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POLICY OF THE CZECH NATIONAL BANK ON THE REAL ESTATE MARKET

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Formulation of the problem. Nowadays, when we still see the impact of COVID not only in the Czech Republic, but all over the world, when the value of money is constantly decreasing due to inflation and negative trends in the economy, people usually try to save their savings where they are confident that they will not lose value. *The purpose of the article* is to characterize the policy of the Czech National Bank in relation to the real estate market. *Research hypothesis.* The population of the Czech Republic now perceives housing as a safe haven and protects their savings by buying real estate. That is why, according to practicing economists, the great interest of Czechs in investing in real estate will continue in the coming years. *Presentation of the main material.* Wealthy people in the Czech Republic are now investing their money in apartments to protect their savings from inflation, which was largely fueled by covid restrictions. Rising inflation and volatility in world currencies is a serious blow to those who keep their savings in cash, so people want to own any asset that has any hope of going up. *Originality and practical significance of the research.* It has been proven that overheated markets sometimes collapse with dire consequences for a country's economy. And this is the responsibility of the regulators, who must anticipate and prevent such trends in the markets. *Conclusions and prospects for further research.* The current situation with the pandemic has not affected the real estate market, which is perhaps surprising. The population of the Czech Republic now perceives housing as a safe haven and protects their savings by buying real estate. The main task today of all financial market regulators, not only in the Czech Republic, but all over the world, is and will be the task of preventing a sharp collapse of the formed bubbles, including the real estate market.

Key words:

value of money, inflation, real estate market, mortgage, discount rate, lending volume.

ПОЛІТИКА ЧЕСЬКОГО НАЦІОНАЛЬНОГО БАНКУ ЩОДО РИНКУ НЕРУХОМОСТІ

Постановка проблеми. В даний час, коли ми, як і раніше, спостерігаємо вплив covid не тільки в Чеській Республіці, але й у всьому світі, коли вартість грошей постійно знижується через інфляцію та негативні тенденції в економіці, люди зазвичай намагаються зберегти свої заощадження там, де вони впевнені що вони не втратять цінність. *Мета статті* – охарактеризувати політику Національного банку Чехії щодо ринку нерухомості. *Гіпотеза дослідження.* Населення Чехії сприймає зараз житло як безпечну гавань та захищає свої заощадження шляхом купівлі нерухомості. Саме тому, на думку економістів-практиків, величезний інтерес чехів до інвестування в нерухомість найближчими роками збережеться. *Виклад основного матеріалу.* Забезпечені люди Чехії заразкладають свої гроші в квартири, щоб захистити свої заощадження від інфляції, якій багато в чому сприяли ковидні обмеження. Зростаюча інфляція і нестабільність світових валют – це серйозний удар по тих, хто зберігає свої заощадження в готівкових грошових одиницях, тому люди хочуть володіти будь-якими активами, які мають хоч якусь надію на підвищення. *Оригінальність та практичне значення дослідження.* Доведено, що перегріті ринки іноді «схлопуються» з жахливими наслідками економіки країни. А це вже відповідальність регуляторів, які повинні передбачати і запобігати подібним тенденціям на ринках. *Висновки та перспективи подальших досліджень.* Поточна ситуація з пандемією не вплинула на ринок нерухомості, що, мабуть, і дивно. Населення Чехії сприймає зараз житло як безпечну гавань та захищає свої заощадження шляхом купівлі нерухомості. Головним завданням сьогодні всіх регуляторів фінансового ринку не тільки в Чеській Республіці, а й у всьому світі, є і буде завдання щодо запобігання різкому хлопоту бульбашок, що утворилися, у тому числі й ринку нерухомості.

Ключові слова:

вартість грошей, інфляція, ринок нерухомості, іпотека, облікова ставка, обсяг кредитування.

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ПОЛИТИКА ЧЕШСКОГО НАЦИОНАЛЬНОГО БАНКА В ОТНОШЕНИИ РЫНКА НЕДВИЖИМОСТИ

Постановка проблемы. В настоящее время, когда мы по-прежнему наблюдаем воздействие covid не только в Чешской Республике, но и во всём мире, когда стоимость денег постоянно снижается из-за инфляции и негативных тенденций в экономике, люди обычно пытаются сберечь свои сбережения там, где они уверены, что они не потеряют ценность. *Цель статьи* – охарактеризовать политику Национального банка Чехии в отношении рынка недвижимости. *Гипотеза исследования.* Население Чехии воспринимает сейчас жильё как безопасную гавань и защищает свои сбережения путём покупки недвижимости. Именно поэтому, по мнению практикующих экономистов, огромный интерес чехов к инвестированию в недвижимость в ближайшие годы сохранится. *Изложение основного материала.* Обеспеченные люди Чехии вкладывают сейчас свои деньги в квартиры, чтобы защитить свои сбережения от инфляции, которой во многом способствовали ковидные ограничения. Растущая инфляция и нестабильность мировых валют – это серьёзный удар по тем, кто хранит свои сбережения в наличных денежных единицах, поэтому люди хотят владеть любимыми активами, которые имеют хоть какую-то надежду на повышение. *Оригинальность и практическое значение исследования.* Доказано, что перегретые рынки иногда «схлопываются» с ужасающими последствиями для экономики страны. А это уже ответственность регуляторов, которые должны предвидеть и предотвращать подобные тенденции на рынках. *Выводы и перспективы дальнейших исследований.* Текущая ситуация с пандемией не повлияла на рынок недвижимости, что, возможно, и удивительно. Население Чехии воспринимает сейчас жильё как безопасную гавань и защищает свои сбережения путём покупки недвижимости. Главной задачей сегодня всех регуляторов финансового рынка не только в Чешской Республике, но и во всём мире, есть и будет задача по предотвращению резкого схлопывания образовавшихся пузырей, в том числе и рынка недвижимости.

Ключевые слова:

стоимость денег, инфляция, рынок недвижимости, ипотека, учётная ставка, объём кредитования.

Formulation of the problem. One of the differences between Czechs and the rest of Western Europe is that in the Czech Republic it is customary to save money to ensure the future of their children, while in Western Europe people save money for retirement. Thus, in the Czech Republic, traditionally, there is a redistribution of money from generation to generation. The question today is especially acute: will this behavior of people change due to the growing instability in the country and in the world? However, on top of everything else, this situation has become an incentive to support housing construction in the country.

Currently, everyone in the Czech Republic is well aware that the supply of apartments for sale in the country is extremely low. According to the results of the first half of 2021, there were only 3,350 vacant apartments in the price lists of developers, compared to 5,800 a year earlier, i.e. over the past year, the number of vacant apartments has decreased by more than 40%. The reason lies in the paperwork at the stage of preparing the territory for development, as well as the fact that some apartments do not enter the market at all, since they are purchased by institutional investors for the purpose of renting them out [1].

Analysis of recent research and publications. The growing interest in real estate is also evidenced by the attendance of the largest real estate advertising portal Sreality.cz. So, if in June

2019, according to the official measurement of Netmonitor traffic, there were 1.5 million real users (RU), in 2020 this number was 1.9 million RU, and in mid-2021 already 2.1 million RU [2].

And as a result, a record rate of new apartment sales for several months of 2021. In the first half of 2021, Prague sold twice as many units as last year. But mostly smaller layouts are sold (1 + kk and 2 + kk), the share of which in sales has been growing for a long time. Previously, their share in sales of new apartments in Prague was less than 50-60%, but in recent years it is approaching 70%. In addition, the overwhelming majority of apartments today are sold through the so-called paper transaction, i.e. before completion [3].

Moreover, wealthy people in the Czech Republic are now investing their money in apartments in order to protect their savings from inflation, which was largely facilitated by covid restrictions. Rising inflation and volatility in world currencies is a serious blow to those who keep their savings in cash, so people want to own any asset that has any hope of going up. In times when the value of money is declining, people usually try to save their savings where there is confidence that they will not lose value [4].

Purpose of the article. is to characterize the policy of the Czech National Bank in relation to the real estate market.





Presentation of the main material of the study. According to domestic economists, it is already clear today that the great interest of Czechs in investing in real estate will continue. But buying an apartment protects a person from inflation only if the rise in apartment prices increases by this inflation. If not, inflation is eating up the cost of this price increase. Although in 20 years, real estate may be sold and more expensive due to rising prices.

And everyone now perfectly understands that unexpectedly rising inflation always favors the debtor, who can pay off his debt with devalued money. It also follows from this that if a person is on the rights of a debtor and expects inflation to rise, then in some cases it may even be profitable for him to borrow even more. Inflation can reduce the cost of credit [5]. With today's mortgage index at 2.1% and inflation at 3.4%, the real interest rate on mortgages in the Czech Republic (for the fixing period) is -1.3%.

Let's see what is happening with inflation in the Czech Republic now? Prices continue to rise. In July 2021, it reached 3.4%, the highest in recent years [6].

In general, inflation by the end of 2021, according to forecasts of local economists, will grow to 4% compared to the same period last year. For the Czech National Bank (CNB), this means only one thing - the national bank is likely to raise its key interest rate twice by the end of 2021 in order to try to reduce inflation.

According to many economists, inflation in the Czech Republic will affect everyone.

For example, for the third time in a row in a year, price increases in the transport sector had the greatest impact on overall price increases in 2021 (YoY). Prices for cars increased by 5.4%, fuel and oils - by 18.5%. For example, natural-95 gasoline was sold at petrol stations in July 2021 at an average price of CZK 33.5 per liter, the highest since December 2014.

Prices for food and non-alcoholic beverages also increased. Vegetable prices rose in 2021 from 6.8% in June to 6.9% in July, of which potato prices rose 2.8%. At the same time, in July 2021, fruit prices decreased by 4.8% year on year, and meat prices - by 1.4% [6].

In food and lodging, prices in restaurants and cafes rose 4.4% year over year.

In the housing section, prices for renting an apartment increased by 2.5%, and prices for goods and services for the current maintenance and repair of an apartment - by 5.5%.

Still, it's better to focus on monthly numbers. They clearly show that the difference between industries and services is not only in volume, but also in prices. If in July 2021 the prices of goods grew by 5% on an annualized basis, then the prices for services increased by 25%. Because service prices are determined by seasonal and holiday prices, it can be expected that prices will rise again in autumn and winter. In addition, the service industry experienced the maximum bankruptcy. And if there was bankruptcy, then in the service sector the remaining companies increase prices, which must also make up for lost income from the consequences of the quarantine or pay off the debts that were financed in this regard.

So, when inflation is zero, it doesn't really matter that the savings account will not be charged interest. But as inflation rises, so does the "fee" for keeping money in the bank. And now the Czechs must prepare for inflation, which they have not experienced for a long time: ordinary savings will be the fastest way to depreciate money, inflation will quickly absorb these savings. And the most effective way of protection today is to buy inflationary bonds, the face value or coupon of which is adjusted depending on the development of the consumer price index. However, the availability of these instruments on the Czech financial market is still limited.

The second major reason for the growth in demand for real estate in the Czech Republic is the reduction of the interest rate by the Czech National Bank (CNB). These are also the consequences of the coronavirus and the drop in business activity in the country.

For the most part, this is a direct reflection of the covid pandemic. The whole world is now trying to make up for lost in the past 2020. Taking advantage of the moment, he wants to do everything faster, build faster. And it is not possible to produce all this at an accelerated pace also because, until recently, strict anti-pandemic measures were applied at the factories. This slowed down both the production process and consumption.

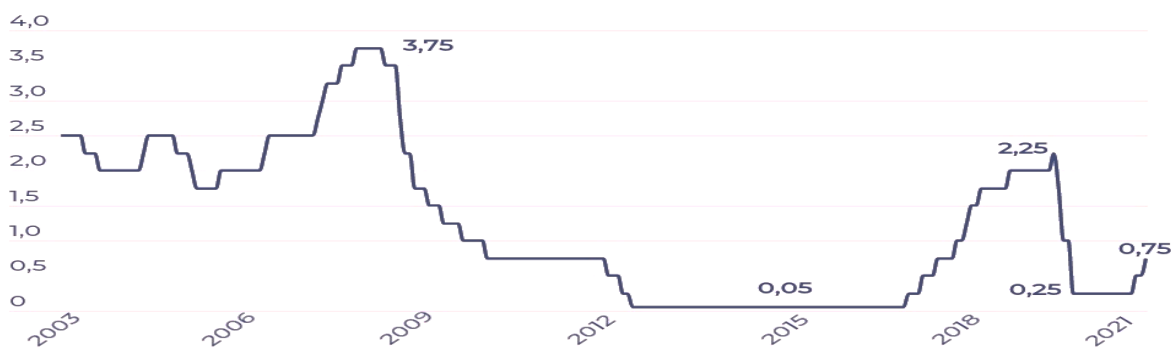


Figure 1 – Change in the interest rate of the Czech National Bank
Source: [7]

In addition, the situation is complicated by the transport crisis. There are no shipping containers. In Asia, loading is reduced due to anti-pandemic measures in ports, now due to the Delta covid mutation.

The third major reason for the growth in demand for real estate in the Czech Republic is the volume of mortgage loans issued. Interest in their own housing has not cooled down even during the covid pandemic, so banks and savings banks in the Czech Republic report on records of loans issued.

According to the ČSOB Group, in 2020 banks and construction companies lent a lot of money for housing. The volume of mortgage loans granted last year reached 250 billion kroons, which was the highest figure in the history of the Czech Republic. The volume of these loans increased by 38% compared to the same period in 2019.

The record growth is mainly attributable to the Czechs' continued interest in solving the problem of their own housing and very low interest rates, which have been practically falling since April 2020 (Figure 2.)

The situation is similar with loans from construction companies. In 2020, they provided

loans in the amount of 65 billion kroons, which is 36% more than in 2019. The current situation with the pandemic has not affected the market, which is perhaps surprising. People now perceive housing as a safe haven for their savings, so interest in home loans has grown dramatically [7].

It should be added here that today's record year 2021 will be associated not only with completely new mortgage loans, but also with the refinancing of existing loans. There was quite a lot of interest in refinancing in 2021, because interest rates hit their bottom in 2020 and mortgages could be taken out at a rate just above 1.5%. There was also a great deal of interest in longer interest rate fixations for a period of 7 to 10 years. For example, in Česká spořitelna, the interest rate was fixed for 8, 10 and more years [7].

The current popularity of long-term fixing of the % rate is the reaction of clients to the development of the mortgage market in recent years, especially to a series of tightening measures by the national bank. However, Czech banks today must somehow withstand the sharply increased risks of interest rate growth and have already begun to shorten the periods for fixing interest rates.

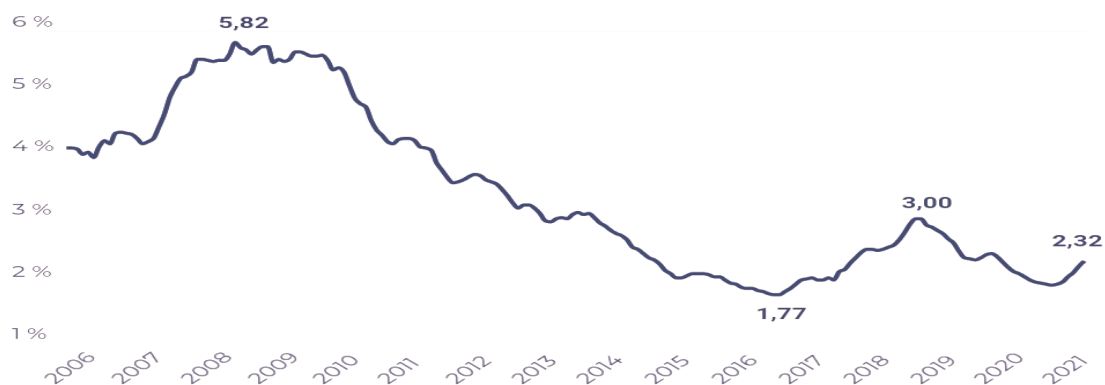


Figure 3 – Index of interest rates on mortgages
Source: [11]





At the same time, last year the Czech National Bank relaxed the parameters that banks must control for loan applicants. From April 1, 2020, the CNB canceled the DTI limit (the ratio of the loan applicant's total debt to the net annual income) and weakened the LTV (indicating the maximum loan cost relative to the estimated real estate price) and DSTI (the ratio of total monthly payments) to the loan applicant's net monthly income.

Currently, the CNB sets an upper limit on only one of the three indicators of creditworthiness, namely the so-called LTV. According to the guidelines, banks should not issue mortgages for more than 90% of the value of a home.

Another recommendation of the CNB at the present time is that the mortgage applicant should spend no more than 40% of their net monthly income on debt repayment [7].

But the question now is not only to what extent these indicators or which of them will be set for banks in the Czech Republic, but also whether these indicators will be nationwide. Will they be defined differently, for example, for certain regions or even for certain types of real estate, because the general definition of a financial indicator does not reflect relatively fundamental differences in real estate prices in individual regions and in the rate of their rise in price or in the ratio of the cost of comparable real estate to the average income of the applicant.

At the same time, from 2021, credit indicators will be more favorable for young mortgage applicants under the age of 36. These applicants will have a higher credit score limit, namely 10% points in LTV (the ratio of the volume of the mortgage to the price of the real estate object), 5% points in terms of DSTI (the amount of installments to monthly income), and one year of net profit for DTI (total debt to income). For example, if the total LTV limit in the market is 80%, young people will be able to take mortgage loans up to 90% [7].

Today it is important to understand that so far all types of real estate are becoming more expensive. In the Czech capital, there are no longer any districts that could be called depressed, with unclaimed housing. Even old panel houses are growing in price following new buildings. But it is the latter that set price trends.

Here we especially note that the modern world of finance, and not only in the Czech Republic, is rapidly changing and brings with it a number of new problems. Therefore, it is necessary to constantly expand the arsenal of tools that the CNB can use if necessary. The key to success is that the CNB can fulfill its mission of ensuring price stability.

For example, we know of cases where central banks applied negative interest rates and were forced to implement quantitative easing. However,

unlike many other central banks, the CNB has its hands tied in this regard due to rising inflation.

As a result, what can we see in the real estate sector in the Czech Republic? According to local economists, the demand for housing loans will continue. Even a slight correction of up to 10% can be expected, but interest in housing loans in the Czech Republic will remain very high.

Interest rates have increased slightly in 2021. The main reason for the growth was the increase in rates in the interbank market, including the CNB repo rate (at which banks borrow from the central bank - author's note), in response to the beginning of the "rapid recovery" of the Czech economy.

In the meantime, the Czech National Bank has not changed interest rates much and has not changed the restrictions on mortgage loans, and the countercyclical capital buffer rate has remained the same. Given the current development of inflation and the crisis in the economy, key interest rates will change very slowly.

However, Czech banks are no longer making mortgages cheaper. The main reason is the price at which banks receive money for further lending in the interbank market. And it was the price of money in the interbank market that began to grow rapidly from November 2020. However, this does not necessarily mean that mortgages will immediately begin to rise in price [8]. Competition in the mortgage market in the Czech Republic is very strong, and the uncertainty associated with the crisis due to the coronavirus remains. Thus, in the near future, mortgage rates may stabilize at current levels, as mortgage interest rates are based on long-term market interest rates such as 10-year government bonds or long-term IRS rates. And this link with long-term rates has intensified in recent years as the average time it takes to set mortgage rates has increased. We do not expect these long-term rates to fall to historic lows in 2016, so this will not happen with mortgage rates either.

At the same time, the emerging increase in interest rates of the CNB will not be able to cope with this special type of inflation, caused by rising costs rather than rising demand. But according to experts from the CNB, interest rates will have to significantly reduce demand in order to compensate for the increase in production costs in producer prices, which, in turn, may ultimately have serious consequences for the health of the economy. Now, the impact of COVID on inflation, not only in the Czech Republic, but around the world, is more reminiscent of the oil shock of the 1970s.

Conclusions and prospects for further research. We are now still seeing the impact of COVID not only in the Czech Republic, but all over the world.

The Czech National Bank found itself hostage to the situation:

a) on the one hand, it was supposed to weaken the parameters of monetary regulation and help the domestic economy,

b) on the other hand, it still cannot curb the emerging growth of inflation in the country.

The current situation with the pandemic has not affected the real estate market, which is perhaps surprising. The population of the Czech Republic now perceives housing as a safe haven and protects their savings by buying real estate.

According to local economists, in the near future the demand for housing loans in the Czech Republic will remain. Even a slight correction of up to 10% can be expected, but interest in housing loans in the Czech Republic will remain very high.

The main task today of all financial market regulators, not only in the Czech Republic, but throughout the world, is and will be the task of preventing a sharp collapse of the resulting bubbles, including the real estate market.

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