



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM



# Importance of the housing market to the Slovak economy

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**ERES Education Seminar "Future Challenges for International Real Estate Education and Practice  
in 21st Century European Economies" Bratislava, Slovakia, 6<sup>th</sup> - 7<sup>th</sup> December, 2013**



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# Real estate market



The most important market in Slovakia

- Practically no equity market
- Concentrated market with government bonds
- Small and shallow market with bank bonds

Growing importance for local banks

- Traditional banking model: focus on housing loans
- Growing market with reasonable margins and risk

Households

- Highest share of ownership of houses in the Euro area
- Debt of households is concentrated in housing loans

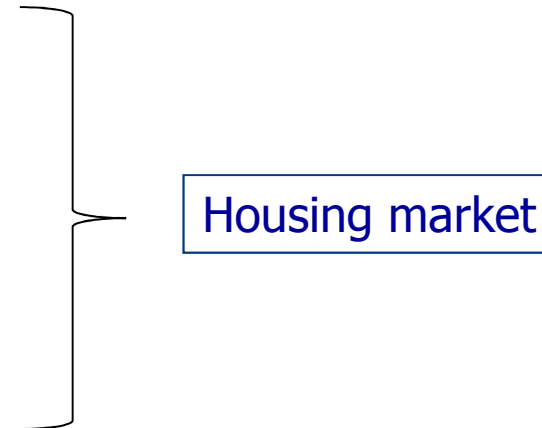
Government

- Property tax...?

# Financial stability



- National Bank of Slovakia: new mandate starting from 1.1.2014
- Macro-prudential policy:
  - Protecting banks from macroeconomic and financial imbalances
  - Limiting contribution of banks to such imbalances
- Efficient policy is based on an early identification of growing imbalances
- Recent experience:
  - Excessive housing loans growth
  - Loose loan-to-value policies
  - Rapid growth of household indebtedness
  - Purchases of second/third housing
  - Soaring property prices



Clear need for a deeper understanding of the local housing market

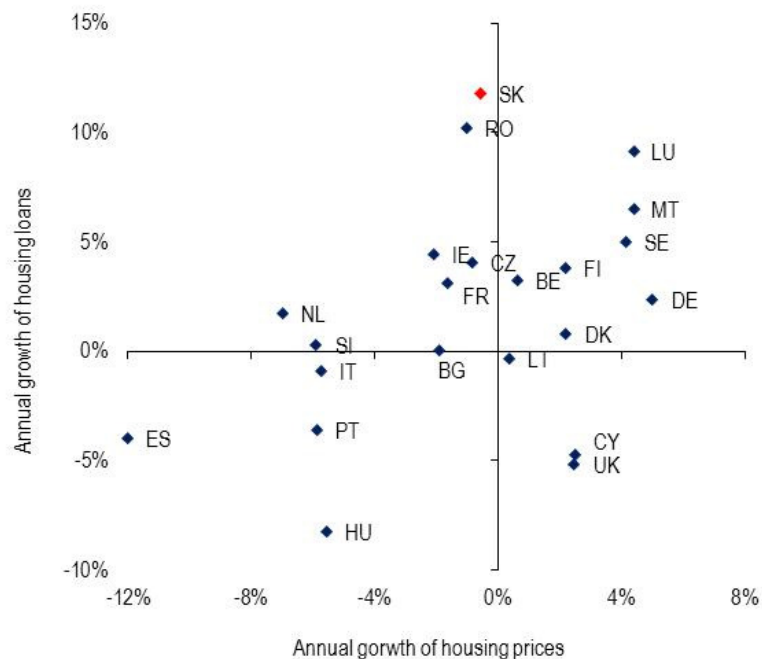
# Loans and prices



When is the combination of credit growth and increase in property prices dangerous ?

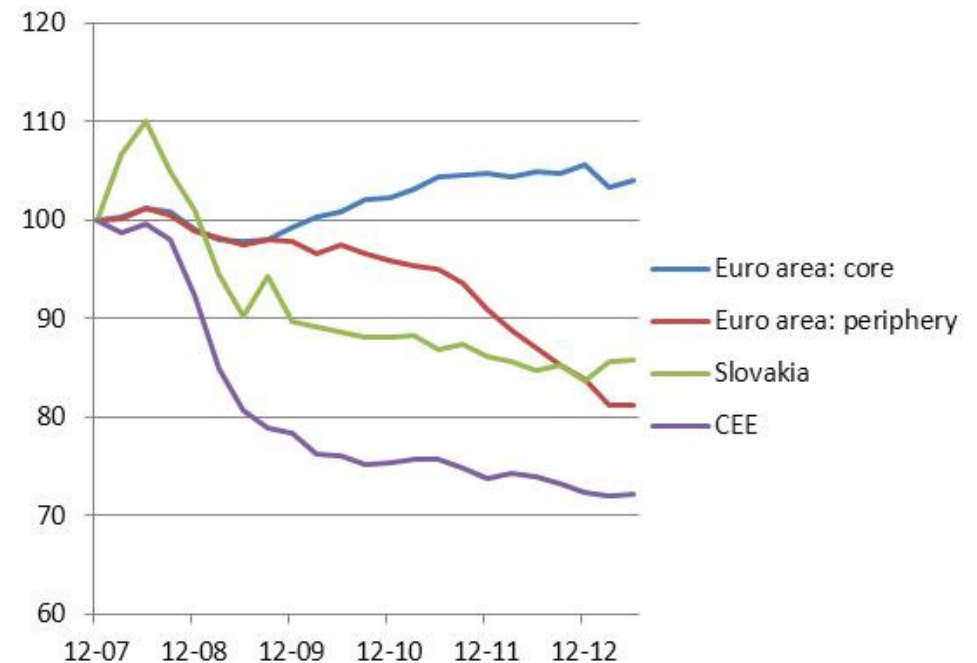
- Relationship between housing loans and housing prices
- Loan and property price dynamics is heterogeneous across the EU
- Slovakia: Growing housing loans and stable real estate prices

Chart: Housing loans vs. property prices



Source: ECB, Eurostat

Chart: Real-estate prices



Source: Eurostat

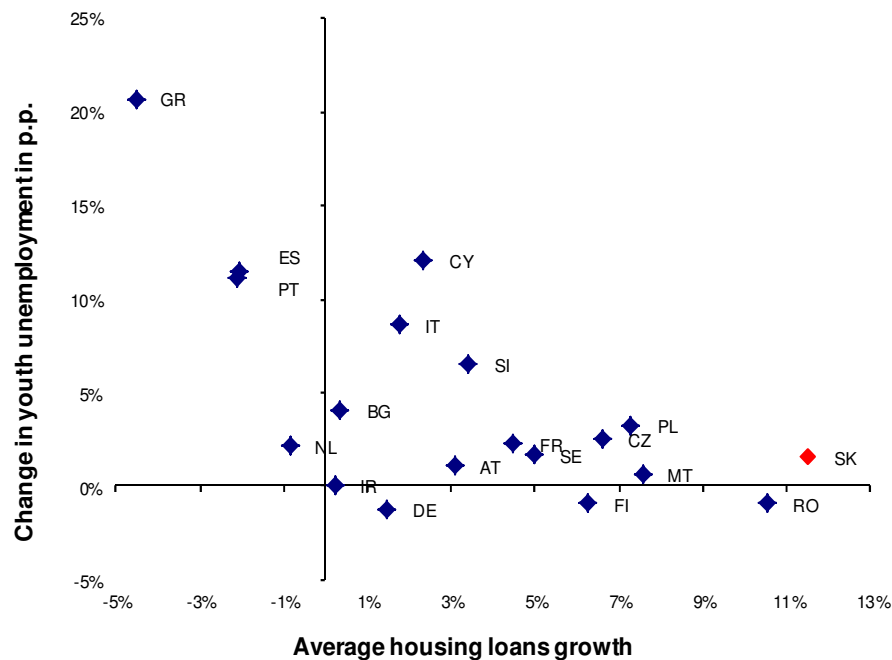
# Confidence and labour market



What is the role of labour market and confidence in the housing loans developments?

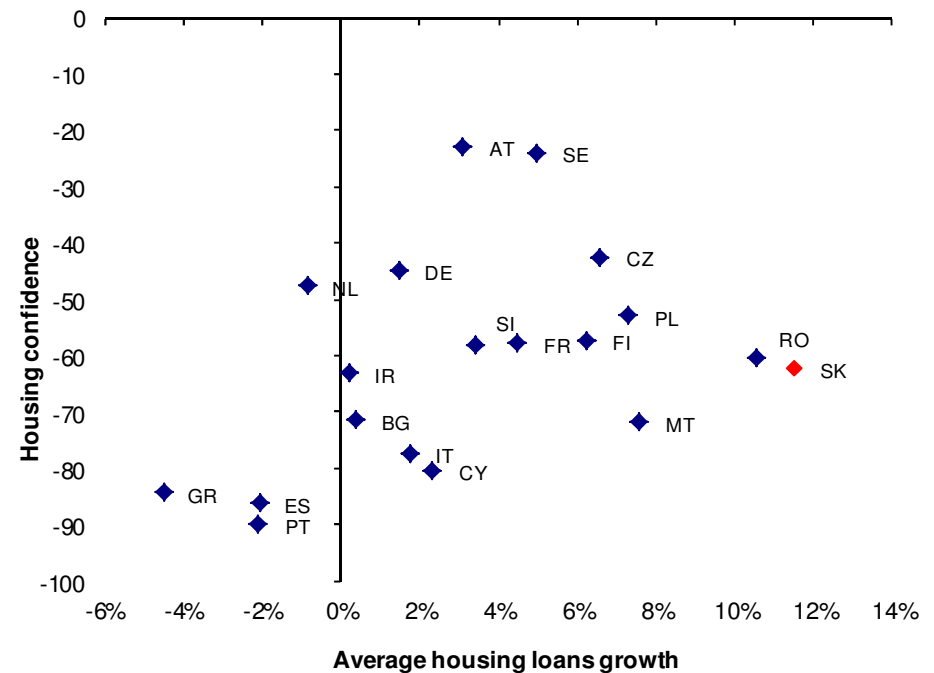
- Dynamics of the youth unemployment tends to be related to the flow of credit
- Consumer confidence and house investment sentiment is related to labour market situation and overall macroeconomic outlook

Chart: Housing loans vs. youth unemployment



Source: ECB, Eurostat

Chart: Housing loans vs. housing confidence



Source: ECB, Eurostat



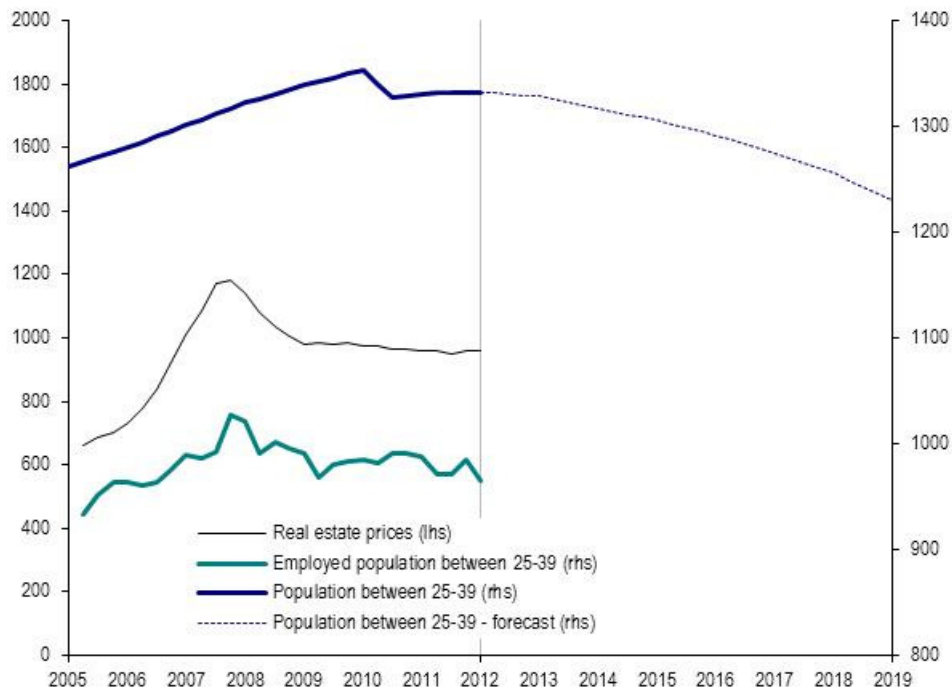
# Demographics



Can demographics really play a crucial role in the housing and lending market?

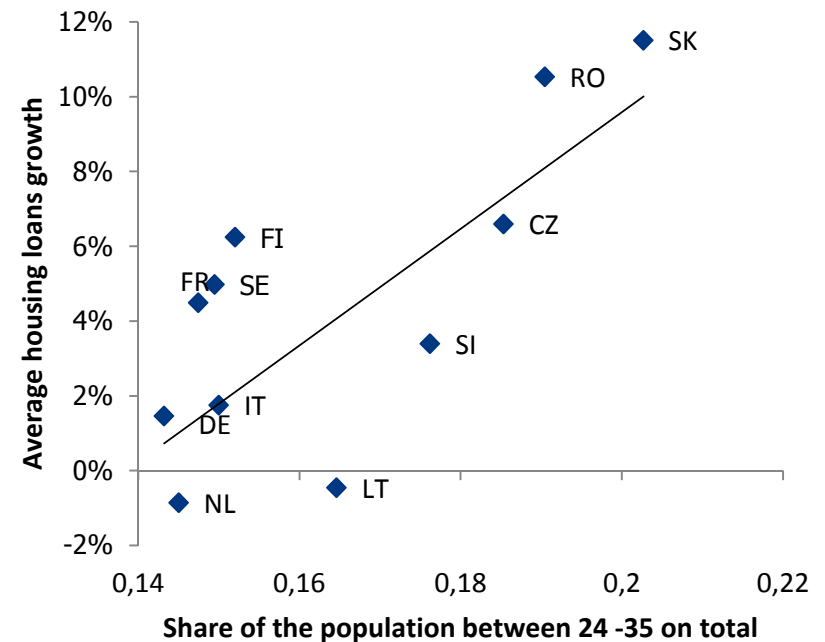
- Even if in most of the EU countries the total population is growing, there was significant decrease in population between 24 and 35 years
- Population between 24 and 35(39) years is associated with housing loan growth

Chart: Housing market and demographics in Slovakia



Source: ŠÚSR, Infostat, ÚPSVR

Chart: Housing loans and demographics in the EU



Source: ECB, Eurostat

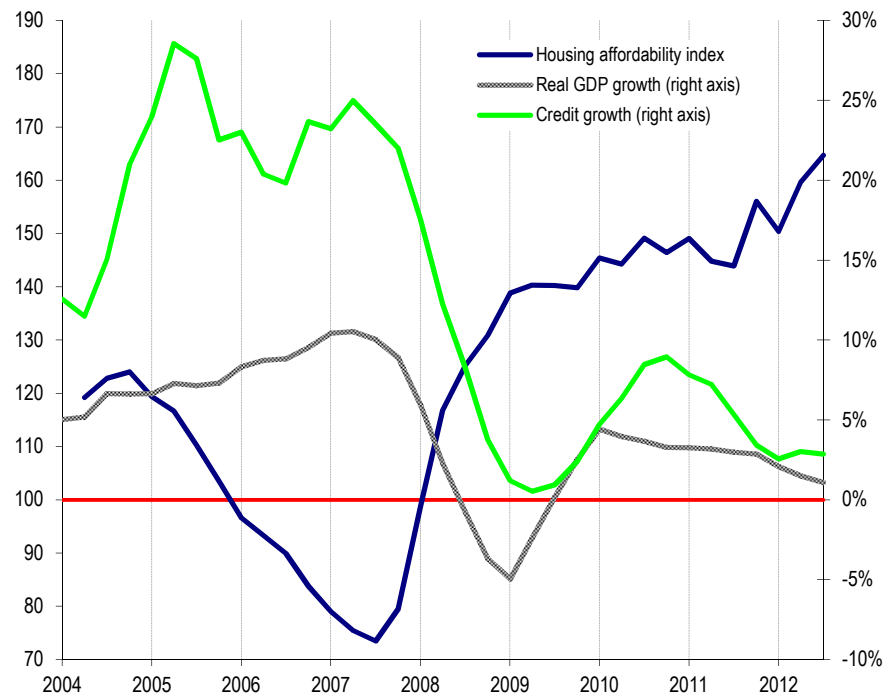
# Price



Is there an equilibrium price on the real estate market?

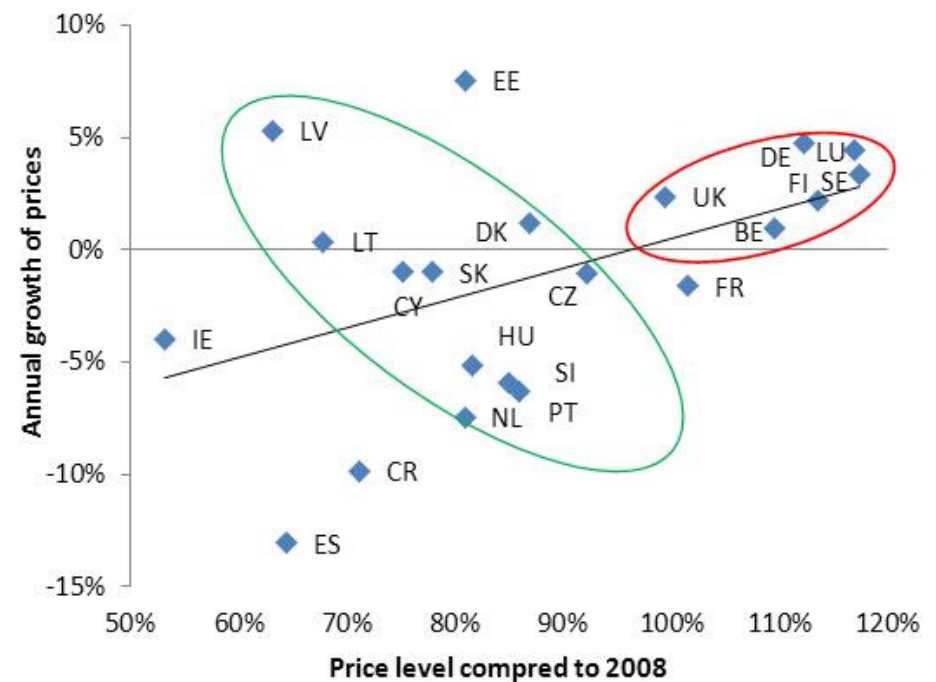
- Lower affordability tends to be related to booming economy and lending market
- Twofold interpretation:
  - higher prices are associated with higher growth
  - bigger fall creates larger potential for growth

Chart: Housing affordability index



Source: ŠÚSR, NBS

Chart: Housing prices: level and dynamics



Source: Eurostat



# Conclusions



## **Housing market in Slovakia**

- The most important market in Slovakia
- Source of information, source of risk

## **Banking sector**

- Important source of profit
- Valuation of the real estate and sound Loan-to-value policies
- Limiting the role of mortgage brokers

## **Financial stability context**

- Protect banks from future losses related to excessive credit growth and moderate real estate market imbalances
- Finding the equilibrium on the real estate market

## **Analysis of the housing market is very complex**

- Different factors: Interest rates, Lending policies, Demographics, Government policies, Labour market, affordability of housing, transparency and liquidity
- Available data: short history, concentration of the market in Bratislava
- Foreign investors / Cross-border

Growing imbalance between the importance of the real estate market and the focus of the university education



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