SUMMARY

Financial Stability Report

Spring 2025

ASSESSMENT OF RISKS TO FINANCIAL STABILITY

Global uncertainty associated with US trade policy and the war in Ukraine is the primary risk to financial stability. It is negatively affecting investor, business and household sentiment and dampening economic activity. Greater caution and more difficult investment decisions at home and abroad may weigh on the recovering Czech economy.

The growth phase of the Czech financial cycle continues, but its pace has slowed. Mortgage and property market activity is increasing. Caution exercised by households, businesses and banks in negotiating new loans and taking on financial risks is helping to keep cyclical systemic risks at a normal level.

DECISIONS AND MACROPRUDENTIAL POLICY SETTINGS

Countercyclical capital buffer	Systemic risk buffer	Other systemically important institutions buffer	LTV limit
1.25% for all banks	**0.5%** for all banks	**0.5–2.5%** for the seven main banks	**80%/90%*** * for applicants under 36 years purchasing owner-occupied housing
Unchanged	Unchanged	Unchanged	Unchanged
Current buffer rate is sufficient. Mortgage and property market is growing, but cyclical systemic risks in banking sector balance sheet have not risen markedly so far.	Current buffer rate is sufficient. It strengthens banking sector's resilience to structural systemic risks arising from global uncertainties.	Current rates are helping to strengthen the resilience and stability of key institutions in financial system.	Current limit reflects risks of apartment price overvaluation and rapid mortgage growth.

RISKS MONITORED AND THEIR EVOLUTION

The global economy is facing an exceptionally high degree of uncertainty, exacerbated in particular by the USA’s actions. Trade barriers and a possible weakening of US–European relations are giving rise to concerns. Global financial markets faced increased tensions and asset price volatility in the first half of 2025. There was a partial stabilisation after the initial shock, but markets remain very nervous.

The economic uncertainty is also affecting EU countries. Some countries are facing high budget deficits amid weak growth, high debt and rising interest costs. In the future, this could exert downward pressure on government expenditure and cause an economic shock with impacts on the stability of the financial sector.

The domestic economy is also being affected by the high uncertainty. **Structural risks persist in the medium term.** They mainly concern export-oriented manufacturing, which faces global challenges in the form of a potential decline in demand, pressure to reduce emissions and rising energy prices. If the economy fails to adapt in time, it risks slower growth.

The **profitability of Czech corporations** fell slightly in 2024, mainly due to wage growth. However, it remained relatively high overall. Owing to the high uncertainty, businesses invested less and their borrowing remained low. Geopolitical risks continue to jeopardise future profits and investments, especially for exporters.

Rising wages and improving consumer sentiment have led to **higher household borrowing**. The volume of mortgage loans increased and their number returned to the long-term average in the first quarter of 2025.

Growth in residential property prices accelerated in the second half of 2024, mainly on the back of lower interest rates and rising household income. Prices will keep rising next year, albeit at a slower pace.

Housing remains difficult for households to afford, especially in Prague and Brno. Low- and medium-income households face the highest risks when financing housing through mortgages.

The growth phase of the **financial cycle** continued in early 2025, driven mainly by household borrowing. Cyclical systemic risks have not risen much so far and are expected to grow only slowly in the future. However, future developments are hard to predict given the exceptional uncertainty.

The **risk associated with loans to corporations and households** is low. The default rate on corporate loans will edge up towards the long-term average. Higher rates on refixed mortgage loans to households have had little effect on the number of non-performing loans, and the low default rate is expected to rise only slightly.

The **recovery on the commercial property market** is expected to continue. The low proportion of energy-efficient buildings poses a risk going forward. Moreover, the market is sensitive to economic developments, so it too may be affected by US trade policy.

SITUATION IN THE FINANCIAL SECTOR

Banks made a profit of CZK 120 billion in 2024, confirming the sector's solid long-term profitability. Interest income remains the main source of profit. The profits are helping banks to increase their capital, bolstering the sector's overall resilience. Impairment losses have fallen back to historical lows.

Banks have sufficient buffers. The capitalisation of the banking sector remains high. Thanks to sufficient high-quality and liquid assets, banks are also well prepared for any liquidity shocks. They meet all the regulatory requirements by a sufficient margin. This further enhances their stability.

Stress tests confirmed that the banking sector is highly resilient even under the adverse scenario, in which only one bank would have to draw on its capital buffers. In the test, banks maintained strong income due to a rise in lending, income on government bond holdings and higher interest margins.

The **investment fund sector** is still growing robustly despite high asset price volatility on financial markets. However, its contribution to systemic risk is also increasing as its importance in the financial system rises. Households' savings are thus more exposed to asset price swings on financial markets.

Insurance companies remain a stable part of the Czech financial system. With managed assets exceeding CZK 500 billion, the sector maintained its strong financial soundness and profitability – profits remained above average despite the autumn 2024 floods.