SUMMARY

Financial Stability Report

Spring 2026

ASSESSMENT OF RISKS TO FINANCIAL STABILITY

Heightened geopolitical and economic uncertainty intensified by the conflict in Iran remains the main source of risks. The Czech economy and financial sector are resilient to external shocks for now. However, prolonged tensions could increase the likelihood of adverse economic shocks and weaken this resilience.

The Czech economy is growing at a solid pace and moving further into the growth phase of the financial cycle. Lending activity is rising, as is household and corporate debt. Property prices are also continuing to increase. Banks currently assess credit risk as low, but a potential worsening of the economic situation could adversely affect credit portfolio quality.

BANK BOARD DECISIONS ON FINANCIAL STABILITY

Capital instruments

Countercyclical capital buffer*	Systemic risk buffer	Other systemically important institutions buffer
1.5% for all banks	**0.5%** for all banks	**0.5–2.5%** for the six main banks
Increased by 0.25 pp	Unchanged	Unchanged
Increase is reaction to ongoing build-up of cyclical risks associated with growth phase of financial cycle and growth in banks' credit portfolios.	Current buffer rate ensures sufficient resilience of banks to structural systemic risks arising from global uncertainties.	Current rates are helping to strengthen resilience and stability of key institutions in financial system.

Borrower-based measures (LTV, DTI and DSTI limits)

Statutory limit	Recommendation (selected provisions)	
LTV limit	Requirements regarding purchase of investment residential property	Prudence
80%** ** 90% for applicants under 36 years purchasing owner-occupied housing	**LTV of 70%** **DTI of 7**	**DTI of over 8** **DSTI of over 40%** **LTV of over 80%** **Stress test of applicants (interest rates, living costs)**
Unchanged	Unchanged	Unchanged
Settings sufficiently reflect risks of apartment price overvaluation and rapid mortgage growth.	Requirement is reaction to risk taken on by banks when providing mortgages for purchase of investment residential property.	CNB monitors banks' credit standards on ongoing basis and continues to point out that lenders should be very cautious in case of loan applications with riskier characteristics. It also recommends that banks test borrowers' ability to repay even in worse conditions (stress test involving increase in rates of 2 pp and increase in living costs).

* INCREASE IN THE COUNTERCYCLICAL CAPITAL BUFFER RATE

Countercyclical capital buffer rate	**Increased by 0.25 pp to 1.50%**	Pending as of 1 July 2026 Applicable from 1 July 2027

What risk does the countercyclical capital buffer cover?	The countercyclical capital buffer (CCyB) helps to protect the banking sector during periods of economic downturn. It creates a reserve against risks associated with the financial cycle. During periods of economic growth, banks lend more and typically ease their lending standards over time. Risks gradually accumulate on their balance sheets. If the financial situation of households and firms subsequently deteriorates, banks may face rising losses from non-performing loans. The CCyB therefore creates a capital buffer for worse times. It should enable banks to absorb higher losses while continuing to provide credit.
What is taken into account when setting the countercyclical capital buffer?	When setting the CCyB rate, the CNB primarily monitors developments in credit, household and corporate debt, and property prices. It also evaluates other indicators that help it to assess the evolution of risks in the financial system. It takes into account the quality of loans provided by banks, financing conditions, and the overall situation in the economy and financial markets. The CNB Bank Board sets the CCyB rate four times a year.
Why has the CNB increased the rate?	The CNB has increased the CCyB rate by 0.25 pp due to ongoing growth in cyclical risks in the domestic banking sector. The Bank Board's decision reacts primarily to strong growth in loans to households and firms, an increase in their debt and continued brisk growth in residential property prices. In the future, these factors may increase the vulnerability of the banking sector if the economic situation deteriorates. The higher CCyB rate aims to strengthen the resilience of banks and create a larger buffer against possible worse economic developments.

RISKS MONITORED AND THEIR EVOLUTION

The global economy is facing high uncertainty, related mainly to geopolitical tensions surrounding the conflict in Iran. Restrictions on energy commodity supplies and rising oil and gas prices could slow economic growth and increase inflation pressures.

Financial markets are more sensitive to new information and are characterised by increased price volatility of financial assets. This is particularly evident in government bonds, where both yields and volatility have risen. Equity markets have not, on the whole, recorded a marked decline so far, and risk premia on corporate bonds also remain low. This may indicate a tendency on the part of investors to underestimate risks, and a sudden correction in asset prices therefore cannot be ruled out.

Concerns regarding public finances are increasing in Europe. Government bond yields are rising more markedly in more indebted and more vulnerable economies. Higher interest rates are increasing debt-servicing costs and may further constrain fiscal space, for example in case of rising defence expenditure.

The development of artificial intelligence represents a new source of risks for the economy and financial markets. The value of tech companies and the concentration of investments linked to these technologies are increasing. However, the future economic benefits are still uncertain. At the same time, AI may significantly affect the labour market and increase the need for adaptation by firms, households and public institutions.

The Czech economy is growing. However, risks remain closely linked to developments abroad. A slowdown in the global economy could negatively affect Czech exports, investment and overall economic performance. A potential rise in energy prices also poses a risk, as it would increase firms' costs and weaken their competitiveness.

The financial cycle is still in its growth phase, as reflected in growth in credit, property prices and the indebtedness of firms and households. The financial sector is also exhibiting characteristics typical of this phase, in particular low default rates and low credit losses.

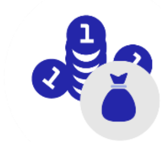
Corporate credit activity has strengthened, especially as regards investment loans. This has been reflected in growth in the sector's debt. At the same time, the profitability of firms has declined to a low level due to rising wage costs. This may increase their vulnerability to adverse economic developments.

Growth in residential property prices has slowed after more than two years, but transaction activity has remained high. Property prices are expected to continue rising, although the pace should gradually moderate. Developments in household income and higher demand for residential property as an investment remain an upside risk to price growth.

Household demand for housing loans continues to increase. It is being supported by higher incomes, low unemployment and investment optimism. The volume of new loans for both house purchase and consumption is slightly above the long-term average. This is gradually being reflected in rising household debt.

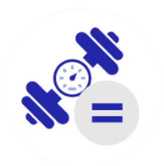
The favourable economic situation is reflected in low default rates on loans to corporations and households. Default rates for most types of loans remain close to all-time lows. However, a potential deterioration in the global economic situation could lead to a worsening of credit quality in loan portfolios.

SITUATION IN THE FINANCIAL SECTOR



The banking sector continues to record strong profitability. This is **supporting its capital position and overall resilience.** Net interest income, which has not changed significantly in an environment of stable monetary policy rates, remains the main component of profit. Historically low credit risk costs are also currently having a favourable effect.

The banking sector has long maintained a strong capital position well above the regulatory requirements. The sector's overall capital ratio reached 20.5% at the end of 2025. Together with good asset quality and sufficient liquidity, this bolsters its resilience to potential adverse economic developments and liquidity shocks.



Stress tests have confirmed the importance of the banking sector's capital buffers. Even in a hypothetical scenario of a sharp global economic downturn associated with an escalation of the conflict in the Middle East and rising energy prices, the banking sector would remain resilient. This resilience is based on existing capital buffers and stable income from loan portfolios and government bond holdings.

Investment funds continue to grow strongly, increasing the exposure of part of households' financial reserves to market fluctuations. As the sector continues to expand, its importance from a systemic risk perspective is also increasing. Any pronounced repricing of financial assets could negatively affect the value of households' financial assets and their consumption and investment behaviour.