



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

Jozef Makúch

Governor

Mr Mario Draghi
Chairman
European Systemic Risk Board
Frankfurt am Main

7 November 2014

Dear Mr Draghi

In accordance with Articles 136 and 160 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (hereinafter 'CRD IV'), we provide you with the following notifications:

(1) Earlier introduction of the capital conservation buffer

Slovakia has exercised the option stated in Article 160(6) of CRD IV and has implemented a shorter transitional period for the capital conservation buffer.

CRD IV has been enacted in Slovak national legislation by an amendment to Act No 483/2001 Coll. of 5 October 2001 on banks as amended (hereinafter 'the Banking Act'), which entered into force on 1 August 2014. Pursuant to Articles 33b and 122t of the Banking Act, banks are required to maintain a capital conservation buffer of Common Equity Tier 1 capital equal to:

- a) 1.5% of banks' total risk exposure between 1 August 2014 to 30 September 2014;
- b) 2.5% of banks' total risk exposure from 1 October 2014 onwards.

(2) Earlier introduction of the countercyclical capital buffer

Slovakia has exercised the option stated in Article 160(6) of CRD IV and has implemented a shorter transitional period for the countercyclical capital buffer.

Pursuant to Articles 33 of the Banking Act, banks are required to maintain a countercyclical capital buffer (CCB) of Common Equity Tier 1 capital. This requirement entered into force on 1 August 2014. The CCB rate for Slovakia will be set in accordance with Article 33g of the Banking Act by Národná banka Slovenska, which is the country's designated authority for setting the CCB rate.

(3) Setting the countercyclical capital buffer rate at 0%

Pursuant to Decision No 12/2014 of Národná banka Slovenska of 7 October 2014 on the setting of the countercyclical capital buffer rate, the CCB rate for Slovakia was set at 0%. Issued in accordance with Article 33g of the Banking Act, this decision enters into force on 1 November 2014.

The following information is provided as required under CRD IV, Article 136(7):

- (a) the applicable countercyclical buffer rate: 0 %;
- (b) the relevant credit-to-GDP-ratio: 78.9% and its deviation from the long-term trend: -2.7%;
- (c) the buffer guide calculated in accordance with Article 136(2): 0%;
- (d) the justification for that buffer rate: The growth rate in overall private debt (enterprises and households) did not increase. The deviation of the private debt-to-GDP ratio from its long-term trend (the credit-to-GDP gap) remained negative. Thus, from the view of the trends to date, the private debt-to-GDP ratio is not rising excessively. At the same time, the overall financial and business cycle is at low levels in comparison with previous periods: GDP is below its long-term trend, the unemployment rate remains elevated, housing affordability is high, and, as already mentioned, private debt growth is not strong.¹

In addition to these notifications required by CRD IV, we provide you with notification of the issuance of **Recommendation No 1/2014 of Národná banka Slovenska of 7 October 2014 in the area of macroprudential policy on risks related to market developments in retail lending**. The Recommendation consists of the following seven sub-recommendations aimed at specific risks:

- A. Comply with loan-to-value (LTV) ratio limits and maintain a prudent approach when appraising real estate collateral.
 - No loan should be granted with an LTV ratio of over 100%.
 - The share of loans with an LTV ratio of between 90% and 100% should not exceed:
 - a) 25%, until 30 June 2015;
 - b) 20%, from 1 July 2015 to 31 March 2016;
 - c) 15%, from 1 April 2016 to 31 December 2016;
 - d) 10%, from 1 January 2017.
- B. Set and adhere to an internal limit for an indicator of customer repayment ability (debt service-to-income ratio) and verify customer income.

The income verification requirement should not be replaced by stricter LTV ratio limits.
- C. Maintain the limit for the indicator of customer repayment ability in the case of an increase in interest rates.

The internal limit for the indicator of customer repayment ability should still be met in the event the loan was subject to an interest rate increase of 2 percentage points and assuming that the maturity period is at the maximum recommended limit (see Recommendation E below).

¹ More background information about the decision is available at:
http://www.nbs.sk/_img/Documents/_Dohlad/Makropolitika/Quarterly_commentary_2014_October_EN.pdf

- D. Perform portfolio stress testing for an increase in interest rates and unemployment.
- E. Avoid providing loans with an overly long maturity and do not provide loans with progressive or deferred payments.
- The maximum recommended maturity for housing loans is 30 years (10% of new loans may exceed this limit).
 - The maximum recommended maturity for other loans is:
 - a) 9 years, from 1 March 2015 to 31 December 2015;
 - b) 8 years, after 1 January 2016.
 - Loans with deferred instalments should not be granted (with defined exceptions)
- F. Maintain a prudential approach to loan refinancing.
- LTV ratio and maturity limits should continue to be met in the case of top-up loans.
 - The customer's income should be reassessed and the debt service-to-income ratio limit should continue to be met.
- G. Maintain a prudential approach to lending through intermediaries.
- Ensure that the share of these loans does not create pressure to loosen lending standards.
 - Maintain a diverse pool of intermediaries.

The LTV ratio limits stated in recommendation A enter into force on 1 November 2014. All other recommendations enter into force on 1 March 2015.

The Recommendation is considered as a preventive step. Národná banka Slovenska does not view growth in household lending, which has been among the highest in any EU country, as detrimental to the stability of the Slovak financial sector. The aim of the Recommendation is to address possible imbalances in the retail credit market that have recently been identified, to mitigate the build-up of systemic risk, and to maintain the sound functioning of the retail lending market. The imbalances referred to relate mainly to loans with high LTV ratios, an absence of income verification when refinancing loans, and an absence of assessments of loan affordability in the event of an interest rate increase. At this stage, however, these risks are not imminent. Hence Národná banka Slovenska considers a non-binding measure to be a proportionate response to the current situation. The need for additional measures will be assessed based on regular follow-up procedures and reporting.

The full wording of the Recommendation in the Slovak language has been published in the Journal of Národná banka Slovenska. The full wording in the English language, as well as a summary version, is available on the website of Národná banka Slovenska.²

For any further details or explanations, please contact Mr Marek Ličák, Director of the Macprudential Policy Department (marek.licak@nbs.sk, + 421 2 5787 2863).

Yours sincerely



² <http://www.nbs.sk/en/financial-market-supervision/macprudential-policy/current-status-of-macprudential-instruments/current-setting-of-other-instruments-applicable-in-slovakia>