

Slovakia

MARKET REVIEW

Macroeconomic developments. The economic performance of the Slovak economy has seen growth over the past few years. In 2015, compared to the previous year, each quarter grew with the strongest growth seen in Q4 by 4.3%. GDP in 2015 grew by 3.6%, which was the highest growth since 2011. On average, economic growth in Europe increased by 1.8%.

Economic growth came as a result of the growth of all the economy's main components. The decisive factor in the growth of domestic demand was higher gross capital formation, by 13.1% (gross fixed capital formation by 14%).

Economic growth has also contributed to the strengthening of foreign and domestic demand. Exports rose by 7%, domestic demand by 4.9%. The balance of foreign trade in goods was still active, although slightly less than the previous year. The commodity structure of exports consisted of motor vehicles, trailers and semi-trailers (29.6%), computers, electronic and optical equipment (20.9%).

Spending on final consumption rose by 2.9% y/y in the aggregate, the final consumption of the general government rose by 3.2% and the final consumption of households by 2.9%.

The price trend over the whole year 2015 was characterised by deflationary environment. The negative dynamics at consumer

Table 1: Leasing market development in Slovakia

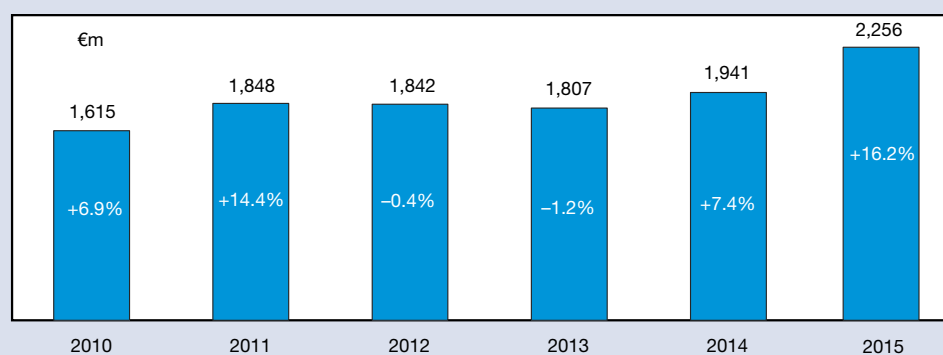
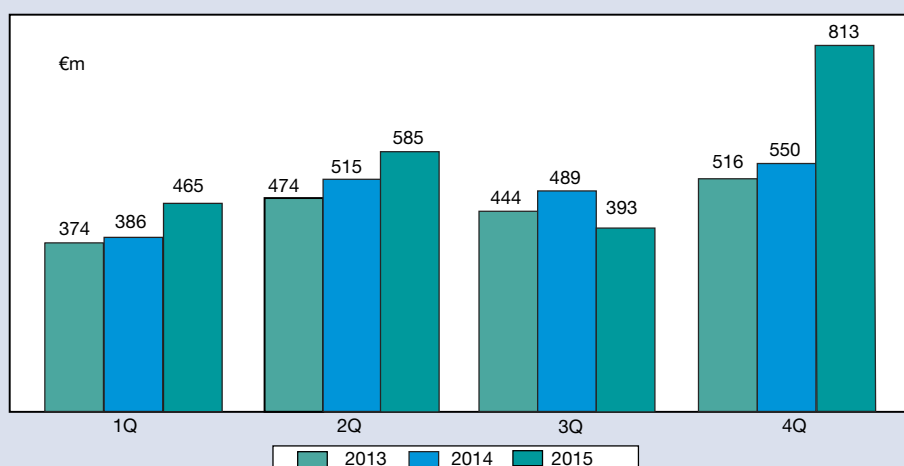


Table 2: Leasing market quarter-on-quarter 2013–15



prices was caused by falling in energy prices, affected mainly by reduced oil prices. The average annual inflation rate in the fourth quarter of 2015 reached -0.5% . The largest downward effect on the price level had regulated prices, whose annual decline deepened to 2.1% . Over 2015, the number of unemployed dropped year-on-year by 12.4% , to 314,000 persons. The unemployment rate fell to 11.5% .

Leasing market in 2015. New business provided by leasing companies in 2015 reached over $\text{€}2.2\text{bn}$. The market rose by 16.2% , more than twice as much as in 2014, when it increased by 7.4% . This growth was the highest in the last six years (see Table 1).

Comparing the development by quarter, we can see a constant growth, especially in cumulative volume. Obviously, the summer and winter periods are the strongest, exceeding $\text{€}0.5\text{bn}$, but we witnessed a great market swing in the third and fourth quarters of 2015, caused by changes in legislation (see legislation section below). Companies deferred as they were uncertain if they would be able to get permission of the National Bank of Slovakia (NBS), causing the market to drop so sharply. Once they gained the necessary licence, the market increased to an extremely high level to catch up with new demand from consumers (see Table 2).

Leasing by asset type. The largest proportion of the leasing market was movable assets with 97.4% , highlighting an increase of 17.6% . Real estate leasing plays a smaller role in the market with a 2.6% share, decreasing by 19.4% .

Passenger cars increased by 11.9% , proving to still be a very popular asset to be financed by clients. The highest growth rate was seen by light commercial vehicles, by 32.3% . Lorry vehicles also experienced a high growth of 14.7% .

Machinery and equipment, an important asset for small and medium-sized entrepreneurs, grew by 26.6% . The other asset types only recorded a small volume (see Table 3).

Similar to the analysis of growth by assets are their share of the market. Passenger cars represent almost half of the market with a 48% share. Lorry vehicles accounted for 20% of the market and machinery

ASSOCIATION

THE ASSOCIATION OF LEASING COMPANIES OF THE SLOVAK REPUBLIC

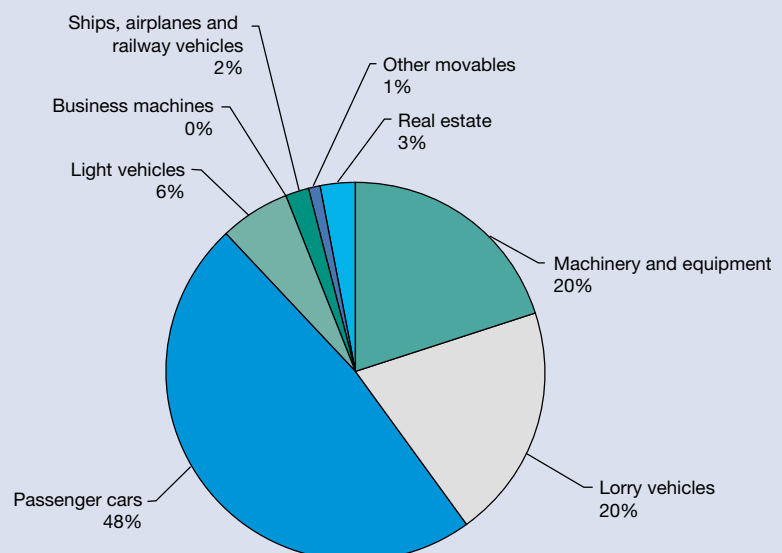
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Table 3: Leasing by asset type 2014–15

Asset type	Production 2014 (€m)	Production 2015 (€m)	YoY (%)
Passenger cars	968	1,083	11.9
Light commercial vehicles	96	127	32.3
Lorry vehicles	402	461	14.7
Machinery and equipment	365	462	26.6
Business machines	7	9	28.6
Ships, aircraft and railway vehicles	12	36	200.0
Others	19	20	5.3
Total movable assets	1,869	2,198	17.6
Real estate	72	58	-19.4
Total – whole market	1,941	2,256	16.2

Table 4: New leasing business by asset type 2015



and equipment also held a 20% share. Altogether these three asset types accounted for nearly 90% of the leasing market. All types of vehicles (cars, LCVs and lorries) are the strongest sector with a 74% market share (see Table 4).

Leasing by type of contract.

There are three basic types of contracts in Slovakia: finance leasing, operating leasing, and credits and hire purchase, mentioned together because of their similarity and due to the simplification of collecting data from respondents. In the past when collecting both sets of data, hire purchases were approximately 10% of this group of data.

Finance leases increased by 15.8%, while operating leases experienced a large jump of nearly 25%, confirming a continuous growth year-on-year (2014: +30%). Credits and HP increased slightly more than finance leases, by 17.3%. In 2015 proportions of finance leasing and credits and HP were the same, at a level of 43% (see Tables 5 and 6).

Finance by sectors. The business sector is the main client zone. It rose more than 20% with an 85% share of the market. The retail sector is considerably smaller with a 15% share of the market. The public sector is literally negligible (see Table 7).

Leasing penetration.

Table 5: Type of financing

Type of financing	Production 2014 (€m)	Production 2015 (€m)	YoY (%)
Financial lease	814	943	15.8
Operational lease	244	304	24.6
Credits and hire purchase	811	951	17.3
Total market – movables	1,869	2,198	17.6

Table 6: Type of contract 2015

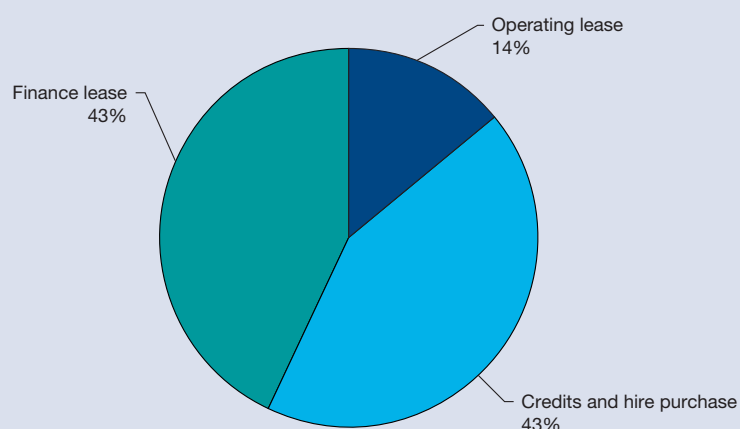
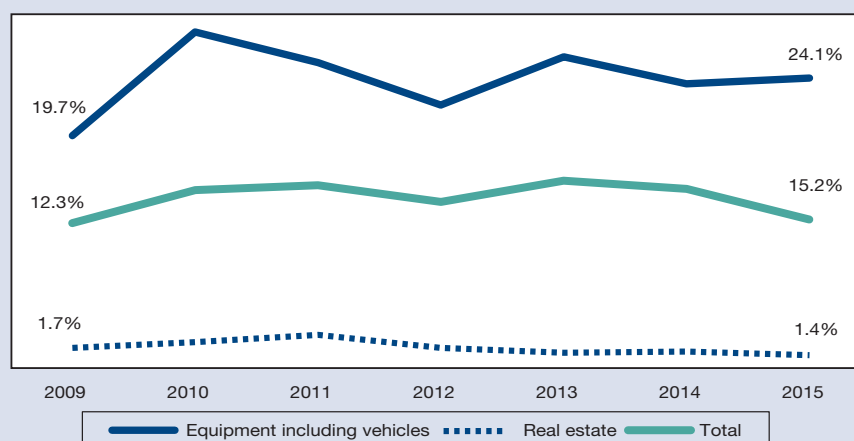


Table 7: New business by sector

Type of financing	Production 2014 (€m)	Production 2015 (€m)	YoY (%)	Proportion (%)
Business sector	1,538	1,867	21.4	84.9
Retail sector	324	325	0.3	14.8
Public sector	7	6	-14.3	0.3
Total market – movables	1,869	2,198	17.6	100.0

Table 8: Leasing penetration 2009–15



economic terms, leasing and the other forms of funding the economy play an important role, contributing to the growth of creation of gross fixed capital. On average, leasing penetration was 15.2% of investment. Equipment alone, but including vehicles, accounted for nearly a quarter of all investment. On the other hand, real estate penetration is only 1.4% of investment. It is still an undeveloped sector, not desired by clients. In the retail sector, consumers prefer bank financing for their needs (see Table 8).

Legislation. The business environment in terms of legislation in Slovakia is stable in the long term. In 2015 an income tax was applied for the amount of 22% (in 2013: 23%, yet in 2012 it was 20%). For products and services VAT was applied at 20%. Leasing operations are governed by Trade Code provisions and also, in part, by the Civil Code.

Leasing companies and leasing activities in general are not directly subject to bank supervision, only indirectly through parent banks, if they are part of a group. However, in 2015 new laws were approved, which aim to adopt EU legislation, especially for the protection of consumers. Of course, there was widespread advertising of “easy” financing, which needed to be limited by the authorities to protect people from excessive debts. This was an issue of political struggle – which party offered more tools to protect consumers.

New legislation was finally implemented for finance institutions providing consumer credits – they must have a licence issued by the National Bank of Slovakia (NBS). But it was framed over the EU legislation (gold plating), which brought much more administration and higher costs for companies doing fair practices in their business.

In spite of the excessive administration, 13 leasing companies, who are members of the Slovak Leasing Association, undertook the strict procedure of the NBS and, after they fulfilled all necessary requirements, they were all granted a licence to provide consumer credits.

Certain restrictions implemented into the Income Tax Law in 2015 acknowledged the maximum expenses for buying personal cars at €48,000 only (tax depreciations).

Table 9: Ownership of leasing companies

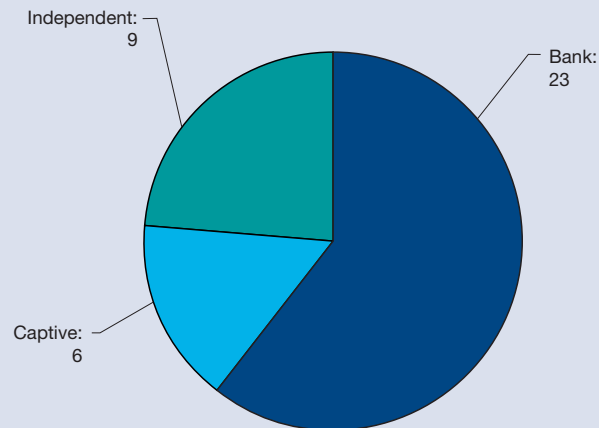


Table 10: Ranking of leasing companies in 2015

No.	Company	Volume (€m)
1	ČSOB Leasing	425
2	UniCredit Leasing Slovakia	287
3	VOLKSWAGEN Finančné služby Slovensko	249
4	Tatra-Leasing	185
5	VÚB Leasing	176
6	Mercedes-Benz Financial Services Slovakia	135
7	S Slovensko	112
8	IMPULS-LEASING Slovakia	99
9	VB LEASING SK	65
10	Consumer Finance Holding	57
11	Scania Finance Slovak Republic	45
12	Deutsche Leasing Slovakia	43
13	Oberbank Leasing	41
14	ARVAL SLOVAKIA	38
15	LeasePlan Slovakia	38
16	SG Equipment Finance Czech Republic	36
17	VFS Financial Services Slovakia	36
18	Home Credit Slovakia	31
19	PSA Finance Slovakia	28
20	s Autoleasing SK	26



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