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SLOVAKIA : MACRO OUTLOOK

ECONOMIC SLOWDOWN MEETS FISCAL HEADWINDS

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Economy Slovakia - Analyses and Forecasts | Erste Group Bank AG
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Spot Rates as of: September 16, 2025
Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Summary

The Slovak economy continues to show signs of weakness. In 2Q25, GDP grew by just 0.6% y/y, marking the slowest pace since late 2022. Quarterly growth reached only 0.2% after seasonal adjustment, confirming a trend of subdued performance. Over the past five quarters, growth has hovered between 0.1% and 0.3%, well below the previous average of 0.7%. **As a result, the full-year GDP forecast has been revised down from 1.3% to 0.7%.**

External factors are also weighing on performance. US tariffs and a broader European slowdown are expected to impact Slovakia both directly—via reduced exports—and indirectly through weaker demand from trading partners. **Domestically, fiscal consolidation plans for 2026 are adding further headwinds**. The announced EUR 1.5bn package focuses on revenue-side measures, including higher health contributions, fewer public holidays, and more progressive taxation. Many of these steps will dampen household consumption and investment. One of the concerns is the temporary nature of some measures, which creates additional consolidation needs in the future once their effects expire.

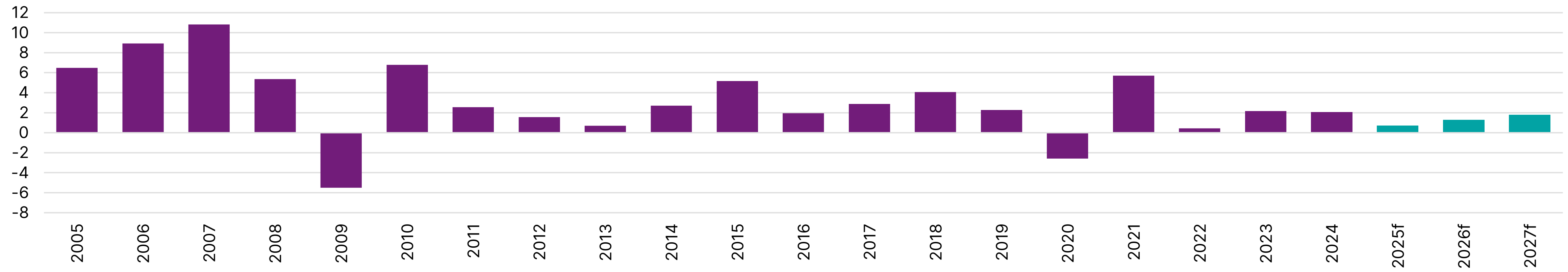
Inflation remains elevated, driven by VAT hikes and a new financial transaction tax. Despite energy subsidies, inflation stayed above 4% during summer and may rise again in December. **For 2026, inflation is forecast at 3.5%, though a new model of energy subsidies could push it higher.**

GDP growth revised downwards again

Slovakia's economy has entered a phase of subdued growth. In the second quarter of 2025, GDP increased by just 0.6% y/y, the weakest pace since late 2022. Quarter-on-quarter growth reached 0.2% after seasonal adjustment, confirming the trend of subdued performance. Over the first half of the year, the economy expanded by 0.7% compared to the same period last year. What is particularly striking is the persistent stagnation in quarterly growth rates, which have hovered between 0.1% and 0.3% for five consecutive quarters—well below the average quarterly growth of 0.7% recorded in the preceding five-quarter period.

For this year, we have revised our GDP forecast from 1.3% to 0.7% y/y, mainly due to the weak GDP figure in 2Q25. Additionally, another key negative impact partially reflected in the estimate will stem from the tariffs imposed by the United States and the associated slowdown in the European economic bloc. This will affect Slovakia's economic performance directly—through lower exports to the US—and indirectly via weaker demand from other foreign partners. The Slovak government is currently preparing a new consolidation package for 2026, which is another factor that will have a dampening effect on economic activity.

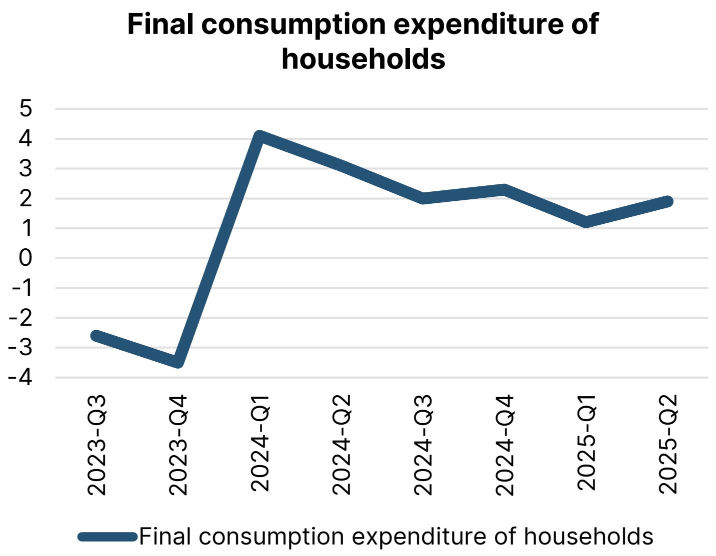
Annual GDP growth, percent

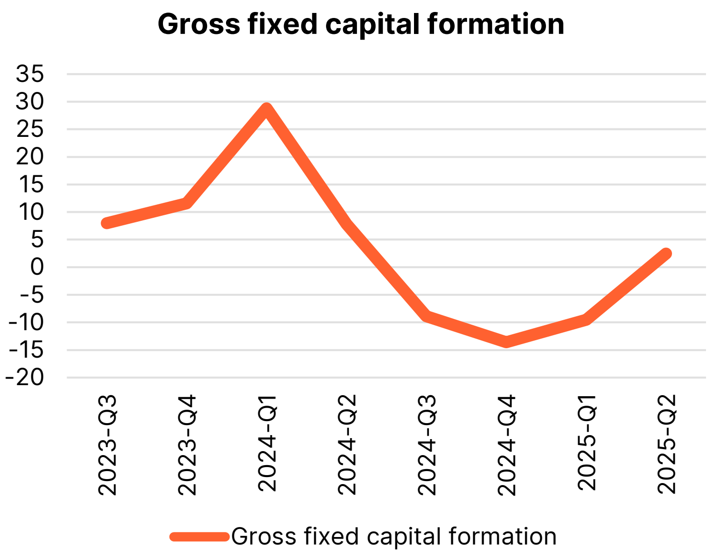


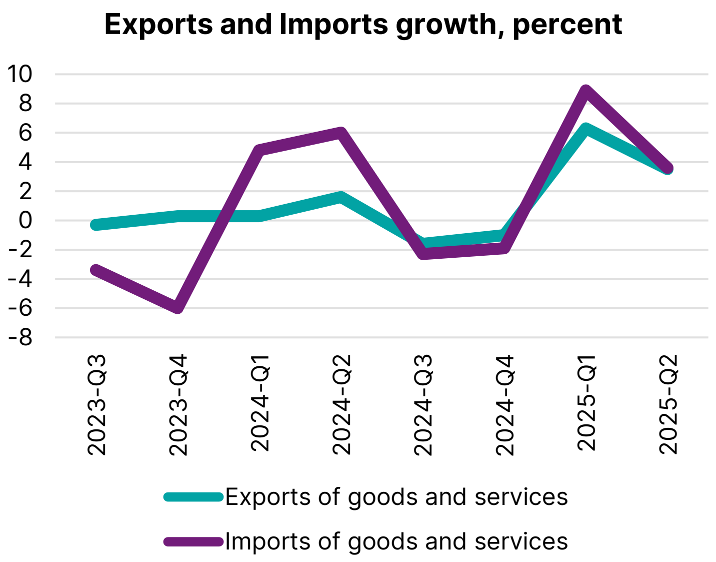
Source: Eurostat, Refinitiv, Erste Group Research

September 16, 2025

Inventory volatility offsets broad-based GDP growth







Similar to previous quarters, the key factor in 2Q25 was the change in inventory levels, which this time contributed significantly negatively to GDP—by almost 2pp. The disrupted inventory cycle continues and has once again caused volatility in the gross domestic product figures.

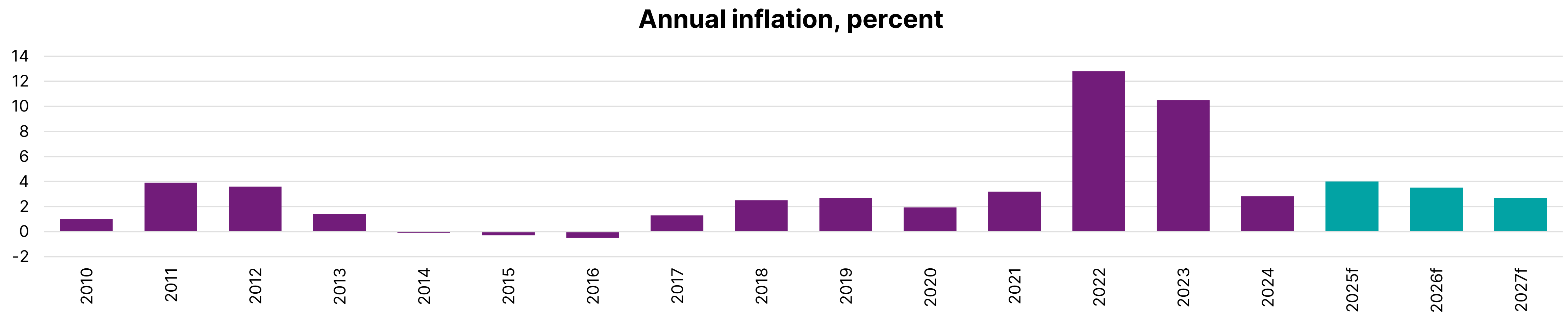
All other components showed positive y/y development. The most significant positive driver was **household consumption**, while **investment activity** rose swiftly—marking the first quarterly increase since 2Q24. Additionally, government consumption was up by 2% compared to the same quarter last year. Contrary to our forecasts, **foreign trade also contributed positively to growth**, with decent y/y growth rates, resulting in a mild positive contribution.

Source: Eurostat, Refinitiv, Erste Group Research

Inflation outlook with upside risks

At the beginning of this year, the **inflation rate jumped toward 4%, with one of the main reasons being the introduction of a higher value-added tax** on most goods and services. During the year, a **financial transaction** tax was also introduced, which is further pushing consumer prices upward. At the same time, the government continues to subsidize energy prices for households.

As a result, inflation has remained above 4% during the summer months. We expect it to ease for the rest of the year, except for December, when it may return to around 4.5%. **For next year, we currently forecast inflation at 3.5%.** However, the newly announced energy price support scheme for households is likely to push inflation higher. It is expected to take the form of energy vouchers, which will lead to higher inflation alongside an increase in disposable income. **We will revise our forecast once the details are clarified.**

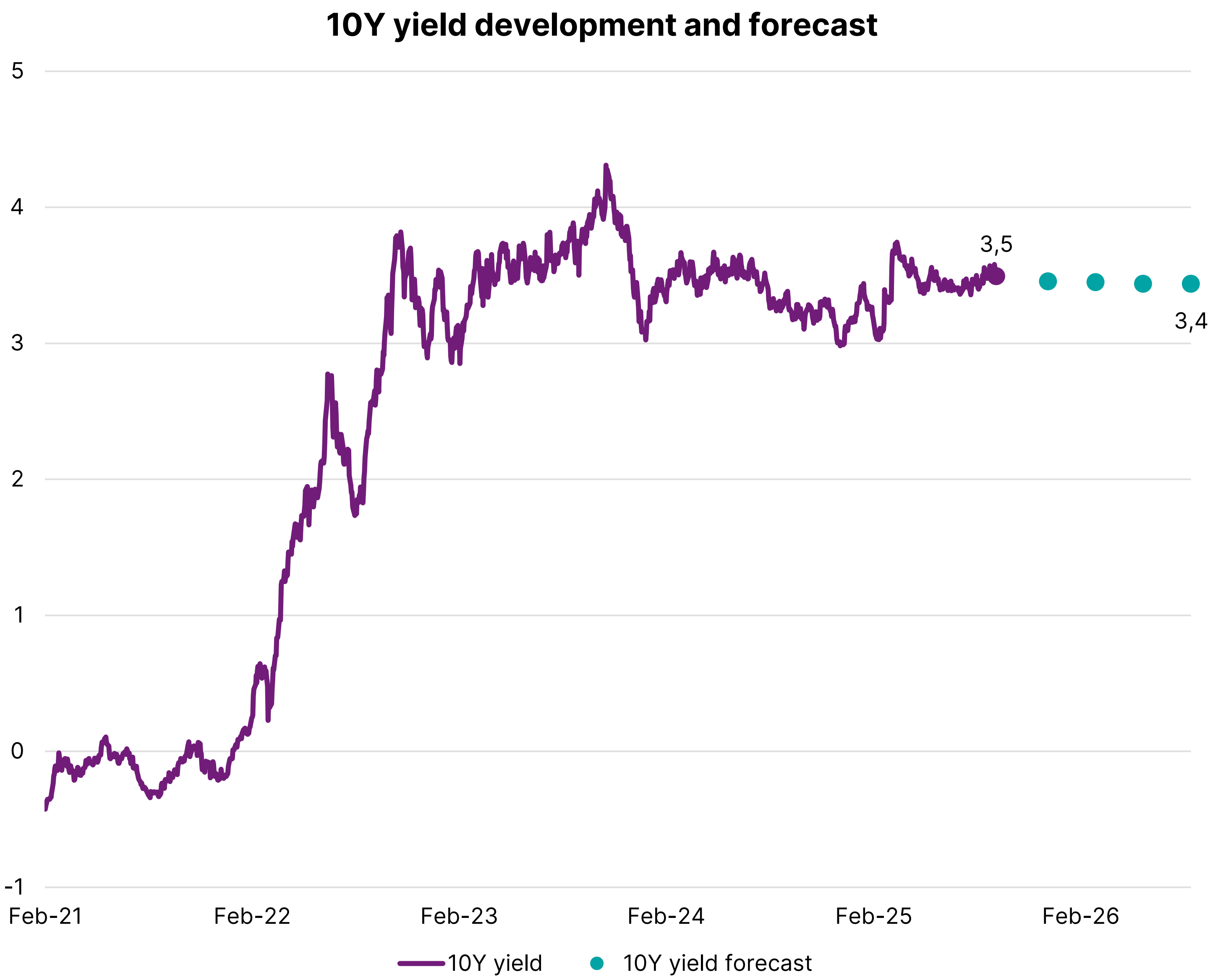


Source: Eurostat, Refinitiv, Erste Group Research
September 16, 2025

Risk premia at 80bp

In April, S&P shifted Slovakia's outlook from stable to negative, while maintaining its A+ rating. The agency pointed to two main concerns: limited progress in fiscal consolidation and the possible adverse effects of US tariffs on the Slovak economy. Moody's rating of A3 aligns with Fitch's A-, whereas S&P's rating remains two notches higher.

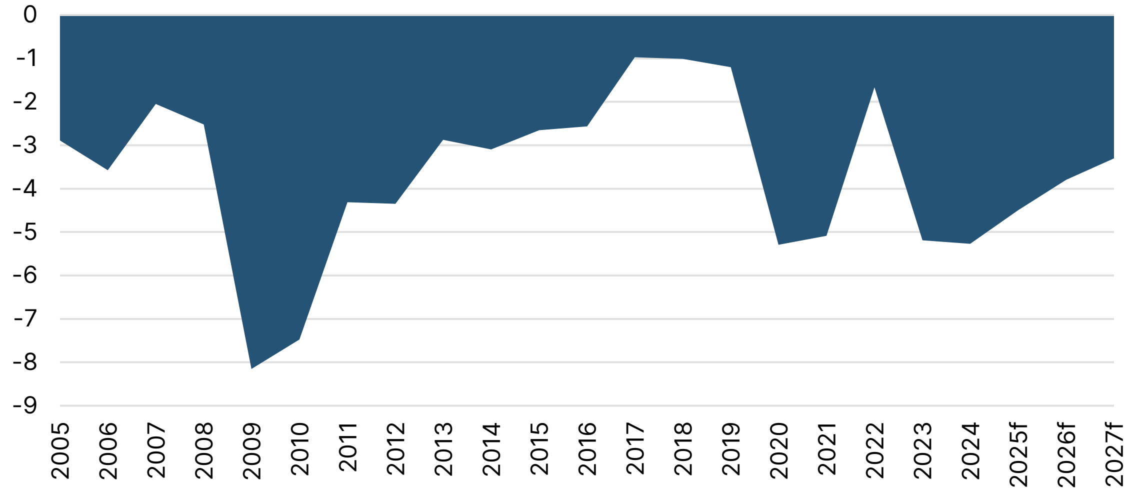
The yield spread between Slovakia's 10-year government bonds and German bunds is currently around **80–90bp** and **is expected to remain close to that range.**



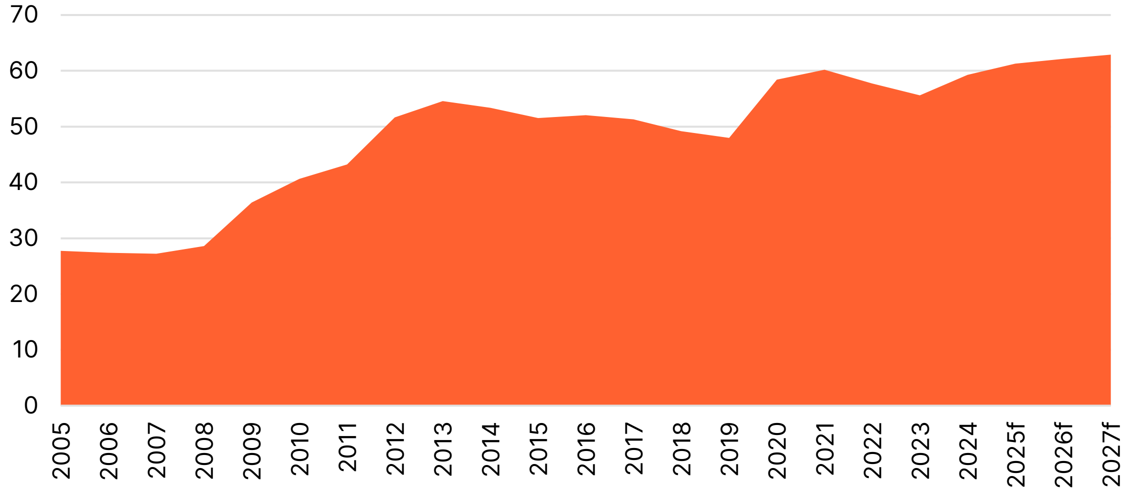
Source: Eurostat, Refinitiv, Erste Group Research

First details of consolidation package introduced

Budget balance, percent of GDP



Public debt, percent of GDP



The Minister of Finance presented the first measures from the 2026 consolidation package, without which the public finance deficit would remain above five percent. This is the third consolidation package in a row—another essential step for stabilizing the trajectory of public debt. **The proposed measures are expected to generate EUR 1.5bn through new taxes and levies.** The government's goal is to **reduce the public finance deficit in 2026 to just above four percent**. A more detailed discussion of the consolidation is provided in the special section at the end of the report.

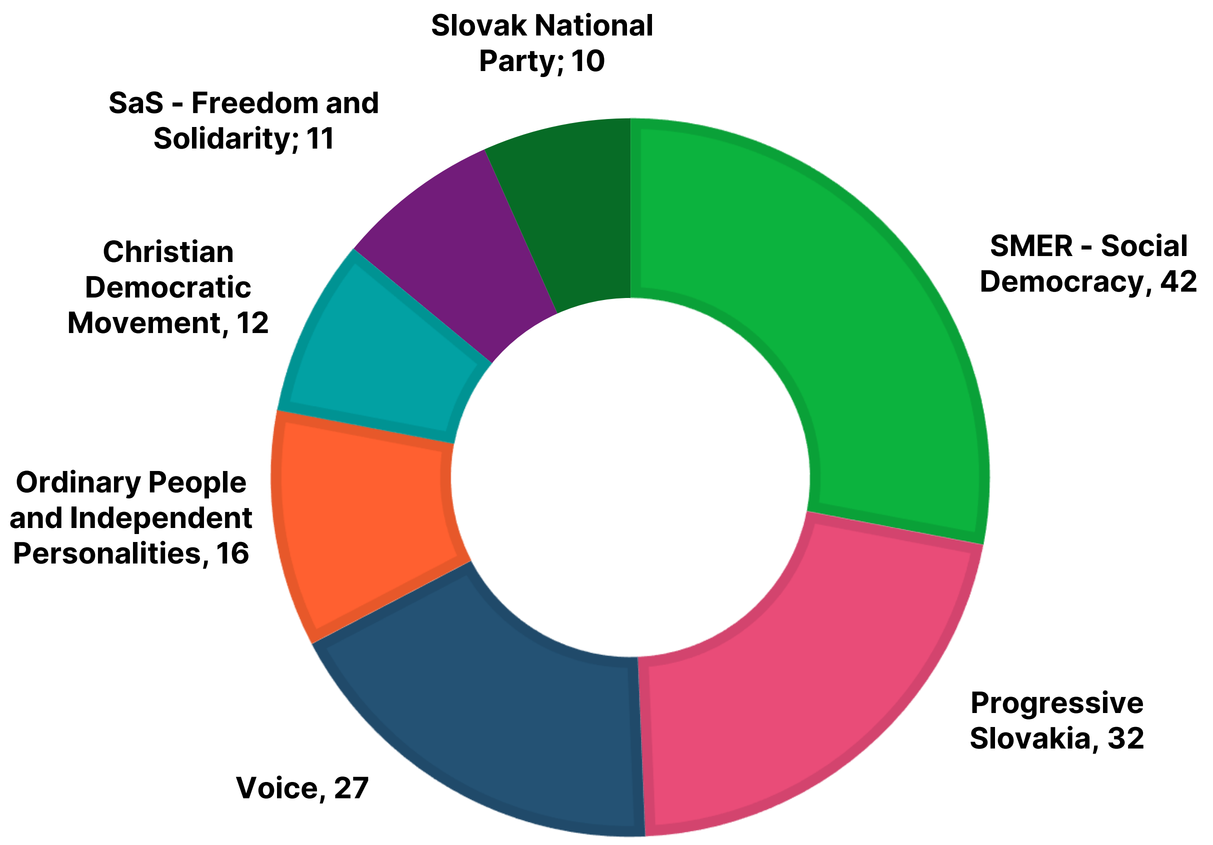
Source: Eurostat, Refinitiv, Erste Group Research

Political landscape

After a challenging start to the year, the coalition has reestablished its narrow majority of 79 out of 150 MPs, although some members diverge from the coalition's stance on certain issues. As a result, **the government still cannot rely on unconditional support.**

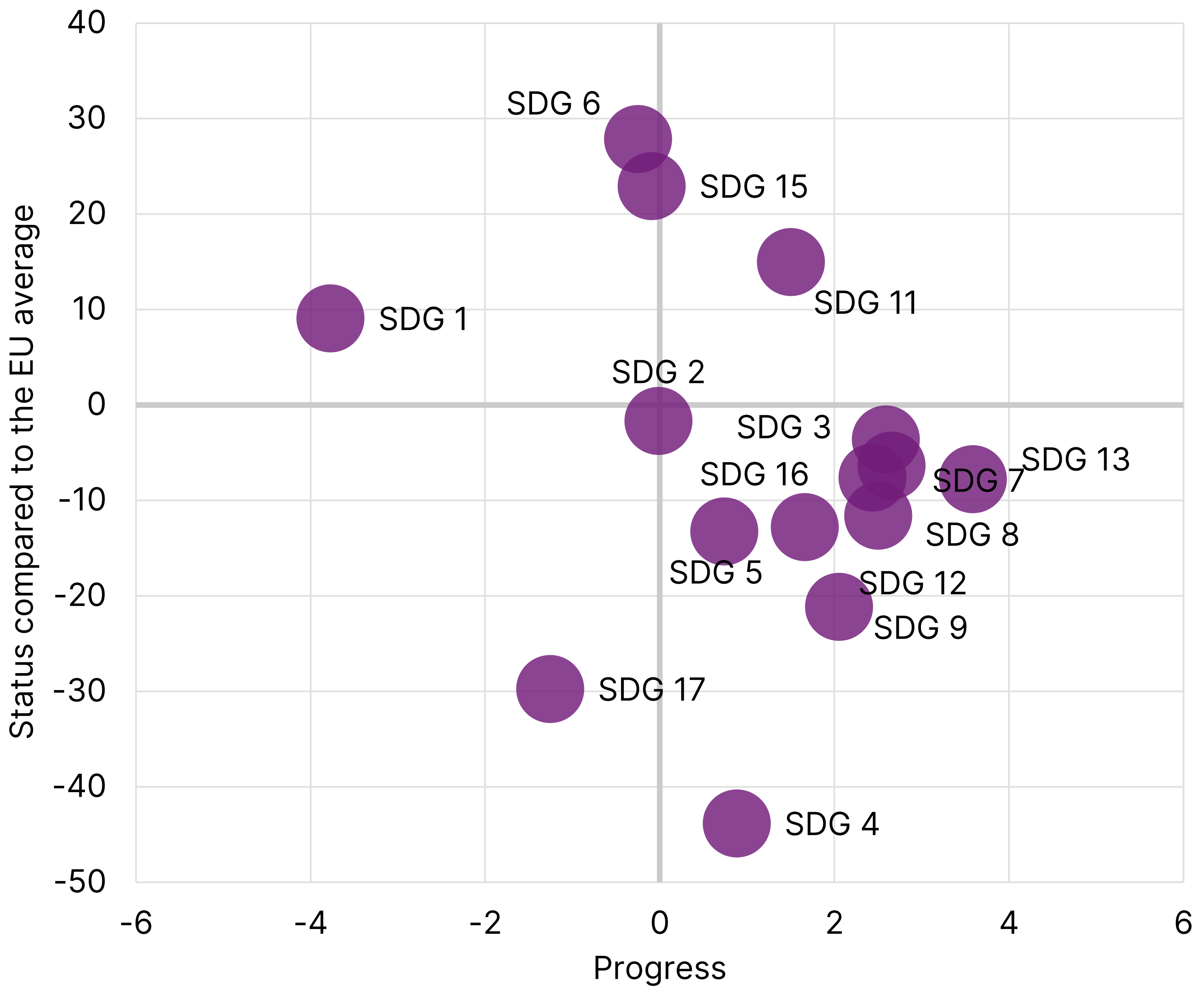
The main topic in recent months was naturally consolidation; however, tensions were also fueled by recent NATO-level negotiations, which resulted in an agreement to increase defense spending to 5% of GDP. In his State of the Republic address, President Peter Pellegrini expressed reservations about some of the government's foreign policy decisions, cautioning against the risks of a potential shift away from the EU and NATO. The Prime Minister rejected this criticism as unfounded, emphasizing that **Slovakia's foreign policy orientation remains unchanged.**

Parliamentary seats



Source: Eurostat, Refinitiv, Erste Group Research

Social Development Goals



Compared to the EU, Slovakia ranks among the less successful countries in terms of meeting the Sustainable Development Goals (SDGs). **For two thirds of the goals, Slovakia's performance is below the EU average**. While there are positive developments in areas such as climate action, peace and strong institutions, and clean energy, significant gaps remain in goals such as no poverty, partnerships, and clean water and sanitation. These areas represent key challenges for the future, requiring stronger policies, investments, and cooperation to accelerate progress and close the gap with EU peers.

Source: Eurostat, Refinitiv, Erste Group Research

Fiscal consolidation package for 2026

Special topic

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Revenue-focused consolidation again

The Minister of Finance has introduced measures from the 2026 fiscal consolidation package. So far, **the known measures amount to approx. EUR 1.5bn and are focused primarily on the revenue side of the budget**. The largest of them: higher health insurance contributions (EUR 360mn), the cancellation of three public holidays (EUR 230mn), and increased progressivity in income taxation (EUR 206mn).

One concern is the temporary nature of some measures, which creates additional consolidation needs in the future once their effects expire. In their current form, the proposed steps will **dampen government consumption and public investment**, while many of them will directly or indirectly **constrain household spending** and **corporate investment.**

The Ministry of Finance is targeting a budget deficit slightly above 4% for next year, indicating that **further measures will still be necessary.**

Measure	Expected amount (mil. EUR)
1% increase in employee health insurance contributions	358
Reduction in the number of public holidays	230
Greater progressivity in personal income tax (PIT)	206
Reduction of social contribution holidays for self-employed to 6 months	119
20% increase in minimum social contributions for self-employed	102
VAT adjustment on foods with high sugar and salt content	91
Limitation of VAT deduction on vehicles used for non-business purposes	86
Tax amnesty – general pardon	81
Higher taxation of gambling	54
Legal reform to curb misuse of forced self-employment	40
Increase in insurance tax rate from 8% to 10%	36
Introduction of a levy on primary materials	24
Taxation of income currently exempt from insurance contributions	24
Introduction of QR code payments	14
Improved targeting of inspections during sick leave	13
New tax license band for the largest companies	10
Higher special levy rate for collective investment schemes	5

Source: Ministry of Finance of the Slovak Republic, Slovenska sporitelna

Slovakia: Forecasts

	2018	2019	2020	2021	2022	2023	2024	2025f	2026f
Percent					**Annual average**				
Real GDP growth	4,1	2,3	-2,6	5,7	0,4	2,2	2,1	0,7	1,3
Private consumption growth	4,1	2,9	0,7	2,9	5,0	-3,4	3,0	1,0	1,3
Fixed capital formation growth	3,4	5,0	-9,6	5,1	4,3	4,0	1,8	1,8	4,3
Inflation	2,5	2,7	1,9	3,2	12,8	10,5	2,8	4,0	3,5
Unemployment rate	6,5	5,8	6,7	6,8	6,1	5,8	5,3	5,3	5,7
Percent of GDP									
Budget balance	-1,0	-1,2	-5,3	-5,1	-1,7	-5,2	-5,3	-4,5	-3,8
Public debt	49,2	48,0	58,4	60,2	57,7	55,6	59,3	61,3	62,1
Current account balance	-1,6	-3,5	-0,5	-4,8	-9,6	-0,9	-2,8	-3,0	-3,0
					End of year				
10Y Yield	0,96	0,19	-0,46	0,10	3,64	3,19	3,45	3,46	3,35
Spread	115,00	100,00	95,00	85,00	85,00	85,00	85,00	85,00	85,00

Source: Eurostat, Refinitiv, Erste Group Research

September 16, 2025

Slovakia: Country overview

Official EU language: Slovak

Capital: Bratislava

Geographical size: 49,035 km2

Population: 5,424,687

GDP per capita (PPS): EUR 27,400, below EU average

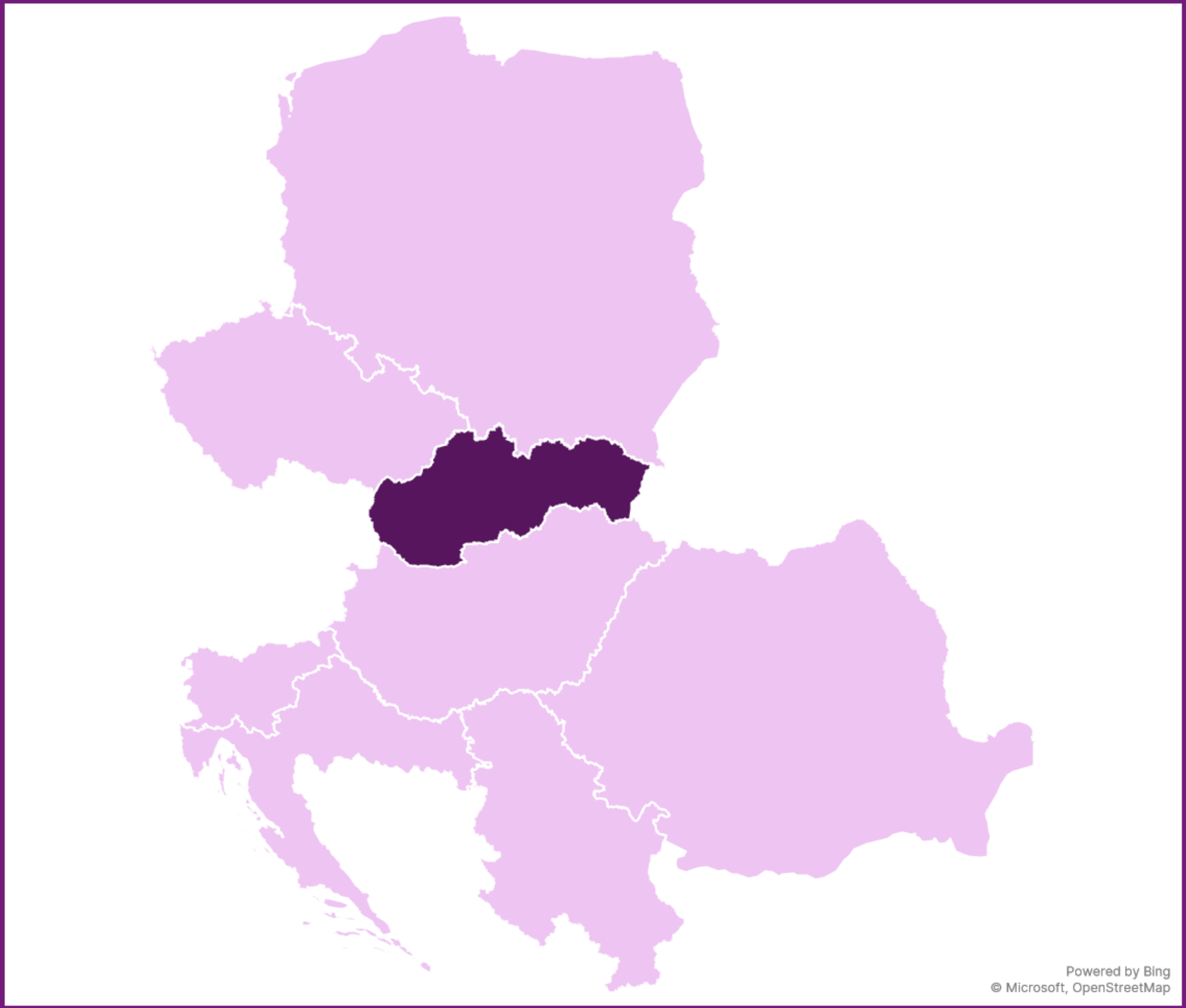
Currency: Euro EUR since January 1, 2009

Credit ratings:

- Moody's: A3, outlook stable
- S&P: A+, outlook negative
- Fitch: A-, outlook stable

EU member state: since May 1, 2004

Schengen: member since December 21, 2007



Source: Eurostat, Refinitiv, Erste Group Research

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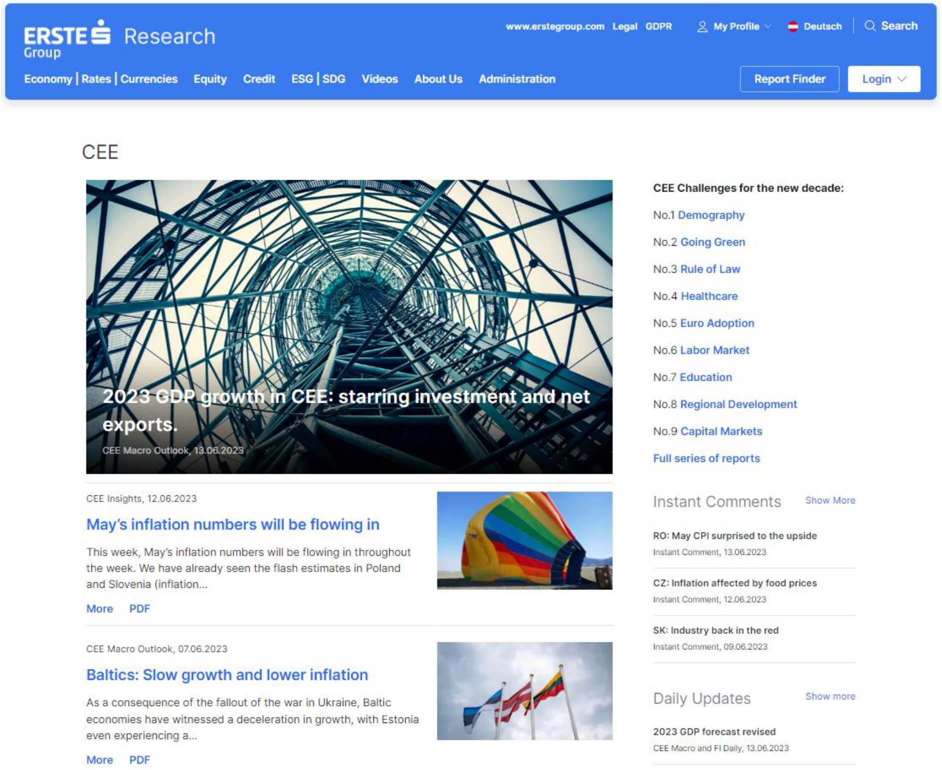

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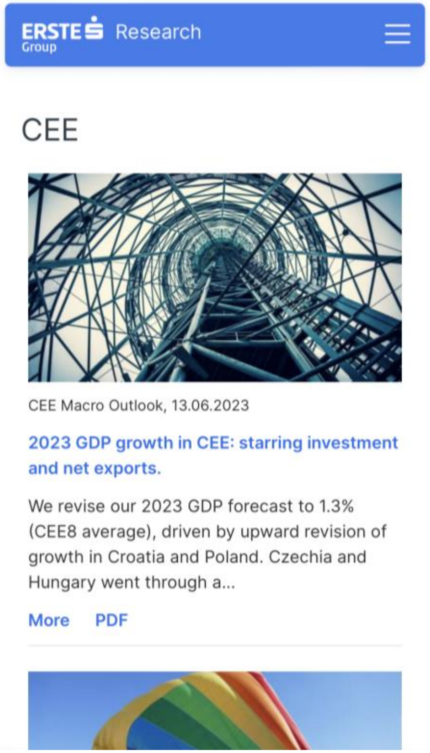

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