Household financial vulnerabilities during COVID-19 pandemic - the case of North Macedonia -

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Policy measures in response to COVID-19 pandemic (1)

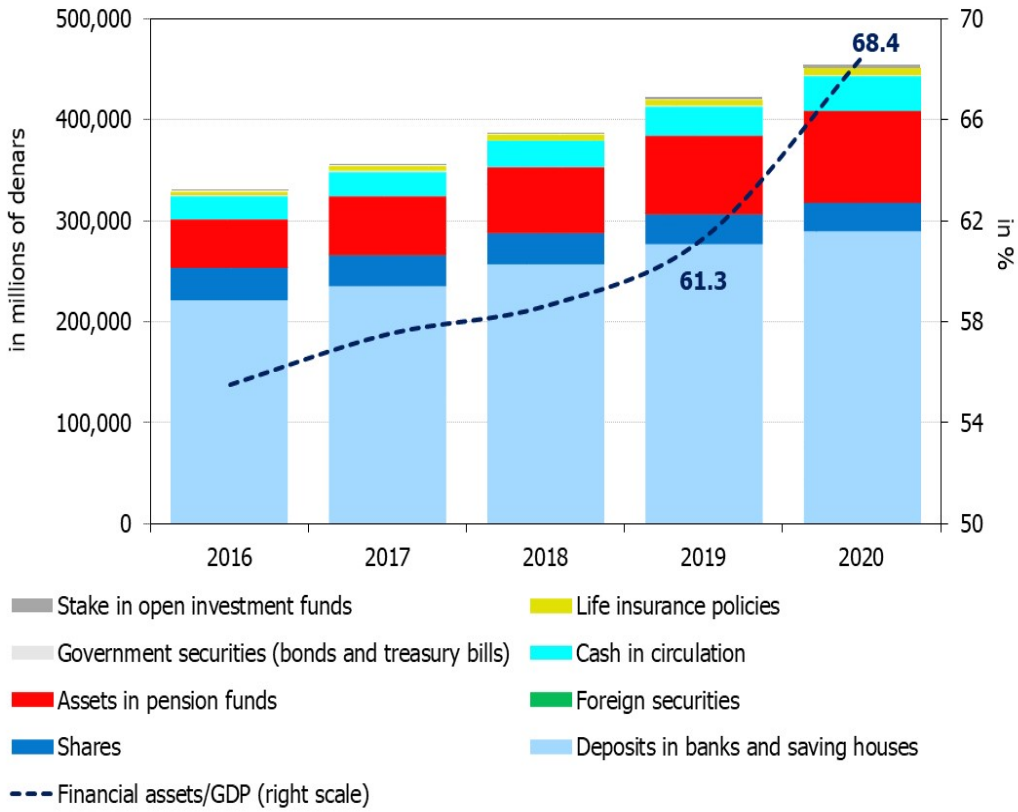
- Monetary measures
  - cut key interest rate and reduced offer of main monetary instrument
  - expanded list of securities that central bank accepts as collateral
  - non-standard reserve requirement measure (applicable until 31.12.2021)
  - reactivation of FX deposits auctions
- Regulatory measures
  - amendments to banking regulations that temporarily enabled banks to ease credit contractual terms for good (performing) clients before the pandemic
    - approval of grace periods or debt moratorium: 58% of total performing loans to households (in March/April)
    - measure was applicable until 30.9.2020
    - additional grace period granted in September 2020 only to most affected clients: 5.5% of total performing loans to households (in September)
    - at the end of June 2021, only 1.2% of banks' performing loans are still under debt moratorium due to pandemic; only 0.0005% for households
  - definition of NPLs was temporarily changed – applicable only to good clients before the pandemic
    - from 90 dpd to 150 dpd; "unlikeliness to pay" not to be considered
    - measure was applicable until 30.9.2020; banks were obliged to fully adjust to regular criteria for NPLs no later than 31.12.2020
    - only 0.1-0.2% of loans were affected

Policy measures in response to COVID-19 pandemic (2)

- Supervisory measures
  - recommendation to banks in 2020 to temporarily refrain from paying dividends
  - plan for on-site supervision of banks in 2020 was temporarily put on hold and deadlines for submission of some of the obligatory reports were postponed
  - in February 2021, National Bank Council passed a Decision on temporary limitation of the distribution and payment of dividends to banks' shareholders
    - in August 2021, the National Bank lifted the restriction from this decision, given global and domestic circumstances, favourable banking system indicators and prudent behaviour of banks
- Government measures
  - six packages of over 100 different economic measures have been adopted by the Government
  - bankruptcy procedures moratorium and changes in the methodology for setting the penalty interest rate during the state of emergency (in 2020Q2)

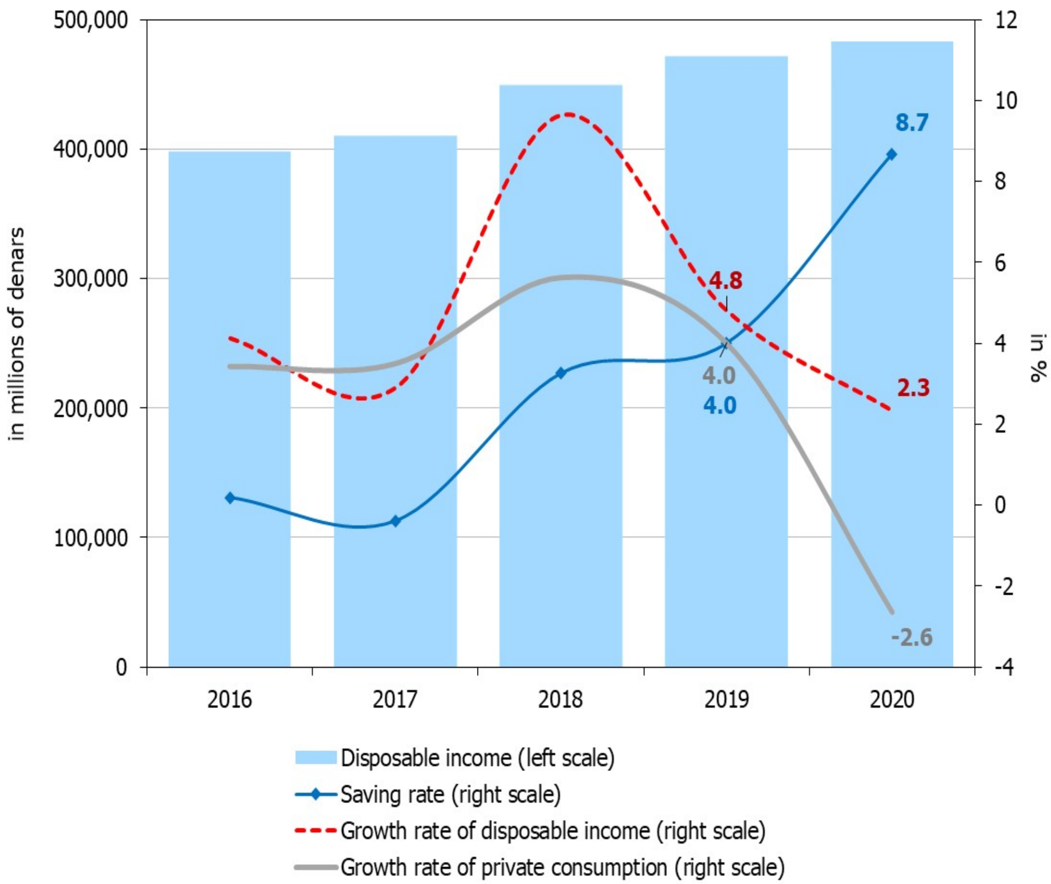
Household financial assets

- Household financial assets continued to grow, but with slightly slower pace
- Historically highest level of FA/GDP; ↑ 7.1 p.p.
- FA growth contributed by:
  - deposits
    - ↑ demand deposits, ↓ short-term and long-term savings
    - greater propensity to save in FX is common for crisis period
    - deposit euroization remained at relatively stable level
    - deposits account for around 65% of FA
  - investment in private pension funds
  - cash in circulation



Household consumption and savings

- Policy measures in response to the pandemic
  - mitigate the effects of the crisis on the labor market
  - affects the dynamics of deposits and disposable income



- Reduced household consumption due to
  - slower growth of disposable income
  - higher spending restraint

  in conditions of uncertainty

- Household savings rate continues to grow

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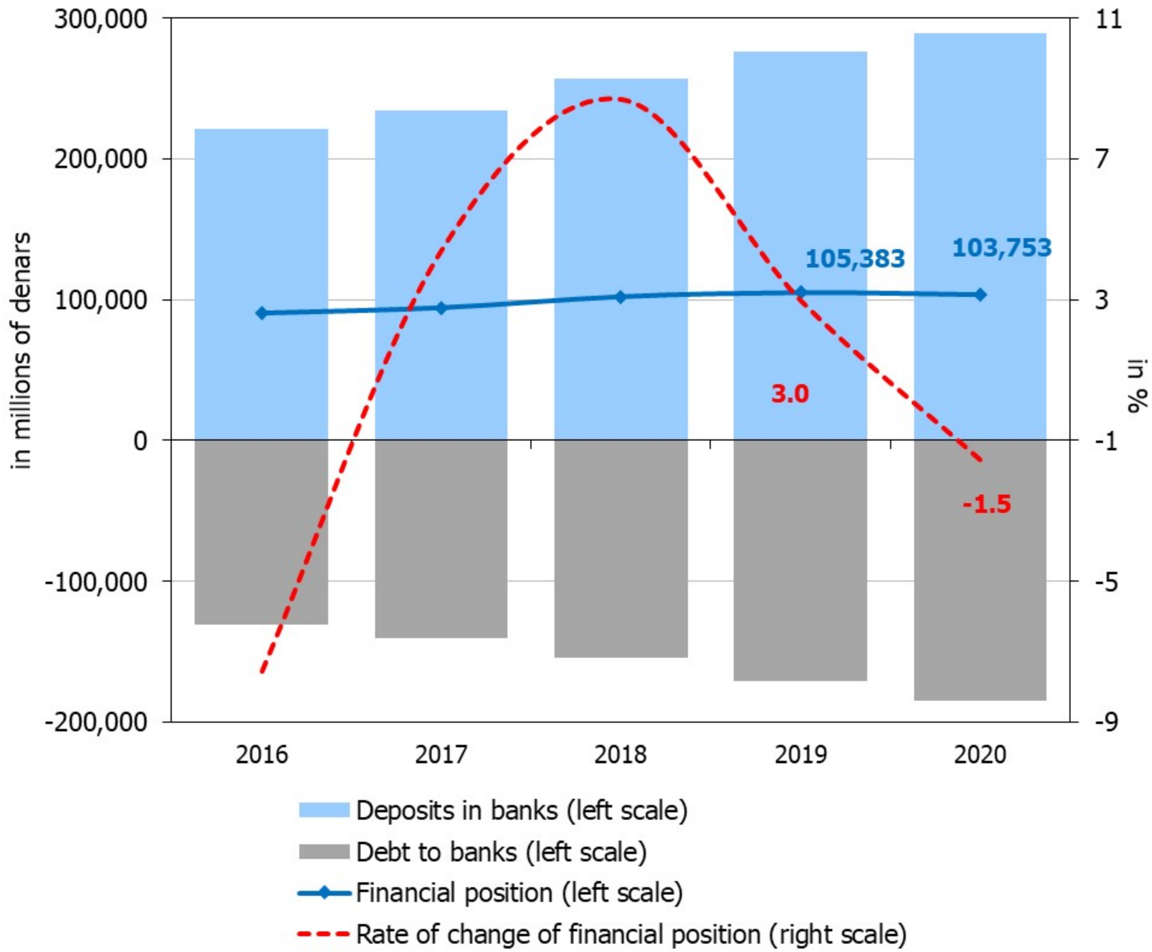
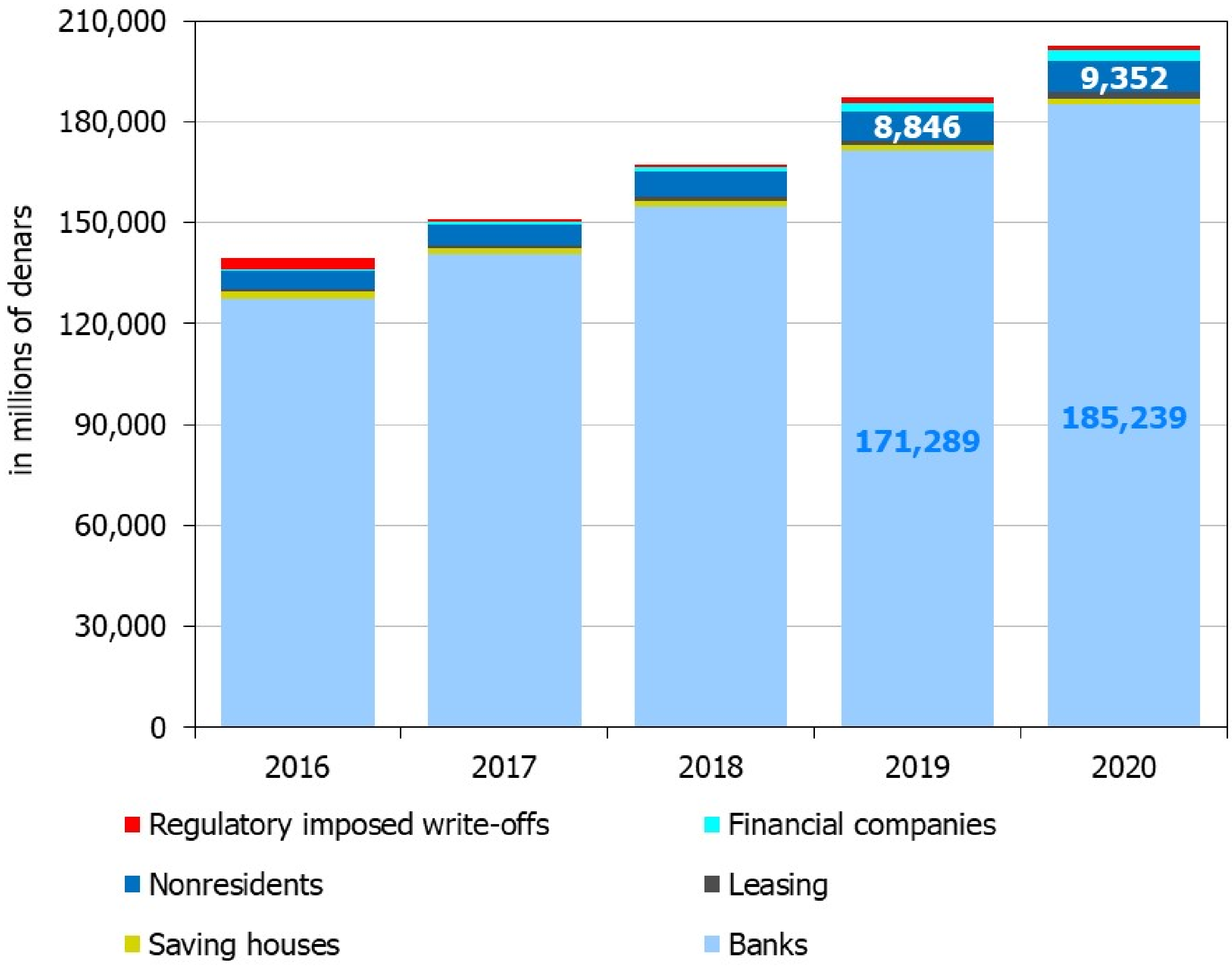
Household financial assets

- Negative financial position to domestic banks and significantly lower compared to the previous year
    - higher growth of debt relative to deposits
    - slower deposit growth
    - low returns on deposit products
    - increased market risk tolerance – gradually shifting bank savings to alternative financial products



Household debt

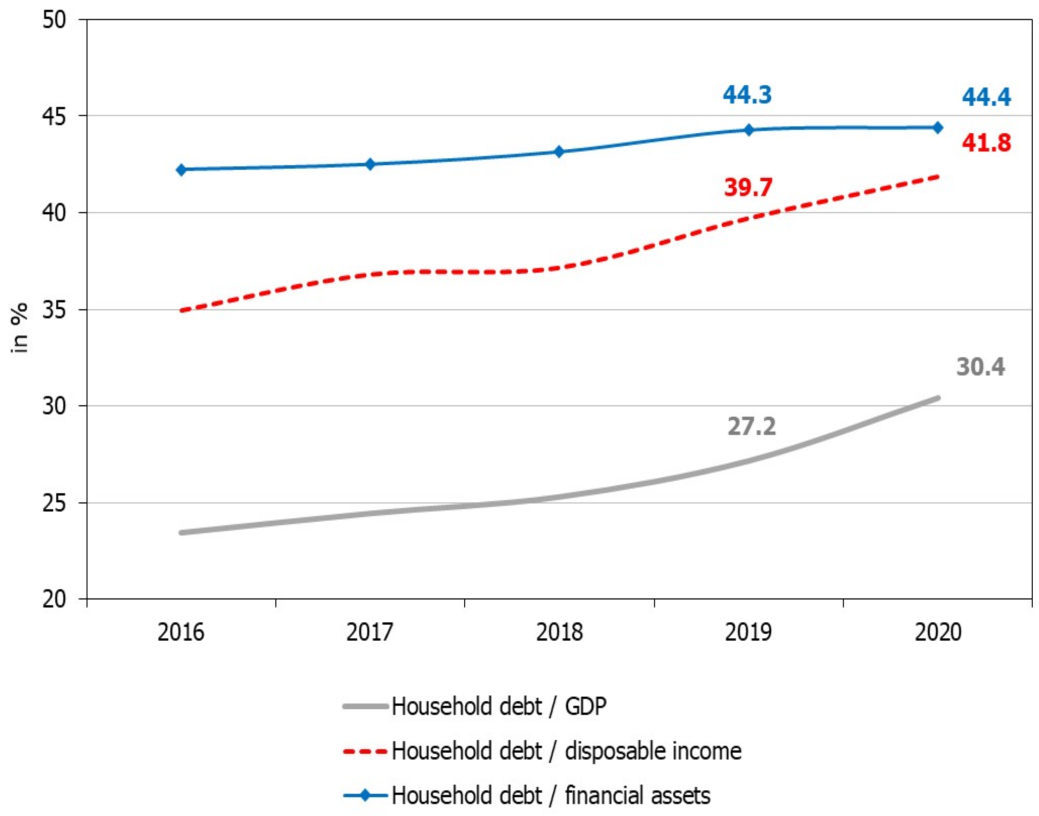
- Further growth of household debt due to solid credit support from domestic banks, in circumstances of loan moratoria



Indicators for household indebtedness (1)

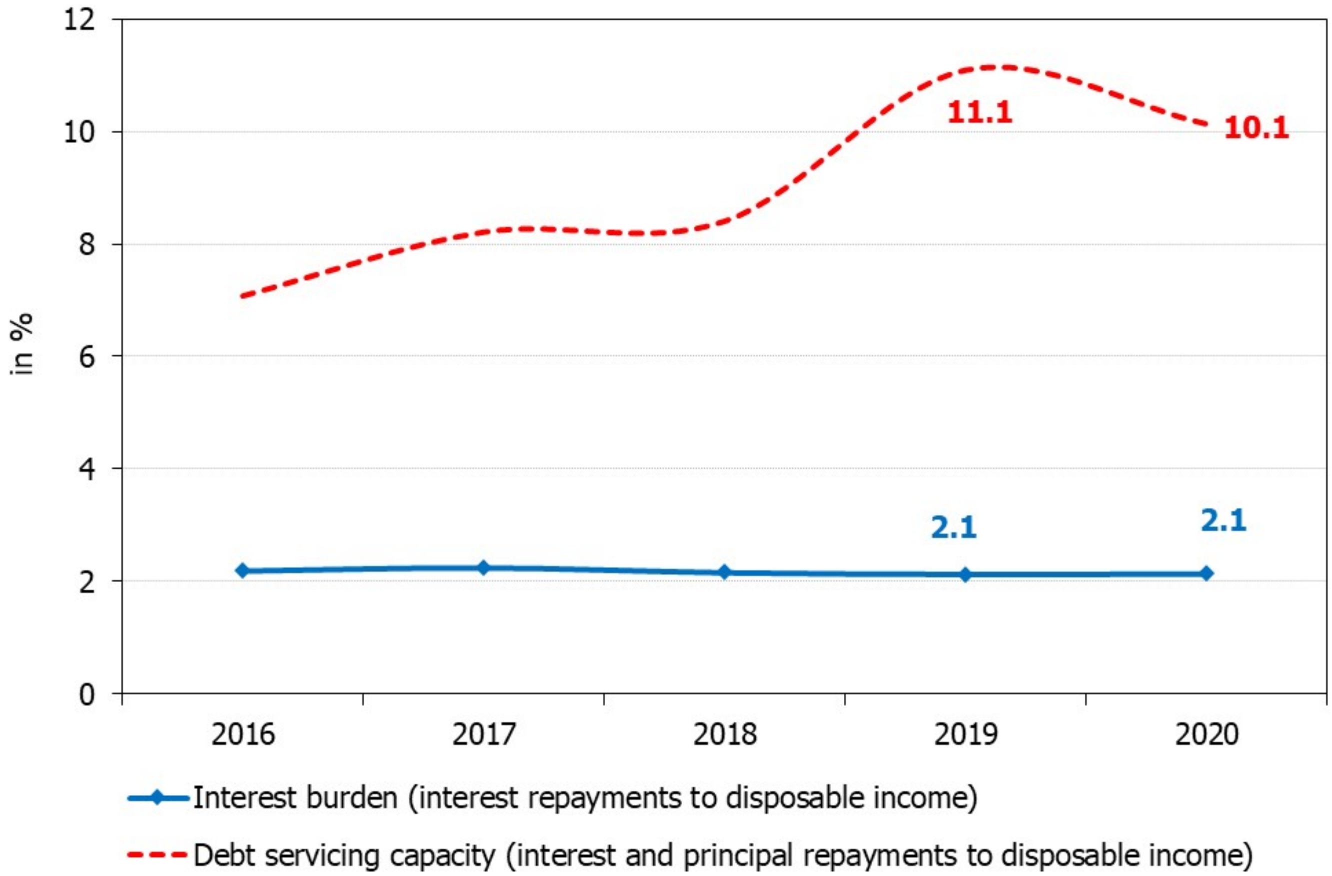
- Level of household indebtedness is not high (30.4% of GDP), despite the intensified growth during previous years

- More pronounced increase in household debt compared to disposable income and net financial assets
  - increased share of debt in these categories
  - still, maintained at a relatively stable level



Indicators for household indebtedness (2)

- Debt repayment indicators indicate relatively low risks for household creditors
  - moderate improvement



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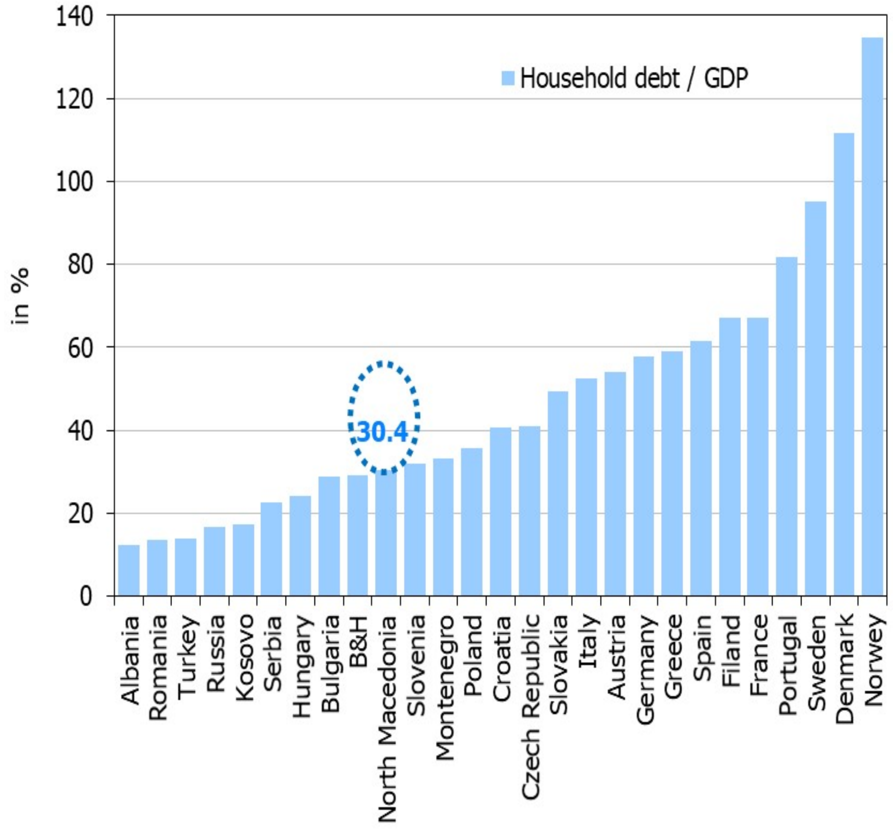
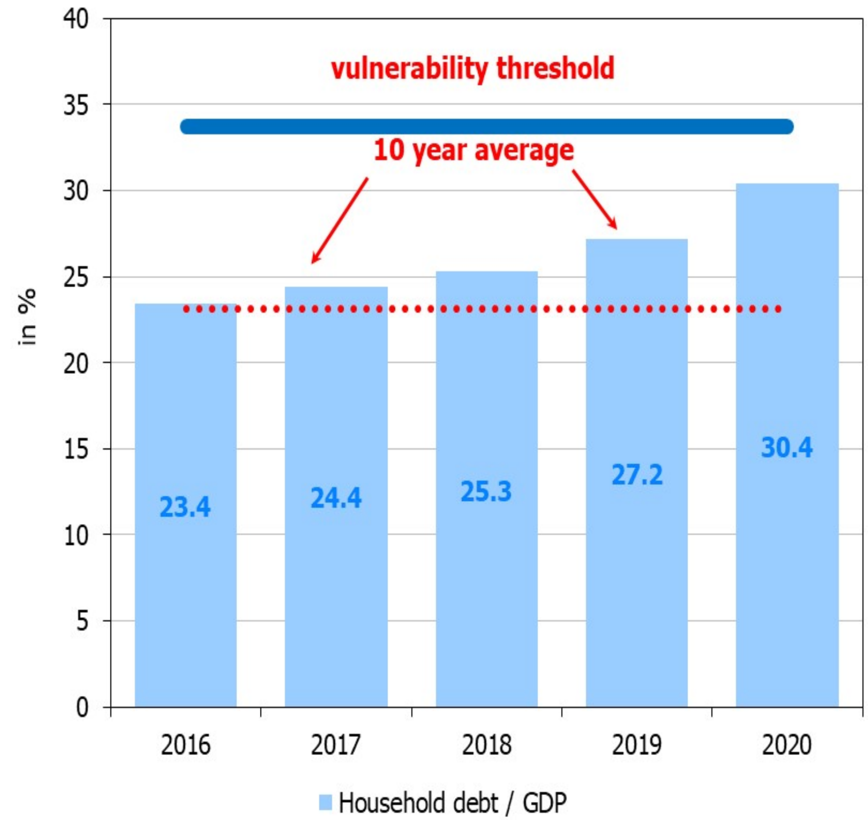
Indicators for household indebtedness (3)

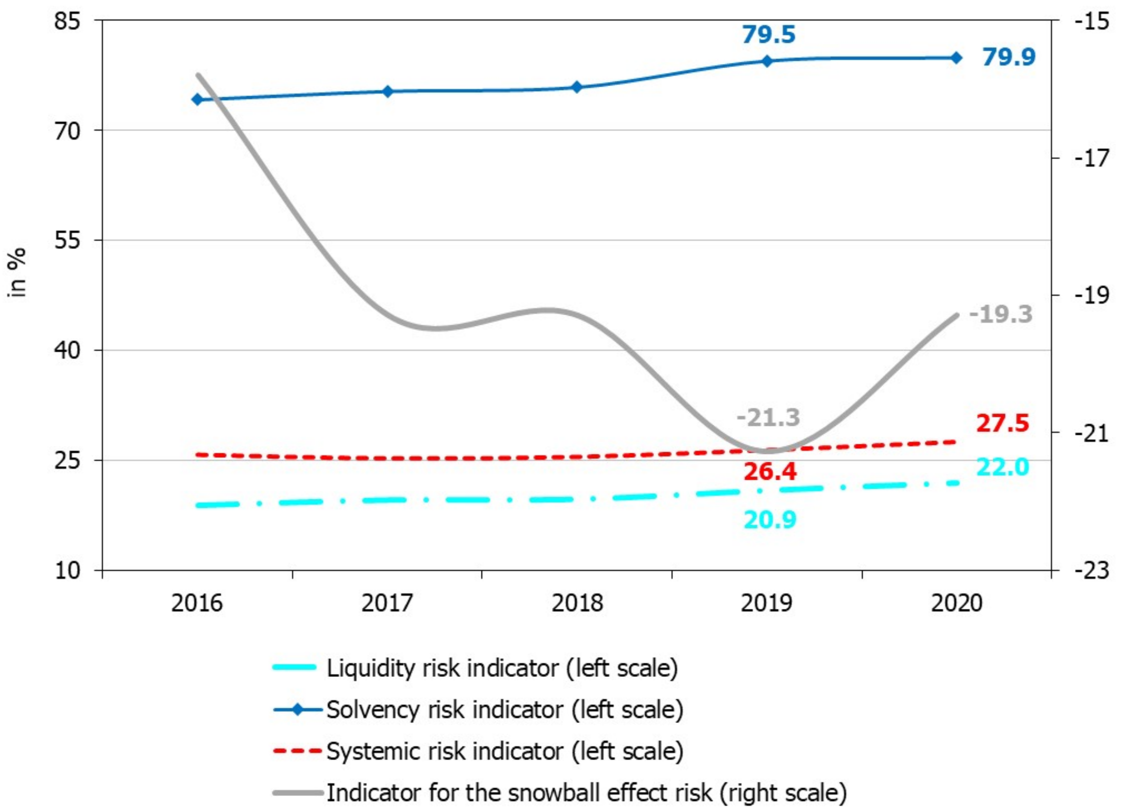
- Despite moderate deterioration in some household indebtedness indicators (debt/GDP, DI, FA), they remain within the common range for the last few years
- Household indebtedness level (debt/GDP) is below the vulnerability threshold derived by MIP Scorecard used by EC





Household vulnerability indicators

- Slight deterioration in households liquidity and solvency position → limited sensitivity of household sector to shocks
- Aggregate systemic risk indicator
  - low systemic vulnerability of the household sector
  - relatively stable indicator level → indicates sustainable risks in the household sector



Quality of household debt (1)

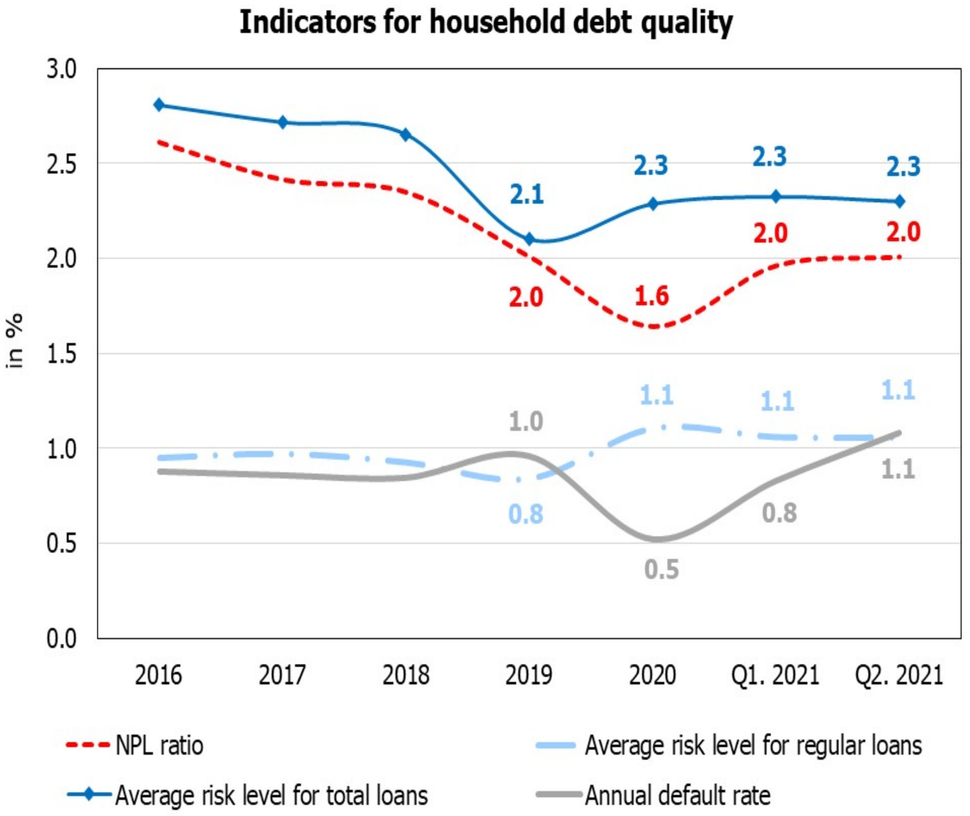
- Relatively low and stable NPL ratio

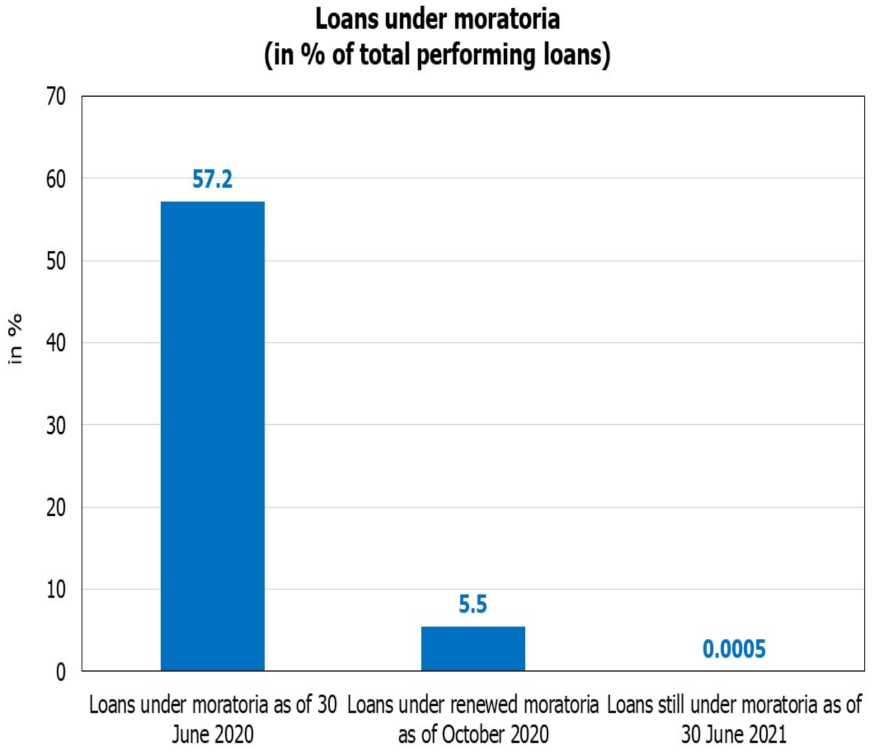
- Historically lowest NPL ratio on 31 December 2020

- As a result from loan moratoria:
  - borrowers deal with negative effects from the pandemic more easily
  - lower creation of new NPLs
  - no significant deterioration in NPL ratio, by end 2020
  - slight increase in NPLs, since the beginning of 2021
  - still, uncertainty for potentially high materialization of credit risk and NPL growth

- Necessity to carefully monitor the quality of the loan portfolio and timely recognition of possible credit losses

Quality of household debt (2)





Thank you!

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