

Slovenia

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IN A NUTSHELL

- Growth in house prices slowed, as demand weakened due to increased costs of living and interest costs.
- Government measures to address lack of supply were introduced.
- The average LTV ratio decreased to 58.5%, while the average DSTI slightly increased to 33.2%.
- NPL has continued its downward trend to 1.5%, the lowest in over a decade.

MACROECONOMIC OVERVIEW

The economy performed well, but slowed in the second half of the year amid heightened international uncertainty related to the political crisis in Ukraine, global supply chain issues, inflation and increasing production costs.

GDP grew by 5.4% driven by growth in final consumption of households (9.1%) and gross investment (12.4%). The balance of trade slowed GDP growth (by 2.1 pps), as growth in imports surpassed that of exports due to stronger demand on domestic market. On average, exports performed relatively well amid weakening foreign demand for goods. The services surplus rose, especially in travel – as international tourism normalised – and transport services.

Confidence was weaker, although sentiment improved slightly by year end, probably also due to government measures to mitigate high food and energy prices and ensure security of supply aimed to households and enterprises.

Consumer price inflation (HICP) was 10.8% by year end, and averaged 9.3% over the year, the highest since 1997. The largest contributions were from food and energy.

Labour market conditions remained favourable. The unemployment rate was historically low at 4.0%, 0.8 pps lower than in 2021. The growth in average gross wages slowed to 2.8% in 2022 compared to 2021 but was rising again towards year end.

The general government debt decreased from 74.5% in 2021 to 69.9%. The deficit decreased to 3.0% of GDP (4.6% in 2021), mainly due to lower expenditure on measures to mitigate the consequences of the pandemic and high nominal growth of GDP.

LOOKING AHEAD

In the beginning of 2023, domestic demand remained strong along with high employment, while economic sentiment remained above last year's final quarter. However, inflation remained high, despite a fall in energy price inflation due to capped electricity and gas prices and declining fuel prices.

According to The Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD), GDP growth is forecast to slow to 1.8% in 2023. Investment growth is expected to remain moderate, while exports and private consumption may show weak growth, before picking up in the second half. Inflation is expected to gradually ease, but remain relatively high on average. Investment in buildings and constructions is expected to continue to grow, supported by government investments and EU funds, and a further increase in housing investment. In the near term, house price growth is expected to slow further due to higher interest rates and the economic slowdown.

HOUSING MARKETS

In 2022, sales of flats and family houses fell by 7.6% and with in total 12.869 units sold, it was the lowest number of transactions since 2015, excluding the pandemic in 2020. Sales fell in all regions, but sales of existing flats in Ljubljana, by 14.3%. Sales of newly-built dwellings have seen the largest fall, decreasing by 30.4%. The value of sales of existing flats and family houses increased by 3.9%.

House price growth remained high at 14.8%, compared to 11.5% in 2021 and 4.6% in 2020. Prices of existing flats in Ljubljana rose by 14.1%, and by 17.3% in the rest of Slovenia. Maribor saw the largest price increases with 19.6% y-o-y. In 2022, the house price ratio between regions, where prices are highest (Ljubljana, coastal regions and tourist areas in Gorenjska) and where they are lowest (mostly rural regions), slightly decreased.

House price growth slowed during the year (from 17.0% in Q1 to 11.6% in Q4) and along with falling demand for housing, it indicated a cyclical downturn. In the last two years, house prices rose sharply in both Ljubljana and the rest of Slovenia. By year end, house prices were higher by more than a third than before the pandemic and the previous peak in 2008.

In the recent years, the mismatch between supply and demand contributed to rising house prices. Shortage of supply of new homes is evident especially in Ljubljana and its surroundings. In the last ten years, the number of dwellings has remained almost the same at around 410 per one thousand inhabitants. Compared to 2021, the share of gross investment in dwellings in GDP increased slightly to 2.7%. Home-ownership stood at 75.4% in 2022, while unoccupied dwellings stood at around 19% in 2021.

In the last two years the number of building permits issued for residential buildings increased, by 7.3% to 3,128 in 2022 compared to 2021, the highest number in over ten years. Furthermore, construction of 5,410 new dwellings started during the year and 4,286 dwellings were completed, up by 22.3% and 6.3% respectively compared to 2021. With shortages in supply of housing, in 2022 rents increased by 19%.

The government aims to put further investments into new housing and increase construction of public rental housing in the next years.

In 2022, the value of construction of buildings put in place increased by 83.8%. As the number of people in employment was high, firms were increasingly

hiring foreign workers. By the end of the year, the confidence indicator in the construction industry was 23 pps higher than the long-term average. Construction was however affected by sharply rising construction costs of materials and labour, high energy costs and shortages of skilled labour.

MORTGAGE MARKET

MARKET DYNAMICS

Total outstanding residential loans increased to EUR 8.2 bn at year end from EUR 7.5 bn a year earlier. Residential lending grew by 9.8% y-o-y (9.0% in 2021), one of the highest rates in the euro area. Residential loans remained at around 14% of GDP. New residential loans grew by 9.4%, after increasing by a third in 2020 and 2021. In the second half of the year demand for residential loans declined rapidly due to high inflation and rising interest rates.

After historic lows, interest rates increased significantly in 2022 and by year end, the average interest rate on new residential loans stood at 3.7% (3.6% for fixed rates and 3.8% for variable rates) compared to 1.7% a year earlier. Over 90% of new loans were on fixed rates, while outstanding fixed rate residential increased to 62% by year end. The average maturity of new residential loans has decreased from 18.8 years in 2021 to 18.5 years.

The average LTV for new residential loans was 58.5% at year end, down from 63.5% compared to the end of 2021. Average DSTI slightly increased to 33.2%, driven also by higher interest rates, especially in the second half of 2022.

The ratio of NPLs has continued its downward trend to 1.5 % for residential loans, 0.1 of pps less than in 2021, the lowest proportions in over a decade.

NON-MARKET LED INITIATIVES

Banka Slovenije adjusted macroprudential restrictions on household lending in 2022. The maximum LTV recommended for loans, secured by residential real estate decreased from 80% to 70% (unless purchasing, renovating or building primary property). Up to 10% of residential loans may also exceed the cap on DSTI¹. The share of new residential loans above the recommended LTV value decreased from 10.8% in Q4 2021 to 9.1% in Q4 2022 and the share of loans with a non-compliant cap on DSTI decreased from 4.0% to 3.2% over the same period.

Furthermore, Banka Slovenije raised the countercyclical capital buffer from zero to 0.5% of the total risk exposure due to high growth in house prices and residential loans along with uncertainty in the macroeconomic environment. Banks have to meet the capital requirements for the countercyclical capital buffer by the end of 2023. In 2023, two sectoral systemic risk buffers enter into force for all retail exposures to natural persons secured by residential real estate, with a rate of 1.0%, and all other exposures to natural persons other than that at a rate of 0.5%. In 2022, the banking sector was well capitalized.

In 2022, the government adopted a Housing guarantee scheme for young people with a total amount of guarantees of EUR 300 mn per year until end of 2032. The state guarantee is for borrowers with low creditworthiness but up to 1.5 time average monthly net salary and for loans up to EUR 200,000 with a repayment period of up to 30 years. Loans, granted under the scheme are also exempt from macroprudential restrictions on household lending. By the end of 2022, only a small amount of funds has been granted.

MORTGAGE FUNDING

Deposits remained the main source of bank funding. Non-banking sector's deposits increased by 6.9% to EUR 39.8 mn, less than in 2021 (8.5%). The share of deposits in total liabilities increased to 78.6%. Household deposits increased by 7.6% to EUR 25.8 bn and corporate deposits increased by 7.9% to EUR 9.7 bn. Most of non-banking sector deposits were sight deposits (83.7%).

By the end of 2022, most banks had repaid debt to the ECB, they amounted to only 1.5% of total liabilities (4.9% in 2021). Due to high deposit levels and the large volume of liquid assets, banks were able to sufficiently fund lending and needs for wholesale funding remained small. Debt securities amounted to EUR 2 bn, up from EUR 1.3 bn a year earlier.

The loan-to-deposit ratio (LTD) increased to 69.3%, after years of decreasing and was below the euro area average (90%). Banks' balance sheet increased by 4.9% in 2022, slower than in 2021 (8.1%). Banking sector's liquidity remained high, however average liquidity coverage ratio (LCR) decreased by 22 pps to 290% by the end of 2022.

GREEN FUNDING

The National Recovery and Resilience Plan foresees implementing reforms and investments for transition towards a greener economy. The green transition is supported by investments of over EUR 230 mn in energy efficiency and seismic renovation of buildings, including schools. As part of the reform of planning and financing the energy renovation of public buildings and publicly owned residential buildings, investments will cover costs for the thermal insulation of buildings, energy-efficient equipment, cooling and ventilation systems, and energy efficient lighting and control systems.

The Eco fund gives subsidies for investments in residential buildings, construction of nearly zero-energy buildings and purchase of flats in nearly zero-energy buildings.

According to the Commission implementing regulation (EU) 2022/2453 of 30 November 2022 as regards the disclosure of ESG risks, large listed banks had to start disclosing the information on the energy efficiency of the underlying collateral.

¹ The DSTI set may not exceed 50% for net monthly income of no more than twice the minimum gross wage (in 2022 2,149 EUR), and 67% for the portion of the net monthly income that exceeds twice the minimum gross wage. At least 76% of the minimum gross wage must remain each month after the payment of all instalments.

	SLOVENIA 2021	SLOVENIA 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	8.2	5.4	3.5
Unemployment Rate (LSF), annual average (%) (1)	4.8	4.0	6.2
HICP inflation (%) (1)	2.0	9.3	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	76.1	75.4	69.1
Gross Fixed Investment in Housing (annual change)(1)	0.5	8.9	1.5
Building Permits (2015=100) (2)	119.4	128.1	125.8
House Price Index - country (2015=100) (2)	151.3	173.7	164.6*
House Price Index - capital (2015=100) (2)	161.1	183.8	163.8*
Nominal house price growth (%) (2)	11.5	14.8	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	7,479	8,215	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	4,250	4,746	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	22.9	23.4	71.5
Gross residential lending, annual growth (%) (2)	32.8	9.4	-6.5
Typical mortgage rate, annual average (%) (2)	1.7	3.7	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2023, Statistical Tables.

SLOVENIA FACT TABLE

Which entities can issue mortgage loans in your country? Credit institutions, which includes banks, savings banks and banks' branches as well as the National Housing Fund (NHF).

What is the market share of new mortgage issuances between these entities? Commercial banks dominate the market. Banks held a market share in the balance sheet total of 91.9%, while savings banks held a share of 5.0% and branches of foreign banks a share of 3.1%.

Which entities hold what proportion of outstanding mortgage loans in your country? The outstanding amount held by commercial banks, savings banks and banks' branches is close to 100%, since share of the NHF is negligible.

What is the typical LTV ratio on residential mortgage loans in your country? The average LTV ratio on new residential mortgages at origination is of 58.8%.

How is the distinction made between loans for residential and non-residential purposes in your country? Residential loans are loans, granted to households for the purchase or renovation of housing, while commercial loans are loans, granted for the purchase or renovation of commercial real estate.

What is/are the most common mortgage product(s) in your country? Over 90% of the value of new residential loans were on fixed rates. The value of outstanding residential loans on fixed rates stood at 62% at year end.

What is the typical/average maturity for a mortgage in your country? Average maturity of new residential loans was 18.5 years.

What is/are the most common ways to fund mortgage lending in your country? Banks fund their mortgage lending mainly through domestic deposits.

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)? Real estate transfer tax of 2% of the purchase price (except if subject to VAT, then 22% or 9.5%), capital gains tax (from 0% to 25%, depending on the holding period), real estate agency's fee of up to 4% of the purchase price, notary and court fees.

What is the level (if any) of government subsidies for house purchases in your country? There are no government subsidies for house purchase.