SUMMARY

Financial Stability Report

Autumn 2026

ASSESSMENT OF RISKS TO FINANCIAL STABILITY



Uncertainty surrounding developments in the global economy remains the main source of risks. An escalation of conflicts could lead to weaker economic growth, high energy and other input prices and weaker external demand. This could increase domestic firms' costs, weaken their competitiveness and adversely affect economic growth.
Cyber attacks also pose a significant risk. As artificial intelligence capabilities develop, they may have the potential to disrupt key financial services and threaten financial stability.



The domestic economy remains in the growth phase of the financial cycle, close to its peak. Growth in lending activity remains elevated among corporations, while it is already slowing for households. In addition to a rise in interest rates, the tightening of mortgage lending conditions may also contribute to a turning point in the financial cycle.



Risks associated with new mortgages are declining. Banks are not easing their credit standards, and the increased riskiness of new mortgages at the start of the year has subsided. This was associated with frontloading ahead of the tightening of conditions for investment mortgages in April 2026 and the expected rise in interest rates. The tighter conditions for investment mortgages led to a decline in the volume of such mortgages and an improvement in their risk profile.

BANK BOARD DECISIONS ON FINANCIAL STABILITY

Capital instruments



Countercyclical capital buffer

1.5%
for all banks

Unchanged

Current buffer rate sufficiently covers cyclical systemic risks in banks' balance sheets.

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 deteriorated conditions (stress test involving increase in rates of 2 pp and increase in living costs).

RISKS MONITORED AND THEIR EVOLUTION



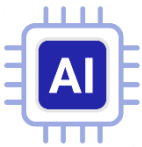
The global economy remains resilient despite geopolitical tensions. Economic growth is also expected to continue. However, high oil and energy prices, together with higher food and transport costs, could lead to additional inflation pressures. Higher costs could subsequently weaken the competitiveness of economies and sectors that are more dependent on energy and imported raw materials and adversely affect economic growth.



Concerns regarding public finances are increasing further. Budget deficits remain elevated in many countries. In an environment of higher interest rates, debt-servicing costs are rising, especially in more highly indebted countries. In addition to growing investor concerns, increased competition for capital, including in connection with high investment in the development of AI, may also increase governments' financing costs.



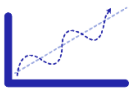
Financial markets remain stable, but a reassessment of the inflation outlook has led to expectations that interest rates will remain higher for longer and to an increase in bond yields. Higher yields are increasing financing costs and reducing the market value of financial institutions' bond portfolios. High valuations of some financial assets and the possibility of a more pronounced price correction also remain risks.



The rapid development of artificial intelligence is also contributing to high valuations. Expectations regarding its future use are supporting the valuations of technology companies, but the actual benefits of large-scale investment remain uncertain. A potential reassessment of these expectations could lead to a sharper decline in equity prices and adversely affect economic growth. Over the medium term, the effects of AI on the labour market, including on highly skilled occupations, also pose a risk. A potential rise in unemployment would lead to higher credit risk.



The domestic economy continues to grow at a solid pace, supported by household consumption and investment. At the same time, it has demonstrated resilience to adverse external conditions. Risks may pass through to the domestic economy mainly through weaker external demand and higher prices of energy and other imported inputs. The situation in European industry, which is facing high costs and intensifying global competition, also remains a significant source of uncertainty. The Czech economy's strong industrial and export orientation increases its sensitivity to these developments.



The domestic financial cycle is close to the peak of its growth phase. However, developments vary across segments. While loans to corporations continue to grow strongly, growth in property prices and loans to households is already slowing.



Growth in residential property prices has slowed but remains above its long-term average. This mainly reflects the dynamics of household income. Rising mortgage interest rates and tighter rules for investment mortgages may help return the pace of price growth to its long-term average.



Growth in mortgage lending to households is slowing. The high volume of new mortgages in the first half of the year was affected by frontloading ahead of the tightening of conditions for investment mortgages, which took effect in April 2026. The volume of new mortgages subsequently began to decline, also as a result of rising interest rates, while consumer credit continues to grow. Overall household debt is increasing.



Corporate investment activity continues to increase. This has been accompanied by stronger corporate borrowing and an increase in corporate debt. Potential adverse economic developments could affect corporations' ability to meet their obligations.



Credit quality remains very good for now. Default rates are low and have fallen to an all-time low for corporations. However, these indicators reflect the current phase of the financial cycle and may not fully capture risks in banks' balance sheets that may materialise only if the economic situation deteriorates. In addition, some households will face higher mortgage repayments when their mortgage rates are refixed in the coming years.



Czech public finances continue to record structural deficits, and government debt is increasing. Higher debt may constrain the fiscal space to respond to potential adverse economic developments and, together with higher interest rates, increases debt-servicing costs. From a financial stability perspective, the interconnectedness between the banking and government sectors remains significant.

SITUATION IN THE FINANCIAL SECTOR



The banking sector remains stable and highly resilient. Net interest income, which increased in connection with banks' lending activity, remains the main component of solid profitability. Low credit risk costs are also contributing to the favourable developments. Strong profitability supports the banking sector's capital position, which has long remained well above the regulatory requirements. Together with sound 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. Thanks to these buffers, the banking sector would remain resilient even in a hypothetical scenario of a deep and prolonged economic downturn caused by deepening geopolitical polarisation and heightened uncertainty about future economic developments.



Investment funds continue to grow strongly, increasing their systemic importance. The transmission of potential losses to other parts of the financial sector or the real economy remains limited for now. Households are increasingly investing through funds and directly in foreign assets. In the event of a marked downturn in financial markets, they could therefore incur greater losses, which could in turn affect their consumption or investment behaviour.



Participation funds are becoming increasingly important in the pension sector and now manage more assets than transformed funds. Their investment strategies are more similar to those of investment funds, leaving households more exposed to risks associated with developments in financial markets.