

NBS Macroprudential Policy Strategy

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1. Introduction

“Financial stability – certainty in uncertain times”

Macroprudential policy is a key instrument for ensuring financial stability and preventing systemic risks in the financial system.

A stable financial sector is one that can continuously provide its services and thus contribute to economic development, even in times of economic or other shocks (such as a financial crisis). The financial sector should not be a source of crises, nor should it unduly amplify economic cycle fluctuations. Financial stability benefits financial institutions, their clients, and the economy as a whole.

The emergence of macroprudential policy was reinforced by the global financial crisis of 2008–10, which revealed significant gaps in the traditional regulatory approach. Before the crisis, it was assumed that sufficiently capitalised and individually sound banks would ensure the overall stability of the system. The crisis demonstrated, however, that the accumulation of systemic risks, excessive leverage, and the interconnectedness of financial institutions could lead to severe economic shocks. Macroprudential policy therefore emphasises preventive measures that reduce the likelihood of systemic risks and ensure that the financial sector remains stable even in times of crisis.

Macroprudential policy differs from microprudential policy in that it focuses on the stability of the financial system as a whole. While microprudential regulation aims to minimise risks at the level of individual financial institutions through regulation and supervision, macroprudential policy monitors systemic risks that can have a broader impact on the economy and the financial system as a whole. The interconnectedness of institutions and markets means that problems in one part of the sector can trigger widespread crises.

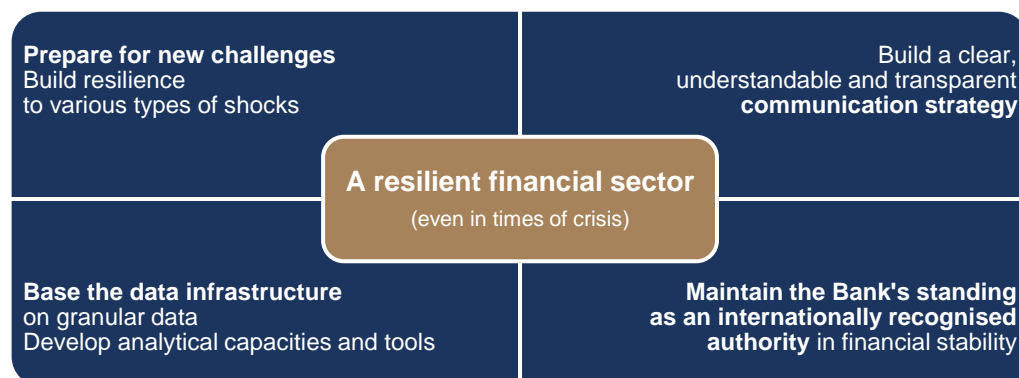
Macroprudential policy is also crucial from the perspective of monetary policy implementation. The two policies complement and influence each other in ensuring financial and price stability. Macroprudential policy helps reduce financial imbalances, thereby enhancing the effectiveness of monetary policy and supporting a smooth transmission mechanism. At the same time, macroprudential policy mitigates the risks associated with low interest rates.

In this strategy document, Národná banka Slovenska (hereinafter ‘NBS’ or ‘the Bank’) defines the main principles, tools and objectives of macroprudential policy in Slovakia. It provides a framework for identifying, monitoring and mitigating systemic risks. Successful implementation requires consistent cooperation between relevant authorities at both the domestic and international levels, transparency, and continuous adaptation to changing conditions.

The document also sets out the most important strategic priorities for financial stability and macroprudential policy in the medium term. A key priority is to make the financial sector highly resilient so that it can withstand a wide range of potential adverse events. In order to strengthen the credibility and predictability of macroprudential policy, attention must also be paid to developing an effective, clear and open communication strategy. At the same time, it is necessary to build a robust data infrastructure based on granular data and to improve analytical tools. Another integral priority of the NBS strategy is to maintain the Bank’s strong international position in the area of financial stability.

Figure 1

NBS strategic priorities for macroprudential policy in the medium term



Source: NBS.

2. Objectives of macroprudential policy

“A healthy financial sector is a pillar of the economy”

The main objective of macroprudential policy¹ is to do the following in order to protect the stability of the financial system as a whole:

- identify and assess risks to financial stability;²
- contribute to strengthening the resilience of financial institutions and reducing systemic risks.

Strengthening the resilience of financial institutions

Ensuring that financial institutions have sufficiently strong capital and liquidity positions.

- **Sufficiently strong capital resilience helps keep the financial sector stable and capable of providing key services (including lending and payment services) even in the event of unexpected crises or shocks.** Resilient banks play a crucial role in overcoming difficulties in times of crisis. When times are difficult, the banking sector should not be a source of problems, but rather part of the solution. It is therefore vital that the banking sector can absorb losses incurred during a crisis without jeopardising its functioning.
- **A sound funding structure based on stable customer funds and sufficient liquid assets is one of the fundamental conditions for a stable financial system.** Mitigating and preventing excessive maturity mismatches between assets and liabilities is a key prerequisite for maintaining financial system functionality even in difficult times or during liquidity shortages in financial markets.
- Greater resilience also contributes to **higher confidence in banks**, which is a critical pillar of stability in adverse circumstances and helps mitigate reputational risk.³

¹ Section 1(3)(a) of Act No 747/2004 on financial market supervision (and amending certain laws), as amended.

² The identification and assessment of risks to financial stability are further described in Section 4.

³ Reputational risk is the risk that an institution loses the confidence of, and thus positive perception by, its clients, suppliers and other market participants or otherwise suffers damage to its reputation.

Reducing systemic risks

Identifying, assessing and mitigating risks that could destabilise the financial system.

One of the core objectives of macroprudential policy is to reduce systemic risk in the financial sector. Systemic risk is potentially disruptive to the financial system to an extent that results in adverse spillovers throughout the economy. Since the different parts of the financial system are interconnected, problems in one area can escalate and threaten the stability of the entire financial sector and economy. Systemic risk can be either cyclical or structural in nature.

- **Cyclical systemic risk** generally arises in times of prosperity, for example due to the underestimation of risk. This only materialises, however, when the financial sector faces shocks, which become more difficult to manage due to accumulated cyclical risks. It is therefore advisable to use good times to prepare for bad times, for example by exercising greater prudence in lending or by building up capital or liquidity buffers. In Slovakia, this type of risk is particularly evident in the household sector and the residential and commercial real estate sectors. The Bank always stands ready to respond to, for example, excessive growth in household or corporate indebtedness, risks stemming from rapid property price increases, or overly loose lending conditions.
- **Structural systemic risk** stems from weaknesses in the financial system's functioning or is linked to the structure and nature of the economy. It may be associated, for example, with:
 - an excessive share of financing to potentially vulnerable sectors (for example, in Slovakia, the residential and commercial real estate sectors);
 - the financial sector's stability being highly dependent on the stability of large banks, any potential failure of which could seriously disrupt the financial sector as a whole with serious consequences for the real economy;
 - strong interconnections within the economy, financial sector, or between the public and financial sectors, which could cause contagion of potential shocks;
 - cyber risks associated with the increasing digitalisation of financial services, which increases dependence on information systems and exposes financial institutions and their customers to potential cyber attacks;
 - climate-related risks, which may be of physical nature (e.g. extreme weather, natural disasters) or related to the transition to a low-carbon economy (e.g. stricter regulations, technological changes);
 - the nature of the economy, such as greater exposure to external shocks owing to its high openness, as is the case in Slovakia.

The Bank closely monitors individual risks as well as their potential impact on financial stability. On that basis, it evaluates their prioritisation on an ongoing basis.

In the long run, macroprudential policy helps ensure sustainable economic growth. Good access to credit for households and firms is an important precondition for economic growth. However, lending should not lead to excessive growth in household or corporate indebtedness, which could later trigger or exacerbate potential crises.

The limits of macroprudential policy

- **Macroprudential policy does not aim to eliminate shocks** to the financial system. In the case of Slovakia, owing to the high openness of its economy, many shocks come from abroad and thus cannot be influenced by the country itself. However, macroprudential policy can reduce the likelihood that risks or potential shocks develop into crises or can at least reduce the size of crises.
- **It does not aim to eliminate all risks completely.** Attempting to do so could excessively dampen financial market activity, such as housing financing.
- **It does not address risks specific to individual financial institutions,** unless these institutions are systemically important or their failure would threaten overall financial stability.

- **It does not aim to mitigate fluctuations of asset prices (including housing prices) or to smooth out the business cycle.** Nor does it aim to target specific asset price levels, with their evolution being influenced by a number of factors outside the scope of macroprudential policy. There is also no intention to affect the living standards or wealth of specific groups of households.
- **It does not aim to replace banks' internal risk management systems.** Instead, macroprudential policy complements these systems, for example by setting regulatory limits or minimum requirements.

3. Principles of macroprudential policy

“Prevention is more effective than cure”

Proactivity and flexibility

Identifying risks in their early stages and taking both preventive and corrective actions.

- Macroprudential policy is implemented **proactively**. The Bank responds promptly to identified risks or imbalances by implementing a wide range of tools (such as capital buffers and borrower-based limits).
- One of the policy principles is to **avoid inaction bias**.
- Macroprudential policy and systemic risk analysis are conducted so as to **respond flexibly** to changes in the financial and economic environment, either preventively or correctively.

Transparency

Providing clear information on measures taken, the reasons behind them, and their consequences.

- The implementation of every proposed tool undergoes a detailed **cost-benefit analysis**, which considers, on the one hand, the positive effects of reducing financial stability risks and, on the other hand, the negative effect of potential constraints on financial institutions and their customers.
- The Bank considers the important features of macroprudential policy to be its **predictability and consistency over time**. Macroprudential policy tools are implemented in such a way that they do not pose an unexpected shock to the financial sector.
- Macroprudential policy operates **in the public interest**. However, while the positive effects of adopted tools may take time to materialise, potential restrictive effects may appear immediately. Given this mismatch, macroprudential policy actions and their impacts are always transparently explained and reasoned, for example through dedicated analyses or FAQs.

Assessing the effectiveness of adopted tools

Tools are regularly reviewed to ensure their maximum effectiveness.

- All adopted tools are continuously assessed for effectiveness, adequacy and appropriateness vis-à-vis identified risks. The need for implementing new tools, as well as recalibrating, easing or discontinuing existing ones, is also assessed on an ongoing basis in the light of identified risks.
- The assessment of the effectiveness and impact of macroprudential tools is based on frequent discussions with a wide range of key stakeholders, including discussions within the Bank, with representatives of the financial sector (bilateral discussions, public consultations, presentations of key findings of financial stability risk assessments), with representatives of the public sector (in particular the Ministry of Finance of the Slovak Republic), and with international institutions (the European Central Bank (ECB), the European Systemic Risk Board (ESRB), and the International Monetary Fund (IMF)).

Targeting, proportionality and robustness

Macroprudential policy tools address the most significant systemic risks so that financial institutions can withstand a variety of unexpected shocks.

- Macroprudential policy is implemented in a targeted manner to **address risks which may become the most acute**. Conversely, where there is low risk, restrictions or tighter requirements should be applied to a lesser extent or not at all.
- In Slovakia, macroprudential policy focuses mainly on the **banking sector**, which is by far the most important part of the domestic financial sector. The most significant risk is credit risk. Larger financial institutions are subject to stricter conditions than smaller ones (such as higher capital buffers) since their failure would pose a greater threat to financial stability than that of a smaller institution.
- **Combining different measures** increases resilience to different types of unexpected shocks.
- Macroprudential policy tools are designed to **prevent their circumvention**. They therefore focus on specific types of activity rather than particular products or types of institutions.

Close cooperation both domestically and externally

The Bank coordinates the conduct of macroprudential policy internally and with domestic and international institutions.

The Bank conducts macroprudential policy through its Financial Stability Department, which actively cooperates with other NBS departments and with other domestic and foreign institutions in order to **increase** policy effectiveness and minimise negative externalities. In this regard, cooperation includes:

- **cooperation within the Bank**, in particular with the departments responsible for supervision, regulation, financial consumer protection, monetary policy, and research;
- **cooperation with relevant domestic institutions** in implementing European legislation or drafting national legislation related to financial stability or prudential banking regulation;
- **international cooperation** with primarily the ECB, the ESRB, the IMF and the European Supervisory Authorities (the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA));
- cooperation with other EU central banks to exchange expertise and risk assessments, as well as participation in technical cooperation with non-EU central banks.

The strategic objective is to maintain and further strengthen the Bank’s position as an internationally recognised authority in financial stability. The Bank actively participates in European and international forums to gain access to the latest knowledge, experience and know-how in the field of macroprudential policy. At the same time, the Bank passes on its knowledge through international cooperation, including technical cooperation activities.

Table 1

International institutions’ key roles and powers related to the Bank’s macroprudential policy

Institution	Power
ECB	<ul style="list-style-type: none"> The ECB can increase requirements beyond the scope of macroprudential tools adopted by national authorities in specific areas.⁴ It may only intervene directly, however, if it deems a domestic authority to have been insufficiently strict. It cannot overrule or mitigate decisions of national authorities, but it can comment on them.
ESRB	<ul style="list-style-type: none"> The ESRB can issue recommendations and warnings on risks to the EU as a whole or to individual Member States. The addressees should respond or provide an explanation of inaction.⁵
IMF	<ul style="list-style-type: none"> The IMF annually assesses Slovakia's financial stability as part of consultations conducted under Article IV of the IMF's <u>Articles of Agreement</u>. In this context, it may make recommendations related to the most significant risks. The IMF also makes an in-depth assessments of financial stability and macroprudential policy in Slovakia as part of its aperiodic Financial Sector Assessment Program (FSAP) for the country.
EBA, EIOPA, ESMA	<ul style="list-style-type: none"> They issue technical standards and guidelines, including on macroprudential policy. They conduct stress testing (in cooperation with the ESRB). They assess the materiality of certain systemic risks and contribute to opinions on certain macroprudential tools adopted at the national level.

Source: NBS.

4. Identification and assessment of systemic risks

“Our compass is detailed data”

An essential prerequisite for conducting macroprudential policy is a proper understanding of risks and trends, particularly their quantification. The analysis of systemic risks primarily involves monitoring and quantifying them, as well as assessing the impacts of potential future scenarios. The analytical framework is a dynamic system that is regularly reviewed and updated to ensure it covers all relevant existing and potential risks.

- Monitoring** focuses on all relevant risks and trends. To this end, the Bank has in place a monitoring system consisting of various indicators, data, and models. For Slovakia, the monitoring focuses primarily on the credit cycle, household indebtedness, liquidity risks, the interconnectedness of financial institutions, and structural risks.

⁴ This power does not extend to borrower-based measures.

⁵ Slovakia was directly addressed by a [2021 warning](#) on medium-term vulnerabilities in its residential real estate sector. In response, the Bank amended existing NBS decrees.

- **The process of identifying risk sources and quantifying risks** involves identifying key sectors (such as the real estate market) or factors contributing to risk accumulation.
- **Scenario analysis** involves assessing the potential impacts of external and internal shocks on the financial system, including periodic stress testing and sensitivity analysis of the most significant risks.

A crucial part of ongoing monitoring is not only the identification of emerging risks, but also the identification of any decline in existing risks and, where necessary, the commensurate easing of macroprudential policy.

Key principles of systemic risk analysis:

- **Comprehensive perspective of the financial sector:** A holistic view of the financial sector, its interconnection with the real economy, and external risks. Financial institutions are affected by changes in various areas – monetary policy, supervision, consumer protection, legislation, taxes and levies, bank resolution, etc. – which are generally implemented independently and without examination of their interactions. Macroprudential policy assesses the potential combined impact of these changes on financial institutions. The implementation of macroprudential tools includes evaluating their mutual interaction with other regulatory elements; for example, capital buffers are analysed in relation to Pillar 2 requirements, leverage requirements, and resolution framework requirements.
- **Capturing the evolving nature and intensity of systemic risks:** These risks evolve in response to economic developments, structural changes in the financial sector, demographic trends, technological and financial innovation, and legislative changes.
- **Forward-looking approach:** Focusing on risks yet to materialise and on changes in exposure to these risks over time.
- **Integrating the impact of multiple risk factors:** Past crises have shown that when the financial sector faces multiple significant risks simultaneously, their cumulative negative impact increases.
- **Combining different analytical approaches:** A mix of various quantitative and qualitative risk assessment methods is essential.
- **In-depth understanding of the financial sector:** This includes knowledge of financial products, risk sources, shock transmission channels, and risk mitigation mechanisms.

A key component of the analytical framework is data infrastructure. The Bank is further developing its already extensive and flexible data foundation in order to enable comprehensive understanding and assessment of all relevant risks. Special emphasis is placed on acquiring and utilising granular data, ideally at the individual item level (for example, in lending, corporate financial health, investment fund inflows, and the residential and commercial real estate markets). Detailed data should cover all areas relevant to financial stability. The Bank is continuously enhancing its data storage, processing and protection technologies, monitoring tools, and models, so that it can quantify different types of risks as accurately as possible. AI-based tools and large-scale granular data analytics hold particular potential.

The Bank continues to develop its analytical capacities to serve as a centre of expertise and research on financial stability issues. In doing so, the Bank will build on its experience with already adopted macroprudential tools and analyses, relying on a strong data infrastructure and state-of-the-art analytical approaches. This area should contribute significantly to enhancing the Bank's reputation and credibility.

5. Tools of macroprudential policy

“Macroprudential policy as a screwdriver, not a hammer”

The Bank has a range of tools for conducting macroprudential policy. These tools are defined in both domestic and European legislation. Used properly, they should contribute to the robust resilience of the financial system.

Given the nature of systemic risks in Slovakia, these tools are primarily focused on the banking sector and particularly on credit risk within that sector.

Among the choice of tools, the Bank opts mainly for capital buffers and regulatory limits on lending to households. The resilience of Slovakia's financial system is built on a combination of complementary tools. The Bank does not rely on a single tool or a narrow group of tools. Instead, a combination of tools helps make the financial sector more resilient to a broader range of shocks.

The Bank employs various forms of macroprudential tools:

- **Legally binding tools** are implemented through NBS decrees and NBS decisions, published in the NBS Official Journal. The Bank may also, in cooperation with the Ministry of Finance of the Slovak Republic, initiate legislative changes.
- **Non-binding tools** include NBS recommendations and NBS guidelines published in the NBS Official Journal. These are used for less serious risks or in cases where there is no legislative mandate to issue a legally binding tool.
- **Informal (soft) tools** comprise NBS opinions and analyses. These serve primarily as a communication tool regarding identified risks or to encourage corrective action without regulatory intervention. They are used for lower-intensity risks or as an initial step before implementing legally binding tools.

The list of currently implemented instruments is available on the [NBS website](#).

1. Capital buffers

The main purpose of capital buffers is to increase banks' resilience.

- The **countercyclical capital buffer (CCyB)** helps increase the banking sector's resilience to cyclical risks. The Bank generally increases the buffer rate in good times so that banks can use it to absorb unexpected losses in bad times, when the Bank generally reduces the buffer rate. Although buffer rate reduction during downturns can benefit banks by increasing their capacity to lend to firms and households, the purpose of this tool is not to influence credit market activity.
- The level of the CCyB rate is reviewed quarterly, with the minimum permitted change being 25 basis points.
 - The buffer rate is **raised** during financial cycle expansion, when risks accumulate. For its rate-increasing decisions, the Bank currently refers mainly to its composite indicator of the financial cycle, known as the '**Cyclogram**',⁶ which tracks risks in the credit market, the

⁶ Rychtárik, Š., 'Analytical background for the counter-cyclical capital buffer decisions in Slovakia', *Biatec*, Vol. 22, No 4, Národná banka Slovenska, 2014.

Rychtárik, Š., 'Follow-up on the CCyB in Slovakia: build-up, calibration and release', *Biatec*, Vol. 26, No 3, Národná banka Slovenska, 2018.

economy, the housing market, and household and corporate indebtedness. Expert judgement also plays an important role, considering additional factors such as banks' profitability, overall resilience and current capital headroom.

- The buffer rate is **reduced** when accumulated risks materialise (resulting in losses) or subside or when, during a financial cycle downturn, bank lending is constrained by insufficient capital headroom. For its rate-reducing decisions, the Bank primarily considers the situation with non-performing loans and whether loan loss provisioning needs to be increased.
- In a risk-neutral period – when banks and their customers show no clear tendency to underestimate or overestimate credit risk and when loan portfolios are not significantly burdened with risks accumulated from the past – a zero CCyB rate is applied. At the same time, the Bank continuously analyses and evaluates the pros and cons of the 'positive neutral' approach.⁷
- The **O-SII buffer**, as the buffer applied to 'other systemically important institutions' (O-SIIs), serves to increase the resilience of those banks that are most critical to the domestic financial sector, i.e. whose failure could severely disrupt the functioning of the financial system. The more systemically important the bank, the higher the buffer.
 - The Bank annually decides which banks are to be designated as O-SIIs from the point of view of Slovakia and sets an O-SII buffer for each one.
 - In doing so, the Bank considers each bank's relative size, prominence, service complexity, interconnectedness, and position in the credit and deposit markets.
 - It also takes into account the ECB floor, which, in the context of the banking union, is minimum buffer rate that the ECB requires for systemically important banks.
- The **systemic risk buffer** (SyRB) increases banks' resilience to systemic risks in specific areas or sectors. It can be applied to the whole banking sector, to a defined subset of banks, or to specific types of exposures (for example, different types of loans). This buffer addresses structural risks. In the case of Slovakia, the Bank analyses its potential use for banks' exposures to households or the commercial real estate sector.
- The **capital conservation buffer** (CCoB) is an additional buffer applied uniformly to all banks.

The different types of capital buffers also differ in whether they are expected to be reduced if necessary (as in the case of the CCyB) or whether they are more structural in nature (other buffers). In calibrating buffer rates, the Bank also seeks to ensure that buffers do not overlap, i.e. that the same risks are not redundantly covered by multiple buffers.

2. Borrower-based measures

Their primary purpose is to ensure sound lending conditions.

Borrower-based measures (BBMs) include in particular the following tools:

- The **debt service-to-income** (DSTI) **limit** is designed to ensure that borrowers have a financial buffer, including a buffer against an increase in loan payments if interest rates increase. This reduces the risk of loan default, especially during crises, thereby providing protection for the borrower and lender.
- The **debt-to-income** (DTI) **limit** mitigates risks associated with rapid growth in household indebtedness, particularly in low interest rate environments. Highly indebted households may have serious repayment problems, potentially resulting in negative spillovers to the broader financial sector and economy.
- The **loan maturity limit** ensures that the maturity of a loan is appropriate to its purpose and collateral. Together with the DTI limit, it helps borrowers avoid excessive debt and reduces the risk of unsustainable household debt growth.

⁷ The term 'positive neutral' usually refers to the method of increasing the CCyB rate immediately after the end of a crisis period, i.e. during a risk-neutral period.

- The **loan-to-value (LTV) limit** helps curb risks associated with the residential property market. Home-buying decisions tend to be more responsible when the purchase is at least partly financed by savings. The collateral is particularly important if the loan defaults. If a loan defaults and the value of the real estate collateral is insufficient to repay the debt, the borrower faces foreclosure and the bank incurs increased losses.
- The **requirement for regular loan payments** ensures that the financial burden of repayment is spread evenly over the life of the loan.

Borrower-based measures are primarily **structural in nature**. Any adjustments in response to financial cycle developments typically concern the system of exemptions or the fine-tuning of a specific application of limits.

Principles for adjusting borrower-based limits:

- Any new limits should be based on existing practice and be adjusted gradually with transitional provisions, so as to prevent sudden, unexpected market disruptions.
- Adjustments should be made in response to specific, identified risks, which may evolve over time amid changing credit market and household conditions.
- Adjustments should be based on an in-depth analysis of the different types of products provided by financial institutions and should focus primarily on the riskiest segments in order to minimise unintended effects on other parts of the credit market.
- The calibration of new limits should be preceded by a detailed cost-benefit analysis. As for existing tools, their effectiveness and efficiency are evaluated on an ongoing basis.

3. Additional tools for the banking sector

Additional tools primarily focus on increasing banks' resilience through higher capital adequacy or liquidity requirements.

- **Risk weight adjustments** (under Articles 124, 164 and 458 of the CRR⁸) to increase the capital requirement for risks associated with the financing of residential or commercial real estate.
- **Stricter limits on large exposures** to reduce the concentration of exposure to specific sectors or entities.
- **Tighter liquidity requirements** to address any excessive increase in maturity mismatches between assets and liabilities or liquidity shortages.
- **Higher minimum leverage ratio requirements** to counter excessive increase in leverage in the banking sector.
- **Stress testing and enhanced reporting requirements** to facilitate more detailed assessments of specific identified risks to financial stability.

Tools for non-bank sectors

The Bank has a mandate to implement macroprudential policy also in non-bank sectors, which, however, are less important in terms of overall financial sector stability.

- In conducting macroprudential policy for non-bank sectors, it is important to observe the **proportionality principle**, i.e. to consider the extent of non-banks' impact on the stability of the financial sector as a whole.
- The options for adopting specific **legally binding tools** are fewer compared with the banking sector. Existing tools include, for example, leverage ratio limits and investment fund liquidity limits. The Bank continuously assess options for applying new tools in response to identified systemic risks in non-bank sectors and to EU law changes enabling the extension of tools to non-bank sectors.

⁸ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012.

- The Bank has broad powers to issue **recommendations and guidelines** for non-bank sectors (such as in the area of dividend payment restrictions) and to conduct detailed **monitoring**. At the same time, it may initiate **adjustments to regulatory requirements** laid down in national law.

Reciprocity (mutual recognition)

Where justified, the Bank recognises macroprudential tools adopted by other countries.

- The recognition of tools adopted in other countries makes those tools binding on Slovak banks with exposure to the countries concerned.
- For some tools, recognition is automatic (as is the case with CCyBs introduced in European Economic Area countries), while for others (such as the systemic risk buffer and risk weight adjustments) recognition requires an NBS decision. In deciding on recognition, the Bank primarily considers whether the exposure of Slovak banks to the country concerned is material in order to avoid unnecessary administrative burdens.
- The Bank may request recognition of its decisions by competent authorities in the EU if it deems this necessary to meet its macroprudential policy objectives.

6. Institutional framework

“Macprudential policy is built on the Bank’s strong mandate”

Mandate

In Slovakia, the Bank is responsible for macroprudential policy, which it conducts as part of its supervision of the financial market.

- The Bank’s mandate to support financial stability is laid down in the [NBS Act](#) and the [Financial Market Supervision Act](#).
- For the purpose of conducting macroprudential policy, the Bank has sufficient legislative powers, a wide range of tools at its disposal, and access to detailed data. Specific competences in the area of financial stability are laid down in [the Banking Act](#) (capital buffers), [the Financial Market Supervision Act](#), and the [Housing Loan](#) and [Consumer Credit Acts](#) (lending rules). Under these laws, the Bank issues NBS decrees, NBS decisions and NBS recommendations, which may apply to the entire financial sector in Slovakia.

Decision-making process

The highest decision-making body for macroprudential policy is the NBS Bank Board.

- NBS Bank Board decisions on new macroprudential tools and on adjustments to existing tools are usually preceded by a discussion in the **Macroprudential Policy Committee**. This is an internal NBS committee on which senior management from the areas of financial stability, supervision, regulation, financial consumer protection, research, and monetary policy are represented. It may also include external expert participation. The implementation of new tools or changes to existing ones is also subject to a consultation procedure within the Bank.
- In the case of some tools (in particular modifications to lending conditions), their implementation is also subject to **an inter-ministerial consultation procedure**.
- Before the NBS Bank Board takes a decision, the draft tools are submitted for **review to the ECB and the ESRB**.

7. Communication and transparency

“Trust begins with understanding the truth”

Open, clear and data-driven communication is an important pillar of macroprudential policy.

- The Bank’s external communication on macroprudential policy matters is **proactive, transparent and clear**. As far as possible, communication covers not only the tools adopted, but also any that are expected or foreseen. This enhances the understanding and acceptance of macroprudential tools by both the financial sector and the public.
- Macroprudential policy communication also aims to **raise awareness of the most important risks** (such as rising indebtedness) not only among financial institutions, but also among households and firms. Such communication even serves as a macroprudential policy tool in its own right.
- **Communication is two-way** – the Bank obtains feedback through bilateral discussions with financial institutions and through public consultations.

With the aim of reaching the widest possible audience, the Bank employs ‘three-level communication’:

- **First level:** simple communication elements for the general public (simplified summaries of the key issues, press conferences, infographics, videos, and communication through social and traditional media).
- **Second level:** more detailed analyses, intended mainly for more specialist audiences such as financial market participants, international institutions, the economic media, and academia.
- **Third level:** technically complex legislative and administrative texts, for example setting out the detailed methodology of adopted macroprudential tools.

As part of its macroprudential policy communication strategy, the Bank publishes several types of reports.

The [Financial Stability Report](#) is published semi-annually and contains a comprehensive assessment of trends in the Slovak financial sector and economy, with an emphasis on risks to financial stability. The Report is submitted to the Slovak Government for discussion, and its main conclusions are presented by the NBS Governor to the Slovak Parliament.

The [Macroprudential Commentary](#), published quarterly, summarises the current trends in the Slovak financial sector with an emphasis on cyclical risks. It is also referred to by the NBS Bank Board when deciding on the countercyclical capital buffer rate.

The Bank also publishes [discussion notes and working papers](#) on current financial stability topics. In addition, the Bank’s representatives share key financial stability findings through articles and appearances in relevant media. News and further information on financial stability and macroprudential policy can be found in the ‘[Financial stability](#)’ section of the NBS website.

Figure 2

Three-level communication of macroprudential policy

1. General public

- website
- social media
- press conferences

2. Specialists

- Financial Stability Report
- Macroprudential Commentary

3. Technical communication

- Discussion notes and working papers
- Legislative texts

Source: NBS.

The Bank's strategy for macroprudential policy includes further enhancing the role of communication. If macroprudential tools are presented in a clear and understandable manner to the widest possible public, their effectiveness, transparency and acceptance increases significantly and the related risks are better understood. With this in mind, the Bank aims to focus primarily on:

- **developing and utilising new communication channels** (including a modern website, communication on social media, and various other forms of communication – such as videos, podcasts, and infographics);
- **proactively engaging in relevant media through appearances and publications;**
- open sharing of key findings through **presentations and appearances** at various forums.

8. New challenges for macroprudential policy

“Change is an opportunity, not a threat”

The macroprudential policy strategy for Slovakia in the period ahead is focused on preparing the domestic financial sector to withstand unexpected adverse circumstances. The active macroprudential policy has significantly helped the sector come through such crises as the pandemic, rising prices, and interest rate hikes without disruption to the key functions provided by financial institutions. However, both the current and future periods present new challenges that could impact financial stability. The Bank's strategy is to be ready for new trends and challenges while ensuring system stability in a constantly evolving environment. The main challenges are the following:

- **Financial sector digitalisation and financial innovation:** Fintech companies, crypto-assets and digital currencies are dynamically transforming traditional banking and changing the way financial services are delivered. On the one hand, they can increase the efficiency and accessibility of financial services, but, on the other hand, they create new challenges, and it is necessary to monitor their impact on the stability of the financial system.
- **Cyber threats:** With digitalisation, the risk of cyber threats is also growing, potentially jeopardising not only financial institutions but also their customers. Cyberattacks can lead to the loss of sensitive data, disruption to the smooth functioning of systems, or financial losses. There is therefore an increasing need to strengthen the cyber resilience of financial institutions and to put in place effective mechanisms to prevent and address cyber incidents.

- **Climate and geopolitical risks:** Climate change and geopolitical factors can affect assets' value or volatility, capital flows, and the overall stability of the financial system. The Bank therefore tracks these risks and integrates climate-related and geopolitical factors into its macroprudential analyses and tools.
- **Structural changes in the economy:** The rise of artificial intelligence, the digitalisation of the labour market, and demographic changes are affecting the stability of the financial sector. The Bank therefore monitors these trends and seeks solutions to adapt regulation to the new economic conditions.
- **The non-bank sector's growing importance:** Non-bank financial institutions, such as investment funds, insurance undertakings and fintech companies, are playing an increasingly important role in the provision of financial services. However, macroprudential tools aimed at this segment are currently less developed than those applied to banks and need to be further expanded.