Slovenia

By Andreja Cirman, University of Ljubljana

IN A NUTSHELL

- → Slovenian economy characterised by dynamic economic growth and favourable business expectations.
- → Rapid growth in turnover and prices on the housing market.
- → Rigidity in housing supply along with rising speculative investment based demand for residential real estate could contribute to a bubble in residential real estate prices in the future.
- → Steady growth in housing loans.
- → Banks made no significant changes to the credit standards for housing loans.

MACROECONOMIC OVERVIEW

Economic growth in Slovenia remains among the highest in the Euro area in 2017 and stood at 5.0% in year-on-year terms. Exports with real growth of 10.6% remain a strong engine of economic growth, and are strengthening as a result of growth in foreign demand, favourable export structure and companies' improved competitiveness. Domestic demand, which rose by 4%, is gaining in importance as well, with private consumption seeing a rise of 3.2%. Growth in investment in 2017 outpaced the average across the euro area with growth in gross fixed capital formation of 10.3% in year-on-year terms although the ratios of gross fixed capital formation and investment in research and development to GDP remain below average (Financial Stability Report, 2018). With the further relaxation of austerity measures and employment growth in the general government, government consumption also rose by 2.3% in 2017.

Economic climate in the country is continuing to improve and the value added in most sectors increased. The total growth of 5.3% was significantly higher than in 2016 (3.2%) and was attributable to the strengthening of activity in most sectors, particularly manufacturing and construction (Spring Forecast of Economic Trends, 2018).

Last year's increase in demand and favourable business expectations also translated into dynamic growth in employment and gradual strengthening in the growth of gross wages. Employment was up in most private sector activities especially in manufacturing, trade, accommodation and food service activities as well as professional, scientific and technical activities (Spring Forecast of Economic Trends, 2018). Unemployment rate, measured according to the Labour Force Survey, (ILO) stood at 6.6% at the end of 2017.

Consumer prices (HICP) increased by 1.6% overall in 2017 and industrial producer price index was up 2.2% compared to the previous year.

Favourable economic situation also improved country's fiscal position. The general government deficit was 0% in 2017 compared to -1.6% of GDP in 2016. Public debt decreased to 73.6% of GDP (78.6% in 2016). The high economic growth and the fiscal consolidation measures helped Slovenia to earn a sovereign upgrading from two rating agencies (Financial Stability Report, 2018).

HOUSING AND MORTGAGE MARKETS

In 2017 rapid growth in sales continued in the Slovenian Real Property Market and the number of transactions reached a record level. The predominant part of transactions is done on the secondary market as new dwellings contribute only 6% of total volume of transactions on the market. According to Statistical Office figures, the prices of used flats in Slovenia were up 9% in comparison to 2016 and 13% in the capital city Ljubljana. With low interest rates and prevailing optimism on the Real Estate Market further price growth is expected in the future as there is a large gap between supply and demand on the market. Despite favourable economic situation and high demand for housing, housing completions and housing starts continue to be on a very low level. Housing construction remains on the level comparable to 2016 while housing starts increased by 9%, however they are still only a third of the pre-crisis level. The number of issued building permits is gradually increasing (4% in 2017), although no major increase in the supply of housing is expected at least for two or three years yet (especially outside the capital city). Rigid housing supply along with rising speculative investment based demand for Residential Real Estate could in the future contribute to a bubble in Residential Real Estate Prices (Financial Stability Report, 2018).

According to Eurostat only 10% of homeowners in Slovenia had a mortgage at the end of 2016 which is one of the lowest rates in the Euro area (Financial Stability Report, 2018). Growth in the stock of housing loans to households remained stable in 2017 with 4.5% in y-o-y terms and new housing loans increased by 5.5%. Borrowers are continuing to largely opt for housing loans with longer maturities (average maturity in 2017 was 19 years). Although banks gradually started to reduce their offers of fixed rate mortgages, their share continues to grow as more than half of new housing loans are granted on fixed rate (Poročilo o finančni stabilnosti, 2018).

According to the Financial Stability Review (2018) the indicators of the sustainability of housing lending at banks remain stable, and do not suggest any increased risk to the banking system. In general, the banks in 2017 left their credit standards on housing loans unchanged. The average LTV for housing loans remained around 60%.

In 2016 the Bank of Slovenia issued a macroprudential recommendation for the Real Estate Market that includes the recommended maximum level of the LTV ratio and the recommended maximum level of the DSTI (debt service-to-income) ratio. The recommended maximum level of the LTV ratio is 80%, while the recommended maximum level of the DSTI ratio is between 50% and 67%, depending on the monthly income. The macroprudential measures are being introduced as a non-binding recommendation. In 2018 the Bank of Slovenia made a survey on housing loans advanced in period 2015-2018 and banks' compliance with the recommendation. The survey revealed that housing loans are predominantly secured by a mortgage and only 16% is insured by insurance companies. Average DSTI is around 32% and average LTV around 69%. In 2017 there were 27% of the loans not compliant with the recommendation; however the proportion decreased from 32% in 2015 in 2016 (Poročilo o finančni stabilnosti, 2018).

MORTGAGE FUNDING

The mortgage industry in Slovenia is predominantly an integral part of universal banking. Although legislation allows banks to issue mortgage backed securities, no securitisation of residential mortgages has yet taken place. Before the economic crisis in 2008, banks acquired funding on international financial markets to fuel high lending activity, however, the situation changed afterwards.

Nowadays, lending activity is mostly financed by means of rising deposits by the non-banking sector and the LTD ratio for the non-banking sector has stabilised at 72% in 2017. Given the excess of liquidity and the increase in deposits by the non-banking sector, the banks have no need for additional borrowing from the Eurosystem or on wholesale markets, for which reason the importance of these two sources of funding on bank balance sheets is diminishing. Wholesale funding accounted for 7.7% of all funding as at October 2017, just a fifth of its pre-crisis figure. However, the maturity mismatch between investments and funding is continuing to increase as a result of the lengthening maturities of loans and the simultaneous growth in sight deposits by the non-banking sector, which is introducing a certain level of potential instability into the banking system's funding structure (Financial Stability Review, 2018).

References:

Financial Stability Review, January 2018 (2018). Ljubljana: Bank of Slovenia.
Poročilo o finančni stabilnosti, junij 2018 (2018). Ljubljana: Bank of Slovenia.
Spring Forecast of Economic Trends 2018 (2018). Ljubljana: Institute of Macroeconomic Analysis and Development.

	SLOVENIA 2016	SLOVENIA 2017	EU 28 2017
Real GDP growth (%) (1)	3.1	5.0	2.4
Unemployment Rate (LSF), annual average (%) (1)	8.0	6.6	7.6
HICP inflation (%) (1)	-0.2	1.6	1.7
Outstanding Residential Loans (mn EUR) (2)	5,717	5,976	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	3,359	3,512	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	23.2	23.0	73.8*
Gross residential lending, annual growth (%) (2)	19.5	5.6	3.5
Typical mortgage rate, annual average (%) (2)	2.3	2.5	2.4**
Owner occupation rate (%) (1)	75.1	n/a	66.4*
Nominal house price growth (%) (2)	3.3	8.1	6.0

* The aggregate EU figure is from 2016.
** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

SLOVENIA FACT TABLE

Entities which can issue mortgage loans:	Commercial banks, savings banks, National Housing Fund
The market share of the mortgage issuances:	Data on market share not available
Proportion of outstanding mortgage loans of the mortgage issuances:	Commercial banks and savings banks close to 100%, share of the NHF is negligible
Typical LTV ratio on residential mortgage loans:	The typical LTV ratio on new residential mortgages is 60%
Any distinction made between residential and non-residential loans:	Residential loan is designated for purchase or renovation of housing
Most common mortgage product(s):	20 year variable rate mortgage & 15 year fixed rate mortgage
Typical maturity of a mortgage:	Average maturity in 2017 is 19 years
Most common way to fund mortgage lending:	Mortgage funding in Slovenia is mainly deposit-based
Level of costs associated with a house purchase:	2-4% (2% transfer tax, up to 2% for real estate agency fee if realtor was used)
The level (if any) of government subsidies for house purchases:	No subsidies