

Template for notifying national macroprudential measures not covered by CRR/CRD

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB.

Emailing this template to the above-mentioned addresses constitutes an 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 electronically copying the information.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Národná banka Slovenska
1.2	Name of the macroprudential measure that is notified.	1. Limit on debt service to income ratio for consumer loans 2. Maturity limits for consumer loans
2. Description of the measure		
2.1	Description of the measure.	<p>1. Limit on debt service to income ratio for consumer loans (tightening of the measure transferred from existing recommendation)</p> <p>Loan instalments (for both new and existing loans, subject to assumed interest rate increase by 2 p.p., if interest rate is not fixed) cannot exceed 80 % of borrower's disposable income. Disposable income is defined as net income less the minimum subsistence amount (including the minimum subsistence amount for children and spouse, if applicable).</p> <p>Exception: For clients with debt-to-income (including the new loan) not exceeding 1 (or 1.5 in case of leasing), the above-mentioned limit is 100 %.</p> <p>2. Maturity limits for consumer loans</p> <p>a) consumer loans granted by financial institutions other than building societies: 8 years</p>

		a) loans granted by building societies: 30 years (measure transferred from existing recommendation)
2.2	Legal basis and process of implementation of the measure.	All measures are adopted in the form of binding NBS Decree of 14 November 2017, laying down the details of its assessment of the consumer's ability to repay a consumer loan. The decree has been adopted in accordance with Article 7 (41) of the Act No 129/2010 Coll. on consumer loans, as amended.
2.3	Coverage	Exposures: All new consumer loans in accordance with Act on consumer loans, except refinancing loans without a significant top-up (i.e. top-up less than both 5 % and 2000 €). Institutions: All institutions providing consumer loans (banks as well as non-banks)
2.4	Any other relevant information.	The implementation of the measures is related to the transformation of the existing non-binding NBS Recommendation No 1/2014 into binding law. As indicated above, some parts of the measures have already been in place and they are only changing their legal status from non-binding to binding, others are new or tightened (DSTI limit). After the Decree has been adopted, the NBS Recommendation will be redundant and will be repealed. The measures complement similar measures which are already in place for housing loans since 1 January 2017. The DSTI is set at the same level for both consumer and housing loans, in order to prevent any leakages. The measures are further underpinned by additional qualitative requirements included in the Decree, notably in the area of income declaration and verification.
3. Timing		

3.1	Timing of the decision	14 November 2017				
3.2	Timing of the publication	Second half of November 2017 (tbc)				
3.3	Disclosure	<p>Communication with stakeholders:</p> <p>Several rounds of intense discussions over the period of 12 months with all relevant stakeholders (most notably, associations of banks as well as non-banking lenders) have taken place and numerous comments were taken into account, including the proper design of phase-in arrangements.</p> <p>Communication with general public:</p> <p>The intention to adopt these measures has already been communicated since August 2017 and the detailed draft was published in September 2017.</p> <p>During late summer, extensive communication with journalist community, including information meetings, has been conducted.</p>				
3.4	Timing of the application	<p>1. Debt service to income limit for housing loans</p> <p><u>Date of activation:</u> 1 January 2018</p> <p><u>Phase in:</u> The limits are set as follows:</p> <table> <tr> <td>1 January 2018 – 30 June 2018:</td> <td>85 %</td> </tr> <tr> <td>From 1 July 2018:</td> <td>80 %</td> </tr> </table> <p>2. Maturity limits for housing loans</p> <p>Date of activation: 1 January 2018, no phase-in</p>	1 January 2018 – 30 June 2018:	85 %	From 1 July 2018:	80 %
1 January 2018 – 30 June 2018:	85 %					
From 1 July 2018:	80 %					
3.5	End date (if applicable)	Not applicable.				
4. Reason for the activation of the measure						

4.1	<p>Description of the macroprudential risk to be addressed.</p>	<p>The main vulnerability in the Slovakian housing market is related to the household stretch, in particular rapid credit growth leading to increasing indebtedness of Slovakian households.</p> <p>The share of loans to households in GDP in Slovakia reached the highest value in Central and Eastern Europe during 2017. The increase in this indicator over the past 12 months was also the highest in the euro area as well as in the Central and Eastern European countries. In 2017, it was also confirmed that Slovakia is the only EU country in which household indebtedness has been increasing steadily since 2005.</p> <p>Positive economic environment is an important factor supporting the strong credit growth, but changes in economic fundaments (compared to other peer countries) themselves are not sufficient to explain the growth of retail loans. The credit growth is mainly driven by very low interest rates.</p> <p>In addition, vulnerabilities related to household stretch could be further amplified by high share of refinancing with top-ups (contributing to higher debt concentration), high share of mortgages sensitive to interest rate changes and low financial asset-to-debt ratio.</p> <p>Furthermore, there is some evidence that indebtedness is concentrated in certain age and income cohorts.</p> <p>The existing decree on housing loans has already put in place prudent standards in the area of housing loans. However, to be fully effective, it is important that the same standards for DSTI and prudent limits for maximum maturity are also applicable to consumer loans.</p>
4.2	<p>Description of the indicators on the basis of which the measure is activated.</p>	<p>Household loan growth rates have been basically above 10% since the outbreak of the financial crisis for the past two years. Household credit-to-HDP has risen significantly from 24 % (end 2011) to 38 % (June 2017).</p> <p>The consumer credit growth is at 12.9 % (y-o-y) as of September 2017. Although still on high level compared to other euro area countries, interest rates on consumer loans has been falling significantly recently (by 1.5 p.p. between September 2016 and September 2017).</p>

		In addition, the net default rate for consumer loans was gradually increasing between January 2015 and June 2017, despite the positive economic situation. This trend has been halted recently, but the default rate still remains at elevated levels.
4.3	Effects of the measure.	The main purpose of the Decree is to ensure that credit growth is sound and sustainable and to complement the package of macroprudential measures to be effective for both housing loans and consumer loans. This will reduce risks to both customers and banks.

5. Cross-border and cross-sector impact of the measure

5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	<p>Cross-border effects are not expected.</p> <p>The measures are directly applicable to all new consumer loan contracts within Slovak jurisdiction, irrespective of whether the lender is domestic or foreign.</p> <p>In addition, consumer loans to Slovak households provided abroad are virtually non-existing.</p> <p>In addition, we do not expect any shift from domestic lending activities to abroad or vice versa as a result of the measures taken.</p>
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	<p>For consumer loans, potential leakages related to the coverage of creditors should be prevented, given that the Decree is directly applicable and binding to all providers of consumer loans.</p> <p>In addition, the measures complement similar measures which are already in place for housing loans since 1 January 2017. The same level of calibration of the DSTI limit applicable for both consumer and housing loans addresses existing potential leakages of housing loan regulation, which could be circumvented by supplementing of housing loans by consumer loans exceeding DSTI limits until now.</p> <p>On the other hand, the DSTI is currently not applicable to so called pre-approved consumer loans, i.e. loans where the loan amount is set in a pre-approval process that does not involve the active participation of the customer</p>

		and is based on the bank's internal or external historical data about the customer's financial situation
5.3	Request for reciprocation	Reciprocation: Not requested (see the explanation described in Q 5.1)
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	Marek Ličák Director of the Macroprudential Policy Department +421 2 5787 2863 marek.licak@nbs.sk
6.2	Any other relevant information.	This is a formal notification of the measures adopted. Before the adoption, extensive communication with both ECB and ESRB has taken place and the measures are already fed into the latest ECB Macroprudential Report. Slovak version of the decree will be available on the NBS's website in due course at https://www.nbs.sk/sk/dohlad-nad-financnym-trhom/politika-obozretnosti-na-makrourovni2 English translation of the decree will be available on the NBS's website in due course.