Macroprudential Commentary

June 2025

Summary

- The financial cycle is slowly gaining momentum. Gradually falling interest rates have boosted demand for loans. Mortgage lending has accelerated, with a noticeable rise in the average loan size. Consumer credit growth slowed slightly in the early months of the year.
- After a year of continuous contraction, lending to firms has started to pick up. As of April 2025, most segments of the portfolio recorded year-on-year growth, though lending to the commercial real estate sector remains in decline.
- Housing prices continued to rise in early 2025, up by around 10% year-on-year. Housing affordability has improved moderately, supported by falling interest rates.
- Banks' net profit for the first four months of 2025 showed a year-on-year increase. The aggregate total capital ratio edged down to just below 20% by the end of 2024.

No change in the CCyB rate

The financial cycle upturn gained momentum in the first quarter of 2025. While household lending and housing prices were already on an upward trajectory, corporate lending returned to growth early in the year, driven by firms' increasing demand for loans. Among both households and firms, credit demand has been supported by falling interest rates. However, the aggregate trends mask differences across the economy, including a continuing decline in lending to the commercial real estate (CRE) sector. The housing market, by contrast, is undergoing a marked recovery, with expectations of further price growth playing an increasingly important role. A stronger financial cycle upswing is being prevented by subdued economic sentiment, reflecting ongoing fiscal consolidation and uncertainty related to the threat of trade wars.

The current upturn phase of the financial cycle has not been accompanied by an excessive build-up of cyclical risks. Although non-performing loan (NPL) ratios have increased slightly since the end of last year, and net provisioning has also increased, both indicators remain at low levels. Banks continue to post solid profits and maintain strong capital positions. The sector's capital headroom – i.e. capital held in excess of minimum regulatory requirements – stands at 3.26% of risk-weighted assets, providing sufficient capacity to absorb existing risks. Banks' resilience has also been confirmed by the most recent stress testing exercise. In this context, there is no need to adjust the countercyclical capital buffer (CCyB) rate, which remains unchanged at 1.5% of risk-weighted assets.

Národná banka Slovenska (NBS) does not anticipate adjusting the CCyB rate in the next quarter

The financial cycle upturn is expected to continue in the period ahead. In the coming quarters, the build-up of risks related to the cycle is not expected to reach a level that would warrant an increase in the countercyclical capital buffer (CCyB) rate.

At the same time, barring unexpected losses, the potential scope for reducing the CCyB rate is clearly limited, given the exceptionally high level of macroeconomic uncertainty, which is likely to persist.

Mortgage growth continues to accelerate

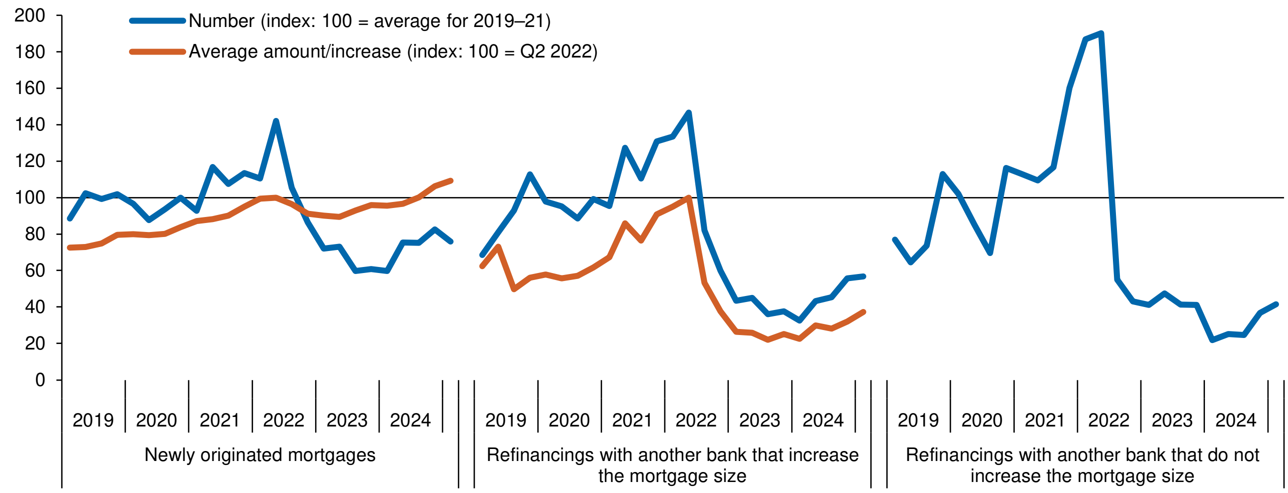
Mortgage growth continued to accelerate in the first four months of 2025. The annual growth rate rose from 4.0% to 4.5%, reflecting mainly a further increase in the average size of newly originated mortgages (up by 3% in the first quarter of 2025 and 9% higher than the peak reached before the recent period when mortgage rates were rising). This development largely mirrors the trend in housing prices. By contrast, the number of mortgage originations was 8% lower than in the previous quarter, though this may have been partly due to a temporary outage of land registry services in January 2025. Compared with the average for years 2019 to 2021, before the period of rising mortgage rates, the number of originations is down by almost a quarter.

The mortgage market recovery is being supported by a continued decline in mortgage rates. Although rates fell only modestly in the first four months of 2025 (from 4.1% to 3.9%), the decline was broadly in line with market rate movements. In late 2024/early 2025, a higher-than-usual number of existing mortgages were repriced to prevailing (higher) interest rates, and some banks may have delayed further rate cuts until after this refinancing wave had passed.

Chart 1

The mortgage market continues its gradual acceleration

Indices of the number and average amount of newly originated mortgages, and the number and average increase in mortgages refinanced with another bank



Source: NBS.

In addition to the rebound in new mortgage lending, refinancing activity has also picked up slightly, mainly reflecting the wave of scheduled mortgage rate resets in late 2024 and early 2025.[1] The number of mortgages refinanced with a different bank, as well as the average increase in the outstanding amount of those refinanced to raise the loan size, rose slightly from their lows in late 2023/early 2024. Even so, refinancing activity remains subdued compared with pure new lending, with both the number of refinancing cases and the average increase in the outstanding loan amounts still well below the levels seen during the period of low mortgage rates.

Consumer lending has slowed slightly. Annual growth in consumer credit stood at 7.1% in April 2025, down by 1.0 percentage point from the end of 2024. Interest rates on new consumer loans declined from 9.7% to 9.2% over the first four months of 2025.

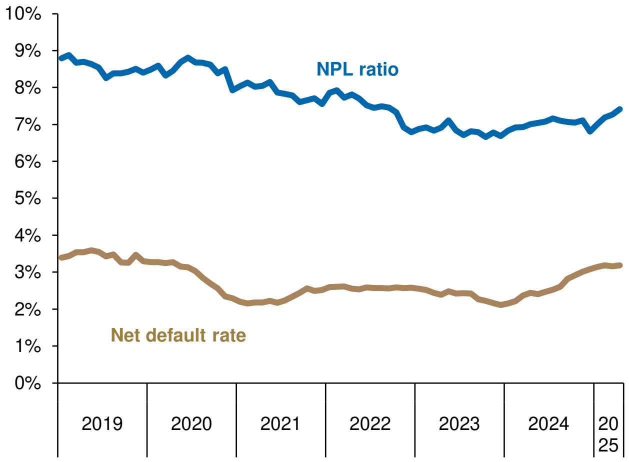
Mortgage portfolio credit quality remains largely stable. Although more than half of all existing mortgages have been repriced to higher interest rates, the resulting increase in mortgage payments has led to a weakening of mortgage borrowers' repayment discipline. The NPL ratio for the mortgage portfolio remains close to its historical lows. By contrast, the NPL ratio for consumer credit has deteriorated slightly, rising from 6.8% in December 2024 to 7.4% in April 2025, while the net default rate reached a five-year high. The increase in debt servicing difficulties has been most pronounced among borrowers with the most typical risk characteristics – younger borrowers with higher repayment burdens, lower education, lower income, and lower savings.

[1] The temporary surge in the number of mortgage rate resets in late 2024/early 2025 is described in more detail in the March 2025 Macroprudential Commentary.

Chart 2

Slight deterioration in the credit quality of the consumer credit portfolio

Non-performing loan (NPL) ratio and net default rate (percentages)

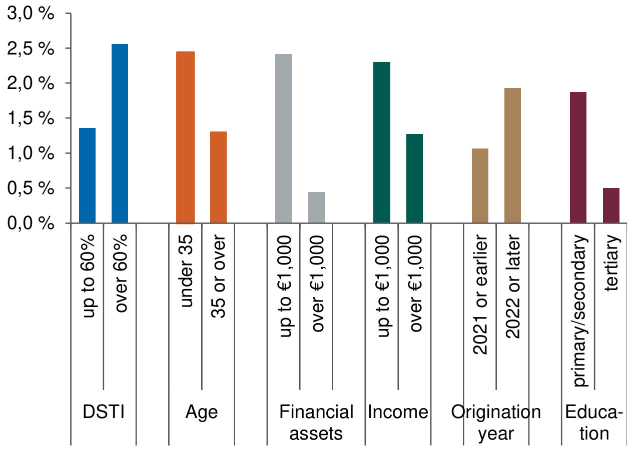


Source: NBS.
Note: The net default rate is calculated as the volume of consumer credit that became non-performing over the past 12 months, less the volume that moved in the other direction, expressed as a ratio of the total outstanding amount of consumer credit.

Chart 3

Increasing debt servicing difficulties for borrowers with riskier characteristics

Increase in the NPL ratio for the consumer credit portfolio broken down by different borrower or loan characteristics (percentage points).



Source: NBS.
Note: The chart shows the share of newly defaulted loans by different characteristics over the period from 1 April 2024 to 31 March 2025.

In the spotlight:

Issuance of a retail government bond slightly slowed growth in household deposits

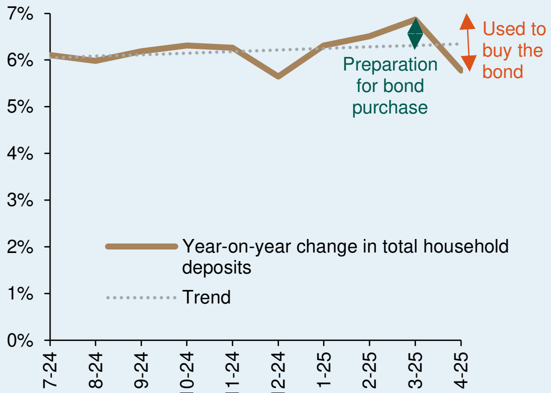
The long-standing growth in household deposits was slightly curbed by this year's first-ever issuance of a Slovak government bond for retail investors. The total size of the issue was €500 million, equivalent to 1.1% of Slovak households' total bank deposits. Although subscriptions took place between 3 and 6 March 2025, the bond was not issued until 2 April 2025. As a result, deposit growth temporarily accelerated in March as households parked funds in their bank accounts in preparation for purchasing the bond. This acceleration suggests that around half of the funds came from sources other than bank deposits. The issue therefore absorbed approximately 0.5% of total deposits, slightly reducing their annual growth rate from the projected 6.3% to 5.8%.

The slowdown in deposit growth had no significant impact on the banking sector's liquidity position. In April the aggregate liquidity coverage ratio fell by 3 percentage points to 182%, although this was unrelated to changes in household deposit volumes.

Chart 4

Household deposits not significantly affected by the retail government bond issue

Total household deposits (annual percentage changes)



Source: NBS.

Corporate lending has accelerated, uncertainty remains elevated

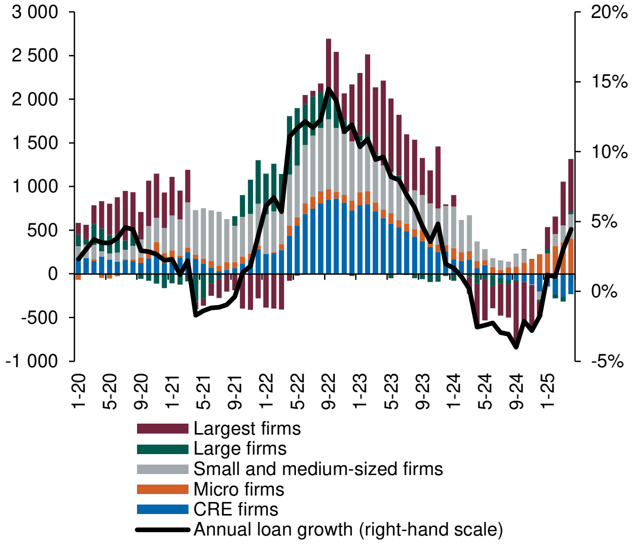
Corporate revenues made a solid start to 2025. In the first quarter of the year, the aggregate revenues of non-financial corporations (NFCs) were 6% higher year-on-year, with growth largely driven by the industry, construction, and selected services sectors. By contrast, revenues in retail trade, accommodation and food services, and energy supply fell short of their levels in the first quarter of 2024. Looking ahead, revenue developments are subject to considerable uncertainty regarding the direction of the global economy. This heightened uncertainty is reflected in the Economic Sentiment Indicator,[2] which declined in the first quarter owing mainly to weaker expectations.

Firms' demand for loans has improved in line with revenue developments. As of April 2025 annual growth in loans to NFCs stood at 4.6%. The flow of loans was exceptionally strong in the first quarter, before easing in April.[3] Demand for corporate loans was also supported by the continued decline in interest rates. Among EU countries, Slovakia moved above the median in terms of annual NFC loan growth.[4] Compared with other central and eastern European countries, however, it continues to rank in the lower quartile.

Chart 5

Lending growth driven mainly by micro firms and the largest 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 Register of Bank Loans and Guarantees (RBUZ).

Credit growth has been driven by the smallest and largest firms. Annual growth in loans to micro firms has strengthened significantly,[5] rising from 6% at the end of 2024 to 11.5% in April 2025. To a lesser extent, lending to small and medium-sized firms has also improved.[6] Growth in lending to large firms has been concentrated among a limited number of enterprises,[7] while others remain cautious about taking on new debt. In the commercial real estate (CRE) sector, lending activity continues to decline, reflecting subdued activity in new property developments.

The non-performing loan ratio for the NFC portfolio has remained broadly unchanged in 2025.[8] However, the aggregate picture masks differences across firm size categories. While the NPL ratio for micro firms has been on a long-term downward path, the ratio for small and medium-sized firms has been rising since 2022, albeit more slowly in 2025.[9]

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2 The Economic Sentiment Indicator fell to 96.7, its lowest level in 19 months.
3 It is still, however, at the average for previous years.
4 For most of 2024, Slovakia was among the countries with the lowest annual growth in NFC loans.
5 In each month of 2025, the flow of loans has far exceeded the average for previous years.
6 It increased mostly in the first quarter, before slowing slightly in April.
7 Particularly firms from the energy sector.
8 The NPL ratio stood at 2.6% as of April 2025.
9 The credit quality of loans to medium-sized firms started to deteriorate back in 2022, while the NPL ratio for small firms started to increase in 2023. As a result, the aggregate NPL ratio for these portfolios increased from 1.25% at the end of 2021 to 3% as of April 2025. At the same time, the NPL ratio for micro firms has fallen from 8.6% to 4.6%.

Housing market recovery continues

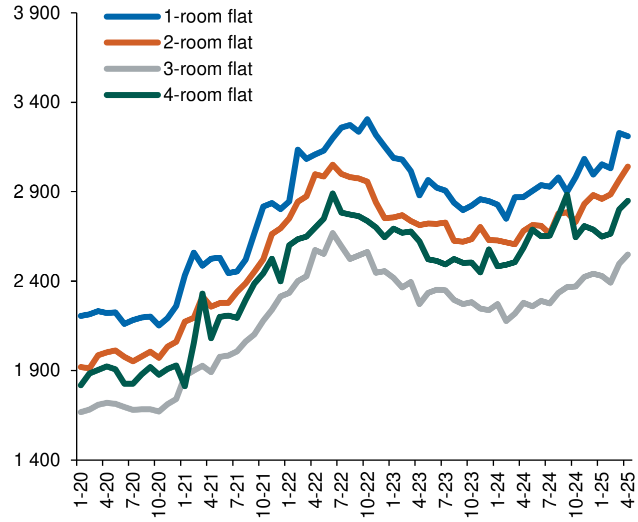
Housing prices continued to rise in the first quarter of 2025. By the end of the period, asking prices for flats were over ten per cent higher year-on-year.[10] Prices of houses rose at a slightly slower pace.[11] The strongest growth was in prices of one- and two-room flats, while prices of larger flats increased more moderately. One clear consequence of the price growth has been the rising average mortgage size, while the trend reflects stronger, expectation-driven demand supported by rising wages and gradually falling interest rates.

The number of flats on the market has remained stable for over a year and a half. Similarly, the supply of new-build flats has not changed significantly. The number of new flats completed in the first quarter of 2025 was a quarter lower compared with the same period last year, and was also the lowest recorded in the past ten years.[12] At the same time, the number of building permits issued for flat construction was the lowest in the last twelve years. The situation, however, varies considerably across regions, with Košice and Bratislava regions seeing the highest number of construction starts.

Chart 6

Prices of flats increasd across all size categories

Average asking prices for resale flats (EUR/m2)



Sources: United Classifieds, and NBS.

Average prices of new-build flats in Bratislava Region rose notably towards the end of 2024, before correcting slightly in early 2025. It is too early, however, to identify a new trend. In most new property developments, flat prices are either rising only moderately or stagnating. Compared with 2023, the number of new flats sold has almost tripled, but it is still below the level seen before the upturn in interest rates.

Housing affordability is improving slowly, after falling sharply before 2023 as a result of rising interest rates. However, the favourable impact of real wage growth and falling mortgage rates are being offset by housing price growth. Housing affordability thus remains at a relatively low level. Renting remains a cheaper alternative to buying a home. As a result of price growth in early 2025, the gap between the average rent and average mortgage payment has widened.

Banks' profits for January–April 2025 rose year-on-year

For the first four months of 2025, the aggregate net profit of banks in Slovakia increased to almost €390 million.[13] This growth was driven by continued – albeit slowing – increases in net interest income and net fee income (up by 6% and 9%, respectively). A key factor behind the growth in net interest income was the declining cost of deposits, which helped offset both the drop in interest income and rise in interest expenses on issued bonds.[14] Another significant contributor to the profit increase was the reduced tax and levy burden.[15] On the other hand, loan loss provisioning costs rose at a faster pace.[16]

10 At the end of the first quarter of 2025, prices of resale flats in Slovakia were 13.1% higher year-on-year (sources: United Classifieds, and NBS).
11 Housing prices in Slovakia were 8.9% lower year-on-year in March 2025 (source: United Classifieds, and NBS).
12 Source: Statistical Office of the Slovak Republic (SO SR).
13 This represents a year-on-year increase of almost 7%.
14 Net interest income fell by €47 million year-on-year, with interest income on loans and bond holdings declining by €41 million and €22 million, respectively, and with interest expenses on issued bonds rising by €6 million. Interest expenses on deposits fell by €116 million.
15 As of April 2025, the sector's profit before deduction of the bank levy and corporate income was 0.2% higher year-on-year. As from January 2025, the bank levy rate was reduced from 30% to 24.96%, and the corporate income tax rate for corporates with taxable income of more than €5 million rose from 21% to 24%..
16 Net provisioning was 120% higher in the first four months of 2025 than in the same period of last year.

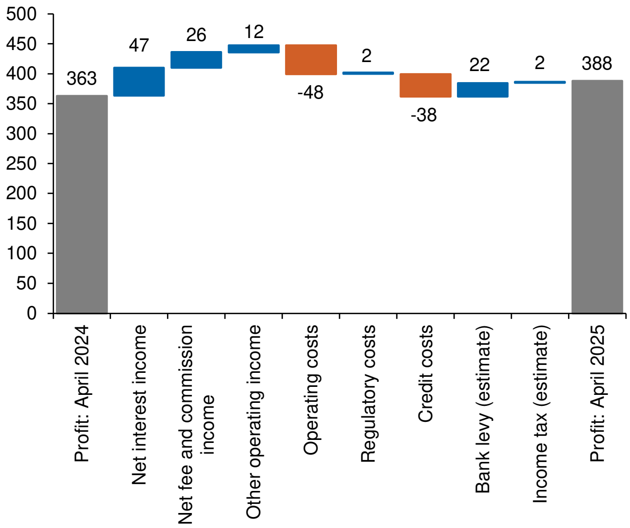
The year-on-year increase in provisioning was attributable to the corporate portfolio.[17] Overall, despite the very low comparison base in 2024, net provisioning in the first four months of 2025 was among the highest recorded since 2018.[18] However, the rate of provisioning relative to total exposures has continued its long-term decline. Until the end of 2022, this trend was primarily due to the decreasing riskiness of the overall loan portfolio – a consequence of the increasing share of housing loans.

Higher provisioning has not been the only indicator of credit quality deterioration in banks' loan portfolios. After remaining stable for most of 2024, the volume of non-performing loans (NPLs) began to rise gradually between November 2024 and April 2025.[19] Available data point to an increase in NPLs across several banks, particularly in the retail[20] lending segment. The volume of Stage 2 loans[21] declined appreciably in 2024 but has remained stable so far in 2025.

Chart 7

Banks' improved performance supported by decline in bank levy

The banking sector's net profit after tax and the contribution of its year-on-year change (EUR millions)



Source: NBS.

Banks' capital positions deteriorated slightly towards the end of 2024.[22] On a consolidated basis, the aggregate total capital ratio stood at 19.85%, while the leverage ratio reached 7.95%.[23] The sector's capital headroom – i.e. capital held in excess of minimum regulatory requirements, including the minimum requirement for own funds and eligible liabilities (MREL) – amounted to €1.5 billion or 3.26% of risk-weighted assets.[24]

The liquidity situation has remained largely unchanged since the end of 2024. Despite a slight decline in their reserves, banks continue to maintain sufficient stable funding sources and liquid assets. In early 2025, lending growth outpaced deposit growth.[25] However, the decline in banks' reserves held with the central bank (NBS) stemmed not only from loan funding, but also from bond purchases[26] and from position optimisation at branches whose parent institutions are based outside the euro area. The sector's net stable funding ratio (NSFR) declined to 130% as of March 2025, while the short-term liquidity coverage ratio (LCR) fell to 182% as of April 2025.[27] The ratio of loans to deposits and issued bonds rose slightly over the first four months of 2025, reaching 88.6% as of April.[28] Banks' liquidity buffers were also reduced by dividend payouts from 2024 profits.[29]

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17 For the first four months of 2025, net provisioning excluding off-balance sheet exposures amounted to €70 million (up by 92% year-on-year), of which retail exposures accounted for €56 million (€66 million in 2024) and other exposures €13 million (compared with a net release of €28 million in 2024).

18 The only years since 2018 to record higher net provisioning for the first four months were the pandemic year of 2020 (€94 million) and 2023 (€76 million).

19 Total NPLs net of provisioning amounted to €1.8 billion as of April 2025, representing an increase of more than €110 million in six months. The overall NPL ratio increased from 1.98% as of December 2024 to 2.07% as of April 2025. The NPL provisioning ratio remains at 57%, close to the lows recorded since the introduction of International Financial Reporting Standard (IFRS) 9.

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

21 These are performing loans that have experienced a significant increase in credit risk since initial recognition. Their volume has risen marginally in 2025, from €7 billion to €7.2 billion (compared with €9 billion as of December 2023), while their share of the total loan portfolio stands at 8.4%. The Stage 2 coverage ratio remains close to 5.5%.

22 Data as at 31 March 2025 are not yet available. Due to the implementation of the new EU banking package (CRR3/CRD6, the submission deadline for March data on capital positions has been postponed to 30 June 2025.

23 The total capital ratio decreased by 42 basis points compared with the previous quarter, while the leverage ratio fell by 11 basis points year-on-year. The deterioration in both indicators was due to the increase in exposures (by 2.5% and 2.2%, respectively) being more moderate than the increase in capital (0.4% and 0.8%, respectively).

24 Representing a quarter-on-quarter decrease of €20 million or 13 basis points.

25 From end-2024 to April 2025, total deposits grew by 1.3% (€1.1 billion) while total loans increased by 2.6% (€2.2 billion). Securities issued by banks rose by 0.8% (€120 million).

26 The amount of banks' reserves held with the central bank (NBS) fell by €4.2 billion from end-2024 to April 2025, while banks' securities holdings rose by €2.6 billion over the same period.

27 As of December 2024, the NSFR stood at 132% and the LCR at 187%.

28 As of December 2024, the ratio of loans to deposits and issued bonds stood at 87.4%.

29 Of the 2024 profit of €0.97 billion, almost €695 million has been paid out in dividends so far. The overall retention rate for 2024 earnings is estimated to be 24% (31% for 2023 earnings).

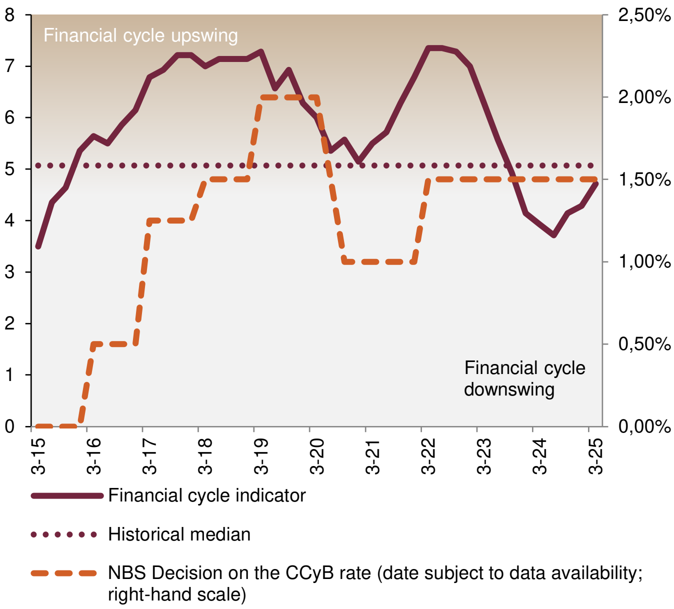
Financial cycle upturn gaining momentum

The financial cycle upturn gathered pace in the first quarter of 2025. After declining or stagnating over the previous year, the NFC loan portfolio returned to growth in early 2025, adding impetus to the financial cycle upturn. As a result, NBS's indicator of the financial cycle rose at a faster pace, supported also by rising housing prices. Since June 2024, when the financial cycle upturn began, more than half of the indicator's components have increased. The housing market has rebounded, the credit market has gradually recovered, and credit risk indicators have been steadily climbing from their lows. For now, the only component exerting downward pressure compared with last summer is economic sentiment, which remains subdued. The other components have either stabilised or strengthened.

Chart 8

The financial has rebounded to its summer 2023 level

Average asking price for a resale flat (EUR/m^2)



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

Since the initial phase of the financial cycle upswing has not involved any excessive build-up of cyclical risks, there is currently no need to raise the countercyclical capital buffer (CCyB) rate. Simulations of the financial cycle indicator for the year ahead suggest that the financial sector recovery should continue, though the pace of the upturn ias unlikely to match that seen at the start of 2025. The credit market recovery is expected to be gradual, while financial market and economic developments will remain subject to considerable uncertainty stemming from ongoing geopolitical and trade tensions. Overall, the outlook does not point to any overheating of the financial cycle. Accordingly, the intensity of risk build-up related to the cycle is not expected to pose a material challenge for the banking sector.

What's new in the world of macroprudential policy

Does macroprudential policy tightening affect lending similarly to monetary policy tightening?

This question is addressed in a paper recently published by the Bank for International Settlements.[30] Using data covering 1,959 euro area banks and four million individual firms across the euro area, the authors analysed the period from 2021 to 2023, when a wave of significant macroprudential policy tightening across euro area countries in the form of higher bank capital buffer requirements occurred before a sharp and unexpected monetary policy tightening with the steepest interest rate increase ever for the euro area. According to the authors, increasing capital requirements typically did not lead to a decline in lending in the same way that monetary tightening did. An exception was found in capital-constrained banks, where lending significantly decreased, and firms did not fully replace this drop with loans from better-capitalised banks. They also found that banks with the smallest buffers were much more reluctant to pass higher policy rates on to their borrowers during a period of double tightening, possibly reflecting relationship-based or zombie lending. In addition, following an increase in capital buffer requirements in an environment of rising interest rates, the more capital-constrained banks took fewer risks, with a greater reduction in the LTV ratio for newly originated loans and less reliance on risky assets as collateral.

[30] Behn, M., Claessens, S., Gambacorta, L. and Reghezza, A., "Macroprudential and monetary policy tightening: more than a double whammy?", *BIS Working Papers*, No 1257, Bank for International Settlements, April 2025.

Consumer attitudes towards a central bank digital currency (CBDC)

The European Central Bank (ECB) has published a study[31] that employed a population-representative survey of European consumers to examine their attitudes towards the possible introduction of a digital euro. First, the authors show that a short video explaining the key features of the digital euro is effective in changing consumers' beliefs about such a new form of payment and increases the likelihood of adoption by 12 pp relative to a control group that is not shown the video. At the same time, however, when consumers are given the cost-free option to learn more about CBDC after the short video, most choose not to do so. When presented with a hypothetical positive wealth shock of €10,000, respondents tend to allocate only a small portion of this additional liquidity to the digital euro, while their portfolio allocation across alternative, traditional liquid assets – including cash, current accounts, and savings accounts – remains largely unchanged. A third finding was that holding limits in the range of €1,000 to €10,000 have insignificant differential effects on the composition of consumers' liquid asset holdings. Moreover, there is virtually no bunching of the digital euro amount at thresholds of €3,000 or more.

How mortgage refinancing affects household consumption

An ECB-published paper[32] examines this issue using microdata covering US households from 1999 to 2021. The authors conclude that refinancing significantly reduces marginal propensities to consume (MPCs), both in the year of refinancing and in subsequent periods, diminishing the effectiveness of fiscal stimulus measures, particularly during economic downturns. According to the authors, refinancing households typically hold lower liquid assets, face higher debt-to-income ratios, and possess more illiquid wealth than non-refinancers. These traits make their consumption less responsive to changes in income (in contrast to poor hand-to-mouth households), potentially weakening the effect of government aid or stimulus during crises. The authors demonstrate that aggregate refinancing activity is strongly countercyclical: households refinance more during economic downturns, precisely when discretionary fiscal measures such as cash transfers are implemented. The paper further shows that targeting fiscal transfers toward non-refinancing households could generate potential savings of between 4% and 12% of untargeted fiscal programmes.

How TLTRO III operations impacted the residential real estate market

Targeted longer-term refinancing operations (TLTROs) helped support bank lending to firms and households in the course of the COVID-19 pandemic. The use of TLTRO funding for mortgage loans to households was explicitly not included into the targeted loan categories of these schemes, so as to limit potential unintended side effects on residential real estate markets. A paper recently published by the ECB[33] assessed the impact of the relaxation of TLTRO III conditions at the beginning of the pandemic on euro area banks loan portfolio composition. According to the authors, the targeted funding instrument under the relaxed pandemic conditions might, to some extent, have contributed to further fuelling residential real estate vulnerabilities, especially for banks in already vulnerable countries. A rebalancing of loan portfolios towards mortgage loans was observed across all banks, regardless of their size or their liquidity and capital characteristics. The higher engagement of smaller and less profitable banks suggests, however, a potential increase in pockets of risk among banks already highly exposed to residential real estate vulnerabilities.

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[31] Georgarakos, D., Kenny, G., Laeven, L. and Meyer, J., "Consumer attitudes towards a central bank digital currency", *Working Paper Series*, No 3035, European Central Bank, Frankfurt am Main, March 2025.

[32] Pesce, S. and Zhang, L., "Mortgage refinancing and the marginal propensity to consume", *Working Paper Series*, No 3051, European Central Bank, Frankfurt am Main, April 2025.

[33] Coi, C.C., Dadoukis, A., Hempell, H.S. and Rancoita, E., "TLTRO III and banks' loan book rebalancing during the pandemic: less 'targeted' than intended for some?", *Working Paper Series*, No 3040, European Central Bank, Frankfurt am Main, March 2025.