Regional Dimension: Life inside the euro area

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Main issues

Potential implications of ultra low interest rates:
- Credit booms/asset price bubbles
- Inflation and competitiveness

Policy options:
- Macropurudential measures
- Fiscal policy
- Structural policies
Growing household debt

Household Debt-to-GDP (%)

Source: Eurostat, NBS.
Note: EA6 includes BE, DE, FR, LU, AT, FI
Modest house price growth

Real Estate Prices, Residential, %yoy

Source: Macrobond.
Macropru actions

Mortgage Loans, seasonally adjusted, %yoy

Source: ECB, Macrobond.
**Countercyclical capital buffer (CCyB)**

- **Applicable CCyB rates in Slovakia**
  - Current: **1.5 %**
  - Further increase to **2.0 %** from 08/2020

- **Within the region, only SK and CZ have positive CCyB rates**

![Financial cycle in SK and its components](chart.png)

![Pending CCyB rates in the EU](map.png)

Source: European Systemic Risk Board.
Effectiveness of measures

- **Overall effect:** the loss rate on new loans can decrease by as much as 40% (in an adverse economic scenario)
- **Effect of individual measures:**
  - LTV limit has the major role in decreasing loss rate, it works mainly through LGD
  - DSTI limit contributes to lower loss rate, mainly through PD
  - DTI limit has smaller impact on the riskiness, but contributes to the reduction of credit growth
- **Combination of measures is crucial** to achieve financial stability objectives
  - Mix of borrower based measures prevents possible leakages
  - Borrower based measures focused on new lending, capital buffers address the risk in existing loans (incl. corporates and SMEs)

Impact at the end of simulation horizon (cumulative)
Inflation in Slovakia

CPI structure (yoy in %, p.p.)

Source: National statistical office
Real effective exchange rate

![Graph showing real effective exchange rate (REER) from 2002M1 to 2019M5. The graph illustrates appreciation and depreciation trends over the years.](image-url)