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 classes 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.

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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