

# SUPERVISORY STRESS TESTS OF SELECTED BANKS

Financial Market Supervision Department  
Financial Stability Department

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## SUMMARY

The aggregate results of the supervisory stress tests of domestic banks subject to CNB supervision<sup>1</sup> (accounting for around 91% of the assets of the Czech banking sector) confirmed that those banks are sufficiently resilient to potential hypothetical adverse economic developments. The capitalisation of the part of the banking sector tested would remain well above the regulatory minimum of 8% even in a stress scenario assuming a sizeable decline in economic activity in the Czech Republic and abroad. The sector's resilience is based mainly on its capital ratio, return on assets and return on equity, which amounted to 18.4%, 1.2% and 16.2% respectively at the end of 2018. As usual, credit risk was the most significant of the risks under review.

## 1. INTRODUCTION

The CNB has been conducting **supervisory stress tests** in partnership with selected domestic banks and banking groups since 2009. The tests are used to assess the risks<sup>2</sup> they face in the event of hypothetical adverse economic developments as represented by the *Adverse Scenario* defined by the CNB. The results are used by the CNB's Financial Market Supervision Department in the process of supervising and assessing the capitalisation of individual banks.<sup>3</sup> Since 2018, the supervisory stress test methodology has been based on the European Banking Authority's rules for EU-wide stress testing adapted to the specificities of the Czech banking system.

## 2. MACROECONOMIC SCENARIOS

The *Baseline Scenario* is based on the CNB's macroeconomic forecast published in Inflation Report I/2019 and assumes economic growth of close to 3% this year.<sup>4</sup> Annual GDP growth will stay at or below 3% in the next two years (see Chart 1). Wages will continue to grow at a brisk pace and the general unemployment rate will remain at its current low levels over the entire scenario horizon. Consistent with the forecast is a rise in market interest rates.

The *Adverse Scenario* assumes a marked drop in economic activity in Europe. The combination of a downturn in external demand and then also in domestic demand will cause a sizeable and lengthy decline in economic activity in the Czech Republic and result in a V-shaped recession. The recession will last nine quarters and lead to a drop in annual real GDP growth from 2.3% as of the start of the test to -5.8% (see Chart 1). Unemployment increases significantly. The problems in the real economy also affect the financial sector. Monetary policy remains easy, the three-month PRIBOR stays very low over the entire test horizon and the exchange rate weakens sharply. Long-term Czech government bond yields gradually fall at first and then rise.

1 The following banks took part in the 15th round of supervisory stress tests: Česká spořitelna, Československá obchodní banka, Komerční banka, Raiffeisenbank, UniCredit Bank, Air Bank, Creditas, Equa bank, Expobank, Fio banka, J&T bank, Moneta Money Bank, PPF banka, Raiffeisen stavební spořitelna, Sberbank, Wüstenrot stavební spořitelna, Česká exportní banka and Českomoravská záruční a rozvojová banka.

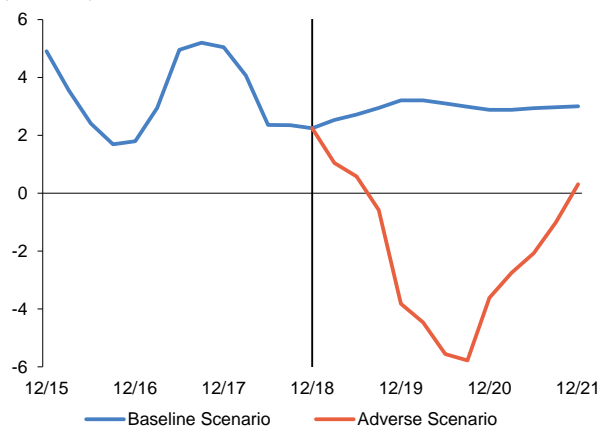
2 The supervisory stress tests cover credit risk, market risk, operational risk, interest income and expenditure risk and capital risk.

3 Article 100 of Directive 2013/36/EU of the European Parliament and of the Council (CRD).

4 The *Baseline Scenario* and the *Adverse Scenario* were created solely for stress testing purposes. Neither the *Baseline Scenario* beyond the horizon of the forecast published in Inflation Report I/2019 nor the *Adverse Scenario* is an official forecast of the CNB. For details see [FSR 2018/2019](#).

**Chart 1**  
Alternative scenarios: real GDP growth

(year on year in %)



Source: CNB

**Table 1**  
Impact of stress scenario

	Actual value	Baseline Scenario	Adverse Scenario
	31 Dec. 2018	31 Dec. 2021	31 Dec. 2021
Net after-tax profit (CZK billions)	72.3	59.6	-0.3
CET1 capital (CZK billions)	426.1	474.2	375.9
Regulatory capital (CZK billions)	452.5	499.6	402.1
Risk-weighted assets (CZK billions)	2,455.7	2,479.4	2,715.3
CET1 capital ratio (%)	17.4%	19.1%	13.8%
Total capital ratio (%)	18.4%	20.2%	14.8%

Source: CNB

### 3. RESULTS

Persisting high returns in the *Baseline Scenario* enable growth in the volume of total regulatory capital (+10.4%). Despite a slight increase in risk-weighted assets (+1.0%), the total capital ratio goes up to 20.2%.

The sharp decrease in profit (100.4%), i.e. the fall into loss, in the *Adverse Scenario*, due mainly to an increase in credit risk, has an adverse effect on the volume of total regulatory capital (-11.1%) amid a simultaneous increase in the volume of risk-weighted assets (+10.6%). This is subsequently reflected in a decline in the total capital ratio to 14.8%, which is, however, well above the regulatory threshold of 8%. The results of the supervisory stress tests thus confirm that the part of the banking sector tested is highly resilient to adverse economic developments.

### 4. FREQUENCY OF SUPERVISORY STRESS TESTS

The supervisory stress tests of banks will from now on be carried out every two years in a standard economic and financial environment. The CNB is thus planning to conduct the next supervisory stress tests in 2021. However, it may return to annual stress testing if the financial or macroeconomic situation changes significantly or other material facts arise.