Financial Stability Report

May 2025

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

www.nbs.sk

Published by Národná banka Slovenska

Contact
Národná banka Slovenska
Imricha Karvaša 1
813 25 Bratislava
info@nbs.sk

Electronic version
https://nbs.sk/en/publications/financial-stability-report/

ISSN 1338-6352 (online)

Contents

List of charts

Foreword

We find ourselves in an era of unrelenting uncertainty, a time when one crisis follows another. No sooner is one problem solved than two more are waiting around the corner.

The risks and uncertainties stemming from global developments continue to furrow brows – and, as if that were not enough, trade wars have entered the fray.

Slovakia's open, export-oriented economy, with its strong automotive industry presence, is particularly vulnerable. One of the tectonic faults in the current global situation may run right through it. This will pose a new challenge not only for firms and households, but also for public finances.

All the more important and valuable, then, is the fact that even under such demanding conditions, Slovakia's financial sector remains stable and in good shape. This is a key message for the economy, investors, and the general public.

The continuing decline in interest rates – made possible by slowing inflation – has brought relief to both firms and households. Their financial situation improved over the course of 2024, as seen in better debt servicing capacity, renewed demand for mortgages, and an upturn in the property market.

Improvement is also visible in the commercial real estate sector, where vacancy rates have fallen and lower interest rates are offering some relief. Looking ahead, we cautiously expect these favourable trends to continue.

Positive developments are likewise evident in the financial sector, despite recent turbulence in the markets. Banks' profitability is solid and their solvency is close to historical highs. The financial sector is healthy, resilient, and ready to absorb potential shocks.

Our financial system continues to have ample liquidity and robust capital buffers – a critical pillar of its ongoing resilience.

Peter Kažimír
Governor

Overview

Financial stability is developing favourably, but the outlook is marred by significant uncertainty

In this edition of the Financial Stability Report, the main message is clear: the financial stability situation has developed favourably in the recent period, but its future trajectory is now extremely difficult to foresee. The major risks include international trade tensions, public debt sustainability issues, and geopolitical instability.

Escalating trade tensions, in particular, have come to the fore. The announced tariff increases were so steep that their impact on global trade may be described as seismic. Slovakia will also be affected by these developments, as it is an export-oriented economy in which tariff-hit sectors play a key role. There is a risk of slowdown in foreign trade, and the country's already modest economic growth could be further dampened.

Financial markets have also been afflicted by uncertainty. They have become highly volatile – in some segments even more so than during the pandemic. Nevertheless, markets have remained functional, with no major liquidity issues reported.

A combination of weak growth and rising expenditure on defence and infrastructure is increasing pressure on the sustainability of public finances. While elevated sustainability risks are a general concern, they are especially relevant for countries like Slovakia, whose fiscal deficit remains among the highest in the EU. It is therefore important for Slovakia's long-term financial stability that commitments to continue consolidating public finances are fulfilled.

These risks have not so far had a direct impact on financial stability in Slovakia. The main challenge lies rather in the heightened uncertainty, the difficulty in foreseeing future developments, and the broader economic slowdown. For Slovakia, the key factor will be how Germany – its principal trading partner and the main engine of the European economy – deals with the current difficulties. Slovakia still, however, benefits from a strong labour market, where no significant problems have yet emerged.

Falling interest rates have gradually led to recovery across all credit market segments

The ECB has continued to lower its key interest rates, and this has gradually translated into a revival in both the credit and real estate markets. However, the pace of recovery differs across segments.

The most notable rebound has occurred in the real estate market, where annual price growth has reached double digits (12%). The end of the downtrend in housing prices, coupled with falling interest rates, has boosted expectations and increased demand. Although housing affordability remains below its long-term average, it has continued to improve moderately.

The mortgage market is also recovering, with the total mortgage portfolio posting annual growth of 4.3% as of March 2025. While this upturn is more subdued compared with the housing market, the trend is relatively stable. Demand is being driven mainly by the gradual decline in interest rates since mid-2024.

Overall corporate lending is seeing the weakest recovery, but it has at least stopped declining. Trends within the corporate sector are mixed. Lending to smaller firms is showing relatively strong growth, while the commercial real estate (CRE) segment continues to experience a downturn.

Elevated interest rates have not led to a rise in non-performing loans, and the sensitivity of existing loans to potential shocks should gradually recede

Non-performing loan (NPL) ratios remain low across loan categories. For both mortgages and corporate loans, NPL ratios remain near historical lows. The only exception is consumer credit, but even here the increase in the NPL ratio has been slight.

In 2024 firms' financial situation was affected by weak revenue performance. Although revenues declined only moderately, rising wage costs meant that many firms were unable to fully offset the impact through cost-cutting. As a result, overall corporate profitability fell by 17%, with the decline being relatively broad-based. Although revenue growth picked up in early 2025, firms remain under pressure from heightened uncertainty and the adverse impact of higher taxes.

The recent improvement in households' financial situation has also temporarily slowed. Income growth has moderated, while inflation has edged up. At the same time, households are reporting greater uncertainty. This has not impaired their debt servicing ability, but existing loans remain somewhat more sensitive to potential adverse developments. The outlook is positive, however, as income growth is expected to accelerate moderately.

The CRE segment remains fragile, though there are emerging signs of improvement. Office vacancy rates have continued to decline slightly, mainly due to the low volume of new space coming onto the market. The financial situation of CRE firms did not deteriorate further in 2024. Moreover, falling interest rates will gradually ease the debt service burden of commercial property owners.

Worsening global trade conditions may affect individual firms but should not pose a systemic risk to the banking sector. Firms whose exports to the United States make up more than 10% of their revenues constitute less than 1% of the total portfolio of loans to non-financial corporations. The automotive sector accounts for most of Slovakia's exports to the United States. Carmakers and their suppliers exporting to the United States may therefore need to implement cost-saving measures or redirect production to other sectors (e.g. defence), but their financial situation should not be seriously jeopardised.

Banks' resilience remains high, supported by solid profitability

The domestic banking sector remains highly resilient, with both capital adequacy and liquidity positions near historical highs. As of June 2024 the sector's total capital ratio on a consolidated basis reached its highest level since 2007; by December, it had fallen slightly to 19.8%. Higher inflows of retail deposits and subdued lending activity have contributed to improved structural liquidity positions. Although banks' aggregate profit for 2024 declined by 10% year-on-year due to the impact of a new bank levy, the sector remains in good shape. Net interest income continues to underpin sector profitability and is expected to grow further over the next two years, albeit more slowly than in the past.

Banks' resilience has also been confirmed by stress testing, simulating a relatively severe recession. Due to heightened uncertainty, this year's testing exercise included two alternative stress scenarios. While its overall profitability is estimated to fall by one-third in both scenarios, the sector remains profitable and maintains a total capital ratio above 19%.

The high resilience of Slovakia's financial sector has also been independently confirmed by the International Monetary Fund (IMF).[1] Its in-depth assessment, conducted over more than a year under the Financial Sector Assessment Program (FSAP), included a review of the macroprudential policy framework of Národná banka Slovenska, recognising stable progress. The IMF made a number of recommendations, which NBS will gradually address. In response to one of them, NBS has already published its Macroprudential Policy Strategy.[2]

Current developments do not warrant any changes in capital requirements or in other macroprudential policy tools. The financial cycle's two-year contraction is now behind us, with banks having weathered it while posting record profitability. As a result, NBS has not deemed it necessary to release the countercyclical capital buffer. Moreover, the current level of uncertainty supports keeping the buffer rate at its existing level. No changes are planned to borrower-based measures either, including regulatory limits on lending to households.

Insurers' profits have decreased slightly; pension and investment funds hit by financial market turbulence

Despite a decline in profits, insurers have remained stable. Higher loss ratios in several non-life lines of business have a had a negative impact on the sector's performance. By contrast, life business has made a positive contribution to the overall result. Insurers have also benefited from higher interest income on assets, stemming from previous increases in interest rates. The insurance sector's solvency ratio has declined slightly.

The recent correction in financial markets has adversely affected pension funds and investment funds. While the value of funds' assets grew strongly during 2024 and in early 2025, market turbulence in the spring erased part of those gains. Despite these declines, funds have seen a steady inflow of new customers and have managed to recoup some of their initial losses from April 2025.

---

1 International Monetary Fund, *Slovak Republic: Financial System Stability Assessment*, IMF Country Report No. 25/74, March 2025.

2 Národná banka Slovenska, *NBS Macroprudential Policy Strategy*, April 2025.

1 Macroeconomic environment and financial markets

1.1 Geopolitical turmoil and ensuing financial turbulence have made the global economic outlook harder to predict

Trade wars and related uncertainty casting a shadow over the global economy

Recent months have brought a series of events portending potentially major shifts and upheavals in the functioning of the global economic order. Although current issues such as the use of tariffs to address trade imbalances or the reconfiguration of transatlantic security relations originate mainly with the new US Administration, they also have a major impact on Europe as well. These developments, while offering certain opportunities, primarily pose several risks – not least to financial stability.

After the US Administration published details of the largest-ever tariff package in early April, the global economic outlook became more downbeat. Both the scope and level of the proposed tariffs greatly exceeded general expectations.[3] The ensuing rapid deterioration in trade conditions between the US and China exacerbated concerns. Predicting what the new trade regime will finally look like is very difficult at this point, given the erratic way it has so far been implemented. It is, however, highly likely that international trade will suffer in the coming years, to the detriment of overall economic activity. In addition to the direct impact of protectionist measures on exports and imports, the acute prevailing uncertainty may weaken sentiment, leading households and firms to defer consumption and investment.

For Europe, a region deeply integrated into the international trade network, a scenario of escalating protectionism poses an economic risk. This shock, as well as other previously mentioned challenges, comes after two years of stagnation and at a time when the European economy remains weak.[4] Any fall in demand will pose an additional difficulty for the European economy, which is already confronted with the structural problems of declining competitiveness and demographic decline. Depending on the assumptions used, quantitative estimates of the negative impact of the new tariff policy on EU GDP range from 0.3% to 1.7%. The EU countries hardest hit by the tariffs will be those with open, export-oriented economies, such as Slovakia. Nor will the sectoral

[3] The tariffs unveiled by the US President on 2 April 2025 consisted of a base across-the-board tariff of 10%, to take effect on 5 April 2025, and 'reciprocal tariffs' of between 11% and 50% on 57 countries, scheduled for 9 April 2025. Reciprocal tariffs for the EU were set at 20%. Just before entering into force, the reciprocal tariffs were suspended for a period of 90 days.

[4] According to preliminary estimates, EU GDP grew in the first quarter of 2025 by 0.3% over the previous quarter, and Germany's GDP grew by 0.2%.

effects be homogeneous. Among the sectors worst affected will be manufacturing, especially the automotive and steel industries, which are subject to specific increased tariffs. The prospect of a deterioration in firms' financial situation also represents a risk for the European banking sector, which is considerably exposed to firms that generate a substantial part of their revenues from sales in the United States.

The major risks to financial stability concern repricing in global financial markets and the sustainability of public finances in certain European countries

The broad set of tariffs unveiled by the US Administration on 2 April 2025 triggered several days of panic and intense investor repositioning in global financial markets. Concerns about the macroeconomic consequences of the US policies, together with the uncertainty they generated, triggered a sell-off in risky financial assets. Equity markets were hit hardest, shedding more than 10% of their previous value in less than a week – making this episode among most the most severe on record. Including gradual declines from the previous month, the leading US stock market index, the S&P 500, corrected by nearly 20% at one point, and the STOXX Europe 600 fell by 17%. Both realised and implied volatility climbed to their highest levels since the early stages of the COVID-19 pandemic. Only the announcement of a temporary suspension of reciprocal tariffs helped to halt the downward trend and then to recoup a significant portion of the previous losses. Credit markets experienced a similar, albeit less pronounced, repricing. This development is essentially the materialisation of the long-anticipated risk of over-optimistic valuations of multiple financial market segments – led by US equities, which showed clear signs of overvaluation. It should also be stressed, however, that financial markets remained fully operational and maintained adequate liquidity. Looking more broadly at the recent turbulence, the key question now is how the financial system will absorb this shock, and whether and how the associated tightening of financial conditions will affect the real economy, the financial position of its agents, and ultimately their economic activity.

A broad shift away from US financial assets included the sell-off of US Treasuries and weakening of the US dollar against many major currencies, including the euro. Combined with investors' uncertainty and rising risk aversion, this represented an atypical – and therefore all the more concerning – development, as US Treasuries usually serve as the ultimate safe haven at times of crisis.[5] If this indicates nascent doubts about the credibility of the US dollar as he world's most important reserve and trading currency, it would represent a warning signal.

The simultaneous decline in prices of riskier assets is having a major impact on a wide range of non-banks in Europe. The portfolios of many such institutions are heavily exposed to market risk through equity and bond investments. Their losses – at least temporary – may be compounded by the foreign exchange risk arising from their large holdings of US dollar-denominated assets. The use of leverage and the liquidity mismatch between assets and liabilities in certain groups of non-banks not only make them even more vulnerable, but also position them as potential catalysts and transmitters of the original shock.

---

5 One source of this aversion to the dollar may be concerns among financial market players that, given its aggressive approach to tariff policy, the US Administration might resort to further unorthodox measures inspired by *A User's Guide to Restructuring the Global Trading System*, a policy paper by Stephen Miran, the current Chair of the US president's Council of Economic Advisers.

As for Europe, mounting concerns about disruption to financial stability are focused on the financial condition of the public sector and how this translates into respective bond market developments. After a series of crises in recent years, several EU countries are reporting a heightened debt burden and excessive budget deficits. The pressing need to increase defence spending makes consolidation efforts even more complicated. Germany's plan to finance hundreds of billions of euro worth of military and infrastructure investments by relaxing its debt brake rules contributed to the recent sharp rise in required yields on government bonds – not only in Germany, but also across the euro area. Although yields decreased in April, this episode underscores markets' sensitivity to the prospect of worsening fiscal deficits, which translates into increased volatility in required yields. Any increase in debt servicing costs would further jeopardise the sustainability of public finances in a number of countries where economic growth is expected to be sluggish. In addition, a loss of confidence in European governments would also worsen financing conditions and availability in the private sector, given the role of government bonds as a pricing benchmark for other sectors. The adverse interaction between the financial positions of general government and the banking sector may also be exacerbated by banks' exposure to government debt securities, which has been on an upward trend in recent years.

1.2 Uncertainty preventing faster economic growth in Slovakia

The Slovak economy grew by 2.1% in 2024. After starting the year promisingly, however, its pace of growth gradually slowed. Significant uncertainty related to geopolitical risks, upcoming fiscal consolidation, and subdued foreign demand prevented the economy from achieving stronger momentum. GDP growth was driven mainly by household consumption, which increased on the back of rising real incomes. Government consumption also contributed positively, with increased spending on wages, goods and services, and health care. On the other hand, amid heightened uncertainty and subdued foreign demand, net exports underperformed, failing to replicate their growth of the previous year. This was also reflected in investment activity, which fell sharply during 2024. Although the near-term outlook suggests that Slovakia's economy could maintain its current growth, risks to the forecast are weighted heavily to the downside. The need for fiscal consolidation, the outbreak of trade wars, and geopolitical instability could undermine even the fragile projected growth.

If the trade war and tariff increases were to be effected in full, as originally announced, they could bring the Slovak economy to the brink of stagnation. For the time being, however, there is still considerable uncertainty about which goods will be tariffed and at what rate. If the United States and the EU applied reciprocal tariffs of 25%, the cumulative negative impact on Slovakia's economic growth would be an estimated 2.7 pp by the end of 2027, with the loss of over 20,000 jobs.[6] Compared with the direct impact of tariffs, however, the weakening of global demand, reduced investment, and supply chain disruptions resulting from increased trade barriers would be a more significant issue for the open Slovak economy.

---

6 For further information, see Box 3 in *Economic and Monetary Developments – Spring 2025*, Národná banka Slovenska.

The unemployment rate remains close to historically low levels, but the number of people in work is gradually declining, partly due to demographic factors. The employment structure of the economy is also changing, as year by year there are fewer people employed in industry, especially manufacturing, and more people working in the services sector. The unemployment rate was just under 5% at the end of 2024, close to its historical lows of spring 2019. Although the number of job vacancies is more than 10% lower than it was in spring 2022, demand for skilled labour remains strong. Foreign workers are helping to ease labour market tightness, with their numbers increasing over time and approaching 120,000. High demand for skilled labour has driven up the average wage, which in 2024 increased by almost 6% in nominal terms, albeit with the pace of growth slowing over the course of the year. Real wage growth slowed even more markedly, ending the year at below 2%.

Inflation in Slovakia eased closer to target in 2024. The annual headline rate reached 3.2% by the year end, with prices of industrial goods and energy continuing to keep inflation in check. By contrast, services inflation remains elevated, partly due to rising wages. The onset of fiscal consolidation measures at the start of this year resulted in annual inflation rising back above 4%.

Continuing fiscal consolidation is essential for the economy's healthy development. Although this year's consolidation effort will reduce Slovakia's economic growth by around 0.6 pp,[7] it will be beneficial for financial stability in the longer term. Households have been particularly affected by an increase in VAT and restrictions on tax credit and pension payments, which have reduced their disposable income. From the perspective of firms, a corporate income tax hike and the introduction of a financial transaction tax have had the biggest impact. Without fiscal consolidation, however, the risk premium on Slovak bonds could be expected to increase in the future, raising the cost of servicing public debt and, in turn, the cost of funding for Slovak banks – potentially leading to higher mortgage rates. This risk is exacerbated, moreover, by the structural characteristics of the Slovak economy, such as adverse demographics, high concentration in an automotive industry exposed to trade wars and electromobility transition, and proximity to geopolitical conflict – because of which, Slovakia is now part of a region where countries have high risk premia. These factors make the Slovak economy even more vulnerable compared with other countries and sensitive to sudden risk perception shifts in financial markets. To reduce this risk, it is essential to continue on the current path of fiscal consolidation.

Rising trade barriers and new public spending challenges may increase fiscal sustainability concerns. If trade barriers persist and trade wars break out, countries will face lower economic growth and a consequent reduction in their budget revenues. In addition, heightened geopolitical risks and changes in international trade are putting pressure on the expenditure side of budgets, due to requirements for increased spending on defence and economic transformation. This may in future, owing to rising risk premia, heighten the need for additional debt issuance and increase financing costs. Such a development would be particularly bad news for more indebted countries or for countries with strained budgets. Despite this year's fiscal consolidation, Slovakia remains among the EU countries with the highest budget deficits, and hence may in future be sensitive to rising concerns about fiscal sustainability.

---

7 The NBS estimate as stated in *Economic and Monetary Developments – Autumn 2024*, Národná banka Slovenska.

Box 1

Macroeconomic scenarios for modelling adverse effects

To assess the Slovak banking sector's stability and its ability to deal with potential shocks and their consequences, Národná banka Slovenska conducts annual stress testing of the sector. The aim of the exercise is to determine what losses banks would suffer due to loan defaults and to use simulated scenarios to estimate banks' income changes and cost increases having a direct impact on their profitability and capital strength. To account for the different risks that the Slovak economy and its financial sector could potentially face, the stress testing featured in this report includes a baseline scenario and two stress scenarios. The baseline scenario assumes a continuation of the established macroeconomic trends, in line with the current NBS macroeconomic forecast. The two stress scenarios simulate the occurrence of shocks that would adversely affect the Slovak economy, weighing on the corporate sector, labour market, and price developments. The stress scenarios differ primarily in the duration and intensity of the simulated shocks and the impact of the shocks on goods and services prices.

Table 1
Macroeconomic scenarios

		Baseline scenario			Stress scenario 1			Stress scenario 2		
	2024	2025	2026	2027	2025	2026	2027	2025	2026	2027
Assumptions for macroeconomic indicators and for the simulation of household loans at risk										
Real GDP (change)	2.0	1.9	1.9	2.1	-5.5	-3.4	0.4	-8.0	-0.4	1.1
Unemployment rate (level)	5.3	5.2	5.5	5.5	6.7	10.6	11.5	7.4	11.2	11.3
Nominal wages (change)	5.9	5.0	4.5	4.8	2.3	6.3	5.3	1.2	4.0	4.3
Real disposable income (change)	1.7	0.3	1.8	1.3	-8.0	0.6	1.2	-5.9	0.3	0.1
Inflation (level)	3.2	4.3	2.9	3.2	7.2	5.9	3.1	3.9	1.8	2.2
Mortgage rate (level)	4.5	3.8	3.0	2.5	3.8	3.4	3.1	3.7	2.8	2.1
Assumptions for the simulation of firms at risk										
Nominal revenues (change)	-0.6	4.1	4.4	4.1	-4.0	-3.0	2.2	-16.2	1.9	3.4
Unit costs (change)										
…inputs, goods and services	3.2	4.3	2.9	3.2	7.2	5.9	3.1	3.9	1.8	2.2
…employees	6.8	5.1	4.4	4.9	2.3	6.2	5.4	1.2	3.9	4.4
Three-month EURIBOR (average)	3.6	2.3	1.6	1.0	2.7	2.3	1.5	2.4	1.5	0.7

Source: NBS.
Notes: In the rows of the table where the 'change' in the indicator value is shown, the figures represent the year-on-year growth rate for the given year. The unemployment rate represents a percentage of the economy's labour force, calculated as the average for the given year.
For the three-month EURIBOR, the figures represent the average rate in the given year. The mortgage rate figure is not based on the forecast; it is a technical assumption made for the purposes of this analysis and based on current trends.

The baseline scenario[8] is based on the assumptions of NBS's spring 2025 medium-term macroeconomic forecast (MTF-2025Q1)**.** This scenario assumes that the Slovak economy will maintain its 2024 pace of growth in the coming period. In addition, the ongoing consolidation of public finances does not significantly dampen economic growth. Its effects are most evident in prices of goods and services, which accelerate due to tax increases. In the later years of the simulation horizon, however, inflation slows while still remaining above its normal level. Growth in households' real disposable income is assumed to be stalled by fiscal consolidation in 2025, before starting to rise again in subsequent years. Nominal wage growth is assumed to be strong, albeit slightly lower than in 2025. The labour market is subject to demographic and structural constraints, so unemployment is assumed not to record any further significant change. As the scenario assumes a gradual deceleration of inflation, interest rates gradually decline over the scenario horizon.

Stress scenario 1 models a significant global economic downturn, resulting in the Slovak economy contracting cumulatively by over 8% during the first two years of the scenario and stagnating in the last year. This causes a marked deterioration in the labour market, with unemployment more than doubling over the three-year simulation period. In this scenario, geopolitical risk escalation causes energy and food prices to rise, doubling headline inflation from its 2024 levels and keeping it above normal levels throughout the scenario. Rising prices and unemployment result in disposable income falling in the first year of the scenario, before it gradually increases in the following years. Although nominal wage growth remains steady, real household income is significantly eroded by inflation. Higher inflation necessitates a monetary policy response, resulting in only gradual declines in interest rates.

Stress scenario 2 simulates a situation in which a foreign demand falls sharply in the first year of the scenario, causing a significant contraction of the Slovak economy. The scenario assumes economic stagnation in its second year, with moderate growth not appearing until late in the simulation period. As for the impact of these developments on the labour market, the unemployment rate doubles in the first two years and remains at that level in 2027. This scenario does not envisage an energy price shock, but assumes that inflation slows due to weakening demand and consumption and remains close to target in the last two years of the scenario. Slower price growth and lower labour demand mean wage growth is lower than in previous scenarios. As a result of labour market deterioration, household disposable income declines early in the simulation period and remains at this level throughout it. With inflation stable at low levels, financing becomes cheaper as interest costs are lower compared with previous scenarios.

The stress scenarios do not directly estimate the impact of trade tariff increases and the outbreak of trade wars on the Slovak economy.[9] They do, however, take

---

8 The baseline scenario is based on the assumptions of the NBS forecast presented in *Economic and Monetary Developments – Spring 2025*, Národná banka Slovenska.

9 The stress scenarios were defined before the introduction of the tariffs.

account of these adverse developments. According to initial NBS estimates,[10] the hike in tariffs on trade between the EU and North America could cumulatively reduce Slovakia's GDP by 3% by the end of 2027 and result in the loss of around 20,000 jobs. In stress scenarios 1 and 2, however, the assumed shocks are far more adverse than the potential impact of the tariff increases announced to date (in scenario 1, GDP is estimated to fall by 14% by the end of 2027 with a loss of 230,000 jobs; in Scenario 2, by 13% with a loss of 222,000 jobs).

10 See Box 3 in *Economic and Monetary Developments – Spring 2025*, Národná banka Slovenska.

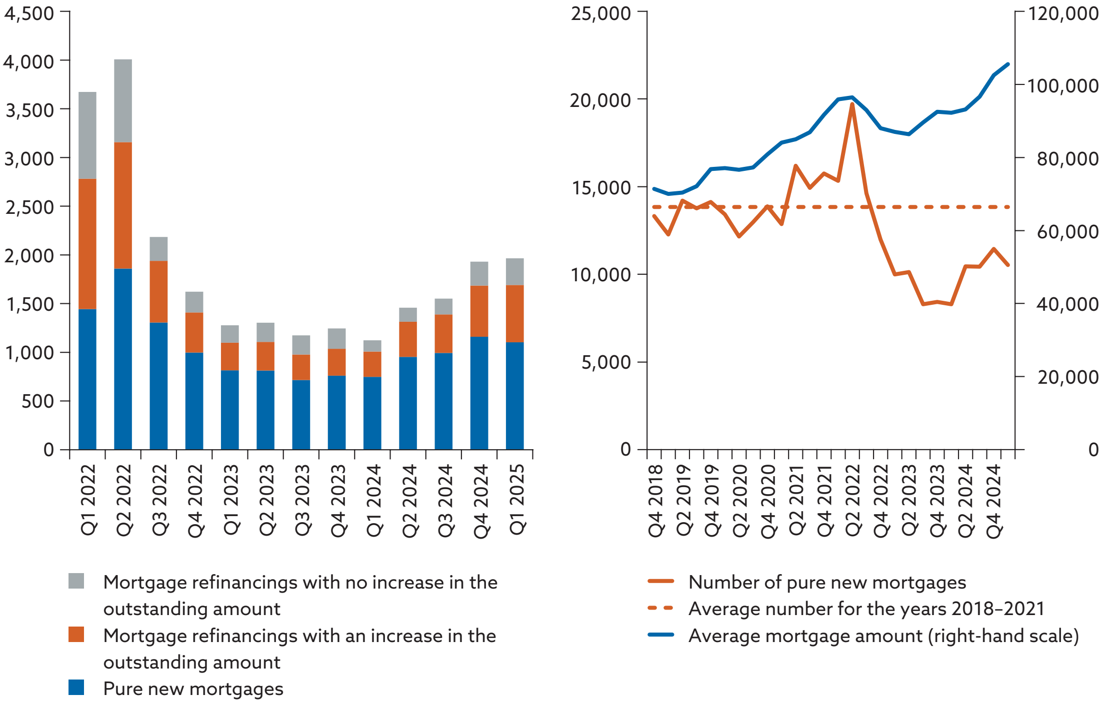
2 Financing of the economy

2.1 Lending to households continues to recover

A changing interest rate environment is gradually increasing demand for mortgages

The downturn in interest rates, especially since autumn 2024, has led to increased demand for mortgages. Households have thus begun to take advantage of the financial room created by previous real wage growth[11] and persistently low unemployment.[12] In addition, a new factor is gradually coming to the fore – expectations of further interest rate cuts and the corollary of rising housing prices. This is making households less inclined to postpone home purchase decisions – including households that temporarily deferred such decisions during the previous upturn in interest rates.

Chart 1
Both the number and average amount of new mortgages is rising
Left-hand panel: Quarterly production of mortgages by purpose (EUR millions)
Right-hand panel: Number of pure new mortgages and their average amount (number; EUR)



Source: NBS.

---

[11] Real wages were rising most notably in 2023 and the first half of 2024.

[12] Despite some uncertainty in the economy, the registered unemployment rate reached an all-time low of 4.84% in March 2025.

With demand for mortgages growing, the portfolio's annual growth rate accelerated to 4.7% as of April 2025, its highest level since September 2023.[13] Month-on-month growth in mortgage flows started accelerating following the turn in monetary policy, i.e. from the third quarter of 2024.[14] Both the number of new mortgages and their average amount recorded a year-on-year increase in 2024, among both younger and older borrowers.[15] At the same time, the mortgage market recovery has halted the downward trend in household indebtedness. The household debt-to-GDP ratio (rounded) has been unchanged at 43% since mid-2022. Stronger mortgage demand is confirmed not only by statistical data, but also by banks' perceptions.[16] Nevertheless, the number of mortgage originations is still lower compared with the recent period when interest rates were rising.[17]

The nature of the mortgages originated, as well as the types of borrowers, has changed only marginally. Key credit standards – such as the loan-to-value ratio, debt-to-income ratio, and loan maturity – remained stable throughout 2024. The only exception was in the share of loans with repayment terms 'at the limit', which, after rising sharply in the second half of 2022, started falling again – a positive trend from a risk perspective.[18] The breakdown of mortgage production by education level and number of borrowers per loan also remained stable. However, the share of mortgage borrowers aged 35 or over continued its gradual but sustained uptrend.[19] Mortgage growth is also being driven by borrowers who previously had, or still have, another mortgage, Indeed, they accounted for more than half of the borrowers who were granted a pure new mortgage in 2024[20] (with that share rising to 70% among mortgages granted to people aged 35–50). This proportion was slightly higher in the regions of Bratislava (61%) and Košice (59%) than in other Slovak regions (53% on average).

Rising demand for mortgages is observed across all EU countries. In terms of mortgage growth, Slovakia is at the EU median but ranks at the lower end among central and eastern European EU countries.

[13] Mortgage growth temporarily slowed in January 2025, when the provision of land registry services was disrupted for technical reasons, preventing the registration of properties and hence mortgage drawdowns. According to information from banks, this affected only the disbursement of mortgages not the approval of new loan agreements.

[14] The upward trend was interrupted in January 2025, when an outage of land registry services delayed the disbursement of approved mortgages.

[15] The number of pure new loans to borrowers aged under 35 increased by 30% year-on-year in 2024, and those to borrowers aged 35 or over rose by 42%. The average mortgage size increased by 11% year-on-year in both borrower groups.

[16] According to the Bank Lending Survey, demand increased mainly in the fourth quarter of 2024. Both the first quarter of 2025 and expectations for the second quarter of 2025 show a further strengthening of demand, albeit more moderate.

[17] The number of mortgages originated in the fourth quarter of 2024 was 17% lower than the 2018–21 average.

[18] The share of pure new mortgages with a DSTI ratio above 55% reached an all-time low in the first quarter of 2021 (16%), before rising to a peak in the fourth quarter of 2022 (37%) and then falling again, down to 27% in the fourth quarter of 2024.

[19] The share of pure new mortgages to borrowers with an average age of over 35 rose from around 45% in 2018 to 55% in the fourth quarter of 2024.

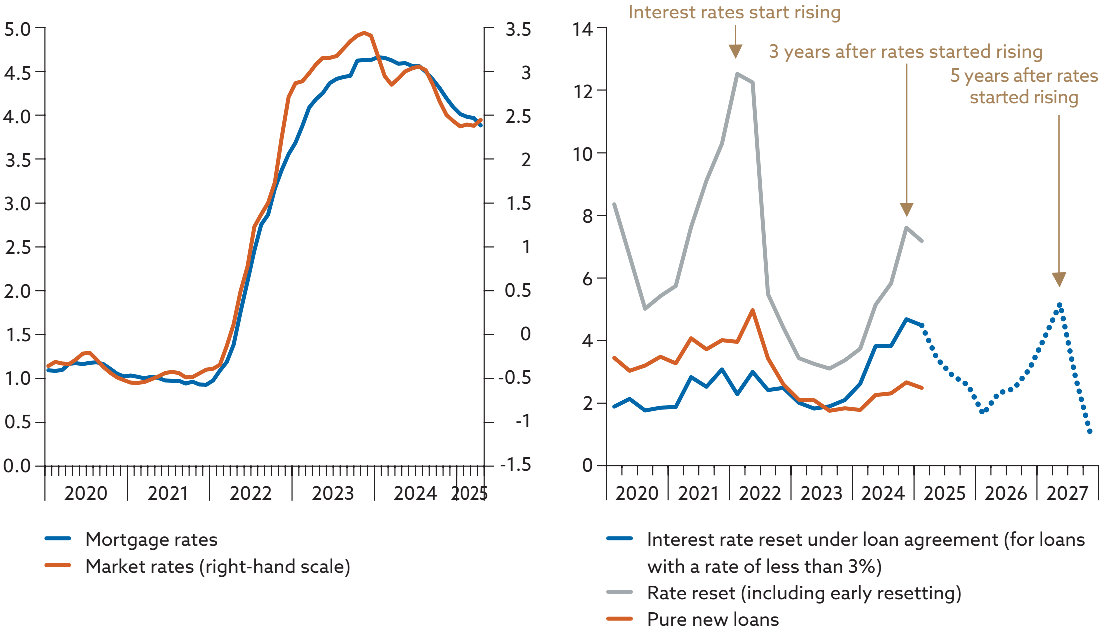
[20] In 2024 pure new mortgages granted to borrowers who had already been repaying another mortgage for at least one year accounted for 55% of the total number of pure new mortgages.

Banks have so far taken a cautious approach in lowering mortgage rates

The recent downtrend in interest rates continued until January 2025, with rates remaining steady for the rest of the first quarter.[21] In the near term, however, mortgage rates are expected to fall further, as several banks cut their standard rates during the spring months. At the same time, households expect mortgages to become steadily cheaper, hence they are increasingly opting for short-term fixed rates.[22] Mortgages in Slovakia remain among the most expensive in the euro area.[23]

The fall in mortgage rates is largely related to interest rate movements in financial markets, particularly yields on interest rate swaps and Slovak government bonds. The degree of competition among banks also plays an important role. Overly intense competition of the kind seen between 2019 and 2021 – leading to the risk that interest margins might not even cover potential credit risk – is no longer present in the market. This is positive from a financial stability perspective. Given the relatively strong wave of interest rate resets for existing mortgages (Chart 2),[24] the risk that competition will again overheat is currently low.

Chart 2
Upward repricing of mortgages accelerates in late 2024
Left-hand panel: Market and mortgage interest rate movements (percentages; percentages)
Right-hand panel: Share of mortgage portfolio undergoing a rate reset in a given quarter (percentages)



Source: NBS.
Notes: The left-hand panel shows market rates as the average value over the past three months of the following four types of market rates: yields on three- and five-year Slovak government bonds, and three-and five year interest rate swap rates. The panel's left-hand scale is shifted by 1.5 pp compared with the right-hand scale.

---

[21] The average mortgage rate fell from a high of 4.7% in January/February 2024 to 4.0% in January 2025. It remained at that level for the next two months, before edging down to 3.9% in April 2025.

[22] More than 80% of new mortgages have a three-year fixed rate.

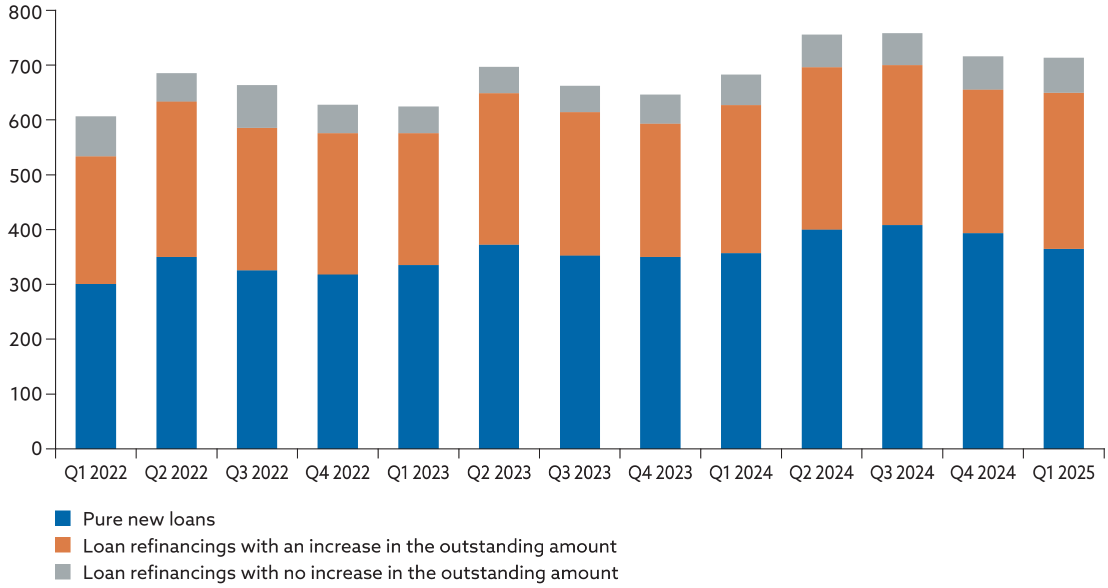
[23] For interest rates on mortgages with an initial rate fixation of between one and five years, Slovakia is in the third quartile among euro area countries.

[24] In late 2024/early 2025, a relatively large proportion of existing mortgages were repriced at current interest rates. These were mortgages whose three-year fixed rate had expired after being set at a favourable rate in late 2021/early 2022, shortly before interest rates started rising.

Consumer credit growth gradually slows

Annual growth in consumer credit slowed from a peak of 9.0% in July 2024 to 7.1% in April 2025. Consumer credit origination increased slightly but not sufficiently to sustain the pace of portfolio growth.[25] In the near-term future, banks expect only modestly favourable trends.[26]

Chart 3
Only modest growth in consumer credit origination
Quarterly production of consumer credit by purpose (EUR millions)



Source: NBS.

Consumer credit growth in Slovakia was among the highest in the EU for most of 2024,[27] before it started converging towards the median. This movement is due to a combination of a slowdown in credit growth in Slovakia and an acceleration in other EU countries.

Interest rates on new consumer credit have been gradually declining, with this trend accelerating in the first quarter of 2025.[28] They nevertheless remain among the highest in the euro area. In most EU countries, interest rates on consumer credit were falling throughout 2024, but in Slovakia this trend was not seen until late 2024/early 2025.

---

25 The repayment of consumer credit is relatively quick compared with mortgage repayment. As a result, the bulk of new consumer credit merely offsets the volume of monthly loan payments. As the portfolio grows, so does the volume of payments – requiring ever faster loan production growth to replace it.

26 According to the Bank Lending Survey.

27 From October 2023 to October 2024, it was the 9th highest in the EU, and by February 2025, it was almost at the EU median.

28 In 2024 the average rate fell from 10.2% to 9.8%, while in the first quarter of 2025 it declined at a faster pace, reaching 9.2% in March. The average interest rate on new consumer credit remained unchanged in April 2025.

Box 2

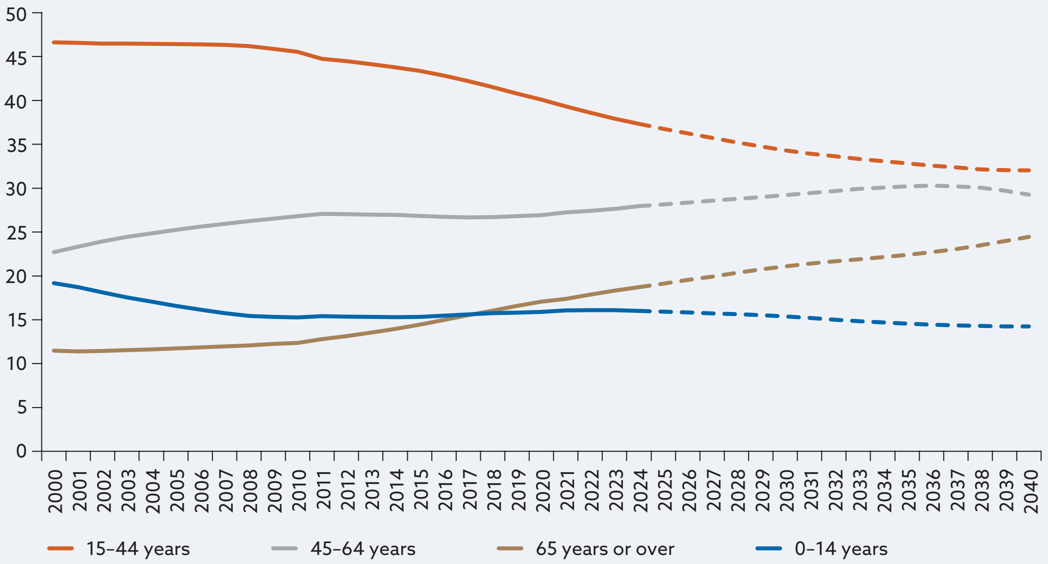
Gradual ageing of the Slovak population will affect the credit market

In Slovakia, the proportion of people aged 45 or over has risen from 43% to 47% in the past five years, and it will continue rising over the next decade, up to 52%. These demographic trends will, over the longer term, significantly alter the age structure of mortgage borrowers, as well as the potential growth rate of the mortgage portfolio. This box takes a closer look at these changes.

Chart 4

The proportion of younger people will gradually decrease

Percentage share of individual age groups in the total population of Slovakia (percentages)



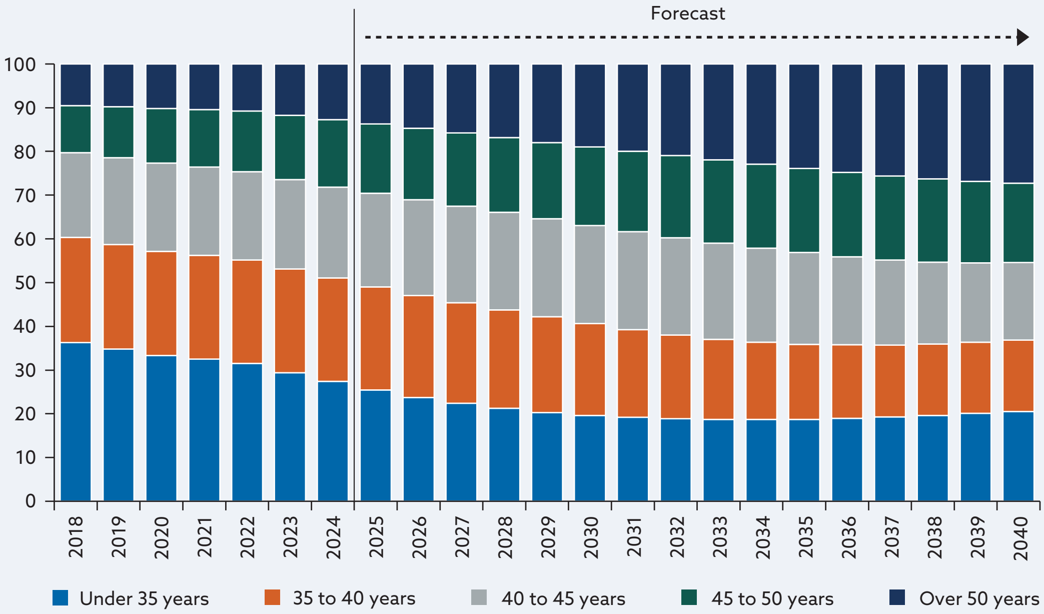
Sources: SO SR, and Faculty of Natural Sciences of Comenius University.
Note: The forecast for the years 2025 to 2040[29] is based on the following publication: Šprocha, B., Bleha, B. and Vaňo, B., "*Kmeňová populačná prognóza Slovenska (2022–2080)*" (Baseline population projection for Slovakia (2022–2080)), Bratislava, 2024.

The share of total mortgages being repaid by borrowers aged 45 or over is rising quite significantly. Over the past six years, this share has increased from 20% to 28%, and the volume of these loans has more than doubled. Based on demographic projections and the assumed continuation of long-running trends in the credit market,[30] this share is expected to carry on rising until 2037, reaching an estimated 45%. By that time, borrowers aged 50 or over will be repaying a quarter of the total mortgage portfolio.

29 The forecast also includes an assumption for the development of international migration. The net balance of migration from abroad is assumed to be around 4,900 people per year.

30 We assume that the annual average number of pure new mortgages and mortgage refinancings with an increase in the outstanding amount will return to around 50,000 and 34,000, respectively, within a few years. Between 2018 and 2021 these figures averaged 55,000 and 33,000 per year. In time, however, the average number of new mortgages will fall slightly, in line with a decline in the number of younger people – the principal driver of mortgage demand. We further assume that the average sizes of new mortgages and mortgage increases through refinancing will rise in line with the assumption that nominal income rises by 5% year-on-year.

Chart 5
The share of mortgages to borrowers aged 45 or over will increase significantly
Mortgage portfolio broken down by current age of borrowers (percentages)



Source: NBS.

One consequence of demographic developments will be a reduction in the mortgage portfolio's long-term sustainable growth rate. The number of younger people – who have the highest propensity to take out mortgages – will gradually decline, thus reducing the natural demand for mortgages in terms of numbers originated. Based on the demographic growth projection, the number of new mortgage originations is estimated to drop by around a quarter over the next ten years compared with the typical level from 2019 to 2021 (before the period of rising interest rates). The annual growth rate of the mortgage portfolio is estimated to stabilise at between 3% and 6% in the longer term. This estimate is, however, subject to considerable uncertainty. For example, future demand could be reduced due to parents having already made property purchases for their children. On the other hand, long-term low interest rates – a potential structural consequence of gradual population ageing – could support demand.

The ageing of borrowers brings specific risks and new challenges that need to be addressed. Banks have so far operated in an environment where younger borrowers are repaying the large majority mortgages. For older borrowers, the prospects of long-term income growth decline, while retirement can cause a sudden drop in income. Moreover, the scope for a possible renegotiation of mortgage terms (e.g. a maturity extension) in the event of financial distress is reduced. Since such risks are becoming gradually more important, they should be taken into account in macroprudential policy stances. At present, the key aspect of the policy stance in this regard is the cap on borrower indebtedness, which decreases progressively with age for borrowers aged 40 or over. This measure helps prevent older borrowers from becoming over-indebted or from taking on additional debt.

2.2 Housing prices increased in 2024

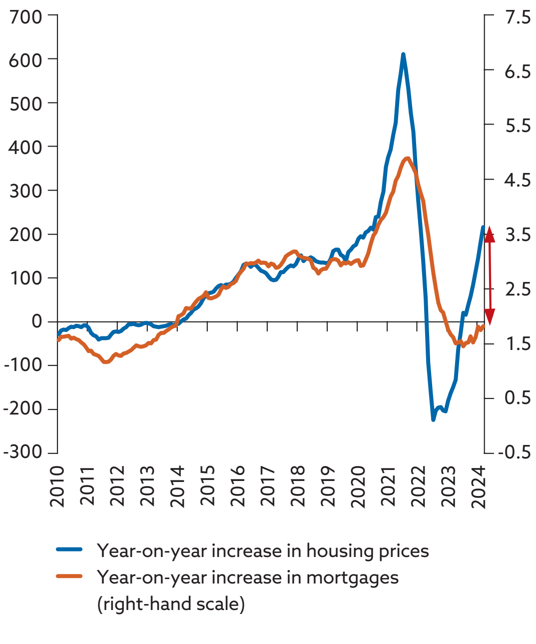
Prices of resale flats were almost 12% higher in March 2025 than a year earlier

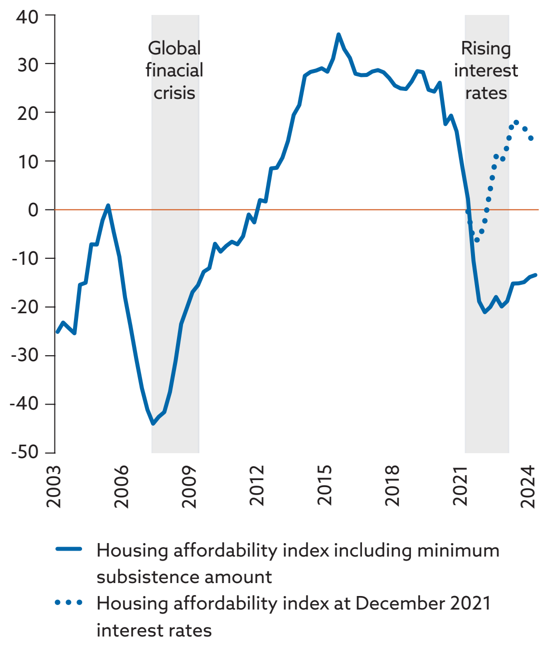
Growth in resale housing prices was broad-based across market segments, occurring in all Slovak regions, in both urban and rural areas, and across most sizes and types of flats. The pace of growth did, however, vary across regions and housing segments. In the capital city Bratislava, prices of off-plan new-build flats also increased in late 2024, due in part to pre-emptive buying. These prices recorded only a modest correction in the first quarter of 2025. The number of mortgage originations also rose during the period in question. At the same time, housing price growth was faster than mortgage growth (Chart 6).

Housing price growth outpacing mortgage growth

The acceleration in the housing market has been driven mainly by the demand side. Sentiment and expectations – improving since early 2024 after housing prices stopped falling and interest rates started decreasing – have played a crucial role in home purchase decisions. Household income growth has further stoked demand. While housing prices in early 2025 were still only back to 2022 levels, household incomes had increased by 17% over the intervening period. Meanwhile, the number of resale flats on the market has remained largely stable over the past two years, while the number of new-builds for sale has increased after weak sales in 2023.

Chart 6
Housing prices starting rising again in 2024
Left-hand panel: Year-on-year absolute change in the average price of a flat (EUR/m², left-hand scale); year-on-year absolute change in total mortgages (EUR billions, right-hand scale)
Right-hand panel: Comparison of the housing affordability index under current conditions and under conditions of sustained low interest rates (percentages)





Sources: NBS, and United Classifieds.

Although housing affordability[31] has continued to improve moderately, it remains well below the long-term average

Housing affordability has continued to improve marginally since early 2023. Its upturn was driven initially by a decline in housing prices and later by falling interest rates. The impact of renewed housing price growth has been offset by a combination of lower rates and rising household incomes. But although housing affordability has been edging up, it remains well below its long-term average. Applying the same mortgage-to-income parameters, the size of a flat that can be purchased with a mortgage is now 14% smaller than the long-term average.

In the spotlight:

Housing market conditions for young and older families[32]

Housing remains affordable primarily for two-income families. This is due not only to the currently unfavourable ratio between housing prices and household incomes, but also due to elevated interest rates. It is still the case in all regions of Slovakia that a family with two average incomes has the capacity to finance the purchase of a larger than average flat.[33] On the positive side, this holds true not only for buyers aged over 35, who now account for the majority of purchases,[34] but also for young families. Even in Bratislava Region, where housing affordability is lowest, a young family with two average incomes can afford a mortgage to buy a flat with an area of more than 80 m^2 (Table 2).

Particularly vulnerable families are those with a single or low income. Moreover, such families are finding it harder to generate savings as the cost of living rises.[35] Their capacity to finance a property purchase is considerably lower. They can afford only smaller flats, but such properties may not be available in sufficient numbers in their town or region to ensure a decent choice of housing.

---

31 Housing affordability is defined as the inverse ratio of the mortgage payment for the purchase of a flat to income.

32 The age threshold for defining young and older families is set at 35 years (based on the average age of all borrowers).

33 An average flat here denotes a flat purchased in the fourth quarter of 2024 using a mortgage, with an average floor area of 63 m^2.

34 Purchases of flats made using a mortgage.

35 An important condition for housing affordability remains having own savings of between 10% and 20% of the purchase price.

Table 2
Housing affordability remains below the long-term average; single-income families are especially vulnerable

	Example family aged 35 years or under								Example family aged over 35 years							
Number of average-wage earners	1	1	1	1	1	2	2	2	1	1	1	1	1	2	2	2
Number of minimum-wage earners			1	1	1						1	1	1			
Number of children		1		1	2		1	2		1		1	2		1	2
Bratislava Region	40	40	56	55	55	84	83	82	49	49	65	64	64	102	101	100
Trnava Region	49	47	74	73	71	102	101	99	54	52	79	78	76	112	110	109
Trenčín Region	63	62	96	94	92	132	131	129	67	65	99	98	96	140	138	136
Nitra Region	61	59	93	91	89	127	125	124	65	63	97	95	93	135	133	131
Žilina Region	50	49	76	75	73	105	104	102	54	53	80	79	77	113	112	111
Banská Bystrica Region	55	53	86	84	82	116	114	112	60	58	90	89	87	125	124	122
Prešov Region	43	42	70	69	68	91	90	89	49	48	76	75	73	103	101	100
Košice Region	42	41	64	63	62	88	86	85	48	47	70	69	68	100	98	97

Sources: NBS, and United Classifieds.
Notes: The table shows the floor area (in m^2) of the largest flat that the given household can finance using a mortgage.[36] The figures in the table header indicate the household composition in terms of the number of members, their income, as well as the number of children.
The colour scale indicates the floor area of the flats, ranging from red (40 m^2) to green (90 m^2), with yellow (65 m^2) denoting the average. The data are for the first quarter of 2025.

2.3 Corporate lending has picked up in several segments

Corporate borrowing increased in early 2025

The early part of this year brought an improvement in firms' revenues,[37] following a lacklustre 2024.[38] Construction and industrial companies performed well, and revenues also grew in most service sector segments. By contrast, firms in the trade sector experienced subdued performance. At the same time, uncertainty about the

36 This is calculated as the largest-sized flat that the given type of household can afford to buy using a mortgage under the following parameters: a DSTI of 60%, a DTI of 8, an LTV of 80%, a maturity of 30 years, and an average interest rate. The calculation takes into account both average income and average housing prices in each region.

37 The Slovak corporate sector's cumulative revenues for the first two months of 2025 were 5.7% higher year-on-year. The source of the revenue data is macroeconomic data from the Statistical Office of the Slovak Republic.

38 Cumulative revenues for 2024 were slightly (0.6%) lower compared with 2023. This refers to seasonally adjusted total revenues at current prices.

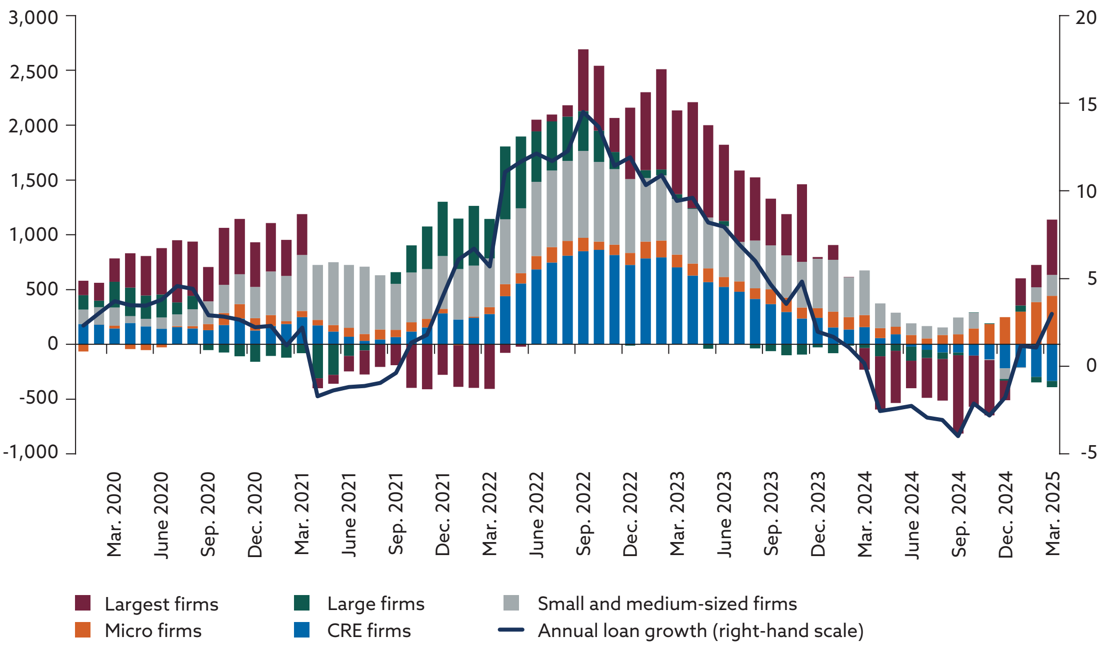
global economy's trajectory could have a major impact on revenue developments in the domestic corporate sector.[39]

In line with revenue trends, the year-on-year change in total loans to non-financial corporations (NFCs) turned positive in the first quarter of 2025. At the end of March 2025, the volume of corporate loans was almost 3% higher year-on-year, while at the end of September 2024, it was nearly 4% lower. The net flow of corporate loans over the first three months of 2025 was on a par with the level of the credit growth peak in 2022.[40] Nevertheless, lending trends were highly heterogeneous across the corporate sector. In some segments, lending activity remains subdued, while in others it is relatively dynamic. A corporate lending recovery is also present to varying degrees in other EU countries[41] and is more pronounced in central and eastern European EU countries.[42]

Chart 7

Credit growth recovery in several categories of firms

Contributions to annual growth in total NFC loans by type of firm, and annual growth in total NFC loans (EUR billions; percentages)



Sources: NBS, and RBUZ.

The improvement has been driven mainly by firms' demand for loans.[43] After declining for more than a year, firms' demand for loans increased in the first quarter

[39] Rising concerns about the global economic outlook were also expressed by firms in the ECB's Survey on the Access to Finance of Enterprises (SAFE), conducted between 10 February and 21 March 2025.

[40] The corporate loan portfolio grew by more than €1 billion during the first quarter of 2025, which was similar to its increase in the third quarter of 2022.

[41] In this regard, Slovakia has returned to the EU median.

[42] Among central and eastern European EU countries, Slovakia remains in the first quartile. Annual growth rates of more than 10% are not exceptional.

[43] This conclusion is based on the Bank Lending Survey, with data collected in the second half of March 2025 for the first quarter of 2025.

of 2025. The ongoing decline in lending rates has incentivised borrowing. The average interest rate on new NFC loans reached 5.1% as of March 2025 – down by more than one percentage point from its peak in April 2024. Firms' themselves report a drop in their debt servicing costs.[44] Slovakia is among the euro area countries where corporate borrowing is costlier.[45] Banks' lending standards have remained stable.[46]

Lending activity is stronger for smaller firms, while lending to the CRE sector remains in decline

From the perspective of firm size, lending to micro firms has grown the fastest, followed by small and medium-sized enterprises (SMEs). Early 2025 was by far the strongest period for lending to micro firms, although this size category of the NFC loan portfolio had already been the fastest growing. In each of the first three months of 2025, new borrowing by micro firms was markedly higher than the volume of loans they repaid. Annual growth in loans to micro firms rose to over 11%, up from 6% at the end of 2024, with firms in the construction and selected services[47] sectors accounting for most of the acceleration. Lending to small firms also experienced a strong first quarter, with flows into the portfolio matching the highest levels of previous years. Annual growth in this segment of the portfolio stood at nearly 6% as of March. As for large firms' borrowing, it was in line with the long-term average.

Lending to large firms is largely concentrated across a small group of enterprises – the largest borrowers in the NFC portfolio. Corporate credit growth is thus primarily driven by the largest firms,[48] especially in the energy sector. Other large corporates have taken been restrained in their borrowing activity, and the size of their loan portfolio has not increased.

The decline in lending to the commercial real estate sector is becoming more pronounced. The portfolio of loans for real estate development financing started contracting 2024, and its year-on-year decline gathered pace in the first quarter of 2025 – exceeding 3% as of March. The shrinking portfolio reflects a gradual decline in lending activity that began in 2023 against a backdrop of rising interest rates.

This trend has been related to a large reduction in the construction of new real estate developments. Subdued activity is visible in the number of new bank-financed property developments. In 2023 and 2024 the number of new developments fell by more than half compared with the peak of the credit cycle.[49] This trend became even more pronounced in the first quarter of 2025, when only five new developments came on

---

44 The ECB's Survey on the Access to Finance of Enterprises (SAFE), conducted between 10 February and 21 March 2025.

45 Slovakia ranks fourth (after the Baltic countries).

46 The interest rate level is an important factor in firms' decisions to apply for a loan. At the same time, firms are reporting a tightening of lending conditions through an increase in loan-related fees. Moreover, firms are increasingly concerned about worsening of the economic outlook or the prospects for particular industries, which may result in deteriorating financing conditions.

47 Professional, scientific and technical activities; Administrative and support service activities.

48 Firms whose outstanding loans normally exceed €100 million.

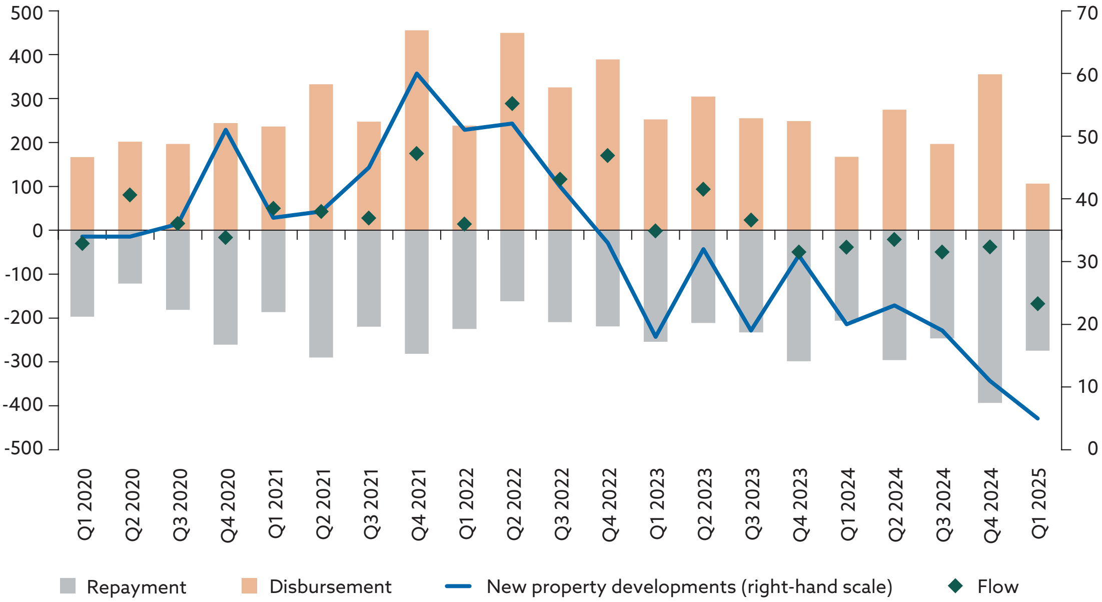
49 The peak of the credit cycle can be identified as late 2021 and the first half of 2022.

stream – marking a significant decline from the previous period.[50] Similarly, the volume of CRE loan disbursements in the first quarter was 40% of the long-term average and a quarter of the volume at the credit cycle's peak. At the same time, a lag effect is evident in this lending activity,[51] with the number of new property developments declining more sharply than the borrowing for such projects. The market is therefore characterised by significant caution among developers, who are deferring new construction.

Chart 8

Decline in the CRE loan portfolio is due to increasingly subdued borrowing

Quarterly flow of loans and the number of new property developments (EUR millions; number)



Source: RBUZ.

---

[50] 15% of the long-term average for the years 2019 to 2024.

[51] In the case of property developments under construction, funds are typically disbursed in tranches, and so despite the drop in new developments, funds continued to be disbursed for developments currently under construction.

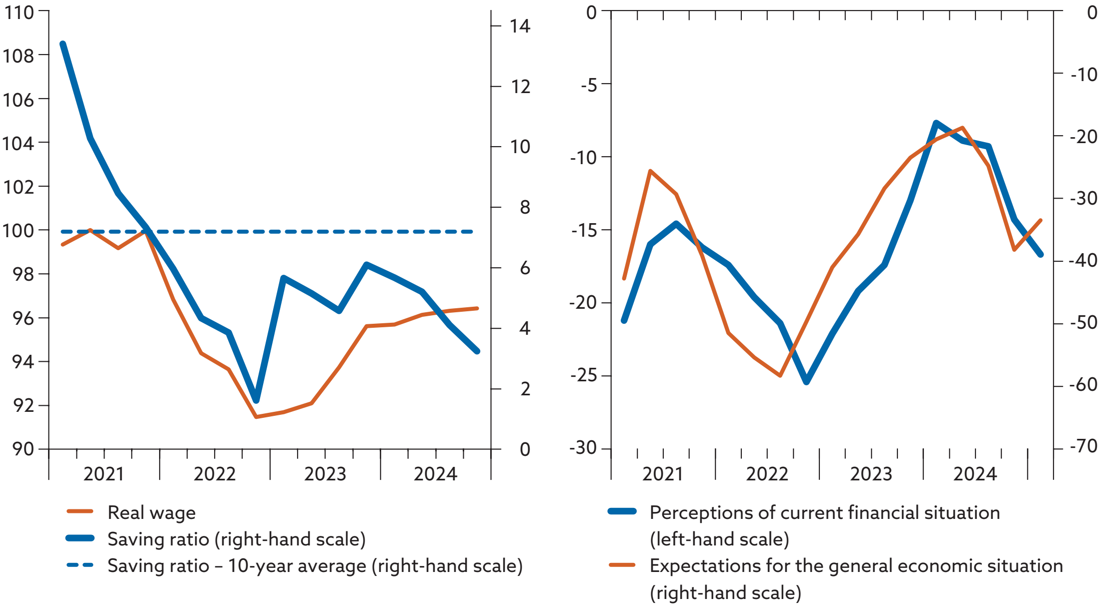
3 Financial situation of households and firms

3.1 The recent improvement in households' financial situation has temporarily slowed

Income growth has decelerated and price growth has picked up slightly, while households perceive increased uncertainty

The positive trend in households' financial situation observed in 2023 virtually came to a halt in 2024. This was due to a marked slowdown in wage growth as well as a moderate upward turn in inflation.[52] The slowdown was particularly evident in the second half of 2024, when annual wage growth dropped from 4.4% to 0.8%.[53] Real wages remain 3.6% below their level in the period before mid-2021, when inflation began to rise.

Chart 9
Slight worsening of households' financial situation
Left-hand panel: Real wages (index: April 2021 = 100, left-hand scale); the household saving ratio and its average level over the period 2015–24 (percentages, right-hand scale)
Right-hand panel: Selected components of the consumer confidence indicator of the EC's Economic Sentiment Indicator: households' perceptions of their financial situation over the last 12 months (points, left-hand scale); households' expectations for the general economic situation over the next 12 months (points, right-hand scale)



Sources: NBS, and European Commission.
Notes: The real wage was calculated by deflating the nominal wage with the consumer price index. The left-hand panel values represent the difference between the percentage of households perceiving the situation positively and the percentage perceiving it negatively.

52 Average annual nominal wage growth fell from 11.2% to 3.9% during 2024. Inflation measured by the consumer price index slowed from 6.4% to 2.1% during the first half of 2024, before accelerating slightly – to 3.1% in December 2024 and to 4.0% in March 2025.

53 The real wage was calculated by deflating the nominal wage with the consumer price index.

At the same time, households' uncertainty about future developments has increased. This was particularly notable at the time when the fiscal consolidation package was adopted, with concerns being most pronounced among lower-income households. In addition, households feel that their financial situation is not improving as it used to, which is reflected in their reduced ability to save. After its previous uptrend, the household saving ratio has fallen again. One reason may be that households brought forward purchases ahead of a VAT increase, partly dipping into savings to pay for them.

This deterioration is expected, however, to be only temporary. Real household income is projected to return to moderate growth in 2025.[54] The proportion of households expecting a further deterioration in their financial situation fell slightly at the end of the first quarter of 2025.

NPL ratios remain low, but sensitivity to potential shocks is still elevated

The faltering improvement in their financial situation has had no impact on households' debt servicing capacity. The non-performing loan (NPL) ratio for the mortgage portfolio remains low.[55] For consumer credit, the NPL ratio has increased, but only slightly.[56]

At present, however, mortgage-paying households are somewhat more sensitive to potential adverse changes in the future, such as a further decline in income. Their sensitivity depends mainly on how much of their income they must allocate to repayments, which is expressed by the current level of their debt service-to-income (DSTI) ratio.

In 2023 the situation improved due to real income growth. In 2024, however, the trend reversed – real income growth slowed sharply, while a rising number of people faced increased mortgage payments as a result of mortgage rate resets (Chart 10).

This deterioration should, however, only be temporary, with the situation expected to start improving again this year. The incidence of mortgage rate resets peaked in late 2024/early 2025, and has since declined. At the same time, real income growth is expected to pick up again. Borrowers' sensitivity, which became heightened during the period of high inflation and rising interest rates, should gradually diminish until around the end of 2027. Moreover, the deterioration in the second half of 2024 was partly offset by an increase in the value of real estate collateral – a corollary of a general resumption of housing price growth.

The positive outlook, however, assumes an absence of further adverse developments. In the event of such scenarios, households' sensitivity could again rise significantly.

---

54 According to NBS's spring medium-term forecast (MTF-2025Q1), presented in *Economic and Monetary Developments – Spring 2025*, the real wage is projected to grow by 0.6% in 2025, 1.4% in 2026 and 1.6% in 2027.

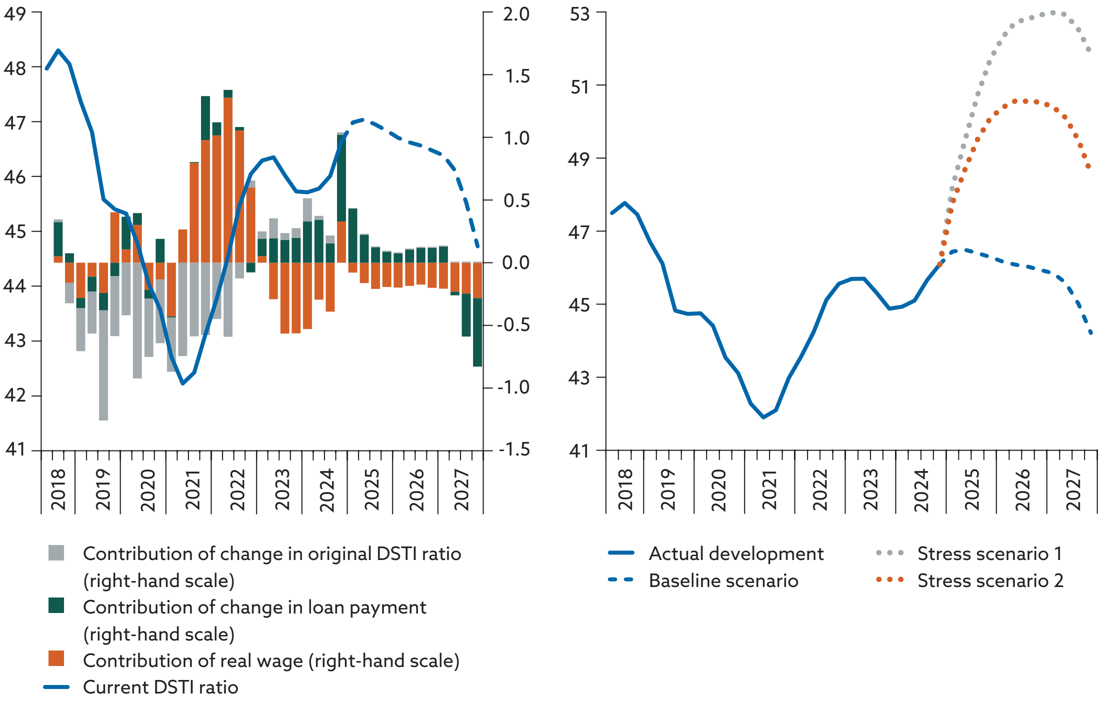
55 The banking sector's NPL ratio for mortgages stands at 1.1% – a historical low maintained since the end of 2022, following a multi-year downtrend.

56 The NPL ratio for consumer credit rose from 6.9% to 7.3% during the period under review, with two distinct increases: first in the second quarter of 2024 and then in the first quarter of 2025. A deterioration in this ratio has been reported by several banks operating in the consumer financing market.

Chart 10

The average current DSTI ratio has temporarily deteriorated

Left-hand panel: Average current DSTI ratio and contributions to its change (percentages; percentages)
Right-hand panel: Comparison of the average current DSTI ratio in the baseline and stress scenarios (percentages)



Source: NBS.
Notes: DSTI refers to ratio of debt service-to-income less the minimum subsistence amount. The current DSTI ratio is calculated as the ratio of the current cost of loan payments (applying a stressed interest rate) to the difference between the borrower's income indexed by average real compensation growth and the minimum subsistence amount. 'Contribution of change in original DSTI ratio' captures the impact of the change in the average DSTI ratio, between the current ratio and the ratio at the time of loan origination.

So far, nearly half of existing mortgages have been repriced to a higher interest rate, with only a minority of borrowers taking up the government subsidy towards the cost of higher mortgage payments

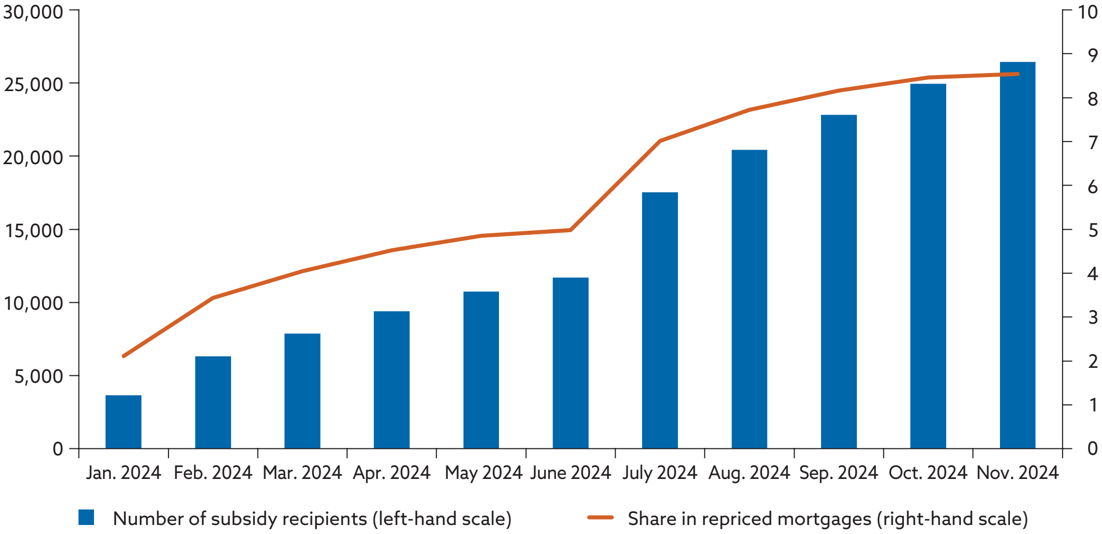
As of March this year, 46% of all existing mortgages had been fully repriced to higher interest rate levels.[57] The number of rate resets peaked in the first quarter of 2025 and will now gradually decline.

By the end of 2024, around 26,000 borrowers had been granted the mortgage subsidy. They accounted for just under 9% of all the households whose mortgage payments increased in the 2023–24 period. This percentage continues to rise, albeit slowly. The only time it rose sharply was in July 2024, when the subsidy was made available also for refinanced mortgages.

[57] Referring to mortgages for which the interest rate was reset to 3% or higher. The precise calculation methodology is described in footnote 1 of the NBS Discussion Note entitled "Vyššie splátky hypoték zatiaľ nespôsobujú výraznejšie problémy" (Higher mortgage payments are not so far causing significant problems) (in Slovak only).

The borrowers receiving the subsidy are mostly those whose mortgage payments have risen more sharply. The average amount of the subsidy is €88. Most of the subsidies granted are below the level of the subsidy cap.[58]

Chart 11
Less than 10% of households whose mortgage payments have risen receive the mortgage subsidy
Number of mortgage subsidy recipients (left-hand scale) and their share in the number of households whose mortgages have been repriced since the beginning of 2023 (percentages, right-hand scale)



Sources: NBS, and ÚPSVaR SR.

Only an increase in unemployment would be likely to cause a rise in non-performing loans

The credit risk in banks' retail loan portfolios over the next three years has been estimated under a baseline scenario and two stress scenarios.[59] The key factors are developments in unemployment, household income, and inflation. In the baseline scenario, we assume that wage growth outpaces inflation and that unemployment falls slightly. Conversely, the two stress scenarios envisage a relatively significant rise in unemployment. In the first stress scenario, this increase is compounded by a resurgence in inflation, resulting in a decline in real wages. In the second stress scenario, inflation is assumed to be more favourable, but there is subdued growth in nominal incomes.

In the baseline scenario, the risk of an increase in non-performing loans remains similar to previous years. The proportion of mortgage-paying households becoming at risk of financial distress[60] over the next three years is estimated to be 3.8%, while the corresponding figure for households with consumer credit is 8.0%.[61] This outcome is

---

58 The cap is set at €150, but only around 15% of recipients receive that amount.

59 These scenarios are described in more detail in Box 1.

60 Households at risk of financial distress are here defined as households whose loan payments and basic living expenses exceed their income and recourse to savings. The simulation methodology is described in more detail in the May 2022 Financial Stability Report. The analysis includes only indebted households.

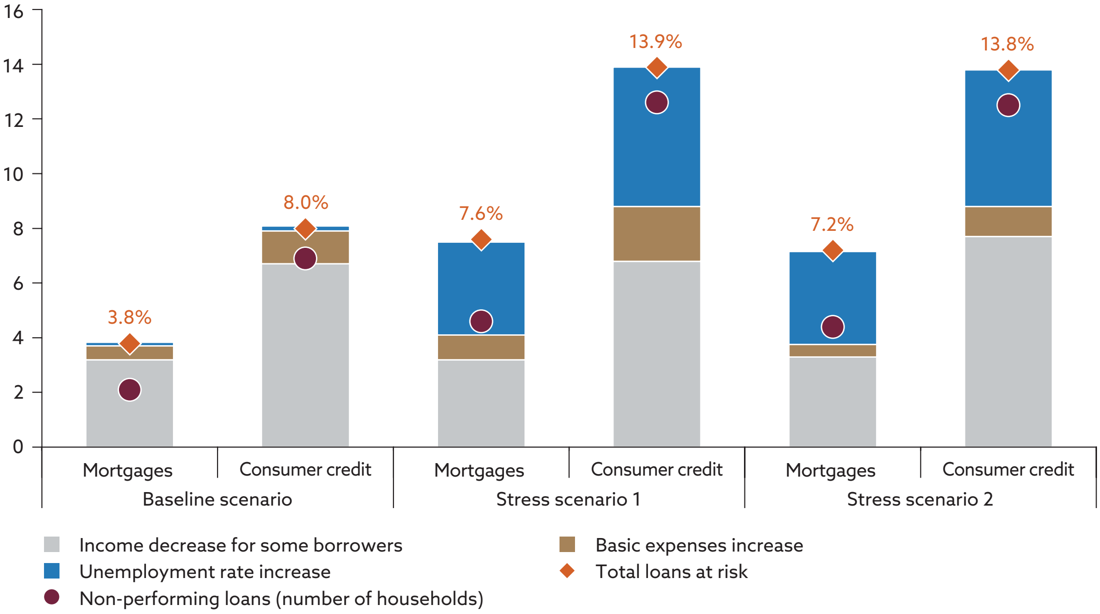
61 Under the baseline scenario, the default rates for mortgages and consumer credit are estimated to be, respectively, 2.1% and 6.9%.

caused mainly by income volatility – even under normal conditions, some households experience a drop income that may result in loan repayment difficulties. The good news is that inflation-related risk has diminished compared with previous years.

The risk of financial distress could rise significantly if the labour market situation worsens. Such an adverse situation is simulated in the stress scenarios. In both cases, the estimated proportions of households that become financially distressed are similar – 7.2% to 7.6% of those with a mortgage and 13.8% to 13.9% of those with consumer credit.[62] The higher risk compared with the baseline scenario stems mainly from the assumed increase in the unemployment rate. In the first stress scenario, the inflationary impact is also greater.

These estimates also include the impact of the new fiscal consolidation package, which, however, has virtually no upward impact on loans at risk. This is because the consolidation measures – though broad-based with an adverse effect on the average household – have a smaller impact on households at risk of financial distress. On the other hand, a reduction in energy price subsidies could have a more significant impact – depending on the details of the transition to a more targeted compensation scheme.[63]

Chart 12
Impacts of different shocks on household loans at risk
Share of household loans at risk by type of shock (percentages)



Source: NBS.
Notes: The chart shows the increase in loans at risk in the period from 2024 to 2027. This increase is simulated using the scenarios described in Table 1. Households at risk are here defined as households whose loan payments and basic expenses exceed their income and accumulated savings. The income decline of certain borrowers refers to the standard fluctuation in household incomes, which, even in periods of increasing average nominal incomes, may rise for some households and fall for others.

---

62 Under the stress scenarios, the default rates for mortgages and consumer credit are estimated to be, respectively, 4.4% to 4.6% and 12.5% to 12.6%.

63 To illustrate, the estimated upward impact of a complete withdrawal of energy price subsidies on the share of households at risk is 1.0 percentage point for households with a mortgage and 1.7 percentage points for those with consumer credit.

3.2 Weaker revenues caused a slight deterioration in firms' financial situation

Lower revenues and higher wage costs caused corporate profits to decline

Firms experienced a year-on-year decline in profitability in 2024.[64] The aggregate net profit of non-financial corporations (NFCs) was 17% lower in 2024 than in 2023, while return on equity (ROE) fell from 10.6% to 8.7%. The main factor was a slight (2.9%[65]) decline in revenues, which was not fully offset by a fall in firms' costs. Input and services costs were only partially reduced, as inflation remained moderately elevated (especially in services). Personnel costs were particularly problematic, rising by 5.6% despite falling revenues. This was due to wage growth remaining somewhat sticky after a period of elevated inflation – i.e. wage growth is decelerating more slowly than inflation.

Last year's decline in overall profitability was relatively broad-based. Return on equity decreased across all firm size categories. Micro firms saw the smallest drop in return on equity and were the only category to report revenue growth. Their net profit even rose slightly.

Table 3
Evolution of firms' financial situation

	ROE (percentages)		Contribution to year-on-year change in ROE (percentage points)			
	2023	2024	Change in revenues	Change in production costs	Contribution of change in personnel costs	Other impacts
Micro firms	14.6%	13.3%	12.0%	-9.4%	-1.0%	-2.9%
Small firms	13.1%	9.9%	-9.6%	9.2%	-1.9%	-1.0%
Medium-sized firms	15.0%	9.5%	-10.1%	5.9%	-2.1%	0.8%
Large firms	6.7%	5.9%	-8.6%	9.5%	-1.3%	-0.3%
Firms in total	**10.6%**	**8.7%**	**-4.9%**	**5.1%**	**-1.5%**	**-0.7%**

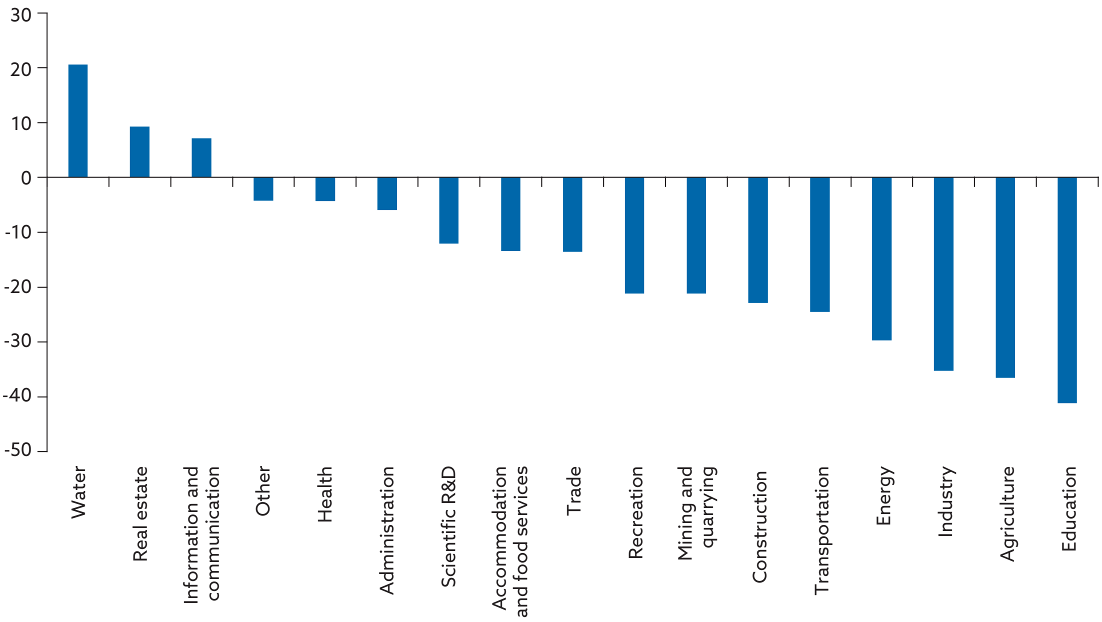
Source: FinStat.
Notes: ROE values are calculated as total net profit divided by total equity in each firm size category. Only firms for which financial statements were available for 2023 and 2024 and which reported positive equity in both years are included in the calculation. ROE stands for return on equity.

64 The analysis excludes firms whose revenues and assets were less than €1,000. It is based on firms' financial statements as at the end of 2024, which, however, were available for only part of the NFC sector: around 50% of all firms, accounting for approximately 32% of total revenues and 35% of the total NFC loan portfolio. Last year, the average ROE was slightly lower for firms that submitted their financial statements by the end of March than for firms that submitted them later.

65 This figure relates to firms that filed their statutory financial statements for 2024 by the end of March 2025 and have also filed statutory financial statements for 2023. It is slightly more negative than the figure for all firms reported by the Statistical Office of the Slovak Republic (-0.7%).

Profitability declined in most economic sectors in 2024. The largest declines in net profit were recorded in agriculture (-37%), industry (-36%), transportation (-34%) and energy (-30%). The situation was especially unfavourable in agriculture, where the net profit fell for a second consecutive year and the average ROE declined to 3%. The sector also faces additional risk from the potential spread of foot-and-mouth disease (FMD).[66] The transportation sector also reported a low ROE (1.8%). By contrast, the services sector saw profits fall only slightly (by 3%), while the water supply sector reported 23% profit growth.

Chart 13
Net profit falls in most economic sectors
Year-on-year change in net profit by economic sector (percentages)



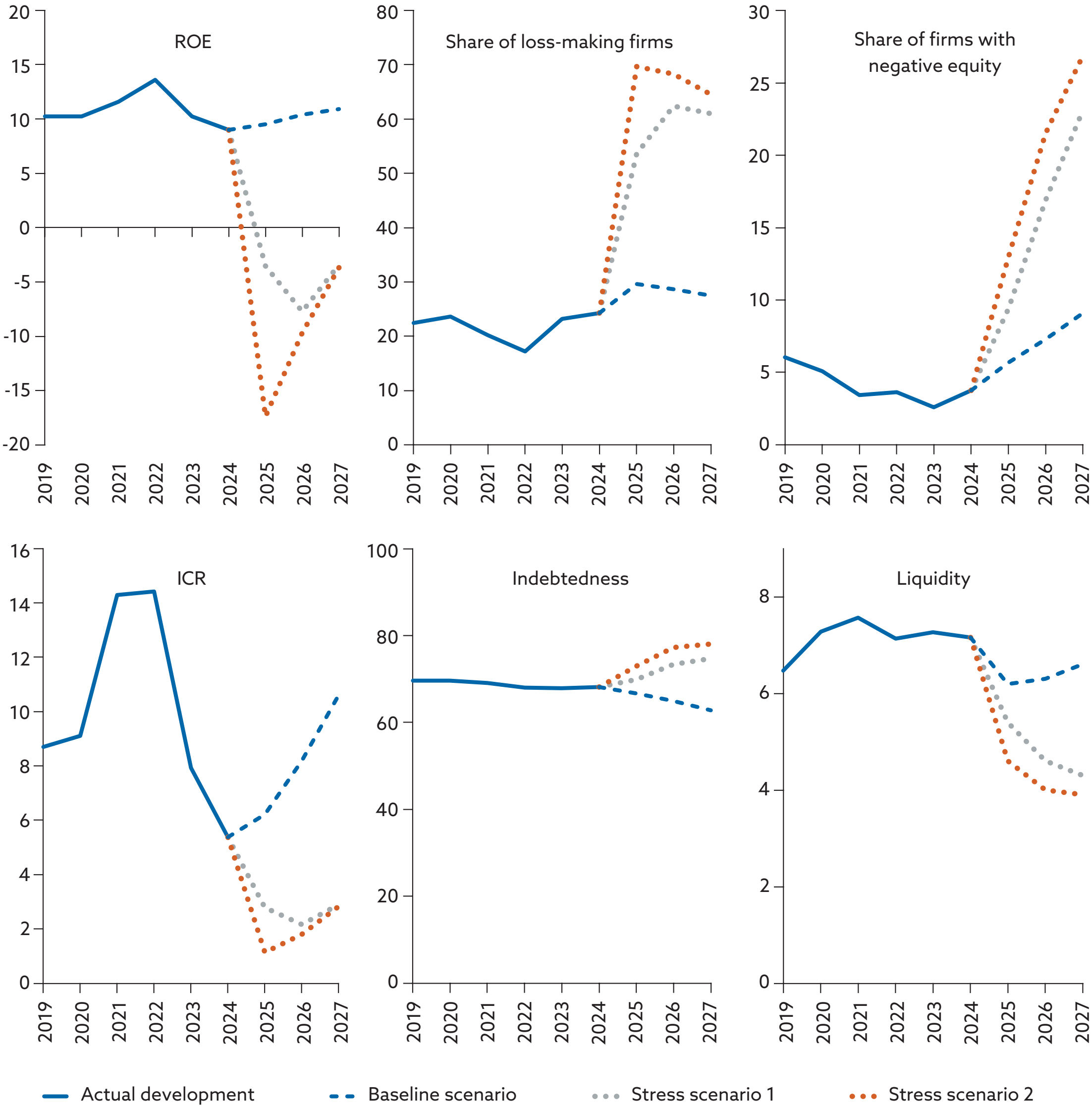
Sources: NBS, and FinStat.
Note: Only firms for which financial statements were available for 2023 and 2024 are included in the calculation.

The relatively favourable financial performance of micro firms was also reflected on the deposit side. Deposits of micro firms increased year-on-year in 2024 (by 3.8%), while deposits of firms across other size categories decreased (by 2.8%). This also benefited banks, by helping reduce concentration in their deposit business. A similar trend was observed on the lending side, as the fastest lending growth was in loans to micro firms.

Indebted firms also experienced a slight worsening of their financial situation. Their ROE, weighted by loan size, fell from 10.2% in 2023 to 9.0% in 2024. For these firms, the deteriorating financial situation was reflected not only in lower profitability but also in other financial indicators: the share of loans to loss-making firms rose by 1.0 percentage point; the share of loans to firms with negative equity increased by 1.2 percentage point; the interest coverage ratio (ICR) decreased; and liquidity declined slightly.

66 Bank loans for livestock production potentially exposed to FMD risk account for 1.5% of the total NFC loan portfolio.

Chart 14
Current and expected developments in the financial situation of indebted firms
Evolution of the following: ROE (percentages); share of loans to loss-making firms (percentages); share of loans to firms with negative equity (percentages); interest coverage ratio; indebtedness (percentages); and liquidity ratio (percentages)



Sources: NBS, and FinStat.
Notes: The panels show the indicators' average values weighted by loan size as at the end of each year for the 2019–24 values, and as at the end of 2024 for the projected 2025–27 values. The data displayed in the panels were calculated only for NFCs for which 2024 data were available. The calculation included only data for NFCs whose revenues and total assets for the respective years both exceeded €1,000. ICR stands for interest coverage ratio. For firms with negative earnings before interest and tax (EBIT), the ICR is zero. ROE stands for return on equity.

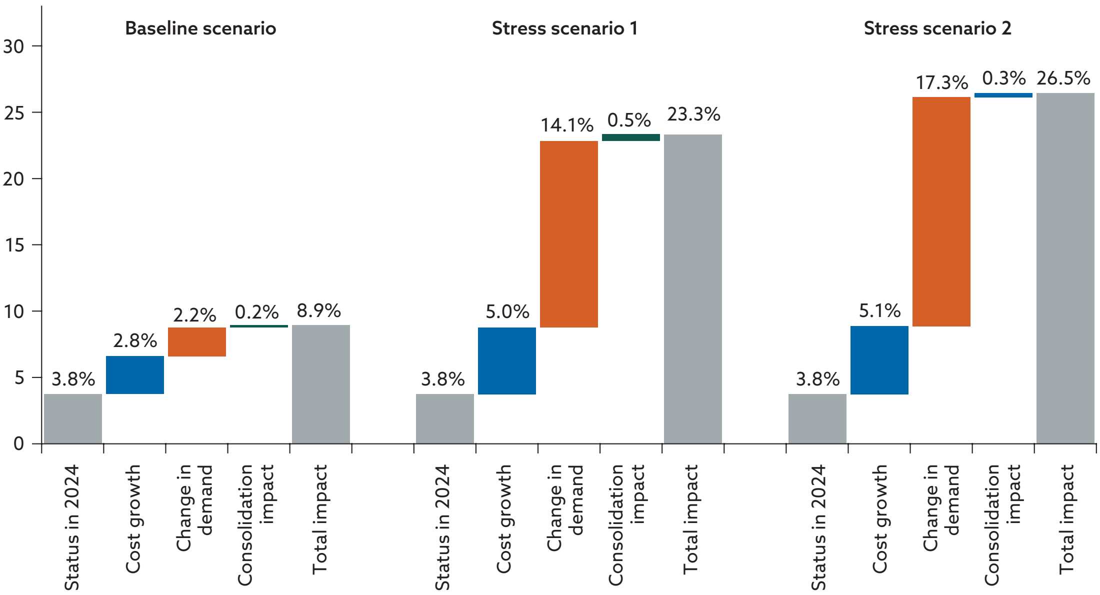
The deterioration in firms' financial situation has not, however, translated into an increase in the non-performing loan ratio. The NPL ratio for total NFC loans was 2.6% at the end of March 2025, the same as a year earlier. Given, however, the worsening of certain financial indicators, the estimated probability of default has increased slightly (from 1.17% to 1.21%),[67] indicating a modest increase in the corporate portfolio's sensitivity to potential adverse shocks.

[67] The probability of default (PD) estimation model is based on a logistic regression: PD = $1/(1+e^{-Y})$, where Y = 2.094 + 0.839 PREV-DEFAULTS + 0.318 log(LTA) + 0.302 LOSS – 0.124 log(MARGIN) – 0.240 ICR – 0.064

If economic conditions do not worsen, the financial situation of firms could develop favourably

The possible evolution of firms' financial situation and the credit quality of the NFC loan portfolio was modelled in three scenarios. These scenarios are described in more detail in Box 1.

Chart 15
NFC loans at risk
Share of loans at risk in the total NFC loan portfolio and factors affecting its increase over the simulation horizon (percentages)



Sources: NBS, SO SR, and FinStat.
Notes: The chart shows the share of loans at risk at the end of the three-year simulation horizon (i.e. in 2027). The data displayed in the chart were calculated only for NFCs for which 2024 data were available. The chart does not include data for the CRE sector, which is analysed separately in the following section.

Under the baseline scenario, firms' financial situation is estimated to improve slightly. Firms are expected to benefit from a decline in interest rates as well as a modest recovery in revenue growth. Profitability and interest coverage should increase, contributing to a modest decrease in the probability of default. In the baseline scenario, the share of NFC loans at risk[68] is estimated to rise by 5.2 percentage points over three years – consistent with the normal trend in recent years – while the NPL

---

log(LIQ) – 0.139 log(SALES). PREV-DEFAULTS captures the number of defaults in the previous four years and takes a value between 0 and 4. LTA is the firm's liabilities to total assets ratio. LOSS is an indicator of whether the firm recorded a loss. MARGIN represents the gross margin, calculated as the ratio of value added to sales. ICR is the interest coverage ratio. i.e. the ratio of earnings before interest and taxes (EBIT) to interest expenses. LIQ represents the ratio of liquid assets to total assets. A sectoral dummy variable is also included as an explanatory variable. A model with a similar specification was described in more detail in the November 2024 Financial Stability Report (pp. 40–41). The model used in this report is slightly modified. A firm is defined as defaulted if it has defaulted on at least 10% of its outstanding bank loan liabilities. An increase in the indicators PREV-DEFAULTS, LOSS, and LTA is associated with an increase in the firm's probability of default. Conversely, an increase in the variables MARGIN, ICR, LIQ and LOSS is associated with a decrease in the probability of default. All the explanatory variables are significant at the 95% confidence level. The AUROC value is 70%.

68 We define loans at risk as loans to firms that, by the end of the three-year horizon, are at risk of severe financial distress (i.e. of having negative equity).

ratio actually falls slightly. No significant losses in excess of current credit risk costs are expected.

Under the first stress scenario, however, the share of loans at risk in the NFC portfolio is estimated to rise to 19.6% of the portfolio, and under the second scenario, to 22.7%. The main source of risk is a relatively large drop in revenues, with many firms being unable to cut costs sufficiently to compensate for the decline. Compared with the baseline scenario, the estimated average probability of default is 1.3 percentage points higher in the first stress scenario and 1.7 percentage points higher in the second stress scenario.

Tax adjustments resulting from the fiscal consolidation package adopted in 2024 are estimated to reduce ROE by around 0.2 percentage point. The expected ROE at the end of 2027, weighted by outstanding loan amounts, is 10.9% with the tax adjustments and 11.1% without them. The financial transaction tax (FTT) accounts for most of this negative contribution. Its effect is partly offset by adjustments to the corporate income tax (CIT), [69] though their impact varies across firm size categories, being negative for large and medium-sized firms and positive for micro firms and, to a lesser extent, small firms.

Table 4

Impact of tax adjustments on ROE in the baseline scenario

	ROE excluding tax changes	Impact of CIT change	Impact of FTT	ROE after tax changes
Micro firms	12.4%	0.2%	-0.2%	12.4%
Small firms	10.4%	0.1%	-0.3%	10.2%
Medium-sized firms	9.9%	-0.1%	-0.3%	9.5%
Large firms	11.8%	-0.1%	-0.4%	11.3%
Firms in total	**11.1%**	**0.0%**	**-0.2%**	**10.9%**

Sources: NBS, SO SR, and FinStat.
Notes: ROE stands for return on equity; CIT stands for corporate income tax; FTT stands for financial transaction tax. The data in the table show ROE at the end of the three-year simulation period (i.e. in 2027), or the cumulative impact of tax changes over the simulation period (i.e. between 2025 and 2027). The values are calculated as averages across firms, weighted by their outstanding loans as at the end of 2024. The data displayed in the charts were calculated only for NFCs for which 2024 data were available. In estimating the FTT impact, the fact that setting a maximum tax amount per transaction may have varying effects on different firm size categories was not taken into account.

[69] The corporate income tax (CIT) has been adjusted as follows: the lower CIT rate was reduced from 15% to 10% and the taxable income threshold for its application was raised from €60,000 to €100,000; an upper CIT rate of 24% was introduced for firms whose taxable income exceeds €5 million; the standard CIT rate remains at 21%, now applicable to firms whose taxable income ranges from €100,000 to €5 million.

Box 3

The introduction of tariffs on exports to the United States is not expected to significantly impair the credit quality of domestic banks' loan portfolios

The recent imposition of tariffs on goods exports from Europe to the United States will adversely affect both firms exporting to the United States and their trading partners. The aim of this box is to estimate the extent of this impact on firms' revenues and financial situation and to assess banks' exposure to the most affected companies and sectors.[70] Although the initial tariffs were imposed mainly on imports of cars and certain other products, the possibility of blanket tariffs was later discussed.[71] This analysis therefore considers all types of goods exported to the United States.

In 2024 total Slovak goods exports to the United States amounted to €4.4 billion, representing 4.0% of Slovakia's total exports and 1.6% of Slovak firms' total revenues.

In terms of the types of goods exported, exports to the United States are highly concentrated, with finished automobiles produced by two carmakers accounting for 70% of the total exports, and machinery and transport equipment for a further 17%. In 2024 only two of the four carmakers operating in Slovakia exported to the United States. These two producers' potential drop in revenues is unlikely to jeopardise their financial situation, but it could lead them to adopt cost-cutting measures.

Aside from exports of finished cars, exports to the United States constitute a significant share of revenues in only a very small part of the corporate sector. There are fewer than 50 domestic firms whose exports to the United States make up more than 30% of their revenues, and these firms together account for only 0.1% of total corporate revenues and 0.05% of total NFC borrowing.[72] Firms whose exports to the United States make up between 10% and 30% of their revenues together account for 1.2% of total corporate revenues and 0.5% of total NFC borrowing.

Cost rationalisation efforts may, however, result in adverse spillovers to supply chains. Firms supplying components to the automotive industry[73] account for

---

70 In this box, we analyse only the impact on firms exporting directly to the United States. Firms exporting to the United States via other countries are not included due to the unavailability of relevant data. Moreover, the trade war may also indirectly affect exporters to other countries (e.g. EU countries) that supply components for goods destined for the US.

71 A 25% tariff was applied to imports of automobiles as of 3 April 2025 and to auto parts as of 3 May 2025. From 5 April 2025, the United States applied a 10% baseline tariff on all imports. At the same time, additional elevated country-specific tariffs were introduced and then postponed by 90 days.

72 These figures are based on 2023 statutory financial statements, as the 2024 statements were not yet available for all firms.

73 These industries comprise the following: manufacture of motor vehicles; manufacture of parts and accessories for motor vehicles; manufacture of bodies (coachwork) for motor vehicles; and manufacture

5.7% of total corporate revenues and 2% of total NFC borrowing.[74] In terms of profitability, indebtedness and liquidity, these firms are in a slightly worse financial situation compared with other firms operating in the industrial sector (Table 5). On the other hand, these firms are larger, more flexible, and have a moderately higher interest coverage, which in the past has translated into their better debt servicing capacity.

This situation could be particularly adverse for supplier firms that are already in a more difficult financial situation or are unable to flexibly reorient to other customers.[75]

Table 5
Comparison of the financial situation of automotive industry suppliers with other firms in the industrial sector

	Automotive industry suppliers	Other firms in the industrial sector
Profitability (median ROA)	2.6%	3.2%
Gross margin (median)	21%	23%
Indebtedness (median debt-to-assets ratio)	74%	63%
Liquidity (median ratio of financial accounts to short-term liabilities)	12%	25%

Sources: NBS, and FinStat.
Notes: The data are for 2023. ROA stands for return on assets.

Overall, it can be said that the direct impact of the tariffs should not translate into a significant increase in non-performing NFC loans. The situation could, however, lead to financial difficulties for a small number of individual firms, for which an increase in NPLs or loan loss provisioning may be observed.

The commercial real estate sector remains in a fragile situation, but positive signs are emerging

The commercial real estate (CRE) sector has faced increased risks in recent years due to elevated interest rates. In the office segment, moreover, rising rates of remote working have been an additional shock. From a financial stability perspective, it is important that although this situation has been challenging for several CRE firms, it has not lead to a significant increase in non-performing loans. The NPL ratio for the CRE loan portfolio remains close to its historical low (0.6%), nor has the share of past due loans increased.

of trailers and semi-trailers. However, the automotive industry also uses goods and services from other industries, in particular, metal manufacturing (€0.6 billion), rubber and plastic manufacturing (€0.3 billion), technical services (€0.6 billion) and transportation (€0.3 billion).

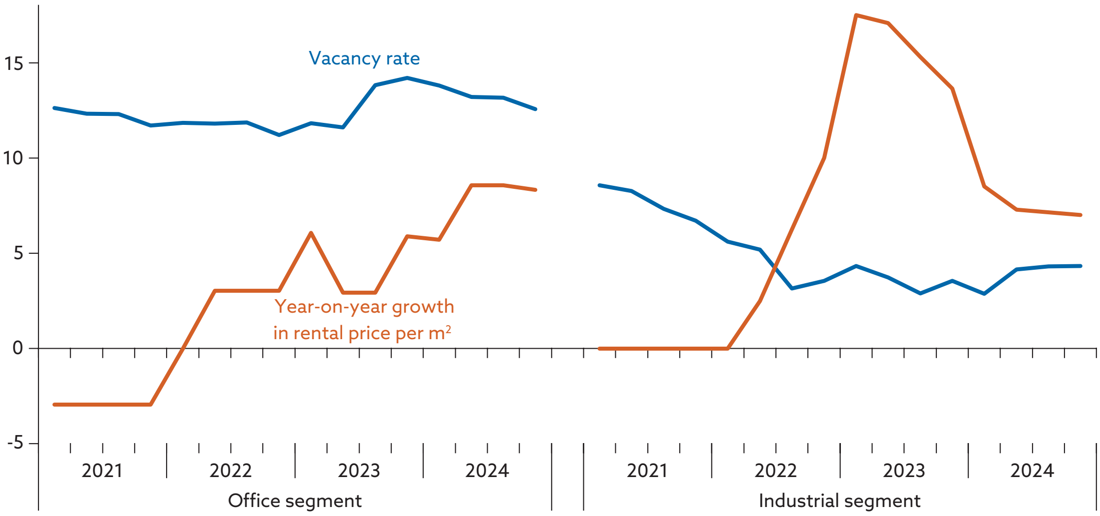
74 These figures do not include data for the carmakers themselves.

75 For certain types of components, there may also be customers from related industries, such as arms manufacturing, which is currently experiencing increased demand.

The good news is that although the situation remains fragile, there are signs it should improve in the period ahead. Interest rates have started falling, gradually easing the debt burden of commercial real estate owners. In addition, several firms have started to encourage more employees to return to office spaces.[76] Inflation-adjusted retail sales in 2024 were among the strongest of the past decade.[77] It is also positive that despite increased uncertainty, buy/sell transactions were still being carried out in the CRE market in 2024 – in both the logistics and retail segments.

In the office segment, the vacancy rate has decreased. Although the office vacancy rate remains higher in Bratislava than in the capital cities of other central European EU countries,[78] it gradually decreased during 2024 (from 14.2% to 12.6%). This trend largely reflected property developers' decisions to significantly limit the release of office space onto the market. Far less office space came onto the market in 2024 than in previous years, and the recent period has seen some property developers postpone the completion of new office developments. This downtrend, moreover, differed across building quality categories: the vacancy rate fell most sharply in the A/A+ category – for which demand is highest – while it increased in the C category.[79] Rental income is also expected to benefit in the coming period from an appreciable acceleration in rental prices per square metre. Rental contracts are gradually being renegotiated, with new rental prices reflecting the impact of higher inflation.[80]

Chart 16
Vacancy rate and rental price
Office vacancy rate and year-on-year growth in the rental price per square metre (percentages)



Source: Cushman & Wakefield.

---

76 This trend primarily concerns large corporates.

77 According to the Statistical Office of the Slovak Republic, this result was largely driven by 4% growth in revenues of hypermarkets and supermarkets, representing this retail segment's third-best result of the past 12 years. Revenue growth of 4% to 6% was also recorded by textile and footwear retailers, chemists and pharmacies, as well as DIY, furniture, and consumer electronics shops.

78 'Central European EU countries' here means Slovakia, the Czech Republic, Austria, Hungary, and Poland.

79 Older property developments do not meet modern energy efficiency standards, which are crucial for many firms – due either to their own carbon reduction targets and preferences, or to concerns about potential carbon taxes. In addition, these properties incur higher operating costs.

80 A number of companies now prefer renegotiating existing rental contracts over relocating, as the costs related to moving and to adapting to new premises have risen quite sharply in the recent period.

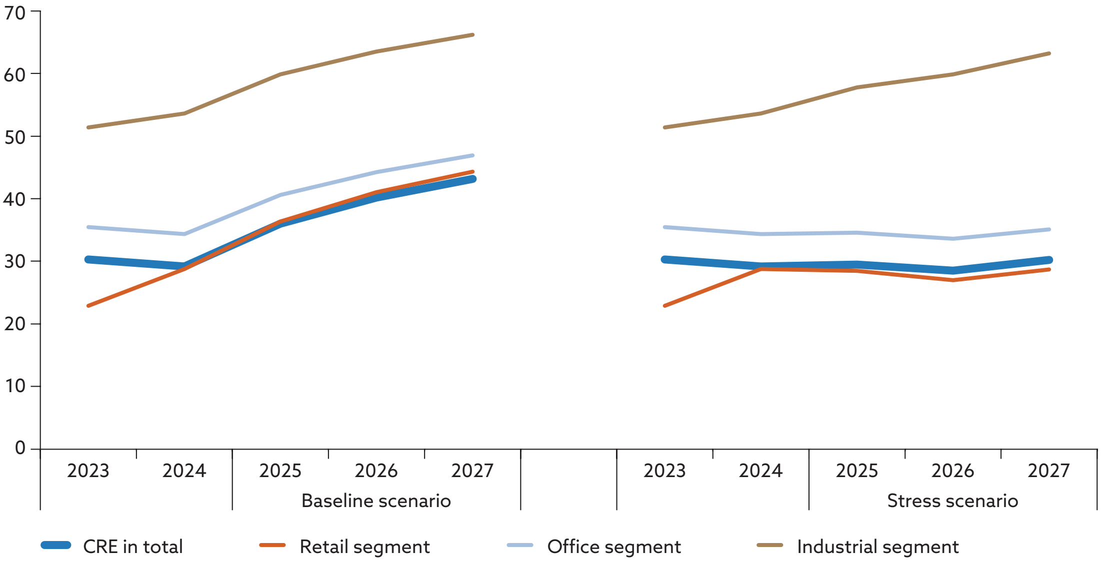
The financial situation of bank-financed CRE firms remained broadly stable in 2024. Although data for 2024 were available for less than half of the firms by the cut-off date,[81] they suggest that these firms' situation did not worsen further in 2024 after the adverse developments in 2023. Their gross margin remained roughly unchanged year-on-year (Chart 17), owing mainly to the gradual downturn in interest rates. Interest expenses, which had increased by more than half in 2023, did not rise significantly further.

No further deterioration is expected in the coming years either. In the baseline scenario, the situation could even improve gradually.[82] This is largely because the expected decline in interest rates will translate into an easing of the interest expense burden. Under the baseline scenario, the gross margin is estimated to increase gradually, both overall and in the most important individual segments. Even in the stress scenario, however, the margin is not envisaged to decline significantly. Although some decline in revenues on lower-quality property developments is assumed in this scenario, its impact is offset by the expected drop in interest rates.[83]

Chart 17

The situation in the CRE sector is not expected to deteriorate significantly further

Gross margin (percentages)



Sources: NBS, and FinStat.
Notes: The chart shows the average gross margin of individual firms, with the average being weighted by the firm's outstanding loan liabilities. The gross margin is calculated as the ratio of rental income less ordinary operating and interest costs to total rental income. The chart includes only firms for which 2024 data were available. It does not include developments under construction or developments that were certified for occupancy after 2021 and may therefore not yet be able to fully generate rental income.

---

81 The share of firms for which 2024 data were available was 46%, and it was not lower than 38% in any individual segment (office, retail, or industrial). The share of CRE loans to firms for which 2024 data were available was 33%.

82 Assumptions for the simulation of CRE loans at risk are described in Table 5 in the November 2024 Financial Stability Report.

83 The estimation of future developments is subject to a degree of uncertainty, as it is based on firms' financial statements as at the end of 2024, which, however, were only available for a portion of firms by the cut-off date.

4 Banking sector profitability and resilience

4.1 Bank resilience remains high

The bank levy led to a year-on-year drop in profit

Despite a 10% year-on-year decline in aggregate profit in 2024, banks in Slovakia remain in good shape. The banking sector made a net profit of €1.1 billion for 2024,[84] driven mainly by growth in net interest income and in net fee and commission income.[85] Savings in regulatory[86] and credit costs[87] also contributed positively to the overall result. However, the main negative pressure on profitability came from a new bank levy, which, together with corporate income tax, equated to nearly 40% of the sector's pre-tax profit.[88] This sharp rise in the tax and levy burden accentuated the domestic banking sector's underperformance relative to other national banking sectors in the EU.[89]

Developments in the first quarter suggest these trends are continuing. The sector's profit for the first quarter of 2025 increased by 9% year-on-year, owing mainly to 7% growth in net income from interest, fees and commissions. On the cost side, an increase in net provisioning was observed. Net profit growth was also supported by an overall 6% year-on-year drop in the tax and levy burden.[90]

---

84 The pre-tax profit of €1.76 billion was a historical high, exceeding the previous 2023 record by almost 15%.

85 Both items increased by 10% year-on-year. While the growth rate of net interest income has been slowing since its November 2023 peak (26%), the growth rate of net fee and commission income has been rising since then (it ended 2023 at 3%).

86 Banks regulatory costs fell by 54%, primarily due to the ending of the 'build-up' phase of the Single Resolution Fund in mid-2024.

87 Net provisioning decreased by 15% year-on-year in 2024. The more volume-intensive component – provisioning for balance sheet items – stood at just at €89 million, 30% lower compared with 2023. In absolute terms, this was the lowest level of provisioning since 2008 – almost 40% lower than the average level since 2017 (excluding the pandemic year of 2020).

88 The tax and levy charge on the sector's pre-tax profit was 17 pp higher in 2024 than in 2023, at 38%. The corporate income tax charge was lower than in the previous year as the tax base had been reduced by the bank levy payment.

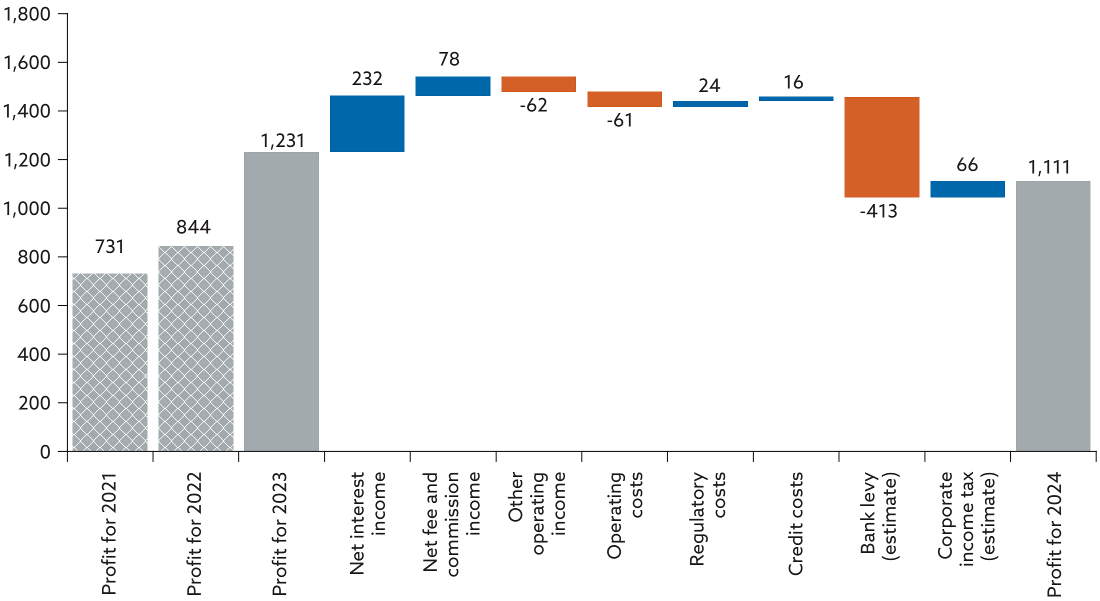
89 As of September 2024, the average annualised return on equity (ROE) of Slovak banks was 10% (11.6% in December 2023), while the median for EU countries was 13.7% (13.9%). The last quarter of 2024 saw a slight increase in domestic banks' ROE, which reached a preliminary figure of 10.2%.

90 The levy rate was set at 30% of pre-tax profits for 2024. It is to be reduced by 5 pp per year from 2025 until 2027 and then down to 4.4% from 2028 onwards. For banks with taxable income exceeding €5 million, the corporate income tax rate will rise from 21% to 24% in 2025.

Chart 18

Interest, fee and commission income mitigated the impact of the bank levy

Decomposition of the year-on-year change in the banking sector's profits (EUR millions)



Source: NBS.

Looking at the breakdown of net profitability by business segment,[91] **retail**[92] **business reclaimed its traditional leading position in 2024 after trailing the corporate segment in the previous year.** In general, corporate interest rates respond more sensitively to monetary policy changes than do rates for retail business. The ECB's progressive reduction of its key rates in 2024 resulted in banks' net income from the corporate segment falling slightly, after recording a sharp increase in 2023.[93] By contrast, net income from retail business grew strongly in 2024,[94] primarily due to the ongoing repricing of mortgages. This effect will continue having a positive impact on the banking sector's profitability in the period ahead.

The credit quality of loan portfolios remained stable in 2024. Non-performing loan–related indicators did not change significantly.[95] The NPL provisioning ratio declined slightly in the first quarter of 2025.[96] The volume of Stage 2 loans – i.e. loans that have experienced a significant increase in credit risk since initial recognition – rose sharply in 2024, while it has remained stable so far in 2025.[97]

---

91 A segment's net income is defined as the sum of net interest income and net fee and commission income, less net provisioning for that segment.

92 For the purpose of this report, the retail sector comprises households, sole traders and non-profit institutions serving mostly households.

93 Net corporate income fell by 4% in 2024, to €1.2 billion in 2024, after surging by almost 70% in 2023.

94 Net retail income increased by 24% in 2024, to €1.5 billion, after rising by 7% in 2023.

95 The volume of NPLs was the same in 2024 as in 2023 (€1.65 billion), accounting for 2% of the total portfolio. By the end of March 2025, it had risen to €1.75 billion.

96 The NPL provisioning ratio for 2024 was the same (57%) as for 2023. From August 2024 to March 2025, however, it fell from 60% to 57%, even dipping to 56% as of February 2025 (the ratio's lowest value since the introduction of IFRS 9 in 2018).

97 The volume of Stage 2 loans fell by 22% year-on-year in 2024, to €7 billion (before edging back up to €7.2 billion as of March 2025). The provisioning coverage ratio increased from 5.1% in December 2023 to 5.8% in December 2024, before dropping to 5.4% in March 2025.

Risks to the banking sector's profitability are rising, but the outlook remains favourable. Although current trends in banks' loan portfolios do not imply an immediate need for additional provisioning, growing uncertainty in global economic developments could quickly change this view. On the other hand, the phased reduction in the bank levy and the ongoing resetting of mortgage rates will continue to have a positive impact on profitability.

Net interest income is expected to continue growing, albeit at a slower pace

Net interest income is projected to continue growing in the coming years, although more slowly than previously. In 2023 net interest income growth was mainly driven by interest income from corporate loans, while in 2024 this position was gradually assumed by interest income from mortgages.

Continued growth in interest income will remain the principal source of net interest income growth in the years ahead. Interest rates on new or repriced mortgages are expected to remain higher than the average rate on the existing mortgage portfolio at least through 2025, thereby further boosting interest income on that portfolio. The recovery in mortgage lending growth will also contribute positively. From 2025 onwards, interest income on corporate loans is expected to gradually decline. Further growth in net interest income will also be supported by the falling cost of deposits amid the expected decline in interest rates. On the positive side for bank profitability, the share of term deposits has recently stabilised at a lower level than originally expected.[98] Given the environment of falling interest rates, that share is not expected to increase.

Although net interest income growth will continue, it will gradually slow. This is mainly because interest income from corporate loans will remain in decline in the coming years, reducing the positive impact of rising income from mortgages and falling deposit costs. Net interest income is unlikely to continue growing beyond 2026. As mortgage interest rates trend downwards, the growth in interest income from the mortgage portfolio will gradually come to a halt.

In the stress scenarios, the performance of net interest income over the next two years is estimated to be slightly worse than in the baseline scenario. In no scenario, however, is net interest income in 2027 lower than its 2024 level. Inflation developments are the main factor in the stress scenarios, affecting the movement of both short-term and long-term interest rates.

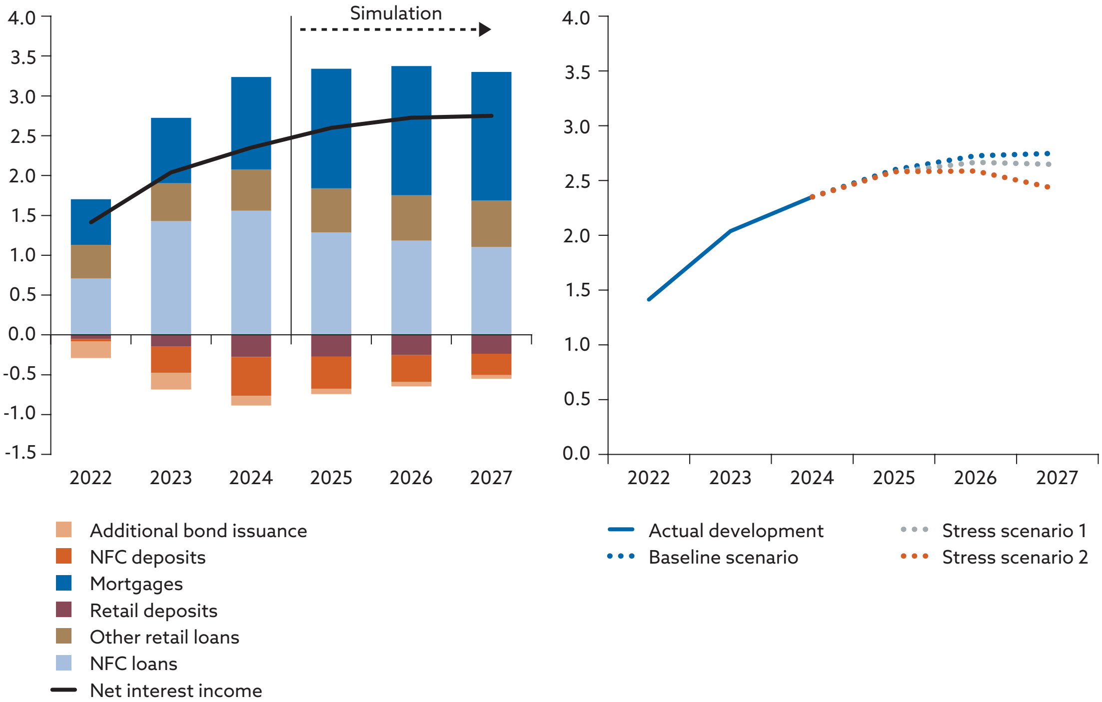
The first stress scenario assumes that inflation over the next two years will be higher than in the baseline scenario. Mortgage growth is slower, while the NFC loan portfolio temporarily contracts, before growing moderately in 2027. Total deposits record weaker growth. Interest rates, however, are slightly higher than in the baseline scenario, cancelling out the impact of more subdued lending. As a result, net interest income is estimated to be only slightly lower compared with the baseline.

---

[98] The share of time deposits is expected to remain stable at the current level, i.e. 29% for corporate deposits and 38% for retail deposits. The share of corporate time deposits peaked in September 2024, while the share of retail time deposits did so in July 2024.

In the second stress scenario, both inflation and interest rates are assumed to be lower than the baseline levels. Retail loan growth is similar to that in the first stress scenario. As the economy cools, however, the NFC loan portfolio contracts more sharply and over the whole simulation horizon. Net interest income is therefore estimated to decline, particularly in 2027.

Chart 19
Net interest income is estimated to grow more slowly or decline again in the stress scenarios
Left-hand panel: Estimated evolution of net interest income in the baseline scenario and its decomposition (EUR billions)
Right-hand panel: Actual and estimated evolution of net interest income in the baseline scenario and both stress scenarios (EUR billions)



Source: NBS.
Note: The chart shows only loan interest income and deposit interest expenses. 'Additional bond issuance' indicates the need for funding for new lending due to the expected widening of the gap between loans and deposits.

Capital adequacy appears to have peaked

Banks in Slovakia have sufficient capital, but its excess is declining. After reaching a post-2007 peak as of June 2024, the banking sector's total capital ratio on a consolidated basis then declined slightly, down to 19.8% as of December.[99] Since the minimum capital requirement was stable, the decline in the total capital ratio was fully

[99] The decline between end-June and end-December was 0.6 pp, accounted for by an increase in the amount of risk weighted assets (up by 2% or €0.9 billion) and a decrease in capital (down by 1% or €0.1 billion). The increase in RWAs was driven by portfolio growth of €1.4 billion, alongside a decrease in the average risk weight of credit exposures (down by 0.2 pp to 37.7%).

absorbed by the voluntary capital buffer.[100] As a result, domestic banks continued to somewhat underperform relative to peers across the EU.[101] The sector's leverage ratio on a consolidated basis was 7.95% at end-2024, down by 0.2 percentage point year-on-year. At the same time, banks continued to meet the minimum requirement for own funds and eligible liabilities (MREL). The sector's capital headroom – i.e. surplus of capital resources above all regulatory requirements, including MREL – remained just above €1.5 billion, (or 3.26% of risk-weighted assets) on a consolidated basis.

The capital resilience of Slovak banks is likely to continue gradually declining. The earnings retention rate was already lower in 2024 than the average for the period 2021–23,[102] and it is expected it to decrease further in 2025.[103] In addition, banks will feel the impact on their risk-weighted assets from the new capital rules under the EU banking package (CRR3/CRD6), which amends the Capital Requirements Regulation and Directive (CRR/CRD).[104]

4.2 Slovak banks withstand shocks in stress test simulations

Banks can cope even with larger shocks; their capacity to continue generating profit will be key

If current trends persist, banks are expected to maintain strong profitability – a prerequisite for managing risks. In this year's stress testing of the domestic banking sector, banks' resilience was assessed under three scenarios.[105] In the baseline scenario, the evolution of banks' solvency was analysed under the assumption that current trends continue against a backdrop of fragile economic growth.[106] The two stress scenarios were designed to answer the questions of how the banking sector would cope with potential shocks if banks' profits fell due to adverse economic developments and whether it would be able to absorb the resulting credit losses. The stress scenarios differ in the way in which the economic shock develops and in the path of inflation, while both of them assume a significant increase in the unemployment rate.[107]

In the baseline scenario, which assumes that current trends continue, banks maintain profits at close to present levels even in an environment of low economic growth. Their main source of profit is rising interest income, which, however, does not repeat

---

100 The weighted minimum capital requirement remained at 16% of risk-weighted assets – the sum of the Pillar 1 requirement (8%), macroprudential buffers (5.35%) and microprudential buffers (2.7%). The voluntary capital buffer decreased from 4.4% as of June 2024 to 3.8% as of December 2024.

101 As of September 2024, the total capital ratio of Slovak banks stood at 20.3%, while the EU median was 21.1%. At the end of 2023, the respective figures were 20.1% and 20.6%.

102 The earnings retention in 2024 was 32%; the weighted average for 2021–23 was 43%.

103 After taking into account the published decisions on the distribution of profits for 2024 (covering 90% of profits), the earnings retention rate is expected to be 24%.

104 For more information on the content of the banking package, see Chapter 4.4.

105 The stress test had a three-year horizon from 2025 to 2027.

106 The baseline scenario is based on the assumptions of the forecast presented in *Economic and Monetary Developments – Spring 2025*, Národná banka Slovenska.

107 The stress test scenarios are described in more detail in Box 1.

its rapid growth of recent years. Banks' net provisioning, which declined in 2024, is estimated to increase to more than two and half times its level of that year. Banks also benefit in the coming period from the statutory progressive reduction of the bank levy, although this effect will be partly offset by the newly introduced higher corporate income tax (CIT) rate.[108] Even though banks' profits dip in the first year of the baseline scenario, their solvency is not materially affected. The banking sector's profitability as measured by return on equity (ROE) is estimated to be 10.5% at the end of the simulation horizon. Banks' aggregate total capital ratio therefore remains close to historical highs, though with a slight decline later in the simulation.[109]

The stress testing also shows the banking sector coping with greater economic shocks. Banks benefit from their strong initial capital position and their profit-generating capacity. The adverse economic developments simulated in the stress scenarios lead to a significant cooling of credit demand. A more pronounced decline in interest income is assumed in the second stress scenario. Amid unfavourable economic conditions, loan defaults increase. The need for provisioning in response to elevated credit losses is similar in both scenarios, with net provisioning increasing to around six times its level of 2024. As a result of increased losses and deteriorating conditions, banks' profitability measured by ROE is estimated to fall by around one-third in the first year in both stress scenarios. In the first scenario, banks' ROE subsequently recovers to around three-quarters of its 2024 level, while in the second scenario, it remains subdued due to weakening income. Importantly, banks remain profitable in both scenarios. The downtrend in profitability affects the banking sector's total capital ratio, which drops in both scenarios by around 1.4 pp, to approximately 19%.

The decline in banks' financial performance during the simulated crisis stems mainly from increased losses on non-performing loans. The combination of an economic downturn and a marked deterioration in the labour market significantly reduces the capacity of bank customers to repay their loans. The size of banks' NPL losses is around six times higher compared with 2024. Losses on non-performing household loans account for a slightly higher share of the total.[110] In the case of losses on the household portfolio, non-performing mortgages account for the slightly higher share,[111] while non-performing consumer credit makes up the rest. As for losses on non-performing NFC loans, more than one-third of them are losses on loans to the CRE sector. On the positive side, banks are able to cope with the stress scenario losses, which are significant in historical terms.

---

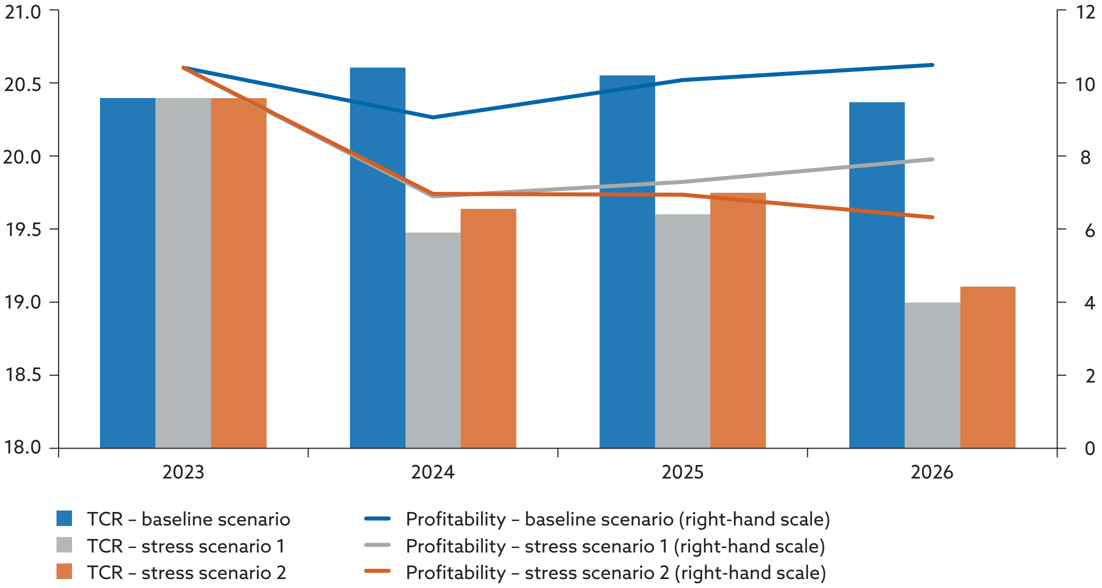
108 For corporates with taxable income exceeding €5 million, the CIT rate was raised from 21% to 24% as of January 2025.

109 The average total capital ratio on a solo basis rises by 0.2 pp in the first year of the scenario, to 20.6%, before gradually declining in the following two years, down to 20.4% in 2027.

110 Approximately 54.5% in the first stress scenario and over 52% in the second stress scenario.

111 Approximately 53%.

Chart 20
Despite deterioration in profitability and solvency, banks still withstand the adverse developments in the stress scenarios
(percentages of risk-weighted assets; percentages of own funds)



Source: NBS.
Note: Profitability is expressed through return on equity (ROE). The total capital ratio (TCR) also takes into account profits made in the given year.

4.3 Banks' structural liquidity has improved

Bank resilience close to record levels

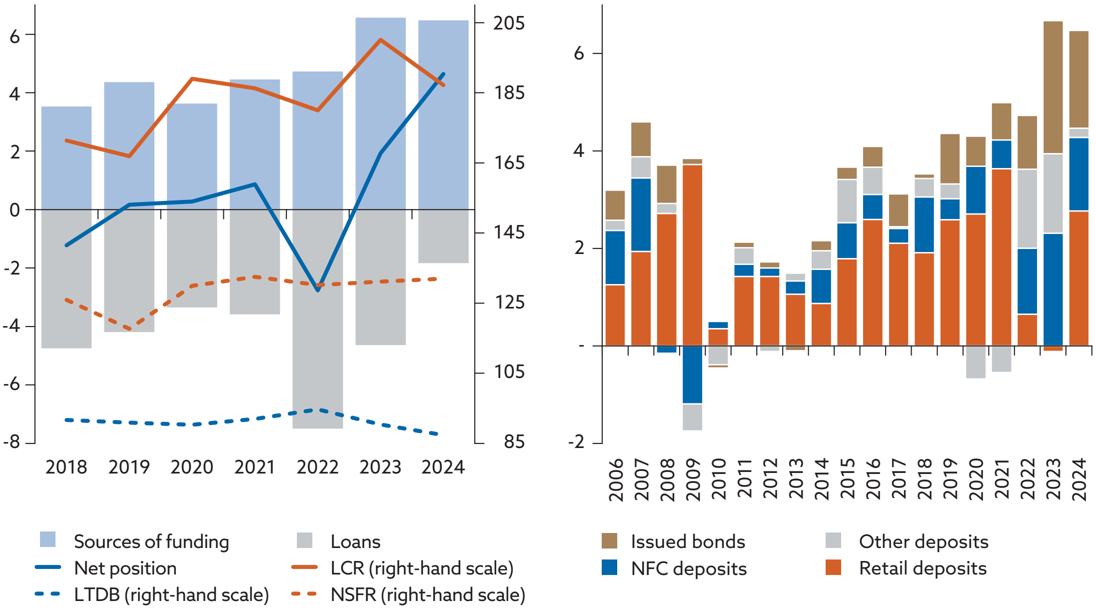
The potential for funding lending from stable sources has increased.[112] Lower lending activity,[113] as well as inflows of new funds, has contributed to a decline in the ratio of loans to deposits and issued bonds.[114] After two years of stagnation, retail deposits saw significant growth in 2024. Non-retail sources of funding recorded a third successive year of large growth, although they have less favourable stable funding factors, or outflows, and represent a greater source of refinancing and interest rate risk.

[112] As of December 2024, the excess of deposits and issued bonds over loans reached €12.2 billion, surpassing the end-2023 level (€8.8 billion) and approaching the 2005 peak (€12.6 billion). This excess as a share of the balance sheet total increased year-on-year from 7% to 10%.

[113] Annual growth in lending (measured by 12-month averages) was the lowest since April 2014.

[114] The ratio fell from 90% in December 2023 to 87% in December 2024, its lowest level since December 2016. The narrower loan-to-deposit (LTD) ratio ended 2024 at 102%, down by 3 pp year-on-year.

Chart 21
Growth in sources of funding outpaced growth in lending (left-hand panel), **primarily due to retail deposit inflows** (right-hand panel)
Left-hand panel: Year-on-year increase in funding sources and lending (EUR billions) and impact on liquidity ratios (percentages)
Right-hand panel: Decomposition of the year-on-year increase in funding sources (EUR billions)



Source: NBS.
Note: Increases in lending and sources of funding are calculated on the basis of 12-month averages of the respective items. Left-hand panel: 'Sources of funding' refers to the year-on-year change in deposits and issued bonds, and 'Net position' to the difference between the year-on-year increase in funding sources and loans; LCR stands for liquidity coverage ratio; NSFR stands for net stable funding ratio; and LTDB stands for ratio of loans to deposits and issued bonds. Right-hand panel: 'Other deposits' includes deposits of non-bank financial corporations, deposits of public sector entities, and deposits of non-residents.

The shift in banks' structural position has not been at the expense of their interest rate sensitivity. Since 2020, a divergence between the interest rate sensitivity of assets and liabilities has been observed on bank balance sheets.[115] A major factor has been the accumulation on bank balance sheets of non-retail deposits with higher interest rate sensitivity and a slowdown in the inflow of retail deposits. This overall picture is, however, greatly tempered by the impact of interest rate hedging derivatives.[116] Their importance rose significantly following the shift in expectations for ECB monetary policy before the end of 2021 and again after the policy easing in the second half of 2023.

Domestic banks comfortably met regulatory liquidity ratios in 2024. The sector's structural net stable funding ratio (NSFR) remained above 130% throughout the year,

---

115 The weighted average interest rate sensitivity of assets remained stable at around 850 days between 2020 and 2024. The weighted average interest rate sensitivity of liabilities fell from 900 days in 2020 to 750 days in 2024. The mismatch between the weighted average interest rate sensitivity of assets and liabilities – excluding the impact of interest rate derivatives – has steadily increased since 2022 (exceeding 110 days as of December 2024).

116 The amount of interest rate derivatives more than doubled between end-2020 and end-2024 (rising by 111%). Hedging of liabilities more than tripled (increasing by €7.4 billion), while hedging of assets rose by 75% (€5.3 billion). The mismatch between the weighted average interest rate sensitivity of assets and liabilities, after accounting for the impact of interest rate derivatives, has been decreasing since 2022 (reaching 80 days as of December 2024).

though that figure was slightly below the European median.[117] The liquidity coverage ratio (LCR) – a regulatory measure of short-term liquidity resilience – remained around 200% during the first half of 2024 but declined towards 180% in the second half.[118] One reason for the decline was domestic banks' gradual repayment of amounts borrowed under the ECB's third series of longer-term refinancing operations (TLTRO III), which banks had partly collateralised with their own covered bonds. Nevertheless, banks' overall liquidity capacity for covering deposit outflows has been remained stable for a long time.[119] Overall, the stressed net position of the banking sector over a one-year horizon improved in absolute terms in 2024,[120] almost doubling year-on-year to €5.6 billion as of December.

No liquidity management problems are expected in the period ahead. According to banks' financial plans, the annual increase in loans is expected to grow gradually but should remain balanced with the increase in deposits. Banks also envisage being less reliant on new funding from bond issuance. Their liquidity risk management may, however, be affected by structural changes that draw on their funding. Such changes may include an increase in the issuance of retail government bonds or, in the longer term, the introduction of a digital euro.[121] Individual banks will also be affected by the new financial transaction tax (FTT) and by the behaviour of the affected customers – the FTT payers. Because FTT payers are required to have a business account with a bank, some banks may see an inflow of new customers, while others may experience an outflow if they fail to offer competitive account terms. At the same time, some entrepreneurs may prefer cash transactions in order to reduce their tax burden, potentially reducing their bank account balances.

The first issuance of retail Slovak government bonds has not impaired the liquidity position of domestic banks. In March 2025 the Slovak government successfully issued a €0.5 billion bond for retail investors. This amount was equivalent to only 1.1% of all bank deposits held by households as of February 2025. Retail demand[122] for these bonds was strong, primarily due to attractive financial terms.[123]

---

117 The Slovak banking sector's NSFR was 130% as of March 2025, while the EU median was 140% as of September 2024 (vs 132% for Slovakia) and 140% as of December 2023 (vs 131% for Slovakia).

118 The sector's LCR was 185% as of March 2025 and 187% as of December 2024, while the EU median was 208% as of September 2024 (vs 178% for Slovakia) and 200% as of December 2023 (also 200% for Slovakia).

119 After mobilising their liquid asset reserves and drawing down liquidity against their own covered bonds, banks would have covered around 64% of customer deposits as of December 2024 (63% as of December 2023).

120 The banking sector's net position is the result of the amount of liquid assets increased by the gradual inflow of funds over a one-year horizon from loan repayments and other business, reduced by deposits maturing and bonds issued over the same one-year horizon, further reduced by a portion of the amount of non-maturing deposits. The stress scenario was based on applying outflow rates for non-maturing deposits and haircuts on the valuation of liquid assets, in line with the LCR calculation methodology.

121 For more information, see NBS Discussion Note No 141: "Bude digitálne euro pre naše banky výzvou?" (Will the digital euro be a challenge for our banks?) (in Slovak only).

122 A total of around 21,000 people invested in these bonds, with the highest interest coming from the over 65 age group. The average investment was nearly €23,000 and the median investment was €9,000.

123 The bonds have maturities of two and four years, with interest rates of 3% and 3.3% respectively. The interest yield on these bonds is exempt from personal income tax. The market yield of 'non-retail' Slovak bonds with comparable maturities was 60-70 bp lower as of early March 2025.

4.4 No change in the calibration of macroprudential policy instruments

Banking sector developments have not necessitated any change to the countercyclical capital buffer (CCyB) rate in the past year. After a two-year downturn phase – most evident in the credit and real estate markets – the financial cycle has been gradually picking up again since the summer of last year. On the positive side, the cycle's downward trend was not accompanied by a rise in credit costs, nor by a deterioration in the credit quality of the loan portfolio. Moreover, banks were still able to maintain profitability levels during that phase. The upturn phase has not so far given rise to an excessive build-up of cycle-related risks, while the private sector debt-to-GDP ratio has actually decreased over the past two years.

Currently, the main source of risk lies in heightened uncertainty associated with geopolitical risks and the potential outbreak of trade wars. The materialisation of these risks would have particularly adverse effects on small, open, and export-oriented economies such as Slovakia. Economic stagnation, coupled with rising prices, would have the potential both to reduce the already fragile demand for credit and to weaken some borrowers' debt servicing capacity. This could once again dampen the financial cycle, whose current upturn remains moderate, with recovery visible only in certain segments.

The highly uncertainty environment provides grounds for maintaining the CCyB rate at its current level. In times of heightened uncertainty, it is advisable to retain accumulated capital buffers as a safeguard against potential downturns. The results of the latest stress testing also confirm that the accumulated CCyB should be sufficient to cover the banks' credit losses in the simulated stress scenarios, leaving banks with sufficient capital headroom to sustain lending to the economy even in difficult times.

NBS has assessed the potential of a 'positive neutral' approach to the setting of the countercyclical capital buffer (CCyB)

The 'positive neutral CCyB' (PN CCyB) is a relatively new approach to setting the countercyclical capital buffer, whereby macroprudential authorities set a non-zero CCyB rate in the early phase of financial cycle expansion. This requires banks to start building up the buffer at a time when cycle-related risks have not yet started mounting. By pre-emptively setting a non-zero CCyB rate, macroprudential authorities[124] give themselves scope to respond to potential risks that may arise in any phase of the cycle and regardless of their nature (e.g. a pandemic). The main condition for applying a non-zero rate is a market environment in which losses are no longer occurring. Such a stance is highly beneficial for macroprudential authorities in countries where in the past it has been difficult to apply a non-zero CCyB rate – whether due to institutional, political, or data-related challenges.

---

124 At present, authorities in ten countries in the European Economic Area (EEA) have already committed to applying this approach, while in six other EEA countries, a similar approach is applied but is not referred to as a PN CCyB.

Národná banka Slovenska has solid experience in both building up and releasing the CCyB. Its track record in applying this tool in Slovakia over the past decade suggests it has been able to build up and release the CCyB in line with the financial cycle, thereby responding appropriately to evolving cyclical risks. In doing so, NBS has acted in accordance with the rules of the original CCyB framework. From this perspective, the PN CCyB does not offer new advantages in the Slovak environment. Moreover, its application entails new challenges. The PN CCyB approach blurs the direct relationship between the evolution of the financial cycle and this capital requirement; the CCyB takes on a more structural nature, becoming a stable capital requirement detached from financial cycle developments. This raises questions about the extent to which banks would be willing to use the capital headroom provided by the buffer's release if they were aware that the buffer would be reactivated in the early phase of a new, post-crisis expansion.

NBS will continue to analyse the PN CCyB and the experiences of countries that have applied it. Should the benefits of its application be deemed to outweigh the drawbacks, NBS will consider introducing it.

Implementation of Basel III standards into EU law completed

From January 2025, all EU banks are subject to the phased implementation of new capital rules.[125] The new EU banking package comprising amendments to the Capital Requirements Regulation and Directive (CRR3/CRD6) implements the finalised Basel III rules – the latest version of the Basel Framework – into EU law. All significant risk categories have undergone adjustments. A key feature of the revision is the introduction of an output floor. Conceptual changes include a more risk-sensitive approach to the measurement of credit risk and market risk, as well as a new and simplified operational risk framework.

The changes aim to allocate capital more precisely and to increase banks' resilience to future financial crises. The output floor is intended to gradually limit the potential underestimation of risks calculated using internal models, by setting a minimum level relative to the standardised approaches.[126] The most significant changes are in the area of credit risk. From the perspective of the domestic market, a key change is in the method of determining the risk weights of loans secured by real estate under the standardised approach. This will be more sensitive to the amount of collateral (the loan-to-value ratio), as well as to the economic substance of the transaction itself.[127] Other changes include a revision of exposure classes in both the standardised and advanced measurement approaches, the recalibration of off-balance sheet conversion factors, the revision of the input floors for both loss given default and probability of default parameters used in internal models, as well as the removal of the scaling factor

---

125 The implementation of individual provisions is being phased in until 2033.

126 The output floor sets a lower limit (floor) on the risk-weighted assets (output) calculated using internal models across all risk categories, requiring that they not fall below 72.5% of the RWAs calculated using the standardised approach. This floor will be phased in, starting at 50% in 2025 and increasing annually to reach 72.5% by 2030.

127 The calculation will take into account the type of property (residential vs commercial), as well as the nature of the exposure – whether it is an income-producing real estate (IPRE) exposure (e.g. rental property), a non-income-producing real estate (non-IPRE) exposure (e.g. an owner-occupied residential property), or a land acquisition, development and construction (ADC) exposure.

for the advanced measurement approach for credit risk. The changes in market risk measurement reflect lessons learned from practice, primarily from the 2008 financial crisis.[128] The simplification of operational risk measurement aims to increase the comparability of risk exposures across banks.

The new banking rules will slightly increase banks' capital requirements in the longer term. Based on the EBA's quantitative analysis, a more significant impact is expected for larger banks and for banks primarily focused on corporate lending.[129] The overall impact should, however, be substantially mitigated by the phased introduction of the new rules, the focus of domestic banks on retail business, and the fact that their average risk weights under internal ratings-based models are higher than those of their European peers.

---

[128] See *Fundamental Review of the Trading Book*, Bank for International Settlements, 2013.

[129] See *Basel III monitoring exercise results based on data as of 31 December 2023*, European Banking Authority, October 2024. The new rules, when fully implemented, will increase the minimum capital requirement by almost 8%. For retail-oriented banks, the impact is a significantly lower 3%.

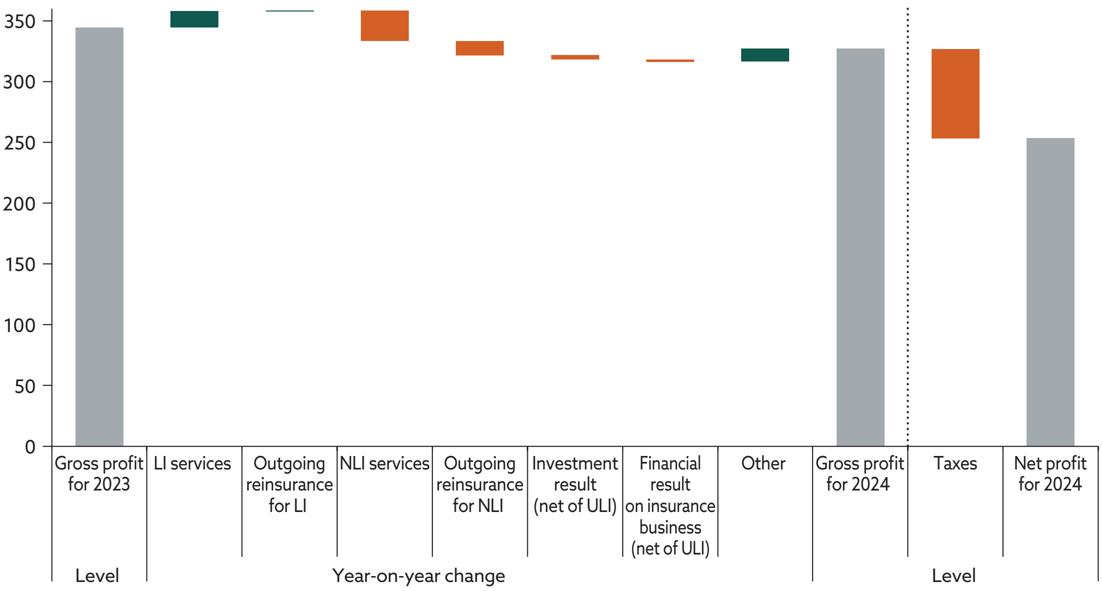
5 Other sectors

5.1 Insurers' profits tempered mainly by non-life business[130]

Profit growth slowdown primarily due to higher loss ratios

The Slovak insurance sector's aggregate pre-tax profit for 2024 fell by 5.1% year-on-year, while its net profit declined by 0.9%.[131] Domestic insurers and branches of insurers from other EU Member States showed divergent developments. While domestic insurers' gross profit fell by 12.1% year-on-year, branches recorded an 18.0% increase. Both ROA and ROE declined year-on-year.[132]

Chart 22
The decline in profit was due mainly to a higher non-life loss ratio
Decomposition of profit change (EUR millions)



Source: NBS.
Note: LI stands for life insurance; NLI stands for non-life insurance; ULI stands for unit-linked insurance.

130 The 2024 analysis covers data for the whole insurance sector, i.e. for both domestic insurers and branches of insurers from other EU Member States. Historical comparisons are only available for domestic insurers, which account for more than two-thirds of the premiums written in Slovakia. Data on the numbers of policies come from SLASPO members. As these data and the premium volume data are differently sourced and cover a slightly different set of entities, any comparison between them is only indicative.

131 The gross profit for 2024 was €327 million, while the net profit was €253 million.
The outturns for taxes and, by extension, net profit were significantly affected by the additional taxation of past revenues due to the transition to new accounting standards – IFRS 9 and IFRS 17 – in 2023. Entities are required to settle these tax liabilities in three equal annual tranches over the years 2023 to 2025, or sooner if they choose. The impact on individual entities is highly heterogeneous, not only in magnitude but also in sign – some entities incurred a tax liability, while others recognised a tax receivable.

132 The ROA for domestic insurers fell from 3.6% in 2023 to 3.2% in 2024, and the ROE dropped from 14.4% to 13.3%. In both cases, the denominator rose faster than the numerator.

The non-life result had the most significant negative impact on the annual change in gross profit, owing to an elevated loss ratio. By contrast, life insurance made a positive contribution.

The average Solvency Capital Requirement (SCR) coverage ratio of domestic insurers stood at 194% as of December 2024, around seven percentage points lower year-on-year and approximately back to its end-2022 level. On the positive side, the lowest SCR ratio among individual insurers increased. On the negative side, as a share of eligible own funds, expected profits included in future premiums (EPIFP) rose again year-on-year, to a historical high of 67%.[133]

Long-term trends continued across life insurance classes

Total written premiums in life insurance grew by 5.5% in 2024. In endowment life insurance,[134] premium volume continued its long-term decline, posting a year-on-year drop of 3.3%,[135] mainly due to developments among domestic insurers. In term life insurance, premium volume continued its upward trend, rising by 12.3%. Unit-linked life insurance saw an increase of 2.0% in 2024, with domestic insurers accounting for all of the growth and branches of EU insurers reporting a decline. The growth rate was slower year-on-year, owing to an increase in the surrender rate in this class. Premium volume in health-related life insurance grew by 13.4%, its lowest rate in three years. In this class, however, a certain degree of volatility is typical.

The ratio of total surrender payments to total surrender values in traditional life insurance declined in 2024, after remaining stable for the previous three years.[136] By contrast, surrenders in unit-linked insurance increased.[137] The proportion of life premiums ceded to reinsurance remains marginal, amounting to 2.6% at the end of 2024.

Despite premium written growth, non-life insurance results deteriorated

Total premiums written in non-life insurance increased by 10.0% in 2024. The growth was supported by all three major non-life classes: comprehensive motor insurance,

---

133 Thus, in 2024, the shadow SCR (i.e. with EPIFP reclassified as Tier 3 own funds) was below 100% for a third consecutive year and continued to decline, reaching 80%.

134 Unlike in past editions of the Financial Stability Report, traditional life insurance is now divided into two categories, as follows:
- **endowment life insurance**, which pays out a lump sum either on maturity of the policy or death of the policyholder (this class accounts for 54% of the premiums written in traditional life insurance as previously reported),
- **term life insurance**, which pays out if the policyholder dies during the term of the policy (excluding insurance with a survival benefit) or suffers permanent disability from an accident (46% of the premiums written in traditional life insurance as previously reported).

135 The figure is adjusted to exclude annuity purchases under the second pension pillar, which represent single-premium insurance.

136 The ratio of total surrender payments to total surrender values in traditional life insurance was around 9.0% in 2021–2023, declining to 7.4% in 2024.
This ratio better expresses incidence than does the ratio of total surrender payments to total premiums written, since it eliminates the impact of rising surrender values under individual policies.

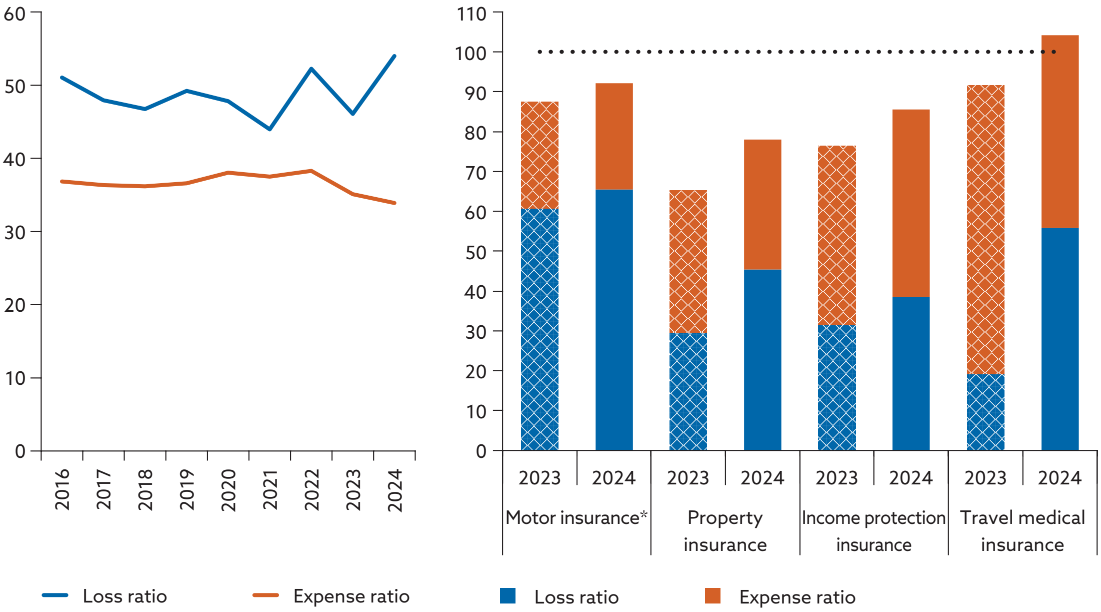
137 The ratio of total surrender payments to total surrender values in unit-linked insurance averaged 9.0% in 2021–2023, rising to 11.6% in 2024.

motor third party liability (MTPL) insurance, and property insurance.[138] In all three classes, the 2024 premium volume growth was the highest in at least eight years, owing mainly to an increase in the average premium per policy.[139] This likely stemmed from an increase in loss ratios due to a higher number of claims.[140]

Chart 23

The loss ratio in non-life insurance reached a record high in 2024, while the expense ratio hit an all-time low

Left-hand panel: Non-life loss ratio and non-life expense ratio - gross (percentages)
Right-hand panel: Loss and expense ratios of selected insurance classes - gross (percentages)



Source: NBS.
Note: The gross ratio expresses values without adjusting for the proportion of premiums ceded to reinsurers; it is available only for domestic insurers.
* The expense ratio in motor insurance includes the contribution to the Slovak Insurers' Bureau under MTPL insurance. The data are adjusted for individual changes.

The combined ratio for non-life insurance as a whole (gross value – available only for domestic insurers) **increased during 2024 from 81.2% to 87.9%,**[141] the second-highest level on record.[142] This increase was driven by increased loss ratios in multiple

[138] Premiums written increased by 13.2% in comprehensive motor insurance, by 10.0% in MTPL insurance, and by 11.3% in property insurance.

[139] SLASPO data indicate that the increase in the number of policies (3.1%) was significantly lower than the growth in premiums written. In the case of MTPL insurance, the year-on-year change in the number of policies was actually negative (-1.4%).

[140] According to SLASPO data. On the other hand, the average claim amount remained virtually unchanged compared with the previous two years. Inflation, however, may have a gradual impact on claims paid and consequently on the cost of premiums.

[141] A combined ratio (gross) exceeding 100% was recorded for each of the following three insurance classes in 2024: income protection insurance, travel medical insurance, and legal expenses insurance. These classes account for more than 12% of non-life premiums written.
The combined ratio for MTPL insurance also exceeded 100%, even excluding the contribution to the Slovak Insurers' Bureau. For motor insurance as a whole – i.e. MTPL insurance together with comprehensive motor insurance – the combined ratio was below 100%.

[142] The combined ratio for total non-life business peaked in 2022 (90.1%), while its historical average stands at 85.0%.

classes.[143] The resulting impact on the non-life result was partially offset by reinsurers, whose share of costs increased, albeit only to the level of the long-term average.[144]

On the other hand, the expense ratio declined, thus moderating the combined ratio's overall level. Part of the change in this ratio was, however, due not to real savings, but only to the reclassification of costs from the non-life sector to 'non-allocable costs'.

In MTPL insurance, the high share of uninsured vehicles in Slovakia compared with other EU countries remains a risk.

Insurers' returns on investment portfolios increased

The recent period of higher interest rates helped insurers boost their interest income. The average return on their investment portfolios rose from 2.5% for the period 2021–2023, to 3.2% in 2024.[145] Insurers have been increasing their investments in government bonds, whose share in the sector's asset portfolio has risen by 40.3%, to 45.9%, over the past two years.[146] We expect that insurers will maintain a favourable return on investment even in a scenario of falling rates, as reinvestment risk is relatively low.[147]

5.2 Non-bank sectors grew through both new customer inflows and positive investment performance

Rapid growth in assets under management was slowed by the recent correction in financial markets

Developments in the amount of assets under management (AUM) in Slovakia's investment fund sector and in the second and third pillars of its pension system over the past year and a quarter can be rightly described as 'dynamic'. In all three sectors, funds' net asset value (NAV) rose at a record pace throughout 2024 and in January 2025, with their aggregate NAV surging by more than €6 billion over this period, to more than €33 billion. This growth was driven mainly by the high appreciation of financial assets – particularly equities – across portfolios. From February 2025 to the early part of April, however, the three sectors experienced an unprecedented decline in NAV, this time due to market repricing in the opposite direction. In a short space of time, the overall market value of funds' assets fell by more than €3 billion, with most of that decline occurring during three trading days at the beginning of April. The aggregate NAV fell back nearly

143 In motor insurance, the loss ratio rose to 65% in 2024, marking a return to pre-pandemic levels. In property insurance, the loss ratio of 45% was the second-highest on record. In travel medical insurance and income protection insurance, the loss ratios also increased.

144 The proportion of premiums ceded to reinsurers remained in line with the long-term trend. For the non-life sector as a whole (including branches of insurers from other EU Member States), the proportion of premiums ceded was 26.4% and the proportion of claims ceded was 27.0%.

145 Investment income is reported for eight out of the nine domestic insurance companies, accounting for 85% of the total premiums written by domestic insurers in life insurance.

146 Slovak government bonds remain the mainstay of insurers' government bond investments (making up 54% of the asset portfolio), followed some way behind by French and Luxembourg government bonds. By contrast, the share of corporate bonds has been falling, down to 32% at the end of 2024.

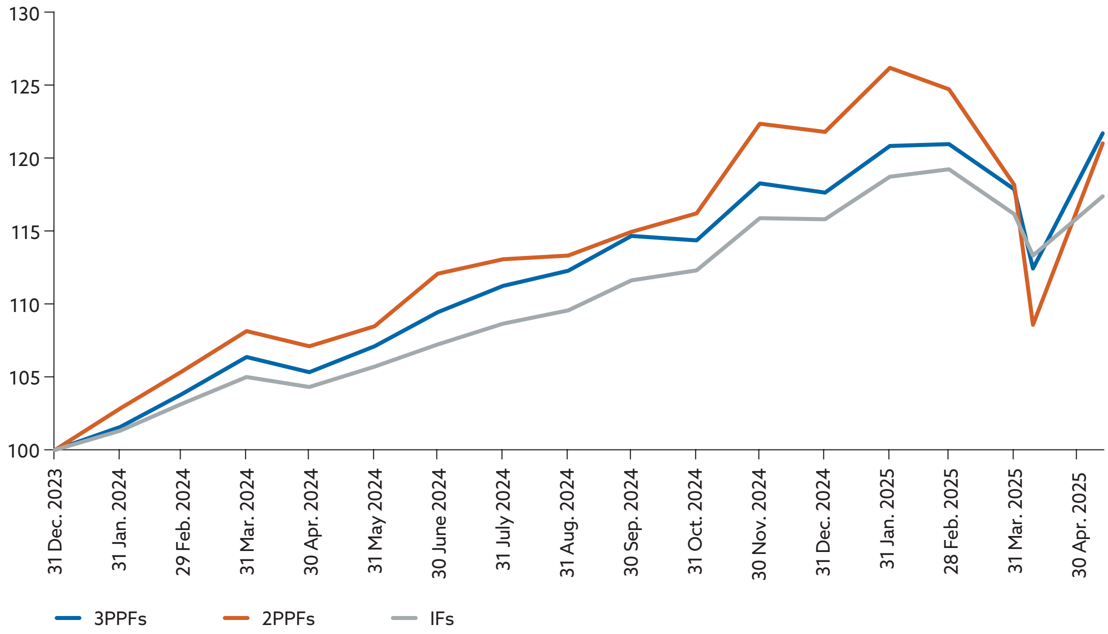
147 In 2025, 12% of the portfolio is due to mature, and in 2026, 19%. In the following two years, almost no bonds will mature, but in 2029, an additional 14% will do so.

to its mid-2024 level, before a market recovery resulted in a reversal of much of the previous decline. As of 12 May 2025, all three sectors reported solid NAV growth for the period since the beginning of 2024 – 21% in the second pension pillar, 22% in the third pension pillar, and 17% in the investment fund sector – thanks to, approximately equally, steady customer inflows and the performance of funds' assets.[148]

Chart 24

After a strong growth period, funds' performance – and therefore NAV – experienced volatility in early 2025

NAV indices in individual sectors (31 December 2023 = 100)



Sources: NBS, and own calculations.
Notes: NAV stands for net asset value; 3PPFs stands for third-pillar pension funds; 2PPFs stands for second-pillar pension funds; IFs stands for investment funds. Data are updated as of 12 May 2025.

Although the NAV declines in many funds from late February to early April appeared alarming, they should also be viewed in the broader context of previous above-average returns. The past 20 years have seen several other comparable – or even more severe – financial market downturns. The fact that none of them caused as large an absolute decline in asset value in the domestic non-bank sector as the recent one is a natural consequence of the sector's growth and its increasing shift towards equity investments – a trend that continued to intensify during the period under review. It is also important to recognise that the recent losses were accounting-based, so unless management companies sell financial instruments at current depressed prices, these negative revaluations will not be materialised.

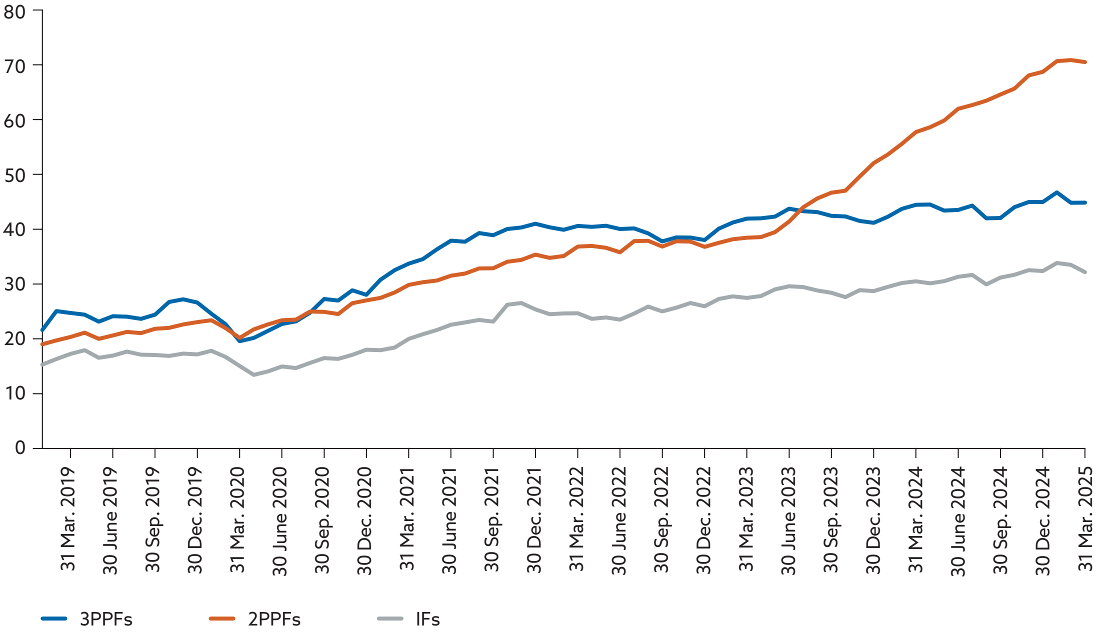
The equity component in sector portfolios continued to grow in importance

Most of the total increase in assets under management during the period under review came from funds in which equity investments dominate the portfolio. Index funds in

148 The average nominal return on assets for the period from 1 January 2024 to 12 May 2025 was 12% in second-pillar pension funds, 11% in third-pillar pension funds, and 9% in domestic investment funds.

both the second and third pension pillars posted by far the largest NAV growth – as high as 60%. At the same time, in terms of asset volume and current pension-point value, these funds proved the most volatile, being the most sensitive to significant equity market movements. In both sectors, asset accumulation in index funds was not only based on new regular contributions, but also supported by transfers from other types of funds. The second pension pillar continued to see an extensive transfer of savers' assets to index pension funds under the statutory transition to what is known as the default investment strategy. As a result, index funds have assumed the leading position among second pillar funds, now accounting for around two-thirds of all pension savings in the sector. By contrast, second-pillar bond funds experienced asset outflows, and their market share declined towards a quarter. In the third pension pillar, the concentration of investments in riskier, growth-oriented funds resulted in the growth of such funds (even excluding index funds), while demand for alternative, more conservative funds stagnated.

Chart 25
Rising share of equity investments in pension fund and investment fund portfolios
Share of equity component in the total NAV by sector (percentages)



Source: NBS.
Note: NAV stands for net asset value; 3PPFs stands for third-pillar pension funds; 2PPFs stands for second-pillar pension funds; IFs stands for investment funds.

In the investment fund sector as well, investors have continued to favour equity investment funds, which accounted for more than half of all net issuances in the sector over the past year and a quarter – these totalled around €1 billion. Real estate investment funds maintained consistently strong demand. Moreover, after experiencing a brief and uncharacteristic episode of negative average returns in early 2024, these funds returned to a positive performance trend. Bond investment funds also recorded net issuances, with demand focused on funds specialising in debt instruments with relatively short maturities. Although mixed investment funds reported net redemptions for the period as a whole, the outflows gradually eased and, as demand for these funds moderately recovered, were replaced by net inflows in late 2024. The investor base of the domestic investment fund sector again proved to be stable. Despite turmoil in financial markets, which in places translated into significant negative returns in the short term, investors were not panicked into selling their holdings. Even during the most turbulent week in early April, there were only marginal net redemptions at the sectoral level, and these were soon followed by a return to net issuances.

In equity and mixed investment funds, the recent period[149] has been marked by increases in the equity (and in some cases, commodity) component of the asset portfolio. At the same time, the share of bonds has decreased. These trends have further reinforced the overall trend of growing equity exposure in non-banks. Importantly, from a risk perspective, the composition of these equity positions is heavily skewed towards US firms – owing both to management companies' direct preference and to the disproportionately high weight of US equities in global indices.[150] It should be further noted that this US exposure is highly concentrated in a small number of large-cap, predominantly big tech, companies. Since these investments are typically denominated in US dollars, they are also associated with the issue of foreign exchange risk. Although the share of US dollar-denominated assets in investment funds' portfolios has not risen materially in the recent period, the size of these foreign exchange positions is not negligible, particularly in certain entities. Given the macroeconomic situation, and as recent developments have indicated, a weakening of the USD/EUR exchange rate remains a realistic possibility.

In the case of bond-oriented funds, a common shift in their asset structure has been observed. A proportion of bank deposit assets has been reinvested in additional debt securities. Furthermore, bond portfolios across sectors have seen an increase in their residual maturity and duration, reversing the previous trend decline in these parameters. This shift dates back to early 2024 and appears to be related to the anticipation and eventual implementation of monetary policy easing.

The leverage effect, considered a significant risk factor for investment funds in the European context, has remained at a minimal level for domestic funds. Similarly, the interconnectedness of domestic investment funds with other financial institutions is limited and therefore should not contribute to the transmission of shocks or systemic risk. The share of liquid assets in real estate investment funds has increased slightly. A notable development in the domestic investment fund sector has been the ongoing increase in asset concentration across a few of the largest funds.

The investment firm sector has also seen rising activity

The volume of Slovak non-financial customers' assets under the management of investment firms, banks, and foreign bank branches increased by €3.7 billion between the beginning of 2024 and the end of the first quarter of 2025 – by more than a quarter of the initial value.[151] The growth, which accelerated compared with the previous period, was driven mainly by equity securities, as they accounted for €2.8 billion of the fifteen-month rise. The strongest increase in customer demand was for shares/units issued by domestic and foreign investment funds. The amount of debt securities under management in the sector also increased, primarily through

149 Whereas NAV and performance data were available up to 12 May 2025 by the cut-off data for this report, information on portfolios' structural characteristics was available only up to the end of March.

150 Major equity indices serve as the underlying for ETF instruments widely held by domestic funds.

151 The analysis for investment services and investment activities focuses on customer assets which entities of investment firms, banks, and foreign bank branches manage on behalf of Slovak customers.

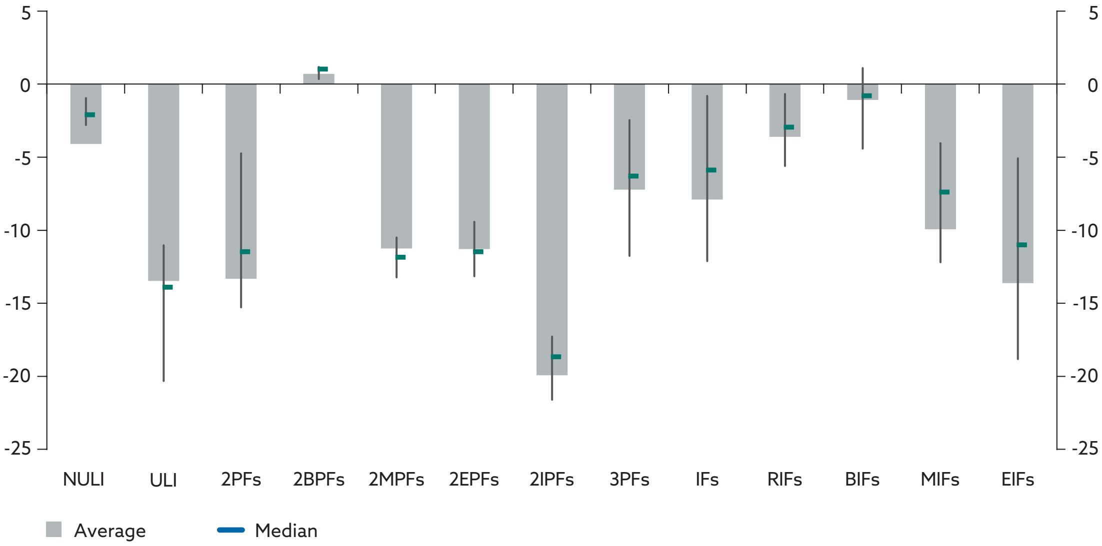
issues from Slovak issuers of securities and, to a lesser extent, through investment certificates issued by Austrian banks. Slovak households, which dominate the customer base, accounted for a substantial share of the overall asset increase over the period. The value of customer assets covered by portfolio management services also maintained its upward trend. However, the majority of customer assets were purchased on customers' instructions. As for assets covered by the investment service of safekeeping and administration of financial instruments, three-quarters were held by banks and foreign bank branches, with this share remaining unchanged over the period under review.

5.3 Stress testing of non-banks

Stress testing assessed non-banks' sensitivity to market shocks

Recent global events have clearly illustrated how suddenly and sharply sentiment in financial markets can shift – along with the valuation of the assets traded there. Within the Slovak financial sector, non-banks are the most exposed to the risk of heightened market volatility, as their balance sheets are largely composed of exchange-traded instruments measured at fair value. To map their sensitivity to market risk, the non-bank sectors were subjected to a stress test using a hypothetical stress scenario. This assumed a broad-based decline in equity prices, widening credit spreads on both sovereign and corporate bonds, and appreciation of the euro.

Chart 26
Index funds and equity-oriented funds showed the highest sensitivity to the stress scenario
Distribution of the change in asset value/NAV by type of institution/fund in the stress scenario (percentages of assets/NAV)



Sources: NBS, and own calculations.
Notes: The vertical lines denote the interquartile range. NULI stands for non-unit-linked insurance; ULI stands for unit-linked insurance; 2PFs stands for second-pillar pension funds; 2BPFs stands for second-pillar bond pension funds; 2MPFs stands for second-pillar mixed pension funds; 2EPFs stands for second-pillar equity pension funds; 2IPFs stands for second-pillar index pension funds; 3PFs stands for third-pillar pension funds; IFs stands for investment funds; RIFs stands for real estate investment funds; BIFs stands for bond investment funds; MIFs stands for mixed investment funds; EIFs stands for equity investment funds; NAV stands for net asset value.

The stress scenario has a more pronounced impact on funds with a higher proportion of equity investments. As expected, index pension funds are estimated to experience the largest decline in NAV – 20% on average – as their asset portfolios almost entirely comprise equity investments. They are followed by unit-linked insurance products and equity investment funds, both recording an average decline of 13.5%, though results among individual entities in each group vary considerably around the average. Equity and mixed funds in the second pension pillar typically see a drop of just over 10% in their pension-point value. Across third-pillar pension funds as a whole, asset value decreases by 7%. For most insurers (excluding unit-linked assets) and bond investment funds, the estimated losses do not exceed 5% of their NAV. The stress scenario had the smallest impact on second-pillar bond pension funds.

Insurers demonstrate sustained resilience to adverse shocks

The vast majority of insurers are able to cope with a combination of several adverse shocks without their Solvency Capital Requirement (SCR) coverage ratio falling below 100%. The sector was tested for an increase in the non-life loss ratio, a surge of surrenders in non-life insurance, and adverse developments in financial markets.[152] In the baseline scenario, the average SCR ratio is estimated to rise in each year of the simulation. In the stress scenario, it falls by 14 percentage points in the first year, to 170%, before starting to recover thereafter. In no insurer does the SCR ratio fall below 90%.

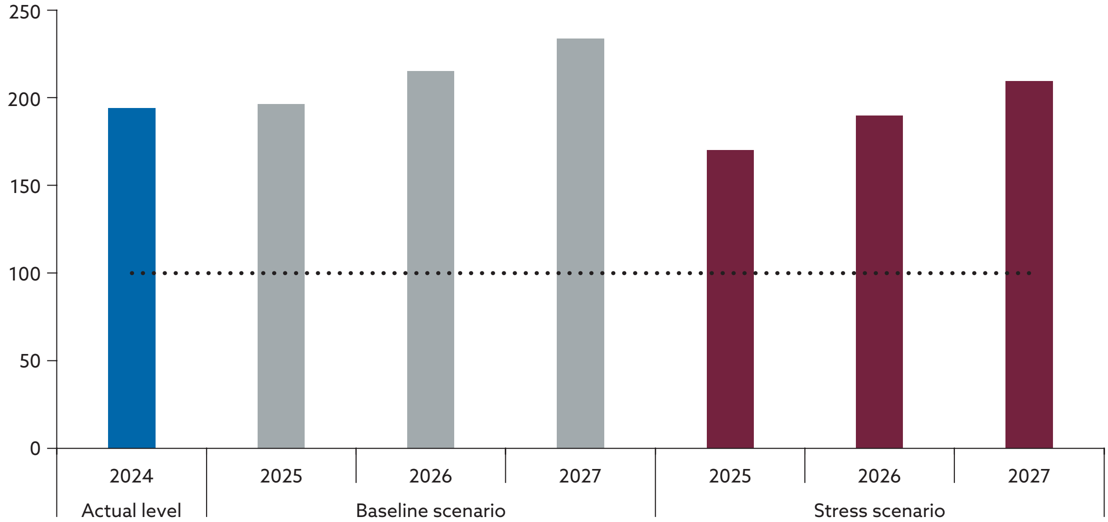
[152] In non-life insurance, the non-life loss ratio is assumed to increase in the first year of the three-year simulation horizon by 10 pp over insurers' long-term average ratio. The calibration roughly corresponds to a scenario where the loss ratio in each of the three main non-life insurance classes increases to the highest level observed since 2016. It is also assumed that the entirety of additional claims costs are borne by domestic insurers, with none of the costs being passed on to reinsurers.

In life insurance, one-off surrenders of 20% are assumed in the first year of the three-year simulation horizon. They are expressed as half of the gross SCR for mass surrender risk, which insurers' regularly calculate and report to NBS. The SCR is then reduced by the life insurance contracts surrendered, i.e. by 20% of the total life insurance underwriting risk.

Market risks are expressed by the repricing of investments in line with the scenarios applied in the banking and asset management sectors.

The reference value for annual profit for each year of the stress test period is the profit for the year preceding the stress test. This figure is subsequently adjusted for additional costs arising from non-life and life insurance, or from the repricing of investments. Where an insurer makes an annual profit, it is assumed that half of the profit will be distributed as dividends.

Chart 27
Average solvency coverage ratio remains well above the regulatory minimum even in the stress scenario
Average SCR coverage ratio for domestic insurers – actual level and estimates in baseline and stress scenarios (percentages)



Source: NBS.
Note: SCR stands for Solvency Capital Requirement.

Abbreviations

AUM	assets under management
AUROC	area under the receiving operating characteristic
bp	basis point(s)
ADC	acquisition, development and construction
CCyB	countercyclical capital buffer
CIT	corporate income tax
CRE	commercial real estate
CRR3/CRD6	EU banking package amending the Capital Requirements Regulation and Directive
DSTI	debt service-to-income (ratio)
DTI	debt-to-income (ratio)
EBA	European Banking Authority
EBIT	earnings before interest and tax
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EPIFP	expected profits included in future premiums
ETF	exchange-traded fund
EU	European Union
EURIBOR	euro interbank offered rate
FSAP	Financial Sector Assessment Program
FTT	financial transaction tax
FMD	foot-and-mouth disease
GDP	gross domestic product
IFRS	International Financial Reporting Standard(s)
IPRE	income-producing real estate
ICR	interest coverage ratio
IMF	International Monetary Fund
LCR	liquidity coverage ratio
LI	life insurance
LTD	loan-to-deposit (ratio)
LTV	loan-to-value (ratio)
LTDB	loans to deposits and issued bonds (ratio)
MREL	minimum requirement for own funds and eligible liabilities
MTF	medium-term forecast
MTPL	motor third party liability (insurance)
NAV	net asset value
NBS	Národná banka Slovenska
NFC	non-financial corporation
NLI	non-life insurance
NPL	non-performing loan
NSFR	net stable funding ratio
PD	probability of default
PN CCyB	positive neutral countercyclical capital buffer
pp	percentage point(s)
RBUZ	Register of Bank Loans and Guarantees / Register bankových úverov a záruk
ROA	return on assets

ROE	return on equity
RWA	risk-weighted asset
SAFE	Survey on the Access to Finance of Enterprises
SCR	Solvency Capital Requirement
SLASPO	Slovak Insurance Association / Slovenská asociácia poisťovní
SMEs	small and medium-sized enterprises
SO SR	Statistical Office of the Slovak Republic
TCR	total capital ratio
TLTRO	targeted longer-term refinancing operation
US	United States
ULI	unit-linked insurance
ÚPSVaR SR	Office of Labour, Social Affairs and Family of the Slovak Republic / Ústredie práce, sociálnych vecí a rodiny Slovenskej republiky
VAT	value added tax