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A Word from the Acting Governor



The second half of last year was marked by rising geopolitical tensions, which have continued into this year. The uncertainty long present in the global macroeconomic environment has been exacerbated by US economic and trade policy, with geopolitical rivalries encouraging protectionism and hindering global supply chains. An extra layer of complexity is brought by the European Commission's new plan for the future of defence in the EU, whose priority is increasing defence spending.

According to an index calculated by the ECB on the basis of news reports, economic policy uncertainty in the euro area is currently more than three times higher than its historical average. The euro area continues to face sluggish economic growth, which would pose a challenge even in the absence of further shocks. Growth was mainly being driven at the end of last year by the good performance of the service sector, but manufacturing remained weak, and several euro area countries ended the year in recession. According to the ECB's latest projections from March, the previously modest outlook for economic growth over the coming years has been further downgraded, with the high uncertainty at home and abroad curtailing investment, while competitiveness challenges are hitting exports.

Despite a certain improvement in manufacturing, this dichotomy of economic developments was also evident in the Slovenian economy, although the domestic economy remained in relatively favourable shape in general in the final quarter of last year and the early part of this year. Current economic growth strengthened slightly, and again outperformed the euro area overall.

Given the increased risks mainly related to US tariff policy, the remainder of the year is considerably more uncertain. Despite the relatively small direct trade exposure to the US economy, the imposition of protectionist measures could be expected to have an adverse impact on domestic economic activity in the future. The effects will mainly come from indirect exposure via Slovenia's main trading partners inside the EU, and the increased uncertainty in the global economic environment. A rise in government defence spending could provide a positive fiscal stimulus and raise economic growth, thereby mitigating the negative effects of protectionist measures and trade uncertainty. With regard to our primary objective of price stability, the focus of our analysis will be the impact on price developments.

Inflation has fallen significantly in Slovenia and the euro area since 2022, and after rising temporarily over the autumn and winter is forecast to fall slightly further over the remainder of the year before stabilising around its 2% target rate. The favourable inflation trends allowed us to begin cutting interest rates under the common monetary policy in June of last year, with cuts continuing in the early part of this year. In April of this year the Governing Council of the ECB made its seventh interest rate cut of the current cycle, lowering the rate on the deposit facility by 0.25 percentage points to 2.25%.

The uncertainty surrounding the inflation outlook remains high, as an escalation of trade tensions might drive a fall in the euro and a rise in import costs, while a rise in spending on defence and infrastructure could raise inflation via increased demand. The Governing Council will continue to assess its monetary policy stance on a meeting-by-meeting basis, taking account of incoming economic and financial data, the dynamics in core inflation, the inflation outlook and the intensity of monetary policy transmission.

More than fifteen years after the great financial crisis banks in the euro area and in Slovenia have solid capital and liquidity positions, thanks in part to a comprehensive package of reforms to the banking sector. They have successfully withstood a series of recent shocks and challenges, but ensuring financial and operational resilience in the future will require further efforts from the banking sector.

Our assessment in this issue of the Financial Stability Review is that amid the increased uncertainty, the general level of risk to financial stability rose slightly in the first quarter of 2025 after several quarters of stability, while the banks' resilience to systemic risks remains high.

The increased uncertainty in the macroeconomic environment is being reflected in particular in credit risk, whose assessment for the first quarter of 2025 was therefore raised to moderate with a stable outlook. Since 2022 the instability in the international environment has mainly been reflected in worsening performance in manufacturing. Rather than in a rise in the NPE ratio, the recent slowdown has been reflected in bank portfolios in reclassification to the stage with increased credit risk. The NPE ratio in the total portfolio remains at record low levels for now, although the banks are anticipating a slight increase in NPEs in 2025 and 2026.

Despite the macroeconomic uncertainties and the challenges facing certain sectors, bank performance was good. Slovenian banks again saw record profits last year, having generated high levels of income, whether net interest income or net non-interest income, and with net impairments and provisions at a low level. With interest rates still relatively high, there was a positive impact on net interest income in the banking system last year, although the interest rate cuts mean that this effect will gradually wane.

Income risk continues to be assessed as low, but the expectation is that it will rise over the course of the year. Our expectation is that falling interest rates will drive bank income down this year from its high levels of the previous two years, but that it will remain above the levels seen at the time of low interest rates.

It remains our assessment that the current moderate risk to financial stability inherent in the real estate market could also rise in the future. The supply of residential real estate has long trailed demand, which amid falling interest rates on housing loans is driving an ongoing rise in residential real estate prices, even as the number of sales falls, while commercial real estate prices have again risen sharply in recent times. This publication also includes a thematic box analysing the risk to financial stability posed by the commercial real estate market. Our assessment is that the potential losses on loans secured by commercial real estate would not pose a significant threat to bank solvency.

In the second half of 2024 we assessed that the risk inherent in leasing companies might also rise in the future. The risk assessment remains low in the first quarter of this year, but the trend was downgraded in the previous quarter amid worsening expectations. Compared with the autumn Financial Stability Review, the remaining assessments of risks and resilience remain unchanged, with stable outlooks.

As the custodian of financial stability, we respond to the risks and issues described through our macroprudential policy, with measures to strengthen the resilience of the financial system and businesses to external and domestic financial shocks. In light of the situation last year we maintained a preventive stance in macroprudential policy, where four macroprudential instruments apply to the Slovenian banking system. Having regard for the assessments of systemic risks and the resilience of the financial system,

last year we adjusted the requirements regarding the O-SII buffer rate, which is the practice every year. No further adjustments were made to any other instruments.

The sectoral systemic risk buffers were left at the reduced level of 0.5% of risk exposure, which the banks have applied as of 1 January 2025 in line with our regulation of November 2023. Our requirement regarding the countercyclical capital buffer rate also remained unchanged at 1%, which is designated a positive neutral rate given the assessed neutral environment for financial risks. The concept was introduced in 2023, effective as of 1 January 2025, where the purpose is for the banking system to have sufficient capital at its disposal for release in the event of unforeseeable shocks not necessarily related to excessive credit growth and the build-up of domestic imbalances.

The most recent adjustment to the macroprudential instrument related to restrictions on consumer lending was made at the end of the first half of 2023; last year our assessment was that additional adjustments to the macroprudential restrictions on consumer lending were not necessary.

The adjustment of macroprudential policy is of course a continual process. If we assess that the level of systemic risk is elevated or the resilience of the financial system has declined, or that there is a risk of the intermediate macroprudential policy objectives not being attained, we can opt to impose or modify macroprudential instruments, thereby ensuring in the future that our macroprudential framework remains up-to-date and appropriately tailored to the current situation.

Dr Primož Dolenc
Acting Governor

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Executive Summary

The increase in uncertainty in the international economic environment is gradually being reflected in a rise in systemic risks to financial stability in Slovenia, although the banks' resilience to systemic risks remains high (see Table 1.1). The latest steps by the new US administration in the area of tariffs are further increasing uncertainty, as they could lead to a spiral of measures and countermeasures, which might also trigger a global recession. The economic situation remains uncertain at home and internationally, which is already being reflected in credit risk in particular, where the risk assessment for the first quarter of 2025 was raised to moderate. The increased credit risk at banks is currently being reflected in an increase in the share of Stage 2 exposures in numerous portfolio segments, while the NPE ratios remain at a favourable level for the moment. Compared with the autumn Financial Stability Review, the remaining assessments of risks and resilience remain unchanged. The expectations with regard to income risk and the risk inherent in leasing companies were both downgraded. Our expectation is that falling interest rates will drive bank income down this year from the high levels achieved in the previous two years, but that it will remain above the levels seen at the time of low interest rates. The expectation is for leasing companies to face additional challenges owing to the high share of their business accounted for by vehicle leases.

Table 1.1: Banka Slovenije's risk and resilience dashboard for the Slovenian financial system

Risk and resilience dashboard												
	2021	2022	2023				2024				2025	Trend of change
	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Systemic risks												
Risk inherent in the real estate market												↑
Funding risk in the banking system												→
Interest rate risk in the banking system												→
Credit risk in the banking system												→
Income risk in the banking system												↑
Risk inherent in the performance of leasing companies												↑
Resilience to systemic risks												
Solvency and profitability of the banking system												→
Liquidity of the banking system												→
Other risks												
Cyber risk												→
Climate risks												→
Colour code:												
Risk	low	moderate	elevated	high								
Resilience	high	medium	low	very low								

Note: The colour code in the risk and resilience dashboard relates to the assessment for up to one quarter in advance. The arrow illustrates the expected change in risk or resilience in the scale (up or down) over a slightly longer horizon of around one year. For risks, an up arrow means an increase in risk, and vice-versa, while for resilience it means strengthening, and vice-versa. The risk and resilience dashboard is based on analysis of key risks and resilience in the Slovenian banking system, and is defined as the set of quantitative and qualitative indicators for defining and measuring systemic risks and resilience.

Source: Banka Slovenije

Geopolitical tensions increased in the second half of last year, while the uncertainty in the macroeconomic environment was exacerbated by the economic pol-

icy and tariff policy of the new US administration. The expectation is that the adverse effects of the uncertainty surrounding the potential for further changes in global trade policy will hit exports and investment in the euro area, which together with challenges in connection with competitiveness will drive a further decline in the euro area's export market share. The domestic economic situation remains uncertain on account of external factors, but is more stable than a year ago and better than the average level in the euro area.

The risk inherent in the real estate market continues to be assessed as moderate, with the possibility of an increase in the future. Residential real estate prices continued to rise in the second half of last year, amid the gradual strengthening of demand for housing loans in connection with falling interest rates on loans. This confirmed that the beginning of a new real estate cycle was underway, which even in the first half of last year had resulted in us adjusting our expectations regarding a rise in risks. Commercial real estate prices also rose sharply in the second half of the year.

Deposits by the non-banking sector remain the most important and stable source of funding for Slovenian banks, and funding risk consequently continues to be assessed as moderate and stable. The banks' dependence on other sources of funding remains low. In the wake of a simultaneous increase in long-term assets and the maintenance of a high share of sight deposits, the maturity gap between assets and liabilities is widening, and with it the banks' exposure to the risk of instability in funding. This could be realised in the event of any sudden large-scale switching of deposits between banks or withdrawals from the banking system, which means that adapting promptly to the situation regarding competition in the sector is the key to stable performance. The banks must also be mindful of alternative forms of investment and the deposit offers of foreign banks, who are becoming increasingly attractive for Slovenian depositors.

Interest rate risk remains moderate and stable. The changes in loans and deposits have only had a minor impact on the banks' interest sensitivity. The main impacts on the asset side came from the increase in securities holdings and the simultaneous decline in liquid assets, while the main impact on the liability side came from the increase in the stock of issued securities. The changes in assets and funding alike drove a lengthening of the average repricing periods. The repricing gap thus remained similar to that at the end of 2023. The trend of falling interest rates in the banking system was broadly based in 2024. Interest rates fell on loans to and deposits by the non-banking sector alike.

Following December's downgrading of the economic outlook, the credit risk assessment was raised to moderate with a stable outlook. Credit risk is thus not expected to increase over the following quarters. Non-performing exposures otherwise remain at a low level. There was a discernible deterioration in the performance of firms in manufacturing in particular, and an increase in the share of Stage 2 exposures in numerous segments of the bank portfolio. The share of Stage 2 exposures almost doubled over the final months of 2024, with the largest reclassifications to Stage 2 being recorded by firms involved in the manufacture of steel and equipment for motor vehicles, and the plastics industry. The rising number of bankruptcies, in the non-financial corporations portfolio overall and in manufacturing in particular, is also increasing the banks' exposure to these firms, although the number remains relatively low. The stock of non-performing consumer loans is also increasing, although the NPE ratio remains stable thanks to the high lending activity in this segment.

Income risk continues to be assessed as low for now, but is set to strengthen over the course of the year, as the fall in interest rates in 2024 and 2025 is bringing an end to the period of extremely high income in the banking system. Despite the gradual decline in net interest income, income generation in the banking system remains stable in the early part of this year, while the net interest margin remains above its long-term average. Non-interest income, particularly fees and commission, remains relatively stable, while operating costs rose last year, largely as a result of the introduction of the tax on total assets.

The cyber risk assessment is being held at elevated with a stable outlook, while the climate risk assessment remains moderate with a stable outlook. Cyber risks are being held at elevated level on account of the potential cyber threats that might be posed by the geopolitical uncertainty. The Slovenian banking system was not the target of major cyberattacks in the second half of 2024, in contrast to what has been seen in recent years at EU level. The number of critical cyber incidents in the final quarter of last year was again down in year-on-year terms, and a similar trend is expected in the first half of this year. The climate risk assessment is being left unchanged on account of the relative stability of the transition risk indicators, while physical risks, which were incorporated into regular monitoring in 2024, are disclosed at a low level.

The assessment of the resilience of the banking system from the perspective of solvency and profitability remains high. Our expectation is that the banks will retain some of their profits from 2024 and allocate it to their reserves, which over the course of 2025 could also be reflected in the total capital ratio. As an extremely favourable period for generating high profits in banking comes to an end, our expectation is that rising operating costs and additional impairments will also drive a gradual decline in profit, alongside falling interest rates.

The resilience assessment also remains high and stable in the liquidity segment. There was a slight deterioration in certain liquidity indicators, but the liquidity position of the banking system remains good. With some liquid assets being redirected into debt securities, the stock of liquidity remained large, but there was a change in its structure. The majority of banks maintained high capacity to cover net liquidity outflows over a one-month stress period, and to finance their liabilities over a longer period of one year.

The financial position of households and non-financial corporations remains good. Household lending, particularly via consumer loans, strengthened further amid rising wages and low indebtedness. Holdings of securities and mutual funds have also increased over the last two years. The low indebtedness and the reduced burden of financing as interest rates fall are also having a beneficial impact on the financial position of non-financial corporations, which is also being strengthened by the ongoing increase in their internal resources. Towards the end of the year there was a rise in the number of bankruptcy proceedings initiated at non-financial corporations, and also in the number of frozen current accounts, which is indicative of the increased challenges that firms face, particularly in the export economy.

The situation in the non-bank segment of the financial sector also remains relatively favourable. Leasing companies are facing a decline in new business, while rising financing costs are also reducing their profits. Consequently we downgraded their outlook in the second half of last year, although the inherent risk continues to be assessed as low, given that the proportion of claims more than 90 days in arrears is low and limited, and the stock of business further strengthened. The insurance sector is generating high profits despite the abolition of supplemental health insurance, and last

year saw no major loss events. The rise in stock markets and the quest for higher returns were also reflected in record net inflows into mutual funds.

The macroprudential policy stance remains focused on maintaining the resilience of the banking system, which is still facing macroeconomic and geopolitical uncertainties. There are four macroprudential instruments that currently apply to the Slovenian banking system. The buffer for other systemically important institutions (O-SII buffer), the countercyclical capital buffer and the two sectoral systemic risk buffers require a higher level of capital at banks, and thus strengthen the (capital) resilience of the banking system. The macroprudential restrictions on consumer lending put minimum credit standards in place, and at the same time are pitched at mitigating and preventing excessive credit growth and excessive leverage, thereby reducing credit risk.

There are six thematic boxes in this issue of the publication. The first examines the early warning system, which allows for an assessment of the build-up of new risks in the banking system. The second box analyses the risks to financial stability posed by the commercial real estate market and the banks' resilience to their exposure to this market. The third box highlights the opportunities and risks brought to the banking sector by AI. The fourth box examines the factors in the increase in profit taxes, which more than tripled at banks in 2024. This is followed by analysis of Slovenian firms' exposure to German industry and the risks that it poses to the Slovenian banking system. The final thematic box focuses on the importance of analysing the macroprudential policy stance, and illustrates a potential approach to assessing this stance.

1 Macroeconomic Environment

Given the uncertain short-term outlook and the rising risks over the medium term, global economic growth is forecast to remain below its long-term average, and while the domestic economy is in better shape than the euro area overall, it still faces uncertainty, with differences in performance between individual sectors and industries. Compared with the end of last year, domestic services and retail are seeing less favourable developments, while industry is facing a decline in output and increased uncertainty in the international environment. This is primarily attributable to geopolitical and trade risks with increasing market fragmentation amid rising trade barriers, and could in the future be realised in weaker economic growth and adverse financial flows. The labour market remains tight, despite signs of a slowdown. The running 12-month current account surplus remains close to its highest level of recent years, thanks to a large services trade surplus. Headline inflation and core inflation are approaching the monetary policy target rate, and are expected to hold close to this rate in the future. The banking sector is continuing to perform solidly in favourable conditions.

Global economy

Global economic growth (excluding the euro area) is forecast to remain moderate this year, and to be below its long-term average over the following years. Growth is forecast at 3.4% in 2025, before slowing to 3.2% in 2026 and 2027.¹ The slight slowdown reflects the anticipated weaker growth in China caused by the adverse demographics, and slower growth in the US as the shifts in various policies take effect. The PMIs for the global economy in the early part of this year are pointing to stagnation in manufacturing, and moderate growth in services (see Figure 1.1, left). Global inflation (excluding the euro area) is forecast to fall to 3.3% this year, before slowing to 2.7% in 2026 and 2.5% in 2027. The advanced economies are likely to approach their monetary policy target rates more quickly than developing countries. The medium-term risks to the global economy are rising, while the short-term outlook remains uncertain, and varies from country to country. The general scaling back of regulation in the US might encourage short-term growth through increased investment, but overzealous cuts to regulation aimed at limiting the take-up of excessive risks and the build-up of debt could over the long term give rise to greater volatility in the financial and economic cycles, with adverse consequences for the rest of the world.

The increased uncertainty in the international environment, which is primarily attributable to geopolitical and trade risks, with increasing market fragmentation amid rising trade barriers, could in the future be realised in faster changes in international financial flows, weaker economic growth, and higher inflation. Disruption to the disinflation process could slow the ongoing easing of monetary policy, which might weaken fiscal sustainability and pose a threat to financial stability. Conversely the markets' expectations regarding the movements in key interest rates at the ECB and the Fed have shifted slightly towards faster and larger cuts. This shift was attributable to the increased risk that US trade policy will have a lasting impact on the US and euro area economies. Managing these risks will require economic policy coordination, to ensure the right balance between inflation and economic activity. It will be

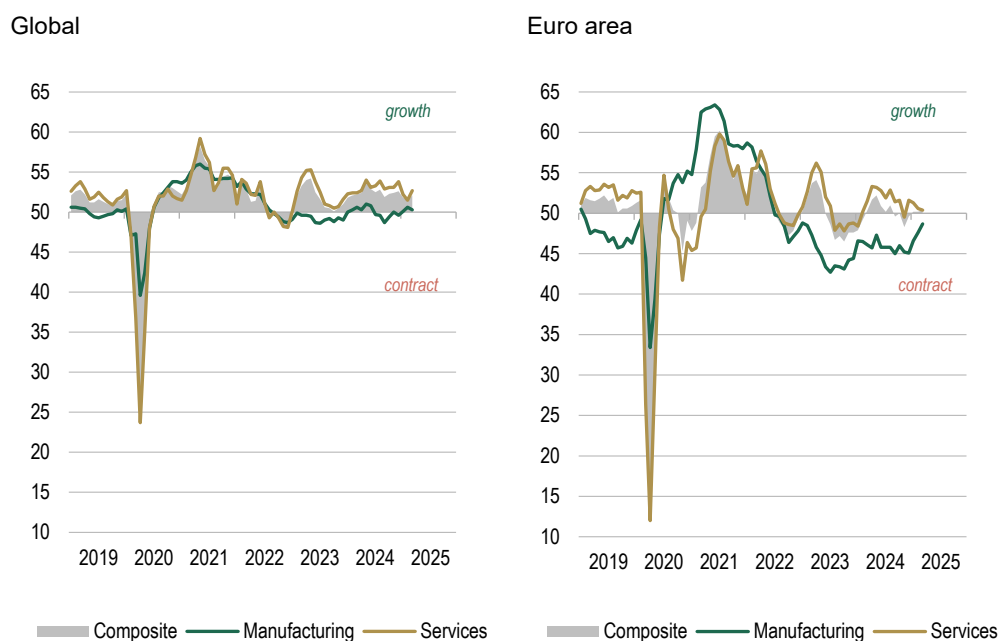
¹ ECB, March 2025.

particularly important to re-establish fiscal reserves, to improve the medium-term economic outlook by strengthening structural reforms, and to strengthen multilateral rules and cooperation (e.g. new trade agreements).

Euro area

Following its sluggish growth in the final quarter of last year, the euro area economy is forecast to gradually recover this year and over the following years, amid persistent geopolitical, political and trade uncertainties. Growth remained modest in 2024 at 0.9%, but the PMIs (see Figure 1.1, right) and confidence indicators (see Figure 8.1, left, in the appendix) point to weak growth over the short term, amid low consumer confidence and increasing propensity to save among households. The announcement of increased defence spending and the associated bigger need for borrowing are increasingly bringing the risk to the sustainability of government debt to the fore. In the wake of the removal of the German government debt ceiling, yields on euro area government bonds rose discernibly (see Figure 8.4, left, in the appendix). As far as foreign trade is concerned, the expectation is that the adverse effects of the uncertainty surrounding the potential for further changes in global trade policy will hit exports and investment, which together with challenges in connection with competitiveness will drive a further decline in the euro area's export market share.

Figure 1.1: PMIs



Note: A PMI of more than 50 represents economic expansion with regard to the previous month, while a value of less than 50 represents contraction.
Source: Bloomberg

The euro area is also facing low productivity growth, which remains one of the more important areas of future action in the EU. The first major initiative of the new European Commission in this area is the Competitiveness Compass, which aims to help reduce bureaucracy and to simplify the business environment. The Resilience initiative aims to build a more resilient society by enhancing the capacity for adaptation and transformation, and shifting towards a paradigm of a more sustainable growth and

societal development path. According to the latest ECB projections,² economic growth in the euro area is forecast to reach 0.9% this year and 1.2% in 2026, both forecasts having been revised downwards by 0.2 percentage points since the December projections. Headline inflation in the euro area (as measured by the HICP) is continuing to slow. It fell to 2.2% in March, down from 2.3% in February. The slowdown was mainly attributable to developments in services prices and energy prices, while the contribution by food prices strengthened slightly (see Figure 1.2, right). Inflation is forecast to gradually fall over the remainder of the year, before stabilising around its target rate of 2%. Core inflation is forecast to fall in the future, as past energy price shocks wane, pressure on labour costs reduces, and the delayed effects of past monetary policy tightening are realised. It stood at 2.4% in March, but is set to fall to 1.9% by 2027.

Slovenia

The domestic economic conditions remained uncertain in the final quarter of last year and the first quarter of this year, but better than in the euro area overall.

Developments in the final quarter of last year varied from sector to sector: services and retail performed solidly, supported by strong domestic consumption, while industry faced increased uncertainty in the international environment, despite its relatively favourable situation. In the breakdown by expenditure, growth was primarily driven by government consumption, private consumption and net exports, while a sharp downward reversal in the investment cycle drove a decline in gross fixed capital formation that acted to reduce growth (see Figure 8.2, left, in the appendix). GDP increased by 1.6% last year according to initial SORS estimates, while our latest projection is forecasting growth of 2.2% for this year, before a rise to 2.8% in 2026 and then a slowdown to 2.4% in 2027.³ Economic sentiment in the first quarter improved slightly relative to the final quarter of last year, following a significant improvement in retail, remaining low in manufacturing amid high economic uncertainty, and worsening among consumers. (see Figure 1.2, left). Real indicators of domestic consumption in the first quarter point to a gradual slowdown in consumption, while production output is slowing. Quarterly growth⁴ stood at 0.6% in the final quarter, the highest rate of last year, while the Banka Slovenije nowcasts are forecasting favourable growth for the first quarter of this year based on the indicator dataset currently available and a wide range of forecasts. The labour market remains tight despite signs of a slowdown, which are primarily being seen in the private sector (see Figure 8.3, left, in the appendix). The running 12-month current account surplus remains close to its highest level of recent years, thanks primarily to a large services trade surplus (see Figure 8.3, right, in the appendix). Increased contributions from energy prices and food prices saw headline inflation (HICP) strengthen to 2.0% at the end of last year, and it stood at 2.2% in March (see Figure 1.2, right). Core inflation has moved relatively in line with headline inflation since December of last year. It stood at 2.5% in March (see Figure 8.2, right, in the appendix).

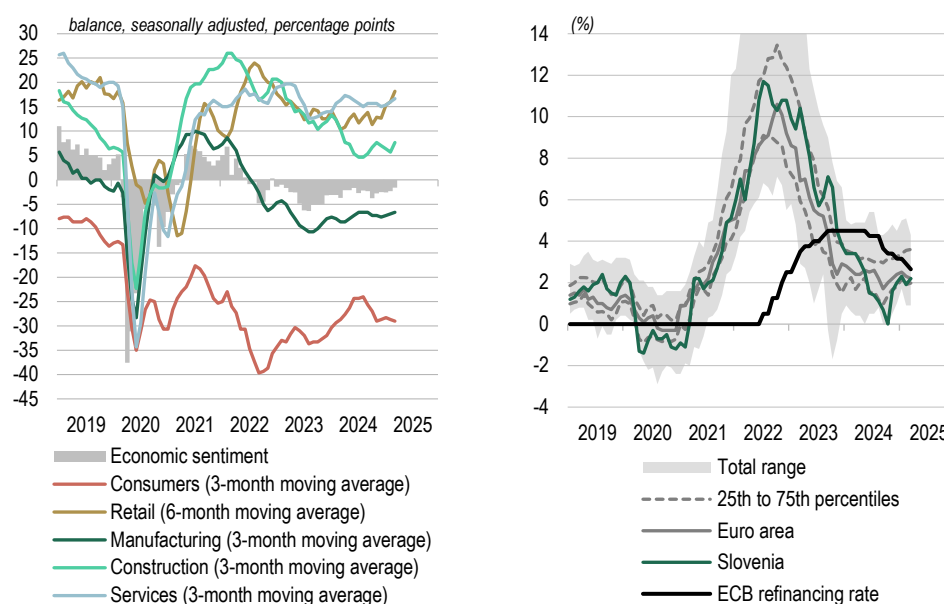
² ECB, March 2025.

³ Review of macroeconomic developments and projections, December 2024.

⁴ Seasonally and calendar-adjusted.

Figure 1.2: **Economic sentiment and inflation**

Confidence indicators and economic sentiment Inflation (HICP), comparison with the euro area



Note: The confidence indicators in the left chart are illustrated as three- or six-month moving averages (other than the economic sentiment indicator). The indicators are expressed in the form of an average balance, where the balance is the difference between the proportions of positive answers and negative answers.

Sources: SORS and Banka Slovenije calculations (left chart), Eurostat (right chart)

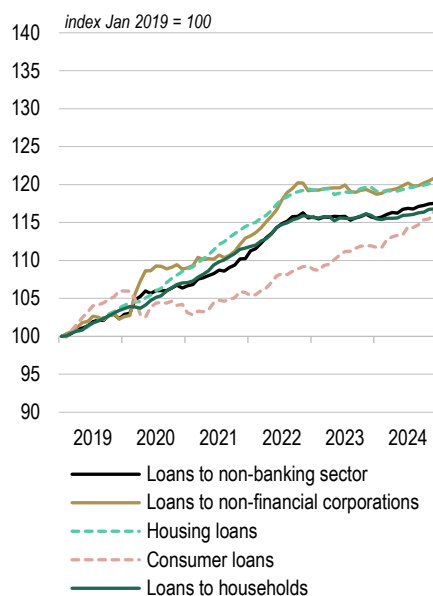
Banking sector

The conditions in which euro area banks are doing business are relatively unfavourable, but their performance remains solid. The relatively high interest rates had a positive impact on net interest income in the banking system last year, although the reversal into interest rate cuts means that this effect is gradually waning. Bank lending activity in the euro area continued to recover moderately last year, but remained weak in nominal terms (see Figure 1.3, left), although continually declining funding costs contributed to the strengthening. Net corporate demand for loans continued to increase in the final quarter of last year according to the survey data, but remained weak,⁵ and was driven mainly by the ongoing fall in interest rates. The sluggish demand reflects weak economic conditions, particularly in certain investment-intensive sectors, while the economic, political and geopolitical uncertainties were also a limiting factor. While net demand for housing loans continued to rise sharply, demand for corporate loans increased only modestly. The developments in the former were mainly driven by falling interest rates, but also to a lesser extent by an improvement in the housing market prospects. Demand for consumer loans was supported by the fall in interest rates, while consumer confidence, spending on durables, and the use of alternative financing at other banks and non-bank institutions all acted to reduce demand.

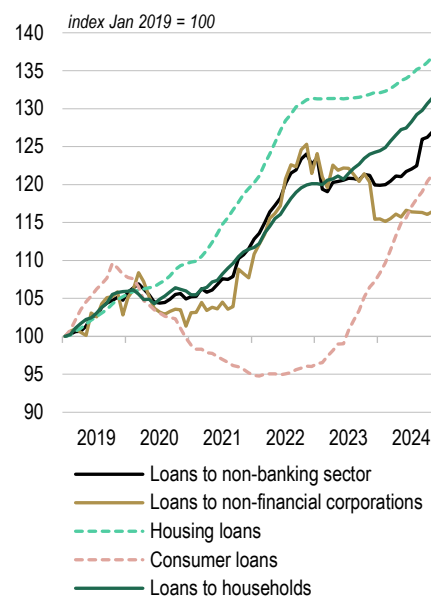
⁵ Bank Lending Survey (BLS), January 2025.

Figure 1.3: Credit activity

Euro area



Slovenia



Sources: ECB Data Portal and Banka Slovenije calculations (left chart), Banka Slovenije (right chart)

Banks in Slovenia are also mostly seeing favourable performance, with above-average net interest income compared with past years. Lending activity strengthened discernibly last year, although it varied according to customer segment (see Figure 1.3, right).⁶ Lending to non-financial corporations was very weak, and the loan stock in December was down 2.1% on the previous December. This was also reflected by the data from the BLS,⁷ which indicated a net decline in demand over the first three quarters of the year. Demand was unchanged in the final quarter, with more evident positive effects from inventories and working capital.⁸ Meanwhile household lending strengthened last year, consumer loans in particular, whose year-on-year rate of growth slowed in the second half of the year in the context of the high base from the previous year. Demand for housing loans remained unchanged in the final quarter of last year, but banks noticed an increase in demand for consumer loans. The most important factor in the increased demand was the general fall in interest rates.⁹

Box 1: Early warning system for banks

This box examines the early warning system (EWS) for banks, which provides an assessment of the build-up of new risks in the banking system and at individual banks. Macroeconomic factors have a significant impact on the stability of the banking system, which requires the prompt identification of risks to ensure the effective adjustment of macroprudential policy and to prevent financial crises. The EWS for banks allows for the decomposition of the probability of a banking crisis or banking distress into factors at the level of individual banks and the banking system, and macrofinancial factors. The decomposition can help to identify the main factors in the vulnerability of banks and the banking system, and to provide support for macroprudential policy decisions. The purpose of the EWS is to identify future periods of growing financial imbalances and rising risk of the development of a banking crisis. It should be emphasised

⁶ Year-on-year changes in loan stock, December 2024: loans to non-banking sector: 5.5%; loans to non-financial corporations: -2.1%; household loans: 6.0%; housing loans: 3.9%; consumer loans: 13.5%.

⁷ Bank Lending Survey, January 2025.

⁸ For more, see the section on non-financial corporations.

⁹ For more, see the section on households.

that the aim of the EWS is not to build a model that accurately forecasts the occurrence of a future banking crisis.

A number of important decisions first need to be taken when creating an EWS.

Because early warning models generally aim to predict the future, the objective is to optimise the performance of the model on future data (outside of the sample). The EWS for banks is therefore built in a way that optimises the quality of the forecasts on data outside the sample. Here the choice of categories that make up the components of each early warning model is also important. The first of the key decisions in creating the EWS is the choice of event that is defined as a banking crisis, or an event that potentially entails the onset of a crisis. This event is subsequently defined as distress. Distress is defined at the bank level. This raises the number of distresses, which allows for better identification of suitable indicators for predicting events of this kind, and simultaneously allows for the forecasting of distresses for individual banks. The probabilities of distress at individual banks can then be aggregated for the banking system as whole or for groups of banks. The second of the key decisions in creating the EWS is the choice of an appropriate horizon for assessing and evaluating the occurrence of distress. Distress should be forecast for a specific time horizon in advance before it actually occurs. There is no such thing as a best approach to choosing an appropriate time horizon before the occurrence of a distress event. The choice depends on the purpose of the EWS, and on how far in advance the system should signal an event for the supervisor to have sufficient time to take appropriate action. Following the foreign literature, and having regard for the various purposes of use, the EWS uses four time horizons: (i) between one and eight quarters before distress; (ii) between five and 12 quarters before distress; (iii) between nine and 16 quarters before distress; (iv) between 13 and 20 quarters before distress. For the purposes of financial stability, the time horizon of five to 12 quarters before distress is the key to having the ability to take timely action, e.g. adopting macroprudential measures. This timeframe is long enough to allow analysis of trends and signals that point to potential problems, but at the same time is short enough for measures to still be effective and relevant. Macroprudential measures such as limiting credit growth, raising capital requirements or restricting high-risk assets require a certain time to be implemented and to influence the financial system. If measures are taken too late, the crisis might already have escalated, which makes it harder to stabilise the system, but if measures are taken too soon, they can cause unnecessary disruptions to the economy.

The last key decision in creating the EWS is the choice of an appropriate metric for assessing and evaluating the occurrence of distress.

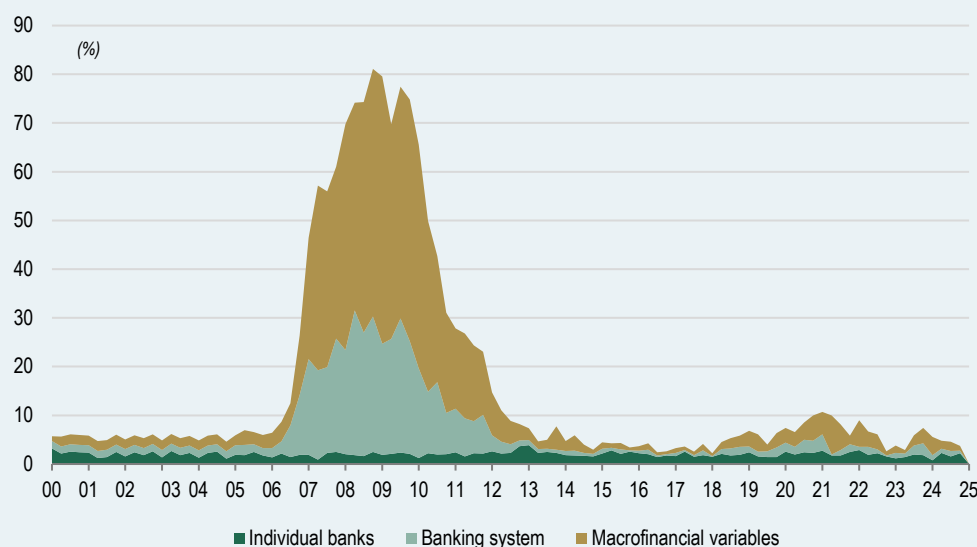
The binary classification models used for the EWS are by nature subject to type I errors (false positives) and type II errors (false negatives). Errors of both types are relatively costly for decision-makers, and there is a need to establish a compromise between them. The compromise between the two types of error is found by balancing the threshold or limit values that determine when the EWS issues a warning. If the threshold is set too low, the system will trigger many warnings, which means greater caution, but also the risk that measures place an unnecessary burden on the system. Conversely, if the threshold is too high, a warning will only be issued during the strongest signals, which while reducing the number of false alarms increases the chance of a true crisis being overlooked. The compromise is to find a balance that optimises the effect of warnings and the benefits of measures versus the costs of errors of both types. This ensures that decision-makers obtain reliable information that allows for timely reactions but not over-reactions.

The explanatory variables in the EWS models are divided into three categories: (i) variables at the level of individual banks: capital adequacy (total capital ratio, leverage ratio, etc.); asset quality (NPL ratio, impairments ratio, etc.); governance quality (CIR); income (ROE, ROA, NIM); liquidity (ratio of interest expenses to total liabilities, etc.); (ii) variables at the level of the banking system that are frequently cited in the literature as early warning indicators of banking crises: credit; credit-to-GDP ratio; LTD ratio; leverage ratio and total capital ratio in the banking system; (iii) macrofinancial variables that describe the development of the financial system or the national economy: GDP growth; real estate prices (growth, gap); 10-year bond yields; interest rates (Euribor).

The choice of explanatory variables in the models is made in two ways. The choice is made either using expert models (on the basis of univariate signalling and on the basis of theory or expert literature), or using an automated LASSO¹⁰ method, where variables with the greatest predictive power are automatically chosen from the entire mass of variables.

The EWS for banks produces an assessment of the build-up of new risks in the banking system and across individual banks. The purpose of the EWS is identifying those future periods when financial imbalances strengthen, thereby raising the risk of a future banking crisis. As stated above, the chances of taking timely action mean that the most important timeframe for adopting macroprudential measures is between five and 12 quarters before distress. Figure 1.4 illustrates the evolution over time of the probability of banking distress five to 12 quarters in advance calculated on the basis of a specific EWS model from data up to the final quarter of 2024 inclusive. The height of the curve represents the probability of systemic banking distress/crisis. The probabilities are broken down by colour into the contributions by individual types of variable. It is evident from the figure that macrofinancial variables accounted for a large share of the probability of systemic banking distress in the years of the last financial crisis. It is also evident from the figure that all the probabilities of systemic banking distress have been low over the last few quarters, and do not indicate any systemic build-up of risks.

Figure 1.4: **Probability of banking distress according to individual types of variables, 5 to 12 quarters in advance**



Source: Banka Slovenije

¹⁰ Least Absolute Shrinkage and Selection Operator.

2 Key Risks to Financial Stability

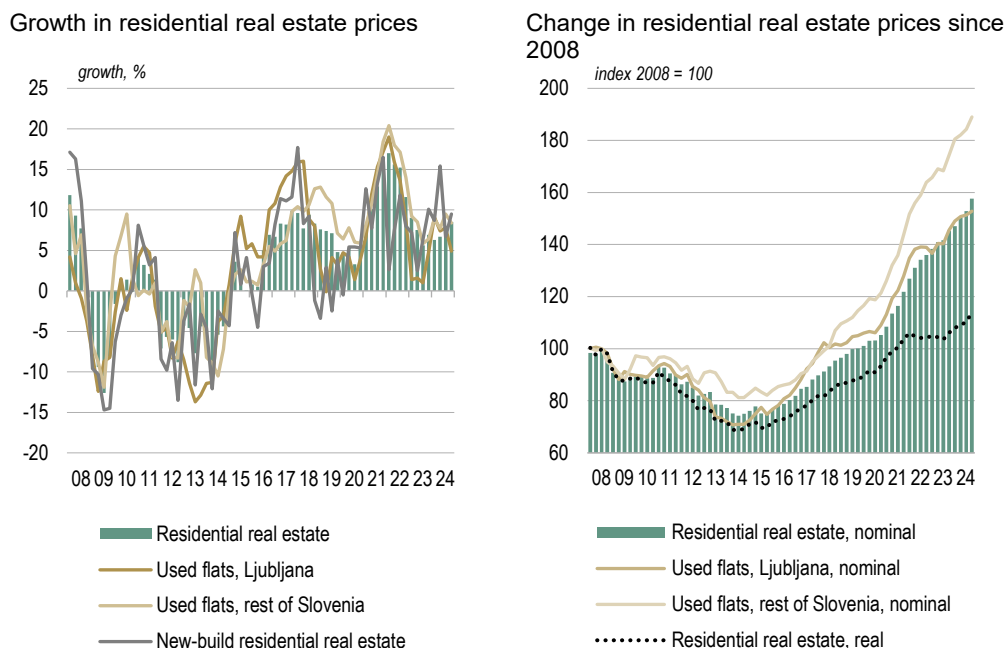
2.1 Risk inherent in the real estate market

Our assessment is that the risk to financial stability inherent in the real estate market is moderate, but might rise in the future. Residential real estate prices are rising again, while the number of sales are falling. The supply of residential real estate is trailing demand, which is driving a further rise in residential real estate prices. Demand is being driven by falling interest rates, low unemployment and low household indebtedness. The fall in interest rates strengthened demand for loans. This confirmed that the beginning of a new real estate cycle was underway, which even in the first half of last year had resulted in us adjusting our expectations regarding a rise in risks. Commercial real estate prices again rose sharply.

Residential real estate market

Residential real estate prices rose again in 2024, and in nominal terms were up more than a half on their levels from 2008. Year-on-year growth in nominal prices of residential real estate averaged 7.4% in 2024 (compared with 7.2% in 2023 and 14.8% in 2022). After recording relatively low growth in 2023, prices of used flats in Ljubljana rose significantly again in 2024, with a year-on-year rate of 7.3%. The rate in the rest of Slovenia was 8.6%. Growth in prices of new-build residential real estate was high at 10.0%, while prices of used houses rose by 6.2% (see Figure 2.1, left). Residential real estate prices in the final quarter of 2024 were up more than a half on 2008 in nominal terms, while real prices were up 13.7% (see Figure 2.1, right). Growth in rental prices slowed (according to data for calculating the consumer price index), the year-on-year rate averaging 6.4% in 2024 (compared with 12.4% in 2023 and 18.9% in 2022).

Figure 2.1: **Growth in residential real estate prices**

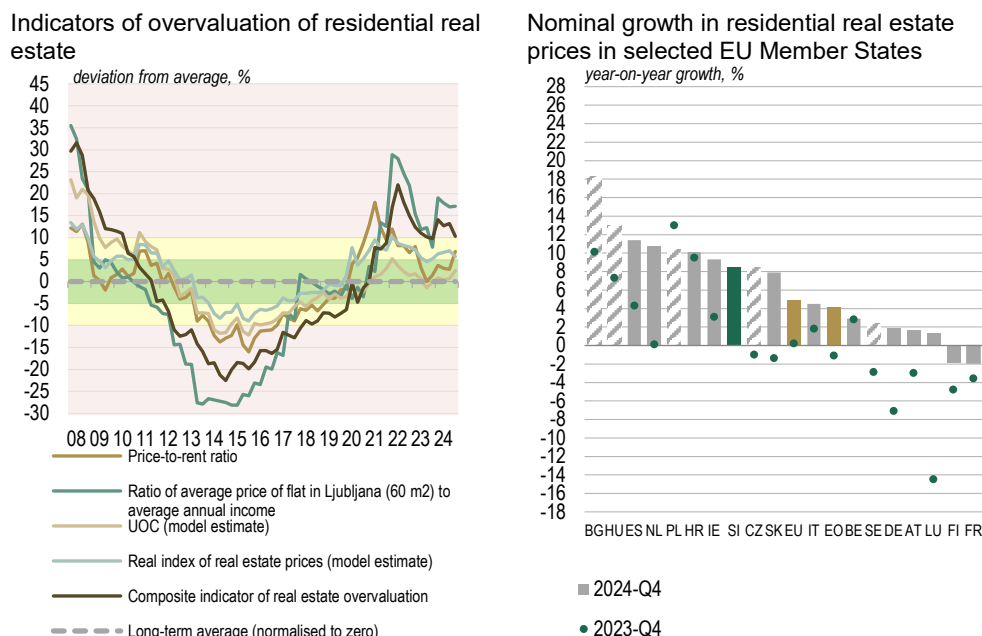


Source: SORS

Residential real estate remained overvalued in 2024, albeit considerably less than in 2008, when overvaluation peaked. The largest overvaluation of 17.1% in the final quarter of 2024 was indicated by the ratio of the average price of a flat in Ljubljana to the average annual wage, while the smallest overvaluation of 2.5% was indicated by the model estimate (see Figure 2.2, left). With the aim of improving housing affordability for vulnerable groups, the foreseen new Hospitality Act will restrict short-term rentals. A proposal for the taxation of residential real estate is also under preparation, which if formulated appropriately might increase the supply of used housing for rentals and sale.

Residential real estate prices rose in 2024 in the majority of EU Member States, but growth in Slovenia outpaced the average rates in the euro area and the EU. Prices in the EU in the final quarter of 2024 were up 4.9% in year-on-year terms, having recorded a slight decline (of 0.3%) in 2023 (see Figure 2.3, right). Price growth was highest in countries outside the euro area (Bulgaria and Hungary), while prices were still falling in certain countries (e.g. France and Finland). Residential real estate prices in the euro area in the final quarter of 2024 were up 4.2% in year-on-year terms.

Figure 2.2: Indicators of overvaluation of residential real estate



Note: In the left chart the indicators of housing price alignment with fundamentals are normalised around their own long-term averages, which are assigned a value of zero. Each indicator's deviation from the long-term average illustrates the overvaluation or undervaluation of residential real estate. The indicators are illustrated up to the final quarter of 2024. Countries outside the euro area are indicated by hatched bars in the right chart.

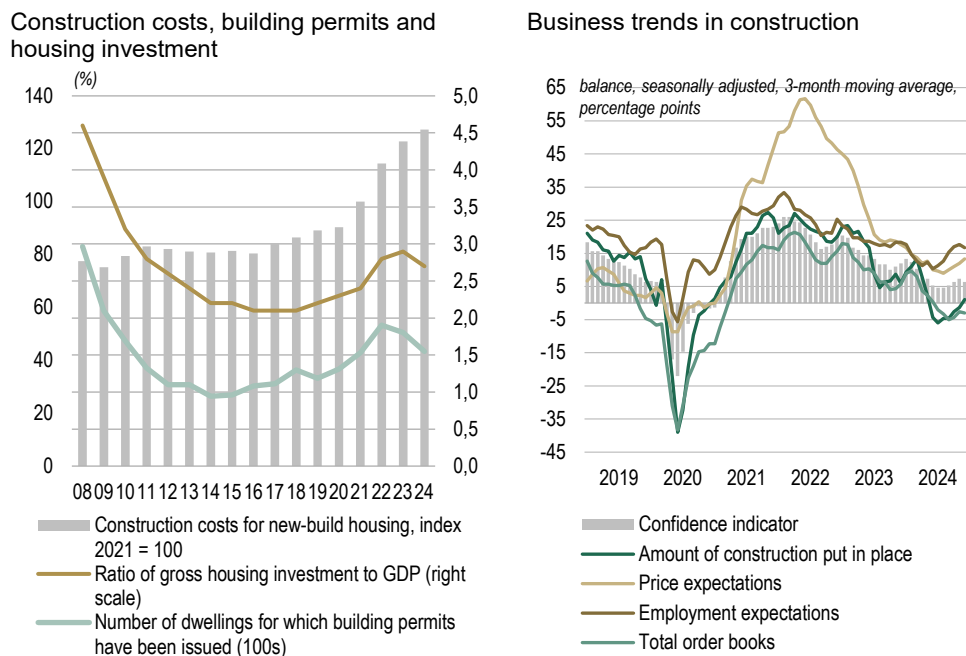
Sources: SORS, SMARS, Slonep, Eurostat

The supply of residential real estate has been trailing demand for a long time, which is one of the factors driving the rise in residential real estate prices. The construction of new residential buildings is being hindered by material and labour costs and by labour shortages. Construction costs for new-build housing in the final quarter of 2024 were up fully 31.3% on their average from 2021, when construction costs began their rapid rise.¹¹ The ratio of gross housing investment to GDP had declined to 2.6% by the final quarter of 2024, significantly below the euro area average (5.6%). The number of residential buildings for which building permits have been issued has also fallen

¹¹ The harmonised index of consumer prices (HICP) in the final quarter of 2024 stood at 120.3% relative to its average from 2021.

over the last two years; it stood at 4,339 in 2024, down 14.1% in year-on-year terms (see Figure 2.3, left). Construction confidence remained at a low level in the second half of 2024. The decline in the amount of construction put in place and total order books slowed, while expectations regarding price rises in construction increased again (see Figure 2.3, right).

Figure 2.3: **Construction costs, building permits, housing investment and business trends in construction**

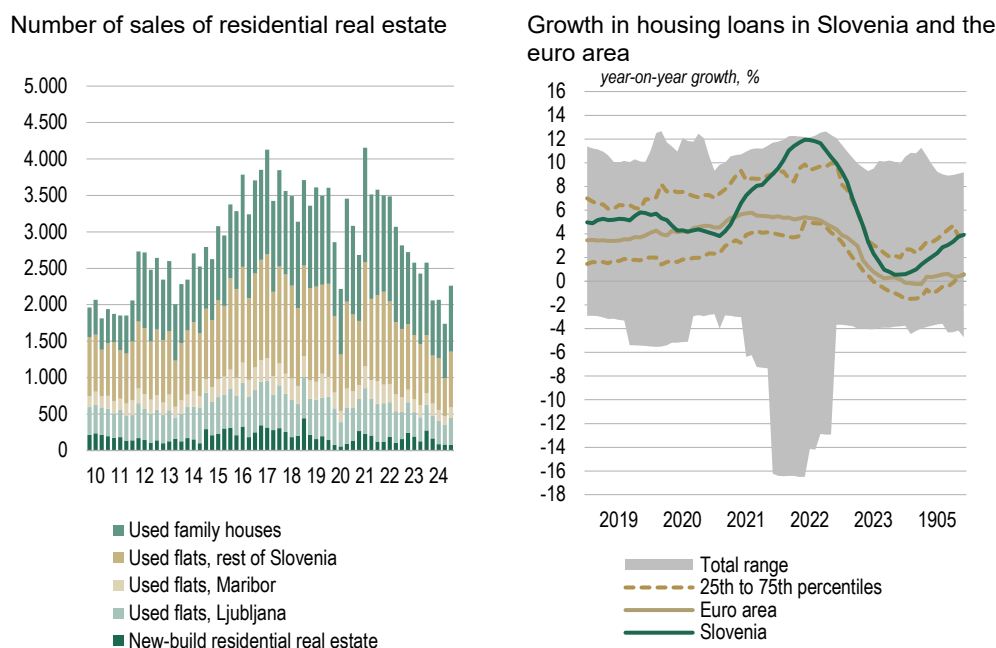


Sources: SORS, Eurostat

The number of sales of residential real estate is continuing to fall. There were 8,124 sales of residential real estate in 2024, down 21.1% on the previous year and the lowest figure of the last 14 years. Sales of new-build residential real estate were down a half, sales of used flats were down 11.7% in Ljubljana and 22.5% in the rest of Slovenia, and sales of used family houses were down 18.4% (see Figure 2.4, left). Demand is being driven by falling interest rates, low unemployment and low household indebtedness.¹²

¹² See also the section on households.

Figure 2.4: **Number of sales of residential real estate and growth in housing loans in Slovenia and the euro area**



Sources: ECB Data Portal, Banka Slovenije

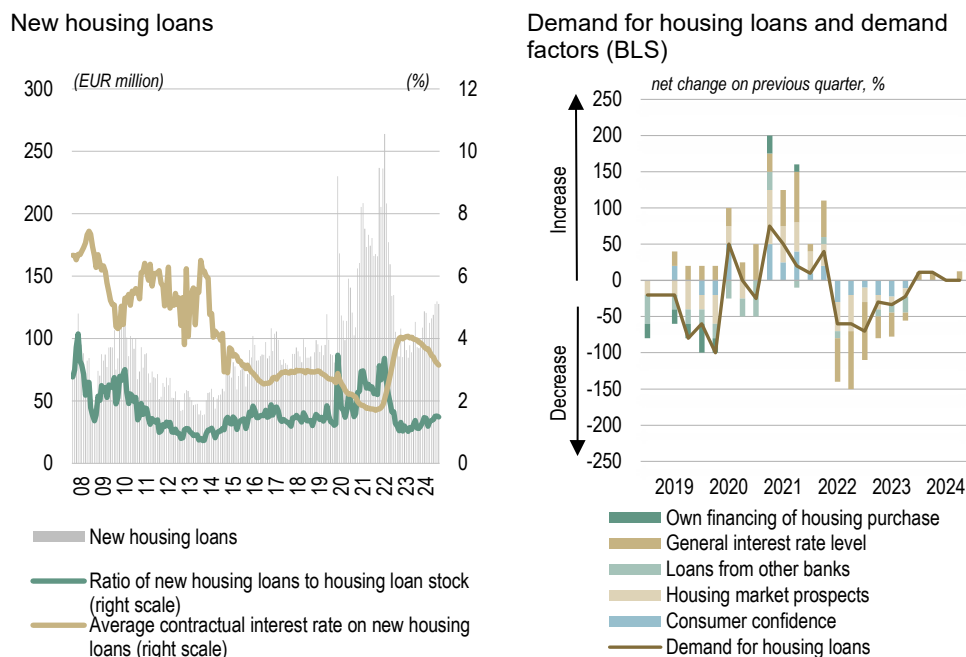
While the number of sales of residential real estate falls, the number of sales of land for the construction of buildings is also decreasing. According to SMARS data, the number of sales of building land in 2024 was down 20% on 2023, and down more than 45% on the post-pandemic peak in 2021.¹³ Sales of land for the construction of buildings amounted to EUR 281 million in 2024, or around 12% of all sales of real estate (see Figure 2.6, right). Land for the construction of buildings includes building land for the construction of houses, blocks of flats, office buildings and industrial buildings.

The fall in interest rates on new housing loans has reduced the cost of financing real estate purchases. Year-on-year growth in housing loans had strengthened to 3.9% by December 2024. The housing loan stock, which had remained around EUR 8.2 billion in 2023, had increased to EUR 8.6 billion by the end of 2024. This meant that growth in housing loans in Slovenia outpaced that in the euro area overall, where it stood at 0.6% (see Figure 2.4, right). The ratio of housing loans to GDP remains around 13% in Slovenia, significantly less than the euro area average of around 35%. New housing loans began to increase again, and in the second half of 2024 were up a quarter on the same period of the previous year (see Figure 2.5, left).

According to the available data from the BLS, the banks were expecting demand for housing loans to increase slightly in the first quarter of 2025. Demand for housing loans in the final quarter of 2024 remained unchanged according to the banks' assessments. They estimated that there had been no change in consumer confidence and the housing market prospects, while the fall in the general level of interest rates was thought to be having again a moderately positive influence (see Figure 2.5, right). Credit standards on new housing loans were slightly tightened in Slovenia in the final quarter of 2024, while in the euro area overall they remained almost unchanged from the previous period.

¹³ The number of sales of land for the construction of buildings in 2021 was the highest figure since the crisis year of 2008. A rising trend in sales of land for the construction of buildings has been evident since 2015, when sales of land for the construction of buildings accounted merely for around 8% of total real estate sales.

Figure 2.5: **New housing loans and demand for housing loans**



Note: The left chart illustrates the ratio of new housing loans to the total stock of housing loans, which was high in 2020 on account of the above-average refinancing caused by loan moratoria.

Sources: ECB Data Portal, Banka Slovenije

Commercial real estate market

Growth in commercial real estate prices again rose sharply in 2024 to stand at 14.8% (compared with 4.8% in 2023 and 15.3% in 2022). Year-on-year growth in prices of offices increased to 17.8%, while growth in prices of retail and service premises increased to 12.6% (up from 3.1% and 7.9% respectively in 2023) (see Figure 2.5, left). Fluctuations in the number of transactions and in prices are normal over the course of the year, given the small size of Slovenia's commercial real estate market. Commercial real estate accounted for just 10.5% of total real estate sales in value terms in 2024 (see Figure 2.5, right). Commercial real estate prices in the final quarter of 2024 were up 20.3% in nominal terms on 2008, but were down 13.8% in real terms. The number of commercial real estate sales is continuing to fall: 551 commercial properties were sold in 2024, down around 30% on the previous year, and the lowest figure since 2012. Commercial real estate prices in the euro area have been falling in year-on-year terms since the final quarter of 2022, and were down 7.9% in the third quarter of 2024. Prices in the third quarter of 2024 were down on 2008 for the first time since 2016, by 1.3%, having been 19.0% up on 2008 in the second quarter of 2022.

Figure 2.6: **Commercial real estate prices and real estate sales**



Sources: SORS, SMARS

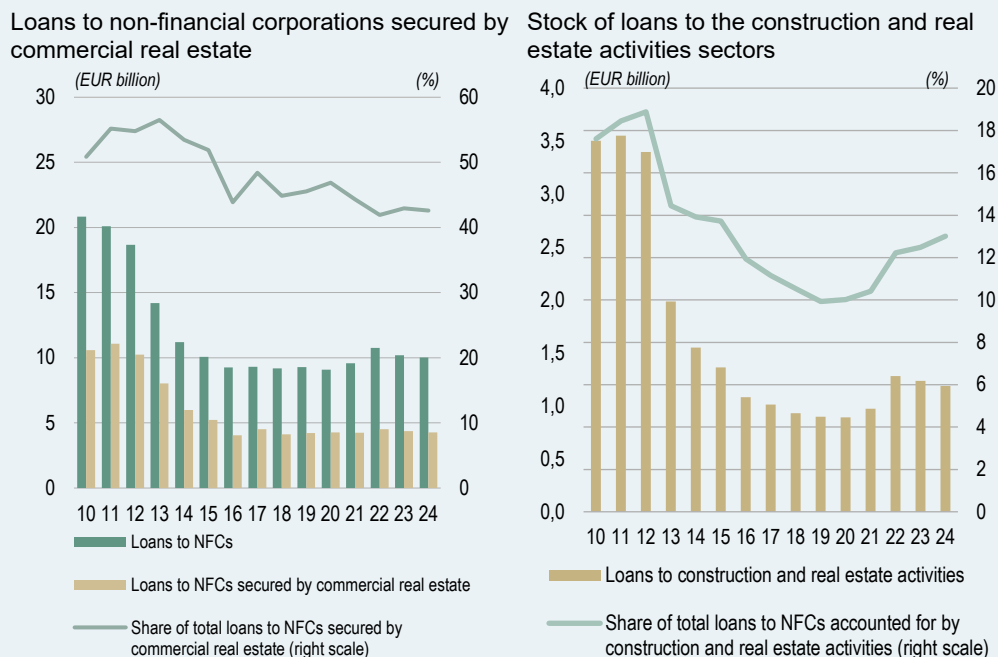
Box 2: Bank resilience to risks posed by the commercial real estate market in Slovenia¹⁴

The box analyses the risks to financial stability posed by the commercial real estate market, and the banks' resilience to those risks. Bank loans to NFCs declined by a half between 2010 and 2024, from around EUR 20 billion to around EUR 10 billion (see Figure 2.7, left). More than 40% of total loans to NFCs were secured by commercial real estate at the end of 2024.¹⁵ This was less than between 2010 and 2015, when the figure was more than 50% (see Figure 2.7, right). Only a third of loans secured by commercial real estate were approved for NFCs in the sectors of construction and real estate activities, while two-thirds went to NFCs in the sectors of manufacturing, wholesale and retail trade, accommodation and food service activities, and administrative and support service activities. This suggests that major fluctuations in commercial real estate prices affect not only the performance of NFCs in construction and real estate activities, but also those in other sectors.

¹⁴This box presents the initial results of the analysis, while the final results will be published in an article entitled *The Resilience of Banks' Exposure to the Commercial Real Estate Market in Slovenia*.

¹⁵ The real estate collateral for the loans is defined as commercial real estate, offices and business premises, and residential real estate.

Figure 2.7: **Bank loans to non-financial corporations related to commercial real estate**



Sources: Banka Slovenije, AJ PES

The share of total loans to NFCs accounted for by firms in construction and real estate activities stood at approximately 13% at the end of 2024. Following the financial crisis of 2008 and 2009, when the figure stood at around 18%,¹⁶ many construction firms went bankrupt, construction projects were halted, and the highest indebtedness by far was seen at firms in construction and real estate activities. The indebtedness of firms in these two sectors has declined significantly since then. Bank loans to these two sectors declined from EUR 3.5 billion to around EUR 1.3 billion over this period. In recent times construction has faced high construction costs and labour shortages, which has contributed to the rise in commercial real estate prices.

Bank loans to NFCs secured by commercial real estate were concluded for a variety of purposes. According to the data from the end of 2024, loans of this type were for the purpose of construction (27% of the total), purchase and renovation of commercial real estate (19%), debt financing (12%), working capital (18%) and other purposes.¹⁷ The loans for the purchase and renovation of commercial real estate were for firms to pursue their own business activities (49%) and for letting purposes (50%), while only 1% of the loans were intended for sales (see Figure 2.8, left). The share of new loans to NFCs with an LTV of up to 60% increased slightly between 2019 and 2024. Around 20% of the loans had a very high LTV of more than 120% (see Figure 2.8, right).¹⁸

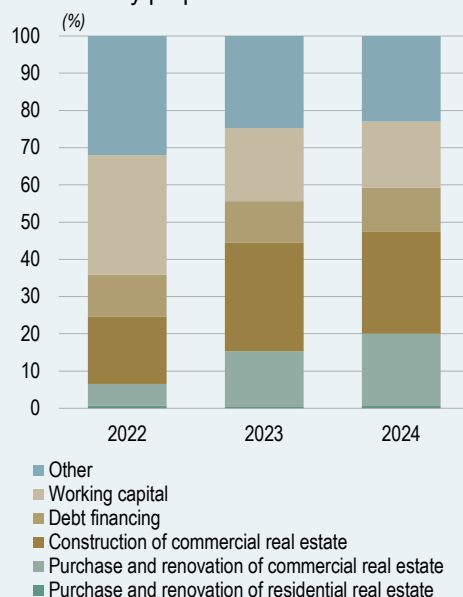
¹⁶ Loans to construction and real estate activities were also higher in 2008 and 2009 because these loans were intended for merger and acquisition activities.

¹⁷ Other purposes include lending to expand the trading portfolio, imports, exports, and miscellaneous purposes including current account overdrafts.

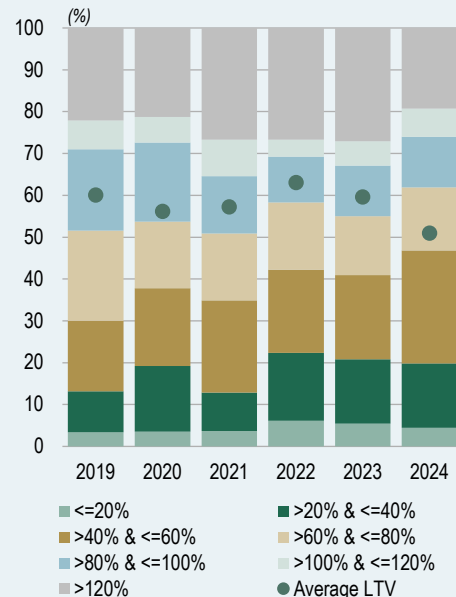
¹⁸ Banks also use other forms of collateral, which means that the LTV taking account of all collateral can be lower than the LTV that takes account of the commercial real estate collateral only.

Figure 2.8: **Loans to non-financial corporations secured by commercial real estate**

Breakdown of loans secured by commercial real estate by purpose



LTV for new loans secured by commercial real estate



Source: Banka Slovenije

Our assessment is that the potential losses on loans secured by commercial real estate would not pose a significant threat to bank solvency. Here the assumption is that in the event of a sharp fall in commercial real estate prices, the loans that would become non-performing would be those whose debt service coverage ratio (DSCR)¹⁹ was in the last quartile of the distribution of the indicator and where the LTV for the loan stock simultaneously exceeded 100%.²⁰ These loans would represent additional non-performing exposures for the banks alongside the existing non-performing exposures. The assumption is that the banks have not yet created impairments for these loans, and that the sale of the real estate collateral would yield 70% of the value of the real estate. The loss envisaged for each bank is then deducted from its regulatory capital, and its simulated capital adequacy²¹ is calculated, and compared with the actual value. Our finding is that under these assumptions, in the event of an increase in non-performing exposures driven by losses on loans secured by commercial real estate, the capital adequacy of the banking system at the end of 2023 could decline by approximately 1.3 percentage points, which would not pose a significant threat to bank solvency.

¹⁹ Measured as the ratio of total debt of NFCs and interest paid to EBITDA.

²⁰ These are the highest-risk loans from the perspective of debt servicing capacity. Similarly to the process in Jiang, E.X., Matvos, G., Piskorski, T. and Seru, A. (2023): Monetary Tightening, Commercial Real Estate Distress, and US Bank Fragility. NBER Working Paper 31970.

²¹ Measured as the ratio of regulatory capital to risk-weighted assets.

2.2 Funding risk

Funding risk remains moderate with a stable outlook. Deposits by the non-banking sector remained the most important and stable source of funding for Slovenian banks, and dependence on other funding remained low. Decreasing interest rates on deposits meant that savers only fixed a small proportion of their holdings, the stock of sight deposits thus remaining high. In the wake of a simultaneous increase in long-term assets, the maturity gap widened, thereby increasing the banks' exposure to the risk of funding instability. This could be realised in the event of any sudden large-scale switching of deposits between banks or withdrawals from the banking system. Adapting promptly to the competition in the sector therefore remains vital to maintaining stable performance in the future, in part because of the growing prominence of new digital providers of banking services (neobanks).

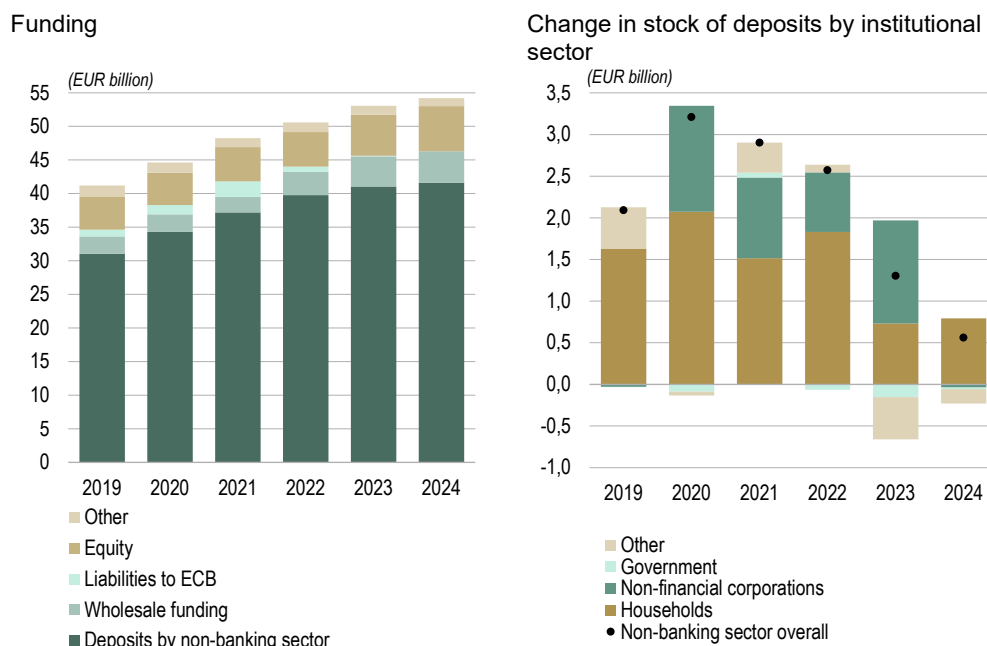
Funding

Deposits by the non-banking sector remained the key and stable source of funding for Slovenian banks, although their increase in 2024 was the smallest of the last six years. The stock increased by 1.4% or EUR 563 million to EUR 41.6 billion, thus continuing to account for the prevailing share of the Slovenian banking system's funding (see Figure 2.9, left). The increase in deposits by the non-banking sector was driven solely by household deposits, with deposits by all other sectors declining (see Figure 2.9, right). With the increase in deposits by the non-banking sector being outpaced by the increase in loans to the non-banking sector, there was a slight improvement in the LTD ratio for the non-banking sector, which stood at 68.2% at the end of 2024. This slightly narrowed the gap by which Slovenia trails the euro area overall, where the LTD ratio declined to 88.2% over the last year. The main reasons for the low LTD ratio in the Slovenian banking system remain the weakness of lending to the non-banking sector, non-financial corporations in particular, and the low dependence on wholesale funding.²² The low LTD ratio is also an indication that Slovenian banks are less exposed to any adverse impact from foreign financial markets than are those European banks with greater reliance on wholesale funding.

Given the large stock of deposits by the non-banking sector and liquid assets, the banks have no need for additional funding, and dependence on other sources of funding therefore remains low. As in previous years, individual banks issued debt securities to meet their MREL requirements. This remains likely to drive a rise in this source of funding in the future; last year it increased by EUR 341 million to account for 6.5% of the balance sheet total on the liability side. Certain banks reduced their liabilities to foreign banks, which at the end of 2024 accounted for just 2.2% of the balance sheet total on the liability side, significantly less than in 2008, when this was the most important source of funding, accounting for more than a third of the balance sheet total.

²² Wholesale funding includes liabilities to foreign banks and issued debt securities.

Figure 2.9: **Sources of funding and changes in deposits by institutional sector**



Note: In the right chart the decline in other funding in 2023 was attributable to the reclassification of certain deposits by other financial institutions as deposits by non-financial corporations owing to a change of status at one firm.

Source: Banka Slovenije

Growth in household deposits was moderate, and comparable to the previous year. The stock increased by EUR 795 million or 3.0% last year to EUR 27.3 billion (see Figure 2.9, right). Household deposits thus retained their 50% share of the balance sheet total on the liability side, and remained the most important source of funding for Slovenian banks. The monthly changes in deposits were relatively modest over the course of the year, with a few exceptions. A larger outflow in February during the issuance of Slovenian government bonds²³ was followed by pronounced seasonal inflows over the spring as annual leave allowance payments were made, and then in December when Christmas bonuses were paid. Year-on-year growth in household deposits trailed the euro area average from June onwards, which had risen to 3.6% by the end of the year (see Figure 2.10, right). The growth nevertheless remains significantly larger when viewed over a longer period of six years: household deposits are up 44% in Slovenia over this period, compared with 29% in the euro area average (see Figure 2.10, left).

Our expectation is that household deposits will continue to see moderate growth in the future, but the monitoring customer saving habits nevertheless remains important. The government again issued people's bonds in March 2025, at an interest rate more favourable than those available on fixed-term deposits at Slovenian banks. New providers of banking services, such as digital banks (neobanks), are also entering the financial system.²⁴ With their better interest rates, lower costs, and a user experience that is simpler and more sophisticated, they might drive a gradual partial withdrawal of deposits from banks in the future. Although Slovenian savers generally behave conservatively and have little propensity to take up higher risks, younger generations with a closer affiliation for digital technology might gradually change this tendency.²⁵ One change was already evident last year in Slovenian households' increased saving at banks abroad (see Figure 2.11, left), most notably Germany and Austria, where interest rates on deposits remain more favourable than in Slovenia, despite declining. The stock of deposits at banks in euro area countries increased by more than

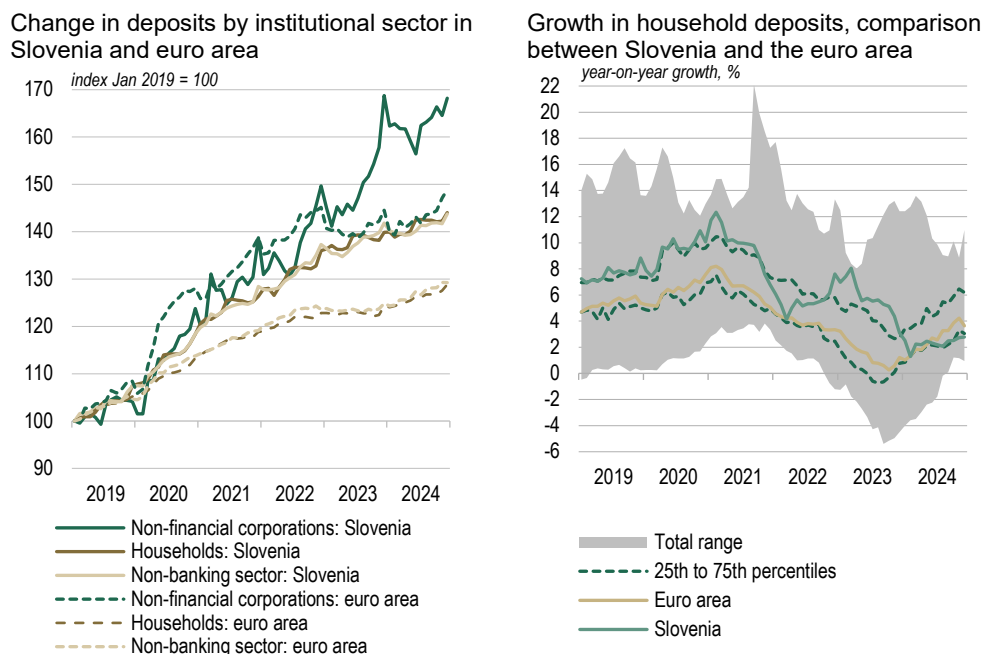
²³ The outflow was less than 1% of the total stock of household deposits.

²⁴ A neobank is a type of digital bank that has no bricks-and-mortar branches and provides financial services via apps and online platforms.

²⁵ For more on the changes in the structure of household financial assets, see the section on households.

a quarter over the first nine months of the year, although the share of total household deposits that they account for remained low (3.6%). Individuals' holdings at neobanks in other countries were estimated at a modest 0.6% of total household deposits at the end of 2023,²⁶ but the expectation is for saving of this kind to increase in the future. Households also increased their holdings in mutual funds last year, which is examined in detail in the section on mutual funds.

Figure 2.10: **Growth in deposits for Slovenia and the euro area**



Sources: Banka Slovenije, ECB Data Portal

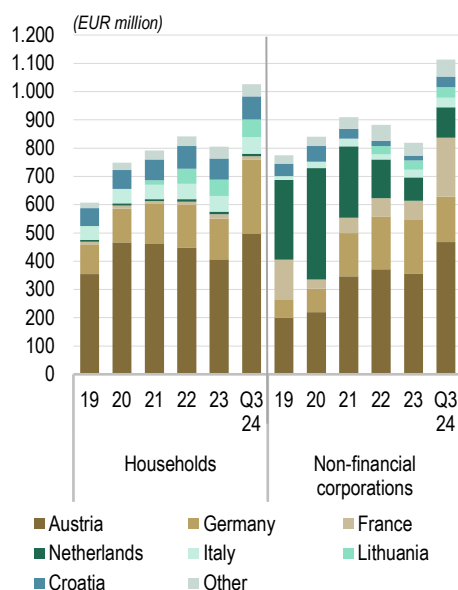
Deposits by NFCs declined slightly for the first time since 2019, but nevertheless remained a major source of funding for Slovenian banks. The stock of deposits by NFCs declined by EUR 37 million or 0.3% over the course of the year (see Figure 2.9, right) to EUR 10.9 billion, equivalent to a fifth of the balance sheet total. Although year-on-year growth in deposits by NFCs slowed greatly and was below the euro area average at the end of the year (3.0%), the increase strongly outpaced the euro area average over the longer term (see Figure 2.10, left). Last year's decline in NFCs' holdings of savings at banks might be related to their caution in raising new loans for investment, which firms with larger holdings were likely to prefer financing with internal resources. Furthermore, after several years of decline, NFCs' holdings of savings at banks in other countries increased by EUR 295 million or more than a third over the first nine months of last year,²⁷ which might be an additional factor in the lower growth in deposits at Slovenian banks (see Figure 2.11, left). The decline in deposits by NFCs also slightly reduced the concentration of the top 30 depositors. The top 30 depositors that are neither individuals nor banks accounted for 32.0% of the total holdings of such depositors, equivalent to 9.2% of the balance sheet total (see Figure 2.11, right).

²⁶ Estimate made by Banka Slovenije calculations on the basis of FARS data. More recent data was not available at the time of writing.

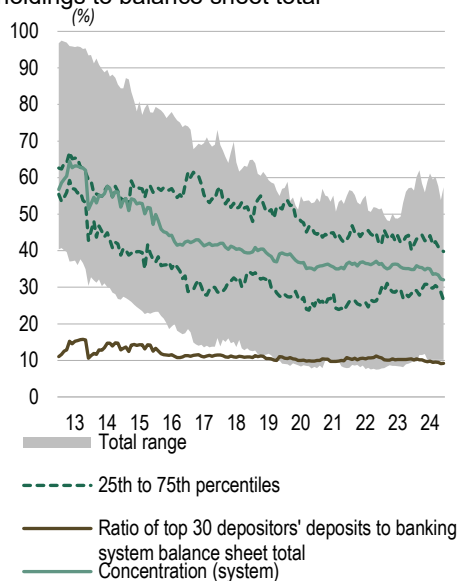
²⁷ Data for the end of 2024 was not available at the time of writing.

Figure 2.11: **Deposits in other countries and concentration of top 30 depositors**

Stock of household deposits and deposits by non-financial corporations in other countries



Distribution of concentration of top 30 depositors, and ratio of top 30 depositors' holdings to balance sheet total



Note: In the right chart concentration is calculated as the share of total deposits by customers who are neither individuals nor banks accounted for by the top 30 depositors of this kind.

Sources: Banka Slovenije, ECB Data Portal

Deposit maturity and maturity gap between assets and liabilities

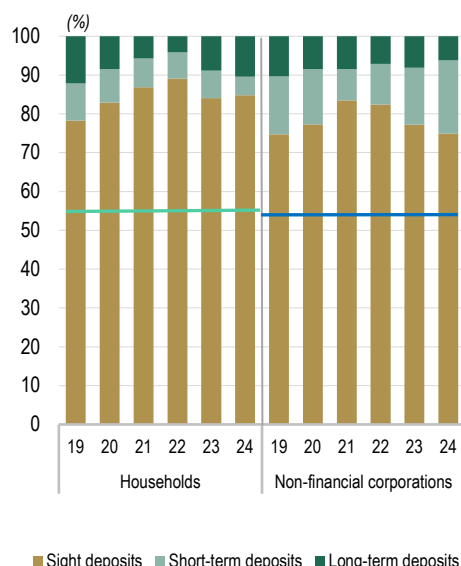
With interest rates on deposits decreasing,²⁸ savers were less motivated to fix their deposits, particularly in the second half of last year. The increase in long-term household deposits in 2024 was significantly smaller than in the previous year (see Figure 2.12, right). The increase in short-term deposits would have been similar to the previous year had there not been a reclassification of certain short-term deposits at one of the banks as sight deposits, which significantly reduced the stock of short-term household deposits. As a result of this reclassification, the share of total household deposits accounted for by sight deposits, which had been declining since September 2022, increased to 85% and remained unchanged until the end of the year, still well above its long-term average (see Figure 2.11, left). Similarly to household deposits, sight deposits continued to account for the majority (75%) of deposits by NFCs. The fall in short-term and long-term interest rates and the minimal spread between them meant that firms continued to opt mainly for short-term fixes for their savings (see Figure 2.12, right).

Although interest rates on deposits fell in other euro area countries in a similar fashion to Slovenia, the share of sight deposits continued its decline in those countries. The share of total deposits by households and NFCs accounted for by sight deposits declined in almost all euro area countries. Slovenia was not among them (see Figure 2.12, left), and its share of sight deposits remains among the highest in the euro area. At the same time Slovenia is still notable for the highest ratio of deposits by households and NFCs to the balance sheet total, which means that Slovenian banks are more exposed to funding risk in the event of any withdrawal of deposits from the banking system than countries where this source of funding is less important.

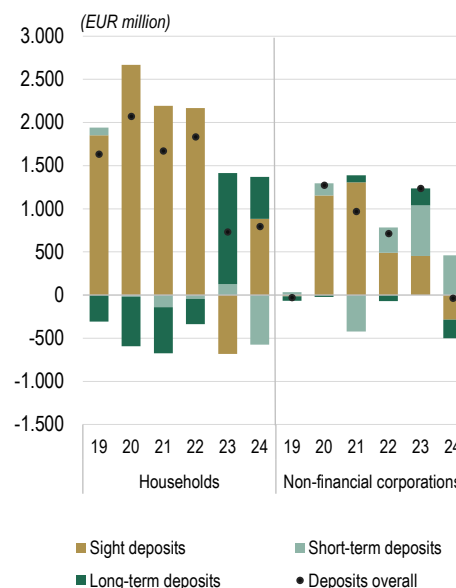
²⁸ For more on developments in deposit rates, see the section on interest rate risk.

Figure 2.12: **Breakdown and change in deposits by maturity**

Maturity breakdown of deposits by households and non-financial corporations



Change in stock of deposits by maturity

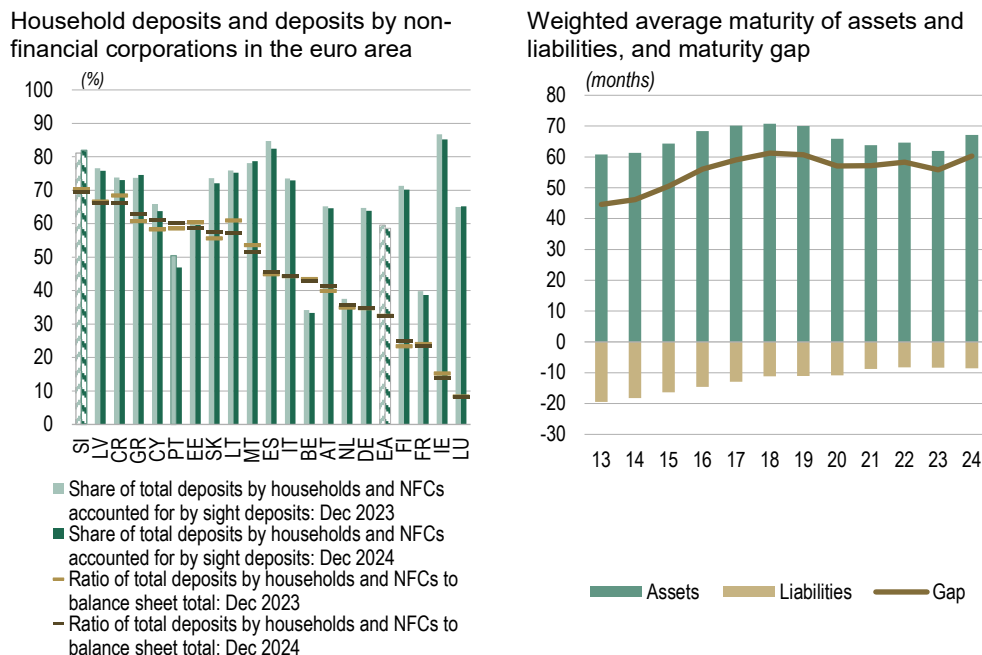


Note: The horizontal lines in the left chart denote the average share of sight deposits between 2000 and 2024, which stood at 53.6% in the household segment and 54.9% in the non-financial corporations segment. In the right chart the increase in short-term deposits in 2024 would have been similar to the previous year had there not been a reclassification of certain short-term deposits at one of the banks as sight deposits.

Source: Banka Slovenije

The maturity gap widened last year, and the risk of funding instability inherent in the gap increased. With liquid assets being redirected into purchases of long-term debt securities, the weighted average maturity of assets increased. The maintenance of the large stock of sight deposits meant that the average maturity on the liability side was virtually unchanged, and the maturity gap widened by almost five months to 4.9 years. This took it very close to its peak of 5 years from 2018, while it remained significantly larger than the gap from 2013 (see Figure 2.12, right), i.e. before the onset of the rise in sight deposits. Sight deposits thus remain a major factor in the maturity mismatch, which is posing a risk of funding instability. This could be realised in the event of any sudden large-scale switching of deposits between banks or withdrawals from the banking system. It is nevertheless our finding that despite the unpredictable events of previous years, Slovenian savers retained confidence in the banking system, and deposits remained a stable source of funding. Here it should be reiterated that given the advent of new digital providers of banking services, the development of mobile banking and increased use of alternative investment opportunities, carefully monitoring the competition in the sector and making prompt adaptations to business remain vital to maintaining the stability of bank funding in the future.

Figure 2.13: **Deposits in euro area countries, and maturity gap**



Sources: Banka Slovenije, ECB Data Portal, own calculations

2.3 Interest rate risk

Interest rate risk in the banking system remains moderate with a stable outlook.

The strengthening growth in household loans, consumer loans in particular, and the stagnation in lending to NFCs saw a significant change in the breakdown of the credit portfolio at banks last year. The trend of moderate increase in the share of fixed-rate loans continued, and the growing share of consumer loans shortened the average residual maturity of the loan portfolio. With interest rates on deposits falling, the share of sight deposits increased. The main factors acting to increase the banks' interest sensitivity were the increase in holdings of securities and the decline in liquid assets, while the increase in issued debt securities acted to reduce it. The changes on the asset side drove a lengthening of the average repricing period, and the average repricing period on the liability side also lengthened. The repricing gap remained similar to that at the end of the previous year.

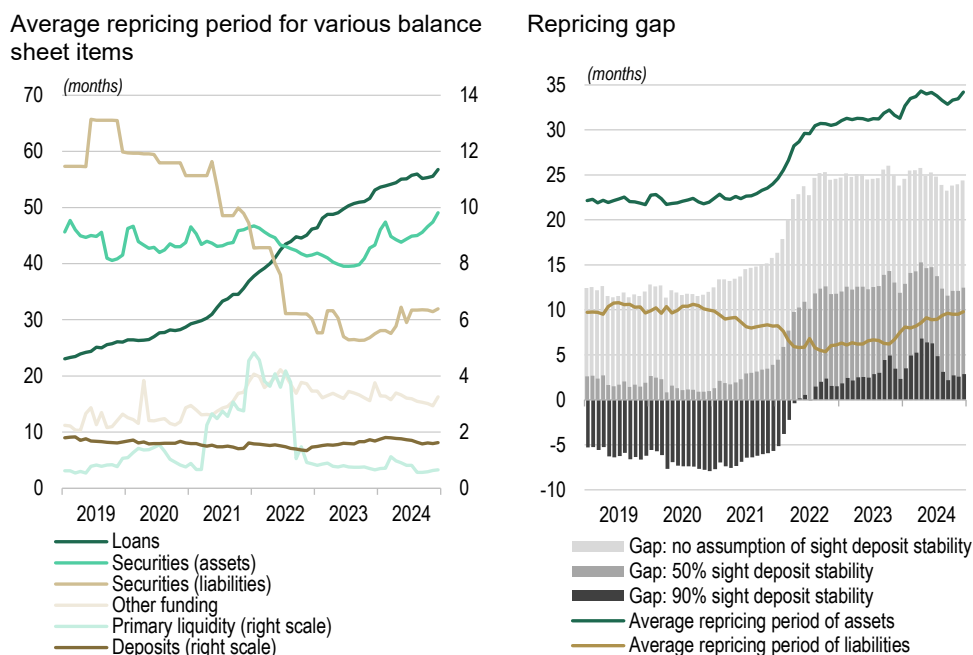
Interest sensitivity

Interest rate risk remained moderate in the first quarter of this year, and the trend remains stable over the longer time horizon. Loans to the non-banking sector increased by 5.5% in 2024, and the trend of increase in the share of these loans accounted for by fixed-rate loans continued. It remained driven by a rise in the share in the household portfolio (see Figure 8.5, left, in the appendix), with the vast majority of new consumer loans (99%) and housing loans (97%) being approved with a fixed interest rate. Meanwhile the share of the stock of loans to NFCs with a fixed interest rate remained relatively stable (see Figure 8.5, right, in the appendix). The continual rise in the share of consumer loans in the bank portfolio is being reflected in a shortening of the average residual maturity of total loans to the non-banking sector, which cancelled out the impact of the increase in the share of fixed-rate loans in lengthening the average repricing period for loans. This lengthened less in 2024 than in the previous years. It was mainly changes in holdings of securities and liquid assets that acted to increase the banks' interest sensitivity last year. The former increased by a third (see Figure 8.6, left, in the appendix), while there was a significant lengthening of their residual maturity

(see Figure 8.6, right, in the appendix) and their average repricing period (see Figure 2.14, left). Conversely there was a sharp decline in the most liquid assets²⁹ (see Figure 8.6, left, in the appendix), whose residual maturity and average repricing period are very short. Overall these changes had a significant impact in lengthening the average repricing period for assets (see Figure 2.14, right).

The changes in funding drove a gradual reduction in the banks' interest sensitivity, but this trend could slow or even reverse in the future. Alongside equity, the largest absolute increase in funding in 2024 was in deposits by the non-banking sector, particularly in the second half of the year (see Figure 8.6, left in the appendix). The decline in the share of total deposits by the non-banking sector accounted for by sight deposits came to an end in April, when it stood at 76.9%, and the figure had risen to 79.4% by the end of the year (see Figure 8.7, right in the appendix). Long-term deposits accounted for 11.7% of the total, and short-term deposits for 8.9%. This slightly shortened the average repricing period of deposits (see Figure 2.14, left). Similarly to the asset side, the changes in securities were also important on the liability side from the perspective of interest sensitivity. The stock of issued debt securities increased by a tenth (see Figure 8.6, left, in the appendix), thereby lengthening their average residual maturity to 3.2 years (see Figure 8.6, right, in the appendix), and also lengthening their average repricing period (see Figure 2.14, left). Overall the changes in funding entailed a continuation of the trend of moderate lengthening of the average repricing period for liabilities (see Figure 2.14, right), but this trend could slow or even reverse in the future as interest rates on fixed-term deposits fall and sight deposits resume their increase in stock and share.

Figure 2.14: **Average repricing period, and repricing gap**



Note: Equity is excluded from funding in the left chart. The repricing gap in the right chart takes account of the stability of sight deposits through various assumptions about stability and by allocating the stable component of sight deposits across time intervals.

Sources: Banka Slovenije, ECB Data Portal, own calculations

The repricing gap (having regard for the stability of sight deposits) in December remained close to its lowest level of the year. Without the assumption of the stability of sight deposits, the repricing gap was smaller than its average over the last two years (see Figure 2.14, right). Last year it narrowed slightly, primarily as a result of the length-

²⁹ Cash on hand, balances at the central bank and sight deposits at banks.

ening of the average repricing period for funding, although a larger decline was prevented by an increase in holdings of securities, which lengthened the average repricing period for assets overall. The banks' interest sensitivity thus remained similar to the end of 2023, with a moderate level of interest rate risk and a stable outlook over the longer time horizon.

Interest rates

Interest rates on the stock of loans to the non-banking sector fell faster in Slovenia in 2024 than in the euro area overall. The trend of falling interest rates on new loans was broadly based. They fell discernibly in the two largest sectors, households and NFCs. Fixed interest rates on new household loans, which greatly prevail over variable interest rates, fell on housing loans and consumer loans alike. The developments in interest rates on housing loans were similar to those in the euro area overall, and were not far from the euro area average at the end of the year, while interest rates on consumer loans retained their spread with the euro area overall and remained lower. Variable interest rates on loans of both types also fell.³⁰ Variable interest rates on new loans to NFCs, which are more prevalent than fixed rates, fell faster than in the euro area overall, and by December had equalised with the euro area average. Meanwhile fixed rates remained highly volatile, but overall they followed the trend of decline in variable rates.³¹ After beginning in the first quarter of the year, the fall in interest rates on the stock of loans to households and NFCs gathered pace over the course of the year, the spread with euro area average rates narrowing sharply as interest rates in the euro area overall gradually fell (see Figure 8.8, left, in the appendix).

Interest rates on the stock of deposits by the non-banking sector fell more slowly in Slovenia than in the euro area overall. Interest rates on new long-term household deposits³² began falling moderately in the early part of last year, while those on short-term deposits only began falling in the final quarter. Meanwhile interest rates on long-term and short-term deposits by NFCs began falling discernibly in the second half of the year.³³ Interest rates on sight deposits, whose share of total deposits by the non-banking sector began rising again in the second half of the year to stand at 79% in December, similar to a year earlier (see Figure 8.7, right, in the appendix), stagnated at just over 0.1% on household deposits and just above zero on deposits by NFCs. Interest rates on the stock of household deposits and deposits by NFCs began to fall very gradually last year, the spread with the euro area average narrowing amid a faster fall in the euro area overall (see Figure 8.8, right, in the appendix).

The interest spread³⁴ gradually narrowed in Slovenia, but was broadly unchanged in the euro area overall. After the key interest rates peaked,³⁵ the spreads in the household portfolio (see Figure 2.15, left) and the NFCs portfolio (see Figure

³⁰ Fixed interest rates on new housing loans averaged 3.9% in December 2023, while rates on consumer loans averaged 6.8%. By December 2024 they had both fallen, the former to 3.1% and the latter to 6.4%. Variable interest rates averaged 5.8% on housing loans and 6.7% on consumer loans in December 2023, but had fallen to 5.0% and 5.4% respectively by December 2024. Almost all new housing loans and consumer loans in 2024 were approved with a fixed interest rate.

³¹ Average variable interest rates on new loans to NFCs stood at 5.5% in December 2023, but had fallen to 4.3% by December 2024. Amid great volatility, fixed interest rates averaged 5.1% in the first half of 2024 and 4.3% in the second half of the year. Fixed-rate loans accounted for approximately a quarter of all new loans in 2024.

³² Deposits fixed for more than one year are classed as long-term deposits, while short-term deposits are fixed for up to one year.

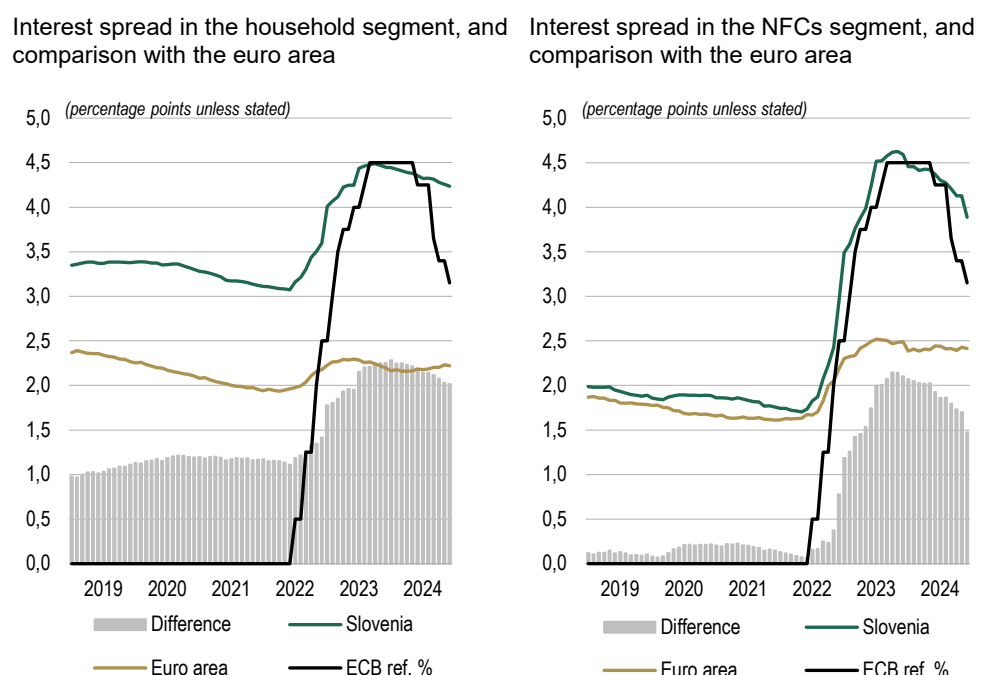
³³ Interest rates on new long-term household deposits stood at 2.5% in December 2023, but had fallen to 2.1% by December 2024. Interest rates on new short-term household deposits stood at 1.3% in December 2023, and peaked at 1.6% in September of last year, before falling to 1.4% by December. Interest rates on new long-term deposits by NFCs stood at 2.4% in December 2023, but had fallen to 2.2% by December 2024. Interest rates on new short-term deposits by NFCs stood at 2.1% in December 2023, and peaked at 2.8% in May of last year, before falling to 2.1% by December.

³⁴ The interest spread is defined as the difference between average interest rates on loan stocks and average interest rates on deposit stocks.

³⁵ They peaked in September 2023.

2.15, right) began to gradually narrow. Similarly to the rise in interest rates, during the fall in interest rates it was the faster and more intense adjustments in interest rates on loans that drove the faster changes in the interest spread compared with the euro area overall. Interest rates on deposits in Slovenia were also slower in responding to the fall in key interest rates. The spread in Slovenia in December of last year was still significantly wider than before the onset of the interest rate rises. The breakdown of deposits with the prevailing share of sight deposits meant that it was already larger than the euro area average in the household portfolio (see Figure 8.7, right, in the appendix). It narrowed more intensively in the NFCs portfolio, particularly in the second half of the year, when interest rates on loans to NFCs fell significantly. With the spreads in both portfolios broadly unchanged in the euro area overall, the gap with the euro area average narrowed, but remained significant. Banks in Slovenia thus remain in a better position for solid growth in net interest income and the continuation of solid income performance than do those in the euro area overall.³⁶

Figure 2.15: **Interest spreads, comparison with the euro area**



Note: ECB ref is the interest rate on main refinancing operations.
Sources: ECB SDW, Banka Slovenije calculations

2.4 Credit risk

The credit risk assessment was raised to moderate in the first quarter of this year. The uncertainties in the international environment are already driving a downturn in performance, particularly in manufacturing. Conversely the good financial position of households and the fall in financing costs are raising household propensity to consume, which is being evidenced at banks in strong growth in consumer loans, and lately in housing loans too. The increase in credit risk at banks is for now being evidenced in a rise in the share of Stage 2 exposures in numerous portfolio segments. As the number of bankruptcies rose, so did bank exposure to these firms, although it remains at low levels. In surveys the banks are forecasting an increase in NPEs this year and next

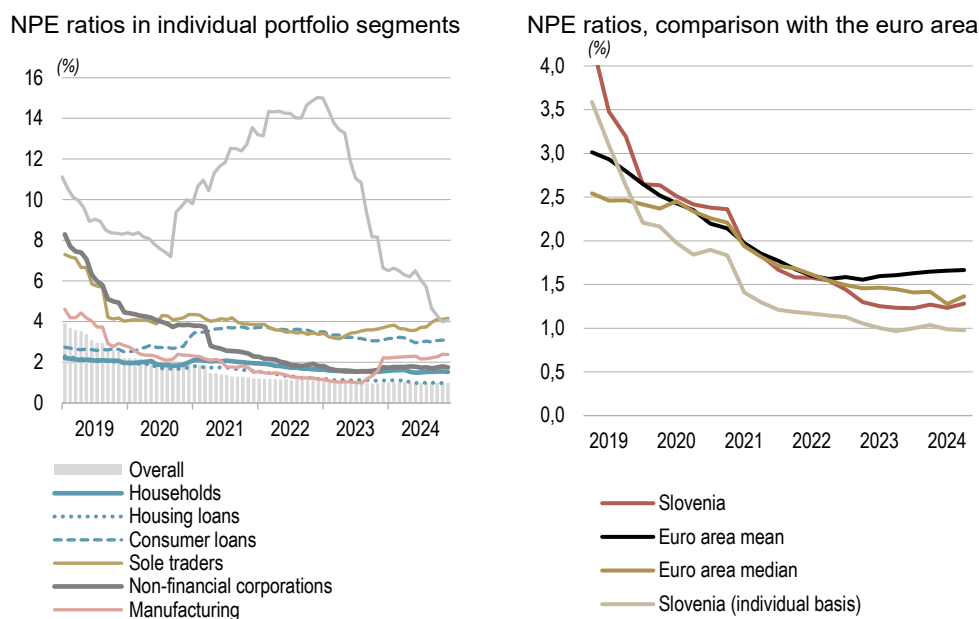
³⁶ For more, see the section on income risk.

year, while the credit standards on loans of all types were tightened once again after a long period of no change.

NPEs and credit risk stages

The asset quality as measured by the NPE ratio remained at a favourable level in 2024. The NPE ratio has remained unchanged since April 2023 at 1.0%. The stock of NPEs did increase over this period by EUR 9 million (1.5%) to EUR 594 million, amid an increase of EUR 5.0 billion (8.9%) in total bank exposure to EUR 60.7 billion. Since 2021, when the NPE ratio fell below the euro area average, the gap with the average has only widened, reaching 0.4 percentage points in 2024 (see Figure 2.16, right).³⁷ The NPE ratio in the NFCs portfolio also remained unchanged from December 2023 at 1.8%, albeit with minor fluctuations over the course of the year. The NPE ratio in the consumer loans portfolio similarly remained unchanged at 3.1%, even as the stock of NPEs increased by EUR 12.8 million or 14.3%. Together with the 2020 figure, this inflow was the largest since 2017, when data on non-performing consumer loans first became available. The NPE ratio in the housing loans portfolio declined slightly to 1.0%. According to this indicator, a larger deterioration in quality was seen in the sole traders portfolio, where the NPE ratio rose by 0.5 percentage points to 4.2% (see Figure 2.16, left).

Figure 2.16: **NPE ratio in individual portfolio segments and comparison with the euro area**



Note: The data in the right chart captures debt instruments only (loans and debt securities) on a consolidated basis, while the data in the left chart (like all data for the Slovenian banking system in this section) captures the total bank exposure on an individual basis.

Sources: Banka Slovenije (left), ECB Data Portal (right)

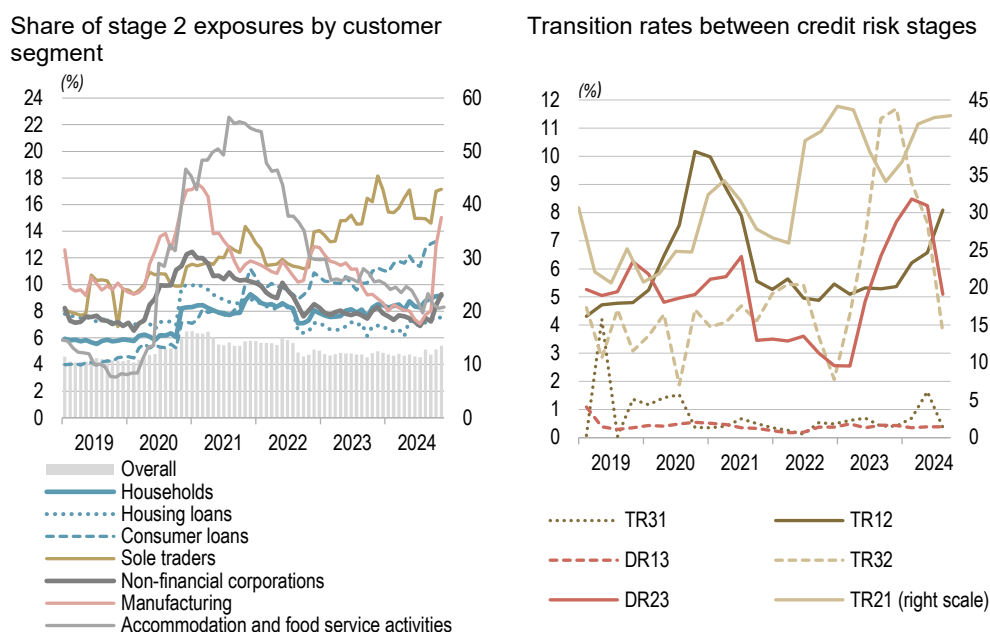
The good business environment for services and the more challenging situation in manufacturing were reflected in different ways in the developments in NPE ratios. After declining by 8.4 percentage points in 2023, the NPE ratio in the accommodation and food service activities portfolio declined by a further 2.6 percentage points last year to stand at 4.0%, its lowest figure to date. The sharp increase of 0.9 percentage points in the NPE ratio in manufacturing in the final quarter of 2023 was followed by a smaller increase of 0.2 percentage points in the final months of 2024,

³⁷ The latest data for the euro area is available for the third quarter of 2024.

taking the figure to 2.4%. The changes in the stocks of NPEs in these two sectors were similar: a decline of EUR 11 million in accommodation and food service activities, and an increase of EUR 12 million in manufacturing. The annual changes in the NPE ratios and in the stocks of NPEs in other sectors were smaller.

More than in the NPE ratio, the deterioration in the business conditions in manufacturing was reflected in the reclassification of exposures to the stage with increased credit risk. The share of Stage 2 exposures in manufacturing almost doubled in the final months of 2024, rising from 8% to 15% (see Figure 2.17, left). The banks identified increased credit risk in a large number of sectors within manufacturing, with the largest reclassifications to Stage 2 coming in the manufacture of steel, the manufacture of equipment for motor vehicles, and the plastics industry. The share of Stage 2 exposures consequently rose from 7.2% to 9.3% in the NFCs portfolio as a whole, and from 4.7% to 5.4% in the total portfolio, both indicators thereby exceeding their levels from the end of 2023. The transitions between credit risk stages (see Figure 2.17, right) confirm a sharp increase in transitions from Stage 1 to Stage 2, and more stable transitioning in the opposite direction. Transitions between Stages 2 and 3 had also increased sharply in 2023, before beginning to slow in the second half of 2024, which is indicative of the banks' recent increase in activity in credit risk management.

Figure 2.17: **Share of Stage 2 exposures and transition rates**

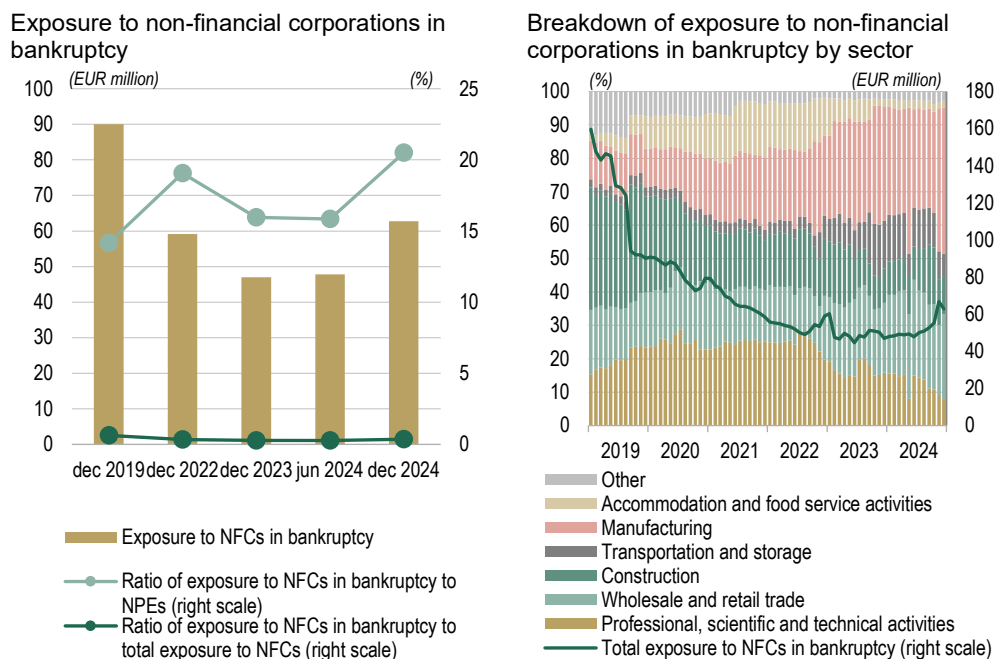


Note: In the right chart TR denotes transition rate between Stages 1 and 2 of credit risk in accordance with IFRS 9 or into these two stages from Stage 3, and DR denotes default rate. The unit of observation in the calculation of exposure transition rates is the commercial bank - contract - date. All exposures measured at amortised cost that existed at the beginning of the observation period and for which credit risk stages are reported are included under exposures. The last available data for the contract within the year is taken into account. The transition rates between credit ratings (transition matrices) are also published in the appendix. Source: SORS

The NPE ratios in the household portfolio remained stable, but the reclassifications to Stage 2 reveal the identification of increased credit risk amid an increase in lending. In the wake of a year-on-year expansion of 14.8% in the consumer loans portfolio, the stock of Stage 2 exposures increased by 33.3% (to EUR 428 million), the share of Stage 2 exposures thus rising from 11.2% to 13.0%, the highest figure to date (see Figure 2.17, left). In the wake of the significant fall in interest rates, the housing loans portfolio saw an increase of 4.0%, while the share of Stage 2 exposures rose from 6.9% to 7.5%.

The rise in the number of bankruptcies also increased the banks' exposure to these firms. After falling for five years, the number of bankruptcy proceedings initiated rose over the course of 2024, and by December was up 11.4% in year-on-year terms. The banks' exposure to firms in bankruptcy began to increase slightly later, in the second half of the year, and had reached EUR 63 million by the end of the year, up a third on a year earlier. Despite the increase, exposure to firms in bankruptcy remains low as a ratio to total exposure to NFCs, at 0.4% (see Figure 2.18, left). The share of exposure to firms in bankruptcy accounted for by manufacturing firms increased sharply over the final months of the year to 44% (see Figure 2.18, right). There were also increases in the shares accounted for by trade firms, to 25%, and to a lesser extent construction firms, to 12%. Exposure to bankrupt firms in professional, scientific and technical activities continued to decline in absolute and relative terms, particularly compared with the period during the pandemic. Exposure to bankrupt firms in accommodation and food service activities also remains low, having been similarly prominent during the pandemic.

Figure 2.18: **Exposure to non-financial corporations in bankruptcy**



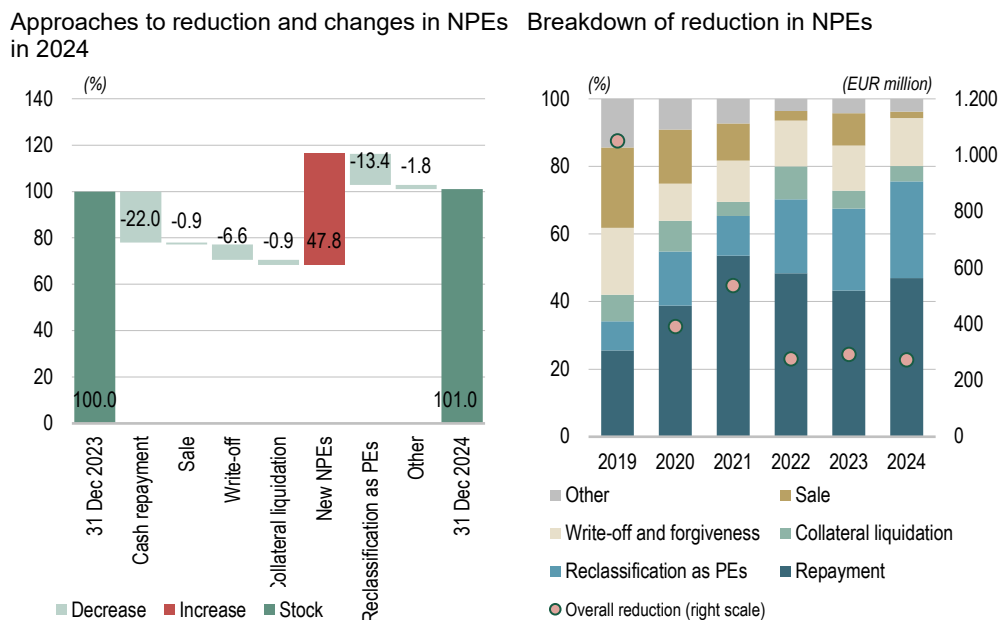
Sources: Banka Slovenije, Supreme Court

According to the bank survey, the largest factors in the decline in the stock of NPEs in 2024 were repayments and reclassification as performing exposures. These two approaches accounted for three-quarters of the total decline in NPEs, having also prevailed in the two previous years (see Figure 2.19, left). Repayments of NPEs accounted for just under half of the total decline in NPEs in the NFCs portfolio, and for 40% in the household portfolio (see Figures 8.11, right, and 8.12, right, in the appendix). There is a greater difference when it comes to reclassifications as performing exposures, which accounted for 14% of the decline in the NFCs portfolio and fully 45% in the household portfolio (see Figure 2.19, right). The household portfolio saw an increased inflow of new NPEs in 2024, and also an increase in their reduction, which is indicative of a more conservative approach taken by banks in the assessment of credit risk in this portfolio segment. The reduction of NPEs via repayments and reclassification as performing exposures is also indicative of the capacity of households to repay arrears in servicing their debt to banks. An important role in the reduction of NPEs

is still being played by write-offs and debt forgiveness, which accounted for 19% of the decline in NPEs in 2024 in the NFCs portfolio, and 13% in the household portfolio.

The banks are anticipating a slight increase in NPEs in 2025 and 2026. According to the survey data, the stock of NPEs is forecast to increase by 13.5% and 7.0% respectively in these two years. In annual surveys banks generally forecast an increase in the stock of NPEs in the NFCs portfolio and the household portfolio alike, but this year's forecast is slightly higher than in previous years. Given their favourable capital adequacy and their continuing good profitability, an increase in NPEs of the forecast size would not represent a significant burden to the banks. The stock of regulatory capital at banks is ten times higher than the current stock of NPEs, and fully 26 times higher than the unimpaired portion (see Figure 8.10, right, in the appendix). The ratio of last year's annual profit in the banking system to unimpaired NPEs is also favourable (five to one), and indicates that even if profitability were to decline slightly it would still suffice to cover the additional impairments required by increased inflows of NPEs.

Figure 2.19: **Reduction in NPEs according to the bank survey**

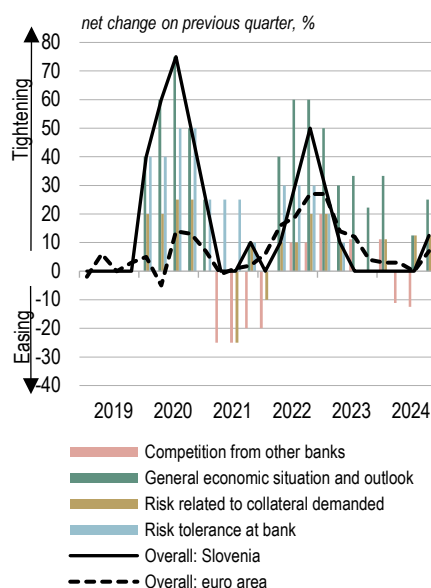


Bank credit standards and interest rates

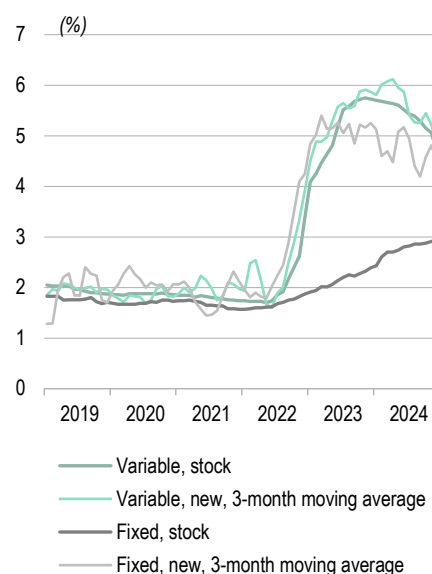
According to the BLS, after a long period without changes, credit standards were tightened slightly in the final quarter of 2024. The main factors driving a tightening of credit standards for loans to NFCs were the economic situation and the economic outlook for the economy in general, and in individual industries, while competition from other banks acted to relax standards in 2024 (see Figure 2.20, left). At the end of the year the banks were also reporting a tightening of credit standards for housing loans, although they did not cite the economic situation as having any adverse impact on standards for household loans, irrespective of purpose. With other factors having a neutral impact, the banks are continuing to cite consumer creditworthiness as having a tightening impact on standards for consumer loans.

Figure 2.20: **Credit standards and interest rates**

Credit standards for loans to non-financial corporations and most important factors



Interest rates on new loans and stock of loans to non-financial corporations



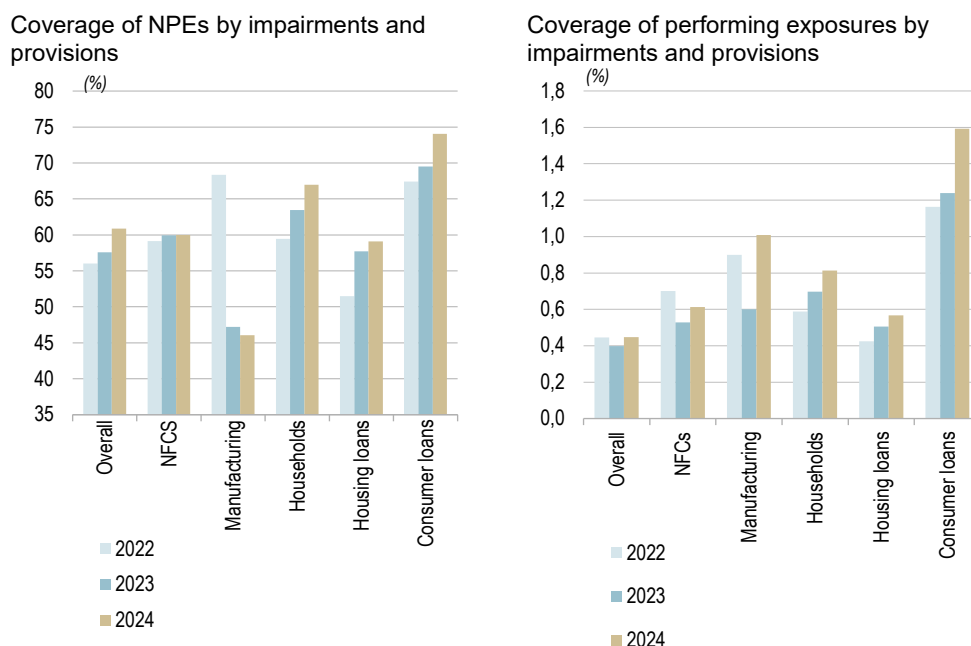
Note: Only long-term loans, which account for 88% of the loan stock, are captured under new loans in the right chart. Short-term loans were approved by banks with a slightly lower interest rate on average.

Sources: Banka Slovenije, ECB Data Portal

Falling interest rates are having a favourable impact on the debt burden of borrowers at banks, although the impact varies according to the type of remuneration. Interest rates on new loans fell on both fixed-rate and variable-rate loans, while interest rates on residual debt show the opposite trend (see Figure 2.20, right). Interest rates on residual variable-rate debt fell in 2024 in all the majority customer segments: the largest fall of 1 percentage point was in the NFCs portfolio, while the household portfolio saw smaller falls of 0.8 percentage points for consumer loans and 0.7 percentage points for housing loans. Interest rates on residual fixed-rate debt increased, on account of the maturing of debt that was concluded at significantly lower interest rates in the past. This had a larger impact than did new borrowing, which in 2024 was concluded at lower interest rates. The interest rate on residual fixed-rate debt was nevertheless still more favourable than on variable-rate debt.³⁸ The structure of borrowing means that the impact of the fall in interest rates was largest in the NFCs portfolio, where the share of variable-rate borrowing is highest at 78%.

³⁸ For more, see the section on interest rate risk.

Figure 2.21: **Coverage of NPEs and performing exposures by impairments and provisions**



Note: In the left chart there was a sharp increase in NPEs in the manufacturing portfolio in Q4 of 2023, and a proportionately smaller increase in impairments, which drove a sharp decline in coverage in that year.
Source: Banka Slovenije

Coverage by impairments and provisions

Coverage of NPEs by impairments and provisions again increased in 2024, while coverage of performing exposures also rose sharply at the end of the year. Coverage of NPEs by impairments and provisions peaked in July at 61.0%, and held at roughly this level until the end of the year. Coverage was up 3.3 percentage points on the end of 2023, the increase being driven in particular by increases in impairments and provisions in the household portfolio, which raised coverage of housing loans by 1.4 percentage points and coverage of consumer loans by 4.5 percentage points (see Figure 2.21, left). Consumer loans are notable for the increase and level of coverage in the performing segment of the portfolio: coverage by impairments had reached 1.6% by the end of the year, compared with 0.6% in the housing loans portfolio, following annual increases of 0.4 percentage points and 0.1 percentage points respectively (see Figure 2.21, right). Thanks to a trend of decline in the NFCs portfolio, total coverage of performing exposures by impairments was nevertheless relatively stable over the course of the year, but a reversal came in December, when it increased significantly to 0.45%, up 0.05 percentage points on a year earlier. The main driver of that increase was an increase in impairments in manufacturing, owing to the increased reclassification to Stage 2 at the end of the year. Of the total increase in impairments in the NFCs portfolio in the amount of EUR 26 million, manufacturing firms accounted for EUR 21 million, and the coverage of exposures to manufacturing consequently increased sharply from 0.58% to 1.01%. Coverage in the total NFCs portfolio increased by 0.15 percentage points to 0.61%.

The increased creation of impairments is being driven by different factors in the household and NFCs portfolios. With indebtedness indicators otherwise favourable, the main factor in the household portfolio is the high growth in exposure to consumer loans, which in recent months has been joined by rising housing loans. Factors from the international environment are prevalent in the manufacturing portfolio, and are still gaining in importance as geopolitical tensions rise. Transitions into the stage with increased credit risk are mainly evident in the steel industry and in sectors related to the

car industry. These industries are facing reduced demand amid competition from China, and the US trade barriers announced and already imposed, and they also face the burden of higher energy costs, which together with the new system of network charges is driving an additional rise in operating costs.

2.5 Income risk

Income risk in the Slovenian banking system has been assessed as low for one and a half years now, but an increase in the risk has been expected ever since the previous assessment as a result of a decline in net interest. During the period of rising interest rates banks in Slovenia saw a sharp improvement in their income position, having taken advantage of the larger spread between interest rates on the asset side and those on the funding side compared with other countries. Despite the gradual fall in interest rates and the anticipated decline in net interest and in income in the banking system compared with previous levels, income generation remains relatively stable in the early part of this year. The net interest margin is still above its long-term average. Non-interest income remains relatively stable, but operating costs rose last year, primarily as a result of the introduction of the tax on total assets.

Gross income and net income

Growth in income in the Slovenian banking system slowed in 2024. The banking system's gross income amounted to EUR 2,286 million last year, up 15.6% on the previous year, while net income amounted to EUR 1,270 million, up 10.7% on the previous year. Net interest income amounted to a high EUR 1.6 billion, but the year-on-year rate of growth had slowed to less than 9% by December. This was a major factor in the slowdown in growth in income. Net income was also reduced by the rise in operating costs caused by the introduction of the tax on total assets, which banks classed as costs during the year. Excluding these costs, net income³⁹ would have recorded a year-on-year increase of 20%. Despite the slowdown in growth, which moved into negative territory this year, the conditions for generating bank income remain relatively favourable.

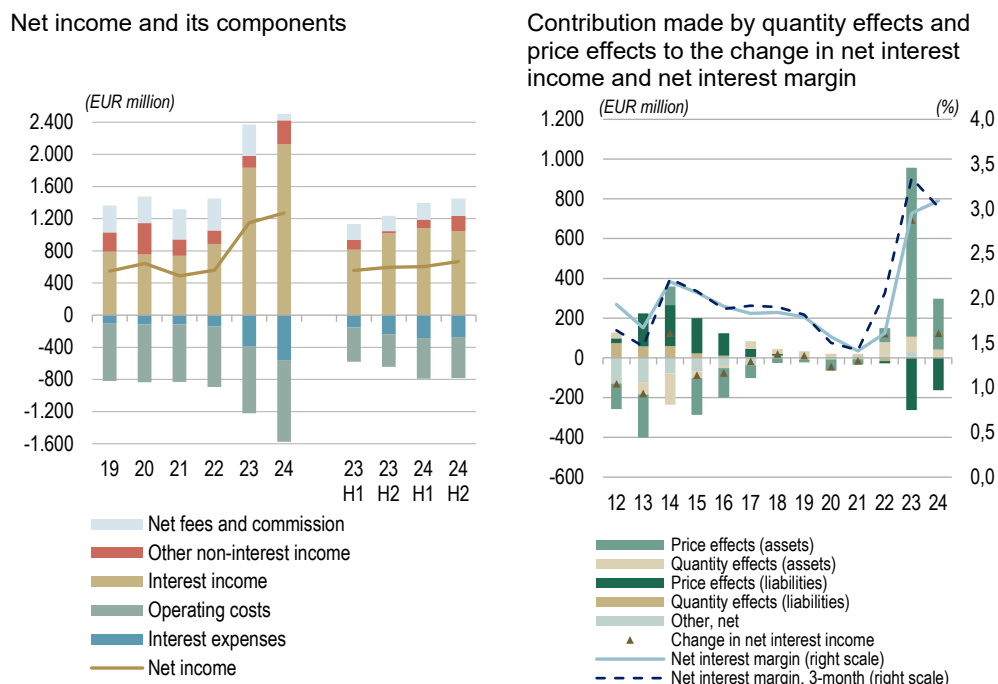
Net interest income and non-interest income

Net interest income amounted to a high EUR 1,566 million in 2024, but its year-on-year rate of growth gradually slowed over the course of the year to stand at 8.6% in December. Interest rates began to fall during the year, and in the second half of 2024 were gradually down on the values seen in 2023. Growth in net interest consequently declined, while net interest income in the final quarter was down in year-on-year terms. Interest income from loans was still relatively stable, given that even variable interest rates show a lag in adjusting to the changes in interest rates on the financial markets. Interest income from the most liquid assets (claims against the central bank) declined more notably, while interest income from securities increased, both due to the restructuring of certain interest-bearing assets at banks (reduction of claims against the central bank and purchases of securities) and due to higher interest rates on securities compared to those issued a few years ago, when interest rates were very low. Given the prevalence of sight deposits and the slower pace of the adjustment in interest rates at banks compared with those on the income side in previous years, the rise in interest

³⁹ See the section on profitability and solvency, which examines the differences in the amount of pre-tax profit that explain the changes in income and cost categories (net income), and in net impairments and provisions.

expenses in the Slovenian banking system was relatively small: they peaked in the second quarter of 2024, and had fallen by around a tenth by the final quarter.

Figure 2.22: **Components of net income and contributions to increase in net interest income**



Note: In the above charts the net interest margin is calculated for a moving 12-month period. In the left chart the labels H1 and H2 refer to half-yearly periods.

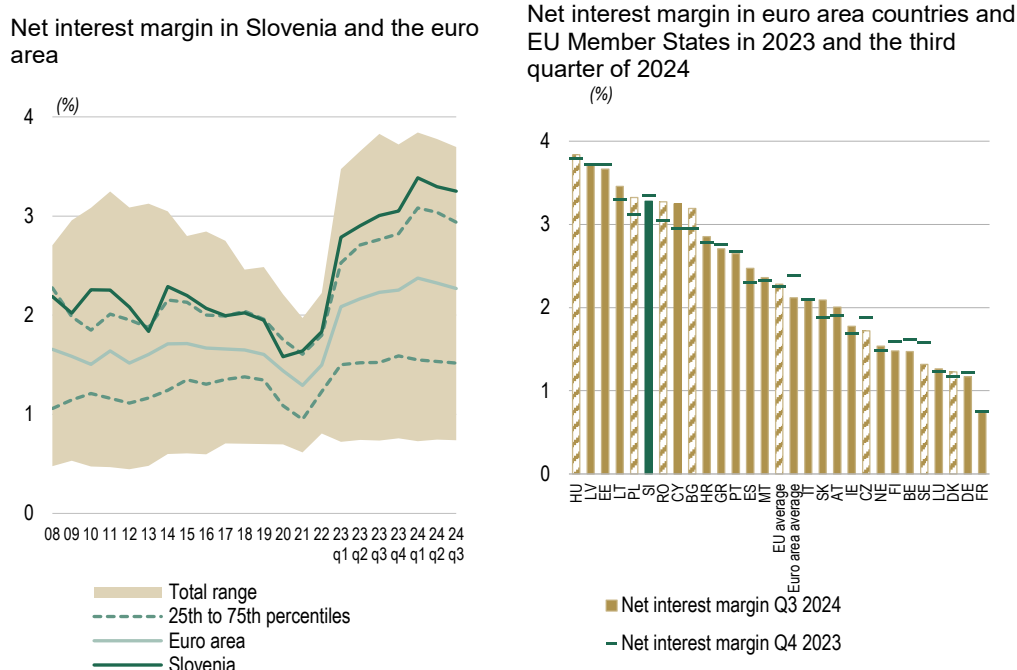
Source: Banka Slovenije

The net interest margin stood at just over 3% last year, up slightly on the previous year. It stood at 3.09% over the 12 months to December, up a tenth on the previous year (2.95%). The annualised quarterly values show a decline in the margin over the course of the year, by 0.3 percentage points in all, to stand at 3.02% at the end of 2024.

Price effects on the asset side of the balance sheet were again the largest factor in increase in net interest income. The positive price effects on the asset side prevailed over the negative effects on the liability side, albeit by significantly less than in the previous year. The positive price effects last year derived from all interest-bearing asset components (see Figure 2.22, right), while the negative effects derived from all forms of liabilities on which interest is payable, average interest rate levels over the year having exceeded those in the previous year. The price effects from securities holdings strengthened in particular, and were equivalent to half of the effects from loans. Similarly, the positive quantity effects from securities were also slightly notable, the banks having reduced their holdings of the deposit facility as the ECB cut the interest rate, and increased their holdings of securities. The negative price effects from deposits also strengthened slightly compared with the previous year, although their impact was small, despite deposits' prevalence in funding.

The Slovenian banking system ranks high among European countries in terms of the size of the net interest margin. In the second half of last year it began to gradually fall in Slovenia and in the euro area overall (see Figure 2.23, left). The net interest margin⁴⁰ of the Slovenian banking system has been ranked above the 75th percentile of the distribution in the euro area ever since the first quarter of 2023, and remained prominent on the upside over the first three quarters of last year. The ratio of interest income to the balance sheet total at Slovenian banks is below the euro area average, as they still hold an extensive part of their assets in low-yielding and liquid forms. They also have the lowest ratio of interest expenses to the balance sheet total of any euro area country, and lie above only one other EU Member State in terms of this metric.

Figure 2.23: **Net interest margin in the euro area and EU Member States**

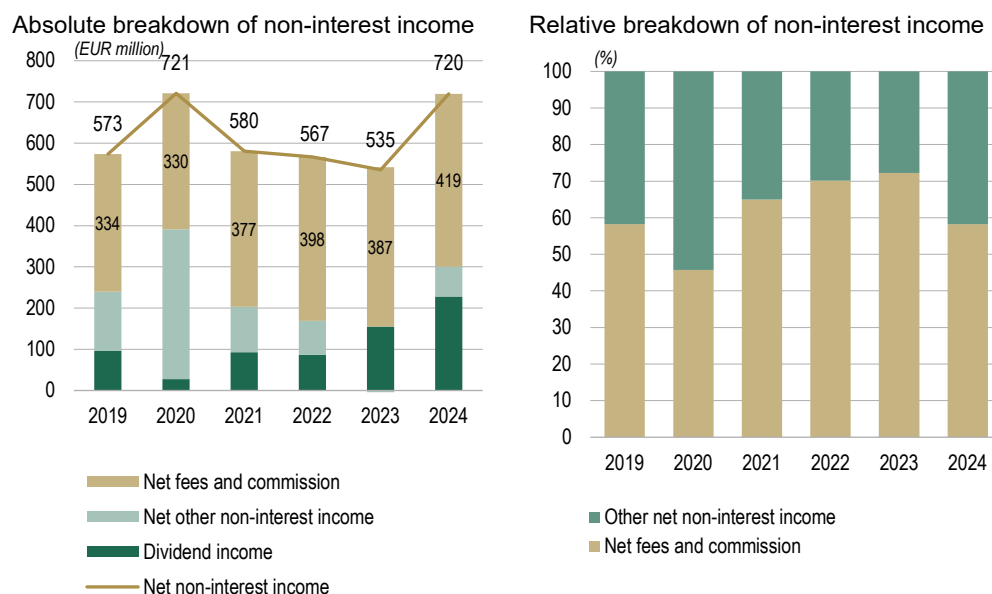


Source: Banka Slovenije

Net non-interest income increased by a third, driven in particular by dividend income. Even excluding dividend income, the increase would have exceeded 10%. One-off developments such as July dividends can have a relatively large impact on net non-interest income in the banking system. Year-on-year growth in net non-interest income consequently stood at 34.3% at the end of the year. Growth in net fees and commission, which accounts for the majority of non-interest income, remained favourable last year at 8.3%. It thus outpaced growth in the balance sheet total, which was reflected in a rise in the net commission margin, which stood at 0.79% at the end of 2024 (up from 0.75% in December 2023). The data for the early months of 2025 shows solid growth in both total net non-interest income and net fees and commission.

⁴⁰ The compared values relate to the end of the third quarter of 2024 (ECB Data Portal). For other comparisons of certain indicators, see the appendix entitled *Comparison of selected indicators of the Slovenian banking system with EU banking systems in 2023* in the October 2024 issue of the Financial Stability Review.

Figure 2.24: **Absolute and relative breakdown of non-interest income**



Source: Banka Slovenije

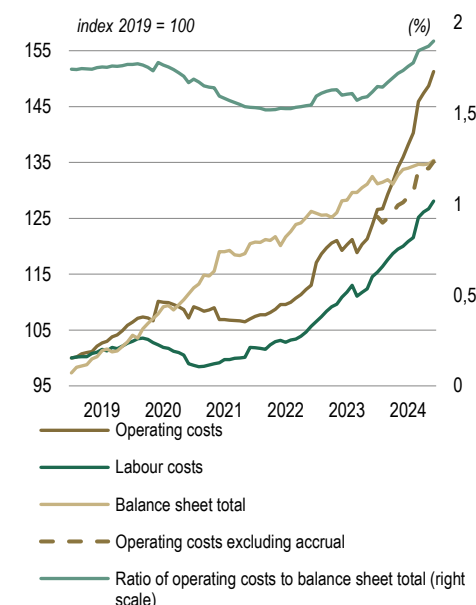
Operating costs

Growth in operating costs was high at 22.1%, with the tax on total assets accounting for more than half of this increase. Growth would have stood at 9.1% in the absence of the tax. Growth in labour costs, which account for approximately half of total operating costs, stood at 11.8% last year. High income in the banking system ensured that the CIR remained low last year at 44.4%, up slightly on the previous year (42.0%), but well below its long-term average for the second consecutive year.⁴¹ Growth in operating costs slowed sharply in the early part of this year, the base effects of the levying and accrual of the tax on total assets having ceased.

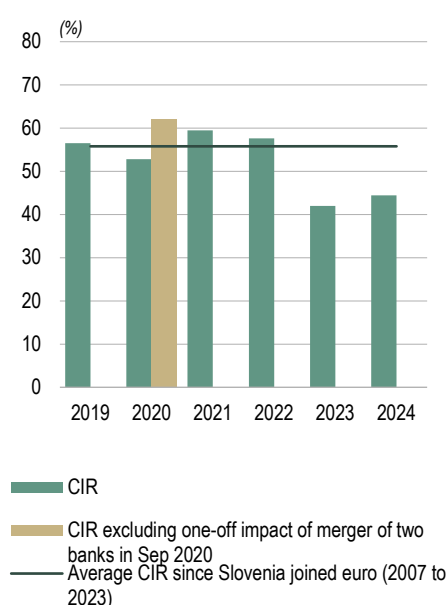
⁴¹ Two methodological factors that had a significant impact in raising costs in recent years are the inclusion of bank contributions to the guarantee scheme and the resolution fund (since mid-2020) and the accrual of costs as a result of the introduction of the tax on total assets (as of 2024). The CIR nevertheless declined over the last two years, thanks to the highly favourable situation. Costs of contributions accounted for 4.0% of total operating costs, and the accrual costs of the tax on total assets for 10.7%.

Figure 2.25: **Operating costs and CIR**

Growth in operating costs, labour costs and balance sheet total



CIR



Source: Banka Slovenije

Expectations with regard to income generation in 2025

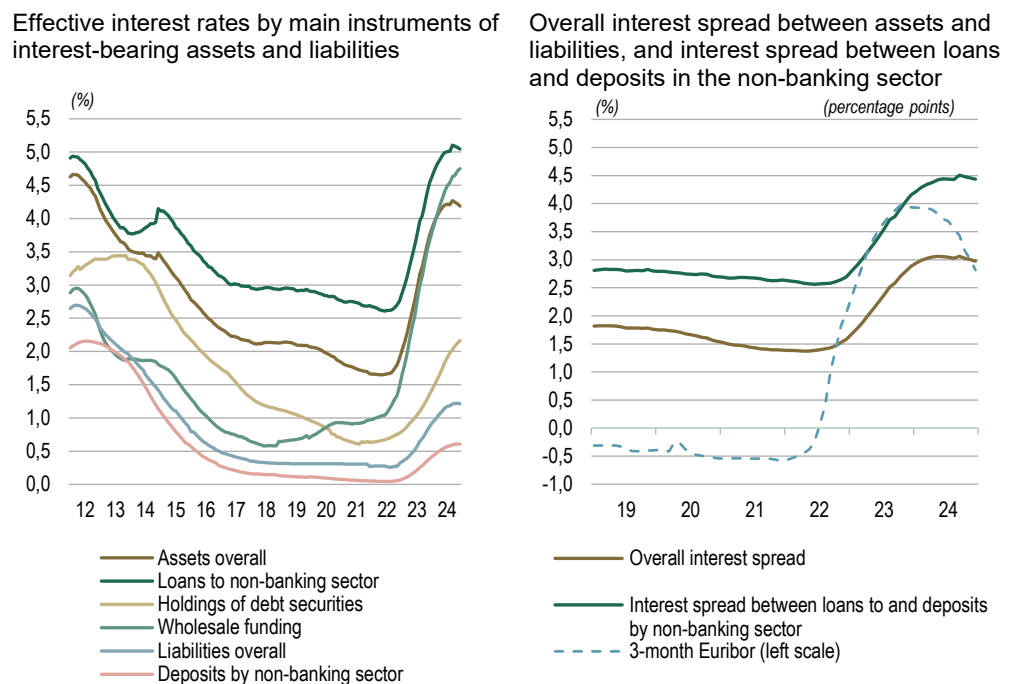
Our expectation for 2025 is that income in the banking system will decline, driven in particular by a decline in net interest income, largely owing to falling interest rates, but also potentially by reduced demand for loans amid the increased uncertainty. With interest rates lower than in 2024⁴² and the potential for further interest rate cuts by the ECB and on the financial markets, (net) interest income in the banking system will also decline, as will the net interest margin, which will remain above its long-term average.⁴³ The data for three months to January inclusive shows that net interest income at an annual level could still exceed that in 2023, when the net interest margin was slightly below 3%, while the same is also true of gross income. Largely on account of the favourable financing structure and the resulting wide spread between asset and liability interest rates, the banks are continuing to generate relatively stable (net) interest income, where important roles are being played by the near-zero remuneration of sight deposits and the low interest rates on deposits of longer maturities at banks. They account for the vast majority of the banks' interest-bearing liabilities. On the asset side the fall in interest rates on loans is gradually passing through into lower interest income (only for existing variable-rate loans and new fixed-rate loans). At the same time the banks are being relatively active in switching from the most liquid assets (claims against

⁴² Interest rates in 2024 (over the entire year) were still significantly higher than in the previous year (the overall interest spread widened by 0.5 percentage points to 4.2 percentage points). The January data shows the spread remaining wide, despite narrowing significantly in year-on-year terms: the effective interest rate on assets stood at 3.9% in January 2025 (compared with 4.5% in January of last year), while the effective interest rate on liabilities stood at 1.0% (1.2% last January), where the rate on deposits stood at 0.6% (0.2% last January). The overall interest spread stood at 2.8 percentage points (3.3 percentage points last January), while the loan-deposit spread stood at 4.2 percentage points (4.7 percentage points last January). The narrowing was largely the result of the fall in interest rates at the ECB and on the financial markets: the interest rate on the deposit facility stood at 4.00% in the first quarter of last year, while the 3-month Euribor stood at more than 3.9%. Following several consecutive cuts, the ECB cut its interest rates again in March of this year, reducing the interest rate on the deposit facility, valid from 12 March, by a further 0.25 percentage points to 2.50%, the 3-month Euribor having averaged just 2.53% in February.

⁴³ The current level of the net interest margin, which stood at 3.05% over the 12 months to January, or an annualised rate of 2.97% based on the last quarter, is significantly above its long-term average: the net interest margin in the Slovenian banking system averaged 2.07% between the time that Slovenia joined the EU (2004) and the end of 2023, and 1.97% in the time since Slovenia joined the euro in 2007. At the end of the period of low interest rates, the lowest 12-monthly figure was recorded at the beginning of the second quarter of 2022 (1.39%).

the ECB) into higher-yielding securities. For some time now the banks have been cutting interest rates on deposits by the non-banking sector, while the fall in interest rates on the financial markets is gradually reducing the price of other (wholesale) funding. Despite the decline in net interest, which will also reduce income and profits, greater pressure to reduce net interest would only arise in the event of a pronounced cut in key interest rates by the ECB, which is no longer expected at present, given that the assessment of the situation in the economy and on the financial markets increasingly suggests that the fall in interest rates will gradually come to an end this year.⁴⁴ Non-interest income in the Slovenian banking system is proving to be relatively stable, with occasional fluctuations caused by one-off developments. One category that for several years will reduce net income is the slight increase in operating costs caused by the tax on total assets.

Figure 2.26: Interest rates on main asset and liability classes, and interest spreads



Note: Effective interest rates in the right chart are computed over the preceding 12 months. The values are calculated from interest according to the income statement, and the stock of assets and liabilities.

Source: Banka Slovenije

⁴⁴For more, see *No longer convenient? Safe asset abundance and r^** , Isabel Schnabel, 25 February 2025; and Brand, C., Lisack, N. and Mazelis, F. (2025), *Natural rate estimates for the euro area: insights, uncertainties and shortcomings*, Economic Bulletin, Issue 1, ECB.

3 Other Risks

3.1 Cyber risk

The assessment of cyber risk in the banking system has been held at elevated with a stable outlook. Slovenian banks' reports of cyber incidents show that the number of critical incidents in decreased from previous year. No Slovenian bank reported a cyber incident in the fourth quarter of 2024 that caused financial damage or impacted on operations with customers. However, cyber threats remain at an elevated level due to the elevated geopolitical risk.

Based on Slovenian banks reporting of cyber incidents, we assess that the number of critical cyber incidents in banking has fallen. Unlike in recent years at the EU level, the Slovenian banking system was not the target of major cyberattacks in the second half of 2024. The number of critical cyber incidents in the banking sector did not rise as a result of geopolitical threats (war in Ukraine, conflict in the Middle East). The most common types of attack on banks and their customers remain phishing⁴⁵ and online fraud.

Banka Slovenije uses a cyber mapping tool to monitor and identify cyber risks within the banking system. The tool also helps forecast the upcoming quarter's assessment. The tool indicates that cyber risk is declining within the banking system, as the number of cyber incidents over the past year has reached a record low. Additionally, the tool identified no cyber incidents that could lead to operational or financial contagion between banks or from third-party ICT service providers. Cyber risk forecasts for the first half of 2025 show a similar trend to that of 2024. However, due to elevated geopolitical risk, cyber threats persist, and our cyber risk assessment remains elevated with a stable outlook.

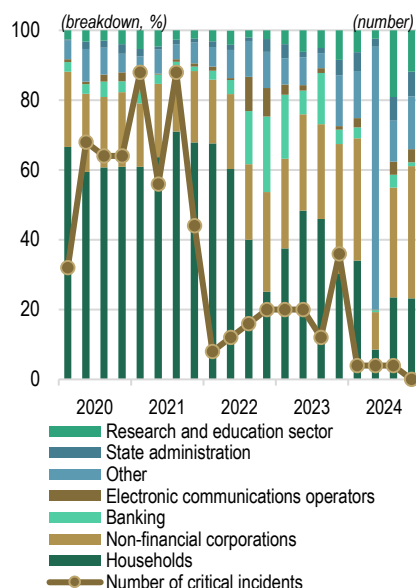
The number of cyber incidents reported to SI-CERT by banking sector in the fourth quarter of 2024 was lower than in the same period of 2023. Banks reported two incidents.⁴⁶ According to the SI-CERT data, the number of cyber incidents in the banking sector decreased by just over 16% year over year. Although the banking sector ranked eighth in terms of reported cyber incidents in 2024, it remains a significant target for cyberattacks (see Figure 3.1, left). The most likely reason for the significant decrease in cyber incidents reported by banks is the decline in phishing and other online fraud attempts, which began in the first half of 2024. We also assess that the security culture and public awareness of general measures to ensure cybersecurity have improved. The sectors most exposed alongside state administration are energy, education and research, banking, transport and healthcare.

⁴⁵ Phishing attacks involve false representation where the attacker sends a fraudulent (e.g. fake or otherwise misleading) message causing the victim to reveal sensitive data to the attacker or to install malware on their infrastructure.

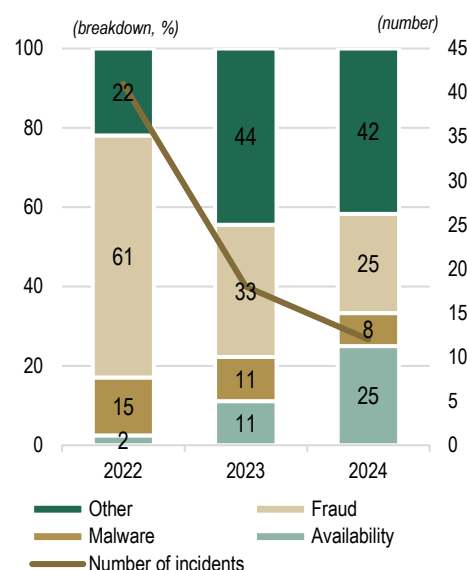
⁴⁶ The SI-CERT reporting captures a broader set of cyber incidents (including less significant) than those reported to Banka Slovenije by banks. Only critical cyber incidents that meet the reporting criteria under the EBA guidelines are reported to Banka Slovenije.

Figure 3.1: **Cyber incidents by sector**

Breakdown of cyber incidents by sector, and number of critical incidents



Types of incident in the banking sector



Note: The term "Other" in the left chart covers the energy sector, financial markets infrastructure, online marketplace providers, healthcare, transportation, drinking water supply, digital infrastructure and cloud service providers.
Sources: SI-CERT, Banka Slovenije

The prevailing forms of cyberattack in Slovenia in 2024 were fake emails and ransomware. These were the most common resources used by cybercriminals, whose primary motivation was financial (see Figure 3.1, right). In addition to the aforementioned, the highest statistics were recorded by DDoS attacks, malicious cyber activity aimed at extracting data, social engineering, and malware. The number of smishing attacks targeting credit cards and banking data rose in 2024. Smishing uses text messages to persuade the user to click on an attached link. The number of attacks on SMEs increased in 2024.. They often lack the financial resources necessary to mitigate cyber risks. SMEs are frequently exposed to ransomware attacks, which usually penetrate the information system and encrypt all accessible files. These files can only be unlocked after a ransom is paid. Cyberattacks cause the most financial damage to SMEs and could indirectly impact the banking sector.

The main cyber incidents reported in the banking sector at the EU level in the fourth quarter of 2024 were related to external IT service providers, DDoS attacks,⁴⁷ unauthorised access and ransomware. These account for just over a half of all reported cyber incidents. There was a rise in the number of incidents at third-party service providers in 2024, which is also affecting banks' business with customers (e.g. theft of confidential information, disruption to banking services, unauthorised access). These are followed by phishing, ransomware, and malware attacks. The number of critical cyber incidents in the SSM rose in the final quarter of last year (there was an average of 40 critical cyber incidents per quarter during 2024). Reporting by systemically important banks did not reveal any significant differences in the number of cyber incidents between countries that are close to conflict zones and other countries. Cyber threats remain elevated across the EU due to geopolitical risks.

⁴⁷ The aim of a DDoS attacks is to disrupt or deny services for users. Botnets are commonly used to make attacks of this type. To prevent DDoS attacks the banks are setting up security operations centres and installing antivirus software.

Box 3: Opportunities and risks brought to the banking sector by AI

AI techniques⁴⁸ are being used more and more in the banking sector for credit scoring, fraud detection, managing cyber risk, and monitoring of suspicious transactions. It is expected that the development and use of AI in banking will provide banks and businesses with a competitive advantage. Banks use various AI applications, such as neural networks, decision trees, and natural language processing, to carry out their internal business processes. However, the evolution of AI at firms and also at banks is increasing certain financial and non-financial risks. The lack of explainability in AI models could strengthen procyclicality and systemic risk on the financial markets. Using AI for credit scoring carries the risk of bias and discrimination. Using AI can also introduce risks related to market manipulation⁴⁹ and cybersecurity. AI systems are vulnerable to cyberattacks, including those that target decision-making processes directly. Attackers may even use generative AI tools⁵⁰ in the actual cyberattacks to create sophisticated fake messages, which could lead to a rise in the number of cases of identity theft or fraud. A risk to financial stability could also be posed by over-reliance on AI systems, which could automate and accelerate the procyclicality of financial events. Generative AI can be used to wilfully or unintentionally⁵¹ spread erroneous information very quickly among market participants, and may even impact financial stability in an emergency. Currently there has been no sign in the banking sector of AI giving rise to major risks to financial stability, but the evolution and wider use of AI might increase this risk in the future.

In past years Banka Slovenije has conducted several surveys on the theme of digitalisation and the use of AI in the banking sector. The survey results show that banks are already using AI systems to a limited extent to reduce operating costs and to increase market competitiveness. Banks use AI systems for anti-money laundering (AML) and countering the financing of terrorism (CFT), cyber security improvements, credit scoring, and fraud detection. However, banks remain cautious when rolling out AI systems, thoroughly assessing the technology's benefit before deciding to implement it. As shown in Figure 3.2 (left), banks have been increasingly using AI in their business over the years. Use is also growing through the development of generative AI tools. Most of banks are either introducing or have already rolled out the option of using tools of this kind to increase employee efficiency and productivity. However, generative AI also poses risks due to its lack of transparency in decision-making, susceptibility to manipulation, and privacy protection issues. AI-driven models can generate biased results, either intentionally or unintentionally. Therefore, when using them, banks should assess the risks that this technology poses to ordinary operations.

The Artificial Intelligence Act entered into force on 1 August 2024, and will be fully implemented on August 2 2027. The Act establishes a common legal framework in place for the use of AI in the EU. The aim of the new rules is to foster trustworthy AI in the EU, based on upholding fundamental rights, democracy and the rule of law, while also ensuring the right conditions to encourage innovation. The AI Act classifies AI systems into various categories (according to risk, according to attributes/purpose), and sets out

⁴⁸ AI (artificial intelligence) is a field of computing that involves developing systems that are capable of carrying out tasks that usually require human intelligence. It encompasses machine learning techniques, with a particular emphasis on the use of neural networks (e.g. the deep learning used for natural language processing), and other techniques.

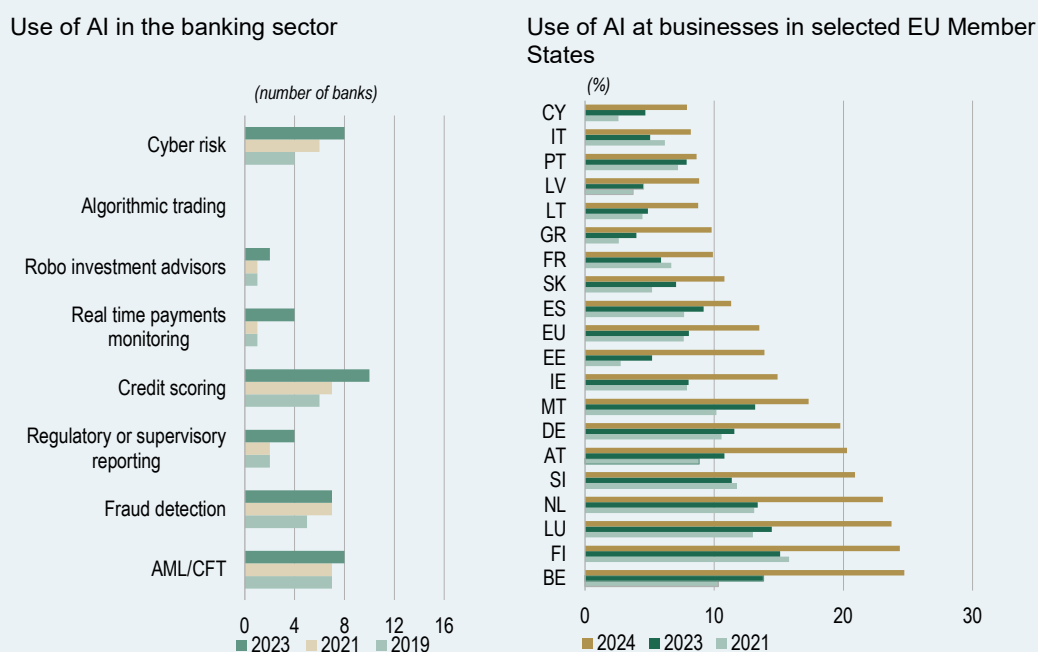
⁴⁹ Data manipulation affects trading on the financial markets, which can also have an impact on the stability of the financial system.

⁵⁰ Generative AI is a subset of AI. It does not just interpret information, it also creates original content. Generative AI combines the power of machine learning, deep learning and AI to generate texts, videos, sound, code and images.

⁵¹ The term hallucinations refers to a model that generates results that are syntactically and terminologically correct, but are disconnected from reality and are based on erroneous assumptions. Hallucinations of generative AI can spread between market participants, and can affect the financial system and financial stability.

specific requirements and conditions for each of these categories: (i) banned practices (unacceptable risks where there is a threat to fundamental human rights, e.g. the use of biometric categorisation, profiling, emotion recognition), (ii) high-risk systems whose use can pose serious risks to health, safety or fundamental rights (including privacy), the environment, democracy or the rule of law (e.g. systems for remote biometric identification, systems for critical infrastructure, systems for credit scoring), and (iii) other AI systems (limited risks), whose use for general purposes or whose direct interaction with individuals mean that limited systemic risks are present, particularly when the providers fail to provide users with transparent and comprehensive information about the functioning of the system. The vast majority of AI systems in use today in the banking sector are classed as limited risk or minimal risk, while credit scoring systems are classified as high risk.

Figure 3.2: **Use of AI in banking and business**



Sources: Banka Slovenije, Eurostat

According to the Eurostat data, the use of AI by businesses has also increased in recent years, both at the EU level and in individual countries. At EU level 13.5% of EU firms (with more than ten employees) were already using AI in their business in 2024. Just one year earlier the figure was only 8.0%. AI was used in their business by 20.9% of Slovenian firms in 2024, which ranks Slovenia above the EU average (see Figure 3.2, right). Slovenian firms are implementing various AI techniques to improve their performance and their market competitiveness. The most commonly used technique is text mining, which is used by 6.9% of firms. The second most common technique, used by 5.4% of firms, is natural language generation. This is followed by speech recognition, used by 4.8% of firms. Use of AI by businesses has increased in recent years, and the trend is expected to continue in the future. Therefore, firms need to attentively monitor the risks posed by AI.

3.2 Climate risks

Climate risks are assessed as moderate, with a stable outlook (transition risks) over the following quarters. Among the transition risk indicators, exposure to climate-

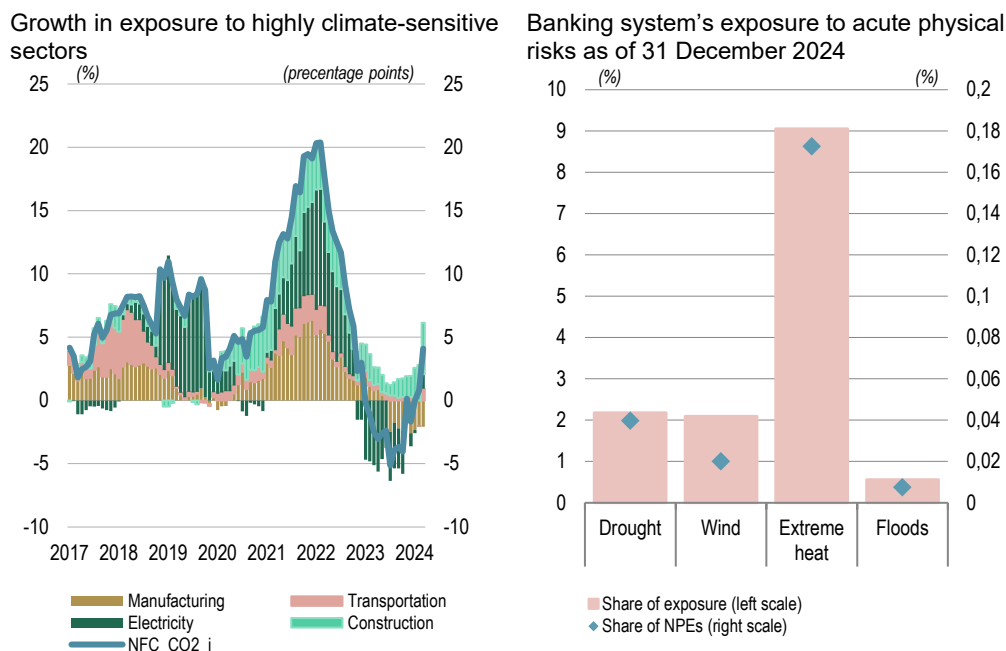
sensitive sectors increased in the second half of 2024, the carbon indicators continued to improve and the credit risk of climate-sensitive sectors remains low. The physical risk indicators point to low risk. Of the acute physical risks, the banking system is most exposed to the risk of extreme heat, while exposure to flood risk is low.

Exposures to climate-sensitive sectors increased by 5% year-on-year with the reversal in the credit cycle. By the first definition based on emissions in Slovenia this was largely due to an increase in exposures to construction (accounting for 4.1 percentage points), while the contribution of exposures to manufacturing activities remained negative (2.1 percentage points) (see Figure 3.3, left). By the second definition this was largely due to increases in exposures to the housing sector (2.8 percentage points) and to energy-intensive sectors and electricity, gas, steam and air conditioning supply (1.6 percentage points on average). The share of exposure to climate-sensitive sectors in December remained stable compared to the previous year and amounted to 34.1% according to the first definition and 36% according to the second definition.

There was an additional improvement in the carbon indicators, albeit at a slowing pace due to a base effect. Carbon credit intensity declined by 3.6% in 2024 to 0.6 kg CO₂/EUR, while weighted carbon intensity declined by 1.6% to 99 g CO₂/EUR. Portfolio tilt also declined by 2 percentage points throughout the year to 24%, largely as a result of a decline in exposure to manufacturing.

Credit risk in climate-sensitive sectors remains low. There is still some credit risk concentration in climate-sensitive sectors owing to the weakness in certain sectors (manufacturing, construction). The NPE ratio for climate-sensitive sectors in the NFCs portfolio stood at 0.55% in December, while the share of climate-sensitive sectors in the NPEs of the NFCs portfolio amounted to 31%. The latter has been elevated since the end of 2023 and has increased further since the end of the first half of 2024 (by approximately 3 percentage points).

Figure 3.3: **Exposure to climate-sensitive sectors and banking system's exposure to acute physical risks**

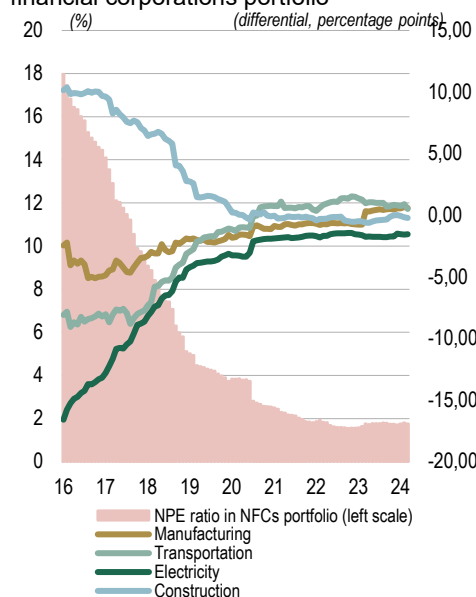


Note: The label NFC_CO2_i captures a subset of economic activities within manufacturing, transportation, construction and electricity.
Sources: Banka Slovenije, SEA

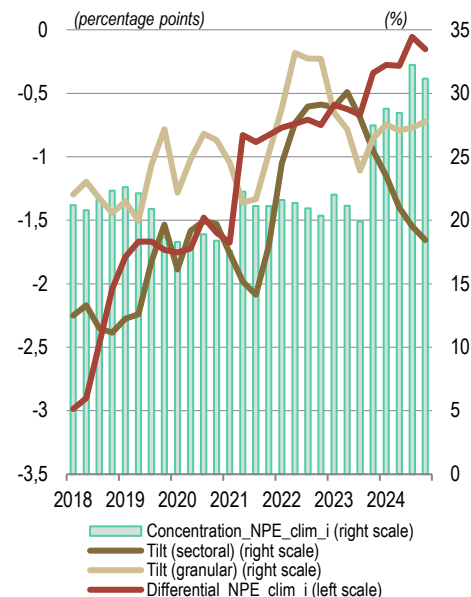
To date climate-sensitive sectors have typically had lower credit risk than the total exposure to NFCs, but the gap is narrowing. Differences in credit risk can be analysed through differences between the NPE ratio for individual (climate-sensitive) sectors and the overall NPE ratio for the NFCs portfolio. A negative difference could indicate a lower risk. Of the climate-sensitive sectors, the difference between the NPE ratio for the segment and the overall NPE ratio for the NFCs portfolio was typically largest in construction (internal definition) and housing (CPRS definition). This is a result of structural issues from the previous financial crisis, though it has narrowed over the years. The negative difference which was originally discernible between the NPE ratio for individual segments and the overall NPE ratio for the NFCs portfolio has narrowed sharply (see Figure 3.4). The range (between the largest positive difference and the largest negative difference) peaked at 26.8 percentage points (in the final quarter of 2017), but had narrowed to just 2.1 percentage points by December 2024. This indicates that the risk of concentration of NPEs in individual sectors has declined. The similar holds true when decomposing using the CPRS definition. The difference between the NPE ratio for climate-sensitive sectors overall and the overall NPE ratio for the NFCs portfolio remains negative, but the gap has narrowed sharply. At the same time the share of climate-sensitive sectors in total NPEs to NFCs has increased (see Figure 3.4). This is indicative of an increase (concentration) in credit risk in climate-sensitive sectors. Credit risk in climate-sensitive sectors nevertheless remains low and stable, due to an initially low share of NPEs and the still lower NPE ratios for climate-sensitive sectors compared to the overall NPE ratio for the NFCs portfolio.

Figure 3.4: **Differences in risk in climate-sensitive sectors and selected climate risk indicators**

Overall NPE ratio for the non-financial corporations portfolio and difference in risk of climate-sensitive sectors relative to the non-financial corporations portfolio



Selected climate risk indicators



Note: The differential is calculated as the difference between the NPE ratio for the NFCs portfolio and the NPE ratio for the climate-sensitive sector. In the right chart the label *clim_i* refers to highly climate-sensitive sectors (subsets of manufacturing, transport, electricity, gas, steam and air conditioning supply, and construction). The concentration of NPEs in climate-sensitive sectors is defined as the share of total NPEs in the NFCs portfolio accounted for by NPEs in the aforementioned sectors. The chart illustrates moving averages of the tilt calculated on the basis of sectoral and granular emissions.

Sources: Banka Slovenije

Physical risks are assessed as low. The share of exposure in municipalities with elevated or high physical risks stood at 14.1% at system level⁵² in December 2024. The share was slightly higher in the household portfolio (15.3%) than the NFCs portfolio (13.1%). The share has remained stable over time and was up just 0.15 percentage points in year-on-year terms. The share of NPE in municipalities with elevated or high physical risks in total exposures is low and amounted to 0.13% in the household portfolio and 0.35% in the NFCs portfolio (0.25% at system level). Credit risk inherent in physical risks remains low, although there is a discernible concentration of NPEs in municipalities with elevated or high physical risks. The share of total NPEs accounted for by municipalities with elevated or high physical risks stood at 19% in December 2024 (up 0.3 percentage points in year-on-year terms), and has remained elevated since the final quarter of 2023, primarily as a result of an increase in the share in the NFCs portfolio. The latter is not related to the materialisation of physical risks in August 2023, it is instead due to exposure to extreme heat risk. The share is higher in the NFCs portfolio (20.2%) than in the household portfolio (16%).

Of the acute risks, the banking system is most exposed to the risk of extreme heat, extreme wind/storms, and drought, and is least exposed to the risk of floods. The share of exposures in municipalities that are highly exposed to the risk of floods stood at 0.6% in December 2024 (up 0.1 percentage points in year-on-year terms), while the share of NPEs in these municipalities in total exposures (NFCs and households) was negligible. The shares of exposures in municipalities that are highly exposed to the risk of drought and storms stood at 2.1%, while exposure to the risk of extreme heat stood at 9.1% (see Figure 3.3, left). The shares in the household portfolio are higher for all types of physical risk, with the largest difference for the risk of floods,

⁵² Exposure at system level encompasses banks' exposure to households as reported in SISBON, and banks' exposure to NFCs as reported in PORFI. The climate risk indicators are based on projections for the period of 2011 to 2040 under the RCP4.5 climate scenario.

partly a reflection of the distribution of exposure. The share of NPEs in municipalities that are highly exposed to acute physical risks in total exposure at system level is low and stood at 0.24% in December 2024, largely attributable to NPEs in municipalities that are highly exposed to extreme heat.⁵³ The banking system's exposure to acute physical risks has remained stable over the last year, while the consequences of the materialisation of physical risks in 2023 for the banking system were relatively limited. Physical risk⁵⁴ is assessed as low, given that banks are most exposed to the risk of extreme heat, which does not have a direct impact on the banking system, in terms of changes in the value of assets pledged as collateral.

⁵³ The NPE indicators reflect credit risk as a result of exposure to specific climate risk, and not necessarily the materialisation of individual climate risks.

⁵⁴ Based on indicators from the projections of the RCP4.5 core climate scenario for the period of 2011 to 2040. The RCP4.5 moderately optimistic scenario envisages a rise in average air temperature of 0.4°C to 1.0°C over this period (source: https://meteo.arso.gov.si/uploads/probase/www/climate/text/sl/publications/QPS21_Porocilo.pdf).

4 Resilience of the Banking System

4.1 Solvency and profitability

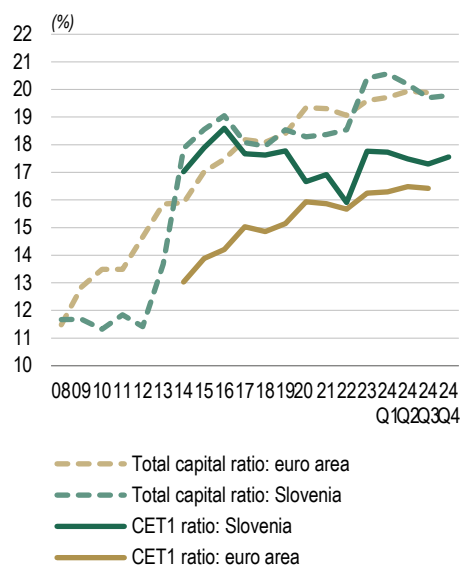
The resilience of the banking system from the perspective of solvency and profitability remains high. Our assessment is that the good profitability, still supported by high net interest income, will continue to be enjoyed by the banks in the first half of 2025 amid relatively unchanged conditions. The favourable developments in profitability, which is proving to be sufficiently robust, might also be reflected in the total capital ratio at the end of the first half of this year, assuming that the banks retain some of their 2024 profits and allocate them to reserves. The main risk that in the future could be posed to the maintenance of the current solvency position comes from a rise in credit risk, while operating costs and additional impairments could reduce the high profits, albeit to a limited extent.

Solvency

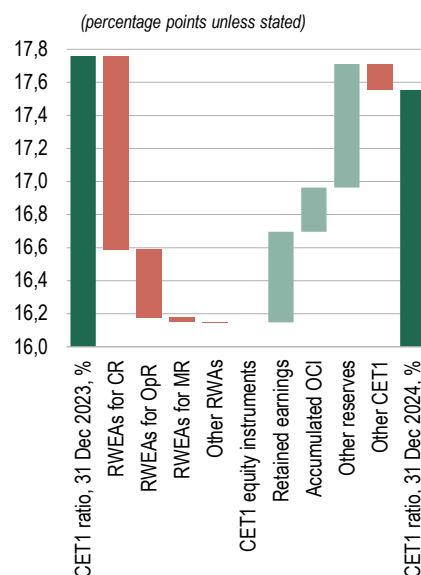
The banking system showed good solvency at the end of 2024, despite a slight decline in the capital ratios on a consolidated basis. Despite an increase in regulatory capital, the capital ratios declined on account of a faster increase in risk-weighted exposure amounts (RWEAs), which was particularly pronounced in the final quarter of the year. The total capital ratio on a consolidated basis declined by 0.6 percentage points in 2024 to 19.8%, while the common equity Tier 1 capital (CET1) ratio on a consolidated basis declined by 0.2 percentage points to 17.6% (see Figure 4.1). The increase in RWEAs was driven by a rise in credit risk (accounting for 71% of the increase in risk-weighted assets) in the household portfolio, while a significant share of the increase (27%) was driven by a rise in operational risk. Regulatory capital increased in 2024 as a result of retained earnings and other reserves, and partly as a result of lower losses on accumulated other comprehensive income. In the euro area overall, for which the latest data relates to the end of the third quarter of 2024, the total capital ratio stood at 19.9% and the CET1 ratio at 16.4%. The first was up 0.3 percentage points, and surpassed the average figure in the Slovenian banking system, while the CET1 ratio was up 0.2 percentage points but remained below the figure for the Slovenian banking system. The Slovenian banking system's total capital ratio on an individual basis increased by 0.1 percentage points to 22.2%, while the CET1 ratio increased by 0.5 percentage points to 19.7%.

Figure 4.1: **Capital ratios and decomposition of change in CET1 ratio**

Capital ratios, comparison with the euro area, consolidated basis



Decomposition of change in CET1 ratio, consolidated basis

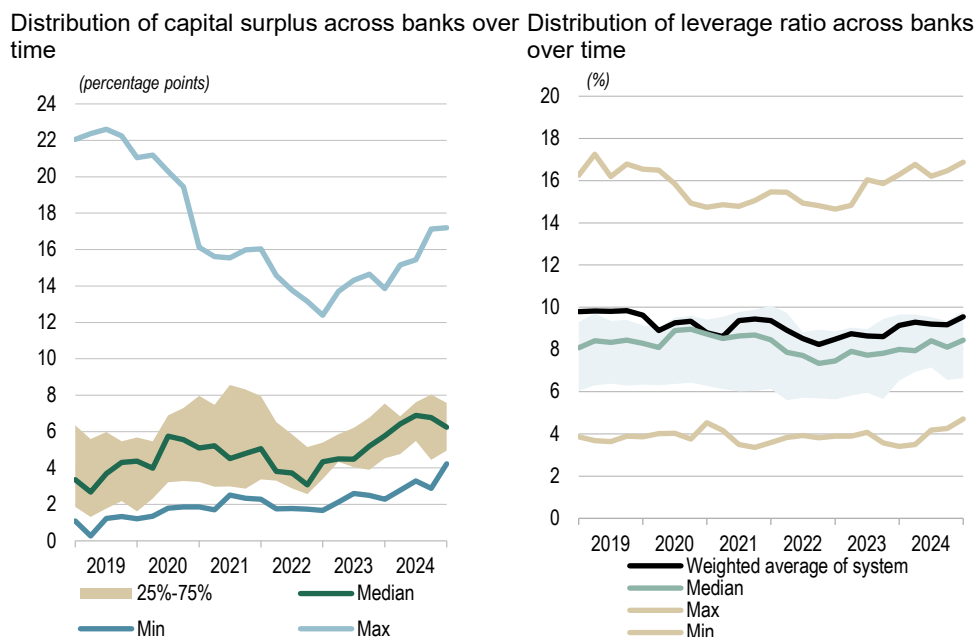


Note: CR: credit risk; MR: market risk; OpR: operational risk.
Sources: Banka Slovenije, ECB Data Portal

The total capital ratio in the banking system on a consolidated basis displayed uneven quarterly dynamics over the course of the year. By the end of the year it was down 0.6 percentage points from the beginning of the year. Seven banks (67% of the total) saw an increase in their total capital ratio. The CET1 on a consolidated basis tracked this trend, and declined by 0.2 percentage points overall (see Figure 4.1, left), with 58% of the banks seeing an increase. The average surplus over the defined overall capital requirement⁵⁵ at the level of the banking system (see Figure 4.2, left) declined by 0.6 percentage points during 2024 to end the year at 5.9 percentage points (EUR 2.1 billion). Four banks (33%) saw a decline. Despite the decline in the surplus, the minimum surplus at any single bank was 4.2 percentage points, the highest such figure since 2019. This also raised the median surplus relative to the beginning of the year. The developments in the surplus confirm that the resilience of the individual banks and thus of the system as a whole remains good. At the same time the distribution of the surplus across the banks suggests that the capacity to potentially absorb negative effects during the realisation of systemic risks varies from bank to bank. The favourable trends for strengthening the resilience of the banking system were reflected in an increase in the leverage ratio (see Figure 4.2, right), which stood at 9.6% at the end of 2024 (up 0.4 percentage points), but the gap between the highest and lowest figures remains considerable. The banks should take advantage of their good performance in 2024 to further strengthen solvency, as their net income is already showing signs of slowing, making the conditions for any future strengthening of solvency more difficult.

⁵⁵ The overall capital requirement encompasses the Pillar 1 and Pillar 2 capital requirements and the capital buffers, but not the Pillar 2 guidance.

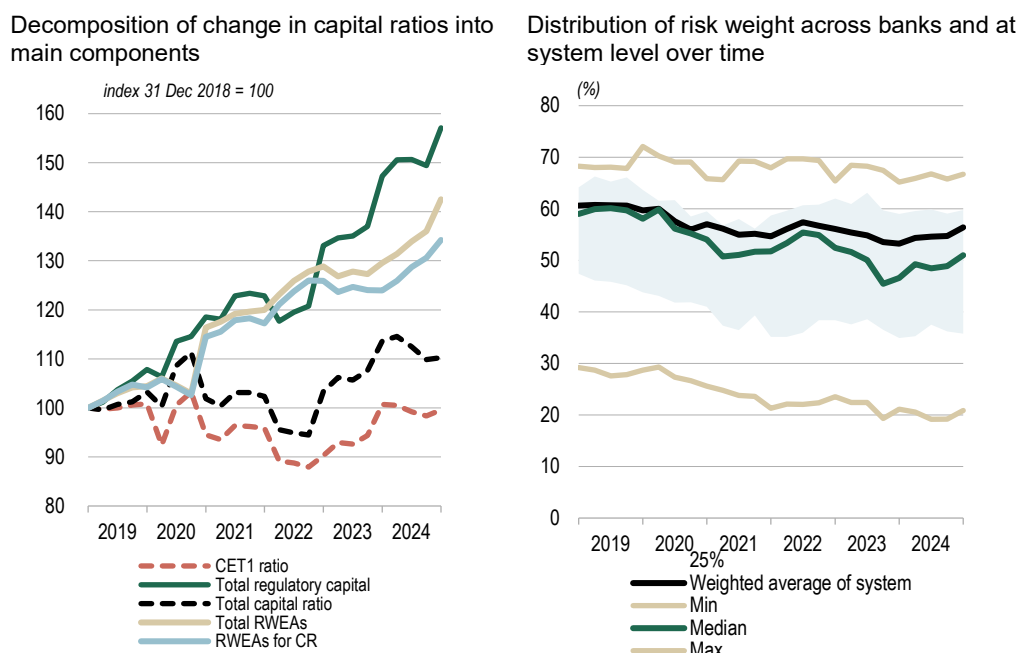
Figure 4.2: **Capital surplus and leverage ratio**



Source: Banka Slovenije

Total regulatory capital increased across almost the whole of 2024, with the exception of the third quarter. It ended the year at EUR 7.1 billion, up 6.7% (EUR 444.5 million) on the end of 2023. The largest factor in the growth was the increase of EUR 505.7 million in CET1 capital (see Figure 4.2., left), primarily via retained earnings and other reserves in the amount of EUR 465.6 million (an increase of 12.6%), while the loss on accumulated comprehensive income also diminished to EUR 96 million. CET1 capital amounted to EUR 6.3 billion at the end of the year. Additional Tier 1 (AT1) capital declined by 1.6% last year to EUR 86.5 million, while Tier 2 (T2) capital declined by 7.7% (EUR 59.9 million) to EUR 715 million. CET1 capital thus accounted for fully 88.7% of total regulatory capital at the end of 2024, up 1.7 percentage points on the end of 2023, an indication of the rise in quality of regulatory capital. Retained earnings and other reserves accounted for 63.7% of CET1 capital, up 2.5 percentage points on the end of 2023. The strengthening capital is also having an impact on the capacity to meet the MREL requirements. The main risks that could adversely impact the future generation of regulatory capital are the banks' poor access to capital markets, a rise in operating costs, and a decline in net income.

Figure 4.3: **Changes in capital ratios and distribution of risk weight**

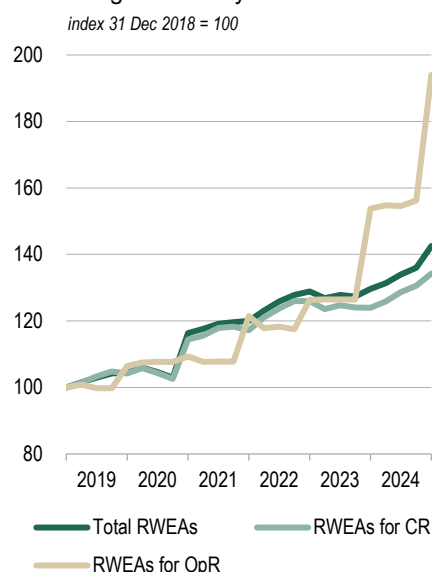


Source: Banka Slovenije

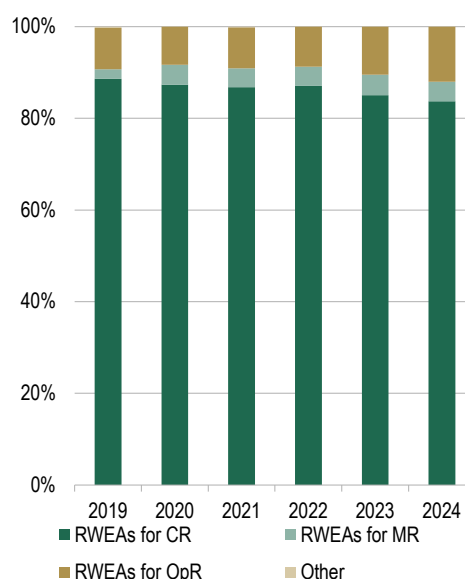
Total RWEAs on a consolidated basis increased, primarily as a result of increased exposure to credit risk. They rose by 10.0% (EUR 3.6 billion) to almost EUR 36 billion, following relatively modest growth of 0.6% in 2023 (see Figure 4.3, left). RWEAs for credit risk increased by 8.3% in 2024, driven above all by the increase of 16.2% in RWEAs in the household portfolio. RWEAs for operational risk also recorded relatively high growth (26.1%), driven by the persistence of high income on which the calculation of the risk-weighted exposure amount is based. This growth was also reflected in an increase in the share of total RWEAs that they account for (see Figure 4.2, right), which stood at 12.0% at the end of the year (up 1.5 percentage points). The share accounted for by RWEAs for credit risk thus declined to 83.6% (down 1.3 percentage points), while the share accounted for by RWEAs for market risks declined to 4.2% (down 0.2 percentage points). The average risk weight (see Figure 4.2, right), which indicates the average level of risk of the total portfolio of banks, i.e. the banking system, increased to 56.4% in 2024, up 3.1 percentage points on the end of 2023, when it was at its lowest level since 2019. This is indicative of the rise in the risk level of bank portfolios that occurred with the asset transformation when banks replaced low-risk liquid assets with higher-risk, higher-yielding assets. The average risk weight can be expected to increase further in the future, driven by the ongoing asset transformation, and also by the potential realisation of risks posed by the macroeconomic environment.

Figure 4.4: **Growth in risk-weighted assets and evolution of breakdown over time**

Growth in risk-weighted exposure amounts in selected segments at system level



Evolution of the breakdown of risk-weighted exposure amounts at system level over time



Note: CR: credit risk; MR: market risk; OpR: operational risk.
Source: Banka Slovenije

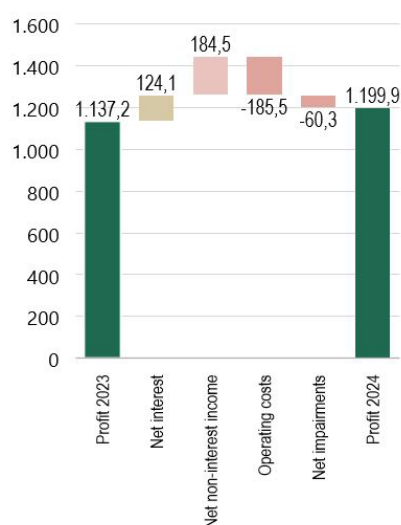
Profitability

Bank profitability remained very high for the second consecutive year, and last year even exceed the record level seen in the previous year. Pre-tax profit amounted to EUR 1,200 million in 2024, up 5.5% on the previous year. Net income raised profit by EUR 123.1 million, while net impairments and provisions reduced it (by EUR 60.3 million). Net impairments and provisions amounted to EUR 70.5 million last year, and accounted for 3.1% of the disposal of gross income. Ten of the 14 banks and savings banks recorded net creation of impairments and provisions, which were up in absolute and relative terms on the previous year, when they were very low (EUR 10.2 million and 0.5% of the disposal of gross income). Despite the increase, net impairments and provisions remain relatively low compared with their long-term average,⁵⁶ with the increase in the share of Stage 2 exposures in individual customer segments not yet being reflected significantly in increased impairments. Any increase in net impairments and provisions will also depend on the success in resolving these assets, and the potential further deterioration in the credit portfolio. At the same time net impairments and provisions might also be driven up by a rise in the number of lawsuits by customers who raised loans in Swiss francs in the past, and by court decisions in favour of these customers. Despite the increase in profit, pre-tax ROE at system level declined slightly in 2024, as equity increased: it stood at 18.9%, down 1.7 percentage points on the previous year's figure of 20.6%. Profit in the early part of 2025 is down on last year, as a result of a decline in income and an increase in net impairments and provisions.

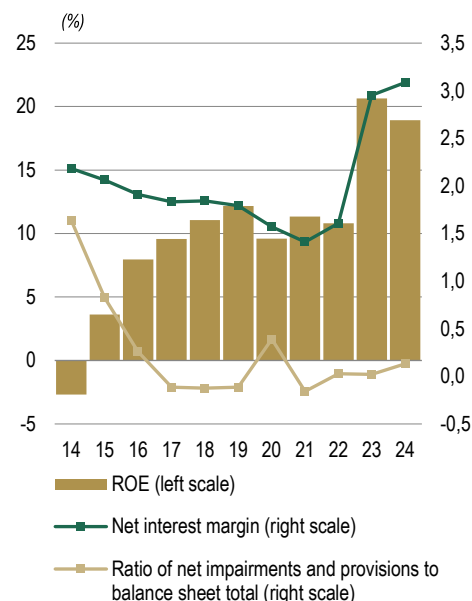
⁵⁶ The banks recorded net releases of impairments and provisions on several occasions in previous years, with only the pandemic year of 2020 seeing a slightly higher value, when impairments and provisions accounted for 12.5% of the disposal of gross income. The long-term average, excluding certain high outlying years and the years when recovery and resolution was in progress at several major banks, is 19.8% of the disposal of gross income.

Figure 4.5: **Changes in generation and disposal of income and profit, and selected bank performance indicators**

Pre-tax profit and impact of changes in components of generation and disposal of gross income



Selected bank performance indicators



Note: The figures for net interest margin and the ratio of net impairments and provisions to the balance sheet total are measured over the preceding 12 months.

Source: Banka Slovenije

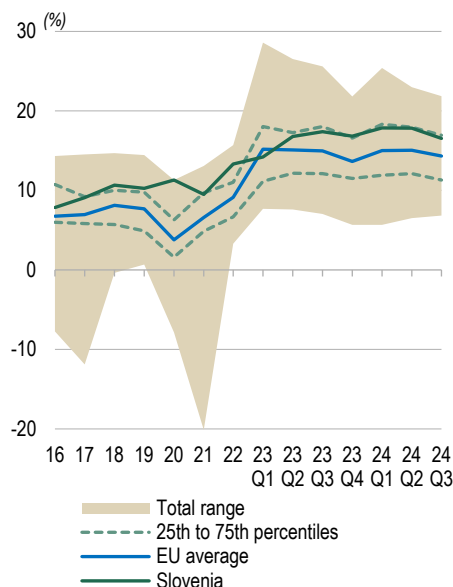
The expectation for this year is that the banks will see lower profits than in the two previous years. This will be attributable to the projected decline in interest income, and a rise in operating costs, driven largely by the tax on total assets. Amid relatively low or modest net impairments and provisions, there is an expectation that profits will nevertheless exceed those recorded before the beginning of the rise in ECB interest rates (2021 and the first half of 2022). At the same time there is no expectation that interest rates at the ECB and on the financial markets, irrespective of any further cuts, will fall to a level comparable to the period of low interest rates several years ago.

The Slovenian banking system remains one of the lowest ranked in terms of net impairments. A comparison with euro area and EU countries in terms of the ratio of impairments of financial assets to the balance sheet total⁵⁷ shows the Slovenian banking system to be ranked below the euro area and EU averages. The ratios for the EU overall and the euro area overall actually improved over the first three quarters of 2024. The small size of net impairments played a part in the high profitability of the banking system in Slovenia and in other euro area and EU countries. Asset quality at banks in the euro area is nevertheless slowly worsening. Rising trade tensions and weak economic growth could fuel additional deteriorations in the NFCs portfolio, particularly in countries more exposed to exports and manufacturing, which suggests that the banks will face increases in net impairments and provisions in 2025. At the same time it is necessary to take account of firms operating in broader supply and distribution chains, which could additionally hit the broader supply chains in transport and trade.

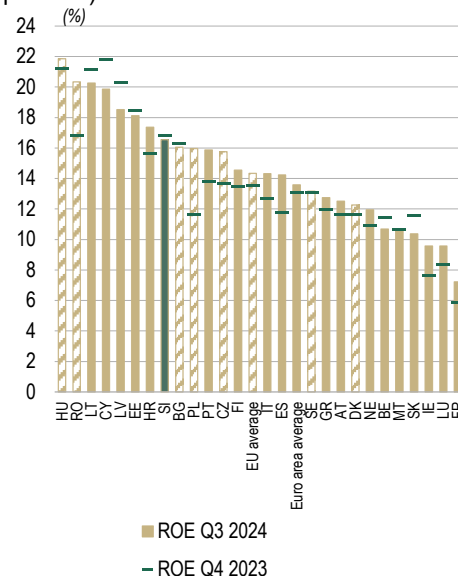
⁵⁷ Impairments of financial assets not measured at fair value, which account for the largest component of impairments, where the available quarterly data (ECB Data Portal, CBD, Finrep, to the third quarter of 2024) has been annualised.

Figure 4.6: **Profitability in Slovenia and the EU**

Profitability (ROE) after tax in Slovenia and in the EU (consolidated data)



ROE in EU Member States, 2023 and first three quarters of 2024 (consolidated data, post-tax)



Source: Banka Slovenije

Bank profitability over the first three quarters of 2024 was up slightly on the previous year in the euro area and the EU, while in Slovenia it remained comparable to the previous year. ROE⁵⁸ in the Slovenian banking system stood at 16.5% at the end of the third quarter of last year (down from 16.8% in December 2023). The unweighted average for the banking system stood at 14.3% in the EU (2023: 13.6%) and 13.6% in the euro area (2023: 13.1%), while the weighted averages were slightly lower at 10.2% in the EU (2023: 9.0%) and 9.8% in the euro area (2023: 8.6%). The gap by which ROE in the Slovenian banking system outperforms the euro area and the EU overall thus narrowed slightly. Post-tax ROE in the Slovenian banking system nevertheless exceeded the euro area and EU averages by 60% to 70% last year. ROE in the Slovenian banking system, which has otherwise outperformed the EU average over the long term, has ranked Slovenia in the top quartile of EU Member States ever since the second quarter of 2023.

Box 4: **Factors in the rise in corporate income tax in 2024⁵⁹**

While pre-tax profit increased by just 5.5% in 2024, corporate income tax more than tripled. The amount of corporate income tax disclosed in the income statement, including current tax⁶⁰ and deferred taxes⁶¹ totalled EUR 125 million in 2024, up EUR 86 million on the previous year (see Figure 4.7, left). The absolute increase in the amount of tax was larger than the absolute increase in pre-tax profit, which means that profit after tax in 2024 was down 2.1% on 2023. The factors explaining these developments are examined below.

⁵⁸ Consolidated bank data at national level (ECB SDW (CBD)), annualised after -tax ROE.

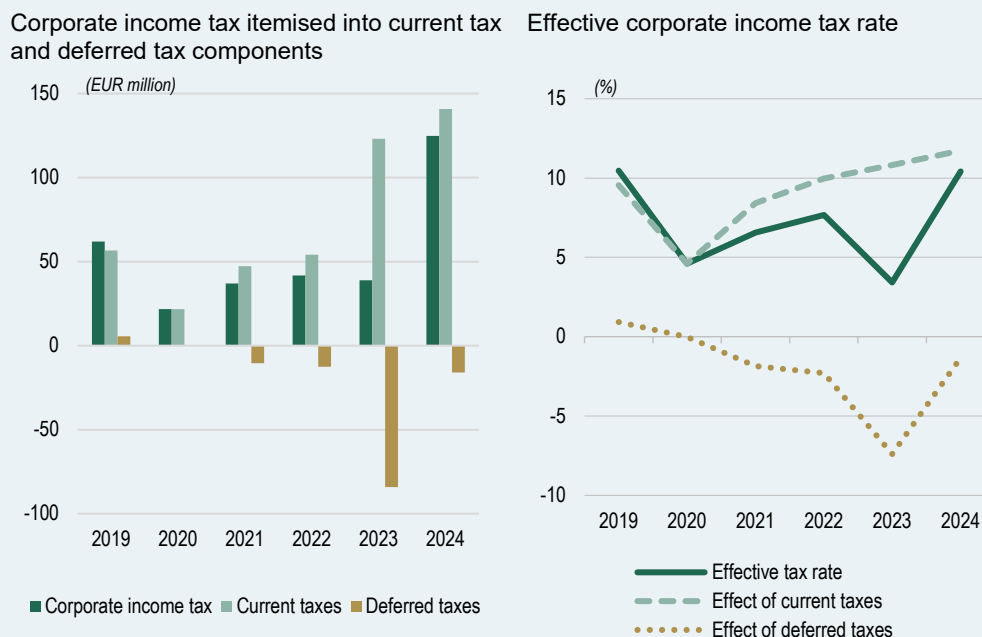
⁵⁹ Analysis of the effective tax rate at Slovenian banks during the period since the economic crisis, including a comparison of certain aspects of taxation in other EU Member States, can be found in *Taxation of bank profits and impact on tax losses carried forward* in the Banka Slovenije Discussion Papers.

⁶⁰ Current tax is the amount of corporate income tax that needs to be paid on taxable profits.

⁶¹ Deferred taxes include amounts of corporate income tax relating to the observed financial period that will need to be paid in future periods in connection with taxable temporary differences, or that will be refunded in future periods or will be deducted from the taxpayer's tax liabilities.

The increase in corporate income tax in 2024 led to a significant rise in the effective tax rate⁶² of the Slovenian banking system to 10.4% (see Figure 4.7, right). High income from deferred tax assets meant that the previous year's effective tax rate was the lowest since the banks began recording profits again after the global economic crisis, at 3.4%.

Figure 4.7: **Current and deferred taxes, and impact on effective tax rate**



Note: In the left chart positive amounts denote expenses, and negative amounts denote income.
Source: Banka Slovenije

Current tax was disclosed in the amount of EUR 141 million, up EUR 18 million on 2023. The increase was driven by the following factors:

- Tax was paid at a rate of 22% in 2024, compared with the previous rate of 19%. The amount of current tax in 2024 was EUR 19 million higher as a result.
- The Minimum Tax Act entered into force in 2024. This tax is also disclosed in the income statement under corporate income tax. On the basis of the banks' disclosures in annual reports for 2023, it can be concluded that only the largest Slovenian bank will be required to pay this tax in the form of top-up tax in connection with subsidiaries in jurisdictions outside the EU whose actual tax rate is less than 15% and who have not adopted domestic legislation to enforce a global minimum tax. The expenses amount to EUR 4 million at the annual level.⁶³
- The sum of the amounts cited in the previous indents exceeds the annual increase in current tax in 2024, which means that despite the increase in pre-tax profit, the tax base for 2024 was lower than in the previous year. This is attributable to the revision of accounting revenues and expenses to the level of the taxable revenues and expenses, and to the larger reductions in the tax base or tax allowances.

Income from deferred taxes was recognised at system level over the last five years. A notable year was 2023, when the banks recognised their highest income from deferred taxes in the amount of EUR 84 million, compared with an amount of EUR 16 million in 2024 (see Figure 4.7, left). The basis for the additional amounts recognised in 2024 is the good performance that year, including at banks who still have unutilised

⁶² The ratio of corporate income tax disclosed in the income statement in accordance with accounting standards to pre-tax profit.

⁶³ <https://www.nlbgroup.com/content/dam/nlb/nlb-group/documents/investor-relations/financial-reports/2024/Letno%20poročje%20C4%8Dil%20NLB%20Skupine%20za%20leto%202024.pdf>, p. 53.

taxable losses from the years following the global economic crisis, most notably from 2013. In accordance with International Accounting Standard 12 (Income Taxes), the vast majority of these revenues could not be recognised in the income statement for the years in which they arose, because the level of bank profits then forecasted for future years would not suffice to cover the high taxable losses. These revenues could gradually be recognised over subsequent years, when the forecasts of future bank performance improved.

The carrying forward of taxable losses into subsequent periods was previously unlimited in time, but the package of tax changes adopted in 2024 restricted the claiming of tax losses carried forward to the next five tax periods. Even tax losses occurring in periods before the change can last be claimed by taxpayers in 2029. This legislative change is unlikely to affect estimates of the amount of deferred taxes as at the end of 2024, as in line with their accounting policies when making this estimate banks take account of profit forecasts for a period of five years, when the taxable losses can still be claimed.

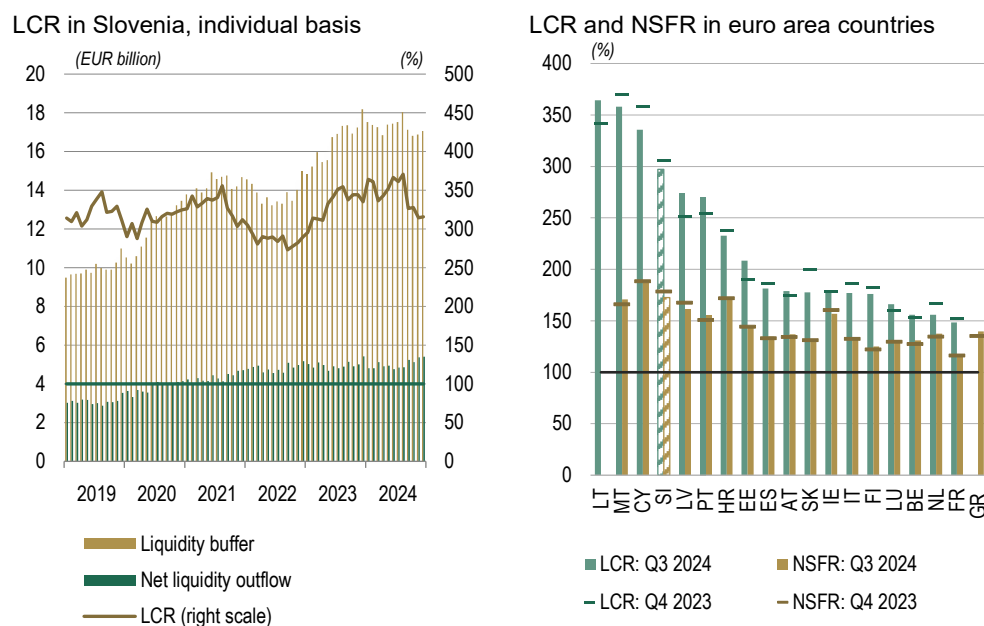
4.2 Liquidity

The resilience of the banking system in the liquidity segment remained high, with a stable outlook for the future. There was a slight deterioration in certain liquidity indicators, but the liquidity position of the banking system remains good. With some liquid assets being redirected into debt securities, the stock of liquidity remained large, but there was a change in its structure. This might be less beneficial in the event of a sudden pronounced need for liquidity, which would also require the sale of securities. The majority of banks maintained high capacity to cover net liquidity outflows over a one-month stress period, and to finance their liabilities over a longer period of one year. There nevertheless remain considerable differences in the liquidity surpluses at individual banks, and thus in their resilience to funding risk. Diligent liquidity management therefore remains a vital component in maintaining a good liquidity position in the future.

The capacity to cover net liquidity outflows over a one-month period declined, but nevertheless remained high. Owing to the redirection of funds in accounts at the central bank into purchases of debt securities, the liquidity buffer declined by more than net liquidity outflows, which drove a deterioration in the liquidity coverage ratio (LCR). At system level on an individual basis it declined by 19 percentage points over 2024 to end the year at 316% (see Figure 4.8, left). This reduced the liquidity surplus over the minimum regulatory requirement (100%) by 8.6%, but it remained large at EUR 11.7 billion. Similarly to Slovenia, the LCR declined over the first nine months of last year in more than half of the other euro area countries, and Slovenia remains ranked a high fourth among them in terms of the LCR (see Figure 4.8, right).⁶⁴

⁶⁴ Data on a consolidated basis for the end of 2023 and the third quarter of 2024 is included in the comparison. Later data was not available at the time of writing.

Figure 4.8: **Liquidity indicators for Slovenia and the euro area**

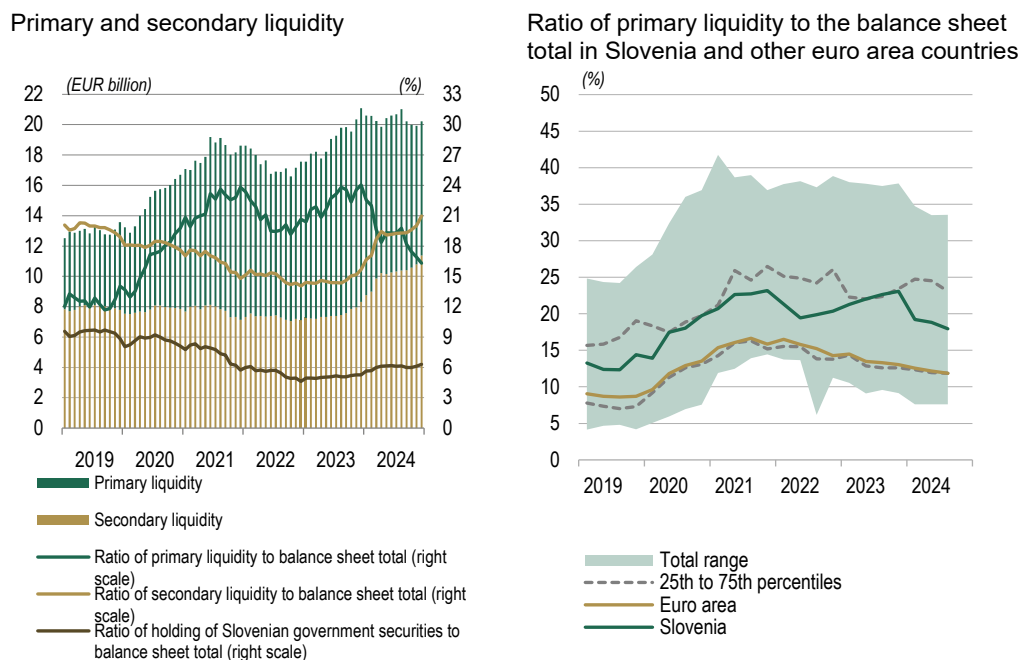


Note: The horizontal line in both charts denotes the minimum regulatory requirement (100%). The right chart includes public data on a consolidated basis; the ECB Data Portal has no data for the NSFR in Lithuania, or the LCR in Greece.
Sources: Banka Slovenije, ECB Data Portal

Total liquidity remained high, but there was a change in its structure. Banks redirected liquid assets into purchases of debt securities, which sharply reduced primary liquidity (see Figure 4.9, left). The stock of primary liquidity at system level declined by EUR 3.9 billion in 2024 to end the year at EUR 8.9 billion. At 16.3%, the ratio of primary liquidity to the balance sheet total nevertheless remained well above its long-term average⁶⁵ (7.9%) and the euro area average, which has also declined over the last year (see Figure 4.9, right). At the same time the purchase of debt securities increased secondary liquidity by more a third to EUR 11.4 billion, equivalent to more than a fifth of the balance sheet total. The fall in the interest rate on the ECB's deposit facility is likely to drive further gradual changes in liquidity structure in the future. Given the fall in interest rates on overnight placements with the ECB, the banks are likely to continue trying to compensate for the decline in interest income by purchasing higher-yielding debt securities. The shift in liquidity structure towards secondary liquidity is reducing the ability to act quickly in meeting any sudden demand for large amounts of liquidity, which would require the sale of securities.

⁶⁵ Average calculated between 2000 and 2024.

Figure 4.9: **Primary and secondary liquidity**



Note: Primary liquidity comprises cash on hand, balances at the central bank and sight deposits at banks. Secondary liquidity comprises Slovenian government securities and foreign marketable securities rated BBB or higher.

Sources: Banka Slovenije, ECB Data Portal

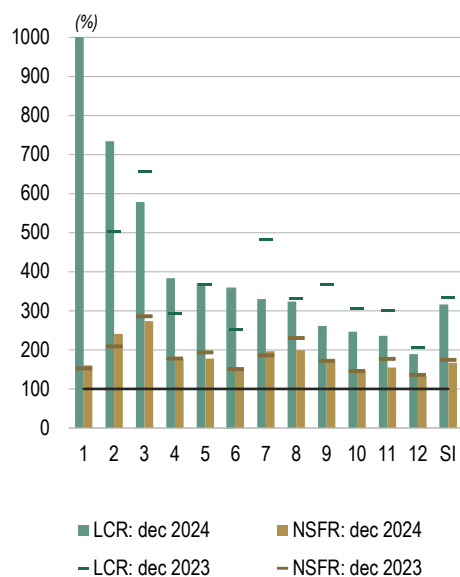
Funding capacity over a one-year period deteriorated slightly at system level.

The increases in loans to the non-banking sector and in holdings of securities increased required stable funding more than available stable funding, which was strengthened by the inflow of deposits and the increase in equity. The net stable funding ratio (NSFR) on an individual basis thus declined by 7 percentage points over 2024 to end the year at 167%. It nevertheless remains relatively high compared with the minimum regulatory requirement (100%), with available stable funding exceeding required stable funding by EUR 17.5 billion. In contrast to Slovenia, the NSFR increased slightly or remained unchanged over the first three quarters of last year in two-thirds of the euro area countries, but Slovenia nevertheless remains ranked second in terms of this indicator (see Figure 4.8, right).

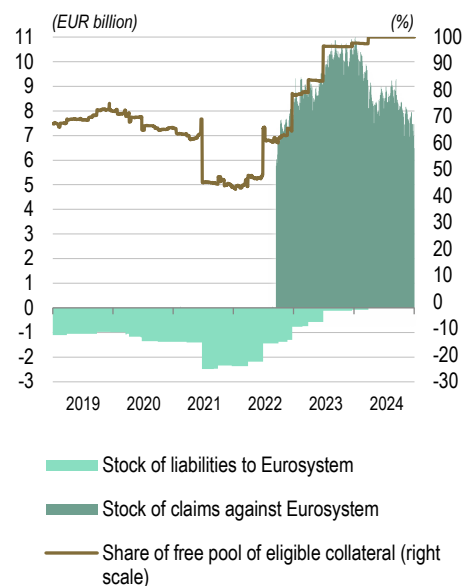
All the banks exceeded the minimum regulatory requirements for LCR and NSFR (see Figure 4.10, left), although there remain considerable differences between them in the size of their liquidity surplus, and thus in their resilience. Largely as a result of a decline in liquid assets in accounts at the central bank, the LCR declined at two-thirds of the banks, but remained more than double the minimum regulatory requirement at almost all the banks. Similarly to the LCR, two-thirds of the banks saw a decline in the NSFR, but the majority of banks held at least 50% more available funding than would be required to fund their liabilities over a one-year period. Should the changes in liquidity structure continue, the liquidity indicators can be expected to decline slightly in the future. Here it remains vital to carefully monitor competition in the sector and to ensure diligent liquidity management, particularly at banks with slightly smaller liquidity surpluses.

Figure 4.10: **LCR and NSFR at individual banks, and stock of claims and liabilities vis-à-vis the Eurosystem**

LCR and NSFR at individual banks



Liabilities and claims vis-à-vis the Eurosystem, and share of the pool of eligible collateral that is free



Note: The horizontal line in the left chart denotes the minimum requirement for the LCR and the NSFR under the CRR (100%). For the sake of transparency, one of the banks is not fully illustrated in the left chart: its LCR stood at 4,181% in December 2024, and 1,069% in December 2023.

Source: Banka Slovenije

The pool of eligible collateral for Eurosystem operations declined, and remained unencumbered. Given their sizeable holding of liquid assets, for now the banks have no need for additional liquidity, for which reason the pool of eligible collateral was reduced by EUR 876 million in 2024 to EUR 2.4 billion. Because the banks no longer hold any liabilities to the Eurosystem as of March, the eligible collateral in the pool remains free. In addition the banks hold EUR 10.2 billion of eligible collateral on their own balance sheets, which ensures the possibility of obtaining additional liquidity at the Eurosystem should they need it. The fall in the interest rate on the ECB's deposit facility, which began in June of last year, drove a reduction in the stock of overnight placements with the Eurosystem (see Figure 4.10, right) and their redirection into other assets. The stock of overnight placements averaged EUR 8.7 billion in 2024, down EUR 0.7 billion on the previous year. Given the expectation of further decline in ECB interest rates, the banks' appetite for fixing liquid assets at the ECB is likely to decline further in the future.

5 Households and Non-Financial Corporations

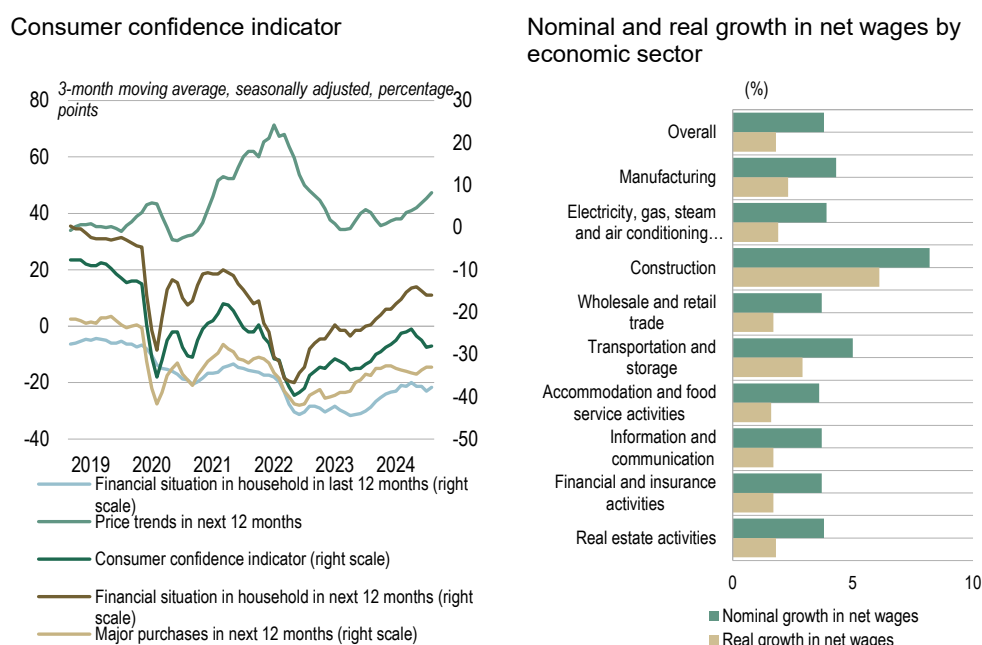
5.1 Households

Households remained in a good financial position in the second half of 2024. The confidence of Slovenian consumers worsened in the second half of 2024, and expectations of rising prices strengthened again, despite the rapid fall in inflation over the last year. Household lending strengthened until the end of 2024, with consumer loans continuing to prevail in new lending. The ratio of consumer loans to GDP has risen over the last three years, and was similar to the euro area average, while the ratio of housing loans to GDP remained significantly lower than the euro area average.

Consumer confidence and households' financial and non-financial assets

The consumer confidence deteriorated slightly in the second half of 2024, although they were less pessimistic than at the end of the previous year. According to consumer surveys, households' assessments of their current and future financial situation at the end of 2024 were slightly better than at the end of the previous year, although households grew more pessimistic in the second half of the year. Their expectations of future price rises strengthened again, despite the rapid fall in inflation over the last year (see Figure 5.1, left). Net employee compensation at legal persons rose by 3.8% in nominal terms in 2024, and by 1.8% in real terms. The largest nominal rise in wages were in construction (8.2%), where average net wages are among the lowest. All sectors saw a rise in nominal and real net wages (see Figure 5.1, right).

Figure 5.1: **Consumer confidence indicator**



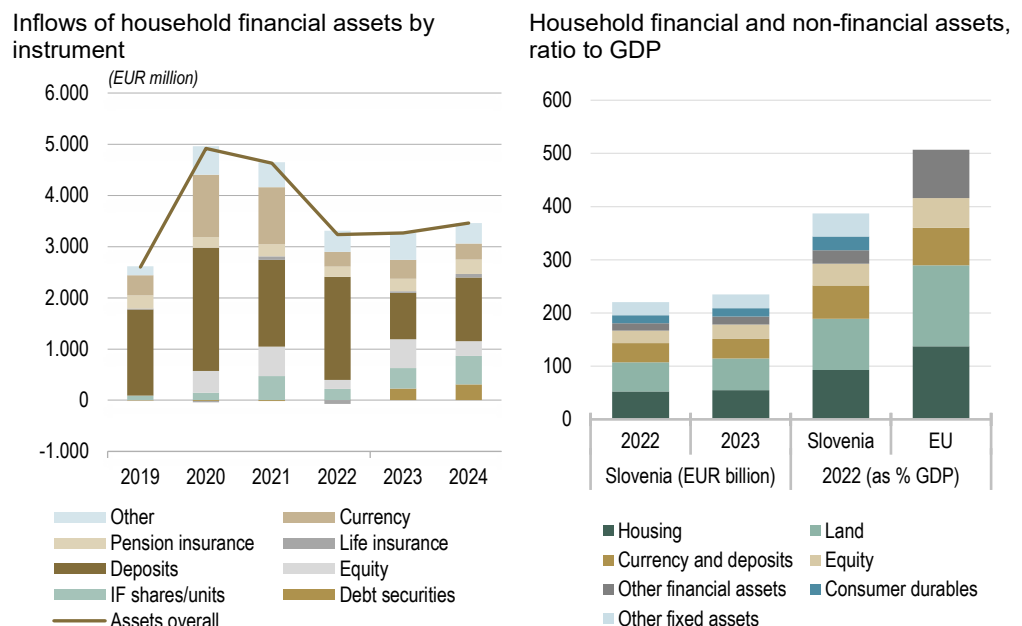
Source: SORS

At 124.3%, the ratio of Slovenian households' holdings of financial assets to GDP remained significantly lower in the third quarter of 2024 than the equivalent figure in the euro area overall (211.9%). Slovenian households' financial assets amounted

to EUR 85.3 billion at the end of the final quarter of 2024, a nominal year-on-year increase of 7.5%. The inflow of household financial assets amounted to around EUR 3.5 billion in 2024, compared with a figure of around EUR 5 billion in 2020 (see Figure 5.2, left). The inflow of currency has declined sharply from its peak in 2020, while the inflow of deposits also declined in 2023 and 2024. Holdings of debt securities and mutual funds have increased over the last two years.⁶⁶ The increase in assets held in the rest of the world was largest in equity, currency and deposits.

Slovenian households' holdings of non-financial assets amounted to EUR 155 billion or 242.8% of GDP at the end of 2023. Housing accounted for EUR 55.1 billion of this figure, land owned by households for EUR 59.1 billion, durables used by households for final consumption (furniture, domestic appliances, vehicles and other durables) for EUR 15.7 billion, and inventories for EUR 16.1 billion (see Figure 5.2, right). The ratio of holdings of housing and buildings owned by households to GDP in Slovenia stood at 94.6% in 2023, one of the lowest figures in the EU (compared with 165.6% in Austria, 182.3% in Germany, 162.4% in Italy and 135.6% in Slovakia). The 2022 figures were 102.3% for Slovenia, and 147.9% in the EU overall.⁶⁷

Figure 5.2: **Inflows of household financial assets, and household financial and non-financial assets, ratio to GDP**



Note: The left chart includes households and NPISHs. In the right chart the ratio of non-financial assets to GDP in the EU is estimated for the majority of EU Member States with regard to data availability. The data on consumer durables and other fixed assets is not illustrated for EU Member States.

Sources: SORS, Eurostat

Household indebtedness and housing cost burden

Loans account for the majority of Slovenian households' financial liabilities. Loans accounted for 88.0% of total financial liabilities in the final quarter of 2024. Households held EUR 16,237 million of liabilities in the form of loans at the end of 2024, the majority of which (95.1%) were at financial corporations in Slovenia. Of these, EUR 13,671 million were at banks in Slovenia, while EUR 1,657 million were at other financial intermediaries. They held EUR 378 million of loans at non-financial corporations in Slovenia, and EUR 231 million of loans at lenders in the rest of the world. The ratio of

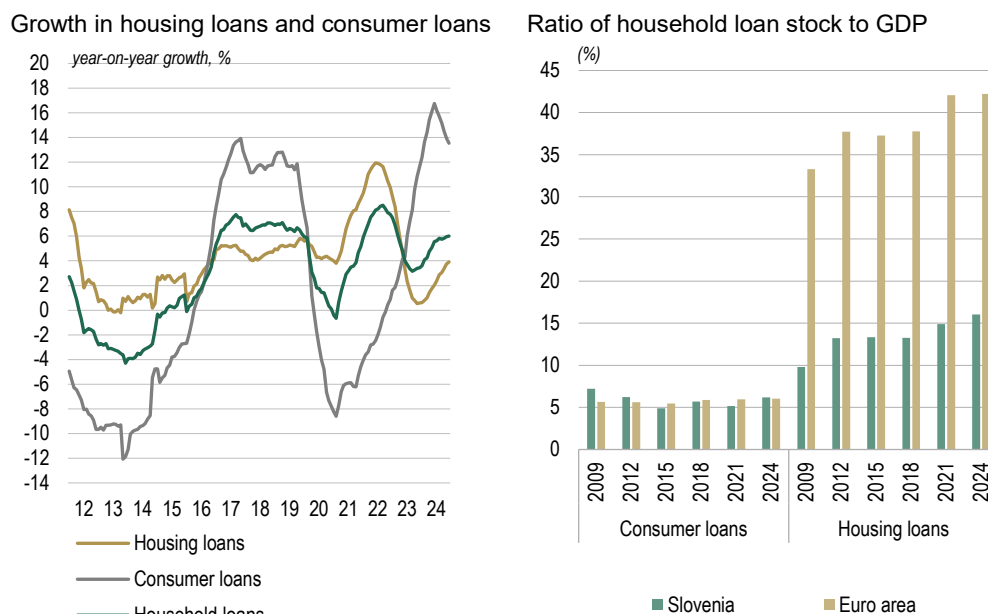
⁶⁶ See the section on funding risk.

⁶⁷ Excludes Romania and Ireland.

household financial liabilities to GDP was significantly lower in Slovenia (27.7%) than in the euro area overall (59.1%).

Household lending strengthened until the end of 2024, with consumer loans continuing to prevail in new lending. After hitting its lowest point since the beginning of the rise in interest rates in 2022 (September 2023: 3.2%), year-on-year growth in household loans strengthened, and had increased to 6.0% by December 2024. Since the beginning of July 2023, when the changes in macroprudential restrictions on consumer lending entered into force, lending via consumer loans has remained elevated. The year-on-year rate of growth strengthened to a peak of 16.8% in June 2024, after which it began to decline. It stood at 13.5% in December 2024. The banks also approved slightly more housing loans⁶⁸ in 2024 than in the previous year. After reaching 0.5% in November 2023, its lowest level in several years, year-on-year growth in housing loans had risen to 3.9% by December 2024 (see Figure 5.3, left). The ratio of housing loans to GDP in Slovenia remains significantly below the euro area average, while the ratio of consumer loans to GDP has risen again over the last two years, approaching the figure in the euro area overall (see Figure 5.3, right).

Figure 5.3: **Growth in household loans and household indebtedness**



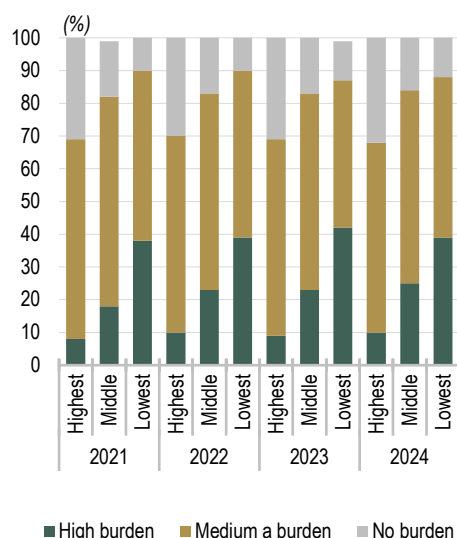
Sources: ECB Data Portal, Banka Slovenije

According to the EU-SILC survey, the number of households who felt their housing cost burden to be high was largest in the lowest income band (see Figure 5.4, left). The share of such households in 2024 (39%) was down slightly on 2023 (42%) and the same as in 2022. The housing cost overburden rate (the share of households whose housing costs exceed 40% of their disposable income) nevertheless stood at 3.5%, one of the lowest figures in the EU (see Figure 5.4, right). One factor in the low rate is that Slovenian households are less indebted than the average household in the EU. Housing loans are included in housing costs.

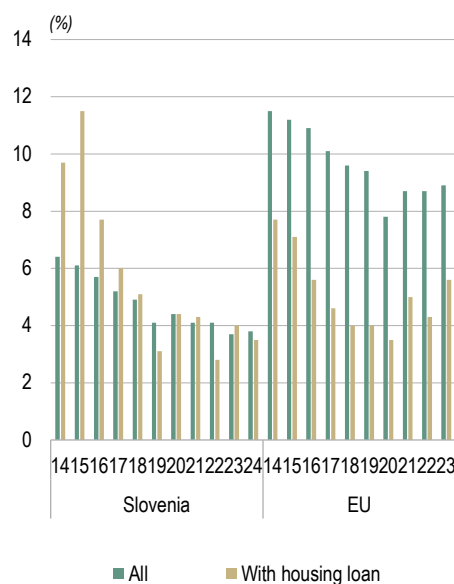
⁶⁸ See the section on risk inherent in the real estate market.

Figure 5.4: **Housing cost burden and housing cost overburden rate**

Housing cost burden for households in the lowest, middle and highest income bands



Housing cost overburden rate



Note: Housing costs in the left chart include all costs associated with housing (any housing loans or mortgage loans, rents, insurance, costs for electricity, water, gas, heating, etc.), and households are classified into five quintiles with regard to net disposable income per equivalent person living in the household. The first quintile consists of persons living in households with the lowest equivalent income, while the fifth quintile contains persons living in households with the highest equivalent income. The figure illustrates the first, third and fifth quintiles. In the right chart households that are overburdened by housing costs in the EU-SILC survey are defined as those households whose housing costs exceed 40% of their disposable income. Sources: ECB Data Portal, SORS

5.2 Non-financial corporations

Debt financing of NFCs, particularly via loans, declined in 2024. The ongoing rise in the denominators of the indebtedness indicators (equity and GDP) contributed to their further improvement. The low indebtedness and the reduced burden of financing as interest rates fall are having a beneficial impact on the financial position of NFCs, which is also being strengthened by the ongoing increase in their internal resources. Financing via loans declined at the domestic banks in particular, although the decline was largely taken up by other creditor sectors, most notably other NFCs in Slovenia and parent undertakings in the rest of the world. After two years of decline, demand for bank loans stopped falling towards the end of the year. There was a rise in the number of bankruptcy proceedings initiated at NFCs, and also in the number of firms with frozen current accounts, which is indicative of the increased challenges facing firms in their business, particularly in the export sector.

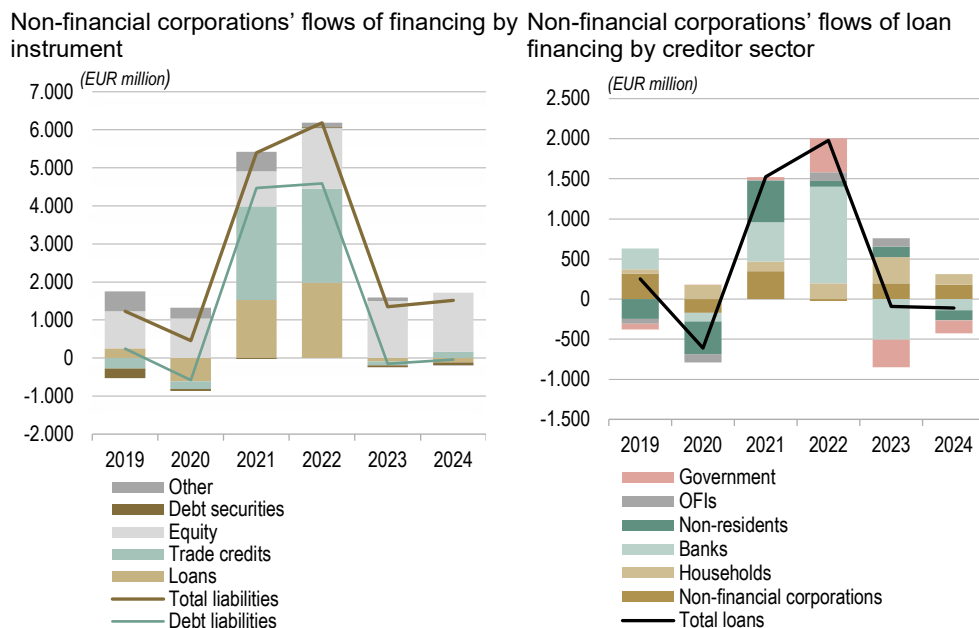
Financing and indebtedness of non-financial corporations

The decline in the debt financing of NFCs continued in 2024. NFCs' total liabilities increased as a result of the continuing rise in equity, while their debt liabilities declined. The 12-month inflow of equity amounted to EUR 1.6 billion, and has exceeded EUR 1 billion every year since 2020.⁶⁹ NFCs paid down total debt of EUR 530 million last year. Total loans declined for the second consecutive year (see Figure 5.5, left), while trade credits merely saw a modest increase following their decline in 2023. The ratio of trade credits to GDP declined by a further 0.8 percentage points (to 26.9%), while the ratio of loans to GDP declined by 2 percentage points (to 36.8%) (see Figure 5.8, right). The

⁶⁹ Over the last 20 years, the inflow of equity also exceeded EUR 1 billion in 2015 and 2016.

loans figure has been in decline ever since 2010, while the figure for trade credits has declined over the last two years.

Figure 5.5: **Financing of non-financial corporations**

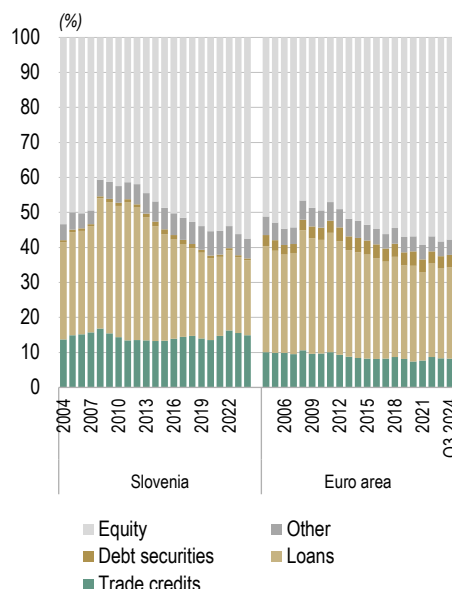


Note: The left chart includes all financing of NFCs, irrespective of creditor sector.
Source: Banka Slovenije

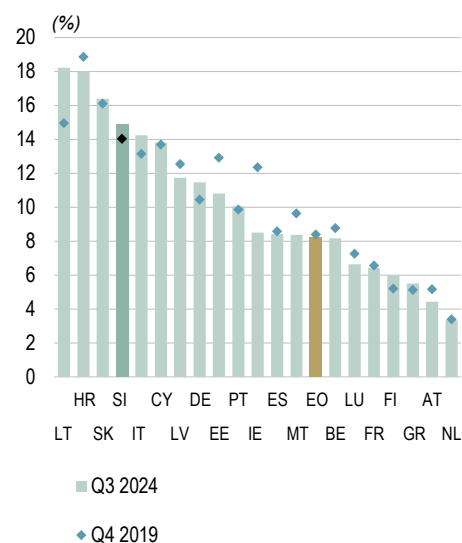
The breakdown of NFCs' liabilities in Slovenia differs from that in the euro area overall primarily in terms of the share of trade credits and the share of debt securities. The share of NFCs' total liabilities accounted for by equity stood at 57.5% in September 2024, extremely close to the figure in the euro area overall (see Figure 5.6, left). There remain differences in all the other instruments. Slovenian NFCs hold less financing in the form of loans (21.5% versus 26.2% in the euro area overall), less in the form of issued debt securities (0.5% versus 3.4%), and significantly more in the form of trade credits (14.9% versus 8.2%). Slovenia is particularly notable among euro area countries for the share accounted for by trade credits: only Croatia, Lithuania and Slovakia have higher shares (see Figure 5.6, right), followed by Romania and Bulgaria among the remaining EU Member States.

Figure 5.6: **Breakdown of financing, comparison with euro area**

Breakdown of non-financial corporations' financial liabilities in Slovenia and the euro area



Share of total liabilities accounted for by trade credits in euro area countries



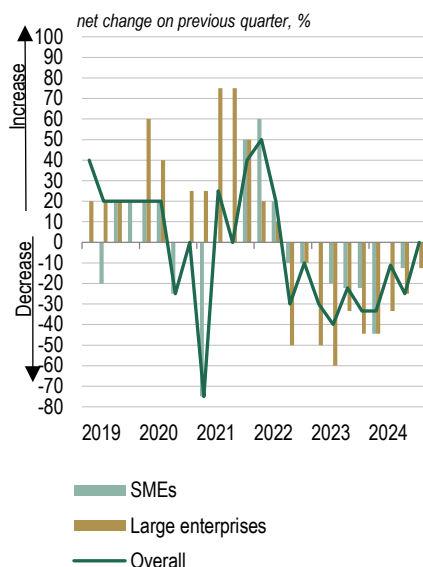
Sources: ECB Data Portal, Banka Slovenije

The decline in financing via loans is mainly evident at domestic banks, while it is increasing in other sectors. Business-to-business financing via loans and loans from households increased further in 2024 (see Figure 5.6, right). The flow of loans between NFCs in Slovenia amounted to EUR 195 million in 2023 and EUR 178 million in 2024, while loans from households amounted to EUR 331 million in 2023 and EUR 135 million in 2024, more than the decline in loans from domestic banks over those two years. Further competition for bank financing comes from loans raised with parent undertakings in the rest of the world, which have been strengthening ever since 2021 (see Figure 8.19, left, in the appendix). NFCs' debt repayments to unaffiliated firms, foreign banks and international institutions mean that the total flow of loans from the rest of the world was actually modest in 2024 (EUR 6 million). In recent years large and medium-size enterprises have paid down debt at foreign banks, which account for 5% of NFCs' total financing, while micro and small enterprises have increased their debt (see Figure 8.19, right, in the appendix).⁷⁰

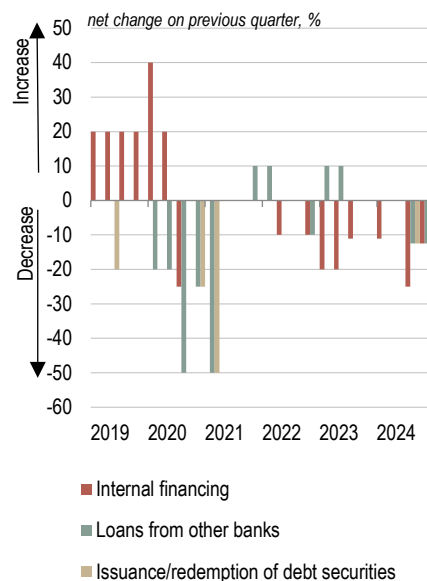
⁷⁰ The increase over the last two years is attributable to the subsequent inclusion of Croatia in the reporting.

Figure 5.7: **Demand for bank loans**

Non-financial corporations' demand for loans



Factors in non-financial corporations' demand for loans

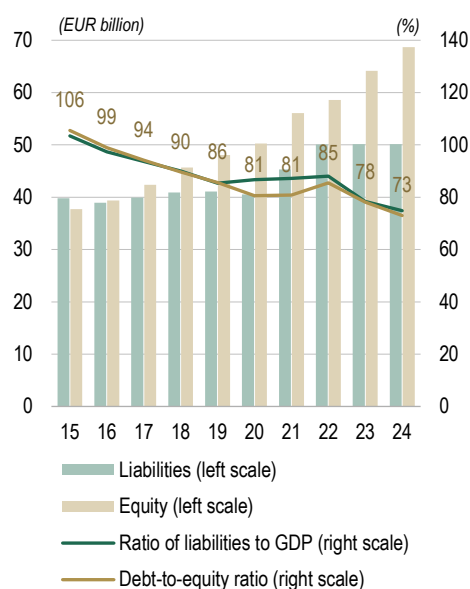


Source: BLS

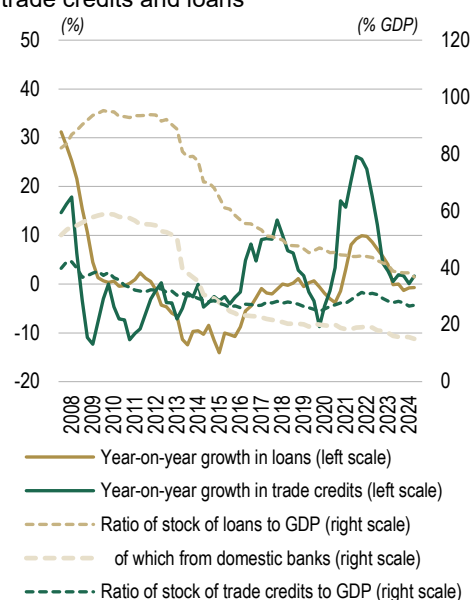
The banks reported an end to the decline in NFCs' demand for bank loans in the final quarter of 2024. The banks have seen a decline in demand over the last two years, which was more pronounced at large enterprises (see Figure 5.7, left). The main reason for the lower demand for loans was firms using their internal resources, which were supported by rising profits in the corporate sector (see Figure 5.7, right). In the situation of falling interest rates, competition from other banks and non-bank providers is also appearing as a factor reducing demand at banks. Loans from non-bank providers in Slovenia increased by 3.2% in 2024, and by 11.6% in the previous year.⁷¹

Figure 5.8: **Non-financial corporations' indebtedness**

Non-financial corporations' debt indicators



Non-financial corporations' indebtedness via trade credits and loans



Note: The indicators in the left chart include all debt liabilities of NFCs.
Source: Banka Slovenije

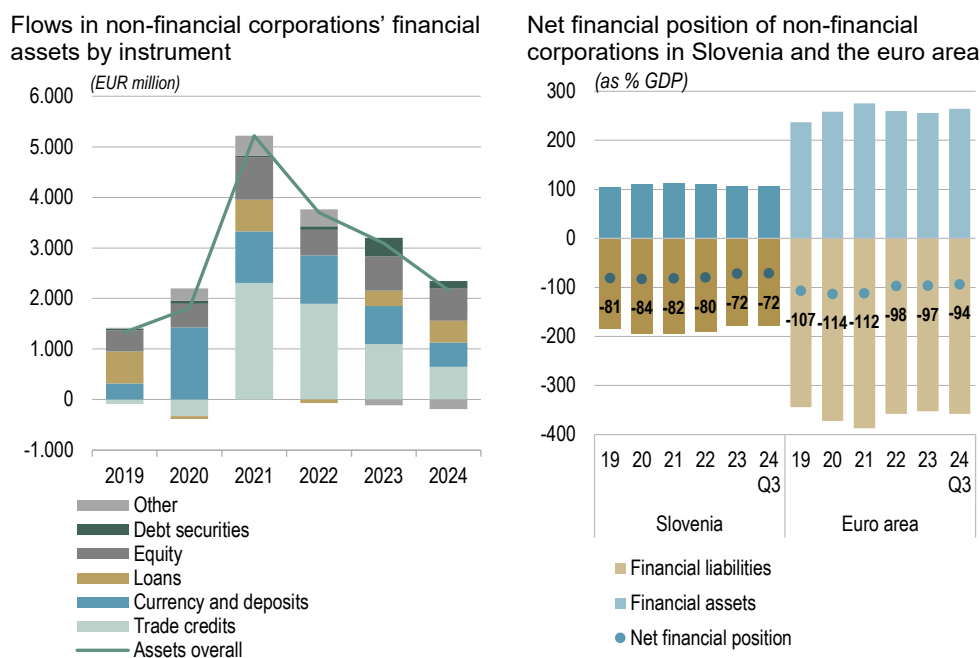
⁷¹ Includes loans raised with NFCs, OFIs and households.

With debt liabilities unchanged, NFCs' indebtedness indicators further improved in 2024. NFCs' debt liabilities have held at EUR 50.1 billion since the end of 2022, but declined as a ratio to GDP by 9.6 percentage points in 2023 and 3.6 percentage points in 2024 to 74.8% (see Figure 5.8, left). Similarly, the increase in equity over these two years has also driven an improvement in the leverage ratio by 7.5 percentage points and 3.2 percentage points to 73.0%. Alongside the inflow of new equity, more than two-thirds of the increase in equity in 2024 was attributable to revaluation (see Figure 8.18, right, in the appendix), which was a key factor in the sharp decline in the leverage ratio.

Non-financial corporations' financial assets

NFCs' financial assets are increasing slightly more slowly than in previous years. The inflow of NFCs' financial assets amounted to EUR 2.2 billion over the last year (see Figure 5.9, left), with increases in trade credits and loans granted, and also in currency and deposits. Last year's increase in trade credits granted was driven by trade credits granted to the rest of the world, while trade credits granted to Slovenian NFCs actually declined slightly (see Figure 8.19, left, in the appendix). The increase in loans by contrast was mainly driven by loans approved for Slovenian firms (NFCs and sole traders) (see Figure 8.19, right, in the appendix). The rise of NFCs in the role of creditor is indicative of NFCs' demand for additional financing, which banks in Slovenia are not meeting in full. NFCs' holdings of assets and liabilities declined as a ratio to GDP, while the sector's net debtor financial position remained unchanged from 2023 at 72% of GDP (see Figure 5.9, right).

Figure 5.9: **Non-financial corporations' financial assets**



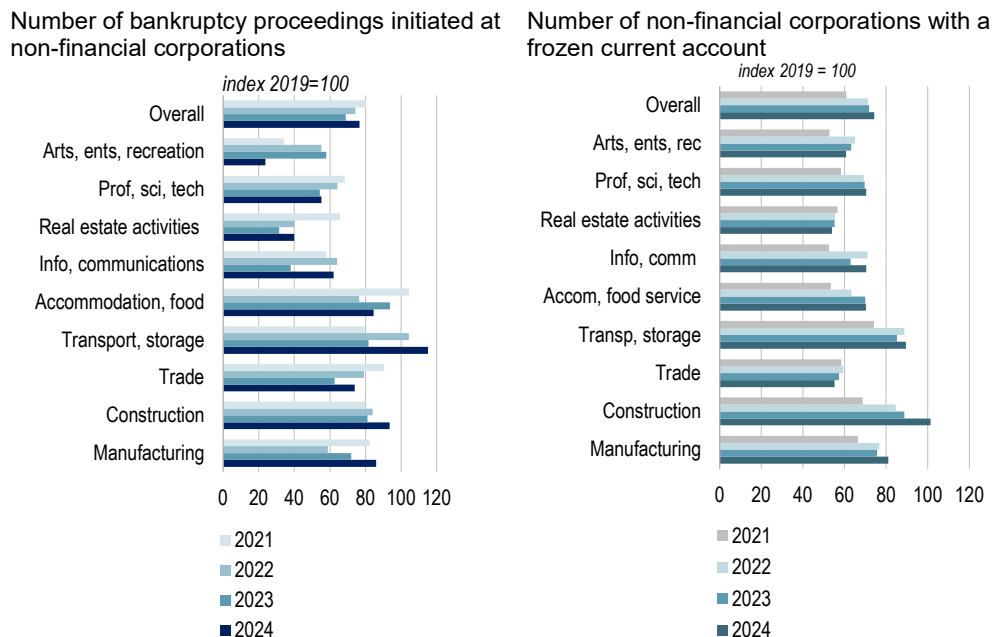
Sources: Banka Slovenije, ECB Data Portal

Bankruptcies and current account freezes at non-financial corporations

After falling for five years, the number of bankruptcy proceedings initiated at NFCs rose again in 2024. A rise in the number of bankruptcies was evident in the majority of sectors, and reached 11.4% in year-on-year terms overall (see Figure 5.10, left). The rise stood at between 15% and 20% in manufacturing, construction, and

wholesale and retail trade, 27.3% in real estate activities, and 40.8% in transportation and storage, which was the only sector with a higher number of new bankruptcies than in 2019. Information and communication is also notable for its rise of 63.2%. The number of current account freezes also rose in all of these sectors, with the exception of wholesale and retail trade and real estate activities. The number of freezes rose by 3.5% at NFCs overall, and with the exception of construction no sector saw a higher number than in 2019 (see Figure 5.10, right).

Figure 5.10: **Bankruptcies and current account freezes at non-financial corporations**



Sources: Supreme Court, Banka Slovenije

Box 5: Risks in light of the slowdown in the German automotive industry

The recent period has seen much pessimistic discussion of the slowdown in the German automotive industry, which is Slovenia's largest export market. Slovenian firms are major partners in these supply chains, and risks therefore exist. The purpose of this analysis was not to assess whether the German automotive industry is in crisis, but to assess how such a crisis⁷² would affect Slovenian firms and banks. This box identifies firms that according to information from the SloExport database⁷³ are active in the automotive industry.⁷⁴ The analysis was limited to firms who hold exposure⁷⁵ at any of the commercial banks in Slovenia and are currently not in default.⁷⁶ These firms were identified as at-risk if at least 10% of their total operating revenues⁷⁷

⁷² There is a broader debate about the resilience of the German automotive industry, which is not addressed here. An example of a positive article: Parikh, T. (2025). Germany's weak economy has strong foundations. Financial Times. An example of a negative article: Flaccadoro, M. (2025). The recent weakness in the German manufacturing sector. CEPR.

⁷³ Source: SloExport (2024). Database of Slovenian exporters. Available at <https://www.sloexport.si/Search>

⁷⁴ The analysis takes account of firms who are designated in the database as active in the automotive industry, or about whom this conclusion can be drawn based on their reported descriptions, or who could be classified as such on the basis of their reported statistical classification of products by activity (CPA).

⁷⁵ Exposure is defined as gross on-balance-sheet and off-balance-sheet exposure in the portfolio of classified claims measured at amortised cost.

⁷⁶ Were it not limited to bank customers, the core estimates of operating revenues would be 6% higher, which means that the core estimates capture the majority of the economy despite this limitation.

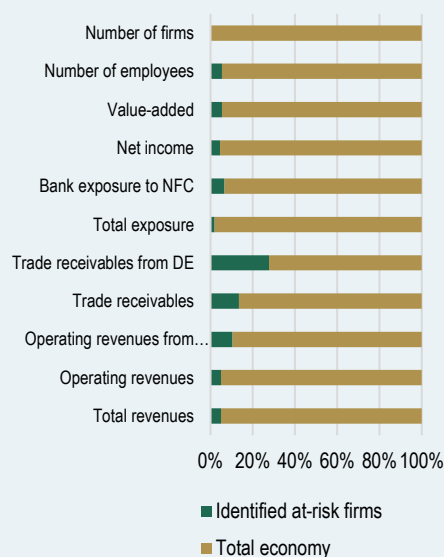
⁷⁷ The share of operating revenues from Germany was estimated on the basis of data for the increase in trade receivables from Germany. The estimate is merely an approximation, as the two measures are not equivalent in accounting terms.

as estimated by trade receivables come from Germany.⁷⁸ The analysis was also restricted to manufacturing firms.⁷⁹ Manufacturing accounts for approximately 30% of total operating revenues in the economy, 50% of total foreign operating revenues, and 35% of value-added, which means that much risk derives from this sector. The analysis uses data up to 31 December 2023 (unless stated otherwise). There were 77 firms identified as at-risk.

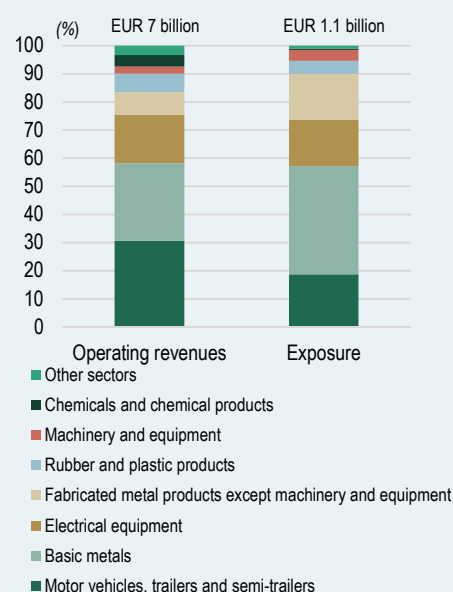
The identified at-risk firms generate a total of approximately EUR 7 billion in operating revenues, and hold EUR 1.1 billion of exposure at Slovenian commercial banks. They account for 5% of total operating revenues in the economy, 10% of foreign operating revenues, 6.6% of total bank exposure to non-financial corporations, 2% of total bank exposure, and 5.4% of total employment (see Figure 5.11, left). The at-risk firms can be classified into four categories according to operating revenues and bank exposure: the manufacture of motor vehicles, trailers and semi-trailers, the manufacture of basic metals, the manufacture of electrical equipment, and the manufacture of fabricated metal products except machinery and equipment (see Figure 5.11, right). It should be added that the identified firms in the manufacture of motor vehicles, trailers and semi-trailers and the manufacture of fabricated metal products account for more than 60% of the operating revenues and exposure in these sectors.

Figure 5.11: **Identified at-risk firms' importance to total economy, and breakdown by sector**

Identified at-risk firms' importance to total economy



Breakdown of identified at-risk firms by sector



Note: The total economy consists of all non-financial corporations in Slovenia in Sector S.11. The exception is "total bank exposure", where the bank exposure of the identified at-risk firms is measured relative to total bank exposure that is not limited to Sector S.11. In the right chart the manufacturing sectors that account for less than 4% of total operating revenues or exposure are combined under "Other sectors".

Sources: Banka Slovenije, AJ PES, SloExport, own calculations

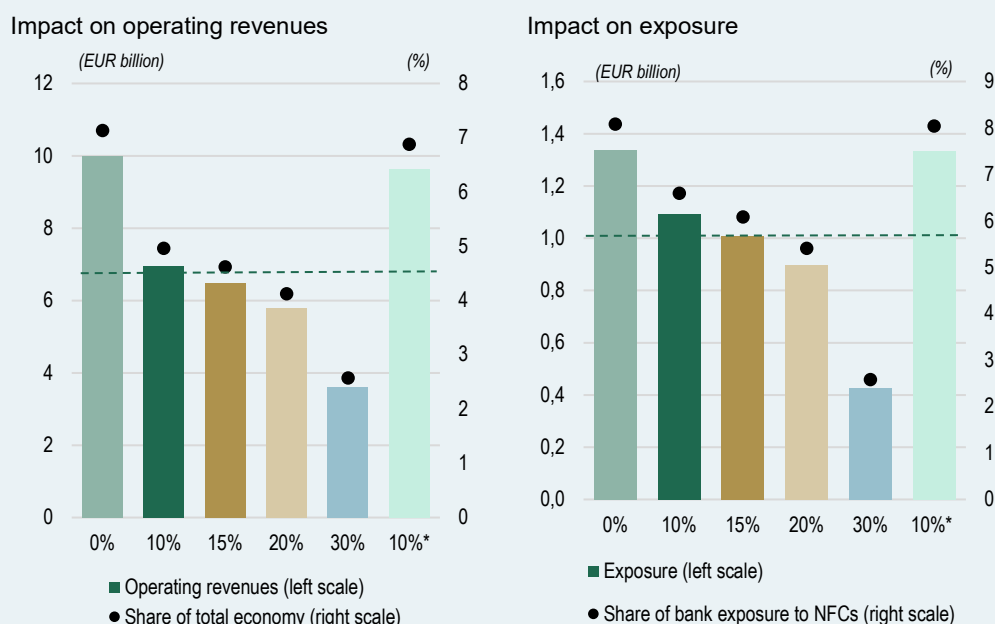
There was also interest as to whether the default rate had already begun to rise, which would indicate the realisation of potential risks. The data to the end of 2024 does not yet show any rise in default rates in the most-exposed sectors of the manufacture of motor vehicles, trailers and semi-trailers and the manufacture of fabricated metal products.

⁷⁸ Sources: AJ PES (2023) and Banka Slovenije (2024) Report on operating receivables/liabilities and financial assets/liabilities vis-à-vis non-residents (KRD).

⁷⁹ Sole traders are not included in the analysis.

The share of exposure to NFCs accounted for by at-risk firms is less than 10% at all the banks, while at approximately half of the banks the figure is less than 1%. Were the denominator to include all bank exposure to all segments, these shares would be even lower. This is illustrated by the column in Figure 5.11, left, which shows the share in of total exposure in the economy as a whole. It should be noted that the 10% threshold for the share of operating revenues as measured by trade payables was set arbitrarily. None of the identified firms will have issues with solvency. Firms will make adjustments, and might even modify their business models, etc. Analysis of robustness is therefore given below. Raising the threshold from 10% to 20% for example slightly lowers the estimate of at-risk operating revenues from EUR 7 billion to EUR 5.8 billion (see Figure 5.12, left), and at-risk exposure from EUR 1.1 billion to EUR 0.9 billion (see Figure 5.12, right).

Figure 5.12: Impact of different thresholds for the share of trade receivables from Germany (and all foreign receivables) in operating revenues



Note: The final column illustrates the case when the threshold for identifying at-risk firms is left at 10%, but instead of referring to receivables from Germany it refers to all foreign receivables.

Sources: Banka Slovenije, AJ PES, SloExport, own calculations

The analysis to date was limited to risks related to the German automotive industry. When the threshold for identifying at-risk firms is left at 10% but is limited not solely to receivables from Germany but to all foreign receivables, the at-risk operating revenues are estimated at EUR 9.6 billion while the at-risk exposure is estimated at EUR 1.3 billion, which is equivalent to 2.4% of the total exposure of the banking sector.

The analysis has certain limitations. The list of identified at-risk firms does not include firms that are not in the SloExport database or in databases of trade receivables. Additional robustness analysis confirms that the vast majority of operating revenues and exposure are nevertheless captured.⁸⁰ The analysis does not assess the resilience and flexibility of individual firms, as many might easily restructure in the event of a major shock. The precise structure of their output is also unknown. At any particular firm the automotive industry might only account for a small share of its exposure, or its technology might be competitive enough to easily find new customers. The analysis in this box

⁸⁰ Analysis of the robustness of the manufacture of motor vehicles, trailers and semi-trailers using a sample of non-defaulter customers, which is not illustrated here, found this not to be a major issue, as the analysis nevertheless captures 93% of operating revenues and 75% of exposure in the entire sector.

also does not address the potential spillover of the shock along supply chains. More detailed analysis will shortly be available in the Discussion Papers.⁸¹

The analysis took no account of other current risks, such as geopolitical risks, energy prices or restrictive measures in international trade, that could hit the performance of these firms. In light of recent developments in connection with US trade policy, firms were also identified on this basis. Firms from all sectors where more than 10% of the operating revenues come from the US as measured by trade receivables were identified (the same as for Germany, but here not limited to manufacturing). These firms account for EUR 0.34 billion of operating revenues (0.2% of the total economy), and EUR 0.19 billion of bank exposure (0.3% of the total). Their direct impact is therefore considerably smaller than the direct impact of links with the German automotive industry. No account was taken of indirect impact, e.g. the impact of tariffs on other countries that are trading partners of Slovenia, and the spillover of the shock to Slovenia via them. These effects are likely to be significantly larger. Analysis by S&P Global ranks Slovenia among the five European countries most at risk from US tariffs, with particular emphasis on the indirect risks via the German automotive industry. This is why the above results can also be viewed in light of US trade tariffs.⁸²

⁸¹ *Risk Assessment of Slovenian Companies and Banks Exposed to the German Automotive Industry* is scheduled for publication in 2025.

⁸² S&P Global: Ameriške carine bi najbolj prizadele srednjo Evropo, tudi Slovenijo (US tariffs could hit central Europe hardest, including Slovenia). (2025). Forbes Slovenija.

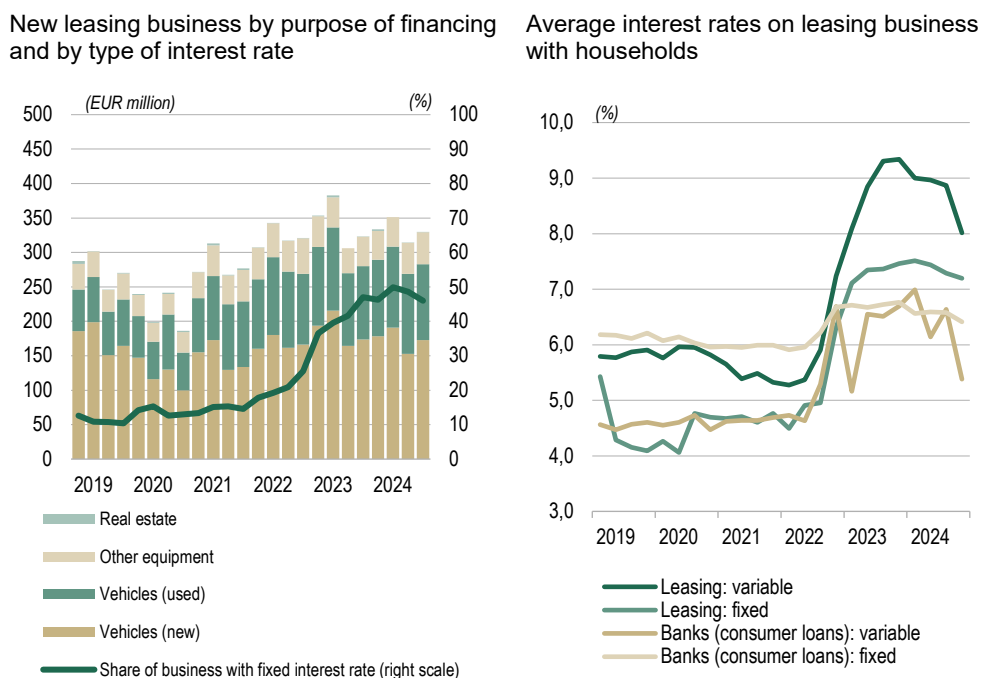
6 Non-Bank Financial Institutions

6.1 Leasing companies

The risk inherent in leasing companies is assessed as low, with an elevated risk outlook. Leasing companies saw an end to the trend of high year-on-year growth in new business: last year's new business was down slightly on the previous year. In the environment of falling interest rates, interest rates on leasing business also began to fall in the early part of last year. Leasing companies saw a decline in profitability for the third consecutive year. Their total assets and the stock of leasing business strengthen. Arrears in leasing business remain at low levels.

Leasing companies saw an end to the trend of high year-on-year growth in new business in 2024. New business totaled EUR 1.3 billion, down 2.7% on 2023 (see Figure 6.1, left). The largest decline was in leasing business for financing the manufacture of machinery and equipment, and for commercial and motor vehicles. Leasing business for financing cars remained at the same level as the previous year. The fall in key interest rates at the ECB in the first half of 2024, the first since the third quarter of 2022, was tracked with a lag by a fall in interest rates on new leasing business. The spread between the average interest rate on new leasing business with households and the average interest rate on consumer loans at banks widened again slightly in the final quarter (see Figure 6.1, right). The fall in interest rates on leasing business was also reflected in a decline in the share of new business with a fixed interest rate. Fixed-rate business accounted for 46% of total business last year (see Figure 6.1, left).

Figure 6.1: **New leasing business and interest rates on leasing business**



Source: Banka Slovenije

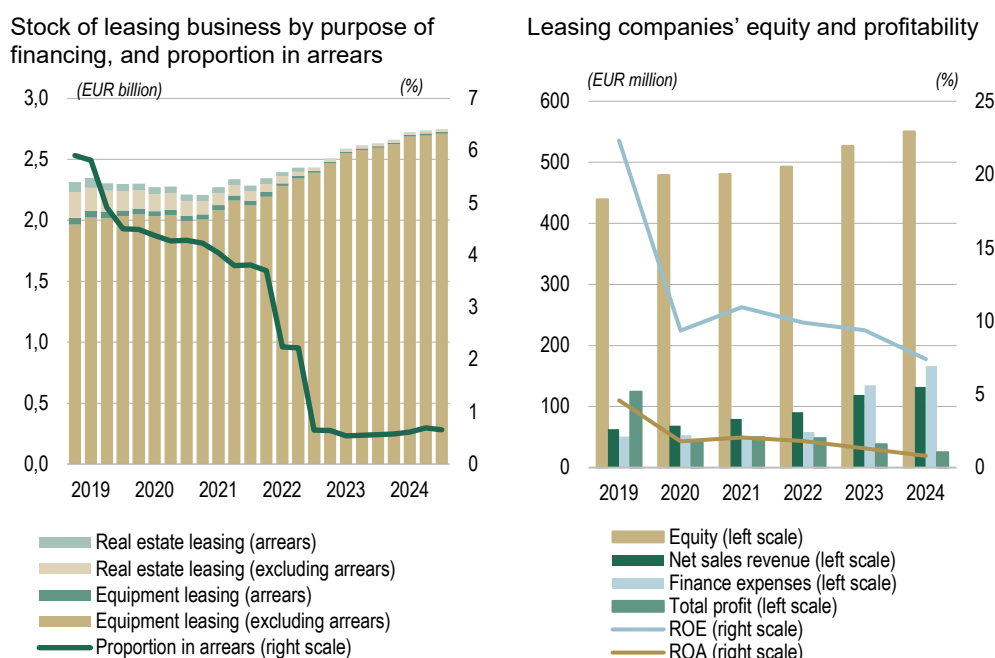
Slovenian leasing companies are predominantly engaged in finance leasing.⁸³ They mostly finance vehicle purchases. The largest component of new leasing business was car leases (49.7% of the total), followed by leases for commercial and goods

⁸³ Leasing business includes finance leases (81.7% of business), operating leases (13.1%) and loans (5.2%).

vehicles (34.3%), other equipment leases (9.1%), and leases for production machinery and equipment (5.9%). The majority of business (54.5%) was concluded with a maturity of five to ten years, followed by business with a maturity of one to five years (31.4%). Most business was entered into with households (54.6% of the total) and non-financial corporations (45.2%).

There was an increase in leasing companies' total assets. They rose by 4.8% in year-on-year terms to EUR 3.1 billion.⁸⁴ The stock of leasing business stood at EUR 2.7 billion at the end of December 2024, up 4.5% in year-on-year terms (see Figure 6.2, left). Households account for the majority of the stock of leasing business (59.6%), followed by non-financial corporations (39.8%). Transportation and storage (23.0% of the total) and wholesale and retail trade (20.8%) were the sectors that accounted for most business with non-financial corporations. The quality of leasing business remains high. Arrears of more than 90 days remain stable, and accounted for 0.7% of the stock of leasing business at the end of December 2024 (see Figure 6.2, left).

Figure 6.2: **Stock of leasing business and leasing companies' profitability**



Source: Banka Slovenije

Leasing companies saw their profitability decline for the third consecutive year. Although leasing companies recorded an 11% increase in net sales revenue, their profitability is declining (see Figure 6.2, right). Finance expenses are continuing to rise, on account of rising debt servicing costs, and impairments and write-offs in finance leasing. Leasing companies ended the year with profits of EUR 25.4 million, down 33.9% in year-on-year terms.⁸⁵

⁸⁴ The total assets comparison is only made with leasing companies that remain in the reporting sample. Banka Slovenije sets out the statistical sample of reporting entities on the basis of the significance of their operations, and does not cover the entire leasing sector. The sample of reporting entities can change between quarters.

⁸⁵ The profit comparison is only made with leasing companies that remain in the reporting sample.

6.2 Insurers

Insurance corporations saw high profits in 2024, despite the abolition of supplemental health insurance. Gross written premium last year was down on 2023, primarily as a result of the abolition of supplemental health insurance. The year passed without any major loss events, and claims paid were therefore down significantly on the previous year. The capital adequacy of insurance corporations in Slovenia remains at a high level. The reinsurance corporations also performed well, and saw year-on-year growth in gross written premium and large profits.

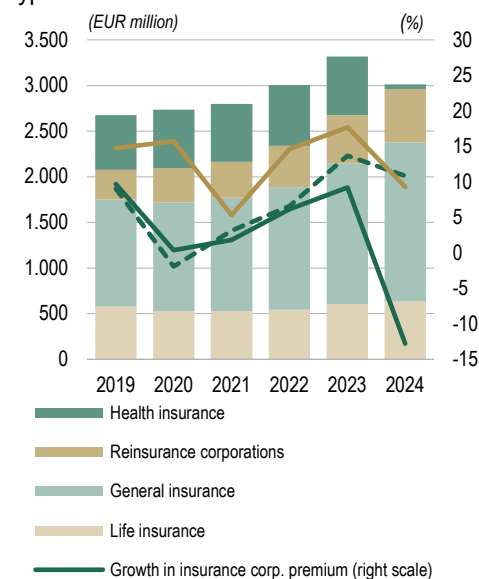
Insurance corporations began 2024 without supplemental health insurance, which led to a decline in gross written premium. Supplemental health insurance was abolished, and replaced with a compulsory health contribution. Gross written premium consequently declined by 12.8% in year-on-year terms to EUR 2.4 billion. Excluding health insurance, gross written premium would have risen by 10.8% in year-on-year terms. In terms of gross written premium, the largest components of general insurance were vehicle insurance (28.4%), traffic accident liability insurance (23.7%), insurance against fire and other property damage (22.3%), and income protection insurance (9.0%). The reinsurance corporations recorded gross written premium of EUR 578.5 million, up 9.3% on the previous year (see Figure 6.3, left). Three insurance corporations issued claims for the refunding of shortfalls in income under the Decree setting the maximum price of supplemental health insurance premiums of 2023.⁸⁶ They received EUR 33.5 million of compensation for damage suffered as a result of the price cap on supplemental health insurance premiums.

The year passed without any major loss events. The abolition of supplemental health insurance also saw a decline in claims paid by insurance corporations. Gross claims paid by insurance corporations amounted to EUR 1.4 billion, down 38.3% in year-on-year terms. Last year's large year-on-year decline in claims paid was expected, the year having passed without major loss events. Excluding supplemental health insurance, the year-on-year decline in claims would have stood at 10.4%. Non-life insurance accounted for 66.1% of the claims payments, and life insurance for 33.9%. The reinsurance corporations' total claims paid amounted to EUR 314.8 million, down fully 32.4% on the previous year (see Figure 6.3, right).

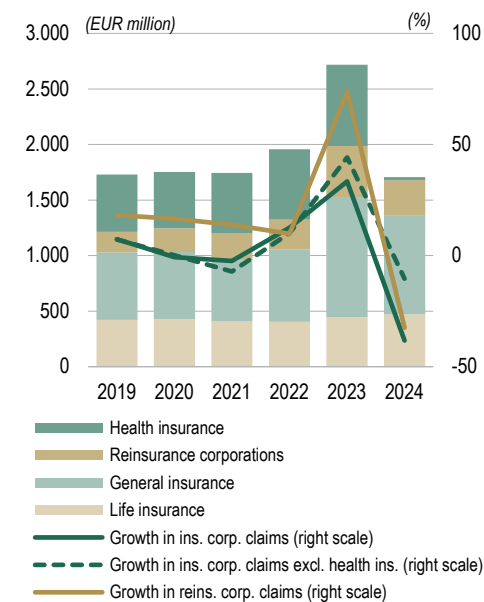
⁸⁶ Decree setting the maximum price of supplemental health insurance premiums.

Figure 6.3: **Gross written premium and claims paid**

Gross written premium and annual growth by type of insurance



Claims paid and year-on-year growth in claims



Sources: ISA, Banka Slovenije

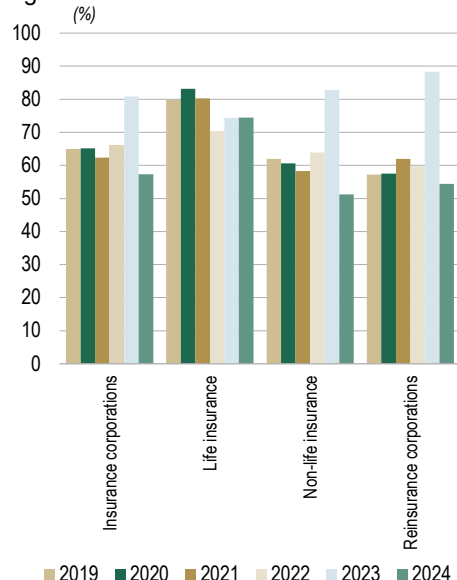
The insurance corporations and the reinsurance corporations saw a significant improvement in their claims ratios. The claims ratio, which illustrates the ratio of gross paid claims to gross written premium, stood at 57.3% at the insurance corporations and 54.4% at the reinsurance corporations last year, having declined (improved) by 23.7 percentage points (13.7 percentage points excluding health insurance) and 33.9 percentage points respectively. The claims ratio in life insurance remained at a similar level to the previous year at 74.4%. The claims ratio in non-life insurance was down 31.5 percentage points at 51.2% (see Figure 6.4, left), as it did not include health⁸⁷ insurance, which in 2023 was still included in the calculation. The claims ratio was significantly higher in 2023, owing to the decree setting the maximum price of supplemental health insurance premiums.⁸⁸ Excluding health insurance, the claims ratio in non-life insurance would have declined by 18.6 percentage points last year.

⁸⁷ Supplemental health insurance fell under the segment of non-life insurance.

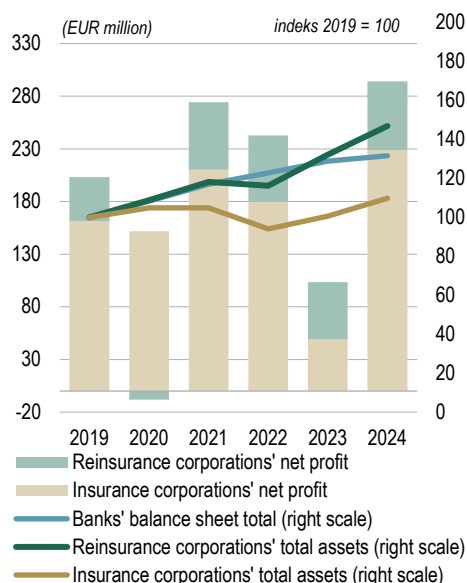
⁸⁸ Decree setting the maximum price of supplemental health insurance premiums.

Figure 6.4: **Claims ratio, net profit and total assets**

Claims ratio for reinsurance corporations, insurance corporations, and life and non-life segments



Insurers' net profit and total assets



Sources: ISA, Banka Slovenije, own calculations

Growth in profits was high. Profit amounted to EUR 140.4 million in non-life insurance and EUR 88.2 million in life insurance. On aggregate it was up 367% in year-on-year terms at EUR 228.6 million (see Figure 6.4, right). Following 2023, when insurance corporations faced many challenges in their business, last year saw much better performance. The exceptional growth in profit was attributable in particular to the increase in insurance premiums, the large decline in claims, and the buoyant financial markets, while the insurance corporations that had previously provided supplemental health insurance also received payments of the aforementioned compensation for loss of earnings in 2023, which were paid last year. The reinsurance corporations' profit amounted to EUR 54.5 million in 2024, up 20.2% in year-on-year terms. The insurance corporations' total assets were up 9.1% in year-on-year terms at EUR 8.4 billion at the end of the year, while the reinsurance corporations' total assets were up 11.2% in year-on-year terms at EUR 1.6 billion.

The capital adequacy of insurance corporations in Slovenia remains at a high level. The median SCR coverage ratio stood at 275.5% at the end of 2024, while the median MCR coverage ratio stood at 670.3%. In the third quarter of 2024 the medians of the two ratios remained higher than in the countries of the EEA (see Figure 8.24 in the appendix).

6.3 Mutual funds

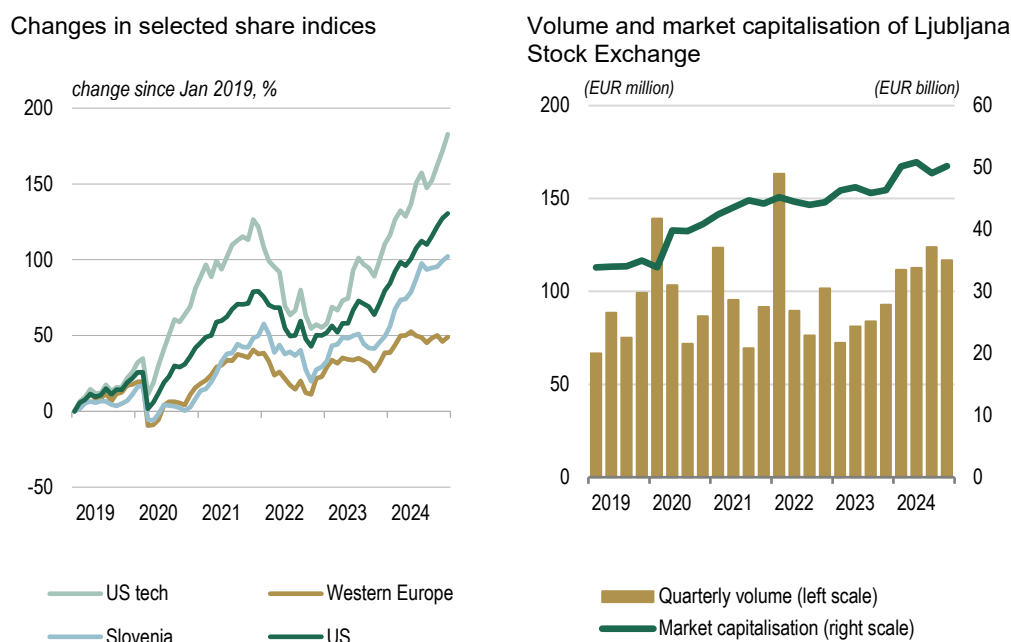
Global stock markets enjoyed high growth in 2024, and Slovenia's Ljubljana Stock Exchange was one of the best-performing. This year has seen great volatility on the financial markets, mainly driven by the uncertainties surrounding the economic consequences of US tariff measures. The latter triggered strong selling pressure on all major stock markets in early April. Last year's large gains in the SBITOP helped to raise the liquidity of the domestic stock market. Domestic mutual funds are becoming an increasingly established way of saving for Slovenian households. They enjoyed record net inflows last year, most notably into equity funds.

Stock markets recorded above-average growth in early 2024. The gains in global stock market indices were driven by pronounced gains by tech firms and the onset of monetary policy relaxation at both the ECB and the Fed. The leading US index, the S&P 500, gained more than 28% last year. Europe's STOXX Europe 600 rose by 8%, while the SBITOP in Slovenia rose by fully 33% (see Figure 6.5, left). Considerable uncertainty has come to the markets this year. The US tariff measures and the possibility of a trade war triggered by the responses from other countries were factors driving a fall in the leading share indices.

With inflation in the euro area displaying a falling trend, the ECB cut its key interest rates four times last year. The interest rate on the deposit facility thus stood at 3.0% at the end of the year, down 100 basis points from the beginning of the year. The ECB has continued relaxing its monetary policy this year, cutting interest rates twice more by March. Last year the Fed cut its key interest rate at three meetings, also by 100 basis points, to the corridor between 4.25% and 4.50%. The Fed made no change to interest rates at the first two meetings this year.

Last year's large gains in the SBITOP helped to raise liquidity on the Ljubljana Stock Exchange. The total volume of trading excluding block trades amounted to EUR 464.9 million last year, up 58.3% on the previous year. The volume of trading in shares amounted to EUR 444.3 million (95.6% of total volume), while treasury bills recorded volume of EUR 13.3 million (2.9%) and bonds volume of EUR 6.7 million (1.4%). The market capitalisation of the domestic stock exchange amounted to EUR 50.2 billion at the end of December 2024, up 8.4% in year-on-year terms (see Figure 6.5, right).

Figure 6.5: **Changes in share indices and market capitalisation of Ljubljana Stock Exchange**



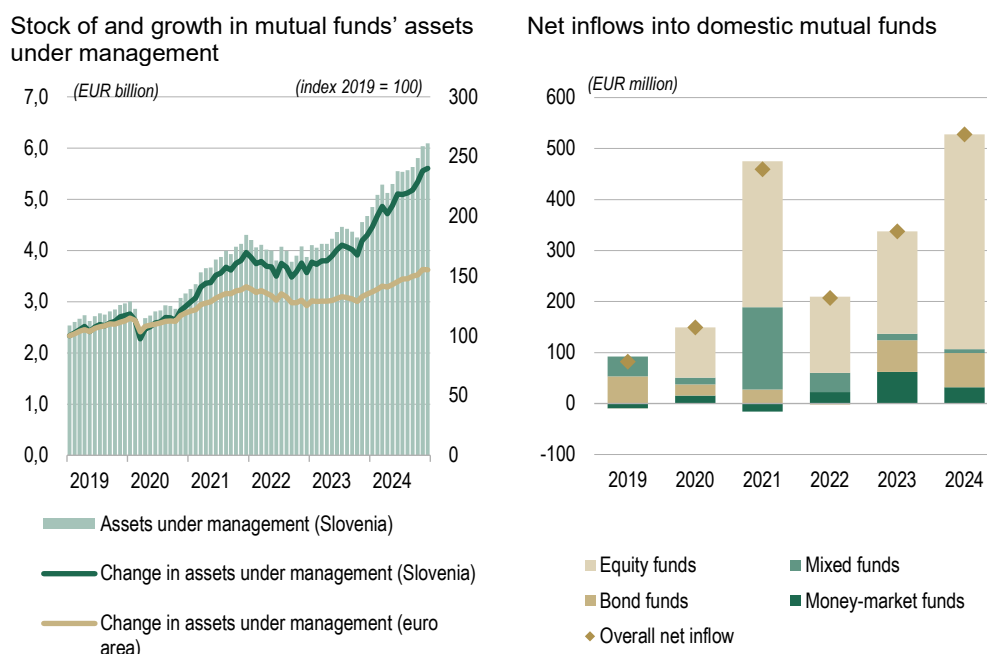
Note: In the left chart US tech means the NASDAQ-100 Technology Sector, US means the S&P, Western Europe means the STOXX Europe 600, and Slovenia means the SBITOP. Volume in the right chart excludes block trades.
Sources: LJSE, Banka Slovenije

Mutual funds saw large gains over 2024. The domestic mutual funds' assets under management ended the year at EUR 6.3 billion, up 30.2% in year-on-year terms. The domestic mutual funds hold most of their assets in equity and investment fund

shares/units. Compared with mutual funds in the euro area overall, which hold a significantly larger share of their assets in debt securities, the domestic mutual funds are more exposed to market risk. Alongside revaluations, the domestic mutual funds' high exposure to equities was also a factor in their growth in assets outpacing the euro area average (see Figure 6.6, left).

Savers have a growing appetite for saving in mutual funds, supported by the rise in the average unit prices of the domestic mutual funds. Last year saw a rise in the number of savers, an indication of Slovenian households' greater involvement in the financial markets. Net inflows into mutual funds amounted to a record EUR 528.0 million, up 56.4% in year-on-year terms. Meanwhile the increase in deposits by the non-banking sector amounted to EUR 563 million or 1.4%.⁸⁹ The slightly lower increase in deposits might be a consequence of funds being redirected into mutual funds. Households remain the largest holders of domestic investment funds, and recorded inflows of EUR 389.0 million last year, or 73.7% of the total net inflows. Non-financial corporations recorded inflows of EUR 40.7 million, mostly into money-market funds.

Figure 6.6: Domestic mutual funds' assets under management and net inflows



Note: The left chart does not include money-market funds.
Sources: Banka Slovenije, ECB SDW

Equity funds remain the most attractive to investors. Equity funds saw inflows of EUR 421.3 million last year (79.8% of total inflows), more than the total inflows into mutual funds of all types in the previous year. They were followed by bond funds, which recorded inflows of EUR 66.9 million (12.7% of the total). The domestic mutual funds' equity holdings have their largest exposure to public limited companies in the US (55.4% of the total) and in euro area countries (25.5%). The last two years have seen large-scale switching from euro area shares into public limited companies in the US, owing to the higher gains seen in the S&P 500 (primarily US tech shares) compared with European stock markets. Their holdings of debt securities mostly focus on euro area countries (72.8% of the total).

⁸⁹ See Section 2.2 Funding risk.

Alternative funds' assets under management are continuing to rise, although the rate of growth is slowing. The assets under management of alternative investment funds in Slovenia amounted to EUR 845.2 million at the end of 2024, up 12.8% on the end of 2023. The highest year-on-year growth in assets under management at alternative investment funds was recorded by hedge funds. The leading type of alternative investment fund is private equity funds (36.3% of total assets under management), followed by real estate funds (27.4%).

7 Macprudential Policy for the Banking System and Leasing Companies

Banka Slovenije is maintaining a preventive stance in its macroprudential policy in 2025, similarly to the previous year. In light of the risks, which are primarily being posed by the macroeconomic environment, it is important that we make use of macroprudential policy instruments to maintain the resilience of the banking system. As of 1 January 2025 banks have been required to meet a positive neutral countercyclical capital buffer rate of 1.0%, and two sectoral systemic risk buffers of 0.5% of the total risk-weighted exposure amount for all retail exposures. An additional buffer requirement applies to five banks classed as other systemically important institutions. At the same time, through the measure restricting household lending, we are encouraging more sustainable household borrowing, thereby increasing borrower resilience and reducing credit risk at banks. The stricter criterion stipulating which part of exposures secured by residential real estate may be weighted more favourably is no longer in effect as of 1 January 2025, following the entry into force of the CRR3, which is more stringent in setting out favourable weighting.

Purpose of macroprudential policy

Macroprudential policy is an economic policy used to identify, monitor, assess and reduce or prevent systemic risks to financial stability. Under the Macroprudential Supervision of the Financial System Act, the ultimate objective of macroprudential policy is to contribute to safeguarding the stability of the financial system as a whole, including strengthening the resilience of the financial system, and preventing and mitigating the build-up of systemic risks, thereby ensuring a sustainable contribution to economic growth from the financial sector. EU Member States have a number of macroprudential instruments at their disposal that can be used and tailored with regard to the systemic risks identified and to the resilience of the financial system. Macroprudential instruments can be broadly divided into three main groups: 1) liquidity-based measures, 2) capital-based measures and 3) borrower-based measures. The capital-based measures are designed to build the banking system's resilience, while the borrower-based measures put minimum credit standards in place and can limit excessive credit growth. The less frequently used liquidity-based measures either reduce funding risk or increase the liquidity resilience of the banking system. Certain macroprudential instruments are used in the same form across EU Member States, while other instruments are formulated with regard to the specifics of the individual banking system or with regard to systemic risks (see Table 7.1).

Review of macroeconomic policy across Europe

Maintaining the resilience of the banking system during the potential reversal of the financial cycle remains of key importance. Macroprudential authorities are continuing to introduce new measures and modify existing measures to strengthen bank resilience. This includes raising the rates of releasable capital buffers, such as the countercyclical capital buffer (CCyB) and the sectoral systemic risk buffer (SyRB), with the

aim of addressing existing vulnerabilities, and further strengthening resilience and increasing macroprudential space.⁹⁰ These measures complement the existing borrower-based measures, which proved effective in strengthening borrower resilience and helped to prevent a deterioration in credit quality. This comprehensive policy kit helped increase the banking sector's resilience to a series of adverse shocks that have hit the euro area.⁹¹

Since the publication of the previous Financial Stability Review in October 2024, five more countries have opted to increase their countercyclical capital buffer rates (Cyprus, Greece, Poland, Portugal and Spain).⁹² The positive neutral countercyclical capital buffer rate is becoming increasingly established in Europe. This approach gives precedence to expert judgment over mechanical rate setting, and allows competent authorities to build up the banking system's resilience even in the absence of an increase in cyclical systemic risks. This allows cyclical risks to be addressed even in the early phase of their occurrence, and provides for greater flexibility in releasing the buffer during shocks not directly related to domestic financial imbalances. This approach is currently being taken by 17 countries alongside Slovenia.⁹³ Approximately half of the other countries who are not using this approach are willing to introduce it in the future.⁹⁴

Borrower-based measures that restrict household lending are also relatively widespread in EU Member States. The most common instruments to restrict household lending are caps on LTV and DSTI, which are also used in Slovenia. The cap on DSTI sets the maximum amount of debt repayment relative to the borrower's income, and is defined as the ratio of debt servicing costs to the borrower's income, while the cap on LTV applies to all loans secured by residential real estate (consumer loans and housing loans). Other less-frequent borrower-based measures are caps on loan maturity, and caps on DTI, which limits an individual's total indebtedness relative to their income, the LSTI, which in contrast to the DSTI takes account of the loan repayment amount in the numerator instead of the total debt repayment, and the LTI, which limits the amount of a loan relative to the individual's income (see Table 8.6).

Certain countries have introduced a sectoral systemic risk buffer. This measure is used mainly to increase the banking system's resilience to structural systemic risks inherent in the residential real estate market. The sectoral systemic risk buffers put in place in Slovenia, Belgium, Lithuania, Malta, Germany and Portugal address bank exposure to loans secured by residential real estate separately. In Austria, Bulgaria, Croatia, Finland, Romania and Sweden the systemic risk buffer applies to total exposure. Macroprudential authorities also address certain other risks with sectoral buffers. Slovenia also applies a buffer to household loans not secured by residential real estate, France applies a buffer to exposures to certain non-financial corporations, and Denmark applies a buffer to exposures to real estate firms.

All EU Member States identify other systemically important institutions (O-SIIs) once a year. Additional capital buffers apply to these banks, the aim of which is to absorb any losses of banks that play a key role in a particular banking system. Their

⁹⁰ The ESRB defines macroprudential space as the sum of releasable and non-releasable capital buffers in the banking sector. This term encompasses all buffer requirements aimed at strengthening the resilience of financial institutions and supporting lending in periods of financial stress. For more, see: [Review of the EU Macroprudential Framework for the Banking Sector - Concept Note](#).

⁹¹ [Financial Stability Review, November 2024](#).

⁹² Details of the countercyclical capital buffer rates in EEA countries can be found on the ESRB website: [Countercyclical capital buffer \(europa.eu\)](#)

⁹³ Cyprus, Czechia, Denmark, Estonia, Greece, Hungary, Iceland, Ireland, Latvia, Lithuania, Netherlands, Norway, Poland, Portugal, Spain and UK.

⁹⁴ [Using the countercyclical capital buffer to build up resilience early in the cycle](#)

failure would pose a major risk to the stability of the financial system. On 27 November 2024 the Governing Council of the ECB passed a decision introducing an enhanced floor methodology for determining the minimum O-SII buffer rate, which applies as of 1 January 2025.⁹⁵ The new methodology takes account of the importance of these institutions to the banking union as a whole, alongside national importance. The objective of the change is to reduce the unwarranted heterogeneity between countries, to ensure consistency in capital requirements, and to help reinforce financial stability and the level playing field inside the banking union.

Banka Slovenije macroprudential policy

The key risks to the Slovenian banking system are actively mitigated by our macroprudential instruments, which are also used to strengthen the banking system's resilience to these risks. There are four macroprudential instruments that currently apply to the Slovenian banking system. The buffer for other systemically important institutions (O-SII buffer), the countercyclical capital buffer (CCyB) and the two sectoral systemic risk buffers (SyRB) require a higher level of capital at banks, and thus strengthen the (capital) resilience of the banking system. The macroprudential restrictions on consumer lending put minimum credit standards in place, and at the same time are pitched at mitigating and preventing excessive credit growth and excessive leverage, thereby reducing credit risk.

Table 7.1: Banka Slovenije macroprudential measures

Macroprudential measure	Year of introduction/change	Type of instrument	Intermediate objective	Assessment of achievement of objective
Macroprudential restrictions on household lending (LTV, DSTI, cap on maturity, LTC)	2016 ¹ /2018 ² /2019 ³ /2020 ⁴ /2022 ⁵ /2023 ⁶	BINDING	To mitigate and prevent excessive credit growth and excessive leverage	Improved credit standards in approval of consumer loans and housing loans
O-SII buffer	2015 ⁷ /2017 ⁸ /2023 ⁹	BINDING	To limit the systemic impact of misaligned incentives with a view to reducing moral hazard	Higher resilience as a result of higher requirements for common equity Tier 1 capital, which was not binding on the banks
Countercyclical capital buffer (CCyB)	2016/2022/2023 ¹⁰	BINDING	To mitigate and prevent excessive credit growth and excessive leverage	The CCyB helps to increase the resilience of the banking system
Sectoral systemic risk buffers	2022/2023 ¹¹	BINDING	(a) To mitigate and prevent excessive credit growth and excessive leverage	Increased resilience of the banking system to systemic risks inherent in the residential real estate market

Source: Banka Slovenije

¹ A recommendation with regard to LTV and DSTI was introduced in 2016 for housing loans.

² In 2018 the macroprudential recommendation was extended to consumer loans, to which a cap on maturity also applied alongside the cap on DSTI.

³ The caps on DSTI and maturity became a binding macroprudential instrument in 2019.

⁴ In response to the Covid-19 pandemic, adjustments were made to the cap on DSTI in 2020, allowing the banks under certain conditions to exclude the temporary loss of income during the pandemic when calculating DSTI.

⁵ Additional changes to the restrictions on consumer lending entered into force on 1 July 2022.

⁶ The latest changes to the restrictions on consumer lending entered into force on 1 July 2023.

⁷ The methodology for reviewing the criteria for identifying banks as O-SIIs was adopted in 2015.

⁸ The methodology for determining the O-SII buffer rate was adopted in 2017.

⁹⁵ [Governing Council statement on macroprudential policies of 20 December 2024.](#)

⁹ The methodology for determining the O-SII buffer rate was modified in 2023.

¹⁰ Banks are required to meet a (positive neutral) countercyclical capital buffer rate of 1.0% as of 1 January 2025.

¹¹ The two sectoral systemic risk buffers were introduced in 2022, and entered into force on 1 January 2023. The systemic risk buffer requirement for all retail exposures to natural persons secured by residential real estate was reduced from 1.0% to 0.5% of the total risk exposure amount in November 2023. The new buffer rate may be applied by banks as of 1 January 2025.

Countercyclical capital buffer

The countercyclical capital buffer serves as protection for the banking system against potential losses during the materialisation of credit risk. Its role is to strengthen the resilience of the banking system at a time of rising cyclical systemic risks. In the event of the materialisation of credit risk, the buffer allows the banking system to cover losses with the capital buffers built up by the active macroprudential policy. This reduces the likelihood of an excessive contraction in lending to the real sector in the event of the materialisation of risks.

Banka Slovenije introduced the concept of a positive neutral countercyclical capital buffer rate in 2023. Its main purpose is ensuring that the banking system has sufficient capital available that can be released upon the occurrence of risks that are not necessarily related to excessive credit growth and the build-up of domestic imbalances, but are a consequence of the materialisation of risks outside the financial and banking system.⁹⁶ Other reasons for introducing this approach include the volatility of data series, the uncertainty in the measurement of cyclical risks, and the time lag in the assessment of cyclical risks and the build-up of the countercyclical capital buffer. To assess the phase of the financial cycle and a standardised or neutral risk environment, we use the existing set of individual risk indicators, a composite indicator and the indicator of a neutral environment.

The countercyclical capital buffer for exposures in Slovenia is being held at 1.0% of the total risk exposure amount in 2025. The financial cycle is holding in a neutral risk environment. Banks are obliged to meet this requirement as of 1 January 2025.

Macroprudential restrictions on consumer lending

The macroprudential restrictions on consumer lending aim to mitigate and prevent excessive credit growth and excessive leverage at households. They set out minimum credit standards for housing loans and consumer loans, and serve as structural safety valves for sustainable household borrowing in all phases of the financial cycle.

Four macroprudential instruments in the form of borrower-related measures are in use in Slovenia. These are: 1) a cap on DSTI, 2) a cap on LTV, 3) a cap on the maturity of consumer loans, and 4) a cap on the ratio of the bridging loan amount secured by financial instruments to the value of financial instruments used as collateral for the loan (LTC).⁹⁷ This section examines the main attributes of consumer loans and housing loans in recent years, and on this basis makes an assessment of the suitability of the current calibration of the macroprudential instruments.

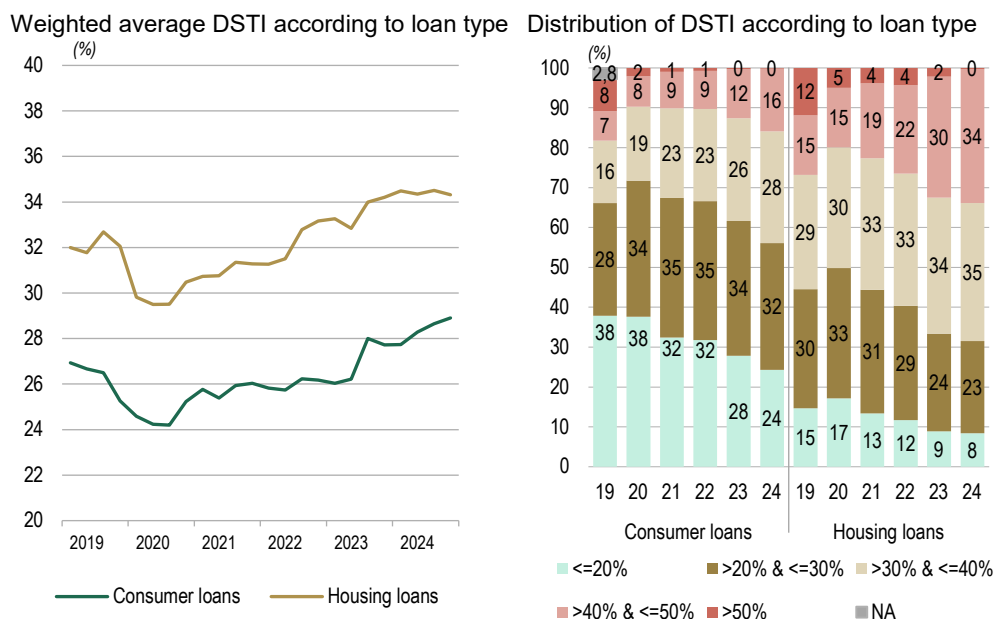
The average DSTI has increased over the last year, particularly for consumer loans. The DSTI has been increasing for a long time now in the housing loans portfolio,

⁹⁶ For more information about the positive neutral countercyclical capital buffer rate and the neutral risk environment, see the [Banka Slovenije website](#).

⁹⁷ For more on the details of and latest adjustments to the macroprudential restrictions on household lending, see [Macroprudential restrictions on consumer lending](#), the [October 2023 issue of the Financial Stability Review](#) and the [November 2024 issue of the Financial Stability Review](#).

but has remained stable over the last year. Despite the increase the DSTI remains at sustainable levels, with consumers spending an average of 27.7% of their income⁹⁸ on consumer loan repayments over the last two years, while consumers spend an average of 34.0% of their income on housing loan repayments. The share of new loans with a DSTI of between 30% and 50% has risen in recent years, in the consumer loans and housing loans portfolios alike. Loans with a DSTI of between 40% and 50% account for merely around 16% of all new consumer loans, but a third of new housing loans. Loans with a DSTI of between 20% and 30% make up the largest share of consumer loans, while loans with a DSTI of between 30% and 40% make up the largest share of housing loans.

Figure 7.1: **Weighted average DSTI according to loan type and distribution of DSTI according to loan type**



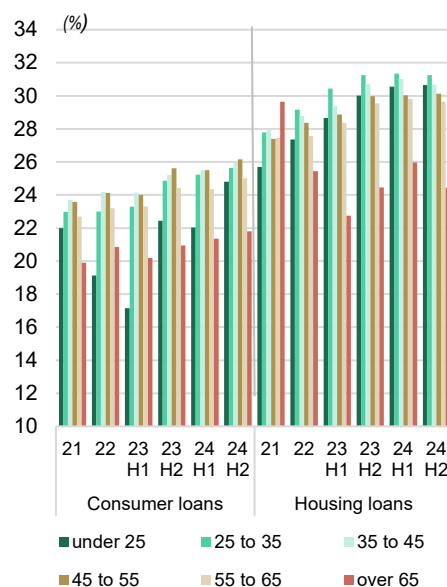
Source: Banka Slovenije

It can be observed that the average DSTI on consumer loans for customers aged below 25 or above 65 is lower than for other customers. The average DSTI does not differ significantly for other age groups: it is only slightly lower for customers aged between 55 and 65. Following the adjustment to the macroprudential measure in 2023, the share of loans of both types that was approved for consumers whose income is no more than 76% of the gross minimum wage increased, but nevertheless remains very low. The majority of loans continue to be approved for consumers whose reported income is above the average net wage, but is no more than 1.5 times the average net wage.

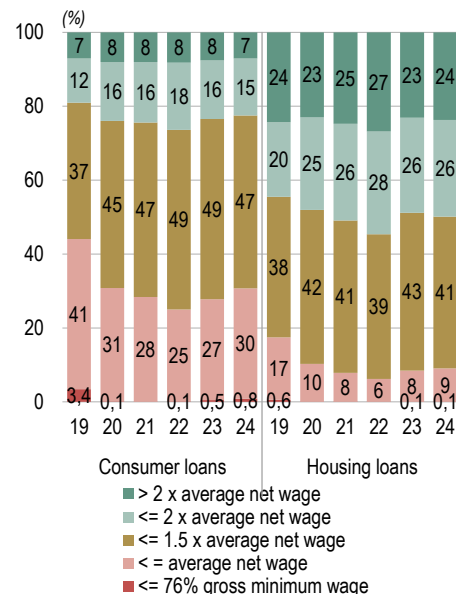
⁹⁸ When calculating a consumer's annual income the bank takes account of earnings from all income sources as defined by the Personal Income Tax Act (employment income, income from business activities, pensions, earnings from the letting of real estate, financial investments and other sources) (Article 7 of the Regulation on macroprudential restrictions on consumer lending).

Figure 7.2: **Distribution of DSTI according to customer age, and distribution of new loans according to consumer's income**

Distribution of DSTI according to customer age



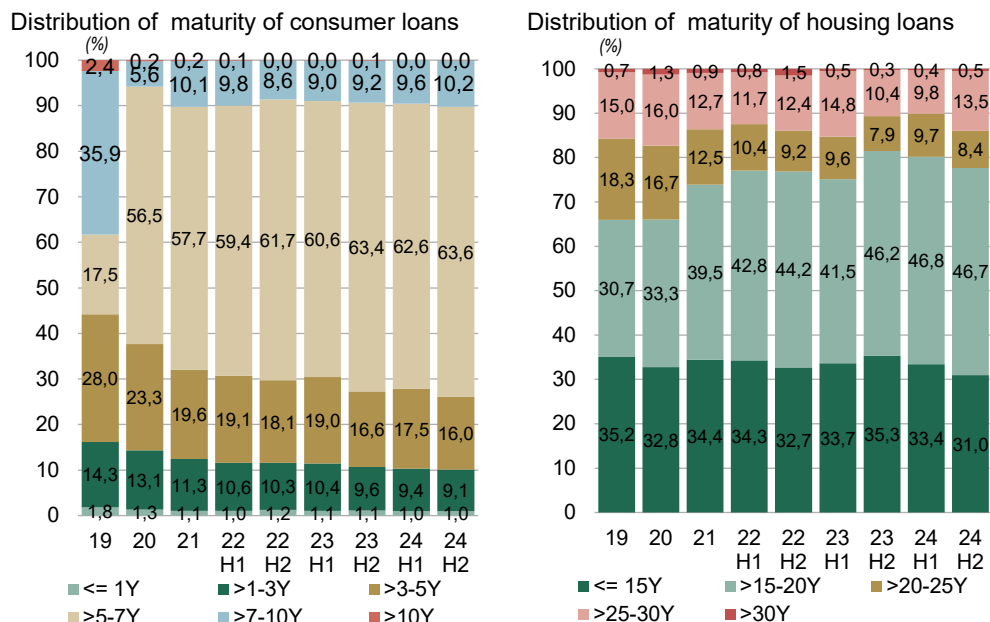
Distribution of new loans according to consumer's income



Note: The distribution is illustrated on the basis of the sum of loan amount.
Source: Banka Slovenije

Minor changes arose in the distribution of the maturity of new loans. In the distribution of the maturity of new loans there was a moderate increase in the second half of the year in the shares with a maturity of between five and seven years and with a maturity of between seven and ten years, but no major changes have occurred in recent years (see Figure 7.3, left). The share of consumer loans with a deviation from the cap on maturity does not exceed the allowed quota. Certain changes are evident in the distribution of the maturity of housing loans (see Figure 7.3, right). The share of housing loans with a maturity of between 15 and 20 years increased considerably from 2021, amid a decline in the share with a maturity of more than 20 years, and they now account for the majority of new housing loans. Housing loans approved with a maturity of up to 15 years account for the majority in number terms, but around 30% of new loans in value terms. The average maturity of housing loans has lengthened slightly over the last year, with more housing loans being approved in the last few quarters with a maturity of more than 20 years.

Figure 7.3: **Distribution of maturity of consumer loans and housing loans**



Note: The distribution is illustrated on the basis of the sum of loan amount.
Source: Banka Slovenije

The share of deviations from the cap on DSTI does not exceed the maximum allowed level. In the wake of the adjustments to macroprudential instruments, banks had certain difficulties with calculating the allowed deviations from the cap on DSTI, but they had rectified these difficulties by the end of 2023. The share of deviations for consumer loans reached the maximum allowed level in the final quarter of 2024.

The LTV also increased slightly in the second half of the year. The average LTV on loans for primary residences stood at approximately 67% in the final quarter of 2024, while the average LTV on loans for secondary properties stood at 58%. The share of deviations from the recommended LTV also increased, with deviations from the recommended LTV being seen more often in loans for secondary properties. An average of 11% of all loans secured by residential real estate deviated from the recommended LTV in 2024 in the case of primary residences, compared with an average of 27% for secondary properties (see Figure 8.23). The average DTI remains stable on consumer loans, while on housing loans it fell after the introduction of binding macroprudential instruments in 2019, but has again risen a fraction over the last two years. The distribution of DTI shows an increase in the share of consumers with a DTI of 3 or more for consumer loans in 2024, and in the share of consumers with a DTI of 8 or more for housing loans (see Figure 8.24). The average maturity of consumer loans has increased slightly in recent years, but remains at sustainable levels. The share of deviations from the cap on maturity also remains stable at around 11%.

Table 7.2: **Average values of selected parameters for housing loans and consumer loans, and share of deviations from macroprudential instruments**

Weighted average	2019 Q4 ¹	2020	2021	2022	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Housing loans												
LTV	67.7%	67.6%	63.7%	59.5%	58.3%	58.1%	60.8%	59.2%	60.8%	61.8%	62.4%	65.0%
Share of deviations in LTV ²	19.8%	15.8%	11.1%	10.7%	11.5%	10.0%	15.1%	11.5%	13.3%	14.0%	15.0%	17.3%
DSTI	32.1%	29.9%	31.0%	32.2%	33.3%	32.8%	34.0%	34.2%	34.5%	34.4%	34.5%	34.3%
Share of deviations in DSTI ³	15.7%	4.9%	5.5%	4.0%	7.1%	5.7%	4.8%	2.5%	1.3%	1.8%	1.8%	1.5%
Average maturity, years	19.1	19.3	18.8	18.5	18.7	18.3	17.9	17.9	18.0	18.3	18.6	19.0
Consumer loans												
DSTI	26.4%	24.6%	25.8%	26.0%	26.0%	26.2%	28.0%	27.7%	27.7%	28.3%	28.7%	28.9%
Share of deviations in DSTI ³	21.8%	4.3%	6.2%	3.8%	7.0%	7.5%	3.7%	2.2%	2.9%	2.5%	2.8%	3.0%
Average maturity, years	6.5	5.8	6.2	6.1	6.1	6.2	6.3	6.3	6.3	6.3	6.4	6.4
Share of deviations in maturity ⁴	2.3% ⁵	5.8%	12.2%	10.6%	11.7%	11.3%	8.7%	11.7%	12.0%	11.4%	10.7%	11.9%

¹ The instruments capping DSTI and maturity (for consumer loans) only became binding on 1 November 2019. The maximum maturity for consumer loans was reduced at that time from ten years to seven years.

² The share of deviations in LTV is calculated as the ratio of the sum of all housing loans secured by residential real estate where the recommended LTV is exceeded to the sum of all housing loans secured by residential real estate approved in the same quarter.

³ Until Q3 2022 the share of deviations in DSTI was calculated as the ratio of the sum of all loans where the cap on DSTI was exceeded to the sum of all loans that comply with the macroprudential measures approved in the same quarter. Since Q2 2022 the share of deviations has been calculated with regard to the sum of all loans that comply with the macroprudential measures approved in the previous quarter. The allowed share of deviations in DSTI stood at 10% until Q3 2023, and stands at 3% as of Q3 2023.

⁴ Until Q3 2022 the share of deviations in maturity was calculated as the ratio of the sum of all loans where the cap on maturity was exceeded to the sum of all loans that comply with the macroprudential measures approved in the same quarter. Since Q2 2022 the share of deviations has been calculated with regard to the sum of all loans that comply with the macroprudential measures approved in the previous quarter.

⁵ Over the first three quarters of 2019, before the introduction of the macroprudential restrictions on consumer lending, fully 41% of all new consumer loans carried a maturity of more than seven years.

Source: Banka Slovenije

Based on risk analysis and in light of the illustrated attributes of household loans, our assessment is that the calibration of the macroprudential instruments remains appropriate at present. Consumers are spending a growing share of their income on debt repayment, but the average DSTI nevertheless remains at sustainable levels, while another factor in the decline in risk is that since 2022 fully 95% of consumer loans and housing loans have been approved with a fixed interest rate.

Systemic risk buffer

Two sectoral systemic risk buffers (SyRBs) have been in force since 2023. The sectoral systemic risk buffer requirements in Slovenia, which banks have been required to observe as of 1 January 2025, are as follows: (i) 0.5% for all retail exposures to natural persons secured by residential real estate, and (ii) 0.5% for all exposures to natural persons other than those cited under point (i).

Other systemically important institutions

Article 242 of the Banking Act stipulates that at least once a year Banka Slovenije should verify the fulfilment of O-SII criteria and the appropriateness of O-SII buffer rates.⁹⁹ Banka Slovenije follows the EBA methodology in its identification of O-SIIs, and its primary criterion in determining the O-SII buffer rate and in classifying banks to categories assigned the same buffer rate is the score achieved in the assessment of systemic importance. The legal merger of SKB and NKBM meant that five banks were identified as O-SIIs in 2024, one fewer than in the previous year. Regular analysis of the systemic importance of banks led to changes in the buffer at two banks: the buffer rate was raised by 0.25 percentage points at one (merged) bank, and lowered by the same amount at the other. The assessments and buffer rates for identified O-SIIs are published on the [Banka Slovenije website](#).

Waiver of discretion under Article 124 of the CRR

In accordance with the changes brought by the new CRR3, the use of discretion under Article 124 of the CRR, which allows for stricter treatment of exposures secured by real estate, is being abandoned in the calculation of the capital requirements for credit risk under the standardised approach. As the designated macroprudential supervision authority for the implementation of Article 124 of the CRR in accordance with Article 11 of the ZBan-3, in the past Banka Slovenije set out a stricter criterion for more favourable treatment of exposures secured by residential real estate located in Slovenia. Until the end of 2024 the provision in this connection was defined in Article 4 of the Regulation on the exercise of options and discretions under European Union law, whereby only that part of the exposure not in excess of 60% of the market value of the residential real estate could be weighted more favourably. The CRR3 lowered the threshold for the part of an exposure secured by residential real estate that may be weighted more favourably from 80% to 55% of the value of the residential real estate (now a stricter criterion). Consequently the provision of Article 4 of the Regulation on the exercise of options and discretions under European Union law was no longer relevant, and has been deleted.

Under the CRR3, in addition to the aforementioned lowering of the threshold for more favourable weighting, exposures secured by residential real estate have also seen the risk weight lowered from 35% to 20% (the part of the exposure up to 55% of the value of the residential real estate is now assigned a risk weight of 20%). Based on analysis of risks in the real estate market and the expected losses on exposures secured by real estate, our assessment is that the changes brought by the new CRR3 will not significantly reduce resilience to the moderate risks inherent in the real estate market. Therefore there is no need for now for stricter arrangements than those envisaged in the new CRR3 in the current phase, but we also do not rule out the possibility that in the future Banka Slovenije might raise the risk weight or set stricter criteria should it assess that the risk weights set out in the CRR3 are not appropriate (or do not reflect the actual risks).¹⁰⁰

⁹⁹ For more on O-SII buffers, see: [O-SII buffer](#) on the Banka Slovenije website.

¹⁰⁰ [Regulation on the exercise of options and discretions under European Union law](#).

Table 7.3: Countercyclical capital buffer rates, systemic risk buffer rates and other macroprudential instruments by country

Country	Countercyclical capital buffer		Sectoral systemic risk buffer associated with real estate risk		Other capital-based measures		Restrictions on lending
	Rate	Date of introduction	Rate	Date of introduction	Application of Article 124/164 of CRR to exposures secured by residential real estate	Application of Article 458 of CRR for risks inherent in real estate market	Type of measure***
Austria	0%	1 Jan 2016					Cap on maturity, DSTI, LTV
Belgium	0%	1 Apr 2020	9.0%*	1 May 2022			DSTI/LSTI, DTI/LTI, LTV
	0.5%	1 Apr 2024	6.0%*	1 Apr 2024			
	1.0%	1 Oct 2024					
Bulgaria	0.5%	1 Apr 2020					Cap on maturity, DSTI, LTV
	1.0%	1 Oct 2022					
	1.5%	1 Jan 2023					
	2.0%	1 Oct 2023					
Cyprus	0%	1 Jan 2016					DSTI, LTV
	0.5%	30 Nov 2023					
	1.0%	2 Jun 2024					
	1.5%	14 Jan 2026					
Czechia	0.5%	1 Jul 2020					Cap on maturity, DTI, DSTI, LTV,
	1.0%	1 Jul 2022					loan amortisation
	1.5%	1 Oct 2022					
	2.0%	1 Jan 2023					
	2.5%	1 Apr 2023					
	2.25%	1 Jul 2023					
	2.0%	1 Oct 2023					
	1.75%	1 Apr 2024					
Denmark	1.0%	30 Sep 2022					LTV, LTI
	2.0%	31 Dec 2022					
	2.5%	31 Mar 2023					
Estonia	1.0%	7 Dec 2022				X	Cap on maturity, DSTI, LTV
	1.5%	1 Dec 2023					
Finland	0%	16 Mar 2015					Cap on maturity, DSTI, LTV
France	0.5%	7 Apr 2023					Cap on maturity, DSTI
	1.0%	2 Jan 2024					
Greece	0%	1 Jan 2016					DSTI, LTV
	0.25%	1 Oct 2025					
Croatia	0.5%	31 Mar 2022			X**		
	1.0%	31 Dec 2023					
	1.5%	30 Jun 2024					
Ireland	0.5%	15 Jun 2023					LTV, LTI
	1.0%	24 Nov 2023					
	1.5%	7 Jun 2024					
Iceland	2.0%	29 Sep 2022					DSTI, LTV
	2.5%	15 Mar 2024					
Italy	0%	1 Jan 2016					
Latvia	0%	1 Feb 2016					Cap on maturity, DTI, DSTI, LTV
	0.5%	18 Dec 2024					
	1.0%	18 Jun 2025					
Lichtenstein	0%	1 Jul 2019	1.0%	25 Sep 2023	X		LTV, loan amortisation
Lithuania	0%	1 Apr 2020	2.0%	1 Jul 2022			Cap on maturity, DSTI, LTV
	1.0%	1 Oct 2023					
Luxembourg	0.5%	1 Jan 2021					LTV
Hungary	0%	1 Jan 2016					DSTI, LTV
	0.5%	1 Jul 2024					
	1.0%	1 Jul 2025					
Malta	0%	1 Jan 2016	1.5%	31 Mar 2024	X		Cap on maturity, DSTI, LTV
Germany	0.75%	1 Feb 2023	2.0%	1 Feb 2023			
Netherlands	1.0%	25 May 2023				X	Cap on maturity, LTV
	2.0%	24 May 2024					
Norway	1.0%	13 May 2020			X	X**	LTV, DTI, loan amortisation,
	1.5%	30 Jun 2022					exemptions from caps
	2.0%	31 Dec 2022					
	2.5%	31 Mar 2023					
Poland	0%	1 Jan 2016			X**		Cap on maturity, DSTI, LTV
	1.0%	25 Sep 2025					
Portugal	0%	1 Jan 2016	4.0%	1 Oct 2024			Cap on maturity, DSTI, LTV
	0.75%	1 Jan 2026					
Romania	0.5%	17 Oct 2022					Cap on maturity, DSTI, LTV
	1.0%	23 Oct 2023					
Slovakia	1.0%	1 Aug 2020					DSTI, cap on maturity, DTI, loan
	1.5%	1 Aug 2023					amortisation, LTV
Slovenia	0%	1 Jan 2016	0.5% (consumer loans)	1 Jan 2023			Cap on maturity, DSTI, LTV
	0.5%	31 Dec 2023	1.0% (all other loans)	1 Jan 2023			
	1.0%	1 Jan 2025	0.5% (all other loans)	1 Jan 2025			
Spain	0%	1 Jan 2016					
	0.5%	1 Oct 2025					
Sweden	1.0%	29 Sep 2022				X**	LTV, loan amortisation
	2.0%	22 Jun 2023					

* The buffer replaces the measure under Article 458 of the CRR that allows a rise in risk weight in the event of a real estate bubble.

** Higher risk weights are also applied to exposures to commercial real estate.

*** Includes binding measures and recommendations. The measures cited apply to consumer loans and to housing loans.

The ultimate objective of macroprudential policy is to strengthen financial stability, and to mitigate the adverse economic consequences in the event of the realisation of risks. Experience shows that macroprudential policy measures can strengthen economies' resilience to intrinsic and extrinsic financial shocks, thereby reducing the likelihood of economic contraction and volatility in economic activity over the medium term. However the effects of these policies usually depend on the circumstances, and may change over time. Non-linearities of this kind are often correlated with declining marginal benefits of tightening macroprudential policy and the long-term effects of these measures on the economy's resilience.

In professional and academic circles there is growing emphasis on the importance of consistency in macroprudential measures and effective communication to help anchor expectations. The latest guidance suggests that the development of a conceptual framework to guide discussion on macroprudential policies would improve the effectiveness of policy actions and reduce any potential inaction bias in periods of rising financial risks. However, assessing and communicating the effectiveness of the measures is a demanding task, as systemic crises are rare, and risks often become measurable only when they are being realised. Furthermore, the absence of a generally accepted definition of financial stability makes it more difficult to identify and measure systemic risks, while the continual evolution of key indicators makes it harder to tie policy objectives to concrete metrics and target values. This stands in contrast to the clear frameworks typical of other economic policy areas, such as monetary policy and fiscal policy.

Different national authorities and experts use different definitions of the macroprudential policy stance. The ESRB (2019) defines it as "the balance between identified systemic risk and resilience relative to financial stability objectives given implemented macroprudential policies".¹⁰¹ Three main approaches to assessing the macroprudential policy stance have been proposed. They emphasise different aspects of risk and policy transmission, and complement one another:

- The **semi-structural approach**, which is based on a macro-micro model that takes account of trade-offs implied by capital buffers to absorb losses and downside risk to GDP.
- The **indicator-based approach** aggregates commonly used metrics for systemic risk and macroprudential policy to derive a residual risk and policy stringency metric.
- The **empirical growth-at-risk (GaR) approach** forecasts the distribution of future economic growth, and quantifies risks on the basis of current vulnerabilities in the financial system.

This analysis presents the results of the operationalisation of the empirical GaR approach, as this is the method addressed and used most commonly by national central banks.

The assessment of the macroprudential policy stance is made in two steps. First we estimate future tail risk for economic growth using quantile regression, based on current macrofinancial conditions and developments. The GaR approach provides for the interpretation of changes in the lower tail of the conditional distribution of GDP as

¹⁰¹ According to this definition, the residual systemic risk in the financial system relative to the neutral risk level seen as sustainable over the long term is an indicator of the stance. For more, see ESRB (2019). Features of a macroprudential stance: initial considerations. European Systemic Risk Board.

a reflection of downside risks to economic growth.¹⁰² In the second step, in accordance with the ESRB definition (2021),¹⁰³ the macroprudential policy stance is calculated as the difference between the median and the tenth percentile (tail) of the conditional distribution of GDP growth.

The quantile regression model has the following specification:

$$\Delta GDP_{t+h}^r = const + \Delta GDP_t * \beta_{GDP} + FCI_t * \beta_{FCI} + SRI_t * \beta_{SRI} + \Delta^{(16)}MPI_t * \beta_{MPI}$$

Where:

ΔGDP_{t+h}^r represents year-on-year growth in (quarterly) real GDP between t and $t + h$, where $h = 1, 4, 8, 12, 16$.

ΔGDP_t is year-on-year growth in (quarterly) GDP at time t .

FCI_t is the Financial Conditions Index for Slovenia calculated on the basis of linear discriminatory analysis (LDA); it usually indicates risks to economic growth over the short term.

SRI_t is a weighted average of normalised indicators for Slovenia, reflecting the current position in the credit cycle; compared to the FCI, it evolves more gradually over time and may indicate longer-term risks i.e. vulnerabilities.

$\Delta^{(16)}MPI_t$ is the aggregate macroprudential index (MPI),¹⁰⁴ which combines multiple macroprudential instruments, adjusted for trend, and measured as a 16-quarter difference.

The macroprudential policy stance indicator, referred to as the median-to-tail distance (MTD), focuses on the importance of the risks embedded in the low tail of the distribution relative to its median. A low distance-to-tail implies reduced downside risks relative to the expected growth, which would indicate a tight macroprudential policy stance, while a high distance-to-tail indicates elevated downside risks relative to the central tendency and consequently a more relaxed macroprudential stance. Although variations in the distance between the median and the tail provide evidence on the direction of the macroprudential policy stance, the MTD alone does not provide guidance on the level of stance.

The evolution of the MTD indicator over the previous decade (see Figure 7.5) indicates a significant accumulation of risks prior to the 2008 global financial crisis, reflected in a peak value of the indicator. The indicator reached its lowest value in the period after the debt crisis and at the time of debt restructuring in Slovenia, which is an indication not so much of the tightness of macroprudential policy, as mainly the profoundly low level of risks posed by the absence of lending to the economy and the bottom of the credit cycle (see Figure 8.25 in the appendix). The current position of

¹⁰² The data is quarterly, and the sample captures the period from the first quarter of 2002 to the final quarter of 2024. To extend the sample, the latest observations for SRI and real estate prices, which are input data in the calculation of the FCI, are interpolated on the basis of the average dynamics over the previous three quarters. The estimate is made for four periods in advance, i.e. to Q4 of 2025. A description of the basic methodology for estimating growth-at-risk is given in Drenkovska, M. and Volčjak, R. (2022). Growth-at-Risk and Financial Stability: Concept and Application for Slovenia, Discussion Papers 5, Banka Slovenije.

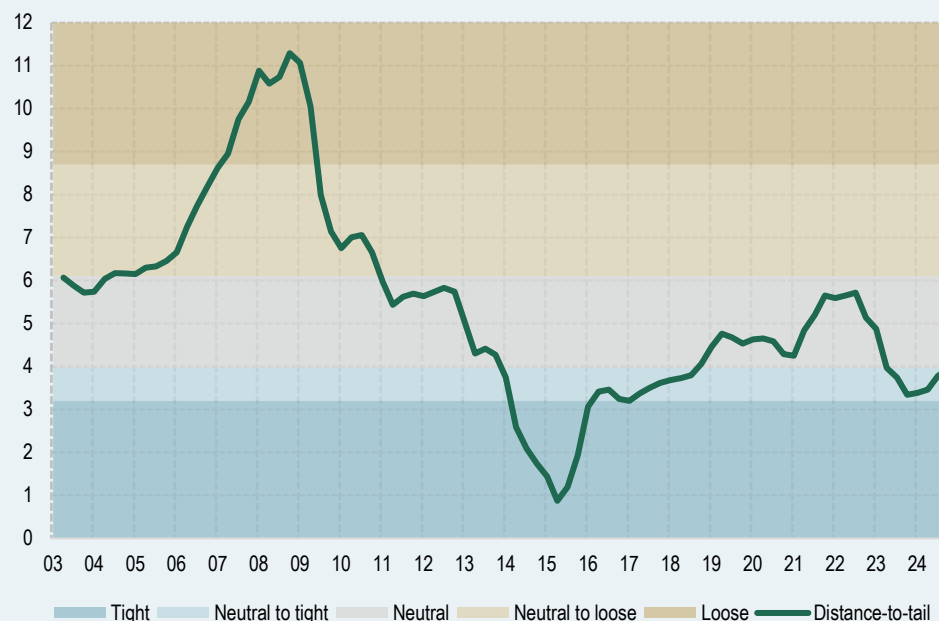
¹⁰³ For more, see ESRB (2021). Report of the Expert Group on Macroprudential Stance – Phase II (implementation). Technical report, European Systemic Risk Board.

¹⁰⁴ Although the concept of macroprudential instruments is relatively new, Budnik and Kleibl (2018) proposed an operative definition of instruments of a macroprudential nature in their paper as part of the creation of the Macroprudential Policies Evaluation Database (MaPPED). It is based on various criteria used in gathering information on the measures of EU Member States as of 1995. Our MPI is to a great extent based on data from this database, although it is further upgraded by including information from the ESRB macroprudential database. For the purposes of this analysis, the MPI was calculated as a cumulative index according to the formula:

$MPI_t^{cumu} = \sum_{t=1}^t MPI_t^{net}$. Where MPI_t^{net} represents the net number of tightenings and relaxations of macroprudential measures during a particular quarter, i.e. $MPI_t^{net} = MPI_t^{tightening} - MPI_t^{relaxation}$.

the distance-to-tail indicator (neutral to tight stance) does not yet reflect the relaxation associated with the changes in Article 124 of the CRR and the cut in the sectoral systemic risk buffer for exposures secured by residential real estate, or the tightening caused by the introduction of the positive neutral countercyclical capital buffer rate, as all these changes only entered into force at the beginning of 2025.

Figure 7.4: **Estimated macroprudential policy stance based on the MTD indicator**



Note: The classification of stance is based on the percentiles of the calculated distance-to-tail series. The 10th, 30th, 70th and 90th percentiles were chosen as the threshold values. The chart illustrates a smoothed distance-to-tail calculated as a three-month moving average.

Source: Banka Slovenije

The analysis does not propose a rule that would stipulate what proportion of risk should be addressed by Banka Slovenije's macroprudential policy. Suarez (2022) derived an optimal policy rule, according to which policy responds proportionately to systemic risk, with the objective of maintaining a stable relationship between average conditions and very bad outcomes.¹⁰⁵ Under this approach a society with less appetite for risk would endeavour to narrow the gap between the baseline scenario and the most adverse scenario. With regard to the effectiveness of macroprudential tools, the optimal policy rule suggests that the more risks respond to macroprudential policy measures compared with average conditions, the smaller the gap should be. From this perspective the optimal macroprudential policy should maintain a stable relationship between systemic risk and financial stability, where the adjustment would depend on the effectiveness of the most responsive tool.

¹⁰⁵ For more, see Suarez, J. (2022). Growth-at-risk and macroprudential policy design, *Journal of Financial Stability*, Elsevier, 60(C).

8 Appendix

Table 8.1: **Risk and resilience dashboard (description of risks, resilience and factors)**

Risk and resilience dashboard	Description	Indicators
Risk inherent in the real estate market	The risk inherent in the real estate market primarily relates to high rates of growth in real estate prices, which increase the banking sector's exposure, and also the possibility of a large negative revaluation of real estate collateral during a crisis.	Growth in prices, sales and loans for residential and commercial real estate, indicators of real estate overvaluation, construction sector indicators, LTV, LTC and DSTI.
Funding risk	Funding risk is the risk of the potential instability of funding or the sudden outflow of individual classes of funding from the banking system, and depends on the maturity of the funding.	Funding structure, developments in deposits by the non-banking sector, particularly household deposits and deposits by non-financial corporations, LTD, changes in the maturity breakdown of deposits by the non-banking sector, residual maturity gap between assets and liabilities.
Interest rate risk	Interest rate risk is the risk of investment losses as a result of changes in interest rates, and comes from the maturity mismatch between assets and liabilities that have a fixed interest rate, and from the repricing gap between assets and liabilities.	The main indicator for monitoring interest rate risk is the repricing gap between asset and liability interest rates, where the most important factor for liability interest rates is the assumption about the stable component of sight deposits. Other indicators are: the average repricing period for asset interest rates, the average repricing period for liability interest rates, the share of new loans and existing loans accounted for by fixed-rate loans, and the average maturity of new loans and existing loans.
Credit risk	Credit risk is the risk of loss resulting from the failure of a debtor to settle their liabilities to the creditor, and comes from the debtor's inability to meet their financial liabilities by the agreed deadline, which may be temporary (illiquidity) or permanent (insolvency).	The main indicators are NPE ratios, the breakdown of exposures into credit risk stages, credit parameters (default rates, probabilities of default, transition rates), and coverage of NPEs and performing exposures by impairments, provisions and collateral. Moratoria and arrears in settlement of past-due instalments previously subject to a moratorium are also significant indicators in the current pandemic.
Income risk	Income risk is the risk to the generation of adequate income by banks, and is based on developments in components of income generation and cost control.	The main indicators follow the generation and disposal of income, to the point of net income: net interest margin, net non-interest margin, net commission margin, gross income, developments in operating costs, CIR, developments in net income.
Risk inherent in leasing companies	The risk inherent in leasing companies is the risk of the generation of operating losses caused by a decline in turnover, the build-up of arrears of more than 90 days, and the potential spillover of adverse consequences into other sectors.	New business, stock of business, arrears of more than 90 days, other performance indicators of leasing companies (ROE, ROA, debt-to-equity ratio).
Solvency and profitability of the banking system	Resilience from the perspective of the capital position is the ability to absorb adverse effects or losses that would occur during a stress event, while from the perspective of profitability it is a sustainable source of capital adequacy.	Total capital ratio and CET1 ratio (both ratios on an individual and a consolidated basis), leverage ratio, capital surplus over the overall capital requirement (as a percentage of RWA), contribution of individual components to the change in the total capital ratio and CET1 ratio, ROE, ROA, ratio of net impairments and provisions to gross income and ratio of net impairments and provisions to net income.
Liquidity of the banking system	Resilience from the perspective of liquidity is the ability to repay all due liabilities, and the ability to absorb the adverse effects that would follow in the event of the realisation of funding risk.	LCR, developments in the ratio of primary and secondary liquidity to the balance sheet total, proportion of the pool of eligible collateral at the Eurosystem that is free.
Cyber risk	Cyber risk can be defined as a combination of the probability of cyber incidents and their potential impact on banking (which might be realised in the form of interruptions to business, financial losses, or the transmission of risk to other sectors). Cyber resilience is the capacity of a bank or any other financial institution to realise its mission statement through the anticipation and management of cyber risks, and fast recovery from cyber incidents.	Number of cyber incidents, direct and indirect financial losses, mean time to contain (minutes), market concentration of outsourced IT services (%), number of phishing and DDoS attacks, share of budget for IT security (bank self-assessment), number of devices with obsolete software, and number of outsourced IT service providers.

Climate risks	Climate risks can be defined as the physical risks inherent in the direct and indirect costs of loss events related to weather, and the transition risks inherent in the structural changes in the shift to sustainable economies, as a result of changes in consumer preferences, environmental policy or technology.	Weighted emissions intensity, loan carbon intensity, portfolio tilt to polluting sectors, share of portfolio exposure to climate-sensitive sectors, NPE ratio in climate-sensitive sectors, NPE concentration in climate-sensitive sectors, share of exposure to municipalities with high or elevated physical risk, share of exposure to municipalities with high acute physical risk, share of NPEs accounted for by municipalities with high or elevated physical risk, share of NPEs accounted for by municipalities with high acute physical risk, annual growth in exposure to municipalities with high acute physical risk.
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Source: Banka Slovenije

Table 8.2: **Selected indicators for climate risks**

	Indicator	Definition of indicator
Transition risks	Weighted carbon intensity of banking system	The weighted sum of the carbon intensity of individual sectors, where the weight is the share of total exposure to non-financial corporations accounted for by the individual sector (NACE 2 level). Sectoral or granular emissions are used in the calculation.
	Carbon credit intensity	Total emissions financed by the banking system relative to exposure to non-financial corporations. Sectoral or granular emissions can be used in the calculation.
	Portfolio tilt to polluting sectors	The relative gap between the weighted carbon intensity and the carbon intensity of the economy. Sectoral or granular emissions can be used in the calculation.
	Share of exposures to climate-sensitive sectors in the NFCs portfolio	The share of exposures in the non-financial corporations portfolio that are exposures to climate-sensitive sectors (according to two definitions, taking account of emissions at EU level or in Slovenia).
	Growth in exposure to climate-sensitive sectors in the NFCs portfolio	Annual growth in the exposures in the non-financial corporations portfolio that are exposures to climate-sensitive sectors (according to two definitions, taking account of emissions at EU level or in Slovenia).
	NPE ratio for climate-sensitive sectors in the NFCs portfolio	The share of exposures to climate-sensitive sectors (taking account of emissions in Slovenia) in the non-financial corporations portfolio that are non-performing exposures.
	Share of NPEs in the NFCs portfolio to climate-sensitive sectors	The indicator is computed as the share of total non-performing exposures in the non-financial corporations portfolio that are non-performing exposures to climate-sensitive sectors (taking account of emissions in Slovenia).
Physical risks	Share of portfolio accounted for by exposure to municipalities with high and elevated physical risk or high acute physical risk (drought, wind, extreme heat, floods)	Share of portfolio (NFCs plus households) accounted for by municipalities exposed to: - high and elevated physical risk, including chronic and acute physical risks - high acute physical risk (drought, wind, extreme heat, floods), including acute physical risks only
	Share of portfolio accounted for by NPEs to municipalities with high and elevated physical risk or high acute physical risk (drought, wind, extreme heat, floods)	Share of portfolio (NFCs plus households) accounted for by NPEs to municipalities exposed to: - high and elevated physical risk, including chronic and acute physical risks - high acute physical risk (drought, wind, extreme heat, floods), including acute physical risks only
	Share of NPEs in the portfolio accounted for by NPEs to municipalities with high and elevated physical risk or high acute physical risk (drought, wind, extreme heat, floods)	Share of NPEs in the portfolio (NFCs plus households) accounted for by NPEs to municipalities exposed to: - high and elevated physical risk, including chronic and acute physical risks - high acute physical risk (drought, wind, extreme heat, floods), including acute physical risks only
	Growth in exposure to municipalities exposed to high acute physical risk	Annual growth in exposure (NFCs plus households) to municipalities exposed to high acute physical risks, including acute physical risks only

Source: Banka Slovenije

Table 8.3: Slovenian banking system balance sheet for selected time snapshots, 2004 to 2024

	Stock, EUR million unless stated										Increase, EUR million						Year-on-year change, %				
	2004	Breakdown	2008	Breakdown	2013	2020	2021	2022	2023	Breakdown	2024	Breakdown	2020	2021	2022	2023	2024	2021	2022	2023	2024
		(%)		(%)						(%)		(%)									
Assets																					
Cash on hand, balance at central bank	592	2.5	1,250	2.6	2,452	8,825	11,495	10,445	12,763	24.0	8,854	16.3	3,042	2,671	-1,051	2,318	-3,909	30.3	-9.1	22.2	-30.6
Loans to banks	2,156	9.1	4,101	8.6	3,986	1,492	1,544	1,665	1,444	2.7	1,450	2.7	-100	52	121	-221	6	3.5	7.8	-13.3	0.4
Loans to non-banking sector	12,947	54.4	33,718	70.3	24,359	23,561	25,045	27,538	26,934	50.7	28,405	52.4	42	1,484	2,493	-604	1,471	6.3	10.0	-2.2	5.5
of which to non-financial corporations	8,147	34.2	20,260	42.3	11,508	8,750	9,300	10,487	9,968	18.8	9,762	18.0	-127	550	1,187	-519	-206	6.3	12.8	-4.9	-2.1
of which to households	3,262	13.7	7,558	15.8	8,467	10,712	11,263	12,138	12,556	23.7	13,311	24.5	9	551	875	418	755	5.1	7.8	3.4	6.0
Financial assets / securities	7,013	29.4	7,307	15.2	8,318	8,958	8,355	8,759	9,816	18.5	13,112	24.2	120	-603	404	1,056	3,296	-6.7	4.8	12.1	33.6
Other	1,112	4.7	1,572	3.3	1,229	1,815	1,811	2,168	2,125	4.0	2,414	4.5	335	-4	357	-43	289	-0.2	19.7	-2.0	13.6
Equity and liabilities																					
Financial liabilities to Eurosystem	0	0.0	1,229	2.6	3,727	1,380	2,344	758	75	0.1	0	0.0	397	964	-1,586	-683	-75	69.9	-67.6	-90.1	-100.0
Liabilities to banks	4,719	19.8	18,168	37.9	7,729	2,378	1,716	2,034	1,746	3.3	1,484	2.7	-443	-663	318	-288	-262	-27.9	18.6	-14.2	-15.0
of which to domestic banks	435	1.8	2,065	4.3	2,381	799	649	600	413	0.8	286	0.5	-57	-150	-49	-187	-128	-18.8	-7.6	-31.1	-30.9
of which to foreign banks	4,254	17.9	16,098	33.6	5,348	1,579	1,066	1,434	1,333	2.5	1,199	2.2	-386	-513	368	-101	-134	-32.5	34.5	-7.1	-10.1
Liabilities to non-banking sector (deposits)	14,906	62.6	20,883	43.6	22,550	34,281	37,185	39,756	41,062	77.4	41,625	76.7	3,212	2,904	2,571	1,306	563	8.5	6.9	3.3	1.4
of which to non-financial corporations	2,667	11.2	3,728	7.8	4,196	8,031	8,998	9,710	10,947	20.6	10,910	20.1	1,273	967	712	1,238	-37	12.0	7.9	12.7	-0.3
of which to households	9,904	41.6	13,407	28.0	14,365	22,437	23,953	25,784	26,514	49.9	27,309	50.4	2,072	1,516	1,832	730	795	6.8	7.6	2.8	3.0
Debt securities	973	4.1	1,276	2.7	1,657	1,058	1,250	2,066	3,164	6.0	3,504	6.5	458	191	817	1,097	341	18.1	65.4	53.1	10.8
Provisions	0	0.0	176	0.4	306	186	151	142	187	0.4	204	0.4	-2	-34	-10	46	16	-18.4	-6.5	32.3	8.7
Shareholder equity	1,896	8.0	4,010	8.4	3,670	4,805	5,061	5,153	6,081	11.5	6,681	12.3	-158	256	93	928	600	5.3	1.8	18.0	9.9
Other	1,326	5.6	2,206	4.6	704	564	545	665	767	1.4	738	1.4	-25	-19	120	102	-29	-3.3	22.1	15.3	-3.8
Balance sheet total	23,820	100.0	47,948	100.0	40,344	44,651	48,252	50,575	53,082	100.0	54,236	100.0	3,438	3,600	2,323	2,507	1,154	8.1	4.8	5.0	2.2

Source: Banka Slovenije

Table 8.4: Slovenian banking system income statement, 2018 to 2024

	Amount, EUR million							Year-on-year growth, %							Ratio to gross income, %						
	2018	2019	2020	2021	2022	2023	2024	2018	2019	2020	2021	2022	2023	2024	2018	2019	2020	2021	2022	2023	2024
Net interest	672	683	639	625	748	1442	1566	3.0	1.6	-6.4	-2.2	19.6	92.8	8.6	58.2	54.4	47.0	51.9	56.9	72.9	68.5
Non-interest income	482	573	721	580	567	535	720	14.1	19.1	25.7	-19.5	-2.3	-5.6	34.5	41.8	45.6	53.0	48.1	43.1	27.1	31.5
of which net fees and	315	334	330	377	398	387	419	0.6	5.8	-1.2	14.4	5.5	-2.8	8.4	27.3	26.6	24.2	31.3	30.3	19.6	18.3
of which net trading	13	12	16	18	31	10	24	-56.0	-6.9	31.8	10.8	76.4	-69.6	153.8	1.1	1.0	1.2	1.5	2.4	0.5	1.1
Gross income	1153	1256	1360	1206	1315	1978	2286	7.4	8.9	8.3	-11.4	9.1	50.4	15.6	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Operating costs	-669	-709	-718	-717	-758	-830	-1016	-0.6	5.9	1.3	-0.2	5.6	9.6	22.3	-58.0	-56.5	-52.8	-59.5	-57.6	-42.0	-44.4
labour costs	-390	-401	-386	-398	-413	-447	-501	2.2	2.8	-3.6	3.0	3.7	8.4	12.1	-33.8	-31.9	-28.4	-33.0	-31.4	-22.6	-21.9
Net income	484	547	642	489	558	1147	1270	20.8	13.0	17.3	-23.9	14.1	105.8	10.7	42.0	43.5	47.2	40.5	42.4	58.0	55.6
Net impairments and provisions	47	46	-170	74	-14	-10	-71	10.1	-2.8	-470.8	-143.4	-119.2	-27.7	590.0	4.1	3.6	-12.5	6.1	-1.1	-0.5	-3.1
of which at amortised cost	68	60	-133	72	-23	-33	-83	-12.9	-323.8	-153.8	-131.8	44.7	150.9	5.9	4.7	-9.8	6.0	-1.7	-1.7	-3.6	
Pre-tax profit	531	593	472	562	543	1137	1200	19.8	11.6	-20.3	19.1	-3.3	109.3	5.5	46.0	47.2	34.7	46.6	41.3	57.5	52.5
Corporate income tax	-36	-62	-22	-37	-42	-39	-125	93.4	73.9	-65.0	70.1	13.1	-6.8	221.1	-3.1	-4.9	-1.6	-3.1	-3.2	-2.0	-5.5
Net profit	495	531	450	525	502	1098	1075	16.6	7.1	-15.1	16.6	-4.5	118.9	-2.1	42.9	42.2	33.1	43.6	38.1	55.5	47.0

Source: Banka Slovenije

Table 8.5: **Selected bank performance indicators for the Slovenian banking system, 2011 to 2024**

(%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ROA	-1.06	-1.60	-7.70	-0.27	0.42	0.99	1.19	1.38	1.48	1.10	1.20	1.11	2.22	2.25
ROE	-12.54	-19.04	-97.30	-2.69	3.63	7.96	9.60	11.07	12.16	9.57	11.33	10.82	20.64	18.92
CIR	53.68	47.43	66.04	55.80	59.26	59.19	62.68	58.05	56.47	52.82	59.48	57.60	41.98	44.43
Net interest margin on interest-bearing assets	2.13	1.93	1.68	2.18	2.06	1.91	1.83	1.84	1.79	1.57	1.41	1.61	2.95	3.09
Net interest margin on total assets	2.02	1.83	1.59	2.09	1.96	1.82	1.75	1.75	1.70	1.49	1.34	1.53	2.81	2.93
Non-interest margin	0.85	1.40	0.85	1.01	1.09	1.23	1.13	1.26	1.43	1.67	1.24	1.15	1.05	1.35
Gross income / average assets (FIM)	2.87	3.23	2.44	3.10	3.05	3.05	2.88	3.01	3.13	3.16	2.58	2.68	3.86	4.28

Note: FIM: financial intermediation margin.

Source: Banka Slovenije

Figure 8.1: **Economic sentiment in the euro area, and oil prices and euro exchange rate**

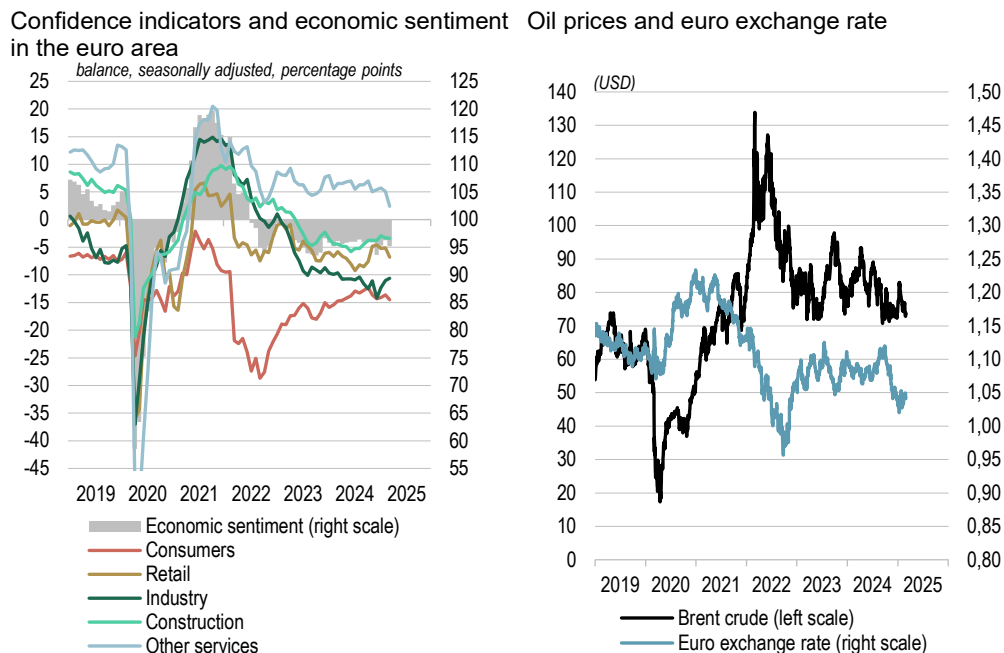


Figure 8.2: **GDP and inflation**

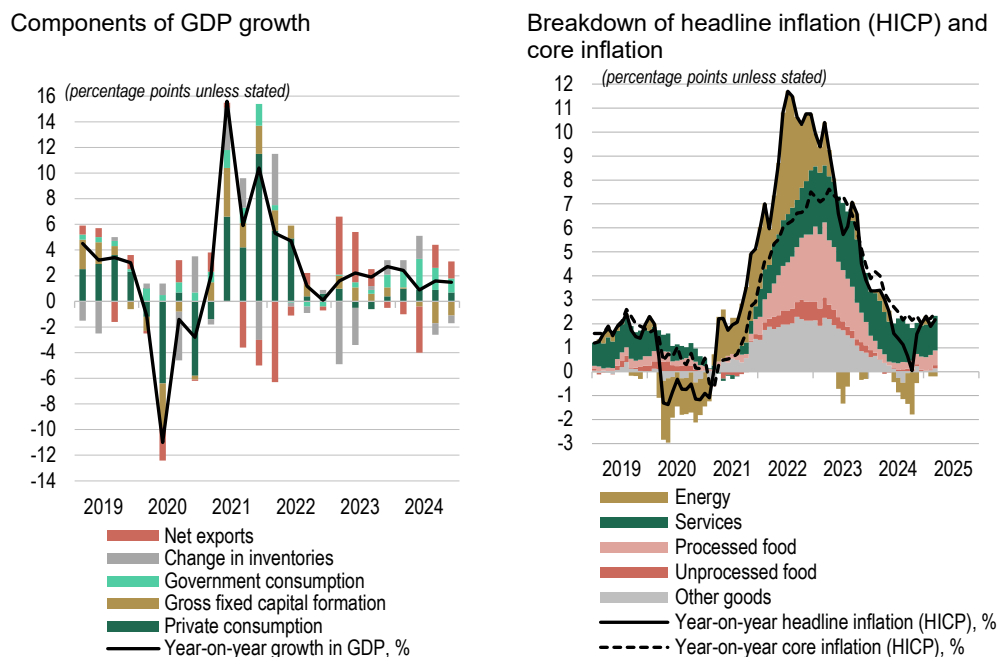
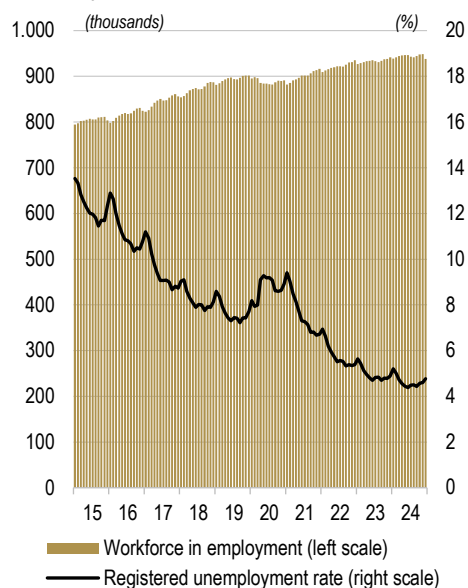
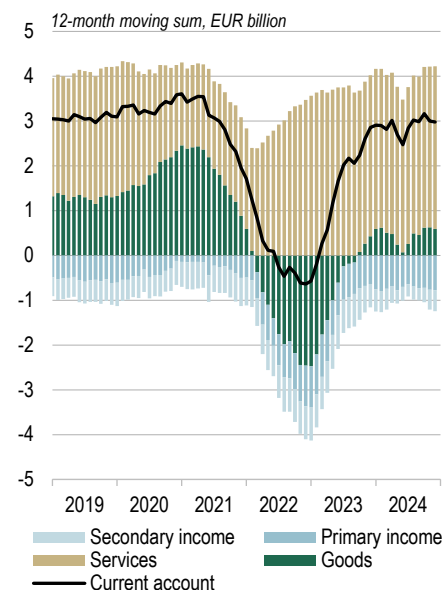


Figure 8.3: **Labour market and current account**

Workforce in employment and registered unemployment rate



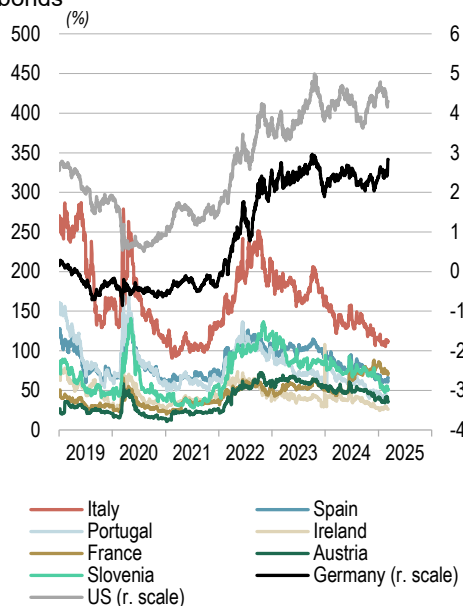
12-month current account position



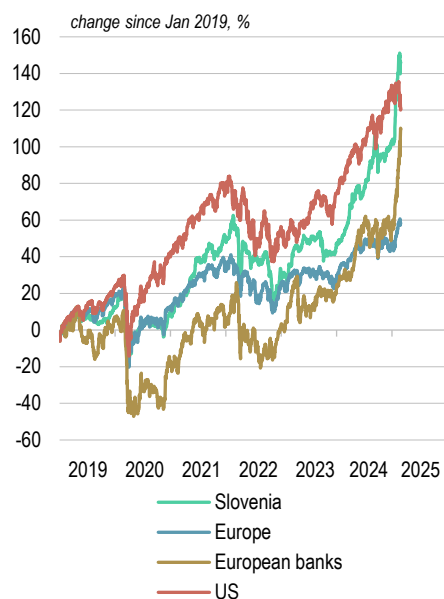
Sources: SORS and ESS (left), Banka Slovenije (right)

Figure 8.4: **Financing costs and stock markets**

Yield and spreads on 10-year government bonds



Stock market indices

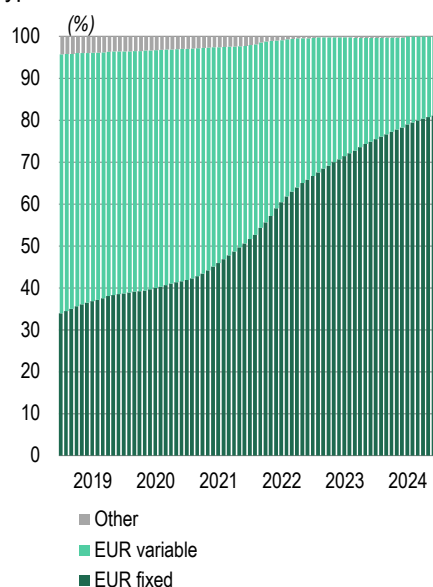


Note: Data is up to and including 31 March 2025. The spread in the left chart is calculated as the difference between the yield on the 10-year government bond and the yield on the benchmark (German bond) on a daily basis, and reflects the additional risk that the markets ascribe to the country in question. The data is illustrated as a 30-day moving average. The selected indices in the right chart are the SBITOP for Slovenia, the Stoxx Europe 600 for European equities, the Stoxx Europe 600 Banks for European banks, and the S&P 500 for US equities.

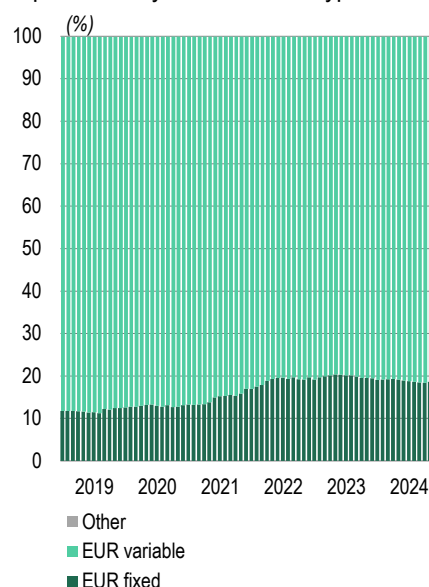
Sources: Bloomberg, Banka Slovenije calculations

Figure 8.5: **Breakdown of stock of loans by remuneration type**

Breakdown of household loans by remuneration type



Breakdown of loans to non-financial corporations by remuneration type

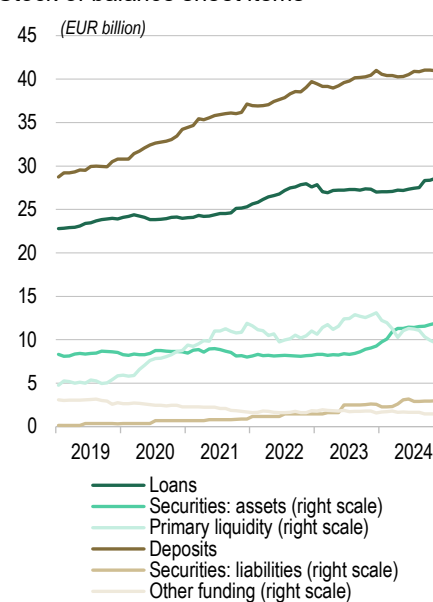


Note: Household loans include housing loans and consumer loans, but not other loans to households. The category of "other" includes all loans in Swiss francs, which constitute the majority of other loans.

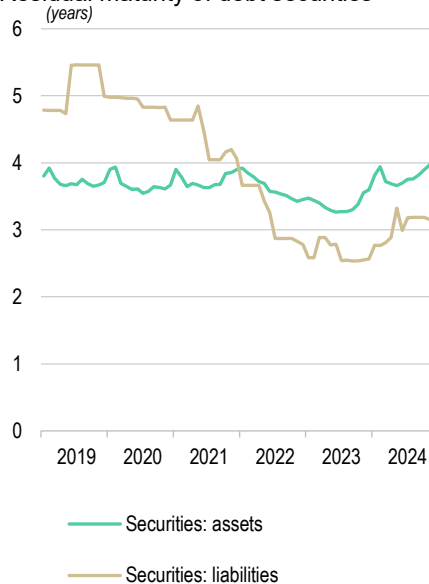
Source: Banka Slovenije

Figure 8.6: **On-balance-sheet items**

Stock of balance sheet items



Residual maturity of debt securities

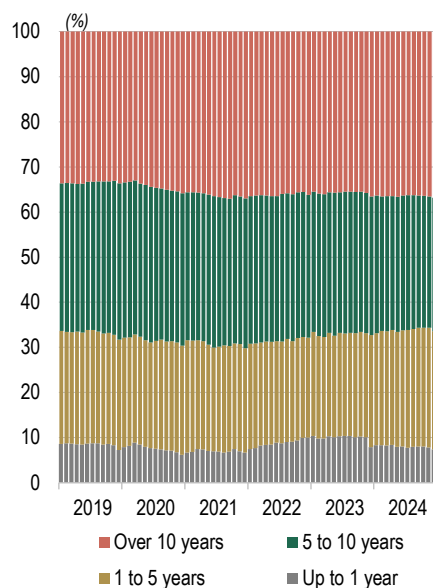


Note: Equity is excluded from funding in the left chart.

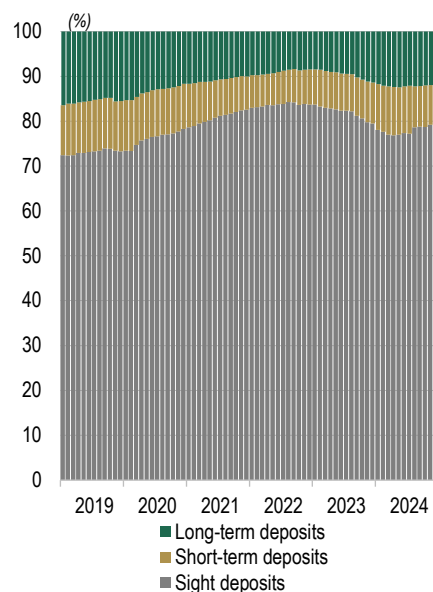
Source: Banka Slovenije

Figure 8.7: **Breakdown of loans and deposits by residual maturity**

Breakdown of loans to non-financial corporations and households by residual maturity



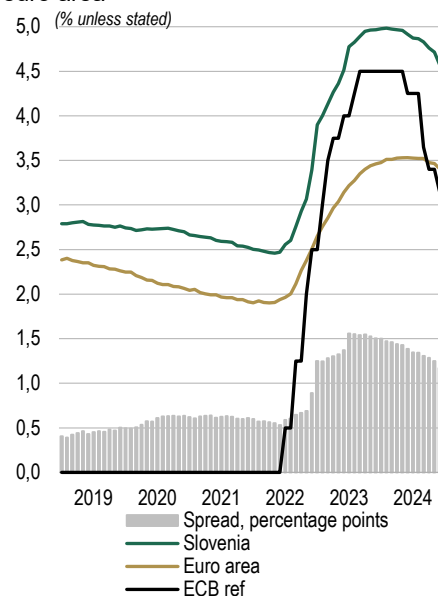
Breakdown of deposits by the non-banking sector by residual maturity



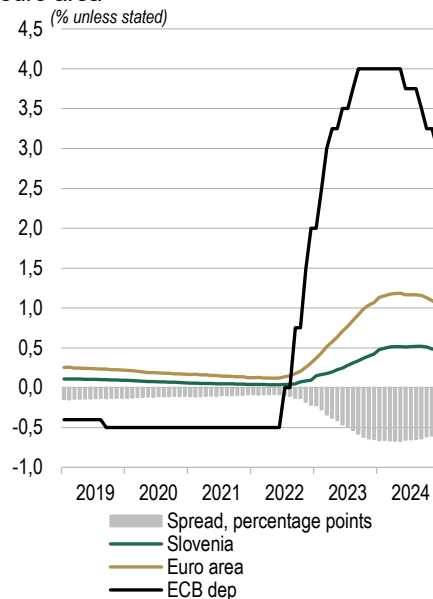
Note: Household loans in the left chart include housing loans and consumer loans, but not other loans to households.
Source: Banka Slovenije

Figure 8.8: **Interest rates**

Average interest rates on stock of loans to households and NFCs, comparison with the euro area

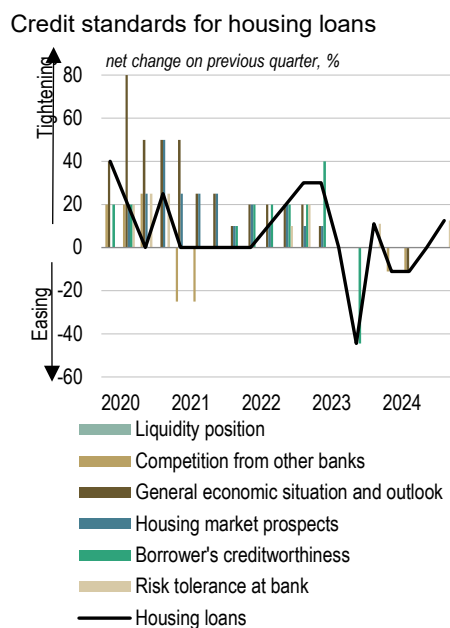


Average interest rates on stock of deposits by households and NFCs, comparison with the euro area

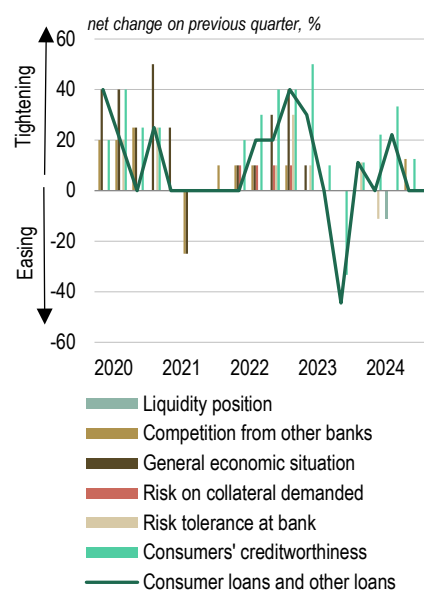


Note: ECB ref is the interest rate on main refinancing operations. ECB dep is the interest rate on the deposit facility.
Sources: ECB Data Portal, Banka Slovenije calculations

Figure 8.9: **Credit standards for household loans**



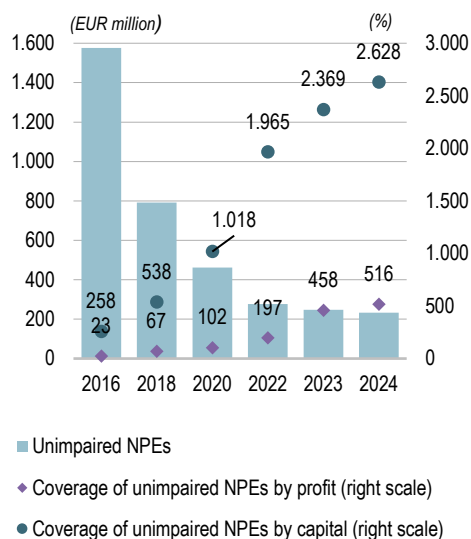
Credit standards for consumer loans



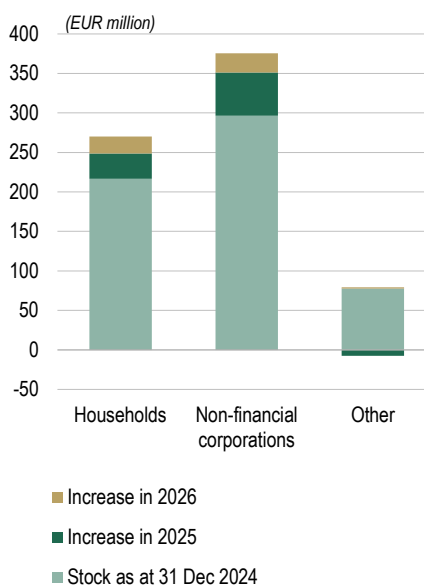
Note: Only long-term loans, which account for 88% of the loan stock, are captured under new loans in the right chart. Short-term loans were approved by banks with a slightly lower interest rate on average.
Sources: Banka Slovenije, ECB Data Portal

Figure 8.10: **Coverage of unimpaired NPEs by capital**

Ratio of capital to unimpaired NPEs



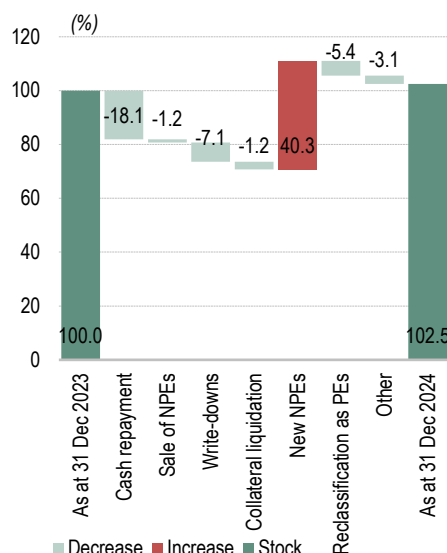
NPEs forecast according to bank survey



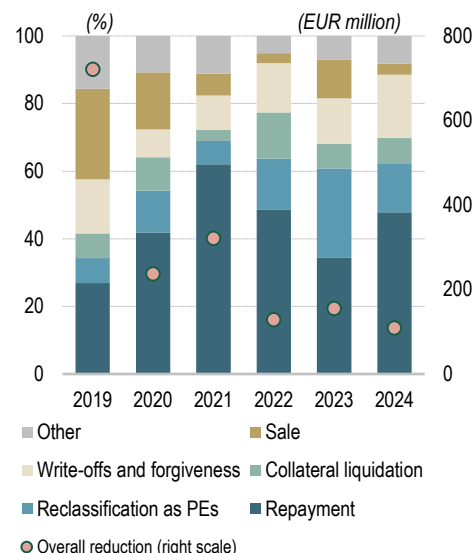
Sources: Banka Slovenije, Regular bank survey

Figure 8.11: **Reduction in NPEs to non-financial corporations according to bank survey**

Approaches to reduction and changes in NPEs to non-financial corporations in 2024



Breakdown of reduction in NPEs to non-financial corporations

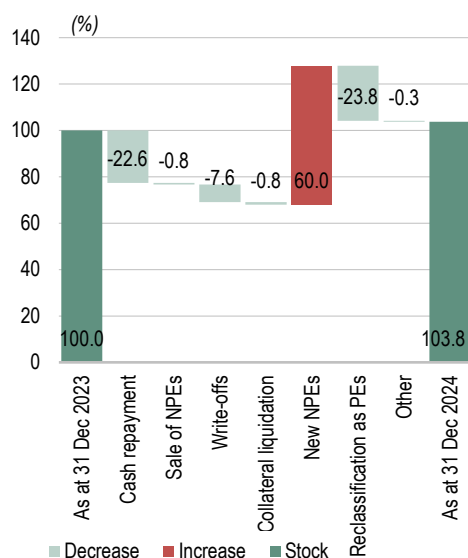


Note: The right chart illustrates approaches to reducing NPEs excluding the increase in NPEs in the individual year (the red column in the left chart).

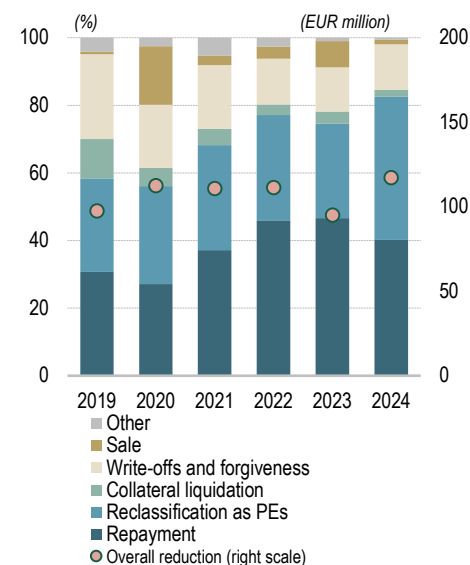
Sources: Regular bank survey, Banka Slovenije

Figure 8.12: **Reduction in NPEs to households according to bank survey**

Approaches to reduction and changes in NPEs to households in 2024



Breakdown of reduction in NPEs to households

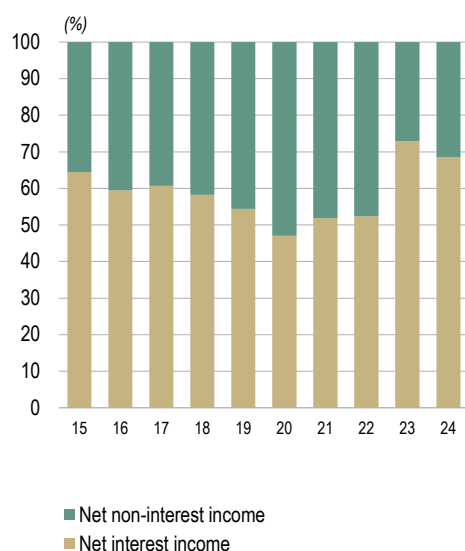


Note: The right chart illustrates approaches to reducing NPEs excluding the increase in NPEs in the individual year (the red column in the left chart).

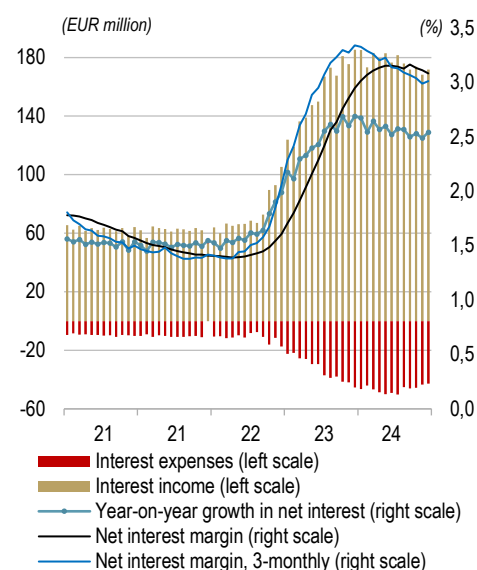
Sources: Regular bank survey, Banka Slovenije

Figure 8.13: **Breakdown of gross income and net interest income with net interest margin**

Breakdown of gross income



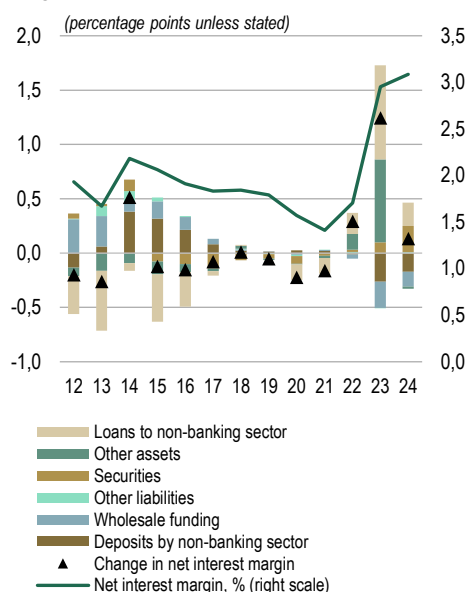
Monthly net growth in interest income, expenses and net interest margin



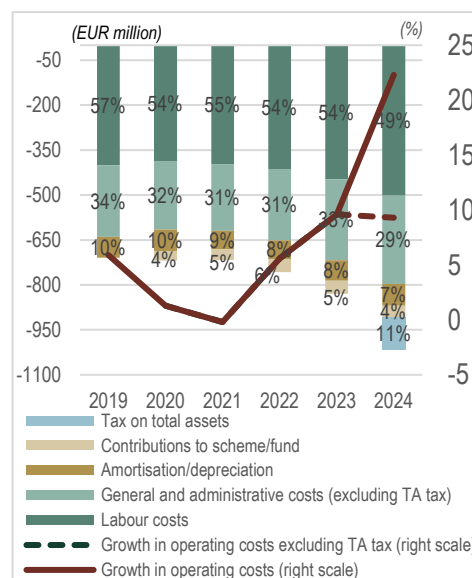
Source: Banka Slovenije

Figure 8.14: **Contributions of changes in net interest margin and operating costs**

Contributions of interest-bearing asset and liability instruments to change in net interest margin



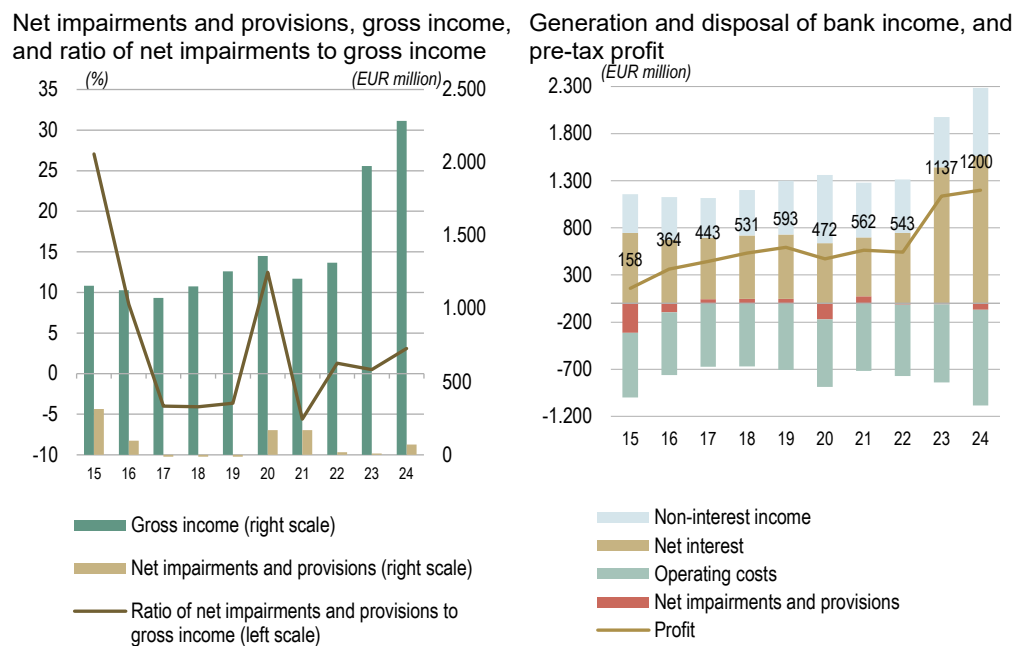
Breakdown of and growth in operating costs



Note: In the left chart the change in asset items is the sum of the contributions made by loans, securities and other interest-bearing assets, while the change in liability items is the sum of the contributions made by deposits by the non-banking sector, wholesale funding and other interest-bearing liabilities. The change in the effect of liability items is multiplied by -1, as for example a rise in liability interest rates acts to reduce the net interest margin, while a fall acts to raise the net interest margin.

Source: Banka Slovenije

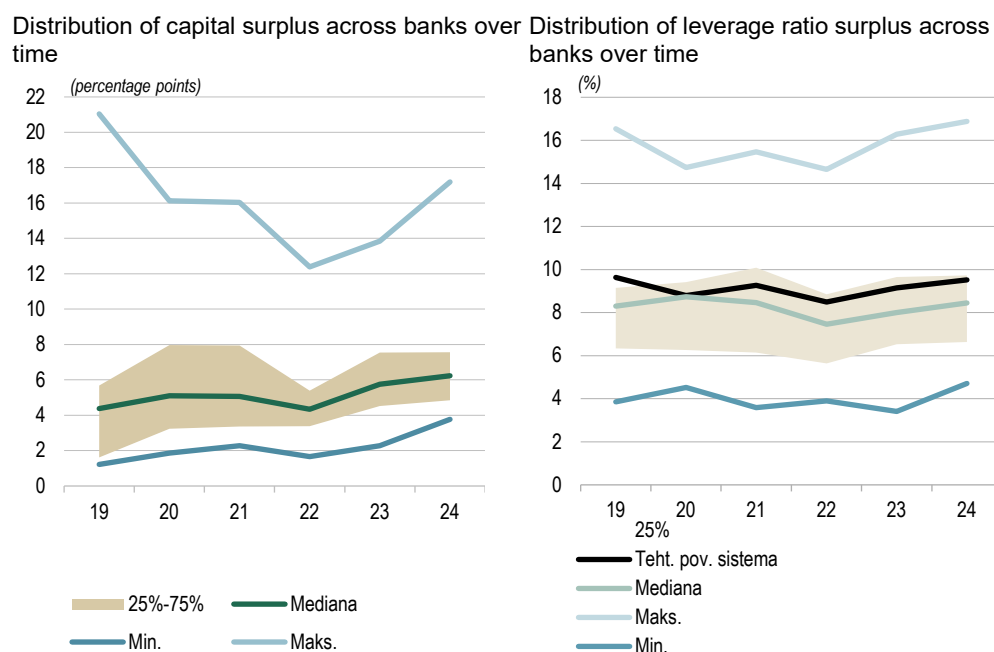
Figure 8.15: **Net impairments and provisions, bank income, and other income statement categories**



Note: Negative values for net impairments and provisions represent the net release of impairments and provisions in the left chart, and net creation in the right chart. The data for the Slovenian banking system comes from balance sheet figures on an individual basis.

Source: Banka Slovenije

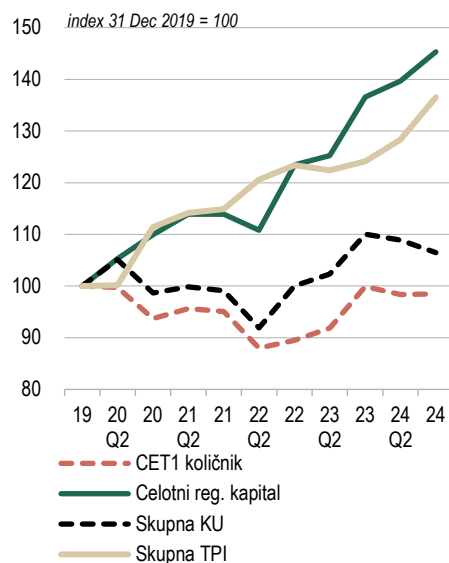
Figure 8.16: **Capital surplus and leverage ratio**



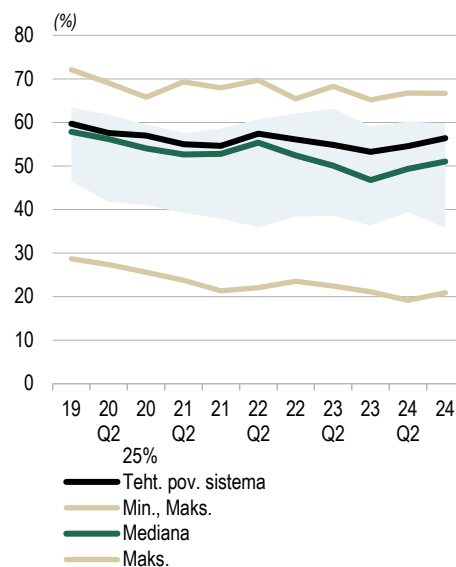
Source: Banka Slovenije

Figure 8.17: **Changes in capital ratios and distribution of risk weight**

Decomposition of change in capital ratios into main components



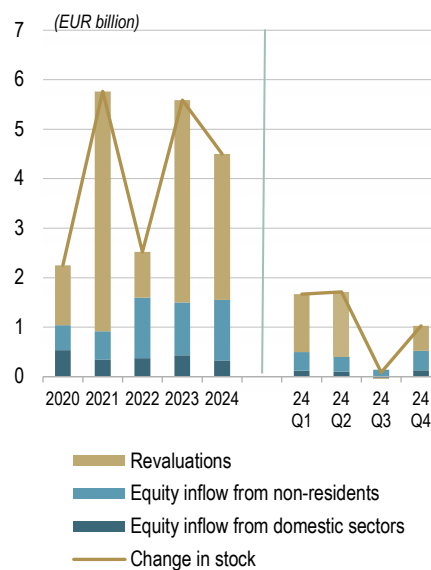
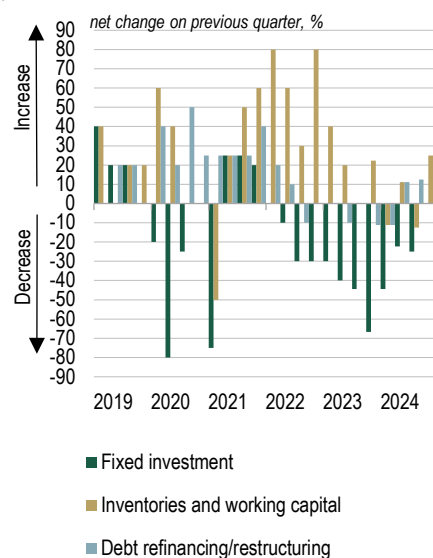
Distribution of risk weight across banks and at system level over time



Source: Banka Slovenije

Figure 8.18: **Non-financial corporations' demand for loans, and decomposition of change in equity**

Non-financial corporations' demand for loans by Decomposition of change in equity type

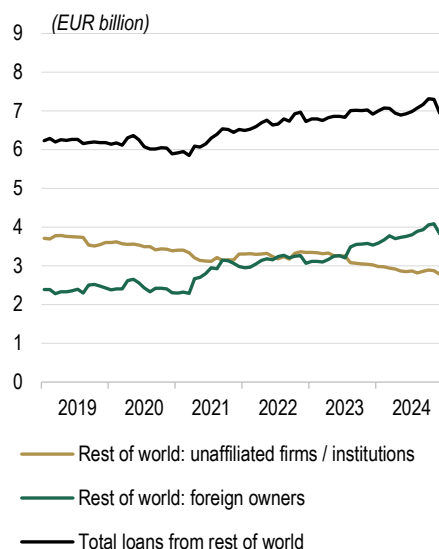


Note: In the right chart annual changes are illustrated on the left, and quarterly changes on the right.

Source: Banka Slovenije

Figure 8.19: **Lending from the rest of the world**

Stock of loans to non-financial corporations from the rest of the world by ownership link



Sources: Banka Slovenije, ECB Data Portal

Stock of trade credits to non-financial corporations from the rest of the world by ownership link

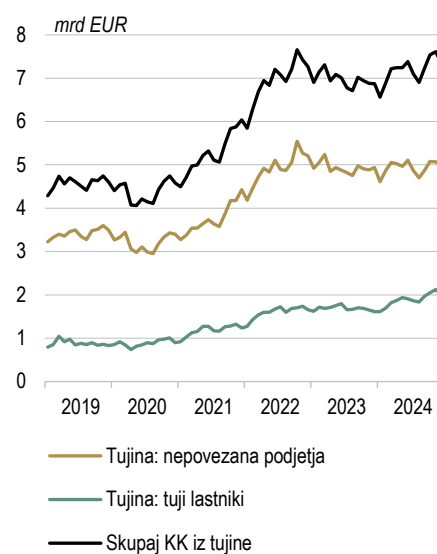
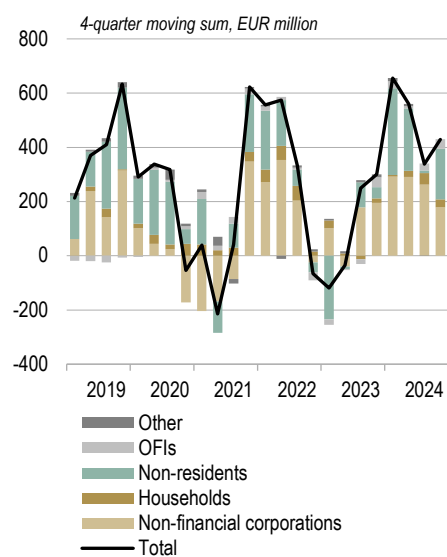


Figure 8.20: **Loans and trade credits granted to non-financial corporations**

Loans granted to non-financial corporations



Source: Banka Slovenije

Trade credits granted to non-financial corporations

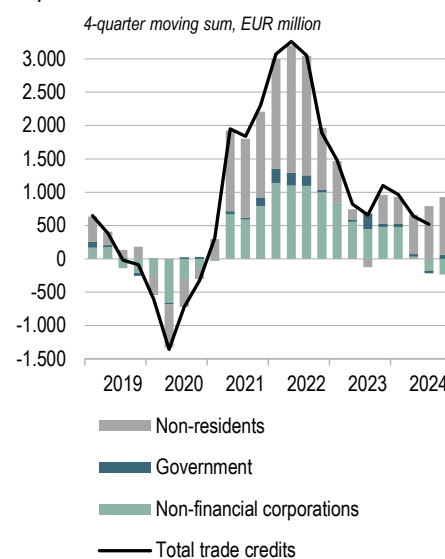
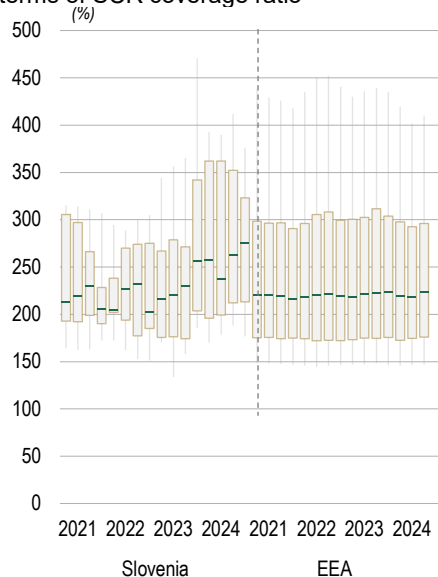
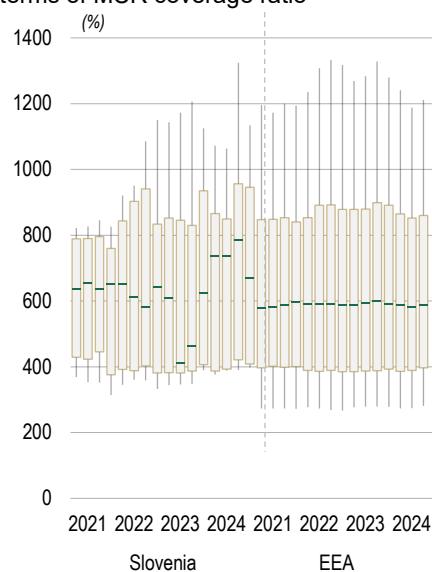


Figure 8.21: **Capital adequacy of insurance corporations**

Capital adequacy of insurance corporations in terms of SCR coverage ratio



Capital adequacy of insurance corporations in terms of MCR coverage ratio

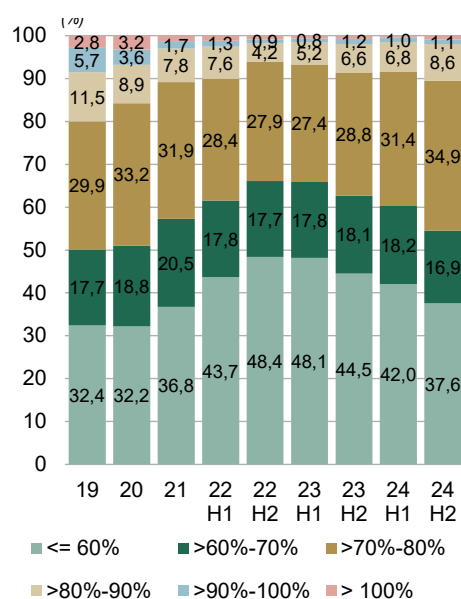


Note: The 10th and 90th percentiles are taken as the upper and lower limits. The green line illustrates the median ratio. The data for the EEA is up to the final quarter of 2024 inclusive.

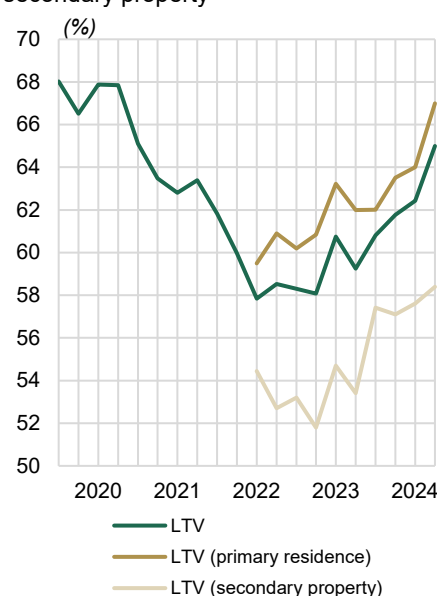
Sources: EIOPA, ISA, Banka Slovenije

Figure 8.22: **Distribution of LTV and average LTV for primary residence and secondary property**

Distribution of LTV



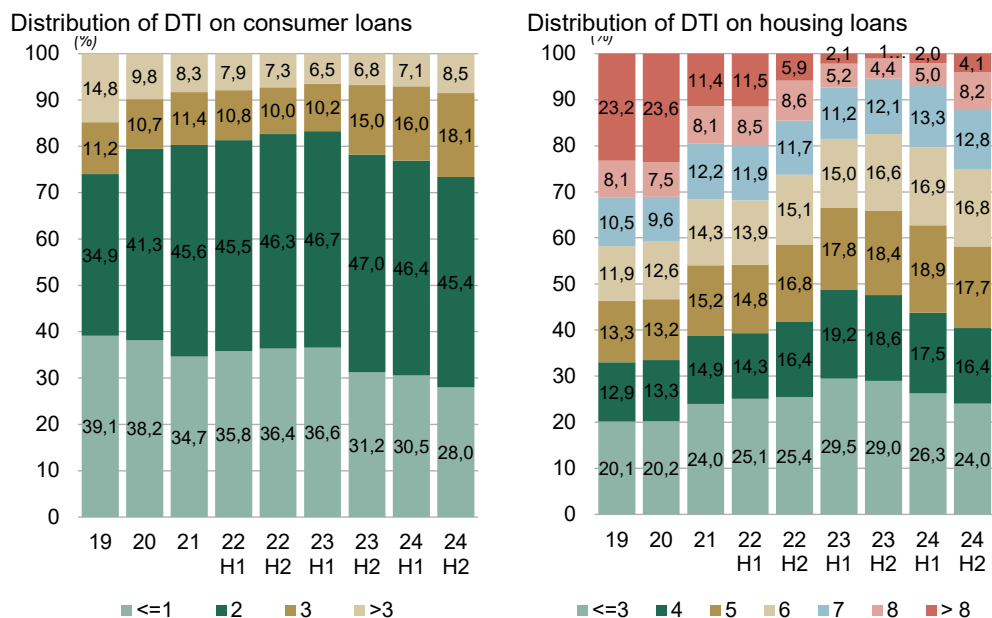
Average LTV for primary residence and secondary property



Note: The distribution is illustrated on the basis of the sum of loan amount.

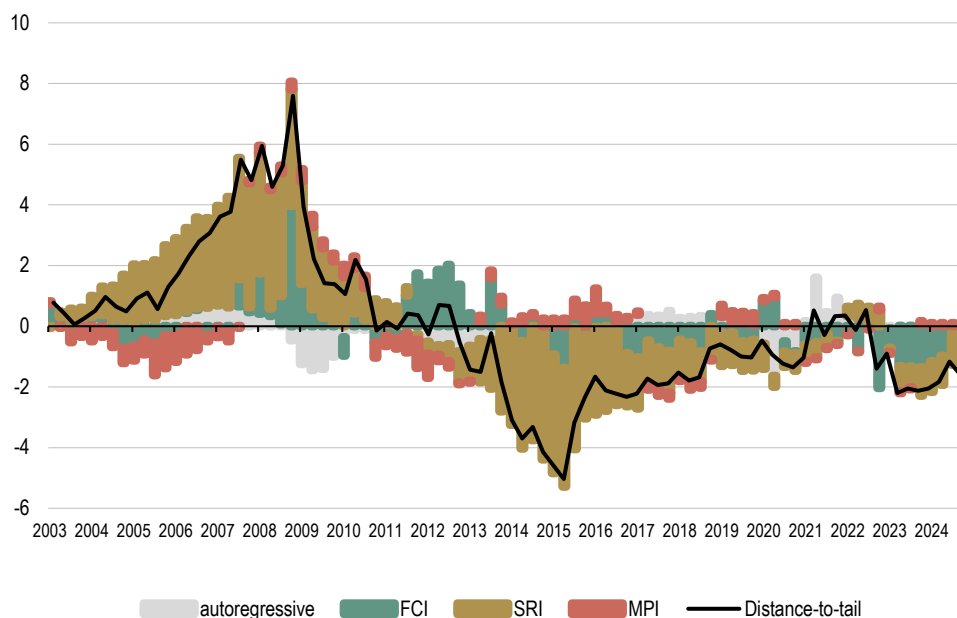
Source: Banka Slovenije

Figure 8.23: **Distribution of DTI**



Note: The distribution is illustrated on the basis of the sum of loan amount.

Figure 8.24:
Decomposition of estimated indicator of macroprudential stance (distance-to-tail) over time

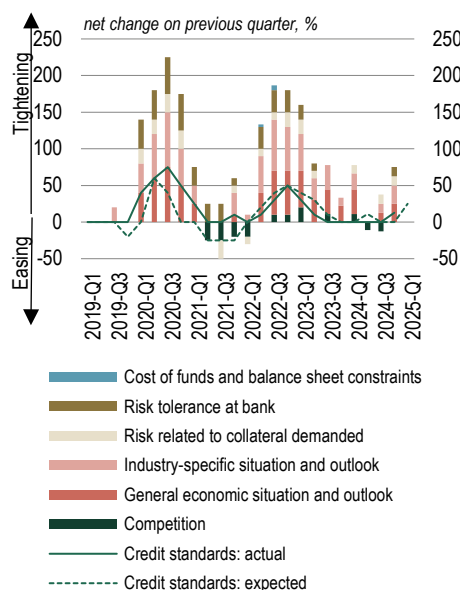


Source: Banka Slovenije

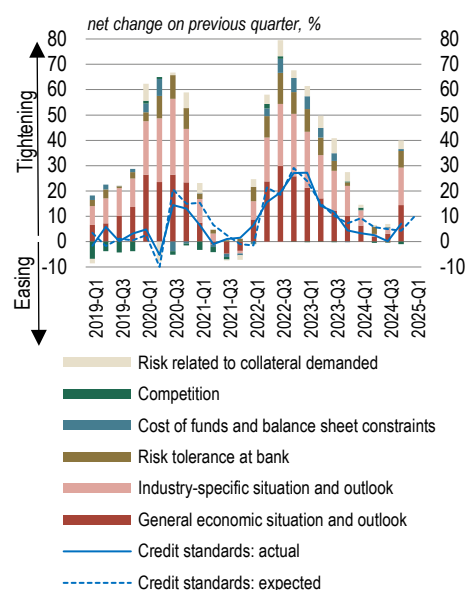
Bank Lending Survey, Q4 2024

Figure 8.25: **Changes in credit standards applied to loans or credit lines to non-financial corporations, and factors therein**

Changes in credit standards for loans to non-financial corporations in Slovenia and factors therein



Changes in credit standards for loans to non-financial corporations in the euro area and factors therein

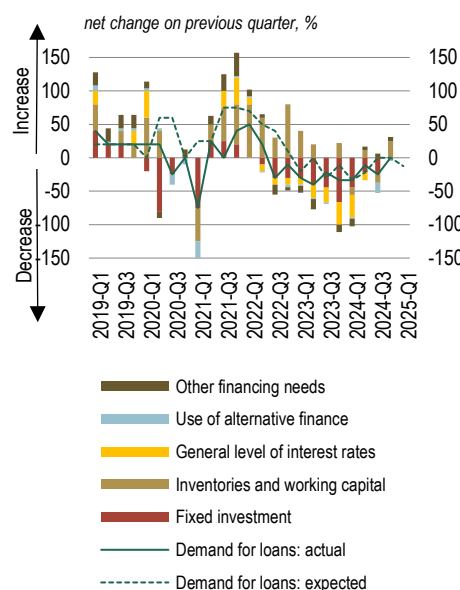


Note: "Actual" values are changes that have occurred, while "expected" values are changes anticipated by banks. The same applies in the remainder of this comparison. Net percentages are defined as the difference between the total percentage of banks answering "tightened considerably" and "tightened somewhat", and the total percentage of banks answering "eased considerably" and "eased somewhat". The same applies below, wherever standards are illustrated. In charts illustrating the euro area (right charts), the net percentage changes are weighted. Averages for certain categories in the charts for Slovenia and for the euro area are calculated as ordinary means. "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position"; "Competition" is the unweighted average of "competition from other banks", "competition from non-banks" and "competition from market financing".

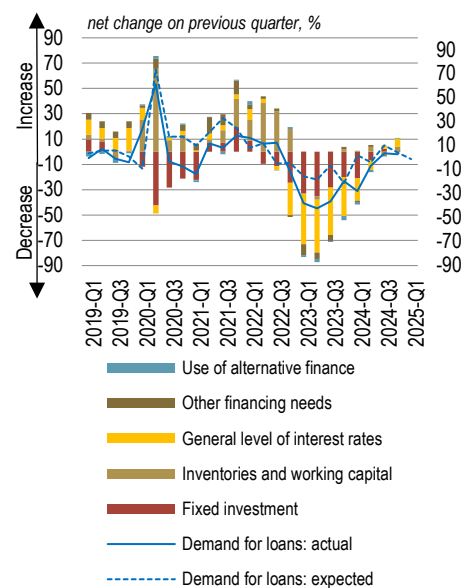
Source: Banka Slovenije

Figure 8.26: **Changes in demand for loans to non-financial corporations and factors therein**

Changes in demand for loans to non-financial corporations in Slovenia and factors therein



Changes in demand for loans to non-financial corporations in the euro area and factors therein



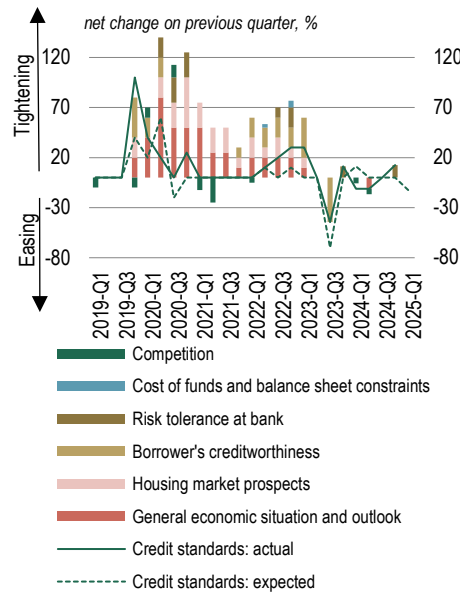
Note: Net percentages in questions about demand for loans are defined as the difference between the total percentage of banks answering "increased considerably" and "increased somewhat", and the total percentage of banks answering "decreased considerably" and "decreased somewhat". The same applies below. "Other financing needs" is the unweighted average of "mergers/acqui-

sitions and corporate restructuring” and “debt refinancing/restructuring and renegotiation”; “Use of alternative finance” is the unweighted average of “internal financing”, “loans from other banks”, “loans from non-banks”, “issuance/redemption of debt securities” and “issuance/redemption of equity”.

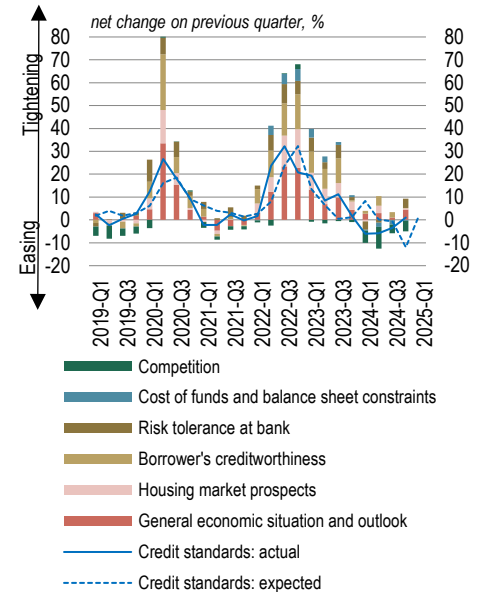
Source: Banka Slovenije

Figure 8.27: **Changes in credit standards for housing loans and factors therein**

Changes in credit standards for housing loans in Slovenia and factors therein



Changes in credit standards for housing loans in the euro area and factors therein

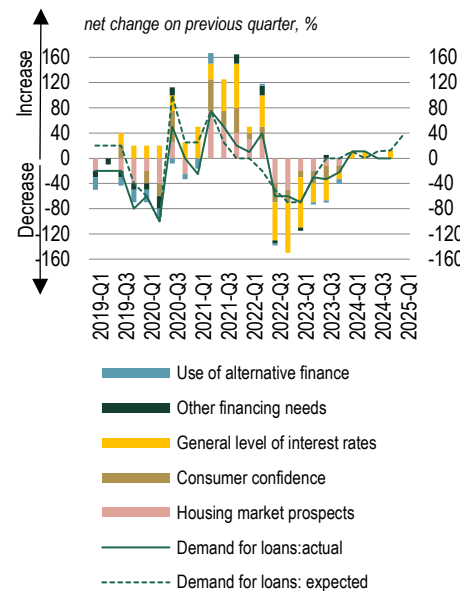


Note: “Cost of funds and balance sheet constraints” is the unweighted average of “banks’ capital and the costs related to banks’ capital position”, “access to market financing” and “liquidity position”; “Competition” is the unweighted average of “competition from other banks” and “competition from non-banks”.

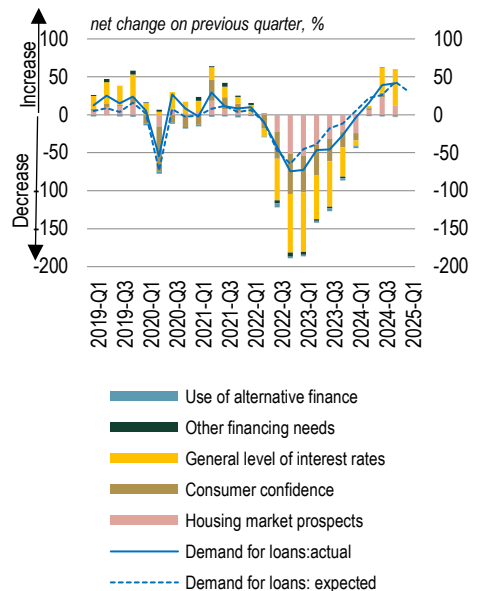
Source: Banka Slovenije

Figure 8.28: **Changes in demand for housing loans and factors therein**

Changes in demand for housing loans in Slovenia and factors therein



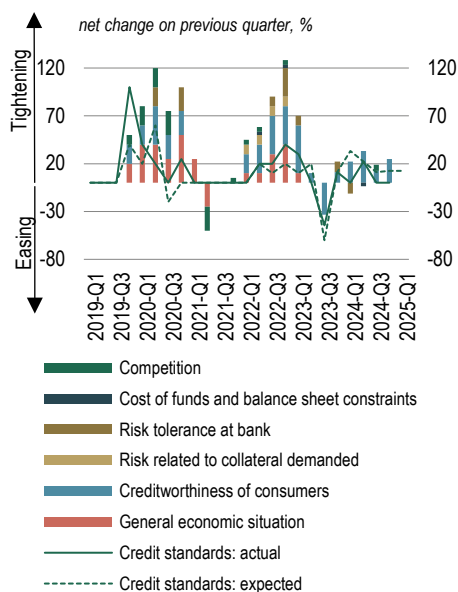
Changes in demand for housing loans in the euro area and factors therein



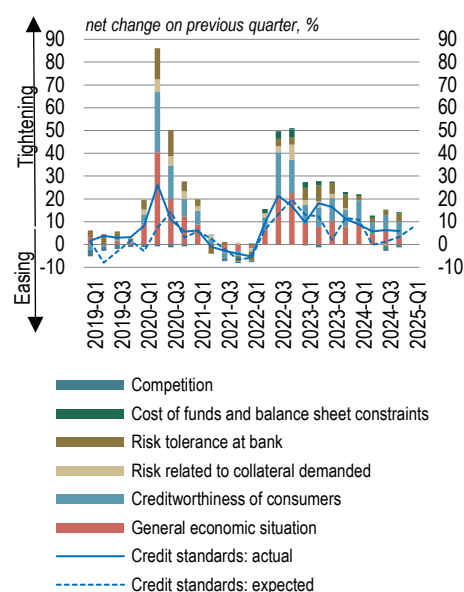
Note: “Other financing needs” is the unweighted average of “debt refinancing/restructuring and renegotiation” and “regulatory and fiscal regime of housing markets”. “Use of alternative finance” is the unweighted average of “internal finance of house purchase out of savings/down payment”, “loans from other banks” and “other sources of external finance”. Source: Banka Slovenije

Figure 8.29: **Changes in credit standards for consumer loans and factors therein**

Changes in credit standards for consumer loans in Slovenia and factors therein



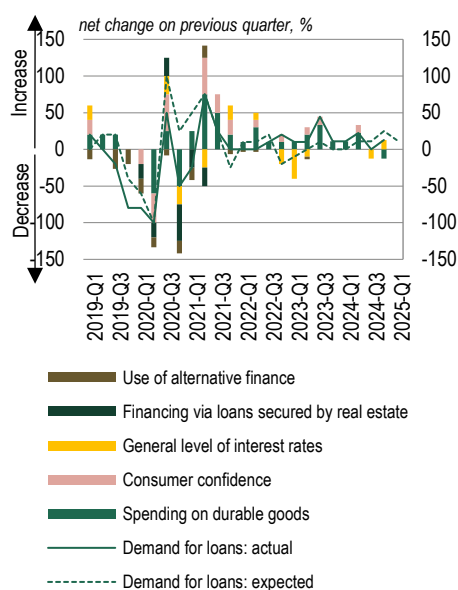
Changes in credit standards for consumer loans in the euro area and factors therein



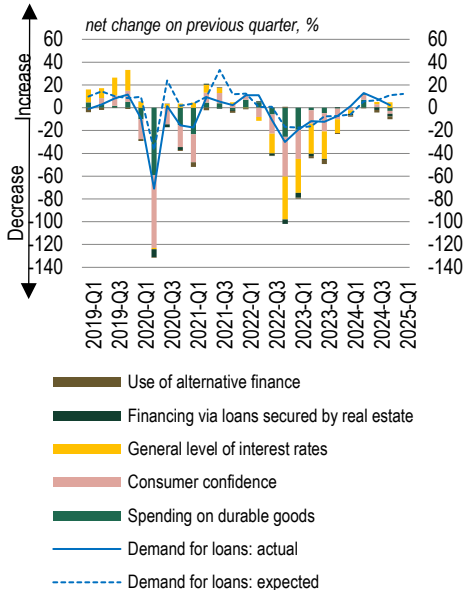
Note: "Cost of funds and balance sheet constraints" is the unweighted average of "banks' capital and the costs related to banks' capital position", "access to market financing" and "liquidity position"; "Competition" is the unweighted average of "competition from other banks" and "competition from non-banks". The detailed sub-factors under "Costs of funds and balance sheet constraints" were introduced in April 2024.
Source: Source: Banka Slovenije

Figure 8.30: **Changes in demand for consumer loans and factors therein**

Changes in demand for consumer loans in Slovenia and factors therein



Changes in demand for consumer loans in the euro area and factors therein



Note: "Use of alternative finance" is the unweighted average of "internal financing out of savings", "loans from other banks" and "other sources of external finance". "Consumption expenditure (real estate)" denotes "consumption expenditure financed through real estate-guaranteed loans".
Source: Banka Slovenije

8.1 Description of abbreviations

Abbreviations

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
APP	Asset Purchase Programme
SMA	Securities Market Agency
ISA	Insurance Supervision Agency
GDP	Gross domestic product
BLS	Bank Lending Survey
BoS	Banka Slovenije
CB	Central bank
CCyB	Countercyclical capital buffer
CET1	Common equity Tier 1 capital
CPRS	Climate Policy Relevant Sectors
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DORA	Digital Operational Resilience Act
O-SIIs:	Other systemically important institutions
DSTI	Debt-service-to-income ratio
EBA	European Banking Authority
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ECB	European Central Bank
EEA	European Economic Area
EA	Euro area (European Monetary Union)
ESRB	European Systemic Risk Board
EU	European Union
Euribor	Interbank interest rate at which representative banks in the euro area offer deposits to one another
Eurostat	Statistical Office of the European Communities
EWS	Early warning system
Fed	US Federal Reserve System
SMARS	Surveying and Mapping Authority of the Republic of Slovenia
HICP	Harmonised index of consumer prices
ILAAP	Internal Liquidity Adequacy Assessment Process
IRS	Interest rate swap
IFs	Investment funds
KDD	Central Securities Clearing Corporation
TR	Turnover ratio
LCR	Liquidity coverage ratio
LIBOR	London Interbank Offered Rate
LTROs	Longer-term refinancing operations
LTV	Loan-to-value ratio
MCR	Minimum capital requirement
IMF	International Monetary Fund
IFRS	International Financial Reporting Standards
NFCs	Non-financial corporations
NIS2	EU-wide horizontal legislation on cyber security
NPEs	Non-performing exposures
NSFR	Net stable funding ratio
MROs	Main refinancing operations
OECD	Organisation for Economic Co-operation and Development
PEPP	Pandemic Emergency Purchase Programme
PMI	Purchasing Managers' Index
P2G	Pillar 2 guidance
RCP	Representative Concentration Pathways
ROE	Return on equity
RWAs	Risk-weighted assets
RTS	Regulatory technical standards
S&P	Standard and Poor's
SCR	Solvency capital requirement
SDW	Statistical Data Warehouse
SRI	Systemic risk indicator
OCR	Overall capital requirement
SyRB	Systemic risk buffer
SORS	Statistical Office of the Republic of Slovenia
Tier 1	Tier 1 capital
Tier 2	Tier 2 capital
TLTRO	Targeted longer-term refinancing operation
RWAs	Risk-weighted assets
ZBan-3	Banking Act
ZIUPOK	Emergency Deferral of Borrowers' Liabilities Act
ZOPVTKK	Act on the Mitigation and Allocation of Currency Risk Between Lenders and Borrowers in Swiss Francs
ESS	Employment Service of Slovenia