

# Slovak Republic

## A shortage of clients rather than a shortage of funding

The Slovak banking system is dominated by foreign institutions whose branch networks extend throughout the country (Chart 1) and are perceived by all banks as strong competitors. Compared to foreign-bank subsidiaries in other countries, these banks are relatively independent from their parents. For instance, the share of Slovak subsidiaries that report their parents' influence is "important" or "very important" in credit-risk portfolio management or for the strategic choice of clients is well below the regional average.

Chart 2 shows that a lack of credit demand, particularly from small and medium-sized enterprises (SMEs), is holding back lending the most in the Slovak Republic. Abundant liquidity in the banking system and strong inter-bank competition also mean that lending rates are low. Between 2007 and 2011 the proportion of banks that believe such low rates are a hindrance on their activities increased substantially.

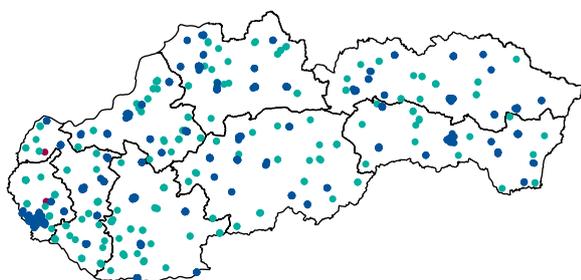
Slovak banks appear well equipped to overcome information asymmetries in relation to prospective

clients. According to Chart 2, loan officers have few problems when assessing credit risks. Slovak banks also report less frequent rejection of clients due to inadequate credit histories or a lack of cash flow or collateral compared to banks in other EBRD countries of operations.

Of the banks surveyed in the Slovak Republic, 90 per cent "agree" or "strongly agree" that that banking regulator is fair and impartial while over 80 per cent felt confident the regulator is able to enforce its decisions. This positive view plays out in the day-to-day operations of the banks. When asked to look ahead and consider the effect of uncertainty over future laws and regulations on their operations, the Slovak Republic has the lowest share of banks in the region that react to such uncertainty by holding more capital or restricting credit (Chart 3).

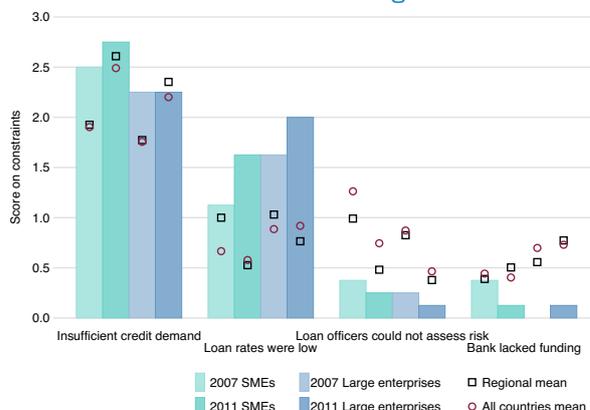
Turning to market competitiveness, hiring new employees and adding new bank branches was mentioned as an important strategy in attracting new business in the rest of the region but this was much less the case for Slovak banks (Chart 4).

**Chart 1** Bank localities by ownership



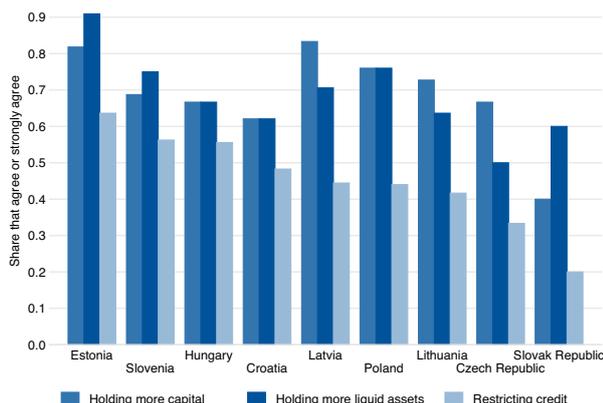
- Localities with domestic banks only
- Localities with foreign banks only
- Localities with both domestic and foreign banks

**Chart 2** Main constraints to lending\*



\*The constraint score runs from 0 to 3 with 0 signifying no constraint and 3 signifying the main constraint.

**Chart 3** Banks' response to legal uncertainty



**Chart 4** Attracting new customers

