

# **SUMMARY**

## **Financial Stability Report**

Autumn 2025

# ASSESSMENT OF RISKS TO FINANCIAL STABILITY



Global geopolitical and trade uncertainty remains the primary risk to financial stability. The impacts of US tariffs have been smaller than expected so far, but lagged effects cannot be ruled out. They could weaken economic growth, investment activity and household confidence.



The Czech economy is still in the growth phase of the financial cycle. Mortgage market activity is slightly above its long-term average and residential property prices are continuing to increase. However, the shift in the cycle has been rather gradual so far, due to weaker developments in the other segments of the economy.



Demand for mortgages is increasingly focused on the financing of investment residential property. While this is supporting market activity, fire sales of such property in bad times may cause or deepen a downturn on the market as a whole, leading to higher losses on banks' balance sheets. From a long-term perspective, this therefore represents a source of potential systemic risk.




# BANK BOARD DECISIONS ON FINANCIAL STABILITY

## Capital instruments



Countercyclical capital buffer	Systemic risk buffer	Other systemically important institutions buffer
<b>1.25%</b> for all banks	<b>0.5%</b> for all banks	<b>0.5–2.5%</b> for the six main banks
Unchanged	Unchanged	Number of institutions reduced by one
Current buffer rate sufficiently covers cyclical systemic risks in banks' balance sheets.	Current buffer rate enhances banks' resilience 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
<p><b>80%*</b></p> <p>* 90% for applicants under 36 years purchasing owner-occupied housing</p>	<p><b>LTV of 70%</b></p> <p><b>DTI of 7</b></p>	<p><b>DTI of over 8</b></p> <p><b>DSTI of over 40%</b></p> <p><b>LTV of over 80%</b></p>
Unchanged	Introduced as of 1 April 2026	Unchanged
Settings sufficiently reflect risks of apartment price overvaluation and rapid mortgage growth.	Introduction of requirement is reaction to rising 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.

# \*\* NEW CNB RECOMMENDATION REGARDING MORTGAGE LOANS FOR INVESTMENT RESIDENTIAL PROPERTY

<p>Requirements regarding purchase of investment property</p>	<p><b>LTV of 70%</b> <b>DTI of 7</b></p>	<p>Introduced as of 1 April 2026</p>
<p><b>What properties does it concern?</b></p>	<p>A purchased residential property will be assessed as an investment property if the applicant states in the loan application that the loan is not for owner-occupied housing or if they include the expected rental return from the property in their assessed income.</p> <p>A property purchased by an applicant who already owns two residential properties will also be regarded as an investment property. In such case, each subsequent property is usually purchased not for owner-occupied housing, but rather as a long-term investment or buy-to-let property.</p>	
<p><b>What are the recommended limits?</b></p>	<p>It is recommended that LTV does not exceed 70% and DTI does not exceed 7 for mortgages for the purchase of investment residential property.</p>	
<p><b>Why has the CNB adopted this measure?</b></p>	<p>The number of purchases of residential property as an investment is rising. When financing such property, banks generally take on higher risk than in the case of mortgages for owner-occupied residential property, as fire sales of such property in bad times may lead to lower prices, lower collateral value and higher losses on banks' balance sheets. From a long-term perspective, investment residential property therefore represents a potential source of systemic risk.</p>	
<p><b>What will be the impact on the mortgage market?</b></p>	<p>A retrospective analysis shows that the new limits on investment property would have affected roughly 7.5% of all new mortgage loans provided in 2025 Q3. This would have corresponded to around CZK 7 billion of the total CZK 83 billion in mortgage loans provided in that period, or CZK 34 billion in loans with a purpose other than primary owner-occupied housing.</p>	

# RISKS MONITORED AND THEIR EVOLUTION



**The global economy continues to face geopolitical and trade uncertainty.** The impacts of US tariffs have been smaller than expected so far, fostering an improvement in the economic growth outlook for 2025.

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**Prices of financial assets remain elevated.** Following a volatile first half of the year, global financial markets have calmed somewhat. Risk indicators remain stable. The risk of a potential repricing of risk premia and a marked decrease in asset prices persists.

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**Concerns regarding public finances are increasing in Europe.** Many countries are facing high budget deficits. At the same time, they are having to spend more on defence and other items. The governments of highly indebted countries may therefore get into debt problems that would adversely affect the European economy and financial sector.

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The **Czech economy is recovering gradually** and inflation remains close to the 2% target. The CNB's monetary policy rate has stabilised at 3.5%. Economic growth may be slowed by persisting risks associated with geopolitical uncertainty, fragmentation of international trade and the energy transition.

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**Corporate profitability has fallen to its lowest level in ten years.** Rising wage costs and an uncertain global environment are making long-term investment difficult. Nevertheless, corporate borrowing is beginning to recover gradually.

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**Growth in residential property prices has accelerated further, most of all for apartments.** This is due partly to higher household income and lower mortgage rates. According to the CNB, the price growth will continue but is expected to slow. Persisting investment optimism and potential government support for housing demand is a risk.

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**Owner-occupied housing remains difficult for many households to afford.** This is due mainly to long-term low construction in areas with the highest demand, especially Prague and Brno. Average-income households face higher financial risks when financing housing in these regions through mortgages.

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**Loans to households are increasing further.** This is being aided by rising wages, low unemployment and growing consumption. The volume of new loans for both house purchase and consumption is already slightly above the long-term average.



**The growth phase of the financial cycle is continuing, driven mainly by household borrowing.** Pure new loans to households have been above the long-term average since March. Loans to corporations have also been rising at a faster pace since June.

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**Materialisation of risks relating to loans to corporations and households remains low.** The default rates on corporate and consumer loans are close to all-time lows. Although the default rate on loans for house purchase has risen slightly, it remains well below the long-term average.

## SITUATION IN THE FINANCIAL SECTOR



**Banks' profitability is very good, bolstering their capital position and the sector's overall resilience.** Net interest income remains the main source of profit. In the years ahead, however, profitability may be affected by geopolitical tensions, a potential rise in credit losses and weaker demand for loans.

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**Banks' capitalisation is strong and stable.** The overall capital ratio reached 23% in mid-2025. Together with high-quality assets and sufficient liquidity, this ensures the resilience of the banking sector to potential adverse economic developments and liquidity shocks.

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**Stress tests confirm that the banking sector as a whole is highly resilient.** Banks would withstand even a hypothetical scenario of a deep and long-lasting economic downturn due to an escalation of the geopolitical crisis and disruptions to international trade. The sector's strong resilience would be aided by stable income on loan portfolios and a solid interest rate margin.

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**Investment funds are continuing to grow.** Their assets are increasing despite financial market turbulence. This means that part of households' financial reserves are increasingly exposed to market fluctuations. Funds are expected to continue showing strong growth, so their importance in terms of systemic risks will rise further.

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