

# Slovakia

In 2023, the Slovak economy continued to grow, but at a slower pace compared to the pre-pandemic period. The economy benefited from a fiscal expansion aimed at mitigation the negative impact of high energy prices and rising inflation.

After several years where household consumption significantly contributed to economic growth, the situation has shifted. In response to declining real incomes, households have reduced their spending. The economy growth was driven by industrial production, mainly from automotive sector. Other sectors were more affected by the decline in external demand. Despite facing higher prices and interest rates, firms managed to sustain their investment activity levels and positively contributing to economic growth.

Due to energy aid and increased government spending the fiscal deficit has widened from 1.7 to 4.9 % of GDP in 2023, returning to the high levels seen during the pandemic years. Government debt reached 56.0 % of GDP. Despite the economic slowdown, the labour market remains stable. Inflation has declined from comparatively elevated levels in 2022 but remains among the highest in the euro area.

The Slovakian banking sector consists of 24 financial institutions with banking licences. Most of them are universal banks, focused on retail and corporate banking. Only two of them are specialised banking institutions (building society and a state-owned development bank). Most of the banks in Slovakia are controlled by foreign entities (94.9%), mainly banking groups from Austria, Italy, and Belgium. Only three banks are fully controlled by domestic investment groups (two 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 60% of the banking assets.

In comparison to the national GDP, the banking sector is one of the smallest in the EU. Funding of Slovak 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 in previous years.

Retail loans have been dominating the domestic lending market. In previous years Slovakian banking sector had one of the highest growths in housing loans in the eurozone. In 2023 domestic lending rates have increased with the ECB policy rate and credit growth has declined. The mortgage lending market stabilised at new lower levels later in 2023. Consumer credit began to grow again from early 2023, primarily driven by the increased need for financing due to higher inflation.

As a result of higher interest rates, the growing revenues from core banking activities have reflected in the growth of nominal profits. A similar development occurred in other eurozone countries; however profit increases were in many cases much higher than in Slovakia. Therefore, despite historically highest profits, Slovak banks achieved relatively low profitability compared to other EU countries. Despite this, the new government introduced an extraordinary levy on the banking sector from January 2024, which is one of the highest among EU countries. The expected effective tax rate for banks in 2024 will be twice as high compared to other companies. The new levy could prevent the build-up of bank capital buffers, stifle credit growth, and put upward pressure on mortgage rates.

Slovak banks are among the leaders in the use of new technologies in day-to-day banking e. g. contactless cards, mobile and instant payments. Digitalization has affected the banking industry. The Slovak banks have 910 branches and 17,059 employees, which is slightly fewer than in previous years. On the other hand, the number of card transactions has been growing for several years. Mobile payments are becoming more popular in Slovakia year by year. While in 2019, the share of these payments was 2.16% of all card payments, in the year 2023, it was already more than 25%.

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 or European money quiz.