

SLOVAKIA : MACRO OUTLOOK

The Economy Captive to U.S. Presidential Policy

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Economy Slovakia - Analyses and Forecasts | Erste Group Bank AG
June 18, 2025

Spot Rates as of: June 18, 2025
Note: Information on past performance is not a reliable indicator for future performance.
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Summary

The Slovak economy slowed at the start of the year, with annual growth falling just below one percent. In light of recent developments, we are revising our GDP growth forecast downward to 1.5% for this year, matching our projection for 2026. The greatest risk lies in foreign trade, where the potential imposition of permanent tariffs by the U.S. could significantly disrupt economic activity.

Annual inflation has risen this year, primarily due to an increase in value-added tax. Services have become the main driver of price growth. We expect inflation to rise slightly further this year, although it is already nearing its peak. Price pressures will continue to reflect the burden on businesses caused by the newly introduced transaction tax. **Average inflation (CPI) is expected to remain around 4% this year.**

Unemployment landed at 5.3% at the beginning of the year, close to a historic low. However, persistent challenges in both Slovak and global economies are expected to push the number of unemployed higher, primarily from the industrial sector. Combined with additional costs imposed on employers, this will reduce upward pressure on wages, for which we expect annual growth of 5.5% this year.

The size of next year's fiscal consolidation package is expected to reach approximately EUR 1.7 billion. A positive aspect is the government's intention to focus primarily on the expenditure side. However, part of the package will likely be used to finance new spending measures, which will partially offset its impact on deficit reduction. Public deficits are projected to decline toward 3 percent of GDP by 2027. To meet this target, additional consolidation measures totaling around EUR 2 billion will still be necessary.

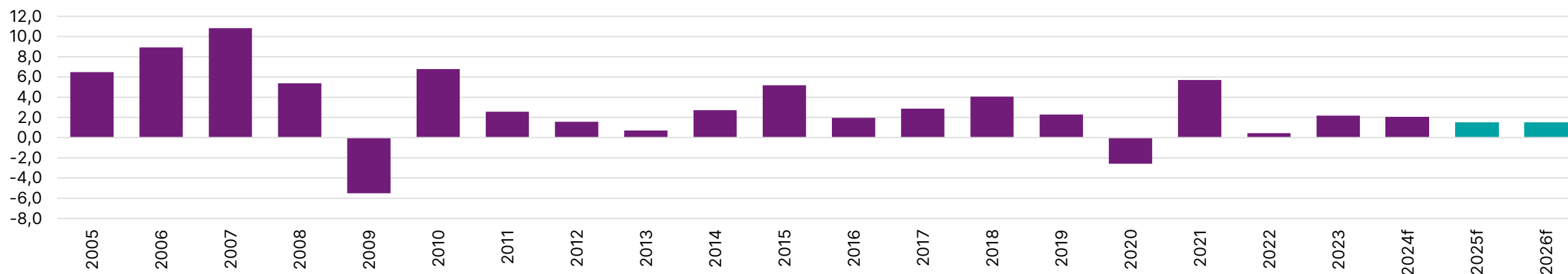
„Great uncertainty“ in forecasts

Slovakia's economic growth slowed at the beginning of this year, reaching only 0.9% year-on-year. Compared to the previous quarter, the economy grew by 0.2%, which is the slowest pace since the beginning of 2023.

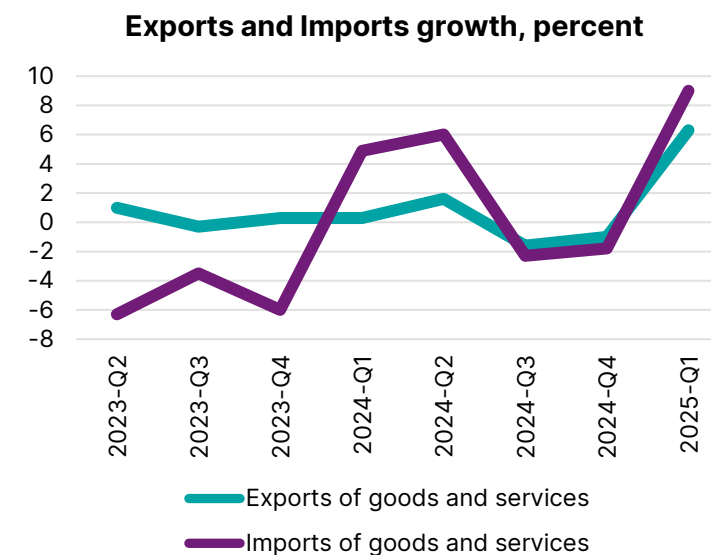
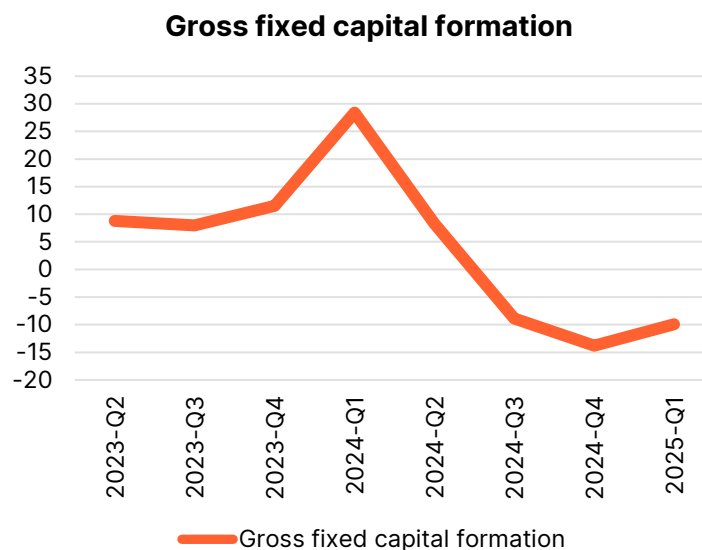
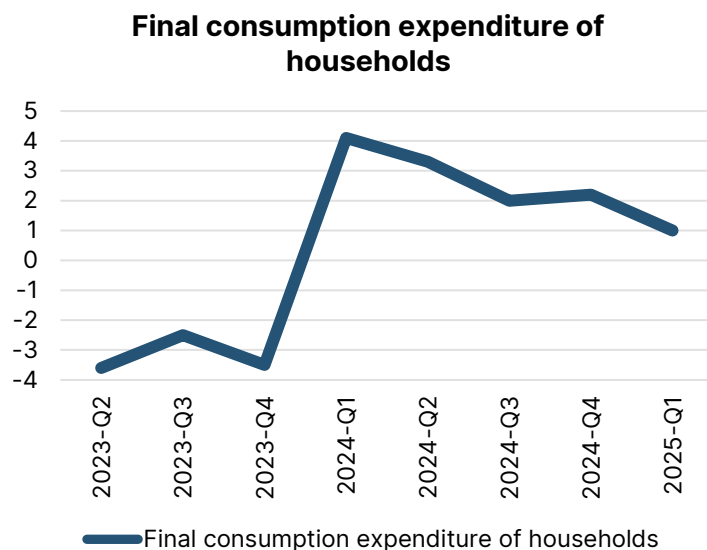
As a result of developments in the first quarter, we are lowering our GDP growth forecast for 2025 from 1.8% to 1.5%. We expect household consumption and inventory buildup to provide a positive impulse, while foreign trade will exert downward pressure on growth. Overall, the economic growth forecast for both this year and the next has been reduced by 0.5 percentage points, mainly due to the anticipated impact of tariffs imposed by D. Trump.

However, these forecasts still assume further negotiations between the EU and the US and do not reflect the full potential negative effects. While we have currently lowered the cumulative GDP growth for the next three years by about one percentage point, this represents only one-third of the estimated total potential negative impact. Higher tariffs maintained over a longer period or a trade war **could shave up to three percentage points off our GDP growth.**

Annual GDP growth, percent



Another slowdown in consumption; investments subdued



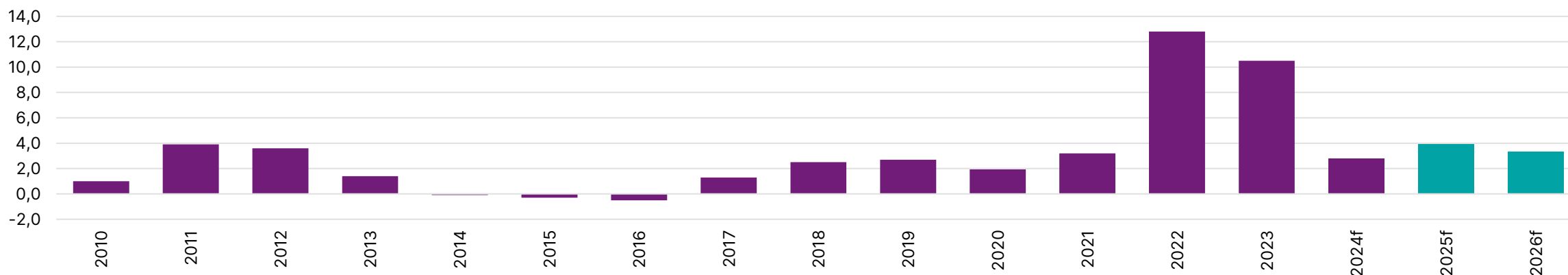
The main driver of economic activity in 1Q25 was inventory buildup, followed by **household consumption**, which rose by 0.5% year-on-year, indicating a certain slowdown in real consumer spending. Another mild positive contribution came from government consumption. On the other hand, **investment activity weighed on the economy**, as it declined significantly for the third consecutive quarter, with an 8% year-on-year drop. The inflow of funds from the Recovery Plan remains limited, and when combined with weak private sector investment—driven by elevated trade-related uncertainty—it has significantly contributed to the negative figures.

Consolidation pushed inflation up

Consumer price growth accelerated significantly at the beginning of this year, with year-on-year inflation jumping from 3.2% in December to 4.2% in January. One of the key drivers was the increase in value-added tax (VAT), which affected the majority of goods and services across the economy. This effect was most visible in service prices, which have long been a clear driver of inflation. Another major factor influencing this year's price growth was the **reintroduction of energy price regulation**. On one hand, this helped reduce the overall inflation rate by roughly one percentage point. On the other hand, it represents additional government spending worth several hundred million euros. An additional measure from the fiscal consolidation package is the **introduction of a transaction tax**. This is another factor expected to exert upward pressure on inflation in the coming months.

As a result, **we anticipate that year-on-year inflation will continue to accelerate, with the average inflation rate likely to reach around 4% for the year.**

Annual inflation, percent

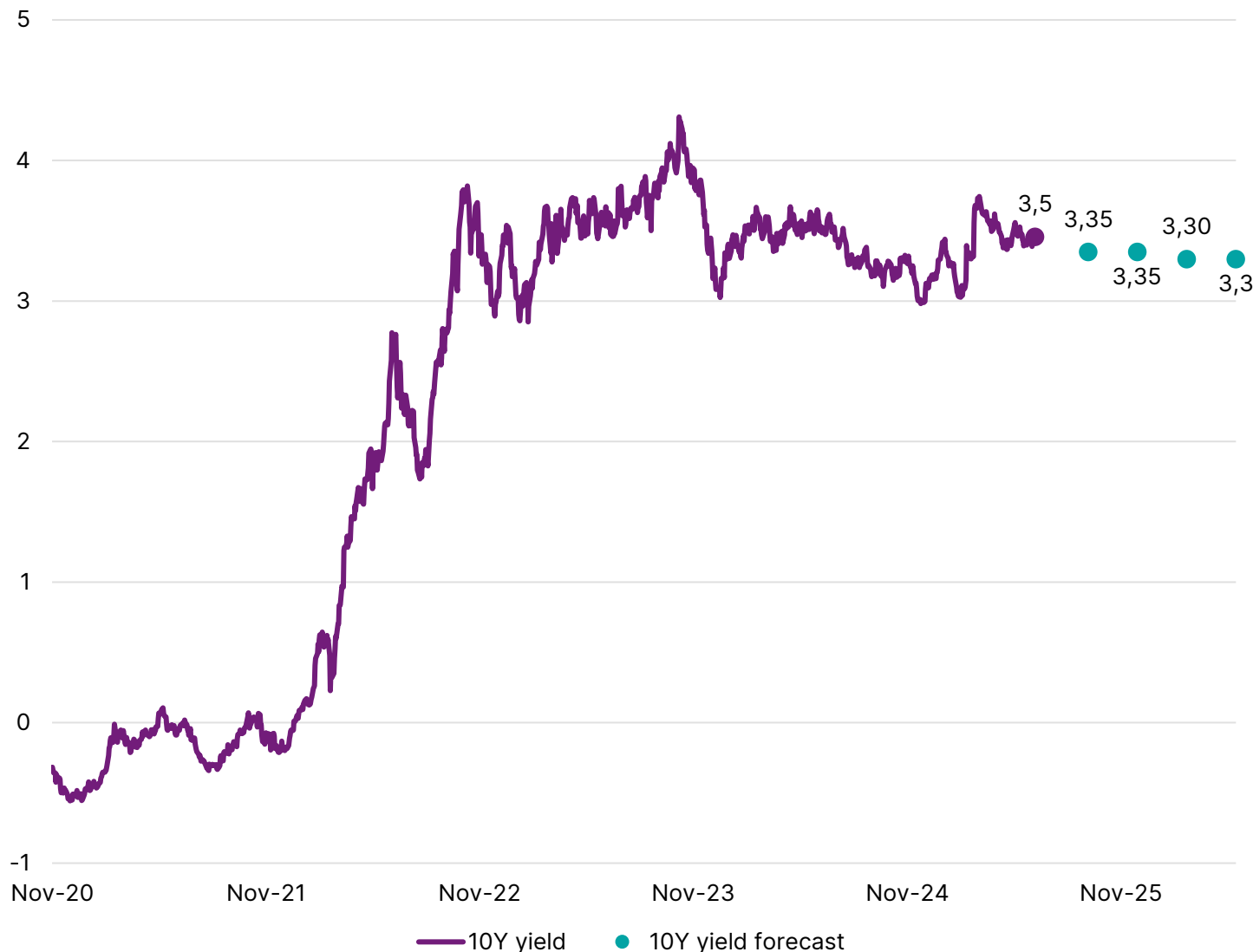


Risk premia at 90bp

In the spring review, Slovakia kept its credit ratings unchanged. Only S&P changed its outlook to negative, but its rating is still two notches higher than the ratings of the other two major agencies. Slovakia is a small and open economy, the main concerns remain external factors and the need for further deficit reduction. A strong relationship with the EU and access to EU funds remain key to Slovakia's economic growth.

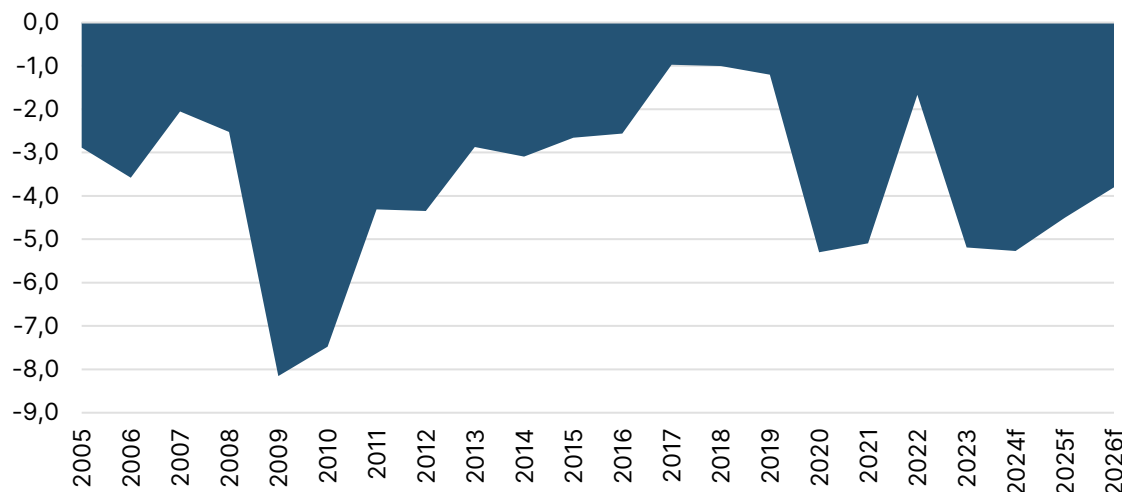
The risk premium on Slovak government bonds is around 90 basis points, down from 110bp last year. Financial markets welcomed the government's consolidation measures.

10Y yield development and forecast

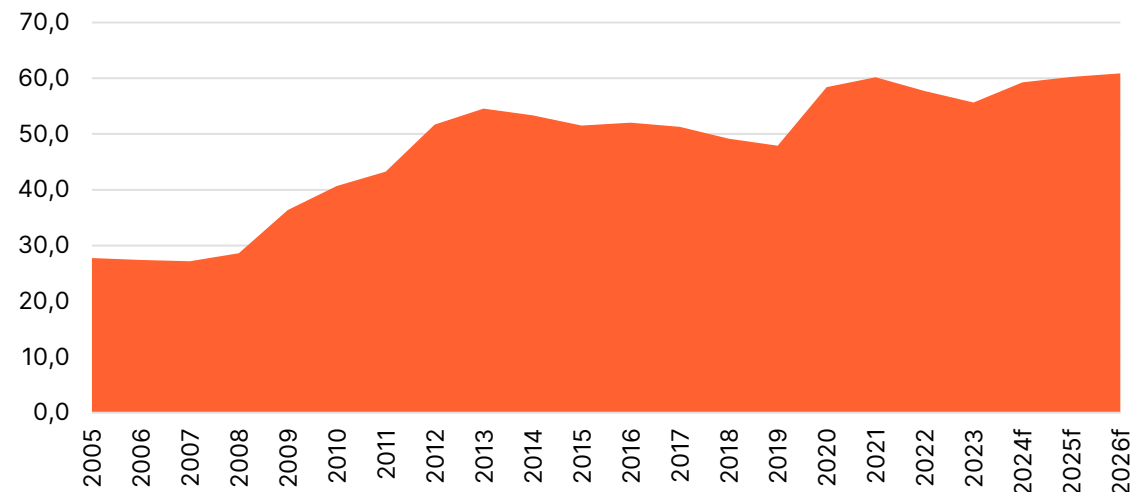


Maastricht deficit target in sight?

Budget balance, percent of GDP



Public debt, percent of GDP



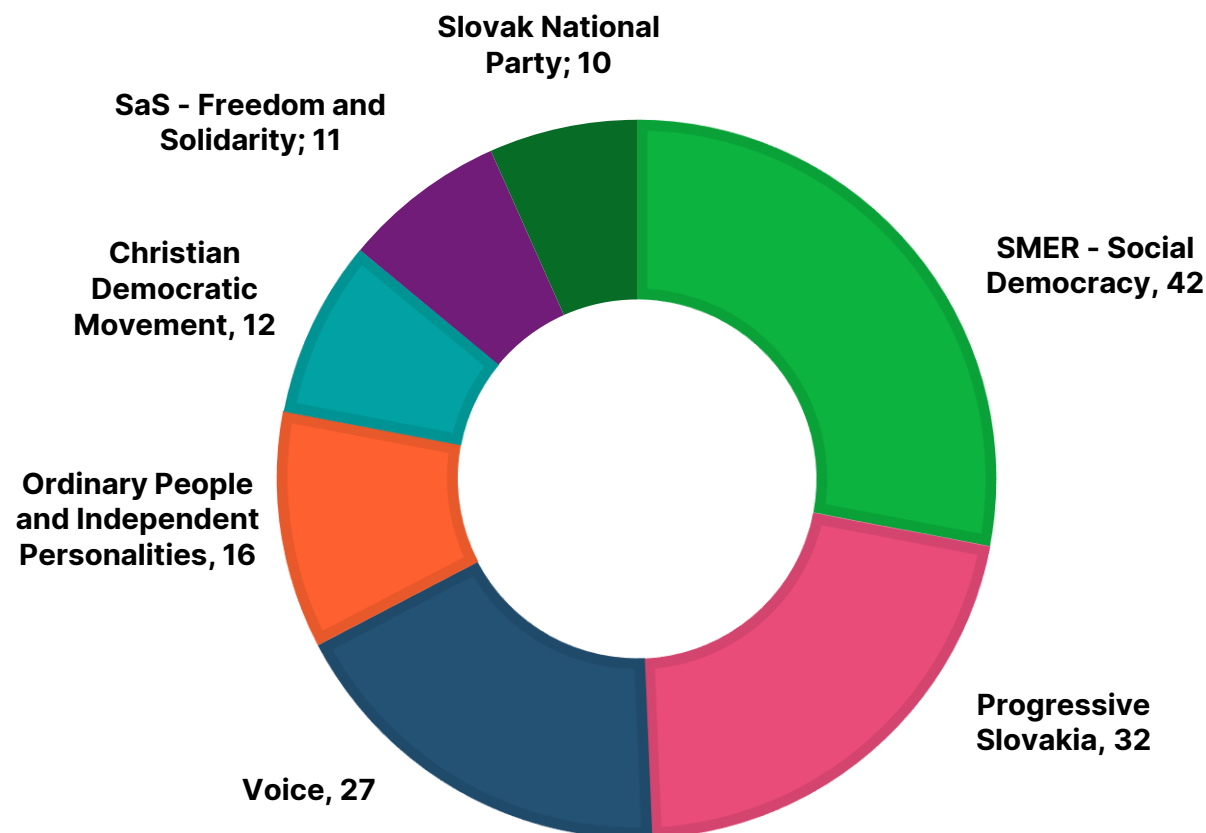
The Ministry of Finance has already announced that another fiscal consolidation package is being prepared. Its **volume for next year is expected to reach approximately €1.7 billion**. On a positive note, government officials have indicated that the package will focus **primarily on the expenditure side**—meaning cost-cutting within the state rather than introducing new revenue measures. However, the package is still likely to include new spending commitments (e.g., wage increases in the public sector), which will limit its impact on reducing the deficit. The deficit is projected to decline to around 3% of GDP by 2027, but another consolidation package—worth roughly €2 billion—will still be needed to reach that goal.

Political landscape

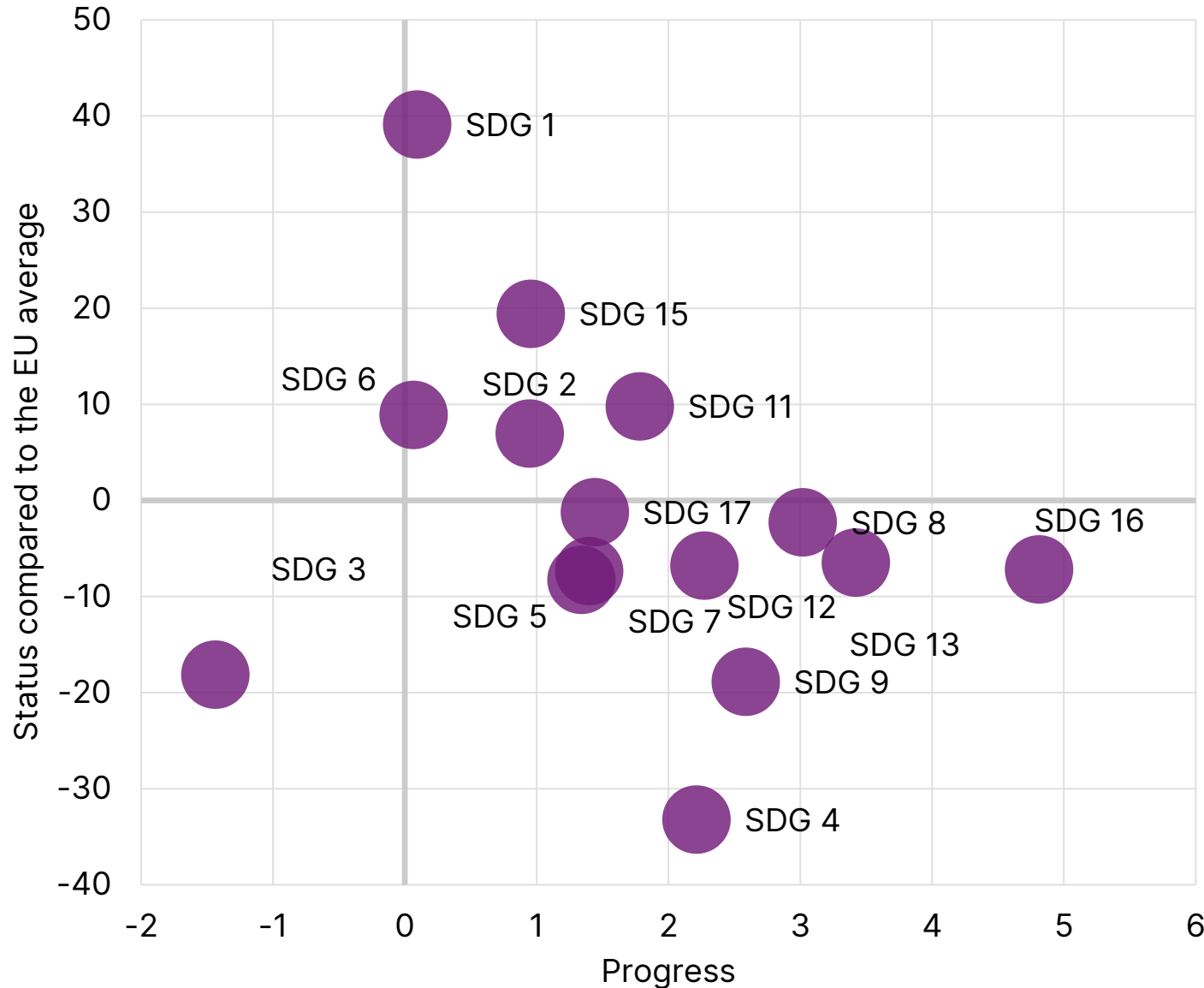
Prime Minister Robert Fico has successfully restored a narrow majority in parliament (79 out of 150 MPs), after a group of four dissenting MPs from Hlas – the second-largest coalition party – were granted certain posts, including a ministerial position. However, the governing parties continue to differ on key issues, particularly regarding the extent of cooperation with the West and the East.

In addition, political discussions have begun within the coalition over **adjustments to the financial transaction tax**, which was part of this year's fiscal consolidation package. One proposal is to exempt small businesses and sole proprietors from paying the tax. A final agreement on the details has yet to be reached.

Parliamentary seats



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. However, the good news is that progress has been made on almost all SDGs. The only exception is the goal of Affordable and Clean Energy. In the coming years, the most significant challenges will be the targets associated with the aforementioned Available and Clean Energy, as well as areas such as Quality of Education, and Peace, Justice and Strong Institutions.

Slovakia faces the highest effective U.S. tariffs in the EU

Special topic



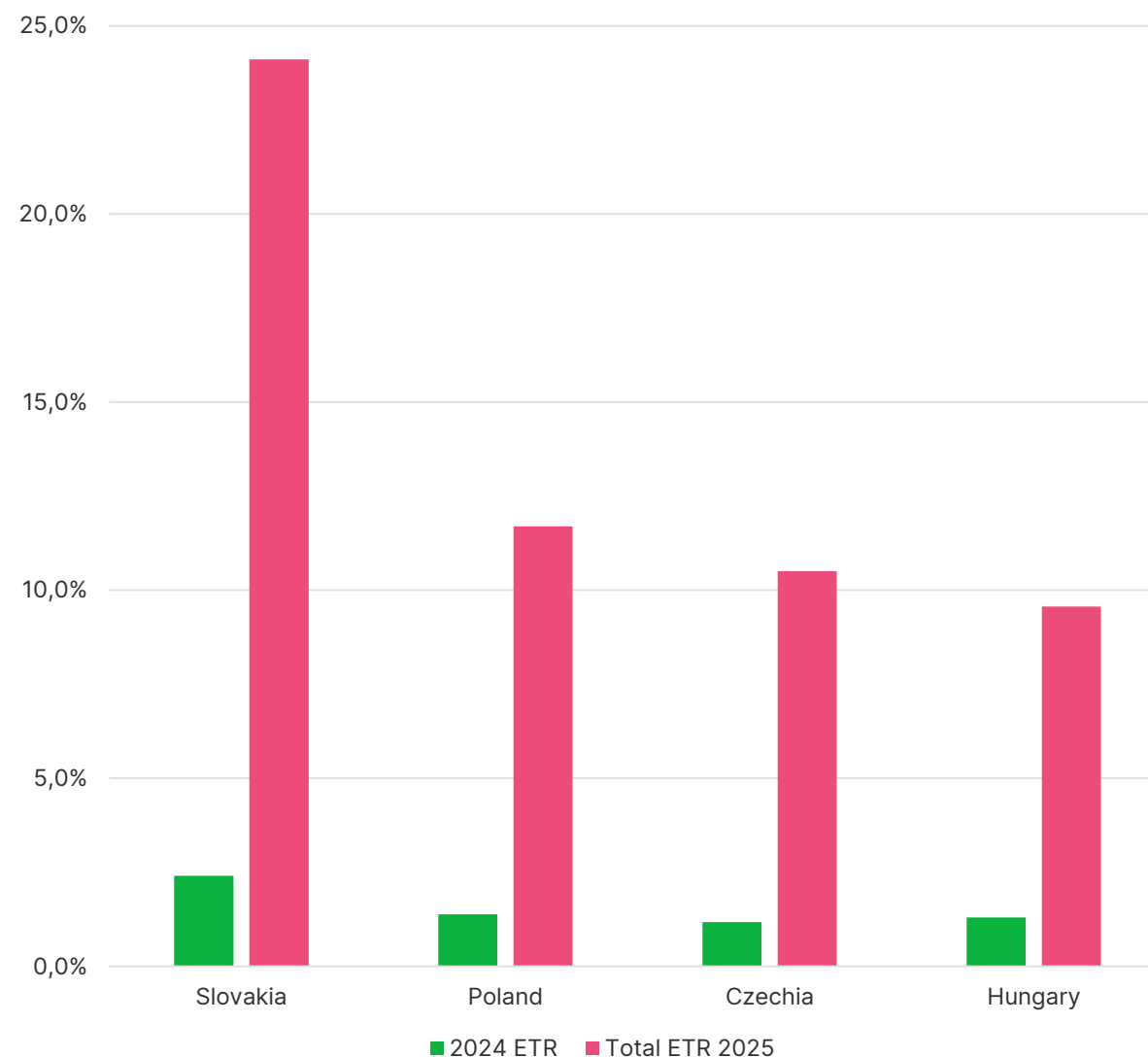
Cars dominate Slovakia's exports to the United States

Because of the 25 % U.S. tariffs on cars and car parts, Slovakia faces the highest effective tariff rate in Europe. Fitch Ratings estimates this rate at over 24 %, which is more than twice as high as in neighboring V4 countries. Globally, Slovakia has the third highest effective tariff on exports to the U.S., after China and Bangladesh.

This is mainly because over 80 % of Slovak exports to the U.S. are machinery and transport equipment, including cars. Slovakia mainly exports luxury SUVs from brands like Porsche, Audi, and Land Rover. Although Slovakia exports only 4% of its exports to the US, it is the highest among CEE countries.

Although the current direct effective tariff rate is high, we expect that the introduction of broad reciprocal tariffs would have a greater impact on the Slovak economy, as two thirds of Slovakia's exports go to EU markets, which would result in significant secondary effects.

Effective US tariff rates on V4



Source: Source: FitchRatings - U.S. Effective Tariff Rate Monitor, Slovenska sporitelna
June 18, 2025

Slovakia: Forecasts

	2018	2019	2020	2021	2022	2023	2024f	2025f	2026f
Percent				Annual average					
Real GDP growth	4,1	2,3	-2,6	5,7	0,4	2,2	2,1	1,5	1,5
Private consumption growth	4,1	2,9	0,7	2,9	5,0	-3,4	3,0	1,5	1,8
Fixed capital formation growth	3,4	5,0	-9,6	5,1	4,3	4,0	1,8	5,3	-2,0
Inflation	2,5	2,7	1,9	3,2	12,8	10,5	2,8	3,9	3,3
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	61,1	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	3,35	3,35
Spread	115,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00

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 the EU average

Currency: Euro EUR since January 1 2009

Credit Ratings:

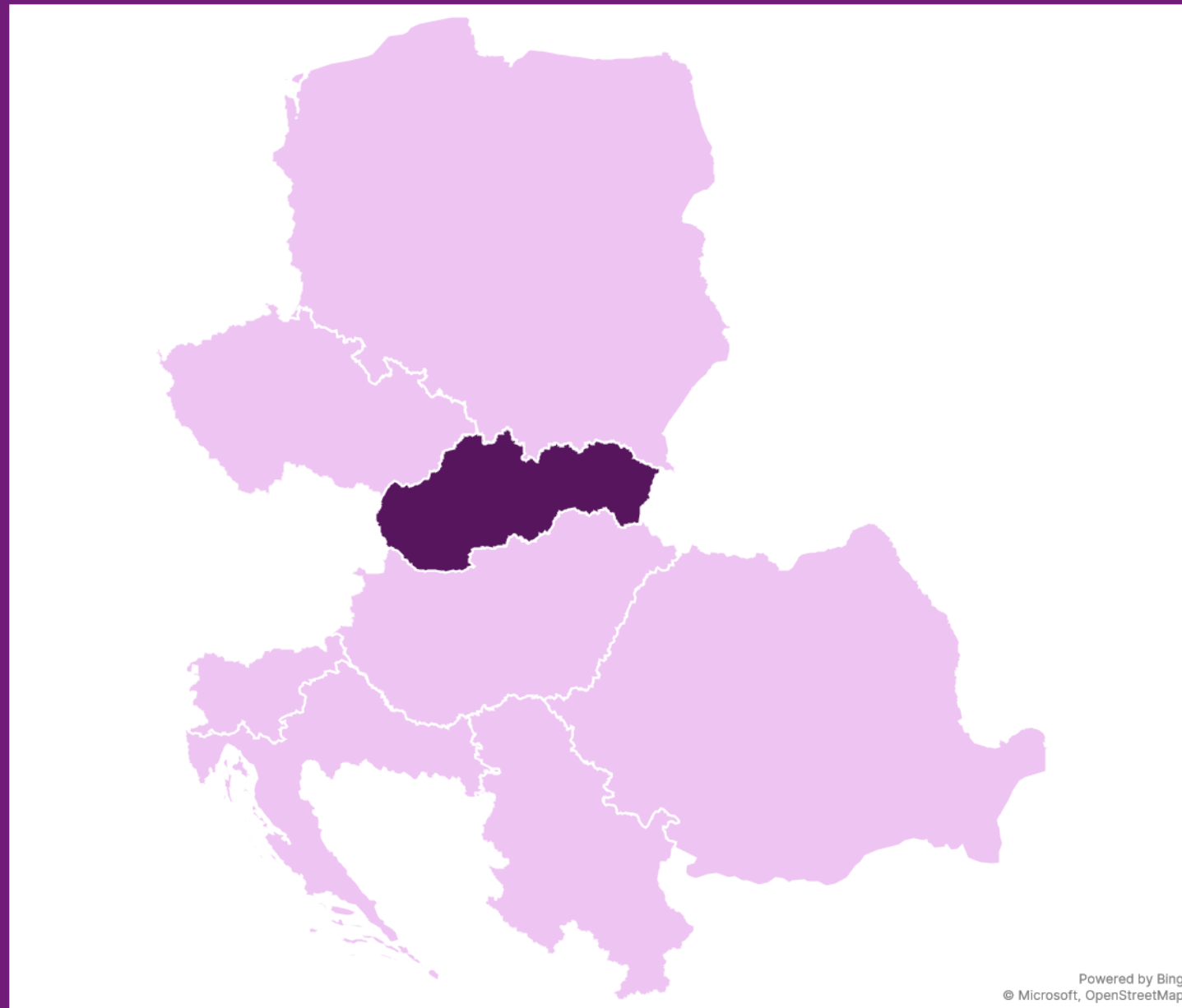
Moody's: A3, outlook stable

S&P: A+, outlook stable

Fitch: A-, outlook stable

EU member state: since 1 May 2004

Schengen: member since 21 December 2007



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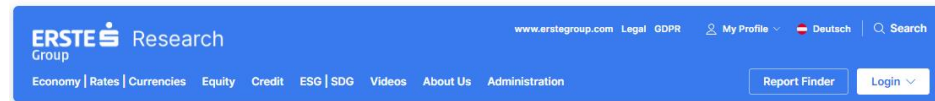
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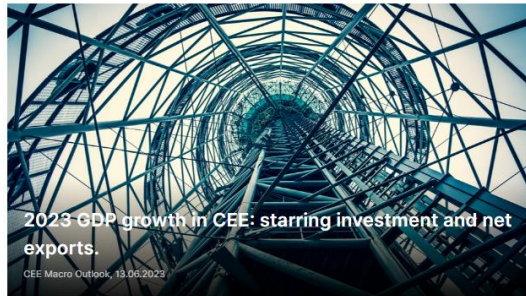


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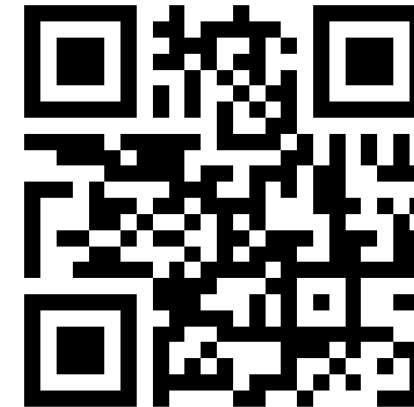
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