Outcome of the CNB Bank Board meeting on financial stability issues

Karina Kubelková, CNB Bank Board member
Libor Holub, Executive Director, Financial Stability Department

27 November 2024

ČNB ČESKÁ NÁRODNÍ BANKA

LTV, DTI and DSTI limits

ČNB ČESKÁ NÁRODNÍ BANKA

Mortgage loan ratios – decisions

The Bank Board assessed the situation on the housing and mortgage markets. It decided to leave:

at 80%
(90% for applicants under 36 years)

deactivated

BANK BOARD VOTE

Votes in favour:

Votes in favour:

Property market

ČNB ČESKÁ NÁRODNÍ BANKA

Property market

- Apartment prices have started to go up again.
- We expect the upward trend to continue into 2025…
- …on the back of rising household incomes and falling mortgage rates.
- The risk of a sudden, sharp drop in prices is low at the moment.

CNB response

- No systemic risks were identified, so there is no need to reactivate DTI and DSTI.
- The current LTV limits were maintained for prudential reasons.

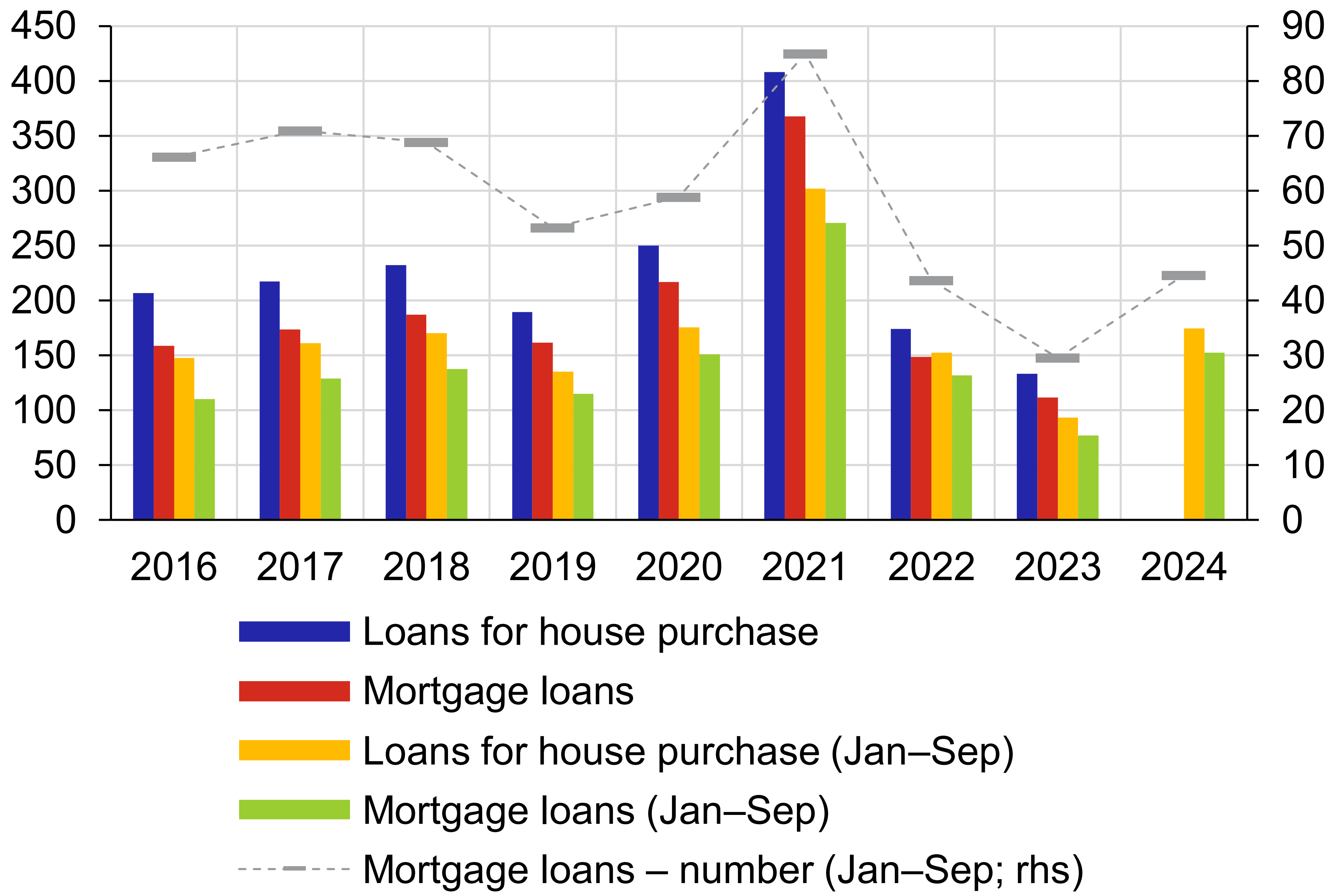
Mortgage loans and property market

- The volume of pure new mortgage loans in January–September 2024 exceeded the 2014–2020 levels **in nominal terms**. However, the **numbers** of new loans remained below the long-term average.

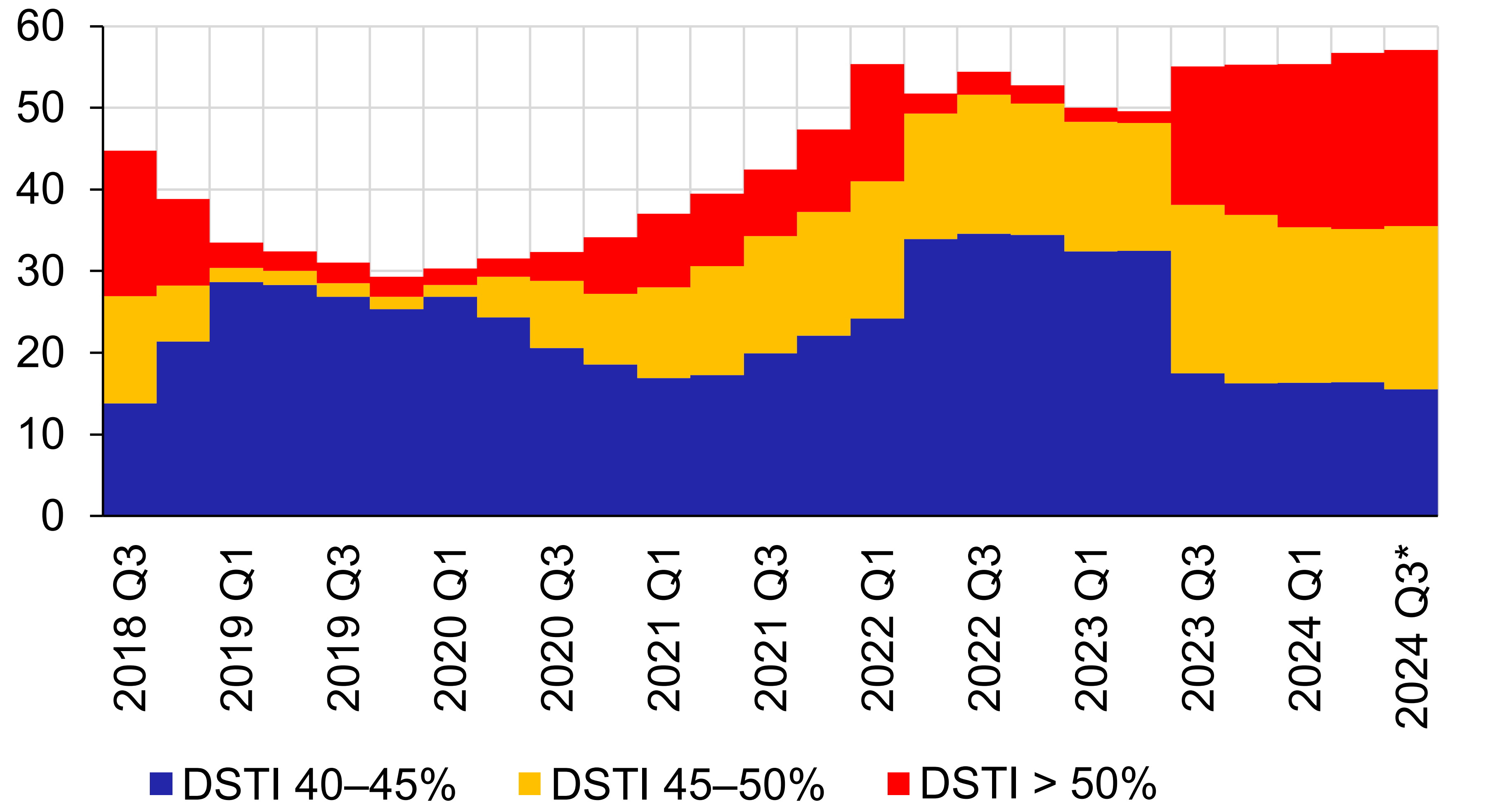
Banks were compliant with the LTV limits effective since April 2022.

The share of loans with a DSTI ratio of over 40% remains elevated. However, it still does not have potential for the build-up of systemic risks.

Pure new bank loans for house purchase
(CZK billions)



Pure new mortgage loans with DSTIs of over 40%
(share of loans in volume provided in given quarter in %)



* The figures for 2024 Q3 contain data for July and August only

Mortgage loans and property market

Following a correction in 2023, residential property prices are **rising** again in the Czech Republic and most European countries.

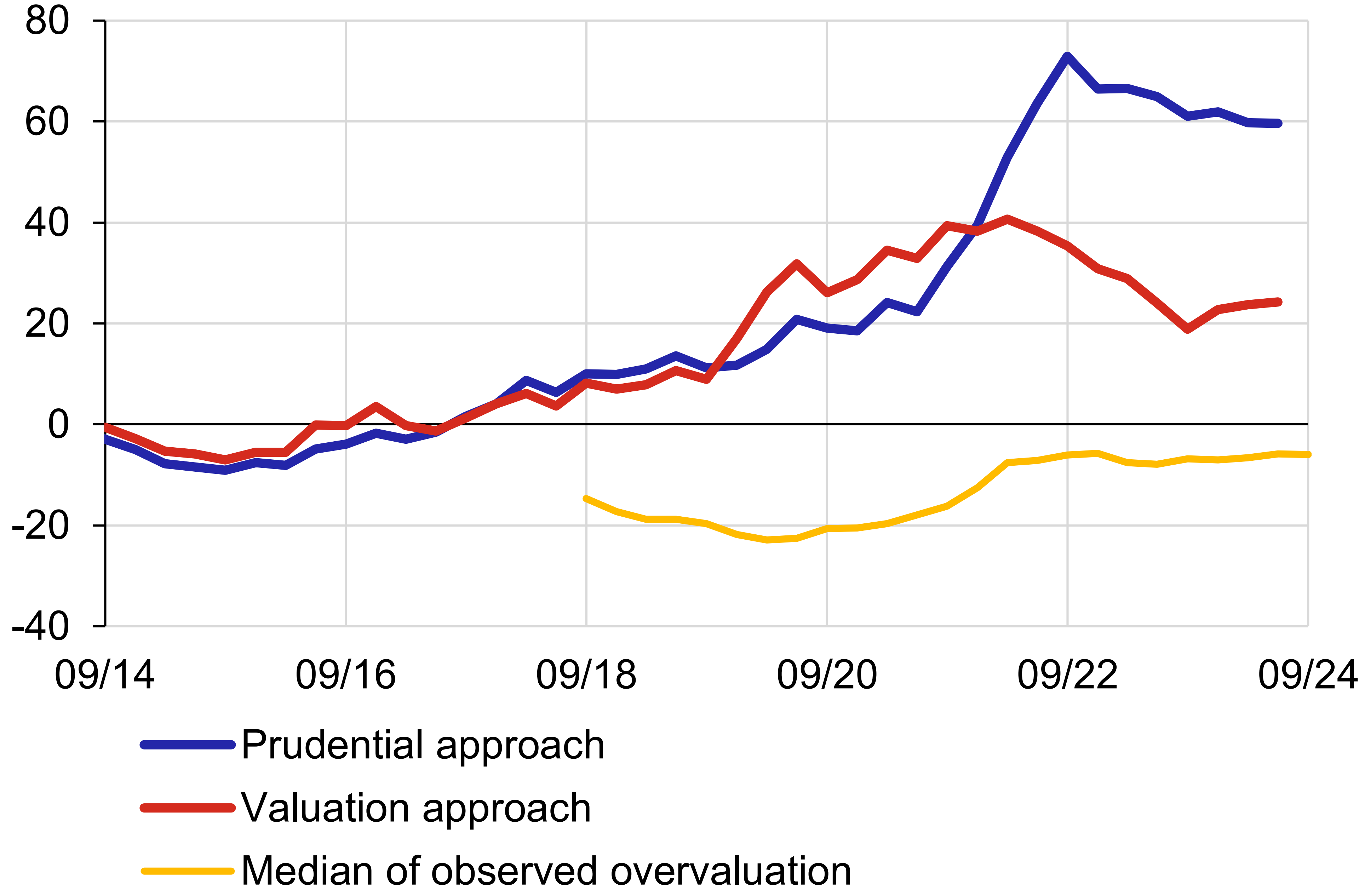
Apartment price overvaluation has stopped falling.

Median-income households may still be at increased risk of default when buying owner-occupied housing:

- By the CNB's estimation, apartments were overvalued by around 60% for median-income households and by 25% for retail investors from the household sector in 2024 Q2.
- In reality, most households taking out a mortgage were not taking on such risk.

Estimated overvaluation of property prices

(%)



Countercyclical capital buffer

Countercyclical capital buffer – decision

The Bank Board assessed the situation in the banking sector and the financial cycle. It decided to leave the countercyclical capital buffer (CCyB) rate unchanged at **1.25%**.

BANK BOARD VOTE

Votes in favour:

Financial cycle

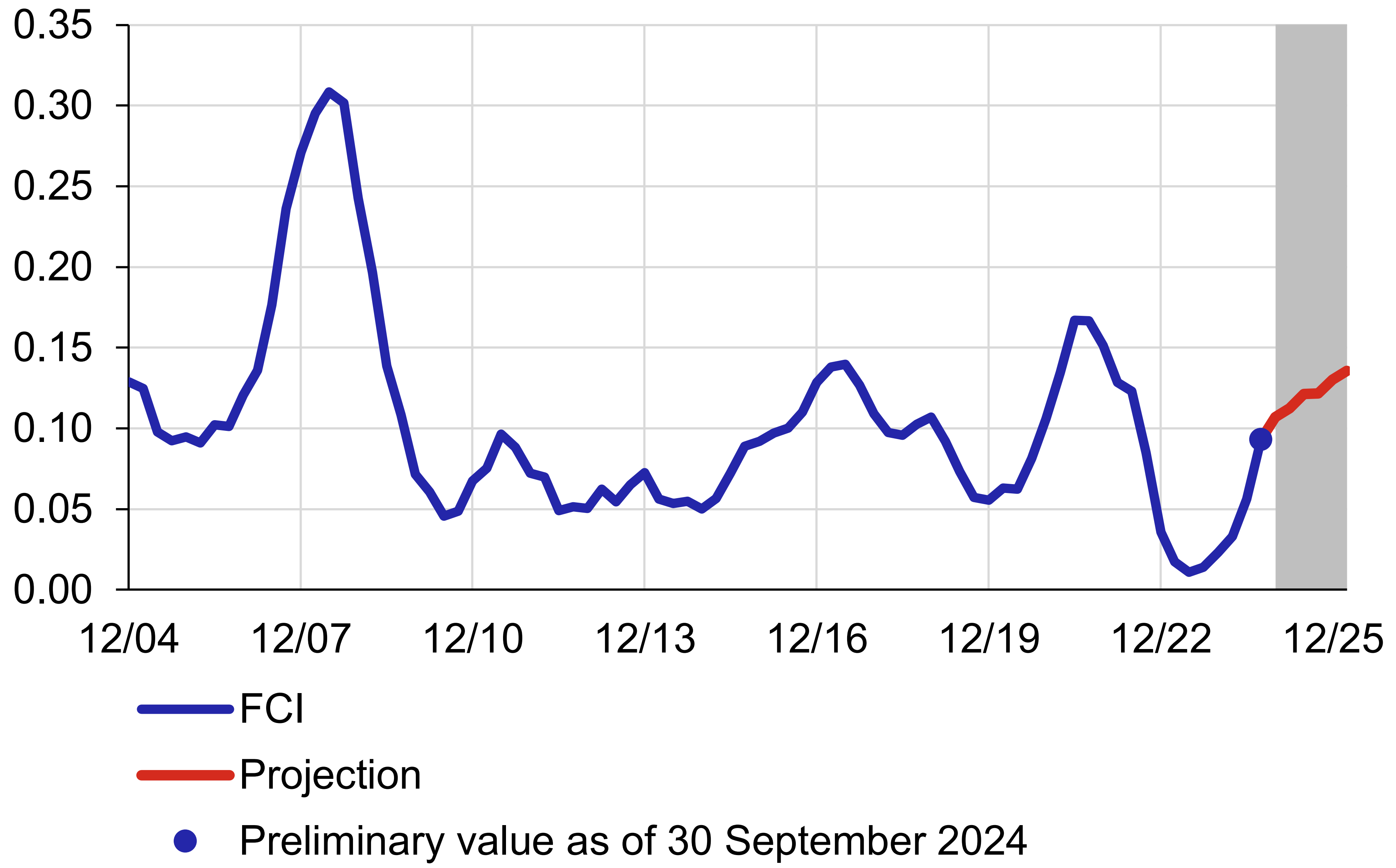
- The resumption of growth of the Czech economy has led to a shift in the growth phase of the financial cycle.
- The recovery in household borrowing activity is gradual.
- Cyclical risks are not growing significantly as yet.

CNB response

- The current buffer level is sufficient.
- We expect the gradual upward shift in the financial cycle to continue.

If the economy continues to move into the growth phase of the financial cycle, the CNB is ready to increase the buffer rate.

Financial cycle indicator
(0 minimum, 1 maximum)



Source: CNB, CZSO

Note: The projection is based on the CNB's autumn forecast (MPR – Autumn 2024).

ČESKÁ NÁRODNÍ BANKA

Aggregate risk assessment

Aggregate risk assessment – economic environment

Global economy

- Central banks are cautiously lowering interest rates now that inflation has stabilised.
- The global economy is still being affected by persisting uncertainty caused by geopolitical tensions.
- The changes in the US administration may affect global trade and the world economy.

European economies

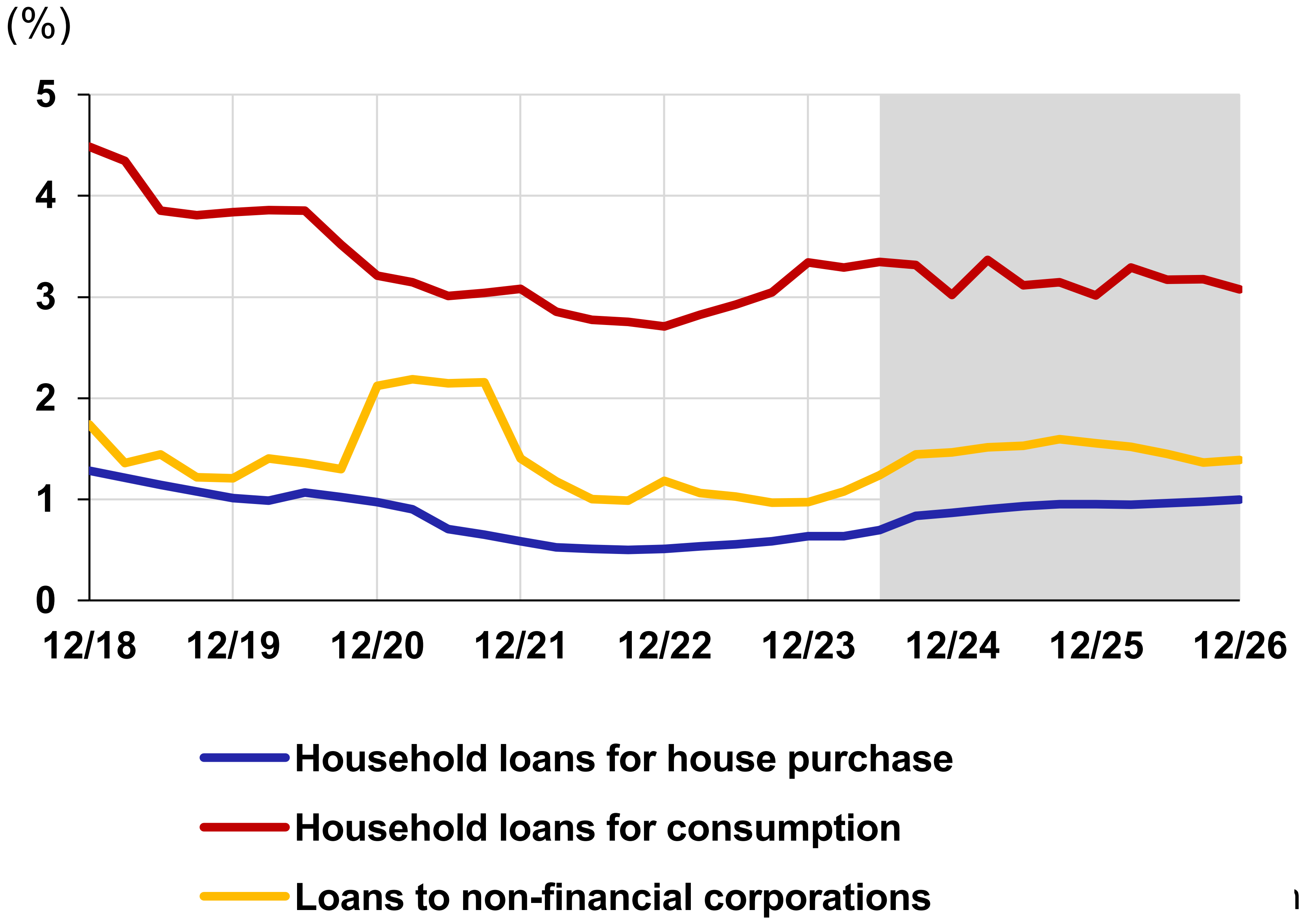
- The recovery is very slow and economies have been lagging behind the USA and China for some time now.
- Decreasing competitiveness poses a risk for the future of the economy and the financial sector.
- Fiscal consolidation will be a challenge amid higher debt service and defence spending.

Aggregate risk assessment – economic environment

Czech economy

- Decreasing interest rates have supported growth in demand for loans among households and non-financial corporations. However, their total debt has remained low.
- The fading of the economic headwinds has yet to be reflected in the financial soundness of corporations and households; their default rates may rise gradually.
- Persisting general government deficits are increasing the sovereign exposures of domestic banks and the related concentration risk in their balance sheets.

12M default rate on loans to the private non-financial sector



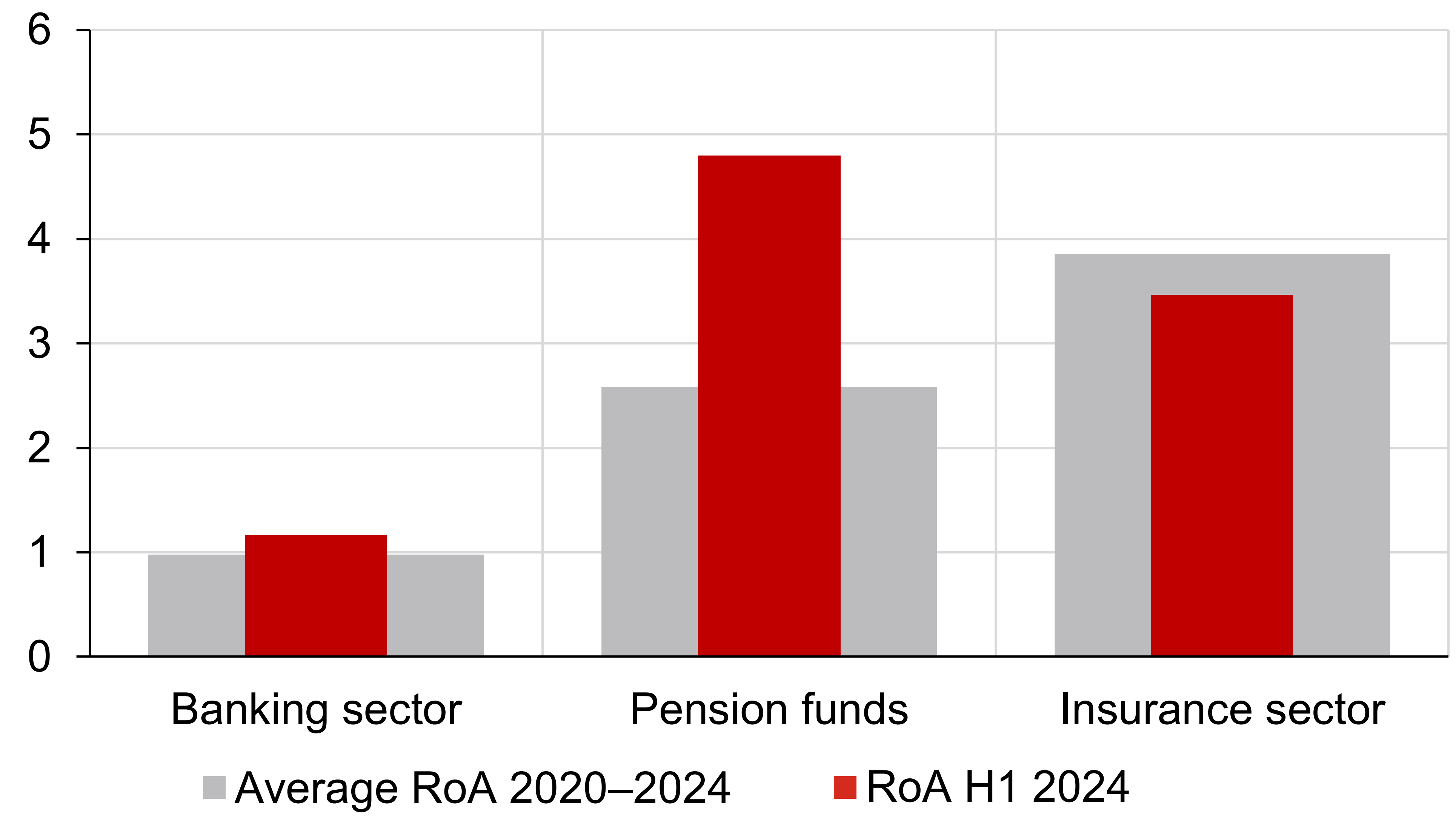
Note: The values in the grey area are based on a projection consistent with the CNB's autumn forecast (MPR – Autumn 2024).

Aggregate risk assessment – financial sector

The profitability of the Czech financial sector remains solid

- The situation in the **financial sector** showed favourable trends in the first half of 2024. The sector is stable and sound.
- Most of its segments recorded growth in total assets. Their profitability and their strong capital and liquidity positions form the foundation of their resilience to adverse shocks.

Profitability of the segments of the financial sector
(return on assets in %)



Aggregate risk assessment – financial sector

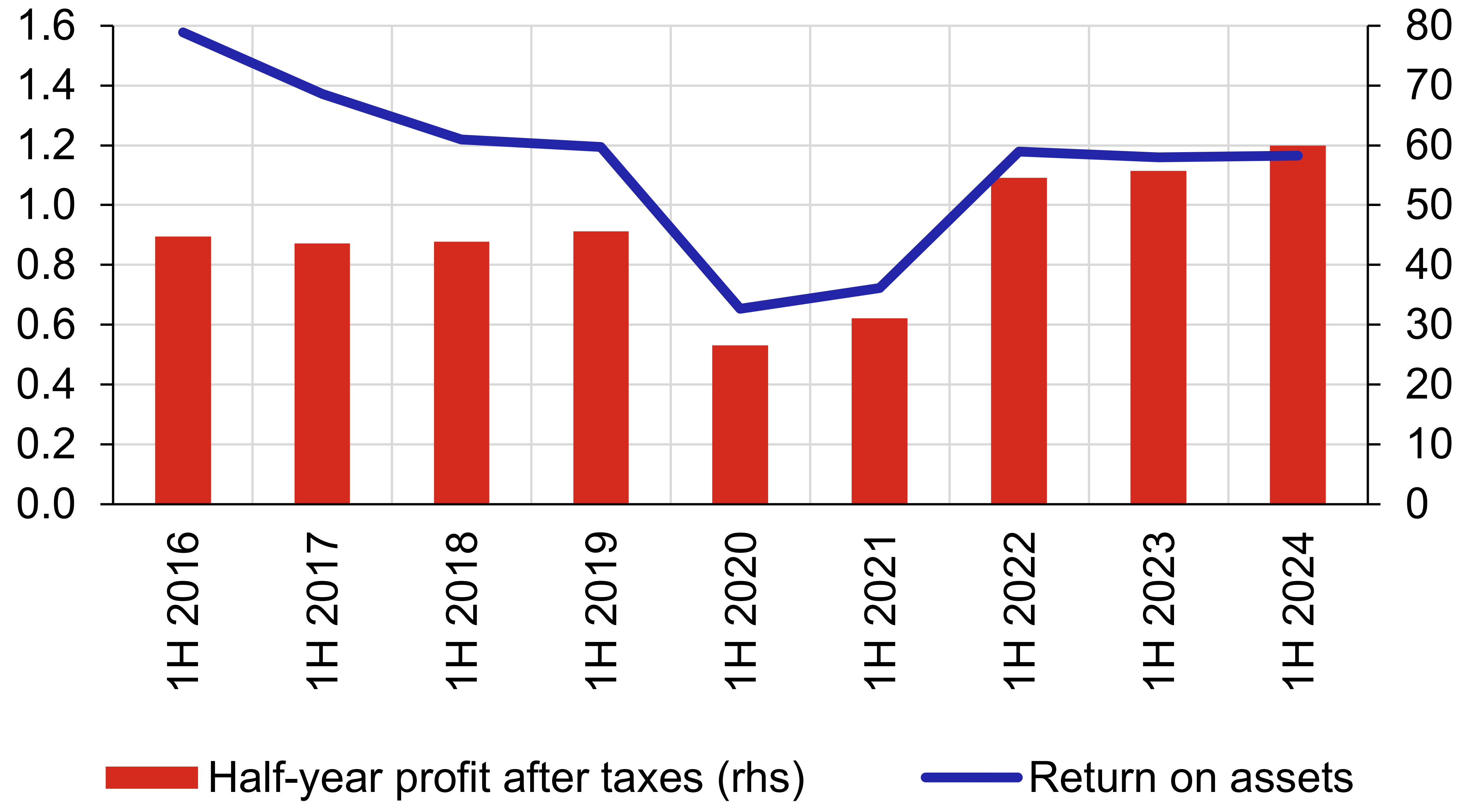
The Czech banking sector is resilient to adverse shocks

- Its capitalisation remains robust thanks to capital buffers and capital surpluses in excess of the regulatory requirements.

- An SyRB rate of 0.5% will apply from the start of 2025.
- The built-up resolution capacity (MREL) is also playing a stabilising role.

- The profitability of the banking sector stayed solid.
- Return on assets remained high.
- Impairment losses declined.

Return on assets and profit
(%; right-hand scale: CZK billions)

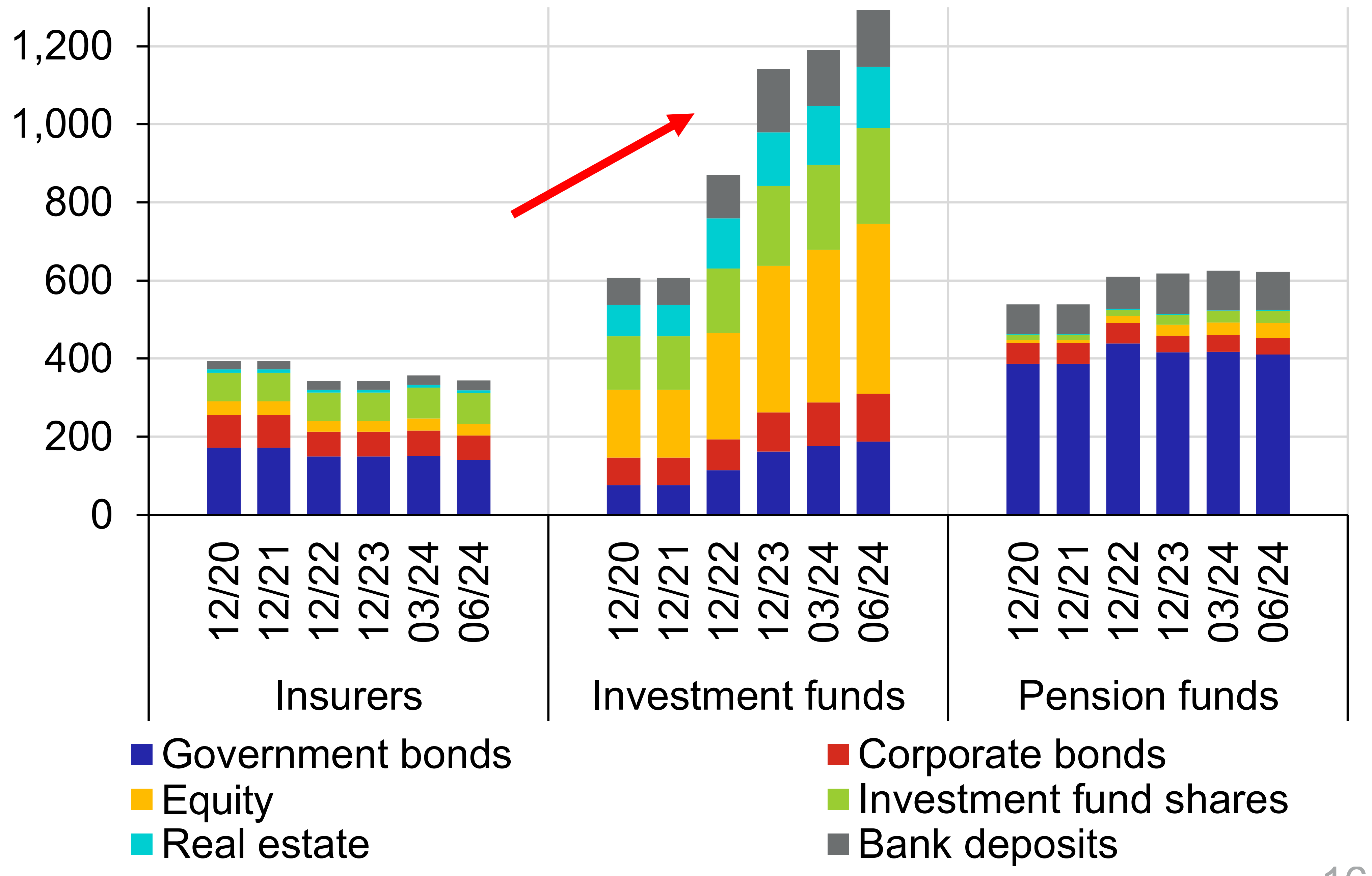


Aggregate risk assessment – financial sector

The Czech non-bank financial sector remains stable and resilient

- The investment fund sector continues to show dynamic growth.
- Pension funds are recording continued outflows from transformed funds.

Main components of domestic non-bank institutional investors' investment assets
(CZK billions)



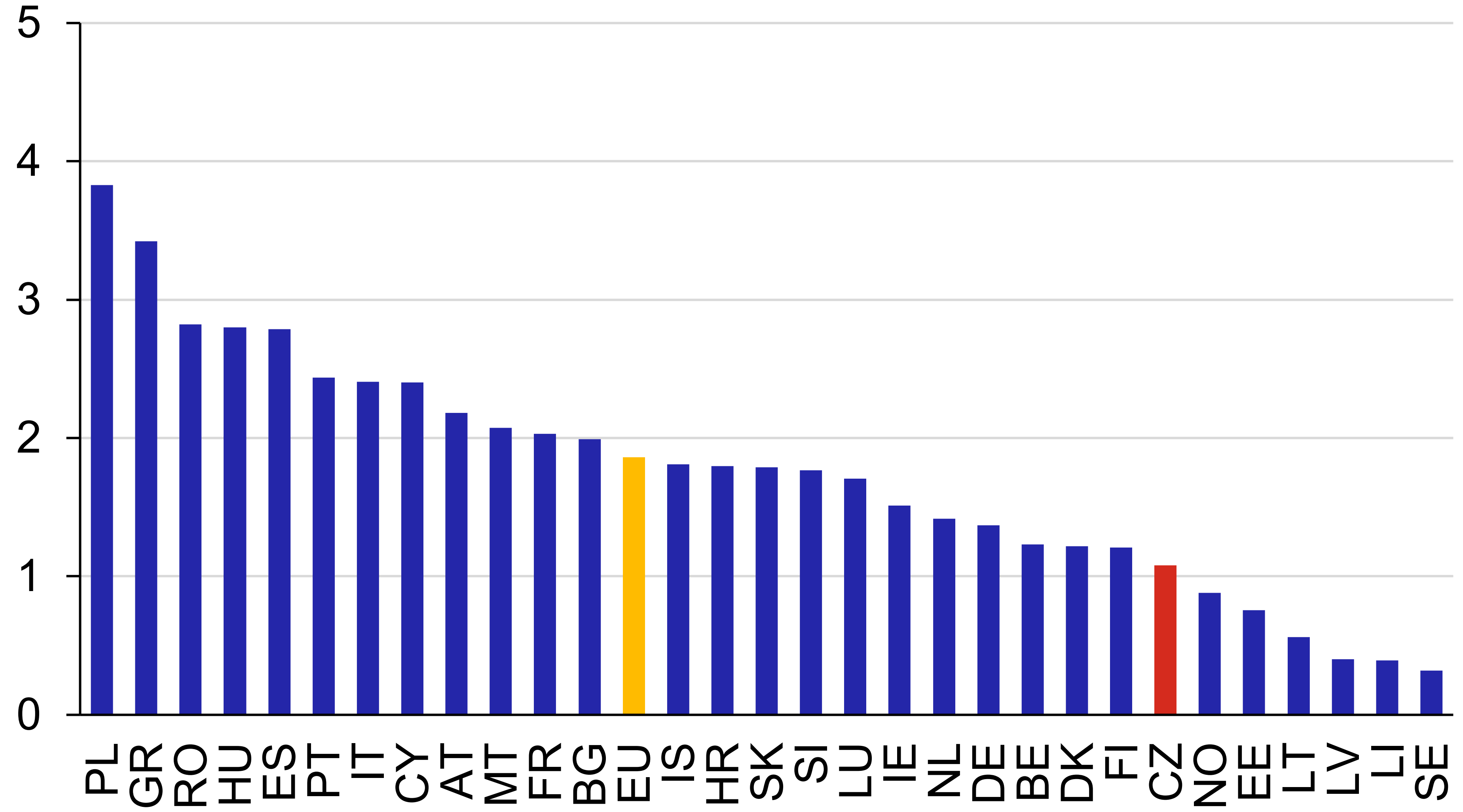
Assessment of credit risk in banking sector

Risk is low and below the long-term average for both loans to households and loans to corporations

- The CNB will continue to monitor whether new loans are showing signs of higher risk and whether the vulnerability of the current portfolios is rising.

- If banks relax their credit standards too much, the CNB may tighten macroprudential policy.

Shares of non-performing client loans in selected EU countries
(%; as of 30 June 2024)



Source: EBA

ČNB ČESKÁ NÁRODNÍ BANKA

Banking sector stress test

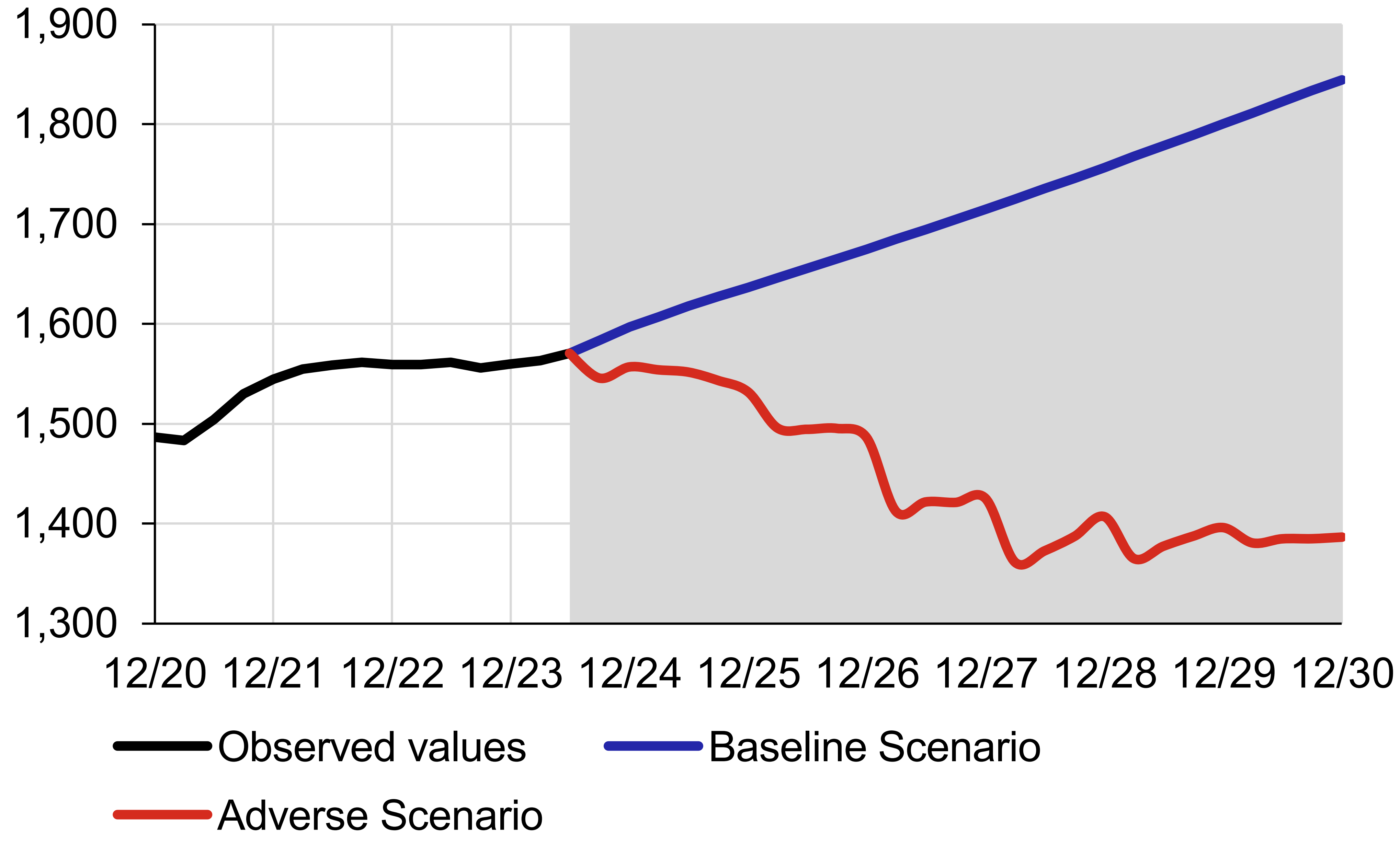
Banking sector stress test

Banks are resilient to adverse developments

- The stress tests were focused on climate risks, including the impact of the transition away from fossil fuels and of potentially higher energy prices.

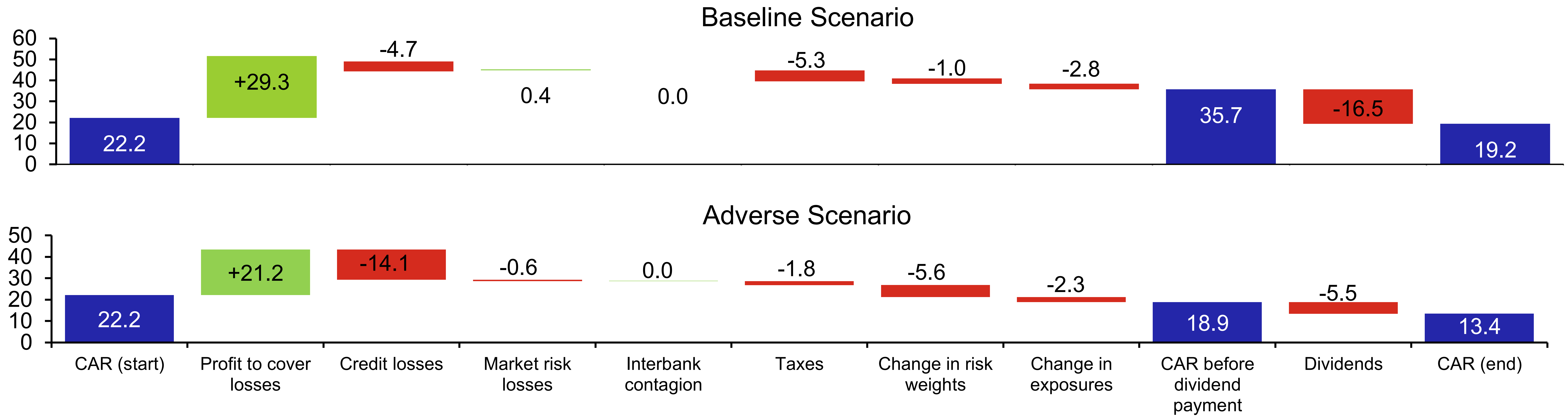
- In the Adverse Scenario, the economy would enter a long recession. This would lead to large credit losses.

Alternative scenarios: real GDP
(CZK billions; quarterly data)



Banking sector stress test

Decomposition of the change in the banking sector's overall capital ratio in the alternative scenarios (pp)



Source: CNB

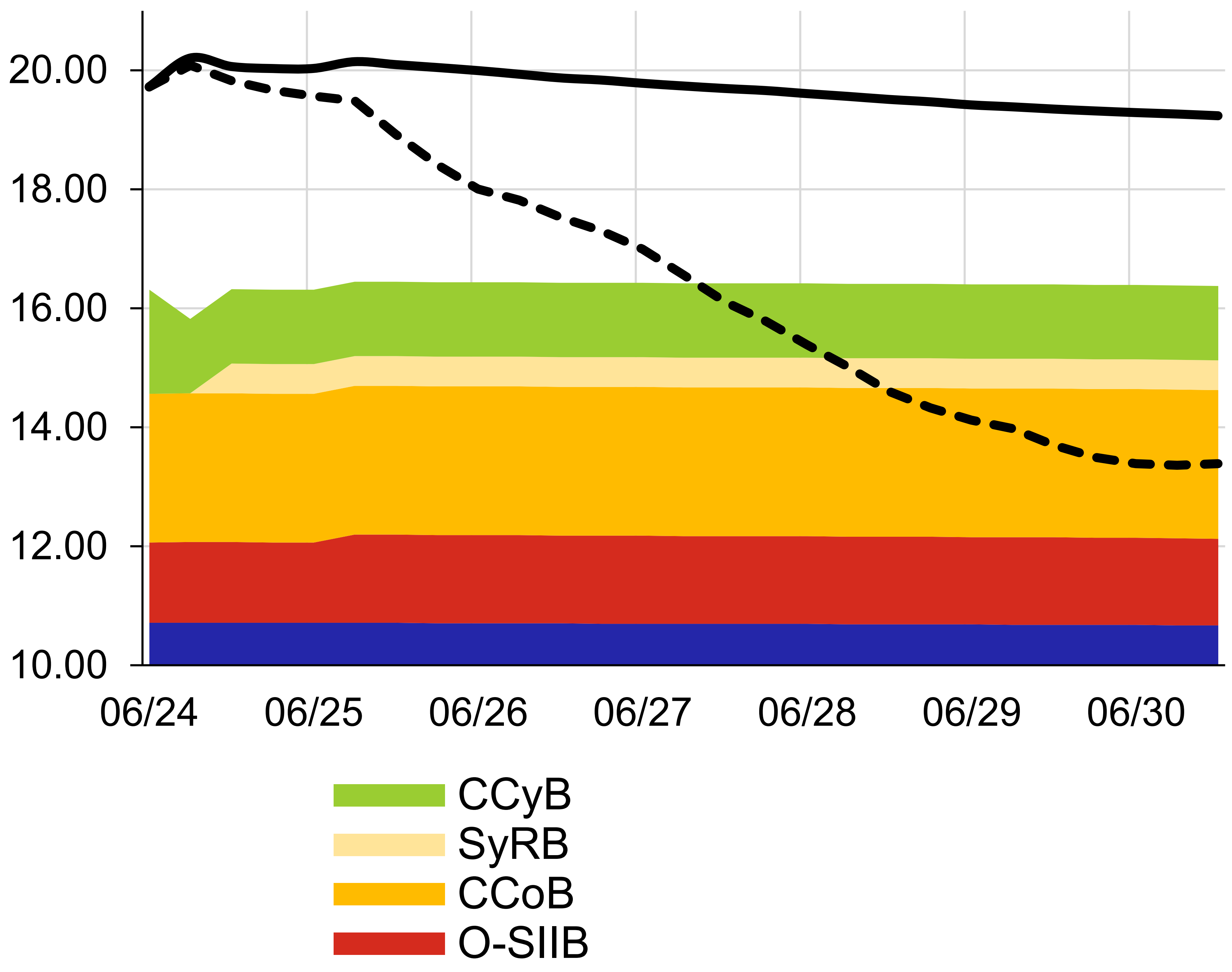
Note: CAR = overall capital ratio. Items increasing the capital ratio are shown in green and items reducing it in red.

Bank stress test results

- In the hypothetical Adverse Scenario, the banking sector would comply with the regulatory capital requirements, but the impact on capital would be significant.

- A large increase in loan defaults and a long-term deterioration in profitability would necessitate the use of additional capital buffers on top of the countercyclical capital buffer in order to maintain the required capital level.

Compliance with capital requirements by the banking sector in the alternative scenarios
Overall CAR (% of TREA)



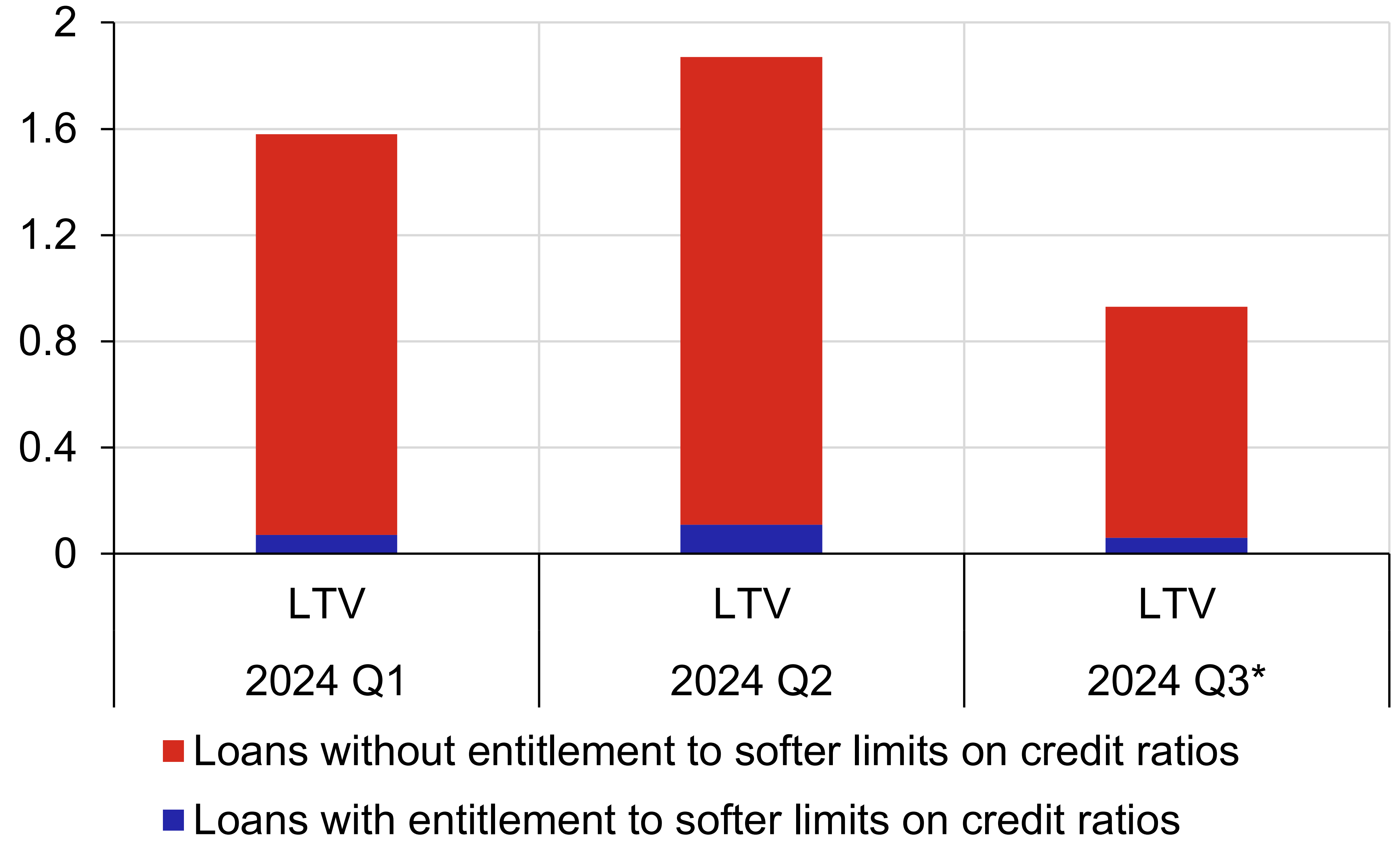
ČNB ČESKÁ NÁRODNÍ BANKA

Additional information on new mortgage loans

ČNB ČESKÁ NÁRODNÍ BANKA

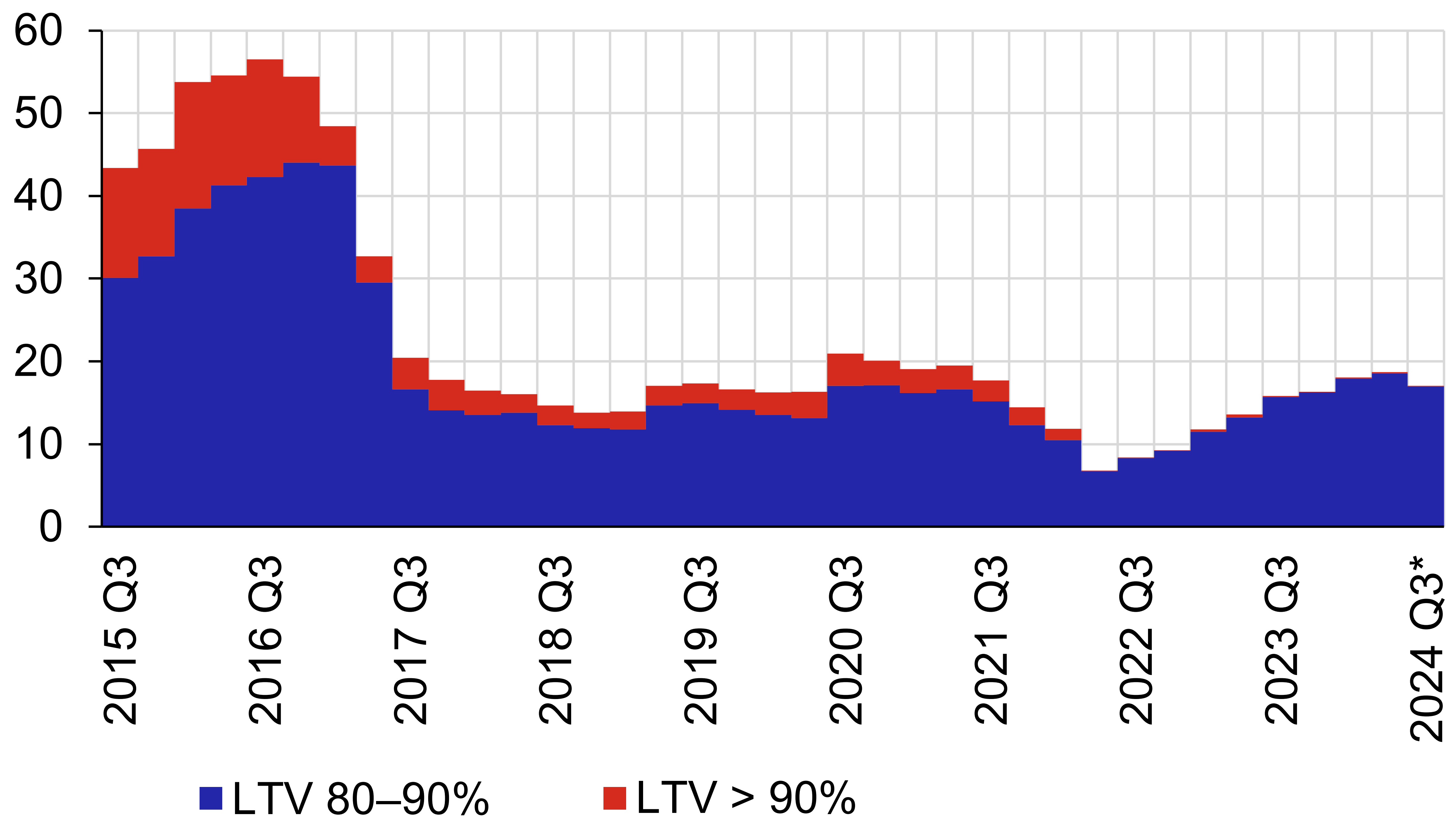
Additional information on new mortgage loans

Share of mortgage loans falling under the volume exemption
(%)



* The figures for 2024 Q3 contain data for July and August only

Pure new mortgage loans with LTVs of over 80%
(share of loans in volume provided in given quarter in %)



ČNB ČESKÁ NÁRODNÍ BANKA

Additional information on new mortgage loans

Average values of the characteristics of new mortgage loans and loan applicants

	2019	2020	2021	2022	2023	2024		
						Q1	Q2	Q3 *
Loan size (CZK millions)	2,3	2,7	3,3	3,2	3,1	3,4	3,6	3,8
Interest rate (%)	2,8	2,3	2,3	4,7	5,8	5,4	5,1	5,1
Instalment (CZK thousands)	11,3	12,0	15,5	17,5	19,3	20,1	20,9	21,8
Maturity (years)	26	26	26	26	26	26,5	26,5	26,7
Fixed interest rate period (years)	6,5	6,7	6,1	6,0	4,2	3,2	2,8	3,0
Collateral value (CZK millions)	4,0	4,5	5,5	6,2	5,7	5,9	6,2	6,4
Number of properties securing loan		1,2	1,1	1,1	1,1	1,1	1,1	1,1
LTV (%)	66,6	66,1	64,6	61,7	63,2	65,9	65,9	65,7
DTI (net annual incomes)	8,1	5,5	5,9	5,3	4,7	5,0	5,1	5,2
DSTI (%)	32,1	32,1	34,2	36,7	36,8	37,7	38,0	38,1
Net monthly income (CZK thousands)	54,4	71,5	64,4	77,7	84,2	86,0	86,9	90,5
Net monthly income adjusted for instalments (CZK thousands)	37,2	49,0	42,9	50,0	53,9	54,1	54,5	56,5
Number of loan applicants	1,49	1,50	1,50	1,51	1,59	1,6	1,6	1,6
Share of borrowers under 36 years (%)	51,9	53,1	51,1	48,7	48,9	51,2	50,7	50,0

* The figures for 2024 Q3 contain data for July and August only

Thank you for your attention

- **Financial Stability Report – Autumn 2024** will be published on the CNB website on 13 December 2024.

- It will be accompanied by *Official Information on the countercyclical capital buffer* and the *minutes of the Bank Board meeting on financial stability issues* complete with attributed arguments of individual CNB Bank Board members