



SLOVAK REPUBLIC

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

March 2025

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the Slovak Republic, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 18, 2025 consideration of the staff report that concluded the Article IV consultation with the Slovak Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis, following discussions that ended on January 28, 2025, with the officials of the Slovak Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 3, 2025.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues
Financial Stability System Assessment

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

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International Monetary Fund
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IMF Executive Board Concludes 2025 Article IV Consultation with Slovak Republic

FOR IMMEDIATE RELEASE

Washington, DC – March 24, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with the Slovak Republic and endorsed the staff appraisal without a meeting on a lapse of time basis.²

Economic growth accelerated to 2 percent in 2024 from 1.4 percent in 2023. Private consumption was the main driver fueled by positive real wage growth, the extension of energy support, and more generous pensions. Meanwhile, an increase in public consumption partially offset a slowdown in EU-funded public investments from record-highs in 2023. Net exports remained weak on lackluster demand for Slovak exports, particularly from key trading partner Germany, coupled with a rebound in imports. Inflation has declined from record-highs in early 2023 but increased in the second half of 2024 and into 2025.

Growth is forecast to decline to 1.8 percent in 2025 due to the impact of the envisaged fiscal consolidation before increasing to 2.1 percent in 2026. Inflation is projected to rise temporarily to 4.1 percent in 2025 on higher indirect taxes, before moderating to 3.1 percent in 2026 and reaching the 2 percent target by early-2027.

Executive Board Assessment

In concluding the 2025 Article IV consultation with Slovakia, Executive Directors endorsed the staff's appraisal, as follows:

The Slovak economy is recovering despite significant headwinds. The economy slowed sharply in 2022-23, but growth accelerated to 2.0 percent in 2024, outpacing that in the euro area. While inflation has declined from record-highs in 2023, it increased in 2024H2 due to higher global food price inflation. Weak external demand and fiscal consolidation imply that economic growth is projected to moderate to 1.8 percent in 2025, before rising to 2.1 percent in 2026. Adverse demographic trends and lower productivity growth weigh on the medium-term outlook. Risks are tilted to the downside and include intensifying trade policy uncertainty, and a slowdown of EU funds disbursements resulting from concerns over governance and institutional quality. Slovakia's external position is assessed to be broadly in line with fundamentals.

The government's ambitious fiscal consolidation targets for 2025-28—implying a cumulative reduction in the deficit of about 3.5 percentage points of GDP—are commensurate with the scale of Slovakia's fiscal challenges. The 2025 budget targets a

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

² Management has determined it meets the established criteria as set out in Board Decision No. 15207 (12/74); (i) there are no acute or significant risks, or general policy issues requiring a Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact in the near term; and (iii) the use of Fund resources is not under discussion or anticipated.

reduction in the headline deficit to 4.7 percent of GDP, from a projected 5.8 percent of GDP in 2024. Fund staff's more conservative macroeconomic forecasts imply an overall deficit of 5.0 percent of GDP in 2025, but the projected structural tightening is broadly in line with the budget. If revenues in 2025 appear to be falling short of targets the authorities should limit the resulting increase in the deficit by saving as much as possible of the contingency buffer. Beyond 2025, the authorities' medium-term fiscal structural plan aims to bring the fiscal deficit close to 2 percent of GDP by 2028. Staff projections suggest that these targets, if met, will reverse the increase in the deficit over the past two years and put public debt on a downward path by the end of the projection period.

Further deficit-reducing measures will have to be enacted to achieve the targeted consolidation beyond 2025. These measures should be consistent with Slovakia's long-term growth and climate objectives, while protecting the most vulnerable in society. Staff estimates suggest an additional 3.1 percent of GDP in fiscal savings will be needed over the next three years. Prioritizing expenditure-based measures would result in a more balanced fiscal consolidation given the reliance on revenue-based measures so far. In particular, there is scope to implement already-identified Value for Money initiatives (e.g. a reduction in subsidies) and improve the targeting of social spending. Also, there may be room to trim departmental budgets and reduce public sector wage growth, though this should be done cautiously to avoid unintended cuts in service delivery. On the revenue side, plans to counter tax evasions and increase tax compliance are welcome. In addition, there is scope to raise property taxes and reduce the number of items subject to reduced VAT rates. Temporary energy support measures to households should not be extended beyond 2025. In addition, the authorities should replace the FTT with alternative revenue sources, while phasing out the bank levy as planned.

Safeguarding Slovakia's strong fiscal framework is essential for the credibility of the consolidation effort. Aligning Slovakia's national expenditure ceiling framework with the new EU fiscal rules avoids inconsistencies and streamlines the budget process but continued focus on the long-term fiscal outlook (beyond the horizon used for the EU fiscal framework) remains useful given Slovakia's medium-term fiscal challenges. Slovakia's strong and independent Council for Budgetary Responsibility can help by monitoring the impact of government policies on the long-term sustainability of public finances. In addition, the debt brake should be reformed before it comes into effect in 2026 to avoid the risk of a disruptive fiscal consolidation.

The financial sector appears resilient to stress, reflecting a healthy level of buffers and profitability, though some risks remain. The residential real estate market and the office segment of the commercial real estate (CRE) market remain potential sources of vulnerability. That said, solvency and liquidity stress tests indicate that banks have sufficient capital to withstand severe macro-financial shocks and that banking system is resilient to funding and market liquidity shocks. The current macroprudential stance is broadly appropriate, but the policy framework could be further developed over the medium term by adopting a positive neutral countercyclical capital buffer (CCyB) and by closing leakages and refining the borrower-based measures. Financial resilience could be bolstered by strengthening the supervision of LSIs as well as the crisis management framework.

Slovakia needs structural reforms to diversify its economy, sustain productivity growth, increase the labor force, and further reduce carbon emissions. To improve resilience and sustain productivity growth the authorities should intensify efforts to promote innovation and enhance ALMPs to facilitate the movement of workers across sectors.

Deepening the European single market would allow innovative firms to leverage economies of scale and facilitate cross-border flows of capital including venture capital which are critical for startups. An aging population requires policies to increase the size and quality of the labor force, including more vocational education and training, improved child and elderly care, and further efforts to integrate and retain migrants. To further reduce greenhouse gas emissions, Slovakia should move expeditiously to fully implement the ETS II scheme for road transport and buildings and could consider gradually raising environmental levies in these sectors until the scheme becomes operational in 2027. Finally, sustained efforts to strengthen governance, reduce vulnerabilities to corruption, and enhance judicial independence would help lift the economy's resilience and growth potential.

Table 1. Slovak Republic: Summary of Economic Indicators, 2020–30

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
					Estimate		Projections					
	(Annual percent change, unless otherwise indicated)											
Output/Demand												
Real GDP	-2.6	5.7	0.4	1.4	2.0	1.8	2.1	2.5	2.5	2.1	2.0	
Domestic demand	-4.1	6.4	1.7	-5.5	3.9	1.8	1.5	2.3	2.3	2.0	1.8	
Public consumption	-0.9	3.7	-2.9	-3.0	3.3	1.2	0.2	0.6	1.3	1.0	1.1	
Private consumption	0.4	3.0	5.2	-3.1	2.3	0.7	0.9	1.6	1.7	1.6	1.5	
Gross fixed capital formation	-9.6	5.1	-1.9	16.6	-0.8	2.5	1.6	3.6	3.1	2.5	2.2	
Exports of goods and services	-6.5	10.6	2.9	-0.2	1.0	3.0	3.8	3.6	3.4	3.4	3.4	
Imports of goods and services	-8.0	11.6	4.4	-7.1	2.2	3.1	3.3	3.5	3.3	3.3	3.3	
Potential Growth	0.6	1.1	1.7	2.1	2.2	2.2	2.2	2.1	2.1	2.0	2.0	
Output gap	-2.7	1.8	0.6	-0.1	-0.3	-0.7	-0.8	-0.4	-0.1	0.0	0.0	
Contribution to Growth (Percent)												
Domestic demand	-4.0	6.4	1.7	-4.8	2.9	1.7	1.5	2.2	2.2	1.9	1.7	
Public consumption	-0.2	0.8	-0.6	-0.6	0.6	0.2	0.0	0.1	0.2	0.2	0.2	
Private consumption	0.2	1.7	2.9	-1.8	1.3	0.4	0.5	0.9	0.9	0.9	0.8	
Gross fixed capital formation	-2.1	1.0	-0.4	3.2	-0.2	0.5	0.4	0.8	0.7	0.5	0.5	
Inventories	-2.0	2.9	-0.2	-5.6	1.2	0.6	0.6	0.4	0.4	0.3	0.3	
Net exports	1.4	-0.7	-1.3	6.2	-0.9	0.1	0.6	0.3	0.3	0.2	0.3	
Prices												
Inflation (HICP)	2.0	2.8	12.1	11.0	3.2	4.1	3.1	2.0	2.0	2.0	2.0	
Inflation (HICP, end of period)	1.7	5.1	15.0	6.6	3.2	3.2	2.9	2.0	2.0	2.0	2.0	
Core inflation	2.4	3.4	10.4	11.4	4.1	4.3	2.3	2.0	2.0	2.0	2.0	
Core inflation (end of period)	2.3	5.6	13.9	6.9	4.0	3.4	2.0	2.0	2.0	2.0	2.0	
GDP deflator	2.4	2.2	7.5	10.1	3.6	3.8	3.2	2.3	2.2	2.0	2.0	
Employment and Wages												
Employment	-1.9	-0.6	1.8	0.3	-0.2	0.0	-0.1	-0.2	-0.3	-0.3	-0.3	
Unemployment rate (Percent)	6.7	6.8	6.2	5.8	5.4	5.5	5.6	5.5	5.4	5.4	5.4	
Nominal wages	3.7	6.8	7.8	9.6	6.9	5.8	4.5	4.1	4.0	4.0	4.0	
Public Finance, General Government (Percent of GDP)												
Revenue	39.0	39.5	40.6	42.7	41.2	43.2	42.4	41.7	41.1	41.0	41.0	
Expenditure	44.3	44.6	42.2	47.9	47.0	48.3	47.2	46.4	46.4	46.5	46.6	
Overall balance	-5.3	-5.1	-1.6	-5.2	-5.8	-5.0	-4.8	-4.7	-5.3	-5.5	-5.5	
Primary balance	-4.3	-4.2	-0.9	-4.5	-4.9	-3.9	-3.5	-3.3	-3.7	-3.8	-3.8	
Structural balance (Percent of potential GDP)	-2.3	-2.5	-1.0	-3.2	-4.9	-3.9	-4.3	-4.3	-5.3	-5.5	-5.5	
General government debt	58.3	60.1	57.6	56.0	58.0	59.5	62.9	65.9	68.7	71.5	74.3	
Monetary and Financial Indicators (Percent)												
Credit to private sector (Growth rate)	4.8	7.6	10.2	3.2	2.7	4.2	4.4	4.7	4.9	5.2	5.5	
Mortgage lending rates	1.1	1.0	2.0	3.8	4.1	...	...	...	...	...	...
Government 10-year bond yield	-0.1	0.0	2.2	3.7	3.5	3.3	3.3	3.4	3.4	3.5	3.5	
Balance of Payments (Percent of GDP)												
Trade balance (goods)	1.1	-0.5	-6.0	1.3	0.0	0.6	1.0	1.0	1.0	1.0	1.0	
Current account balance	0.5	-2.4	-8.1	-1.6	-2.7	-1.6	-1.1	-1.0	-1.0	-1.0	-1.1	
Gross external debt	118.5	131.9	105.4	96.0	99.5	97.9	96.3	95.5	94.6	94.3	94.2	
Saving and Investment Balance (Percent of GDP)												
Gross national savings	20.7	20.3	15.0	17.8	15.7	16.4	18.0	19.3	19.9	20.3	20.6	
Private sector	22.6	22.3	13.5	18.5	18.1	17.2	19.1	20.6	21.9	22.5	22.9	
Public sector	-1.9	-2.0	1.5	-0.7	-2.4	-0.8	-1.1	-1.4	-2.0	-2.2	-2.2	
Gross capital formation	20.2	22.7	23.2	19.4	18.4	18.1	19.1	20.3	20.8	21.2	21.7	
Memo Item												
EU grants (Percent of GDP)	1.2	1.2	1.3	3.2	1.4	1.6	1.7	1.2	1.0	1.0	1.0	
Nominal GDP (Millions of euros)	94,321	101,960	110,089	122,919	129,962	137,447	144,766	151,818	158,984	165,628	172,319	

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



SLOVAK REPUBLIC

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

March 3, 2025

KEY ISSUES

Context: Membership of the European Union (EU), adoption of the euro, and integration in global value chains, have contributed to a convergence towards living standards of more advanced EU countries. However, progress has slowed in recent years, and like many other EU countries, Slovakia is facing structural headwinds related to geoeconomic fragmentation and demographic change. Meanwhile, above-EU growth in recent years has come with a significant widening of the fiscal deficit.

Economic developments: Since mid-2023, growth has been supported by expansionary fiscal policy, EU-funded public investments, and in 2024 a recovery of private consumption. Inflation has declined from record-highs in 2023.

Fiscal policy: The authorities' fiscal consolidation targets for 2025-28, if attained in full, would reverse the upward trend in public debt and put it on a downward path. The proposed consolidation measures for 2025 are a step in the right direction, but further deficit-reducing measures will have to be enacted to achieve the targeted consolidation beyond 2025. Choosing measures that support Slovakia's long-term growth and climate objectives will be key. Further fiscal efforts will be required beyond the medium term to prepare for the anticipated increase in aging-related costs.

Financial policies: The current level of bank capital and borrower-based macroprudential measures remain appropriate given risks in the residential and commercial real estate markets. The macroprudential policy framework could be strengthened further by adopting a positive neutral countercyclical capital buffer and closing leakages and adjusting the speed limits of borrower-based measures. Financial resilience could be enhanced by augmenting the systemic risk assessment framework, bolstering the central bank's supervisory powers and operational independence, and strengthening the financial safety net and crisis management framework.

Structural policies. Support for innovation, technology adoption, and a strong education sector, are needed to diversify the economy and sustain productivity growth. Reforms to deepen the European single market would allow innovative firms to leverage economies of scale and attract capital to boost productivity and growth. Effective labor market policies are needed to raise labor participation among females and the elderly, increase inward migration and integrate existing migrants into the labor force and reduce youth unemployment. Maintaining a favorable investment climate and strengthening governance will help lift the economy's growth potential.

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

Discussions took place virtually during December 4-13, 2024, and in Bratislava, Slovakia, during January 15-28, 2025. The mission met with National Bank of Slovakia Governor Kažimír, Minister of Finance Kamenický, Minister of the Environment Taraba, senior officials from the Finance, Economy, Education, Environment, Government Office, Health, Interior, Investment and Regional Development, Justice and Labor ministries, the Office of the Deputy Prime Minister, the National Bank of Slovakia, the Council for Fiscal Responsibility, ARDAL, the Financial Administration, the Prosecutor General's Office, the Financial Intelligence Unit, the Judicial Council, the National Council, the Specialized Criminal Court, and representatives from the private sector, civil society, and the European Commission. The staff team comprised Mr. Saxegaard (head), Ms. Mooi, Mr. Kotera (all EUR) and Mr. Bogmans (RES). Mr. Alasal and Ms. Mitchell (all EUR) supported the mission. Ms. Ogawa (MCM) and Mr. Pampolina (LEG) participated in some meetings. Mr. Hagara (advisor to the Executive Director) participated in the discussions.

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CONTEXT AND RECENT DEVELOPMENTS

1. **Slovakia has converged steadily towards living standards of more advanced EU countries though progress has stalled in recent years.** The convergence in GDP per capita was driven by an increase in productivity underpinned by gains from European Union (EU) accession and adoption of the euro, and integration in global value chains. However, structural headwinds related to geoeconomic fragmentation, high energy costs, and demographic change, are putting pressure on Slovakia's manufacturing-based growth model and challenging policymakers. Meanwhile, robust growth in recent years has come at cost of rising imbalances, notably a large fiscal deficit. The political environment is increasingly polarized, complicating policymaking. Implementation of the Fund's policy advice has been mixed (Annex IV).
2. **Growth is recovering (Figure 1).** The economy grew by 2.0 percent in 2024, up from 1.4 percent in 2023, outpacing that in the euro area (EA). Private consumption was the main driver fueled by positive real wage growth, the extension of energy support, and more generous pensions. Meanwhile, an increase in public consumption partially offset a slowdown in EU-funded public investments from record-highs in 2023. Net exports remained weak on lackluster demand for Slovak exports, particularly from key trading partner Germany, coupled with a rebound in imports.
3. **Inflation has declined from record-highs in 2023 but increased in 2024H2 on higher global food prices.** Inflation declined to 2.5 percent in 2024Q2—in line with the EA median—from more than 15 percent in early 2023 on lower commodity and other goods prices. However, unlike most other EA countries, headline inflation in Slovakia increased in 2024H2, reaching 3.5 percent year-on-year in 2024Q4 on higher global food prices.¹ Inflation increased further in early 2025—reaching 4.2 percent year-on-year in January—largely due to the increase in indirect taxes at the start of the year. Meanwhile, at 4.1 percent in 2024Q4 core inflation remains higher than the EA median (2.8 percent) due to strong nominal wage growth (6.4 percent in 2024Q3 compared to an EA median of 5.3 percent) that is putting upward pressure on services prices inflation.
4. **The labor market remains tight.** In addition to policy changes and inflation-indexed pensions that encouraged early retirements, outward migration and aging are contributing to a decline in the labor force and an increasingly tight labor market, notwithstanding an increase in foreign workers (Figure 2). Although employment softened, unemployment declined to a record low of 5.3 percent in 2024Q4, with signs of labor shortages in several sectors, but youth unemployment remains high (Figure 16). The tight labor market is putting upward pressure on real wage growth, which reached 2.6 percent in 2024Q3. Meanwhile, hours worked per worker remains 5 percent below pre-pandemic levels, though the economic impact is mitigated by a 12 percent increase in labor productivity over the same period (Box 1).

¹ The higher sensitivity to global food prices reflects partly the higher weight on food in the CPI basket (26.3 percent in Slovakia versus 15.7 percent in the EA in 2024).

Box 1. Labor Productivity Trends in Slovakia

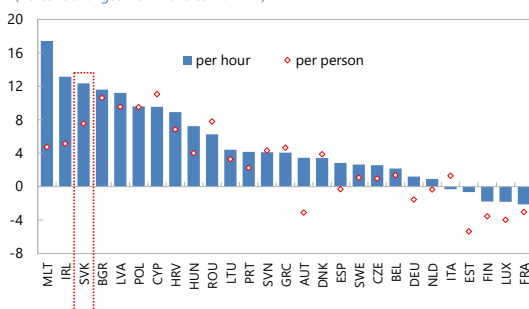
Labor productivity growth is on a secular decline but has picked up recently. Labor productivity growth slowed from an average of 3.9 percent per year in the 2000s to 1.8 percent between 2016-19.¹ However, since end-2019, labor productivity per hour worked has increased by 12.4 percent and by 7.5 percent per employee (2.4 percent and 1.5 percent per year on average, respectively), outpacing the EU average and other CESEE-EU countries.

Productivity gains in Slovakia since 2019 stem from improvements within sectors, rather than a reallocation of labor across sectors. The improvement in productivity is broad-based, but most pronounced in parts of the services sector with low initial productivity levels as well as in manufacturing. Positive within-industry productivity gains result from both frontier and laggard firms in manufacturing and services becoming more productive.

The strong productivity growth in Slovakia in recent years reflects relatively fast GDP growth, implying less labor hoarding. While labor hoarding in the EU is estimated to have increased, it has been declining in Slovakia due to a less pronounced drop in domestic demand.² A lack of labor hoarding suggests Slovakia is already utilizing its labor efficiently. While positive for the economy in the short-term, it could suggest that Slovakia has less scope than other EU countries to increase output when global demand picks up.³

Changes in Real Labor Productivity in EU Countries

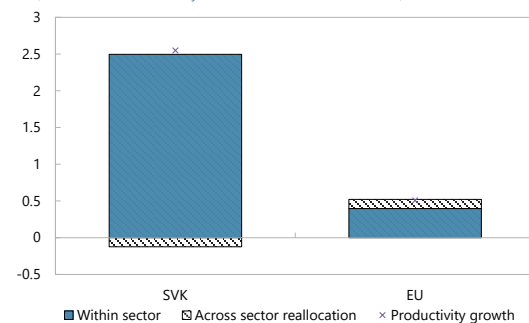
(Percent changes from 2019 to 2024H1)



Sources: Haver Analytics and IMF staff calculations.

Productivity Growth Decomposition

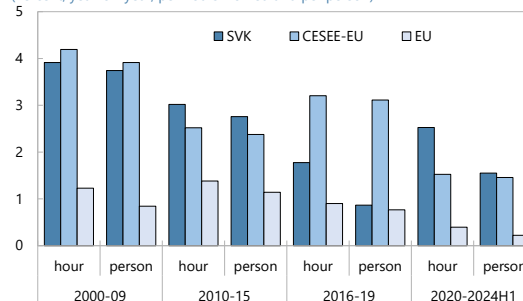
(Percent, shift-share analysis, 2019H1-2024H1; annualized)



Source: Haver Analytics.

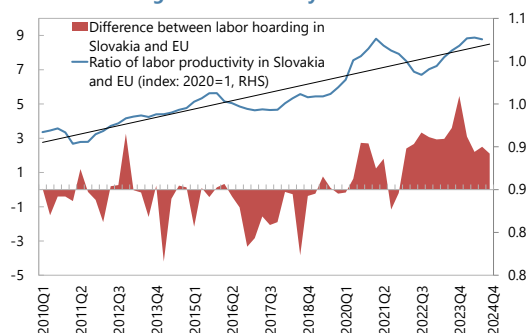
Average Growth in Labor Productivity

(Percent, year-on-year, per hours worked and per person)



Note: CESEE-EU: Central, Eastern and Southeastern Europe, EU member states
Sources: Haver Analytics and IMF staff calculations.

Labor Hoarding and Productivity



Sources: Haver Analytics and European Commission.

1/ For further details see Selected Issues Paper: "A Micro-Meso-Macro View of Labor Productivity Growth in the Slovak Republic", IMF Country Report No. 25/38.

2/ The European Commission's Labor Hoarding Indicator measures the percentage of managers who expect their company's output to decrease while employment remains stable or increases.

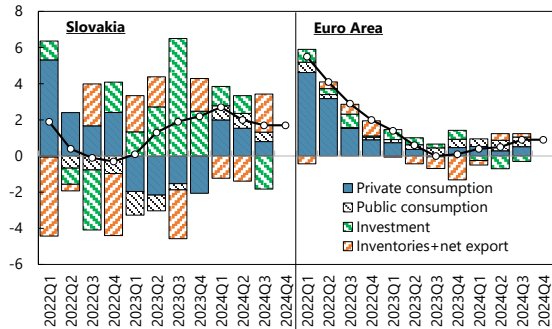
3/ National Bank of Slovakia (2024), Economic and Monetary Developments, Autumn 2024.

Figure 1. Slovak Republic: Real GDP and Inflation Developments

Since 2023Q2, growth in Slovakia has outpaced the euro area.

Contribution to Real GDP Growth

(Percentage points of GDP, year-on-year)

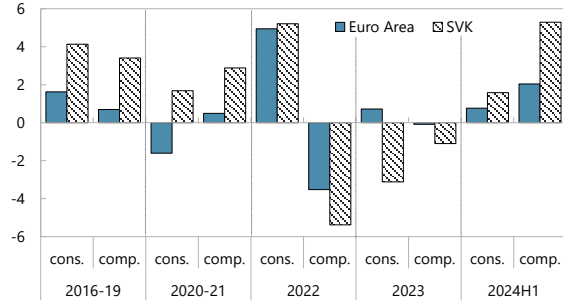


Source: Haver Analytics.

A large increase in real wages in 2024 contributed to consumption growth outpacing that in other EA countries.

Average Real Consumption and Compensation Growth

(Year-on-year percent change)

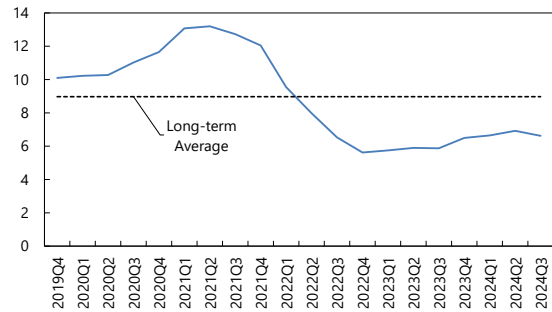


Note: cons. - real consumption, comp. - real compensation per employee (deflated by HCPI)
Sources: Haver Analytics and IMF staff calculations.

The household savings rate remains below the long-term average.

Households: Gross Savings Rate

(Percent of Gross Disposable Income, 4 quarters moving average)

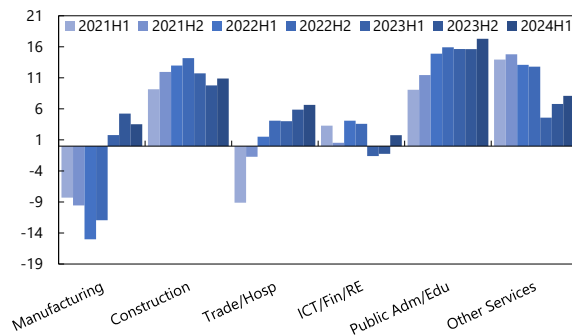


Note: Long-term average is 2004-2019.
Sources: Haver Analytics and IMF staff calculations.

The public and services sectors as well as construction supported growth after the pandemic.

Real Gross Value Added by Sector

(Percent change relative to 2019Q4)

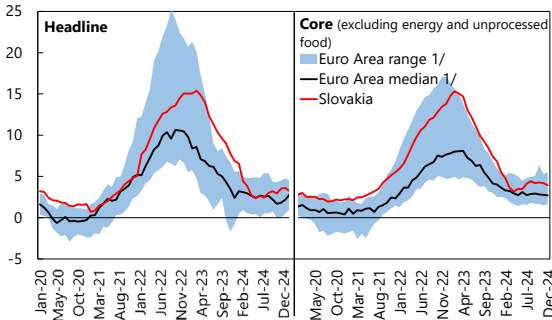


Sources: Haver Analytics and IMF staff calculations.

Inflation declined to the euro area median in 2024Q2, but both headline and core inflation have picked up recently.

Inflation Rate Across Euro Area Countries

(Year-one-year percent change)

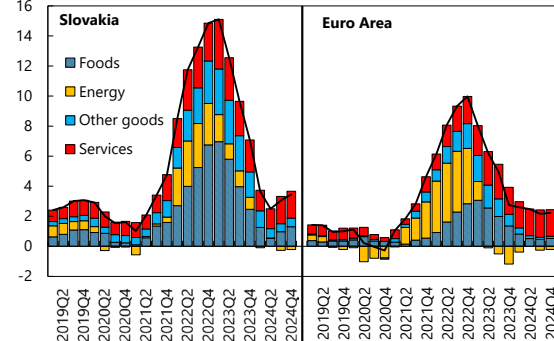


1/Euro Area range and median exclude Slovakia.
Sources: Eurostat and IMF staff calculations.

Food prices have been a more important driver of inflation than in the euro area.

HICP Headline Inflation Rate

(Year-on-year percent change)



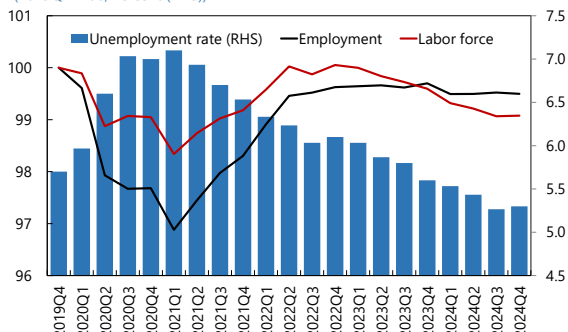
Sources: Haver Analytics and IMF staff calculations.

Figure 2. Slovak Republic: Labor Market

Employment decreased slightly in 2024 due to early retirements, and the unemployment rate is at record lows.

Labor Market Development

(2019Q4=100, Percent (RHS))

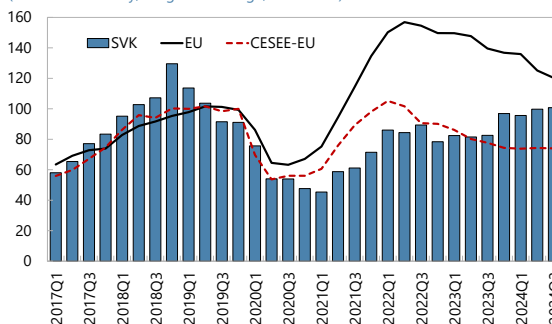


Source: Haver Analytics.

The labor market remains tight.

Index of Vacancy to Unemployment Ratio

(Business Economy, weighted average, 2019=100)

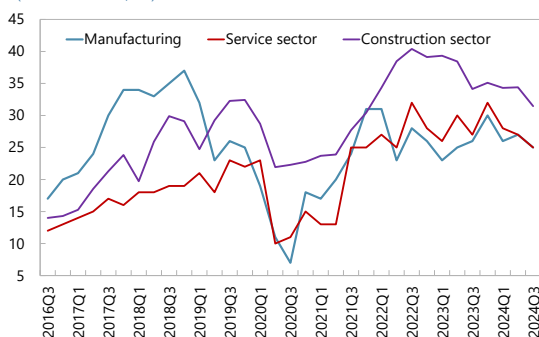


Note: CESEE-EU: Central, Eastern and Southeastern Europe, EU member states
Sources: Haver Analytics and IMF staff calculations.

Labor shortages are particularly acute in the construction sector.

Firms Reporting Labor Shortage

(Percent balance, SA)

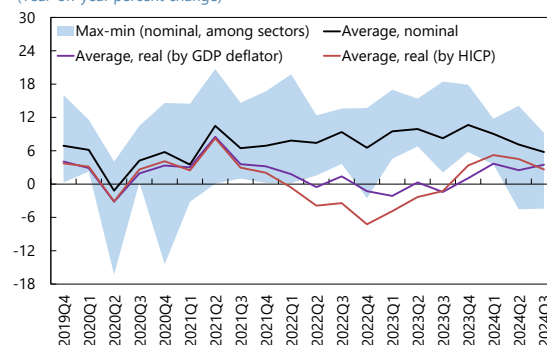


Sources: Haver Analytics and IMF staff calculations.

Nominal wage growth lagged inflation for much of 2022, but real wages have increased since 2023Q4.

Wage Growth Rate

(Year-on-year percent change)

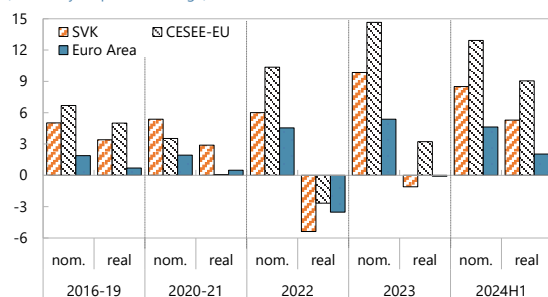


Sources: Haver Analytics and IMF staff calculations.

Wage growth in Slovakia is higher than in the euro area but lower than in other CESEE-EU countries.

Average Nominal and Real Compensation Growth

(Year-on-year percent change)

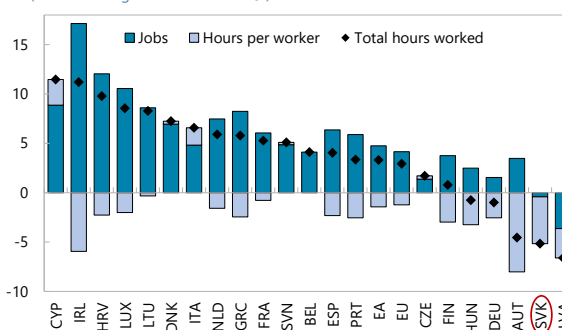


Note: Compensation per employee. The real values are deflated by HCPI. CESEE-EU: Central, Eastern and Southeastern Europe, EU member states
Sources: Haver Analytics and IMF staff calculations.

Hours worked lag employment and remain well below pre-pandemic levels.

Working Hours Growth Decomposition, 2024Q3

(Percent change relative to 2019Q4)



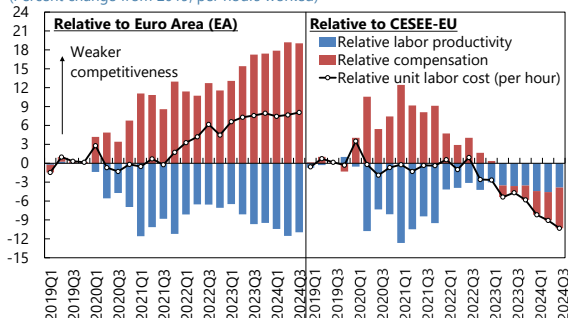
Sources: Eurostat; and IMF staff calculations.

Figure 3. Slovak Republic: Unit Labor Cost and Competitiveness

Unit labor costs have increased more than in the euro area but not as much as in other CESEE-EU countries.

Relative Unit Labor Cost

(Percent change from 2019, per hours worked)

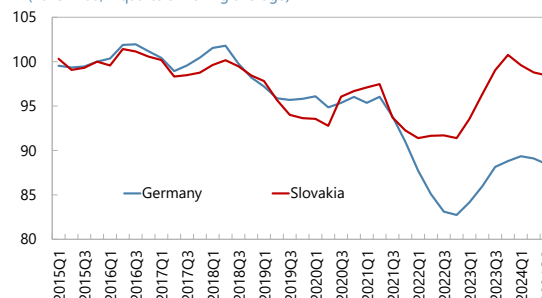


Note: CESEE-EU: Central, Eastern and Southeastern Europe, EU member states
Sources: Haver Analytics and IMF staff calculations.

Despite high real wage growth, Slovakia's market share has improved modestly over the past few years.

Market Share

(2015=100, 4 quarters moving average)



Note: Market shares are calculated as the exports of the country divided by the weighted imports of the countries with which the country trades.
Sources: Haver Analytics and IMF staff calculations.

5. The external position is assessed to be moderately weaker than fundamentals (Annex I). The current account deficit increased sharply towards the end of the year, reaching 2.7 percent of GDP in 2024 from 1.6 percent in 2023. The deterioration in the current account deficit is assessed to be largely temporary, likely reflecting an increase in energy imports for precautionary reasons and a temporary decline in automobile exports (Figure 17). Meanwhile, rising real wages do not appear to be undermining competitiveness: unit labor costs have increased more than in the EA but not as much as in other CESEE-EU countries, while Slovakia's export market share—which until the pandemic had been on a secular decline alongside that of Germany—has improved modestly over the past few years (Figure 3).

6. The fiscal deficit is projected to have increased to 5.8 percent in 2024 from 5.2 percent in 2023 (Figure 4). This increase follows the 3.6 percentage points of GDP widening of the fiscal deficit in 2023.² The further deterioration in 2024 reflects a combination of revenue easing and higher spending on healthcare that more than offset a decline in the cost of energy support and the 0.6 percent of GDP in net consolidation measures adopted in the 2024 budget. However, the increase in the fiscal deficit in 2024 is outweighed by a slowdown of EU-funded investment from record highs in 2023, resulting in an estimated contractionary fiscal impulse to the economy of 1.6 percentage points.^{3,4} High deficits are projected to push gross public debt to 58 percent of GDP at end-2024 and Slovakia is assessed to be at moderate overall risk of debt distress (Annex III). In July 2024, the European Council initiated an Excessive Deficit Procedure (EDP) against Slovakia, given its high and persistent fiscal deficits.

² The increase in the fiscal deficit in 2023 reflects a combination of temporary energy support, an increase in social spending, and the lagged effect of inflation. For further details see IMF Country Report No. 24/75.

³ The slowdown in EU grants is related to the end of the 2014-20 structural funds programming period.

⁴ The fiscal impulse is measured as the change in the cyclically adjusted primary balance excluding EU grants in percent of potential GDP.

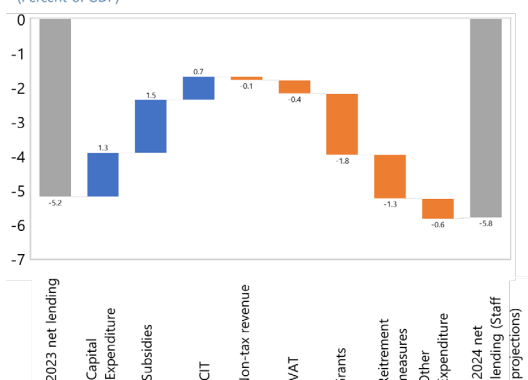
Figure 4. Slovak Republic: Fiscal Developments

The fiscal deficit widened in 2024...

...but the fiscal impulse was negative due to a slowdown in EU-funded public investments.

Increases in Net Lending in 2024

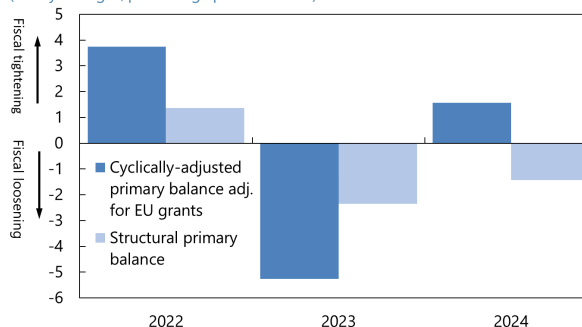
(Percent of GDP)



Sources: Slovak Ministry of Finance and IMF Staff calculations.

Primary Balances: Cyclically Adjusted and Structural 1/

(Yearly changes, percentage points of GDP)



Sources: Slovak Ministry of Finance and IMF staff calculations.

1/ Excludes one-off policies, including those related to the pandemic.

7. Credit growth is showing signs of recovery but remains weak overall. Credit growth has been on a downward trend since mid-2022 but has showed signs of recovery in recent months as lending rates decreased in line with the easing of the ECB policy rate (Figure 5). The demand for mortgages stabilized in 2024 after a sharp decline in 2023, while non-financial corporate credit growth turned positive in early 2025. Credit supply (as measured by the change in credit standards) has remained broadly unchanged since mid-2022. The spread over German government bonds has declined but remains higher than in most other EA countries.

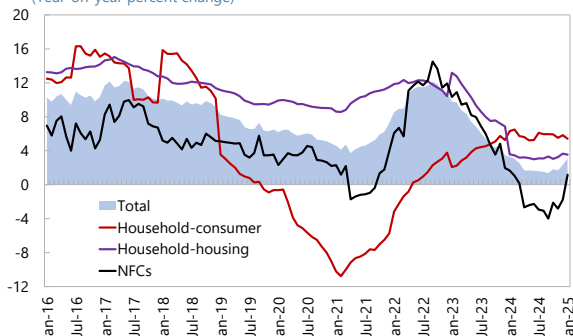
8. Despite a decline in house prices, the housing market appears somewhat overvalued. Residential real estate (RRE) prices are down 7.1 percent from their 2022Q3 peak due primarily to high mortgage rates but have been on an upward trend since 2024Q2. The 2024 Financial Sector Assessment Program (FSAP) suggests house prices remain somewhat overvalued. Housing affordability improved somewhat in 2024 on rising real wages and declining real estate prices but remains close to historical lows.

Figure 5. Slovak Republic: Macro-financial Conditions

Private credit growth started decelerating in mid-2022 but has showed signs of recovery in recent months.

Private Sector Credit Growth

(Year-on-year percent change)

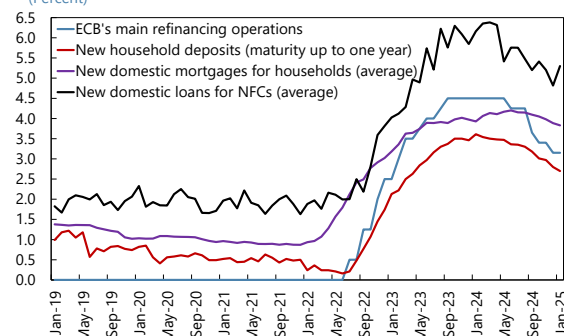


Sources: Haver Analytics and IMF staff calculations.

Deposit and lending rates have started declining in line with the easing of the ECB policy rate.

Interest Rate

(Percent)

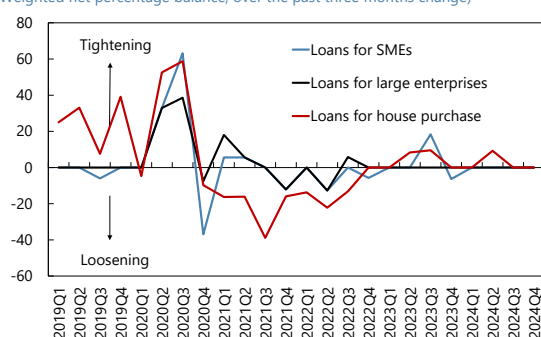


Source: National Bank of Slovakia.

Credit supply has been broadly stable since 2023 for both households and corporates.

Change in Credit Standards

(Weighted net percentage balance, over the past three months change)

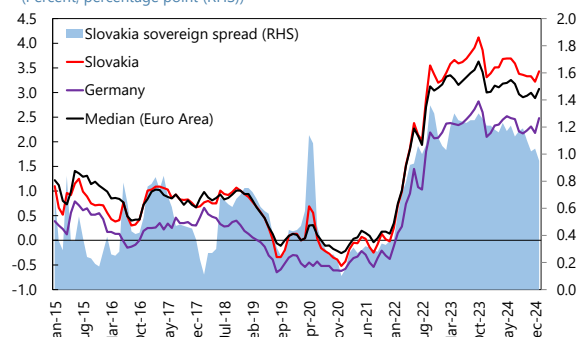


Source: Haver Analytics.

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

10 Years Government Bond Yield

(Percent, percentage point (RHS))



Sources: CEIC and IMF staff calculations.

9. Slovakia has successfully reduced natural gas consumption and its reliance on Russian gas.

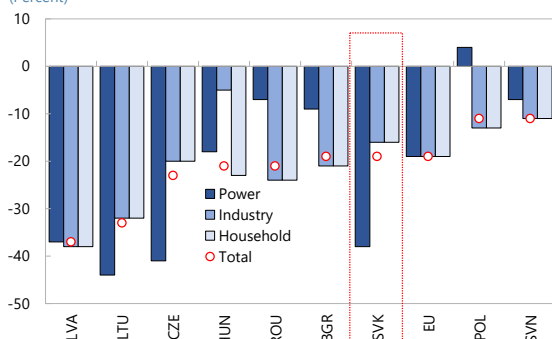
The deal that allowed Russian gas to flow to Slovakia through Ukraine expired at end-2024. There are no immediate risks to gas supply given significant amounts of gas in storage, though European wholesale prices have increased somewhat. However, further efforts are needed to bring alternative suppliers on stream ahead of the next heating season. While Slovakia remains heavily dependent on Russian oil, work is ongoing to reconfigure the sole oil refinery in Slovakia to accept crude oil from other sources. More than 60 percent of electricity is generated using Russian-designed nuclear power plants, but Slovakia has signed long-term agreements that will allow diversification away from Russian nuclear fuel.

Figure 6. Slovak Republic: Energy Security

A reduction in natural gas consumption, especially in the power sector...

Natural Gas Demand by Sector 2023 vs 2019-21 Average

(Percent)

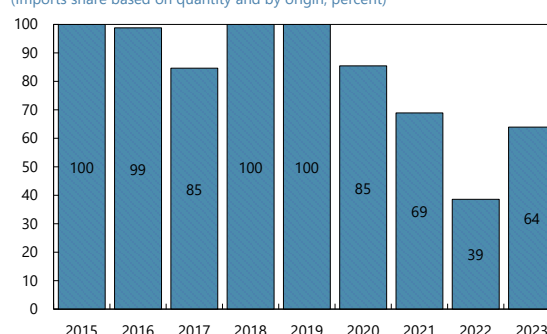


Source: Bruegel.

...has enabled Slovakia to reduce its reliance on natural gas from Russia, although dependence remains high.

Imports of Natural Gas from Russia

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

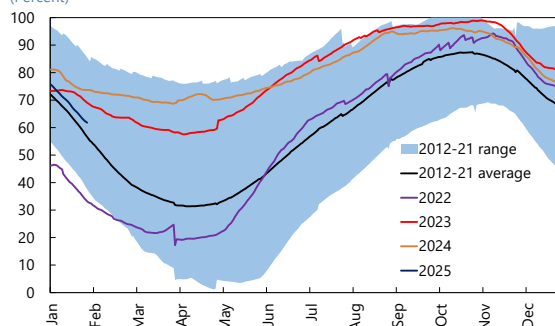


Sources: OECD and IMF staff calculations.

Significant amounts of gas in storage...

Gas Storage in Percent of Gas Storage Capacity

(Percent)

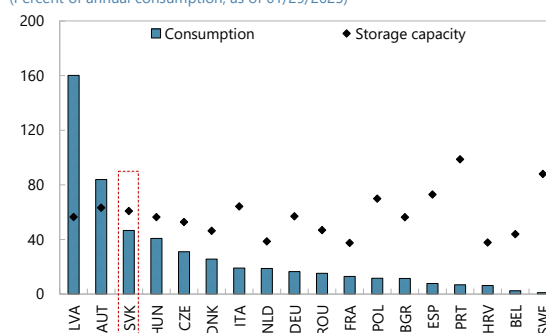


Source: Aggregated Gas Storage Inventory.

...has reduced the risk of shortages in the event of a disruption to energy supplies

Gas Storage in Individual Countries

(Percent of annual consumption, as of 01/29/2025)



Source: AGSI.

OUTLOOK AND RISKS

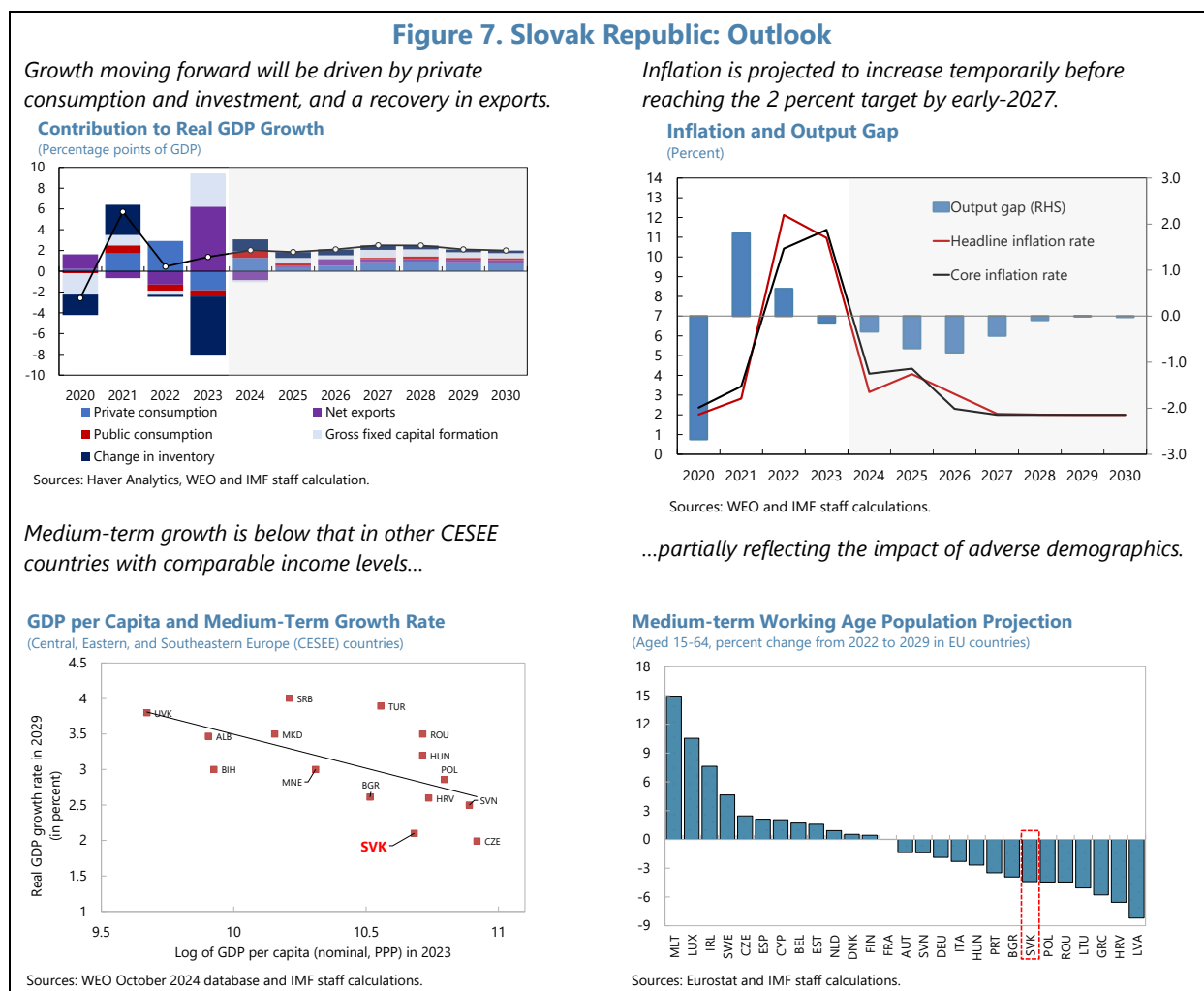
10. The near-term outlook is shaped by the upcoming fiscal consolidation, robust EU-funded investments, and a gradual recovery in external demand. The fiscal consolidation in 2025 will put downward pressure on growth, though the effect will be partially mitigated by robust inflows of EU funds.⁵ Higher indirect taxes will weigh on private consumption and put upward pressure on prices, though the impact will be partially offset by the one-year extension of energy support to households. Meanwhile monetary policy easing will loosen financial conditions.

11. Growth is forecast to decline to 1.8 percent in 2025 before increasing to 2.1 percent in 2026 (Figure 7). Fiscal consolidation in 2025 will lower growth directly through a slowdown in the

⁵ Following Batini et al. (2014), the growth impact of the fiscal consolidation is calculated using an impact multiplier of 0.5 which increases to 0.6 in the second year before declining to 0.3 in the third year. The fiscal consolidation is not assumed to have any impact on potential growth.

growth of public consumption, and indirectly as higher inflation lowers real wages and weakens private consumption.⁶ While external demand in 2025 is expected to remain subdued, investments are projected to rebound as strong EU-funded public investments and an easing of financial conditions more than offsets the impact of higher corporate taxes. For 2026, higher growth in trading partners and increased capacity in the automotive sector is expected to boost exports. Inflation is projected to rise temporarily to 4.1 percent in 2025 and moderate to 3.1 percent in 2026, before reaching the 2 percent target by early-2027.

12. Structural issues will weigh on medium-term growth. Projected medium-term growth of 2.0 percent, as projected by staff, is expected to be significantly lower than the 3.9 percent average between Slovakia's EU accession in 2004 and the pandemic, and below IMF forecasts of medium-term growth in other Central, Eastern, and Southeastern Europe (CESEE) countries with comparable income levels, partially due to the impact of adverse demographics.



⁶ The fiscal consolidation in 2025 subtracts 0.5 percentage points from growth in 2025 and 0.2 percentage points in 2026, and adds 0.3 percentage points to growth in 2028, relative to a pre-budget baseline.

13. Risks to growth are tilted to the downside while risks to inflation are broadly balanced (Annex II). Near term risks include increasing trade policy uncertainty which would weigh on investment and growth and exert downward pressure on inflation, while higher commodity prices, including from a disruption to energy supply, would push up inflation and weaken the external balance. Domestically, fiscal consolidation slippages would support growth but could increase sovereign spreads and tighten financial conditions. A lack of political consensus on structural reforms and concerns about governance and institutional quality, could deter private investment and slow the disbursement of EU funds that have been critical in supporting public investment. A correction in real estate prices combined with an economic downturn could trigger losses for financial institutions. Meanwhile, second-round effects from higher wage growth could keep inflation elevated and undermine competitiveness. In the medium term, geoeconomic fragmentation, and increased competition from China could hurt the competitiveness of Slovakia's automotive sector.

Authorities' Views

14. The authorities broadly agreed with staff's assessment of the outlook and risks. They agreed that fiscal consolidation and weak external demand will lower growth in 2025, and that inflation is likely to increase in the near-term. The authorities agreed that risks to growth were tilted to the downside and were of the opinion that increased protectionism was one of the primary risks.

POLICY DISCUSSIONS

Discussions focused on the need for fiscal consolidation to reverse the deterioration in the deficit, strengthening the financial sector in line with FSAP recommendations, structural policies to diversify the economy, sustain productivity growth, and mitigate the challenges of an aging population, strengthening governance and reducing vulnerability to corruption, and maintaining a favorable investment climate to boost potential growth.

A. Fiscal Policy

15. The deterioration of public finances has increased the scale of Slovakia's fiscal challenges. The change in government in October 2023 meant there was little time to put in place a budget for 2024 that would reverse the significant increase in the fiscal deficit in 2023. However, ex-post it is clear that robust growth combined with significant medium-term fiscal challenges would have warranted a tighter fiscal stance in 2024.

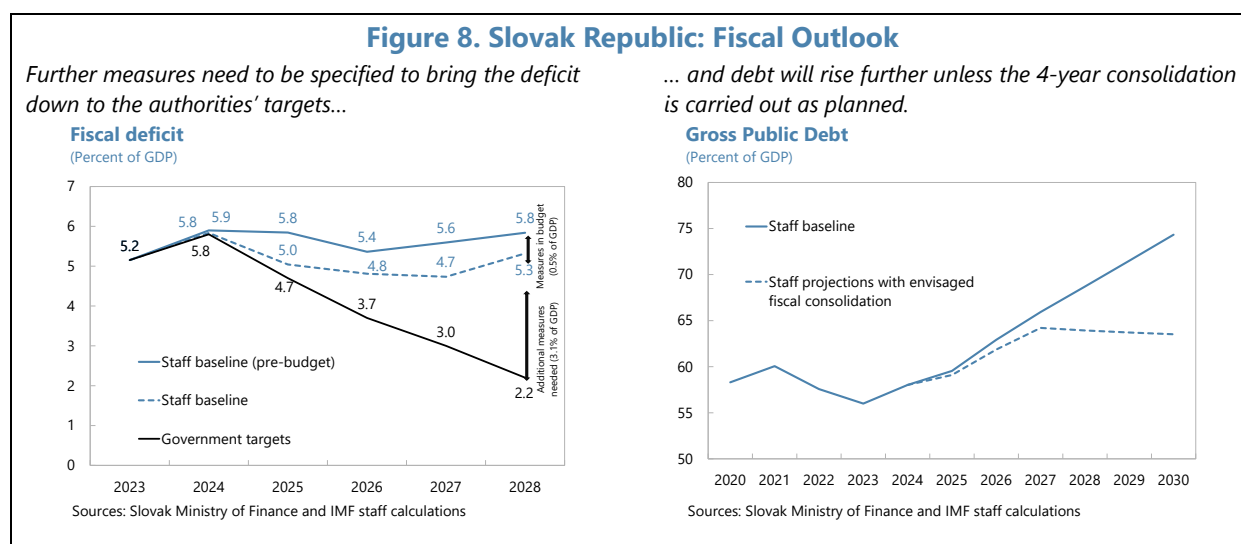
16. The authorities have put forward a 4-year fiscal consolidation plan to the European Commission to comply with the new EU fiscal rules framework and stabilize debt.

- The 2025 budget targets a reduction in the headline deficit to 4.7 percent of GDP from a projected 5.8 percent of GDP in 2024. Staff's macroeconomic and revenue forecasts are somewhat more conservative, implying an overall deficit of 5.0 percent of GDP for 2025 (despite a projected reduction in the structural deficit—1.0 percentage points of GDP—that

is broadly in line with what is envisaged in the budget). These forecasts are subject to significant downside risks, including from a lower-than-expected yield from the fiscal consolidation measures or a worse-than-anticipated economic outlook, and additional discretionary spending. In the event of slippages relative to budget targets the authorities should limit the resulting increase in the deficit, including by saving as much as possible of this year's contingency buffer.

- Beyond 2025, the authorities' medium-term fiscal structural plan targets a reduction in the fiscal deficit to 2.2 percent of GDP by 2028, though measures to achieve this consolidation are not specified. Staff's baseline forecast, which does not include any further consolidation beyond that in the 2025 budget, entails a gradually increasing deficit over the medium term, with public debt rising to 74 percent of GDP by 2030 compared to 56 percent of GDP at end-2023.

17. The authorities' fiscal targets are appropriately ambitious and commensurate with the scale of Slovakia's fiscal challenges (Figure 8). If met, the envisaged consolidation will reverse the increase in the deficit over the past two years and put public debt on a downward path by the end of the projection period.



18. The proposed consolidation measures for 2025 are a step in the right direction. Several of the measures in the 2025 budget are welcome and will help reduce the deficit on a structural basis, including the increase in the basic VAT rate, and better targeting of child benefits. However, the increase in the number of items subject to reduced VAT rates (e.g. on food and electricity) and decrease in rates on already-reduced items (e.g. on food in restaurants and accommodation) deprives the government of much needed revenue, while the financial transactions tax (FTT) could

weaken financial intermediation and increase incentives for informality.^{7,8} The FTT could also have adverse effects on financial stability (see below).

19. Further deficit-reducing measures will have to be enacted beyond 2025 to achieve the targeted medium-term fiscal consolidation.

- These measures should be consistent with Slovakia's long-term growth and climate objectives, while protecting the most vulnerable in society. While there is no definitive evidence that reducing spending is more effective than increasing revenues in terms of economic efficiency or equity, prioritizing the rationalization of expenditures moving forward would result in a more balanced fiscal consolidation, given the reliance on revenue-based measures thus far.
- Staff estimates suggest an additional 3.1 percent of GDP in fiscal savings will be needed over the next three years (about 1 percent of GDP per year). In particular, there is scope to: (i) reduce the number of items subject to reduced VAT rates; (ii) raise property taxes by transitioning to a market value-based system; (iii) further target social spending; (iv) reverse the recent increase in the 13th pension; (v) eliminate the early retirement pension; (vi) reduce the VAT compliance gap (e.g. through e-invoicing) and (vii) implement already-identified Value for Money initiatives, including through a reduction in subsidies (Text Table 1).^{9,10} In addition, the authorities should replace the FTT with alternative revenue sources and remove remaining energy support

Text Table 1. Slovak Republic: Fiscal Policy Measures
(Percent of GDP)

	Estimated yield
2025 budget consolidation measures	
<i>Revenue measures</i>	
rate	0.5
Financial transaction tax (<i>first payment April 1</i>)	0.4
CIT reform	0.3
Other revenue measures	0.1
<i>Expenditure measures</i>	
Better targeting of child tax credit	0.1
Reform of parental pension	0.3
Dampening of public sector wages	0.1
Total gross consolidation measures	1.8
Recommended measures 1/	
Cancellation of reduced VAT rates	1.3
Raise property taxes 2/	0.3
Reverse increase in 13th pension	0.4
Eliminate early retirement pension 2/	0.2
Identified Value for Money measures	0.5
Reduce VAT compliance gap to the EU average	0.5
Further scope to target social spending	0.8
Total	4.0

Sources: Slovak Ministry of Finance, IMF staff calculations

1/ Estimated full-year yield

2/ Estimated long-term yield

⁷ The FTT is similar to that in Hungary and will be levied on non-financial corporate's bank transactions (e.g., bank transfers, ATM withdrawals and credit card transactions).

⁸ Evidence from other countries suggest the revenue yield from such taxes typically erodes over time. For further details see Baca-Campodónico, J. et al. (2006), "The Rates and Revenues of Bank Transaction Taxes", OECD Economics Department Working Paper No. 494.

⁹ The 13th pension is a lump-sum payment to pensioners. The amount depends on the preceding year's average pension and in 2024 is estimated to cost 0.6 percent of GDP.

¹⁰ The VAT compliance gap in 2022 is estimated at 14.6 percent, above the EU median of 6.0 percent. For further details see European Commission (2024), VAT Gap in the EU, 2024 Report. Preliminary estimates by the Slovak Ministry of Finance using the RA-VAT methodology developed by the IMF (Hutton, 2017) suggests the gap has declined to 10.3 percent of GDP in 2023 from 13.3 percent of GDP in 2022.

measures (projected to cost 0.2 percent of GDP in 2025), while phasing out the bank levy as planned. Given the magnitude of the fiscal effort, careful communication to explain why fiscal consolidation is needed and the choice of measures, will be key.

20. Additional fiscal consolidation is needed over the medium-term to prepare Slovakia for future demographic challenges. The EU projects that aging-related costs in Slovakia will increase by 5.6 percent of GDP between 2022 and 2050, and significantly more in a ‘risk scenario’ where the cost of long-term care converges to the EU average and demand for healthcare increases.¹¹ In the absence of any adjustment, the OECD projects that aging-related costs may push public debt above 200 percent of GDP by 2050 (Figure 18). Hence, while the authorities’ fiscal targets would, if implemented in full, reverse most of the deterioration since 2022, significant further efforts will be required to prepare for the anticipated increase in aging-related costs.

21. Safeguarding Slovakia’s strong fiscal framework is essential for the credibility of the consolidation effort. Harmonization of the national expenditure ceiling framework with the new EU fiscal rules avoids potential inconsistencies and simplifies the budget process. However, the horizon for assessing debt sustainability in the EU fiscal framework (10 years following the 4-year adjustment period) does not account for the increase in aging-related costs that is anticipated to occur beyond this horizon. Similarly, the new EU fiscal rules do not capture any potential adverse impact of current policies that fall beyond the 10-year forecast horizon. Slovakia’s strong and independent Council for Budgetary Responsibility therefore remains useful to monitor the impact of government policies on the long-term sustainability of public finances. In addition, reforming the debt brake before it comes into effect in 2026, including by lowering the thresholds that trigger the debt brake escape clause, would reduce the risk of a fiscal consolidation far in excess of that recommended by staff.¹²

22. The effective absorption of EU funds is crucial for economic growth. The absorption of EU structural funds during the 2014-20 programming period was slower than in the past and low relative to other EU countries, while the pace of absorption of Recovery and Resilience Plan (RRP) funds has increased and is in line with other EU countries (Figure 9). The Slovak government is working with the OECD and the European Commission to identify concrete measures to increase absorption. In this regard, there is a need to strengthen project management capacity, especially at the municipal level, while the preparation of a national investment plan would help guide the timely selection of investment projects.

Authorities’ Views

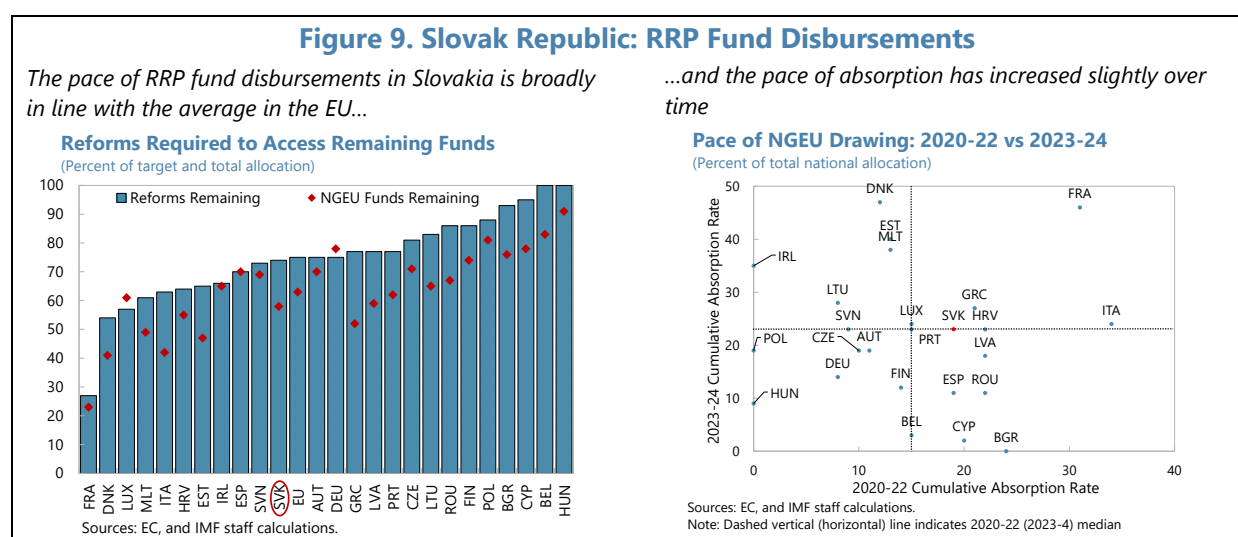
23. The authorities emphasized their commitment to reduce the fiscal deficit and stabilize public debt. They acknowledged the scale of the fiscal challenges that Slovakia faces and reiterated

¹¹ In the baseline scenario, the increase in aging-related costs is driven by rising pension, health care, and long-term care expenditures. For further details see European Commission (2024), 2024 Ageing Report.

¹² Slovakia’s national debt brake, which sets a gradually declining upper limit for public debt (reaching 50 percent of GDP by 2028), would normally have required a balanced budget from 2024 but has been suspended for 2 years following the election of the new government.

their commitment to reduce the deficit in accordance with the targets in the 2024 medium-term fiscal plan in order to stabilize the debt-to-GDP ratio by the end of the term of the current government. The authorities noted that work to prepare the necessary fiscal measures for 2026 was already underway. They took note of staff's concerns regarding the FTT but argued that fees on cash withdrawals and initiatives to combat tax evasion would prevent an increase in informality. They appreciated staff's recognition of Slovakia's strong fiscal framework and agreed with the call for a reform to the constitutional debt brake before it comes into effect in 2026.

24. The authorities are committed to improve the absorption of EU funds. They noted that they have submitted the fifth payment request from the European Commission under the RFF, and underscored their commitment to address remaining bottlenecks, including through a project with the OECD and the European Commission.



B. Financial Sector Policy

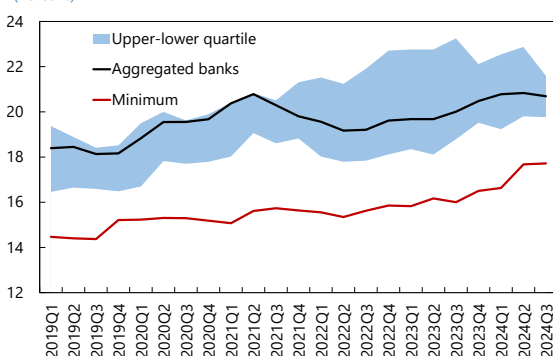
25. The banking sector remains resilient, and overall systemic risks appear contained (Figure 10). The quality of banks' credit portfolios is stable with NPL net of provisions low relative to the historical average. In addition, capital adequacy ratios have continued to increase and remain well above regulatory minima, supported by strong net interest income that has more than offset the impact of the bank levy introduced in 2024.¹³ Liquidity buffers are ample, with a liquidity coverage ratio above 200 percent. All in all, systemic risks appear broadly unchanged from last year.

¹³ The levy is set at 30 percent of banks' profits in 2024 but will be reduced by 5 percentage points per year to 15 percent in 2027, before reaching the standard rate of 4.356 percent in 2028.

Figure 10. Slovak Republic: The Banking Sector

Capital buffers have continued to increase and are well above the regulatory minimum...

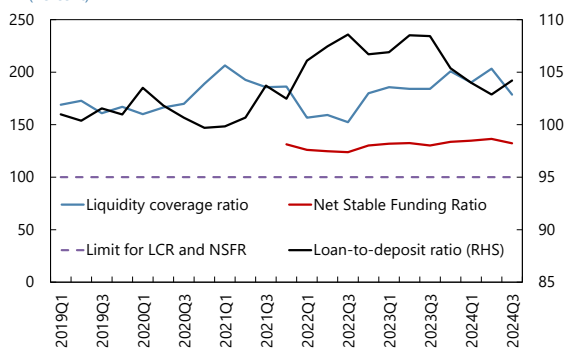
Total Capital Ratios (Percent)



Source: National Bank of Slovakia.

...and banks' liquidity buffers remain ample.

Liquidity (Percent)



Sources: National Bank of Slovakia and IMF staff calculations.

26. The residential and commercial real estate market and loans to globally integrated firms remain potential vulnerabilities (Figure 11).

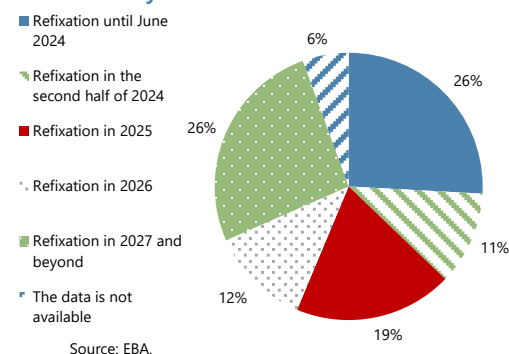
- Households and residential real estate:* The high share of fixed-rate mortgages has helped insulate households from the increase in interest rates in the past few years (Figure 19). However, most mortgages will reprice in the next 3 years, and while most borrowers whose mortgages have been reset have not encountered repayment difficulties, tighter financial conditions combined with an economic slowdown could put pressure on households' repayment capacity, increasing the riskiness of banks' mortgage portfolios.
- Non-financial corporates:* While stress tests in the FSAP suggest the non-financial corporate (NFC) sector as a whole remains resilient, banks with large exposures to NFCs exposed to geopolitical risks could be more susceptible to credit losses.
- Commercial real estate (CRE):* Risks are elevated in the office segment of the CRE market where vacancy rates remain elevated. High margins mean these risks have not yet translated into credit losses for banks, with the NPL ratio for CRE loans relatively low at around 0.6 percent. However, an increase in the vacancy rate and tighter financial conditions could reduce rental income, lower property values, and raise borrowing costs. While this would increase the riskiness of loans in this sector, these risks are partially mitigated by a lack of supply in the near term.

Figure 11. Slovak Republic: Macro-Financial Risks

Most mortgages will be reset in the coming years.

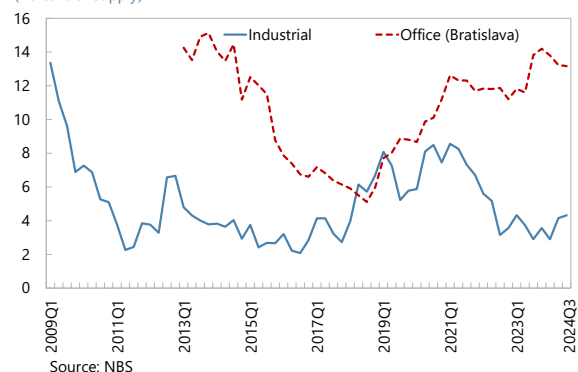
Vacancies in the office sector of CRE remain elevated.

Structure of The Portfolio of Mortgages Subject to Refixation by Date of Refixation



Vacancies in The CRE Sector

(Percent of supply)



27. The 2024 FSAP assessed the financial sector to be resilient against severe shocks.¹⁴

Solvency stress tests confirm that the banking system is resilient to severe but plausible macro-financial shocks, with all banks meeting minimum capital requirements in an adverse scenario thanks to large capital buffers as well as an increase in net interest income that mitigates the impact of rising credit impairments. Similarly, liquidity stress tests show that the banking system as a whole is resilient to liquidity shocks thanks in part to ample buffers, stable funding, and a small share of securities in bank assets. A cash-flow analysis suggests the banking system on aggregate maintains a positive funding position across all maturities.

28. The current macroprudential stance is broadly appropriate, but the policy framework could be further developed to help attenuate cyclical and structural risks (Figure 12).

- The National Bank of Slovakia's (NBS's) estimate of the financial cycle—the Cyclogram—has been easing on moderating credit growth and declining risks in the housing market, but appears to be bottoming out.¹⁵ However, risks in the residential real estate market remain non-negligible, while CRE is a potential source of vulnerability. On balance, the current level of the countercyclical capital buffer (CCyB) remains appropriate. Borrower-based measures (BBMs) have contributed to contain household credit risk and should remain on hold. The authorities should stand ready to activate the systemic risk buffer on banks' CRE exposures before risks in the sector become systemic.

¹⁴ See Slovak Republic: Financial System Stability Assessment, IMF Country Report 25/37 for details on the adverse scenario.

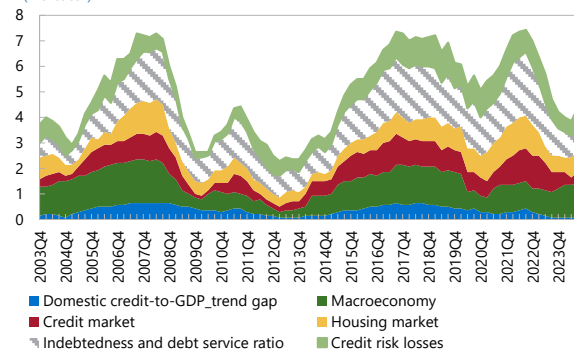
¹⁵ The NBS [Cyclogram](#) includes the domestic-credit-to-GDP trend gap and other indicators capturing credit market risks, macroeconomic risks, and risks in the housing market.

Figure 12. Slovak Republic: Macroprudential Policy

The NBS's estimate of the financial cycle has been easing but appears to be bottoming out.

Cyclogram, by Component

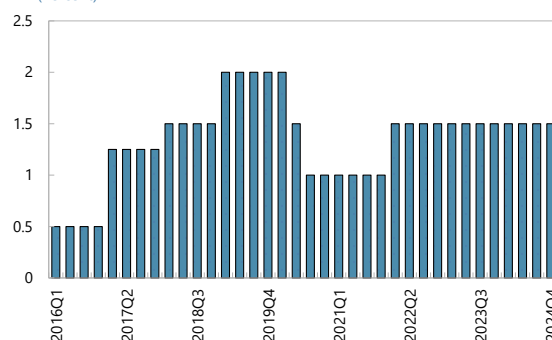
(Indicator)



The current level of the countercyclical capital buffer is appropriate given residual risks in real estate markets.

Countercyclical Capital Buffer

(Percent)



- As noted in the 2024 FSAP, the macroprudential policy framework could be further strengthened by adopting a positive neutral countercyclical capital buffer (pnCCyB). A pnCCyB would help safeguard the availability of releasable capital including in the event of shocks unrelated to the financial cycle and hard-to-predict periods of stress. A pnCCyB would also give policymakers time to collect evidence of a build-up in vulnerabilities.¹⁶ A healthy level of profitability and/or the availability of voluntary buffers would help facilitate a smooth introduction of a pnCCyB. In addition, remaining leakages in the BBMs (e.g. co-financing a mortgage with a consumer loan) should be closed, while the BBM speed limits should be differentiated across borrower categories (e.g. first- and second-time home buyers, investors and mortgage top-ups).

29. The impact of the new financial transactions tax (FTT) on financial stability should be closely monitored. While the direct impact appears to be limited, the FTT could affect banks indirectly through its impact on the behavior of clients. In particular, the authorities should watch closely for an increase in the use of cash and corporates shifting their accounts to other jurisdictions and implement contingency measures if needed.¹⁷

30. Financial resilience could be bolstered by strengthening the systemic risk assessment framework, the supervision of less significant institutions (LSIs) as well as the crisis management framework (Annex V).

- The systemic risk assessment framework could be further enhanced by: (i) strengthening stress tests to assess the resilience of the banking sector to adverse macro-financial shocks and expanding sensitivity analysis; (ii) improving monitoring of expected losses from

¹⁶ The additional time a pnCCyB affords policymakers is particularly valuable given that buffer decisions are subject to a 12-month phase-in period.

¹⁷ IMF Country Report No. 19/358 notes that the introduction of a FTT in Hungary in 2013 coincided with increased cash usage, while econometric tests suggest a structural break in currency in circulation during this period.

emerging risks; and (iii) integrating cash-flow analyses in the liquidity stress testing framework.

- The NBS's supervisory powers and operational independence should be strengthened by limiting banks' ability to appeal only to supervisory decisions and corrective measures that are finalized, and by enhancing the legal protection of supervisors. Moreover, the NBS should streamline off-site supervision to align with LSI's risk profile while increasing on-site inspections to bolster the overall effectiveness of LSI supervision.
- The financial safety net and crisis management framework should be strengthened by ensuring that the national resolution authority (NRA) has adequate resources. Moreover, the Resolution Act should be amended to: (i) restrict the judiciary's powers to suspend or reverse NRA resolutions; (ii) ensure that NRA resolutions are enforceable from the moment they are taken; and (iii) ensure the enforceability of legal protections for staff involved in resolution. Finally, the authorities should remove active bankers from the board of the deposit guarantee fund to avoid potential conflicts of interest, while expanding the fund's mandate and strengthening its financial position to enable it to play a broader role in crisis management.

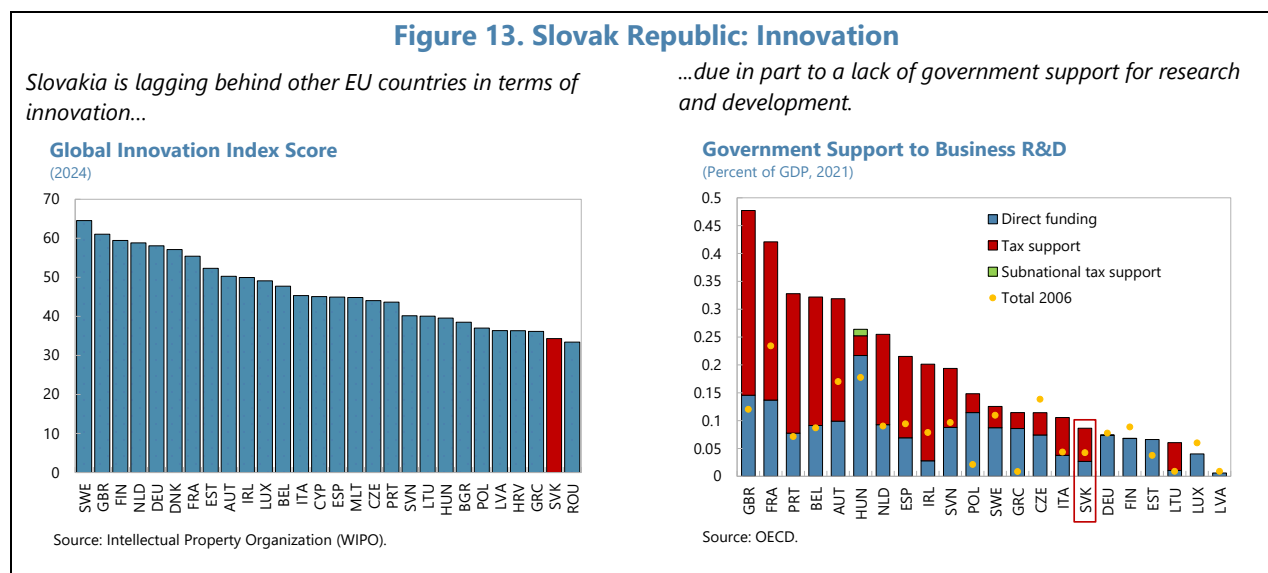
31. Efforts to strengthen the AML/CFT framework should continue. A third update of the national risk assessment is expected to be finalized by February 2025. Meanwhile, the NBS has taken steps to strengthen AML/CFT supervision, including introducing a risk-based approach to guide off-site and on-site inspections. In addition, the authorities should review the criteria for the application of ML/TF sanctions, strengthen coordination between the NBS and Financial Intelligence Unit (FIU), and introduce mechanisms to verify beneficial ownership information and sanction the submission of inaccurate information.

Authorities' Views

32. The authorities agreed with the FSAP's positive assessment of financial sector resilience and the macroprudential policy stance. They concurred with the positive assessment of financial sector resilience and argued that risks confronting the financial sector had receded slightly and were likely to continue moderating in the months ahead as interest rates decline, real wages increase, and corporate revenues rise. Nevertheless, they agreed with staff that remaining vulnerabilities in the residential and CRE sectors warranted a continuation of the current prudent macroprudential stance. The authorities welcomed staff's views on the macroprudential policy framework but argued that the current framework for the CCyB had served Slovakia well and that they would need time to fully assess the merits of transitioning to a pnCCyB. On the BBMs, they acknowledged potential leakages identified by staff but did not see this as a material source of risk. However, the authorities noted that they stand ready to explore the potential benefits of differentiating between first- and second-time home buyers, once reliable data become available. The authorities welcomed the recommendations for strengthening the supervision of LSIs and improving the crisis management framework and confirmed that continuing to strengthen the AML/CFT regime is a priority.

C. Structural Policies

33. Structural reforms to diversify the economy are needed to increase the resilience to shocks and sustain productivity growth. Strong labor productivity growth has been driven primarily by capital deepening in manufacturing, especially in the automotive sector. The dependence on the automotive sector has, however, exposed Slovakia to global shocks and trends related to the green transition and automation. According to the OECD, about 36 percent of all jobs are at high risk of automation. Meanwhile, about 24 percent of workers are estimated to be at risk of displacement from artificial intelligence (AI), slightly higher than the EU average.¹⁸ To increase resilience to these shocks and sustain productivity growth, Slovakia needs to support further innovation and technology adoption. The increase in direct R&D spending in the 2025 budget is welcome, though further efforts are needed to stimulate business R&D including in small firms and startups that are not yet profitable (Figure 13). Continued implementation of the Recovery and Resilience Plan (RRP)—which includes a prioritized and sequenced set of reforms across many areas including digitalization and innovation—will be important for addressing these structural challenges.¹⁹ Meanwhile, as noted in the recent Letta and Draghi reports, deepening the European single market would be particularly beneficial for small EU members states like Slovakia, allowing promising, innovative firms to leverage economies of scale to boost productivity and growth. A key priority in this regard is the removal of remaining barriers to the free flow of goods, services, and



¹⁸ For further details on Slovakia's exposure to AI, see Selected Issues Paper: "AI Exposure and Preparedness in Slovakia's Labor Market", IMF Country Report No. 25/38.

¹⁹ The fifth payment request under the RRP, which was submitted to the European Commission in December 2024, cover reforms to, inter alia, guide the economy's digital transition, enhance cooperation between academics and private companies, improve the accessibility and quality of the education system, and support the decarbonization of the Slovak economy.

factors of production within the EU.^{20,21} Also, advancing the capital market union would facilitate cross-border flows of capital including equity financing and venture capital, which is critical for supporting startups, particularly in countries with less-developed capital markets.

34. The automotive sector is facing headwinds related to the unfolding green transition and rapid rise of electronic vehicle production in other markets. While the sector has made progress in transitioning to electric vehicle (EV) production and has diversified both horizontally (across different automotive groups) and vertically across the value chain (e.g., battery production) and different consumer segments, increased competition from China could still pose significant challenges. In particular, recent analysis suggests a 15 percentage point increase in China's share of the EU EV market could reduce GDP in Slovakia (the most affected country in the EU) by more than 1 percent in the long run, and trigger the relocation of as much as 2.6 percent of the workforce.²² Moreover, while tariffs could help prevent a significant increase in Chinese EV penetration, the impact on GDP would be more than offset by higher costs for imported inputs and consumer prices. To mitigate the impact of this potential shock, the authorities should encourage innovation across the entire domestic EV production supply chain, promote efforts to diversify the economy, and scale up Active Labor Market Policies (ALMPs) to facilitate the movement of workers across sectors.

35. The challenges that come with an aging population could be mitigated by policies to increase the labor force whilst embracing new technologies that increase labor productivity. Analysis in the 2023 Article IV shows that without policies to boost the labor force and improve productivity growth, GDP per capita may stagnate and even decline.²³ An increase in foreign workers can help ease labor shortages. The recent easing of national visa rules for highly skilled nationals from third countries working in professions with shortages is welcome in this regard, as are plans for a one-stop-shop to help foreigners find employment opportunities. However, further efforts are needed to integrate and retain migrants, including by scaling up language training programs and streamlining certification recognition. Shortening the 3-year maximum parental leave (the longest in the OECD) while improving the availability of child and elderly care and increasing options for flexible work arrangements would help boost employment rates among women. Similarly, labor force participation of the elderly could be raised by giving tax credits for older workers and limiting options for early retirement. Meanwhile, eliminating the early retirement pension would not only aid the fiscal consolidation but increase labor force participation. These reforms can and should be done immediately given that they will take time to yield results. Increasing spending on ALMPs including vocational training and education as well as job placement

²⁰ Letta, Enrico (2024), "Much More Than a Market", Report presented to the European Council and Draghi, Mario (2024), "The Future of European Competitiveness", European Commission Report.

²¹ For further details see IMF (2024), "Regional Economic Outlook for Europe, October 2024" and IMF Country Report No. 24/248.

²² For further details see Wingender et al. (2024), "Europe's Shift to Electric Vehicles Amid Intensifying Global Competition", IMF Working Paper WP/24/218.

²³ See Slovak Republic: Selected Issues Papers: "The Impact of Aging on Growth", IMF Country Report No. 24/76. The impact of aging on consumption is also discussed in Selected Issues Paper: "Consumption Analysis based on Distributional national Accounts", IMF Country Report No. 25/38.

services, would help bring down Slovakia's high youth unemployment. Finally, while increased automation may result in job losses, policies to ensure displaced workers (as well as new entrants to the workforce) are redirected towards more productive sectors could increase the overall level of productivity in the economy.

36. Maintaining a favorable investment climate, strengthening governance, and reducing vulnerability to corruption will help lift the economy's growth potential.

- Governance indicators and perceptions of judicial independence lag peers, and recent surveys point to a decline in the perceived effectiveness of anti-corruption policies. (Figure 14). Increasing the efficiency of the public administration (i.e., improving the business environment, strengthening judicial integrity and independence, and enhancing anti-corruption efforts) is a key priority area under Slovakia's RRP.
- *Anti-Corruption:* A new national anti-corruption strategy which aims to identify key vulnerabilities and priority action items, is expected to be released mid-year. In that context, the authorities should verify that the new institutional framework that replaces the dissolved Special Prosecutor's Office and the National Crime Agency does not weaken the institutional capacity to investigate and prosecute high-level corruption. To support transparency and accountability, the asset declaration and conflict of interest framework for high-risk public officials could be improved, building on the existing system for judges. Specifically, broadening the scope of covered public officials, and centralizing and digitizing the submission and publication process with robust risk-based verification procedures and proportionate sanctions, would be beneficial.²⁴ Finally, existing safeguards pertaining to the Prosecutor General's authority to annul decisions by lower-level prosecutors should be strengthened (e.g., limited to serious breaches of law and subject to the availability of remedies).
- *Rule of Law:* Safeguards to ensure members of the Judicial Council can only be recalled based on specific and reasonable grounds would enhance judicial independence, consistent with EU standards. Also, the crime of "abuse of law", whereby judges are subject to criminal liability for their decisions, can have an intimidating effect on judges.²⁵ Although the Judicial Council can oppose the prosecution of the offense, additional safeguards to ensure the framework balances the accountability of judges and independent judicial decision-making would be beneficial.

²⁴ See also Group of States Against Corruption (GRECO), 2024, Slovak Republic: Second Compliance Report.

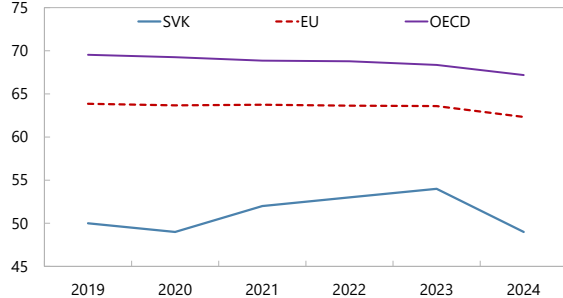
²⁵ Judicial Council, Opinion on 2024 Rule of Law Report.

Figure 14. Slovak Republic: Governance Indicators

Slovakia lags behind EU and OECD averages on corruption perceptions.

Corruption Perceptions Index

(Score)



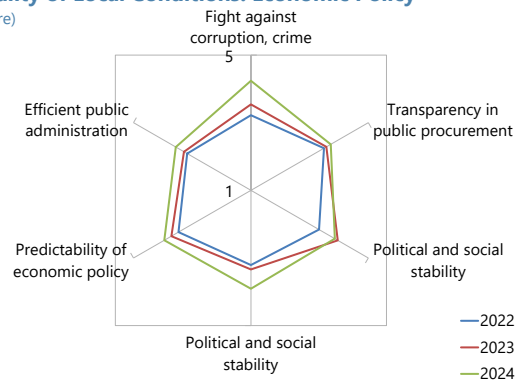
Source: Transparency International.

Note: Scores are on a scale of 0-100, where 0 means that a country is perceived as highly corrupt.

The fight against corruption and crime is an increasing concern among companies.

Quality of Local Conditions: Economic Policy

(Score)

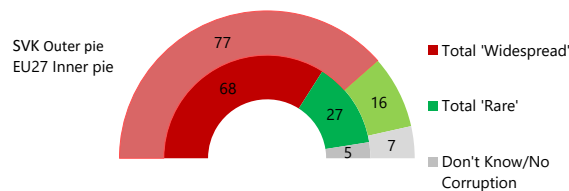


Source: German Chamber of Commerce Survey.

Corruption is perceived to be widespread compared to the EU average.

Perceptions of Prevalence of Corruption

(Percent, 2024)

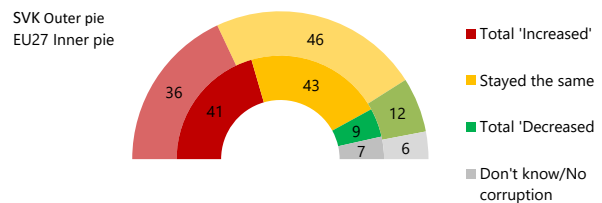


Source: European Commission, Special Eurobarometer 548 (2024).

Perceptions of corruption have not improved over the past three years.

Perceptions of Corruption Level in the Last Three Years

(Percent, 2024)

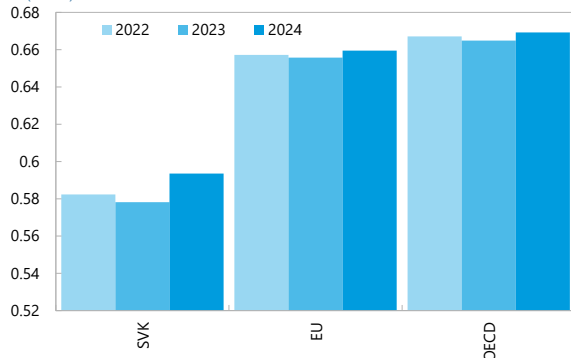


Source: European Commission, Special Eurobarometer 548 (2024).

Perceptions regarding the effectiveness of the criminal justice system lags EU and OECD averages...

Perception on Effectiveness of Criminal Justice System

(Score)

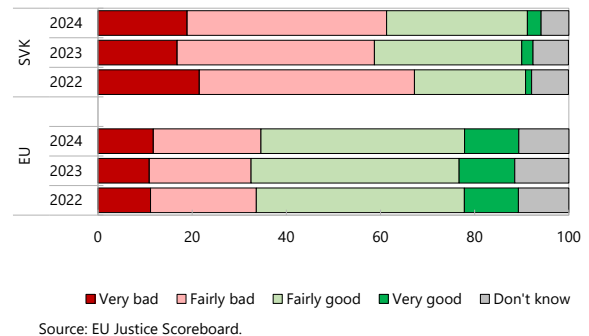


Source: World Justice Project: Rule of Law Index.

...and confidence in the courts is at a low level and has remained unchanged for the past three years.

How The General Public Perceives the Independence of Courts and Judges

(Percent)

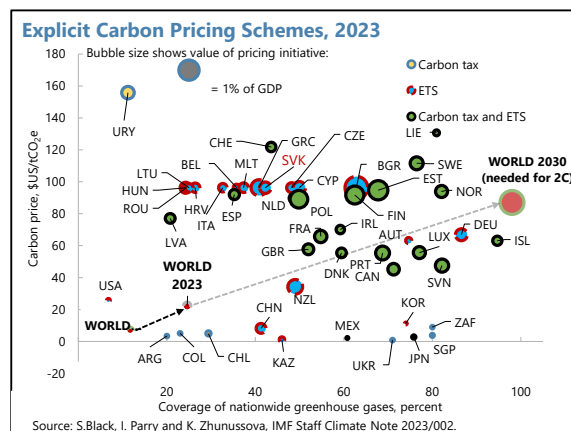


Source: EU Justice Scoreboard.

37. Further efforts are needed to reduce greenhouse gas emissions (Figure 22).

- Greenhouse gas (GHG) emissions have fallen by 50 percent since 1990, largely due to a sharp drop in Slovakia's GHG intensity stemming from the closure of old polluting firms, expansion of nuclear power, and improvements in energy efficiency. However, further efforts are needed to meet the commitment to cut emissions by 55 percent by 2030 relative to 1990 levels, and to achieve the goal of net-zero by 2050.

- The 2023 National Energy and Climate Plan sets out the government's strategy to achieve Slovakia's climate commitments, with a focus on increasing the share of renewable and nuclear energy, promoting energy efficiency, and increasing investments in green technologies. In addition, there is scope to increase the average effective carbon tax rate by raising taxes in sectors with relatively low taxes on emissions. In this context, Slovakia should move expeditiously to fully implement the EU's expanded ETS II scheme for road transport and buildings into national law. To smooth the transition, the authorities could consider gradually raising environmental levies in the ETS II sectors until the scheme becomes operational in 2027, though efforts should be made to limit the impact on the most vulnerable segments of the population. The authorities should also continue to explore options to replace two coal-fired blast furnaces in the steel industry (responsible for 10 percent of Slovakia's GHG emissions) and phase out \$4.6 billion (4 percent of GDP) in implicit and explicit fossil fuel subsidies.²⁶ Also, supporting environmental R&D and investment in green technologies (e.g., heat pumps and EV batteries) would support climate mitigation and economic diversification. Lastly, a more integrated energy market in Europe would not only encourage investment in renewables, but also enhance energy security and reduce energy prices.²⁷



Authorities' Views

38. The authorities broadly agreed with staff's recommendations on structural policies.

They stressed that significant efforts are underway to boost innovation and productivity growth, including through an increase in direct R&D spending and implementation of the National Strategy on Research, Development, and Innovation. They agreed with the need to boost business R&D but noted that providing incentives to loss-making firms was complicated given the ongoing fiscal

²⁶ Black, Simon, Antung A. Liu, Ian Parry, and Nate Vernon, "IMF Fossil Fuel Subsidies Data: 2023 Update", IMF Working Paper 23/169.

²⁷ Alfred Kammer, "Integrating the EU Energy Market to Foster Growth and Resilience", Remarks for the EU Economic and Financial Committee in January 2025.

consolidation. In addition, they pointed to ongoing reforms to higher education that will de-facto put a greater emphasis on vocational education and training and help reduce skill mismatches in the economy. The authorities acknowledged that further efforts were needed to meet Slovakia's climate targets but noted that options to further reduce emissions (beyond replacing two coal-fired furnaces in the steel sector) were limited. They also expressed concern that ETS II would result in an increase in already-high energy prices. In that context, they pointed to tradeoffs between the pace of the energy transition and other EU objectives such as competitiveness and national security.

39. The authorities noted that the manifesto of the current government acknowledges the risks posed by corruption to stability, economic development, and the rule of law. They are committed to ensuring adequate resources to anti-corruption enforcement efforts, pointing as an example to the increase in fines for corruption offenses in the revised Criminal Code. The authorities believe the capacities to fight corruption, including in cases connected to European financial interests, have been strengthened thanks to more specialized prosecutors at Regional Prosecution Offices and the broader competencies of the European Public Prosecutor's Office. They are committed to adopting a Code of Conduct in the public service to ensure integrity, transparency, and accountability.

STAFF APPRAISAL

40. The Slovak economy is recovering despite significant headwinds. The economy slowed sharply in 2022-23, but growth accelerated to 2.0 percent in 2024, outpacing that in the euro area. While inflation has declined from record-highs in 2023, it increased in 2024H2 due to higher global food price inflation. Weak external demand and fiscal consolidation imply that economic growth is projected to moderate to 1.8 percent in 2025, before rising to 2.1 percent in 2026. Adverse demographic trends and lower productivity growth weigh on the medium-term outlook. Risks are tilted to the downside and include intensifying trade policy uncertainty, and a slowdown of EU funds disbursements resulting from concerns over governance and institutional quality. Slovakia's external position is assessed to be moderately weaker than fundamentals.

41. The government's ambitious fiscal consolidation targets for 2025-28—implying a cumulative reduction in the deficit of about 3.5 percentage points of GDP—are commensurate with the scale of Slovakia's fiscal challenges. The 2025 budget targets a reduction in the headline deficit to 4.7 percent of GDP, from a projected 5.8 percent of GDP in 2024. Fund staff's more conservative macroeconomic forecasts imply an overall deficit of 5.0 percent of GDP in 2025, but the projected structural tightening is broadly in line with the budget. If revenues in 2025 appear to be falling short of targets the authorities should limit the resulting increase in the deficit by saving as much as possible of the contingency buffer. Beyond 2025, the authorities' medium-term fiscal structural plan aims to bring the fiscal deficit close to 2 percent of GDP by 2028. Staff projections suggest that these targets, if met, will reverse the increase in the deficit over the past two years and put public debt on a downward path by the end of the projection period.

42. Further deficit-reducing measures will have to be enacted to achieve the targeted consolidation beyond 2025. These measures should be consistent with Slovakia's long-term growth and climate objectives, while protecting the most vulnerable in society. Staff estimates suggest an additional 3.1 percent of GDP in fiscal savings will be needed over the next three years. Prioritizing expenditure-based measures would result in a more balanced fiscal consolidation given the reliance on revenue-based measures so far. In particular, there is scope to implement already-identified Value for Money initiatives (e.g., a reduction in subsidies) and improve the targeting of social spending. Also, there may be room to trim departmental budgets and reduce public sector wage growth, though this should be done cautiously to avoid unintended cuts in service delivery. On the revenue side, plans to counter tax evasions and increase tax compliance are welcome. In addition, there is scope to raise property taxes and reduce the number of items subject to reduced VAT rates. Temporary energy support measures to households should not be extended beyond 2025. In addition, the authorities should replace the FTT with alternative revenue sources, while phasing out the bank levy as planned.

43. Safeguarding Slovakia's strong fiscal framework is essential for the credibility of the consolidation effort. Aligning Slovakia's national expenditure ceiling framework with the new EU fiscal rules avoids inconsistencies and streamlines the budget process but continued focus on the long-term fiscal outlook (beyond the horizon used for the EU fiscal framework) remains useful given Slovakia's medium-term fiscal challenges. Slovakia's strong and independent Council for Budgetary Responsibility can help by monitoring the impact of government policies on the long-term sustainability of public finances. In addition, the debt brake should be reformed before it comes into effect in 2026 to avoid the risk of a disruptive fiscal consolidation.

44. The 2024 FSAP assessed the financial sector to be resilient to stress, reflecting a healthy level of buffers and profitability, though some risks remain. The residential real estate market and the office segment of the commercial real estate (CRE) market remain potential sources of vulnerability. That said, solvency and liquidity stress tests indicate that banks have sufficient capital to withstand severe macro-financial shocks and that banking system is resilient to funding and market liquidity shocks. The current macroprudential stance is broadly appropriate, but the policy framework could be further developed over the medium term by adopting a positive neutral countercyclical capital buffer (CCyB) and by closing leakages and refining the borrower-based measures. Financial resilience could be bolstered by strengthening the supervision of LSIs as well as the crisis management framework.

45. Slovakia needs structural reforms to diversify its economy, sustain productivity growth, increase the labor force, and further reduce carbon emissions. To improve resilience and sustain productivity growth the authorities should intensify efforts to promote innovation and enhance ALMPs to facilitate the movement of workers across sectors. Deepening the European single market would allow innovative firms to leverage economies of scale and facilitate cross-border flows of capital including venture capital which are critical for startups. An aging population requires policies to increase the size and quality of the labor force, including more vocational education and training, improved child and elderly care, and further efforts to integrate and retain

migrants. To further reduced greenhouse gas emissions, Slovakia should move expeditiously to fully implement the ETS II scheme for road transport and buildings and could consider gradually raising environmental levies in these sectors until the scheme becomes operational in 2027. Finally, sustained efforts to strengthen governance, reduce vulnerabilities to corruption, and enhance judicial independence would help lift the economy's resilience and growth potential.

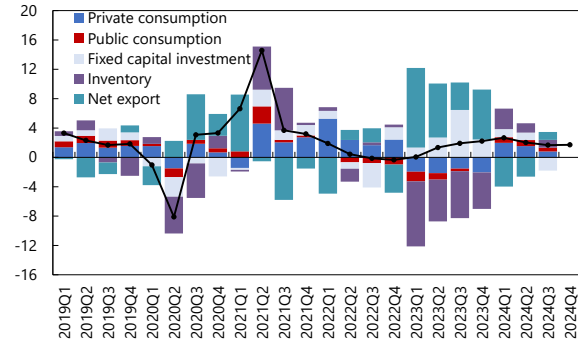
46. It is recommended that the next Article IV consultation take place on the standard 12-month consultation cycle.

Figure 15. Slovak Republic: Real Sector Developments

Growth in recent years has been supported by EU-funded public investments and a recovery of consumption.

Contribution to Real GDP Growth

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

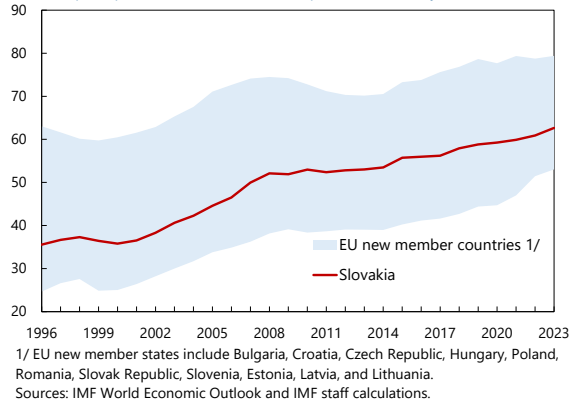


Sources: Haver Analytics and IMF staff calculation.

Income convergence has started to slow.

Income Convergence Among EU New Member States

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

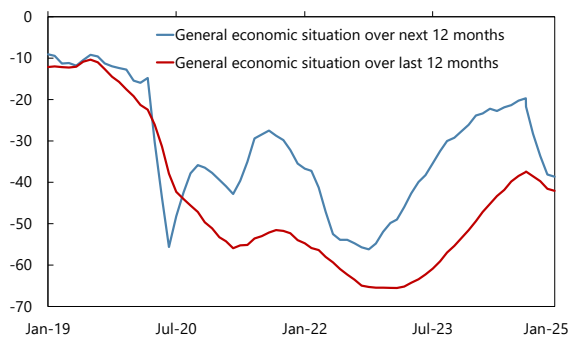


Sources: IMF World Economic Outlook and IMF staff calculations.

Consumer confidence has declined.

Consumer Confidence Indicator

(Percent balance, 3 month moving average, SA)

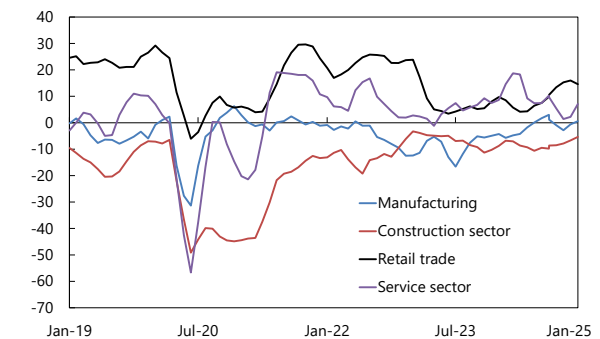


Source: Haver Analytics.

Business confidence remains broadly stable.

Business Confidence Indicators

(Percent balance, 3 month moving average, SA)

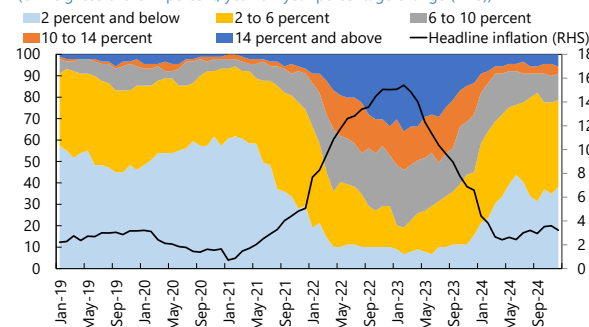


Source: Haver Analytics.

The decline in inflation has been broad-based.

Distribution of Inflation Component Price Change

(Unweighted share in percent, year-on-year percentage change (RHS))



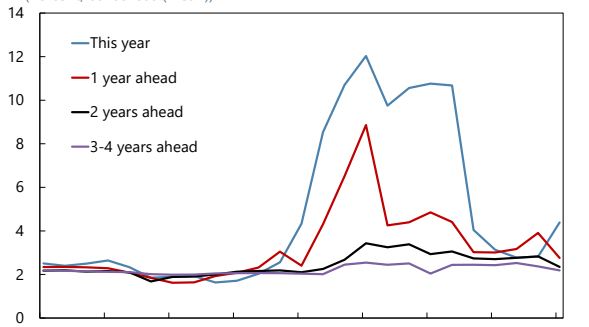
Note: Distribution based on year-on-year rates of 89 HICP items.

Sources: Haver Analytics and IMF staff calculations.

Medium-term inflation expectations seem to be well anchored.

Inflation Expectations

(Percent, consensus (mean))



Sources: Consensus Forecasts and IMF staff calculations.

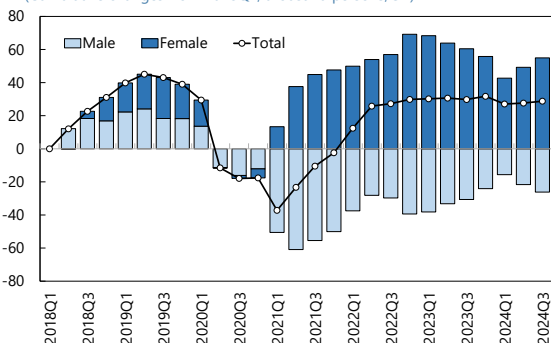
Figure 16. Slovak Republic: Labor Market Developments

In recent years, the labor market has been supported by an increase in female employment.

Labor force participation has increased.

Employment

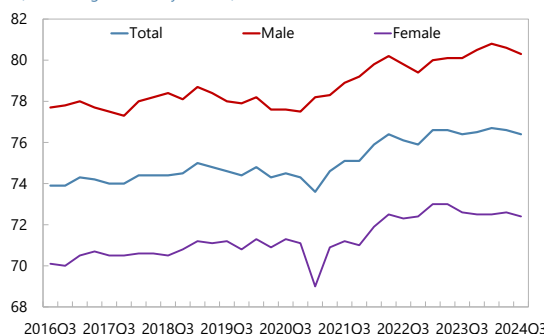
(Cumulative changes from 2018Q1, thousand persons, SA)



Sources: Haver Analytics and IMF staff calculations.

Labor Force Participation Rate

(Percent, age 15 to 64 years, SA)



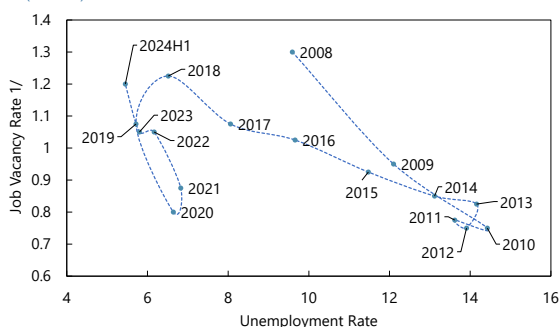
Source: Haver Analytics.

Low unemployment with higher vacancies suggests difficulty filling positions, possibly due to skill mismatches.

Unemployment among the young remains particularly high in Slovakia.

Beveridge Curve

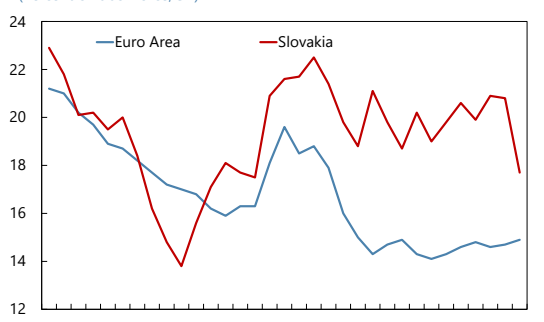
(Percent)



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

Youth Unemployment Rate

(Percent of labor force, SA)



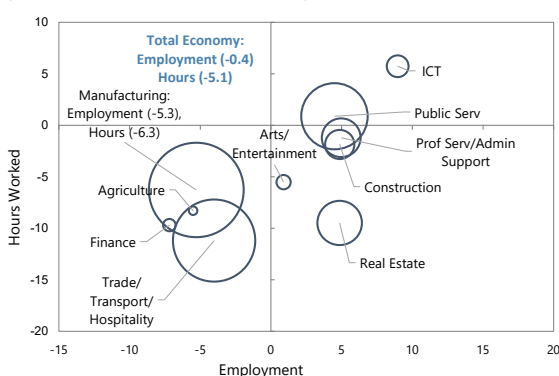
Source: Eurostat.

Growth in hours worked lags employment across nearly all sectors.

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

Employment vs. Hours Worked

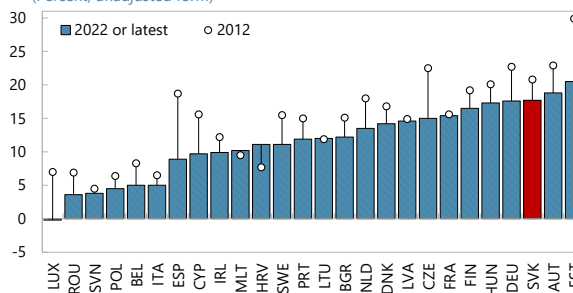
(Percent difference, 2024Q3 relative to 2019Q4)



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

Gender Pay Gap 1/

(Percent, unadjusted form)

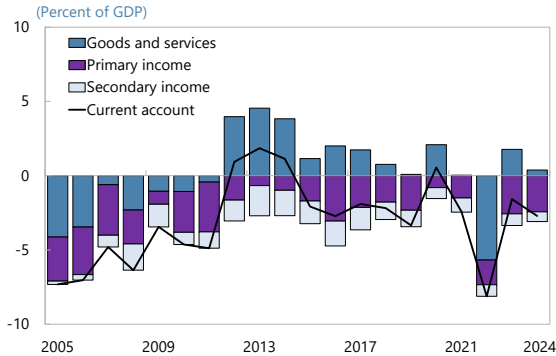


1/ Difference between average gross hourly earnings of male and female employees as a percentage of male gross earnings.
Note: 2013 data for Croatia
Sources: Eurostat and IMF staff calculations.

Figure 17. Slovak Republic: External Sector Developments

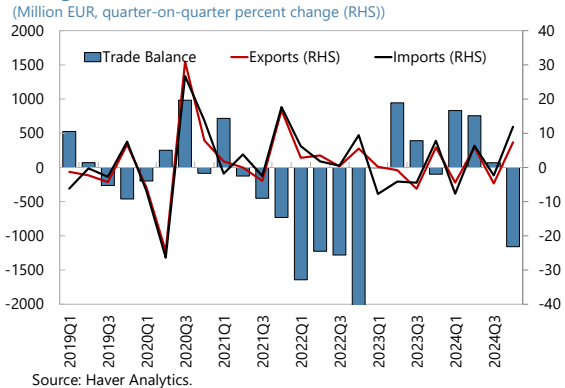
A reduction in net exports resulted in a increase of the current account deficit in 2024.

Current Account Balance



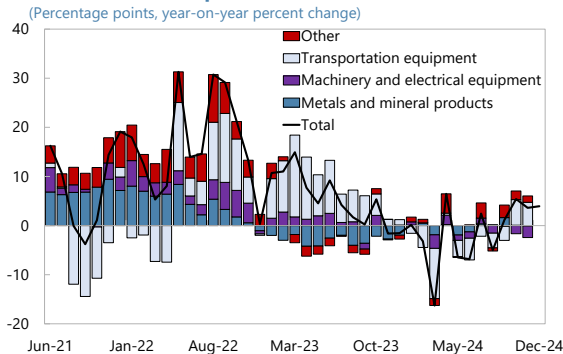
The trade balance turned negative in 2024Q4.

Foreign Trade



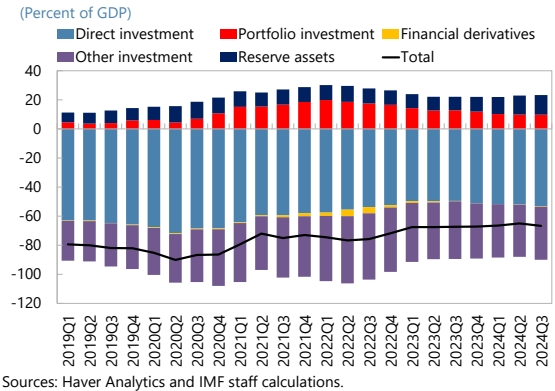
Exports have been lackluster, in particular from the automotive sector.

Contribution to Export Growth



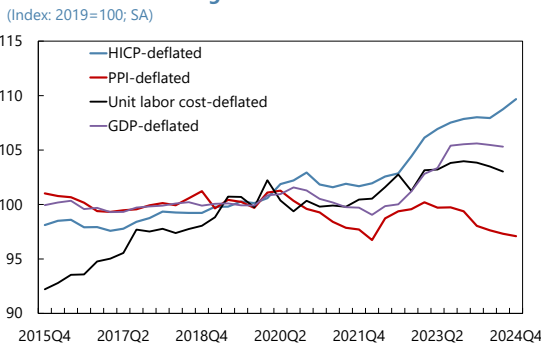
The net international investment position has improved but remains negative due to large FDI liabilities.

Net International Investment Position



The real effective exchange rate has appreciated...

Real Effective Exchange Rate



...and staff assess the external position in 2024 to be moderately weaker than fundamentals.

External Position

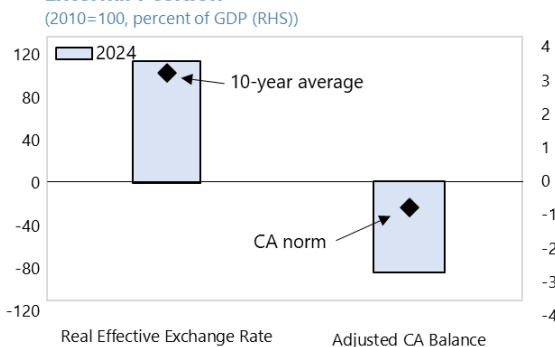
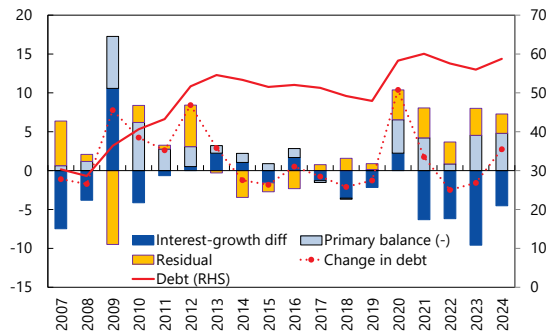


Figure 18. Slovak Republic: Fiscal Sector Developments

Public debt continues to increase...

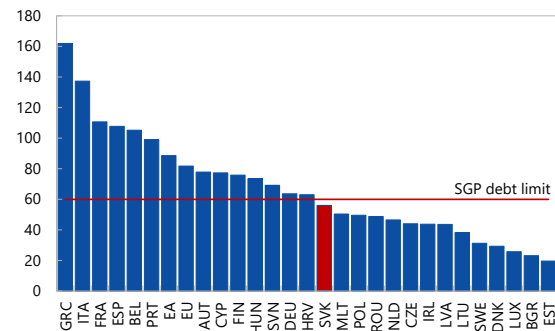
Public Debt
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

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

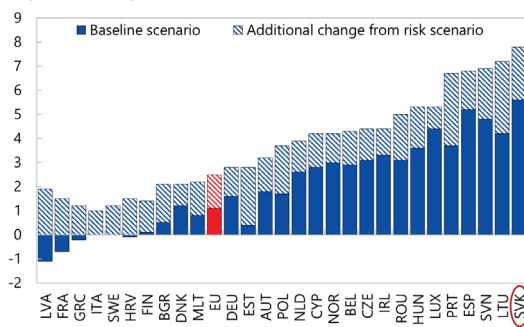
General Government Gross Debt
(Percent of GDP, 2023)



Sources: Haver Analytics and IMF staff calculations.

However, Slovakia's increase in the costs of aging between 2022 to 2050 is the highest in the EU...

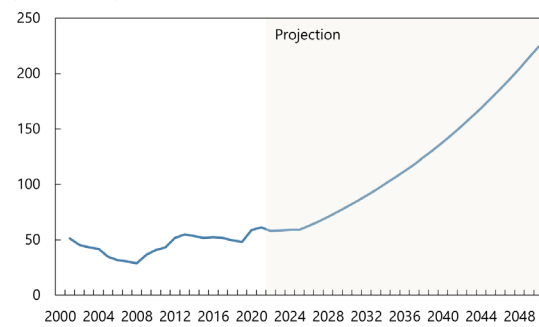
Change in Cost of Aging (2022 to 2050)
(Percent of GDP)



Source: European Commission, EPC.

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

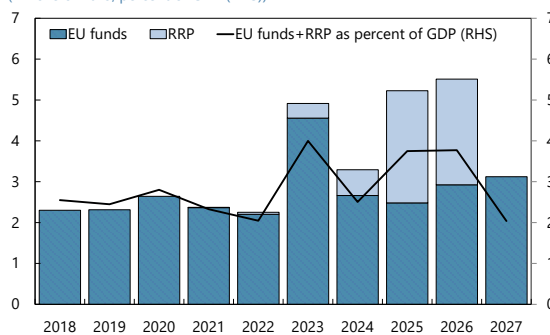
Government Debt With Aging Related Costs
(Percent of GDP)



Source: OECD Economic Surveys Slovak Republic 2022.

RRP investments are expected to drive public investment growth in 2023-26.

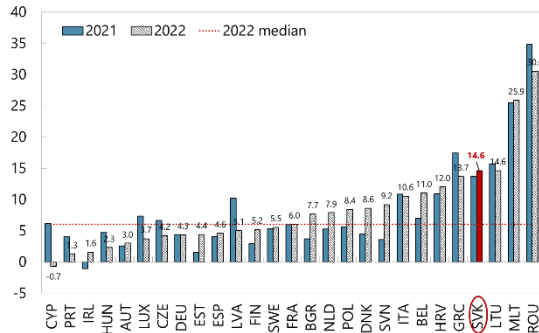
Investment Funded by EU Grants
(Billions of Euro, percent of GDP (RHS))



Source: Slovak Ministry of Finance.

The VAT compliance gap is above the EU average.

VAT Compliance Gap
(Percent)



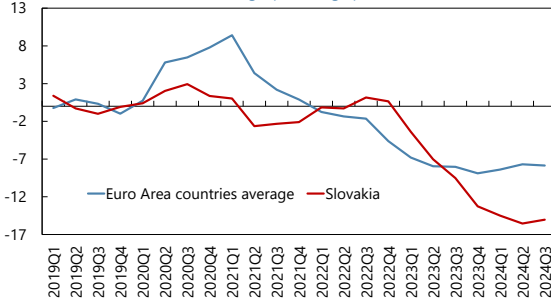
Source: VAT Gap in the EU 2023 Report, European Commission

Figure 19. Slovak Republic: Financial Sector Developments

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

Domestic Credit to GDP Gap

(Difference between 2019 average, percentage points)

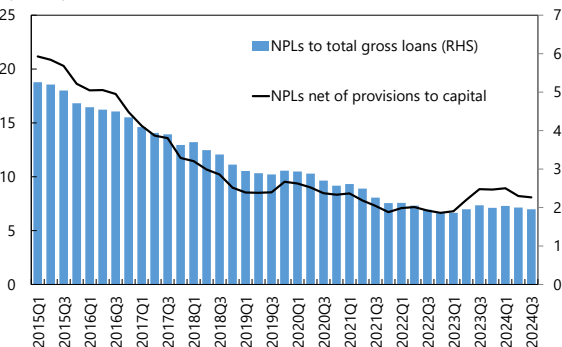


Sources: European Central Bank and IMF staff calculations.
Note: The gap is calculated by the ECB as the deviation of the total credit-to-GDP ratio from its long-term trend. The trend is calculated using a recursive HP filter.

NPLs remain relatively low, and provisions appear adequate thus far.

Non-performing Loans (NPLs)

(Percent)

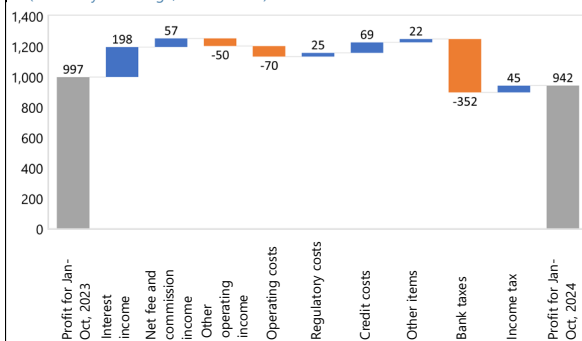


Source: Haver Analytics.

Bank profitability remains high notwithstanding a slight decline in 2024 due to the impact of the bank levy.

The Banking Sector's Net Profit and Contributions

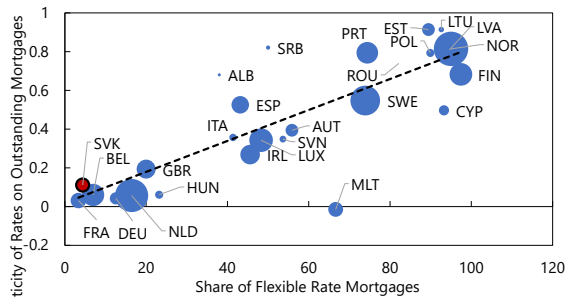
(Year-on-year change, EUR millions)



Source: National Bank of Slovakia.

Slovakia's high rate of fixed rate mortgages has insulated households from rising interest rates in recent years.

Policy Pass Through to Outstanding Mortgage Rates

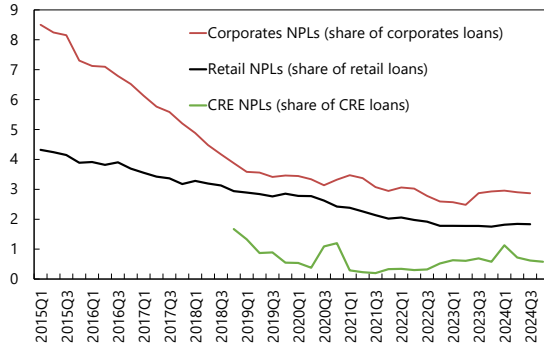


Sources: Beyer et al. (2023).
Note: Elasticity defined as the change in rates on outstanding mortgages between 2023M6 and month of first policy hike as a ratio to the change in the policy rate. Bubble size shows share of households with mortgages. The share of flexible rate mortgages is approximated by taking averages of the share of new flexible rate mortgages since 2013.

NPLs for both corporates and households, as well as CRE loans, remain close to historically low level.

Non-Performing Loans by Sector

(Percent)

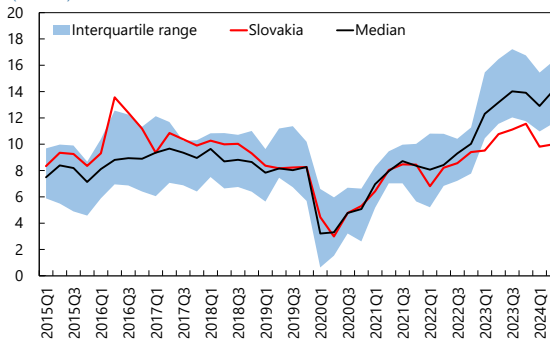


Source: National Bank of Slovakia.

...but has underperformed other EU countries.

Return on Equity (ROE) in EU Countries

(Percent)

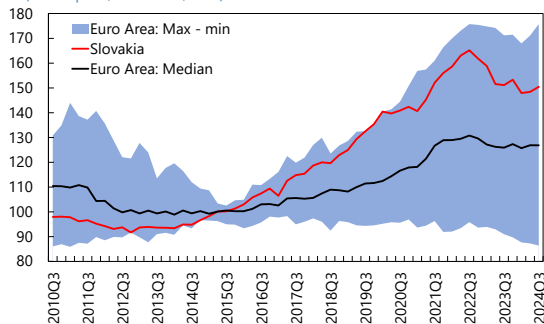


Source: National Bank of Slovakia.

Figure 20. Slovak Republic: The Real Estate Market

House prices have started to decline...

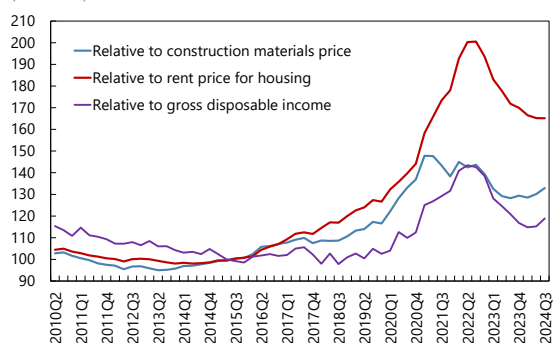
House Price Index
(Rental price, 2015=100, NSA)



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

... but remain somewhat overvalued.

Residential Property Price Index
(2015=100)

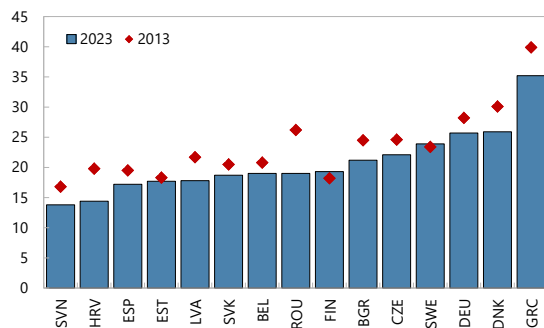


Sources: Haver Analytics and IMF staff calculations.

Housing costs still account for close to 20 percent of disposable household income.

Housing Affordability

(Percent)

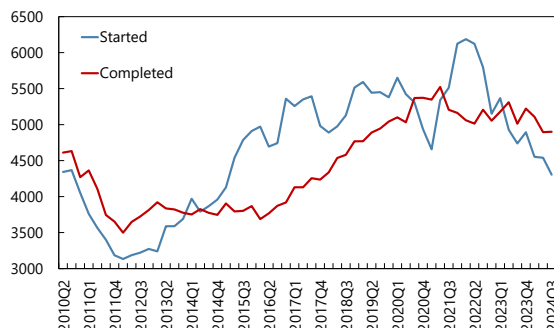


Note: Share of housing costs in disposable household income
Source: Eurostat.

Construction of new dwellings has helped alleviate a shortage of housing, but appears to be slowing.

Construction of Dwellings

(4-quarters moving average)

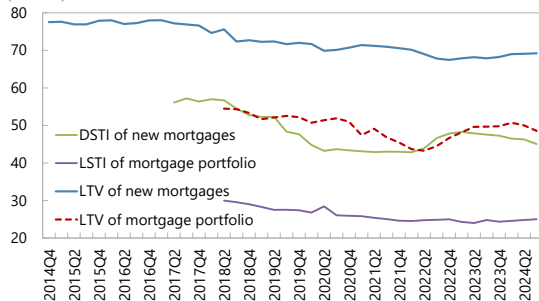


Sources: Haver Analytics and IMF staff calculations.

The rise in interest rates has increased DSTI ratios of new mortgages and lower house prices drove up LTV ratios.

DSTI/LSTI and LSTI of Mortgage Portfolio and New Mortgages at Origination

(Percent)

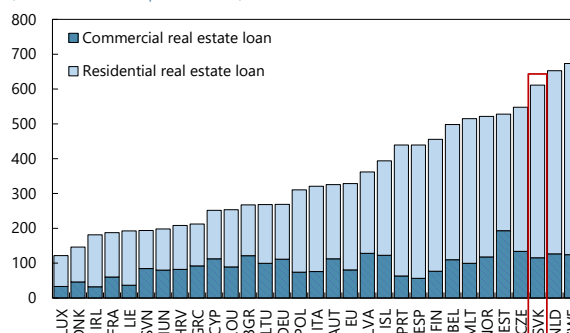


Source: NBS.
Note: For the whole portfolio, only the LSTI is available.

In addition to residential real estate loans, Slovak banks are also exposed to commercial real estate sector.

Bank Credit Exposure to Real Estate

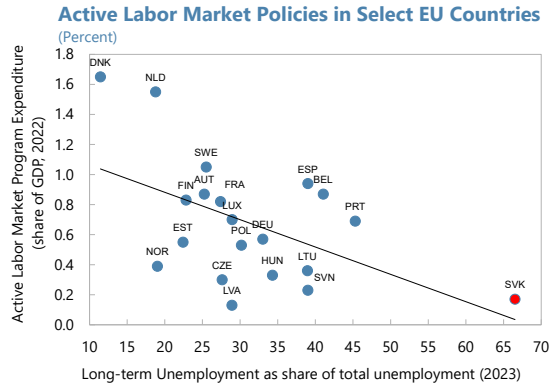
(Percent of Tier 1 Capital, 2024Q2)



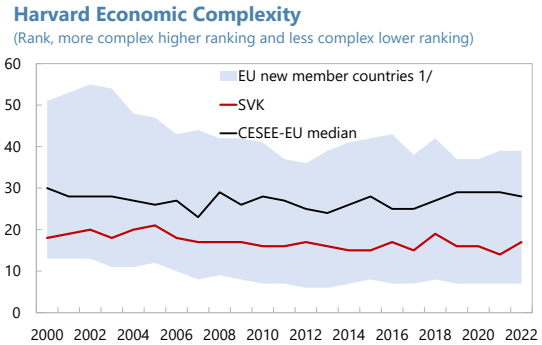
Sources: European Banking Authority and IMF staff calculations.

Figure 21. Slovak Republic: Structural Developments

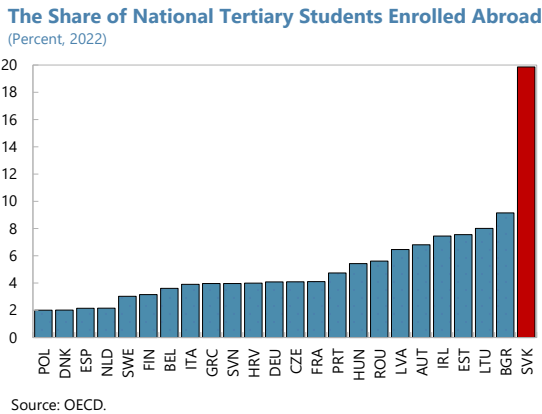
Slovakia spends relatively little on ALMP and has a high share of long-term unemployed.



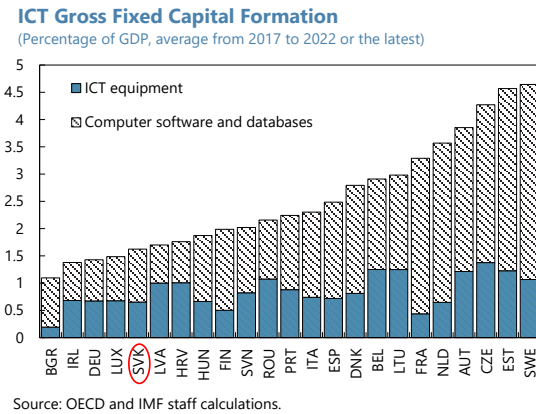
Slovakia is less economically complex than peers.



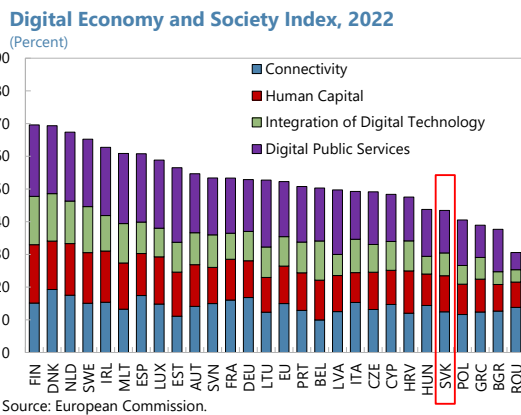
Tertiary students enrolled abroad is high.



ICT investment is lower than other EU countries.



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



...and a large share of jobs are at risk of automation.

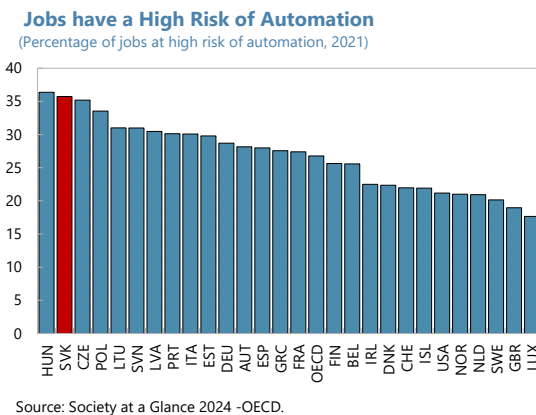
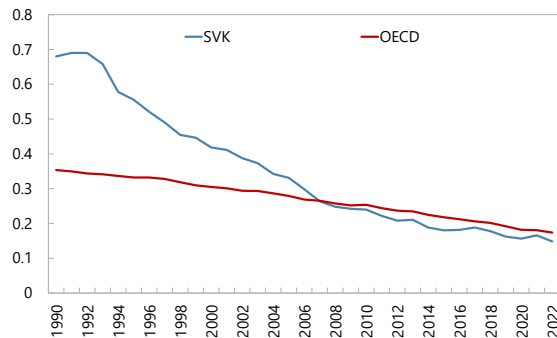


Figure 22. Slovak Republic: Climate Policies

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

CO₂ Intensity

(CO₂ per GDP - production based (kg/USD, 2015 PPP prices))

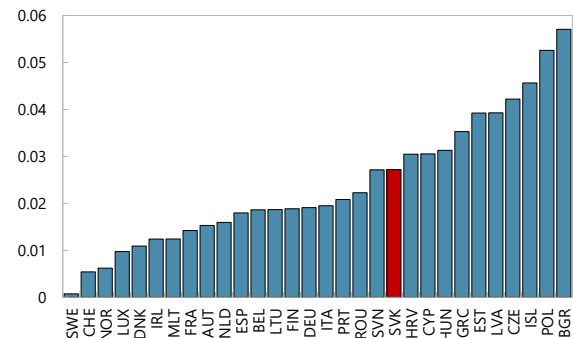


Sources: OECD Environment database and OECD Green Growth database.

...but is close to the median among European countries.

Greenhouse Gas Emissions Intensity of Output

(CO₂ equivalent tonnes per euro of GDP, 2022)

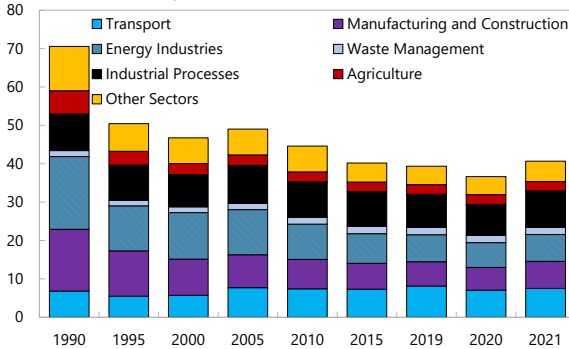


Sources: Eurostat and IMF staff calculations.

Industries and transport account for the majority of emissions.

Greenhouse Gas Emissions by Sector

(Million Tonne CO₂ equivalent)

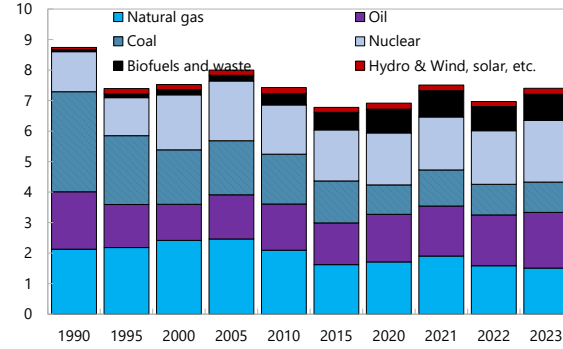


Source: United Nations Climate Change.

Coal consumption has declined and nuclear is the main source of energy.

Total Energy Supply (TES) by Source

(TJ, Mil)

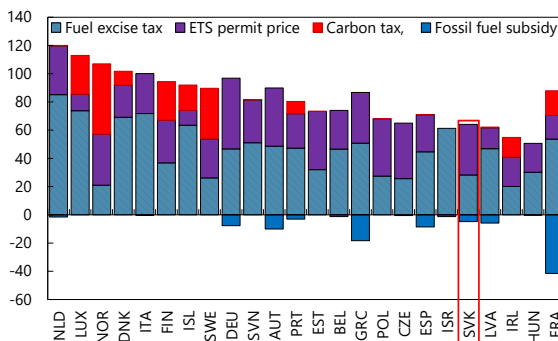


Source: IEA.

Increasing fossil fuel taxes could help expedite the switch to renewables.

Net Effective Carbon Rate, 2023

(EUR per tonne of CO₂-equivalent)

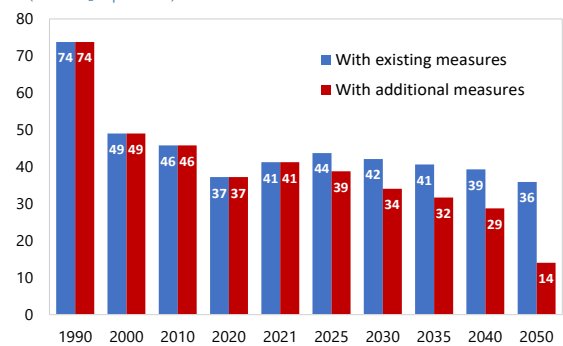


Source: OECD.

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

Historical and Projected Total GHG Emissions without LULUCF until 2050

(Mtn CO₂ Equivalent)



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

Table 1. Slovak Republic: Summary of Economic Indicators, 2020–30

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Estimate			Projections			
	(Annual percent change, unless otherwise indicated)										
Output/Demand											
Real GDP	-2.6	5.7	0.4	1.4	2.0	1.8	2.1	2.5	2.5	2.1	2.0
Domestic demand	-4.1	6.4	1.7	-5.5	3.9	1.8	1.5	2.3	2.3	2.0	1.8
Public consumption	-0.9	3.7	-2.9	-3.0	3.3	1.2	0.2	0.6	1.3	1.0	1.1
Private consumption	0.4	3.0	5.2	-3.1	2.3	0.7	0.9	1.6	1.7	1.6	1.5
Gross fixed capital formation	-9.6	5.1	-1.9	16.6	-0.8	2.5	1.6	3.6	3.1	2.5	2.2
Exports of goods and services	-6.5	10.6	2.9	-0.2	1.0	3.0	3.8	3.6	3.4	3.4	3.4
Imports of goods and services	-8.0	11.6	4.4	-7.1	2.2	3.1	3.3	3.5	3.3	3.3	3.3
Potential Growth	0.6	1.1	1.7	2.1	2.2	2.2	2.2	2.1	2.1	2.0	2.0
Output gap	-2.7	1.8	0.6	-0.1	-0.3	-0.7	-0.8	-0.4	-0.1	0.0	0.0
Contribution to Growth											
	(Percent)										
Domestic demand	-4.0	6.4	1.7	-4.8	2.9	1.7	1.5	2.2	2.2	1.9	1.7
Public consumption	-0.2	0.8	-0.6	-0.6	0.6	0.2	0.0	0.1	0.2	0.2	0.2
Private consumption	0.2	1.7	2.9	-1.8	1.3	0.4	0.5	0.9	0.9	0.9	0.8
Gross fixed capital formation	-2.1	1.0	-0.4	3.2	-0.2	0.5	0.4	0.8	0.7	0.5	0.5
Inventories	-2.0	2.9	-0.2	-5.6	1.2	0.6	0.6	0.4	0.4	0.3	0.3
Net exports	1.4	-0.7	-1.3	6.2	-0.9	0.1	0.6	0.3	0.3	0.2	0.3
Prices											
Inflation (HICP)	2.0	2.8	12.1	11.0	3.2	4.1	3.1	2.0	2.0	2.0	2.0
Inflation (HICP, end of period)	1.7	5.1	15.0	6.6	3.2	3.2	2.9	2.0	2.0	2.0	2.0
Core inflation	2.4	3.4	10.4	11.4	4.1	4.3	2.3	2.0	2.0	2.0	2.0
Core inflation (end of period)	2.3	5.6	13.9	6.9	4.0	3.4	2.0	2.0	2.0	2.0	2.0
GDP deflator	2.4	2.2	7.5	10.1	3.6	3.8	3.2	2.3	2.2	2.0	2.0
Employment and Wages											
Employment	-1.9	-0.6	1.8	0.3	-0.2	0.0	-0.1	-0.2	-0.3	-0.3	-0.3
Unemployment rate (Percent)	6.7	6.8	6.2	5.8	5.4	5.5	5.6	5.5	5.4	5.4	5.4
Nominal wages	3.7	6.8	7.8	9.6	6.9	5.8	4.5	4.1	4.0	4.0	4.0
Public Finance, General Government											
	(Percent of GDP)										
Revenue	39.0	39.5	40.6	42.7	41.2	43.2	42.4	41.7	41.1	41.0	41.0
Expenditure	44.3	44.6	42.2	47.9	47.0	48.3	47.2	46.4	46.4	46.5	46.6
Overall balance	-5.3	-5.1	-1.6	-5.2	-5.8	-5.0	-4.8	-4.7	-5.3	-5.5	-5.5
Primary balance	-4.3	-4.2	-0.9	-4.5	-4.9	-3.9	-3.5	-3.3	-3.7	-3.8	-3.8
Structural balance (Percent of potential GDP)	-2.3	-2.5	-1.0	-3.2	-4.9	-3.9	-4.3	-4.3	-5.3	-5.5	-5.5
General government debt	58.3	60.1	57.6	56.0	58.0	59.5	62.9	65.9	68.7	71.5	74.3
Monetary and Financial Indicators											
	(Percent)										
Credit to private sector (Growth rate)	4.8	7.6	10.2	3.2	2.7	4.2	4.4	4.7	4.9	5.2	5.5
Mortgage lending rates	1.1	1.0	2.0	3.8	4.1	...	...	...	...	...	...
Government 10-year bond yield	-0.1	0.0	2.2	3.7	3.5	3.3	3.3	3.4	3.4	3.5	3.5
Balance of Payments											
	(Percent of GDP)										
Trade balance (goods)	1.1	-0.5	-6.0	1.3	0.0	0.6	1.0	1.0	1.0	1.0	1.0
Current account balance	0.5	-2.4	-8.1	-1.6	-2.7	-1.6	-1.1	-1.0	-1.0	-1.0	-1.1
Gross external debt	118.5	131.9	105.4	96.0	99.5	97.9	96.3	95.5	94.6	94.3	94.2
Saving and Investment Balance											
	(Percent of GDP)										
Gross national savings	20.7	20.3	15.0	17.8	15.7	16.4	18.0	19.3	19.9	20.3	20.6
Private sector	22.6	22.3	13.5	18.5	18.1	17.2	19.1	20.6	21.9	22.5	22.9
Public sector	-1.9	-2.0	1.5	-0.7	-2.4	-0.8	-1.1	-1.4	-2.0	-2.2	-2.2
Gross capital formation	20.2	22.7	23.2	19.4	18.4	18.1	19.1	20.3	20.8	21.2	21.7
Memo Item											
EU grants (Percent of GDP)	1.2	1.2	1.3	3.2	1.4	1.6	1.7	1.2	1.0	1.0	1.0
Nominal GDP (Millions of euros)	94,321	101,960	110,089	122,919	129,962	137,447	144,766	151,818	158,984	165,628	172,319

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

Table 2. Slovak Republic: Statement of Operations of The General Government, 2020–30¹

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Estimate			Projections			
	(Millions of euros)										
Revenue	36,806	40,264	44,699	52,516	53,505	59,415	61,311	63,266	65,319	67,905	70,676
Taxes	17,935	19,884	22,127	24,327	25,634	28,784	29,834	30,861	32,000	33,172	34,512
Personal income tax	3,500	3,760	4,126	4,624	4,761	5,157	5,313	5,712	5,981	6,231	6,483
Corporate income tax	2,800	3,633	4,012	3,983	5,091	5,647	5,985	6,121	6,410	6,677	6,947
VAT	6,820	7,494	8,441	9,800	9,765	11,324	11,669	11,859	12,419	12,938	13,460
Excises	2,752	2,958	2,797	3,021	2,952	3,248	3,214	3,274	3,269	3,240	3,371
Other taxes	2,063	2,039	2,751	2,899	3,065	3,407	3,653	3,896	3,921	4,085	4,250
Social contributions	14,499	15,635	16,339	18,876	20,438	21,960	22,969	24,449	25,285	26,342	27,406
Grants	1,540	1,539	2,640	4,695	2,632	3,431	3,359	2,880	2,718	2,854	2,997
o/w EU Grants	1,098	1,196	1,471	3,971	1,770	2,229	2,530	1,827	1,613	1,694	1,778
Other revenue	2,832	3,206	3,593	4,618	4,802	5,241	5,149	5,076	5,315	5,537	5,761
Expenditure	41,805	45,459	46,491	58,853	61,089	66,349	68,275	70,456	73,779	77,015	80,222
Expense	38,458	42,308	43,051	53,397	56,651	60,470	62,874	65,337	68,559	71,516	74,504
Compensation of employees	10,571	11,354	11,672	13,515	14,161	15,132	15,483	15,932	16,684	17,381	18,042
Use of goods and services	5,161	5,731	6,519	6,881	7,718	8,175	8,111	8,121	8,498	8,847	9,200
Interest	1,105	1,099	1,139	1,421	1,876	2,159	2,388	2,753	3,026	3,301	3,579
Subsidies	1,240	1,369	1,196	4,078	2,311	1,480	1,104	1,018	1,066	1,110	1,155
Grants and transfers	2,786	3,749	2,033	2,463	2,686	4,132	4,890	5,582	5,845	6,090	6,336
Social benefits	16,740	18,376	19,612	24,186	27,177	28,246	29,937	31,068	32,535	33,894	35,263
Other expense	856	630	879	854	722	1,147	961	863	906	893	929
Net acquisition of nonfinancial assets	3,347	3,151	3,440	5,455	4,438	5,879	5,401	5,119	5,220	5,499	5,718
o/w Defense spending 2/	145	87	790	529	455	1,674	1,699	1,420	1,660	1,494	1,539
Gross Operating Balance	-1,653	-2,044	1,648	-881	-3,146	-1,055	-1,562	-2,071	-3,240	-3,611	-3,828
Net Lending(+)/Borrowing(-)	-4,999	-5,195	-1,792	-6,337	-7,584	-6,934	-6,963	-7,189	-8,460	-9,110	-9,546
	(Percent of GDP)										
Revenue	39.0	39.5	40.6	42.7	41.2	43.2	42.4	41.7	41.1	41.0	41.0
Taxes	19.0	19.5	20.1	19.8	19.7	20.9	20.6	20.3	20.1	20.0	20.0
Personal income tax	3.7	3.7	3.7	3.8	3.7	3.8	3.7	3.8	3.8	3.8	3.8
Corporate income tax	3.0	3.6	3.6	3.2	3.9	4.1	4.1	4.0	4.0	4.0	4.0
VAT	7.2	7.4	7.7	8.0	7.5	8.2	8.1	7.8	7.8	7.8	7.8
Excises	2.9	2.9	2.5	2.5	2.3	2.4	2.2	2.2	2.1	2.0	2.0
Other taxes	2.2	2.0	2.5	2.4	2.4	2.5	2.5	2.6	2.5	2.5	2.5
Social contributions	15.4	15.3	14.8	15.4	15.7	16.0	15.9	16.1	15.9	15.9	15.9
Grants	1.6	1.5	2.4	3.8	2.0	2.5	2.3	1.9	1.7	1.7	1.7
o/w EU grants	1.2	1.2	1.3	3.2	1.4	1.6	1.7	1.2	1.0	1.0	1.0
Other revenue	3.0	3.1	3.3	3.8	3.7	3.8	3.6	3.3	3.3	3.3	3.3
Expenditure	44.3	44.6	42.2	47.9	47.0	48.3	47.2	46.4	46.4	46.5	46.6
Expense	40.8	41.5	39.1	43.4	43.6	44.0	43.4	43.0	43.1	43.2	43.2
Compensation of employees	11.2	11.1	10.6	11.0	10.9	11.0	10.7	10.5	10.5	10.5	10.5
Use of goods and services	5.5	5.6	5.9	5.6	5.9	5.9	5.6	5.3	5.3	5.3	5.3
Interest	1.2	1.1	1.0	1.2	1.4	1.6	1.6	1.8	1.9	2.0	2.1
Subsidies	1.3	1.3	1.1	3.3	1.8	1.1	0.8	0.7	0.7	0.7	0.7
Grants and transfers	3.0	3.7	1.8	2.0	2.1	3.0	3.4	3.7	3.7	3.7	3.7
Social benefits	17.7	18.0	17.8	19.7	20.9	20.6	20.7	20.5	20.5	20.5	20.5
Other expense	0.9	0.6	0.8	0.7	0.6	0.8	0.7	0.6	0.6	0.5	0.5
Net acquisition of nonfinancial assets	3.5	3.1	3.1	4.4	3.4	4.3	3.7	3.4	3.3	3.3	3.3
o/w Defense spending 2/	0.2	0.1	0.7	0.4	0.4	1.2	1.2	0.9	1.0	0.9	0.9
Gross Operating Balance	-1.8	-2.0	1.5	-0.7	-2.4	-0.8	-1.1	-1.4	-2.0	-2.2	-2.2
Net Lending(+)/Borrowing(-)	-5.3	-5.1	-1.6	-5.2	-5.8	-5.0	-4.8	-4.7	-5.3	-5.5	-5.5
Memorandum Items:											
Primary balance	-4.3	-4.2	-0.9	-4.5	-4.9	-3.9	-3.5	-3.3	-3.7	-3.8	-3.8
Structural primary balance 3/	-1.4	-1.6	-0.2	-2.6	-4.0	-2.8	-3.1	-2.9	-3.7	-3.8	-3.8
Cyclically-adjusted primary balance adj. for EU grants 3/	-4.3	-6.2	-2.4	-7.7	-6.1	-5.1	-4.9	-4.3	-4.7	-4.7	-4.7
Gross public debt	58.3	60.1	57.6	56.0	58.0	59.5	62.9	65.9	68.7	71.5	74.3
GDP at current market prices (Millions of euros)	94,321	101,960	110,089	122,919	129,962	137,447	144,766	151,818	158,984	165,628	172,319

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

1/ Baseline forecast only includes specified measures.

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

3/ Percent of potential GDP.

Table 3. Slovak Republic: Balance of Payments, 2020–30

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Estimate			Projections			
	(Millions of euros)										
Current Account	516	-2,465	-8,938	-1,942	-3,516	-2,244	-1,612	-1,525	-1,542	-1,596	-1,853
Trade balance (goods)	1,015	-512	-6,629	1,587	-19	885	1,446	1,565	1,627	1,700	1,806
Exports, f.o.b.	70,011	81,303	96,534	100,513	99,402	103,265	107,340	111,509	115,682	120,077	124,643
Imports, f.o.b.	68,996	81,815	103,163	98,926	99,421	102,380	105,893	109,943	114,055	118,377	122,836
Services balance	953	545	379	593	519	658	761	816	864	785	563
Receipts	9,038	9,580	11,931	11,619	12,530	12,999	13,493	13,998	14,504	15,037	15,590
Payments	8,085	9,034	11,552	11,026	12,012	12,341	12,732	13,182	13,640	14,251	15,027
Primary income balance	-756	-1,527	-1,830	-3,156	-3,165	-2,877	-2,856	-2,887	-2,935	-2,917	-2,994
Credit	3,864	3,627	3,985	3,899	4,294	4,255	4,371	4,483	4,568	4,639	4,707
Debit	4,620	5,153	5,815	7,055	7,459	7,132	7,227	7,370	7,503	7,556	7,701
Secondary income balance	-697	-972	-858	-967	-851	-910	-964	-1,019	-1,099	-1,164	-1,228
Credit	1,271	1,466	1,512	1,311	1,333	1,422	1,463	1,504	1,544	1,591	1,641
Debit	1,968	2,439	2,371	2,278	2,184	2,332	2,427	2,523	2,643	2,756	2,869
Capital Account	701	1,328	1,347	1,294	940	1,463	1,403	1,235	1,132	1,093	1,039
Financial Account	1,643	-1,498	-7,455	-2,448	-1,959	-781	-209	-291	-410	-503	-814
Direct investment, net	2,409	279	-2,348	-85	-636	-937	-987	-1,035	-1,083	-1,129	-1,174
Assets	1,475	1,097	1,528	-387	2,490	1,374	1,448	1,518	1,590	1,656	1,723
Liabilities	-934	818	3,876	-303	3,126	2,311	2,434	2,553	2,673	2,785	2,898
Portfolio investment, net	2,689	4,954	1,634	-7,486	-3,857	-638	-1,893	-1,371	-1,714	-1,646	-1,828
Assets	4,305	6,239	1,753	74	6,049	2,816	3,076	3,475	3,184	3,304	3,379
Liabilities	1,616	1,285	119	7,559	9,906	3,454	4,969	4,847	4,898	4,951	5,207
Other investment, net	-4,853	-7,043	-6,991	4,508	-189	767	2,644	2,089	2,361	2,247	2,163
Assets	380	16,254	-22,485	1,377	1,166	2,506	2,640	2,768	2,899	3,020	3,142
Liabilities	5,233	23,297	-15,494	-3,131	1,355	1,739	-4	679	538	774	979
Financial derivatives, net	51	-106	-1,004	6	25	26	26	26	26	26	26
Reserve assets	1,347	418	1,254	608	2,698	0	0	0	0	0	0
Errors and Omissions	426	-361	136	-1,799	617	0	0	0	0	0	0
Net International Investment Position	-60,488	-60,634	-69,617	-67,518	-69,478	-70,259	-70,468	-70,759	-71,169	-71,672	-72,486
External Debt	111,746	134,512	116,067	118,059	129,320	134,514	139,479	145,004	150,440	156,164	162,351
	(Percent of GDP)										
Current Account	0.5	-2.4	-8.1	-1.6	-2.7	-1.6	-1.1	-1.0	-1.0	-1.0	-1.1
Trade balance (goods)	1.1	-0.5	-6.0	1.3	0.0	0.6	1.0	1.0	1.0	1.0	1.0
Exports, f.o.b.	74.2	79.7	87.7	81.8	76.5	75.1	74.1	73.4	72.8	72.5	72.3
Imports, f.o.b.	73.2	80.2	93.7	80.5	76.5	74.5	73.1	72.4	71.7	71.5	71.3
Services balance	1.0	0.5	0.3	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.3
Receipts	9.6	9.4	10.8	9.5	9.6	9.5	9.3	9.2	9.1	9.1	9.0
Payments	8.6	8.9	10.5	9.0	9.2	9.0	8.8	8.7	8.6	8.6	8.7
Primary income balance	-0.8	-1.5	-1.7	-2.6	-2.4	-2.1	-2.0	-1.9	-1.8	-1.8	-1.7
Credit	4.1	3.6	3.6	3.2	3.3	3.1	3.0	3.0	2.9	2.8	2.7
Debit	4.9	5.1	5.3	5.7	5.7	5.2	5.0	4.9	4.7	4.6	4.5
Secondary income balance	-0.7	-1.0	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Credit	1.3	1.4	1.4	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Debit	2.1	2.4	2.2	1.9	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Capital Account	0.7	1.3	1.2	1.1	0.7	1.1	1.0	0.8	0.7	0.7	0.6
Financial Account	1.7	-1.5	-6.8	-2.0	-1.5	-0.6	-0.1	-0.2	-0.3	-0.3	-0.5
Direct investment, net	2.6	0.3	-2.1	-0.1	-0.5	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Portfolio investment, net	2.9	4.9	1.5	-6.1	-3.0	-0.5	-1.3	-0.9	-1.1	-1.0	-1.1
Other investment, net	-5.1	-6.9	-6.4	3.7	-0.1	0.6	1.8	1.4	1.5	1.4	1.3
Financial derivatives, net	0.1	-0.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve assets	1.4	0.4	1.1	0.5	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	0.5	-0.4	0.1	-1.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net International Investment Position	-64.1	-59.5	-63.2	-54.9	-53.5	-51.1	-48.7	-46.6	-44.8	-43.3	-42.1
External Debt	118.5	131.9	105.4	96.0	99.5	97.9	96.3	95.5	94.6	94.3	94.2

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

Table 4. Slovak Republic: Financial Soundness Indicators for the Banking Sector, 2014–24

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024Q3
Capital Adequacy											
Regulatory capital to risk-weighted assets	17.3	17.8	18.0	18.6	18.3	18.2	19.7	19.8	19.6	20.5	20.7
Regulatory Tier 1 capital to risk-weighted assets	16.0	16.5	16.2	16.6	16.6	16.6	18.1	18.3	18.0	19.0	19.4
Capital to assets	11.8	11.4	10.8	10.7	10.5	10.4	10.2	9.7	9.3	9.2	9.6
Asset Quality											
Nonperforming loans to gross loans	5.2	4.7	4.3	3.6	3.1	3.0	2.6	2.1	1.9	2.0	2.0
Nonperforming loans net of provisions to capital	22.2	18.6	16.0	11.7	9.0	9.5	8.3	6.7	6.7	8.8	8.1
Earnings and Profitability											
Return on assets (after tax)	1.2	1.3	1.4	1.1	1.1	1.0	0.7	0.9	1.0	1.3	1.5
Return on equity (after tax)	7.8	8.5	10.0	7.7	7.8	7.5	5.1	7.7	8.2	11.2	9.3
Interest margin to gross income	80.4	76.9	67.2	74.4	72.8	71.5	63.9	61.8	60.6	65.9	66.8
Noninterest expenses to gross income	60.8	58.4	54.4	59.7	59.6	60.9	63.7	61.2	57.2	50.4	47.9
Liquidity											
Customer deposits to total (noninterbank) loans	101.3	102.7	98.3	94.3	93.4	92.1	95.5	93.3	87.8	89.0	90.2
Liquid assets to total assets	34.0	34.1	31.6	29.6	26.8	23.9	27.3	30.0	29.5	31.9	29.3
Liquid assets to short-term liabilities	46.0	45.9	42.1	39.5	35.4	31.9	37.7	43.7	39.7	43.4	40.7
Sectoral Distribution of Loans to Total Loans											
Interbank loans	9.7	8.9	8.0	9.4	6.9	4.5	6.0	7.1	4.5	5.9	5.9
Resident	1.0	0.4	0.6	0.3	0.2	0.1	0.1	0.1	0.2	0.1	0.1
Nonresident	8.8	8.5	7.5	9.0	6.7	4.3	5.9	7.0	4.3	5.8	5.8
Noninterbank loans	90.3	91.1	92.0	90.6	93.1	95.5	94.0	92.9	95.5	94.1	94.1
General government	2.1	2.1	1.6	1.4	1.5	1.5	1.8	2.0	1.9	2.1	1.8
Other financial corporations	1.8	1.8	1.8	1.9	1.4	1.7	1.3	1.4	1.2	1.3	1.4
Nonfinancial corporations	31.1	31.4	30.2	28.9	28.6	28.6	27.5	26.2	27.3	26.6	25.9
Other domestic sectors	49.8	51.9	54.0	54.3	56.8	59.2	58.9	58.8	60.3	59.9	60.6
Nonresidents	5.6	3.9	4.4	4.1	4.8	4.6	4.5	4.5	4.8	4.3	4.3
Other Indicators											
Nonfinancial corporation debt (in percent of GDP)	88.5	84.3	86.7	89.8	90.3	88.1	91.7	88.8	91.6	82.4	77.8
Households debt (in percent of GDP)	34.5	36.9	40.3	42.5	43.9	44.8	48.3	48.0	48.3	46.0	45.3
Households debt (in percent of disposable income)	60.0	64.0	68.8	72.0	72.2	73.9	76.7	77.9	76.6	75.6	74.6
Gross asset position in financial derivatives to capital	7.6	5.8	4.6	3.5	3.9	5.4	7.2	4.2	15.0	9.5	7.2
Gross liability position in financial derivatives to capital	9.4	7.4	6.0	4.4	4.4	5.4	7.0	4.2	15.7	11.5	9.4
Trading income to total income	3.9	4.0	7.3	5.8	2.7	1.8	3.5	3.7	4.7	4.2	3.9
Personnel expenses to noninterest expenses	38.9	40.5	42.7	44.2	44.7	46.4	41.0	41.8	42.5	44.2	45.4
Foreign currency-denominated loans to total loans	3.6	3.5	5.0	6.2	4.3	2.4	2.9	2.4	2.2	2.5	3.0
Foreign currency-denominated liabilities to total liabilities	4.2	3.8	3.3	3.5	3.2	2.9	2.8	2.5	3.3	3.4	3.8
Net open position in foreign exchange to capital	0.9	5.0	5.0	0.9	0.7	5.1	0.5	0.2	2.2	3.2	0.9

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

Table 5. Slovak Republic: Selected Macro-Critical Gender-related Indicators, 2018-2023

	2018	2019	2020	2021	2022	2023	EUR Countries 1 /		
							Latest year available	Median	Average
Composite Gender Indices									
Female Human Capital Index (HCI) 2/	0.70	...	0.69	...	...	...	2020	0.75	0.73
Gender Development Index (GDI)	1.00	0.99	1.00	1.00	1.00	...	2022	0.99	0.99
Gender Inequality Index (GII) 3/	0.19	0.19	0.18	0.18	0.18	...	2022	0.10	0.11
Global Gender Gap Index 2/	0.69	...	0.72	0.71	0.72	...	2022	0.76	0.76
Women Business and the Law Index (WBL) 4/	94.38	94.38	85.00	85.00	85.00	87.50	2023	93.75	93.15
Labor and Income									
Gender Gap (F-M) in Employment-to-Population Ratio, Modeled ILO Estimate (15+ yrs)	-15.02	-14.62	-14.13	-10.75	-10.68	-10.59	2023	-10.74	-14.11
Gender Wage Gap 5/	...	16.85	14.22	14.43	15.45	...	...	...	...
Gender Gap (F-M) in Labor Force Participation Rate, Modeled ILO Estimate (15+ yrs)	-15.50	-15.29	-14.71	-11.25	-11.09	-11.08	2023	-12.02	-14.73
Gender Gap (F-M) in Unemployment Rate, Modeled ILO Estimate (15+ yrs)	0.90	0.36	0.70	0.46	0.45	0.21	2023	-0.27	0.35
Gender Gap in Gross Pension Replacement Rate (as share of average worker earnings)	...	...	...	...	1.10	...	2022	1.10	1.14
Leadership and Social									
Proportion of Seats Held By Women in National Parliaments	20.00	20.00	22.67	22.67	21.33	22.00	2023	33.33	32.39
Proportion of Women in Managerial Positions	32.10	33.70	35.50	...	...	...	2020	35.00	34.18
Education									
Gender Gap (F-M) in Adult Literacy Rate	...	...	...	...	...	...	...	...	...
Gender Gap (F-M) in Mean Years of Schooling	-0.12	-0.09	-0.04	-0.04	-0.04	...	...	...	...
Gender Gap (F-M) in Primary Gross Enrollment Rate	-0.34	-0.21	-0.42	-0.06	0.23	...	2021	-0.06	-0.31
Gender Gap (F-M) in Secondary Gross Enrollment Rate	1.33	1.68	1.71	1.39	1.31	...	2021	-0.56	-0.23
Gender Gap (F-M) in Tertiary Gross Enrollment Rate	19.57	19.62	19.02	19.60	21.00	...	2021	23.32	14.49
Health									
Gender Gap (F-M) in Adult Mortality Rate per 1,000 Adults 6/	-84.78	-78.74	...	...	...	...	2021	-53.22	-57.74
Gender Gap (F-M) in Life Expectancy at Birth	6.90	6.90	6.90	7.00	6.90	...	2022	4.99	5.66
Maternal Mortality Ratio per 100,000 Live Births, Modeled Estimate (15-49 yrs)	5.00	5.00	5.00	...	...	...	2020	6.00	8.44
Total Fertility Rate (Births Per Woman)	1.54	1.57	1.59	1.63	1.57	...	2022	1.49	1.52
Source: Gender Data Hub									
1/ Group aggregates are calculated where data are available for at least 50 percent of countries for a given indicator, and for weighted averages, where the relevant weights are also available. Data are reported for the latest year for which aggregates are available. Detailed metadata, including weights used for averages, are available on the Gender Data Hub.									
2/ This index is scored on a scale of 0-1, with a higher score corresponding to better outcomes for women.									
3/ This index is scored on a scale of 0-1, with a higher score corresponding to higher inequality (worse outcomes for women).									
4/ The Women, Business, and the Law Index is reported on a scale of 0-100, with a higher score corresponding to better outcomes for women.									
5/ The Gender Wage Gap is the difference between average earnings of men and average earnings of women expressed as a percentage of average earnings of men (as calculated by the International Labor Organization). The gap listed here is for Occupation = "Total" under the ICSO 08 Classification.									
6/ The adult mortality rate refers to the probability that those who have reached age 15 will die before reaching age 60 (shown per 1,000 persons). In other words, a value of 150 means that out of 1,000 persons who have reached age 15, 150 are expected to die before reaching age 60, and 850 are expected to survive to age 60. This is based on a "synthetic cohort": current life-table mortality rates are applied to the current cohort of 15 year olds, assuming no changes in mortality.									

Annex I. External Sector Assessment

Overall Assessment: The external position of Slovakia in 2024 was moderately weaker than the level implied by fundamentals and desirable policies. After running a CA deficit (CAD) of 1.6 percent of GDP in 2023, Slovakia's CAD increased to 2.7 percent in 2024.

Both imports and exports of goods and services increased in 2024 in real terms, with the trade balance surplus in goods and services declining from 1.8 percent of GDP in 2023 to 0.4 percent in 2024. Slovakia is a member of the euro zone and does not have independent monetary policy. The CAD is anticipated to recover in 2025 (to around 1.6 percent of GDP) and improve further in the years thereafter on account of fiscal consolidation (as currently envisaged in the Stability Program) and stabilize to around 1.1 percent of GDP.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) of the Slovak Republic stood at -53.5 percent of GDP at end-2024, showing improvement from the mid-2010s. Gross assets and gross liabilities both increased in 2024. Gross liabilities were at 144 percent of GDP, while gross assets were at 90.5 percent of GDP in 2024. Total external debt stood at 99.5 percent of GDP in 2024, down from a peak of 132 percent of GDP in 2021, with a short-term share of 44 percent (while 24 percent of total is official short-term debt).

Assessment. The negative NIIP does not necessarily imply notable risks to external sustainability. Against a background of robust GDP growth, a sharp reduction of the CA deficit, and high GDP price inflation, the NIIP improved by 10 pp between 2022 and 2024 and is expected to improve further. Private short-term debt is 17 percent of GDP while the amortization share is about 24 percent of GDP, and both are manageable quantities. In addition, the high share of FDI liabilities and long-term, euro-denominated debt reduce the vulnerability to sudden capital outflows.

2024 (% GDP)	NIIP: -53.5	Gross Assets: 90.5	Debt Assets (2023): 57	Gross Liabilities: 144	Debt Liabilities (2023): 96
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Current Account

Background. Slovakia's CAD declined further from 1.6 percent in 2023 to 2.7 percent in 2024. In nominal terms both imports and exports of goods and services were roughly constant in 2024 but shrank substantially as a fraction of GDP due to nominal GDP growth of about 6 percent. Against a background of fiscal consolidation and more substantial EU grants for 2025 and 2026 which will support the external position, the medium-term CAD is expected to improve to about 1.0 percent of GDP.

Assessment. The EBA-lite CA model suggests a cyclically adjusted norm of -0.8 percent of GDP for 2024. The cyclically adjusted CA balance is at -2.7 percent of GDP, implying a CA gap of about -1.9 percent of GDP. Slovakia's external position is thus moderately weaker than suggested by fundamentals and desirable policies.

Slovak Republic: Model Estimates for 2024 (in percent of GDP)

Slovak Republic: EBA-lite Model Results, 2024		
	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	-2.7	
Cyclical contributions (from model) (-)	-0.1	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	-2.7	
CA Norm (from model) 2/	-0.8	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-0.8	
CA Gap	-1.9	-13.1
o/w Relative policy gap	0.5	
Elasticity	-0.6	
REER Gap (in percent)	3.0	20.1
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		

Real Exchange Rate

Background. The CPI-based real effective exchange rate (REER) depreciated by about 0.1 percent in 2024. The ULC-based REER appreciated by 2 percent reflecting higher wage growth in Slovakia relative to trading partners.

Assessment. The REER EBA-lite approach points to an overvaluation of 20.1 percent. Given that the estimated overvaluation in this approach is mostly driven by large residuals from the REER regression, staff relies on the CA approach for assessment of the external position.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital account is expected to continue to display significant inflows in the coming years as Slovakia receives sizable funds under the NGEU and MFF. Regarding the financial account, at 2.4 percent of GDP gross FDI inflows were substantial in 2024 and are expected to remain substantial in the coming years, while portfolio investments, mostly in the form of debt securities, declined in 2024 from their high 2023 levels.

Assessment. FDI inflows are expected to remain strong over the medium term with sizable new investments planned in the automotive sector. The importance of FDI in capital inflows mitigates risks from sudden changes in market sentiment. Significant inflows of EU funds also help improve Slovakia's external position.

FX Intervention and Reserves Level

Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by euro area economies are typically low relative to standard metrics, but the currency is free floating.

Annex II. Risk Assessment Matrix²⁸

	Source of Risks, Relative Likelihood	Expected Impact	Policy Response
Global	<p>Medium</p> <p>Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.</p>	<p>High</p> <p>Slovakia is highly vulnerable to an intensification of regional conflicts given its geographical proximity and dependence on Russian fossil fuels, and high integration in global value chains.</p>	<ul style="list-style-type: none"> Continue efforts to diversify energy supplies and sources. Implement Slovakia's RRP to diversify the economy, increase renewable energy capacity and accelerate the green transition. Continued focus on accommodating the inflow of refugees and integrating immigrants in the labor market.
	<p>Medium</p> <p>Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.</p>	<p>High</p> <p>Increased cost pressures on private sector and/or higher fiscal costs. Higher uncertainty undermines household and corporate confidence.</p>	<ul style="list-style-type: none"> Provide targeted and strictly temporary transfers to vulnerable households and viable firms to cushion the impact of commodity price spikes. Reduce vulnerability to commodity price shocks by improving energy security and efficiency of the domestic food industry.
	<p>High</p> <p>Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.</p>	<p>High</p> <p>Export growth falls significantly given the openness of the Slovak economy and integration in global value chains.</p>	<ul style="list-style-type: none"> Accelerate structural reforms, including by leveraging EU funds, to boost productivity and competitiveness, move up value chains, and diversify export products and destinations. Accelerate policies to facilitate the reallocation of workers across sectors, while providing an adequate social safety net.
	<p>High</p> <p>Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower in growth in highly indebted countries.</p>	<p>Medium</p> <p>Higher risk premia on sovereign bonds increases the cost of financing the fiscal deficit, delaying fiscal consolidation, reducing fiscal space, and deteriorating the long-term sustainability of public finances.</p>	<ul style="list-style-type: none"> Adhere to the existing medium-term fiscal consolidation plan in order to put public debt on a sustainable path. Continue to extend debt maturities to reduce rollover needs. Accelerate absorption of available EU funds to finance public spending.
	<p>Medium</p> <p>Social discontent. Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.</p>	<p>Medium</p> <p>Social discontent could have a negative impact on the investment climate and complicate policy implementation.</p>	<ul style="list-style-type: none"> Maintain targeted support programs to protect the most vulnerable from the impact of high inflation and real income loss. Build political consensus around the need for steadfast policy implementation. Continue to strengthen the governance framework to enhance policy predictability and improve the business environment,

²⁸ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent).

	Source of Risks, Relative Likelihood	Expected Impact	Policy Response
	<p>High</p> <p>Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.</p>	<p>High</p> <p>Export growth falls significantly given the openness of the Slovak economy and integration in global value chains and export dependence.</p>	<ul style="list-style-type: none"> Accelerate structural reforms, including by leveraging EU funds, to boost productivity and competitiveness, move up value chains, and diversify export products and destinations. Accelerate policies to facilitate the reallocation of workers across sectors, while providing an adequate social safety net.
	<p>High</p> <p>Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.</p>	<p>Medium</p> <p>Cyber-attacks would disrupt the functioning of the financial system disruptions and may impede the allocation of credit.</p>	<ul style="list-style-type: none"> Accelerate efforts to improve resilience to cyber-attacks. Increase the monitoring of cyber risk and the exchange of information with partners.
Domestic	<p>High/Medium</p> <p>Delays in the implementation of structural reforms and fiscal consolidation</p>	<p>High</p> <p>This could increase government borrowing costs, reduce fiscal space, and increase the risk of debt distress. Failure to implement necessary structural reforms would lower the potential growth rate.</p>	<ul style="list-style-type: none"> Adhere to the existing medium-term fiscal consolidation plan in order to put public debt on a sustainable path. Implement comprehensive fiscal and structural reforms to mobilize revenue, increase expenditure efficiency, and lift potential growth. Accelerate the absorption of available EU funds to finance public spending.
	<p>Medium</p> <p>A tight labor market, including due to increasing skill mismatches, puts upward pressure on wages and triggers a wage-price spiral.</p>	<p>High</p> <p>Higher wages and inflation would increase unit labor cost and lower export competitiveness.</p>	<ul style="list-style-type: none"> Deploy active labor market policies and attract skilled foreign workers. Use EU funds to invest in education and upskilling strategies to accommodate changing skill demands. Encourage responsible wage settlements that account for international competitiveness.
	<p>Medium</p> <p>Real estate market downturn. A sharp and sudden decline in prices of residential and commercial properties combined with an economic downturn.</p>	<p>High</p> <p>The quality of banks' credit portfolios deteriorates with a significant increase in NPLs, leading to tighter credit conditions and a slowdown in credit growth. The negative wealth effect would weaken confidence and weigh on economic activity.</p>	<ul style="list-style-type: none"> Continue to closely monitor and supervise banks credit portfolios. Recalibrate macro-prudential policies as needed.
	<p>Medium</p> <p>The automotive sector fails to adjust to the shift to electric vehicles and increased automation. Increasing automation erodes Slovakia's competitive advantage as a source of low-cost skilled labor.</p>	<p>High</p> <p>Loss of competitiveness and shrinking share of the automotive market would threaten the country's growth model and lower potential growth.</p>	<ul style="list-style-type: none"> Boost spending on R&D and encourage investments to move up value chains. Use EU funds to invest in education and upskilling strategies to accommodate changing skill demands.

Annex III. Public Debt Sustainability Analysis

Annex III. Figure 1. Slovak Republic: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is judged to be moderate, reflecting a low level of vulnerability in the near term, moderate vulnerability in the medium term and high risk of sovereign stress in the long term.
Near term 1/			
Medium term	Moderate	Moderate	Medium-term risks are assessed to be moderate, consistent with the mechanical signal. Under the baseline, debt is expected to rise from 58 percent in 2024 to 71.5 percent in 2029 as interest costs continue to grow and the the primary deficit stabilizes at around 3.8 percent in 2029.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	High	Staff assess that the long-term risk of sovereign stress is high. Age-related costs are expected to lead to a significant increase in gross funding needs. The permanent adjustment needed in the pension system to keep pension assets positive is 4.8 percent of GDP over the next 30 years and 6.7 percent over the next 50 years.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

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

Source: Fund staff.

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

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

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement.

Annex III. Figure 2. Slovak Republic: Debt Coverage and Disclosures

						Comments		
1. Debt coverage in the DSA: 1/								
				CPS	Other			
1a. If central government, are non-central government entities insignificant?						n.a.		
2. Subsectors included in the chosen coverage in (1) above:								
Subsectors captured in the baseline						Inclusion		
CPS	NFPs	GG: expected	CG	1	Budgetary central government	Yes		
				2	Extra budgetary funds (EBFs)	Yes		
				3	Social security funds (SSFs)	Yes		
				4	State governments	Yes		
				5	Local governments	Yes		
				6	Public nonfinancial corporations	Yes		
				7	Central bank	Yes		
				8	Other public financial corporations	Yes		
3. Instrument coverage:								
				Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:								
			Basis of recording		Valuation of debt stock			
			Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:								
				Consolidated	Non-consolidated			
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable								

Reporting on Intra-Government Debt Holdings

Issuer		Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total			
CPS	NFPs	GG: expected	CG	1	Budget. central govt	18.20052	16.68216	1.418961	0	0.590885	0.206665	18.7586	0	37.65727
				2	Extra-budget. funds	0.221666	0.305023	0	0	0.000001	0.062252	0	0.7345	1.018419
				3	Social security funds		0	0	0	0	0.000546	0	0	0.000546
				4	State govt.		0	0	0	0	0	0	0	0
				5	Local govt.	0.161453	0.921239	0	0	0.000967	0.076132	0	1.175811	2.334635
				6	Nonfin pub. corp.		0	0	0	0	0	0	0	0
				7	Central bank	0	0	0	0	0	0	0	0	0
				8	Oth. pub. fin. corp	0	0	0	0	0	0	0	0	0
Total			0.383119	17.6034	1.418961	0	0.590886	0.345595	18.7586	1.910311	41.01087			

1/ CG=Central government; GG=General government; NFPs=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

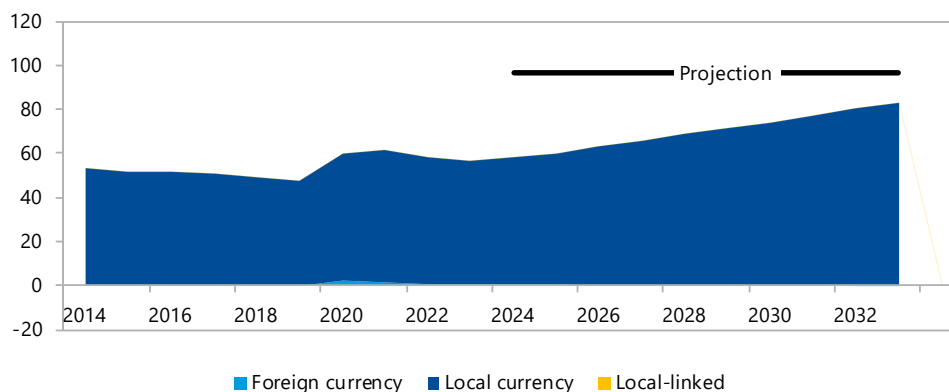
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Around 60 percent of government debt is held in intra-government debt holdings. Data is as of end-2023 and in EUR billion.

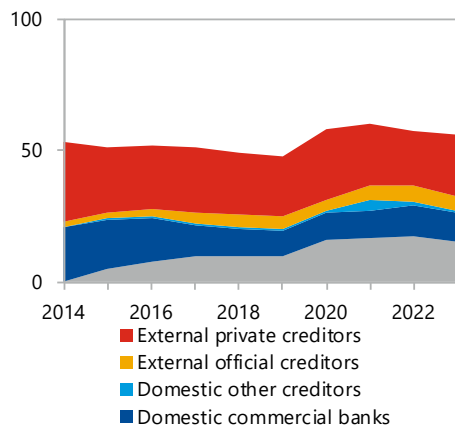
Annex III. Figure 3. Slovak Republic: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



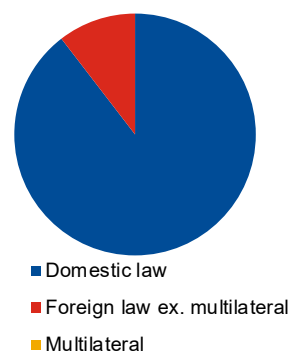
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



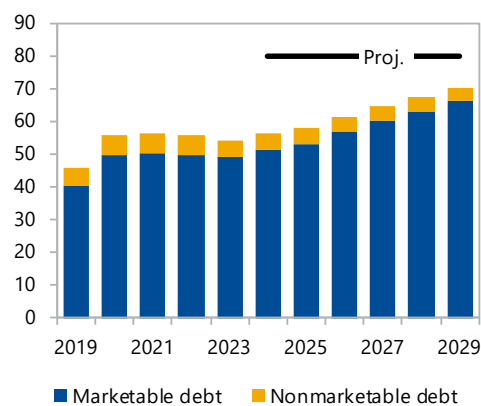
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



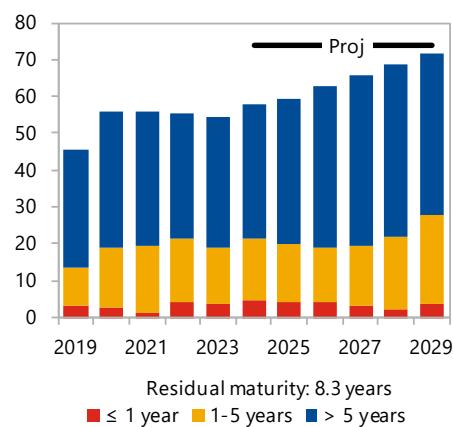
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

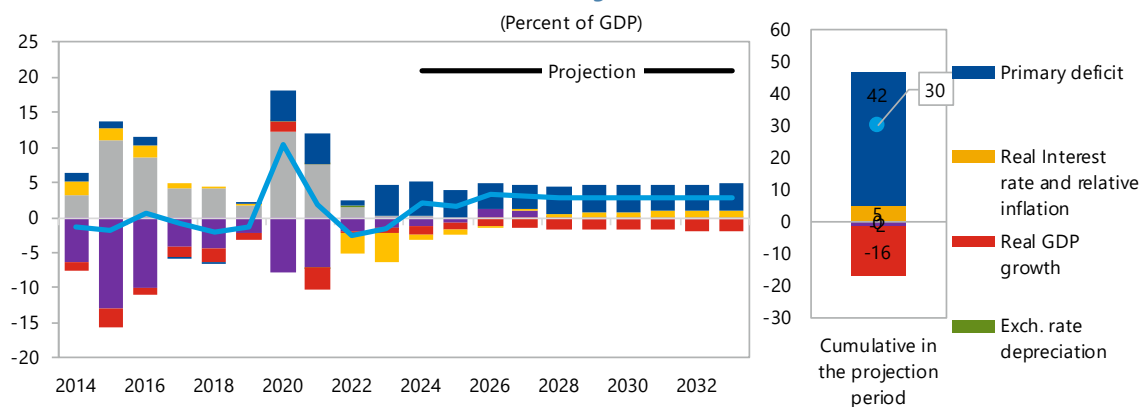
Commentary: Public debt is issued in euros and residual maturity is around 8 years.

Annex III. Figure 4. Slovak Republic: Baseline Scenario

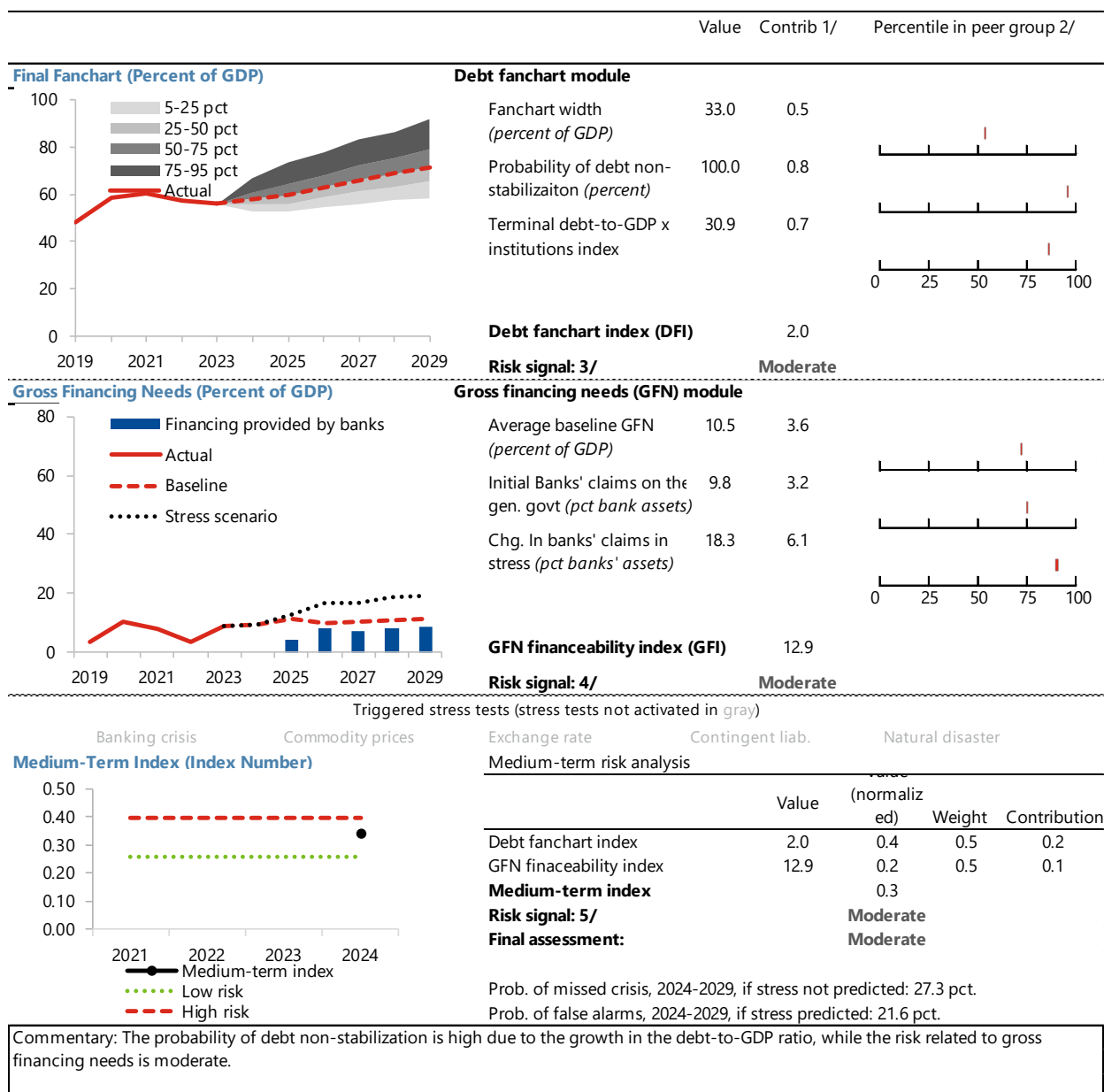
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	56.0	58.0	59.5	62.9	65.9	68.7	71.5	74.3	77.3	80.2	83.1
Change in public debt	-1.6	2.0	1.5	3.4	3.0	2.8	2.8	2.8	2.9	2.9	2.9
Contribution of identified flows	-1.8	1.7	1.5	3.4	3.0	2.8	2.8	2.8	2.9	2.9	2.9
Primary deficit	4.5	4.9	3.9	3.5	3.3	3.7	3.8	3.8	3.8	3.8	3.8
Noninterest revenues	42.2	40.6	42.8	42.0	41.3	40.8	40.7	40.7	40.7	40.7	40.7
Noninterest expenditures	46.7	45.6	46.7	45.5	44.6	44.5	44.5	44.5	44.5	44.5	44.5
Automatic debt dynamics	-5.0	-2.0	-1.7	-1.4	-1.2	-1.1	-0.7	-0.6	-0.5	-0.5	-0.5
Real interest rate and relative inflat	-4.1	-0.8	-0.7	-0.2	0.3	0.5	0.7	0.8	0.9	1.0	1.0
Real interest rate	-4.2	-0.9	-0.7	-0.2	0.3	0.5	0.7	0.8	0.9	1.0	1.0
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.8	-1.1	-1.1	-1.2	-1.5	-1.6	-1.4	-1.4	-1.5	-1.5	-1.6
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	-1.4	-1.3	-0.7	1.3	1.0	0.1	-0.3	-0.3	-0.3	-0.3	-0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other transactions	-0.8	-0.7	-0.2	1.6	1.3	0.4	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	9.1	9.2	11.1	9.9	10.2	11.0	11.5	13.7	14.7	15.2	15.6
of which: debt service	5.1	4.8	7.7	6.7	7.3	7.6	8.0	10.2	11.3	11.8	12.2
Local currency	5.0	4.7	7.6	6.5	7.3	7.3	8.0	10.2	11.3	11.8	12.2
Foreign currency	0.1	0.1	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	1.4	2.0	1.8	2.1	2.5	2.5	2.1	2.0	2.0	2.0	2.0
Inflation (GDP deflator; percent)	10.1	3.6	3.8	3.2	2.3	2.2	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	11.7	5.7	5.8	5.3	4.9	4.7	4.2	4.1	4.0	4.0	4.0
Effective interest rate (percent)	2.0	2.0	2.6	2.8	2.9	3.0	3.1	3.1	3.3	3.3	3.3

Contribution to Change in Public Debt



Annex III. Figure 5. Slovak Republic: Medium-Term Risk Analysis



Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

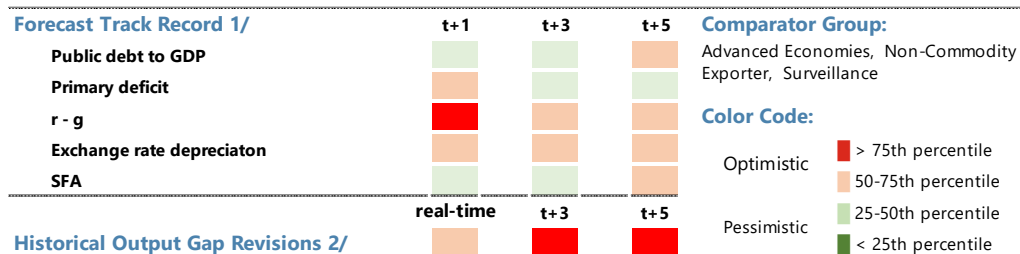
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

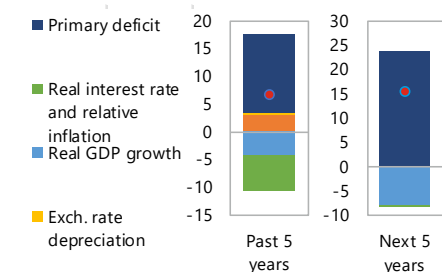
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex III. Figure 6. Slovak Republic: Realism of Baseline Assumptions



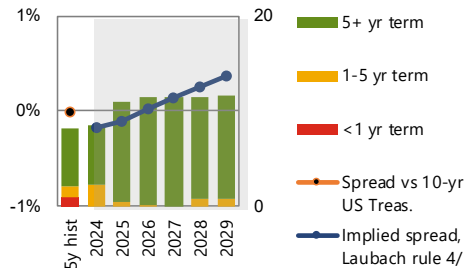
Public Debt Creating Flows

(Percent of GDP)



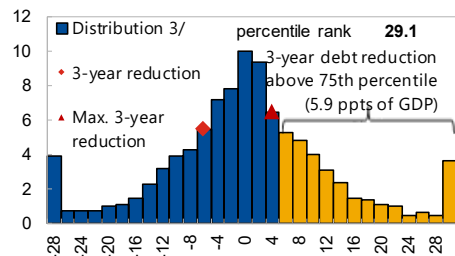
Bond Issuances

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



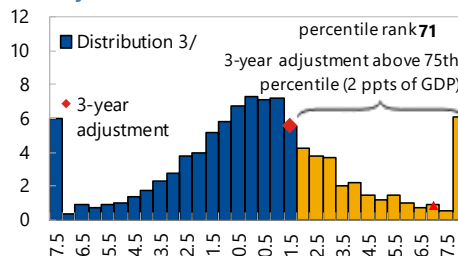
3-Year Debt Reduction

(Percent of GDP)



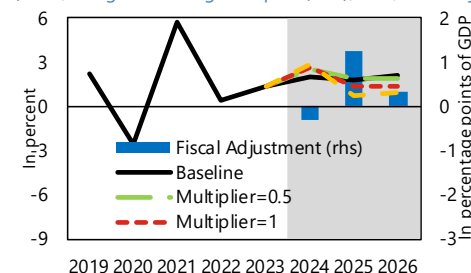
3-Year Adjustment in Cyclically-Adjusted Primary Balance

(Percent of GDP)

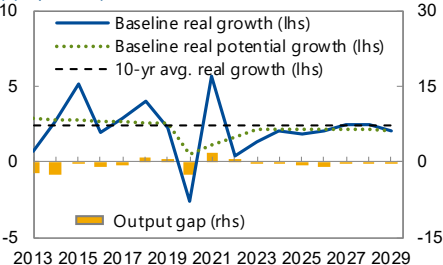


Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS) (In percent))



Real GDP Growth



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

Source : IMF Staff.

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

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

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

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

Annex III. Figure 7. Slovak Republic: Triggered Modules

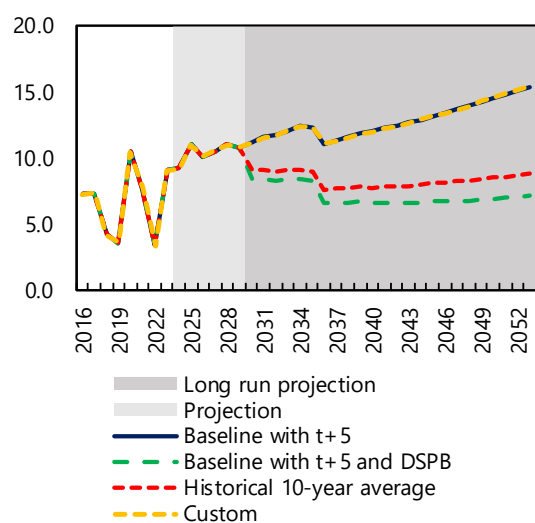
Large amortizations	Pensions	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

Slovak Republic: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

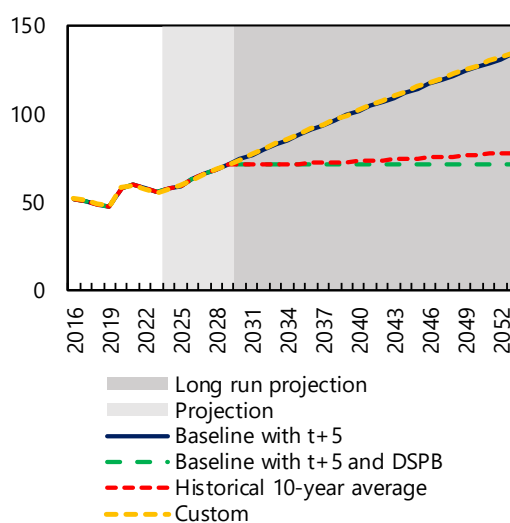
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Historical average assumptions	GFN-to-GDP ratio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

Variable	2029	2033 to 2037 average	Custom Scenario
Real GDP growth	2.1%	2.0%	2.0%
Primary Balance-to-GDP ratio	-3.8%	-3.8%	-3.8%
Real depreciation	-2.0%	-2.0%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%	2.0%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



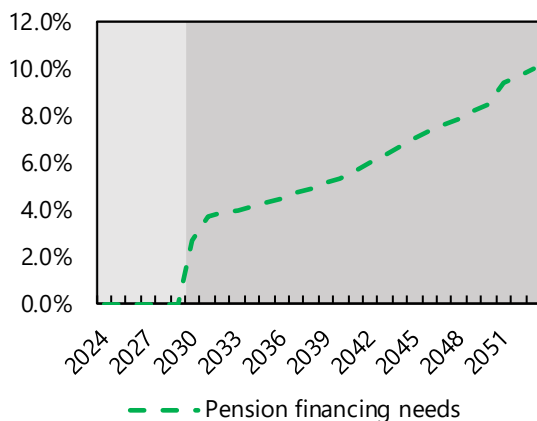
Commentary: Overall long-term risks are high and debt is expected to gradually increase over the next 30 years if no additional fiscal consolidation efforts are made.

Annex III. Figure 8. Slovak Republic: Demographics: Pensions

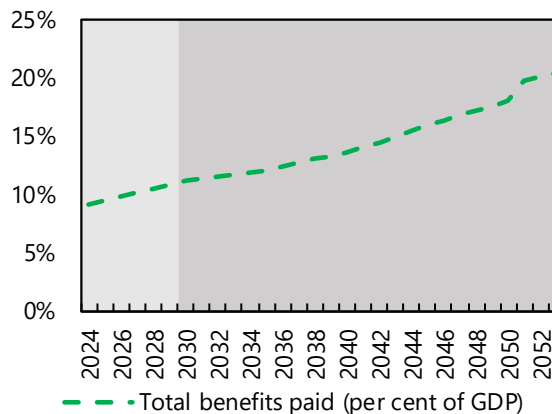
Permanent adjustment needed in the pension system to keep pension assets positive for:

	30 years	50 years	Until 2100
(pp of GDP per year)	4.8%	6.7%	7.0%

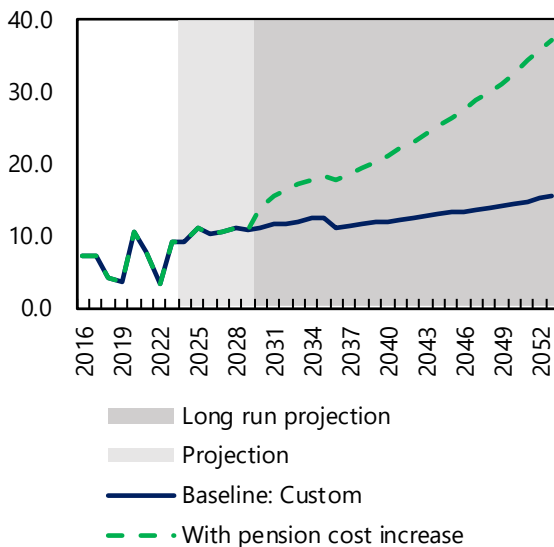
Pension Financing Needs



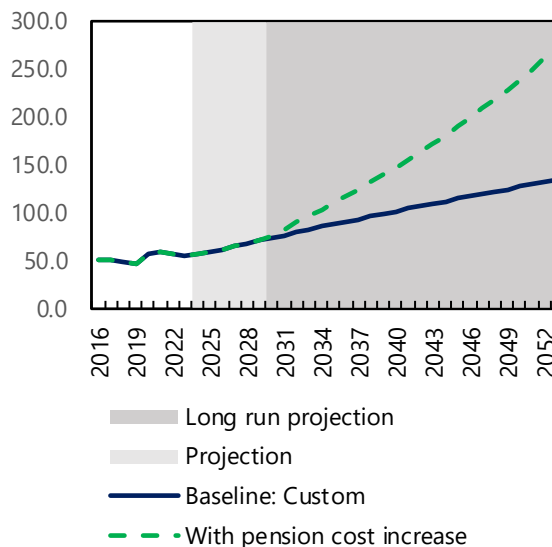
Total Benefits Paid



GFN-to-GDP Ratio



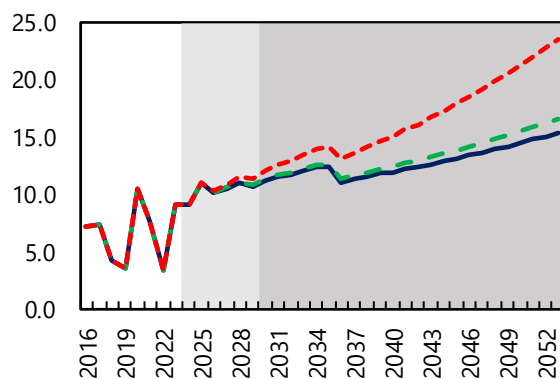
Total Public Debt-to-GDP Ratio



Commentary: Pension financing needs are expected to increase markedly from 2030 due to the rapidly aging population.

Annex III. Figure 9. Slovak Republic: Demographics: Health

GFN-to-GDP Ratio



— Baseline: Custom
 - - - Health (Demographics)
 - - - Health (Demographics + ECG)

Total Public Debt-to-GDP Ratio



— Baseline: Custom
 - - - Health (Demographics)
 - - - Health (Demographics + ECG)

Commentary: The excess cost growth (ECG) simulation assumes a 1.4 percent increase in real healthcare costs.

Annex IV. Authorities' Response to Past IMF Policy Recommendations

IMF 2023 Article IV Recommendations	Authorities' Response
Fiscal Policy	
Further fiscal consolidation to safeguard the sustainability of public finances.	The authorities have put forward an ambitious 4-year fiscal consolidation plan that targets a reduction of the headline deficit to 2.2 percent of GDP by 2028.
<p>Introduce additional fiscal consolidation measures:</p> <p>Revenues: increase the basic VAT rate to the EU average, reduce the number of items subject to a reduced VAT rate, raise property and environmental taxes, ensure that excise tax rates are adjusted for inflation.</p> <p>Expenditures: make family benefits more targeted, reverse the increase of the 13th pension, eliminate the parental pension and early retirement option, implement already-identified Value for Money initiatives (e.g., a reduction in subsidies), phase out temporary energy support measures.</p>	The authorities are implementing several of these measures as part of the 2025 budget, including an increase the basic VAT rate from 20 to 23 percent, improving the targeting of the child tax credit, and reforming and reducing the parental pension.
Enshrining the expenditure ceilings framework in the Constitution and aligning the debt brake and the expenditure ceilings with the EU's revised fiscal framework.	The authorities are harmonizing the national expenditure ceiling framework with the new EU fiscal rules.
Strengthen the collaboration between the Value for Money Department and other sections in the Ministry of Finance to further integrate spending reviews into the budget process.	The budget policy section underwent an organizational change to strengthen budgetary analyses through close cooperation with the Value for Money department and other units. Based on the IMF mission in 2024 aimed at improving the spending review process, a new review schedule was proposed to better integrate spending reviews with the budget process.
Increase absorption of EU funds.	The cumulative level of absorption for 2014-2020 programming period was above 100 percent by the end of 2024. The first expenditure for 2021-2027 programming period was approved, and the authorities forecasts that the absorption will reach 17 percent by the end of 2025. Program Slovakia 2021-2027 plans two program amendments in 2025 to enhance absorption and milestone achievements.

IMF 2023 Article IV Recommendations	Authorities' Response
Financial Sector	
Strengthening the resilience of the financial system to cyber-attacks in line with the EU's Digital Operational Resilience Act (DORA).	The NBS is enhancing the IT security of the financial market in accordance with EU standards. The NBS has conducted preparatory activities for the implementation of DORA, including hosting a DORA workshop.
Gradually unwind the bank levy as planned.	The levy is scheduled to decrease annually by approximately 5 percentage points, reaching 15 percent in 2027. From 2028 onwards the special rate of the bank levy will no longer apply. However, banks will continue to be subject to the standard rate of the special levy (4.356 percent).
Consider additional macroprudential tools to address emerging risks in the CRE sector.	The need to address risks in the CRE sector by a sectoral systemic risk buffer has been analyzed continuously. The NBS is of the view that existing macroprudential buffers are sufficient to cover risks in the CRE sector.
Sustain improvements to the AML/CFT framework.	The authorities are undertaking the third update to the AML/CFT national risk assessment, which is expected to be finalized by 2025Q1. The NBS has taken steps to strengthen AML/CFT supervision incorporating a risk-based approach and new AML/CFT supervision procedures. The NBS inspections have found minor and middle deficiencies related to CDD process, AML staff training, identification of PEPs, and record-keeping, but no fines have been imposed. A new Memorandum of Understanding between NBS and Ministry of Interior of the Slovak Republic (FIU) has been signed in December 2024. It reflects current developments, trends, and requirements for cooperation between AML/CFT authorities.
Structural Reforms	
Raise the very low spending on public R&D and support firms and startups via R&D tax credits and grants, while strengthening research cooperation between universities and firms.	The authorities plan to double the funding for R&D to €1.4 billion (2.6 percent of GDP) over the next four years to promote innovation and diversify the economy.
Scale up effective Active Labor Market Policies (ALMPs) like training and reskilling.	The authorities are implementing various labor market policies, particularly for vulnerable groups (e.g., the long-term unemployed, low-skilled workers, and young people). These measures include comprehensive and tailored

IMF 2023 Article IV Recommendations	Authorities' Response
Structural Reforms	
	advisory services and support for skill development in the digital economy.
Address regional income inequalities through investment in physical and digital infrastructure, as well as targeted measures to increase employment and foster social inclusion among disadvantaged groups.	The authorities are investing in skills and education, including disadvantaged groups, through the national project called "Skills for the Labor Market." The authorities are also promoting the creation of high-quality and sustainable jobs by providing financial incentives for employers who hire disadvantaged job seekers.
Implement measures to boost labor supply, including bolstering labor force participation among women (e.g. shortening the 3-year long maximum maternity leave period, improving the availability of child and elderly care, and increasing options for flexible work arrangements), the elderly (e.g. by giving tax credits for older workers and limiting options for early retirement), and disadvantaged groups, and increasing the number of foreign workers (e.g. through visa programs targeted at foreign workers and integration programs for immigrants).	The authorities amended the act to streamline the process for granting temporary residence to foreign workers. The authorities are also providing financial support and skill development through several national projects.
Strengthen healthcare, as envisaged in the RRP, by modernizing the hospital network and improving access to primary care services in underserved regions.	The authorities continue to support the opening of new primary care outpatient clinics in shortage areas using the RRP. By January 2025, they have concluded a total of 105 contracts for the provision of funds to the mechanism.
Increase the effective energy tax rate, including by introducing an explicit carbon tax.	No progress.

Annex V. FSAP Recommendations

Recommendations	To be Adopted by	I/ST/MT ¹	Priority
Cross-cutting			
Augment resources in the areas of financial stability and key risk areas (e.g., liquidity, IRRBB, IT and AML) to ensure technical capabilities.	NBS	I	H
Enhance the legal protection for the supervisors; ensure that the legal protection framework for the Resolution Council and NBS staff involved in resolution is enforced.	Government, NBS, NRA and Resolution Council	I	H
Systemic Risk Analysis			
Strengthen stress tests to assess the resilience of the banking sector to adverse macro-financial shocks by (i) incorporating the IFRS 9 approach into Credit Risk Monitoring, and (ii) complementing the adverse scenarios with sensitivity analyses on key macro variables (i.e., interest rates).	NBS	ST	H
Strengthen the monitoring for expected losses from emerging risks, especially in vulnerable segments including the CRE sector.	NBS	I	H
Integrate the cash-flow analyses in the liquidity stress testing framework.	NBS	ST	H
Publish more systematically the results of liquidity stress tests, along with the solvency stress tests in the Financial Stability Report.	NBS	I	M
Regulation and Supervision of LSIs			
Confine banks' appeal powers to finalized supervisory prudential decisions and corrective measures.	MoF/NBS	MT	H
Streamline off-site supervisory activities (including SREP) to align them with risk classification and update the risk profile/classification of an LSI after material deficiencies are discovered.	NBS	I	H
Strengthen on-site inspections for key risk areas of credit, liquidity, IRRBB, IT and AML.	NBS	I	H
Macroprudential Framework and Policies			
Publish a macroprudential strategy document including objectives, communication, risk monitoring framework, and available toolkit.	NBS	I	M
Expand information collection powers to cover loan-level data from both banks and non-banks and data from unregulated entities.	Government and NBS	MT	M
Maintain the availability of releasable capital in normal times by moving to a positive neutral CCyB framework.	Government and NBS	MT	H

Recommendations	To be Adopted by	I/ST/MT¹	Priority
Refine the borrower-based measures and remove the possibility to circumvent LTV limits with consumer loans .	NBS	MT	H
Financial Integrity			
Strengthen the AML/CFT implementation by reviewing the criteria for the application of the sanctions by the NBS, enhancing collaboration between the NBS and the FIU and incorporating mechanisms for the verification of the beneficial ownership and sanctioning the submission of inaccurate information at the central register.	NBS, FIU and Statistical office	C	H
Financial Safety Nets and Crisis Management			
Ensure that the resolution authority has adequate resources, staff, and organizational structure, capable of taking decisions quickly and in close cooperation with supervisors.	Government and NBS	I	H
Amend the Resolution Act to (i) restrict the Judiciary's powers to suspend or reverse resolution decisions; and (ii) ensure that resolution decisions are enforceable from the moment they are taken rather than from when affected parties are notified.	Government, NBS and Resolution Council	I	H
Reform the Slovak deposit insurance framework to improve its governance by removing active bankers from its boards; expand its mandate; strengthen the financial position; and enhance the inter-agency cooperation.	Government FOV & Resolution Council	ST	H
Note: In terms of priorities, H, M, and L stand for high, medium and low. In terms of time frame, I, ST, MT and C stand for immediate (within one year), near-term (within 2–3 years), medium-term (within 3–5 years), and Continuous.			

Annex VI. Data Issues

Table 1. Slovak Republic: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Data provision is adequate for surveillance. The authorities regularly publish a full range of economic and financial data. Slovakia is also subject to the statistical requirements of Eurostat and the European Central Bank, including the timeliness and reporting standards, and it has adopted the European System of Accounts 2010. However, net errors and omissions in the balance of payments statistics are large in 2023 (1.5 percent of GDP).</p>							
<p>Changes since the last Article IV consultation. No changes.</p>							
<p>Corrective actions and capacity development priorities. Not applicable</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics</p>							
<p>Other data gaps. No macro-critical data gaps, though the central bank's capacity to target borrower-based macroprudential measures (BBMs) could be improved by differentiating between first- and second-time home buyers, once reliable data becomes available.</p>							
Table 2. Slovak Republic: Data Standards Initiatives							
<p>Slovak Republic adheres to the Special Data Dissemination Standard (SDDS) Plus since September 2019 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).</p>							

Table 3. Slovak Republic: Table of Common Indicators Required for Surveillance

As of February 14, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁵	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Slovak Republic ⁸	Expected Timeliness ^{6,7}	Slovak Republic ⁸
Exchange Rates	Current	Current	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Jan-25	Feb-25	D	W	M	M	1W	7D
Reserve/Base Money	Jan-25	Feb-25	M	M	M	M	2W	NLT 12D
Broad Money	Jan-25	Feb-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	Jan-25	Feb-25	M	M	M	M	2W	NLT 12D
Consolidated Balance Sheet of the Banking System	Jan-25	Feb-25	M	M	M	M	1M	1M
Interest Rates ²	Current	Current	D	D	D	...	...	...
Consumer Price Index	Jan-25	Feb-25	M	M	M	M	1M	NLT 15D
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	2024Q3	Jan-25	Q	Q	A/Q	...	2Q/12M	...
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Jan-25	Feb-25	M	M	M	M	1M	NLT 7D
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2024Q3	Nov-24	Q	Q	Q	Q	1Q	NLT 9W
External Current Account Balance	Nov-24	Feb-25	M	M	Q	Q	1Q	NLT 1Q
Exports and Imports of Goods and Services	Dec-24	Feb-25	M	M	M	M	8W	NLT 6W
GDP/GNP	2024Q4	Feb-25	Q	Q	Q	Q	1Q	70D
Gross External Debt	2024Q3	Feb-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	2024Q3	Dec-24	Q	Q	Q	Q	1Q	3M

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



SLOVAK REPUBLIC

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

March 3, 2025

Prepared By

European Department

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FUND RELATIONS

(As of January 31, 2025)

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

General Resources Account:	SDR Million	Percent of Quota
Quota	1,001.00	100.00
Fund holdings of currency	750.88	75.01
Reserve position	250.16	24.99

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	1,299.89	100.00
Holdings	1,326.36	102.04

Outstanding Purchases and Loans: None

Financial Arrangements:

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

Projected Payments to Fund:

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

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	0.01	0.01	0.01	0.01	0.01

Exchange Rate Arrangement:

The currency of the Slovak Republic is the euro. The exchange rate arrangement of the euro area is free floating. The Slovak Republic participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The Slovak Republic accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than those imposed for security reasons, based on UN Security Council Resolutions and Council of the European Union Regulations, which have been notified to the Fund in accordance with Executive Board Decision No. 144-(42/51).

Article IV Consultation:

The Slovak Republic is on a standard 12-month consultation cycle. The previous consultation with the Slovak Republic was concluded on March 6, 2024 (IMF Country Report No. 24/75).

FSAP Participation and ROSCs:

Two FSAP missions to Slovak Republic took place in 2024, and the Aide Memoire was presented to the authorities. The FSAP findings are summarized in the accompanying Financial System Stability Assessment (FSSA), which will be discussed at the Board together with the 2024 Article IV staff report.

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

Technical Assistance: See the attached table.

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

Table 1. Slovak Republic: Technical Assistance, 2015–2024 ^{1/}

Department	Timing	Purpose
FAD	November 2015	Expenditure review workshop
	December 2015	VAT gap follow-up and excise gap analysis
	April 2016	Expenditure review
	November 2016	Tax efficiency Expenditure review
	March 2017	Corporate income tax gap
	May 2017	Expenditure review
	November 2017	Cost-benefit analysis of transport investment projects Expenditure review (follow-up)
	April 2018	TADAT
	April 2018	International taxation
	May 2018	Expenditure review (preparing baselines)
	November 2018	Expenditure review
	February 2019	Public Investment Management Assessment
	July 2019	Expenditure review
	September–December 2020	Fiscal rules and budget reforms
	October 2020	Technical review of the Spending Review Process
	April–September 2021	Expenditure review (National Transport Modeling)
	April 2021–Sept 2022	Support on expenditure review (Health, RDI)
	January 2022	Fiscal transparency evaluation
	January–March 2023	Review of subsidies
	June 2023	Implementing Public Expenditure limits
	May–October 2023	Program Based Budgeting
	July 2023	Workshop on Behavioral Finance
	July 2022–April 2023	Supporting the Investment Authority
	June 2023	Whole-of-government expenditure review
	December 2023	Workshop to close FY22–24 project and plan FY24–26 project
	March – September 2024	Assessment of spending review process (DS component)
	April–September 2024	Education spending review 1
	May–August 2024	HQ: assessment of spending review process (FB component)
	June–September 2024	Education spending review 2
	September 2024	STX - preparation TADAT assessment (DGREFORM)
	October 2024–April 2025	Transport infrastructure modelling
	October–November 2024	HQ - TADAT assessment (DGREFORM)
December 2024	HQ Mission on PEFA steering committee	

^{1/} See Appendix I of the IMF Country Report No. 22/202 for technical assistance prior to 2015.