# Macroprudential Commentary

March 2022

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

## Summary


- The financial cycle is in a strong expansionary phase.
- The housing loan growth reported by Slovakia was among the highest in the euro area. This growth was driven by strong household demand that reflected the impact of low interest rates, rising property prices and rising inflation.
- There was also notable growth in loans to non-financial corporations (NFCs), with increases in lending to both small and medium-sized enterprises.
- The most pronounced pressures are in the housing market. Housing prices accelerated sharply during 2021 and the number of flats advertised for sale continued to decline.
- The war in Ukraine has not so far had a major impact on the Slovak financial sector. It may, however, have indirect repercussions through an economic slowdown and volatility in global commodity and financial markets.

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### No change to the CCyB rate

Current developments are stoking a build-up of imbalances related to the financial cycle. Both household loan growth and NFC loan growth accelerated in the fourth quarter of 2021. Not only are low interest rates a strong driver of today's credit growth, so is the potential underestimation of risk, as reflected inter alia in the extending of loan maturities beyond the borrower's retirement age. The continuing growth in property prices has been a matter of increasing concern recently. Rising inflation has created additional incentives to take on debt at the expense of savings. With the coronavirus pandemic not having a serious adverse impact on the labour market and with wages continuing to grow, households have been inclined to increase their debt burden. There is now also increasing corporate demand for financing, both as working capital and for long-term investment purposes. Meanwhile, the war in Ukraine has not so far affected the Slovak financial sector. Should the war drag on, however, it could have an adverse impact through an economic slowdown and shocks in global commodity and financial markets.

The build-up of imbalances in the Slovak financial market is now significant. The countercyclical capital buffer (CCyB) rate is currently set at 1%, and since that rate allows for a rapid response to a materialisation of risks, Národná banka Slovakia (NBS) is leaving it unchanged.

### Expectations for the CCyB rate in the next quarter

The near-term macroeconomic outlook indicates that conditions supporting the build-up of imbalances may persist. Current trends that incentivise borrowing, including low interest rates, labour market developments and rising prices, are apparently set to continue. At the same time, the extent to which geopolitical risks in Europe spill over into the Slovak financial sector will be a key consideration.

If trends in the credit and housing markets do not change significantly and the overheating of the financial cycle continues, NBS will in the next quarter consider raising the CCyB rate in order to ensure the resilience of the Slovak banking system.

In its decision on the CCyB rate, NBS will take into account the risks to the Slovak banking system associated with the war in Ukraine. In case these risks increase, NBS stands ready to reduce the CCyB rate.

CCyB rate:
**1.0%**

## Household loan growth accelerated in late 2021 and early 2022

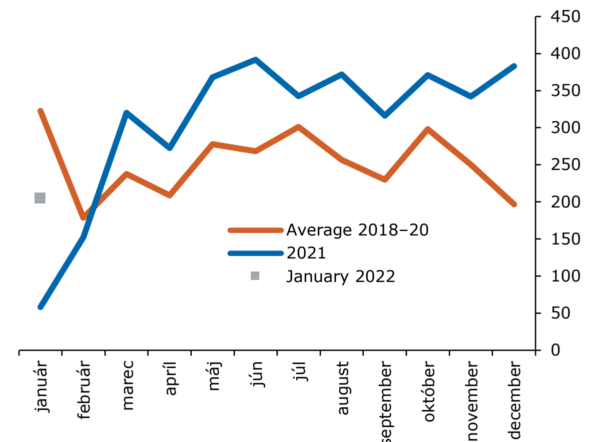
**In the household credit market, loan growth remains strong.** Growth in loans to households accelerated over the whole of 2021 and gained further momentum in early 2022. The annual growth rate climbed from 5.7% in January 2021 to 9.5%[1] in December of that year. Housing loans accounted for most of the growth and maintained a double-digit rate of increase from the summer onwards.[2] The growth rate of this portfolio has for a long time been among the highest in the euro area.[3] The accelerating loan growth stems from increasing property prices, rising inflation, and the still low level of interest rates.[4]

**The start of this year also saw a doubling of the volume of renegotiated loans.**[5] This development may be related to borrowers' concerns about a potential increase in interest rates in the period ahead and their efforts to secure favourable rate conditions. Although interest rate increases are not yet widespread, some banks are already taking this step. Nevertheless, interest rates in Slovakia still remain among the lowest in the euro area. The uptrend in loan prepayments become stronger in the latter part of 2021.[6]

The sharp decline in consumer credit interest rates, resulting from temporary marketing campaigns by certain banks, came to an end in early 2022. The average rate on new consumer credit was already 0.3 percentage point higher in February 2022 that at the end of 2021.[7] These rate movements, however, were not reflected in the amount of consumer credit, whose year-on-year rate of decrease continued to moderate gradually.[8] After falling throughout 2021, non-performing loan ratios stopped declining in January 2022.[9]

**Alongside an uptrend in credit growth, there are increasing risks associated with household indebtedness.** During 2021 the average debt of indebted households continued to grow faster than the incomes of these households.[10] That the debt service-to-income (DSTI) ratio remains stable is entirely due to the extending of loan maturities, which is resulting in an increasing share of loans that mature after the borrower's retirement age. The share of loans maturing after the borrower reaches 70 years of age is also increasing. This trend, however, means repayments are increasingly being shifted into retirement and heightens the risk of financial difficulties related to the borrower's lower income in retirement. This trend is most pronounced among middle-aged borrowers. NBS pointed out this risk in its most recent Financial Stability Report[11] and is now analysing ways in which to mitigate it.

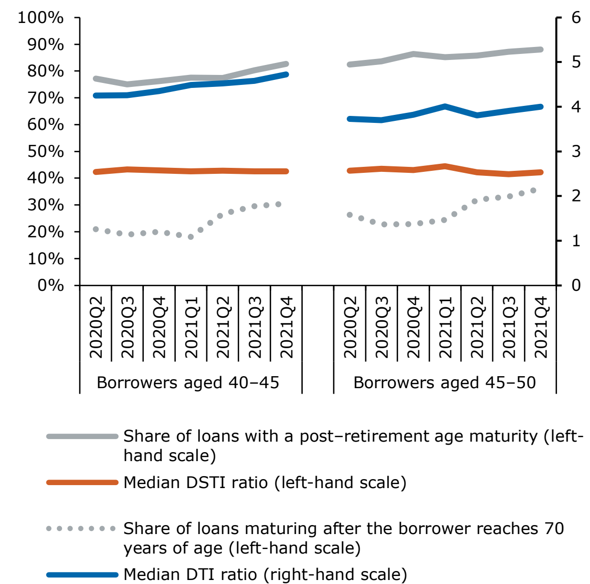
**Chart 1 Household loan growth is higher than it was before the pandemic crisis (percentages)**




Source: NBS.

Note: Data are adjusted for one-off reclassifications.

**Chart 2 The DTI ratio uptrend is related to the rising share of loans that have a post-retirement age maturity (DSTI ratios and the share of loans that mature after the borrower reaches 64 or 70 years of age; DTI ratios)**




Source: NBS.

Note: The Chart shows values corresponding the new mortgage loans originated in the given quarter.

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1 The annual growth rate of loans to households was 5.7% in January 2021, 8.8% in December 2021 and 9.5% in February 2022. In absolute terms, the portfolio increased from €2.2 billion in January 2021 to €3.8 billion in January 2022.

2 Their annual growth rate in February 2022 was 11.8%.

3 Its growth rate in December 2021 was the second highest in the euro area.

4 Interest rates on new housing loans averaged around 1.0% at the start of 2022.

5 The amount of renegotiated loans including a change to the interest rate fixation period averaged €374 million per month in 2021. For December 2021, the figure was €483 million, and for January 2022 it was already as high as €797 million.

6 The ratio of prepaid loans to the outstanding amount of loans stood at 1.4% in December 2021 and fell to 1.2% in January 2022 (the long-term average is 0.9%).

7 The average interest rate on consumer credit increased from 7.2% in December 2021 to 7.5% in February.

8 The annual rate of decrease was 4.2% in February 2022, down from 9.6% a year earlier.

9 For housing loans, the loan default rate edged up in January 2022, by 0.1 percentage point to 1.3%; for consumer credit, by 0.3 percentage point to 7.9%.

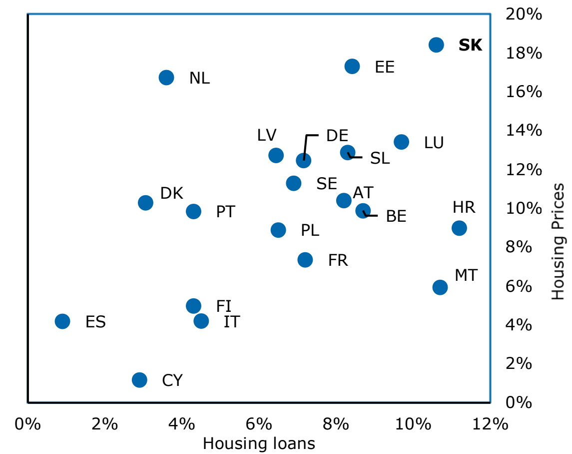
10 The average DTI ratio for 2020 and 2021 increased from 5.4 to 5.7.

11 The November 2021 Financial Stability Report.

## Faster growth in housing prices

**Accelerating credit market pressures characteristic of the expansionary phase of a financial cycle are currently most evident in the residential property market.** While prices of flats and houses were accelerating throughout 2021, their growth rate gathered pace in the second half of the year. It was twice as high at the end of the 2021 as at the beginning of the year.[12] For flats, the average price per square metre increased by one-fifth over the course of last year; for houses, by as much as one-third. The price growth acceleration continued in the first months of 2022, reaching levels not seen since the period between 2006 and 2008. Such levels of house price growth were among the highest in Europe.[13] The ready availability of credit owing to the persistent low interest rate environment is creating strong demand for property. At the same time, the financial situation of most households has improved in recent years despite the pandemic crisis.

**Chart 3 Accelerating growth in loans and property prices can be observed in several EMU area countries (percentages; percentages)**




Source: ECB.

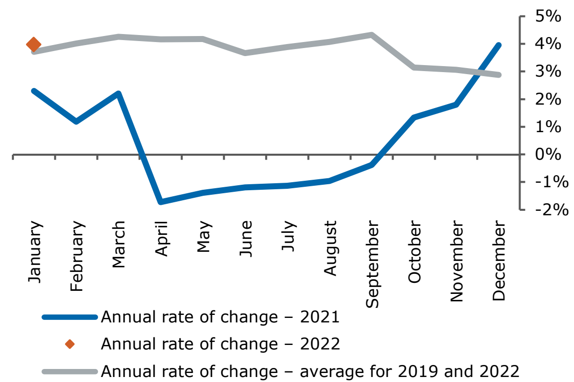
**On the other hand, the relatively steady inflow of new properties on to the market is not enough to meet the strong demand for such properties.** The supply of new-build flats in Bratislava was lower in late 2021 than at any time since monitoring began. Moreover, new-build prices are under considerable upward pressure from prices of building materials, which surged by one-fifth on average in 2021, and by shortages of skilled labour.[14] Hence the growth in new-build prices was approaching 20% by the year end. Price growth is being seen in all categories of housing, including, across existing flats of all sizes and in all Slovak regions.

**Amid such price growth, housing affordability declined in late 2021 and early 2022.** Against a backdrop of stable interest rates, property price growth significantly outpaced average wage growth. The average housing price therefore continued to increase faster than the estimated fundamental price. Property market pressures are gradually spilling over into the rental market, which during 2021 was gradually recovering from the effects of the pandemic crisis.[15] As of February 2022 not even Bratislava was recording a year-on-year decline in sublease prices. Most European countries are seeing an acceleration of property prices coupled with strong growth in housing loans. Several countries have already responded to risks associated with these trends by tightening their macroprudential policy tools.

## Corporate lending has increased, but its growth may be dampened by the war in Ukraine

**Besides the ongoing pandemic situation, firms faced additional risks in the last quarter of 2021.** The pandemic's third wave morphed into a fourth wave in first months of 2022. In the last quarter of 2021 firms continued to face, in addition to an adverse pandemic situation, rising prices of energy and intermediate inputs. Supply chain disruptions were gradually easing, so foreign trade picked up. In 2022, however, the war in Ukraine is bringing new risks to the corporate sector and also heightening existing risks.

**Chart 4 Corporate lending is gradually picking up (annual percentage changes)**




Sources: NBS, and Register of Bank Loans and Guarantees.

12 Annual growth in prices of flats increased, on average, from 8.6% in the first quarter of 2021 to 20.1% in the fourth quarter. For prices of houses, the corresponding increase was from 15.4% to 29.1%. Further confirmation of the surge in housing prices is provided by data from banks. The average value of mortgaged properties increased by 25% over the course of 2021.

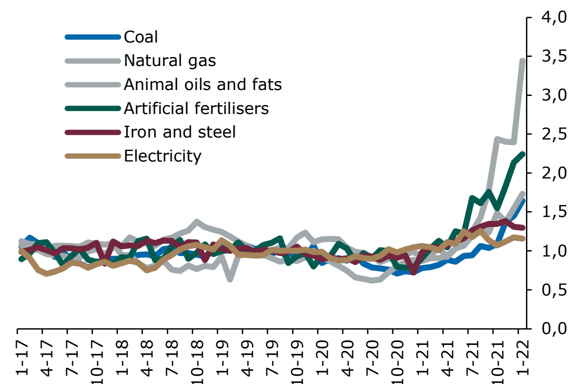
13 In the third quarter of 2021, Slovakia recorded the second-highest property price growth in Europe, after Lithuania (source: ECB).

14 Building material prices were 22.7% higher in December 2021 than in December 2020, and construction work prices were 6.8% higher (source: SO SR).

15 In January 2021 sublease prices fell slightly year on year, but in December 2021 their annual growth rate was almost 8%. Sublease prices increased in all Slovak regions except Bratislava Region.

**The annual rate of corporate revenue growth increased sharply in the last months of 2021.**[16] This surge was due to two factors in particular. The first was the gradual easing of supply chain bottlenecks, which was reflected in a recovery in several categories of goods exports, including motor vehicles. In previous months, component shortages had been preventing the finishing of products destined for export and therefore had the largest negative impact on revenues and foreign trade. By December 2021, however, the volume of exported goods was already back to the level of the previous December.

**Chart 5 Certain prices have recently been surging**
**(index: 100 = average for 2019)**



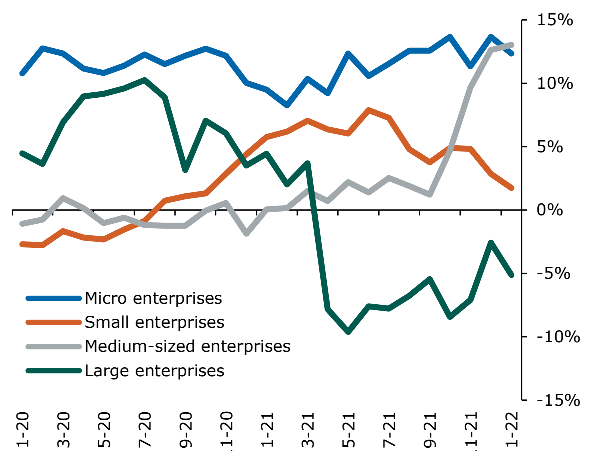

Sources: Statistical Office of the Slovak Republic, and NBS
Note: The unit import prices for individual months are calculated as the average for the given category.

The second factor was an increasing level of prices. With prices of most goods increasing, this inflation accounted for a significant part of foreign trade growth. In January 2022, exports recorded year-on-year growth of 17% and imports increased by more than 29%. Inflation, however, accounted for a major share of the foreign trade growth. If goods prices had remained unchanged year-on-year, the overall annual growth in exports would have been lower by 12 percentage points, while imports would have actually fallen slightly in year-on-year terms. The prices that increased most significantly were those of energy, certain raw materials, materials, and fuels. In this context, the sectors that contributed most to overall revenue growth were industry, sale of motor vehicles, wholesale trade, energy supply, and transportation and storage.

On the other hand, with the pandemic still ongoing, the sectors reporting worse revenue figures included mainly those that had been hardest hit by the repercussions of the pandemic crisis: food service activities; arts, entertainment and recreation; and selected market services.

**Growth in loans to non-financial corporations (NFCs) accelerated notably in the fourth quarter of 2021.** The annual growth rate of NFC loans was almost 4% in January 2022, more than four percentage points above its level in the third quarter of 2021. The credit growth was relatively broad-based and driven mainly by growth in loans for fixed investment and loans with a maturity of more than one year, as well as, later in the period, by short-terms loans. In international comparison, NFC loan growth in Slovakia was above the median for central and eastern European countries as well as above the EU average.

**Chart 6 Credit trend are heterogeneous across firm size categories (annual percentage changes)**




Sources: NBS, and Register of Bank Loans and Guarantees.

**Looking at the breakdown of corporate credit by firm size, various trends can be seen.** Loans to micro and medium-sized enterprises made the largest contributions to the year-on-year growth in NFC loans in the fourth quarter of 2021.[17] In the case of small enterprises, by contrast, lending growth slowed.[18] The rate of change in loans to large enterprises remained negative, owing mainly to developments in the volume of short-term loans.

[16] In year-on-year terms, corporate revenues increased in November and December 2021 by 8.9% and 9.7% respectively. Compared with September, when they increased by 1.8%, their acceleration was significant.

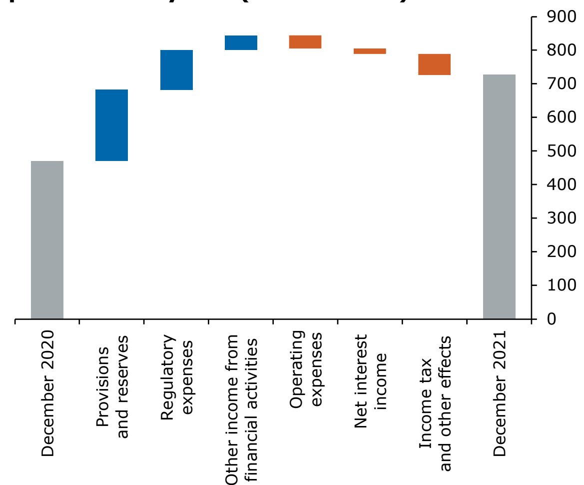
[17] Loans to micro enterprises have for a long time been growing by around 12% year on year. Annual growth in loans to medium-sized enterprises was 11 percentage points higher in December than in September, at 13%.

[18] Annual growth in loans to small enterprises slowed from 3.8% in September to 1.7% in December.

## Slovak banks recorded healthy profits in 2021

**Banks have managed to shake off the effects of the pandemic crisis, and their aggregate profit for 2021 was slightly higher than pre-crisis levels.** The banking sector's net after-tax profit for 2021 was €726 million, more than €90 million higher than its level in each of the two years preceding the pandemic. Banks benefited greatly from not having to create loan loss provisions to same extent last year as they did in 2020. With uncertainty surrounding the pandemic's adverse effects gradually receding and with default rates remaining low, banks' loan loss provisioning did not need to be as high as in pre-crisis years either, given that it had already been ramped up in the first year of the pandemic (2020). The reduction in provisioning accounted for more than three-quarters of the year-on-year increase in the banking sector's profit. Another contributing factor was the abolition of the bank levy in mid-2020. But while these two factors were largely responsible for the improvement in banks' financial results in 2021, they are not expected to have such an impact in the period ahead.

**Chart 7 The banking sector recorded its highest profit in four years (EUR millions)**




Source: NBS.

**Banks interest income fell again in 2021.**[19] Although credit growth was strong, interest income fell by almost one per cent in 2021.[20] Absent income from the third series of the ECB's targeted longer-term refinancing operations (TLTRO III), banks' interest income would have dropped by 3.5%.[21] The upcoming period is already expected to see a gradual reversal of what has been a downtrend in interest rates, but with borrowers seeking to lock in low interest rates, this turnaround will only slowly be reflected in banks' balance sheets, including in an increase in deposit interest expenses. In 2021, however, because of their increasing volume of new business, the banking sector managed to more than offset the decline in interest income with fee and commission income, which increased by 6.5% year on year.[22]

**During first two months of 2022 the banking sector's profit was still in growth territory, but in February it was 15% lower year on year.**[23] Compared with the previous February, banks increased their net provisioning, although it was some 40% lower than the level typical for the same period of earlier years.[24] Another factor behind the drop in profit was a decline in fee and commission income and slightly higher operating costs. Interest income, by contrast, recorded a slight year-on-year increase.

**Banks capital positions remained satisfactory at the end of 2021.** The banking sector's total capital ratio was 0.5 percentage point lower at the end of the year than at the end of the third quarter, at 19.8%; nevertheless, it remained above its pre-crisis level.[25] An increase in lending accounted for most (0.4 percentage point) of the capital ratio's decline, and a reduction in capital (resulting from one bank's payment of dividends) accounted for the rest (0.1 percentage point). Systemically important banks had a negative impact on the aggregate total capital ratio (-0.7 percentage point), while less significant banks had a positive impact (0.3 percentage points). Slovak banks nevertheless continue to have sufficient capital to maintain lending to the real economy.

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[19] After declining in each of the previous six years apart from 2018.

[20] Compared with the previous year, net interest income in 2021 was lower by 0.95% in relative terms and by €16 million in absolute terms.

[21] For banks participating directly in TLTRO III, the decline in net interest income adjusted for the effects of operations with the central bank; for banks not directly participating in TLTRO III, the decline in net interest income from operations linked to TLTRO III operations.

[22] Or €41 million in absolute terms.

[23] The banking sector's profit at the end of February 2022 was just under €80 million.

[24] The years 2018 and 2019.

[25] In both 2018 and 2019 the banking sector's total capital ratio was around the level of 18.2%.

# Box 1: The war in Ukraine's potential impact on the Slovak financial sector

**The war in Ukraine has not so far had a significant impact on the Slovak banking sector.** In the period just prior to the outbreak of the conflict, growth in both household and corporate credit was accelerating, and there are so for no signs of that trend having changed in the period since. The situation is similar in the residential property market, in which housing prices were also recoding strong growth in the early part of this year.

**On the other hand, adverse effects can be anticipated.** The war in Ukraine's impact on Slovak banks may be direct, through banks' exposures to the belligerents, and indirect, through the impact on the economy and financial markets (currency movements, rapid changes in financial asset prices, rising risk premia, etc.). Slovak banks follow a business model primarily focused on the domestic market; their cross-border exposures are relatively low, and they have no significant exposure to Russia, Belarus or Ukraine. The banking sector's overall direct exposure to any one of these countries at the end of 2021 did not exceed 0.1% of its total assets, and in the case of Belarus, the direct exposure was far lower than that. No Slovak banks hold securities issued by an issuer from any of the countries in question. Nor, on the other hand, do their liabilities (for example in the form of customer deposits) to customers from these countries represent a significant risk, given the low share of these liabilities and the possibility to obtain additional liquidity from the central bank. Consequently, the war's impact on Slovak banks will be mainly indirect, through the economy and financial market channels.

**None of the banks operating in Slovakia have an equity link with an entity in Russia,** so none of them are subject to the international sanctions and restrictions that have been imposed on Russia. Slovak banks are currently well capitalised and have even strengthened their capital position during the pandemic crisis. Therefore, not even the war's potential indirect effects are expected to significantly lessen the ability of Slovak banks to provide financing to the real economy.

**Other segments of the Slovak financial market have only minimal direct exposure to Russia and Ukraine.** The third pillar of the Slovak pension system has the highest such exposure, which, as a share of the net asset value (NAV) of the funds under management, was 0.5% at the end of January 2022. In both the second pension pillar and the investment fund sector, the share stood at 0.3%. In all these sectors, only a few funds had any exposure to the belligerent countries, and in most cases that exposure did not exceed 5% of NAV. The only exceptions were three investment funds in which the share was more than 10%. In each of the pension pillars, these exposures consisted entirely of Russian corporate bonds. In the investment fund sector, they included both Russian and Ukrainian corporate bonds and a roughly similar volume of equity exposures.

**Chart 8 How the war in Ukraine may affect the Slovak financial sector**

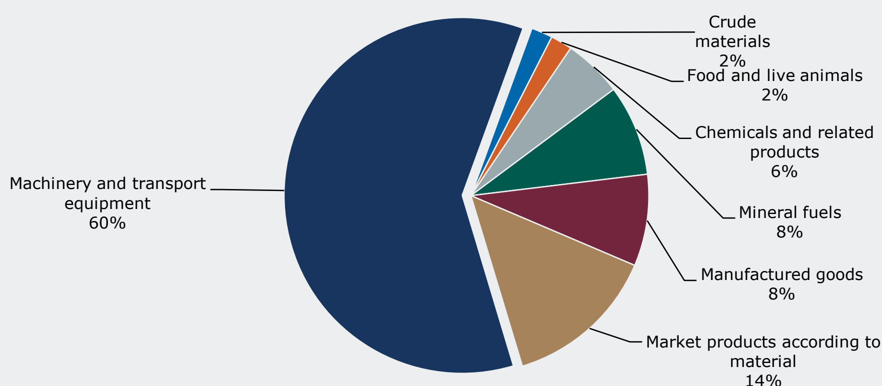
Source: NBS.

**The war in Ukraine could also affect the Slovak financial sector if the ability of domestic firms to service their debts is impaired by the restriction of their commercial ties with the belligerent countries.** The war in Ukraine has brought new risks to the corporate sector and, at the same time, will exacerbate existing risks. The war's primary impact on domestic firms is to significantly restrict their trade with the two warring sides. Firms with a direct trade exposure to one or both of the belligerents will be affected either via the war per se or by the sanctions imposed on the aggressor. The war has had an indirect impact in the form of a sharp rise in commodity prices as well as potential shortages of some commodities. As for secondary effects, as a result of the complexity and interconnection of global economic relations, the corporate sector may be severely affected by shortages of a wide range of goods and by sharp increases in their prices.

**Exports to what are now the belligerent countries[26] amounted to €1.8 billion in 2020, or around 2.5% of total exports.** Two-thirds of these exports comprise machinery and transport equipment. The largest part of that category consists of road vehicles, followed by industrial machinery and electrical appliances. Exports of industrial products and electricity are affected to a lesser extent. The firms directly affected by the war are therefore primarily in the sectors of industry, trade, and transportation and storage.

[26] Russia and Ukraine. From a foreign trade perspective, Belarus is not significant.

**Chart 9 Exports to the belligerent countries comprise mostly transport vehicles and industrial machinery (percentages)**



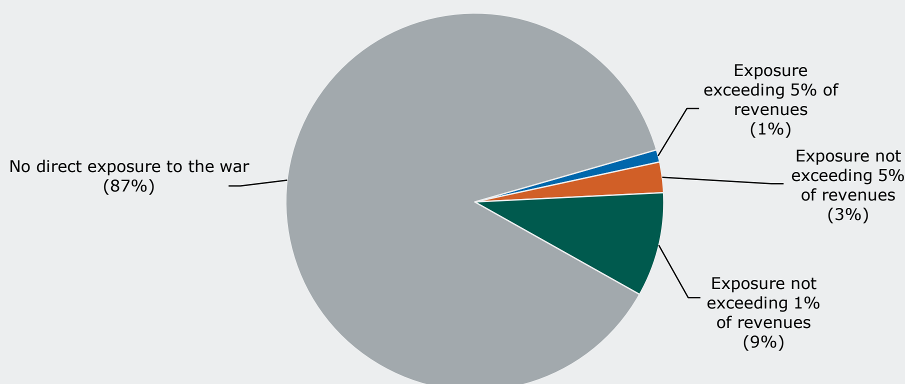

Sources: NBS, and Statistical Office of the Slovak Republic.

Note: The chart shows the decomposition of exports to the belligerent countries (Russia and Ukraine), according to the Standard International Trade Classification (SITC).

The domestic firms with the largest direct exposure to the belligerents are large enterprises, which are naturally more export-oriented. At the same time, however, these firms are less dependent on the war-affected markets. Almost one-fifth of Slovakia's large enterprises export part of their production to either Russia or Ukraine. That share becomes lower with decreasing firm size.[27] At the same time, however, the business activities of large enterprises are far more diversified than those of smaller firms. In the case of most large enterprises, their exports to the war-affected markets do not exceed 5% of their total revenues. By contrast, some micro and small enterprises are oriented almost exclusively on these markets, but such firms constitute only a fraction of the NFC sector.

**Looking at the domestic banking sector's corporate loan portfolio, almost 13% of the total is accounted for my loans to firms that export to the belligerent countries. However, only a small proportion of those firms report exports to these countries as a significant share of their total revenues.** Fully 96% of these loans are to firms whose direct exports Russia or Ukraine account for less than 1% of their annual revenues. There are, however, a number of firms whose exposure to the belligerents is more appreciable (with exports to the countries exceeding 5% of revenues). The banking sector's exposure to these firms is more than €250 million, i.e. around 1% of the overall corporate loan portfolio, and its exposure to firms whose exports to the belligerents exceed 20% of their revenues is negligible.[28] It must be added that the war's impact refers in this case to the direct effect of the prevention of trade with the countries in question; the overall impact may be greater owing to secondary effects, where the suppliers of these exporting firms are indirectly affected by the conflict.

**Chart 10 Prevention of access to the war-affected markets may directly affect certain firms, loans to which make up 3% of the total corporate loan portfolio (percentages)**




Sources: NBS, and Statistical Office of the Slovak Republic.

Note: The chart shows the corporate loan portfolio broken down by borrowers' direct business exposure to the belligerent countries. The category *No direct exposure to the war* denotes those borrowers who do not export any goods or services to these countries. Borrowers are divided into the other categories according to the share of their exports to these countries in their total revenues.

**Imports from the belligerent countries comprise mainly commodities.** As a share of the total value of Slovakia's goods and services imports in 2022, imports from Russia and Ukraine stood at 4.69% and 0.49% respectively. These imports consist mainly of oil and natural gas, followed by metals. Moreover, several of Slovakia's commodity imports are largely made up of imports from Russia. The largest such concentration is in imported natural gas, almost all of which comes from Russia. Russia also accounts for two-thirds of Slovakia's oil imports and almost 40% of its metal ore imports. There are other commodity and goods imports of which one-fifth are imported from Russia, but these items are less significant in the context of total imports.

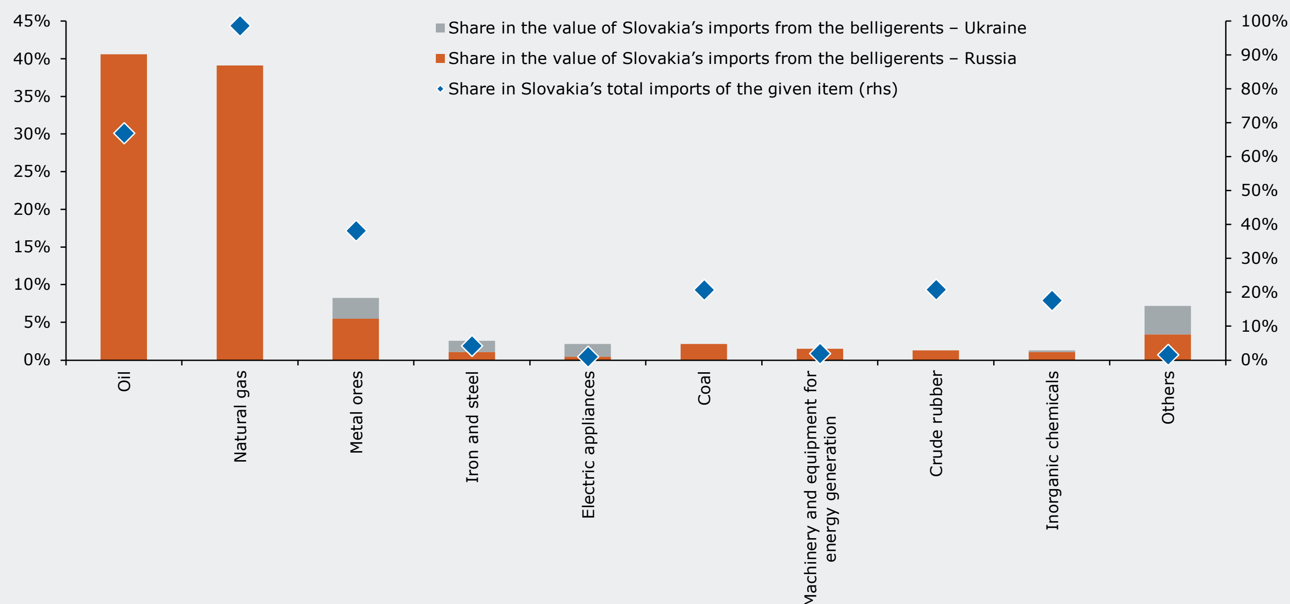
**Import restrictions could potentially affect a wide range of firms.** Direct restrictions on imports directly affect a slightly higher number firms than do those on exports. More than 92% of the corporate loan portfolio consists of loans to firms that do not import any

[27] Among medium-sized enterprises, the share stands at almost 8%; among small enterprises, less than 2%; and among micro enterprises, a negligible 0.1%.

[28] Lending to such firms amounts to €40 million, 0.2% of the total corporate loan portfolio.

goods or services from the belligerent countries. The banking sector's exposure to firms with a higher exposure to these countries (more than 5% of revenues) is, as with exports, negligible.[29] The war is causing a sharp increase in the prices of broad range of commodities or even their unavailability. As a result, firms may be forced to seek alternatives, which may be more time-consuming and costly. Component supply problems may also reappear. Elevated prices or shortages of energy and input materials, as well as component shortages, could put significant pressure on the corporate sector.

**Chart 11 Commodities constitute the bulk of Slovakia's imports from Russia, and Russia is the major source of several of the commodities that Slovakia imports (percentages; percentages)**

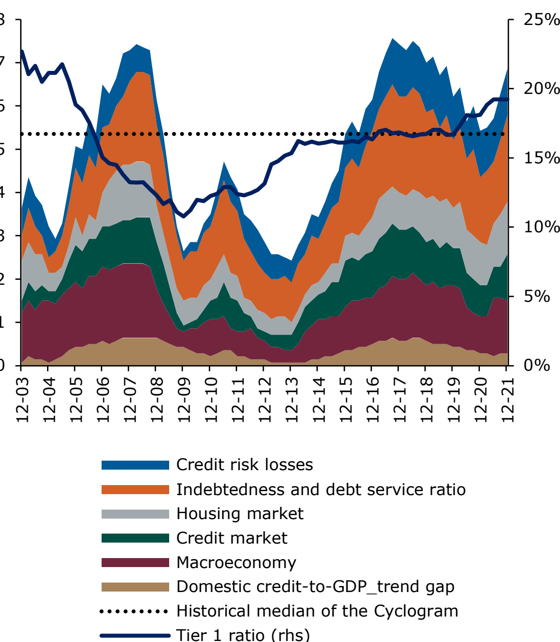



Sources: NBS, and Statistical Office of the Slovak Republic.

## Expansionary financial cycle trends strengthened towards the end of 2021

**The potential for a build-up of imbalances is currently high, owing to rapidly growing household borrowing, strong property price growth, and possible underestimation of risk.** The economy's recovery from the effects of the pandemic crisis is reflected in stable economic growth and falling unemployment. This trend, however, is accompanied by a resurfacing of pre-pandemic risks related to rising private sector indebtedness. Persisting low interest rates and rising inflation are incentivising households to take on debt. Growth in loans to households was accelerating throughout 2021, and NFC loan growth was also picking up in the latter part of the year. The property market is also experiencing strong pressures, including, during the period under review, not only strong growth in prices, but also an ongoing decrease in the number of properties advertised for sale. The long-running low interest rate environment and low default rate may result in existing risks being underestimated. The only factor putting downward pressure on the financial cycle upswing in late 2021 was a weakening of economic sentiment related to the pandemic's third wave. If current assumptions for future macroeconomic developments materialise,[30] the expansionary trends in the credit and housing markets may be expected to continue, with the possibility of an increasing build-up of imbalances in the period ahead. At present there is considerable uncertainty about the repercussions of the war in Ukraine on the financial cycle.

**Chart 12 Expansionary trends are strengthening noticeably (composite index; percentages)**




Source: NBS.
Note: Higher index values imply an intensive build-up of imbalances.

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[29] Loans to firms whose imports from the belligerents (Russia and Ukraine) exceed 5%, or 20%, of their total revenues account for 1%, or 0.2%, of the overall corporate credit portfolio.

[30] Národná banka Slovenska's winter 2021 forecast.

## A total of 12 European countries have so far approved a non-zero CCyB rate

**A strengthening of expansionary trends in the financial market can be observed across European countries.**[31] In the second half of last year in particular, several countries responded to a potential increase in risks related to financial cycle developments by raising their countercyclical capital buffer (CCyB) rate. In Norway, Denmark, Iceland, and the Czech Republic, the CCyB rate was increased to 2%; in Bulgaria, to 1.5%. Another four countries (Sweden, the United Kingdom, Estonia and Slovakia) either apply or are scheduled to apply a CCyB rate of 1%, while Germany decided in January of this year to raise its rate to 0.75%, and Luxembourg and Romania respectively apply and are scheduled to apply a rate of 0.5%. Therefore, the number of countries that apply or are scheduled to apply a non-zero CCyB rate is now close to the number that did so before the pandemic crisis.[32] The most frequent reason given for increasing the CCyB rate[33] is strong credit growth (especially growth in housing loans) and property market developments. At the same time, a number of countries[34] want to reach a target CCyB rate for non-crisis periods, a 'positive neutral' rate. Recent events in Ukraine have naturally increased EU countries' uncertainty and concerns that the war will lead to a materialisation of risks and potential losses.

**Chart 13 Several countries are gradually raising the CCyB rate**

Source: European Systemic Risk Board.
Note: Blue shading indicates countries with a non-zero CCyB rate, with the darker shading indicating a higher rate.

What´s new in the world of macroprudential policy

## Does the level of deposits matter for bank fragility and efficiency?

This is the question addressed in a recent study published by the ECB.[35] Using a model in which the bank-run probability is endogenous, The authors conclude that the reason for a panic-driven bank run is a determinant of deposit stability. Where runs are triggered by fundamental economic information about developments in the economic and financial sector, banks with more deposits are more fragile; there are increasing withdrawals of these deposits as depositors fear there will not be sufficient funds to repay them in the future. On the other hand, banks with more deposits are more stable when runs are driven only by panics, not based on real economic fundamentals. The existence of deposit insurance schemes plays a key role in this regard.

## How has the pandemic crisis affected the corporate leverage and financial health

According to a paper published by the IMF,[36] US firms' leverage (net debt as a share of totals assets) decreased by 5.3 percentage points from the pre-crisis mean of 19.6%, while debt maturity increased moderately. This deleveraging effect was stronger for firms that had a greater tendency to finance their operation through borrowing, while firms whose businesses were most vulnerable to lockdowns and other pandemic containment measures did not reduce leverage during the crisis and therefore became overleveraged. Default probability increased the most in large, overleveraged firms and those that were stressed before the pandemic. Additional stress tests indicate that that the default probability of these firms will be high (less than one standard deviation away from default) if their cash flows decline by 20%.

## To what extent does the soundness of the borrowing firm and lending bank affect the amount of collateral?

A paper by staff of the Italian central bank[37] examines how the degree of collateralisation in bank lending is affected by the financial soundness of the borrowing firm and lending bank, and how this situation in the euro area has changed during the pandemic crisis. Using a dataset of two million bank-firm level observations, the authors find that the degree of collateralisation is higher at financially stressed and lowly capitalised firms and that it increases further for these firms during downturns. In addition, they find that collateral policies tend to be tighter at banks that are more capitalised, even though such banks are typically less burdened by bad loans. The paper further confirmed the existence of an indirect link between bank soundness and risk-taking in bank lending, including during the pandemic crisis.

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[31] The ESRB responded to the situation by issuing recommendations and warnings to certain countries. The ECB at the level of the Financial Stability Committee is conducting discussion with several countries about the tightening of certain instruments.

[32] Before the pandemic broke out, a total of 14 European Economic Area (EEA) countries were applying or were scheduled to apply a non-zero CCyB rate. Among non-EEA European countries only the United Kingdom had a non-zero rate.

[33] Countries giving such reasons include, for example, Bulgaria, the Czech Republic, Germany, Iceland, Norway and Romania.

[34] Denmark, Estonia, Sweden and the United Kingdom.

[35] Leonello, A., Mendicino, C., Panetti, E. and Porcellacchia, D., "Savings, efficiency and the nature of bank runs", *Working Paper Series*, No 2036, European Central Bank, Frankfurt am Main, January 2022.

[36] Haque, S.M. and Varghese, R., "The COVID-19 Impact on Corporate Leverage and Financial Fragility", *IMF Working Papers*, No 265, International Monetary Fund, November 2021.

[37] Affinito, M., Sabatini, F. and Stacchini, M., "Collateral in bank lending during financial crises: a borrower and a lender story", *Banca d'Italia Working Papers*, No 1352, October 2021.