Slovak Republic

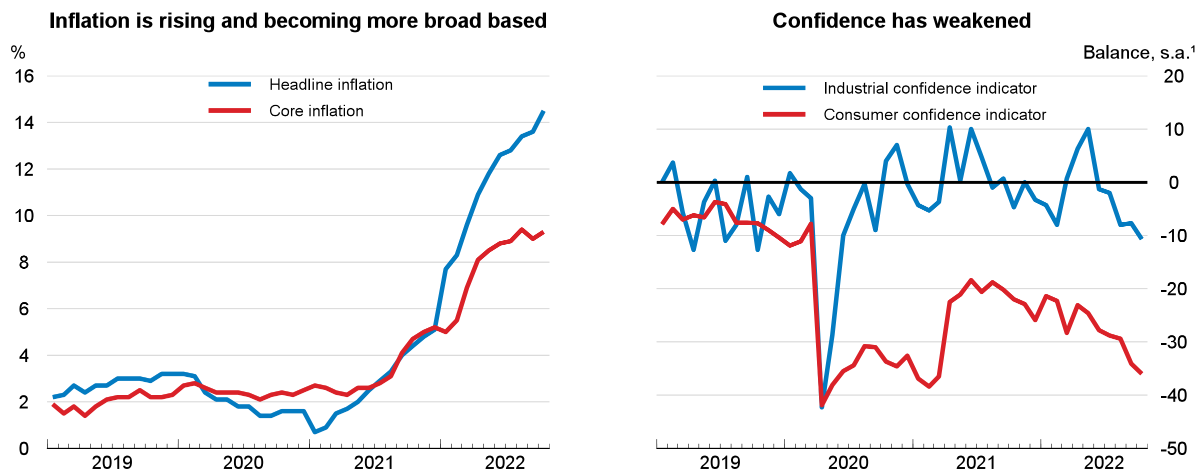
The economy is projected to grow by 1.6% in 2022, 0.5% in 2023 and 2.1% in 2024. High inflation will weigh on household disposable income and private consumption. Continuing supply chain disruptions and weaker global demand will hold back export growth in 2023. Investment growth will remain robust, sustained by the absorption of EU funds. Growth will strengthen in 2024 as supply disruptions and inflation abate. A prolongation of Russia’s war of aggression against Ukraine would increase the risk of energy supply shortages and higher inflation, with severe negative consequences for growth.

While large increases in food and energy prices may call for fiscal support, measures should be temporary and targeted on the most vulnerable. Greater fiscal restraint is needed to avoid fuelling inflationary pressures but also to ensure public finance sustainability over the longer run, especially in view of demographic challenges. Investment in the green transition should be accelerated to enhance energy security and reduce dependence on imported oil and gas.

Economic growth has weakened

The economy continued to grow robustly in the third quarter of 2022 (0.3% quarter-on-quarter). High-frequency indicators suggest that the economy has been slowing in the last quarter of the year. Business and consumer confidence have weakened since Russia’s invasion of Ukraine. Harmonised consumer price inflation accelerated to 14.5% in October as food and, to a lesser extent, energy prices continued to rise, adding to pre-existing pressures from supply chain bottlenecks. Inflation has become broad-based, with core inflation reaching 9.3% in October. While the labour market has continued to recover, the registered unemployment rate remains above pre-pandemic levels, at 6.1% in September 2022.

Slovak Republic



1. Values of the confidence indicators range from -100 (responses of all respondents are totally pessimistic) to 100 (responses of all respondents are totally optimistic).
Source: Eurostat; and Statistical Office of the Slovak Republic.

https://stat.link/67lyer

Slovak Republic: Demand, output and prices

Slovak Republic	2019	2020	2021	2022	2023	2024
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	94.4	-3.4	3.0	1.6	0.5	2.1
Private consumption	53.2	-1.4	1.8	4.1	-2.9	2.0
Government consumption	18.5	-0.6	4.2	-1.6	0.6	0.2
Gross fixed capital formation	20.3	-10.8	0.2	4.1	10.3	2.2
Final domestic demand	92.0	-3.3	2.0	2.8	0.3	1.7
Stockbuilding[1]	2.2	-1.9	2.0	-0.4	0.0	0.0
Total domestic demand	94.2	-4.8	4.2	2.3	0.2	1.6
Exports of goods and services	86.7	-6.5	10.6	-2.0	2.1	5.6
Imports of goods and services	86.5	-8.3	12.0	-1.2	1.6	4.9
Net exports[1]	0.2	1.7	-0.9	-0.8	0.3	0.4
Memorandum items						
GDP deflator	_	2.4	2.4	7.3	12.1	4.4
Harmonised index of consumer prices	_	2.0	2.8	12.0	15.5	5.1
Harmonised index of core inflation[2]	_	2.4	3.3	8.1	7.9	5.0
Unemployment rate (% of labour force)	_	6.7	6.8	6.3	6.7	6.5
Household saving ratio, net (% of disposable income)	_	5.1	4.9	-2.6	-3.3	-0.8
General government financial balance (% of GDP)	_	-5.4	-5.5	-3.4	-5.0	-3.1
General government gross debt (% of GDP)	_	79.2	81.5	80.6	79.9	79.9
General government debt, Maastricht definition[3] (% of GDP)	_	58.9	62.2	61.4	60.7	60.6
Current account balance (% of GDP)	_	0.6	-2.5	-7.3	-7.0	-6.3

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 112 database.

StatLink https://stat.link/y2swrt

Prior to Russia's invasion of Ukraine, Slovakia was strongly dependent on oil and gas imports from Russia. Pre-existing supply bottlenecks intensified over the course of 2022. Together with the surge in energy prices, this led some energy-intensive industries to suspend production in August. In line with the EU plan to enhance energy security, Slovakia increased gas inventories to 94% of capacity in October. Additionally, gas consumption in August and September was 24% lower than in previous years. Diversification of gas import providers will be facilitated by the newly inaugurated pipeline with Poland, which will open access to terminals in the Baltic Sea and to Norwegian gas. Around 100,000 Ukrainian refugees have applied for temporary residence in Slovakia. This is expected to boost the labour force by around 1% in 2022.

The government plans a significant expansion of support to mitigate the energy crisis

In August 2022, Parliament approved permanent increases of family benefits (higher child allowances and tax breaks) to mitigate the increasing cost of living, costing 1% of GDP per year. Moreover, a one-time payment for pensioners was approved in 2022 (0.2% of GDP) and firms can receive a subsidy to partially cover their energy costs above a specific threshold of the wholesale electricity and gas prices for September-October 2022 and January-March 2023 (0.5% of GDP). Overall, the draft budget for 2023 includes a reserve of EUR 3.5 billion (3.4% of GDP) for measures to support households and firms. The projections posit that a large part of these measures will be implemented, leading to a marked fiscal

expansion in 2023. Structural consolidation is assumed to start in 2024. Funds from the EU Recovery and Resilience Plan of around 1.3% of GDP on average per year over the period 2022-24 will boost investment. In addition, Slovakia can still draw about 5% of GDP of unused 2014-20 EU Cohesion funds by 2023.

Economic growth is set to slow sharply in 2023

High inflation will lead to declines in real wages, disposable incomes and private consumption in 2023. Continuing supply chain disruptions and faltering foreign demand will weigh on exports. Some regaining of export market shares is projected for 2024 as supply disruptions abate. High uncertainty will weigh on private investment, but substantial inflows of EU funds will boost government investment in 2023. Headline inflation will increase in 2023 due to delayed pass-through of market energy prices to regulated electricity, gas and heating prices and to a lesser extent the assumed fiscal expansion. Inflation is projected to slow in 2024 due to reductions in energy and food prices and the tighter monetary stance in the euro area. Unemployment will increase only moderately as the short-time work scheme was recently made permanent. Risks are skewed to the downside and largely related to the war in Ukraine. An intensification of the energy crisis could lead to energy rationing with severe impacts on investment and exports. Higher and more prolonged inflation would further erode disposable income and depress private consumption. The budget deficit could be lower in 2023 if unspent EU funds are allowed to be used to finance the crisis measures.

Fiscal support should be temporary and targeted

The planned fiscal support for households and business should be temporary and targeted on the most vulnerable and preserve energy savings incentives. Fiscal policy should be prudent to reduce inflationary pressures and build up fiscal space to prepare for long term fiscal challenges, such as population ageing. Consolidation measures should be specified in line with the recently adopted expenditure ceilings. Accelerating investment for the green transition should be a priority to enhance energy security. Strengthening active labour market policies, such as training, can help the integration of Ukrainian refugees and support workers during the green and digital transitions.

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