

INSTITUTE OF ECONOMIC RESEARCH
Slovak Academy of Sciences

***Economic Development of Slovakia
in 2025***

*Focused on:
Structural Slowdown and Anaemic Growth?*

Karol Morvay et al.

Bratislava 2026

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INTRODUCTION

Slovakia's economic performance in recent times resembles an organism lacking vitality – long-term growth drivers have weakened, compounded by current barriers arising from the consolidation of public finances and global tensions. Hence the metaphor in the subheading of this year's edition of our assessment report. The economy is slowing down – not, however, in the form of a cyclical weakening, but in the form of a more protracted structural slowdown. This has been (and continues to be) further exacerbated by recent shocks. This phenomenon has far-reaching implications in all dimensions – a fact reflected in the range of perspectives presented in this publication. A broad-based slowdown is a defining feature of the period under review. However, this is not a slowdown in the sense of a recession (although it is not far from one), but rather in the sense of weak growth, at a sluggish, minimal pace. With an unconvincing improvement in the budget balance, slightly falling employment, and stagnant factor productivity... we liken this lack of conviction and sluggish nature to anaemia.

Although our annual publication focuses primarily on assessing economic developments over the past year, it also places the phenomena under examination within a broader timeframe. It focuses in particular on characteristic changes in the economy (in terms of its growth, stability, factors of competitiveness, the use of public resources, the business environment and other areas).

As is customary, the traditional chapters devoted to the various dimensions of the economy's dynamics and stability are supplemented by one-off explorations of specific issues. In this year's edition, such 'bonus topics' include an analysis of the electricity market and an analysis of the impact of an ageing population on one segment of the healthcare sector. These one-off, supplementary analytical studies are integrated into the sequence of chapters.

The publication begins with an overview, which then branches out into a series of more detailed examinations of specific issues. Finally, it returns to a synthesising perspective when presenting the outlook for future developments (the outlook serves as an informal conclusion to the analysis). Each chapter ends with a paragraph that concisely summarises its main idea or offers a point for reflection on future developments.

1. OVERALL VIEW OF ECONOMIC DEVELOPMENT

The first chapter assesses economic developments, as is traditional, with a lower level of detail but a higher degree of synthesis and overall perspective. It must lay the groundwork for significantly more detailed analytical examinations in the subsequent chapters. First and foremost, it examines the overall dynamics of the economy, its level of performance, changes in its structure, and overall stability. Accordingly, the chapter focuses primarily on the following phenomena, which have been characteristic of recent developments:

1) A slowdown in growth, further weakening of economic activity dynamics, which had already been sluggish. We seek to show that, contrary to expectations, external factors did not play as significant a role in the slowdown as had been assumed, and that the decline was linked more to domestic problems. However, the current slowdown is part of a longer-term trend of weaker economic performance.

2) Structural shifts between sectors have moderated. The shift in value added creation between sectors is no longer as pronounced as in the previous period. Moreover, the direction of these shifts is different from that of the previous decade – which, in turn, has an adverse impact on productivity and the overall dynamism of the economy.

3) Macroeconomic stability, which has remained disrupted since the Covid recession, still does not show the desired trends. Measures to remedy this have little effect, yet entail significant costs.

The central theme of the publication – a slowdown in growth – is very clearly evident in these areas. It runs through all three areas, as they are interlinked in both directions.

Growth and Convergence: Long-Term Weakness Coupled with the Current Slowdown

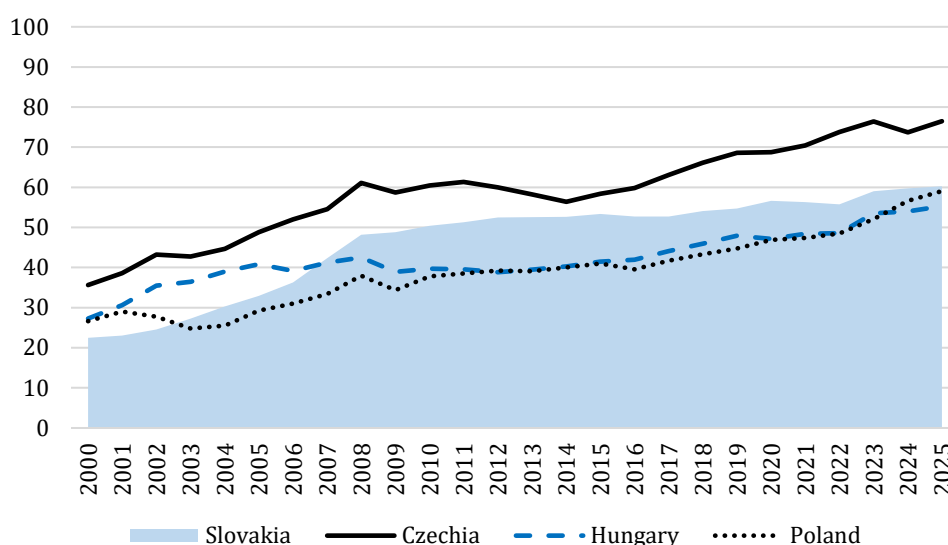
Sluggishness and slowdown are fundamental characteristics of economic growth and its real convergence (catching up with more developed economies) in both the long and short term.

That long-term trend of lacklustre performance and sluggish growth has been present for more than a decade, and has become more pronounced in recent years. It does not manifest itself as a recession (with the exception of the pandemic year 2020), but rather as insufficient growth to enable the economy to converge more significantly in real terms (to catch up with more developed economies). This phenomenon is illustrated in Figure 1.1. The upward trend of the Slovak economy relative to the EU27 has been weak since around 2011 – 2012. Since 2014, the upward trend in the other V4 countries has been significantly steeper than that of Slovakia. When GDP is disaggregated, successful convergence in final household consumption is evident, whilst convergence in the level of fixed investment has stalled significantly (Figure 1.2).

Figure 1.1

The Process of Catching Up with the EU27 Level

(GDP per capita as a percentage of the EU average, using data in euros)



Source: own calculations based on Eurostat data.

The level of final household consumption per capita stands at 84.1 percent of the EU average and even slightly exceeds the Czech level (even though the Czech economy's performance is higher). The trend in per capita consumption therefore does not reflect this slowdown in real

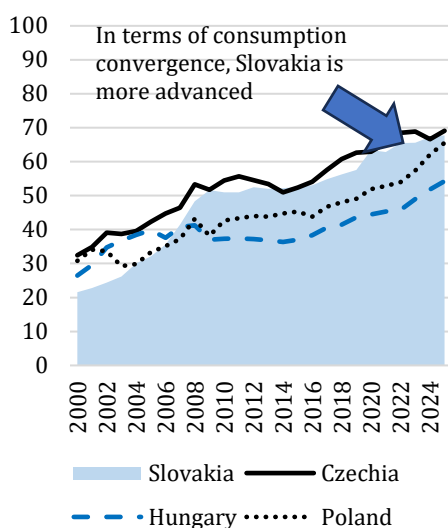
convergence (the convergence of economic performance), which is evident from a comparison of the rate of increase in the Slovak Republic's figures in Figures 1.1 and 1.2a.

Figure 1.2

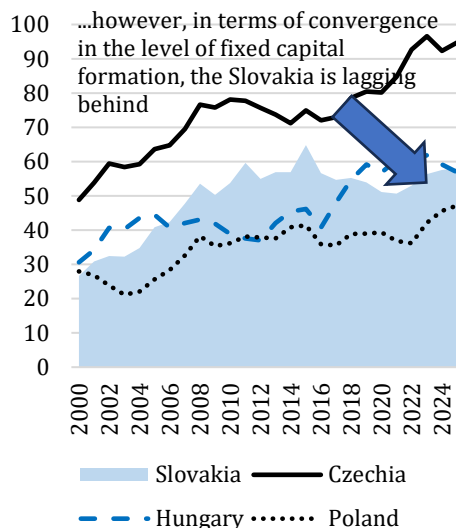
Relative Levels of Household Consumption and Gross Fixed Capital Formation (per capita)

(as a percentage of the EU27 average, using data in euros)

a) Final Consumption of Households



b) Gross Fixed Capital Formation



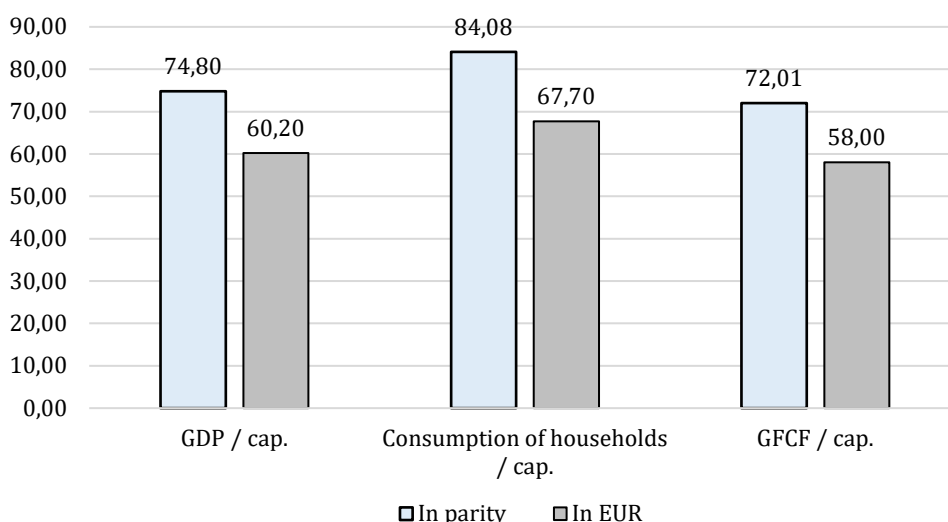
Source: own calculations based on Eurostat data.

This division into ‘converging consumption and non-converging capital formation’ (which holds true regardless of whether expressed in euros or at parity – see Figure 1.3) represents a relatively favourable contribution to the current material standard of living, at the expense of the economy’s future competitiveness. As we have outlined in previous issues of this publication, the long-term slowdown in growth and convergence is linked to reduced investment dynamics and insufficient progress in improving the capital-labour ratio, limited supplies of the available labour force, as well as a decline in total factor productivity (TFP). This is therefore a cross-cutting issue affecting all three categories of growth drivers – capital, labour and total factor productivity (for further details, see also Slačik, 2024 or Morvay, 2025).

Figure 1.3

Relative Levels of Parameters in Euros and at Parity

(percentage of the EU27 average, using data in both euros and purchasing power parity)



Source: own calculations based on Eurostat data.

In the short-term dimension of the slowdown, this refers to a deceleration in GDP growth during the period 2024 – 2025. The slowdown in growth to 0.8 percent in 2025 (with the prospect of even lower figures in the current period and the near future – see the chapter on the outlook) was attributed to an oversized extent to external factors (over which domestic economic policy-makers have almost no influence). Consequently, comments on economic developments have emphasised US protectionist measures and, in particular, the weak state of the EU economy, especially that of Germany. However, these ‘exculpatory’ external influences have so far carried less weight than has been attributed to them. Domestic dampening factors have played a far greater role. The evidence for this is as follows:

- External demand (as measured by exports from the Slovak Republic) played a positive role between 2024 and 2025. Export growth accelerated significantly (Figure 1.4a), as did the contribution of exports to real GDP growth (Figure 1.4b). Conversely, the growth rates and contributions to growth of all components of domestic demand (consumption of general

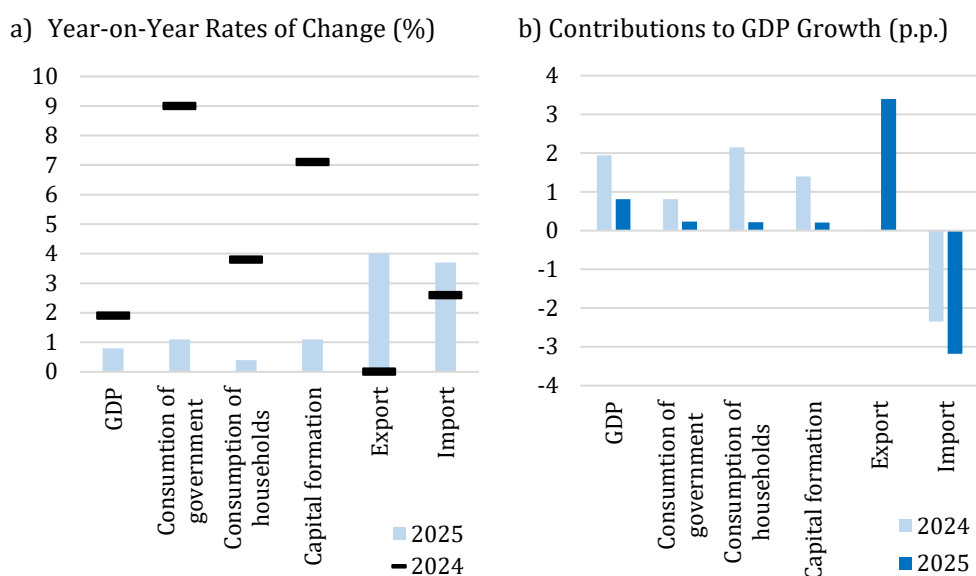
government, household consumption and capital formation) deteriorated sharply. More than 40 percent of the increase in aggregate demand for the Slovak economy's products was generated by external demand (Figure 1.5a).

- Although other V4 countries, specifically Poland and the Czech Republic, are also linked to the state of the EU economies (particularly Germany's), they did not experience such a marked slowdown as Slovakia.

Foreign trade was thus more resilient to the impact of US protectionist measures and to the effects of the relatively weak condition of the European economy. However, it cannot be ruled out that this negative impact has merely been delayed and will become apparent in the results for 2026 (see the chapter on external economic relations for further details).

Figure 1.4

Dynamics of the Components of Demand and Their Contribution to Real GDP Growth



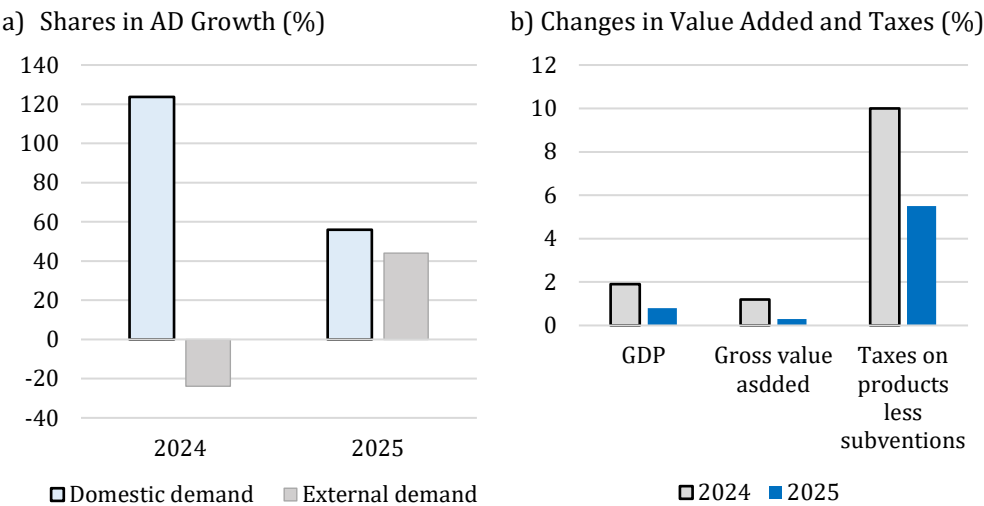
Note: p.p. – percentage points.

Source: own calculations based on Eurostat data.

Looking at GDP growth from a different angle, there is a noticeable slowdown in value added creation and an expansion of taxes on products (i.e. taxes that are incorporated into the market price of goods and paid as part of the price of those goods). This reflects the effect of fiscal

consolidation, which has generated more tax revenue from GDP than in the previous period. The impact of fiscal consolidation on short-term changes in GDP is thus evident in the weakening of the components of domestic demand and the strengthening of taxes on products.

Figure 1.5
Characteristics of Economic Growth from Alternative Perspectives



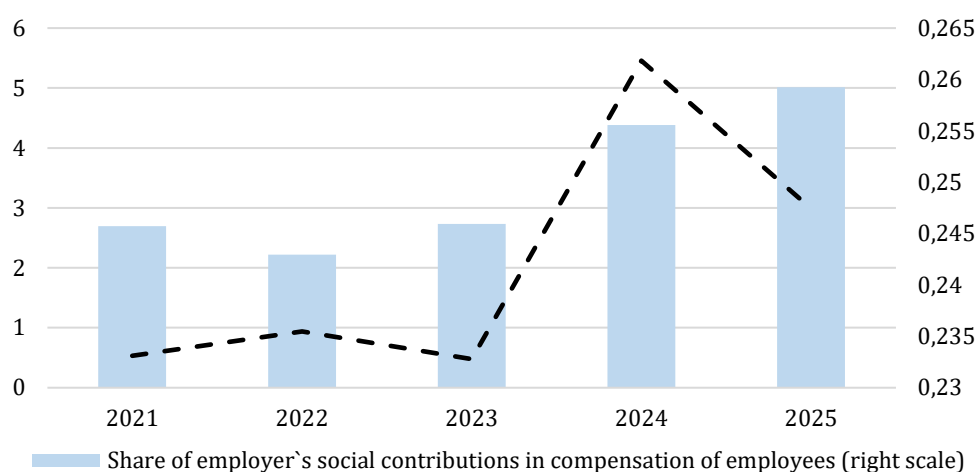
Notes: AD – aggregate demand, the sum of domestic and external demand.
The term ‘taxes’ in Figure b) refers to taxes on products (minus subsidies on products) that are incorporated into the market price of products. Typical examples include VAT and excise duties, which increase the price of products.
Source: own calculations based on Eurostat data.

Gross value added, the slowing growth of which is evident from Figure 1.5b, is an aggregate comprising income generated in the production process; and it is possible to observe the ‘pass-through’ of income accruing to employees (i.e. compensation of employees, comprising wages and social security contributions) and income accruing to enterprises and entrepreneurs (gross operating surpluses, comprising profit and amortisation) within this aggregate. Conditions in 2024 and 2025 were more favourable for employees’ earnings; for example, in 2025, every euro of additional business revenue was accompanied by 3 euros of additional compensation of employees. This has restored the longer-term trend of wage growth outpacing business income growth, a trend that was interrupted

only during the period 2021 – 2023. This trend is consistent with the above-mentioned lead of household consumption over economic output growth (wages are the main driver of consumption – and are growing faster than corporate revenues). However, it is also an indication of the continuing erosion of the low labour cost advantage. It should also be considered that the proportion of social security contributions in compensation of employees has increased, which is, in turn, one of the consequences of the policy of public budget consolidation.

Figure 1.6

Confrontation of Income Types – Components of Gross Value Added



Note: 'Business income' is understood here to mean the gross operating surplus (a category in the national accounts). Simplified, this consists of profits and amortisation.

Source: own calculations based on Eurostat data.

Structural Changes in Production: Weaker and Moving in a Different Direction

Economic growth takes place through structural changes. Economic activities are constantly being reallocated, with some growing and others declining. And this reallocation leads to ever-higher overall performance (in the best-case scenario – where capacity is reallocated towards more productive activities). Therefore, the analysis of the sectoral structure in the following text is linked to an assessment of the potential benefits for economic expansion.

During the decade 2014 – 2024, structural changes between sectors were significantly less pronounced than in the preceding decade, 2004 – 2014. The overall intensity of change (expressed as the sum of the absolute values of the changes) fell to approximately half the level seen in the preceding decade. A problematic feature is that the most significant „winner” – in terms of increasing its share in the economy – is a sector heavily influenced by the state: public administration and defence, education, healthcare and social care. In this sector, output is difficult to measure, subject to distortion and also dependent on political decisions. It also depends on public expenditure (higher public expenditure in these areas is reflected as growth in the sector). Another problematic aspect is the slight decline in the share of the professional, scientific and technical services sector (a shorthand term for a group of services that are more intellectually intensive) in the economy. In the earlier period, it was precisely this sector that had experienced the most significant growth in its share in the economy (compare Figures 1.7a and b). Overall, cross-sectoral shifts over the past decade have done little to foster more promising structural changes. The mere reduction in the overall intensity of change comes as no surprise – one might expect a shift from large, statistically visible cross-sectoral changes to more subtle changes within sectors; these changes relate more to the nature of activities within industries and sectors. However, some of the indicated trends in cross-sectoral movements are problematic.

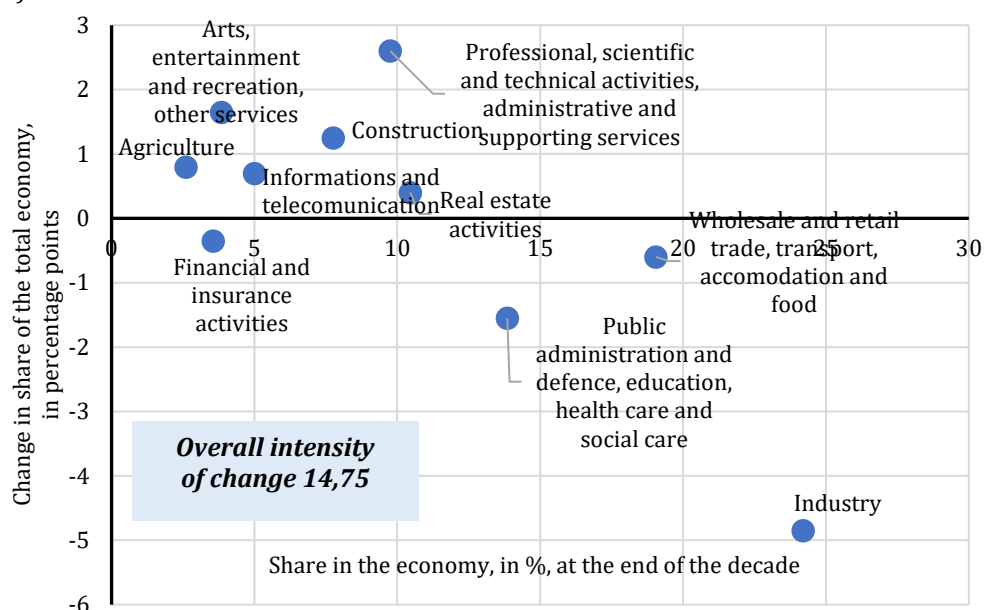
A long-standing feature of the sectoral structure is the high proportion of industrial production. This is sometimes perceived as a weakness in the structure of the economy. However, the picture is not so clear-cut; a strong, mature industrial sector can attract innovation and high value-added services, and can also act as a driving force for research and development (for further details, see Luptáček et al., 2016).

Therefore, it is not the high share of industrial production that is the problem; the problem lies in its nature (a focus on activities with low value-added, which are essential for the creation of an industrial product but, in themselves, generate little revenue in relation to the volume of production).

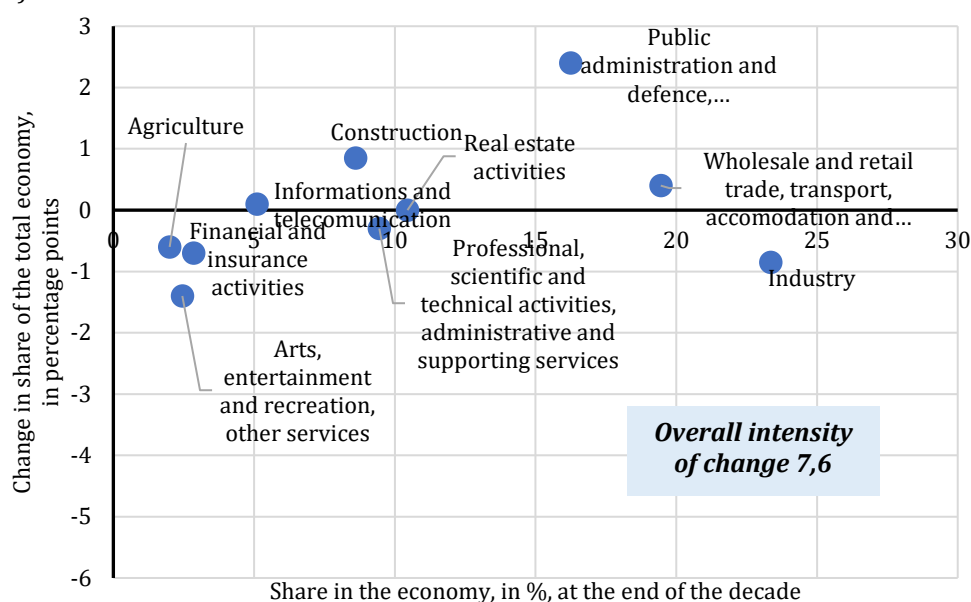
Figure 1.7

The Intensity of Structural Changes across Sectors of the Slovak Economy

a) Between 2004 and 2014



b) Between 2014 and 2024



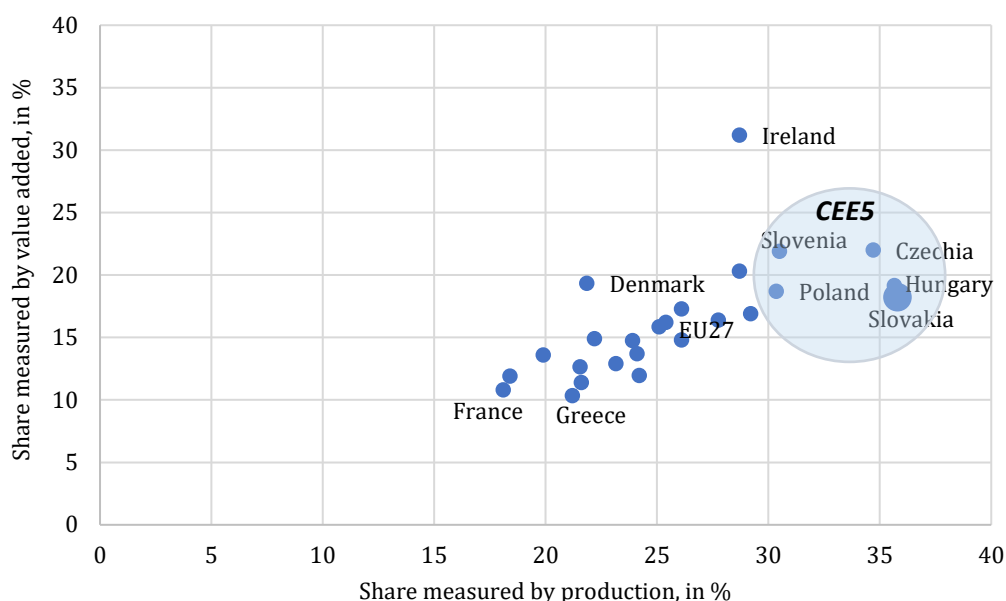
Note: p. p. – percentage points. The shares are calculated on the basis of value added at current prices. The total intensity of the change is expressed as the sum of the absolute values of the individual changes.

Source: own calculations based on Eurostat data.

Figure 1.8 combines two indicators for measuring the position of industrial production in EU economies: the share of industrial production in the total output of the economy, and the share of industrial production in total value added. A characteristic feature of industrial activities is that their share of the economy's output is greater than their share of value added (precisely because of the typically low rate of value added; industry generates a large volume of output, but due to its high demand for consumed inputs, the proportion of value-added components in this output is relatively small). Slovakia presents an interesting case in this regard: industrial production accounts for an exceptionally high share when measured by output (nearly 36 percent) but, when measured by value added, this share in the economy is rather „normal” (around 18 percent). This reflects the fact that industrial production in Slovakia has an even lower rate of value added than is typical in EU countries.

Figure 1.8

The Role of Industrial Production in the Slovak Economy, Using Alternative Measurement Methods



Note: CEE5 = the V4 countries plus Slovenia. CEE = Central and Eastern Europe.

Source: own calculations based on Eurostat data.

The implication, therefore, is not that industrial production needs to be restricted, but that it should be helped to integrate more activities with a higher level of added value (there are examples of this in the Slovak context, though they are not widespread enough¹). Through the potential multiplier effects (Luptáčík et al., 2016), a strong industrial sector can be a strategic advantage.

Another structural dimension of production is the functional structure of its income. In the long term, the wage intensity of production (the share of compensation of employees in it) has risen, whilst the profitability of production (determined by the share of profits² in it) has fallen. This trend was temporarily interrupted by the turbulence of 2020 – 2022, but has since resumed (Figure 1.9). These two phenomena are related (although the link is not a close one). The growing scarcity of labour naturally increased the wage intensity. The rise in labour costs contributed to the squeeze on profits – thereby reducing the rate of production profitability. This observation is also consistent with the trend shown in Figure 1.6 – the increase in compensation of employees was significantly higher than the increase in corporate revenue. Cost shocks caused, for example, by rising energy prices may also have contributed to the further decline in profitability in recent years.

However, if there is a long-term shift in the distribution of income within the production sector in favour of compensation of employees and to the detriment of profits, this may have the following consequences:

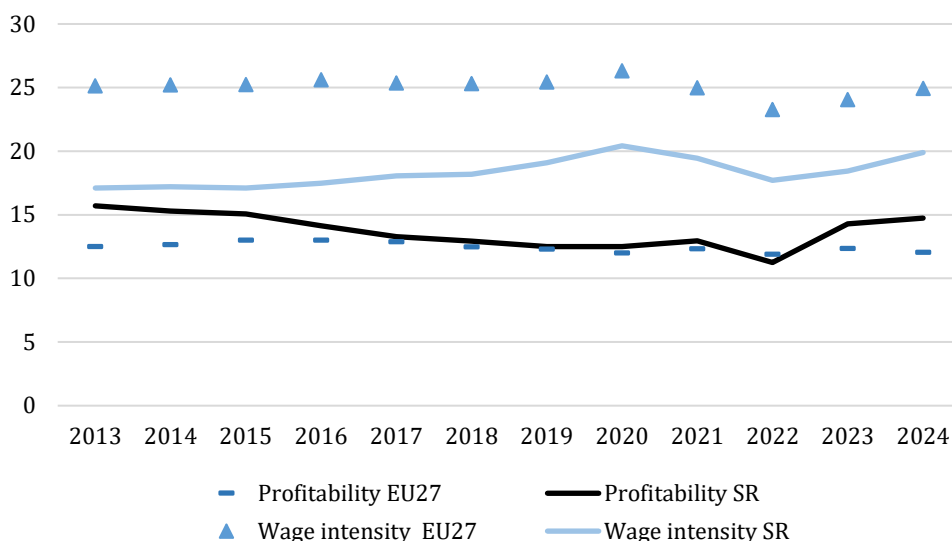
- The original, traditional competitive advantage of low labour costs is further eroded. This may have a negative impact on those sectors of the economy where low labour costs remain important.
- Falling profitability may discourage investment. It also reduces the overall attractiveness of doing business. So far, however, profitability has not fallen to levels that would be too low by EU standards (just as labour costs have not yet risen too high either).

¹ This category of activities in the Slovak Republic included, for example, the design of automated internal logistics systems in industry and the implementation of the 'smart factory' concept (e.g. <<https://www.asseco-ceit.com/>>) or research into innovative methods of welding various metals in industry (<<https://vuz.sk/technology/trecie-zvaranie-s-premiesanim/>>). Whilst these examples do exist, they do not yet represent a defining feature of industrial production as a whole.

² We use the net operating surplus from the system of national accounts as a variable representing profits. It is an imperfect but accepted proxy for profits.

Figure 1.9

Profitability of Production and Wage Intensity (in %)



Note: This refers to the profitability of production (net operating surplus / output). Wage intensity is expressed as compensation of employees / output.

Source: own calculations based on Eurostat data.

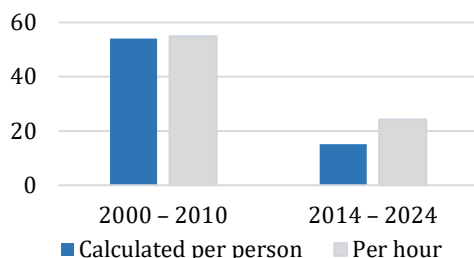
In a situation where there is a long-term trend towards rising labour costs in production (or where the growth in labour costs is outpacing the growth in corporate revenue), it is extremely important to restore strong growth in labour productivity (for further details, see ISA, 2025). The interpretation of labour productivity trends depends on how it is expressed (Box 1).

When expressed on a per capita basis (value added per worker), the rate of growth is insufficient to close the productivity gap (the difference compared with the productivity of advanced EU economies; for further details, see Morvay, Hudcovský and Štefánik, 2025).

Box 1.1: The Story of Dual Labour Productivity

Labour productivity in the Slovak Republic is a frequently discussed indicator of competitiveness, a determinant of labour income and a prerequisite for real convergence. If we express it as value added relative to labour inputs, we can obtain two different pictures depending on how we measure the labour involved.

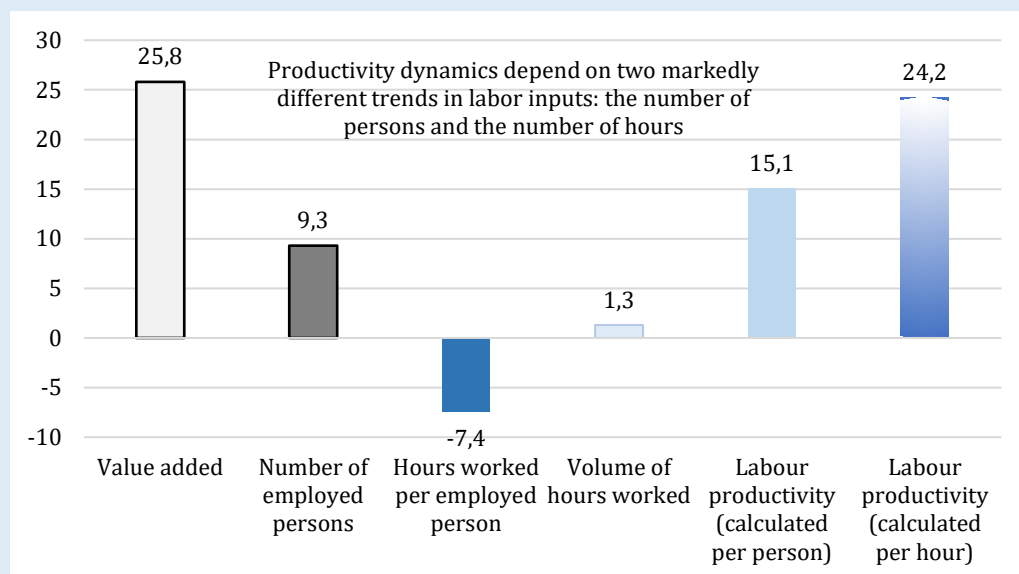
Figure 1.10
Overall Labour Productivity Growth (%)



Over the past decade, productivity measured on an hourly basis – value added in constant prices per hour worked – has been significantly more favourable. This is because the average number of hours worked per employee has fallen. As the total number of hours worked by employees declines, the trend in hourly productivity is inevitably more favourable.

When interpreting the more favourable – hourly – productivity, two issues must be borne in mind: firstly, the shortcomings in the statistical reporting of hours worked (Hudcovský, 2025), and secondly, the fact that as a worker's time allocation decreases, both their overall output and the income derived from that output are limited. Consequently, in economically advanced countries, the number of hours worked is lower (with high productivity), whilst in less advanced countries it is higher (with lower productivity).

Figure 1.11
Parameters Determining Labour Productivity (2014 – 2024)



Source: (both charts): own calculations based on Eurostat data.

Restoring Macro-Stability: The Costs More Apparent than the Results

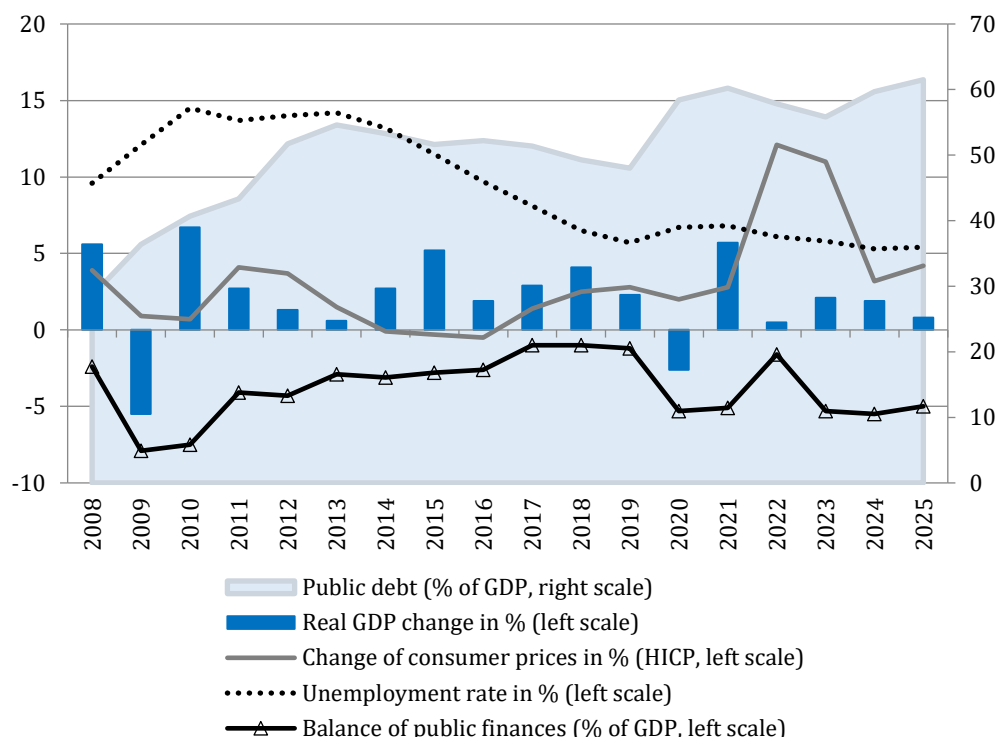
Macroeconomic stability has been significantly disrupted since 2020 (at that time, this was linked to the onset of the COVID-19 crisis and recession, Figure 1.12). This specifically affected public budgets, which were strained by policies designed to mitigate the impact of a series of shocks (the economic downturn during the pandemic, the inflationary shock and the energy crisis). These manifestations of instability were interlinked (e.g. the inflationary shock triggered compensatory measures by the government, which in turn contributed to a widening of the fiscal imbalance). Disruptions in macroeconomic stability during that period were a widespread phenomenon affecting EU economies across the board. However, Slovakia is among the countries which, following the easing of the COVID-19 crisis, failed to return fiscal imbalance parameters more permanently to their original range (or at least to move convincingly in that direction), and so budgetary parameters in Slovakia remained at 'crisis' levels. In terms of the long-term sustainability of public finances, the Slovak Republic was in the high-risk category (for further details on these trends, see RRZ, 2026).

In addition to the standard, clearly visible manifestations of fiscal imbalance (public debt, public finance deficit), there are several less common factors which nevertheless have a significant impact on the state of the economy: for example, public revenue in the Slovak Republic is insufficient to cover even the public sector's current expenditure. Final consumption by the general government sector routinely exceeds the level of public revenue (by 7 percent in the period 2021 – 2004), although such a situation should only arise in exceptional circumstances – as, for example, in the countries under comparison at the onset of the pandemic recession in 2020 (Figure 1.13a). Given the inability to cover even current expenditure, expenditure on gross fixed capital formation in the public sector is relatively low. This, in turn, limits public investment, with the risk of a negative impact on the overall attractiveness of the environment (e.g. infrastructure, access to public services, digitalisation, etc.). Such a fundamental imbalance – the inability to cover even current consumption –

leads to expectations of a more fundamental reform of public finances in the medium term. Ordinary consolidation programmes cannot bring about a more lasting improvement.

Figure 1.12

Trends in Key Indicators of Economic Performance and Stability



Notes: Unemployment rate based on the Labour Force Survey.

Source: Eurostat; Statistical Office of the Slovak Republic and own calculations based on these data.

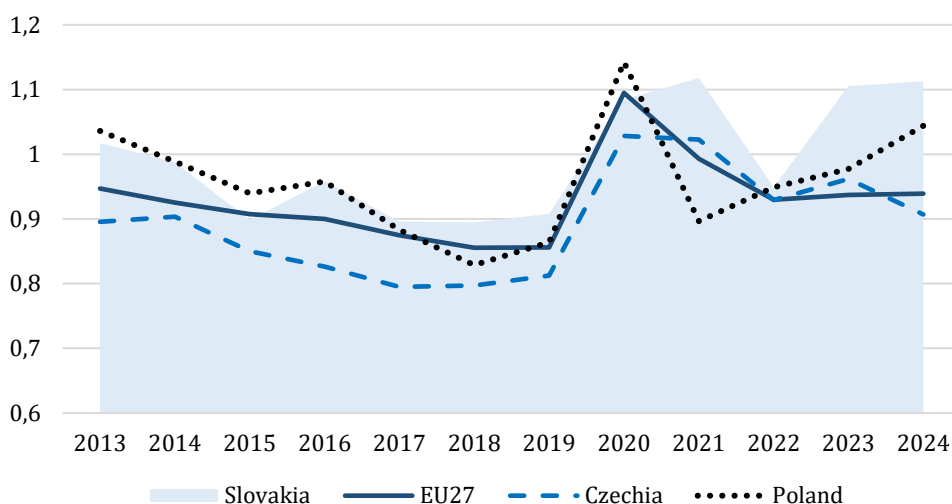
Even after several rounds of budgetary consolidation measures (details in the chapter on public finances), it has not been possible to achieve a satisfactory situation, whilst the cost of these measures is reflected in a significant slowdown in economic growth. This is a typical trade-off between consolidating public finances and short-term economic growth. However, attempts to consolidate public budgets affect not only the pace of economic growth in the short term, but also the state of equilibrium, such as short-term inflation (some consolidation measures have a temporary inflationary effect – e.g. increases in indirect tax rates) or the balance in the labour market (slightly increasing unemployment). However, the

poor outcome of stabilisation measures dramatically reduces the readiness to implement further measures, as well as society's willingness to accept them.

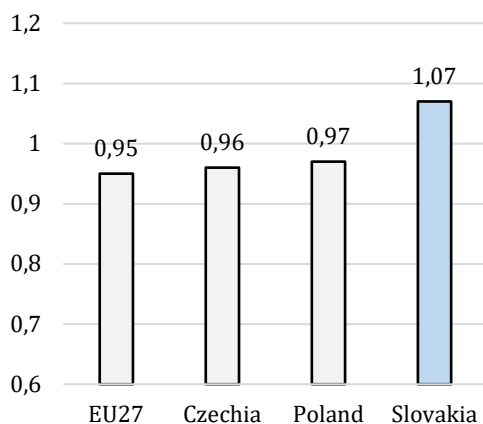
Figure 1.13

The (in)Ability to Cover Current Consumption Expenditure of General Government Sector from Public Budgets

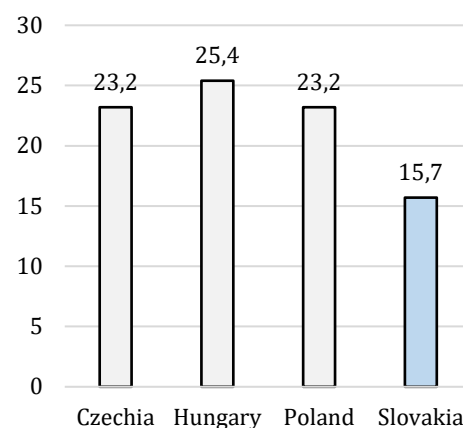
a) Ratio of General Government Final Consumption to Public Revenues



b) GGFC/PR (average for 2021 – 2024)



c) Ratio GFCFgg/PR



Notes: GGFC – general government final consumption, PR – public revenue, GFCFgg – gross fixed capital formation in general government sector

Source: Own calculations based on data from Eurostat and the Ministry of Finance of the Slovak Republic.

* * *

In the previous edition of this analysis, we noted here: „In terms of the Slovak Republic’s macroeconomic development, 2024 can be seen as the initial phase of consolidation. However, there is a risk that addressing one problem (macroeconomic imbalances) through a consolidation programme will lead to the exacerbation of another problem – insufficient economic dynamism.” Such a scenario has indeed materialised, which was to be expected. It may be added, however, that the costs in the form of an economic slowdown are greater than anticipated (the slowdown in economic growth was more pronounced than predicted) and the improvement in macroeconomic stability was less than expected. The conflict in achieving the objectives has thus become more apparent than anticipated and has rightly sparked a debate on adjusting the course of further consolidation.

The long-term problem of slowing growth and real convergence has been compounded by a short-term problem of deceleration, verging on stagnation. And short-term forecasts further increase the likelihood of stagnation or minimal growth. Following a series of negative shocks in recent years, the economy needs a positive, stimulating impetus.

2. PUBLIC FINANCES

The development of public finances in the Slovak Republic in 2025 was shaped by the second phase of fiscal consolidation, introduced in response to persistently high general government deficits. The first phase of consolidation measures proved insufficient to achieve a substantial reduction in the structural deficit, prompting the government to adopt additional measures, primarily on the revenue side of general government finances, effective from 2025. These measures contributed to an improvement in the fiscal balance – the general government deficit reached 4.45% of GDP in 2025, representing a year-on-year decline from 5.35% of GDP in 2024 and, at the same time, a more favourable result than originally expected. Fiscal consolidation efforts thus began to generate their first measurable effects, although the pace of deficit reduction remains relatively gradual and public finances continue to face significant pressures. General government gross debt increased to approximately 61.4% of GDP (nearly EUR 84 billion), underscoring the need to continue fiscal consolidation in the years ahead. The development of public finances was also significantly affected by the domestic political environment and external factors. The most important included the consequences of geopolitical instability in Europe, particularly Russia's ongoing aggression against Ukraine, energy price volatility, and the related government decisions to continue supporting households through energy compensation measures. While these measures mitigated the social and economic impacts of the crisis, they also increased pressure on public expenditure and complicated the consolidation effort.

Development of the General Government Budget Balance

According to the first available data, the Slovak Republic's general government deficit exceeded EUR 6 billion in 2025, while the initial expectations – both in the approved state budget and in interim forecasts – had anticipated an even larger shortfall. At the same time, general government debt approached EUR 84 billion. More specifically, the deficit amounted to

EUR 6.09 billion, equivalent to 4.45% of GDP. Compared with 2024, this represented a year-on-year improvement of EUR 876 million, as the revised deficit for 2024 stood at EUR 6.96 billion (5.35% of GDP). The actual fiscal result was therefore significantly more favourable than the estimate published by the Ministry of Finance of the Slovak Republic in October 2025, which projected a deficit of almost EUR 7 billion.

The central government subsector accounted for the largest share of the overall deficit, recording a deficit of EUR 6.93 billion. Nevertheless, this represented a moderate improvement compared with 2024, when the deficit amounted to EUR 7.21 billion. Local government recorded a deficit of almost EUR 86 million, a more favourable result than in the previous year (EUR 101.9 million). The improvement in the overall general government balance was driven primarily by social security funds, which recorded a substantial surplus of EUR 931 million, significantly higher than in previous years.

Table 2.1

Key General Government Fiscal Indicators (2022 – 2025)

	2021	2022	2023	2024	2025
General government balance	-5.1	-1.6	-5.3	-5.3	-4.5
Structural balance	-2.2	-1.4	-3.6	-4.9	-4.4
General government gross debt	60.2	57.8	55.8	59.7	61.4
General government net debt	48.9	47.6	48.1	51.4	54.4
Memorandum items:					
Government target in the approved budget	-7.4	-4.9	-6.4	-6.0	-4.7
General government primary balance	-4.0	-0.5	-4.2	-3.9	-2.9
Upper debt-brake limit	56.0	55.0	54.0	53.0	52.0
Difference between gross debt and the upper limit	4.2	2.8	1.8	6.7	9.4
Cyclical component	0.5	0.8	-0.2	0.1	-0.1
One-off effects	-3.3	-1.0	-1.5	-0.6	0.1
Change in the structural balance	1.2	0.8	-2.2	-1.3	0.5
Change in the structural balance (defence at 2% of GDP)	1.4	0.5	-2.2	-1.0	0.9
Output gap	1.7	0.7	0.6	0.4	-0.6
Fiscal impulse	0.1	2.8	-4.7	1.2	1.0

Source: Ministry of Finance of the Slovak Republic (2025a); Council for Budget Responsibility (2026).

The Statistical Office of the Slovak Republic publishes these data as part of the so-called spring EDP notification, which represents the first official

estimate of the general government balance for 2025 and also includes revisions to data for previous years. As part of this update, the 2024 results were also refined, with the deficit reduced by approximately EUR 195 million (from 5.50% to 5.35% of GDP), mainly due to adjustments to accrued taxes, energy support expenditure, and updated data from certain entities. By contrast, the 2023 data were revised slightly upward by EUR 14.3 million due to the methodological recording of energy support on an accrual basis. In terms of indebtedness, general government debt reached EUR 83.96 billion in 2025, equivalent to 61.39% of GDP. Year on year, it increased by EUR 6.22 billion (from EUR 77.73 billion, or 59.70% of GDP, in 2024). Compared with 2022, this represents an increase of more than EUR 20 billion, highlighting the persistent pressure on public finances and the need for continued consolidation in the coming years.

Table 2.2

Impact of Revenue Items on the Overall General Government Balance

Revenue items	2025 Budget	2025 Actual	Difference from plan
Value-added tax	11 527	10 711	-816
Corporate income tax	5 362	4 785	-577
Financial transaction tax	574	389	-185
Excise duties	2 903	2 759	-144
Personal income tax*	4 354	4 316	-39
Other taxes	842	851	9
Local taxes	998	1 023	25
Withholding tax	511	550	39
Health insurance contributions	6 293	6 361	68
Social insurance contributions	11 817	12 021	205
Reserve for adverse effects	-298	0	298
Impact on the balance	44 882	43 766	-1 116

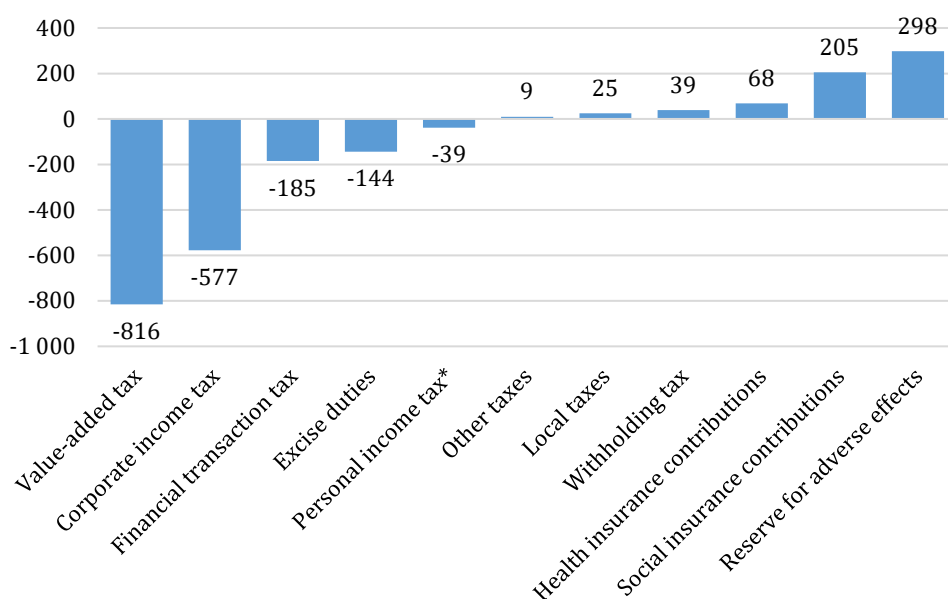
Source: Council for Budget Responsibility (2026).

Table 2.2 and Figure 2.1 illustrate the main revenue-side items that negatively affected the general government balance relative to the approved budget.

The largest shortfalls relative to the plan were recorded for VAT, corporate income tax, and the financial transaction tax. Revenue developments reflected the effects of fiscal consolidation, slowing economic growth, and the impact of external factors on Slovak public finances.

Figure 2.1

Impact of Revenue Items on the Overall General Government Balance



Source: Council for Budget Responsibility (2026).

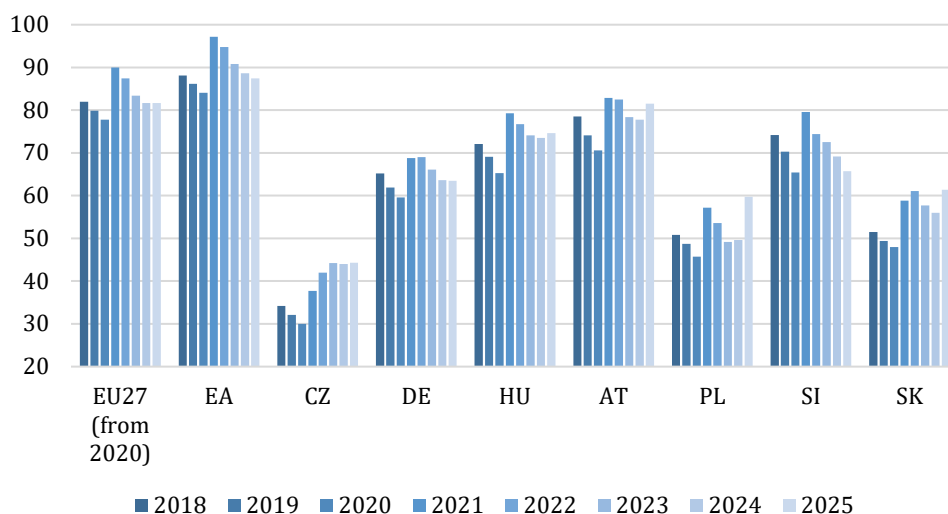
Figure 2.2 shows that, after an increase in 2020 – 2021, the debt-to-GDP ratio gradually declined in most countries. This development is particularly evident for the EU and euro area averages, as well as in several large economies. Slovakia had a relatively low debt ratio in 2018, but its indebtedness increased after 2020. Following a moderate decline in 2022 – 2023, the figure indicates renewed growth in 2024 – 2025. Compared with other countries, Slovakia's debt remains below the EU and euro area averages and below the levels recorded in countries such as Hungary, Austria and Slovenia. However, it is higher than in Czechia and approximately comparable to, or slightly higher than, Poland.

Figure 2.3 illustrates the development of general government deficits in the EU, the euro area and selected countries in 2018 – 2025. In most countries, the fiscal balance deteriorated sharply in 2020, primarily as a result of the coronavirus pandemic. Deficits then gradually narrowed in 2021 – 2022. From 2023 onward, the pattern changes slightly. Some countries, such as Germany and Slovenia, show relatively more favourable developments, while several V4 countries remain in deficit. Slovakia records

negative balances throughout the period and, in 2023 – 2025, ranks among the countries with larger deficits. The deficit was lowest in 2023, primarily due to inflationary pressures and stronger tax collection.

Figure 2.2

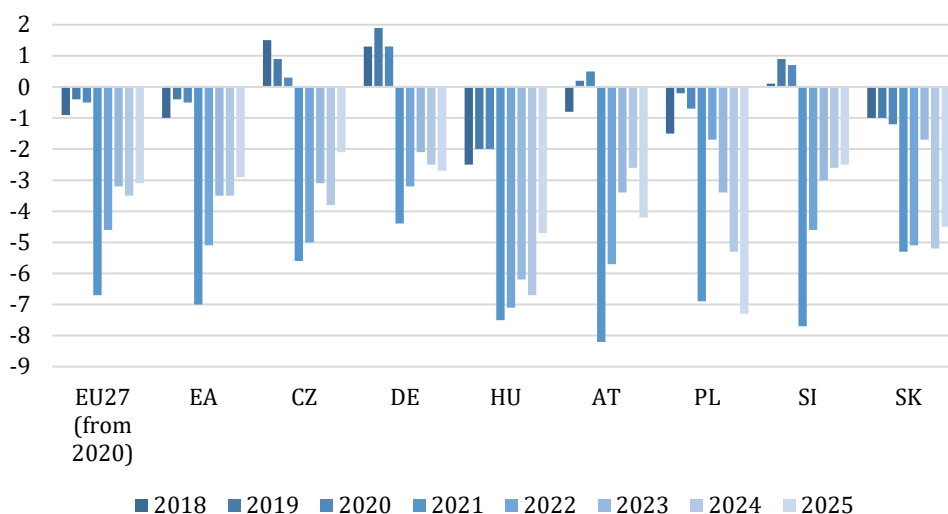
Comparison of General Government Gross Debt as % of GDP (2018 – 2025)



Source: Eurostat (2026).

Figure 2.3

Comparison of General Government Deficits as % of GDP (2018 – 2025)



Source: Eurostat (2026).

Development of the State Budget in 2025

In 2025, both revenue and expenditure increased, but expenditure grew more slowly than revenue. As a result, the deficit improved moderately, declining from EUR 7.6 billion in 2024 to EUR 4.9 billion in 2025. Revenue increased by 11.4%, while expenditure rose by 8.2%. The largest contribution to revenue growth came from tax revenue, which increased by EUR 2.3 billion year on year, or 12.5%. Non-tax revenue grew slightly faster in percentage terms, by 13.4%, although its contribution in absolute terms was considerably smaller. Grants and transfers increased only moderately, by 5.7%.

Table 2.3

Development of the State Budget, 2022 – 2025 (EUR million)

	2021	2022	2023	2024	2025
Total revenue	15 750	17 197	19 029	23 688	27 254
1. Tax revenue	11 872	13 546	15 517	17 441	20 653
2. Non-tax revenue	1 289	1 338	1 285	1 738	2 164
3. Grants and transfers	2 588	2 313	2 227	4 509	4 436
Total expenditure	23 509	24 211	20 847	31 364	33 362
Current expenditure	20 846	21 772	20 847	26 650	28 455
Capital expenditure	2 662	2 440	2 707	4 714	4 907
Deficit/Surplus (right axis)	-7 758	-7 014	-4 524	-7 675	-4 907

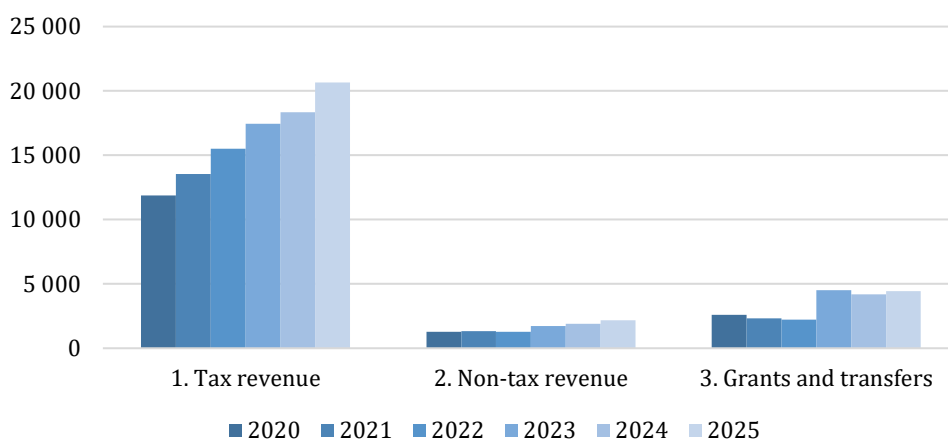
Source: Ministry of Finance of the Slovak Republic (2026b); own calculations.

On the expenditure side, capital expenditure recorded the strongest growth, increasing by up to 27.8% (driven by the implementation of the Recovery and Resilience Plan and defence expenditure). Current expenditure grew more moderately, by 5.4%, but because it accounts for the majority of total expenditure, its absolute increase remained significant. In 2025, tax revenue accounted for approximately 75.8% of total revenue, non-tax revenue for 7.9%, and grants and transfers for 16.3%. On the expenditure side, current expenditure dominated, accounting for 85.3%, while capital expenditure accounted for 14.7%. The year 2025 brought a moderate improvement in the fiscal result, but not a fundamental turnaround. The deficit fell by only 4.1% and remained high, at approximately EUR 4.9 billion.

Figure 2.4 illustrates the development of state budget revenue over the past six years. Over this period, total revenue increased by EUR 11.5 billion, with tax revenue rising by EUR 8.7 billion and non-tax revenue by EUR 875 million.

Figure 2.4

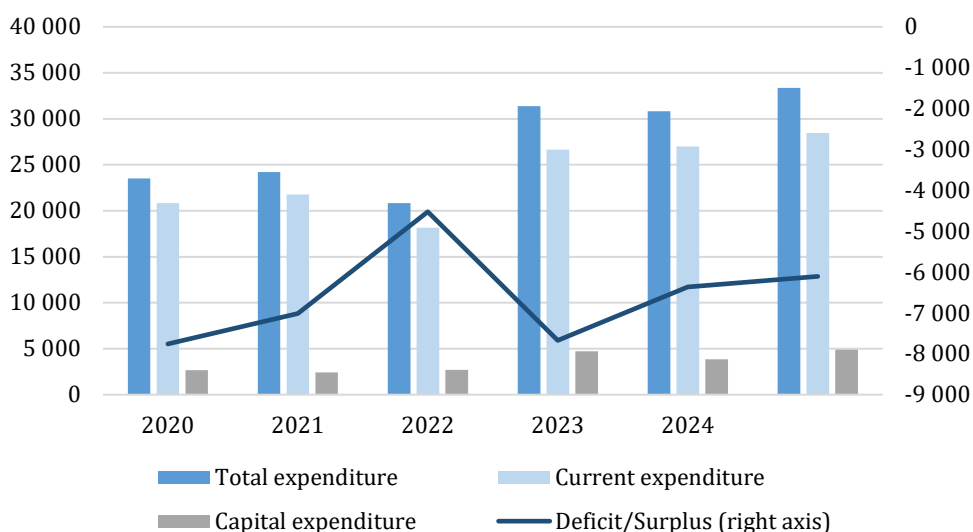
Development of State Budget Revenue (2021 – 2025)



Source: Ministry of Finance of the Slovak Republic (2026a).

Figure 2.5

Development of State Budget Expenditure (2021 – 2025)



Source: Ministry of Finance of the Slovak Republic (2026a).

On the expenditure side, a continuous increase can be observed over the past six years (Figure 2.5). Compared with 2020, total expenditure was EUR 9.8 billion higher. Current expenditure increased by EUR 7.6 billion over this period, while capital expenditure rose by only EUR 2.2 billion. The trend of low domestically financed capital expenditure therefore continued.

State Budget Deficit and Central Government Debt

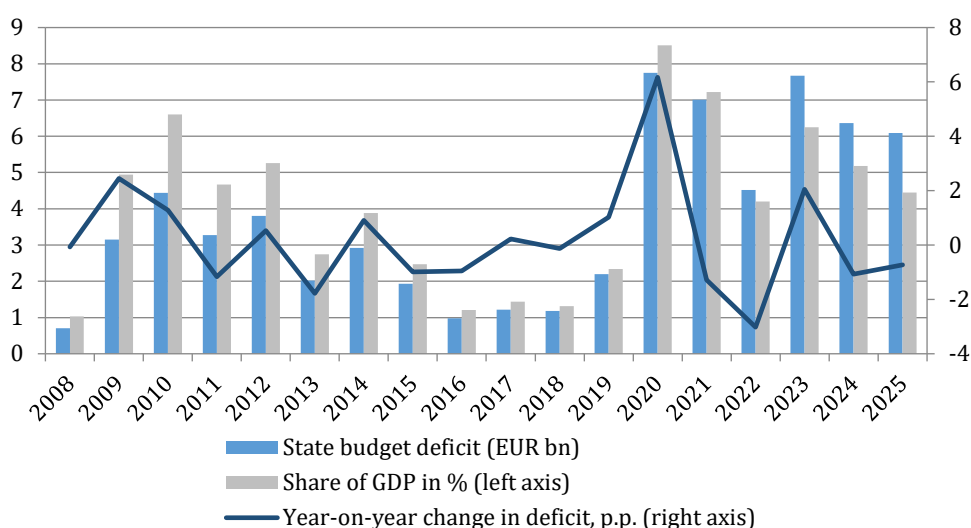
During the previous electoral cycle, state budget deficits reached their highest levels since 2008 (Figure 2.6). The figure shows the development of the general government deficit from 2008 to 2025 in nominal terms, as a share of GDP, and in year-on-year terms. Following the global financial crisis, the deficit increased and remained relatively high as a share of GDP from 2009 to 2011. The situation then gradually improved, and deficits were significantly lower in 2015 – 2018. The sharpest deterioration occurred in 2020, when the deficit rose steeply to the highest level of the period under review. This increase was associated with anti-pandemic measures and the decline in economic activity; the deficit was highest in 2020 and 2021. A marked improvement occurred in 2022, when the deficit fell to one of the lowest levels of the period. However, this development proved temporary, and in 2023 – 2025 the deficit increased again and remained relatively high.

Developments after 2022 indicate that the deficit could not be stabilised at low levels, which necessitated three waves of fiscal consolidation in the following years.

The Figure 2.7 shows the long-term increase in central government debt in absolute terms. From approximately EUR 17 billion in 2008, it gradually rose to more than EUR 80 billion in 2025. The most pronounced increase is visible after 2019, particularly during the pandemic and in the years that followed. The debt-to-GDP ratio increased mainly after 2008 and peaked around 2012 – 2013. It then declined moderately for several years, indicating that the economy grew faster than debt or that indebtedness stabilised. After 2019, however, the debt-to-GDP ratio rose sharply again and peaked around 2021.

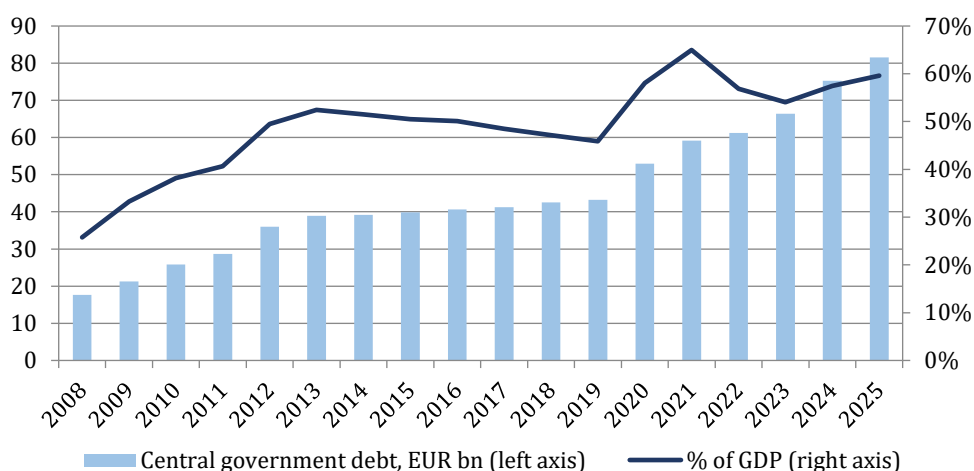
A decline in the debt-to-GDP ratio is visible in 2022 – 2023 despite continued growth in nominal debt. This was probably related to growth in nominal GDP. From 2024 onward, however, the figure indicates renewed deterioration, with both the absolute level of debt and its share of GDP increasing.

Figure 2.6
State Budget Deficit (2008 – 2025)



Source: Ministry of Finance of the Slovak Republic (2026a); own calculations.

Figure 2.7
Central Government Debt (2008 – 2025)

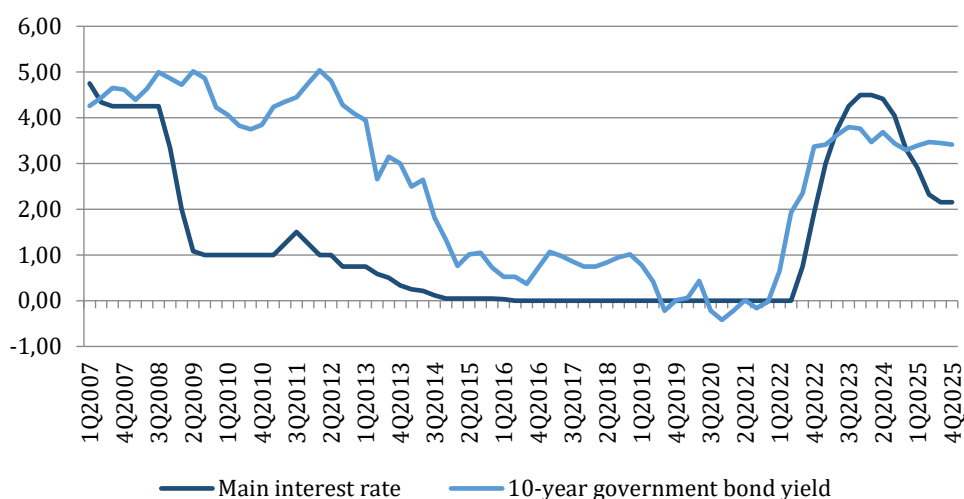


Source: Ministry of Finance of the Slovak Republic (2026c); own calculations.

The European Central Bank's (ECB) monetary policy, together with domestic fiscal policy, also increased Slovakia's debt-servicing costs. Figure 2.8 shows the development of yields on Slovak government bonds with a ten-year maturity. At the end of 2025, the average yield on these bonds stood at 3.41%. This represented a moderate year-on-year decline, mainly due to reductions in ECB interest rates.

Figure 2.8

Development of Yields on 10-Year Slovak Government Bonds, 2007 – 2025 (%)



Source: NBS Macroeconomic Database (2026).

Fiscal Consolidation Effort in 2025 – Second and Third Waves of Consolidation

Slovakia entered the consolidation process from a significantly weakened fiscal position. The general government deficit had persistently exceeded the 3% of GDP reference value under the Stability and Growth Pact, while structural imbalances deepened despite a relatively favourable economic environment. The key factors behind the deterioration were:

- Rapid growth in social expenditure (13th pension, parental pension, free school meals, rail travel, and energy support).
- Underfunding of public institutions and deferred infrastructure investment.

- Low efficiency of public administration and persistent tax evasion.
- Demographic pressures increasing expenditure on pensions and healthcare.

On 3 October 2024, Parliament approved the second package of consolidation measures aimed at improving the state's fiscal position and reducing the general government deficit. The estimated net yield of the measures for 2025 was approximately EUR 2.7 billion. The package and a description of the measures were presented in last year's Economic Development publication (Morvay et al., 2025). In 2025, however, the government proceeded with a third wave of consolidation, which was approved by the National Council of the Slovak Republic on 24 September 2025.

Personal Income Taxation and Increased Progressivity

The increase in the progressivity of personal income tax is expected to generate EUR 206 million. It is intended to affect only above-average earners – a higher tax rate will apply to a tax base of EUR 44,000 (corresponding to a wage of approximately EUR 4,282 per month) and above. According to estimates by the Council for Budget Responsibility, working-age generations will contribute an average of EUR 152 per person annually to the consolidation.

An increase of 1 percentage point in health insurance contributions paid by employees, self-employed persons and voluntary payers. Some higher rates originally introduced as temporary measures (2024 – 2027) will become permanent.

Social Insurance – Changes for Self-Employed Persons and Employees

- Increase in minimum Social Insurance Agency contributions for self-employed persons: from EUR 252.59 to EUR 303.11 per month (an increase of EUR 66.09).
- Abolition of the exemption from contributions during temporary incapacity for work, nursing care leave and maternity leave – remuneration paid during these periods will newly be subject to social insurance contributions.

- Extension of the period during which the employer pays wage compensation during temporary incapacity for work from 10 to 14 days (adoption of the Czech model, saving EUR 25 million).
- Gradual monthly reduction of unemployment benefits (previously a fixed rate, saving EUR 48 million).

Changes for Pensioners

The freezing of the 13th pension at EUR 667.30 is expected to remain in place at least until 2028. Regular pensions remain subject to standard indexation, while the 13th pension will not be indexed. The annual impact on pensioners is estimated at an average of EUR 62 per person for the remainder of their lives. In an intergenerational comparison, older cohorts, despite this freeze, still receive EUR 265 more per person annually compared with the legislative framework in place in 2022.

Measures on the Government Expenditure Side

- Reduction in expenditure on goods, services and capital expenditure at ministries and central government bodies.
- Restrictions on purchases of new vehicles for public administration.
- Abolition and merger of selected state offices and agencies.
- Cuts to the baseline expenditure of local and regional governments (10% of operating expenditure financed from own resources – municipalities EUR 110 million, self-governing regions EUR 13 million).
- Individual internal measures to reduce operating costs.

Additional Measures

- Abolition of three public holidays with a retail sales ban – impact on GDP through increased labour activity.
- Introduction of mandatory acceptance of cashless payments from March 2026 (QR code or payment terminal).
- Increase in contributions paid by management companies to the second pension pillar (3.5-fold).
- Increase in tax on salty and sweet snacks (excise duty).

Table 2.4

Summary of Selected Measures Effective from 2026

Area	Consolidation measure adopted in 2025	Effective date/note
Personal income tax	Introduction of higher tax rates of 30% and 35% for higher incomes	From 1 January 2026
Constitutional officials and Members of Parliament	Increase in the special income tax rate from 5% to 10%	From 1 January 2026
Legal entities	New tax licence band for companies with taxable income above EUR 5 million	Minimum tax increases from EUR 3,840 to EUR 11,520
Financial sector / collective investment	Increase in the special levy for asset management companies, pension fund management companies (DSS) and supplementary pension management companies (DDS)	From 4.36% to 15%
Self-employed persons – minimum contributions	Increase in the minimum assessment base	From 50% to 60% of the average wage from two years earlier
Self-employed persons – contribution holiday	Shortening of the period without social insurance contributions	From 12 months to 6 months
Health insurance contributions	Increase in health insurance contributions	By 1 percentage point for employees, self-employed persons and voluntary payers
Contributions during incapacity for work, maternity leave and nursing care leave	Remuneration paid during incapacity for work, maternity leave or nursing care leave will be subject to insurance contributions	Alignment with ordinary income
VAT on selected food products	Increase in VAT on food products with a higher sugar or salt content	From 19% to 23%
Extraction of raw materials	Introduction of a new charge for the extraction of gravel, sand, stone and gravel-sand mixtures	EUR 1.35 per tonne
Gambling	Increase in gambling levies	Online games from 27% to 30% , with higher levies also for gaming halls and casinos
Non-life insurance	Increase in insurance tax	From 8% to 10%
Tax amnesty	Possibility to pay selected tax arrears or file an additional tax return without penalties	From 1 January 2026 to 30 June 2026
Company cars and VAT	Restriction of VAT deduction for cars also used privately	Entitlement limited to 50% of VAT on the purchase and related costs
Government expenditure	Savings in general government	Savings in central government bodies and participation of local and regional governments
Overall scope of the package	Third consolidation package for 2026	Approximately 22 measures amounting to about EUR 2.7 billion

Source: own compilation.

Implementation of European Union Cohesion Policy

Programme Slovakia is the Slovak Republic's main investment instrument for the use of European Union cohesion policy funds in the 2021 – 2027 programming period. Its objective is to support growth in living standards, strengthen the country's competitiveness, and channel public investment into areas of fundamental importance for economic modernisation, the quality of public services, environmental protection, social inclusion, transport and technical infrastructure, and regional development. The programme has a total allocation of EUR 12.59 billion from European Union resources. These funds come from four main funds: the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the Just Transition Fund.

As of 31 December 2025, 349 calls had been announced or opened under Programme Slovakia, making EUR 11.04 billion available to potential applicants. This represented 87.63% of the programme's total allocation. Compared with the previous month, the amount made available through calls increased by EUR 273.52 million, indicating continued activity in providing financial resources. In terms of contracting, 2,995 projects with a total value of EUR 7.27 billion had been contracted by the same date, representing 57.73% of the programme's total allocation. In the final month of the period under review, contracting increased substantially, by EUR 954 million. Programme expenditure reached EUR 1.61 billion, equivalent to 12.80% of the total allocation. The monthly increase in expenditure amounted to EUR 60.62 million.

The European Regional Development Fund accounts for the largest share of the financial envelope, with an allocation of EUR 7.27 billion. It is followed by the Cohesion Fund with EUR 2.47 billion and the European Social Fund Plus with EUR 2.39 billion. The Just Transition Fund represents a smaller but thematically important part of the programme, amounting to EUR 0.46 billion. An important feature of Programme Slovakia is also the use of the Integrated Territorial Investment (ITI) mechanism. EUR 2.41 billion, or 19.15% of the programme's total envelope, is implemented through this mechanism. It represents a pilot approach to multilevel strategic planning and investment implementation at the level of territorial

self-government. The essence of this approach is that traditional demand-driven calls for local governments are replaced by an effort by territorial partners to jointly identify strategic development investments. The key prerequisites are territorial agreement on the need for the investment and sufficient project readiness.

In terms of implementation by policy objective, the highest share of resources made available through calls was recorded under PO3 – A More Connected Europe, covering cohesion and transport, where calls represented 84.57% of the allocation, while the Transport priority alone reached 106.26%. Very high call volumes were also recorded under PO4 – A More Social and Inclusive Europe at 94.42%, PO2 – A Greener, Low-Carbon and Resilient Europe at 91.68%, and the Just Transition Fund at 92.81%. PO1 reached 73.48% and PO5 82.96%. In contracting, PO4 stood out with 69.60%, followed by PO3 at 64.49% and PO2 at 55.13%. PO1 had contracted 42.97% of its allocation, the Just Transition Fund 47.81%, and PO5 only 27.36%. In terms of expenditure, PO4 was the most advanced at 22.27% of its allocation. Technical Assistance stood at 18.76%, PO2 at 13.89%, PO3 at 6.97%, PO1 at 4.59%, the Just Transition Fund at 5.60%, and PO5 at only 1.21%. These data show that social and inclusive areas are advancing most dynamically in terms of actual expenditure, while territorial development, transition, and some investment priorities continue to show lower expenditure levels.

By the end of 2025, Programme Slovakia had reached a stage where most of the total allocation had already been made available through calls and more than half of the allocation had been contracted. A significant positive development was the fulfilment of the n+3 commitment for 2025, as well as the substantial monthly increase in contracting in December 2025. Expenditure, however, remained low. With total expenditure at 12.80%, project implementation, expenditure claims, and rapid reimbursement will need to accelerate substantially in subsequent periods. Particular attention is required in areas and ministries with low expenditure levels, including parts of regional development, healthcare, selected priorities under PO1 and PO5, the Just Transition Fund, and several new priorities that have not yet recorded expenditure or have made only minimal progress.

Table 2.5

Structure and Expenditure of Programme Slovakia 2021 – 2027 as of 31 December 2025

Policy objective or technical assistance	Priority	Priority name	Allocation	Expenditure	
			EU contribution	EU contribution	% of allocation
1	1P1	Science, research and innovation	1 270 387 042	74 917 585	5,90
	1P2	Digital connectivity	23 709 407	0	0,00
	1P3	Strategic Technologies for Europe Platform (STEP)	231 782 399	0	0,00
	1P4	Strategic Technologies for Europe Platform (STEP) - MPS	84 155 689	0	0,00
	1P5	Support for defence capabilities	21 208 961	0	0,00
Total PO1 - A More Competitive and Smarter Europe			1 631 243 498	74 917 585	4,59
2	2P1	Energy efficiency and decarbonisation	1 216 437 051	308 354 045	25,35
	2P2	Environment	1 848 486 069	148 141 318	8,01
	2P3	Sustainable urban mobility	845 736 498	102 608 732	12,13
	2P4	Resilient water management	62 765 237	0	0,00
	2P5	Affordable and sustainable housing	31 650 000	0	0,00
	2P6	Energy infrastructure	19 500 000	0	0,00
Total PO2 - A Greener, Low-Carbon and Resilient Europe			4 024 574 855	559 104 095	13,89
3	3P1	Transport	2 024 548 122	177 260 539	8,76
	3P2	Defence and security	519 345 253	0	0,00
Total PO3 - A More Connected Europe			2 543 893 375	177 260 539	6,97
4	4P1	Adaptive and accessible labour market	532 938 339	145 947 708	27,39
	4P2	Quality and inclusive education	645 632 672	209 624 315	32,47
	4P3	Skills for better adaptability and inclusion	190 840 656	12 033 452	6,31
	4P4	Youth Guarantee	288 319 151	23 937 453	8,30
	4P5	Active inclusion and accessible services	969 126 389	229 411 161	23,67
	4P6	Active inclusion of Roma communities	273 700 000	71 870 587	26,26
	4P7	Social innovation and experimentation	69 196 597	663 717	0,96
	4P8	Food and material deprivation	69 196 597	385 944	0,56
	4P9	Affordable housing	74 000 000	0	0,00
	4P10	Civil preparedness skills	2 378 000	0	0,00
Total PO4 - A More Social and Inclusive Europe			3 115 328 401	693 874 337	22,27
5	5P1	Modern regions	383 215 984	5 180 534	1,35
	5P2	Affordable housing in the regions	41 532 797	0	0,00
	5P3	Civil preparedness in the regions	3 054 480	0	0,00
Total PO5 - A Europe Closer to Citizens			427 803 261	5 180 534	1,21
FST	8P1	Just Transition Fund	435 158 242	24 681 403	5,67
	8P2	Just Transition Fund - MPS	5 500 000	0	0,00
Just Transition Fund			440 658 242	24 681 403	5,60
TP	7P1	ERDF Technical Assistance	254 434 180	46 004 499	18,08
	7P2	CF Technical Assistance	51 632 244	7 652 283	14,82
	7P3	ESF+ Technical Assistance	85 806 118	19 406 122	22,62
	7P4	JTF Technical Assistance	18 360 759	3 904 513	21,27
Total Technical Assistance			410 233 301	76 967 417	18,76
Total Programme Slovakia			12 593 734 933	1 611 985 910	12,80

Source: MIRRI (2026).

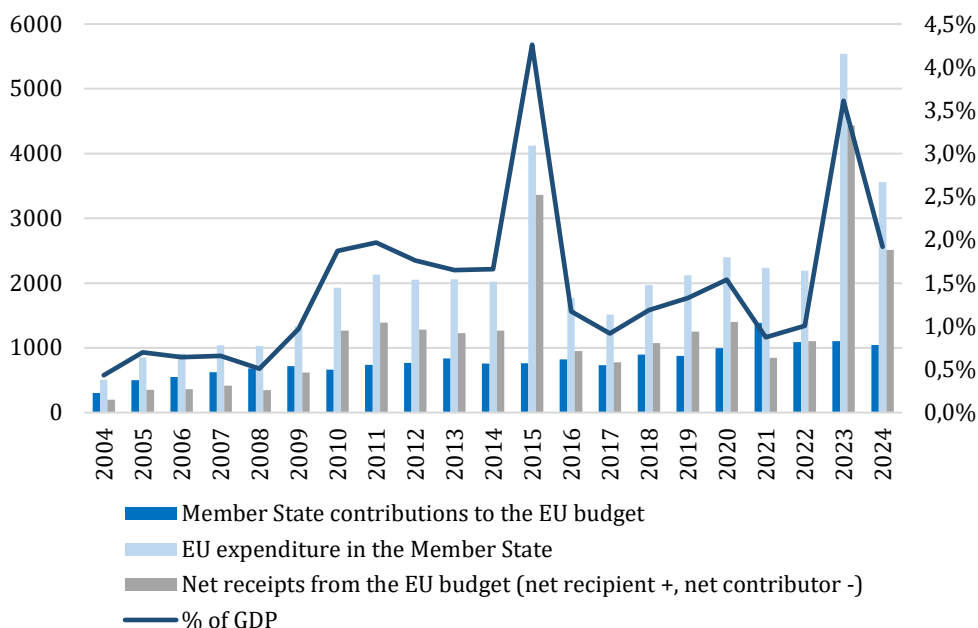
At the same time, the programme has a broad thematic scope, which increases its importance for the country's development but also makes coordination more demanding. Successful implementation will therefore depend not only on launching calls and contracting projects, but above all on beneficiaries' capacity to implement projects in practice, the effective performance of management and intermediate bodies, and continuous risk management to prevent threats to achieving financial milestones in the coming years.

Financial Position of the Slovak Republic vis-à-vis the European Union Budget

Since joining the EU, Slovakia has been a net recipient from the EU budget. Since accession, EUR 24 billion from cohesion policy funds has been invested across three programming periods. Figure 2.9 illustrates the development of Slovakia's net position and its position vis-à-vis the EU budget.

Figure 2.9

Development of Slovakia's Net Position vis-à-vis the EU Budget (2004 – 2024)



Source: NBS Macroeconomic Database (2026).

A closer look shows that a large volume of resources is traditionally absorbed at the end of programming periods (2015 and 2023). The causes of this pattern were discussed in previous editions of our publication. The decline in the net position was associated with the slow and insufficient pace of implementation in the current programming period.

* * *

The development of public finances in the Slovak Republic in 2025 shows that consolidation measures have begun to produce their first positive results, although the country's overall fiscal position remains strained. The general government deficit decreased year on year from 5.35% of GDP in 2024 to 4.45% of GDP in 2025, representing a noticeable improvement and a more favourable result than originally expected. Nevertheless, the deficit remains high, exceeding the 3% of GDP threshold and confirming that public finances have not yet reached a stabilised position. At the same time, general government gross debt increased to approximately 61.4% of GDP. The improvement in the fiscal balance was achieved mainly through revenue growth and the adopted consolidation measures, while expenditure pressures persist. Public finances were affected not only by domestic political decisions but also by external factors, particularly geopolitical uncertainty, the energy crisis, and the need to provide social support to households. While these circumstances justified part of public expenditure, they also made faster deficit reduction more difficult. The structure of public expenditure also remains problematic, with current expenditure accounting for a significant share, while capital investment remains low and cohesion policy implementation is still at a low level.

Public finances thus recorded a moderate improvement in the balance, but at the cost of further consolidation measures and amid continued debt growth. Going forward, it will be necessary to maintain responsible fiscal policy, improve the efficiency of public expenditure, limit unproductive spending, and prepare and implement structural reforms. The sustainability of public finances will therefore depend not only on further revenue increases, but above all on the quality of public governance, the capacity to implement reforms, and the efficient use of domestic and European resources.

3. LABOUR MARKET

In 2025, the Slovak economy continued to grow, albeit at its slowest pace (0.8%) in three years. As documented in the introductory chapter using developments over the past decade and more, the generally subdued growth and weak convergence of the Slovak economy contrast with the performance of household consumption, which, by comparison, has been catching up with European levels relatively successfully within our geographical region. We attribute the stronger performance of household consumption (stronger relative to overall economic activity), inter alia, to wage convergence, or more precisely to the fact that wages and compensation of employees have grown faster than business income. More recently, the increase in the share of social contributions in compensation of employees, resulting from fiscal consolidation efforts, has also played a role. These developments have taken place against the backdrop of households' high propensity to consume.

Solid growth in household consumption could still be observed throughout 2024, but the situation began to change with the onset of 2025. During the first half of the year, household consumption continued to contribute to economic growth, whereas later in the year investment became the main driver of economic activity.³ Households had already begun to cut back on their spending earlier in the year, but by the final quarter of 2025 they had reduced it to such an extent that household consumption declined year on year for the first time in seven quarters. This development was also reflected in labour market trends, which are examined in greater detail below.

Signals of Cooling in Key Employment Indicators

The slowdown in employment growth was already evident at the end of 2024, and the trend continued into the first quarter of 2025, when employment growth almost came to a halt.⁴ In the second quarter of 2025,

³ Gross fixed capital formation had been declining year on year in real terms since mid-2024. From the second quarter of 2025 onwards, however, the trend reversed and year-on-year growth in capital formation became progressively stronger.

⁴ Slowing to a marginal rate of 0.1%.

total employment in the economy (persons employed according to the Labour Force Survey – LFS) began to decline, and this decrease gradually deepened over the course of the year. On average for the year, employment ultimately fell slightly after three years of growth (by 0.4%, corresponding to a year-on-year decrease of only around 10,000 employed persons, to approximately the 2023 level of just over 2.61 million). That this slight decline was not merely the result of unfavourable demographic developments is also indicated, among other things, by unemployment indicators.

The number of unemployed persons in the economy had been declining continuously since the third quarter of 2021, and this decline continued into 2025. However, in the second quarter of 2025, the favourable trend of falling unemployment came to an end. The number of unemployed persons increased year on year for the first time in 15 quarters, although it was still falling quarter on quarter. At 144.5 thousand, the number of unemployed persons was the second lowest on record in Slovakia, after the record low recorded in the same period of 2024. In the second half of 2025, however, the trend towards a growing number of unemployed persons became clear, both year on year and quarter on quarter. From mid-year onwards, the unemployment rate also began to rise, which was reflected in its annual average: between 2024 and 2025, it increased from 5.3% to 5.4% (LFS), although it still remained below the 2023 level.

The main results of the Labour Force Survey thus pointed to a gradual cooling of the labour market. The slight decline in the number of employed persons, the increase in the number of unemployed persons and the rise in the unemployment rate in the second half of 2025 were accompanied by other signals, such as growth in short-term unemployment at a rate well above the increase in total unemployment, and a decline in the number of job vacancies in 16 out of 20 industries.

Impact Extending Beyond the Production Sector to Services

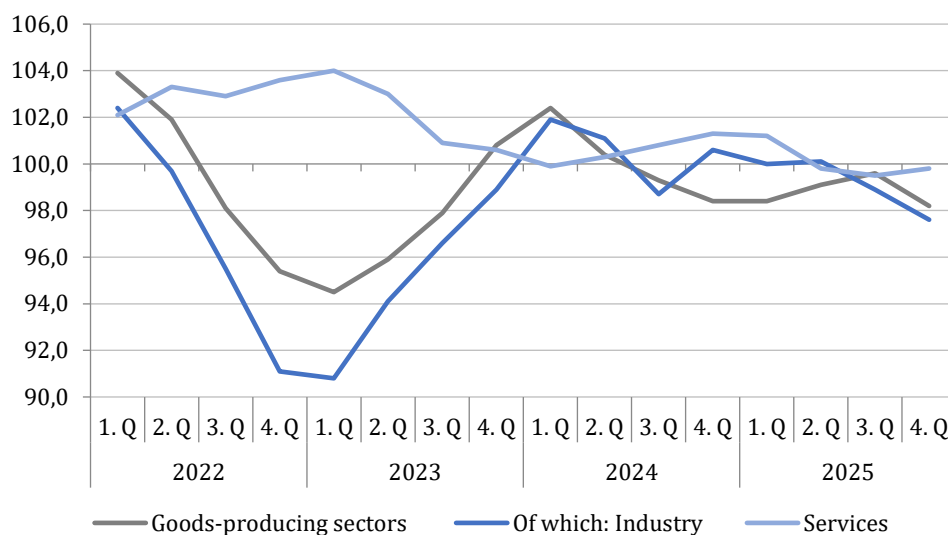
Since the recovery in employment began in 2022, there has been a clear trend in sectoral employment: employment growth in services not only outpaced that in the production sectors (goods-producing sectors), but for

a significant part of this period it also offset employment losses in non-service sectors.⁵ This is well illustrated in Figure 3.1. The pattern was most pronounced in the annual results for 2023, when a 5% decline in employment in industry, corresponding to a loss of 33.6 thousand employed persons, was fully offset by an increase of exactly the same magnitude (33.6 thousand) in the number of employed persons in services (the overall increase in employment that year was driven by construction). The latest continuous decline in employment in the non-service sectors has persisted since mid-2024, despite an improvement in industry. From the second quarter of 2025, however, service industries also joined this trend, after having prevented employment in Slovakia from declining since the post-pandemic recovery (Figure 3.1).

Figure 3.1

**Quarterly Dynamics of Employment in Goods-Producing Sectors
(and of which: in Industry) and in Services**

(based on the number of employed persons from the LFS; year-on-year change/
corresponding period of the previous year = 100; 2022 – 2025)



Source: based on DATAcube (ŠÚ SR, 2026b) and the tabular section of the ŠÚ SR report (ŠÚ SR, 2026a).

⁵ We discussed the notable turnaround at the turn of 2021 and 2022 in previous editions of this publication. Employment in several service industries was hit hard by pandemic-related restrictions, and just as it was beginning to recover, industry was affected by the crisis triggered by the outbreak of the war in Ukraine, with negative effects on employment in production. From 2022 onwards, services therefore became the main driver of the recovery and growth in employment.

In the goods-producing sector, the situation was improving at the beginning of 2024, and even in the full-year results, minimal employment growth in construction and weak growth in industry were sufficient to offset the decline in employment in agriculture. In the first half of 2025, employment in industry, the largest of these sectors, still remained at the level of the previous year. In the second half of the year, however, the deterioration in some industrial indicators began to be reflected in employment, although so far only in the form of a slight decline (LFS). For most of the two years preceding the current period (2023 – 2024), industrial production increased year on year. However, it began to decline as early as January – February 2025 and, after a brief improvement, the year-on-year decline in industrial production generally deepened over the remainder of 2025, with the rate of decline accelerating continuously from quarter to quarter. It should be noted that despite the lower volume of production, gross value added in industry, in real terms, remained positive throughout the year and was still slightly above zero towards the end of the year. Turnover in industrial sector developed somewhere between the trends in production volume and overall performance in industry. After an unsatisfactory trend in 2023 – 2024, turnover finally began to grow from January 2025, but this growth gradually slowed and, by the final quarter, turnover was no longer able to exceed its level from a year earlier. The number of employed persons in industry thus broadly mirrored the overall situation in the sector, particularly the increasingly weak development of industrial production. However, the decline in employment was nowhere near as pronounced as the falls observed in industry from mid-2022 onwards, which at the time were confirmed by both business reporting statistics and the Labour Force Survey. An interesting feature of 2025 was that the final full-year decline in the number of employed persons in industry, amounting to 5.5 thousand, was not much larger than the increase in the number of people who began commuting abroad for industrial jobs during the same year. The number of persons commuting abroad on a short-term basis for work in industry thus returned to the level recorded in the aforementioned critical year 2022 (at around 27 thousand), which also corresponds with the development of industrial production in Slovakia.

Most of the decline in industrial employment was offset by a broadly similar increase in employment in agriculture, where, among other things, the year-on-year results were more favourable for the harvest of key crops, particularly cereals, as well as for sales of animal products. The overall decline in employment in the goods-producing sector in 2025 was therefore driven mainly by construction, which lost twice as many employed persons as industry despite being a substantially smaller sector. The decline in employment there was also confirmed by business surveys of employees, while the number of self-employed persons also fell. This occurred alongside increases in both construction output and turnover, but with a decline in gross value added in construction in real terms. Year-on-year increases in construction volumes were partly overstated by the low comparison base in 2024. For example, even after increasing in 2025, housing construction did not return to its 2023 level, or even to the levels recorded in earlier years. In Slovakia, construction is the sector with the highest number of people commuting abroad for work on a short-term basis, exceeding even industry, the largest sector. In 2025, however, not only did employment in construction record the largest decline in Slovakia, but the number of people commuting abroad for construction work also fell.

Thus, after a brief stabilisation in 2024, employment in the goods-producing sectors as a whole returned in 2025 to the downward trajectory observed in previous years. This occurred despite the fact that, thanks to developments in gross value added, the goods-producing sectors contributed to GDP growth in 2025, although their performance remained only slightly above zero during the year.

The scale of changes in sectoral employment, as well as the shift in employment from goods-producing sectors towards services, is illustrated even more clearly by looking at absolute increases and decreases of employed persons in individual sectors. Figure 3.2 shows how the outflow of employed persons from the goods-producing sectors, particularly from industry, was offset by employment growth in services. As a result of these shifts over the past four years, 40 thousand fewer people worked in the goods-producing sectors in 2025 than in 2021, with industry alone losing

56 thousand employed persons. By contrast, total employment in services increased throughout this period, with 90 thousand more people working in services than in 2021. Most of this shift took place in 2022 – 2023. In 2025, however, this offsetting effect of rising employment in services almost disappeared, and it was mainly the unfavourable development of employment in construction that pushed overall employment in the economy into negative territory.

The largest employer in the service sector is trade. It did contribute to employment growth in services in 2022 – 2023, but employment in trade has stagnated in recent years. The number of employed persons in trade began to decline from mid-2025, following a fluctuating development in 2024. Growth in gross value added gradually slowed, and in the final quarter of 2025 performance in trade declined year on year.

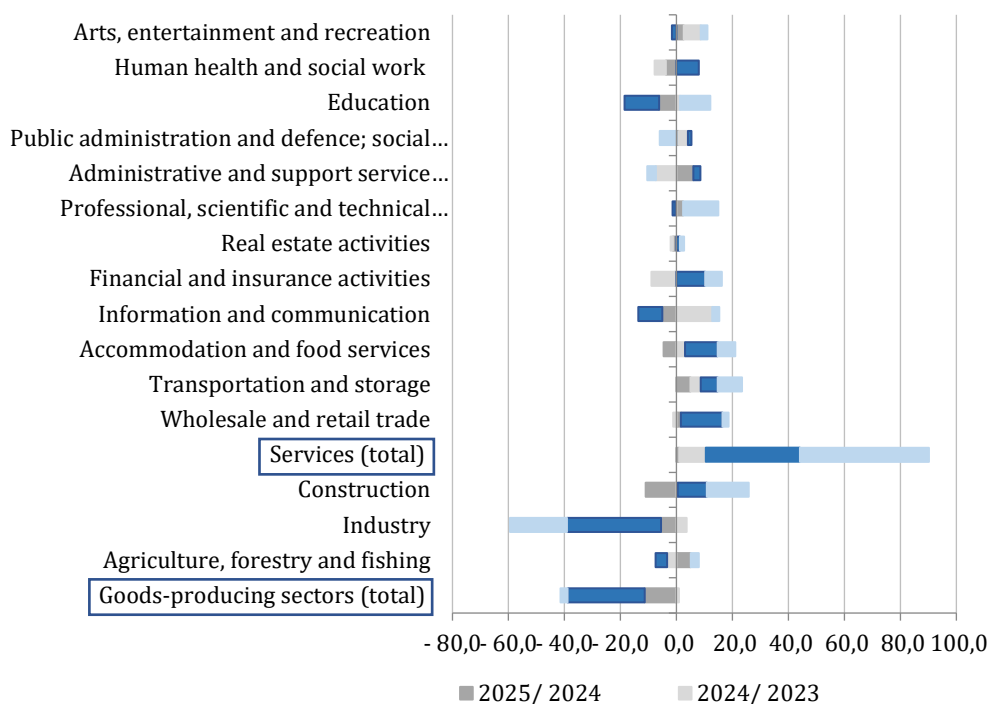
The decline in performance was in line with turnover developments, which reflect not only activity but also demand in the sector. The fall in turnover was felt mainly in retail trade, with the sharpest decline in retail turnover recorded towards the end of the year. This was consistent with the aforementioned development in household consumption and its contribution to GDP growth. The second-largest service industry is public administration and social security. Although employment in this sector increased slightly over the past year, it is noteworthy that a relatively large number of people from this sector also joined the ranks of the unemployed in 2025.

Two other major employers in the service sector are education and health care, both of which experienced a clear outflow of employed persons in 2025. The decline in employment in education is particularly concerning. In 2025, education recorded the second-largest decrease in the number of employed persons in the economy (among the 18 sectors monitored), after the already mentioned construction sector. Over the medium term, between 2021 and 2025, it also experienced the second-largest decline in employment, after industry. This trend is consistent with several well-known factors, above all the ageing of the teaching workforce and the related retirements, insufficient replacement of departing workers by new entrants due to the demanding nature of the profession and its lower attractiveness, to which relatively weaker pay compared with other occupations

requiring tertiary education also contributes. (The Institute for Educational Policy at the Ministry of Education has long pointed to the high average age of teachers, shortages of teachers in specific subjects and regions, and the low attractiveness of the profession, partly due to pay levels below those of other tertiary-educated employees; see, for example, the detailed study on teacher ageing by IVP, 2023, or the OECD analysis confirming the pay gap, OECD, 2025.) The outflow of employed persons from health care is also consistent with several long-standing problems in the sector, particularly the ageing of health care personnel/retirements, the persistent shortage of nurses and the departure of some health care workers abroad. Several of these issues are summarised and supported by data from various sources in the regularly updated report on Slovakia by the European Observatory on Health Systems and Policies (see EOHSP, 2026).

Figure 3.2

Year-on-Year Absolute Increases and Decreases in Employment by Economic Sector (employed persons from the LFS; thousand persons; 2022 – 2025)



Source: based on DATAcube (ŠÚ SR, 2026b) and the tabular section of the ŠÚ SR report (ŠÚ SR, 2026a).

Two other relatively large service industries also experienced a decline in employment in 2025: accommodation and food service activities, which had contributed significantly to employment growth in services during their post-COVID recovery, and information and communication. Among the large service industries, maintaining at least modest employment growth in 2025 was therefore left to transportation, where employment has expanded strongly since the pandemic. In fact, the increase in employment in transportation alone accounts for almost half of the total increase in employment in the economy since 2021.⁶ The largest contribution, however, came from employment growth in administrative activities, a substantially smaller industry. This brief overview of service industries shows that employment developments in the key service industries were unsatisfactory in 2025 after the strong performance of previous years, and the resulting almost negligible increase in employment in services was no longer sufficient to offset employment losses in construction and industry.

Unemployment Indicators Clearly Reflected the Cooling of the Labour Market

Unemployment in Slovakia had been declining continuously in year-on-year terms since the third quarter of 2021. After three years of this continuous decline, the number of unemployed persons in the economy fell below 150 thousand for the first time, reaching a record low of 142.7 thousand in the second quarter of 2024 (LFS). In year-on-year terms, the decline continued for almost another year after this record achievement in reducing unemployment. However, the decreases in the number of unemployed persons became smaller from quarter to quarter, and unemployment was no longer able to fall below the record-low level reached in 2024. Four years after the favourable downward trend began, a reversal occurred in the second quarter of 2025. Although the number of unemployed persons still briefly declined quarter on quarter, it began to rise

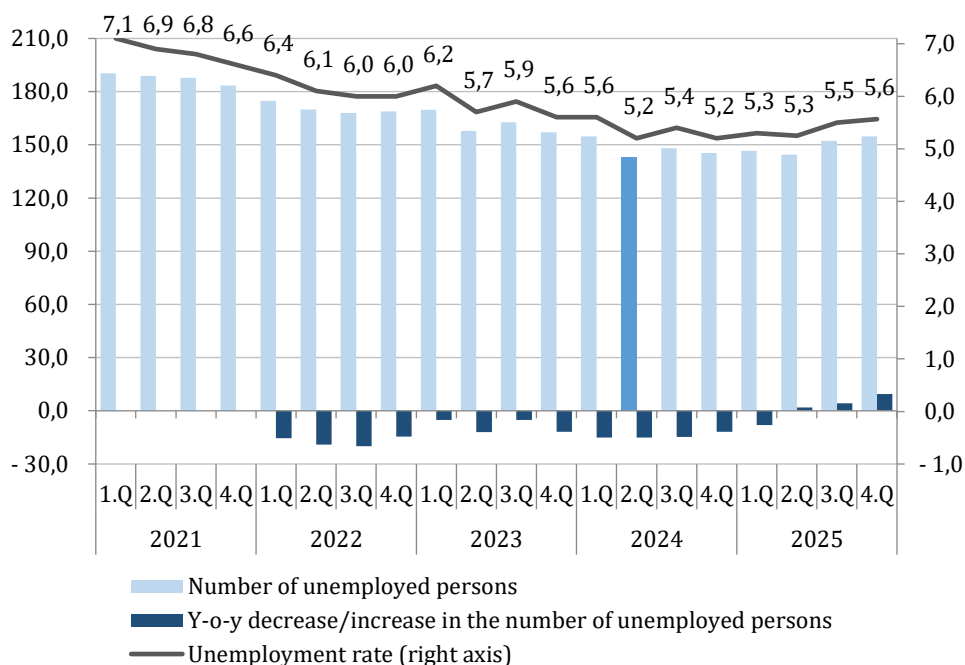
⁶ In 2025, the multi-year upward trend in passenger transport performance and in the number of passengers carried continued, particularly in road transport, while freight transport performance declined year on year, unlike in 2024. As for turnover in transportation and storage, the strongest growth was recorded in postal and courier activities.

year on year from that point onwards. Decreases in the number of unemployed persons turned into increases, which grew larger over time. From mid-2025, total unemployment moved back above the 150 thousand mark and also began to rise quarter on quarter, together with the unemployment rate. This reversal in unemployment trends, the changes in decreases and increases in the number of unemployed persons, and the record achievement in reducing unemployment reached in 2024 are shown in Figure 3.3. For the time being, this can be described as a mild deterioration following the record results of 2024: neither total unemployment, which averaged just below 150 thousand persons in 2025, nor the unemployment rate, which edged up by 0.1 percentage points to 5.4%, returned to the levels recorded in 2023 or in earlier years.

Figure 3.3

Quarterly Development of Unemployment in Slovakia

(absolute numbers of unemployed persons and their decreases/increases in thousand persons; unemployment rate in %; 2021 – 2025)



Note: Calculating increases/decreases in the number of unemployed persons from the absolute values of 2020 is not appropriate due to the change in the definition of unemployed persons from 2021 onwards. The figure also shows the record-low unemployment level recorded in the second quarter of 2024 (142.7 thousand persons).

Source: based on the tabular section of the ŠÚ SR report (ŠÚ SR, 2026a).

An indirect answer to the question of when labour market conditions began to deteriorate is provided not only by the quarterly development of the main unemployment indicators, but also by changes in the number of unemployed persons by duration of unemployment. A closer look at short-term unemployment (persons unemployed for less than one year) shows that, after a period of fluctuation, it declined continuously from the end of 2023 to the beginning of 2025, accompanied by an increasingly pronounced decline in long-term unemployment. The rise in short-term unemployment in every quarter of 2025 already signals that this was not a temporary fluctuation and that the number of newly unemployed persons increased in each period of 2025. An even more detailed picture is provided by developments in the group of persons who have been unemployed for less than one month. This group began to grow as early as the final quarter of 2024, when their number even doubled year on year. In the first quarter of 2025, the group of those unemployed for the shortest period increased by 60%. This is a small group and, given the methodology used to calculate it, statistical fluctuations may occur; however, growth rates of this magnitude are unusual in recent periods. Even in the second half of 2025, the group of those unemployed for the shortest period grew by more than 55%. Developments in the size of this group indicate that the cooling of labour demand began at the end of 2024. This increase fed through into long-term unemployment in the second half of 2025: in the third quarter, its previously continuous decline came to a halt, with the year-on-year change effectively zero, and in the final quarter the number of persons unemployed for more than one year also began to rise, reversing the positive three-year trend of declining long-term unemployment in Slovakia. (On average for the year, long-term unemployment still declined slightly, its share of total unemployment fell over the three years of decline from two thirds to 63%.)

The largest groups of unemployed persons in Slovakia have traditionally been those whose last employment was in industry and trade, followed by construction (LFS). In 2025, however, the largest year-on-year increase was recorded among unemployed persons from public administration: their number rose by 50% compared with 2024, and the inflow

of unemployed persons from public administration was the largest in the economy. The second-largest increase in unemployment came from construction and the third-largest from education; in both sectors, the negative development was also confirmed by decreases in employment, discussed in the previous part of the chapter. A separate category consists of unemployed persons who do not come from any sector because they have never been employed. Their number, by contrast, declined after increasing in previous years, although they still accounted for almost one third of total unemployment.⁷

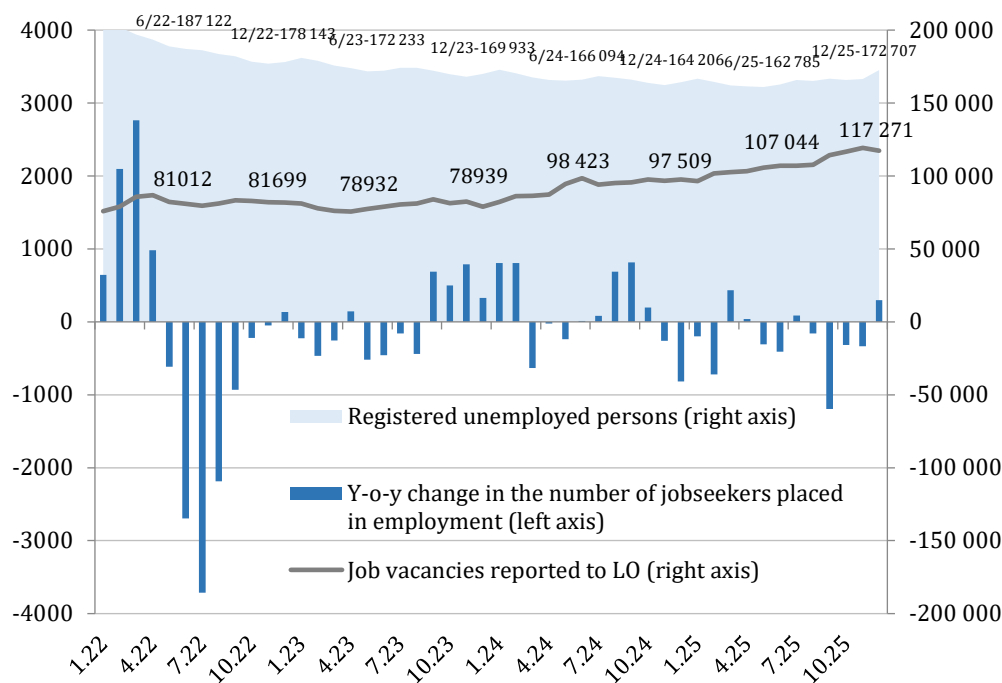
The cooling of the labour market was also confirmed by detailed monthly statistics on registered unemployment from labour offices, with the only exception being job vacancies.⁸ The success of reducing registered unemployment came to an end in May 2025, when the registered unemployment rate stood at 4.82% and the total number of jobseekers registered with labour offices fell to just over 161 thousand. From June onwards, both the number of jobseekers and the registered unemployment rate increased, although with some fluctuations, reaching their latest peak in January 2026. Unlike in the quarterly statistical reporting, according to which the supply of job vacancies declined year on year in every quarter of 2025, the number of job vacancies reported to labour offices increased almost until the very end of the year, with only one temporary setback in mid-summer. However, the success rate in placing jobseekers into employment deteriorated and was lower than in the corresponding period of 2024 during most months of the year (shown by the bars in Figure 3.4). The figure also illustrates the gradual increase in unemployed jobseekers from mid-2025, accelerating towards the end of the year, as well as the relatively steady increase in the number of job vacancies, where the cooling of labour demand became visible only at the very end of the year.

⁷ More precisely, 31.2%. In 2021, despite a comparable number of such persons, they accounted for only one quarter of the unemployed, as total unemployment was higher. In the following years, their absolute number increased, raising their share of total unemployment to 36% in 2024.

⁸ It is worth noting here the change in unemployment benefit payments approved in 2025 and effective from the beginning of 2026. For new claims, the benefit no longer amounts to 50% of the assessment base throughout the entire six-month entitlement period. After the first three months, it is gradually reduced to 40%, 30% and finally 20%. The aim of the change is to encourage an earlier return to the labour market, which, if successful, may affect the interpretation and comparability over time of registered unemployment developments after January 2026.

Figure 3.4

Monthly Developments in the Main Indicators of Registered Unemployment
(statistics of the Central Office of Labour, Social Affairs and Family; 2021 – 2025)



Note: LO – labour offices; x-axis labels indicate months and years (mm-yy).

Source: based on ÚPSVaR statistics (2026a).

Throughout the period shown in the figure, the gap between the number of registered unemployed persons and the number of job vacancies can be seen to narrow. This trend culminated in November 2025, after which, as the labour market cooled, the gap between the number of jobseekers and vacancies began to widen again. (The December increase in the number of registered unemployed persons should be interpreted with some caution: a higher inflow into the register in December is a common seasonal phenomenon, but in 2025 the increase was sharp not only month on month but also year on year. The expected change in unemployment benefit payments effective from January 2026, mentioned above, may therefore also have played a role, as the new arrangement is less favourable for unemployed persons entering the register from that date.) It should be recalled that the aforementioned narrowing of the gap, which peaked in autumn 2025, took place in the context of an existing regional and skills

mismatch between jobseekers and labour demand: job vacancies are concentrated mainly in economically stronger regions and in occupations for which there are not enough registered jobseekers with the required qualifications, while regions with higher unemployment often lack a corresponding supply of job vacancies. (More detailed data on regional mismatch down to district level, skills mismatch, and the role of a higher concentration of marginalised Roma communities in some localities in interpreting regional differences can be found in the ISA analysis; 2025).

The Role of Foreign Workers in Overall Employment Growth in Slovakia

Employment of foreign nationals in Slovakia had been gaining momentum even before the outbreak of the pandemic. The inflow of third-country nationals into the Slovak labour market increased in particular, at that time mainly from Serbia and Ukraine. As a result, by 2018 the number of employed third-country nationals had exceeded the number of EU citizens employed in Slovakia, who had previously been the dominant group among foreign workers in the Slovak labour market.

Pandemic-related restrictions and the associated crisis naturally slowed the employment of foreign workers for a time. After the effects of the pandemic subsided, the number of foreign nationals from EU countries employed in Slovakia grew only slowly and, following the outbreak of the war in Ukraine, stabilised at around 32 thousand. The outbreak of the war, however, brought unprecedented inflows of Ukrainian nationals into the Slovak labour market as well. From that point onwards, it became particularly interesting to observe how the dynamics of foreign employment evolved in comparison with overall employment (for a broader historical context of changes in the dynamics of foreign employment in Slovakia, and the policy response to the deepening labour shortage through labour migration management, see, for example, Hvozdíková, 2025, or Lichner and Hvozdíková et al., 2020).

The strong inflow of Ukrainian nationals into the Slovak labour market from March 2022 meant that, during that year, the increase in the number of Ukrainians employed in Slovakia was 2.4 times larger than the increase

in the number of all other foreign nationals combined.⁹ Even the average annual increase in the number of foreign nationals employed in Slovakia, at just over 11 thousand foreign workers, which still did not fully reflect the intensity of the trend, represented roughly one quarter of the total increase in employment in the economy in 2022 (an increase of 40 thousand employees according to business reporting statistics, or 43 thousand employed persons according to the LFS). The trend of increasing foreign employment did not stop there; on the contrary, after 2022 a new phenomenon emerged. The inflow of foreign workers into the labour market in 2023 – 2024 exceeded the annual increases in total employment in the economy, and in 2025 the number of foreign workers employed in Slovakia continued to rise despite a simultaneous decline in overall employment. Although foreign employment and total employment, whether based on business reporting statistics or the LFS, are derived from different data collection systems, it can be concluded that employment in Slovakia would not have grown without foreign workers from 2023 onwards. (Figure 3.5 shows more detailed quarterly changes in total employment and foreign employment since 2022, clearly illustrating the point at which inflows of foreign workers began to exceed overall employment growth, as well as the divergence of the two trends in 2025.)

In this context, one further point should be emphasised. Shortly after the outbreak of the war in Ukraine, we attributed this unusual dynamic in the employment of foreign workers largely to people displaced from Ukraine (previous editions of this publication also describe the policy response in the form of simplified employment procedures for persons with temporary protection status „*odídenec*”). However, the continued growth in foreign employment in the more recent period can no longer be explained by the war beyond Slovakia’s borders alone.

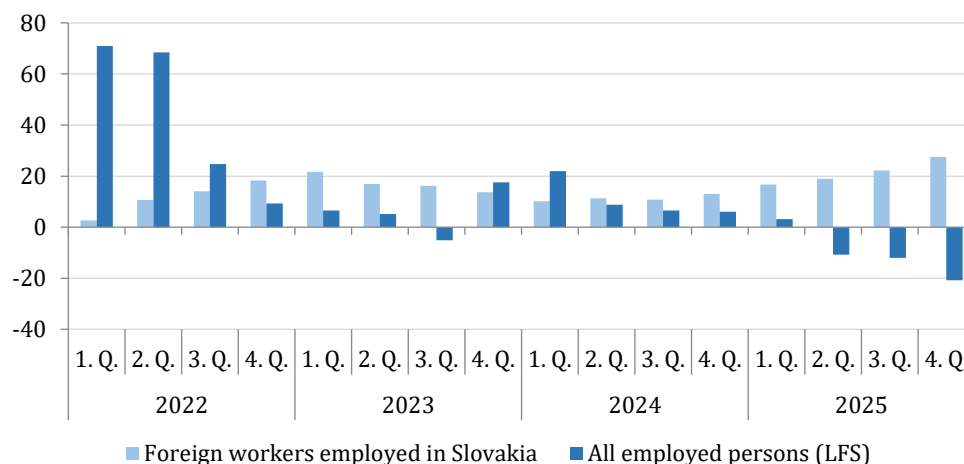
The share of Ukrainian nationals in the total number of foreign workers employed in Slovakia peaked between May and October 2024, at just below 40%. From November 2024 onwards, however, the number of foreign workers from other countries began to grow faster than the number of

⁹ During 2022, Ukrainian nationals increased their share of total foreign employment in Slovakia by 10 percentage points, from 28% to 38%.

Ukrainian nationals, and the share of Ukrainians in total foreign employment started to decline. Figure 3.6 documents both the initial impact of the war in Ukraine and its gradual fading in the most recent months.

Figure 3.5

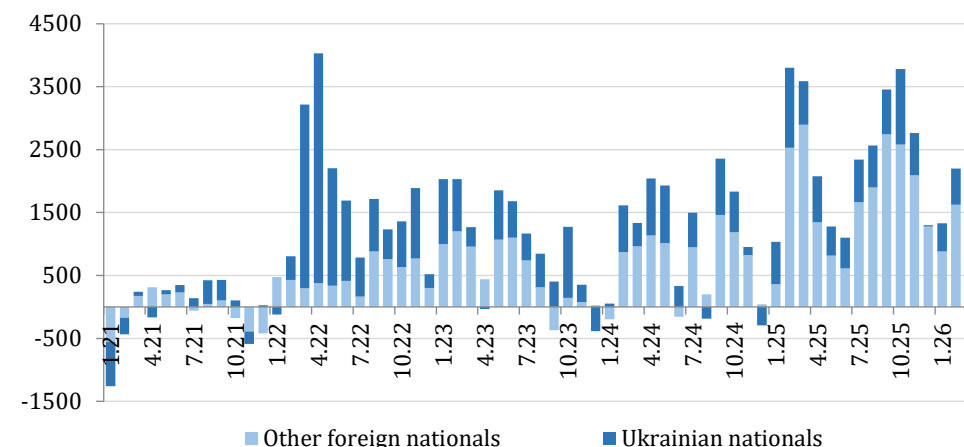
**Year-on-Year Increases/Decreases in Total Employment (LFS)
and in the Number of Foreign Workers Employed in Slovakia**
(thousand persons; 2022 – 2025)



Source: based on DATAcube (ŠÚ SR, 2026b) and ÚPSVaR statistics (2026b).

Figure 3.6

**Month-on-Month Increases/Decreases in the Number of Foreign Workers
Employed in Slovakia**
(broken down into Ukrainian nationals and other foreign nationals; in persons;
January 2021 – March 2026)

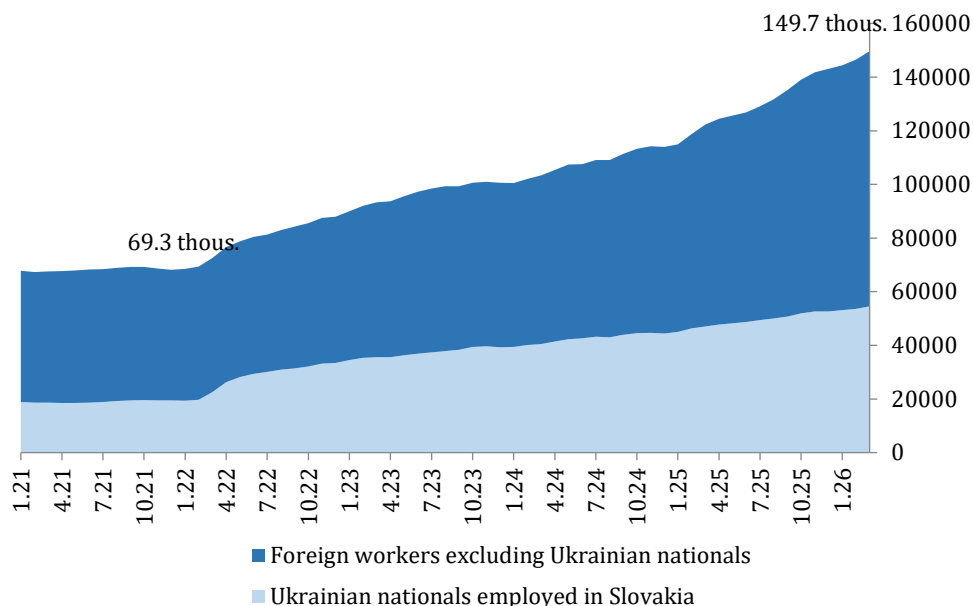


Source: based on ÚPSVaR statistics (2026b).

Figure 3.7

Growth in the Number of Foreign Workers Employed in Slovakia

(broken down into Ukrainian nationals and other foreign nationals; in persons; January 2021 – March 2026)



Source: based on ÚPSVaR statistics (2026b).

Figure 3.7 illustrates the sharp increase in foreign employment in the first months of the war, driven by the strong inflow of people displaced from Ukraine into the Slovak labour market, as well as the recent acceleration in the employment of other foreign nationals (from the pre-war level of 69 thousand foreign workers, their number rose to almost 150 thousand by March 2026). In recent months, the share of foreign workers from the post-Soviet countries of Asia has been increasing, as has the share from other Asian regions, particularly South-East Asia. It is also worth noting that Indian nationals have replaced Serbians as the second-largest group of foreign workers, a position traditionally held by Serbians for many years. It should also be noted that, even after the share of foreign workers in total employment increased to 5.4% of all employed persons in the final quarter of 2025, Slovakia still ranks among the European countries with a relatively low presence of foreign workers in the labour market. At the same time, Slovakia also lags significantly behind in their integration within the EU (see IFP, 2026).

Labour Market Cooling Was Also Reflected in Slower Wage Growth

The average monthly wage in the economy continued to increase in 2025, but the growth rate of 6.3% was the lowest in the past five years. The average nominal wage rose from EUR 1,524 in 2024 to EUR 1,620 in 2025. Despite inflation of 4%, this was still sufficient to ensure growth in real wages as well. Old-age pensions developed less favourably. Their year-on-year increase of 3% did not keep pace with price growth, resulting in a decline in their real value. Gross disposable income in the household sector (the difference between households' current income and current expenditure) also increased by 3%, while a slightly smaller share than a year earlier was used for household consumption, at almost 93%.

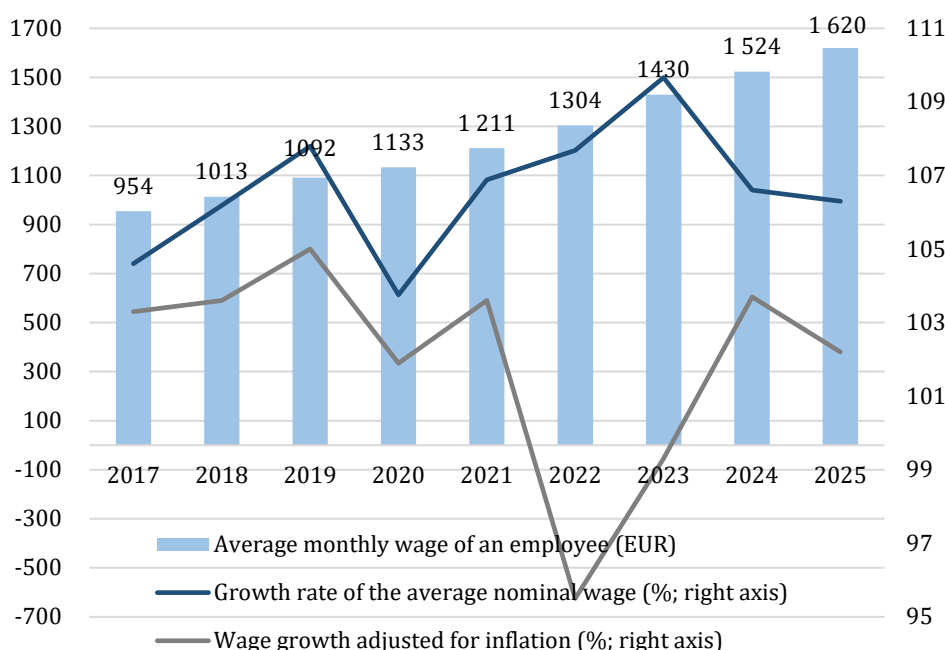
The observation of slower average wage growth should be placed in at least a medium-term context. As Figure 3.8 illustrates, the high growth rates in previous years partly compensated for the sharp acceleration in inflation, while 2024 – 2025 saw a stabilisation following this fluctuation. Wage growth can therefore be compared more appropriately with the last pre-pandemic years, 2018 – 2019, when favourable labour market developments peaked and labour shortages were simultaneously pushing wages upwards (see Figure 3.8).

The average wage increased year on year in all sectors of the economy in 2025, with the strongest growth recorded in the network industries of electricity, gas and steam supply and water supply, as well as in health care. For the third consecutive year, financial and insurance activities were the highest-paid sector, with employees earning an average of EUR 2,828; until 2022, information and communication had been the highest-paid sector. In addition to these two sectors and the above-mentioned energy-related network industries, there was one other sector in which average wages exceeded EUR 2,000: public administration and defence. By contrast, accommodation and food service activities traditionally remained the lowest-paid sector and were the only sector in the Slovak economy where the average gross wage did not reach EUR 1,000.

Figure 3.8

Average Monthly Wage Developments, 2017 – 2025

(monthly wage in EUR; year-on-year changes in %)



Source: based on the tabular section of the ŠÚ SR report (ŠÚ SR, 2026a).

Although Slovakia is losing its regional competitive advantage of „cheap labour” in terms of labour costs, this has not translated into a correspondingly stronger wage position in international comparison. In 2025, hourly labour costs (Eurostat methodology, enterprises with 10 or more employees; Eurostat, 2026a) reached the same level in Slovakia as in Czechia, EUR 19.8,¹⁰ and were higher than in Poland and, by a wider margin, Hungary, as well as in the Baltic countries Lithuania and Latvia and the southern European countries Portugal, Greece, Malta and Croatia. By contrast, with an average hourly wage of EUR 14.2, Slovakia lagged behind almost all of these countries, with the exception of Hungary and Latvia, which followed closely behind. Within the EU, only Romania, Serbia and Bulgaria recorded lower levels (for comparison, the average hourly wage in the EU under this methodology was EUR 26.2).

¹⁰ Slovakia first caught up with, and even slightly overtook, neighbouring Czechia in terms of labour costs in the previous year, 2024.

The economy is losing cost competitiveness, which could be accepted if it were accompanied by greater household prosperity. European comparison, however, points instead to a labour cost-wage „trap”. The extent to which labour costs translate into employee wages is constrained by the high share of non-wage costs in total labour costs, which in Slovakia, at 28.6%, is the third highest in the EU, after countries such as France and Sweden. Neighbouring Czechia ranks six places lower, with a value close to the EU average of 24.8%, while the share of non-wage labour costs is as much as 10 percentage points lower in Poland and 15 percentage points lower in Hungary than in Slovakia. It is also worth noting that while the share of non-wage labour costs has remained almost unchanged in Poland since 2008, it has declined slightly in Czechia and markedly in Hungary, whereas it has increased in Slovakia. From a comparative perspective, the gap between total labour costs and the wage component in Slovakia is pronounced, not only within our region. This imbalance has two concurrent effects. From the employers’ perspective, Slovakia is gradually moving away from the position of a low-cost economy, as total labour costs are approaching or matching those in countries with higher productivity. From the employees’ perspective, however, rising labour costs are not translating into wage convergence to the same extent, as non-wage components account for a relatively large share of total labour costs. Slovakia is therefore losing part of its cost competitiveness without employees benefiting from correspondingly higher labour income. Labour productivity has been rising in Slovakia over the long term, but its growth continues to lag behind the growth in labour costs. This increases the importance of productivity growth: if higher labour costs are to remain sustainable in the long term without weakening competitiveness, they need to be supported to a greater extent by growth in productivity and value added.

* * *

Among the most notable labour market developments in 2025 was the emergence of a more persistent decline in employment in services, extending beyond a short-term fluctuation. In the preceding years, services had become a key factor offsetting employment losses in the goods-

producing sectors, thereby gradually increasing their share in total employment in the economy. Together with the rise in short-term unemployment, particularly among those unemployed for the shortest periods, this represents the strongest signal of labour market cooling. By contrast, the development in the number of job vacancies was not such a signal over the past year, as the picture remained ambiguous when both statistical methodologies are taken into account.

It is noteworthy that even under these conditions, the employment of foreign nationals did not lose momentum. On the contrary, 2025 brought a new development: The growth in the number of foreign workers employed in Slovakia had already outpaced overall employment growth in the preceding years; in 2025, it went a step further, continuing to rise despite a decline in total employment in the economy and weakening in several other indicators of labour demand. This apparent contradiction can be partly explained by persistent regional and skills mismatches in the labour market, low mobility of the domestic labour force and other structural problems.

The observation made in the final part of the chapter concerning the relationship between labour costs and wages in Slovakia relative to the narrower regional context is not a new phenomenon. However, with Slovakia recently overtaking Czechia in labour costs, the cost competitiveness of the Slovak economy has weakened further in this respect.

4. QUALITATIVE FACTORS OF ECONOMIC DEVELOPMENT

In last year's edition of this publication, we showed that the innovative development of the Slovak economy remains relatively weak even after EU accession and is heavily dependent on external sources – mainly foreign direct investment and support from EU funds. The expectation that these sources would help build a strong domestic research and development base as the main driver of competitiveness has not yet materialized. Slovakia remains among the least innovative economies in the EU, with its main weaknesses being low spending on research and development (R&D), weak public support for corporate R&D, low patent activity, and a limited capacity to translate knowledge into economic practice. The main drivers of innovative progress continue to be foreign-controlled companies, which dominate innovation spending, R&D, and the technological modernization of the corporate sector.

Although Slovakia shows some favourable structural features – for example, a higher share of technologically demanding manufacturing sectors or a relatively strong position in the export of technologically advanced products – these results remain largely tied to the activity of foreign capital. The key problem therefore remains the weak involvement of domestic companies, particularly small and medium-sized enterprises, in innovation activities, which increases the risk that a weakening inflow of foreign investment would also weaken the innovative dynamics of the entire economy.

This chapter therefore focuses on the qualitative factors of Slovakia's economic development, with an emphasis on the industrial base of the economy. We pay particular attention to the investment intensity of the manufacturing industry, the level of automation and digitalization of production, spending on research and development, and the technological intensity of industry, in order to assess the extent to which the Slovak economy is shifting from a model based on cost competitiveness toward a model based on higher added value and innovative capacity.

Position of Slovak Industry and the Main Challenges for Its Development

The Slovak economy has long had the character of a small, open, and strongly industrialized economy, whose growth, employment, and export performance are closely linked to developments in industry. On the one hand, this is a source of the country's manufacturing and export strength; on the other, it is also a significant factor of vulnerability, since Slovak industry is highly exposed to external demand, fluctuations in the European industrial cycle, changes in international trade, and developments in the automotive sector.

Developments over the past five years show, however, that a high share of industry in the economy does not in itself guarantee a stable development trajectory. Slovak industry recovered strongly in 2021 after the pandemic-related downturn of 2020, but subsequently entered a period of heightened volatility and weakened dynamism. The years 2022 to 2025 were marked by a combination of the energy shock, supply chain problems, weakening external demand, rising geopolitical uncertainty, and a gradual deterioration in conditions across parts of European industry.

In terms of the structure of the challenges it faces, it is decisive for Slovak industry that its performance remains concentrated in a narrow group of sectors, primarily the automotive industry and its related supplier segments. This specialization has given Slovakia a strong position in the export of technologically demanding products, but it also deepens sectoral dependence and reduces the economy's capacity for diversification. For this reason too, the question of Slovak industry's competitiveness is becoming less tied to production volume alone and increasingly tied to the qualitative factors of its further development – that is, to investment structure, technological modernization, the ability to introduce innovation, digitalize processes, increase energy efficiency, and strengthen domestic value creation. One such factor is the technological transformation of production linked to automation, robotics, digitalization, and the growing use of artificial intelligence. A second is the ecological transformation of industry, tied to the decarbonization of production, rising demands for energy efficiency, and – from 2026 onward – the onset of the definitive

regime of the EU Carbon Border Adjustment Mechanism (CBAM). A third pressure comes from the geopolitical and trade environment, in which the significance of tariff and trade-policy barriers is increasing – a matter of particular importance for an economy with such a high share of industrial exports.

It is precisely in this context that investment, automation, digitalization, and industrial research and development take on key analytical importance. These are not merely partial technological indicators, but indicators of industry's deeper capacity for transformation. Investment intensity reveals the extent to which new technologies and production capacities are being translated into the production base. Robotics, the use of artificial intelligence, cloud solutions, and the integration of internal processes indicate whether companies are shifting from traditional cost-based competitiveness toward a model based on data, automation, and intelligent management. Research and development spending, in turn, shows the extent to which industry is able not only to adopt external technologies, but also to generate new knowledge, products, and processes on its own.

From this perspective, Slovak industry is in a transitional phase. On the one hand, it retains a strong manufacturing and export base, attracts significant investment, and in some segments is making successful progress in technological modernization. On the other hand, it faces a combination of structural constraints – high sectoral concentration, high energy intensity, weaker domestic innovation capacity, slower productivity growth, and unfavourable demographic trends. The question of Slovak industry's further development therefore does not lie only in whether it can maintain its production performance, but above all in whether it can convert the ongoing technological and investment changes into a lasting increase in productivity, innovative capacity, and international competitiveness. It is precisely these dimensions that the following sections of the chapter focus on.

Investment Intensity in the Manufacturing Industry

Investment activity in the manufacturing industry is key to innovative progress because it is precisely through investment that new knowledge, technologies, and production methods are translated into actual production. In industry, innovation often manifests itself not merely as a new idea, patent, or research result, but above all as new machinery, automated production lines, digital control systems, software, robotic equipment, or more energy-efficient technologies that change the way production is carried out and increase its productivity, quality, and flexibility. Investment also increases companies' ability to absorb external knowledge, adopt advanced technologies from leaders in value chains, and implement them in their own production. This is especially important for countries like Slovakia, which aim to move from a model based on assembly-line manufacturing and cost competitiveness toward an economy based more on knowledge, innovation, and higher domestic value added. Without sufficient and well-directed investment activity, companies may be able to sustain production, but they will find it far harder to move toward more sophisticated products, smart manufacturing, and technologically more demanding segments, which form the basis of long-term competitiveness.

Compared to other European economies¹¹ (Table 4.1), Slovak manufacturing industry with respect to investments belongs to stronger ones, but its investment profile remains highly volatile: the average share of gross capital formation in gross value added in industry over 2016 – 2024 reached 29.6%, somewhat higher than the average for the EU7 group (28.3%). Slovakia does not suffer from low investment activity as such; the problem lies rather in its instability, lower predictability, and limited transformative effect. Developments over time show repeated investment waves in 2016 – 2018, 2021, and 2024, but also significant slowdowns in 2020 and 2023, which points to a high sensitivity to external shocks, uncertainty, and the decisions of a narrow group of large companies within a concentrated industrial structure. From an economic-policy perspective, therefore, the main challenge does not lie in increasing the volume of investment as such, but in changing its quality and direction.

¹¹ Data are limited and available only for countries in the table.

Table 4.1

Investment Intensity in the Manufacturing Industry, 2016 – 2024
(% of gross value added)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	Average
Bulgaria	26.4	34.6	32.5	27.6	24.1	33.0	34.1	19.1	n/a	28.9
Czechia	26.5	27.0	27.2	25.5	20.4	27.1	30.6	21.0	23.3	25.4
Hungary	33.8	33.3	38.6	42.5	35.9	50.6	56.8	39.5	n/a	41.4
Romania	20.9	19.8	32.0	21.9	24.2	25.8	30.8	16.4	16.5	23.1
Slovenia	24.9	27.4	29.4	25.8	23.5	29.3	27.4	25.0	26.6	26.6
Slovakia	33.1	37.9	33.5	28.6	21.2	32.2	26.2	21.2	32.7	29.6
Finland	22.2	22.3	26.5	21.2	22.2	27.7	34.5	23.7	28.0	25.4
EU27	26.8	28.9	31.4	27.6	24.5	32.3	34.4	23.7	25.4	28.3

Note: Share of gross capital formation in the manufacturing industry as a percentage of gross value added in the manufacturing industry

Source: Eurostat.

Digitalization and Automation of Slovak Industry

The four indicators analysed here – the use of robots, the adoption of artificial intelligence, the use of cloud services, and the integration of internal processes – can be understood not only as indicators of the digitalization of manufacturing industry, but also as indicators of Slovakia’s innovative development, particularly in the area of process and organizational innovation. Unlike traditional innovation indicators, which are often tied to R&D spending, patents, or new products, these indicators capture companies’ ability to change the way they produce, manage, coordinate, and use data. Robotics and artificial intelligence speak to the degree of technological modernization of production and operational processes; cloud services reflect the level of digital infrastructure readiness; and the integration of internal processes through ERP and related solutions signals the organizational maturity of companies and their ability to link individual functions into a unified information flow. Together, these indicators build a picture of the extent to which Slovak industry is shifting from a model based predominantly on cost competitiveness toward a model based on knowledge, data, automation, and intelligent process management.

The first indicator we use is the „share of industrial firms using robots.“ This measures the rate of adoption of robots at the company level, not the intensity of their use. The indicator expresses what percentage of

companies in a given country used industrial or service robots in the year observed. It is a measure of extent, not intensity – meaning that a company using a single robot and a company using hundreds of robots are counted the same way in this indicator; both fall into the group of „companies using robots.“ The indicator can also be used as a measure of technological diffusion: it shows how widespread robotics is within the population of companies – that is, whether it remains a marginal phenomenon or is becoming a standard technology. Industrial robots typically signal the automation of production operations, while service robots say more about the automation of logistics, material handling, inspection, or support activities.

Table 4.2

Share of Industrial Companies Using Robots (% companies)

	2018		2020		2022		Difference 2018/2022 (p.b)	
	Industrial robots	Service robots	Industrial robots	Service robots	Industrial robots	Service robots	Industrial robots	Service robots
Slovakia	12.8	3.5	18.8	4.6	17.2	3.4	4.4	0.0
EU27	16.1	3.9	17.4	4.0	16.3	3.7	0.2	-0.2
Czechia	15.6	2.3	17.5	2.9	16.3	1.5	0.7	-0.9
Hungary	9.9	1.6	12.8	2.3	11.1	2.2	1.2	0.6
Poland	10.7	1.8	13.6	1.9	10.8	1.6	0.1	-0.1
Germany	13.9	3.7	16.4	4.7	14.7	2.8	0.8	-0.9

Source: isoc_eb_p3dn2 <https://doi.org/10.2908/ISOC_EB_P3DN2>.

Table 4.2 shows that Slovakia recorded a relatively strong increase in the share of companies using industrial robots between 2018 and 2022, rising from 12.8% to 17.2%, with a peak in 2020 at 18.8%; the overall increase of 4.4 percentage points significantly exceeds the EU27 average as well as neighbouring economies and Germany. By contrast, developments in service robots in Slovakia appear stagnant, since after a temporary rise from 3.5% in 2018 to 4.6% in 2020, the share fell back to 3.4% in 2022 – essentially returning to its starting level. This pattern suggests that automation in Slovak industry is concentrated mainly in the core of production processes, and to a lesser extent in companies’ supporting, logistical, or

internal service activities. This result is fully consistent with the structure of the Slovak economy, in which the automotive industry is dominant. The subsequent decline in the share of companies using industrial robots in 2022 should therefore not automatically be interpreted as a retreat from robotization; rather, it may reflect a correction following an investment peak and the consequence of a deteriorating macroeconomic environment, since „the use of robots in Europe is becoming more concentrated – meaning fewer companies use them, but those that deploy them use them more intensively“ (Eurofound, 2024).

The extent to which artificial intelligence is used is measured by the indicator „share of companies using at least one artificial intelligence technology.“¹²

Table 4.3

Share of Industrial Companies Using at Least One Artificial Intelligence Technology

	2021	2023	2024	2025	Difference 2021/2025
Slovakia	5.4	6.1	8.1	15.8	10.4
EU27	6.9	6.8	10.6	17.3	10.3
Czechia	4.2	6.0	9.6	16.7	12.5
Hungary	4.0	4.2	4.8	7.8	3.8
Poland	2.3	2.9	5.1	7.7	5.4
Germany	9.2	9.3	16.1	24.4	15.2

Source: isoc_eb_ain2 <https://doi.org/10.2908/ISOC_EB_AIN2>.

The data show that Slovak manufacturing industry increased the share of companies using at least one artificial intelligence technology from 5.4% in 2021 to 15.8% in 2025, an increase of 10.4 percentage points. The pace of growth is almost identical to the EU27 average, though Slovakia remains slightly below the European average throughout the period. The results therefore point to a pattern of delayed but markedly accelerating adoption of AI in manufacturing, in which Slovak companies are gradually

¹² A company is counted as using artificial intelligence if it uses at least one of the following technologies: text mining, speech recognition, natural language generation, image recognition and processing, machine learning, process automation or AI-supported decision-making, autonomous physical movement of machines or vehicles based on observation of their surroundings, and – in more recent data collections – also the generation of images, video, and sound.

shifting from traditional automation toward smarter management of production and operational processes.

Another indicator of ICT adoption among companies is the share of manufacturing companies that purchase paid cloud services. These are services accessed over the internet to obtain software, computing capacity, storage, and similar IT resources. This is not merely about „storing data in the cloud,“ but also about moving business processes onto external digital platforms. The indicator is particularly useful because cloud services tend to be an entry-point technology for further digitalization – for example, for data analytics, ERP/CRM systems, AI tools, or remote process control. One drawback, however, is that this is a measure of adoption, not intensity. A company that uses only cloud email or storage is counted the same way as a company that runs ERP, production analytics, security tools, and a development environment in the cloud. The indicator therefore says nothing about the scale of spending, the technical sophistication of the solution, the strategic importance of the cloud, or whether the cloud actually increases productivity.

Table 4.4

Share of Manufacturing Companies Purchasing Paid Cloud Services

	2014	2015	2016	2017	2018	2020	2021	2023	2025
Slovakia	14.2	19.8	14.4	22.0	20.6	24.2	33.3	34.3	36.5
EU27	17.2		16.2		20.5	35.6	39.8	45.0	54.0
Czechia	13.2		14.7	19.1	23.4	26.5	39.2	45.7	55.7
Hungary	5.7	9.1	9.9	13.3	17.2	23.2	24.6	46.1	47.4
Poland	4.8	6.2	7.3	7.9	10.4	23.1	27.7	58.2	58.2
Germany	9.8		13.9		19.1	30.7	38.4	42.7	50.8

Source: isoc_eb_iipn2 <https://doi.org/10.2908/ISOC_EB_IIPN2>.

Table 4.4 shows that although Slovakia has achieved a long-term growth trend, for most of the period it has grown more slowly than the European average, and in recent years also more slowly than several regional competitors. Slovakia moved from 14.15% in 2014 to 36.49% in 2025 — an increase of 22.34 percentage points. This is an improvement and signals that the cloud has become a more common part of company operations in Slovak manufacturing as well. At the same time, however, the country still lags noticeably behind the EU27 (53.96%), the Czech

Republic (55.7%), Poland (58.2%), and Germany (50.8%) in 2025; Hungary (47.4%) also ranks above Slovakia in 2025.

In manufacturing, the cloud often represents not merely an IT service, but the foundation for further technologies: the collection and analysis of production data, production planning, supply chain integration, remote servicing, cybersecurity, and the deployment of AI solutions. Slovakia's weaker position can therefore be interpreted as a sign that, while the Slovak manufacturing sector is making progress in digitalization, its digital infrastructure readiness remains less developed than in the more technologically advanced economies of the EU. This may, in turn, also hold back the broader adoption of more sophisticated tools, such as artificial intelligence or data-driven production management.

The fourth indicator of industrial digitalization is the share of industrial companies with integrated internal processes. This captures the share of manufacturing companies that use software to share information across different internal business functions, typically through ERP (enterprise resource planning) systems. In practice, this concerns whether functions such as accounting, purchasing, production, warehousing, planning, or sales are linked within a single information flow inside the company. We also regard these activities as a prerequisite for advanced digitalization of a company.

Table 4.5

Share of Industrial Companies with Integrated Internal Processes

	2010	2012	2013	2014	2015	2017	2019	2021	2023	2025
Slovakia	18.1	22.0	35.3	29.9	39.1	36.2	38.1	36.5	35.0	36.7
EU27	30.2	31.3	36.9	42.9	46.3	45.9	46.7	48.7	53.7	57.6
Czechia	27.5	33.6	31.7	34.7	37.6	36.6	48.4	45.0	36.9	62.6
Hungary	11.1	13.5	18.2	20.2	22.0	20.5	20.4	27.9	41.8	37.8
Poland	12.7	15.9	20.6	25.2	24.7	29.9	32.5	34.3	39.2	41.3
Germany	48.1	35.9	47.5	53.1	66.9	57.5	50.3	59.2	62.2	63.3

Source: isoc_eb_iipn2 <https://doi.org/10.2908/ISOC_EB_IIPN2>.

Table 4.5 shows that Slovakia lags behind both the EU average and its main regional competitors in terms of internal digitalization, and shows no clear convergence trend over the period observed. Slovakia moved from 18.1% in 2010 to 36.7% in 2025, an increase of 18.6 percentage

points. While this is a noticeable improvement, over the same period the EU27 rose from 30.2% to 57.6%, an increase of 27.4 percentage points. As a result, Slovakia's gap relative to the EU did not narrow but instead widened – from approximately –12 percentage points at the start of the period to almost –21 percentage points in 2025. This means that Slovak manufacturing industry is digitalizing its internal processes more slowly than the European core.

Taken together, the four indicators analysed suggest that Slovakia's level of innovation in manufacturing industry is mixed and uneven. Slovakia performs relatively well in industrial robotization and has, in recent years, also significantly accelerated its adoption of artificial intelligence, pointing to growing technological modernization of production processes. On the other hand, weaker results in cloud services – and especially in the integration of internal processes – show that a deeper organizational and systemic transformation of companies lags behind the EU average and several regional competitors. Overall, it can be concluded that the innovative development of Slovak industry is currently based more on partial technological adoption than on fully developed process and organizational innovation. Slovak industry is indeed moving toward more modern production and digital solutions, but the key challenge remains converting this technological diffusion into a broader transformative capacity for companies – that is, the ability to connect technologies, data, internal processes, and management practices into a single, coherent model of innovation. It is precisely this that will determine whether digitalization becomes merely a supplement to the existing industrial model, or the foundation for lastingly higher productivity, resilience, and competitiveness of the Slovak economy.

Corporate R&D Spending and the Role of Manufacturing Industry

Given the position of industry within the structure of the Slovak economy, it is worth examining R&D spending in manufacturing over a longer period (2012 – 2023). While Slovakia improved over the period observed, it remained the weakest within the V4 group (Table 4.6).

Table 4.6

**Total Business Expenditure on Research and Development (BERD)
and Research and Development Expenditure in the Manufacturing
Industry (% of GDP)**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Slovakia BERD	0.33	0.38	0.32	0.32	0.4	0.48	0.45	0.45	0.48	0.51	0.56	0.58
Slovak manufacturing industry BERD	0.18	0.23	0.23	0.22	0.28	0.35	0.32	0.29	0.24	0.28	0.3	0.32
Share of manufacturing industry R&D (BERD) in total BERD (%)	55	61	72	69	70	73	71	64	50	55	54	55
Czechia BERD	0.93	1	1.07	1.04	1.01	1.1	1.16	1.17	1.19	1.21	1.21	1.18
Czech manufacturing industry BERD	0.55	0.62	0.68	0.67	0.65	0.7	0.74	0.73	0.69	0.68	0.69	0.69
Share of manufacturing industry R&D (BERD) in total BERD (%)	59	62	64	64	64	64	64	62	58	56	57	58
Poland BERD	0.33	0.38	0.44	0.46	0.63	0.66	0.79	0.82	0.86	0.89	0.95	1
Polish manufacturing industry BERD	0.14	0.17	0.2	0.2	0.2	0.27	0.33	0.32	0.3	0.32	0.33	0.35
Share of manufacturing industry R&D (BERD) in total BERD (%)	42	45	45	43	32	41	42	39	35	36	35	35
Finland BERD	2.34	2.26	2.14	1.93	1.81	1.79	1.82	1.85	1.96	2.07	2.03	2.09
Finnish manufacturing industry BERD	1.78	1.69	1.62	1.43	1.28	1.23	1.26	1.28	1.33	1.38	1.39	1.42
Share of manufacturing industry R&D (BERD) in total BERD (%)	76	75	76	74	71	69	69	69	68	67	68	68

Source: Eurostat (2026) <https://doi.org/10.2908/RD_E_BERDPFR2>.

Table 4.6 shows that in 2023, Slovak corporate R&D spending stood at 0.58% [of GDP], compared with 1.18% in the Czech Republic, 1.01% in Hungary, 1.00% in Poland, and 2.14% in Germany. In manufacturing specifically, Slovakia stood at 0.32% of GDP – below the Czech Republic (0.69% of GDP) and Hungary (0.60% of GDP), and just below Poland (0.35% of GDP). While Slovakia has more than doubled its total corporate R&D spending since 2010 (from 0.25 to 0.58), it has narrowed its absolute

gap with the EU only slightly; moreover, the manufacturing component has not reached a new high since 2017, when it stood at 0.35.

The most important detail here may be the fact that Slovakia's weakness no longer lies only in industry, but especially outside industry. In 2023, „non-industrial“ corporate R&D in Slovakia stood at approximately 0.26 (0.58 minus 0.32). In the Czech Republic the figure was 0.49, in Hungary 0.41, and in Poland as much as 0.65. In other words, Poland is not „outperforming“ Slovakia today because it has a dramatically stronger manufacturing R&D base, but because it has built a much broader R&D base outside the manufacturing sectors as well.

Slovakia's development can be divided into four phases. Up to 2013, we see a catch-up process from a very low base. In 2014 – 2015, growth stagnated. The years 2016 – 2017 brought a strong industrial impulse and a peak in manufacturing. After 2018, however, industrial R&D weakened, and although overall economic growth recovered after the pandemic, it did not return to the previous industrial peak. This suggests that Slovakia's model of corporate R&D remains relatively narrow and sensitive to the decisions of a few large players.

According to its country report on Slovakia, the European Commission identified several causes (European Commission, 2024). First, according to the Commission, Slovak productivity and investment growth has been very strongly tied to the automotive sector and large foreign-owned companies. The Commission states directly that productivity gains were concentrated mainly in industry, particularly in automotive, and did not spread to other sectors with a strong presence of SMEs; moreover, investment decisions in the automotive sector depend on large multinational corporations. At the same time, Slovakia has a lower share of services and knowledge-intensive services than the EU average, along with an above-average share of value added generated by foreign-controlled companies, particularly in automotive and electronics.

Second, Slovakia has weaker financial and institutional conditions for extending R&D into a broader base of companies – weak links between the public research sector and the business sphere, low availability of venture capital, a low rate of continuous R&D among medium-sized firms,

and underfinanced access to both loans and equity capital. In 2022, according to the Commission, Slovakia had the lowest average share of investment in intangible assets in the EU. Companies in Slovakia also cite high costs and a shortage of skilled workers as barriers to innovation.

Technological Intensity of Industry

A reflection of an economy's innovativeness is the technological intensity of its industry. This can be analysed through the sectoral structure of production by technological intensity, and through the ability to export products with high technological intensity. Eurostat classifies manufacturing sectors as high-tech, medium-high-tech, medium-low-tech, and low-tech according to their research and development spending intensity. For the Slovak case, it is decisive that the medium-high-tech category includes not only the chemical industry, electrical equipment, and machinery, but also motor vehicles, while high-tech manufacturing is narrower and includes mainly pharmaceuticals, computers, electronics, optical products, and aerospace. This methodology implies that a high technological intensity of Slovak industry does not necessarily mean a strong domestic high-tech base; it may instead reflect a large weight of technically demanding, but predominantly medium-high-tech, manufacturing.

Table 4.7

Technological Intensity of Exports and Employment – Selected Indicators

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Share of high-tech exports in total exports (%)													
Czechia	15.1	15.3	15.6	15.1	16.1	17.9	19.0	20.6	18.4	19.2	n/a	n/a	n/a
Hungary	16.3	14.5	15.3	15.9	16.0	15.5	16.3	16.8	14.9	14.8	n/a	n/a	n/a
Poland	6.7	7.9	8.5	8.5	8.4	8.3	8.7	9.0	8.8	9.1	n/a	n/a	n/a
Slovakia	9.7	9.9	10.0	9.8	10.7	9.7	9.1	9.2	8.2	7.4	n/a	n/a	n/a
EU27	11.0	10.9	11.6	11.5	11.5	11.5	12.1	12.6	12.1	11.9	n/a	n/a	n/a
Employment in high- and medium-high-technology sectors													
EU27	n/a	6.0	6.1	6.2	6.2	6.2	6.2	6.2	6.1	5.9	5.9	5.9	5.9
Czechia	n/a	11.2	11.2	11.5	11.4	11.3	11.5	11.5	11.3	11.0	10.7	10.5	10.8
Hungary	n/a	8.9	9.1	9.5	9.8	9.9	9.7	9.7	9.2	9.1	8.9	9.1	9.1
Slovakia	n/a	9.4	10.6	10.8	11.2	11.3	10.9	11.2	11.9	11.3	10.3	10.1	9.8
Poland	n/a	5.2	5.3	5.7	5.9	5.9	5.9	5.5	5.2	5.2	5.3	5.8	5.8

Source: Eurostat (2026) <<https://doi.org/10.2908/TSC00011>>.

Table 4.7 complements our earlier interpretation, as it reveals a paradox in Slovak industry: Slovakia has a relatively high concentration of employment in technologically more demanding sectors, yet at the same time a weaker – and moreover declining – share of high-tech exports. Methodologically, these are two distinct indicators. Eurostat measures high-tech exports as the share of high-tech products in total exports, and this indicator also includes re-exports. By contrast, the sectoral classification of technological intensity is based on NACE industries and places motor vehicle manufacturing into the medium-high-tech category as well. It follows that a country can have high employment in technologically demanding industry while at the same time having only a medium or low export share of narrowly defined high-tech products.

Looking at the first indicator – the share of high-tech exports in total exports – it is clear that Slovakia has, in this narrow, product-based sense of high-tech exports, actually been losing ground. The share of high-tech exports in total exports fell from 9.7% in 2013 to 7.4% in 2022, a decline of 2.3 percentage points. It reached its peak in 2017 (10.7%). Even more significant is the international comparison: the Czech Republic increased this share from 15.1% to 19.2%, and Poland from 6.7% to 9.1%, while Slovakia fell by 2022 to a level even below Poland's. The gap relative to the EU27 widened from –1.3 percentage points in 2013 to –4.5 percentage points in 2022. In terms of export technological intensity, therefore, we do not observe Slovakia converging toward the region's high-tech core, but rather diverging from it.

The second indicator considered – employment in high- and medium-high-technology sectors – presents a different picture. Employment in high- and medium-high-technology sectors in Slovakia has long been significantly above the EU average. It rose from 9.4% in 2014 to a peak of 11.9% in 2021, and even after the subsequent decline still stood at 9.8% in 2025 – substantially higher than the EU27 (5.9%). For most of the period, Slovakia was above Hungary and well above Poland and was approaching the Czech level. This confirms that the Slovak economy has an above-average sectoral concentration of jobs in technologically more demanding manufacturing industries. At the same time, however, the decline after 2021

suggests that this base, too, is sensitive to weakening foreign demand and to the vulnerability of an export-oriented economy to external shocks.

This result confirms the earlier argument that Slovakia's growth model has been based mainly on the inflow of foreign investment and on integration into global value chains. An OECD study (Giorno, 2019) notes that foreign investment helped build a competitive, export-oriented industry in Slovakia, particularly in the automotive and electrical/electronics sectors. At the same time, however, a large part of this integration has remained concentrated in the lower links of the production chain – mainly the assembly of imported components – where only a smaller portion of total value added is created within Slovakia. The OECD therefore emphasizes that Slovakia needs stronger links between foreign investors and domestic companies, a greater capacity among small and medium-sized enterprises to absorb new knowledge and technologies, better workforce skills, and an overall strengthening of the economy's innovative capacity.

* * *

Slovak industry remains the decisive bearer of the qualitative factors of economic development, but its transformative potential is internally uneven. On the one hand, Slovakia retains a strong industrial base, relatively high investment activity in manufacturing, and in some areas also favourable dynamics of technological modernization – particularly in industrial robotization and, in recent years, in the growing use of artificial intelligence. On the other hand, investment intensity proves to be highly volatile, and the digital transformation of companies has a more partial than systemic character. Weaker results in cloud services – and especially in the integration of internal processes – suggest that a deeper organizational and data-driven transformation of Slovak industry lags behind the EU average and several regional competitors.

A limited domestic research and development base can be considered a key structural weakness. Although corporate R&D spending has grown over the longer term, Slovakia remains weaker in regional comparison, and this growth is more strongly tied to manufacturing industry than to a more broadly developed knowledge economy. This is also reflected in

the country's resulting technological profile: Slovakia has an above-average share of employment in high- and medium-high-technology sectors, yet at the same time a weaker and declining share of high-tech exports. This suggests that the technological strength of Slovak industry is largely based on medium-high-tech specialization, particularly in sectors linked to foreign capital and global value chains, and less on a broadly developed domestic innovation capacity. Slovakia's future competitiveness will therefore depend not only on sustaining production performance, but above all on the ability to connect investment, digitalization, research and development, workforce skills, and stronger links between foreign investors and domestic companies into a more cohesive growth model with higher added value.

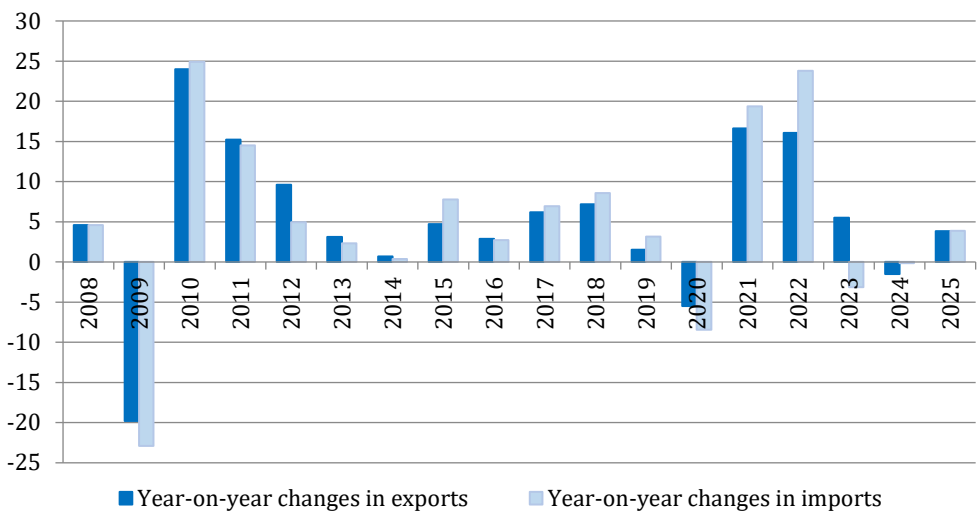
5. FOREIGN TRADE

Following the slowdown in foreign trade momentum recorded in 2024, the subsequent year brought acceleration in both exports and imports, despite pessimistic expectations linked mainly to changes in US trade policy. This chapter takes a closer look at the development of foreign trade indicators and the key factors influencing them, from both a commodity and territorial perspective. Particular attention is paid to identifying risks ‘hidden’ behind the relatively favourable figures, as well as the main challenges and opportunities for the upcoming period, including factors affecting the sustainability of current foreign trade trends.

Foreign Trade Surplus Continues

Following the stagnation of foreign trade in 2024, both exports and imports saw a year-on-year increase of just under 4% in 2025 (Figure 5.1). In the case of exports, this was a relatively surprising result. The subsequent text addresses the potential reasons behind this development in greater detail.

Figure 5.1
Year-on-Year Changes in Exports and Imports (current prices, %)

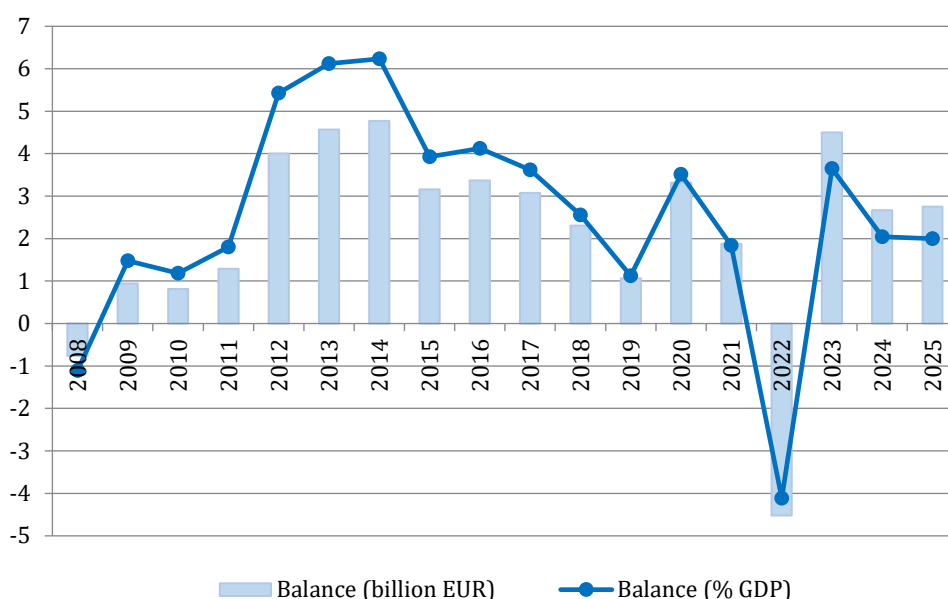


Source: based on NBS data (2026b).

The value of exports at current prices reached almost EUR 111 billion, while the value of imports exceeded EUR 108 billion, resulting in a foreign trade surplus of just under EUR 3 billion – a level comparable to the previous year (Figure 5.2). Such a result could indicate stabilising after the volatility associated with the 2022 energy crisis; however, risks to future developments, particularly regarding foreign demand for Slovak output, remain high.

Figure 5.2

Foreign Trade Balance (billion EUR, % GDP)

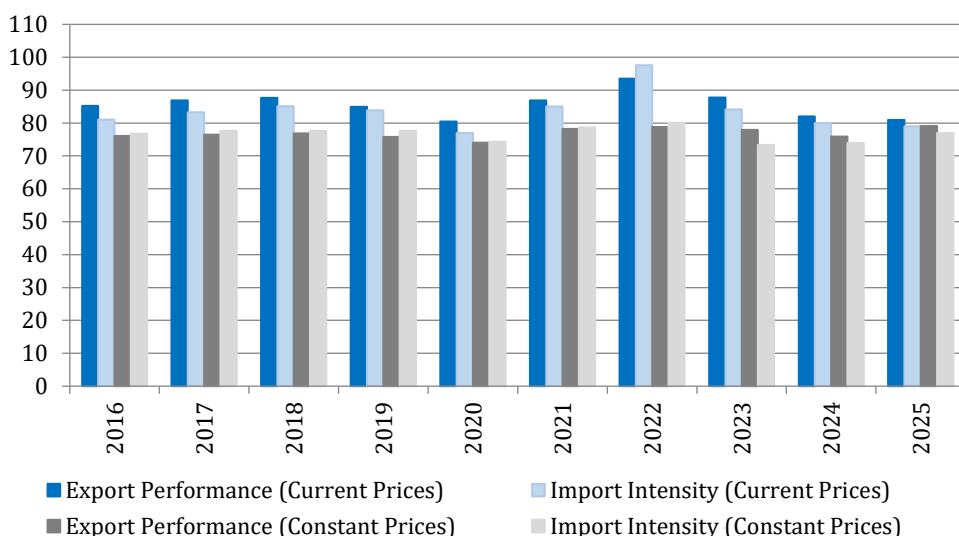


Source: based on NBS data (2026b).

In last year's edition of this publication, we examined the development of export performance (measured as the share of goods exports in GDP at current prices) and the import intensity of the Slovak economy (measured as the share of goods imports in GDP at current prices). Developments in 2025 confirmed a declining trend in export performance in nominal terms, as it reached only 81% of GDP (Figure 5.3) – the second lowest level recorded over the last decade (following 2020, which was marked by the pandemic). The significance of exports in nominal terms had been declining in the Slovak economy for three consecutive years.

Figure 5.3

Export Performance and Import Intensity of the Slovak Economy in Current and Constant Prices (% of GDP)



Source: based on NBS data (2026b).

However, importantly, the calculation of export performance at constant prices shows that export performance in real terms remained relatively stable in recent years and even increased slightly in 2025. The decline in nominal values was mainly driven by a price correction in energy commodities (SITC 3) and weaker price pressures in industrial sectors, while real exports held steady. Nevertheless, this does not represent an entirely positive trend, as export momentum remains subdued and risks associated with weaker foreign demand persist.

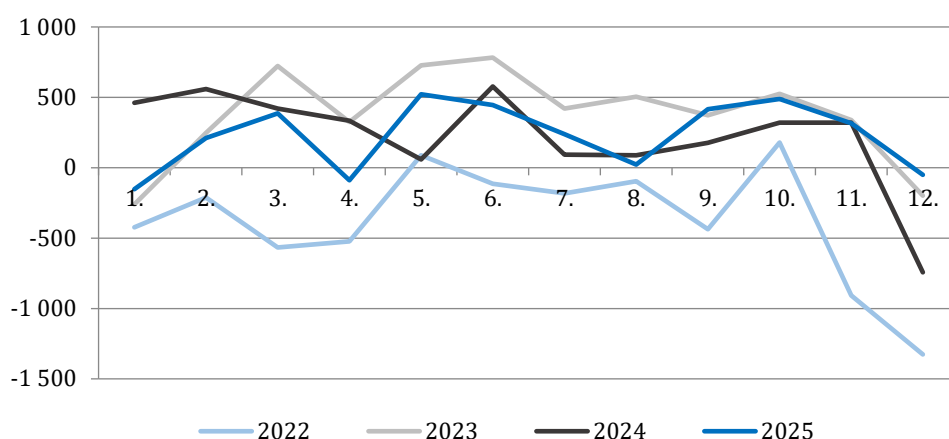
Over the last decade, import intensity in both terms (especially at current prices) reached its peak in 2022 due to the energy crisis. In the subsequent years, this indicator returned closer to its long-term trend, suggesting that it was a temporary phenomenon. At the same time, this fluctuation highlighted the sensitivity of the Slovak economy to energy price shocks, emphasising the need to reduce energy intensity and strengthen energy self-sufficiency as crucial prerequisites for economic stability.

Despite pessimistic expectations associated with turbulence in global trade, Slovakia's trade balance did not deteriorate significantly in the individual months of the second half of the year. Rather, it can be stated that

it reached levels comparable to the previous year (Figure 5.4), mainly due to the redirection of a portion of exports from non-EU markets to EU countries (which is discussed in more detail below), as well as a lower value of energy commodity imports amid more favourable price trends.

Figure 5.4

Foreign Trade Balance in the Individual Months of the Years 2022 – 2025
(million EUR)



Source: based on NBS data (2026b).

From the beginning of the year until November, the cumulative balance was indeed weaker than in 2024; however, a significantly lower deficit recorded in December 2025 ultimately pushed the overall foreign trade balance to a level slightly exceeding the previous year. This more favourable December result was mainly driven by a double-digit year-on-year decline in the value of mineral fuel imports, highlighting once again the high sensitivity of Slovakia's foreign trade to developments in the energy balance.

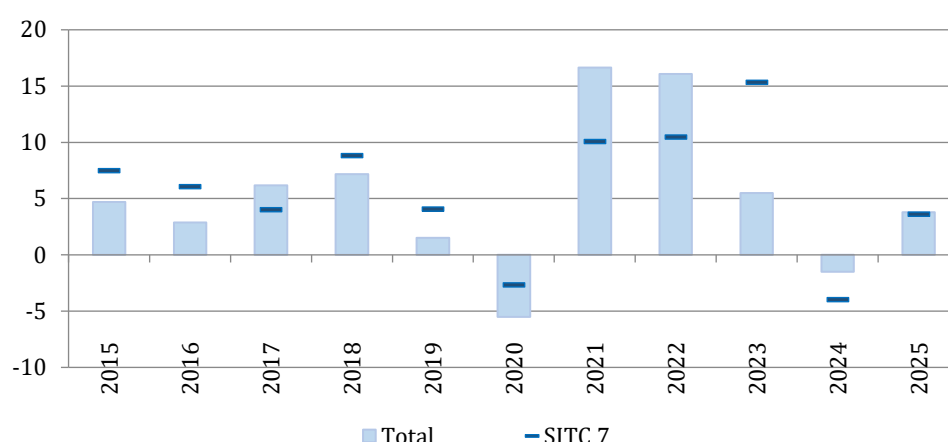
Automotive Industry with Year-on-Year Export Growth

It can be stated that in 2025, exports within the most significant category, SITC 7 – *Machinery and transport equipment* (dominated by cars and their components), did not represent the primary source of total export growth, unlike in 2023, for example (Figure 5.5). Year-on-year, it increased

by 3.2%, lagging slightly behind the momentum of total exports. In the second half of the year, falling demand in China and shifts in US trade policy increasingly impacted its development. Given the relatively stable price trends in the automotive and related sectors, it can also be suggested that the recorded export growth was largely driven by volume rather than price factors.

Figure 5.5

Year-on-Year Changes in Exports in SITC Category 7 Compared to Total Exports (current prices, %)



Source: based on ŠÚ SR data (2026a).

It should be added that imports within SITC Category 7, which encompasses a wide range of mechanical, electrical and transport equipment, including automotive components, grew more significantly year-on-year (by 5.4%). This development points to the persistent import intensity of industrial production and its strong integration into foreign supply chains; at the same time, it suggests a relatively lower share of domestic value added in exports, which could limit economic growth potential over the longer term.

The shares of SITC Category 7 in total exports and imports increased slightly compared to a decade ago (Table 5.1), confirming the persistent dominance of these industrial sectors in Slovakia's foreign trade. An even more pronounced increase in these shares was recorded between 2010 and 2015 (ŠÚ SR, 2026a), which can be linked primarily to the inflow of foreign direct investment.

Table 5.1

Year-on-Year Changes in Imports and Exports by SITC Rev.4 Categories and the Commodity Structure of Foreign Trade (%)

		Index 2025/2024	Structure 2025 (%)	Structure 2015 (%)
Total	Imports	103.9	100.0	100.0
	Exports	103.8	100.0	100.0
SITC0 – Food and live animals	Imports	101.5	6.0	4.7
	Exports	104.0	4.0	3.4
SITC1 – Beverages and tobacco	Imports	92.8	0.8	0.7
	Exports	111.3	0.3	0.2
SITC2 – Crude materials, inedible, except fuels	Imports	99.4	2.1	2.4
	Exports	101.3	1.7	1.8
SITC3 – Mineral fuels, lubricants and related materials	Imports	94.3	7.5	8.3
	Exports	94.4	3.6	3.6
SITC4 – Animal and vegetable oils, fats and waxes	Imports	171.3	0.5	0.3
	Exports	121.0	0.2	0.2
SITC5 – Chemicals and related products not classified elsewhere	Imports	105.4	8.6	8.8
	Exports	105.6	4.0	4.7
SITC6 – Manufactured goods classified chiefly by material	Imports	100.2	12.6	14.9
	Exports	99.1	14.2	16.7
SITC7 – Machinery and transport equipment	Imports	105.4	48.4	47.0
	Exports	103.6	61.4	59.5
SITC8 – Miscellaneous manufactured articles	Imports	108.0	13.3	12.7
	Exports	115.8	10.4	9.8
SITC9 – Commodities and transactions not classified elsewhere	Imports	114.8	0.2	0.2
	Exports	125.3	0.3	0.2

Source: ŠÚ SR (2026a).

SITC Category 8 – *Miscellaneous manufactured articles*, as the third most traded component, contributed more significantly to export growth in 2025, with a year-on-year increase of over 15%. This development may indicate a partial strengthening of higher value-added segments within the economy's industrial structure, although part of it is also linked to the dynamic export growth of the defence industry, which has been expanding substantially since the start of Russia's military invasion of Ukraine and particularly over the last two years.

In 2025, exports of arms and ammunition reached as much as EUR 2.4 billion, corresponding to 2.2% of total exports (ŠÚ SR, 2026a). The Slovak defence industry continued to benefit from high foreign demand for this output. Compared to the previous year, exports of arms and ammunition

more than doubled for the second consecutive year,¹³ reaching their highest level since at least 2010, when these data first became available (Figure 5.6). This trend is linked to the military conflict in Ukraine and the efforts of EU countries to build up their stocks of military equipment and ammunition.¹⁴ At the same time, it should be added that imports in this category have also been growing in recent years, albeit at a slower pace than exports, as documented by the aforementioned figure.

Figure 5.6

Exports and Imports of Arms and Ammunition (billion EUR)



Source: based on ŠÚ SR data (2026a).

In recent years, exports of arms and ammunition have been driven primarily by deliveries to the Czech Republic¹⁵ and Ukraine (TrendEconomy, 2026). Overall, exports within SITC Category 8 to the Czech Republic increased by more than a third year-on-year in 2025, having also grown at a double-digit pace in previous years (ŠÚ SR, 2026a). The dynamic growth in ammunition exports thus acted as a partial stabilising factor for Slovakia's total exports in 2025, amid the weaker performance of key sectors, particularly the automotive industry.

¹³ Had ammunition exports in 2025 remained at the value recorded in the previous year, export growth in SITC Category 8 would have been 10 p.p. slower year-on-year, total Slovak exports would have grown nearly 1 p.p. slower, and the trade balance surplus would have been significantly lower.

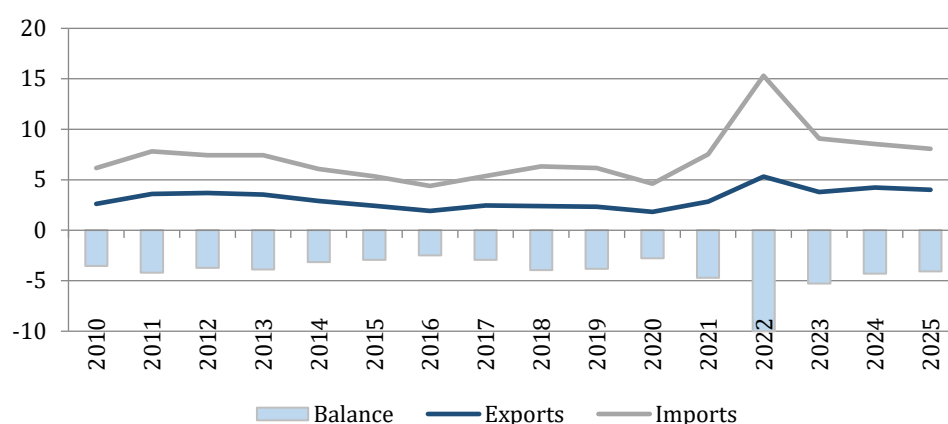
¹⁴ Ammunition production in Slovakia has the potential to grow in the coming years, thanks to the joint ammunition purchase plan among EU countries under the SAFE (Security Action for Europe) programme, which aims to support the defence capabilities of Union member states (CZDEFENCE, 2026).

¹⁵ A significant part of these exports is linked to integrated production and supply chains and subsequent re-export to third countries.

In 2025, a certain stabilising factor was also the slowdown in energy imports during the second half of the year, which helped maintain the trade balance surplus at the level of the previous period. The energy balance deficit reached its lowest value in the last five years (Figure 5.7). The year-on-year decline in both exports and imports within SITC Category 3 was primarily driven by a further drop in energy commodity prices following their previous extreme values in 2022 – 2023, as well as a lower physical volume of gas imports (including the gradual reduction of supplies from Russia) and weaker energy demand in European industry. On the export side, changes in the exemption regime for Russian crude oil imports also partially manifested, affecting processing volumes and the subsequent export of petroleum products.

Figure 5.7

Foreign Trade in SITC Category 3 (billion EUR)



Source: based on ŠÚ SR data (2026a).

EU Exports Stabilising Total Export Performance

In contrast to the decline in Slovak exports to the US and China, exports to the EU increased by 4.6% year-on-year in 2025 (ŠÚ SR, 2026a). This growth was mainly supported by SITC Category 7 – *Machinery and transport equipment*, within which an even faster momentum was recorded (5.6%). Slovak exports to the Union were also stimulated by the fiscal package that Germany began implementing in 2025 to revive its

economy. Among the most significant trading partners within the EU, exports grew particularly to the Czech Republic (6.5%), driven mainly by SITC Category 8 – *Miscellaneous manufactured articles* (37%). A positive year-on-year change in exports (nearly 12%) as well as in exports within the clearly dominating SITC Category 7 (over 14%) was also achieved by the UK, which, however, is the destination for a significantly lower volume of Slovak exports compared to the Union.

A different situation was observed in Slovakia's major export markets outside the EU. Total exports from Slovakia, as well as exports within the most traded SITC Category 7, recorded a year-on-year slump both in the case of the US (by approximately 20%) and China (by nearly 30%).¹⁶ Slovak exports to the US were dampened by the tightening of that country's trade policy. The United States significantly increased tariffs (25% on automobiles, which constitute the majority of Slovak exports to the US) in the spring of 2025, with Slovakia being among the hardest-hit EU member states due to the structure of its exports.¹⁷ Following an EU-US agreement reached in August 2025, the tariff was subsequently reduced to a uniform level of 15%, which, however, only mitigated the impact on the Slovak economy. The most pronounced year-on-year drop was recorded in September, when total exports to the US fell by 40% and within SITC Category 7 by as much as a half (Figure 5.8).

In the case of China, a significant role is played by the dynamically growing competition from local carmakers (with aggressive pricing strategies and the advantage of vertical integration) and the associated loss of market share by European countries, including Slovakia, in the Chinese market, coupled with softening consumer demand for European vehicles.¹⁸ Although Slovakia's exports to China represent only about a half of its exports to the US, they are even more heavily concentrated in the

¹⁶ A decline in exports, albeit milder, had already been recorded for both countries in 2024, which was in contrast to the previous period (ŠÚ SR, 2026a).

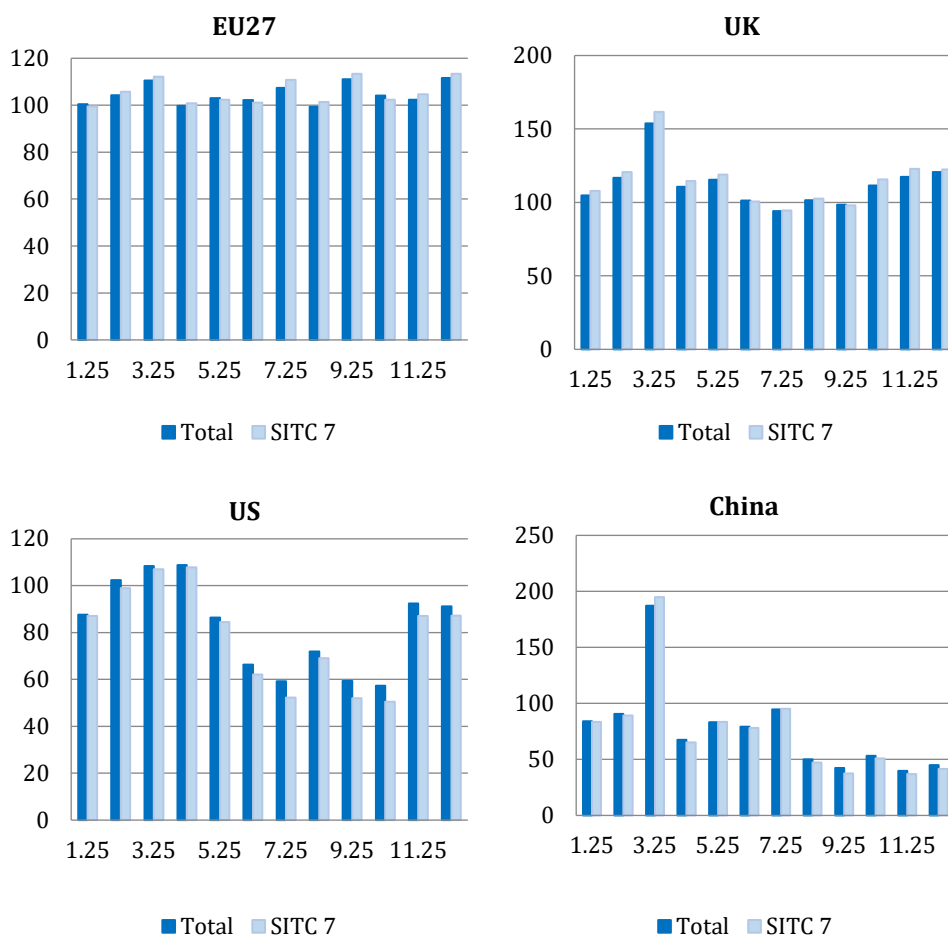
¹⁷ The share of SITC Category 7 in Slovak exports to the US has exceeded 80% for several years, representing by far the highest share among the V4 countries (Šikulová, 2025).

¹⁸ As stated by Žúdel, Kubas and Hojdan (2026), over the course of five years, China turned from a net importer of cars into a net exporter, with a market share in global automotive trade equal to that of Japan. While Chinese carmakers held over a third of the domestic market before the pandemic, they currently account for nearly two-thirds.

automotive industry, as documented by Figure 5.9. As shown in Figure 5.8, exports to China slumped more significantly, particularly in the second half of the year. Year-on-year, they increased only in March, not as a result of more dynamic export growth in 2025, but due to the base effect of the low export value recorded in March 2024.

Figure 5.8

Year-on-Year Changes in Exports to the EU, UK, US and China (2025/2024, %)



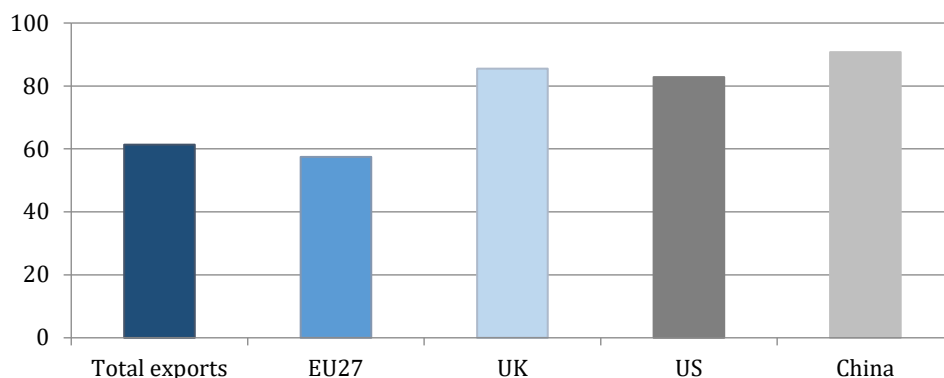
Source: based on ŠÚ SR data (2026a).

It can therefore be stated that in 2025, demand for Slovak production in several EU countries managed to compensate for the significant declines in exports to the US and China. This development is linked to several

factors. On the one hand, the EU's share in Slovak exports is substantially higher than the shares of non-European countries (Figure 5.10).¹⁹

Figure 5.9

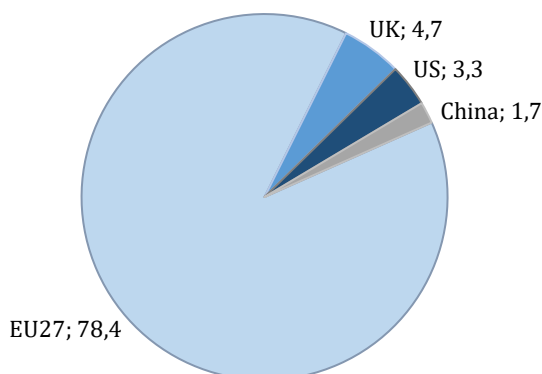
Share of SITC Category 7 in Total Exports and Exports to Key Countries in 2025 (%)



Source: based on ŠÚ SR data (2026a).

Figure 5.10

Share of Key Trading Partners in Exports in 2025 (%)



Source: based on ŠÚ SR data (2026a).

This also applies to exports within SITC Category 7 alone, a sector that heavily dominates trade with the EU, the US and China alike, as documented by Figure 5.11, which captures the monthly dynamics in 2025.

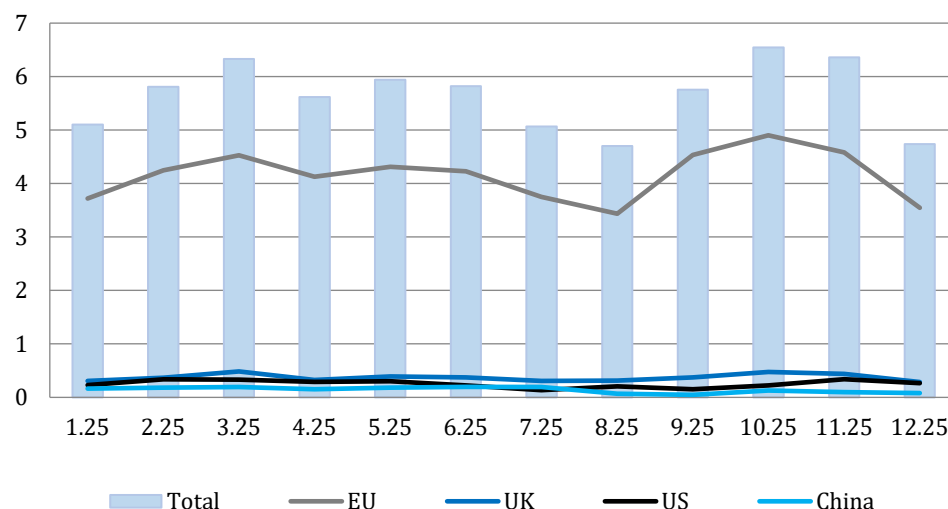
¹⁹ Given the year-on-year increase in Slovak exports to the EU and their decline to non-European markets, the EU's share in total exports increased in 2025, approaching 80%, whereas in previous years it had stood at approximately three-quarters (ŠÚ SR, 2026a).

It is clear from the chart that the demand from EU countries (especially Germany²⁰) has a key influence on the development of Slovak exports in this category; therefore, even more pronounced year-on-year fluctuations in exports to non-European markets have only a limited impact on the overall export dynamics. However, this does not mean they are negligible from a long-term development perspective, as the declines in demand in the US due to tariffs, as well as in China due to strong domestic competition, represent factors that will in all probability persist in the coming years.

In 2025, the unprecedented increase in US tariffs was expected to have a negative impact on Slovakia not only directly (which is already manifesting) but also (and especially) indirectly, through Slovakia's integration into global trade chains. Given that a significant part of the Slovak automotive sector's output is destined for the US indirectly via Germany, or via the Czech Republic and subsequently Germany, it was anticipated that exports to these countries, and thus to the EU as a whole, would also decline. However, as documented by Figure 5.8, exports to the EU (both overall and within SITC Category 7) grew year-on-year throughout the period.

Figure 5.11

Monthly Trend of Exports in SITC Category 7 in 2025 (billion EUR)



Source: based on ŠÚ SR data (2026a).

²⁰ Nearly three-quarters of Slovak exports to Germany are represented by SITC Category 7 – *Machinery and transport equipment* (Šikulová, 2025).

This development suggests that in 2025, Slovak exports still benefited from the lagged effects of global demand and the functioning of European supply chains, as contracts are concluded several months in advance, and therefore the impacts of trade shocks may not manifest immediately. At the same time, however, final exports outside the EU (especially from Germany) were already performing less favourably. Slovak exports of coachwork, as well as electrical and electronic equipment for motor vehicles, grew faster than vehicle exports (ŠÚ SR, 2026a). Concurrently, demand from the EU may have also been positively influenced by a front-loading effect (Inštitút finančnej politiky, 2026).

Going forward, however, such a development poses a high risk to several EU member states and to Slovakia in particular, whose economy is heavily concentrated in the automotive industry. A certain correction can already be expected in 2026, as weaker external demand from outside the EU is likely to gradually translate into a lower level of orders within European supply chains, and consequently into a weakening of orders from Germany.²¹

The risk to the Slovak economy is further increased by ongoing rationalisation measures and the optimisation of production capacities within automotive concerns operating in Slovakia, which increase competition among individual production plants when deciding on the allocation of future models. Maintaining the current position of the automotive industry will therefore depend both on the ability of local plants to succeed in this intra-concern competition, as well as on the competitiveness of the manufactured models and the demand for them in key export markets.

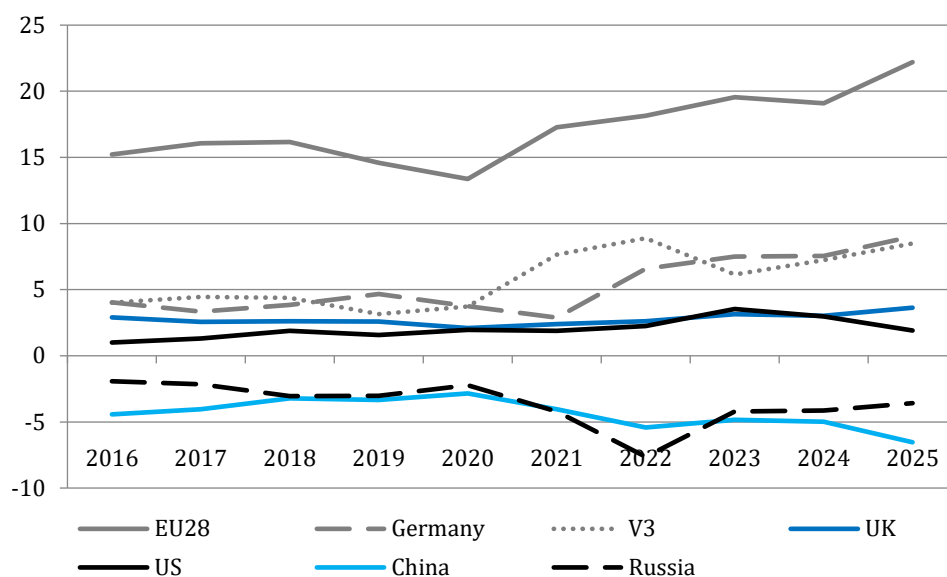
On the other hand, Slovakia's imports from EU countries in 2025 increased by only 2% year-on-year, whereas imports from the US rose by as much as 17% and imports from China by 11% (in both cases driven mainly by SITC Category 7). Combined with the drop in exports of Slovak production to these non-European markets, this led to a deterioration of the trade balance – the surplus with the US fell to levels from several years ago, and the deficit with China widened to a historically high value of EUR 6.5

²¹ In the first five months of 2026, exports within SITC Category 7 had already stagnated year-on-year (ŠÚ SR, 2026b).

billion (Figure 5.12). Conversely, the trade balance surplus with the EU increased significantly compared to the previous year. Within the EU, this development was mainly driven by trade with Germany and the V3 countries (the Czech Republic, Hungary, and Poland).

Figure 5.12

Trade Balance with Key Trading Partners (billion EUR)



Source: based on NBS data (2026b).

Slovakia recorded a milder foreign trade deficit with Russia in 2025 (EUR 3.6 billion), representing the third-highest trade deficit after China and Korea (EUR 4.7 billion). The lower deficit with Russia was linked to a decline in the value of imports in the second half of the year (by 13% year-on-year), while exports remained negligible (less than 0.2% of total Slovak exports). In the dominant SITC Category 3 – *Mineral fuels, lubricants and related materials* alone, imports from Russia decreased by 14% year-on-year, while total Slovak imports in this category fell by just under 6%. This development reflects Slovakia’s declining dependence on energy commodity imports from Russia. This is also confirmed by the trend in Russia’s share of total imports within SITC Category 3, which decreased from over 48% in 2024 to just below 45% in 2025.

The Position and Potential of India and Mercosur Countries in Slovakia's Foreign Trade

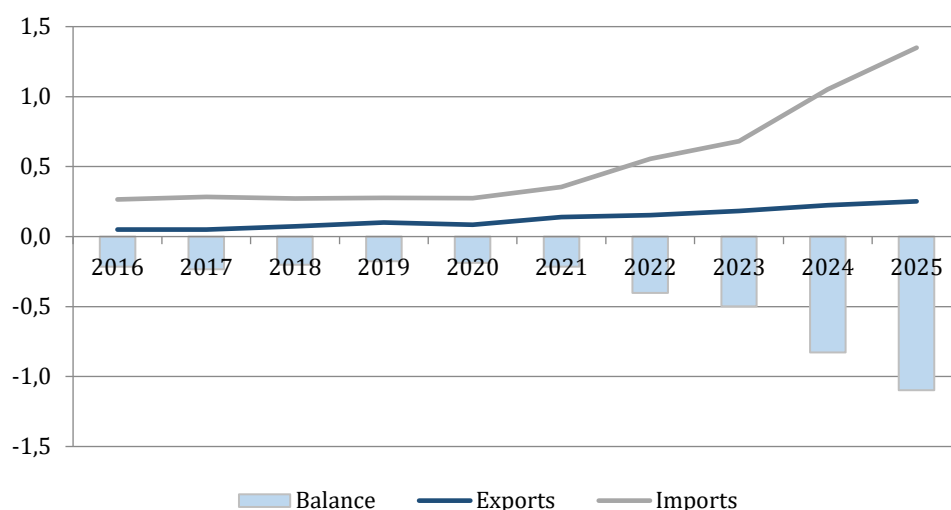
Given developments on global markets and in particular the decline in exports to the US and China, Slovakia is increasingly forced to seek new export markets, especially for the output of the automotive industry. From this perspective, India and South American countries (*Mercosur* – Argentina, Brazil, Paraguay and Uruguay) represent prospective destinations.

In January 2026, several years of negotiations on a free trade agreement between the EU and India were concluded (European Commission, 2026).²² This agreement is expected to bring a significant reduction in tariffs, particularly in the automotive industry (but also in the agri-food, engineering, chemical, and pharmaceutical sectors) – in the case of cars, gradually from the current more than 100% to approximately 10%, while tariffs on automotive parts should be phased out over a five- to ten-year horizon (currently standing at over 30%). For Slovakia, as an economy heavily concentrated in the automotive industry, this could represent an opportunity for the territorial diversification of exports, provided that competitiveness is maintained.

As documented by Figure 5.13, Slovakia runs a trade deficit with India, which has been widening over the past five years due to imports from India growing faster than exports of Slovak production to the Indian market. In 2025, exports to India accounted for 0.2% of total Slovak exports, while imports from this country represented 1.2% of total Slovak imports. Exports are dominated by the output of the automotive and engineering industries, whereas imports consist mainly of electronics. The free trade agreement creates space for further growth in mutual trade; however, given the country's low costs and strong manufacturing base, imports from India may grow at a faster pace than Slovak exports to India, which could lead to a further widening of Slovakia's trade deficit.

²² The free trade agreement between the EU and India is currently undergoing legal review, and following its adoption by the Council, it can be signed by both parties. Subject to the consent of the European Parliament and ratification by India, the agreement can then enter into force.

Figure 5.13
Slovakia's Trade with India (billion EUR)



Source: based on ŠÚ SR data (2026a).

In December 2024, after more than two decades of negotiations, the EU reached a political agreement on a trade deal with the Mercosur bloc. The agreement was signed in January 2026 and is currently undergoing the ratification process, though its trade component may be applied on a provisional basis prior to its official entry into force.²³ Its objective is to strengthen economic cooperation and unlock new export opportunities. For Slovakia, the potential lies primarily within the automotive, engineering, and electrical industries, which could help reduce dependency on demand from countries such as the US and China. At the same time, however, the agreement also poses challenges for the European agri-food sector, including that of Slovakia.

Given the industrial and export-oriented nature of the Slovak economy, the agreement is expected to have an overall positive effect for Slovakia. Currently, for example, tariffs of up to 35% apply to car imports from the EU into Mercosur countries, which should be gradually reduced or phased

²³ The free trade agreement between the EU and the Mercosur bloc entered into provisional application on 1 May 2026 (European Council, Council of the European Union, 2026). The agreement has not yet been approved by the European Parliament, which decided in January to request an opinion from the Court of Justice of the EU to assess its conformity with the EU Treaties.

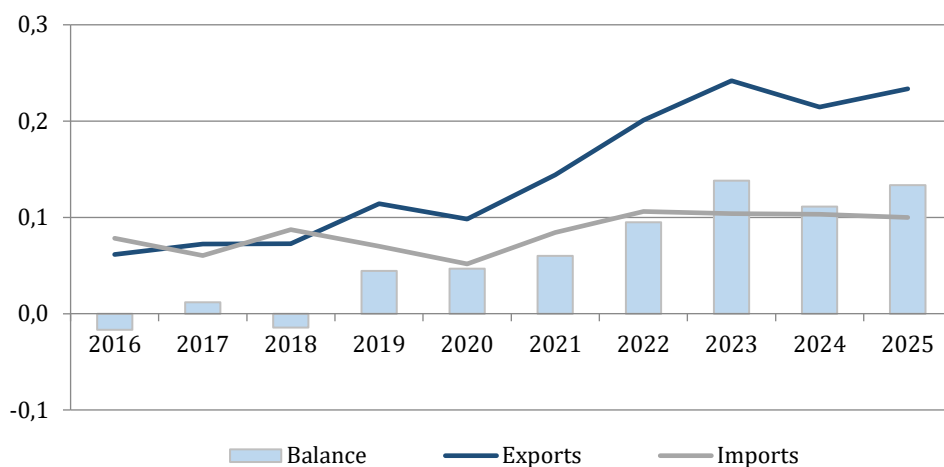
out completely once the agreement is approved. More significant effects can only be expected over a longer time horizon, probably after more than ten years.

Among the Mercosur countries, Slovakia has by far the strongest trade links with Brazil, which, similarly to India, received 0.2% of Slovak exports in 2025,²⁴ with its volume doubling over the past five years. It consists mainly of exports from the automotive, engineering, and electrical industries. However, imports from Brazil are negligible (0.09%, primarily raw materials and agricultural products), which means a trade surplus for Slovakia with this country (Figure 5.14). Currently, Slovakia registers only a very low volume of trade with the other Mercosur countries.

From the perspective of the Slovak economy, the upcoming agreement with India offers greater potential, particularly given the market size, growth dynamics, and demand for higher value-added industrial products. The agreement with the Mercosur bloc is likely to yield more gradual and moderate effects, as its members are predominantly commodity-oriented economies with lower demand for Slovakia's sophisticated industrial exports.

Figure 5.14

Slovakia's Trade with Brazil (billion EUR)



Source: based on ŠÚ SR data (2026a).

²⁴ This share is comparable, for instance, to that of individual Baltic economies.

Behind the overall favourable development of foreign trade in 2025 'hide' several structural risks. The automotive industry, as a long-standing pillar of Slovak exports, faces weaker global demand, international trade disruptions, rising competition from China, as well as challenges associated with the transition to electromobility, including the retooling of production lines for new models. Although the automotive sector continues to maintain its dominant position in Slovak exports, its growth is slowing down and its weight will likely gradually decrease. From the perspective of future production developments, especially after 2028, securing new models will be crucial for Slovak carmakers, which is becoming an increasingly demanding challenge given rising competition, cost pressures and technological transformation.

The economic policy response of the Slovak Republic has so far been directed primarily towards supporting the transformation of the automotive industry and attracting new investments, but less towards the systematic diversification of the export and industrial structure. A risk therefore remains that Slovakia will continue to be heavily dependent on a single dominant sector, with its competitiveness largely driven by the decisions of global automotive groups.

Over the course of 2026, a positive impact is expected from the gradually reviving investment demand in Europe, as well as the fiscal stimulus in Germany, though its effect in Slovakia is likely to be felt only to a limited extent. At the same time, rising EU defence spending continues to support production in the defence sector, manifesting in further growth of its exports. In addition, the launch of the fourth block of the Mochovce nuclear power plant in 2026 should contribute to an increase in electricity exports, reinforcing Slovakia's position as a net exporter of electricity. On the other hand, in 2027, the restart of the Slovalco aluminium plant could lead to a significant increase in domestic electricity consumption (Energieportal, 2026).

A significant risk (not only) for foreign trade, however, is posed by demand trends among major trading partners,²⁵ particularly Germany, which faces economic difficulties, as well as geopolitical tensions in the Middle East. This could once again lead to fluctuations in energy commodity prices to varying degrees depending on the duration of the conflict, thereby significantly affecting both the energy balance and foreign demand for Slovak production. Market diversification (including leveraging opportunities arising from new trade agreements), supporting higher value-added sectors, as well as reducing energy intensity and strengthening energy self-sufficiency are thus becoming a strategic necessity for Slovakia.

²⁵ In its baseline scenario, the National Bank of Slovakia (NBS, 2026a) assumes that foreign demand (especially for automobiles) will continue to grow in 2026 and will be the main driver of growth.

6. BUSINESS ENVIRONMENT IN THE SR IN 2025

Failure to Address Chronic Problems, the First Signs of an Acute Deterioration in Economic Performance

The chapter on the business environment in the Slovak Republic for 2025 provides an overview of the current state, dynamics and prospects of the business environment in the Slovak Republic. Based on official statistical data from the Statistical Office of the Slovak Republic, surveys of business organizations, international measurements by Eurostat and OECD comparisons, as well as data on foreign direct investment and public support, it assesses whether the subjective sentiments of companies correspond to objective economic and statistical indicators. The chapter also compares developments in the Slovak Republic with the V4 countries and the European Union average in order to provide a comprehensive picture of Slovakia's competitive position. According to the latest OECD *Foundations for Growth and Competitiveness 2026 analysis*, the Slovak Republic's economic convergence has lost momentum, productivity is growing more slowly due to declining foreign direct investment, weakening integration into global value chains and low innovativeness, which directly corresponds to the pessimistic sentiments of companies in 2025.

The entire chapter thus provides a comprehensive analytical basis for assessing whether the business environment in the Slovak Republic in 2025 supports growth, innovation and competitiveness of companies or whether it requires systemic changes at the level of institutions, regulations and support. The final part of the chapter contains a catalogue of indicative proposals for improving the institutional framework and conditions for entrepreneurship and for increasing the efficiency of state support.

Business Conditions Through the Eyes of Companies: Long-Term Deterioration

Economic Sentiment Indicator

The official Economic Sentiment Indicator (ESI) of the Statistical Office of the Slovak Republic showed significant volatility in 2025, with

a predominance of pessimistic tendencies, reflecting growing concerns about the impact of fiscal consolidation, rising energy costs, geopolitical uncertainty and weaker domestic demand. The seasonally adjusted ESI was below the long-term average of 100 points, which represents a neutral state of economic sentiment, for most of the year.

Key monthly data confirm the deterioration, especially in autumn 2025. In October, the ESI fell by 3.8 points month-on-month to 93.6 points, the lowest value since July 2023. The most significant deterioration occurred in industry due to the expected decline in production and orders, and was also partially reflected in services and consumers. At the end of the year, the ESI partially recovered to a level of around 106 points, but in January 2026 it fell again by 4.7 points to 101.9 points. The annual average for 2025 was below 100 points and was lower than in 2024, when the ESI, for example, peaked at around 103 – 105 points in June 2024. At that time, it showed a more stable positive trend thanks to the post-pandemic recovery. Compared to the pre-pandemic average of 2015 – 2019 at 100 – 102 points, it lagged behind by 3 – 8 points in the long term. In January 2026, the ESI was 4.5 points lower than in January 2025 and lagged behind the long-term average by 8.3 points. In international comparison (Eurostat, 2025) Slovakia lagged behind the EU average, as the euro area ESI was around 96 – 98 points at the end of 2025. Even within the V4, Poland and the Czech Republic achieved better results thanks to stronger domestic demand. Industry and fiscal policy had a negative impact in particular. Sentiment was consistently more pessimistic in the Slovak Republic than in the core euro area countries, which can be attributed to the threats facing industry in Slovakia and the specific setting of public finance consolidation, which mainly lacked pro-growth measures.

Results of Surveys of Employer and Business Organizations

The subjective pessimistic mood of companies is also confirmed by their own surveys and opinions of business and employer organizations. *Slovak Chamber of Commerce and Industry* (SOPK) conducted a survey in October and November 2025, which confirmed that companies expected stagnation in 2025 and a slight decline in 2026. Almost a third of respondents (approx. 32%) forecast a decline in turnover and sales, and

most companies expected stagnation in the number of employees, exports, investments and economic results. 57% of respondents expected an increase in the average wage, which was 9 percentage points less than in the previous survey. Up to 73% of companies assessed the business conditions in 2025 unfavorably, which was the worst result since 2010. In 2024, this was „only“ 44%. Only 2% of respondents rated the government's communication with businesses positively, which was the worst result since 2012. The survey showed that companies perceived the following main risks: high tax and contribution burden, rising costs, and unpredictability of regulations.

The Business Alliance of Slovakia (PAS) – which continued to monitor the Business Environment Index (BEI) in 2025 – also confirmed the ongoing pessimism and expectation of stagnation instead of growth. The PAS index has long signaled dissatisfaction with the quality of the business environment, when compared to the reference year it is below 50% of the 2010 level. PAS has repeatedly criticized the deterioration in the predictability of regulations, administrative burdens and new taxes, e.g. transaction tax from April 2025. Entrepreneurs associated with PAS pointed out the growing cost pressure and chronic shortage of qualified labor, which correlates with the decline in the BEI in autumn 2025. PAS emphasized that the subjective moods of companies are in line with objective statistics on the stagnation of SMEs and the higher number of entities going out of business.

The overall economic situation was assessed mostly negatively by foreign investors, which is also confirmed by *the German-Slovak Chamber of Commerce (AHK Slowakei)*, which carries out the Konjunkturumfrage, a regular survey among its member companies. This survey in March 2025 showed that the expectations of AHK member companies deteriorated for the second year in a row and reached the lowest levels since the crises of 2009 and 2020. Nevertheless, two thirds of the respondents, i.e. approximately 67%, would invest again in the Slovak Republic, which on the other hand signals their long-term confidence in the Slovak economy. The main problems that they have been drawing attention to for a long time most often include high taxes and levies, excessive regulations, poor

infrastructure and a lack of qualified labor. The results were worse than those recorded by German chambers of commerce in the Czech Republic or Poland.

Summary: subjective pessimistic sentiments of companies in surveys of business and employer organizations are also fully supported by the trends measured by the ESI from the Statistical Office of the Slovak Republic. The year was marked by volatility with a significant decline in October, an overall lag behind previous years and worse results than in the V4/EU. The main barriers remain high costs, regulations, tax burden and labor shortages – factors that hinder the growth and competitiveness of the Slovak Republic. These findings provide a solid basis for recommendations in the area of institutional reforms.

Disturbing Trends in Business Demographics

Number of Established and Closed Business Entities

According to data from the Slovak Business Agency (SBA, 2026) and the Register of Organizations of the Statistical Office of the Slovak Republic, over 25,000 legal entities, i.e. PLCs, JSCs, etc., were established in 2025. This represents a significant increase compared to 2024 with 20,684 entities established.

Table 6.1

Number of SME Creations (active and inactive) by Legal Form in the Slovak Republic (2017 – 2025)

Legal form	2017	2018	2019	2020	2021	2022	2023	2024	2025
Self-Employed	40.826	50.938	54.225	54.592	67.528	68.570	70 108	64.898	56.038
Liberal professions	2.460	4.021	5.289	5.532	4.989	5.188	4.842	4.798	4.827
Small Farmers*	456	490	230	310	250	353	222	199	199
Companies	21.662	22.626	25.139	22.739	19.771	20.490	21.957	20.684	25.034
TOTAL	65.404	78.075	84.883	83.173	92.538	94.601	97 129	90.579	86.098

Note: *SHR – self-employed farmers.

Source: SBA based on data from the Register of Organizations of the Office of the Slovak Republic.

However, as many as 7,893 business entities have disappeared. This is the highest number of disappearances since 2017, excluding the one-off effect of administrative deletions in 2021. In 2023, 5,674 business entities disappeared, and in 2024, 6,006. The trend of business entities disappearances has therefore been accelerating since 2023, which is mainly related to government consolidation measures and rising company costs.

Table 6.2

Number of Closed Business Entities (active and inactive) by Legal Form in the Slovak Republic (2017 – 2025)

Legal form	2017	2018	2019	2020	2021	2022	2023	2024	2025
Self-Employed	9 166	5.442	4.497	4.467	10.419	6.880	5.674	6.006	7.893
Liberal professions	618	4.856	5.518	3.745	4 164	4.041	4.378	4 201	4.678
Small Farmers*	560	453	328	304	285	258	328	338	457
Companies	42.255	41.417	45.754	39.132	36.856	45.542	47.164	50.425	63.192
TOTAL	52.599	52.168	56.097	47.648	51.724	56.721	57.544	60.970	76.220

Source: SBA based on data from the Register of Organizations of the Statistical Office of the Slovak Republic.

An even more negative development was recorded for natural persons – entrepreneurs. In 2025, over 56,000 trades were created compared to approximately 64,900 trades in 2024, which is the least since 2020. On the contrary, a record number of trades disappeared. While in 2024 over 50,000 trades disappeared, in 2025 it was already more than 63,000, which is the highest number ever in history. And this is the first time since 2017 that the number of disappeared trades is higher than the number of newly created trades.

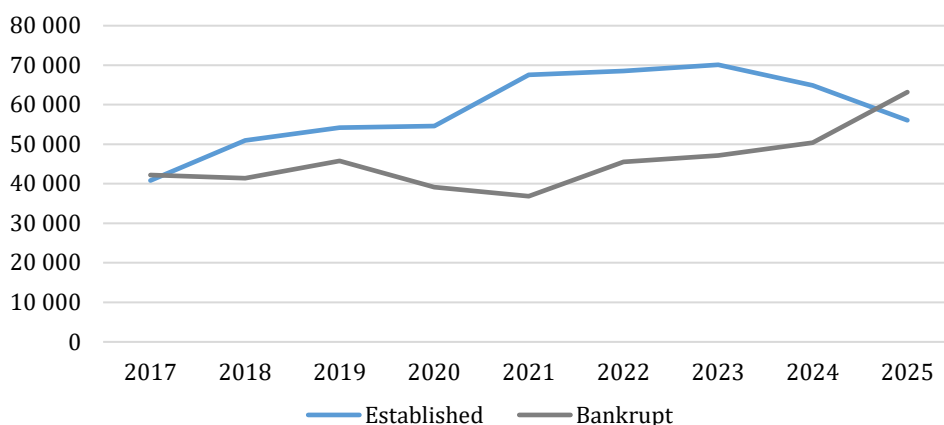
In a long-term comparison (2017 – 2025), the number of newly established businesses has been decreasing since 2023, while the number of disappearing businesses has been increasing since 2020. The largest number of business disappearances was in services, construction and retail. The total number of active business entities in the Slovak Republic has thus stagnated or slightly decreased.

These statistics on the creation and demise of companies confirm the subjective pessimistic moods of companies from the surveys mentioned

above. The deterioration of the domestic business environment and the global context has led to a relatively significant decline, especially among small entrepreneurs.

Figure 6.1

Development of the Establishment and Termination of Self-Employed in the Slovak Republic (2017 – 2025)



Source: SBA based on data from the Register of Organizations of the Statistical Office of the Slovak Republic.

Structure of Business Entities in the Slovak Republic by Size

According to data from the Statistical Office of the Slovak Republic and the SBA Report on the state of SMEs, the structure of business entities by size shows long-term stability. The share of micro-enterprises with zero to nine employees is around 96 – 97% of the total number of active entities. In 2019, it was 96.9%, and in 2024 a similar share. Small enterprises with 10 to 49 employees make up 2 – 2.4%, medium-sized enterprises with 50 to 249 employees only 0.5%, and large enterprises with more than 250 employees only 0.1%. In absolute numbers, in 2019, there were 595,371 active SMEs with up to 249 employees, with micro-entities dominating. According to available preliminary data from the SBA and the Statistical Office of the Slovak Republic, a similar proportion persisted in 2025.

The lack of growth dynamics, i.e. the absence of an increase in the share of enterprises employing more than 50 employees, is also confirmed by the time series of data from the SBA and the Statistical Office of the Slovak Republic for the period 2015 – 2025:

- 2015 – 2019: micro enterprises reach a stable 96 – 97%, medium-sized enterprises around 0.5%.
- 2020 – 2025: the share of medium-sized companies stagnates at 0.5%, there is no significant transition from micro/small to medium-sized („missing middle“).

In its analysis *SME and Entrepreneurship Policy in the Slovak Republic*, the OECD has long criticized the absence of the so-called „missing middle“, when the share of SMEs with 10 – 249 employees in Slovakia is significantly below the average of OECD and V4 countries. The dynamics of scaling companies are weak due to an unfavorable environment (regulations, access to financing, administrative burden). Within the V4, for example, the Czech Republic and Poland have a higher share of medium-sized companies, while Slovakia lags behind in both productivity and SME growth. The subjective pessimism of companies from surveys thus correlates with objective statistics. The missing dynamics hinders long-term economic growth. According to the OECD *Foundations for Growth and Competitiveness 2026*, productivity is growing more slowly precisely due to declining foreign direct investment, weakening integration into global value chains, and a low level of innovation.

Foreign Direct Investment in Slovakia in 2025

The attractiveness of the Slovak business environment is defined by the arrival of new foreign investors on the one hand and the departure of „old“ ones on the other. According to the SARIO Agency for the Promotion of Foreign Investment and Trade, in 2025 the agency closed 33 investment projects. Their total value exceeded 439 million euros, with an announced potential to create almost 3,300 new jobs. Of the 33 closed investment projects, 8 were created through the expansion of existing companies, which is a positive signal of investor confidence. Moreover, the projects focused on higher added value (technology centers, services, automotive). Compared to previous years, this is a solid result. The portfolio of projects in progress reached 4.9 billion euros. The main investors came from Germany, the USA and other EU and Asian countries. These data partially compensate for the pessimism of domestic companies, but the overall benefit of foreign direct investment also depends on maintaining existing

investments. However, the OECD *Foundations for Growth and Competitiveness 2026* points out that the long-term decline in foreign direct investment has contributed to the weakening of Slovakia's economic convergence.

Exact figures on the number of foreign investor exits, investment volumes and employees are not publicly available in aggregate form, but estimates indicate a minimal impact compared to arrivals. Available data and media reports indicate that there were no large-scale divestments or significant exits of foreign investors in 2025. The net FDI balance remained positive thanks to new SARIO projects, the overall FDI position remained positive, but partial production shifts occurred mainly in the automotive sector, which is a warning signal about the loss of competitiveness of car manufacturers within their groups due to the deteriorating conditions for doing business in the Slovak Republic.

The Condition of Companies Operating in the Slovak Economy Measured by Economic and Financial Indicators

According to Finstat, the sales of non-financial companies practically stagnated in 2025. While in 2024 they achieved growth of +0.7%, in 2025 it was +0.3%. Net profit decreased slightly (by approx. 1 – 2%). The ratio of profitable companies reached 63.7%, which is an increase from 62.5% in 2024 and 62.0% in 2023. There were 33.5% of companies in loss, which was a decrease from 34.7% in 2024. 2.8% of companies were at zero. Personnel costs grew faster than sales (+5%). EBITDA/sales remained below 10%.

The best results were achieved by industry and IT, not so good ones by services and trade. In the long term (2015 – 2025), the profitability of SMEs lags behind that of large companies, which confirms the structural problems of the business environment. According to the OECD *Foundations for Growth and Competitiveness 2026*, productivity in the Slovak Republic has weakened precisely due to subdued investment in fixed capital and a low level of innovation, which limits capital deepening compared to advanced economies.

These objective statistics fully confirm the subjective pessimistic moods of companies. Record numbers of closed businesses, lack of growth dynamics and stagnant corporate performance signal systemic barriers that require reforms.

Among the Conditions for Doing Business, Slovakia Lags the Most in the Quality of the Regulatory Framework

Legislative Framework for Business

The legislative framework for doing business in the Slovak Republic in 2025 and early 2026 was characterized by a high frequency of changes, which resulted partly from the transposition of European legislation, but mainly from domestic consolidation measures.

The intensity of legislative changes can be illustrated by the statistics of legislative activities of one of the employers' organizations: The Republic Union of Employers (RÚZ), as a mandatory consulting entity, processed a total of 103 positions on materials in the interdepartmental commenting procedure in 2025 and participated in 14 sessions of the Economic and Social Council of the Slovak Republic (ESC SR – 10 plenary and 4 per rollam). By the beginning of the processing of the report in 2026, the RÚZ submitted another 16 positions.

The most significant amended or proposed laws include those that transpose European regulations and directives:

- Amendment to the Energy Act (No. 259/2025), transposition of the reform of the electricity and renewable energy market;
- Amendment to the Electronic Communications Act (No. 297/2025), implementation of the Gigabit Infrastructure Act;
- Amendment to the Act on Environmental Impact Assessment (No. 269/2025), connection with POO REpowerEU;
- Amendment to the Public Health Protection Act (process not completed);
- Amendment to the Road Traffic Act (unfinished);
- Act on Sales Registration (eKasa) (No. 384/2025) (not yet completed);
- Amendment to the Water Act (unfinished);
- Amendment to the VAT Act (No. 385/2025) mandatory electronic invoicing from 2027;
- Amendment to the cadastral law (unfinished);
- Law on equal pay for men and women (unfinished);
- New Civil Code – the largest number of comments (280), unfinished);
- Amendment to the Act on Energy Efficiency of Buildings (unfinished);

- Amendment to the Act on AI and Data Regulation (unfinished);
- Amendment to the Building Act (No. 25/2025) (unfinished).

This extensive legislative hurricane (dozens of amendments per year) reflects the effort to modernize and fulfill EU obligations (energy transformation, digitalization, data protection), but at the same time reduces the predictability of the business environment. According to the OECD Regulatory Policy Outlook 2025, the Slovak Republic continues to conduct ex post evaluations of regulations with an emphasis on administrative burdens, but the frequent use of fast-track legislative procedures and insufficient consultations with entrepreneurs limit the quality of the legislative framework. Compared to the V4 (especially the Czech Republic and Poland), the Slovak framework is less stable, which is also confirmed by the above-mentioned surveys. The OECD *Foundations for Growth and Competitiveness 2026* adds that frequent changes to legislation increase uncertainty and undermine the stability of the business environment.

One of the biggest negatives when introducing changes in the business environment is the fact that a significant part of them, for example changes in taxes and levies related to the consolidation of public finances, is not on the above list because the government did not submit them for public discussion or comment, so the entities concerned could not even comment on them.

Regulatory and Administrative Burden on Business

Regulatory and administrative burden remains one of the most serious barriers to doing business in Slovakia. In 2025, companies had to respond to dozens of fundamental changes, which documents the high intensity of regulation. The OECD in its Regulatory Policy Outlook 2025 states that although Slovakia declares an effort to reduce administrative burden, in reality new requirements dominate (electronic invoicing from 2027, digital reporting in real time, mandatory authentication in the cadastre, extended EIA for RES and infrastructure).

Compared to the EU and the V4, Slovakia lags behind in the rankings of regulatory quality, whether in the renewed assessment of the quality of the business environment by the World Bank (WB Business-Ready index, 2025) or the OECD (OECD, 2025). New obligations from the Green Deal,

REpowerEU or digital acts (AI Act, gigabit infrastructure) increase the so-called compliance costs, i.e. the costs of harmonizing operations with new legislative requirements, especially for small and medium-sized enterprises. However, this applies to all EU member states. Slovak companies have long been warning about „gold-plating“²⁶ when adopting European regulations and the insufficient application of regulatory impact analyses such as RIA tools.²⁷ Overall, the regulatory burden increased in 2025, which directly correlates with the pessimistic mood of companies in surveys. According to the OECD (OECD, 2026) the key barriers to growth remain high perception of corruption – with 84% of companies in 2022 considering corruption widespread, compared to an EU average of 63% – and low trust in the independence of the judiciary; lack of a dedicated framework for lobbying and enforceable sanctions for inappropriate lobbying practices.

Business Costs

The costs of doing business increased significantly in 2025 due to fiscal consolidation and inflation. According to OECD Taxing Wages 2025, the tax wedge for the average self-employed worker increased to 42.6% from 41.7% in 2023. This is the 7th highest value in the OECD. The increase in corporate income tax from 21% to 24%, the introduction of a transaction tax and the growth of VAT contributed to higher costs. Energy costs for businesses also remained above average compared to the EU, at times around 13% above the EU average, although households were more heavily subsidised.

Unit labour costs, according to Eurostat, reached 122.43 points in December 2025. Total personnel costs of companies grew 5% faster than sales. Compared to the V4, Slovakia has a higher tax and contribution burden on labor, which is also confirmed by employer surveys. The OECD warns that these costs, together with administration, hinder investment and SME growth (OECD, 2025).

²⁶ Additional requirements made by Slovak officials in transposing EU legislation.

²⁷ Regulatory Impact Assessments. The government has approved its own methodology for assessing the impacts of adopted legislation, which all ministries should follow, but there are many shortcomings in its application.

Quality and Availability of Physical Infrastructure and Workforce

Physical infrastructure is gradually improving thanks to EU funds and projects financed from the Recovery and Resilience Plan, but it still lags behind the EU average. According to the Global Innovation Index 2025, Slovakia reached 37th place in infrastructure (WB, 2025), which is an improvement compared to the previous ranking, but in digital infrastructure it remains below the EU average in terms of broadband or 5G coverage, especially in rural areas. The OECD emphasizes the need for full implementation of the National Broadband Plan to ensure ultra-fast internet for all households by 2030 (OECD, 2026). Amendments to the Energy and Construction Act from 2025 are intended to accelerate the construction of RES and infrastructure, but implementation is slow and administratively demanding. Compared to the Czech Republic and Poland, not only Slovakia's energy infrastructure is less developed, but also its transport infrastructure, which increases logistics costs for companies.

The workforce remains a critical bottleneck. According to the Cedefop Skills Forecast 2025 and the OECD Employment Outlook 2025, workforce growth is limited by demographics, a decline in the number of people aged 25 to 44, as well as low participation. Unemployment hovered around 5.4 – 5.6% (Eurostat, 2025), but a chronic shortage of skilled workers in technical and digital professions persists, especially in mechanical engineering, automotive, and IT. The so-called skills mismatches are higher than the OECD average, and therefore companies are increasingly importing foreign labor. Compared to the V4, Slovakia has a lower participation rate and worse results in terms of adult literacy. Companies have long warned that the shortage of labor, together with high wage pressures – wage growth by 5 to 7% – is worsening Slovakia's competitiveness. Persistent „skill mismatches“ are hampering productivity and employment; higher education institutions have poor international rankings, low research performance and limited relevance to the labour market. This is compounded by other shortcomings in terms of the quality of the workforce: low participation of adults in lifelong learning, low employment of mothers with young children and a high gender pay gap. The OECD points out that these problems are linked to a lack of affordable childcare and excessively long parental leave, which is four times longer than the OECD average.

Changes to the institutional framework for business in 2025 brought more regulations overall than simplifications. They brought more measures that resulted in increasing the costs of doing business, not reducing them, which objectively supports the pessimistic sentiments of companies from surveys. Without a systemic reduction in administrative burden, stabilization of legislation, and solutions to infrastructure and labor, Slovakia will continue to lag behind the V4 and EU averages in terms of the attractiveness of the business environment.

The Effectiveness of State Support Instruments Is Questionable

Public Procurement in 2025 and the Competitiveness of the Slovak Economy

Public procurement (PP) is an important tool for state support of entrepreneurship and increasing the competitiveness of the Slovak Republic, especially through the Recovery and Resilience Plan (RRP) and European Structural Funds. According to preliminary statistics from the Public Procurement Office (PPO) and the SME Status Report for 2024 (with trends extended to 2025), the volume of public procurement in 2025 significantly exceeded the level of previous years thanks to the increased use of funds from the PPO and the Slovakia 2021 – 2027 Programme. The total number of tender procedures, above-threshold and below-threshold contracts, is estimated at tens of thousands. Their total volume increased by tens of percent compared to previous years. Detailed aggregated data for the entire year 2025 is part of the Report on the Activities of the PPO, published in early 2026. IT and digital technology segments dominated, namely support for cybersecurity, eGovernment and digitalization of public administration. Transport and infrastructure also had a significant share in public procurement, specifically the construction and modernization of roads, railways and charging stations for electromobility. Together with green projects – RES, energy efficiency of buildings – and healthcare, these segments together accounted for over 60% of the public procurement volume, which directly supported domestic SMEs and foreign investments in areas with higher added value.

In a long-term comparison of the last 10 years, the volume of public procurement in 2016 – 2025 showed stable growth, increasing from approximately EUR 4 – 5 billion per year in 2016 – 2019 to over EUR 6 – 8 billion in 2023 – 2025. The reason for this acceleration after 2020 was mainly new financial resources from the Recovery and Resilience Plan, which did not exist before 2020. The 2024 public procurement reform also accelerated processes and increased the limits of sub-threshold contracts. The share of green public procurement gradually increased in line with the EU goal of achieving at least 70% of the financing share of this type of project. The incentive effect on domestic companies was limited both according to surveys among entrepreneurs and according to international comparisons. The key problem of public procurement is that their efficiency continued to lag behind the EU average. Complaints about long deadlines, high corruption risks and low competition in some segments persist.

Nevertheless, in 2025, public enterprises represented a significant source of financing for business activities, especially in IT and transport, where they supported employment. Compared to the Czech Republic and Poland, Slovakia had a lower share of SMEs in public enterprises, which points to the need for further reforms.

Investment Incentives

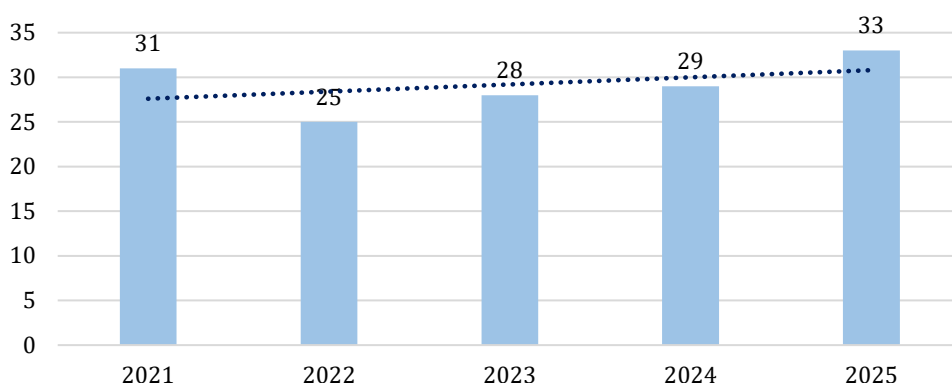
Investment incentives provided through the Ministry of Economy of the Slovak Republic and the Slovak Agency for Investment and Trade Development (SARIO) in 2025 confirmed an increase in the share of foreign direct investment (FDI) with higher added value in total foreign direct investment. In 2025, SARIO concluded 33 investment projects with a total volume of more than EUR 439 million with the potential to create almost 3,300 new jobs, which represents an increase of 17% compared to 2024. Of these, 7 projects supporting technology centers, shared service centers, or ICT had significant potential for higher added value. The projects were implemented mainly in the automotive, pharmaceutical, electrical engineering, mechanical engineering, IT and chemical industries. From a regional perspective, 27% of the supported projects were investments in eastern Slovakia and 21% in central Slovakia, including the least developed

districts supported by the Just Transition Fund. The main investors came from China, South Korea, Ukraine, France, the USA, Germany and other EU countries. The portfolio of projects under development reached EUR 4.9 billion with the potential to create almost 14,900 jobs. Only 5 projects approved for investment incentives were domestic businesses, which is a chronic problem that needs to be paid increased attention.

The number of closed projects has gradually increased since 2022.

Figure 6.2

Number of Investment Projects Completed by SARIO in 2021 – 2025



Source: SARIO.

In total, from 2001 to 2025, SARIO supported over 720 projects with a volume of over 18.1 billion EUR and over 154,000 new jobs. The year 2025 represented a solid result in the context of fiscal consolidation and global uncertainty. In the case of 8 projects, the incentives focused on the expansion of existing investments and diversification in an effort to support electromobility, the drone economy, or data centers. Compared to the V4, the Slovak Republic achieved a lower number of projects per capita, but better quality with a higher emphasis on creating added value. The government's success in attracting foreign investors has improved thanks to the stability of incentives, which include tax breaks or subsidies for regional aid. However, the overall benefit depends on maintaining existing investments and addressing structural barriers such as excessive regulations and labor shortages. Their failure to address them has contributed to Slovakia ceasing to be an attractive destination for FDI, as

evidenced by the decline in total FDI, i.e. not only those that were provided with investment incentives, but all foreign investments that came to Slovakia even without fiscal incentives, which has contributed to the weakening of the Slovak Republic's economic convergence.

Super Deduction for Research and Development

The super deduction for research and development costs under Section 30c of the Income Tax Act²⁸ proved to be an attractive and stably used tool for supporting innovation in 2025. The Slovak Financial Administration registered approximately 550 tax entities that claimed the deduction in a total volume of approximately EUR 274 million. The expected savings on income tax at a 21% rate reached around EUR 57.5 million. The share of companies using the 100% super deduction rate reached over 55%. The purpose of the deductions was mainly focused on IT and digital technologies, automotive,²⁹ mechanical engineering, pharmaceutical industry and chemical industry. The projects included the development of new products, software solutions and process innovations with an emphasis on higher added value and export potential.

In a long-term comparison over the past 10 years, the superdeduction has seen a significant increase as a tool sought after and used by an increasing number of companies. While in 2015 only a few dozen companies with a volume of tens of millions of EUR used it, in 2023 – 2025 the number of entities steadily exceeded 500 and the volume of deductions increased to more than 270 million EUR per year, which is an increase of more than 300% compared to the beginning of the period. The reduction of the rate from 200% to 100% from 2022 did not have a negative impact thanks to the simplification of conditions and the extension of the deduction period in the event of a loss to 5 years. Compared to the V4 and the EU, the tool is competitive, but its use remains concentrated in medium and large companies, with SMEs accounting for only a smaller share. The attractiveness for companies is growing due to the direct impact on cash flow and competitiveness. According to analyses by CRIF and the Financial

²⁸ Based on tax returns for the 2024 tax period processed as of October 2025.

²⁹ Especially electromobility.

Administration, it correlated with the growth of corporate investments in science and research. However, according to many international comparisons (eg. OECD, 2026), Slovakia lags behind in innovation performance. This is evidenced by low patent activity and overall low spending on R&D, relatively low investments in ICT and a low adoption rate of advanced digital technologies such as cloud, AI, or big data. especially among SMEs. The super deduction would benefit from simplification of documentation and wider involvement of SMEs in the future.

Business support instruments in 2025, i.e. PPs, investment incentives and super deduction, have the potential to contribute to increasing the competitiveness of the Slovak Republic, especially in areas with higher added value and innovation. However, harnessing their potential requires greater efficiency, better coordination, reduced administrative burden and greater emphasis on domestic SMEs in line with OECD and EU recommendations.

* * *

The analysis of the business environment in the Slovak Republic for 2025 shows that the subjective pessimistic moods of companies from surveys fully correspond to objective statistical data. The indicator of economic sentiment of the Statistical Office of the Slovak Republic was below the long-term average for most of the year, the number of defunct entities reached record levels, especially in trades, the weak dynamics of SME growth in 2025 also confirmed the OECD's long-term criticism of the „missing middle“, company sales stagnated and the regulatory burden, together with the growing costs of doing business, further worsened competitiveness. Although state support instruments such as public procurement, investment incentives and super deduction for research and development brought positive results in the form of, for example, 33 new investment projects, a growing volume of super deduction, their overall stimulating effect was limited by the constant deterioration of the overall conditions for business: increasing administrative burden, instability of legislation and insufficient focus on domestic SMEs. The business environment in 2025 therefore did not sufficiently support dynamic growth,

innovation and competitiveness of companies and does require systemic changes at the level of institutions, regulatory framework and support tools in order for Slovakia to catch up with the V4 and EU average. In 2025, it was not possible to make a fundamental breakthrough in long-term negative trends in terms of lagging behind in economic convergence, low productivity or shortcomings in the ecosystem for innovation, education and labor participation.

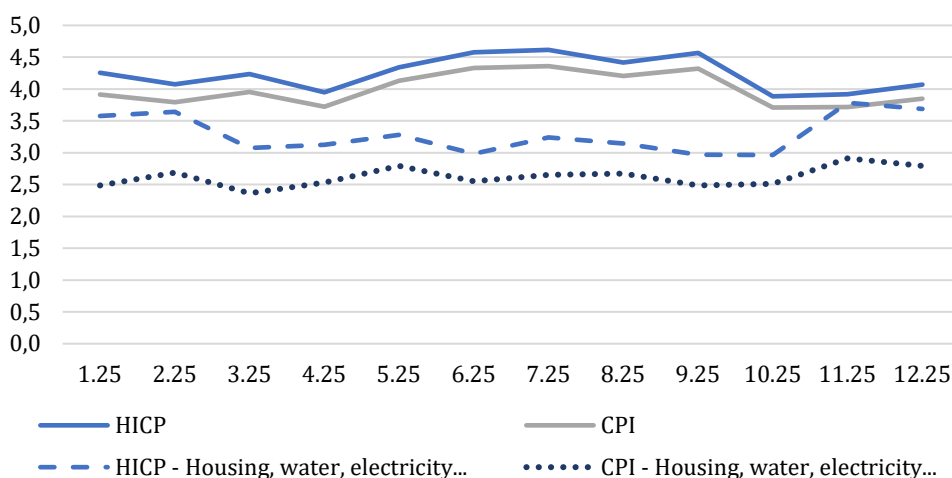
7. PRICE DEVELOPMENTS

Inflation in 2025 can be viewed with some ambivalence. On the one hand, it accelerated slightly from the previous year and ranked among the highest in the euro area; on the other hand, it remained substantially lower than during the inflation shocks of 2022 – 2023. This is one reason it remained a key theme in economic developments during the year. Measured by the domestic consumption basket (CPI methodology), it averaged approximately 4.0% for the year. On a monthly basis, inflation was lower at the start of the year, gradually rose, peaked in the summer months, and then eased slightly again towards the end of the year.

When measured using the single European HICP methodology (Harmonised Index of Consumer Prices), average inflation was somewhat higher, running slightly above the CPI level. Compared with other euro area countries, inflation in Slovakia was again among the higher rates in 2025, suggesting stronger domestic price pressures. The difference between the two methodologies stemmed mainly from the different weights assigned to the category „Housing, water, electricity, gas and other fuels”, which is more prominently represented in the national index (Figure 7.1).

Figure 7.1

Developments in Inflation According to CPI, HICP and the Housing Category
(year-on-year change by month, in %)



Source: Eurostat (2026); ŠÚ SR (2026); own elaboration.

Higher inflation was thus largely determined by a combination of domestic factors, in particular adjustments to indirect taxes, ongoing fiscal consolidation, and persistent cost pressures in the services sector.

In general terms, consumer price developments in 2025 built on the stabilisation seen in the previous period, albeit at a slightly higher pace. Although inflation remained relatively moderate, it did not slow further, as was the case in other countries. Price developments thus reflected a combination of fading inflationary pressures and new factors, in particular on the domestic policy and cost fronts.

Consolidation Also Weighed on Inflation

Unlike the previous year, all the main categories of the consumption basket contributed to inflation in 2025, with their contributions more evenly distributed. At the same time, no category recorded an extremely high (double-digit) contribution, as was the case during the 2022 – 2023 inflation shock. The exception to this broad-based increase was the *Transport* category, where price growth was consistently more moderate and, in some periods, even disinflationary.

The main factors that determined inflation developments can be considered as follows:

- *The impact of tax and consolidation measures* – a significant factor, particularly at the start of the year, was the pass-through of changes to indirect taxes into consumer prices. Increases in certain VAT rates and the introduction of new excise duties (e.g., on sweetened beverages) fed through into the prices of both goods and services, contributing to the acceleration of inflation at the beginning of the year. This effect was largely one-off, but it did noticeably influence year-on-year price dynamics.
- *Persistent growth in services prices* – as in the previous year, services remained among the most significant sources of inflationary pressure. Price growth was driven mainly by cost factors, including wage growth and operating costs. The steepest price increases were recorded for restaurant and accommodation services, personal services, and certain

administrative and financial services. The dynamics of service prices again exceeded the growth in goods prices this year.

- *Volatile developments in food and non-alcoholic beverage prices* – food prices remained an important factor in inflation, although their development was uneven over the course of the year. At the start of the year, food was one of the main drivers of higher inflation, with a gradual easing as the year progressed. In the second half of the year, however, episodes of renewed price acceleration appeared again, particularly for certain processed foods and beverages. Overall, food did not contribute to inflation as significantly as in previous years, but it remained a significant component.

- *Moderate developments in fuel and transport prices* – fuel and transport services prices were among the least dynamic components of the consumption basket. Their development was influenced by relatively stable oil prices and weaker demand, and in some periods, they even had a disinflationary effect. Overall, transport therefore did not represent a significant source of inflationary growth. This is likely to change in the coming year.

- *Persistent core inflationary pressures* – despite overall lower inflation compared with previous years, price pressures in the economy remained relatively broadly based. Price growth was supported mainly by domestic factors, such as wage developments and cost pressures in the services sector. Inflation was therefore not the result of one-off shocks, but rather a combination of administrative measures and persistent domestic factors.

Overall, the pace of price growth in 2025, while remaining relatively moderate compared with previous inflationary years, nevertheless accelerated again from 2024. Domestic factors played a key role here, particularly the fiscal measures adopted as part of public finance consolidation and persistent cost pressures in the services sector. The ongoing consolidation process, including adjustments to the tax burden and regulated prices, therefore, remains a significant determinant of price developments. In view of these factors, inflationary pressures are expected to persist in the near term, though their intensity will depend on further developments in domestic policy and the external environment.

The End of the Low-Inflation Advantage

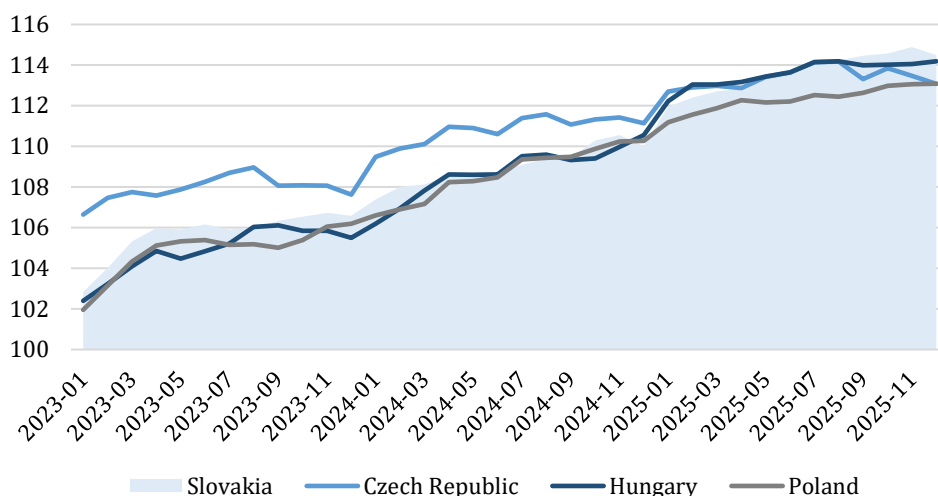
A similar pattern to that seen in Slovakia also occurred in the neighbouring V4 countries. After the dynamic years of 2022 and 2023, overall consumer price growth in the region slowed, and central banks moved towards easing monetary policy. Hungary and Czechia continued in this process, joined by Poland in 2025. However, when looking at the cumulative price-level development over the past four years, Slovakia's position has changed fundamentally. In Czechia, inflation slowed to 2.3%, and in Poland to 3.3%, while Slovakia recorded the opposite trend, accelerating to 4.2% and, together with Hungary (4.4%), ranking among the EU countries with the highest inflation.

The cumulative increase in the price level over 2023 – 2025 therefore places Slovakia at the top of the V4 group, representing a marked reversal compared with previous years, when, despite high inflation, it maintained at least a relatively more favourable position compared with its neighbours (see Figure 7.2). This reversal is driven primarily by the two factors already mentioned. The first is the pass-through of continuing consolidation measures into consumer prices, which neighbouring countries no longer needed to implement, mainly through VAT rate increases and the introduction of new excise duties. The second is the persistent rise in service prices, which also significantly affected inflation rates in neighbouring countries. It thus took just a single year for Slovakia to move from the position of a notional winner with the lowest cumulative inflation to that of an unwanted leader.

Returning to overall EU inflation, the lowest level in 2025 was recorded by Cyprus (0.8%), followed by France (0.9%), Italy (1.6%), and Finland and Denmark (both 1.8%). Conversely, the highest inflation rate was recorded in Romania (6.8%), followed by Estonia (4.8%), Croatia and Hungary (both 4.4%), and Slovakia (4.2%), ranking among the five countries with the highest inflation in the EU. Within the euro area, Slovakia recorded the third-highest inflation rate. The median year-on-year inflation rate in the EU reached 2.7% in 2025, indicating that most member states were considerably closer to the central bank's inflation target. Slovakia exceeded this value by more than 1.5 percentage points.

Figure 7.2

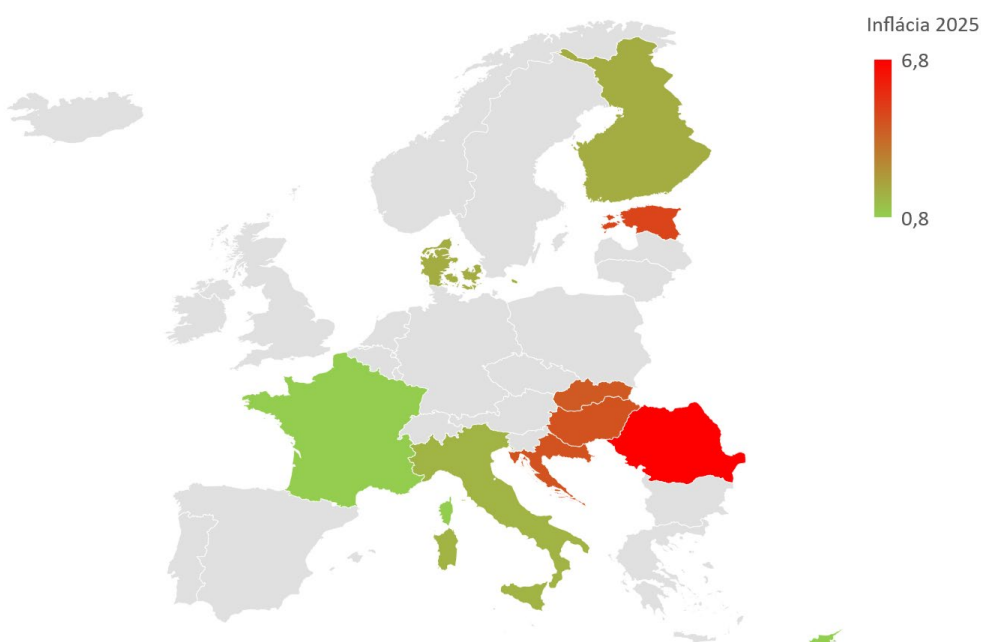
**Index of Cumulative Inflation Developments in the V4
(2023 – 2025, December 2022 = 100)**



Source: Eurostat (2026); own calculations and elaboration.

Image 7.1

HICP Inflation in the EU, with the Top 5 Highest (Red) and Top 5 Lowest (Green) Inflation Rates in 2025

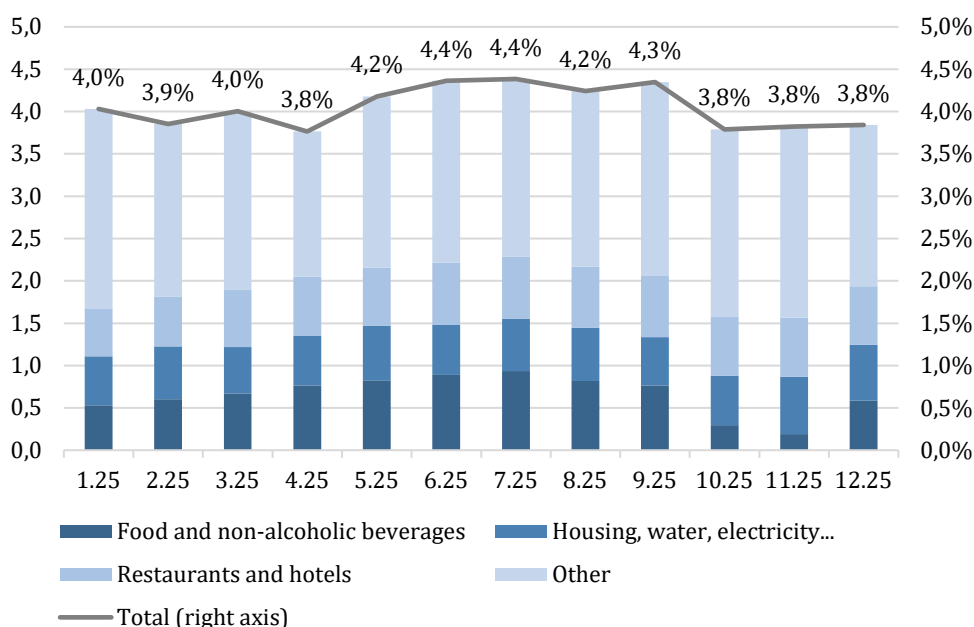


Source: Eurostat (2026); own elaboration.

A peculiarity of inflation developments in 2025 was the relative evenness of contributions from the consumption basket's individual categories throughout the year, with overall inflation ranging between 3.8% and 4.4%. No category showed a significant fluctuation or a negative contribution to overall inflation. All the tracked categories of the consumption basket shown in the chart were therefore drivers of overall inflation (see Figure 7.3).

Figure 7.3

Overall Year-on-Year Inflation by Month and the Contribution of Selected Categories to Overall Inflation (in p.p. and %, 2025)



Source: ŠÚ SR (2026); own calculations and elaboration.

Particularly noteworthy is the contribution of the Restaurants and hotels category, which maintained a stable, above-average share of overall inflation throughout the year (its weight is less than 8%, yet it accounted, on average, for one-sixth of overall inflation) and was consistently among the most significant contributors. Unlike categories whose development was at least partly determined by external factors such as commodity prices or regulatory interventions, price growth in hospitality and accommodation is predominantly structural. The sector has long faced a labour

shortage, which forces it to raise wages faster than other industries, and these cost pressures feed directly into final prices. As this sector has limited scope for substituting labour with capital, its contribution to inflation is expected to remain elevated in the period ahead if labour market pressures stemming from worker shortages persist.

The inflation rate significantly affected the purchasing power of the population through wage growth. In nominal terms, wages grew year-on-year by 6.3% in 2025, a slowdown from previous years but still an above-average growth rate. In real terms, however, the situation deteriorated. Real wages remained in positive territory, rising by 2.2%, but compared with the 3.7% increase in 2024, this represents a noticeable slowdown.³⁰

Table 7.1

Overview of Basic Price Development Indices in the SR (in %)

	2022	2023	2024	2025
Inflation rate (HICP):				
Euro area	8,4	5,4	2,4	2,1
Slovakia	12,1	11,0	3,2	4,2
Czech Republic	14,8	12,0	2,7	2,3
Hungary	15,3	17,0	3,7	4,4
Poland	13,2	10,8	3,2	3,3
Industrial prices:				
Industrial producer prices – total	29,3	6,9	-4,5	0,9
Industrial producer prices – domestic market	43,4	5,3	-10,1	0,5
- of which: manufacturing	18,1	1,0	-2,0	1,5
Industrial producer prices – export	20,5	-0,3	-1,1	1,1
Construction works prices	18,3	11,3	5,3	5,3
Construction materials prices	22,5	3,2	-0,6	2,7
Agricultural producer prices	36,5	-11,4	-3,4	5,2
Deflators: ³¹				
GDP deflator	7,3	10,0	3,4	4,1
Government consumption deflator	11,5	10,2	5,3	5,4
Private consumption deflator	11,5	10,1	3,0	4,0
Fixed investment deflator	10,5	9,1	0,2	3,7
Deflator of exports of goods and services	14,6	4,5	-1,5	0,3
Deflator of imports of goods and services	19,3	4,2	-2,0	0,3
Terms of trade	-3,9	0,3	0,5	0,0

Source: Eurostat (2026); Macroeconomic forecast of the Ministry of Finance of the SR (February 2026); ŠÚ SR (2026).

³⁰ A more detailed description of wage developments in the economy can be found in the chapter on the labour market.

³¹ Data for 2024 are considered preliminary and will be subject to further revision in the future.

Producer Price Growth Did Not Drive Overall Inflation

After a sharp decline in 2024, industrial producer prices returned to essentially marginal growth in 2025. Overall, industrial producer prices rose by 0.9%, with the increase on the domestic market more subdued at 0.5%, while export prices rose by 1.1%. In domestic industrial production, growth was moderate at 1.5%. This recovery should be understood more as a stabilisation following the previous sharp decline than as the onset of new inflationary pressure on the producer side. The link between producer and consumer prices remained relatively loose, as consumer inflation grew considerably faster than producer prices. Overall inflation was therefore not primarily driven by producer prices.

Construction works prices rose year-on-year by 5.3%, the same pace as in 2024, signalling a persistent structural shortage of labour in this sector. Unlike construction works, construction materials returned to growth after stagnating in the previous year, becoming 2.7% more expensive. This development feeds through, with a certain lag, into imputed rent and hence into consumer inflation in the Housing, water, electricity, gas and other fuels category, a topic already addressed in previous editions of this publication.

A more pronounced turnaround was recorded in agricultural producer prices, which rose by 5.2% after two years of decline. This development was, with a time lag, also reflected in food prices in the consumption basket, although its impact dissipated amid other factors when averaged over the year.

The overall GDP deflator reached 4.1% in 2025, slightly above the HICP consumer inflation rate. The main drivers were the government consumption deflator (5.4%) and the private consumption deflator (4.0%), while the fixed investment deflator remained significantly subdued at 3.7%. Notably, the terms of trade showed practically no change in 2025, following a slight improvement the previous year. The deflators for exports and imports of goods and services were both 0.3%, indicating that, for a unit of exports, we could purchase the same volume of imports as in the previous year. The advantage of the improved terms of trade from 2024 was therefore not confirmed in 2025.

While the first part of the chapter focused mainly on a descriptive analysis of the components of inflation, in the second (analytical) part, we will focus in more detail on a selected topic: the analysis of the impact of the VAT rate change on basic foodstuffs, which took place at the beginning of 2025.

Customers Did Not Benefit from the VAT Rate Cut on Basic Food Items

One of the measures that accompanied the extensive change in value-added tax rates in Slovakia from January 2025 was the reduction of VAT on selected basic foodstuffs from 10% to 5%. The government's intention was clear: to relieve households of the inflationary pressure caused by the general increase in the standard VAT rate from 20% to 23%, by reducing the rate even further in one of the most sensitive categories of the consumption basket. Reality, however, showed that the path from a tax rate change to a lower price for the customer is considerably more complicated than it appears at first sight.

The reduction to 5% did not apply to the entire range of foodstuffs, but only to a precisely defined basket of basic items. Other foodstuffs also saw a rate reduction, but only from 20% to 19%. The lowest of the three rates (5%) applies to fresh and chilled meat, liquid milk, yoghurt, butter, bryndza as the only cheese included, honey, fresh vegetables and fruit, potatoes, fresh bread, and selected gluten-free flour products. Conversely, other foodstuffs that might be considered basic, such as sugar, eggs, other types of cheese, and most processed foods, were not included in the lowest rate. This delimitation was created back in 2016 and was already the subject of intense debate at that time. The 2025 adjustment did not change the types of foodstuffs concerned; it only changed the VAT rate applied to them.

Essential to the ability to analyse the impact of the rate change was a change by the Statistical Office of the SR in how it reports the average prices of selected products on a monthly basis. Since 2023, average prices of selected foodstuffs have been available from scanner data, i.e., the electronic cash registers of large retail players in the country. These data have the major advantage of capturing prices and sales volumes at promotional prices, since the Slovak consumer is price-sensitive and tends to buy on

promotion, a feature long regarded as a shortcoming of the original price-collection methodology based on personal readings in shops.

The reform was announced as part of the consolidation package in September 2024, with effect from 1 January 2025, giving retailers and suppliers roughly three months to prepare. This period later proved key, though not in the way economic policymakers presumably intended. An analysis of the prices of 46 food products using a counterfactual approach, which estimates the hypothetical price trajectory in the absence of the reform, showed that prices in the tracked basket of basic foodstuffs rose, on average, by 2.2% above their estimated counterfactual level in the period from October to December 2024. This value was estimated after accounting for long-term trends, food seasonality, and developments in commodity exchange prices, so it should represent the hypothetical price that products would have cost had the VAT rate change not been announced. In other words, even before the reform took effect, prices in the affected categories were rising faster than their previous trend would have suggested.

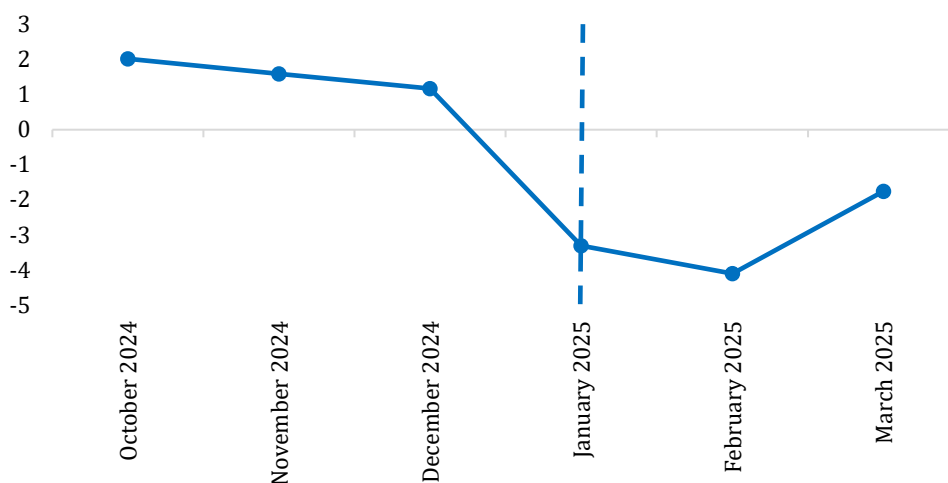
This phenomenon can be explained in two ways, both of which may have operated simultaneously. The first is strategic behaviour by retailers. Knowing they would have to pass the lower tax through to prices from January, some of them used the pre-reform period to raise margins, which they then seemingly used to finance the subsequent price cut. The second explanation is a structural feature of supply: the renegotiation of supplier contracts during the transitional quarter creates uncertainty about the distribution of costs and profits along the supply chain, leading to cautious price increases that may not be directly strategic. Support for the first explanation, however, comes from the fact that pre-reform price increases were dispersed across categories, including those with relatively short supply chains and significant domestic production, such as bread, potatoes, and pork. Were this primarily a supply-side phenomenon, we would expect it to be most evident in categories with more complex supply arrangements and longer supply chains.

After the reform took effect in January 2025, prices did indeed fall, by an average of 2.5% below the counterfactual trajectory in the first three months of the year. The pass-through rate of the tax change into consumer

prices thus reached approximately 0.55 in this period.³² This means that consumers felt only just over half of the theoretically possible price reduction. In a European context, this is a value that falls within the middle of the range of results from similar reforms: Poland, with a zero VAT rate on food in 2022, initially achieved only 44 to 58% (Jaworski and Olipra, 2025); Germany, with a temporary VAT reduction in 2020, around 70% (Fuest et al., 2025); and the European average for reduced rates stands at around 30% (Benedek et al., 2020). The Slovak result is therefore not exceptionally low, but it should be read in the context of what preceded it.

Figure 7.4

Difference between Weighted Seasonally Adjusted Prices and Counterfactual Prices (in %, October 2024 – March 2025)



Source: ŠÚ SR (2026); Eurostat (2026); own calculations and elaboration.

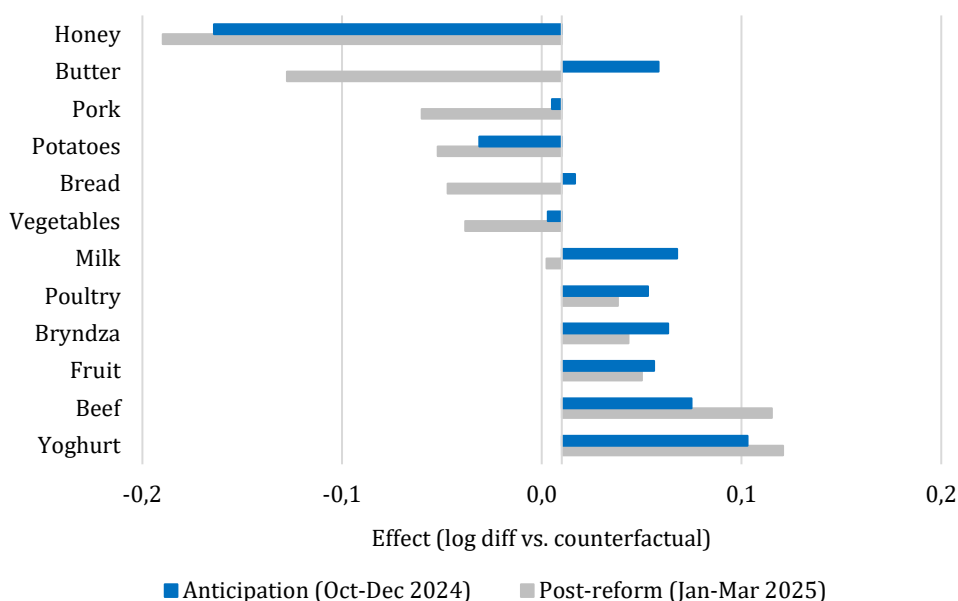
Once the pre-reform price increases are taken into account, the net benefit to consumers is considerably reduced. A customer who bought food at the end of 2024 paid above the counterfactual level; a customer buying at the start of 2025 did benefit from the price decline, but largely only to the extent that the previous price increase was reversed. Taken

³² The maximum pass-through of the VAT rate reduction (pass-through of magnitude 1) would in this case represent a decline of 4.5%. It is well known that a rate change does not alter a product's base price, but only the VAT levied on it. So if a product in this category cost EUR 1.1 before the change and EUR 1.05 after the change (corresponding to a reduction in the VAT rate from 10% to 5%), the total price change would represent a decline of exactly 4.5%.

together, over the entire period from October 2024 to March 2025, the two effects nearly cancelled each other out, and the overall net effect of the reform on the price level was close to zero (the weighted average was -0.2% relative to the counterfactual price).

Figure 7.5

Effect of the VAT Rate Change on the Prices of Individual Basic Food Categories (October 2024 – March 2025)



Source: ŠÚ SR (2026); Eurostat (2026); own calculations and elaboration.

At the level of individual categories, the differences are significant. The most pronounced price declines after the reform were recorded for honey, butter, pork, potatoes, and bread, i.e., products with a relatively homogeneous market, stronger retail competition, and a shorter supply chain. In contrast, yoghurt and beef showed practically no pass-through, with their prices remaining above the counterfactual level after the reform. Yoghurt is particularly noteworthy in this respect: despite being explicitly included in the 5% rate group, its prices did not fall after the reform. This is reminiscent of the situation that arose in Slovakia in January 2023, when the VAT rate on hotel and restaurant services was reduced, yet the final price for consumers actually rose. It therefore holds that a product's legal

classification under a reduced tax rate is not, in itself, sufficient for the tax reduction to actually be reflected in the price paid by the consumer. Market structure, product differentiation and bargaining position within the supply chain determine how any potential price reduction is ultimately shared between the demand and supply sides.

The Slovak reform reducing the tax rate on basic foodstuffs in 2025 thus offers lessons that go beyond its immediate price outcomes. The three months between the announcement and the reform's entry into force were long enough for retailers to build a price buffer against the announced reduction, yet too short for competitive pressure to eliminate it. A comparison with Portugal, where a similar reform, with only 25 days' notice and an active campaign informing consumers of the expected price reduction, achieved almost complete pass-through into prices, suggests that the design of a reform and the way it is communicated are no less important than its actual content (Bernardino et al., 2025).

It must equally be noted that even a highly unconventional tool intended to help the pass-through of the VAT rate reduction failed to contribute to the outcome. For instance, while the reform took effect at the start of the year, the pilot operation of the state price comparison tool only began in June, with full operation launched as late as December 2025, almost a year after the rate change. By definition, therefore, this measure could not have helped pass through the rate reduction into prices.

* * *

Slovakia enters 2026 with the expectation that inflation will remain close to the 4% level, and thus well above the EU median. One direct consequence of persistent inflation will be the anticipated near-zero growth in real wages. Nominal wages will indeed rise, but at inflation close to 4% their real value will increase only marginally, which will continue to have a dampening effect on private consumption and household living standards. A peculiarity of inflation in 2026, however, will be that it will not affect everyone the same way. Households entitled to energy assistance will experience price growth differently from those paying for electricity, gas and heat under the standard household price regulation. This dividing

line will split the inflation experience of Slovak households into two groups, a phenomenon that is fairly unusual in the history of inflation measurement in Slovakia. Regulated energy prices thus remain a key determinant of where overall inflation settles.

Further pro-inflationary impulses will include a further change in VAT rates on selected foodstuffs with a high sugar and salt content from January 2026. Nor will the external environment contribute to more stable inflation developments. Geopolitical tensions in the Middle East are keeping volatility in the oil and natural gas markets elevated, and any sharper swing in energy commodity prices tends to feed through fairly directly, in a small open economy such as Slovakia, into production and transport costs and subsequently into retail prices.

Inflation as a topic will therefore not recede into the background of public debate next year either and will remain a sensitively perceived subject of public discourse. Higher energy commodity prices will pose a new challenge for economic policymakers on how to withdraw from the non-standard regulation of energy prices through energy assistance amid the approaching political cycle. Next year, too, is thus set to be an interesting one for inflation.

8. ELECTRICITY MARKET

Specifics of the Electricity Market and Its Historical Development

Stopping transport through the Strait of Hormuz represents the second extreme energy shock for the global economy in the last five years. Energy prices are thus once again at the centre of events, including in Slovakia, to which we are responding with the current chapter.

Box 8.1: Historical Development of the Electricity Market

One of the most significant characteristics of the electricity market is its high infrastructure intensity, with returns on investment spanning several decades. For this reason, it is not economically efficient to build parallel networks for different suppliers. Transmission and distribution of electricity therefore have the character of a natural monopoly. Historically, the entire chain of electricity generation, transmission, and distribution was considered a monopoly, organized in the form of vertically integrated energy companies responsible for supplying electricity within a given territory. The historical development of the electricity market in Europe was long shaped by a strong role of the state, with electricity viewed as both a strategic commodity and a public service that had to be available at a reasonable price for the entire economy. System stability was supported by price regulation and long-term planning of investments in generation capacity and infrastructure.

This situation began to change in the 1970s as a result of the oil crises, though the first practical experience with electricity market liberalization emerged in the 1990s in the United Kingdom and the Scandinavian countries. In the UK, the original state monopoly was split into separate generation, transmission, and distribution companies, gradually giving rise to a competitive electricity market. In Scandinavia, the Nord Pool exchange was established, linking the markets of several countries and enabling trading in both electricity and financial derivatives.

At the European Union level, the liberalization process was formalized by a directive adopted in 1996, which set out the basic rules for opening up the electricity market. Key principles included unbundling generation and supply from network operation, introducing third-party access to transmission and distribution systems, and establishing independent regulatory authorities. Subsequent liberalization packages adopted in 2003 and 2009 further expanded and reinforced these rules, strengthening the integration of national markets into a single European electricity market.

The current model of the European electricity market is based on a combination of competition and regulation. Generation and trading of electricity operate on a competitive basis, while transmission and distribution networks remain regulated monopolies. The market is organized through energy exchanges, bilateral contracts, and short-term markets, with the physical balance of the system ensured by system operators.

Last year's edition of the monograph analysed the functioning of the gas market. In this edition, we turn our attention to electricity, an area whose importance keeps growing as electrification increases. Understanding this complex system is a prerequisite for better understanding its impact on the economy.

Electricity is the most complex system among the network industries. The electricity system consists of an interconnected set of generation, transmission, distribution, and consumption facilities, all of which influence one another in real time. What makes electricity unique as a commodity is that it cannot practically be stored on a large scale – so production and consumption must be balanced at every single moment. Any imbalance can, in an extreme case, cause the entire electricity system to collapse. This is the simple reason why electricity is the most volatile commodity of all: spot prices routinely swing by hundreds of EUR/MWh within just a few hours.

Wholesale Price Creation Process

The wholesale price of electricity³³ in the European Union is based on the principle of marginal pricing, which is applied on organized electricity markets, particularly the day-ahead market. This mechanism ensures that the resulting electricity price in each trading hour is determined by the costs of the most expensive generation source still needed to cover demand.

The process begins with electricity producers submitting offers to the exchange (e.g., EPEX Spot, ISOT) for the supply of electricity for individual hours of the following day (the so-called D+1 auction). In these offers, they state the quantity of electricity and the price at which they are willing to produce it. The offer price generally reflects short-run marginal costs of production, which mainly include fuel costs (coal, lignite, gas), CO₂ emission allowances, and power plant operation. Low-cost sources (e.g., nuclear, hydro, or renewable sources) submit offers with a low price, while higher-cost sources (e.g., gas or coal power plants) offer electricity at a higher price.

³³ By the term „wholesale price,“ we mean only the power component of electricity – the so-called commodity, which is traded on exchanges – and this does not include additional costs associated with transmission, distribution, and delivery to the end customer.

At the same time, suppliers and large consumers submit demand offers, i.e., the quantity of electricity they wish to purchase at a given price. The market operator then ranks all supply offers from the lowest to the highest price and creates the so-called supply curve of generation (merit order). Power plants are progressively brought into operation according to this curve until the total demand for electricity in the given time interval is covered. The price of the last source brought into operation – i.e., the most expensive source needed to cover demand – determines the marginal market price. This price then becomes the uniform price for all producers whose offers were accepted, regardless of their individual costs. The mechanism thus ensures market transparency and supports the efficient use of generation sources.

Within the European market, national markets are interconnected through the market coupling system, which enables the automatic allocation of cross-border transmission capacities and contributes to price convergence between individual regions (AEM, 2016).

This electricity market design is repeatedly subject to criticism, particularly in countries where electricity prices remain significantly higher compared to the pre-war period. Politicians repeatedly call for decoupling gas prices from electricity prices. During the reform discussions in 2022 – 2023, when wholesale prices reached historic highs, two main alternatives were discussed. However, neither found unified agreement, as both bring their own complications:

1. Pay-as-bid model – successful auction participants are remunerated according to their own bid, not according to the uniform D+1 price. The disadvantage is that this approach would likely not lead to a significant reduction in average prices, since lower-cost producers would try to estimate the marginal costs of the last source needed to clear the auction and would bid prices just below this level, but significantly above their own costs.

2. Two separate auctions model – one auction would cover renewable sources and nuclear power plants (lower-cost sources), and the other would cover flexible fossil sources, which would supplement generation as needed. The disadvantage of this approach is that, while it would reduce

average D+1 prices in countries with a high share of nuclear and renewable sources (e.g., France, Spain), prices would remain high in countries dependent on fossil sources (e.g., Germany, Italy). At the same time, market complexity would increase, and liquidity would be split, leading to less precise price signals and worsening hedging possibilities.

In our view, no fundamental change to the market design will currently take place. The group of reform supporters would today likely be even smaller than in 2022. At that time, 11 member states spoke out in favour of moving away from marginal pricing in D+1 auctions, including France, Spain, and Italy – after Germany, the three largest electricity markets in the EU.

However, France and Spain today have only weak motivation to push for fundamental changes to the market design, since they have managed to significantly normalize D+1 prices to a level close to the pre-2022 period. In France, D+1 prices in 2022 were 400% higher than the 2017 – 2021 average, but by 2025 they were only 10.6% higher, mainly thanks to the restoration of nuclear generation and growth in renewable capacity. In Spain, prices in 2025 were 7.7% higher than the 2017 – 2021 average, while in 2022 they had reached an increase of 176%. By comparison, in Germany and Italy prices in 2025 remained 83% and 75% higher, respectively, than the 2017 – 2021 average.

Germany, however, will likely continue to support marginal pricing, just as it did in 2022, since alternative solutions bring their own problems. Italy, by contrast, is trying to push through a unilateral solution, under which it is attempting to decouple electricity prices from emission allowance prices and to reduce gas prices. However, these proposals must go through European approval, and at the same time they create uncertainty on the Italian market, which complicates the development of renewables (Argus, 2026).

The European Commission continues to support the current market design. As a solution for decoupling gas and electricity prices, it proposes an approach based on the functioning of the retail market, in particular wider use of PPA (Power Purchase Agreement) contracts tied to renewables. Industrial off-takers would conclude long-term contracts with

investors in wind and solar parks for the supply of electricity at fixed prices, thereby partially insulating themselves from fluctuations in wholesale market prices. The difference between renewable generation and their own consumption would then be balanced through purchases or sales on the spot market.

Wider adoption of this model is, however, limited by its economics and technical constraints, since renewable generation depends on weather. Outside periods of generation, electricity must be purchased additionally on the spot market at current, often higher prices. The resulting price for the off-taker is therefore higher than the PPA contract price alone, and it does not fully insulate the off-taker from spot market volatility.

The Relationship between the Price on the Day-Ahead Market and Longer-Term – Forward Products

There are two main types of wholesale products in the electricity market: short-term products (e.g., day-ahead), which result from the auctions described above, and long-term products (forwards or futures).

The day-ahead electricity price results from the current balance between supply and demand and reflects short-term market fundamentals such as weather, power plant availability, fuel prices, or current electricity consumption. Forward products (e.g., monthly, quarterly, or annual contracts) are traded for delivery in the future – often months or years ahead. They serve primarily as a hedging tool: a generator can lock in in advance the price at which it will sell electricity, while a supplier or large consumer can secure the price at which it will buy it.³⁴

The relationship between these two types of prices works in both directions. Forward prices represent expectations of future day-ahead prices. For example, if the market expects high gas prices or a shortage of generation capacity in the coming year, the price of an annual electricity forward contract will be higher, since traders anticipate higher future spot

³⁴ For example, if a buyer purchased, say on 3 January 2026, an annual baseload contract for 2027 with delivery in Slovakia at a price of EUR 100/MWh in a volume of 1 MW, this means that the supplier will deliver 1 MW of electricity to them during every hour of 2027 within the Slovak power system – that is, 8,760 MWh (24 hours × 365 days) – and will be paid EUR 876,000 for it, regardless of whether the spot price of electricity in a given hour is –100 or +500 EUR/MWh.

prices. At the same time, the forward price gradually converges toward the actual day-ahead market prices during the delivery period. As the delivery date approaches, new information about weather, consumption, or resource availability is reflected in day-ahead prices, and the forward contract is gradually „converted“ into a series of spot prices.

In practice, this means that an annual electricity supply contract represents the average of expected hourly day-ahead market prices over the course of that entire year. The actual physical delivery of electricity, however, takes place through short-term markets (day-ahead and intraday), which ensure the balance between generation and consumption in real time. Forward markets thus provide a price signal and a risk-management tool, while the day-ahead market ensures the physical balancing of supply and demand in the power system. Together, these two market layers form an interconnected system in which long-term expectations and short-term fundamentals jointly determine the resulting price of electricity.

Analysis of Electricity Prices in the World in 2025

Wholesale Prices

The regional development of wholesale electricity prices in recent years shows significant differences between individual global markets. These differences are caused mainly by differences in electricity generation structure, fuel prices, market regulation, and the availability of generation resources. In 2025, wholesale prices rose year-on-year in many regions, particularly in Europe and the United States, while in some countries – for example India or Australia – prices fell instead.

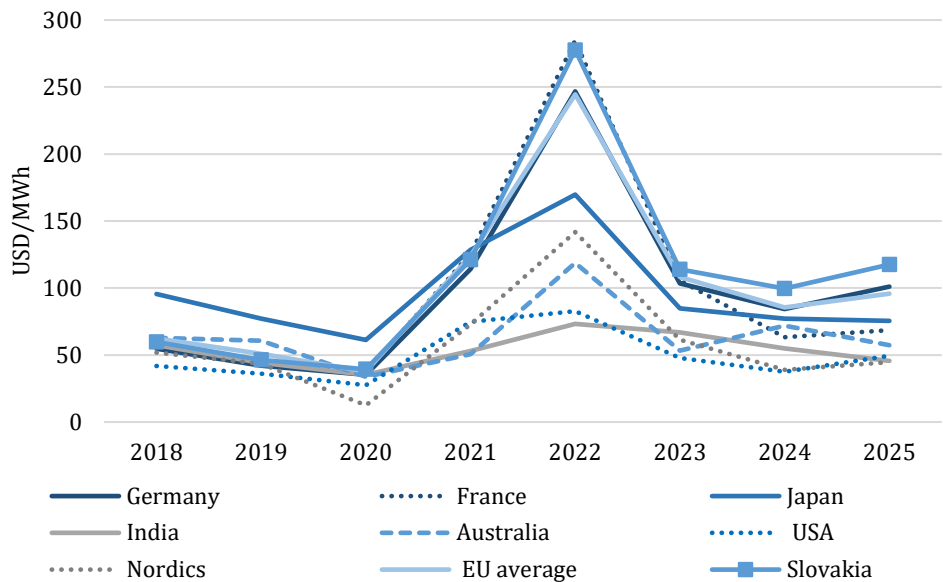
Europe remains the region with the highest wholesale electricity prices. The average price in the European Union reached approximately USD 95/MWh in 2025, representing a year-on-year increase of around 10%. This development was driven mainly by higher natural gas prices and rising prices of emission allowances under the EU ETS system. Within Europe, however, there are significant differences between individual countries. For example, Germany recorded an average price of around USD 100/MWh in 2025, while in France the price was approximately USD

70/MWh thanks to stable nuclear power production. Conversely, the Nordic countries achieved the lowest prices in Europe, at approximately USD 45/MWh, mainly due to a high share of hydropower.

In the United States, prices were significantly lower than in Europe. The average wholesale electricity price in 2025 reached approximately USD 50/MWh, representing a year-on-year increase of around 30%. This increase was driven mainly by higher natural gas prices, as gas is the key fuel for electricity generation in the US, accounting for approximately 43% of production (EIA, 2026).

In Asia, price trends varied by country. In Japan, prices declined slightly to approximately USD 75/MWh, linked to the growing share of nuclear and renewable generation. In India, prices fell more markedly to approximately USD 46/MWh, mainly due to lower coal prices and growing generation capacity, including renewable sources and hydropower. Australia recorded a price decline to approximately USD 57/MWh, supported by rising renewable generation and the development of battery storage, which helps stabilize the market during demand peaks.

Figure 8.1
Wholesale Electricity Prices in the World



Source: authors based on IEA data (2026) and Entsoe data (2026).

The overall global trend in electricity prices points to significant regional diversity. While Europe remains the market with the highest prices due to high fuel and emissions costs, other regions with cheaper energy sources or a higher share of renewables achieve lower price levels. This difference has a significant impact on industrial competitiveness, particularly in energy-intensive sectors.

Retail Electricity Prices

Retail electricity prices for large industrial consumers are generally higher than wholesale prices, since they include additional cost components beyond the commodity price itself. The wholesale price represents only the price of electricity traded on the market, while the final price for industrial customers also includes transmission and distribution costs, system services, balancing fees, as well as various taxes and levies. These components are necessary to finance the operation and development of the power system and to ensure the reliability of supply.

Table 8.1

Price Developments for Large Industrial Customers in Energy-Intensive Industries (USD/MWh)

Year	EU	Norway	USA	China	India	Japan
2019	67	42	50	60	80	130
2020	62	33	48	58	78	125
2021	94	44	52	62	82	135
2022	160	57	65	70	90	170
2023	122	44	60	68	95	165
2024	90	37	58	70	100	160
2025	107	36	60	72	105	165

Source: IEA (2026).¹

The gap between wholesale and final prices varies significantly between regions. The main reasons are differences in regulatory frameworks, the level of taxes and fees, the structure of network costs, and the scope of energy policy support. In Europe, a significant part of the final price consists of support for renewable sources, network investments, and costs associated with climate policy; in 2022, prices were also partly dampened by state subsidies. Conversely, in some regions – for example the United States or India – these additional components are lower or

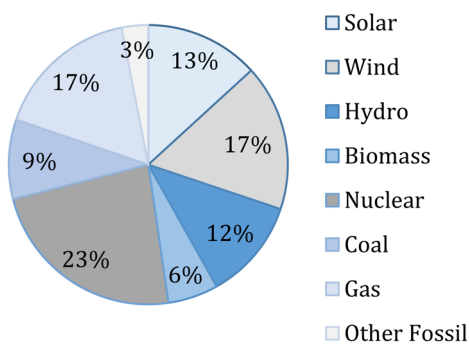
structured differently. As a result, even with a similar wholesale price, final prices for industrial consumers can vary considerably between regions.

Box 8.2: Electricity Market in Europe in 2025

Total electricity demand in the EU remained stable in 2025, reaching 2,770 TWh. Compared to 2024, this represents a slight increase of 0.6%, but it is still approximately 4% lower than the pre-crisis level.

Figure 8.2

EU Electricity Sources in 2025



Source: Ember.

2025 was a historic year – solar and wind power generated more electricity than fossil fuels for the first time. These two renewable sources accounted for 30% of electricity generation in the EU, while the share of fossil fuels fell to 29%.

A key factor was the record growth of solar energy, whose output rose year-on-year by around a fifth to 369 TWh. Overall, renewable sources covered almost half of the EU's electricity demand (47.7%).

Coal-fired generation fell to a historic low (a 9.2% share), while gas-fired generation rose slightly by 8%. This increase was mainly caused by unfavourable weather conditions, which led to a decline in output from hydro (–12%) and wind (–2%) power plants, thereby increasing the need to rely on gas.

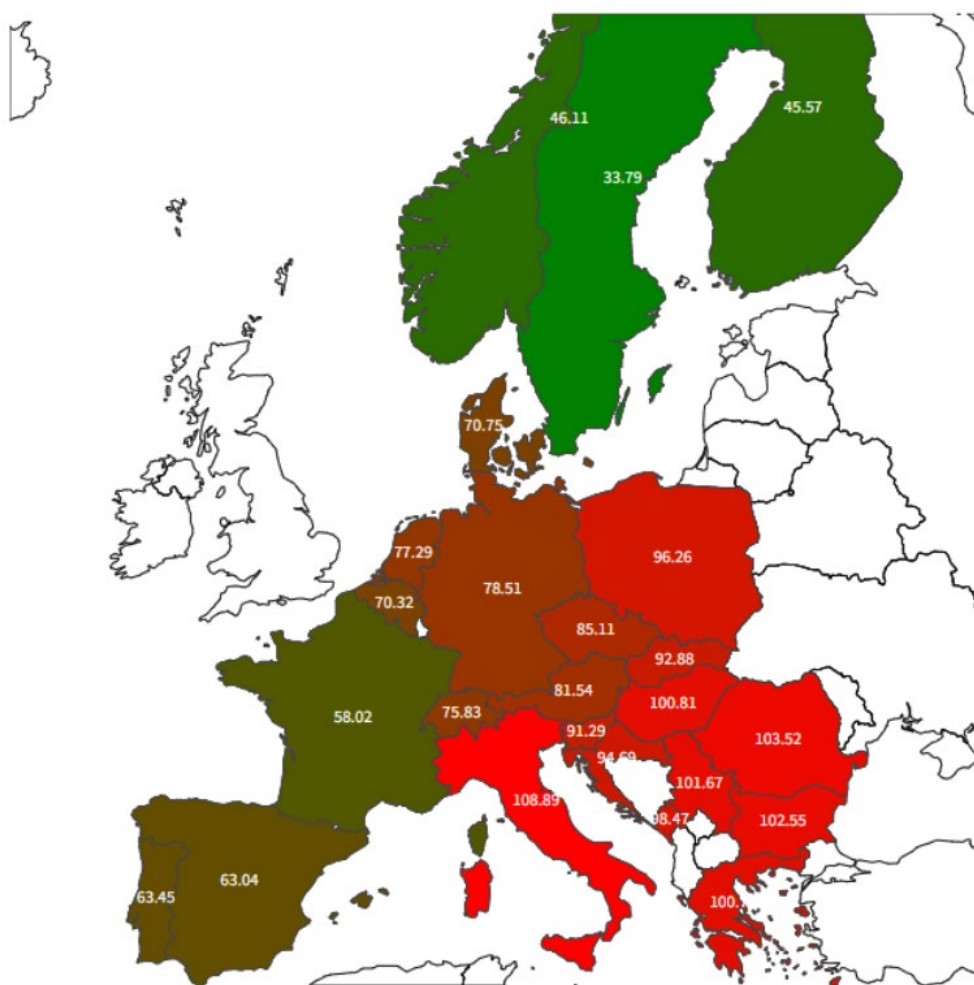
Development of Wholesale Electricity Prices in the EU

Despite historically strong renewable energy production, wholesale electricity prices rose year-on-year in almost all EU countries in 2025. The reason was an 8% increase in gas-fired electricity generation, while natural gas was also 5% more expensive in 2025. Hours with high renewable output did dampen this increase, but due to the decline in hydropower generation, gas had to cover more peak hours. In our region, spot electricity prices consequently rose by approximately 10% (Germany +12%, Slovakia +10%).

As also indicated in the first part of the chapter, high electricity prices are not a pan-European problem. The Iberian Peninsula, together with France and the Nordic countries, faces these pressures to a lesser extent. The average wholesale spot electricity price in the five EU countries with the lowest prices (Norway, Sweden, Spain, France, Finland) reached approximately EUR 57/MWh in 2025. Conversely, the five countries with the highest wholesale prices (Italy, Hungary, Bulgaria, Romania, Poland) reached an average spot price nearly twice as high – approximately EUR 113/MWh.

Figure 8.3

Development of Wholesale Electricity Prices in the EU



Source: authors, based on Entsoe data (2026).

The five countries in Europe with the lowest electricity prices cover approximately 93% of their generation from zero-emission sources (a combination of hydro, nuclear, solar, and wind power). With the exception of Finland, which has access to surplus cheap electricity from neighbouring countries, all of these countries are net exporters of electricity.

Conversely, the five countries mentioned above with the highest wholesale prices have a share of zero-emission sources of only around 59%, with the remaining 41% coming from fossil fuel generation. In Hungary's case, this share is just 24%, with as much as 20 percentage points attributable to gas. In Poland, up to 69% of electricity generation comes from fossil sources, of which approximately 50% is from coal and 19% from gas.

At the same time, the pricing mechanism used in D+1 auctions means that the marginal source affects the price of a significantly larger volume of electricity than it itself produces. Even a relatively low share of fossil sources – for example 24% in Hungary – can thus determine the price of electricity in roughly half of all hours.

Apart from Bulgaria, which was a slight net exporter, these countries are net importers of electricity from neighbouring states. However, this is not a situation caused by insufficient domestic production. Gas-fired power plants are utilized at only around a quarter of their capacity, and coal-fired sources generate electricity approximately 40% of the time. The reason for importing is economic – importing electricity from countries with lower marginal costs is more advantageous for the system.

The main reason for regional price differences within the EU remains the lack of transmission capacity between countries, which leads to suboptimal use of existing generation resources. This situation is caused mainly by the complexity of permitting and construction processes, but also by a partial reluctance of countries with surpluses of cheap energy to build new interconnections. Such interconnections would lead to price convergence across the EU and the loss of their competitive advantage. In this environment, individual countries are motivated to build excess capacity – fossil sources to ensure flexibility on one hand, and renewable sources aimed at lowering wholesale prices on the other.

A natural question arises as to why countries do not invest exclusively in sources with zero marginal costs. In the case of renewable sources, the limiting factor is the unpredictability of generation, which requires supplementing with backup sources, battery storage, and cross-border interconnections. In the case of nuclear power plants, the main barrier is high capital intensity. In both cases, overall system costs shift into other price components, but they cannot be fully avoided.

Fossil fuel plants, by contrast, have lower investment costs and greater flexibility, but are significantly sensitive to volatility in input fuel prices. The choice of energy mix is therefore influenced by a combination of factors – from natural conditions, through the nature of demand, to the degree of interconnection with surrounding markets. There is no universally optimal and simultaneously cheap solution.

To illustrate the approximate costs of individual technologies, the LCOE (*Levelized Cost of Electricity*) indicator can be used. When comparing renewable sources, it is also necessary to consider the cost of battery storage, which allows generation to be at least partially stabilized throughout the day.

Table 8.2

LCOE by Technology (Europe/Germany, real prices 2024)

Technology	LCOE (EUR/MWh)	Note
Solar PV (all types)	41 – 144	Rooftop systems more expensive, utility-scale cheapest
Solar PV + battery	60 – 225	Strong dependence on battery prices (400 – 1000 EUR/kWh)
Onshore wind	43 – 92	One of the cheapest technologies
Offshore wind	55 – 103	Higher CAPEX, higher utilization
Biogas	202 – 325	High fuel costs
Solid biomass	115 – 235	Lower costs when heat is utilized
Lignite (new plants)	151 – 257	Strong impact of CO ₂ price
Hard coal (new plants)	173 – 293	Strong impact of CO ₂ price
CCGT (gas-fired)	109 – 181	Sensitivity to gas price
Gas turbines (peaking)	154 – 326	Low utilization → high LCOE
Gas → hydrogen (conversion)	204 – 356	Uncertainty of future hydrogen prices
Nuclear power plants (new)	136 – 490	

Source: ISE (2024).

We consider necessary to add that the production costs presented above reflect the current situation. In the case of renewable sources, a long-term decline in production costs can be observed, and the same trend applies to battery storage. The infrastructure in the form of new networks, which currently needs to be invested in, and which is presently increasing the cost of a renewables-based system, only needs to be built once. It will subsequently serve for decades, during which the sun and wind will produce electricity at practically zero marginal cost. Neither nuclear nor fossil sources will ever achieve this cost advantage, and at the same time they will always represent a greater risk from an energy security perspective than decentralized, endogenous production from renewables. The author of this chapter therefore holds the view that, in the long run, investment in renewables is the only way for European countries – which have decided they have no interest in extracting fossil fuels on their own soil and which are exposed to global turbulence – to achieve an electricity system that ensures globally competitive prices and the required level of energy security.

Development of Wholesale Electricity Prices in Slovakia

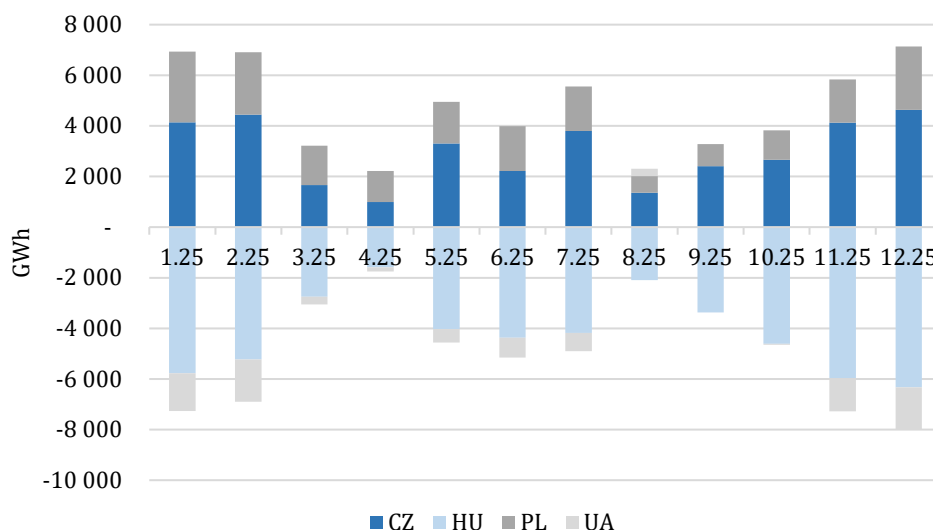
Slovakia was a net exporter of electricity in 2025, exporting approximately 8% of its production. At the same time, as much as 85% of its electricity was generated from non-fossil sources. Nevertheless, the spot price of electricity in Slovakia reached EUR 105/MWh in 2025, representing the tenth-highest price in the EU. This situation has repeatedly been the subject of criticism from both the regulator and political representatives, as it is often cited as one of the causes of problems facing Slovak industry.

The high wholesale price in a system with a surplus can be explained by two main factors. Slovakia is well interconnected with the power systems of neighbouring countries – with all its neighbours except Austria. In 2023, a new transmission line to Hungary was also completed, a country that is significantly dependent on electricity imports. Hungary covers approximately 25% of its generation from fossil sources, mainly gas, meaning its marginal production cost is often higher than in Slovakia. This creates an incentive for Slovak producers to export electricity to the Hungarian market.

This dynamic was also strongly reflected in electricity flows in 2025. Slovakia imported electricity mainly from the Czech Republic, which in turn imports electricity primarily from Germany – countries with lower electricity prices compared to Slovakia. Meanwhile, the main export market for Slovak electricity was Hungary, and to a lesser extent Ukraine, in general more expensive markets.

Figure 8.4

Export and Import of Electricity in Slovakia in 2025



Source: authors based on Entsoe data (2026).

A second, though less important, reason for the high wholesale prices is that Slovakia has a smaller share of renewable sources compared to other countries with a low share of fossil fuels. This matters because renewables produce at zero marginal cost, and due to their volatility, these sources have the potential to drive prices very low or even negative during hours of strong output (unlike nuclear power, which has low marginal costs but is stable and does not have this effect on prices³⁵).

We would also add that low wholesale electricity prices do not automatically translate into low prices for end consumers as well.

³⁵ The wholesale price of electricity does not reflect the total costs associated with the use of a given generation source for the power system, but reflects only the variable costs of that particular producer.

Retail Electricity Prices in Slovakia

The price of electricity for households and small consumers in Slovakia is subject to price regulation. This means that prices must be approved by the Regulatory Office for Network Industries (ÚRSO). The final electricity price consists of three main components: the commodity price (approximately 30 – 50%³⁶), distribution and transmission fees (40 – 60%), and taxes and levies (10 – 15%).

A concrete example is the year 2026. The ÚRSO reference price, which entered into the calculation of the regulated price, was set as the arithmetic average of daily prices quoted on the EEX exchange during the first half of 2025 for electricity delivery in Slovakia in 2026. This price reached a level of EUR 104/MWh.³⁷ After including surcharges related to profile balancing, deviations, and the supplier's margin, the commodity component rose to approximately EUR 124/MWh. After adding the costs of system operation, transmission, and distribution, the final price reached approximately EUR 220/MWh (EUR 261/MWh including VAT). At the same time, approximately 90% of the population was not directly affected by this calculation, since the Slovak government concluded an agreement with SE (Slovenské elektrárne) in 2022 for electricity supply at a discounted price through 2027. The supply volume amounts to 6.15 TWh (5.5 TWh from 2025 onward), with the price gradually adjusted (to EUR 72.7/MWh in 2026³⁸). This price forms the basis for the regulated price for eligible consumers, which for 2026 reaches approximately EUR 89/MWh. The total final price, including all fees and taxes, is approximately EUR 196/MWh.

Year-on-year, the total price changed only minimally compared to 2025, rising by approximately 2.8%, as the increase in the commodity component was almost entirely offset by a decrease in distribution and transmission

³⁶ The percentage depends on the price development of electricity on the exchange; at higher power prices, this component makes up a higher percentage, since it enters the price in the form of an index derived from the wholesale price, whereas transmission and distribution fees are set on a cost basis and are therefore less volatile.

³⁷ The specific method of calculation differs in the decree.

³⁸ In essence, this amounts to indirect taxation, since, according to media reports, the government promised SE in return that it would not proceed with additional taxation. In essence, several European countries have taken similar steps (additional taxation, or the supply of a certain portion of electricity volume from sources generating excess profits at below-market prices).

fees. For a household not entitled to compensation, with average consumption of 2.2 MWh, this represents a year-on-year cost increase of approximately one-fifth, which in absolute terms amounts to about EUR 100 per year.

Household electricity prices in Slovakia are among the lowest in Europe. Only Bulgaria, Romania, and Hungary have significantly lower prices, at around EUR 100/MWh. Countries such as Poland, Lithuania, and Croatia – that is, states where retail electricity prices are subject to at least partial regulation – achieve price levels comparable to Slovakia.

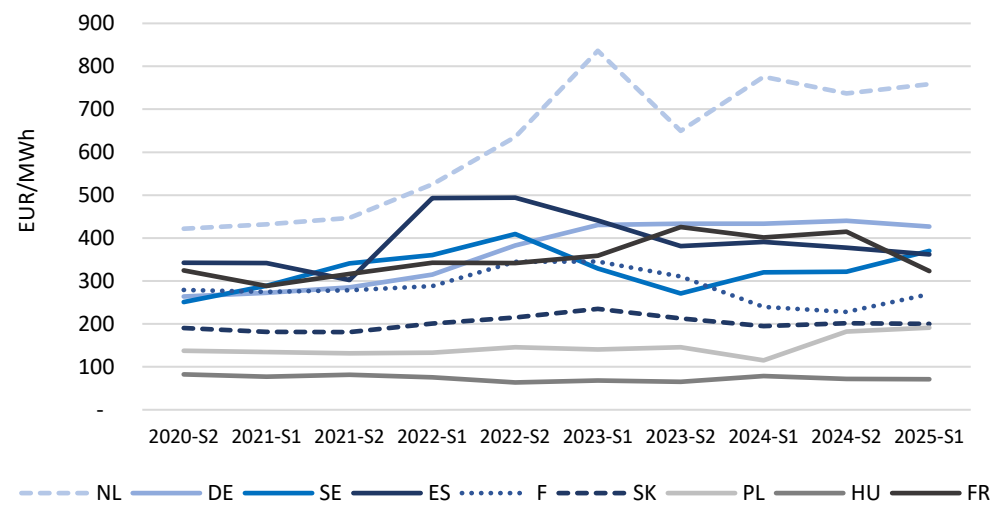
Conversely, higher prices for households can be observed in countries with liberalized markets, even though their wholesale electricity prices are lower than in Slovakia. The main reason is not the commodity price itself, but rather the non-commodity price components, which cover the tax burden and system costs. These include, for example, the costs of building and maintaining networks, support for renewable sources, or the operation of the energy system. In countries with more extensive infrastructure or a specific generation mix, these costs are higher – for example in France in connection with nuclear power plant maintenance, or in Germany as a result of renewable energy support.

This situation contributes to the fact that the household electricity price in Germany is almost twice as high as in Slovakia, and in the Netherlands nearly four times as high (approximately EUR 759/MWh).

Electricity prices for larger consumers outside the household segment in Slovakia are not subject to regulation. When purchasing electricity, businesses can choose from a wide range of products – they can buy electricity through forward contracts for future periods, at spot prices during the period of consumption, or use a combination of these approaches. Electricity prices in forward contracts typically incorporate a certain degree of risk related to the expected price of input fuels or to the availability of generation resources, which is significantly influenced by renewable energy production. Spot (day-ahead) prices are therefore often lower, but their disadvantage is high volatility. This complicates financial planning for businesses, since these prices are prone to significant and sudden fluctuations, which often deters consumers for good reasons. Within the EU, electricity prices for businesses are not burdened by additional costs to

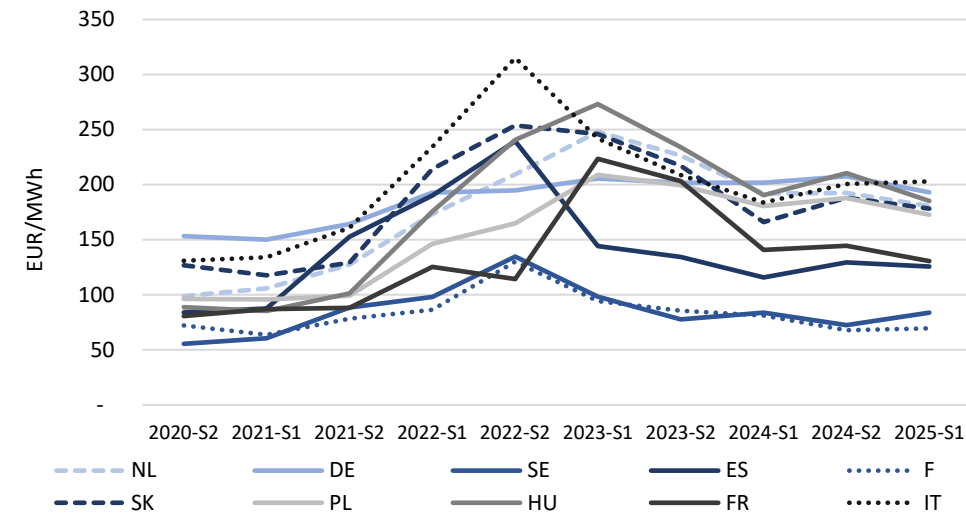
the same extent as for households. The price of power itself typically accounts for more than 60% of the total price, whereas for households it is approximately two-fifths. The commodity component therefore has a more pronounced effect on the final price for industry.

Figure 8.5
Electricity Prices for Households



Source: authors based on Eurostat data (2026).

Figure 8.6
Electricity Prices for Enterprises



Source: authors based on Eurostat data (2026).

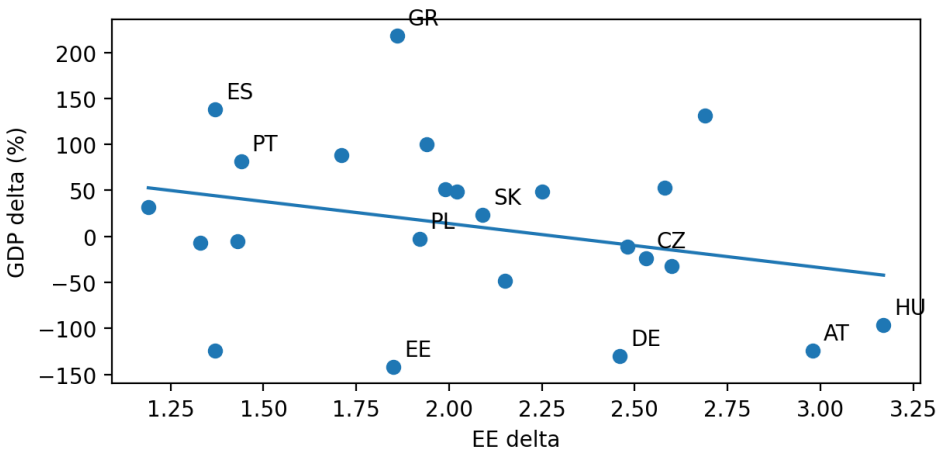
The lowest prices are thus achieved by industrial consumers in countries whose energy mix is based on sources with low marginal costs – particularly in Scandinavia (less than EUR 100/MWh), and in Spain and France (approximately EUR 120/MWh). Conversely, countries dependent on fossil fuels face prices that are tens of percent higher, at approximately EUR 170 – 200/MWh.

Existing research (Torok, 2023; Costa-Campi et al., 2017) suggests that, even in this millennium, electricity prices are negatively correlated with economic growth and investment. This relationship can also be empirically observed today, as illustrated by the example of several EU countries in the chart below.

The chart captures the relationship between electricity prices in the pre-crisis period of 2016 – 2019 and the post-crisis period of 2023 – 2025. It is evident that countries where electricity prices reach multiples of their pre-crisis levels are experiencing lower (e.g., Slovakia) or even negative (e.g., Hungary, Germany) economic growth.

This is not a claim that this is the sole cause, nor is it comprehensive empirical proof. However, the data suggest that higher electricity prices represent a significant burden for industrially oriented economies, which may also negatively affect their economic performance.

Figure 8.7
The Relationship between Electricity Prices and Economic Growth in the EU



Source: authors based on Eurostat data (2026).

Diversification³⁹ must be the foundation of every energy security strategy. Growing electrification in the EU can significantly strengthen energy security by reducing imports of fossil fuels and emissions, but only on the condition of simultaneous, large-scale investment in low-carbon generation, demand flexibility, networks, and innovation.

At the same time, electrification naturally reduces the diversification of energy sources within a national economy. If combustion engines are replaced by electric ones, and gas heating by heat pumps, the entire system becomes significantly more dependent on a single source – electricity. A disruption in its supply would therefore affect a much wider range of economic activities than it does today, when a power outage would have only a limited impact, for example, on transport or thermal comfort.

Growing electrification will therefore require a higher degree of redundancy in the system in order to maintain energy security, reflecting the increasing importance of electricity for the economy. Despite a decline in energy intensity in both the EU and Slovakia (an average of 2.7% in the EU and 3.4% in Slovakia over the past 15 years), the Slovak economy remains approximately 40% more energy-intensive than the EU average and ranks among the most energy-intensive within the Union.

The dependency between energy availability, its price, and economic growth therefore persists. Fundamental changes to the energy system must consequently be designed and implemented with a high degree of caution.

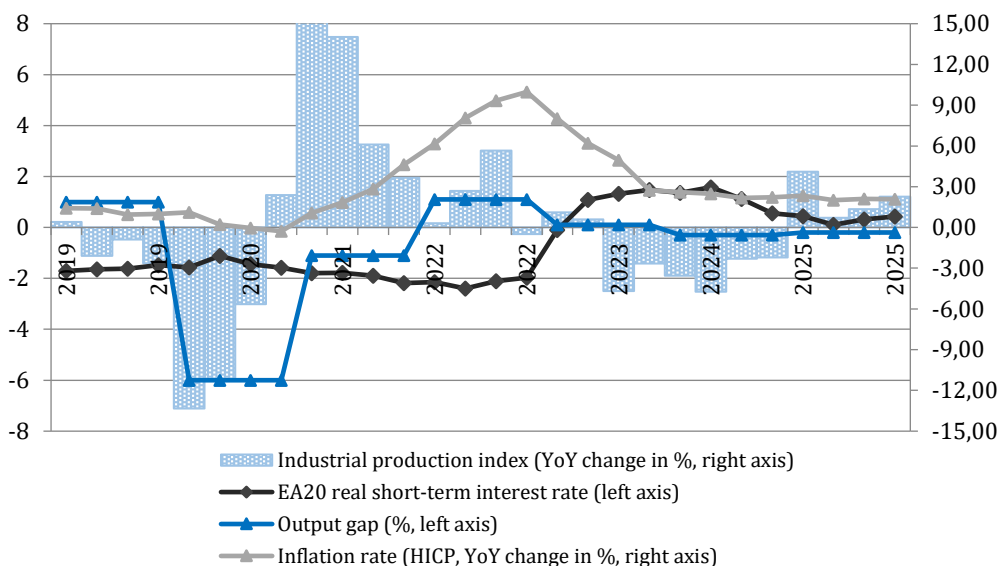
³⁹ By this abstract statement, we mean diversification of fuels, trading partners, sources, transportation routes, simply spreading risk limiting exposure to adverse events in one area of energy.

9. MONETARY POLICY OF THE EUROPEAN CENTRAL BANK AND THE SLOVAK BANKING SECTOR

Since the ECB successfully managed to bring the euro area economy to a state of economic equilibrium in 2024 (Morvay et al., 2025), the year 2025 could have been characterized by seemingly stable development. Unfortunately, this stability was disrupted by frequent turbulence resulting from inflationary pressures and weakened economic performance stemming from global geopolitical and geoeconomic uncertainty. From the perspective of the development of the eurozone's key economic indicators, stabilization in the euro area is clearly observable in the case of inflation hovering around the 2% target, a nearly closed output gap, as well as a slight decline in short-term real interest rates accompanied by a gradual improvement in economic sentiment (Figure 9.1). From the perspective of the anchoring of inflation expectations, professionals' forecasts coincided with precision with both the realized and targeted inflation rates, just as the ECB would have wished.

Figure 9.1

Key Monetary Policy Indicators in the Euro Area



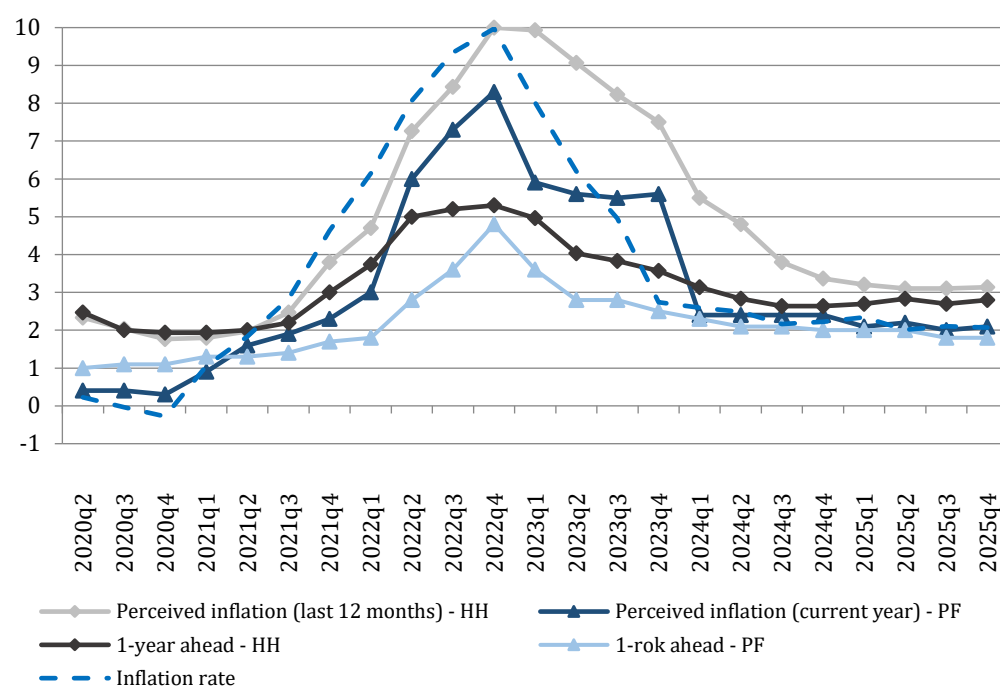
Note: EA20 real short-term interest rates are calculated as the difference between 12-month money market interest rates and 1-year inflation expectations of professionals.

Source: ECB; Eurostat.

One possible negative sign was the continued anchoring of households' inflation expectations around the 3% level – a level higher than that observed in the pre-pandemic period (Figure 9.2). However, this fact can most likely be explained by a higher rate of perceived inflation, which in the household sector is typically attributed to households' increased focus on food, energy, and fuel prices.⁴⁰ Since geopolitical and geoeconomic risks often affect precisely these items in the consumer basket, the rise in the perceived inflation rate was a natural phenomenon.

Figure 9.2

Inflation Expectations of Professionals and Households and Inflation Rate (%)



Note: PF – professional forecasters inflation expectations, HH – households inflation expectations. Inflation – actual rate of YoY inflation (HICP).

Source: ECB; Eurostat.

⁴⁰ It is precisely these items in the consumer basket that are more sensitive to short-term supply shocks and, at the same time, account for a proportionally larger share of spending in low- and middle-income households. A central bank targeting a medium-term rate of (core) inflation should exercise caution when responding to this type of shock. For further details, see the discussion in previous issues of Economic Developments, e.g., on the topic of targeting core vs. headline inflation (Frank, Morvay et al., 2020) or on the differences between the inflation expectations of professionals and households (Morvay et al., 2023).

Key interest rates continued to decline gradually – albeit at a slower pace – through the first half of 2025 (Figure 9.3), until they stabilized at 2.15% at the ECB Governing Council's June meeting. From the perspective of economic fundamentals (Figure 9.1, first quarter of 2025), the beginning of 2025 (February, key interest rate of 2.75%) might initially have seemed a more appropriate time to end monetary easing. However, strong geopolitical shocks resulting from the constant threat of tariffs, coupled with uncertainty regarding the economic and foreign policy actions of the new U.S. administration, significantly disrupted this outlook. Uncertainty in foreign trade and the recurring threat of disruptions to global supply chains have continuously weakened aggregate demand and put downward pressure on economic growth estimates, thereby extending the unwinding phase of restrictive monetary policy until the end of the first half of 2025.⁴¹ This uncertainty was also reflected in a lower money multiplier due to weaker credit growth (M3 growth rate, Figure 9.3), which was gradually restored only toward the end of 2025 as a result of the extension of the ECB's restrictive monetary policy exit phases.

From the perspective of the use of quantitative monetary policy instruments, the ECB's balance sheet continued to shrink through the phasing out of refinancing operations, as well as the natural decline in the volume of securities approaching their maturities (Figure 9.4).

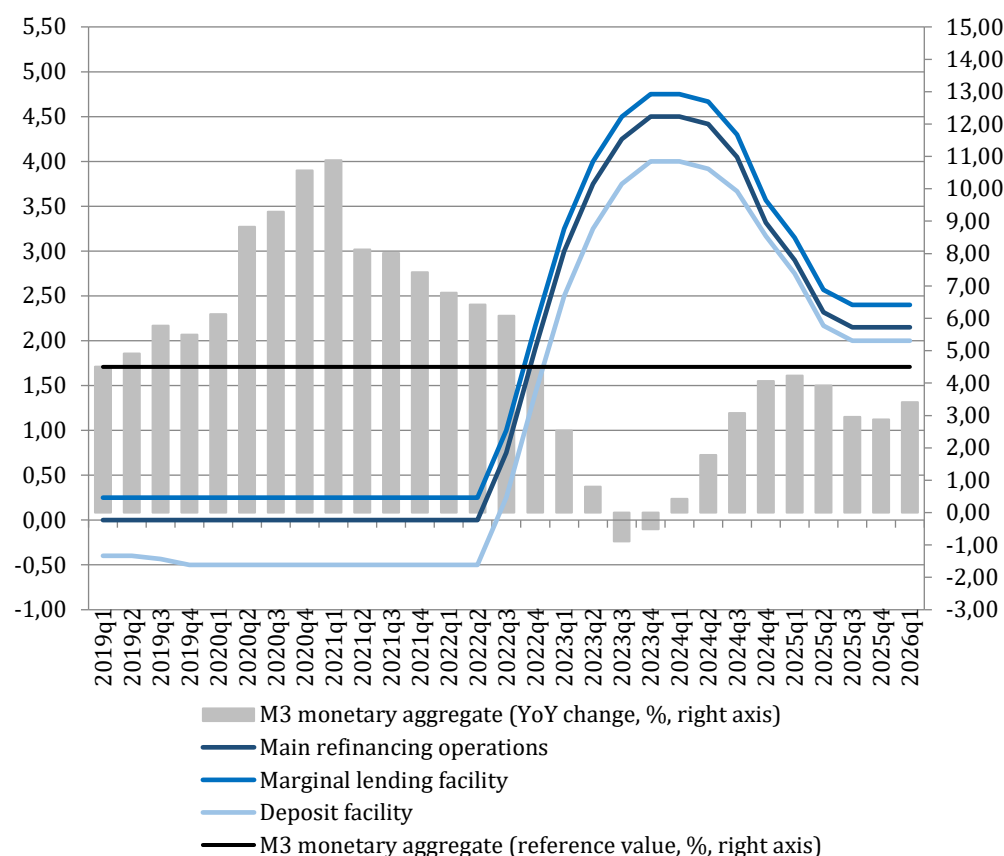
Excluding the price effect of gold holdings, the standard items on the ECB's balance sheet would have been below the levels of the pandemic year 2020 for the third consecutive year by the end of 2025. Although this represents a sharp decline in the balance sheet over the course of five years, the levels seen prior to the start of the first round of quantitative easing (2014) will most likely not be reached until at least eight years from now.⁴²

⁴¹ See the ECB's statements from March and April meetings of the ECB's Executive Board:
<<https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.mp250306~d4340800b3.en.html>>;
<<https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.mp250417~42727d0735.en.html>>.

⁴² Under the assumption that the rate of decline in securities holdings continues to accelerate by approximately 3.8 percent annually, as has been the case over the past three years. The balance sheet reduction will most likely not continue all the way back to 2014 levels, given the overall expansion of the Eurozone economy over the past ten years.

Figure 9.3

ECB Key Interest Rates (left axis) and Growth Rate of M3 Monetary Aggregate (% , right axis)



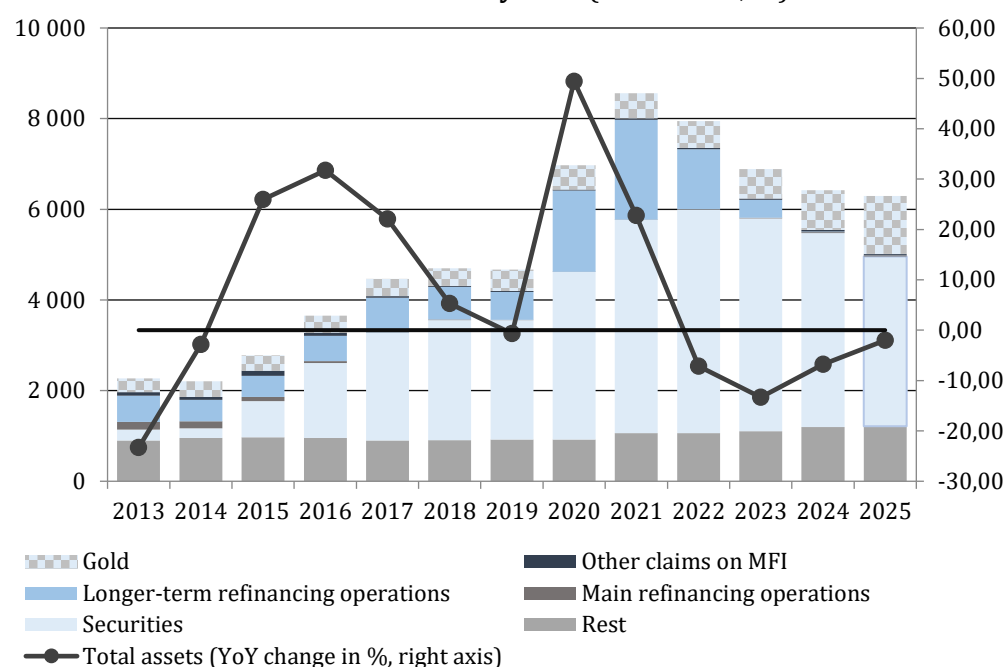
Source: ECB.

Focusing on the structure of the Eurosystem's balance sheet, two interesting developments can be observed in 2025 that are worth noting. In Figure 6.4, we have specifically highlighted the trend in the value of gold reserves, which, after years of stagnation, recorded a significant increase, particularly in 2024 and 2025. Currently, the value of gold reserves exceeds the volume of refinancing operations, which constitute the ECB's main standard monetary policy tool. In the case of the Eurosystem, this increase can be attributed exclusively to the extreme rise in gold prices on international markets, as the ECB has historically been a net seller of gold (Arslanalp et al., 2023). The role and significance of gold in the conduct of central bank policies is not a trivial matter. Central banks accumulate gold

reserves due to its function as a store of value and a hedge against inflation because of the countercyclical nature of its price movements, and as a tool for diversifying their portfolios (ECB, 2025). However, in recent years, purchases have intensified, particularly among central banks in emerging economies, which are increasing their holdings partly due to growing geopolitical and geoeconomic uncertainty.⁴³ As documented in the studies by Arslanalp et al. (2023) and Douglas et al. (2024), it was precisely the rise in geopolitical tensions that contributed to the increase in gold reserves held by these central banks.

Figure 9.4

Balance Sheet Structure of the Eurosystem (EUR billion, %)



Note: MFI – monetary financial institutions (commercial banks).

Source: ECB.

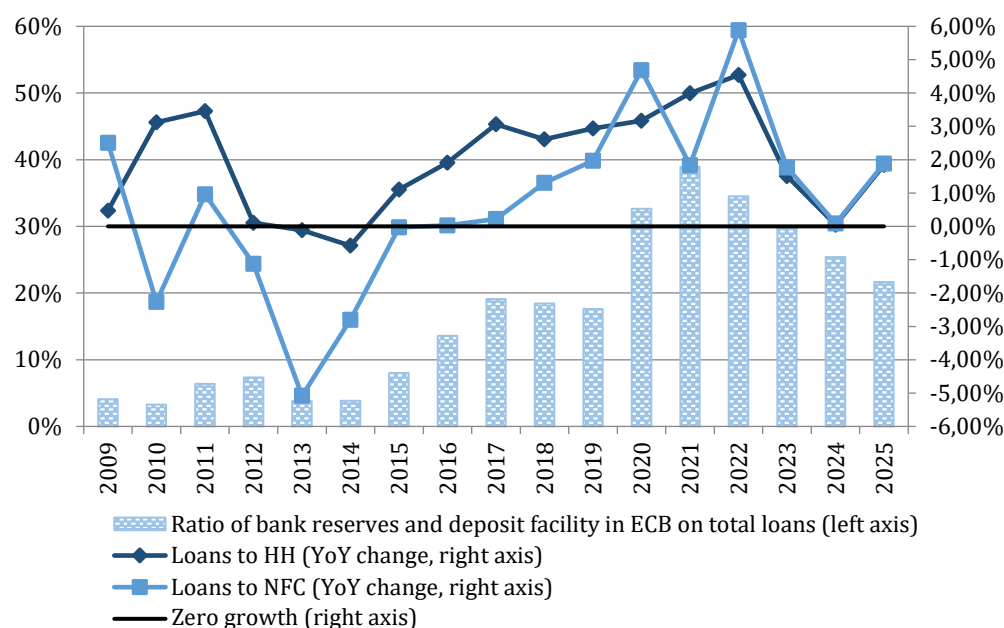
At the same time, the trend of holding excess liquidity in central bank accounts in the form of overnight sterilization deposits continued in 2025; these deposits are associated with a declining (Figure 9.3, interest rates

⁴³ During the period from 2015 to 2024, the National Bank of Poland was a major purchaser of gold in the CESEE region, increasing the share of gold in its total reserves to 17 percent (Source: <<https://www.brookings.edu/articles/how-important-are-central-bank-holdings-of-gold/>>).

on overnight sterilization deposits) but still risk-free return for commercial banks. In Slovakia, the cost differential between customer deposit rates (Table 9.1) and the yield on deposits with the ECB had not been fully closed in year 2025,⁴⁴ and the rise in interest rates on lending activities may have contributed to commercial banks' motivation to shift their focus toward lending to the private sector. Overall, however, the volume of commercial banks' deposits held at the central bank remains significantly above average, even when compared to the period of pre-pandemic quantitative easing.⁴⁵

Figure 9.5

Credit Aggregates and Deposit Accounts of Commercial Banks in the ECB
(EUR billion, %)



Note: Bank reserves are calculated as the balance of the current account with the ECB. Sterilization facilities are calculated as the balance of the overnight facility with the ECB. The total amount of bank loans is determined as the sum of loans to households and loans to non-financial corporations.

Source: ECB.

⁴⁴ For more details, see the previous issue of Economic Developments (Morvay et al., 2025), in which we analyzed in greater detail the strength of the transmission of shocks from changes in the key interest rate to households deposit interest rates (both short-term and long-term). Overall, the transmission of the shock is weak (both in Slovakia and in the Eurozone); however, in the case of short-term deposits, increases in the ECB's key interest rates have almost no effect on interest rates on household deposits. Given that Slovak households hold, on average, 70 percent of their money in banks in the form of short-term deposits, the potential losses for households (and gains for commercial banks) could be substantial.

This additional effect was supported by the maintenance of an asymmetric „tunnel” for the ECB’s three key interest rates (Figure 9.3). The ending of the final phase of this monetary policy cycle in mid-2025 led to a recovery in lending in the banking sector (Figure 9.5.), with nearly identical growth in both the household and corporate loan segments.

Tell Me, Where Have All the Corporate Loans Gone

Table 9.1 provides an overview of relevant characteristics of the banking sector in Slovakia related to lending to businesses and households. In 2025, net interest income continued to make an above-average contribution to profits, as the interest margin in both the corporate and household segments remained above pre-pandemic levels. This phenomenon resulted from a reduction in interest rates on time deposits, which, although accompanied by a decline in loan interest rates, was limited to an extent that allowed commercial banks to benefit from the ECB’s still-elevated interest rate and a weaker transmission of shocks within the Slovak banking sector. Given the longer periods of fixed interest rates in the household sector (primarily mortgages), the shock from the ECB’s restrictive monetary policy was not fully passed on to loan prices in the household segment until 2025. However, since commercial banks were already benefiting from the ECB’s reduced deposit rate in 2025, there was, paradoxically, a further delayed increase in the interest margin in the household lending segment, and thus a positive effect on the banking sector’s overall profitability. The increase in net income from this source of profit should thus cover the cost of the banking levy, which first affected the banking sector in 2024.

⁴⁵ The period of quantitative easing serves as an example of a time when even a significantly accommodative monetary policy did not sufficiently transmitted through the credit channel to the real sector – for further details, see the discussion in previous issues of Economic Developments (Frank, Morvay et al., 2020). From the perspective of diversifying commercial banks’ sources of income, commercial banks’ deposits with the ECB in 2025 accounted for nearly 20 percent of the total amount of lending to the private sector. These funds thus do not contribute further to banks’ lending activities, nor do they multiply further within the system. Given the easing of restrictive monetary policy, this source of liquidity in the banking sector represents a potential reserve that banks could draw upon in the event of rising demand for loans, without needing to obtain additional liquidity from the central bank.

Focusing on overall lending activity, 2025 saw an increase in the volume of loans in both segments (households, corporate), which largely mirrors the trend in Eurozone countries – though growth rates in Slovakia were more than double those in the Eurozone. It is also worth noting the renewed relative shift of both segments toward holding short-term deposits, which may be due in part to the ECB's rate cuts, but also reflecting the potential effect of fiscal consolidation, or increased uncertainty about future developments due to geopolitical and geoeconomic risks – a shift in asset allocation toward liquid cash may occur when concerns about future income limit the accumulation of longer-term savings and, consequently, the placement of liquid funds into longer-term time deposits.

Table 9.1

Selected Characteristics of Banking Sector Balance Sheet in Slovakia

	2019	2020	2021	2022	2023	2024	2025
Panel A: Loans to non-financial corporations							
Loans growth rate (YoY, %)	4.29	3.56	0.22	10.75	6.94	-1.77	4.80
Interest rate – term deposits (%)	0.15	0.07	0.00	0.33	2.96	3.52	2.20
Interest rate – sight deposits (%)	0.00	0.00	-0.01	0.00	0.23	0.43	0.30
Interest rate – loans (%)	2.39	2.31	2.29	2.56	4.91	5.31	4.24
Interest margin	2.38	2.30	2.30	2.54	4.09	3.96	3.41
Short-term deposits/long-term deposits	10.91	10.81	14.13	11.17	3.63	2.33	2.61
Short-term loans/long-term loans	1.15	1.10	1.04	1.08	1.07	1.03	1.08
Deposits/loans (coverage)	0.69	0.72	0.74	0.73	0.78	0.86	0.83
Long-term loans/long-term deposits	8.05	7.87	10.01	8.02	2.85	1.90	1.97
Panel B: Loans to households and NPISH							
Loans growth rate (YoY, %)	8.65	7.41	6.80	10.76	6.40	3.75	5.55
Interest rate – term deposits (%)	0.78	0.71	0.61	0.61	1.35	2.09	1.89
Interest rate – sight deposits (%)	0.03	0.02	0.01	0.01	0.03	0.07	0.06
Interest rate – loans (%)	3.13	2.71	2.35	2.20	2.66	3.31	3.80
Interest margin	2.83	2.48	2.18	2.05	2.30	2.69	3.27
Short-term deposits/long-term deposits	1.76	2.37	2.89	3.33	2.93	2.65	2.89
Short-term loans/long-term loans	0.06	0.05	0.04	0.04	0.04	0.03	0.03
Deposits/loans (coverage)	1.02	1.02	1.03	0.95	0.89	0.91	0.91
Long-term loans/long-term deposits	2.55	3.15	3.61	4.40	4.28	3.89	4.06

Source: NBS; ECB; own calculation.

In corporate sector's segment, however, the increase in the ratio of short-term to long-term deposits must also be interpreted from a different angle. As was evident in the pre-pandemic situation, it was relatively standard for the corporate sector to operate primarily with short-term

liquidity, provided there was certainty regarding the availability of open credit lines at a low cost – which was certainly the case given the highly accommodative monetary policy in the pre-pandemic period. Given the normalization of standard monetary policy to non-zero nominal interest rates, this phenomenon may also indicate some savings formation in the corporate sector, as access to short-term liquidity may appear to be a more costly alternative.

Statements by the National Bank of Slovakia throughout 2025 confirmed the fading of the negative effects of restrictive monetary policy in the first half of the year, a trend accompanied by heightened overall uncertainty, as well as the subsequent onset of the growth phase of the financial cycle in the second half of 2025. For this reason, no macroprudential policy measures were implemented during 2025, with the stable capital position of the banking sector being repeatedly emphasized.

As is the case with the euro area economy, arrival of the latest phase of current monetary policy cycle – combined with the continued lack of tightening in macroprudential policy in Slovakia – opens up an opportunity to discuss the sources of economic growth. From the perspective of its stabilization function, monetary policy can primarily influence only short-term cyclical deviations from economic equilibrium, but it cannot reverse or contribute to long-term real economic growth. Given this view, developments in the banking sector should, in the medium- and long-term, reflect the financial sector's response to impulses originating in the real economy. We will therefore use the equilibrium situation in monetary policy in 2025 to examine in greater detail the structure and trends in lending in the Slovak banking sector.

In the previous issue of the Economic Development (Morvay et al., 2025), we analyzed in greater detail how increases in ECB interest rates are passed on to loan and deposit rates in the Slovak banking sector. Unlike the corporate sector, where the response to the rise in ECB interest rates was nearly twice as strong as the standard response in the Eurozone, banks in Slovakia proceeded with only a gradual increase in interest rates on loans to households. This behavior reflects a long-term trend in the Slovak banking sector, characterised by a profit model that focuses heavily on mortgage lending to meet households' preferences for owning real estate.

Figure 9.6 shows that even during the period of the most restrictive monetary policy of the last two decades, there was never a decline in the stock of loans to households; only the pace of their growth slowed. Conversely, the share of loans with a remaining maturity of over five years (primarily mortgages and consumer loans for housing) had already been rising in the pre-pandemic period and currently accounts for almost 97 percent of all loans granted to households. If, therefore, there has been a change in household demand for loans, this is more likely to have been a reduction in the role of short-term consumption smoothing, which is partly to be expected as a reaction to the rise in key interest rates.

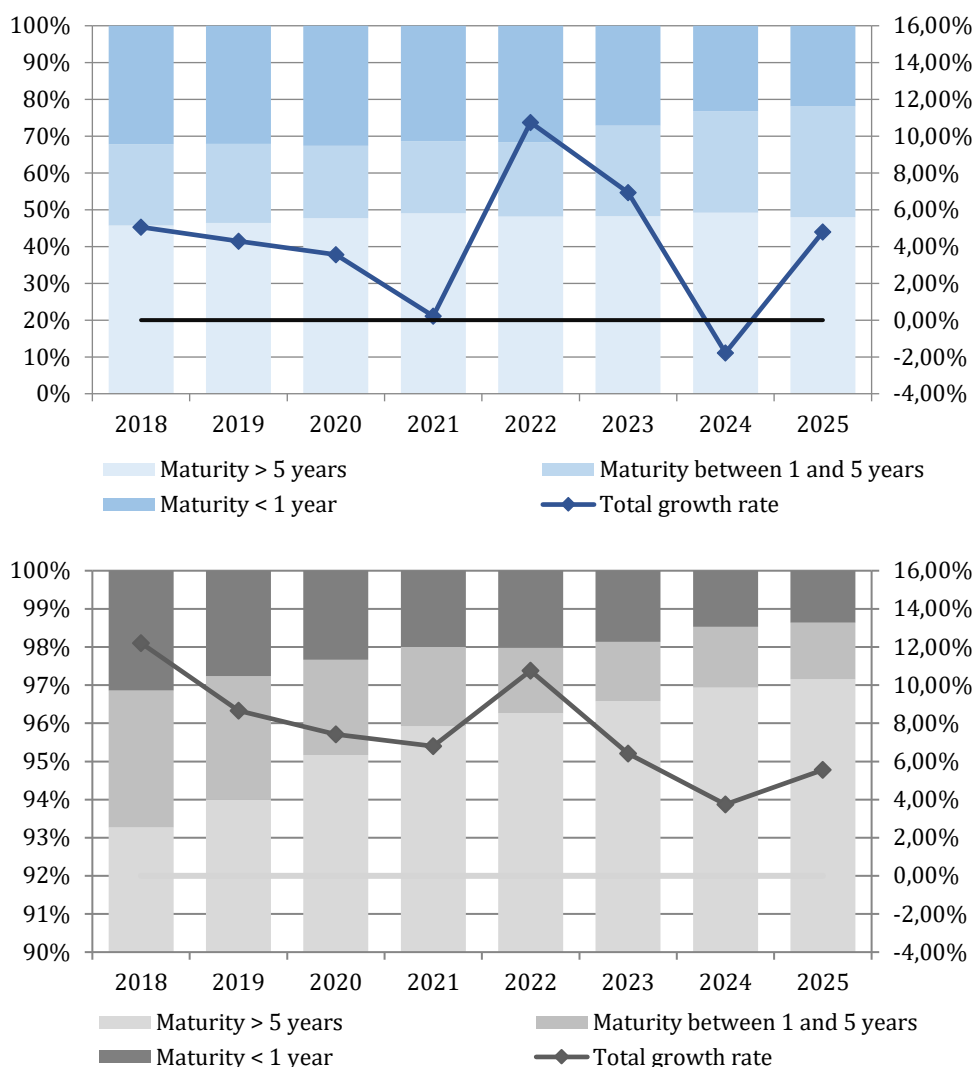
The corporate sector, which largely absorbed the negative effects of restrictive monetary policy, also responded by shifting the structure of its demand for credit (a decline in short-term financing). However, this segment also saw a more pronounced decline in the volume of lending. The renewal of lending growth at a rate comparable to that of household lending as early as 2025 could be interpreted as a favourable indication. From this perspective, developments in the banking market in Slovakia (Figure 9.6) are fully in line with those in the euro area countries (Figure 9.5), with Slovakia's growth rates even exceeding those of the euro area. Fiscal consolidation in Slovakia (see Chapter 2) has not had a major impact on the banking sector's development. The situation indicates that, on an aggregate basis, households continue to have sufficient borrowing capacity to secure financing for real estate purchases. However, it should be noted that demographic factors and the associated purchasing power are increasingly influencing applicants for mortgages to purchase secondary properties, as younger age cohorts might consequently be crowded out of the real estate market (NBS, 2025a).

The lower proportion of short-term loans to households may imply that households are utilising alternative resources to address potential short-term deficits in their consumption in the event of banks implementing more stringent lending criteria. A decline in savings (i.e. deposits) within the banking system should be indicative of restricted income, the utilisation of accumulated savings, and the inability to obtain credit. However, from an aggregate perspective, this phenomenon is not observed. In both 2024 and 2025, a consistent rise in the volume of household deposits was observed.

This growth was influenced, albeit to a lesser extent, by the rise in long-term interest rates on fixed-term deposits. This occurred in the context of a successful issuance of government bonds intended for sale to households.

Figure 9.6

The Structure and Growth Rate of Loans to Businesses (top figure) and to Households (bottom figure), by Remaining Maturity



Source: NBS; own calculation.

Slovak households' appetite for mortgage products and commercial banks' focus on this segment may appear to be a general trend not only in

Slovakia but also in other countries of Central and Eastern Europe. We will therefore take a closer look at the lending structure in this region.

Figure 9.7 illustrates the trend in the ratio of loans to households and businesses over the last two decades. Until 2011, the ratio was approaching a relatively stable value of 1:1, a characteristic of the situation in the eurozone countries. In other words, for every euro of loans granted to businesses, there was approximately one euro of loans allocated to households. However, in contrast to the trends observed in the Czech Republic (Hungary), where there has been a slowdown (slow decline) in lending to households, Slovakia has continued to demonstrate robust growth in this sector. Slovakia surpassed the 2:1 ratio in favour of household loans just before the onset of the pandemic in 2019 and came within striking distance of the region's record-holder – Poland. As early as 2022, the first post-pandemic year, Slovakia overtook Poland to take the top spot, and by 2025 its lead had been firmly established. At present, for every euro lent to the corporate sector, 2.33 euros are lent to households.

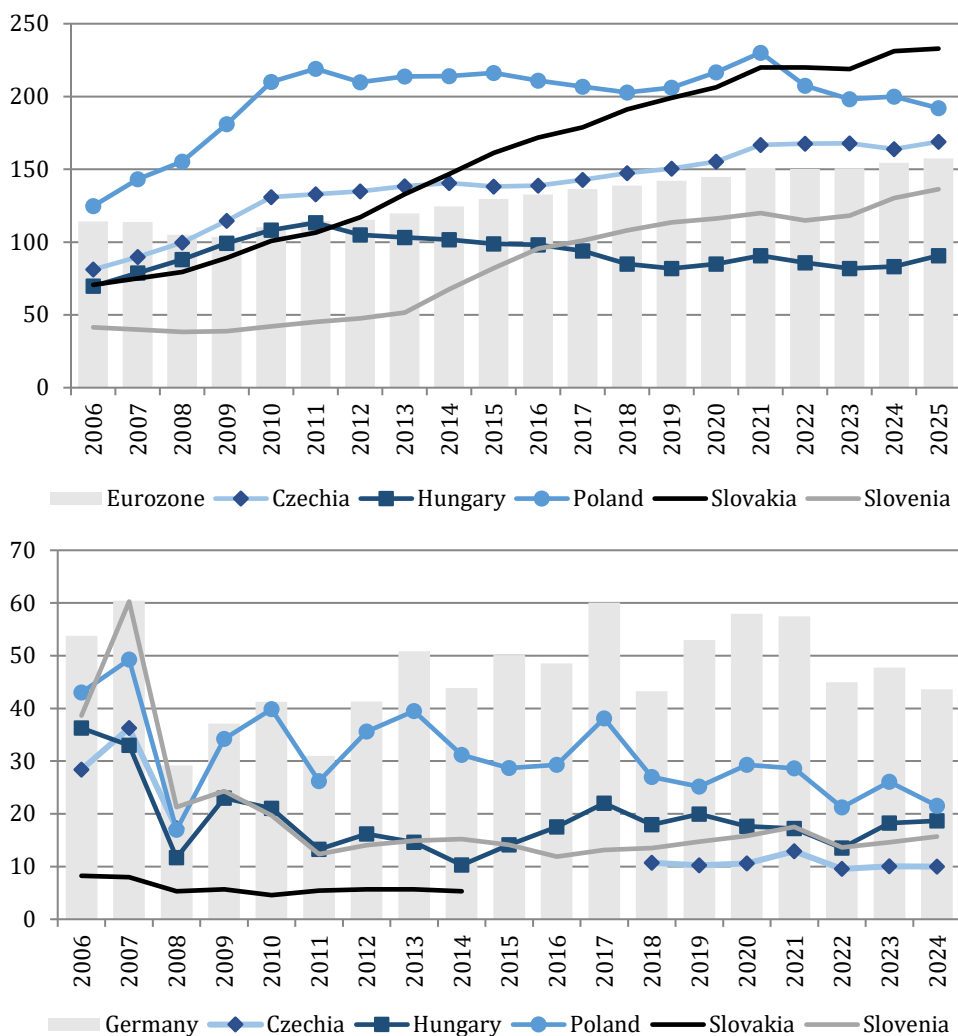
Long-term and capital-intensive investment and development activities in the corporate sector need not be financed solely from commercial bank sources. The high proportion of household loans relative to corporate loans in Poland does not necessarily imply a low level of financing for the corporate sector. One source of funding for the corporate sector's needs is the public stock market – the trend in the market capitalisation of domestic firms on the public stock market is therefore shown on the right-hand side of Figure 9.7.⁴⁶ As evidenced by the case of Poland, the stock market was demonstrably deep and comparable in size to that of Germany, even in the period preceding the implementation of quantitative easing in the eurozone countries. This stands in contrast to the precarious state of the stock market in Slovakia. Slovenia, which has a population that is two and a half times smaller than that of Slovakia, was gradually catching up

⁴⁶ Other external sources include private venture capital, or financing through private capital markets using debt securities (e.g., commercial papers/corporate bonds). The volume of financing through venture capital in Slovakia is significantly below the EU average (*Source*: OECD database) and amounts to only tenths of a percent of GDP. In addition, financing through repayable and non-repayable public funds, as well as loans from silent partners or direct equity investments in companies are to be considered. The discussion regarding the effectiveness and cost-efficiency of financing through all these channels is complex in the Slovak context and requires further scientific research; however, it should be part of future policy discourse.

with Poland by 2025. This suggests that a country's size may not be a significant factor in the development of stock markets in this region.⁴⁷

Figure 9.7

Index of the Share of Loans to Households on Loans to Businesses (top figure) and the Stock Market (bottom figure)



Note: The index of the share of loans to households on loans to businesses is defined as: Index = (total volume of loans to households/total volume of loans to businesses) * 100. Stock market capitalization is defined as share on GDP (in %). Data on stock market capitalization for Slovakia are available only until 2014. Data on stock market capitalization for Czechia are not available for the period 2009 – 2017.

Source: ECB; World Bank; own calculation.

⁴⁷ The pre-crisis years of 2006 – 2007 illustrate that even small countries can have stock market capitalization of comparable depth.

Preferences regarding the financing of investment needs in the corporate sector also vary across European Union countries. In Figure 9.8, we present a taxonomy classifying countries according to the nature of their funding sources – countries positioned further to the right on the x-axis receive an above-average volume of funding from the banking sector, whilst those positioned further up on the y-axis receive an above-average volume of funding from public equity markets. Within this taxonomy, it is possible to identify four relatively distinct clusters – countries with an above-average share of funding from both sources (the Netherlands, France, Luxembourg, Spain), countries with an above-average share of funding from the banking sector (Portugal, Austria, Italy, Greece), countries with an above-average share of funding from equity markets (Germany, Belgium) and countries with a below-average share of funding from both sources (Malta, Central and Eastern European countries, including Slovakia).

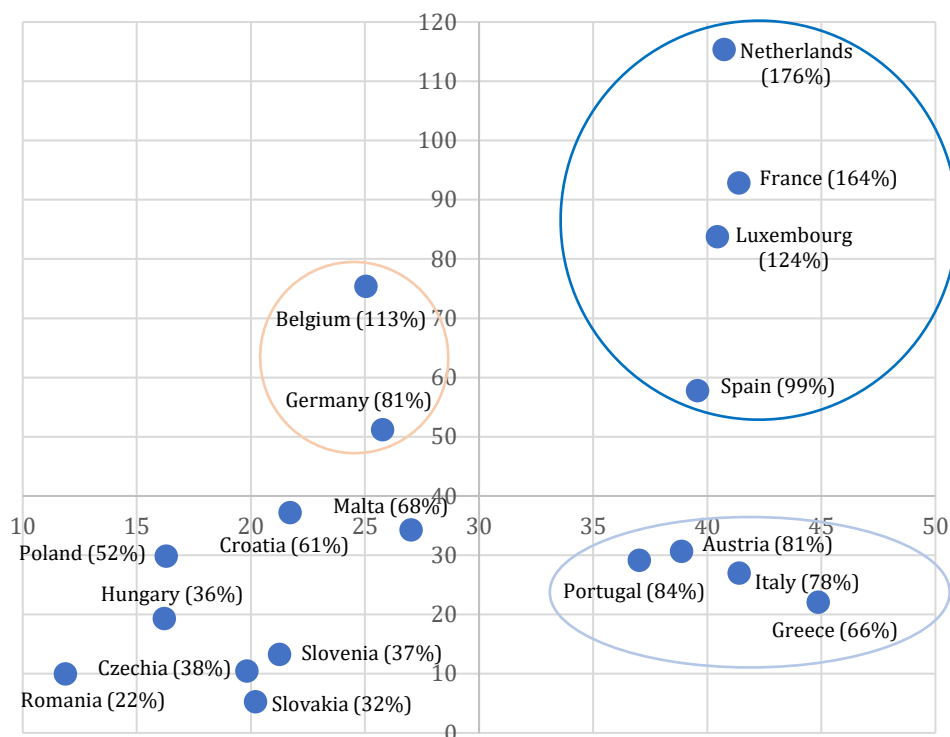
However, a closer analysis reveals notable variations within the group of Central and Eastern European countries with respect to the aggregate volume of funding from the three primary sources: (i) bank financing, (ii) corporate bond issuance, and (iii) the public stock market (see figures in brackets next to the country name). In the context of the corporate sector in Croatia, the level of financing for investment needs is covered to a ratio exceeding 60 percent of GDP. Conversely, in Slovakia, this ratio stands at a mere 32 percent of GDP, which is also the second lowest after Romania (22 percent of GDP).

Why is it important to analyse the volume of funding channelled to the corporate sector via the financial sector, and why should Slovakia's problematic position on this indicator serve as a cause for concern? From an academic standpoint, the positive and economically significant relationship between financial development and economic growth is a frequently tested and important empirical fact (as documented by meta-analysis in Havranek et al., 2015; and Iwasaki and Kočenda, 2024). In essence, a deep and effective financial system facilitates the optimal alignment of entities with a surplus of savings (predominantly households) with those experiencing a deficit (primarily the corporate sector), who nevertheless possess perspective investment ideas worthy of implementation. Within the financing structure, financing via financial markets (the y-axis in Figure 9.8)

occupies a special place, as its effects on economic growth are more pronounced (Havranek et al., 2015) when compared with financing via the banking sector (Iwasaki and Kočenda, 2024).⁴⁸

Figure 9.8

Bank- (x axis) versus Market- (y axis) Oriented Financing Structure of Corporate Sector (average for the period 2016 – 2019, % share on GDP)



Note: Data on stock market capitalization for Slovakia are from the most recent reported year (2014). The data on the x-axis represent the ratio of loans to businesses by commercial banks to GDP. The average value, calculated as the average of EU countries with available data, which separates countries into the left and right segments, stands at 30% of GDP. The data on the y-axis represent the ratio of the stock market capitalization to GDP. The average value, calculated as the average of EU countries with available data, which separates countries into the lower and upper segments, stands at 40% of GDP. The number in parentheses next to each country is calculated as the sum of: i) the ratio of loans to businesses by commercial banks to GDP, ii) the ratio of the stock market capitalization to GDP, and iii) the value of issued corporate bonds to GDP (Q2 2018, *Source:* MNB, 2019).

Source: ECB; Eurostat; own calculation.

⁴⁸ For the sake of completeness, it should be noted here that an excessively high level of debt in the form of exposure to the financial system can also have a negative effect on economic growth. However, this negative relationship usually manifests itself only when there is a high degree of so-called excessive financialization of the economy (the „too-much-finance” concept; see Arcand et al., 2015). Given Slovakia’s position in Figure 9.8, however, it can be concluded that the problem of excessive financialization in the corporate sector is not currently a concern; rather, the opposite is true.

The chronic shortfall in funding for the corporate sector in Slovakia may stem from constraints on both the supply and demand sides. The two-tier model of the Slovak corporate sector (Morvay, Hudcovský and Štefánik, 2025) – centred around a few large foreign firms focused on international markets, and featuring a large number of predominantly domestically owned small and medium-sized enterprises characterised by lower value-added production – may result in lower demand for corporate investment projects. The first group has access to available funding partly because of its size and age,⁴⁹ whilst also benefiting from in-house financing through its links to international financial markets (Frank, Morvay et al., 2019). Conversely, low productivity and the difficulties faced by SMEs in penetrating foreign markets reduce the overall need for investment and development finance, whether from the banking sector or other sources. The overall low innovation capacity of the domestic business sector, coupled with its lower positioning within production chains (see Chapter 1 and 12), poses significant challenges in identifying suitable investment and development projects that would be able to secure funding from the Slovak financial system. The above-average employment rate in the SME sector compared with EU countries suggests (SBA, 2025) that the capacity for firms to grow does exist and can be fuelled by an increase in labour productivity spurred by the financing of investment and development activities. However, the low value added generated by this group represents a significant barrier to its further development. At the same time, the comparatively low demand for financing for larger investment and development projects may indicate that it is precisely within the SME segment where barriers may exist which do not provide the incentive to grow into the segment of large firms competing on international markets.

From a supply-side perspective, a number of interrelated factors can be identified. The financing of the public's demand for real estate property loans naturally narrows the banking sector's attention on this client segment. In addition, the existing regulatory framework incorporates

⁴⁹ The large-firm segment, together with the micro-firm segment, drove the recovery in bank financing following the easing of restrictive monetary policy in Slovakia in 2025. For more details, see the NBS analysis (NBS, 2025b).

a discrepancy between the macroprudential policy settings and the risk weights assigned to property and corporate loans.⁵⁰ At the same time, macroprudential policy does not differentiate between multiple property ownership, particularly in cases where the focus is on capital gains. The concentration of household portfolios in a single segment has a potential to result in an increase in their overall risk profile and greater sensitivity to negative shocks from the domestic residential property market. A substantial volume of bank financing, if redirected over the long term towards property ownership, may therefore also potentially undermine the financial stability of the entire banking sector in the future. This was evident, for example, in the case of Spain, which experienced a mortgage crisis beginning in 2007 that subsequently spilled over into the financial crisis of 2008 – 2014.⁵¹ From the perspective of funding needs for future economic growth generated by new investments, the diversion of spare capital towards lending to the residential property sector may appear to be a constraint on further economic catch-up.

* * *

Developments in the first half of 2025 – in particular the growing geopolitical uncertainty resulting from the first months of the US President Donald Trump’s administration – prolonged the period of easing of the ECB’s restrictive monetary policy. The monetary policy stabilised around economic equilibrium in June, following the European Central Bank’s latest cut in key interest rates to 2.15%. Towards the end of 2025, a gradual,

⁵⁰ Tightening macroprudential policy regarding the LTV ratio for mortgages from 100% (risk weight of 70%) to 90% (risk weight of 50%) will mean that, for example, SME business loans with a risk weight of 85% (75%) will be much more costly from the perspective of maintaining the required capital level than granting a mortgage. Corporate loans outside the SME segment with an external rating in the A+ to A- range will, with a risk weight of 50%, be on par with mortgage lending in terms of capital requirements, given the relatively lenient LTV limit of 90%. At the same time, the transaction costs associated with arranging a corporate investment loan tend to be much higher than those for granting relatively standardized mortgages. Paradoxically, any further tightening of the LTV ratio could thus create a situation where granting new mortgages is more advantageous from a capital adequacy perspective than financing corporate investment projects. Source: <https://www.bis.org/basel_framework/chapter/CRE/20.htm>.

⁵¹ In terms of household debt in the form of bank loans, Spain experienced rapid growth prior to the mortgage crisis, rising from 48% (2003) to 74% (2007). Slovakia currently stands at 41% (2025), which ranks it ninth among the EU27 countries.

slow economic recovery (an improvement in economic sentiment) could be observed, accompanied by year-on-year growth in lending (to businesses and households). While professionals' expectations, closely aligned with the 2 percent inflation target, signal high confidence in the ECB's policy, households' expectations approached 3 percent, reflecting higher perceived rather than actual inflation.

The year 2025 marked a return to growth in lending in Slovakia, evident in both the household and corporate sectors. While corporate lending was already growing at a pre-pandemic pace, a more pronounced upturn is anticipated in the financing of the population's consumption and investment needs in the forthcoming period, partly as a result of the anticipated easing of fiscal consolidation (see Chapter 2). In light of the historical evolution of the structure of commercial banks' lending activity in Slovakia, there is a notable concentration on providing loans to households with long maturities (mortgages), which is particularly pronounced when compared with other countries in the wider Central European region. The volume of corporate financing obtained through the financial system is the second lowest among EU countries, even when debt financing via corporate bonds and publicly traded shares is taken into account. A developed financial system, characterised by its depth, accessibility and efficiency, has been shown to have a substantial impact on economic growth. This is evidenced by the system's ability to channel surplus savings into investment projects that demonstrate development potential. From this perspective, the Slovak economy is missing out on potential investments that could help it to generate growth and catch up with developed European countries. The analysis of the underlying causes of this situation necessitates in-depth and systematic research, which is beyond the scope of this publication. However, it is important to acknowledge the lower innovation capacity exhibited by SME segment, their inadequate international competitiveness, and their limited value-added production. These factors, inter alia, serve to impede the growth potential of the SME sector, which, in turn, exerts adverse effect on the demand for investment loans. On the supply side, it is necessary to discuss the regulatory framework that might benefit the risk profile of mortgage loans, regardless of

the purpose of the property purchase. Combined with a low tax burden and the virtual absence of alternative investment instruments, it supports a strong preference among households for financing property purchases. Concurrently, the absence of diversification in the portfolio of financial and real assets held by Slovak households gives rise to concerns regarding elevated exposure to domestic risk in the future.

10. MEGATRENDS AND OTHER INFLUENCES AFFECTING THE ECONOMY OF THE SLOVAK REPUBLIC

Like last year, at the beginning of 2026, the Slovak economy is constantly under pressure from external factors. Global changes have had a significant impact and have contributed to the urgent need to find appropriate strategic solutions. As part of the EU, Slovakia faces opportunities and challenges to adequately balance its own interests with the EU's broader visions and priorities. The uncertainty of trade and market volatility, at a time when defence and economic security are reshaping foreign policy, makes it even more urgent to understand the significant changes at the intersection of geopolitics, business, and trade. All changes in the world will sooner or later be reflected in the dynamics and structure of the domestic economy. Last year and at the beginning of 2026, the world remains in a period of dynamic development, with the difference that the number of conflicts near Europe is increasing and, in particular, the new US attempt to change Iran is beginning to have a significant impact on the economic situation of many countries around the world. The European Union is awaiting the results of various elections, especially those in Hungary, given the complex political relations between the European Commission (EC) and the Hungarian government. However, this does not mean there will not be several other political tensions and important negotiations between countries with differing interests in energy, agriculture, and related fields.

The visions of individual great powers and other countries are beginning to encounter obstacles caused by the need to balance their own interests and autonomy with strategic dependence on partners and competitors. Calls to end conflicts or temporarily freeze them have not yet met with the willingness of all actors involved. The suppression of larger conflicts (e.g., in Ukraine and the Middle East) is likely to occur when the costs of conflict management pose significant economic threats to the interests of the main actors. In the case of the Iranian crisis, the pressure of many countries economically dependent on important resources is already beginning to show. It turns out that, unlike in the recent past, when the

situation was assessed only through economic aspects, today it is necessary to take into account the impact of geopolitical factors, political decisions, and strategic games on the situation in countries.

The Main Challenges That Slovakia Is Currently Facing

While the situation in Ukraine was the main challenge for the Slovak economy in 2024 and 2025, the beginning of 2026 brings several problems for the EU and Slovakia in connection with the US customs policy, bad weather, and the situation in the Middle East. Even as the sphere of conflict expands, many of the factors affecting the domestic economy remain similar to what they were in the past. These include the threat of inflation, cyber risks, problems with the supply of energy, products, and raw materials (such as fertilizers), or a lack of technology-oriented experts. 2025 was a challenging year for EU countries due to extreme weather and record drought, which caused a significant drop in agricultural commodity yields. The supply shortage has led to persistent inflation, which is putting financial pressure on the economies of the Union, including Slovakia. In Slovakia, inflation rose to about 4% last year. Although the government adopted stabilization measures, more expensive food and other negative impacts of agricultural exports caused farms to invest less. There was also an increase in commodity market volatility. Despite support for investment and modernization from the European Structural Funds and the Recovery and Resilience Plan, inflationary pressures stemming from the difficult situation are likely to persist for some time. Disruptions to global supply chains and routes are also among the main reasons. The difficulty of maritime transport through corridors in the Middle East has direct (limited purchases from regional countries) or indirect (increased demand from Asian countries) impacts on the supply of various products. Figure 10.1 shows a map of the area with three key points of logistical vulnerability.

An important point in geopolitical decision-making will be the intensity of Slovakia's efforts to join the „core“ of the Union. Institutional changes should lead to greater integration among „nuclear“ countries at a significantly faster pace, and perhaps even to a decision-making regime with

a different institutional shape. Changing economic realities, disrupted supply chain management, and the consequent long-term impacts on trade and investment require leaders of all countries to consider a range of circumstances and choose appropriate strategies to ensure the successful functioning of their economies towards stable growth amid a turbulently evolving global economic system.

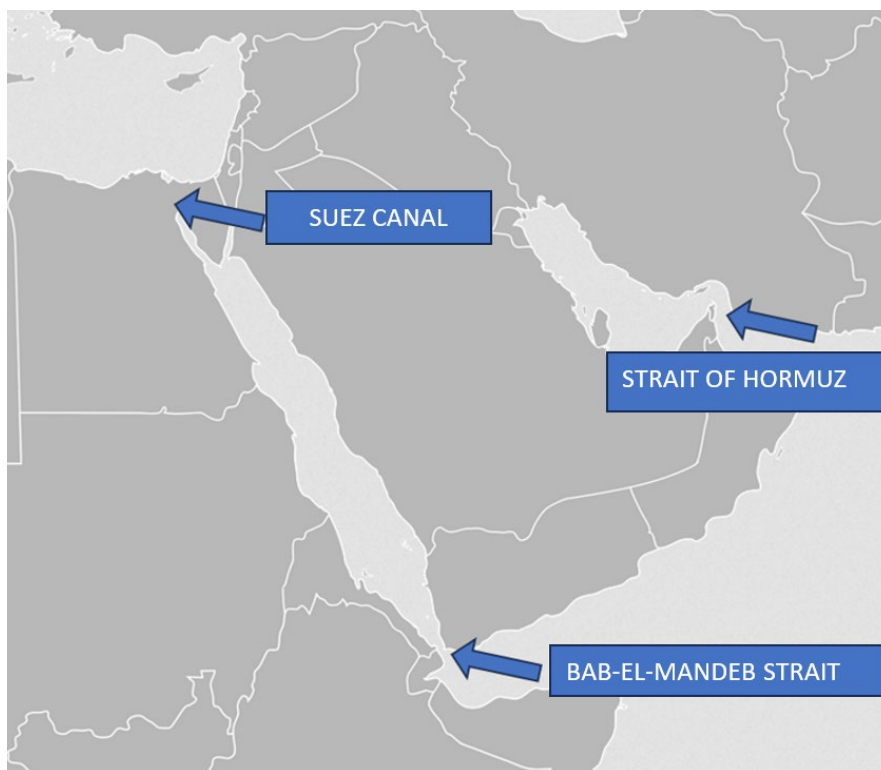
The development of Slovakia will therefore be affected by the same external influences that have been recorded in most advanced economies. When analysing general trends (2025 – Q1 2026) (e.g. OECD, 2025a), it can be observed that the global economy did not fall into recession in 2025 despite record tariffs and trade fragmentation. Growth in 2026 is driven by „frontloading“ and rapid adaptation of supply chains. However, the escalation in the Middle East in early 2026 caused a new geopolitical and energy shock, raising inflation expectations in March, especially in Europe and the UK. Now more than ever, the governments of the world’s most advanced economies are faced with the need to increase defence spending, which deepens budget deficits and limits the possibility of cutting interest rates. Figure 10.1 presents a map of the key maritime points of the Middle East as a logistical factor.

Asymmetric warfare in a Middle East conflict allows the economically and militarily weaker side (in this case, Iran) to create critical disruptions, known from complex systems theory and catastrophe theory as „small impulse – big effect.“ This effect creates a situation in which more and more state and non-state actors on both opposite sides are involved in the conflict; a similar situation with other structural differences can be observed in the conflict in Ukraine.

The closure of the Suez Canal and the Gate of Tears may significantly extend delivery times for commodities and goods and increase transport costs, also due to the need to choose alternative delivery methods and increased insurance rates. Since the beginning of March 2026, it has basically been closed to most commercial traffic due to the ongoing regional conflict. The closure of the Strait of Hormuz (a source of gas used in nitrogen production) and possibly the Suez Canal (a route for phosphates from Africa and Asia) may have significant long-term impacts on agriculture in many countries and, indirectly, on food production.

Figure 10.1

Critical Areas for Global Supply Chains – Middle East



Note: The Gate of Tears, officially called Bab al-Mandeb (also Bab-el-Mandeb), represents an important strategic point. The Strait of Hormuz is strategically the most important point for global oil exports, located between Oman and Iran, connecting the Persian/Arabian Gulf with the Gulf of Oman. A narrow strait between Yemen (Arabian Peninsula) and Djibouti/Eritrea (Africa). The Suez Canal is an artificial waterway in Egypt that connects the Mediterranean Sea and the Red Sea. It is the key artery for trade between Europe and Asia.

Source: Brzica (2026).

Many of the challenges the Union is now facing also affect the Slovak economy. It turns out that the current developments in the world are most affected by those economies that have a strong representation of industry in their production portfolio and are too dependent on imports of raw materials and energy. Therefore, the sectoral structure of the domestic economy faces significant pressures from the external environment. Traditional sectors that Slovakia relies on thus create strategic vulnerabilities. Since the Slovak economy is one of the weakest groups of „emerging“ innovators (Morvay et al., 2025), solving the critical situation will be politically and economically challenging.

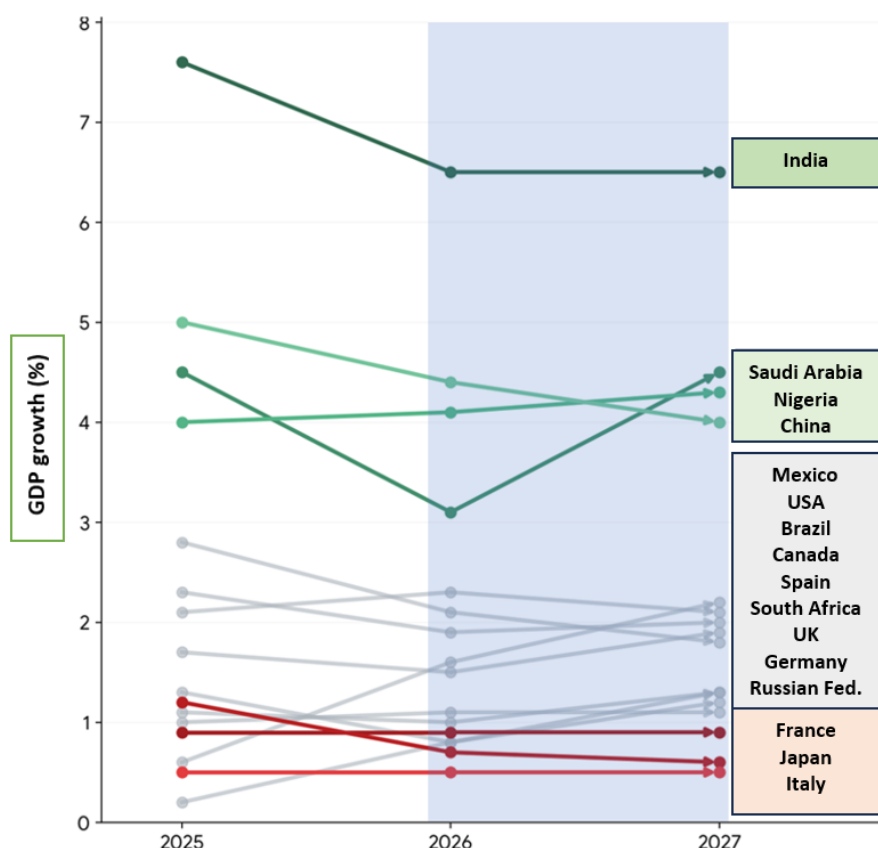
Global Development – Important Areas

If in the past it was common for the domestic economy to be more influenced by factors and actors from countries in its immediate vicinity, the current degree of global connectivity is also reflected in the effects of changes from other continents or regions. Therefore, it is desirable to monitor developments in more remote areas as well. The current scale of conflicts only underscores the need for strategic autonomy, at least in economically key segments. The scale of the need for autonomy is considerable and continues to grow over time. Therefore, it is precisely about budgetary constraints that strategic decisions to maintain and further develop production must be properly consulted on and assessed by top management and political elites. As Figure 10.2 shows, with a few exceptions, a significant acceleration in the growth of the world's major economies cannot be expected in the near future.

The United States' performance will remain strong despite lower GDP growth. The current situation in the US mainly benefits wealthier groups of the population. Monetary policy, fiscal stimulus, and the continued emphasis on advanced technologies, especially large language models, are likely to move the economy forward. Slow growth in the EU and the UK further creates strategic vulnerability to more dynamic rivals in Asia and the US. Although China's economic growth is likely to be more moderate than in previous years, it should be above the global average. India is likely to remain the world's fastest-growing major economy during this period (see Figure 10.2), given ambitious changes in infrastructure investment and structural reforms. As in the case of China, it will also use domestic consumption. From January 2025 to March 2026, the development of global stock indices moves towards higher values – IBEX 35 (Madrid, up 43.9%), NIKKEI 225 (Tokyo, 35.8%), S&P/TSX (Toronto, 28.4%), FTSE MIB (Milan, 26.2%), FTSE 100 (London, 20.7%), DAX Frankfurt am Main, 11.4%), Dow Jones (New York, 6.5%) and CAC 40 (Paris, 4.2%). According to the latest data, in March 2026, the MSCI global stock index fell by 6.6%. Given the uncertainty, European indices lost even more. The dynamics of change at the beginning of the year are both a consequence and a starting point for further development.

Figure 10.2

World Economy Development and Outlook (2025 – 2027, real GDP growth)



Note: (1) the grey bar represents an estimate of future development, (2) real GDP growth, (3) groups of countries have been selected based on the 2027 development forecast.

Source: Brzica (2026); processed by the author according to IMF data (2026).

In the following section, we will focus in more detail on some of the changes that have occurred or are still taking place in different parts of the world.

Europe: In addition to the agreements with MERCOSUR and India, the agreement with Australia is also an important change for the EU Member States. The reason for the removal of tariffs is that both entities are currently facing tariffs imposed by the US administration, and both economies face uncertainty regarding critical raw materials. The agreement was signed at the end of March 2026 (24.3.) and abolishes almost all tariffs on European exports. European countries face structural problems due to

their involvement in energy- and resource-intensive industrial production (e.g., the Czech Republic, Slovakia), significant indebtedness (e.g., France, Italy), or underestimating the importance of advanced technologies (e.g., Germany). It is Germany that is now facing the need to strengthen the restructuring of its production segments to a more dynamic way of operating. The pressure does not come only from signals from economic elites and research centers, but mainly from competitive pressures on the automotive sector (so far mainly from China, later perhaps also from Indonesia, Vietnam, and others). Porsche has already responded to these challenges.⁵² While European car manufacturers are feeling the pressure of non-European competition, the number and scale of production of arms companies in the Union are growing, and they are becoming significantly profitable. This is also confirmed by the position of businessman M. Strnad, who until recently was relatively unknown at the European level,⁵³ and is now ranked 69th in the Forbes magazine ranking among the richest people in the world with a fortune of USD 31.1 billion.

Following the introduction of tariffs against the Union, they were expected that they would have an impact on reducing the Union's growth momentum and devaluing the euro against the dollar. The EU's retaliatory measures were also expected to trigger price rises and inflation. However, the Union has backed down from significant countermeasures. In response to the increase in tariffs on steel and aluminium, the US imposed tariffs on American products, but reconsidered its policy after the July 2025 agreement. The year 2025 and the first half of 2026 were significantly affected by US tariff measures on Slovakia and the European Union. The introduction of US tariffs has caused a significant slowdown in the EU's export dynamics, with our economy being among the most vulnerable due to its dependence on the automotive sector. General tariffs on European goods, introduced in 2025, have brought considerable uncertainty to the economy. The development had a negative impact on GDP growth,

⁵² The luxury car manufacturer plans to focus on producing vehicles with a higher profit margin. These changes anticipate another wave of layoffs. Earlier, the company announced the elimination of four thousand jobs. The carmaker's operating profit fell by 93% to EUR 413 million in 2025.

⁵³ Michal Strnad also became the third-richest person under 40 in the Forbes ranking. At the beginning of 2026, he was even ranked 64th among the world's billionaires, according to the Bloomberg ranking.

while the greater impact at present could be weakened by the fact that the US is returning customs duties paid to exporters based on the decision of US courts. The recovery in foreign trade will probably not be fully felt until 2027, as there are currently long-term increased tensions in trade relations. Stability could be restored in part as a result of the above-mentioned abolition of tariffs in the US and the elimination of EU tariffs on US industrial goods as part of reciprocity. However, the situation is difficult mainly due to geopolitical influences on the automotive sector.

The Union is now calling for a reduction in efforts to intervene significantly in the area of fuel prices, as the current situation may further deepen the process of increasing indebtedness of its members. German companies also continue to invest heavily in constructing their production plants in China (e.g., BASF). However, the social system remains a challenge, especially for Germany – last year the country spent EUR 46.6 billion on social benefits, and a total of 5.2 million people received social benefits (of which 47% were foreigners).

Population growth, education and youth work, as well as part-time employment, are a concern for European leaders. Although few children are born, there is a risk that jobs will become less accessible to young people due to the mass deployment of artificial intelligence (AI).

If, in the past, many Member States did not fully identify with the Union's strategic ideas, the level of disagreement is now increasing, especially among Member States in the eastern part. Poland, for example, has long been inclined to cooperate more closely with the US (with some reservations about Germany), while Hungary continues to maintain a policy of „multiple azimuths“. This brings a certain degree of fragmentation in the adoption of important joint decisions and thus reduces the coherence and capacity of this economic quasi-whole. The trade agreement with South American countries (MERCOSUR) also divides the European Union. For some members of the Union, this is a step towards the creation of the largest trade zone in the world; for others, such an agreement is difficult to accept. This process⁵⁴ of forming the Union includes the activities of

⁵⁴ However, the Union needs trade agreements such as those concluded with Latin American countries (MERCOSUR), India, or Australia. However, this also presupposes that safeguard measures or specific provisions are appropriately calibrated so that the interests of EU actors (such as farmers) and counterparty parties are not harmed.

Central European countries with the idea of reviving the concept of the Visegrad Four (V4) and the idea of some Western European members to create a „two“ or even „multi-speed“ Union.

Efforts to integrate the European market continue. The pressure for greater integration of European capital markets is growing, and not only as a result of the Draghi report (FEC, 2024). Several new proposals are now on the table to increase competitiveness, green the economy, regulate digital services, and use artificial intelligence.

North America: While U.S. President Donald Trump's actions are received with mixed reactions, America's upper classes are seeing growing wealth. The number of families with assets in various higher categories (more than USD 10 million and more than USD 50 million) has been growing significantly in recent years. U.S. arms companies, which until recently had problems with orders, are now thriving. While the United States is trying to limit Chinese activities in the world (once Panama, now Venezuela, Iran), Canada is looking for alternatives due to its close ties to these economies. Not only large countries such as China, Mexico, Canada, and India, but also the entire EU have been subjected to new US tariffs on exports to the United States. By the end of 2025, a large part of global imports was affected by tariffs. These tariffs thus disrupt the relatively stable architecture of world trade that has been created over a long period. Large companies operating in the field of AI (OpenAI, Anthropic, xAI, and others) are raising a significant amount of resources to develop large language models (January-March 2026 = USD 297 billion, 2025 = USD 425 billion). However, there are several challenges – cost, profitability, energy, and water requirements for cooling data centers. In addition, from the perspective of the corporate sector, some companies are being pushed out of the digital business focused on providing software by AI-focused companies.

South America (MERCOSUR): The importance of the region is growing thanks to the recently signed trade agreement with the EU. The MERCOSUR market represents 332.1 million inhabitants, and the total GDP is USD 3073 billion. According to an estimate by the German agency GTAI, Germany alone exported goods worth EUR 16.3 billion last year.

South Asia (India): Leveraging its growing potential, India has bet on supporting the development of strategic industries, especially advanced technologies. Although its dynamics hardly compete with those of its more dynamic neighbour (China), the long-term presence of large technology companies, especially from the US, and skilled or trained workers, allows the country to support economic and technological development in the long term successfully. However, other ambitious competitors such as Indonesia and Vietnam cannot be overlooked either. India and the EU have agreed to conclude a trade agreement. The agreement will create a free trade area with a market of around two billion people, provide new business opportunities for partners, and boost job creation. The agreement should strengthen the economic and political ties between the two entities and double EU exports to India as a result of the reduction/elimination of tariffs on more than 90% of EU exports of goods. The European automotive sector could mainly benefit from the agreement. The agreement will improve access to the Indian services market, especially in financial services, but also in other sectors. However, India has become one of the hardest-hit economies. The crisis surrounding the blockade of the Strait of Hormuz has exposed the country's considerable vulnerability. Its strategic reserves and storage capacities do not allow it to respond flexibly to supply shortages,⁵⁵ with gas shortages hitting the Indian industry and the population hard. The country is trying to balance its interests in the wider region, which weakens its ability to act. U.S. pressure and a shared interest with Iran in building the North-South Transit Corridor (MOT) are forcing the Indian government to seek difficult compromises. However, partial and temporary waivers granted by the US and rising tensions in the Middle East do not yet promise positive prospects.

China: The world's second-largest economy's ambitious efforts to establish itself in many attractive (and profitable) sectors continued successfully in 2025. The country's leadership has now adopted the 15th Five-Year Plan (2026 – 2030). The country produces several technological

⁵⁵ India imports about 90% of its oil from abroad. While in the fiscal year ending in March 2020, it imported oil from Venezuela for USD 6 billion, in the year ending in March 2025, it imported only USD 1.4 billion (Schipani, Kaushik and Kay, 2026).

innovations that either approach the maturity of those world leaders or surpass them in absolute values or in the price-performance ratio. The search for resources requires logistical support, so the Chinese presence is visible in more than thirty African countries (e.g., 78 ports in 32 African countries have the presence of Chinese actors). This accounts for about a third of all African ports (Nantulya, 2025). In ninety countries around the world, the country has invested more than twenty billion dollars in port facilities. China is now moving even faster from an economy based on low-cost manufacturing to areas such as AI, biotechnology, semiconductors, advanced materials, and new energies. The country is now ranked 10th in the Global Innovation Index. Its gross domestic product grew at a decent pace of 5% last year, reaching USD 20.3 trillion. Exports increased by 6.1%, and the share of R&D reached 2.8% of GDP. For this year, the GDP growth target is set between 4.5% and 5% with the intention of redirecting economic development to the quality and innovation of production, not only to the dynamics and volume of production. There are three advantages to a country's competitiveness: a large market, a significant place in global supply chains, and the fact that the economy acts as a major innovation hub. In addition, the economy reduced energy intensity by 5.1% last year and increased the share of non-fossil energy sources to 21.7%. Active fiscal policy should support consumption and domestic demand, and interest rates are expected to be cut in monetary policy. With regard to advanced technologies, it is worth noting that the „AI+“ initiative should lead to equipping all sectors with advanced technologies. For example, Schneider Electric has built five R&D centers and one AI innovation lab here. China is thus fully developing its scientific research capabilities across all four of its business areas through a mechanism that integrates R&D, production, and sales. The country also faces challenges, including a rising youth unemployment rate (ages 15-24), which was just below 7% in 2000 and now stands at 15.8%.

Russian Federation: From the point of view of modern technologies, it is worth mentioning the effort to build its own satellite Internet network. It should be a competitor to the Starlink system of the American company SpaceX, and its implementer is the private Russian company Bjuro 1440.

So far, only the first batch of these communications satellites has been launched in March.

Africa: The sub-Saharan part of the African continent is still an area with underdeveloped development potential. South Africa is an exception in this regard. Oxford Economics Africa is adjusting its estimate of the average economic growth of the African continent for this year to 3.9% due to the conflict in the Middle East, which has worsened growth prospects for much of Africa. Net crude oil exporters are expected to benefit from rising oil prices, posing risks to Algeria, Angola, and Nigeria. On the other hand, other countries – Ghana, South Africa, Tanzania, and Zimbabwe – can also benefit from development (OEA/CBNCAfrica, 2026).

Middle East and Gulf States: Their importance will grow, especially in 2026. Only six Gulf states collectively control USD 3.5 trillion in assets. USD. As a result of the conflict, some wealthier people are moving to Italy and Switzerland, which may strengthen the European economy.

Japan/Australia: Japan is forming strategic alliances with South Korea and Taiwan to counterbalance the influence of mainland China. This means further creation of regional coalitions.

Strategic Decision-Making and Today's Complex Challenges

Although the tactical measures and strategic actions of state leaders are sometimes surprising, the intensity devoted to research into decision-making in complex situations, now also using advanced technologies, including AI, is obvious. Already in the publication (Morvay et al., 2025), it was stated that President Trump „... It brings changes that foreign partners cannot accept or predict.“ It confirms the thesis that „the success of the ‘initiator of change’ strategy depends on the arrangement, context, and timing.“ Deciding to take action in Venezuela or later in the Middle East, in the first case with the recognition of the use of the AI model Anthropic, means that the challenges (or rather, problems) facing leaders are complex. Therefore, even the teams around government and military representatives are no longer satisfied with traditional forms of decision-making. Elements of chance, personal preference, or failure remain

present in decision-making, but they are rather the exception. When solving so-called wicked problems, it is necessary to work with advanced technologies, appropriate decision-making models, and a lot of data showing „ambiguity“.

The Union evaluates its position from different perspectives (e.g., reports of the groups led by Lett /2024/ and Draghi /FEC, 2024/). The Draghi report was more useful in the analytical part (assessment of the situation) and had reserves in the normative part. It has also contributed to a broad debate within the Union because it is a complex document that covers many parameters of the European socio-economic environment. The report analysed in detail many areas related to the Union's prosperity and outlined the many challenges that Europe has to face. However, some elements have been assessed in a simplistic manner in the report, particularly about possible changes in economic policy and strategy. The fact that it contained the ideas of experts from a limited territorial segment was reflected in the report, which was considered to be a certain disadvantage. However, the Commission has rightly pointed out that if the Union fails to coordinate its policies, it risks undermining competitiveness and delaying or rejecting transformative action. New initiatives for the development of the Union's technologies and competitiveness are constantly emerging, but action in implementation remains a weak point.

Institutional Changes

It is difficult to determine the extent to which institutions can influence compliance with the „rules of the game“ and promote new directions for growth. Today, institutions (especially regulations and standards) are starting to play an important role, with a significant impact on the development of products and services with highly innovative content. However, it is difficult to ensure that these legislative measures target ecologically, ethically, and otherwise desirable products and services, while promoting innovation and technological progress.

Regulatory changes, presented as a „regulatory reset“ (OECD, 2025b), can be expected in the following areas:

- reform of regulatory governance and institutional frameworks;
- ensuring greater dynamism in the labour market and product regulations;
- address barriers to regulation and over-energy;
- reformulation of housing regulations to promote:
 - (a) availability a (b) mobility;
- ensure that regulatory frameworks do not lag behind digitalisation.

In 2024, the EU Artificial Intelligence Regulation was adopted, which imposes transparency obligations on developers, suppliers, and operators of AI systems. In the summer, new European transparency rules for AI will come into force. They introduce an obligation to label AI content. It must include a notice to the user about interacting with the technology and other information (e.g., regarding ‘deepfakes’, i.e., AI-based technologies that allow the creation of realistic but fake images, videos, or sounds). In addition to regulating innovative activities, there are also traditional areas. In April 2025, the Union intervened to maintain the efficiency of the functioning of the market and the corporate sector. At that time, European and British antitrust authorities fined several large carmakers EUR 530 million (of which the EU fined EUR 458 million) for cartels that intended to prevent competition in the car recycling segment. Both European and non-European companies have been affected. The European Commission has thus indicated that it will not tolerate violations of the rules in the business environment. Trade agreements concluded at the EU level also require that quality and production standards (ethical, ecological, etc.) be ensured, in addition to stabilizing the EU market in the event of the effects of market fluctuations. This is especially true in the agricultural sector. Imported food products and agricultural commodities, including those under the MERCOSUR agreement, must meet comparable production quality standards. A breach of the principle could significantly harm Union producers, who are subject to strict rules in the Union.

The role of regulations in the global context is expressed in the proportion of employment devoted to regulatory tasks. Although this proportion increased between 2011 and 2021 in the US, Europe, and Australia, the gap between Europe and Australia, on the one hand, and the US, on the

other, remains significant. In the United States, the share of employment in this area was below 3% until 2020; the remaining two entities were then in the range of 3.50% to 3.75%. In 2024, in Europe and the US, this share continues to increase (although it remains significantly different), with Australia falling below 3.75%.

Logistics and Its Technological and Geopolitical Dimension

Supply chains form the basis of an interconnected global economic system. While on the one hand, modern technologies (the use of big data and AI) significantly streamline logistics processes, on the other hand, global, regional, and local conflicts disrupt these processes, as can be seen from the recent events in the Persian/Arabian Gulf. Global supply chains are also changing due to rising geopolitical tensions and growing protectionism. Traders can no longer take full advantage of „last-minute“ deliveries, but it forces them to build up sufficient stocks of raw materials, energy, components, and spare parts. German companies may thus have problems producing, e.g., batteries for humanoid robots due to a lack of raw materials. In addition, companies face an urgent need to reconsider their cooperation with some suppliers/customers, or at least to expand or diversify their clientele. Companies are also looking to expand their production bases geographically so that conflicts in one region allow them to use more capacity elsewhere.

Potential Effects Induced by Advanced Technologies

The impact of advanced technology on people's lives, corporate innovation, R&D performance, and government efficiency is or can be significant. Innovation, broadly defined as the introduction of new ideas, processes, or products, is often an accelerator of transformational change. Economies benefit from innovation in many ways, from improved healthcare and communications to modernized transportation and other systems. Governments and companies must actively promote innovation to remain competitive and maintain their positions in a rapidly changing

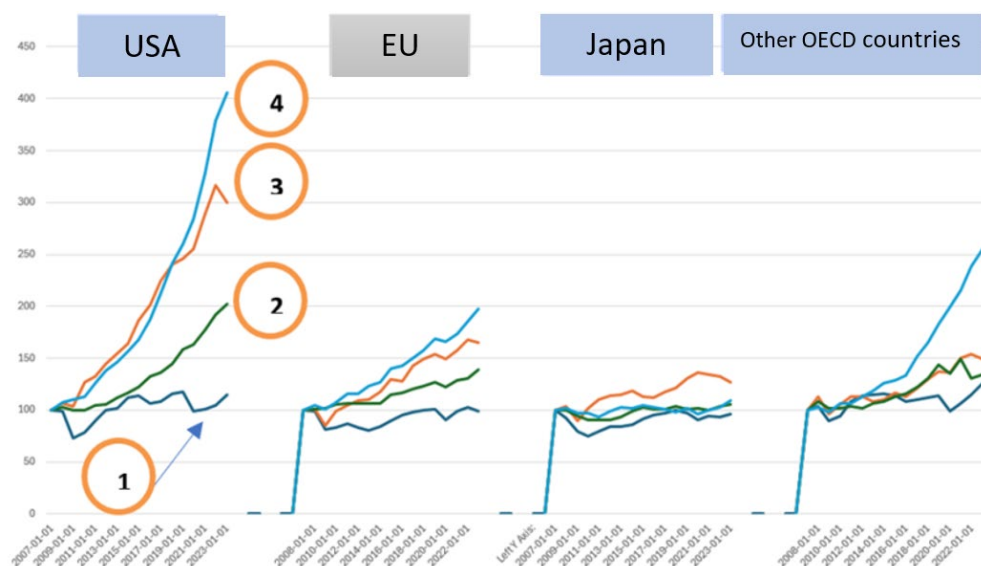
world. According to Eurostat data, in 2025, a fifth of companies in the EU (19.95%), with 10 or more employees, and the self-employed, used some form of AI. Compared to 2024, this is an increase of 6.47 pp, but for large enterprises up to 13.86 pp (Eurostat, 2026a). In the case of Slovakia, the share is less than twenty percent, Romania has 5.21 percent, and Poland has 8.36 percent. The leaders are the Nordic countries – Denmark (42.03%), Finland (37.82%), and Sweden (35.04%) (Eurostat, 2026b). Differences in AI adoption across the EU point to differences in national innovation systems, R&D financing, and different business cultures that prioritize innovation. However, technology does not only affect the corporate sector, but AI, for example, has an impact on the education system. The experience of the most advanced economies can be inspiring for Slovakia. In addition to the already existing practice of restricting the use of mobile phones and tablets in teaching in our country at the first stage of primary schools, changes are now also taking place at the university level in the United States. Oral exams are starting to gain importance again. This is due to the advanced use of AI in written works. This change reflects an innovative response to the changing possibilities offered by technology.

It is necessary to react promptly to significant changes in global trends; otherwise, there is a risk of losing contact with world leaders. The percentage of companies using AI technologies in the V4 countries is lower than in the developed economies of the Union. While the EU average is around 20% (2025), the V4 average is only 13.6% in the same year. Denmark has a share of 42%, Finland 38%, and Sweden 35%. The reason for the differences is also structural differences (production profile of countries, share of services, territorial aspects, etc.). These structural factors can significantly hamper a country's ability to innovate and achieve significant technological change. Nevertheless, there is a significant difference between the developed economies of the West and their Central European partners. Romania reports the minimum value with 5.2%. Artificial intelligence is becoming a driving force, and if investors start to see a return on their investment, it can also accelerate economic development and productivity. Sectors with high rates of AI use in the U.S. show

significantly higher productivity growth, which partially offsets higher energy and labour costs. This shows a direct correlation between technological innovation and economic performance. In 2025, the implementation of AI encountered infrastructure constraints in the form of insufficient capacity of data centers and power grids. The first quarter of 2026 is therefore marked by significant investments in energy resources focused exclusively on artificial intelligence. Social pressure and government priorities in this direction are pushing for the use of „clean“ and nuclear energy. International organizations, such as the IMF, warn against a re-think of technology expectations. If AI gains do not match current reinvestments, there is a risk of market corrections in the second half of 2026 or later, which could threaten the stability of advanced economies. However, the Union has a problem with low commitment and momentum in the development of advanced technologies, as shown in Figure 10.3. This lack of momentum indicates insufficient institutional support for innovation in many Member States.

Figure 10.3

Investments by Type and Entity (updated 2/12/2025, index 2007 = 100)



Note: (1) machinery and structures, (2) ICT hardware, (3) research and development, and (4) software and data

Source: Brzica (2026); processed by the author according to OECD data (2025).

Unlike the two largest crypto-assets by market capitalization (Bitcoin and Ethereum), stablecoins (SBCs) remain a small part of financial markets. However, as they expand and become more intertwined with traditional finance, they pose significant risks to financial stability and pose challenges to financial regulation and monetary policy. Financial innovation, like the development of stablecoins, often arises from the interconnection of technological advancements and evolving market needs. Stablecoins are a type of crypto-asset that maintains a stable value by being anchored to a reference asset (e.g., US Treasury bills). They offer equal value, free on-demand convertibility, instant and pseudonymous (= not fully anonymous) transactions, making them an attractive payment method, especially across borders. Their emergence represents a specific type of financial innovation. Such innovation can streamline processes or create entirely new financial services, but it also requires significant regulatory oversight. The market value of SBCs is growing rapidly, with two issuers (Tether and USD Coin) relying on USD-denominated collateral, which accounts for nearly 90% of the global market capitalization. The total value of SBC payments exceeded that of major traditional digital payment providers between 2024 and 2025. Currently, SBCs are primarily used to settle trades in other crypto-assets and make up the majority of all trades on crypto-asset platforms. This rapid increase highlights the potential impact of disruptive financial innovation.

* * *

The technological development of many of the world's economies is proceeding rapidly. It will depend on reflection and courage how the desired adaptation of the Slovak economy to change will take place, and on what its priorities and timing will be. Investments in traditional sectors and in technical and transport infrastructure alone will not be sufficient unless their potential to generate results, social benefits, and profits is evaluated. The reconfiguration of current global supply chains, driven by national security concerns, accelerating technological disruptions, and the growing urgency of climate change, is creating challenges for economies and unique opportunities for the corporate sector. While smaller

economies face obstacles in conditions less dependent on the traditional world order, new groupings based on shared values and interests are becoming more prominent and influencing the decision-making of global actors. Therefore, it can be expected that EU companies and other actors will also benefit from the Union's new trade agreements with MERCOSUR, Australia, and India. The latter country, where exports to the EU were relatively low compared to exports to other countries, has the fourth-largest economy in the world (in terms of nominal GDP) and the largest population, which presents opportunities. Modern technologies and sustainability will pose significant challenges for all ambitious economies seeking to succeed in an increasingly fragile and complex global economy.

11. CAPACITY PROVISION OF LONG-TERM RESIDENTIAL CARE AND ITS ECONOMIC REQUIREMENTS

Significant demographic changes across Europe, including Slovakia, will substantially affect demand for long-term care in the coming decades, creating a need for more detailed analysis of the future development of system capacity and associated costs. A key manifestation of this trend is the growing number of people in older age groups, which is gradually increasing the number of individuals requiring long-term care.

Given these developments, it is essential to prepare realistic projections of future demand to enable effective planning of facility capacity, workforce needs, and public resources. The need for such preparation is also emphasised in the Recovery and Resilience Plan of the Slovak Republic (2021), which states that the long-term social and healthcare system is not adequately prepared for the expected population ageing. According to the document, the share of the population aged 65 and over in Slovakia is projected to increase from approximately 16% to more than 24% by 2040. The document further concludes that the Slovak long-term care system suffers from insufficient capacity and organisational fragmentation between the social and healthcare sectors, resulting primarily in limited service availability and regional disparities. These shortcomings have also been highlighted in analytical studies, which describe the system as a set of insufficiently interconnected subsystems. Care is divided among social services, healthcare services, and informal family care, while coordination between these components remains limited. This arrangement reduces the overall efficiency of the system, complicates access to services, and increases the burden on families, which often compensate for the insufficient capacity of formal care (Cangár and Machajdík, 2018).

Insufficient integration also creates challenges in ensuring continuity of care, which is particularly important for individuals requiring residential services. In Slovakia, residential care facilities constitute the dominant form of long-term care provision and represent the most financially demanding type of long-term care. The Recovery and Resilience Plan of the Slovak Republic envisages investments of approximately EUR 176 million to expand social service capacity, including the construction and

transformation of residential care facilities. The reform also aims to change the financing system by strengthening a multi-source funding model that combines public resources, local government contributions, client co-payments, and healthcare financing. Although the document does not explicitly quantify future operating expenditures, it is evident that ensuring sufficient residential long-term care capacity will impose a substantial financial burden. These facts underscore the need for accurate demographic projections and estimates of future costs, without which it will not be possible to ensure the long-term sustainability of the long-term care system in Slovakia (Recovery and Resilience Plan of the Slovak Republic, 2021).

Building on the above, this chapter focuses on long-term residential care, an area where the expected demographic changes are likely to have a particularly pronounced impact. Our objective is not only to assess the current availability of places in residential care facilities, but also to examine the future development of demand for these services. Particular attention is devoted to regional disparities in the distribution of capacity, as well as to the financial requirements associated with its further expansion.

Population Ageing Is Accelerating

Population ageing is an undeniable reality currently facing Slovakia. The country's demographic dividend (when more young people enter the labour market than older people leave it) has ended, and Slovakia will gradually experience more pronounced population ageing (Figure 11.1). This development will result in lower public revenues due to a declining working-age population, while simultaneously increasing expenditure on social protection and healthcare systems. As population ageing is a gradual process, social services must also adapt progressively to these demographic changes. It is therefore essential to expand the capacity of long-term residential care facilities to ensure that older people have access to dignified living conditions. In this analysis, we deliberately do not use the conventional age threshold of 65 years and over, which is commonly employed in demographic and social research as the standard definition

of the older population. Over the long term, however, this threshold is becoming less informative, primarily because of the gradual increase in the statutory retirement age. As a result, the population aged 65 and over no longer represents a homogeneous group in terms of long-term care needs, as a substantial proportion of individuals in this age category may remain economically active. For this reason, the analysis focuses on the population aged 70 years and over, which is more relevant to long-term residential care needs and allows a more accurate assessment of future demand for residential care facilities. It also provides a better reflection of the system's actual needs, as this age group is more likely to experience significant health limitations, loss of functional independence and, consequently, a greater need for continuous long-term care.

Table 11.1

Population Aged 70 Years and over and Its Share of the Total Population

	Population Aged 70+		Share of Total Population (in %)	
	1996	2024	1996	2024
Bratislava Region	46 906	95 447	7.6	13.0
Trnava Region	39 312	73 438	7.2	13.0
Trenčín Region	44 280	80 148	7.3	14.2
Nitra Region	59 167	92 250	8.2	13.9
Žilina Region	45 974	82 686	6.7	12.1
Banská Bystrica Region	52 658	81 542	7.9	13.3
Prešov Region	48 350	88 349	6.3	10.9
Košice Region	50 021	91 077	6.6	11.7
Slovak Republic	386 668	684 937	7.2	12.6

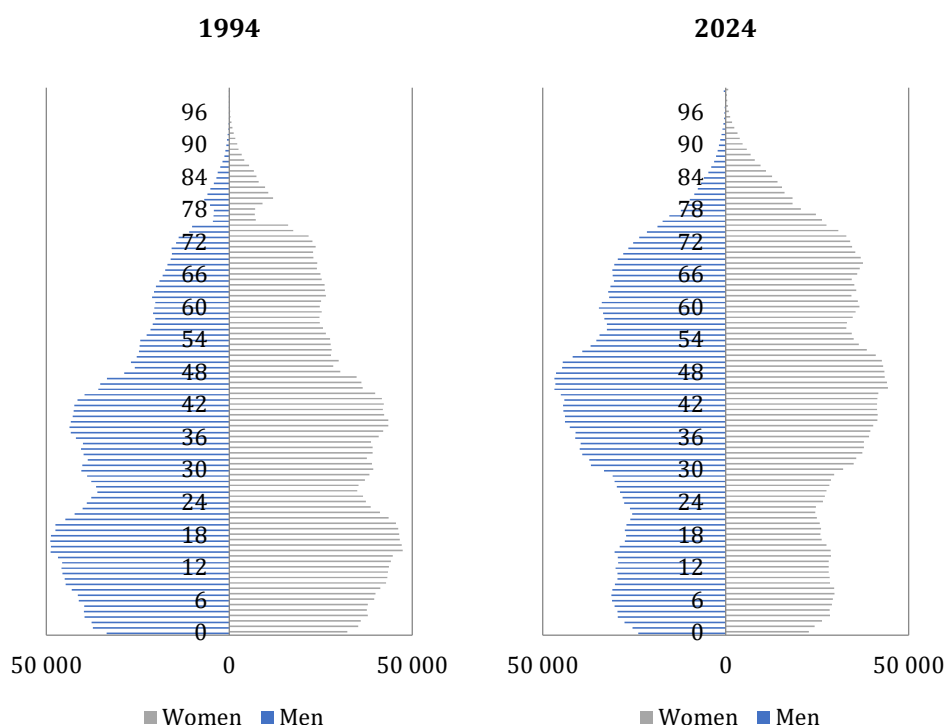
Source: Statistical Office of the Slovak Republic.

At the national level, the absolute number of people aged 70 years and over increased by nearly 300,000 between 1996 and 2024, while their share of the total population rose from 7.2% to 12.6%, confirming a substantial shift in the population's age structure (Table 11.1). Population ageing is occurring across all regions of Slovakia, although not at a uniform pace. From a regional perspective, the highest shares of the population aged 70 and over in 2024 are observed in the western and central regions of Slovakia, whereas the eastern regions record comparatively lower shares. This difference may also be associated with higher life expectancy in the western part of the country. At the same time, regional

differences in the population's age structure reflect disparities in the availability of healthcare and social care services, as well as differences in living standards and income conditions across individual regions.

Figure 11.1

Age Structure of the Population of Slovakia in 1994 and 2024



Source: Statistical Office of the Slovak Republic.

These demographic changes also require an appropriate response from the long-term care system, particularly regarding the availability of residential care capacity. It is important to ensure that the mismatch between the supply of and demand for places in residential care facilities remains as small as possible. At the same time, the financial resources required for the continuous development and renewal of these capacities should be identified. Failure to address these issues over the long term will lead to a decline in the quality of life of the older population. Moreover, the growing investment backlog may become unsustainable in the future, given the

fiscal constraints of public administration. At the same time, part of these investments could be financed through European Union funds, thereby reducing pressure on public finances. Similar challenges, however, are not unique to Slovakia but are characteristic of most European countries.

Another equally important issue is the financial demands of the entire system. The results suggest that even a seemingly modest increase in the target level of service availability translates into a substantial rise in both investment and operating costs. This implies that decisions regarding the future standard of residential long-term care will not be solely a technical or professional matter but, to a large extent, a question of public policy priorities. Even maintaining the current level of service availability will require significant investment, while the ambition to approach the standards of better-equipped regions or countries will entail considerably higher costs. For this reason, the discussion should focus not only on how many residential care places will be needed, but also on what standard of residential long-term care Slovakia intends to guarantee in the long term and what level of financial resources it is willing to allocate to achieve this.

Population ageing is, of course, not limited to the provision of long-term care but has far-reaching implications across multiple areas. Among the most important challenges associated with population ageing will be securing sufficient financial resources to at least maintain the pension system and healthcare provision. These issues, however, will be addressed in subsequent publications. In this chapter, we focus exclusively on the provision of long-term residential care.

Population Ageing in Europe

Population ageing is one of the most significant demographic trends across Europe. According to available data, the share of the population aged 65 years and over in the European Union has been steadily increasing and is expected to continue rising over the coming decades. In 2024, the old-age dependency ratio in the European Union stood at 33.9%, increasing to 34.5% in 2025. Projections indicate that it could reach approximately 56.7% by 2050. This means that the number of working-age people per older person will decline substantially, with significant

implications for the financing and organisation of long-term care systems (Eurostat, 2024).

According to the OECD (2025), as the number of older people increases, so does the number of individuals who require, or in some cases are fully dependent on, assistance with activities of daily living, such as dressing, personal hygiene, and eating. Consequently, the demand for long-term care is expected to continue to grow in the coming years, while there is a risk that service capacity will not keep pace with this trend. In 2023, OECD countries had, on average, 41 long-term care beds per 1,000 people aged 65 years and over. This represents a decline compared with 2013, suggesting that the older population is growing faster than long-term care systems can provide the necessary services.

From the perspective of the organisation and availability of long-term care, European countries can be broadly divided into three main groups, which differ primarily in the extent of state involvement, the availability of services, and the role of the family in providing care. The first group comprises the countries of Northern and Western Europe, such as Sweden, the Netherlands, Denmark, and Belgium, where long-term care is largely provided through a formal care system. These countries have high service capacity and higher levels of public expenditure. For example, the proportion of long-term care beds relative to the population aged 65 years and over was approximately 8% in Sweden, whereas it was considerably lower in Southern European countries (Damiani et al., 2011). These countries also systematically develop community-based services, including day care centres and home care, thereby reducing reliance on purely institutional forms of care (OECD, 2025). In these systems, formal care is available as a standard service, while the family plays a complementary rather than a primary caregiving role (Heger and Korfhage, 2018).

The second group consists of Central European countries, including Slovakia, the Czech Republic, Poland, and Hungary, where long-term care is based on a combination of formal services and strong informal care. In these countries, the system is often divided between the healthcare and social care sectors, reducing its transparency and complicating access to services. Consequently, families play a significant role by frequently

complementing or substituting for insufficient formal care capacity. This issue has also been highlighted by research from Poland, which found that the capacity of long-term care facilities is insufficient (Raciborski et al., 2015). Similarly, analyses based on SHARE data show that in countries such as the Czech Republic and Germany, decisions between formal and informal care are influenced not only by the health needs of older people but also by service availability and the institutional design of the care system (Heger and Korfhage, 2018). Compared with Western Europe, these countries represent a setting in which formal services are gradually expanding, although the system has not yet reached the same level of integration and service availability.

The third group comprises the countries of Southern and Southeastern Europe, such as Greece, Bulgaria, Italy, and Spain, where the availability of formal long-term care services is considerably lower and family care plays the dominant role. In Italy, for example, the number of long-term care beds represented less than 2% of the population aged 65 years and over, indicating a low level of institutional care provision (Damiani et al., 2011). These countries are characterised by strong family ties and cultural norms that favour care provided within the household over the use of formal care services (Heger and Korfhage, 2018). The World Health Organization (WHO, 2022) also points out that access to long-term care services in these countries is limited and that the system relies more heavily on informal caregivers, which may contribute to inequalities in access to care.

Overall, long-term care in Europe is developing unevenly, and its organisation depends on countries' economic capacity, historical development, and the extent of family involvement in care provision. At the same time, research suggests that the most effective approach is the integration of formal and informal care, as neither the formal care system nor families alone can meet the growing needs of an ageing population (Ambugo et al., 2021). In this context, attention is increasingly shifting not only to the availability of long-term care but also to its economic sustainability. The growing number of older people, together with the limited capacity of residential care facilities, highlights the need for systematic investment planning in this area. Consequently, the key question is no longer only

how the system should be organised, but above all, what level of capacity will be required in the future and what financial resources will be needed to provide it.

To answer these questions, it is necessary to rely on demographic projections to capture the future development of the population in older age groups and subsequently estimate the required capacity and associated costs. For this reason, the following section presents the methodological approach used to develop the regional population projections for Slovakia, which serve as the basis for the subsequent analyses and calculations.

Box 11.1: Methodology and Data

The regional demographic projections were developed using the SLAMM microsimulation model (Štefánik and Miklošovič, 2020). The projection is conducted at the district level and incorporates all key demographic processes, including mortality, fertility, internal migration (between districts), and external migration (to and from districts). Assumptions regarding mortality and fertility are based on projections from the Demographic Research Centre and the EUROPOP 2023 population projections. Assumptions concerning internal and external migration are derived from long-term averages based on data from the Statistical Office of the Slovak Republic.

The input dataset for the microsimulation model was the 2021 Population Census, which provides the most comprehensive and up-to-date information on the Slovak population. This dataset includes key demographic characteristics such as age, sex, educational attainment, and place of residence. Using these characteristics together with the above-mentioned demographic assumptions, we developed regional demographic projections up to 2070. The resulting projections contain individual-level information for each resident of Slovakia throughout the entire simulation period (2022 – 2070). An important advantage of the recursive dynamic microsimulation approach is that it incorporates the most recent available demographic data (2022 – 2025) on births, deaths, and migration into the projection. For greater clarity, the district-level results presented in the following sections are aggregated to the regional level.

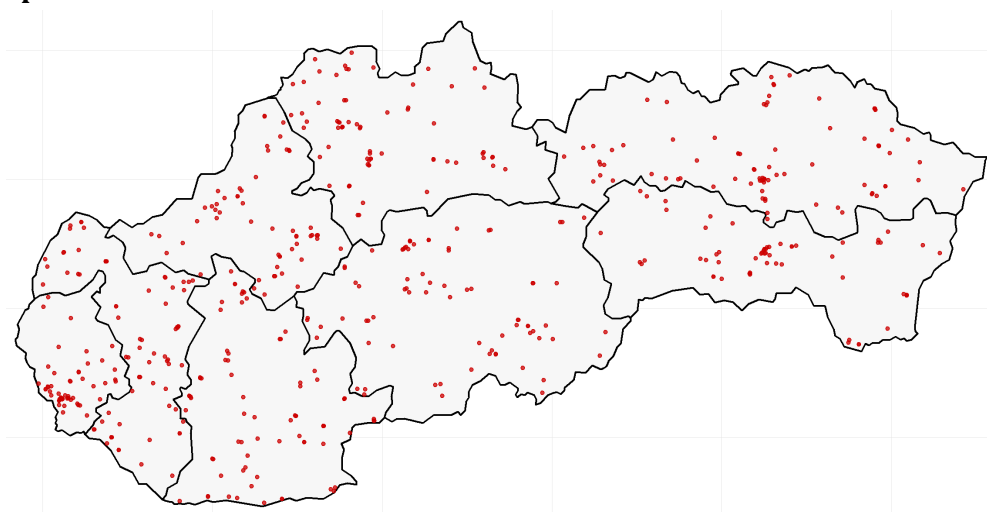
The analysis is based on data from the Statistical Office of the Slovak Republic and the Information System of the Ministry of Labour, Social Affairs and Family of the Slovak Republic, complemented by the authors' own calculations. The analysis focuses on the number of residential care facilities, their capacity, and their regional distribution in relation to the population aged 70 years and over.

Where Will You Get a Place?

The spatial distribution of residential care facilities in Slovakia is illustrated in Figure 11.2, which clearly shows that these facilities are unevenly distributed across the country. A higher concentration of residential care facilities is found primarily in the western part of Slovakia and around larger cities, that is, in areas with higher population density and better public amenities, where it is easier to ensure both the operation of the facilities and the availability of the necessary workforce. In regions where residential care facilities are farther apart, the physical accessibility of these services for older people and their families is lower, as long-term residential care depends not only on the existence of a facility but also on its availability within a reasonable distance.

Figure 11.2

Spatial Distribution of Residential Care Facilities in Slovakia



Source: Statistical Office of the Slovak Republic; Information System of the Ministry of Labour, Social Affairs and Family of the Slovak Republic.

However, to assess the actual situation, this map needs to be complemented by data on the number of facilities, their capacity, and the number of places relative to the population aged 70 years and over (Table 11.2). As of the end of 2025, the Slovak Republic had a total of 564 residential care facilities with an overall capacity of 21,019 places, representing 30.7 places per 1,000 inhabitants aged 70 years and over. In terms of total

residential care capacity, the Trnava Region had the highest number of places, with 3,324, followed by the Banská Bystrica Region with 2,959 and the Prešov Region with 2,936. By contrast, the Žilina Region had the lowest capacity, with 2,029 places.

Table 11.2

Number of Residential Care Facilities, Capacity, and Number of Residential Care Places by Region

	Number of Residential Care Facilities	Residential Care Capacity	Average Facility Size	Places per 1,000 People Aged 70 Years and Over
Bratislava Region	50	2 357	47.1	24.7
Trnava Region	81	3 324	41.0	45.3
Trenčín Region	53	2 449	46.2	30.6
Nitra Region	78	2 672	34.3	29.0
Žilina Region	74	2 029	27.4	24.5
Banská Bystrica Region	85	2 959	34.8	36.3
Prešov Region	86	2 936	34.1	33.2
Košice Region	57	2 293	40.2	25.2
Slovak Republic	564	21 019	37.3	30.7

Source: Statistical Office of the Slovak Republic; Information System of the Ministry of Labour, Social Affairs and Family of the Slovak Republic; and the authors' calculations.

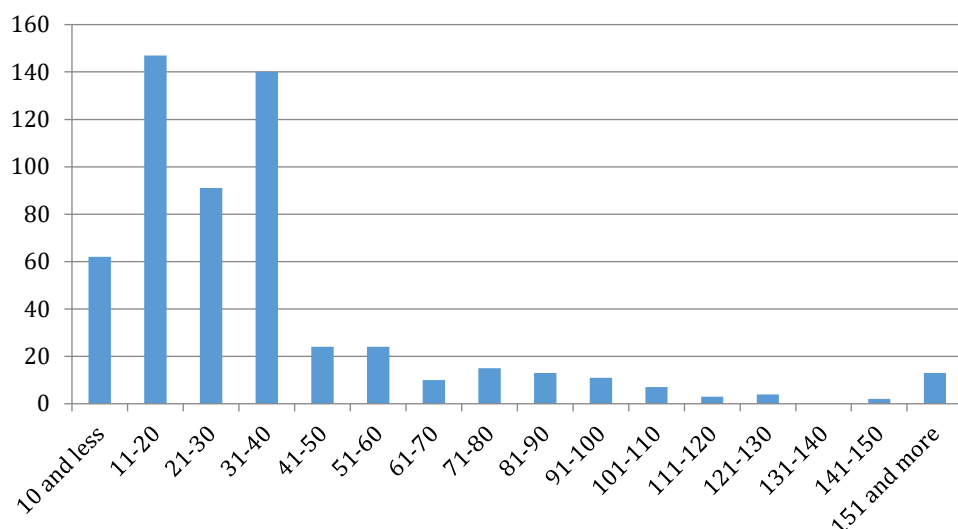
Differences are also evident in the average size of residential care facilities. The largest facilities are in the Bratislava Region, where the average size is 47.1 beds, and in the Trenčín Region, where the average size is 46.2 beds. By contrast, the Žilina Region has the smallest average facility size, with 27.4 beds per residential care facility. This indicates that regional differences are reflected not only in the number of facilities but also in their average size. This perspective is further illustrated by the size distribution of residential care facilities (Figure 11.3), which shows that the largest number of facilities falls within the capacity categories of 11 – 20 and 31 – 40 places, while facilities with a capacity of 21 – 30 places are also well represented.

By contrast, large-capacity facilities are relatively few. This suggests that the network of residential care facilities in Slovakia is based primarily on small and medium-sized facilities. Such facilities tend to provide a more natural, personal, and less anonymous environment than large institutional facilities. From the client's perspective, this may offer a setting

that is closer to everyday life and better supports daily interaction between care recipients and staff. It can therefore be concluded that the current network has a more community-oriented character than one based on large institutional care facilities.

Figure 11.3

Size Distribution of Residential Care Facilities



Source: Information System of the Ministry of Labour, Social Affairs and Family of the Slovak Republic; and the authors' calculations

Based on the data presented above on current capacity and regional differences, we developed three scenarios for the further development of residential care facilities (Table 11.3). These scenarios provide a framework for assessing the capacity required at different levels of service availability and the investment requirements associated with such development.

As the starting point, we use the current situation, in which there are 30.7 places per 1,000 inhabitants aged 70 years and over, corresponding to 21,019 beds. This situation also serves as the reference level against which the other scenarios will be compared.

The first scenario assumes an increase in capacity to 40 places per 1,000 inhabitants aged 70 years and over. This represents a moderate increase relative to the current situation and approaches levels commonly observed in countries with more developed long-term care systems (OECD,

2025). This would require the construction of 6,765 new beds, increasing the total capacity to 27,784 places.

The second scenario is based on a level of 45.3 places per 1,000 inhabitants aged 70 years and over. We selected this value based on the highest level of availability currently recorded in Slovakia, in the Trnava Region. In this case, 9,983 new beds would need to be created, increasing the total capacity to 31,002 places.

Table 11.3

Scenarios for Expanding Residential Care Capacity and Estimated Investment Costs

	Average Capacity per 1,000 People Aged 70+	Number of New Beds	Costs (EUR million)	Total Number of Beds after Implementation
Baseline Scenario	30.7	0	0	21 019
Scenario 1	40	6 765	691	27 784
Scenario 2	45.3	9 983	1 019	31 002

Source: authors' calculations.

When estimating the financial costs, we used the unit investment cost per new bed. We estimated this cost at approximately EUR 102 thousand, based on the investment frameworks of the Recovery and Resilience Plan of the Slovak Republic, which are aimed at the development and transformation of social service facilities (Recovery and Resilience Plan of the Slovak Republic, 2021). Based on this assumption, the costs amount to approximately EUR 691 million in the first scenario and EUR 1,019 million in the second. These scenarios will serve as the basis for further calculations, in which we will examine in greater detail the capacity that will be required in the long term and the associated financial resources.

What Needs to Be Built?

In the following section, we present the main results of the analysis, focusing on the future development of the need for residential long-term care in Slovakia. When assessing future demand, it is first necessary to examine the expected development of the older population and its share in the total population, as this indicator captures changes in the age

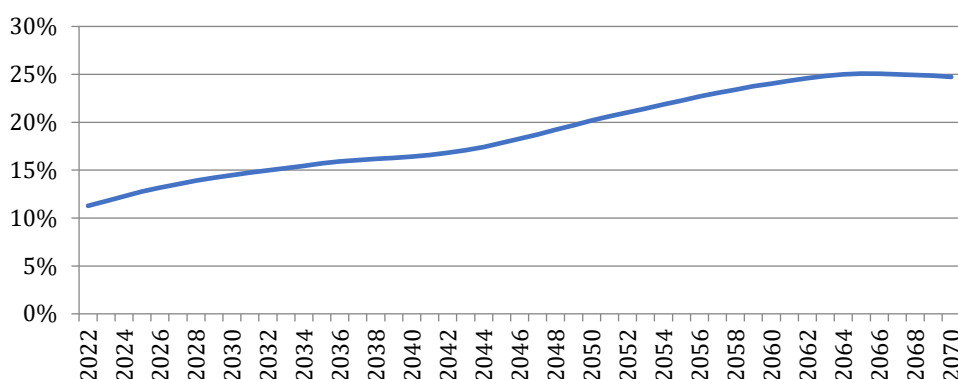
structure of the population and the pressure that will be placed on the residential care system.

As shown in Figure 11.4, the share of the population aged 70 years and over in the total population will continue to increase over the coming decades. While in 2022 it stood at approximately 11%, by 2050 it will exceed 20% and will subsequently remain at around 25%. This development is the result of several factors, particularly the ageing of large population cohorts, increasing life expectancy, and declining birth rates. The most pronounced increase is visible between 2035 and 2060, when larger generations enter the 70+ age group. After 2060, the pace of growth gradually slows as the population age structure stabilises at a higher level of population ageing.

In the long term, this means an increase in the number of people who are more likely to depend on assistance with activities of daily living and require long-term care. This development will directly increase demand for residential care capacity while also increasing pressure on the financing of the entire system.

Figure 11.4

Projected Share of the Population Aged 70 Years and over in the Total Population of Slovakia (2022 – 2070)



Source: authors' calculations.

This estimate is complemented by the regional-level projection, which provides a more precise indication of the parts of Slovakia where pressure on residential care will be highest (Table 11.4). At the national level, the

population aged 70 years and over is expected to exceed 1.093 million by 2070, accounting for 24.7% of the total population. This means that almost one in four inhabitants of Slovakia will be at an age when the need for care or even overall dependence on assistance is significantly higher.

Table 11.4

Regional Projection of the Population Aged 70 Years and over and Its Share of the Total Population in 2070

	Number of People Aged 70 Years and over	Share of the Total Population (in %)
Bratislava Region	197 890	24.8
Trnava Region	123 588	25.6
Trenčín Region	106 173	28.5
Nitra Region	117 951	26.3
Žilina Region	131 686	24.7
Banská Bystrica Region	109 028	26.9
Prešov Region	156 619	21.9
Košice Region	150 332	22.6
Slovak Republic	1 093 267	24.7

Source: authors' calculations.

At the regional level, it is clear that future pressure on residential care will not be the same across regions. In the Bratislava Region, this pressure will be significant mainly because the highest absolute number of people aged 70 years and over is expected, reaching almost 200,000. A high number of older people is also projected in the Prešov and Košice Regions. On the other hand, in terms of the share of the total population, population ageing will be most pronounced in the Trenčín Region, where people aged 70 years and over will account for 28.5% of the population, followed by the Banská Bystrica Region at 26.9% and the Nitra Region at 26.3%. This means that in some regions, future demand for residential care will primarily stem from the large number of people aged 70 and over, while in others, it will be related to the fact that the older population will represent a larger share of the total population.

In estimating the future capacity needs of residential care facilities, we used the baseline scenario, which maintains the current availability level of 30.7 places per 1,000 inhabitants aged 70 years and over (Table 11.5). Under this scenario, which does not assume any increase in the availability

of residential long-term care, a total of 33,550 places would need to be provided across Slovakia. The highest capacity requirement is projected for the Bratislava Region, where 6,073 places would be needed. This is followed by the Prešov Region, with a need for 4,806 places, and the Košice Region, with 4,613 places. These figures are mainly related to the high number of people aged 70 years and over expected to live in these regions. By contrast, lower capacity requirements are projected for the Trenčín Region, with 3,258 places, and the Banská Bystrica Region, with 3,346 places. The baseline scenario thus indicates the minimum capacity that will need to be provided in the future for the system to maintain the current level of availability as the population continues to age.

Table 11.5

Projected Need for Residential Care Places by Region and Scenario

	Baseline Scenario	Scenario 1	Scenario 2
Average Capacity per 1,000 People Aged 70+	30.7	40	45.3
Bratislava Region	6 073	7 916	8 957
Trnava Region	3 793	4 944	5 594
Trenčín Region	3 258	4 247	4 806
Nitra Region	3 620	4 718	5 339
Žilina Region	4 041	5 267	5 960
Banská Bystrica Region	3 346	4 361	4 935
Prešov Region	4 806	6 265	7 089
Košice Region	4 613	6 013	6 804
Slovak Republic	33 550	43 731	49 484

Source: authors' calculations.

For Scenario 1, as already stated, the target level of 40 places per 1,000 inhabitants aged 70 years and over was based on the level of availability achieved in countries with more developed long-term care systems. At the level of the Slovak Republic as a whole, this would require providing a total of 43,731 places. Compared with the baseline scenario, this represents a substantial increase in capacity, reflecting not only the growth of the older population itself but also an effort to better meet future demand. The regional distribution remains practically the same as in the baseline scenario, with the highest capacity needs continuing to be recorded in the Bratislava, Prešov, and Košice Regions.

Scenario 2 is based on a level of 45.3 places per 1,000 inhabitants aged 70 years and over, which we identified earlier in the text as the highest regional level currently achieved in Slovakia. This scenario, therefore, represents the most ambitious option. At the level of the Slovak Republic as a whole, this would require a total of 49,484 places, reflecting a higher standard of service availability. As in the previous scenarios, the regional distribution of needs remains practically unchanged. The main difference is that a higher level of availability translates into a greater number of required places across all regions. A comparison of all three scenarios shows that even a relatively small increase in the number of places per 1,000 inhabitants aged 70 years and over leads to a substantial increase in the required capacity in absolute terms. Compared with the baseline scenario, this would mean providing an additional 15,934 places across Slovakia, underscoring the importance of the chosen standard of availability. This calculation is followed by an estimate of the investment costs associated with expanding capacity (Table 11.6). As stated above, we assume an investment cost of approximately EUR 102 thousand per new place, based on the investment frameworks of the Slovak Republic's Recovery and Resilience Plan. The values presented in the table therefore represent the costs of the additional places that will need to be created beyond the current capacity, that is, the difference between the number of places required under each scenario and the current capacity of the system.

Table 11.6

Investment Costs of Expanding Residential Care Capacity by Region and Scenario (EUR million)

	Baseline Scenario	Scenario 1	Scenario 2
Bratislava Region	379	568	674
Trnava Region	48	165	232
Trenčín Region	83	184	241
Nitra Region	97	209	272
Žilina Region	205	331	401
Banská Bystrica Region	39	143	202
Prešov Region	191	340	424
Košice Region	237	380	461
Slovak Republic	1 279	2 319	2 907

Source: authors' calculations.

At the level of the Slovak Republic as a whole, the baseline scenario would require investments of EUR 1,279 million. Under Scenario 1, investment costs would increase to EUR 2,319 million, and under Scenario 2 to EUR 2,907 million. The regional pattern of investment costs is consistent with that of capacity needs, with the highest investment requirements projected for the Bratislava, Košice, and Prešov Regions, where the largest number of new places will also need to be created. By contrast, lower costs are projected for regions where a smaller expansion of capacity is required. The results, therefore, show that the decision on the future level of availability of residential care will have a direct impact not only on the number of places required but also on the system's overall financial costs. For example, under the baseline scenario alone, this would represent annual expenditure of almost EUR 40 million on expanding long-term care capacity until 2060, when the situation is expected to stabilise.

Building Alone Will Not Be Enough

The results of our analysis clearly indicate that residential long-term care will become an even more important issue in Slovakia over the coming decades than it is today. The growing number of people aged 70 years and over will not only mean higher demand for places in residential care facilities but also greater pressure on the entire social and healthcare system. At the same time, the results confirm that the issue cannot be viewed solely in terms of the total number of beds. Equally important will be how these capacities are distributed across regions, the pace at which they are developed, and whether they are accompanied by sufficient staffing and financial resources.

The first important issue that we believe needs to be addressed is the gradual expansion of capacity. The baseline scenario already shows that maintaining the current capacity in absolute terms will not be sufficient; instead, the network of residential care facilities will need to be further expanded simply to maintain the current level of availability. This means that if capacity is not expanded continuously, the system will become increasingly misaligned with the population's actual needs. If the construction and expansion of capacity are postponed for a prolonged period, this will not only create a temporary shortage of places but will also lead to the

accumulation of an investment backlog that will eventually have to be addressed all at once and at significantly higher costs. Gradual capacity expansion is therefore more rational from both economic and organisational perspectives than a delayed response to an existing deficit.

The second important issue to consider is population ageing. The results confirm that an increasing share of Slovakia's population will be living in older age groups, with this trend being more pronounced in some regions than in others. From a public policy perspective, this means that it is not sufficient to consider only the national average; regional differences must also be taken into account. In the Bratislava, Prešov, and Košice Regions, pressure on the system will arise mainly from the high absolute number of older people. In contrast, in the Trenčín, Banská Bystrica, and Nitra Regions, the pressure will be driven more by the higher share of older people in the total population. This also has practical implications for service planning, as not all regions will require the same type of network or the same level of capacity. In some regions, the main priority will be to increase the number of places, while in others, greater emphasis will need to be placed on their appropriate geographical distribution and better integration with healthcare.

Another important issue that naturally emerges from our results is the relationship between residential long-term care and healthcare. The growing number of older people will not only mean higher demand for places in residential care facilities but also an increasing number of clients with combined social and healthcare needs. In older age, chronic diseases, reduced mobility, and the need for long-term treatment become more common, increasing the need for closer integration between social services and healthcare. In this context, the problem of system fragmentation, which we already highlighted in the theoretical section, also becomes particularly evident. If residential care capacity were expanded without simultaneously strengthening its links with healthcare, this might not lead to a real improvement in the availability and quality of care. Instead, this could merely shift some of the problems from hospitals to social care facilities without creating the conditions necessary to ensure continuous and comprehensive care.

* * *

The results presented show that the future development of residential long-term care in Slovakia will be largely determined by a combination of demographic ageing, regional differences, and the system's financial capacity. The growth of the population aged 70 and over will increase pressure on residential care capacity across all regions, though not in the same way. While in some regions the high absolute number of older people will be the main factor, in others their higher share of the total population will be more significant. From this perspective alone, it is clear that future capacity planning cannot be based solely on the national average.

The calculations also show that residential care is not only a question of the number of places but also of choosing the future standard of availability. Differences between the individual scenarios indicate that even relatively modest changes in the level of provision translate into substantial increases in both required capacity and investment costs. This moves the issue beyond the sphere of social policy alone and into strategic budgetary decision-making.

12. DEVELOPMENT OUTLOOK

This chapter constitutes an informal conclusion. After a series of partial views and two one-off thematic probes, it holds up a mirror to expectations for the period ahead. The individual chapters have drawn a multidimensional picture of an economy that lacks stronger momentum. This picture can be confronted here with the forecast. The outlook is divided into two parts: the first deals with a view of the background to the subdued momentum of the economy in the long-term and short-term dimensions. In this way, it returns to the topic that is the central motif of this edition. This is followed by the forecast of macroeconomic variables itself in the second part of the chapter.

Limits to Further Growth – Chronic Difficulties Reinforced by Acute Ones

Droughts in the Drivers of Growth

Before presenting the medium-term forecast of developments, we return to the problem of the slowdown in the momentum of the economy from a long-term and short-term perspective. The drivers of economic growth are different in these two dimensions. And also problematic in both dimensions. One thing is that economic growth is currently (and also in the near future) subdued by consolidation measures and a mixture of shocks (fuel prices and the oil crisis, US protectionist policies, geopolitical tensions); another thing is the long-term undermining of growth momentum. These two things complement each other, but have different roots.

When working with the long-term dimension, one can rely on the principles of growth accounting, which decomposes the growth of potential output (around which actual output fluctuates in the short term) into the contributions of an increase in capital, an increase in the volume of labour and total factor productivity. Such a view is based on a production function and explains whether growth is driven by adding capital to the economy, increasing the number of hours worked, or whether these inputs are

used more efficiently. The current problem in the Slovak Republic is the risk of weakness in all three of these drivers.

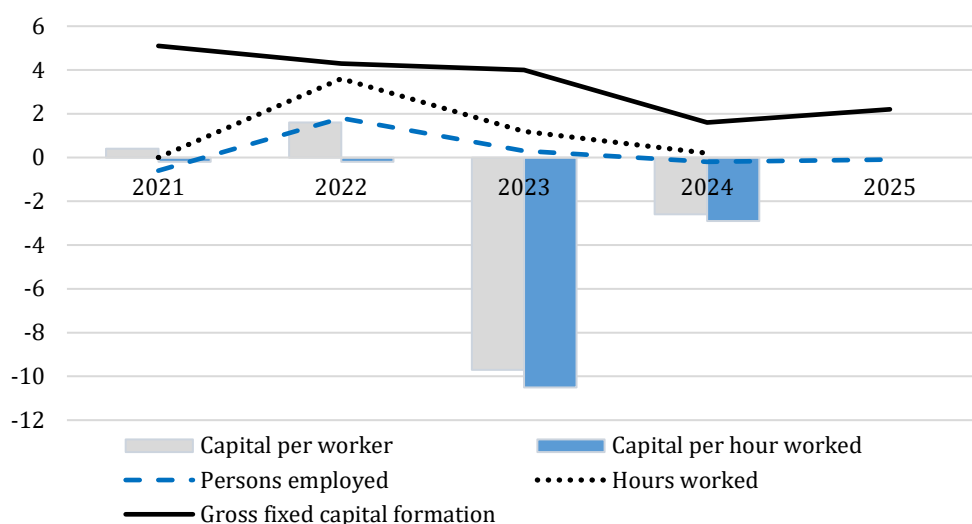
Capital inputs have the best chance of increasing their contribution to economic growth, thanks to the expected transfers from the Recovery and Resilience Plan. However, if the positive contribution is to continue over a longer horizon, it is necessary to stimulate investment activity – not only a higher investment rate (a higher share of fixed capital formation in GDP), but also better quality and structure of capital. Fixed capital formation was very unstable in the recent period, with weakening momentum (with the exception of periods of final absorption of European funds). In recent years, the capital intensity of workers also developed unfavourably (the value of net fixed assets per worker or per hour worked). The weak momentum of capital inputs into the economy in the recent period (Figure 12.1) does not provide good growth prospects for the years ahead. Nevertheless, capital inputs can still be a factor supporting potential growth, thanks to the inflow of resources in the form of capital transfers from the EU.

Labour inputs have an unfavourable outlook for their contribution to economic growth. Domestic sources of suitable labour are minimal; for several years, an increase in employment has been made possible only through the employment of foreigners (in 2005, there was even no increase in employment at all). This is compounded by the long-term tendency of a decline in the number of hours worked on average by one worker. This implies a rather zero to negative ‘contribution’ of labour inputs to GDP growth.

The final factor, total factor productivity (hereinafter TFP), plays a very specific role: it was the strongest driver of economic growth during the first decade of the 21st century and subsequently became its weak point. This factor, unlike capital and labour inputs, cannot be measured directly (only as the ‘residual’ part of growth that is not explained by the accumulation of capital and labour). It expresses how efficiently the economy is able to use its inputs. It depends on a whole range of factors whose influence may not be easy to read - it depends on the quality of rules (the institutional framework) and the incentives arising from them, the use of research and development, the level of technology, the use of talent and intellectual wealth, the quality of education and a whole range of other influences.

Figure 12.1

Labour and Capital Inputs to the Growth of Potential Output in the Economy of the Slovak Republic (year-on-year changes in %)



Note: All labour inputs according to the national accounts methodology (domestic concept).

Source: authors' calculations according to Eurostat data.

Why Has the Engine Become a Brake?

The halt in TFP growth mentioned in the literature deserves special attention. Firstly, because it is the factor most responsible for the slowdown of the economy, but also because it is a factor providing an accessible opportunity to correct the outcome – even without very costly investments. As mentioned above, TFP depends on a wide range of factors and not all of them are associated with exceptionally demanding financial costs. The current shortage of public resources is therefore not always an obstacle to at least partial improvements.

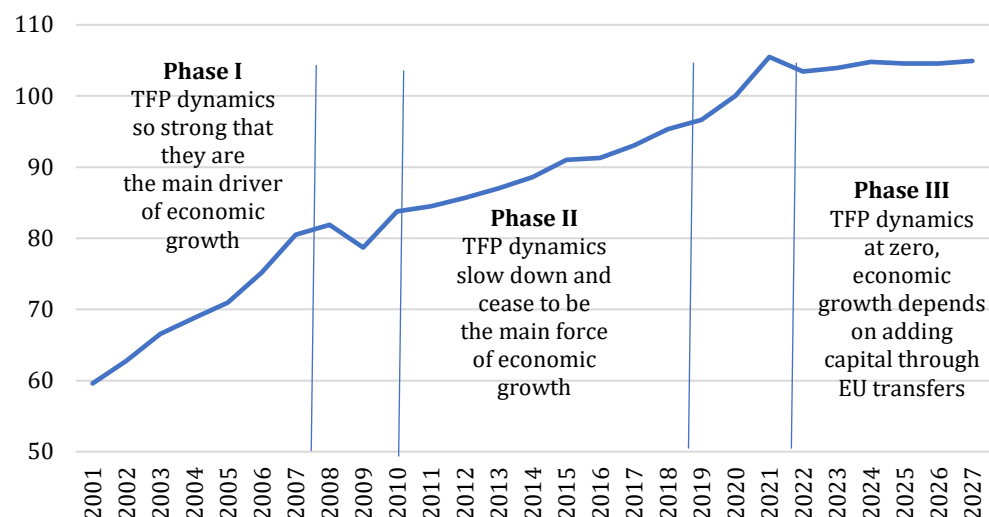
TFP dynamics (and their ability to contribute to the potential growth of the economy) went through three distinct phases after 2000. In the first phase (approximately 2001 – 2008), TFP was the main engine of growth (IMF, 2025; Lábaj, 2007; Zuk et al., 2018), and TFP accounted for approximately two-thirds of the increase in GDP per capita. This was made possible by the scope for fundamental changes: technologies improved markedly (through the arrival of FDI in a technologically lagging environment), the institutional framework improved (economic reforms, completion of the

main steps of economic transformation, integration into the EU, preparation for the adoption of the euro), the economy was integrating into global value chains and benefiting from new knowledge and a new environment. In Figure 12.2, this phase is presented by the steep rise in the TFP level index.

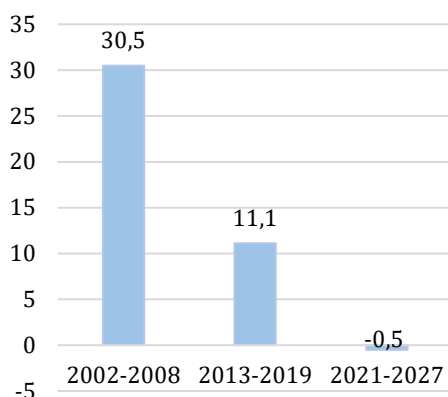
Figure 12.2

Dynamics of Total Factor Productivity (TFP) in the Slovak Republic

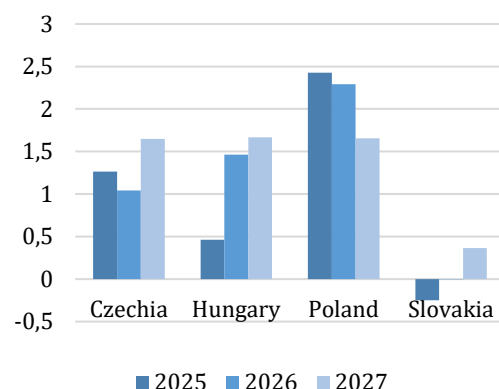
a) Year-on-year changes in %, from a long-term perspective



b) Total change in TFP in the Slovak Republic by phase



c) TFP dynamics in forecasts for the V4 countries



Note: In Figure b), the phases are selected so that they do not include periods of exceptional shocks (global recessions) and are of equal length, in the interest of comparability of changes over the full periods.

Source: authors' calculations according to data from the AMECO database (European Commission).

In the second phase (between the global financial crisis and the pandemic recession, mainly in the period 2013 – 2019), the slope of TFP growth in Figure 12.2a moderates and TFP dynamics slow down. The difference is more pronounced when cumulative growth over the full periods is compared: in the second phase, the total change in TFP is approximately one-third compared with the first phase (Figure 12.2b). Here, the exhaustion of the model based on the adoption of foreign technologies and on transformation changes was already becoming evident. In the third phase, the TFP level already stagnates (see the period from 2021 in Figures 12.1a and 12.1b). This is true both in the period already ‘measured’ (2021 – 2025) and in the outlook period. This reflects both the problems of lagging behind in qualitative factors of competitiveness (mentioned in Chapter 4) and the problems of the quality of the business environment (in Chapter 6), but also other, often non-economic ones (such as the quality of education and brain drain). In this context, Györfy (2022) states that a new division of the countries of Central and Eastern Europe is emerging. Within it, a group of countries can be identified that have reoriented towards a more innovative, quality-oriented economy (thus strengthening TFP); Estonia or Czechia may serve as examples. Slovakia would rather belong to the second group, where this reorientation was delayed and the economies relied for too long on the already eroding advantage of low costs and, within that, low wages (there TFP currently plays a marginal role). In line with the loss of THF dynamics, its contribution to the growth of potential GDP also necessarily diminished (for a more detailed view, Slačák, 2024).

As follows from this inventory of the drivers of potential growth, the problem is cross-cutting: in capital accumulation, labour resources and total factor productivity. Before proceeding to a more precise forecast, it can therefore be stated that the growth of the economy’s potential does not receive enough of any type of fuel.

...Plus Short-Term Barriers

In the short-term dimension, there may be factors that can temporarily divert economic growth from the growth corridor determined by the above-mentioned growth factors. Hypothetically, there could be a temporary stimulating impulse that would help the economy to grow for a short time

and a little time would be gained to improve the condition of the longer-term drivers. According to developments in the first part of 2026, however, this is not the reality, rather the opposite. Short-term factors are an additional burden.

Last year's edition of this assessment of the Slovak economy had the subtitle 'Diagnosis in the Initial Phase of Consolidation'. The analysis expressed the expectation that consolidation (also with other dampening factors arising from geopolitics or demography) would bring the economy into a state of anaemia. The slowdown manifested itself fully, despite the fact that the restraining effect of external factors has not yet (?) developed at full strength. In 2026, a new fuel (and thus cost) shock was added to them, with a duration that was still unclear at the time the forecast was prepared.

Such a concurrence of the long-term slowdown and its short-term intensification creates scope for a two-step strategic solution: in the first step, an immediate stimulus provided by a set of rapid, financially and technically undemanding measures (in the business environment and the tax and social-contribution mix), and in the second step, a real (in the sense of not merely declaratory as before) strategic shift towards the new growth model that has been mentioned for years but followed only platonically.

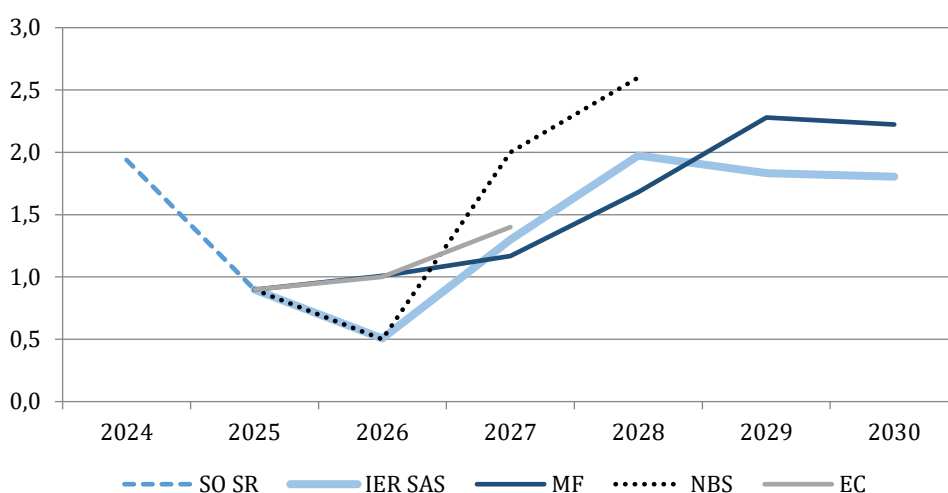
Medium-Term Forecast of Macroeconomic Parameters

This part of the chapter presents the spring macroeconomic forecast of the development of the Slovak economy for the period 2026 to 2030. It fits into a series of regular outputs that are intended to complement the forecasts of other selected institutions, in particular the National Bank of Slovakia, the Ministry of Finance of the Slovak Republic, or the European Commission. The IER SAS forecast is also intended to serve the wider professional public, with the aim of providing an outlook for the development of the main macroeconomic variables of the Slovak economy. The presented forecast was produced as an output of a macroeconometric model that was created for this purpose and has been used over the long term. The presented macroeconomic forecast was prepared in March 2026, and it does not reflect later events or any planned consolidation measures, which are necessary but were not presented.

A part of the text concerning the forecast of the main macroeconomic parameters was published in spring 2026 as a policy brief on the website of the Institute of Economic Research of the Slovak Academy of Sciences (Klúčik and Miklošovič, 2026). This part of the chapter represents primarily an extension of the existing forecast by a sectoral view, which complements the overall view of the potential outlook for the development of the Slovak economy.

Figure 12.3

Forecast of GDP Growth at Constant Prices by Selected Institutions (in %)⁵⁶



Note: IER SAS – Institute of Economic Research of Slovak Academy of Sciences, MF SR – Ministry of Finance of the Slovak Republic, EC – European Commission, NBS – National Bank of Slovakia, SO SR – Statistical Office of the Slovak Republic (historical data).

Source: authors.

Gross domestic product growth will reach 0.5% in 2026 in an environment of persistently subdued external demand. We expect consumer behaviour to continue to be influenced by public-finance consolidation measures and adverse sentiment, which will lead to the postponement of consumption expenditure. The higher tax and social-contribution burden caused by another wave of consolidation will cause a more pronounced dampening of household disposable income, and households will have to

⁵⁶ The European Commission forecast was prepared in autumn 2025. The remaining forecasts were prepared in 2026.

draw on savings. A stronger decline in investment, which is under pressure from fiscal consolidation and increased uncertainty, will be mitigated by the peaking absorption of funds from the Recovery and Resilience Plan. Increased costs for firms, also caused by the high level of energy prices, will contribute to inflation rising again towards 4%. On the labour market, the trend of an increase in the unemployment rate that began in 2025 will continue. Despite the persistently large number of job vacancies, structural and regional mismatches will prevent labour demand from being fully met, and at the same time employment will decline and the number of unemployed will rise. Fiscal consolidation, particularly in central government, will at the same time dampen the growth of nominal average wages to a level below 5%.

In 2027, a more pronounced recovery in external demand is expected, supported mainly by a more expansionary fiscal policy in Germany and growing defence expenditure within the European Union. The expected easing of tensions in international trade relations will contribute to a recovery in demand also in the automotive sector. However, it will continue to face weaker demand from the United States and China, where strong competition from domestic producers, or high tariffs, respectively, persists. A significant positive impulse for Slovak automotive exports will be provided by the launch of the new production capacity of the Volvo car manufacturer, which will support the growth of industrial production and exports. Economic growth will reach 1.3% and in 2027 will be driven to a decisive extent by external demand. In the domestic environment, according to the latest statements by government representatives, full compliance with the originally set public-finance consolidation trajectory is at the same time not expected. The fading-out of the absorption of funds from the Recovery and Resilience Plan, particularly in construction investment related to hospital construction, will lead to a more noticeable decline in investment activity, while resources from EU cohesion funds will replace it only gradually. Inflationary pressures will moderate compared with 2026 as a result of the expected stabilisation of energy prices, and year-on-year inflation should fall below 3%. A recovery in real wage growth will support the growth of household disposable income, which

will be reflected in a gradual recovery of private consumption. However, the persistent labour shortage and adverse demographic trends will continue to limit the long-term growth potential of the Slovak economy. Without the implementation of structural reforms, a more significant impulse for sustainable growth will be lacking and the economy's potential will decline in the period ahead.

Table 12.1

IER SAS Macroeconomic Forecast, Spring 2026

	2024	2025	2026	2027	2028	2029	2030
	<i>actual</i>	<i>est.</i>	<i>fcast.</i>	<i>fcast.</i>	<i>fcast.</i>	<i>fcast.</i>	<i>fcast.</i>
Real economy							
GDP, constant prices	1.9	0.9	0.5	1.3	2.0	1.8	1.8
Private consumption, constant prices	3.5	0.7	0.6	1.3	1.6	1.5	1.7
Gross fixed capital formation, constant prices	1.6	1.9	-0.2	-1.9	2.4	1.1	1.4
Government consumption, constant prices	4.0	1.2	2.0	1.0	1.3	1.4	2.2
Exports, constant prices	0.0	3.1	0.2	2.2	2.5	3.4	3.4
Imports, constant prices	2.6	3.9	0.2	1.1	2.1	2.7	3.2
Nominal activity							
GDP, current prices	5.4	4.8	3.7	4.8	5.3	5.0	4.5
Private consumption, current prices	6.6	5.2	4.4	4.2	4.7	4.2	4.1
Nominal output							
GDP, EUR bn	130.2	136.4	141.4	148.2	156.1	163.8	171.2
Employment							
Employment (ESA)	-0.2	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3
Average wage							
Nominal average wage	6.6	6.2	4.5	4.6	4.3	4.3	4.5
Real average wage	3.7	2.1	0.4	1.9	1.6	1.8	2.4
Unemployment							
Unemployment rate (LFS)	5.3	5.5	5.8	5.9	5.9	5.9	5.9
Number of unemployed persons (LFS, thousands)	147.5	152.4	160.0	162.7	160.8	160.6	160.7
Price level							
Consumer price index (CPI)	2.8	4.0	4.1	2.6	2.7	2.4	2.0

Source: authors.

In the years 2028 to 2030, the development of the Slovak economy is expected to take place in a gradually more stable external environment. In the absence of strong consolidation, economic growth will remain at approximately 2%. External demand should continue to normalise as a result of the stabilisation of international trade relations and the gradual

fading of the effects of previous tariff disputes, which will create more predictable conditions for export-oriented sectors. Export dynamics will be increasingly supported by the full utilisation of new production capacities in the automotive industry. Investment activity will rely primarily on resources from the new programming period of European Union funds, with their smoother and faster absorption by 2030 being assumed. Household consumption will continue to strengthen gradually, in parallel with the gradual restoration and building of savings. Inflationary pressures will moderate as a result of more moderate growth in energy prices. The labour market will increasingly face supply-side constraints, as the accelerating decline in the working-age population will be reflected in a gradual reduction in employment and a further limitation of the potential for economic growth.

Forecast Risks

A significant negative risk remains a renewed escalation of trade and political disputes, particularly between the EU and the United States, which could lead to an additional increase in tariffs and a recession in international trade. A risk is weak absorption of funds from the Recovery and Resilience Plan and EU funds, which would lead to a greater shortfall in investment. At the domestic level, fiscal consolidation represents a risk, particularly because of the unknown consolidation measures from 2027. A long-term risk is adverse demographic trends, which reduce labour supply, limit the potential growth of the economy and increase pressure on public finances. Positive risks may include fiscal stimulus in Germany, higher defence expenditure in the EU or the development of the defence industry, which could mitigate negative sentiment and support economic growth.

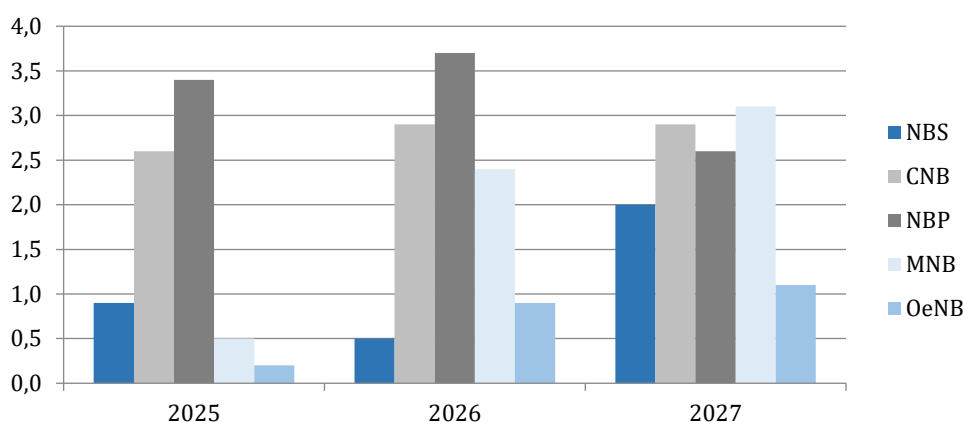
International Comparison

In 2026, we expect the lowest GDP growth compared with neighbouring countries (excluding Ukraine). This expectation is not influenced by the current performance of the economy, since the Austrian National Bank also expects higher growth in Austria than the NBS expects in the case of

Slovakia. The absence of economic reforms that would change the structure of the Slovak economy and the poor design of consolidation measures mean that the lowest GDP growth compared with the V4 countries is also expected in 2027. Taking into account the expected growth of the individual economies, convergence towards the advanced EU countries, or towards our closest neighbours, will not occur. It follows from this that the slow-down of the Slovak economy is caused not only by external influences, but primarily by subdued domestic growth. It is therefore necessary to take the necessary steps that would lead to economic growth and thus to the start of catching up at least with our closest neighbours.

Figure 12.4

GDP Growth Forecasts at Constant Prices for Individual Countries by National Banks (in %)



Source: NBS – National Bank of Slovakia, CNB – Czech National Bank, NBP – National Bank of Poland, MNB – Hungarian National Bank, OeNB – Austrian National Bank

Sectoral Forecast

The results of the macroeconomic forecast at the aggregate national level were subsequently used as inputs into the integrated SLAMM-EC-IO econometric model. The main objective of this part of the chapter is to describe the profile of year-on-year changes in employment and value added for individual sectors in Slovakia in the years 2026 to 2030 and at the same time to identify the factors that may affect this development. Below, we interpret both variables as year-on-year increases or decreases in the individual years of the forecast period. The sectoral forecast indicates that

the Slovak economy will maintain growth in the creation of value added over the medium term, but this growth will be transmitted to the labour market only to a limited extent. On the one hand, investment financed from European resources, advancing digitalisation, growth in defence expenditure in the EU and a recovery in part of financial and real estate activities will be at work. On the other hand, weaker external demand, uncertainty in industry and continuing fiscal consolidation will remain a significant brake. For Slovakia in 2026, the European Commission assumes only subdued GDP growth of 1.0%, while directly stating that economic activity will be held back by trade uncertainty and further consolidation, while investment is to be supported mainly by EU funds. At the same time, Slovakia remains in the excessive deficit procedure, which naturally narrows the scope for expansionary public demand (European Commission, 2025a). When describing the forecast in individual sectors, we also often refer to developments in the EU and to the forecast published by the Commission.

Employment

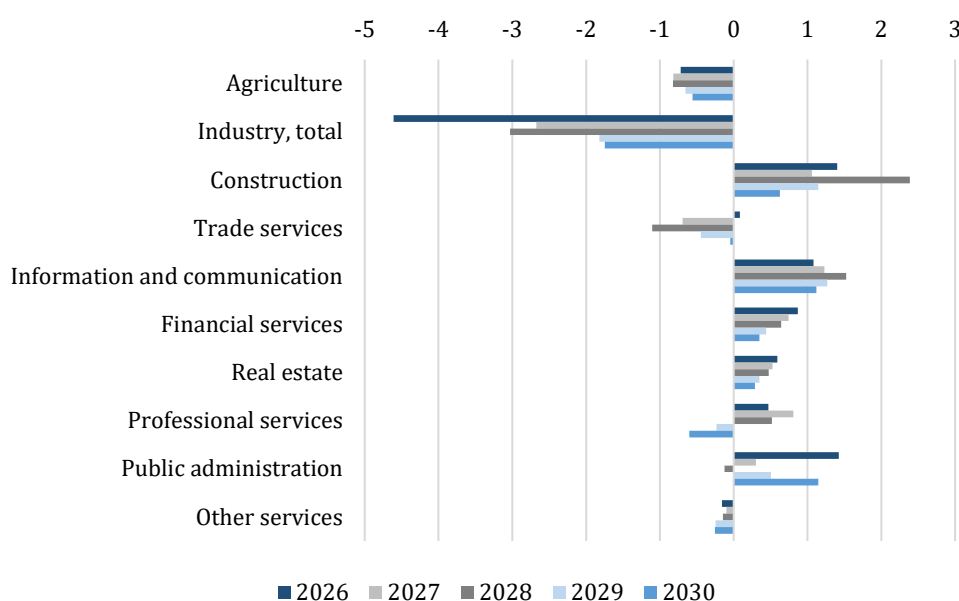
Year-on-year changes in employment (shown in Figure 12.1 in thousands of persons) move only narrowly around the zero line throughout the period 2026 to 2030. This means that positive impulses in selected sectors are almost completely offset by declines in traditional sectors. The European Commission expects that from 2026 employment and income dynamics will be dampened by higher taxes, the planned wage freeze in the public sector and weaker trade activity. In such an environment, broad-based creation of new jobs across the economy cannot be expected. Rather, this is an environment of selective hiring, rationalisation and gradual shifts between sectors (European Commission, 2025a).

Agriculture. In agriculture, a permanent, although not dramatic, loss of jobs continues. In its first estimates for 2025, Eurostat states that labour productivity in agriculture in the EU increased by 9.2%, while the volume of agricultural labour decreased by 1.0%. It is therefore a type of sector in which mechanisation, farm consolidation and pressure for cost efficiency reduce the need for labour. In Slovakia, however, productivity declined by

approximately 5% last year, which may be a consequence of trade uncertainty (Eurostat, 2025). With Mercosur, however, one cannot speak of an automatic threat to Slovak agriculture, but the very existence of safeguard mechanisms for sensitive agri-food products shows that import competition is perceived as a real risk. In trade relations with Ukraine, the EU is in turn moving towards a more stable, but still liberalised, framework for several agri-food commodities. For Slovak agriculture, this means rather longer-term pressure on prices and margins than a one-off collapse, and it is precisely for this reason that slightly negative year-on-year changes in employment (and temporarily also in value added) appear realistic.

Figure 12.5

Year-on-Year Changes in Employment by Sector in Thousands of Persons (2026 – 2030)



Source: authors' own processing.

Industry. The most significant negative contribution to employment comes from industry. The Statistical Office of the Slovak Republic states that employment in industry declined by 1.7% for the whole of 2025, while a reduction in the number of employed persons also appeared in other large sectors. At the same time, the European Commission points

out that Slovak industry remains strongly exposed to higher tariffs, weak global demand and uncertainty associated with export-oriented production (European Commission, 2025a; Statistical Office of the Slovak Republic, 2026). In such an environment, the continuation of layoffs, or at least caution in hiring, is logical. However, it is necessary to distinguish between general investment uncertainty and already confirmed capacity changes. An example of the second category is Samsung in Galanta, which has already officially announced the termination of television production; this is therefore a specific negative impulse for industrial employment, not merely vague investor caution (TASR, 2026). At the same time, however, it would be too simple to view industry only as a sector in decline. Within the Readiness 2030 initiative, the European Commission is working with a plan to mobilise approximately EUR 800 billion for defence and openly states that its objective is to expand European production capacities, including electronics, drones, cybersecurity and other industrial segments. For Slovakia, this may mean that industry will maintain or even increase part of its output, but not necessarily through growth in the number of workers, rather through a combination of a negative employment effect and a relatively strong increase in value added (European Commission, 2025b).

Construction. Construction is among the main creators of new jobs, with the peak of its contribution coming approximately in the middle of the horizon. This result corresponds to the investment profile of the Slovak economy, since investments are financed almost exclusively from European Union resources. The European Commission explicitly emphasises the investment effect of EU funds for Slovakia (European Commission, 2025a). At the same time, short-term domestic data also indicate that construction activity recovered noticeably in 2025. Therefore, the positive development of employment in the construction sector in the years 2026 to 2030 appears realistic. However, the weak point is the rate of absorption of the funds themselves. In the middle of 2025, the Ministry of Investment, Regional Development and Informatisation (MIRRI) itself acknowledged their low absorption at the level of 8.3%, which, however, improved and reached a level above 12% by the end of 2025 (MIRRI, 2025). In other

words, construction may grow, but much will depend on how quickly projects move from the administrative phase to implementation.

Trade services. Current data from the Statistical Office show that wholesale trade was among the sectors with the most significant decline in employed persons in 2025 (Statistical Office of the Slovak Republic, 2026). The increase in employment in trade services is close to zero in the forecast at the beginning of the horizon, subsequently turns into slightly negative values, and the decline is moderated only towards the end of the period. This sector will face two opposing forces in the years ahead. Domestic demand and investment will help it, but at the same time pressure for digitalisation, automation of logistics, self-service channels and AI tools in administrative and commercial processes will grow. In January 2026, the OECD stated that the share of firms using AI in OECD countries increased to 20.2% in 2025, while this trend is also spreading beyond traditionally technological sectors. At the same time, however, the OECD has long pointed out for Slovakia that firms lag behind in digitalisation and in the use of advanced digital tools (OECD, 2026; OECD, 2024). This means that the decline in employment in trade services is credible, but rather gradual than sharp.

Information and communication. The information and communication sector is among the stable creators of new jobs. This result is well grounded in both European and domestic conditions. The European Commission's Digital Decade report for 2025 states that, although Slovakia still lags behind in the digitalisation of enterprises, it has made progress in the share of ICT specialists and has prepared a package of 127 measures with a budget of EUR 2.26 billion (European Commission, 2025c). This is supplemented by the EU defence agenda, which explicitly lists cybersecurity, drones, communication systems and other digital technologies among its priorities. Thanks to these arguments, we have reached the conclusion that the ICT sector not only grows in value added, but at the same time also maintains a positive contribution to employment (European Commission, 2025b).

Financial services. In financial services, the model shows positive, but gradually moderating, increases in employment. In its macroprudential

commentary of September 2025, the NBS notes the continuing recovery of the financial cycle, growth in mortgages and consumer loans, an acceleration in loans to firms and higher net profit of banks (National Bank of Slovakia, 2025). The financial sector has therefore experienced a more favourable period than in the years of a sharp rise in interest rates. At the same time, however, it is a sector in which digitalisation, centralisation of processes and AI tools reduce the need for labour in routine activities. Therefore, slightly positive, but not explosive, employment growth appears natural.

Real estate. Real estate has a stable, but gradually weakening, contribution to employment in the model. The NBS states that the recovery of the real estate market, which began in the middle of 2024, continued also at the end of 2025 and housing prices increased by 12% for the full year. This supports higher activity in development, brokerage and property management activities. At the same time, however, the real estate sector usually does not create large volumes of jobs. Growth in it is reflected more in asset prices, rents and capital value than in massive employment growth. Therefore, slightly positive year-on-year changes in employment appear appropriate (National Bank of Slovakia, 2026).

Professional services. Professional services are among the growth segments of the labour market in the first half of the horizon, but later their contribution declines and at the end of the period turns into a slight decline. This profile well captures a sector that initially benefits from investment projects, legal and advisory demand, design and engineering, but later encounters the automation of part of knowledge work. The Recovery and Resilience Plan of the Slovak Republic, which is coming to an end, provides for investment in research, development, innovation and support for business transformation, which may support demand for professional services at this stage. At the same time, the OECD states that, alongside ICT, professional and scientific services are precisely among the sectors with a high rate of AI adoption (OECD, 2026; OECD, 2024).

Public administration. In public administration, the development is mixed. A stronger increase at the beginning of the horizon is followed by a slowdown, but the sector strengthens slightly again towards the end of the period. This picture is also credible. On the one hand, Slovakia is in the

excessive deficit procedure and the Ministry of Finance is working for 2026 with the objective of reducing the deficit to 4.1% of GDP. At the same time, the European Commission directly states in its forecast that a wage freeze in the public sector is among the main consolidation measures for 2026. This naturally limits the scope for broad-based recruitment of new employees (European Commission, 2025a). On the other hand, the state cannot completely stop the administration of EU funds, defence programmes and basic public services. Therefore, a fluctuating, but not sharply negative, development of employment is more likely.

Other services. The other services section remains slightly negative throughout the horizon. These are predominantly activities sensitive to domestic demand, household expenditure and the overall sentiment in the economy. The European Commission assumes that in 2026 the growth of private consumption will slow as a result of continuing consolidation, while real wage growth is to be temporarily negative. This is an environment that is not conducive to a broader expansion of consumer and leisure activities. Not all parts of the sector need to be weak, but at the aggregate level a slightly negative result does not appear exaggerated (European Commission, 2025a).

A view of the entire period 2026 to 2030 thus shows a labour market that will operate without a larger reserve. New jobs will be created mainly in construction, ICT, financial services, real estate and in some cases also in public administration, but these increases will be offset to a large extent by the continuing decline in industry, agriculture and part of services.

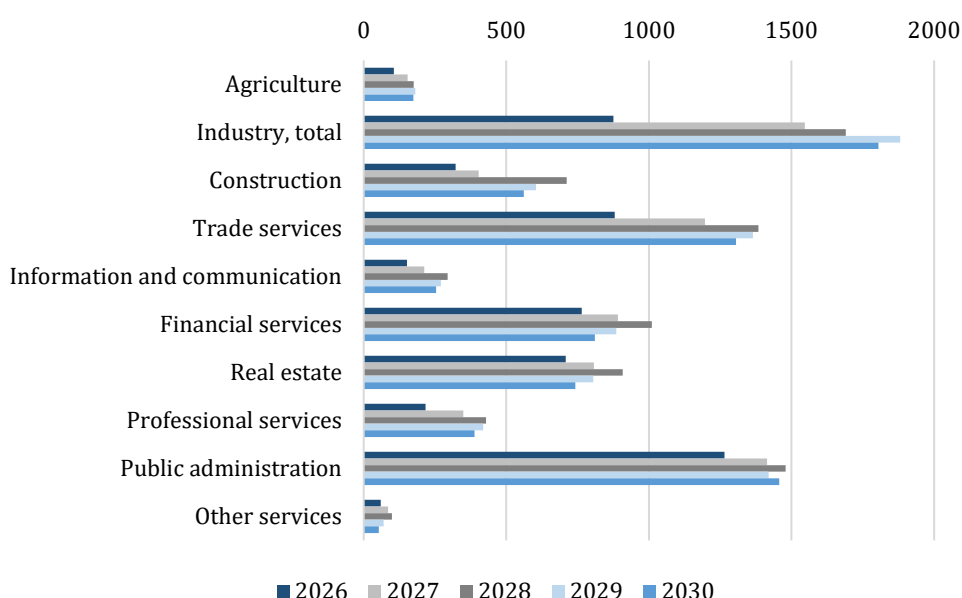
Value Added

The development of value added is significantly stronger than the development of employment. In most sectors, year-on-year increases in value added rise approximately until the middle of the horizon and only subsequently cool slightly, while even after this cooling they remain positive and relatively high in several sectors. Such a development corresponds to an economy in which the first years of the horizon carry investment and transformation impulses, while the later years already more closely resemble a return to a more sustainable trend. The European

Commission supports this picture to a large extent when, for Slovakia, it associates the years 2026 and 2027 with investment financed from EU funds, higher public investment including defence purchases, and only a gradual recovery of exports (European Commission, 2025a).

Figure 12.6

**Year-on-Year Increases in Value Added by Sector in EUR Million
(2026 – 2030)**



Source: authors' own processing.

Agriculture. In agriculture, growth in value added remains positive throughout the entire period despite the negative development of employment. This is fully consistent with European data. In its first estimates for 2025, Eurostat reported growth in gross value added in EU agriculture of 10.3% with a simultaneous decline in the volume of labour. In such a sector, there is therefore nothing unusual about the number of workers declining while value added grows as a result of higher productivity, better technology or price effects. With regard to Mercosur and Ukrainian imports, it is important to emphasise that this is rather a factor of volatility and price pressure than a reason for automatically negative increases in value added (Eurostat, 2025).

Industry. Industry is the dominant source of year-on-year increases in value added in the entire private economy. This is in line with the fact that, even in a weaker macroeconomic environment, industry remains the main carrier of Slovakia's export and investment capacity. Although the European Commission points to the underperformance of industry and its high sensitivity to tariffs and external demand, it at the same time expects public investment and new production capacities to support output in the later part of the horizon (European Commission, 2025a). Even more important is that the EU defence agenda openly links higher expenditure with the expansion of European industrial production. This is therefore a transformation caused by higher productivity. However, high increases in value added will be realised only if part of the European defence and investment impulse actually flows into domestic production and does not remain predominantly in imports or in larger Western European economies (European Commission, 2025b).

Construction. Construction is among the sectors where value added grows sharply, particularly in the first half of the horizon, and later gradually cools. This shape is perhaps even more convincing than in the case of employment. Construction in Slovakia is exceptionally sensitive to investment cycles and EU-fund impulses. When large infrastructure and renovation projects are launched, the value added of the sector can grow very quickly. When these impulses begin to be exhausted or encounter implementation limits, the dynamics naturally slow down. Official data also indicate precisely this profile. Investment financed from the EU is to remain a key support for growth, but implementation risk remains high (European Commission, 2025a; MIRRI, 2025).

Trade services. In the model, trade services achieve high increases in value added also in years when their employment rather stagnates or declines slightly. It is a sector where growth in revenues and performance can proceed through higher process efficiency, better logistics management, digitalisation and broader use of AI, without this being reflected in growth in the number of employees. Both the OECD and the European Commission agree that the digital transformation of firms will continue in Slovakia, although from a lower base (OECD, 2026; OECD, 2024).

Information and communication. Although the information and communication sector has lower increases in value added in absolute comparison than industry or trade services, its dynamics are very convincing. Slovakia still lags behind in the digitalisation of enterprises, which in itself creates scope for growth in digitalisation investment. At the same time, the EU defence agenda strengthens demand precisely for activities with high value added, such as cybersecurity, data infrastructure and specialised software. It is therefore entirely realistic that not only employment, but even more significantly value added, grows in the ICT sector (European Commission, 2025b; European Commission, 2025c).

Finance, real estate, professional services. In financial services, real estate and professional services, we see a similar story: value added grows relatively strongly in the first half of the period and later moderates. In financial services, this is supported by the recovery of credit activity and higher profitability of banks; in real estate, by the recovery of housing and price growth; and in professional services, by investment demand, project and advisory activity, but also by a higher intensity of regulatory and transformation changes. The NBS explicitly speaks of a continuing recovery in the financial and real-estate markets, while European investment and the digital transformation of the economy create natural demand for professional services. Cooling in the second half of the horizon indicates that permanent overheating of the sector will ultimately not occur (National Bank of Slovakia, 2025; National Bank of Slovakia, 2026; OECD, 2026; OECD, 2024).

Public administration. In the model, public administration achieves high increases in value added practically throughout the entire period, although employment is subdued. In an environment of consolidation, the public sector may behave in such a way that it reduces or freezes personnel costs, but at the same time, through budgets and co-financing of EU funds, it continues to finance considerable volumes of output, investment and services. The European Commission directly states that public investment is to remain strong even after consolidation measures and that in 2027 the deficit may increase again also because of higher defence expenditure and national co-financing of EU projects (European Commission, 2025a).

Other Services. Other services remain positive in value added, but visibly weaken at the end of the horizon. This corresponds to their link to domestic demand and to consumption rather than investment impulses. If household consumption is dampened by fiscal consolidation and slower growth in real income, these parts of services will be among the first where output growth is exhausted (European Commission, 2025a).

A view of the entire period 2026 to 2030 shows that growth in value added in Slovakia will probably be much more robust than growth in employment. In the years ahead, the economy may create more value, but increasingly less through the extent of labour input and increasingly more through capital, technology, investment and a change in structure.

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