

Slovenia

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IN A NUTSHELL

- House price growth surged by 11.5% amid the economic recovery, the biggest increase since 2008.
- Slovenia has seen a lack of housing investment for decades, although the number of residential building permits increased to ten year high. Construction costs increased.
- Slovenia has a relatively high homeownership rate, (75%), and the share of homeowners with a mortgage is one of the lowest in the EU, at 12.5%.
- Slovenia is committed to the green transformation, with the key goal for 2030 to reduce greenhouse gas emissions in buildings by at least 70% compared to 2005.

MACROECONOMIC OVERVIEW

The economic recovery from the pandemic in 2021 was strong and Slovenia surpassed its pre-crisis GDP, in part due to extensive government support. GDP growth was 8.1%, considerably higher than the euro area average. The high economic growth was driven by higher domestic demand, also significantly stronger than the euro area average, and high growth in exports. The economic sentiment indicator improved to pre-pandemic levels by the end of the year.

Employment reached a historic high in 2021, with the unemployment rate at 4.8% in 2021, down 0.2% on the year. Due to labour shortages, firms were increasingly seeking to hire foreign workers mitigating the adverse effects of the structural imbalances on the domestic labour market, and consequently reducing wage pressure.

Inflation was 5.1% in December 2021, the highest rate in 13 years, with an increasing number of goods seeing rising prices. Average inflation for 2021 was 2%. Disruptions to supply chains increased sharply in the second half of the year, which strengthened cost pressure and contributed to rising inflation. Some slowdown was expected due to easing excess demand, the strong base effect, and resolving issues in supply chains and energy markets. These pressures strengthened in 2022 due to new lockdowns in China and the conflict in Ukraine.

The general government deficit narrowed in 2021 amid high economic growth to EUR 2.7 bn, 5.2% of GDP, slightly less than the euro area average. General government debt declined sharply to 74.7% of GDP, down 5.1 pps on the year. It however increased by EUR 1.4 billion in nominal terms, less than the deficit, which was partly financed by the run-down of funds built up in previous years.

LOOKING AHEAD

Somewhat favourable economic developments are expected to continue in 2022. Economic activity growth is expected to slow down but remain broadly based. Average inflation is expected to be 9.0% (Banka Slovenije estimation),

mostly due to high energy prices, with the contributions of other price groups also increasing.

The high growth in house prices continued over the first three months of 2022. Increasing construction costs and the expectation of further price increases in the construction sector might contribute to additional upward price pressure. Housing loans continued to increase rapidly, although following the ECB's path of policy normalisation, rises in interest rates could slow price pressures.

As a response to rapidly growing house prices and housing loans, in May 2022 Banka Slovenije made adjustments to macroprudential measures by introducing a sectoral systemic risk buffer and reducing the recommended LTV for housing loans from 80% to 70% (80% continues to apply to first-time buyers). Banks can also make exemptions from the DSTI requirement¹ for up to 10% of loans and housing loans, fully backed by a government guarantee and exempted from the restrictions on household lending.

HOUSING MARKETS

House prices grew 11.5% (with the house price index including both new and existing dwellings) amid the economic recovery, the strongest increase since 2008. In the fourth quarter of 2021, rising at a record pace, house price growth stood at 17.2%, in Ljubljana, 19.0% in Maribor and 16.3% in the rest of Slovenia. The growth in house prices was however still moderate in 2020, at 4.6%.

Residential real estate prices rose in all larger cities in Slovenia, with prices remaining highest in Ljubljana and the coastal region. In 2021 the median price per square meter for flats stood at EUR 3,410 in Ljubljana and EUR 3,050 on the coastal region. The median price per square meter for flats was lower in Maribor and Celje, at EUR 1,620 and EUR 1,690, respectively. The number of sales of residential real estate has increased in 2021 to the level prior to the pandemic and stood at 13,927 sales.

On the supply side there has been inadequate housing investment for decades, which has also had an impact on house prices. A low proportion of gross fixed capital formation is in residential buildings, 2.2% of GDP, below the EU average. This has contributed to long-term supply shortages and the mismatch between the supply and demand for residential real estate.

Supply shortages will be partly addressed, the number of building permits issued for residential buildings increased by 13% to 2,914 in 2021, the highest number in the last ten years. Moreover, in 2021, 4,423 new dwellings were started and 4,032 completed. The construction confidence indicator also picked up considerably after a fall in 2020, and surpassed pre-pandemic levels. However, there had been a high rise in construction costs for new dwellings, both in terms of material and labour costs. The stock of banking sector loans to non-financial corporations in construction and real estate has decreased considerably from the last financial crisis, from EUR 3.5 bn in 2011 to EUR around 970 mn at the end of 2021.

¹ the DSTI ratio at a monthly level may not exceed 50% for net monthly income of no more than twice the minimum gross wage, and 67% for the portion of the net monthly income that exceeds twice the minimum gross wage. Notwithstanding the income level, an amount of at least 76% of the minimum gross wage must remain for the consumer each month after the payment of all instalments under credit agreements.

In June 2021 the government amended the Housing Act to increase the number of affordable rented apartments and support new housing construction. The Housing Fund of the Republic of Slovenia, a public fund, would rent available apartments on the market and, accompanied by state funding of the costs, sub-let the apartments at a non-profit rent, especially to the younger generation. The Fund was also granted a pre-emption right with regard to the sale of municipal land intended for housing construction.

MORTGAGE MARKET

In Slovenia the share of homeowners with a mortgage is one of the lowest in the EU, at 12.5%. The stock of housing loans granted to households started to increase rapidly in the second half of 2021 with a y-o-y growth rate of 9.1% by year end, while in April it was only 4.8%. At the end of the year, the stock of housing loans was EUR 7.373 bn. The growth in housing loans in the second half of the year was considerably higher in Slovenia than the euro area average.

The increased demand for housing loans was also supported by the low cost of borrowing. There was a sharp rise in fixed-rate housing loans. In December the share of new loans with a fixed interest rate in 2021 was up by a half compared with the previous year at nearly 90%. At the end of the year the average fixed interest rate for new housing loans fell to 1.7% (down by 0.5 pps from the previous year), while the average interest rate on variable-rate loans stood at 1.6% (down by 0.2 pps from the previous year).

According to the Bank Lending Survey (BLS), credit standards for housing loans remained mostly the same compared to 2020. The LTV for new housing loans in the last quarter of 2021 averaged 63.4%, down by 4.5 pps on the year. The share of housing loans with an LTV of more than 80% was around 11% by year end, having been 20% in 2019, and 16% in 2020.

Credit standards for housing loans were stable also because of tightened macroprudential restrictions on household lending in October 2019. The regulation set a binding cap on the ratio of debt service costs to borrower income (DSTI). Furthermore, a cap on the ratio of the amount of a credit agreement for residential real estate to the value of the real estate pledged as collateral (LTV) was already in place as a recommendation.

To support the younger generation, the government introduced a housing guarantee scheme for those under 38 and for young families. The state will guarantee a loan of up to EUR 200,000 with a maturity of up to 30 years if the borrower is a first time buyer and has low creditworthiness.

Due to economic support measures brought in as a response to the pandemic, the banking systems' non-performing exposures (NPEs) have remained low and declined further during the year, despite the gradual expiry of emergency measures and the expiry of moratoria for bank loans in 2021. The banking systems' NPEs ratio on housing loans remained low at 1.6% in December 2021, down by 0.3 pps compared to February 2020, before the pandemic.

Slovene households are considerably less indebted compared with the euro area average. Their financial liabilities increased in absolute terms, but in relation to disposable income and GDP the ratio decreased slightly, standing at 48.1% of disposable income and 30.1% of GDP at year end.

MORTGAGE FUNDING

Deposits have long represented a significant source of funding for banks in Slovenia, from the perspective of their amount and stability, their importance has increased in recent years. Deposits by the non-banking sector increased sharply, as in the previous year, but the rate of growth slowed. The ratio of non-bank deposits to bank balance sheets strengthened to 77.1%, well above the euro area average (41.2%). On this indicator, Slovenia ranks highest among euro area countries in terms of the importance of deposits as a source of bank funding.

The banking system's dependence on other sources of funding is low. The wholesale funding ratio declined to 4.8% by year end, thus remaining less exposed to potential contagion from foreign financial markets. Banks do not tend to issue securitised mortgages and covered bonds. Before the crisis in 2008, banks in Slovenia relied more on wholesale funding, when the share of wholesale funding stood at over a third of all bank funding. Certain banks participated in TLTRO-III tenders at the Eurosystem and obtained favourable funding, but the proportion of total funding accounted for by these liabilities remained relatively low, at 4.9% at year end.

GREEN FUNDING

Slovenia is committed to the green transformation, following the European Union's plans. In 2015 the government adopted a long-term strategy to promote investment in the energy renovation of buildings, which set important targets for reducing energy use in buildings, with a follow-up in 2018. At the beginning of 2021, a long-term energy renovation strategy for 2050 (DSEPS 2050) was adopted, which aims to decarbonise the national building stock by 2050 and identifies measures supporting the building headline targets set in the National Energy and Climate Plan of the Republic of Slovenia (NEPN).

The strategy was set in accordance with the European Union's key objective of putting energy efficiency first. The key goal of the strategy for 2030 is to reduce greenhouse gas emissions in buildings by at least 70% compared to 2005, with renewable energy sources accounting for at least two thirds of energy use in buildings. The goal is also that by 2050 74% of single-dwelling buildings and 91% of multi-apartment buildings will be energy renovated, which would reduce final energy consumption by 45% and CO₂ emissions by almost 75% compared to 2005.

At end of 2020 the measures for encouraging energy efficiency in buildings were set out in the Act on Energy Efficiency. This regulates areas previously covered in the Energy Act and brings Slovenia in line with European Union plans. The installation of chargers for electric vehicles in parking lots and resting points and separate metering of heating, cooling, and hot water consumption were all foreseen.

	SLOVENIA 2020	SLOVENIA 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-4.2	8.1	5.4
Unemployment Rate (LSF), annual average (%) (1)	5.0	4.8	7.0
HICP inflation (%) (1)	-0.3	2.0	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	74.6	74.6	70.0
Gross Fixed Investment in Housing (annual change)(1)	-0.2	0.5	6.6
Building Permits (2015=100) (2)	105.8	119.4	134.0
House Price Index – country (2015=100) (2)	135.7	151.3	145.2*
House Price Index – capital (2015=100) (2)	142.8	161.1	146.1*
Nominal house price growth (%) (2)	4.6	11.5	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	6,760	7,373	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	3,920	4,250	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	22.3	22.9	62,8*
Gross residential lending, annual growth (%) (2)	33,8	32,8	12,2
Typical mortgage rate, annual average (%) (2)	2.3	2.1	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

SLOVENIA FACT TABLE

Which entities can issue mortgage loans in your country?	Commercial banks, savings banks, and the National Housing Fund.
What is the market share of new mortgage issuances between these entities?	Data on market share is not available.
Which entities hold what proportion of outstanding mortgage loans in your country?	The outstanding amount hold by commercial banks and savings banks is close to 100%, as NHF's share is negligible.
What is the typical LTV ratio on residential mortgage loans in your country?	The average LTV ratio on new residential mortgages is of 63.4%.
How is the distinction made between loans for residential and non-residential purposes in your country?	Residential loans are those designated for the purchase or renovation of housing.
What is/are the most common mortgage product(s) in your country?	The two more common products are: 19-year fixed and variable rate mortgage.
What is the typical/average maturity for a mortgage in your country?	Average maturity in 2020 was 19 years.
What is/are the most common ways to fund mortgage lending in your country?	Mortgage funding in Slovenia is mainly deposit-based.
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	The cost associated with house purchase represents between 2 and 4% (2% transfer tax, up to 2% for real estate agency fee if realtor was used) of the value.
What is the level (if any) of government subsidies for house purchases in your country?	No subsidies