Macroprudential Commentary

March 2025

Summary

- The financial cycle is showing a moderate upturn, but its recovery is gradual and not yet visible across all segments. While mortgage lending continues to grow and housing prices are rising, lending to non-financial corporations (NFCs) remains in decline.
- The total amount of mortgages is steadily increasing, partly owing to a decline in mortgage rates. Consumer credit is also maintaining stable growth.
- Even falling interest rates have not yet stemmed the year-on-year decline in total NFC loans. There has, however, been an annual improvement in lending to micro, small, and medium-sized firms.
- The most significant recovery is being seen in the housing market, where prices have been rising for almost a year, and the new-build segment is experiencing stable development. Housing affordability has not improved significantly and remains low.
- Banks' profits for 2024 were the first to be hit by the new bank levy. Nevertheless, banks managed to keep their profitability at healthy levels, mainly due to rising interest income. Banks' capital positions remain strong.

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No change in the CCyB rate

While the financial cycle has turned upwards, its recovery is fragile. The most significant drivers of its upturn are lending to households and the housing market. Gradually falling interest rates are supporting growth in both mortgage lending and consumer credit. Mortgage growth is also having an impact on the housing market, with property prices having risen by more than a tenth over the past year. By contrast, firms' demand for loans remains weak, owing to a climate of uncertainty and sluggish revenue growth. A stronger recovery in the financial sector has also been hindered by weakened economic sentiment, negatively affected by international developments and the ongoing fiscal consolidation effort.

The financial cycle is in an early upturn phase, without any increased build-up of cycle-related risks. Although some mortgages have become more sensitive to potential adverse shocks due to the resetting of interest rates at a higher levels and a slowdown in real wage growth, the overall credit quality of the mortgage portfolio has not deteriorated, and non-performing loan ratios remain low. The banking sector remains well capitalised and continues to generate profits despite the current environment. Recently, however, uncertainty has increased due to geopolitical tensions and risks related to trade wars, posing a risk to the economy and making future developments more unpredictable. At the same time, the European Central Bank (ECB) has called on euro area countries to maintain existing capital buffer requirements in view of the current heightened uncertainty.[1] Given these circumstances, Národná banka Slovenska is keeping the countercyclical capital buffer (CCyB) rate unchanged at 1.5%.

Expectations for the CCyB rate in the the next quarter

Národná banka Slovenska (NBS) does not foresee any need to adjust the countercyclical capital buffer rate in the next quarter

With interest rates gradually falling, economic growth expected to continue, and the credit market showing scope for stronger growth, the conditions are in place for the financial cycle to continue recovering in the coming quarters. Given, however, the increasing uncertainty in recent months as a result of geopolitical developments, the cycle upturn may be only gradual.

CCyB rate:
1.50%

[1] *Financial Stability Review*, ECB , November 2024.

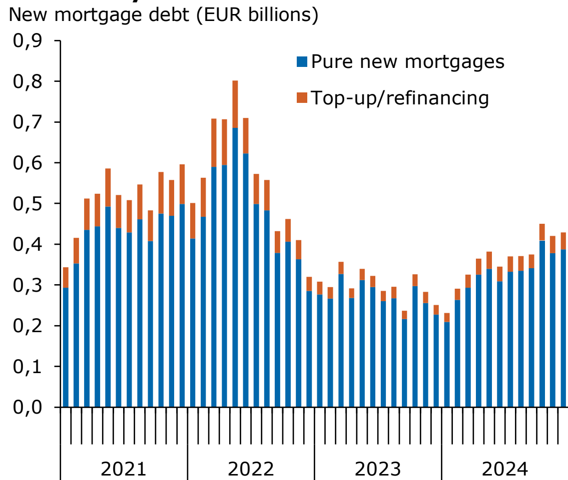
Mortgage market continues moderate recovery

The slow recovery in mortgage lending continued in the fourth quarter of 2024. Annual growth in total mortgage loans gradually increased from a low of 2.9% in July 2024, to 4.0% in December. The upturn in the second half of 2024 reflected an increase in both the average amount and number of newly originated mortgages. At the same time, the number of new mortgages remains around a fifth lower than the average level recorded in the period 2018–21. In January 2025, the uptrend was temporarily halted by a cyberattack that disrupted the provision of land registry services. According to preliminary data, the uptake of mortgages was around 40% lower in January than in the previous month, and the portfolio's annual growth rate temporarily dipped to 3.8%.

The recovery in the second half of 2024 was supported by the continued moderate decline in interest rates and by developments in the housing market. Mortgage rates fell from 4.6% in July 2024 to 4.0% in January 2025. Amid expectations that rates would fall further, there was increased demand for mortgages with shorter interest rate fixation periods.[2]

Chart 1 New mortgage lending strengthens moderately

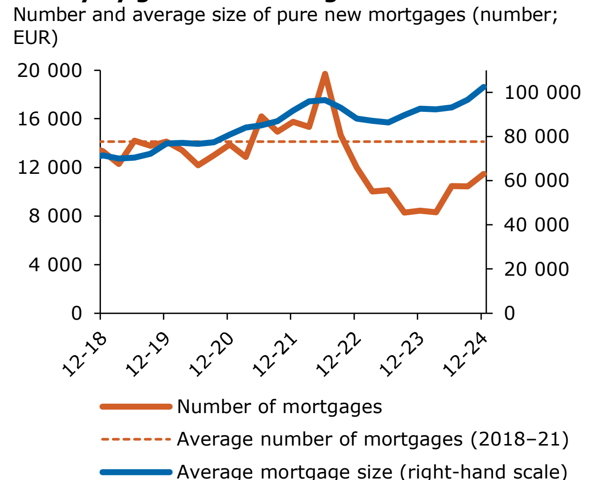
New mortgage debt (EUR billions)



Source: NBS

Chart 2 Mortgage origination recovery driven mainly by growth in average loan size

Number and average size of pure new mortgages (number; EUR)



Source: NBS

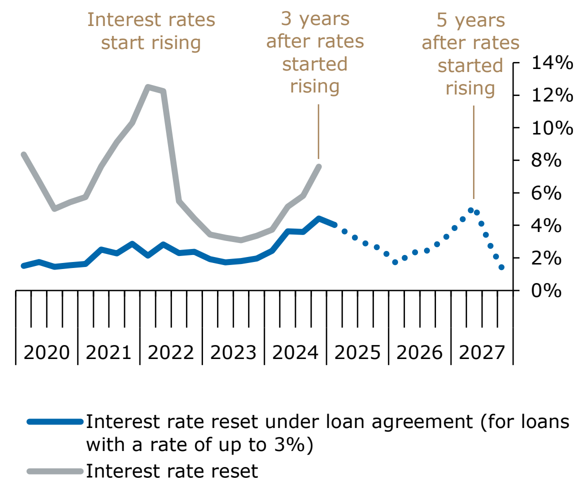
Consumer credit growth remains stable. Its year-on-year rate stood at 7.9% in January 2025, while the average interest rate on the portfolio remains at 9.7%.

The process of resetting interest rates on existing mortgages gathered pace in late 2024. It is expected to peak in the first quarter of 2025, given that the rates on more than a quarter of the total mortgage portfolio were reset in the first half of 2022 and that those mortgage borrowers who at that time opted for a three-year fixation are now facing another rate reset.

Despite rising mortgage payments, the credit quality of the mortgage portfolio is not deteriorating. Nor is there any sign of deterioration in the consumer credit portfolio. In the case of mortgages, however, the portfolio's sensitivity to potential negative shocks increased slightly in the second half of 2024 after previously declining. This stemmed from the acceleration of the mortgage rate reset process and the resulting increase in payments on an increasing share of existing mortgages. Another factor was real wage growth, which in the previous period had significantly mitigated the impact of rising loan payments but which slowed markedly in the second half of 2024.[3] So far, however, the increase in the portfolio's sensitivity has not translated into a higher non-performing loan ratio.

Chart 3 Upward repricing of mortgages accelerates in late 2024

Share of mortgage portfolio undergoing a rate reset in a given quarter (percentages)



Source: NBS

[2] 80% of all newly originated mortgages had an initial rate fixation period of three to four years. .

[3] Annual growth in real wages slowed from 4.6% in the second quarter of 2024 to 1.8% in the fourth quarter.

Lending to the corporate sector was subdued around the turn of the year

Annual growth in loans to non-financial corporations (NFCs) remained in negative territory in the fourth quarter of 2024. By the end of December, the corporate loan portfolio was 1.8 pp smaller than at the end of the previous year. The cumulative flow of NFC loans in the fourth quarter was negative. Although NFC loan growth accelerated sharply in January 2025, this was largely due to significant borrowing by certain large firms. Excluding this factor, credit growth remained subdued in early 2025.[4] In terms of NFC loan growth, Slovakia is lagging behind other EU countries.[5]

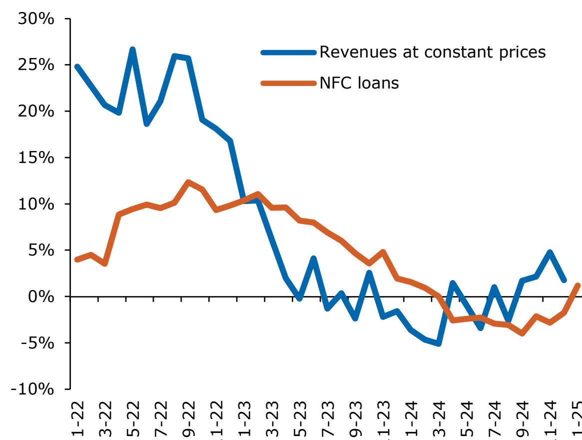
The constraints on corporate lending stem from firms' demand for loans. The subdued credit growth can be attributed to firms' weak appetite for borrowing. In the fourth quarter of 2024, banks reported a marked softening in demand for corporate loans, [6] both for working capital and for fixed investment. Corporate loan demand weakened more in Slovakia than in any other euro area country.

Credit growth is heterogeneous across the NFC sector. Total loans to micro firms are growing steadily, while lending to SMEs slowed in the fourth quarter of 2024, before improving slightly in January 2025.[7] Total lending to large firms[8] has been stagnating, and lending to the commercial real estate (CRE) sector has likewise remained subdued.[9] From a sectoral perspective, the strongest growth in NFC loans in the fourth quarter of 2024 was seen in the services and energy supply sectors. By contrast, lending to the industry, wholesale trade, and construction sectors was in negative territory.

Faced with a difficult economic situation as well as mounting uncertainty about future developments, firms are wary of further significant borrowing. While corporate revenues ended 2024 on a relatively positive note,[10] total revenues for the year were slightly (0.6%) lower compared with 2023. The sectors where revenues fell the most were industry, construction and wholesale trade. Moreover, January 2025 saw a decline in industrial production.[11] On the other hand, revenues in the services, retail trade and energy supply sectors experienced strong growth in 2024.

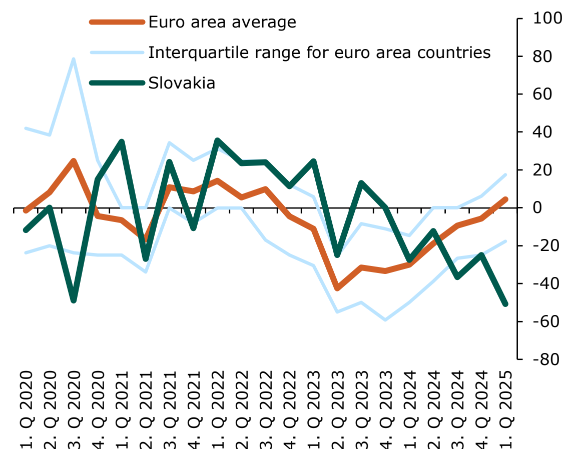
Borrowing costs are another limiting factor. Both firms and banks report the level of interest rates as a constraint on loan demand. [12] The average interest rate on new loans to NFCs was 5.3% as at January 2025. Although the rate was almost 1 pp below its peak of April 2024, Slovakia is still among the euro area countries with the highest financing costs.[13]

Chart 4 Subdued revenue growth dampens firms' borrowing appetite
Annual growth in corporate revenues and loans (percentages)



Source: NBS

Chart 5 Weak demand for loans weighs on credit growth in Slovakia
Evolution of demand for NFC loans in euro area countries (net percentage change)



Source: NBS

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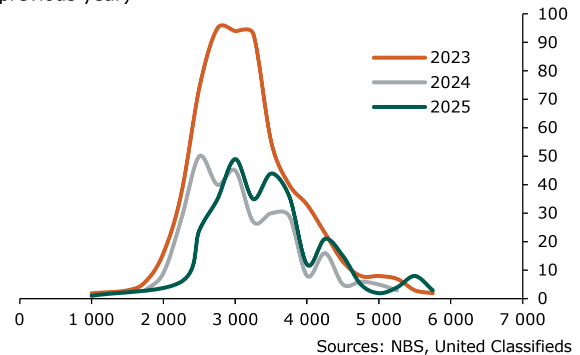
4 The flow of loans to micro firms and SMEs rose slightly in January. For a shift in the trend, however, such results would be necessary in subsequent months as well.
5 Slovakia ranks in the first quartile both among all EU countries and among central and eastern European EU countries.
6 *Bank lending survey*, fourth quarter of 2024.
7 Annual growth in total loans to SMEs slowed from 3% in September to 0.5% in December, before rising to 1.3% in January 2025.
8 Excluding borrowing by certain firms that are among the largest. While total lending to large firms did not decline further in the fourth quarter, it still fell by 9 pp in year-on-year terms.
9 The size of the CRE loan portfolio has not changed significantly for a year and a half, and the portfolio's annual growth rate remained slightly negative (at -1 %) in December 2024 and January 2025.
10 Revenues for the fourth quarter of 2024 were 3% higher year-on-year.
11 Industrial production fell in January by 5.2% year-on-year, with nine of the fifteen industries which contribute to that production recording a decline.
12 *Bank lending survey*, fourth quarter of 2024, and *Survey on the Access to Finance of Enterprises*, fourth quarter of 2024.
13 Slovakia ranks fourth highest after the three Baltic States.

Housing prices continue to rise

Since turning upwards in spring last year, housing prices have been gradually increasing. Compared with their low point in March 2024, asking prices for flats have risen by around 13%. Although housing price growth various between regions of Slovakia and market segments, the overall year-on-year increase is relatively broad-based. Prices of flats have increased quite sharply in the regional capitals. Prices of houses have also increased, albeit more moderately.

Chart 6 Supply of flats shows no significant recent change
(Average asking price for a flat in EUR/m2; number of flats advertised for sale in Bratislava as at February of the previous year)



Sources: NBS, United Classifieds

Demand for housing is being stoked mainly by a gradual decline in interest rates. In early 2025, real wages were adversely affected by some of the newly adopted consolidation measures. At the same time, however, gradually falling interest rates are reducing borrowers' debt servicing costs, and this, together with expectations that housing prices will rise further in the period ahead, is contributing to a rebound in demand for housing. An increasing proportion of mortgage borrowers are from older age groups, and many of these borrowers have had a previous mortgage.

The situation in the new-build housing market has not changed significantly over the past year. Although asking prices for new-build properties showed a year-on-year increase as at February 2025, the growth rate was only around one-third of that seen for existing properties. Selling prices in the new-build market increased even more slowly. The supply of new flats remains stable, with no significant shifts over the past year. Demand is currently strongest for two-room flats.

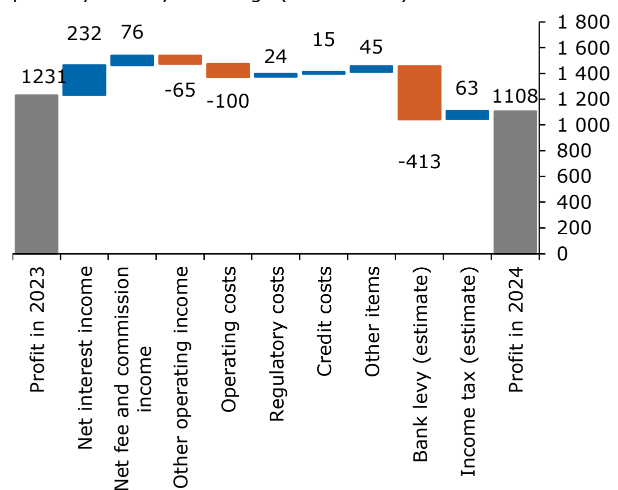
Declining interest rates and moderately rising real wages have not been enough to significantly improve housing affordability in recent months. Their impact has in fact been almost entirely cancelled out by rising housing prices. As a result, housing affordability has not improved significantly and remains well below previous levels.

Another good year for Slovak banks

Banks in Slovakia made an aggregate profit of €1.1 billion for 2024. Although their profit was 10% lower compared with the previous year, banks remain in good shape.[14] Each of the mainstays of domestic banks' profitability – interest income and fee and commission income – increased by a tenth, with their growth being particularly strong in the retail segment.[15] Loan loss provisioning developments also had a positive year-on-year impact on profitability.[16] On the other hand, banks' payments to the state budget increased by €350 million in 2024, owing mainly to the introduction of a bank levy.[17]

In 2025 banks are expected to benefit mainly from a decreasing bank levy rate.[18] However, there is likely to be a negative impact from a slowdown in net interest income growth and from the consequences of the fiscal consolidation effort (including, for example, a higher corporate income tax rate[19] and the introduction of a financial transaction tax).

Chart 7 Bank levy impact mitigated by rising income from interest, fees and commissions
The banking sector's net after-tax profit and contributions to the profit's year-on-year change (EUR millions)



Source: NBS

Note: The decomposition of the tax liability into the bank levy and income tax is estimated on the basis of a weighted average of the effective bank levy rate of selected banks as at September 2024.

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14 The sector's aggregate profit for 2024 before bank levy payments and income tax increased by 15% year-on-year, to €1.8 billion. Moreover, even banks' net profit, after deducting taxes and the bank levy, was significantly higher in 2024 than in the period before interest rates started rising (for example, banks' average annual net profit for the period 2018–2023 was €0.6 billion).

15 Net income from interest, fees and commissions from retail customers increased by 18% year-on-year, to stand at nearly 48% of total net income from interest, fees and commissions. (For the purpose of this report, the retail sector comprises households, sole traders and non-profit institutions serving mostly households.) The volume of such income from NFC customers fell by 1% year-on-year, bringing their share in the total down to 37%. Net income from activities where the counterparty is another bank surged by 135%. However, such income accounts for only 7.5% of total income from interest, fees and commissions.

16 Net provisioning amounted to €96 million in 2024, down by 14% year-on-year. Excluding provisioning for off-balance-sheet items, it declined by 28% to €90 million.

17 The banking sector's bank levy payments totalled €413 million. As the corporate income tax base decreased year-on-year, the sector's aggregate tax liability declined by €63 million. Overall, the effective rate of the tax and levy burden on domestic banks increased from 21.5% in 2023 to 38.3% in 2024.

18 The levy rate is reduced from 30% in 2024 to 25% in 2025.

19 In 2025 the income tax rate for legal persons with taxable income exceeding €5 million will rise from 21% to 24%.

Banks' credit risk assessments of their loan portfolios did not change significantly in 2024. The amount of non-performing loans (NPLs) was the same in 2024 as in the previous year,[20] while the provisioning ratio for these loans reached a new historical low.[21] On a positive note, the size of the Stage 2 portfolio (loans whose credit risk has increased significantly) decreased year-on-year, largely due to many Stage 2 loans returning to the higher quality Stage 1 portfolio.[22]

Banks' capitalisation did not constrain their lending to the real economy in the fourth quarter of 2024. As at the end of the year, the backing sector's total capital ratio on a consolidated basis stood at 19.8% and its leverage ratio was 8%.[23] A slight quarter-on-quarter decline in capital ratios stemmed mainly from an increase in risk-weighted assets (RWAs) amid a stable capital level.[24] The sector's capital headroom, after accounting for the minimum requirement for own funds and eligible liabilities (MREL), fell moderately compared with the third quarter, to 3.3% of RWAs.

Both the structural and short-term liquidity positions of the banking sector remain favourable. In both quarter-on-quarter and year-on-year terms, the structural net stable funding ratio (NFSR) remained almost unchanged in the fourth quarter of 2024, at 132%. The short-term liquidity coverage ratio (LCR) showed greater sensitivity to balance sheet changes, increasing by 10 pp quarter-on-quarter, to 187%, while declining by 13 pp year-on-year. The liquidity position in the last quarter was positively affected by seasonality in funding sources. More than half of the annual growth in deposits occurred in the last quarter. Since the increase in the amount of lending in that period was less than half of the amount of new deposits, the surplus of new funds boosted the sector's liquidity position and helped reduce the loan-to-deposit ratio.[25] Meanwhile, interbank funding increased, as certain foreign banks outside the euro area used their branches in Slovakia to access Eurosystem deposit facility operations.

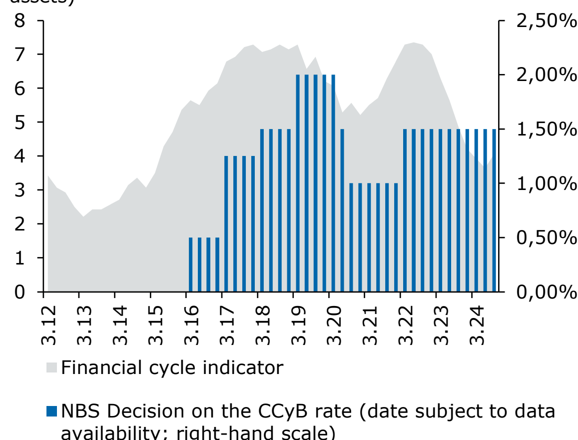
In terms resilience indicators, Slovak banks' underperformance vis-à-vis their European competitors has became more pronounced. The capital adequacy and liquidity ratios of Slovak banks declined in the third quarter of 2024, while the corresponding EU medians increased.[26] However, as regards profitability measured by return on equity (ROE), the gap narrowed slightly owing to a decline in European banks' profitability.[27]

Financial cycle in a moderate upturn

After a two-year downturn phase, the financial cycle has been gradually picking up since the summer of last year. However, its recovery is very slow and is not present in all segments. While stable growth can be seen in the household loan market and, particularly, in the housing market, lending to NFCs remained in decline in the last quarter of 2024. Another obstacle to a stronger cycle upturn is the weak level of economic sentiment – dampened by international developments and the ongoing fiscal consolidation effort. As a result, the pace at which NBS's indicator of the financial cycle has rebounded from its low point has been more moderate than was usual in previous expansionary phases. Hence, despite the upswing phase, the build-up of risks related to financial cycle developments remains subdued, nor does its level represent a significant issue for the banking sector.

Chart 8 Financial cycle recovering only gradually

(financial cycle indicator – index; percentages of risk-weighted assets)



Source: NBS

Note: Higher financial cyclical indicator values imply a strong build-up of imbalances.

The business cycle recovery is expected to remain only gradual in the period ahead. Moderate economic growth and the existing scope for further recovery of the credit market due to gradually falling interest rates are conducive to maintaining the cycle's upward trend. On the positive side, although the financial cycle has only recently rebounded from its local low point, the domestic banking sector's profitability remains healthy and non-performing loan ratios are still at low levels. Meanwhile, given the outlook for future developments, the financial cycle is not expected to overheat. Rather, its recovery could be held back by a potential expansion of US tariffs on Slovakia and its trading partners.

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20 The growth of the aggregate loan portfolio resulted in a marginal decline in the NPL ratio for the portfolio, to just below 2%.

21 The NPL provisioning rate fell from 58% in 2023 to 57% in 2024.

22 The Stage 2 portfolio decreased by almost €2 billion year-on-year, and its share in the aggregate portfolio of bank loans fell from 11% to 8.4%. As a result, the provisioning rate for these loans increased from 5.1% to 5.7%.

23 The total capital ratio declined by 24 basis points year-on-year and by 42 basis points compared with the previous quarter, while the leverage ratio increased by 38 bp year-on-year and 11 bp quarter-on-quarter.

24 RWAs increased by €1.1 billion in the fourth quarter of 2024, and by almost €2 billion over the year as a whole. Total capital increased by €35 million quarter-on-quarter in the fourth quarter of 2024, and by €313 million over the year.

25 The loan-to-deposit ratio reached 102.2% as at December 2024, representing a decline of 3.2 pp year-on-year and a decline of 2 pp quarter-on-quarter.

26 By the end of September 2024, the Slovak banking sector's aggregate total capital ratio stood at 20.3%, down by almost 0.2 pp compared with the end of June, while the EU median increased by 0.5 pp over the same period, to 21.1%. The Slovak banking sector's NSFR declined in the third quarter of 2024 by 2 pp quarter-on-quarter, to 132%, while the EU median increased by 3 pp to 140%. The aggregate LCR of Slovak banks fell by 25 pp in the third quarter of 2024, to 178%, while the EU median increased by 3 pp to 208%.

27 The ROE of the domestic banking sector remained unchanged over the three months to September 2024, while the EU median decreased from 14.1% to 13.7%.

What´s new in the world of macroprudential policy

Bank of England introduces new refinancing tool

At the end of January 2025 the Bank of England (BoE) launched a new repo tool to provide emergency liquidity to non-bank financial institutions, including insurance companies, pension schemes and liability driven investment funds.[28] The Contingent Non-Bank Financial Institution Repo Facility (CNFR) will be activated only during times of severe gilt market stress, lending cash directly to eligible non-bank institutions in return for gilts, of which they are required to hold more than GPB 2 billion. The purpose of this facility is to reduce the risk of market turmoil such as that which the UK gilt market experienced in 2022. As the BoE notes, compared with other ways of addressing severe gilt market dysfunction, collateralised lending presents less risk to public funds, lower moral hazard and reduces unintended spillovers from to monetary policy from financial stability interventions.

What caused the fire sale in the UK gilt market in 2022?

In a paper published by the Bank for International Settlements,[29] the authors use trade-level data to study price pressure effects in the UK gilt market from September to October 2022. During this period, forced sales by liability-driven investment funds (LDIs)[30] led to price discounts on the order of 10%, accounting for roughly half the total decline in gilt prices. Balance sheet segmentation and operational issues slowed equity injections into LDIs by well-capitalised pension investors, leading LDIs to instead sell gilts. This effect was most pronounced for pooled LDIs, which invest on behalf of multiple pension schemes, because of coordination problems between pensions. Hedge funds also appear to have delayed entry to time the bottom of the fire sale. Overall, the authors' findings illustrate how capital can be slow moving internally, due to contracting frictions, and externally, due to strategic arbitrager behaviour.

Why are some countries opting for a CBDC while others prefer a fast payment system?

This question is explored in a paper published by the Bank for International Settlements.[31] By September 2024, around 120 jurisdictions could make and/or receive fast payments through a domestic or regional fast payment system (FPS), while three central banks had launched a live retail central bank digital currency (CBDC) (in the Bahamas, Jamaica and Nigeria). CBDCs and FPSs share a number of similarities. Both allow for instant transactions for end users and can rely on underlying infrastructures operated by the central bank, thereby increasing efficiency and often also reducing users' transaction costs. The key difference is that retail CBDCs are a direct liability of the central bank – making them a form of central bank money (similar to cash) – and therefore retail CBDC balances are not subject to bankruptcy risks. By contrast, FPSs allow end users to transfer private money (e.g. commercial bank money or electronic money). Depending on the specific design and the availability of safeguards to underpin private money (such as deposit guarantee schemes), retail CBDCs may have different implications than FPSs in terms of disintermediation of private banks, e.g. in times of financial market stress or uncertainty. FPS adoption has generally been rapid (in Brazil, the FPS is now used by over 90% of adults in the country; in Thailand, 85%; and in India, as of March 2024, nearly 600 banks were live on the FPS, with more than 13 billion transactions carried out through it in a peak month). In the Bahamas, by contrast, only around 25% of the adult population were using the CBDC three years after its introduction, and in Nigeria, around 0.5% of the adult population were using the CBDC one year after its launch. Interviews with central banks in 14 jurisdictions around the world (at different stages of implementation of a retail CBDC and/or an FPS) show that around half of the interviewees see reasons for both issuing a retail CBDC and establishing an FPS in the same jurisdiction. As advantages of retail CBDCs, they mentioned programmable and offline payments and preserving a form of publicly issued money for the general public (avoiding currency substitution). There is thus potential to integrate the two systems in the future.

What role do intermediaries play in mortgage lending?

This issue is addressed in a paper recently published by the Bank of England.[32] Between 2013 and 2020, the proportion of UK mortgages that were sold by intermediaries to first-time buyers increased from 57% to 81%. The authors find that this increase in broker intermediation coincided with more households choosing mortgages with a short fixed term, due to brokers steering households towards these mortgages to increase fees from repeat business. Increased broker intermediation also enabled smaller lenders to reach more customers by geographically diversifying their mortgage portfolios, which gave smaller lenders the opportunity to specialise their mortgage portfolios, concentrating on long fixed-term and high LTV mortgages. This specialisation increased the market share of smaller lenders from 13% to 24% during the period under review.

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28 https://www.bankofengland.co.uk/news/2025/january/boe-open-new-contingent-non-bank-lending-facility-for-applications

29 Pinter, G., Siriwardane, E. and Walker, D., "Fire sales of safe assets", *BIS Working Papers*, No 1233, Bank for International Settlements, December 2024.

30 Liability-driven investment (LDI) funds are investment funds primarily designed for pension funds and institutional investors to manage their long-term liabilities. LDI funds invest in assets (such as government bonds, swaps and derivatives, mortgage-backed securities, and other instruments) that provider stable returns to cover future payments to pension savers.

31 Aurazo, J., Banka, H., Frost, J., Kosse, A. and Piveteau, T., "Central bank digital currencies and fast payment systems: rivals or partners?", *BIS Papers*, No 151, Bank for International Settlements, December 2024.

32 Buckmann, M. and Eccles, P., "The effect of mortgage brokers on banks' business models", *Staff Working Papers*, No 1,104, Bank of England, December 2024.