

Slovakia

The Slovak economy gradually recovered in 2021, as it benefited from the easing of pandemic restrictions and strong private consumptions. However, the increase in energy prices at the end of the year affected the recovery after the pandemic.

With the gradual easing of measures to prevent the pandemic, the Slovak economy recovered very quickly. In 2021, GDP grew by 3%, which was below the EU average. Consumer demand picked up significantly after the pandemic and household consumption became the main driver of the economic recovery. Another main factor for upturn in economic growth was investment. On the other hand, exports had negative impact on GDP as the global chip crisis affected the production of several Slovak companies, especially in the automotive industry.

The central government budget deficit narrowed to 6.15% in 2021 and government debt reached an all-time high of 63.10% of GDP. The unemployment rate in Slovakia remained nearly unchanged at around 6.74%. At the end of the year prices have surged because of the economic recovery and the situation in global markets. The annual inflation rate rose to 3.2% and the main factor of this increase have been energy prices.

The Slovakian banking sector consists of 26 financial institutions with banking licences. Most of them are universal banks, focused on retail and corporate banking. Four of them are specialised banking institutions (three building societies and a state-owned development bank). Most of the banks in Slovakia are controlled by foreign entities (94.1%), mainly banking groups from Austria, Italy and Belgium. Only four banks are fully controlled by domestic investment groups (three banks) or government (one bank). The Slovakian banking sector is concentrated within the hands of three major players (Slovenska sporitelna, VUB Banka and Tatra banka) who control 62% of the banking assets.

Slovak banks are among the leaders in the use of new technologies in day-to-day banking e. g. contactless cards, contactless mobile payments and peer-to-peer payments. Digitalization has affected the banking industry. The Slovakian banks have 984 branches and 17,717 employees, which is slightly fewer than in previous years. On the other hand, the number of transactions on ATM and on POS has been growing for several years. Mobile payments have also become very popular in recent years. For example, the number of mobile transactions increased by more than 100% in 2021.

In comparison to the national GDP, the banking sector is one of the smallest in the EU. Funding of Slovakian banks is based primarily on the domestic clients' deposits. The loan-to-deposit ratio has been growing for several years in row, mainly due to credit growth. Retail deposit grew by 6% and corporate deposits increased by 3%.

Retail loans have been dominating the domestic lending market and Slovakia has one of the highest growth rates in housing loans in the eurozone. Last year, growth in housing loans continued to increase (by 11,1%) because of low interest rates, interbank competition, and ongoing growth in housing prices. On the contrary, the outstanding amount of consumer credit declined by more than 6%, due to reduced household consumption and due to macro-prudential measures of central bank. According to the regulator, rapid growth in household indebtedness in the last years could be one of the principal risks to the stability of the Slovak financial sector. In response, the central bank used macro-prudential measures, the main aim of which is to limit the risk from the growth of retail loans. The outstanding amount of corporate loans increased by 4 % year-on-year.

Due to retail credit growth and favourable situation with provisions for impaired loans all banks improved their profitability. In the 2021, banking sector increased profits by 56%, but profitability remained below

the EU median. In the last few years, most of the net profits have supported the capital bases of Slovak banks. Total capital adequacy ratio was on average 19.81%, with the lowest individual level at 15.64%.

Banks in Slovakia also play an active role in financial education. There are many programmes supported by banks, central bank, or the bank association. One of them is the Economics Olympiad for high school students.