
Current financial stability issues in the Czech Republic and in the region

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Issues for financial stability

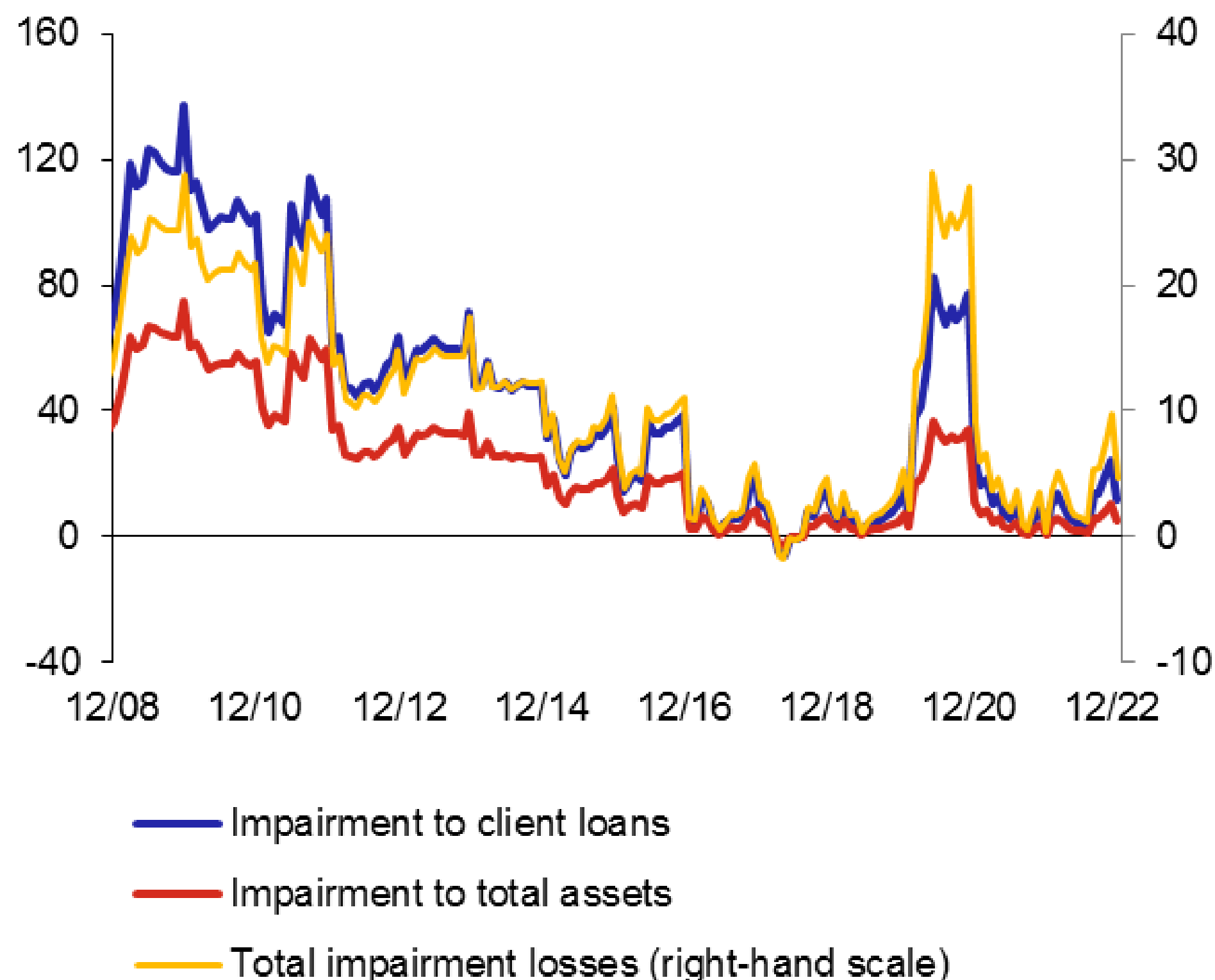
1. The future evolution of credit portfolio quality is a key risk.
2. The possibility of the FX risk associated with accelerated growth in EUR loans to non-financial companies becoming a systemic risk for the Czech banking sector.
3. The extent of the property price correction and the possible consequences.
4. Rising government debt is causing the sovereign exposures of domestic banks to rise and has the potential to become a systemic risk in the medium term.



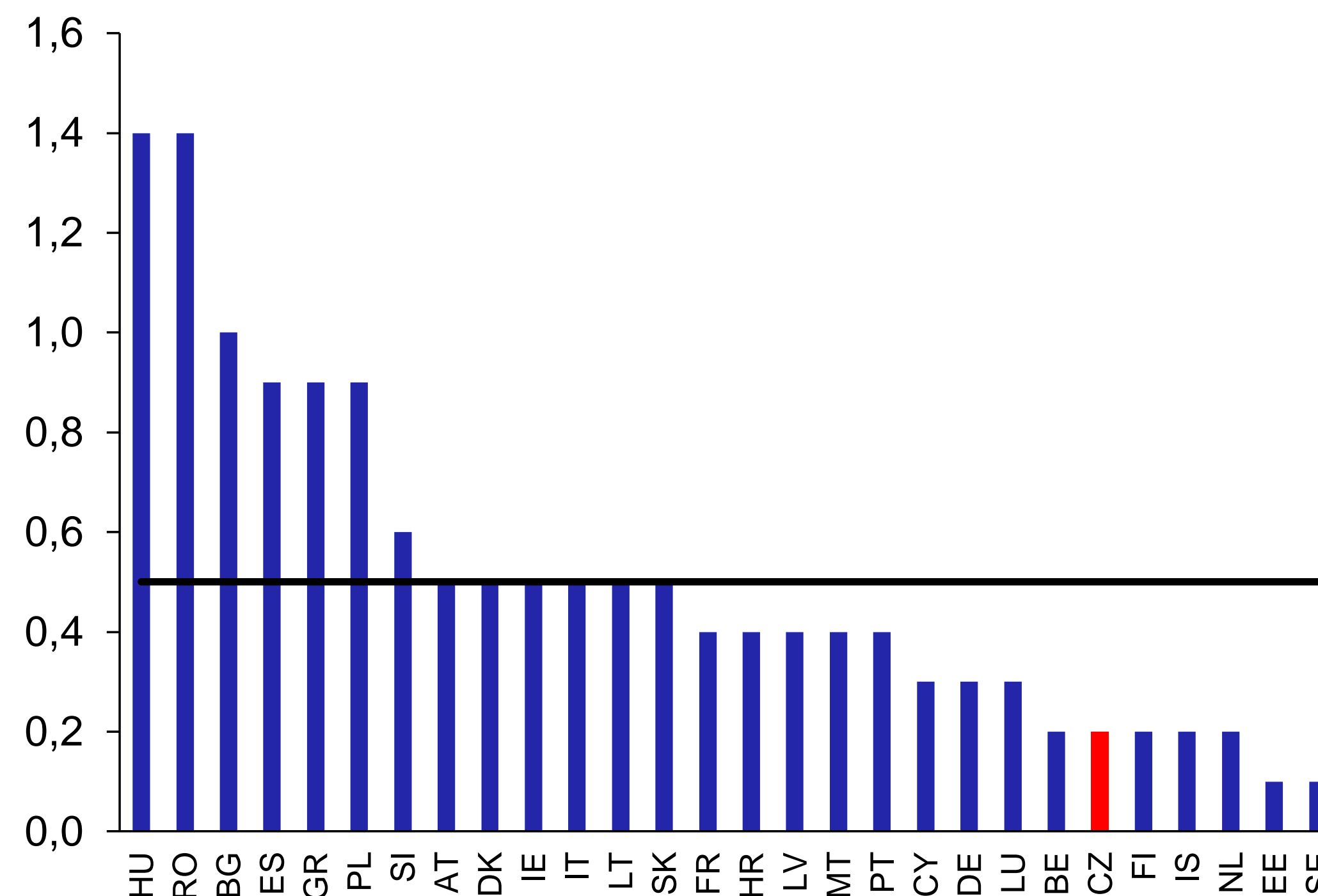
Banks' credit risk – initial level

Asset impairment losses

(impairment/total assets in bp; total impairment losses in CZK billions)



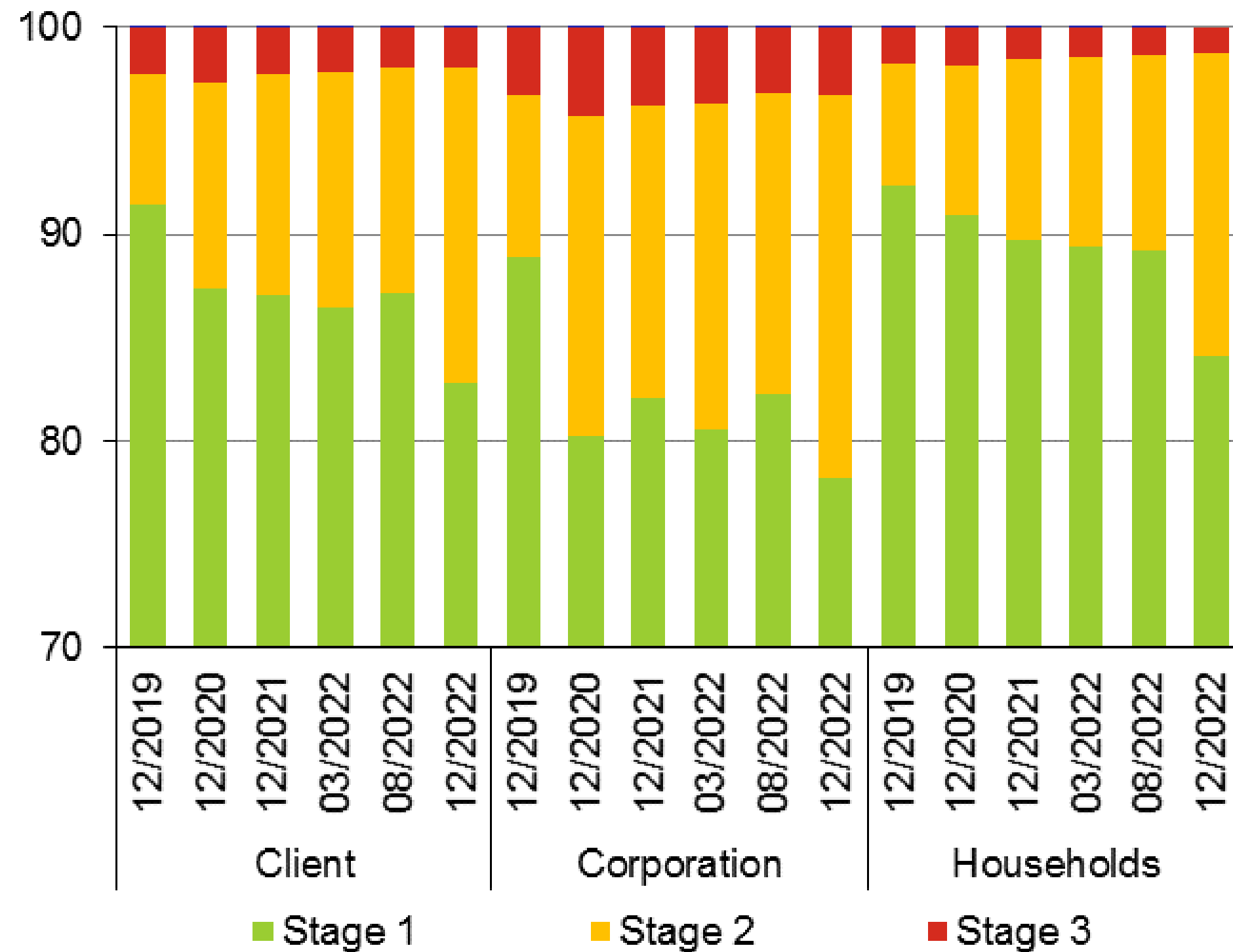
Cost of risk (as of 2022 Q4, in %)



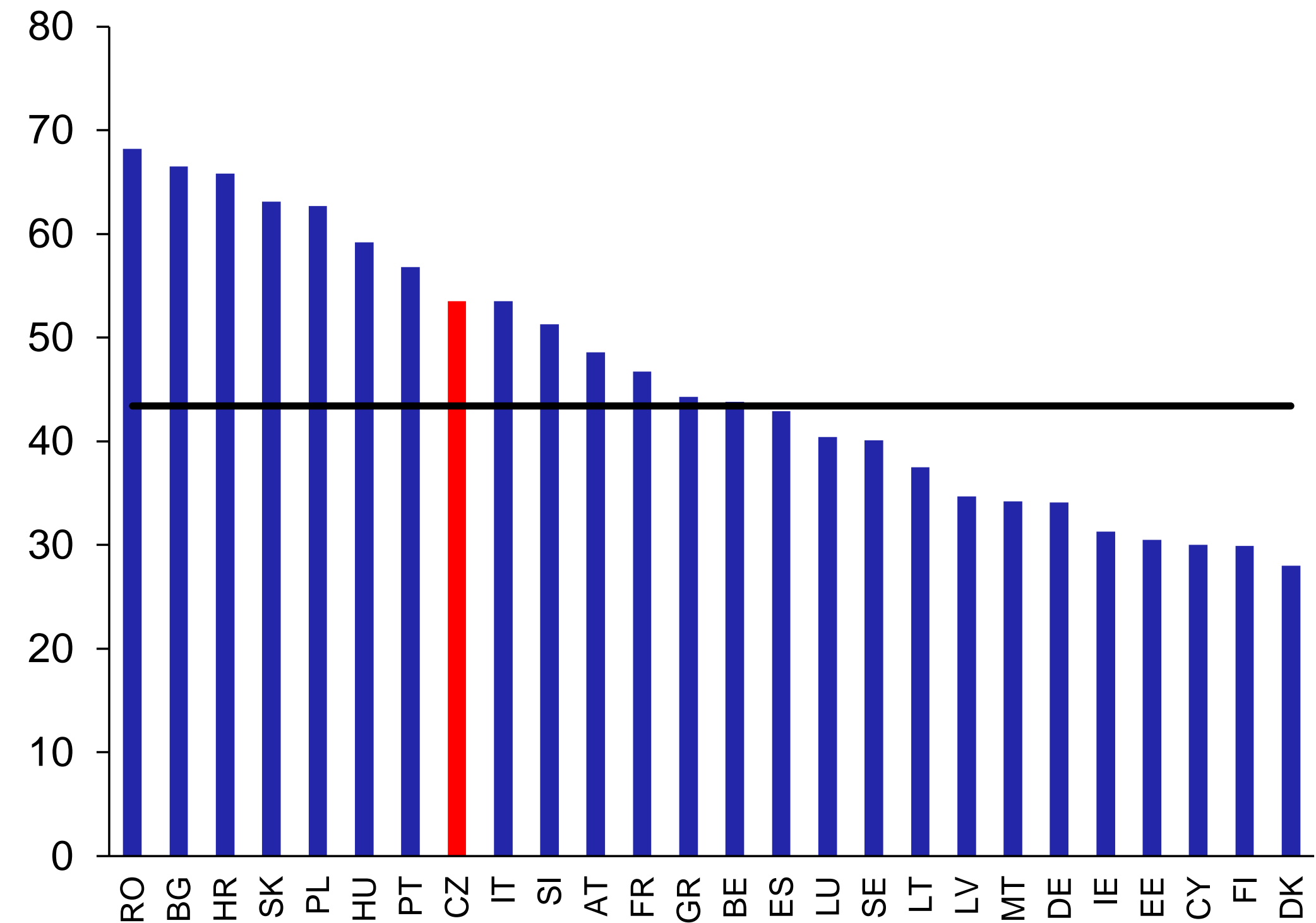
- Impairment losses are (still) low, decreased in 1/23 and did not confirm previous short up-trend.
- The Czech cost of risk is low by European comparison, lower than the EBA average, well below Hungary and Poland.

Portfolio quality and NPL coverage

Loan structure by portfolio (in %)



Coverage of NPLs (as of 2022 Q4, in %)

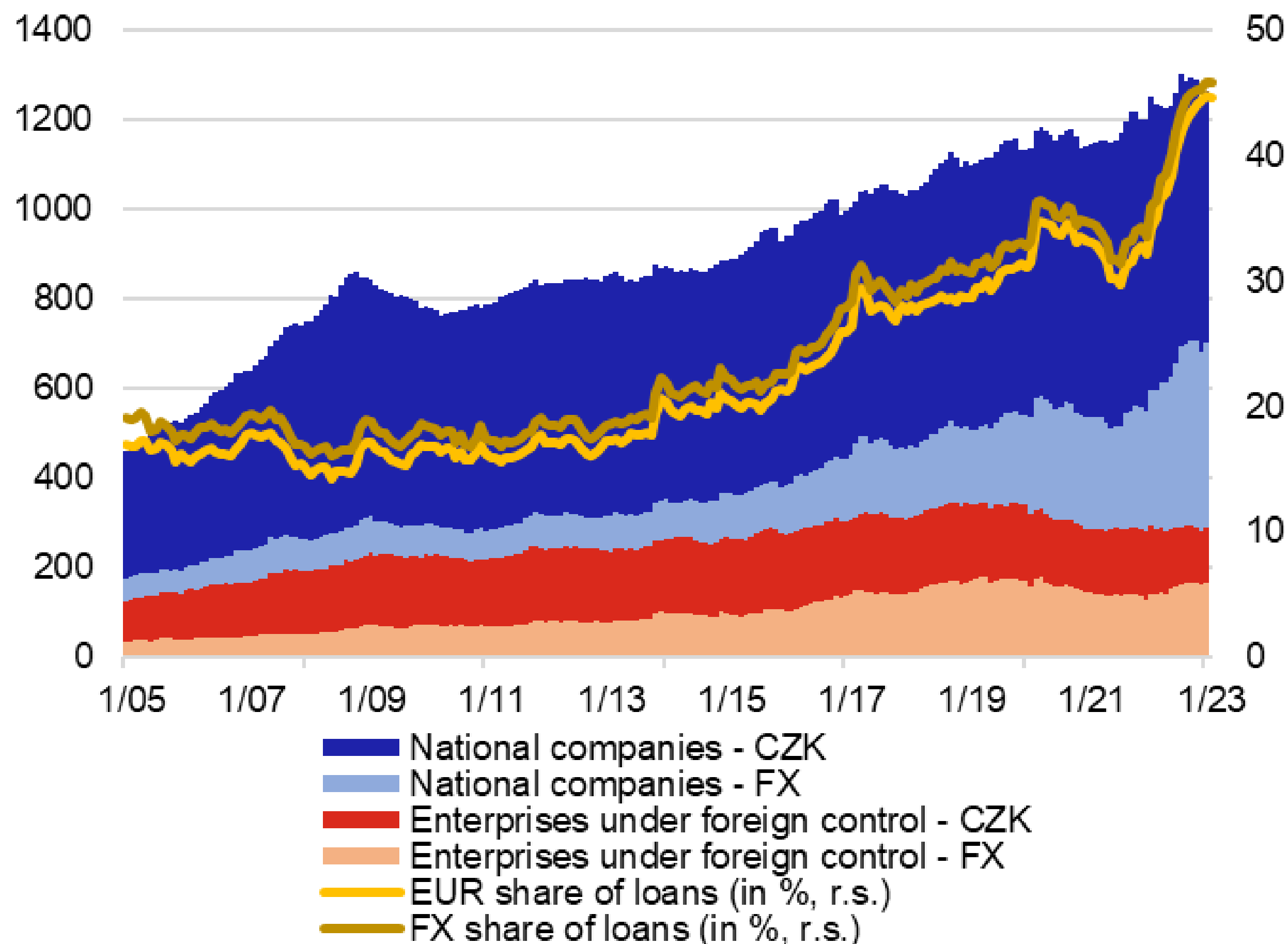


- Recently there has been an increase in the volume of loans in Stage 2 for all three groups, but without a major reclassification to (still low) Stage 3 (NPLs). Currently, Stage 3 loans do not have the potential to jeopardize financial stability.
- The coverage of NPLs (53.5%) is above the EBA average (43.4%) and slightly lower than in Poland and Hungary.

EUR loans and risk of depreciation

FX (dominantly EUR) and CZK loans

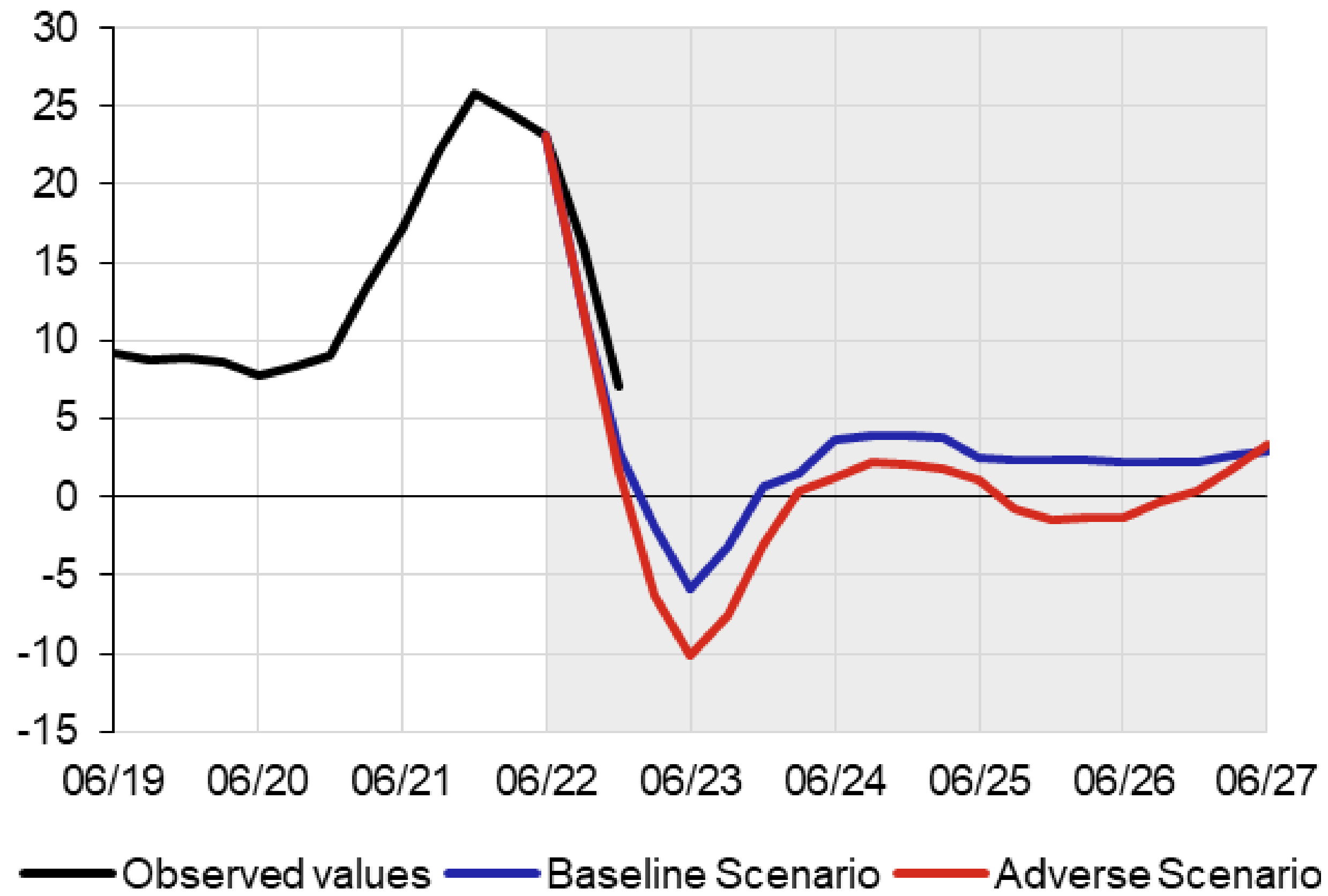
(stock in billion CZK, in %)



- Recently, the growth of FX loans to companies has accelerated, partly due to a wider CZK/EUR interest rate differential.
- FX risk thus enters banks' balance sheets through growth in EUR loans.
- However, the majority of EUR loans are provided only to companies with a sufficient amount of EUR income, so they are naturally hedged against FX risk.
- A co-occurrence of a CZK depreciation and an increase in LGD was simulated by the CNB. It turns out that the potential losses are not so high as to be a source of systemic risk.
- The current prudent setting of CCyB (2.5%) might help cover the potential realization of FX loan risk.
- Currently Supervision is conducting a detailed investigation into FX loans.

Extent of property price correction and consequences

Projections of property price (PP) growth (year-on-year growth in %)



- Residential PP increased in all European countries in previous years. The three-year growth rate of almost 60% in CZ was the highest.
- Residential PP are highly overvalued despite a recent correction. The estimated apartment price overvaluation is between 30% and 64% depending on the method.
- The cooling of the property market has already started and the decrease in property price growth is expected to be mild, depending on the severity of the scenario.
- The potential decline (between 5% to 10%) in PP should not have a systemic impact in the short run.
- The LTV limits previously set by the CNB and observed by banks should help ensure milder impacts even in case of a more robust correction in house prices.

Thank you for your attention



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