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# CNB press conference on the outcome of the spring meeting on financial stability issues (Financial Stability Report – Spring 2022)

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**Jan Frait**, Executive Director, CNB Financial  
Stability Department

16 June 2022



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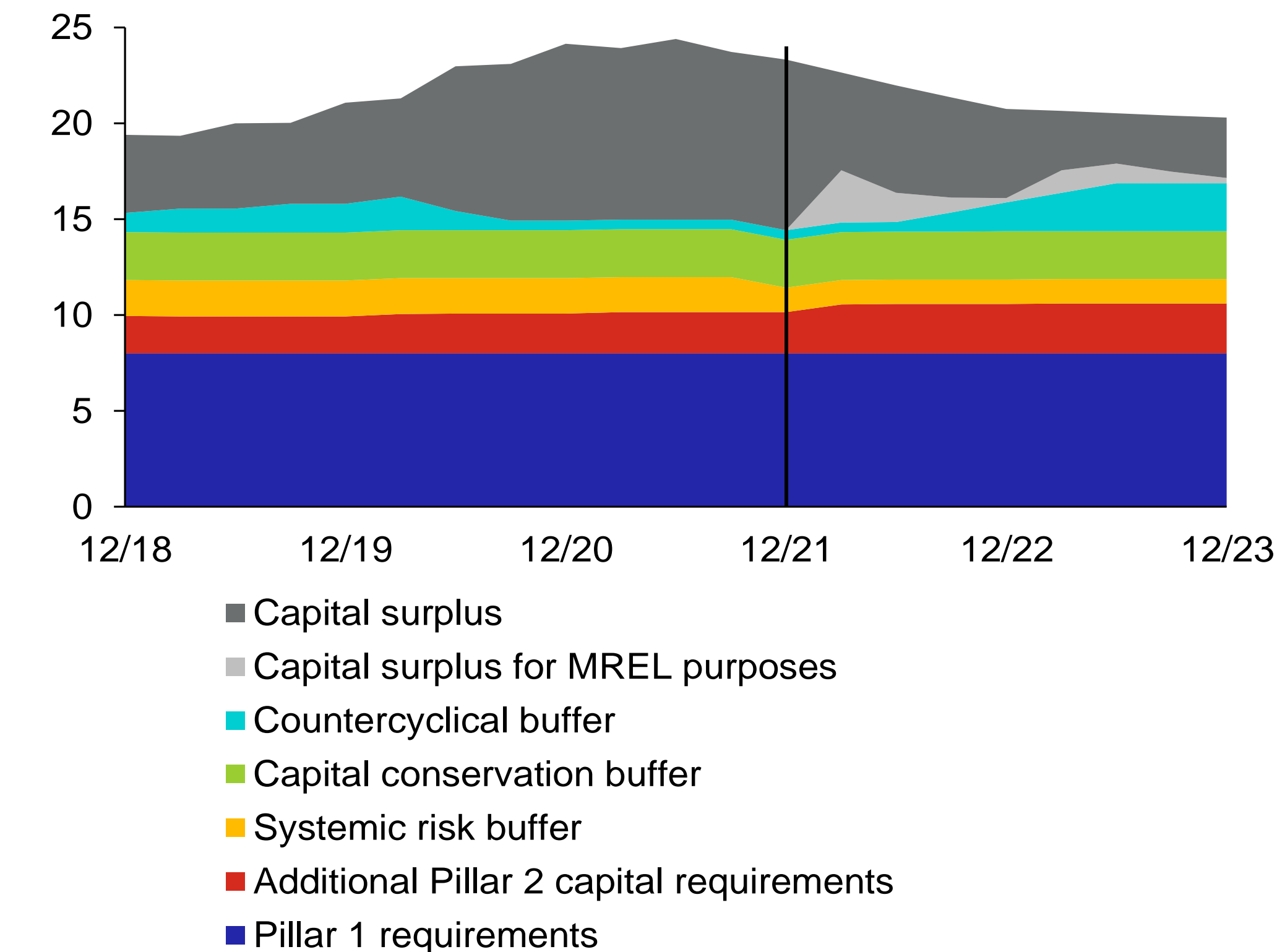
- 1. Aggregate assessment of risks and overview of CNB's main measures**
2. Assessment of selected risks



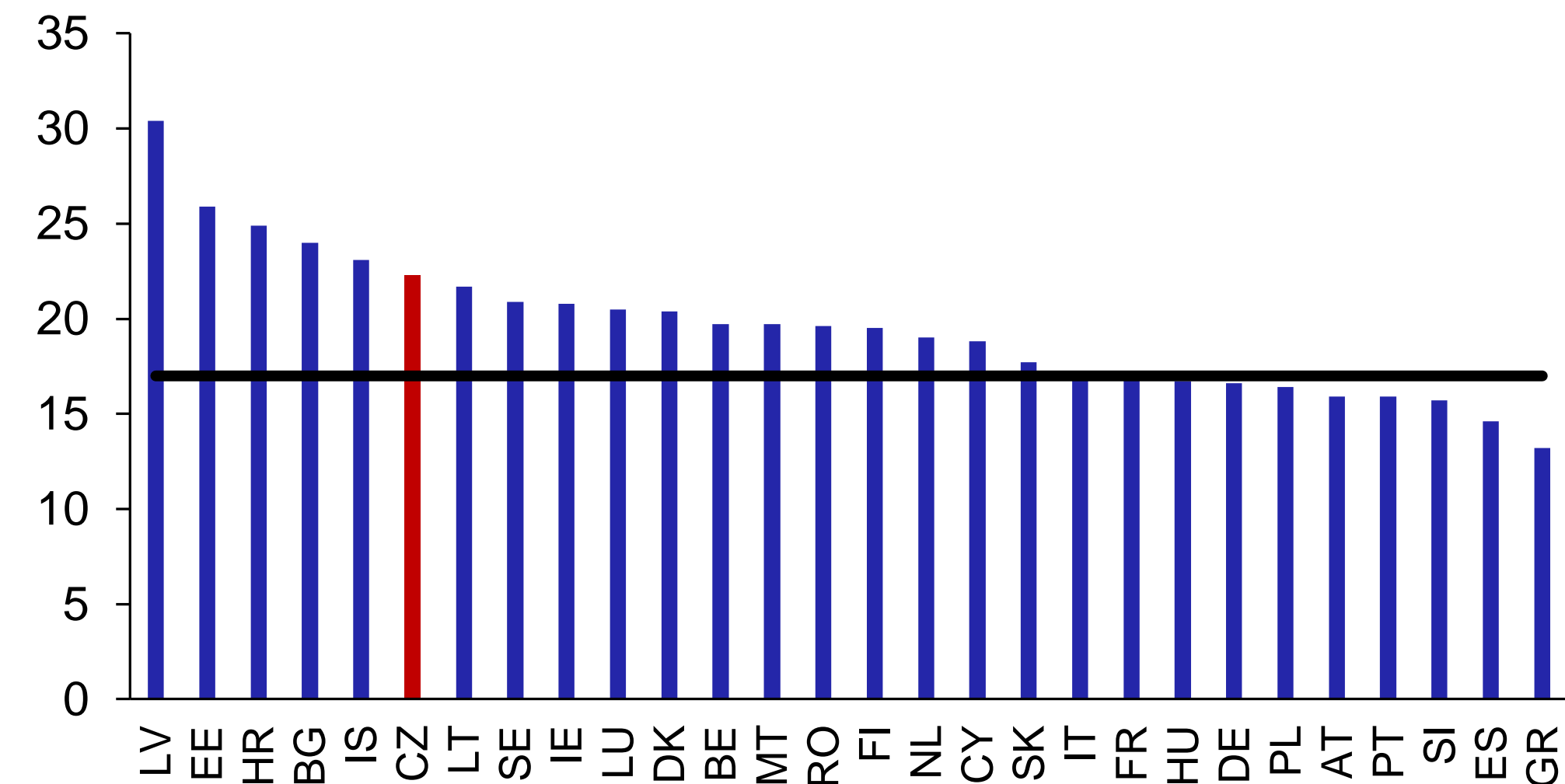
# Financial stability in June 2022 (1)

- The Czech **financial sector is highly resilient** to adverse shocks.
- The **capitalisation of the banking sector remains very robust** thanks to capital buffers and capital surpluses in excess of the regulatory requirements.

Structure of capital and capital requirements in the domestic banking sector (%)



Tier 1 capital ratio as of 2021 Q4 (%)



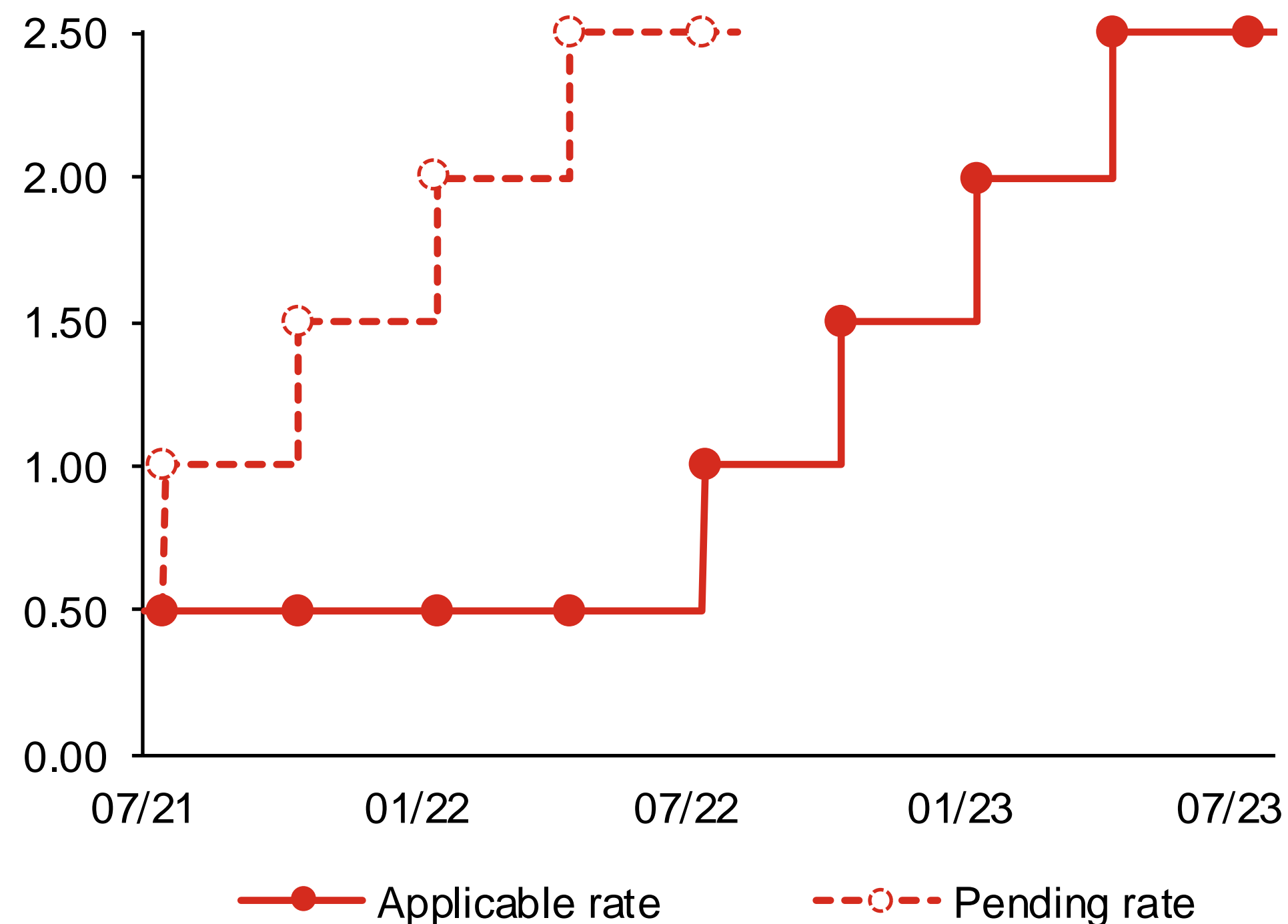
Note: The figures for the Czech Republic differ from those used by the CNB because the EBA has a different data source.

- The domestic **non-bank financial sector** is growing and **is not showing signs of instability**.
  - All its segments remain sufficiently capitalised and are maintaining a good liquidity position.
  - A rise in uncertainty on global financial markets, accompanied by an abrupt repricing of risk premia and a relatively significant decline in prices of the investment assets held, is the primary **risk to the solvency and liquidity positions of non-bank financial institutions**.
- The resilience of the domestic financial sector to adverse economic developments was also confirmed by **stress tests conducted at the three-year horizon**.
  - According to the stress test results, the domestic **private non-financial sector** should also be able to withstand a worse situation without major shocks.
- The **degree of uncertainty** regarding future economic developments is **exceptionally high** and requires financial institutions to **act very prudently**.



# Decision on countercyclical capital buffer rate (1)

Applicable and pending CCyB rate in the Czech Republic  
(% of total risk exposure)

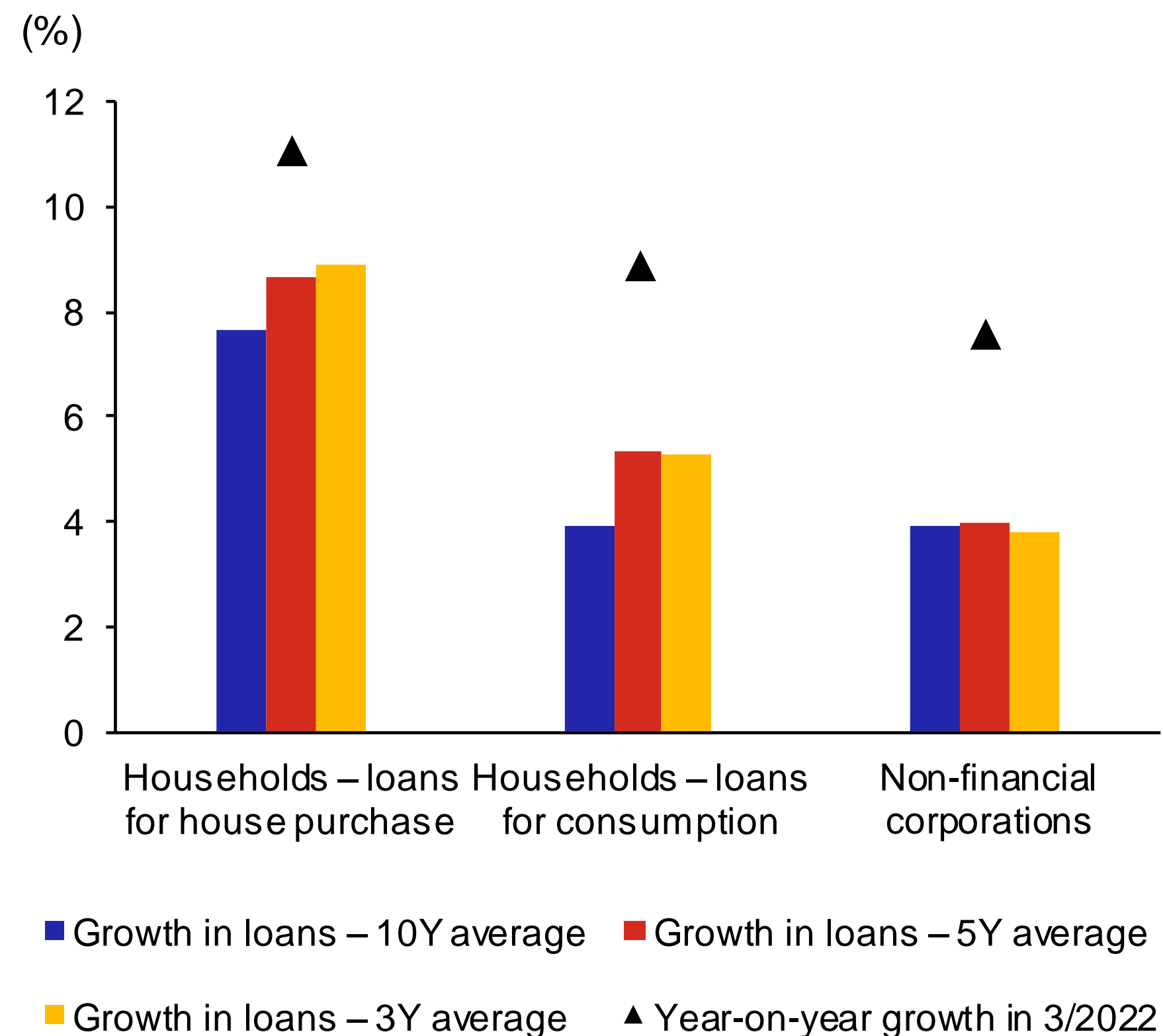


- The **Bank Board decided today to leave the countercyclical capital buffer (CCyB) rate unchanged at 2.5% with effect from 1 April 2023.**

- Until then, the CCyB rate will rise gradually from the current level of 0.5%.
- Should the economic situation worsen and the domestic banking sector incur significant unexpected credit losses, the CNB is ready to lower the rate or release the CCyB fully to support banks' ability to lend to the real economy without interruption.

# Decision on countercyclical capital buffer rate (2)

Average and current growth in bank loans to the private non-financial sector (%)

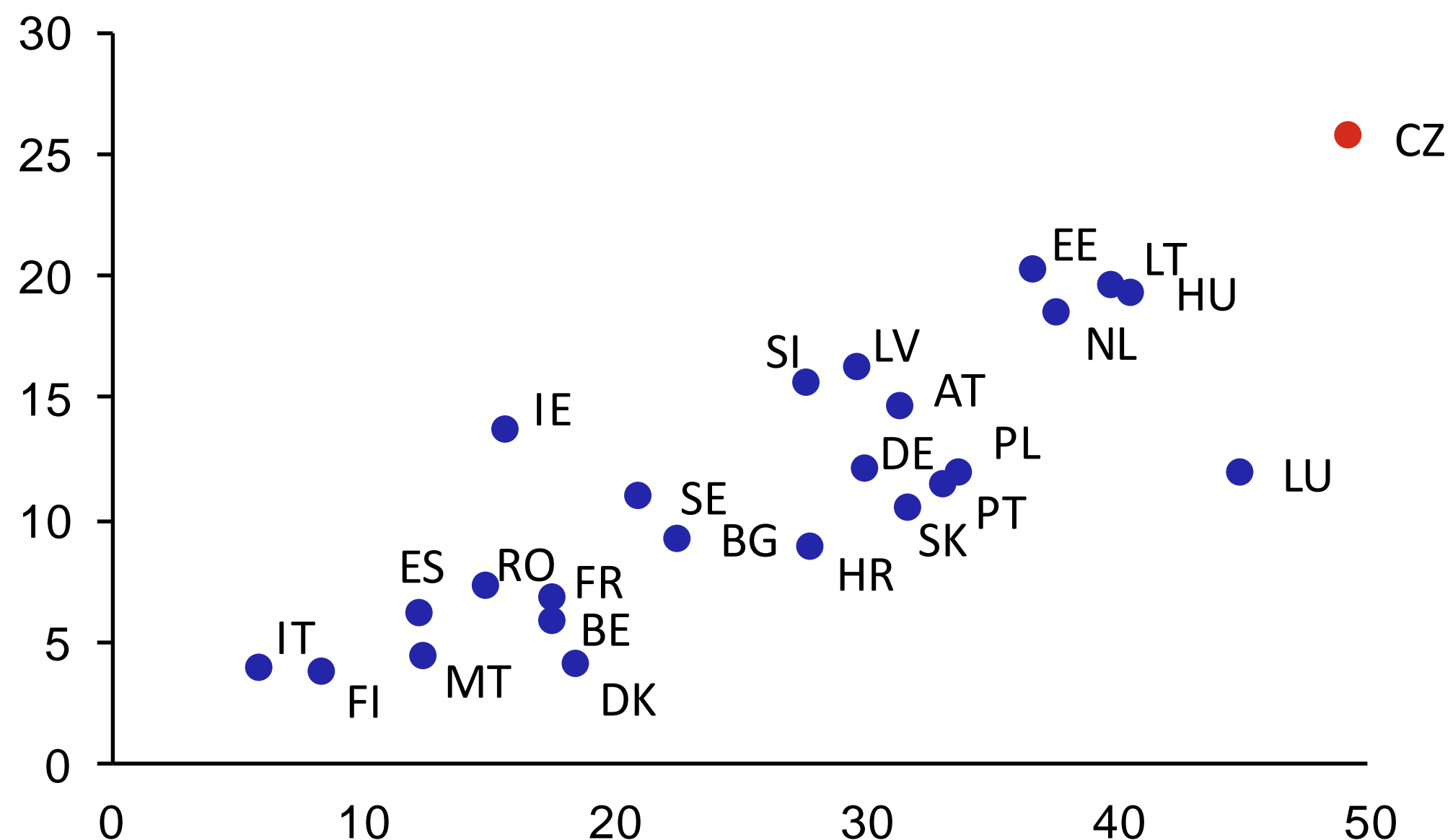


- The decision to leave the CCyB rate at 2.5% is a reaction to the **high volume of previously accepted cyclical risks** in the banking sector's balance sheet.
  - Additional risks are entering banks' balance sheets through relatively **rapid credit growth**, which was well above the historical averages in the main credit segments in 2022 Q1.
  - The Bank Board also took into account the current **geopolitical and macroeconomic uncertainties**, which create room for sudden and strong materialisation of previously accepted risks.

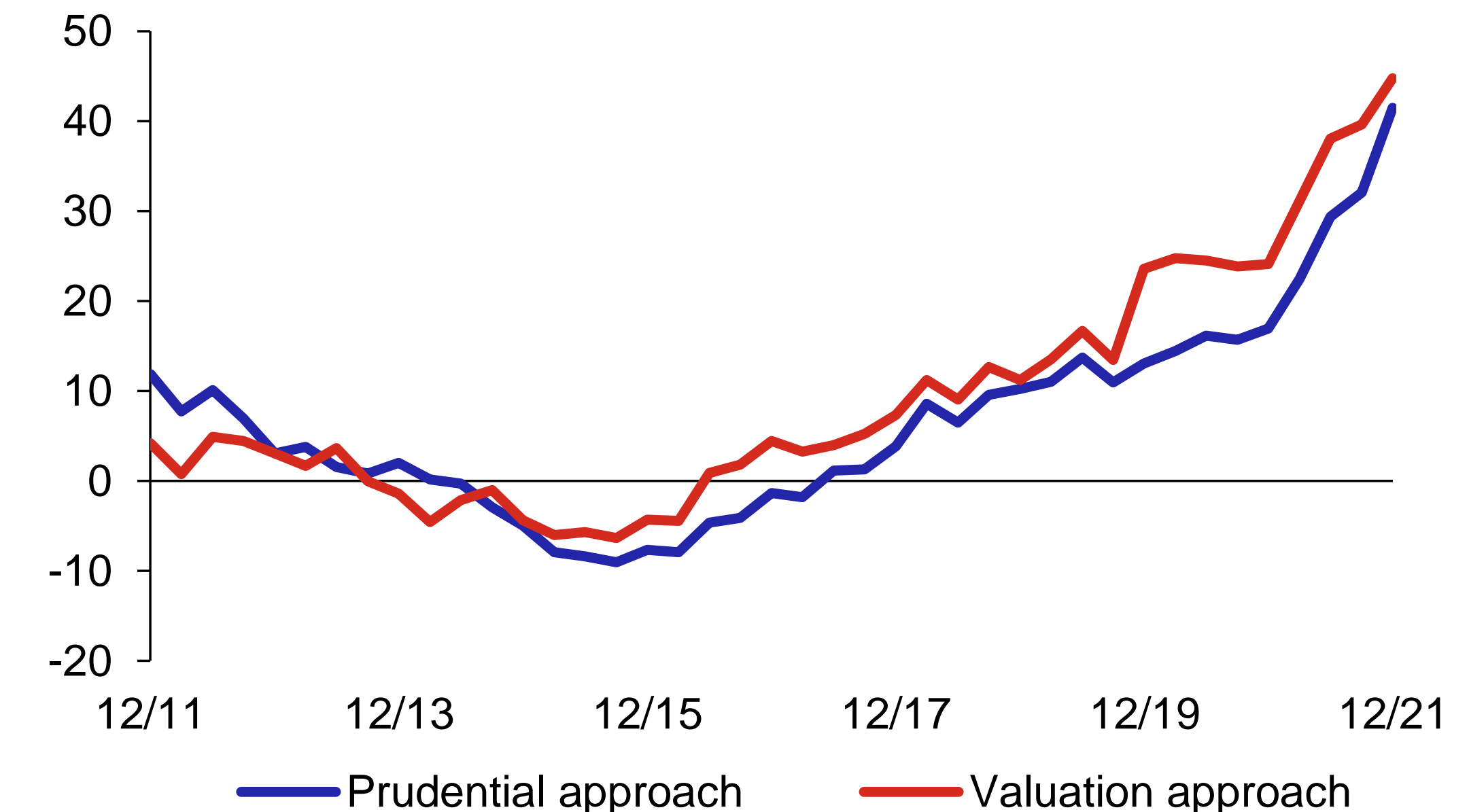
# Property market and mortgage lending (1)

- **House prices** increased in all advanced countries; the **rise in the Czech Republic was one of the highest** in the EU at **both the one-year and three-year horizons**.
- The **CNB estimates that apartments in the Czech Republic are overvalued by about 40%** (15 pp more than half a year ago) for median-income households.

**Residential property price growth in selected EU countries**  
(as of end of 2021, %; x-axis: three-year growth;  
y-axis: one-year growth)

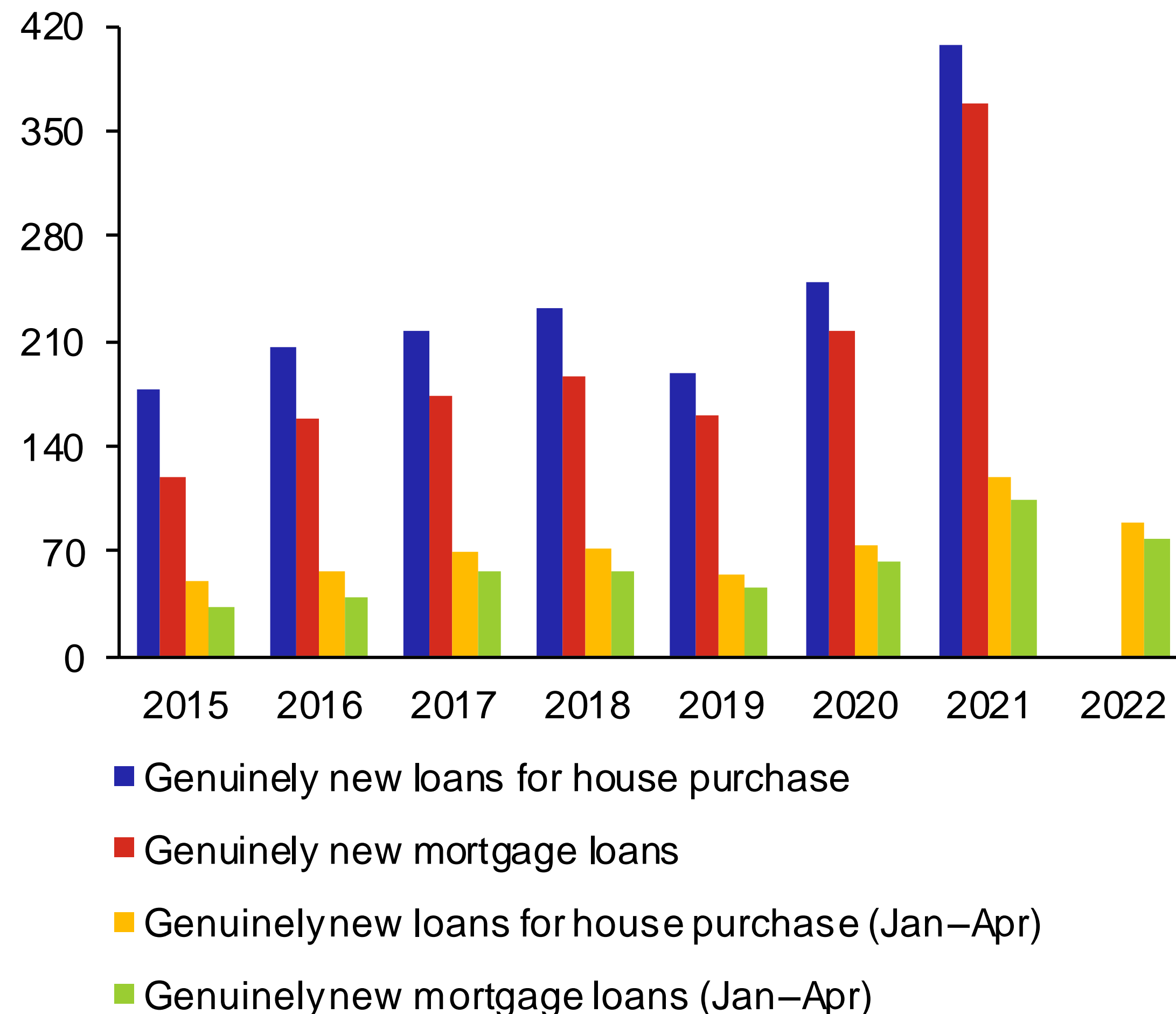


**Estimated overvaluation of apartment prices in the Czech Republic**  
(%)



# Property market and mortgage lending (2)

Bank loans for house purchase and mortgage loans  
(CZK billions)



- The volume of genuinely new mortgage loans was **exceptionally high** in 2021.
  - Their growth slowed from around mid-2021 onwards, but the overall volumes remained relatively high.
  - The strong growth was driven by brisk growth in residential property prices, which was reflected in an increasing average mortgage loan size and a growing number of new loan contracts.



# Limits on mortgage loan ratios (1)

- The Bank Board decided to **keep the limits on mortgage loan ratios** effective since 1 April 2022 **unchanged**.

**DTI**

Ratio of applicant's total debt to net annual income.

**8.5**



**9.5**

**DSTI**

Ratio of sum of applicant's monthly repayments to net monthly income.

**45%**



**50%**

**LTV**

Ratio of value of loan to value of collateral.

**80%**



**90%**

**For applicants under 36 years** if the loan is for the purchase of owner-occupied housing.

*Lenders may in the current calendar quarter apply an exemption from compliance with the limits of up to 5% of the total volume of loans provided in the previous quarter.*

# Limits on mortgage loan ratios (2)

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- The Bank Board still considers the **systemic risks** associated with mortgage lending to be **significantly elevated**.
  - The DSTI ratio was above the risky level of 40% for a significant proportion of new loans.
- It will only be possible to get a more accurate picture of the evolution of the risks after the CNB set the limits based on the data on the characteristics of the loans provided in the months since April, when they took effect.
  - The CNB will publish the relevant analysis in December in ***Financial Stability Report – Autumn 2022***.
- Some mortgage lending conditions will continue to be set using the **Recommendation**, which also remains unchanged.

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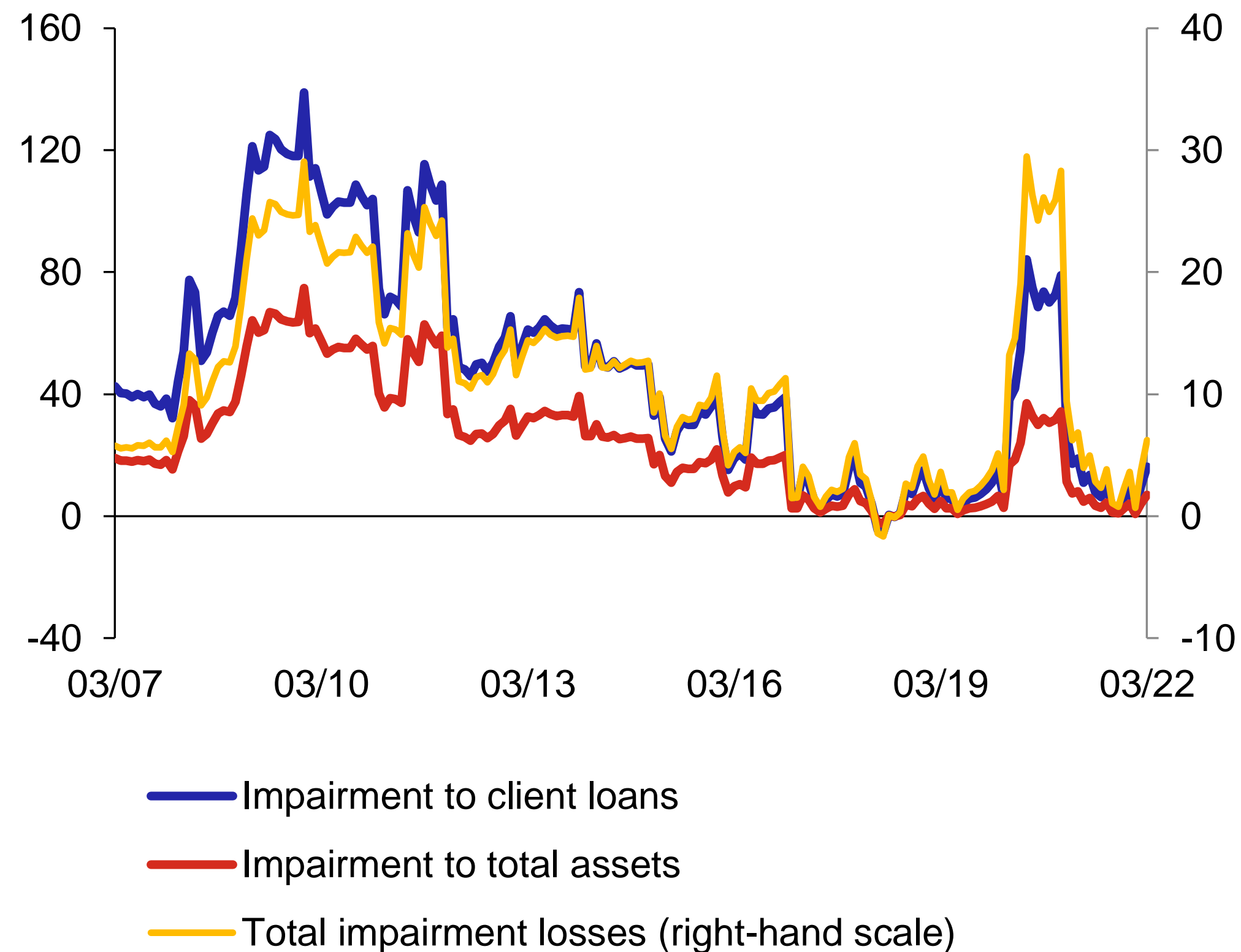
1. Aggregate assessment of risks and overview of CNB's main measures

**2. Assessment of selected risks**

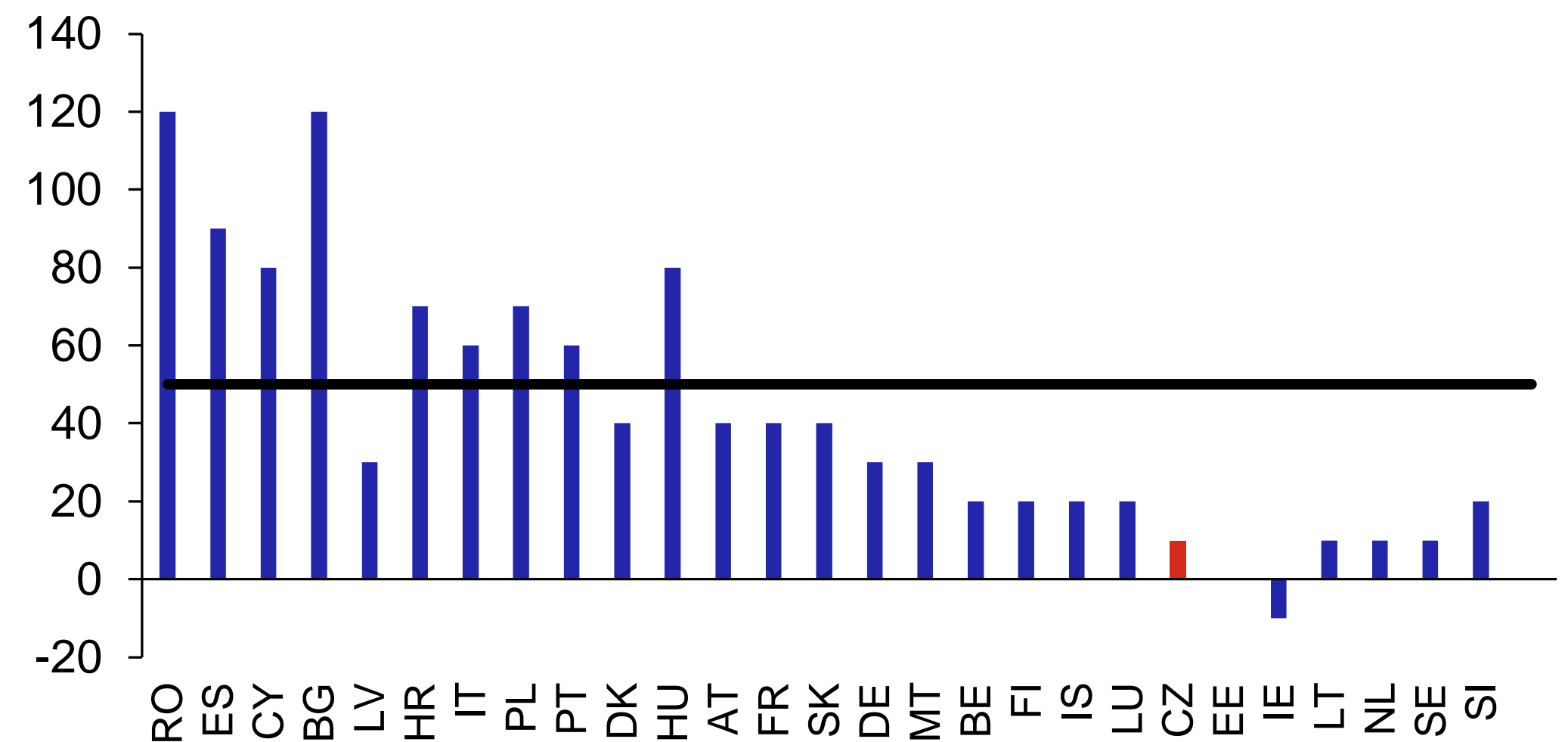


# Initial level of banks' credit risk (1)

**Annualised impairment losses**  
(bp; right-hand scale in CZK billions)



**Cost of risk comparison in the EU as of 2021 Q4**  
(bp)



Note: The figures for the Czech Republic differ from those used by the CNB because the EBA uses a different data source. Greece has been excluded from the graph for better readability. Its cost of risk is 540 bps. Norway is not listed due to unavailability of data.



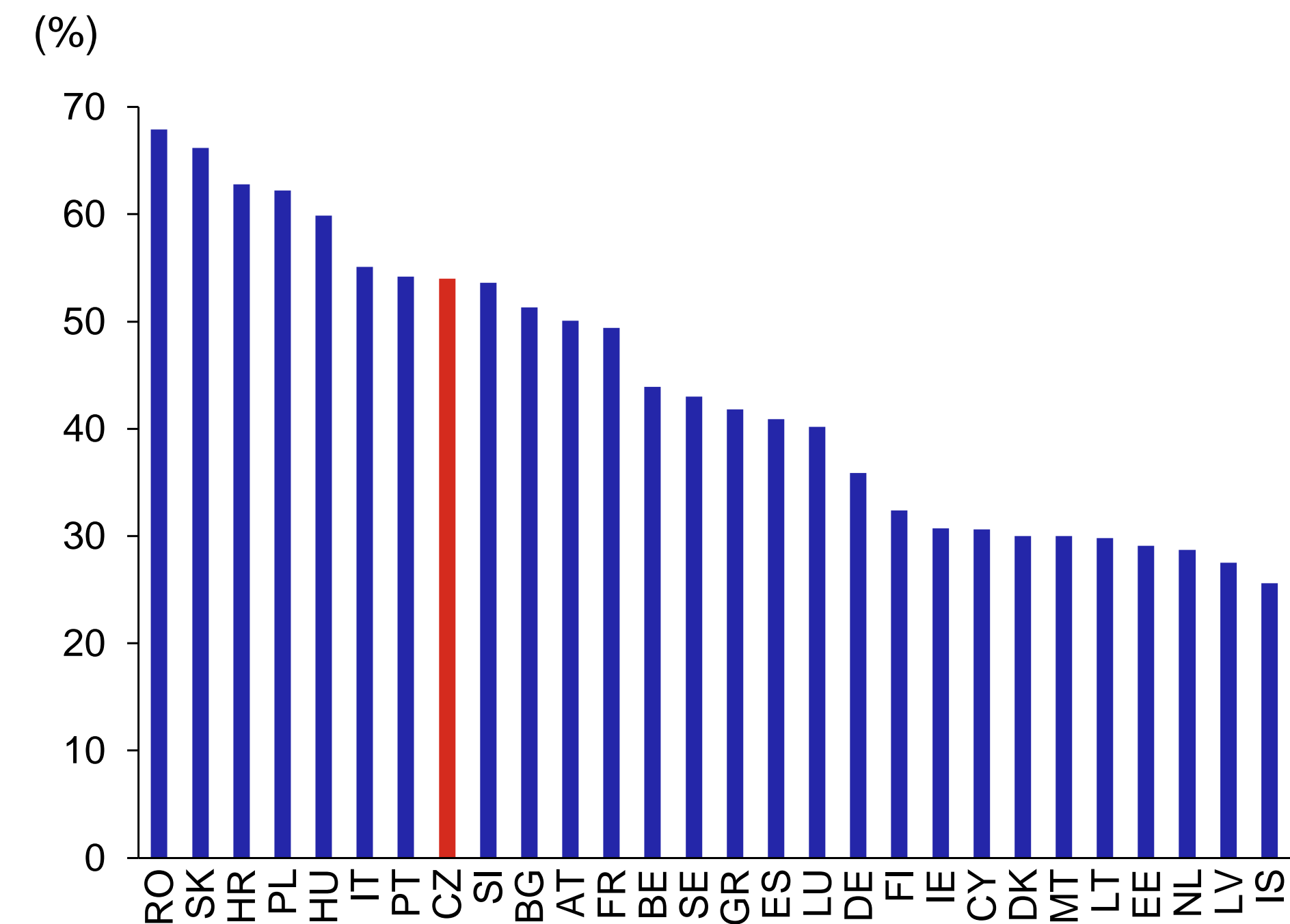
# Initial level of banks' credit risk (2)

**Loan structure by portfolio**  
(%)



Note: Under the new IFRS 9 accounting standard (in effect since 1 January 2018), non-performing loans (NPLs) correspond to loans classified in Stage 3 – impaired loans.

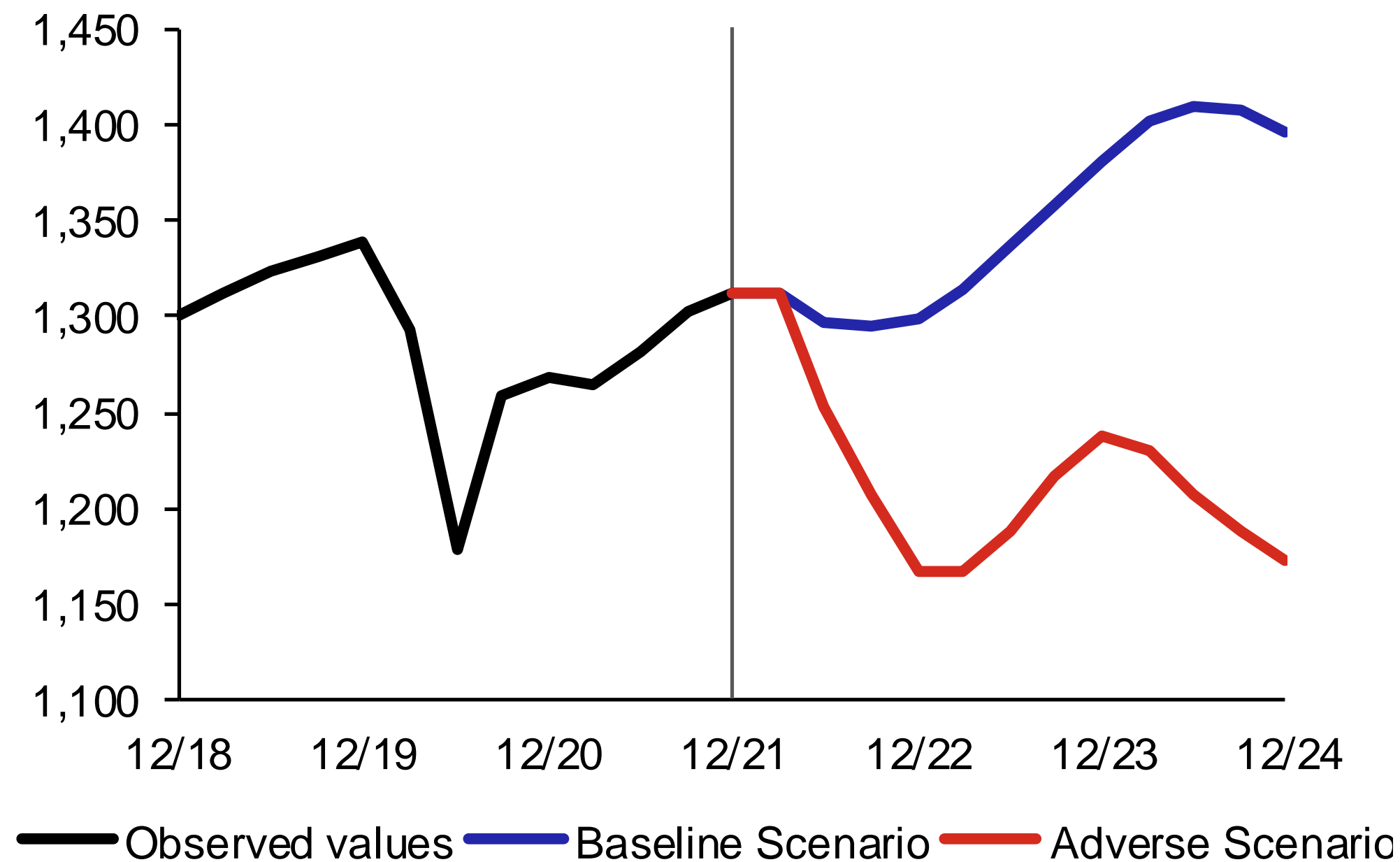
**Comparison of coverage ratio of non-performing loans in the EU as of 2021 Q4**



# Main characteristics of stress test scenarios

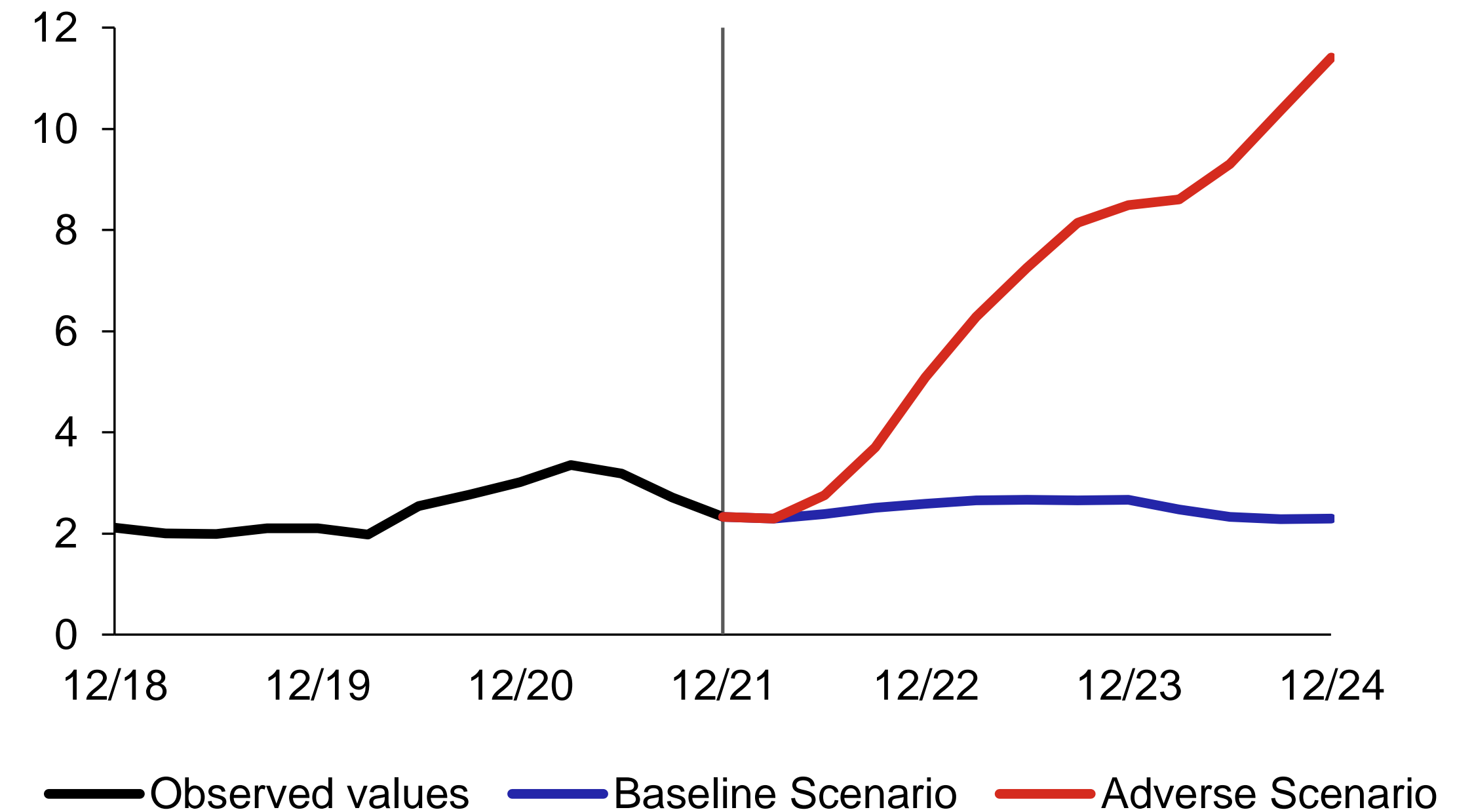
## Alternative scenarios: real GDP

(CZK billions; quarterly data)



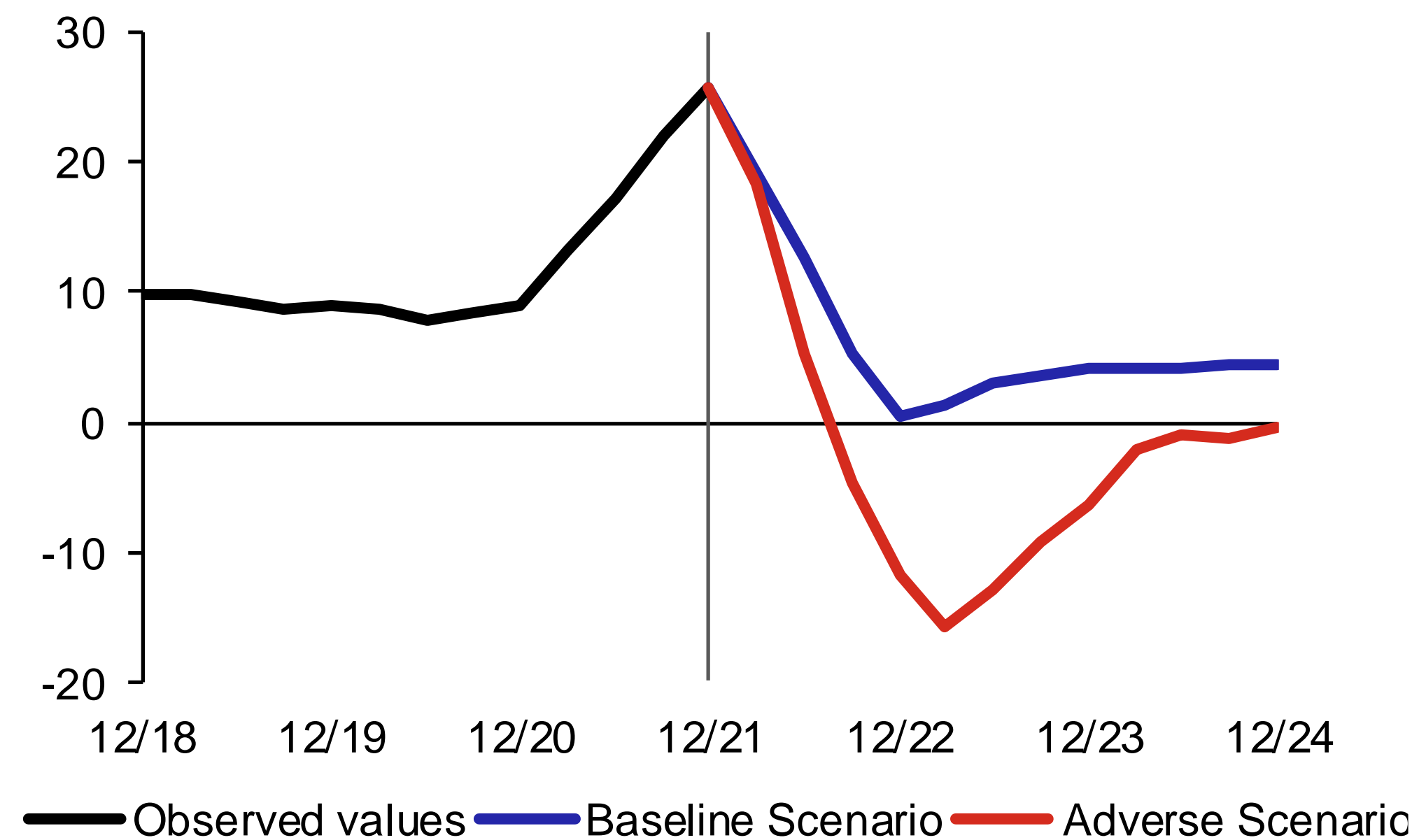
## Alternative scenarios: unemployment rate

(%)

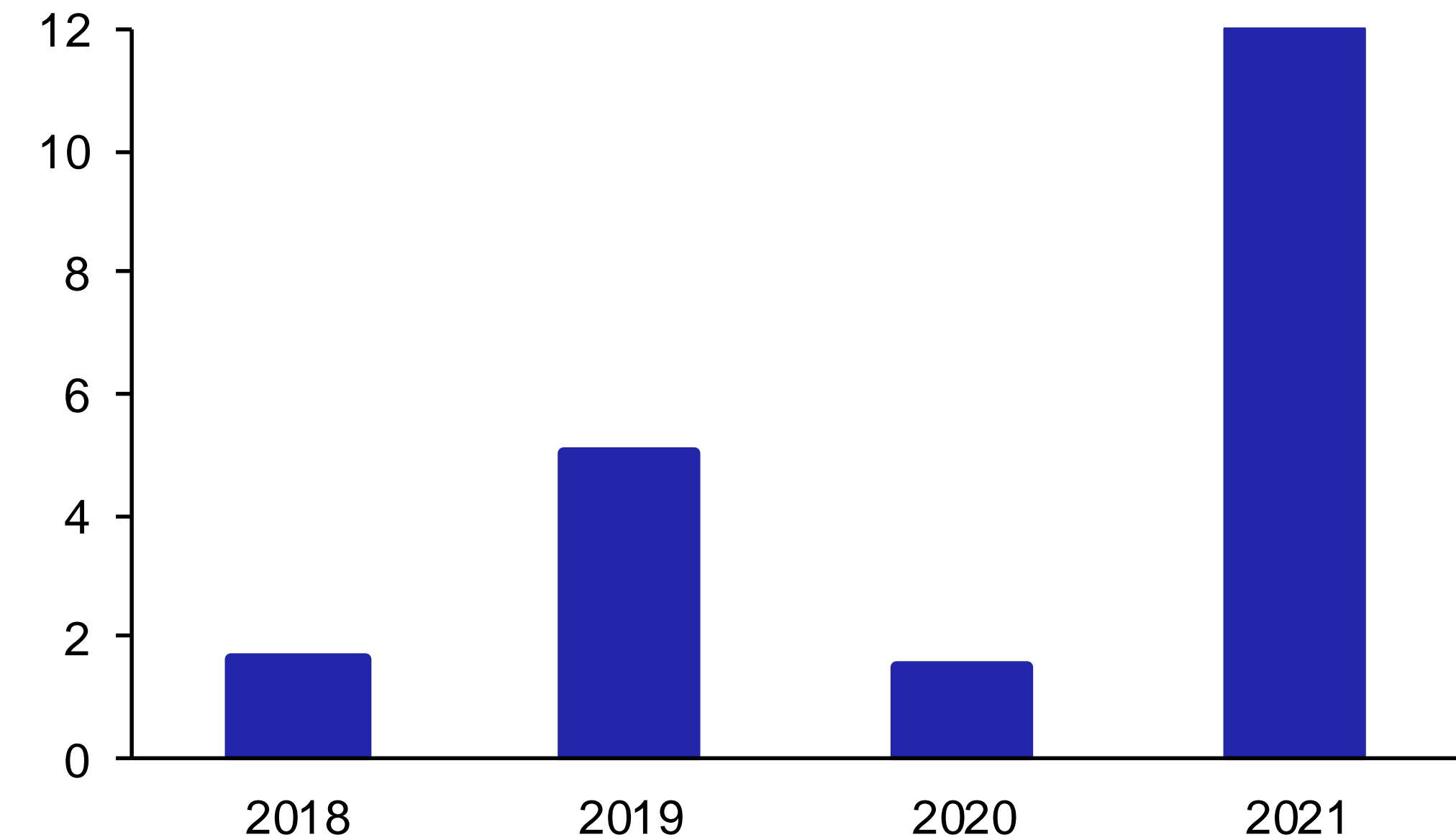


# Residential property price scenarios

**House price growth projections**  
(y-o-y growth in %)

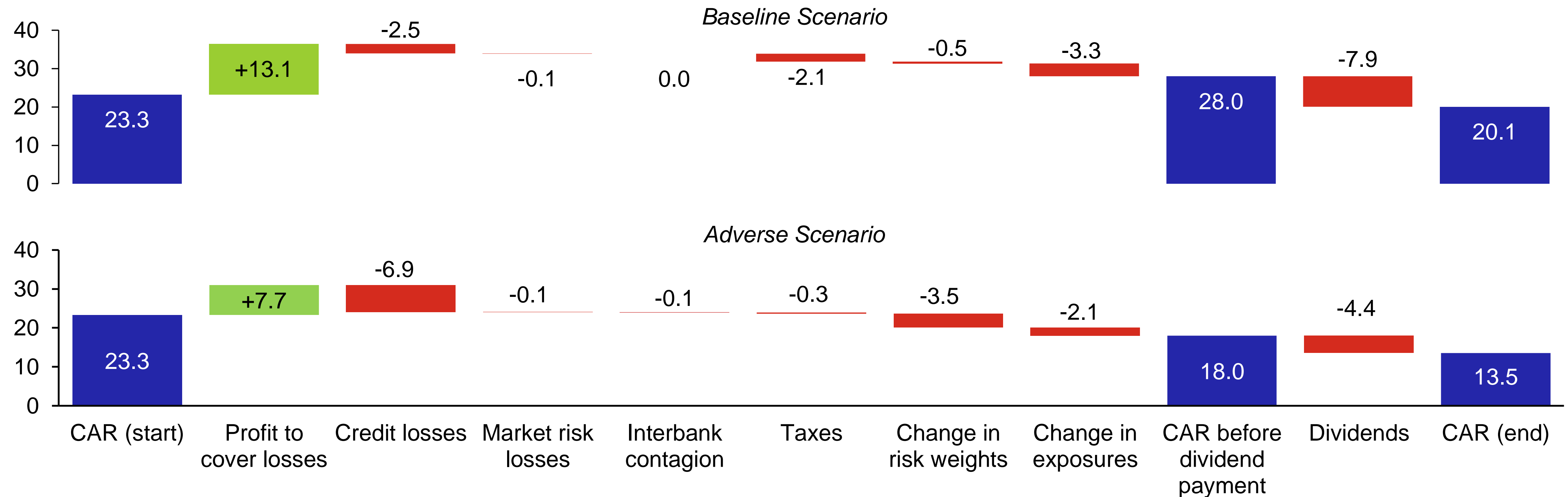


**Probability of average paratment prices falling by more than 10% over the next two years**  
(%; fourth quarter of the year)



# Bank stress test results (1)

## Decomposition of the change in the total capital ratio of the banking sector in the alternative scenarios (pp)

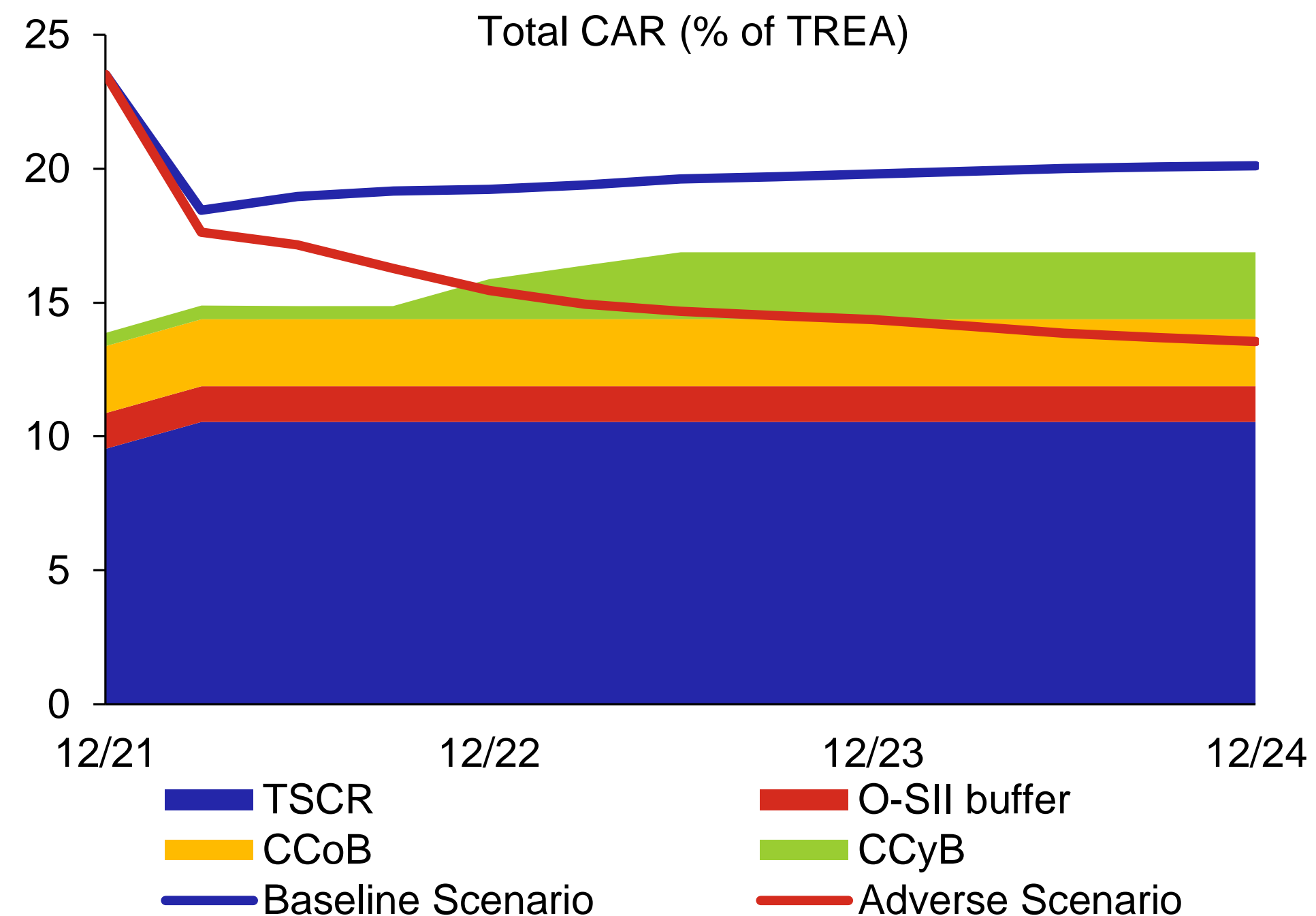


Note: CAR = total capital ratio. Items increasing the capital ratio are shown in green and items reducing it are shown in red.



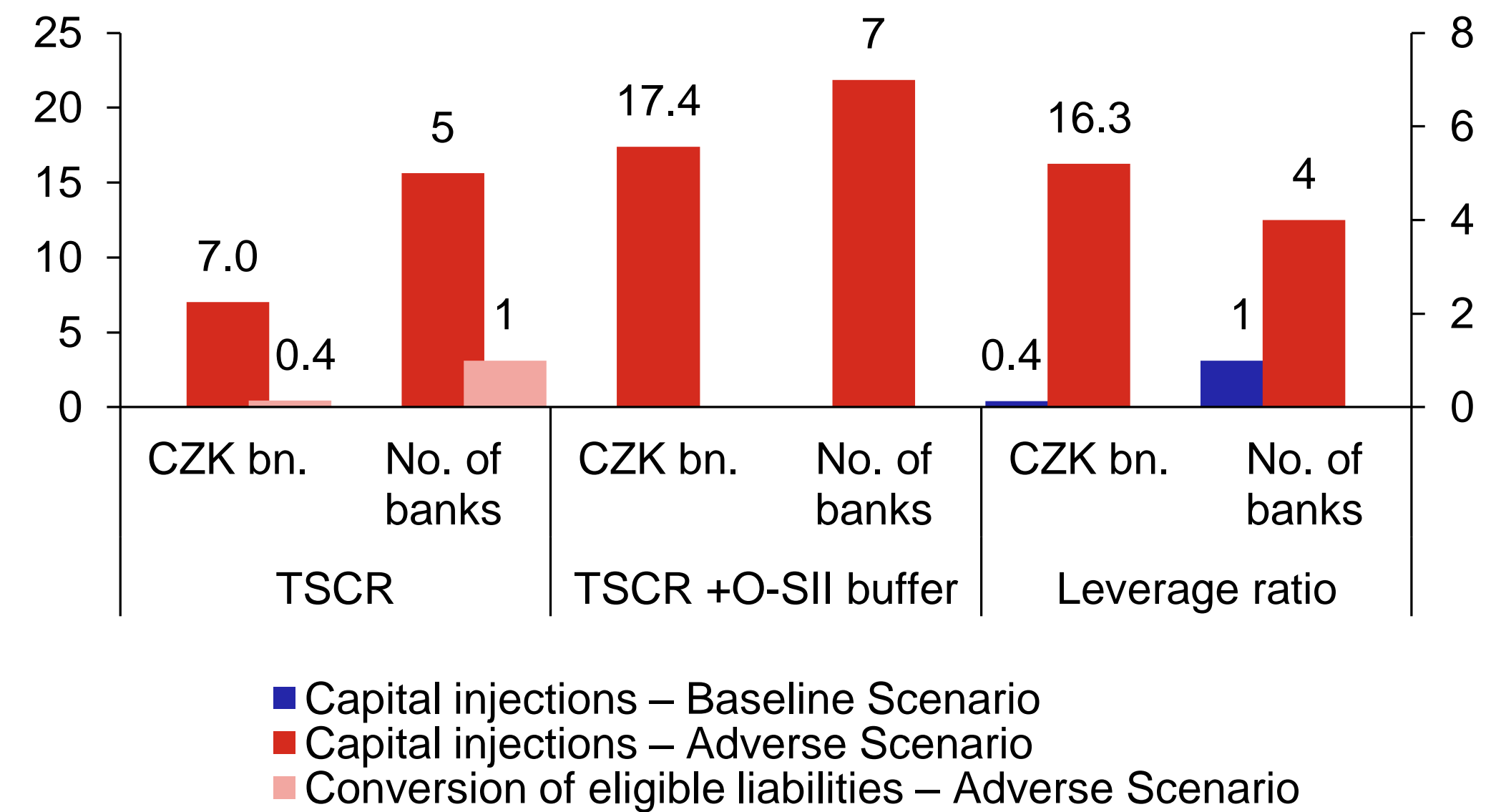
# Bank stress test results (2)

## Fulfilment of selected regulatory requirements by the banking sector in alternative scenarios



## Need for and manner of capital replenishment at different levels of capital requirements

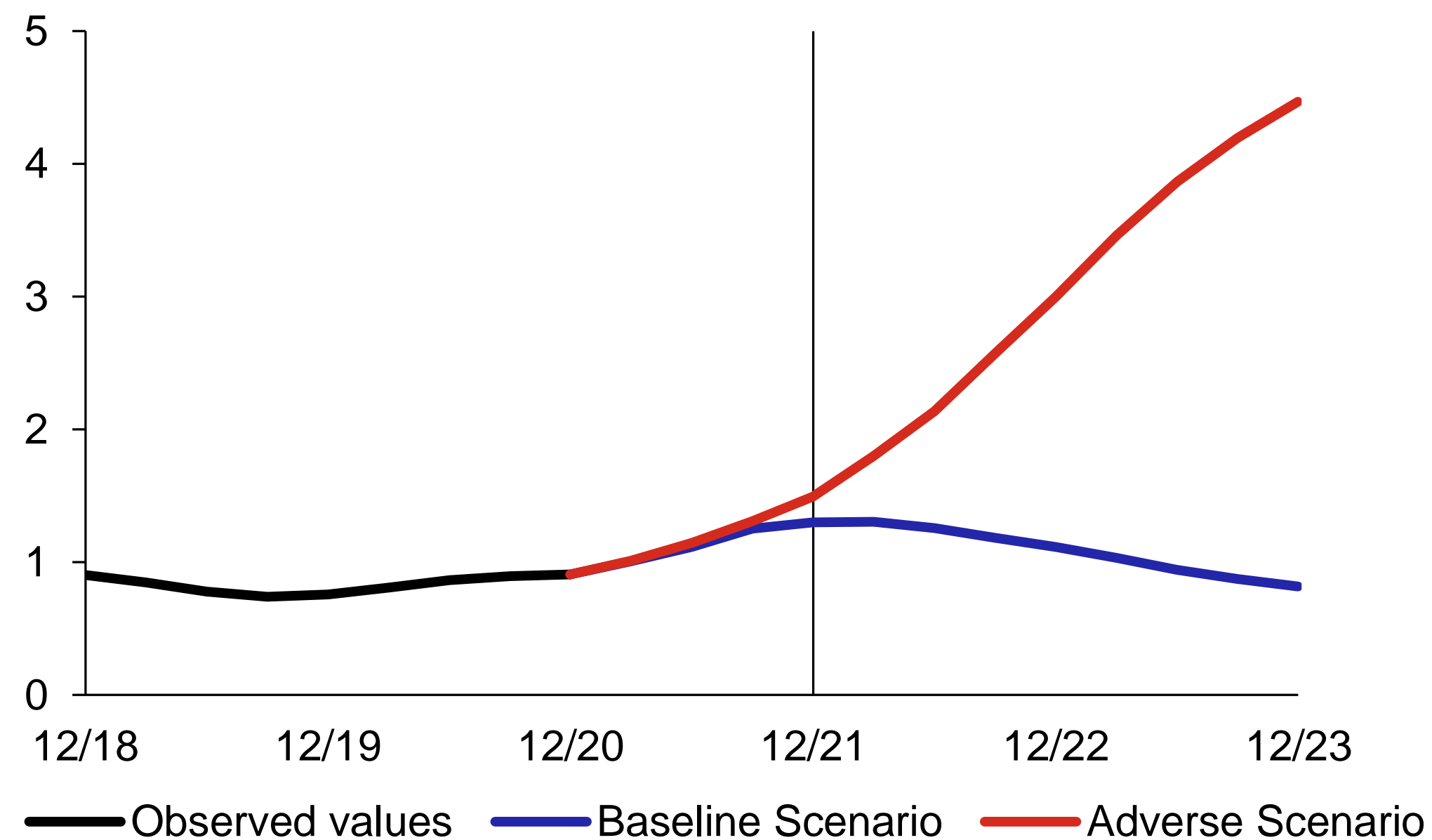
(CZK billions; right-hand scale: number of banks)



# Results of stress test of households

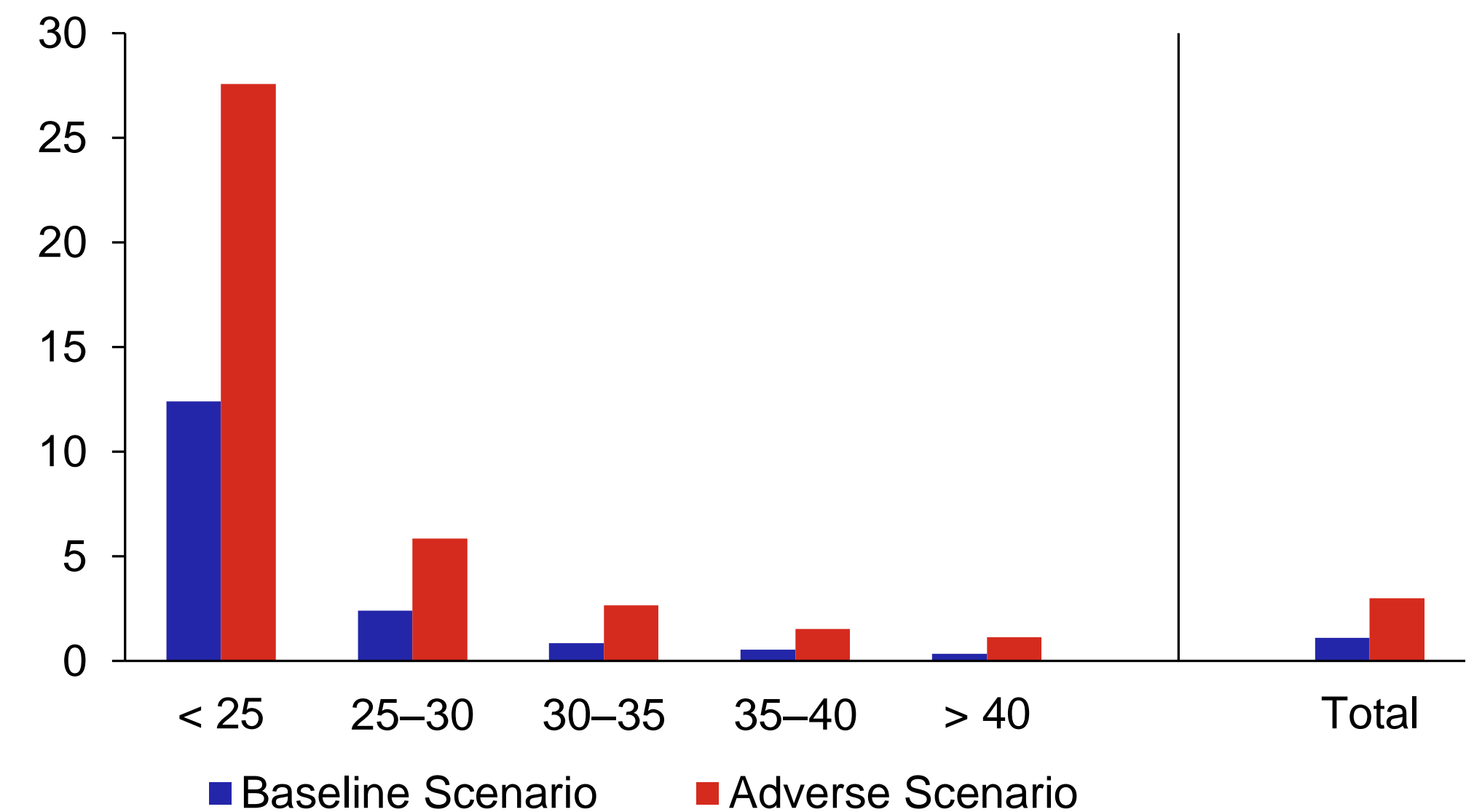
## 12M default rate on mortgage loans to households

(%)



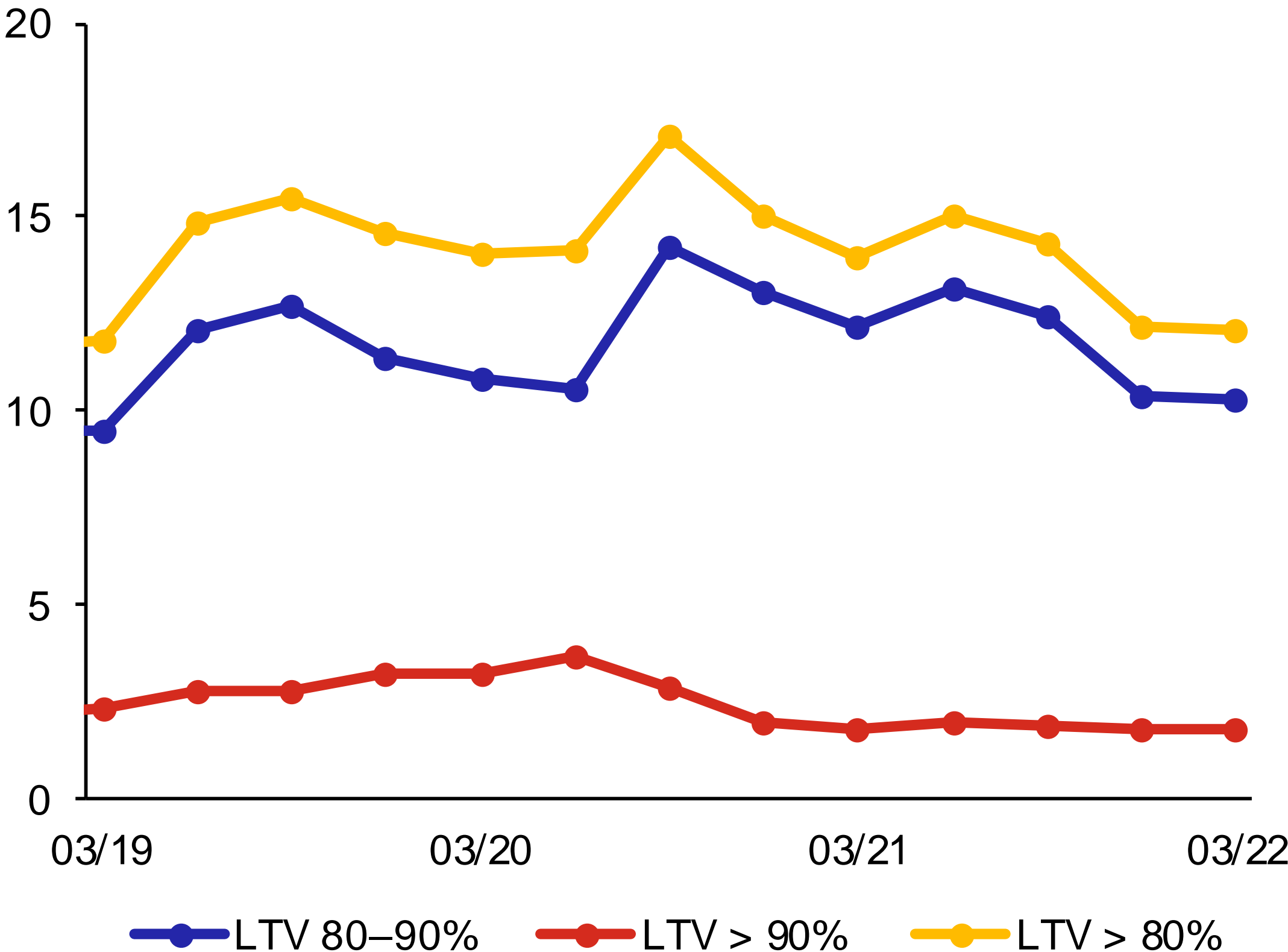
## Average 12M default rate by income group

(% of loans in given income group; x-axis: borrower's net income in CZK thousands)

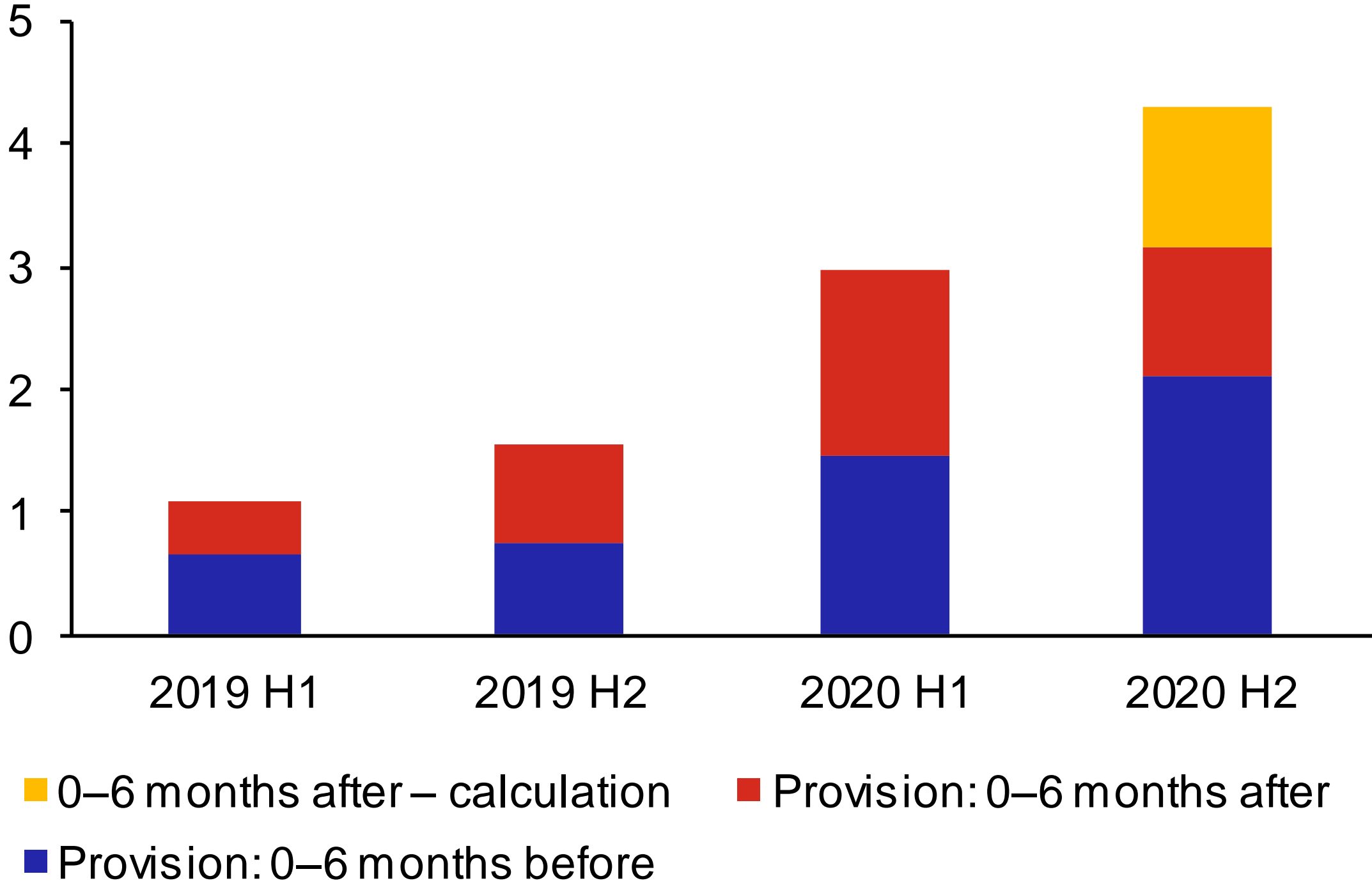


# Compliance with LTV limit

**Loans with LTVs in selected bands**  
(share of loans in volume provided in %)



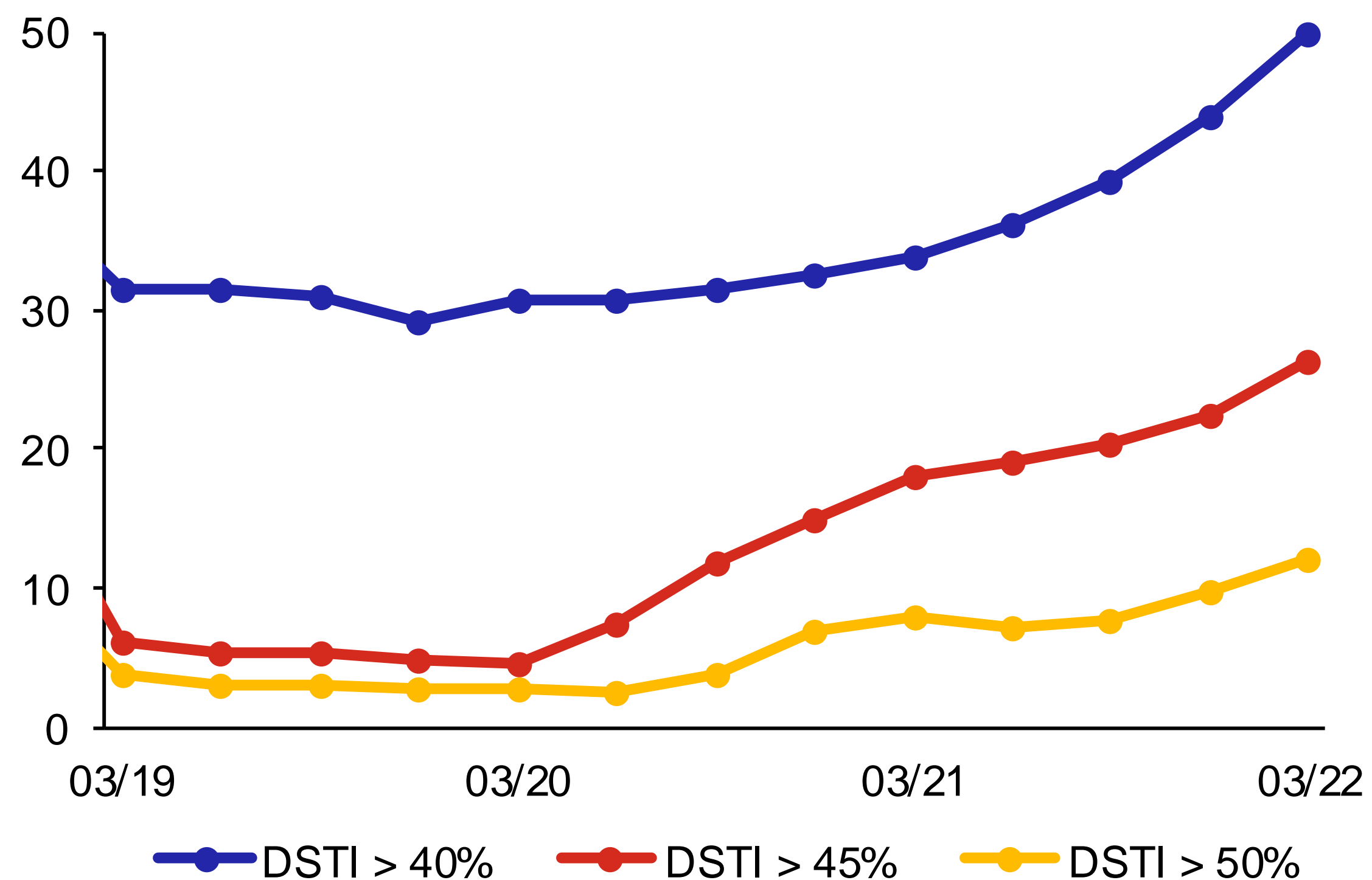
**Concurrent provision of unsecured and mortgage loans**  
(unsecured loans in CZK billions; x-axis: half-year in which mortgage loan was provided)



# DSTI and DTI ratios

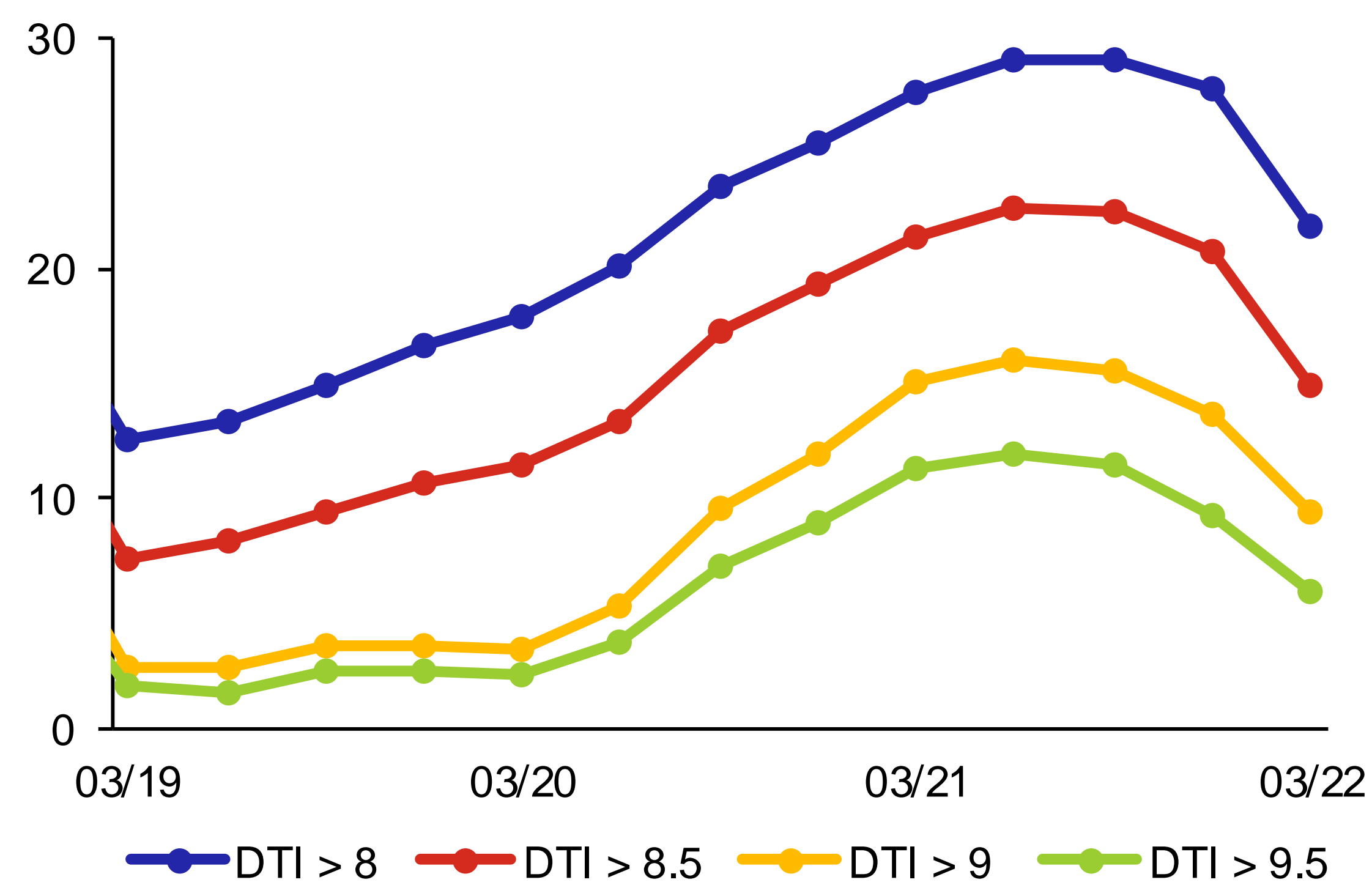
## Loans with DSTIs in selected bands

(share of loans in volume provided in %)



## Loans with DTIs in selected bands

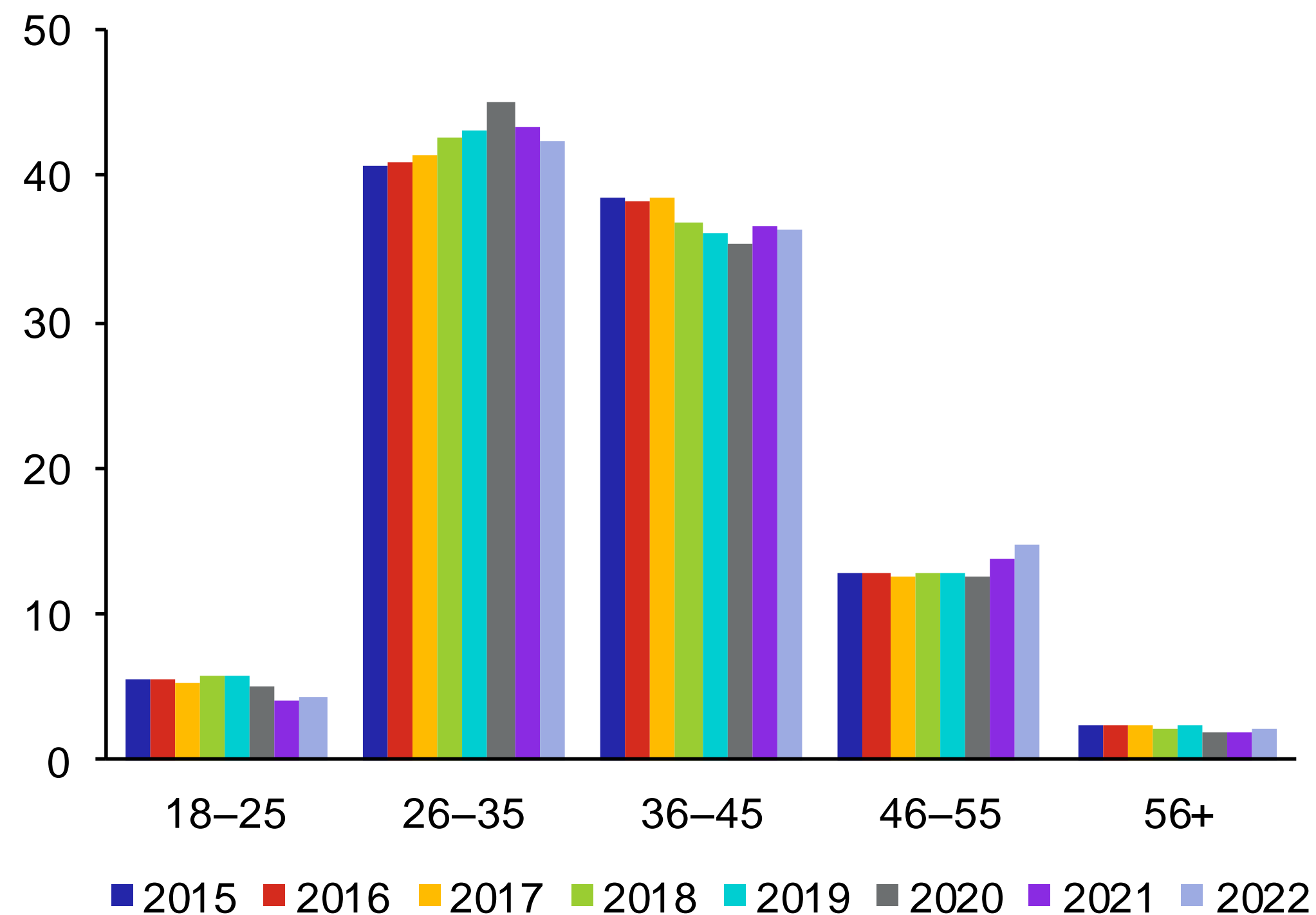
(share of loans in volume provided in %)



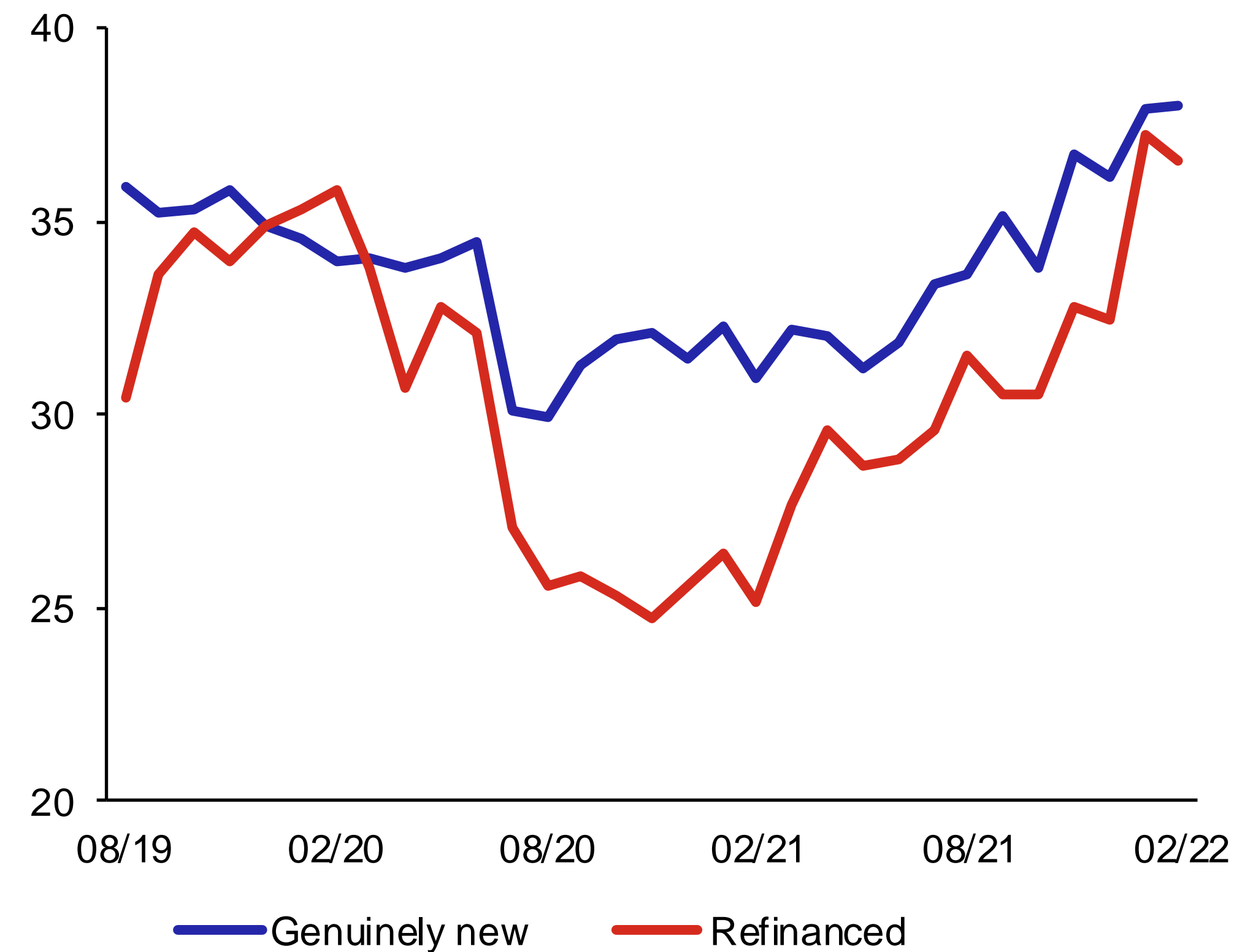


# Structure of mortgage loans

**Distribution of new loans by age of the principal borrower**  
(share of loans in volume provided in %; x-axis: age of principal borrower in years)



**Share of second and subsequent mortgage loans**  
(% of monthly volume)



# Thank you for your attention

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The following will be published on the CNB website on **17 June 2022**:

- *Provision of a general nature on setting the countercyclical capital buffer rate II/2022*

The following will be published on the CNB website on **4 July 2022**:

- *Financial Stability Report – Spring 2022*
- The minutes of the Bank Board meeting on financial stability issues (for the first time, the minutes will disclose attributed arguments of individual CNB Bank Board members, as in the case of monetary policy meetings)