Macroprudential Commentary

March 2021

Summary

- Národná banka Slovenska (NBS) has decided to leave its countercyclical capital buffer (CCyB) rate unchanged at 1%.
- The pandemic crisis has not weighed significantly on credit growth. Housing loan growth remained strong in 2020 and, despite slowing, in early 2021. Growth in loans to non-financial corporations (NFCs) has actually accelerated slightly, despite firms experiencing a pronounced decline in revenues.
- Owing to the pandemic crisis, the banking sector's aggregate profit fell by one-quarter in 2020 over the previous year. This year has started more favourably, with banks not yet having increased their loan loss provisioning.
- The resumption of borrowers' loan repayments following the expiry of their pandemic-related moratoria on repayments has so far proceeded as expected – only around 5–6% of borrowers are having difficulty resuming their repayments. Among households and NFCs, the resumption difficulties concern mainly consumer loans and micro loans respectively. The households facing the greatest problems are those that already had an excessive debt service-to-income (DSTI) ratio before the crisis began.
- At the discretion of their bank, some borrowers have had their repayments deferred beyond the expiry date of their loan moratorium. Moratorium applications from new borrowers have increased only marginally.

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The CCyB rate remains unchanged

The last months of 2020 did not see any developments in the financial sector that warranted a change in the countercyclical capital buffer (CCyB) rate.

The previous reduction of the CCyB rate in 2020 fully covered an exceptional increase in loan loss provisioning. In other words, the CCyB started to fulfil its role in 2020, by fully absorbing the pandemic-related increase in credit risk costs.

Risks, however, remain elevated and may materialise as credit risk losses in the period ahead. For the time being, the Bank considers it appropriate to leave the CCyB rate unchanged at 1.0%, which allows leeway to respond to future adverse developments.

Banks' lending activity is not being constrained by capital requirements, as is evident from the favourable credit market trends. The banking sector is currently well capitalised and has capacity both for lending and for further provisioning if necessary.

Expectations for the CCyB rate in the next quarter

Going forward, loan delinquency trends will be important, as will the related need for loan loss provisioning. At the same time, however, Národná banka Slovenska will be closely monitoring whether banks' available capital is sufficient to ensure the smooth flow of credit to the real economy. Any reduction in the CCyB rate will be contingent on banks following conservative dividend policies.

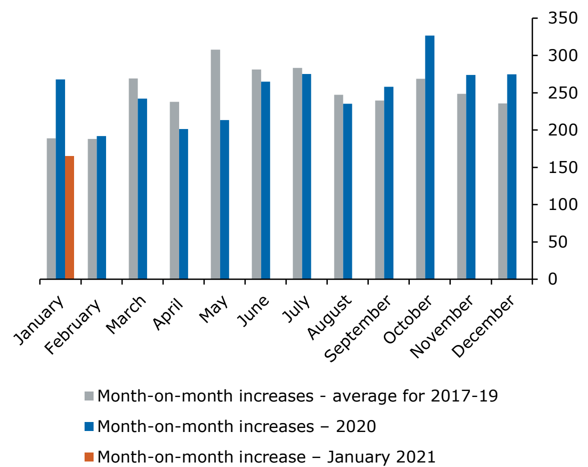
The Bank stands ready to further reduce the CCyB rate if necessary.

The CCyB rate stands at **1.0%**

The pandemic crisis has not weighed heavily on household loan growth

Although growth in loans to households has been gradually moderating for more than three years, it remained relatively strong even after the onset of the coronavirus (COVID-19) pandemic. In December of 2020 their annual growth rate of 6.1% was the seventh highest in the EU.[1] Housing loans in particular have maintained robust growth even during the pandemic crisis.[2] From the autumn, their monthly flows were actually at record levels. The ongoing uptrend in property prices and the low interest rate environment stimulated demand for loans to households. Refinancing loans continued to account for a significant share of new loans, around half of the total. Banks responded to the onset of the pandemic crisis by slightly increasing interest rates on housing loans, but then, owing to strong interbank competition, they gradually reduced them to new historical lows in the second half of the year and kept them there in January of this year.[3] Despite the arrival of the pandemic's second wave, banks slightly eased credit standards for household loans in the fourth quarter of 2020, but that easing only partially reversed the significant tightening of standards that occurred during the first wave of the crisis.

Chart 1 Housing loan growth has remained strong during the pandemic crisis, though its trend changed in early 2021 (month-on-month increases in EUR millions)



Source: NBS.

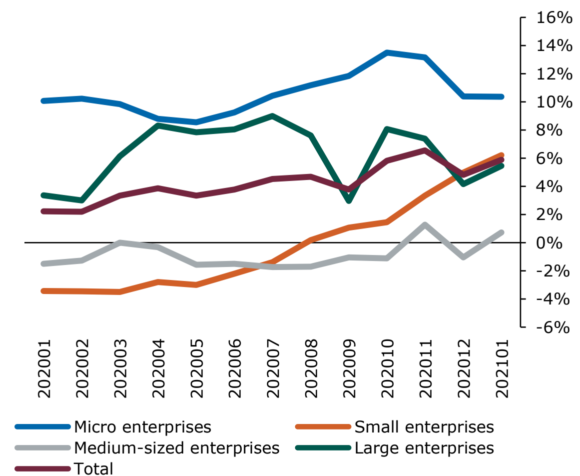
In early 2021 a change was observed in the composition of household loan growth.[4] The moderation of its rate was this time due not only to the long-run downtrend in consumer credit, but also to housing loans, which recorded their lowest month-on-month increase since 2017.[5] The tightening of pandemic containment measures in early 2021 therefore had an impact on the credit market. Households' demand for loans was affected by the increased uncertainty and weakened household confidence resulting from the pandemic's second wave. Consumer credit continued to decline in early 2021, after experiencing something of a downtrend since around two years before the onset of the pandemic crisis. Consumer credit growth in 2020 was affected by the stringency levels of pandemic containment measures.

Despite a worsening situation in the corporate sector, bank lending to firms did not dry up

The situation in the corporate sector worsened significantly in the early part of 2021. The aggregate year-on-year decline in firms' revenues accelerated to 10% in January 2021. The deterioration was most pronounced in those economic sectors hardest hit by the pandemic containment measures: accommodation and food service activities; and arts, entertainment and recreation. In these sectors, revenues declined more than they did during the first wave of the pandemic. Other badly affected sectors included construction, trade, and sele&cted market services.

Market participants themselves were negative in their assessments of the situation. The Economic Sentiment Index (ESI) continued to decline in February 2021, reflecting mainly the worsening of sentiment in services. February data from the Financial Administration[6] indicated a still adverse situation. Given also the current setting of pandemic containment measures, the situation is expected to have remained difficult throughout the first quarter.

Chart 2 Growth in loans to private firms has accelerated slightly (annual loan growth in percentages)



Source: Register of Bank Loans and Guarantees.

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1 Average annual household loan growth in December of 2020 was 1.9% in the EU as a whole and 0.3% among central and eastern European EU countries.
2 In January 2021 housing loan growth stood at 9.0% year-on-year.
3 The average interest rate on housing loans was 1% in January 2021.
4 Annual growth in loans to households was 5.7% in January 2021.
5 The month-on-month increase in housing loans was €165 million in January 2021.
6 Source: the eKasa online cash register system.

Despite the pandemic's second wave, a large part of the corporate loan book has experienced slightly faster growth. In January 2021 total loans to private firms increased by 3.4% year on year. The strongest growth was in loans to firms in the commercial real estate sector. The sectors with the next highest loan growth were construction, industry, and transportation and storage. Looking at credit growth from the perspective of firm size, loans to micro enterprises maintained stable growth of more than 10%, accounting for more than half of the year-on-year increase in loans to non-financial corporations. Lending to small enterprises also improved significantly. By contrast, the decrease in total loans to state-owned firms became more pronounced, although this sector also recorded similarly large declines in the pre-pandemic period. Loans to NFCs comprise mainly working capital financing in the form of credit lines and revolving loans, mostly to large enterprises.

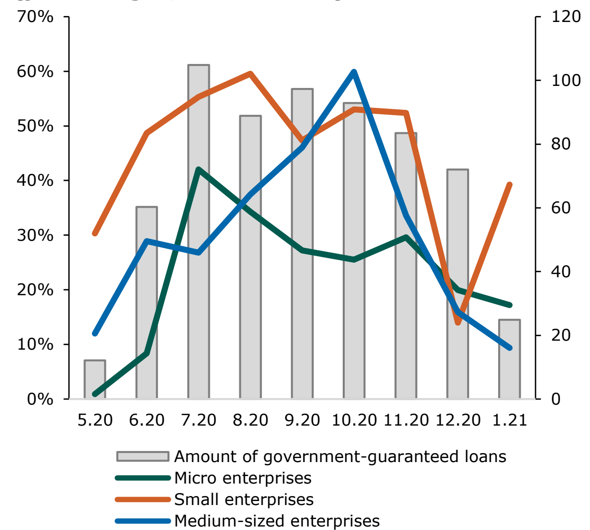
During the fourth quarter of 2020 banks were tightening credit standards (interest margins in particular), but not to the same extent that they were doing during the first wave of the pandemic. Banks expected to continue tightening standards in the first quarter of 2021. Demand for loans increased moderately in the fourth quarter, owing mainly to higher demand for working capital financing and to debt restructuring efforts.

Government-guaranteed loans introduced as part of pandemic relief measures have been an important factor in loan growth. By the end of January 2021 the outstanding amount of these guaranteed loans stood at almost €650 million. The uptake of government-guaranteed loans was weaker in January 2021 than in any other month since May 2020, when the public guarantee schemes were just being launched. This result continued the declining trend that began in the fourth quarter and was largely the result of firms' falling demand. Indeed, the total uptake of guaranteed loans was still far below the approved envelope for public guarantee schemes.

Government-guaranteed loans have had an appreciable impact on loan growth. The share of government-guaranteed loans in new loans has mirrored demand for these loans, reaching its highest levels between July and November 2020. These loans were of most importance for micro enterprises and for small and medium-sized enterprises, making up more than half of the new lending to these firms during that period. If government-guaranteed loans were excluded from the total, the annual growth rate of NFC loans during the period under review would have been around three percentage points lower.

From August 2020 there was a notable increase in the share of government-guaranteed loans in loans provided to new borrowers or borrowers from other banks.

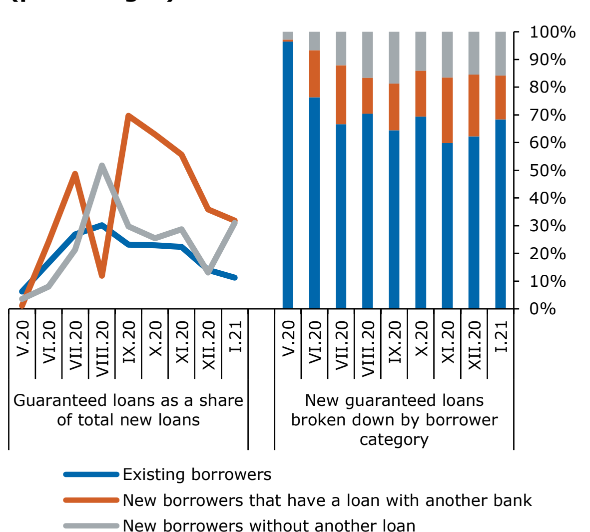
Chart 3 The uptake of government-guaranteed loans fell slightly in December and January (percentages; EUR millions)



Source: Register of Bank Loans and Guarantees.

Note: The chart shows the volume of new government-guaranteed loans as a share of total new loans in the given month broken down by firm size (left-hand scale), and the total amount of government-guaranteed loans in the given month (EUR millions; right-hand scale).

Chart 4 Government guarantees increasingly supported lending to new borrowers (percentages)



Source: NBS.

Notes: The left-hand chart shows government-guaranteed loans as a share of the amount of new loans to borrowers of the specified categories; the right-hand chart shows new government-guaranteed loans to borrowers of the specified categories as a share of total new loans subject to government guarantees.
The chart does not include loans to large enterprises, which recorded a lower use of government-guaranteed loans.

Property price growth has not been notably slowed by the crisis, while rental prices have fallen

Prices of flats in Slovakia maintained relatively strong growth throughout 2020 and at the start of this year. Flat prices increased in all regions and across flats of all numbers of rooms and sizes. The supply of flats has remained relatively stable since summer of last year, but insufficient to satisfy demand. For existing flats, the average offer price per square metre was 8.3% higher in February 2021 than a year earlier. Similarly, price growth in the new-build market has remained steady amid low supply.[7] In general, therefore, housing affordability has deteriorated during the pandemic crisis. Among European countries, Slovakia recorded one of the highest levels of property price growth in 2020.

Significant changes were, however, seen in the rental market. After rising over the previous ten years, the average rental price for a flat in Bratislava decreased during 2020. In February 2021 the year-on-year decrease in this figure stood at more

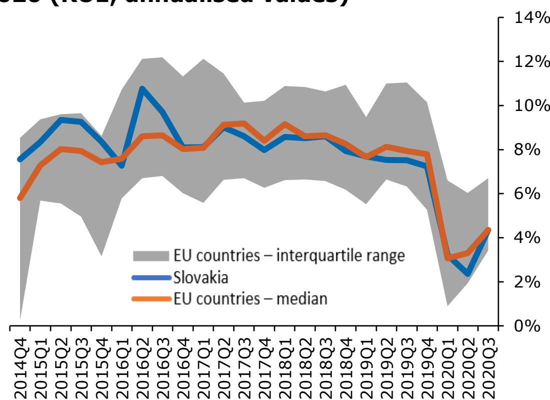
[7] The average price of a new flat was 9.6% higher at the end of 2020 than a year earlier. Sales of flats were weaker in 2020 than in 2019.

than 4%. Demand for rented accommodation probably declined because of the pandemic-induced reduction in inflows of students, workers and tourists.[8] The gap between the average purchase price and rental price therefore became even wider during 2020. In this situation, if economic activity remains dampened, a proportion of the flats currently available for rent may gradually be put up for sale if their owners cannot find tenants. This could then have an impact on both the supply and sale price of flats.

The pandemic crisis has weighed on the banking sector's profit

Compared with the previous year, the aggregate net profit of banks in Slovakia fell by one-quarter in 2020, to €465 million.[9] The decline in profitability was due to the pandemic crisis, as several banks responded to the worsening economic situation by increasing their loan loss provisioning[10] and reserves. Banks were therefore starting to prepare for a potential future increase in loan delinquencies. At the same time, the banking sector faced pressure from the prolonged period of low interest rates, which in 2020 caused banks' interest income to fall by almost 4%. On the other hand, banks' financial performance benefited from the abolition of the bank levy as from July 2020, after the levy had absorbed almost €150 million of their profit in the first half of the year. Banks also tried to mitigate the adverse situation by reducing administrative costs,[11] while net fee and commission income remained unchanged year on year.

Chart 5 Slovakia and other EU countries reported similar declines in banking sector profitability in 2020 (ROE; annualised values)



Source: ECB.

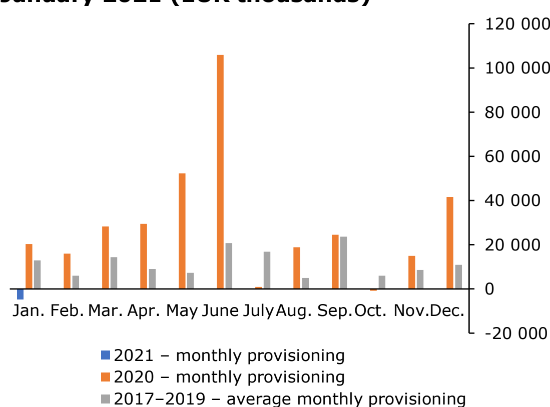
In terms of banks' profitability, the start of 2021 was more favourable than the previous year. Compared with January 2020, the banking sector's net profit in January 2021 was more than twice as high.[12] Besides facing lower regulatory costs, banks moderated their loan loss provisioning. Going forward, banks' profits will be notably affected by further credit cost trends, given that the majority of the pandemic-related loan moratoria for natural persons are expected to end in the first quarter of 2021 and that a proportion of borrowers may have had their debt servicing capacity impaired by the pandemic's second wave, which reached its height in the early part of this year. If loan loss delinquencies increase, so too, by necessity, will loan loss provisioning, which will then again adversely affect the banking sector's profitability.

The banking sector nevertheless remains well capitalised. From this perspective, banks are not expected to be at risk from potential future credit risk losses resulting from the pandemic crisis. Their aggregate total capital ratio remained stable in the second half of 2020 and ended the year at 19.7%[13] of risk-weighted assets.[14] Going forward, the sector's total capital ratio will be affected by the dividend policies of individual banks. Banks' lending activity is not at present constrained by their capital positions; the sector's available capital in excess of capital requirements amounts to €1.5 billion (3.8% of risk-weighted assets).[15]

Provisioning decreased in early 2021

Although banks are not so far seeing any significant increase in non-performing loans, they are preparing for a potential increase in credit risk losses in the months ahead. While loan delinquencies (and the non-performing loan ratio) increased immediately after the onset of the 2008–09 crisis, they have remained at low levels since the outbreak of the pandemic crisis.[16] This contrast is due to adoption of pandemic relief measures, in particular loan moratoria granted under the "Lex Corona" pandemic relief legislation ('statutory moratoria'). The NPL coverage ratio was the same in January 2021[17] as in January 2020. In response, however, to the adverse economic situation and increasing risk of potential future loan delinquencies, several banks increased their loan loss provisioning and reserves in 2020 as a precautionary measure.[18] Hence they created provisions mainly for performing loans that have

Chart 6 Monthly provisioning moderated in January 2021 (EUR thousands)



Source: NBS.

[8] The number of flats advertised for rent recorded a double-digit percentage increase in 2020 over the previous year.
[9] The year-on-year decline in the net profit was 27% (€171 million).
[10] The volume of provisions increased by 2.3 times over the previous year.
[11] In 2020 the number of places of business in the banking sector decreased by 132, to 2,148, and the workforce fell by 4%.
[12] For January 2021, the net profit was €53 million; for January 2020, €22 million.
[13] This is the ratio on an individual basis; the ratio on a consolidated basis was 19.3%. The figures are preliminary.
[14] The median across EU countries in the third quarter of 2020 stood at 20.3% of risk-weighted assets.
[15] The calculated effect does not take into account the temporary easing of capital rules announced by the ECB and NBS during the pandemic crisis.
[16] In January 2021 the NPL ratio fell slightly year on year, by 39 basis points to 2.75%.
[17] The coverage ratio for Stage 3 loans was 67.3% in January 2021 and 67.4% in January 2020.
[18] Compared with 2019, the aggregate amount of provisions increased in 2020 by €217 million, to €352 million.

experienced an increase in credit risk.[19] The aggregate amount of provisions for NFC loans increased in 2020 by two and a half times over the previous year, while provisions for household loans increased by a half.[20]

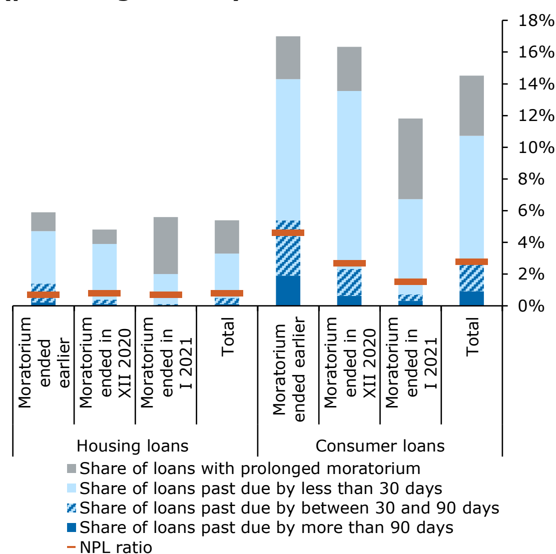
As regards non-performing loans, no significant changes have occurred in the early part of 2021. Banks did, however, moderate their provisioning in January 2021.[21] The amount of provisions created in excess of the ordinary pre-crisis level of provisioning did not exceed the most recent reduction in the CCyB rate. Therefore, through the release of this buffer, banks have leeway to cover a potential future increase in credit risk losses.[22]

The provisions created in 2020 are so far sufficient to cover more than half of the estimated volume of loans that could become problematic following the end of statutory loan moratoria. We estimate that these provisions currently suffice to cover an increase in NPLs amounting to 0.4% of the aggregate loan book.[23] As the below analysis shows, using available data on loans that have ceased to be subject to moratoria, it is estimated that 0.6% of the retail loan book and 0.7% of the NFC loan book will become problematic following the ending of loan moratoria. A key issue will be how the credit quality of loans develops in the months after the moratoria end.

Post-moratorium repayment difficulties among households are mainly in the area of consumer credit

Around 4.2% of housing loans and 13.9% of consumer loans are affected by post-moratorium repayment difficulties.[24] The rate is higher for consumer loans, while the overall rate for both consumer and housing loans is 6.1%. This figure is consistent with the findings of a survey of indebted households conducted in December 2020, according to which 5.3% of households that had received a moratorium on their loan repayments expected to have difficulty in resuming repayments. That the non-performing loan ratio is still low is because past due loans are not usually treated as non-performing until they are more than three months in arrears. Hence more time will be needed before the NPL situation can be assessed. If, however, the trends in respect of later-ending moratoria are similar to what has already been seen, around 0.6% of the aggregate loan book will become problematic as a result of the resumption of repayments. This corresponds to the results of the December survey, according to which the borrowings of households that said they expected post-moratorium repayment difficulties accounted for 0.7% of the outstanding amount of loans to households.

Chart 7 Credit quality of loans that have ceased to be subject to a statutory moratorium (percentage shares)



Source: NBS.

Notes: The chart shows, as at 31 January 2021, the volume of non-performing, past due and newly deferred loans as shares of the total loans for which a statutory moratorium ended in the specified period. In the case of loans for which a statutory moratorium ended in January, the share of past due loans may be slightly underestimated since the repayments on some of these loans may not resume until the following month.

A small proportion of the borrowers who received a pandemic-related loan moratorium have had their repayments deferred beyond the moratorium's expiry date at the discretion of their bank. In 2020 such extensions were granted in respect of 3.8% of the consumer loans and 2.1% of the housing loans which had been subject to a moratorium, apparently only in justified cases where the borrower's financial difficulties are persisting. Deferral extensions were granted slightly more frequently to borrowers whose statutory moratorium ended in January 2021. Under the extensions, the borrowers' principal repayments were deferred for a further temporary period. Besides allowing deferral extensions, banks have sometimes agreed to modify the repayment schedule for borrowers in financial difficulty, thereby reducing the principal repayments. Such modifications were agreed in respect of 0.4% of household loans that had ceased to be subject to a statutory moratorium.

During the pandemic's second wave, a proportion of borrowers received statutory moratoria for the first time, though the uptake was far lower in this period than during the first wave. In January 2021 new moratoria were granted in respect of 0.24% of total housing loans and 0.5% of total consumer loans, with approximately half of those moratoria comprising statutory moratoria and the rest being agreed between the borrower and bank on a case-by-case basis. These trends were indicated in the December survey, in which expectations of repayment difficulties among households that had not previously applied for a statutory moratorium were expressed in respect of 1.1% of total household loans. As recently

[19] Compared with 2019, the total amount of Stage 2 loans (under IFRS 9) almost doubled in 2020, to €9.27 billion.

[20] Compared with 2019, credit risk costs for NFC loans increased by 146% in 2020, to €167 million, while those for household loans increased by 52%, to €205 million.

[21] Net provisioning amounted to -€5 million in January 2021.

[22] At the end of 2020, the provisions created in excess of ordinary levels of provisioning in the non-crisis period 2011–19 amounted to almost 0.38% of risk-weighted assets, which is less than the 50 basis point reduction of the CCyB rate made in August 2020.

[23] For this estimate, we assume that the NPL coverage ratio (including its breakdown by different types of loans) and the coverage ratio for Stage 1 loans (IFRS 9) remain the same as they were before the crisis.

[24] The data are for loans that ceased to be subject to a statutory moratorium before the end of 2020 (making up 42% of loans for which a statutory moratorium was granted). These figures do not include a further third of the moratoria that ended in January 2021. This is because the share of past due loans in total loans that ceased being subject to a statutory moratorium in January 2021 may be slightly underestimated, given that the repayments on some of these loans may not resume until the following month.

as November, the number of such households expecting repayment difficulties was two-thirds lower; at the same time, households were planning to apply for a moratorium in respect of 1.7% of loans that had not yet been subject to moratoria.

The increase in non-performing loans to NFCs is subdued, although there are signs of a potential future deterioration

The economic fallout of the pandemic crisis has not as yet resulted in a large rise in the non-performing loan ratio for loans to non-financial corporations (NFCs). On the other hand, its downtrend came to a halt in September 2020, at 3.14%, and by January 2021 it had edged up to 3.29%. Several banks have already reported a slower decrease and subsequent increase in this ratio. In historical terms, however, the ratio levels are still low for now.

The volume of new non-performing loans was somewhat subdued in the first half of 2020 owing mainly to the uptake of loan moratoria, but it then started to increase again in the third quarter. This increase was seen in all size categories of firms. So far, however, except among large enterprises, default rates are not notably higher than they were in 2019, before the onset of the crisis. Loan delinquencies are highest among firms in the sectors hardest hit by the crisis, in particular construction, trade, transportation, accommodation, and recreation.

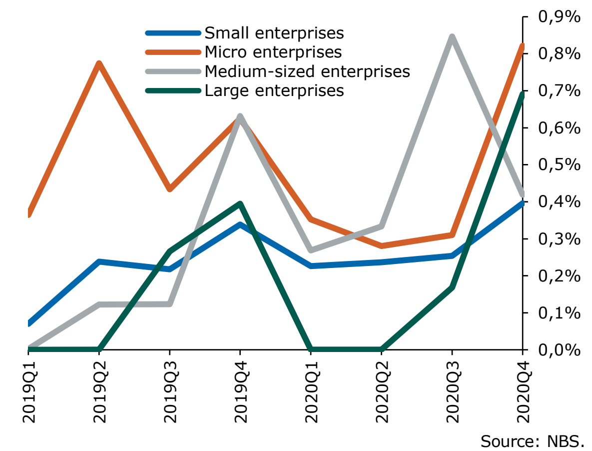
Not only has the volume of non-performing loans increased, so has the volume of loans whose terms and conditions have been modified. In 2020 lending conditions were modified in respect of 1.4% of total NFC loans, while in 2019 no such modifications were recorded. Half of the increase in the last quarter of 2020 was in respect of loans that had ceased being subject to a statutory moratorium.

As regards NFC loans for which a statutory moratorium has been granted, the default rate was higher among those still under the moratorium. More than half of the corporate loan defaults recorded in the period from November 2020 to January 2021 concerned loans for which a statutory moratorium had been granted.[25] The default rate was higher for those loans still under the moratorium than for those whose moratorium had ended.[26] This is because firms often went bankrupt or out of business before their loan repayments were due to resume.

Of the NFC loans that ceased to be subject to a statutory moratorium before the end of January 2021, a total of 4.5% were past due or non-performing. By that date, 54% of the loans for which a moratorium had been granted were no longer under the moratorium. The worst credit quality was reported for loans to micro enterprises which were no longer under a moratorium, with 7.1% of them either past due or non-performing.

A similar degree of repayment difficulties in respect of loans that will in subsequent months cease to be under a statutory moratorium would result in problematic loans making up 0.7% of total loans to firms.

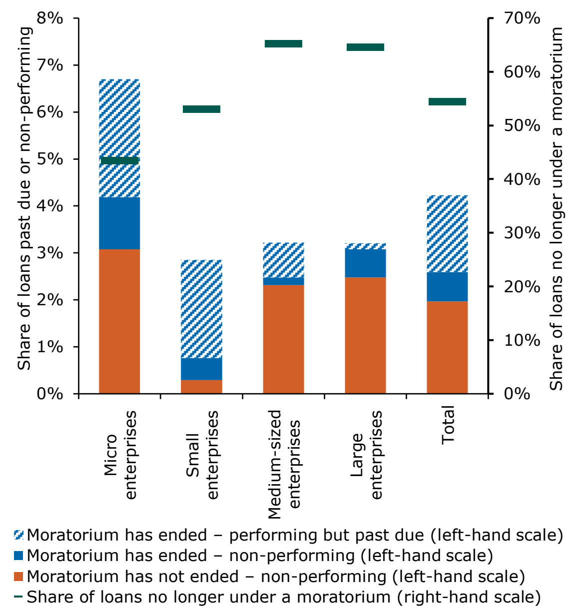
Chart 8 Loan delinquencies accelerated in late 2020 (percentages shares)



Source: NBS.

Note: The chart shows new NPLs in the given quarter as a share of total loans at the quarter-end, broken down by firm category.

Chart 9 Credit quality of loans for which a statutory moratorium has been granted (percentages; percentages)



Source: NBS.

Notes: The chart shows, as a share of the total volume of loans for which a statutory moratorium had been granted by 31 January 2021, past due loans and non-performing loans (left-hand scale) and loans no longer under a moratorium (right-hand scale).
The shares are calculated on the basis of the outstanding amount of the loans in question. The non-performing loans to large enterprises were all already non-performing by 31 January 2020, i.e. before the onset of the pandemic crisis. The chart does not show past due loans that are still under a moratorium.

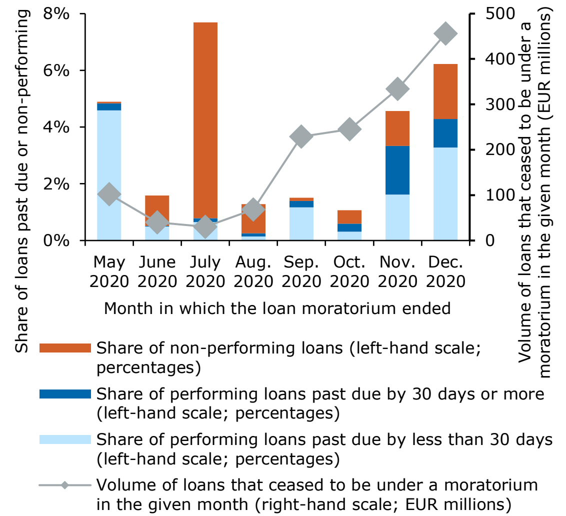
[25] In the period from November 2020 to January 2021, loans for which a statutory moratorium had been granted made up 55% of the total volume of loans that defaulted during that period.

[26] Out of NPLs for which a statutory moratorium had been granted, as many as 90% defaulted before the end of the moratorium.

There are signs that an increasing number of firms are facing difficulty in resuming repayments following the end of their statutory moratorium. The credit quality of loans that ceased to be under a moratorium in November or December 2020 was worse than that of loans whose moratorium ended earlier.[27] The risk is greater because of the increasing volume of loans whose moratorium ended more recently. One reason for the deterioration may be that the firms which applied for a longer moratorium were in a worse financial situation before the pandemic crisis than were those firms that applied for a shorter moratorium. Another factor has been the increasing stringency of pandemic containment measures.

Furthermore, an analysis of the credit quality of loans whose moratorium ended earlier indicates that the share of these loans which are past due is not falling, but actually increasing. Repayment difficulties may be gradually affecting loans that were being duly repaid immediately after the moratorium ended. In January 2021 an increase in past due loans was also observed among loans that had for a longer time ceased being subject to a moratorium. The sector most seriously affected by debt servicing problems is accommodation and food service activities; the default rate for loans to this sector stands at 7% for the period since the onset of the crisis.

Chart 10 Repayment resumption difficulties are greater among loans that more recently ceased being subject to a moratorium (percentages; EUR millions)



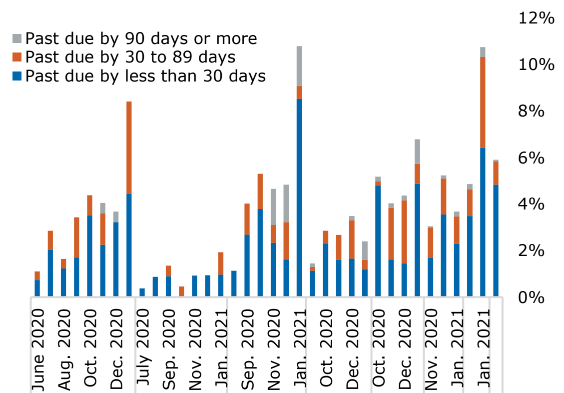
Source: NBS.

Notes: The chart shows, as at 31 January 2021, the shares of past due loans and non-performing loans (left-hand scale) and the volume of loans that ceased to be under a moratorium in the given month (right-hand scale).

The shares are calculated on the basis of the outstanding amount of the loans in question.

The figure for loans that ceased being under a moratorium in July 2020 does not include larger exposures to one particular entity. Taking these exposures into account, the share of past due or non-performing loans would be 29%.

Chart 11 The share of the number of loans that are past due after ceasing to be under a statutory moratorium is increasing (percentages)



Source: NBS.

Notes: The chart shows the share of the number of loans that are past due. The month in the second line below the horizontal axis indicates when the moratorium ended, while the bars above the axis show the credit quality data for the given loans as at the subsequent months.

[27] Of loans that ceased to be under a statutory moratorium in November or December 2020, 5.5% were past due or non-performing. The corresponding figure for loans that ceased to be under a moratorium at an earlier date was 3%.

Which loans are proving riskiest during the crisis?

The pandemic crisis has shown how important it is for borrowers to have a sufficient financial buffer. The Bank had that objective in mind when it gradually tightened its regulatory limit on the debt service-to-income (DSTI) ratio during 2017 and 2018 and then again in early 2020. As developments during the crisis have confirmed, these steps were justified. Households which before the crisis were leaving themselves little or no financial buffer out of their income accounted for a significantly larger proportion of the household borrowers that applied for a statutory moratorium on their loan repayments. Some of them will probably not be able to continue servicing their debts even with the moratorium.

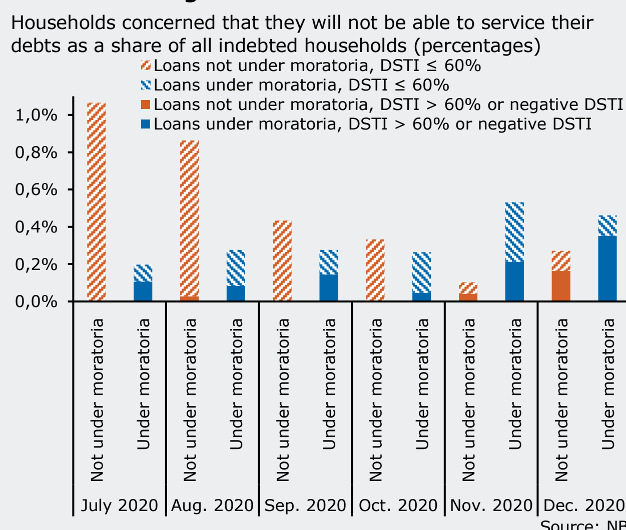
Since early in the crisis, it has been clear that households whose DSTI ratio was high before the crisis[28] have been making the most moratorium applications. The purpose of the moratoria was to help households get through the crisis and then resume repayments.

Despite the moratoria, however, concerns about not being able to resume repayments have been increasing among households with a high debt servicing burden. According to a regular survey of indebted households,[29] the share of households that are concerned about their debt servicing capacity started to rise again from October 2020, with the arrival of the pandemic's second wave. Compared with the situation in the summer months, however, the households in question are increasingly those that were over-indebted going into crisis. According to the December survey, highly indebted households may not be able to resume repayments on almost one-fifth of the loans for which they have received a moratorium and will find it difficult to make repayments on a further 11%.

A proportion of households are at risk of financial difficulty because of the crisis. These are households that will not be able to both service their debts and meet their essential living expenses if their income losses continue. A large share of them are households that have not left themselves sufficient financial buffer out of their income.

Chart 12 Concerns about repayment difficulties are rising more among households that went into the crisis with a high DSTI ratio

Households concerned that they will not be able to service their debts as a share of all indebted households (percentages)

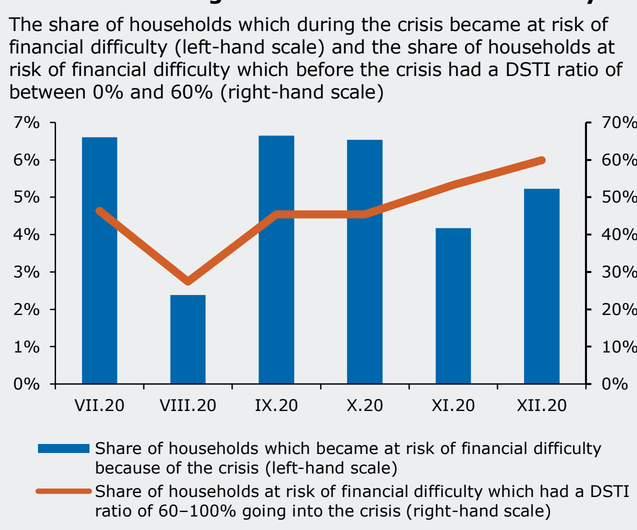


Source: NBS.

Note: Households are deemed to have been highly indebted going into the crisis if their DSTI ratio at that time exceeded 60% (with the income component reduced by the minimum subsistence amount). The months indicated on the horizontal axis are those in which the survey was conducted.

Chart 13 Highly indebted households were increasingly among the households which during the crisis became at greater risk of financial difficulty

The share of households which during the crisis became at risk of financial difficulty (left-hand scale) and the share of households at risk of financial difficulty which before the crisis had a DSTI ratio of between 0% and 60% (right-hand scale)



Source: NBS.

Note: Households deemed at risk of financial difficulty are those which, if their income losses continued, would not be able both to service their debts and meet their essential living expenses.

[28] Households are deemed to have been highly indebted going into the crisis if their DSTI ratio at that time exceeded 60% (with the income component reduced by the minimum subsistence amount). According to the survey, around 16% of indebted households fell into this category.

[29] Each month from July 2020 to December 2020, the Bank surveyed indebted households about the impact of the pandemic crisis on their financial situation. The monthly surveys were conducted for the Bank by the agency FOCUS on a sample of around 1,000 respondents.

Changes brought by new capital buffer regulations

Amendments to the Banking Act which transpose the EU's Capital Directive V (CRD V) into Slovak law took effect at the end of 2020. When, in May 2021, Národná banka Slovenska next takes a decision on the setting of capital buffers applicable to banks in Slovakia designated as other systemically important institutions (O-SIIs), it will proceed in accordance with new rules. These rules are laid down in the amended Banking Act[30] and are also included in new EBA Guidelines. The purpose of the changes is to ensure that the systemic risk buffer (SyRB) applies only to a specific subset of exposures that constitute a higher systemic risk within the banking sector. This buffer will therefore not be used to cover risks arising from the systemic importance of a particular bank, as it could have been used previously. The impact of this change will, however, be offset by adjustments to capital buffers applicable to certain domestic O-SIIs.

The new regulations include significant changes to the rules for the setting of SyRB rates. In setting this buffer, the Bank will identify one or more subsets of assets that have one or more common attributes. For these exposures, the Bank may set a specific buffer rate. In doing so, the Bank will of course have regard to whether the size of the given exposure could result in a serious systemic risk to the financial system, to the overall riskiness of the exposure, and to the interconnections between the exposure and other types of exposures. An example could be the growth rate for foreign currency-denominated loans to households, as experienced in the past by certain countries in our region.

How, then, will the SyRB rate be set? The rate must be reviewed at least every second year. The rate-setting decision will be preceded by an analysis of the systemic risk associated with the specific subset of exposures. The Bank will then be able to set different SyRB rates for different institutions and different subsets of exposures.

What´s new in the world of macroprudential policy?

Higher bank capital supports credit growth

In January 2021 the Federal Reserve Bank of Philadelphia published a study[31] which shows the importance of capital to credit growth during a recession. The author modelled lending developments during the pandemic crisis, while taking into account different bank capital levels. The study showed that higher capital levels have a positive impact on credit growth, with the impact in this case being more pronounced among smaller banks. The study's conclusions therefore confirm the justification of capping dividend payments during crisis periods.

What have been the financial stability implications of fiscal measures adopted during the pandemic crisis?

A new ESRB study[32] has mapped the impacts of fiscal measures adopted in European countries to mitigate the effects of the pandemic crisis on financial stability. By the end of September 2020, government support packages in European countries had a nominal value of 14% of aggregate GDP and included public loans, public guarantees on loans, direct grants, and tax relief; the reported uptake of these programmes by that date was roughly 4% of GDP. Credit markets have therefore been strongly supported by fiscal policy, resulting in loan losses remaining limited. There is still the risk, however, that if the crisis continues for a longer time, it may result in NFC bankruptcies and therefore losses for banks. In response, banks may reduce the credit supply. Governments should therefore avoid ending support measures suddenly; they should rather apply the measures in a more targeted way, including targeting resources for restructuring to viable firms and improving the bankruptcy process. At the same time, it is vital to maintain the sustainability of private and public sector debt.

Excessive house price growth adversely affects economic growth

The relationship between house prices and economic growth was the subject of a study published by the Estonian central bank in January 2021.[33] Using a panel of twenty countries, the authors analysed the relationship between house prices and economic fundamentals and, on that basis, identified imbalances in individual markets. They also examined how housing market imbalances pass through to economic growth. According to their conclusions, house price overvaluations amplify business cycles in the short term, but they have a dampening effect on economic growth in the longer term.

How does population age affect credit growth?

House prices also featured in a recent study[34] published by the Bank for International Settlements, which, using data from South Korea, examined the impact of demographic changes on house price growth and on the efficiency of macroprudential policies. The results seem to be in contrast both to what is observable in Slovakia and to what the life-cycle hypothesis posits. In regions with larger older populations, price growth was found to be higher, while in regions with predominantly younger populations and single-person households, house price growth was slower. The main reason for this result is that younger people cannot afford to buy a home, while the wealth of older people is largely tied up in their home. The authors suggest that macroprudential policies are less effective in regard to these groups of households.

The March 2021 Macroprudential Commentary was discussed by the NBS Bank Board on 30 March 2021. The publication has not been copyedited. Reproduction is permitted provided that the source is acknowledged.

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[30] Act No 340/2020 amending Act No 483/2001 on banks (and amending certain laws), as amended, and amending certain other laws.

[31] D´Erasmo, P., "Bank Capital and Lending During a Downturn", Federal Reserve Bank of Philadelphia Research Department, January 2021.

[32] Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic, European Systemic Risk Board, February 2021.

[33] Cuestas, J.C., Kukk, M. and Levenko, N., "Misalignments in house prices and economic growth in Europe", *Working Paper Series*, No 1, Eesti Pank, 2021.

[34] Lee, J. and Jung, H., "Demographic shifts, macroprudential policies, and house prices", *BIS Working Papers*, No 914, Bank for International Settlements, December 2020.