.4	286.0	300.4	14.4	5.0
	Over 1 and up to 5 years	544.9	602.5	716.7	802.7	843.1	846.2	3.1	0.4
	Over 5 and up to 10 years	116.4	122.9	117.9	219.4	304.2	417.1	112.9	37.1
	Over 10 years	142.4	139.6	120.0	66.0	64.7	73.5	8.8	13.6
	Total	1,076.7	1,172.5	1,257.1	1,388.5	1,498.0	1,637.3	139.3	9.3

Source: CNB – ARAD

[34] Since 2015, the CNB has published Recommendations on the management of risks associated with the granting of retail loans secured by the residential property: https://www.cnb.cz/cs/financni-stabilita/makroobezretnostni-politika/doporuceni-k-rizeni-rizik-spojenych-s-poskytovanim-retailovych-uveru-zajistenych-rezidencni-nemovitosti/.

[35] The FINCENTRUM HYPOINDEX indicator is the weighted average interest rate which is applied to new mortgage loans provided to private individuals during the given calendar month. The weights are the volumes of loans provided. The input data for the calculations are provided by the following banks: Air Bank, Česká spořitelna, Československá obchodní banka, Equa Bank, Moneta Money Bank, Hypoteční banka, Komerční banka, Raiffeisenbank, Sberbank CZ, UniCredit Bank a Wüstenrot hypoteční banka.

Mortgages are classified according to the reason for making the related purchase and also according to the interest rate fixation period (Table 5.9). In 2018, most mortgages taken out by clients had a fixation of between one and five years (CZK 178.1 billion; 46.4% of the volume of new loans). However, the overall outstanding volume of mortgage loans with this fixation period climbed by just CZK 3.1 billion (0.4%) year on year to CZK 846.2 billion. The highest rise was recorded by mortgages fixed for periods of between five and ten years, evidently in the anticipation of interest rate hikes. Year on year, additional CZK 10.6 billion (10.2%) in new mortgage loans with this fixation period were granted, with the outstanding volume rising by CZK 112.9 billion (37.1%). Consequently, loans with a fixation period of 5 to 10 years accounted for almost one third (29.6%) of the volume of new mortgages and one quarter (25.5%) of their total volume. Higher interest rates and the assumption that further hikes were in store were evidently one of the reasons for the approximately 22% slump (by CZK 11.5 billion) in new mortgage loans with a variable interest rate and a fixation period of up to one year. Nevertheless, new mortgage loans with this fixation period accounted for just under one fifth (19.0%) of the volume of new mortgages (CZK 73.1 billion) and, again, just under one fifth (18.3%) of the total volume of mortgages (CZK 300.4 billion).

In terms of the total owed amount (i.e. outstanding volume)[36] of mortgages, year-on-year growth accelerated in 2018 from 7.9% to 9.3%; this was the second highest growth rate in the reporting period (Table 5.10). Nevertheless, the rate of growth of the total number of mortgage loans fell from 5.6% to 3.7%. The average amount owed had increased by 20.1% over the reporting period, and came to CZK 1.7 million in 2018. This progression may be associated with the higher demands on the amount of the mortgage loan in response to the rising property prices.

Table 5.10: Total mortgage loans by manner of acquisition

As at 31 Dec		2013	2014	2015	2015	2017	2018	Year-on-year change	
								Abs.	(%)
Residential property	number (000's)	687.0	711.0	757.7	779.3	824.3	858.3	34.1	4.1
	volume (CZK bn)	790.4	844.7	913.1	996.4	1,088.3	1,185.8	97.5	9.0
	share on volume (%)	73.4	72.0	72.6	71.8	72.6	72.4	-0.2	-0.3
Non-residential property and other purposes	number (000's)	81.1	97.3	100.1	108.4	113.2	114.2	1.0	0.9
	volume (CZK bn)	286.3	327.8	344.1	392.1	410.2	451.5	41.3	10.1
	share on volume (%)	26.6	28.0	27.4	28.2	27.4	27.6	0.2	0.7
Total	number (000's)	768.0	808.3	857.9	887.7	937.4	972.5	35.1	3.7
	volume (CZK bn)	1,076.7	1,172.5	1,257.1	1,388.5	1,498.5	1,637.3	138.8	9.3

Source: CNB – ARAD

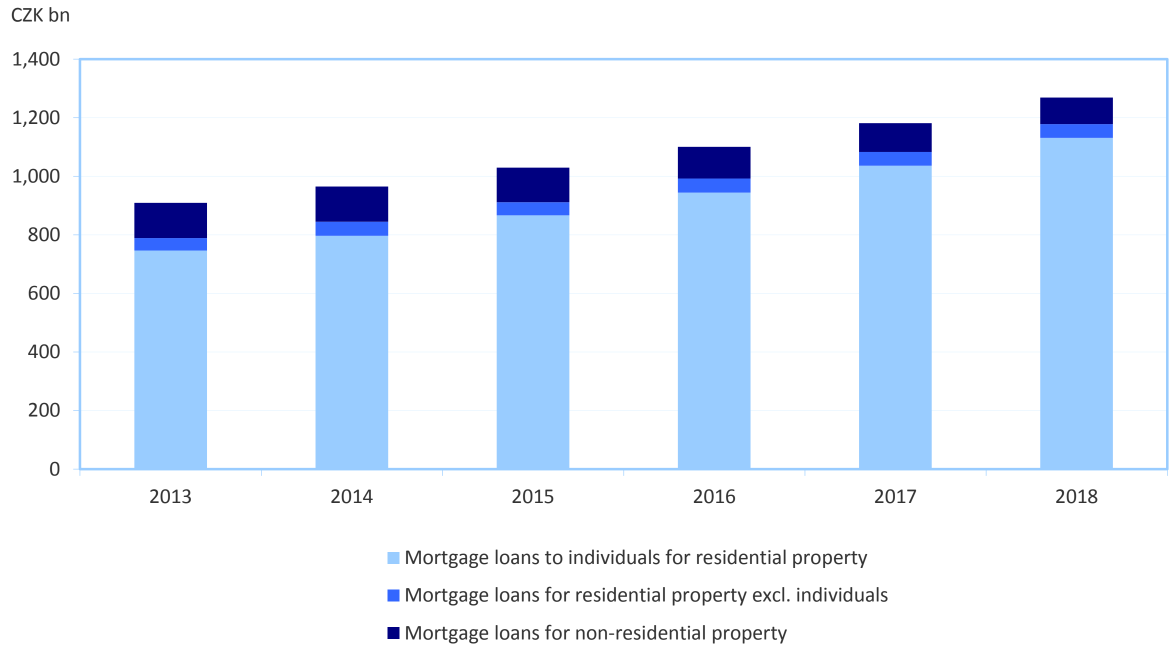
Of the total volume of outstanding mortgages, i.e. CZK 1.64 trillion, loans for residential properties (CZK 1.19 trillion) maintained a stable share of around 72% in the reporting period, growing by approximately 9% per year over the past three years. As for the volume of loans granted for non-residential properties and other purposes, the growth momentum more than doubled from 4.6% to 10.1%; the volume of these loans rose by CZK 41.3 billion year on year to CZK 451.5 billion.

In 96% of cases, it was private individuals who took out mortgages for residential properties (Graph 5.6). The level of debt in this category rose by a record CZK 95.9 billion (9.3%) year on year to CZK 1.1 trillion. This growth momentum for the total volume of mortgages for residential properties granted to private individuals has persisted at around this level (approximately 9%) for four consecutive years. Yet the market had been forecasting a decline, in part because, since June 2015, the CNB had gradually been tightening the macro-prudential measures in order to defuse the chances of a spiral between property prices and the associated loans.

In contrast, the outstanding volume of mortgages for non-residential properties contracted for the fourth year in a row (to CZK 90.6 billion in 2018); for three consecutive years in that series, the downward rate had been approximately 8% (Graph 5.6).

[36] Since this is the state of outstanding volume including refinanced mortgage loans, one may not, in terms of methodological approach, for example, interpret the volume increase only as an increase in loans provided by banks or an increase in their willingness to provide loans, but it may also be a consequence of the deterioration in the ability of borrowers to repay their liabilities.

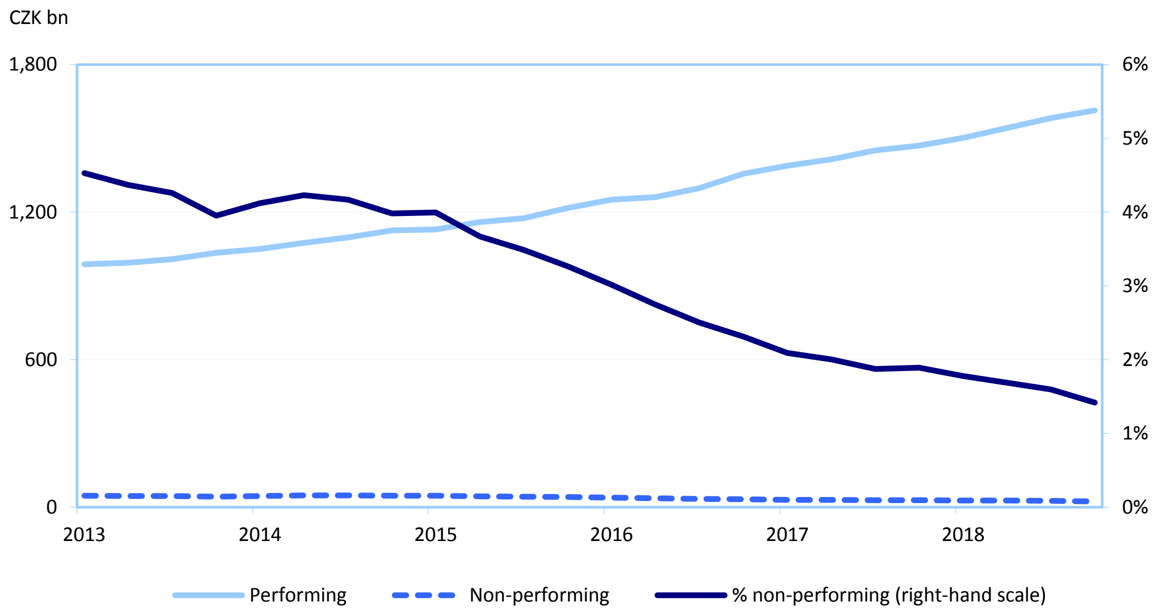
Graph 5.6: Structure of outstanding mortgage loans for residential and non-residential property



Source: CNB – ARAD

In 2018, the non-performing loans ratio[37] fell to the lowest level recorded thus far in the reporting period, i.e. 1.4%. This was associated not only with the positive economic developments, but also with the high volume of new mortgage loans granted in this period, and hence the relatively young credit portfolio (Graph 5.7). The decline in the non-performing loans ratio may also have benefited from lower interest rates, which resulted in lower regular repayments, i.e. costs of debt servicing.

Graph 5.7: Structure of outstanding mortgage loans by categorisation



Source: CNB – ARAD

Demand for mortgages is forecast to diminish in 2019 due to rising property prices, the reduced accessibility of properties, the predicted slowdown in economic growth, the tightening of monetary policy and the

[37] Volumes of outstanding mortgages according to the receivable categorisation (set according to the applicable prudential implementing decree) into performing and non-performing exposures.

introduction of macro-prudential measures by the CNB. Primarily at issue here are purely new mortgages. Among new mortgages, a higher share of re-fixing and refinancing is forecast on account of the persistently high share of loans with a fixation period of up to 5 years in the total volume, and also in view of the relaxation of fees for the early repayment of mortgages.[38]

5.7 Building Savings Banks

Building savings banks had a successful year in 2018 both in terms of their lending activity and the number of new contracts they concluded on building savings schemes. The revived interest in products offered by building savings banks may have been fuelled in part by the introduction of the CNB's macro-prudential measure[39] requiring borrowers to plough some of their own funds into the financing of a property when drawing on housing loans. On the one hand, this measure may have encouraged interest in building savings schemes. On the other, loans from building savings banks could be used to top up the financing required to meet the price of a property. In this respect, the success of building savings banks' lending activity in 2018 can be attributed to developments on the mortgage market.

Table 5.11: Main indicators of building savings bank sector

As at 31 Dec	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Newly signed contracts (thousands)	449.6	481.4	373.1	403.3	370.7	422.0	51.3	13.8
Contracts in the saving phase (thousands)	4,066.7	3,825.4	3,503.3	3,312.1	3,212.4	3,166.8	-45.6	-1.4
Savings (CZK bn)	429.1	413.6	384.2	362.6	358.9	355.0	-3.9	-1.1
Loan contracts (thousands)	815.2	752.6	695.4	650.2	613.0	588.2	-24.8	-4.0
Loans (CZK bn)	261.4	249.6	242.7	240.6	245.7	262.9	17.3	7.0
Loans-to-savings ratio (%)	60.9	60.4	63.2	66.4	68.5	74.1	5.6	8.2
State contributions paid (CZK bn)	5.0	4.8	4.6	4.3	3.9	3.9	0.0	0.0

Source: Building savings banks

Building savings banks entered into 422,000 building savings contracts, a year-on-year rise by 13.8% and the highest since 2015 (Table 5.11). As a result, there was a further reduction in the proportion of contracts concluded under conditions when the state subsidisation of these schemes was at a higher level.[40] Almost 16% of valid contracts in the saving phase were concluded between 2004 and 2010 (i.e. in a situation where the maximum contribution from the state was CZK 3,000) and approximately 8% had been concluded prior to 2004 (i.e. when the contribution was CZK 4,500). Three quarters of all contracts were concluded after 2011, i.e. under the current conditions in which the maximum state subsidisation is CZK 2,000 (Graph 5.8). This surge can be attributed in part to the fact that, subject to certain statutory restrictions, building savings banks can reduce the interest rate on deposits or otherwise revise the charging policy conditions after the minimum waiting period.[41] They actively avail themselves of this opportunity and thereby influence the structure of the contracts.

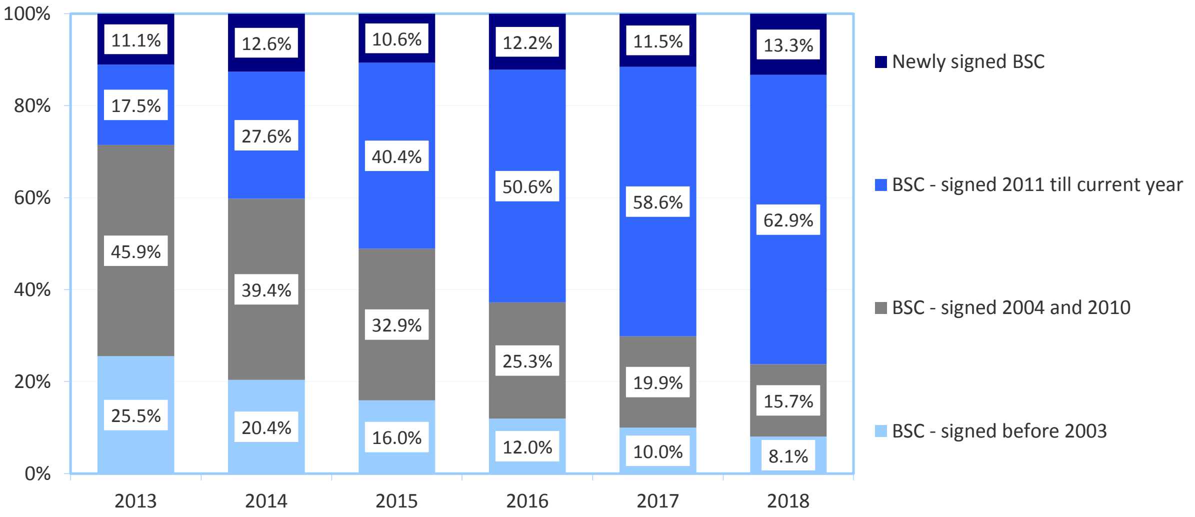
[38] See the CNB's letter of clarification of 7 March 2019 regarding efficiently incurred costs that may be demanded of consumers in connection with the early repayment of housing-related consumer loans under Act No 257/2016 on consumer credit.

[39] Since April 2017, the CNB has recommended limiting the amount of credit secured by a property to a maximum of 90% of the value of the property to be purchased, see: https://www.cnb.cz/cs/financni-stabilita/makroobezretnostni-politika/doporuceni-k-rizeni-rizik-spojenych-s-poskytovanim-retailovych-uveru-zajistenych-rezidencni-nemovitosti/.

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

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

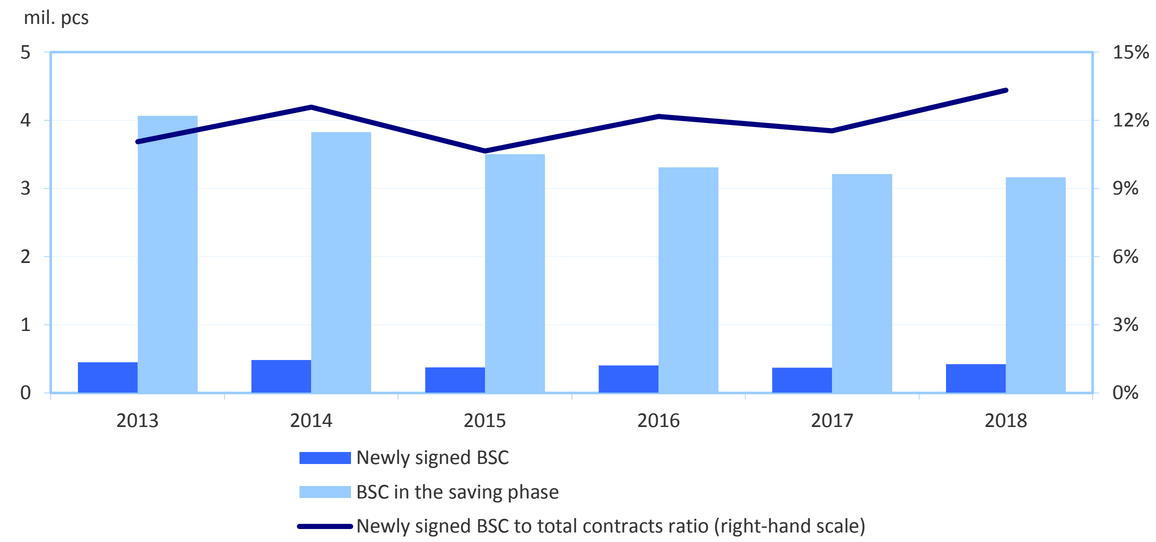
Graph 5.8: Contracts by the year of conclusion



Source: Building savings banks, CNB – ARAD

From the perspective of the annual renewal of the overall portfolio of contracts in the saving phase, i.e. the ratio of newly concluded contracts to the total number of contracts, the growth in this ratio reached a peak, standing at 13.3%, as opposed to the reporting period average of approximately 12% (Graph 5.9). The total number of contracts in the saving phase, already on a 15-year downtrend, fell again year on year, this time to 3.2 million contracts. Nevertheless, the rate of decline lessened by 1.6 pp to 1.4% (Table 5.11).

Graph 5.9: Number of building savings contracts (BSC)

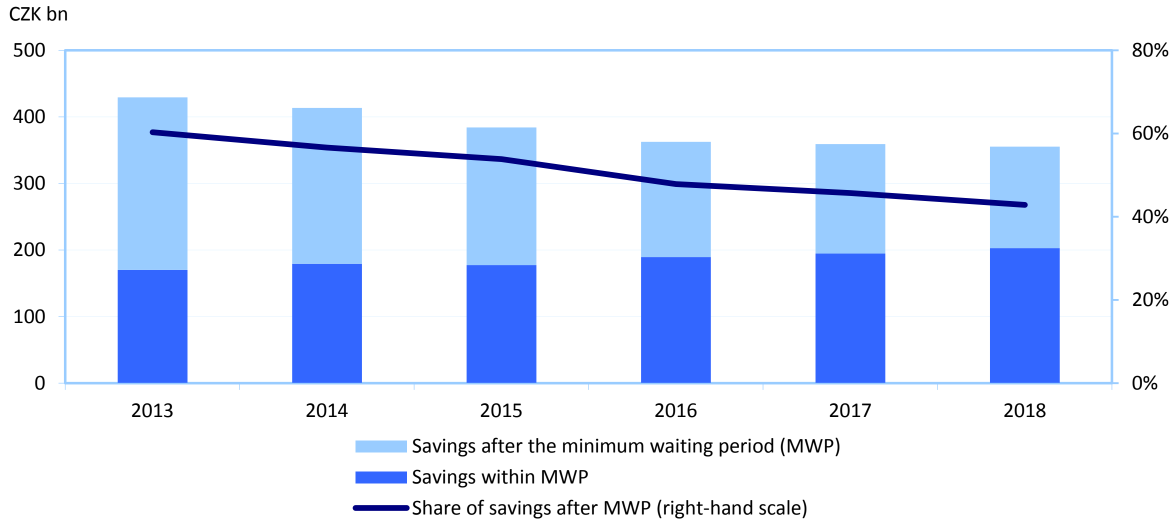


Source: Building savings banks, MoF calculations

The total amount saved by those participating in building savings schemes contracted for the sixth year in a row to stand at CZK 355.0 billion at the end of 2018, down 1.1% year on year (Table 5.11). However, the rate of the year-on-year decline of the amount saved stabilised, as did the amount of the state subsidisation paid out – this came to CZK 3.9 billion (a 0.8% year-on-year drop), which was the lowest ever level (Table 5.11).

The savings of those participating in building savings schemes can be classified, by maturity, into two groups, as illustrated by Graph 5.10. Savings made in the first six years of the contract, i.e. during the minimum waiting period, are a specific form of term deposits that, if withdrawn, mean that the participant forfeits any claim to a state contribution. Conversely, savings made after this period can be treated as a sort of demand deposit that can be withdrawn – together with the state contribution – relatively quickly. There has been a long-running downward trend in the ratio of the volume of savings after the minimum waiting period to total savings. At the end of 2016, the 50% barrier was broken, in 2017 the ratio amounted to 45.7%, and by 2018 the figure was 42.9%.

Graph 5.10: Volume of savings by maturity

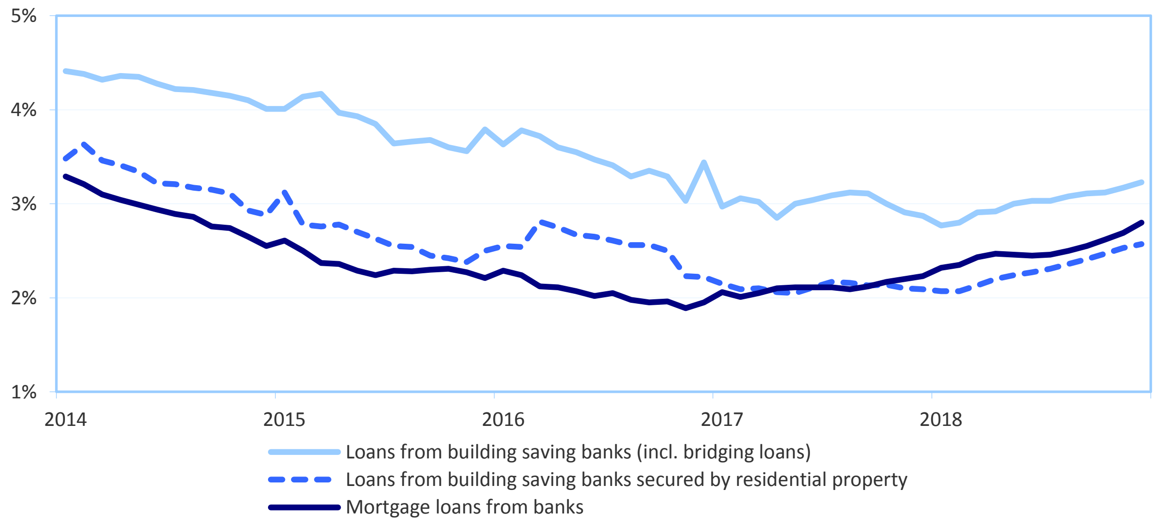


Source: Building savings banks, CNB – ARAD

As noted above, in 2018 the total volume of loans from building savings banks rose to its highest volume in six years, climbing by 7.0% year on year to CZK 262.9 billion. This situation can be attributed primarily to bridging loans (CZK 224.4 billion), which saw their year-on-year growth rate leap from 0.9% in 2016 to 3.4% in 2017 and then 8.2% in 2018. Standard building savings loans put an end to their six-year uninterrupted downward sequence, as their volume went up year on year by 0.8% to CZK 38.5 billion. The increase in the total volume of loans, together with a slight decrease in the amount saved, resulted in a rise in the loans-to-savings ratio by 5.6 pp to 74.1% (Table 5.11). In 2018, this figure climbed to the highest level recorded in the history of building savings schemes.

The interest rates on loans that were being offered by building savings banks in 2018 enabled them to compete with the banks. The interest rates on new building savings loans secured by residential property dipped to a low of 2.07 p.a. in January 2018, before starting to rise (Graph 5.11). Throughout 2018, the rates on these loans remained below the rates offered by commercial banks, although the gap gradually narrowed.

Graph 5.11: Interest rates of new loans for residential property purchase[42]

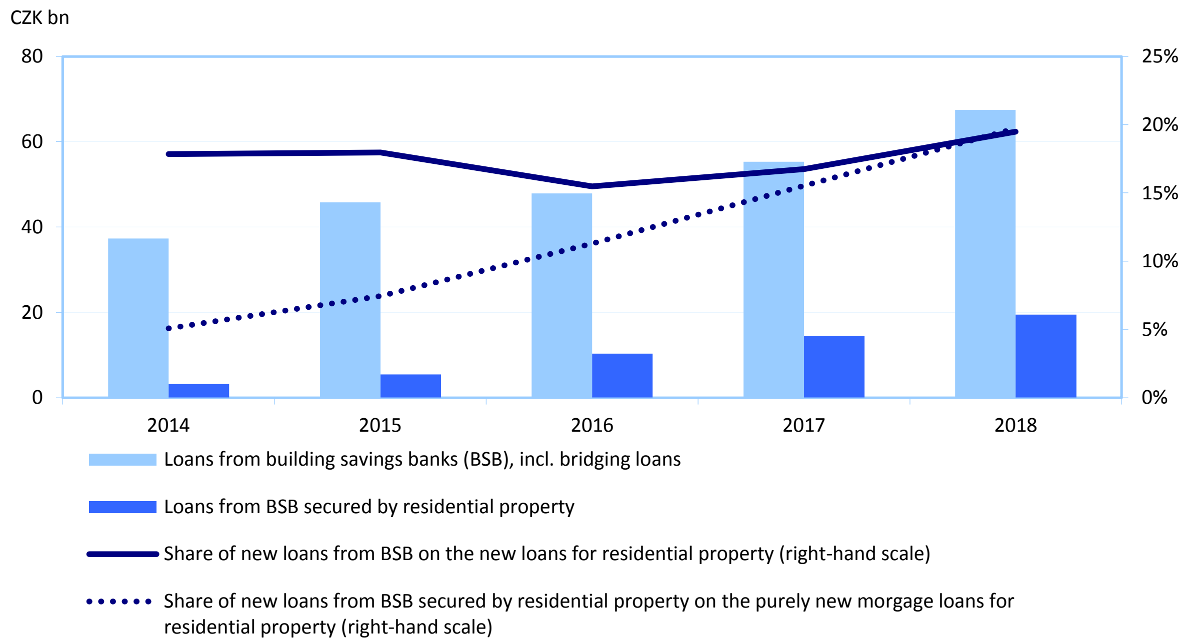


Source: CNB – ARAD

Consequently, building savings banks expanded their market position by netting a fifth (approximately 20%) of the market measured by the volume of new loans secured by residential property; this was the highest share recorded for the reporting period (Graph 5.12).

[42] Figures have been available since 2014.

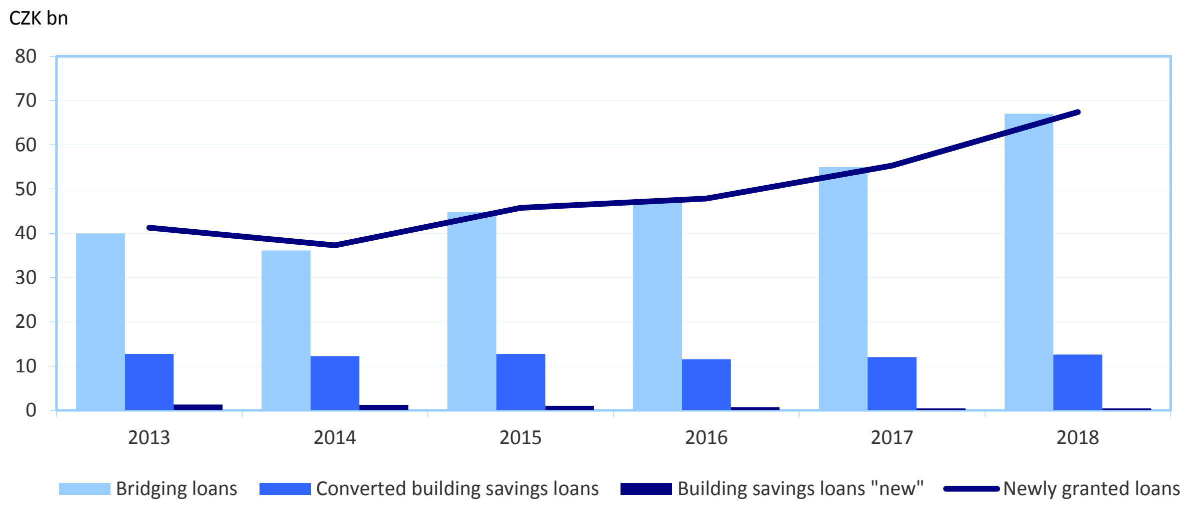
Graph 5.12: Shares of loans for residential property purchase granted by commercial and building savings banks[43]



Source: Building savings banks, CNB – ARAD

The volume of newly granted loans from building savings banks[44] rose to CZK 67.4 million (Graph 5.13). This was 21.9% more than in 2017 and the best result in the past 10 years. However, the number of new loans rose only slightly, by 0.4% to 73,000. Bridging loans have traditionally dominated the lending activity of building savings banks; 70,500 such loans, totalling CZK 67.0 billion, were taken out. Compared to the previous year, there was a clear increase in their volume (by 22.1%), but not in the number (a 0.7% dip). By contrast, there has been a downward trend in new standard building savings loans since 2010. In 2018, 2,500 contracts were concluded (a year-on-year fall by 8.7%), which amounted to CZK 0.4 billion (a 5.7% year-on-year drop).

Graph 5.13: New loans in the building savings bank sector



Source: Building savings banks, CNB – ARAD

Provided that they continue to keep their interest rates in line with mortgage rates in 2019, building savings banks could maintain the fifth of the market that they have gained. Nevertheless, the growth of lending

[43] Figures have been available since 2014.

[44] New loans are the sum of new bridging loans (the light blue column in Graph 5.13) and new building savings loans (the dark blue column in Graph 5.13). A special category is “converted” building savings loans (these are not new loans), which were drawn by debtors as bridging ones, and at a certain point (once the allocation conditions have been met) they are converted into standard building savings loans with a new repayment schedule and under usually more favourable interest conditions.

activity is forecast to decelerate in response to the prudential regulation introduced by the CNB, which has restricted parallel housing lending from multiple institutions since October 2018.

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

5.8 Credit Unions

At the start of 2018, all new measures set out in an amendment to the Act on Savings and Credit Unions,[45] which was passed at the end of 2014, took full effect in relation to the operations of credit unions. Since January 2018, the baseline membership contribution for credit union member has been a minimum of CZK 1,000. At the same time, the "multiple-of-10" rule also started to apply to deposits made prior to 1 July 2015 (that had not been extended or increased). Under that rule, the aggregate of the balances of a member's deposits that is associated with interest or any similar benefit must not be more than 10 times the aggregate of the member's overall membership contribution.[46] Before 2018, this rule only applied to newly received deposits or to original deposits that had been increased or extended. In the first quarter of 2018, this rule change prompted the credit union sector to shed 9,000 members, leaving it with approximately 22,000 people (see Table 5.12). Some of those members probably had their membership discontinued because they failed to increase their membership contributions sufficiently.

Another new rule taking effect in 2018 was the introduction of an upper limit of CZK 5 billion for the total assets of a credit union. If this limit is exceeded, the CNB will order the credit union to take corrective action, and will give it a time limit of no more than one year in which to do so. If the situation is not put right within that time limit, the licence to operate as a credit union would be withdrawn. During 2018, the total asset limit was exceeded by only one out of the 10 credit unions, specifically Moravský Peněžní Ústav - spořitelní družstvo (MPÚ), whose assets at the end of 2018 accounted for 45.6% of the assets of the sector as a whole, and its share of the sector's total number of members was on the same level. However, at this time MPÚ was already involved in proceedings on an application it had submitted for a banking licence. In December 2018, the CNB gave its assent to that licence. Following the completion of its transformation into a bank at the beginning of 2019, this entity now operates on the market as TRINITY BANK a.s.

Table 5.12: Basic indicators of the credit union sector[47]

As at 31 Dec	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Number of members of credit unions (thousands)	53.6	57.2	51.2	51.6	30.9	21.8	-9.0	-29.2
Total assets (CZK bn)	31.6	31.3	32.3	34.2	23.1	20.2	-2.8	-12.3
Loans and receivables (CZK bn)	24.2	22.1	21.7	22.5	14.8	14.7	-0.2	-1.1
Deposits (CZK bn)	27.6	27.4	27.8	29.2	19.0	15.9	-3.1	-16.1
Deposit-to-loan ratio (%)	113.8	124.1	128.1	130.0	127.8	108.4	-19.4	-15.2
Share of quick assets to total assets (%)	18.8	23.8	26.6	25.9	30.1	30.1	0.0	0.0
NPL ratio (%)	-	-	-	31.4	19.7	22.8	3.1	15.6
Total capital ratio (%)	14.3	13.5	15.4	16.2	18.9	21.4	2.5	13.0
Profit/loss before tax (CZK mn)	37.3	86.8	60.2	-13.0	-76.0	-39.1	36.8	48.5
Return on Tier 1 capital (%)	-	0.5	0.2	-0.7	-2.3	0.0	2.3	100.9

Source: CNB - ARAD, MoF calculations

45 Act No 333/2014 Coll., amending the Act on Savings and Credit Unions.

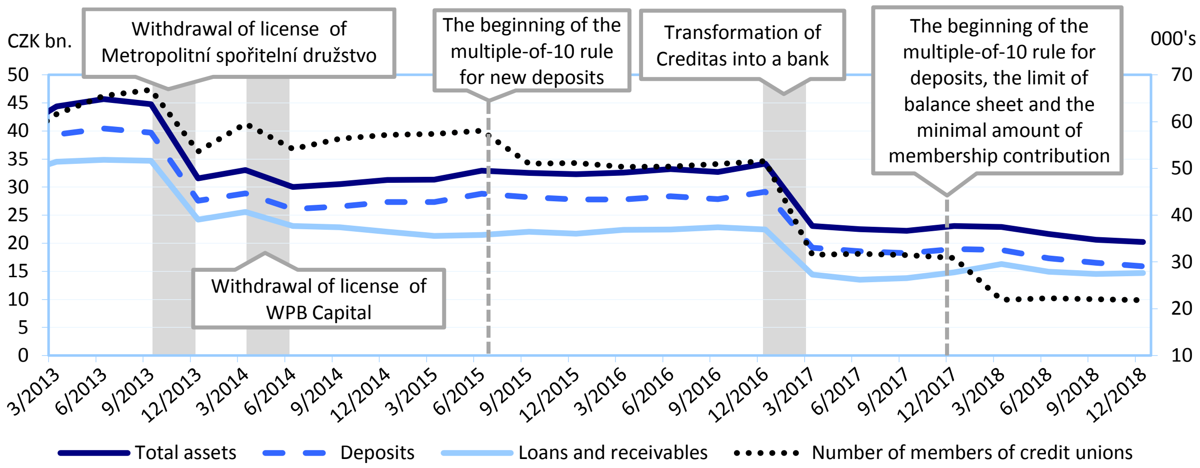
46 Since 1 January 2018, the multiple-of-10 rule has applied to the aggregate of non-extended and non-increased deposits made by a member at the credit union prior to 1 July 2015 if the sum of the paid-up baseline membership contribution and any other paid-up membership contributions of a credit union member does not exceed CZK 20,000.

47 For 2013, no profitability data are available and interpretable for credit unions because of non-uniform fiscal years of the individual entities. The ratio of non-performing loans and receivables to total loans and receivables other than those held for trading has only been available since 2016 due to the different concept applicable to categorisation. The ratio of non-performing loans and receivables is relative to the total exposure of loans and receivables other than those held for trading, measured by gross book value. Loans and receivables, expressed in the table in CZK billions, are presented at their net book value, i.e. loans and receivables measured at amortised cost are presented at their value adjusted for provisions and accumulated depreciation.

Total assets in the sector were down 12.3% year on year to CZK 20.2 billion (Graph 5.14), accounting for just 0.3% of the assets of all credit institutions in the Czech Republic at the end of 2018. The fall in the volume of assets can be attributed primarily to the decline in cash and in cash balances at central banks that was used to pay out deposits. Some deposits were settled when membership was cancelled due to the failure to increase the membership contribution to the minimum level, and there may have been withdrawals of deposits by those members who had decided not to adapt their membership contribution to the amount of their previously deposited funds in view of the fact that the multiple-of-10 rule had started to apply to their original deposits. The drop in deposits was particularly noticeable in the second to fourth quarters of 2018. Overall, deposits went down by CZK 3.1 billion to CZK 15.9 billion.

In contrast, the volume of loans and receivables fell only slightly. This, combined with the more pronounced drop in deposits, precipitated a sharp decline in the ratio of deposits to loans to 108.4%. While this is lower than the same ratio reported by banks (134.5%), the dominance of financing via deposits and their predominance over loans may contribute to the sector's resilience, manifested by the fact that deposits tend to be a more reliable and stable source of financing in periods when there are acute liquidity problems. Developments in the ratio of quick assets to total assets, which was the same as in 2017, i.e. at the highest level since 2008, can be evaluated in a relatively positive light.

Graph 5.14: Total assets, deposits, loans and receivables and number of members of credit unions



Source: CNB–ARAD, MoF construction

In terms of other ratios that can be used to evaluate the sector's stability, developments in the total capital ratio were positive. This ratio climbed by 2.5 pp to 21.4%, its highest ever level, which meant it was well above the regulatory minimum and was at the highest level of any of the credit institutions categories. In contrast, the non-performing loans ratio, reflecting the sector's credit risk, went up by 3.1 pp to 22.8%.

After two years of reporting a post-tax loss, the credit union sector returned to profit. However, the post-tax profit in 2018 was a mere CZK 0.7 million. Furthermore, in contrast to the reported pre-tax loss, this was achieved only courtesy of one-off tax factors. The reduction in the pre-tax loss compared to 2017 can be ascribed primarily to the increase in net interest income.

In 2019, the significance of this sector is forecast to be scaled down significantly now that the largest credit union has been transformed into a bank. The sector's balance-sheet indicators should be stabilised somewhat because, at the end of 2018, the balance sheets of the remaining credit unions were under the CZK 5 billion limit and, according to statements by the individual entities, if any further credit unions are transformed into banks this is likely to be a medium-term event.

5.9 Non-Bank Financing Providers

Non-bank financing providers are an alternative to credit institutions in terms of the options available for debt financing. A number of these entities are linked by ownership and financially with the banking sector through some of the existing financial groups. In terms of client orientation, non-bank financing providers are a significant alternative source of funding for both business and retail needs. The product portfolio partly corresponds to the structure of bank loans (instalment sales, any-purpose loans, credit cards, and revolving products). However, there are also some specific products and distribution models here (leasing, peer-to-peer loans, reverse mortgages and various forms of online short-term borrowings).

The total assets (Table 5.13) of this part of the financial market continued along their growth trajectory year on year, rising by 3.5% to a record CZK 426.5 billion at the end of 2018. Even so, measured by total assets, the share of non-bank financing providers in the banking sector[48] has long remained below 10% and continues to fall, stooping to its lowest level for the reporting period in 2018 (5.8%).

The sector of non-bank financing providers is usually broken down into three sub-segments: finance-leasing companies, other-lending companies, and factoring and forfaiting companies. The breakdown of the sector's total assets into sub-segments is relatively stable and did not change fundamentally in 2018. A slight decrease was observed in the share of financial leasing companies (by 0.2 pp to 78.1%) and factoring and forfaiting companies (by 0.2 pp to 6.4%). Despite this, the total assets of financial leasing companies stood at their highest level, CZK 333.1 billion. By contrast, the share of the volume of other lending companies' assets was more or less unchanged year on year (15.5%).

Table 5.13: Structure of assets by segments in the non-bank financing provider sector

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Total assets	342.1	354.5	350.0	383.4	411.9	426.5	14.6	3.5
Volume of total assets								
Financial leasing companies	253.1	261.4	280.9	301.4	322.7	333.1	10.4	3.2
Other lending companies	70.3	72.2	49.8	59.5	63.9	66.2	2.3	3.6
Factoring and forfaiting companies	18.7	20.9	19.3	22.5	25.3	27.1	1.9	7.4
Relative share of the sector's assets (in %)								
Financial leasing companies	74.0	73.7	80.3	78.6	78.3	78.1	-0.2	-0.3
Other lending companies	20.6	20.4	14.2	15.5	15.5	15.5	0.0	0.1
Factoring and forfaiting companies	5.5	5.9	5.5	5.9	6.1	6.4	0.2	3.7

Source: CNB - ARAD, MoF calculations

The volume of loans granted (Table 5.14) grew at a pace similar to that of total assets (by 4.0 %) and came to CZK 318.6 billion. The ratio of loans to total assets has consistently been over 70% in the reporting period and has remained almost unchanged over the last three years. Most (96.4%) of the total volume of loans was granted to residents (CZK 307.2 million), of which 79.2% (CZK 243.4 million) comprised loans to non-financial businesses, 20.2% (62.2 million) were loans to households, and 0.5% (CZK 1.7 million) were loans to financial, government and non-profit institutions. The main source of growth in the overall volume of loans was the increase in loans to non-financial businesses, the volume of which expanded by 5.8% (by CZK 13.2 billion). By contrast, borrowings to households declined by 1.0% (by CZK 0.6 billion).

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

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Total loans	246.9	255.8	258.1	284.0	306.2	318.6	12.4	4.0
Volume of total loans								
Financial leasing companies	176.4	183.1	204.2	219.0	234.2	242.0	7.8	3.3
Other lending companies	54.6	54.6	37.1	44.9	48.9	51.6	2.8	5.7
Factoring and forfaiting companies	16.0	18.1	16.8	20.1	23.2	25.0	1.8	7.7
Relative share of the sector's loans (in %)								
Financial leasing companies	71.4	71.6	79.1	77.1	76.5	76.0	-0.5	-0.7
Other lending companies	22.1	21.3	14.4	15.8	16.0	16.2	0.3	1.6
Factoring and forfaiting companies	6.5	7.1	6.5	7.1	7.6	7.8	0.3	3.5

Source: CNB - ARAD, MoF calculations

[48] For more on the banking sector's total assets, see Chapter 5.2.

The growth rate of the volume of loans granted by **financial leasing** companies fell by 3.6 pp year on year to 3.3%. Despite the fall, the volume of loans extended, CZK 242.0 billion, was still the highest recorded in the reporting period. **Other lending** companies saw the volume of their lending rise for the third consecutive year, climbing by 5.7% to CZK 51.6 billion in 2018. Nevertheless, the Consumer Credit Act[49] from December 2016 tightened the conditions under which non-bank financing providers arranging consumer credit do business because this activity ceased to be classified as a trade and, since June 2018, lending has required a CNB licence. **Factoring and forfaiting** companies also reported a rise in the volume of lending for the third year in a row, climbing by 7.7% to CZK 25.0 billion in 2018.

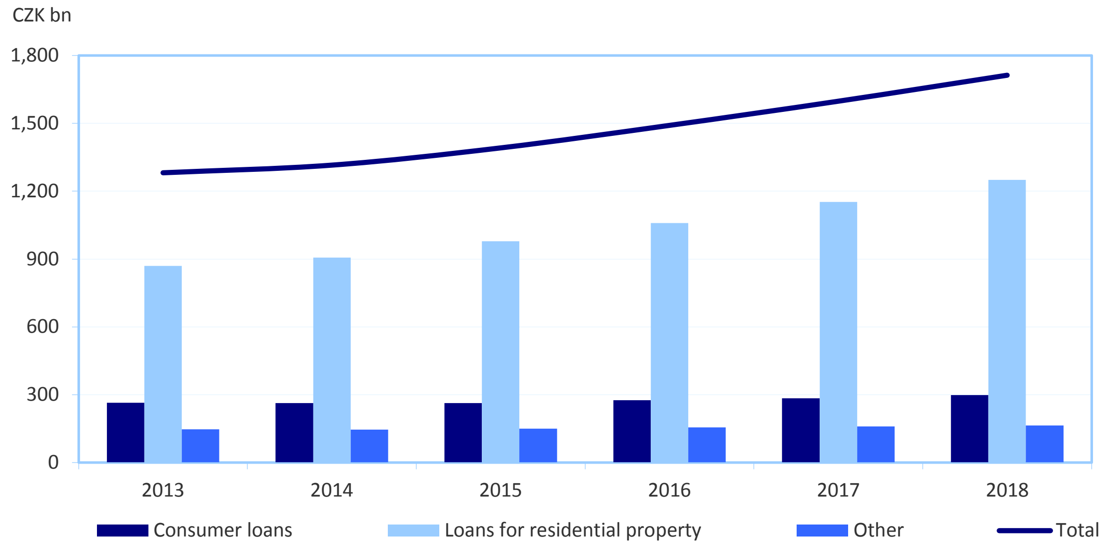
5.10 Household Indebtedness

Households have long been a key client sector. It is therefore appropriate to take a broader look at it that goes beyond its exposure to the banking sector alone. In 2018, households accounted for 49.7% of banks' total client loans and have long been the biggest segment in this respect. The total household indebtedness with regard to both bank and non-bank financial institutions was CZK 1.7 trillion at the end of 2018 (Graph 5.15). This represents a year-on-year increase of 7.2% (CZK 114.9 billion). Consequently, indebtedness recorded a growth rate of around 7% for the third consecutive year. A higher absolute increase in debt volume was last seen in 2008.

The debt of households has consistently been mostly related to housing. In absolute terms, housing-related debt increased by CZK 97.2 billion to CZK 1.25 trillion,[50] a slightly higher increase than in 2017 and the largest since 2008. Compared to developments in 2017, the rise in consumer loans climbed by roughly half (an increase of CZK 13.5 billion) to CZK 298.4 billion. Debt growth in the "other loans" category (mainly business loans to self-employed persons) amounted to CZK 4.2 billion and was essentially similar to that in the previous three years. This category consequently recorded its highest ever volume (CZK 164.1 billion).

From the perspective of momentum, the growth rate of the volume of housing loans was approximately 8% for the fourth year in a row. There was less dynamics in the remaining two segments, which developed in different ways. The growth rate of consumer loans went up by roughly half to 4.8%. By contrast, the dynamics of "other loans" dipped year on year to 2.6%.

Graph 5.15: Total household indebtedness[51]



Source: CNB - ARAD, MoF calculations

49 Act No 257/2016 on consumer credit, as amended.

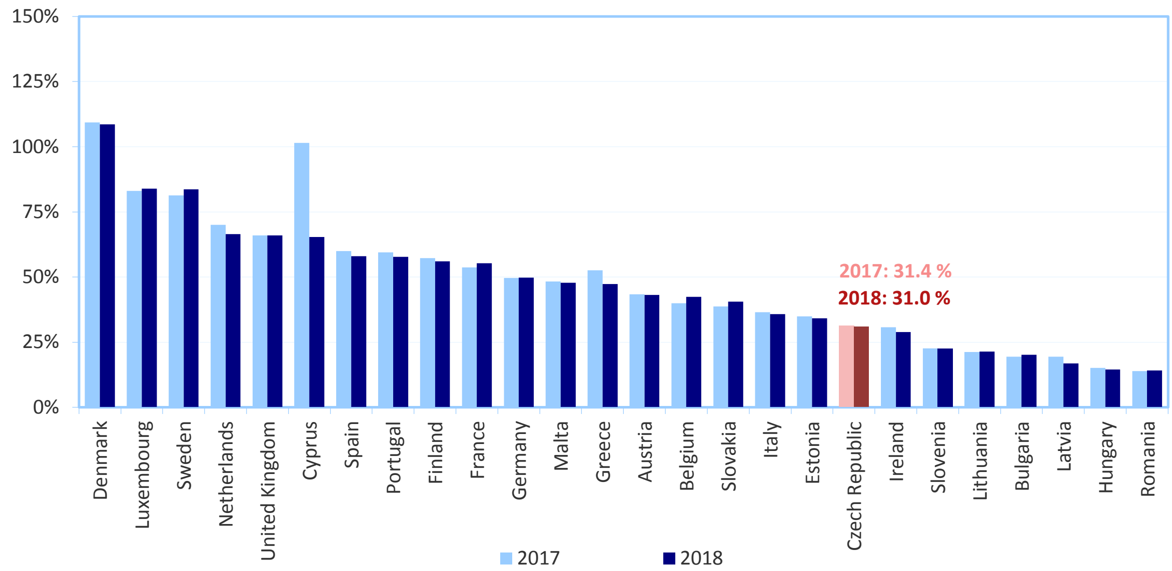
50 These data differ from indicators in Chapter 5.6 as they include not only mortgage loans but also all loans from provided by building savings banks and consumer loans (all for the purpose of purchasing or investing in loans for residential property). Another reason for the difference in data is inclusion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

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

As mentioned above, housing loans have consistently been the most important component of household indebtedness. In 2018, their share rose again (by 0.8 pp) to 73.0%, translating into growth of 5.1 pp for the reporting period as a whole. This is due to consistently higher increments in this segment compared to other household indebtedness components. Another factor is that housing loans are usually characterised by slower repayment due to their longer average maturity.

The volume of household indebtedness[52] relative to GDP, which indirectly also reflects household income, and thus households' ability to meet their financial liabilities, continued to be relatively low (31% of GDP) in the Czech Republic compared to the rest of the EU (Graph 5.16).[53] In 2018, there was a modest year-on-year decline (by 0.4 pp).

Graph 5.16: Volume of household indebtedness in selected countries in the EU relative to GDP



Source: ECB, Eurostat, MoF calculations

A cross-country comparison shows that the most pronounced downward trend in household indebtedness has long been reported by the countries most affected by the global financial crisis and the euro area crisis. In those countries, demand for new loans among households was frequently inhibited by their already high indebtedness, while supply dwindled because credit institutions were often severely weakened. In 2018, the standout countries in this respect were Cyprus and Greece.

Looking at developments over a longer five-year interval, i.e. the reporting period, the Czech Republic reported significant growth in relative indebtedness (by 3.1 pp), even though there was dynamic economic growth over much of that period, which, in itself, should have pushed down this ratio. The only countries to report a higher debt-to-GDP increase during the reporting period were Slovakia, Belgium, Sweden and Luxembourg.

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

[53] The year-on-year development of this indicator has a limited interpretative value in the case of economies that use a currency other than the euro. In those cases the values may reflect a year-on-year volatility resulting from the fluctuation of the exchange rate of the national currency in relation to the euro, which is subsequently used for expressing household indebtedness reported in the national currency converted to the euro. Interpretability of these figures may also be hampered by a situation where there is a change in the relative representation of monetary financial institutions and other entities in the financing of household indebtedness. An example of this could be a sale of client loan portfolios by banks to other entities.

6 CAPITAL MARKET

6.1 Developments in Global Capital Markets

Stock indices around the world reported their least favourable year-on-year development in the reporting period since 2013 (Table 6.1). The MSCI ACWI Standard, encompassing more than 2,400 stock titles accross developed and emerging economies, fell by 10.4% at the end of 2018. This decline was rooted in uncertainties surrounding global economic growth, fears of the fallout from international trade disputes, the negative effects of monetary policy tightening (see Chapter 1), and Brexit. Profit-taking by investors after generally solid growth on equity markets in previous years may also have had some impact. Following the end of the reporting period, at the beginning of 2019, the world's main indices experienced surging regrowth fuelled by the alleviation of concerns about international trade disputes and statements by some representatives of key central banks around the world which, for the most part, were taken to be a promise that, in their monetary policy, they would be responding to risks in the economy.

Bar the odd exception, the indices monitored (expressed in units of their respective domestic currencies) registered a decline. The key stock index in the US, the S&P 500, went down year on year by 6.2%, the steepest drop at any time in the reporting period. Other prominent global indices registered an even greater rate of decline. The Japanese Nikkei 225, the British FTSE100, and the index of key stocks in Europe – the Euronext 100 – plunged at much the same rate as the global average, i.e. by approximately 11-12%. The steepest losses in stock values (among the indices monitored) could be seen in export-oriented countries, which could have been hardest hit by the consequences of any escalation in trade wars – Germany (a drop by 18.3%) and China (24.6%).

Among the indices, the Russian MOEX bucked the overall trend by rising 12.3% year on year. However, some of this growth may have been a correction of a previous trend because, a year previously, this index had been the only one not to report any increase.

The dynamism of global developments described above was also reflected in Central Europe. Here, too, the indices did not progress as well as in 2017. The steepest year-on-year decline (by 19.7%) was recorded by the Austrian ATX, fuelled by the prominence of the banking sector and energy sector. The stock-market indices in Poland and the Czech Republic saw a downtown at roughly half of that rate (approximately 8%). The Hungarian BUX was relatively successful in that it dipped only slightly (by 0.6%). The region's best performer was the Slovak SAX, which replicated the growth rate of 2017 by gaining 2.1%.

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

As at 31 Dec (%)	Index	2013	2014	2015	2016	2017	2018
World	MSCI ACWI	20.3	2.1	-4.3	5.6	21.6	-10.4
United States	S&P 500	29.6	11.4	-0.7	9.5	19.4	-6.2
Eurozone	**Euronext 100**	**19.0**	**3.7**	**8.0**	**3.0**	**10.6**	**-11.2**
China	SSE Index	-6.7	52.9	9.4	-12.3	6.6	-24.6
Japan	Nikkei 225	56.7	7.1	9.1	0.4	19.1	-12.1
Germany	DAX	25.5	2.7	9.6	6.9	12.5	-18.3
United Kingdom	FTSE 100	14.4	-2.7	-4.9	14.4	7.6	-12.5
Russia	MOEX	2.0	-7.1	26.1	26.8	-5.5	12.3
Poland	WIG 20	-7.3	-4.3	-18.9	4.7	26.1	-7.5
Austria	ATX	6.1	-15.2	11.0	10.6	29.1	-19.7
Czech Republic	**PX**	**-4.8**	**-4.3**	**1.0**	**-3.6**	**17.0**	**-8.5**
Hungary	BUX	2.2	-10.4	43.8	33.8	23.0	-0.6
Slovakia	SAX	2.9	12.4	31.5	9.0	2.2	2.1

Source: Market organizers

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

6.2 Regulated and OTC Market in the Czech Republic

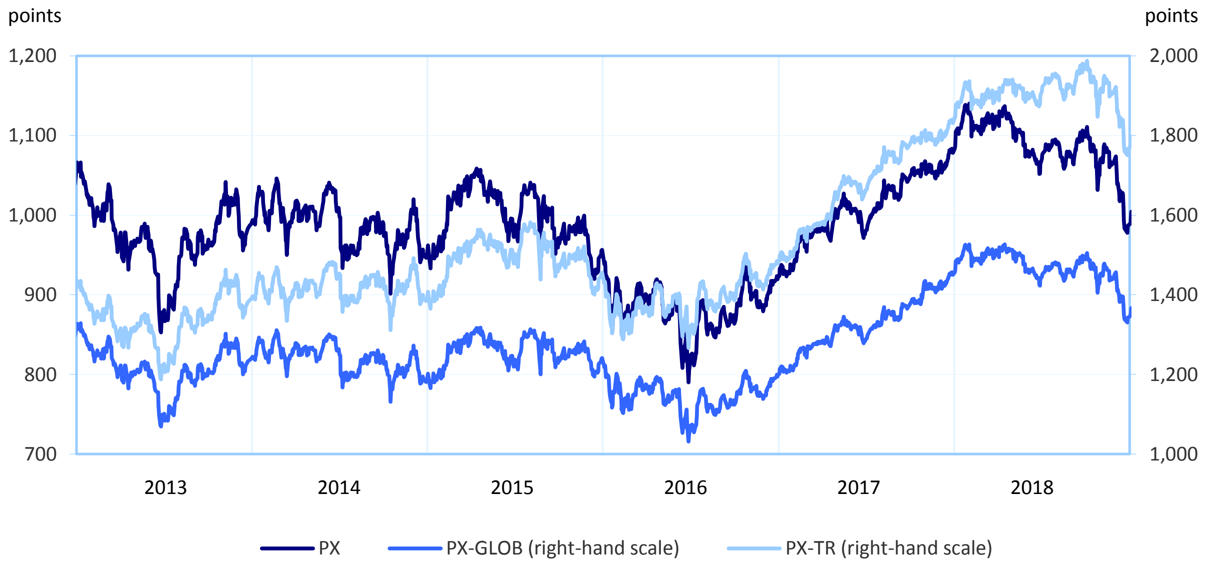
In 2018, the Prague Stock Exchange's main stock-market index, the PX, reported its worst result for the reporting period (Graph 6.1). The index tumbled 8.5% year on year to 987 points. Nevertheless, the downturn in 2018 needs to be placed in context, following dynamic growth in 2017 (by 17.0%). The drop in 2018 returned the index value to July 2017, when the index last hovered around such levels. It should also be noted that the Prague Stock Exchange's downturn in 2019 was essentially in line with global developments, i.e. the decrease was softer than in numerous other countries. Compared to Germany, for example, the rate of decline was less than half. The PX-Glob index, which includes all stocks traded on the Prague Stock Exchange (PSE), declined rather less than the main PX index, recording a year-on-year loss of 7.4%.

The Prague Stock Exchange's overall capitalisation grew year on year almost by a multiple of 17. However, this can mainly be put down to the introduction of trading (22 May 2018) in selected foreign stocks within the Free Market segment. Market capitalisation here rose more than 30-fold. The aim was to offer domestic investors the opportunity to trade in significant foreign securities on the domestic market in local currency, and to expand the supply of titles traded to encompass new alternatives. The share of the Free Market segment's capitalisation in the stock exchange's overall capitalisation increased year on year from a rather marginal 1.3% to more than 95%. In this respect, in order to keep track of developments in the capitalisation of domestic or more frequently traded equities, it is more appropriate to monitor the trend in capitalisation for other segments, except of the Free Market segment. In this respect, market capitalisation actually declined by 15.3%, primarily reflecting negative developments in stock values.

From the perspective of investors who monitor not only price appreciation, but also dividend yields, it is appropriate also to follow the PX-TR, which reflects the price development of PX equities while also taking into account the dividend yield. This index reported a 3.5% year-on-year loss. Here, capital losses were partially offset by solid dividend yields which, overall, exceeded 5% p.a.

Besides the above-mentioned launch of dual listings for foreign issues, another key event on the Prague Stock Exchange in 2018 was the launch of the START market, intended for small and medium-sized enterprises from the Czech Republic. In the first year of this market, five issuers made their entry and achieved market capitalisation of CZK 2.4 billion.

Graph 6.1: Daily closing values PSE indices



Source: PSE

Despite the falling share prices, the volume of stock exchange trades – in much the same way as in 2015 – halted the long-running downturn prevailing throughout the reporting period (Table 6.2). Even so, while year-on-year growth was 6.7%, this was still the second lowest volume for the reporting period (CZK 152.0 billion).

In terms of volume of trading in stocks, CZK 142.6 billion was traded, i.e. CZK 3.8 billion more. As in previous years, the highest volume of trades was recorded by large cap companies such as ČEZ, a.s., MONETA Money Bank, a.s. and Komerční banka, a.s. Key factors behind the year-on-year change in the volume of trades were the rise in volumes relating to Erste Group Bank AG and MONETA Money Bank, a.s., and the decline in the volumes of trades involving shares in Komerční banka, a.s. A new development that contributed to the year-on-year growth in volumes was the launch of trades within the scope of dual listings in the Free Market segment.

The volume of stock exchange trades in bonds, which have long been a minority trading segment, has reported positive developments in the past two years. This volume climbed year on year by almost 50% to CZK 9.3 billion. This segment's key growth factor was trading in corporate bonds.

Table 6.2: Volume of exchange trades on the PSE

Annual (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Shares	174.7	153.5	167.9	168.0	138.8	142.6	3.8	2.7
Debt securities	1.9	8.2	5.1	4.2	6.2	9.3	3.1	49.3
public sector	1.9	8.2	5.1	4.2	6.1	9.2	3.1	49.7
financial sector	0.0	0.0	0.0	0.0	0.1	0.1	0.0	14.3
Structured products[54]	0.1	0.6	0.3	0.1	0.2	0.1	-0.1	-41.8
Investment funds	0.0	0.0	0.0	0.1	0.1	0.0	0.0	-50.9
Total	176.8	162.3	173.3	172.4	145.3	152.0	6.7	4.6

Source: PSE, MoF calculations

By type of asset, trading in equities (93.8% of all trades) continued to dominate trade on the stock exchange. However, the share of these trades dwindled by 1.7 pp year on year and 5.1 pp for the reporting period as a whole. By contrast, the share of bond trades was up by 1.8 pp (or 5.0 pp for the reporting period as a whole) to 6.1%.

The number of registered issues traded on the Prague Stock Exchange in 2018 was at its highest recorded figure for the reporting period, growing by 18.5% year on year to 275 (Table 6.3). The equity segment rose most (by 130.4%) courtesy of the aforementioned introduction of the dual listing of foreign titles within the Free Market segment. There was also an increase in the number of investment fund instruments (by 18.8%) and structured products (by 18.0%). Conversely, the number of bonds admitted to trading dipped year on year, mainly because of a decline in the number in the financial sector (by 10.8%). As such, the trend of this segment's declining share in the total number of bonds continued. At the beginning of the reporting period, financial sector bonds accounted for more than 50% of the total number; at the end of that period, the figure was less than one third. Modest (1.9%) growth was also reported by the corporate sector, i.e. the sector of non-financial corporations, which recorded its highest value for the reporting period. The bonds of non-financial corporations continued their long-running growth trend, which was consistent with the trend in the volume of long-term bonds issued by this sector (Graph 6.2).

Table 6.3: Number of registered issues on the PSE

As at 31 Dec	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Shares	26	23	25	25	23	53	30	130.4
Debt securities	110	116	112	115	116	112	-4	-3.4
public sector	21	24	26	25	25	24	-1	-4.0
corporate sector	32	38	42	49	54	55	1	1.9
financial sector	57	54	44	41	37	33	-4	-10.8
Structured products	103	68	89	71	61	72	11	18.0
Investment funds	0	0	17	37	32	38	6	18.8
Total	239	207	243	248	232	275	43	18.5

Source: PSE, MoF calculations

54 The structured products include certificates and warrants.

The volume of trades in the RM-System (RMS), another Czech stock exchange that mainly focuses on retail investors, was much lower than that reported for the Prague Stock Exchange, as in previous years. In 2018, there was a further decrease in the volume of all monitored sub-categories of trades (Table 6.4). The volume of equity trades fell by CZK 389.1 million (12.2%) to CZK 2.8 billion. As such, this segment reported a year-on-year decline every year in the reporting period, resulting in an accumulated drop by almost 43% over that time. The RMS developed along lines similar to those of the equity segment, which accounted for 99.9% of the volume of trades on in the RMS in 2018, i.e. there was an absolute year-on-year decline by CZK 0.4 billion. The marginal volume of bond trades was down by CZK 5.8 million to CZK 3.0 million.

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

Annual (CZK mn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Shares	4,875.8	4,129.9	4,085.4	3,474.4	3,177.4	2,788.3	-389.1	-12.2
Debt securities	14.4	62.7	8.7	12.2	8.8	3.0	-5.8	-66.1
Total	4,890.3	4,192.5	4,094.1	3,486.6	3,186.2	2,791.3	-394.9	-12.4

Source: RMS, MoF calculations

The volume of over-the-counter transactions settled at the Central Securities Depository (Table 6.5) outstripped the activity in stock exchange trades several times over. Bond trading has long predominated here. Its growth in 2017 and subsequent decline triggered the year-on-year reduction in trading activity in 2018.[55]

Table 6.5: Volume of OTC transactions within CSDP

Annual (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Total	3,374.3	2,151.1	2,362.3	2,137.0	5,180.7	3,202.7	-1,978.0	-38.2

Source: CSDP

Power Exchange Central Europe (PXE), formerly known as the Prague Energy Exchange, beat its previous best in terms of trading volume by some distance, reporting 155.2% growth to CZK 5.9 billion (Table 6.6). This momentum, building on the growth of 2017, was fuelled by transactions beyond the Czech Republic (on the Hungarian, Romanian and Slovak market). The most significant segment in the reporting period was the wholesale market, which accounted for 94.8% of the volume of all trades and was dominated by electricity trading (91.8% of total trading). The remaining part consisted of end-user contracts, which have been trading on PXE since 2014. Here, too, trading in electricity prevailed.

Table 6.6: Trading volume on the PXE

Annual (EUR mn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Wholesale	1,161.2	788.3	875.0	970.2	2,083.6	5,573.8	3,490.2	167.5
of which power contracts	1,161.2	771.4	813.9	922.7	2,004.6	5,396.8	3,392.1	169.2
of which gas contracts	-	16.8	61.1	47.5	79.0	177.0	98.0	124.1
Retail	-	8.2	304.0	251.1	219.8	303.9	84.1	38.3
of which power contracts	-	8.2	157.4	132.6	135.1	236.5	101.3	75.0
of which gas contracts	-	0.0	146.6	118.4	84.6	67.4	-17.2	-20.4
Total	1,161.2	796.5	1,179.0	1,221.3	2,303.4	5,877.6	3,574.2	155.2

Source: PXE, MoF calculations

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

The outlook for 2019 indicates that the Czech capital market will be influenced in particular by the situation on global markets, the monetary policy pursued by central banks, and economic and political developments around the world. If the growth achieved on global markets at the beginning of 2019 is maintained, this should contribute to positive pricing on the Czech capital market, too.

Taking into account the trends in previous years, the growth in the volume of exchange trading can be expected, at best, to be modest in 2019. Factors contributing to improvements could be the further establishment of the dual listing of selected global equities and their trading on the Prague Stock Exchange in domestic currency, and new measures geared towards the development of trading on the Start market. Rising interest in investments in equities could generally prove to be a positive influence, too, with the domestic equity market having offered investors relatively appealing dividend yields thus far.

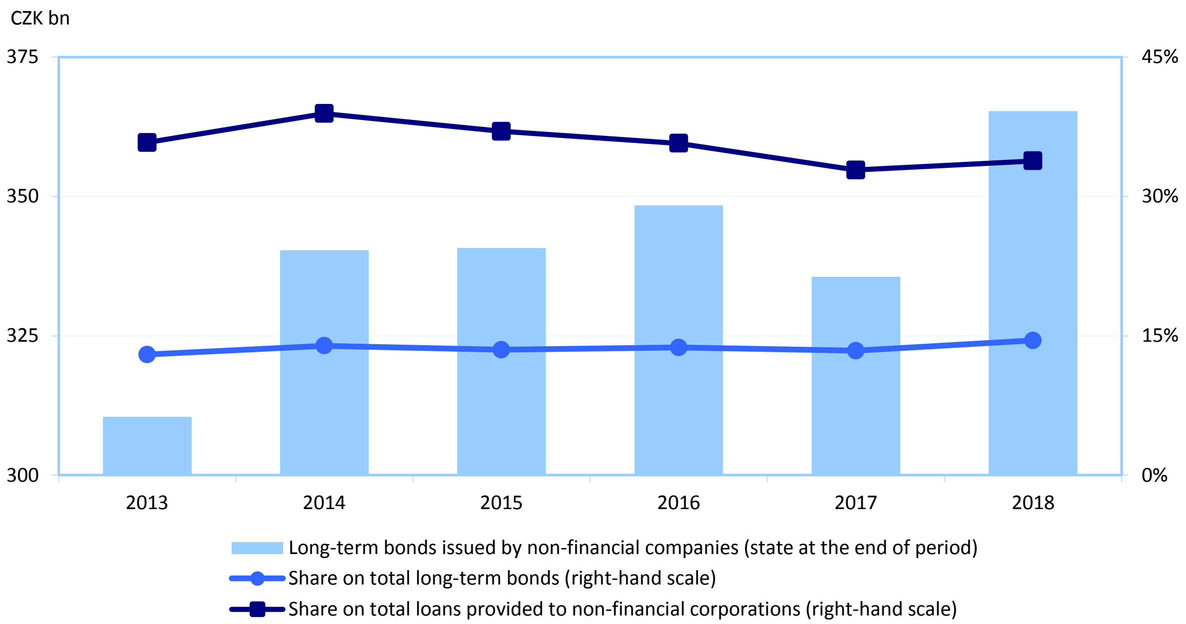
6.3 Financing of Non-Financial Corporations by Long-Term Bonds

Long-term bond issues are a significant additional source of financing for non-financial corporations. Developments in the volume of these bonds[56] are described briefly elsewhere in this chapter because this is a significant area of the capital market that is not covered in more detail in Chapter 6.2.

As can be seen in Graph 6.2, non-financial corporations, i.e. production and commercial companies, gradually increased the volume of funds raised through long-term bond issues in the reporting period to a total of CZK 365.3 billion at the end of 2018. Non-financial corporations accounted for 14.5% of the overall volume of long-term bonds issued; the majority of the volume of long-term bonds comprised government institutions' bonds, followed by financial institutions' bonds. For the sake of comparison, at the end of 2018 the total volume outstanding of loans provided by banks to non-financial corporations was CZK 1.1 trillion (see Chapter 5.5). Funding provided through the long-term bond market therefore corresponded to almost 34% of the volume of loans granted by the domestic banking sector.

The drop in this ratio during the reporting period (from 35.8% to 33.8%) was prompted by the greater momentum of financing with bank loans because, because in the same period, the volume of bank loans granted to non-financial corporations rose by 24.6%.

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



Source: CNB – ARAD, MoF calculations

[56] The volumes of issue of long-term bonds (i.e. with more than a year until redemption) made by Czech residents, regardless of the place (domestic or foreign markets), method (public offer, private placement, etc.) or currency of the issue. According to CNB estimates, statistics cover 90% of corporate bonds and almost 100% of the bonds issued by government and financial institutions.

6.4 Investment Firms and Asset Management

Investment Firms

The volume of client assets (Table 6.7) was CZK 4.3 trillion, having dipped by 7.6% year on year, partly on account of the decline in asset prices on global financial markets. Despite the year-on-year contraction in the volume of client assets, this was still the second highest level recorded within the reporting period. The various sub-segments reported different developments. Bank investment firms and management companies reported a drop steeper than the sector average (by 9.3% and 11.6%, respectively). The overall decrease was alleviated somewhat by growth among non-bank investment firms (by 15.0%). More than 97% of the year-on-year decline, by volume, was generated by bank investment firms because, throughout the reporting period, this segment held an almost 80% share of the volume of client assets.

By contrast, non-bank investment firms reported a fall in share by 4.0 pp to 9.9%, while management companies reported almost mirror growth to 11.5%.

The total volume of assets under management has long progressed along lines similar to the volume of client assets. In 2018, there was a 13.9% declined to CZK 770.6 million. Even so, this volume was the third highest year-end result within the reporting period. All sub-segments registered a drop (bank investment firms by 19.3% and non-bank investment firms by 16.8%). In relative terms, the smallest decline was recorded by management companies (by 11.7%). As this segment accounts for almost two thirds of the volume of assets under management, in absolute terms this was the biggest decrease by any segment (by CZK 65.3 billion). Conversely, both bank and non-bank investment firms registered a smaller absolute decline, by CZK 20.7 billion and CZK 38.3 billion, respectively.

Looking at developments across the reporting period, the share of bank investment firms rose slightly (by 1.6 pp), and the share of management companies shot up (by 28.3 pp). In contrast, the significance of non-bank investment firms plunged by almost 30 pp.

Table 6.7: Investment firms indicators[57]

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Value of clients' assets (CZK bn)	**2,987.9**	**3,331.2**	**3,798.4**	**4,195.8**	**4,655.1**	**4,300.5**	**-354.5**	**-7.6**
Bank IF	2,344.9	2,622.6	3,047.2	3,334.1	3,725.9	3,380.8	-345.0	-9.3
Non-bank IF	417.6	458.6	492.4	336.4	369.9	425.5	55.6	15.0
Management companies	225.3	250.0	258.8	525.3	559.4	494.2	-65.1	-11.6
Value of managed funds (CZK bn)	**631.6**	**693.0**	**719.9**	**819.6**	**894.9**	**770.6**	**-124.3**	**-13.9**
Bank IF	61.5	73.8	73.4	84.0	107.6	86.9	-20.7	-19.3
Non-bank IF	343.8	373.5	394.9	219.8	227.7	189.4	-38.3	-16.8
Management companies	226.4	245.7	251.7	515.8	559.6	494.3	-65.3	-11.7

Source: CNB – ARAD, MoF calculations

Looking at the structure of assets under management classified by asset type (Table 6.8), all of the key categories monitored took a fall. The volume of equities dropped fastest (by 19.0%), followed by bonds (16.5%) which, in view of their size, reported the biggest absolute decline. The volume of cash (down by 6.1%) and collective investment securities (5.6%) diminished more slowly than the average (13.9%). The marginal category of derivatives was the only category to show year-on-year growth.

[57] Managed funds represent entrusted funds by the client to investment firm for the purpose of providing an investment service for the management of the client's property on a discretionary basis under a contractual arrangement. Client's assets are all assets that investment firm has in its power to provide any investment service.

Table 6.8: Structure of managed assets

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Bonds	486.5	551.0	553.3	629.1	649.6	542.5	-107.1	-16.5
Shares	16.7	19.6	21.5	21.7	28.7	23.2	-5.4	-19.0
Collective investment securities	80.3	91.9	104.5	120.9	139.4	131.6	-7.8	-5.6
Money market instruments	44.6	33.9	41.9	53.3	76.1	71.4	-4.7	-6.1
Derivatives and other	3.5	-3.4	-1.3	-5.5	1.1	1.9	0.8	67.2
Total	631.6	693.0	719.9	819.6	894.9	770.6	-124.3	- 13.9

Source: CNB – ARAD, MoF calculations

From the perspective of the structure of assets under management, during the reporting period there was a clear gradual decline in the share of bonds to 70.4% (by 6.6 pp), while the share of collective investment securities went up to 17.1% (by 4.4 pp). There was also an increase in the share of cash (by 2.2 pp to 7.1%) and equities (by 0.4 pp to 3.0%). This reflects the growing preference for assets that have the potential for higher appreciation in a landscape of low interest rates, combined with the lower costs associated with the holding of cash and waiting for suitable opportunities.

Asset Management

The volume of assets entrusted to the management of members of the Czech Capital Market Association (AKAT) dipped by 0.7% to a total of CZK 1.37 trillion in 2018 (Table 6.9). The three largest asset managers, who are also members of AKAT, were managing more than 56% of total assets and the top five entities together found themselves managing almost 77% of total assets.

Table 6.9: Financial groups by value of managed assets of AKAT members

As at 31 Dec	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Volume (CZK bn)	995.7	1,133.2	1,159.7	1,288.4	1,378.1	1,368.1	-10.1	-0.7

Source: AKAT, MoF calculations

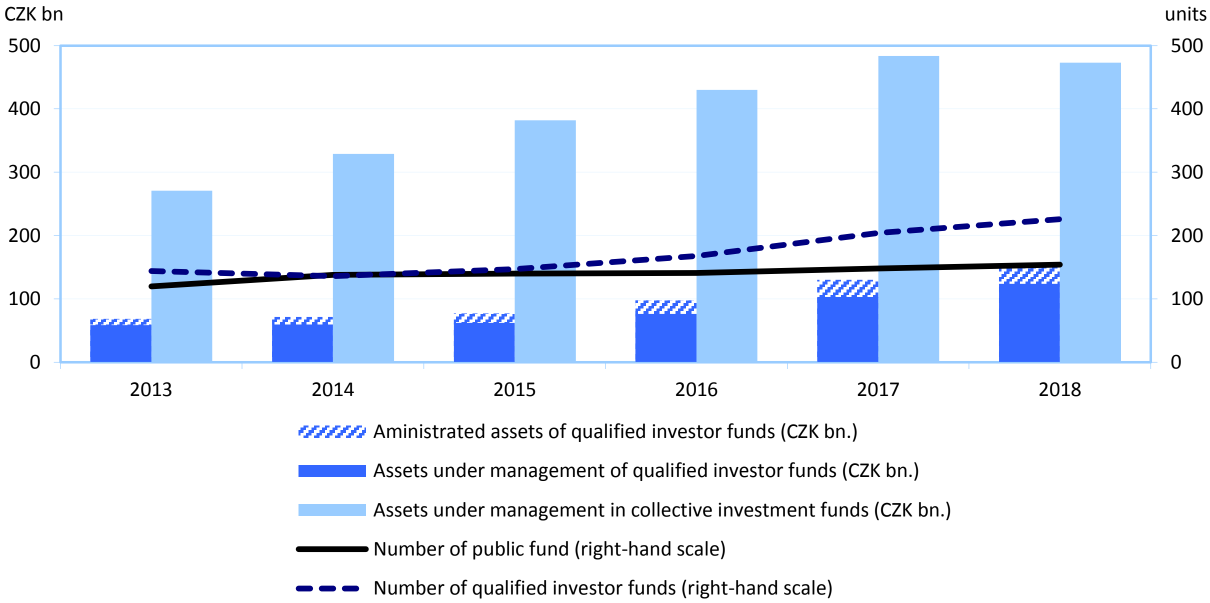
In the outlook for the segment of investment firms, if the uptick in share prices on global financial markets witnessed at the start of 2019 continues, one can assume that there will be further growth in the volume of assets managed by investment firms by several per cent. This would then result in growth in the share of more volatile categories of assets relative to the overall volume of assets under management.

The volume of AKAT-managed assets could subsequently return to the growth prevailing prior to 2018, with an increase of a few per cent.

6.5 Investment Funds

Investment funds can be divided into collective investment funds and qualified investor funds. Collective investment funds collect funds from the public by means of investment fund share subscriptions or by issuing shares. They engage in joint investment or asset management. Qualified investor funds, on the other hand, cover funds from professional clients to the extent of transactions or investment services related to the securities on offer. In 2018, assets under management in funds grew by CZK 10.1 billion (1.7%) to CZK 596.8 billion, but this was only thanks to a rise in the volume of assets in qualified investor funds (Graph 6.3).

Graph 6.3: Structure of collective investment funds[58]



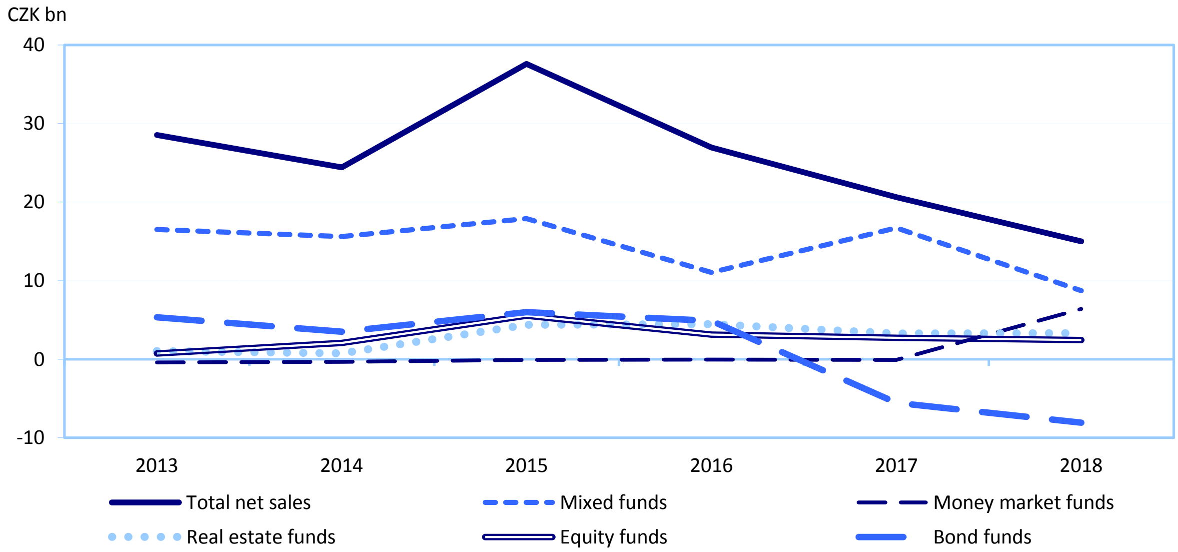
Source: AKAT, CNB – ARAD

Collective Investment Funds

The volume of resources held in collective investment funds fell by CZK 10.6 billion (2.2%) to CZK 472.9 billion in 2018. Of that, CZK 284.0 billion was placed in domestic funds (growth by CZK 3.8 billion), while CZK 188.9 billion was in foreign funds (a decline by CZK 14.4 billion). The modest 1.4% increase in resources in domestic funds was therefore unable to make up for the 7.1% drop in relation to foreign funds.

Since 2013, domestic funds have reported higher year-on-year growth than foreign funds, although the rate of growth has gradually slowed down in tandem with the growth recorded by foreign funds (Table 6.10). The cumulative growth in the volume of assets over the whole reporting period stood at 117.4% for domestic funds, while it was less than a third of that (34.5%) for foreign funds. However, the total net sales of domestic funds slipped by more than a quarter year on year (27.2%), which can be attributed primarily to the lower net inflow into mixed and bond funds (Graph 6.4).

Graph 6.4: Net sales of domestic mutual investment funds



Source: AKAT, MoF calculations

[58] Since 2014 there has been a change in the methodology of asset reporting in domestic mutual funds, which report data for investments in domestic funds in the Czech Republic, i.e. the administrator's perspective was replaced by distribution perspective.

In terms of the placement of resources into the various types of mutual funds, the differences between domestic and foreign funds endured in 2018. However, the structure of resource placement remained more or less unchanged (Table 6.10). Mixed funds were again dominant, both in relation to domestic (approximately 41%) and foreign (approximately 35%) funds. This is perhaps because they offer a certain degree of flexibility, with their investment strategy covering a wide range, starting with conservative (for the most part bond) strategies to dynamic (generally equity) strategies, and they are also an attractive proposition when interest rates are low. Even so, the volume of resources in mixed funds was down year on year by CZK 5.4 billion (2.9%).

Table 6.10: Assets in individual types of unit trusts by domicile

As at 31 Dec (CZK bn)	2013	2014	2015	2016	2017	2018	Year-on-year change	
							Abs.	(%)
Domestic	130.6	167.0	201.8	234.6	280.2	284.0	3.8	1.4
Bond	53.6	64.2	64.8	70.7	71.1	60.1	-11.0	-15.5
Equity	18.0	22.3	27.1	33.6	44.3	46.2	1.8	4.2
Structured[59]	3.8	0.1	0.3	0.3	0.2	0.0	-0.2	-99.8
Mixed[60]	22.6	36.8	80.1	92.4	117.6	116.3	-1.3	-1.1
Funds of funds	27.4	38.3	17.7	20.0	24.1	24.8	0.7	2.9
Money market	1.8	1.3	0.6	0.5	0.4	6.8	6.4	1650.4
Real estate	3.4	4.0	11.3	17.0	22.4	29.8	7.4	33.2
Foreign	140.5	161.9	180.2	195.5	203.3	188.9	-14.4	-7.1
Bond	34.0	44.5	47.0	53.4	47.6	39.5	-8.1	-17.0
Equity	34.1	35.1	42.3	47.7	55.0	53.7	-1.3	-2.4
Structured	35.6	31.9	28.0	27.2	26.7	24.0	-2.6	-9.9
Mixed	25.2	42.0	57.8	63.4	71.0	66.9	-4.1	-5.8
Funds of funds	0.5	0.5	0.2	0.2	0.3	0.3	0.0	-7.4
Money market	10.2	6.6	3.8	2.6	2.2	4.1	1.9	84.2
Real estate	0.9	1.2	1.2	1.1	0.5	0.4	0.0	-8.3
Total	271.1	328.9	382.0	430.1	483.5	472.9	-10.6	-2.2

Source: AKAT, MoF calculations

On the domestic front, mixed funds were followed by bond funds (approximately 21%) and equity funds (approximately 16%). Domestic bond funds, however, suffered a downturn year on year by CZK 11.0 billion (15.5%). The biggest absolute growth was reported by real estate funds, which were up by CZK 7.4 billion (33.2%), along with money market funds (growth by CZK 6.4 billion, taking them to CZK 6.8 billion). The increase in the volume of resources in real estate funds may have been prompted by the attractiveness of yields forecast against a backdrop of robust property price growth. The rise in the volume of resources in money market funds can be attributed to the actively managed money funds of a single entity, which pushed up the volume of resources year on year by CZK 6.4 billion. Money market funds tend to invest in short-term and low-risk securities, which generally return a lower yield. In 2018, the CNB increased repo rates on four occasions. This made highly liquid investments in money funds more appealing considering the uncertainty on the financial markets and otherwise still low interest rates.

Among foreign funds, the second most significant funds, in keeping with tradition, were equity funds (approximately 28%), followed by bond funds (approximately 21%). With the exception of money market funds, which saw the assets under their management rise by CZK 1.9 billion, all categories of foreign funds recorded a year-on-year decline in the volume of assets. This decrease aggregated approximately CZK 16 billion.

[59] Structured funds represent structured, guaranteed and secured funds. Structured funds offer investors an investment based on a particular algorithm. Guaranteed funds provide a formal and legally binding guarantee of income or capital. Secured funds provide some protection against full market volatility.

[60] The classification of a fund among mixed funds is not subject to a fixed limit for the share of individual investment instruments, as is the case with share or bond funds.

Qualified Investor Funds

Assets managed by qualified investor funds grew year on year by CZK 20.6 billion (20.0%) to CZK 123.8 billion (Graph 6.3). Consequently, these funds increased their share to 20.7% of all fund-managed assets.[61] If we also include the administration of resources, i.e. resources administered by one AKAT member, but not managed by another AKAT member, the volume of assets in qualified investor funds increased by as much as CZK 24.1 billion year on year to CZK 154.8 billion. This was a quarter (24.7%) of the total volume of assets in investment funds (whether collective investment or qualified investor funds, including assets under administration).

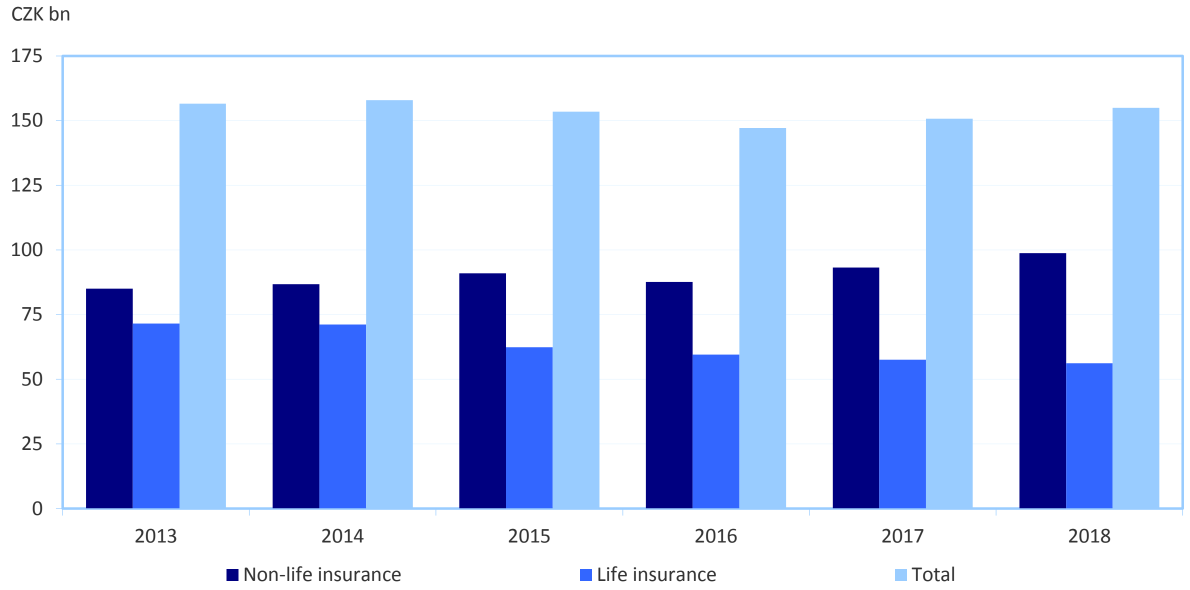
In 2019, the inflows into investment funds are forecast to be on a par with 2018. If the rising prices of assets on capital markets recorded in early 2019 were to continue, this could have a positive impact by generating relatively higher full-year returns on the assets placed in the funds.

[61] Excluding funds administered by qualified investor funds.

7 INSURANCE

For the insurance company sector, 2018 was a year confirming the growth in the volume of gross premiums written that had begun back in 2017. All sector growth here was driven by the expansion of non-life insurance (6.0%), while life insurance reported a decline, albeit on a lesser scale than in 2017, i.e. by 2.4%. The total volume of premiums written reached CZK 155.0 billion (Graph 7.1), equal to year-on-year growth of 2.8%. The growth rate therefore accelerated slightly on 2017, when it was 2.5%. However, the ongoing economic boom meant that the insurance sector's gradual growth was not reflected in the ratio of premiums written to GDP (a drop by 0.1 pp to 2.9%) due to the faster growth rate of nominal GDP (by 5.1 pp) than gross premiums written.

Graph 7.1: The volume of gross premiums written



Source: CNB – ARAD

As a result of the ongoing growth of non-life insurance and the steady decline of life insurance, the ratio between these two core segments of the insurance market continued its negative trajectory, standing at 64:36 in favour of non-life insurance at the end of 2018. This predominance of non-life insurance was also reported in other Visegrad Four countries. The situation in Poland is similar to that in the Czech Republic. In Hungary and Slovakia, this ratio was more balanced, i.e. 54:46 and 55:45, respectively, but still in favour of non-life insurance. This stands in contrast to countries in Western Europe, where the ratio between these two segments has long been the almost complete reverse (approximately 40:60), i.e. in favour of life insurance (Table 7.1).

Table 7.1: Non-life and life insurance share in selected countries[62]

Selected countries	Non-life insurance share	Life insurance share
Czech Republic	**64%**	**36%**
Poland	64%	36%
Slovakia	55%	45%
Hungary	54%	46%
Germany	3%	63%
France	36%	64%
United Kingdom	24%	76%

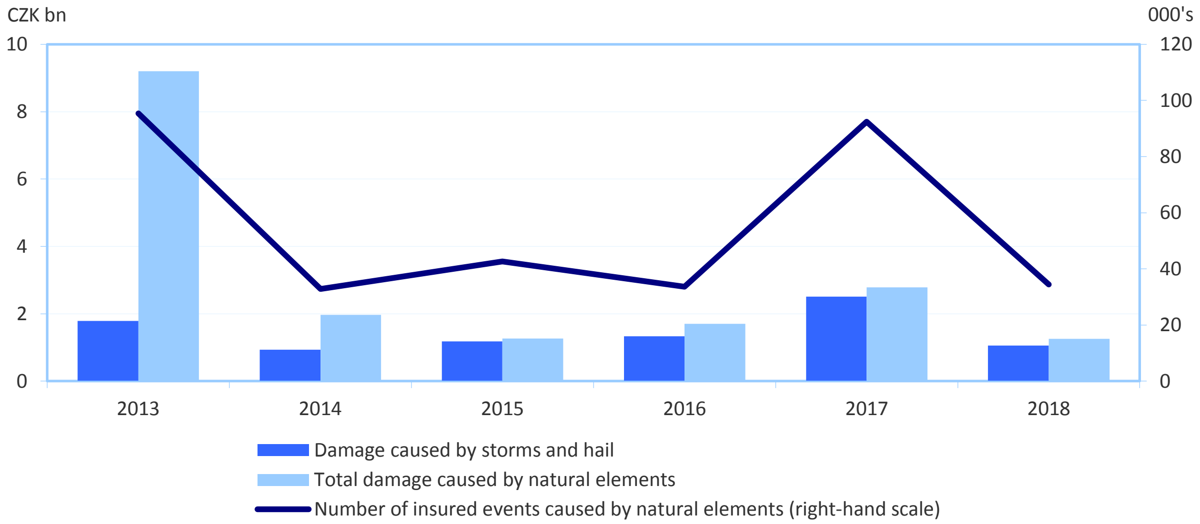
Source: EIOPA

[62] These are figures for the third quarter of 2018 (due to the frequency at which EIOPA publishes its data).

The stability of the insurance market was also verified by the results of supervisory stress tests of selected[63] insurance companies, as conducted by the CNB in the second and third quarters of 2018. The results of these tests confirmed that the sector was sufficiently resilient to any adverse shocks and also proved that the sector as a whole was amply capitalised and would be able to absorb relatively significant changes in risk factors. The total solvency ratio for the insurance companies tested, after applying shocks for market and insurance risks, was 177%, quite high above the regulatory minimum of 100%.

From the perspective of natural elements, 2018 can be regarded as a relatively favourable year, i.e. stress among insurance companies as a result of the payout of claims stemming from exceptional damage caused by the natural disasters remained at low level. There was an uptick in material damage in 2017 following Cyclone Herwart, but this then sank by almost 55% year on year in 2018 (Graph 7.2). The period of relatively low levels of material damage caused by natural disasters has lasted since 2014.

Graph 7.2: Insured events caused by natural elements



Source: CIA

The fall in the number of overall insured events caused by natural elements can be attributed primarily to the low levels of damage in the categories of storms and hail. In the past two years, insured events caused by storms and hail have accounted for more than 80% of the overall number of events caused by natural elements, including when the damage that has been occasioned is denominated in CZK. According to figures reported by the Czech Insurance Association, damage caused by the weight of snow or as a result of flooding is also included among insured events resulting from natural elements. In 2018, this group of loss events accounted for approximately 15% the volume of damage covered by property insurance.

Damage resulting from fire was a significant group within the scope of overall damage covered by property insurance. In 2018, this category covered just 2.4% of the total number of property insurance claims, but, expressed in CZK, it took up a share of 30.3%. Another significant group of damage under property insurance was damage caused by water mains, accounting for approximately 20% of the total number of claims. While this is a high ratio in terms of the number of claims, when expressed in CZK this damage took up only 13.4% of overall material damage. According to the Czech Insurance Association's figures, there was a year-on-year decrease in property insurance claims in 2018. Compared to the previous year, the number of claims went down by 24.3%. Expressed as CZK, these events decreased by 20.1%.

The situation on the insurance market depends on the overall economic development in the country – assuming that economic growth falters in 2019, we can expect much more pronounced increases in gross premiums written in the future. Furthermore, the Czech market has long failed to negotiate sufficient limits to cover the fallout from insured events, particularly in relation to non-life insurance. The inadequate updating of insurance contracts, i.e. the failure to increase the sum insured to reflect the actual value of the property insured, results in underinsurance, which is becoming a chronic problem on the Czech insurance market. Efforts to remedy this have long failed. Underinsurance issues have been further accentuated by the new Civil

[63] The testing involved 18 insurance companies representing 93% of the insurance market of domestic insurance companies in terms of gross premium written in 2017.

Code which took effect four years ago and which introduced individual compensation for victims based on an assessment of their specific situation.

7.1 Development of Life and Non-Life Insurance

Despite a slight decline in the number of insurance contracts (by 1.4%) and newly concluded contracts, in the **non-life insurance** segment the growth rate of gross premiums written remained robust (6.0%) at CZK 98.8 billion. This was affected in particular by the higher growth rate in motor liability insurance (7.1%) and motor vehicle accident insurance (10.7%). The overall growth in gross premiums for motor insurance (by CZK 3.5 billion) stemmed from the rising numbers of vehicles and their value in cases of accident insurance. According to the Czech Insurance Association's figures, retail property and liability insurance was up by 5.6% and, building on the ongoing economic growth, a solid increase was also observed in business insurance (4.9%).

The decline in the number of contracts was therefore accompanied by an increase in the average premium per contract in non-life insurance. Another positive factor has been the high growth of gross premiums and the increase in the gross amount of claims costs in relation to motor liability insurance. This was consistent with the overall developments between these two indicators in non-life insurance as a whole.

In **life insurance**, the overall number of insurance contracts continued to decrease (by 2.5%), and there was also a year-on-year decline in the number of newly concluded contracts (by 5.0%). In both contract categories, there has been a consistent downward trend throughout the reporting period. Reflecting the falling numbers of insurance contracts, gross premiums written in life insurance also continued their downward trajectory. In 2018, they fell year on year by 2.4% to CZK 56.2 billion.

Single-premium life insurance products continued their decline, with premiums written in 2018 18% lower in value than in 2017. Developments in current premium products can be described as stagnant. Misgivings about life insurance may have been stoked somewhat by certain decisions of the Financial Arbitrator and the Supreme Court, including negative media coverage casting doubt on the validity of selected financially accumulating insurance contracts. Selected indicators of life and non-life insurance are summarised in Table 7.2.

Table 7.2: Main indicators for Insurance sector

As at 31 Dec	2013	2014	2015	2016[64]	2017	2018	Year-on-year change	
							Abs.	(%)
Number of policies (000's)	27,321	28,157	27,748	27,119	27,945	27,485	-461	-1.6
of which: non-life insurance	19,252	20,417	20,355	21,099	22,080	21,768	-313	-1.4
life insurance	8,061	7,740	7,393	6,020	5,865	5,717	-148	-2.5
Number of newly concluded policies (000's)	11,874	11,955	10,861	11,138	12,006	11,884	-122	-1.0
of which: non-life insurance	10,738	10,889	9,920	10,454	11,372	11,282	-90	-0.8
life insurance	1 137	1 066	941	684	634	602	-32	-5.0
Total gross premiums written (CZK bn)	156.5	157.8	153.4	147.2	150.8	155.0	4.2	2.8
of which: non-life insurance	85.0	86.6	91.0	87.6	93.2	98.8	5.6	6.0
life insurance	71.6	71.2	62.4	59.6	57.6	56.2	-1.4	-2.4
Gross claim settlement costs (CZK bn)	100.6	105.0	99.7	95.7	96.6	92.3	-4.3	-4.4
of which: non-life insurance	49.2	46.7	48.5	50.6	53.9	49.2	-4.8	-8.8
life insurance	51.4	58.3	51.2	45.1	42.6	43.1	0.5	1.2
Total insurance penetration (%)	4.0	3.7	3.4	3.2	3	2.9	-0.1	-

Source: CNB – ARAD

Considering the falling numbers of insurance contracts and the expecting slowdown in economic growth, non-life insurance is expected either to stagnate or to make only very slight gains in 2019. Similarly, in life

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

insurance it would be reasonable to assume that there will continue to be a lack of clarity and transparency in relation to insurance contracts creating provisions, which could affect the behaviour of potential policyholders. Not even the estimated growth in term life insurance will evidently be strong enough to forecast a year-on-year increase in premiums in the life insurance segment. In the light of the above, the ratio of premiums written to GDP is likely to remain stalled.

7.2 Economic Results of Insurance Companies

In 2018, insurance companies reported their highest profits in last eight years. Pre-tax profit amounted to CZK 18 billion, growing year on year by approximately 73%. The increased profit was made primarily on the back of the result of the non-life insurance technical account because claims were lower. By contrast, returns on investments dropped year on year (by approximately 17%) in response to the poorer performance of the financial markets, particularly at the end of 2018 (see Chapter 6).

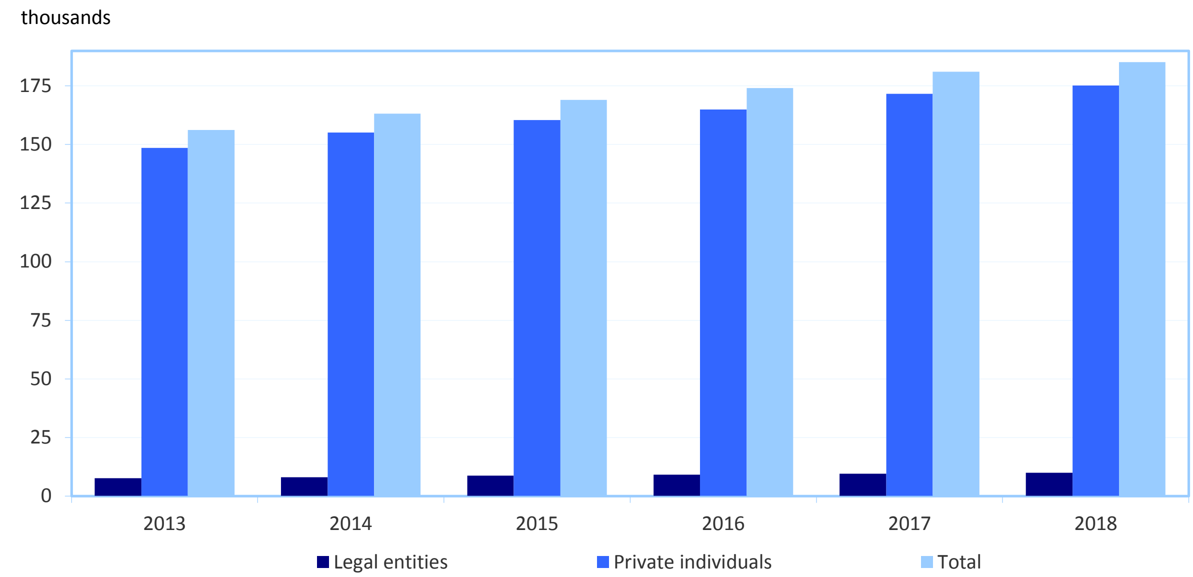
The insurance sector's total assets increased year on year to CZK 519.5 billion, which is equal to growth of 1.5%. Investments, the largest asset item by volume, amounted to CZK 364.4 billion (approximately 70% of the total assets). The investment structure remained conservative. In this respect, the predominant investments have long been those in debt securities (approximately 70%), especially government bonds. On the liability side of the balance sheet, capitalisation was reinforced with a rise in equity (25.6%), accompanied by a fall in technical provisions by 3.8% to CZK 256.1 billion. The decrease in such provisioning was reflected primarily in the life insurance provision (by CZK 6.7 billion). Smaller decreases were also reflected in the provision for claims reported but not settled (approximately CZK 4.4 billion), and the "other" technical provision (CZK 0.8 billion).

Insurance companies' earnings are also influenced by their success at detecting insurance fraud. The Czech Insurance Association's figures show that insurance companies investigated 10,300 suspicious insured events. Their increasingly sophisticated procedures identified insurance fraud totalling CZK 1.3 billion in 2018. The average amount of proven insurance fraud went up year on year by 18.4% to CZK 232,000. The largest volumes of assets defended were related to property insurance (59.6%), liability insurance (25.9%), and vehicle insurance (20.0%).

7.3 Insurance Intermediation

The number of insurance intermediaries continued to grow slightly, much as in previous years. At the end of 2018, more than 185,000 licences to get engage in intermediary activity, including the autonomous activity of indepedent loss adjusters, had been issued. Graph 7.3 shows that the clear majority of these licences have been issued to private individuals (95%) rather than legal entities.

Graph 7.3: The number of insurance intermediaries



Source: CNB

As of December 2018, major changes were made to legislation on insurance intermediation. The new Insurance and Reinsurance Distribution Act[65] replaced the existing Insurance Intermediaries and Loss Adjusters Act and, among other things, established a completely new structure of business authorisations for insurance intermediaries. Existing insurance agents and insurers brokers automatically became autonomous (insurance) intermediaries, unless they actively refused this re-registration. The authorisation of other insurance intermediaries (captive insurance agents, tied insurance intermediaries and subordinate insurance intermediaries) remained valid until the end of March 2019 at the latest. If these persons were interested in continuing to engage in insurance intermediation, they had to have themselves newly registered with the CNB, via the entities they were representing (insurance companies, autonomous intermediaries), as “tied agents” or “supplementary insurance intermediaries”.

A business authorisation for insurance intermediation is now granted for a fixed term (one year), and the CNB may make renewal contingent on payment of an administration fee. Because of the systematic structure in the regulation of distribution, independent loss adjusters were reclassified as a professional trade. This means that they will not be reported in statistics of persons active on financial markets in the future.

[65] Act No 170/2018 on insurance and reinsurance distribution.

8 PRIVATE PENSION SYSTEM

8.1 Pension Management Companies

Pension management companies have been active on the financial market as managers of participants' assets registered in personal pension accounts in participation and transformed funds since 2013, when the fund-based pension system was overhauled. Pension management companies offer those who are interested in savings schemes in the Pillar 3[66] the opportunity to save in the supplementary pension saving scheme system, where participants' assets are placed in a participation fund according to the investment strategy selected by the participant from the range offered by the pension management company. Pension management companies also manage assets in transformed funds. These are the funds to which the savings of the participants in the original supplementary pension insurance scheme were automatically transferred as part of the 2013 reform. At the same time, the conditions of their supplementary pension insurance contracts were retained (namely the no-loss guarantee, the opportunity to receive an early pension, and the conditions that make it possible to terminate the contract and receive payments). New entrants can no longer enter the transformed funds.

During 2018, eight pension management companies continued their operations within the scope of the pension system. All of these companies continued to manage assets in both participation and transformed funds. The number of pension management companies remained unchanged for the third year running and, as in 2017, there were 28 participation and 8 transformed funds at the end of 2018. In terms of the number of entities, the pension management company sector seems to be fully stabilised. After the 2013 reform, there were 10 pension management companies on the market, one of whom one decided to terminate its activities and two of whom merged.

As shown by Table 8.1, the pension management company sector's pre-tax ordinary profit came to a new record high of CZK 1.7 billion in 2018. However, compared to 2017 there was a loss of year-on-year growth momentum, which slipped from 14.5% to 7.9%. The profit growth was fuelled in particular by an increase in fees paid for fund asset management by CZK 0.2 billion to CZK 3.5 billion. This has long been the main source of pension management companies' income.

Pension management companies' regulatory capital again went up. Relative to the aggregate capital requirement, it came to its highest level since the formation of pension management companies, standing at almost 154%. However, the increase in capital adequacy was again also affected by a reduction in pension management companies' capital requirements due to the structure of fund assets posing less of a capital risk following a rise in the proportion of deposits made at credit institutions, especially in the case of participation funds (Graphs 8.8 and 8.9 in Chapter 8.2).

Table 8.1: Selected indicators in pension management company sector[67]

As at 31 Dec		2013	2014	2015	2016	2017	2018	Year-on-year change (%)
Profit (loss) before taxation (CZK bn)		-0.3	0.5	0.8	1.4	1.6	1.7	7.9
Equity, total (CZK bn)		9.1	8.3	8.8	8.9	9.0	9.3	3.4
Capital ratio (%)		148.5	139.7	132.6	119.9	139.7	153.6	-
Capital surplus of PMC and equity of TF[68]	in CZK bn	14.2	18.1	18.0	16.9	12.6	9.1	-27.8
	in % assets of TF	4.8	5.4	5.0	4.4	3.0	2.1	-

Source: CNB – ARAD, MoF calculations

Nevertheless, it is also appropriate to monitor pension management companies' capitalisation in connection with any need that may arise, in response to an adverse situation on the financial markets, to cover the losses of transformed funds that – due to the statutory no-loss guarantee – could have a negative impact on pension management companies' profits and potentially push their capital down to a level below the regulatory requirement. Matters did not progress particularly well in this respect in 2018 because there was a significant

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

67 Abbreviations: PMC = pension management company and TF = transformed funds.

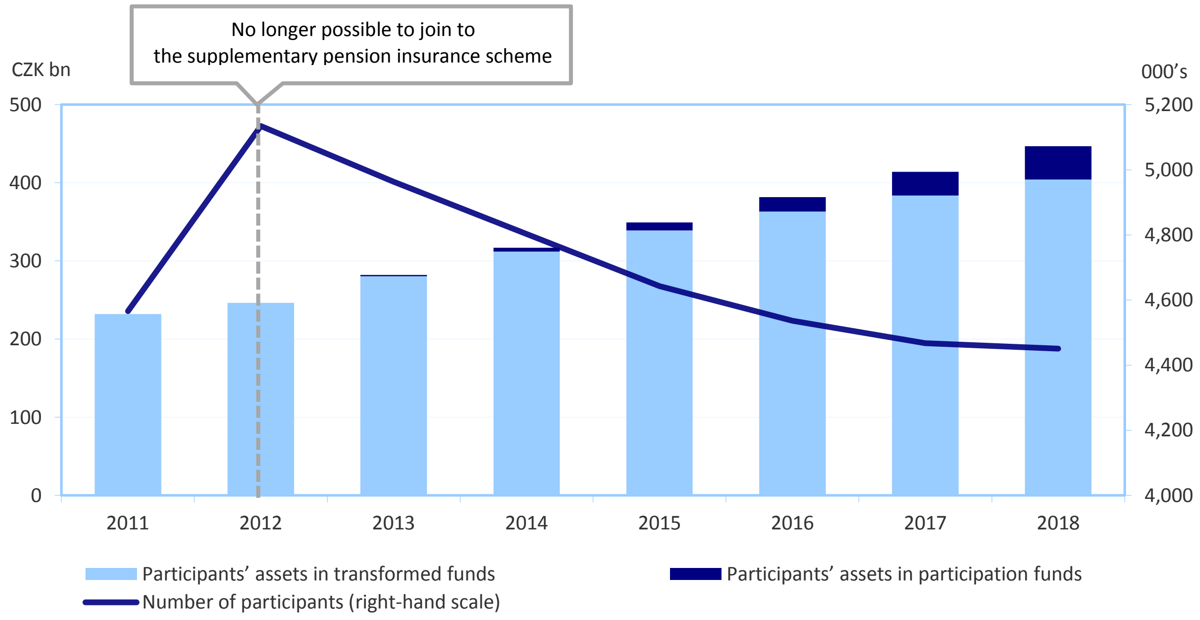
reduction in the combined capital surplus generated, on the one hand, by the equity of the transformed funds and, on the other hand, by the difference between the volume of capital actually held and the capital requirements applicable to pension management companies.[68] In absolute terms, this was a drop by 27.8% to CZK 9.1 billion; relative to the assets of transformed funds, the reduction was 0.9 pp to 2.1%.

8.2 Supplementary Pension Insurance and Supplementary Pension Savings

Participants' Assets and Structure

Participants' assets in transformed and participation funds increased by 8.0% to a total of CZK 447.1 billion at the end of 2018 (Graph 8.1). This development was in keeping with the gradual deceleration of the growth rate that began back in 2014. The savings of participants in participation funds grow by 42.5% to CZK 42.7 billion in 2018, thereby accounting for 9.6% of all resources within the framework of the Pillar 3. Most participants' assets continued to be managed in transformed funds, where they amounted to CZK 404.4 billion after seeing their year-on-year growth trimmed to 5.3%.

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



Source: APS CR, MoF

In 2018, as in the previous five years, there was a drop in the total number of Pillar 3 participants, this time to 4.45 million people. In total, 3.49 million participants were holding their assets in transformed funds, while approximately 956,800 kept their resources in participation funds.[69] Although the number of new contracts on supplementary pension savings rose to a new record of 220,000 in 2018, i.e. 10,000 contracts more than in 2017, the overall number of participants in supplementary pension savings scheme went up by just 199,000 people. This was because 2018 was the first year in which participants aged 60 or over who had entered the supplementary pension savings scheme in the first year of its existence were able to have their assets paid out after five years of saving. The aggregate year-on-year rise in the number of persons in participation funds was therefore no longer sufficient to make up for the decline in the number of clients in transformed funds, which came to 215,000 people.

Nevertheless, the year-on-year decline in number of participants, amounting to approximately 16,000 people, was the lowest recorded at any time during the existence of supplementary pension savings scheme. The first

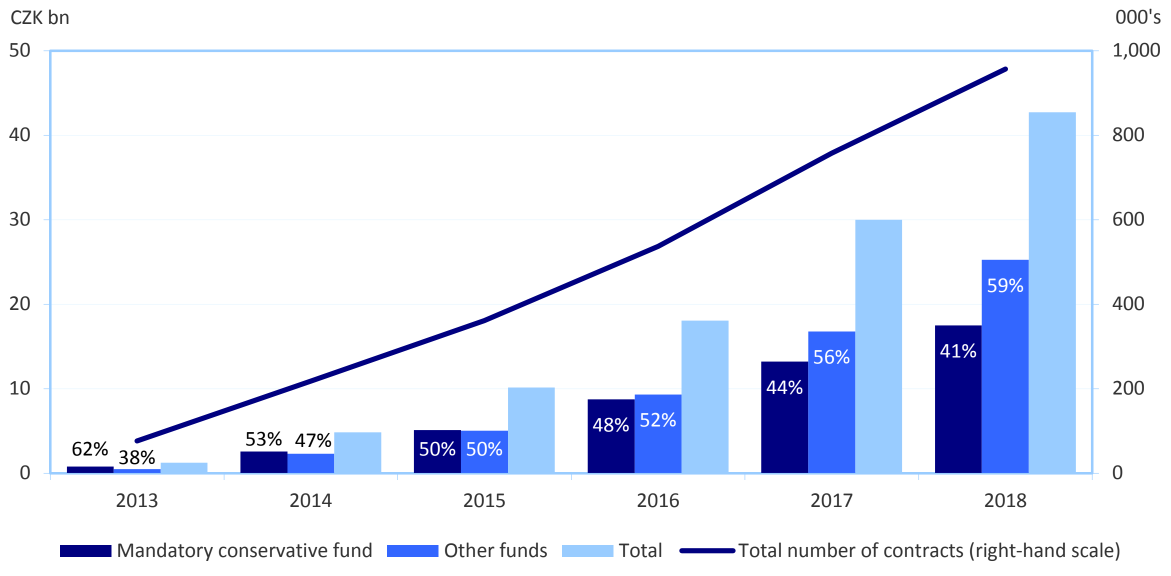
[68] The surplus represents the maximum possible absolute or relative size level of losses in relation to the assets of transformed funds that would result, in the sector as a whole, in a decline in pension management companies' capital to the level of their capital requirements.

[69] The number of participants in the participation funds is based on the data that the MoF receives on a quarterly basis from the individual pension management companies. According to the data of the APS CR and CNB, as of 31 December 2018 there were 3,47 million participants in the transformed funds and 967,000 participants in the participation funds.

– albeit very small (approximately 400 participants) – quarter-on-quarter rise in the total number of participants since the beginning of 2013 was recorded in the fourth quarter of 2018. This can be viewed in a very positive light. This development could mark a gradual reversal of the long-running downward trend in the number of participants, which is partly a consequence of the entry of a high number of new participants (growth by 569,000 people) before the major pension reform took effect, dictating that a contract could be concluded under the conditions of the previous supplementary pension insurance only until the end of November 2012. If confirmation of this turning point is occured in 2019, in future years the number of participants could gradually come close to the number of participants in supplementary pension insurance scheme at the end of 2011, of whom there were almost 4.6 million people. If economic conditions are favourable, that Pillar 3 capacity could even be exceeded.

Within the framework of supplementary pension savings, pension management companies must offer the opportunity of saving in mandatory conservative participation funds with statutory investment limits that allow such funds to invest most of their assets only in the least risk bearing assets (government bonds, treasury bills, money market instruments, etc.). However, besides these conservative funds, they may – within the broader statutory limits – offer a range of other participation funds with various investment strategies and levels of risk. As can be seen from Graph 8.2, from the perspective of the placement of participants' assets into participation funds, since 2013 there has been a progressive reduction in the share of assets held in mandatory conservative funds relative to the overall volume of assets in participation funds, which fell further in 2018 to approximately 41%. Other funds with less conservative investment strategies accounted for around 59% of total supplementary pension savings scheme assets in 2018, increasing the dominance they had acquired in 2016. The rise in assets held outside of mandatory conservative funds was linked to the gradual transformation of the age structure of participants in supplementary pension savings scheme. In 2018, there was a further rise in the share of participants under the age of 49 (for more details, see Graph 8.4), who – in view of the longer investment horizon before reaching retirement age – could be expected to prefer participation funds with more dynamic investment strategies.

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



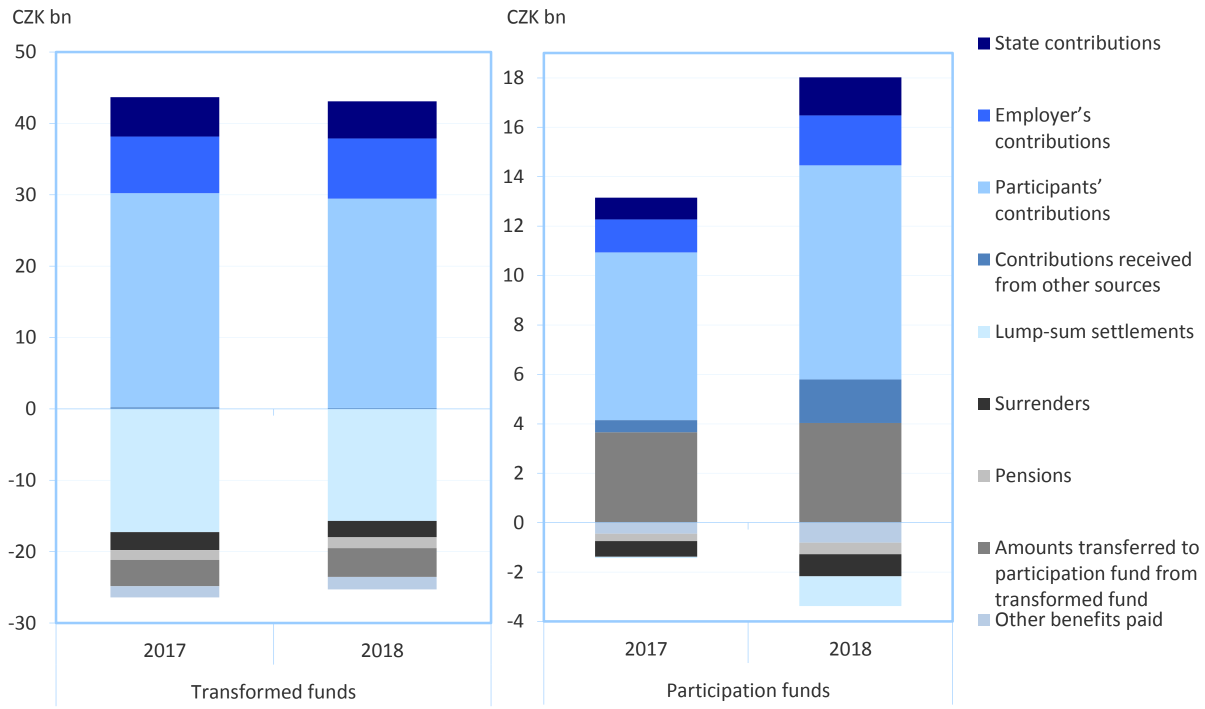
Source: APS CR, MoF calculations

The gradual decline in number of participants in supplementary pension insurance scheme due to the fact that new participants were no longer able to join was reflected in a reduction in transformed funds' annual volume of assets received and disbursed (Graph 8.3). From the perspective of incoming assets, there has been a steady decline in the annual volume of participants' contributions and state contributions to transformed funds since 2014. Employer's contributions, which have thus far risen steadily since 2016, were the only source of income to report growth in 2018. In 2018, disbursements from transformed funds were once again most commonly made (approximately 62%) in the form of a lump-sum settlement. However, in the last three years there has been a slight rise in the share of pensions in the overall annual disbursement of assets (approximately 6%). Since 2013, there has also been a significant rise in assets transferred to participation funds, which accounted for almost 16% of all assets disbursed in 2018.

The rising employer's contributions and increasing number of participants in supplementary pension savings scheme, in particular, resulted in further record growth in the incoming assets of participation funds, which rose by CZK 4.9 billion (37.1%) year on year to CZK 18.0 billion. Although the higher volume of assets transferred from transformed funds contributed somewhat to the increased volume of assets incoming in 2018, this contribution was a lot less significant than in previous years. Compared to 2017, the volume of disbursements from participation funds in 2018 was up by CZK 1.9 billion to CZK 3.4 billion, mainly as a result of the increase in disbursements taking the form of lump-sum settlements by CZK 1.1 million, which, just as with transformed funds, were the most significant method of disbursement, albeit reporting a lower share relative to the total disbursements, i.e. just under 36%.

The change in the structure of participation funds' disbursements was evidently closely linked to the age structure of participants entering the supplementary pension savings scheme in 2013; more than 50% of these participants were at least 60 years old. The major uptick in lump-sum settlements confirmed that many of these participants, considering their age, had capitalised on supplementary pension savings scheme as a relatively advantageous state-subsidised five-year investment. In this respect, up to double the growth in lump-sum disbursements can be expected in 2019 because, in 2014, 78,500 participants over the age of 60 entered into supplementary pension savings contracts, i.e. 91.6% more than in 2013.

Graph 8.3: Contributions received and benefits paid in transformed and participation funds



Source: CNB – ARAD

Despite the leap in lump-sum settlements, in 2018 there was also an increase in supplementary pension savings scheme assets disbursed in the form of pensions; these accounted for 13.8% of the total volume of disbursements. The increasing popularity of pensions in relation to participation funds may also have been associated with the growing use of "pre-retirement" pensions.[70] At the end of 2018, 3,915 people had pre-retirement pensions paid out; this was a 46.3% increase. Participants in supplementary pension savings scheme may also have been motivated to opt for the payment of a regular pension by the opportunity to select the payout of a pension for a shorter period, i.e. at least three years;[71] this option is not available with transformed funds.

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

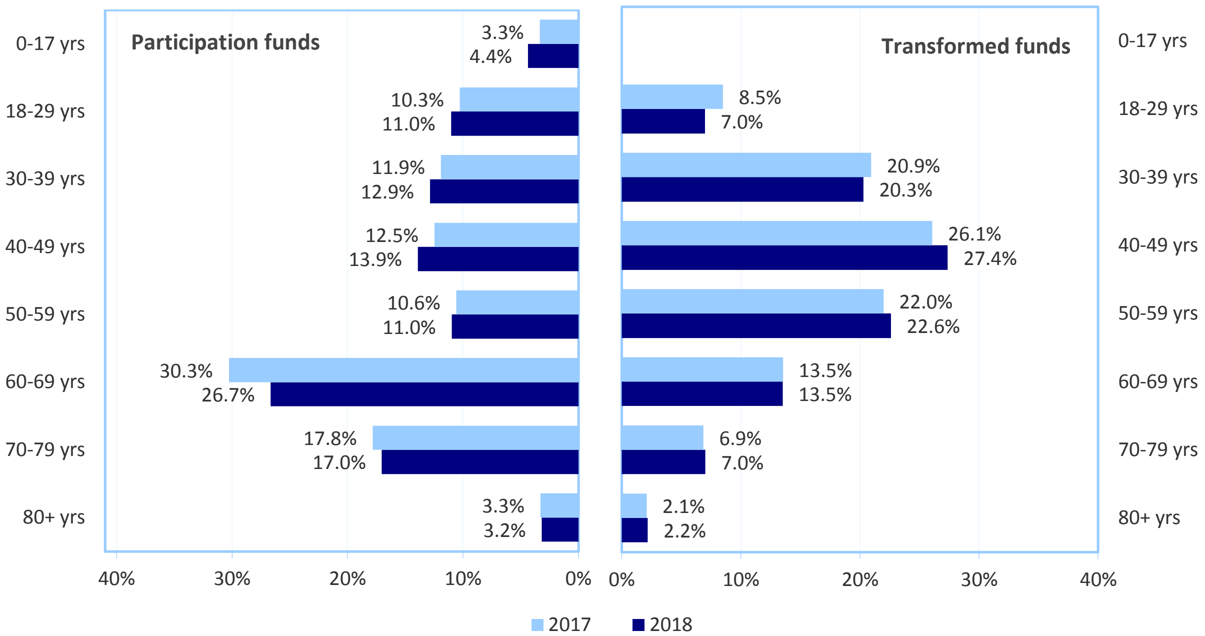
[71] The supplementary pension insurance contracts, that were made starting in 2000, offer two ways in which the savings can be paid out at the end of the savings period–a lump-sum settlement or lifetime pension payments.

Following tradition, in 2018 the age structure of Pillar 3 participants was dominated by participants aged 40-49, who – as in the previous five years – again saw their share edge up, this time to 24.5%. In contrast, participants aged 30-39 and those aged 18-29 again saw the most noticeable drop in the number of Pillar 3 participants in 2018. However, this trend is influenced somewhat by general developments within the demographic structure of the population. In terms of the number of new participants, nevertheless, both of these age categories had reported a gradual rise in previous years, and 2018 was no exception, with 36,500 new participants aged 18-29 entering into supplementary pension savings scheme; this is roughly 7,100 participants more than in the previous year. In the 30-39 age category, 29,700 new participants entered into the supplementary pension savings scheme, up 5,200 on 2017. Altogether, participants aged 18-39 accounted for 30% of new participants, tantamount to a year-on-year increase by 4.4 pp.

In participation funds, 2018 was the first year since their establishment that participants over 60 years of age had not predominated; the share of these participants fell to 46.9% (Graph 8.4). This decline compared to 2017 was caused by a plunge in the number of new participants aged over 60 by 12,700 to 82,900 persons (37.6% of new participants in 2018) and also, probably, by the fact that many participants in this age bracket, bearing in mind their age, took up the option of withdrawing their savings after five years.

2018 was the third year in which minors could also participate in the supplementary pension savings scheme. In 2018, in the category of participants up to 17 there was an increase in the number of new participants by 3,500 to 17,700 and, just as in the previous two years, approximately two thirds of all new contracts were for children aged up to 9 years old. Here, a significant motivating factor has turned out to be the option for participants to be paid a partial lump sum upon reaching 18 years of age. In this respect, they may receive up to one third of the value of their assets (excluding any employer's contributions and after deducting any state contributions), provided that the savings have been made for a period of at least 10 years. Overall, there were 41,800 minor participants registered in the supplementary pension savings scheme at the end of 2018 (accounting for 4.4% of participants in supplementary pension savings scheme).

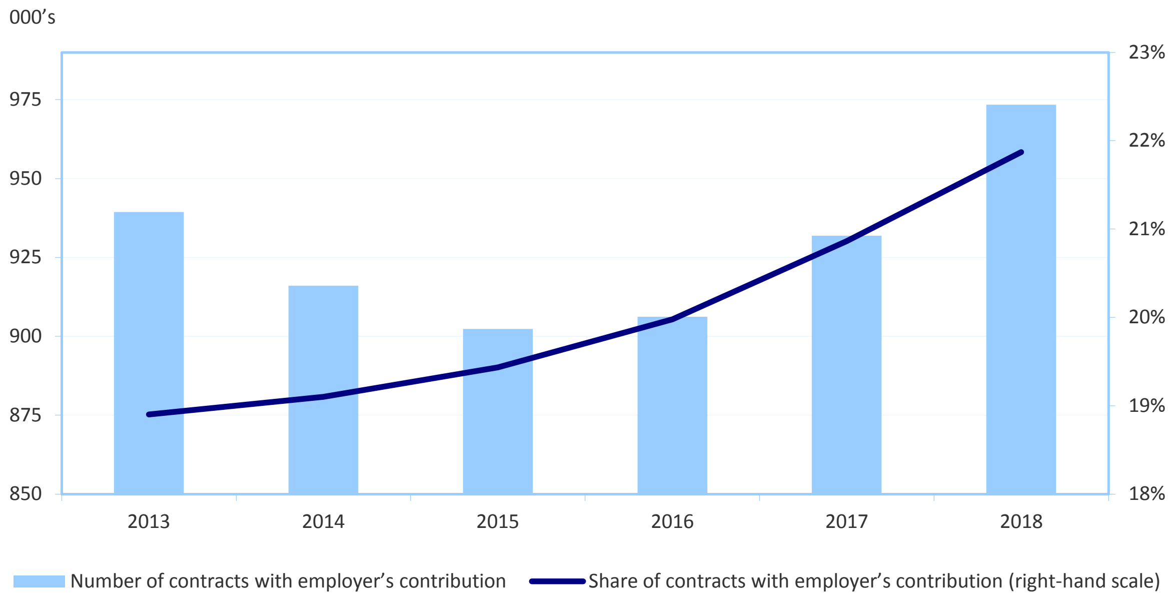
Graph 8.4: Age structure of participants in participation and transformed funds



Source: MoF

The number of participants in receipt of employer's contributions to supplementary pension insurance or supplementary pension savings schemes rose by 4.4% year on year in 2018 to 973,400. This was the highest relative and absolute growth since 2008. As is evident from Graph 8.5, the leap in the number of participants benefiting from employer's contributions, which rose by 41,500, was also reflected in their higher share in the total number of participants by 1.0 pp to 21.9%. As a result, the share of participants receiving an employer's contribution rose to the pre-crisis level from 2007. In 2019, despite the forecast weakening of economic growth, the ongoing tight conditions on the labour market can be expected to force some employers, in their recruitment drives, to offer a benefit in the form of a contribution to supplementary pension insurance or supplementary pension savings schemes. Consequently, the share of participants with an employer's contribution in the total number of Pillar 3 participants could rise further, although this increase is likely to be at a lower rate.

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



Source: MoF

Participant's and State Contributions

As is evident from Table 8.2, the average monthly participant's contribution to supplementary pension insurance scheme in 2018 went up by CZK 56 to CZK 680. This was the biggest rise since 2013, when there was a leaping increase in the contribution due to the change in the conditions for the disbursement of the state contribution and the provision of a tax concession[72] as part of the major reform of the Pillar 3. Within the scope of supplementary pension savings scheme, the average monthly participant's contribution went up by a lower amount compared to 2017, namely by CZK 14 to CZK 790. In tandem with participant's contribution, there was also an increase in the average monthly state contribution, which – for supplementary pension insurance scheme– also happened to be the highest recorded during the reporting period.

Looking at the average participant's contribution in each age category of participants, the structure in 2018 partly reflects the life-cycle hypothesis in economic theories regarding the consumption function.[73] Contribution gradually increased as the retirement age approached, with participants aged 55-64 saving an average of CZK 1,029 per month. Conversely, among participants aged 18-39 the average contribution was a mere CZK 402, and as such even fell short of the average contribution made for minor participants, i.e. CZK 433. The average contribution made by participants who had reached retirement age (65+) fell when compared to that of persons aged around 60, but even so was a relatively high figure of almost CZK 900. It would appear, then, that wealthier people of retirement age, in particular, were availing themselves of supplementary pension insurance or supplementary pension savings schemes in order to make further savings in a bid to maximise the amount of the state contribution they received.

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

[73] According to the life-cycle hypothesis, economic entities plan their consumption and savings for an extended period of time in advance (their whole life) and in doing so strive to maintain consumption that is more or less balanced over the course of their life. Young people consume more than they earn, and loan repayments (typically on mortgages) and other necessary expenditure prevent them from saving higher amounts. Middle-aged people, because of their increasing income, tend to save more and then consume their savings in retirement.

Table 8.2: Average monthly contributions in transformed funds (TF) and participation funds (PF)

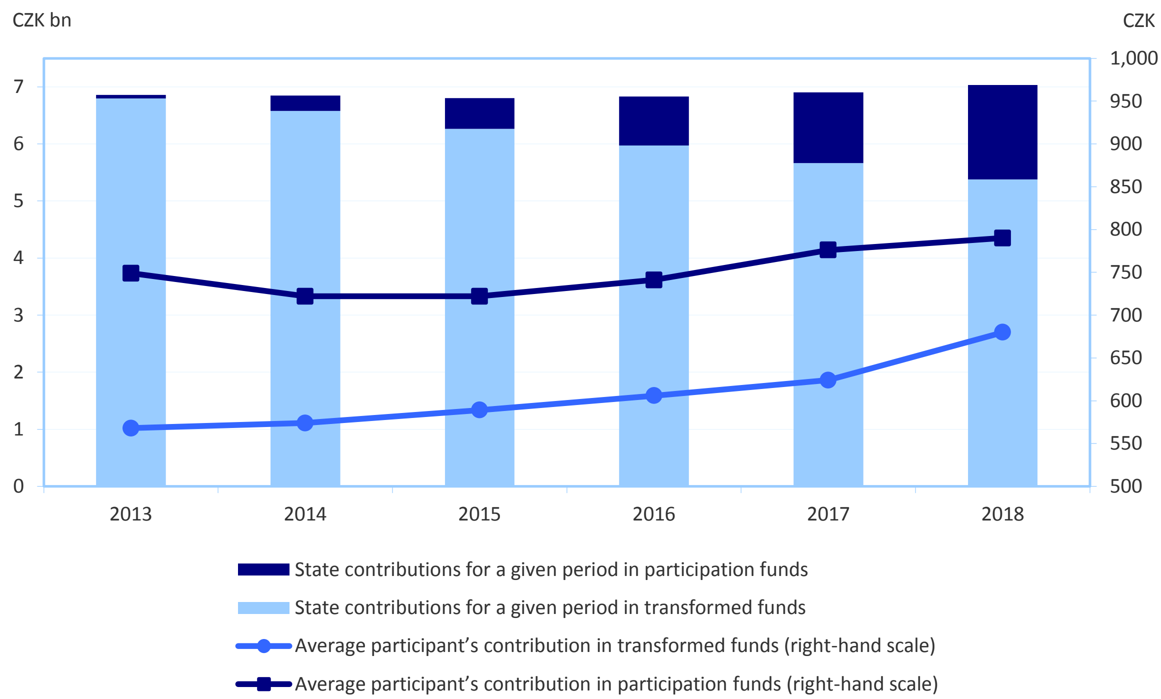
	Average CZK/month	2013	2014	2015	2016	2017	2018	Year-on-year change	
								Abs.	(%)
TF	Participant's contribution	568	574	589	606	624	680	56	9.0
	State contribution	117	119	122	124	120	128	8	6.7
	Employer's contribution	705	735	741	770	837	877	40	4.8
PF	Participant's contribution	749	722	722	741	776	790	14	1.8
	State contribution	143	148	152	156	159	160	1	0.6
	Employer's contribution	905	859	857	846	885	973	88	9.9

Source: APS CR, MoF, MoF calculations

With supplementary pension savings scheme, there was another record rise in the average monthly contribution made by employers in 2018, which went up by CZK 88 to CZK 973; this was the highest contribution made in the history of participation funds. With supplementary pension insurance scheme, although the employer's contribution rose by a lesser amount than in 2017, the increase by CZK 40 to CZK 877 was still the second highest in the reporting period. As with the number of participants receiving an employer's contribution, the amount of contributions was also affected by the situation on the labour market. The greater momentum of the growth in contributions compared to 2017 was probably also fuelled by the increase in the tax concession limit for employer's contributions to supplementary pension insurance and supplementary pension savings schemes from CZK 30,000 to CZK 50,000.

Since 2016, the higher growth of the average monthly state contribution per participant, combined with the gentler decline in the overall number of participants, has gradually increased the growth rate of the overall direct state assistance disbursed in the form of contributions. In 2018, direct state assistance in the sector of supplementary pension insurance and supplementary pension savings amounted to CZK 7.0 billion (Graph 8.6), having grown year on year by CZK 134 million (1.9%). Of the total volume of state contributions paid for 2018, CZK 1.7 billion was provided to participants in supplementary pension savings scheme.

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



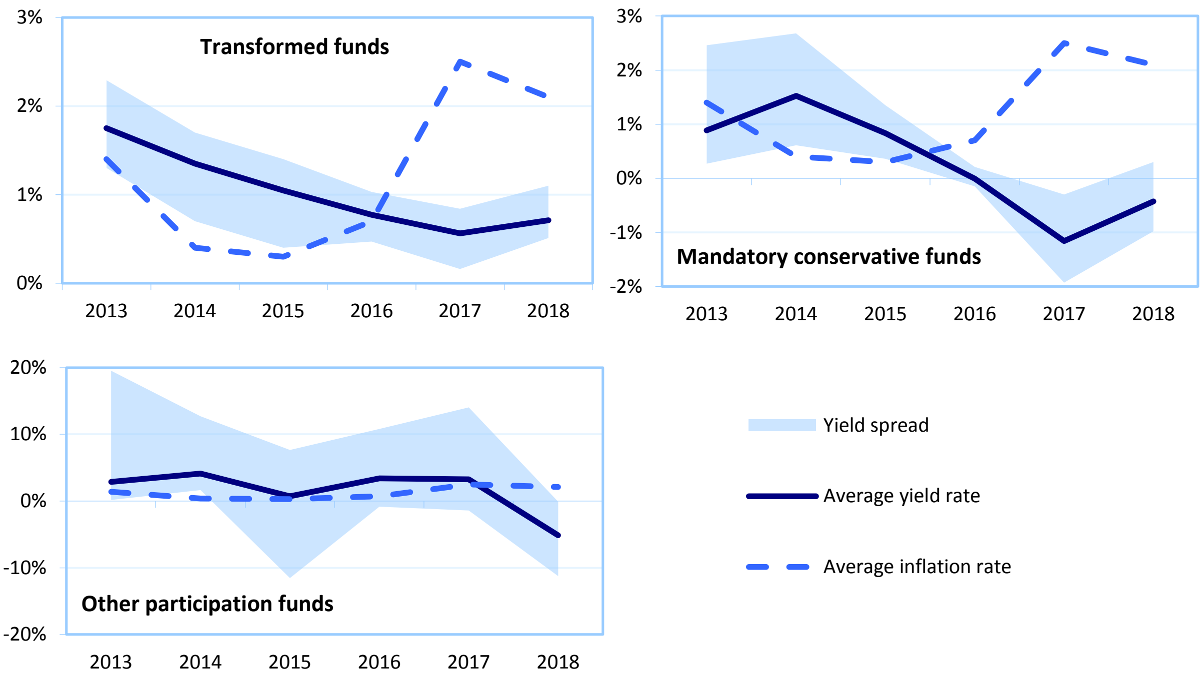
Source: MoF

Profitability and Allocation of Pension Funds' Assets

However, state assistance in the form of contributions accounts for only part of the appreciation of assets deposited by participants. The payout of a share in the annual profits of pension funds may also push up the value of these assets further. In 2018, as in the previous five years, the post-tax profits of participation and transformed funds fell again, amounting to just under CZK 1.9 billion, i.e. CZK 0.7 billion less than in the previous year. A positive result was achieved only thanks to the profit made by transformed funds, which actually grew year on year by 25% to CZK 2.9 billion. In contrast, participation funds reported an overall loss (CZK 1.1 billion) for the first time in their existence.

In 2018, events on financial markets, characterised by a slump in share and bond prices in the fourth quarter, mainly affected participation funds pursuing a dynamic and balanced strategy. None of these funds managed to increase the value of participants' savings. The yields of participation funds pursuing dynamic investment strategies that rely on a higher proportion of equity securities ranged from -6.1 to -11.2% p.a. in 2018. Under balanced strategies, where there is a lower proportion of equity securities and a higher proportion of bonds, participation funds reported slightly better – but still negative – appreciation ranging from -3.1 to -6.4 p.a. As Graph 8.7 shows, in 2018 the average yield rate of participation funds without mandatory conservative funds was below the average annual inflation rate (2.1%) for the first time.

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

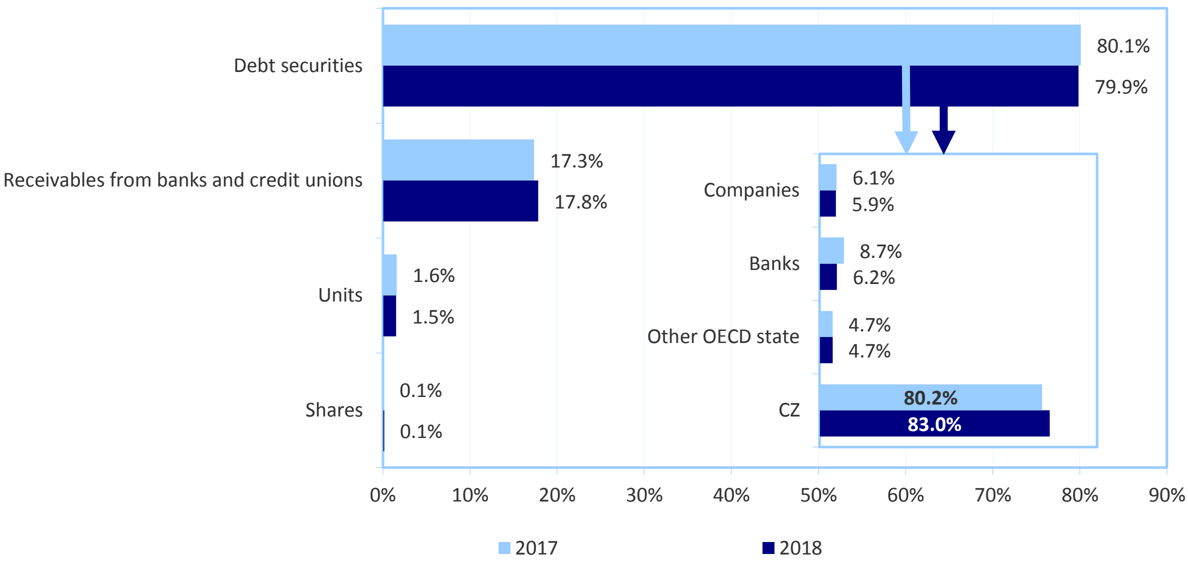


Source: APS CR, MoF calculations

From a yield perspective, mandatory conservative funds did better than in 2017, reporting appreciation in 2018 of between -1.0 and 0.3% p.a.; two funds made a profit. The appreciation of participants' assets in transformed funds in 2018 ranged from 0.5 to 1.1% p.a.; these results were slightly better than in the previous year. Although 2018 was a poor year for the yields of pension funds, the vast majority of them had still reported a profit since their formation, and, unless there is any major slump in bond and share prices, the positive developments witnessed on the capital markets at the beginning of 2019 could be reflected positively in the full-year return on assets held in pension funds.

Transformed funds' assets climbed by 2.9% to CZK 425.7 billion in 2018. The investment portfolio of transformed funds (Graph 8.8) has retained a very conservative nature, which is a consequence of the regulatory framework. No major changes were made to the asset structure in 2018. Within the framework of debt securities, government bonds issued by the Czech Republic rose slightly in stature to the detriment of bonds issued by banking institutions.

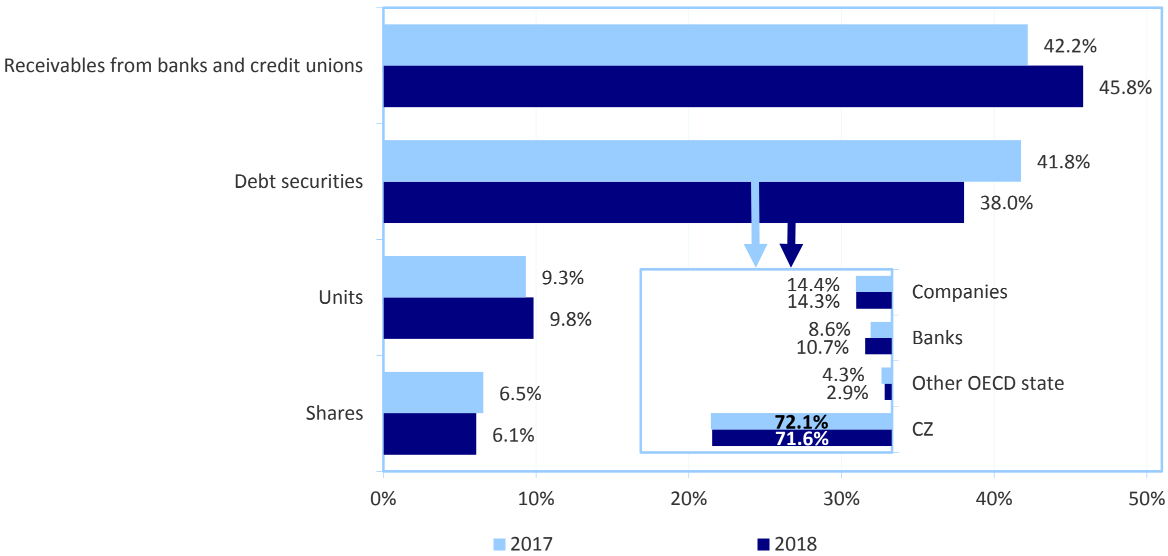
Graph 8.8: Allocation of transformed funds' assets and structure of debt securities according to their issuers



Source: CNB – ARAD, MoF calculations

At the end of 2018, participation funds' total assets came to CZK 44.6 billion, an increase by almost CZK 13 billion. This was slightly lower growth than in the previous year. In the investment portfolio of participation funds (Graph 8.9), in 2018 there was another increase in the share of deposits made at credit institutions at the expense of debt securities. The dismal developments on financial markets were not a good time for a change in asset structure in terms of switching resources to investment instruments, so the proportion of shares and units in assets remained virtually unchanged in 2018.

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



Source: CNB – ARAD, MoF calculations

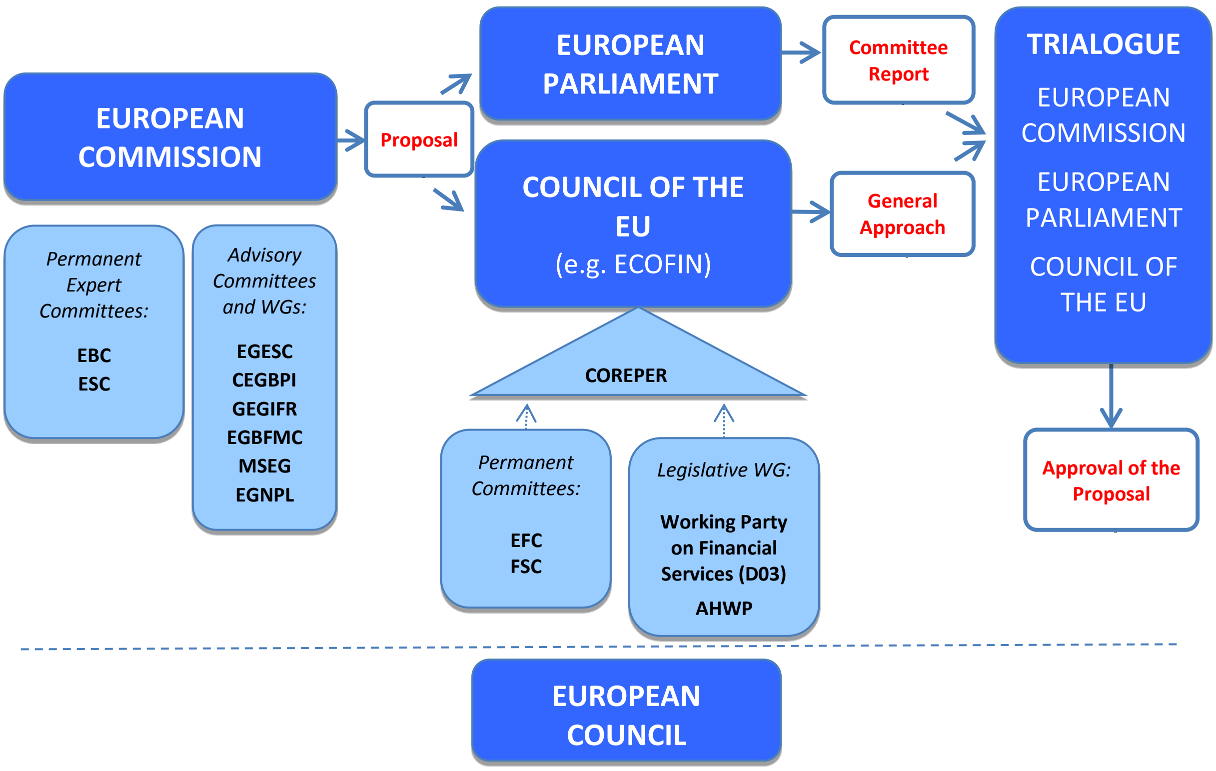
Some of the more detailed information about the supplementary pension insurance and supplementary pension savings sector, which is regularly published on the MoF website (www.mfcr.cz), is included in Tables A2.3 and A2.4 in Appendix 2.

9 FINANCIAL MARKET ACTIVITIES OF THE MOF AND FINANCIAL MARKET LEGISLATION

9.1 Ministry of Finance's Activities on the European Level

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

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



Source: Prepared internally

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

Commission

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

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

Permanent Expert Committees

European Banking Committee (EBC)
The ECB acts as the Commission's advisory body during the preparation of the EU implementing acts in the banking sector. In 2018 this committee did not meet, two silent written procedure votes took place on a draft implementing act concerning the extension of transitional periods in relation to the application of capital requirements for exposures to central counterparties. First, since the process of the authorisation of existing central counterparties as qualified central counterparties had not yet been completed, an extension of the transitional period to 15 June 2019 was approved. Than, in February 2019, silent written procedure was held on a draft of the Commission implementing decision concerning the list of third countries whose supervision and regulation requirements carried equal weight for the purposes of access to exposures in accordance with the CRR.[74] Argentina was nominated for the list of such third countries.

European Securities Committee (ESC)
The ESC is a committee of representatives of Member States that has the right to vote on implementing acts of the Commission within regulatory procedure with scrutiny (this does not apply to technical standards, which the Commission only formally approves). In 2018, to this end the ESC met to discuss issues related to market infrastructure in the context of Brexit and the handling of the financial stability of the EU and individual Member States in the event of the UK's leaving the EU without a deal (see below).

Other selected European Commission platforms

Expert Group of the European Securities Committee (EGESC)
EGESC meetings are often held on the same day as ESC meetings if it is necessary for the ESC to meet in person (see above). The EGESC met three times in 2018. Two meetings, in June and December, focused on market infrastructure. The first meeting discussed the scope of the EMIR[75] in relation to government and multinational entities. The second meeting discussed market infrastructure in the context of Brexit. To cover the eventuality

[74] Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/2012.

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

that the UK would leave the EU without a deal, discussions were held on the drafts of the Commission implementing decisions determining, for a limited period of time, that the regulatory framework applicable to central counterparties and the central securities depository of the United Kingdom is equivalent in accordance with the EMIR and CSDR.[76] In September, a meeting was held where the Commission presented its *Investment Saving Accounts* and *Employee Share Ownership*. Delegated acts relating to the Prospectus Regulation were also addressed.[77]

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

The Commission uses the CEGBPI in its banking section, or bank regulation and supervision, inter alia for the consultation of forthcoming delegated acts based on the directive (CRD IV[78]) and the regulation on prudential requirements for credit institutions and investment firms (CRR). In 2018, the group's banking section met only once, in March. At the meeting, the Commission provided information on the basic idea for the process of implementing revised Basel standards, approved in Basel in December 2017. In 2018, there was also silent procedure on the draft of a Commission delegated act that was subsequently published in the Journal.[79]

The payment services and payments section did not meet in 2018.

The group's insurance section met in May and September 2018 and discussed the draft of an amendment to a delegated act (2015/35) to supplement the Solvency II Directive. This amendment covers the modification of the method used to calculate the solvency capital requirement by means of a standard formula. The Commission also provided information on the forthcoming review of the Solvency II Directive planned for 2020. It also shed light on developments relating to IFRS matters, regulation concerning sustainable financing, intentions regarding the regulation of recovery plans and the handling of the situation faced by insurance companies in difficulties, and developments in the global capital standard (ICS) for the supervision of insurance groups with international operations.

Government Expert Group on the Interchange Fee Regulation (GEGIFR)
This expert group was set up in 2015 in connection with the implementation of the Interchange Fee Regulation[80] in the legal systems of Member States. The group focuses in particular on discussing issues that crop up in the implementation process. The meetings are also an opportunity to present Member States' observations and experience, and to discuss cooperation between Member States. In 2018, the group met once, in June. A subsequent meeting was held in February 2019.

Expert Group on Barriers to Free Movement of Capital (EGBFMC)
This expert group was established in December 2014 under the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). Its aim was to identify possible barriers to the free movement of capital across all Member States. If the existing barriers to free movement of capital were identified, the group assessed whether such barriers could be removed through harmonisation, in which case it would propose to the Commission to refer the issue to the appropriate group. If these barriers were of a national character, it was up to Member States to undertake to eliminate such an obstacle. The last meeting was held in February 2019, and the Commission then decided to dissolve the group because the relevant themes of discussion had been exhausted.

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

[77] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

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

[79] Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018 amending Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions.

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

Member States expert group on sustainable finance (MSEG)

The Expert Group on Sustainable Finance met for the first time in June 2018. Subsequent meetings were held approximately three-month intervals. The aim of the group is to provide information to Member States' representatives (the Czech Republic has one representative from the MoF and another one from the Ministry of the Environment) primarily on the activities of the Technical Expert Group (TEG). The principal task of TEG is to work on the creation of a framework to facilitate sustainable investment, known as taxonomy, with a goal to harmonise criteria according to which whether an economic activity could be qualified as sustainable, taking into account current market practices, and also to develop a "green bond standard", e.g. methods to measure climatic impacts for purposes of non-financial reporting, and a methodology for low-carbon benchmarks.

Expert Group on Non-performing loans (EGNPL)

The EGNPL was set up in 2017 to further discuss the proposed approaches to reducing the current high NPL levels in some EU Member States and preventing their resurgence in the future, following the Council's adoption of an action plan to tackle NPLs in July 2017. The action plan on NPLs, which sets out draft procedures for individual European institutions and a timetable for their implementation, encompasses a number of areas: improvements in financial market surveillance, the development of the liquidity of a secondary market for NPLs, the recovery of receivables, including insolvency proceedings, and restructuring of the EU banking sector.

In 2018, the expert group met only once, in February, where its members were informed of the progress made in preparations for the Commission's legislative proposals – a directive on credit servicers, credit purchasers and the recovery of collateral, and a draft directive amending the CRR as regards minimum loss coverage for non-performing exposures. No other meetings of the expert group were held because both proposals were then consulted by the Council's working parties in the standard legislative procedure.

Council of the European Union / ECOFIN

The Council of the European Union (informally referred to as the Council of the EU or the Council) brings together the ministers from the Member States, who meet and adopt legislative acts and co-ordinate the functioning of individual policies. The key tasks performed by the Council of the EU include approving the EU's legislation, co-ordinating the main direction of the economic policies of the Member States, signing agreements between the EU and other countries, approving the annual budget, developing the EU's foreign and defence policies, and co-ordinating the co-operation between the judicial organs and the police authorities in the Member States. The presidency of the ECOFIN Council rotates every six months according to a pre-approved sequence (the Czech Republic held the presidency during the first half of 2009, and it will held the presidency again in the second half of 2022; in 2018, the presidency was held by Bulgaria and Austria, in the first half of 2019 by Romania). The Council of the EU does not have any permanent members, however, there is an exception, the Foreign Affairs Council (FAC), chaired by the High Representative of the Union for Foreign Affairs and Security Policy. This office is currently held by Federica Mogherini. Each of the Member States sends its representative (minister) responsible for a particular area of policy to each of the meetings of the Council of the EU. The Council of the EU thus meets in various compositions (there are ten in total) according to the area to which the discussed materials belong.

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

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

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

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

In 2018, the ECOFIN configuration of the Council approved the General Approach documents for the Commission's proposals that were discussed by the Working Party on Financial Services. Other tasks included the discussion and provision of information on agendas associated with the banking union, the capital markets union, non-performing loans, a European system for the insurance of deposits, and a package to mitigate risks in the banking sector.

At individual meetings, the ECOFIN Council:

- discussed the further deepening of the economic and currency union, including the completion of the banking union, and issues related to non-performing loans; it decided not to impede the adoption of the Commission delegated relegation supplementing the Regulation on European long-term investment funds[81] (23 January 2018);
- discussed issues related to sustainable finances and called on the Commission, in the preparation of its action plan, to take into account the ministers' discussions; it issued a recommendation on the nomination of the vice-president of the European Central Bank; it decided not to impede the adoption of the Commission delegated regulation supplementing the Insurance Distribution Directive[82] (20 February 2018);
- was informed of the Commission's package of legislative proposals for the capital markets union and of the progress made in the implementation of financial market legislation (13 March 2018);
- approved the general approach to the package of legislative proposals focusing on the mitigation of risks in the banking sector and called on the Bulgarian Presidency to initiate trilogue meetings with the European Parliament regarding the revision of the CRR, CRD, BRRD and SRMR (25 May 2018);
- acknowledged a report on progress made in consultations on the proposal for a European deposit insurance scheme, and was informed of progress made in consultations on the directive on preventive restructuring and second chances (22 June 2018);
- was informed by the Austrian Presidency of the top priorities for the forthcoming half-year, including the completion of the banking union and the development of the capital markets union; it decided not to impede the adoption of the Commission delegated regulation supplementing the Solvency II Directive[83] (13 July 2018);
- was informed of the Commission's proposal to reinforce the role of the European Banking Authority in the tackling of money laundering and terrorist financing; it decided not to impede the adoption of Commission delegated regulations supplementing (i) the Directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities and the Alternative Investment Fund Managers Directive,[84] and (ii) the Regulation on prudential requirements for credit institutions and investment firms (2 October 2018);
- was informed by the Commission of progress in the implementation of financial services legislation (6 November 2018);

[81] Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds.
[82] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast).
[83] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).
[84] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 and Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

- approved the outcome of negotiations with the European Parliament on the package of legislative proposals focusing on the mitigation of risks in the banking sector; it acknowledged progress made in the consultation of the proposal for a European deposit insurance scheme; it was informed by the Commission of progress made in the implementation of the Council's action plan of July 2017 on non-performing loans in the banking sector (4 December 2018).

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

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

In 2018, the financial market themes discussed at these committee meetings included the banking union and the capital markets union, developments on financial markets, crypto – currencies, securities secured with government bonds, sustainable finance, FinTech, the stress testing of banks and insurance companies, the fight against money laundering and terrorist financing, and non-performing loans.

Working Party on Financial Services (D03)

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

In 2018, talks were held on a package of legislative proposals to mitigate risks in the banking sector, a package of proposals revising the European System of Financial Supervision, legislative proposals on sustainable finances, non-performing loans, covered bonds, a pan-European Personal Pension Product, the revision of the capital requirements and supervision of investment firms, the cross-border distribution of collective investment funds, the supervision of central counterparties, crowdfunding, cross-border payments, the market for the growth of small and medium-sized enterprises, civil motor third-party liability insurance, and amendments to the regulation governing OTC derivatives, one of which is the simplification of clearing roles and arrangements for the greater adequacy thereof, and another changes the concept for CCP supervision (EMIR REFIT and EMIR CCP Supervision).

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

The Ad Hoc Working Party on Strengthening the Banking Union, whose first meeting took place in January 2016, was established to discuss the Commission's proposal to establish EDIS and Commission's communication on the completion of the banking union, dealing in particular with the mitigation of risks posed by financial systems. During 2018, the working group continued to discuss the Commission's proposals mentioned above, and the negotiations are continuing in 2019.

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

European Council

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

At its meetings in 2018, the EC discussed matters such as the capital markets union, the banking union and a European deposit insurance scheme. The inclusive-format European summit in June 2018 highlighted the need to start working on a schedule for the commencement of political negotiations on a European deposit insurance scheme while respecting all components of the 2016 plan. It was also decided that the European Stability Mechanism would provide a common backstop to the Single Resolution Fund. In this respect, a reference framework was approved for the Single Resolution Fund's common backstop, setting out how the backstop would be put into operation and introduced in good time if sufficient progress is made in the mitigation of risks. This will be assessed in 2020. The European summit also called for work on the banking union to be speeded up and for ambitious progress to be made by spring 2019.

In 2018, the EC also focused on the United Kingdom's departure from the EU, tax issues in the context of the digital economy, measures to reduce illegal migration, the reinforcement of European defence by increasing investments in defence and the development of capacities and operational preparedness, and the European pillar of social rights.

9.2 Ministry of Finance's Activities on an International Level

OECD

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

Some of the OECD's activities transcend the national boundaries of its member states. The International Network on Financial Education (INFE) is only one example. It has more than 120 countries.

Committee for Financial Markets (CFM)

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

A very specific characteristic of the committee's activities is the regular meetings with representatives from the private financial sector, at which important topics of common interest to both the public sector and the private sector are discussed, particularly development trends in the global financial market. As usual, topics discussed at the two meetings in 2018 included developments on financial markets. The meetings also addressed innovations on the financial markets (FinTech, digitalisation) and certain aspects of the bond markets. The CFM also discussed common themes of market development, such as how FinTech was advancing and sustainability issues, at its April meeting in 2019.

Advisory Task Force on the OECD Codes of Liberalisation (ATFC)
CFM meetings are usually preceded by meetings of the Advisory Task Force on the OECD Codes of Liberalisation. The main attendees of task force meetings include some of the members of the CFM, the IPPC, and the OECD Investment Committee from various countries. The discussions in 2018 again focused on revisiting the OECD Codes of Liberalisation, their procedural functioning and other technical aspects.

Task Force on Financial Consumer Protection (TFFCP)
The objective of the OECD TFFCP is to prepare international standards for consumer protection on the financial market, particularly as regards the supervisory architecture, the rules for dealing with clients, the resolution of consumer disputes, financial education, and financial inclusion. These high-level principles are reflected, to a considerable degree, by examples of regulatory practices already functioning in the EU. However, the process also acts retroactively as a model for fledgling regulation (particularly for the OECD countries that are not EU Member States). In 2018, this task force prepared a revised version of the OECD's 1977 Recommendation on consumer credit and a report on high-cost short-term consumer credit. It also addressed issues of digitalisation in the provision of financial services, the accessibility of financial services for the ageing population, and cryptocurrency matters.

Insurance and Private Pensions Committee (IPPC)
The IPPC is the main OECD body addressing insurance market issues, the supervision of the insurance sector, and private pension issues (i.e. non-public pension security schemes). Within the IPPC, the Working Party for Private Pensions (WPPP) deals specifically with private pension issues. The IPPC strives for international cooperation, coordination, and a higher level of compatibility with regard to the regulation of the aforementioned sectors of the financial market. The committee comprises representatives from the finance ministries and those state administration authorities who are responsible for the insurance sector and private pensions. Meetings are also attended by representatives of the supervisory bodies of OECD member states. Open meetings are also attended by market or trade union representatives.

In 2018, matters discussed by the committee included artificial intelligence and its application in the insurance industry. By reference to data collected by the OECD, the committee periodically monitors global trends on the insurance market. Bearing in mind that, following the introduction of the Solvency II system, EU Member States have different definitions for some of the data collected, the committee addressed the problems associated with harmonising EU and OECD reporting and discussed the statistics sub-party created for this purpose. It also covered a project focusing on mitigating the risks of longevity, the role played by reinsurance when reinforcing risk management for property insurance, and the insurance of cybernetic risks.

Working Party for Private Pensions (WPPP)
The WPPP addresses similar topics as the IPPC, but places a greater emphasis on the sector of pension funds, their asset managers, and the participants in private pension schemes (both individual and employee schemes). In 2018, discussions continued on how to configure financial incentivisation in order to encourage people to save for their old age. Other topics discussed included the configuring of the framework for the management and investment policy of large centralised (and state) funds, the costs of the accumulation stage of pension schemes, the overall role played by supplementary pension schemes, the role of fund-based pension schemes in relation to "non-standard" forms of employment/gainful activity, and the current reforms and changes planned in this area by OECD members.

International Network on Financial Education (INFE)
The International Network on Financial Education is a platform comprising the institutions of not only the OECD member states (as a rule, the finance ministries and central banks). Its role is to create global strategy documents. The network's website[85] provides a gateway to information about financial education and the data, resources, research, and reports. The MoF has been an INFE member and national coordinator since the network's establishment in 2008.

In 2018, all financial education standards, recommendations and tools issued since the establishment of the INFE were coordinated and updated. Financial literacy competencies were created for micro, small and medium-sized enterprises, and a report was drawn up on short-term lending.

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

The INFE consistently deals with the financial education and protection of consumers on financial market in the digital age. Items on the agenda in the upcoming period include financial education in the workplace and the ramifications of evolving demographic conditions. International measurements of financial literacy among the adult population around the world will be carried out at the turn of 2020.

G20

The G20 brings together the finance ministers and the central bank governors from nineteen countries[86] and the EU (which is represented by the presiding member state and the ECB). The G20 was established in 1999 as a forum in which the leading world economies are able to exchange their opinions regarding key issues related to the global economy. The Czech Republic is not a member of the G20 but is de facto represented by the representative for the European Union.

Argentina held the G20 presidency in 2018. The summit was hosted by Buenos Aires on 30 November and 1 December 2018. Here, the G20's leading representatives:

- reaffirmed their commitment to the full, timely and consistent implementation of reforms approved in relation to financial markets;
- stated that they would continue to monitor and, where necessary, manage risks emerging in the financial system, and that they were expecting progress in the pursuit of resilient non-bank financial intermediation;
- agreed to redouble their efforts in a bid to ensure that the potential benefits of technology in the financial sector could be harnessed while mitigating the risks;
- decided that they would regulate cryptoassets in connection with money laundering and terrorist financing in accordance with FATF of standards and that, where necessary, they would consider the need for any further response.

9.3 European Financial Market Legislation

European Deposit Insurance Scheme (EDIS)

In November 2015, the Commission published a proposal for a regulation supplementing the Single Resolution Mechanism Regulation (SRMR)[87] with a view to establishing a European Deposit Insurance Scheme (EDIS). The system is intended to complement existing banking union pillars with the aim of increasing depositor protection, consolidating financial stability and reducing the link between banks and states at national level. The proposal should apply to deposit guarantee schemes in Member States participating in the banking union and to credit institutions associated with them. Based on the Council conclusions of 17 June 2016, work on EDIS is continuing at a purely technical level.

In the first half of 2018, the Bulgarian presidency focused on a discussion of two alternatives to the original EDIS model: the reinsurance model, based on ideas expressed by the Commission in its communication of October 2017, and the model of mandatory lending between national Deposit Guarantee Schemes (DGS) in keeping with a non-paper drawn up by the Bulgarian presidency. Member States assessed the potential pros and cons of both models. However, support for each approach differed among them and, overall, no consensus was reached on the suitability of the technical characteristics of either of the models pitched.

In the second half of 2018, the Austrian presidency came up with another alternative model combining the two previous alternative proposals for the form be taken by the EDIS. The aim was to reach a compromise solution to reservations that had been raised by Member States in relation to the two previous proposals. Nevertheless, the Member States were still unable to reach a common position. Some States agreed to continue discussing the hybrid model, but only if this would mean a transitional stage on the way to a fully fledged European deposit insurance scheme guaranteeing full coverage of losses from a central fund. The States wanted to discuss solutions based on the simple repayable provision of liquidity lacking by the DGS for the immediate payout of compensation for deposits.

86 The member states of the G20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the USA.

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

Other EDIS-related areas discussed included risk-weighted contributions to the EDIS, aspects related to the transition between EDIS stages, the preferential treatment of depositors and DGS, and the impact of the EDIS on the internal market and Member State outside the euro area.

EDIS-related issues are discussed by a newly formed high-level working group (HLWG) mandated to plan further steps in the completion of the banking union and to block political debate on the EDIS. This group is to report back to the Eurogroup by June 2019.

Risk Reduction in the Banking Sector (RRM)
In November 2016, the Commission presented a package of five legislative proposals aimed at mitigating risks and strengthening the banking sector in the EU. The package includes a revision of the CRD IV, the CRR, the Bank Recovery and Resolution Directive (BRRD)[88] and the SRMR.

Within the scope of the CRR revision, selected themes (transitional arrangements for mitigating the impact of the introduction of IFRS 9 accounting standards on regulatory capital, and transitional provisions related to rules on large exposures) were removed from the package, discussed in accelerated procedure, and then approved by means of a regulation on transitional measures,[89] which took effect on 1 January 2018. In the BRRD revision process, in order to facilitate the more efficient depreciation of liabilities in the eventuality of crisis management, a directive on the ranking of unsecured debt instruments in the insolvency hierarchy[90] was debated separately in accelerated procedure and subsequently approved; it was published in the Journal in December 2017.

Other changes to prudential regulatory rules in the CRD and CRR concern the modification of Pillar 2 rules (e.g. prevention of using Pillar 2 tools for macro-prudential purposes), proportionality (e.g. in reporting, disclosures by institutions, or remuneration), the introduction of an intermediary institution for two or more affiliated institutions in the EU that are part of a group with a third-country parent company, the introduction of a binding leverage ratio and a binding liquidity requirement for net stable funding, and the projection of certain changes introduced by the Basel Committee on Banking Supervision.

In the revision of the BRRD (and, by analogy, the revision of the SRMR), the main changes centre on a conceptual adjustment of the current rules on the minimum requirement for own funds and eligible liabilities (MREL) in relation to the implementation of total loss absorbing capacity (TLAC) rules, as introduced by the Financial Stability Board. Other changes include the harmonisation of the debt suspension facility (moratorium tool) and the adjustment of the provisions regarding the contractual recognition of depreciation or the conversion of eligible liabilities.

Changes that were not part of the aforementioned accelerated procedures were discussed in 2018 by the Council Working Party on Financial Services. The package was approved by a plenary sitting of the European Parliament in April 2019; this was followed by the Council's approval in May 2019. Publication in the Journal is envisaged for June 2019.

Relocation of the European Banking Authority (EBA)
In the wake of the United Kingdom's decision, under Article 50 of the EU Treaty, to leave the EU, European institutions based in the UK are being moved to the EU. In November 2017, at a General Affairs Council session the 27 remaining Member States chose Paris as the new seat of the EBA. Member States agreed in advance that they would respect the outcome of the vote. In this context, the Commission submitted a proposal for a regulation revising Article 7 of the Regulation on seat of the EBA. In October 2018, the European Parliament approved the proposal. It was then approved by the Council in November, and the regulation[91] was published in the Journal.

[88] Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

[89] Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State.

[90] Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy.

[91] Regulation (EU) 2018/1717 of the European Parliament and of the Council of 14 November 2018 amending Regulation (EU) No 1093/2010 as regards the location of the seat of the European Banking Authority.

European System of Financial Supervision (ESFS)

In September 2017, the Commission presented a package of three legislative proposals revising the ESFS.[92] The package includes the revision of the various regulations governing the activities of European supervisory authorities (ESAs – the EBA, ESMA and EIOPA) and the European Systemic Risk Board (ESRB), the revision of the Markets in Financial Instruments Directive and Solvency II Directive, and the revision of the Regulation on OTC derivatives, central counterparties and trade repositories. The debate on the package was initiated by the Council in 2017 and continued during 2018. In September 2018, the Commission submitted a revised proposal, into which it had incorporated issues relating to money laundering and terrorist financing. In March 2019, the Council reached an agreement with European Parliament on a final version of the legislative proposals submitted. In terms of the organisational structure of the ESAs says, the principle that decisions must be adopted by the board of supervisors (in which the national supervisory authorities of all Member State are represented) has been preserved, but the role of the chair of ESAs has been reinforced in a certain way. The powers of the ESAs in terms of supervisory convergence will also be reinforced by streamlining the tools at the disposal of the ESAs (e.g. the comparative assessment of national supervisory authorities, the publication of general instructions), and new tools have also been introduced (e.g. the establishment of strategic priorities for supervision at EU level, which national supervisory authorities will take into account in their work programmes). The EBA’s role in battling money laundering will also be strengthened. The ESMA will now carry out direct supervision of administrators of critical benchmarks from third countries and of suppliers of data reporting services. The package was approved at a plenary sitting of the European Parliament in April 2019. Following legal and linguistic editing, the final form of the proposal should be approved by the newly formed European Parliament in the second half of 2019. This will be followed by its approval by the Council and publication in the Journal.

Capital Markets Union (CMU)

The CMU project aims to improve access to finance on the EU internal market, in particular for small and medium-sized enterprises and infrastructure projects, as well as to expand the diversification of financial resources and possibilities of investments and to make an overall improvement in the functioning of EU capital markets and their greater interconnection. In March 2018, the Commission published its CMU package, containing action plans for FinTech and sustainable financing, together with the Commission communication on the completion of the CMU, containing the commitment to speed up implementation of the CMU so that it would be completed ahead of the European Parliament elections in May 2019. To this end, negotiations on the proposals were ramped up under the guidance of the Austrian presidency within the Council in the second half of 2018. A common approach was reached for some of the proposals. This had been a condition imposed by the Romanian presidency for further negotiation within the scope of trilogues to continue in the first half of 2019. It should be added, however, that the CMU is a long-term project and not even the potential completion of all legislative proposals falling under this initiative in the European Parliament’s term of office would result in the completion of the CMU. Nevertheless, the future direction of the CMU will become clearer after the new Commission has been formed following the May elections.

Prudential Requirements of Investment Firms (IFS)

In December 2017, a proposal for a directive on the prudential supervision of investment firms[93] was submitted. This directive is aimed at devising a more effective prudential and supervisory legal framework for investment firms, known in the Czech Republic as securities traders; in particular the objective is to simplify capital requirements. Under the Commission’s proposal, investment firms will be categorised into three classes. Class 1 and Class 1 minus investment firms are regarded as systemically important because of their

[92] Regulation of the European Parliament and of the Council of 20 September 2017 Amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority); Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority); Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority); Regulation (EU) No 345/2013 on European venture capital funds; Regulation (EU) No 346/2013 on European social entrepreneurship funds; Regulation (EU) No 600/2014 on markets in financial instruments; Regulation (EU) 2015/760 on European long-term investment funds; Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; and Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, Regulation of the European Parliament and of the Council amending Regulation (EU) No 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board and Directive of the European Parliament and of the Council amending Directive 2014/65/EU on markets in financial instruments and Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

[93] Proposal for a Directive of the European Parliament and of the Council of 20 December 2017 on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU.

size. Capital or other prudential requirements remained unchanged for them (they will still be subject to the requirements of the CRR/CRD; Class 1 investment firms will have to obtain a credit institution licence). The proposal works on the assumption that Class 2 and 3 investment firms, who are regarded as systemically non-important, do not need to be subject to the same high capital and other prudential requirements as banks, Class 1 investment firms or Class 1 minus investment firms.

Negotiations on this legislative proposal were initiated at the Council in January 2018. In February 2019, a trilogue reached a political consensus with the European Parliament. In April 2019, the proposal was given its first reading in the European Parliament. The final version of the proposal should be approved by the new European Parliament in the second half of 2019.

Solvency II

The Commission, on the basis of its authorisation, adopted implementing acts for the Solvency II Directive. The Commission also prepared, in cooperation with Member States and the EIOPA, a draft amendment of implementing act for the Solvency II Directive,[94] which should be adopted June 2019. This amendment covers the modification of the method used to calculate the solvency capital requirement by means of a standard formula. The declared aim of the amendment is to remove unreasonable barriers to the financing of the European economy that have been identified, to simplify certain elements of regulation, and to remove unjustified differences in regulation compared to the banking sector. On the basis of EIOPA recommendations taking into account the current data and experience of the industry and national supervisory authorities, changes have been proposed to the calibration of standard parameters for the risk faced by premiums and technical provisions in non-life insurance and the risks arising from catastrophes. The proposal also establishes additional rules on the reduction of the solvency capital requirement as a result of the ability of a deferred tax liability to absorb losses. The EIOPA was also actively involved in the revision of the Solvency II Directive. These activities will continue in 2019 and 2020.

Amendment of the Motor Insurance Directive (MID)

In May 2018, the Commission adopted a proposal for an amendment to the Motor Insurance Directive.[95] This proposal encompassed: a response to some of the rulings of the Court of Justice concerning the obligation of Member States to ensure that the operation of each motor vehicle is covered by liability insurance; the unification of the minimum amounts of claims that need to be covered by insurance contracts; provisions enabling Member States to inspect the insurance of vehicles that are normally based in another Member State, without stopping them; the introduction of the obligation of Member States to arrange for the coverage of the claims of victims deriving from loss events which the insolvency insurer is unable to cover; a revision of the form on the confirmation of the loss ratio of liability insurance.

The proposal is being discussed by a Council working group and negotiations are continuing in 2019. In February 2019, the proposal was debated by the European Parliament.

Pan-European Personal Pension Product (PEPP)

In June 2017, the Commission adopted a proposal fora regulation on a pan-European Personal Pension Product (PEPP).[96] The aim is to lay foundations for a safer, more cost-effective and transparent market in voluntary pension savings managed on a European scale. According to the Commission, the fragmentation of the European market prevents the providers of personal pension products from maximising risk diversification, introducing innovations, and making economies of scale. The Commission claims that the regulation is also intended to help tackle the demographic crisis, supplement existing pension products, and boost the cost-effectiveness of personal pension products by providing appropriate opportunities for the long-term investment of personal pensions. The proposal for the regulation also aims to increase capital and direct it towards long-term European investments in the real economy, and to encourage the cross-border provision and transferability of PEPPs. Multiple types of financial institutions (e.g. banks, insurance companies and investment firms) will be able to provide PEPPs. PEPP providers will be required, within three years of the applicability of the regulation, to secure a "sub-account" for at least two Member States. The conditions

[94] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

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

[96] Proposal for a Regulation of the European Parliament and of the Council of 29 June 2017 on a pan-European Personal Pension Product (PEPP).

applicable to the accumulation and decumulation phases of a Member State's product are applied to each sub-account for that Member State. Another important aspect will be the regulation of the distribution of PEPPs – as the regulation does not establish any new sector authorisations, those who are PEPP providers or hold the relevant business authorisation in the insurance and capital market sectors will be able to mediate PEPPs. However, in the actual distribution of PEPPs, these entities will have to abide by consumer protection obligations contained in the regulation.

Negotiations on the proposal continued in 2018. A common approach was adopted in June 2018. The main themes in the trilogue talks held by the Council and the European Parliament, which ended in December 2018 with an agreement on a compromise text, were the competence of supervisory authorities in the process of PEPP registration and the product characteristics in the accumulation and decumulation phases. At the beginning of 2019, the completion processes and translations were carried out. The European Parliament adopted the proposal in April 2019. Publication of the regulation in the Journal is expected in June 2019.

Insurance Distribution (IDD)
Further to the adoption of the Insurance Distribution Directive (IDD) and, in accordance with the authorisations contained therein, in 2017 the Commission started preparing the corresponding implementing legislation (on an insurance product information document, rules of conduct for the distribution of financially accumulating insurance, and product management). However, most of this legislation was not adopted until the end of 2017, i.e. shortly before the IDD itself was meant to take effect. Therefore, the Member States initiated the postponement of the effect of the implementing acts and the IDD itself by the Commission so that the regulated entities (insurance companies and insurance intermediaries) would have enough time to adapt to this new sector distribution legislation. Another of the aims of extending the period until the legislation would take effect was to provide leeway for the completion of the Member States' transposition consultations with the Commission. In the end the effective date of the IDD and its implementing regulations was uniformly moved to 1 October 2018.

Key Information for Retail Investment Products (PRIIPs)
On 1 January 2018, the regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs)[97] took effect. UCITS funds (standard collective investment funds) currently enjoy an exemption from the obligation to provide key information documents (KIDs) under the PRIIPs Regulation. That exemption will expire on 31 December 2019. The idea of granting the exemption was to make it possible, over a certain time, for key information to be communicated according to a concept that reflects factors specific to UCITS funds. Until the expiry of that exemption, the future applicability of PRIIPs-KIDs to UCITS funds should be evaluated by reference to the functioning of factsheets for investment products not covered by the exemption. Responses to the related consultation of European supervisory authorities indicated that the scope of problems regarding the presentation of existing PRIIPs-KIDs (especially the relevant implementing regulatory technical standards) in the distribution of UCITS funds to retail clients is so broad that, at present, there is no technical – and hence quickly implementable – amendment that can deal with it. Fundamental problems associated with the applicability of PRIIPs-KIDs to UCITS funds include the methodology to be used in creating performance scenarios and in transaction costing. Attention has also been brought to the lack of clarity regarding the effect on selected investment instruments (foreign exchange derivatives, corporate bonds, and OTC derivatives). Consequently, the Commission prepared an extension to the exemption lasting until 31 December 2021. In parallel, discussions are being held on the possibility of a broader substantive revision of applicable legislation in response to the problems mentioned above.

OTC Derivatives, Central Counterparties and Trade Repository (EMIR)
The Regulation on OTC derivatives, central counterparties (CCPs) and trade repositories (EMIR) entered into force back in 2012, but it is becoming effective gradually as particular implementing legislation is issued. This includes, in particular, legislation confirming the equivalence of the regulatory framework for the CCPs of third countries, i.e. non-EU countries (the US, India, Singapore, etc.), and legislation specifying the clearing obligation, including reporting requirements. In 2018, six such regulations were adopted. The most significant of them, especially in the context of Brexit, or more specifically the United Kingdom's departure from the EU without a deal, can be taken to be the Commission Implementing Decision determining, for a limited period of time, that the regulatory framework applicable to the CCPs of the United Kingdom is equivalent in accordance with the EMIR. This measure will enable CCPs licensed in the UK to continue providing clearing services in the

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

EU for one year, thereby making a significant contribution to the financial stability of the EU and individual Member States. At the same time, two proposals amending the EMIR, published in 2017, were debated. In view of their significance, they are discussed separately below.

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

Revision of EMIR (EMIR REFIT)
The first of the aforementioned proposals amending the EMIR was published by the Commission back in 2017. The proposal for a regulation amending the EMIR as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories (EMIR REFIT) falls under the Regulatory Fitness and Performance Programme and takes into account the results of the Commission's review of the EMIR. The review showed that the EMIR had been successful as a whole, in terms of increasing transparency and reducing the risks identified, but in case of specific requirements, the practical experience so far has revealed that there is room for improvement. The idea of the changes is to simplify the rules and ensure that they are more reasonable without jeopardising financial stability, and hence to lift the administrative burden and limit the costs of compliance with those rules.

Factors such as the optimisation of information sharing, the approval of risk-management procedures and notification requirements or the introduction of a mechanism facilitating a restriction on the central clearing obligation in situations other than crisis management (CCP crisis management is covered by a separate proposal – see the CCPRR below) should help to simplify and enhance the effectiveness of existing requirements. An adjustment to the extent to which the clearing obligation is applicable, in relation to both transactions and entities, should reduce the uneven costs and burdens.

As for progress in negotiations, trilogues were held in the second half of 2018 which achieved an informal political agreement that, following the completion of technical work, was confirmed by the COREPER II in March 2019. Translations being carried out at the time this report was prepared.

Central Counterparties Supervision (EMIR CCP Supervision)
The proposal for a regulation amending the ESMA and the EMIR as regards the procedures and authorities involved for the authorisation of central counterparties (CCPs) and requirements for the recognition of third-country CCPs, known as EMIR Supervision, is the second of the above-mentioned proposals amending the EMIR. This proposal was published in June 2017.

The proposal for the regulation is a response to the fact that, further to the adoption of the EMIR and, in particular, the introduction of the clearing obligation thereunder, CCPs became more concentrated and interconnected not only in the EU, but also in third countries. It aims to ensure that an effective and consistent system of supervision exists in the EU and, more specifically, the CMU.

The system for the equivalence and regulation of third-country CCPs also exhibits certain shortcomings (e.g. access to and the sharing of information, different objectives pursued by supervisory authorities from third countries, etc.). There will now be three categories of third-country CCPs, classified by their significance and impact on the financial stability of the EU or individual Member States. A CCP that is found to be systemically important must abide by rules governing CCPs, as laid down by the EMIR. If a CCP is highly systemically important, the CCP may be required to relocate to the EU in relation to a particular service offered by that CCP. Changes to the powers of the ESMA are focused on the executive session, the definition of its role, composition, organisation and responsibility, voting, and staffing and financial independence, and the reinforcement of this authority's power to obtain information. In addition, a special committee will be created under the ESMA where the national supervisory authorities supervising CCPs will share their experience of supervision and discuss certain decisions.

The proposed common approach was consulted and approved at a COREPER II meeting without discussion in November 2018. The Czech Republic and Luxembourg attached declarations to their endorsements. Five trilogues were held on this material and, in March 2019, a political agreement was reached and approved at a COREPER I meeting. Once the European Parliament has formed, it is expected that the proposal will be adopted.

Statute of the ECB Article 22
Further to the proposal for EMIR Supervision, a proposal to amend Article 22 of the Statute of the ECB was submitted in September 2017, which was intended to hand the ECB power in relation to third-country central counterparties. This proposal was discussed at the same time as the proposal for EMIR Supervision. However, after the political agreement – approved in March 2019 by the COREPER I – had been reached, the ECB withdrew its assent to this proposal, thereby bringing an end to the discussions on it.

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

In 2018, in connection with the regulations and Brexit, or more specifically the United Kingdom’s departure from the EU without a deal, a Commission implementing decision was adopted determining, for a limited period of time, that the regulatory framework applicable to the central securities depository of the United Kingdom is equivalent in accordance with the CSDR. This measure will enable the central depository licensed in the UK to continue providing its services, in particular the registration securities, the maintenance of a central register, and the operation of securities settlement systems, in the EU for two years, thereby making a significant contribution to the financial stability of the EU and individual Member States.

Central Counterparty Crisis Resolution (CCPRR)
The proposal for a regulation on the recovery and resolution of central counterparties was published by the Commission back in 2016. The proposal is a response to the fact that the requirement of the clearing obligation, introduced by the EMIR, has restricted certain risks, e.g. gross global market exposure and interconnection via the netting of bilateral transactions, while also improving transparency and pricing, but was also one of the reasons why other problems arose; in particular, clearing became concentrated at a limited number of CCPs or groups thereof.

This increased concentration could potentially compound the risk of inter-market infection and weaken the European financial system. This is why the limits set in the EMIR, which governs CCP activity, are regarded as insufficient. The proposal submitted is intended to supplement the existing rules in this respect. To a certain degree, it reflects the recently adopted set of rules on recovery procedures and crisis management for credit institutions and investment firms (the BRRD), but, bearing in mind the different nature of the target entities, it enshrines its own very specific factors.

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

As this proposal was largely tied to proposals – discussed in parallel – covering a new concept of supervision, especially the proposal for a regulation on ESAs and the proposal for EMIR Supervision, the working parties for this proposal were temporarily suspended in 2018 and should resume their activities in the second half of 2019.

Cross Border Payments (CBP)
In March 2018, the Commission adopted a proposal for a regulation amending the Regulation on cross-border payments[98] as regards certain charges on cross-border payments in the Union and currency conversion charges. This regulation follows up on the Commission’s action plan of March 2017 defining the strategy to reinforce the single market in financial services for consumers. The regulation harmonises charges for cross-border transactions in euro with charges for domestic payments in the national currency of the Member State. The regulation also aims to increase the transparency of charges applied to currency conversion. The

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

regulation introduces the obligation of payment service providers to inform payment service users of the costs of currency conversion prior to initiating a payment transaction so that payment service users have the opportunity to compare alternative options for currency conversion and the corresponding costs.

The proposal for the regulation was approved by the European Parliament in February 2019 and by the Council in March, and the regulation was subsequently published in the Journal.[99]

Crowdfunding (CRFR)
In March 2018, the Commission adopted a proposal for a regulation on European crowdfunding services providers for business. The proposal for the regulation is part of the package of measures to deepen the CMU. The declared objective of the proposal is to facilitate growth in crowdfunding services across the internal market, thereby increasing access to resources for businesses, especially start-ups, scale-ups, and small and medium-sized enterprises in general. The proposal also aims to reinforce investors' position by providing the necessary information on crowdfunding because, at the moment, investors may not be abreast of the risks associated with investing in crowdfunding. The proposal for the regulation covers investment-based and credit-based crowdfunding where those seeking the financing our businesses. In other words, platforms facilitating consumer financing will not fall within the scope of the regulation. The proposal for the regulation introduces the entity known as a *European crowdfunding service provider*. A platform licensed in this way would be able to provide services in all Member States; considering how fragmented the various legal systems are, this is currently impossible.

The proposal is currently at the stage of expert consultation by a Council working group.

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

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

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

The proposals were discussed by the Council at two speeds. The proposal of the directive was split into two parts. The part concerning secondary markets was approved by the COREPER II in March 2019. The part on the out-of-court enforcement of collateral was separated and will be discussed separately.

A proposal for the regulation was discussed by the COREPER II in October 2018, when a common approach was approved. The proposal was approved in its first reading in the European Parliament in March 2019, and

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

was subsequently approved by the Council in April 2019. The regulation was then published in the Journal[100] (take effect on the first day after publication). The new instrument of the prudential backstop will apply to all non-performing exposures arising after the regulation takes effect.

Sustainable Finance (SF)
In May 2018, the Commission published a legislative package containing a proposal for a regulation on the establishment of a framework to facilitate sustainable investment (taxonomy), a proposal for a regulation on disclosures relating to sustainable investments and sustainability risks (transparency), and a proposal for a regulation amending the regulation on low carbon benchmarks[101] and positive carbon impact benchmarks.[102] These were part of the implementation of the Action Plan on Financing Sustainable Growth of 8 March 2018. The aim of the European sustainable finance initiatives is to safeguard the long-term competitiveness of the EU economy by integrating environmental, social and administrative factors into economic processes and transitioning to a low-carbon circular economy that makes more efficient use of resources.

Negotiations on the legislative package began at the Council in July 2018. In December 2018, the COREPER II adopted a common approach to transparency and benchmarks. Agreement was then reached on benchmarks in February 2019 and on transparency in March 2019 as part of a trilogue with the European Parliament. In 2019, the taxonomy will continue to be discussed by the EU Council.

SME Growth Market
In May 2018, the Commission submitted a legislative package comprising a proposal amending the Prospectus Regulation and the Market Abuse Regulation,[103] and a proposal amending the Commission delegated regulation for MiFID II, intended to make it easier to finance small and medium-sized enterprises (SMEs) via the capital market. The proposal's aim is to facilitate SMEs' access to public capital markets (specifically, it should address the excessive administrative burden faced by SMEs when they are being listed or when they are issuing capital instruments and bonds), and to increase liquidity on SME growth markets. The EU Council's first meeting on this proposal was held in September 2018. In March 2019, a trilogue meeting was held, where a political compromise was reached. This was subsequently approved by the Council. In April 2019, the proposal was approved by the European Parliament. It now awaits formal approval by the Council, followed by publication in the Journal.

In December 2018, the Commission adopted the proposal amending the Commission delegated regulation for MiFID II, intended to make it easier to finance SMEs via the capital market. This proposal will take effect three months after its approval, provided that the European Parliament and the Council raise no objections to it.

Cross Border Distribution of Investment Funds (CBDF)
In March 2018, Commission proposals were published within the scope of the CMU package with a view to facilitating the cross-border marketing of collective investment funds. This is a proposal for a regulation amending the EuVECA[104] and EuSEF[105] regulations and a proposal for a directive amending the UCITS[106] and AIFMD[107] directives. The proposals aim to increase the transparency of national requirements and harmonise certain national rules on the cross-border marketing of investment funds. According to the Commission, the

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

[101] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

[102] Proposal for a Regulation of the European Parliament and of the Council of 24 May 2018 on the establishment of a framework to facilitate sustainable investment, Proposal for a Regulation of the European Parliament and of the Council of 24 May 2018 on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 and Proposal for a Regulation of the European Parliament and of the Council of 24 May 2018 amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks.

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

[104] Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds.

[105] Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds.

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

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

standard of the cross-border marketing of investment funds is adversely affected by the heterogeneity of legal systems, resulting in opaque legal provisions and administration fees for investment fund managers. Consequently, what is being proposed is the creation of a database of relevant legal provisions (primarily taking into account marketing communications and administration fees) at both national and European level, which will facilitate access to foreign markets within the EU.

The Council's negotiations began in March 2018. A common approach was approved in June 2018, after which the proposal was placed on the COREPER II agenda, in the part without debate. In February 2019, a trilogue meeting reached a political consensus with the European Parliament. The proposal was adopted in its first reading in the European Parliament in April 2019. It awaits publication in the Journal.

Covered Bonds (CB)
The Commission's proposals intended to contribute to the completion of the CMU, including proposals regulating covered bonds, were published in March 2018. They comprise a proposal for a directive and a proposal for a regulation. The proposal for the directive, amending the UCITS Directive and BRRD, lays down the particulars of covered bonds, the requirements regarding their structural characteristics, rules on the use of the designation "European covered bonds" as a European mark, and the particulars of public oversight. The structural requirements are the dual recourse mechanism, the exclusion of automatic maturity in the event of insolvency, the quality of the cover pool, the segregation of cover assets and the cover pool, their removal from the estate in the event of insolvency, the cover pool inspector, the cover pool liquidity reserve, a special administrator in case of insolvency or crisis management, the facilitation of extendable maturity structures. If covered bonds meet these particulars, the "European covered bonds" designation may be used (this is the European mark guaranteeing security and quality). The proposal for a regulation amends the CRR, in particular covered bond exposures. Among other things, requirements are laid down for over-collateralisation and substitute assets.

The Council's negotiations began in May 2018. A common approach was approved in November 2018, after which the proposals were placed on the COREPER II agenda as an item not up for debate. In February 2019, a trilogue reached a political consensus with the European Parliament. At the time this report was being prepared, technical amendments were being made to the text and it was being proofread.

Sovereign Bond-Backed Securities (SBBS)
In May 2018, the Commission published a proposal establishing rules for the issuance of sovereign-bond backed securities (SBBSs) Sovereign-bond backed securities are diversified set of euro area government bonds, encompassing government bonds from all Member States of the euro area, based on their share in the ECB capital. According to the Communication on the Completion of the Banking Union, the securitisation of government bonds from various Member States could increase the diversification of the banking sector's portfolio, alleviate the negative spiral between banks and national governments, and generate a new source of quality collateral usable, inter alia, for cross-border financial transactions. According to the Czech Republic and other states, the Commission's view of SBBSs is misguided and unrealistic. The Czech Republic believes that purchasing government bonds for purposes of SBBS-related securitisation could severely restrict the supply of government bonds on the open market. This could be detrimental to the liquidity of the market in individual government bonds and could also result in the impairment of the informative value provided by bond prices in risk assessments. The emergence of SBBS could see demand switch to government bonds from the underlying SBBS pool, which could negatively impact on bond markets in EU countries that do not have bonds in the pool.

At FSC and EFC meetings in June 2018, where the proposal was presented, the vast majority of Member States again voiced their opposition to the proposal. At the Council's initial talks on SBBSs, it became evident from the discussion that there was profound disagreement across many Member States. In response, the Austrian presidency expressed serious grave misgivings about whether negotiations could continue. The Austrian presidency subsequently held back from continuing negotiations on the SBBS proposal, nor was it addressed in any way by the Romanian presidency in the second half of 2018.

9.4 National Financial Market Legislation

Financial Crisis Resolution

In 2018, the act amending the Act on Recovery and Resolution in the Financial Market and other related acts took effect.[108] The aim of the act is to clarify and supplement some of the previously implemented provisions of the BRRD, such as the provision concerning the requirement to supplement the capital instrument contractual documentation in order to recognise the CNB's power of write-down or instrument conversion, the CNB's power to oblige institutions to limit exposures to another institution, or the obligation to keep detailed records of financial contracts. Furthermore, the act provides for a new moratorium (i.e. postponed maturity of a liability), only applicable to capital instruments or depreciable liabilities, that can be imposed for up to eighteen months, including repeatedly. At the same time, some issues of its functioning (e.g. the collection of contributions for the Crisis Resolution Fund, approval of internal regulations) are modified on the basis of experience of the functioning of the GSFT.

On 4 January 2019, an amendment to the Bonds Act[109] and other related acts, which also amended the Insolvency Act,[110] took effect. This amendment aims, among other things, to transpose the directive amending the BRRD as regards the ranking of unsecured debt instruments in insolvency proceedings (the creditor hierarchy). It also facilitates the creation of the new class of a "non-preferred senior debt" that should rank in insolvency above capital instruments and subordinated liabilities that do not qualify as capital instruments, but below other non-subordinated (senior) liabilities. More on this amendment can be found in the section on bonds.

Czech National Bank

In 2018, the act amending the CNB Act and the Act on the Circulation of Banknotes and Coins and amending the Act on the Minting of Czechoslovak Ducats[111] took effect. This act enables the CNB to pursue commemorative banknotes and coins known as Czech ducats. The CNB has already exercised this right, issuing the first collaborative banknote with a nominal value of CZK 100 on 31 January 2019 to mark the centenary of the Czechoslovak currency.

During 2018, the legislative process for another amendment to the CNB Act progressed. This amendment contains several partial changes and legislative and technical corrections aimed at an easier and, above all, uniform interpretation of the CNB Act. The substantive changes mainly include an extension to the range of monetary policy instruments and the range of subjects with which the CNB can engage in trading on the open market. Furthermore, there is a proposal to complement the CNB's authorisation to set an upper limit of selected credit indicators for consumer loans secured with residential property, thereby extending the macro-prudential policy instruments. The proposal also puts forward the possibility, definitively, for the CNB to set up a legal person or to participate in a legal person in support of the performance of its tasks. In the summer of 2018, interministerial consultation procedure was held and in April 2019 the bill was submitted to the government.

Credit Institutions

In December 2018, a bill amending the Act on Banks and the Savings and Credit Unions Act was submitted to the government.[112] The bill is partly a technical amendment, but it will also usher in several partial substantive changes. One of these substantive changes is the reinforcement of the protection of bank clients in cases where an arm of the bank, or part thereof, is transformed or disposed of in any way. In addition, if any administrative appeal is lodged against a decision to withdraw a bank's licence, it now carries suspensive effect. Linked to this is a fundamental substantive change where any ruling handed down by a regional court in the administrative judiciary that annuls a CNB decision to withdraw the licence of a bank or the permit of a credit union does not become enforceable until the time limit in which to lodge an appeal on a point of law expires without any such appeal being lodged. The bill also covered several amendments aimed at lightening

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[108] Act No 182/2018 Coll., amending Act No 374/2015 Coll., on recovery and resolution in the financial market, as amended by Act No 183/2017 Coll., and other related acts.

[109] Act No 190/2004 Coll., on Bonds, as amended.

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

[111] Act No 89/2018 Coll., amending Act No 6/1993 Coll., on the Czech National Bank, as amended, and amending Act No 136/2011 Coll., on the Circulation of Bankotes and Coins and on the amendment of Act No 6/1993 Coll., on the Czech National Bank, as amended, as amended and repealing Act No 76/1976 Coll., on Mintage of the Czechoslovak Ducat.

[112] Draft Bill amending Act 21/1992 Coll., on Banks, as amended, and amending Act No 87/1995 Coll., on Savings and Credit Unions and other related measures and supplementing Act of the Czech National Council No 586/1992 Coll., on Income Taxes, as amended, as amended.

the administrative burden faced by market entities. One of these was the abolition of the banks' obligation to submit a list of all shareholders and managers from an issue of bank shares to the supervisory body prior to the general meeting. The legislative process will continue in 2019.

Capital Market
Further to the adoption of the Prospectus Regulation, the legislative process for a bill amending the Capital Market Business Act and other acts was launched in 2018. In February 2019, the government forwarded the bill to the Chamber of Deputies, where it is being debated as Parliamentary document No. 389.

This bill primarily contains changes adapting the national legal system to the Prospectus Regulation, which will take effect on 21 July 2019. The Prospectus Regulation is the first EU regulation to be approved as part of the initiative to build a capital markets union. The main aim of the regulation is to facilitate share and bond issuers' access to capital markets. For example, frequent issuers will find it easier to produce individual prospectuses, and they will benefit from a shorter time for approval by the supervisory authority, i.e. the CNB. For small issuers, there is a simpler form of prospectus, i.e. the EU Growth Prospectus. The Prospectus Regulation also revises the prospectus summary, making it a shorter document containing key investor information presented in a comprehensible form. As this regulation supersedes the original Prospectus Directive,[113] the amendment also repeals the corresponding original transposition provisions.

The bill has also been adapted to the Money Market Funds Regulation[114] and the Securities Financing Transactions Regulation.[115] In relation to both of these regulations, the changes proposed concern legislative technique. The bill also responds to shortcomings identified in the distribution of supplementary pension savings and the insolvency of mutual funds and investment compartments. Public consultations also detected certain shortcomings in relation to the Management Companies and Investment Funds Act[116] and the Bonds Act.

Bonds
In February 2018, the government approved a bill amending the Bonds Act and other related acts. The bill, approved by both chambers of the Czech Parliament, was signed by the president in December 2018. The act was published in the Collection of Legislative Acts under number 307/2018 and took effect on 4 January 2019.

This bill was submitted in an attempt to remedy shortcomings in existing law on mortgage bonds and to address certain other shortcomings in bond law that had come to the fore in practice. The current low appeal and competitiveness of the Czech Republic in this area is linked to the fact that provisions and concepts normal in other developed countries are missing here. This raises the spectre of negative evaluations of the legal framework for mortgage bonds by rating agencies. Concepts currently missing in bond law include a collateral agent, a cover pool monitor and a special cover pool administrator. Mandatorily convertible bonds are another new concept. Another reason for the submission of the amendment was a need to eliminate legal uncertainty under current insolvency law where the subject of bankruptcy proceedings is assets used to cover mortgage bonds. The amendment makes it clear that covered bonds (mortgage bonds) are excluded from the estate of an issuer who is bankrupt, and the initiation of insolvency proceedings will not result in the automatic maturity of bonds.

Investment Funds
In May 2018, the government approved a draft government regulation amending the Government Regulation on the Investing of Investment Funds.[117] The draft government regulation was submitted in connection with the need to adapt Czech law to the Money Market Funds Regulation, which took effect on 21 July 2018. This adaptation mainly comprises the removal of provisions on money market funds which would simply have duplicated the European regulation. In tandem to this, some changes related to legislative technique are being made further to the latest amendment, Act No 133/2017. In June 2018, the government regulation was published in the Collection of Legislative Acts under number 97/2018, with effect as of 21 July 2018.

113 Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC.
114 Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds.
115 Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (SFTR).
116 Act No 240/2013 Coll., on Management Companies and Investment Funds, as amended.
117 Government Regulation No 243/2013 Coll., on the investing of investment funds and techniques for their management, as amended.

Distribution of Insurance Products

On 1 December 2018, Act No 170/2018 on Insurance and Reinsurance Distribution took effect. Is its primary objectives were to ensure the more effective protection of insurance company clients and to complete the process of harmonising rules on the distribution of financial products and services. This act, which supersedes the previous Insurance Intermediaries and Loss Adjusters Act,[118] also implements several changes of European legislation. The new act imposes more effective consumer protection primarily by increasing the responsibility of insurance companies and insurance intermediaries for the quality of their distribution network. The CNB's powers of civilisation and penalisation are also extended so that compliance with legal obligations can be more effectively enforced than at present. Unfair practices in the sale of unit-linked life insurance should be inhibited by a greater emphasis on the clarity and transparency of certain areas of key product information (the summary statement) and the keeping to a limit for insurance companies' distribution cost claims from the client when insurance is terminated (a surrender charge). The act also raises the standard of insurance vendors' professional competence. When the act took effect, this also prompted the initiation of the process for the reregistration of existing insurance intermediaries. This measure is necessary for more efficient supervision in the insurance sector.

Foreigners Health Insurance

In 2018, a bill on the health insurance of foreign nationals was prepared. Multiple ministries cooperated on this issue, and talks are continuing in 2019. The new legislation should remedy shortcomings in existing legislation on the private health insurance of foreign nationals, establish the basic scope thereof, and clearly define the category of foreign nationals included in the system of public health insurance and the category of foreign nationals who are required to take out private health insurance. The aims are to clearly set out the rights and obligations of foreign nationals in relation to health insurance, and to define the statutory scope of private health insurance for foreign nationals so there are no unjustified differences in the scope of the costs of the health services covered not only among foreign nationals, but also between foreign nationals and Czech citizens (or persons included in the public health insurance system).

Payments

On 13 January 2018, the new Payments Act[119] took effect, superseding the original Payments Act of 2009. This act transposes the Directive on payment services in the internal market (PSD II).[120] It regulates modern payment methods via mobile and internet applications, which are an alternative to card payment, and provide more guarantees that the payment will actually be made compared to the bank transfer of funds. Consumers also have the option to centrally manage information on their payment accounts over the internet, allowing them to have a better insight into their family finances. The act also introduces higher standards of payment security via strong user authentication, and consumer rights are reinforced in case of the loss, theft or misuse of payment cards. Consumers no longer have to pay the card payment charge imposed by some petrol stations or when purchasing plane tickets online.

Foreign Exchange

On 18 April 2019, an amendment to the Currency Exchange Act[121] took effect. This amendment significantly increases the protection of clients of bureaux de change and clarifies certain provisions of the Currency Exchange Act. The amendment also clarifies the registration obligations of bureaux de change and harmonises the definition of beneficial owner with the Act on Selected Measures against Legitimisation of Proceeds of Crime and Financing of Terrorism.[122] Provisions on misdemeanours are also applicable to the newly introduced concepts. In response, provisions on the definition of non-cash transactions with foreign currency are being revised in the Payments Act. The Payments Act also been revised in connection with the issuance of the Commission implementing act on the Payment Services Directive. Important changes relate to the demarcation of boundaries between foreign exchange trades and the provision of payment services, the list of exchange rates, other exchange conditions, VIP rates, restrictions on the issuance of pre-contractual

[118] Act No 38/2004 Coll., on Insurance Intermediaries and on Independent Loss Adjusters and amending the Trade Licensing Act (Act on Insurance Intermediaries and Independent Loss Adjusters), as amended.

[119] Act No 370/2017 Coll., on Payments.

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

[121] Act No 5/2019 Coll., amending Act No 277/2013 Coll., on Currency Exchange, as amended by Act No 183/2017 Coll., and Act No 370/2017 Coll., on Payments.

[122] Act No 253/2008 Coll., on Selected Measures against Legitimisation of Proceeds of Crime and Financing of Terrorism, as amended.

information, the ban on charging for exchange trades, withdrawal from a contract on an exchange trade, and supplementary sales.

Market Infrastructure

In 2018, a bill amending some acts to Support the Exercise of Shareholders´ Rights was prepared. The government approved the bill in September 2018, and it was given its second reading in the Chamber of Deputies (Parliamentary document No. 300) in April 2019. The MoF and the Ministry of Justice collaborated on the production of the bill. The bill transposes the Directive on the exercise of certain rights of shareholders in listed companies.[123] The bill aims to encourage the long-term engagement of shareholders in the activities of such companies. Listed companies will be required to draw up a policy for the remuneration of company executives, which will then be subject to approval by the general meeting. Companies will also have to draw up a report on the remuneration of executives, which will also be subject to approval by the general meeting and will be published on the company's website. In addition, the general meeting's approval will be required for certain transactions with related parties, but approval is not required for arm's-length transactions.

Part of the bill concerns the functioning of the capital market. Issuers can obtain information on shareholders, e.g. for the purposes of convening a general meeting, via central depository participants. Rules on communication between an issuer and shareholders via central depository participants will also be established. As a result, all investors will have information about their investments in one place, specifically at the entity maintaining their securities account for them. Consequently, components of market standards for corporate shares are being introduced into Czech law. The final part of the bill touches on institutional investors, such as insurance and reinsurance companies, and the management of their investments in listed companies.

9.5 Non-Legislative Financial Market Activities of the MoF

Financial Education

According to the government-approved National Financial Education Strategy (NSFV), the MoF is the body of state administration responsible for financial education. The MoF heads the Working Group on Financial Education (PSFV), which provides a platform for the exchange of experience and opinions. The working group's members include representatives from the public sector (the MoF, the Ministry of Education, Youth and Sports, other ministries and the CNB), representatives of professional associations operating in the financial market, entities that implement financial education projects (NGOs, consumer associations, debt advisory entities), representatives from the academic sector, and education professionals. The MoF sets up PSFV subgroups on an ad hoc basis to address specific tasks.

The MoF revises the National Financial Education Strategy and related strategy documents. The revision process includes the identification of the level of financial literacy among the adult population and an evaluation of the results. A new **financial literacy standard**[124] setting target competencies for pupils in the world of finance, which serves as a basis for the creation of framework curricula at primary and secondary schools, has been issued in previous years. In 2017, a new **definition of financial literacy**[125] was drawn up. In 2018 and 2019, there have been ongoing meetings of the working subgroup on the revision of the NSFV and the updating of drafts of NSFV 2.0. This is expected to be submitted to the government by the end of 2019. The level of financial literacy among the Czech Republic's adult population will be remeasured at the turn of 2020.

The "Why to get financially educated?" Portal

The MoF continuously administers a financial literacy guidance portal called "Why get financially educated?", www.psfv.cz, which is designed for the general public and professionals alike. The portal provides a single point of access for information on the functioning and risks of the financial market, and on the system of financial education in the Czech Republic and abroad. The content includes: family finances, including the creation of a household budget; the structure, institutions and products of the financial market; the contact details of consumer and debt counselling services that provide free assistance in the event of disputes with

123 Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.

124 https://www.psfv.cz/cs/pro-odborniky/strategicke-dokumenty

125 Financial literacy is a set of knowledge, skills and attitudes necessary to achieve financial prosperity through responsible financial decision-making.

financial market institutions or, for example, in a difficult life situation; dispute resolution, advice and instructions focused primarily on over-indebtedness, debt relief and enforcement; and links to interesting sites with projects, games and calculators in the Czech Republic and abroad.

National Strategy for Capital Market Development in the Czech Republic

In 2018, the MoF finalised the strategy document "National Strategy for Capital Market Development in the Czech Republic 2018-2023" with the assistance of experts from the World Bank (WB) as part of the Structural Reform Support Programme (SRSP). Work on the national strategy started in 2015, and its final version is largely premised on the WB's report on the capital market in the Czech Republic which was published in October 2017. The national strategy aims to devise a long-term strategy for the advancement of the capital market in the Czech Republic and, via the measures it contains, to help to enhance the economy's competitiveness and make a positive contribution to the country's economic growth, including the creation of jobs with high value added. The national strategy contains 27 measures intended to support households, businesses, market infrastructure and the state.

Translation of Some Laws into English

In 2018, further financial market legislation was translated into English for information purposes. Besides translations of the Capital Market Business Act, the Cash Payment Restriction Act, the Payments Act (published in January 2018) and the Currency Exchange Act (published in February 2018), there have also been translations of the Bonds Act, which is consistent with the most recent extensive amendment to this legislation (published in January 2019), and the Consumer Credit Act (published in March 2019). Work has also started on a translation of the Management Companies and Investment Funds Act, which is due to be published at the end of 2019 so that it is consistent with the amendment planned for this year. Translations of laws are available on the MoF website under Legislation and Legislative Documents.[126]

Public Consultation on Crypto – Currencies and Other Crypto - Assets

In November 2018, the Ministry of Finance published its public consultation on crypto – currencies and other crypto – assets. The consultation was held to elicit the opinions of professionals regarding the possibility of legally entrenching crypto – assets and the use of blockchain technology to register book-entry securities. In the first half of March 2019, the ministry initiated a consultation with state authorities on the keeping of an electronic register of issues of securities. Depending on the result of that consultation, it will consider how to proceed.

[126] See https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2004/zakon-c-256-2004-sb-3568,
https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2004/zakon-c-254-2004-sb-3569,
https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2018/zakon-c-370-2017-sb-30664,
https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2013/zakon-c-277-2013-sb-31253,
https://www.mfcr.cz/cs/soukromy-sektor/kapitalovy-trh/cenne-papiry/2018/zakon-o-dluhopisech-publikovan-ve-sbirce-33795,
https://www.mfcr.cz/cs/legislativa/legislativni-dokumenty/2016/zakon-c-257-2016-sb-26924.

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abs.	absolute
AHWP	Ad Hoc Working Party on the Strengthening of the Banking Union
AIFMD	Alternative Investment Fund Managers Directive
AKAT	Czech Capital Market Association (Asociace pro kapitálový trh ČR)
APP	Asset Purchase Programme
APRC	Annual Percentage Rate of Charge
APS CR	Association of Pension Management Companies of the Czech Republic (Asociace penzijních společností České republiky)
ARAD	Czech National Bank's time series database
a.s.	joint-stock company (akciová společnost)
ATFC	Advisory Task Force on the OECD Codes of Liberalisation
bn	billion
BoE	Bank of England
BoJ	Bank of Japan
BRRD	Bank Recovery and Resolution Directive
BSB	building savings bank
BSC	building savings contract
CB	Covered bonds
CBDF	Cross Border Distribution of Investment Funds
CBP	Cross Border Payments
CCP	Central Counterparty Clearing House
CCPRR	Central Counterparties Recovery and Resolution Proposal
CEGBPI	Commission Expert Group on Banking, Payments and Insurance
CFM	Committee for Financial Markets OECD
CIA	Czech Insurance Association
CMU	Capital Markets Union
CNB	Czech National Bank
CNY	Chinese yuan – International currency code
COREPER	Comité des Représentants Permanents (Committee of Permanent Representatives)
CRD	Capital Requirements Directive
CRF	Crisis Resolution Fund
CRFR	Crowdfunding
CRR	Capital Requirements Regulation
CSDR	Central Securities Depositories Regulation
CSDP	Central Securities Depository Prague
CZK	Czech koruna (crown) – International currency code
CZSO	Czech Statistical Office
D03	Working Party on Financial Services
DIF	Deposit Insurance Fund
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union
DGS	Deposit Guarantee Schemes
EBA	European Banking Authority
EBC	European Banking Committee
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
ECON	Committee on Economic and Monetary Affairs
EDIS	European Deposit Insurance Scheme
EEA	European Economic Area
EFC	Economic and Financial Committee
EFTA	European Free Trade Association
EGBFMC	Expert Group on Barriers to Free Movement of Capital
EGESC	Expert Group of the European Securities Committee
EGNPL	Expert Group on Non-performing loans
EIOPA	European Insurance and Occupational Pensions Authority
EIOPC	European Insurance and Occupational Pensions Committee

EMIR	European Market Infrastructure Regulation
ESAs	European supervisory authorities
ESC	European Securities Committee
ESFS	European System of Financial Supervision
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	Euro – International currency code
EuSEF	European Social Entrepreneurship Funds Regulation
EuVECA	European Venture Capital Funds Regulation
FA	Financial Arbitrator
FAC	Foreign Affairs Council
FATF	Financial Action Task Force
Fed	Federal Reserve System
FSC	Financial Services Committee
FTE	full-time equivalent
G20	Group of the world's biggest economies represented by finance ministers and central bank governors
GDP	Gross Domestic Product
GBP	British pound – International currency code
GEGIFR	Government Expert Group on the Interchange Fee Regulation
GFOCP	Guarentee Fund of Investment Firms (Garanční fond obchodníků s cennými papíry)
GSFT	Financial Market Guarantee System (Garanční systém finančního trhu)
HLWG	High-Level Working Group
HUF	Hungarian forint – International currency code
ICS	International Capital Standard
IDD	Insurance Distribution Directive
IF	investment firm
IFRS	International Financial Reporting Standards
IFS	Investment Firms Supervision
INFE	International Network on Financial Education
IPPC	Insurance and Private Pensions Committee
JPY	Japanese yen – International currency code
KID	Key Information Document
MID	Motor Insurance Directive
MiFID	Markets in Financial Instruments Directive
ML	mortgage loan
mn	million
MNB	Magyar Nemzeti Bank (Central Bank of Hungary)
MoF	Ministry of Finance
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MSEG	Member States expert group on sustainable finance
MWP	minimum waiting period
n/a	not available
NBP	National Bank of Poland
NPLs	Non-performing loans
NPE	Non-performing exposure
NSFV	National Financial Education Strategy (Národní strategie finančního vzdělávání)
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OTC	over-the-counter
p.a.	per annum
PEPP	Pan-European Personal Pension Products
PF	participation fund
PLN	Polish zloty – International currency code
PMC	pension management company
pp	percentage point

PRIBOR	Prague InterBank Offered Rate (the average rate at which banks are willing to lend liquidity on the Czech interbank money market)
PRIIPs	Packaged Retail and Insurance-based Investment Products Regulation
PSD	Payment Service Directive
PSE	Prague Stock Exchange
PSFV	Working Group on Financial Education (Pracovní skupina pro finanční vzdělávání)
PX	Primary PSE index
PXE	Power Exchange Central Europe
PX-GLOB	PSE index with wide base
PX-TR	Total Return Index PSE
QQE	Qualitative and Quantitative Easing
RMS	RM-System
RRM	Risk Reduction Measures (the package of five legislative Commission’s proposals aimed at mitigating risks and strengthening the banking sector in the EU)
RUB	Russian rouble – International currency code
SBBS	Sovereign Bond-Backed Securities
SF	Sustainable finance
SMEs	Small and Medium Enterprises
SRMR	Single Resolution Mechanism Regulation
SRSP	Structural Reform Support Programme
STS	Simple, Transparent and Standardised Securitization
TF	transformed fund
TFFCP	Task Force on Financial Consumer Protection
TEG	Technical Expert Group
Tier 1	The core capital of a credit institution that includes equity capital and disclosed reserves.
TLAC	Total Loss-Absorbing Capacity
TREA	Total Risk Exposure Amount
UCITS	Undertakings for Collective Investment in Transferable Securities
UK	United Kingdom of Great Britain and Northern Ireland
US	United States of America
USD	United States dollar – International currency code
WB	World Bank
WG	working group
WP	working party
WPPP	Working Party for Private Pensions

APPENDIX 1: FINANCIAL MARKET LEGISLATION

The following changes were made to the financial market legislation of the Czech Republic and of European Union in 2018 (the content of Appendix 1 reflects the state as of 30 April 2019):

A1.1 Cross-Sectoral Financial Market Regulations

1) European legislation and other initiatives published in 2018:

- Commission Delegated Regulation (EU) 2018/344 of 14 November 2017 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodologies for valuation of difference in treatment in resolution;
- Commission Delegated Regulation (EU) 2018/345 of 14 November 2017 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria relating to the methodology for assessing the value of assets and liabilities of institutions or entities;
- Regulation (EU) 2018/1845 of the European Central Bank of 21 November 2018 on the exercise of the discretion under Article 178(2)(d) of Regulation (EU) No 575/2013 in relation to the threshold for assessing the materiality of credit obligations past due (ECB/2018/26);
- Commission Implementing Regulation (EU) 2018/308 of 1 March 2018 laying down implementing technical standards for Directive 2014/59/EU of the European Parliament and of the Council with regard to formats, templates and definitions for the identification and transmission of information by resolution authorities for the purposes of informing the European Banking Authority of the minimum requirement for own funds and eligible liabilities;
- Commission Implementing Regulation (EU) 2018/634 of 24 April 2018 amending Implementing Regulation (EU) 2016/1799 as regards the mapping tables specifying the correspondence between the credit risk assessments of external credit assessment institutions and the credit quality steps set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2018/815 of 1 June 2018 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2018/1580 of 19 October 2018 amending Implementing Regulation (EU) 2015/2197 laying down implementing technical standards with regard to closely correlated currencies in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2018/1624 of 23 October 2018 laying down implementing technical standards with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council, and repealing Commission Implementing Regulation (EU) 2016/1066;
- Commission Implementing Regulation (EU) 2018/1889 of 4 December 2018 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council;
- Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU;
- Recommendation of the European Systemic Risk Board of 16 July 2018 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2018/5);
- Recommendation of the European Systemic Risk Board of 5 December 2018 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2018/8).

2) Pending European legislation (including legislation published after 31 December 2018) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council of 20 September 2017 amending Regulation (EU) No 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board;
- Amended proposal for a Regulation of the European Parliament and of the Council of 12 September 2018 amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority); Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority); Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority); Regulation (EU) No 345/2013 on European venture capital funds; Regulation (EU) No 346/2013 on European social entrepreneurship funds; Regulation (EU) No 600/2014 on markets in financial instruments; Regulation (EU) 2015/760 on European long-term investment funds; Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market; and (EU) Directive 2015/849 on the prevention of the use of the financial system for the purposes of money-laundering or terrorist financing;
- Commission Delegated Regulation (EU) 2019/348 of 25 October 2018 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions;
- Proposal for a Directive of the European Parliament and of the Council of 23 November 2016 amending Directive 2014/59/EU on loss-absorbing and recapitalisation capacity of credit institutions and investment firms and amending Directive 98/26/EC, Directive 2002/47/EC, Directive 2012/30/EU, Directive 2011/35/EU, Directive 2005/56/EC, Directive 2004/25/EC and Directive 2007/36/EC;
- Proposal for a Directive of the European Parliament and of the Council of 20 September 2017 amending Directive 2014/65/EU on markets in financial instruments and Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Proposal for a Directive of the European Parliament and of the Council of 23 April 2018 on the protection of persons reporting on breaches of Union law;
- Proposal for a Directive of the European Parliament and of the Council of 25 April 2018 amending Directive (EU) 2017/1132 as regards cross-border conversions, mergers and divisions;
- Proposal for a Directive of the European Parliament and of the Council of 25 April 2018 amending Directive (EU) 2017/1132 as regards the use of digital tools and processes in company law.

3) Acts that took effect in 2018:

- Act No 182/2018 Coll., amending Act No 374/2015 Coll., on recovery and resolution in the financial market, as amended by Act No 183/2017 Coll., and other related acts (in effect as of 1 October 2018).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2018):

- Draft Bill amending some acts in the area of regulation of the capital market business (expected to take effect in October 2019).

5) Secondary legislation:

- none

A1.2 Capital Market Legislation

1) European legislation and other initiatives published in 2018:

- Commission delegated regulation (EU) 2018/480 of 4 December 2017 supplementing Regulation (EU) 2015/760 of the European Parliament and of the Council with regard to regulatory technical standards on financial derivative instruments solely serving hedging purposes, sufficient length of the life of the European long-term investment funds, assessment criteria for the market for potential buyers and valuation of the assets to be divested, and the types and characteristics of the facilities available to retail investors;

- Commission delegated regulation (EU) 2018/990 of 10 April 2018 amending and supplementing Regulation (EU) 2017/1131 of the European Parliament and of the Council with regard to simple, transparent and standardised (STS) securitisations and asset-backed commercial papers (ABCPs), requirements for assets received as part of reverse repurchase agreements and credit quality assessment methodologies;
- Commission delegated regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline;
- Commission delegated regulation (EU) 2018/1619 of 12 July 2018 amending Delegated Regulation (EU) 2016/438 as regards safe-keeping duties of depositaries;
- Commission delegated regulation (EU) 2018/1637 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards for the procedures and characteristics of the oversight function;
- Commission delegated regulation (EU) 2018/1638 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further how to ensure that input data is appropriate and verifiable, and the internal oversight and verification procedures of a contributor that the administrator of a critical or significant benchmark has to ensure are in place where the input data is contributed from a front office function;
- Commission delegated regulation (EU) 2018/1639 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the elements of the code of conduct to be developed by administrators of benchmarks that are based on input data from contributors;
- Commission delegated regulation (EU) 2018/1640 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the governance and control requirements for supervised contributors;
- Commission delegated regulation (EU) 2018/1641 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the information to be provided by administrators of critical or significant benchmarks on the methodology used to determine the benchmark, the internal review and approval of the methodology and on the procedures for making material changes in the methodology;
- Commission delegated regulation (EU) 2018/1642 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the criteria to be taken into account by competent authorities when assessing whether administrators of significant benchmarks should apply certain requirements;
- Commission delegated regulation (EU) 2018/1643 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the contents of, and cases where updates are required to, the benchmark statement to be published by the administrator of a benchmark;
- Commission delegated regulation (EU) 2018/1644 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards determining the minimum content of cooperation arrangements with competent authorities of third countries whose legal framework and supervisory practices have been recognised as equivalent;
- Commission delegated regulation (EU) 2018/1645 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards for the form and content of the application for recognition with the competent authority of the Member State of reference and of the presentation of information in the notification to European Securities and Markets Authority (ESMA);
- Commission delegated regulation (EU) 2018/1646 of 13 July 2018 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards for the information to be provided in an application for authorisation and in an application for registration;

- Commission implementing regulation (EU) 2018/292 of 26 February 2018 laying down implementing technical standards with regard to procedures and forms for exchange of information and assistance between competent authorities according to Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse;
- Commission Implementing regulation (EU) 2018/688 of 23 March 2018 amending Implementing Regulation (EU) 2016/2070 as regards benchmarking portfolios, reporting templates and reporting instructions;
- Commission implementing regulation (EU) 2018/708 of 17 April 2018 laying down implementing technical standards with regard to the template to be used by managers of money market funds when reporting to competent authorities as stipulated by Article 37 of Regulation (EU) 2017/1131 of the European Parliament and of the Council;
- Commission implementing regulation (EU) 2018/1105 of 8 August 2018 laying down implementing technical standards with regard to procedures and forms for the provision of information by competent authorities to ESMA under Regulation (EU) 2016/1011 of the European Parliament and of the Council;
- Commission implementing regulation (EU) 2018/1106 of 8 August 2018 laying down implementing technical standards with regard to templates for the compliance statement to be published and maintained by administrators of significant and non-significant benchmarks pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council;
- Commission implementing regulation (EU) 2018/1557 of 17 October 2018 amending Implementing Regulation (EU) 2016/1368 establishing a list of critical benchmarks used in financial markets pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council;
- Commission implementing regulation (EU) 2018/1627 of 9 October 2018 amending Implementing Regulation (EU) No 680/2014 as regards prudent valuation for supervisory reporting;
- Commission implementing decision (EU) 2018/2030 of 19 December 2018 determining, for a limited period of time, that the regulatory framework applicable to central securities depositories of the United Kingdom of Great Britain and Northern Ireland is equivalent in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council;
- Commission implementing decision (EU) 2018/2031 of 19 December 2018 determining, for a limited period of time, that the regulatory framework applicable to central counterparties in the United Kingdom of Great Britain and Northern Ireland is equivalent, in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council;
- Commission implementing decision (EU) 2018/2047 of 20 December 2018 on the equivalence of the legal and supervisory framework applicable to stock exchanges in Switzerland in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

2) Pending European legislation (including legislation published after 31 December 2018) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council of 20 December 2017 on the prudential requirements of investment firms and amending Regulations (EU) No 575/2013, (EU) No 600/2014 and (EU) No 1093/2010;
- Proposal for a Regulation of the European Parliament and of the Council of 12 March 2018 on facilitating cross-border distribution of collective investment funds and amending Regulations (EU) No 345/2013 and (EU) No 346/2013;
- Proposal for a Regulation of the European Parliament and of the Council of 12 March 2018 on amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds;
- Proposal for a Regulation of the European Parliament and of the Council of 24 May 2018 amending Regulations (EU) No 596/2014 and (EU) 2017/1129 as regards the promotion of the use of SME growth markets;
- Proposal for a Regulation of the European Parliament and of the Council of 24 May 2018 on the establishment of a framework to facilitate sustainable investment;
- Proposal for a Regulation of the European Parliament and of the Council of 24 May 2018 on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341;
- Proposal for a Regulation of the European Parliament and of the Council of 24 May 2018 amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks;

- Proposal for a Commission Delegated Regulation (EU) of 24 May 2018 amending Regulation (EU) 2017/565 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive;
- Proposal for a Commission Delegated Regulation (EU) of 24 May 2018 amending Commission Delegated Regulation (EU) 2017/565 as regards certain registration conditions to promote the use of SME growth markets for the purposes of Directive 2014/65/EU of the European Parliament and of the Council;
- Proposal for a Commission Delegated Regulation (EU) of 28 November 2018 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004;
- Proposal for a Directive of the European Parliament and of the Council of 20 December 2017 on the prudential supervision of investment firms and amending Directives 2013/36/EU and 2014/65/EU;
- Proposal for a Directive of the European Parliament and of the Council of 8 March 2018 amending Directive 2014/65/EU on markets in financial instruments;
- Proposal for a Directive of the European Parliament and of the Council of 12 March 2018 on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU;
- Proposal for a Directive of the European Parliament and of the Council of 12 March 2018 amending Directive 2009/65/EC of the European Parliament and of the Council and Directive 2011/61/EU of the European Parliament and of the Council with regard to cross-border distribution of collective investment funds.

3) Acts that took effect in 2018:

- Act No 204/2017 Coll., amending Act No 256/2004 Coll., on Capital Market Business, as amended, and other related acts (in effect as of 3 January 2018).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2018):

- Act No 307/2018 Coll., amending Act No 190/2004 Coll., on Bonds, as amended, and other related acts (in effect as of 4 January 2019).

5) Secondary legislation:

- Government regulation No 97/2018 Coll., amending Government regulation No 243/2013 Coll., on investing of investment funds and techniques for their management, as amended (in effect as of 21 July 2018);
- Decree No 2/2019 Coll., on registration of covered pools (in effect as of 1 February 2019).

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

1) European legislation and other initiatives published in 2018:

- Regulation (EU) 2018/1717 of the European Parliament and of the Council of 14 November 2018 amending Regulation (EU) No 1093/2010 as regards the location of the seat of the European Banking Authority;
- Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due;
- Commission Delegated Regulation (EU) 2018/405 of 21 November 2017 correcting certain language versions of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012;
- Commission Delegated Regulation (EU) 2018/728 of 24 January 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for procedures for excluding transactions with non-financial counterparties established in a third country from the own funds requirement for credit valuation adjustment risk;

- Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk;
- Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018 amending Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions;
- Commission Implementing Regulation (EU) 2018/634 of 24 April 2018 amending Implementing Regulation (EU) 2016/1799 as regards the mapping tables specifying the correspondence between the credit risk assessments of external credit assessment institutions and the credit quality steps set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2018/688 of 23 March 2018 amending Implementing Regulation (EU) 2016/2070 as regards benchmarking portfolios, reporting templates and reporting instructions;
- Commission Implementing Regulation (EU) 2018/815 of 1 June 2018 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2018/1580 of 19 October 2018 amending Implementing Regulation (EU) 2015/2197 laying down implementing technical standards with regard to closely correlated currencies in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2018/1627 of 9 October 2018 amending Implementing Regulation (EU) No 680/2014 as regards prudent valuation for supervisory reporting;
- Commission Implementing Regulation (EU) 2018/1889 of 4 December 2018 on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No 575/2013 and (EU) No 648/2012 of the European Parliament and of the Council.

2) Pending European legislation (including legislation published after 31 December 2018) and other initiatives of the European Commission:

- Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures;
- Proposal for a Regulation of the European Parliament and of the Council of 26 November 2015 amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme;
- Proposal for a Regulation of the European Parliament and of the Council of 23 November 2016 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012;
- Proposal for a Regulation of the European Parliament and of the Council of 23 November 2016 amending Regulation (EU) No 806/2014 as regards loss-absorbing and Recapitalisation Capacity for credit institutions and investment firms;
- Proposal for a Directive of the European Parliament and of the Council of 23 November 2016 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

3) Acts that took effect in 2018:

- Act No 89/2018 Coll., amending Act No 6/1993 Coll., on the Czech National Bank, as amended, and amending Act No 136/2011 Coll., on the Circulation of Bankotes and Coins and on the amendment of Act No 6/1993 Coll., on the Czech National Bank, as amended, as amended and repealing Act No 76/1976 Coll., on Mintage of the Czechoslovak Ducat (in effect as of 15 June 2018).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2018):

- Draft Bill amending Act No 6/1993 Coll., on the Czech National Bank, as amended (expected to take effect in 2020);
- Draft Bill amending Act 21/1992 Coll., on Banks, as amended, and amending Act No 87/1995 Coll., on Savings and Credit Unions and other related measures and supplementing Act of the Czech National Council No 586/1992 Coll., on Income Taxes, as amended, as amended (expected to take effect in 2020).

5) Secondary legislation:

- none

A1.4 Payment Services and Market Infrastructure Legislation

1) European legislation and other initiatives published in 2018:

- Commission Delegated Regulation (EU) 2018/32 of 28 September 2017 supplementing Directive 2014/92/EU of the European Parliament and of the Council with regard to regulatory technical standards for the Union standardised terminology for most representative services linked to a payment account;
- Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication;
- Commission Delegated Regulation (EU) 2018/1229 of 25 May 2018 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on settlement discipline;
- Commission Implementing Regulation (EU) 2018/33 of 28 September 2017 laying down implementing technical standards with regard to the standardised presentation format of the statement of fees and its common symbol according to Directive 2014/92/EU of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2018/34 of 28 September 2017 laying down implementing technical standards with regard to the standardised presentation format of the fee information document and its common symbol according to Directive 2014/92/EU of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2018/2030 of 19 December 2018 determining, for a limited period of time, that the regulatory framework applicable to central securities depositories of the United Kingdom of Great Britain and Northern Ireland is equivalent in accordance with Regulation (EU) No 909/2014 of the European Parliament and of the Council;
- Commission Implementing Decision (EU) 2018/2031 of 19 December 2018 determining, for a limited period of time, that the regulatory framework applicable to central counterparties in the United Kingdom of Great Britain and Northern Ireland is equivalent, in accordance with Regulation (EU) No 648/2012 of the European Parliament and of the Council.

2) Pending European legislation (including legislation published after 31 December 2018) and other initiatives of the European Commission:

- Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges;
- Proposal for a Regulation of the European Parliament and of the Council of 28 November 2016 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365;
- Proposal for a Regulation of the European Parliament and of the Council of 4 May 2017 amending Regulation (EU) No 648/2012 as regards the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivatives contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories;
- Proposal for a Regulation of the European Parliament and of the Council of 14 June 2017 amending Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities

and Markets Authority) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorisation of CCPs and requirements for the recognition of third-country CCPs;

- Proposal for a Regulation of the European Parliament and of the Council of 8 March 2018 on European Crowdfunding Service Providers;
- Proposal for a Directive of the European Parliament and of the Council of 14 March 2018 on credit servicers, credit purchasers and the recovery of collateral.

3) Acts that took effect in 2018:

- Act No 370/2017 Coll., on Payments (in effect as of 13 January 2018);
- Act No 371/2017 Coll. amending some acts in relation to the adoption of the Act on Payments (in effect as of 13 January 2018).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2018):

- Act No 5/2019 Coll., amending Act No 277/2013 Coll., on Currency Exchange, as amended by Act No 183/2017 Coll., and Act No 370/2017 Coll., on Payments (in effect as of 1 April 2019);
- Draft Bill amending some acts to Support the Exercise of Shareholders' Rights (expected to take effect in June 2019).

5) Secondary legislation:

- Decree No 454/2017 Coll., on Information Obligations of some persons authorised to provide payment services and issue electronic money (in effect as of 13 January 2018);
- Decree No 1/2018 Coll., on Applications and Notifications on the Performance of Activities under Act on Payments (in effect as of 13 January 2018);
- Decree No 7/2018 Coll., on the Performance of some Activities according to Act on Payments for Payment Institutions, Payment Account Information Service, Small-Scale Payment Service Providers, Electronic Money Institutions and Small-Scale Electronic Money Issuers (in effect as of 13 January 2018);
- Decree No 14/2018 Coll., on Payment Systems with Settlement Finality (in effect as of 1 February 2018);
- Decree No 141/2018 Coll., on reporting of major security or operational incidents by persons authorised to provide payment services (in effect as of 1 August 2018);
- Decree No 74/2018 Coll., on services linked to payment accounts covered by the standardised terms (in effect as of 31 October 2018).

A1.5 Insurance and Private Pension Systems Legislation

1) European legislation and other initiatives published in 2018:

- Commission Delegated Regulation (EU) 2018/541 of 20 December 2017 amending Delegated Regulation (EU) 2017/2358 and Delegated Regulation (EU) 2017/2359 as regards their dates of application;
- Commission Delegated Regulation (EU) 2018/1221 of 1 June 2018 amending Delegated Regulation (EU) 2015/35 as regards the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings;
- Commission Implementing Regulation (EU) 2018/165 of 31 January 2018 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 December 2017 until 30 March 2018 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
- Commission Implementing Regulation (EU) 2018/633 of 24 April 2018 amending Implementing Regulation (EU) 2016/1800 laying down implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2018/730 of 4 May 2018 laying down technical information for the calculation of technical provisions and basic own funds for reporting with

reference dates from 31 March 2018 until 29 June 2018 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;

- Commission Implementing Regulation (EU) 2018/1078 of 30 July 2018 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June 2018 until 29 September 2018 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
- Commission Implementing Regulation (EU) 2018/1699 of 9 November 2018 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September 2018 until 30 December 2018 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance;
- Commission Implementing Regulation (EU) 2018/1843 of 23 November 2018 amending Implementing Regulation (EU) 2015/2452 as regards the scope of application of the template for disclosing premiums, claims and expenses by country;
- Commission Implementing Regulation (EU) 2018/1844 of 23 November 2018 amending and correcting Implementing Regulation (EU) 2015/2450 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities in accordance with Directive 2009/138/EC of the European Parliament and of the Council;
- Directive (EU) 2018/411 of the European Parliament and of the Council of 14 March 2018 amending Directive (EU) 2016/97 as regards the date of application of Member States' transposition measures;
- Council Decision (EU) 2018/539 of 20 March 2018 on the conclusion of the Bilateral Agreement between the European Union and the United States of America on prudential measures regarding insurance and reinsurance.

2) Pending European legislation (including legislation published after 31 December 2018) and other initiatives of the European Commission:

- Proposal for a Regulation of the European Parliament and of the Council of 29 June 2017 on a pan-European Personal Pension Product (PEPP);
- Proposal for a Directive of the European Parliament and of the Council of 24 May 2018 amending Directive 2009/103/EC of the European Parliament and the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to ensure against such liability.

3) Acts that took effect in 2018:

- Act No 170/2018 Coll. on Insurance and Reinsurance Distribution (in effect as of 1 December 2018);
- Act No 171/2018 Coll. amending some acts in relation to the adoption of the Act on Insurance and Reinsurance Distribution (in effect as of 1 December 2018);
- Act No 180/2018 Coll., amending Act No 340/2006 Coll., on activities of institutions for occupational retirement provision, as amended (in effect as of 16 August 2018).

4) Pending legislation (including acts already adopted that have taken effect or will take effect after 31 December 2018):

- Draft Bill amending Act No 340/2006 Coll., on activities of institutions for occupational retirement provision, as amended (expected to take effect in the second half of 2019).

5) Secondary legislation:

- Decree No 195/2018 Coll., on Professional Qualification for Insurance Distribution (in effect as of 1 December 2018);
- Decree No196/2018 Coll., on Applications and Notifications under Act on Insurance and Reinsurance Distribution (in effect as of 1 December 2018).

APPENDIX 2: SUPPLEMENTARY TABLES

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

Credit institutions				
Banks	**2017**	**Year-on-year change**	**2018**	**Year-on-year change**
Balance sheet	CZK 7,064.5 bn	+17.4% ↑	CZK 7,331.6 bn	+3.8% ↑
Total capital ratio	19.3%	+0.8 pp ↑	19.6%	+0.3 pp ↑
Ratio of client deposits to loans	135.1%	+7.4 pp ↑	134.5%	-0.6 pp ↓
NPL ratio	4.0%	-0.8 pp. ↓	3.2%	-0.8 pp ↓
Client deposits	CZK 4,169.1 bn	+10.7% ↑	CZK 4,445.6 bn	+6.6% ↑
Client loans	CZK 3,085.5 bn	+4.6% ↑	CZK 3,306.4 bn	+7.2% ↑
Mortgage loans	CZK 1,498.5 bn	+7.9% ↑	CZK 1,637.3 bn	+9.3% ↑
Building savings banks	**2017**	**Year-on-year change**	**2018**	**Year-on-year change**
Number of contracts	3.21 million	-3.0% ↓	3.17 million	-1.4% ↓
Savings	CZK 358.9 bn	-1.0% ↓	CZK 355.0 bn	-1.1% ↓
State contributions	CZK 3.9 bn	-7.8% ↓	CZK 3.9 bn	-0.8% ↓
Total loans	CZK 245.7 bn	+2.1% ↑	CZK 262.9 bn	+7.0% ↑
New loans	CZK 55.3 bn	+15.6% ↑	CZK 67.4 bn	+21.9% ↑
Loan-to--savings ratio	68.5%	+2.1 pp ↑	74.1%	+5.6 pp ↑
Credit unions	**2017**	**Year-on-year change**	**2018**	**Year-on-year change**
Number of members	30.9 thousand	-40.2% ↓	21.8 thousand	-29.2% ↓
Balance sheet	CZK 23.1 bn	-32.5% ↓	CZK 20.2 bn	-12.3% ↓
NPL ratio	19.7%	-11.7 pp ↓	22.8%	+3.1 pp ↑
Total capital ratio	18.9%	+2.8 pp ↑	21.4%	+2.5 pp ↑

Non-bank financing providers	2017	Year-on-year change	2018	Year-on-year change
Balance sheet	CZK 411.9 bn	+7.4% ↑	CZK 426.5 bn	+3.5% ↑
Total loans	CZK 306.2 bn	+7.8% ↑	CZK 318.6 bn	4.0% ↑

Capital market and insurance				
Regulated and OTC market	**2017**	**Year-on-year change**	**2018**	**Year-on-year change**
PX index	1,078.2 points	+17.0% ↑	986.6 points	-8.5% ↓
Volume of exchange trades on the PSE	CZK 145.3 bn	-15.7% ↓	CZK 152.0 bn	+4.6% ↑
Volume of exchange trades on the RM-System	CZK 3.2 bn	-8.6% ↓	CZK 2.8 bn	-12.4% ↓
Volume of OTC transactions	CZK 5,180.7 bn	+142.4% ↑	CZK 3,202.7 bn	-38.2% ↓
Investment firms	**2017**	**Year-on-year change**	**2018**	**Year-on-year change**
Value of clients' assets	CZK 4,655.1 bn	+10.9% ↑	CZK 4,300.5 bn	-7.6% ↓
Value of managed funds	CZK 894.9 bn	+9.2% ↑	CZK 770.6 bn	-13.9% ↓
Investment funds	**2017**	**Year-on-year change**	**2018**	**Year-on-year change**
Assets under management in collective investment funds	CZK 483.5 bn	+12.4% ↑	CZK 472.9 bn	-2.2% ↓
Assets under management in qualified investor funds	CZK 103.2 bn	+34.8% ↑	CZK 123.8 bn	+20.0% ↑
Insurance companies	**2017**	**Year-on-year change**	**2018**	**Year-on-year change**
Balance sheet	CZK 511.7 bn	4.0% ↑	CZK 519.5 bn	+1.5% ↑
Total gross premiums written	CZK 150.8 bn	+2.5% ↑	CZK 155.0 bn	+2.8% ↑
Gross claim settlement costs	CZK 96.6 bn	+0.9% ↑	CZK 92.3 bn	-4.4% ↓
Total insurance penetration	3.0%	-0.1 pp ↓	2.9%	-0.1 pp ↓
Pension funds	**2017**	**Year-on-year change**	**2018**	**Year-on-year change**
Number of participants	4,467 thousand	-1.5% ↓	4,451 thousand	-0.4% ↓
Participants' assets	CZK 413.9 bn	+8.5% ↑	CZK 447.1 bn	+8.0% ↑
Share of contracts with an employer's contribution	20.9%	+0.9 pp ↑	21.9%	+1.0 pp ↑
Participant's average monthly contribution in TFs	CZK 624	+3.0% ↑	CZK 680	+9.0% ↑
Participant's average monthly contribution in PFs	CZK 776	+4.7% ↑	CZK 790	+1.8% ↑
State contributions	CZK 6.9 bn	+1.1% ↑	CZK 7.0 bn	+1.9% ↑

Source: AKAT, APS CR, CNB – ARAD, MoF

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

As at 31 Dec		2013	2014	2015	2016	2017	2018
New building savings contracts	number	449,588	481,439	373,096	403,259	370,707	422,048
	change (%)	3.8	7.1	-22.5	8.1	-8.1	13.8
Average target value for new building savings contracts with private individuals	value (CZK thousands)	370.8	336.0	371.1	383.9	396.5	470.1
	change (%)	1.3	-9.4	10.5	3.4	3.3	18.6
Building savings contracts in savings phase	number	4,066,684	3,825,367	3,503,349	3,312,077	3,212,427	3,166,824
	change (%)	-5.8	-5.9	-8.4	-5.5	-3.0	-1.4
Paid state contribution	value (CZK bn)	5.0	4.8	4.6	4.3	3.9	3.9
	change (%)	-6.4	-3.9	-4.2	-6.2	-7.8	-0.8
Average state contribution paid per building savings contract for the relevant year	value (CZK)	1,316.0	1,245.0	1,302.0	1,292.0	-	-
	change (%)	0.3	2.2	4.6	-0.8	-	-
Saved amount	value (CZK bn)	429.1	413.6	384.2	362.6	358.9	355.0
	change (%)	-1.4	-3.6	-7.1	-5.6	-1.0	-1.1
Loans in total	number	815,160	752,558	695,439	650,214	612,982	588,165
of which: building savings loans	number	471,441	425,508	380,873	339,809	307,668	282,587
bridging loans [127]	number	343,719	327,050	314,566	310,405	305,314	305,578
	change (%)	-8.9	-7.7	-7.6	-6.5	-5.7	-4.0
Loans in total	value (CZK bn)	261.4	249.6	242.7	240.6	245.7	262.9
of which: building savings loans	value (CZK bn)	51.7	48.0	43.9	40.0	38.2	38.5
bridging loans[127]	value (CZK bn)	209.7	201.6	198.7	200.6	207.5	224.4
	change (%)	-7.4	-4.5	-2.8	-0.8	2.1	7.0
Loans-to-savings ratio	ratio (%)	60.9	60.4	63.2	66.4	68.5	74.1

Source: Building savings banks

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

Table A2.3: Main indicators for the supplementary pension insurance in transformed funds

As at 31 Dec		2011	2012	2013	2014	2015	2016	2017	2018
Supplementary pension insurance contracts[128]	number	4,565,741	5,134,862	4,886,675	4,585,149	4,281,621	3,999,304	3,709,605	3,494,140
	change (%)	0.8	12.5	-4.8	-6.2	-6.6	-6.6	-7.2	-5.8
New supplementary pension insurance contracts	number	457.033	1,128,020	-	-	-	-	-	-
	change (%)	-7.8	146.8	-	-	-	-	-	-
Supplementary pension savings policies with employer's contribution[129]	number	1,271,934	1,317,563	1,339,000	1,313,766	1,289,925	1,272,665	1,254,968	1,244,494
	change (%)	-1.0	3.6	1.6	-1.9	-1.8	-1.3	-1.4	-0.8
State contribution for a given period	value (CZK bn)	5.6	5.9	6.8	6.6	6.3	6.0	5.7	5.4
	change (%)	1.7	5.6	15.0	-3.3	-4.8	-4.7	-5.2	-5.1
Participants' contributions[130]	value (CZK bn)	23.4	25.5	33.0	31.6	30.1	29.6	29.4	28.4
	change (%)	0.9	8.8	29.3	-4.3	-4.6	-1.5	-1.0	-3.2
Average monthly state contribution	value (CZK)	105	108	117	119	122	124	120	128
	change (%)	0.4	2.5	8.2	2.1	2.5	1.6	-3.2	6.7
Average monthly participant's contribution	value (CZK)	442	465	568	574	589	606	624	680
	change (%)	0.5	5.3	22.2	1.1	2.6	2.9	3.0	9.0

Source: MoF

[128] Data reflects number of policies, which are not closed in the relevant records.
[129] Supplementary pension insurance schemes under which employer contributions are maintained over the existence of the contract.
[130] Participants' contributions are reported without the contributions paid by employers for their employees.

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

As at 31 Dec		2013	2014	2015	2016	2017	2018
Supplementary pension savings contracts[131]	number	76.669	217.985	361.395	536.759	757.549	956.820
	change (%)	-	184.3	65.8	48.5	41.1	26.3
New supplementary pension savings contracts	number	77.771	145.841	156.062	195.508	251.818	262.167
	change (%)	-	87.5	7.0	25.3	28.8	4.1
of which transfer from supplementary pension insurance[132]	number	1 284	14,221	12,959	17,705	41,671	41,506
Supplementary pension savings policies with employer's contribution[133]	number	13,461	40,719	72,358	111,137	167,842	235,953
	change (%)	-	202.5	77.7	53.6	51.0	40.6
State contribution for a given period	value (CZK bn)	0.062	0.270	0.539	0.857	1.237	1.659
	change (%)	-	335.5	99.6	59.0	44.3	34.1
Participants' contributions[134]	value (CZK bn)	0.342	1.341	2.573	4.072	6.072	8.237
	change (%)	-	292.1	91.9	58.3	49.1	35.7
Average monthly state contribution	value (CZK)	143	148	152	156	159	160
	change (%)	-	3.5	2.7	2.6	1.9	0.6
Average monthly participant's contribution	value (CZK)	749	722	722	741	776	790
	change (%)	-	-3.6	0.0	2.6	4.7	1.8

Source: MoF

[131] Data reflects number of policies, which are not closed in the relevant records.
[132] Participant's assets were tranfered from transformed fund to participation fund according to § 191 Act 427/2011 Coll.
[133] Supplementary pension savings schemes under which employer contributions are maintained over the existence of the contract.
[134] Participants' contributions are reported without the contributions paid by employers for their employees.

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