Systemic risk buffer

At its 61st correspondence session on 29 April, the Governing Board of the Bank of Slovenia adopted a Regulation on determining the requirement to maintain a systemic risk buffer for banks and savings banks (Official Gazette of the Republic of Slovenia No 60/22).

The requirement to maintain a systemic risk buffer is introduced for all banks in relation to sectoral exposures in the Republic of Slovenia referred to in the first and second indents of point 4 of the first paragraph of Article 247 of the Banking Act, in the following amount:

1. 1.0 % for all retail exposures to natural persons secured by residential immovable property;

2. 0.5 % for all other exposures to natural persons.

Banks must comply with the requirement to maintain a systemic risk buffer from 1 January 2023.

The introduction of sectoral systemic risk buffers is in line with the intermediate objectives defined in the Strategic Framework of the Bank of Slovenia's macroprudential policy, namely "mitigation and prevention of excessive credit growth and excessive leverage" and "restriction of concentration of direct and indirect exposure".

As set out in Article 246 of the Banking Act, the sectoral systemic risk buffers address risks that are not covered by the requirements to maintain an existing DSPB buffer, namely risks of disruption in the financial system that could have serious negative consequences for the financial system and the real economy. The Sectoral SyRB also does not address the broader cyclical risk as defined in Article 232 of the Banking Act (please also refer to Article 130 CRD), which regards the application of the CCyB, although the cyclical risk element of the real estate market is part of a broader cyclical risk.

The macro-prudential instrument was introduced with the aim of strengthening banks' resilience to risks arising from the persistence or emergence of the following vulnerabilities in the financial system:

- *Risks arising from real estate price dynamics*, specifically increased risks to financial stability arising from the Slovenian real estate market.
- *Risks arising from increased household loans dynamics*. The share of loans to households has increased sharply over the last decade.
- *Risks arising from an environment of low interest rates*. The extended low interest rate environment has increased the overall vulnerability of banks (and other financial intermediaries) through declining returns on bank investments in recent years. For many years, banks have seen declining net interest incomes and net interest margins. This has a negative impact on banks' traditional business models.
- *Risks arising from the partial relaxation of the macroprudential restrictions on household lending*. With the relaxation of the limit on allowed deviations from the cap on DSTI, we expect a more frequent occurrence of deviations. Given the strong competition between banks and the high level of excess liquidity, there is a risk of lowering credit standards under the newly permitted deviations. We recognise the potential threat of credit standards falling back to the levels before the introduction of binding measures (which is significantly lower than today's).

Above mentioned risks in an adverse scenario may lead to higher losses of the banking sector and increased needs for additional capital. Therefore, a timely build-up of buffers is of key importance. Should a shock to the macrofinancial sector materialise, the sectoral systemic risk buffer could also be released thus contributing to the prevention of a further contraction in credit to the economy. The cyclical component of the buffer therefore allows to respond to a possible system-wide crisis.

For further details on the risk analysis underlying the implementation of the sectoral systemic risk buffers, the calibration of the measure and the assessment of the impact, please refer to the Financial Stability Review, April 2022.

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