

Public Notice  
announcing a  
**PROVISION OF A GENERAL NATURE**  
of 29 November 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 DTI ratio shall be abolished.**

Justification

1. Pursuant to Article 45b(4) of the Act 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 substantial change in the following factors:

a) The *total volume of consumer credit* has been rising at a below-average rate since the start of 2023 and is not expected to increase markedly over the one-year horizon.<sup>1</sup> This was due mainly to a significant year-on-year decline in the volume of new *consumer credit secured by residential property* and to borrowers’ good repayment discipline.<sup>2</sup>

b) *Residential property transaction prices* decreased slightly.<sup>3</sup> Available property market data suggest that residential property prices can be expected to continue to decline year on year in 2023 Q4. However, for part of the market they remain overvalued and thus the risk of a price correction persists.<sup>4</sup>

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<sup>1</sup> The year-on-year growth rate of bank loans to households was 3.7% at the end of September 2023 (the five-year average is 7%), standing at 2.9% for loans for house purchase and 8% for consumer credit.

<sup>2</sup> The volume of new consumer credit secured by residential property amounted to CZK 76 billion in the first eight months of 2023, down by 43% year on year.

<sup>3</sup> Residential property transaction prices were down by 2.9% year on year in mid-2023.

<sup>4</sup> According to the CNB’s estimate, the degree of apartment overvaluation was around 63% for a median household buying a 68 m<sup>2</sup> apartment in mid-2023, while the degree of overvaluation for households buying investment apartments fell to around 24%.

c) The decline in the volume of new consumer credit secured by residential property provided in 2022 and 2023 fostered a decrease in the *ratio of household debt to disposable income*. According to the CNB's estimates, the debt ratio will decrease further in the second half of 2023 and, if the CNB's forecasts materialise, not return to gradual growth until 2024.<sup>5</sup> The *ratio of residential property prices to household income* has also been falling. However, it is still above the long-term average owing to the strong overvaluation of residential property prices.<sup>6</sup>

d) The *overall macroeconomic developments in the Czech Republic* reflect the downturn in economic activity. The flash estimate for GDP in 2023 suggests a year-on-year decline of 0.4%. At the end of 2023 Q3, the monetary policy interest rate remains at 7%, rates on pure new loans for house purchase at 6%, the general unemployment rate at around 2.7% and wage growth negative in real terms. According to the CNB's forecast, economic activity will increase in year-on-year terms over the next two years, and the mortgage market is also expected to recover gradually. However, this recovery will be sluggish owing to a slower pace of decrease of monetary policy interest rates and the probability of the Czech economy staying in an environment of positive real interest rates.

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 was flat and well below its long-term average in 2023.<sup>7</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.

Credit standards applied to loans for house purchase eased slightly in 2023 Q3. The volume of new consumer credit secured by residential property with highly risky characteristics nonetheless remained subdued, in line with the CNB's expectations. In July and August 2023, banks provided CZK 7.6 billion of loans with a DSTI of over 45% and just CZK 3.2 billion of loans with a DSTI of over 50% (22.6% and 9.5% of loans respectively relative to the five-year average). A stronger downturn in highly risky loans was also visible from the perspective of the DTI ratio. In July and August 2023, banks provided CZK 1.3 billion of loans with a DTI of over 8 and just CZK 0.3 billion of loans with a DTI of over 9 (3.9% and 0.9% of loans respectively relative to the five-year average). Banks provided almost no consumer credit with an LTV of over 90% (CZK 26 million in July and August 2023, i.e. 0.1% of loans relative to the five-year average).

The total volume of consumer credit secured by residential property with highly risky characteristics in lenders' balance sheets has fallen significantly 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 borrowers' good repayment discipline. However, residential property prices remain substantially overvalued and the related risk of a marked price correction persists.

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<sup>5</sup> The ratio of household debt to disposable income fell to 57.9% in mid-2023.

<sup>6</sup> The ratio of a price of a 68 m<sup>2</sup> apartment to average gross annual income declined to 12.3% in mid-2023.

<sup>7</sup> The ratio of non-performing loans for house purchase was 0.7% and the ratio of non-performing consumer credit 4% at the end of September 2023.

According to the CNB's estimates, the deactivation of the upper limit on the DTI ratio will lead to only a slight increase in the volume of new consumer credit secured by residential property in the current and expected interest rate environment, while the effect on the volume of new significantly risky loans will be negligible.

2. Taking into account the above factors, which do not indicate systemic risks related to the provision of consumer credit secured by residential property, the CNB Bank Board has decided to deactivate the upper limit on the DTI ratio.
3. The upper limit on the LTV ratio remains unchanged due to the persisting significant overvaluation of residential property prices and the related risk of a marked price correction. When calculating the LTV ratio, entities authorised to provide consumer credit shall proceed in accordance with Decree No. 399/2021 Coll., on credit ratios.
4. 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 45a(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.
5. Pursuant to Article 45b(3) of the Act on the Czech National Bank, 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 January 2024 because of the application of volume exemptions from the upper limits on credit ratios pursuant to Article 45a(1) of the Act on the Czech National Bank on a quarterly basis.

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 30 November 2023.