



# Weekly Briefing

**Czech Republic economy briefing:  
Financial Behaviour of the Czech Households:  
A Microeconomic Analysis**  
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# **Financial Behaviour of the Czech Households: A Microeconomic Analysis**

## **Summary**

*The analysis deals with a microeconomic topic of the Czechs' behaviour in terms of investment and finance management. It addresses the question of financial reserves in connection with a broader social context, including the debt trap and restraint, which is a serious long-term problem with multiple social, economic as well as political consequences. The total indebtedness of households is increasing, especially as a result of greater volumes of mortgages. As a whole, the financial behaviour is negatively affected by insufficient financial literacy which makes the Czechs more vulnerable to risk investment on the one hand, and prone to extremely conservative strategies that entail real losses on the other.*

## **Introduction**

The popularity of real estate among people's financial portfolios continues to be the dominant phenomenon whereas other investment tools are overlooked. The overwhelmingly conservative attitudes, from which the emphasis on real estate arises, contrast with a tendency to invest in individual corporate bonds, commodities or crypto-assets. These tools themselves bring multiple risks and have specific features that the majority of investors are not aware of. Analysis of such behaviour indicates the lack of financial literacy in Czech society which should be addressed by political representatives and state authorities including the education institutions.

## **Savings and financial stability**

Almost a half of the population has financial reserves for not more than three months. Roughly the same number have enough money at their disposal after necessary monthly payments. Up to 7 per cent of people declare that their incomes are so high that they are able to generate high reserves every month. At the same time, approximately 14 per cent of others live without any reserves since their incomes hardly cover the expenses. According to a recent sociological survey, 26 per cent of respondents would survive for at least one year without income. The distribution of reserves is not even. Men have higher reserves than women.

Similarly, people with university education stated that their monthly savings were either high or adequate. On the contrary, up to 44 per cent of those with lower than university education admitted that they contented with financial problems.<sup>1</sup>

Naturally, these figures are not objectively valid, nevertheless, they provide us with basic contours of the real situation in the field. In the case that one has sufficient savings to cover some five monthly expenses taken together, his or her financial situation can be considered stable and safe. From the abovementioned data follows that nearly 50 per cent of the adult population can enjoy relative financial stability which is not a negligible figure. However, the line between stability and instability or even risk is blurred and there could be many people whose situation may change quickly in case of shocks or volatility. Of course, the number of those without any savings is not marginal whatsoever. It is beyond any doubt that people with lower education are more vulnerable and exposed to the risk of poverty. It is related not only to generally lower incomes but also to a lack of financial literacy.

### **Combating distraint**

It is particularly the poorer part of the population that tends to run into debt, debt trap and subsequently insolvency and distraint. The distraint problem belongs to one of the most serious social phenomena in the Czech Republic. By October 2021, nearly 712,000 natural persons were exposed to distraint which amounts to roughly 6.66 per cent of all inhabitants, both underage and adult. At the end of 2020, the total number was even by virtually 25 per cent higher. The number of distraint execution equalled 4.5 million last year. These alarming figures pose a long-term risk to social stability. All the more that the defaulters are concentrated in certain regions, first and foremost the Ústí nad Labem Region. The official statistics show that the average defaulter is a 46-year-old man.<sup>2</sup>

Therefore, the state representatives launched a campaign within which the defaulters were given an opportunity to pay off their debts in relation to state and public institutions. The campaign was based on the concept that debtors could repay the initial principal while the related interests, charges and penalties would be written off. This campaign, which was going

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<sup>1</sup> *Při ztrátě příjmu by polovině Čechů stačily úspory nejvýše tři měsíce* (2022, January 15), [ceskenoviny.cz](https://www.ceskenoviny.cz/zpravy/pri-ztrate-prijmu-by-polovine-cechu-stacily-uspory-nejvyse-tri-mesice/2146150). Retrieved February 08, 2022, from <https://www.ceskenoviny.cz/zpravy/pri-ztrate-prijmu-by-polovine-cechu-stacily-uspory-nejvyse-tri-mesice/2146150>.

<sup>2</sup> *Počet lidí v exekuci meziročně mírně klesl. Stále jich je skoro tři čtvrtě milionu* (2021, October 29), [ct24.ceskatelevize.cz](https://ct24.ceskatelevize.cz/domaci/3392762-pocet-lidi-v-exekuci-mezirocne-mirne-klesl-stale-jich-je-skoro-tri-ctvrte-milionu). Retrieved February 08, 2022, from <https://ct24.ceskatelevize.cz/domaci/3392762-pocet-lidi-v-exekuci-mezirocne-mirne-klesl-stale-jich-je-skoro-tri-ctvrte-milionu>.

on from October last year to this January, enable some people to get rid of debts but provoked multiple criticisms at the same time. The point is that such a policy is controversial in terms of ethics, for it gave preferential treatment to those who had not met their obligations for different reasons, discriminating against those who repaid debts properly.<sup>3</sup> Despite that the government coalition has reached a consensus that the campaign is to be repeated in the autumn again.<sup>4</sup> Pragmatically taken, it is only such campaigns and write-off of the existing debts that can substantially lower the number of the people exposed to distraint, contributing to the normalisation of social life in the most affected areas. Yet, it cannot be considered a systematic, fundamental solution since it eliminates negative consequences but does not have a preventive character. This is, first and foremost, a question of financial literacy and education.

### **Increasing indebtedness**

By December 2021, the total volume of debts of the Czech households increased to 2.049 trillion CZK (approximately 84.321 billion EUR). The rising tendency of households' indebtedness has continued incessantly since the beginning of 2016. Nevertheless, not all debts are bad under market conditions. On the contrary, loans can be used as financial leverage with the aim to buy more and multiply the yield. Mortgage loans represent a useful tool for property expansion. Given the fact that mortgages account for up to 75 per cent of the total debt of Czech households, the increasing indebtedness does not indicate negative development necessarily.<sup>5</sup> Traditionally, the purchase of real estate has been perceived as a conservative, safe way of investment, which overlaps with the high popularity of homeownership as such.

Face to face with economic and social uncertainties and volatility as well as with the rapidly rising prices of real estate combined with „cheap money“, i.e. low commercial interest rates, the recently presented data about households' indebtedness are not surprising at all. At the same time, real estate has become more and more an unachievable and exclusive kind of asset as a result of the soaring prices. It follows that the level of indebtedness will continue rising on the condition that there are enough Czech households that can afford to buy real estate.

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<sup>3</sup> *Milostivé léto začíná, lidé mohou obcím či státu splatit dluhy bez úroků a penále* (2021, October 28), ct24.ceskatelevize.cz. Retrieved February 08, 2022, from <https://ct24.ceskatelevize.cz/domaci/3392200-milostive-letu-zacina-lide-mohou-obcim-ci-statu-splatit-dluhy-bez-uroku-a-penale>.

<sup>4</sup> *Oddlužovací milostivé léto se může od září do listopadu zopakovat, řekli vládní politici* (2022, January 25), ct24.ceskatelevize.cz. Retrieved February 08, 2022, from <https://ct24.ceskatelevize.cz/domaci/3433300-oddruzovaci-milostive-letu-se-muze-od-zari-do-listopadu-zopakovat-rekli-vladni>.

<sup>5</sup> *Dluhy českých domácností u bank v prosinci stouply na 2,049 bilionu Kč* (2022, January 31), ceskenoviny.cz. Retrieved February 09, 2022, from <https://www.ceskenoviny.cz/zpravy/dluhy-ceskych-domacnosti-u-bank-v-prosinci-stouply-na-2-049-bilionu-kc/2153464>.

If the present tendency goes on for the long term, the number of the Czechs who will be able to buy their own flat, house or land will be smaller and smaller. In that case, the total indebtedness could begin to decrease for the very reason that the incomes will not be sufficient to get mortgages.

### **Gold as a „safeguard“**

Nevertheless, the Czechs overestimate the significance of real estate in their investment portfolios and strategies. Seeking „conservative“ tools, they neglect other investment tools available on the capital market that might be similarly conservative or suitable depending on the time horizon. In many cases can it be better to put money into a real estate fund than buy a flat since the total yield is higher and the investment is more flexible and liquid. In terms of decades, investment in shares is appropriate and relatively conservative. Given the absence of a tradition of capital market in the Czech Republic, low level of its development together with the widespread distrust of investment tools, the Czech households prefer – aside from real estate as shown above – investment in physical commodities or utterly speculative crypto-assets (the latter applying to the young generations).

According to the recent statistics, households have in possession 19.35 tonnes of gold, the real volume being probably higher than these official data. In other words, people hold nearly as twice as much gold in comparison with the Czech National Bank. By the end of 2021, the central bank kept 10.6 tonnes of gold. Over the last years, the CNB purchased more gold than earlier, nevertheless, it remains to be a marginal part of the foreign exchange reserves. This state of affairs will likely not change in the following period, for gold as well as other commodities are not sufficiently liquid while being greatly volatile and costly in terms of their possession.<sup>6</sup> The popularity of gold among the population, nevertheless, will not fade away, especially if the economic situation is unstable over a long period since gold is considered a „safeguard“ for possible crises.

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<sup>6</sup> The International Monetary Fund recommends central banks to keep 2–3 per cent of the foreign exchange reserves in gold. *Češi mají doma dvakrát více zlata, než kolik ho je v sejfěch ČNB* (2022, January 26), [ceskenoviny.cz](https://www.ceskenoviny.cz/zpravy/cesi-maji-doma-dvakrat-vice-zlata-nez-kolik-ho-je-v-sejfech-cnb/2151121). Retrieved February 10, 2022, from <https://www.ceskenoviny.cz/zpravy/cesi-maji-doma-dvakrat-vice-zlata-nez-kolik-ho-je-v-sejfech-cnb/2151121>.

## Conclusion

The financial behaviour and planning of the Czechs suffer from insufficient financial education and literacy. It subsequently enables the excessive emphasis on real estate, commodities (gold) and speculative tools (crypto-assets). In 2021, the trade with crypto-assets increased by 25 per cent amounting to almost 5 billion CZK (more than 205 million EUR) in the Czech Republic. The field was dominated by bitcoins and ethereum.<sup>7</sup> This segment of the market is, however, strongly influenced by speculators and inexperienced investors who seek to quickly make big money irrespective of related risks and principles of strategic investment. Naturally, it can lead to substantial losses and subsequent distrust of investment tools as a whole which corresponds with the widespread popular mood.

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<sup>7</sup> *Obchod s kryptoměny v Česku loni stoupl o čtvrtinu na téměř pět miliard* (2022, January 10), ceskenoviny.cz. Retrieved February 11, 2022, from <https://www.ceskenoviny.cz/zpravy/obchod-s-kryptomenami-v-cesku-loni-stoupl-o-ctvrtinu-na-temer-pet-miliard/2143630>.