ADDIKO

CONSUMER LENDING IN SOUTH EASTERN EUROPE

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EXECUTIVE SUMMARY

The five SEE markets covered in this report – Bosnia, Croatia, Montenegro, Serbia and Slovenia – represent a good business opportunity for lenders looking at entering these markets. Unsecured lending in particular represents an exciting opportunity: across these five markets, unsecured lending has in recent years seen a sustained increase. This has been driven by several factors: economic growth has increased following several years of contraction following the global financial crisis (GFC), interest rates have decreased, the rate of homeownership is high by European standards (which dampens the demand for mortgage credit) in addition to the easy availability of unsecured credit. Household indebtedness is low by European standards, meaning that consumers have plenty of scope to borrow more. Unsecured lending overtook secured lending in 2015, and it is probable that unsecured lending will continue to grow across the region for the foreseeable future.

PART ONE

OVERVIEW OF THE SEE MARKETS

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The SEE market for consumer lending is small but growing. As Western European banks look for new markets to diversify and grow their businesses, SEE has proven attractive with Italian and Austrian banks already investing heavily in the region. Household indebtedness is much lower than in the majority of other European markets, suggesting great potential for investment. However, there are economic hurdles to be crossed if that full potential is to be realised

The region suffered economically in the wake of the global financial crisis - Croatia for example suffered a six-year long recession - but there have been signs of recovery taking hold, many of which are positive for consumer credit. Household consumption is driving economic growth as disposable income grows and consumer confidence is growing. Banks are turning to retail banking in search of more stable returns as the corporate sector continues to be plagued by non-performing loans.

Though the countries of the region have a shared history and have much in common, they are at different stages of development. Slovenia and more recently Croatia have joined the EU and are forging ahead in terms of GDP per capita. Bosnia and Herzegovina, Montenegro and Serbia meanwhile are all in earlier stages of development.

CHARACTERISTICS OF THE MARKET

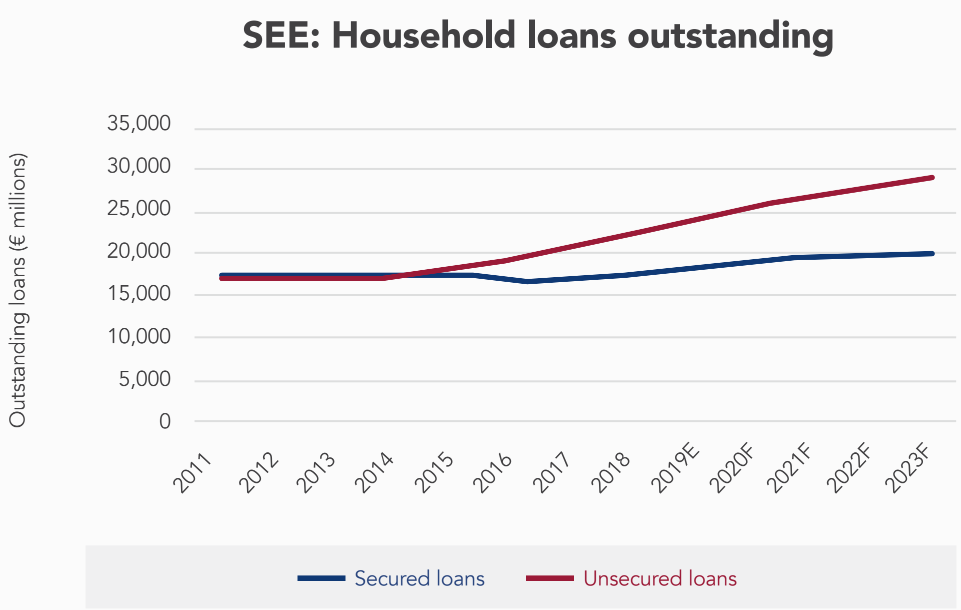
The countries share many similarities when it comes to consumer lending. Low levels of mortgage debt by international standards and a preference for cash loans are common features in the region.

Cash loans which are common in nearby Turkey account for an unusually large proportion of overall household debt across the region. This contrasts with the more mature markets in Western Europe where mortgage loans dominate the landscape. Banks have successfully made cash loans convenient for consumers with flexible terms and a fast turnaround.

Home ownership in SEE tends to be high with many owning their homes outright meaning demand for housing finance is low. Consequently, the overall debt burden of households is low which represents an opportunity for growth in other forms of lending. Consumers with low mortgage debt have greater scope to use credit to fund their lifestyles. On the flipside, these consumers are better placed to finance their lives without debt. This situation lends itself to a cyclical market where consumer borrowing is highly sensitive to consumer confidence. Lenders must be flexible enough to match their products to the prevailing conditions.

SHIFT TO UNSECURED LENDING

There has been a marked shift towards unsecured lending in the region over the past decade. As already noted, the market for unsecured cash loans, in particular, is thriving.



Source: Calculated using data from national central banks

There are several factors driving this trend which apply not just to this region but throughout the world. The real price of consumer goods, from household appliances to electronics devices to cars has lowered as manufacturing costs fall and income levels rise and what were once big household purchase which required specific financing are now easily financed with non-specific loans. Secondly, credit scoring has become easier due to the greater availability of data and lenders can more easily predict borrowers' future cashflow.

A third factor which is becoming increasingly important is convenience. Consumers are no longer willing to go through extensive checks and paperwork in order to access small loans, and can easily compare offerings across lenders. Banks can more easily meet these expectations by offering unsecured cash loans and without a quick approval process, they will lose out to competitors. Another factor worth noting is falling interest rates in domestic currencies in the region which has increased demand for these loans.

Despite the seemingly risky nature of cash loans, creditworthiness of borrowers, by and large, is not a major issue. This is due to a combination of factors. As will be explained in greater detail below, mortgage debt in the region is low relative to other European countries, which makes unsecured loans more affordable for consumers. As economic growth resumed in 2013 following the GFC, personal disposable income has increased, giving consumers more income to repay loans. As competition between lenders has increased, Interest rates have decreased and terms are becoming longer, meaning that unsecured credit is now more affordable to consumers. For the non-Euro countries, exchange rates have stabilised and lending in domestic currencies has increased, meaning that lenders (and therefore borrowers) are less exposed to volatile movements in the foreign exchange markets.

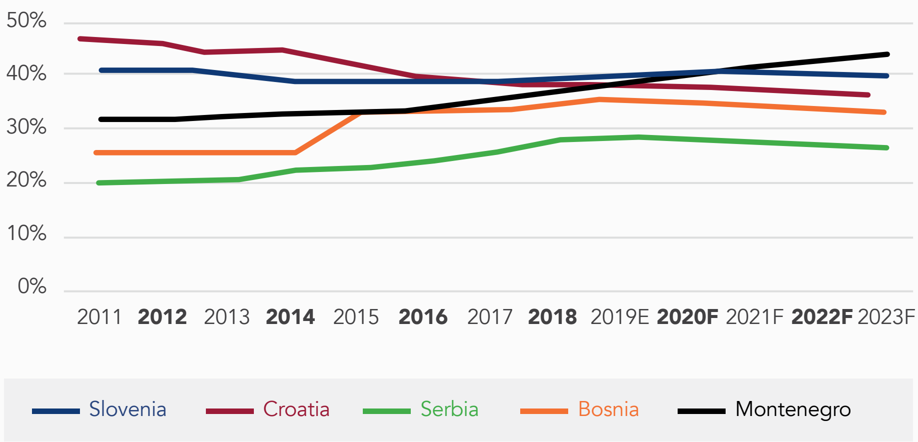
In Serbia for example, cash loans have the lowest NPL ratio of any category at 3.8 percent. With banks in the region looking to increase lending to households and consumer demand for lending also growing, this form of lending is set to continue on an upward trend.

HOUSEHOLD INDEBTEDNESS IN SEE

A useful measure of personal indebtedness is to express total consumer credit (incorporating both secured and unsecured lending) as a ratio of personal disposable income (PDI). On the one hand, this allows diverse markets to be compared using a common metric. On the other hand, it demonstrates the capacity for consumers to take on extra debt, or, as the case may be, when personal indebtedness has reached saturation point.

Household indebtedness across the SEE region has converged somewhat over the past number of years. Croatia had the highest indebtedness in the region in 2011 but it has since been on a decreasing trend. By contrast, indebtedness has grown in Bosnia, Montenegro and Serbia. At the end of 2018 Serbia had the lowest ratio among the countries considered with indebtedness of just 27 percent, while Slovenia had the highest (38 percent).

SEE: Ratio of Household Indebtedness to Personal Disposable Income



Source: calculated using data from national central banks and statistical agencies

PART TWO

COMPARISON WITH OTHER EUROPEAN MARKETS

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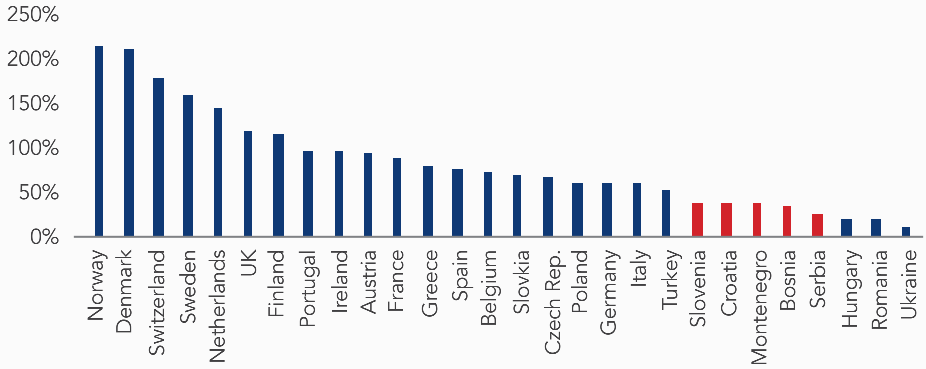
The level of indebtedness in the five markets under review in this study is low relative to other European markets. Therefore not only do the five SEE markets have significant scope to take on more consumer credit, it is certain that personal indebtedness will increase in line with economic growth. Of the 23 non-SEE European markets covered in the Lafferty database, there are only three markets that have a lower level of indebtedness – Ukraine, Romania and Hungary:

Ratio of Household Indebtedness to Personal Disposable Income (2018)



Calculated using data from national central banks and statistical agencies (SEE), Lafferty WCI

Ukraine is an impoverished market that has experienced a de facto civil war for the last several years, while Romania is arguably the least economically developed market in the European Union. The level of personal indebtedness in Hungary is surprisingly low.

Austria, unsurprisingly, is the leading market by this measure of the CEE countries (Austria, Czech Republic, Hungary, Poland and Slovakia). This is due to the more advanced nature of its economy compared to its neighbours. However, this is also due to the other markets not adopting capitalism until a generation ago, which prevented the build up of personal indebtedness until that point. The Czech Republic, Poland and Slovakia represent the next stage of development for the SEE markets: both Croatia and Slovenia, given time, will reach the level of indebtedness seen in these markets as their economies mature. The other three

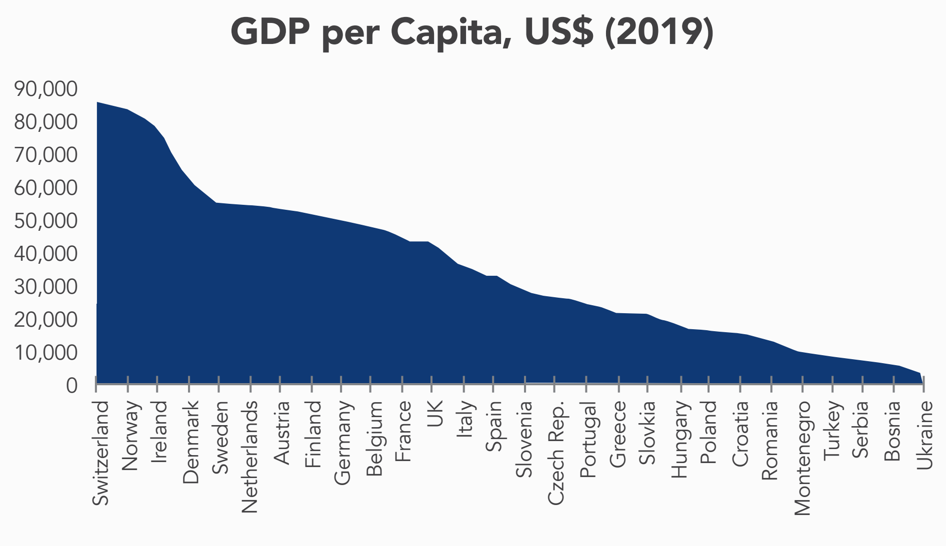
SEE markets, being less advanced, will take longer, but will inevitably reach that point as long as economic growth continues, especially if EU membership is achieved.

Turning to the markets that were dubbed the PIIGS during the European sovereign debt crisis – Portugal, Ireland, Italy, Greece and Spain. The only one of these markets that has actually seen a year-on-year increase in consumer credit over the period under review has been the only market that actually had the scope to increase it: Italy. The other markets, however, have been marked by a period of deleveraging as households have tried to clear debts accumulated during the pre-GFC years. From the point of view of the SEE markets, it is worth noting that Greece is another SEE market, while, until relatively recently, Ireland, Portugal and Spain were relatively impoverished countries relative to European standards.

France, Belgium and Germany have a level of personal indebtedness relative to PDI that is below 100 percent. This is due to a combination of a relatively high level of PDI in addition to a more cautious attitude to taking on consumer debt. On the other hand, there are the Netherlands, Switzerland and the UK, which feature higher levels of personal debt that propels the ratio of household debt to PDI to well above 100 percent.

Both Denmark and Norway have a level of personal indebtedness relative to PDI that is close to 200 percent, making households in these countries the most indebted in Europe. Along with the UK, consumers in the Nordics are probably the most open in Europe to taking on debt.

As a general rule of thumb, the wealthier the country, the more indebted its citizens tend to be:

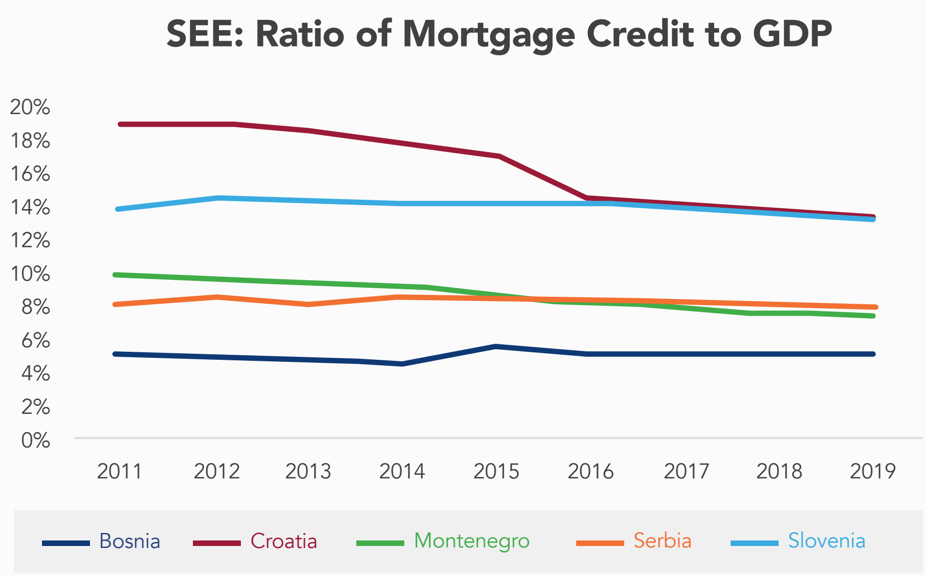


Source: IMF WEO

As may be observed in the chart above (which ranks the 28 markets mentioned in this study by GDP per capita) and the previous chart ranking countries by the ratio of personal indebtedness to PDI, there is a broad correlation between the wealthiest countries (in terms of GDP per capita) and the most indebted countries (in terms of the ratio of household debt to PDI). Thus as the five SEE markets become economically more developed over time, they will also become more indebted, leading to a greater demand for consumer credit.

MORTGAGE DEBT AS A PROPORTION OF GDP

As mentioned above, unsecured lending across the SEE markets has increased greatly in recent years. This is due to several reasons, including high levels of homeownership compared to other European markets (which decreases demand for mortgage credit) in addition to the easy availability of cash loans. On the one hand, this means that unsecured lending is likely to remain popular over the coming years. On the other hand, this means that as household indebtedness grows over the medium- and long-term, unsecured lending will account for a greater proportion of the growth in personal indebtedness compared to other European markets than at the equivalent stages of their economic development:

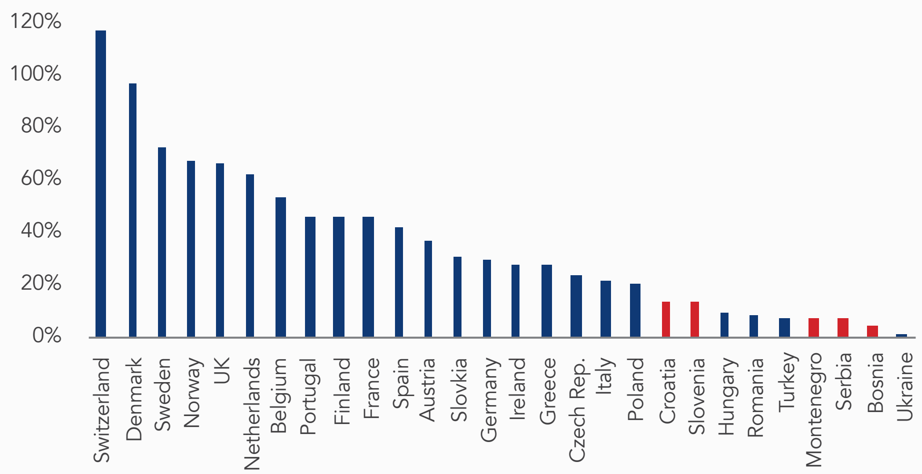


Source: IMF, National Central Banks

As can be seen, Croatia and Slovenia have a markedly higher proportion of mortgage debt to GDP in comparison to the other three markets, reflecting their more advanced economic development.

Reflecting the trend observed in relation to the ratio of consumer credit to PDI, the ratio of mortgage credit to GDP in the five SEE countries is lower than in the vast majority of the other European markets:

Ratio of Mortgage Credit to GDP (2018)



Source: IMF, National Central Banks (SEE), Lafferty WCI (Others)

As we can see, the ratio of mortgage debt to GDP is not dissimilar in Romania, Turkey, Montenegro and Serbia. Hungary and Ukraine are the only other European markets with a lower ratio of mortgage debt-to-GDP than any of the five SEE markets. The level observed in Slovakia is perhaps surprisingly high given its background and economic development, while the Czech Republic and Poland are a bit further behind. Once again, Austria in the regional leader among the CEE markets, and for the same reasons as outlined with regard to the proportion of household debt to PDI.

Among the so-called PIIGS, what stands out is the relatively low proportion of mortgage debt in Italy, which is partly explained by the relatively high level of homeownership. However, it must also be stated that there remain significant tranches of non-performing mortgage loans in each of these markets, especially in Italy. While Ireland has enjoyed GDP growth that has been very high

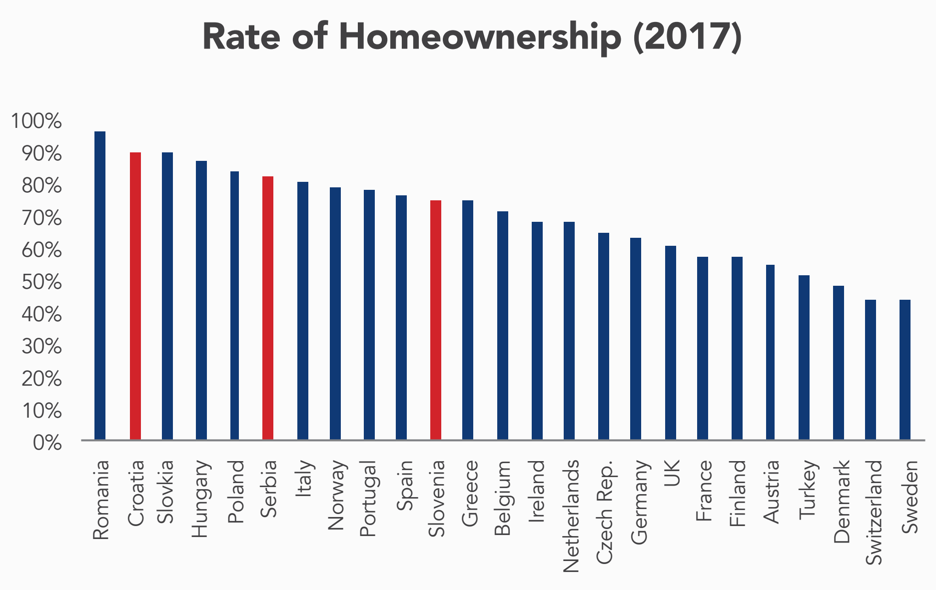
compared to other EU countries since 2014, this growth has been artificially boosted by the practice of transnational corporations of redomiciling their assets to Ireland for tax purposes, which gives a somewhat misleading view in the chart above as nominal GDP has been artificially boosted.
The relatively low debt loads observed in France and Germany is surprising. This is at least partially explained by the societal trend in these countries of opting to rent a property instead of purchasing one, encouraged by strong legal protections for long-term renter-occupiers.

Once again, Denmark is the most indebted of the Nordic markets, with Finland being the least indebted. Switzerland has the highest ratio of mortgage credit-to-GDP of the 28 markets compared, with Denmark, Sweden and Norway ranked second, third and fourth, respectively. This reinforces the point made previously that, in general, the wealthier a country is, the more indebted its citizens become.

UNSECURED LENDING IS LIKELY TO OUTSTRIP MORTGAGE CREDIT

As indebtedness increases in the SEE markets in tandem with economic growth, it is probable that unsecured lending will account for the majority of the growth in household lending. This is principally for two reasons: the high rate of homeownership, as well as net outward emigration flows.

The chart below shows the rate of homeownership for the European markets:



Source: Lafferty WCI, Eurostat

As may be observed, the countries with the highest rates of homeownership tend to be the former communist states of Eastern Europe. Croatia and Serbia are among the leading states in this regard, while Slovenia is a bit further back, ranked eleventh of the 25 states. Unfortunately no reliable data is available for either Bosnia or Montenegro (as well as Ukraine). However, the available evidence would suggest that the rate of home ownership in both countries is elevated relative to the rest of Europe, in common with almost every other state that was formerly Communist.

The other contributory factor to subdued mortgage demand is net outward emigration. Four of the five SEE markets have experienced sustained net outflows, with the exception being Slovenia.

Since joining the EU in 2013, Croatia has seen sustained emigration, increasing year on year. According to official figures, approximately 36,000 people emigrated in 2016. However, it is likely that these figures underestimate the true extent of emigration, as figures for registered Croatian immigrants in other jurisdictions (especially Germany) would suggest that emigration is significantly higher.

Levels of Serbian emigration is difficult to say with certainty due to a lack of reliable data. However, OECD figures suggest that emigration reached about 50,000 in 2017, although it would appear that the rate of emigration has slowed down in recent years, which is to be expected as the country has returned to a degree of normality following the upheaval during the 1990s and early 2000s.

Reliable figures for annual Bosnian emigration levels are not available: however, it is safe to say that they are elevated. According to the World Bank, in 2013 approximately 45 percent of Bosnians lived abroad. According to the Bosnian Ministry of Security, this figure is even higher. Going by data published in 2015, the Ministry estimated that approximately 53 percent of Bosnians lived outside their home country.

As with Bosnia, reliable data for emigration flows from Montenegro is hard to come by. However, going by figures from the World Bank, the Montenegrin picture is similar to the Bosnian situation, with approximately 45 percent of the population living abroad (2013 figures). The only country of the SEE states to not suffer from emigration is Slovenia. However, net immigration is very low: approximately 500 during 2017.

The net effect of emigration is to reduce the demand for housing, which in turn reduces the demand for mortgages. While emigration also reduces demand for unsecured lending, this has a greater impact on mortgage lending, which is a big-ticket item that requires a commitment of many years. In combination, relatively high levels of homeownership allied to net outward emigration has curbed the demand for mortgage credit in the SEE states.

This helps explain why the compound annual growth rate (CAGR) for unsecured lending for the five SEE countries from 2011 to 2018 inclusive comes to 3.9 percent, while the equivalent figure for secured lending stood at 0.1 percent. This goes a long way to explain the preponderance of unsecured lending in these markets as a percentage of total household credit, and there is no reason to believe that this trend will change over the medium term at least.

PART THREE

ANALYSIS OF THE SEE MARKETS

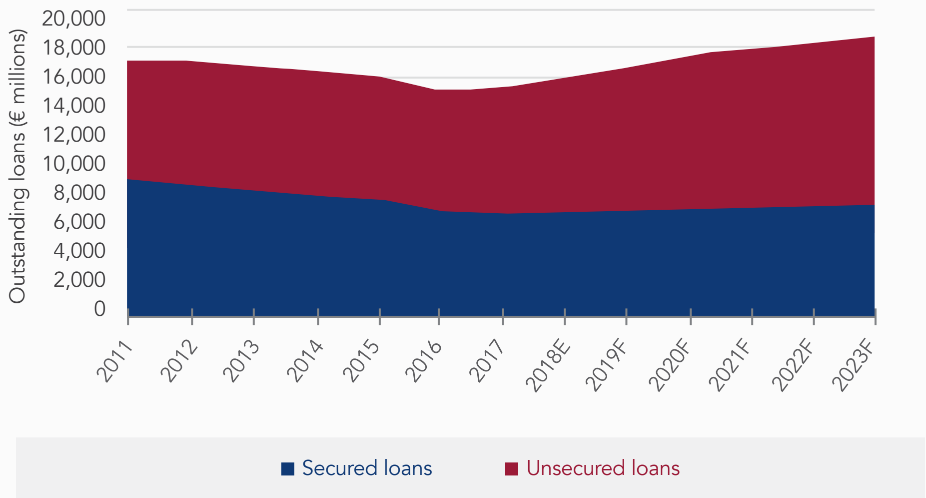
ANALYSIS OF THE SEE MARKETS

CROATIA

Croatia returned to economic growth in 2015 following a six-year recession, recording real GDP growth rates of 2.4 percent, 3.5 percent and 2.8 percent in 2015, 2016 and 2017. One of the main drivers of the economic recovery has been household consumption which along with a falling unemployment rate bodes well for the consumer finance industry. However, the consensus among economists is that structural reform is needed to boost economic growth in the longer term.

Total outstanding loans to households in Croatia declined for five consecutive years between 2011 and 2016 before returning to modest growth of 1.1 percent in 2017. Total outstanding household debt was €15.4 billion at the end of 2017, down from €17.2 billion in 2011 with average debt per household of just over €10,000. With a ratio of household debt-to-personal disposable income of just 37 percent in 2018, household indebtedness is low by international standards.

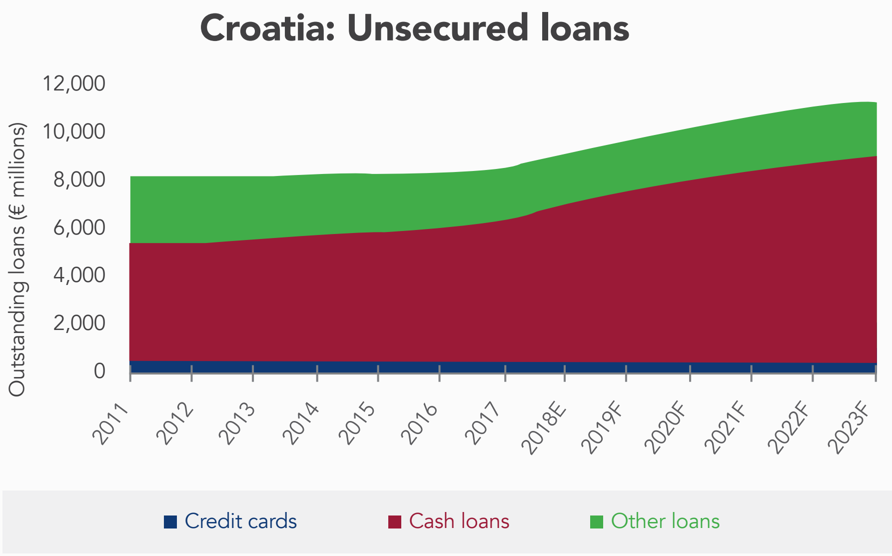
Croatia: Household loans



Source: Croatian National Bank

Since 2011, there has been a notable change in the composition of household loans with the proportion of unsecured loans in the overall portfolio growing from 47 percent in 2011 to 57 percent in 2018. Indeed, despite the overall decline in household lending from 2011 to 2018, unsecured loan outstandings have grown.

In common with all markets covered in this study, unsecured credit in Croatia is dominated by cash loans. Cash loans accounted for 37 percent of total household loans and 68 percent of unsecured loans at the end of 2017. This form of lending has proven popular with consumers for several reasons. Banks offer quick approval and flexible terms making these loans convenient for borrowers. Additionally, they offer more favourable interest rates than the alternatives such as overdrafts or credit cards.



Source: Croatian National Bank

There were 1.9 million credit cards in issue in Croatia at the end of 2017. However, less than a third of those were true revolving credit cards with the remainder being charge or deferred debit cards. Credit card debt stood at just €475 million at the end of 2017, down from €553 million in 2011.

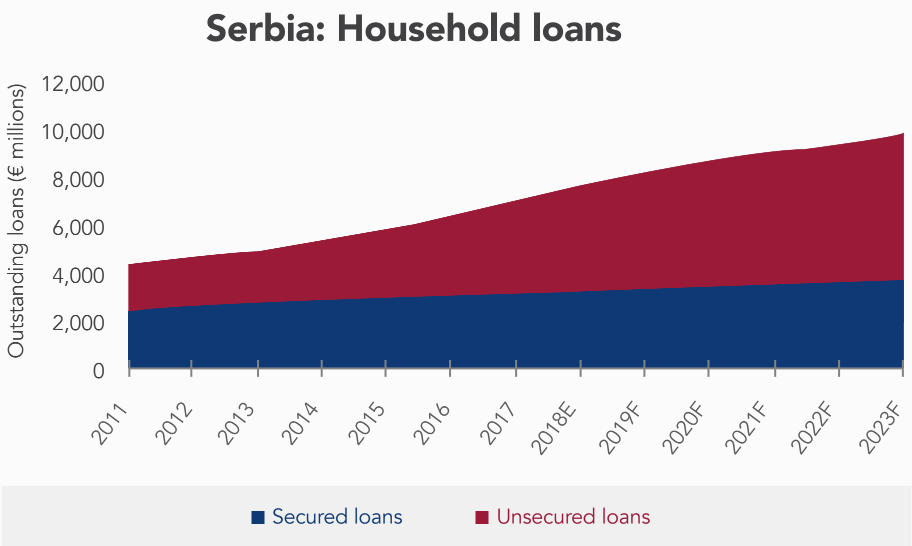
Consumer lending is dominated by the country's leading banks, the majority of which are in foreign ownership. The two largest banks, Zagrebačka Banka and Privredna Banka Zagreb are owned by Italian banking groups UniCredit and Intesa Sanpaolo respectively, while the third- and fourth-largest institutions, Erste and Raiffeisen, are Austrian-owned.

A large proportion of household loans in Croatia have traditionally been indexed to foreign currencies – primarily to the Euro and Swiss franc. Almost all housing loans are now pegged to the Euro after the government forced banks to convert Swiss franc-indexed loans in 2015. The Swiss franc appreciated during the financial crisis placing borrowers in difficulty. The proportion of loans denominated in Kuna is growing primarily due to the growth of cash loans which are almost all denominated in Kuna.

Appendix: Croatia Household loans – see page 39

SERBIA

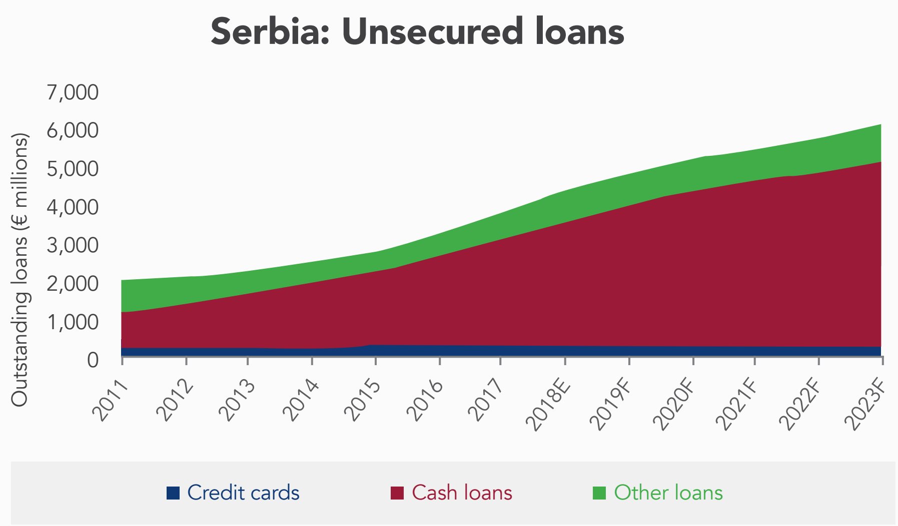
Household lending has grown strongly in recent years reaching €6.7 billion in 2017, up from €4.3 billion in 2011, a CAGR of 7.6 percent. Growth in household debt has outstripped income growth in that period with the ratio of debt to PDI increasing from 19 percent to 25 percent. There remains plenty of room for further growth, as this level remains below that of neighbouring Croatia (37 percent) and well below western European levels, for example.



Source: National Bank of Serbia

At the end of 2017, unsecured credit made up 56 percent of total household debt compared to an estimated 47 percent in 2011. During this period, unsecured credit has almost doubled, thanks largely to the popularity of cash loans.

Cash loans have exploded in popularity in recent years, recording growth rates of 25 percent and 24 percent in 2016 and 2017 respectively. Virtually all cash loans are in domestic currency with almost 80 percent having a term of over five years. The average interest rate on Dinar cash loans stood at 10.7 percent as of September 2018. Cash loans offer a less expensive alternative to credit cards and overdrafts and also offer more flexibility than standard consumer loans.



Source: National Bank of Serbia

The consumer loan category in Serbia consists of loans for specific purposes, primarily cars, mobile phones and household appliances. These have declined in popularity over recent years as consumers have increasingly opted for non-purpose cash loans. Car loans are usually FX-indexed with loans for other goods typically in Dinar. Almost two-thirds of consumer loans are in Dinar, which carry a higher interest rate on average of 7.6 percent compared to 5.3 percent for FX-indexed loans.

Credit card loans make up seven percent of unsecured household loans with outstandings on a declining trend. There were just over one million credit cards at the end of 2017, just under half of which were active. These cards were used to make 15 million transactions in 2017 worth €450 million.

The ratio of non-performing loans in the household sector has fallen significantly in the last few years as new lending has increased, and banks have written off bad debt. At the end of June 2018, 4.9 percent of outstanding household loans were non-performing down from 11.8 percent at the end of 2015. By category, cash loans are the best performing with NPLs of just 3.8 percent while the ratio for housing loans is 5.7 percent.

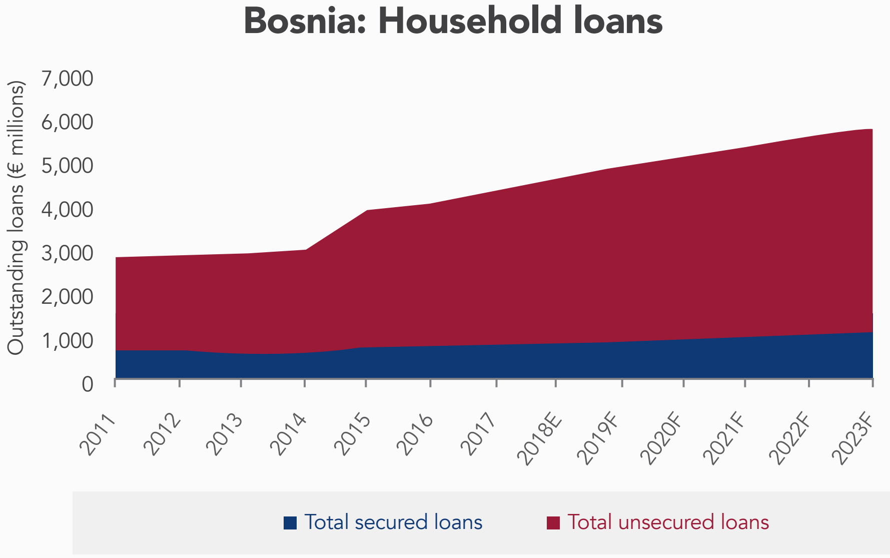
Similarly to Croatia, a large proportion of household borrowing has traditionally been in foreign currency. This is changing however and in 2017, the proportion of Dinar loans in total outstandings surpassed 50 percent. This is largely due to the growth of cash loans, which are virtually all in Dinar, and to restrictions put in place in 2011 by the Central Bank on lending in foreign currencies. Under the rules, banks may only make foreign currency loans in Euro and borrowers must make a down payment of 30 percent of the loan amount.

Appendix: Serbia Household loans – see page 40

BOSNIA AND HERZEGOVINA

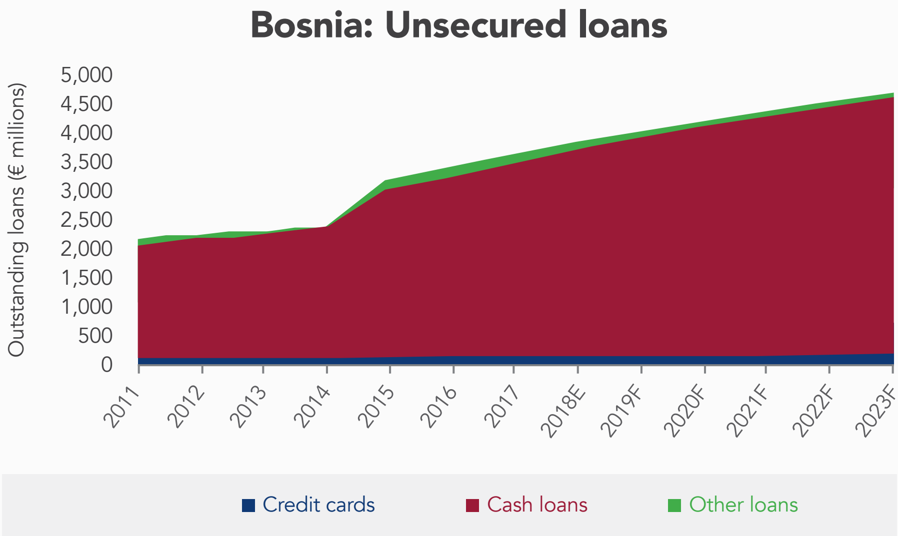
Bosnia and Herzegovina's economy has grown steadily in recent years but significant structural problems remain that are hindering further growth. The country still suffers from low living standards and ranks poorly for its business environment and competitiveness. According to the World Bank, Bosnia is the least competitive country in Europe. Unemployment is also extremely high at around 18 percent in 2018. These are issues which the country will need to address if it is to achieve its economic potential.

Total outstanding household loans in Bosnia stood at €4.4 billion at the end of 2017: there was a year on year growth of 31 percent in 2015 which was the highest annual growth over the period covered. Household debt grew by seven percent in both 2017 and 2018. Household indebtedness grew by ten percentage points from 2011 to 2018 to reach 35 percent of household disposable income at the end of 2018.



Source: CBBH

Unsecured loans are dominant in Bosnia with the gap between secured and unsecured widening year-on-year. Outstanding housing loans amounted to €820 million or just six percent of disposable income in 2017, a very low level by international standards.



Source: CBBH

General purpose consumer loans or cash loans account for almost the entire stock of unsecured loans. There were €3.3 billion of cash loans outstanding at the end of 2017 out of a total unsecured stock of just under €3.6 billion. Cash loans outstanding has grown at an average annual rate of 9 percent from 2011 to 2018.

Bosnia's credit cards market is underdeveloped. There were 0.23 million credit cards in issue at the end of 2017, representing a penetration rate of just eight cards per 100 adults. The average credit limit on credit cards was €763 at the end of 2017. Total outstandings on credit cards was €156 million at the end of 2017.

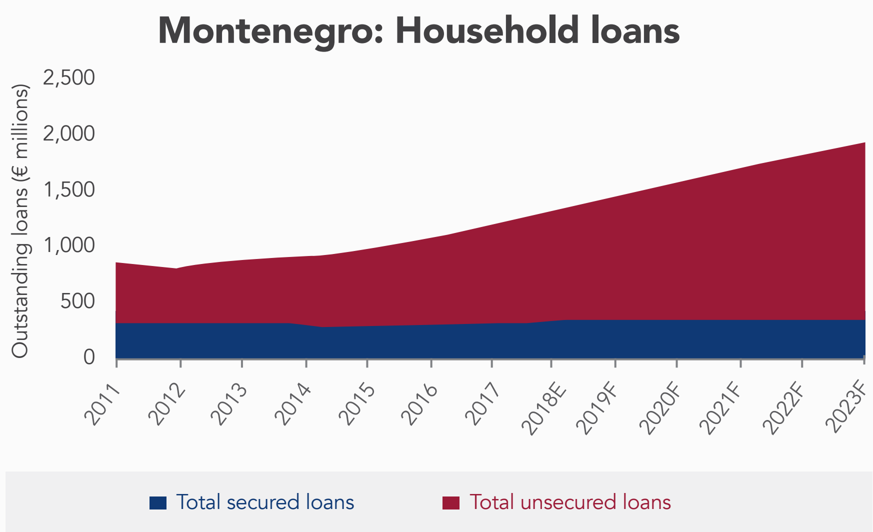
At the end of 2017, 57 percent of outstanding loans were in foreign currency or indexed to foreign currency. The vast majority of these were in Euro with just 1.1 percent of remaining Swiss franc loans.

The proportion of non-performing loans in the household portfolio has declined for five consecutive years, reaching 7.5 percent at the end of 2017. The NPL ratio is higher for housing loans at 9.9 percent while around 6.6 percent of cash loans were non-performing at the end of 2017.

Appendix: Bosnia Household loans – see page 41

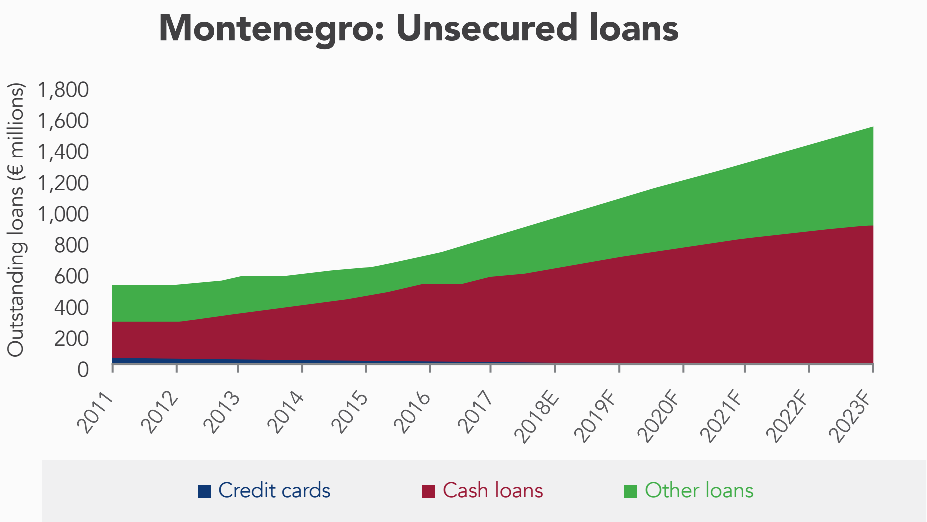
MONTENEGRO

Montenegro is by far the smallest market among those covered in this report with a population of just over 0.6 million and a GDP of €4.2 billion at the end of 2017. The country suffers from a very high unemployment rate (although it is falling), which makes for challenging conditions for lenders.



Source: Central Bank of Montenegro

Having experienced sluggish growth between 2011 and 2015, the consumer credit market picked up significantly in 2016 and 2017, recording growth rates of 10.9 percent and 10.6 percent respectively to reach €1.2 billion. The improvement was mainly due to an increase in the unsecured loans segment as well as an upturn in mortgage lending.



Source: Central Bank of Montenegro

In common with other SEE markets, there has been a shift towards unsecured lending with cash loans again the main driver. Cash loans outstanding increased by 143 percent between 2012 and 2017 to reach €561 million, accounting for almost half of outstanding household debt.

Credit card debt has been on a declining trend for several years and stood at just €18 million at the end of 2017. There were 38,669 credit cards in issue in 2017 which were used to make 1.2 million transactions during the year. The number of cards declined by 24 percent between 2011 and 2017. There was however a significant pick up in credit card use in 2017 as the number and value of transactions grew by 13 and 14 percent respectively. This may be an indicator of a recovery in the market though there was no corresponding growth in outstandings.

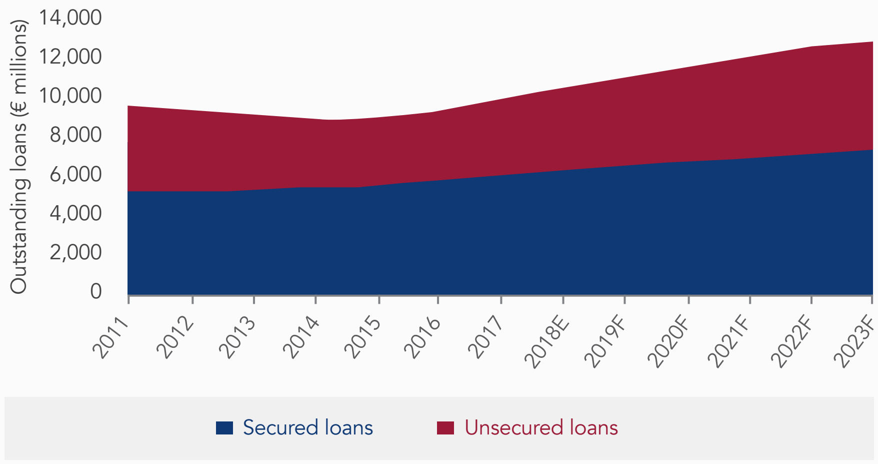
Credit quality has improved in recent years with the level of non-performing household loans falling to 5.5 percent in 2017. This is down from 6.9 percent in 2016 and from 12.7 percent during 2013.

Appendix: Montenegro Household loans – see page 42

SLOVENIA

Slovenia, like many other European countries, suffered in the aftermath of the GFC. This prompted the establishment of national bank asset company DUTB in 2014. However, this move, in concert with a rebounding European and global economy (primarily fuelled by concerted central bank intervention from the world's leading central banks) has led to an economic recovery over the last four years. GDP growth reached 4.5 percent in 2018, following growth of 5.0 percent in 2017.

Slovenia: Household loans

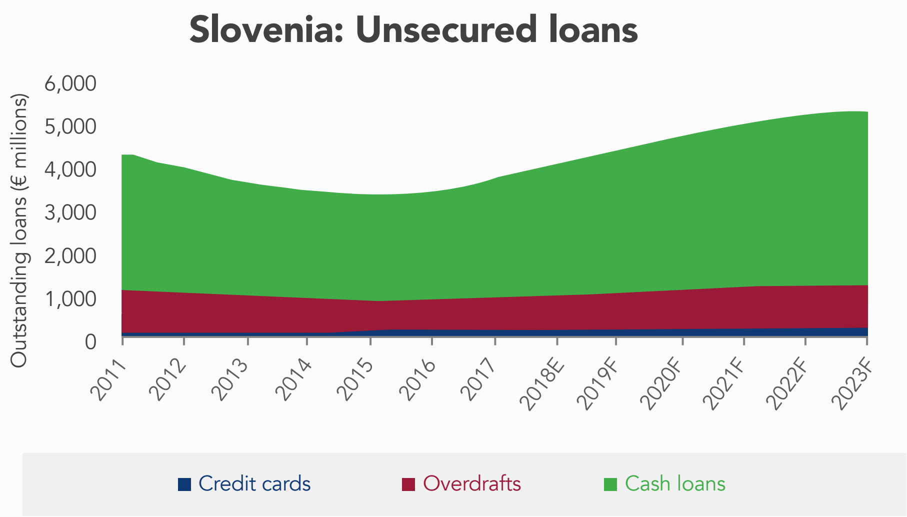


Source: Bank of Slovenia

This is reflected in the lending figures: household debt outstanding declined each year from 2011 to 2014 as consumers deleveraged. However, household credit has rebounded since then. But it was only in 2017 that growth in household credit really took off, with an increase of 6.3 percent, with growth in 2018 of 6.5 percent. Lafferty forecasts that lending growth will continue to remain strong over the next few years: however, this is dependent on continued benign global economic conditions that a small market like Slovenia has little sway over.

The ratio of household loans-to-personal disposable income (PDI) stood at 38 percent at the end of 2017. This ratio stood at 40 percent in 2011: Lafferty forecasts that debt-to-PDI will reach this level again in 2021 having fallen slightly during the intervening years. This is low by Western European standards, which would indicate that consumers have the capacity to take on more debt (especially as Slovenia is a member of both the EU and the Eurozone).

At the end of 2017, 38.6 percent of household loans were unsecured (with the caveat that a small proportion of this total was secured, as figures for non-mortgage secured loans are not available). This is a significant decrease from 2011, when this figure stood at 45.4 percent. However Lafferty estimates that this figure will increase to 42 percent by the end of 2020.



Source: Bank of Slovenia

In common with the other markets covered in this report, unsecured lending is dominated by cash loans (we have included non-mortgage secured loans in this category). At the end of 2017, cash loans accounted for 76 percent of total unsecured loans, overdrafts accounted for 20 percent, while credit card outstandings accounted for the balance. Lafferty forecasts that all three categories of lending will continue to increase over the next several years.

Slovenia presents a good business opportunity, as net interest margins are relatively high. As of September 2018, the average interest rate on new variable household unsecured loans stood at 4.5 percent, while the equivalent figure for fixed rate loans was 6.2 percent. The average interest rate on deposits of less than one year stood at 0.2 percent, with deposits of more than one year commanding an interest rate of 0.4 percent.

In addition, credit quality has improved. The percentage ratio of claims (combining secured and unsecured household debt) more than 90 days in arrears stood at 2.1 percent as of September 2018, down from 2.7 percent in December 2017 (and these figures refer to the total amount owed, not the number of claims involved).

There has been an increase in fixed rate unsecured lending to households recently (spurred by low interest rates), mainly without a stated purpose. At the end of 2017, fixed rate unsecured loans accounted for 44 percent of the total, which is expected to increase as long as the low interest rate environment continues.

Appendix: Slovenia Household loans – see page 43

FACTORS THAT WILL DRIVE DEMAND FOR CONSUMER CREDIT DURING THE FORECAST PERIOD

There are several reasons to believe that demand for consumer credit will grow over the medium-term. The primary reason is the projected continued robust economic growth in each of the five countries:

	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP Growth (%)									
Bosnia	3.1%	3.2%	3.0%	3.2%	3.5%	3.7%	3.9%	4.0%	4.0%
Croatia	2.4%	3.5%	2.8%	2.8%	2.6%	2.4%	2.3%	2.2%	2.1%
Montenegro	3.4%	2.9%	4.3%	3.7%	2.5%	3.0%	3.1%	3.4%	3.0%
Serbia	0.8%	2.8%	1.9%	4.0%	3.5%	4.0%	4.0%	4.0%	4.0%
Slovenia	2.3%	3.1%	5.0%	4.5%	3.4%	2.8%	2.6%	2.3%	2.1%
Source: IMF WEO (October 2018 Outlook)									

While growth is projected to be uneven across the five markets, these growth rates are high compared to the more mature European markets in Western and Central Europe. Looking at the chart above, it is clear that Bosnia and Serbia are set to enjoy the highest growth rates. Along with Montenegro, this is partially due to coming from a low base: these markets are relatively undeveloped and thus have higher potential for future growth. In addition, these markets are still recovering, to a certain extent, from the war in the Balkans. As conditions have normalised, economic growth has resumed.

Croatia and Slovenia, on the other hand, are more mature economies and thus have less scope for very high growth. In addition, they are also more tightly connected to the economies of EU member states, which have experienced a slow recovery from the GFC. Having said that, the Slovenian and Croatian growth rates, both since 2015 and for the forecast years, is markedly higher than the majority of EU states.

Improving economic conditions has paved the way for a decrease in the rate of unemployment across all five markets:

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Unemployment Rate (%)									
Bosnia	27.7%	25.4%	20.5%	18.4%	18.0%	18.0%	18.0%	18.0%	18.0%
Croatia	17.1%	15.0%	12.4%	12.0%	11.2%	11.0%	10.9%	10.5%	10.0%
Montenegro (1)	17.9%	17.5%	17.0%	14.1%	N/A	N/A	N/A	N/A	N/A
Serbia	18.2%	15.9%	14.1%	13.8%	13.5%	13.2%	12.9%	12.6%	12.4%
Slovenia	9.0%	8.0%	6.6%	5.8%	5.4%	5.3%	5.4%	5.7%	6.1%
Source: IMF WEO (October 2018 Outlook), Monstat									
Notes: (1): Figure for 2018 refers to the rate as of the end of Q3, forecasts are not available									

As may be observed, there has been a continuous year on year decrease in the rate of unemployment across all five markets up to 2018. For the forecast years, only Slovenia is expected to see an increase in unemployment (with Bosnia remaining stable). This has been driven by an increase in economic growth, as well as net outward emigration in four of the five countries, which has acted as a release valve for those seeking employment.

More people in employment leaves consumers with more disposable income. While this may mitigate against borrowing to a certain extent, the increased disposable income improves consumer sentiment. Overall, this will increase the appetite for consumer credit as consumers have more money in their pockets and will therefore be more confident in their ability to repay loans.

Turning to the rate of inflation:

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Inflation Rate (%)									
Bosnia	-1.3%	-0.2%	1.6%	1.7%	1.8%	1.8%	1.7%	1.8%	1.8%
Croatia	-0.6%	0.2%	1.2%	1.3%	1.5%	1.5%	1.6%	1.8%	1.9%
Montenegro	1.4%	1.0%	1.9%	2.9%	1.9%	1.8%	2.0%	2.1%	2.1%
Serbia	1.6%	1.5%	3.0%	2.4%	2.5%	3.0%	3.0%	3.0%	3.0%
Slovenia	-0.4%	0.5%	1.7%	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%
Source: IMF WEO (October 2018 Outlook)									

As may be observed, in general, inflation has been on the increase across the region. This can be viewed as being a double-edged sword. On the one hand, inflation can dampen consumer sentiment, and therefore demand, as goods and services become more expensive. This would naturally have a knock-on effect on the demand for credit.

On the other hand, inflation has not been very high. Indeed in 2015 and 2016 there was either deflation or minimal inflation in Bosnia, Croatia and Slovenia. As central banks generally have a target of maintaining inflation at approximately 2 percent per annum, it is only in Serbia from 2020 onwards that inflation is expected to significantly exceed this percentage during the forecast period. So inflation is forecast to be in the goldilocks zone for the forecast period in four of the five countries. Even Serbia's projected rate of 3 percent cannot be described as high.

Therefore relatively low and stable rates of inflation across the region will contribute to consumer confidence. Indeed this level of inflation, of approximately two to three percent, is an indication of an increasing demand for goods and services, which is natural in economies where the rate of growth is relatively high. This is a signal that consumer sentiment is improving, which should most likely lead to an increased demand for consumer credit.

Therefore strong economic growth, decreasing unemployment, and stable rates of inflation have contributed to an increase in consumer confidence, which has acted as a 'push' factor, in encouraging individuals to borrow more as they feel greater confidence in their ability to repay loans.

However, there are also other factors at play. Banks have focused greater attention on consumer lending, especially in unsecured lending, in recent years. This is because demand for corporate loans, in general, have fallen, in addition to a relatively high level of non-performing corporate loans. In addition, banks have recognised that personal disposable income has increased in recent years, allowing consumers greater scope to borrow. In addition, the rate of household indebtedness is low relative to most European countries, which further boosts the ability of consumers to repay loans.

This has led to a number of changes to how consumer loans are granted and structured:

- Loan approval procedures have been simplified
- The average maturities of consumer loans have been lengthening
- The maximum amount permitted for unsecured loans has increased
- Interest rates have fallen
- Banks have been more willing to grant loans without a stated purpose, which makes it somewhat easier for borrowers to apply, as they don't have to justify their purchase to the bank. This has certainly been a significant factor in the very strong growth in this category of lending across all five SEE markets

Another additional factor is that as more banks have turned their attention to unsecured consumer lending, competition has increased, making the terms on offer more attractive to prospective borrowers. In addition, foreign lenders have entered the SEE markets, further intensifying competition.

In combination, these considerations have acted as a 'pull' factor, drawing consumers to unsecured lending as the terms and conditions have improved. There is little reason to expect a change to this phenomenon during the medium-term.

COMPARABLE MARKETS

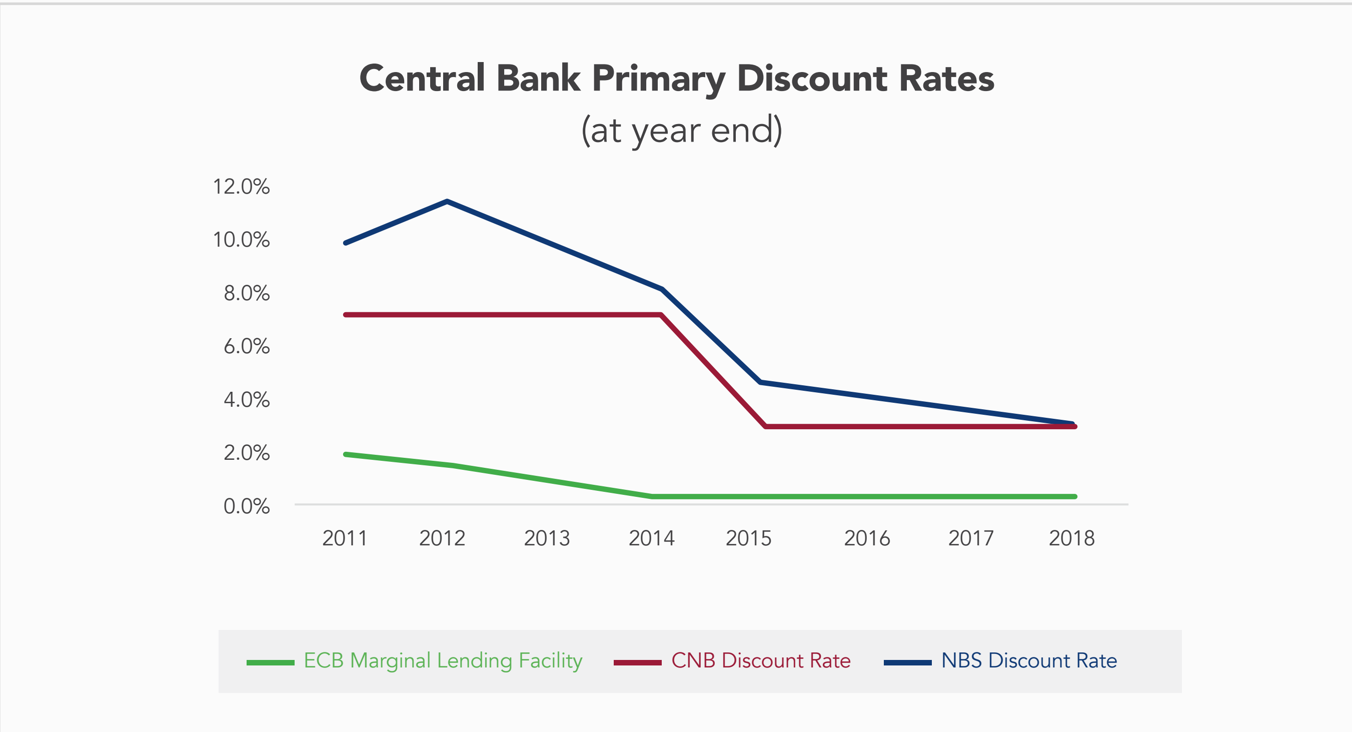
For the five SEE countries, the markets which are most comparable in terms of the trajectory of economic development, and hence growth in indebtedness, are the other former Communist countries of central and Eastern Europe. In particular, the Czech Republic, Poland and Slovakia. These three countries have a ratio of household indebtedness to PDI of between 60 and 80 percent. Bosnia, Croatia, Montenegro and Slovenia each have a ratio of household indebtedness to PDI that hover around 40 percent (Serbia is a bit lower, at approximately 30 percent).

This is because as former Communist states, levels of personal indebtedness are relatively low, and the rate of homeownership is relatively high. This allows plenty of scope for increased levels of unsecured borrowing. The other important factor is EU membership. Czechia, Poland, Slovakia and Slovenia joined the EU in 2004, with Croatia joining in 2013. This has seen these countries becoming more integrated into the wider European economy, as well as enjoying the benefits of EU structural funds (but also some of the negatives, such as losing control of monetary policy). In general, however, this has been a positive step.

It is probable that the other three SEE states will join the EU, possibly in the mid-2020's. This will certainly accelerate economic development. Indeed the economic trajectory of Bosnia, Montenegro and Serbia is likely to follow those of their near neighbours, Croatia and Slovenia.

COST OF FUNDING

An important factor in the growth of consumer credit is the cost of funding:



The ECB has followed in the steps of the Federal Reserve by undertaking quantitative easing (QE). This is reflected in the decline in the ECB's marginal lending facility, which stood at a record low of 0.25 percent at the end of 2018. In late 2018 the ECB stopped its programme of asset purchases, but it is unclear if an increase in the primary discount rate is on the horizon, especially with Brexit in the offing. The decline in the main Croatian and Serbian discount rates have also followed the trend set by the ECB, which is natural as the Euro is the regional behemoth. This will also mean that the main discount rates set by the CNB and the NBS will increase in tandem with any increase in the ECB marginal lending facility.

This means that the cost of credit is as low now as it has been in the modern era. Therefore any increase in the cost of funding will have an adverse effect on the demand for consumer credit, as retail banks will almost certainly pass on the higher interest rates to consumers. However, it is by no means clear that this will happen: it is just as likely that the current ECB rate will be maintained for the foreseeable future, and that any increase will be relatively small. The Fed has recently indicated a rowback on its interest rate increases for 2019 (see below), so perhaps an increase in the ECB marginal lending facility may not happen in the medium-term.

Please note that Montenegro is a Dollarized economy, and that Bosnia operates a currency board regime with its currency, the convertible mark, pegged to the Euro. This means that monetary policy decisions for both countries are essentially decided in Frankfurt.

RISK FACTORS THAT MAY POTENTIALLY AFFECT THE GROWTH OF CONSUMER CREDIT

While there are many reasons to be positive about the prospects for the growth of consumer credit in the five SEE countries, naturally there are also risk factors that may potentially adversely affect these growth projections. The analysis below concentrates on macroeconomic factors, as underlying economic weaknesses, in combination with a slowdown in global economic growth, will inevitably make both banks and consumers more risk averse when considering extending and taking on consumer credit.

Firstly, a general note that applies to all five countries in the region. There have been repeated warnings from several quarters recently that a slowdown in global economic growth is on the horizon. This is due to several factors. The threat of a trade war between the United and States and China, which would inevitably drag in other countries, is a possibility. It has been ten years since the GFC, so another recession, going by historical precedent, is due within the next few years. Closer to home, the departure of the United Kingdom from the EU will negatively impact both parties, while other concerns, such as the inherent weaknesses in the Italian banking system, are also a threat.

Another macro problem is quantitative tightening (QT). After several years of extraordinary monetary policy measures, the Federal Reserve has embarked on a QT cycle. This has had several effects. The US Dollar has appreciated, making life more difficult for emerging markets that gorged on Dollar-denominated debt during the last decade. The same is true for non-financial corporations. This has also increased the price of oil, which has led to an increase in energy costs. Stock markets, which have been boosted by the availability of easy money, have fallen. The ECB has chosen to also embark on a QT path, ending asset purchases in late 2018. However, it would appear that the Fed has recognized these adverse effects, and has recently signalled that it will halt interest rate increases.

As the five markets covered in this study are small countries, it would be natural to expect that they would be adversely affected by a deterioration in global economic conditions. However, a slowdown is not preordained, especially with the rowback signalled by the Fed, which should settle markets. Below is a more detailed look at risk factors for each of the five SEE countries:

Croatia: as Croatia is an integrated part of the EU economy, it is susceptible to a slowdown in economic growth in these countries. This is especially the case with Italy, Croatia's largest trading partner and one of the most significant foreign investors in the country. Political wrangling and subdued growth, as well as continued troubles in the Italian banking sector, represent a risk to Croatian growth prospects. The slowdown in Germany, another key trading partner, has also had an effect on Croatia.

During 2018, there was a slowdown in the growth of income from the tourism industry, which plays a significant role in the Croatian economy. Uncertainties regarding the spill-over of the negative effects of the restructuring of the Agrokor Group on the rest of the economy still exist. There are also indications that the positive effects of joining the EU (in 2013) have begun to lose some of its impact. However, in general, Croatia has made significant progress in recent times: EU membership is testament to this.

Serbia: following the turbulence of the 1990's and early 2000's, Serbia has returned to normality and its economic performance has reflected this. However, certain risks do remain. Serbia remains exposed to volatility in Europe and from the broader global economy. Under this scenario, market participants may become more risk-averse to emerging markets, which would negatively impact Serbia. Certain reforms need to be carried through to conclusion, such as weaknesses in AML/CFT, as well as regulating the relatively large grey economy.

Liabilities may ensue from the privatisation of state-owned enterprises and banks. Serbia's exposure to interest rate movements in foreign currencies (especially the Euro and the Swiss Franc) represents a risk (although the degree of Dinarisation has been increasing in recent years). However, in general, Serbia has made significant progress in almost every aspect of economic life over the past 15 years or so, and represents a good business opportunity for potential new market participants.

Bosnia and Herzegovina: over the past two years, there has been an increase in the price of electricity. Naturally, if this trend continues, this will have a spill over effect onto the rest of the economy, increasing the cost of goods and services. Due to demographic factors (the number of those retiring is exceeding the number of new entrants to the labour market, not helped by emigration), there has been an increase in pension entitlements, leading to higher state expenditure on pensions. While the rate of unemployment has been decreasing, it still remains at an elevated level. As has been mentioned elsewhere, high net emigration has led to many younger people leaving the country, leading to a brain-drain.

In general, however, economic conditions have improved in the recent past. Inflation is relatively low and stable, the average annual net wage has increased steadily since 2013, while the state has become more efficient in collecting taxes due to reforms, leading to state finances being on more stable footing. In the longer-term, the likelihood of joining the EU will stabilise the country even further.

Montenegro: the demographic structure represents a problem for Montenegro. There has been very high net emigration since the mid-1990's, although the pace of emigration would appear to have fallen in recent years (a lack of reliable data makes it difficult to quantify the exact figures). Emigration in combination with an aging working population, a low birth rate and low female labour force participation means that the working age population is declining, and will continue to do so for the foreseeable future. The country suffers from relatively high unemployment, including high long-term unemployment. In addition, youth unemployment is also relatively elevated. As Montenegro is a Dollarized economy, this limits the country's economic flexibility. There is also a relatively large informal economy.

However, there are also positives. Emigration has fallen in recent years, while average salaries have increased. The tourism industry is growing, while there has been investment in large infrastructural projects, especially the Bar-Boljare highway. Unemployment has fallen, inflation is relatively low and stable, while economic growth has been relatively high in recent years, and continued robust growth is forecast for the medium-term. EU membership seems like a realistic goal, perhaps within the next ten years, which should strengthen economic development.

Slovenia is heavily dependent on international trade: the current account surplus for the 12 months to August 2018 stood at 7.9 percent. While this is positive, it does, however, leave Slovenia heavily exposed to volatility. This is already apparent in the slowdown in Slovenia's most important trading partner, Germany. More generally, international trade wars would be highly disruptive to Slovenian trade, as would a slowdown in global economic growth.

Slovenia is facing the possibility of falling into the middle-income trap, which would mean that economic output would have to be re-oriented into higher-added value goods and services, which would require significant investment and reforms. Perhaps supporting this view has been the decline in the annual growth in labour productivity to less than two percent since 2016, compared to growth in labour productivity of approximately four percent during the pre-GFC years. Additional concerns would be the increase in the price of oil, plus shortages of labour (which is being met by immigration, especially from the other SEE countries).

However, there are also plenty of positives. EU and Eurozone membership means that Slovenia has reached a certain level of economic development that many countries in the region wish to emulate. This also means that Slovenia is subject to EU budgetary constraints, which should ensure that public finances will remain in relatively good shape. While the middle-income trap will present difficulties, this is also a positive sign: Slovenia has reached a certain level of economic development, and it will now be forced to move up the economic ladder.

CONCLUSION

CONCLUSION

The five SEE markets covered in this report represent a good business opportunity for lenders, especially when it comes to unsecured lending, which has seen sustained growth in recent years. The conflict in the former Yugoslavia during the 1990s and early 2000s artificially hindered economic development: now that peace has returned to the region, it is likely that these states will experience economic growth in the years to come. Therefore now is an opportune time for new participants to enter these markets, as personal indebtedness increases in tandem with economic growth.

CROATIA: HOUSEHOLD LOANS													
	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020F	2021F	2022F	2023F
(€ millions)													
Housing loans	8,462	8,383	8,158	7,933	7,749	6,786	6,778	6,908	7,080	7,215	7,316	7,411	7,492
Other secured (1)	611	427	291	194	142	133	113	90	77	70	65	62	59
Secured loans	9,073	8,810	8,448	8,127	7,891	6,919	6,890	6,998	7,158	7,285	7,381	7,473	7,552
Ratio to PDI	24.1%	23.4%	22.3%	21.7%	20.0%	17.6%	16.5%	16.1%	15.8%	15.5%	15.1%	14.7%	14.3%
Credit cards	553	530	516	515	500	485	475	485	488	491	494	496	498
Cash loans	4,881	4,902	5,008	5,263	5,355	5,480	5,777	6,416	6,922	7,372	7,763	8,151	8,485
Other loans	2,732	2,746	2,654	2,554	2,455	2,350	2,266	2,288	2,301	2,302	2,298	2,286	2,264
Unsecured loans	8,166	8,178	8,179	8,332	8,310	8,316	8,518	9,188	9,711	10,165	10,554	10,933	11,247
Ratio to PDI	21.7%	21.7%	21.6%	22.2%	21.0%	21.2%	20.4%	21.1%	21.4%	21.6%	21.5%	21.5%	21.3%
Total household loans	17,239	16,988	16,627	16,459	16,201	15,235	15,408	16,186	16,869	17,450	17,936	18,406	18,799
Ratio to PDI	45.8%	45.1%	43.9%	43.9%	41.0%	38.9%	36.9%	37.2%	37.2%	37.0%	36.6%	36.2%	35.6%

Notes: (1) Vehicle loans

Source: Croatian National Bank, Croatian Bureau of Statistics, Lafferty estimates

SERBIA: HOUSEHOLD LOANS [1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020F	2021F	2022F	2023F
(€ millions)													
Housing loans	2,322	2,606	2,651	2,835	2,915	3,027	2,993	3,228	3,340	3,451	3,534	3,615	3,687
Other secured [2]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Secured loans	2,322	2,606	2,651	2,835	2,915	3,027	2,993	3,228	3,340	3,451	3,534	3,615	3,687
Ratio to PDI	10.3%	11.0%	10.6%	11.2%	11.3%	11.5%	10.9%	11.4%	11.1%	10.8%	10.3%	9.9%	9.5%
Credit cards	282	297	297	235	272	268	266	266	264	263	262	261	260
Cash loans	920	1,090	1,299	1,662	1,879	2,350	2,911	3,447	3,830	4,109	4,372	4,604	4,871
Other loans [3]	821	722	655	616	571	581	567	641	715	786	850	911	974
Unsecured loans	2,023	2,108	2,251	2,513	2,722	3,198	3,744	4,353	4,809	5,158	5,484	5,776	6,105
Ratio to PDI	9.0%	8.9%	9.0%	9.9%	10.5%	12.1%	13.6%	15.4%	16.0%	16.1%	16.0%	15.8%	15.7%
Total household loans	4,345	4,714	4,902	5,347	5,637	6,225	6,737	7,581	8,148	8,608	9,018	9,391	9,792
Ratio to PDI	19.3%	19.9%	19.6%	21.1%	21.8%	23.6%	24.6%	26.9%	27.1%	26.8%	26.3%	25.6%	25.1%

Notes: (1) Loans to individuals; excludes loans to entrepreneurs recorded by NBS within the household sector (2) Reliable data is not available (3) Includes a small portion of non-housing secured lending

Source: National Bank of Serbia, Statistical Office of the Republic of Serbia, Lafferty estimates

BOSNIA: HOUSEHOLD LOANS

	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020F	2021F	2022F	2023F
(€ millions)													
Housing loans	715	674	657	628	810	788	820	882	939	993	1,048	1,097	1,142
Other secured (1)	16	12	7	5	5	4	4	4	4	4	4	4	4
Total secured loans	730	686	665	633	815	792	824	887	943	998	1,052	1,102	1,147
Ratio to PDI	6.2%	5.7%	5.5%	5.2%	6.6%	6.2%	6.3%	6.5%	6.6%	6.6%	6.6%	6.5%	6.4%
Credit cards	97	114	116	115	150	153	156	159	162	164	166	168	169
Cash loans	1,984	2,076	2,117	2,254	2,896	3,072	3,316	3,575	3,754	3,934	4,111	4,279	4,433
Other loans(2)	85	59	51	43	119	112	108	104	100	96	92	88	84
Total unsecured loans	2,166	2,250	2,284	2,412	3,165	3,337	3,580	3,838	4,016	4,194	4,368	4,535	4,686
Ratio to PDI	18.4%	18.8%	18.9%	19.7%	25.5%	26.3%	27.4%	28.1%	28.0%	27.7%	27.3%	26.8%	26.1%
Total household loans	2,896	2,936	2,948	3,045	3,980	4,129	4,404	4,725	4,959	5,192	5,421	5,637	5,832
Ratio to PDI	24.6%	24.5%	24.4%	24.8%	32.0%	32.5%	33.7%	34.6%	34.5%	34.3%	33.8%	33.3%	32.5%

Notes: (1) Vehicle loans (2) Loans to Entrepreneurs

Source: Central Bank of Bosnia and Herzegovina, Bosnia and Herzegovina Agency for Statistics, Lafferty Estimates

MONTENEGRO: HOUSEHOLD LOANS	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020F	2021F	2022F	2023F
(€ millions)													
Housing loans	326	310	318	315	309	329	331	343	353	363	372	380	374
Other secured	1	1	1	1	1	2	1	2	2	2	2	2	3
Total secured loans	327	311	319	316	310	331	332	344	356	365	374	382	376
Ratio to PDI	11.7%	11.2%	11.2%	10.9%	10.2%	10.4%	9.8%	9.7%	9.5%	9.3%	9.0%	8.8%	8.2%
Credit cards	48	39	30	33	25	19	18	17	16	16	15	15	14
Cash loans	239	231	309	363	442	511	561	632	695	756	815	864	908
Other loans	248	249	247	209	181	201	264	321	374	434	493	564	646
Total unsecured loans	536	519	587	605	647	732	842	969	1,085	1,205	1,324	1,444	1,567
Ratio to PDI	19.2%	18.8%	20.5%	20.8%	21.3%	23.0%	24.8%	27.2%	29.0%	30.7%	32.0%	33.2%	34.3%
Total household loans	862	830	906	922	958	1,062	1,175	1,314	1,440	1,570	1,698	1,826	1,944
Ratio to PDI	30.8%	30.0%	31.7%	31.6%	31.5%	33.3%	34.5%	36.9%	38.6%	40.0%	41.0%	42.0%	42.6%

Source: Central Bank of Montenegro, Lafferty Estimates

SLOVENIA: HOUSEHOLD LOANS	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020F	2021F	2022F	2023F
(€ millions)													
Housing loans	5,164	5,259	5,307	5,348	5,525	5,717	5,976	6,239	6,482	6,716	6,951	7,180	7,388
Other secured (1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Secured loans	5,164	5,259	5,307	5,348	5,525	5,717	5,976	6,239	6,482	6,716	6,951	7,180	7,388
Ratio to PDI	21.9%	22.9%	23.1%	22.9%	23.4%	23.2%	23.2%	23.2%	23.1%	23.0%	23.0%	22.9%	22.8%
Credit cards	121	124	128	137	148	167	169	186	193	206	217	224	229
Overdrafts	1,003	930	834	782	755	729	739	811	870	930	990	1,019	1,041
Cash loans (2)	3,166	2,954	2,648	2,496	2,428	2,540	2,851	3,135	3,389	3,636	3,887	3,968	4,028
Unsecured loans	4,290	4,008	3,610	3,414	3,331	3,437	3,759	4,131	4,452	4,772	5,094	5,211	5,298
Ratio to PDI	18.2%	17.5%	15.7%	14.6%	14.1%	13.9%	14.6%	15.3%	15.9%	16.4%	16.8%	16.6%	16.3%
Total household loans	9,454	9,267	8,917	8,762	8,856	9,154	9,735	10,370	10,935	11,487	12,045	12,391	12,686
Ratio to PDI	40.2%	40.4%	38.8%	37.6%	37.4%	37.1%	37.8%	38.5%	39.0%	39.4%	39.8%	39.5%	39.1%

Notes: (1) Data not available (2) Includes some secured lending

Source: Bank of Slovenia, Statistical Office of Slovenia, Lafferty Estimates

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Lafferty Group provides global research and advisory services to the banking industry worldwide, with particular specialisations in the fields of consumer banking, business banking, credit cards and digital finance, payments, mobile wallets, fintech – and bank quality benchmarking.

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