CNB CZECH NATIONAL BANK

Worldbank FinSAC conference

Czech development bank

Transformation and redesign of the business model and regulatory approach

Libor Löfler, CNB banking supervision

Wien, May 26th 2025

Czech development bank

The Czech government economic policy has deployed the economic policy tool of credits institution in the 90-ties - independently in two areas, continuing until today:

The national development bank (DB) - to extend access of newly developing segment of self-employed persons and SMEs (micro and small, ca. 40% of CZ economic added value) to credits and to establish financing of renovations of the collective housing (ca. 50% of CZ housing) and renovation of municipal infrastructure.

Established 1992

The national export bank (EB) to support significant segment of Czech economy, ie. exporters (exports represent 80% of GDP) especially maintaining and developing exports to non-EU countries (25% of exports).

Established 1995

DB regulatory framework, supervision 1992 – 2022 (1)

- **Established within the general legal and regulatory framework of commercial banks**
  - obtained general banking license, ie. no carve-out from regulatory obligations
  - fully subject to supervision incl. capital & liquidity & credit exposures requirements, fit & proper, recovery planning …
- Established as **joint-stock company in co-ownership**: by the government (ministries: finance + industry + regional development) + by major domestic commercial banks (the distribution capacity)
- **Credit risk & losses taken against government funds entrusted to DB / not high capitalization needed**
- **Main tool - guarantees extended by DB on loans granted by commercial banks**
  - established, defined and loss reserves funded by the government programs
  - mostly portfolio guarantees or individual guarantees on loans extended by commercial banks to their clients
  - guarantees unsecured and mostly free of charge to the clients
  - losses shared btw commercial bank and DB - loss coverage ratio at individual loan and at portfolio level
  - the development bank remunerated by management fee for product, distribution and loss control and reimbursement
- Also providing interest-free or low-interest loans extended to the clients directly by DB (regional branches), often accompaigned by technical grants for project preparation and grants at entry into service

DB regulatory framework, supervision 1992 – 2022 (2)

- **Operating income generated by management fee + income from limited treasury activity** (mostly reinvestment of entrusted program funds - into government bonds and CNB deposit facility)
- In 2012 - **the development bank bought back the shares** from commercial banks (no dividends anymore) **and upon government shareholder's decisions started to utilize operating profits to co-fund losses** of the development programs (non-profit approach of DB)
- outstanding of guarantee and loans extended by the development bank represents actually ca. 2 GEUR resp. 0,6% of GDP

Government's reconsiderations of institutional foundations of DB

- **In 2023 started reconsideration how to channel state development support (in the context of Czech public finance consolidation):**
  - **Efficiency of tools to channel state support** under scrutiny: **grants/subsidies vs repayable financial instruments** (promoted loans)
  - Acknowledged **existence of several development funds** established at ministeries, some of them establishing own products (grants and loans) and own distribution
  - **Support of SME financing should address higher credit risk of this segment (via guarantees) rather than to extend direct lending** by DB
  - **Acknowledged need to cover gap in financing of the infrastructure** - in order to accelerate development of transport infrastructure (also PPP), affordable and social housing and social care facilities, municipal infrastructure (upgrade of waterworks, transportation) – ie. call for financial longer-term capacity and expertise at DB to involve various expertise and sources into delivery
  - **Noted low scale of EB** (export bank) due to longterm decline of buyer's credits and ceased access to traditional export destinations (Russia etc.), in response – support extended also to local financing of export oriented corporates, actually limited balance sheet ca. 1 GEUR / 0,3% GDP

Changes to legal & regulatory framework DB (1)

Lex DB of MinFin has adopted DB as part of public finances and enlarges its financing capacity (Lex 34 / 22.1.2025)

- **DB receives authorization to bond issuance under sovereign guarantee (free of charge) at certain obligations**
  - **The state guarantee is subject to prior, case by case consent by MinFin**
  - The annual report to be provided to the Parliament on financial standing inclusive state guaranteed debt and on impacts and efficiency evaluation of the support channelled by DB
  - **The MinFin (treasury) condition - funds provided by the state budget** (funds to programs, capital) **must be deposited in the state treasury accounts** at the central bank (until utilised in the develop. Program` to lower cost of government debt)
- **At conditions imposed by this Lex**
  - **DB remains credit institution regulated by the local banking act and EU applicable banking regulation** incl. banking license -- -- -- **this local Lex revocated DB exclusion from EU banking regulation as earlier adopted within CRD6**
  - **not to accept deposits from general public - only deposits from municipalities and regional governments allowed**
  - **not to provide investment services**
  - **it remains under banking supervision of Czech national bank incl. publication of breaches and event. penalties**
  - DB when gains control over another bank – becomes established as financial holding company (for consolidated supervision)
- **Carve outs (limited) from banking regulation by this Lex**
  - **deposits (very limited) not subject to deposit insurance**
  - **not subject to recovery and resolution regulation**

Changes to leval & regulatory framework DB (2)

- **Integration of EB into DB**
  - **non-monetary capital increase by MinFin by incorporation of EB shares into DB's capital**
  - **tactical increase of DB capital (to increase credit capacity for large exposures for instrastructural financing) and to gain certain operational synergy**
  - EB – unchanged: to continue export financing as credit institution (as subsidiary of DB), continuing the funding by FX bond issuance guaranteed by Czech sovereign (act on export support)

CNB CZECH NATIONAL BANK

Closing remarks on DB

- **Status of credit institution** - operating on arm's length basis and continuously independently supervised - **is generally preferred as transparent institutional set-up**

- **CNB insisted to supervise DB only if DB will be subject of the most of banking regulation** - ie. CNB having defined its mandate and responsibility only for the banking activity aspect

- **MinFin obtained support of the government to increase the share of repayable financial instruments** through DB (promoted guarantees and loans) **and to increase the scale of DB** by redirecting government funds from support programs managed separately by several ministries to DB's distribution (ministries to continue as program sponsors)

- **DB prepares the first infrastructural project financing** in the government priorities: affordable housing, financing part of PPP highway project
- **New DB will be operational from 2026** – when it completes incorporation of EB
  - Medium term goal for DB is to generate portfolio of additional infrastructure loans 1,6 GEUR and SME loan guarantees 4 GEUR (ca. 1,5 % of GDP)