

GLOSSARY

Balance-sheet liquidity	The ability of an institution to meet its obligations in a corresponding volume and term structure.
Capital adequacy ratio	The ratio of regulatory capital to total risk-weighted assets. Tier 1 capital adequacy is the ratio of Tier 1 capital to total risk-weighted assets (see also Tier 1).
Credit default swap (CDS)	A credit derivative in which the buyer of the collateral undertakes to pay the seller periodical fixed payments ("swap premium") for the duration of the contract in exchange for a conditional payment of the counterparty in the case of default of the "reference entity" to which the agreement refers. If default does not occur, the contract terminates at a specified time and the seller only gains a premium for taking on the potential credit risk.
Credit premium	The premium on the return on a portfolio for credit risk.
Custody	Banks offer their clients the service of safekeeping and management of securities and settlement of securities transactions on both domestic and foreign markets. The bank opens and maintains a securities owner account for the customer, on which it performs settlement of the customer's capital market trades as instructed by the customer. As the custodian, the bank performs activities directed at preserving the rights attaching to the securities in its custody.
Debt deflation	A situation where the real value of the debt of corporations and households rises as a result of falling prices and incomes. This happens primarily in a situation where the decrease in nominal interest rates is insufficient to offset the fall in the rate of growth of incomes.
Default	Default is defined as a breach of the debtor's payment discipline. The debtor is in default at the moment when it is probable that he will not be able to repay his obligations in a proper and timely manner, without recourse by the creditor to settlement of the claim from the security, or when at least one repayment (the amount of which deemed by the creditor to be significant) is more than 90 days past due.
Default rate	The 12-month default rate is the number of new defaulters over a 12-month reference period as a proportion of the total number of entities existing in that period. The default rate can also be defined analogously in terms of volume based on the obligations assumed by debtors.
Eligible collateral	An asset accepted to ensure fulfilment of an obligation to the central bank.
Equalisation provision	The equalisation provision is set aside for individual areas of non-life insurance and is intended to equalise increased insurance claim costs arising due to fluctuations in loss ratios as a result of facts independent of the will of the insurance company.
Herfindahl index (HI)	The sum of the squares of the market shares of all entities operating on a given market. It expresses the level of concentration in the market. It takes values between 0 and 10,000. The lower the HI, the less concentrated the market.

Household insolvency	A situation where a household is unable to cover its current expenditures by its current income and the sale of its asset holdings. Insolvency is defined in legal terms in Act No. 182/2006 Coll., on Insolvency and Methods of Resolution Thereof.
Institutional investor	Either (a) a bank executing trades in investment instruments on its own account on the capital market, an investment company, an investment fund, a pension fund or an insurance company, or (b) a foreign entity authorised to carry on business in the same fields in the Czech Republic as the entities listed under (a).
Interest rate spread	Also interest rate differential; the spread between the interest rate on a contract (deposit, security) and a reference interest rate.
Interest rate transmission channel	One of the channels of the monetary policy transmission mechanism. It acts such that, for example, an increase/decrease in monetary policy interest rates leads first to an increase/decrease in interest rates on the interbank market. Consequently, there is an increase/decrease in the interest rates announced by banks for the provision of loans and the acceptance of deposits. The result is a downturn/upturn in investment activity as a part of aggregate demand and ultimately a decrease/increase in inflation pressures.
Liquidity	Money in the broader sense (cash, short-term assets quickly exchangeable for cash, etc.).
Loss given default (LGD)	The ratio of the loss on an exposure in the event of counterparty default to the amount owed at the time of default (see also Default).
Loan-to-value (LTV) ratio	The ratio of a loan to the value of pledged property.
Market liquidity	The ability of market participants to carry out financial transactions in assets of a given volume without causing a pronounced change in their prices.
Monte Carlo simulation	A numerical technique based on repeated random sampling. It employs a large number of simulations of a particular random variable to determine its approximate distribution and thus also the most likely value it can take.
Natural population increase	The difference between the number of live births and the number of deaths in the same period of time in a given area. See also Total population increase.
Non-performing loans	Loans in default, i.e. loans in the substandard, doubtful and loss categories.
Overnight segment	The money market on which overnight funds are traded.
Price-to-income	The ratio of the price of a flat (68 m ²) to the sum of the annual wage in a given region over the last four quarters.
Price-to-rent	The ratio of the price of a flat to the annual rent. The price-to-rent ratio is the inverse of the rent return.

Property developers/developments

Companies/projects whose aim is to build a complex of residential and commercial property. Property developers' work includes choosing an appropriate site, setting up a project, obtaining the necessary permits, building the necessary infrastructure, constructing the buildings and selling the property. Developers also often organise purchase financing for clients and frequently lease or manage the property once it is built (especially in the case of commercial property). Given the combination of construction activity and speculative property purchases, developers' results are strongly dependent on movements in property prices.

Property supply prices

Property sale supply prices in estate agencies. Supply prices should be higher than transfer prices. Property supply prices in the Czech Republic are published, for example, by the CZSO and the Institute for Regional Information (which also publishes data on market rent supply prices). See also Property transfer prices.

Property transfer prices (aka "Property realisation prices")

Prices based on Ministry of Finance statistics from property transfer tax returns and published by the CZSO. These prices are the closest to actual market prices in terms of methodology, but are published with a time delay. See also Property supply prices.

Quantitative easing

A method for implementing monetary policy in a situation where the central bank is no longer able to lower its monetary policy rate because it has already reduced it almost to zero. Quantitative easing involves the central bank buying assets from commercial banks and thereby creating a sizeable stock of free reserves with those banks. The purpose of this type of policy is to strengthen the balance-sheet and market liquidity of the banking system and minimise the risk of growth in interest rates due to insufficient liquidity. Japan has applied quantitative easing in the past decade, and the US Fed, for example, is to some extent pursuing a similar policy at present.

Rent return

The ratio of the annual supply rent to the supply price of the flat. It is the inverse of the price-to-rent indicator.

Risk premium

The risk premium an investor demands on investments in riskier financial instruments.

Secondary market

The market on which existing securities are traded.

Solvency

Solvency in the insurance sector is the ability of an insurer to meet its insurance obligations, i.e. to settle eligible insurance claims arising from insured losses. Solvency II – a new regulatory framework prepared by the European Commission – is a set of rules for European insurance companies and reinsurers laying down quantitative requirements, qualitative requirements, prudential rules, compliance with market discipline and disclosure duties.

Technical provisions

Under the Act on Insurance, an insurer must set aside technical provisions to meet insurance obligations which are either likely to be incurred or certain to be incurred but uncertain as to amount or as to the date on which they will arise.

Tier 1	The highest quality and, for banks in the Czech Republic, also the most significant part of regulatory capital. The dominant components of Tier 1 are equity capital, retained earnings and mandatory reserve funds.
Value at risk	The size of loss, with predefined probability, which a bank may suffer when holding a current portfolio for a certain period if market factors (e.g. interest rates, exchange rates) develop unfavourably.
Yield spread	Also yield differential; the spread between the yield on a bond and the yield on a reference (“benchmark”) bond.