Slovak Republic

Highlights

- **Household consumption is driving economic growth.** Investment and exports are expected to gain momentum in the short term, but the planned multi-year fiscal consolidation will necessitate a reduction in government spending from 2025.
- **The government has introduced green energy subsidies totalling €150 million.** This initiative aims to enhance energy efficiency and reduce carbon emissions, giving households significant financial assistance with renewable energy equipment.
- **New nuclear capacity is being developed.** The government has approved the building of a new nuclear reactor, with a capacity of up to 1,200 MW, at Jaslovské Bohunice, leveraging existing infrastructure, while Mochovce's new block is expected to be operational by September 2025.

Key priorities for 2025

- **The government should implement ambitious fiscal measures to improve long-term sustainability.** According to the country's Budget Responsibility Council (RRZ), its public finances are in a high-risk state, with debt projected to exceed 66 per cent of gross domestic product (GDP) by 2028. In July 2024 the European Union (EU) initiated an excessive deficit procedure in respect of the Slovak Republic.
- **The country's renewable energy capacity needs to be increased.** Although it surpassed its 2020 target for renewables and has 15 per cent of its energy needs being met by hydroelectric power, the 7 per cent that is currently coming from solar and wind power is insufficient and among the lowest levels in the EU. The current National Energy and Climate Plan (NECP) sets the national target at a 19.2 per cent share of energy consumption from renewables.
- **Further support is needed to boost research and development and technology adoption in the manufacturing sector.** This will help small firms to overcome financing constraints and enhance their innovation capacity, which is crucial in order to navigate global shocks and adverse trends.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-3.3	4.8	1.9	1.4	2.3
Inflation (average)	2.0	2.8	12.1	11.0	3.1
Government balance/GDP	-5.3	-5.2	-1.7	-4.9	-5.9
Current account balance/GDP	0.6	-4.4	-8.7	-2.1	-1.5
Net FDI/GDP [neg. sign = inflows]	2.8	-1.4	-2.5	-0.1	-0.4
External debt/GDP	119.6	134.2	105.7	96.1	na
Gross reserves/GDP	na	na	na	na	na
Credit to private sector/GDP	67.1	67.0	67.9	62.5	na

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Macroeconomic developments and policy response

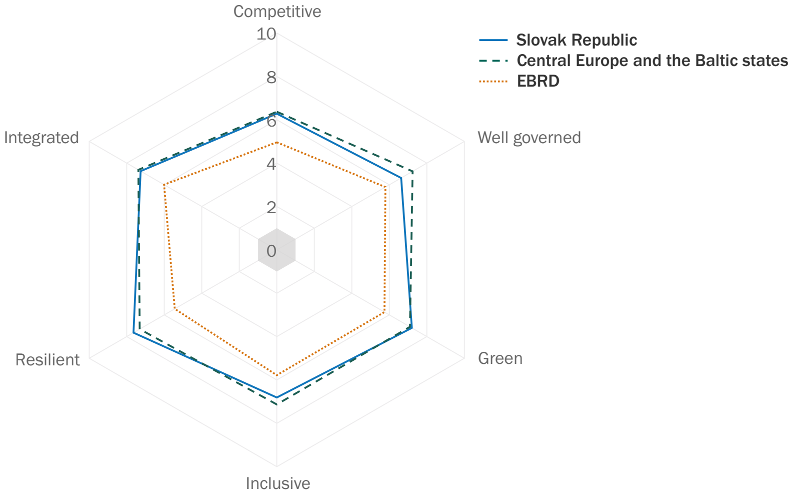
The rebound in private consumption has become the primary driver of economic growth. In 2023 the economy grew by 1.4 per cent, propelled by a marked increase in investment expenditure (particularly for public-sector investment projects that were co-financed by the EU). Following a significant decline last year, household consumption has recovered in 2024, buoyed by real wage growth amid a rapid weakening of inflation. This resurgence in consumer spending has led to a strengthening of activity, with economic growth of 2.3 per cent year on year in the first half of 2024.

The labour market remains tight, despite some temporary economic turbulence. Headwinds caused by a decline in external demand have affected the manufacturing sector, but employment rates have proved to be resilient. Unemployment has fallen, standing at 5.5 per cent in mid-2024, while employment has continued its steady rise, reaching 78.1 per cent of the total working-age population (defined as people aged 20 to 64) in the first quarter of 2024. As annual inflation has fallen (with a rate of 2.4 per cent being recorded in June 2024), real wage growth has taken off, with year-on-year increases of more than 7.0 per cent being seen in the first half of 2024. Inflation stood at 3.2 per cent in August 2024, but it may rise slightly in the short term because of base effects and the impact of relatively high service price inflation amid rising wages.

The EU has initiated an excessive deficit procedure in respect of the Slovak Republic. This decision was taken in July 2024 following a general government deficit of 4.9 per cent of GDP in 2023, which was not judged to be due to any extraordinary event or a significant economic downturn. Furthermore, the European Commission's May 2024 forecasts envisage that deficit remaining above the 3.0 per cent of GDP threshold in 2024 and 2025 – at 5.9 per cent and 5.4 per cent of GDP, respectively. In October 2024, parliament approved a package of consolidation measures for 2025, which includes a four-year plan to stabilise debt. By 2028 the aim is to cut the deficit to 2.2 per cent of GDP, allowing the debt-to-GDP ratio to begin a yearly decline.

Growth is likely to remain modest in the short term. We forecast that real GDP growth will rise to 2.3 per cent in 2024 and 2.6 per cent in 2025. Household consumption will be the primary driver of economic growth, with investment and exports expected to contribute as well. Increases in real wages will also help to fuel economic growth. Private investment is expected to strengthen, particularly in the automotive sector, but public investment may grow more slowly as funding under the 2021-27 EU budget starts to be wound down. Exports are expected to rise in 2025, in line with improved economic conditions in western parts of the EU. The planned multi-year fiscal consolidation will necessitate a reduction in government spending from 2025 onwards, and success in this area could boost the country's sovereign rating.

Assessment of transition qualities (1-10)



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Structural reform developments

Progress with reforms in selected areas has helped to secure more funding from the EU's Recovery and Resilience Facility (RRF). A fourth payment of €923 million from the RRF was approved by the European Commission in July 2024, following the disbursement of €662 million in December 2023, highlighting the country's success in meeting the EU's stringent requirements. The Slovak Republic has already received €2.7 billion in funding – 42 per cent of its total allocation of €6.4 billion under the RRF. The government is preparing to request its fifth payment, with only two of the 22 milestones and targets remaining problematic.

A new nuclear reactor has been approved by the government. The new reactor, with a capacity of up to 1,200 MW, will be built at the power plant in Jaslovské Bohunice, leveraging existing infrastructure. Meanwhile, progress has been made with the expansion of the Mochovce nuclear power plant, with its new block expected to be operational by September 2025. The new reactor will be fully state owned, unlike the Mochovce plant and the remainder of the Jaslovské Bohunice plant, both of which are only partially state owned.

Additional liquefied natural gas (LNG) supplies are enhancing energy security. In July 2024 gas trading company ZSE signed a contract for additional LNG deliveries, diversifying sources and increasing energy security. The contract is with a member of the Polish Orlen Group and will cover 30 per cent of ZSE clients' gas needs, with deliveries starting in 2025. This follows the Environment Minister's approval of a different LNG terminal at Bratislava's river port in January 2024, which is aimed at stabilising energy supplies disrupted by sanctions on Russia. The government also expects continued gas flows via Ukraine, potentially from Azerbaijan, despite Ukraine's decision not to extend its transit contract with Gazprom beyond 2024.

The government has launched green energy subsidies. In June 2024 the government announced a €150 million project supporting the installation of renewable energy equipment in homes. The state will reimburse approximately 50 per cent of the cost, with that figure rising to 90 per cent for low-income households. This initiative includes subsidies of up to €3,000 for photovoltaic panels, €2,000 for solar collectors and €3,040 for heat pumps. Only this year, about €29 million of subsidies were spent on large-scale renewables and about €12 million on grid batteries co-located with renewable energy sources. The scheme also supports biomass boilers. These measures are seeking to enhance energy efficiency and reduce carbon emissions, in line with the EU's broader environmental goals.

Investment in e-mobility is on the rise. GIB EnergyX Slovakia, a joint venture between China's Gotion and the Slovak Republic's InoBat, will invest at least €1.23 billion in a new electric car battery factory in the south of the country by 2028, creating an estimated 1,311 jobs over the next three years. In April 2024 the European Commission approved €267 million in state aid for Volvo's new electric vehicle plant in the Košice region, which aims to produce 250,000 electric cars annually and directly create at least 3,300 jobs. Moreover, in January 2024 the government granted €29.95 million in investment aid to Kia Slovakia's car plant in Zilina to support the expansion of production, preserving 3,693 existing jobs.