



May 2010

## **Changes in default interest rates calculation effective 1st July 2010**

On 18 January 2010 the Government of the Czech Republic issued Regulation No. 33/ 2010 Coll., which amended Regulation No. 142/1994 Coll., determining the default interest rates and late charge under the Civil Code. This amendment becomes effective 1 July 2010.

### ***What does this change bring?***

**According to the existing regulations**, the default interest for pecuniary obligations was (is) counted for each calendar half-year term, in which the default lasted, according to the Czech National Bank repo rate valid on the first day of this term, increased by seven percentage points. **This means that the default interest changes every half-year throughout the duration of the default depending on the actual level of the repo rate.** This made counting the interest under current regulations fairly difficult.

**Starting on 1 July the default interest will remain constant the whole time the default lasts.** Its amount will be set according to the repo rate of the Czech National Bank valid on the last day of the half-year term, preceding the half-year in which the default occurred, increased by seven percentage points.

The new regulation applies only to default that occurred after 1 July of this year. Default interest for default that occurred before 1 July 2010 will be counted in accordance with the original regulation, which means it will change every half-year.

### ***How will the change reflect in practice?***

If the default occurred under the current regulations, we get the default interest for default starting e.g. 25 December and lasting until the full payment on 25 July 2010 in the following amount:

from 25 December 2008 to 31 January 2009	10.75 % p.a.,
from 1 January 2009 to 30 June 2009	9.25 % p.a.,
from 1 July 2009 to 31 December 2009	8.50 % p.a.,
from 1 January 2010 to 30 June 2010	8.00 % p.a.
and from 1 July 2010 to 25 July 2010	7.75 % p.a.

However if the default occurs on e.g. 2 July 2010, the default interest rate will be **7.75 % p.a.** (according to the now valid repo rate of the CNB), **the whole time the default lasts until it is paid up full.**

In this context, we would like to point out that in commercial legal relations it is also possible to negotiate the level of the default interest rate and in this way to exclude the aforementioned Government Regulation. No changes are possible in the amount of default

interest rates for civil legal relations. In both civil and commercial matters, it is also possible to negotiate a contractual penalty in case of a default in performance of a pecuniary obligation.