Czech macroprudential policy in recent years

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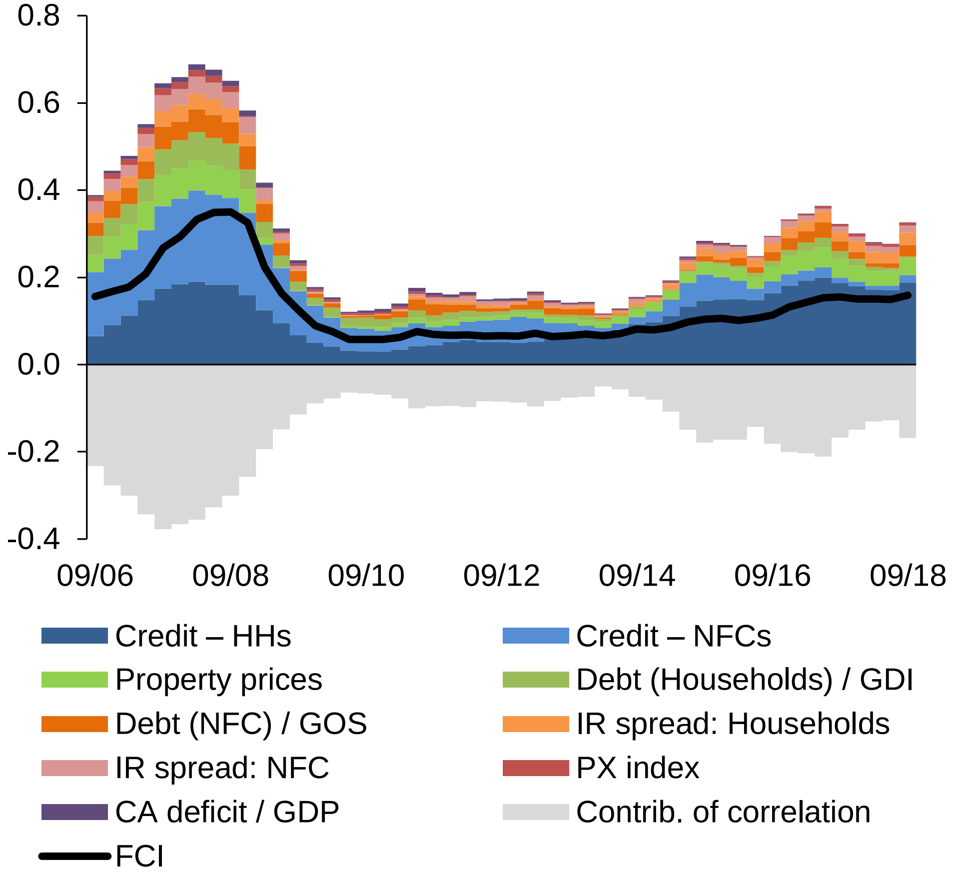
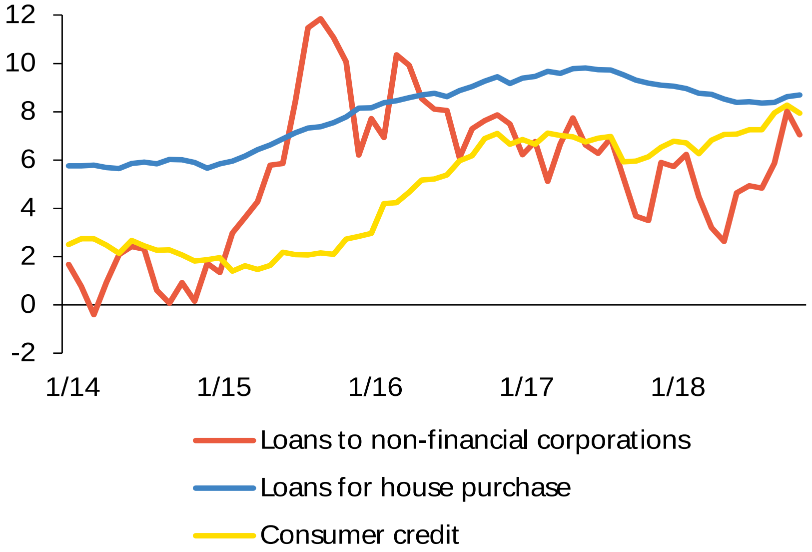
Financial cycle indicator (0 min, 1 max)



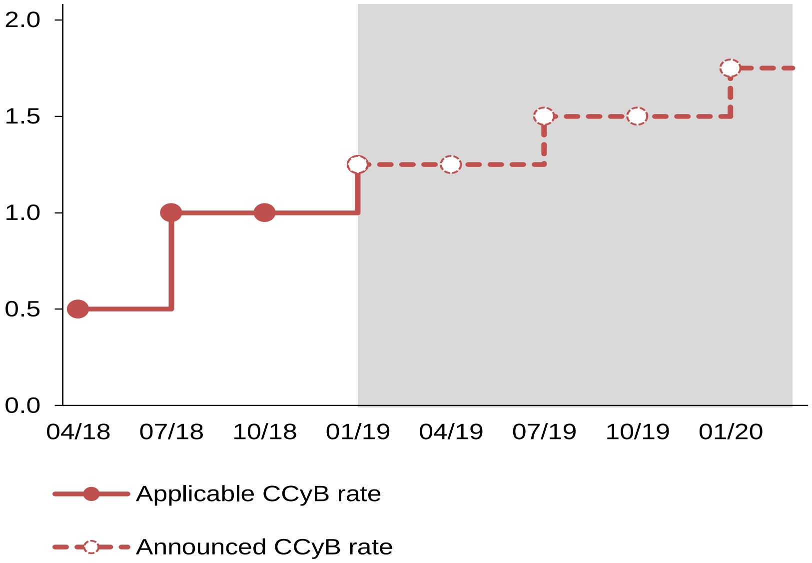
- Financial and economic cycle peaking/peaked.
- Cyclical risks connected with increased investment optimism.
  - Growth in property prices and mortgage lending.
  - Impact on vulnerability of banking sector.
- External risk of global repricing of risk premia.

Cyclical risks have been addressed by CCyB

Loans to the private non-financial sector
(annual percentage rates of growth)



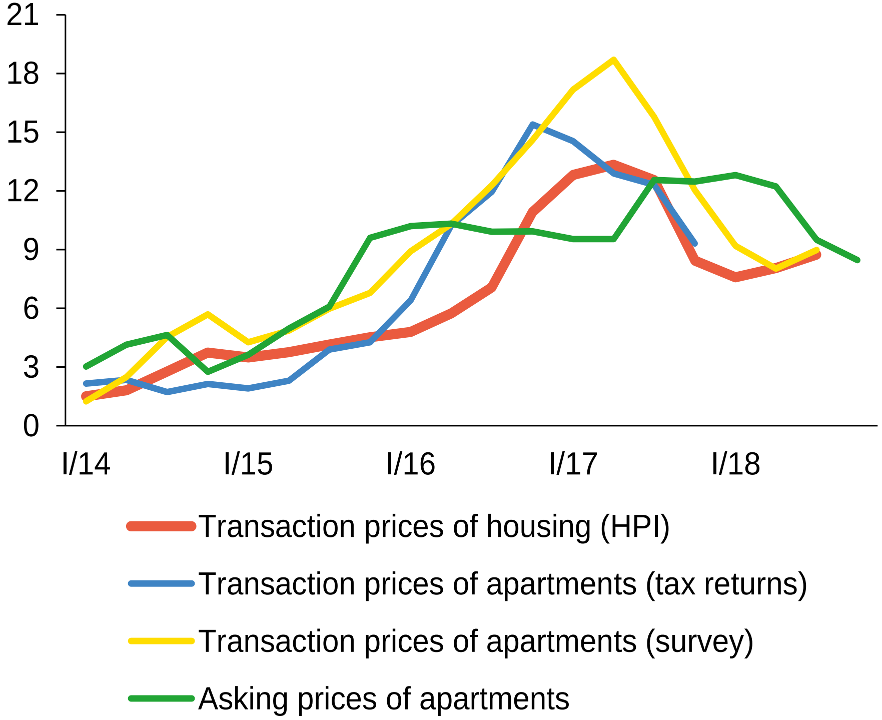
Countercyclical buffer rate
(%)



- **Cyclical risks**: strong credit growth, increasing property prices and credit margins to provisions, decrease in risk weights and cost of risks.
- First rise in **CCyB** in 2017, currently 1.75% effective from 2020.

House prices have been rising strongly

Transaction and asking prices of housing
(annual percentage changes)



- House prices somewhat overvalued (up to 11%, depending on method).
- Affordability deteriorated.
- Risk of speeding house price/loan spiral (currently halted).

LTV limits for mortgages set in 2015, tightened in 2016 and 2017

- Upper LTV limit of 90%, aggregate limit of 15% for loans with LTV of 80%–90%.
- Banks have been compliant with recommended aggregate LTV limit since 2017 Q3.

Setting DTI and DSTI limits for mortgages

CNB CZECH NATIONAL BANK

- Risk of over-optimism in terms of ability to take and service debt (even with favorable wage growth).
- Gradual growth in debt could become source of structural risks in medium or long term.

Since October 2018 additional targeted measures implemented:

- upper DTI limit of 9 times applicant’s net annual income,
- upper DSTI limit of 45% of applicant’s net monthly income,
- specific cases taken into account by allowing lenders to apply 5% exemption (in terms of total retail loans secured by residential property provided in previous calendar quarter).

The CNB is seeking statutory power to set upper limits on LTV, DTI and DSTI ratios for mortgage loans.

Summary of capital buffers and bank resilience

Capital buffer	Rate	Year of effect	Currently applied rate
Capital conservation buffer	2.5%	2014	2.5%
Countercyclical capital buffer	1.75%	2020	1.25%
Systemic risk buffer (5 banks)	1%–3%	2014	1%–3%
Buffer for other systemically important institutions (list of 7 banks)	Buffer can be set at a max.2%, which may not be sufficient in CZ, CNB does not actively apply		

- **Bank macro stress test** with five-year horizon: hypothetical adverse economic developments cause significant fall in sector’s capital ratio (of 8.8 pp to 9.9%, regulatory min = 8%).
- Without current voluntary capital surpluses (3.0 pp) of banks, capital ratio of sector would fall below regulatory minimum.

Objectives/specific risks/instruments

Intermediate objectives	Key instruments	Specific risk	Existence of specific risk in CZ	Applied in CZ
Mitigate excessive credit growth and leverage	Countercyclical capital buffer	Strong credit recovery accompanied by easing of lending standards	Yes	Yes, 0.5% since 2017, 1% since 2018, 1.25% and 1.5% from 2019, 1.75% from 2020
	Macroprudential leverage ratio	Rising leverage, low aggregate risk weights, rising off-balance sheet risk	Potential	No
	Sectoral capital requirements (in particular real estate exposure)	Elevated growth in loans and risks in specific sector	Potential	Not as yet, CNB reacts to property exposure risks with other instruments
	LTV caps	Risk of spiral between property prices and property financing loans	Yes	Yes, since 2015, tightened in 2016 and 2017
	LTI, DTI, DSTI caps	Risk of excessive household indebtedness and debt service	Yes	For DTI and DSTI yes, since 2018
Mitigate excessive maturity mismatch and illiquidity	Macroprudential NSFR	Long-term liquidity risk	Potential	Microprudential general requirement introduced in 2016
	Macroprudential LCR	Short-term liquidity risk	No	Microprudential minimum standard introduced in 2015
Limit exposure concentrations	Systemic risk buffer	Property exposure concentration	Potential	Not as yet, CNB reacts to property exposure risks with other instruments
	Public finance stress test	Sovereign exposure concentration	Yes	Yes, option of additional capital requirements in event of elevated sovereign risk, since 2015
Limit misaligned incentives	SIFI capital surcharges (G-SII and O-SII buffer)	Potential impacts of problems in SIFIs on financial market stability and real economy	Yes	No, O-SIIs identified, different instrument applied
	Systemic risk buffer		Yes	Yes, since 2014 for four banks, since 2017 for five banks
Strengthen resilience of financial infrastructures	Margin and haircut requirements on CCP clearing	Counterparty default risk, interconnectedness of financial infrastructures	No	No
	Increased disclosure			No
	Systemic risk buffer			No

Thank you for your attention

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