Overview

The financial system in Slovakia maintains stability despite uncertainty

The domestic financial system rests on solid foundations, but the surrounding environment continues to be a source of persistent risks. The global economy is experiencing a period of trade tensions, geopolitical uncertainty, and slowing growth. Although Slovak banks, firms, and households are entering this period from relatively strong positions, external developments and their impact on the financial sector warrant increased attention.

The external environment remains a source of uncertainty

The global economic environment has begun adjusting to the new reality in international trade relations. While the prospect of full-blown trade wars has eased significantly, US tariff increases are weighing on international trade. Their introduction has also intensified competition from China, which has sought to replace lost exports to US markets. In several industries, Europe has already started to lose global trade share to Chinese firms (Box 4). A key factor going forward will be the competitiveness of European firms.

Financial market imbalances persist. Several asset classes are trading at levels exceeding long-term fundamentals. Persistently low risk premia are increasing the likelihood of asset price corrections, potentially to the detriment of market stability and investor sentiment.

Domestic economic growth to continue slowing

The prolonged slowdown in Slovakia's economic growth is set to continue in the coming years, according to NBS's autumn 2025 medium-term forecast. This reflects the impact of not only external factors, but also recently adopted fiscal-tightening measures that are gradually dampening domestic demand. This deterioration is now visible in several areas. The labour market is starting to show the effects of weaker economic activity; growth in both corporate revenues and exports is slowing, and manufacturing output has been declining since the summer.

In an environment of heightened uncertainty, it is crucial to put public finances on a sustainable path. Healthy public finances are fundamental to investor confidence – both domestic and foreign – and create space to respond to any future shocks.

Ongoing growth in loans to households and firms

Mortgage growth has been gradually accelerating throughout 2025. The number of newly originated mortgages has returned to its long-term average, while the average mortgage amount has increased in line with housing price growth. In the medium term, mortgage growth may be dampened by weaker economic developments and a worsening financial situation for some households. Consumer credit origination remains stable.

Although housing affordability is still on the low side, the mortgage market has largely adapted (Box 2). This is important for housing acquisition, as younger age groups rely primarily on mortgages to purchase their own home (Box 3). As a result, mortgage lending can continue to grow even in an environment where housing affordability has been reduced by previous developments in housing prices and interest rates. The share of higher-income borrowers has increased, and borrowers have to a greater extent been using additional financing from other sources, such as savings. While lower-income households can still access the mortgage market, the parameters of loans to these borrowers have changed.

Housing price growth has remained in double digits this year, while slightly decelerating since May – thus reducing the risk of misalignment with economic fundamentals. Going forward, however, price developments may be affected by the worsened economic outlook. In the longer run, population ageing and internal migration in Slovakia may also affect the market by gradually reducing housing demand in some regions.

In the corporate sector, the recovery in lending seen at the start of 2025 was followed by a slowdown in loan growth towards the end of the summer. This development is largely in line with trends in revenues and output. Sectorally, the most pronounced slowdown occurred in lending to industrial firms.

The sensitivity of household and corporate loan portfolios remains elevated

The first half of 2025 saw favourable trends in the financial situation of households and firms. Real wage growth accelerated, and unemployment reached historically low levels. After two years of stagnation, corporate revenues also increased.

The situation worsened during the summer, particularly in industry – the sector most exposed to the deterioration in international trade, the strong euro, and growing competition from China. Firms' orders, production, revenues, and exports all declined. The unemployment rate increased slightly.

Households and firms face an uncertain period, but their current financial situation gives them a relatively strong footing. Corporate profitability is quite high by historical standards. For households, the key factor is the labour market, which, despite deteriorating slightly, remains robust. The solid financial position of households and firms is also evident from the absence of any significant rise in non-performing loan (NPL) ratios, with only a slight increase in the NPL ratio for consumer credit.

The ongoing higher interest rate environment[1] means that indebted households and firms remain sensitive to adverse developments. Mortgagor households are spending an increased share of their income on loan payments, while firms' profit margins no longer cover interest expenses as comfortably as before. In view of the

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[1] Despite some recent downward movement, interest rates remain higher than they were before inflation started rising.

ongoing uncertainty and heightened sensitivity, Národná banka Slovenska has kept the countercyclical capital buffer rate unchanged – a stance in alignment with the European Central Bank's position.

The banking sector is maintaining strong profitability, sufficient capitalisation, and resilience to potential shocks

Banks' aggregate net profit has increased year-on-year in 2025. Their gross profit before taxes and levies has remained stable. In an environment of elevated interest rates and growing loan portfolios, banks' net interest income has continued to rise, although operating and wage costs have also increased. Compared with the EU average, however, banks in Slovakia lag behind in overall profitability, primarily because of the bank levy. It is therefore crucial that the levy is phased out according to plan; otherwise, there is a risk of reduced investment in the further development of the Slovak banking sector.

Banks continue to maintain strong capital and liquidity positions. Their capital adequacy ratios remain well above minimum requirements – even after the transition to the new Basel III standards. Although liquidity has slightly decreased due to renewed loan growth, banks remain sufficiently liquid. In the longer term, however, they may face new challenges such as potential deposit outflows resulting from new retail government bond issuance and the expansion of new payment instruments.

Ongoing growth trends for insurers and for pension and investment funds

The insurance sector's solvency and profitability remain strong. Profit for the first half of 2025 increased year-on-year owing to improved results in non-life business. The rise in average premiums in this segment reflects adjustment to higher costs and insurance claims.

Across pension and investment funds, growth has remained relatively strong. The value of assets under management fell briefly in late March and early April, but then rebounded fully. This episode, however, shows that both pension and investment funds are now quite sensitive to market fluctuations, partly due to the long-term increase in the share of their equity allocations.