

Macroprudential policy and Financial inclusion in Slovakia



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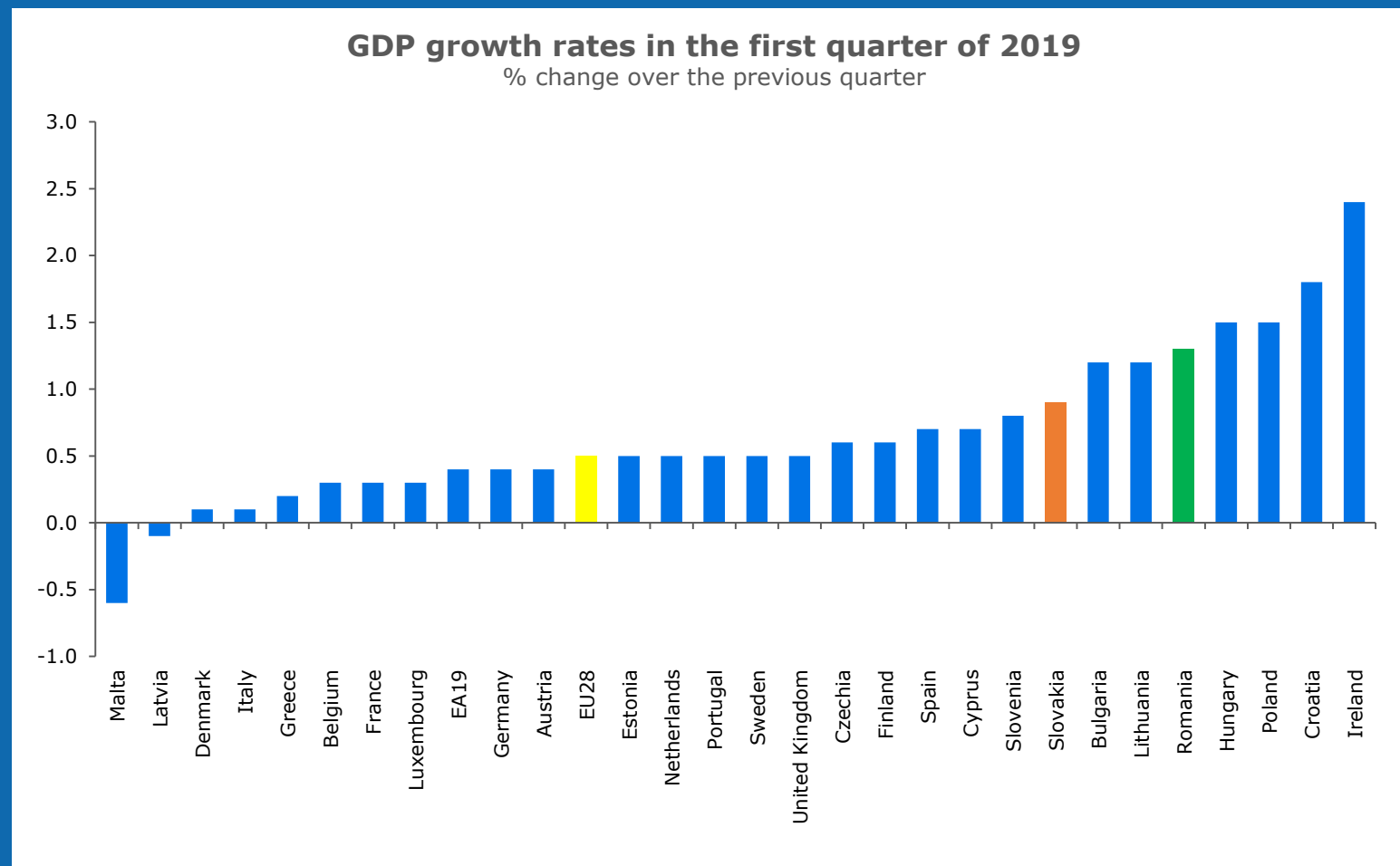
Real economic growth rate dynamic of EU countries

Slovakia at a glance in 2019:

- Small and open economy
- Automotive industry
- GDP growth rate 0,9 %
- Private consumption increase
- Employment growing
- Disposable income raise
- Inflation slightly above ECB target
- Deficit on GDP - 0,7 %
- Gross Debt on GDP – 47,9 %

Slovakia at real convergence:

	2018	2019	2020
GDP in PPP (% EU)	79 (80)	80 (81)	82
Price level	69,7	70,0	70,3
Labor productivity (% EU)	82 (83)	84 (84)	85



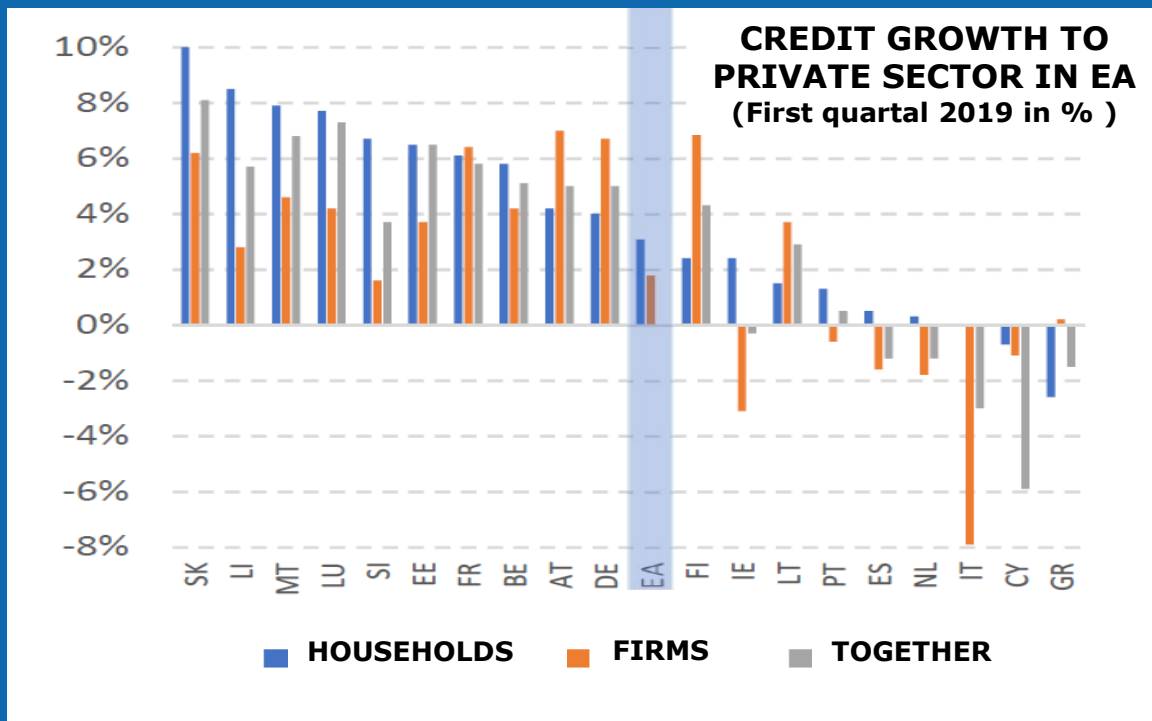
Almost all EU countries are experiencing „good times“

Macroprudential policy and financial stability

The persistence of the expansionary phase of the financial cycle in Slovakia. Cyclical risks are high in all areas:

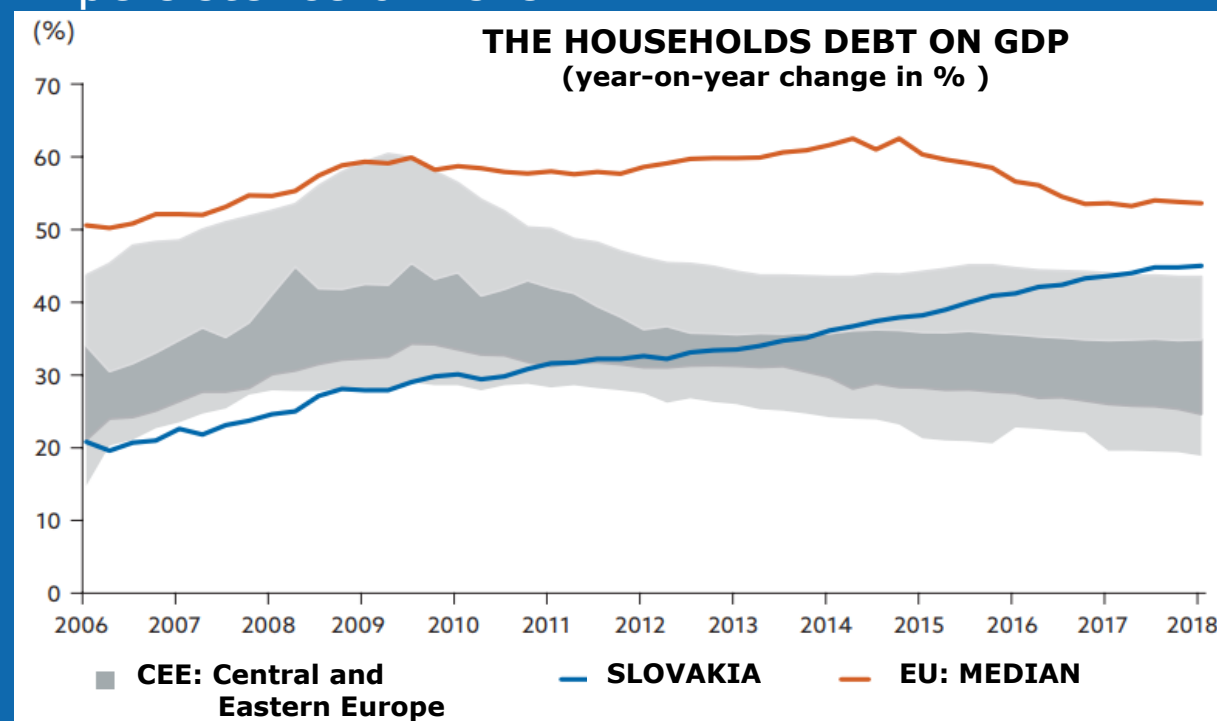
- Excessive credit growth and indebtedness
- Continual raise in housing prices
- Low credit costs and risk perception rates

- Overheating of the economy, especially in the labor market
- Simulation for the upcoming period indicates persistence of risks



Source: ECB, NBS.

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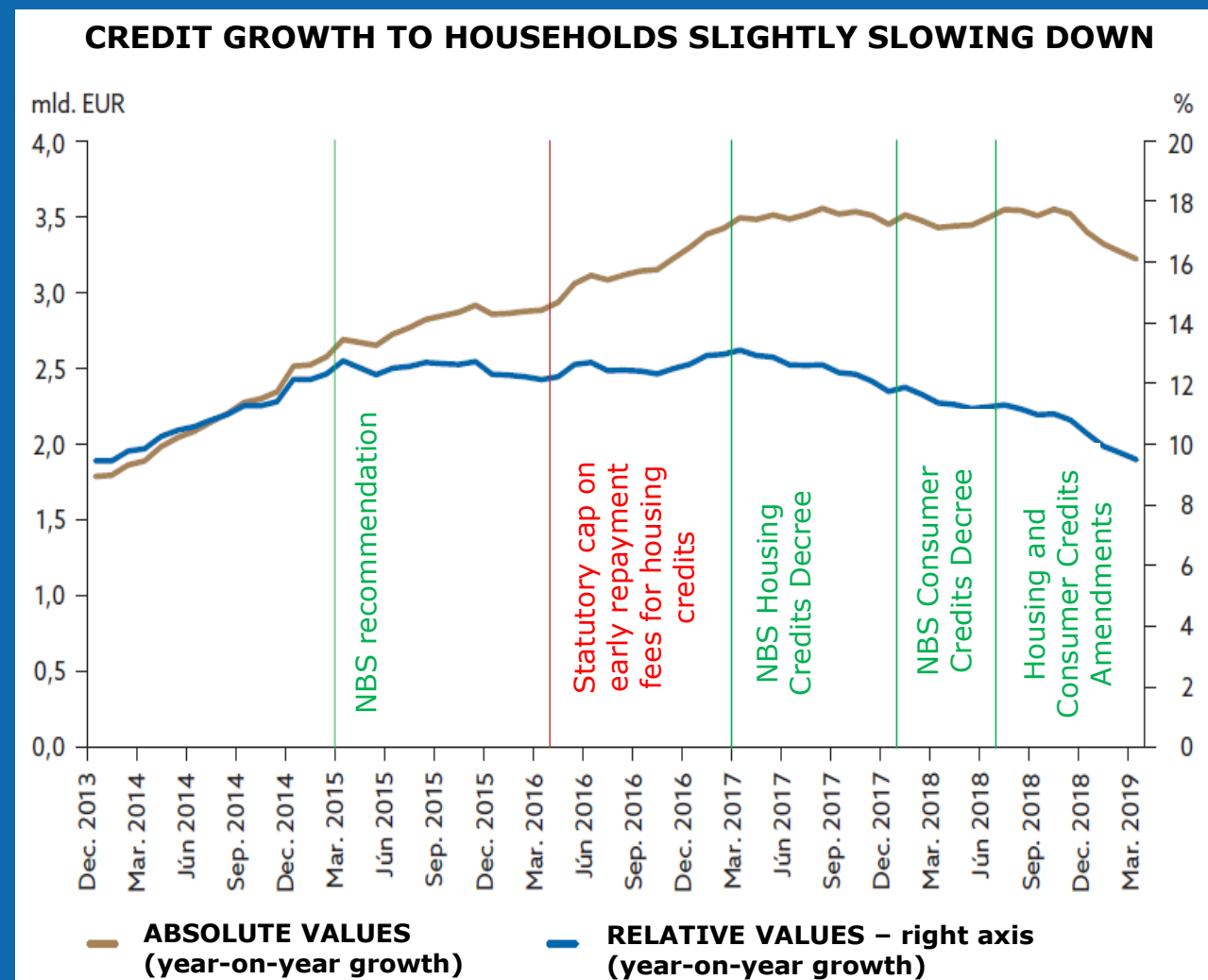


Source: EUROSTAT.

Macroprudential policy and financial stability

What we did for financial stability?

- Countercyclical capital buffer (0,5 % July 2016, 1,25 % July 2017, 1,5 % July 2017, 2,0 % July 2019)
- Capital conservation buffer (2,5 %)
- Systemic risk buffer (1 %)
- Other systemically important institutions buffer (0,5 % - 1 %)
- Statutory cap on early repayment fees for housing credits (early credit repayment fee limit 1 %)
- Housing credits recommendation and Consumer credits recommendation (LTV – Loan to Value, DTI – Debt to Income, DSTI – Debt Service to Income, Indicator of the consumer's ability to pay, Maximum Credit Maturity)



Source: NBS.

NOTES: Green color actions, that moderated credit growth
Red color action, that accelerated credit growth

AIM: financial stability and financial inclusion

Macroprudential policy and financial inclusion in Slovakia

Macroprudential policy versus Financial Inclusion

Financial inclusion is not the main objective of macroprudential analyses.

- Implementation of macroprudential tools especially borrower-based measures (BBMs), may have important implication on financial inclusion
- Financial inclusion must therefore be taken into account by macroprudential policy makers, especially within the process of implementation/adjustment of the tools

▪ General concept

- BBMs seek to prevent excessive risk taking
- BBM limits (credit volume) most riskiest profile is restricted (clients with less financial literacy)
- Aim is not **to exclude** these clients from the financial market, but to make their loans **appropriate** to their financial profile
- Note: Improper calibration of the tools may prevent loans from being provided at all. Hence, the limits must be set with caution.

Preserving financial inclusion

- No one-size-fits-all tool and different borrowers need different treatment
- To take into account and adjust some peculiarities with aim **not to exclude** certain groups of clients that are not source of systemic risk for financial system
- Several countries introduced exemptions e.g. for first-time-home-buyers, that are buying their first and primary dwelling. They may apply for loans with either higher LTV or LTI parameter

Macroprudential policy versus Financial Inclusion

Slovak experience:

- Young families may reach total debt-to-income up to 9, while general limit is 8
- Households with low total debt may get loans with debt-service-to-income (less living cost) up to 100 %, while general limit is 80 %
- In addition, all borrower-based measures were introduced gradually over almost 5 year period to avoid market shock

Borrower based measures active in Slovakia

Macroprudential policy „soft tools“

- recommendations and guidelines

Slovak experience: Apart from general public communication, there were specialized lectures presented solely for mortgage brokers

- They have direct and substantial influence on the borrowers
- They represent a „catalyst“ in promoting either risky or responsible financial behavior

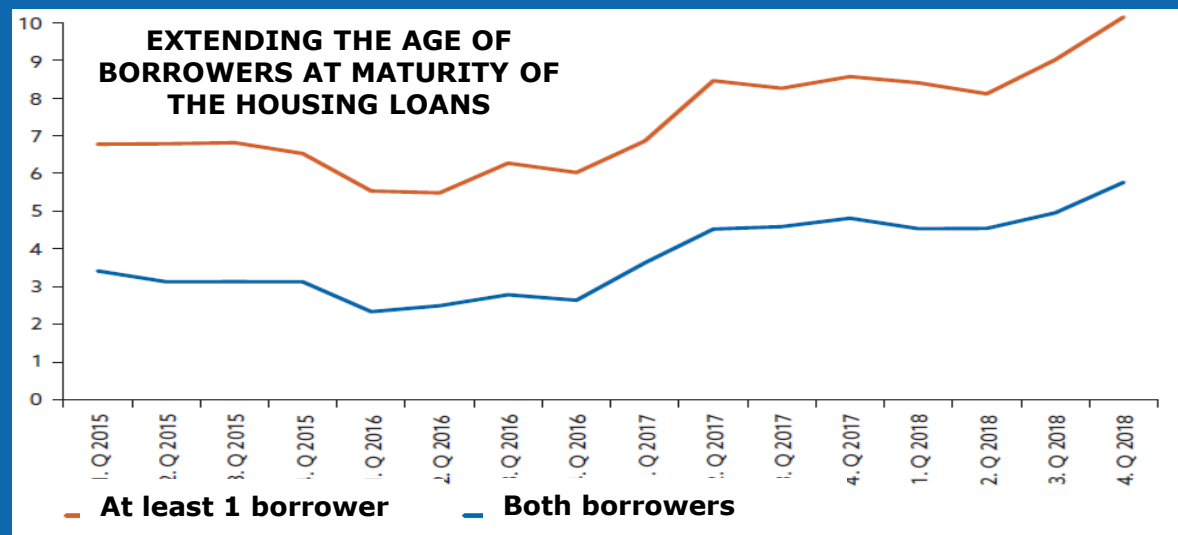
Indicator	Calculation	Parameter	Limit
Debt service-to-income (DSTI) ratio	$\frac{\text{total debt service obligations}^{1)}}{\text{net income} - \text{minimum subsistence amount}}$	Maximum DSTI ratio	80% ²⁾
Loan-to-value (LTV) ratio ³⁾	$\frac{\text{amount of loan}}{\text{value of collateral}}$	Maximum LTV ratio	90%
		Maximum share of new loans with an LTV ratio > 80%	H1 2019: 25% From July 2019: 20%
Debt-to-income (DTI) ratio	$\frac{\text{total debt}}{\text{annual net income}}$	Maximum share of new loans with a DTI ratio > 8	H1 2018: 10% From 1 July 2019: 5% + 5% ⁴⁾
Maximum term of loan		Loan with immovable property collateral or provided by a home savings bank	30 years ⁵⁾
		Other loan	8 years

Macroprudential policy versus Financial Inclusion

What is the effectiveness of the measures taken?

FOR BANKS

- The risk of new credit (last 2 years), after tightening the conditions of lending, has decreased significantly
- Banks' losses in the event of an economic shock could fall by almost half
- Reducing the risk of the retail portfolio
- Higher resilience of the banking sector



Source: NBS.

Macroprudential policy and financial inclusion in Slovakia

FOR HOUSEHOLDS

- The decline in riskiness for households
- Decrease in the probability of households default and loss in the worsened economic conditions
- Moderate slowdown in the growth of the indebtedness of the households
- Absolute value of indebtedness has reached historical maximum (45 % of GDP)
- Increasing debt penetration also contributes to reducing the potential for further credit growth

Negative effects:

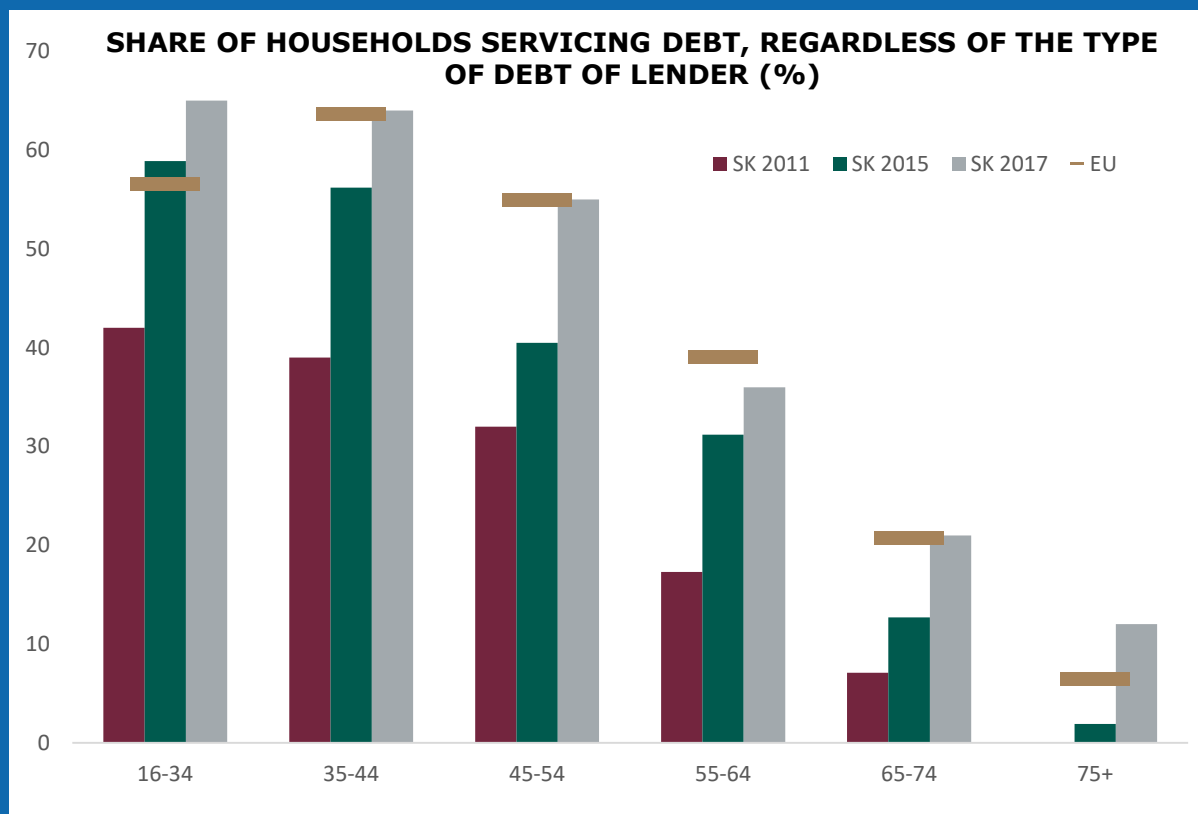
- Significant relative increase in penetration in older age groups
- The lowest share of net financial assets in GDP within the EU

Macroprudential policy versus Financial Inclusion

Feedback loops between macroprudential policy and financial inclusion

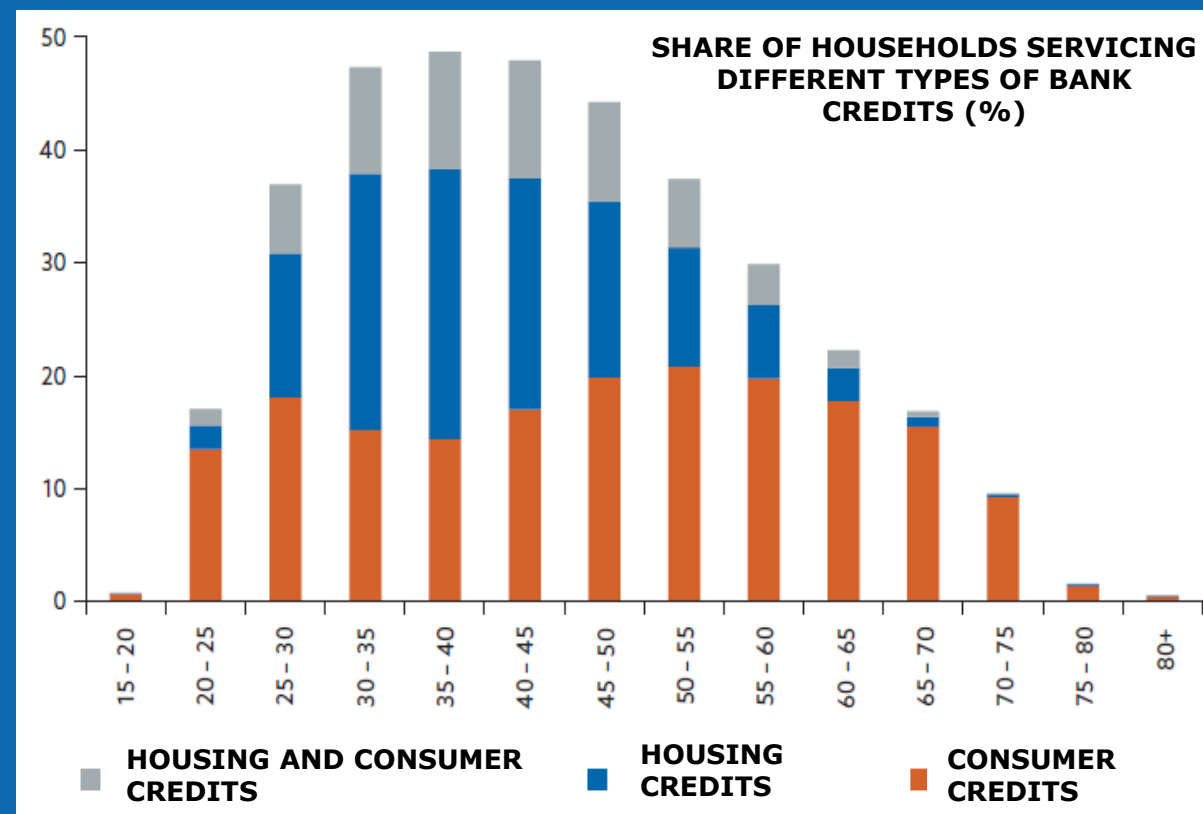
Loans penetration in the household sector is rising more quickly in Slovakia than in the EU as a whole.

Penetration of housing loans is concentrated in the younger age groups, while consumer loans in the older age population.



Source: ECB, NBS.

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Source: ECB, NBS.

Several facts about financial inclusion in Slovakia:

- Up to 64 % of Roma households live more than 3 km from the nearest bank branch, compared to the general population, where the same applies to only 36 % of citizens*.
- Remarkably high share of Roma households is borrowing from informal lenders and shopkeepers. Loan shark activity is very much present in the communities. In many cases the source of credit is kept secret*.
- According to the study drafted by the World Bank** on the Financial Inclusion of the Roma, 29 % of Roma households in Slovakia have access to a checking account.
- According to the study drafted by the World Bank** on the Financial Inclusion of the Roma, 5.2 % of Roma families in Slovakia have access to a savings account.
- According to the study drafted by the World Bank** on the Financial Inclusion of Roma, 5.8 % of Roma households borrow money from friends or relatives; 1.4 % from informal creditors; 2.2 % from shopkeepers and 9.4 % from other sources.

* Report on living conditions Roma households in Slovakia

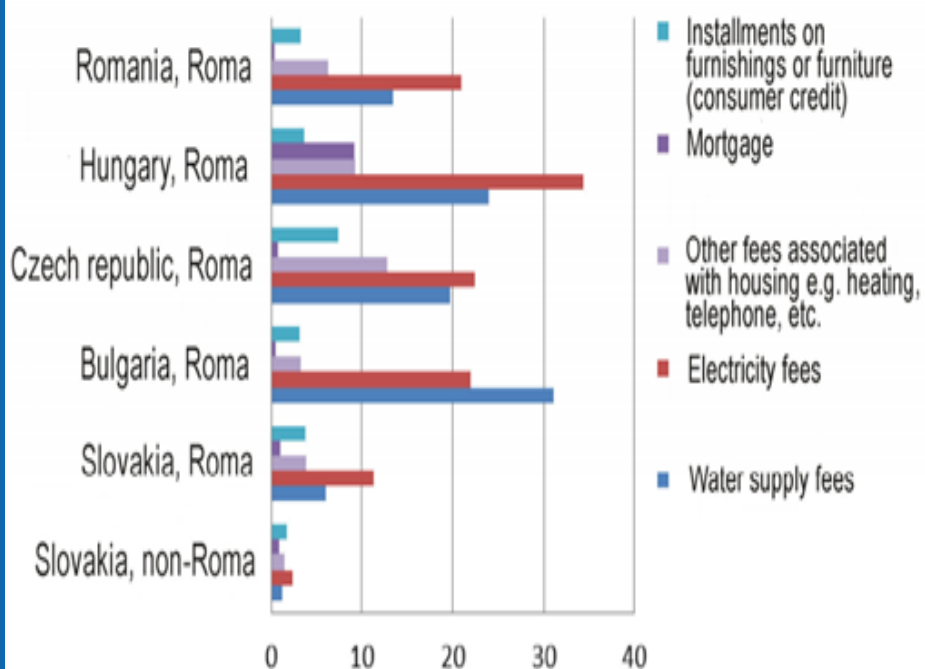
** The World Bank (draft). Financial Inclusion of the Roma in Eastern Europe: The Road to (Self-)Employment?

Financial Inclusion

The Role of the institutions (government, central bank) in financial inclusion:

Financial inclusion strategy (Action plan) in Slovakia is based on:

THE HOUSEHOLDS IN ARREARS WITH RESPECT TO FEES ASSOCIATED WITH HOUSING**



* Report on living conditions Roma households in Slovakia

** The World Bank (draft). Financial Inclusion of the Roma in Eastern Europe: The Road to (Self-) Employment?

1. Strategy of the Slovak Republic for Integration of Roma up to 2020

- Improve financial literacy
- Provide marginalized Roma communities information on financial services, advanced financial education and training in marginalized Roma communities
- Improve access to financial services (mostly savings accounts)
- Increase the protection of marginalized Roma communities against loan - sharking activities and illegal practices of credit companies using systematic terrain work
- Increase education in financial literacy and a comprehensive revision of the criminal law and financial measures aimed at customer protection
- Support development of microfinance programs in marginalized regions – small and medium enterprises, self-employed individuals

2. National standard of financial literacy version 1.1, 1.2

- Financial literacy as a part of pupils „key competences“

Activities of National bank of Slovakia in financial education:

In order to prevent and help financial consumers to make the right decisions about their finances, we conduct educational workshops and activities aimed at developing financial literacy, especially for pupils and students.

Several educational activities:

- **Primary schools**

- "How to spend and manage money wisely?"
- "Financial literacy quiz"

- **Secondary schools**

- "Financial literacy in context"

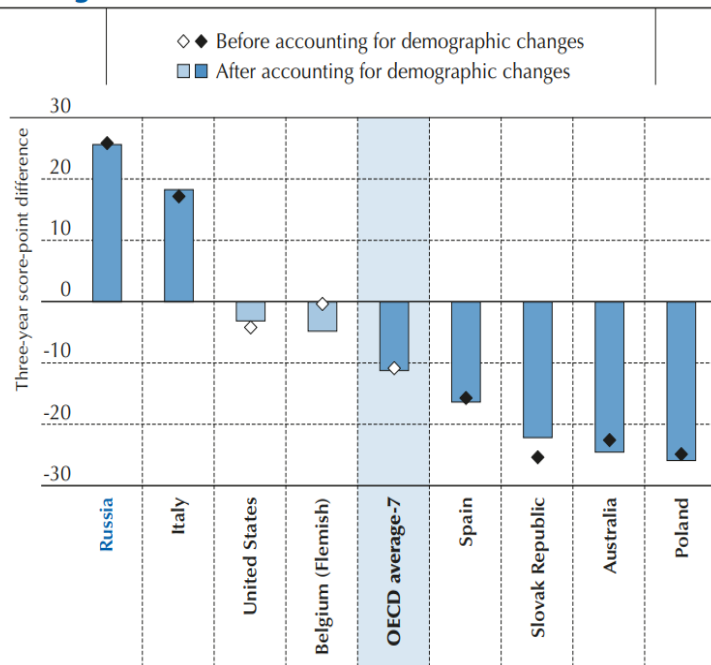
- **Adults**

- Leaflets on various consumer topics: „The financial consumer protection“
„5 principles of responsible financial consumer“
„How to make decision in life insurance“
„Do you need money? Consumer credit – how to do it?“

NEW CONCEPT OF THE NBS STRATEGY in the area of financial education - focus on training of trainers, cooperation with community centers for marginalized groups.

Why is it important to make activities in the field of financial education?

Figure IV.3.7 ■ Change between 2012 and 2015 in mean financial literacy performance



Notes: Statistically significant differences are shown in a darker tone (see Annex A3).

Only countries/economies that participated in both the PISA 2012 and PISA 2015 assessments are shown.

The three-year trend after accounting for demographic changes shows how the performance of a population with the same demographic profile as the PISA 2015 population has changed over time. Demographic characteristics considered are: students' age (in three-month increments), gender, and immigrant background.

Countries and economies are ranked in descending order of the three-year trend in financial literacy performance, after accounting for demographic changes.

Source: OECD, PISA 2015 Database, Tables IV.3.1 and IV.3.5.

StatLink <http://dx.doi.org/10.1787/888933485064>

- Only 2 of the tested countries had a significant improvement in average financial literacy
- By contrast, four countries show a significant deterioration in average performance

Slovakia experience:

- The Slovakia achieved 445 points in financial literacy in PISA 2015.
- The average score of Slovak pupils is thus below the average of the participating OECD countries.
- Pupils from Lithuania achieved comparable performance as Slovak pupils.
- Within the OECD countries, only Chile was significantly lower than Slovakia.
- When comparing cycles 2015 and 2012, we noticed a significant decrease in the performance of Slovak pupils (25 points).

NEW CONCEPT OF THE NBS STRATEGY in the area of financial education - focus on training of trainers, cooperation with community centers for marginalized groups.

1. Identification of strategic groups in the field of financial literacy
 - Children and students
 - Active population
 - Older and pensioners
 - Particularly vulnerable groups
 - Micro-enterprises
2. Identification of strategic areas and objectives for strategic groups
 - **formal education** (primary schools, secondary schools, universities) – teacher training
 - **adult population** (educational campaigns) – interesting, practical, entertaining
3. Identification of key topics/other relevant topics for each target strategy group
 - **Children and students** – the goal is to build up good financial habits and explaining financial education issues always in context
 - **Active population, Adults** – the objective is to communicate practical, actual financial topics, talk about risks faced by adults and explain how does it look like conscious consumer behavior in a particular real life situation

Conclusions

- Given the good times and the expansionary phase of the financial cycle, building the resilience of banks is crucial, especially in the form of capital buffers
- The risks associated with cyclical developments continue to accumulate, at a more moderate pace
- Overheating of the domestic economy
- The risks associated with the real estate market are increasing
- Loans to households are growing more slowly, but the growth rate is still strong
- Signs of underestimation of risk by banks (decrease in profits)
- The sensitivity of banks to possible worsening of economic development is increasing
- Low cost of credit risk, decrease in risk weights
- Risks related to external developments
- There is a growing need for most banks to generate robust profits so far and postpone profits to cover future losses.

Financial Inclusion in Slovakia: “Financial literacy as part of the key competences of pupils” - to innovate the state and needs of educational content in the area of financial literacy in schools in favor of increasing inclusiveness and equal access to quality education - marginalized groups.

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Thank you for your attention...



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