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BANKA SLOVENIJE

EVROSISTEM

Financial Stability Review

October 2024

BANKA SLOVENIJE

EVROSISTEM

Title: Financial Stability Review

Issue: October 2024

Issued by:
Banka Slovenije
Slovenska 35, 1505 Ljubljana, Slovenia
www.bsi.si

The figures and text herein may only be used or published if the source is cited.

Data up to 30 June 2024 is used in the text, unless stated otherwise.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of 8 October 2024.

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ISSN 1581-9760

A Word from the Deputy-Governor

On this occasion, the Financial Stability Review covers the first half of the year, when the banking sector was not hit by particular shocks either globally or in Slovenia. Over the course of this year banks have strengthened their already high resilience to various risks, and the main performance indicators have remained favourable. The key risks to the banking sector continue to be posed by the external environment, while the traditional risks to the financial system are assessed as low or moderate.

Similarly to the broader European environment, banks in Slovenia ended last year with record profits. This performance was attributable to a combination of various factors: high resilience to various risks and shocks that the banking sector had been exposed to and withstood well in previous years, the past cleaning of non-performing assets from bank portfolios, which kept the need to create impairments and provisions at a relatively low level, and the change in the monetary policy stance from 2022, which the banks mostly took advantage of to adjust their pricing policy on the loan side, but not the deposit side.

The banking system also operated in similar circumstances in the first half of this year, albeit with one significant difference compared with last year. The intensive monetary policy tightening in 2022 and 2023 helped us make major progress in returning inflation to its target rate. Consequently, in June of this year we cut interest rates for the first time in two years, with an additional cut following in September. The easing of inflation significantly reduced one of the key macroeconomic imbalances in Slovenia and further afield. Interest rate cuts will have an impact on bank profitability.

Recent quarters have seen the strengthening of risks not related to the banking environment that nevertheless have a major impact on bank performance. I might mention just three consequences of the pronounced geopolitical risks of broader dimensions that we have been facing for more than two years now, but which have only been further exacerbated by the tensions in the Middle East. The impact of conflicts can be multilayered and far-reaching.

While the energy shock from the outbreak of the war in Ukraine has waned (which has been a factor in the fall in inflation), there remains great uncertainty in the broader environment. This is being reflected in slowing economic growth, particularly in manufacturing. The projections for the upcoming period are forecasting moderate economic growth in Slovenia and in the euro area overall, which will never reach the levels seen before 2022, when growth was very high, with the exception of the pandemic year of 2020. While services are still supporting economic growth, a further contraction is expected in manufacturing, while the outlook in its largest trading partner is particularly unfavourable for Slovenia.

One of the consequences of rising geopolitical tensions is the restriction and fragmentation of global trade. In addition to helping drive the developments described in the previous paragraph, this could also bring changes to international capital flows. In the wake of even minor unforeseen deteriorations in the geopolitical situation, these changes might be reflected in increased instability on the financial markets, which given the interconnectedness and interdependence of financial institutions could quickly be transmitted to smaller financial systems.

A third risk factor is strongly, although not exclusively, linked to geopolitical tensions. Cyber risk has been strengthening markedly in recent years, particularly since the outbreak of the war in Ukraine. The number of critical cyberattacks on banking institutions

and further afield in the EU is rising, although their impact remains limited at least for now. It was for this reason that the Single Supervisory Mechanism again conducted targeted stress tests this year on the subject of cyber risks, which showed that a hypothetical cyberattack would have no major impact on the operation of key economic functions, and thus no major impact on financial stability. Nevertheless, it is vital to be aware of (new) risks of this kind, and to give them proper attention.

The short-term systemic risks remain relatively low, while the medium-term and long-term structural issues in the Slovenian banking sector have remained unchanged for some time now. The banks are still facing relatively weak demand for loans from non-financial corporations, which they are trying to compensate for by lending to households, particularly via relatively expensive (for consumers) consumer loans. Conversely the banks are still predominantly funded via sight deposits, with bank customers mostly not opting to fix their deposits despite the slightly more favourable interest rates on fixed-term deposits (particularly at longer maturities.)

Barring any unforeseen events in the final quarter of the year, the banking sector will again perform very well this year. According to the latest figures, the banking system's pre-tax profit is actually up on the same period last year. This will again allow the banks to strengthen their resilience, given that – as we see – the challenges facing the banking sector are not letting up: with everything else remaining unchanged, the cuts in central bank interest rates will pressure banks to reduce their margins in the upcoming quarters, while the broader uncertainties might be reflected over the medium term in a deterioration in the quality of their portfolios.

These challenges are also being at least partly addressed by our macroprudential policy, where our powers allow us to do so. After several changes last year, we have made no changes to the macroprudential policy toolkit this year, although a number of decisions made last year will come into force at the beginning of next year. Our macroprudential policy is still focused on enforcing the right credit standards and thus reducing risk, credit risk in particular, and also on strengthening the banking system's resilience to various risks. The change of approach in the countercyclical capital buffer and its increase by half a percentage point from the beginning of next year is an additional step in this direction. From the banks we expect additional consideration how various factors will impact their future performance, and how they will adapt their pricing policy, their credit standards, their range of services and, not least, the measures to strengthen their resilience to risk to these circumstances.

Dr Primož Dolenc

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Executive Summary

The general level of risk to financial stability in Slovenia has improved further since the spring, and the banks' resilience to systemic risks remains high (see Table 1.1). The global economy remains in thrall to geopolitical tensions in several regions. In light of the expected short-term weakness in economic growth, with an improvement likely over the following years, and given the trend of falling inflation, the euro area took the decision in September to lower its key interest rates for the second time this year. Despite the interest rate cuts, our expectation is that the profitability of the banking system will remain at a similar level to 2023. This might also be reflected in a rise in capital adequacy indicators over the upcoming quarters if the banks retain some of their high profits this year and allocate them to reserves. With indicators showing sustained favourability, the assessment of credit risk was reduced to low in the second quarter of this year. The real estate market has seen a continued rise in residential real estate prices, and renewed strengthening of housing loans. As a result, the risks inherent in the real estate market are expected to increase over the upcoming quarters. Cyber risk remains elevated on account of geopolitical tensions, and the resulting likelihood of increased activity by hacker groups. The other risks continue to be assessed as low or moderate, with a stable outlook over the upcoming quarters.

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

	Risk and Resilience Dashboard									
	Q4 2021	**Q4 2022**	**Q1 2023**	**Q2 2023**	**Q3 2023**	**Q4 2023**	**Q1 2024**	**Q2 2024**	**Q3 2024**	**Trend of change**
Systemic risk										
Risk inherent in the real estate market	elevated	elevated	elevated	moderate	moderate	moderate	moderate	moderate	moderate	⇧
Funding risk in the banking system	moderate	moderate	moderate	moderate	moderate	moderate	moderate	moderate	moderate	⇨
Interest rate risk in the banking system	moderate	elevated	elevated	elevated	elevated	elevated	moderate	moderate	moderate	⇨
Credit risk in the banking system	elevated	elevated	elevated	elevated	moderate	moderate	moderate	low	low	⇨
Income risk in the banking system	elevated	moderate	moderate	moderate	low	low	low	low	low	⇨
Risk inherent in leasing companies	moderate	moderate	moderate	moderate	low	low	low	low	low	⇨
Resilience to systemic risks										
Solvency and profitability of the banking system	medium	medium	medium	medium	medium	medium	high	high	high	⇨
Liquidity of the banking system	high	high	high	high	high	high	high	high	high	⇨
Other risks										
Cyber risk	moderate	moderate	moderate	moderate	moderate	moderate	elevated	elevated	elevated	⇨
Climate risks*	moderate	moderate	moderate	moderate	moderate	moderate	moderate	moderate	moderate	⇨

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 an 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.
* Transition risks are taken into account under climate risks.
Source: Banka Slovenije

The situation and outlook in the broader macroeconomic environment remain relatively favourable, albeit exposed to more downside risks. Economic growth over the remainder of the year is forecast to be slightly weaker than previously projected in the euro area overall and also in Slovenia, but according to the latest projections, is forecast to strengthen slightly over the next two years. Inflation has been falling since the spring, which led to a second cut in key interest rates in the euro area in September. Amid high employment, the Slovenian labour market remains robust, while the current account is showing a substantial surplus. The realisation of this relatively favourable economic outlook is subject to geopolitical and other risks. One cause for concern is rising public debt in numerous advanced economies, while the curtailment of global trade is being reflected in changes in financial flows, which in the future could trigger instability on the financial markets.

The risk arising from the real estate market remains assessed as moderate, however we expect its increase. Despite a falling number of sales, residential real estate prices are rising on account of limited supply and increased demand. The latter is being driven by low unemployment, wage growth, and low household indebtedness. With interest rates falling, the stock of housing loans is once again rising quickly. There are similar developments on the commercial real estate market, where price volatility is slightly greater due to of the small size of the market.

The assessment of funding risk in the banking system remains at a moderate level with a stable outlook. The maturity gap at banks remained virtually unchanged. Sight deposits, which account for the majority of household deposits and deposits by non-financial corporations, remain the key factor in the maintenance of the large gap. The deposits of the aforementioned sectors remain the most important and stable source of funding for Slovenian banks.

With only minor changes in interest-sensitive categories, interest rate risk remains assessed as moderate with a stable outlook. The repricing gap at banks in the first half of this year was slightly wider than in the second half of last year. On the asset side this was attributable in particular to investments in securities, which drove a lengthening of the average repricing period for assets, while the main factors on the liability side were an increase in the share of fixed-term deposits in early 2024 and an increase in issued debt securities. The onset of interest rate cuts also brought a slight narrowing in the interest spread.

In the second quarter of this year, we lowered the assessment of credit risk in banks to the lowest level. The NPE ratios and the share of Stage 2 exposures remain low, while the banks’ exposure to firms in bankruptcy remains negligible, despite a moderate rise in the number of bankruptcy proceedings initiated. After this year’s initial deterioration in NPE ratios in the consumer loans portfolio, they declined over the following months, but the rise in the share of Stage 2 exposures warns of increased risk in this portfolio segment.

The assessment of income risk remains low. The period of rising interest rates brought a sharp improvement in the conditions for generating income faced by the banks. Slovenia having previously recorded among the highest rates in the euro area and the EU, growth in net interest income began to gradually slow as the interest rate hikes came to an end. We expect that bank income over the remainder of the year will not be down significantly on the level recorded last year, despite further cuts in interest rates and the prepayment of the tax on total assets, which is raising operating costs in the banking system.

The cyber risk assessment remains elevated with a stable outlook, while climate risk remains at a moderate level. The banks are not reporting any rise in the number of critical cyber incidents in the second quarter of this year compared with 2023, but the cyber threat nevertheless remains at a high level. Amid increased geopolitical risks and a global rise in cyber threats, the number of cyberattacks on the banking system could rise in the future. The indicators of transition risks, on whose basis we monitor climate risks, have improved further since 2023 as a result of the reversal in the credit cycle. The banks' exposure to climate-sensitive sectors declined, and a further improvement is discernible in the carbon indicators.

The resilience of the banking system from the perspective of solvency and profitability remains high. Our assessment is that the good profitability resulting from persistently high net interest income will continue to be enjoyed by the banks in the second half of this year amid unchanged conditions. The favourable developments in profitability might also be reflected in the total capital ratio at the end of 2024, should the banks again retain some of their profits or allocate them to reserves this year. Profits will be hit by the tax on total assets, while any increase in credit risk or rise in the risk-weighted assets for operational risk in the future could have an adverse impact on the total capital ratio.

Resilience in the segment of liquidity also remains high and stable. Already high, the LCR and the NSFR improved further at the system level. The redirection of funds from accounts at the central bank to holdings of debt securities brought a slight deterioration in the liquidity structure. Most of the banks have maintained high resilience to systemic risks, although there remain considerable differences in the sizes of their liquidity surpluses.

The financial position of households and non-financial corporations remained good in the first half of this year. There has been an improvement in consumer confidence, a slight increase in the saving rate, and a moderate increase in debt financing at non-financial corporations. Real wage growth has been strengthening since mid-2023 amid the ongoing fall in inflation. The ratio of the stock of consumer loans to GDP has increased, but Slovenian households remain considerably less indebted than those in the euro area overall. Debt financing of non-financial corporations increased slightly, in the wake of modest growth in loans and trade credits. Corporate demand for bank loans fell, mainly because of high interest rates, while there was a rise in the number of bankruptcy proceedings initiated and the number of account freezes, but given the financial soundness of the economy there is no expectation of major deteriorations.

The non-banking financial sector faced relatively favourable business conditions in the first half of the year. The risk inherent in the performance of leasing companies is assessed as low. After declining in the third quarter of 2023, new leasing business is strengthening again. Despite a decline in profitability driven by higher finance expenses, leasing companies saw their total assets and their turnover strengthen, and arrears remain low. The insurance sector recorded high profits, despite large claims payments and a decline in gross written premium as a result of the abolition of supplemental health insurance. The reinsurance corporations also recorded growth and profits. The international trend of rising stock markets, driven primarily by the expectation of interest rate cuts and the gains by tech firms, has been reflected in the domestic mutual funds, which achieved record net inflows.

Macroprudential policy remains focused on maintaining the resilience of the banking system. The banking system is still facing macroeconomic and geopolitical uncertainties, namely risks predominantly posed by the external environment. This is

likewise the case for other EU Member States, which has also been reflected in their macroprudential policies. Given the banks' high profitability, we are making use of capital-based measures to improve their level of resilience both to unpredictable economic shocks and uncertainties, and to various systemic and other risks. Through the measure restricting household lending we are encouraging more sustainable household borrowing, thus increasing the resilience of borrowers, thereby reducing the credit risk faced by banks.

This publication includes four boxes dedicated to specific themes. The first concerns the possibility of using online data to monitor the situation on the real estate market. The second encompasses a review of exposure to market risk, specifically examing banks' derivatives transactions and securities financing transactions. The third box describes the cyber stress tests conducted this year, which analysed the consequences of a severe but plausible cyberattack on banks. The fourth and final box analyses indicators of physical climate risks for bank exposures to households and non-financial corporations.

1 Macroeconomic Environment

Growth in the global economy has mainly been driven this year by services, while growth in manufacturing activity has been weak. Rising public debt remains a cause for concern in advanced economies, while the curtailment of global trade is being reflected in altered financial flows. This is increasing the risk of future financial instability, while limiting the possibilities for fiscal policy to take action. After moderate growth last year, the euro area economy has continued its weak expansion this year. In Slovenia, where GDP increased by 2.1% last year, growth has slowed visibly this year, and sentiment is only gradually improving. In the wake of year-on-year falls in energy prices, headline inflation has fallen below the monetary policy medium-term target rate, but core inflation remains above it amid high service price inflation. The global financial sector is again performing above expectations this year, and the banking sectors in Slovenia and in the euro area overall are still generating above-average net interest income.

Global economy

Global economic activity has been strengthening moderately this year, driven primarily by services. This is reflected in the composite PMI for the global economy, which remains in the zone of expansion, and above its average for the current year (see Figure 8.1, left, in the appendix). While growth has been primarily driven by services, growth in manufacturing activity has been weak this year, and the manufacturing PMI entered the zone of contraction for the first time this year in July and August. The ECB's latest forecasts for global economic growth (excluding the euro area) from September remain similar to the previous projections, and below the long-term average.[1] A number of risks remain present, such as persistently elevated service price inflation, and price pressures deriving from global trade tensions and geopolitical tensions.[2] In the service sector the risk of persistently elevated inflation is significantly related to the tightness of the labour market and to wage increases, given that labour accounts for a large proportion of costs. Nominal wage growth remains high, is outpacing inflation in certain countries, and mainly reflects the outcome of negotiations on wage increases. Despite the recent risks of higher inflation, whether headline or core, given the easing of inflation expectations the markets are now expecting a slightly faster pace to the interest rate cuts by central banks, particularly in the US, which could be a significant factor in future economic growth, and with it stronger lending activity by the banking sector.

Euro area and Slovenia

The euro area economy has seen only sluggish growth this year, with manufacturing the main factor holding it back. After last year's weak growth,[3] economic activity in the euro area has continued to strengthen only moderately this year. GDP in the second quarter was up 0.6% in year-on-year terms,[4] while the composite PMI slid

[1] Following growth of 3.5% in the global economy last year, the ECB's September projections raised the growth forecast for this year (excluding the euro area) by 0.1 percentage points from the June projections to 3.4%. It also raised the forecasts for 2025 and 2026 by 0.1 percentage points to 3.4% and 3.3% respectively (ECB staff macroeconomic projections for the euro area, September 2024).

[2] According to the latest ECB projections (from September), global inflation (excluding the euro area) is forecast to slow from 5.0% last year to 4.2% this year, and then to 3.3% in 2025 and 2.8% in 2026 (ECB staff macroeconomic projections for the euro area, September 2024).

[3] Euro area GDP grew by 0.5% in 2023.

[4] According to seasonally and calendar-adjusted figures.

into the zone of contraction in September (see Figure 8.1, right, in the appendix). The situation remains particularly difficult in manufacturing, where the PMI has been indicating contraction since July 2022. The services PMI also declined visibly in September. The difficult situation is also being reflected in the economic sentiment, which remained low in September, and in industry and construction has in recent months been at its lowest level since 2020 (see Figure 8.2, left, in the appendix). The forecasts for this year's economic growth in the euro area according to the ECB's latest projections are down slightly on the previous projections.[5]

Growth in the domestic economy slowed in the first half of the year, with the decline in construction activity particularly notable. After recording moderate growth last year,[6] GDP in the second quarter was up 0.8% in year-on-year terms.[7] The biggest contributors to growth were government consumption and changes in inventories, while net trade made a significant negative contribution amid difficult conditions on export markets and higher growth in imports (see Figure 8.3, left, in the appendix). The services trade surplus continues to be the main factor in the current account surplus, and the labour market remains robust amid a record high workforce in employment (see Figure 8.3, right, in the appendix). Economic sentiment has been gradually improving this year, but the economic sentiment indicator remained in negative territory in September (see Figure 1.1, left). Construction is notable for its deterioration in confidence this year, with a large decline in the amount of construction put in place and in total order books, although activity in the sector remains high despite declining.[8] By contrast, the sentiment in manufacturing and among consumers has been improving slightly, but remains in negative territory for both, while confidence in services and retail remains stable and positive. The latest forecasts for economic growth in Slovenia are lower than the previous projections.[9]

[5] According to the latest ECB projections (from September), economic growth in the euro area is forecast to strengthen from 0.5% last year to 0.8% this year, and then to 1.3% in 2025 and 1.5% in 2026 (ECB staff macroeconomic projections for the euro area, September 2024).

[6] GDP growth in Slovenia stood at 2.1% in 2023.

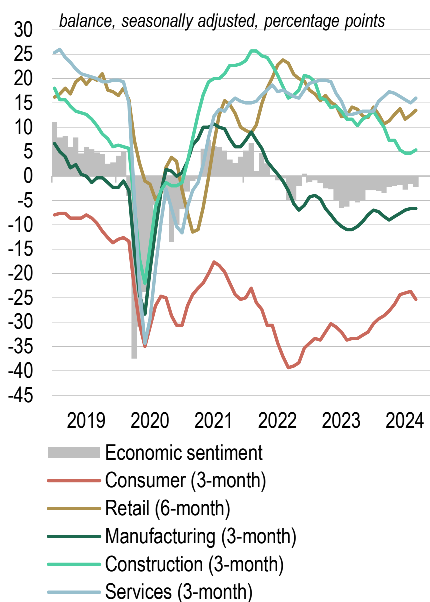
[7] It increased by 0.7% according to unadjusted figures.

[8] See also the section on risk inherent in the real estate market (page 8).

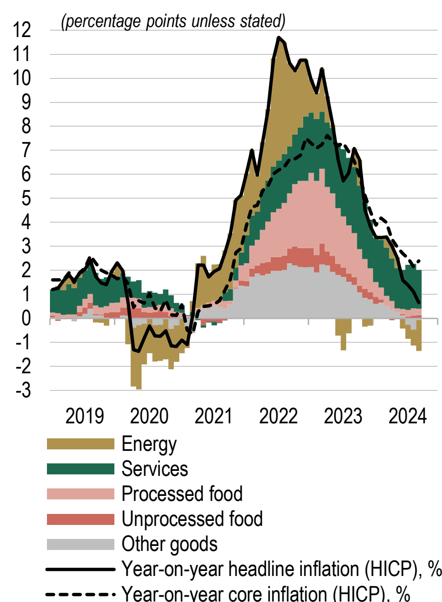
[9] According to the latest projections (from September) by the IMAD, economic growth in Slovenia will slow from 2.1% last year to 1.5% this year, before strengthening again to 2.4% in 2025 and 2.5% in 2026 (IMAD, Autumn Forecast of Economic Trends, September 2024).

Figure 1.1: **Economic sentiment and inflation in Slovenia**

Confidence indicators and economic sentiment



Breakdown of headline inflation (HICP) and core inflation



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, Banka Slovenije calculations

Domestic inflation slowed significantly in the wake of falling energy prices and prices of other goods. At 0.7% in September, it was below the monetary policy medium-term target rate for the fourth consecutive month (see Figure 1.1, right). It was also significantly lower than the euro area average of 1.8% (see Figure 8.2, right, in the appendix). Core inflation rose to 2.4% in September, and continued to outpace headline inflation amid strong service price inflation.

Financial and banking sector

This year the global financial sector is again performing better than in previous years, with high growth of risky assets and low risk premiums. The persistence of the uncertain inflation outlook in the first half of this year gave rise to considerable caution on the part of central banks with regard to the pace of monetary policy easing, but the inflation expectations in Europe recently hit their lowest levels in almost two years. Investors therefore believe that central banks can lower their interest rates without the risk of a resurgence of price pressures. After the first cut in June of this year and the maintenance of this level in July, the Eurosystem again lowered its key interest rates in September.[10] Financing conditions under this monetary policy stance nevertheless remain sufficiently restrictive to restore inflation to its medium-term target of 2%. Government bond yields and risk premiums have fallen overall this year (see Figure 8.4, left, in the appendix), which has eased financing costs. Rising public debt in advanced economies remains a concern, in that it is reducing the ability to make use of fiscal measures and increasing doubts about the proper evaluation of risks in the event of a recession.The majority of stock markets have risen sharply this year (see Figure 8.4, right, in the appendix), but there was a major correction in early August amid slightly weaker-than-expected data from the US labour market. Volatility also increased significantly, although the situation had normalised by mid-August.The curtailment and fragmentation of global trade caused by rising geopolitical tensions might also lead in the

[10] The interest rates on main refinancing operations, the marginal lending facility and the deposit facility were lowered to 3.65%, 3.90% and 3.50% respectively (ECB, September 2024).

future to the fragmentation of capital flows, with an impact on debt valuations. In the wake of even minor unforeseen deteriorations in the geopolitical situation, this might be reflected in increased instability on the financial markets, which given the interconnectedness and interdependence of financial institutions could quickly be transmitted to smaller financial systems.[11]

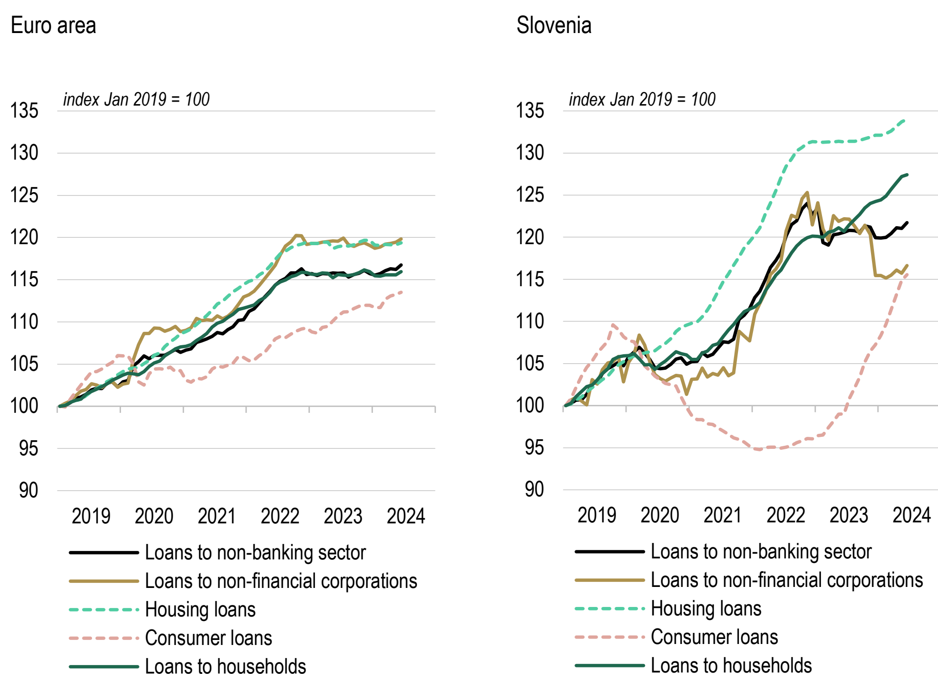
Despite weak lending activity, the banking sectors in the euro area and in Slovenia are still generating above-average net interest income. The higher interest rates compared with previous years are again having a favourable impact this year on European banks' net interest income, although this effect is gradually waning amid rising funding costs and weaker lending. Lending to the non-banking sector has strengthened slightly this year in the euro area overall (see Figure 1.2, left). Banks reported a further decline in non-financial corporations' demand for loans in the second quarter, driven largely by high interest rates and weak capital expenditure, but they expect a moderate rise in demand in the third quarter. The improvement in housing market prospects, the general level of interest rates and consumer confidence were factors in the rising demand for housing loans and consumer loans, with a further increase expected for both types of loan in the third quarter.[12] The differences between the different types of loan in domestic lending activity have widened further this year (see Figure 1.2, right). Lending to non-financial corporations was modest, and the loan stock remained well below its level from June of last year. Conversely there was a sharp increase in consumer lending, supported by last year's changes in the macroprudential restrictions on consumer lending, while housing loans recorded moderate growth.[13]

[11] Rising geopolitical tensions are becoming an increasingly important factor in curtailing global trade, and consequently in a more restricted flow of capital than that seen in the past. The recent rise in political disputes between major economic and political powers has begun to be reflected in the curtailment of trade in strategic products and commodities, the rise in energy price volatility, and the more common introduction of protectionist measures in international trade (tariffs, embargos, etc.). The curtailment of global trade and the rise in protectionism could also lead to increased variability and unpredictability in international capital flows. This would increase the risks to financial markets and financial systems via more frequent and larger fluctuations in the prices of financial instruments.

[12] Bank Lending Survey, July 2024.

[13] Year-on-year change in loan stock, June 2024: loans to non-banking sector: 1.0%; loans to non-financial corporations: -4.5%; household loans: 5.5%; housing loans: 2.0%; consumer loans: 16.7%.

Figure 1.2: **Credit activity**



Sources: ECB Data Portal, Banka Slovenije, Banka Slovenije calculations

Risks to domestic economic growth posed by the financial sector

One of the tools for analysing financial stability is growth-at-risk framework.[14] It links indicators of financial stress and financial vulnerability and macroprudential policy with future tail risks[15] to real GDP growth. The estimates of growth-at-risk flexibly capture the non-linear interaction between shocks from the financial system and economic outcomes, and provide support in the formulation of macroprudential policy. Evidence[16] shows that changes in financial conditions are more powerful in signalling downside (left tail) economic risks rather than the typical moments of the GDP growth distribution observed in the forecasting practices (the mean or the median).

The estimated medium-term growth-at-risk[17] fluctuated just below 0% last year (see Figure 1.3, left), an indication of the low risks to economic growth. Estimates of the risk of negative growth in real GDP have varied considerably over time, both over the short term and over the medium term. The favourable periods from the perspective of growth-at-risk were for example 2015 and 2023, when estimates of growth-at-risk were close to zero over the short-term and medium-term horizons. By contrast, the figure also illustrates periods such as the global financial crisis, when the short-term and medium-term estimates of growth-at-risk ranged from -7.1% to -9.1%. The favourable estimates of growth-at-risk in the last year were largely explained by the moderate developments in the systemic risk indicator (SRI), which as an indicator of financial vulnerability captures longer cycles. The SRI is closely correlated with the credit cycle, and peaked in the third quarter of 2022, which coincides with the ECB's first rise in

[14] 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.

[15] Tail risks refer specifically to extreme, rare events at the far reaches (tails) of the probability distribution. In the context of GDP growth, tail risks would entail highly unlikely but severely adverse outcomes, often in the lower tail (extremely adverse growth scenarios).

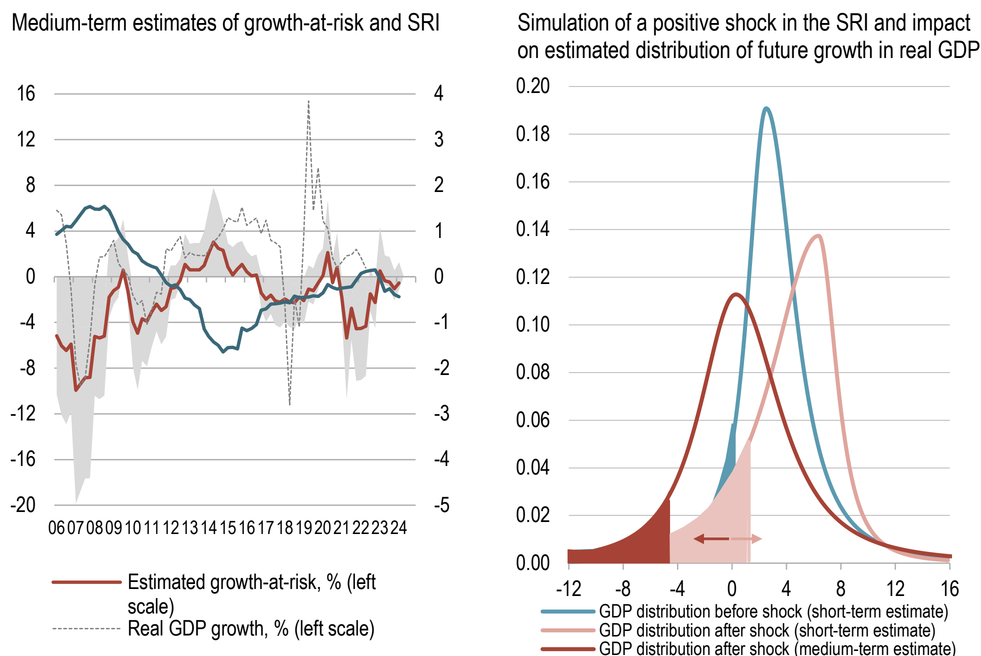
[16] See, for example, IMF (2017), Adrian, Boyachenko & Giannone (2019), Wang & Yao (2001).

[17] A growth-at-risk of 10% corresponds to the value of GDP growth which the left area under the curve has a probability density of 0.1.

interest rates since March 2016 and the outbreak of the crisis triggered by Russia's military aggression against Ukraine.

The financial vulnerabilities measured by the SRI give rise to a rich time structure of growth-at-risk (see Figure 8.5 in the appendix). A positive SRI shock (expansion of the credit cycle) reduces the risks of a decline in real GDP over the short term, but over the medium term the effect reverses and the risks of a decline increase significantly (see Figure 1.3, right). Our assessment is that a positive shock in the amount of three standard deviations in the SRI would shift the entire GDP growth distribution slightly to the right over the short term, but would then shift it significantly more to the left over the medium term, which would worsen growth-at-risk.

Figure 1.3: **Estimate of medium-term growth-at-risk and impact of positive shock in the SRI on growth-at-risk**



Note: Left chart: SRI reached an elevated level considerably before the episode of the great financial crisis, which was marked by low growth in real GDP, which is indicative of its capacity to give early warning of medium-term risks to economic growth. Because the crisis triggered by the pandemic was an unexpected event unrelated to the vulnerability of the financial system, the medium-term estimate of growth-at-risk for this period is disproportionately lower than the figure for the episode of the financial crisis. The grey area denotes a 90% confidence interval for the estimated coefficients obtained on the basis of heteroskedastic robust standard errors for quantile regression.
Sources: SORS, Ministry of Finance, ECB, Bloomberg, Banka Slovenije calculations

2 Key Risks to Financial Stability

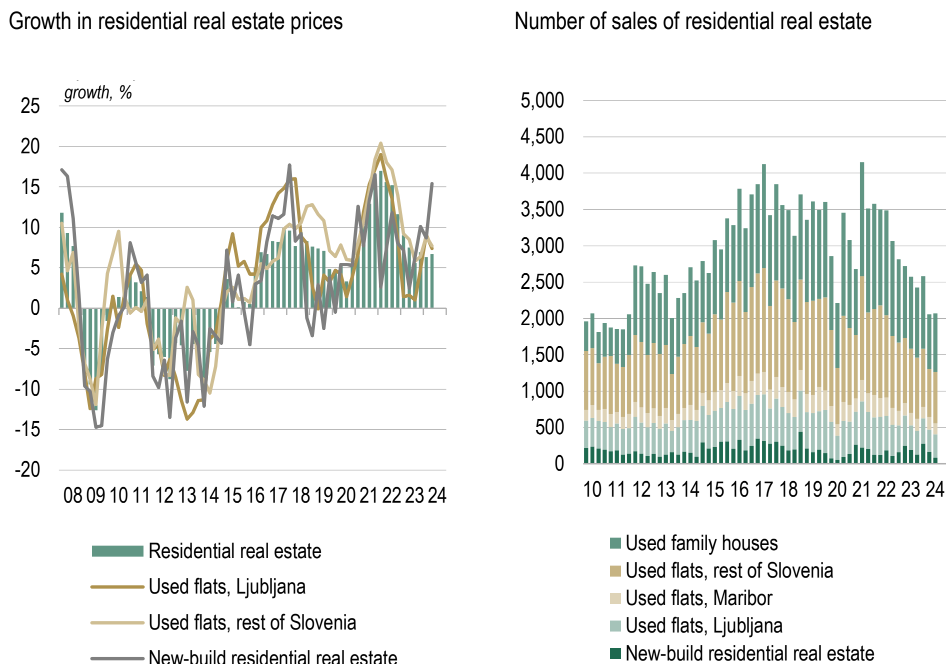
2.1 Risk inherent in the real estate market

Our assessment is that the risk to financial stability inherent in the real estate market remains moderate, but is expected to increase. Despite a fall in the number of sales, residential real estate prices are continuing to rise. The largest factor in the rise in residential real estate prices is the limited supply of residential real estate, which trails demand, which is being fuelled by low unemployment, wage growth and low household indebtedness. Along with a fall in interest rates, the stock of housing loans has started to increase again more rapidly. Commercial real estate prices continued to rise despite a fall in the number of sales, although there was considerable price volatility due to a small size of the market. The banking system's exposure to construction and real estate activities remains much lower than a decade ago. The banking system's exposure to housing loans has increased by more than a half over the last decade.

Residential real estate market

Despite a fall in the number of sales, residential real estate prices are continuing to rise. Nominal year-on-year growth in residential real estate prices stood at 6.3% in the first quarter and 6.7% in the second quarter of this year (compared with 7.2% in 2023 and 14.8% in 2022). After recording relatively low growth last year, prices of used flats in Ljubljana rose significantly again in the first and second quarters of this year, by 9.1% and 7.4% in year-on-year terms respectively. The equivalent growth figures for the rest of Slovenia were 8.9% and 7.7% (see Figure 2.1, left). Year-on-year growth in prices of new-build housing was high, at 8.7% in the first quarter of this year and fully 15.4% in the second quarter. The number of sales of residential real estate has been falling since the second quarter of 2022. There were 4,156 sales of residential real estate in the first half of this year, down 22.1% on the same period last year (see Figure 2.1, right), and the lowest figure of the last ten years. Sales of new-build properties in the first half of this year were down 42.7% in year-on-year terms, having risen by almost 50% in year-on-year terms in 2023. Sales of new-build properties were also down around 40% on their average between 2014 and 2023.

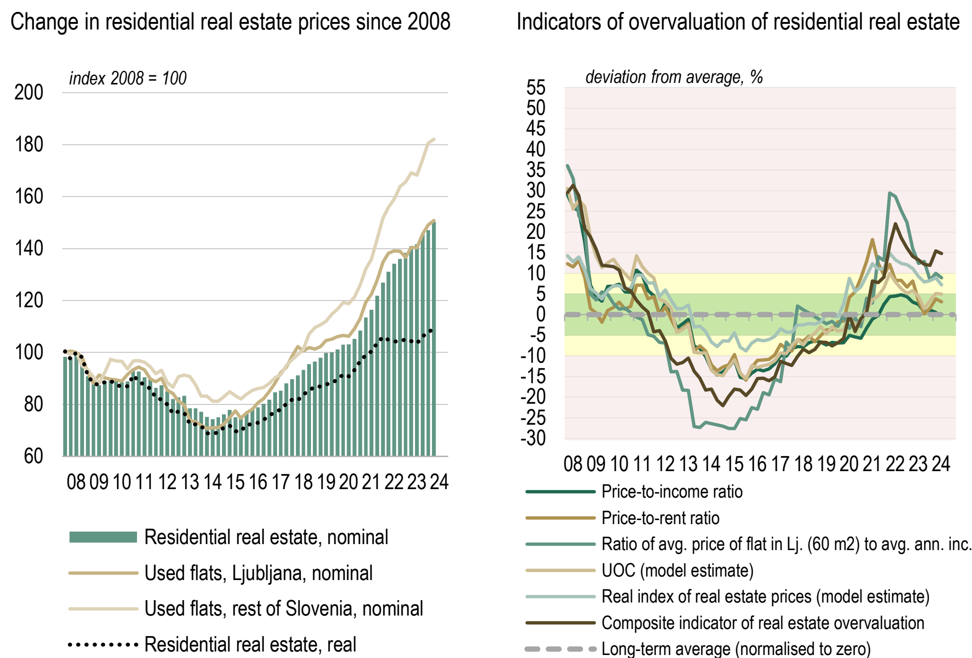
Figure 2.1: **Growth in prices and number of sales of residential real estate**



Source: SORS

Residential real estate prices in the second quarter of 2024 were up a half on 2008 in nominal terms. High inflation has seen real residential real estate prices stagnate in recent years: in the second quarter they were up 8.8% on 2008 (see Figure 2.2, left). The overvaluation of residential real estate in the first half of this year increased again slightly as the deviation from long-term fundamentals widened. The largest overvaluation of 14.8% was recorded in the second quarter of this year by the composite overvaluation indicator, while the lowest overvaluation of 0.5% was recorded in the first quarter by the ratio of real estate prices to disposable income (see Figure 2.2, right).

Figure 2.2: **Indicators of overvaluation of residential real estate**

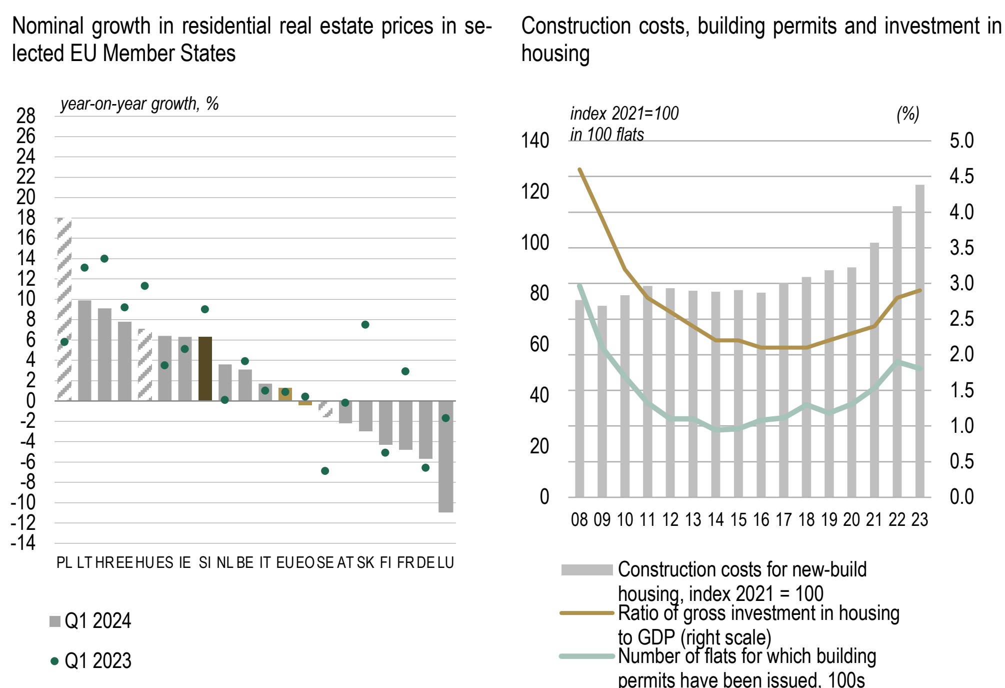


Note: In the right figure the indicators of housing price alignment with fundamentals are normalised around their own long-term averages, which are assigned a value of zero. Each indicator's deviation from the long-term average illustrates the overvaluation or undervaluation of residential real estate. The indicators are illustrated up to the second quarter of 2024, with the exception of the ratio of real estate prices to disposable income, which is available up to the first quarter of 2024.
Sources: SORS, SMARS, Slonep, Eurostat

Residential real estate prices in EU Member States have begun to rise again. In the first quarter of this year they were up 1.3% in year-on-year terms, having recorded falls of around 1% in the second and third quarters of 2023, before beginning to rise in the final quarter (see Figure 2.3, right). Prices in euro area countries have been falling for one year now, albeit more much more slowly. In the first quarter of this year they were down 3.1% on their most recent peak in the third quarter of 2022. The number of sales of residential real estate has been falling for several years now in Slovenia and most other EU Member States.

The rise in residential real estate prices in Slovenia is still being driven by limited supply, which is trailing demand. The latter is being fuelled by low unemployment, wage growth, and low household indebtedness.[18] There were 5,197 housing starts in 2023, down 3.9% on the previous year, but higher than the figures in previous years. There were 2.3 housing completions per 1,000 people in 2023, up 15% on 2022, but considerably less than in 2008, which saw 4.9 completions per 1,000 people, the highest figure of the last 20 years. The were significantly more housing completions, around 8.5 per 1,000 people, in the 1970s and 1980s. The number of residential buildings for which building permits were issued, which is an indication of future construction activity, was down 14.6% in year-on-year terms in the first half of this year. The number of housing units for which building permits were issued has also fallen over the last year two years (see Figure 2.3, right). Despite growth in gross investment in housing (fully 17.9% in 2023, and 8.5% in the first quarter of 2024), as a ratio to GDP it remains low. It stood at 3.1% in the second quarter of 2024, significantly less than the euro area average (5.9%).

Figure 2.3: **Nominal growth in residential real estate prices in selected EU Member States, construction costs, building permits and investment in housing**



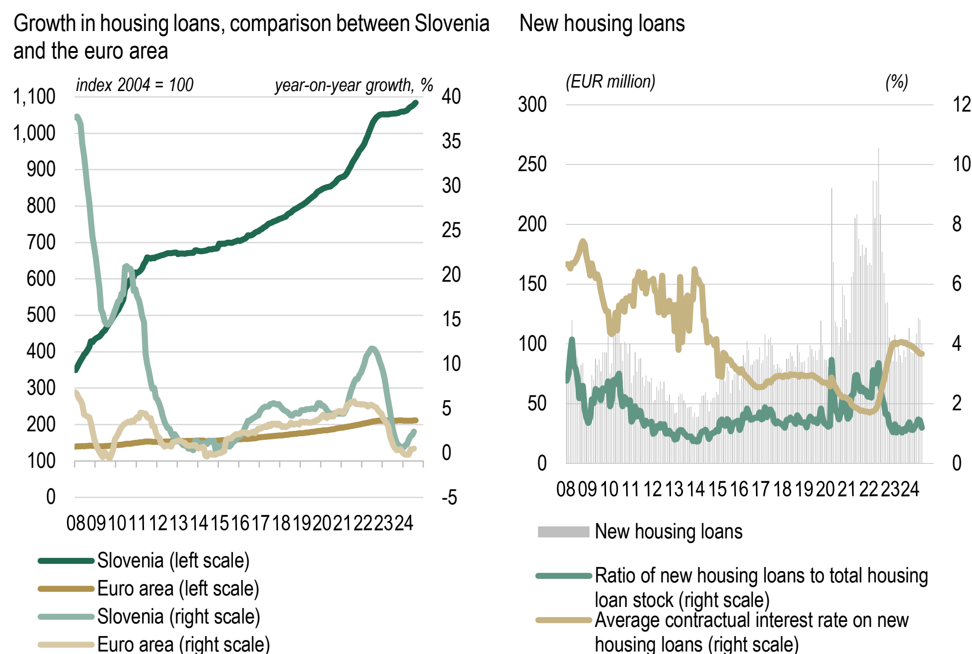
Note: Countries outside the euro area are indicated by hatched bars in the left chart.
Sources: Eurostat, SORS

[18] See also the section on households.

The declining confidence in construction points to a lower supply of residential and commercial real estate in the future. Construction confidence in the first half of this year fell to its lowest level of the last three years, but remained relatively high and positive.[19] There were declines in the amount of construction put in place and in total order books, while the expectation of price rises in construction continued to diminish (see Figure 8.6, left, in the appendix). Residential construction is being hampered by high construction costs and financing costs, and labour shortages. Construction costs for new-build housing have risen sharply in recent years, and in the first quarter of this year were up almost a quarter on their average in 2021 (see Figure 2.3, right). Half of construction firms faced a shortage of skilled labour in the first quarter of this year, while a third faced high costs of material and labour (see Figure 2.4, right).

The fall in interest rates has seen the stock of housing loans begin to increase more quickly again. Year-on-year growth in housing loans, which had previously slowed to 0.6% by December 2023 as a result of interest rate rises and the rising cost of living, had increased to 2% by June of this year as interest rates were decreasing. Growth in housing loans in Slovenia was still higher than in the euro area overall, where a decline of 0.2% was recorded in June of this year (see Figure 2.4, left). The ratio of housing loans to GDP stood at around 13% in Slovenia, significantly less than the euro area average of around 36%. After declining by almost a half in 2023, new housing loans began increasing again in the first quarter of this year, and in the second quarter were up a quarter on the same period last year (see Figure 2.4, left). New housing loans in the first half of 2024 were up around 22% on the first half of 2019, i.e. before their rapid increase began, and were up around 12% on the first half of 2008.

Figure 2.4: **Comparison of growth in housing loans between Slovenia and the euro area, and new housing loans**



Note: In the right chart the ratio of new housing loans to the total stock of housing loans was high in 2020 on account of the above-average refinancing caused by loan moratoria.
Sources: ECB Data Portal, Banka Slovenije

According to the Bank Lending Survey (BLS), demand for housing loans stopped declining in the first half of this year. The banks' assessment was that there had been no change in consumer confidence or housing market prospects, while the fall in

[19] See also the section on the macroeconomic environment.

the general interest rate level had a positive impact on demand for housing loans (see Figure 8.7, right, in the appendix). According to the latest data, the banks were expecting demand for housing loans to increase in the third quarter of this year, while in the two previous years they have either fallen or stagnated from the previous quarter. According to the BLS, credit standards for new housing loans in the first half of this year were relaxed slightly in Slovenia[20] and in the euro area overall (see Figure 8.7, left, in the appendix).

Commercial real estate market

Slovenia's commercial real estate market is small, which means that there are frequent fluctuations in prices and the number of sales. Commercial real estate prices in the first and second quarters of this year were up 16.2% in year-on-year terms. Year-on-year growth in prices of offices stood at 6.8% in the second quarter of 2024, while growth in prices of retail and service premises had strengthened sharply to 25.2% (see Figure 2.5, left). Commercial real estate prices in the second quarter of this year were up 16.9% in nominal terms on 2008, but were down 16.0% in real terms. The number of sales of commercial real estate has fallen significantly over the last two years. Just 133 commercial properties were sold in the second quarter of this year, down more than a third on the previous year and the lowest figure in more than ten years.[21] The commercial real estate market is cooling across the euro area: commercial real estate prices fell by around 8% in 2023.

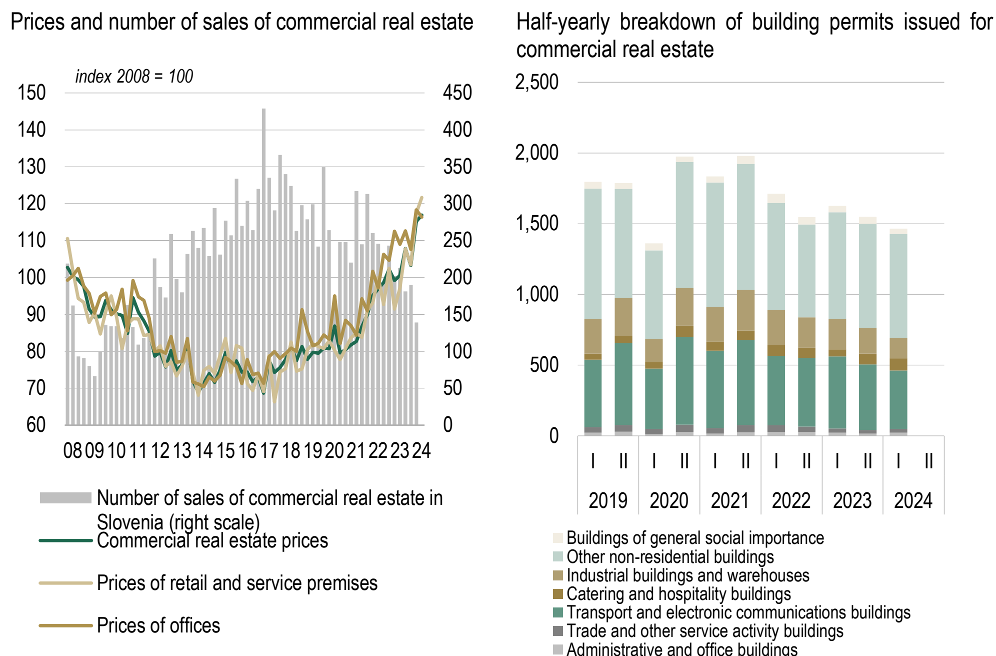
The supply of new commercial real estate is small, and the majority of commercial real estate investors are building for their own needs and not for onward sale or letting. According to the SMARS figures, 1,929 lease agreements[22] were signed in 2023 for offices, retail and service premises, and industrial premises. Offices accounted for fully 61% of these lease agreements. The number of lease agreements in 2023 was down between 15% and 20%. The number of lease agreements for retail and service premises and for industrial premises fell by between 20% and 25%, while the number of lease agreements for offices fell by between 10% and 15%. Rents by contrast rose by around 3% in 2023, with all the types of commercial real estate recording similar rates of growth. Offices are mainly located in Ljubljana and in the major urban and administrative centres, while retail and service premises are more evenly distributed throughout the country. The number of non-residential buildings for which building permits were issued amounted to 3,174 in 2023, down 12.5% on the previous year, and to 1,466 in the first half of 2024, down almost 10% (see Figure 2.5, right). The largest number of building permits were issued for other non-residential buildings, buildings for transport, and food service buildings.

[20] See the section on credit risk.

[21] Industrial premises are the smallest component of commercial real estate sales: according to the SMARS figures, there were 98 sales of industrial premises in 2023 (10% of the total number of sales). The SMARS also says that the small number of sale and rental transactions mean that changes in prices and rents for industrial premises cannot be measured reliably.

[22] Includes new lease agreements, and annexes concluded for the purpose of extending the lease or changing the rent.

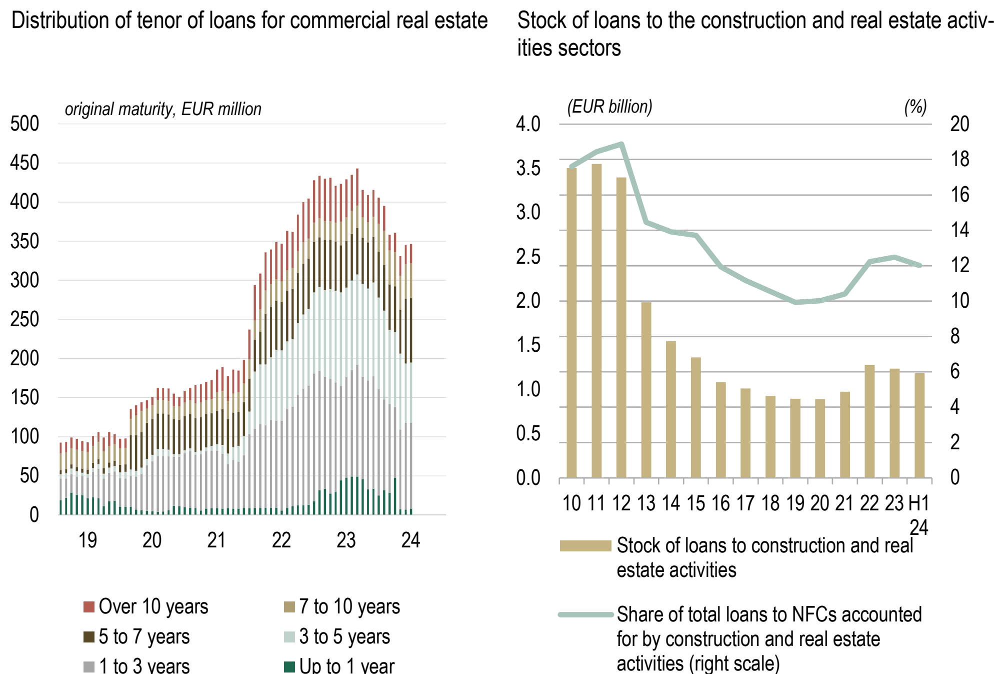
Figure 2.5: **Prices and number of sales of commercial real estate and building permits for commercial real estate**



Source: SORS

The stock of loans for commercial real estate at the end of the first half of this year was down 19.3% in year-on-year terms, while the share of total loans to non-financial corporations that they account for had fallen to 3.6%. The share of loans with longer tenor has declined slightly in recent years: 44.8% of all loans for commercial real estate had a tenor of more than five years in June 2024, compared with more than a half at the end of 2020. This slightly mitigated the risk, as the default rate on loans of shorter tenor is usually lower (see Figure 2.6, left). The banking system's exposure to construction and real estate activities is much lower than a decade ago. The stock of loans to these two sectors amounted to EUR 1.2 billion in June 2024 (down from a peak of EUR 3.5 billion in 2011), while the share of total loans to non-financial corporations that they account for stood at 12.0% (down from a peak of 18.9% in 2012) (see Figure 2.6, right).

Figure 2.6: **Distribution of tenor of loans for commercial real estate, and loans to construction and real estate activities**



Source: Banka Slovenije

Box 1: The use of online data to monitor developments in the real estate market

Online data can complement official data sources, and improve the information available for timely and comprehensive analysis. This box provides an introduction to and a brief review of the potential benefits that alternative data sources might bring to the analysis of real estate in the context of financial stability. The expectation is that the high frequency and granularity of online data will allow for more detailed analysis of events and periodic assessments of developments on the residential real estate market.

Alternative data sources such as online (advertising) data sources can complement official statistics in the sense of quicker availability of data and the filling of certain data gaps. The official statistics on the real estate market provide final information about prices and turnover in the real estate market, albeit with a lag. By accessing online data sources from real estate advertising platforms such as *nepremicnine.net* in Slovenia, it is possible to accurately monitor developments on the real estate market in close to real time.

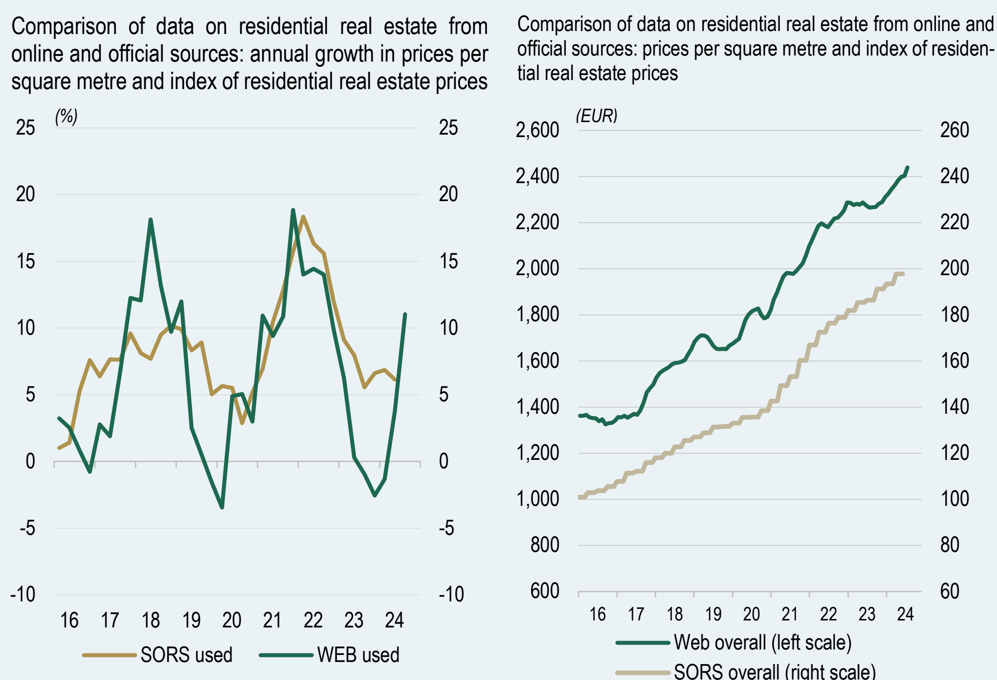
Data from online adverts allows for the monitoring of advertised prices and rents on the markets for residential and commercial real estate. It also yields certain other metadata that can provide information about supply and demand on the domestic real estate market. Data on the number of visits to websites with adverts, the number of adverts available online, and the period for which a particular advert remains on an online advertising platform can contain information about the balance between supply and demand on the real estate market. The granularity of this information and price information allows for estimates to be made across locations with the desired frequency.

This box examines movements in residential real estate prices obtained from online adverts, and compares these with the official statistics. For valuation purposes a price-to-rent ratio is calculated for 12 statistical regions of Slovenia. The online data available for the analysis related to the period since 2014. Although the number of adverts varies from region to region, the information is suitable for a general assessment and also for more detailed analysis at the regional level.

The residential real estate prices per square metre obtained from online sources and the official statistics from the SORS show similar dynamics in year-on-year growth (see Figure 2.7). However there is no expectation that online data and official statistics will be the same, given that the data from advertising platforms reflects advertised prices, while the official statistics reflect actual prices, i.e. the values recorded during the actual sale of the residential real estate. There is often a time lag between the vendor's publication of the advert for the residential real estate and the actual conclusion of the transaction. In addition, the prices published by the SORS represent an index (the hedonic price index) that takes account of changes in the characteristics and quality of residential real estate (see Figure 2.7, right).

Differences from the official statistics can be expected, which demands further analysis to explain when and why these differences between official and alternative sources occur. Residential real estate prices have recently risen sharply, which is confirmed by the SORS's index of residential real estate prices (see Figure 2.7, left). To understand these differences it is necessary to examine factors such as changes in market conditions, and changes in the behaviour of buyers and vendors since the pandemic. One likely explanation for the recent divergence in the data might be the greater availability of relatively new housing units on the market, whose prices are higher than those of older housing, as a result of which older properties may remain on the market unsold.

Figure 2.7: **Residential real estate prices: comparison of data from online adverts and official sources**



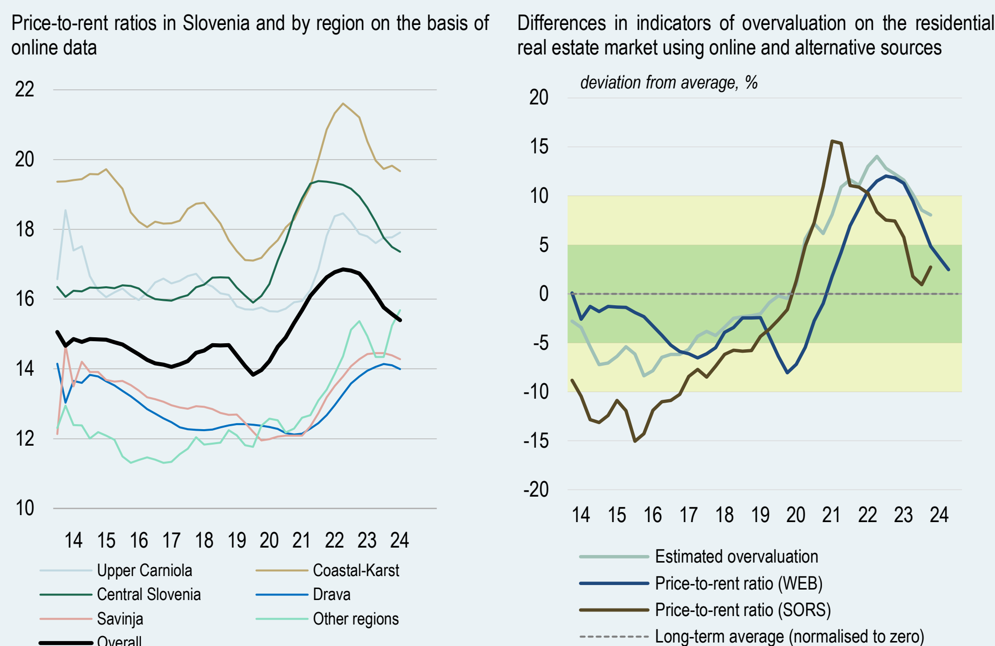
Note: *SORS used* denotes the year-on-year change in the index of residential real estate prices published by the SORS. The index reflects data on existing residential real estate. *WEB used* denotes the price per square metre indicator calculated on the basis of data obtained from an online advertising platform. The indicator is calculated as the ratio of total advertised price of existing residential real estate to the total floorspace of the advertised real estate. *SORS overall* is the overall index of residential real estate. *WEB overall* is the price per square metre indicator that reflects information about all residential real estate, new-build and existing, where new-build housing is all housing on the market that is no more than five years old. The latest data from the online data source relates to 31 August 2024, while the latest data from the official source relates to the second quarter of 2024. The data frequency is quarterly in the left chart, and monthly in the right chart.
Sources: Banka Slovenije, SORS, nepremicnine.net

The availability of granular data on rents from online data sources allows for regional valuations through the calculation of price-to-rent ratios with regard to location.[23] The overall price-to-rent ratio has recently declined in Slovenia, following a trend of increase from 2019 (see Figure 2.9). Taking the average price-to-rent ratio from the past decade as a long-term reference indicator (a long-term ratio of 15.05 years) suggests 12% overvaluation at the end of 2022. But in line with the latest data, the gap in the estimates of overvaluation calculated on the basis of online data narrowed to 2.47%,[24] similar to other indicators of overvaluation. The price-to-rent ratio on the basis of online data includes current prices and rents on the market, while estimates of overvaluation that use the rents component from the HICP (provided by the SORS) overstate the overvaluation, as this index captures lease agreements from previous periods. The regional data shows the highest price-to-rent ratio to be in the Coastal-Karst region, followed by Central Slovenia. The price-to-rent ratios in these two regions rose immediately after the Covid-19 pandemic, but have recently fallen.

[23] The price-to-rent ratio is often used as a simple metric of overvaluation on the real estate market. The expectation is that it will approach its long-term average, as the assumption is that returns on the rental and sale of real estate do not allow for arbitrage over the long term. Deviation from the long-term average is therefore indicative of undervaluation or overvaluation on the market.

[24] The average price-to-rent ratio since 2014 calculated on the basis of online data stands at 15.05 years (approximately 185 months). The ratio had reached 16.86 in Slovenia by the end of 2022, equivalent to an overvaluation of 12% (calculated as (16.86÷15.05 – 1) × 100).

Figure 2.8: **Price-to-rent ratio estimated on the basis of online data for Slovenia and 12 statistical regions, and other valuation metrics**



Note: The price-to-rent ratio is expressed in years. The differences in undervaluation or overvaluation on the market expressed as the price-to-rent ratio on the basis of online data and SORS data sources, where rents are a component of the HICP and a model estimate, are illustrated as percentages. The five regions whose price-to-rent ratios are illustrated were selected on the basis of the number of adverts, which serves as an approximation for the size of the market. Adverts from regions with smaller numbers of adverts were combined under the name *Other regions*. The sample begins in 2014, and captures the period to August 2024.
Sources: Banka Slovenije, SORS, nepremicnine.net

2.2 Funding risk

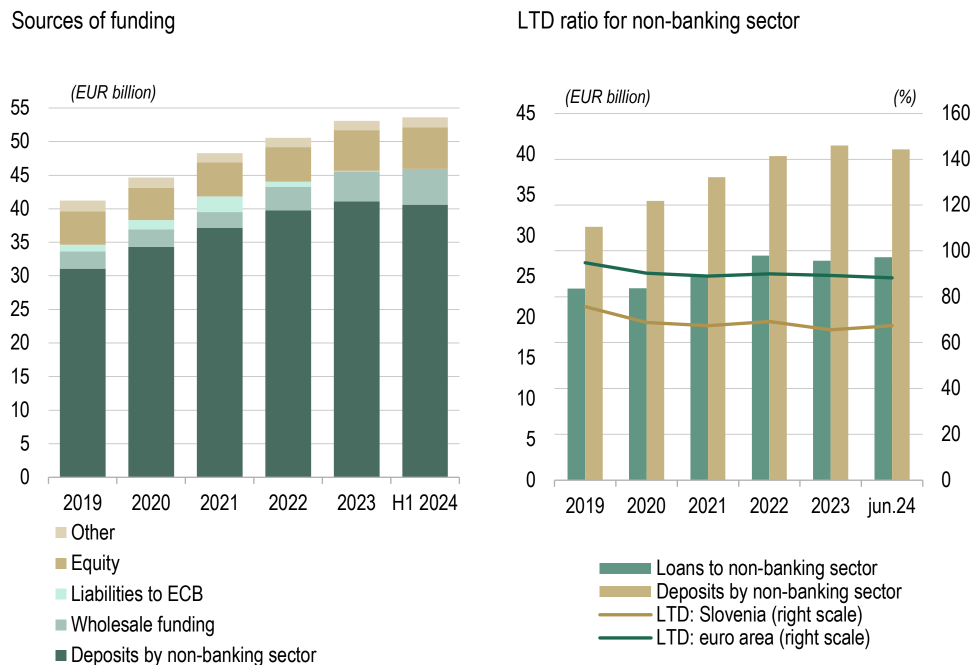
The assessment of funding risk remains at moderate with a stable outlook. The maturity gap remained virtually unchanged, albeit relatively large. Sight deposits, which account for the majority of household deposits and deposits by non-financial corporations, remain the major factor in the maintenance of the large gap. Slovenian banks thereby remain exposed to the risk of funding instability in the event of an unforeseen large-scale withdrawal of deposits from the banking system, or major switching of deposits between banks. Despite the slower growth in household deposits and a slightly larger decline in deposits by non-financial corporations in the first half of this year, these deposits remained the most important and stable source of funding for Slovenian banks.

Bank funding

Deposits by the non-banking sector declined in the first half of this year, primarily as a result of a decline in deposits by non-financial corporations, but they nevertheless remained a stable source of funding for Slovenian banks. Deposits by the non-banking sector declined by EUR 476 million over the aforementioned period to EUR 40.6 billion, and accounted for three-quarters of the liability side of the banking system's balance sheet total in June (see Figure 2.9, left). Year-on-year growth slowed to 2.4%, the lowest rate since November 2016. In the wake of the decline in deposits by the non-banking sector and the simultaneous increase in loans to the non-banking sector, the LTD ratio rose slightly. At 67.4% it was nevertheless significantly lower than the euro area average (see Figure 2.9, right), which declined to 88.2%. In contrast to Slovenia, most other euro area countries saw a decline in the LTD ratio as a result of an increase in deposits by the non-banking sector. The low LTD ratio shows that due

to the high amount deposits, Slovenian banks remain less exposed to wholesale funding and thus to any adverse impact from foreign financial markets. At the same time it is indicative of weaker lending activity, as banks are not directing deposits fully into lending, but also into other assets, most notably debt securities and deposits at the central bank.

Figure 2.9: **Sources of funding and LTD ratio**

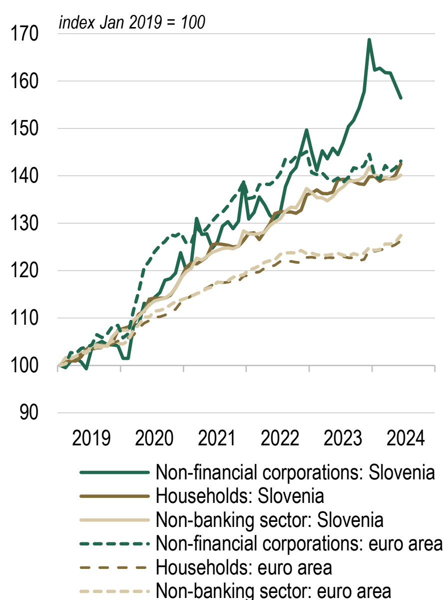


Sources: Banka Slovenije, ECB Data Portal, own calculations

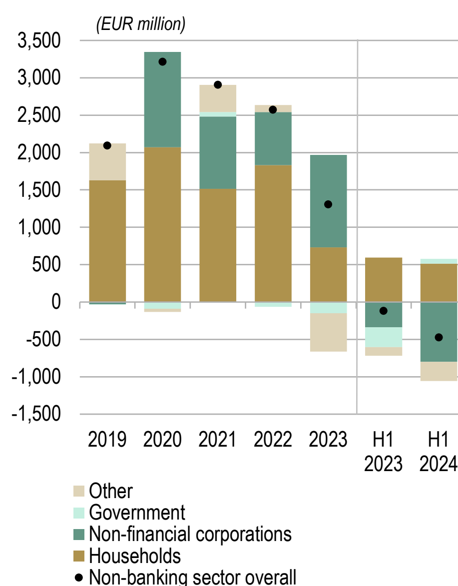
Banks have slightly increased their wholesale funding, but dependence on this source of funding remains relatively low. The stock increased by EUR 862 million (19.2%) over the first half of this year to EUR 5.4 billion, or a tenth of the balance sheet total. The majority of the wholesale funding and its annual increase consists of issued debt securities, while liabilities to foreign banks account for a smaller share. The long maturity of this funding is reducing funding risk. Similarly to the last few years, individual banks have issued debt securities this year, primarily for the purpose of meeting their minimum requirements for own funds and eligible liabilities (MREL). Given their large deposits, banks have no need for additional funding at present. Meeting the MREL requirements will therefore remain the principal reason for issuing debt securities also in the future.

Figure 2.10: **Deposits by institutional sector**

Change in deposits by institutional sector in Slovenia and euro area



Change in stock of deposits by institutional sector



Sources: Banka Slovenije, ECB Data Portal, own calculations

The increase in household deposits in the first half of this year was comparable to that in the same period last year (see Figure 2.10, right). The stock increased by EUR 512 million to EUR 27.0 billion, equivalent to half of the banking system's balance sheet total. It therefore represents the most important source of funding for Slovenian banks. The monthly changes in household deposits were relatively volatile, most notably February's net withdrawal at the time of the issuance of the people's bond, and June's seasonally high inflow driven by payments of annual leave allowance. After declining for a year, year-on-year growth in household deposits has been gradually strengthening since March, and reached 2.5% in June. Over a longer horizon of five and a half years, household deposits are up 42.5%, significantly more than the average increase in the euro area (see Figure 2.10, left). Given the traditional behaviour of Slovenian savers, who have less appetite for taking up greater risk in investing their savings in alternative assets with higher returns, household deposits can be expected to continue growing moderately in the future.

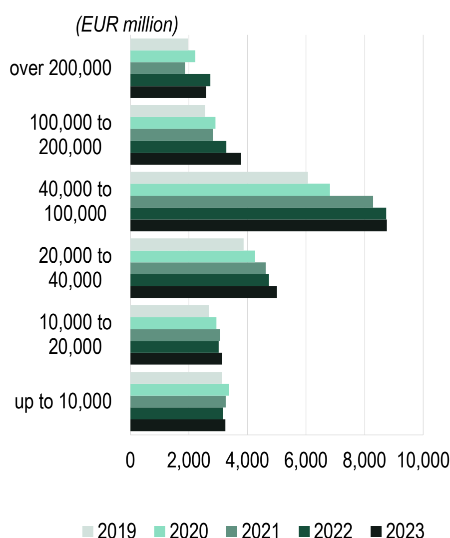
Three-quarters of savers[25] held less than EUR 10,000 in bank deposits at the end of 2023.[26] This share was down 7 percentage points on 2018, which means that some savers have since slightly increased their savings, and were therefore allocated to higher saving categories or have withdrawn their bank deposits entirely. Three-quarters of savers in the lowest saving category of up to EUR 10,000 thus together account for just 12.2% of all deposits (see Figure 2.11, right), with total holdings of EUR 3.2 billion (see Figure 2.11, left). This is just half of the total holdings of the savers who hold more than EUR 100,000 of savings in bank deposits (who make up 1.5% of savers).

[25] The term savers in this paragraph includes individuals and sole traders who hold an account with a bank.

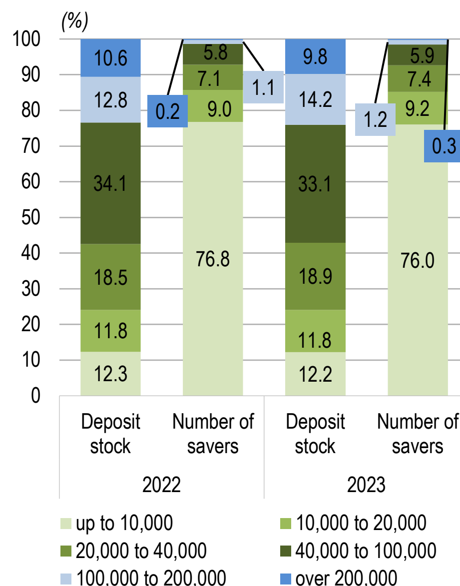
[26] The analysis in this paragraph is based on data that the banks report to Banka Slovenije in accordance with the Regulation on the deposit guarantee scheme (Official Gazette of the Republic of Slovenia, Nos. 49/16, 27/17 and 139/20), which covers eligible deposits of depositors as defined in Article 9 of the Deposit Guarantee Scheme Act (Official Gazette of the Republic of Slovenia, No. 27/16).

Figure 2.11: **Breakdown of deposits by size category**

Stock of deposits held by savers in individual size categories



Breakdown of stock of deposits and number of savers by individual size category



Note: In these two charts the word deposits refers to the total holdings of an individual saver (a private individual or sole trader) at a particular bank.
Source: Banka Slovenije

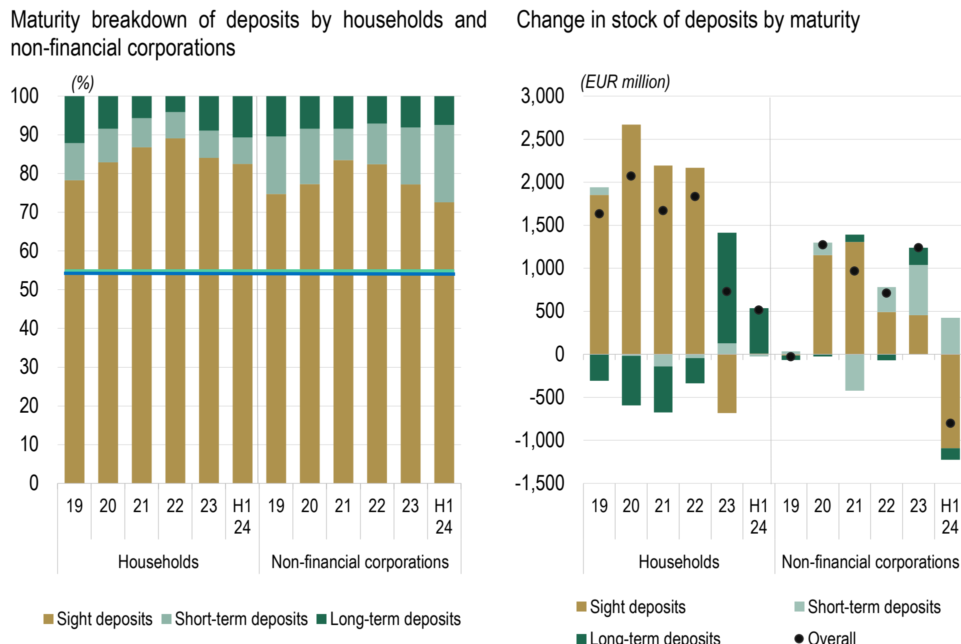
Although the decline in deposits by non-financial corporations over the first half of this year was significantly larger than in the same period of previous years, non-financial corporations still held EUR 10.1 billion of savings at banks in June, up 8.2% in year-on-year terms. The stock of deposits declined by EUR 801 million over the first half of the year (see Figure 2.10, right). Despite slowing this year, the year-on-year rate of growth remained high, and continued to strongly outpace the euro area average, which had risen to 2.6% over the first six months of this year. In light of the sluggish economic growth, the uncertain geopolitical situation and the simultaneously high interest rates on loans, non-financial corporations are being cautious in undertaking new borrowing at banks. Non-financial corporations with large savings in bank accounts were therefore more likely to finance investment through internal resources than through loans, which drove a decline in deposits by non-financial corporations at banks this year. Furthermore these deposits were also earmarked for profit distributions to owners and for the repayment of maturing loans. Individual non-financial corporations probably redirected some of their savings into purchasing debt securities, but despite the increase the share of non-financial corporations' total financial assets that they account for stood at just 1.3% at the end of June. The 30 largest depositors who are not individuals or banks held 35.2% of the total deposits of depositors of this kind at system level in June, and 12.7% of total deposits by the non-banking sector. The average individual holding of the 30 largest depositors was EUR 172 million. There has been no significant change in the concentration of the 30 largest depositors in recent years.

Deposit maturity and maturity gap between assets and liabilities

The decline in the share of sight deposits in the household segment, which had been seen since the autumn of 2022 following the rise in interest rates, came to an end in June of this year. Despite the fall in interest rates on long-term deposits,

households were still opting for deposit fixes of this kind to a lesser extent. The moderate increase in interest rates on short-term deposits, which otherwise significantly trailed the long-term rates, also brought a slight increase in new deposits fixed for six months to one year (see Figure 2.13, left). The share of sight deposits thus declined further over the first five months of the year, but the trend came to an end in June, with households retaining the majority of the annual leave allowance payments in their bank accounts. The share of total household deposits accounted for by sight deposits stood at 82.5% in June (see Figure 2.12, left), down 6.5 percentage points on its peak from the end of 2022, but nevertheless remains well above its long-term average.

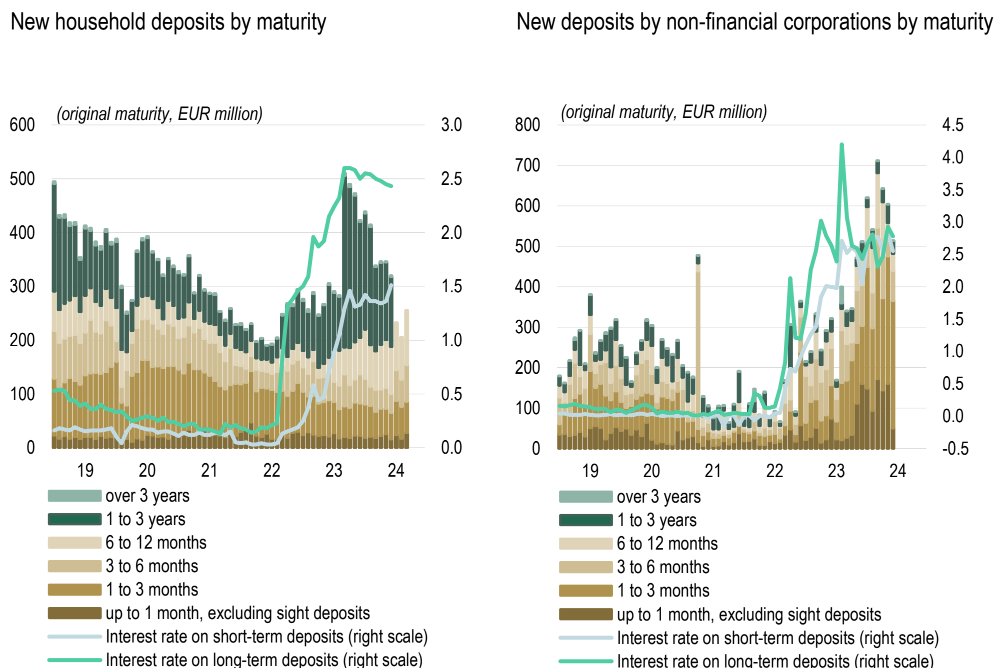
Figure 2.12: **Breakdown of and change in deposits by maturity**



Note: The horizontal lines in the left chart denote the average share of sight deposits between 2000 and June 2024, which stood at 54.3% in the household segment (green line) and 53.2% in the non-financial corporations segment (blue line).
Source: Banka Slovenije

The withdrawal of some savings meant that sight deposits by non-financial corporations also declined in the first half of this year (see Figure 2.12, right). Non-financial corporations also slightly increased their short-term fixing of deposits, particularly in the segment of one to three months (see Figure 2.13, right), most likely on account of the small interest spread between short-term and long-term deposits. Short-term fixes grant them quicker access to their savings should the need arise. The share of deposits by non-financial corporations accounted for by sight deposits had declined to 72.6% by June of this year (see Figure 2.12, left), but similarly to the household segment it remained well above its long-term average (53.2%).

Figure 2.13: **New deposits by households and non-financial corporations by maturity**



Note: New deposits excludes sight deposits.
Source: Banka Slovenije

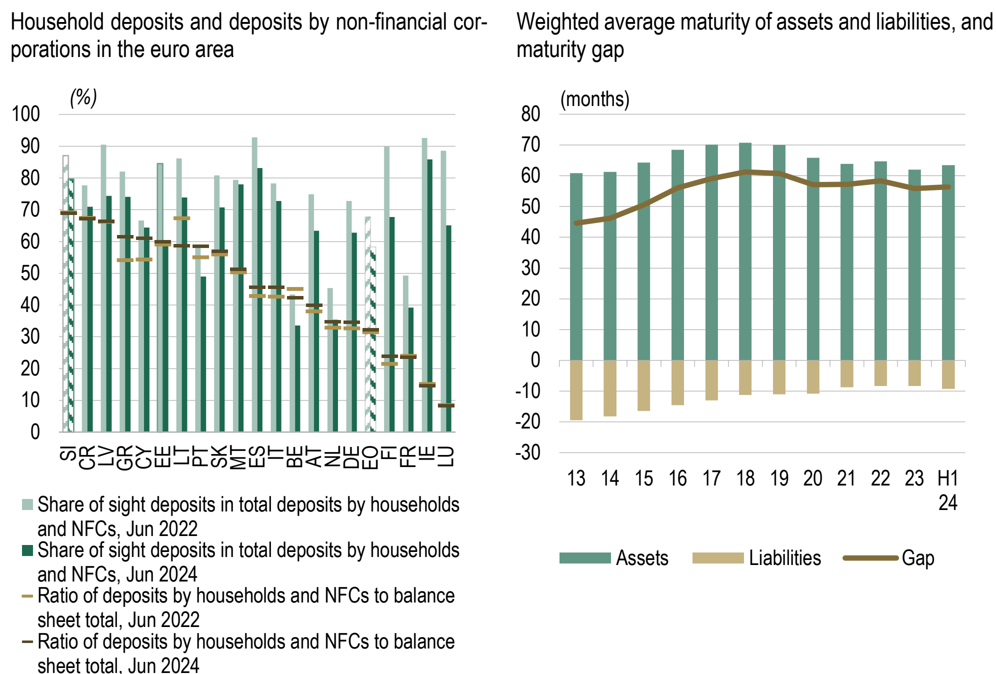
After the onset of the rise in interest rates on deposits in June 2022, sight deposits declined in all euro area countries. The decline in their share in Slovenia by June 2024 was smaller than in most other euro area countries. With interest rates on deposits at Slovenian banks still trailing the euro area averages,[27] the share of deposits by households and non-financial corporations accounted for by sight deposits remain among the highest in the euro area, and well above the euro area average (58.3%). At the same time Slovenia remains notable for the highest ratio of sight deposits by households and non-financial corporations to the balance sheet total (see Figure 2.14, left); rather than a change in the stock of deposits, most countries have seen a larger change in the maturity breakdown in the direction of an increase in fixed-term deposits. Although deposits represent a relatively stable source of funding, given its high exposure to deposits as funding, sight deposits in particular, the Slovenian banking system is more exposed to the risk of funding instability in the event of any sudden withdrawal than those countries where this source of funding is less important.

The relatively large maturity gap remained virtually unchanged over the first half of this year. The risk of funding instability in the banking system, which derives from this gap, thus remains unchanged too. The decline in sight deposits and issuance of debt securities increased the weighted average maturity of liabilities. At the same time the redirection of some liquid assets from accounts at the central bank into the purchase of debt securities also increased the weighted average maturity of assets. Because the increase in the maturity of assets slightly exceeded the increase in the maturity of liabilities, the gap between them widened by half a month to 4.5 years (see Figure 2.14, right). Sight deposits are a significant factor in the maintenance of the large gap, in that it still exceeds the gap from 2013, i.e. the period before the sharp increase in sight deposits, by one year, although it is five months less than its peak from 2018. A sudden substantial withdrawal of deposits from the banking system or large-scale switching of deposits between banks as a result of an unexpected stress event could

[27] For more on developments in interest rates on deposits and a comparison with the euro area overall, see the section on interest rate risk.

give rise to instability in the funding of certain banks. Despite these possibilities, our finding is that even in the wake of the unforeseen events of recent years savers retained their confidence in the working of the Slovenian banking system, and deposits by the non-banking sector thus remained a stable source of funding. Another major factor was banks adapting their business to the competition in the banking sector, which will remain important to the maintenance of funding stability in the future.

Figure 2.14: **Deposits in euro area countries, and maturity gap**



Sources: Banka Slovenije, ECB Data Portal, own calculations

2.3 Interest rate risk

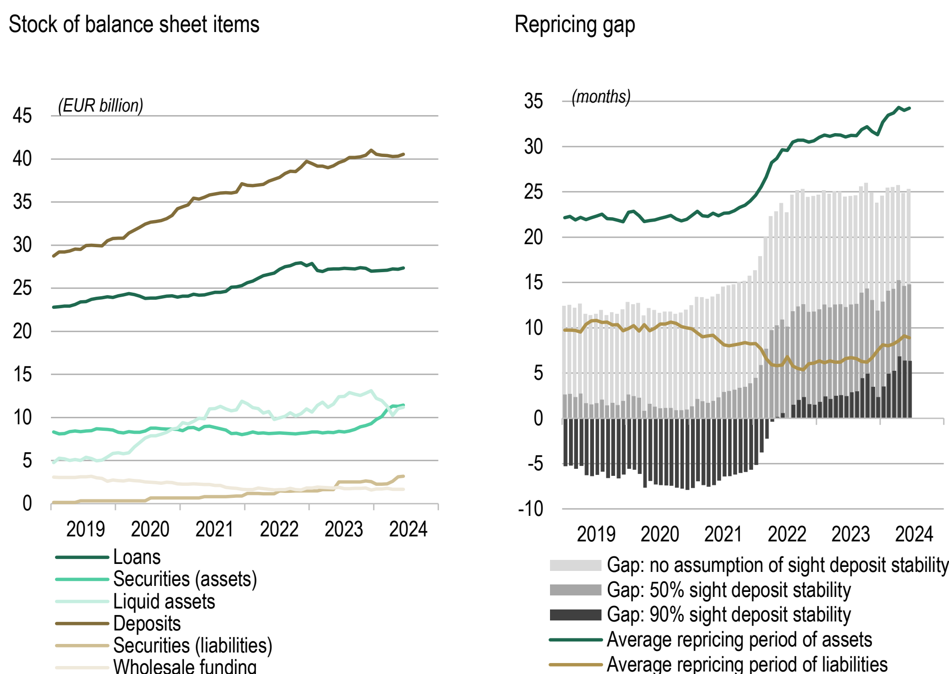
Interest rate risk amid only minor changes in interest-sensitive categories remains at a moderate level with a stable trend. The share of loans with a fixed interest rate continued its moderate trend of increase, reaching its highest level of recent years. The main factor increasing interest sensitivity was investments in securities, which drove a lengthening of the average repricing period for assets. Meanwhile changes in funding acted to reduce interest sensitivity. The share of fixed-term deposits continued to increase in the early part of the year, as did the stock of issued debt securities, which lengthened the average repricing period for liabilities. The repricing gap was slightly larger compared to the second half of 2023. Interest rates began to fall slightly, while the interest spread also narrowed somewhat.

Interest sensitivity

Interest rate risk remains moderate with a stable outlook. After declining sharply last year, credit activity was moderate in the first half of this year, with an ongoing weakness in lending to non-financial corporations and a further significant rise in lending via consumer loans. The level of loans to the non-banking sector was stable, and the moderate trend of increase in the share of loans with a fixed interest rate continued. Similarly to last year, the share rose visibly in the household loans portfolio (see Figure

8.8, left, in the appendix), while the share in the non-financial corporations portfolio declined slowly (see Figure 8.8, right, in the appendix). Changes in securities holdings and holdings of liquid assets led to major changes in the banks' interest sensitivity. The former increased significantly in early part of the year in the wake of the purchases of debt securities by the majority of banks, which resulted in the banks reducing their holdings of the most liquid assets (see Figure 2.15, left). The share of the balance sheet total on the asset side that they account for was close to its record high last year (24.0% in December 2023), but had declined to 19.3% by June of this year. Meanwhile the share accounted for by securities holdings increased from 18.5% at the end of 2023 to 22.4% in June. Given the expectations of lower interest rates in the future, the purchases of debt securities will give banks better returns, but these investments also had an impact in terms of lengthening the average repricing period for assets (see Figure 2.15, right).

Figure 2.15: **Balance sheet items and repricing gap**



Note: The repricing gap in the right chart takes account of the stability of sight deposits through various assumptions of stability and by allocating the core component of sight deposits across maturity buckets.[28]
Source: Banka Slovenije

Changes in funding reduced the banks' interest sensitivity. The stock of deposits by the non-banking sector in June was broadly unchanged from the beginning of the year, although the share of the banking system's total liabilities that they account for had declined to 75.7% (from 77.4% in December 2023). There was a continuation of the decline in the share of sight deposits, and an increase in the share of fixed-term deposits, both short-term and long-term, albeit only until April. The share of fixed-term deposits had declined slightly to 22.7% by June (having stood at 20.5% in December 2023), but remained close to its peak levels after October 2020 (see Figure 8.9, left, in the appendix). The average repricing period for deposits thus lengthened further in the first quarter, before shortening slightly in the second quarter. The stock of issued debt

[28] The effective maturity and stability of sight deposits need to be taken into account for the assessment of interest rate risk. Irrespective of the contractual maturity, which for sight deposits is zero, sight deposits are classed as funding with indeterminate maturity. Their effective maturity is not unambiguously defined, and under normal market conditions it is the case that it sharply exceeds the contractually determined maturity, and can even amount to several years. The stability of sight deposits is determined by a model, which provides an estimate of the core component of sight deposits, allocated across various maturity buckets. The core component is that part of sight deposits whose interest rates are highly unlikely to change even in the event of a change in market interest rates.

securities increased, while their share of total liabilities increased to 7.2% (up from 6.0% in December 2023). Despite their relatively small share of total liabilities, their average maturity lengthened considerably (the residual maturity of the stock stood at 3.0 years in June) and drove a significant lengthening of the average repricing period for liabilities (see Figure 2.15, right). In the wake of a larger change in the average repricing period for assets, the repricing gap between the two lengthened slightly to stand at a level similar to its average from 2023. Taking into account the assumption of greater stability of sight deposits, the significantly narrower repricing gap widened by slightly more. This moderately increased the banks' sensitivity to changes in interest rates relative to the beginning of the year, although the realisation of the current low inflation expectations and investors' expectations of cuts in key interest rates would have a favourable impact on their net interest income.

Interest rates

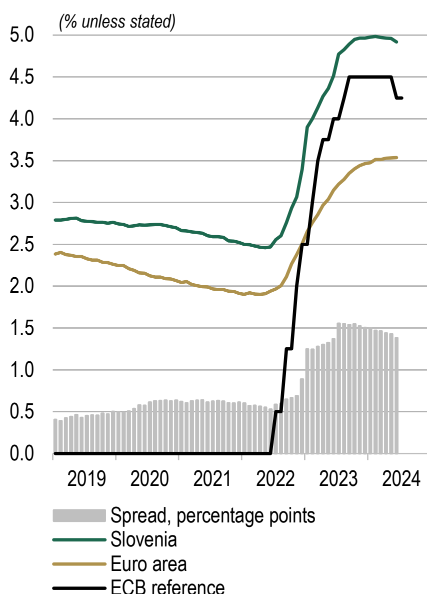
Since hitting their peak of recent years in the first quarter, interest rates on the stock of loans to the non-banking sector have declined slightly this year. Fixed interest rates on new household loans remained unchanged last year at their highest level for several years, for both consumer and housing loans, but this year have displayed a moderate trend of decline. Variable interest rates on housing loans were rising until the end of last year, and have since fluctuated around this level, while interest rates on consumer loans have held close to the level of fixed interest rates this year, as they did last year.[29] Since hitting their peak of recent years in January 2023, fixed interest rates on new loans to non-financial corporations have remained close to that level amid considerable volatility, while variable interest rates were rising until October 2023, since which they have held close to the level of fixed interest rates.[30] The reversal into a decline in interest rates on the stock of loans to households and non-financial corporations came in the first quarter of this year. The spread with interest rates in the euro area overall, where the rise in interest rates slowed significantly, is gradually narrowing (see Figure 2.16, left).

[29] Fixed interest rates on new housing loans averaged 4.0% in 2023, while rates on consumer loans averaged 6.7%. The rates had declined to 3.6% and 6.6% respectively by June of this year. Variable interest rates on new housing loans averaged 5.2% in 2023, while rates on consumer loans averaged 6.6%. The figures for the first half of this year were 5.4% and 6.5% respectively. Almost all new housing loans and consumer loans approved in the first half of this year carried a fixed interest rate.

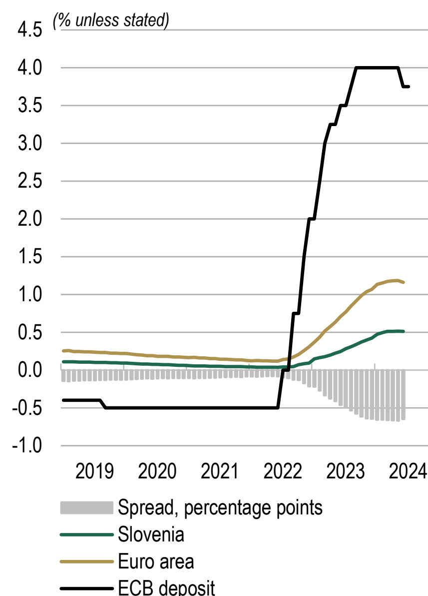
[30] Fixed interest rates on new loans to non-financial corporations averaged 5.3% in 2023, while variable interest rates averaged 4.9%; the respective figures for the first half of this year were 5.1% and 5.4%. Fixed-rate loans accounted for approximately a fifth of all new loans in the first half of this year.

Figure 2.16: **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 reference is the interest rate on main refinancing operations. ECB deposit is the interest rate on the deposit facility.
Sources: ECB Data Portal, Banka Slovenije calculations

The rise in interest rates on new fixed-term deposits had overall come to an end even before the end of 2023, for household deposits and deposits by non-financial corporations alike, and the rates on the deposit stocks fell slightly in the second quarter of this year. Interest rates on long-term deposits in both customer segments fell in the first quarter of this year, while those on short-term deposits were still rising slightly.[31] Interest rates on sight deposits stagnated at just over 0.1% for households and just over zero for non-financial corporations, sight deposits having ceased their decline by the second quarter of this year, while the share of total deposits by the non-banking sector that they account for also stabilised at 77%. The rise in interest rates on stocks of household deposits and deposits by non-financial corporations came to an end in the second quarter. They fell slightly, and the negative spread with the euro area overall, where interest rates were also no longer rising, remained at its largest level of recent years (see Figure 2.16, right).

The interest spread[32] has gradually declined since key interest rates peaked.[33] Since the onset of the rise in key interest rates the interest spread has widened sharply in Slovenia, interest rates on loans to the non-banking sector having been adjusted faster and more intensively than interest rates on deposits by the non-banking sector. This also significantly widened the difference in spreads with the euro area overall, interest rates on loans in the euro area overall having risen by less than in Slovenia, while interest rates on deposits rose by more. Even before the first rise in key interest rates, the spread in Slovenia was larger, particularly in the household segment, on account of the prevalence of unremunerated sight deposits in the deposit breakdown (see

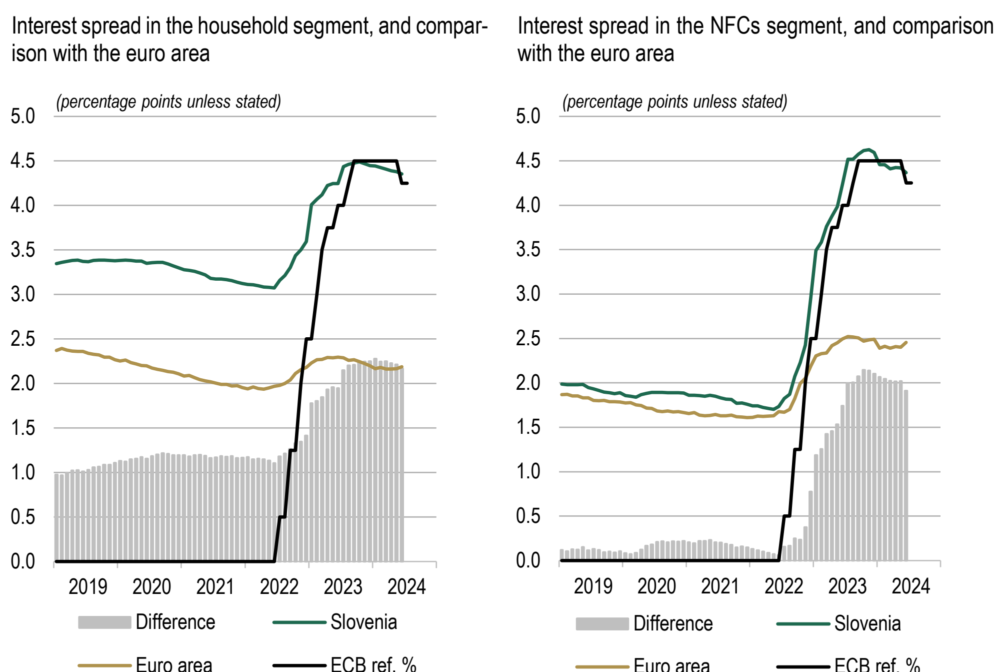
[31] Interest rates on long-term household deposits reached 2.6% in September of last year, their peak of recent years, before declining to 2.4% by June of this year. Interest rates on short-term deposits held at 1.4% this year, before rising to a peak of 1.5% in June. Interest rates on long-term deposits by non-financial corporations hit 4.1% in August 2023, their peak of recent years, and averaged 2.7% in the first half of this year. Interest rates on short-term deposits by non-financial corporations have also risen this year, averaging 2.7% over the first half of the year.

[32] The interest spread is defined as the difference between average interest rates on loans and average interest rates on deposits.

[33] They peaked in September 2023.

Figure 8.9, left, in the appendix). It peaked in the final quarter of last year, at 4.5 percentage points in the household segment (see Figure 2.17, left) and 4.6 percentage points in the non-financial corporations segment (see Figure 2.17, right). Since then it has gradually and slightly narrowed as interest rates on loans have declined, and there has also been a decline in the difference with the euro area overall, where the spread was stable and even increased slightly in the non-financial corporations segment. The observed dynamics in interest rates and the interest spread again had a very favourable impact on developments in the banking system's income in the first half of this year via net interest income.[34]

Figure 2.17: **Interest spread**



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

2.4 Credit risk

The assessment of credit risk in the banking system was reduced to its lowest level in the second quarter of this year. Following last year's difficult economic conditions and the sharp increase in financing costs, the economic environment has been more encouraging in 2024, despite slightly slower than expected growth. The NPE ratios and the share of Stage 2 exposures remain low, while the banks' exposure to firms in bankruptcy remains negligible, despite a rise in the number of bankruptcy proceedings initiated. A few adverse signs are evident in construction and transport. Following this year's initial deterioration in the NPE ratio in the consumer loans portfolio, it has declined again in recent months, but the rise in the share of Stage 2 exposures warns of increased risk in this segment. Housing loans remain one of the most stable bank assets in terms of size and quality.

[34] For more, see the section on income risk.

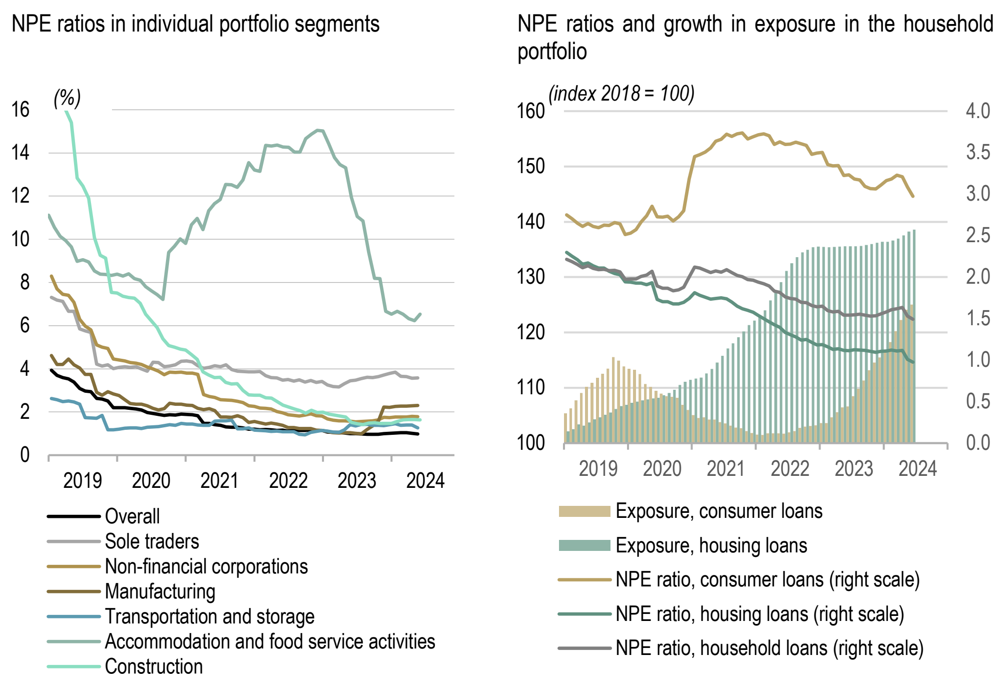
NPEs and credit risk stages

The banks saw their credit portfolio maintain its good quality in the first half of this year. Bank customers faced more stable business conditions[35] than in recent times, which reduced credit risk in the banking system. The NPE ratio in the total portfolio has remained stable at 1.0% for more than a year now. With firms recording high profits last year and further reducing their indebtedness, the NPE ratio in the non-financial corporations portfolio has remained unchanged from December of last year at 1.8% (see Figure 2.18, left). The performance of the service sector was supported by strong domestic demand, which also had a favourable impact on regular debt repayments. In the portfolio of accommodation and food service activities, whose performance in 2023 was well ahead of its pre-pandemic level from 2019, the NPE ratio of 6.5% in June of this year was down almost 4 percentage points on its pre-pandemic level. By June the sector accounted for just 10% of total NPEs in the non-financial corporations portfolio, the figure having peaked at fully 27% in early 2023. The construction portfolio saw a deterioration in quality: from its low of 1.4% achieved at the turn of the year, the NPE ratio then rose to 1.6% over the following months, with the stock of NPEs increasing by 21%. After rising to 2.3% at the turn of the year, the NPE ratio in the manufacturing portfolio then stabilised at that level over the following months.

In the household portfolio, the quality of the consumer loans portfolio has improved again over the last two months after several months of moderate growth in NPEs, while the housing loans portfolio has also seen a decline in NPEs. The stock of NPEs in the consumer loans portfolio declined consistently for three years (see Figure 2.18, right), but rose again between the final quarter of 2023 and April of this year amid a simultaneous increase in the consumer loan stock (by 8% in total). The NPE ratio only changed slightly in consequence, rising by 0.1 percentage points to 3.2% in April. A number of banks then saw a significant decline in their stock of NPEs over the next two months, in the consumer loans and housing loans portfolios alike. The NPE ratio thus fell again to 3.0% in the consumer loans portfolio, and to 1.0% in the housing loans portfolio after holding at 1.1% for more than a year. Housing loans thus remain among the most stable and highest quality components of the banking system's portfolio, with a stock of EUR 8.3 billion.

[35] For more, see the section on the macroeconomic environment.

Figure 2.18: **NPE ratios in individual portfolio segments and growth in exposure to households**



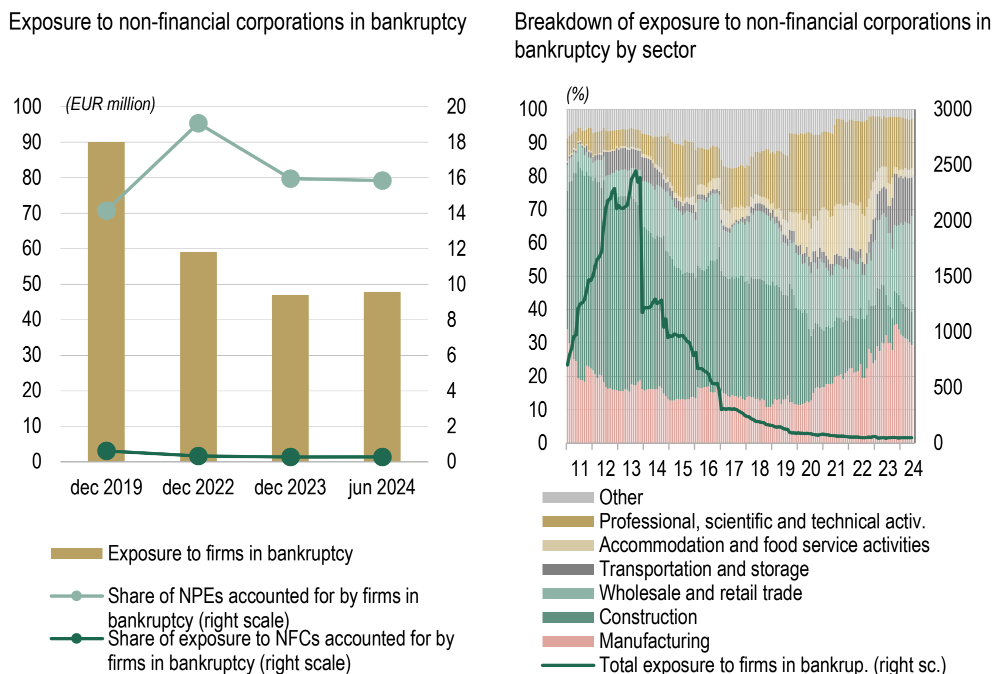
Source: Banka Slovenije

The number of bankruptcy proceedings initiated in the first half of this year increased in the majority of sectors,[36] but the banks' exposure to firms in bankruptcy nevertheless remains low. The number of bankruptcy proceedings initiated in the first half of the year was up 8.6% in year-on-year terms, while exposure to firms in bankruptcy was down 1.7% over the same period. The first half of the year actually saw a small increase in this exposure, which nevertheless remains low as a ratio to total exposure to NFCs, at just 0.3% (see Figure 2.19, left). The breakdown of exposure to firms in bankruptcy proceedings has in recent months seen a trend of rising exposure to firms in wholesale and retail trade, while exposure to firms in manufacturing and transportation has declined in 2024 (see Figure 2.19, right). Firms in accommodation and food service activities are significantly less prominent than during the pandemic, as are construction firms compared with the period before the pandemic, when they were very prominent in the period before the bank recovery and resolution process and in the following years before the outbreak of the pandemic in 2020.

Claims more than 90 days in arrears increased slightly. An increase in claims 30 to 90 days in arrears is particularly evident in manufacturing (see Figure 8.11 in the appendix), although some of these exposures have already been transferred to the non-performing portfolio, something that was particularly notable at the turn of the year. The share of performing exposures to manufacturing that have been in shorter arrears has ranged from just 0.1% to 0.4% this year. The share has varied over the months as a result of subsequent repayments of arrears. A trend of lengthening arrears is nevertheless present, and can be predictive of a deterioration in the asset quality, particularly with regard to the worsening forecasts for Slovenia's main trading partners.

[36] For more on the number of bankruptcies, see the section on non-financial corporations.

Figure 2.19: **Exposure to non-financial corporations in bankruptcy**

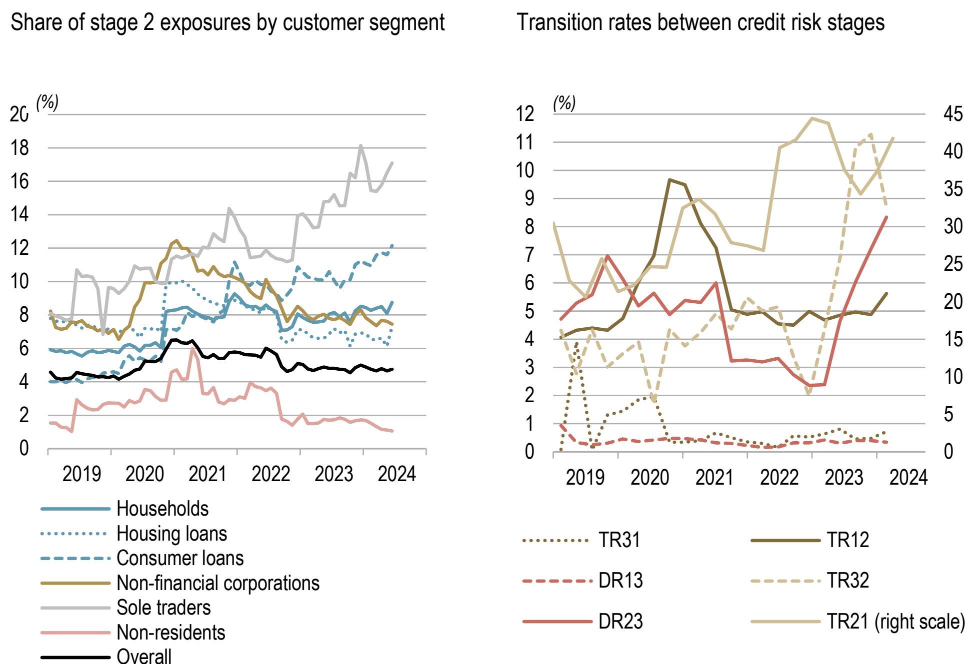


Sources: Banka Slovenije, Supreme Court

The share of exposures to non-financial corporations classified to the stage with increased credit risk declined in the first half of this year. The share of Stage 2 exposures remained at 4.7% in the total portfolio (see Figure 2.20, left), while in the non-financial corporations portfolio it had gradually declined to 7.5% by June. There was increased reclassification between stages in both directions, particularly between Stages 2 (increased credit risk) and 3 (NPEs) (see Figure 2.20, right). The changes in the share of Stage 2 exposures in individual sectors varied. The share of exposures to firms in manufacturing, wholesale and retail trade, accommodation and food service activities, and professional, scientific and technical activities classed as Stage 2 declined in the first half of the year, while the share of exposures to firms in construction and transportation classed as Stage 2 increased. The sole traders portfolio has been notable for its rising trend and its share of Stage 2 exposures (16.5% in June of this year) since 2022.

The share of Stage 2 exposures increased in the household portfolio, primarily on account of the dynamics of this indicator for consumer loans. In contrast to housing loans and loans to non-financial corporations, consumer loans are notable for the high growth in exposure, the year-on-year rate reaching 17.3% in June. The share of Stage 2 exposures in the consumer loans portfolio increased by 1.6 percentage points over the first half of this year to 12.2%, an indication of the increased credit risk accompanying the rapid increase in consumer loans.

Figure 2.20: **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: Banka Slovenije

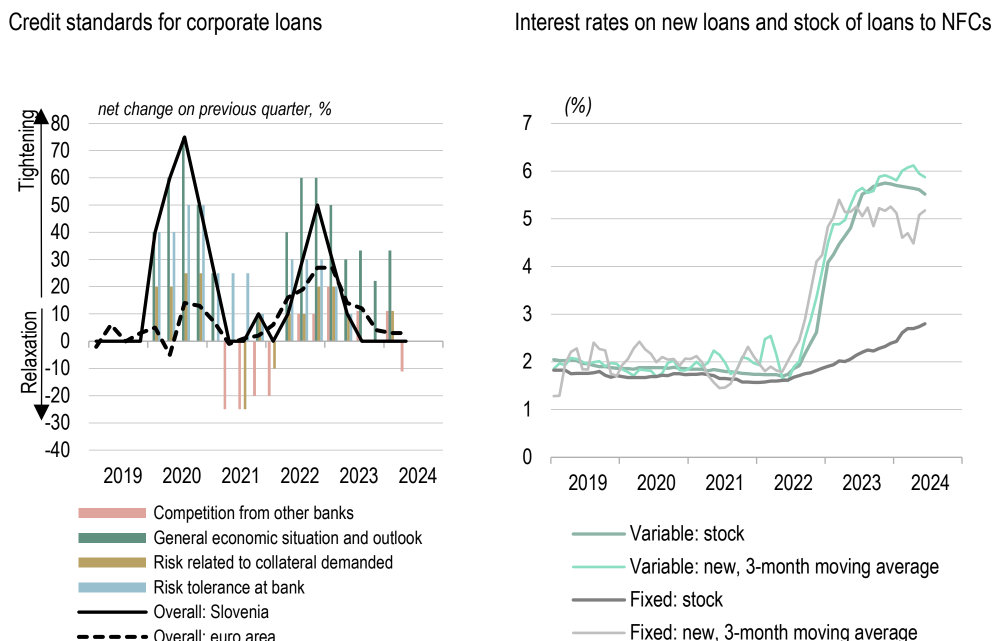
Bank credit standards and interest rates

According to the BLS, the banks have no longer been tightening their credit standards for loans to non-financial corporations as of the second half of last year, while the trend in the household portfolio varies according to the type of loan. The banks assess that competition from other banks has driven a relaxation of credit standards this year, having been a major factor in their tightening in the period of rising interest rates (see Figure 2.21, left). Housing loans mainly saw a relaxation of credit standards over the first two quarters of the year (see Figure 8.13, left, in the appendix), primarily on account of competition between banks and the favourable economic situation, although the increased risk perception at banks is still acting to drive a tightening. In the consumer loans portfolio the banks have since the end of 2019 highlighted borrower creditworthiness as one of the most important factors driving a tightening of credit standards (and relaxation in 2023, in the wake of a change in the macroprudential restrictions on lending), while the favourable liquidity position at banks is driving a relaxation.

Funding costs at banks declined slightly in the first half of this year on variable-rate debt, but are continuing to rise on fixed-rate debt. New borrowing at fixed interest rates slightly reduced the cost of loans of all types in the first half of this year (see Figure 2.21, right), although the maturing of the most-favourably remunerated loans from previous years will increase the average interest rate on the remaining debt for some time further. The interest rate on the remaining fixed-rate debt in June was nevertheless significantly better than that on variable-rate debt, at 2.7% versus 6.1% for housing loans, and 6.5% versus 8.5% for consumer loans. For loans to non-financial corporations, where fixed-rate debt accounts for just under 21% of the loan stock, the

figures were 2.7% versus 5.6% (see Figure 8.13, right, in the appendix).[37] In addition to the actual interest rate level, the debt servicing burden on non-financial corporations will also depend in the future on customers' ability to generate income in conditions of slowing economic growth, and on the level of indebtedness, which according to the latest data is highly favourable in the sector overall.

Figure 2.21: **Credit standards and interest rates**



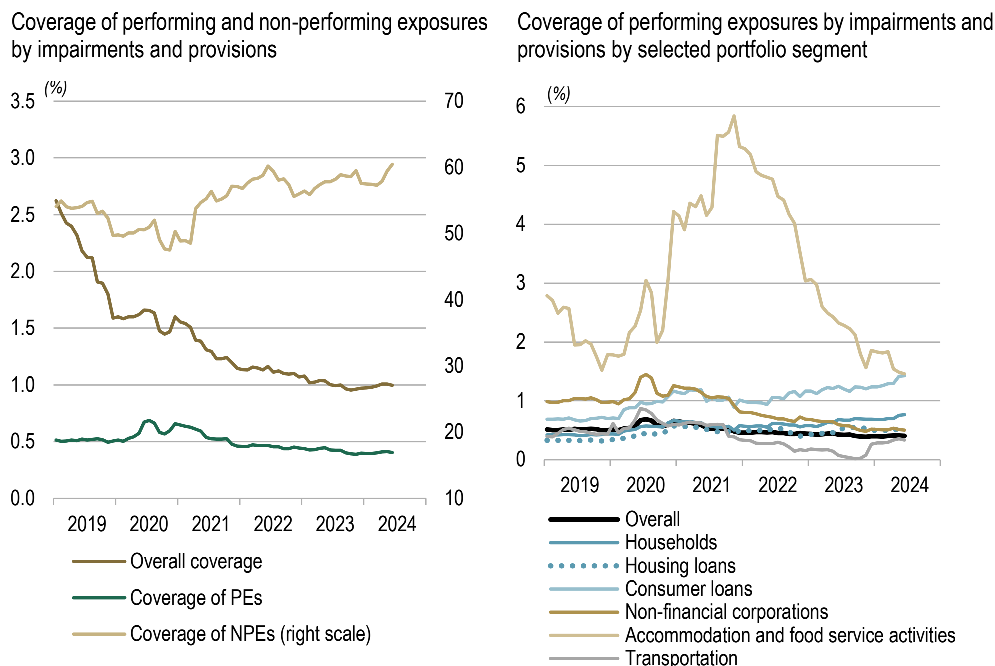
Note: Only long-term loans, which account for 88% of the loan stock, are captured under new loans in the right chart. Short-term loans were approved by banks with a slightly lower interest rate on average.
Sources: BLS, Banka Slovenije

Coverage by impairments and provisions

Coverage of NPEs by impairments and provisions improved again over the first half of this year, while coverage of performing exposures remained unchanged. Coverage of NPEs by impairments and provisions increased by just under 3 percentage points in the first half of this year to 60.5%, with all customer segments seeing an improvement (see Figure 2.22, left). There were no major changes in the coverage of performing exposures: it remained at its December level of 0.40%, with minor fluctuations. There was a notable increase in coverage of performing consumer loans simultaneous with the increased reclassification of exposures to Stage 2 (see Figure 2.22, right). It reached 1.43% in June, up from 1.24% at the end of last year. Only firms in accommodation and food service activities continue to have such a high level of coverage, albeit with a trend of rapid decline. The high coverage by impairments in the consumer loans portfolio is related to the lower coverage by collateral, although the trend of increased coverage is most likely linked to the assessment of increased risk in this portfolio at a time of rapid growth in exposure.

[37] For more, see the section on interest rate risk.

Figure 2.22: **Coverage by impairments and provisions**



Note: PEs denotes performing exposures.
Source: Banka Slovenije

2.5 Income risk

Income risk in the Slovenian banking system has been assessed as low with a stable outlook for just over a year now. During the period of rising interest rates the conditions for generating income improved sharply, and the banks' increased income was attributable to the large spread between interest rates on the asset side and on the funding side. The previously strong growth in net interest income, which was ranked among the highest in the EU and the euro area, is now slowing due to the commencement of interest rate cuts. Despite further interest rate cuts, there is no expectation over the remainder of the year that income in the banking system might significantly trail last year's figure. Non-interest income remains relatively stable. Accruals of the tax on total assets are increasing operating costs for banks.

Gross income and net income

Gross income in the Slovenian banking system amounted to EUR 1,110 million in the first half of this year, and net income to EUR 604 million. The figures were up EUR 131 million and EUR 50 million respectively on the first half of last year. Year-on-year growth in bank income slowed as expected in the first half of this year. This was attributable primarily to the decline in growth in net interest income, and in part to the prepayment of the tax on total assets introduced last year and a decline in net non-interest income. With interest rates at their current levels, the conditions for generating income remained better than usual for the banks. In recent months the banks have generated income comparable to that seen at the end of last year and the early part of this year (see Figure 2.23, left). Year-on-year growth in gross income slowed sharply over the first six months of the year, by 27 percentage points to 13.4%, while year-on-year growth in net income slowed by 97 percentage points to 9%. Net income is being lowered this year by rising operating costs, partly as a result of the introduction of the

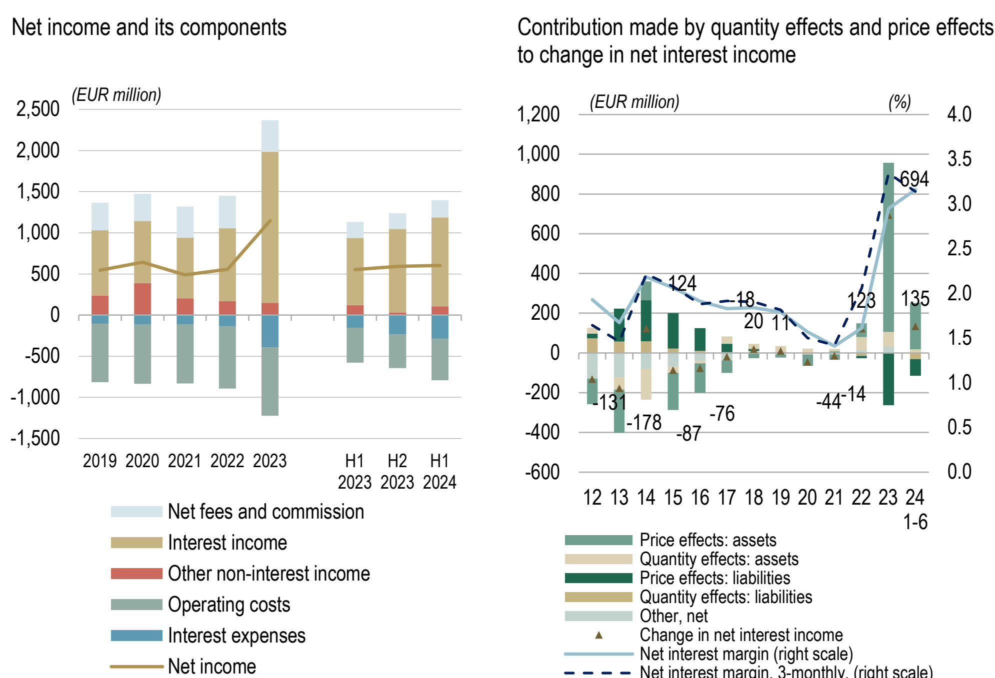
tax on total assets. Excluding these costs, net income would amount to EUR 658 million, and its year-on-year growth over the first half of the year would be almost 10 percentage points higher.

Net interest income and non-interest income

Net interest income over the first half of this year was up a fifth in year-on-year terms. After the monetary policy interest rate rises came to an end, income from loans and the most liquid forms of asset stabilised. Interest rate levels in the early part of this year decreasingly exceeded those seen in the same period last year, and gradually began stagnating or even falling. After the onset of the interest rate rises at the ECB in 2022, the Slovenian banking system's interest expenses began to increase with a lag, and less intensively than in other euro area countries. Low interest expenses are the key factor in the Slovenian banking system's high net interest income.[38]

The net interest margin exceeded 3% in the first half of this year. Calculated over the preceding 12 months, it stood at 3.16% in June.[39] The annualised quarterly values show that after peaking in December (at 3.34%), the margin began falling in the first half of this year, reaching 3.14% in June.

Figure 2.23: **Components of net income, and contribution made by quantity effects and price effects to change in net interest income**



Note: In the above charts the net interest margin is calculated for a moving 12-month period.
Source: Banka Slovenije

The increase in net interest income in the first half of this year was driven above all by price effects on the asset side of the balance sheet. These prevailed over the negative impact of the liability side, albeit by less than in 2023. The positive price effects originated in all interest-bearing components of the asset side (see Figure 2.23, right). They also improved relative to last year in securities holdings, which grew in their

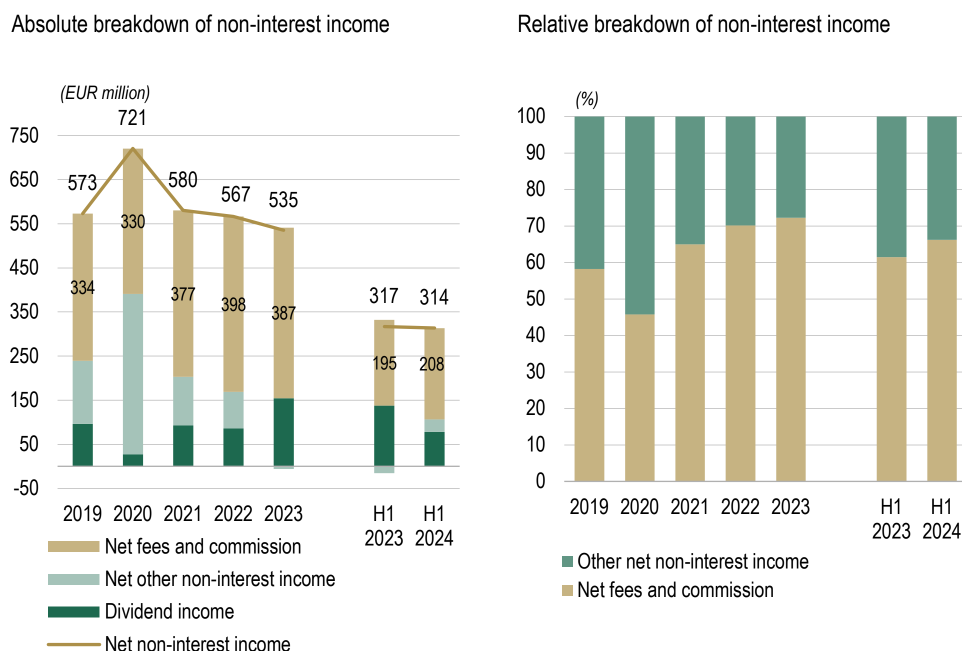
[38] The ratio of interest income to interest expenses is gradually declining, and stood at just under 4 over the first six months of this year. It peaked at over 7 after the long period of low interest rates just before the outbreak of the pandemic, having stood at around 2 over the long term before 2014.

[39] The net interest margin last hit this level two decades ago (3.17% in May 2004).

relative importance to the total increase in net interest. The banks are gradually replacing securities that had very low returns in the period of low interest rates with higher-yielding securities. The main feature of the liability side in the first half of this year was the strengthening of the price effects in deposits, although their contribution was rather small relative to the large stock of deposits. The quantity effects were small by contrast, and negative when viewed across assets and liabilities overall. The slowdown in lending activity meant that these effects in loans were close to zero this year.

The banking system's net non-interest income in the first half of this year was comparable to the same period last year. Non-interest income was down only minimally on last year (by 1.1%), driven by a decline in dividend income (see Figure 2.24, right). The year-on-year decline in net non-interest income was characterized bytwo opposing effects. One of the large banks realised a loss in February of last year as a result of negative goodwill in the sale of a leasing company. Consequently the banking system's net non-interest income was relatively low last year, which resulted in higher year-on-year growth this year, particularly in the early months. The banks also recorded significantly less dividend income over the first six months of this year (down 43.1%), which acted to significantly reduce non-interest income in year-on-year terms. We expect this income to increase over the following months, with dividend payments also being made in the second half of the year.[40] Growth in net fees and commission remains solid at 6.4%, outpacing growth in the balance sheet total by 2 percentage points, while the net commission margin is stable and stood at 0.76% in June.

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



Source: Banka Slovenije

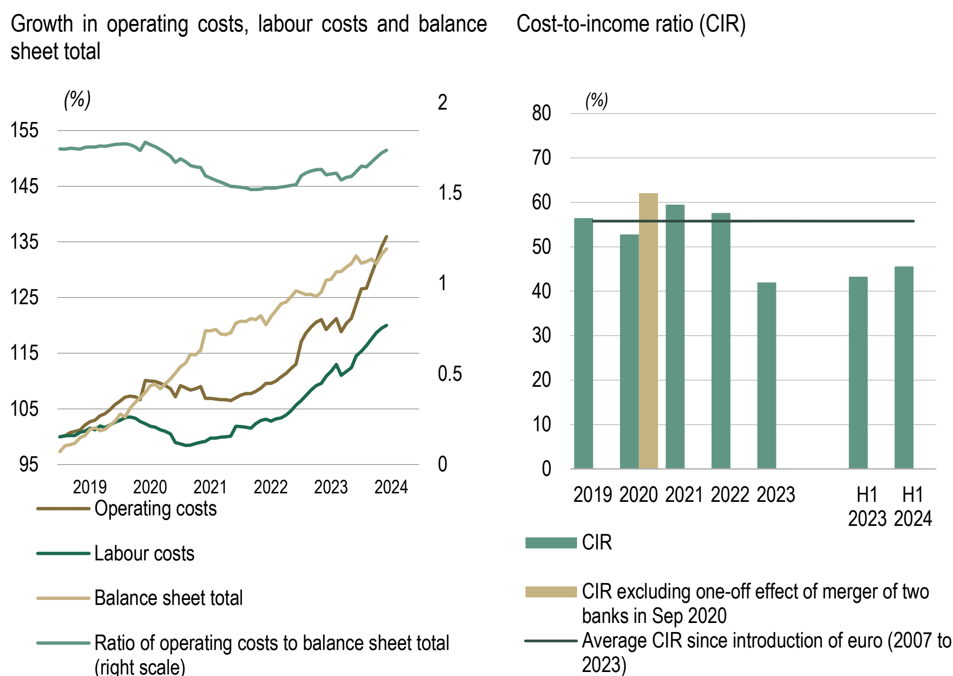
Operating costs

The banking system saw an increase in operating costs, primarily as a result of the introduction of the tax on total assets. Operating costs over the first half of the year were up 19.1% in year-on-year terms, and labour costs were up 9.8%, slightly

[40] July already brought an increase in dividend income at one of the larger banks, which drove up year-on-year growth in net non-interest income at system level. The year-on-year increase was 36.2%.

more than the year-on-year growth in labour costs in the private sector in Slovenia in the first half of this year (7.8%).[41] The high growth in operating costs was mainly driven by the introduction of the tax on total assets; in the absence of this tax, the year-on-year rate of growth would have been significantly lower.[42] The increase in costs also brought an increase in the ratio of operating costs to the balance sheet total (see Figure 2.25, right). Like last year, the CIR remains relatively low compared with previous years on account of the high income. It increased to 45.6% in the first half of this year, but is still well below its long-term average.[43]

Figure 2.25: **Operating costs and CIR**



Source: Banka Slovenije

Expected income trend

The expectation for 2024 is that the banks will generate income comparable to the previous year, assuming no change in circumstances. The banks are still maintaining a large spread between asset and liability interest rates,[44] thereby generating high and relatively stable net interest income, and this is not expected to change significantly over the remainder of the year. With net interest income holding firm, the net interest margin remains high, and well above its long-term average. Another factor in the maintenance of high net interest income is that the interest rate cuts by the ECB have been slower than expected. Net non-interest income in the first half of the year was down slightly on the same period last year, but is expected to be driven up in the

[41] Employee compensation in Slovenia in the first half of this year was up 7.4% in year-on-year terms overall, and 6.2% in the public sector.

[42] The banks broadly estimate that their administrative costs in the first half of the year were up around EUR 54 million as a result of the introduction of the tax.

[43] This stood at 57.3% between 2000 and 2023, and 55.7% between 2007, when Slovenia joined the euro, and 2023.

[44] The 3-month Euribor averaged 3.9% over the first half of this year, still up 0.9 percentage points on the same period last year. The overall interest spread stood at 3.0 percentage points in June of this year, the same as in June of last year, while the loan-deposit interest spread stood at 4.5 percentage points (compared with 4.3 percentage points). The asset interest rate stood at 4.3% in June (last year: 3.8%), while the liability interest rate stood at 1.3% (last year: 0.8%) and the interest rate on deposits at just 0.6% (last year: 0.3%). The overall interest spread in the first half of this year was still 0.5 percentage points wider than last year's, and 0.7 percentage points wider in the loan-deposit segment. The values are calculated from interest according to the income statement, and the stock of assets and liabilities.

second half of the year by dividend income. Growth in net fees and commission remains solid. The main item acting to reduce net income this year will be the rise in operating costs in the second half of the year compared with last year as a result of the introduction of the tax on total assets, although the prepayments of this tax in the first half of the year amounted to less than a tenth of the profit generated.

Comparison of income and cost indicators in the Slovenian banking system with the euro area and EU Member States

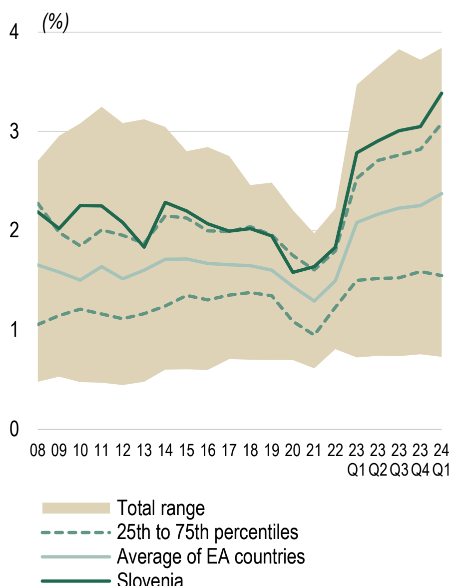
The net interest margin rose in 2023 in Slovenia, and also in the euro area overall and the EU overall (see Figure 2.26).[45] The Slovenian banking system ranks slightly above the EU average and median in terms of the net interest margin, the net non-interest margin and the net commission margin. The Slovenian banking system's margins were again among the highest last year. The same applies to the ratio of operating costs to the balance sheet total, which is also a consequence of the size of Slovenian banks. This ratio is typically higher at smaller banks across the euro area and the EU. The CIR in Slovenia was around 3 percentage points lower than the EU median last year, primarily on account of the high growth in income in the Slovenian banking system. A comparison between Slovenian banks and banks of comparable size in the EU shows Slovenian banks recording a significantly higher net interest margin. It amounted to 3.0% in 2023 according to the consolidated figures, fully 0.7 percentage points above the EU median and higher than the figure at banks of comparable size.[46] The net non-interest margin and the net commission margin were however lower than those recorded by banks of comparable size in the euro area and the EU. Slovenian banks also disclosed higher cost-efficiency: their CIR and ratio of operating costs to the balance sheet total were lower than those at banks of comparable size in the euro area and the EU.

[45] The compared values relate to the whole of 2023 (ECB Data Portal). See the section of the appendix entitled *Comparison of selected indicators of the Slovenian banking system with EU banking systems in 2023*.

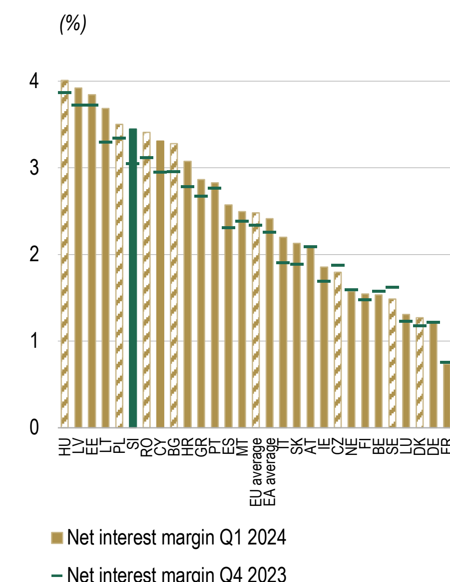
[46] The values were the same.

Figure 2.26: **Net interest margin in the euro area and EU Member States**

Net interest margin in Slovenia and the euro area



Net interest margin in euro area countries and EU Member States in 2023 and the first quarter of 2024



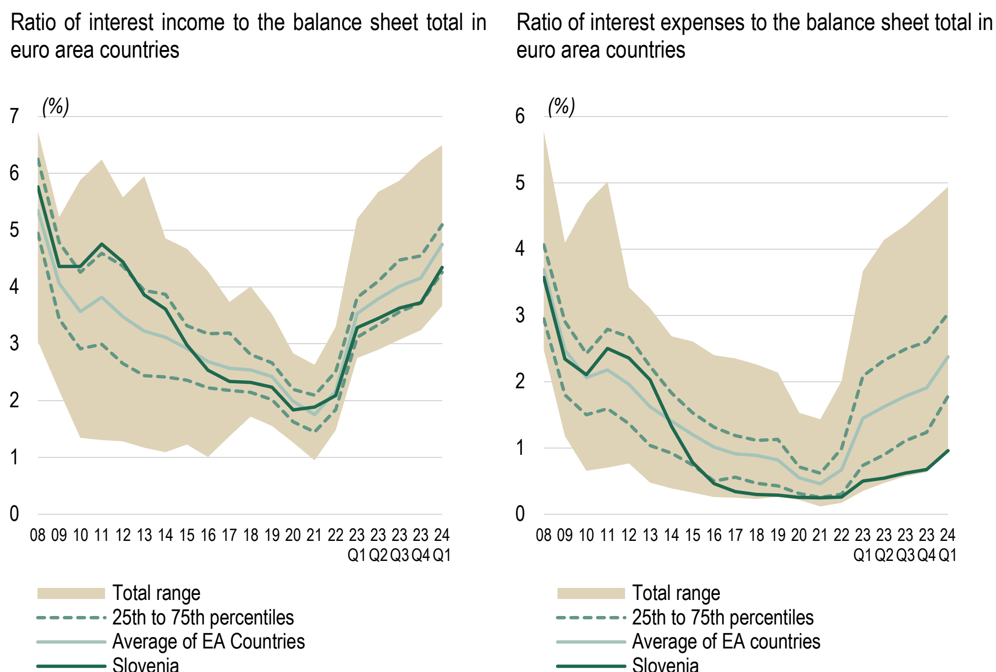
Source: Banka Slovenije

Slovenia was ranked among the countries with the highest growth in net interest income and gross income in the banking system last year and in the first quarter of this year.[47] The Slovenian banking system's net interest margin had surpassed the 75th percentile of the euro area distribution by the first quarter of last year (see Figure 2.26, left).[48] It is interesting that Slovenian banks have a below-average ratio of interest income to the balance sheet total (see Figure 2.27, left), on account of the high share of liquid assets and securities, which are remunerated at lower rates than loans. Over more than a decade and a half the share accounted for by loans to the non-banking sector has declined and the share accounted for by liquid assets has increased, while the ratio of interest income to the balance sheet total has been below the euro area average since 2016.

[47] According to the available data for 25 EU Member States, Slovenia was ranked fifth last year in terms of growth in net interest income, and third in the first quarter of this year, while a similar picture is painted by the data for operating income for 24 EU Member States, where Slovenia was ranked fifth out of 24 last year, and first with the highest growth in the first quarter of this year. The rates of growth have nevertheless slowed as expected. Data for certain EU Member States is not available.

[48] Below Slovenia is compared solely with the euro area (developments in interest income, interest expenses and net interest margin), as these are the countries of the single currency zone that face the same central bank (ECB) interest rate.

Figure 2.27: **Ratio of interest income and interest expenses to the balance sheet total in euro area countries**



Sources: Banka Slovenije, ECB Data Portal

The ratio of interest expenses to the balance sheet total at Slovenian banks is the lowest in the euro area (see Figure 2.27, right), and only one other EU Member State has a lower ratio. The pass-through of the ECB's interest rate rises into bank deposits over the two previous years was exceptionally modest in Slovenia compared with other countries, and the Slovenian banking system is also the most dependent on funding via deposits by the non-banking sector, and has the highest ratio of the cheapest sight deposits to the balance sheet total. The ratio of interest expenses to total funding declined gradually in Slovenia in a manner comparable to other euro area countries, particularly during the transition into the low interest rate environment, Slovenia has been ranked in the bottom quartile of the euro area distribution since 2016. Before then, after the financial crisis, the ratio was significantly higher. The process of the reduction of the ratio as of 2008 coincided with a decline in more expensive wholesale funding, and an increase in the share accounted for by cheaper sight deposits. In the years when extremely low interest rates prevailed, the share of deposits by the non-banking sector accounted for by sight deposits increased sharply, which was an additional reason for the decline in the ratio of interest expenses to total funding.

Box 2: Market risk, derivatives and securities financing transactions

Market risk is one of the traditional risks in the banking sector, to which Slovenian banks have relatively little exposure on account of their business models. In consequence it is not classed as a systemic risk that is addressed in our risk and resilience dashboard, despite periodic monitoring. Market risk is the risk of losses as a result of changes in market prices, in connection with which banks are required to calculate capital requirements for market risk under the CRR. Banking business in financial instruments are also associated with counterparty credit risk (CCR) and credit valuation adjustment (CVA). CCR encompasses the risk of the counterparty defaulting, while CVA risk relates to the risk of losses arising from a decline in the market values

of contracts due to changes in the counterparty's creditworthiness and market risk factors.

This box presents information on the exposures that form the basis for the calculation of capital requirements for market risk in connection with financial instrument positions in the trading book and currency and commodity financial instrument positions in the banking book, and on the exposures for calculating the requirements for CCR and CVA. Further, the description is given of the scale of the banks' derivative transactions and securities financing transactions, which are subject to the CRR,[49] the EMIR[50] and the SFTR.[51]

Banks' exposure subject to market risk

The market value or fair value of the banks' positions[52] for the calculation of capital requirements stood at EUR 2.4 billion for market risk as at 31 December 2023, EUR 653 million for CCR and EUR 57 million for CVA. The capital requirements for these positions accounted for 3.1 % of total capital requirements in the case of market risk, 0.5 % in the case of CCR, and 0.2 % in the case of CVA. The banks' exposure to market risk is currently extremely low.

Table 2.1: **Market value or fair value of positions for the calculation of capital requirements for market risk, CCR and CVA as at 31 December 2023, and share of total capital requirements that they account for**

Market/fair value, EUR million			Share of total capital requirements, %		
Market risk	CCR	CVA	Market risk	CCR	CVA
2,400	653	57	3.1	0.5	0.2

Source: Banka Slovenije

Compared with the end of 2021, the market value or fair value of positions in financial instruments was EUR 670 million higher at the end of 2023, as a result of a significant increase in positions in currency derivatives. A bank's exposure from CCR represents the market value of the derivatives.

Banks' derivatives transactions and securities financing transactions (SFTs)

The banking system held a gross notional outstanding amount in derivatives of EUR 36.2 billion as at 31 December 2023, with a market value of EUR 653 million in 7,212 outstanding transactions, the banks having exclusively entered into over the counter (OTC) derivative transactions.

[49] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 27 June 2013); last amended by Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (OJ L 2024/1623 of 19 June 2024).

[50] Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201/2012 of 27 July 2012); last amended by the Corrigendum to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 92/2023 of 30 March 2023).

[51] Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (OJ L 337/2015); last amended by Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, (EU) No 600/2014, (EU) No 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 (OJ L 22/2021 of 22 January 2021).

[52] The calculation of capital requirements takes account of the market value of the positions, or, should this be unavailable, the fair value of the positions or the latest available market value or fair value, in all cases as the sum of the absolute value of all long and short positions in on-balance-sheet and off-balance-sheet items.

The largest number of the banks' derivative transactions amounted in currency derivatives (with domination of currency swaps), in the gross notional amount[53] of EUR 28.6 billion, with a market value[54] of EUR 280 million in 6,348 transactions. These are followed by interest rate derivatives, in the gross notional amount of EUR 7.5 billion, with a market value of EUR 373 million in 863 transactions. Transactions in equity derivatives were only entered into by one bank, while the banks held no positions in other types of derivatives (commodity and credit derivatives). The banks entered into almost all of their derivative transactions with their five largest counterparties, but otherwise have a total of 273 counterparties, the largest number (190) of whom are non-financial counterparties under the clearing threshold[55] established in Slovenia.

Table 2.2: **Gross notional value and market value or fair value of currency and interest rate derivatives, and number of transactions as at 31 December 2023**

Gross notional value, EUR billion		Market/fair value, EUR million		Number of transactions	
currency derivatives	interest rate derivatives	currency derivatives	interest rate derivatives	currency derivatives	interest rate derivatives
28.6	7.5	280	373	6,348	863

Source: Banka Slovenije

Derivatives transactions are executed by seven banks. Variation margin is exchanged by six banks while initial margin is exchanged by two banks. Four banks are above the clearing threshold and three below it, while the two banks are actually clearing transactions. The other banks use exemptions, or do not have transactions that are the subject of clearing obligation. Exemption of intragroup transactions from the clearing obligation is used by five banks, while four banks have exemption from the collateral exchange requirement.[56] SFTs were entered into by only two banks in 2023.

In light of the recent and upcoming significant changes to the legislative framework, banks face challenges in the implementation of regulatory innovations in the area of market risk and market infrastructure. Implementation requires an overhaul of the information systems, and ensuring adequately trained personnel.

[53] The gross notional amount means the amount of the underlying instrument in the contract for financial instruments, which can represent the value of the entire position or the agreed contract amount.

[54] The market value is the price that the financial instrument achieves on the market, which buyers are willing to pay and vendors are willing to accept.

[55] The clearing obligation is set out by Article 4 of the EMIR for all counterparties in OTC derivatives transactions where the total average position at the end of the month (on an individual basis or a group basis) for the last 12 months for individual classes of OTC derivatives exceeds one of the following clearing thresholds according to class of derivative:

- EUR 1 billion for credit OTC derivatives;
- EUR 1 billion for equity OTC derivatives;
- EUR 3 billion for interest rate OTC derivatives;
- EUR 3 billion for currency OTC derivatives;
- EUR 4 billion for commodity OTC derivatives;
- EUR 3 billion for other OTC derivative contracts.

[56] For intragroup transactions under Article 3 of the EMIR, the counterparties in OTC derivatives transactions claim the exemption from the clearing obligation on the basis of Article 4(2) of the EMIR, and the exemption from the requirement to put in place risk-mitigation techniques, namely collateral exchange, on the basis of Articles 11(5) to 11(10) of the EMIR. When claiming the exemption the counterparties must submit a written application or official notification to the competent authority with regard to the details of the intragroup transactions.

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. The banks are not reporting any rise in the number of critical cyber incidents in the second quarter of this year compared to 2023, but cyber threats remain at an elevated level, in part because of the heightened geopolitical tensions, which may well lead to an increase in the number of cyberattacks on the banking system in the future.

Various hacker groups strengthened their attacks in the first half of this year on the websites of Slovenian government bodies and institutions in particular. The aims of the cyberattacks were to overwhelm servers and to disrupt access to the websites of government bodies. The banks and savings banks did not report any crashes of their websites or disruptions of the services that they provide to customers being caused by DDoS[57] attacks.

Banka Slovenije conducted targeted stress tests for cyber risks at less significant banks and savings banks in 2024, modelled on those of the SSM. The purpose of the tests was to monitor the impact of a hypothetical cyberattack on the operations of banks and the evolution of systemic risks. The results of the stress tests show that according to commercial banks' self-assessments, a hypothetical cyberattack would not have a major impact on the functioningof key economic functions, and thus would not have a major impact on financial stability (for more, see Box 2).

Based on the reporting of cyber incidents by Slovenian banks, our assessment is that the number of critical cyber incidents in the banking sector remains stable. The Slovenian banking system was not the target of major cyberattacks in the first half of this year, in contrast to what has been observed at the EU level in recent years. There was no increase in the number of critical cyber incidents 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 phishing[58] and online fraud. Recently there have been a number of incidents relating to the accidental leakage of individual customers' personal data at one of the Slovenian banks. Errors occurred in the data processing outsourced to external providers, which meant that certain recipients also received data about other customers. The banks acted quickly to ensure that customers were properly informed. The incidents did not cause major financial damage to the banks, and had no impact on their business with customers.

The data collected by SI-CERT shows a further decrease in the reporting of cyber incidents in the banking sector in the first half of this year compared to last year.[59] The number of cyber incidents in the banking sector was down fully 88% in year-on-year terms according to the SI-CERT data. The banking sector was ranked ninth in the second quarter of 2024 in terms of the number of cyber incidents (four), but nevertheless remains a sector that is a major target of cyberattacks (see Figure 3.1, left). The prevailing form of cyberattack in 2023 was fake emails that at first sight appear to be genuine messages sent by various firms and banks to their customers. The aim

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

[58] Phishing involves misrepresentation. The attacker sends a fraudulent (e.g. fake or otherwise misleading) message causing the recipient to reveal sensitive data to the attacker or to install malware.

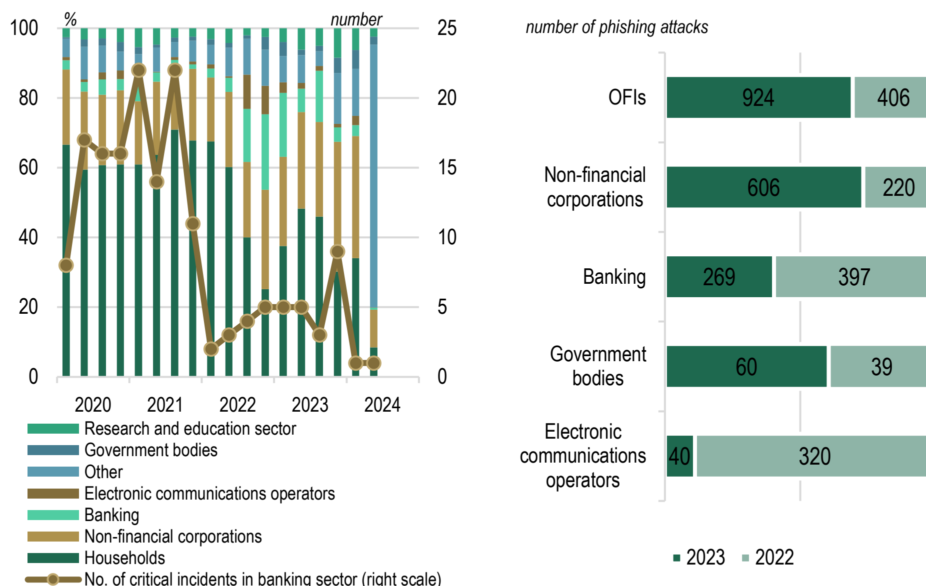
[59] The SI-CERT reporting covers a wider range of cyber incidents (including less significant ones) than those reported by banks Banka Slovenije.

Only major cyber incidents that meet the reporting criteria under the EBA guidelines are reported to Banka Slovenije.

of these cyberattacks was to obtain customers' authentication credentials to activate mobile wallets. The number of phishing attacks in the banking sector fell in 2023 and in the first half of 2024 (see Figure 3.1, right). The most likely reason for the significant drop in the number of reported incidents is a reduction in the number of phishing and other online fraud attempts . This might be attributable to greater cyber hygiene on the part of the public, which is being reflected in faster detection of fraud attempts. Dubious messages are recognised and deleted by their recipients, who do not report the incidents. The number of cyberattacks on SMEs increased in the second quarter of this year. They often lack sufficient resources to ensure resilience to cyber risks. They are often exposed to ransomware attacks, which typically infiltrate the information system and encrypt all accessible files, which can only be unlocked after payment of a ransom..

DDoS attacks and attacks on third-party ICT service providers remained the most common type of incident in the banking sector at EU level this year. Theyaccount for just over a half of all reported cyber incidents. There is an increasing number of successful attacks on third-party service providers that also affect banks' business with customers (e.g. theft of confidential information, disruption of banking services, unauthorised access). This is followed by phishing, ransomware, and malware attacks. The number of incidents reported in the SSM[60] has decreased by 17% compared to 2023 (on average, there were 25 to 30 incidents per quarter in 2023)). Cyber threats also remain elevated across the EU due to geopolitical risks.

Figure 3.1: **Cyber incidents by sector**



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

July 2024 saw the CrowdStrike incident, which was caused by an operational error in the software of a company by that name . It caused an outage of IT servicesthat affected the operations of a number of Slovenian firms, including banks . CrowdStrike is a provider of advanced security solutions to protect against cyber

[60] The Single Supervisory Mechanism is the new system of banking supervision in Europe. It consists of the ECB and the national supervisory authorities of the participating countries.

threats, including antivirus software, endpoint protection, threat detection and response, and other cybersecurity services. The incident was not a cyberattack; but rather it was a technical error that was thought to have occurred as a result of an information system update. Without active protection (in this case from CrowdStrike), information systems can be more vulnerable to cyberattacks and malware, so it was important to resolve the technical issue as quickly as possible. This was the first major operational incident with a global impact (banks, airports and many companies were affected), which could also pose a threat to financial stability in the event of a prolonged disruption of IT services.. The Slovenian banks using CrowdStrike solutions rectified the problem on the same working day, and the incident therefore had no major impact on their operations.

Box 3: Cyber stress tests

The cyber stress tests are a supervisory tool to test the ability of the financial system to ensure the continuity of the performance of key economic functions through a timely and effective response, and a recovery after a severe but plausible cyberattack that could affect the financial and operational stability of banks. Banka Slovenije conducted targeted stress tests of this type for less significant banks and savings banks this year, modelled on those of the SSM. The aim of the exercise was to assess the impact of an attack defined in a scenario on the operations of individual banks and savings banks, and to monitor systemic cyber risk. The self-assessment by the banks suggests that such an attack of this type would not have a major impact on the functioning of key economic functions, and thus would no impact on financial stability. It would also purportedly have no impact on funding risk. Our assessment is that the banks have responded appropriately to the security event defined in the scenario.

Banka Slovenije's targeted stress tests covered all the less significant banks and savings banks, the subsidiary banks under majority foreign-owned subsidiaries, and SID banka. The Banka Slovenije exercise was based on the ECB's simplified approach and methodology. The hypothetical scenario involved a major cyberattack on the bank's information system at a precisely determined moment. In accordance with the EBA guidelines,[61] the banks were required to submit a report of the cyber incident report to Banka Slovenije in order to obtain basic information on the security event . At the same time, as a key element of the exercise, the banks were required to complete a questionnaire asking for information about the defined scenario's impact on them, and about their response, measures and procedures in resolving security events of this kind.

The results presented below are a synthesis of the operational risk score, the reputation risk score, and the adverse financial impact score for each economic functions. The operational risk score was measured by the banks on the basis of the loss (negative impact) of the hypothetical scenario as a result of customer reclaims and lawsuits due to the interruption of payment services, costs of sanctions and fines, etc. at the level of the banking system and at individual banks. The indicator was formulated nominally (in euros), and also as the share of losses weighted by total risk-weighted assets for operational risk at the end of 2023. The banks measured the reputation loss under the realisation of the hypothetical scenario via the financial losses associated in particular with the loss of customers and net income, as well as the costs of media

[61] The submitted report was based on reporting of major incidents as set out by the Payment Services Directive (PSD2) and the EBA guidelines on major incident reporting under PSD2 of 10 June 2021.

campaigns to regain reputation. The operational resilience score was based on the direct (negative) impact of the hypothetical scenario, and was measured by the number and share of key economic functions not working. The banks' resilience to the hypothetical scenario was measured through assessments and indicators of the functioningof key economic functions, such as deposit taking and lending, and also by the financial losses that could be caused by the cyberattack. The exercise also encompassed an assessment of the potential systemic impacts of the hypothetical cyberattack on individual banks and savings banks.

The results of the cyber stress tests show that the direct financial impact on the banks included in the exercise would be small under the scenario in question. It would amount to less than 1% of the risk-weighted assets for operational risk from the end of 2023. The largest negative impacts would come from: (i) customer reclaims and lawsuits resulting from the outage of payment services, (ii) cost of sanctions and fines, and (iii) the costs of further security enhancements after the actual recovery, including external consultants .

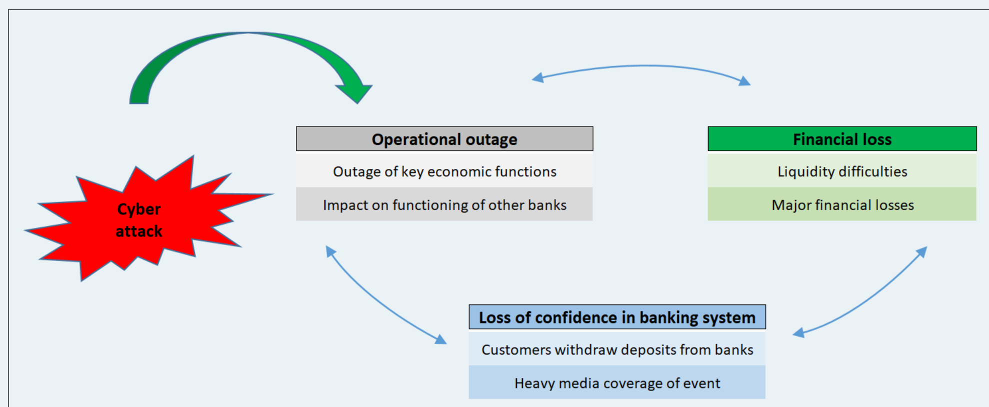
The negative financial impact of reputational risk would be even smaller. The banks a variety of methods to assess the indirect effects, which were largely based on existing internal business processes. The largest effects came from: (i) a loss of customers and net income, and (ii) media campaigns aimed at restoring the reputation lost as a result of the hypothetical cyberattack. For example, banks calculated the indirect financial loss on the basis of the stress scenario (withdrawal of sight deposits) implemented as part of the internal liquidity adequacy assessment process (ILAAP).

According to the banks' self-assessments, the hypothetical scenario would have a moderate impact on the functioning of key economic functions, both at the level of the individual banks, and at the level of the banking system. The attack would affect key economic functions related to deposit taking , lending, payments, and cash operations. The key component of the negative financial impact would come from the deposits and loans segment. The negative impact in connection with deposits is attributable to a loss of customers and withdrawals of deposits caused by a lack of confidence. The (smaller) negative impact in connection with on loans come from the decline in loan stock compared with the situation in the absence of the cyberattack, with customers being unable to enter into credit agreements while key economic functions are not working, and subsequently failing to replace the credit agreements. The decline in net income calculated under the ILAAP stress scenario was negligible at the level of the banks included in the exercise.

Banka Slovenije also assessed the impact of the hypothetical cyberattack on the banking system and financial stability. The impact of the hypothetical cyberattack on financial stability was measured from three perspectives: (i) the operational failure of key economic functions and the transmission of the outage to other banks and savings banks, (ii) the size of the financial loss (related to the duration of the failure of key economic functions), and (iii) the decline in confidence in the banking system. The hypothetical cyberattack would have a moderate impact on the operational functioning of banks' information systems, and our assessment is therefore that it would not pose a threat to the operational and financial stability of the banking system. There was no assessment that the hypothetical cyberattack would cause operational and financial contagion in the banking system. The failure of a single core banking system would not affect the functioning of other banking information systems and third-party ICT service providers used by banks. Given the limited impact on deposits, our assessment is that the hypothetical cyber attack would not lead to an increase in funding risk. . According

to the banks' assessments, the hypothetical cyberattack would not attract significant media coverage, and therefore would not have a major impact on confidence in the banking system (see Figure 3.2).

Figure 3.2: **Impact of hypothetical cyberattack on operational and financial stability**



Source: Banka Slovenije

Our assessment is that the banks are adequately prepared for a security event such as that envisaged in the scenario. A different cyber incident could have a different, perhaps greater, impact on banks' operations. We therefore encourage the banks to continue investing additional resources in upgrading bank information systems, which can further improve cyber resilience. Raising awareness of the importance of information security among staff and customers can also play a role.

3.2 Climate risks

Transition climate risks remain moderate, with a stable outlook over the coming quarters. Transition risk indicators continue to improve, due to the reversal in the credit cycle. Exposure to climate-sensitive sectors has declined. A further improvement is also evident in the carbon indicators. The climate indicators should be interpreted carefully as transition risks could increase in the future, in case of a reversal of the credit cycle due to weak economic activity. Geopolitical uncertainty and policies related to the green transition are additional risk factors.

Exposure to climate-sensitive sectors continued to decline in the first half of this year. The decline according to the first definition (based on emissions in Slovenia) has slowed: exposures declined by 2.6% year-on-year at the end of 2023, compared to a 2.2% decline year-on-year at the end of June 2024 (see Figure 3.3, left). Following the reversal in the credit cycle, the largest contribution to the decline came from the change in exposure to the sector of electricity, gas, steam and air conditioning supply (3 percentage points in June) and also from exposure to manufacturing in the first half of the year (2.2 percentage points in June). According to the second definition (on the basis of emissions in the EU), the year-on-year decline in exposure increased from 2.1% to 2.7%.[62] The main factors were a decline in exposures to utilities[63] (2.5 percentage points), the housing sector and fossil fuel sector (0.4 percentage points on average), while there was an increase in exposure to energy-intensive sectors (0.7 percentage

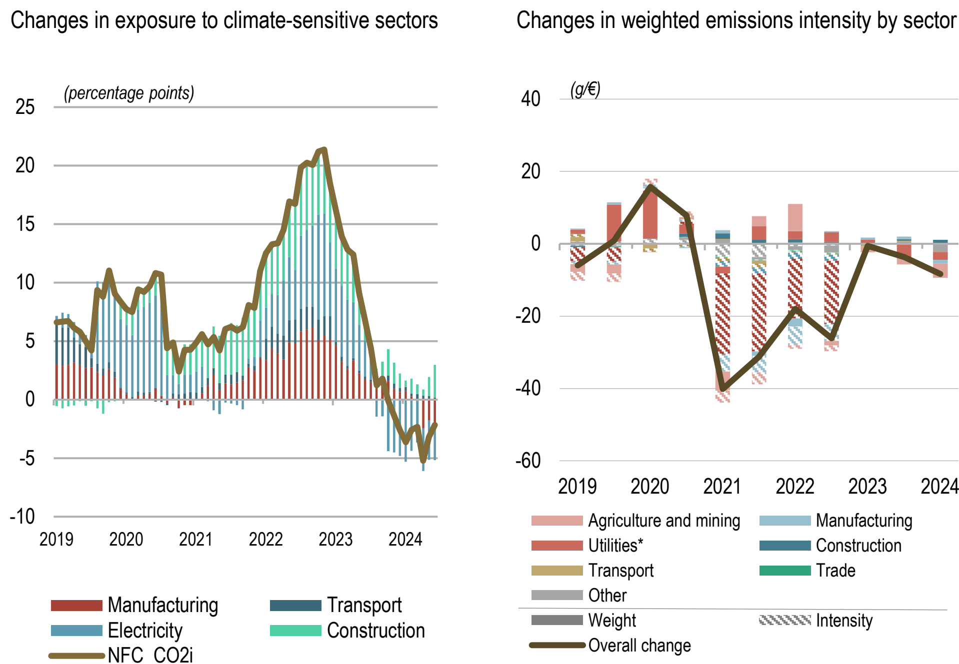
[62] Climate-sensitive sectors according to the second definition are defined as climate policy relevant sectors (Battiston et al., 2017): energy-intensive sectors, fossil fuel, transportation, utilities and housing. The housing sector includes certain manufacturing activities, and certain segments of construction, accommodation and real estate activities.

[63] Utilities encompasses electricity, gas, steam and air conditioning supply, and water supply.

points). The share of exposures to climate-sensitive sectors in the non-financial corporations portfolio declined slightly year-on-year by the first definition (by 0.7 percentage points), though it remains moderate and amounts to 36.8% on average.

A favourable trend is evident in the carbon indicators, with an improvement in most of the indicators. The weighted carbon intensity in June declined 4.7% year-on-year, while the tilt to polluting sectors declined by 6 percentage points on average. Carbon credit intensity declined marginally by 0.1% year-on-year. A significant improvement over time is evident in the intensity indicators. Weighted carbon intensity declined most in 2021 and 2022, driven primarily by a decline in emissions in electricity, gas, steam and air conditioning supply and manufacturing (see Figure 3.3, right). In particular, the recent changes reflect the reversal in the credit cycle (changes in weights), similarly so for the changes in the carbon credit intensity indicator. The largest factors in the intensity indicators were exposures to agriculture, manufacturing, electricity, gas, steam and air conditioning supply, and transportation, as well as construction in the case of the weighted carbon intensity indicator. Weights had a negative effect on the dynamics in carbon credit intensity. The decline in leverage (exposure relative to income) led to an increase in the indicator, while the effect of declining emissions intensity has been significantly smaller over the recent period, as the major changes in emission intensity occurred in 2021 and 2022. The largest factors in the decline in the tilt to polluting sectors were declines in exposure (relative weights) to electricity, gas, steam and air conditioning supply, agriculture (sectoral emissions) and manufacturing (granular emissions). The tilt largely stems from exposures to agriculture and construction, which accounted for 11.7% of the non-financial corporations portfolio exposures in June. The contribution to the tilt by electricity, gas, steam and air conditioning supply has remained negative since mid-2022.

Figure 3.3: **Changes in exposure to climate-sensitive sectors and weighted emissions intensity**



Note: The label NFC_CO2_i entails the subset of activities within manufacturing, transportation, construction and electricity sectors. The right chart illustrates the decomposition of the change in weighted emissions intensity by sector, with sectoral emissions used to calculate emissions.
Sources: Eurostat, Banka Slovenije

Credit risk in climate-sensitive sectors remains low. A concentration of risks can still be identified in certain sectors. After rising at the end of 2023, the NPE ratio of climate-sensitive sectors in the non-financial corporations portfolio has remained unchanged this year and stands at 0.6%. The largest contributions to the share come from manufacturing (0.3%) and construction (0.2%) activities. The share of NPEs from climate-sensitive sectors in total non-financial corporations NPEsstood at 31.7% at the end of the second quarter, declining by 0.3 percentage points compared to the previous quarter. The ongoing weakness of manufacturing output and the potential deterioration in the outlook for economic growth could further increase (the concentration of) credit risks.

Developments in climate indicators should be interpreted carefully. Transition risks might increase in the future, In case of a credit cycle reversal as a result of weak economic activity, as firms would be less prepared for the green transition amid increased investment needs. The uncertain geopolitical situation and the measures related to the green transition remain additional risk factors. A decline in inflationary pressures in the absence of a further increase in geopolitical tensions could mitigate the risks, while a rise in inflation can be expected over the short term due to green transition policies (e.g. a carbon tax).

Box 4: Banking system's exposure to physical risks

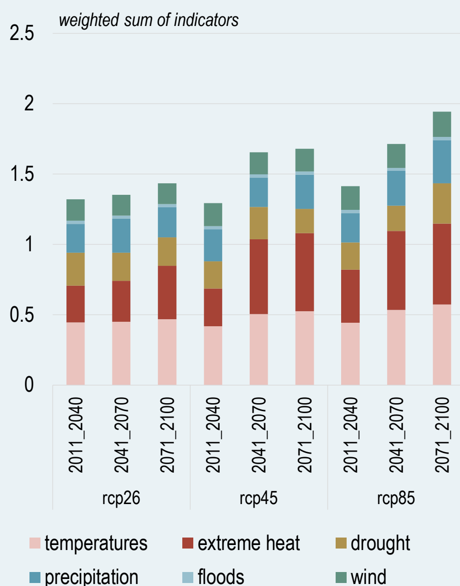
This box illustrates the physical risk indicators for bank exposures to households and non-financial corporations. The indicators are defined on the basis of Banka Slovenije's internal methodology and are based on chronic (increased temperatures and precipitation) and acute (droughts, wind, floods, extreme heat) physical risks.[64] The analysis shows that the assessment of the banking system's exposure to physical risks depends on the scenario and the time horizon of the assessment and that climate risks will increase sharply by the end of the century. The largest risk will come from higher temperatures and extreme heat. Manufacturing and wholesale and retail trade will be most exposed in the non-financial corporations portfolio, while housing loans and consumer loans will be most exposed in the household portfolio.

The analysis of physical risks is still characterized by challenges related to filling data gaps and choosing the methodological approach, e.g. in the definition of indicators. The definition of the composite physical risk indicator is based on the indicators at municipality level. The definition of the indicators primarily accounts for changes in climate indicators relative to a reference period (1981 to 2010), while the risk categories for an individual municipality are determined based on percentiles of the whole distribution (over time and across climate scenarios). The physical risk indicator for an individual municipality is calculated as the sum of the standardised indicators of physical risks across hazards. The composite physical risk indicator, which takes account of the structure of the banking system, is computed as the weighted sum of the physical risk indicators across individual municipalities.

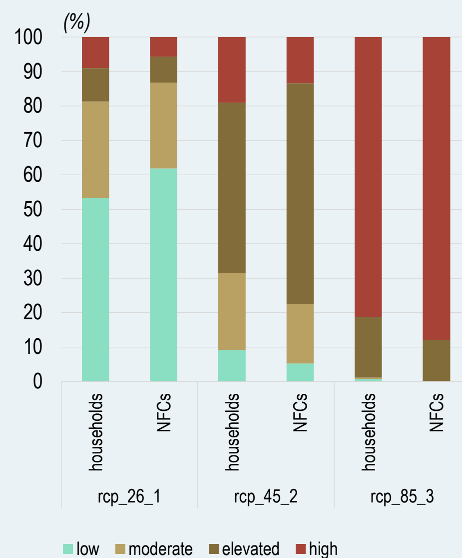
[64] The indicators for chronic physical risks, droughts, wind and extreme heat, account for standardised deviations in the set of climate variables over time and across climate scenarios from the reference period (1981 to 2010), and flood hazard map data at the level of municipalities. The data is based on the Slovenian Environment Agency projections for climate scenarios RCP 2.6, RCP 4.5 and RCP 8.5 for three time periods: 2011-2040, 2041-2070 and 2071-2100. The thresholds for determining the risk categories for the indicators are the quartiles of the whole distribution over time and across climate scenarios.

Figure 3.4: **Physical risks in the banking system**

Composite indicator of physical risks in the banking system across various scenarios and periods



Breakdown of exposures in household and non-financial corporations portfolios by risk category

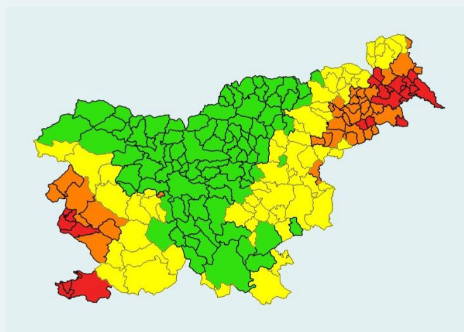


Note: In the right chart the label rcp_26_1 refers to calculations under the mildest scenario for the first time period, rcp_45_2 to calculations under the moderate scenario for the second time period, and rcp_85_3 to calculations under the most severe scenario for the third time period, with a cut-off date of 30 June 2024 for the calculation of exposure shares.
Sources: Slovenian Environment Agency, Banka Slovenije

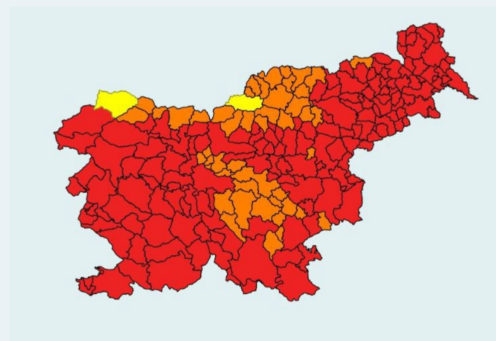
Developments in the composite physical risk indicator are currently being driven primarily by chronic physical risks, but the importance of acute physical risks is also expected to increase in the future. The composite physical risk indicator increases across climate scenarios and time relative to the reference period. The composite indicator is 7.2% higher under the most severe scenario compared to the mildest scenario in the first period, 26.7% in the second period, and 35.6% higher in the third period (see Figure 3.4, left). This shows the importance of the assumptions of the climate scenario, particularly for calculations over longer time horizons, as well as the urgency of mitigating climate risks. Developments in the composite physical risk indicator for the household and non-financial corporations portfolios are particularly influenced by temperature-related factors, such as (acute) extreme heat or the(chronic), rise in temperatures (on average 59%). The composite indicators for municipalities subject to high physical risks are also influenced by the risk of drought and floods.

Figure 3.5: **Physical risks in the banking system**

Risk categories of municipalities under the mildest scenario



Risk categories of municipalities under the most severe scenario



Note: The left map shows the classification of municipalities in the first period under the mildest scenario and the right map shows the classification of municipalities in the last period under the most severe scenario.
Sources: Slovenian Environment Agency, Banka Slovenije

The majority of bank exposures to the household and non-financial corporations portfolios are currently in municipalities with low to medium physical risks. The share of these exposures in the household portfolio is slightly lower than in the non-financial corporations portfolio (see Figure 3.4, right). The share of exposures located in municipalities with low or moderate physical risks stood at 81% in the household portfolio and 87% in the non-financial corporations portfolio in the first period under the most moderate scenario. The majority of these exposures were in municipalities with low physical risks..The share of exposures in higher physical risk categories increases with the anticipated increase in physical risks . Most exposures will be located in municipalities with high physical risks under the most severe climate scenario by the end of this century, in both the household and non-financial corporations portfolios. The reason is that the majority of municipalities would be reclassified to the high risk category (see Figure 3.5).

Manufacturing and wholesale and retail trade are among the more exposed sectors in municipalities with high physical risks. More than half of total exposures in the household and non-financial corporations portfolios are in municipalities with high exposure to at least one physical risk.[65] The average share over the three scenarios in the first period is 62% in the household portfolio and 72% in the non-financial corporations portfolio. The greatest exposure in the household portfolio is in housing loans (accounting for 37%), followed by consumer loans (13%).[66]

[65] A municipality is highly exposed to an individual physical risk if the standardised indicator of exposure to physical risk has a value of more than 0.75.

[66] Exposures in the household portfolio encompass data on housing loans and consumer loans, finance leasing, credit cards, deferred payment cards and overdrafts.

4 Resilience of the Banking System

4.1 Solvency and profitability

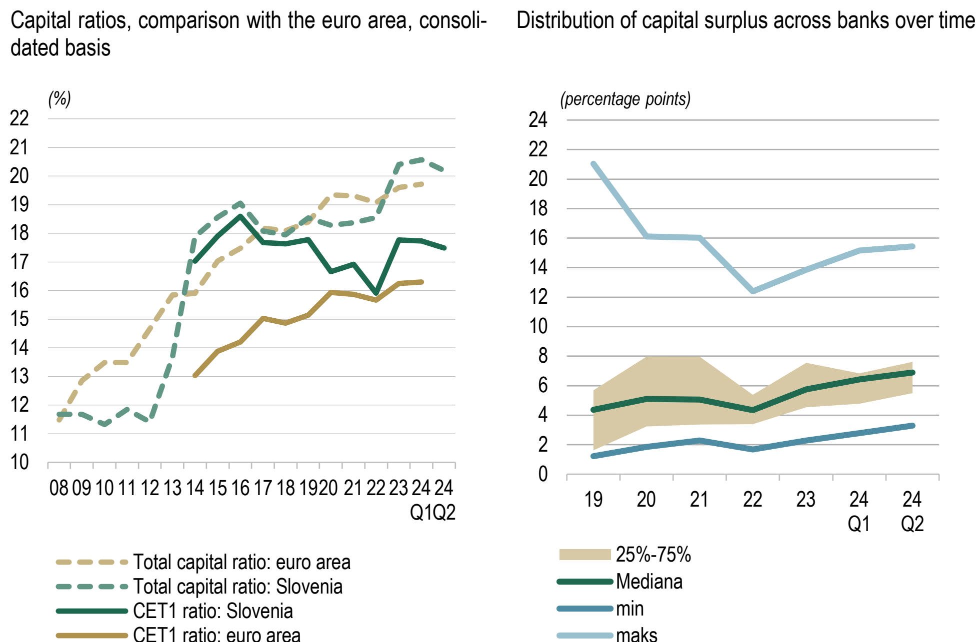
The resilience of the banking system from the perspective of solvency and profitability remains high this year. Our assessment is that the good profitability resulting from persistently high net interest income will continue to be enjoyed by the banks in the second half of this year amid relatively unchanged 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 2024, should the banks again retain some of their profits or allocate them to reserves this year. Risks to the maintenance of the current solvency position in the banking system could in the future be posed by growth in credit risk and an increase in risk-weighted assets for operational risk, while the tax on total assets will have a relatively limited adverse impact while profits are high.

Solvency

The banking system disclosed high solvency at the end of the first half of the year. The total capital ratio on a consolidated basis increased slightly further in the first quarter of this year, before falling to 20.2% in the second quarter, still high, but below its level from the end of 2023 (down 0.2 percentage points). The common equity Tier 1 capital (CET1) ratio on a consolidated basis declined in both quarters of the year, by a total of 0.3 percentage points, to end the first half of the year at a favourable 17.5% (see Figure 8.17, left). The developments in the capital ratios over the first two quarters of the year were primarily attributable to the higher growth in risk-weighted assets compared with the more modest growth in regulatory capital. There was a notable increase in risk-weighted assets for credit risk, primarily as a result of growth in exposures to households, non-financial corporations and banks. In addition to the banks' own motivations, growth in regulatory capital via retained earnings was also encouraged by macroprudential measures in the form of the countercyclical capital buffer. The total capital ratio on an individual basis at system level has increased by 0.3 percentage points in 2024 to 22.4%, of which 0.2 percentage points came in the last quarter alone. The CET1 ratio on an individual basis increased by 0.2 percentage points to 19.1%. The figures for the euro area show an increase in the capital ratios on a consolidated basis. The total capital ratio in the euro area overall reached 19.7% in the first quarter of this year, while the CET1 ratio reached 16.3%. Both were up 0.1 percentage points this year[67] (see Figure 4.1, left), but remain below the average ratios in the Slovenian banking system.

[67] Data available to the first quarter of 2024.

Figure 4.1: **Developments in capital ratios and capital surplus**



Sources: ECB Data Portal, Banka Slovenije

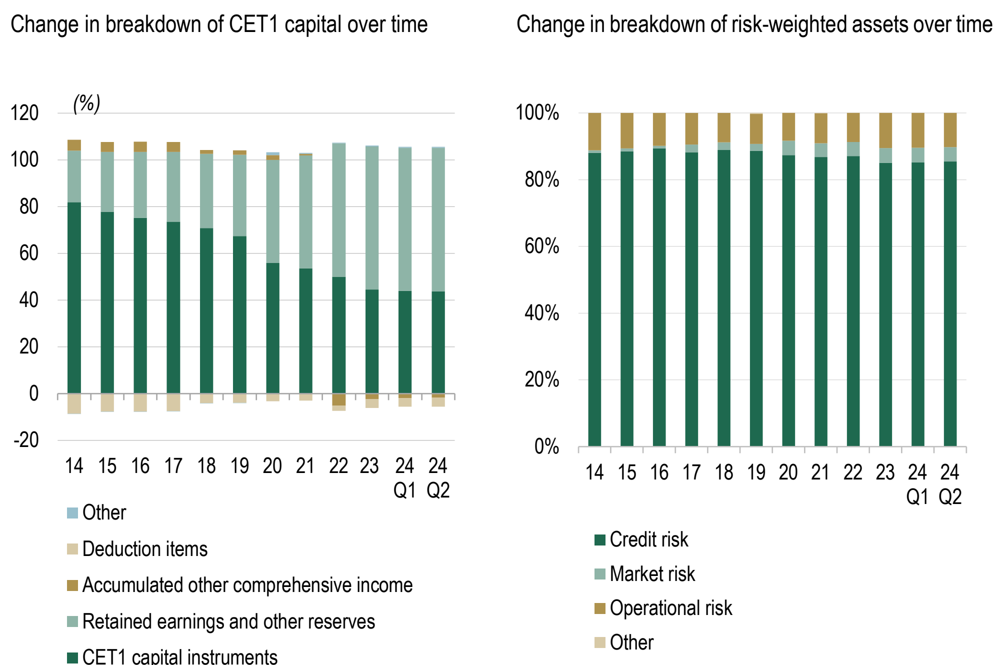
The banking system ended the first half of this year with a high total capital ratio on a consolidated basis. Despite declining by 0.2 percentage points relative to the end of last year, it is still above its level from 2016, when it stood at 19.1% (and the CET1 ratio at 18.6%). Eight banks in all (62% of the total number) saw their total capital ratios rise. The largest increase was 5.3 percentage points, while the largest decline was 1.95 percentage points. Seven banks (54% of the total number) saw an increase in their CET1 ratios, with a largest increase of 5.3 percentage points and a largest decline of 1.9 percentage points. The average surplus over the overall capital requirements[68] at the level of the banking system declined by 3 basis points over the first half of the year to 6.5 percentage points. Eight banks saw their surpluses increase, which is also evident in the increase in the median surplus (see Figure 4.1, right), which reached 6.9 percentage points (having increased by EUR 2.2 billion) and has been rising since the third quarter of 2022. The lowest surplus had reached 3.3 percentage points by the end of the first half of the year, the highest figure since the end of 2018. The surplus has been rising in recent years, thereby increasing the resilience of individual banks and with it that of the banking system as a whole, although the actual distribution of the surplus across banks shows that the capacity to potentially absorb negative effects in the event of the realisation of systemic risks varies from bank to bank. The favourable trend at system level was also reflected in the leverage ratio, which increased by 0.1 percentage points to 9.2%, although it remains lowest at the small banks (see Figure 8.17, right). Under the assumption that the banks will continue exploiting the good business environment for profitability to also strengthen their solvency, the capital adequacy ratios are expected to remain stable this year, despite the potential risks identified.

Regulatory capital on a consolidated basis increased in the first half of this year at system level. It was up 2.3% (EUR 151.5 million) on the beginning of the year, fully 0.8 percentage points more than in 2023, driven above all by CET1 components, namely retained earnings and reserves in the amount of EUR 104.1 million. The banks have also issued Tier 2 capital. This replaced smaller and older issues with newer and

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

larger issues, thereby increasing the marketability and liquidity of the issues. The share of regulatory capital accounted for by Tier 2 capital has remained relatively stable since the end of 2022. It stood at 12.1% at the end of the first half of this year, while the share accounted for by additional Tier 1 capital and CET1 capital were 1.3% and 86.7% respectively. Retained earnings and reserves now account for 61.4% of CET1 capital (see Figure 4.2, left). The capital strengthening means that the banks are also meeting their MREL targets. The deadline for meeting the MREL targets passed on 1 January 2024, with all banks in Slovenia meeting their targets. The expectation is that in the future the ability to generate regulatory capital will be hindered above all by the increased taxation of banks and slower growth in net income, in addition to the banks' overall poor access to the capital markets.

Figure 4.2: **Change in breakdown of CET1 and risk-weighted assets**



Source: Banka Slovenije

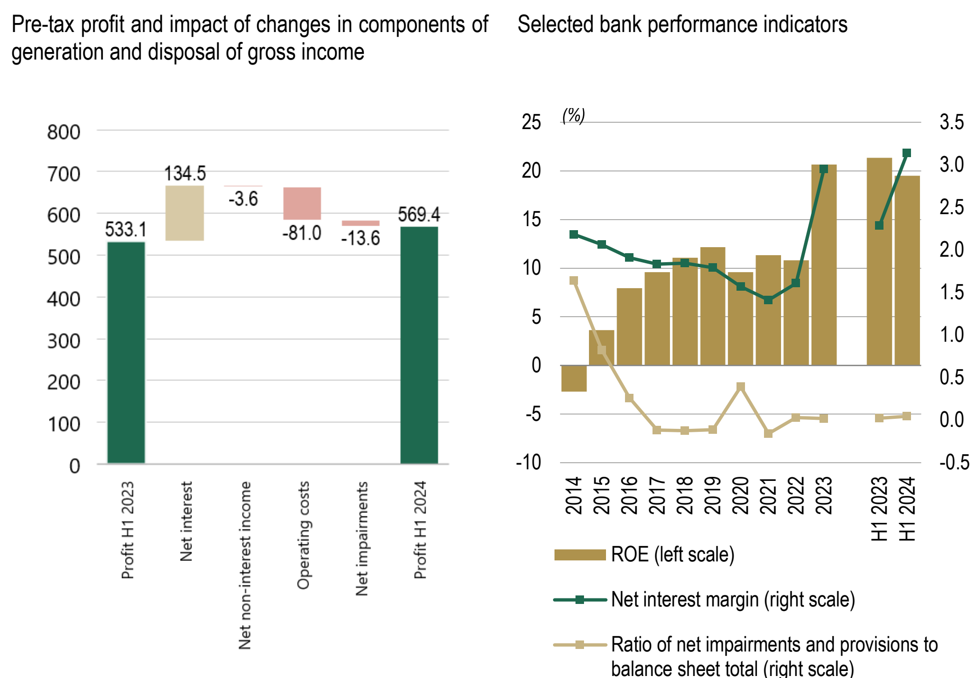
Total risk-weighted assets on a consolidated basis increased in the first half of this year, primarily on account of an increase in exposure to credit risk. Total risk-weighted assets on a consolidated basis rose by 3.4% (EUR 1.1 billion) over the first half of the year to EUR 33.8 billion, up 4.8% in year-on-year terms. Risk-weighted assets actually declined by 0.8% over the same period last year, and the year-on-year rate of growth stood at a modest 1.5%. Here it should be noted that a major factor in these developments was the one-off effect of the sale of a leasing company by one of the banks, and the accompanying removal of its entire portfolio from the banking system. This year's increase in total risk-weighted assets was driven primarily by risk-weighted assets for credit risk, which were up 3.9% or just under EUR 1.1 billion over the first two quarters of the year, primarily as a result of increases in exposure to households (4.9%), non-financial corporations (3.0%) and banks (12.2%). Risk-weighted assets for credit risk accounted for 85.3% of total risk-weighted assets at the end of June 2024, while the share accounted for by risk-weighted assets for market risks (see Box 4) held steady at 4.4% and the share accounted for by risk-weighted assets for operational risk declined to 10.2% (see Figure 4.2, right). The second half of the year can be expected to bring growth in risk-weighted assets for credit risk, driven by growth in

lending and by asset transformation as liquid assets with low risk are replaced with higher-risk assets. Credit exposure is expected to further increase as a result of the anticipated return of a leasing company's portfolio to the banking system.[69] A significant increase in risk-weighted assets for operational risk is also expected by the end of the year, on account of the high level of the income on which the calculation of the capital requirement is based, and not least on account of increased cyber risks.[70]

Profitability

Pre-tax profit in the first half of the year amounted to EUR 569 million, up 6.8% on the record level achieved in the same period last year (see Figure 4.3, left).[71] Amid high net interest income, the high profit is mainly attributable to an increase in net income,[72] while the banks' creation of net impairments and provisions has been relatively low this year. The latter accounted for just 3.1% of the disposal of gross income. Pre-tax ROE (see Figure 4.3, right) stood at 19.5%, down 1 percentage point on the figure for 2023 (20.6%) and 1.9 percentage points on the same period last year (21.4%), but still well above its average of previous years (average between 2018 and 2022: 11%).

Figure 4.3: **Changes in generation and use of income with profit, and selected bank performance indicators**



Notes: The June 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 banks saw an increase in their creation of net impairments and provisions in the first half of this year compared with the same period last year, but it nevertheless remains relatively low. Consequently it is not having a significant impact on the profitability of banks in Slovenia. The figure of 3.1% of the disposal of gross

[69] Our assessment is that the return of this portfolio to the banking system will reduce the total capital ratio *ceteris paribus* by around 0.5 percentage points.

[70] For more, see the subsection on cyber risk.

[71] It amounted to EUR 791.5 million over the first seven months of this year, up 24.3% on the same period last year.

[72] Net income is gross income (net interest income plus net non-interest income) minus operating costs. For more on the developments in income and costs, see the section on income risk.

income is just a quarter of that seen in 2020 (during the Covid-19 pandemic), when it stood at 12.5%. This was the only occasion in the last few years that the banks have created slightly more net impairments and provisions, similarly to banks in the EU overall. More than two-thirds (11) of the credit institutions in Slovenia increased their creation of net impairments and provisions in the first half of this year.

Profitability can be expected to be relatively high in the second half of the year, given the expected stable level of income generation and the low net impairments and provisions. It is expected to decline slightly compared with last year. Net interest income can be expected to gradually decline: it is currently growing slightly more slowly than at the end of last year, and the ECB cut its interest rates in June and September of this year, which will eventually be reflected in bank interest rates and (net) interest income. Given that the interest spread between assets and liabilities remains relatively large, and with it net interest, in the event of any increase in net impairments and provisions the banks will still be achieving above-average profitability compared with the years before the onset of the rise in interest rates.

Profitability at banks in Slovenia, the euro area and the EU

Last year's ratio of net impairments and provisions to the balance sheet total in EU Member States was comparable to that in the previous year. No banking system in the EU recorded a net release of impairments and provisions last year, as was the case a few years ago. The ratio of net impairments and provisions to the balance sheet total increased slightly last year: it stood at 0.21% in the EU overall, with a median in EU Member States of 0.15%. The figure for the Slovenian banking system stood at just 0.16%, slightly above the EU median but below the EU mean. The figures for Slovenia and the EU overall were still significantly lower than for example in the year of the Covid-19 pandemic (2020); last year's figure in Slovenia was just over a third of that seen in 2020, while the EU figure was just under a half of that seen four years ago.

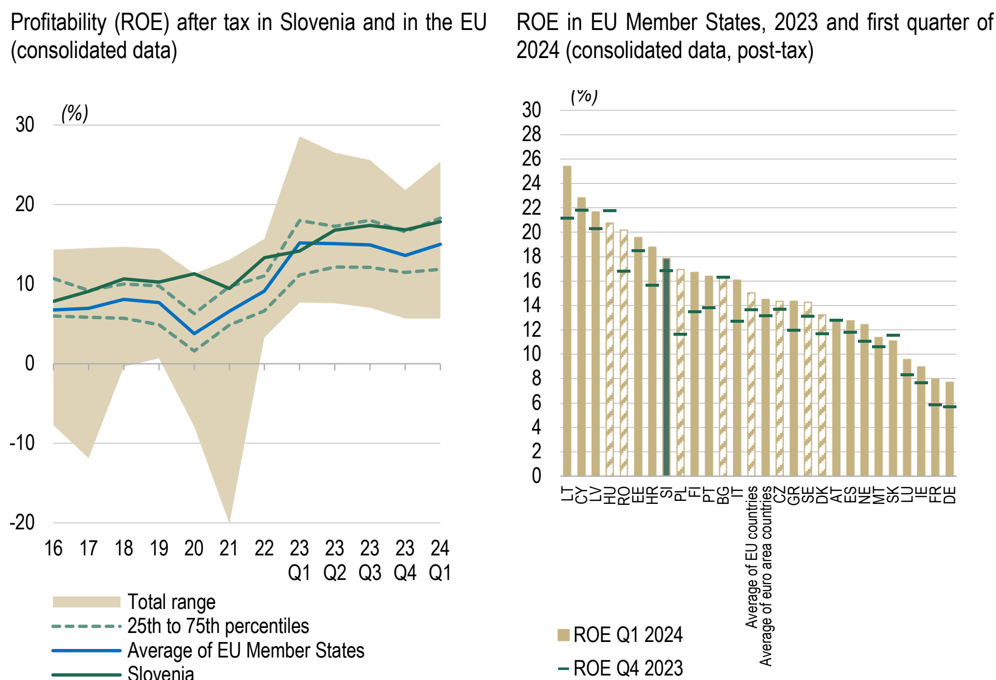
There were no major changes in net impairments and provisions in Slovenia and the EU overall in the first quarter of 2024. The ratio of impairments of financial assets to the balance sheet total[73] in Slovenia in the first quarter of 2024 was around half of the averages of EU Member States and euro area countries, and slightly less than 40% of the values in both zones. The figures for the EU and the euro area are very similar.

Bank profitability increased last year in Slovenia, and in the euro area and the EU overall (see Figure 4.4). Post-tax ROE[74] in the Slovenian banking system stood at 16.8% in 2023 according to data comparable to elsewhere in the EU (up from 13.3% in December 2022), while the average of EU Member States stood at 13.6% (up from 9.1%). The gaps between ROE in Slovenia and the figures for the EU overall and the euro area overall (7.9 percentage points and 8.3 percentage points) were wider than in the previous year.[75] The Slovenian banking system thus continues to enjoy above-average profitability. A similar picture is painted by the relatively large gap between ROE in the Slovenian banking system and this indicator at banks of comparable size. ROE at small banks in the euro area and the EU stood at 8.2% and 8.6% respectively last year, and thus the gap by which they trailed Slovenia stood at 8.6 percentage points and 8.2 percentage points respectively. A similar picture is painted by a comparison over the five previous years, ROE in Slovenia averaged 11% according to these figures,

[73] This is a slightly more narrowly defined indicator than the aforementioned indicator, as it does not include provisions.
[74] Consolidated bank data at national level (ECB, ECB Data Portal, CBD), annualised ROE after taxes.
[75] By contrast, the gap by which ROE exceeds the ordinary average in the EU and the euro area narrowed.

in contrast to the figures of 4.3% at small banks in the euro area and 4.4% at small banks in the EU.

Figure 4.4: **Profitability in Slovenia and EU**



Sources: Banka Slovenije, ECB Data Portal, own calculations

Bank profitability in Slovenia and the EU improved further in the first quarter of this year. ROE[76] in the Slovenian banking system stood at 17.9% in the first quarter, compared with an average of 15% in EU15 countries (EU overall: 10.6%) and an average of 14.5% in euro area countries (euro area overall: 10.2%). Profitability was kept at high levels by high net interest income and low net impairments and provisions.

4.2 Liquidity

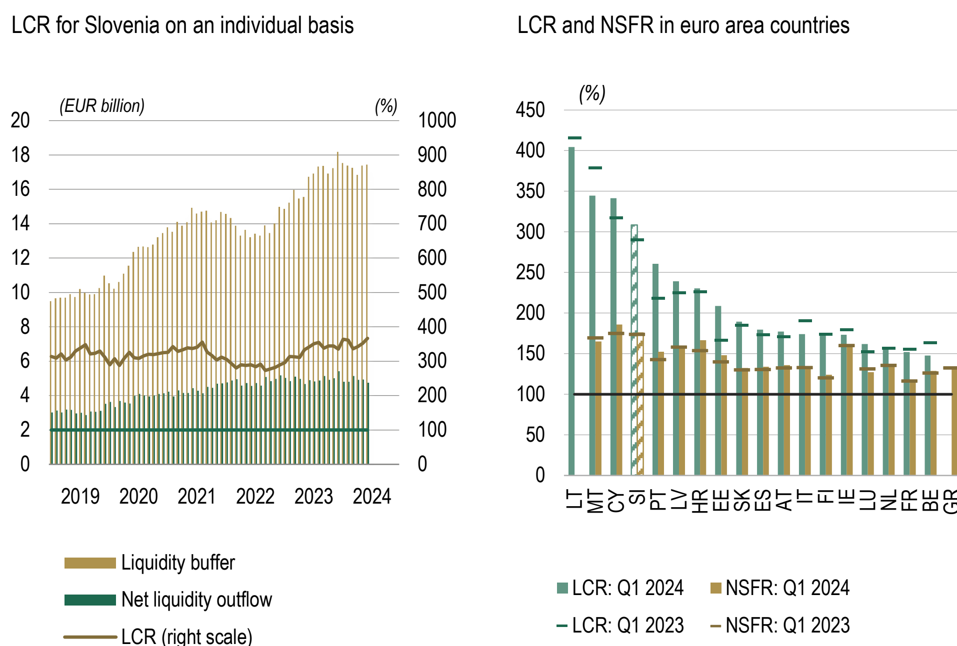
The resilience of the Slovenian banking system in the liquidity segment remained high with a stable outlook. Already high, the LCR and the NSFR improved further at system level. The majority of banks maintained high resilience to systemic risks, although there remain considerable differences between them in the size of their liquidity surpluses. The change in the liquidity breakdown caused by the redirection of funds from accounts at the central bank into the purchase of debt securities might prove to be less favourable in the event of a sudden pronounced need for liquidity that would require the sale of secondary liquidity. Although the total stock of liquidity remains large, we should reiterate that prudent liquidity management will continue playing an important role in the future maintenance of the current good liquidity position.

The high capacity to cover net liquidity outflows over a short-term stress period improved even further in the first half of this year at system level. Largely on account of the withdrawal of deposits by non-financial corporations, the decline in net liquidity outflows outpaced that in liquidity buffer, which was down on its peak in December, most notably as a result of the reduction in account balances at the central bank. The liquidity coverage ratio (LCR) on an individual basis increased by 32 percentage points over the first six months of this year to a record high of 367% (see Figure

[76] Consolidated bank data at national level (ECB SDW (CBD)), annualised post-tax ROE.

4.5, left). The liquidity surplus over the minimum regulatory capital requirement (100%) amounted to a high EUR 12.7 billion in June. More than half of the euro area countries have seen an improvement in their LCR over the last year, but Slovenia still ranks a high fourth in terms of this indicator (see Figure 4.5, right).[77]

Figure 4.5: **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

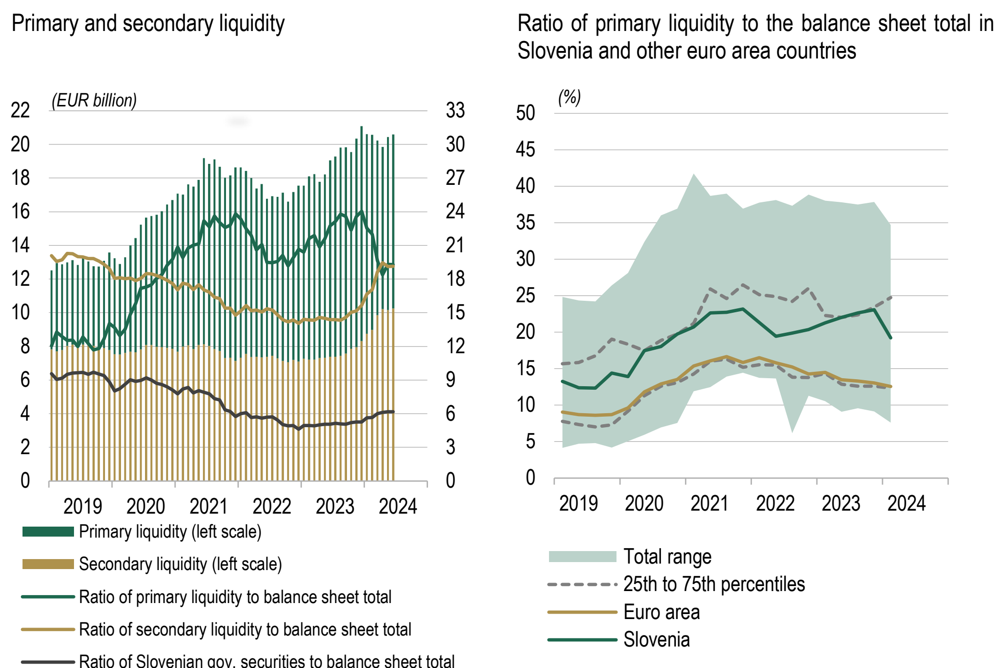
After a significant increase in 2023, the stock of primary liquidity declined sharply over the first six months of this year. After declining by EUR 2.4 billion to EUR 10.3 billion, it was equivalent to 19.3% of the balance sheet total (see Figure 4.6, left), still well above its long-term average (7.7%). Even before June's onset of cuts in the interest rate on the ECB deposit facility, the banks moved some of the funds in their accounts at the central bank into purchases of debt securities, which was a major factor in the decline in primary liquidity. In so doing they were trying to compensate for the decline in interest income from liquid assets fixed at the ECB, which will decline further in the future in line with the anticipated further cuts in the interest rate on the deposit facility. Despite this year's decline, the ratio of primary liquidity to the balance sheet total in the Slovenian banking system remained well above the euro area average (12.6%), which has been declining since the beginning of 2022 (see Figure 4.6, right). Similarly to Slovenia, primary liquidity has declined over the last year at three-quarters of the banking systems in the euro area.[78]

The redirection of some primary liquidity into purchases of debt securities strengthened secondary liquidity. The stock of secondary liquidity increased by EUR 1.9 billion over the first six months of the year to EUR 10.2 billion, equivalent to 19.1% of the balance sheet total, almost equal to the stock of primary liquidity (see Figure 4.6, left). Similarly to previous years, the banks mainly purchased foreign marketable debt securities rated BBB or higher, while only a quarter of the increase in

[77] Data on a consolidated basis for the end of the first quarters of 2023 and 2024 is included in the comparison.
[78] The comparison covers the period of the first quarter of 2023 to the first quarter of 2024.

secondary liquidity consisted of Slovenian government securities. The concentration of the latter thus remains moderate, in that Slovenian government securities accounted for less than a third of secondary liquidity at system level in June 2024. The total stock of primary and secondary liquidity therefore remained high, but the changed liquidity structure would nevertheless be slightly less favourable in the event of a sudden pronounced need for liquidity that would require the sale of securities.

Figure 4.6: **Primary and secondary liquidity**



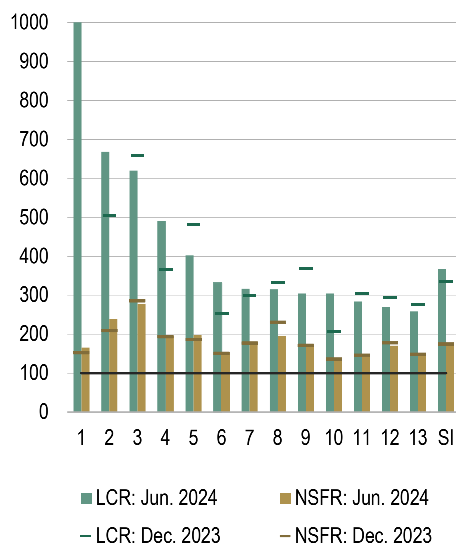
Note: Primary liquidity comprises cash on hand, balances at the central bank and sight deposits at banks. Secondary liquidity comprises Slovenian government securities and foreign marketable securities rated BBB or higher.
Sources: Banka Slovenije, ECB Data Portal, own calculations

The capacity to fund liabilities over a one-year horizon improved slightly at the level of the banking system. In the wake of an increase in wholesale funding, the available stable funding increased more than the stable funding requirement, which strengthened as a result of the increase in loans and debt securities. This increased the NSFR at system level by 0.8 percentage points over the first half of this year to 174.5%, still well above the minimum regulatory requirement of 100%. This means that the availability of stable funding in the Slovenian banking system over a one-year period exceeds the funding requirement by EUR 18.6 billion. Although the majority of euro area countries saw an increase in their NSFR over the last year, Slovenia was still ranked a high second in terms of this indicator at the end of the first quarter of 2024 (see Figure 4.5, right).

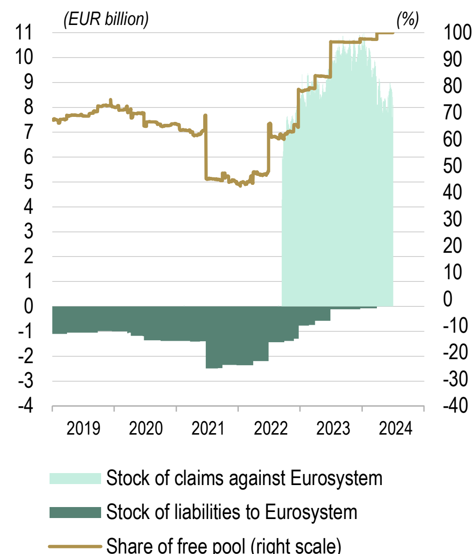
The majority of the banks maintained high resilience to systemic risks in the liquidity segment, although there remains considerable variation in their liquidity surpluses. Almost half of the banks saw improvements in their LCR and NSFR in the first half of the year (see Figure 4.7, left). The LCR is at least 2.5 times the minimum regulatory requirement at all banks. Meanwhile the NSFRs show that the majority of banks would have at least 50% more available stable funding than they would need to cover liabilities over a future one-year period.

Figure 4.7: **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 figure denotes the minimum requirement for the LCR and the NSFR in accordance with the CRR (100%). For the sake of transparency, one of the banks is not fully illustrated in the left chart: its LCR stood at 6,611% in June 2024, and 1,069% in December 2023.
Source: Banka Slovenije

The pool of eligible collateral at the Eurosystem has been entirely free since the end of March of this year, the banks no longer holding any liabilities to the Eurosystem. This allows the banks to obtain additional liquidity whenever it might be needed. The remaining banks repaid all their liabilities under the TLTRO-III in March, thus entirely freeing the pool of eligible collateral. Given that their large holdings of liquid assets mean that banks have no need for additional borrowing from the Eurosystem, they reduced the pool by EUR 349 million over the first six months of this year to EUR 2.9 billion. Together they still hold EUR 9.2 billion of eligible collateral on their balance sheets that could be mobilised to the pool and used to obtain liquidity from the Eurosystem. While the banks do not hold liabilities to the Eurosystem at the moment, with interest rates still favourable, they are maintaining relatively large claims against the Eurosystem in the form of the deposit facility (see Figure 4.7, right). The stock of overnight deposits averaged EUR 9.1 billion in the first half of this year, down EUR 350 million on 2023. As stated previously, the banks have begun to redirect liquid assets into other investments, and given the anticipated cuts in ECB interest rates the gradual decline in overnight holdings is likely to continue in the future.

5 Households and Non-Financial Corporations

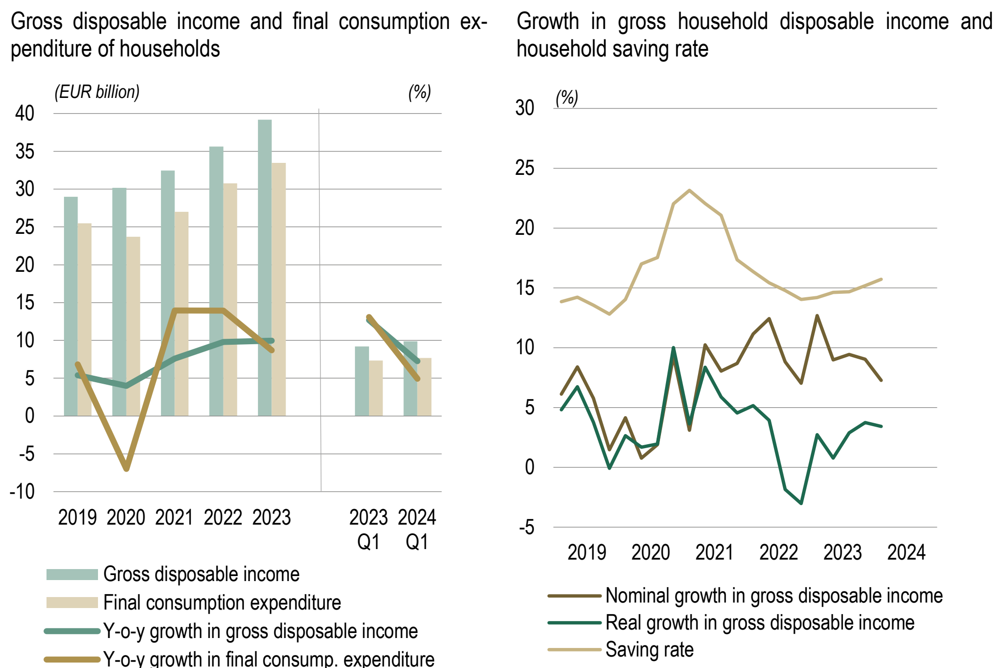
5.1 Households

The financial position of households remained good in the first half of this year. The fall in inflation is narrowing the gap between the nominal and real rates of growth in gross disposable income. The annual household saving rate increased again slightly in the first half of this year. Consumer confidence improved again, but remained below its long-term average. Households in Slovenia are less indebted than those in the euro area overall, although the ratio of consumer loans to GDP has increased over the last three years and is approaching that in the euro area.

Household consumption, saving and financial assets

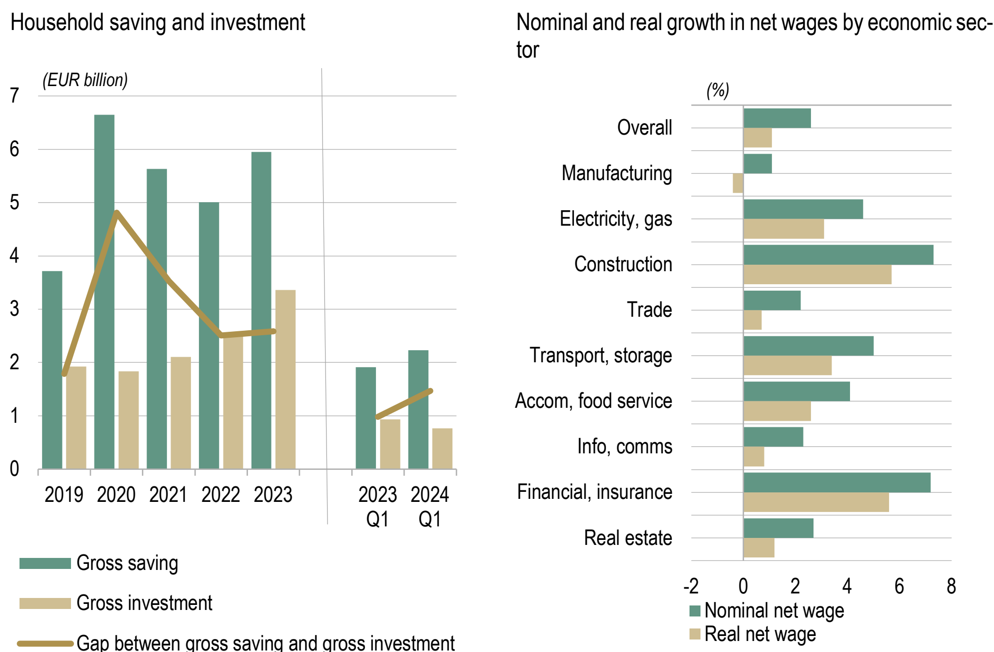
The fall in inflation is narrowing the gap between the nominal and real rates of growth in gross disposable income. Nominal growth in gross disposable income stood at 8.7% in the first quarter of this year, while real growth stood at 3.4%. High inflation meant that the gap between them was significantly wider in 2022 and 2023 (12.8 percentage points at the end of 2022). The annual household saving rate has been rising since the beginning of 2023, and stood at 15.7% in the first quarter of 2024 (see Figure 5.1, right). Year-on-year growth in household final consumption expenditure slowed to 4.9% in the first quarter of this year, down on its pre-pandemic level (6.9%) (see Figure 5.1, left). The surplus of gross saving over gross investment increased again in the first quarter of this year to stand at EUR 3.1 billion (see Figure 5.2, left). Gross saving was up EUR 6.3 billion in year-on-year terms in the first quarter, while gross investment was up EUR 3.2 billion. There was a renewed improvement in consumer confidence at the same time, although it remained below its long-term average (see Figure 8.22, left, in the appendix).

Figure 5.1: **Gross disposable income, final consumption expenditure and household saving rate**



Source: SORS

Figure 5.2: **Saving and investment, and nominal and real wage growth**



Source: SORS

Nominal net wages were up 2.6% in year-on-year terms in June of this year, while real net wages were up 1.1%. Growth was seen in all sectors other than manufacturing, where real net wages fell by 0.4%. The largest rise in net wages was recorded by construction, which has one of the lowest average net wages, and in financial and insurance activities, which has the highest. Wage growth has been higher in other months, for example a nominal rate of 4.7% and a real rate of 3.4% in July.

The ratio of Slovenian households' financial assets to GDP at the end of the first quarter of 2024 was up slightly on the end of the previous year. At 126.4% it remains well below the figure in the euro area overall (209.9% of GDP), although household financial liabilities are also lower in Slovenia. Slovenian households' financial assets stood at EUR 82.9 billion at the end of the second quarter of 2024, up 8.7% year-on-year in nominal terms (see Figure 8.22, right, in the appendix).

Household indebtedness and housing cost burden

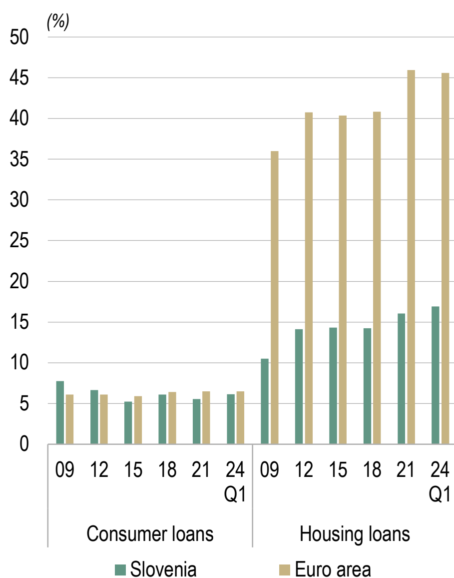
The ratio of household financial liabilities to GDP was significantly lower in Slovenia (27.3%) than in the euro area overall (61.1%), although financial assets are also lower. Loans account for the majority (88.5%) of Slovenian households' financial liabilities. Households held EUR 15,757 million of liabilities in the form of loans in the second quarter of 2024, the majority of which (95.0%) were at financial corporations in Slovenia. Of these, EUR 13,238 million (84.0%) was at banks in Slovenia, while EUR 1,632 million was at other financial intermediaries. They held EUR 384.2 million of loans at non-financial corporations in Slovenia, and EUR 239.0 million of loans at lenders in the rest of the world.

The ratio of housing loans to GDP in Slovenia remains significantly less than the euro area average, in part because of the existing high level of owner occupancy in the country. The ratio of consumer loans to GDP (6.2%) has increased over the last three years, and is approaching the figure in the euro area overall (6.5%) (see Figure 5.6, left). The stocks of consumer loans and housing loans amounted to EUR 3 billion and EUR 8.3 billion respectively at the end of June 2024. The rise in household borrowing over the first six months of this year was mainly driven by growth in consumer loans. Year-on-year growth in household loans was slowing until September of last year as interest rates rose, but had strengthened to 5.5% by June of this year (see Figure 5.4, right). Consumer loans have strengthened since the changes to the macroprudential restrictions on consumer lending in July of last year, the year-on-year rate of growth in the stock of consumer loans rising sharply to reach 16.7% in June of this year. New housing loans[79] increased between March and June of this year, and the number of loans also rose. Growth in the stock of housing loans has strengthened since hitting its lowest level for several years in November of last year, and reached 2.0% in June of this year. The introduction of the macroprudential restrictions on household lending in 2019 sharply reduced growth in consumer loans, which fell between 2020 and 2022.

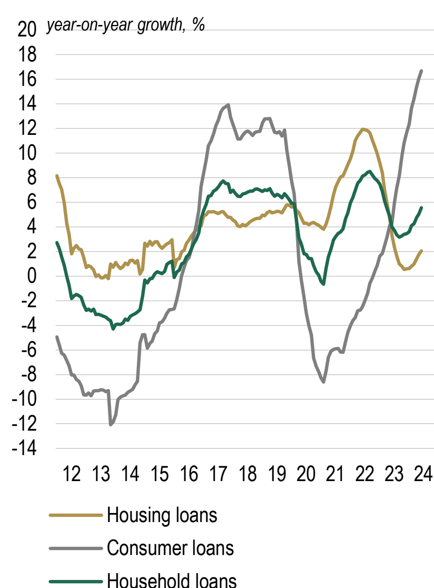
[79] See the section on risk inherent in the real estate market.

Figure 5.3: **Household indebtedness**

Ratio of household loan stock to GDP



Stock of housing loans and consumer loans

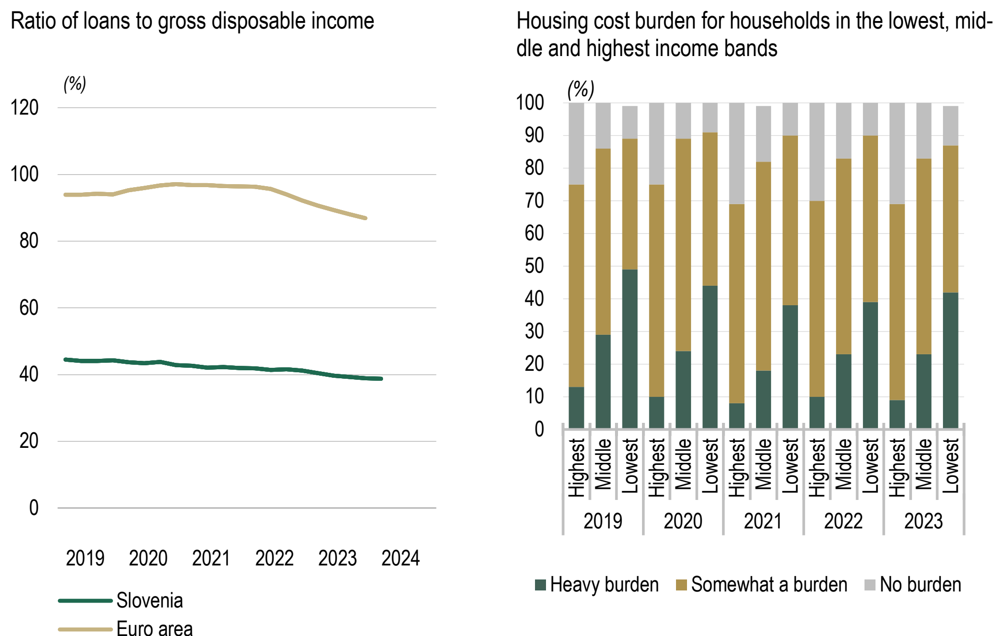


Sources: ECB Data Portal, Banka Slovenije

The banks are reporting an increase in demand for loans for current consumption in 2023 and the first half of 2024 (see Figure 8.23, left, in the appendix and Figure 8.25, right, in the appendix). Some 61.3% of applications for consumer loans and 32.6% of applications for housing loans in terms of the loan amount were rejected in the first half of this year. The main reasons for the rejection of household loans were "other" reasons and bank credit standards, which were tightened significantly for housing loans in 2023 (see Figure 8.23, right, in the appendix).

The financial position of households is also being influenced by their housing cost burden, which varies considerably according to the income of each household. The share of households in the lowest income band who felt their housing cost burden to be heavy has increased slightly over the last two years according to the EU-SILC survey (see Figure 5.4, right). Some 42% of those households felt the burden to be heavy in 2023, compared with 38% in 2021. However, the share averaged considerably higher between 2005 and 2019 at around 54%. The share of households in the middle income band (see Figure 5.6, right) who felt their housing cost burden to be heavy (23% in 2023, 18% in 2021) is significantly lower than at households in the lowest income band. Their share was also higher between 2005 and 2019, when it averaged 32.8%. The figures for households in the highest income band were just 9% in 2023, and an average of around 14% between 2005 and 2019. Just 12% of households in the lowest income band felt their housing costs to be no burden in 2023, compared with 17% in the middle band and 31% in the highest band. The share of Slovenian households in arrears with loan repayment was slightly lower than the EU average according to the EU-SILC survey (see Figure 8.24, right, in the appendix).

Figure 5.4: **Ratio of loans to gross disposable income and housing cost burden**



Note: Housing costs in the right 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.
Sources: ECB Data portal, SORS

The housing cost overburden rate in Slovenia is among the lower rates in the EU, and is the lowest among its neighbouring countries. The rate stood at 4% in 2023 (see Figure 8.24, right, in the appendix). One factor in the low rate is that Slovenian households are less indebted than the average household in the EU. Comparing only households where the owner holds a housing loan, the housing cost overburden rate in Slovenia is close to the EU average, and is also slightly higher than in neighbouring countries. In recent years it has not differed significantly from the housing cost overburden rate in the total population, while between 2010 and 2016 the rate at households with a housing loan was considerably higher than among the general population. The picture is the reverse in the EU overall.

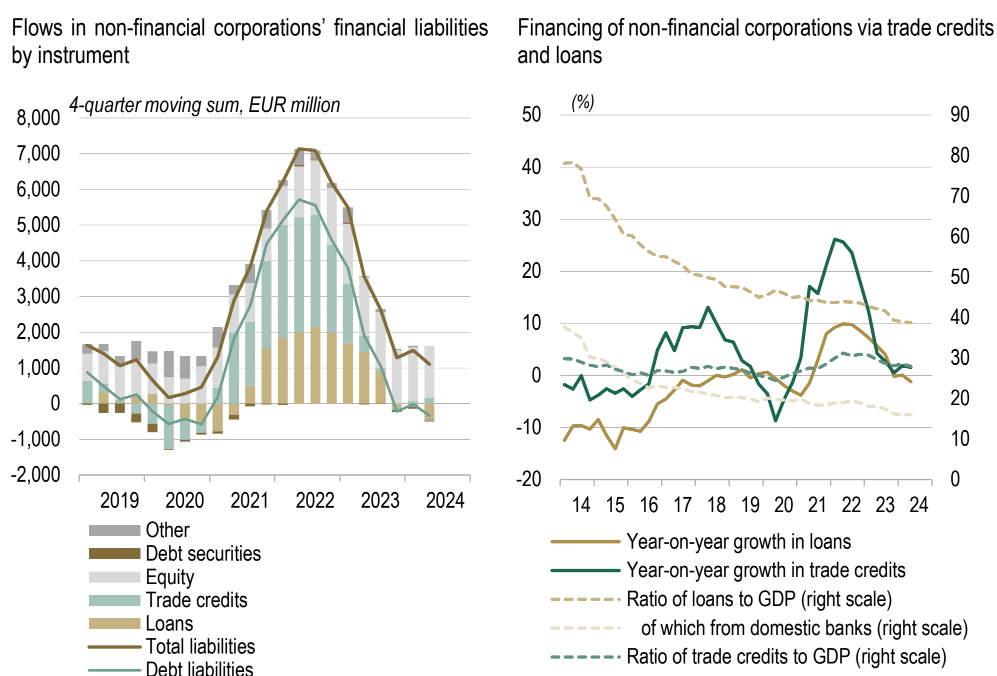
5.2 Non-financial corporations

Debt financing at non-financial corporations increased slightly in the first half of this year, amid modest growth in loans and trade credits. The indebtedness indicators improved, with equity revaluations playing the key role in this. Amid modest growth in loans at domestic banks, financing at foreign parent undertakings also gained in importance. Demand for bank loans declined, which according to bank surveys was largely attributable to the persistence of high interest rates, and the ongoing uncertainty, particularly in the external environment. The number of bankruptcy proceedings initiated at non-financial corporations has been on the rise since the final quarter of 2023, while the number of firms with frozen current accounts also rose slightly. The economic slowdown could see them rise further, but there is no expectation of any major deterioration in the current trends, thanks to the financial soundness of the majority of the economy.

Financing and indebtedness of non-financial corporations

Non-financial corporations' liabilities continued to increase in the first half of this year, largely via an increase in equity. Debt liabilities mainly increased via trade credits and loans, although the inflow of the latter over the preceding 12 months was negative (see Figure 5.5, left). The ratios of trade credits and loans to non-financial corporations to GDP have declined by 2 percentage points and 3 percentage points respectively over the last four quarters to 28.0% and 38.7% (see Figure 5.5, right). Together they account for 37.8% of non-financial corporations' total liabilities, compared with 33.3% in the euro area overall.[80] The difference lies in the larger share accounted for by trade credits at Slovenian non-financial corporations (15.9%) compared with the figure in the euro area overall (8.4%). Financing via debt securities is displaying a trend of decline: they accounted for just 0.5% of non-financial corporations' total liabilities (down from 1.1% in 2018), compared with 3.5% in the euro area overall, a figure several times larger.

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



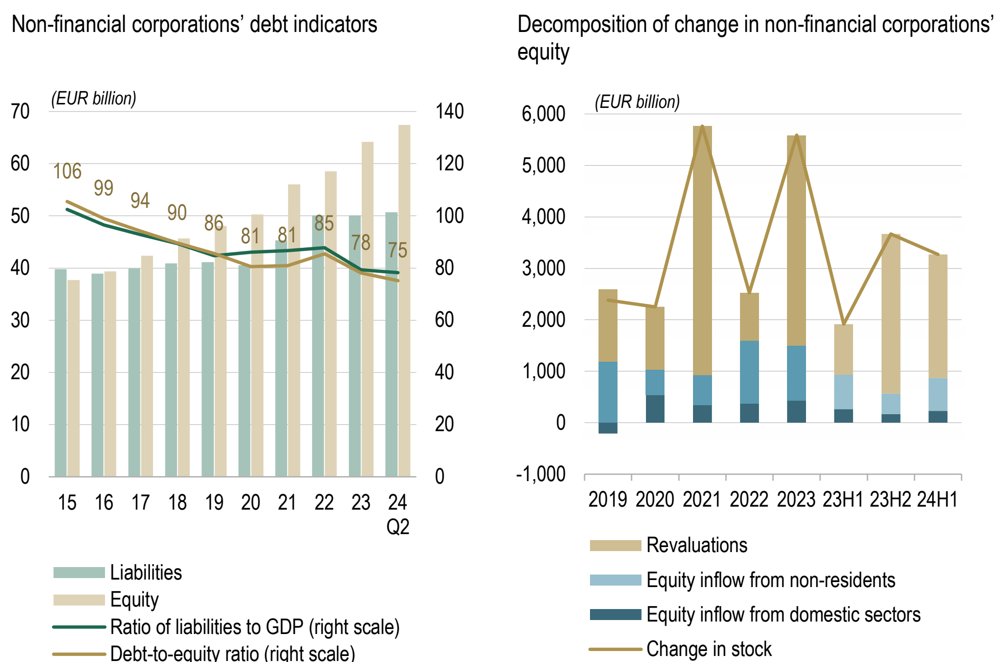
Note: All sources of financing for non-financial corporations are captured, irrespective of the creditor sector.
Source: Banka Slovenije

Non-financial corporations' indebtedness indicators improved further in the first half of this year, reaching the lowest levels among euro area countries. The ratio of debt liabilities to GDP declined to 78.2%, while leverage declined to 75.2% (see Figure 5.6, left). Slovenia ranks among the least indebted euro area countries according to both indicators (see Figure 8.25, left, in the appendix). The inflow of equity into non-financial corporations increased further in the first half of this year, but the key factor in the decline in leverage was the positive revaluation of equity (see Figure 5.6, right). The latter accounted for fully 80% of the increase in equity at non-financial corporations over the last 12 months. Leverage declined in construction and real estate activities in 2023[81] to 152.9% and 119.7% respectively (see Figure 8.27, right, in the appendix), and thus remained significantly lower than in 2008 (when it stood at 434.6%

[80] The comparison with the euro area is given on data up to Q1 of 2024.
[81] The latest sectoral data is for 2023.

and 259.6% respectively). Indebtedness also declined slightly in wholesale and retail trade to 124.4%, and fell to 116.8% in accommodation and food service activities. Leverage remains low in manufacturing (75.6%).

Figure 5.6: **Debt and equity financing of non-financial corporations**

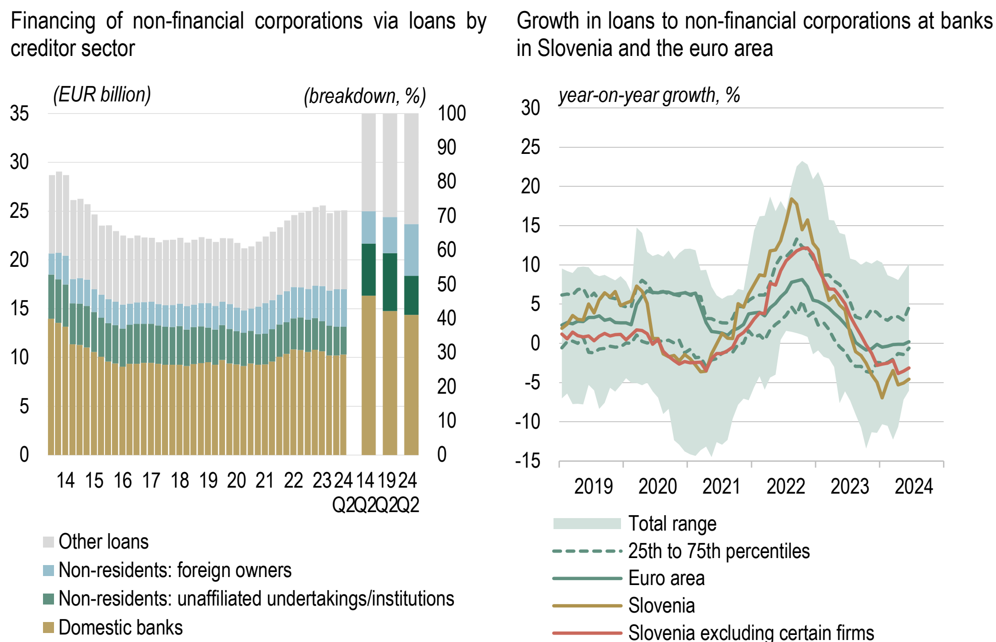


Note: The indicators in the left chart include all debt liabilities of non-financial corporations.
Source: Banka Slovenije

The stock of financing via loans with domestic creditors in March was up on the end of 2023, while loans from the rest of the world had also increased slightly. The growth in loans from the rest of the world (the year-on-year rate stood at 1.5% in June) was based mainly on growth in loans from parent undertakings (see Figure 5.7, left), while financing at unaffiliated undertakings and at international institutions and banks in the rest of the world declined further (see Figure 8.26, right, in the appendix). Loans received from parent undertakings in the rest of the world accounted for almost 55% of all foreign loans in June, compared with just over a third in 2018 and 23% between 2007 and 2012.

Financing via loans in Slovenia strengthened in the first half of this year at other non-financial corporations and households, as well as with domestic banks. Loans received from other non-financial corporations accounted for 13.3% of all non-financial corporations' total loans, while loans received from sole traders (included in the household portfolio) accounted for 8.4%. The latter in particular are gaining in the breakdown of loans, their share having strengthened by 3.1 percentage points since 2018. Data on interest rate levels is not available for financing outside the banking system, but this form of financing is also motivated by business cooperation and sales financing and promotion. Past dynamics meant that year-on-year growth in bank loans was still negative in the amount of 4.5% in June, despite bank loans recording a positive increase this year. New loans to non-financial corporations were at their lowest since 2006, when monitoring of the data began.

Figure 5.7: **Loans to non-financial corporations**

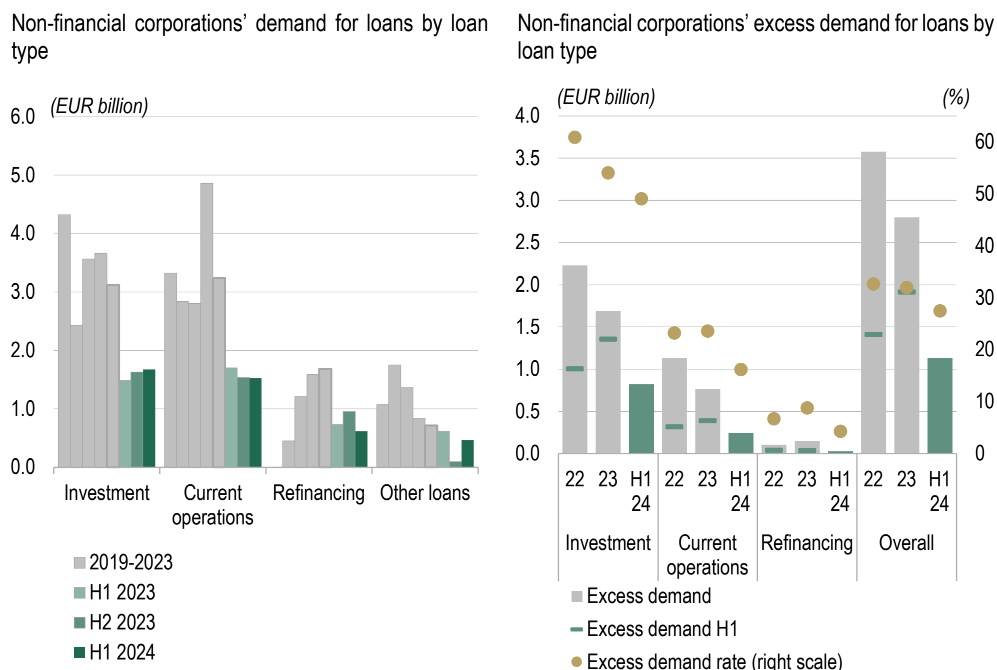


Note: In the left chart "other loans" includes loans received from other (non-banking) sectors in Slovenia and loans received from the rest of the world from firms whose owner is from Slovenia. In the right chart the series labelled "Slovenia excluding certain firms" excludes data for HSE, GEN-I, ELES, Petrol and Impol.
Source: Banka Slovenije

The bank survey of demand for loans shows a marked decline in demand from non-financial corporations in 2023 and the first half of 2024. After declining by 20% last year, demand from non-financial corporations in the first half of this year was down 9.2% in year-on-year terms (see Figure 5.8, left). Demand for loans for investment has increased slightly this year, but the majority of banks assess that firms are being cautious in their financing of investment on account of the persistently high interest rates and the uncertainty in the external environment, and also on account of their own high liquidity. After recording higher growth in 2022 and 2023, demand for refinancing loans at lower interest rates declined slightly in the first half of this year. The banks have also observed increased early repayment of loans, with the aim of reducing the debt servicing burden from loans at high interest rates.

Amid falling demand, the rate of excess demand also declined. In the assessment of the banks in the survey, access to loans is very good, while firms' low indebtedness and high liquidity mean that loan applications are being granted more often than in previous years. The rate of excess demand declined from 32.0% in 2023 to 27.5% in the first half of this year (see Figure 5.8, right), with the decline evident in loans of all types. Loans for investment continue to record the highest rate of excess demand, at 49.1%, down from 54.1% in the previous year. The rejection rate for loans for refinancing is extremely low, at just 4.3%.

Figure 5.8: **Non-financial corporations' demand for bank loans**



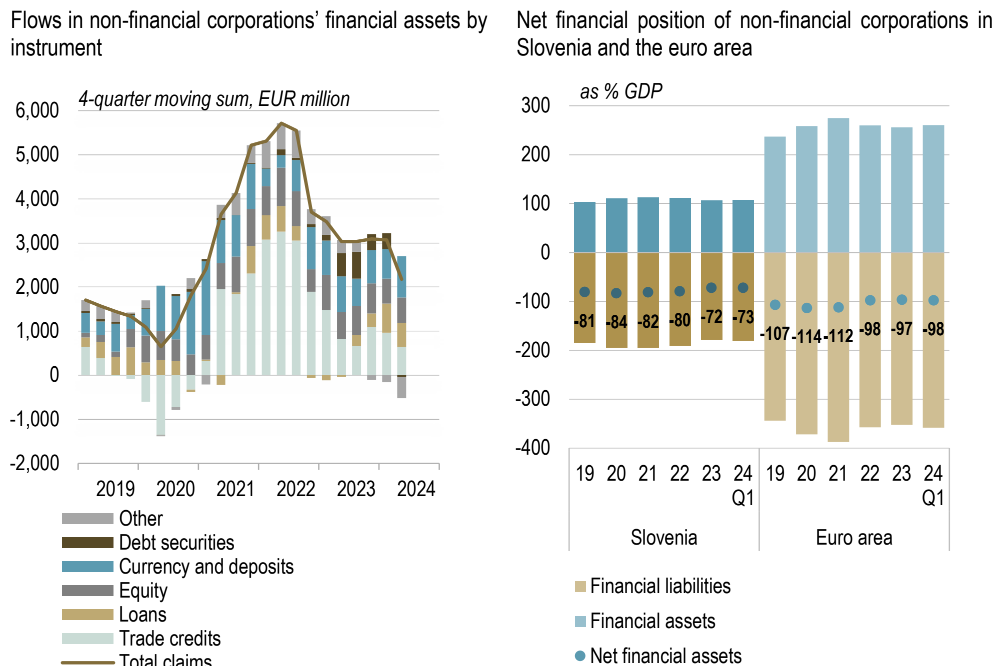
Note: Demand for loans for refinancing was first reported in the survey for 2020; previously it had been included in the category of other loans. Excess demand is the difference between demand and new loans. The rate of excess demand is computed as excess demand divided by total demand (as a percentage).
Sources: Banka Slovenije, Survey of demand for loans

Non-financial corporations' financial assets

Non-financial corporations' financial assets have recently increased faster than their liabilities, but the net financial position nevertheless deteriorated slightly. The inflow of financial assets over the preceding 12 months had reached EUR 2.2 billion by June (see Figure 5.9, left), while the inflow of liabilities amounted to EUR 1.1 billion. Owing to the differing impact of revaluations (particularly of equity), the increases in the stocks over the same period were significantly smaller in assets (EUR 3.7 billion) than in liabilities (EUR 6.8 billion). Non-financial corporations' negative net financial position deteriorated from 72% to 74% of GDP (see Figure 5.9, right). This position was still better than in the euro area overall (90% of GDP), where the ratios of financial assets and of liabilities to GDP are significantly higher than in Slovenia.

Among non-financial corporations' assets, loans granted are notable for their increase, while bank deposits declined slightly. In contrast to financing via debt security issuance, non-financial corporations have been increasing their holdings of debt securities since 2023. Given the modest past investments in these instruments, they accounted for just 1.3% of the stock of financial assets at the end of June. Currency and deposits declined slightly over the first half of the year, but still accounted for 16.5% of non-financial corporations' total financial assets with a stock of EUR 11.6 billion. The majority of the deposits (EUR 10.1 billion in June) were held with Slovenian banks. Despite the decline, they were still up 8.2% in year-on-year terms in June.

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



Source: Banka Slovenije

Bankruptcies and current account freezes at non-financial corporations

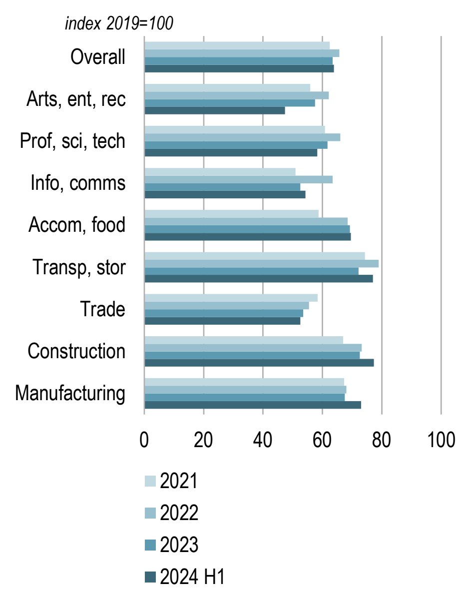
The number of bankruptcy proceedings initiated at non-financial corporations began to rise in the final quarter of 2023, while the number of non-financial corporations with frozen current accounts also rose slightly. After falling for several years, the number of bankruptcy proceedings in the first half of this year was up 8.6% in year-on-year terms. The highest rates of growth were seen in manufacturing, transportation, and information and communication, and also in construction to a slightly lesser extent. Only in transportation did the number of bankruptcies exceed the peak number recorded in the sector in 2022, while in all other sectors the peak number was not surpassed (peak values were recorded in different years between 2014 and 2019 with the exception of transportation, and in 2018 in the non-financial corporations sector as a whole). The number of new bankruptcy proceedings approached the figure from 2019 in manufacturing, construction, and accommodation and food service activities, while in transportation it exceeded it by 20%[82] (see Figure 5.10, left). There was a rise in the number of current account freezes in the same sectors, but none of them exceeded the number from 2019 (see Figure 5.10, right).

[82] A commentary on bank exposure to firms in bankruptcy can be found in the section of credit risk.

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

Number of bankruptcy proceedings initiated at non-financial corporations

Number of non-financial corporations with a frozen current account



Note: The illustrated indices are calculated from the monthly averages of the number of current account freezes and bankruptcy proceedings initiated.
Sources: Supreme Court, AJPES, Banka Slovenije

6 Non-Bank Financial Institutions

6.1 Leasing companies

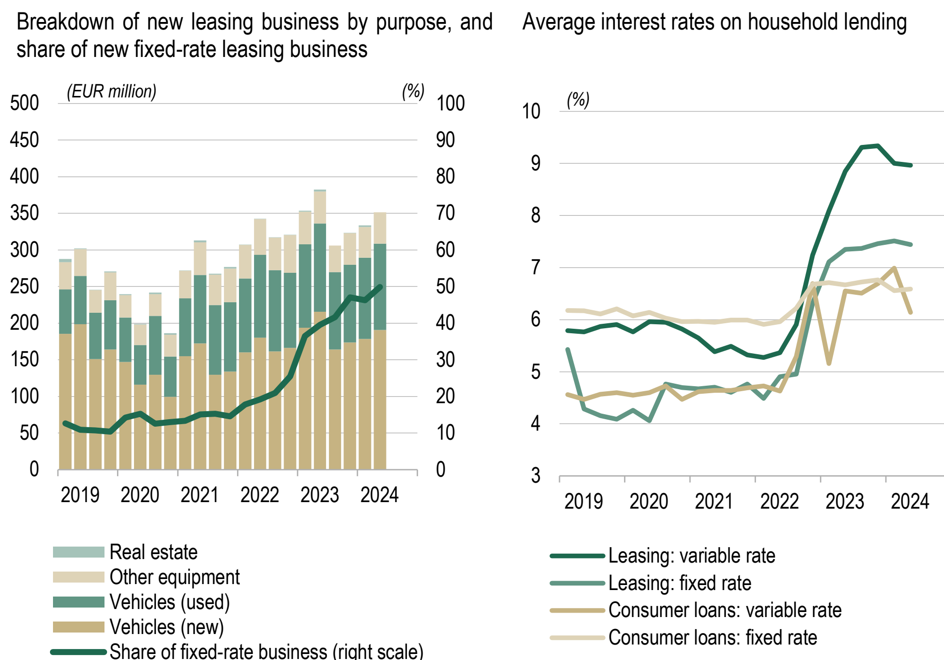
The risk inherent in leasing companies continues to be assessed as low with a stable outlook. Since falling in the third quarter of 2023, new leasing business has been gradually strengthening. The first half of this year saw a fall in interest rates on leasing business for the first time since the third quarter of 2022. Leasing companies saw a decline in profitability, on account of increases in finance expenses for loan repayment and finance expenses for impairments and write-offs. There was an increase in leasing companies' total assets and stock of leasing business. Arrears in leasing business remain at low levels. The stock of finance leases at banks remains at similar levels to the same period last year.

Leasing companies saw a year-on-year decline in new business in the first half of this year. They approved EUR 684.9 million of new business, down 7% on the first half of 2023 (see Figure 6.1, left). Non-financial corporations and households remain leasing companies' largest customers. Households accounted for 54.4% of total new business in the first half of this year, and non-financial corporations for 45.4%.

Leasing companies in Slovenia mostly finance vehicle purchases. The largest component of new leasing business in the first half of the year was car leases (65.6% of the total), followed by leases for commercial and goods vehicles (21.7%), other equipment leases (7.5%), and leases for production machinery and equipment (4.0%). The breakdown of new vehicle leasing business is also reflected in the maturity breakdown of new business concluded in the first half of this year. The majority of business (53.3%) was concluded with a maturity of five to ten years, followed by business with a maturity of one to five years (32.4%). Finance leases accounted for the majority (81.0%) of new business, followed by operating leases (13.9%), with loans making up the remainder.[83]

[83] The leasing activities of leasing companies comprise finance leases, operating leases, and loans.

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



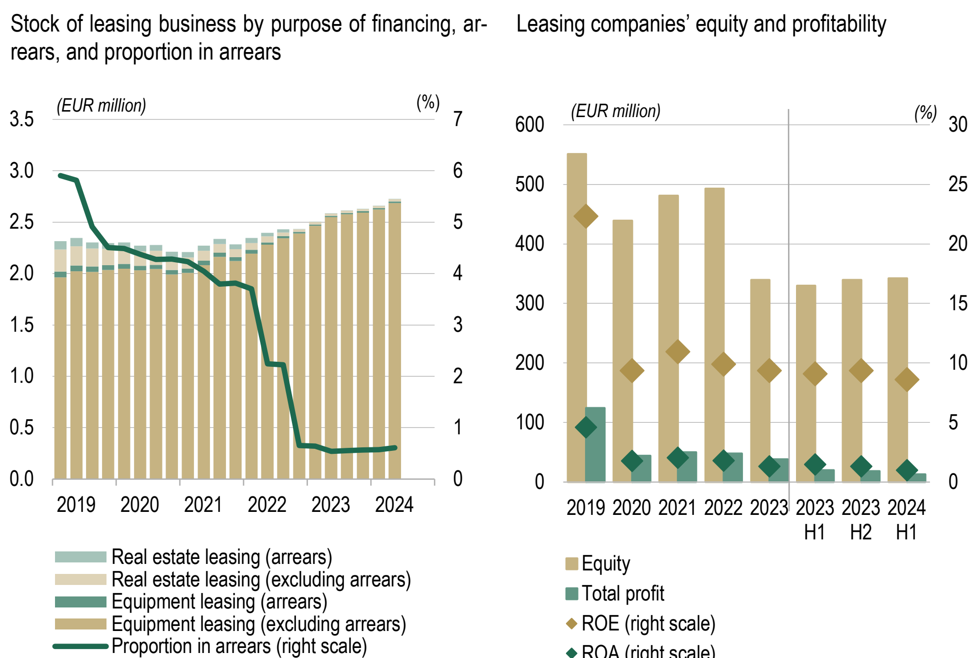
Source: Banka Slovenije

The first half of this year saw a fall in interest rates on leasing business for the first time since the third quarter of 2022. The spread between the average interest rate on new leasing business with households and the average interest rate on consumer loans at banks narrowed (see Figure 6.1, right). Almost half the business concluded in the first half of this year carried a fixed interest rate (see Figure 6.1, left).

There was an increase in leasing companies' total assets. It reached EUR 3.1 billion by the end of June 2024, up 5.4% in year-on-year terms.[84] The stock of leasing business stood at EUR 2.7 billion at the end of June 2024, up 5.3% in year-on-year terms (see Figure 6.2, left). Households represented 58.3% of the total stock of leasing business, while non-financial corporations accounted for 41.0%. The sectors contributing most to the leasing activity among non-financial corporations were transportation and storage (23.8% of the total) and wholesale and retail trade (20.4%). 62.0% of the stock of leasing business carried a residual maturity of one to five years, while 29.3% carried a residual maturity of five to ten years. Real estate leasing business is continuing to decline, and accounted for just 0.8% of the stock of leasing business.

[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.

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



Source: Banka Slovenije

Leasing companies have seen a further decline in profitability. Leasing companies' profit amounted to EUR 12.8 million in the first half of this year (see Figure 6.2, right), representing a significant decrease of 38.2% compared with the same period of 2023.[85] Finance expenses for loan repayment and finance expenses for impairments and write-offs of finance leases are continuing to rise. The quality of leasing business remains high. There has been no significant change in claims more than 90 days in arrears: at the end of June 2024, claims more than 90 days in arrears accounted for only 0.61% of the total claims (see Figure 6.2, left).

The banks' direct presence in finance leasing remains at similar levels to last year.[86] Their new business amounted to EUR 204.8 million over the first half of the year, reflecting a slight decline of 1.4% compared with the same period last year.

6.2 Insurers

Despite last year's high claims payments and a decline in gross written premium as a result of the abolition of supplemental health insurance, the insurance sector performed well in the first half of this year and generated large profits. Claims paid were down in year-on-year terms, primarily as a result of the abolition of supplemental health insurance. The reinsurance corporations also performed well, and saw year-on-year growth in gross written premium and large profits.

The insurance corporations began 2024 with a significant change in the structure of the insurance sector. Supplemental health insurance, which recorded gross written premium of EUR 641.8 million last year and accounted for 23.0% of total gross written premium, was abolished on 1 January and converted into a compulsory insurance contribution. Consequently, the insurance corporations saw their gross written premium in the first half of this year decline by EUR 1.3 billion or 12.3% compared with the same period last year as a result of the abolition of supplemental health insurance, although

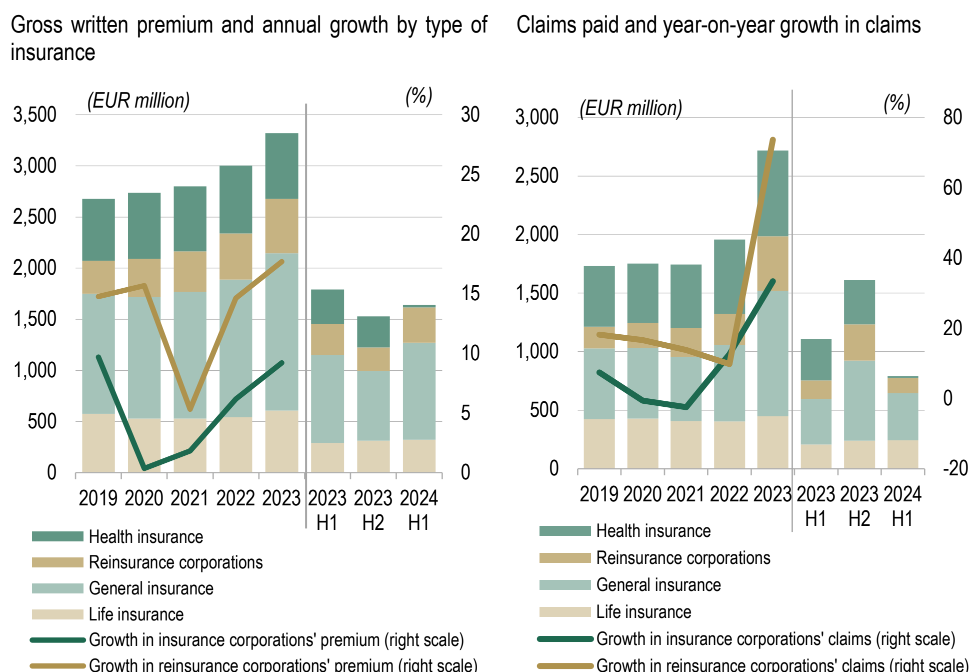
[85] The profit and equity comparison is only made with leasing companies that remain in the reporting sample. The large decline in equity in 2023 was attributable to a fall in number of reporting entities. If the leasing companies that were excluded from reporting in 2023 are omitted from the figures for 2022, the year-on-year decline in equity in 2023 would have been 9%.

[86] The analysis does not take account of bank operations from finance leasing.

individual segments recorded growth. The non-life insurance segment (excluding health) saw a year-on-year increase of 10.8% in gross written premium, while gross written premium in the life insurance segment was up 10.6%. The reinsurance corporations recorded gross written premium of EUR 342.8 million in the first half of the year, up 13.1% on the same period last year (see Figure 6.3, left).

The first half of this year passed without any major loss events. Claims paid amounted to EUR 661.3 million in the first half of this year, down 30.5% on the same period last year (see Figure 6.3, right). The large decline in claims paid was attributable to the abolition of supplemental health insurance. Excluding the claims paid in the first half of 2023 under supplemental health insurance, claims paid would be up 7.8% in year-on-year terms. Should loss events occur as normal for the remainder of the year, the year-on-year comparison is expected to improve significantly by the end of the year, as last year's largest claims paid were recorded in the third quarter. Non-life insurance accounted for 63.3% of claims paid, and life insurance for 36.7%.

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



Sources: ISA, Banka Slovenije

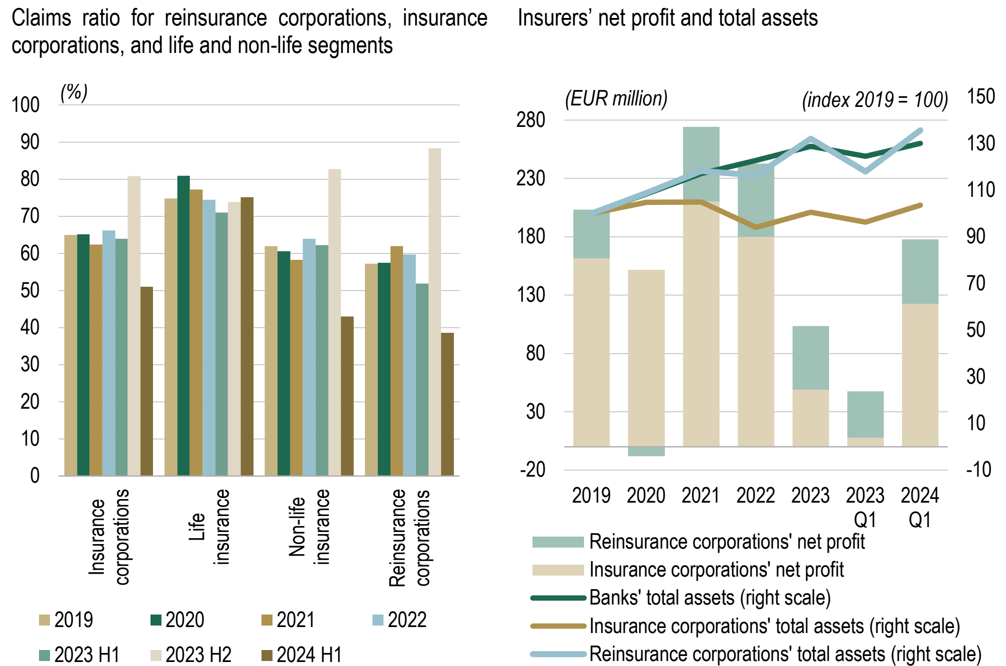
The insurance corporations and the reinsurance corporations saw an improvement in their claims ratios. The claims ratio in the first half of this year stood at 50.9% at the insurance corporations, down 13.0 percentage points (an improvement) in year-on-year terms. Meanwhile, reinsurance corporations reported a claims ratio of 38.6%, down 13.3 percentage points (see Figure 6.4, left). A moderate deterioration was evident in the life insurance segment, where the claims ratio increased by 4.2 percentage points in year-on-year terms to 75.1%. The claims ratio in non-life insurance was down 19.3 percentage points in year-on-year terms at 43.0%. The large decline in the claims ratio in non-life insurance was a consequence of the inclusion of supplemental health insurance in last year's figure.[87] Owing to the decree limiting the price of supplemental health insurance,[88] the claims ratio was significantly higher. Excluding supplemental

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

[88] Decree setting the maximum price of supplemental health insurance premiums (Official Gazette of the Republic of Slovenia, No. 44/23).

health insurance, the claims ratio for non-life insurance stood at 45.5% in the first half of 2023.

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



Note: The calculation of the claims ratio takes account of the cumulative data for gross claims paid and gross written premium at the end of each quarter.
Sources: ISA, Banka Slovenije, own calculations

The insurance corporations and reinsurance corporations performed well in the first half of this year, generating high profits. Profit in the first half of the year amounted to EUR 82.7 million in non-life insurance and EUR 39.8 million in life insurance. The insurance corporations thus recorded profit of EUR 122.4 million, up significantly on the first half of 2023, when it amounted to just EUR 7.9 million (see Figure 6.4, right). The rise in profit was largely due to the sharp reduction in claims, and the abolition of supplemental health insurance, where the insurance corporations recorded a loss last year on account of the regulated price of premiums. The reinsurance corporations' profit amounted to EUR 55.4 million in the first half of this year, up 39.5% in year-on-year terms. The insurance corporations' total assets were up 7.6% in year-on-year terms at EUR 7.9 billion at the end of June 2024, while the reinsurance corporations' total assets increased by 15.0% in year-on-year terms to EUR 1.5 billion.

The capital adequacy of insurance corporations in Slovenia remains at a high level. Insurance corporations are required to provide adequate own funds in line with the Solvency II standards. The higher the risks that the insurance corporation takes up, the higher is its solvency capital requirement (SCR) and its minimum capital requirement (MCR), which it must cover using own funds. The median capital adequacy with regard to solvency capital (SCR coverage ratio) at insurance corporations operating in Slovenia stood at 236.9% at the end of the first half of 2024, up 16.4 percentage points in year-on-year terms. The median capital adequacy with regard to minimum capital (MCR coverage ratio) stood at 735.7% at the end of June 2024, up 323.1 percentage points in year-on-year terms. The large year-on-year increase was attributable to the

very low median value in the second quarter of 2023. The median SCR and MCR coverage ratios in Slovenia at the end of 2023 thus remained higher than in other EEA countries (see Figure 8.28 in the appendix).

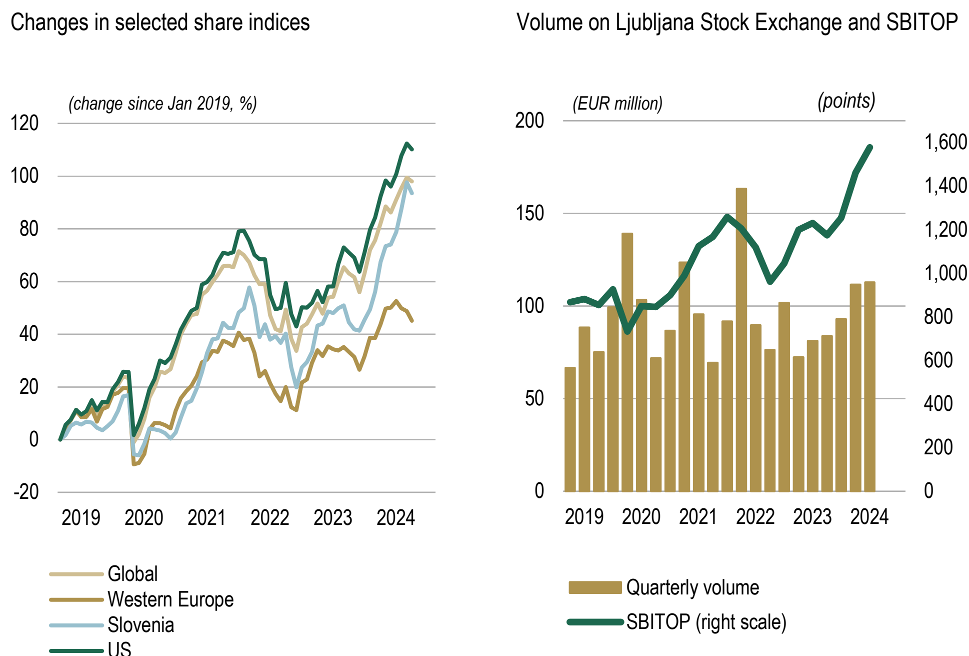
6.3 Mutual funds

The rises in international stock markets driven in particular by expectations of interest rate cuts and pronounced gains by tech firms, have positively impacted the performance of the domestic mutual funds. They recorded record net inflows in the first half of this year, with equity funds remaining the most popular among investors. This surge in inflows can be attributed to the high exposure to equities, which have performed exceptionally well in the market. As a result, the domestic mutual funds saw growth in their assets under management. Public limited companies in the US are the prevailing form of share investments held by the domestic mutual funds.

Share markets rose again in the early part of this year. The rises in global stock market indices were driven in particular by expectations of an onset to the relaxation of monetary policy from both the ECB and the Fed. A certain degree of volatility was also evident on the markets in August. Poor data for labour market expectations in the US triggered concerns over a slowdown in economic growth in the US in early August. The rise in geopolitical tensions was an additional factor in the fall in the markets. The S&P 500, the leading US share index, gained 17% over the first eight months of this year. The sharp rise in the US market was driven by tech shares, particularly in the area of AI. The STOXX Europe 600 gained 5% over the first eight months of this year, while Slovenia's SBITOP gained almost 30% (see Figure 6.5, left). Given the fall in inflation in the euro area, the ECB cut its key interest rates by 0.25 percentage points in June of this year, and by 0.25 percentage points in September. The Fed also cut its interest rates at its September meeting for the first time in four years, by 0.5 percentage points.

Volume on Ljubljana Stock Exchange in the first half of the year increased compared with the same period last year. Ljubljana Stock Exchange only has a limited selection of financial instruments for trading, which means that volume is low, with large monthly volatility. Volume in the first half of the year was up 35.8% in year-on-year terms at EUR 238.9 million (see Figure 6.5, right). The volume of trading in shares amounted to EUR 222.8 million (93.3% of the total), while treasury bills recorded volume of EUR 11.6 million (4.8%) and bonds volume of EUR 4.2 million (1.8%). The market capitalisation of the domestic stock market amounted to EUR 50.9 billion, up 8.5% in year-on-year terms.

Figure 6.5: **Changes in selected share indices and volume on Ljubljana Stock Exchange**

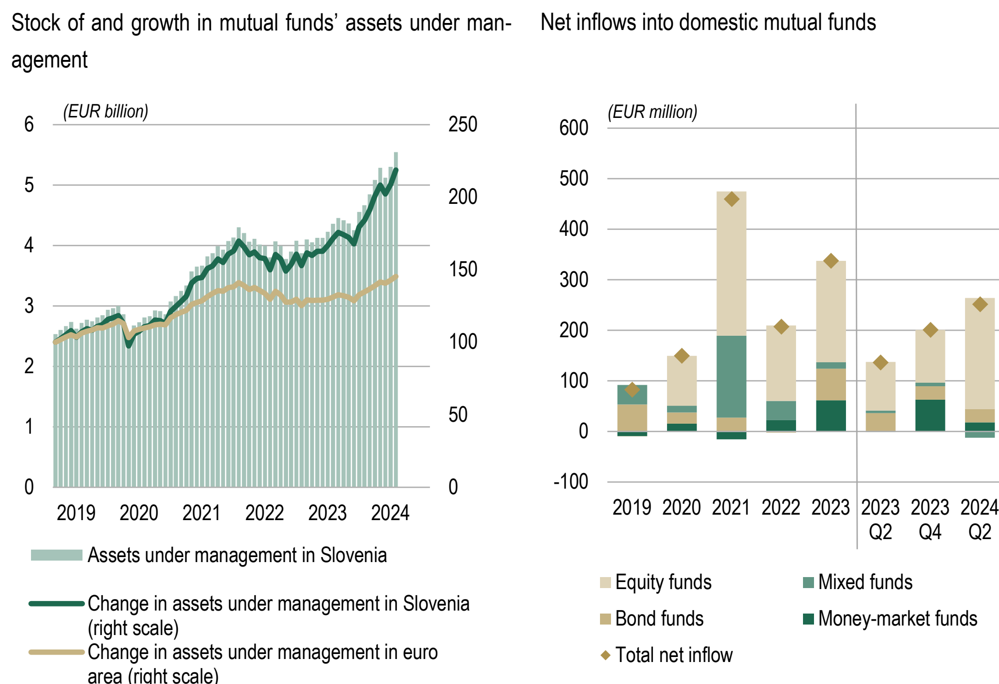


Note: The indices in the left chart are the S&P 500 for the US, the Euro Stoxx 600 for western Europe, the SBITOP for Slovenia and the MSCI World Net Total Return Index for global equities. The right chart illustrates volume excluding block trades.
Sources: Ljubljana Stock Exchange, Banka Slovenije

The mutual funds saw high growth in their assets under management in the first half of this year. The domestic mutual funds' assets under management amounted to EUR 5.7 billion at the end of June 2024, up 28.7% 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).

Investors continue to show a strong appetite for mutual funds. Net inflows into mutual funds over the first six months of the year amounted to EUR 251.8 million, up 84.3% compared with the same period last year. Households remain the largest holders of mutual fund units, and recorded inflows of EUR 180.5 million in the first half of the year (almost 40% of the amount that they earmarked for bank deposits), which accounted for 71.7% of total net inflows. Households' largest inflows were into equity funds. Non-financial corporations recorded inflows of EUR 19.0 million in the first half of the year, almost all of which were into money-market funds, in contrast to last year, when their inflows mainly went into bond funds (44.0% of the total) and money-market funds (42.2%).

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 Data Portal

Equity funds remain the most attractive to investors. Inflows into equity funds amounted to EUR 219.4 million in the first half of this year (87.2% of total net inflows), more than the figure for the whole of last year (EUR 200.6 million). They were followed by bond funds, which recorded inflows of EUR 27.0 million (10.7% of the total). Mixed funds recorded net withdrawals over this period.

US firms are the prevailing form of share investments held by the domestic mutual funds. US public limited companies accounted for 52.1% of total exposure, while firms from euro area countries accounted for 26.0%. Their holdings of debt securities mostly focus on euro area countries (73.8% of the total).

7 Macroprudential Policy for the Banking System and Leasing Companies

Banka Slovenije is maintaining its macroprudential policy stance, which aims to uphold the resilience of the banking system. The banking system still faces risks that are being posed primarily by the macroeconomic and non-financial environment. This is likewise the case for other EU Member States, which has also been reflected in their macroprudential policies. Given the banks' high profitability, we are making use of capital-based measures to improve their level of resilience both to unpredictable economic shocks and uncertainties, and to systemic and other risks. The positive neutral countercyclical capital buffer rate is being held at 1.0%. The banks are required to meet it as of 1 January 2025. Through the measure restricting household lending we are at the same time encouraging more sustainable household borrowing, thus increasing the resilience of borrowers, which is reducing the credit risk faced by banks.

Purpose of macroprudential policy

Macroprudential policy is used to identify, monitor, assess and reduce or prevent systemic risks to financial stability with the aim of safeguarding the stability of the entire financial system. The ultimate objective of macroprudential policy is ensuring financial stability, thus ensuring that the financial sector makes a sustained contribution to economic growth. 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 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 existing capital buffers remains of key importance to ensuring the resilience of the banking system in the event of any reversal in the financial cycle. The global macroeconomic outlook is still uncertain, for which reason countries are maintaining their existing capital buffers for a deterioration in the situation. Since the pandemic EU Member States have strengthened their capital buffer requirements, the countercyclical capital buffer in particular, which has improved the banking sector's resilience to shocks and increased the macroprudential room, whereby the economic costs were low on account of the banks' capital surpluses and high profitability.[89] Since the publication of the last Financial Stability Review in May of this year, one more country (Hungary) has opted for an increase in the countercyclical capital buffer rate, and

[89] Financial Stability Review, May 2024 (europa.eu), p. 79.

one country (Czechia) has opted for a decrease.[90] A trend of introducing a positive neutral countercyclical capital buffer rate is also evident 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. They are thus able to promptly address cyclical risks in the early phase of their occurrence, and to be more flexible in releasing the buffer in the event of shocks unrelated to domestic financial imbalances. In addition to Slovenia, this approach is being used by several European countries (Cyprus, Estonia, Ireland, Latvia, Lithuania, Netherlands, Czechia, Spain,[91] Sweden and UK).

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 7.3).

Individual countries introduced a sectoral systemic risk buffer at the end of the pandemic. This measure is aimed at increasing the banking system's resilience to structural systemic risks inherent in the residential real estate market. Countries are using targeted measures to increase the banking system's resilience to the risks inherent in the residential real estate market, and also to certain other risks. 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, Romania, Sweden and Finland the systemic risk buffer applies to total exposure. Macroprudential authorities also address certain other risks with sectoral buffers. Slovenia also applies the buffer to household loans not secured by residential real estate, France applies the buffer to exposures to certain non-financial corporations, and Denmark applies the buffer to exposures to real estate firms.

All EU Member States identify other systemically important institutions (O-SIIs) once a year. Additional capital buffers are imposed on these banks, the aim of which is to absorb any losses that might be suffered by banks that are of significant importance to a particular banking system, and whose failure would pose a major risk to the stability of the financial system.

Banka Slovenije macroprudential policy

The identified key risks to the Slovenian banking system are actively mitigated by means of macroprudential instruments, which we also use to strengthen the banking system's resilience to the identified 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

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

[91] This year Spain approved the use of a methodology that envisages a positive neutral rate of 1%. The countercyclical capital buffer rate remains at zero, but the intention is to raise it to 0.5% in the final quarter of this year (effective as of Q4 of 2025). The latest information can be found at: Resolución CCA en inglés (bde.es).

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 consumer lending (LTV, DSTI, caps on maturity)	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	2016	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[7]	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[8]	BINDING	(a) To mitigate and prevent excessive credit growth and excessive leverage (b) to limit direct and indirect exposure concentrations	The two sectoral systemic risk buffers represent a complementary measure to the macroprudential restrictions on consumer lending, and help to increase the banking system's resilience to the structural 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 banks are required to meet a countercyclical capital buffer rate of 0.5% as of 31 December 2023, and a (positive neutral) rate of 1.0% as of 1 January 2025.
8 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 banks will be able to apply the new buffer rate as of 1 January 2025.

Countercyclical capital buffer

The countercyclical capital buffer is used to protect the banking system against potential losses in the event of the materialisation of credit risk. The buffer is used to strengthen the resilience of the banking system in a period 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 the risks.

Last year Banka Slovenije introduced the concept of a positive neutral buffer rate. Its main purpose is to ensure that the banking system has sufficient capital at its disposal for release in the event of the realisation of risks not necessarily related to

excessive credit growth and the build-up of domestic imbalances.[92] Other reasons for introducing this approach are 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 newly introduced 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 2024. The financial cycle is holding in a neutral risk environment. Banks will have to meet the requirement as of 1 January 2025.

Macroprudential restrictions on consumer lending

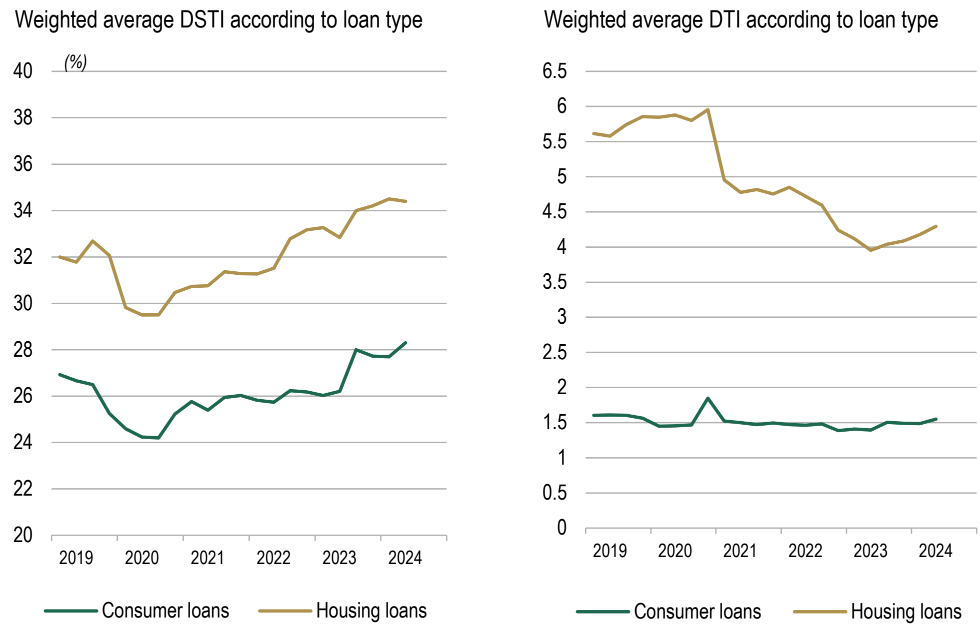
The macroprudential restrictions on consumer lending aim to mitigate and prevent excessive credit growth and excessive leverage at households. They focus on credit standards for housing loans and consumer loans, and encourage sustainable borrowing by households. Three macroprudential instruments in the form of borrower-related measures are in use in Slovenia. These are: 1) a cap on DSTI, 2) a cap on LTV, and 3) a cap on the maturity of consumer loans.[93] 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.

Consumers are spending a growing share of income on debt repayment. The average DSTI on consumer loans rose notably in 2023, in which an adjustment to the macroprudential instrument was a factor. The average DSTI on housing loans has been rising for some time now, as a result of the higher interest rates on housing loans and also rising residential real estate prices. The average DTI remains stable on consumer loans, but fell on housing loans after the introduction of binding macroprudential instruments. Despite the rise in the average DSTI, it 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.

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

[93] 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 May 2024 issue of the Financial Stability Review.

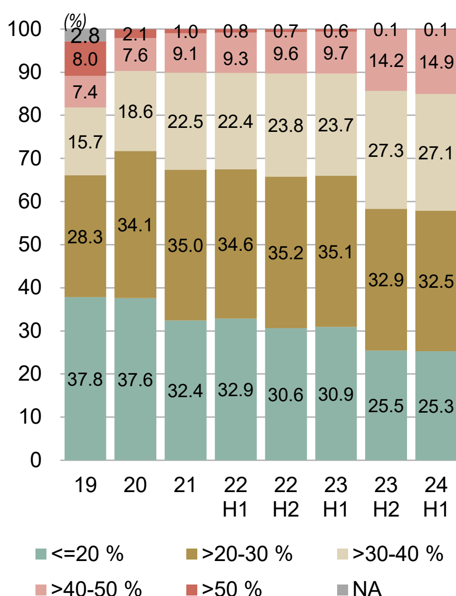
Figure 7.1: **Weighted average DSTI and DTI**

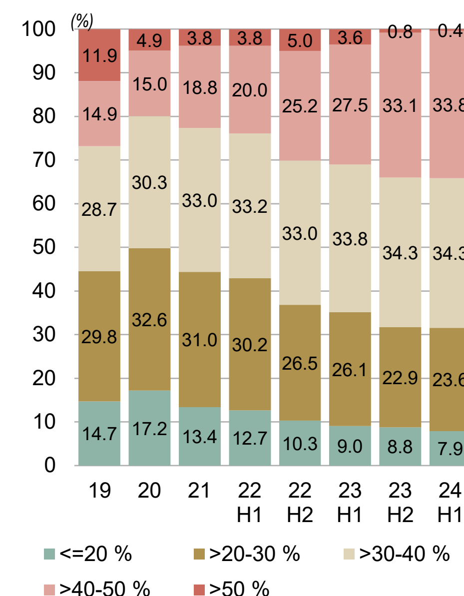


Source: Banka Slovenije

The macroprudential restrictions on consumer lending had an impact on the distribution of DSTI. Following the latest adjustment to the macroprudential restrictions on consumer lending, there was an increase in the share of new loans with a DSTI of between 40% and 50%. This is true of consumer loans and housing loans alike. Part of the increase was attributable to a decline in loans where the DSTI is more than 50%. Loans with a DSTI of between 40% and 50% account for merely around 15% 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 7.2: **Distribution of DSTI on consumer loans and housing loans**

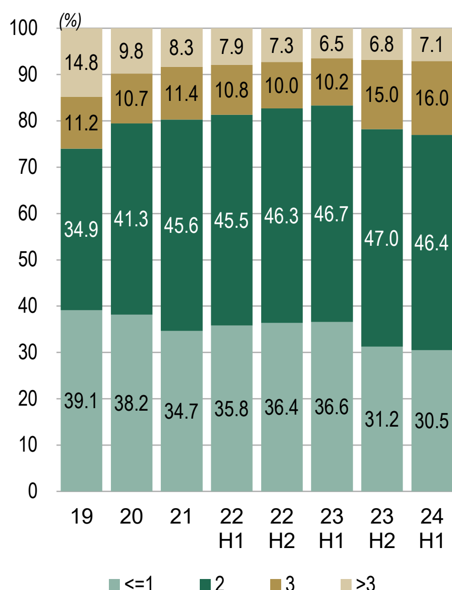


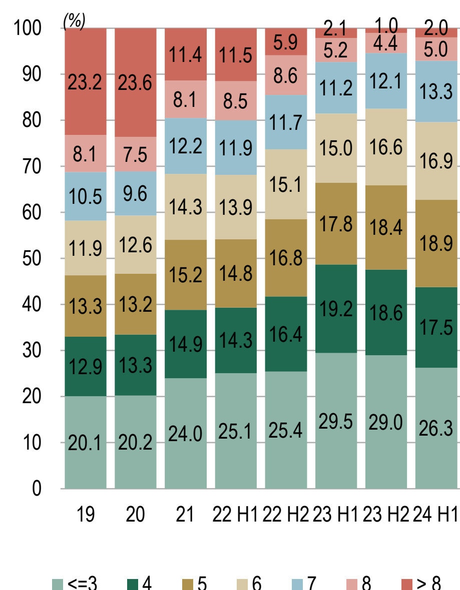


Note: The distribution is illustrated on the basis of the sum of loan amount.
Source: Banka Slovenije

There were also changes in the distribution of DTI. The share of consumer loans where the consumer's debt is more than double their income increased in the second half of 2023.The share of housing loans where the consumer's debt is more than seven times their income declined by contrast. The largest proportion of consumer loans are approved for consumers whose total debt is up to twice their income. The average DTI in the second quarter of this year stood at 1.3 for consumer loans and 3.4 for housing loans. There have been no major changes in the average DTI (see Figure 7.1, right).

Figure 7.3: **Distribution of DTI on 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 is below the maximum allowed level. In the wake of the adjustments to macroprudential instruments, banks had difficulties with calculating the allowed deviations from DSTI. Consequently the level of deviations surpassed the maximum allowed level in the third quarter of 2023. The banks had rectified the aforementioned issues by the end of the year.

LTV increased moderately in the first half of this year. The share of deviations from the recommended LTV also increased, with deviations from the recommended LTV being seen more often in loans for second properties. The average maturity of consumer loans has not changed significantly in recent years, while the share of deviations from the cap on maturity remains stable at around 11%.

Table 7.2: **Average values of selected parameters for housing loans and consumer loans, and level 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
					Housing loans					
LTV	67.7%	67.6%	63.7%	59.5%	58.3%	58.1%	60.8%	59.2%	60.8%	61.8%
Level 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%
DSTI	32.1%	29.9%	31.0%	32.2%	33.3%	32.8%	34.0%	34.2%	34.5%	34.3%
Level 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%
Average maturity, years	19.1	19.3	18.8	18.5	18.7	18.3	17.9	17.9	18.0	18.3
					Consumer loans					
DSTI	26.4%	24.6%	25.8%	26.0%	26.0%	26.2%	28.0%	27.7%	27.7%	28.3%
Level 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%
Average maturity, years	6.5	5.8	6.2	6.1	6.1	6.2	6.3	6.3	6.3	6.3
Level 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%

[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. The illustrated data therefore relates to the final quarter of 2019.
[2] The level 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 level 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 level 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 level of deviations in DSTI stood at 10% until Q3 2023, and stands at 3% as of Q3 2023.
[4] Until Q3 2022 the level of deviations in maturity was calculated as the ratio of the sum of all loans where the cap on maturity (seven years) was exceeded to the sum of all loans that comply with the macroprudential measures approved in the same quarter. Since Q2 2022 the level 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 the year 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 the illustrated attributes of consumer loans, our assessment is that household lending does not pose particular risks. The calibration of the macroprudential instruments is still suitable.

Systemic risk buffer

Two sectoral systemic risk buffers (SyRBs) are also in force. The current sectoral systemic risk buffer requirements in Slovenia, which banks have been required to observe as of 1 January 2023, are as follows: (i) 1.0% 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). Amid a decline in risks on the real estate market, a decision was taken last November to reduce the sectoral systemic risk buffer for exposures secured by residential real estate. The current regulation[94] sets out a lower buffer requirement of 0.5% of the total risk exposure amount, which banks are required to meet as of 1 January 2025. Until then a rate of 1.0% is in force.

[94] Regulation amending the Regulation determining the requirement to maintain a systemic risk buffer for banks and savings banks (Official Gazette of the Republic of Slovenia, No. 131/23).

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.[95] Banka Slovenije follows the EBA methodology in its identification of O-SIIs. The scores achieved in the assessment of systemic importance were the main decision-making criterion in setting the O-SII buffer rate and classifying banks to categories that are assigned the same buffer. This year's merger of SKB and NKBM, which has been carried out under the stewardship of OTP, a Hungarian banking group, represents a further step in the consolidation of the Slovenian banking system. This will also have an impact on the number of O-SIIs, and on the assessment of their systemic importance. The details of the annual review of the O-SII criteria will be presented in the next issue of the Financial Stability Review. The new assessments and the number of O-SIIs identified will be published on the Banka Slovenije website in early December.

[95] For more on O-SII buffers, see: Capital buffer for other systemically important institutions on the Banka Slovenije website.

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

	Countercyclical capital buffer		Sectoral systemic risk buffer associated with real estate risk		Other capital-based measures		Restrictions on lending
Country	**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%	01.01.2016					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					
	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					
Czechia	0.5%	1 Jul 2020					Cap on maturity, DTI, DSTI, LTV, loan amortisation
	1.0%	1 Jul 2022					
	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					
	1.25%	1 Jul 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%	16.03.2015					Cap on maturity, DSTI, LTV
France	0.5%	7 Apr 2023					Cap on maturity, DSTI
	1.0%	2 Jan 2024					
Greece	0%	01.01.2016					DSTI, LTV
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%	01.01.2016					
Latvia	0%	1 Feb 2016					Cap on maturity, DTI, DSTI, LTV
	0.5%	18 Dec 2024					
	1.0%	18 Jun 2025					
Lichtenstein	0%	01.07.2019	1,0%	25.09.2023	X		LTV, loan amortisation
Lithuania	0%	1 Apr 2020	2.0%	01.07.2022			Cap on maturity, DSTI, LTV
	1.0%	1 Oct 2023					
Luxembourg	0.5%	01.01.2021					LTV
Hungary	0%	1 Jan 2016					DSTI, LTV
	0.5%	1 Jul 2024					
	1.0%	1 Jul 2025					
Malta	0%	01.01.2016	1.5%	31.03.2024	X		Cap on maturity, DSTI, LTV
Germany	0.75%	01.02.2023	2.0%	01.02.2023			
Netherlands	1.0%	25 May 2023				X	Cap on maturity, LTV
	2.0%	31 May 2024					
Norway	1.0%	13 May 2020			X	X**	LTV, DTI, loan amortisation, exemptions from caps
	1.5%	30 Jun 2022					
	2.0%	31 Dec 2022					
	2.5%	31 Mar 2023					
Poland	0%	01.01.2016			X**		Cap on maturity, DSTI, LTV
Portugal	0%	01.01.2016	4,0%	01.10.2024			Cap on maturity, DSTI, LTV
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 amortisation, LTV
	1.5%	1 Aug 2023					
Slovenia	0.0%	1 Jan 2016	0.5% (consumer loans)	1 Jan 2023	X		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%	01.01.2016					
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.

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8 Appendices

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.

Source: Banka Slovenije

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

Indicator	Definition of indicator
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).

Source: Banka Slovenije

Table 8.3: **Slovenian banking system balance sheet for selected time snapshots, 2004 to H1 2024**

	Stock, EUR million unless stated												Increase, EUR million					Year-on-year change, %			
	2004	Breakdown (%)	2008	Breakdown (%)	2013	2020	2021	2022	2023	Breakdown (%)	June 2024	Breakdown (%)	2020	2021	2022	2023	H1 2024	2021	2022	2023	June 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	10,334	19.3	3,042	2,671	-1,051	2,318	-2,429	30.3	-9.1	22.2	-11.4
Loans to banks	2,156	9.1	4,101	8.6	3,986	1,492	1,544	1,665	1,444	2.7	1,807	3.4	-100	52	121	-221	363	3.5	7.8	-13.3	6.9
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	27,336	51.0	42	1,484	2,493	-604	402	6.3	10.0	-2.2	1.0
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	10,070	18.8	-127	550	1,187	-519	102	6.3	12.8	-4.9	-4.5
of which to households	3,262	13.7	7,558	15.8	8,467	10,712	11,263	12,138	12,556	23.7	12,876	24.0	9	551	875	418	320	5.1	7.8	3.4	5.5
Financial assets / securities	7,013	29.4	7,307	15.2	8,318	8,958	8,355	8,759	9,816	18.5	11,994	22.4	120	-603	404	1,056	2,179	-6.7	4.8	12.1	33.5
Other	1,112	4.7	1,572	3.3	1,229	1,815	1,811	2,168	2,125	4.0	2,117	3.9	335	-4	357	-43	-9	-0.2	19.7	-2.0	10.2
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	1,912	3.6	-443	-663	318	-288	166	-27.9	18.6	-14.2	-12.5
of which to domestic banks	435	1.8	2,065	4.3	2,381	799	649	600	413	0.8	388	0.7	-57	-150	-49	-187	-25	-18.8	-7.6	-31.1	-38.4
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	1,524	2.8	-386	-513	368	-101	191	-32.5	34.5	-7.1	-2.0
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	40,586	75.7	3,212	2,904	2,571	1,306	-476	8.5	6.9	3.3	2.4
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	10,147	18.9	1,273	967	712	1,238	-801	12.0	7.9	12.7	8.2
of which to households	9,904	41.6	13,407	28.0	14,365	22,437	23,953	25,784	26,514	49.9	27,026	50.4	2,072	1,516	1,832	730	512	6.8	7.6	2.8	2.5
Debt securities	973	4.1	1,276	2.7	1,657	1,058	1,250	2,066	3,164	6.0	3,834	7.2	458	191	817	1,097	670	18.1	65.4	53.1	22.6
Provisions	0	0.0	176	0.4	306	186	151	142	187	0.4	185	0.3	-2	-34	-10	46	-2	-18.4	-6.5	32.3	27.9
Shareholder equity	1,896	8.0	4,010	8.4	3,670	4,805	5,061	5,153	6,081	11.5	6,169	11.5	-158	256	93	928	87	5.3	1.8	18.0	13.4
Other	1,326	5.6	2,206	4.6	704	564	545	665	767	1.4	903	1.7	-25	-19	120	102	136	-3.3	22.1	15.3	29.8
Balance sheet total	**23,820**	**100.0**	**47,948**	**100.0**	**40,344**	**44,651**	**48,252**	**50,575**	**53,082**	**100.0**	**53,588**	**100.0**	**3,438**	**3,600**	**2,323**	**2,507**	**506**	**8.1**	**4.8**	**5.0**	**4.4**

Source: Banka Slovenije

Table 8.4: **Slovenian banking system income statement, 2018 to H1 2024**

	Amount, EUR million							Year-on-year growth, %							Ratio to gross income, %						
	2018	2019	2020	2021	2022	2023	H1 2024	2018	2019	2020	2021	2022	2023	H1 2024	2018	2019	2020	2021	2022	2023	H1 2024
Net interest	672	683	639	625	748	1442	796	3.0	1.6	-6.4	-2.2	19.6	92.8	20.3	58.2	54.4	47.0	51.9	56.9	72.9	71.7
Non-interest income	482	573	721	580	567	535	314	14.1	19.1	25.7	-19.5	-2.3	-5.6	-1.1	41.8	45.6	53.0	48.1	43.1	27.1	28.3
of which net fees and	315	334	330	377	398	387	208	0.6	5.8	-1.2	14.4	5.5	-2.8	6.4	27.3	26.6	24.2	31.3	30.3	19.6	18.7
of which net trading	13	12	16	18	31	10	12	-56.0	-6.9	31.8	10.8	76.4	-69.6	54.8 .	1.1	1.0	1.2	1.5	2.4	0.5	1.1
gains/losses																					
Gross income	1153	1256	1360	1206	1315	1978	1110	7.4	8.9	8.3	-11.4	9.1	50.4	13.4	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Operating costs	-669	-709	-718	-717	-758	-830	-506	-0.6	5.9	1.3	-0.2	5.6	9.6	19.1	-58.0	-56.5	-52.8	-59.5	-57.6	-42.0	-45.6
labour costs	-390	-401	-386	-398	-413	-447	-240	2.2	2.8	-3.6	3.0	3.7	8.4	9.8	-33.8	-31.9	-28.4	-33.0	-31.4	-22.6	-21.6
Net income	484	547	642	489	558	1147	604	20.8	13.0	17.3	-23.9	14.1	105.8	9.0	42.0	43.5	47.2	40.5	42.4	58.0	54.4
net impairments and provisio	47	46	-170	74	-14	-10	-35	10.1	-2.8	-470.8	-143.4	-119.2	-27.7	64.6	4.1	3.6	-12.5	6.1	-1.1	-0.5	-3.1
	68	60	-133	72	-23	-33	-24		-12.9	-323.8	-153.8	-131.8	44.7	-736.7	5.9	4.7	-9.8	6.0	-1.7	-1.7	-2.1
of which at amortised cost																					
Pre-tax profit	**531**	**593**	**472**	**562**	**543**	**1137**	**569**	**19.8**	**11.6**	**-20.3**	**19.1**	**-3.3**	**109.3**	**6.8**	**46.0**	**47.2**	**34.7**	**46.6**	**41.3**	**57.5**	**51.3**
corporate income tax	-36	-62	-22	-37	-42	-39	-73	93.4	73.9	-65.0	70.1	13.1	-6.8	10.4	-3.1	-4.9	-1.6	-3.1	-3.2	-2.0	-6.6
Net profit	495	531	450	525	502	1098	496	16.6	7.1	-15.1	16.6	-4.5	118.9	6.3	42.9	42.2	33.1	43.6	38.1	55.5	44.7

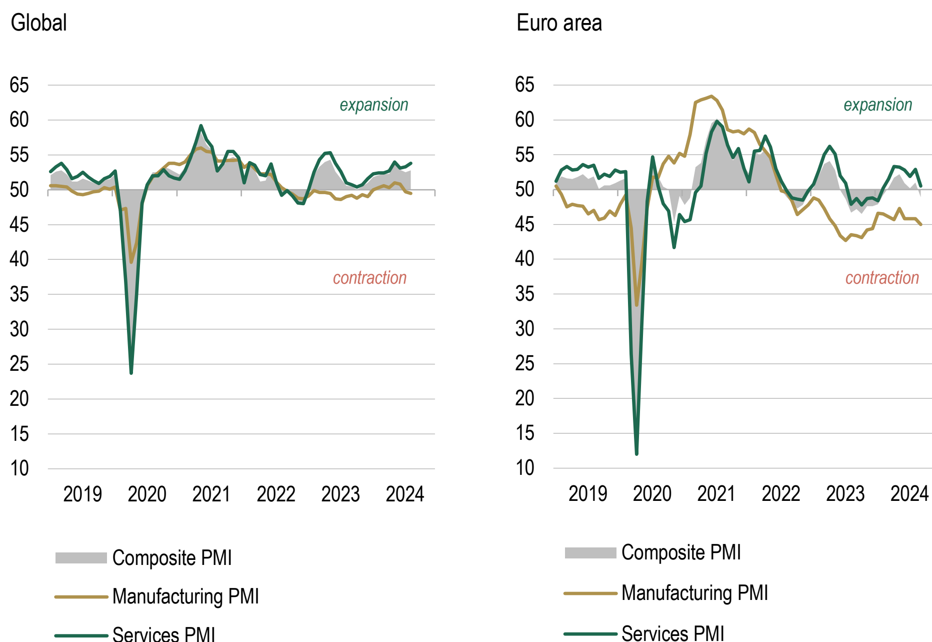
Source: Banka Slovenije

Table 8.5: **Selected bank performance indicators for the Slovenian banking system, 2011 to H1 2024**

(%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	H1 2023	H1 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	2.14	2.18
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	21.36	19.49
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	43.39	45.57
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	2.79	3.20
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	2.66	3.05
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	1.29	1.21
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	3.95	4.26

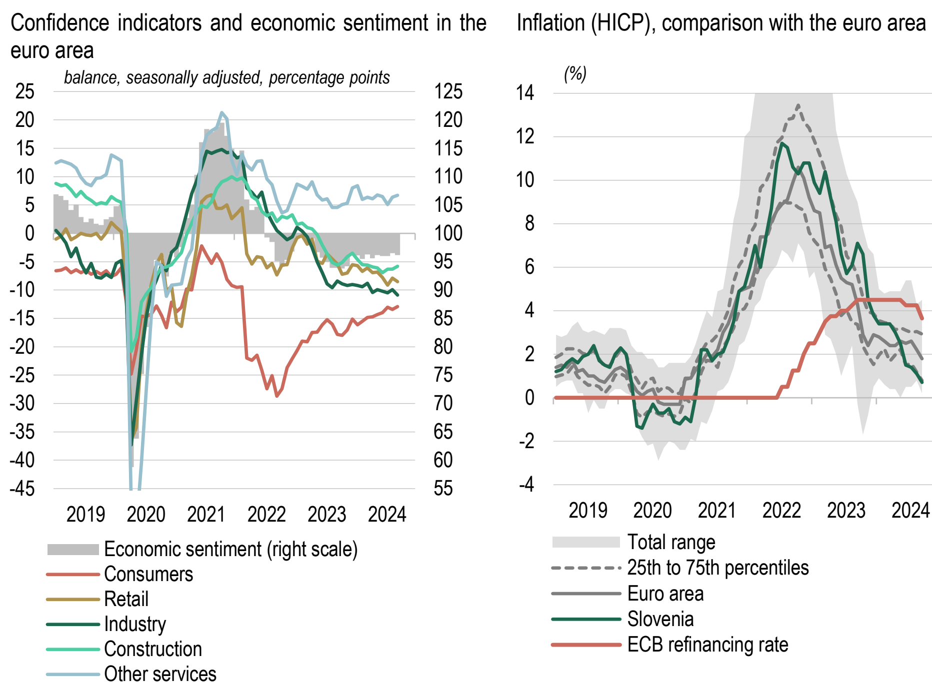
Note: FIM: financial intermediation margin.
Source: Banka Slovenije

Figure 8.1: **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

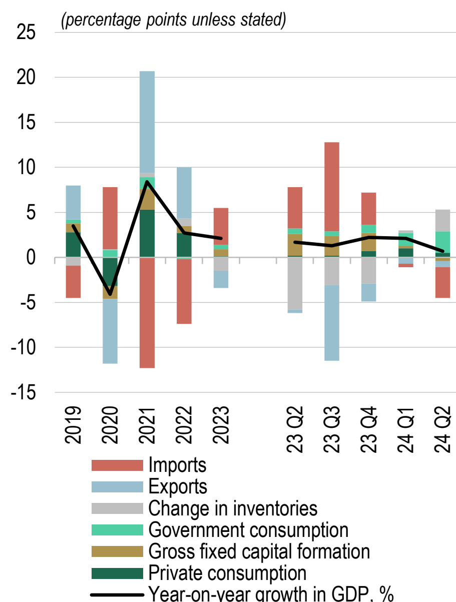
Figure 8.2: **Economic sentiment and inflation**



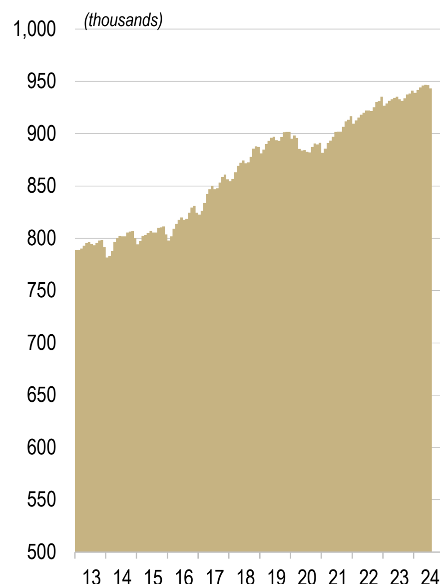
Note:The confidence indicators in the left chart are expressed in the form of the average balance, where the balance is the difference between the proportions of positive answers and negative answers.
Sources: Eurostat, Banka Slovenije calculations

Figure 8.3: **GDP and labour market in Slovenia**

Components of GDP growth



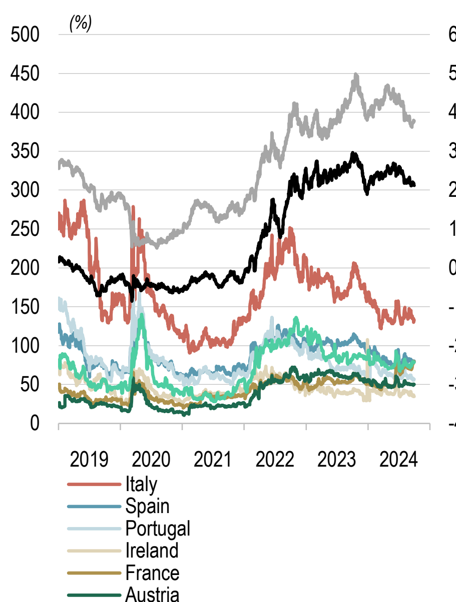
Workforce in employment



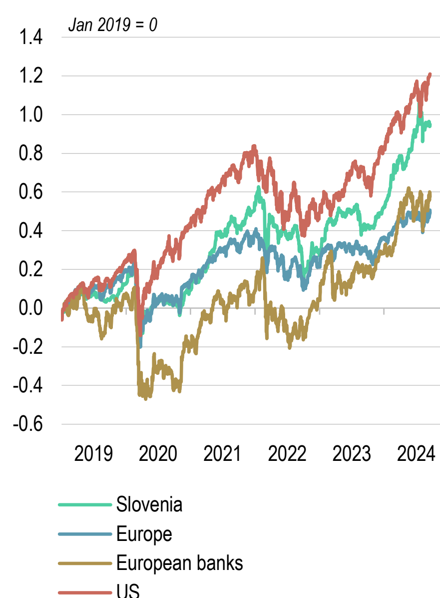
Source: SORS

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

Yield and spreads on 10-year government bonds

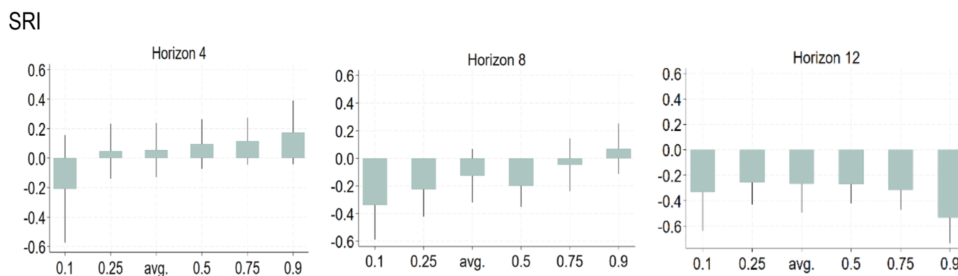


Stock market indices



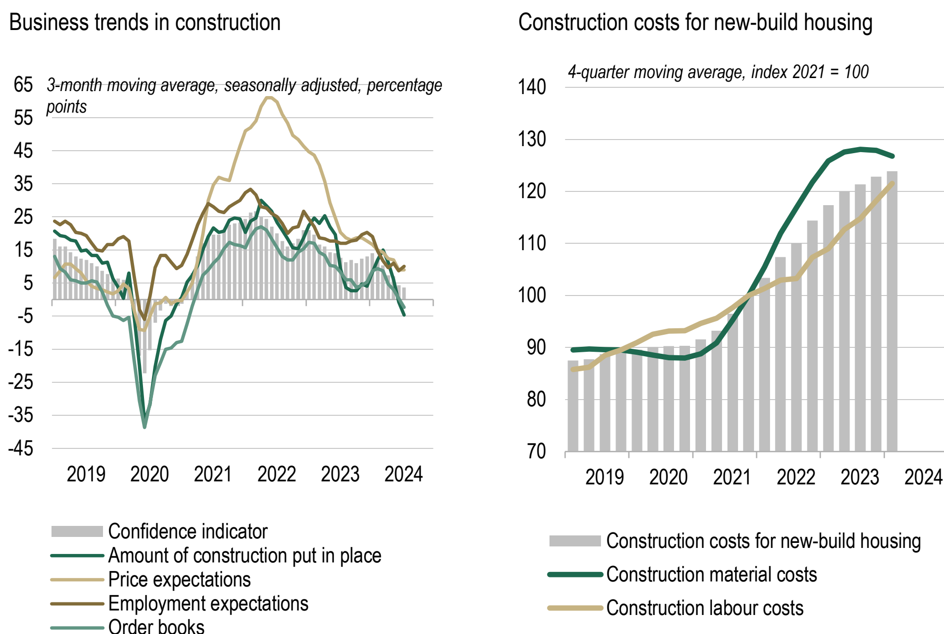
Note: The spread in the left chart is calculated as the difference between the yield on the 10-year government bond and the yield on the benchmark (German bond) on a daily basis, and reflects the additional risk that the markets ascribe to the country in question. The selected indices in the right chart 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: **Time structure of the systemic risk index (SRI)**



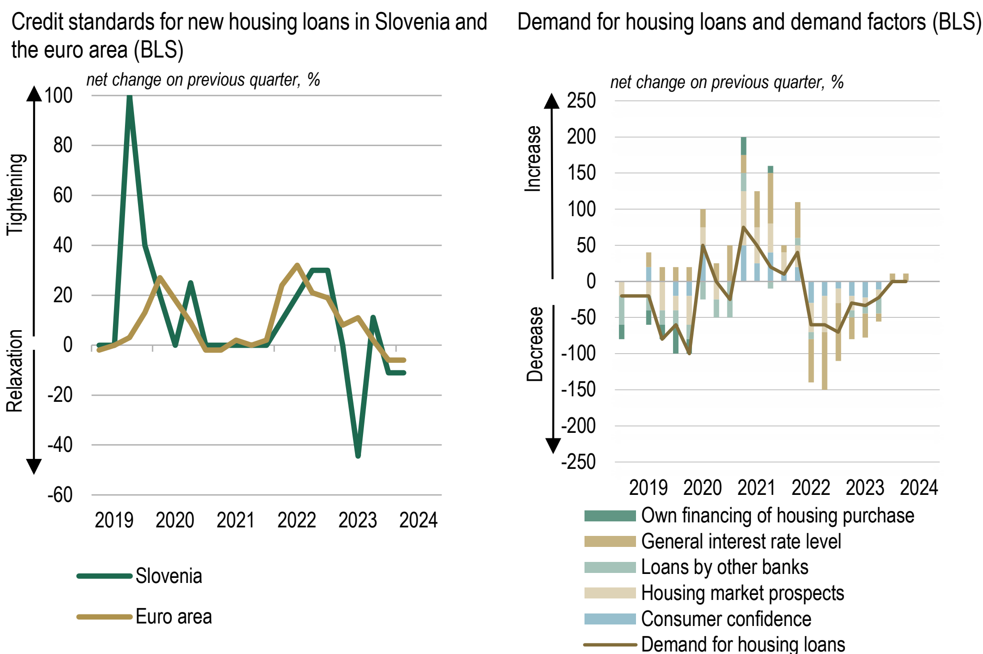
Source: Banka Slovenije

Figure 8.6: **Business trends in construction and construction costs for new-build housing**



Sources: ECB Data Portal, Banka Slovenije

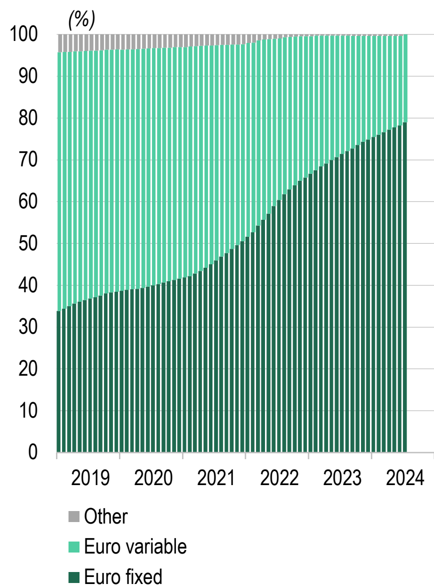
Figure 8.7: **Credit standards for new housing loans and demand for housing loans**



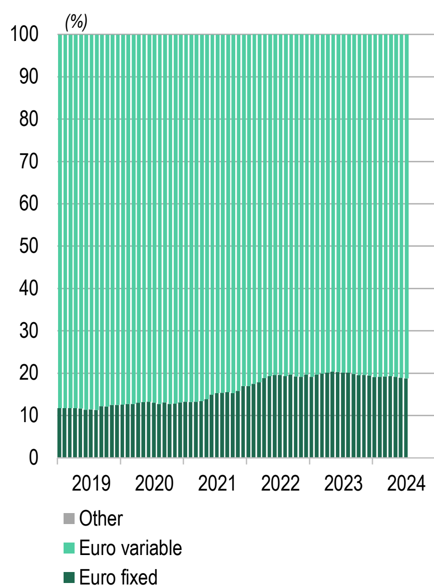
Sources: ECB Data Portal, Banka Slovenije

Figure 8.8: **Breakdown of loans by remuneration type**

Breakdown of household loans by remuneration type



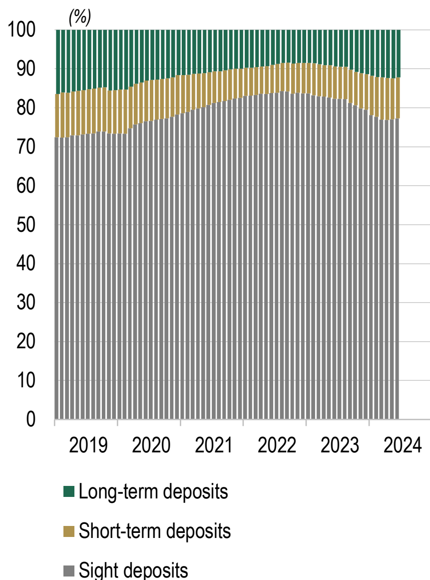
Breakdown of loans to non-financial corporations by remuneration type



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 8.9: **Breakdown of deposits**

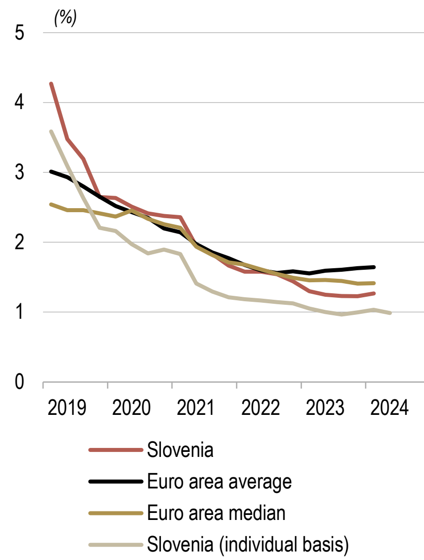
Breakdown of deposits by the non-banking sector by maturity



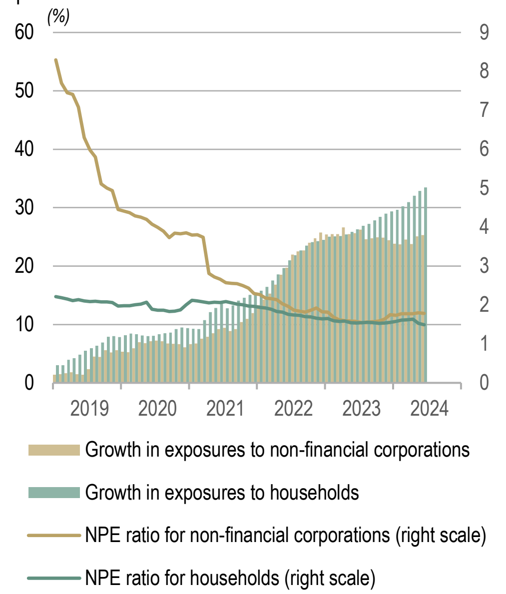
Source: Banka Slovenije

Figure 8.10: **NPE ratios**

NPE ratios in Slovenia and the euro area



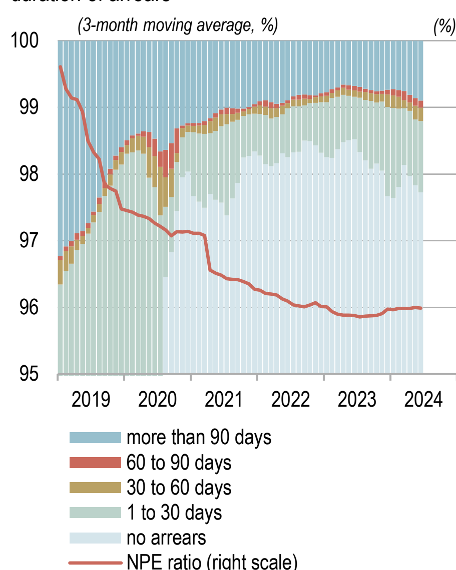
NPE ratios and growth in exposure in the household portfolio



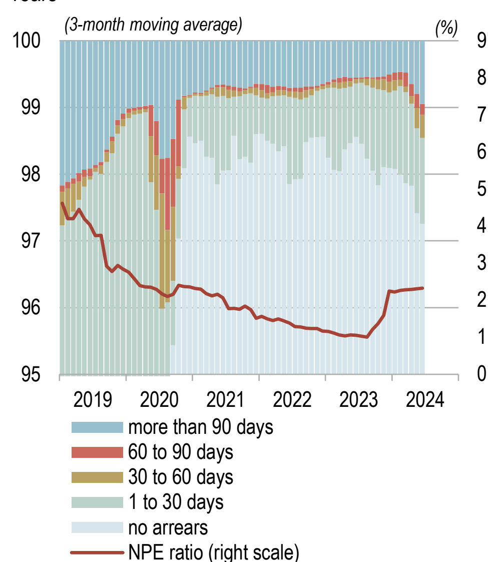
Note: In the left chart the data for the euro area is on a consolidated basis, while the capture of NPEs in these comparisons is narrower than in the figures for the Slovenian banking system in this section: only exposures from debt instruments are captured, which primarily reduces the denominator and consequently increases the NPE ratio. An additional series using the standard Banka Slovenije definition (individual basis, capturing total exposures) is also illustrated for Slovenia.
Sources: Banka Slovenije, ECB Data Portal

Figure 8.11: **Breakdown of portfolios by duration of arrears**

Breakdown of non-financial corporations portfolio by duration of arrears



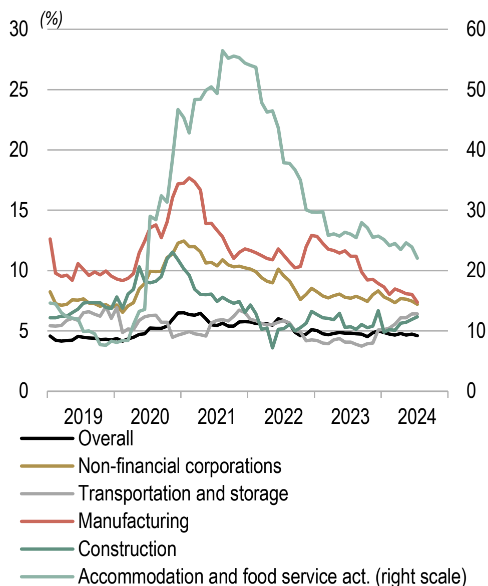
Breakdown of manufacturing portfolio by duration of arrears



Source: Banka Slovenije

Figure 8.12: **Share of Stage 2 exposures**

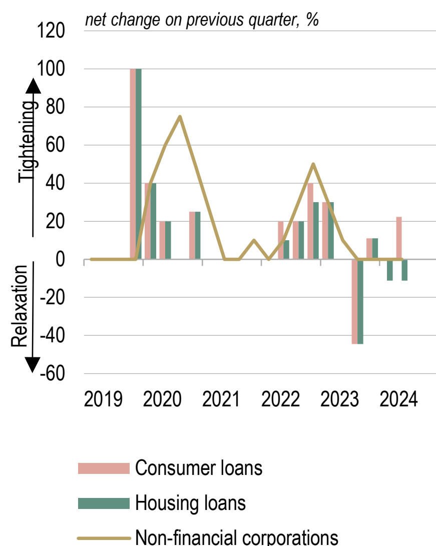
Share of Stage 2 exposures in non-financial corporations portfolio



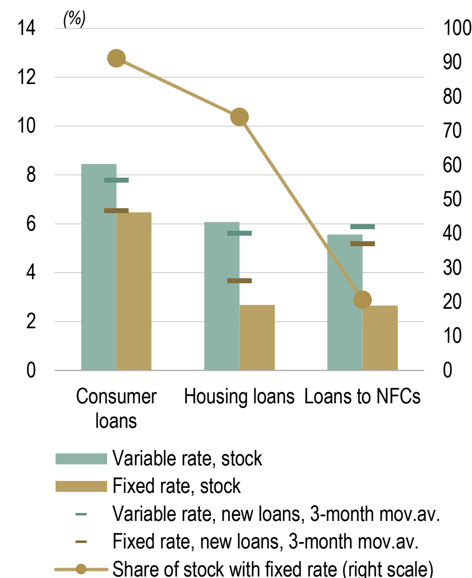
Source: Banka Slovenije

Figure 8.13: **Credit standards and interest rates**

Bank credit standards by loan type



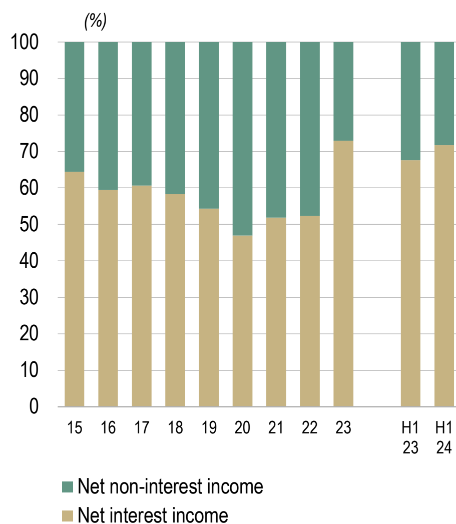
Interest rate on stock by loan type



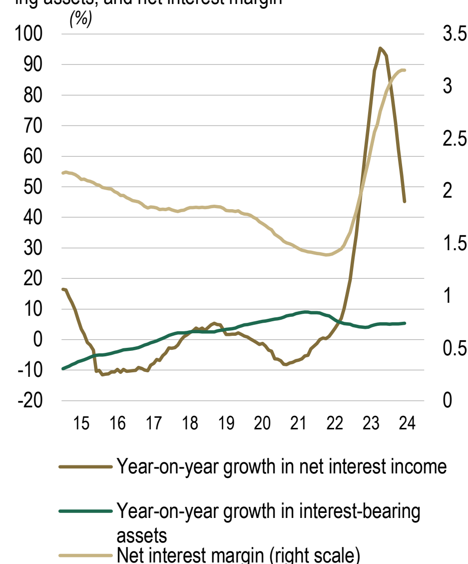
Sources: Regular bank survey, Banka Slovenije

Figure 8.14: **Breakdown of gross income and net interest margin**

Breakdown of gross income

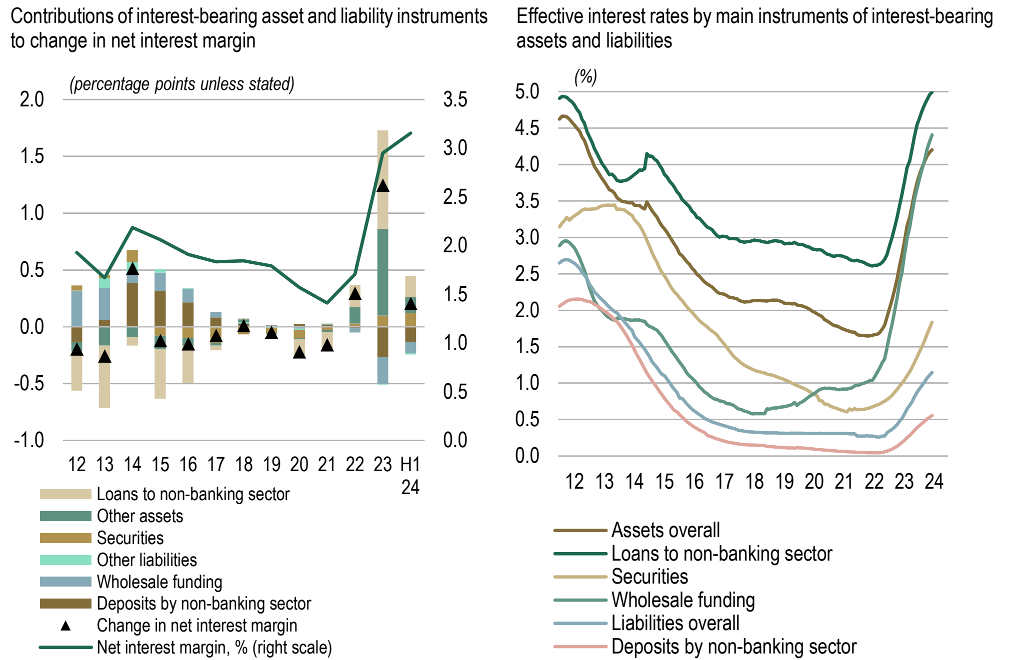


Year-on-year growth in net interest income and interest-bearing assets, and net interest margin



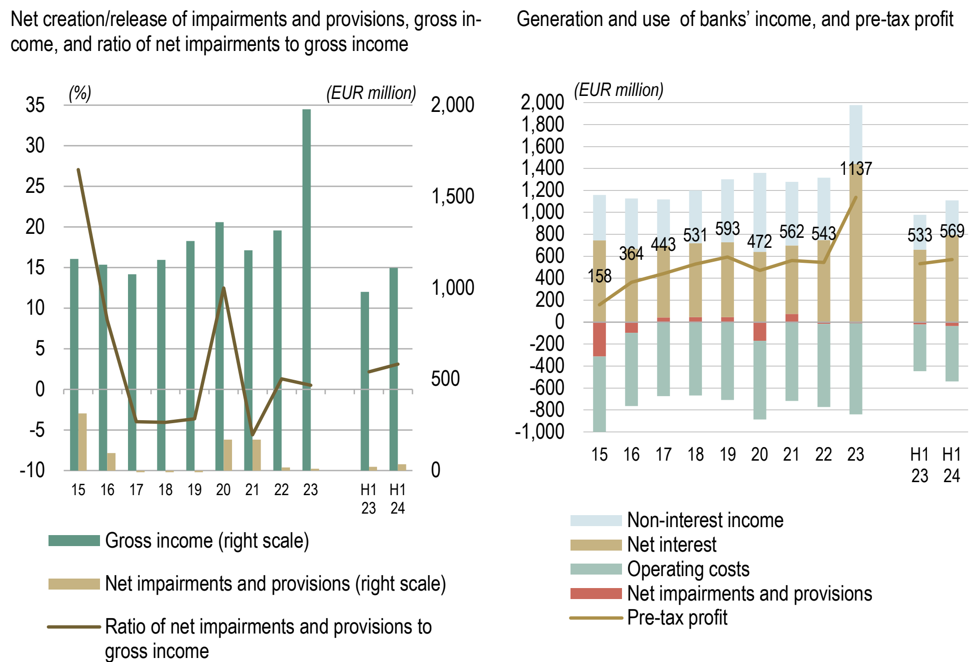
Source: Banka Slovenije

Figure 8.15: **Contributions of changes in components of net interest margin and effective interest rates**



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. 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

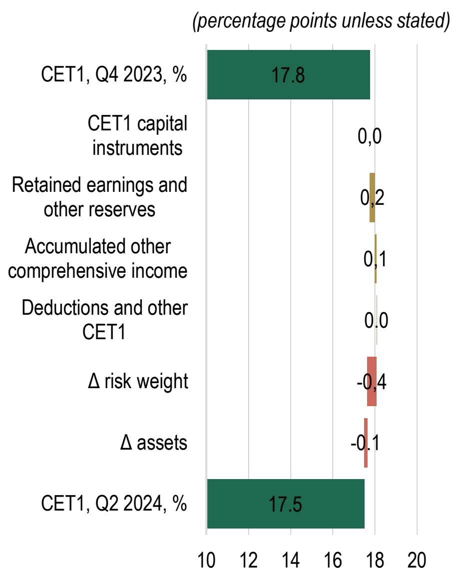
Figure 8.16: **Net impairments and provisions, bank income, and other income statement categories**



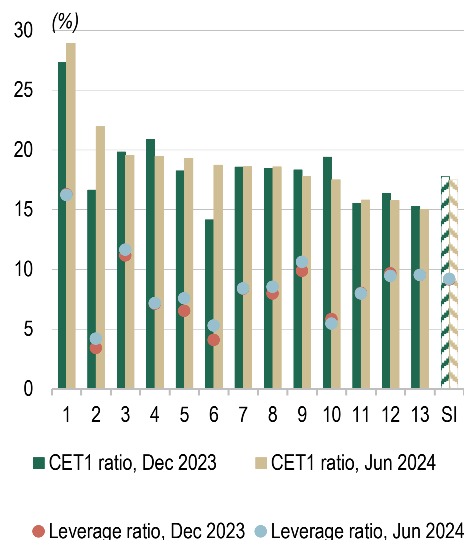
Note: Negative values for net impairments and provisions represent the net release of impairments and provisions in the left chart, and net creation in the right chart. The data for the Slovenian banking system comes from balance sheet figures on an individual basis.
Source: Banka Slovenije

Figure 8.17: **CET1 ratio and leverage ratio**

Decomposition of change in CET1 ratio, consolidated basis



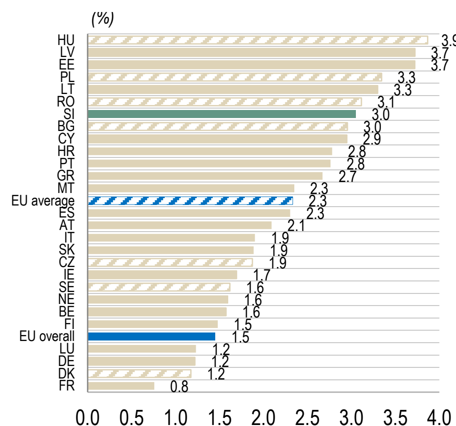
CET1 ratio and leverage ratio at individual banks, consolidated basis



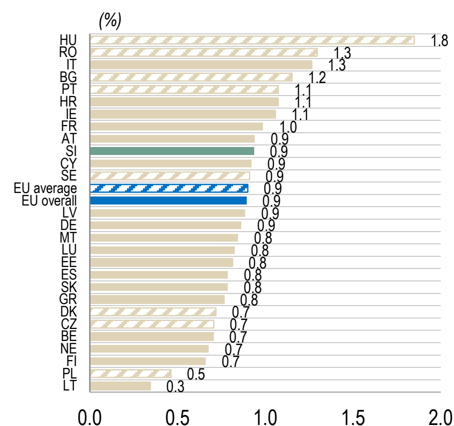
Source: Banka Slovenije

Figure 8.18: **Net interest margin and net non-interest margin**

Net interest margin in Slovenia and other EU Member States, 2023

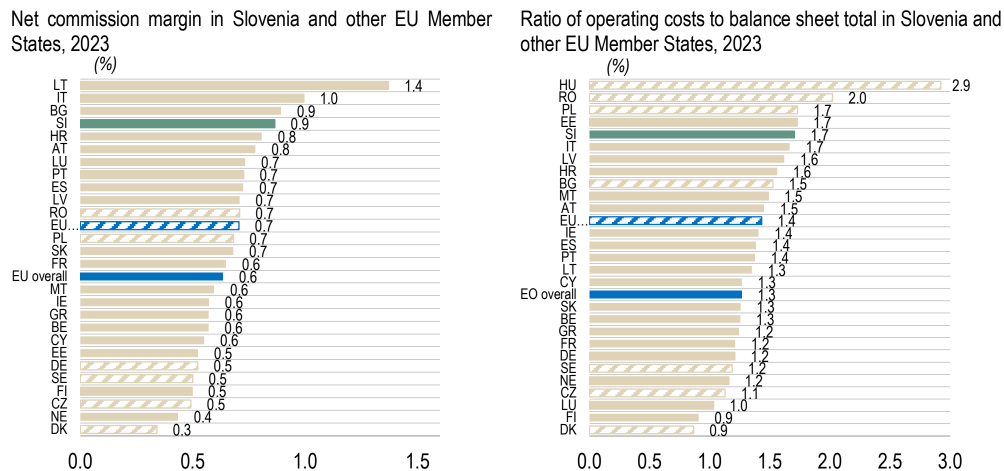


Net non-interest margin in Slovenia and other EU Member States, 2023



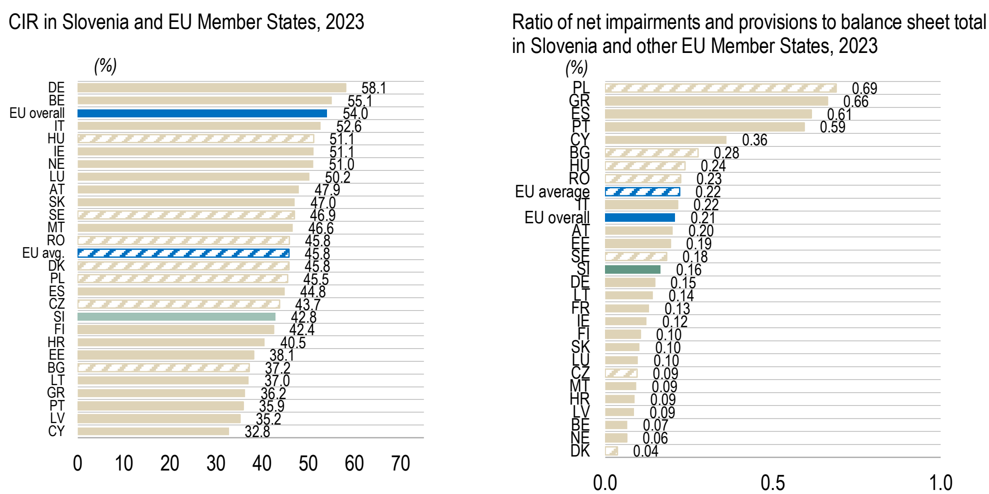
Note: The indicators are calculated on the basis of the ECB Data Portal's consolidated banking data. This data differs slightly from the figures based on balance sheets on an individual basis. In Figures 8.18 to 8.21, the figures for "EU overall" reflect the EU as a whole, while "EU average" is the ordinary mean of all EU Member States.
Sources: Banka Slovenije, ECB Data Portal

Figure 8.19: **Net commission margin and ratio of operating costs to balance sheet total**



Note: The indicators are calculated on the basis of the ECB Data Portal's consolidated banking data. This data differs slightly from the figures based on balance sheets on an individual basis.
Source: Banka Slovenije, ECB Data Portal

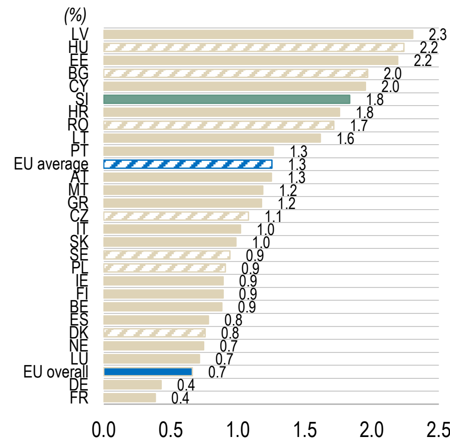
Figure 8.20: **CIR and ratio of net impairments and provisions to balance sheet total**



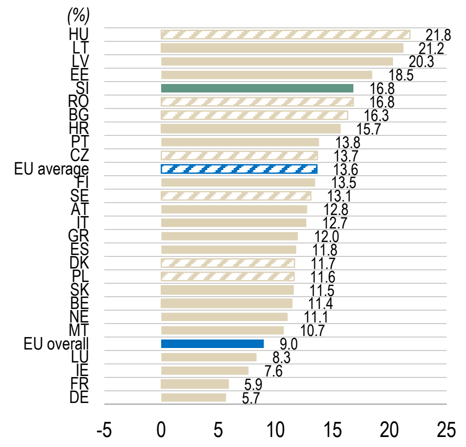
Note: The indicators are calculated on the basis of the ECB Data Portal's consolidated banking data. This data differs slightly from the figures based on balance sheets on an individual basis.
Sources: Banka Slovenije, ECB Data Portal

Figure 8.21: **ROA and ROE**

ROA in EU Member States, 2023



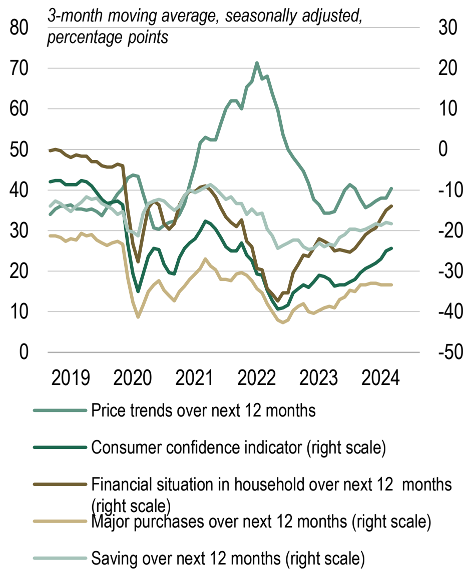
ROE in EU Member States, 2023



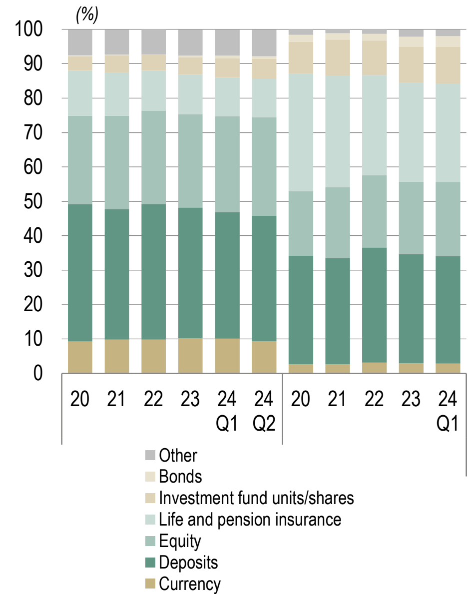
Note: The indicators are calculated on the basis of the ECB Data Portal's consolidated banking data. This data differs slightly from the figures based on balance sheets on an individual basis.
Sources: Banka Slovenije, ECB Data Portal

Figure 8.22: **Consumer confidence indicator and household financial assets**

Consumer confidence indicator

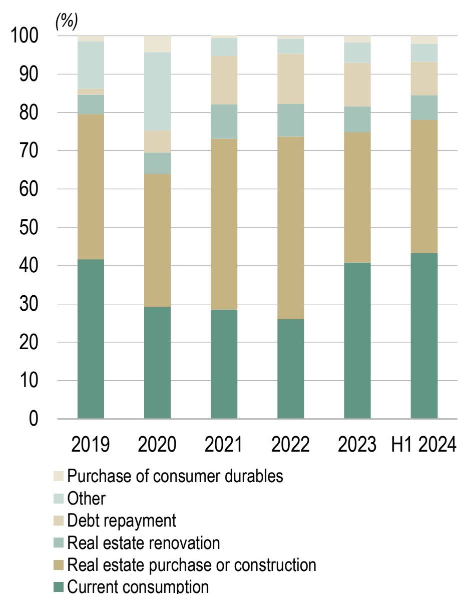


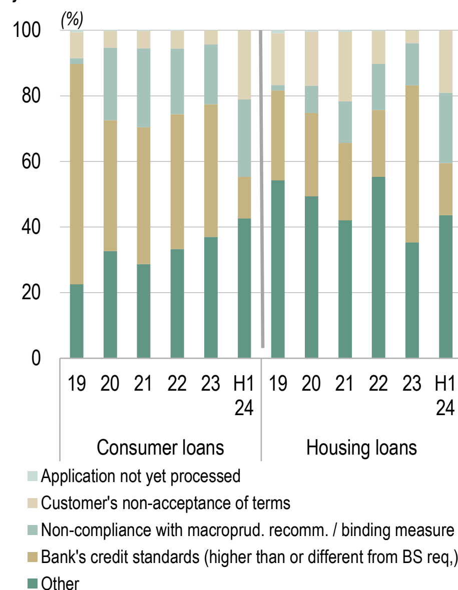
Breakdown of household financial assets in Slovenia and the euro area



Note: In the left chart the confidence indicator is the average of the balances computed from answers to questions about the current financial situation in the household, expected financial situation in the household, expected economic situation in the country, and expectations of major purchases. The left chart also illustrates the answers to questions about developments in prices of consumer goods over the next 12 months, expectations of the financial situation of the household over the next 12 months, how much money they intend to earmark for major purchases (furniture, household appliances, TVs, etc.) over the next 12 months, and how likely it is that they will save any money over the next 12 months. For more, see https://www.stat.si/StatWeb/File/DocSysFile/8239. In the right chart equity consists of listed shares, unlisted shares and other equity. Investment fund shares relate to funds with a corporate structure. Units relate to mutual funds.
Sources: SORS, ECB Data Portal

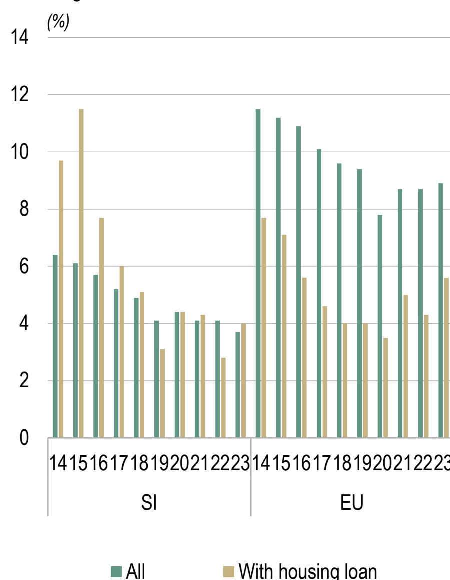
Figure 8.23: **Household demand for loans**

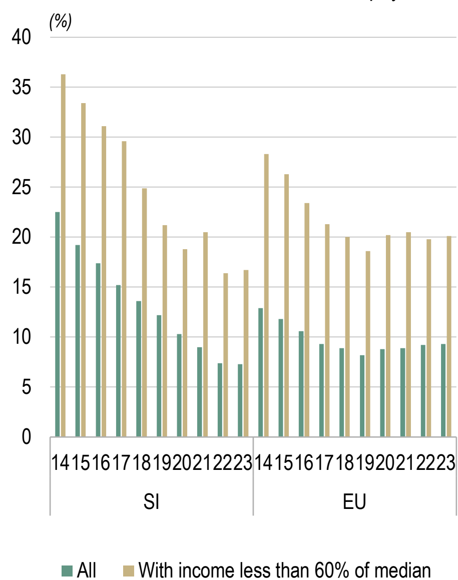




Note: In the right chart, among the grounds cited by the banks as "other" grounds for rejection for 2023 and the first half of 2024 were that there was a failure to keep records of rejections, that the customer documentation was incomplete, that the land register was in disorder, or other grounds were not cited.
Source: Banka Slovenije

Figure 8.24: **Housing cost overburden rate and arrears in loan repayment**

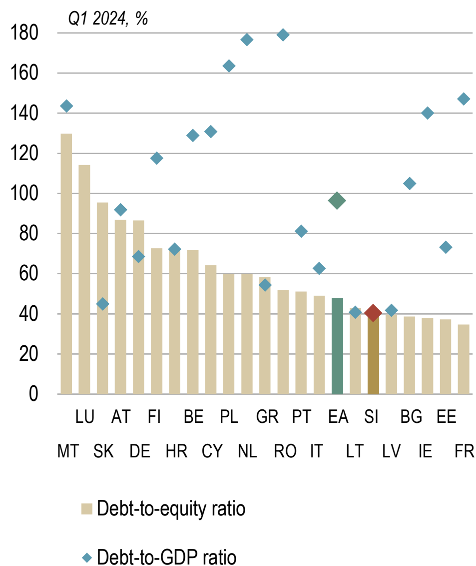




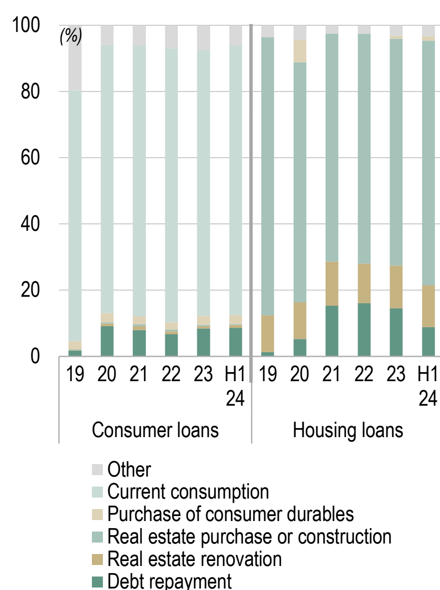
Note: In the left chart households that are overburdened by housing costs in the EU-SILC survey are defined as those households whose housing costs exceed 40% of their disposable income.
Source: Eurostat

Figure 8.25: **Indebtedness in EU Member States and breakdown of household demand for loans**

Indebtedness of non-financial corporations in Slovenia and the EU



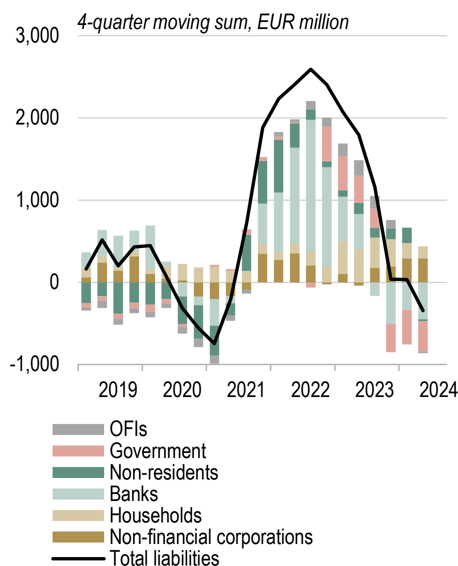
Breakdown of demand for consumer loans and housing loans by purpose in terms of loan amount



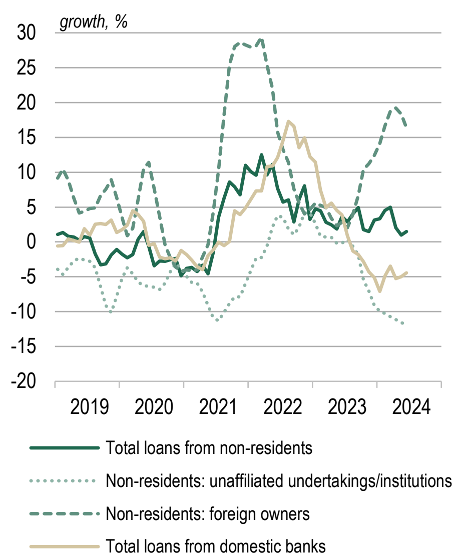
Note: Debt includes loans and debt securities only.
Sources: Banka Slovenije, ECB Data Portal

Figure 8.26: **Financing of non-financial corporations via loans**

Flows of loans at non-financial corporations by creditor sector

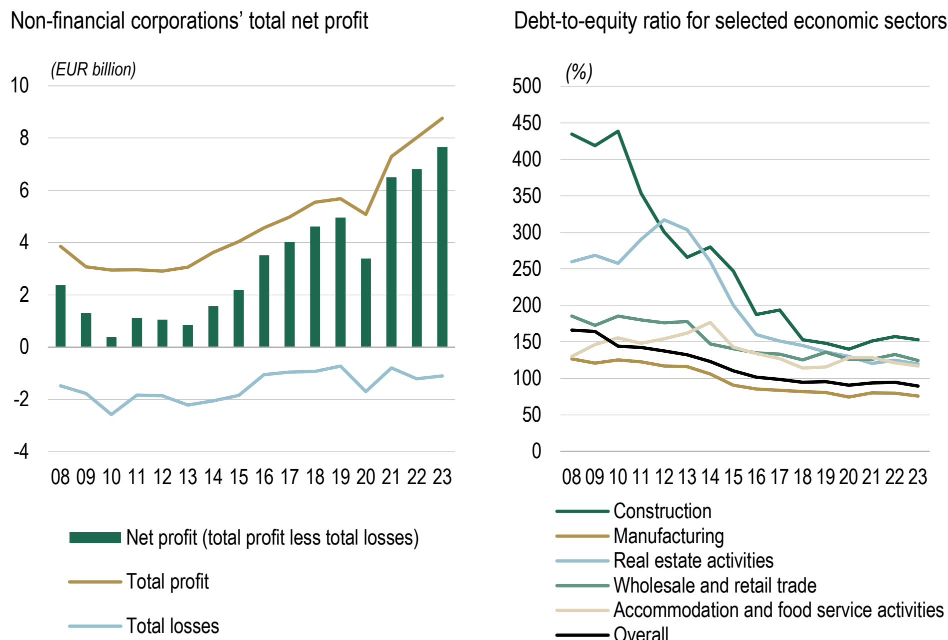


Growth in loans from non-residents by ownership link and in loans from domestic banks



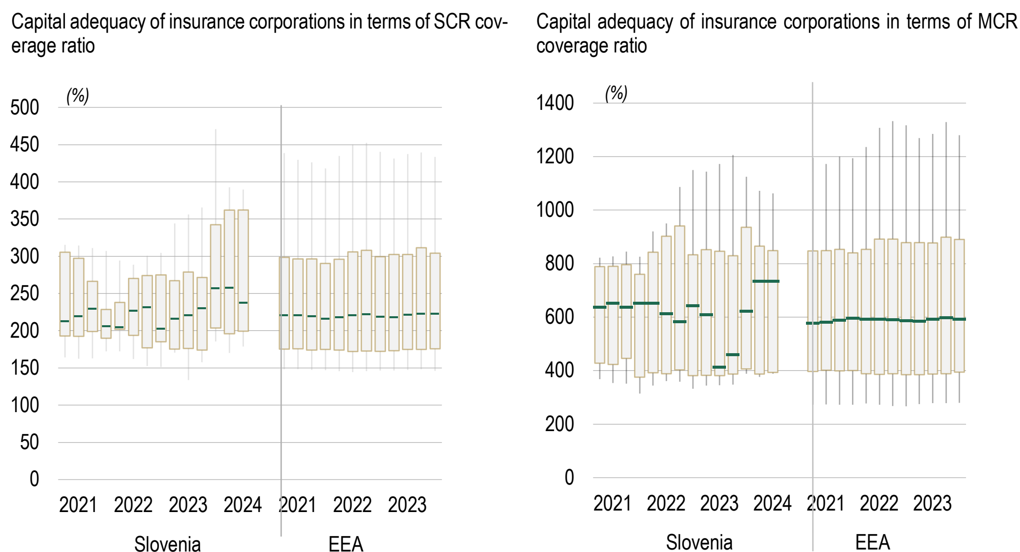
Source: Banka Slovenije

Figure 8.27: **Net profit and indebtedness of non-financial corporations**



Note: In the right chart leverage is measured as the ratio of debt to equity.
Sources: AJPES, Banka Slovenije calculations

Figure 8.28: **Capital adequacy of insurance corporations**



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 available to the final quarter of 2023 inclusive.
Sources: EIOPA, ISA, Banka Slovenije

Table 8.6: **Default rate for micro, small and medium-size enterprises, and large enterprises**

Year	MSMEs	Large enterprises
2017	4.1	1.9
2018	6.2	3.1
2019	5.1	2.2
2020	5.1	4.5
2021	4.1	3.3
2022	3.4	1.1
2023	3.6	1.3

Note: The calculation of one-year default rates is based on the following assumptions:
1. Unit of observation: in the calculation of default rates the unit of observation is customer-date. Only one piece of data is taken into account for each customer, even if the customer has exposures at various banks. Banks and savings banks are included in the calculation. All customers whose classified claims measured at amortised cost are positive on the initial date are included in the calculation.
2. Defaulter is defined according to the EBA definition of non-performing exposure at the customer level.
3. Calculation of default rate:
The numerator of the default rate is defined as the number of customers who were non-defaulters on the initial date (end of year T) and have become defaulters at any time in the following year (T+1), where it is not necessary that they remain defaulters at the end of year T+1.
The denominator of the default rate is defined as the number of customers who were non-defaulters on the initial date (end of year T).
Each customer is taken into account in the calculation only once, even if the customer has exposures at various banks. A conservative approach has been used, where a customer who has been a defaulter at any bank at least once during the observation period is classed as a defaulter.
Source: Banka Slovenije

Table 8.7: **Transition rates between ratings of micro, small and medium-size enterprises, and large enterprises (transition matrices)**[96]

		MSMEs					Large enterprises				
		Dec. 2023					Dec. 2023				
		A	B	C	D	E		A	B	C	D	E
Dec. 2022	A	85.3	10.5	2.4	1.5	0.3	A	93.0	5.9	1.0	0.1	0.0
	B	17.2	63.1	17.6	1.3	0.7	B	28.2	68.8	2.2	0.5	0.3
	C	4.8	18.1	69.3	5.9	2.0	C	8.0	38.0	44.0	10.0	0.0
	D	1.8	3.8	9.6	71.5	13.3	D	8.7	4.3	13.0	73.9	0.0
	E	0.4	0.3	1.2	4.2	94.0	E	0.0	0.0	0.0	5.7	94.3

Note: The calculation of one-year transition rates is based on the following assumptions:
1. Unit of observation: in the calculation of transition rates the unit of observation is bank-customer-date. Each customer is taken into account in the calculation with regard to the number of exposures at various banks in the banking system. Banks and savings banks are included in the calculation. Customers whose data was in the credit register at the beginning of the year in question are taken into account. The figure for the end of the period takes account of the final data available for the customer during the year. All customers whose classified claims have a positive amortised cost and who have a particular rating at the beginning of the observation period, and who were included in Sector S.11 in the business register on the date in question, are included in the analysis.
2. Calculation:
The numerator of the transition rate from ratings i to j is defined as the number of customers who had rating i on the initial date (end of year T), and whose latest available rating in year T+1 was j, where it is not necessary that they still held that status at the end of year T+1.
The denominator of the transition rate from ratings i to j is defined as the number of customers who had rating i on the initial date (end of year T).
Source: Banka Slovenije

[96] The transition matrices for past periods are published in the appendix to the October 2020 issue of the Financial Stability Review (Table 6.2 on page 86), in the appendix to the October 2021 issue of the Financial Stability Review (Table 7.3 on page 100), in the appendix to the October 2022 issue of the Financial Stability Review (Table 6.6 on page 61), and in the appendix to the October 2023 issue of the Financial Stability Review (Table 8.6 on page 100).

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
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
BAMC	Bank Assets Management Company
EBA	European Banking Authority
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ECB	European Central Bank
EEA	European Economic Area
EMU	European Monetary Union (euro area)
ESRB	European Systemic Risk Board
EU	European Union
EA	Euro area
Euribor	Interbank interest rate at which representative banks in the euro area offer deposits to one another
Eurostat	Statistical Office of the European Communities
Fed	Board of Governors of the 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
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