NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

The impact of macroprudential measures on credit developments:

finding the right balance

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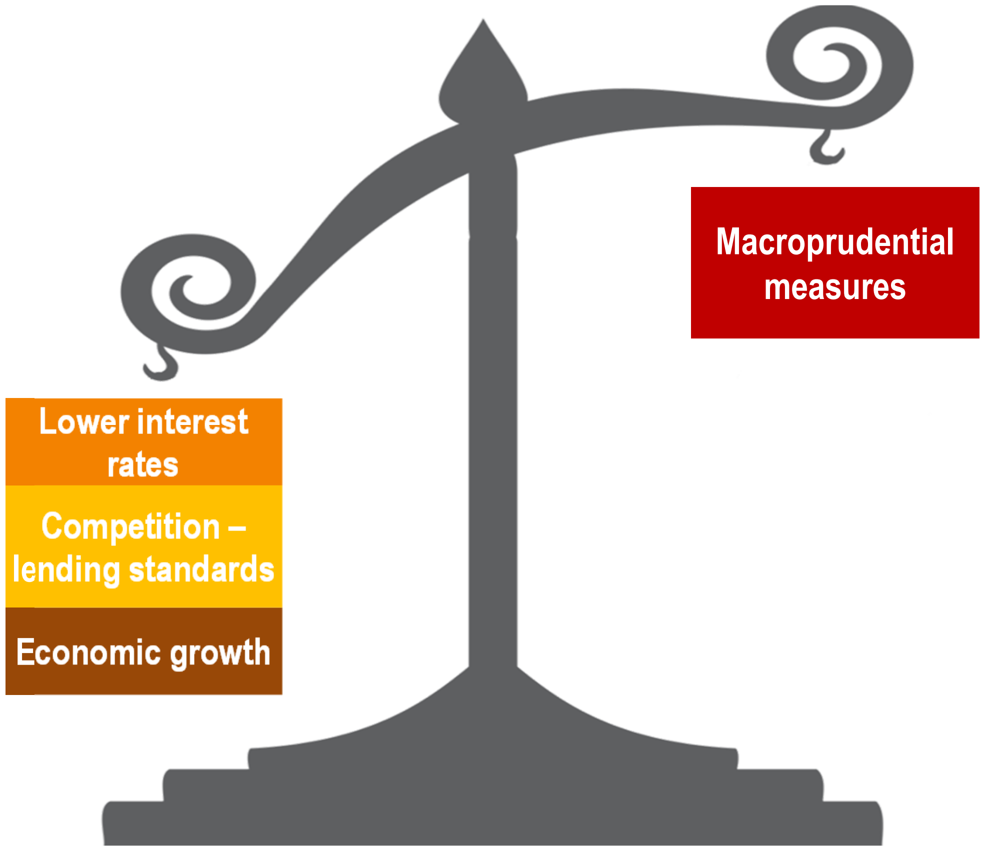
Debt in Central, Eastern and Southern Europe: vulnerabilities and opportunities
11. 6. 2018, Vienna

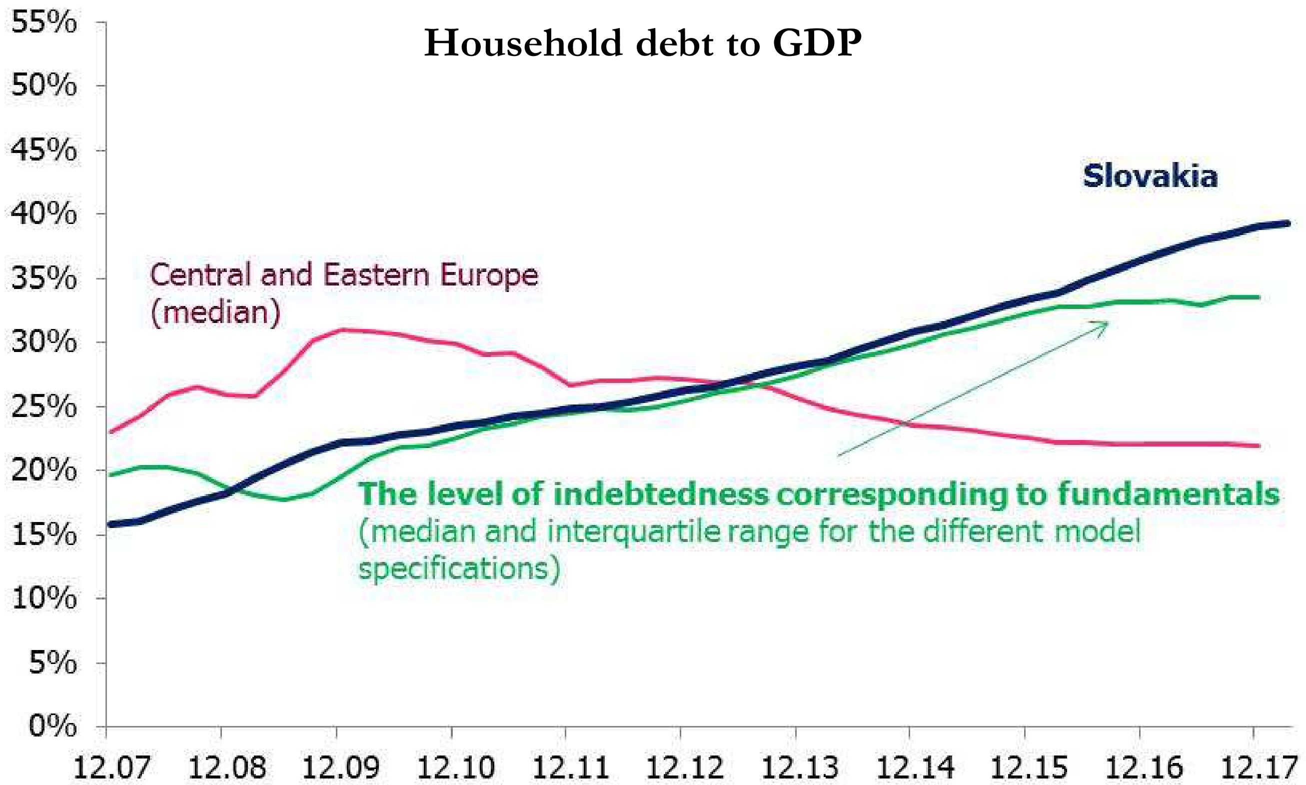
Imbalances

- Very strong supply and demand factors behind the credit growth
- Demand - strong economic growth, increase in employment, rise of income
- Supply – fall of interest rates, effort to compensate lower margins by higher volumes of loans, pressure on lending standards, pressure from parents...



Imbalances

- Imbalances arising from strong credit growth
  - Rising indebtedness of households
  - Growing real estate market
- Growth of households indebtedness in Slovakia is out of fundamentals



Source: Eurostat, ECB, NBS

Macroprudential measures in Slovakia – finding the balance

Macroprudential policy measures

Responsible lending requirements (borrower-based measures)

Objective

1. Sound and sustainable credit growth based on prudent credit standards
2. To address risks related to increasing household indebtedness

Characteristics

- **Quantitative limits** (LTV, DSTI, maturity, DTI)
- **Qualitative requirements** (income declaration, RRE appraisals standards...)
- Established legal framework giving mandate to the NBS, subject to consent by the MoF

Strengthening resilience of banks (capital buffers)

Objective

Prevent excessive dividend distributions in the period of rising vulnerabilities

Characteristics

Countercyclical capital buffers
currently at **0.5 %** (since 08/2017)
increase to **1.25 %** (since 08/2018)

Additional buffer for 5 largest banks at the level of **1-2 %**

Overview of macroprudential measures in Slovakia

Character

Objective

Character	Objective	2014 – 2016 Non-binding recommendation	2017 – 2018 Binding decree	1.7.2018 Binding decree
Borrower-based measures	Lending practices	• Max. share of LTV 90+: 10% • DSTI limit: 100 % • Sensitivity test on IR jump • Maturity limits • Mandatory annuity repayments	• Max. share of LTV 90+: 10% • Max. share of LTV 80+: 40% • DSTI limit: 80 % • Sensitivity test on IR jump • Maturity limits • Mandatory annuity repayments	• Max. share of LTV 90+: 0% • Max. share of LTV 80+: 20% • DSTI limit: 80 % • Sensitivity test on IR jump • Maturity limits • Mandatory annuity repayments
Borrower-based measures	Indebtedness			• DTI limit: 8 (net income) • Max. share of DTI 8+: 10%

Character	Objective	2015	2016	2017	Expected in 2018
Capital measures	Resilience	• SRB + O-SII: 1 – 2% • CCyB: 0 %	• SRB + O-SII: 1 – 2% • CCyB: 0,5 %	• SRB + O-SII: 1 – 2% • CCyB: 1,25 %	• SRB + O-SII: 1 – 2% • CCyB: increase

Main principles behind measures

For implementation of the measures

1. **Proportionality:** Focus on main pockets of risks easy-to-explain measures
2. **Phased-in arrangements** significantly facilitate the adoption of the measures
3. **Comprehensive toolkit** decreases the risk of circumvention
4. **Deep dive analysis** (market intelligence, building on best practices, understanding specificities)
5. Starting with non-binding measures facilitates the implementation process, with the aim to create a solid legal framework

For calibration

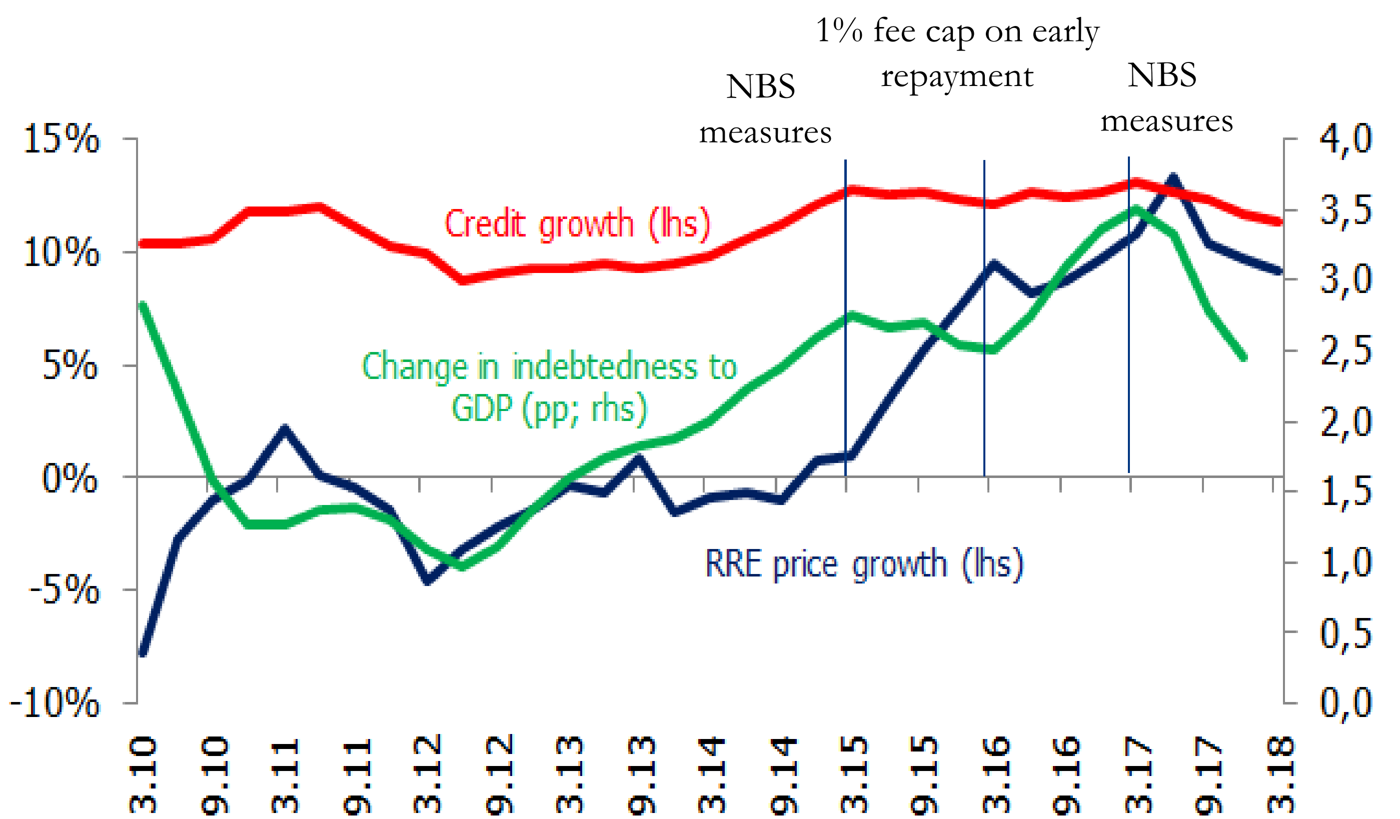
- Starts from the current market practices
- Comparison with standards set in peer countries
- (new for the 2nd revision) Model-based impact study on total indebtedness

For impact assessment

- Quarterly monitoring of detailed distribution of individual parameters

Impact of measures

- Stabilisation of the credit market after NBS measures
- Legislative change triggered further increase in lending in 2016
- Pace of growth decreasing since March 2017
- Impact on resilience of households (lower LTV, DSTI, maturity)
- But the major impact of measures will be tested in the next crises...



Thank you for attention

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