

Public Notice  
announcing a  
**PROVISION OF A GENERAL NATURE**  
of 1 June 2023,  
**amending Provision of a general nature on setting upper limits on credit ratios**  
**No. I/2021**

Pursuant to Article 45b(1) and (4) of Act No. 6/1993 Coll., on the Czech National Bank, as amended by Act No. 219/2021 Coll. (hereinafter the “Act on the Czech National Bank”), the Czech National Bank as the competent administrative authority hereby issues a provision of a general nature amending Provision of a general nature on setting upper limits on credit ratios No. I/2021 of 25 November 2021, Ref. No.: 2021/117333/CNB/180, as follows:

**I. The upper limit on the DSTI ratio shall be abolished.**

Justification

1. Pursuant to Article 45b(4) of Act No. 6/1993 Coll., on the Czech National Bank, the Czech National Bank has reviewed the reasons for setting upper limits on credit ratios. It has evaluated these reasons with regard to the existence and assumed further evolution of the factors underlying systemic risks pursuant to Article 45b(2) of the Act on the Czech National Bank, concluding that there has been a change in some factors:

a) The total *volume of consumer credit* has been rising only slowly since the second half of 2022. Its year-on-year growth rate was well below the long-term average at the end of 2023 Q1 and is expected to stagnate at the two-year horizon.<sup>1</sup> This was due mainly to a significant decline in the volume of *consumer credit secured by residential property*.<sup>2</sup>

b) Growth in *residential property transaction prices* weakened at the end of 2022.<sup>3</sup> Available property market data suggest that it slowed further during 2023 Q1, and residential property prices are expected to decline year on year for the rest of this year. However, they remain overvalued and the risk of a price correction persists. According to the CNB’s estimate, the degree of apartment overvaluation was around 57% for a

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<sup>1</sup> The year-on-year growth rate of bank loans to households fell to 3.6% at the end of March 2023 (the five-year average is 7.1%), standing at 3.4% for loans for house purchase and 7% for consumer credit.

<sup>2</sup> The volume of new consumer credit secured by residential property amounted to CZK 12.5 billion in the first two months of 2023, down by 71% year on year.

<sup>3</sup> Residential property transaction prices rose by 6.9% year on year as of the end of 2022.

median household buying owner-occupied housing in 2023 Q1 and declined to around 23% for households purchasing buy-to-let apartments.

c) The decline in the volume of new consumer credit secured by residential property provided in 2022<sup>4</sup> fostered a decrease in the *ratio of household debt to disposable income*. The CNB expects the debt ratio to decrease further in 2023 and not return to gradual growth until early 2024. The *ratio of residential property prices to household income* has also started falling. However, it is still above the long-term average owing to the strong overvaluation of residential property prices.<sup>5</sup>

d) The *overall macroeconomic developments in the Czech Republic* reflect the downturn in economic activity. The flash estimate for GDP in 2023 Q1 suggests a year-on-year decline of 0.2%. At the end of 2023 Q1, the monetary policy interest rate remains at 7%, rates on pure new loans for house purchase just below 6%, the general unemployment rate around 2.5% and wage growth negative in real terms.

e) So far, the environment of high inflation, high interest rates and elevated living costs has not had a negative *effect on consumers* in terms of loan defaults. The non-performing loans ratio fell further at the end of 2022 and was well below its long-term average.<sup>6</sup> No adverse *effect on lenders* has been observed either, as their losses on the loans for house purchase portfolio are very low and their profitability and capitalisation high.

The trend of tightening credit standards strengthened in the second half of 2022.<sup>7</sup> This was reflected in a decrease in the share of new consumer credit secured by residential property with significantly risky characteristics in total new consumer credit secured by residential property. In 2022 Q4, banks provided 52.7% of the volume of loans with a DSTI of over 40%, 18.2% of loans with a DSTI of over 45%, and 2.2% of loans with a DSTI of over 50%. A stronger downturn in risky loans was visible from the perspective of the DTI ratio, as banks provided 2.4% of the volume of loans with a DTI of over 8 and just 0.5% of the volume of loans with a DTI of over 9 in 2022 Q4. As regards the LTV ratio, loans with an LTV of over 80% accounted for more than 9% of new loans in 2022 Q4. The volume of consumer credit secured by residential property with highly risky characteristics in lenders' balance sheets is falling due to a general strong decrease in the volume of new consumer credit secured by residential property, a decline in the share of new consumer credit secured by residential property with highly risky characteristics in the total volume of new consumer credit secured by residential property, and debtors' good repayment discipline. However, residential property prices remain substantially overvalued and the related risk of a marked price correction persists. In this price environment, and in view of the level of income, the risk of overindebtedness persists, as less than 10% of households have income that allows them to safely debt-finance an apartment at the average price.

The abolition of the upper limit on the DSTI ratio can lead to only a very slight increase in the volume of new consumer credit secured by residential property.<sup>8</sup>

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<sup>4</sup> New consumer credit secured by residential property amounted to CZK 157 billion in 2022 (compared to CZK 362 billion a year earlier).

<sup>5</sup> The debt-to-income ratio fell to 57% and the price-to-income ratio to 13 (compared to the long-term average of 10.3) as of the end of 2022.

<sup>6</sup> The ratio of non-performing loans for house purchase to total loans for house purchase decreased to 0.7% and the ratio of non-performing consumer credit to total consumer credit to 3.9% in December 2022.

<sup>7</sup> See also Bank Lending Survey III–IV/2022, <https://www.cnb.cz/en/statistics/bank-lending-survey/Bank-lending-survey-2022/>.

<sup>8</sup> According to the CNB's estimates, the potential effect of the abolition of the upper limit on the credit ratio will foster a rise in the volume of new consumer credit secured by residential property of around 10%.

2. Taking into account the above factors, which do not indicate systemic risks related to the provision of consumer credit secured by residential property, and in view of suggestions received from regulated entities, the CNB Bank Board has decided to abolish the upper limit on the DSTI ratio in a provision of general nature and to leave the upper limits on the LTV and DTI ratios unchanged in a provision of general nature.
3. The upper limits on the LTV and DTI ratios remain unchanged. When calculating the LTV and DTI ratios, entities authorised to provide consumer credit shall proceed in accordance with Decree No. 399/2021 Coll., on credit ratios.
4. The Czech National Bank will review the reasons for the issuance of this provision of a general nature at least once every six months and will assess them with regard to the existence and expected further evolution of the factors referred to in Article 45b(2) of the Act on the Czech National Bank. If there has been a material change in these factors, the Czech National Bank will issue a new provision of a general nature or will amend or abolish the existing one.
5. Pursuant to Article 45c(1) of the Act on the Czech National Bank, the Czech National Bank may impose a measure to remedy a shortcoming detected on an entity which provides consumer credit in contravention of Article 45c(1) of the Act on the Czech National Bank. The Czech National Bank will specify a reasonable time limit for the entity to remove the shortcoming detected. If the entity fails to comply with an obligation imposed by the decision to impose a remedial measure, it shall be deemed to have committed an offence pursuant to Article 46(4)(b) of the Act on the Czech National Bank, for which the fine specified in Article 46(5)(a) of the Act on the Czech National Bank may be imposed.
6. Pursuant to Article 45b(3), this provision of a general nature will be issued without a procedure on a proposal of a provision of a general nature.

#### Effect

This Provision will take effect on 1 July 2023.

imprint of official stamp

Karina Kubelková  
Bank Board Member  
(signed electronically)

Libor Holub  
Executive Director, Financial  
Stability Department  
(signed electronically)

This provision of a general nature was published on 2 June 2023.