

The impact of inflation on families in Slovakia

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To begin with, some general information about Slovakia.

Date of establishment of the Slovak Republic: 1.1.1993

Language: Slovak

Location: The Slovak Republic is located in Central Europe and borders Austria, the Czech Republic, Hungary, Poland and Ukraine.

Population: 5.460 million

Area: 49.035 km²

Currency: Euro, 1 € = 100 cents

Religion: predominantly Roman Catholic

Territorial administrative division: 8 regions: Bratislava, Trnava, Nitra, Trenčín, Žilina, Banská Bystrica, Prešov and Košice

President of the Republic: Peter Pellegrini

Prime Minister: Robert Fico

Ruling parties: Smer, Hlas, SNS

The basic **economic characteristics of Slovakia** include the following key areas:

The Slovak economy is strongly oriented towards industrial production, especially the automotive sector, which accounts for more than 40 % of total exports. Slovakia is the world leader in the number of cars produced per capita. This is due to the favorable investment environment, low production costs and skilled workforce.

Automobile companies such as Volkswagen, Kia, Peugeot-Citroën, and Jaguar Land Rover have their manufacturing plants in the country. The automotive industry is a key exporter and employer. Slovakia is strongly export-oriented. The country mainly imports energy raw materials (oil, natural gas) and machinery.

The three richest companies are: **Slovenské elektrárne (Slovak power stations) – assets of 13.44 billion euros**

National Motorway Company – assets of 10.56 billion euros

Slovak Gas Industry – assets of 6.52 billion euros

The minimum wage in the Slovak Republic is set by law at €750 per month in 2024. From January 2025, the minimum wage will be set at €816 per month. For the lowest earners, this

represents an increase of €66 gross compared to the previous year. The average wage in 2024 has increased to EUR 1520.

The unemployment rate, indicating the share of unemployed among economically active persons, was a record low of 5.2 % in the 2nd half of 2024,

The unexpected and sharp price increases in 2022 and 2023 had a significant impact on the financial situation of households. This happened not only in Slovakia, but also in other European countries. Higher prices alone in 2022 caused a 10% drop in the purchasing power of the average family.

Each family buys different goods and services, so each family has a different consumer basket. In the consumer basket of families with lower incomes, spending on food and energy, i.e. components whose prices have risen the most, has more weight. Therefore, these families are more affected by the inflation shock compared to families with higher incomes.

The government tried to compensate for the negative impact of high prices with temporary measures that either increased family incomes or, on the contrary, reduced the prices of electricity, gas and heat.

In 2022, there were two government measures with a one-time contribution of €100, intended for parents of children and weaker social groups, and the 14th pension for pension recipients. In 2023, the most important measure was the energy price cap and the early indexation of all pensions by 10.6% in July 2023 instead of January 2024. Government measures in 2022 were more targeted at selected groups of the population and helped lower-income families the most. The energy price cap is a blanket measure and helps families in all income categories. Its effectiveness is questionable.

The second type of positive impact on family income is the additional valorisation of benefits and pensions. The average amount of the old-age pension was as of Jan. 2023 648,83 euros. Four years ago, the average amount of pension paid was at the level of 477 euros. The second positive impact came from inflation-induced additional wage growth. This is visible in both years. The sum of all the above-mentioned influences creates the resulting effect on purchasing power. In 2022, the resulting effect was negative in all income categories. The situation in 2023 looks different. Here, the compensatory effects were significant and it was reflected in the resulting positive impact of the inflation shock and the measures on the purchasing power of families.

As a result of inflation, without any compensatory measures, expenses for families with different numbers of children would increase by 31 to 36%. Pensioners are also included in the

categories of families without children , so the measures by which the government exceptionally increased pension benefits at a time of high inflation had a positive impact on the purchasing power of these families. Pensions grew thanks to the payment of the 14th pension, a one-off contribution for pensioners in the amount of 300 euros, and also thanks to the extraordinary indexation in 2023.

Let's take a look at the current year. Inflation in Slovakia rose to 2.8 percent in August from 2.6 percent in July, approaching the highest values this year. The most significant impact on the growth of inflation was higher prices in the field of food with non-alcoholic beverages, more expensive oils and fats, as well as higher prices of bread and cereals or sugar and confectionery. Inflation continued to be significantly influenced by price growth in the transport sector, currently mainly by rising prices of transport services.

The labour market remains stable, with unemployment falling to an all-time low recorded before the pandemic. Real wages will finally grow faster than inflation this year. Therefore, households will have more money left for consumption, unlike last year.

Finally, a few interesting facts:

The government has adopted a consolidation package. The parameters for calculating the parental pension and also the tax bonus will change. The basic VAT rate is increased from 20 to 23 percent. Basic foodstuffs and medicines, where a 10 percent VAT was introduced a few years ago, will be reduced to a 5 percent VAT rate. The 5% rate will include medical devices, textbooks, rental housing and accommodation services in tourism. In addition to other foodstuffs, the 19 percent rate should also include, for example, energy. Taxation of financial transactions of legal entities and sole traders is introduced. The price of an annual vignette should rise from 60 to 90 euros. Change of parental pension.

This month, Ján Havlík, a martyr, was proclaimed blessed in the national basilica in Šaštín, who survived 11 years in uranium mines, camps and dungeons of the Czechoslovak gulag.

He died as a result of torture at the age of 37.

This weekend, there is a March for Life in Košice.

Thank you for your attention.