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Implementation of Directive 2014/17/EU and its Impact on EU and Member States Markets, from not only a Czech Perspective

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Abstract

The development of the financial market is critical for cross-border activity and for an efficient internal market. Currently, one of the main initiatives of the EU is to establish principles for a correct granting of credits, which should re-establish the financial and real estate market of the EU and EU member states. The harmonization Directive was issued in 2014. The goals of this paper are to assess its impact from a holistic Czech perspective and to conduct a comparison. The Meta-analysis of secondary and primary data, earned through direct inquiries offers suggestions for the efficiency of the financial market.

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1. Introduction

The Treaty on the functioning of the EU ("TFEU") emphasizes the internal market and free movement of goods, services, capital and people. The financial crisis had a negative impact on it and led to a loss of confidence of financial market participants, while the parallel real estate crisis ended the prior set-in-stone real estate paradigms, i.e. real estate prices went down as well as the demand for it, leading to a dramatic increase in unfinished and incomplete building projects (Hajnal, 2015). The ongoing profitability downturn was identified across countries, industries and all sizes of businesses (Lacina & Vavřina, 2014) and negatively impacted even consumers. The global crisis showed

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that housing markets in the EU are big causes of instability (Whitehead et al., 2014). The EU consumer law protecting consumers through (i) information and (ii) fairness (Méndez-Pinedo, 2015) failed mortgagors-consumers in the crisis, as they lost their confidence in the financial sector. Thus, a current initiative of the EU is creating principles for correctly granting credits, leading to improving efficiency and recreating financial and real estate markets of the entire EU and its member states. This was the driving force for the issuance of the Directive of the European Parliament 2014/17/EU on credit agreements for consumers in re residential immovable property on 4th February 2014 ("MCD"). The MCD follows 2 paradigms already established in European consumer credit law – the information and fairness – and adds to them 2 more paradigms – affordability and responsible lending (Méndez-Pinedo, 2015). The goal of the MCD is harmonization and member states must implement MCD in their national legal systems by March, 2016.

And thus, the Czech Government accepted, during its session on 2nd December 2015, a proposal of an Act on consumer credits implementing MCD that (allegedly) significantly increases the protection of clients against banking institutions and restricts regulations applicable to persons and institutions providing financial services ("proposed Act"). The volume of usury and predatory credits should decrease, the information about mortgages should be more explicit, even in marketing campaigns, and up to 20% of mortgage credits can be paid one month before the anniversary of the mortgage. The proposed Act reinforces protection in the domain of the biggest abuses against consumers, newly extends the regulation for protecting consumers credits to mortgages, and consolidates the legal regulation of the distribution on the financial market. This paper's primary goal is to examine and summarize this new Czech law, based on the MCD, and to assess the primary search and questionnaire inquiries about how it is perceived by the relevant Czech public and whether it should contribute to an increase of the efficiency of the financial market. The secondary goal is to provide a critical, comparative overview and, via Meta-Analysis, project semi-conclusions based on the primary and secondary data. This expands perspectives and brings a new light to this key sphere of European integration.

2. Goal and methods

This paper's primary goal is to holistically study and understand the new Czech regulation of consumer credits, both statically and dynamically, internally and externally. Static and internal exploring of the new Czech law regulation is implied by the very wording of the MCD and the proposed Act, and represents an analytical description with a critical proposition. The dynamic, an external exploration, is via direct data mining, field observation and, especially, collecting questionnaire inquiries, and its assessment by the analysis of categorical data. The questionnaire inquiries represent a primary search targeting the expected impact of the new regulation. Two groups of respondents were asked their opinion about the new Act and if it will, or will not, have, as a result, an increase in the efficiency of the financial market. The first group consisted of consumers interested in financing the purchase of real estate by a mortgage. Financial advisors who act as intermediaries for mortgage credits to consumers made up the second group. 100 questionnaires were completed and assessed, reflecting two hypotheses: H1 – the proposed Act is perceived positively; H2 – the proposed Act will cause an increase in the efficiency of the financial market. Data in the completed questionnaires was assessed by analyzing categorical data via the software application Statistika, and while using the method of dependency of quantitative signs, features and outcomes of Pearson´s chi-squared test. Basically, the renaissance type of scientist, Karl Pearson introduced the chi-squared test of goodness of goodness of fit (Plackett, 1983), complemented by the test of independence, which assesses whether unpaired observations on two variables, expressed in a contingency table, are independent of each other and thus reject or confirm a null hypothesis. The Pearson´s limitation to categories is fully compatible with the above mentioned questionnaires and inquiries.

The secondary goal is placing semi-conclusions from the study and understanding of a "Czech" perspective in a EU context and providing a critical, comparative overview allowing using Meta-Analysis suitable to work with primary and secondary data and qualitative and quantitative methods. The opposition of qualitative and quantitative methods shouldn't be overdone (Silverman, 2013). A statistical approach is useful, but is undeniably impaired by inherent deficiencies (Heckman, 2005), without implying that qualitative methods are intrinsically superior and that quantitative methods should be avoided (Silverman, 2013). Rather, the keystone of quantitative research, statistics, doesn't generate exclusively black-and-white results if properly used and if new approaches are employed. Meta-Analysis focuses on contrasting, combining and reconciling data and results via different sources, highly suited for studying new yet unsettled issues to identify new patterns, relations, and relationships, thus, it is highly relevant for