SUMMARY

Financial Stability Report

Autumn 2024

ASSESSMENT OF RISKS TO FINANCIAL STABILITY

The Czech economy is at the beginning of a growth phase of the financial cycle. The mortgage market is gradually picking up and property prices are on the rise again. The risk of excessive credit growth remains low for now.

Changes in global trade and the transition to a low-emission economy are challenges that the Czech economy faces. Low investment activity may lead to falling competitiveness and weaker growth in the long term. These structural factors pose a risk to the stability of the economy and the financial sector in the longer run.

DECISIONS AND MACROPRUDENTIAL POLICY SETTINGS

CCyB Countercyclical capital buffer	SyRB Systemic risk buffer	O-SII Other systemically important institutions buffer	CZK LTV LTV limit
1.25% for all banks	**0.5%** for all banks	**0.5–2.5%** for the seven main banks	**80%/90%*** * for applicants under 36 years purchasing owner-occupied housing
Unchanged	Applicable from 1 Jan 2025	Applicable from 1 Jan 2025 /1 Jul 2025	Unchanged
Current buffer level is sufficient. Newly accepted risks remain low for now, despite credit market recovery.	Generally enhances banking sector's resilience to systemic structural risks linked with impact of global uncertainty on Czech economy.	Enhances resilience and stability of key institutions of financial system.	Sufficiently reflects risk of apartment price overvaluation and potential upswing in mortgage growth.

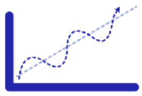
RISKS MONITORED AND THEIR EVOLUTION

The global economy is undergoing a process of monetary policy easing now that inflation has stabilised. However, it is still being affected by persisting uncertainty caused by geopolitical tensions, which have spread to the Middle East. Changes in US internal and foreign policy may also affect global trade and the world economy.

European economies, including the Czech one, are beginning to lag behind the USA and China from the long-term perspective, due to lower investment and reliance on imported energy and commodities. This is making companies less competitive and poses a risk for the future of the economy and the financial sector.

The situation in financial markets has stabilised, but nervousness persists, as illustrated by the markets' strong reactions even to slightly bad news. There is a persisting risk of a sudden market revaluation and a drop in prices. This would noticeably affect financial institutions' balance sheets and significantly increase the real sector's borrowing and investment costs.

The Czech economy is characterised by fragile growth, due to the weak recovery of its main trading partners' economies, low corporate investment and only gradually recovering household consumption.



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 remains subdued for now. The cyclical risks are not growing significantly as yet, but the CNB expects the upward movement in the financial cycle to continue gradually.

The number of mortgage loans is rising as interest rates fall. The growth in the volume of loans to households is due mainly to larger individual loans. Corporate borrowing remains stable. Total household and corporate debt is unchanged and is low by international standards.

Apartment prices have started to go up again. The CNB expects the upward trend to continue into 2025, on the back of rising household incomes and a modest fall in mortgage rates. The risk of a sudden, sharp drop in prices is low at the moment. The affordability of housing has stopped improving.

The decline in monetary policy rates has also caused **banks' interest income and costs to fall**. The lower rates may affect banks' profitability, but we do not expect any significant decrease in their ability to use interest profit to bolster their capital.

Credit risk is low and below the long-term average for both loans to households and loans to corporations. The CNB will monitor whether new loans are showing signs of higher risk or increased vulnerability in current portfolios. If banks relax their credit standards, the CNB may tighten macroprudential policy.

There has been a turnaround in **the commercial property sector** and optimism is growing in the market. Despite their earlier decline, prices remain slightly overvalued. The headwinds that the sector was facing – such as funding pressure, lower demand and fears of a further decline in property values – are now beginning to fade.

Public finance consolidation will help to reduce the annual **state budget deficit**, but the debt will keep rising. The Czech banking sector remains the government's main creditor. This increases the risk of transmission of adverse shocks between the banking sector and general government.

SITUATION IN THE FINANCIAL SECTOR

Banks made a profit of CZK 59.9 billion in the first half of 2024. Their main source of profit was interest income, which has been buoyed by higher rates in recent years. The profit was also due to low loan losses and high cost-effectiveness.

Banks have sufficient buffers. The capitalisation of the banking sector remains high and close to the EU average. Banks are also well prepared for any liquidity shocks. They meet all the capital and liquidity requirements by a sufficient margin. This further enhances their stability.

Stress tests confirmed that **banks are resilient to adverse developments**. The 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, and banks would have to use part of their buffers to maintain the required capital level.

Investment funds are one of the fastest-growing parts of the financial sector. Households had CZK 1,461 billion deposited in investment funds as of 30 June 2024. This is roughly one-third of the value of bank deposits. The sector is gaining in significance and is gradually becoming more integrated with the other parts of the financial system.