Slovenia

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IN A NUTSHELL

- → GDP growth slowed to 1.6%, inflation decelerated to 7.2%.
- → House prices continued to grow, but at a slower pace.
- → Along with rising interest rates, the growth in outstanding residential loans slowed sharply.
- → Shortages in supply of housing persist, while construction activity remained high.
- → The government aims to put further investments into new housing.

MACROECONOMIC OVERVIEW

GDP growth slowed down to 1.6%, after a strong recovery after the pandemic (2.5% in 2022[1]). The largest contribution to growth was net external trade, as the decline in imports outpaced that in exports, and by gross fixed capital formation. Government investment was a major factor in gross fixed capital formation, which increased by 9.5%. Growth in construction activity was particularly high at 18%. Private consumption and government consumption also raised GDP growth. At year end, the sentiment indicator was lower than a year earlier, while consumer confidence remained weak.

Along with easing pressures on the wholesale markets and in production chains, inflation gradually decelerated during the year. Consumer price inflation (HICP) averaged 7.2% over the year, 2.1 pps lower that in 2022, mostly due to slower growth in energy and food prices. Energy inflation was 2.7%, down by 22 pps compared to 2022. Food price inflation nevertheless remained high at 5.6% at year end. High growth of labour costs prevented a faster slowdown in prices.

The labour market remains tight, both in terms of a continuing rise in employment and fall in unemployment. Unemployment fell to 3.7%, a historic low. Average wage growth remains high, mostly due to past high inflation and the tightness of the labour market. With inflation easing, real wage growth was 4.7% at year-end, (-5.5% a year earlier). Labour shortages continued to be addressed by employing foreign workers.

General government debt decreased from 72.3% in 2022 to 69.2%, while the deficit decreased to 2.5% of GDP from 3.0%, despite government measures to mitigate high food and energy prices and for flood relief. Government debt as a share in GDP declined due to nominal economic growth.

GDP growth is forecast pick up in 2024 to 2.4% according to IMAD[2]. Investments are expected to continue to grow, driven by strong government investment activity, the recovery from the floods of August 2023, implementation of the Recovery and Resilience Plan and strong growth in housing investment. Inflation is expected to gradually moderate. Private consumption is expected to rise as real income and employment increase. Employment growth will continue to be hampered by labour shortages.

The recovery measures for the floods in August 2023 are planned for the next years. According to IMAD, under the Act on Reconstruction, Development and the Provision of Financial Resources (ZORZFS, 2023), new financial resources are expected to amount to around 2.5% of GDP (estimate for 2024) in the period 2024–2028, and reconstruction will be co-funded by the EU Solidarity Fund (around 0.6% of GDP). In addition, the recovery from the floods will also be hampered by the limited administrative capacity for project preparation (most of the damage was to watercourses and civil engineering structures) and the availability of construction workers.

HOUSING MARKETS

House prices continued to grow, but at a slower pace, especially in the capital. The growth in house prices slowed to 7.1% y-o-y, after 14.8% in 2022 and 11.5% in 2021. The growth in prices of existing flats slowed sharply in Ljubljana, to 2.2%, while it slowed less in Maribor, to 9.4% and in the rest of Slovenia, to 6.0% y-o-y. Price growth of newly-built flats and family houses increased by 5.4%, while price growth of existing family houses saw the largest increases at 10.1% y-o-y.

The house price ratio between regions, where prices are highest (Ljubljana, coastal and Gorenjska regions) and where they are lowest (mostly rural regions), slightly decreased compared to the year earlier. Nominal house prices were higher by 45.2% since 2008, while real house prices increased by 6.6% due to high inflation.

Shortages in supply of housing continued to cushion the downward price pressures. New investment in housing, increased by 24.1% y-o-y to 3.2% of GDP, still less than the Euro area average (5.9%). After high growth in residential construction work at the beginning of the year, activity declined gradually and was down 16.6% y-o-y by year end. Construction activity nevertheless remained high but continued to be faced with labour shortages and higher construction and financing costs. Reconstructions after the floods could push construction prices up further.

The number of new building permits for flats increased by 6.7% to 5,441, the largest number in the last decade, indicating strong housing investment in coming years. It was however still lower by a third compared to 2008. Contrary, the number of new permits for residential buildings decreased by 10.5% to 2,798. In 2022, construction starts were made on 5,410 new flats, while 4,296 new flats were completed, up 22.3% and 6.3% respectively on the previous year. Confidence in construction remained positive but slightly lower than a year earlier.

[1] GDP data for 2022 has been revised by the Statistical Office of the Republic of Slovenia.

[2] The Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD)

Sales of flats and family houses fell by 24% to 9,786 units, the lowest in the last ten years. Sales of existing flats decreased by 20.6% in Ljubljana, 28.9% in Maribor and 21.1% in the rest of Slovenia. Sales of newly built dwellings fell most, by 43.1%. The share of sales in newly built dwellings in all dwellings decreased to 3.3%, compared to 4.4% in 2022 and 5.9% in 2021. The value of sales of flats and family houses fell by 18.9% to EUR 1.389 bn.

Homeownership was 75.2%, down by 0.2 pps from 2022 and 9.3 pps from the peak in 2006. Furthermore, 17.4% of owners had a mortgage or a loan. With shortages in supply and decreased affordability of housing, rents, measured as a part of HICP, increased by 12.4%, but slowing down from 18.9% a year earlier.

MORTGAGE MARKET

MARKET DYNAMICS

With increased house prices and rising interest rates, demand for residential loans decreased. New residential loans fell by almost half to EUR 1.1 bn. This is also due to strong growth in 2022, when borrowers were increasingly switching from a variable to a fixed rate due to monetary policy tightening. At the end of 2023, the amount of new residential loans was close that in the period 2018-2020. At year end, the average maturity of new residential loans decreased to 17.9 years from 18.6 a year earlier.

The growth in outstanding residential loans slowed sharply to 0.7% y-o-y, compared to 9.8% in 2022 and 9.0% in 2021. By year end, the stock of outstanding residential loans stood at EUR 8.3 bn, equivalent to 13% of GDP, much lower than the Euro area average (36%).

The share of fixed rate residential loans outstanding increased sharply to 70% by year end from 34% at the end of 2020. In new residential loans, 98% of were on fixed rates at year end, compared to less than a half at the end of 2020. The average interest rate on new residential loans stood at 3.96% at year end, compared to 3.65% at the end of 2022 and 1.71% at the end of 2021.

The average LTV for new residential loans was 59.2% at year end, up from 58.5% at the end of 2022. Along with increased interest rates, average DSTI increased to 34.2% by year end from 33.2% at the end of 2022. The ratio of NPLs has continued its decrease to 1.1% for residential loans (1.2% at the end of 2022), the lowest proportion in over a decade. The share of new residential loans above the recommended LTV value (80% or 70%, see below) increased from 9.1% in Q4 2022 to 11.5% in Q4 2023 and the share of loans with a non-compliant cap on DSTI (50%) decreased from 3.2% to 2.5% over the same period.

The BLS (Bank Lending Survey) confirmed that demand for housing loans decreased due to lower consumer confidence and weakening housing market prospects, while the impact from higher interest rates eased during the year. Credit standards for new residential lending tightened, with the exception of 3Q 2023 when they eased somewhat, mostly due to changes in macroprudential measures.

NON-MARKET LED INITIATIVES

In 2023, Banka Slovenije made several changes to their macroprudential restrictions on consumer lending. A lower limit on creditworthiness based on the minimum cost of living[3] (plus an amount for family dependants), adjusted for inflation and other factors, was introduced. Furthermore, the cap on debt-servicing-to-income ratio (DSTI) was changed to not exceed 50%[4] and allowable deviations were reduced from 10% to 3%. Banka Slovenije maintained its recommended LTV of 80% for primary property and 70% for other loans secured by residential real estate. The regulations entered into force on 1 July 2023.

At the end of 2023, the systemic risk buffer for all retail exposures to natural persons secured by residential real estate decreased from 1.0% to 0.5% due to decreasing risks on the housing market. Banks must comply with the requirement from January 1, 2025, onwards.

In Q4 2023, Banka Slovenije maintained the countercyclical capital buffer (CCyB) rate for exposures to Slovenia at 1.0% of the total risk exposure amount. This is considered a positive neutral[5] CCyB rate. Banks must comply with the countercyclical buffer requirement of 1% from January 1, 2025, onwards. The Slovene banking sector remained well capitalized.

In the next years, the government aims to put further investments in new housing, increase construction of non-profit rental housing and regulate short-term real estate rentals. Amendments to the Housing Act have entered into force that foresee a more balanced approach to housing provision by adjusting the amount of not-for-profit rental properties. Selection procedures were completed for projects related to tourist accommodation investments.

MORTGAGE FUNDING

Deposits remained the main source of bank funding. Non-banking sector deposits increased by 3.3% to EUR 41.1 bn. Deposits of households and corporates were 90.8% of all non-banking sector deposits. Household deposits increased by 2.8%, the lowest increase since 2015, to EUR 26.5 bn, while corporate deposits increased by 12.7% to EUR 10.8 bn. The loan-to-deposit ratio (LTD) decreased by 3.7% to 65.6%. Banks' wholesale funding increased to EUR 4.5 bn, 8.5% of banks' balance sheet, less than a quarter of the share at the peak in 2008.

Banking sector liquidity remained strong in 2023. The average liquidity coverage ratio (LCR) improved by 45 pps to 335% by year-end. The liquidity surplus increased by 30% to EUR 12.8 bn, the highest figure since the introduction of the LCR in 2018. The average net stable funding ratio (NSFR) rose by 9 pps to 174%. Slovenia continues to be ranked among the top in the Euro area in terms of these two indicators.

Almost all banks repaid their liabilities under the TLTRO-III, therefore the banking system's pool of unencumbered eligible collateral for Euro system operations increased by 19 pps to reach 98%. Debt to the ECB amounted to only 0.1% of total liabilities. Debt securities issued increased to EUR 3.2 bn, from EUR 2 bn a year earlier.

[3] Banka Slovenije took account of the calculation of the minimum cost of living by the Institute for Economic Research in the amount of EUR 669.8 from November 2022, which it adjusted for the inflation forecasts for 2023 and 2024. The minimum creditworthiness amount is EUR 745 as of 1 July 2023. The next estimate is scheduled in the second half of 2024.

[4] Irrespective of the level of consumers' income, while the consumer must be left with the minimum creditworthiness amount each month after paying all instalments under credit agreements.

[5] The calibration of the level of the positive neutral rate is based on the historical average of the signalled value of the CCyB, based on the results of stress tests and expert judgment. The decision on the level of the positive neutral rate also took account of the effectiveness of the potential release of CCyB. The buffer rate must be sufficiently high to also allow for an effective partial release.

GREEN FUNDING

Slovenia is committed to the green transformation with reforms and investments for transition towards a greener economy. The Recovery and Resilience Plan[6] aims to promote renovation of buildings, with a focus on the national building stock, in order to achieve at least a 30% reduction in energy consumption compared to the baseline[7]. The renovation of public buildings and publicly owned residential buildings aims to include thermal insulation, energy-efficient equipment, cooling and ventilation systems, and energy efficient lighting and control systems.

The government prepared a new Energy Act (EZ-2), that defines the country's energy policy and measures for the transition to non-fossil energy sources, including incentives for the use of renewable resources and more efficient use of energy. It also prohibits the installation of a boiler running on natural gas or liquefied petroleum gas in residential buildings with permit applications after 1 January 2025. In one- and two-dwelling buildings and in parts of two-dwelling buildings, the installation of heat generators using solid and liquid fuels will still be allowed. The new Energy Act (EZ-2) entered into force in the first half of 2024.

	SLOVENIA 2022	SLOVENIA 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	2.5	1.6	0.4
Unemployment Rate (LSF), annual average (%) (1)	4.0	3.7	6.1
HICP inflation (%) (1)	9.3	7.2	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	75.4	75.2	69.2
Gross Fixed Investment in Housing (annual change) (1)	8.1	18.1	-3.1
Building Permits (2015=100) (2)	128.1	114.6	94.0
House Price Index - country (2015=100) (2)	173.7	186.1	170.2*
House Price Index - capital (2015=100) (2)	183.8	187.8	165.1*
Nominal house price growth (%) (2)	14.8	7.2	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	8,215	8,272	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	3,899	3,907	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	23.6	21.7	71.3
Gross residential lending, annual growth (%) (2)	9.4	-48.0	-26.6
Typical mortgage rate, annual average (%) (2)	3.7	4.0	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:
(1) Eurostat.
(2) European Mortgage Federation - Hypostat 2024, 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 91.7%, while savings banks held a share of 5.2% 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 hold by commercial banks, savings banks and banks' braches 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 was of 59.2%.
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?	Around 98% of the value of new residential loans were on fixed rates. The value of outstanding residential loans on fixed rates stood at 70% at year end.
What is the typical/ average maturity for a mortgage in your country?	Average maturity of new residential loans was 17.9 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.

[6] Source : https://www.gov.si/en/registries/projects/the-recovery-and-resilience-plan/about-the-recovery-and-resilience-plan/green-transition/sustainable-renovation-of-buildings/

[7] The baseline for renovation of public buildings in the period 2020-2050 is 3.0-3.4 per cent. Source : sl_ltrs_2020_en_0.pdf (europa.eu)