Slovakia

An overview of the economy and of the business environment

September in Slovakia began with an important national holiday, Constitution Day. Slovakia's Constitution Day is celebrated on September 1, commemorating the adoption of the country's constitution. The constitution, ratified in 1992, was put into effect on January 1, 1993, marking the official dissolution of Czechoslovakia into the independent Czech and Slovak Republics. The day is celebrated with great enthusiasm across Slovakia, featuring traditional dancing and singing in the streets. Bratislava Castle is illuminated in the colors of the Republic, adding to the festive atmosphere.

Slovakia, with a population of about 5.5 million, has a dynamic economy that is heavily oriented toward exports. As a member of the EU and the Eurozone, Slovakia benefits from its strategic location near key Western European markets, a skilled workforce, and a robust banking sector, making it an attractive destination for foreign direct investment (FDI). The country is the world's largest per capita car producer and a hub for the consumer electronics industry. Other significant sectors contributing to the economy include engineering, metallurgy, chemicals, pharmaceuticals, tourism, and service industries.
However, the investment climate in Slovakia faces challenges, including high sensitivity to fluctuations in export demand, a shortage of skilled labor, and tax rates that are above the regional average.

Over the past 20 years, Slovakia has outperformed many Eurozone and emerging economies, with real GDP growth averaging +3.3% annually. However, the country's heavy reliance on exports, which account for nearly 100% of GDP—especially automotive exports—leads to pronounced cyclical fluctuations in economic growth. Additionally, Slovakia's dependence on global supply chains and energy imports makes it vulnerable to external shocks. The economy was significantly impacted by the global Covid-19 crisis, despite substantial economic policy support.

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Following a strong recovery in 2021, growth slowed considerably in 2022 and 2023, due to the effects of the war in Ukraine, including EU sanctions on Russia and rising energy prices. In 2023, weak growth was driven by contracting consumer and public spending and a drop in inventories, although a recession was avoided due to solid increases in fixed investment and a positive contribution to growth from net trade, as imports declined more sharply than exports.
The Slovak economy began 2024 on a stronger noteand, looking ahead, Slovakia's real GDP growth is expected to moderately accelerate to around +2.4% annually in 2024-2025. This will be supported by a recovery in consumption following the energy price shock and a rebound in public spending. Investment is anticipated to continue growing, though at a slower pace, fueled by EU structural funds, the Recovery and Resilience Facility, and government investment. External demand for Slovakia's main export products is expected to strengthen over the next two years, but the anticipated increase in Slovak imports will likely result in a more balanced contribution of net exports to growth.

Agriculture and forestry together account for approximately 2.8% of Slovakia's gross value added. These sectors play a vital role in supplying food and public goods by leveraging the resources of rural areas. Slovakia primarily produces cereals, oilseeds, industrial crops, and forage plants, while its animal production is dominated by milk, cattle, and pigs.
Socio-economic conditions vary across Slovakia's regions, with rural areas facing significant challenges, including limited employment opportunities and restricted access to basic services.

Slovakia's strategy focuses on enhancing the sustainable competitiveness and resilience of farms, ensuring fairer incomes for agricultural producers, particularly small and young farmers. The strategy also emphasizes improving the protection of natural resources and addressing climate concerns. Investments, knowledge transfer, and innovation are key components of this plan, aimed at enhancing the vitality and quality of life in rural areas.
According to international criteria for defining agricultural regions, Slovakia can be classified as a rural agricultural country. This classification is supported by the country's landscape and settlement patterns, with agricultural land covering 48.5% of Slovakia's total area. Nearly 60% of this agricultural land is under cultivation.

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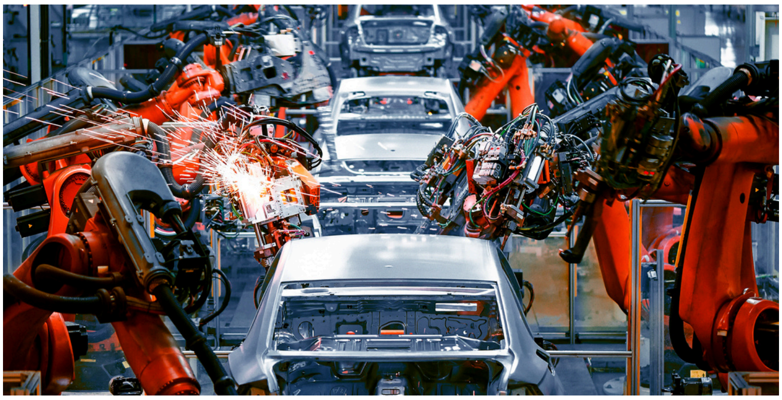
Slovakia's secondary sector accounts for 28.5% of the country's GDP and employs 36% of the workforce.
While heavy industries like metal and steel are still undergoing restructuring, high-value-added sectors such as electronics, engineering, and petrochemicals are concentrated in the western regions of the country.



The automobile and consumer goods sectors, which suffered significant declines during the pandemic, have started to recover rapidly, presenting attractive opportunities for foreign investors. Although Slovakia's competitiveness aids in the recovery of these sectors, global demand for automobiles remains weak.

According to the World Bank, manufacturing alone contributes to one-fourth of Slovakia's GDP. National statistics indicate that industrial production declined by 0.6% year-on-year in 2023. Despite this, the automobile industry grew by 4.9%, marking the highest increase since 2018. The electrical equipment manufacturing sector also experienced growth, with a 7.4% increase. Conversely, the production of rubber and plastic products saw a significant decline of 8.9%, while the manufacturing of computer products dropped sharply by 22%.

The services sector in Slovakia contributes 58.5% to the GDP and employs approximately 62% of the active workforce, with trade and real estate being the dominant industries. Tourism is also poised to become increasingly significant for the Slovak economy in the coming years, having been one of the country's most dynamic sectors prior to the COVID-19 crisis. In 2023, the sector showed signs of recovery, with accommodation establishments generating nearly EUR 563 million in turnover, marking a 30% year-on-year increase.

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Slovakia's banking sector comprises 26 financial institutions, which are robust and primarily foreign-owned, with the majority of ownership from Austrian, Italian, and Belgian groups. Only four banks are Slovak-owned, one of which is government-controlled.

Slovakia remains heavily dependent on external markets. The country’s strong industrial base, tax incentives, affordable and skilled labor force, rapidly developing infrastructure (supported by EU funds), and steady growth make it an attractive hub for trade. Slovakia’s strategic geographical position at the crossroads of Central Europe enhances its role as a re-export platform for the European automotive industry.

Historically, Slovakia has maintained a positive trade balance, though it has been declining in recent years. For 14 consecutive years, the export of goods exceeded imports, but in 2022, the trade balance turned negative. The sharp rise in energy and material prices significantly impacted this record-high level of imports. However, the trade balance returned to positive territory in 2023.

Top export destinations include Germany, Czechia, Poland, Hungary, France, Austria, Italy, the United States, the United Kingdom, and China. The leading export commodities are vehicles, electrical and electronic equipment, machinery, iron and steel, mineral fuels, plastics, and rubber.

Top import sources are Germany, Czechia, China, Poland, South Korea, Hungary, Russia, Vietnam, Italy, and France, with key imported commodities including electrical and electronic components, vehicles, machinery, mineral fuels, plastics, iron and steel, pharmaceutical products, and furniture.

In today's fast-changing economic environment, building secure and successful business relationships depends on reliable local expertise in business information.

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