Quarterly Commentary on Macroprudential Policy

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SUMMARY OF THE NBS BANK BOARD'S DECISION

ON THE SETTING OF THE COUNTERCYCLICAL CAPITAL BUFFER RATE

Buffer rate not to be raised as previously planned	• The economy is expected to contract in 2020 with adverse consequences for the financial and credit markets • The Slovak banking sector currently has sufficient capital and liquidity • Measures taken by the ECB and NBS to reduce capital requirements are supporting bank lending to the real economy
Buffer rate decision	• The buffer rate remains at 1.50%, and the previous decision to raise it to 2.00% from 1 August 2020 is repealed
The financial cycle	• The financial market was slowing even before the onset of the current crisis • Data on developments since the crisis erupted have not yet been incorporated into the Cyclogram indicator • Going forward, the Cyclogram is expected to decline due to risk materialisation and declining economic and financial activity • The banking sector is not yet reporting any significant credit losses, nor is it expected to in the near term
Outlook for the next quarter	• In the event of a potential acceleration in banks' loan-loss provisioning and the risk of banks making sizeable losses, NBS will reduce the buffer rate with immediate effect

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Introduction

The Slovak financial sector is now having to deal with the serious repercussions of the coronavirus (COVID-19) pandemic. The outbreak of the virus and the necessity of adopting urgent measures to contain its spread had an almost immediate adverse impact on economic activity and the financial market. The crisis came at a time when the Slovak banking sector's capital position was relatively strong. For now, domestic bank lending is not being constrained by capital requirements or liquidity requirements. Current developments, together with the present situation in the financial market and related risks (analysed in more detail below), resulted in a change in the settings of the countercyclical capital buffer rate. A previous decision to raise the rate to 2% from 1 August 2020 was repealed, and the rate will remain at 1.50% beyond 1 May 2020.

A sound financial system is a prerequisite for a well-functioning economy and sustainable economic growth. The financial sector fulfils certain basic and vital functions in the economy (providing financing, enabling saving and investment, operating payment systems, etc.). A financial system cannot be sound unless it is stable, i.e. the financial sector is sufficiently resilient to potential shocks and risks that could in certain circumstances disrupt the sector's functioning and thus have adverse repercussions on the economy. The purpose of macroprudential policy is to deploy various tools to support financial stability, mainly by increasing the financial system's resilience and by mitigating the build-up of systemic risks. To that end, macroprudential policy aims to identify, monitor, assess and reduce systemic risks to the financial system.

The purpose of the Quarterly Commentary on Macroprudential Policy (QCMP) is to monitor current developments in the financial market – focusing mainly on the credit market – and to evaluate systemic risk trends related to these developments. In this edition of the QCMP, the quantitative and qualitative assessment is based on the information available for the fourth quarter of 2019, as well as information available as at the end of April 2020. The Bank Board of Národná banka Slovenska (NBS) regularly refers to the QCMP when taking its quarterly decision on the setting of the countercyclical capital buffer (CCyB) rate. The QCMP's analytical assessment may also be referred to for decisions on activating or changing other macroprudential policy instruments. The document is divided into three parts:

(i) a brief analysis and evaluation of the most significant systemic-risk-related developments which occurred during the quarter under review;

(ii) the current setting of, and any changes to, macroprudential policy instruments, including the latest decision on the setting of the CCyB rate;

(iii) annexes.

1 Assessment of trends in Q4 2019 and in early 2020

Even before the onset of the current crisis, the financial cycle's expansionary trends had been easing. Private sector loan growth slowed in the fourth quarter of 2019. As global demand cooled, the Slovak economy decelerated notably in 2019, and its year-on-year growth rate in the fourth quarter was down to 1.9%.[1] The economic slowdown did not, however, have a significant impact on the labour market, which even at the end of 2019 was showing signs of overheating. Economic sentiment was picking up slightly in the latter part of the year, which indicated a certain optimism and expectations that the economy could come through the current slowdown without experiencing any significant downturn.

A turning point came, however, at the beginning of March 2020, when the first case of the coronavirus (COVID-19) appeared in Slovakia. It very quickly became apparent that Slovakia would not avoid the headwinds of the pandemic. The measures taken to contain the spread of the virus had an almost immediate adverse impact on the economy. Many firms reported a sharp drop in sales, as the lockdown measures, as well as the drop-off in demand, resulted in them having to reduce or shut down their operations. The services sector was hardest hit, but the manufacturing sector also saw a significant reduction in activity, especially with all four of the country's car plants implementing temporary shutdowns. These developments are expected to weigh on household consumption, which up to now has been a stable component of economic growth. In the context of such events, it may be expected that investment and exports will also decline sharply and that the Slovak economy has already fallen into recession. According to NBS estimates, the Slovak economy could contract by as much as 9.3% in 2020. Such a downturn will most certainly have adverse consequences for the labour market, which has so far been resilient to cooling trends.

During the financial cycle's expansionary phase, macroeconomic developments were one of several channels of financial market

[1] Data adjusted for seasonal effects (source: SO SR).

overheating, along with the credit market and the property market; now, by contrast, macroeconomic developments are the main driver of the financial cycle downturn. The cycle's current downturn therefore stems mainly from the real economy. This crisis is not a product of the financial sector, and its primary impact will be on the economic situation of the corporate sector and households, with an uptrend expected in the number of failing business and number of unemployed. Such a situation will, however, have negative implications for the financial sector, as the economic entities affected by the crisis will have difficulty in servicing their financial and credit liabilities. On the other hand, the introduced loan repayment moratorium is expected to provide temporary relief to borrowers and therefore reduce the banking sector's potential losses. At the same time, loan demand is expected to decline in the current climate of increasing uncertainty. The banking sector is also, however, changing its behaviour and taking a more cautious approach to lending. It is likely that heightened risk aversion will cause a slowdown in loan growth in the near term. The elevated uncertainty in financial markets has already been reflected in falling markets,[2] high volatility, and increasing risk premia. The resulting fall in asset prices may lead investors to pull out investments and close positions, and make them less willing to invest.

The annual growth rate of loans to the private sector[3] was already moderating in 2019, before the onset of the current crisis; in the fourth quarter it stood at 6.5%, 2 percentage point below its level for the same period of the previous year. Private sector indebtedness remained flat in the fourth quarter of 2019, at 93.4% of GDP. Both lending to households and lending to non-financial corporations moderated during 2019, but whereas household loan growth was still excessive at the end of the year, at 8% year-on-year, NFC loan growth, at 3.6%, was close to the level implied by fundamentals.[4] In the case of household loans, their growth rate was tempered mainly by the saturation of certain market segments and by a gradual tightening of macroprudential measures,[5] while the slowdown in NFC loan growth was affected more by the demand side. In the first months of 2020[6] there were no significant changes in the household loan market; in both January and February the annual growth rate of total household loans was just above 8%. During the same period, annual growth in NFC loans was close to

[2] At the beginning of April 2020 the S&P 500 index was more than 20% below the level at which it started the year, and the EURO STOXX 50 was almost 30% below.

[3] Loans provided by domestic banks to the household sector (S.14 and S.15) and the non-financial corporations sector (S.11) in Slovakia (source: banks' statements - V (NBS) 33 - 12).

[4] Corporate sales and GDP.

[5] A tightening of the loan-to-value (LTV) ratio limit and the introduction of a debt-to-income (DTI) ratio limit with effect from 1 July 2019.

[6] NBS introduced new measures that will be phased in gradually. The regulatory limit on the debt service-to-income (DSTI) ratio was reduced from 80% to 60% subject to a number of exceptions. The application of these exceptions will be gradually tightened during the first half of the year.

3%. It may be expected, however, that the credit market will begin seeing changes in subsequent months, with lending to households in particular expected to moderate significantly. In addition, those firms and households which have suffered loss of income may find it difficult to repay their loans.

Property market trends did not change in the last quarter of 2019 or the first months of 2020, with the expansionary tendencies maintaining a certain inertia. The average price of existing flats increased, year on year, by 9.6% in the fourth quarter and kept a similar pace of growth in the first two months of 2020. The year-on-year increase in the number of flats on the market remained unchanged in the fourth quarter (at 2%), while in the first two months of 2020 it was more than one-tenth lower. Following the onset of the coronavirus crisis, the property market may also be expected to cool significantly, as the combination of heightened uncertainty and reductions in many households' income are likely to result in reduced demand for new housing. At the same time, several banks have tightened their credit standards.

The crisis came at a time when the Slovak banking sector's capital position was relatively strong. The aggregate total capital ratio of the Slovak banking sector was by one-third higher at the end of 2019 – at 18.2% of risk-weighted assets – than it was on the eve of the 2008 crisis. The bulk of the sector's capital (amounting to 16% of risk-weighted assets) comprised the highest-quality Common Equity Tier 1 (CET1) capital. There is cross-bank heterogeneity in the area of capital adequacy, with five percentage points separating the highest and lowest total capital ratios among individual banks. In this context, capital buffers have a significant role to play, and it was through them that the banking sector managed to maintain and increase its capital in previous periods. Their main purpose is to cover potential losses that may begin gradually to appear in the banking sector as a result of an incoming crisis. They are also important for maintaining the banking sector's core functions, in particular lending to the real economy.

In 2008 banks' first line of defence against emerging credit losses were their profits, but today banks may rely on their profits to a far lesser extent. Even before the onset of the current crisis, the business model of Slovak banks was coming under severe strain. The prolonged low interest rate environment has substantially eroded the banking sector's margins, which are now at a historical low, around one-third lower than they were in 2010. Banks have sought to address this situation by expanding their lending activity, but not even the growth of their loan books has been sufficient to offset interest margin compression and to maintain profit growth levels. The banking sector's net after-tax profit for 2019 was largely unchanged from the previous year; the profit of €643 million represented a year-on-year increase of 0.5%. In terms of return on equity (ROE), however, the sector's profitability has declined significantly; its ROE for 2019 was 8.5%, 0.7 percentage points below its 2018 level and 8.5 percentage points below the level it was at before the 2008 crisis. At the same time, the doubling of the bank levy as from January 2020 has further burdened the sector's financial performance this year, since the levy is set as a percentage of total liabilities, irrespective of the sectors profit or loss.

The Cyclogram, a composite indicator of the domestic financial cycle, showed that financial market pressures were gradually moderating even before the onset of the current crisis. The Cyclogram's level was falling from mid-2018, and the benchmark buffer rate based on this indicator ended 2019 at 1%. The Cyclogram's decline stemmed mainly from weaker loan growth and from a deterioration in economic sentiment in response to the economic slowdown. The decline indicated that build-up of financial market risks was moderating from summer 2018, when the financial cycle peaked. The impact of developments resulting from the COVID-19 outbreak are expected to have a significant downward impact on the Cyclogram in subsequent quarters. The sole purpose of the Cyclogram is to serve as guide for decisions on whether or not to increase the CCyB rate. Hence the indicator's decline does not automatically imply that the CCyB rate needs to be reduced, only that the build-up of risk in the credit and financial markets has moderated. The risks already accumulated are concentrated in the banking sector's loan book, and they will be removed either via the long-term gradual repayment of loans provided under more relaxed lending and financial conditions, or by the defaulting of loans, though that is an undesirable outcome. This is why decisions to reduce the CCyB are based on indicators other than the Cyclogram and the benchmark buffer rate based on it. In our case, these indicators are the loan-loss provisioning rate and the loan default rate.

The uptrend in the build-up of financial market risks ended with the onset of the current crisis. There is now a heightened prospect of these risks materialising within quite a short time. The risks going forward therefore relate to the questions of how long the coronavirus crisis and accompanying lockdown will last and how severe the impact on the economy and financial market will be. The loss of income and deteriorating financial position of many households and firms will have implications for credit relationships and the servicing of debts. According to the latest available data,[7] the loan-loss provisioning rate and default rate remain at low levels; hence the banking sector has not yet reported any significant credit losses. **More recent events indicate, however, that the coronavirus crisis may have an adverse impact on the financial sector. In this context, NBS plans to step its monitoring of the overall situation as well as of developments in loan defaults and loan-loss provisioning. Should this monitoring reveal a potential acceleration in**

[7] As at December 2019.

bank's loan-loss provisioning and the risk of banks making sizeable losses, NBS will reduce the CCyB rate.

ECB and NBS measures to contain the effects of the coronavirus crisis

In response to the coronavirus crisis, both the European Central Bank (ECB) and Národná banka Slovenska have adopted several measures to mitigate the impact of the crisis on the banking and financial sector and to preserve the essential functions of the banking sector. On 12 March the ECB announced[8] relief measures for the banking sector, which included the following: **i) allowing banks to operate temporarily below the level of capital defined by the capital conservation buffer (CCoB); ii) allowing banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance; iii) allowing banks to partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital to meet the Pillar 2 Requirements (P2R).** These measures provide the banking sector **with capital relief amounting to between 2.5% and 3.5% of risk-weighted assets.**

For the Slovak banking sector, this reduction in the minimum capital requirement has freed up capital amounting to around €1.25 billion. In the current situation, with the banking sector not as yet experiencing extraordinary lending losses, this freed-up capital represents a boost to banks' lending capacity.

This is because the provision of a loan requires not only the decision of the bank and borrower to enter into a credit relationship, but also compliance with regulatory requirements, especially in regard to capital. The amount of freed-up capital (€1.25 billion) is theoretically sufficient to support lending to NFCs and households until 2024 (assuming loan growth at 2019 levels). This freed-up capital does not, however, guarantee the continuance of lending growth at, for example, its 2019 level. In the crisis year of 2009, loan growth in Slovakia decelerated mainly because borrowers and banks were wary of entering into new credit agreements and not because banks were short of capital.

At the same time, European institutions (the ECB and EIOPA) and NBS **have recommended that banks and (re)insurers refrain from making dividend distributions and performing share buy-backs. The freed-up capital should be used exclusively to cover the impact of the coronavirus crisis on the financial sector and to maintain the sector's key activities during this period; it should not be used for dividend policy purposes.**

[8] https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200312~45417d8643.en.html

As regards liquidity, it will be possible in justified cases to temporarily **reduce the liquidity coverage ratio (LCR).**

In addition, borrowers now have the right, in justified cases, **to have their loan repayments deferred** by up to nine months (without charge). At the same time, **the method of provisioning will be modified in order to temper any excessive increase in provisions, which would only be temporary in nature. The deferral of repayments due to the pandemic will not lead to an increase in non-performing loans, or an increase in provisioning; nevertheless, risk assessments of individual loans will continue to be required.**

In the view of NBS, the measures taken so far are providing the banking sector with the scope and flexibility to deal with the repercussions of the crisis. Given, however, developments in recent weeks and the fact that most banks have consequently decided to retain a significant share of their earnings for 2019 in order to strengthen their capital adequacy, NBS does not see any need to implement the CCyB rate increase previously scheduled for 1 August 2020.[9] Regarding the capital freed up by not increasing the CCyB rate, NBS expects banks not to use it for dividend payments and share buy-backs, but rather for preserving their capital resilience and maintaining the essential functions of the banking sector. At present, the banking sector's capital is sufficiently in excess of minimum capital requirements and there are no signs of banks experiencing liquidity problems. Banks' lending activity is not currently constrained by either capital or liquidity requirements.

Národná banka Slovenska will be closely monitoring developments in the financial and credit markets in regard to the effects of the coronavirus crisis and will react promptly to any market signals or needs identified during this monitoring. If risks are found to be materialising, the NBS may decide to reduce or release the countercyclical capital buffer with immediate effect, if necessary outside its regular quarterly decisions on the CCyB rate.

[9] Under NBS Decision No 15/2019 of 23 July 2019.

2 Macroprudential policy decisions

2.1 Latest NBS decision taken with respect to developments in the quarter under review

At its meeting on 28 April 2020, the NBS Bank Board decided to keep the countercyclical capital buffer (CCyB) rate unchanged at 1.50% and repealed an existing decision to increase the rate to 2.00% as from 1 August 2020.[10]

Having regard to the fact that the buffer is supposed to be increased when credit growth is excessive and imbalances are therefore building up, the Bank Board decided to repeal the decision to increase the CCyB rate mainly on the grounds that excessive credit is no longer present and that risks are gradually shifting from an accumulation phase to a materialisation phase.

Another reason why the Bank Board decided not to proceed with CCyB rate increase was the fact that most banks in Slovakia have decided not to pay dividends for 2019 and to retain earnings for that year in order to strengthen their capital position.

The Bank Board has for now left the CCyB rate at 1.50%, mainly because no significant losses are currently being reported in the Slovak banking sector and because banks currently have more than sufficient excess capital to fund further growth in lending to NFCs and households. Given that borrowers now have the option to defer their loan repayments by up to nine months – a measure that NBS welcomes – non-performing loans are not expected to increase significantly in the near term. At the same time, regulatory requirements for related loan-loss provisioning are being eased. On the other hand, if the economic situation does not improve significantly while these measures are in force, loan losses could have a weightier impact in the subsequent period. Therefore, key factors in regard to a possible further reduction in the CCyB rate are flexibility and speed, as well as close monitoring of the situation and the related exercise of due caution.

[10] The increase was approved by the Bank Board under NBS Decision No 15/2019 of 23 July 2019.

The impact on banks' resilience and lending capacity of the decision to leave the CCyB rate at 1.5% must be seen in the context of the following facts:

1. As at 31 December 2019 all banks in Slovakia were comfortably meeting capital requirements (through their CET1 capital ratios, total capital ratios, and leverage ratios). The banking sector's capital in excess of regulatory requirements stood at **€834 million.**
2. As a result of the majority of banks retaining their earnings for 2019, the sector's excess capital increased in March 2020 to approximately **€1.4 billion**.
3. Following the ECB's easing of capital requirements, the Slovak banking sector's excess capital increased to approximately **€2.67 billion.**
4. The release or reduction of the CCyB for exposures in other countries moderately increased the excess capital to **€2.69 billion.**

The banking sector's excess capital therefore came under upward pressure from two sides. On the one hand, banks' retention of earnings for 2019 increased their capital (by around €582 million), while, on the other hand, the ECB's measures reduced the charges on banks' capital (by around €1.25 billion).

Increasing the CCyB rate from 1.50% to 2.00% from August 2020, as was originally planned, would have tied up capital amounting to around **€159 million.** Hence the decision to leave the rate at 1.50% can be seen as having freed up that amount of capital. The aggregate amount of capital that banks need to meet the current 1.50% CCyB rate is still around **€476 million**, which gives the NBS Bank Board room for manoeuvre in the period ahead.

In taking its decision on the CCyB rate, the NBS Bank Board gave due consideration to the views of the European Central Bank (ECB) in accordance with Article 5 of the SSM Regulation.[11]

[11] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

2.2 NBS's current macroprudential policy instrument settings

Countercyclical capital buffer

Under NBS Decision No 6/2018 of 3 July 2018, the CCyB rate was set at 1.50% as from August 2019.[12] The Decision taken on 28 April 2020 repealed an existing Decision to increase the CCyB rate to 2.0% from 1 August 2020.

TABLE 1 COUNTERCYCLICAL CAPITAL BUFFER RATES FOR SLOVAK EXPOSURES

Period of application	Rate
1 August 2019 –	1.50%

Source: NBS.

An overview of current and future CCyB rate settings in other countries is given in Table 5 in the Annex.

Capital buffers for significant banks

Under NBS Decision Nos 5/2017 and 6/2017 of 30 May 2017, banks in Slovakia identified as 'other systemically important institutions' (O-SIIs) have been required since 1 January 2018 to maintain a total additional capital buffer (comprising an O-SII buffer and in some cases also a systemic risk buffer (SyRB)) of between 1% and 2% of risk-weighted exposures. Under NBS Decision Nos 3/2019 and 4/2019 of 28 May 2019, the total additional capital buffer requirements remained unchanged after 1 January 2020. In May 2020 a new Decision on the O-SII buffer rates and SyRB rates applicable in 2021 is expected to be issued.

[12] https://www.nbs.sk/_img/Documents/_Dohlad/Makropolitika/WEB_rozhodnutie_vankus__TRA-EN_July_2018.pdf

TABLE 2 OVERVIEW OF RATES FOR O-SII BUFFERS AND SYSTEMIC RISK BUFFERS		
	O-SII buffers effective from 1 January 2020	SyRBs effective from 1 January 2020
Československá obchodná banka, a.s.	1.00%	-
Poštová banka, a.s.	1.00%	-
Slovenská sporiteľňa, a.s.	1.00%	1.00%
Tatra banka, a.s.	0.50%	1.00%
Všeobecná úverová banka, a.s.	1.00%	1.00%

Source: NBS.

Regulatory conditions for retail lending

The current regulatory requirements for retail lending as laid down by the NBS Consumer Loan Decree, as amended,[13] and the NBS Housing Loan Decree, as amended,[14] are summarised in the following table:

[13] Decree No 9/2019 of Národná banka Slovenska of 17 November 2019 amending Decree No 10/2017 of Národná banka Slovenska laying down detailed provisions on the assessment of borrowers' ability to repay consumer loans, as amended by Decree No 6/2018 of Národná banka Slovenska.

[14] Decree No 10/2019 of Národná banka Slovenska of 17 November 2019 amending Decree No 10/2016 of Národná banka Slovenska laying down detailed provisions on the assessment of borrowers' ability to repay housing loans, as amended by Decree No 7/2018 of Národná banka Slovenska.

TABLE 3 REGULATORY LENDING LIMITS			
Indicator	Calculation	Parameter	Limit
Debt service-to-income (DSTI) ratio	$\frac{\text{total debt service obligations}^{1)}}{\text{net income – minimum subsistence amount}}$	Maximum DSTI ratio	60% [2)]
		Maximum share of new loans with a DSTI ratio > 60%	5% + 5% [3), 4)]
Loan-to-value (LTV) ratio [5)]	$\frac{\text{amount of loan}}{\text{value of collateral}}$	Maximum LTV ratio	90%
		Maximum share of new loans with an LTV ratio > 80%	20%
Debt-to-income (DTI) ratio	$\frac{\text{total debt}}{\text{annual net income}}$	Maximum share of new loans with a DTI ratio > 8	5% + 5% [6)]
Maximum maturity of loan		Loan secured by immovable property or provided by a home savings bank	30 years [7)]
		Other	8 years

Source: NBS.

Note: Compliance with the limits is checked only when granting a new loan, or when significantly increasing the total amount of an existing loan. The measures do not apply to loans that are to be used to refinance one or more existing loans, nor to loans that are to be topped up, provided that the amount of the loan applied for does not exceed €2000 or 5% of the outstanding amounts, whichever is lower.

1) The amount of loan instalments takes into account interest rate increases.

2) DSTI ratios may exceed 100% in the following cases:
- consumer loans where the sum of the loan applied for and the borrower's existing debt does not exceed the borrower's annual net income;
- leasing contracts that include a down payment of at least 20% and where the sum of the lease and the borrower's existing debt is not greater than 1.5 times the borrower's annual income.

3) The 70% DSTI ratio limit applies without additional conditions to the first 5% of new loans, and it additionally applies only to 5% of the total amount of consumer loans with a maturity not exceeding five years.

4) Transitional periods:
- First quarter of 2020: a DSTI ratio limit of 80% for up to 15% of all new loans + a DSTI ratio limit of 70% for up to 5% of consumer loans with a maturity not exceeding five years;
- Second quarter of 2020: a DSTI ratio limit of 80% for up to 5% of new housing loans and a limit of 70% for up to 5% of consumer loans + a DSTI ratio limit of 70% for up to 5% of consumer loans with a maturity not exceeding five years.

5) The limit applies only to housing loans.

6) For the first 5%, no additional conditions apply. For the second 5%, the loans provided must be housing loans, the borrower must not be older than 35 years, the borrower's income must not exceed 1.3 times the average wage, and the DTI ratio may not be greater than 9.

7) Up to 10% of new loans secured by immovable property may exceed this limit.

Other currently applicable macroprudential policy instruments, covering mainly the area of capital requirements, are listed in TabLE 4 to Table 6 in the Annex.

2.3 Potential application of macroprudential policy instruments over the medium term

Retail lending

Following the outbreak of the coronavirus crisis, the market for new loans to households has changed substantially. Demand has fallen sharply and there has also been a change of approach from banks, with lending conditions having become tighter in the recent period.

Národná banka Slovenska has adopted several measures in regard to retail lending (outlined above), the purpose of which is to contain the build-up of risks related to excessive credit growth. The first half of 2020 will see the phasing-in of changes to regulatory limits on the provision of housing loans and consumer loans in accordance with NBS Decree Nos 9/2019 and 10/2019.

One purpose of these measures is to increase the resilience of households, so that they are able to service their loans even during bad economic times. Such a time is now here, and we expect that household resilience will be stronger thanks in part to NBS measures.

In view of the significant rise in household sector risks, we do not at present consider it appropriate to ease the existing measures.

Expectations for the CCyB rate in the next quarter

In regard to the capital freed up by the decision not to increase the CCyB rate, Národná banka Slovenska expects banks not to use it for dividend payments and share buy-backs, but rather for preserving their capital resilience and maintaining the essential functions of the banking sector. At present, the banking sector's capital is sufficiently in excess of minimum capital requirements and there are no signs of banks experiencing liquidity problems. Banks' lending activity is not currently constrained by either capital or liquidity requirements. In this context, NBS will not take any decisions in 2020 to increase the CCyB rate.

Národná banka Slovenska will continue to closely monitor financial and credit market developments in regard to the effects of the coronavirus crisis and stands ready to respond immediately. An important indicator for any future reduction in the CCyB rate will be the state of credit losses or their potential to increase. Given the measures concerning loan repayment deferrals and changes in the recording of such loans, we do not expect any significant increase in the banking sector's credit losses in the short term. In the event of a potential acceleration in banks' loan-loss provisioning and the risk of banks making sizeable losses, NBS will reduce the CCyB rate with immediate effect, if necessary outside its regular quarterly decisions on the CCyB rate.

2.4 Recent ECB decisions concerning the Slovak banking sector

As of 22 April 2020, the European Central Bank had not issued any macroprudential policy decision concerning the Slovak banking sector.

3 Annex

TABLE 4 CAPITAL BUFFER RATES CURRENTLY APPLIED IN SLOVAKIA		
Macroprudential instrument	Value	Note
Capital conservation buffer (Article 33b of the Banking Act)	2.5%	
Countercyclical capital buffer rate (Article 33g of the Banking Act)	1.5%	
O-SII buffer (Article 33d of the Banking Act)[1]	0.5% to 1%	
Systemic risk buffer (Article 33e of the Banking Act)[2]	1%	

Source: NBS.
Notes:
[1] An O-SII buffer is applied to Československá obchodná banka, a.s., Poštová banka, a.s., Slovenská sporiteľňa, a.s., Tatra banka, a.s. and Všeobecná úverová banka, a.s
[2] A systemic risk buffer is applied to Slovenská sporiteľňa, a.s., Tatra banka, a.s. and Všeobecná úverová banka, a.s.

TABLE 5 COUNTERCYCLICAL CAPITAL BUFFER (CCYB) RATES CURRENTLY APPLIED TO EXTERNAL EXPOSURES (ARTICLES 33I AND 33J OF THE BANKING ACT) AND CHANGES SCHEDULED FOR THESE RATES IN COMING QUARTERS

	Country	30 Jun. 2019	30 Sep. 2019	31 Dec. 2019	31 Mar.2020	30 Jun. 2020	30 Sep. 2020	31 Dec. 2020	31 Mar.2021	30 Jun. 2021	Note
2020EEA countries	**Belgium**	0	0	0	0	0	0	0	0	0	↓ to 0% from 1 April 2020
	Bulgaria	0	0	0.5	0.5	1	1	1	1.5	1.5	↑ to 1% from 1 April 2020 and to 1.5% from 1 January 2021
	Czech Republic	1.25	1.5	1.5	1.75	1	1	1	1	1	↑ to 1.75% from 1 January 2020 and ↓ to 1% from 1 April 2020
	Denmark	0.5	1	1	0	0	0	0	0	0	↓ to 0% from 12 March 2020
	France	0	0.25	0.25	0.25	0	0	0	0	0	↓ to 0% from 2 April 2020
	Ireland	0	1	1	1	0	0	0	0	0	↓ to 0% from 1 April 2020
	Lithuania	1	1	1	1	0	0	0	0	0	↓ to 0% from 1 April 2020
	Luxemburg	0	0	0	0.25	0.25	0.25	0.25	0.5	0.5	↑ to 0.25% from 1 January 2020 and to 0.5% from 1 January 2021
	Germany	0	0	0	0	0	0	0	0	0	Repealed decision to ↑ to 0.25% from 1 July 2020
	United Kingdom	1	1	1	0	0	0	0	0	0	↓ to 0% from 11 March 2020
	Sweden	2	2.5	2.5	0	0	0	0	0	0	↓ to 0% from 16 March 2020
Non-EEA	**Iceland**	1.75	1.75	1.75	0	0	0	0	0	0	↓ to 0% from 18 March 2020
	Hong Kong	2.5	2.5	2	1	1	1	1	1	1	↓ to 2% from 14 October 2019 and to 1% from 16 March 2020
	Norway	2	2	2.5	1	1	1	1	1	1	↓ to 1% from 13 March 2020

Sources: ESRB and BIS.
Notes: The table shows only countries where a non-zero CCyB rate has been set.
The scheduled rates are based on decisions currently in force; they may, however, be changed by subsequent decisions.

TABLE 6 BUFFERS AND PARAMETERS WHICH ARE CURRENTLY APPLIED TO EXPOSURES TO FOREIGN COUNTRIES AND ARE ALSO APPLIED TO SLOVAK BANKS

Country	Macroprudential instrument	Value
Estonia	Systemic risk buffer (Article 33f of the Banking Act)	1%
Sweden, Romania	Risk weight for exposures fully secured by mortgages on commercial immovable property (Article 124 of the EU's 2013 Capital Requirements Regulation/CRR)	100%
Norway	Minimum value of the exposure weighted average loss given default (LGD) for all retail exposures secured by residential property and not benefiting from guarantees from central governments (Article 164 of the CRR)	20%

Sources: NBS and ESRB.

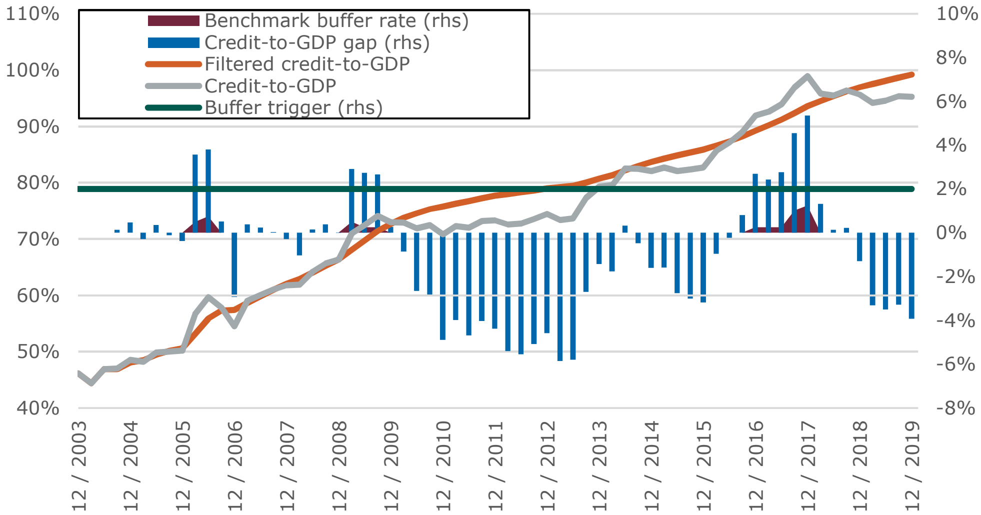
TABLE 7 MACROPRUDENTIAL MEASURES CURRENTLY IN FORCE IN OTHER EU COUNTRIES BUT NOT APPLIED TO SLOVAK BANKS ON GROUNDS OF LOW EXPOSURE

Country	Macroprudential instrument	Value
Belgium	A risk-weight add-on for retail exposures secured by residential immovable property located in Belgium, applied to banks using the internal ratings-based (IRB) approach (Article 458(2)(d)(vi) of the CRR)	5 p.p. + 33% of average risk weight
Finland	A floor for the average risk weight for exposures secured by residential immovable property located in Finland, applied to banks using the IRB approach (Article 458(2)(d)(vi) of the CRR)	15%
France	A tightening of the large exposure limit applicable to exposures to highly indebted large nonfinancial corporations having their registered office in France, applied to global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) (Article 458(2)(d)(ii) of the CRR) **In this regard, NBS warns that there are systemic risks associated with the increased leverage of large NFCs having their registered office in France**[15]	5% of eligible capital
Sweden	A floor for the average risk weight for the portfolio of retail exposures to obligors residing in Sweden secured by immovable property, applied to banks using the IRB approach (Article 458(2)(d)(vi) of the CRR)	25%

Sources: NBS and ESRB.

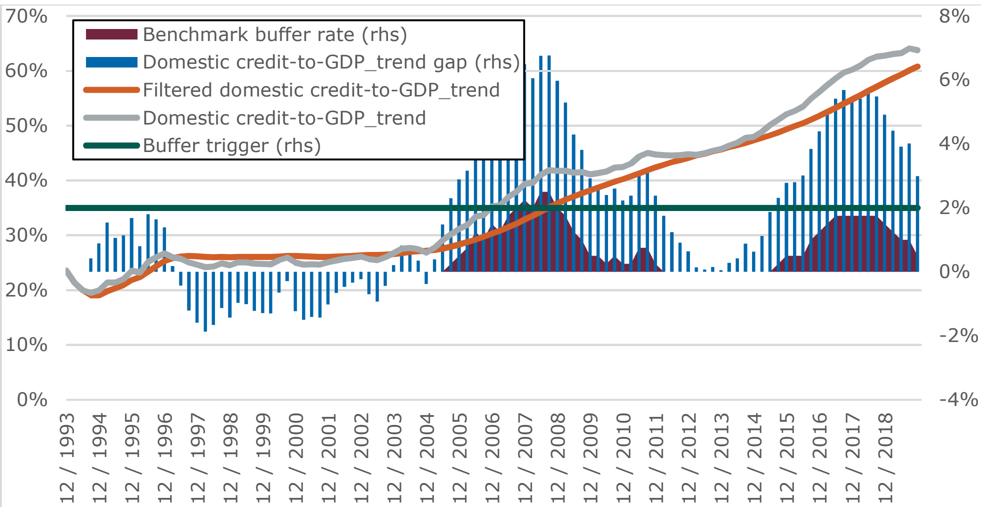
[15] Signalling in accordance with Recommendation ESRB/2015/2.

Chart 1
Standardised credit-to-GDP gap[16]



Sources: NBS and SO SR.
Notes: In the standardised credit-to-GDP gap, credit refers to the total outstanding amount of debt of NFCs and households.
The benchmark buffer rate is calibrated in accordance with Part 2 of the Annex to Recommendation No ESRB/2014/1.
The trigger value for a non-zero CCyB and the values of the 'gap' are shown on the right-hand scale.

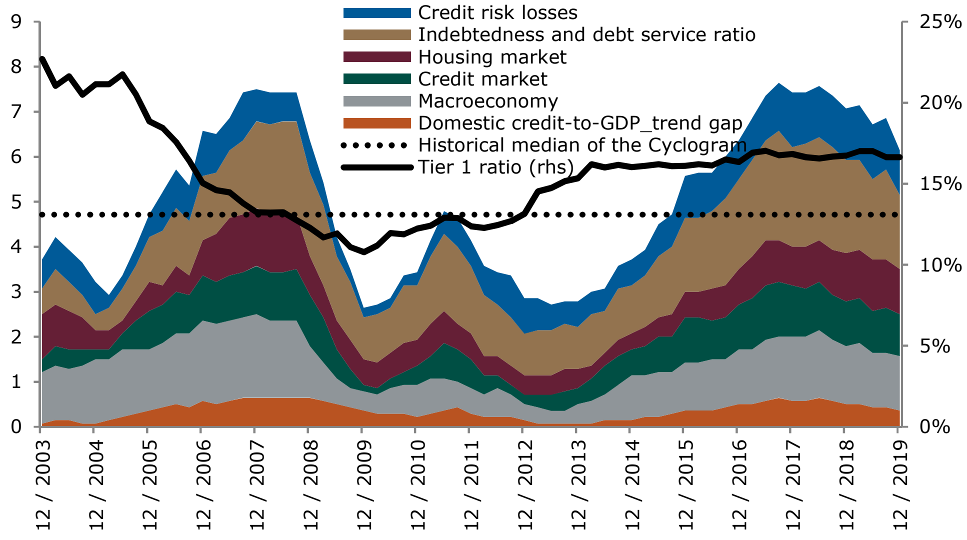
Chart 2
Domestic credit-to-GDP$_{trend}$ gap[18]



Sources: NBS and SO SR.
Notes: Domestic credit-to-GDP$_{trend}$ gap, domestic credit refers to total outstanding amount of credit provided by the domestic banking sector to NFCs and households.
Domestic credit-to-GDP$_{trend}$ gap is calculated in accordance with Article 33g(2a) of the Banking Act and with Recommendation B 2, of Recommendation No ESRB/2014/1.
The trigger value for a non-zero CCyB and the values of the 'gap' are shown on the right-hand scale.

[16] In November 2019 the Slovak Statistical Office (SO SR) conducted a periodical review of the national accounts time series. As a result – compared with the October 2019 Quarterly Commentary on Macroprudential Policy – there was a change in the quarterly GDP data used credit-to-GDP gap indicators. As a result historical values of relevant indicators have been adjusted.

Chart 3
Cyclogram



Sources: NBS, SO SR and CMN.
Notes: The indicator is calculated in accordance with Article 33g(1c) of the Banking Act and with Recommendations C and D of Recommendation ESRB/2014/1.

TABLE 8 HEADLINE INDICATORS FOR THE COUNTERCYCLICAL CAPITAL BUFFER AS AT 31 DECEMBER 2019

Indicator	Benchmark buffer rate	Credit-to-GDP ratio	Deviation of the creditto-GDP ratio from its long-term trend
Standardised credit-to-GDP gap (Chart 1)	0.00%	95.3%	-3.93%
Domestic credit-to-GDP$_{trend}$ gap (Chart 2)	0.50%	61.9%	2.99%
Cyclogram (Chart 3)	1.00%	-	-

Source: NBS.
Notes: The table is compiled on the basis of requirements arising from Article 33g(2) of the Banking Act and in accordance with Part II of the Annex to Recommendation ESRB/2014/1.
Owing to its short time series, the standardised credit-to-GDP gap does not yet provide a meaningful value for the countercyclical capital buffer.