Economy Running at Half Speed

Macroeconomic forecast for 2025 - 2030

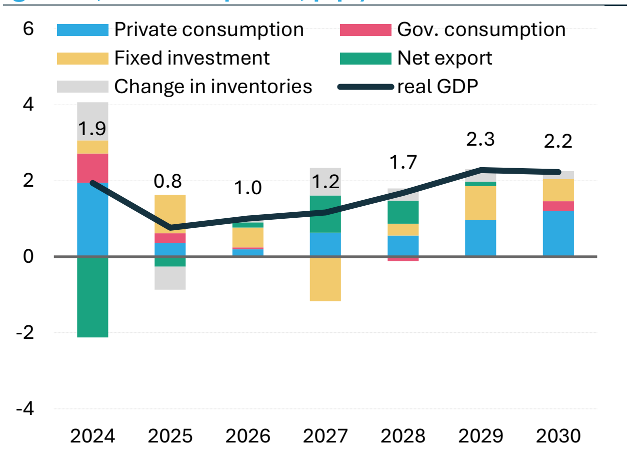
Institute of financial policy
Commentary 2026/2

IFP Collective

The Slovak economy is expected to grow only cautiously amid an environment of global trade barriers. GDP will increase by 1% in 2026, driven primarily by investments financed through the final phase of Slovakia's Recovery and Resilience Plan (RRP). Labour market tightness will ease and the total number of employees in the economy will decline slightly. However, real wages will rise thanks to higher productivity, gradually supporting an increase in household consumption. In 2027, the launch of production at the new Volvo automobile plant will strengthen exports, and GDP, after accounting for fiscal consolidation, will grow by 1.2%. Adverse demographic trends will constrain employment throughout the forecast horizon, while the final years will benefit from the absorption of remaining EU funds. Risks to the forecast are more balanced. A key challenge remains the timely absorption of RRP resources, while a positive surprise could stem from spillovers of Germany's fiscal stimulus into the Slovak economy.

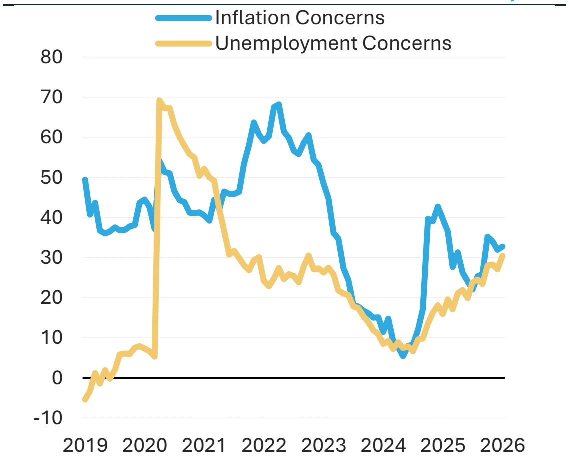
We estimate that the Slovak economy grew by 0.8% in 2025. Domestic demand expanded more strongly, but this was realized mainly through inventories and therefore did not translate into higher GDP creation. In the first half of the year, economic activity was dampened primarily by uncertainty related to rising U.S. tariffs and weaker growth among Slovakia's main trading partners. Private investment slowed, and export growth began to lose momentum from April onward. Toward the end of the year, households' concerns about unemployment and inflation were reflected in real retail sales, which lagged behind 2024 levels in both November and December. The economy was supported by RRP-related spending, which will, however, peak only in 2026.

Figure 1: The Slovak economy will gradually accelerate (contributions of components to GDP growth, constant prices, p.p.)



Source: ŠÚ SR, IFP

Figure 2: Consumption is dampened by weaker household confidence (balance statistics from the confidence barometer)



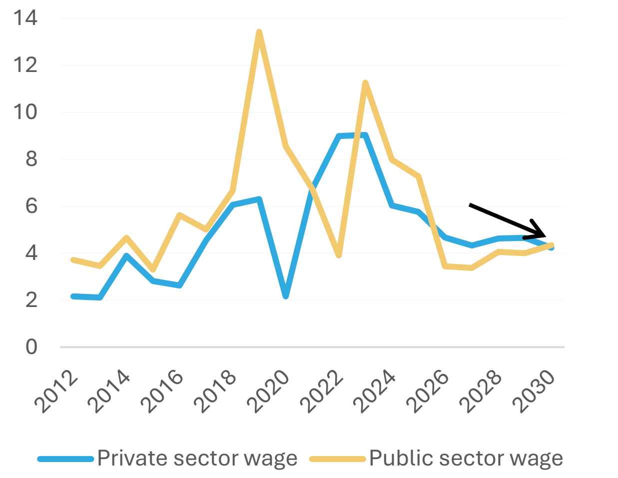
Source: ŠÚSR, IFP

In 2026, GDP will grow by 1.0%, once again supported solely by domestic demand. The main driver of activity will be RRP-funded investment. We expect that €2.3 billion will be absorbed this year, with approximately €700 million shifting into subsequent years during the continued construction of hospitals. Household consumption will remain subdued, as fiscal consolidation will also affect disposable income. Households are expected to act more cautiously, leading to a rise in savings. Although energy price increases will put downward pressure on real wages, this effect will be partially offset by energy compensation schemes. Net exports will recover only gradually and will not provide meaningful support to growth. Part of government consumption will consist of purchases of military equipment sourced from abroad, which will therefore not contribute significantly to domestic GDP.

In 2027, the economy will be supported by exports from the new Volvo automobile plant and, later on, by EU funds once again. The new facility will help Slovakia regain market shares lost since the outbreak of the COVID-19 pandemic. Nevertheless, the automotive industry will remain under pressure from Chinese competition. An unfavourable demographic outlook will continue to manifest itself in declining employment. Fiscal consolidation will reduce the general government deficit below 3% of GDP in 2028, which will have a dampening effect on economic activity. Toward the end of the forecast horizon, however, the economy will benefit from increased absorption of EU funds, as two programming periods will overlap. The fifth programming period will begin in 2029, while the fourth will peak in 2030.

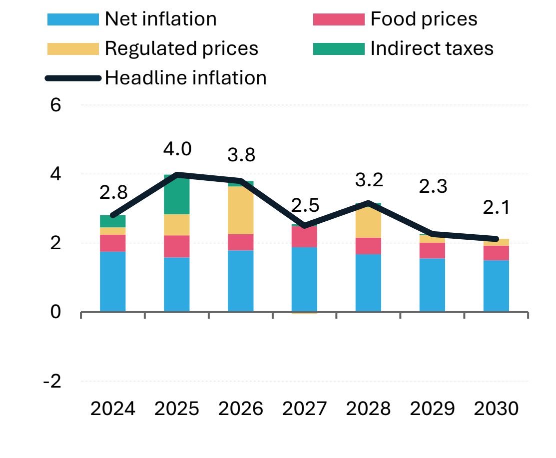
Risks to the forecast are more balanced. In addition to geopolitical factors, a key downside risk remains lower-than-expected absorption of RRP funds. This would translate into weaker investment activity and a more pronounced decline in employment than assumed in the baseline scenario. On the upside, higher defence investment, provided that production takes place domestically, could stimulate the economy. Slovakia could also benefit from fiscal stimulus in Germany. Slovak exports may further gain support from EU trade agreements with India and MERCOSUR.

Figure 3: Public sector wages will grow slower than private sector's due to fiscal consolidation (%)



Source: ŠÚ SR, IFP

Figure 4: Inflation influenced by regulated prices (contributions of components to inflation, %)



Source: ŠÚ SR, IFP

The labour market will cool, with employment expected to decline by 0.4% in 2026. While the number of employees (ESA definition) did not fall in 2025, the number of self-employed declined last year, excluding the pandemic period, the most since 2014, accounting for the entire employment decrease in 2025. Fiscal consolidation will continue to dampen self-employment activity in 2026, while slower GDP growth will also reduce the number of employees. This decline will be mitigated by the stabilisation of early retirement outflows and the continued strong inflow of foreign workers into the Slovak labour market. Mass layoffs are primarily reflected in a rising number of unemployed, despite record levels of job vacancies and foreign employment. Over the course of this year, we expect the unemployment rate to return to its level of three years ago, reaching 5.8%.

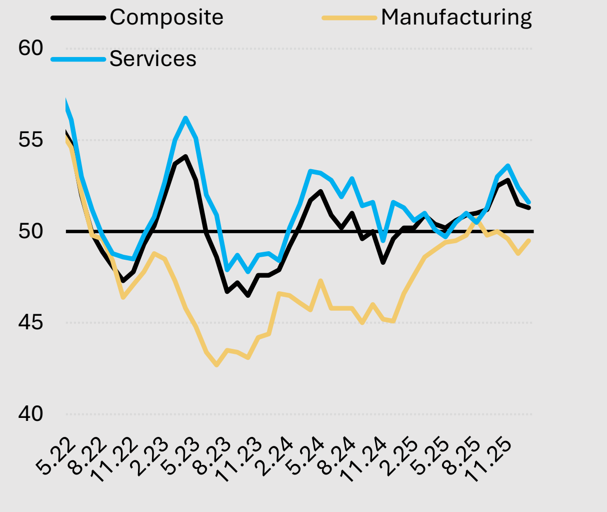
Structural changes are underway in the labour market. In addition to demographic decline, long-standing structural issues persist, including mismatches between labour demand and supply across both regions and skill levels. The shrinking economically active population will continue to be offset by foreign labour inflows as well as gradually increasing participation among the domestic population. EU funds will have a pro-growth impact on the labour market by replacing resources from the Recovery and Resilience Plan as they phase out. By the end of the forecast horizon, the unemployment rate is expected to decline to around 5.4%.

Wage growth will slow to 4.4% this year, mainly due to weaker wage dynamics in the public sector. Modest economic growth and easing labour market tightness will reduce employees' bargaining power. Wage negotiations in the public sector reflect the need for fiscal consolidation, though this will be partially offset by significant wage indexation in education and healthcare. The private sector will therefore increase wages faster than the public sector throughout the forecast period. Persistently elevated inflation will temporarily push real wage growth below labour productivity growth this year. In subsequent years, real earnings growth is expected to move close to its long-term average of around 2%.

Inflation will moderate slightly to 3.8% in 2026. Disinflation will be driven mainly by the fading effect of the 2025 VAT increase, while the termination of heat price subsidies and their return to market levels will act in the opposite direction. Electricity and gas prices will remain subsidised for 90% of households. For the first time in a prolonged period, energy prices will grow faster than service prices, which will decelerate largely due to the fading VAT impact. Prices of goods and food will increase only moderately.

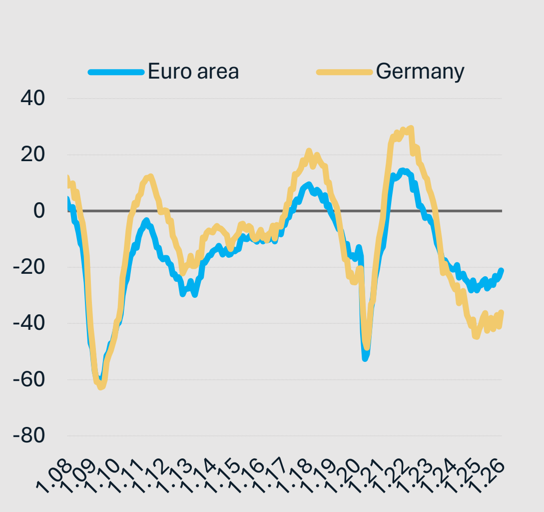
In 2027, prices will rise by just 2.5%, and over the longer-term inflation will remain close to 2%. We assume that the targeted energy-support mechanism will remain in place next year. Electricity and gas prices will remain unchanged for 90% of households, while prices for the remaining 10%, and heat prices for all households, will decline. In 2028, we expect subsidised energy prices to return to market levels, followed by a decline in line with futures prices. Gas and fuel prices will also be affected by the introduction of the ETS2 emissions trading system, postponed to 2028. We project that food and tradable goods prices will gradually return to growth rates typical of the pre-pandemic period. Services prices will increase more rapidly, but overall price growth in the medium term will be dampened by fiscal consolidation.

Figure A: Euro area industry is finding its bottom (Euro area Manufacturing PMI, index points; value above 50 = expansion)



Source: Macrobond, IFP

Figure B: Industrial orders remain weak (Industrial Economic Sentiment Indicator, index points)



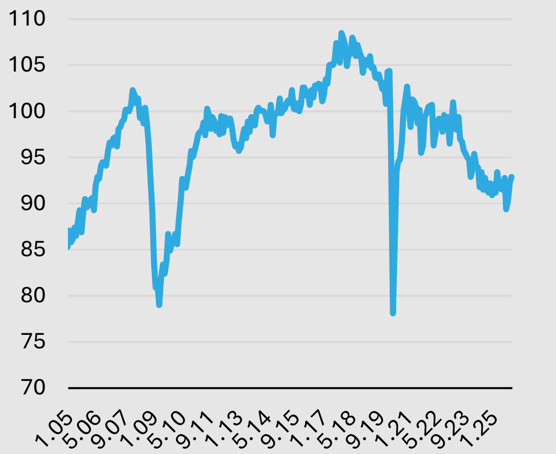
Source: Macrobond, IFP

Box 1: External Environment Assumptions

The year 2025 was marked by high instability in the external environment. The economies of Slovakia's main trading partners, as well as Slovakia itself, faced significant shocks, particularly in the form of protectionist measures introduced by the United States. Nevertheless, many economies surprised with their resilience. The euro area economy accelerated to 1.5% growth last year, up from 0.9% in the previous year. This was supported by stabilisation in Germany, which recorded modest growth of 0.2% after two years of GDP decline. A similar development was observed in Austria, where growth likely accelerated even more strongly. Within the V4 region, the Czech Republic performed well, with economic growth roughly doubling last year and likely exceeding 2%, while the Polish economy expanded by as much as 3.6%. By contrast, Hungary's economy slowed to 0.4% under the weight of weaker investment activity.

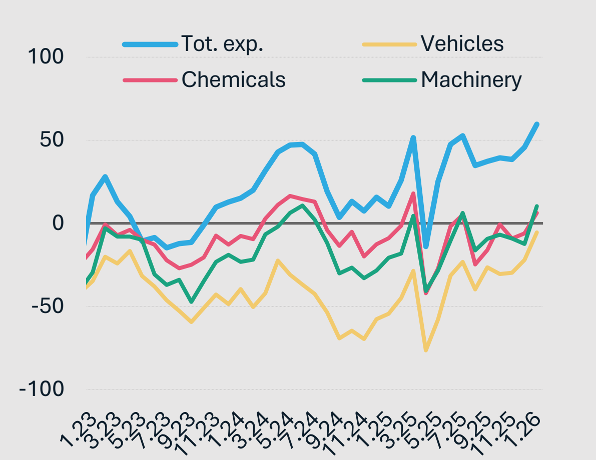
Industry is searching for its bottom. The euro area manufacturing PMI has remained in contraction territory since mid-2022, with only brief interruptions in August and October of last year. Orders in both the euro area and Germany remain historically low, comparable to levels observed during previous recessions. Industrial production in Germany declined by approximately 1% year-on-year last year and remains nearly 12% below its 2019 level. However, expectations for both the broader economy and industrial sectors improved over the course of the year. A key source of optimism is Germany's fiscal package. Higher government spending on infrastructure and defence is expected to support domestic as well as foreign industrial output in the coming years and help reignite German economic growth.

Figure C: Industrial production in Germany continues lagging (Industrial Production Index, constant prices, SA)



Source: Macrobond, IFP

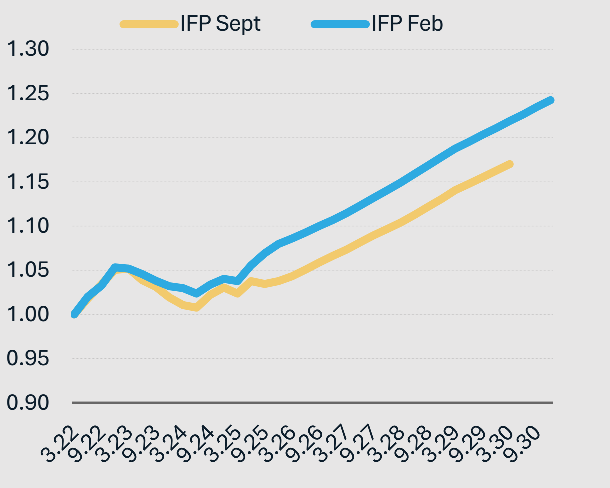
Figure D: Expectations in German industry are nevertheless improving (ZEW Index, expect. next 6 months, balance of responses)



Source: Macrobond, IFP

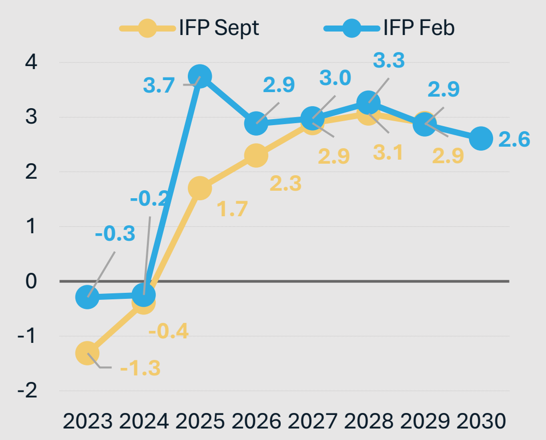
Foreign demand unexpectedly increased last year. This may, however, have partly reflected front-loading of orders ahead of higher trade barriers. Despite elevated uncertainty, euro area countries temporarily increased demand for foreign goods, which lifted Slovakia's external demand by 3.7%. Accommodative monetary policy, the need to build defence capacities, and spending under the Recovery and Resilience Plan stimulated gross fixed capital formation in neighbouring countries, contributing to higher imports. Slightly more moderate growth, close to 3%, is expected to continue in the coming years. This outlook should be supported by the delayed recovery of Germany, Austria, and Hungary, together with stabilising economic growth among Slovakia's other trading partners.

Figure E: Foreign demand positively surprised last year...
(weighted foreign demand index)



Source: IFP

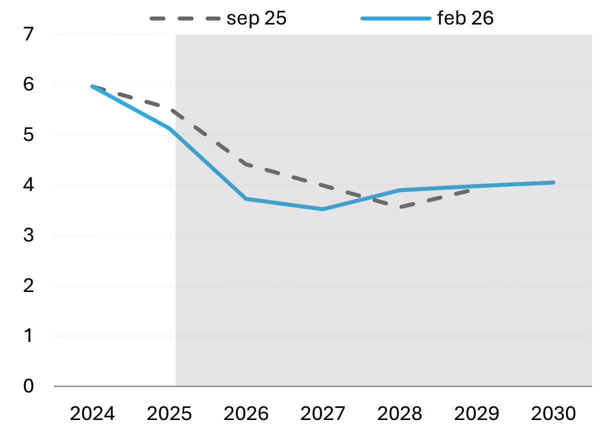
Figure F: ...forecast was also significantly affected by statistical data revisions (y-o-y change in weighted foreign demand, %)



Source: IFP

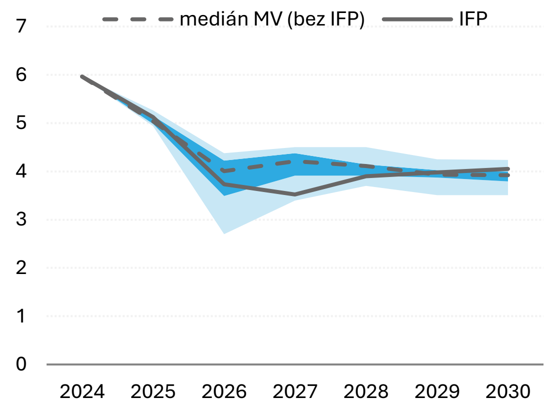
The update of the Ministry of Finance's macroeconomic forecast was discussed at the Macroeconomic Forecast Committee on 3 February 2026. **The forecast was assessed as realistic by all of the Committee members**. The forecast update, together with the Committee minutes and background materials, is available on the IFP website.

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



Source: IFP

Figure 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 (Feb. 2026)

Indicator (% growth unless otherwise stated)		**Forecast**						**Diff. compared to Sep 2025**				
	2024	2025	2026	2027	2028	2029	2030	2025	2026	2027	2028	2029
GDP												
GDP. real	1.9	0.8	1.0	1.2	1.7	2.3	2.2	0.0	-0.3	-0.2	-0.1	-0.2
GDP. nominal (bn €)	130.2	136.6	143.1	148.3	154.5	161.5	168.8	-0.6	-1.1	-1.6	-1.4	5.9
GDP. nominal (growth)	5.4	4.9	4.8	3.6	4.2	4.5	4.5	0.2	-0.3	-0.4	0.2	0.0
Private consumption. real	3.5	0.7	0.3	1.1	1.0	1.7	2.2	-0.4	-0.6	-0.3	-0.2	0.4
Private consumption. nominal	6.6	4.7	3.8	3.6	3.9	4.0	4.3	-0.7	-0.8	-0.5	0.4	0.5
Gov. consumption	4.0	1.3	0.3	0.0	-0.6	-0.1	1.4	-0.6	1.1	-0.2	-0.2	1.2
Fixed investments	1.6	4.9	2.4	-5.3	1.5	4.3	2.8	1.5	-0.3	-1.8	0.1	-2.8
Export of goods and services	0.0	3.0	1.3	4.8	3.3	2.9	2.6	0.2	0.3	0.2	-0.1	-0.3
Import of goods and services	2.6	3.4	1.2	3.8	2.8	2.9	2.7	-0.8	0.5	0.2	0.1	-0.4
Labour Market												
Employment (statistical reporting)	-0.2	-0.1	-0.4	-0.1	-0.2	-0.2	-0.1	-0.1	-0.2	0.1	0.0	0.1
Nominal Wages	6.6	6.2	4.4	4.0	4.5	4.4	4.3	-0.3	-0.6	-0.5	0.4	-0.1
Real Wages	3.7	2.1	0.6	1.5	1.2	2.1	2.2	-0.2	0.0	0.0	-0.6	0.0
Unemployment rate	5.3	5.4	5.8	5.8	5.6	5.5	5.4	0.0	0.2	0.2	0.1	-0.1
Inflation												
CPI	2.8	4.0	3.8	2.5	3.2	2.3	2.1	-0.1	-0.6	-0.5	1.0	0.0

Source: ŠÚ SR. IFP

	2022	2023	2024	2025	2026	2027	2028	2029	2030
Recovery and Resilience Plan	**49**	**181**	**860**	**1 770**	**2 259**	**317**	**279**	**57**	**33**
Public Investments	26	23	54	83	107	15	13	3	2
Public Compensations	15	16	46	164	211	30	26	5	3
Public Intermediate Consumption	1	47	527	1 200	1 543	218	192	39	23
Social Transfers in Kind	2	1	4	5	7	1	1	0	0
Social Transfers	4	6	14	10	13	2	2	0	0
Private Compensations	0	1	2	11	14	2	2	0	0
Private Intermediate Consumption	1	0	2	9	11	2	1	0	0
Private Investments	0	16	96	187	241	34	30	6	4
Household Investments	0	71	114	100	112	13	12	2	1

Source: IFP