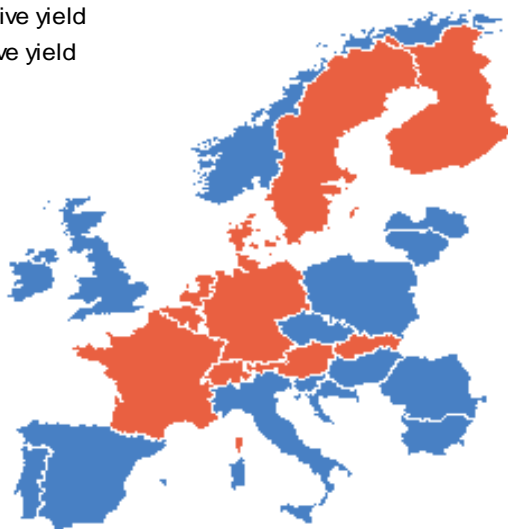
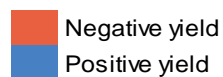


The impact of low interest rates on bank profitability and asset prices in Central Europe

5- year government bond yields



Vladimir TOMSIK
Vice-Governor
Czech National Bank

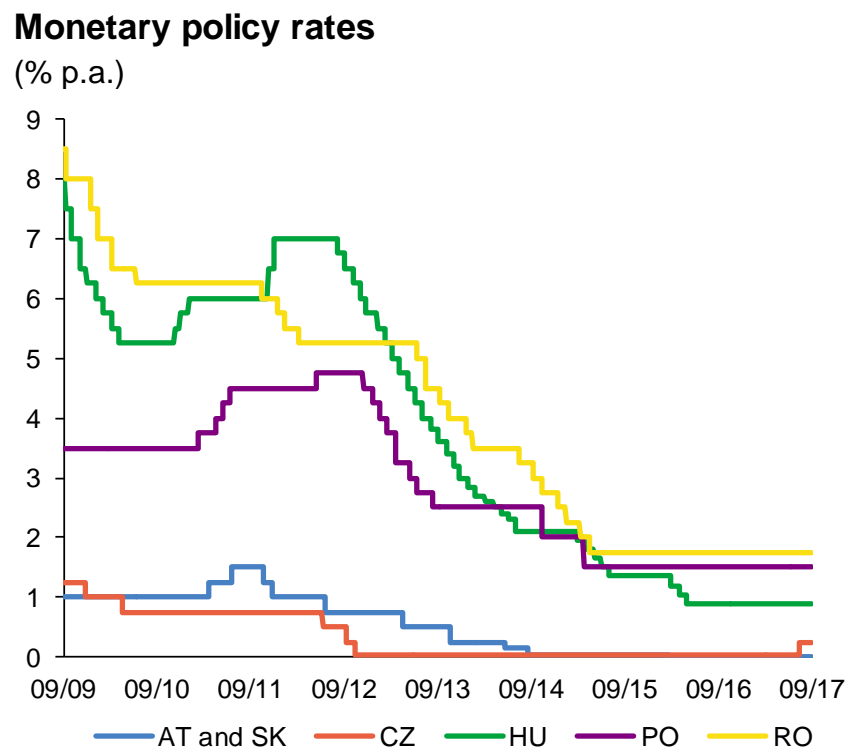
Basel Consultative Group Meeting
11–12 October 2017, Abu Dhabi

- Negative monetary policy rates and government bond yields
- Net interest income and profits of banks
- Credit growth and residential property prices
- Responses of banks to challenging interest rate environment

- Presented mainly through data from the following countries:
AT, CZ, HU, PL, RO, SK.

- Discussion on policy responses limited to macroprudential tools
 - Broad array of tools and approaches described in detail in the ESRB report on the impact of low interest rate environment.

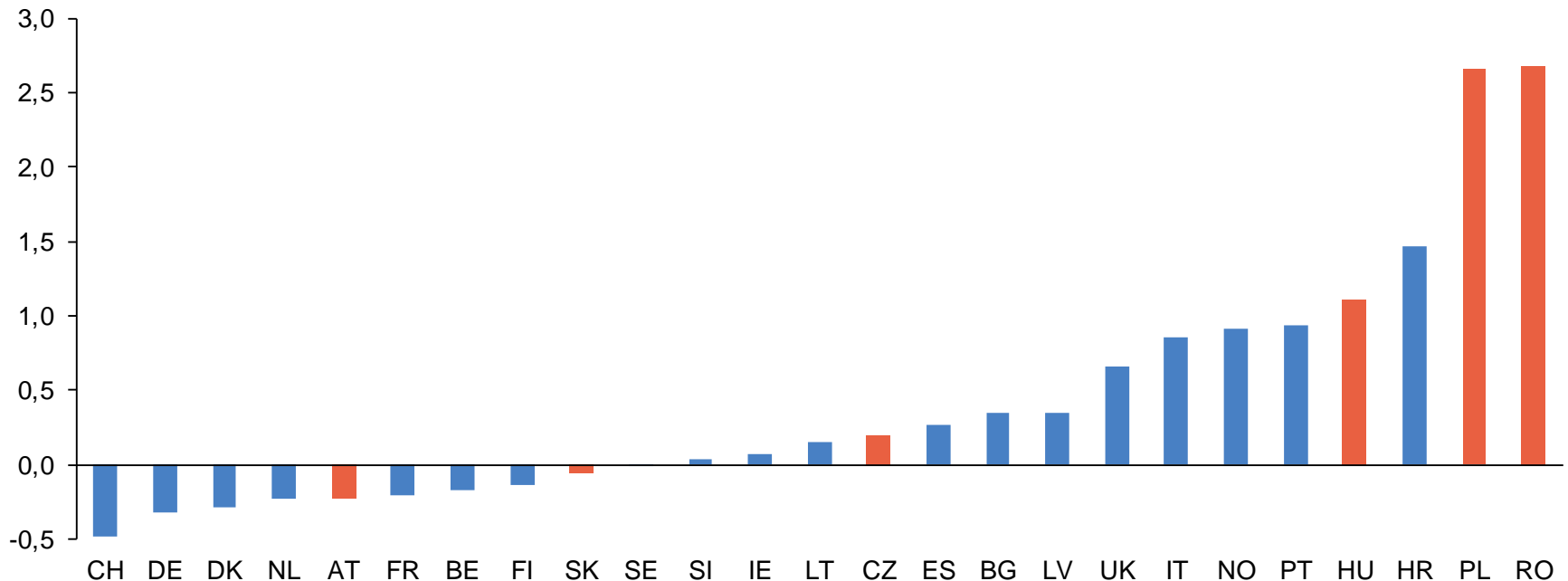
- Policy rates moved to 2% or less, with AT, SK and CZ at zero for a prolonged period.
- The CNB was the first central bank to make a hike in Europe.



Source: Thomson Reuters

- 5Y yields on government bonds have turned negative for relatively long maturities in AT and SK (for some time also in CZ).
- Yields have stayed higher in PL and RO.
- Reason behind the differences: long-term structural factors, safe haven status or not, monetary policies.

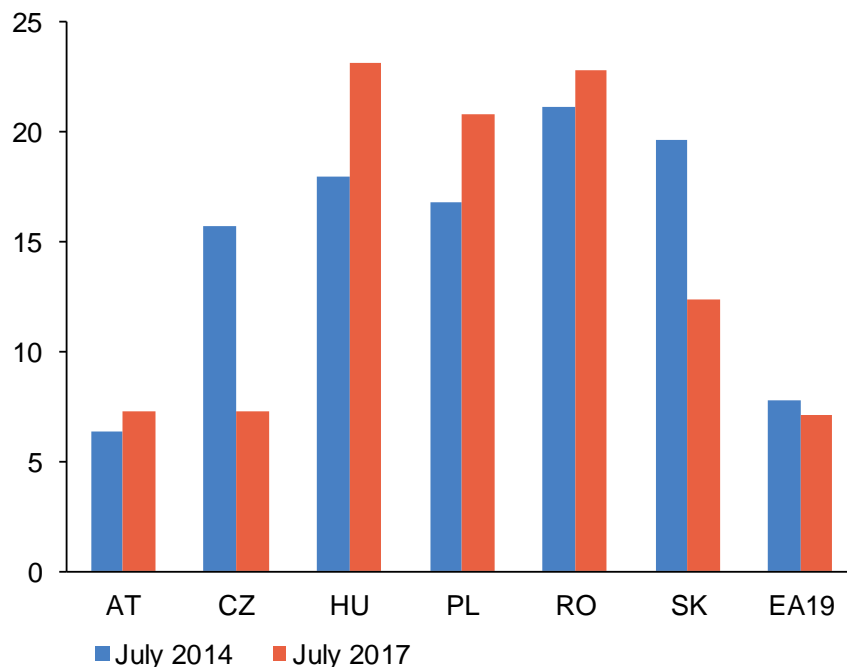
5-year government bond yields (redemption yield at 21th September)



Source: Thomson Reuters

- Sharp decline in government bond yields prompted banks in CZ and SK not to roll over their positions as old bonds with positive yields mature.
 - Proceeds deposited in CB facilities at zero rate instead.

**Domestic general government credits
extended by domestic MFIs**
(% of MFI assets)

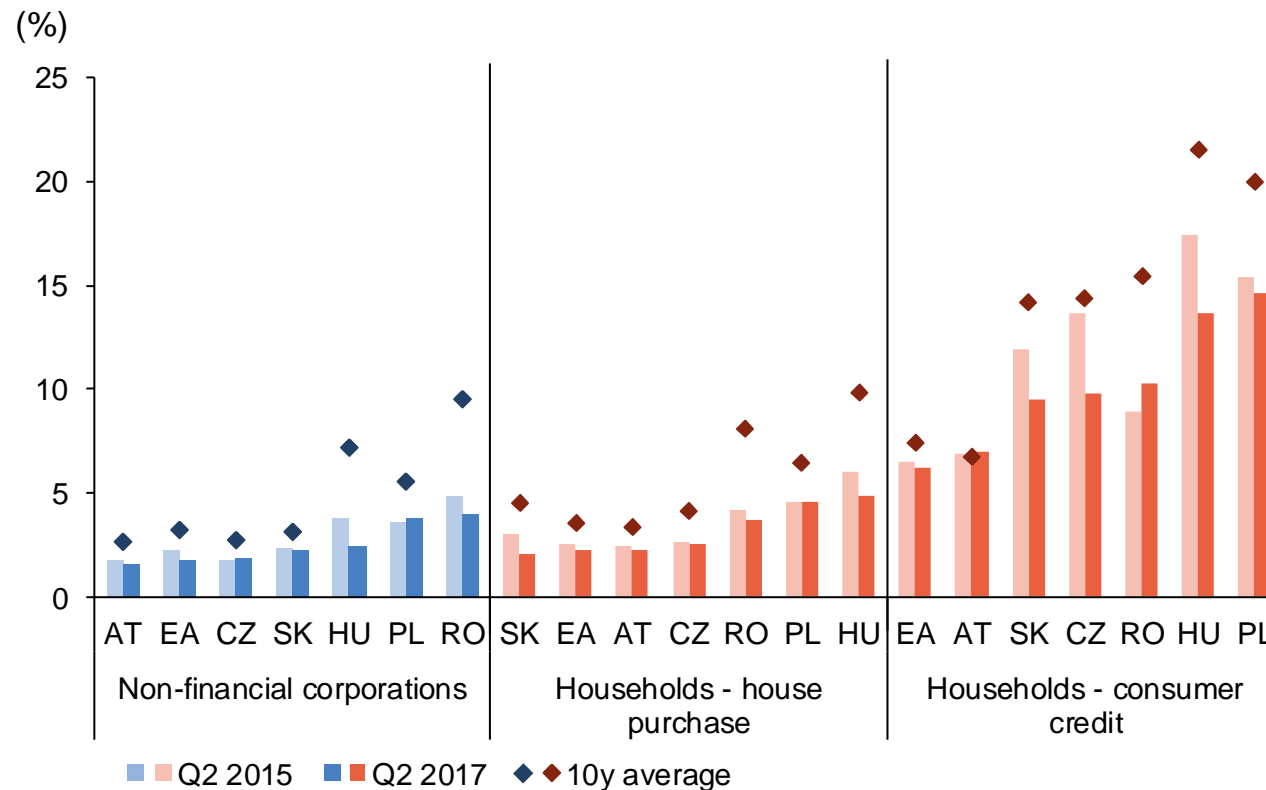


Source: ESRB Risk Dashboard

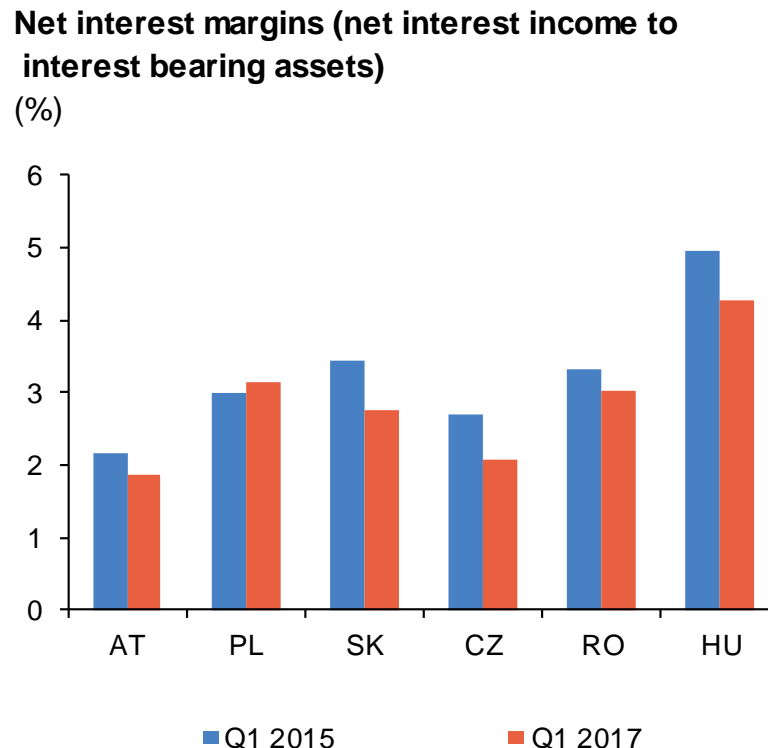
Note: Central banks credits are not included. The credits comprise debt securities held and loans extended. MFI assets in the ratio's denominator exclude "other assets". EA and EU averages are not volume-weighted.

- Interest rates on new corporate and housing lending have reached very low levels in AT, CZ and SK.
- Downward pressures in the consumer credit segment have occurred recently in SK, CZ and HU.

Interest rate on new loans to private non-financial sector



- Lower lending rates have eaten up the banks' net interest margin.
 - A decrease in the net interest margin of 30–70 bp (i.e. 7–23 %).

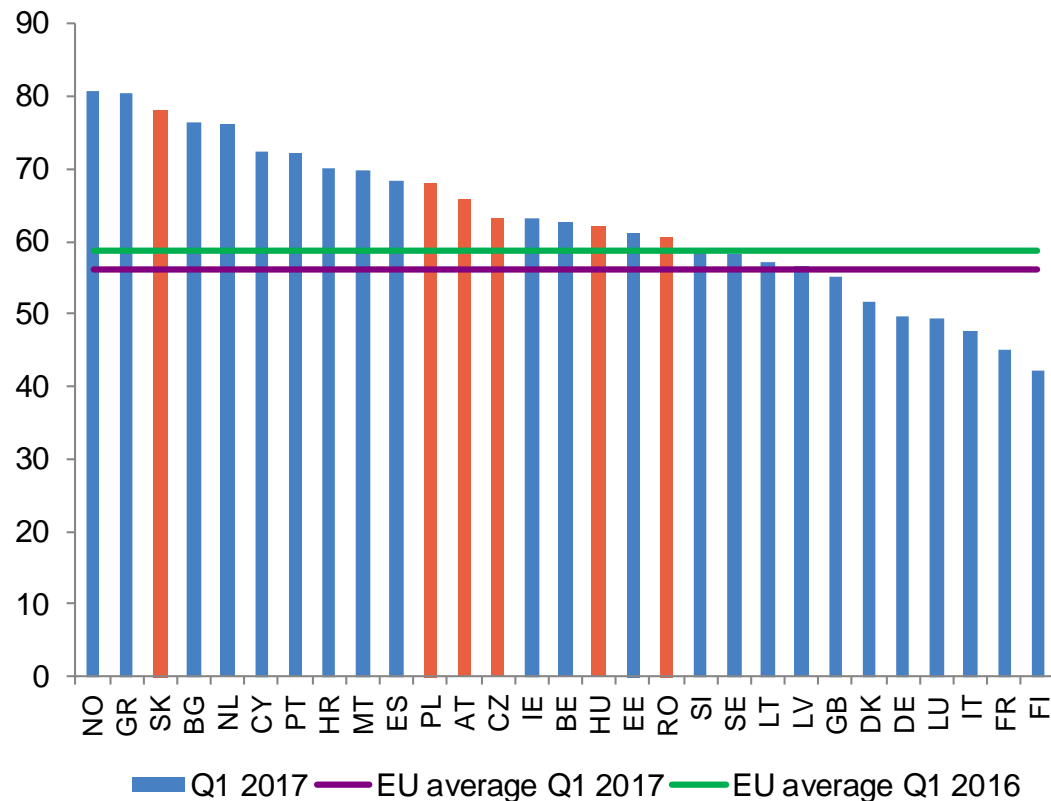


Source: EBA

- The decline in margins is creating downward profit pressures.
 - Net interest income represents a relatively high share of operating income for banks in the region.

Net interest income to total operating income

(%)

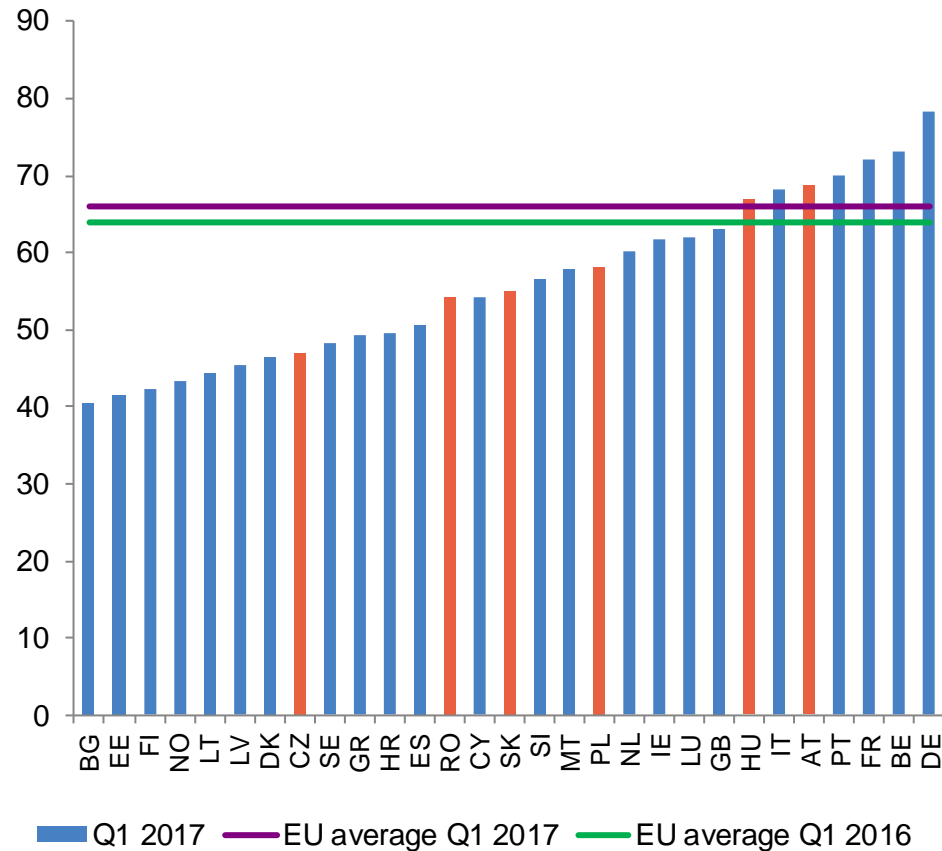


Source: EBA

- Banks have offset pressures on interest income so far by lowering funding costs, reducing risk costs and keeping operational costs at low levels.
- Operational efficiency is relatively high in CZ, RO, SK and PL.

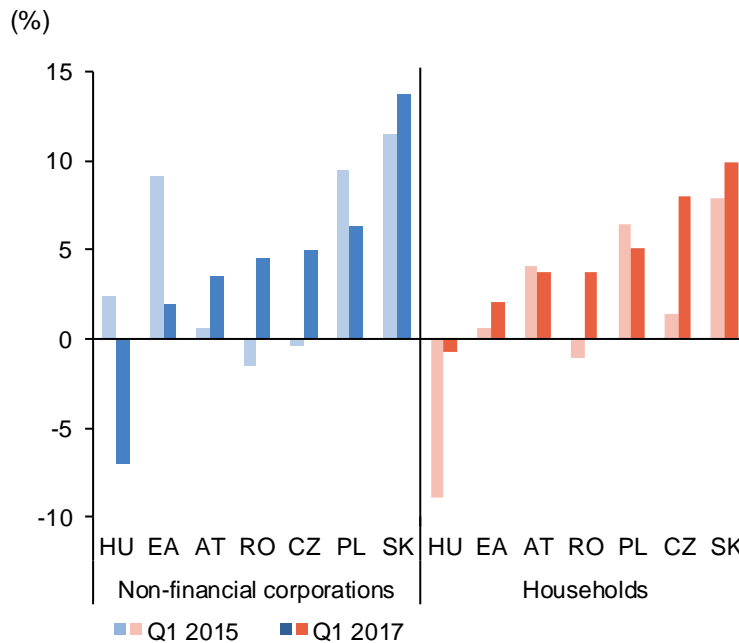
Cost to income ratio

(%)



- Selling more credit is the dominant response to profitability risk.
 - Both corporate and housing lending increasing considerably except for HU.
 - The pace of credit growth is related to the low levels of indebtedness in the “new” EU member states.

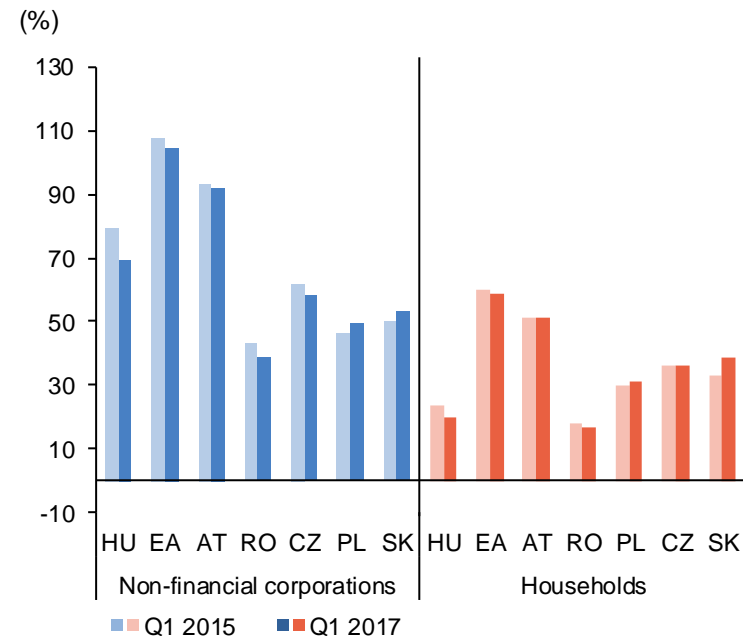
Annual growth rate of total credit to private non-financial sector



Source: BIS, BNR, NBS

Notes: Total credit contains all credit plus debt securities issued.

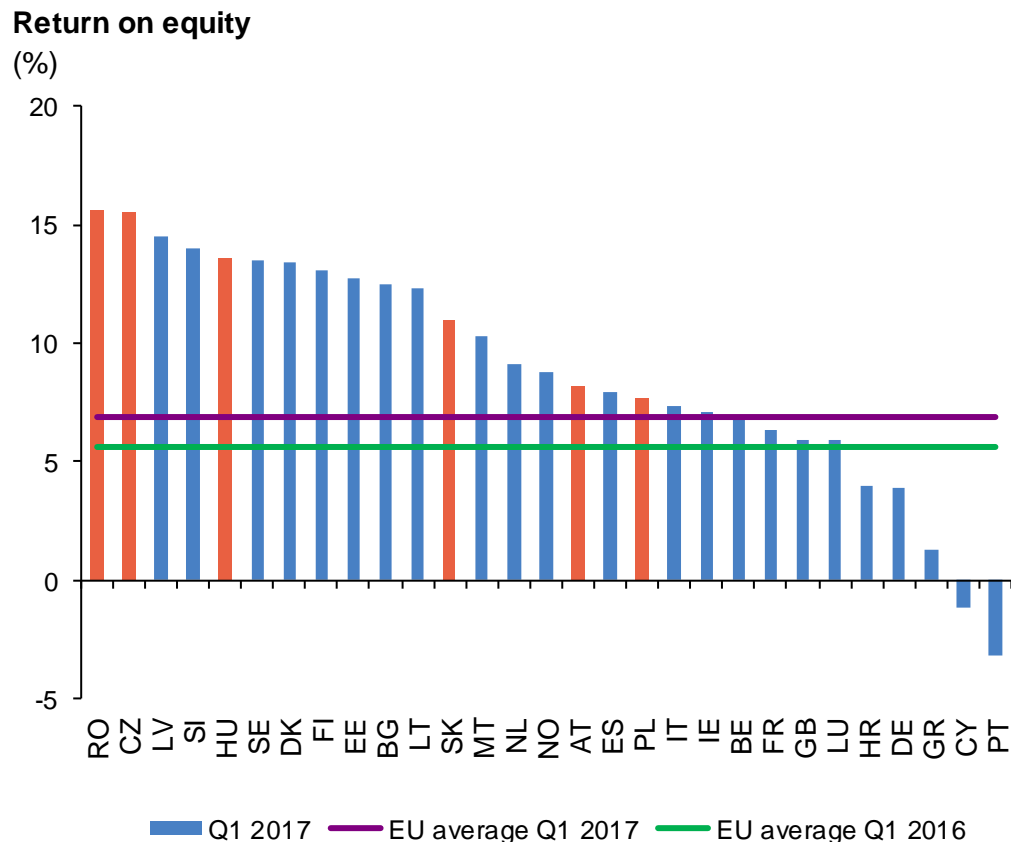
Total credit to GDP



Source: BIS, BNR, NBS

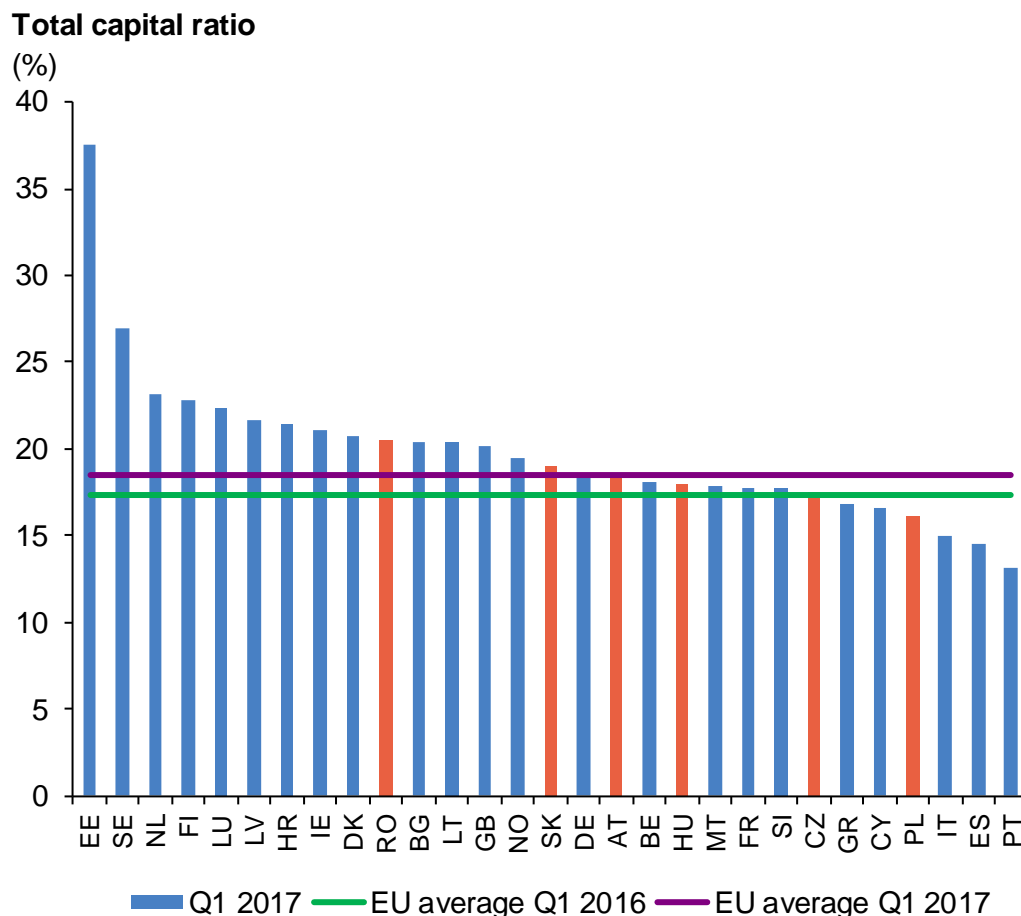
Notes: Total credit contains all credit plus debt securities issued.

- Profitability in the regional banking sectors kept at relatively high levels so far.
 - True risk costs of new lending may occur with considerable delay.



Source: EBA

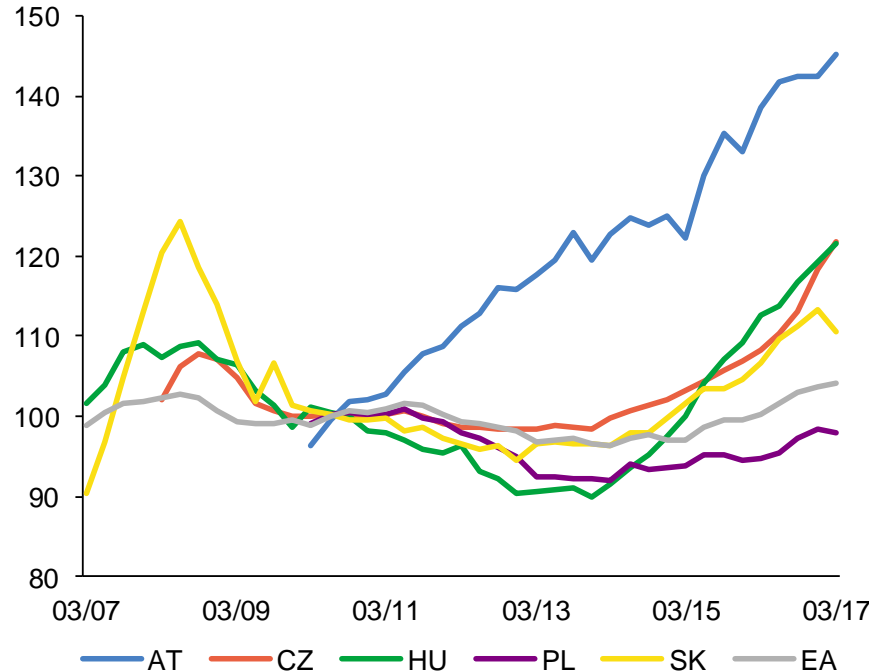
- Sustained profits enable to keep the capitalization of the regional banking sectors also at relatively high levels in most cases.



- Apartment prices undergoing considerable recovery except for PL.
- The potential for a feedback loop between prices and credits for housing calls for macroprudential actions.

Residential property prices

(2010 = 100)

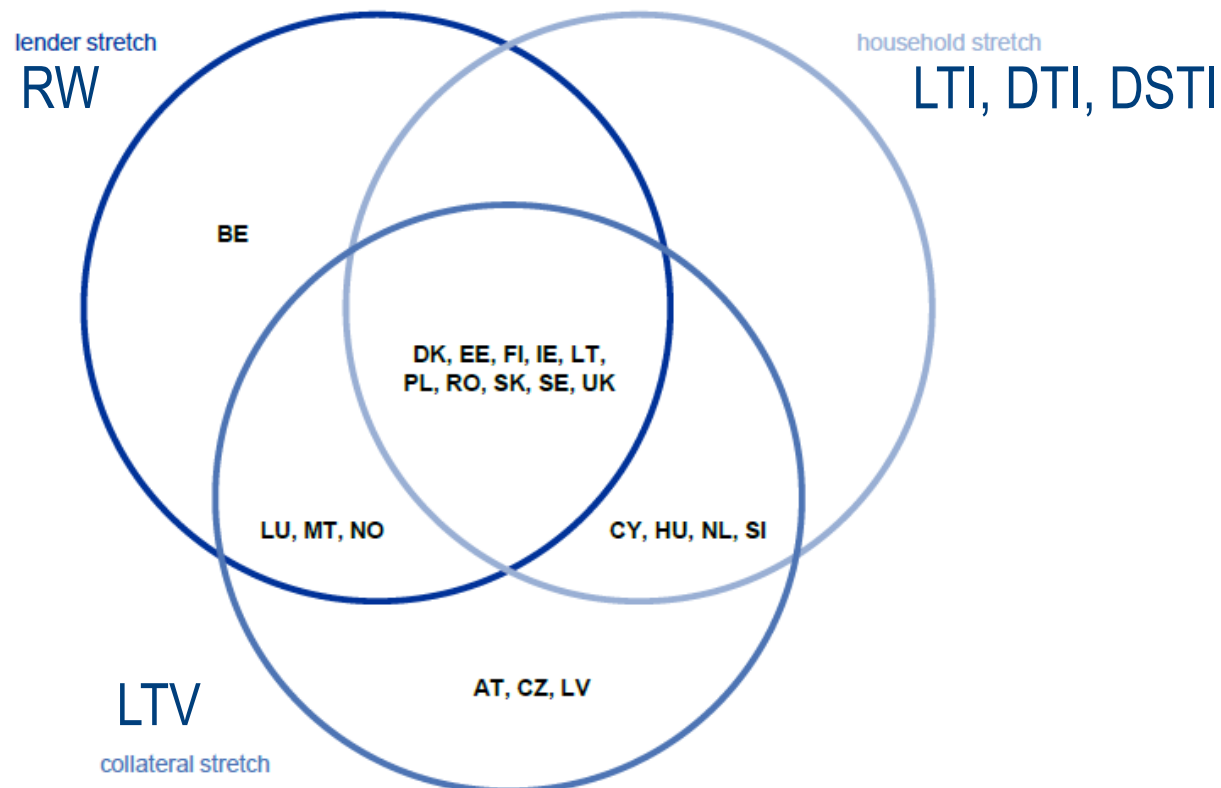


Source: Eurostat

Note: The House Price Index captures the residential property (flats, detached houses, terraced houses, etc.) including the land component.

- Countries in the region are active in the use of macroprudential tools (LTV, LTI, maturities ...).
 - Giving macroprudential authorities legal powers to do so is subject to political resistance and/or compromises.

Use of residential real estate instruments according to stretches typology



- Some countries in the region apply a countercyclical capital buffer to mitigate risks related to the considerable increase in lending besides other capital buffers.

Combined buffer requirements as of 3 July 2017

Country	CCoB	CCyB (CRD 130)		The higher of			Combined buffer requirement	Details phasing in
				G-SII buffer	O-SII buffer	SRB		
	CRD 129	Applied	Announced	CRD 131	CRD 131	CRD 133		
Austria	1.25%	0%	0%		7 banks: 0.25%-0.5%	12 banks: 0.5%-1%	1.25%-2.25%	O-SII fully loaded by 01.01.2019 SRB fully loaded by 01.01.2019
Czech Republic	2,5%	0.5%	1%		7 banks: n/a	5 banks: 1%-3%	3%-6%	
Hungary	1,25%	0%	0%		8 banks: 0.125%-0.5%		1.25%-1.75%	O-SII fully loaded by 01.01.2020
Poland	1,25%	0%	0%		12 banks: 0%-0.75%		1.25%-2%	
Romania	1,25%	0%	0%		9 banks: 1%		1.25%-2.25%	
Slovakia	2.5%	0,0%	1,25%		5 banks: 1%-2%	4 banks: 1%	2.5%-4.5%	SRB fully loaded by 01.01.2018

Source: ESRB



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