Slovak Republic

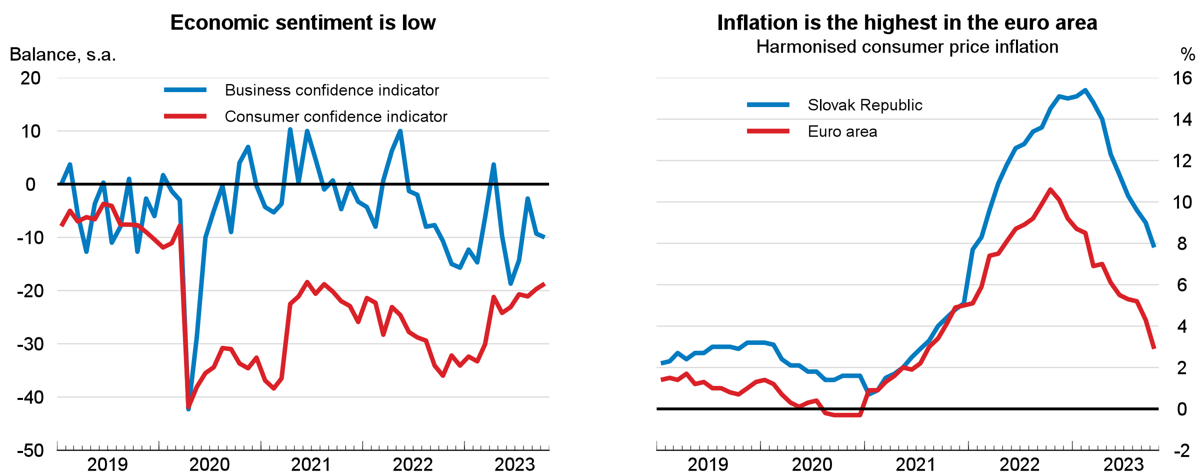
GDP growth is projected to pick-up from 1.1% in 2023 to 1.8% in 2024 and 2.4% in 2025. As inflation abates, real household income growth will bolster consumer demand in 2024 and 2025. Tighter financial conditions will weigh on private investment while EU recovery and resilience funds will sustain public investment throughout the projection period. The recovery of foreign demand will support exports in 2024 and 2025. Risks to the projections are skewed to the downside. They are mainly related to lower absorption of EU funds, which would hamper investment, and higher energy prices, which could lead to persistent inflation.

Fiscal consolidation is needed to rebuild fiscal buffers, reduce inflationary pressures and improve long-term fiscal sustainability in the face of rapid population ageing. The fiscal consolidation strategy should be designed in a way to avoid harming growth and equity. This requires reforming pensions, increasing spending efficiency, and broadening tax bases. Improving the absorption of EU funds can spur growth, reduce socio-economic gaps and accelerate the digital and green transitions.

Economic growth is subdued and inflation is high

Economic growth slowed in the third quarter of 2023 to 0.2% quarter-on-quarter. High-frequency indicators point to continued modest growth in the last quarter of 2023. Business and consumer sentiment remain subdued. Production and exports in the automotive sector have strengthened alongside an easing of supply chain bottlenecks, with firms working through order backlogs, but remain subdued in other industries. Harmonised consumer price inflation peaked in early 2023 but remains the highest among euro area countries, at 7.8% in October. Core inflation, at 7.7% in October, is also abating but at a slower pace. The labour market continues to be resilient with the unemployment rate close to the pre-pandemic level. Average annual nominal wage growth has risen to around 10%.

Slovak Republic



Source: Statistical Office of the Slovak Republic; and Eurostat Harmonised index of consumer prices (HICP) database.

Slovak Republic: Demand, output and prices

Slovak Republic	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	93.4	4.8	1.8	1.1	1.8	2.4
Private consumption	53.7	2.8	5.6	-1.8	1.0	2.3
Government consumption	19.6	4.2	-4.2	-2.5	1.2	0.8
Gross fixed capital formation	18.2	3.5	4.5	6.3	4.1	3.9
Final domestic demand	91.5	3.2	3.2	-0.4	1.7	2.3
Stockbuilding[1]	0.0	2.4	-0.2	-6.4	0.5	0.0
Total domestic demand	91.4	5.9	2.8	-6.1	2.3	2.4
Exports of goods and services	79.3	10.4	3.1	-1.8	3.7	3.1
Imports of goods and services	77.3	11.6	4.5	-9.2	4.2	3.1
Net exports[1]	2.0	-0.8	-1.2	7.9	-0.5	0.0
Memorandum items						
GDP deflator	_	2.4	7.5	8.5	4.2	2.9
Harmonised index of consumer prices	_	2.8	12.1	11.1	5.2	3.4
Harmonised index of core inflation[2]	_	3.3	8.2	9.6	4.9	3.4
Unemployment rate (% of labour force)	_	6.8	6.1	6.0	6.3	6.1
Household saving ratio, net (% of disposable income)	_	4.2	-2.5	0.1	1.0	0.7
General government financial balance (% of GDP)	_	-5.2	-2.0	-5.6	-4.4	-4.3
General government gross debt (% of GDP)	_	79.6	65.4	66.0	66.8	66.9
General government debt, Maastricht definition[3] (% of GDP)	_	61.1	57.8	58.4	59.2	59.3
Current account balance (% of GDP)	_	-2.5	-8.2	-2.2	-3.6	-3.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook 114 database.

Financial conditions have tightened. Banks have quickly transmitted higher euro area policy rates to lending rates for new credit to households and firms. Bank lending to households and firms has slowed markedly and house prices and residential investment have declined. Bank deposit rates have also increased albeit more moderately. Given high current inflation, near-term real interest rates remain negative, in contrast to many OECD countries.

EU funds will support public investment

The fiscal stance has been highly expansionary in 2023. The budget deficit expanded significantly on account of energy crisis measures (3.3% of GDP) and permanent measures, such as higher family benefits (1.1% of GDP) and VAT reductions in the hospitality and sports sectors (0.2% of GDP). Energy support measures are expected to be largely phased out by the end of this year. The indexation of various social benefits to past inflation will add to spending pressures in the coming years. Slovakia is expected to use significant funds from the EU Recovery and Resilience Facility in 2024-25 (about 2.7% of GDP per year on average), which will boost public investment. A new government coalition was formed in October, waiving the requirement to present a balanced budget for two years under current debt rules. The projections assume a neutral fiscal stance, which is somewhat tighter than implied by the national expenditure rule.

Economic growth will pick up moderately in 2024 and 2025

As inflation abates in 2024 and 2025, the recovery in real household incomes will support a pick-up in consumer demand. The negative impact of tighter financial conditions on investment will be partly offset by higher usage of EU recovery and resilience funds. After regaining some export market share due to fewer supply chain disruptions in the near-term, exports will grow largely in line with foreign demand over the next two years. Headline inflation will decline, with core inflation declining more slowly due to the lagged pass-through of energy prices to other goods and the effects of nominal wage increases. Risks to the projections are skewed to the downside. Lower absorption of EU funds would negatively affect investment. Higher wage growth or energy prices than assumed in the projections could lead to persistent inflation.

Stronger efforts to ensure fiscal sustainability are needed

Steady fiscal consolidation is needed to reduce inflationary pressures and ensure fiscal sustainability. Defence spending is expected to increase towards to the NATO target of 2% of GDP. Ageing-related spending could increase by more than 7 percentage points of GDP by 2070. Ageing-related challenges must be addressed, including by improving the sustainability of the pay-as-you-go public pension system, for example through tightening early retirement options. Measures to broaden the tax base, including by reversing VAT exemptions and reductions granted in recent years and improving tax compliance, would bolster fiscal sustainability. Parental leave should be reduced to avoid disincentives for mothers to take up work. Other family benefits have increased substantially and should be carefully evaluated. Support should be primarily targeted to households not sufficiently covered by the social safety net if needed. Large inflows of EU funds offer opportunities for ambitious consolidation without undermining key investments in education, health, and the digital and green transitions.

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