SLOVAKIA : MACRO OUTLOOK

THE SLOVAK ECONOMY REMAINS RESILIENT, BUT GROWTH AND FISCAL CHALLENGES PERSIST

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Economy Slovakia - Analyses and Forecasts | Erste Group Bank AG
September 14, 2026

Spot Rates as of: September 14, 2026
Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Summary

Slovak economic growth remains below its potential. GDP increased by 0.8% y/y in 2Q 2026, while household consumption remained modest and investment declined. Following the weaker-than-expected second-quarter performance, we revised our GDP growth forecast for 2026 from 1.0% to 0.9%. Growth should accelerate to 1.7% in 2027, although geopolitical uncertainty, trade tensions and elevated energy prices remain important risks.

Inflation developments have been more favourable than expected, mainly due to falling food prices and lower core inflation. Headline inflation slowed to 3.3% y/y in July, and we revised our average inflation forecast for 2026 down from 4.0% to 3.7%. Energy prices and geopolitical developments nevertheless remain important upside risks.

The labour market has cooled but remains relatively resilient. Unemployment reached 5.6% in 2Q, while employment declined, particularly in industry. We expect unemployment to average around 6% in both 2026 and 2027. Nominal wage growth is gradually slowing but should remain close to 5% for 2026 as a whole.

Slovak government bond yields have risen alongside broader euro-area yields, while the spread over Germany has remained broadly stable at around 65–70 basis points. This suggests that the increase in yields has so far been driven mainly by the broader market environment rather than a significant increase in country-specific risk for Slovakia.

Public finances remain one of the main domestic risks. We expect the deficit to remain around 4.5% of GDP in 2026 and move back towards 5% in 2027. Further consolidation will become increasingly difficult as the scope for additional revenue measures narrows and the electoral cycle approaches.

Price growth in housing remains strong, although momentum is starting to moderate. Transaction prices increased by 13.6% y/y in 2Q 2026, supported by recovering mortgage demand and very weak housing supply. We expect prices to continue rising, but at a gradually slower pace.

Source: Eurostat, Refinitiv, Erste Group Research

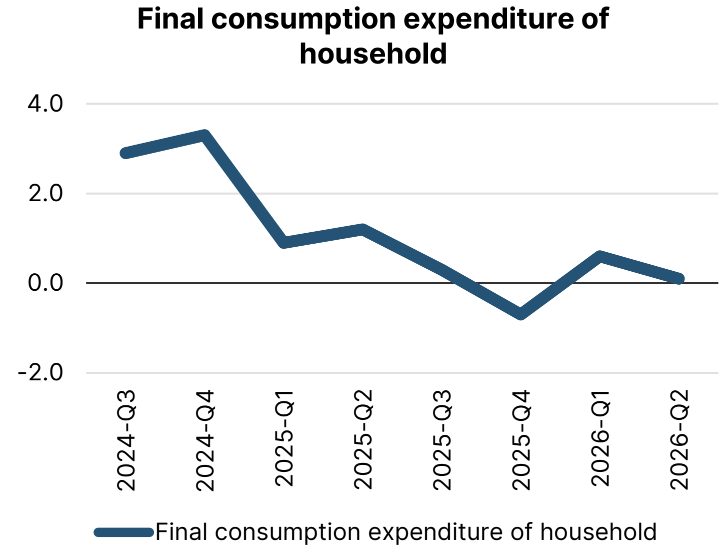
The economy continues to grow below potential

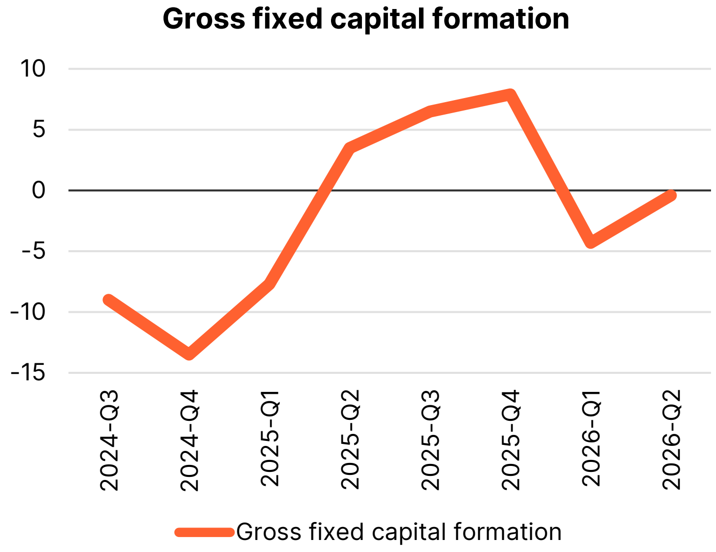
The Slovak economy grew by 0.8% y/y in real terms In the second quarter and by 0.2% q/q on a seasonally adjusted basis. The result came in below both our forecast and market expectations. The Slovak economy continues to grow below its potential, with both domestic and external factors weighing on activity. Household consumption growth remains modest, while investment activity is subdued. A higher tax and contribution burden resulting from fiscal consolidation, together with the price effects of some measures, is weakening households' real purchasing power and weighing on domestic demand. At the same time, persistent uncertainty in the global environment is reducing the private sector's willingness to invest, which is particularly relevant for a small and open economy such as Slovakia. Although the outlook for the European economy has improved somewhat in recent months, as also suggested by leading indicators, particularly PMIs, uncertainty remains elevated. **Following the release of second-quarter data, we therefore revised our 2026 GDP growth forecast down from 1.0% to 0.9%. For 2027, we currently expect growth to accelerate to 1.7%.**

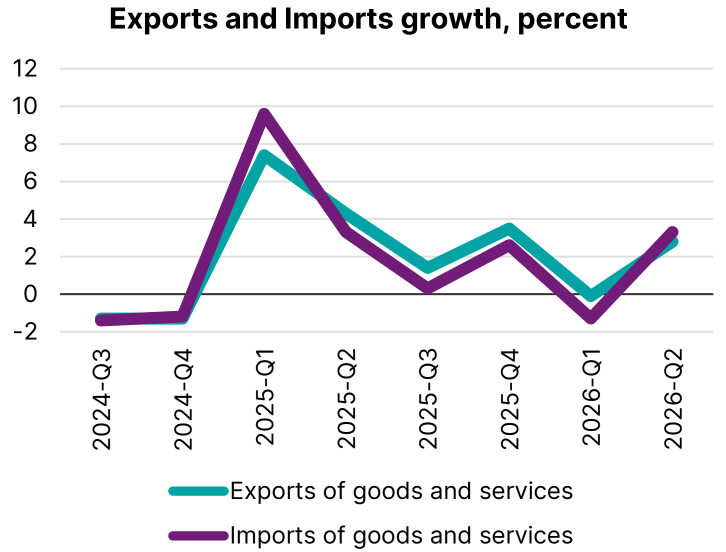
Annual GDP growth, percent

Source: Eurostat, Refinitiv, Erste Group Research

Household consumption remained subdued, while investment stayed weak







Household consumption increased by 0.6% y/y (-0.1% y/y, SCA) in 2Q 2026. In line with expectations, growth in the largest component of GDP therefore remained subdued. Government consumption rebounded after declining in the first quarter and rose by 1.7% y/y. Overall, domestic demand increased by 1.4%, its strongest performance in the past five quarters.

Investment remained a weak spot. Gross fixed capital formation declined by 0.3% y/y (-0.4% y/y, SCA). Although the contraction was significantly smaller than in the first quarter, when investment fell by 6.4%, we had expected stronger support from investment related to the final phase of the Recovery and Resilience Plan. Nevertheless, total gross capital formation rose by 3.8%, mainly due to an increase in inventories.

After declining at the beginning of the year, both exports and imports recovered in the second quarter. Exports of goods and services increased by 3.0% y/y, while imports rose by 3.7%. As imports grew faster than exports, net exports weighed negatively on overall economic growth.

SCA - Seasonally and calendar adjusted data

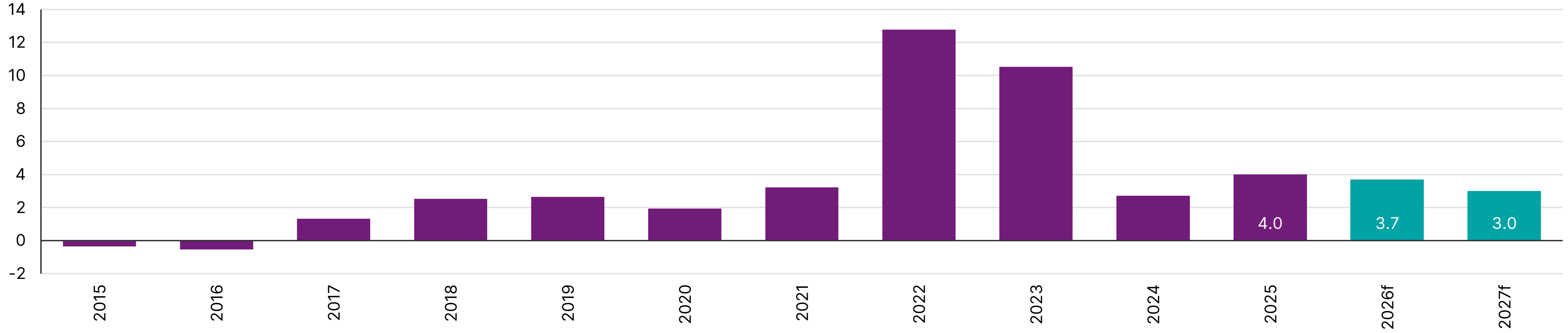
Source: Eurostat, Refinitiv, Erste Group Research

Food prices ease inflation, but energy pressures persist

Inflation continued to slow over the summer. In July, headline inflation eased to 3.3% y/y from 3.5% in June, while core inflation declined to 1.7%. Over the first seven months of 2026, consumer prices increased by an average of 3.7% y/y. The main disinflationary contribution came from food prices, which fell by 2.6% y/y in July and have remained broadly unchanged on average since the beginning of the year compared with the same period last year. This has been more favourable than expected. By contrast, price pressures remain elevated in housing and energy, services and transport. Household energy prices rose strongly, mainly due to higher heating prices, while services inflation continues to reflect elevated wage and operating costs.

The inflation outlook remains subject to elevated uncertainty, mainly due to geopolitical developments and energy commodity prices. Food prices also remain exposed to risks from higher fertiliser costs and adverse weather conditions, which could become more visible in the coming quarters. Nevertheless, inflation has so far developed more favourably than expected, mainly due to benign food price developments and lower core inflation. We have therefore revised our average inflation forecast for 2026 down to 3.7%.

Annual inflation, percent



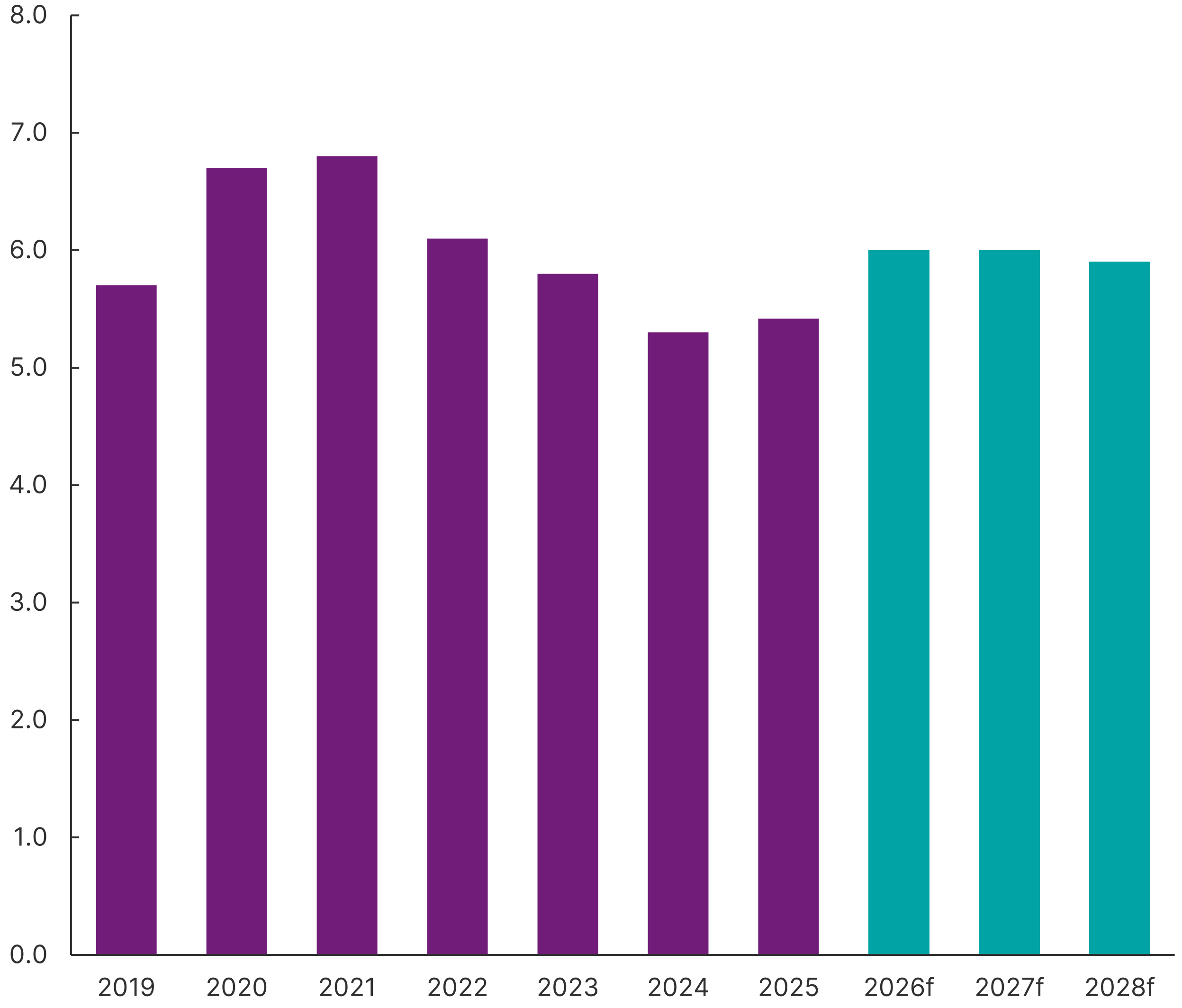
Source: Eurostat, Refinitiv, Erste Group Research
September 14, 2026

Labour market cools, but remains resilient

The labour market has cooled, but remains relatively resilient despite weak economic growth. The unemployment rate reached 5.6% in 2Q 2026, only 0.3 pp higher than a year earlier and better than we had expected. Employment declined by 0.5% y/y, with the strongest pressure in industry, where employment fell by 4.5%. We expect unemployment to average close to 6% in both 2026 and 2027 as weaker economic growth limits new job creation.

Nominal wage growth slowed to 3.2% y/y in 2Q, partly due to a high base from last year's public-sector bonuses. Real wages declined by 0.5% y/y, the first fall in around two and a half years. For the first half of the year, nominal wage growth still reached 4.6%. We expect wage growth to remain close to 5% for 2026 as a whole, with real wage growth around 1.3%.

Unemployment rate (LFS, %)



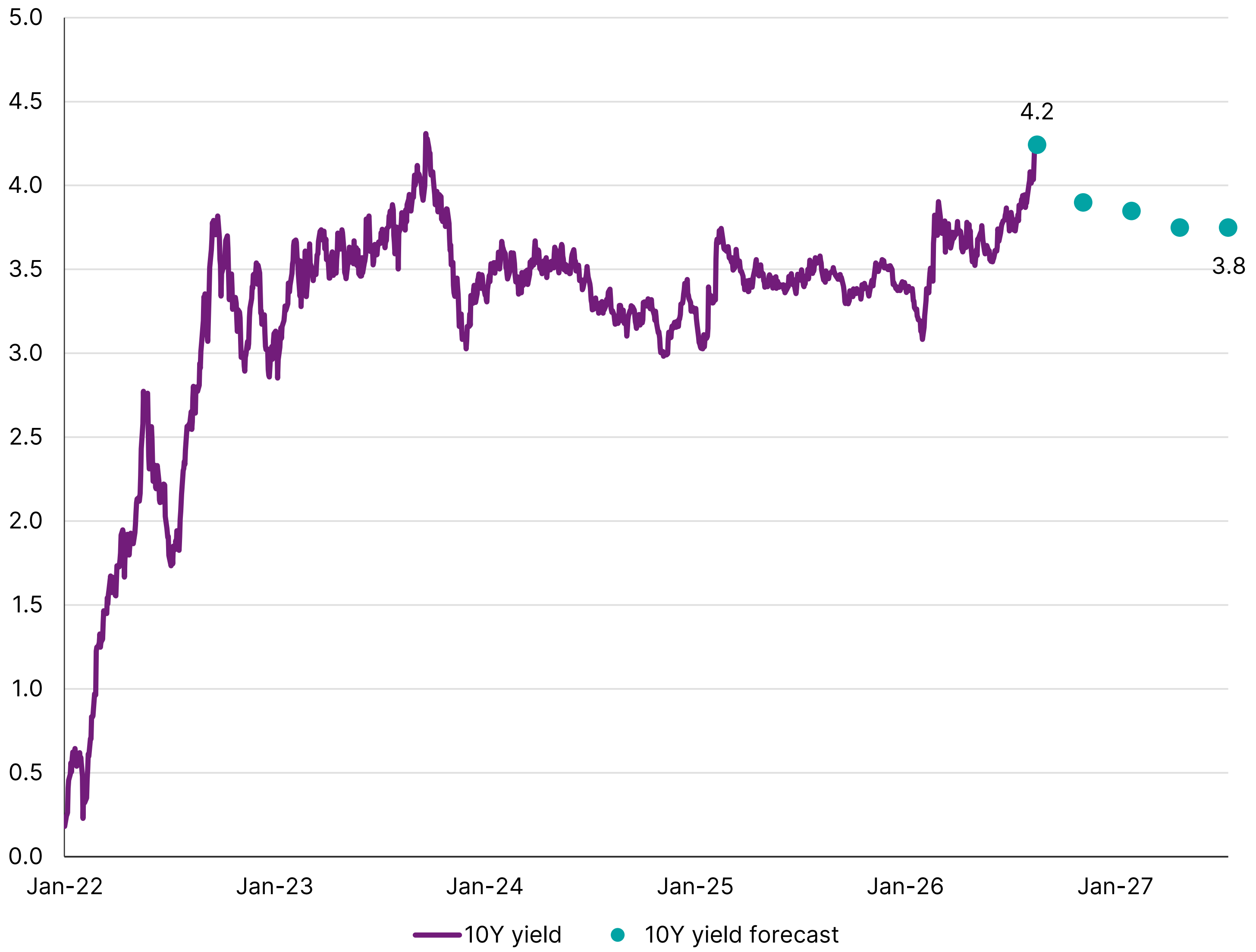
Source: Eurostat, Refinitiv, Erste Group Research

Slovak bond spreads remain stable despite higher yields

Slovak sovereign bond yields have risen further in recent weeks, reflecting both higher euro-area yields and domestic fiscal risks. The yield on ten-year Slovak bonds is currently around 4.2%, while spread over German bonds stayed relatively stable at around 65-70 basis points. Higher yields also reflect elevated inflation expectations amid geopolitical turbulence as markets price in the risk of monetary policy remaining tighter for longer.

In April, S&P downgraded Slovakia's rating from A+ to A with a stable outlook, mainly due to a weaker fiscal outlook and rising public debt. Moody's and Fitch have meanwhile kept both their ratings and outlooks unchanged, at A3/stable and A-/stable, respectively. Slovakia therefore remains firmly in investment grade across all three major agencies. We expect the risk premium to remain broadly stable around current levels, while the ten-year yield could gradually move back below 4% if European bond markets stabilise.

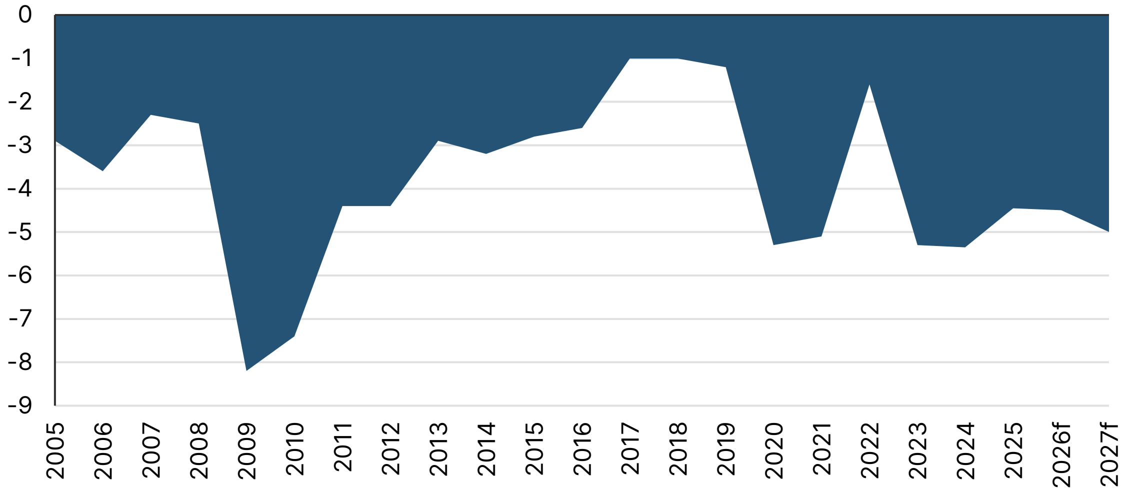
10Y yield development and forecast



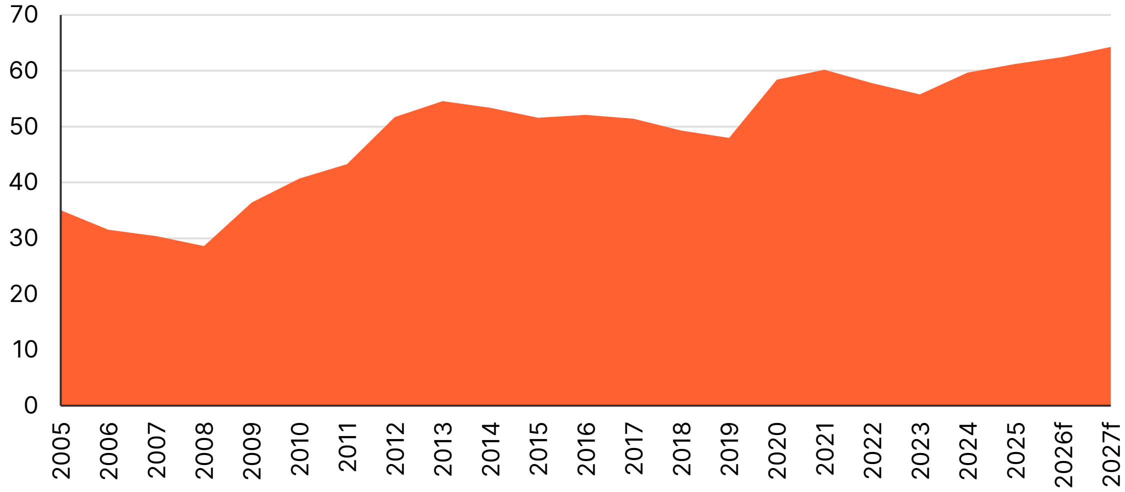
Source: Eurostat, Refinitiv, Erste Group Research

Fiscal consolidation may remain challenging ahead of elections

Budget balance, percent of GDP



Public debt, percent of GDP



The general government deficit declined to 4.5% of GDP in 2025, better than initially expected, although partly supported by temporary factors such as delayed military equipment deliveries. Public debt increased to 61.4% of GDP, while net debt reached a historical high of 54.4% of GDP. Fiscal consolidation continues in 2026, again mainly through higher taxes and social contributions. However, we see the scope for further significant revenue increases as largely exhausted. Some improvement could come from changes in the tax mix, particularly lower taxation of labour and a greater role for property taxes, which remain very low in Slovakia.

On the expenditure side, there is scope for better targeting of measures such as the 13th pension and energy support. Heating prices remain capped for around 90% of Slovak households. However, the approaching parliamentary election is reducing the political space for unpopular measures. We expect the deficit to reach around 4.5% of GDP in 2026 and move back towards 5% in 2027, as the pre-election cycle is likely to slow further consolidation and increase the risk of additional spending.

Source: Eurostat, Refinitiv, Erste Group Research

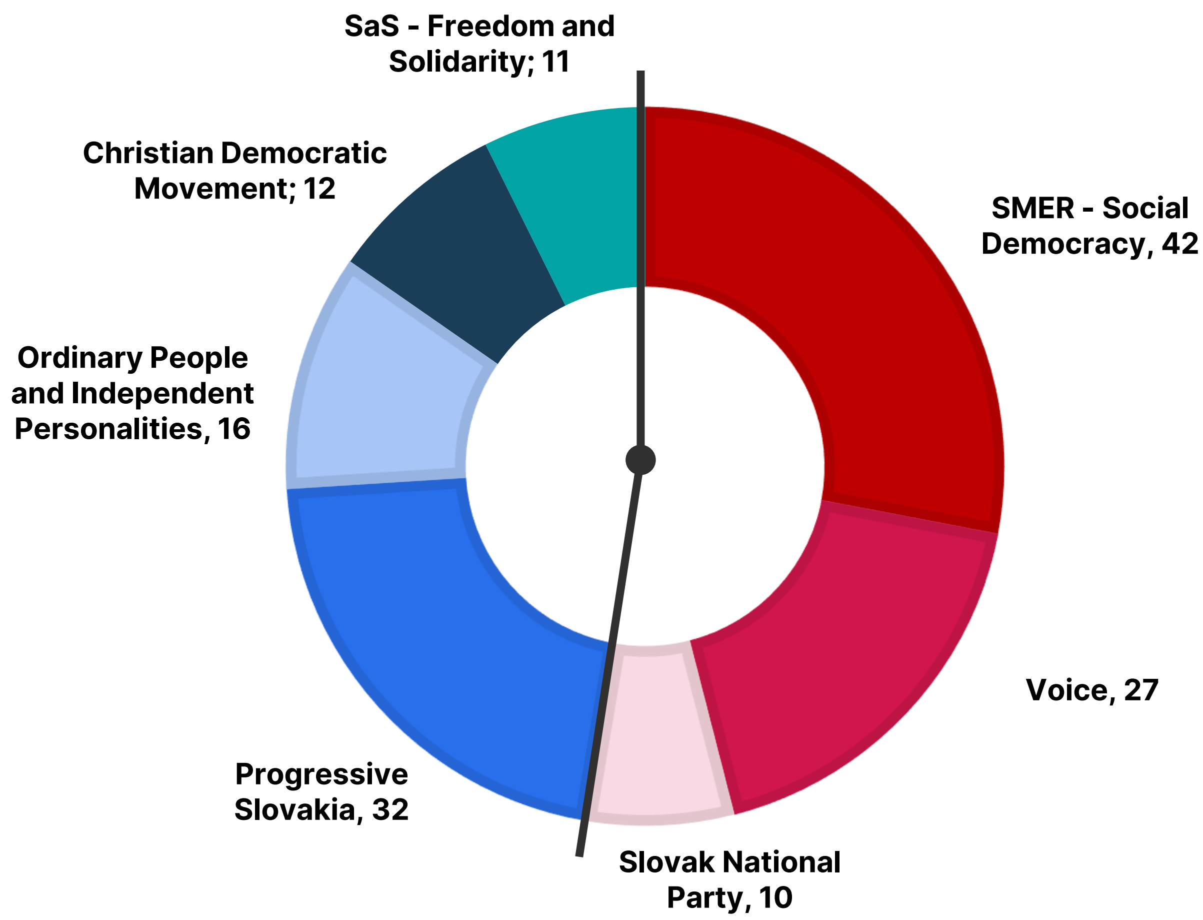
Political landscape

Local and regional elections will take place in October 2026, while parliamentary elections are expected in autumn 2027. Recent polls continue to place Progressive Slovakia and SMER-SD as the two strongest parties, with relatively similar levels of support. However, forming a stable government after the next parliamentary election could prove difficult, as the political landscape remains fragmented and several parties have ruled out cooperation with some potential coalition partners.

The approaching election cycle may also complicate further fiscal consolidation. At the same time, some potentially growth-supportive measures are being discussed, including the abolition of the financial transaction tax from January 2027, which could reduce the burden on businesses. However, such a measure would create a revenue shortfall of several hundred million euros, and it is not yet clear how this would be fully compensated. Fiscal policy is therefore likely to face a difficult trade-off between supporting economic activity and maintaining the pace of consolidation ahead of the 2027 parliamentary election.

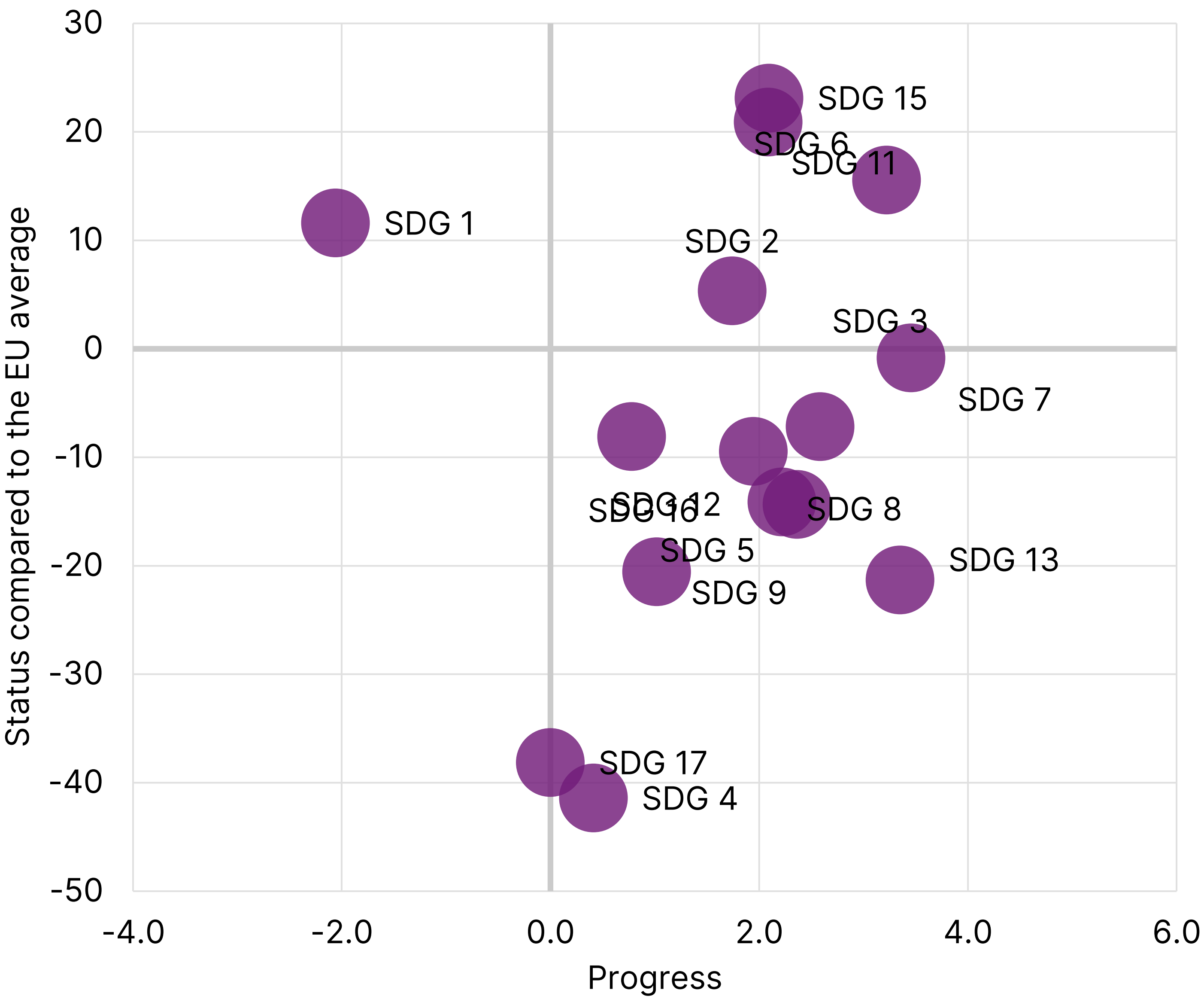
Parliamentary seats

(Red = Governing Parties, Blues = Opposition)



Source: Eurostat, Refinitiv, Erste Group Research

Sustainable 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

House price growth remains strong, but momentum is slowing

Special topic

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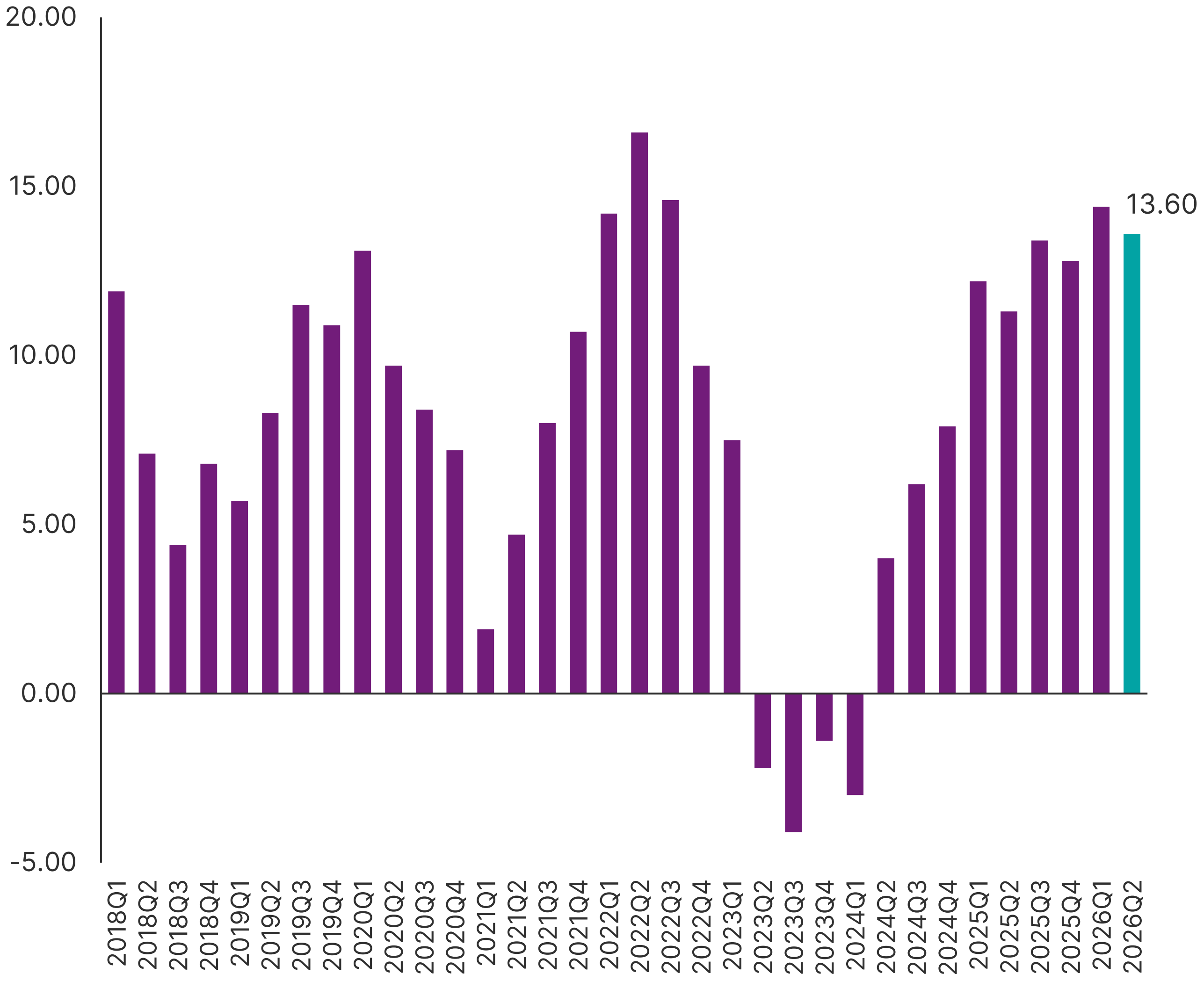
Strong demand and weak supply keep housing prices elevated

Housing price growth remained strong in the first half of the year, although second-quarter data already point to some moderation. Transaction prices increased by 13.6% y/y and 1.4% q/q, while asking prices rose by 9.5% y/y and 1.2% q/q. Rapid price growth is again worsening housing affordability. Prices are rising faster than household incomes, supported by a combination of relatively strong demand and limited supply. Mortgage activity has recovered, with housing loans growing by around 9% y/y after adjusting for one-off effects.

At the same time, new housing supply remains very weak. The number of completed dwellings in 2Q 2026 fell by more than one-third y/y and was over 40% below the average for second quarters over the previous ten years. Building permits declined by more than 40% y/y and were at roughly half their long-term average. This weak supply should continue to support prices. This weak supply should continue to support prices. However, the scope for continued double-digit price growth is narrowing. Higher interest rates and geopolitical uncertainty should gradually weigh on demand. Our baseline scenario therefore remains one of further house price growth, but at a slowing pace. Over the medium term, we expect prices to grow broadly in line with nominal economic growth.

Residential property transaction prices in Slovakia
(year-on-year change)



Source: SO SR

Slovakia: Forecasts

	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f
Percent					**Annual average**				
Real GDP growth	2.3	-2.6	5.7	0.5	2.1	1.9	0.8	0.9	1.7
Private consumption growth	2.9	0.7	3.0	4.8	-3.2	3.8	0.4	0.7	1.5
Fixed capital formation growth	5.0	-9.6	5.1	4.3	4.0	1.6	2.2	0.8	1.8
Inflation	2.7	1.9	3.2	12.8	10.5	2.7	4.0	3.7	3.0
Unemployment rate	5.7	6.7	6.8	6.1	5.8	5.3	5.4	6.0	6.0
Percent of GDP									
Budget balance	-1.2	-5.3	-5.1	-1.6	-5.3	-5.4	-4.5	-4.5	-5.0
Public debt	48.0	58.4	60.2	57.8	55.8	59.7	61.2	62.5	64.3
Current account balance	-3.5	-0.5	-4.8	-9.6	-3.0	-4.6	-3.6	-2.7	-2.5
					End of year				
10Y Yield	0.04	-0.56	0.01	3.53	3.16	3.20	3.50	3.90	3.75
Spread	100.00	95.00	85.00	108.00	117.00	84.00	67.00	70.00	70.00

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Source: Eurostat, Refinitiv, Erste Group Research

September 14, 2026

Slovakia: Country overview

Official EU language: Slovak

Capital: Bratislava

Geographical size: 49,035 km2

Population: 5,419,451

GDP per capita (PPS): EUR 31,107, 75% of EU Average

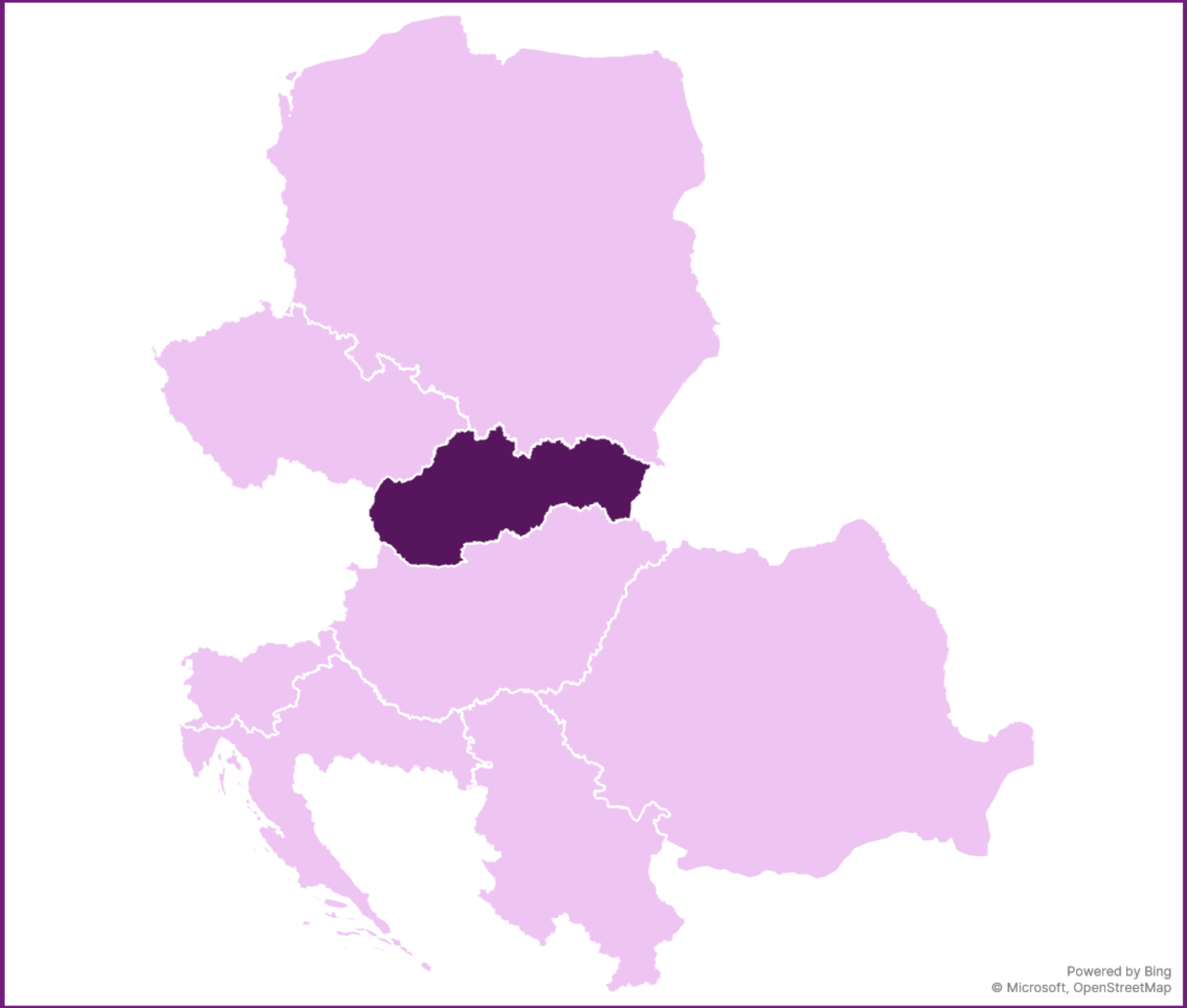
Currency: Euro EUR since January 1, 2009

Credit ratings:

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

EU member state: since May 1, 2004

Schengen: member since December 21, 2007



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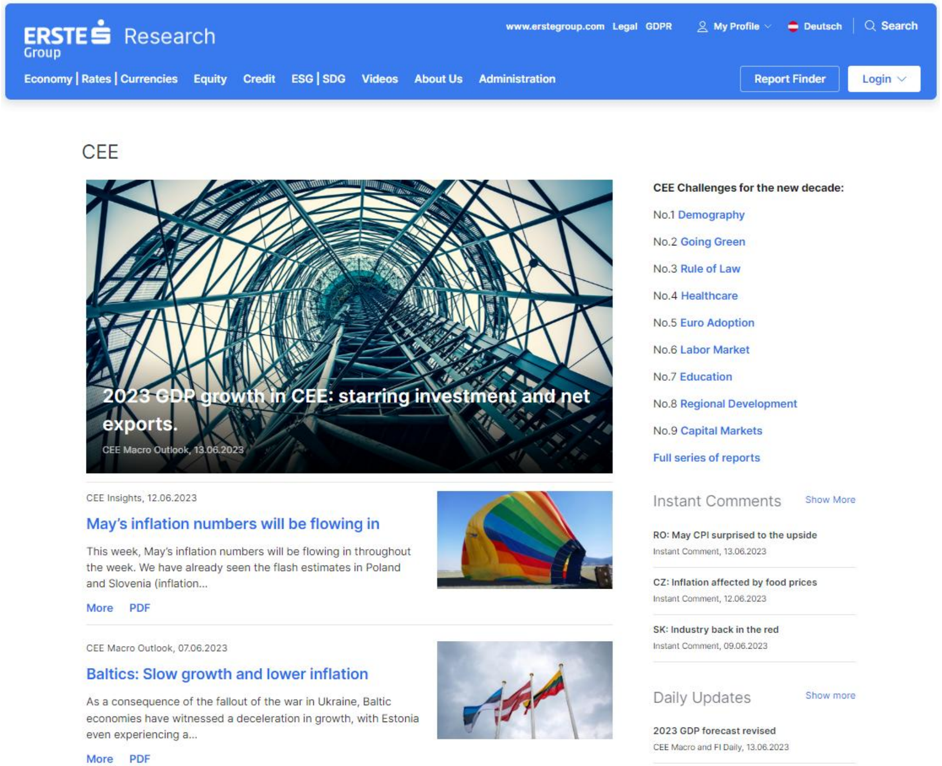

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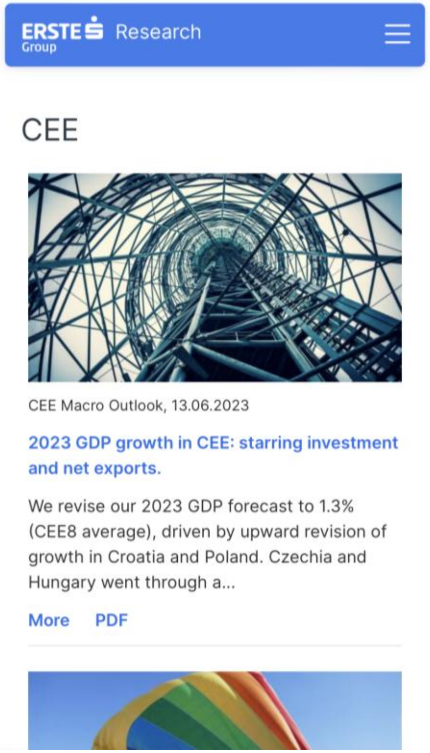

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