

OFFICIAL INFORMATION OF THE CZECH NATIONAL BANK

of 29 November 2023

regarding the assessment of the setting of the countercyclical capital buffer rate for the Czech Republic – November 2023

I.

Purpose of the Official Information

Pursuant to Article 12o(4) of Act No. 21/1992 Coll., on Banks, as amended (hereinafter referred to as the “Act on Banks”) and Article 8a(4) of Act No. 87/1995 Coll., on Credit Unions and Certain Related Measures and on the Amendment of Czech National Council Act No. 586/1992 Coll., on Income Taxes, as amended, as amended (hereinafter referred to as the “Act on Credit Unions”), the Czech National Bank (hereinafter referred to as the “CNB”) assesses the degree of cyclical systemic risk. Based on this assessment, the CNB may set or amend the countercyclical capital buffer rate for the Czech Republic in a provision of a general nature pursuant to Article 12o(6) of the Act on Banks and Article 8a(6) of the Act on Credit Unions.

As the CNB has not set or amended the countercyclical capital buffer rate on the basis of the assessment conducted in November 2023 and has therefore not issued a provision of a general nature, it is publishing a justification for leaving the countercyclical capital buffer rate for the Czech Republic unchanged in an official information document.

II.

Justification for leaving the countercyclical capital buffer rate unchanged

1. In its assessment of the degree of cyclical systemic risk and its decision-making on the countercyclical capital buffer rate for the Czech Republic, the CNB takes into account the countercyclical capital buffer guide calculated pursuant to Article 12o(2) and (3) of the Act on Banks and Article 8a(2) and (3) of the Act on Credit Unions, the recommendations issued by the European Systemic Risk Board (hereinafter referred to as the “ESRB”) and indicators which may imply growth in systemic risk.
2. Pursuant to Article 12o(2) and (3) of the Act on Banks and Article 8a(2) and (3) of the Act on Credit Unions, the calculation of the buffer guide is based on the deviation of the credit-to-GDP ratio from its long-term trend – the credit-to-GDP gap. The credit-to-GDP ratio was 79.2% and the relevant deviation from the long-term trend -11.7 percentage points in 2023 Q1.¹ This value

¹ In accordance with ESRB Recommendation 2014/1 (*Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates*), total credit means the value

corresponds to a benchmark countercyclical capital buffer rate of 0%. The additional gap,² which is based on the ESRB Recommendation (section B, Article 2) and better reflects the specificities of the Czech economy, was 0 percentage points in 2022 Q4 and implies a benchmark rate of 0%.

3. In reaction to the ESRB recommendation, the CNB has repeatedly emphasised in its publications (particularly the Financial Stability Report) that it does not regard the size of the gaps referred to in paragraph 2 as a reliable guide for determining the position of the domestic economy in the financial cycle and setting the rate. The CNB prefers an approach based on a comprehensive assessment of indicators identifying growth in systemic risks under Article 12o(4) of the Act on Banks and Article 8al(4) of the Act on Credit Unions.³
4. The main indicators monitored include the financial cycle indicator (FCI). The FCI decreased further in 2023 Q2 to levels well below the local peak reached at the end of 2021. A downturn in the financial cycle is apparent in all the components of the indicator. Overall, the FCI indicates that the extent of newly accepted cyclical risks in the domestic banking sector's balance sheets is significantly subdued. Overvaluation of apartment prices for the median household as measured by net income remained very elevated at 60% in 2023 Q2, despite a significant cooling of growth in prices of residential property. The segment of loans to households for house purchase has yet to see a recovery and the monthly volume of pure new loans to households stayed close to CZK 20 billion in 2023 Q3, remaining below the average figure. The absence of a recovery was also apparent in pure new loans to non-financial corporations, the monthly volume of which in September (CZK 32.8 billion) was the lowest since February 2017. This was accompanied by declining year-on-year growth rates of the stock of loans to households and non-financial corporations.⁴ The CNB continues to view the total amount of cyclical risks accumulated in banks' balance sheets as elevated, including in relation to the actual level of provisioning and the ratio of provisions to total loans. The potential unexpected cyclical credit losses would be CZK 15 billion by the CNB's estimation. Cyclically lowered risk weights in the loan portfolios of banks applying the IRB approach also remain a source of systemic risk. A deterioration in risk parameters as a result of significantly adverse cyclical effects would lead to a rise in risk weights and indirectly also in the capital requirement in absolute terms. This rise should also be covered by the countercyclical capital buffer. The capital needed to cover the fall in the capital ratio as a result of the potential cyclical rise in risk weights amounts to around CZK 42.2 billion according to the CNB's estimates. The total additional capital needed to cover unexpected cyclical credit losses and the growth in risk weights thus amounts to CZK 57.2 billion, which corresponds to a countercyclical capital buffer rate of 2%.
5. Based on the above assessment, the CNB Bank Board has decided to leave the countercyclical capital buffer rate at 2.25%, which is the level necessary to ensure that the banking sector is resilient to these risks. Owing to the persisting risks and uncertainties of the forecasts, the future evolution of the rate will be based – in addition to quantitative methods – on new information on the overall economic situation in the Czech Republic and abroad. Should the cyclical risks

of all loans provided to the private sector (non-financial corporations, households and non-profit institutions serving households) plus the volume of bonds issued by the domestic private sector. The time series of 1995 Q1–2023 Q2 and the Hodrick-Prescott filter with a smoothing parameter (λ) of 400,000 are used to calculate the long-term trend of the credit-to-GDP ratio.

² The additional gap – the expansionary credit gap – is calculated as the difference between the current ratio of bank loans to gross value added of the private non-financial sector and the minimum level of this ratio achieved in the past eight quarters.

³ The methodological framework of the Czech National Bank for setting the countercyclical buffer rate is presented in the document [The CNB's approach to setting the countercyclical capital buffer](#).

⁴ The annual growth rate of bank loans provided to households for house purchase was 2.9% as of 30 September 2023. The annual growth rate of bank loans to households for consumption was 8.0%. This figure was affected by a one-off increase in the stock of loans for technical reasons – loan reclassification – in November 2022. Bank loans to non-financial corporations increased by 3.1% year on year as of 30 September 2023.

continue to disappear naturally from the banking sector's balance sheets, the CNB remains ready to lower the countercyclical capital buffer rate gradually. Should the economic situation worsen significantly and significant unexpected credit losses form in the domestic banking sector, the CNB is ready to lower the buffer rate more significantly or release the buffer fully in order to foster smooth lending to the real economy.

III.
Final provisions

This Official Information was published on 15 December 2023.

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