

Czech mortgage limits unchanged, capital rate increased

The Czech National Bank published the main conclusions of the forthcoming Financial Stability Report planning to be published on 11 June. Income limits affecting housing loans affordability did not change, but the CNB increased the countercyclical capital buffer again to 2%



Source: Shutterstock

New regime of announcing macroprudential policy

The CNB published the main conclusions of the new Financial Stability Report 2018/2019 (FSR). As such, the CNB switched to a similar standard as it does when publishing monetary policy decisions. The main conclusions of the report relevant to the setting of macroprudential policy are being agreed by CNB Board and published the same day, but the whole report will be released later, in this case on 11 June.

Income limits recommendations remained unchanged

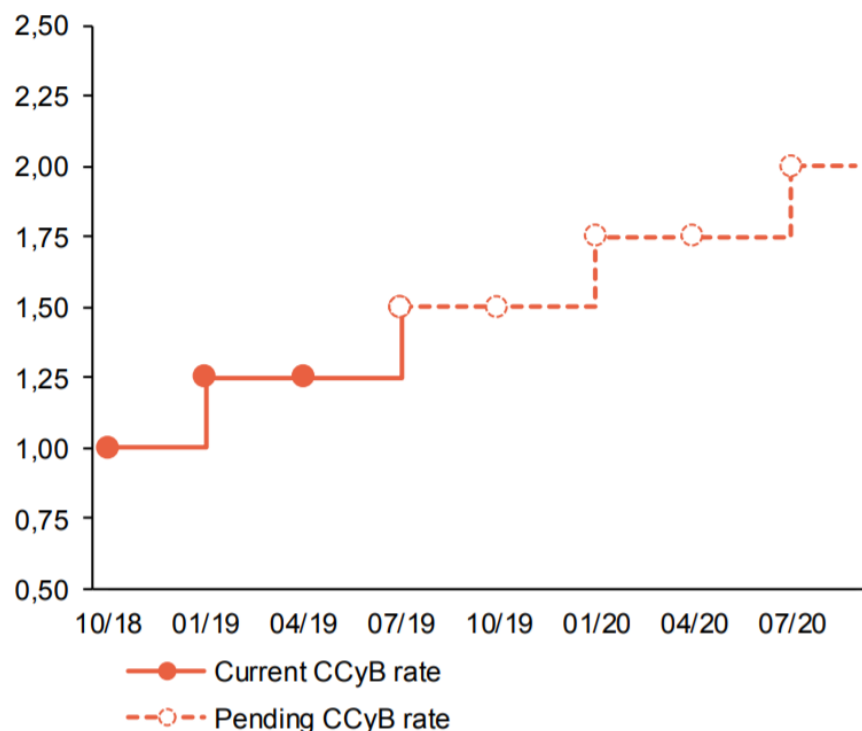
Last year's FSR introduced a new recommendation for the banking sector in terms of households

income limits, concretely DSTI (Debt Service-to-Income) at 45% and DTI (Debt-to-income) at 9. The new report keeps the limit unchanged and makes only some fine-tuning in terms of refinanced loans. This was expected as new housing loans volumes has fallen by 25% YoY in 1Q19 after the new limits started to apply since October 2018. Though part of a decline was given by frontloading in 2H18, it is becoming clear that new housing volume will fall at least by 15% YoY this year, bringing a solid credit slowdown. As such, the CNB even debated possibly easing the DSTI limit to 50%, but kept it unchanged in the end.

Countercyclical capital buffer was further increased

In the past two years, the release of FSR has been associated with an increase in the countercyclical capital buffer (CCyB) rate. This year's report continues this trend and CCyB rate was increased from 1.75% to 2% with effect from July 2020. Due to a one year delay between the announcement and the applicability of the buffer rate, the domestic sector had to increase the reserve from 1% to 1.25% since January this year, and will need to further increase it to 1.5% from July, 1.75% from January 2020 and to 2.0% from June 2020 (see the chart).

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



Source: Czech National Bank

Further increase in capital not motivated by banking sector stability

A further increase in the reserve might be somewhat surprising, as the combination of tighter monetary policy and earlier CNB recommendations has led to a sufficient credit market cooldown. Also, the credit-to-GDP ratio is signalling an increase in total economy indebtedness that has been

relatively stable in recent years, which generally brings some questions why the CCyB rate is set close to its maximum on the Czech market, especially when the resilience of the Czech banking sector remains robust, as confirmed by the CNB's stress tests (CET1 ratio at 18.6% at end-2018).

Taking a preventive step

So why the CNB increased the rates further? Governor Rusnok mentioned during the press conference, that a further CCyB increase was rather a preventive step, as it had to be announced in advance, and the reserve could be reduced quickly if needed. Still, we believe that some motivation behind a high CCyB rate may also hinder dividend payouts, which implies the CNB statement in the press release: *"The domestic banking sector continues to have sufficient space for credit growth even after the capital buffer increases, assuming reasonable dividend policies"*. Last but not least, the CNB gradually converges to the opinion, that the long-term neutral CCyB rate should not be zero, but positive, and the CCyB rate should fluctuate around this neutral level – therefore demands a higher rate now, at the peak of the economic cycle.

Higher capital requirements pushing off banking tax

Still, with a 1% CCyB rate applicable at the end of 2018, the Czech banking sector held CZK24bn more capital just due to CCyB purposes. With CCyB rate being 1 percentage point higher in a one-year horizon, the banking sector will need to increase its capital holding by another more than CZK20bn. Though the banking sector has a solid capital surplus above the minimum requirements, a forthcoming growth in capital adequacy demanded by the Czech regulator might somehow mute or postpone a possible debate about a banking sector tax, as the combination of requirements might be rather excessive for the banking sector.

Author

Olivia Grace

Editor

olivia.grace@ing.com

Julian Geib

Junior Economist, Global Trade

julian.geib@ing.de

Zoltán Homolya

Economic research trainee

zoltan.homolya@ing.com

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebvre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Senior Economist, Healthcare & Technology

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet

Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporate Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania
valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands
marcel.klok@ing.com

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering

Senior Macro Economist
raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com