

Bratislava, 11th of February 2022

Your ref: ESRB/2021/16

Response to the warning of the European Systemic Risk Board on vulnerabilities in the residential real estate sector in Slovakia

Dear Mr Mazzaferro

Thank you very much for your notification of the warning of the European Systemic Risk Board (ESRB) on medium-term vulnerabilities in the residential real estate sector in Slovakia and for the opportunity to submit our response on this matter.

The Ministry of Finance of the Slovak Republic (MoF), together with the National Bank of Slovakia (NBS) as the macroprudential authority, fully appreciate and support the ESRB's work and detailed analysis on systemic risk in this area. We particularly appreciate very good timing of the work as it addresses the imbalances on the real estate markets that have again come to the fore with the coronacrisis gradually fading out. We also appreciate very in-depth analysis, which is based on extensive cooperation with experts from the NBS.

Both the MoF and the NBS agree with the ESRB's assessment and fully acknowledge the presence of the vulnerabilities as identified in the warning of the ESRB. We are monitoring the trends on both real estate and credit market closely and stand ready to react in case the imbalances continue to build up in the medium-term horizon. Depending on the future evolution, the growing imbalances might be addressed by borrower-based or capital-based measures.

The growing households' debt and strong growth of real estate prices is an issue that we have been following closely for a couple of years. We have gradually implemented a comprehensive package of policy measures mitigating these risks. The recent crisis has confirmed that in general, these measures are properly calibrated and that they have effectively helped protect the households against default.

In addition, the current growth of indebtedness is strongly supported by economic fundamentals, including increasing income of households, the accumulation of household savings during lockdowns and rising debt penetration.

Nevertheless, we have also identified several pockets of risks. The main risk factors currently present are: households excessively topping up their loans and extending the loan maturity beyond retirement age. If necessary, Slovak authorities will consider adjusting the borrower-based measures.

At the same time, we agree that it is important to discuss and thoroughly investigate structural factors contributing to this trend, including lack of supply of new housing, underdevelopment of the rental housing market and the area of property taxation.

Slovak authorities will keep the ESRB informed about the evolution of the identified imbalances and on any macroprudential measures or other policy steps that might be implemented to mitigate these risks.

Yours sincerely,

Francesco Mazzaferro
Head of the ESRB Secretariat
European Systemic Risk Board
c/o European Central Bank
Sonnemannstrasse 22
60314 Frankfurt am Main
Germany

A handwritten signature in blue ink, consisting of a large, stylized 'F' followed by a long, sweeping horizontal stroke that curves downwards at the end.