# Czech National Bank: GDP to drop by 2.5% this year, while banking sector is highly stable

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According to the Czech National Bank, the Czech economy can expect a decline in its GDP by 2.5%. On the one hand, the representatives of the central bank did not show much joy during the presentation of this year's Financial Stability Report, pointing at the unpredictability of the overall trend and the individual figures, yet they repeated the stability of the domestic financial sector, quite unique in the European context.

According to the Bank, the crucial risks for the economy are the continued global recession, the persistent stupor of the credit market, the "decision" uncertainty of all businesses (because of the mentioned inability to make reliable projections) and the inefficiency of the economic and currency policies. It is clearly shown for example on the almost-zero influence of the reduction of basic interest rates on the market rates. The Czech Republic's economy is also harmed by the so-called regional inflection – a situation in which all Central and Eastern European countries are assessed as economically homogeneous, as a very problematic region in whole, regardless of the actual reality. "We intensively communicate with our partners on this topic, and I think we've been successful," mentioned Jan Frait, of the Czech National Bank, in this respect. According to him, the attitude of politicians, banks and investors is starting to change in this respect, as the Czech Republic, Slovakia and Poland are slowly viewed as economies without any bigger problems. The negligible risk of inflation pressures and the slowdown in the growing indebtedness of businesses and households, which hardly reaches 50% of the EU average, are also good news.

The most positive news in this year's Financial Stability Report is, however, the exceptionally good condition of the domestic banks. Although the payment discipline of the debtors is getting worse and the share of problematic (not unpaid) credits for businesses and households could grow to 13% and 10%, respectively, by the end of the year, it does not put the banks' financial management at risk. And according to the Czech National Bank, the banks would not be even threatened if 25% of all mortgage credits were not amortized – and it is only a theoretical catastrophic scenario. The banks are in an especially good condition in the field of mortgages – although they lowered their requirements in the past years, the average LTV indicator (loan to value) in the Czech Republic is 56%, which is almost unique in the whole Europe. Just like the ratio of deposits and credits, which is 130%. The presentation emphasized that the banks will also face the recession with an extraordinary liquidity cushion, which reflects their great profits in the past, and with a minimum external engagement, which makes them more or less immune to exchange rate risks – for example the Czech households have no credits in foreign currencies. According to the Czech National Bank, the Czech Republic could be, in spite of the ongoing global recession, "in a small group of countries whose governments will not be forced to stabilize their financial institutions using money collected from taxpayers."

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