ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

Notification template for borrower-based measures

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- DARWIN/ASTRA when notifying the European Systemic Risk Board (ESRB).

This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[1].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Banka Slovenije
1.2	Country of the notifying authority	Slovenia
1.3	Type of borrower-based measure	Please select one of the measures listed below: ☒ Debt-service-to-income (DSTI) ☐ Loan-to-income (LTI) ☒ Loan-to-value (LTV) ☐ Debt-to-income (DTI) ☒ Loan maturity ☒ Other (Introduction of the LTC limit for loans secured by financial instruments).
1.4	Type of notification	What do you intend to notify? ☐ Activation of a new measure ☒ Change to an existing measure ☐ Extension of an existing measure ☐ Termination of an existing measure

[1] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

Date of template version: 26-11-2021

2. Description of the measure		
2.1	Description of the measure	The measure is amending and renaming the existing macroprudential restrictions on household lending (which are being renamed to macroprudential restrictions on consumer lending). The main changes of the measure are: - Changed conditions for allowed deviation from DSTI cap: The threshold for credit worthiness has been abolished for allowed deviation from the DSTI cap. The change affects both housing and consumer loans. - Lower recommended LTV: The recommended LTV value has been decreased from 80% to 70% for borrowers not buying primary property. For the property to be classified as primary (and eligible for higher LTV up to 80%) it must fulfil three criteria: o It must be pledged as collateral. o The loan must be used to purchase, renovate or build this property. o The borrower must move his/her permanent address to the property. - Loan secured by financial instruments: These loans are exempt from the DSTI cap. However, their maturity is limited to three years and the ratio between the loan and the value of collateral composed of financial instruments at the time of loan approval (LTC) is not allowed to exceed 70 %. - Calculation of allowed deviations quota: The quota for allowed deviations is now calculated with respect to loans which are compliant with all the binding macroprudential instruments and were granted in the *previous quarter*.

		- Housing loans with complete government guarantee have been excluded from the macroprudential restrictions. The measure also includes several technical adjustments which are aimed at clarifying and operationalising the application of macroprudential restrictions.
2.2	Definition of the measure	LTC is defined as the ratio between the loan value and the value of financial instruments pledged as collateral at the time of loan approval. The definitions of DSTI and LTV remain unchanged. As a part of technical adjustments we have defined the maturity of the loans more clearly.
2.3	Legal basis and process of implementation of the measure	The Bank of Slovenia issued the macroprudential restrictions pursuant to Articles 4, 17 and 19 of the Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13). LTV ratio remains in the form of a recommendation. Over the years the compliance with the measure has improved therefore we currently do not see the need to introduce a binding measure. The LTC and maturity caps for loans secured by financial instruments are binding.
2.4	Coverage	These restrictions are addressed to banks, savings banks, branches of Member State and third-country banks in Slovenia.
		The measure covers lending to natural persons.

		The measure covers new housing and consumer loans to natural persons (not all instruments cover all types of loans).
2.5	Calibration	The decision to relax the conditions for allowed deviations from DSTI cap was based on the analysis of data from EU-SILC which was linked with the domestic credit register (SISBON). Our analyses have shown that by abolishing the threshold for credit worthiness for allowed deviation we can improve the credit availability for low income individuals. This recalibration of the measure is possible because of the introduction of sectoral SyRB in the EU macroprudential toolkit. With the concurrent introduction of sectoral SyRB the resilience of the banking system will increase with the aim to compensate increased risks related to the changed scope of allowed deviations from the DSTI cap. The new macroprudential mix will be more effective because the costs of the macroprudential measures will be reduced relative to their benefits. The LTC cap for loans secured by transferable financial instruments was calibrated based on the maximum monthly drawdown of a well diversified equity index (e.g. the S&P 500). For those loans the maturity limit of three years was set, because financing secured by financial instruments should be short-term in nature. The new recommended LTV cap of 70 % for borrowers that are not purchasing their primary residence was determined based on the historical price fluctuations in the Slovene real estate market. Other parameters of the macroprudential mix remain unchanged.
3. Timing for the measure		
3.1	Timing for the decision	29/04/2022

3.2	Timing for publication	06/05/2022
3.3	Disclosure	/
3.4	Timing for the application	01/07/2022
3.5	End date (if applicable)	/
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	See the notification for sectoral SyRB.
4.2	Indicators used for activation of the measure	The measure was originally activated due to the excessive credit growth in the consumer loan segment (see the original notification). The limited recalibration of the measure was prompted by the introduction of new tools, namely, sectoral SyRB which allows us to compensate the partial relaxation of BBMs with increased resilience of the banking sector. The decrease of the recommended LTV from 80 % to 70 % was driven by signs of overvaluation in the real estate market.

4.3	Effects of the measure	The limited relaxation of the conditions for granting the exceptions from the DSTI cap will facilitate access to credit to lower income individuals. The introduction of the differentiated LTV recommendation will facilitate lending to buyers of primary real estate, while addressing the risk of higher real estate prices. The decrease in recommended LTV level from 80 % to 70 % for borrowers not buying their primary property will increase the resilience of these borrowers and reduce the risk for banks in the event of an economic shock. The exemption of loans secured by financial instruments from the DSTI cap will increase access to financing for individuals with financial assets.
5.	**Sufficiency, consistency and non-overlap of the policy response**	
5.1	Sufficiency of the policy response	The borrower based measures in Slovenia have achieved their objectives. The excessive credit growth of consumer loans has moderated and credit standard have remained stable despite the recent acceleration of housing loan growth. The limited relaxation of macroprudential measure will be performed to improve access to credit for lower income individuals. With the concurrent introduction of higher capital requirements we believe that the resilience of the banking system will nevertheless increase. More information on the assessment of the existing borrower based measures is available in: Financial stability review October 2021 p. 81 – 83. Financial stability review April 2021 p. 81 – 84 Bank of Slovenia's annual report for 2020 p. 70 - 72 Financial stability review October 2020 p. 77 – 78

5.2	Consistency of application of the policy response	The instrument mix is consistent to the identified risks and vulnerabilities and it follows the ESRB Recommendation on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) and Bank of Slovenia's Strategic framework for macroprudential policy (link). The intermediate objective of macroprudential measures is to mitigate and prevent excessive credit growth and leverage.
5.3	Non-overlap of the policy response	The borrower based measures address the potential vulnerabilities arising from new loans to households by preventing excessive credit growth and deterioration of credit standards. Flexibility allowed by the Article 124 of CRR is also active; the LTV threshold for lower risk weight for exposure secured by RRE was decreased from 80 % to 60 %. This measure targets the risks associated with the existing loans secured by RRE. The measure was introduced before binding borrower based measures were put in place. Given the signs of overvaluation in the housing market the measure remains necessary to address the risks on the balance sheets of banks. The limited relaxation of the allowed deviations from the DSTI cap may lead to increased credit risk. This effect will be offset by the introduction of two sectoral SyRBs which will target exposures to natural persons. Exposures to natural persons secured by RRE will be subject to a 1 % buffer rate whereas all other exposures to natural persons will be subject to a 0.5 % buffer rate. With this calibration of buffers the level of resilience in the banking system will remain unchanged or may even increase.
6. Cross-border and cross-sector impact of the measure		

<table>
<tr><td>6.1</td><td>Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2[2])</td><td>Cross-border effects are deemed very unlikely for the following reasons.

The measure applies also to branches of foreign banks operating in Slovenia. Therefore, there is no risk that the effectiveness of the measure is undermined if subsidiaries in Slovenia of foreign banks were converted into branches.

Negative inward and outward effects would arise if Slovenian borrowers redirected their demand for loans abroad. Therefore, household lending from abroad is an indicator to monitor for the purpose of assessing whether cross-border effects arise. The table below shows no significant increase in this indicator that could be associated with the introduction or tightening of these MaP measures.

<table>
<tr><th>Date</th><th>mil EUR</th></tr>
<tr><td>2014-Q4</td><td>344</td></tr>
<tr><td>2015-Q4</td><td>339</td></tr>
<tr><td>2016-Q4</td><td>384</td></tr>
<tr><td>2017-Q4</td><td>334</td></tr>
<tr><td>2018-Q4</td><td>306</td></tr>
<tr><td>2019-Q4</td><td>285</td></tr>
<tr><td>2020-Q4</td><td>273</td></tr>
<tr><td>2021-Q4</td><td>267</td></tr>
</table>
Source: ECB SDW</td></tr>
<tr><td>6.2</td><td>Assessment of leakages and regulatory arbitrage within the notifying Member State</td><td>Potential for regulatory arbitrage and leakages for housing loans is rather small, since banks are their main providers. Potential for regulatory arbitrage and leakages is larger for consumer loans. The potential is the highest within banks as they can avoid the macroprudential restrictions by shifting lending from loans to overdrafts and credit card lending. We expect that the relaxation of conditions for granting allowed deviations from the DSTI cap will decrease the incentive for the circumvention of measures. Currently the level of circumvention from the measures is confined to alternative banking products the scope of which is still limited and closely monitored. Bank</td></tr>
</table>

[2] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

		of Slovenia will continue to monitor potential circumventions of macroprudential measures and act if deemed necessary.
6.3	Request for reciprocation	No, exposure of Slovene households to foreign lenders is low and has not materially changed since the original binding borrower based measures came into force.
6.4	Justification for the request for reciprocation	/
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	Mark Požlep, +386 1 47 19 351, mark.pozlep@bsi.si Črt Lenarčič, +386 1 4719-693, crt.lenarcic@bsi.si Monika Tepina, +386 1 4719-368, monika.tepina@bsi.si
7.2	Any other relevant information	More information about the measure is available in the Financial Stability Review May 2022 which will be available at the following address in the coming weeks. The unofficial English translation of the measure is available here.
7.3	Date of the notification	11/05/2022