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30th June 2025

# The economy in the shadow of trade barriers

## Macroeconomic Forecast for 2025 – 2029

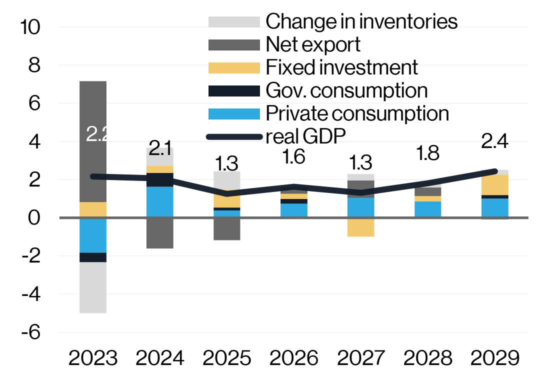
**IFP Collective**

**The increase in tariffs and global uncertainty in the world economy will slow down Slovakia's GDP growth in 2025 to 1.3%. The decline in foreign demand will affect exports and employment. Although real incomes will rise slightly, households will save, and their consumption will be limited due to public finance consolidation. Businesses will delay investments, but capital formation will be supported by drawing funds from the Slovakia's Recovery and Resilience Plan (RRP). In 2026, GDP growth will increase to 1.6% as uncertainty around customs policy dissipates. However, the recovery in foreign demand will be partial as global trade adjusts gradually, and supply chains may be disrupted. In 2027, we expect a slowdown in investment activity after the full utilization of RRP funds, but EU funds will help support investment towards the end of the forecast period. Risks to the forecast include global trade uncertainty and geopolitical tensions, which may drive up energy and agricultural commodity prices, but will not translate into higher income for the economy, households, or the Slovak state budget.**

Tariffs will dampen economic growth.

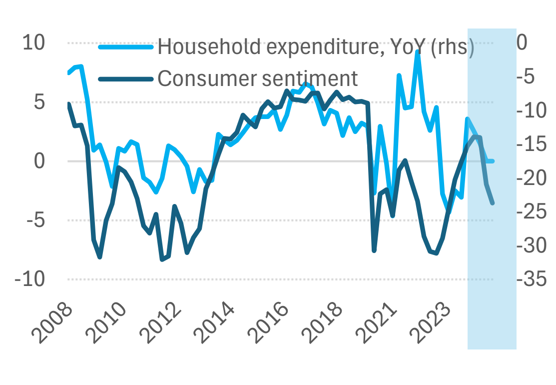
**An increase in tariffs on imports to the USA and significant economic uncertainty will lead to a slowdown in the Slovak economy in 2025, with GDP growing by just 1.3%.** Lower economic growth in Slovakia's main trading partners and reduced exports of automobiles to the USA will be reflected in slower export dynamics (see Box 2). Businesses will delay investment activity. Limited foreign demand and reduced investments will lead to a decline in employment. A decrease in job numbers, along with public finance consolidation, will dampen household consumption. Economic activity will be supported by the drawing of funds from the Recovery Plan.

**Chart 1: Contributions of individual components to GDP growth (constant prices, p. p.)**




Source: ŠÚ SR, IFP

**Chart 2: Weak consumer confidence slows down household expenditure**




Source: IFP

Public finance consolidation and demographic factors will stifle growth

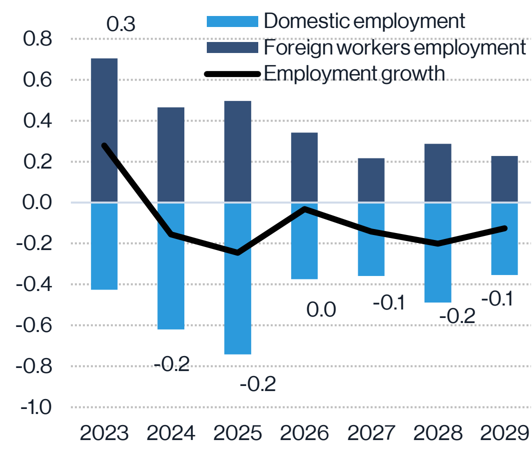
**In 2026, uncertainty about U.S. foreign trade policy will decrease, contributing to a recovery in foreign demand.** Additionally, the automotive company Volvo will start exporting its first cars in the second half of the year, providing an economic boost. Investments funded by the Recovery Plan will stimulate the Slovak economy throughout the year.

**In 2027, investment activity will decline as the drawing of RRP funds slows.** However, we expect about 200 million euros in funds to spill over from previous years. The economy will continue to be supported by Volvo, which will fully utilize its capacities. Throughout the forecast horizon, the economy will be constrained by public finance consolidation aimed at stabilizing debt and adverse demographic developments. The end of the program period in 2029 will bring a renewal of investment growth.

The increase in tariffs would affect the automotive industry most

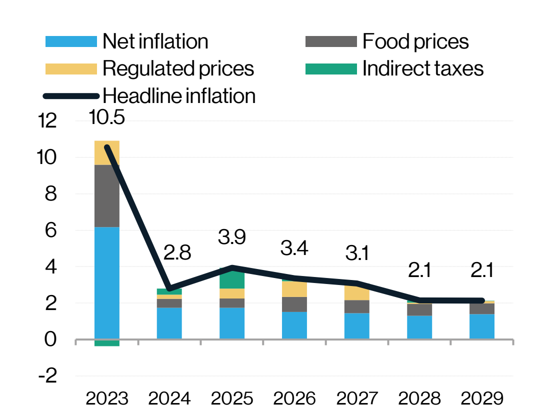
**In the environment of high uncertainty, mainly due to U.S. foreign trade policy and geopolitical developments, negative risks outweigh the positive ones.** The biggest unknown is the rise of protectionism in international trade. Our current forecast assumes the status quo, i.e., a 10% tariff on all goods and a 25% tariff on cars, their components, steel, and aluminum. A further negative risk is lower-than-expected utilization of the Recovery Plan, which could lead to lower investment activity and employment than projected in the forecast. An increase in oil prices due to an Israeli attack on Iran could also have an adverse impact on the Slovak economy.

**Chart 3: Contribution of domestic and foreign workers to ESA employment (p. p.)**




*Source: ŠÚ SR, IFP*

**Chart 4: Contributions of components to inflation (%)**




*Source: ŠÚ SR, IFP*

Employment in the red

**Employment will decline for the second consecutive year.** The economy will lose 6,000 jobs, a 0.2% reduction in employment. This drop reflects the exit of inactive entrepreneurs at the beginning of the year due to the fiscal package, as well as weak foreign demand. Employment in the public sector is dampened by austerity measures. The decline in employment will be partially offset by the drawing of funds from the Recovery Plan, as well as the return of early retirements to levels seen two years ago. The unemployment rate will rise to 5.4% as layoffs increase.

**In the coming years, employment will continue to decrease due to a shortage of workers in the labor market.** Job creation, along with the recovery of foreign and domestic demand, will be supported by the peak use of RRP resources in the economy, which will later be replaced by the drawing of EU funds. The reduction in the workforce will continue to be mitigated by the influx of foreign workers, with over 124,000 working in Slovakia. The unemployment rate will therefore not fall below 5.3% during the forecast period.

Wages will Increase by 5%

**Wage dynamics will slow to 5% this year.** This is due to slower labor productivity growth and last year's inflation being under 3%, meaning that the effect of backward indexation will support nominal wage growth much less than in the previous year. In the following years, wages will be pushed up by the shortage of workers. However, wages will increase at a slower pace, in line with more moderate price and productivity growth. Public sector wage negotiations will consider the need for fiscal consolidation. The private sector will therefore increase wages faster than the public sector throughout the forecast period. Higher energy prices will support inflation, limiting real wage growth to less than 2% over the next three years.

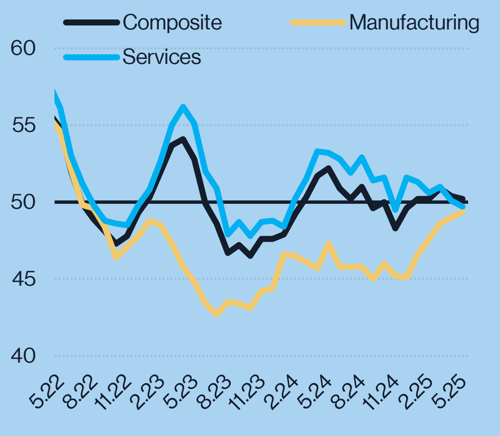
Inflation will approach 4%

**Inflation will accelerate to 3.9% in 2025.** Price increases were mainly influenced by the January VAT hike. The increase in tariffs will dampen price growth but only slightly. The price caps on gas and heating this year will keep average inflation below 4%. Due to uncertainty regarding energy aid, we are applying the same technical assumption for energy prices as in February: electricity prices for households will not rise, while gas and heating prices will gradually return to market levels over the next two years, with a decline at the end of the medium-term horizon in line with futures developments. Gas prices will also be affected by the introduction of the ETS2 trading system. As a result, the price level will rise above 3% in 2026 and 2027. We expect food and tradable goods prices to return to average increases observed in the pre-pandemic period. Service prices will rise faster, but overall inflation will be muted by consolidation during the medium-term forecast.

## BOX 1: External Environment Assumptions

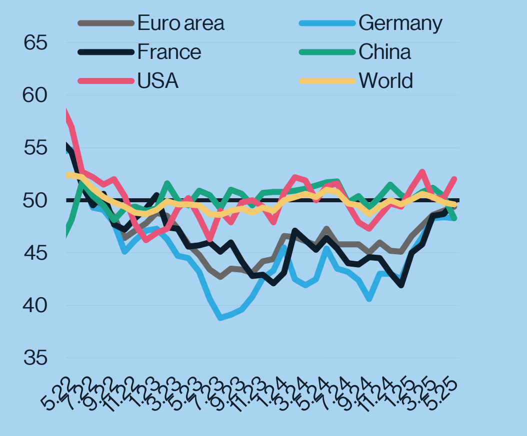
**The eurozone economy is close to stagnation in mid-2025, with mixed signals.** Although the purchasing manager index remains below the expansion threshold, its value is gradually increasing. The drop in orders is slowing, and business sentiment is slightly improving, which could signal a reversal in the coming months. High-frequency industrial activity indicators have strengthened recently, but the service sector has weakened. Business confidence in services has decreased in recent months, which may dampen performance in the eurozone, as services make up a larger share of the economy. For Slovakia, as a small open economy with a dominant industrial sector, this development is rather positive. The easing of the decline in European industry may contribute to stabilizing foreign demand, which is crucial for exports and growth.

**Chart A: Eurozone remains in stagnation (Purchasing managers' index, values above 50 = expansion)**




*Source: Bloomberg, IFP*

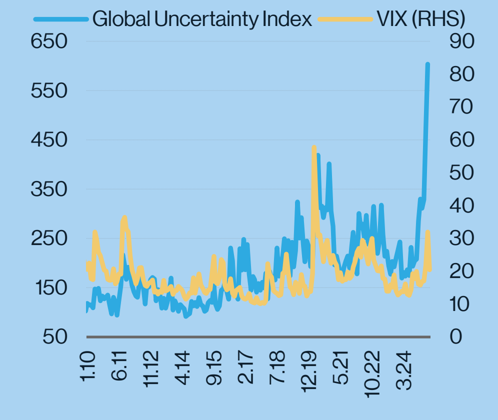
**Chart B: Industrial decline eases (Purchasing managers' index in industry, values above 50 = expansion)**




*Source Bloomberg, IFP*

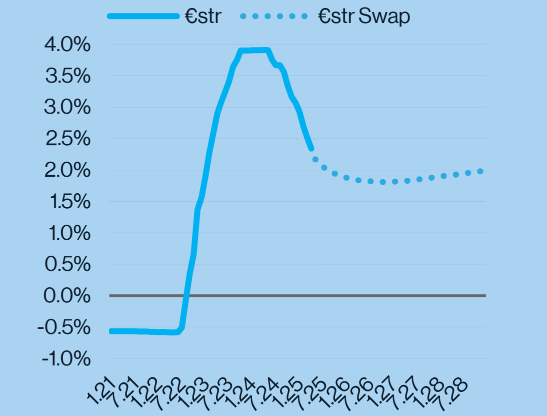
**2025 is characterized by high uncertainty, both politically and in market terms.** Trade tensions between the USA and China, the threat of tariffs on European goods by the new U.S. administration, and ongoing geopolitical risks in Europe and Asia are increasing volatility and weakening investment confidence. Businesses across Europe are reacting cautiously, delaying investment decisions and adjusting export strategies, which is reflected in weaker economic performance. On the monetary policy side, however, there are more favorable signs. The European Central Bank has begun lowering interest rates, and markets expect this cycle to end soon. The main reference rate is not expected to change significantly in the coming quarters, creating a more predictable environment for business and investment decisions. The easing of monetary policy helps improve sentiment, especially in industrial sectors, where the first signs of a turnaround are already appearing. Lower rates improve financing availability and contribute to gradually improving market conditions.

**Chart C: Political and Market Uncertainty at Record Levels (points)**




*Source: Bloomberg, Uncertainty index, IFP*

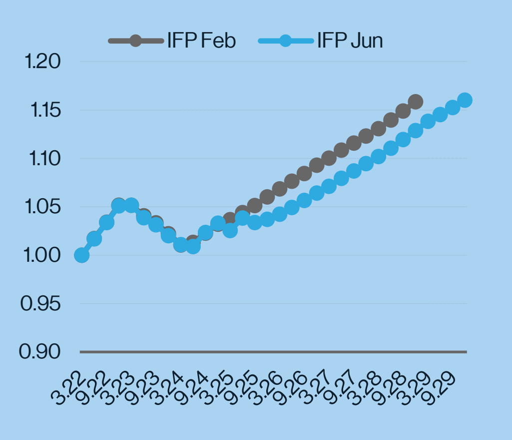
**Chart D: Easing of Monetary Policy Nearing Its End (development and forecast of the €str rate)**




*Source: Bloomberg, IFP*

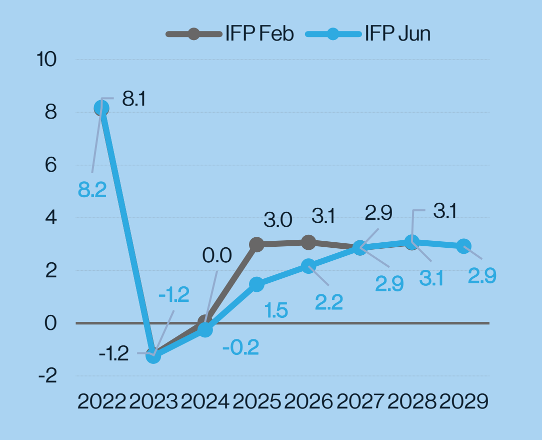
**Foreign demand in 2025 has not met initial expectations.** New tariffs and increased geopolitical uncertainty have weakened export opportunities to Slovakia's key partners, especially in the eurozone and V3 countries. Latest data shows that foreign demand in the first half of 2025 is falling short of expectations, and according to updated forecasts, growth will be much lower this year and next. While foreign demand is expected to recover slightly in the second half of the year, its level will remain lower than previously anticipated. This reduces the likelihood of a full return to pre-global trade restrictions levels next year. For the Slovak economy, this means that the economic recovery will be slower and more dependent on developments in major partner countries, especially Germany, the Czech Republic, and Poland. However, these countries are also struggling with lower external demand, reducing the chances of a significant recovery in the short term.

**Chart E: Global uncertainty slows foreign demand (weighted foreign demand index, level)**




*Source: IFP*

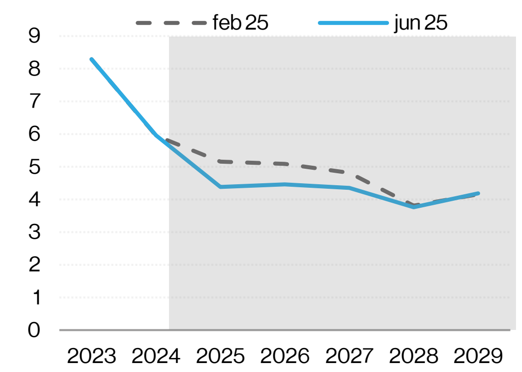
**Chart F: Recovery will arrive, but weaker (year-on-year change in the weighted foreign demand index, %)**




*Source: IFP*

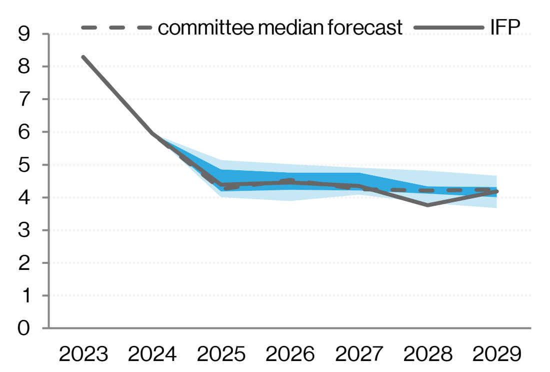
The update of the macroeconomic forecast of the Ministry of Finance of the Slovak Republic was discussed at the meeting of the Macroeconomic Forecasting Committee on June 17, 2025. **The forecast was evaluated by all voting members of the Committee** (NBS, RRZ, Infostat, Unicredit, VÚB, SLSP, TB, ČSOB) **as realistic.** The updated forecast, as well as the minutes from the Macroeconomic Forecasting Committee and supporting materials, are available on the IFP website.

**Chart 5: Development of macroeconomic fundamentals compared to the previous forecast (growth in %)**




*Source: IFP*

**Graf 6: Comparison of forecasts for weighted fundamentals[1] for budget revenues with committee members (growth in %)**




*Source: IFP*

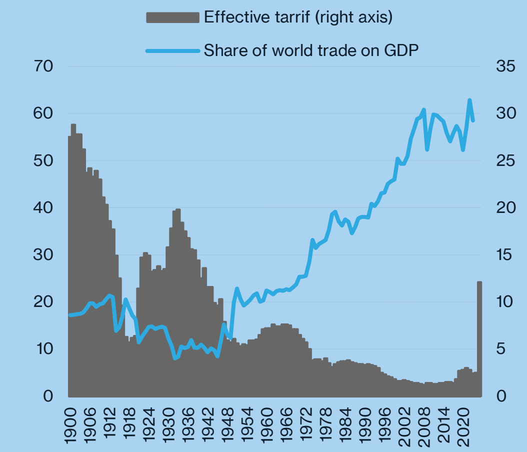
[1] Macroeconomic fundamentals for budget revenues (indicator weights depend on the share of individual taxes in total tax and social security revenues): Wage base (employment + nominal wage) - 55.9%, Nominal private consumption - 24.4%, Real private consumption - 4.2%, Nominal GDP growth - 10.6%, Real GDP growth - 4.9%.

## BOX 2: Impact of tariffs on the Slovak economy

Since April, the United States has imposed a 10% tariff on all imports and a 25% tariff on automobiles, steel, and aluminum – a significant shift in their trade policy with noticeable consequences for global trade. Despite legal challenges and a temporary suspension of some measures, the tariffs remain in place and contribute to growing uncertainty in the international environment.

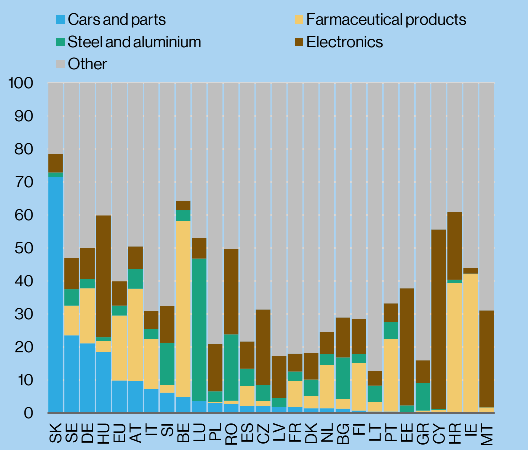
**In 2024, Slovakia exported goods worth 4.4 billion euros to the USA.** The share of the USA in total Slovak exports is approximately on par with the EU average. However, in terms of export structure, Slovakia is one of the most concentrated countries. Up to 75% of its exports to the USA consist of cars and car parts (see Chart G). In contrast, most European countries have a much more diversified export portfolio to the USA. For example, Ireland, Belgium, and Austria primarily export pharmaceutical products, while Hungary and Romania focus on electronics.

**Chart G: Trade wars are back**




*Source: IFP, Tax Foundation, World Bank, Our World in Data*

**Chart H: Automobiles dominate Slovak exports to the USA (share %, 2024)**




*Source: IFP, Eurostat*

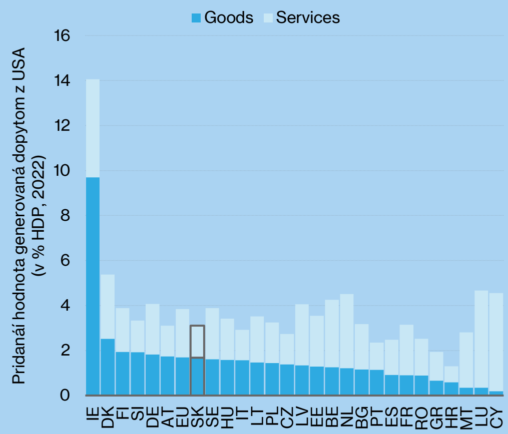
**More important than the export value itself is how much added value and jobs in Slovakia are generated by demand from the USA.** The so-called total exposure to the USA indicator shows how much of the added value in Slovakia is generated through direct exports of final products and intermediate goods to the USA. However, it also includes indirect exposure – i.e., added value created when exporting intermediate goods to third countries, which ultimately end up in the USA as final products or inputs for further production.

**Demand from the USA thus generates added value in Slovakia equivalent to 3.1% of GDP.** A significant portion of this added value comes from services (1.4% of GDP), which would likely be less affected by the trade war. The added value associated with goods, which represents about 1.6% of GDP, is at greater risk.

**U.S. demand for goods and services, both directly and indirectly, creates approximately 70,000 jobs in Slovakia, accounting for 2.9% of total employment, with a roughly equal distribution between industry and services.** Compared to the EU, Slovak employment linked to U.S. demand is more focused on industrial production. Nearly 9,000 workers in automotive manufacturing are connected to the U.S. market, and approximately 30,000 jobs are related to the overall manufacturing industry. In the services sector, employment is mainly generated in trade, but specialized services such as IT and communications also play a significant role, including shared service centers.

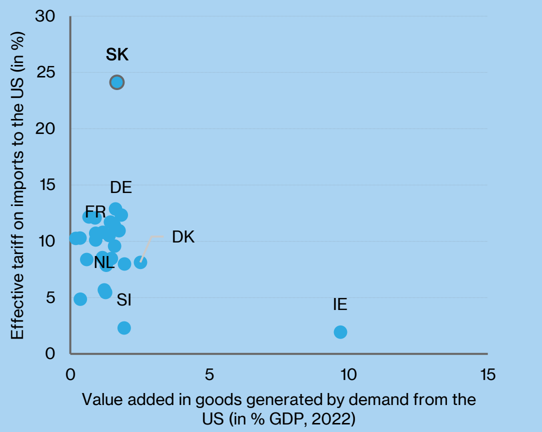
**The connection between the economies of Slovakia's main trading partners and the USA is comparable, but there are significant differences in export structure.** While Slovakia exports almost exclusively automobiles and their components to the USA, Estonia and Finland focus on electronics and information and communication technology services. Ireland and Denmark are major exporters of pharmaceuticals, which are currently exempt from tariffs. As a result of this differing export structure, Slovakia faces the highest effective tariff rate – 24,1 %[2], while Germany faces 12.3%, the Czech Republic 10.5%, and Ireland only 1.9%. The high concentration of Slovakia's exports in goods, especially cars, which are specifically targeted by tariffs, makes Slovakia the most vulnerable economy in the EU, even though the added value generated by U.S. demand is comparable to other countries (see Chart J).

**Chart I: Many countries are more dependent on U.S. demand than Slovakia — particularly due to services, which will be less affected by the tariff war**




*Source: IFP, Eurostat*

**Chart J: High concentration of automobile exports subject to high tariffs makes Slovakia the most vulnerable country in the EU**




*Source: IFP, Eurostat, Fitch*

The trade war will impact the Slovak economy primarily through four channels:

1. The direct effect will be a decrease in automotive exports to the USA.
2. A larger impact may come from the slowdown in the economies of Slovakia's main EU trading partners caused by the trade war.
3. Increased uncertainty will limit investments.
4. The potential re-escalation of U.S.-China trade relations may lead to a shift of Chinese production to European markets, creating competition for domestic production.

**The imposition of U.S. tariffs would lead to a shift in production capacities from export markets to the domestic market in the long term, altering global trade flows.** Using the global GTAP model, which is used to analyze trade policies, we simulated a scenario in which the United States unilaterally imposes a 10% tariff on all goods and a 25% tariff on automobiles and their parts. The model captures how individual economies

[2] Only two countries face higher effective tariffs than Slovakia – Bangladesh, whose goods were previously subject to a 15% tariff, and China, which faces the highest tariff rate among all countries.

would adjust to these changes over a sufficiently long period – reaching a new equilibrium when all economic actors adapt to the new conditions. The tariff is directly reflected in the prices of imported goods, which would reduce demand for them, and EU exports to the United States would decline by 12.4%. If imports to the USA decrease, domestic production would need to compensate for the reduced imports. Higher demand for domestic goods would lead to rising prices, prompting businesses to shift some production from export to domestic markets. According to the GTAP model, limited export capacities would lead to a 13.3% decline in U.S. exports to the EU and a 14.5% decline in exports to the rest of the world, even without the imposition of retaliatory tariffs, thus creating space for other countries to fill the vacant share in global markets (Table A).

Table A: In the long run, the U.S. economy would limit exports and use more of its production capacity to serve domestic demand (change in real export value in %)

| | | Export to | | | |
|---|---|---|---|---|---|
| | | EU 27 | Rest of world | USA | Total change of export |
| Export from | EU 27 | 0,2 | 0,3 | -12,4 | **-0,6** |
| | Rest of world | 1,5 | 1,5 | -13,3 | **-1,2** |
| | USA | -13,3 | -14,5 | - | **-14,3** |

*Note: The simulation is based on the GTAP model and reflects a scenario where the USA unilaterally imposes a 10% tariff on all goods and a 25% tariff on automobiles and their components from the EU and other countries. The values displayed represent the percentage change in real exports from the country listed in the row to the country in the column after the policy is implemented. In the case of EU countries and the rest of the world, exports also include changes in intra-regional trade.*

*Source: IFP according to the GTAP model*

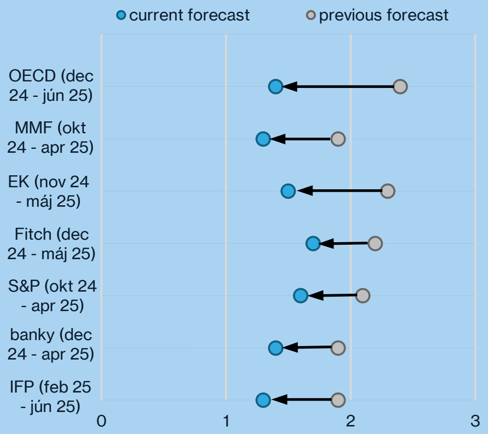
**The shift in U.S. production from export markets to domestic demand would create space for other countries to occupy the vacant positions in global markets, potentially mitigating the negative impact of tariffs.** For Slovakia, this means the need to find alternative export destinations for cars, which currently account for 75% of Slovak exports to the USA. The United States has had a significantly negative trade balance in the automotive sector for a long time – in 2024, their imports amounted to 219 billion USD, while exports totaled only 59 billion USD. This high deficit indicates that the ability of the U.S. to quickly replace imports with domestic production is limited, which could dampen the immediate price impact of tariffs on demand.

**The cumulative effect of tariffs, increased uncertainty, and the expected decline in international trade on Slovakia is estimated by international institutions to be between 0.5% and 0.8% of GDP this year.**

**The impact of U.S. tariffs is already reflected in downward revisions of macroeconomic forecasts.** Although international institutions do not directly quantify the impact of tariffs, the broad effect can be estimated from revisions to their forecasts. Tariffs are the most significant factor incorporated into the forecasts. Trade wars have no winners, and the result will be weaker economic growth globally. The latest forecast from the International Monetary Fund (IMF) revised its global economic growth expectation for this year from 3.3% to 2.8%. A significant slowdown is expected in the U.S., with the IMF predicting 0.9 percentage points lower growth than at the beginning of the year. Canada and Mexico will also significantly suffer from tariffs, and the eurozone, led by stagnating Germany, will also experience a slowdown. The IMF, European Commission, and rating agencies have revised growth forecasts for 2025 and 2026 down by 0.4 percentage points and 0.2 percentage points, respectively. None of these forecasts have yet incorporated the outcome of U.S.-China negotiations, which are expected to lead to much lower tariffs than the April developments indicated.

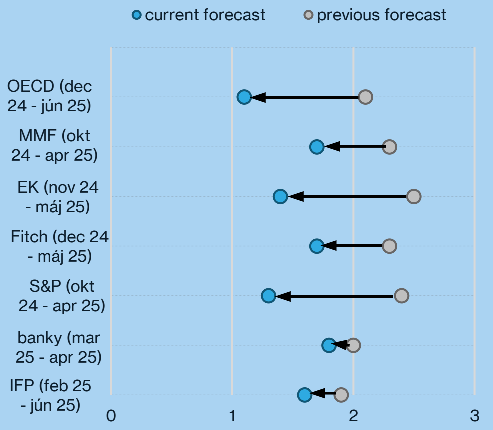
**For Slovakia, the tariff impact is more significant due to the higher exposure of the automotive industry.** International institutions, rating agencies, and domestic commercial banks have lowered growth estimates for Slovakia by 0.6 percentage points for this year and 0.7 percentage points for next year. In simple terms, this is the effect of higher tariffs – expectations of stricter trade barriers reduce the outlook for Slovak exports, particularly in the automotive sector.

**Chart 13: Forecasters reduce growth estimates for 2025... (GDP growth forecast in %)**




*Source: IFP*

**Chart 14: ...and for 2026 (GDP growth forecast in %)**




*Source: IFP*

## MF SR Forecast - Main Economic Indicators (June 2025)

| Indicator ( % growth unless otherwise stated) | 2024 | Forecast | | | | | Difference compared to Feb 2025 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2025 | 2026 | 2027 | 2028 | 2029 | 2025 | 2026 | 2027 | 2028 | 2029 |
| **Gross Domestic Product** | | | | | | | | | | | |
| GDP, SA | 2,1 | 1,3 | 1,6 | 1,3 | 1,8 | 2,4 | -0,6 | -0,3 | -0,2 | -0,1 | -0,1 |
| GDP, base prices (bn €) | 131,0 | 137,0 | 144,0 | 150,0 | 156,3 | 163,7 | 0,3 | -0,1 | -0,9 | -1,0 | -1,2 |
| GDP, base prices (growth) | 5,8 | 4,6 | 5,1 | 4,1 | 4,2 | 4,7 | -0,5 | -0,3 | -0,6 | -0,1 | -0,1 |
| Private consumption, SA | 2,9 | 0,7 | 1,3 | 1,9 | 1,5 | 1,8 | -0,9 | -0,5 | -0,1 | -0,1 | -0,1 |
| Private consumption, base prices | 6,5 | 4,6 | 4,4 | 4,7 | 3,9 | 4,2 | -1,0 | -0,9 | -0,7 | 0,1 | 0,0 |
| Government consumption | 3,7 | 0,7 | 1,3 | 0,1 | -0,2 | 0,9 | -0,6 | 0,1 | -0,4 | 0,4 | -0,2 |
| Fixed investments | 1,8 | 4,6 | 1,2 | -4,6 | 1,4 | 5,4 | -4,3 | 1,5 | 1,3 | 0,0 | 0,0 |
| Export of goods and services | 0,3 | 2,0 | 1,5 | 4,1 | 3,3 | 2,8 | 0,9 | -1,2 | 0,2 | -0,7 | -0,4 |
| Import of goods and services | 2,3 | 3,5 | 1,1 | 3,2 | 2,9 | 3,0 | 0,4 | -3,3 | -0,5 | -0,1 | 0,0 |
| **Labor Market** | | | | | | | | | | | |
| Employment (statistical reporting) | -0,2 | -0,2 | 0,0 | -0,1 | -0,2 | -0,1 | 0,0 | -0,3 | -0,2 | -0,2 | 0,0 |
| Nominal Wages | 6,6 | 5,0 | 4,9 | 4,8 | 4,2 | 4,5 | -1,9 | -0,4 | -0,5 | -0,9 | 0,3 |
| Real Wages | 3,7 | 1,1 | 1,4 | 1,7 | 2,0 | 2,4 | -2,9 | -0,1 | -0,1 | 0,3 | 0,3 |
| Unemployment rate | 5,3 | 5,4 | 5,5 | 5,5 | 5,4 | 5,3 | 0,1 | 0,2 | 0,3 | 0,2 | 0,1 |
| **Inflation** | | | | | | | | | | | |
| CPI | 2,8 | 3,9 | 3,4 | 3,1 | 2,1 | 2,1 | 1,1 | -0,3 | -0,4 | -1,2 | 0,0 |

*Source: ŠÚ SR, IFP*

## Plan for the implementation of expenditures from the EU Recovery Plan (in mil. Eur., excluding VAT, ESA2010)

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| **Total Recovery and Resilience Plan** | **43** | **255** | **796** | **2 495** | **2 571** | **213** |
| Government Investments | 1 | 70 | 491 | 1 681 | 1 737 | 212 |
| Government Compensations | 23 | 34 | 51 | 128 | 88 | 0 |
| Government Intermediate Consumption | 13 | 24 | 43 | 201 | 308 | 0 |
| In-kind Social Transfers | 2 | 1 | 3 | 7 | 6 | 0 |
| Social Transfers | 4 | 9 | 13 | 14 | 24 | 0 |
| Company Compensations | 0 | 1 | 2 | 12 | 17 | 0 |
| Company Intermediate Consumption | 0 | 1 | 2 | 10 | 12 | 0 |
| GFCF companies | 0 | 8 | 85 | 322 | 241 | 0 |
| GFCF households | 0 | 106 | 106 | 120 | 137 | 0 |

*Source: IFP*