

Republic of Slovakia

Rating report

Rating rationale

European Union (EU) and euro area memberships: Slovakia benefits from EU- and euro area memberships with access to significant EU cohesion and recovery funds, a strong reserve currency, access to the European Central Bank’s (ECB) asset purchases and refinancing operations, as well as the European fiscal framework. EU- and euro area memberships constitute a strong policy anchor and support Slovakia’s resilience against external shocks.

Competitive export-oriented industry: Slovakia has a competitive export-oriented industrial base, anchored by robust foreign direct investment inflows. The automotive industry accounts for more than 10% of output, about half of industrial production and more than 30% of exports. However, the Slovak manufacturing industry is highly reliant upon external demand and exposed to the climate transition, particularly in the automotive sector.

Rating challenges: i) an uncertain policy framework amid worsening fiscal position and steady rise of the debt to GDP ratio; ii) fragile external demand amid challenging economic outlook among European trading partners and high exposure to global value chains; iii) an incomplete transition from Russian energy exposing local businesses to potential disruptions amid heightened geopolitical tensions; and iv) fiscal trajectory exposed to adverse demographic trends and higher age-related spending over the medium- to long-term.

Figure 1: Slovakia’s sovereign rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating	
	Weight	Indicative rating	Notches	Notches	Notches		
Domestic economic risk	35%	bbb+	EUR	Slovakia	- 1/3	A	
Public finance risk	20%	a			0		
External economic risk	10%	cc			2/3		
Financial stability risk	10%	aaa			1/3		
ESG risk	Environmental factors	5%			bb+		0
	Social factors	7.5%			bbb+		0
	Governance factors	12.5%			a		0
Sovereign Quantitative Model			a-	+1			
Additional considerations				0			

*The reserve-currency quantitative adjustment applies to currencies in the IMF’s Special Drawing Rights (SDR) basket. **The political-risk quantitative adjustment is based on the World Bank’s Political Stability & Absence of Violence/Terrorism index. ***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope’s [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

Local currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

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Credit strengths and challenges

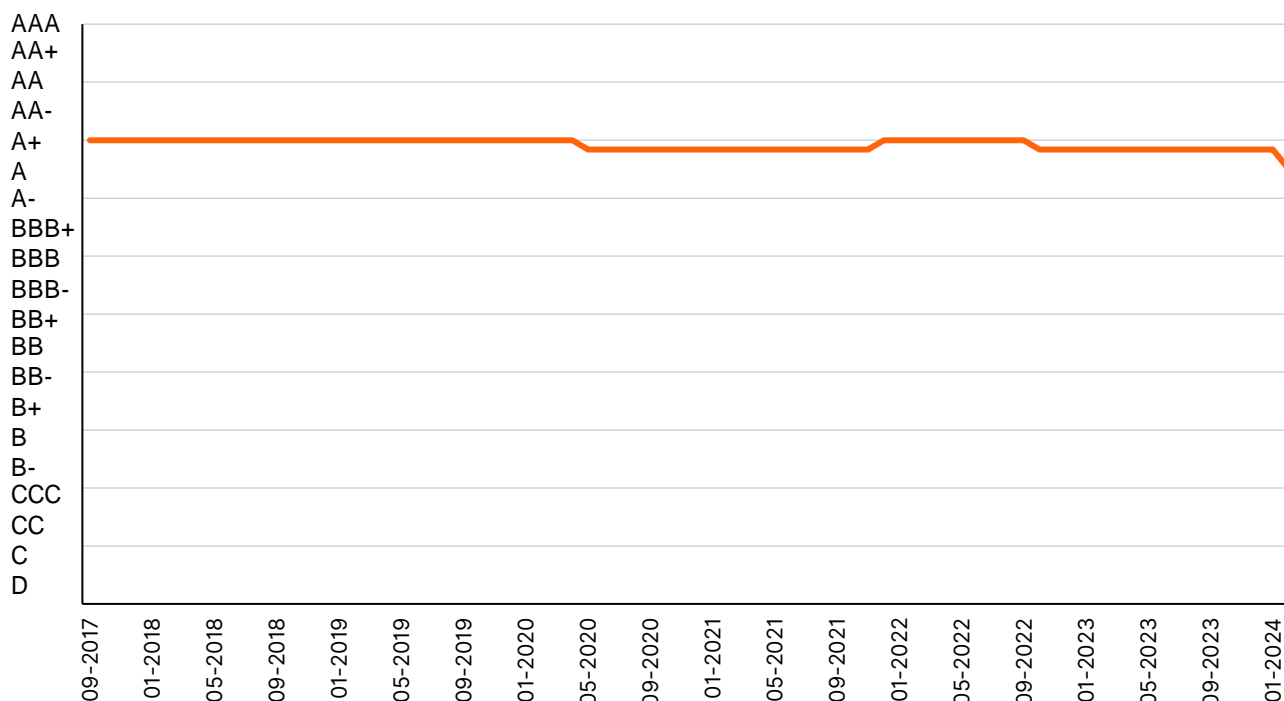
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • EU and euro area memberships • Competitive export-oriented industry • Moderate albeit rising public debt 	<ul style="list-style-type: none"> • Uncertain policy framework • External vulnerabilities • Concerns on energy security • Unfavourable demographics

Outlook and rating triggers

The Stable Outlook reflects Scope's view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Fiscal outlook improves, for example, due to a sustained reduction of deficits driving a lower-than-anticipated rise in debt-to-GDP • Macro-economic outlook improves, for example, due to stronger external demand • Governance improves, furthermore strengthening prospects for the continued timely disbursement of EU funds 	<ul style="list-style-type: none"> • Fiscal deficits remain wide and there is a larger-than-expected rise in debt-to-GDP • Macro-economic outlook weakens, for example, due to durably weaker external demand and/or energy supply disruptions • Governance weakens, undermining prospects for the timely disbursement of EU funds

Figure 2: Rating history¹



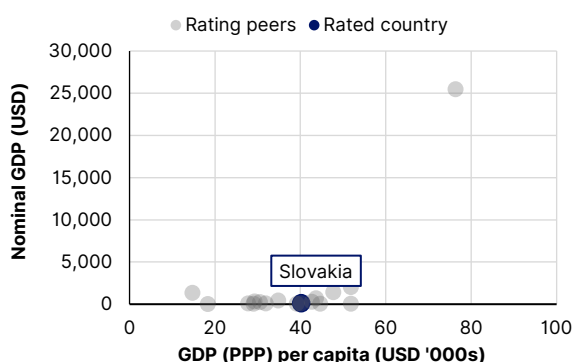
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Slovakia's Domestic Economic Risk

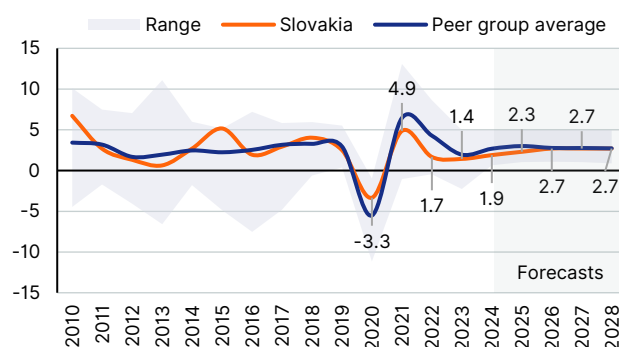
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Growth potential and outlook	Neutral	0	Growth potential in line with peer average, but at risk of declining in case of lower investment and energy supply disruptions
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank; effective policy framework and transmission over the cycle
	Macroeconomic stability and sustainability	Weak	-1/3	Lingering risks on energy supply; competitive manufacturing industry but challenges for medium-term dynamics in the automotive industry

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



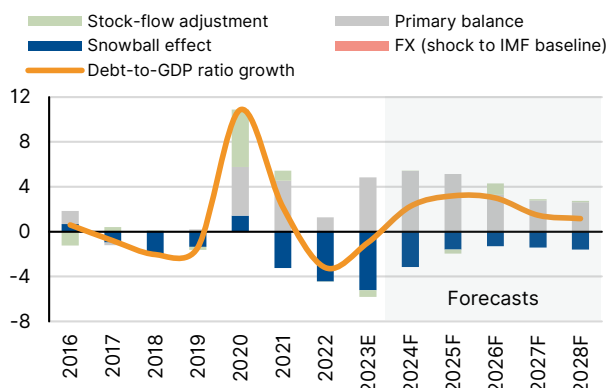
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Slovakia's Public Finance Risk

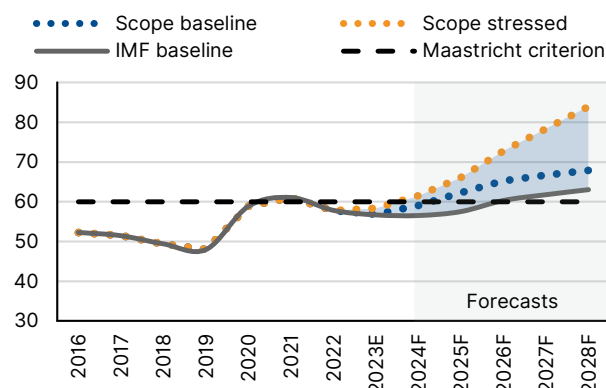
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Fiscal policy framework	Neutral	0	Credible and flexible constitutional budgetary framework, regularly strengthened, but uncertain policy agenda
	Long-term debt trajectory	Neutral	0	Moderate debt levels, although exposed to large fiscal deficits, long term demographic trends and lower GDP growth prospects
	Debt profile and market access	Neutral	0	Favourable debt structure, and significant debt holdings by the ECB

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

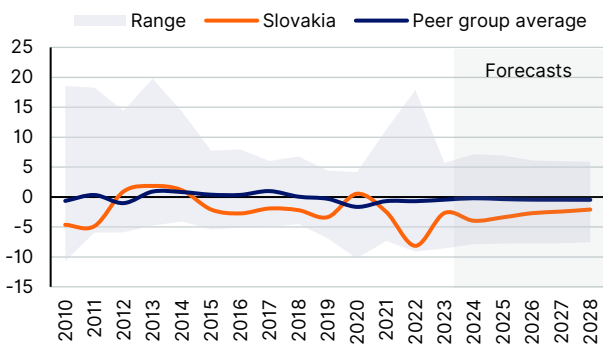
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Slovakia's External Economic Risk

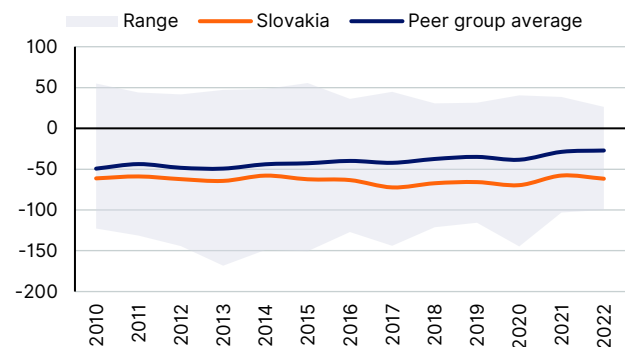
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CC	Current account resilience	Strong	+1/3	Export-oriented economy with a competitive industry relative to peers and modest current account deficits over the medium term
	External debt structure	Strong	+1/3	Negative but overall stable NIIP; substantial share of direct investment in external liabilities
	Resilience to short-term external shocks	Neutral	0	Small-open economy that benefits from EU and euro area memberships

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



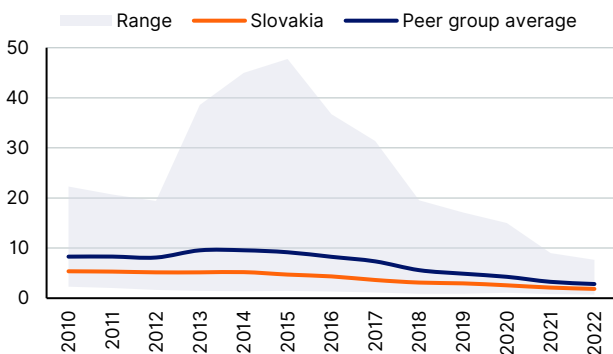
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Slovakia's Financial Stability Risk

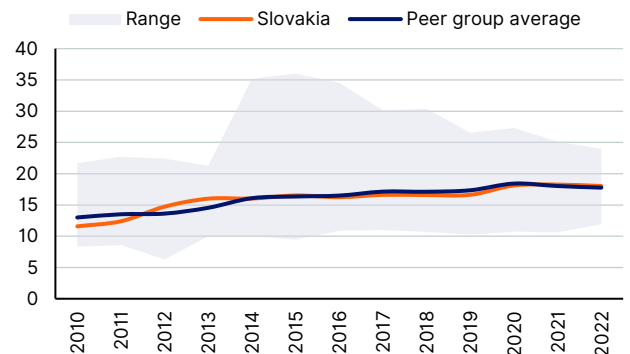
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Strong	+1/3	Well-capitalised banking sector; low NPL ratio
	Financial sector oversight and governance	Neutral	0	Oversight under the National Bank of Slovakia and the ECB as part of Banking Union
	Financial imbalances	Neutral	0	Elevated private debt balanced by the moderation of real estate prices and macroprudential measures

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



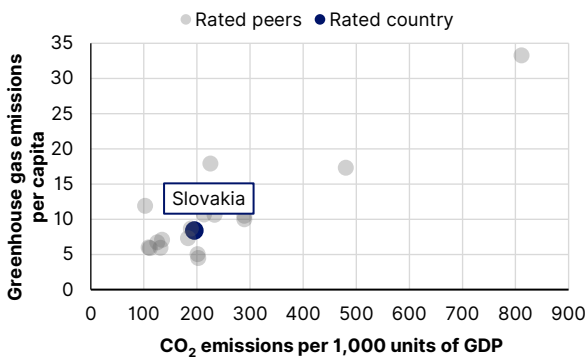
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Slovakia's ESG risk

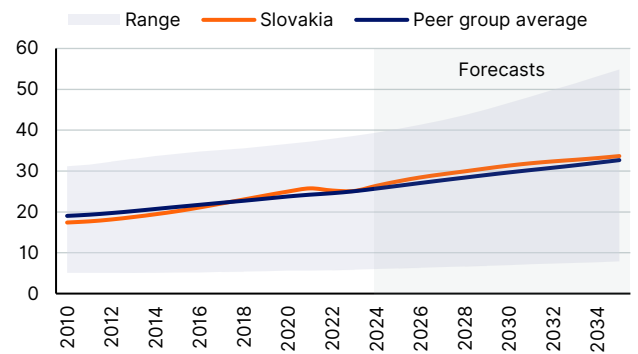
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Environmental factors	Neutral	0	Below-EU-average but increasing share of renewable energy in total energy consumption, transition risks in line with CEE peers
	Social factors	Neutral	0	Moderate unemployment rates, below EU-average poverty level, negative demographic trends, and high regional economic disparities
	Governance factors	Neutral	0	Comparatively stable governance framework, supported by EU and euro area memberships; recent record of political instability

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

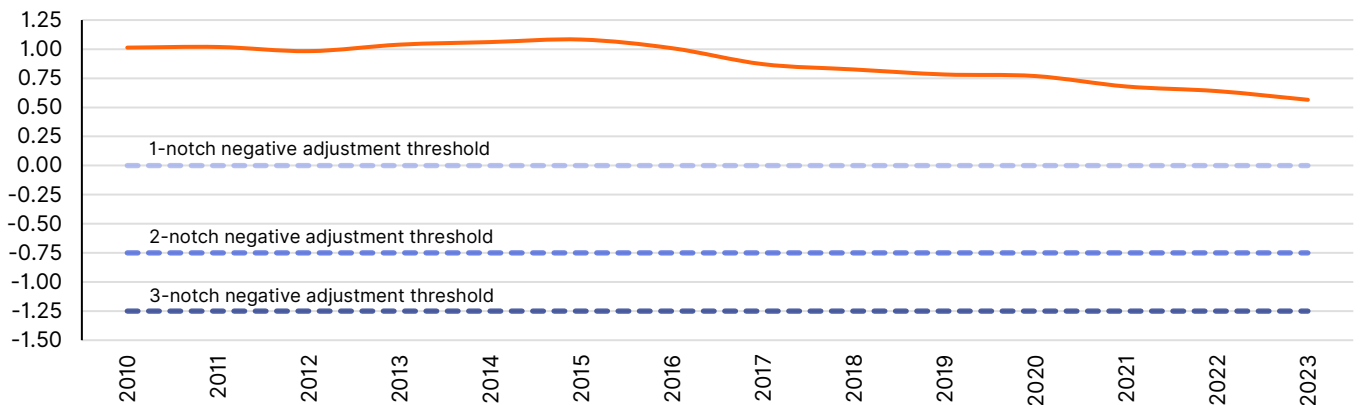
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Slovakia, 3-year moving average



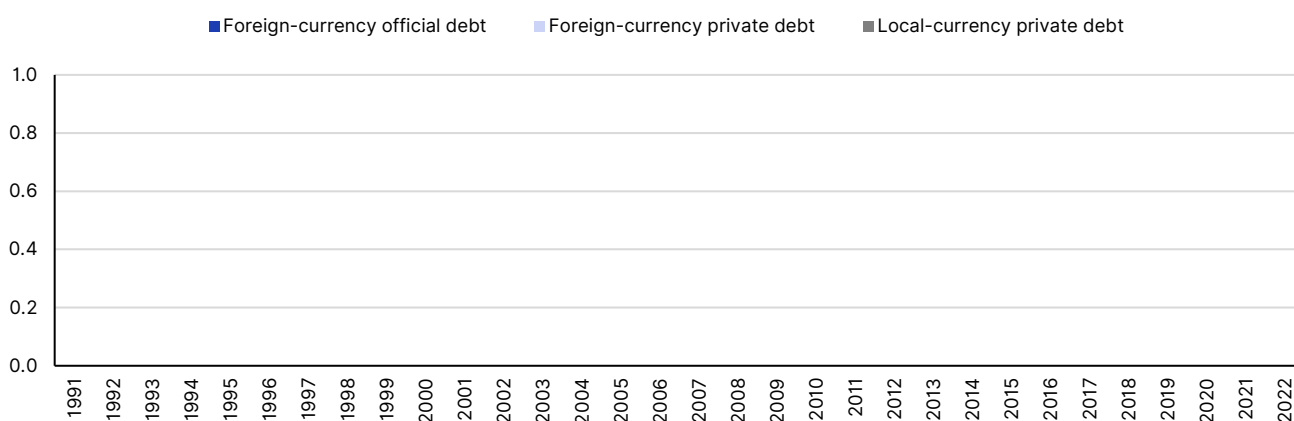
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Bulgaria
Croatia
Cyprus
Estonia
Italy
Latvia
Poland
Portugal
Spain
United States

*Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 8 February 2024	34.6

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023E
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	33.0	34.3	33.6	36.8	40.2	42.2
	Nominal GDP, USD bn	IMF	106.2	105.7	106.6	118.7	115.6	133.0
	Real growth, %	IMF	4.0	2.5	-3.3	4.9	1.7	1.3
	CPI inflation, %	IMF	2.5	2.8	2.0	2.8	12.1	10.9
	Unemployment rate, %	WB	6.5	5.8	6.7	6.8	6.1	-
Public Finance	Public debt, % of GDP	IMF	49.4	48.0	58.9	61.0	57.8	56.7
	Net interest payments, % of government revenue	IMF	3.0	2.7	2.6	2.2	2.0	2.0
	Primary balance, % of GDP	IMF	0.1	-0.2	-4.3	-4.5	-1.2	-4.6
External Economic	Current-account balance, % of GDP	IMF	-2.2	-3.3	0.6	-2.5	-8.2	-2.7
	Total reserves, months of imports	IMF	0.6	0.8	1.2	1.0	1.0	-
	NIIP, % of GDP	IMF	-67.3	-65.9	-69.6	-57.8	-61.7	-
Financial Stability	NPL ratio, % of total loans	IMF	3.1	3.0	2.6	2.1	1.9	-
	Tier 1 ratio, % of risk-weighted assets	IMF	16.4	16.7	17.3	18.8	18.1	18.1
	Credit to the private sector, % of GDP	WB	61.7	62.5	66.3	66.1	-	-
ESG	CO₂ per EUR 1,000 of GDP, mtCO₂e	EC	218.3	200.0	198.8	218.5	-	-
	Income share of bottom 50%, %	WID	24.2	24.5	24.6	24.6	-	-
	Labour-force participation rate, %	WB	72.6	72.9	72.7	75.1	-	-
	Old-age dependency ratio, %	UN	23.0	24.0	25.0	25.8	25.2	25.1
	Composite governance indicators*	WB	0.6	0.6	0.6	0.6	0.6	-
	Political stability, index	WB	0.7	0.7	0.6	0.6	0.4	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.*

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