NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

QUARTERLY COMMENTARY ON MACROPRUDENTIAL POLICY

OCTOBER 2015

Contents

Foreword

Financial system stability is essential for a well-functioning economy. It encompasses many areas, ranging from the security of bank deposits and other similar products to the smooth-functioning of the lending market based on the responsible approach of financial institutions and their customers. The purpose of macroprudential policy is to contribute to financial stability, in particular by strengthening the financial sector's resilience during good times, when risks are typically still at an early stage. This purpose also entails preventing the build-up of systemic risks, so as to make the economy less vulnerable in crisis periods.

Macroprudential policy in Slovakia is implemented primarily by Národná banka Slovenska (NBS), with its formal obligation in this regard laid down in Act No 747/2004 Coll. on financial market supervision. In implementing this policy, NBS may use any of several tools (from mitigating a specific risk to increasing capital requirements across the board), and may apply them in different ways (from issuing risk warnings to laying down statutory obligations).[1] The European Central Bank (ECB) has the power to impose further, stricter macroprudential policy settings.

A key element of macroprudential policy implementation is the regular quarterly assessment of developments in the area of financial stability, and any ensuing decision of the NBS Bank Board to apply a specific instrument. The fulfilment of the core objective, i.e. the maintenance of financial stability, is assessed through the monitoring of five intermediate objectives:[2]

1. to mitigate and prevent excessive credit growth and leverage;
2. to mitigate and prevent excessive maturity mismatch and market illiquidity;
3. to limit direct and indirect exposure concentrations;
4. to limit the systemic impact of misaligned incentives with a view to reducing moral hazard;
5. to strengthen the resilience of financial infrastructures.

The **first intermediate objective** is to prevent excessive credit growth and leverage, which has been generally identified as a key driver of the financial and economic crisis. This is a particularly important objective in Slovakia, owing to the traditional nature of the financial market in this country. Most of the significant trends, as well as risks, in the domestic banking sector are related to the market in lending to households and enterprises. Looking at loans to the domestic economy as a share of total assets, the ratio in Slovakia is one of the highest of any country, with banks earning the bulk of their income from such lending.

The **second intermediate objective** relates to excessive maturity mismatch in the assets and liabilities of bank balance sheets. In other words, the maturity of banks' assets should not differ significantly from the maturity of their funding liabilities. Although the role of banks is to intermediate the funding of long-term assets (loans) with short-term liabilities (deposits), experience has shown that an excessive maturity mismatch between assets and liabilities makes the financial system more vulnerable and contributes to a build-up of economic and financial imbalances.

[1] Further details about these instruments can be found on the NBS website, at http://www.nbs.sk/en/financial-market-supervision/macroprudential-policy

[2] The intermediate objectives are set out in line with Recommendation No ESRB/2013/1 of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy.

The **third intermediate objective** is to limit direct and indirect exposure concentrations. Direct concentration risk typically arises from significant exposures to, for example, households, general government, or certain sectors of the economy. Indirect exposures arise from the interconnectedness of financial and non-financial institutions. Elevated concentration is a long-standing structural feature of the domestic financial sector. This is largely attributable to the structure of the Slovak economy, which is heavily dependent on a small number of sectors, as well as to the concentration of bank's claims on and/or sources of funding from certain customers or groups of customers. Another significant feature of the Slovak banking sector is the high share of domestic government bonds in banks' balance sheets.

The **fourth intermediate objective** aims to limit the systemic risk arising from misaligned incentives of financial institutions and their customers. The primary aim here is to reduce the risk of moral hazard related to the presence of systemically important financial institutions. Whereas, in respect of the third intermediate objective, concentration risk is monitored for its potential impact on individual banks or the banking sector, in the case of systemically important institutions concentration is monitored owing to the large impact that potential default of such an institution would have on the financial sector and real economy. Moral hazard may also arise in relation to management remuneration at financial institutions or in the terms of cooperation with financial intermediaries.

The **fifth intermediate objective** is to strengthen the resilience of financial infrastructures. The most important elements of the financial infrastructure in Slovakia are the payment systems (TARGET2, SIPS), the Deposit Protection Fund, and securities settlement systems. Their reliable operation is crucial for the country's financial stability.

The Quarterly Commentary on Macroprudential Policy (QCMP) is structured according to these objectives, pursuant to Recommendation ESRB/2013/1. Its main part is a situation analysis (based on the indicators in the annex), which is a basis for NBS decision-making. This edition of the QCMP is based mostly on data as at 30 June 2015, although the qualitative assessment also takes account of information available until the submission date of the QCMP.

The document is divided into three parts. The first part contains a brief analysis of the most significant developments related to systemic risk which occurred during the quarter under review, broken down into sub-headings that correspond to the above-mentioned intermediate objectives. The second part, focusing on decisions taken in the area of macroprudential policy, includes not only decisions of NBS, but also decisions of the ECB. The third part comprises annexes that include: tables showing indicators used to monitor the intermediate objectives, and reference information for decisions on the countercyclical capital buffer rate.

1 Situation analysis by Národná banka Slovenska

1.1 Excessive credit growth and leverage

The upward tendencies observed in the credit market in the first quarter of 2015 continued in the second quarter. Loans to households recorded double-digit year-on-year growth, supported by favourable labour market developments and households' optimistic expectations. Both for household loans in total and for housing loans, the annual volume growth reached a new all-time high. Lending to non-financial corporations increased slightly in the second quarter, in line with an increase in corporate investment during this period. Thus the annual growth rate of domestic banks' loans to enterprises and households was at its highest level, 8.8%, since the third quarter of 2011. Corporate bond issuance was slightly lower in the second quarter than in the first quarter; nevertheless, overall corporate debt continued to rise during this period, both in nominal terms and relative to sales in the corporate sector.

The Cyclogram values (Chart 3) increased moderately in the second quarter, to their highest level for four years. The main drivers of this increase were credit growth and the consequent rise in household indebtedness, recorded against a backdrop of improving labour market conditions. The indebtedness of non-financial corporations increased in the second quarter, as did property prices. The rising Cyclogram values were partially subdued by a tightening of credit standards, including loan-to-value (LTV) ratios, as happened in the previous quarter, too. These changes were, however, due mainly to the ongoing implementation of NBS recommendations.

Lending by domestic banks measured as a ratio of trend GDP – the domestic credit-to-GDP_{trend} gap (Chart 2) – showed signs of overheating in the second quarter of 2015, with the ratio reaching 1.03%. The standardised credit-to-GDP gap (Chart 1) was slightly negative, at -0.46%.

1.2 Excessive maturity mismatch and market illiquidity

Lending to households continued to increase markedly in the second quarter of 2015, while so did aggregate current account balances. This trend contributed to the widening maturity mismatch between assets and liabilities. New all-time high liquidity gaps were recorded in the buckets of maturities of up to seven days, up to 30 days and up to one year. This attests to the significance of liquidity risk to financial stability in Slovakia.

1.3 Concentration

The ratio of exposures exceeding on an individual basis 10% of the bank's own funds to the total amount of own funds in the banking sector maintained a moderate upward trend in the second quarter, increasing to 112% (from 107% in the previous quarter). In the context of this ratio's normal volatility, however, such an increase is not significant in the long run.

The geographical breakdown of exposure concentrations in the Slovak financial sector remains relatively conservative across all financial market segments. In no segment do exposures to more stressed countries (Greece, Russia, Ukraine) exceed 0.5% of the total value of the bond portfolio. In the banking sector, investments in bonds issued in Italy increased by 25% (from 12% to 15% of own funds); nevertheless, the riskiness of these investments, according to their risk premia, is far lower now than it was in the past. The banking sector's exposure to Cyprus remains at 17% of own funds.

At the same time, however, credit risk trends have been favourable over the past two years. In the second quarter of 2015, the non-performing loan ratio continued to decrease in many segments of the corporate sector, including those that had in the past reported the lowest credit quality.

1.4 Moral hazard

As in the previous period, no significant changes in moral hazard indicators occurred during the second quarter of 2015. The high concentration of liabilities in the financial system became slightly more pronounced, and the share of the five largest banks in these liabilities increased by 1.5 percentage point, to 87.4%. On the asset side, however, the concentration indicator fell moderately. Following the trend of recent years, the concentration of investments in domestic government bonds fell slightly.

1.5 Financial infrastructures and other risks

The special levy on financial institutions, paid into the government financial assets account, remained at 0.2% and it will stay at that level until the amount of funds in the account reaches €750 million. The funds raised by the levy were originally earmarked solely for resolution purposes in the banking sector, but under a law adopted in 2015 they may also be used to support the business environment.

The rate of contributions to the Deposit Protection Fund (DPF) in 2015 was set at 0.03% of the amount of guaranteed deposits. The proportion of guaranteed deposits covered by the DPF's funds has not changed significantly in 2015, remaining at almost 0.6% as at June 2015. In 2015 financial institutions will begin paying contributions to the new National Resolution Fund, established for the purpose of resolution funding (the payments are due by the year-end).

2 Decisions in the area of macroprudential policy

2.1 Decisions taken by NBS in the quarter under review

Having regard to developments in the principal indictors of excessive credit growth and leverage (Table 1) and in the Cyclogram (Chart 3), the Bank Board of Národná banka Slovenska decided to set the countercyclical capital buffer rate at 0%[3].

2.2 The current setting of instruments by NBS

On 7 October 2014 the Bank Board of NBS approved Recommendation No 1/2014 of Národná banka Slovenska in the area of macroprudential policy on risks related to market developments in retail lending. The central bank issued the Recommendation in response to developments in the retail loan market, after having repeatedly drawn attention to several imbalances. The Recommendation introduces a number of principles and can be found on the NBS website[4].

Other currently applicable macroprudential policy instruments, covering mainly the area of capital requirements, are listed in Table 1.

2.3 Potential application of macroprudential instruments over the medium-term horizon

Planned legislative amendments in the area of retail loans

With regard to ongoing legislative amendments based on EU Directives, preparations are being made to integrate into primary or secondary Slovak law several parts of Recommendation No 1/2014 of Národná banka Slovenska in the area of macroprudential policy on risks related to market developments in retail lending ('the Recommendation'). The key benefit of such a change will be to extend the regulatory framework to entities other than banks. The legislation in this area will bring greater certainty to all banks and non-bank entities about the equality of business conditions in the retail lending market.

Under the proposed legislative amendments, NBS will be equipped with new tools allowing it to pre-empt the materialisation of financial stability risks related to excessive credit growth. Given the situation in the lending market, however, NBS is not at present considering applying the majority of these measures. The tools that will be applied are only those established in secondary legislation to the extent stipulated in the Recommendation.

Expected developments in the countercyclical capital buffer rate in the next quarter

The countercyclical capital buffer relates to all exposures. Hence, as a rule, the decision on the countercyclical capital buffer rate takes into account lending trends in all the main segments, in particular loans to non-financial corporations and loans to households. In the second quarter of 2015, lending to enterprises maintained its growth rate and lending to households reached new historical highs. Overall, therefore, the credit market is showing a broad growth trend.

As to whether the countercyclical capital buffer rate will be increased in the next period, that will depend in particular on assessments of the pace of lending growth.

[3] http://www.nbs.sk/en/financial-market-supervision/macroprudential-policy/macroprudential-policy-decisions
[4] http://www.nbs.sk/en/financial-market-supervision/macroprudential-policy/current-status-of-macroprudential-instruments/current-setting-of-other-instruments-applicable-in-slovakia

The next decision on the setting of the CCB rate is due to be taken in January 2016.

2.4 ECB decisions concerning the Slovak banking sector taken in the quarter under review

As at October 2015 the European Central Bank had not issued any decision in the area of macroprudential policy.

Table 1 Current setting of instruments applicable in Slovakia

Macroprudential instrument	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Note
Macroprudential instruments applicable in Slovakia						
Capital conservation buffer (Article 33b of the Banking Act)	2.5%	2.5%	2.5%	2.5%	2.5%	
Countercyclical capital buffer rate (Article 33g of the Banking Act)	0%	0%	0%	0%	0%	
O-SII buffer (Article 33d of the Banking Act)						Due to be implemented from 1 January 2016
Systemic risk buffer (Article 33e of the Banking Act)						Due to be implemented from 1 January 2017
Risk-weight for exposures fully secured by mortgages for residential property (Article 124 of the EU's Regulation on prudential requirements for credit institutions and investment firms –hereinafter "the CRR")	35%	35%	35%	35%	35%	
Risk-weight for exposures fully secured by mortgages on commercial immovable property (Article 124 of the CRR)	50%	50%	50%	50%	50%	Scheduled increase
Minimum exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments (Article 164 of the CRR)	10%	10%	10%	10%	10%	
Minimum exposure-weighted average LGD for all retail exposures secured by commercial immovable property and not benefiting from guarantees from central governments (Article 164 of the CRR)	15%	15%	15%	15%	15%	
Risk-weight for exposures fully secured by mortgages on commercial immovable property - other EU Member States (Article 124 of the CRR)	50%	50%	50%	50%	50%	
Minimum exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments - other EU Member States (Article 164 of the CRR)	10%	10%	10%	10%	10%	
Minimum exposure-weighted average LGD for all retail exposures secured by commercial immovable property and not benefiting from guarantees from central governments - other EU Member States (Article 164 of the CRR)	15%	15%	15%	15%	15%	

Source: NBS.

Table 2 Current setting of instruments applicable to foreign exposures

Macroprudential instrument	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Note
Macroprudential instruments applicable abroad						
Countercyclical capital buffer rate for **Sweden** (Article 33h of the Banking Act)	0%	0%	0%	0%	1%	To be increased to 1.0% from 13 September 2015, and then to 1.5% from 27 June 2016
Countercyclical capital buffer rate for other EU Member States (Article 33h of the Banking Act)	0%	0%	0%	0%	0%	
Countercyclical capital buffer rate for **Norway** (Article 33h of the Banking Act)	0%	0%	0%	1%	1%	To be increased to 1.5% from 31 December 2015
Countercyclical capital buffer rate for countries other than EU Member States (Article 33 and Article 33h of the Banking Act)	0%	0%	0%	0%	0%	
Systemic risk buffer for other EU Member States (Article 33f of the Banking Act)	0%	0%	0%	0%	0%	
Risk-weight for exposures fully secured by mortgages on residential property - other EU Member States (Article 124 of the CRR)	35%	35%	35%	35%	35%	**Ireland, Croatia, Malta:** conditions to be tightened for application of the 35% risk weight
Risk-weight for exposures fully secured by mortgages on commercial immovable property – **Sweden** and **Romania** (Article 124 of the CRR)	100%	100%	100%	100%	100%	**Romania:** conditions to be tightened for application of the 50% risk weight
Risk-weight for exposures fully secured by mortgages on commercial immovable property - other EU Member States (Article 124 of the CRR)	50%	50%	50%	50%	50%	**United Kingdom:** conditions to be tightened for application of the 50% risk weight
Minimum exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments - other EU Member States (Article 164 of the CRR)	10%	10%	10%	10%	10%	
Minimum exposure-weighted average LGD for all retail exposures secured by residential property and not benefiting from guarantees from central governments – **Norway** (Article 164 of the CRR)	20%	20%	20%	20%	20%	
Minimum exposure-weighted average LGD for all retail exposures secured by commercial immovable property and not benefiting from guarantees from central governments - other EU Member States (Article 164 of the CRR)	15%	15%	15%	15%	15%	

Source: ESRB.

Annexes

A) Selected indicators broken down by main risk categories

Table 3 Excessive credit growth and leverage

	12.03	3.04	6.04	9.04	12.04	3.05	6.05	9.05	12.05	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08
Total private debt																				
Total credit-to-trend GDP gap	0%	0%	0%	0%	0%	0%	0%	0%	-1%	3%	4%	1%	-3%	1%	1%	0%	0%	-1%	0%	0%
Private debt (year-on-year increase)					17%	19%	17%	17%	13%	29%	31%	28%	21%	18%	14%	19%	27%	17%	19%	19%
- households					38%	39%	41%	43%	43%	40%	37%	33%	30%	32%	30%	29%	29%	28%	28%	27%
- enterprises					13%	15%	12%	10%	5%	26%	30%	26%	18%	13%	8%	16%	26%	13%	16%	16%
Debt-to-GDP ratio	46%	44%	47%	47%	49%	48%	50%	50%	50%	57%	60%	58%	55%	59%	60%	61%	62%	62%	65%	66%
- households	8%	9%	9%	10%	10%	11%	12%	13%	13%	14%	15%	15%	16%	16%	17%	17%	18%	18%	19%	20%
- enterprises	38%	36%	38%	37%	38%	37%	38%	38%	37%	43%	45%	43%	39%	43%	44%	44%	44%	44%	45%	46%
Domestic bank credit																				
Domestic credit-to-trend GDP gap	1%	1%	1%	1%	0%	1%	2%	2%	3%	3%	4%	4%	5%	4%	5%	5%	6%	5%	6%	6%
Loans (year-on-year increase)	12%	17%	19%	16%	10%	11%	16%	21%	28%	27%	26%	23%	25%	23%	23%	25%	24%	26%	24%	23%
- households	37%	41%	44%	42%	38%	39%	41%	42%	41%	40%	38%	34%	32%	30%	28%	27%	28%	28%	28%	28%
- enterprises	4%	10%	11%	6%	-1%	-1%	4%	11%	21%	19%	20%	15%	20%	18%	19%	24%	22%	24%	21%	20%
Credit-to-GDP ratio	26%	25%	25%	25%	26%	26%	27%	26%	26%	27%	28%	29%	30%	31%	32%	32%	34%	34%	35%	36%
- households	7%	8%	8%	9%	9%	10%	10%	11%	12%	12%	13%	14%	14%	14%	15%	16%	16%	16%	17%	18%
- enterprises	18%	19%	18%	18%	16%	17%	17%	18%	18%	18%	19%	18%	19%	19%	20%	20%	21%	21%	22%	22%
Household sector																				
Bank debt to disposable income: gap	0%	0%	0%	0%	0%	0%	1%	1%	1%	0%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%
Bank debt to disposable income: ratio	13%	13%	14%	15%	16%	16%	18%	19%	20%	21%	22%	23%	25%	25%	26%	27%	28%	29%	30%	31%
Bank debt to disposable income: year-on-year increase	28%	30%	31%	29%	25%	27%	29%	31%	29%	28%	25%	22%	21%	19%	16%	15%	14%	15%	17%	16%
LTV ratio for new housing loans		69%	69%	70%	71%	74%	75%	76%	78%	80%	82%	84%	87%	88%	90%	90%	91%	91%	90%	84%
Housing affordability index						129	136	135	142	144	136	133	123	113	103	94	88	84	87	90
Corporate sector																				
Total debt-to-trend revenues gap	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	2%	0%	-1%	0%	0%	0%	0%	0%	0%	0%
Bank loans-to-trend revenues gap	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%	0%	0%

	12.08	3.09	6.09	9.09	12.09	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14	9.14	12.14	3.15	6.15
Total private debt																											
Total credit-to-trend GDP gap	-1%	0%	-2%	-3%	-5%	-5%	-6%	-5%	-6%	-4%	-4%	-3%	-3%	-4%	-4%	-3%	-3%	-4%	-5%	-2%	-2%	-1%	1%	0%	-1%	2%	2%
Private debt (year-on-year increase)	17%	19%	12%	7%	3%	-1%	-1%	1%	3%	5%	6%	6%	8%	5%	5%	5%	5%	4%	3%	7%	5%	9%	13%	8%	7%	10%	6%
- households	24%	20%	16%	12%	9%	10%	9%	10%	11%	12%	11%	11%	10%	9%	8%	8%	9%	9%	9%	9%	9%	9%	9%	10%	12%	12%	12%
- enterprises	14%	18%	10%	6%	0%	-6%	-6%	-3%	-1%	2%	3%	3%	7%	3%	3%	3%	3%	1%	0%	5%	3%	8%	15%	6%	4%	10%	3%
Debt-to-GDP ratio	67%	71%	73%	74%	73%	73%	73%	73%	72%	73%	73%	74%	74%	74%	74%	75%	76%	75%	75%	78%	78%	80%	83%	83%	82%	86%	86%
- households	21%	21%	23%	23%	24%	24%	25%	25%	25%	26%	26%	27%	27%	27%	27%	28%	28%	28%	29%	30%	30%	31%	31%	32%	33%	33%	34%
- enterprises	46%	50%	50%	51%	49%	49%	48%	48%	46%	47%	47%	48%	48%	47%	47%	47%	47%	46%	46%	49%	48%	49%	51%	51%	49%	52%	52%
Domestic bank credit																											
Domestic credit-to-trend GDP gap	5%	4%	3%	2%	1%	2%	1%	1%	1%	1%	2%	2%	1%	1%	0%	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%	0%	0%	0%	1%
Loans (year-on-year increase)	18%	15%	9%	6%	3%	2%	3%	4%	6%	7%	10%	9%	9%	7%	3%	2%	3%	3%	4%	4%	4%	6%	6%	7%	6%	7%	9%
- households	25%	22%	17%	13%	11%	10%	10%	11%	12%	12%	12%	11%	10%	9%	8%	9%	9%	9%	9%	9%	9%	10%	11%	11%	12%	13%	13%
- enterprises	13%	10%	3%	0%	-3%	-4%	-3%	-1%	0%	3%	8%	8%	7%	4%	-2%	-5%	-3%	-4%	-3%	-2%	-3%	0%	0%	1%	-2%	-1%	3%
Credit-to-GDP ratio	37%	38%	39%	40%	41%	42%	43%	44%	45%	45%	45%	45%	45%	46%	47%	47%	47%	47%	46%	46%	47%	47%	47%	48%	48%	48%	49%
- households	19%	19%	20%	21%	22%	22%	23%	23%	23%	23%	24%	24%	25%	25%	25%	25%	26%	26%	27%	27%	28%	28%	29%	30%	31%	31%	32%
- enterprises	22%	23%	23%	23%	23%	23%	22%	22%	22%	22%	23%	23%	22%	22%	21%	21%	21%	20%	20%	20%	20%	20%	20%	20%	19%	19%	20%
Household sector																											
Bank debt to disposable income: gap	0%	0%	0%	0%	-1%	-1%	-1%	-1%	-1%	-2%	-1%	-1%	-1%	-2%	-2%	-1%	-1%	-2%	-2%	-2%	-1%	-2%	-1%	-1%	0%	0%	0%
Bank debt to disposable income: ratio	32%	32%	33%	34%	35%	35%	36%	37%	37%	38%	39%	40%	40%	41%	42%	43%	43%	44%	44%	45%	46%	47%	48%	49%	50%	51%	52%
Bank debt to disposable income: year-on-year increase	14%	12%	10%	9%	9%	9%	8%	8%	8%	7%	8%	7%	8%	7%	7%	8%	7%	8%	7%	6%	6%	7%	8%	8%	8%	9%	9%
LTV ratio for new housing loans	70%	65%	65%	65%	65%	66%	67%	68%	69%	70%	69%	71%	69%	74%	73%	71%	71%	71%	72%	72%	72%	74%	73%	73%	74%	72%	70%
Housing affordability index	95	105	114	119	125	128	129	131	137	134	136	137	137	143	141	147	145	152	152	159	163	169	181	186	195	194	196
Corporate sector																											
Total debt-to-trend revenues gap	-1%	0%	0%	0%	-1%	-1%	-1%	-1%	-1%	0%	-1%	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%	0%	0%	0%	1%	0%	-1%	1%	0%
Bank loans-to-trend revenues gap	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	0%

Gap: deviation of the respective indicator from its long-term trend

Credit-to-GDP gap: deviation of private debt-to-GDP ratio from its long-term trend

Note: the darker the colour, the greater the probability of imbalances with relevance for macroprudential policy.

LTV ratio data for 2004 - 2008 are based on expert judgement

Table 4 Excessive maturity mismatch and market illiquidity

	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08	12.08	3.09	6.09	9.09
Cumulative position of up to 7 days	-28%	-23%	-26%	-28%	-27%	-28%	-28%	-33%	-29%	-27%	-30%	-23%	-29%	-31%	-30%
Cumulative position of up to 30 days	-24%	-26%	-27%	-31%	-26%	-31%	-30%	-32%	-30%	-30%	-30%	-23%	-32%	-35%	-34%
Cumulative position of up to 1 year	-28%	-27%	-30%	-31%	-28%	-28%	-29%	-29%	-30%	-28%	-28%	-28%	-35%	-36%	-38%
Cumulative position of up to 2 years	-23%	-22%	-24%	-25%	-24%	-23%	-24%	-24%	-25%	-23%	-24%	-24%	-30%	-30%	-30%
Pledged securities / Total securities									4%	5%	7%	21%	15%	25%	24%
Bonds maturing in next 12 months	4%	5%	5%	10%	13%	13%	7%	14%	20%	22%	22%	12%	15%	16%	22%
Net foreign position (excluding foreign capital*)	-16%	-14%	-7%	-8%	-12%	-11%	-11%	-12%	-12%	-13%	-13%	-14%	5%	6%	5%

	12.09	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14	9.14	12.14	3.15	6.15
Cumulative position of up to 7 days	-32%	-36%	-36%	-36%	-36%	-34%	-35%	-32%	-33%	-29%	-30%	-31%	-32%	-31%	-34%	-36%	-36%	-36%	-38%	-37%	-37%	-38%	-39%
Cumulative position of up to 30 days	-34%	-37%	-39%	-40%	-39%	-38%	-38%	-37%	-35%	-32%	-32%	-33%	-33%	-33%	-36%	-38%	-38%	-38%	-40%	-39%	-37%	-39%	-41%
Cumulative position of up to 1 year	-39%	-40%	-37%	-37%	-38%	-39%	-39%	-40%	-40%	-36%	-36%	-39%	-37%	-40%	-41%	-43%	-43%	-45%	-45%	-46%	-46%	-46%	-47%
Cumulative position of up to 2 years	-31%	-34%	-33%	-33%	-34%	-35%	-37%	-37%	-35%	-32%	-32%	-34%	-33%	-36%	-38%	-40%	-40%	-40%	-41%	-42%	-41%	-42%	-41%
Pledged securities / Total securities	27%	26%	26%	15%	17%	17%	17%	17%	28%	24%	22%	22%	25%	16%	15%	13%	11%	11%	11%	12%	16%	14%	14%
Bonds maturing in next 12 months	28%	30%	22%	16%	14%	19%	14%	14%	12%	17%	14%	15%	15%	14%	11%	9%	14%	14%	20%	16%	19%	18%	17%
Net foreign position (excluding foreign capital*)	2%	3%	2%	0%	2%	2%	1%	0%	2%	2%	4%	3%	5%	4%	2%	3%	4%	3%	4%	4%	4%	5%	4%

*Capital: own funds of foreign banks' subsidiaries

Note: the darker the colour, the greater the probability of imbalances with relevance for macroprudential policy

Table 5 Concentration

	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08	12.08
Large exposures (total) as a share of own funds									179%	168%	155%	164%
Exposures to the Slovak Republic as a share of total assets	16%	16%	16%	19%	14%	18%	18%	18%	17%	15%	14%	14%
Assets from own financial group as a share of total assets	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	2%
Liabilities to own financial group as a share of total assets	7%	7%	4%	5%	9%	8%	8%	10%	9%	13%	12%	10%
Assets fair-valued through profit and loss	4%	6%	5%	10%	10%	12%	11%	10%	12%	10%	9%	10%
Liabilities fair-valued through profit and loss	7%	7%	5%	6%	7%	7%	6%	6%	6%	5%	6%	6%
Nominal value of derivatives as a share of total assets	110%	131%	126%	113%	114%	110%	107%	105%	111%	108%	112%	69%
Exposures to countries with high or increasing spreads, as a share of own funds												
Greece												
Cyprus												
Loans to corporate segments with a high or increasing NPL ratio, as a share of own funds												
Construction	1%	1%	1%	2%	1%	2%	2%	2%	2%	2%	2%	2%
Wholesale and retail trade	4%	4%	5%	5%	5%	5%	5%	6%	6%	6%	6%	6%

	3.09	6.09	9.09	12.09	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14	9.14	12.14	3.15	6.15
Large exposures (total) as a share of own funds	146%	121%	111%	110%	111%	101%	99%	110%	110%	135%	139%	117%	90%	95%	100%	108%	109%	106%	94%	99%	105%	124%	111%	101%	107%	112%
Exposures to the Slovak Republic as a share of total assets	18%	19%	21%	21%	22%	23%	23%	21%	21%	20%	20%	20%	20%	21%	21%	20%	20%	21%	20%	18%	18%	18%	18%	17%	17%	17%
Assets from own financial group as a share of total assets	3%	5%	6%	4%	3%	4%	5%	5%	6%	6%	5%	4%	5%	6%	6%	6%	5%	5%	5%	5%	4%	5%	5%	6%	5%	5%
Liabilities to own financial group as a share of total assets	4%	4%	4%	4%	4%	4%	7%	5%	6%	6%	6%	4%	2%	2%	2%	1%	2%	3%	3%	3%	3%	4%	4%	3%	3%	3%
Assets fair-valued through profit and loss	5%	5%	5%	5%	5%	5%	5%	4%	4%	4%	4%	3%	4%	3%	4%	2%	2%	2%	2%	2%	2%	1%	2%	1%	1%	1%
Liabilities fair-valued through profit and loss	3%	3%	3%	2%	3%	3%	2%	2%	2%	2%	2%	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Nominal value of derivatives as a share of total assets	48%	46%	43%	42%	40%	40%	38%	37%	39%	41%	38%	37%	37%	36%	34%	31%	34%	35%	34%	31%	31%	33%	31%	29%	30%	29%
Exposures to countries with high or increasing spreads, as a share of own funds																										
Greece	0%	0%	0%	0%	20%	19%	18%	18%	16%	15%	14%	13%	3%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Cyprus	3%	4%	6%	5%	4%	4%	4%	8%	10%	7%	7%	10%	10%	11%	12%	12%	14%	13%	14%	15%	14%	15%	16%	16%	17%	17%
Loans to corporate segments with a high or increasing NPL ratio, as a share of own funds																										
Construction	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	1%	1%	1%
Wholesale and retail trade	7%	6%	6%	6%	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	4%	4%	4%	4%

* Increase in spread of more than 2 p.p. for the previous year, or spread of more than 4 p.p. Spread is calculated as the difference between yields of government bonds of the respective country and yields of German government bonds.

** Increase in NPL ratio of more than 1 p.p. for the previous year, or NPL ratio of more than 10%.

Note: the darker the colour, the greater the probability of imbalances with relevance for macroprudential policy.

Table 6 Moral hazard

		3.04	6.04	9.04	12.04	3.05	6.05	9.05	12.05	3.06	6.06	9.06	12.06	3.07	6.07	9.07	12.07	3.08	6.08	9.08	12.08
Total net assets	C5	65%	66%	66%	66%	67%	67%	67%	68%	66%	67%	65%	67%	66%	68%	68%	68%	67%	67%	68%	72%
	HHI	1,164	1,178	1,136	1,147	1,104	1,121	1,094	1,071	1,037	1,110	1,096	1,127	1,065	1,086	1,075	1,085	1,086	1,083	1,090	1,197
Guaranteed deposits	C5	77%	76%	75%	75%	75%	75%	75%	75%	76%	76%	76%	76%	76%	75%	75%	75%	74%	74%	74%	76%
	HHI	1,803	1,710	1,684	1,671	1,658	1,644	1,625	1,593	1,622	1,614	1,612	1,594	1,597	1,579	1,582	1,573	1,576	1,571	1,512	1,605
Share of investments in domestic government bonds on the total volume of domestic govememnt bonds	C5	66%	61%	62%	61%	50%	51%	52%	52%	45%	47%	47%	44%	40%	39%	40%	40%	37%	33%	34%	38%
	HHI	2,088	2,038	2,043	2,065	1,936	2,052	2,368	2,377	2,050	2,195	2,193	2,175	2,309	2,366	2,404	2,306	2,071	2,026	1,913	1,701
Loans to retail sector (outstanding amount)	C5	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	81%	82%	82%	82%	82%	82%	82%
	HHI	1,720	1,676	1,664	1,640	1,625	1,621	1,622	1,606	1,605	1,601	1,589	1,584	1,593	1,599	1,595	1,587	1,606	1,613	1,619	1,611
Total assets within financial system	C5	67%	67%	64%	64%	63%	61%	63%	66%	62%	70%	67%	65%	62%	67%	65%	68%	62%	69%	62%	61%
	HHI	1,128	1,125	1,196	1,009	1,048	1,008	1,022	1,060	954	1,204	1,063	1,035	984	1,091	1,005	1,076	982	1,095	960	910
Total liabilities within financial system	C5	62%	67%	62%	63%	66%	68%	67%	67%	67%	69%	63%	61%	64%	70%	66%	65%	67%	66%	69%	71%
	HHI	999	1,046	986	1,025	1,107	1,176	1,113	1,194	1,125	1,137	996	965	1,049	1,188	1,124	1,056	1,090	1,060	1,097	1,149

		3.09	6.09	9.09	12.09	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14	9.14	12.14	3.15	6.15
Total net assets	C5	69%	70%	72%	72%	72%	73%	72%	72%	71%	71%	71%	72%	71%	72%	72%	71%	71%	71%	71%	70%	70%	70%	71%	71%	71%	71%
	HHI	1,187	1,214	1,266	1,273	1,265	1,275	1,252	1,237	1,220	1,221	1,220	1,254	1,222	1,250	1,254	1,221	1,220	1,213	1,223	1,214	1,205	1,218	1,226	1,221	1,230	1,231
Guaranteed deposits	C5	76%	76%	78%	77%	76%	76%	75%	75%	75%	75%	75%	73%	73%	73%	73%	73%	73%	73%	73%	70%	70%	70%	70%	70%	70%	70%
	HHI	1,575	1,571	1,590	1,536	1,517	1,513	1,508	1,478	1,458	1,454	1,458	1,389	1,359	1,383	1,386	1,371	1,361	1,360	1,354	1,284	1,276	1,278	1,276	1,279	1,283	1,283
Share of investments in domestic government bonds on the total volume of domestic govememnt bonds	C5	46%	45%	47%	47%	47%	47%	45%	40%	38%	36%	37%	34%	33%	31%	32%	30%	28%	27%	27%	27%	26%	26%	26%	25%	25%	24%
	HHI	1,920	1,891	1,924	1,909	1,805	1,808	1,844	1,839	1,789	1,746	1,766	1,777	1,734	1,827	1,848	1,797	1,824	1,689	1,771	1,788	1,764	1,832	1,817	1,772	1,759	1,757
Loans to retail sector (outstanding amount)	C5	82%	83%	85%	85%	85%	85%	85%	84%	84%	84%	84%	84%	84%	83%	83%	83%	83%	82%	81%	80%	80%	80%	80%	79%	79%	79%
	HHI	1,618	1,638	1,678	1,683	1,698	1,698	1,694	1,682	1,665	1,659	1,661	1,672	1,672	1,659	1,643	1,644	1,641	1,610	1,577	1,559	1,558	1,568	1,571	1,564	1,571	1,580
Total assets within financial system	C5	62%	61%	62%	62%	63%	60%	59%	62%	62%	57%	59%	57%	55%	56%	55%	49%	48%	49%	52%	55%	53%	55%	50%	53%	53%	53%
	HHI	945	1,032	1,050	1,135	1,168	1,034	942	1,077	1,027	905	882	914	853	905	882	750	783	857	980	987	1,038	961	807	878	867	791
Total liabilities within financial system	C5	65%	66%	74%	74%	77%	75%	74%	74%	78%	78%	79%	81%	82%	84%	86%	86%	87%	86%	84%	84%	82%	83%	84%	86%	86%	87%
	HHI	1,053	1,075	1,259	1,316	1,331	1,266	1,373	1,375	1,448	1,395	1,409	1,537	1,550	1,644	1,688	1,656	1,654	1,627	1,596	1,605	1,508	1,534	1,538	1,587	1,550	1,615

Note: the darker the colour, the greater the probability of imbalances with relevance for macroprudential policy.
C5: The overall share of the five institutions that have the highest share in the banking sector's total volume of that item for the respective quarter.
In case of the third indicator C5 stands for the share of investments into domestic government bonds by the first 5 banks with the highest share on the total volume of domestic government bonds issued
HHI: Herfindahl-Hirschman Index

Table 7 Financial infrastructure

	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14	9.14	12.14	3.15	6.15
Coverage of guaranteed deposits	0.1%	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Assets from the bank levy as share of total assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	0.8%	0.8%	0.9%	0.9%
Change in TARGET2 balance of the Slovak Republic (EUR millions)	54	-572	587	1,140	1,529	-2,350	3,128	-2,617	5,574	2,779	3,718	2,439	3,923	2,527	-395	-4,256	3,800	-3,699	1,602	-2,149	-1,973	807
TARGET2 balance of the Slovak Republic as a ratio to NBS assets	-73%	-71%	-74%	-67%	-63%	-72%	-55%	-63%	-39%	-27%	-8%	5%	23%	33%	32%	16%	30%	16%	22%	12%	2%	7%

Funds accumulated in the Deposit Protection Fund as a ratio to the total amount of guaranteed deposits in the given quarter.
Funds accumulated from the special levy on financial institutions, pursuant to Act No 384/2011 Coll. as a ratio to the banking sector's total net assets in the given quarter.
Note: the darker colour in the first two lines indicates a greater probability of imbalances with relevance for macroprudential policy.

Table 8 Resilience of the financial system

	3.10	6.10	9.10	12.10	3.11	6.11	9.11	12.11	3.12	6.12	9.12	12.12	3.13	6.13	9.13	12.13	3.14	6.14	9.14	12.14	3.15	6.15
Coverage of guaranteed deposits	0.1%	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Assets from the bank levy as share of total assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	0.8%	0.8%	0.9%	0.9%
Change in TARGET2 balance of the Slovak Republic (EUR millions)	54	-572	587	1,140	1,529	-2,350	3,128	-2,617	5,574	2,779	3,718	2,439	3,923	2,527	-395	-4,256	3,800	-3,699	1,602	-2,149	-1,973	807
TARGET2 balance of the Slovak Republic as a ratio to NBS assets	-73%	-71%	-74%	-67%	-63%	-72%	-55%	-63%	-39%	-27%	-8%	5%	23%	33%	32%	16%	30%	16%	22%	12%	2%	7%

Funds accumulated in the Deposit Protection Fund as a ratio to the total amount of guaranteed deposits in the given quarter.
Funds accumulated from the special levy on financial institutions, pursuant to Act No 384/2011 Coll. as a ratio to the banking sector's total net assets in the given quarter.
Note: the darker colour in the first two lines indicates a greater probability of imbalances with relevance for macroprudential policy.

B) Countercyclical capital buffer

Deviation of the credit-to-GDP ratio from its long-term trend[5]

Chart 1 Credit-to-GDP gap

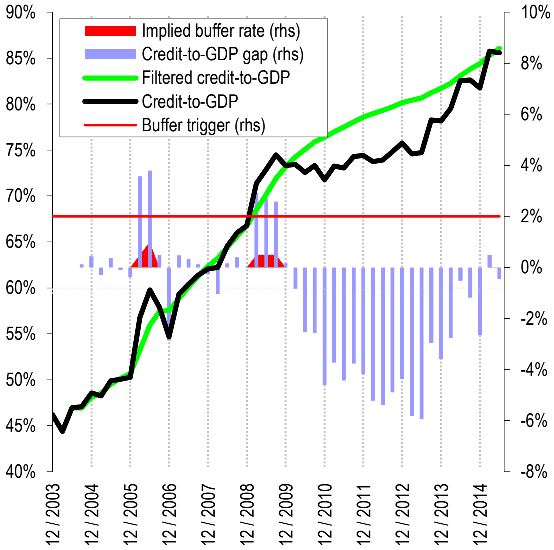
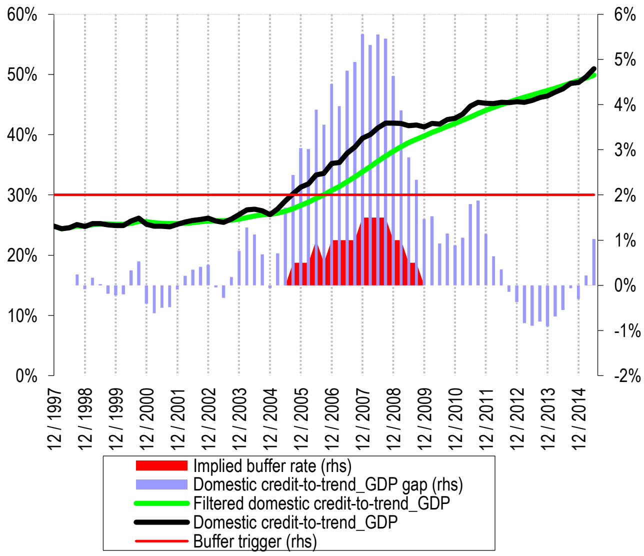


Chart 2 Domestic credit-to-GDP$_{trend}$ gap

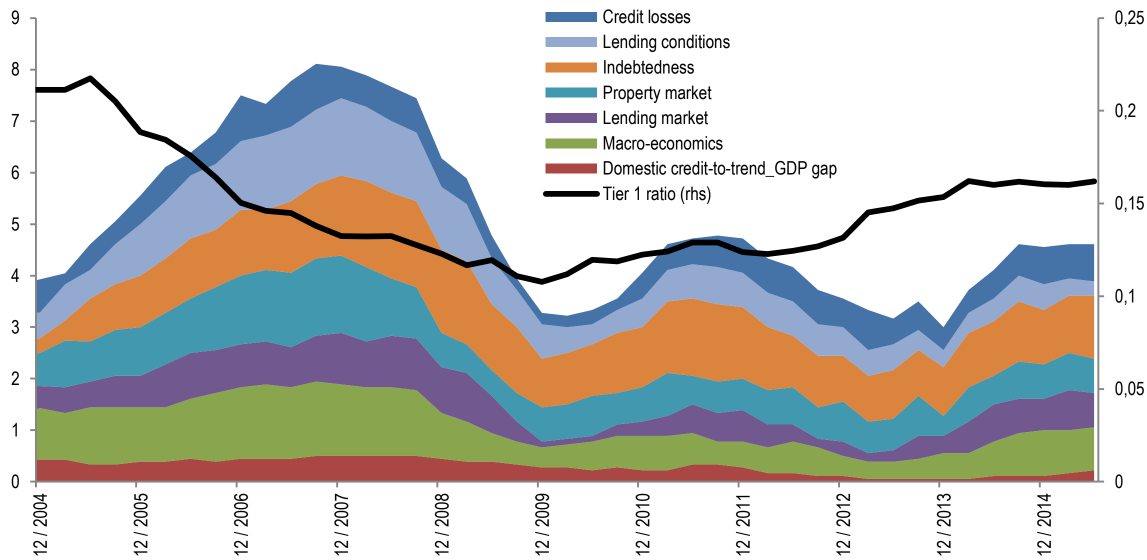


Countercyclical capital buffer trigger values and gap values are shown on the right-hand scale.
Source: NBS, SO SR.

Buffer guide for the countercyclical capital buffer[6]

Buffer guide basis	**Buffer guide as at 30 June 2015**
Credit-to-GDP gap	0%
Domestic credit-to-GDP$_{trend}$ gap	0%

Chart 3 Cyclogram[7]



Source: NBS, SO SR and CMN.

[5] Ratio pursuant to Article 33g(2)(a) of the Banking Act.
[6] Obligation laid down in Article 33g(2) of the Banking Act; calculation made in accordance with ESRB Recommendation No ESRB/2014/1 of 18 June 2014 on guidance for setting countercyclical buffer rates.
[7] Pursuant to Article 33g(1c) of the Banking Act.