SLOVAKIA | MACRO OUTLOOK

Strong economic start to 2024

Strong start for Slovak economy in 2024
ECB decides on first interest rate cut
More than 70% of financing needs are covered
Weaker dollar expected

Economy (%)	2023	2024e	2025e
GDP (real, y/y)	1.6	2.0	2.7
Unempl. Rate	5.8	5.7	5.7
CPI (y/y)	10.5	3.0	3.0
Retail Sales (y/y)	-4.5	2.5	2.3
Ind. Prod. (y/y)	-0.5	4.0	5.0
Public Debt/GDP	56.0	58.2	59.6

Source: Erste Group Research

Market	Spot	24Q3	24Q4	25Q1
ECB Target R.	4.25	3.65	3.15	2.90
3M Euribor	3.72	3.40	3.09	2.86
EUR/USD	1.07	1.11	1.13	1.14
10Y Bond (%)*	3.73	3.65	3.60	3.65

Source: FactSet, Erste Group Research

Rating	Current	Outlook
Moodys	A2	neg
S&P	A+	stable
Fitch	A-	stable

Source: Erste Group Research

General	2023
Population mn	5.4
GDP/Capita EUR	22,743

Source: Erste Group Research

Spot Rates as of:
13th Jun. 2024

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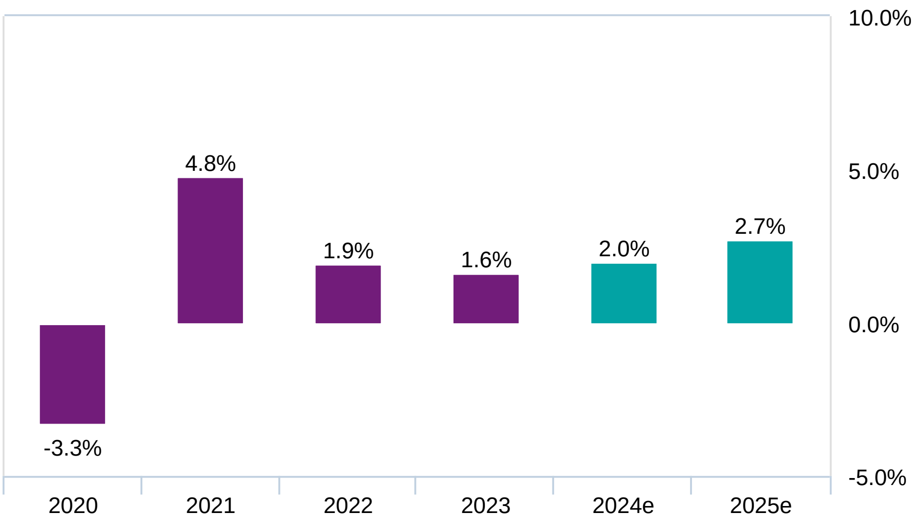
Note:
**Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.*

The Slovak economy experienced a strong start to 2024, with y/y GDP growth at 2.7%. The main drivers were household consumption, benefiting from rapid income growth and decreasing inflation, and government consumption. Investment activity showed a relatively weak performance in 1Q24. We anticipate that GDP growth will continue for the remainder of the year, driven primarily by ongoing robust household consumption and increased investment activity, due to NextGen funds. Towards the end of the year, we also expect some boost from foreign demand. Economic growth for this year could thus reach 2%, with slight upside risks.

The inflation rate dropped to two percent, but with the base effect fading out, it will rise again slightly in the coming months. The tight labor market is pushing up wage growth, which creates pressure for price increases. Inflation is expected to average around three percent this year. The Ministry of Finance announced fiscal consolidation in the amount of one percent of GDP annually. However, specific measures are yet to be revealed. For now, it seems that rating agencies have placed their trust in the credibility of this commitment. PM Robert Fico is gradually recovering after an assassination attempt.

GDP (real,y/y)



Source: Erste Group Research

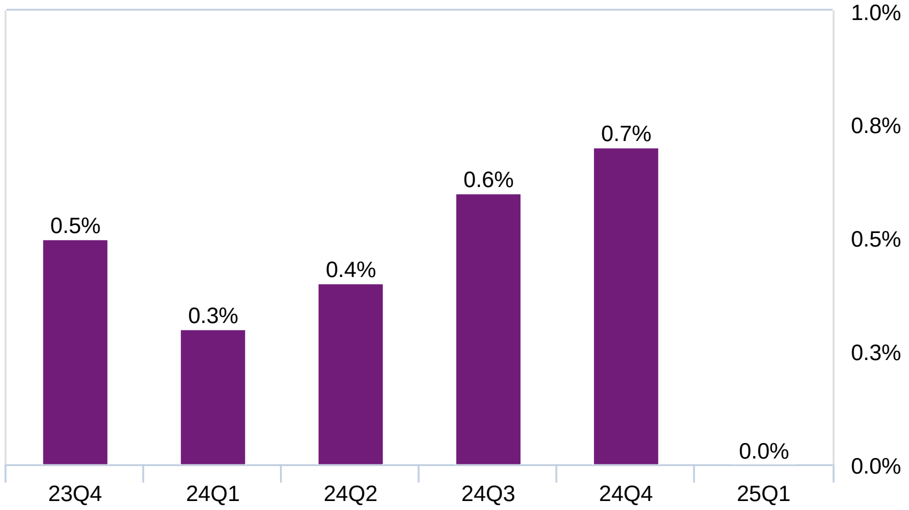
GDP

Strong start for Slovak economy in 2024

As expected, Slovak GDP growth was supported by a swift recovery in household spending and government consumption. A strong economic performance in the first quarter was significantly influenced by the carry-over effect from the accelerating economy in the second half of 2023, impacting the y/y figures. Growth in the real economy is expected to continue throughout the year. Domestic demand significantly influenced GDP growth, which, after four quarters of stagnation, reached a y/y increase of 4.1%.

The Slovak economy started the new year with strong momentum, with growth in real wages putting households in a more comfortable financial position. Additionally, this year should see a continued positive impulse from the drawdown of European funds, especially the Recovery Plan. However, a negative impetus could come from government consumption, as the high deficit and worsened sustainability of public finances will create pressure for consolidation. We forecast GDP growth to reach 2%. If the economy maintains its momentum, we are prepared to revise our estimate upwards.

GDP (real, s.a., q/q)



Source: Erste Group Research

Annual	2021	2022	2023	2024e	2025e
GDP real	4.8%	1.9%	1.6%	2.0%	2.7%
CPI (y/y)	3.2%	12.8%	10.5%	3.0%	3.0%
Private Consumption	2.6%	6.3%	-3.1%	2.5%	2.3%

Source: Erste Group Research

Inflation

Inflation hit bottom

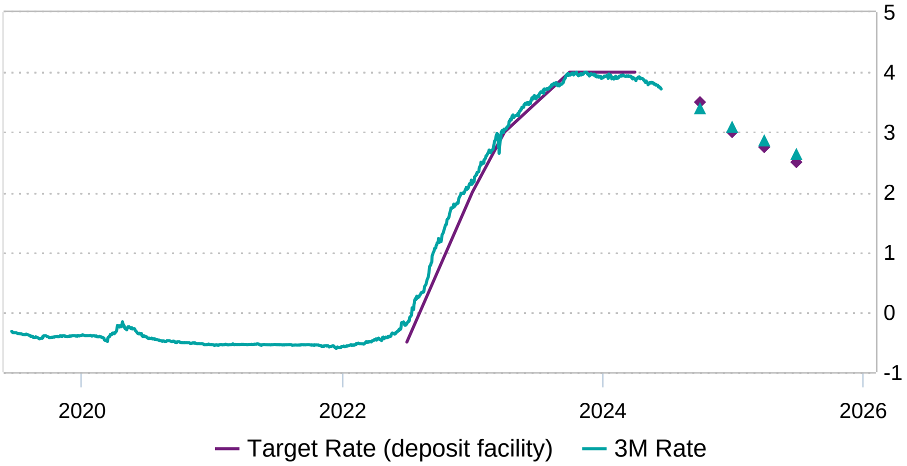
The inflation rate fell close to the 2% target in April, marking the lowest figure in three years. The disinflationary period has ended, as the base effect, which was pushing the y/y rate down, has faded out. Core inflationary pressures persist in the economy, due to factors such as low unemployment and strong growth in nominal wages. On the other hand, households are likely to use higher wages to replenish savings, which will somewhat dampen the inflationary pressures. In the coming months, price growth will be primarily driven by increases in the prices of services. We expect average annual inflation to reach 3% in 2024, with downside risks.

ECB Monetary Policy

ECB decides on first interest rate cut

As had been widely expected, the ECB Governing Council decided to cut key rates by 25 basis points (bp) at its most recent meeting at the beginning of June. At the same time, it was made clear that the speed of further interest rate cuts was very uncertain. Price pressure is still strong and wage growth is elevated. However, the ECB economists' new forecasts also show that the ECB's inflation target of 2% remains within reach in the course of 2025. The upcoming data will have to confirm this assumption. We assume that the ECB will take a wait-and-see approach for the time being and will therefore not decide on the next rate cut until September. This should be followed by two more rate cuts, also on the order of 25bp, by the end of the year. The biggest risk to this is persistently high inflation in services.

Eurozone Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q3	24Q4	25Q1	25Q2
Target Rate	4.25	3.65	3.15	2.90	2.65
3M Rate	3.72	3.40	3.09	2.86	2.64

Source: FactSet, Erste Group Research

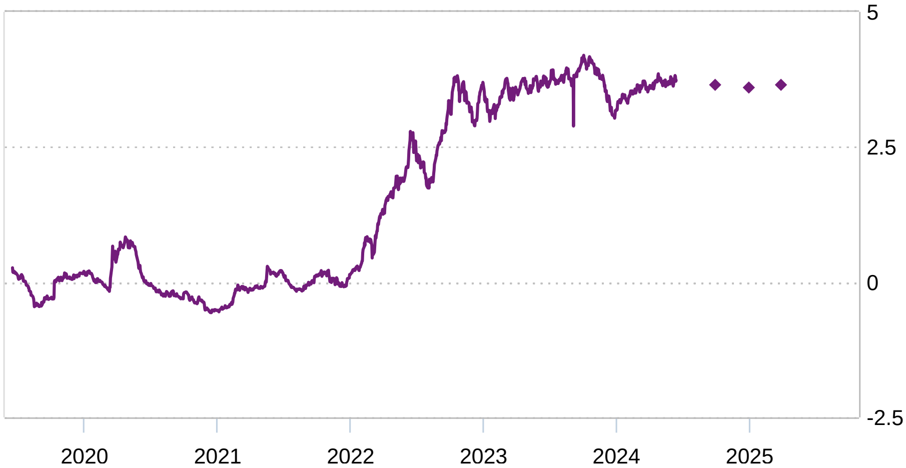
Bond Yields

More than 70% of financing needs are covered

The deficit of public finances in 2023 ended better than expected (4.9% of GDP), primarily due to energy aid from the EU. Rating agencies Fitch and Standard & Poor's have confirmed Slovakia's rating with a stable outlook. The SK rating is supported by EU and Eurozone membership, which underpins a relatively stable and credible macroeconomic framework. The recent assassination attempt on the PM has raised the near-term political uncertainty, but has not influenced the overall situation.

Within the first first half of this year, the Debt and Liquidity Agency (ARDAL) already covered more than 70% of expected financing needs. In the coming year, it is projected that gross financing needs will amount to EUR 12bn, nearing the peak reached during the pandemic year. The need for fiscal policy has widened risk premia, causing SK10Y bond yields to approach or even surpass those of Italy. We expect yields to remain elevated, in the range of 110-130bp.

10Y Generic Govt. Bond Yield (%)



Source: Refinitiv, Erste Group Research

Market	Spot	24Q3	24Q4	25Q1	25Q2
10Y Bond*	3.73	3.65	3.60	3.65	n.a.

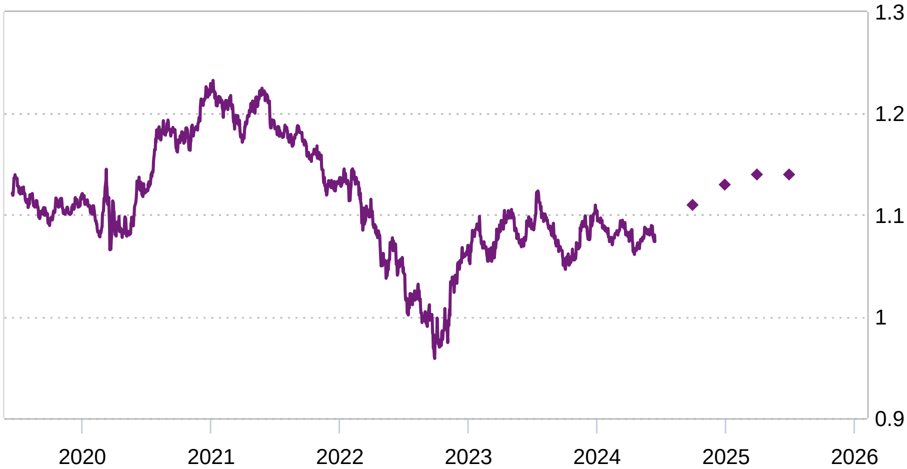
Source: Refinitiv, Erste Group Research

Euro

Weaker dollar expected

The dollar weakened slightly against the euro over the course of May. The different development of economic data had an impact here. While confidence in an upswing grew in the Eurozone, US data was somewhat weaker. However, the EURUSD remained around the middle of the range it has been in since the beginning of 2023. The economic data is not yet clear enough to give preference to one of the two currencies. However, we expect the US economic data to weaken in the future, while the data for the Eurozone will confirm the slow recovery, with a corresponding impact on interest rate expectations. All in all, this should lead to a further weakening of the dollar.

EUR/USD



Source: FactSet, Erste Group Research

	Spot	24Q3	24Q4	25Q1	25Q2
EUR/USD	1.07	1.11	1.13	1.14	1.14
vs. Spot		*3.7%*	*5.6%*	*6.5%*	*6.5%*

Source: FactSet, Erste Group Research

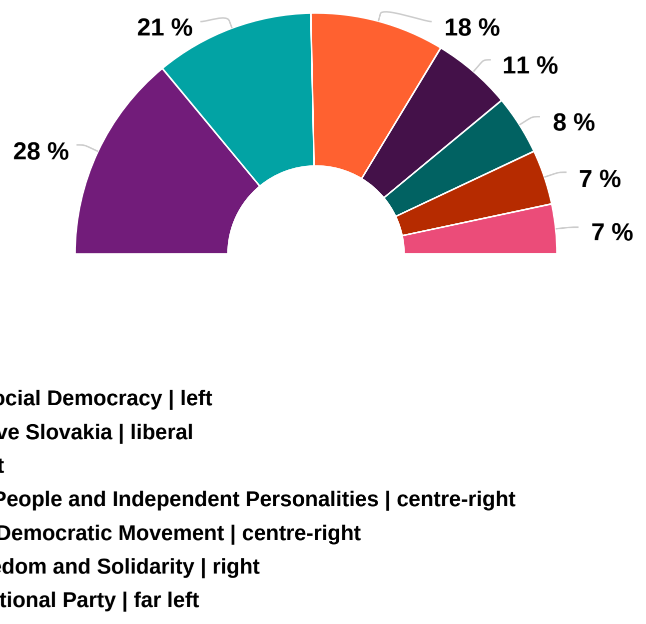
Politics

Assassination attempt shook country

Slovak Republic Prime Minister Robert Fico suffered gunshot wounds in May after a government meeting in the town of Handlová. Although the injuries were severe, his health has been improving. This outrageous act was extraordinary in modern Europe and resulted from strong polarization and tension in Slovak society. Since this incident, tensions have eased slightly, but remain elevated. The economic and social stability of society and the political system are not threatened.

The ruling coalition has been implementing significant changes in the functioning of the state, institutions and media since coming to power. Some of these proposals have been deemed problematic by the European Commission, which could jeopardize the disbursement of EU funds or the Recovery Plan. It will be interesting to see the stance of the new European commission created after the recent election.

Parliament Seats



Source: Erste Group Research

Last Election:
2023, September

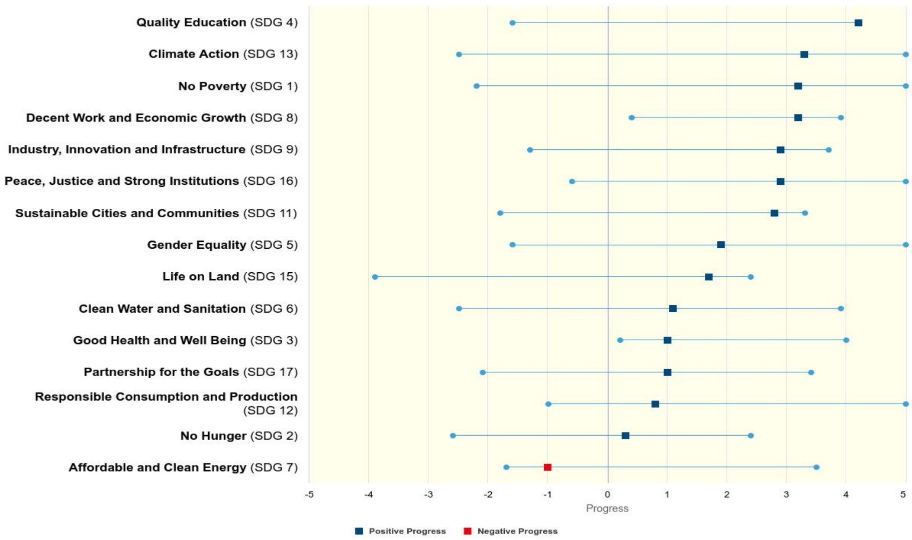
Next Election:
2027, September

Sustainable Development Goals

Slovakia on its way to sustainable development

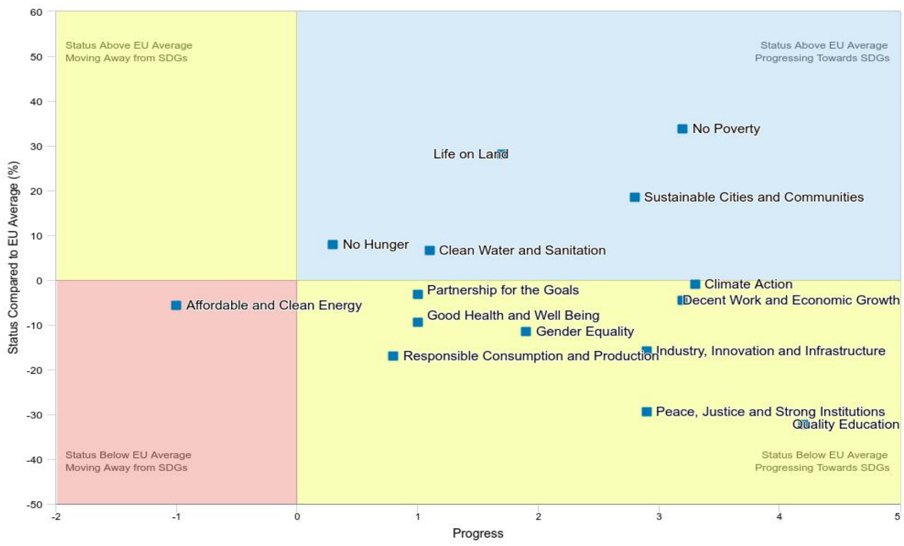
Compared to the EU, Slovakia ranks among the less successful countries in terms of meeting the sustainable development goals (SDGs). For two thirds of the goals, Slovakia's performance is below the EU average however, the good news is that progress has been made on almost all SDGs. The only exception is the goal of Affordable and Clean Energy. In the upcoming 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, or Peace, Justice and Strong Institutions.

Progress Overview



Source: Erste Group Research

Progress Overview



Source: Erste Group Research

Forecasts

Annual	2018	2019	2020	2021	2022	2023	2024e	2025e
Real GDP growth	4.0	2.5	-3.3	4.8	1.9	1.6	2.0	2.7
Inflation (CPI, avg)	2.5	2.7	1.9	3.2	12.8	10.5	3.0	3.0
Unemployment rate (avg)	6.5	5.8	6.7	6.8	6.1	5.8	5.7	5.7
Retail sales growth	3.6	-1.4	-1.1	1.4	4.3	-4.5	2.5	2.3
Industrial output growth	4.3	0.5	-9.1	10.4	-4.7	-0.5	4.0	5.0
Private consumption growth	4.2	2.6	-1.1	2.6	6.3	-3.1	2.5	2.3
Fixed capital formation growth	2.8	6.7	-10.9	3.5	5.2	10.5	2.0	1.4
Percent of GDP								
Trade balance	0.8	0.1	2.1	0.2	-5.2	1.4	0.4	1.8
Current account balance	-2.2	-3.4	0.5	-4.1	-7.4	-1.0	-1.2	-0.4
Foreign direct investment	1.6	2.4	-2.3	1.5	2.5	3.3	2.7	1.8
Budget balance	-1.0	-1.2	-5.3	-5.2	-1.7	-4.9	-6.0	-5.0
Public debt	49.4	48.0	58.8	61.1	57.7	56.0	58.2	59.6
External debt, gross	114.5	112.3	118.7	132.7	103.0	96.0	83.5	n.a.
(percent)								
10Y Yield (average)*	0.86	0.28	0.00	-0.15	2.05	3.62	3.65	3.80

Source: Erste Group Research

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Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
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