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## **FINANCIAL STABILITY CONSIDERATIONS FOR SLOVAKIA IN THE CONTEXT OF ECB MONETARY STANCE**

### **Abstract:**

The Euro Area monetary policy has been recently facing many challenges. To meet its objectives related to the price stability, the ECB has been conducting an accommodative policy including several extraordinary measures. Apart from improvements in inflationary expectations, these moves, however, also lead to very low interest rates and flattening of the yield curve. In our work, we examine potential negative impacts of this environment on European banks with particular focus on the Slovak banking sector via narrowing of interest margins and growing indebtedness of households. We show this impact to be asymmetrical within the Euro Area mostly due to divergence of banks' business models. These results are consequently interpreted in the context of banks's lending policies and capital buffers. Results of our work underline the importance of active macro-prudential policy conducted at national level aimed at offsetting unintended side effects of current monetary policy in the Euro Area.

### **Keywords:**

Monetary operations; Financial stability; Banking sector

**JEL Classification:** G21