INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/75

SLOVAK REPUBLIC

2023 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

March 2024

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Slovak Republic, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 6, 2024, consideration of the staff report that concluded the Article IV consultation with Slovak Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 6, 2024, following discussions that ended on December 14, 2023, with the officials of Slovak Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 20, 2024.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

- **Selected Issues**

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR24/85

IMF Executive Board Concludes 2023 Article IV Consultation with Slovak Republic

FOR IMMEDIATE RELEASE

Washington, DC – March 13, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Slovak Republic on March 6, 2024.

The economy slowed in 2023, as the drawdown of pandemic-era savings ran its course and negative real wage growth weighed on consumption. This was partially offset by strong fiscal stimulus reflecting an increase in social spending and measures to offset the impact of higher energy prices, as well as record-high EU-funded public investments. Inflation has declined from record-highs in early 2023 but remains among the highest in the euro area.

Growth is forecast to increase to 2.1 and 2.6 percent in 2024 and 2025, while inflation is projected to continue moderating and return to target by end-2026. Consumption is projected to rebound as a pick-up in real wage growth boosts disposable income, while exports will continue recovering as supply conditions improve, offsetting the impact of a deceleration in EU-funded public investment. Slovakia’s unfavorable demographics will weigh on medium-term growth. Risks are tilted firmly to the downside including from weaker external demand, commodity price shocks, delays in fiscal consolidation, slow implementation of structural reforms, and failure to absorb EU grants effectively.

Executive Board Assessment[2]

Executive Directors welcomed the resilience of the Slovak economy and looked forward to the envisaged stronger growth in 2024. Directors noted that while the outlook is broadly favorable, it is clouded by high inflation and significant downside risks, including from a global slowdown and intensifying geopolitical tensions, as well as longstanding structural and demographic challenges.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing’s up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors highlighted the need to prioritize fiscal sustainability and implement structural reforms to foster economic diversification, inclusive growth, and green transition.

Directors underscored the need for sustained commitment to fiscal consolidation, stressing the importance of putting debt on a downward trajectory, rebuilding buffers, and preparing for the increase in aging-related spending. A more ambitious fiscal consolidation in 2024, coupled with clearly identified revenue and expenditure measures in the years ahead, should underpin these efforts. Directors encouraged the authorities to consider raising the basic VAT rate as well as property and environmental taxes, and agreed on the need for better targeted social spending and reduction in subsidies. Reforming the fiscal framework would help strengthen fiscal transparency and credibility and boost the longer-term outlook for public finances.

Directors welcomed the resilience of the financial sector and considered the current macroprudential stance appropriate. However, vulnerable segments of the credit portfolio, including the commercial real estate sector and low-income households, should be closely monitored. Adding macroprudential measures targeted at the commercial real estate sector might be warranted. Directors also agreed that the authorities should stand ready to release the countercyclical capital buffer if downside macro-financial risks materialize. Addressing remaining deficiencies in the AML/CFT framework and strengthening the resilience of the financial system to cyber-attacks should also be prioritized.

Directors urged the authorities to continue the implementation of the national Recovery and Resilience Plan to raise inclusive and climate friendly growth. They emphasized the need for effective labor market policies to raise labor force participation of women and seniors. Directors agreed that increased infrastructure investments, including through better absorption of EU funds, the maintenance of good governance and a favorable investment climate, and educational reforms would help lift the economy’s growth potential, reduce regional inequality, and foster inclusion of minorities. They commended the authorities for the significant progress in reducing greenhouse gas emissions and welcomed the implementation of the 2023 National Energy and Climate Plan.

Slovak Republic: Summary of Economic Indicators, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.			Projections			
	(Annual percent change, unless otherwise indicated)										
Output/Demand											
Real GDP	2.5	-3.3	4.8	1.8	1.1	2.1	2.6	2.8	2.7	2.7	2.7
Domestic demand	3.8	-5.1	5.6	2.9	-4.7	5.3	2.2	2.5	2.4	2.4	2.4
Public consumption	4.5	-0.6	4.2	-4.2	-1.5	1.8	-0.8	1.4	1.5	2.7	2.5
Private consumption	2.7	-1.3	2.8	5.6	-1.7	2.2	1.6	1.8	1.8	1.8	1.8
Gross fixed capital formation	6.7	-10.9	3.5	4.5	5.7	3.1	3.9	3.8	3.9	3.6	3.6
Exports of goods and services	0.8	-6.4	10.4	3.1	0.3	3.6	3.6	3.4	3.4	3.4	3.4
Imports of goods and services	2.2	-8.3	11.6	4.5	-5.8	7.1	3.2	3.2	3.2	3.1	3.1
Potential Growth	2.9	-0.2	0.8	1.2	1.2	2.0	2.3	2.7	2.7	2.7	2.7
Output gap	1.1	-3.1	-1.0	-0.4	-0.5	-0.4	-0.1	0.0	0.0	0.0	0.0
Contribution to Growth						(Percent)					
Domestic demand	3.8	-4.9	5.5	2.9	-4.7	4.9	2.1	2.4	2.3	2.3	2.2
Public consumption	0.8	-0.1	0.8	-0.8	-0.3	0.3	-0.1	0.2	0.2	0.4	0.4
Private consumption	1.5	-0.7	1.6	3.1	-1.0	1.2	0.9	1.0	1.0	1.0	1.0
Gross fixed capital formation	1.4	-2.4	0.7	0.9	1.2	0.7	0.8	0.8	0.9	0.8	0.8
Inventories	0.1	-1.7	2.4	-0.3	-4.6	2.7	0.5	0.3	0.2	0.1	0.1
Net exports	-1.3	1.6	-0.7	-1.2	5.8	-2.9	0.5	0.4	0.4	0.4	0.5
Prices											
Inflation (HICP)	2.8	2.0	2.8	12.1	11.0	3.6	3.9	2.5	2.0	2.0	2.0
Inflation (HICP, end of period)	3.3	1.7	5.0	15.0	6.6	3.8	3.4	2.0	2.0	2.0	2.0
Core inflation	2.5	2.4	3.4	10.4	11.4	4.6	3.3	2.5	2.0	2.0	2.0
Core inflation (end of period)	2.8	2.2	5.5	13.7	6.8	4.8	2.7	2.0	2.0	2.0	2.0
GDP deflator	2.5	2.4	2.4	7.5	10.1	4.8	3.9	2.4	2.0	2.0	2.0
Employment and Wages											
Employment	1.0	-1.9	-0.6	1.8	0.3	0.3	-0.1	-0.4	-0.4	-0.4	-0.4
Unemployment rate (Percent)	5.7	6.6	6.8	6.2	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Nominal wages	7.8	3.7	6.8	7.8	8.5	8.0	6.9	5.0	4.3	4.3	4.3
Public Finance, General Government						(Percent of GDP)					
Revenue	39.3	39.4	40.2	39.8	41.5	41.0	40.0	39.3	38.9	38.9	39.0
Expenditure	40.5	44.8	45.6	42.3	47.9	47.0	46.2	44.8	44.6	44.6	44.5
Overall balance	-1.2	-5.4	-5.4	-2.4	-6.5	-6.0	-6.1	-5.6	-5.7	-5.7	-5.6
Primary balance	-0.2	-4.3	-4.5	-1.7	-5.6	-5.0	-4.9	-4.2	-4.3	-4.4	-4.2
Structural balance (Percent of potential GDP)	-1.7	-2.2	-1.6	-1.4	-4.4	-5.3	-5.6	-5.6	-5.7	-5.7	-5.6
General government debt	48.0	58.9	61.1	57.8	57.9	59.3	60.3	63.5	66.7	69.8	72.5
Monetary and Financial Indicators						(Percent)					
Credit to private sector (Growth rate)	6.6	4.8	7.6	10.2	3.2	4.9	7.1	5.8	5.2	5.2	5.2
Mortgage lending rates	1.4	1.1	1.0	2.0	3.8	...	...	...	...	...	...
Government 10-year bond yield	0.2	-0.1	0.0	2.2	3.7	3.7	4.2	3.8	3.7	3.7	3.6
Balance of Payments						(Percent of GDP)					
Trade balance (goods)	-1.2	1.1	-0.5	-6.0	0.1	-2.4	-1.9	-1.6	-1.3	-1.0	-0.7
Current account balance	-3.3	0.6	-2.5	-8.2	-1.7	-4.3	-3.6	-3.1	-2.7	-2.2	-1.9
Gross external debt	112.3	119.6	134.2	103.1	99.5	100.7	101.2	102.5	103.8	104.6	105.1
Saving and Investment Balance						(Percent of GDP)					
Gross national savings	20.5	20.0	19.7	15.2	15.3	16.3	17.6	18.7	19.3	20.0	20.6
Private sector	18.4	21.9	22.0	14.3	16.9	18.7	19.8	21.4	22.3	22.9	23.6
Public sector	2.1	-1.9	-2.3	0.9	-1.6	-2.5	-2.3	-2.8	-3.0	-2.9	-2.9
Gross capital formation	23.8	19.4	22.2	23.4	17.1	20.5	21.2	21.7	22.0	22.2	22.5
Memo Item											
EU grants (Percent of GDP)	1.0	1.2	1.2	1.3	2.6	1.2	1.5	1.3	1.0	1.0	1.0
Energy support measures (Percent of GDP)	0.0	0.0	0.0	0.1	2.3	1.0	0.0	0.0	0.0	0.0	1.0
Nominal GDP (Millions of euros)	94,430	93,444	100,256	109,645	122,114	130,572	139,175	146,498	153,399	160,613	168,203

Sources: National Authorities; and IMF staff estimates and projections.

INTERNATIONAL MONETARY FUND

SLOVAK REPUBLIC

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

February 20, 2024

KEY ISSUES

Context: The Slovak economy continued to grow in 2023, with a large fiscal expansion and the easing of pandemic-era supply chain disruptions offsetting headwinds from soaring food and energy prices. Inflation has declined from comparatively elevated levels in 2022 and early 2023 but remains among the highest in the euro area. Adverse demographic trends pose medium-term challenges for growth and fiscal sustainability.

Policy recommendations: Fiscal consolidation is needed to reverse the structural deterioration in public finances and the upward trend in debt ratio, and build space for future spending pressures. Targeted macroprudential measures would build resilience against rising risks in the CRE sector. Structural reforms should promote sustainable and inclusive growth amid demographic challenges, while accelerating the green transition.

- **Fiscal Policy.** Fiscal consolidation beyond what is envisaged in the budget is needed in 2024 to start the process of rebuilding buffers and contain gross financing needs. The fiscal consolidation targeted for 2025 and 2026 is appropriately ambitious, though concrete fiscal measures would increase the credibility of the envisaged deficit reduction. Reforms to the fiscal framework are needed to strengthen the longer-term outlook for public finances.

- **Financial Sector Policy.** Continued enhanced monitoring and supervision is warranted to ensure that banks continue to adequately provision for expected losses and emerging risks. The authorities should explore options to introduce targeted macroprudential measures to build resilience against risks in the CRE sector. The new bank levy should be phased out as planned.

- **Structural Policies.** Structural reforms are needed to raise inclusive and climate friendly growth, tackle demographic challenges, address regional income inequalities, and accelerate the green transformation. Effective implementation of the RRP reforms and measures to increase labor force participation of women and the elderly would help mitigate the effect of an aging population. Fostering social inclusion among the Roma community and other disadvantaged groups would help reduce regional inequality.

Approved By
Oya Celasun (EUR) and Stefania Fabrizio (SPR)

Discussions took place in Bratislava, Slovakia, during December 4–14, 2023. The mission met with National Bank of Slovakia Governor Kažimír, Minister of Finance Kamenický, other senior officials from the Finance, Economy, Education, Environment, Health, Interior, Justice and Labor ministries, the National Bank of Slovakia, the Council for Fiscal Responsibility, ARDAL, and representatives from the private sector, the European Commission, and the ECB. The staff team comprised Mr. Saxegaard (head), Messrs. Boumediene, Hasanov and Kotera (all EUR). Mr. Alasal, Ms. Kumar, and Ms. Timonova (all EUR) supported the mission. Mr. Acosta (LEG) participated in some meetings virtually. Mr. Hagara (OED) participated in the discussions and Mr. Palotai (Executive Director) attended the concluding meeting.

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TABLES

ANNEXES

CONTEXT AND RECENT DEVELOPMENTS

1. **The Slovak economy has faced significant headwinds related to the war in Ukraine, soaring commodity prices, and supply chain disruptions.** Of the one million Ukrainians that entered Slovakia since end-2021, 100,000 have stayed and been integrated into the labor market or the education system. High inflation has taken a toll on households and corporates, while measures to cushion the impact of higher energy prices have come with a high fiscal cost. Supply chain disruptions restricted car production in 2022 but have since dissipated.

2. **The economy slowed in 2023 despite a sharp increase in government spending** (Figure 1 and 11). Growth slowed to 1.1 percent in 2023 (from 1.8 percent in 2022) as the drawdown of pandemic-era savings ran its course and negative real wage growth weighed on consumption. This was partially offset by strong fiscal stimulus reflecting an increase in social spending and measures to offset the impact of higher energy prices, as well as record-high EU-funded public investments. A large increase in net exports was matched by a drawdown of inventories built up as a precaution against supply chain disruptions and gas supply shortages. Real GDP in 2023:Q4 exceeded its pre-pandemic level by 4 percent, but the recovery has been concentrated in the public and service sectors while activity in manufacturing has been subdued.

3. **Inflation has declined from record-highs in early 2023 but remains among the highest in the euro area.** Average headline inflation declined modestly to 11 percent in 2023 (from 12.1 percent in 2022). However, the pace of price increases fell rapidly in 2023:H2, and inflation declined to 2.8 percent in December on a momentum basis (3m/3m seasonally adjusted and annualized). Inflation has been relatively broad-based, but food prices were the main driver of the increase and subsequent decline.[1] Core inflation (excluding energy and unprocessed food) increased to 11.4 percent in 2023 (from 10.4 percent in 2022) and at 3.7 percent is currently above headline inflation on a momentum basis. The sustained period of high inflation has taken a toll on low-income families while higher energy prices have weighed on activity in energy intensive industries.

4. **The labor market recovery remains uneven.** After increasing in 2021 as a large number of women entered the labor force, employment has been stable since mid-2022 with an influx of foreign workers offsetting a declining working-age population (Figure 2).[2,3] The service and public sectors have seen rising employment, offsetting job losses in the manufacturing and hospitality sectors. Hours worked per worker lags employment across nearly all sectors and remains 5 percent below pre-pandemic levels, though the economic impact is mitigated by a 9 percent increase in labor productivity since 2019. Unemployment is close to the 6 percent equilibrium rate, but youth unemployment is significantly higher than in the euro area (Figure 12). Nominal wage growth reached 8.3 percent in 2023:Q3, but real (HICP-deflated) wage growth was only -1.3 percent and real wages have only just recovered to their end-2019 level. The unadjusted gender pay gap has narrowed over the past decade but remains high relative to other EU countries.

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[1] In Slovakia, inflation is more sensitive to food prices than in the euro area due to the higher weight on food in the CPI basket (26.3 percent in Slovakia versus 16.1 percent in the Euro Area in 2023).

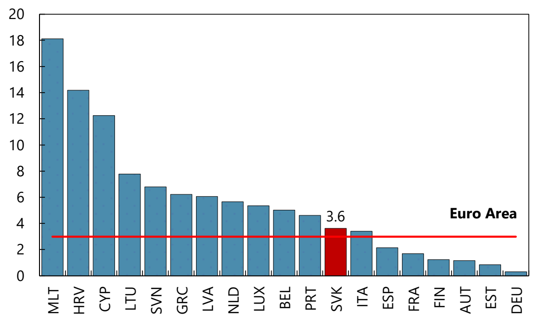
[2] Female employment increased by about 83,000 in 2021, equivalent to 3.2 percent of total employment.

[3] Foreign workers increased by 32,000 (1.2 percent of total employment) between December 2021 and December 2023. The number of employed Ukrainians increased from 19,000 to 39,000 during the same period, with more than half employed as operators of machines and equipment or as auxiliary and unskilled workers.

Figure 1. Slovak Republic: Real GDP and Inflation Developments

Real GDP has recovered from the pandemic…

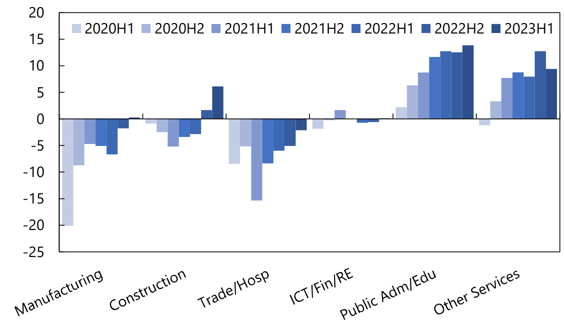
Real GDP
(Percent change from 2019Q4 to 2023Q3)



Sources: Eurostat and IMF staff calculations.

…driven by a recovery in the public sector and the service sector.

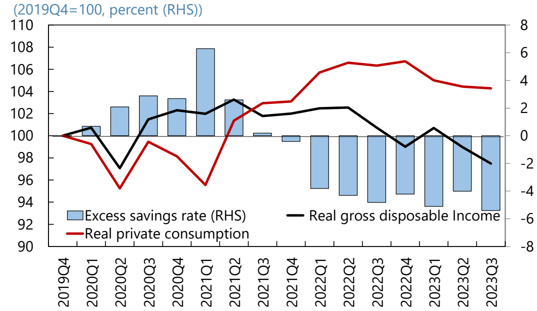
Real Gross Value Added by Sector
(Percent change relative to 2019Q4)



Sources: Haver Analytics and IMF staff calculations.

Consumption remained resilient during the pandemic but weakened in 2023 as a lower saving rate only partly made up for the loss in real disposable income.

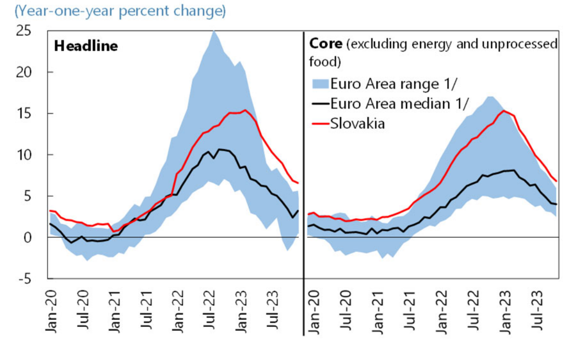
Households: Income, Savings, and Consumption
(2019Q4=100, percent (RHS))



Note: Excess savings rate is computed as the difference between the actual savings rate and average savings rate in 2015-19.
Sources: Haver Analytics and IMF staff calculations.

Headline and core inflation rates remain high on a year-on-year basis relative to other euro area countries.

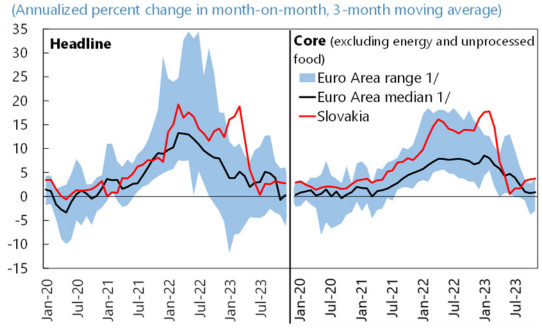
Inflation Rate Across Euro Area Countries
(Year-one-year percent change)



1/Euro Area range and median exclude Slovakia.
Sources: Eurostat and IMF staff calculations.

Inflation momentum has declined sharply but is above that in most euro area countries.

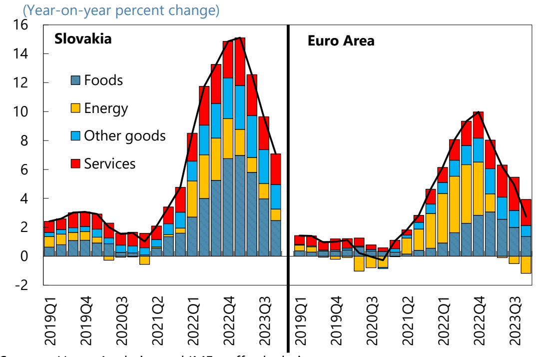
Inflation Rate Across Euro Area Countries
(Annualized percent change in month-on-month, 3-month moving average)



1/Euro Area range and median exclude Slovakia.
Sources: Eurostat and IMF staff calculations.

Food prices have been a more important driver of inflation than energy prices.

HICP Headline Inflation Rate
(Year-on-year percent change)

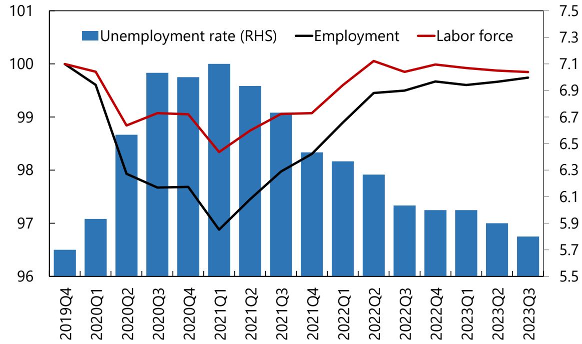


Sources: Haver Analytics and IMF staff calculations.

Figure 2. Slovak Republic: Labor Market

Employment has nearly recovered from the pandemic and unemployment is close to its long-run equilibrium...

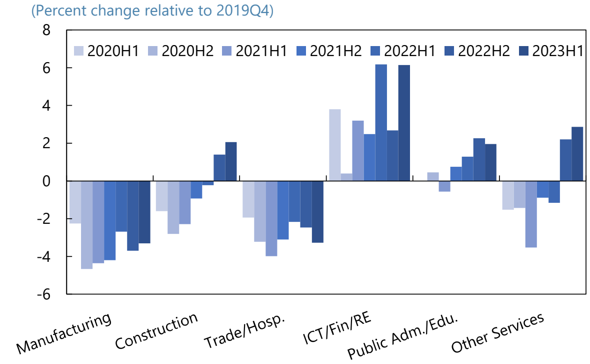
Labor Market Development
(2019Q4=100, Percent (RHS))



Source: Haver Analytics.

...driven by an increase in employment in the service sector and the public sector.

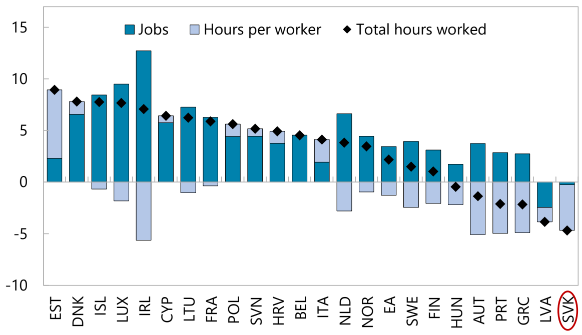
Employment by Sector
(Percent change relative to 2019Q4)



Sources: Haver Analytics and IMF staff calculations.

However, hours worked lag employment and remains below pre-pandemic levels.

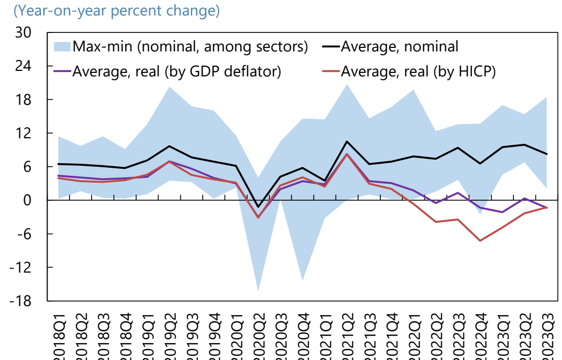
Working Hours Growth Decomposition, 2023Q3
(Percent change relative to 2019Q4)



Sources: Eurostat; and IMF staff calculations.

Nominal wage growth lagged inflation for much of 2021-22, but real wages have increased in recent months.

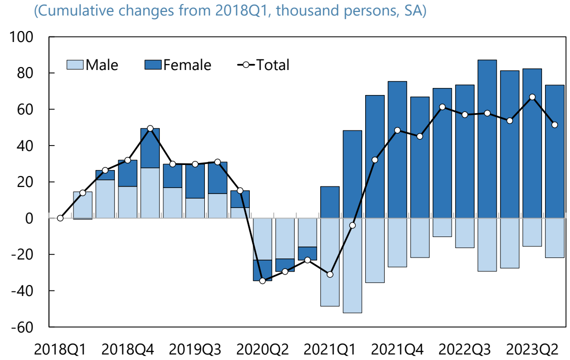
Wage Growth Rate
(Year-on-year percent change)



Sources: Haver Analytics and IMF staff calculations.

For the last few years, the labor market has been supported by an increase in female employment.

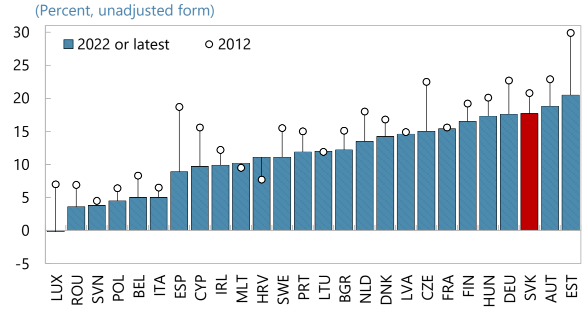
Employment
(Cumulative changes from 2018Q1, thousand persons, SA)



Sources: Haver Analytics and IMF staff calculations.

The unadjusted gender pay gap has declined but remains high relative to other EU countries.

Gender Pay Gap 1/
(Percent, unadjusted form)



1/ Difference between average gross hourly earnings of male and female employees as a percentage of male gross earnings.
Note: 2013 data for Croatia
Sources: Eurostat and IMF staff calculations.

5. The external position is moderately weaker than fundamentals (Annex I). The current account deteriorated significantly in 2022 to 8.2 percent of GDP as imports increased, mostly due to stockpiling of inventories and higher gas prices, while exports were curtailed by supply chain disruptions (Figure 13). Unit labor costs have increased more than in the euro area, but not as much as in other CEE countries (Figure 3). The easing of supply constraints in 2023 and a catch-up of production with the backlog of orders allowed Slovakia to regain market share lost during 2022 and helped narrow the current account deficit, which is expected to have reached 1.7 percent of GDP in 2023.

6. The fiscal deficit is projected to have widened from 2 percent in 2022 to 6.5 percent of GDP in 2023 (Figure 4). This combined with a significant increase in EU-financed public investment resulted in an expansionary fiscal impulse to the economy of 5.2 percentage points and a deterioration in the underlying fiscal stance that will put upward pressure on medium-term deficits.[4,5] Debt is projected to have remained stable at about 58 percent of GDP as the negative real interest rate offset the impact of the rising deficit.

7. The increase in the headline deficit reflects more spending and the effects of past inflation.

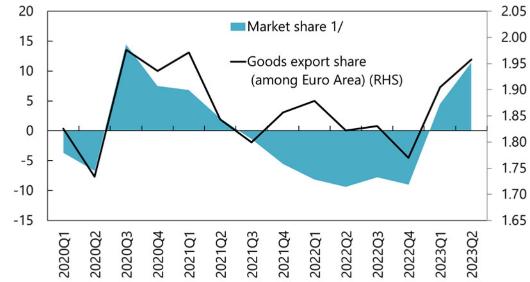
- *Temporary energy support*: In 2023, the authorities capped price increases for households' gas and heating at 15 and 20 percent, froze electricity prices at 2022 levels, and provided energy support for corporates. The net fiscal cost is expected to have reached

Figure 3. Slovak Republic: External Competitiveness

Easing supply constraints have allowed Slovakia to regain market share lost during the pandemic.

Goods Export Market Share

(Changes relative to 2019, percent; percent (RHS))

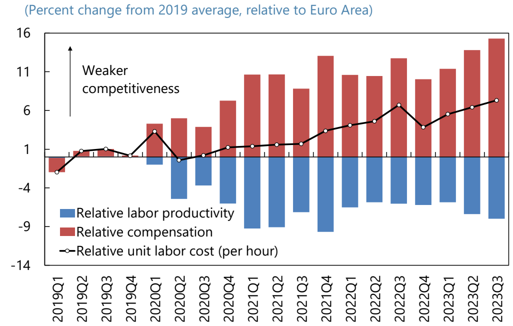


1/ Calculated as the difference between export changes of Slovakia and import changes of Slovakia's trade partners (weighted by Slovakia's export share in 2019).
Sources: DOTS, Eurostat, and IMF staff calculations.

Higher wage growth, offset only partially by higher productivity growth, has increased unit labor costs relative to the EU…

Relative Unit Labor Cost

(Percent change from 2019 average, relative to Euro Area)

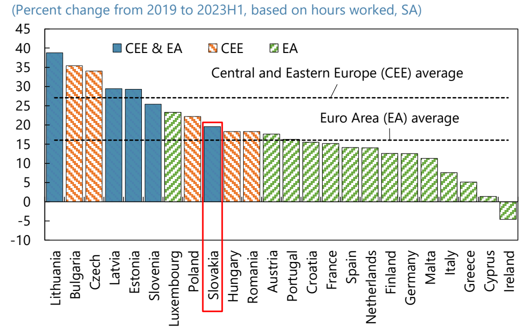


Sources: Eurostat and IMF staff calculations.

…though much less than in other CEE countries

Changes in Unit Labor Cost

(Percent change from 2019 to 2023H1, based on hours worked, SA)



Sources: Eurostat and IMF staff calculations.

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[4] The fiscal impulse is measured as the change in the cyclically adjusted primary balance excluding EU grants in percent of potential GDP. The fiscal stance is measured by the structural balance (excluding one-offs) in percent of potential GDP.

[5] Government spending financed by EU funds was 2.6 percent of GDP in 2023 (compared to 1.3 percent in 2022).

1.5 percent of GDP after factoring in €500 million of EU funds to pay for energy support and EU-wide temporary windfall profit taxes on the energy sector.[6]

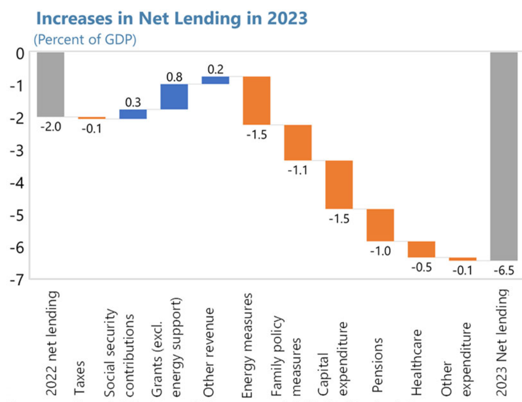
- *Permanent increase in social spending*: The family support package that came into effect in 2023 includes an increase in child allowances and tax credits. The fiscal cost in 2023 is estimated at about 1 percent of GDP. In addition, various measures to boost pensions, including an extra within-year adjustment for inflation and an additional pension payment at the end of 2023, added about 1 percent of GDP to the deficit.[7] Finally, a real increase in healthcare workers' salaries increased the deficit by about 0.3 percent of GDP.

- *Other*: Inflation in 2022 had a lagged effect on 2023 expenditure due to the partial indexation of social benefits, pensions, and some public sector wages. Finally, a 1.5-percentage point increase in public investment adds to the fiscal impulse but the impact on the deficit is largely offset by matching EU grants.

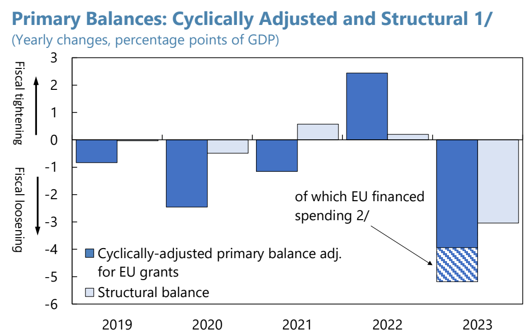
Figure 4. Slovak Republic: Fiscal Developments

An increase in spending will result in a significant widening of the fiscal deficit in 2023…

…resulting in a significant fiscal impulse to the economy and a deterioration in the underlying fiscal stance.



Sources: Slovak Ministry of Finance and IMF Staff calculations.



Sources: Slovak Ministry of Finance and IMF staff calculations.
1/ Excludes one-off policies, including those related to the pandemic.
2/ EU financed spending only highlighted in 2023.

8. Credit growth has slowed. Retail and corporate lending rates have increased with the ECB policy rate, and credit growth declined to 3.5 percent year-on-year in 2023:Q4 from 10.8 percent at end-2022 (Figure 5). This has contributed to a widening negative credit gap, albeit less so than in the euro area as a whole (Figure 15). Mortgage credit growth has fallen due to a decrease in new loans and a decline in the top-up of existing loans, which was prevalent during the pandemic. Demand for non-financial corporate (NFC) credit has also weakened, but consumer credit is increasing. The spread over German government bonds has increased slightly more than for the

[6] An additional €450 million of EU funds earmarked for energy support for households in 2023 will be disbursed in early 2024. The 2024 budget assumes these funds will be recorded in 2024, consistent with past practice of recording EU grants the year they are disbursed. The final determination of how to record these funds will be made by Eurostat in April 2024.

[7] The additional pension payment at the end of 2023 is considered permanent as it was followed by an equivalent structural increase in pensions (a full 13th monthly payment per year) from 2024 onwards.

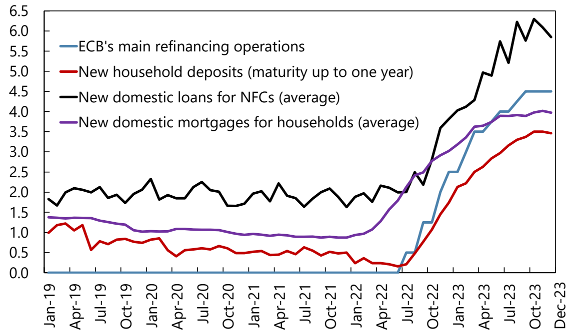
median euro area country.

9. The housing market has started to cool. Rising mortgage rates and falling real wages have contributed to a 10 percent fall in house prices from the 2022:Q3 peak (Figure 16). However, relative to fundamentals, residential property prices are still high, and affordability remains close to historical lows despite an improvement in 2023 as falling house prices more than compensated for rising interest rates.[8]

Figure 5. Slovak Republic: Macro-Financial Conditions

Deposit and lending rates have increased.

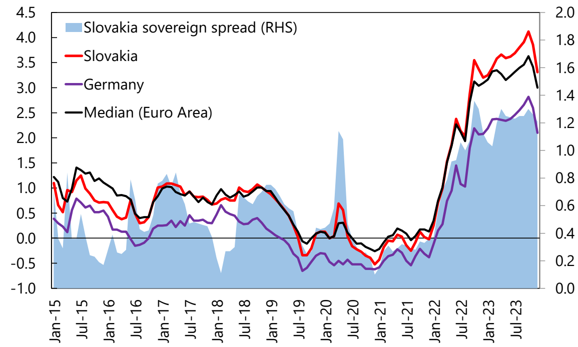
Interest Rate
(Percent)



Source: National Bank of Slovakia.

The yield on government bonds has increased in line with other countries in the euro area.

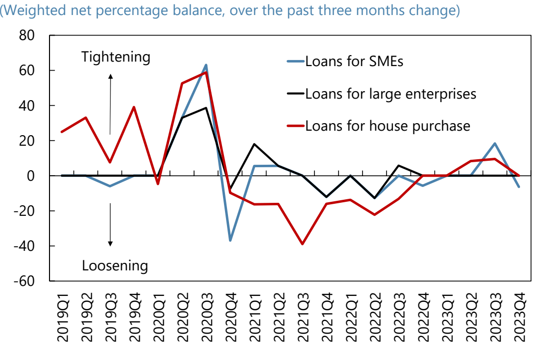
10 Years Government Bond Yield
(Percent, percentage point (RHS))



Sources: CEIC and IMF staff calculations.

Credit standards have tightened somewhat for both households and corporates.

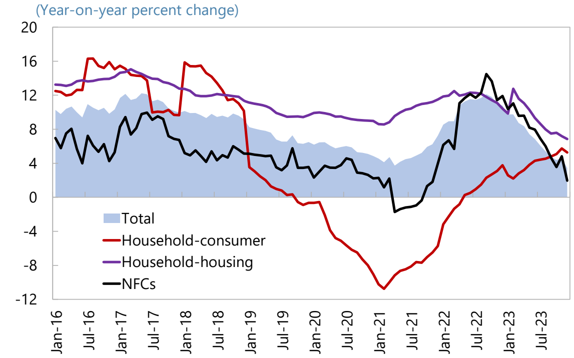
Change in Credit Standards
(Weighted net percentage balance, over the past three months change)



Source: Haver Analytics.

Credit growth has declined, but demand for consumer loans continues to increase.

Private Sector Credit Growth
(Year-on-year percent change)



Sources: Haver Analytics and IMF staff calculations.

10. The risk of a disruption to energy supplies has decreased. Agreements with Norway and LNG suppliers reduced reliance on Russian gas to about 40 percent in 2022, while record-high gas storage levels have alleviated the risk of shortages (Figure 6). Diversifying away from Russian oil will take longer given the need to reconfigure oil refineries, and Slovakia is exempt from the EU-wide

[8] A flat estimated to be affordable for the average household in 2023 was one-third smaller than five years ago (see NBS Financial Stability Report Nov 2023).

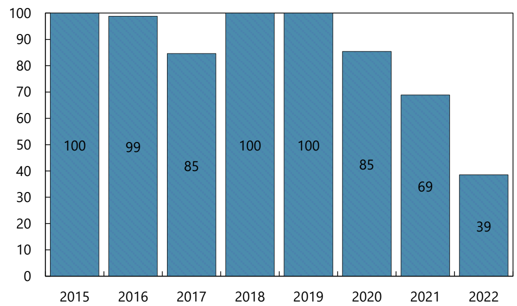
embargo on Russian oil until end-2024. With three out of four units of the Mochovce nuclear plant commissioned Slovakia is now self-sufficient in electricity and is in the process of diversifying away from Russian nuclear fuel.

Figure 6. Slovak Republic: Energy Security

Slovakia has successfully reduced its reliance on natural gas from Russia…

Imports of Natural Gas from Russia

(Imports share based on quantity and by origin, percent)

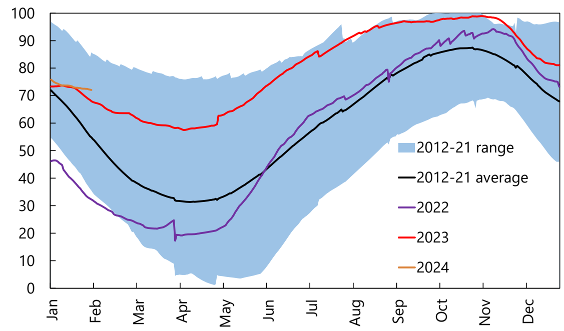


Sources: OECD and IMF staff calculations.

…and record-high gas storage levels have reduced the risk of shortages.

Gas Storage in Percent of Gas Storage Capacity

(Percent)



Source: Aggregated Gas Storage Inventory.

OUTLOOK AND RISKS

11. The outlook is shaped by opposing forces. The pick-up in real wage growth, extension of energy support to households and more generous pensions, will increase disposable income and support household demand, even as the saving rate increases to more normal levels and tight financial conditions weigh on the economy. While the normalization of EU funds from record-high levels in 2023 will weigh on public investment growth, some of the positive fiscal impulse from 2023 will impact the economy with a lag. Easing of supply chain restrictions will support a recovery in exports, offsetting a weak external environment, while the depletion of inventories in 2023 is expected to have run its course. Medium term growth is expected to be supported by continued real disposable income growth, robust inflows of EU funds, and a strengthening external environment.

12. Growth is forecast to increase to 2.1 and 2.6 percent in 2024 and 2025, while inflation is projected to continue to moderate and return to target by end-2026 (Figure 7). Consumption is projected to rebound while exports will continue recovering as supply conditions improve, offsetting the impact of a deceleration in EU-funded public investment. Meanwhile, the cooling of credit and housing markets has reduced the risk of a recession triggered by an asset price correction in the near-term (Annex V). Average headline inflation is projected to fall to about 3½ percent in 2024 before increasing slightly in 2025 as temporary energy support comes to an end.

13. Population aging will weigh on medium-term growth. Projected medium-term growth of 2.7 percent is significantly lower than the 3.9 percent average between Slovakia's EU accession and the pandemic.[9] While diminishing catch-up growth clearly plays a role, Slovakia's unfavorable

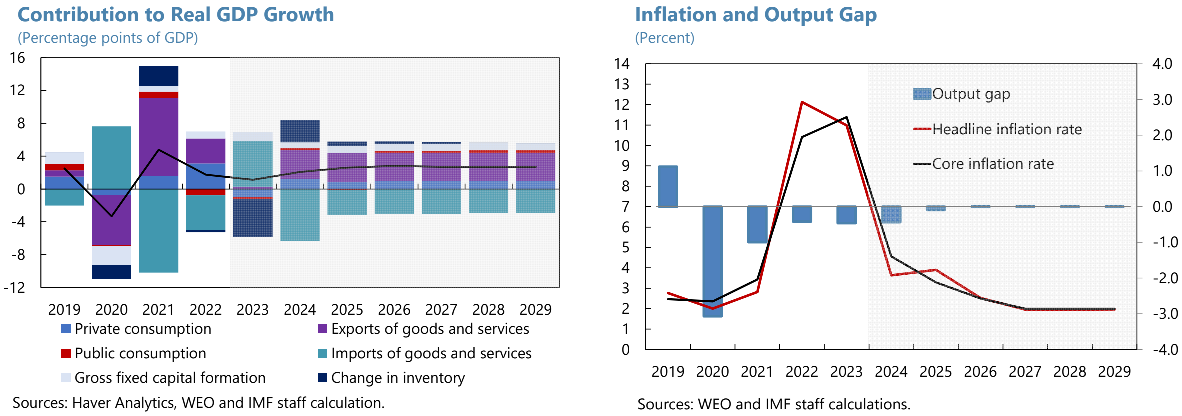
[9] Slovakia joined the EU in 2004.

demographics and a falling working age population is estimated to reduce annual medium-term potential growth by 0.6 percentage points relative to the pre-pandemic average.

Figure 7. Slovak Republic: The Outlook

A recovery in domestic demand and net exports is projected to support growth moving forward.

Inflation is projected to fall, reaching the 2 percent target by end-2026.



14. Risks to growth are tilted firmly to the downside while risks to inflation are balanced (Annex II). In the near term, a global slowdown, triggered for example by resurgent energy prices or intensifying fallout from the war in Ukraine would weaken exports, while intensifying geopolitical tensions may weaken sentiment and dampen the projected pickup in consumption. Commodity price shocks and wage pressures could keep euro area inflation high and require monetary policy to stay high for longer, which would weigh on growth and weaken corporates and households' repayment capacity. Domestically, delays in fiscal consolidation and structural reform implementation could increase borrowing costs and slow the disbursement of EU funds that are a key driver of growth. A sharp real estate market downturn could depress domestic demand and trigger losses for financial institutions. Finally, continued strong nominal wage growth or an increase in profit margins could keep inflation elevated and undermine competitiveness. In the medium-term, the main risks stem from backtracking on reforms to strengthen the rule of law, geoeconomic fragmentation and protectionism that would hurt Slovakia's all-important auto sector, and increased automation.

Authorities' Views

15. The authorities broadly agreed with staff's assessment of the outlook and risks. They agreed that a recovery in private consumption and exports would lift growth in 2024, and that inflation is likely to keep declining. The authorities agreed that risks to growth were tilted to the downside and were of the view that the main risk was lower growth in Slovakia's trading partners.

POLICY DISCUSSIONS

Discussions focused on the need for fiscal consolidation to rebuild buffers and prevent a further deterioration in competitiveness. Financial sector policies are broadly appropriate but may need to be adjusted if downside risks materialize. Structural reforms should promote sustainable and inclusive growth amid demographic challenges and changes to global value chains, while accelerating the green transition.

A. Fiscal Policy

16. While the easing of fiscal policy in 2023 helped cushion the economy, the structural nature of the stimulus has worsened Slovakia's fiscal outlook significantly. The increase in government spending last year helped offset the decline in private consumption and likely averted a recession. Other things equal, in the absence of this fiscal stimulus, the economy would have contracted by around ½ percentage points.[10] However, almost ⅔ of the fiscal expansion (nearly 3 percent of GDP) resulted from a permanent increase in spending, complicating the consolidation effort and contributing to a 15-percentage point of GDP increase in public debt by 2029.

17. The authorities' 2024 budget entails a gradual reduction in the fiscal deficit.

- For 2024 the budget targets a 0.5 percentage point reduction in the headline deficit to 6 percent of GDP. To achieve this reduction in the headline deficit the authorities have adopted approximately €800 million (0.6 percent of GDP) in net consolidation measures.[11] However, the structural deficit (excluding energy support and other one-off policies) is projected to widen by 0.9 percentage point to 5.3 percent of GDP in 2024, due to the lagged effect of high inflation on expenditure, the incomplete indexation of certain taxes to inflation, and higher interest costs.
- For 2025–26 the budget targets a 1 percentage point annual reduction in the headline fiscal deficit to bring the deficit to 4 percent of GDP, though measures to achieve this consolidation are not specified. Staff's baseline forecast, which only includes identified measures, entails a marginal reduction in the headline deficit to 5.6 percent of GDP by 2029 as temporary energy support comes to an end.[12] However, the structural deficit is projected to increase marginally as

[10] The same-year growth impact is calculated using a contemporaneous multiplier of 0.3, which cumulates to 0.6 two years after the shock.

[11] The fiscal measures in the 2024 budget include a levy on bank profits, an increase in employers' health care contributions, and a redirection of pension contributions from the second to the first pillar of the pension system (resulting in an increase in general government revenue given that the mandatory first pillar is part of general government while the second pillar is not), offset partly by an increase in spending on pensions, healthcare, and the introduction of a new mortgage subsidy. The 2024 budget also extends energy support for households for another year at a net cost of 0.4 percent of GDP.

[12] The expenditure ceilings set by the Council for Budget Responsibility (CBR) will be binding for the first time in 2024. Given the assessment of high long-term sustainability risks they require an annual deficit reduction of 0.5 percent of GDP compared to the CBR's baseline forecast. The CBR estimates that this would reduce the headline deficit to 4.1 percent by 2027, which would not be sufficient to put debt on a sustainable path within that timeframe. Slovakia's national debt brake (which sets an upper limit of 55 percent of GDP for public debt) would normally have required a balanced budget from 2024 but has been suspended for 2 years following the election of the new government.

interest costs rise. Public debt is projected to increase to 72.5 percent of GDP by the end of the forecast period.

18. Slovakia requires significant fiscal adjustment to prepare for future demographic challenges. While subject to significant uncertainty, the estimated 9.2 percent of GDP adjustment in the structural primary balance required to stabilize debt in the long run is among the highest in the EU, reflecting rising aging-related costs and the current large fiscal deficit (Figure 14).[13,14] This is despite the 2022 pension reform that reintroduced a link between retirement age and life expectancy and contributed to reduce the adjustment need by 1.6 percentage points. Absent this adjustment the OECD projects government debt may increase to 180 percent of GDP by 2050.[15]

19. Fiscal consolidation beyond that envisaged in the 2024 budget is needed to safeguard the sustainability of public finances (Figure 8). The authorities should implement additional structural fiscal measures to keep the structural deficit in 2024 unchanged relative to the projected 2023 outcome. Moreover, to aid the consolidation effort, any revenues above those projected in the budget or lower-than-anticipated expenditures on energy support should be saved. The 1 percentage point annual reduction in the headline fiscal deficit targeted for 2025 and 2026 is appropriately ambitious, though concrete fiscal measures are needed to underpin the credibility of the envisaged consolidation. The goal should be to reduce the headline deficit to around 2 percent of GDP by 2028, which requires a cumulative 3.5 percent of GDP in deficit-reducing measures to be implement over the next four years. This would put debt on a downward trajectory (reaching about 58 percent in 2029) and start creating space for the increase in aging-relating spending. Beyond the forecast horizon, the required consolidation will depend on reforms to boost medium-term growth.

Fiscal Policy Assumptions

(Percent of GDP unless otherwise noted)

	2022	2023	2024	2025	2026	2027	2028	2029
2024 Budget 1/								
- Headline balance	-2.0	-6.5	-6.0	-5.0	-4.0	…	…	…
- Structural balance (percent of potential GDP)	…	-4.7	-5.7	-5.5	-4.4	…	…	…
Staff baseline scenario								
- Headline balance	-2.0	-6.5	-6.0	-6.1	-5.6	-5.7	-5.7	-5.6
- Structural balance (percent of potential GDP)	-1.0	-4.4	-5.3	-5.6	-5.6	-5.7	-5.7	-5.6
Staff recommended scenario								
- Headline balance	-2.0	-6.5	-5.1	-4.1	-3.1	-2.6	-2.0	-2.0
- Structural balance (percent of potential GDP)	-1.0	-4.4	-4.4	-3.5	-3.1	-2.5	-2.0	-2.0
- Required fiscal measures (cumulative, relative to baselin	…	…	0.0	1.9	2.4	3.0	3.5	3.4
Memorandum items								
- Output gap (IMF)	-0.4	-0.5	-0.4	-0.1	0.0	0.0	0.0	0.0
- Output gap (Slovak Ministry of Finance)	0.5	-0.2	0.4	1.0	1.1	…	…	…

1/ Calculated using the Slovak Ministry of Finance's forecast of GDP and potential GDP
Sources: 2024 Budget; IMF staff calculations

[13] The European Commission's S2 indicator measures the upfront permanent adjustment of the structural primary balance in 2024 that would be required to stabilize public debt over an infinite horizon. A country with an S2 indicator above 6 percentage points is deemed to be at 'high risk'. For further details see European Commission, "Debt Sustainability Monitor 2022, Institutional Paper 199, April 2023.

[14] Based on estimates in the 2024 budget.

[15] Staff's debt sustainability analysis (DSA) suggests that a permanent 5 percent of GDP increase in net contributions would be needed in a scenario where pension system assets are kept positive for the next 30 years (Annex III).

20. A credible consolidation path will require revenue and expenditure measures beyond those introduced in the 2024 budget. The 3.5 percent of GDP in cumulative structural fiscal measures needed over 2024–29 to achieve the recommended consolidation should be designed in a way that is consistent with supporting Slovakia's long-term growth and climate objectives.

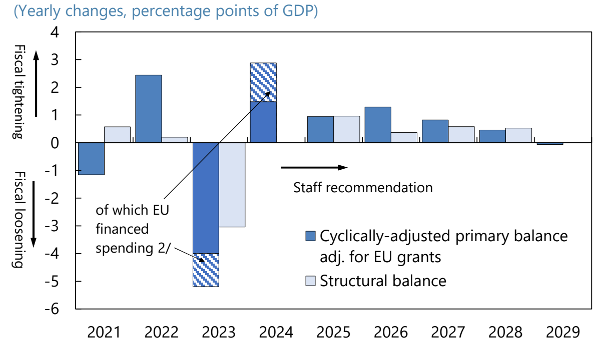
- *Revenues:* Several of the revenue measures in the 2024 budget, including the increase in health insurance contributions, increase in taxes on tobacco, a minimum tax for domestic companies, and a minimum tax for multinational companies, are welcome. In addition, already during 2024 there is scope to raise significant additional revenue by increasing the basic VAT rate to the EU average and reducing the number of items subject to a reduced VAT rate. These measures combined could deliver up to 0.6 percent in deficit reduction in 2024 and about 1.3 percent of GDP thereafter. Beyond 2024, raising property taxes by transitioning to a market value-based system could generate an additional 0.3 percent of revenue. Environmental taxes could be raised to the EU average, generating around 0.3 percent in revenue and supporting the green transition. In addition, the authorities should ensure that excise tax rates are adjusted for inflation to prevent the erosion in structural revenues over time.

- *Spending:* The government's intention to keep public sector wages constant in 2024 is appropriate given the significant increases in 2023. In addition, implementing already-identified Value for Money initiatives (e.g., a reduction in subsidies) and making the 2023 package of family benefits more targeted could each yield savings of about 0.5 percent of GDP. Temporary energy support measures to households should be removed at the

Figure 8. Fiscal Policy

Staff's policy advice entails a sustained fiscal consolidation…

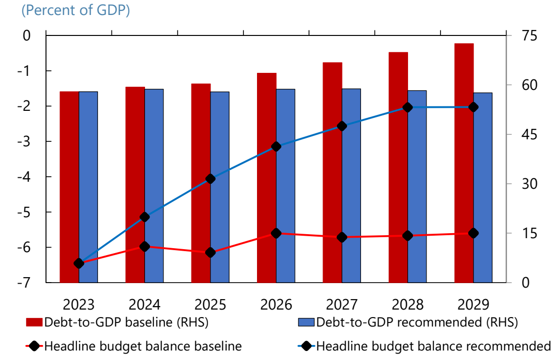
Primary Balances: Cyclically Adjusted and Structural 1/
(Yearly changes, percentage points of GDP)



Sources: Slovak Ministry of Finance and IMF staff calculations.
1/ Excludes one-off policies, including those related to the pandemic.
2/ EU financed spending only highlighted in 2023 and 2024

consistent with a gradual reduction in the headline deficit and…

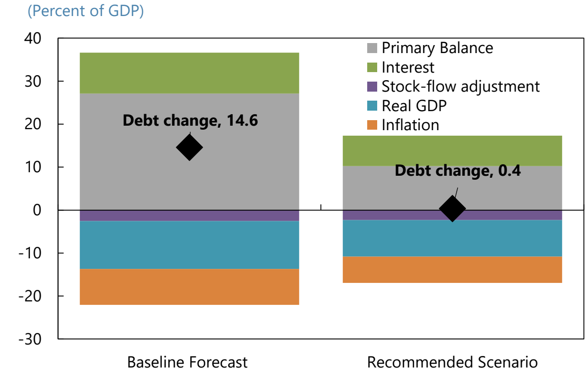
Baseline vs. Recommended Scenario
(Percent of GDP)



Sources: Haver Analytics and IMF Staff Calculations.

…resulting in public debt being nearly 8 percentage points lower than in the baseline.

Change in Public Debt 2024-29
(Percent of GDP)



Sources: Haver Analytics and IMF Staff Calculations.

end of this year (as currently envisaged in the 2024 budget) as they are costly, untargeted, and discourage energy conservation. In addition, reversing the recent increase of the 13th pension and eliminating the parental pension would yield a combined 0.7 percent of GDP in savings. Finally, eliminating the recently introduced early retirement option could yield fiscal savings of about 0.4 over the long-term.

21. Reforms to the fiscal framework should proceed alongside consolidation efforts. This will improve transparency and strengthen the credibility of long-term fiscal sustainability.

Fiscal Policy Measures
(Percent of GDP)

	Estimated yield
2024 Budget consolidation measures	
Bank levy	0.3
Redirection of pension contributions from first to second pillar	0.3
Increase in employers' health care contributions	0.3
Minimum corporate income tax	0.1
Tobacco excise tax	0.1
Other	0.5
Total gross consolidation measures	1.5
Recommended measures 1/	
Raise standard VAT rate to the EU average level	0.8
Eliminate reduced VAT rates	0.5
Identified Value for Money measures	0.5
Raise environmental taxes to the EU level	0.3
Make family benefits more targeted	0.5
Reverse increase in thirteenth pension	0.4
Eliminate early pensions after 40 years of service 2/	0.4
Eliminate parental pensions 2/	0.3
Raise property taxes 2/	0.3
Total	3.4

Sources: Slovak Ministry of Finance, Eurostat, OECD and IMF Staff calculations.
1/ Estimated full-year yield.
2/ Estimated long-term yield.

- *Expenditure ceilings*: Enshrining the expenditure ceilings framework in the Constitution with details of its parameterization in an ordinary law would help prevent its reversal in the future while preserving flexibility to amend the calibration of the limits and related sanctions. Furthermore, aligning the processes of preparing the expenditure ceilings with the government budget, while preserving the capacity and independence of the Council for Budgetary Responsibility, would make the expenditure ceilings more effective.

- *Debt brake*: Reforming the debt brake before it comes into effect in 2026, including by lowering the thresholds that trigger the debt brake escape clause would reduce the risk of a large procyclical fiscal consolidation during economic downturns. A reform of the debt brake would also be an opportunity to align debt brake sanctions with the expenditure ceilings as well as the EU's revised fiscal framework.

- *Value for Money:* Further integrating spending reviews into the budget process would support fiscal consolidation and improve spending efficiency and sustainability. To that end, the authorities should continue to strengthen collaboration between the Value for Money Department and departments in the Ministry of Finance responsible for budget preparation, and work to improve the buy-in of the rest of the government including by embedding adopted spending review measures in line ministry expenditure ceilings.

22. Effective absorption of EU funds is crucial for economic growth. Slovakia is one of the biggest beneficiaries of EU-financed public investments, which raises growth directly and boosts potential as investments expand the capital stock and reforms lift productivity. EU funds absorption during the 2014–20 programming period has been low relative to other EU countries, but the establishment of a public investment authority within the Ministry of Finance and amendments to the procurement law have improved absorption capacity. A strengthening of human resources and digitalization of processes would further improve project management, while introducing a system to monitor progress would strengthen project implementation. In addition, stronger financial oversight of state-owned enterprises (SOEs) would help improve public investment efficiency given the large amount of public investment carried out by SOEs.

Authorities' Views

23. The authorities underscored their commitment to sustainable public finances but envisaged a more gradual adjustment of the fiscal deficit than recommended by staff. They fully recognized the scale of the fiscal challenges confronting Slovakia and noted that stabilizing the debt-to-GDP ratio by the end of the term of the current government is a key objective. To achieve this, they intend to gradually reduce the deficit to 3 percent of GDP by 2027. The pace of fiscal consolidation is more backloaded than recommended by staff, but the authorities noted that the €2 billion (1.5 percent of GDP) package of gross consolidation measures in the 2024 budget was one of the largest in Slovak history. The impact on the deficit is partly offset by an increase in spending on pensions, healthcare, and support to homeowners with mortgages, which the government argued was necessary to protect the population from the current high inflation and interest rates and the impact of the fiscal consolidation. Beyond 2024, the government underscored their commitment to reducing the fiscal deficit by 1 percent per year starting in 2025, consistent with anticipated requirements under the EU's excessive deficit procedure and noted that work on preparing the fiscal measures necessary to achieve this consolidation would start in early 2024. On the fiscal framework, the authorities expressed strong support for staff's call for a reform to the constitutional debt brake before it comes into effect in 2026.

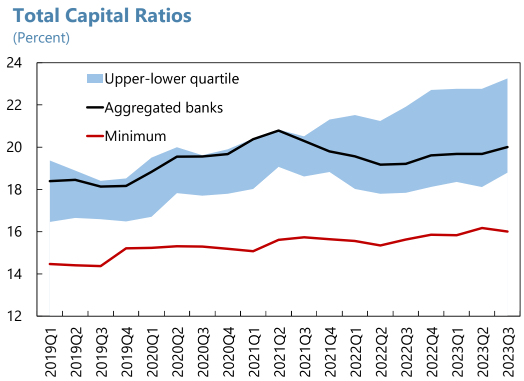
24. The authorities are committed to improving the absorption of EU funds. They highlighted their success in meeting milestones and targets under the RRF, which has allowed the European Commission to disburse pre-financing and the first three payments totaling €2.7 billion (42 percent) of the overall value of the plan. They remain committed to continue addressing remaining bottlenecks including coordination across agencies, project management, regulatory hurdles such as prolonged environmental assessments, and labor shortages.

B. Financial Sector Policy

25. The banking sector has adequate capital and liquidity buffers (Figure 9). Capital ratios are broadly stable at 20 percent of risk-weighted assets, supported by an increase in profits as higher interest rates boosted banks' net interest margins. Liquidity buffers are also ample, and the liquidity coverage ratio was about 180 percent in 2023:Q3. The quality of the credit portfolio has remained stable, and provisions appear adequate thus far with NPLs net of provisions significantly below the historical average.[16] However, risks are elevated in certain sectors, notably the CRE sector.[17] Household and NFC indebtedness has started to decline, albeit from high levels.

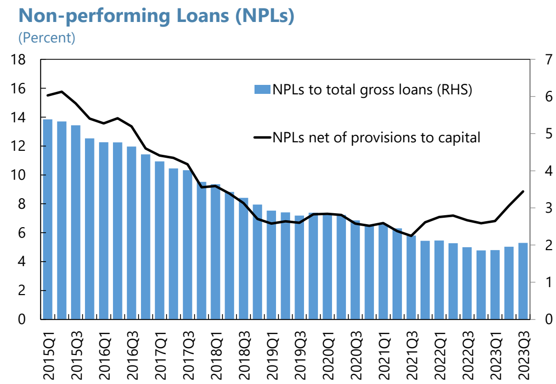
Figure 9. Slovak Republic: The Banking Sector

Capital buffers have been broadly stable and are well-above the regulatory minimum.



Source: National Bank of Slovakia.

The quality of the credit portfolio continues to improve, and provisions appear adequate thus far.



Source: Haver Analytics.

26. Systemic risks are broadly unchanged. While declining house prices and lower credit growth have reduced systemic risks, high for long interest rates or an unexpected deterioration in the macroeconomic outlook could put pressure on credit quality moving forward:

- *Households*: Thus far, less than 10 percent of mortgages have been reset to the current market rate (Figure 10). The National Bank of Slovakia (NBS) estimates that only 1 percent of the 40 percent of households whose mortgage rates are being reset between mid-2023 and end-2025 will become at risk of financial distress, but a longer-than-anticipated period of high interest rates would eventually put pressure on households' repayment capacity. The household sector overall has thus far been resilient to high inflation though some low-income households have seen an increase in the risk of financial distress.[18] NBS stress tests suggest that a deterioration in the economic outlook that raises unemployment by 4.2 percentage points could increase the proportion of mortgage holders at risk of financial distress by 2.8 percentage points compared to the baseline.[19]

- *Non-financial corporates*: While there is significant heterogeneity, more than 10 percent of NFCs saw costs more than double in 2022. Firms with the largest cost increases experienced falling profit margins, declining liquidity buffers, and increasing indebtedness, though the impact on

[16] Loans with a significant increase in credit risk (stage 2) and credit-impaired loans (stage 3 loans) decreased in 2022 from the peaks of the pandemic and only marginally increased in 2023. The coverage ratios were also relatively high at 4.8 percent for stage 2 loans and 60 percent for stage 3 loans.

[17] The share of stage 2 CRE loans in total loans was the second highest among euro area countries in June 2023.

[18] Households at risk of financial distress are defined as those whose loan payments and necessary living expenses exceed their income and savings.

[19] For further details see NBS November 2023 Financial Stability Report.

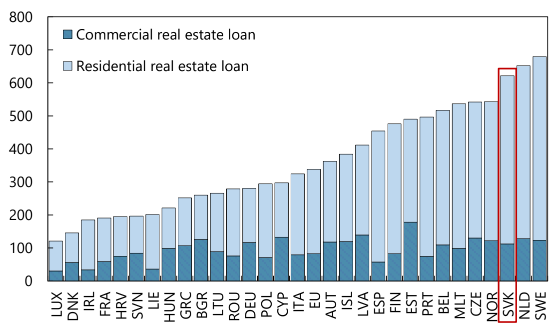
debt repayment capacity thus far has been limited. The NBS expects cost pressures and higher interest rates to increase the share of corporate loans at risk from 3 to 9 percent by end-2025.[20,21]

- *Commercial real estate*: The highly leveraged commercial real estate (CRE) sector is particularly sensitive to interest rate movements. This is particularly true for the retail and office segments, where the demand has declined structurally rise in interest expenses has accounted for 20–30 percent of rental income for the majority of firms. Higher interest rates also have raised the required yield for investors, which together with weaker occupier demand has further depressed property values. An NBS stress test suggests CRE loans at risk could increase from 7 to 25 percent by end-2024 if rental income of lower quality projects falls by about 10 percent and interest rates rise by 400 bps.

Figure 10. Slovak Republic: Macro-Financial Risks

Slovak banks have a relatively high exposure to real estate…

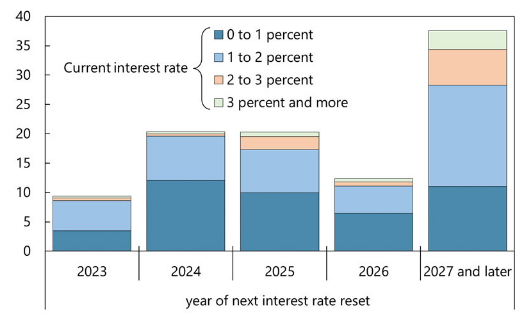
Bank Credit Exposure to Real Estate
(Percent of Tier 1 Capital, 2023Q3)



Sources: European Banking Authority and IMF staff calculations.

…and the majority of mortgages will be reset in the coming years

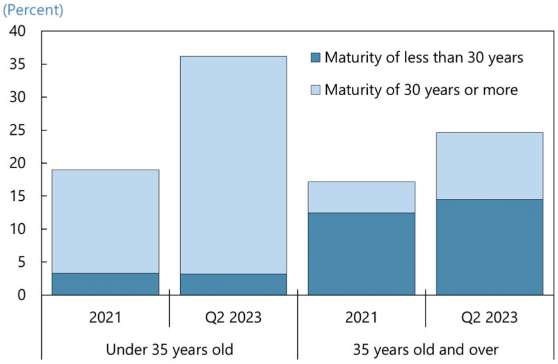
Distribution of the Mortgage Loans by Next Rate Reset Year
(Percent)



Source: National Bank of Slovakia.

A share of loans with a high DSTI ratio has increased particularly among young borrowers.

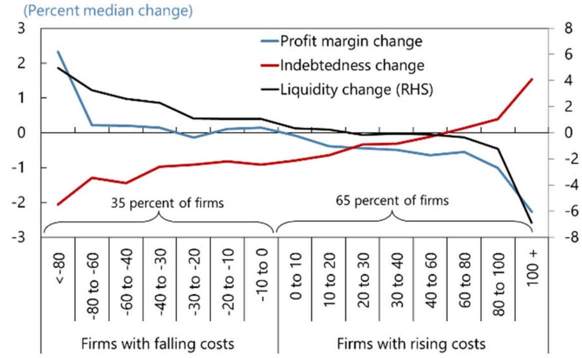
Share of Loans With a DSTI Ratio of More Than 55 Percent
(Percent)



Source: National Bank of Slovakia

Firms whose costs have increased have seen a deterioration in their financial metrics.

The Effect of Change in Costs Across Firms (2022)
(Percent median change)



Source: National Bank of Slovakia.

[20] Loans at risk are defined as loans to firms that are expected to have negative equity by end-2025.

[21] Excluding the commercial real estate sector.

27. Continued close monitoring of banks' credit portfolios is warranted, with a particular focus on low-income households with smaller financial buffers and NFCs exposed to rising costs and higher interest rates. The authorities should continue to update stress tests to assess the resilience of the banking sector to adverse macro-financial shocks and ensure that banks continue to adequately provision for expected losses and emerging risks, especially in vulnerable segments including the CRE sector. Efforts should be made to strengthen the resilience of the financial system to cyber-attacks in line with the EU's Digital Operational Resilience Act (DORA).

28. The new bank levy, used to in part to finance a mortgage subsidy scheme, will weigh on banking sector profits and should be gradually unwound as currently planned. The levy is set at 30 percent of banks' profits in 2024 but will be reduced by 5 percentage point per year to 15 percent in 2027, before being eliminated in 2028. The levy raises the effective tax rate on banks to 45 percent in 2024, which is higher than in many other euro area countries. Furthermore, while Slovak banking sector profits increased in 2023, they were among the lowest in Europe. The levy could prevent the build-up of bank capital buffers at a time when vulnerabilities are increasing, stifle credit growth, and put upward pressure on mortgage rates. Furthermore, the mortgage subsidy reduces the transmission of higher policy interest rates to mortgage rates, thereby boosting housing purchasing power and contributing to the relative strength of core inflation.

29. The current macroprudential stance is appropriate, but the authorities should consider additional macroprudential tools to address emerging risks in the CRE sector. Although credit growth has started to moderate, the increase in the countercyclical capital buffer (CCyB) to 1.5 percent in August 2023 was appropriate given that some new loans have risky attributes (e.g., mortgages with high debt service-to-income). However, the authorities should stand ready to release the CCyB if downside macro-financial risks materialize. Previously introduced borrower-based measures (BBMs), such as the debt-service-to-income (DSTI) and loan-to-value (LTV) limits, have been effective at containing risk in the residential real estate market, while the new age-dependent debt-to-income limit has limited refinancing of mortgages beyond the retirement age.[22,23] In addition, the authorities should consider adding to their macroprudential toolkit measures targeted at the CRE sector, such as a systemic sectoral capital risk buffer, though activation of these measures should be carefully timed to avoid stifling the flow of credit and exacerbating the current downturn in the sector.

30. Improvements to the AML/CFT framework should be sustained. The action plan to mitigate money laundering (ML) and terrorist financing (TF) risks has been adopted and deficiencies in reporting suspicious transactions to the Financial Intelligence Unit addressed. The authorities have also established a competent authority to investigate ML cases. However, deficiencies related to the lack of: (i) requirements to manage and mitigate instances of high ML/TF risks; (ii) beneficial ownership information; and (iii) procedures to mitigate risks posed by politically exposed persons

[22] The NBS carried out a cost-benefit analysis of the merits of introducing a systemic sectoral risk buffer on retail exposures (as recommended by staff in the 2022 Article IV consultation) and concluded this to be unnecessary as existing macroprudential buffers and risk-weights on mortgages already are high, particularly for banks with large housing market exposures.

[23] The DTI limit gradually falls from 8 times household income for borrowers aged 40 to 3 at age 60.

remain, and there are compliance gaps in the field of new technologies where international requirements for virtual assets have recently been introduced. Continued progress in strengthening the AML/CFT framework (including the risk-based supervision of banks and gatekeepers) is expected to help manage reputational risks that may arise from sanctions evasion, particularly in the current geopolitical context.

Authorities' Views

31. The authorities agreed with staff's assessment of financial sector vulnerabilities and the macroprudential policy stance. They concurred with the positive assessment of financial sector resilience but stressed that an increase in unemployment or high for long interest rates could impair households' repayment capacity. The authorities agreed that the current macroprudential stance was appropriate but acknowledged that the high interest rate environment had increased risks in the CRE sector and that macroprudential tools targeted at the sector could be useful to help build resilience. The authorities are committed to improving their AML/CFT framework. They pointed to progress on implementing the recommendations in the 2020 MONEYVAL mutual evaluation report, with the second follow-up report acknowledging progress Slovakia has made in strengthening AML/CFT supervision of financial institutions.

C. Structural Policies

32. Structural reforms are needed to broaden the production base. The success of the auto sector has led to decades of strong growth but made Slovakia vulnerable to shocks. Meanwhile the green transition, including the shift to electric vehicles, could have profound implications for growth, exports, and the labor market, while jobs at risk of being automated are among the highest in Europe (Figure 17).[24] Diversification efforts are hampered by relatively low spending on R&D and limited use of advanced digital technologies. In this regard, it will be important to proceed with the measures outlined in the authorities' new National Strategy on Research, Development and Innovation, including an increase in spending on public R&D, improved support to firms and startups via R&D tax credits and grants, and stronger links between universities, firms, and public agencies. Continued implementation of the Recovery and Resilience Plan (RRP)—including reforms and grants to boost digitalization, incentivize R&D, and boost innovation—and scaling up of effective Active Labor Market Policies (ALMPs) like training and reskilling will also be important for addressing these structural challenges.

33. Targeted policies are needed to address regional income inequalities and stimulate inclusive growth.[25] While there has been some convergence in the past twenty years, GDP per capita in Bratislava is over 3 times higher than in the East (Figure 18). Transfers help narrow the gap,

[24] The amount of labor input and components required to produce an electric vehicle is significantly lower than for a traditional internal combustion engine. Hence, the transition to electric vehicles may have adverse employment consequences. See Celasun, O., S. Galen, P. Topalova, and J. Zhou (2023), "Cars and the Green Transition: Challenges and Opportunities for European Workers", IMF Working Paper 23/116 for further details.

[25] See Selected Issues Paper that further examines regional inequality in Slovakia.

but regional differences in household income are still substantial. Regional income disparities reflect a combination of worse labor market outcomes and lower labor productivity. To address these disparities the authorities should focus on boosting investment in physical and digital infrastructure and improving transportation links, improving access to education and expanding vocational training, and increasing the housing stock in areas with less labor market slack. At the same time targeted measures, such as improved access to affordable housing, schooling, and vocational education, are needed to improve employment opportunities and foster social inclusion among the Roma community and other disadvantaged groups, a large share of whom live in Eastern Slovakia.

34. Tackling Slovakia's demographic challenges will be crucial for sustaining medium-term growth and safeguarding fiscal sustainability.[26] Slovakia's working age population is expected to fall from 67 to 57 percent of the population by 2050, while the dependency ratio is set to increase by 50 percent, putting pressure on employment, growth, and potentially productivity, with staff simulations suggesting real GDP per capita could decline by about 9 percent by 2050 (Figure 20).[27,28,29] At the same time, rising aging-related spending and declining tax revenues could put fiscal sustainability at risk.

35. Mitigating the impact of aging requires policies to increase fertility and the labor force participation of women, the elderly, and the disadvantaged (Figure 11). Many of the reforms in the 2023 family support package, including child allowances and child tax credits, could help boost fertility, but given Slovakia's challenging fiscal outlook should be better targeted to reduce its fiscal cost. The relinking of the statutory retirement age to life expectancy in the 2022 pension reform will increase labor force participation of the elderly; tax credits for older workers and restrictions on early retirement could help increase it further. In addition, shortening the 3-year long maximum maternity leave period (one of the longest in the OECD) whilst improving the availability of child and elderly care and increasing options for flexible work arrangements would help raise employment rates among women. These reforms can and should be done immediately given that they will take time to yield results. Providing training, especially to women after maternity leave, would facilitate the re-entry of women into the labor market. Also, policies targeting the Roma community would allow Slovakia to unleash the potential of this untapped labor force. Visa programs targeted at foreign workers and integration programs for immigrants would further help address skill gaps and boost labor supply. Finally, strengthening healthcare, as envisaged in the RRP, by modernizing the hospital

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[26] See Selected Issues Paper for the impact of aging on future growth and productivity and measures to reverse its potential impact.

[27] The dependency ratio relates the number of children (0–14 years old) and older persons (65 years and over) to the working-age population (15–64 years old).

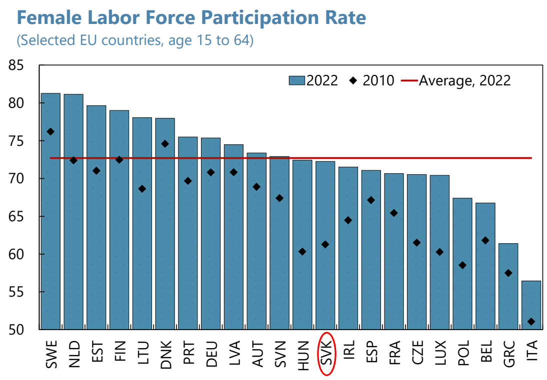
[28] The OECD estimates that Slovak GDP per capita will drop by 20 percent by 2050 (see Hwang, H. and O. Roehn (2022), "Tackling the challenges of population ageing in the Slovak Republic", OECD Economics Department Working Papers No. 1701).

[29] Maestas, Mullen, and Powell (2023), using the U.S. states data over 1980–2010, estimate that about two-thirds of the fall in real GDP per capita due to aging is accounted by the decline in labor productivity while one-third is due to the decline in employment (Maestas, Nicole, Kathleen J. Mullen, and David Powell. 2023. "The Effect of Aging on Economic Growth, the Labor Force, and Productivity." American Economic Journal: Macroeconomics 15(2): 306–332).

network and improving access to primary care services in underserved regions, will help improve health outcomes and extend working lives. Simulations suggest that a combination of labor market policies, including raising both female and old-age labor force participation rates, as well as hours worked and net inward migration, would allow Slovakia to offset the impact of aging and come close to sustaining its historical real GDP per capita growth rate of 2.5 percent over the medium term.[30]

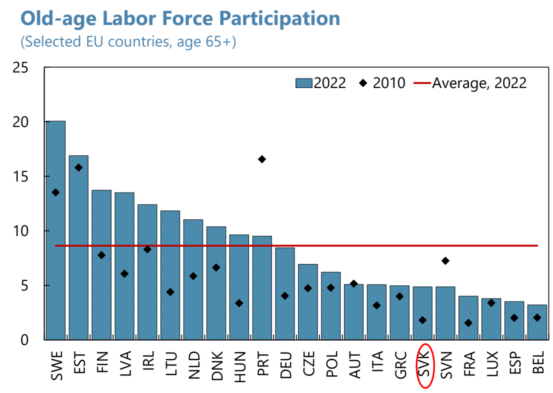
Figure 11. Slovak Republic: Labor Force Participation of Females and the Elderly

The female labor force participation rate in Slovakia has been rising since 2010 and is now close to the EU average.



Sources: OECD and IMF staff calculations.

The old-age labor force participation rate in Slovakia is one of the lowest in Europe.



Sources: OECD and IMF staff calculations.

36. Slovakia has made significant progress in reducing greenhouse gas emissions (GHEs), but more efforts are needed. While greenhouse gas emissions have fallen by 44 percent since 1990, meeting Slovakia's commitment to cut emissions by 55 percent by 2030 relative to 1990 levels will require further efforts (Figure 19). The 2023 National Energy and Climate Plan sets out the government's plan of action to address GHE emissions. The planned replacement of two coal-fired blast furnaces in the steel industry with electric ones, which is being considered for after 2025, and the expansion of the EU's ETS system to road transport and buildings from 2027 will support climate mitigation policies, though the carbon price in the new ETS sectors is expected initially to be lower than in the traditional ETS sectors. In addition, Slovakia's RRP, which includes a RePowerEU chapter, earmarks about €2.5 billion for climate objectives, including building renovations, sustainable transport, and support for renewables. Increasing the effective energy tax rate, including by introducing an explicit carbon tax in sectors not (yet) covered by the ETS system, including road transport, buildings, and agriculture, and phasing out the $4.3 billion (3.7 percent of GDP) in implicit fossil fuel subsidies, would not only support the green transition but also the fiscal

[30] See Selected Issues Paper for further details on the simulated impact of aging on future growth.

consolidation.[31,32,33] Lastly, supporting environmental R&D and investment in green technologies would not only help climate mitigation efforts but also support economic diversification.

Authorities' Views

37. The authorities broadly agreed with staff's recommendations on structural policies. They agreed that concerted efforts were required to allow Slovakia to transition to a higher-value-added economy and underscored that significant efforts were underway to boost productivity growth as part of the implementation of the National Strategy on Research, Development, and Innovation. The authorities agreed there was an urgent need to tackle Slovakia's demographic challenges and noted that in addition to ongoing efforts to increase labor force participation, the new government was exploring policies to increase the inflow of foreign workers. Finally, the authorities expressed confidence that Slovakia would achieve its climate commitments. At the same time, they highlighted the need to reduce the burden of environmental impact assessments which was hampering the expansion of renewables in Slovakia.

STAFF APPRAISAL

38. The Slovak economy has remained resilient despite challenges from soaring commodity prices, supply chain disruptions and weaker external demand. Large fiscal stimulus likely helped avoid a recession in 2023 by preventing a sharper contraction in private consumption amidst falling real wages. However, the structural nature of much of the fiscal expansion has worsened Slovakia's fiscal outlook considerably. With improved supply chain conditions and a recovery in real disposable income, growth is projected to increase to 2.1 percent in 2024 from 1.1 percent in 2023. Inflation remains among the highest in the euro area but is projected to gradually fall. Adverse demographic trends and lower productivity growth will weigh on the medium-term outlook, resulting in slower income convergence. Risks are tilted firmly to the downside including from weaker external demand, commodity price shocks, delays in fiscal consolidation, slow implementation of structural reforms, and failure to absorb EU grants effectively. Slovakia's external position in 2022 is assessed to be moderately weaker than fundamentals and desirable policies.

39. Fiscal consolidation is needed to safeguard the sustainability of public finances. The authorities' resolve to improve public finances is welcome, but further efforts are needed to put debt on a downward path, rebuild buffers for potential shocks, and prepare for the increase in aging-related spending. Introducing additional measures to keep the structural deficit in 2024 unchanged relative to the projected 2023 outcome would increase the credibility of the fiscal consolidation and

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[31] Black, Simon, Antung A. Liu, Ian Parry, and Nate Vernon. "IMF Fossil Fuel Subsidies Data: 2023 Update", IMF Working Paper 23/169.

[32] A carbon price on road transport and buildings should eventually be aligned and replaced by the expanded ETS system to avoid distorting the level playing field inside the EU.

[33] For further details regarding Slovakia's climate mitigation policies and targets, and the impact of a carbon tax, see IMF Country Report No. 22/218.

contain gross financing needs this year. Moreover, to help the consolidation effort any revenues above those projected in the budget or lower-than-anticipated expenditures on energy support should be saved. The targeted 1 percentage point annual reduction in the headline deficit in 2025 and 2026 is appropriately ambitious, though concrete fiscal measures are needed to underpin the envisaged consolidation. Beyond 2026, the structural balance should be reduced by at least 0.5 percentage points per year with the goal to reduce the headline deficit to around 2 percent of GDP by 2028. While a tighter fiscal policy stance may lower growth this year, it will reduce the need for an even larger and potentially disruptive fiscal consolidation in the future.

40. A credible consolidation path will require additional revenue and expenditure measures. A cumulative 3.7 percent of GDP in structural fiscal measures will likely be needed over 2024–28 to achieve the recommended consolidation. These measures should be designed in a way that is consistent with Slovakia's long-term growth and climate objectives. Raising the basic VAT rate to the EU rate and increasing property and environmental taxes could yield sizeable revenue. On the spending side there is scope to implement already-identified Value for Money initiatives (e.g. a reduction in subsidies) and make the 2023 package of family benefits more targeted. Temporary energy support measures to households should not be extended beyond 2024. In addition, the authorities should reverse the recently introduced increase of the 13th pension and eliminate the new parental pension and early retirement option.

41. Reforms to the fiscal framework would help strengthen the longer-term outlook for public finances. The expenditure ceiling framework should be enshrined in the constitution to help prevent its reversal, while the processes of preparing the expenditure ceilings should be aligned with that of the government budget. In addition, the debt brake should be reformed before it comes into effect in 2026 to avoid the risk of a large procyclical fiscal consolidation, and debt brake sanctions aligned with the expenditure ceilings as well as the EU's revised fiscal framework. The collaboration between the Value for Money Department and other sections in the Ministry of Finance should be strengthened to further integrate spending reviews into the budget process.

42. The Slovak banking sector has sizable buffers, but close monitoring, enhanced supervision, and careful calibration of financial sector policies are warranted. The authorities should ensure that banks continue to adequately provision for expected losses and emerging risks, especially in vulnerable segments including the CRE sector, and should stand ready to release the CCyB if downside macro-financial risks materialize. It would also be prudent to explore options to introduce targeted macroprudential measures, such as a systemic sectoral capital risk buffer, to build resilience against risks in the CRE sector. The new bank levy, used to in part to finance a mortgage subsidy scheme will weigh on banking sector profits and should be phased out as planned. Remaining deficiencies in the AML/CFT framework should be addressed and the resilience of the financial system to cyber-attacks strengthened.

43. Structural reforms are needed to raise inclusive and climate friendly growth. Raising the very low spending on public R&D and supporting firms and startups via R&D tax credits and grants, while strengthening research cooperation between universities and firms will boost productivity and help diversification efforts. Implementation of the RRP reforms, along with effective execution of the planned investments, will be instrumental in addressing Slovakia's structural weaknesses. Maintaining good governance and a favorable investment climate is essential to keep attracting the funding necessary to lift the economy's growth potential. The authorities should also consider increasing the effective energy tax rate, including by introducing an explicit carbon tax in sectors not (yet) covered by the ETS system, including road transport, buildings, and agriculture, and phase out fossil fuel subsidies.

44. Targeted policies are needed to tackle demographic challenges, address regional income inequalities, and accelerate the green transformation. Effective labor market policies such as child support, flexible work arrangements, and training to increase female labor force participation, as well as tax credits and restrictions on early retirement to increase old-age labor force participation and policies to attract foreign workers are needed to strengthen labor supply in a rapidly aging society. Meanwhile, infrastructure investments, education reforms, and measures to foster social inclusion among the Roma community and other disadvantaged groups would help reduce regional inequality and ensure the benefits of growth accrue to all.

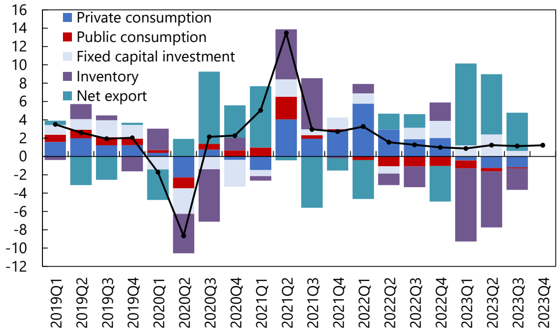
45. It is recommended that the next Article IV consultation with the Slovak Republic take place on the standard 12-month consultation cycle.

Figure 12. Slovak Republic: Real Sector Developments

Net exports compensated for negative consumption growth and a drawdown of inventories in 2023H1.

Contribution to Real GDP Growth

(Percentage points, annualized, 4-quarter moving average)

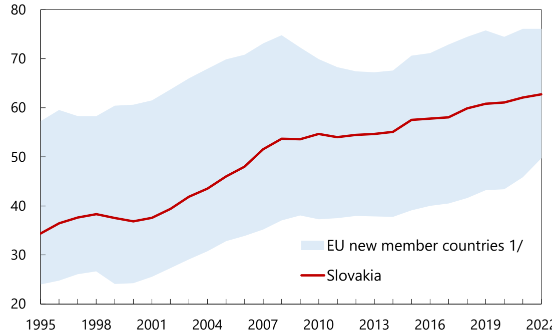


Sources: Haver Analytics and IMF staff calculation.

Income convergence has started to slow.

Income Convergence Among EU New Member States

(GDP per capita in constant PPP dollars as percent of Germany's)

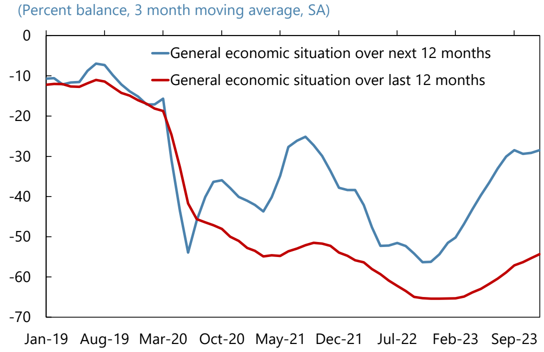


1/ EU new member states include Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia, Estonia, Latvia, and Lithuania.
Sources: IMF World Economic Outlook and IMF staff calculations.

Consumer confidence has started to improve, albeit from low levels.

Consumer Confidence Indicator

(Percent balance, 3 month moving average, SA)

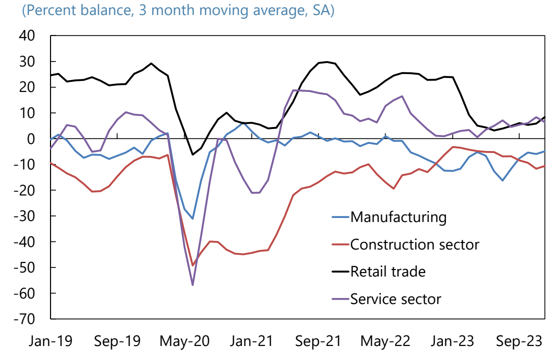


Source: Haver Analytics.

Confidence in the service and retail sectors have declined and remains depressed in manufacturing.

Business Confidence Indicators

(Percent balance, 3 month moving average, SA)

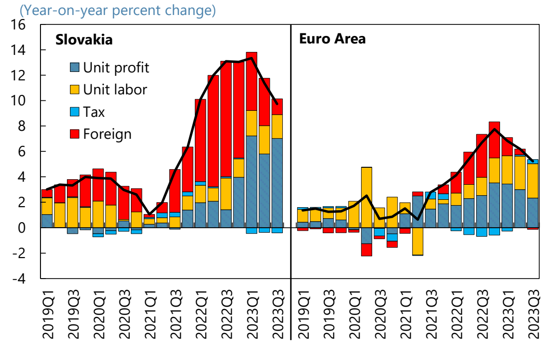


Source: Haver Analytics.

Import prices have been the main driver of inflation, but rising corporate profits are playing an increasing role.

Consumption Deflator Inflation

(Year-on-year percent change)

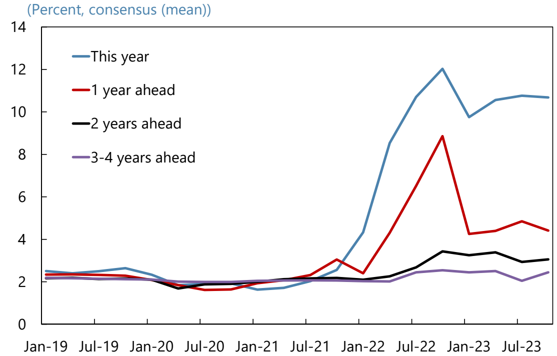


Sources: Eurostat, OECD, IMF staff calculations.

Short-term inflation expectations remain elevated, although medium-term expectations seem to be well anchored.

Inflation Expectations

(Percent, consensus (mean))

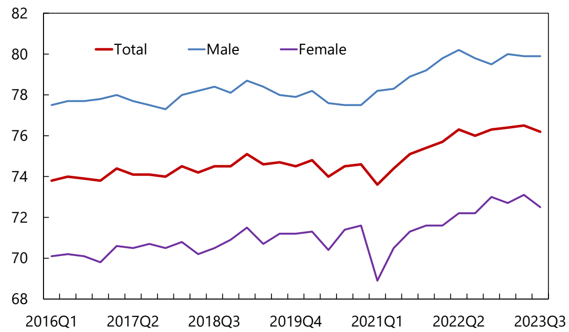


Sources: Consensus Forecasts and IMF staff calculations.

Figure 13. Slovak Republic: Labor Market Developments

Labor force participation has increased, particularly for women.

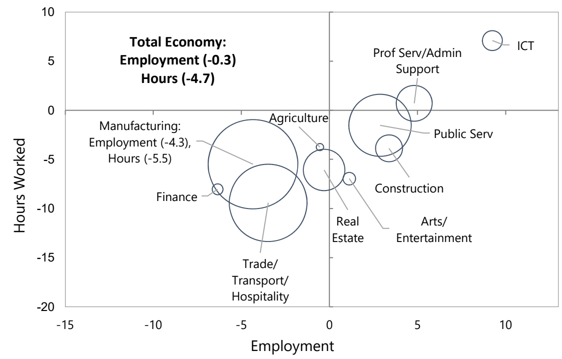
Labor Force Participation Rate
(Percent, age 15 to 64 years, SA)



Source: Haver Analytics.

The recovery in hours worked lags employment across nearly all sectors.

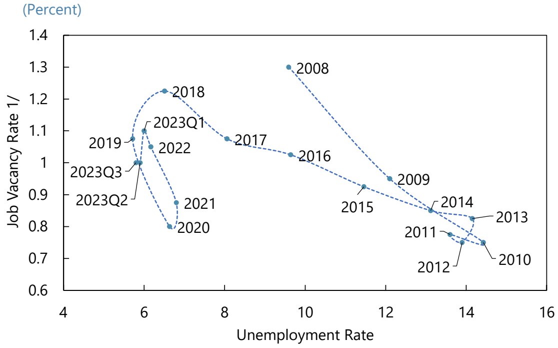
Employment vs. Hours Worked
(Percent difference, 2023Q3 relative to 2019Q4)



Sources: Haver Analytics; and IMF staff calculations.
Note: The size of the bubbles is proportional to 2019 GVA.

A steeper Beveridge curve points to a reluctance to lay off workers.

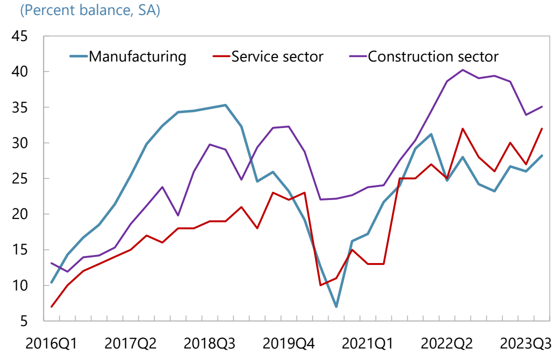
Beveridge Curve
(Percent)



1/ Number of job vacancies / (Number of occupied posts+Number of job vacancies).
Source: Haver Analytics.

Labor shortages are particularly high in the construction sector.

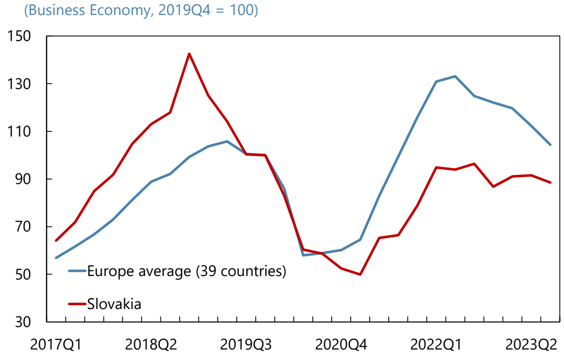
Firms Reporting Labor Shortage
(Percent balance, SA)



Sources: Haver Analytics and IMF staff calculations.

Labor market tightness has increased, but remains below that in the EU.

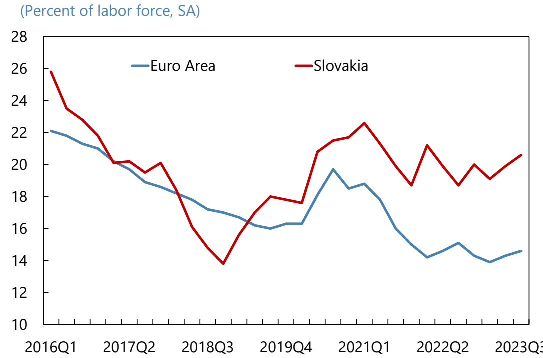
Index of Vacancy to Unemployment Ratio
(Business Economy, 2019Q4 = 100)



Sources: Haver Analytics and IMF staff calculations.

Unemployment among the young is particularly high in Slovakia.

Youth Unemployment Rate
(Percent of labor force, SA)

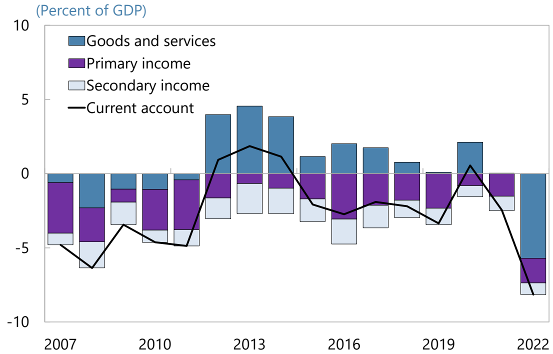


Source: Eurostat.

Figure 14. Slovak Republic: External Sector Developments

Supply chain disruptions and weak exports resulted in an increase in the current account deficit in 2022…

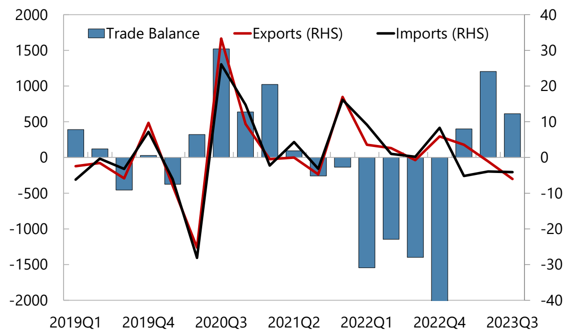
Current Account Balance
(Percent of GDP)



Sources: Eurostat, National Bank of Slovakia and IMF staff calculations.

…but the trade balance has recovered in 2023 as supply chain disruptions have started easing…

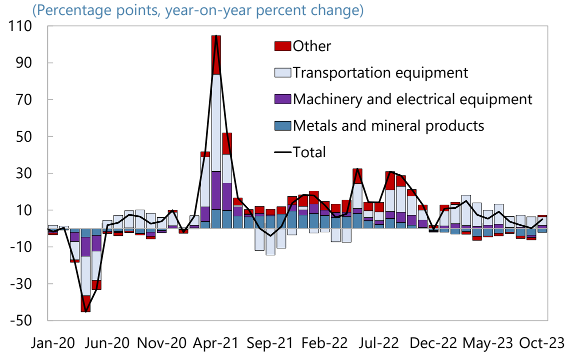
Foreign Trade
(Million EUR, quarter-on-quarter percent change (RHS))



Source: Haver Analytics.

…contributing to an increase in car exports.

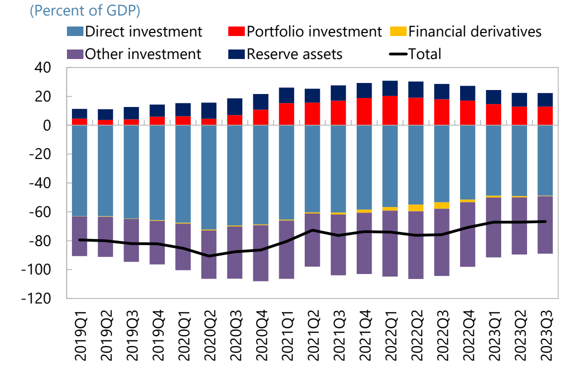
Contribution to Export Growth
(Percentage points, year-on-year percent change)



Sources: Haver Analytics and IMF staff calculations.

The net international investment position has improved but remains negative due to large FDI liabilities.

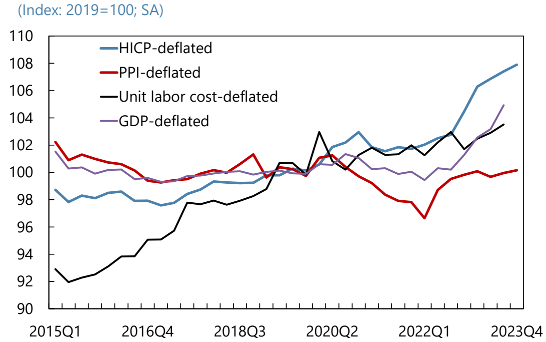
Net International Investment Position
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

An appreciating real exchange rate suggests external competitiveness has weakened…

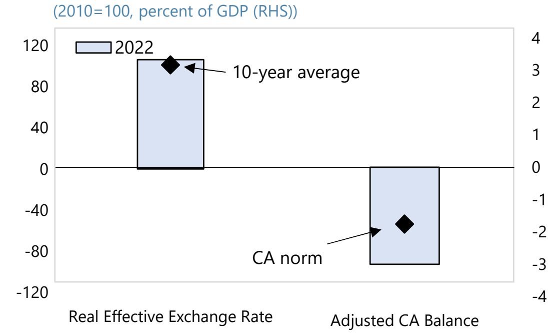
Real Effective Exchange Rate
(Index: 2019=100; SA)



Sources: Haver Analytics and IMF staff calculations.

….and staff assess the external position in 2022 to be somewhat weaker than fundamentals.

External Position
(2010=100, percent of GDP (RHS))

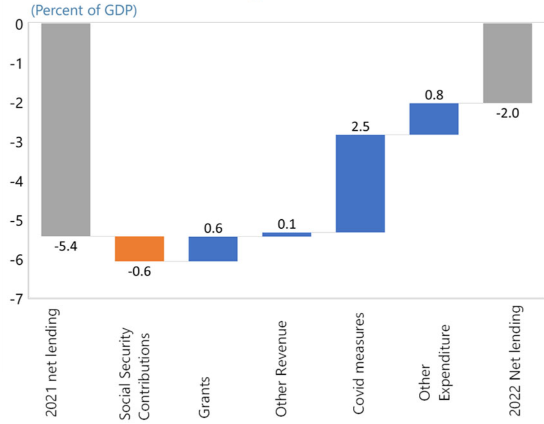


Sources: IMF INS database and IMF staff calculations.

Figure 15. Slovak Republic: Fiscal Sector Developments

A reduction in Covid-related spending reduced the deficit significantly in 2022.

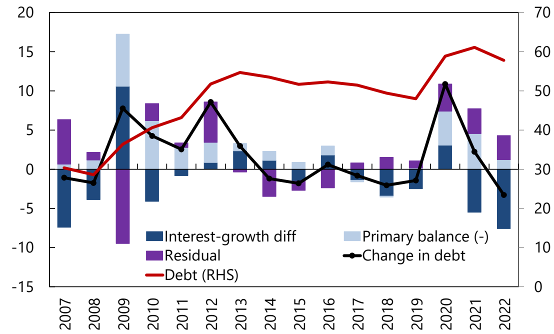
Increases in Net Lending in 2022
(Percent of GDP)



Sources: Slovak Ministry of Finance and IMF Staff calculations.

Public debt increased to historical highs during the pandemic...

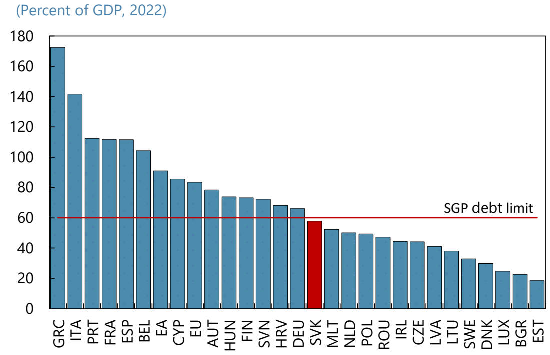
Public Debt
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

...but is below the Stability and Growth Pact's 60 percent of GDP limit.

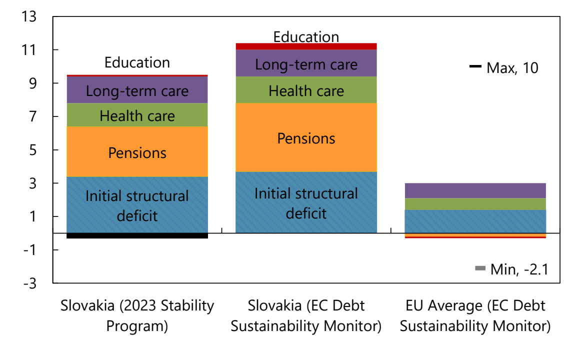
General Government Gross Debt
(Percent of GDP, 2022)



Sources: Haver Analytics and IMF staff calculations.

However, Slovakia's high long-term funding gap is amongst the highest in the EU...

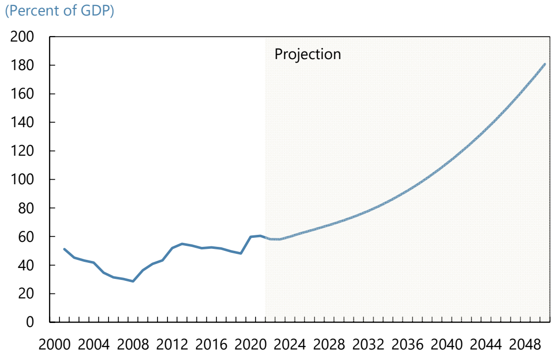
Long-term Funding Gap (S2)
(Percent of GDP)



Sources: Slovak Ministry of Finance, European Commission and IMF staff calculations.

...which will put pressure on debt sustainability moving forward.

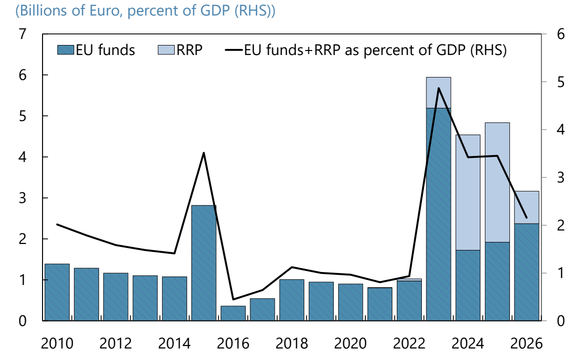
Government Debt Without Offsetting Ageing Related Costs
(Percent of GDP)



Source: OECD Economic Surveys Slovak Republic 2022.

The RRP is expected to drive public investment growth in 2023–26.

Investment Funded by EU Grants
(Billions of Euro, percent of GDP (RHS))



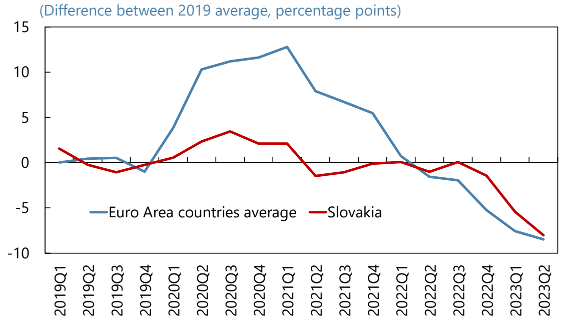
Source: Slovak Ministry of Finance.

Figure 16. Slovak Republic: Financial Sector Developments

Tighter financial conditions have led to a widening negative credit gap.

Domestic Credit to GDP Gap

(Difference between 2019 average, percentage points)

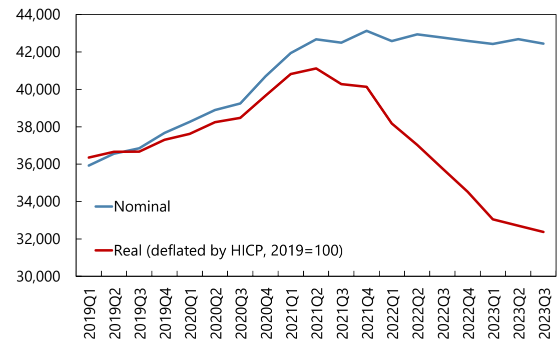


Sources: European Central Bank and IMF staff calculations.
Note: The gap is calculated by the ECB as the deviation of the total credit-to-GDP ratio from its long-term trend. The trend is calculated using a recursive HP filter.

A fall in real deposits suggests lower household buffers to withstand adverse shocks...

Household Deposits

(Million EUR)

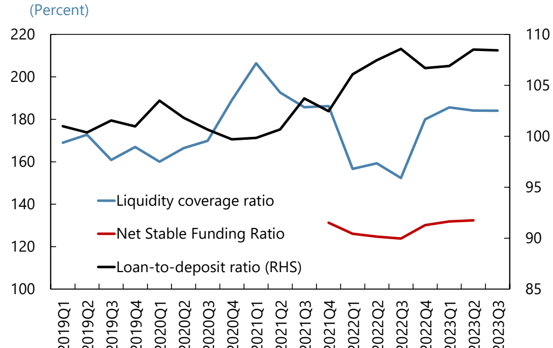


Source: Haver Analytics.

...but banks liquidity buffers remain ample.

Liquidity

(Percent)

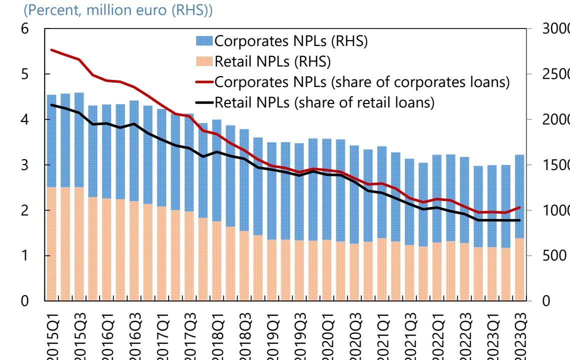


Sources: National Bank of Slovakia and IMF staff calculations.

NPLs for both coporates and households are at historical lows.

Non-Performing Loans by Sector

(Percent, million euro (RHS))

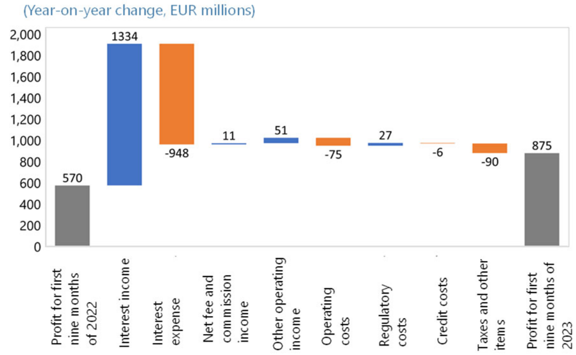


Sources: Haver Analytics, National Bank of Slovakia and IMF staff calculations.

Banking profitability has improved as net interest income increased amidst an increase in interest rates.

The Banking Sector's Net Profit and Contributions

(Year-on-year change, EUR millions)

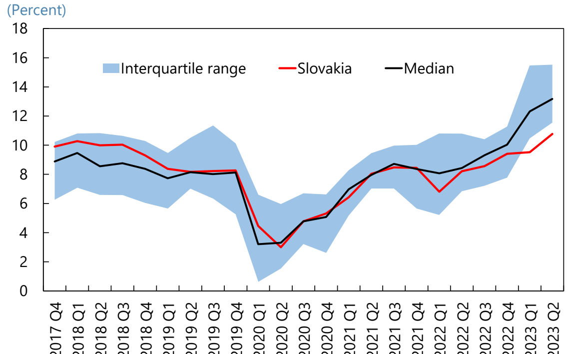


Source: National Bank of Slovakia.

The banking sector's profitability in Slovakia has underperformed relative to other EU countries.

Return on Equity (ROE) in EU Countries

(Percent)

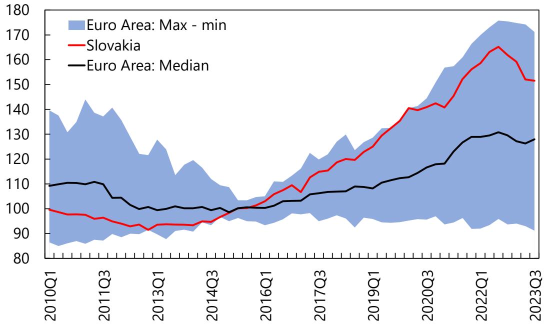


Source: National Bank of Slovakia.

Figure 17. Slovak Republic: The Housing Market

House prices have started to decline…

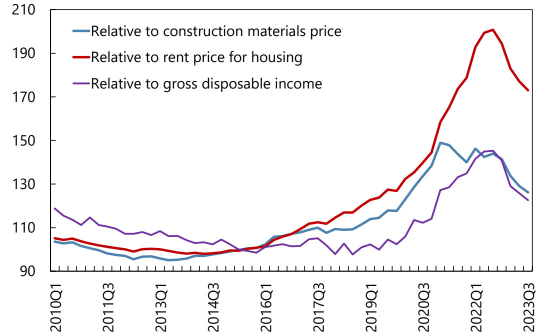
House Price Index
(Rental price, 2015=100, NSA)



Note: excludes Greece
Sources: Eurostat and IMF staff calculations.

…more so than fundamentals

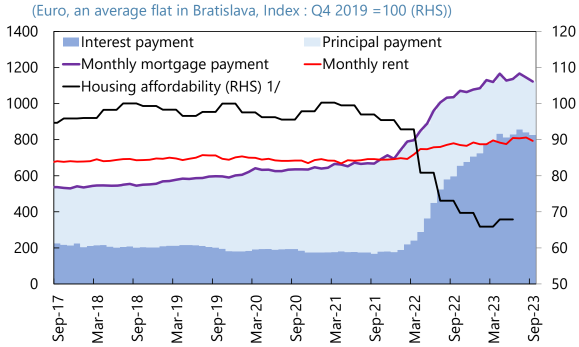
Residential Property Price Index
(2015=100)



Sources: Haver Analytics and IMF staff calculations.

Recently, the interest payment on a new flat exceeded the cost of renting.

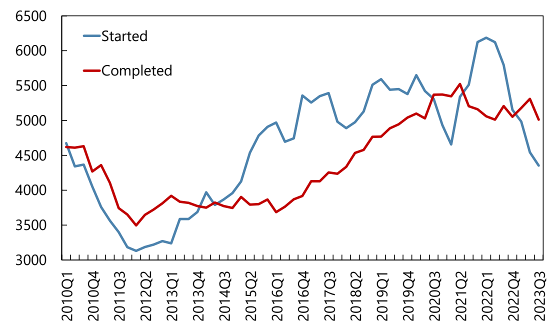
Mortgage Payment and Housing Affordability
(Euro, an average flat in Bratislava, Index : Q4 2019 =100 (RHS))



Source: National Bank of Slovakia.
1/ The ratio of the average gross nominal wage to the mortgage payment.

Completions remain at record levels, alleviating the structural shortage of housing.

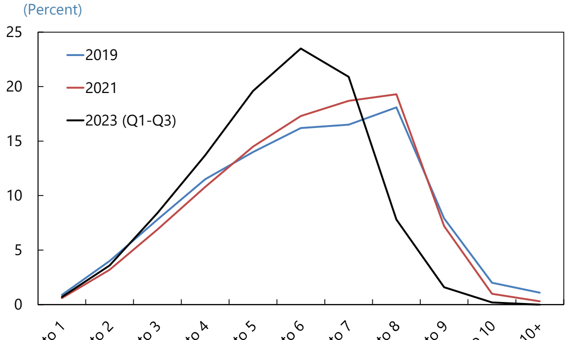
Construction of Dwellings
(4-quarters moving average)



Sources: Haver Analytics and IMF staff calculations.

DTI levels have decined since the pandemic…

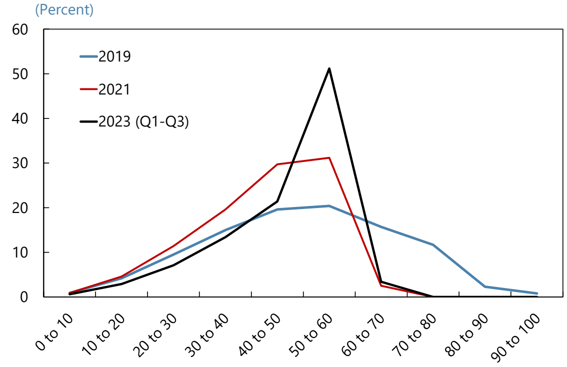
Distribution of Mortgages per DTI Bucket
(Percent)



Source: National Bank of Slovakia.

… but higher interest rates have led to an increase in mortgages with DSTI ratios above 50 percent.

Distribution of Mortgages per DSTI Bucket
(Percent)

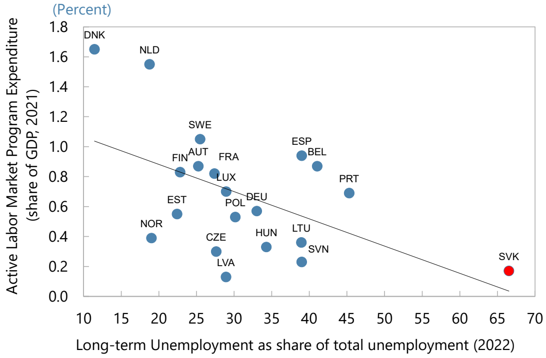


Source: National Bank of Slovakia.

Figure 18. Slovak Republic: Structural Developments

Slovakia spends relatively little on ALMP and has a high share of long-term unemployed.

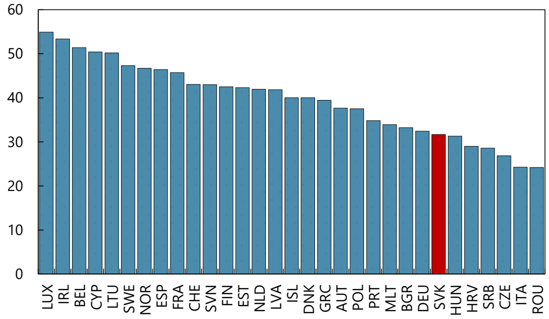
Active Labor Market Policies in Select EU Countries
(Percent)



Sources: OECD, Haver Analytics and IMF staff calculations.

The education level of immigrants is low in Slovakia.

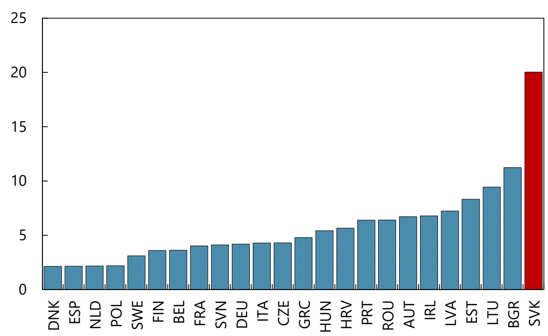
Share of Employed Immigrants with Tertiary Education
(Percent, 2022)



Source: Eurostat.

Tertiary students enrolled abroad is high due to the absence of quality education, leading to the brain drain.

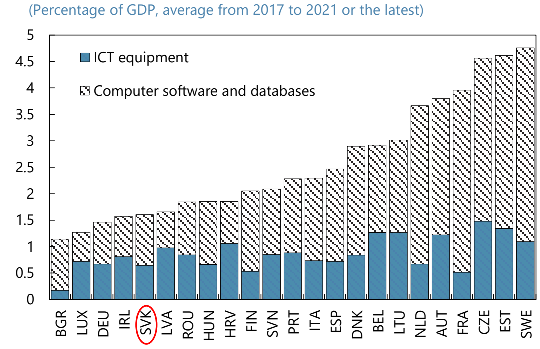
The Share of Tertiary Students Enrolled Abroad
(Percent, 2021)



Source: OECD Education at a Glance 2023.

ICT investment is lower than other EU countries

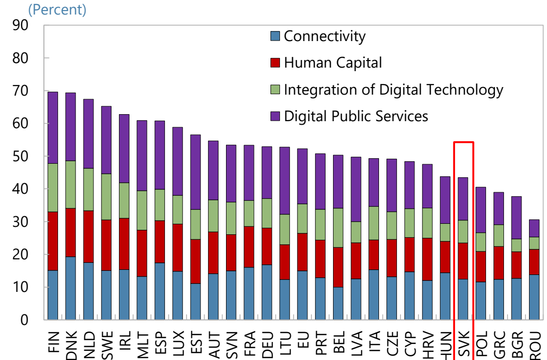
ICT Gross Fixed Capital Formation
(Percentage of GDP, average from 2017 to 2021 or the latest)



Source: OECD and IMF staff calculations.

Slovakia's economy is among the least digitalized in the EU…

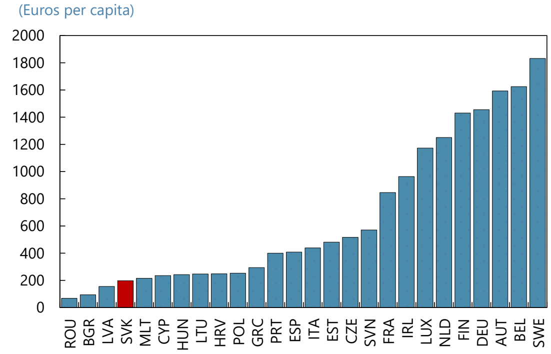
Digital Economy and Society Index, 2022
(Percent)



Source: European Commission.

…R&D expenditure is relatively low.

Expenditure in R&D, 2022
(Euros per capita)

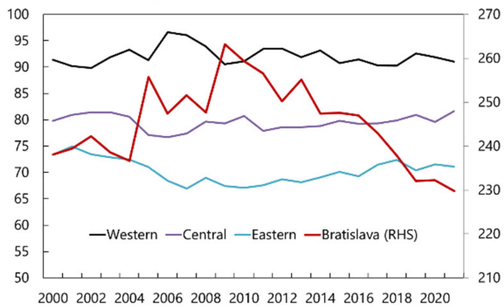


Source: Eurostat.

Figure 19. Slovak Republic: Regional Inequality

GDP per capita in Bratislava is more than twice the national average, despite some convergence in recent years.

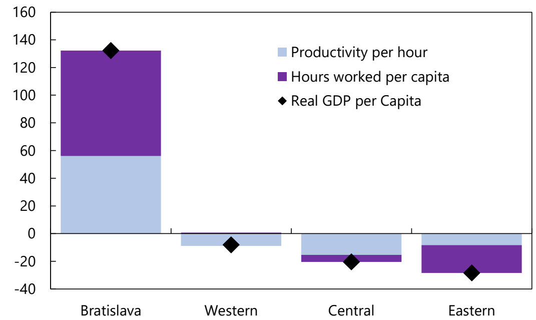
Regional Real GDP per Capita
(Percent of national average)



Sources: Eurostat and IMF Staff calculations.

Higher GDP per capita in the capital region is both due to higher productivity and hours worked

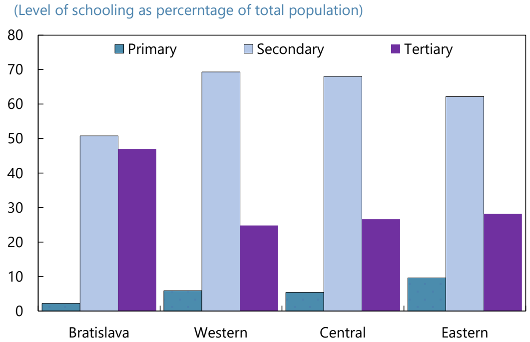
Real GDP per Capita by Region Decomposed
(Percentage deviation from national average)



Sources: Eurosat and IMF Staff calculations.

Differences in productivity levels are explained by education levels…

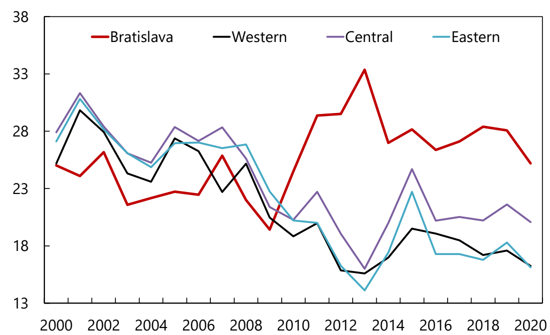
Education Levels by Region, 2022
(Level of schooling as percerntage of total population)



Sources: Eurostat and IMF staff calculations.

…and investment as a percentage of GDP

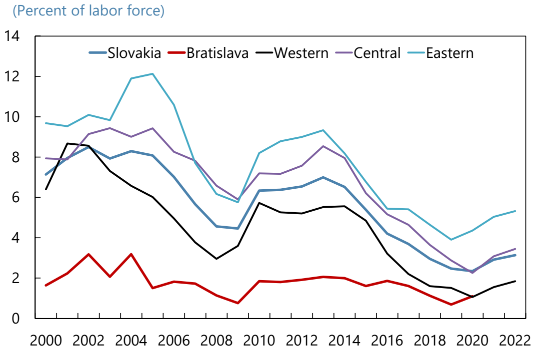
Investment by region
(Percent of regional GDP)



Sources: Eurostat and IMF staff calculations.

Long-term unemployment is higher in the poorer regions.

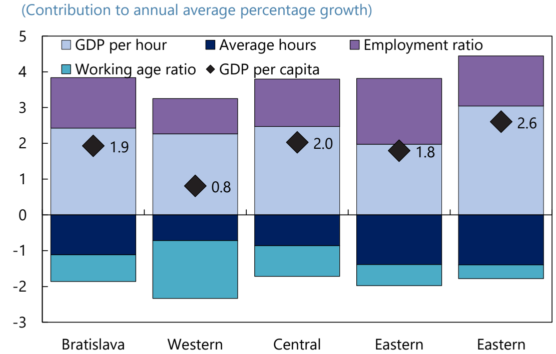
Long-term Unemployment by Region
(Percent of labor force)



Sources: Eurostat and IMF staff calculations.

Demographics have led to some income convergence in the past decade.

Real GDP per Capita Growth 2011-2020 Decomposed
(Contribution to annual average percentage growth)



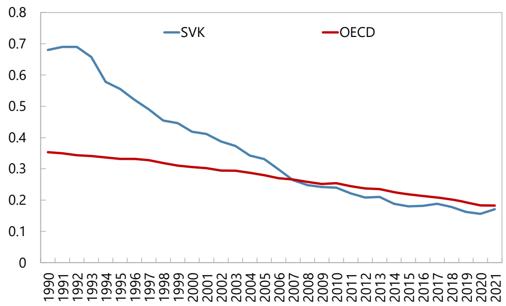
Sources: Eurostat and IMF staff calculations.

Figure 20. Slovak Republic: Climate Policies

Slovakia's carbon intensity of output has been steadily declining...

CO_2 Intensity

(CO_2 per GDP - production based (kg/USD, 2015 PPP prices)

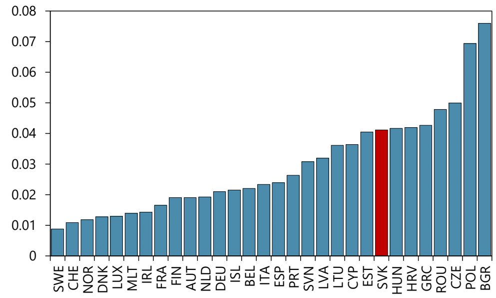


Sources: OECD Environment database and OECD Green Growth database.

...but is still relatively high compared to other OECD countries.

Greenhouse Gas Emissions Intensity of Output

(CO_2 equivalent tonnes per euro of GDP, 2021)

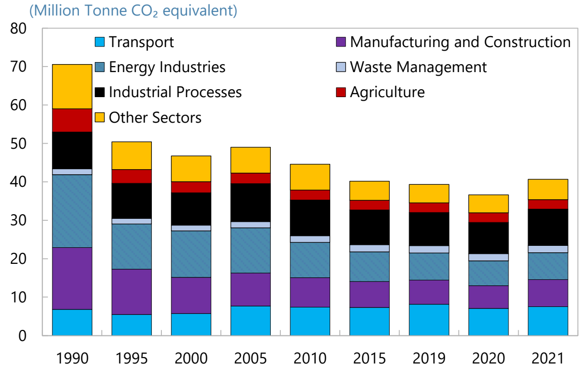


Sources: Eurostat and IMF staff calculations.

Industries and transport account for the majority of emissions...

Greenhouse Gas Emissions by Sector

(Million Tonne CO_2 equivalent)

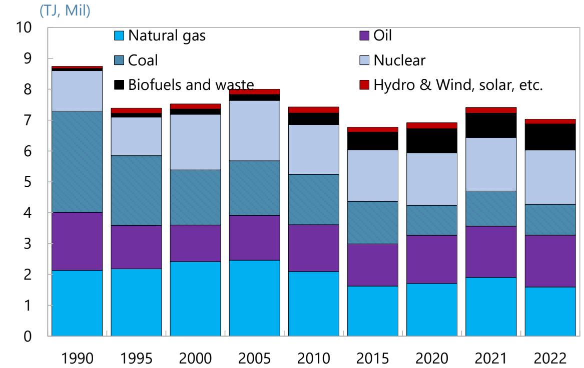


Source: United Nations Climate Change.

...and although coal consumption has declined, renewables have yet to become the major energy supply source...

Total Energy Supply (TES) by Source

(TJ, Mil)

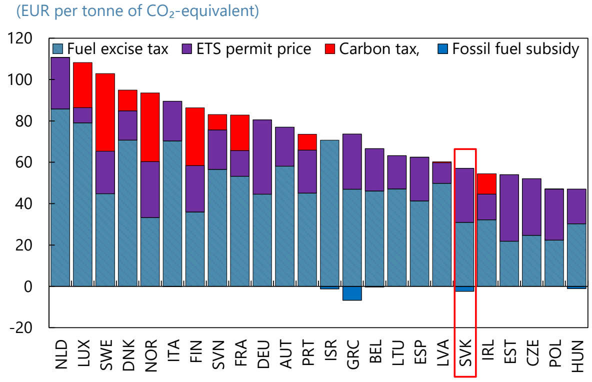


Source: IEA.

...so increasing fossil fuel taxes could help expedite the switch to renewables.

Net Effective Carbon Rate, 2021

(EUR per tonne of CO_2-equivalent)

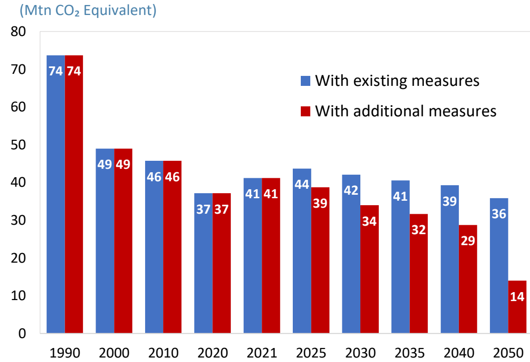


Source: OECD.

Additional measures are needed to cut emissions by 55 percent relative to 1990 levels by 2030 and to achieve net zero by 2050

Historical and Projected Total GHG Emissions without LULUCF until 2050

(Mtn CO_2 Equivalent)

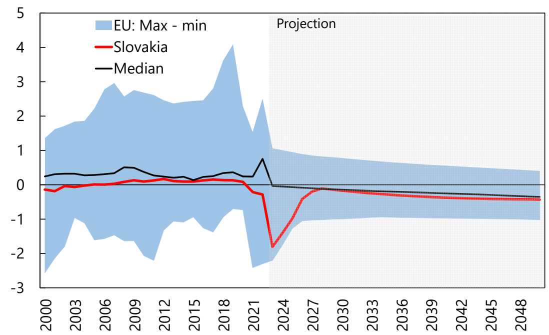


Source: NECP and Low-Carbon Development Strategy of the Slovak Republic.

Figure 21. Slovak Republic: Population, Aging, and Growth

Slovakia's population is expected to decline in the next 25 years…

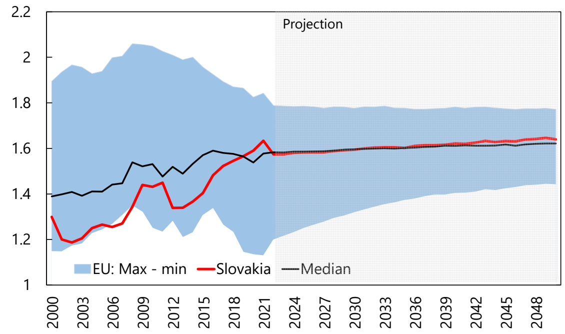
Population Growth Rate in EU Countries
(Percent)



Sources: Haver Analytics, UN and IMF staff calculations.

…as the fertility rate is well below the replacement rate consistent with a stable population.

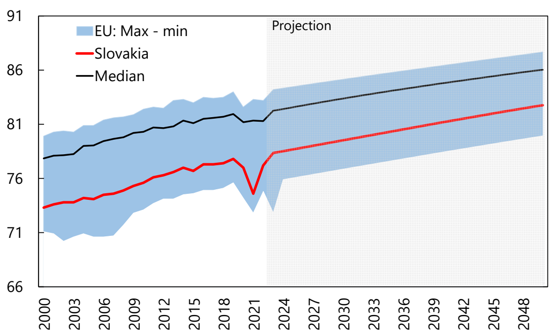
Total Fertility Rate in EU Countries
(Live births per woman)



Sources: Haver Analytics, UN and IMF staff calculations.

Life expectancy is expected to increase…

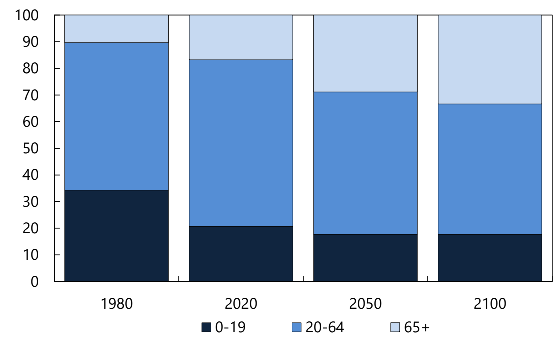
Life Expectancy at Birth in EU Countries
(Years)



Sources: Haver Analytics, UN and IMF staff calculations.

…raising the share of the old in population.

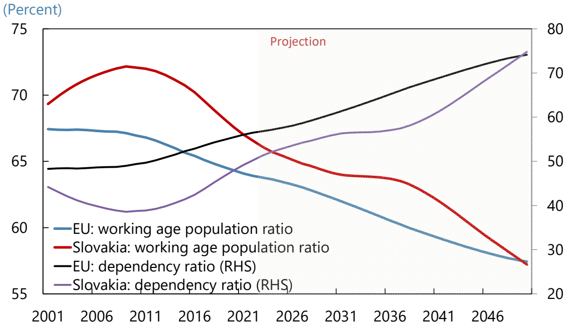
Total Population
(Selected age group, percent)



Sources: UN and IMF staff calculations.

With an increasing old-age dependency ratio and decreasing working-age population…

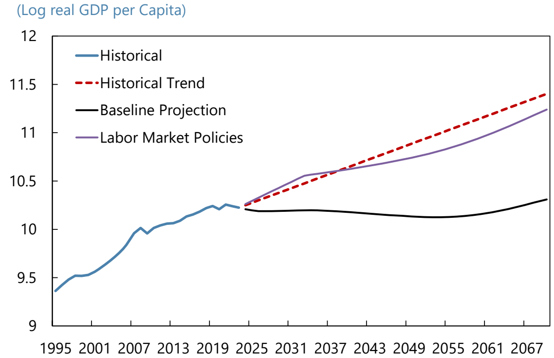
Population Projection
(Percent)



Note: Working age population is defined as those aged 15 to 64. Dependency ratio is the ratio of people aged 0 to 14 plus 65 and above to the working age population.
Source: Eurostat and IMF staff calculations.

….living standards are expected to stagnate unless supportive labor market and growth policies are in place.

Real GDP per Capita: Mitigating The Impact of Aging
(Log real GDP per Capita)



Sources: Eurostat and IMF staff calculations.

Table 1. Slovak Republic: Summary of Economic Indicators, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Projections					
	(Annual percent change, unless otherwise indicated)										
Output/Demand											
Real GDP	2.5	-3.3	4.8	1.8	1.1	2.1	2.6	2.8	2.7	2.7	2.7
Domestic demand	3.8	-5.1	5.6	2.9	-4.7	5.3	2.2	2.5	2.4	2.4	2.4
Public consumption	4.5	-0.6	4.2	-4.2	-1.5	1.8	-0.8	1.4	1.5	2.7	2.5
Private consumption	2.7	-1.3	2.8	5.6	-1.7	2.2	1.6	1.8	1.8	1.8	1.8
Gross fixed capital formation	6.7	-10.9	3.5	4.5	5.7	3.1	3.9	3.8	3.9	3.6	3.6
Exports of goods and services	0.8	-6.4	10.4	3.1	0.3	3.6	3.6	3.4	3.4	3.4	3.4
Imports of goods and services	2.2	-8.3	11.6	4.5	-5.8	7.1	3.2	3.2	3.2	3.1	3.1
Potential Growth	2.9	-0.2	0.8	1.2	1.2	2.0	2.3	2.7	2.7	2.7	2.7
Output gap	1.1	-3.1	-1.0	-0.4	-0.5	-0.4	-0.1	0.0	0.0	0.0	0.0
Contribution to Growth					(Percent)						
Domestic demand	3.8	-4.9	5.5	2.9	-4.7	4.9	2.1	2.4	2.3	2.3	2.2
Public consumption	0.8	-0.1	0.8	-0.8	-0.3	0.3	-0.1	0.2	0.2	0.4	0.4
Private consumption	1.5	-0.7	1.6	3.1	-1.0	1.2	0.9	1.0	1.0	1.0	1.0
Gross fixed capital formation	1.4	-2.4	0.7	0.9	1.2	0.7	0.8	0.8	0.9	0.8	0.8
Inventories	0.1	-1.7	2.4	-0.3	-4.6	2.7	0.5	0.3	0.2	0.1	0.1
Net exports	-1.3	1.6	-0.7	-1.2	5.8	-2.9	0.5	0.4	0.4	0.4	0.5
Prices											
Inflation (HICP)	2.8	2.0	2.8	12.1	11.0	3.6	3.9	2.5	2.0	2.0	2.0
Inflation (HICP, end of period)	3.3	1.7	5.0	15.0	6.6	3.8	3.4	2.0	2.0	2.0	2.0
Core inflation	2.5	2.4	3.4	10.4	11.4	4.6	3.3	2.5	2.0	2.0	2.0
Core inflation (end of period)	2.8	2.2	5.5	13.7	6.8	4.8	2.7	2.0	2.0	2.0	2.0
GDP deflator	2.5	2.4	2.4	7.5	10.1	4.8	3.9	2.4	2.0	2.0	2.0
Employment and Wages											
Employment	1.0	-1.9	-0.6	1.8	0.3	0.3	-0.1	-0.4	-0.4	-0.4	-0.4
Unemployment rate (Percent)	5.7	6.6	6.8	6.2	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Nominal wages	7.8	3.7	6.8	7.8	8.5	8.0	6.9	5.0	4.3	4.3	4.3
Public Finance, General Government					(Percent of GDP)						
Revenue	39.3	39.4	40.2	39.8	41.5	41.0	40.0	39.3	38.9	38.9	39.0
Expenditure	40.5	44.8	45.6	42.3	47.9	47.0	46.2	44.8	44.6	44.6	44.5
Overall balance	-1.2	-5.4	-5.4	-2.4	-6.5	-6.0	-6.1	-5.6	-5.7	-5.7	-5.6
Primary balance	-0.2	-4.3	-4.5	-1.7	-5.6	-5.0	-4.9	-4.2	-4.3	-4.4	-4.2
Structural balance (Percent of potential GDP)	-1.7	-2.2	-1.6	-1.4	-4.4	-5.3	-5.6	-5.6	-5.7	-5.7	-5.6
General government debt	48.0	58.9	61.1	57.8	57.9	59.3	60.3	63.5	66.7	69.8	72.5
Monetary and Financial Indicators					(Percent)						
Credit to private sector (Growth rate)	6.6	4.8	7.6	10.2	3.2	4.9	7.1	5.8	5.2	5.2	5.2
Mortgage lending rates	1.4	1.1	1.0	2.0	3.8	…	…	…	…	…	…
Government 10-year bond yield	0.2	-0.1	0.0	2.2	3.7	3.7	4.2	3.8	3.7	3.7	3.6
Balance of Payments					(Percent of GDP)						
Trade balance (goods)	-1.2	1.1	-0.5	-6.0	0.1	-2.4	-1.9	-1.6	-1.3	-1.0	-0.7
Current account balance	-3.3	0.6	-2.5	-8.2	-1.7	-4.3	-3.6	-3.1	-2.7	-2.2	-1.9
Gross external debt	112.3	119.6	134.2	103.1	99.5	100.7	101.2	102.5	103.8	104.6	105.1
Saving and Investment Balance					(Percent of GDP)						
Gross national savings	20.5	20.0	19.7	15.2	15.3	16.3	17.6	18.7	19.3	20.0	20.6
Private sector	18.4	21.9	22.0	14.3	16.9	18.7	19.8	21.4	22.3	22.9	23.6
Public sector	2.1	-1.9	-2.3	0.9	-1.6	-2.5	-2.3	-2.8	-3.0	-2.9	-2.9
Gross capital formation	23.8	19.4	22.2	23.4	17.1	20.5	21.2	21.7	22.0	22.2	22.5
Memo Item											
EU grants (Percent of GDP)	1.0	1.2	1.2	1.3	2.6	1.2	1.5	1.3	1.0	1.0	1.0
Energy support measures (Percent of GDP)	0.0	0.0	0.0	0.1	2.3	1.0	0.0	0.0	0.0	0.0	1.0
Nominal GDP (Millions of euros)	94,430	93,444	100,256	109,645	122,114	130,572	139,175	146,498	153,399	160,613	168,203

Sources: National Authorities; and IMF staff estimates and projections.

Table 2. Slovak Republic: Statement of Operations of the General Government, 2019–29 1/

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Projections					
	(Millions of euros)										
Revenue	**37,124**	**36,811**	**40,273**	**43,684**	**50,650**	**53,541**	**55,725**	**57,514**	**59,742**	**62,554**	**65,517**
Taxes	18,205	17,935	19,884	21,519	24,231	26,013	26,464	27,285	28,570	29,914	31,327
Personal income tax	3,534	3,500	3,760	4,106	4,626	4,905	5,143	5,401	5,655	5,921	6,201
Corporate income tax	2,878	2,800	3,633	3,909	4,403	5,132	5,158	5,360	5,613	5,876	6,154
VAT	6,830	6,820	7,494	8,485	9,329	10,154	10,341	10,615	11,115	11,637	12,187
Excises	2,839	2,752	2,958	2,797	3,004	3,043	3,144	3,255	3,408	3,569	3,737
Other taxes	2,124	2,063	2,039	2,223	2,869	2,779	2,677	2,654	2,779	2,910	3,047
Social contributions	14,318	14,503	15,635	16,389	18,612	20,604	21,945	23,217	24,310	25,453	26,656
Grants	1,540	1,536	1,535	2,371	4,093	2,505	2,955	2,714	2,361	2,474	2,598
o/w EU Grants	945	1,098	1,196	1,474	3,161	1,509	2,097	1,930	1,537	1,609	1,690
Other revenue	3,061	2,836	3,219	3,406	3,715	4,419	4,361	4,299	4,501	4,713	4,935
Expenditure	**38,275**	**41,817**	**45,721**	**46,360**	**58,529**	**61,321**	**64,260**	**65,702**	**68,484**	**71,636**	**74,912**
Expense	34,806	38,460	42,567	42,678	52,602	56,774	58,870	61,549	64,335	67,238	70,477
Compensation of employees	9,683	10,568	11,354	11,652	12,593	14,013	14,728	15,364	16,088	16,845	17,641
Use of goods and services	5,102	5,168	5,735	6,523	7,999	8,140	8,007	8,043	8,424	8,813	9,223
Interest	1,165	1,105	1,099	1,132	1,093	1,830	2,193	2,509	2,509	2,509	2,747
Subsidies	928	1,240	1,369	1,196	3,377	1,946	1,139	1,115	1,168	1,223	1,281
Grants and transfers	1,690	2,785	4,003	2,031	2,432	3,076	3,912	4,391	4,597	4,814	5,041
Social benefits	15,715	16,739	18,376	19,646	24,452	26,763	27,946	29,327	30,708	32,153	33,672
Other expense	524	855	631	499	655	1,005	944	800	840	882	873
Net acquisition of nonfinancial assets	3,469	3,356	3,155	3,682	5,927	4,547	5,390	4,152	4,149	4,398	4,434
o/w Defense spending 2/	196	145	87	790	529	930	1,744	1,089	1,122	1,155	1,190
Gross Operating Balance	2,318	-1,650	-2,293	1,006	-1,952	-3,233	-3,144	-4,035	-4,593	-4,683	-4,960
Net Lending(+)/Borrowing(-)	**-1,151**	**-5,006**	**-5,448**	**-2,676**	**-7,880**	**-7,781**	**-8,534**	**-8,187**	**-8,742**	**-9,081**	**-9,395**
	(Percent of GDP)										
Revenue	**39.3**	**39.4**	**40.2**	**39.8**	**41.5**	**41.0**	**40.0**	**39.3**	**38.9**	**38.9**	**39.0**
Taxes	19.3	19.2	19.8	19.6	19.8	19.9	19.0	18.6	18.6	18.6	18.6
Personal income tax	3.7	3.7	3.8	3.7	3.8	3.8	3.7	3.7	3.7	3.7	3.7
Corporate income tax	3.0	3.0	3.6	3.6	3.6	3.9	3.7	3.7	3.7	3.7	3.7
VAT	7.2	7.3	7.5	7.7	7.6	7.8	7.4	7.2	7.2	7.2	7.2
Excises	3.0	2.9	3.0	2.6	2.5	2.3	2.3	2.2	2.2	2.2	2.2
Other taxes	2.2	2.2	2.0	2.0	2.3	2.1	1.9	1.8	1.8	1.8	1.8
Social contributions	15.2	15.5	15.6	14.9	15.2	15.8	15.8	15.8	15.8	15.8	15.8
Grants	1.6	1.6	1.5	2.2	3.4	1.9	2.1	1.9	1.5	1.5	1.5
o/w EU grants	1.0	1.2	1.2	1.3	2.6	1.2	1.5	1.3	1.0	1.0	1.0
Other revenue	3.2	3.0	3.2	3.1	3.0	3.4	3.1	2.9	2.9	2.9	2.9
Expenditure	**40.5**	**44.8**	**45.6**	**42.3**	**47.9**	**47.0**	**46.2**	**44.8**	**44.6**	**44.6**	**44.5**
Expense	36.9	41.2	42.5	38.9	43.1	43.5	42.3	42.0	41.9	41.9	41.9
Compensation of employees	10.3	11.3	11.3	10.6	10.3	10.7	10.6	10.5	10.5	10.5	10.5
Use of goods and services	5.4	5.5	5.7	5.9	6.6	6.2	5.8	5.5	5.5	5.5	5.5
Interest	1.2	1.2	1.1	1.0	0.9	1.4	1.6	1.7	1.6	1.6	1.6
Subsidies	1.0	1.3	1.4	1.1	2.8	1.5	0.8	0.8	0.8	0.8	0.8
Grants and transfers	1.8	3.0	4.0	1.9	2.0	2.4	2.8	3.0	3.0	3.0	3.0
Social benefits	16.6	17.9	18.3	17.9	20.0	20.5	20.1	20.0	20.0	20.0	20.0
Other expense	0.6	0.9	0.6	0.5	0.5	0.8	0.7	0.5	0.5	0.5	0.5
Net acquisition of nonfinancial assets	3.7	3.6	3.1	3.4	4.9	3.5	3.9	2.8	2.7	2.7	2.6
o/w Defense spending 2/	0.2	0.2	0.1	0.7	0.4	0.7	1.3	0.7	0.7	0.7	0.7
Gross Operating Balance	2.5	-1.8	-2.3	0.9	-1.6	-2.5	-2.3	-2.8	-3.0	-2.9	-2.9
Net Lending(+)/Borrowing(-)	**-1.2**	**-5.4**	**-5.4**	**-2.4**	**-6.5**	**-6.0**	**-6.1**	**-5.6**	**-5.7**	**-5.7**	**-5.6**
Memorandum Items:											
Primary balance	-0.2	-4.3	-4.5	-1.7	-5.6	-5.0	-4.9	-4.2	-4.3	-4.4	-4.2
Structural primary balance 3/	-0.6	-1.2	-0.7	-0.6	-3.6	-4.3	-4.4	-4.2	-4.3	-4.4	-4.2
Cyclically-adjusted primary balance adj. for EU grants 3/	-1.6	-4.1	-5.3	-2.8	-8.0	-6.0	-6.4	-5.5	-5.4	-5.4	-5.4
Gross public debt	48.0	58.9	61.1	57.8	57.9	59.3	60.3	63.5	66.7	69.8	72.5
GDP at current market prices (Millions of euros)	94,430	93,444	100,256	109,645	122,114	130,572	139,175	146,498	153,399	160,613	168,203

Sources: National Authorities; and IMF staff estimates and projections.

1/ Baseline forecast only includes specified measures.

2/ Reflects the accrual recording for the acquisition of military equipment in line with ESA methodology with delivery starting 2022.

3/ Percent of potential GDP.

Table 3. Slovak Republic: Balance of Payments, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Est.	Projections					
					(Millions of euros)						
Current Account	**-3,163**	**516**	**-2,465**	**-8,938**	**-2,132**	**-5,570**	**-4,990**	**-4,479**	**-4,071**	**-3,598**	**-3,181**
Trade balance (goods)	-1,135	1,015	-512	-6,629	80	-3,168	-2,652	-2,301	-1,994	-1,650	-1,206
Exports, f.o.b.	75,522	70,011	81,303	96,534	100,672	106,310	110,878	115,303	120,535	126,206	132,194
Imports, f.o.b.	76,658	68,996	81,815	103,163	100,592	109,478	113,530	117,604	122,530	127,856	133,400
Services balance	1,219	953	545	379	1,176	860	960	1,040	1,123	1,214	1,170
Receipts	10,981	9,038	9,580	11,931	12,437	13,127	13,686	14,227	14,868	15,561	16,294
Payments	9,763	8,085	9,034	11,552	11,261	12,267	12,726	13,187	13,745	14,348	15,125
Primary income balance	-2,198	-756	-1,527	-1,830	-2,237	-2,034	-1,977	-1,846	-1,742	-1,617	-1,510
Credit	4,029	3,864	3,627	3,985	3,956	4,078	4,234	4,411	4,553	4,701	4,836
Debit	6,227	4,620	5,153	5,815	6,193	6,111	6,211	6,256	6,295	6,318	6,345
Secondary income balance	-1,048	-697	-972	-858	-1,151	-1,228	-1,322	-1,373	-1,458	-1,545	-1,635
Credit	1,187	1,271	1,466	1,512	1,696	1,778	1,850	1,907	1,968	2,039	2,116
Debit	2,235	1,968	2,439	2,371	2,847	3,006	3,171	3,280	3,425	3,584	3,750
Capital Account	**673**	**701**	**1,328**	**1,347**	**949**	**939**	**932**	**851**	**791**	**739**	**669**
Financial Account	**-1,406**	**1,643**	**-1,498**	**-7,455**	**-1,182**	**-4,631**	**-4,058**	**-3,628**	**-3,279**	**-2,860**	**-2,512**
Direct investment, net	-2,204	2,409	279	-2,348	977	-1,319	-1,406	-1,480	-1,550	-1,623	-1,700
Assets	-163	1,475	1,097	1,528	1,221	1,306	1,392	1,465	1,534	1,606	1,682
Liabilities	2,042	-934	818	3,876	244	2,625	2,798	2,945	3,084	3,229	3,382
Portfolio investment, net	336	2,689	4,954	1,634	-5,295	-1,966	-1,942	-3,441	-3,485	-3,721	-3,787
Assets	2,093	4,305	6,239	1,753	1,448	1,595	1,487	1,454	1,518	1,492	1,493
Liabilities	1,757	1,616	1,285	119	6,742	3,561	3,429	4,895	5,003	5,213	5,281
Other investment, net	-1,093	-4,853	-7,043	-6,991	3,110	-1,372	-736	1,267	1,730	2,458	2,949
Assets	-616	380	16,254	-22,485	4,885	4,962	5,289	5,567	5,829	6,103	6,392
Liabilities	477	5,233	23,297	-15,494	1,775	6,333	6,025	4,299	4,099	3,645	3,442
Financial derivatives, net	94	51	-106	-1,004	26	26	26	26	26	26	26
Reserve assets	1,460	1,347	418	1,254	0	0	0	0	0	0	0
Errors and Omissions	**1,083**	**426**	**-361**	**136**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net International Investment Position	**-61,993**	**-60,517**	**-60,081**	**-66,903**	**-68,085**	**-72,717**	**-76,775**	**-80,403**	**-83,682**	**-86,542**	**-89,054**
External Debt	**106,016**	**111,746**	**134,512**	**113,029**	**121,546**	**131,441**	**140,895**	**150,089**	**159,191**	**168,049**	**176,772**
					(Percent of GDP)						
Current Account	**-3.3**	**0.6**	**-2.5**	**-8.2**	**-1.7**	**-4.3**	**-3.6**	**-3.1**	**-2.7**	**-2.2**	**-1.9**
Trade balance (goods)	-1.2	1.1	-0.5	-6.0	0.1	-2.4	-1.9	-1.6	-1.3	-1.0	-0.7
Exports, f.o.b.	80.0	74.9	81.1	88.0	82.4	81.4	79.7	78.7	78.6	78.6	78.6
Imports, f.o.b.	81.2	73.8	81.6	94.1	82.4	83.8	81.6	80.3	79.9	79.6	79.3
Services balance	1.3	1.0	0.5	0.3	1.0	0.7	0.7	0.7	0.7	0.8	0.7
Receipts	11.6	9.7	9.6	10.9	10.2	10.1	9.8	9.7	9.7	9.7	9.7
Payments	10.3	8.7	9.0	10.5	9.2	9.4	9.1	9.0	9.0	8.9	9.0
Primary income balance	-2.3	-0.8	-1.5	-1.7	-1.8	-1.6	-1.4	-1.3	-1.1	-1.0	-0.9
Credit	4.3	4.1	3.6	3.6	3.2	3.1	3.0	3.0	3.0	2.9	2.9
Debit	6.6	4.9	5.1	5.3	5.1	4.7	4.5	4.3	4.1	3.9	3.8
Secondary income balance	-1.1	-0.7	-1.0	-0.8	-0.9	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0
Credit	1.3	1.4	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3
Debit	2.4	2.1	2.4	2.2	2.3	2.3	2.3	2.2	2.2	2.2	2.2
Capital Account	**0.7**	**0.8**	**1.3**	**1.2**	**0.8**	**0.7**	**0.7**	**0.6**	**0.5**	**0.5**	**0.4**
Financial Account	**-1.5**	**1.8**	**-1.5**	**-6.8**	**-1.0**	**-3.5**	**-2.9**	**-2.5**	**-2.1**	**-1.8**	**-1.5**
Direct investment, net	-2.3	2.6	0.3	-2.1	0.8	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Portfolio investment, net	0.4	2.9	4.9	1.5	-4.3	-1.5	-1.4	-2.3	-2.3	-2.3	-2.3
Other investment, net	-1.2	-5.2	-7.0	-6.4	2.5	-1.1	-0.5	0.9	1.1	1.5	1.8
Financial derivatives, net	0.1	0.1	-0.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve assets	1.5	1.4	0.4	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	**1.1**	**0.5**	**-0.4**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net International Investment Position	**-65.6**	**-64.8**	**-59.9**	**-61.0**	**-55.8**	**-55.7**	**-55.2**	**-54.9**	**-54.6**	**-53.9**	**-52.9**
External Debt	**112.3**	**119.6**	**134.2**	**103.1**	**99.5**	**100.7**	**101.2**	**102.5**	**103.8**	**104.6**	**105.1**

Sources: National Bank of Slovakia; and IMF staff estimates.

Table 4. Slovak Republic: Financial Soundness Indicators for the Banking Sector, 2014–23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023Q2
Capital Adequacy										
Regulatory capital to risk-weighted assets	17.3	17.8	18.0	18.6	18.3	18.2	19.7	19.8	19.6	19.7
Regulatory Tier 1 capital to risk-weighted assets	16.0	16.5	16.2	16.6	16.6	16.6	18.1	18.3	18.0	18.1
Capital to assets	11.9	11.5	10.8	10.7	10.5	10.4	10.3	9.7	9.3	9.2
Asset Quality										
Nonperforming loans to gross loans	5.2	4.7	4.3	3.6	3.1	3.0	2.6	2.1	1.9	2.0
Nonperforming loans net of provisions to capital	22.2	18.6	16.0	11.7	9.0	9.5	8.3	6.7	6.7	7.9
Earnings and Profitability										
Return on assets (after tax)	1.2	1.3	1.4	1.1	1.1	1.0	0.7	0.9	1.0	1.3
Return on equity (after tax)	7.8	8.4	10.0	7.7	7.8	7.5	5.1	7.6	8.2	10.7
Interest margin to gross income	80.4	76.9	67.2	74.4	72.8	71.5	63.9	61.8	60.6	64.4
Noninterest expenses to gross income	60.8	58.4	54.4	59.7	59.6	60.9	63.7	61.2	57.2	50.4
Liquidity										
Customer deposits to total (noninterbank) loans	101.3	102.7	98.3	94.3	93.4	92.1	95.5	93.3	87.8	86.1
Liquid assets to total assets	34.0	34.1	31.6	29.6	26.8	23.9	27.3	30.0	29.5	29.4
Liquid assets to short-term liabilities	46.0	45.9	42.1	39.5	35.4	31.9	37.7	43.7	39.7	38.7
Sectoral Distribution of Loans to Total Loans										
Interbank loans	9.7	8.9	8.0	9.4	6.9	4.5	6.0	7.1	4.5	5.1
Resident	1.0	0.4	0.6	0.3	0.2	0.1	0.1	0.1	0.2	0.1
Nonresident	8.8	8.5	7.5	9.0	6.7	4.3	5.9	7.0	4.3	5.0
Noninterbank loans	90.3	91.1	92.0	90.6	93.1	95.5	94.0	92.9	95.5	94.9
General government	2.1	2.1	1.6	1.4	1.5	1.5	1.8	2.0	1.9	1.8
Other financial corporations	1.8	1.8	1.8	1.9	1.4	1.7	1.3	1.4	1.2	1.3
Nonfinancial corporations	31.1	31.4	30.2	28.9	28.6	28.6	27.5	26.2	27.3	27.5
Other domestic sectors	49.8	51.9	54.0	54.3	56.8	59.2	58.9	58.8	60.3	60.1
Nonresidents	5.6	3.9	4.4	4.1	4.8	4.6	4.5	4.5	4.8	4.2
Other Indicators										
Nonfinancial corporation debt (in percent of GDP)	89.3	84.4	89.0	90.6	91.0	90.1	88.5	90.1	87.7	…
Households debt (in percent of GDP)	35.7	37.8	41.0	43.3	44.7	46.1	48.4	48.9	48.2	…
Households debt (in percent of disposable income)	63.1	65.2	69.2	73.3	73.2	75.5	77.2	79.5	78.3	…
Gross asset position in financial derivatives to capital	7.6	5.8	4.6	3.5	3.9	5.4	7.2	4.2	15.0	13.8
Gross liability position in financial derivatives to capital	9.4	7.4	6.0	4.4	4.4	5.4	7.0	4.2	15.7	14.6
Trading income to total income	3.9	4.0	7.3	5.8	2.7	1.8	3.5	3.7	4.7	4.5
Personnel expenses to noninterest expenses	38.9	40.5	42.7	44.2	44.7	46.4	41.0	41.8	42.5	43.8
Foreign currency-denominated loans to total loans	3.6	3.5	5.0	6.2	4.3	2.4	2.9	2.4	2.2	2.4
Foreign currency-denominated liabilities to total liabilities	4.2	3.8	3.3	3.5	3.2	2.9	2.8	2.5	3.3	3.4
Net open position in foreign exchange to capital	0.9	5.0	5.0	0.9	0.7	5.1	0.5	0.2	2.2	6.0

Sources: Haver; National Bank of Slovakia; IMF FSI Database; and IMF staff estimates.

Annex I. External Sector Assessment

Overall Assessment: The external position of the Slovak Republic is assessed to be moderately weaker than the level implied by its medium-term fundamentals and desirable policies in 2022. Receding pandemic-related supply chain disruptions (which disproportionately affected the Slovak economy) should help strengthen the external position moving forward. Slovakia is a member of the euro zone and does not have independent monetary policy.

The current account deficit widened substantially in 2022 as imports increased in line with rising gas prices, stockpiling of inventories, increasing domestic consumption, and large public investments, while export growth was curtailed by supply chain disruptions and the war in Ukraine. Imports are gradually moderating on slowing domestic demand and lower energy imports, while a recovery in car exports is offsetting weak demand for non-automobile exports. As a result, the current account deficit is expected to return to moderate levels in 2023 and decline gradually over the medium term.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) of the Slovak Republic stood at -61 percent of GDP at end-2022, reflecting some improvement from the mid-2010s. Both gross assets and gross liabilities fell in 2022 but remain moderately larger than in earlier years. Gross liabilities were at 153 percent of GDP, while gross assets at 92 percent of GDP in 2022. Total external debt stood at 103 percent of GDP in 2022 with a short-term share of 52 percent (while 31 percent of total is official short-term debt).

Assessment. The negative NIIP does not necessarily imply notable risks to external sustainability. Robust export and GDP growth and significant inflows of EU funds (under both the RRF and MFF) are expected to improve the NIIP to -55 percent of GDP by 2025. Private short-term debt is 22 percent of GDP while the amortization on the debt amounts to 24 percent of GDP. Both are manageable quantities. In addition, the high share of FDI liabilities and long-term, euro-denominated debt reduce the vulnerability to sudden capital outflows.

2022 (% GDP)	NIIP: -61	Gross Assets: 92	Debt Assets: 65	Gross Liab.: 153	Debt Liab.: 103

Current Account

Background. The current account deficit increased substantially in 2022. Imports increased in line with high gas prices and domestic demand while export growth continued to be curtailed by supply chain disruptions, particularly in the auto sector, and the impact of the war on Slovakia's exports. The current account deficit is projected to narrow substantially in 2023, primarily due to a decline in imports as gas prices fall and inventory buildup normalizes, while increasing exports are expected to support an improvement in the current account over the medium term. The ongoing scaling up of public investment will be financed by higher EU grants.

Assessment. The EBA-lite CA model suggests a cyclically adjusted norm of -1.8 percent of GDP for 2022. The actual current account balance is at -8.2 percent of GDP. The cyclical adjustment is 1,1 percent of GDP. A COVID-19 related adjustment of 0.05 percentage points reflects continued low tourism due to the pandemic, and the natural disaster adjustment reduces the balance by another 0.06 percentage points. In addition, the total adjustment of 4 percent of GDP due to inventory swings and temporarily high gas prices results in the final adjusted current account balance of -3 percent of GDP, implying a current account gap of -1.2 percent of GDP. This suggests that Slovakia's external position is moderately weaker than fundamentals, implying a REER gap of about 2 percent.

Slovak Republic: EBA-lite Model Results, 2022

	CA model 1/	**REER model**
	(in percent of GDP)	
CA-Actual	**-8.2**	
Cyclical contributions (from model) (-)	-1.1	
COVID-19 adjustors (-) 2/ 3/	-1.6	
Natural disasters and conflicts (-)	-2.6	
Adjusted CA	**-3.0**	
CA Norm (from model) 4/	**-1.8**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-1.8**	
CA Gap	**-1.2**	**-8.7**
o/w Relative policy gap	1.9	
Elasticity	-0.6	
REER Gap (in percent)	**1.9**	**13.6**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism. A 20 percent decline of tourism (vs. 2019 levels) is assumed
3/ Adjustment due to inventory swings from the supply chain disruption.
4/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate
Background. CPI-based real effective exchange rate (REER) appreciated by about 1 percent in 2022, underpinned largely by the inflation differential. The ULC-based REER appreciated as well, reflecting higher wage growth in the Slovak Republic relative to trading partners. **Assessment.** The REER EBA-lite approach points to a larger overvaluation of 13.6 percent. Given that the estimated overvaluation is mostly driven by large residuals from the REER regression, staff relies on the CA-model to assess the external position.
Capital and Financial Accounts: Flows and Policy Measures
Background. The capital account is expected to continue to display significant inflows in the coming years as Slovakia receives sizable funds under the RFF and MFF. FDI inflows increased substantially in 2022 while portfolio outflows moderated. **Assessment.** FDI inflows are expected to remain strong over the medium term with sizable new investments planned in the automotive sector. The importance of FDI in capital inflows mitigates risks from sudden changes in market sentiment. The new SDR allocation and significant inflows of EU funds further help improve Slovakia's external position.
FX Intervention and Reserves Level
Background. The euro has the status of a global reserve currency. **Assessment.** Reserves held by euro area economies are typically low relative to standard metrics, but the currency is free floating.

Annex II. Risk Assessment Matrix[1]

	Source of Risks, Relative Likelihood	Expected Impact	Policy Response
Global	**High** Intensification of regional conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High** Slovakia is highly vulnerable to the war in Ukraine given its geographical proximity, remaining dependency on Russian fossil fuels, and high integration in global value chains.	• Continue efforts to diversify energy supplies and sources. • Implement Slovakia's recovery and resilience plan to increase renewable energy capacity and accelerate the green transition. • Continued focus on accommodating the inflow of refugees and integrating immigrants in the labor market.
	High Commodity price volatility**.** A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	**High** Increased cost pressures on private sector and/or higher fiscal costs. Higher uncertainty undermines household and corporate confidence.	• Provide targeted, timely, and temporary transfers to vulnerable households and viable firms to cushion the impact of commodity price spikes. • Reduce vulnerability to commodity price shocks by improving energy security and efficiency of the domestic food industry.
	Medium Abrupt global slowdown or recession. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. In Europe, intensifying fallout from the war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn.	**High** Slovakia is vulnerable to external shocks, given its high integration in global value chains and export dependence, and reliance on energy imports. The banking sector is highly exposed to the housing and commercial real estate sectors and market corrections could significantly weaken the credit portfolio.	• Within a credible medium-term fiscal consolidation plan, use fiscal measures as necessary to support economic activity. • Accelerate structural reforms, including by leveraging EU funds, to increase renewable energy capacity and the accelerate green transition. Boost productivity and move up value chains by investing in human capital, green and digital infrastructure, and stronger spending on R&D. • Continue efforts to diversify energy supplies and sources.
	Medium Sovereign debt distress. Domino effects from high global interest rates, a growth slowdown in AEs, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.	**Medium** Higher risk premium on sovereign bonds increases cost of government funding, reducing fiscal space, and deteriorating the long-term sustainability of public finances.	• Formulate and follow a credible fiscal consolidation plan. • Continue to extend debt maturity to reduce rollover needs. • Accelerate absorption of available EU funds to finance public spending.
	Medium Social discontent. High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	**Medium** Social discontent and protests could increase pressure for populist policies and complicate policy implementation.	• Maintain targeted support programs to protect the most vulnerable from the impact of high inflation and real income loss. • Build political consensus around the need for steadfast policy implementation.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent).

	Source of Risks, Relative Likelihood	Expected Impact	Policy Response
Local	**High** Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary systems, and lower growth.	**High** Export growth falls significantly due to Slovakia's integration in global value chains and export dependence.	• Accelerate structural reforms, including by leveraging EU funds, to boost productivity and competitiveness, move up value chains, and diversify export products and destinations. • Accelerate policies to facilitate the reallocation of factors of production while providing an adequate social safety net.
	Medium Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	**Medium** Cyber-attacks would cause a disruption and discourage digitalization. Financial system disruptions may impede the allocation of credit.	• Accelerate efforts to improve resilience to cyber-attacks and plans to achieve compliance with the EU's Digital Operational Resilience Act (DORA) coming into effect in 2025.
	High/Medium Delays in the implementation of structural reforms and fiscal consolidation due a lack of political will. The new government may delay fiscal and structural reforms necessary to achieve long-term fiscal sustainability and economic growth.	**High** This could increase government borrowing costs, reducing fiscal space, and increasing the risk of debt distress. Failure to implement necessary structural reforms would lower the potential growth rate.	• Adhere to the forthcoming fiscal expenditure ceiling from 2024; enshrine expenditure ceilings in constitution. • Formulate and follow a credible fiscal consolidation plan. • Implement comprehensive fiscal and structural reforms to mobilize revenue, increase expenditure efficiency, and lift potential growth. • Accelerate absorption of available EU funds to finance public spending.
	Medium Prolonged high inflation due to wage-inflation feedback loops or an increase in markups.	**High** High and persistent inflation would increase unit labor cost and lower competitiveness. The uneven impact of inflation could exacerbate income inequality.	• Encourage responsible wage settlements that account for international competitiveness. • Encourage firms to absorb catch-up in real wages in markups that have increased in recent years. • Provide targeted and temporary support to vulnerable households.
	Medium Real estate market downturn. A sharp and sudden decline in prices of residential and commercial properties.	**High** The quality of banks' credit portfolios deteriorates with a significant increase in NPLs, leading to tighter credit conditions and a slowdown in credit growth. The negative wealth effect would weaken confidence and weigh on economic activity.	• Continue to closely monitor and supervise banks credit portfolios, recalibrating macro-prudential policies as needed.
	Medium Auto sector fails to adjust to the shift to electric vehicles and increased automation. Increasing automation erodes Slovakia's competitive advantage as a source of low-cost skilled labor.	**High** Loss of competitiveness and shrinking market share of Slovak auto exports would threaten the country's growth model and lower potential growth.	• Use EU funds to invest in education and upskilling strategies to accommodate changing skill demands. • Boost spending on R&D and encourage investments to move up value chains.

Annex III. Public Debt Sustainability Analysis

Table 1. Slovak Republic: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is judged to be moderate, reflecting a low level of vulnerability in the near term, moderate vulnerability in the medium term and high risk of sovereign stress in the long term.
Medium term	Moderate	Moderate	Medium-term risks are assessed to be moderate, consistent with the mechanical signal. Under the baseline, debt is expected to rise from 57.9 percent in 2023 to 72.5 percent in 2029 as the real interest rate increases due to falling inflation, while the primary deficit stabilizes at 4.3 percent in 2029. The probability of debt becoming non-stable is thus particularly high.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	High	Staff assess that the long-term risk of sovereign stress is high. Age-related costs are expected to lead to a significant increase in gross funding needs. The permanent adjustment needed in the pension system to keep pension assets positive is 5 percent of GDP over the next 30 years and 6.9 percent over the next 50 years.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA summary assessment

Commentary: Slovakia is at a medium overall risk of sovereign stress. The quality of institutions is good, debt is exclusively issued in domestic currency (EUR) and reserves are assessed to be high. However, the medium-term risk is moderate since, absent additional fiscal consolidation, debt is projected to gradually rise over the next ten years. In the long-term, the risk of sovereign stress is assessed to be high and the increase in fiscal costs related to aging is expected to be among the highest in Europe. Fiscal consolidation through efforts on both the expenditure and revenue side is needed to put debt on a sustainable path and reduce the risk of sovereign stress.

Source: IMF staff calculations.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Slovak Republic: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

CPS	NFPS	GG: expected	CG		Subsectors captured in the baseline	Inclusion	Comments
				1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	Yes	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated	Non-consolidated		

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

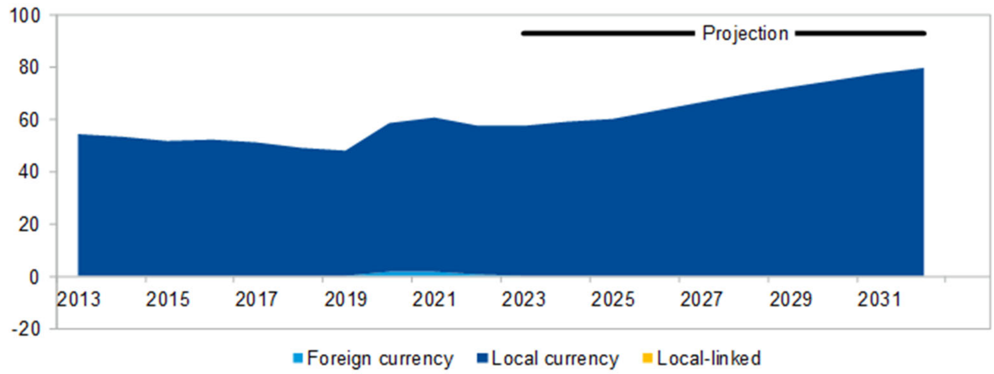
CPS	NFPS	GG: expected	CG		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
				1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Data on intra-government debt holdings is not currently available.

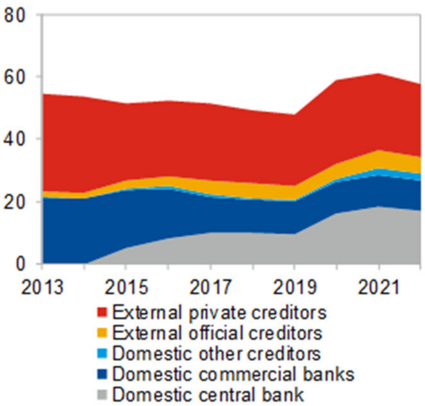
Table 3. Slovak Republic: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



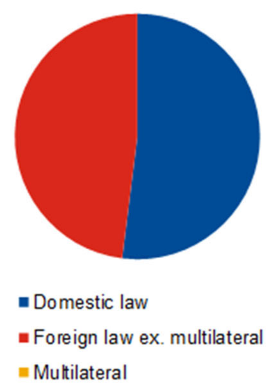
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



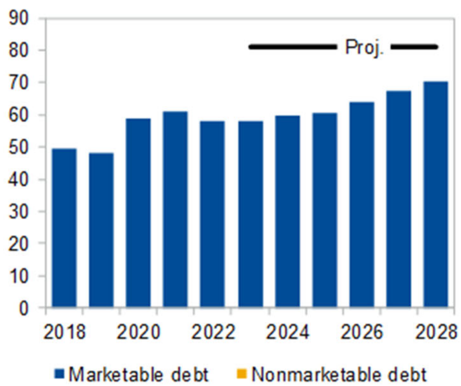
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



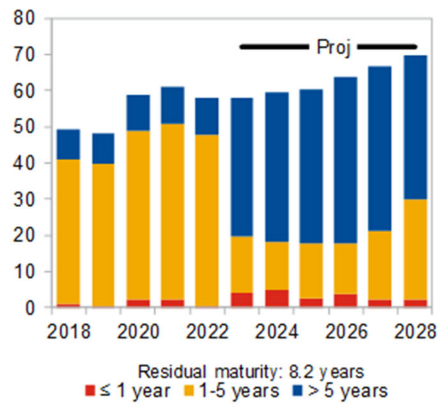
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Public debt is issued in euros and residual maturity has increased in recent years.

Sources: National Authorities and IMF staff calculations.

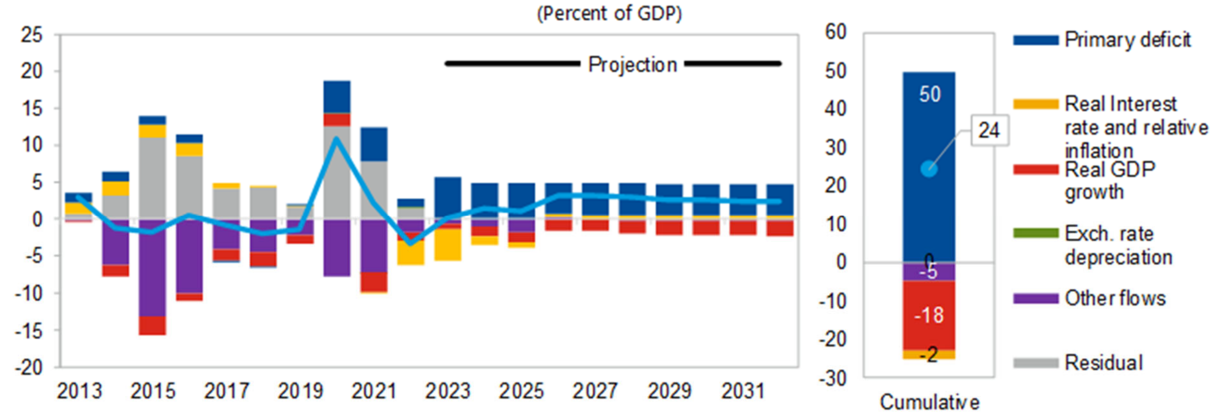
Table 4. Slovak Republic: Baseline Scenario 2022–32

(Percent of GDP Indicated Otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	57.8	57.9	59.3	60.3	63.5	66.8	69.8	72.5	75.1	77.6	80.0
Change in public debt	-3.3	0.1	1.5	1.0	3.2	3.3	3.0	2.7	2.6	2.5	2.4
Contribution of identified flows	-4.7	0.1	1.5	1.0	3.2	3.3	3.0	2.7	2.6	2.5	2.4
Primary deficit	1.2	5.6	5.0	4.9	4.2	4.4	4.4	4.3	4.3	4.3	4.3
Noninterest revenues	40.0	41.5	40.6	39.7	39.0	38.7	38.7	38.7	38.7	38.7	38.7
Noninterest expenditures	41.2	47.1	45.6	44.6	43.1	43.0	43.1	42.9	42.9	42.9	42.9
Automatic debt dynamics	-4.1	-4.9	-2.5	-2.2	-1.4	-1.1	-1.2	-1.3	-1.4	-1.5	-1.6
Real interest rate and relative inflation	-3.2	-4.2	-1.3	-0.7	0.3	0.6	0.6	0.6	0.5	0.5	0.5
Real interest rate	-3.2	-4.3	-1.3	-0.7	0.3	0.6	0.6	0.6	0.5	0.5	0.5
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.1	-0.6	-1.2	-1.5	-1.6	-1.7	-1.8	-1.8	-1.9	-2.0	-2.0
Real exchange rate	0.2	...	...	...	...	...	...	...	...	...	...
Other identified flows	-1.9	-0.7	-1.1	-1.7	0.4	0.0	-0.2	-0.3	-0.3	-0.3	-0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.2	-0.1	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other transactions	-1.6	-0.6	-0.6	-1.4	0.7	0.3	0.1	0.0	0.0	0.0	0.0
Contribution of residual	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	3.5	10.3	10.5	12.3	10.3	12.5	12.0	13.8	16.4	16.3	19.3
of which: debt service	2.5	4.7	5.9	7.7	6.4	8.4	7.8	9.8	12.4	12.3	15.4
Local currency	1.0	4.5	5.8	7.7	6.2	8.4	7.8	9.8	12.4	12.3	15.4
Foreign currency	1.5	0.2	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Real GDP growth (percent)	1.8	1.1	2.1	2.6	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Inflation (GDP deflator; percent)	7.5	10.1	4.8	3.9	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	9.4	11.3	7.0	6.6	5.3	4.7	4.7	4.7	4.7	4.7	4.7
Effective interest rate (percent)	1.7	1.8	2.4	2.6	2.9	2.9	2.9	2.8	2.7	2.7	2.6

Contribution to Change in Public Debt

(Percent of GDP)

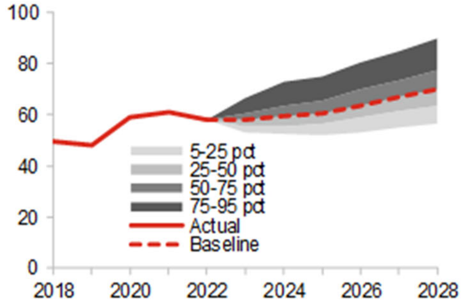


Commentary: Public debt will continue to rise in the medium term due to a sustained primary deficit.

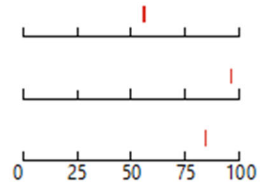
Sources: National Authorities; and IMF staff calulations.

Table 5. Slovak Republic: Medium-term Risk Assesment

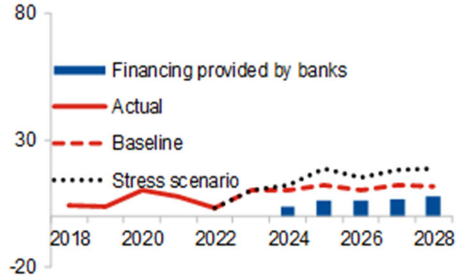
Final Fanchart (Percent of GDP)



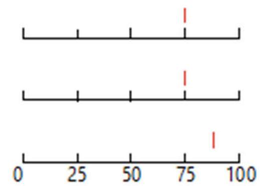
	Value	Contrib [1/]	Percentile in peer group [2/]
Debt fanchart module			
Fanchart width *(percent of GDP)*	33.5	0.5	
Probability of debt non-stabilizaiton *(percent)*	100.0	0.8	
Terminal debt-to-GDP x institutions index	28.6	0.6	
Debt fanchart index (DFI)		1.9	
Risk signal: [3/]		Moderate	



Gross Financing Needs (Percent of GDP)



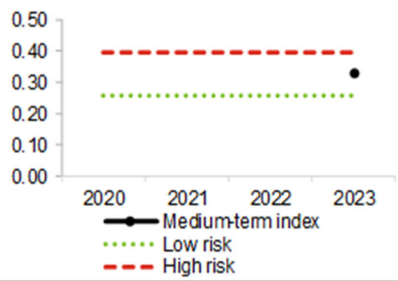
	Value	Contrib [1/]	Percentile in peer group [2/]
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	11.3	3.9	
Initial Banks' claims on the gen. govt *(pct bank assets)*	9.9	3.2	
Chg. In banks' claims in stress *(pct banks' assets)*	14.6	4.9	
GFN financeability index (GFI)		12.0	
Risk signal: [4/]		Moderate	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index (Index number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.9	0.4	0.5	0.2
GFN finaceability index	12.0	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2023-2028, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 21.6 pct.

Commentary: The fast increase in the debt-to-GDP ratio in the medium term implies a high risk of debt not stabilizing. Risk related to gross financing needs is moderate.

Source: IMF staff calculations.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Table 6. Slovak Republic: Realism of Baseline Assumptions

Forecast Track Record 1/	t+1	t+3	t+5
Public debt to GDP			
Primary deficit			
r - g			
Exchange rate depreciaton			
SFA			
	real-time	t+3	t+5
Historical output gap revisions 2/			

Comparator group:

Advanced Economies, Non-Commodity Exporter, Surveillance

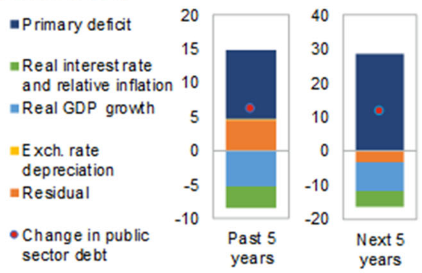
Color code:

Optimistic: > 75th percentile; 50-75th percentile

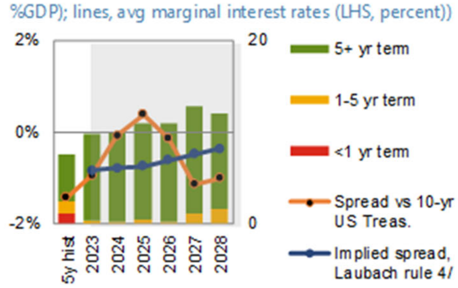
Pessimistic: 25-50th percentile; < 25th percentile

Public Debt Creating Flows

(Percent of GDP)

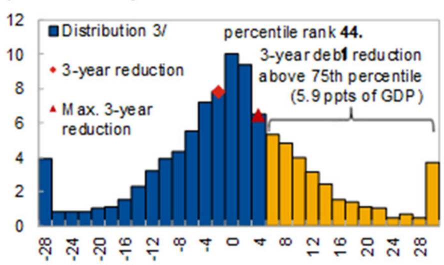


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

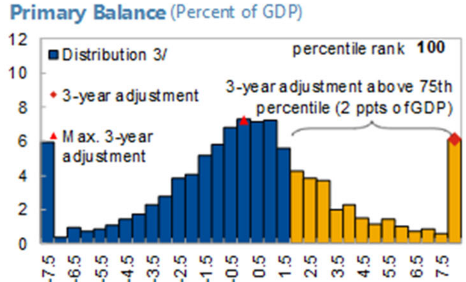


3-Year Debt Reduction

(Percent of GDP)

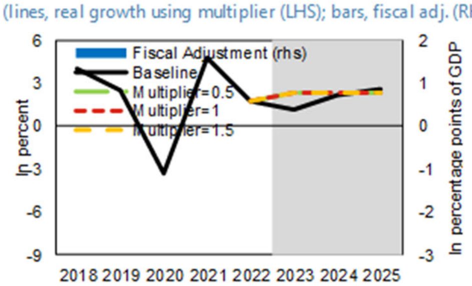


3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



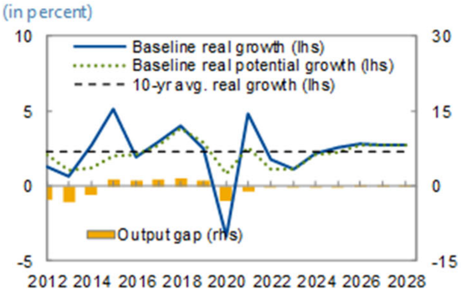
Fiscal Adjustment and Possible Growth Paths

(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(in percent)



Commentary: The 3-year adjustment in the cyclically-adjusted primary balance is at the higher end of the range.

Source : IMF staff calculations.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Table 7. Slovak Republic: Triggered Modules

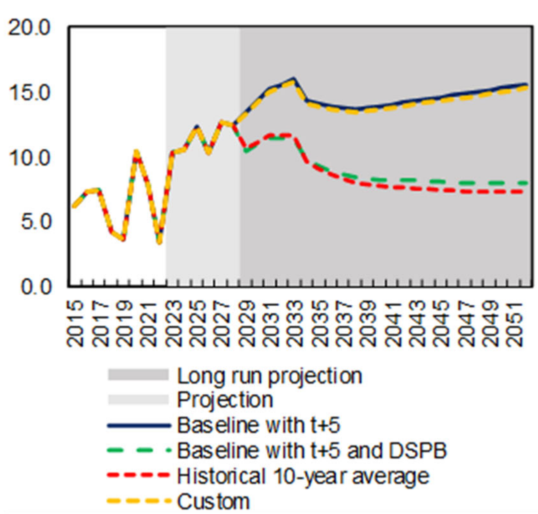
Large amortizations	**Pensions**	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

Slovak Republic: Long-term risk assessment: Large Amortization incl. Custom scenario

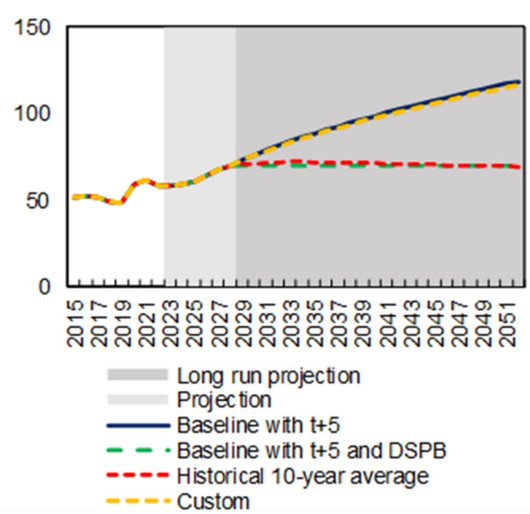
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	2028	2032 to 2036 average	Custom Scenario
Real GDP growth	2.7%	2.7%	2.7%
Primary Balance-to-GDP ratio	-4.4%	-4.3%	-4.3%
Real depreciation	-1.8%	-1.9%	-1.9%
Inflation (GDP deflator)	2.0%	2.0%	2.0%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

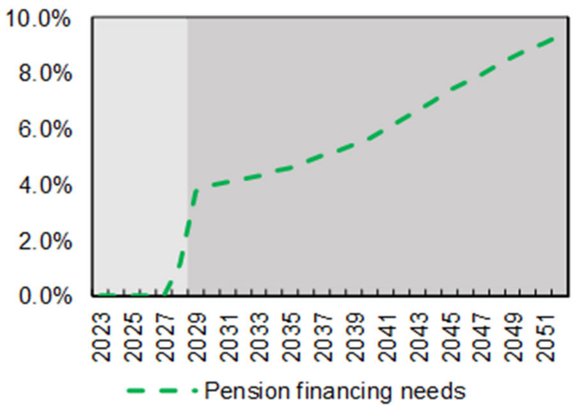


Commentary: Long-term risks are high and debt is expcted to gradually increase over the next 30 years if no additional fiscal consolidation efforts are made. Gross financiing needs will exceed 20 percent by 2050.
Source: IMF staff calculations.

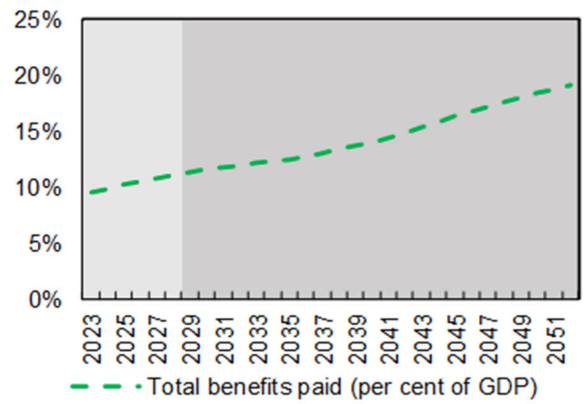
Table 8. Slovak Republic: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	**30 years**	**50 years**	**Until 2100**
(pp of GDP per year)	5.0%	6.9%	7.1%

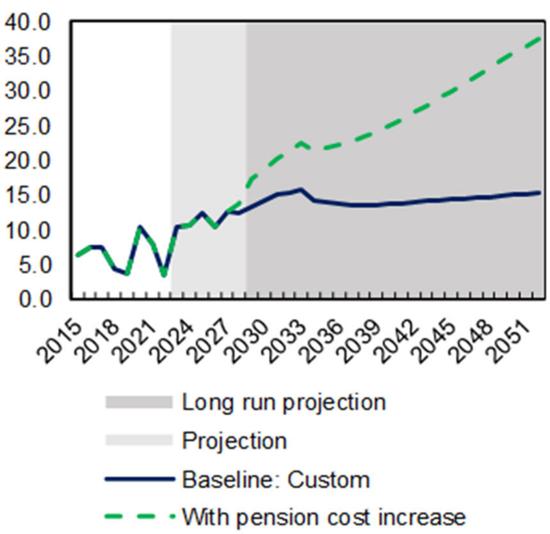
Pension Financing Needs



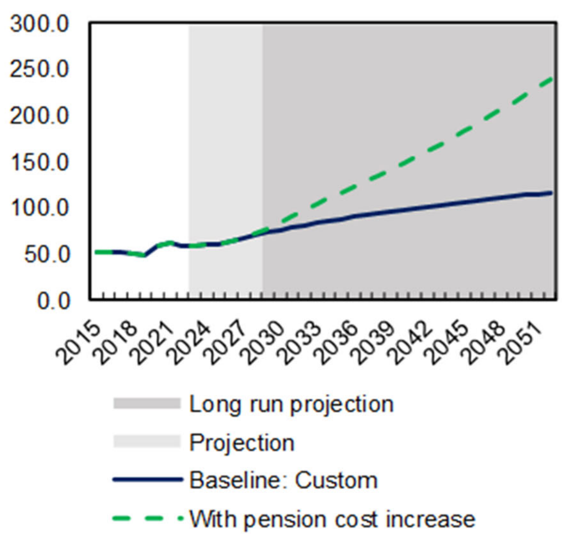
Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

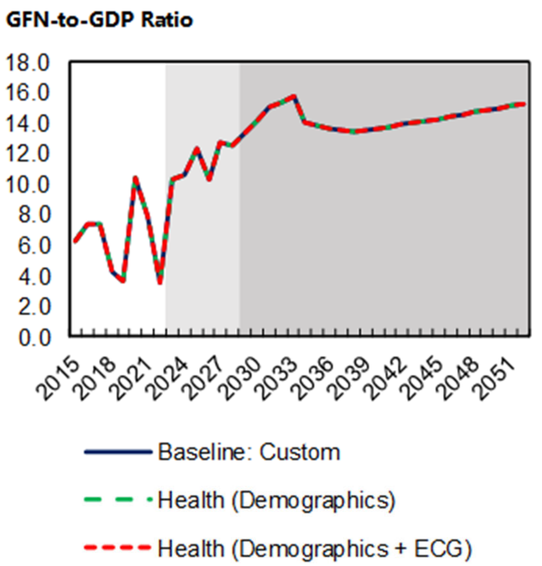


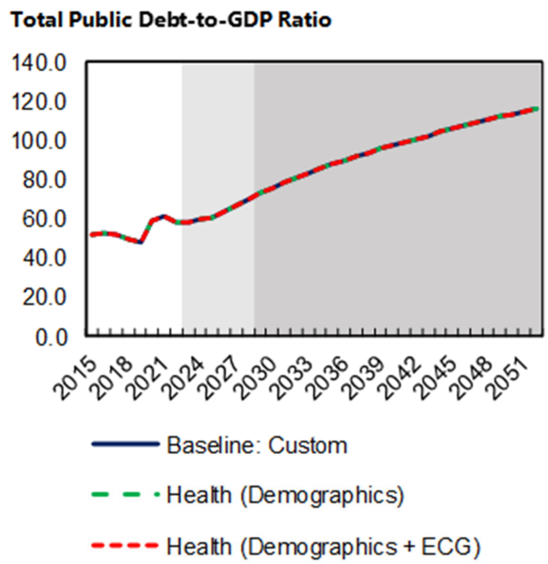
Commentary: This simulation is based on pension expenditure data from the European Commission's 2021 Ageing Report, adjusted for the effects of the recently introduced pension reforms, as estimated in the 2023 Stability Program. The calculations will be updated based on data from the Slovak authorities during the Article IV mission. The results are consistent with previous findings by the EC, the OECD and the Slovak Ministry of Finance and indicate a significant funding gap in the pension system due to the rapidly aging polulation.

Source: IMF staff calculations.

Table 9. Slovak Republic: Demographics: Health

Slovak Republic: Demographics: Health





Commentary: This simulation is based on healthcare expenditure forecasts from the EC 2024 Ageing Report. The excess cost growth (ECG) simulation assumes a 1.4 percent increase in real healthcare costs.

Source: European Commission and IMF staff calculations.

Annex IV. Authorities' Response to Past IMF Policy Recommendations

IMF 2022 Article IV Recommendations	Authorities' Response
Fiscal Policy	
Targeted and temporary transfers to vulnerable households to cushion the impact of rising commodity prices.	Broad-based energy support measures were extended for households and will expire at the end of 2024.
Raise real estate and environmental taxation, introduce e-invoicing, and step-up implementation of Value for Money measures.	No progress on real estate and environmental taxation. In April 2023, e-invoicing became mandatory for government-to-government and business-to-government transactions and will gradually become mandatory for all state and public bodies and entrepreneurs who supply them with goods or services. Value for Money efforts are ongoing, and the Ministry of Finance assessed 187 projects and identified potential savings of €303 million in 2023.Also, €8 billion (7,8 % GDP) were revised in three spending reviews with a potential saving of 854 million euros.
Enshrine the multiyear spending ceilings and the link between retirement age and life expectancy in constitutional acts.	No progress.
Further efforts on absorption of EU funds.	Efforts to increase absorption of EU funds are ongoing, including the establishment of an investment authority and approval of public procurement law amendments to simplify processes and improve controls.
Better coordination between regional and sectoral strategies and stronger oversight of SOEs.	No progress.
Financial Sector	
Improvements in response and recovery capacities to ensure swift operations return after a potential cyber-attack.	The authorities are part of the EU's Digital Operational Resilience Act (DORA) that is coming into effect in 2025.
Continue to strengthen the AML/CFT and governance framework.	The authorities have developed and revised the internal guidelines, procedures for AML/CFT regulation and supervision. The action plan to mitigate money laundering (ML) and terrorist financing (TF) risks has been adopted, and deficiencies in reporting suspicious transactions to the Financial Intelligence Unit addressed. However, remaining deficiencies include (i) requirements to manage and

IMF 2022 Article IV Recommendations	Authorities' Response
Financial Sector	
	mitigate instances of high AML/CFT risks, (ii) beneficial ownership information, and (iii) procedures to mitigate risks posed by politically exposed persons.
Explore additional measures to address housing market vulnerabilities, such as capital-based measures on mortgage exposures, including minimum risk weights and targeted use of a sectoral systemic risk buffer.	The authorities have decided not to apply a sectoral systemic risk buffer to target systemic risks from mortgage loans given that risk weights on mortgages are already high.
Adjust borrower-based measures to address the concentration of loans close to regulatory limits and the rise in loans with maturities beyond retirement age.	The authorities have introduced an age-dependent debt-to-income (DTI) limit to reduce the amount of loans with maturities beyond retirement age.
Structural Reforms	
More effective active labor market policies to address labor market mismatches, facilitate resource reallocation, and speed up refugee integration.	The authorities allocated €5.28 million for active labor market policies aimed at Ukrainian refugees in 2022.
Address structural challenges from population aging, by raising labor participation of women and the elderly, attracting foreign workers, addressing gaps in education, and strengthening health care.	The National Action Plan for Women's Employment for 2022–2030 was prepared to further develop the policy measures to encourage labor force participation and promote gender equality. The authorities issue national visas to citizens of third countries to attract high skilled foreign workers.
Introduce explicit carbon taxation.	No progress.

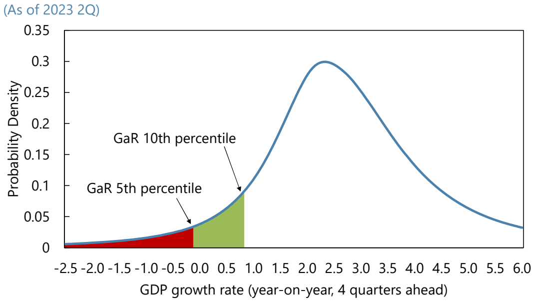
Annex V. Growth at Risk in Slovakia

1. Macro-financial vulnerabilities could pose downside risks to future economic activities. These vulnerabilities include an excessive expansion of credit by financial institutions or vulnerabilities in the household sector, especially increasing housing prices and mortgage debt. As imbalances increase, the downside risks to future economic growth will become more important.

2. A Growth-at-Risk (GaR) model is constructed to examine the downside risks to future growth from such vulnerabilities.[1] The model takes into consideration financial conditions, macro-financial vulnerabilities, macroeconomic vulnerabilities, and external factors.[2] Based on the estimated coefficients, the probability distribution for future GDP growth at different horizons can be computed and inferences made regarding the magnitude of downside risks to growth.

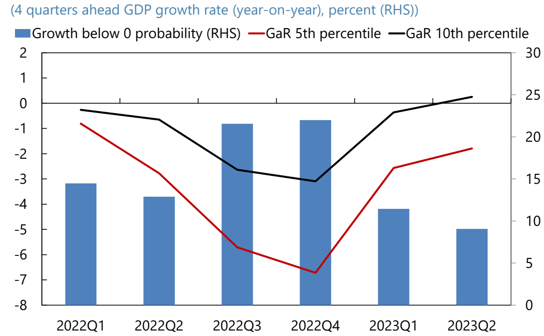
3. The GaR analysis suggests the recent tightening of financial conditions has reduced near-term recession risk. Downside risk to 4-quarter ahead GDP growth (year-on-year) increased during the second half of 2022 with the probability of a real GDP contraction reaching 22 percent in 2022:Q4, but appears to have eased significantly in 2023.[3] Although the tail risk of a recession may have eased, the authorities should continue to monitor macro-financial vulnerabilities, including the uneven impact of inflation and interest rates across households and firms as well as emerging risks in the commercial real estate sector.

Slovakia: Growth-at-Risk (GaR)
(As of 2023 2Q)



Source: IMF staff calculations.
Note: The distribution is calculated by conditioning the mode to match the staff projection.

Growth at Risk (GaR) for Multiple Horizon Projections
(4 quarters ahead GDP growth rate (year-on-year), percent (RHS))



Source: IMF staff calculations.

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[1] Adrian, T., N. Boyarchenko, and D. Giannone, (2019), "Vulnerable growth", American Economic Review, 109(4), 1263–1289.

[2] The model considers five partitions, which are 1) Financial Condition: Slovakia 1 year government bond yield, sovereign spreads, term spreads, real long-term interest rate, and yearly return of Slovakia SAX index; 2) Macro-Financial vulnerabilities: Credit-to-GDP gap, household credit growth, corporates credit growth, change in residential property price, and the ratio of non-performing loans to total loans; 3) Macro vulnerabilities: HICP inflation rate, current account balance to GDP ratio, and government debt to GDP ratio; 4) External price: change in nominal effective exchange rate, change in Europe brent spot price FOB, change in Netherlands TTF natural gas forward, and VIX Index; and 5) External macro: EU27 real GDP growth rate. The year-on-year rate is used for growth and change. The dimension of each partition is reduced using the principal component analysis. The estimation period is from 2006:Q1 to 2023:Q2, and independent variables include the current GDP growth rate.

[3] This could be because of the tightening of financial conditions that has resulted in a slowdown of credit growth to households and firms as well as the cooling of the residential property market.

INTERNATIONAL MONETARY FUND

SLOVAK REPUBLIC

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 20, 2024

Prepared By	European Department

CONTENTS

FUND RELATIONS

(As of December 31, 2023)

Membership Status: Joined January 1,1993; accepted Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	1,001.00	100.00
Fund holdings of currency	724.48	73.28
Reserve position	276.56	26.63

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	1299.89	100.00
Holdings	1322.14	101.71

Outstanding Purchases and Loans: None

Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Stand-by	7/22/1994	3/21/1996	115.80	32.15

Projected Payments to Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	**2025**	**2026**	**2027**	**2028**
Principal					
Charges/Interest	0.02	0.02	0.02	0.02	0.02
Total	0.02	0.02	0.02	0.02	0.02

Exchange Rate Arrangement:

The currency of the Slovak Republic is the euro. The exchange rate arrangement of euro area is free floating. The Slovak Republic participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The Slovak Republic accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF’s Articles of Agreements, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except those imposed for security reasons, based on UN Security Council Resolutions and Council of the European Union Regulations, and which have been notified to the Fund in accordance with Decision No. 144-(52/51).

Article IV Consultation:

The Slovak Republic is on a standard 12-month consultation cycle. The previous consultation with the Slovak Republic was concluded on June 30, 2022 (IMF Country Report No. 22/202).

FSAP Participation and ROSCs:

An FSAP was concluded with the completion of the 2002 Article IV consultation on August 7, 2002 (IMF Country Report No. 02/198). An FSAP update mission was held in December 2006 (IMF Country Report 07/243).

The report on the Fiscal ROSC was issued in August 2002 (IMF Country Report No. 02/189), and updates were issued in August 2003 (IMF Country Report No. 03/236) and in March 2005 (IMF Country Report No. 05/73). The report on the Data ROSC was issued in May 2005 (IMF Country Report No. 05/161).

Technical Assistance: See the attached table.

Resident Representative Post: None (closed at end-April 2004).

Slovak Republic: Technical Assistance, 2014–2023 1/		
Department	**Timing**	**Purpose**
FAD	November 2015	Expenditure review workshop
	December 2015	VAT gap follow-up and excise gap analysis
	April 2016	Expenditure review
	November 2016	Tax efficiency
		Expenditure review
	March 2017	Corporate income tax gap
	May 2017	Expenditure review
	November 2017	Cost-benefit analysis of transport investment projects
		Expenditure review (follow-up)
	April 2018	TADAT
	April 2018	International taxation
	May 2018	Expenditure review (preparing baselines)
	November 2018	Expenditure review
	February 2019	Public Investment Management Assessment
	July 2019	Expenditure review
	September 2020–December 2022	Fiscal rules and budget reforms
	October 2020	Technical review of the Spending Review Process
	April–September 2021	Expenditure review (National Transport Modeling)
	April 2021–Sept 2022	Support on expenditure review (Health, RDI)
	January 2022	Fiscal transparency evaluation
	January–March 2023	Review of subsidies
	June 2023	Implementing Public Expenditure limits
	May–October 2023	Program Based Budgeting
	July 2023	Workshop on Behavioral Finance
	July 2022–April 2023	Supporting the Investment Authority
	June 2023	Whole-of-government expenditure review
	December 2023	Workshop to close FY22–24 project and plan FY24–26 project

1/ See Appendix I of the IMF Country Report No. 22/202 for technical assistance prior to 2014.

STATISTICAL ISSUES

1. **Coverage, periodicity, and timeliness of data provided to the Fund are adequate for surveillance purposes.** The Slovak Republic has subscribed to the Special Data Dissemination Standard (SDDS) since 1996 and observes or exceeds all related standards. The Slovak Republic is subject to the statistical requirements and timeliness and reporting standards of Eurostat and the European Central Bank (ECB).

2. **Real sector.** All data on national accounts follow the ESA 2010.

3. **Fiscal sector.** The compilation of general government statistics is in line with the ESA 2010. Monthly reconciliation of government operations above and below the line is restricted to state budget transactions on a cash basis quarterly reconciliation of general government operations above and below the line, as well as a financial balance sheet data are available on an accrual basis within 85 days after the end of the quarter.

4. **External sector.** External sector statistics are generally of good quality and are reported on a timely basis to the Fund following the standard of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). Official BPM6 basis data are available back to 2004. However, net errors and omissions in the balance of payments statistics are large (averaging 1 percent of GDP for the last five years) and reported financial account flows are subject to large volatility. The statistical authorities are aware of these issues and are working to address them.

5. **Monetary Statistics**: The ECB reporting framework is used for monetary statistics and data are reported to the IMF through a "gateway" arrangement with the ECB. The arrangement provides an efficient transmission of monetary statistics to the IMF and for publication in the International Financial Statistics. Monetary statistics for Slovak Republic published in the IFS cover data on central bank and other depository corporations (ODCs) using Euro Area wide and national residency criteria.

6. **Financial sector surveillance:** Slovak Republic reports all core and encouraged financial soundness indicators (FSIs) for deposit takers, except for large exposures.

Table 1. Slovak Republic: Table of Common Indicators Required for Surveillance

(As of January 31, 2024)

	Date of Latest Observation	Date Received	Frequency of Data [6/]	Frequency of Reporting [6/]	Frequency of Publication [6/]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1/]	December 2023	January 2024	D	W	W
Reserve/Base Money	December 2023	January 2024	M	M	M
Broad Money	December 2023	January 2024	M	M	M
Central Bank Balance Sheet	December 2023	January 2024	M	M	M
Consolidated Balance Sheet of the Banking System	December 2023	January 2024	M	M	M
Interest Rates [2/]	Current	Current	D	D	D
Consumer Price Index	December 2023	January 2024	M	M	M
Revenue, Expenditure, Balance and Composition of Financing [3/] — General Government [4/]	2022	December 2023	A	A	A
Revenue, Expenditure, Balance and Composition of Financing [3/] —Central Government	December 2023	January 2024	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt [5/]	2023:Q3	January 2024	Q	Q	Q
External Current Account Balance	October 2023	January 2024	M	M	M
Exports and Imports of Goods and Services	November 2023	January 2024	M	M	M
GDP/GNP	2023:Q3	December 2023	Q	Q	Q
Gross External Debt	2023:Q3	December 2023	Q	Q	Q
International Investment Position [7/]	2023:Q3	January 2024	Q	Q	Q

[1/]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2/]Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3/]Foreign, domestic bank, and domestic nonbank financing.

[4/]The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5/]Including currency and maturity composition.

[6/]Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

[7/]Includes external gross financial asset and liability positions vis-à-vis nonresidents.