

Czech Republic: New housing credit down 20%

On average, new housing loans in the Czech Republic continued to fall in annual terms in August. The volume is almost 20% below last year's level given the restrictive macroprudential measures by the central bank. However, the impact of fewer loans on the residential market might be more delayed than expected



Source: Shutterstock

The latest Czech central bank's credit statistics for August show the volume of new loans for house purchases reached CZK 15.2 bn, close to the monthly average of this year.

However, this is the weakest August volume since 2015 and is a 27% YoY decline. Although the frontloading effect from the end of 2018 has gradually faded away, the year-on-year dynamics are now beginning to be affected by a higher base from the second half of last year, pushing annual comparisons into negative territory.

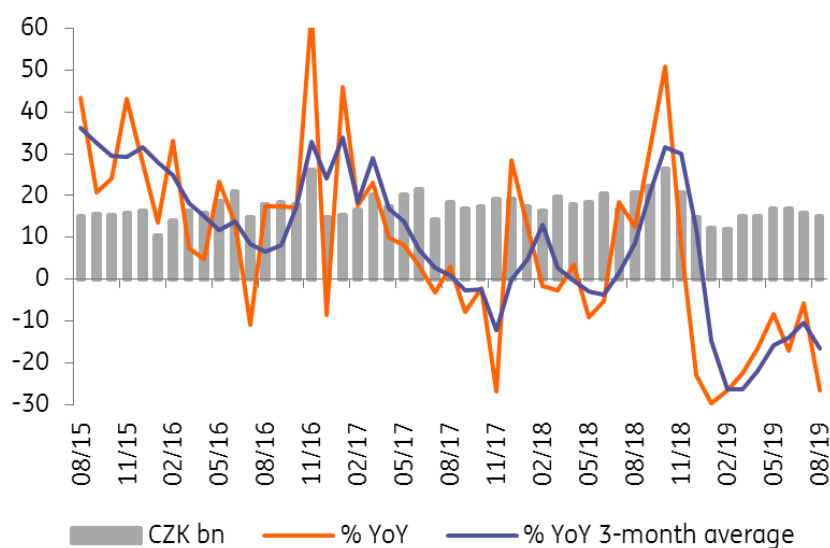
As such, for the whole of 2019, the volume of new housing credit is 19% lower and has reached the lowest level in the last four years.

Mortgages rates starting to fall again

Mortgage rates have started to fall again slightly this year (2.6% in August vs. 2.8% at the beginning of the year.) as long-term interest rates decline amid concerns about the slowdown in the global economy and subsequent rate cuts by major central banks. Though longer-term rates corrected themselves after their short August fall, they remain below 2019 average in September and therefore some gradual fall in mortgage rates might be expected in the forthcoming months.

This is probably supported by the increased competition in the banking market given the lower volume of new mortgages.

New housing loans



Source: CNB, ING

Impact of weaker credit dynamics more delayed

Despite the fact that volumes of new housing loans are declining this year significantly, the total year-on-year dynamics of housing loans (ie stock, not flow) is slowing down quite gradually, reaching 7.4% in August (versus 8.3% in January this year).

This is most likely given the fact that “new loans” statistics reflect the signature of a new loan contract, but credit might be withdrawn with a few quarters delay. As such, a boom in new housing credit at the end of 2018 was very likely significantly impacting the market during 1H19, thus delaying the effect of CNB macro-prudential measures on the residential and credit market. Therefore residential property prices keep surprisingly strong YoY dynamics in 1H19 around 10%.

Central bank to remain on hold

As such, the impact of central bank measures limiting mortgage affordability on the property market might be more delayed than initially expected.

Still, we believe the property market will start to slow down this year, which will also affect Czech core inflation via “imputed rent” section, pushing annual growth of core inflation

gradually down. Another reason, why inflationary pressures will weaken is elevated foreign risks, which will push the central bank to remain on hold in the forthcoming quarters.