

Czech Republic: Seeking solutions

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The Czech Republic is a central European country with post-communist development. It has been a member of the European Union since 2004 and part of Schengen since 2007. The communist regime was overthrown in 1990 and the whole economic and political system has been completely changed. The Czech economy is highly successful compared to other East European or postcommunist countries, but is still far behind more prosperous countries. The Czech Republic is not a member of euro area, and its independent currency (the Czech koruna) is quite strong.

The Czech Republic has a civil law system and the operation of financial institutions is regulated by central bank legislation. The banking (and all financial market) supervisory authority is the Czech National Bank. Currently there are 40 banks or Czech branches of foreign banks and 15 cooperative saving associations. Cooperative saving associations have a long tradition in the Czech Republic. After a big boom in 1991 many associations were bankrupted, however currently, according to the amended legislation, such associations work successfully. In 2010 two cooperative associations obtained a bank license. A significant part of the Czech economy also comprises of funds: mainly investment and mutual funds.

In 1991 a coupon privatization began in the republic and this procedure has influenced the Czech economy considerably. At this time many investment funds were established, but unfortunately many of them were unsuccessful and many people lost money. This is one of the main reasons why there is currently significant distrust of this kind of investment in the country.

The Collective Investing Law of 2004 (implemented following the EU Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities [UCITS]), and its amendment in 2006 and 2009, nonetheless allowed for a huge development of investing and mutual funds. This amendment installed an institute of qualified investors (investors with special benefits according to the law).

The Czech Republic also has a highly developed consumer credit and non-banking loans sector, as these products are easily accessible.

2011: A snapshot

◆ The newest amendment of the Collective Investing Law became effective in July 2011, with the implementation of EU Directive 2009/65/ES (UCITS IV), introducing the master-feeder fund structure, open market and new regulations of cross-border company reorganization. This amendment allows funds to operate more effectively, especially for foreign investors.

◆ However, in the consumer credit and non-banking loans sector, high interest rates has led to a number of many personal bankruptcies, and this figure has increased over 2011.

◆ A reform of the pension system this year introduced a new voluntary contribution pillar: however people are scared to trust the state in this reform and still prefer saving money in their own way.

◆ The amendments of the commercial code, labor code, trade code, business register and simplified conditions for starting business has made business operations more flexible.

◆ Despite the fact that there is currently no Islamic finance practice in the Czech Republic, public awareness concerning Islamic finance is growing.

2012: A preview

The Czech Republic will continue economic reforms in the coming year. Many people are trapped in a vicious circle of loans, especially with non-banking financial institutions. More and more people become aware that interest-based financing is dangerous, especially due to the high levels of interest rates many are experiencing. The level of financial education among the Czech public is very low. There is a significant need to educate people in financing and also to show them how Islamic financing works, before they can be offered Islamic finance products.

The funds market and cooperative saving associations might be a good place to start. At the same time there is a need to educate financial and legal professionals about Islamic finance principles and their mode of use within the Czech legislation and business and financial environment.

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