Slovak Republic

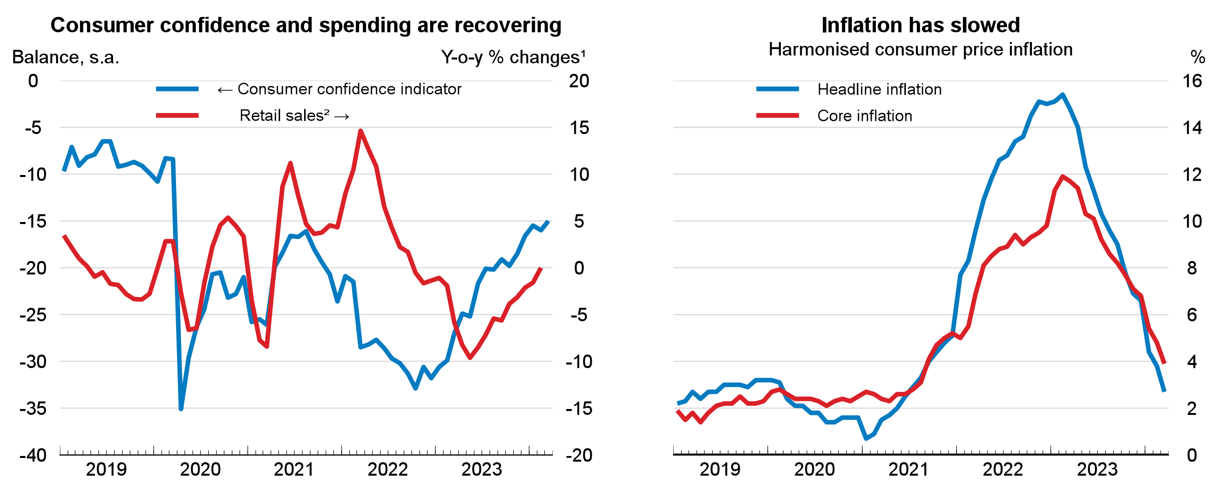
GDP growth is projected to pick up to 2.1% in 2024 and 2.7% in 2025. Falling inflation will lead to higher real wage and consumption growth. The easing of financial conditions, higher absorption of EU Recovery and Resilience funds and the expected recovery in foreign demand will support investment and export growth. Risks are related to a resurgence of global energy prices and supply chain disruptions.

Ambitious fiscal consolidation is needed to rebuild fiscal buffers, support the disinflation process and prepare for rapid population ageing. Enhancing the efficiency of public spending and further reforms to the pension system and family benefits can help improve fiscal sustainability. A shift of tax revenues away from labour towards property and environmental taxes, and measures to improve the absorption of EU funds can boost growth.

Inflation has slowed and economic activity remains subdued

GDP grew by 0.5% (quarter-on-quarter) in the last quarter of 2023, driven by strong investment growth related to the drawing of EU structural funds. Private consumption continued to contract and exports weakened. Consumer sentiment and retail sales have improved over recent months but remain weak. Harmonised consumer price inflation has fallen significantly to 2.7% in March, as food price inflation slowed markedly, and energy price support measures were extended into 2024. However, underlying inflationary pressures remain elevated, with harmonised core inflation at 3.9% in March. The labour market is resilient, with the unemployment rate around pre-pandemic levels. Real wage growth turned positive in the last quarter of 2023 and strengthened in early 2024.

Slovak Republic



1. 3-month moving average.
2. Volume terms.
Source: OECD Main Economic Indicators database; Statistical Office of the Slovak Republic; and Eurostat Harmonised index of consumer prices (HICP) database.

StatLink https://stat.link/p6q85k

Slovak Republic: Demand, output and prices

Slovak Republic	2020	2021	2022	2023	2024	2025
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	93.4	4.8	1.9	1.6	2.1	2.7
Private consumption	53.7	2.7	6.2	-3.0	0.4	2.9
Government consumption	19.6	4.2	-4.5	-0.6	1.5	1.0
Gross fixed capital formation	18.2	3.5	5.7	10.6	5.2	3.4
Final domestic demand	91.5	3.2	3.7	0.1	1.6	2.6
Stockbuilding[1]	0.0	2.4	-0.7	-4.9	2.7	0.0
Total domestic demand	91.4	5.9	2.9	-4.2	4.4	2.6
Exports of goods and services	79.3	10.4	3.2	-1.0	2.3	3.1
Imports of goods and services	77.3	11.6	4.5	-6.9	4.7	2.9
Net exports[1]	2.0	-0.8	-1.2	6.3	-2.2	0.1
Memorandum items						
GDP deflator	_	2.4	7.5	10.1	5.6	2.9
Harmonised index of consumer prices	_	2.8	12.1	11.0	2.9	3.3
Harmonised index of core inflation[2]	_	3.3	8.2	9.5	3.9	2.9
Unemployment rate (% of labour force)	_	6.8	6.1	5.8	5.9	5.8
Household saving ratio, net (% of disposable income)	_	4.2	-2.5	1.6	3.5	3.0
General government financial balance (% of GDP)	_	-5.2	-1.7	-4.9	-5.8	-5.2
General government gross debt (% of GDP)	_	79.6	65.3	63.4	65.8	67.7
General government debt, Maastricht definition[3] (% of GDP)	_	61.1	57.7	56.0	58.4	60.4
Current account balance (% of GDP)	_	-4.0	-7.3	-1.6	-3.3	-3.0

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 115 database.

StatLink https://stat.link/v7grt5

Car production and new orders slowed in late 2023 and early 2024, on account of weaker foreign demand and some renewed supply chain disruptions. With interest rates remaining high, loan growth to the private sector continued to slow. House prices stabilised in late 2023, at about 10% below their peak in the third quarter of 2022.

The fiscal stance will remain expansionary in the near term

The budget for 2024 targets a general government deficit of 6% of GDP. The budget includes consolidation measures summing to around 1.5% of GDP but also introduces additional expenditures. The consolidation measures are largely focused on the revenue side and include higher taxation of tobacco and alcohol, higher social security contributions for health insurance and higher taxation of banking profits. At the same time, the budget also includes extra spending for the increase of the 13th pension, tax benefits for mortgage payments and the extension of untargeted energy support measures. Overall, the fiscal stance remains expansionary in 2024, partly due to the assumed higher drawing of EU Recovery and Resilience funds. The government targets a reduction of the budget deficit to 5% of GDP in 2025, but consolidation measures to achieve these targets have not been specified. The projections assume moderate structural consolidation of about 0.5 percentage points of GDP in 2025.

Growth is set to pick up

Lower inflation will lead to an increase in real wages, which will drive a recovery in private consumption and some further rebuilding of households' savings. The gradual easing of financial conditions and usage of EU Recovery and Resilience funds will support investment in 2024 and 2025. Exports are projected to grow broadly in line with the expected recovery in foreign demand. Underlying inflation will continue to ease, albeit at a slower pace due to the effects of wage increases and indexation of benefits to past inflation. Headline inflation will edge up in 2025 due to the assumed phasing out of energy support measures. A prolonged war in Ukraine or an escalation of the conflict in the Middle East could lead to the resurgence of global energy prices and lower foreign demand. Renewed supply chain disruptions in the automotive sector or a slow recovery of demand in Europe (especially Germany) would particularly weigh on growth. Lower than assumed fiscal consolidation could add to inflationary pressures.

Ambitious fiscal consolidation is needed

The pandemic and energy crises led to a marked deterioration of public finances, with the public debt-to-GDP ratio around 10 percentage points higher in 2022 (57.7% of GDP) compared to 2019. A medium-term fiscal consolidation strategy is needed with a focus on improving the efficiency of public spending, including by better drawing on spending reviews, and addressing the challenges of rapid population ageing. Pension reforms should mitigate spending pressures and prolong working lives – including by tightening pathways to early retirement. Increasing employment of women with young children would mitigate the impact of a shrinking work force while also reducing the gender wage gap. This requires enhanced access to affordable and high-quality childcare, more flexible working arrangements, and shortening long parental leave. Targeted training to strengthen project preparation and implementation capacity can help improve the efficiency of public investment spending and maximise the impact of substantial inflows of EU funds. Tax reforms that shift the burden away from labour towards property and environmental taxes could support growth.

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