Headwinds in the Economy Are Strengthening

Macroeconomic Forecast for 2025–2029

Institue of Financial Policy
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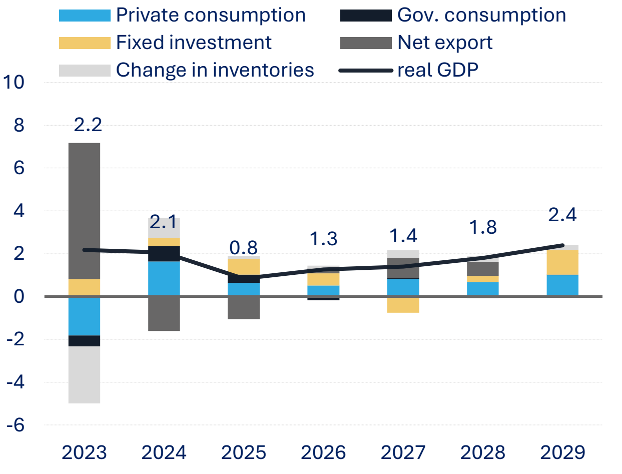
The Slovak economy will decelerate against the backdrop of high uncertainty in global trade. GDP will increase by 0.8%, dragged down by weaker net exports. Domestic demand, however, will strengthen. Household consumption will be supported by a substantial increase in wages, which, even after accounting for higher prices, will rise by 2.3%. Gross capital formation will benefit from investments financed through Slovakia's Recovery and Resilience Plan (RRP), though global trade uncertainty will weigh on investment activity. In 2026, GDP is expected to grow by 1.3% as RRP resources peak. Employment will stagnate and the amount of available labor will gradually diminish. Labor demand will cool slightly, yet the labor market will remain stable. Exports will remain subdued, recovering only with the launch of Volvo's production in 2027. Toward the end of the forecast horizon, the economy will be supported by the absorption of EU funds; however, adverse demographics will deprive the economy of stronger growth impulses. Risks to the forecast include the uncertain evolution of global trade and the potential underutilization of RRP resources.

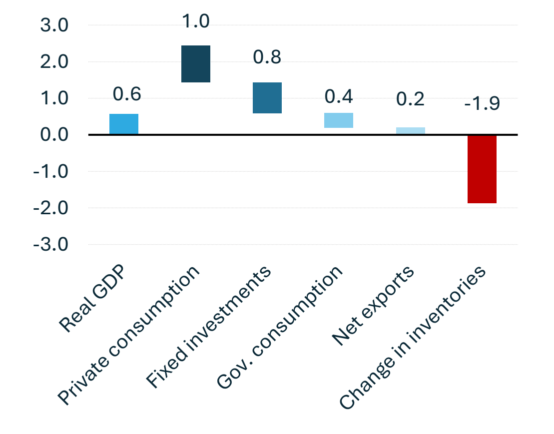
Next year, the Slovak economy is projected to grow by 0.8%. Higher tariffs introduced by the United States will slow economic growth among Slovakia's trading partners. Lower demand for Slovak products in EU countries, combined with reduced car exports to the US, will result in weaker export dynamics, especially in the second half of the year. Public investments financed by the RRP, as well as private investments boosted by the decline in policy uncertainty at the end of the second quarter, will support economic activity. Household consumption will remain stable despite fiscal consolidation, underpinned by strong wage growth in both the private and public sectors. Government expenditures will also rise due to purchases of military equipment, though these imports will not contribute to GDP growth.

Chart 1: The Slovak economy is decelerating mainly due to weaker foreign demand (contributions of components to GDP growth, constant prices, pp).



Source: ŠÚ SR, IFP

Chart 2: Domestic demand remains strong despite weaker economic performance (y-o-y growth in Q2 2025 and contributions to growth by components, % and pp).



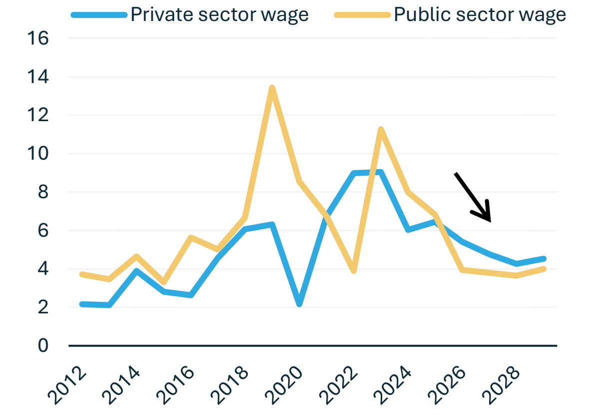
Source: ŠÚ SR, IFP

We expect a recovery in foreign demand in 2026, with Slovakia's GDP rising by 1.3%. While foreign demand will begin to rebound from the tariff dispute, Slovak exports—dominated by the automotive industry—will slightly lag behind. The economy will absorb most of the funds from the Recovery and Resilience Plan (RRP), which will support investment. Continued fiscal consolidation will dampen household consumption and force households to draw on savings.

In 2027, the economy will be supported by exports from the Volvo carmaker. According to the latest information, Volvo's first exports have been postponed from the second half of 2026 to 2027. Investments in 2027 will decline due to the conclusion of the RRP. However, part of economic activity is expected to spill over into 2027 and 2028, when hospital construction projects will be completed. Throughout the entire forecast horizon, the economy will struggle with adverse demographic trends. The decline in the working-age population will gradually translate into a slight decrease in employment. In addition, fiscal consolidation will weigh on the economy. The end of the programming period in 2029 will lead to a renewed increase in investment.

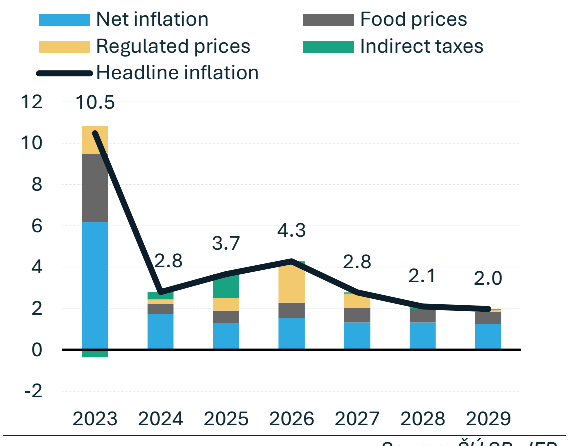
Compared with the June forecast, uncertainty regarding U.S. trade policy has decreased, yet downside risks continue to outweigh upside risks. In addition to geopolitical factors, insufficient absorption of the RRP remains a major risk. This would result in weaker investment activity and a more pronounced decline in employment than assumed in the forecast. On the upside, additional defense spending and a fiscal stimulus in Germany could provide support. However, the latter would only indirectly benefit the Slovak economy over a longer horizon.

Chart 3: Public sector wages will grow more slowly than private sector wages due to fiscal consolidation (%)



Source: ŠÚ SR, IFP

Chart 4: Inflation will be influenced by regulated prices (contributions to inflation, %)



Source: ŠÚ SR, IFP

Employment will stagnate in 2025 and 2026. Adverse demographics are eroding the available labor force, which goes hand in hand with weaker economic growth. Although in the second quarter of 2025 employment recorded the strongest increase in three years, this merely compensated for the losses of the previous year. A positive factor is the decline in the number of early retirements to pre-2023 levels. On the other hand, the consolidation package will reduce the number of self-employed, marking the sharpest decline since 2020. Due to lower labor demand, unemployment will rise slightly to 5.6% in 2026.

In the coming years, the labor market will face constraints on the supply side. Fewer available workers will imply lower potential growth for the Slovak economy. Although labor demand will cool somewhat, it will remain elevated and continue to put upward pressure on wages. Tensions in the labor market will be partially alleviated by the inflow of foreign workers, whose numbers reached 130,000 in July. Due to the persistent presence of long-term unemployed, the unemployment rate will not fall below 5.5% over the forecast horizon.

Wages will maintain their growth momentum above 6% in 2025. Developments in the second quarter significantly exceeded both our expectations and those of the market. Nominal wages rose by 8.8%, the fastest pace since early last year. This acceleration was driven by bonuses in the public sector as well as the steepest increase in the minimum wage since 2020. In the years ahead, wage developments will be shaped by a combination of opposing factors. Labor shortages will continue to push wages upward, while government austerity measures will work in the opposite direction. Wages will grow more slowly, reflecting weaker price and productivity growth. In the public sector, wage adjustments will be constrained by fiscal measures, while the private sector will raise wages more dynamically. Higher energy prices will fuel inflation, which in turn will dampen real wage growth to below 1% next year. In the following years, the pace of real income growth will hover close to its long-term average of below 2%.

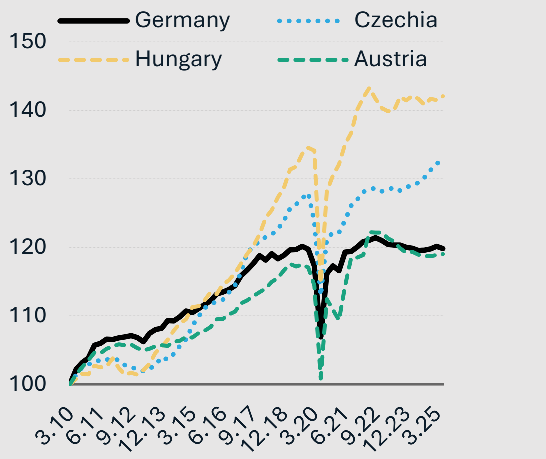
Inflation will accelerate to 4.1% in 2025. The increase in prices has been driven mainly by the January VAT hike. Tariff increases tend to dampen price growth, but only to a very limited extent. Energy subsidies are also exerting downward pressure on inflation. The strongest price dynamics are observed in services, partly reflecting faster wage growth.

In 2026, prices are expected to rise by 4.4% due to the return of energy prices to market levels. This estimate is based on the technical assumption of introducing targeting into energy assistance. We assume that compensation for heating costs could be provided in the form of energy vouchers, which would allow heating prices to rise to market levels next year. Electricity and gas prices, according to our technical assumption, could be subsidized based on household income. We expect energy prices to return to market levels in the next two years, followed by a decline toward the end of the medium-term horizon, in line with futures developments. Gas prices will also be influenced by the introduction of the ETS2 quota trading system. We forecast that food and tradable goods prices will subsequently return to their pre-pandemic average growth rates. Service prices will increase more rapidly, but overall price growth in the medium term will be subdued by fiscal consolidation.

Box 1: Assumptions for the External Environment

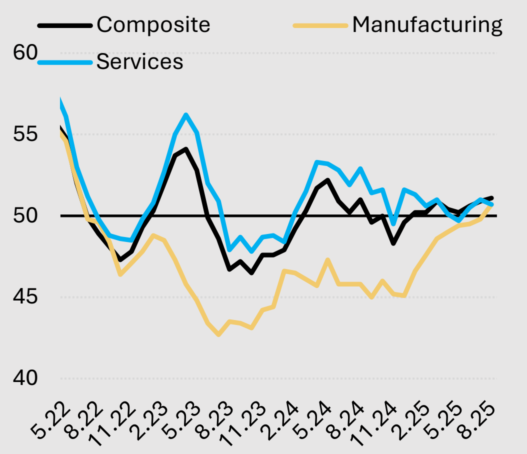
Muted developments among our main foreign partners continue. Both the German and Austrian economies have failed to grow for three consecutive years. Compared with their 2022 peaks, the German economy has contracted by roughly 1%, while the Austrian economy has shrunk by as much as 2.6%. Hungary is in a similar position, with output also down by 1% relative to 2022. Despite this, the euro area has managed to maintain a solid average annual growth rate of around 1% over the past two years. This performance has so far not been undermined by the sharp increase in protectionist measures introduced by the United States. Positive dynamics are, however, evident among some of our close partners outside the monetary union. Czech households managed to revive consumption, previously hit by the inflation shock, early this year, with annual GDP growth returning to 2%. Poland, in turn, is benefitting from robust investment activity and increased government spending.

Chart A: Stagnation among some partners continues (real GDP, level, indexed, 100 = Q1 2010)



Source: Macrobond, IFP

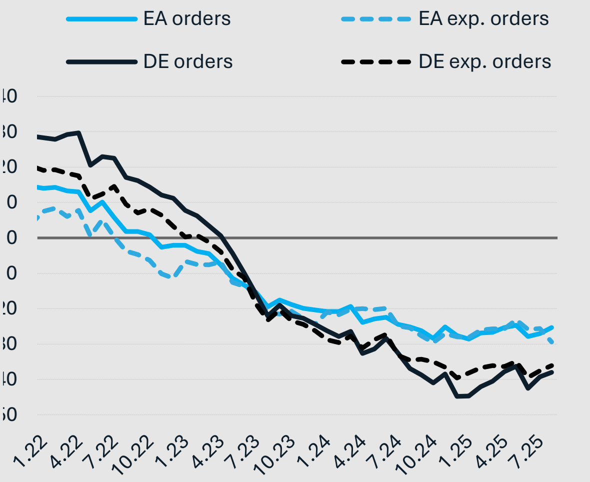
Chart B: Euro area industry records growth for the first time in three years (Euro area PMI, index, values above 50 = expansion)



Source: Macrobond, IFP

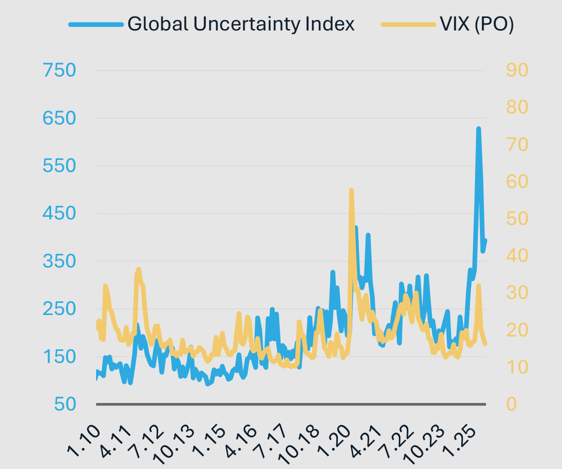
Industry is sending positive signals. The manufacturing Purchasing Managers' Index (PMI) in the euro area—as well as in Germany and France—has been rising since the beginning of the year. In August, it even surpassed the 50-point threshold for the first time in three years, signaling mild expansion of the sector. This improvement reflects more optimistic expectations of managers regarding future developments as well as a rebound in new orders. However, these trends are not yet confirmed by a similar survey of the European Commission. Improvements are also visible in the global manufacturing index. All of this is occurring despite persistent uncertainty stemming from the recurrent escalation and de-escalation of U.S.-driven trade wars. The new trade agreement between the EU and the U.S. significantly eases tensions, yet the effective tariff rate for all EU countries will rise markedly.

Chart C: Industrial orders remain weak (industrial sentiment indicator, index)



Source: EK, IFP

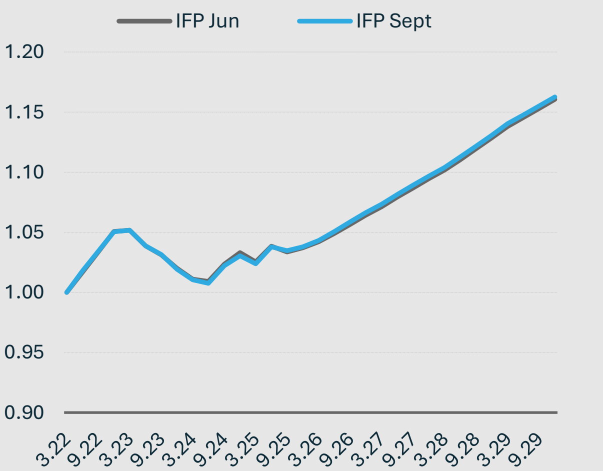
Chart D: Global uncertainty has eased but remains elevated (global uncertainty and market volatility index, points)



Source: World Uncertainty Index, Bloomberg, IFP

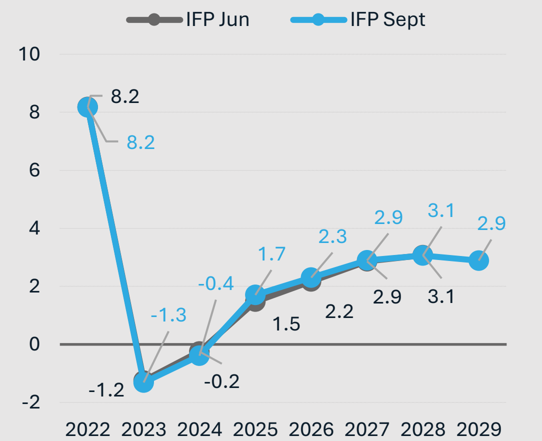
The external environment forecast has changed only marginally since June. Foreign demand has evolved broadly in line with expectations in recent months. Stabilization of trade relations will reduce uncertainty and help exporters adapt to the new reality of international trade and carry out investment plans. A gradual recovery in foreign demand in the coming years will also be supported by already highly accommodative monetary policy. Risks to the forecast remain elevated uncertainty regarding future developments and geopolitical risks. The expected fiscal stimulus in Germany—depending on its composition—has the potential to positively affect dynamics in the external environment, while political instability in France could act as a headwind to recovery.

Chart E: Foreign demand will recover only gradually (weighted foreign demand index)



Source: IFP

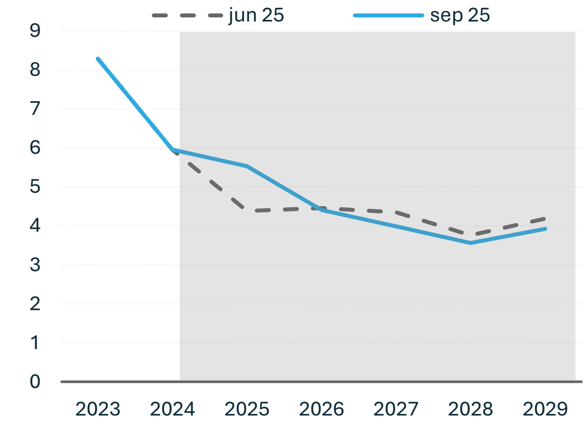
Chart F: Elevated uncertainty threatens foreign demand developments (y-o-y change in weighted foreign demand, %)



Source: IFP

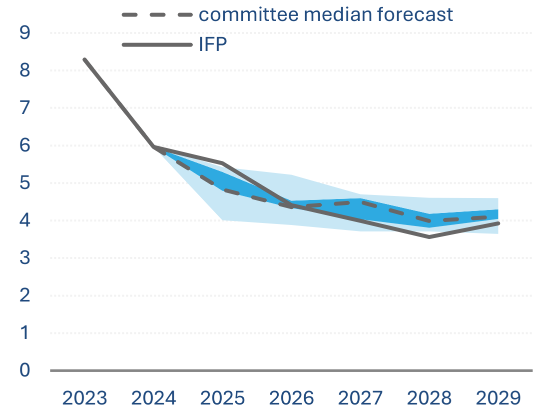
The update of the Ministry of Finance's macroeconomic forecast was discussed at the Macroeconomic Forecast Committee on 3 September 2025. **The forecast was assessed as realistic by a majority of Committee members** (NBS, RRZ, Infostat, Unicredit, VÚB, SLSP, TB, SAV), **while ČSOB considered it optimistic.** The forecast update, together with the Committee minutes and background materials, is available on the IFP website.

Chart 5: Development of macroeconomic bases compared with the previous forecast (growth in %)



Source: IFP

Chart 6: Comparison of weighted bases[1] for budget revenues with Committee members (growth in %)



Source: IFP

[1] Macroeconomic bases for budget revenues (weights of indicators reflect the share of individual taxes in total tax and contribution 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%

MF SR Forecast - Main Economic Indicators (September 2025)

Indicator (% growth unless otherwise stated)	2024	Forecast 2025	2026	2027	2028	2029	Difference compared to June 2025: 2025	2026	2027	2028	2029
GDP											
GDP, real	2.1	0.8	1.3	1.4	1.8	2.4	-0.5	-0.3	0.1	0.0	0.0
GDP, nominal (bn €)	131.0	137.2	144.2	149.9	155.9	162.9	0.2	0.2	-0.1	-0.4	-0.8
GDP, nominal (growth)	5.8	4.7	5.1	4.0	4.0	4.5	0.1	0.0	-0.1	-0.2	-0.2
Private consumption, real	2.9	1.1	0.9	1.4	1.2	1.8	0.4	-0.4	-0.5	-0.3	0.0
Private consumption, nominal	6.5	5.4	4.6	4.1	3.5	3.8	0.8	0.2	-0.6	-0.4	-0.4
Gov. consumption	3.7	1.9	-0.8	0.2	-0.4	0.2	1.2	-2.1	0.1	-0.2	-0.7
Fixed investments	1.8	3.4	2.7	-3.5	1.4	5.6	-1.2	1.5	1.1	0.0	0.2
Export of goods and services	0.3	2.8	1.0	4.6	3.4	2.9	0.8	-0.5	0.5	0.1	0.1
Import of goods and services	2.3	4.2	0.7	3.6	2.7	3.1	0.7	-0.4	0.4	-0.2	0.1
Labor Market											
Employment (statistical reporting)	-0.2	0.0	-0.2	-0.2	-0.2	-0.2	0.2	-0.2	-0.1	0.0	-0.1
Nominal Wages	6.6	6.5	5.0	4.5	4.1	4.4	1.5	0.1	-0.3	-0.1	-0.1
Real Wages	3.7	2.3	0.6	1.5	1.8	2.2	1.2	-0.8	-0.2	-0.2	-0.2
Unemployment rate	5.3	5.4	5.6	5.6	5.5	5.5	0.0	0.1	0.1	0.1	0.2
Inflation											
CPI	2.8	4.1	4.4	3.0	2.2	2.1	0.2	1.0	-0.1	0.1	0.0

Source: ŠÚ SR, IFP

Recovery and Resilience Plan funds absorption (million EUR, w/o VAT, ESA2010)

	2022	2023	2024	2025	2026	2027	2028
Recovery and Resilience Plan	**47**	**299**	**825**	**2 273**	**2 573**	**200**	**186**
Public Investments	1	78	506	1 480	1 707	200	186
Public Compensations	25	38	52	116	101	0	0
Public Intermediate Consumption	14	27	44	228	282	0	0
Social Transfers in Kind	2	2	4	7	6	0	0
Social Transfers	4	9	14	14	24	0	0
Private Compensations	0	1	2	16	13	0	0
Private Intermediate Consumption	1	1	2	12	9	0	0
Private Investments	0	26	92	260	314	0	0
Household Investments	0	118	110	140	117	0	0

Source: IFP