Middle East, Far-Reaching Consequences

Macroeconomic forecast for 2026-2030

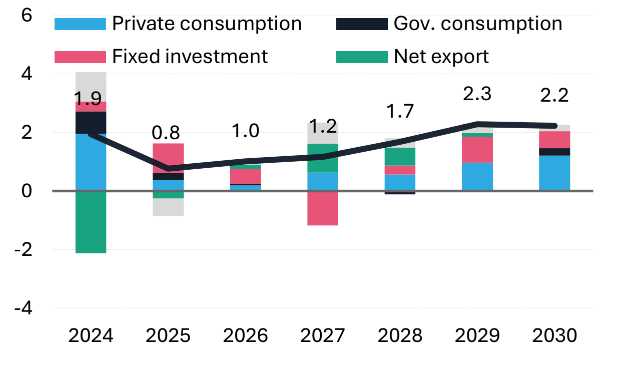
Institute of Financial Policy
Policy Brief 2026/5

IFP Collective

The conflict in the Middle East has caused a shock to global energy prices. This will also dampen the performance of the Slovak economy, and GDP will increase by 0.8% in 2026. From 2027, however, we expect a gradual recovery, with GDP rising by 1.5%. Growth will be driven mainly by exports from the new Volvo car plant. Consumer inflation will reach 3.9% this year, but will fall to 2.7% next year. Economic performance will be supported by public investment, while other components will stagnate. A higher contribution from net exports will merely reflect lower investment and consumption imports. Labour-market tightness will ease and the total number of employees will decline slightly. Adverse demographics will limit job creation throughout the forecast horizon, at the end of which the economy will be supported by the final drawdown of EU funds. The risks to the forecast are more balanced. The conflict in the Middle East may slow economic activity, but an early resolution would ease inflationary pressure. Completing the drawdown of the Recovery and Resilience Plan will be a challenge, while benefits may arise from the transmission of Germany's fiscal stimulus to the Slovak economy.

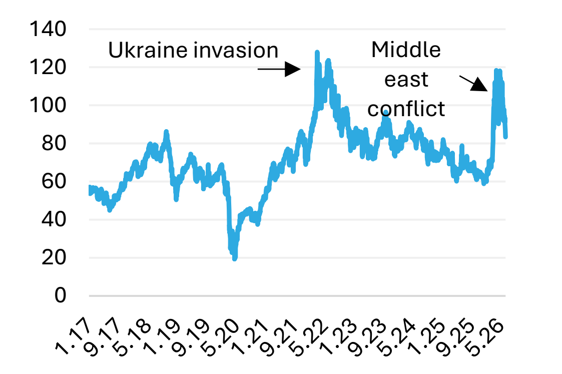
Slovakia's GDP will grow by 0.8% in 2026, the same pace as in the previous year. The economy will be held back by a less favourable external environment marked by the conflict in the Middle East, as well as by the ongoing consolidation of public finances. Household consumption will remain subdued because of more moderate growth in real incomes and greater caution in spending. Investment will decline in 2026 despite the final drawdown of the Recovery and Resilience Plan. The reason will be the weak dynamics of private investment, which is under pressure from uncertainty and slow economic growth. Exports will grow only gradually, in line with weaker growth among our main trading partners.

Chart 1: The Slovak economy will gradually accelerate (contributions. To GDP growth ,const. prices, p. p.)



Source: SO SR, IFP

Chart 2: The conflict in the Middle East increased oil prices (USD per barrel)



Source: Bloomberg, IFP

In 2027, GDP growth will accelerate to 1.5%. After the investment impulse from the Recovery and Resilience Plan fades, the economy will be driven by a gradual recovery in private investment and exports. An important factor will be the ramp-up of production at the Volvo car plant, which will support exports and partly improve Slovakia's position in foreign markets. The assumed continuation of energy aid will moderate the increase in household energy prices, contributing to lower inflation and a modest recovery in real incomes and consumption.

In 2028, the economy will grow by 1.9%, and by the end of the forecast horizon its dynamics will accelerate above 2%. In 2029 and 2030, economic activity will be supported by increased absorption of European funds, as individual programming periods begin to overlap and the drawdown of resources from the Modernisation Fund reaches its peak. Exports will benefit from the stabilisation of foreign demand and expanded production capacities in the automotive industry, but will face growing Chinese competition. The decline in employment will be the result of adverse demographic developments, only partly offset by increased employment of foreigners. We assume that the consolidation of public finances will continue and that the general government deficit will remain close to 4% of GDP. The forecast is based on public-finance deficits published in the Annual Progress Report, while for 2029 and 2030 it also maintains the assumption of a general government budget balance of around 4% of GDP.

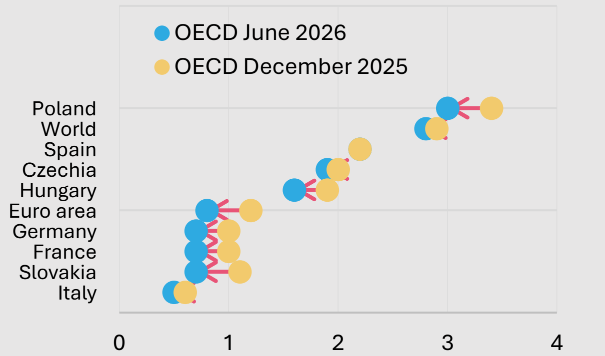
The risks to the forecast are balanced. A renewed escalation of tensions in the Middle East, persistent trade barriers, or weaker foreign demand could delay the recovery of exports and reduce economic growth. Insufficient absorption of Recovery and Resilience Plan funds also remains a risk, given the tight deadlines for project implementation. Conversely, faster stabilisation on energy markets, lower energy prices, or a stronger impact of Germany's fiscal stimulus could support economic growth. In the medium term, the conclusion of a trade agreement between the EU and India would also have a positive effect.

Box 1: Impact of the conflict in the Middle East

The conflict in the Middle East has caused a shock to global energy prices. As a result, foreign institutions have reassessed their inflation and economic-growth forecasts for individual economies. In line with the OECD and the European Commission, we assume that after reaching its peak, the oil price will gradually decline towards USD 80 per barrel. Higher import prices for energy and other commodities will also pass through into consumer inflation in Slovakia. Wage dynamics will accelerate slightly, but will lag behind the increase in prices.

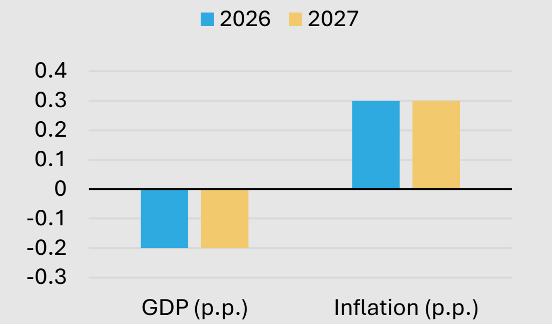
As a consequence of the conflict, real household consumption will be lower in Slovakia as well as among our foreign partners. This will restrain exports and investment formation. Compared with the 2022 shock, however, the current one is much milder and has not affected gas, electricity, or food prices as strongly. We estimate that in 2026 and 2027 the conflict in the Middle East will subtract around 0.2 percentage points from GDP growth in each year. Consumer-price growth will be higher by 0.3 percentage points in both 2026 and 2027.

Chart A: OECD revised forecast of GDP growth for most economies (GDP growth in 2026, %)



Source: IFP

Chart B: The conflict in the Middle East will reduce Slovak GDP growth and increase pressure on consumer prices (percentage points)(p.p.)

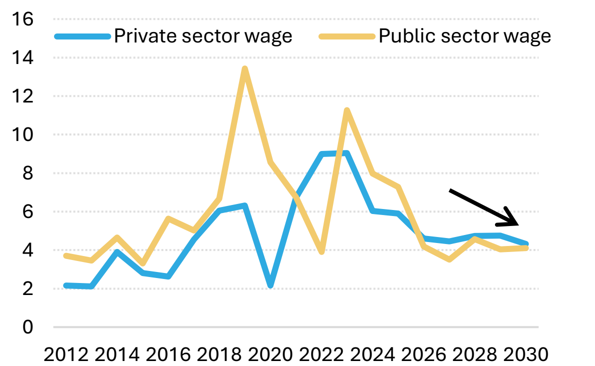


Source: IFP

Employment will fall in 2026 mainly because of a lower number of self-employed persons. The economy will lose 4 thousand jobs, representing a decline of 0.2%. While the number of self-employed persons will fall sharply as a result of measures to consolidate public finances, the number of employees will increase by the most since 2022. At the beginning of the year, it rose by 0.5% year-on-year and, according to Social Insurance Agency data, its growth should accelerate to 0.8% in the second quarter. This positive trend reflects not only the transfer of some self-employed persons into employee status, but above all the inflow of foreign workers. Announced mass layoffs are being implemented only to a limited extent and account for less than 1% of the inflow of unemployed people to labour offices. The shortening of unemployment benefits increased the motivation of unemployed people to find work, so the number of people without work should rise less this year than last year. We therefore expect a slight increase in unemployment to 5.8% in 2026.

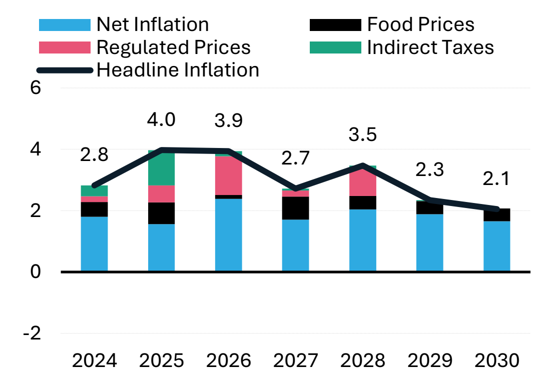
In the following years, employment is expected to decline slightly as a result of labour shortages on the labour market. The recovery of both foreign and domestic demand will mitigate adverse demographic developments and the persistent skills and regional mismatch on the labour market. The shrinking labour force will continue to be dampened by rising participation of the domestic population and by the inflow of working foreigners, more than 151 thousand of whom are already employed in Slovakia. The unemployment rate will therefore not fall below 5.3% over the forecast horizon.

Chart 3: Consolidation drives slower growth of public-sector wages compared to private-sector wages (%)



Source: SO SR, IFP

Chart 4: Inflation will be influenced by regulated prices (contributions to inflation, %)



Source: SO SR, IFP

Wage dynamics will reach 4.5% this year, while real incomes will strengthen slightly. Wages entered the new year dynamically, growing by 6.1%. The main driver was the public sector, thanks to negotiated indexation in healthcare and education. For the rest of the year, however, we expect wage dynamics to moderate. Wage growth will be reduced by the absence of last year's one-off bonus in the public sector, as well as by more moderate labour-productivity growth and government austerity measures. In the following years, wage dynamics will be pushed up mainly by labour shortages. However, wages will rise at a slower pace, in line with more moderate labour-productivity growth. Negotiations in the public sector reflect the need to consolidate public finances. The private sector will therefore increase wages faster than general government throughout the forecast period. Persistently higher inflation, also as a result of the conflict in the Middle East, will push real earnings growth below 1% this year. In 2027, real wage growth should reach 1.5%. By the end of the forecast horizon, however, the pace of growth will approach its long-term average of around 2%.

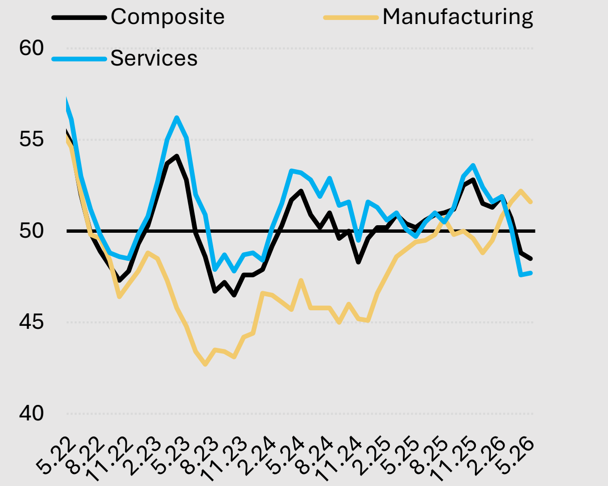
Consumer prices will rise by 3.9% in 2026; we estimate that the conflict in the Middle East will raise them by 0.3 percentage points. At the beginning of the year, inflation slowed, mainly because the effect of the VAT increase from 2025 faded and food prices declined in the spring months. In the opposite direction, the end of subsidies for heating prices and their return to market levels exerted upward pressure, joined by higher fuel prices due to the conflict in the Middle East. In the second half of the year, we expect higher prices of energy and other commodities, such as fertilisers, to translate into faster growth in food prices and partly also in goods and services.

Inflation should fall to 2.7% in 2027 and, over the longer horizon, decline towards 2%. We assume that the mechanism of targeted energy aid will remain in force next year as well. Prices would be lower, but in 2027 their dynamics will be affected by the consequences of the conflict in the Middle East. In 2028, we assume that subsidised energy prices will return to market levels and subsequently decline in line with futures prices. The prices of gas and motor fuels will also be affected by the introduction of the ETS2 emissions-trading system, which has been postponed to 2028. We forecast that food prices and tradable-goods prices will gradually return to the average growth rates typical of the pre-pandemic period. Services prices will rise faster, but overall price-level growth over the medium-term horizon will be dampened by consolidation.

Box 2: External environment assumptions

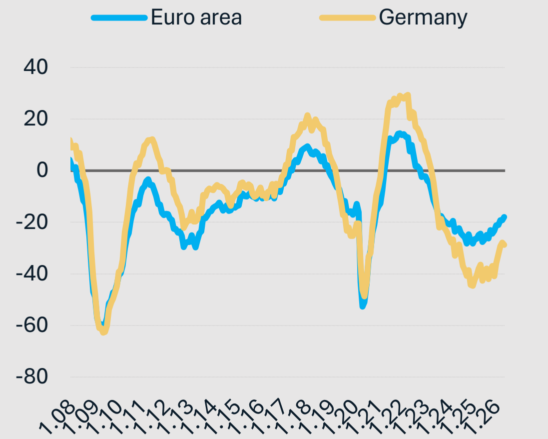
The external environment continues to be characterised by high uncertainty. After overcoming the pandemic, the initial shock from Russia's invasion of Ukraine, and the gradual fading of shocks from US protectionist policies, the global economy suffered another surprise in the first half of the year in the form of an escalation of the conflict in the Middle East. The effective closure of the Strait of Hormuz pushed oil prices to levels corresponding to the first months of Russia's invasion of Ukraine. Neighbouring countries lost the ability to export this and other important commodities, such as fertilisers, which weighed on their economic performance and increased fears of a global inflationary shock. Bond markets in particular reacted to this, with the price of short-term debt rising sharply. Since the outbreak of the conflict, the oil market has assumed that it will be short-lived, which was reflected in futures prices that did not move much over the longer horizon. Although oil prices have fallen more noticeably from their peak in the initial days of the conflict, international energy institutions warn that this shortfall will also affect prices over a longer horizon.

Chart C: : Industry in the euro area has begun to recover (euro-area Purchasing Managers' Index, points; a value above 50 = expansion)



Source: Bloomberg, IFP

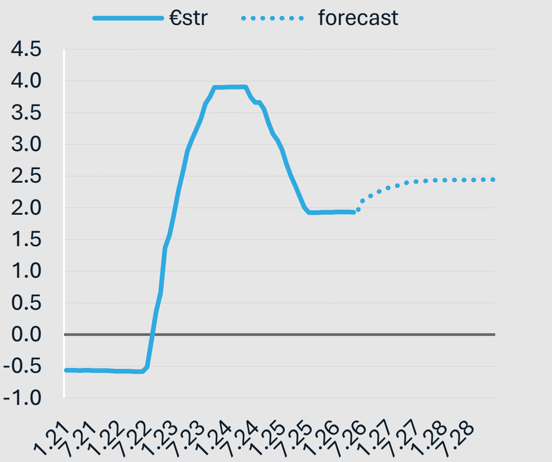
Chart D: : Industrial orders have turned around (Economic Sentiment Indicator in industry, points)



Source: EC, IFP

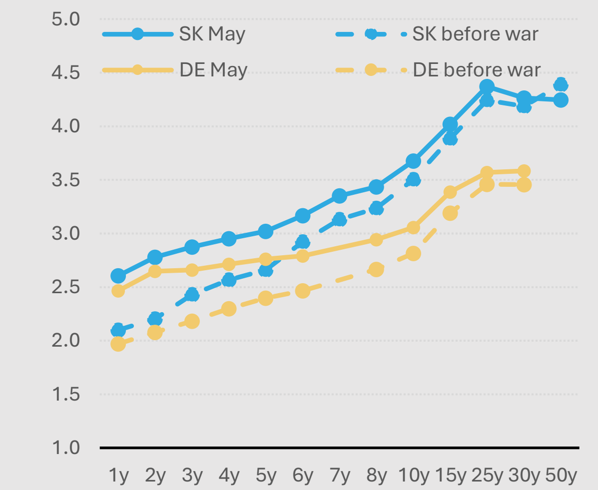
The new conflict has reduced the outlook for our partners. After several years of problems, industry in the euro area has found its bottom and the situation has begun to turn around. Domestic and export orders have risen again and economic activity in Germany, our largest trading partner, has begun to recover. However, the promising growth trajectory was suppressed by the conflict in the Middle East, which weighed on investment activity and consumer sentiment and led to a rapid fall of the services sector into the so-called recession zone according to the Purchasing Managers' Index. France, the second-largest economy in the bloc, is also facing problems. Industrial performance is being helped by government spending on infrastructure projects and defence. However, it is only a matter of time before this sector also feels higher energy prices. Performance among our partners in the V3 region was mixed: Hungary surprised strongly on the upside in the first quarter, while Czechia slightly underdelivered on expected growth. However, dynamics in this region still significantly exceed those of the currency bloc.

Chart E: Monetary policy will tighten slightly… (estimate of the €STR rate path and its forecast, % p.a.)



Source: Bloomberg, IFP

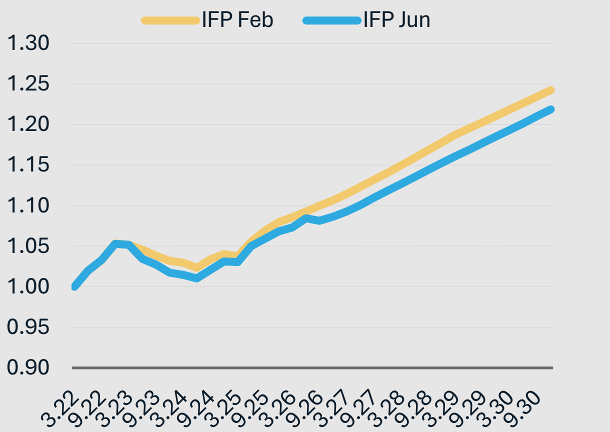
Chart F: …but bond markets have already reacted, especially at the short end (yield curve of Slovakia and Germany, % p.a.)



Source: Bloomberg, IFP

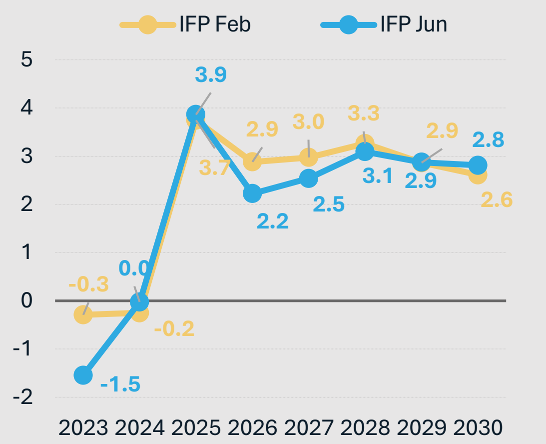
Foreign demand dynamics will slow down. The conflict in the Middle East is affecting economic activity among our partners, which will also affect domestic production. Foreign demand will fall this year to 2.2%, from 3.9% in the previous year. Strong performance last year was also driven by front-loading among foreign partners ahead of the introduction of US tariffs. The main factor behind the slowdown this year is developments in the countries of the currency bloc, while regional partners should maintain solid dynamics. In the following years, thanks to the expected decline in geopolitical risks and energy-commodity prices, as well as the absorption of persistent shocks, demand should gradually recover to growth close to 3%, which corresponds to expectations for global economic growth.

Chart G: Foreign demand surprised positively last year... (weighted foreign-demand index).



Source: IFP

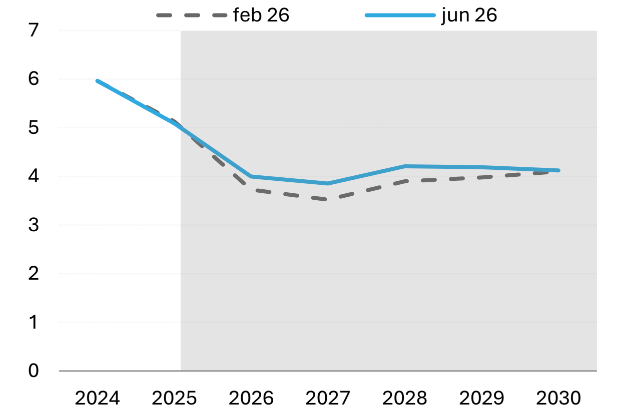
Chart H: ...the significant change between forecasts was also caused by data revisions by statistical offices (y-o-y change in weighted foreign demand, %).



Source: IFP

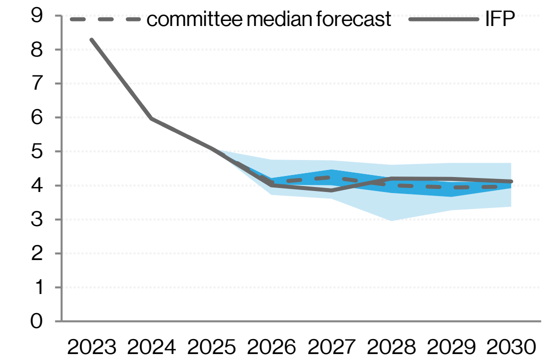
New MF SR macroeconomic forecast was discussed by the Macroeconomic Forecast Committee on 17 June 2025. **The forecast was assessed as realistic by all members of the Committee** (NBS, CBR, Infostat, Unicredit, VÚB, SLSP, Tatra banka, ČSOB, SAS). The forecast update, as well as the minutes of the Macroeconomic Forecast Committee and background materials, are available on the IFP website.

Chart 5: Macroeconomic bases compared with the previous forecast (growth in %).



Source: IFP

Chart 6: Forecasts of weighted bases[1] for budget revenues by committee members (growth, %)



Source: IFP

Box 3: Comparison to previous forecast

The changes in the June forecast were based mainly on three factors: the conflict in the Middle East, the government's new fiscal targets published in the Annual Progress Report, and the incorporation of new macroeconomic data for the fourth quarter of 2025 and the first quarter of 2026. As a result, according to the June forecast GDP will grow more slowly in 2026 and slightly faster over the rest of the horizon than in the February forecast.

The conflict in the Middle East represents an adverse inflationary shock for the Slovak economy. Through higher import prices for energy and other commodities, it will translate into lower economic growth and higher consumer inflation. We estimate that in 2026 and 2027 the conflict in the Middle East will subtract around 0.2 percentage points from GDP growth in each year; see Box 1.

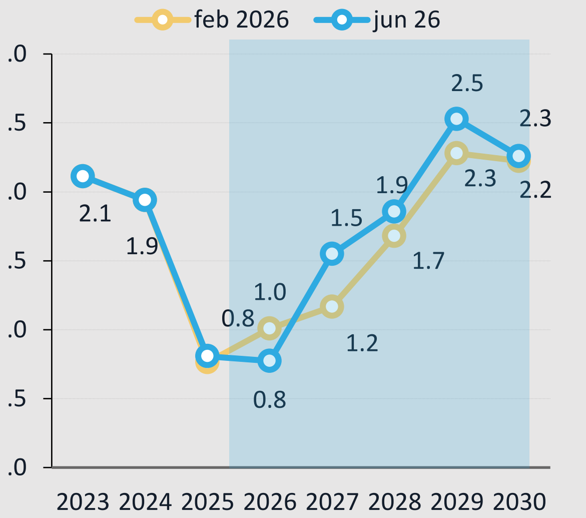
The new fiscal targets from the Annual Progress Report imply a slowdown in consolidation efforts, which will increase GDP dynamics over the forecast horizon from 2027 onward. Nominal deficit targets were revised to 4.2% of GDP in 2027 and 4.1% of GDP in 2028. This brings an additional stimulus compared with the previous forecast. For 2029 and 2030, a technical assumption of milder consolidation was chosen, and the general government budget balance remains around 4% of GDP. This means slightly faster economic growth compared with the February forecast.

New macroeconomic data from the end of last year and the beginning of 2026 had a mixed impact. While GDP growth developed in line with the forecast, investment significantly lagged behind in the first quarter. Labour-market developments were more favourable from the perspective of wage and employment growth, and consumer inflation was dampened by a

[1] Macroeconomic bases for budget revenues: the weight of indicators depends on the share of individual taxes and social contributions in total tax and contribution revenues; wage base (employment + nominal wage) - 55.9%; nominal private consumption - 24.4%; real private consumption - 4.2%; nominal GDP growth - 10.6%; real GDP growth - 4.9%. Source: IFP.

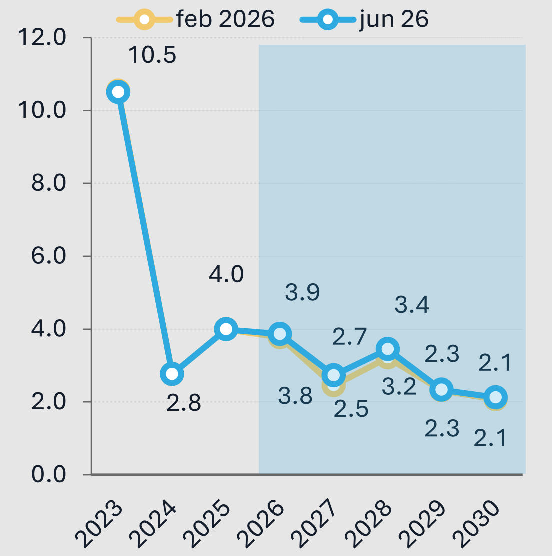
decline in food prices.

Chart I: The conflict in the Middle East will reduce GDP in 2026, while the new fiscal targets will imply faster GDP growth from 2027 (change in GDP, %).



Source: IFP

Chart J: The inflationary shock from the conflict in the Middle East is milder than the shock of 2022 and 2023 (CPI, %)



Source: IFP

MF SR Forecast – Main Economic Indicators (Jun. 2026)

Indicator (% growth unless otherwise stated)	2025	**Forecast** 2026	2027	2028	2029	2030	**Diff compared to Feb 2026** 2026	2027	2028	2029	2030
GDP											
GDP. real	0.8	0.8	1.5	1.9	2.5	2.3	-0.2	0.3	0.2	0.2	0.1
GDP. nominal (bn €)	136.8	143.3	149.2	156.0	163.3	170.5	0.2	0.9	1.5	1.8	1.7
GDP. nominal (growth)	5.0	4.8	4.2	4.5	4.7	4.4	0.0	0.6	0.3	0.2	-0.1
Private consumption. real	0.2	0.4	1.2	1.0	1.8	2.2	0.1	0.1	0.0	0.1	0.0
Private consumption. nominal	4.4	4.2	3.9	4.2	4.1	4.6	0.4	0.3	0.3	0.1	0.3
Gov. consumption	1.1	-0.3	0.5	0.3	0.7	1.9	-0.6	0.5	0.9	0.8	0.5
Fixed investments	2.2	-2.2	-1.6	2.7	5.4	2.4	-4.6	3.7	1.2	1.1	-0.4
Export of goods and services	4.0	1.7	4.2	3.3	2.8	2.6	0.4	-0.6	0.0	-0.1	0.0
Import of goods and services	3.7	1.0	3.3	3.0	3.0	2.8	-0.2	-0.5	0.2	0.1	0.1
Labour Market											
Employment (statistical reporting)	-0.2	-0.2	0.0	-0.1	-0.1	-0.1	0.2	0.1	0.1	0.1	0.0
Nominal Wages	6.3	4.5	4.2	4.7	4.5	4.2	0.1	0.2	0.2	0.1	-0.1
Real Wages	2.2	0.6	1.4	1.2	2.2	2.1	0.0	-0.1	0.0	0.1	-0.1
Unemployment rate	5.4	5.8	5.8	5.6	5.4	5.3	0.0	0.0	0.0	-0.1	-0.1
Inflation											
CPI	4.0	3.9	2.7	3.5	2.3	2.1	0.1	0.2	0.3	0.0	0.0

Source: SO SR, IFP

	2022	2023	2024	2025	2026	2027	2028	2029	2030
Recovery and Resilience Plan	**22**	**204**	**802**	**1 758**	**2 174**	**237**	**253**	**39**	**22**
Public Compensations	25	39	52	124	158	17	18	3	2
Public Intermediate Consumption	14	27	44	143	183	17	19	3	2
Public Investments	1	81	504	1 222	1 557	182	196	30	17
Social Transfers in Kind	2	2	4	0	0	0	0	0	0
Social Transfers	4	10	14	16	21	2	2	0	0
Private Compensations	1	1	2	16	20	4	5	1	0
Private Intermediate Consumption	1	1	2	16	20	4	5	1	0
Private Investments	0	27	92	205	262	14	15	2	1
Household Investments	0	56	140	140	111	13	12	2	1

Source: IFP