

The War in Ukraine Has Put Slovakia to a Historic Test

Russia's war against Ukraine has thrown Slovakia into a stress test - laying bare its weaknesses, but at the same time speeding up a long-delayed transformation. Without the war, GDP growth would have been faster and more stable; instead, the 2022 invasion triggered a sharp surge in energy prices, pressure on industry, and household budgets. Yet at the same time, Slovakia has gained new opportunities: the migration wave helped ease a strained labor market, the defense industry is experiencing an unprecedented boom, and Ukraine's reconstruction is opening space for the involvement of companies and public institutions. What began as a shock may turn into an accelerator of transformation - if Slovakia manages to use its position and capacities.

The war in Ukraine is not only a geopolitical turning point but also a major economic test for Slovakia. As the only eurozone state directly bordering Ukraine, Slovakia finds itself at a unique crossroads: together with Poland, it is one of the West's main gateways to a country at war. While Romania is massively investing in infrastructure to benefit from the southern EU - Ukraine corridor, Slovakia has not yet managed to fully turn its position into a strategic advantage.

According to the latest *Rapid Damage and Needs Assessment* (February 2025), the total cost of rebuilding Ukraine stands at **USD 524 billion**. That's almost three times Ukraine's entire annual GDP - making reconstruction one of the greatest investment challenges and opportunities of the 21st century. For Slovakia and its neighbors, the meaning is clear: demand for capacities, technologies, and services will be extraordinarily high in the coming years. The decisive question is whether they can build their supply in time - from infrastructure and industry to export financing tools and human capital. Those ready to act will ride a wave of long-term growth; those who hesitate will be pushed to the margins.

The conflict also highlighted trends that had long been overlooked under the Tatra: dependence on cheap labor, weak export diversification, and underfunded infrastructure. These weaknesses now stand out as critical limits to future competitiveness.

At the same time, however, the war has opened new opportunities. Slovakia's defense industry is experiencing record growth, the state-owned Eximbanka has launched projects to support exports and participation in Ukraine's reconstruction, and the presence of Ukrainian workers has become an important stabilizing factor for both the labor market and tax revenues. Slovakia is therefore in a unique position: the war has forced it to address long-postponed problems more quickly, but at the same time offers a once-in-a-generation chance to turn geography and industry into real economic power.

The First Shock: Migration

The immediate consequence of Russia's aggression was the migration wave of 2022 - 2023. More than one million people crossed Slovakia, with roughly 100,000 - 150,000 finding longer-term refuge here.

For the economy, the effect was twofold. On the one hand, it provided quick relief to a strained labor market - Ukrainian workers helped partially offset shortages in industry, transport, and services. According to estimates by the Institute for Financial Policy, their contributions in taxes and social insurance add **0.1 - 0.2% of GDP annually** to the state budget.

On the other hand, integration brought new challenges: recognition of qualifications, language barriers, and pressure on schools and healthcare in regions with higher concentrations of refugees. With the **UNHCR** winding down its presence in Slovakia, responsibility now falls squarely on the state - to systematically support towns and municipalities in integrating Ukrainian families. The toughest cases are often teenagers, who arrived only with mothers or grandparents and now struggle with language and schooling. With the right support, today's burden could become tomorrow's dividend.

The war has fundamentally reshaped Slovakia's labor market. What at first looked like a crisis burden is increasingly proving to be a **structural opportunity** - a way to slow workforce aging and strengthen public finances.

Energy - From Dependence to Resilience

As recently as 2021, Slovakia was among the EU's most dependent states on Russian gas and oil - Russian supplies covered the bulk of its consumption. The invasion and Gazprom's breaches of contract shattered that logic: today, Russian gas makes up less than half of imports, the rest coming from LNG and European routes. With the transit agreement through Ukraine ending in early 2025, the question is no longer whether Slovakia will have gas - but what price it will pay for it. Slovakia urgently needs medium-term contracts and smarter price hedging. Without them, the country will remain dangerously exposed to global market swings.

The backbone of Slovakia's electricity sector is still nuclear - Mochovce and Bohunice plants generate more than half of domestic output and even create room for exports, including supplies to Ukraine. To reduce vulnerability, Slovakia must modernize its transmission grids, deepen interconnections with neighbors, and develop renewables and flexibility - meaning storage and demand-side management - on a rational footing.

But the energy transition will not succeed without infrastructure upgrades. Slovakia is lagging in building new interconnectors and reinforcing its transmission system. Stronger links to regional gas and oil flows are essential if the country is to play its part as a reliable node in Europe's energy security - and as a partner to Ukraine.

The energy shock after 2022 hit steel, chemicals, and the automotive industry - sectors built on cheap power. In the short term it meant production cuts and shutdowns. In the long term, it demands a change of trajectory: carmakers must embrace the shift to EVs and diversify suppliers, while steel and chemical plants need to invest in efficiency and decarbonization. Crucial here is **predictable tax and investment stability**, giving businesses the certainty to move toward greener technologies and higher-value

production. The old model – cheap energy plus cheap labor – is exhausted. Future growth must be driven by innovation, digitalization, and value-added output.

And beyond technology, industry faces a stark infrastructural test. Unfinished motorways, weak railways, and limited logistics at the eastern border are bottlenecks slowing adaptation. If transport links don't catch up fast, Slovakia's exports - and its role in Ukraine's rebuilding - will be left in the dust. Here, systematic use of the Recovery Plan and EU funds will be decisive. Without them, pressure for transformation could collapse into mere contraction and lost competitiveness.

A Second Pillar of Exports?

Before 2022, Slovakia's defense sector was stagnant. The war changed everything. Orders financed by allies - like the Zuzana 2 howitzers - along with new programs, boosted revenues and profits across firms such as VOP Nováky, Konštrukta-Defence, MSM Group, Grand Power, and Glock SK. Tech companies like Aliter, SEC, and Telegrafia have also plugged themselves into the value chain.

Since Russia's invasion, Slovak arms exports have increased tenfold, hitting over €1.1 billion in 2024 - equal to nearly 0.9% of GDP. In relative terms, that's only a shade below the United States, the world's number one arms exporter. In only three years, Slovakia has shot up as one of Europe's fastest-rising defense players.

The biggest potential lies in munitions, where Ukraine and NATO face the sharpest shortages, and in new technologies - simulators, sensors, communication systems. Yet the boom has also exposed structural weaknesses: some companies are stuck with limited capacity or rely heavily on foreign sub-suppliers, like the specialized forgings needed for Zuzana howitzers. There's also a striking gap between internationally seasoned firms (like Aliter or SEC) and those still tied almost exclusively to the domestic market.

The decisive question is whether state and industry can anchor this boom in long-term contracts, EU joint armament programs, and investments in R&D. If they can, defense could become Slovakia's **second export pillar**, standing alongside the automotive sector. If not, the boom will burst - just another wartime bubble.

The Risk of Political Isolation

Russia's aggression has fundamentally reshaped the institutional environment Slovakia operates in. NATO, at its Hague summit, raised the bar for defense spending - from the old 2% of GDP to at least 3.5% for the military and up to 1.5% for broader security by 2035. For Slovakia, this means defense will become one of the largest items in the national budget. These costs must be squared with fiscal consolidation and the long-term sustainability of public finances. Unless leaders win the public over, higher defense spending will be easy prey for populists - threatening not just policy, but the backbone of Slovakia's security strategy.

At the European level, the war has acted as a catalyst for Ukraine's deeper integration. The Slovak government, together with Eximbanka, prepared an impact study on Ukraine's potential EU accession, showing that enlargement is not a threat but an opportunity - especially for eastern Slovakia. It opens the door for cross-border projects, new transport and energy infrastructure, and investment that could bring real growth to the regions. The study also serves as a key basis for negotiations on the EU's Multiannual Financial Framework for 2028 - 2034. Slovakia therefore has a chance not only to benefit, but to actively shape European priorities - from infrastructure to digitalization to the green transition.

The war has also underlined the importance of Visegrad cooperation. Transit corridors, energy security, and labor mobility are challenges no single country in the region can solve alone. Coordination within the V4 - and broader Central European platforms - could strengthen bargaining power in Brussels and NATO, while reducing the risk that individual states pursue only their own interests. But unless Slovakia speeds up investment in its own infrastructure and secures stable defense financing, it risks being sidelined - while Poland and Romania set the pace and priorities for the whole of Central Europe.

If Slovakia wants to seize the opportunities offered by Ukraine's post-war reconstruction and the EU's new budgetary framework, it cannot undermine Western unity. Continued blocking of sanctions against Russia - most recently with the 18th sanctions package - and staged contacts with Vladimir Putin and Sergei Lavrov directly erode Slovakia's credibility with its partners. Kyiv has been blunt: it will not cooperate with states that sabotage Europe's collective effort while maintaining special ties with the Kremlin. Such a course would wreck Slovakia's credibility - and risk locking its firms out of flagship projects in one of the century's biggest investment booms.

The war in Ukraine has put Slovakia to a historic test. It has exposed long-standing weaknesses - dependence on cheap energy, underfunded infrastructure, demographic decline - but at the same time opened the door for fundamental transformation: strengthening the defense industry, driving technological modernization, and playing a role in Ukraine's reconstruction.

The decisive decade of **2025 - 2034** will determine whether Slovakia seizes this chance. The key steps are clear:

- secure stable defense financing and explain to the public why it is an investment in national security,
- accelerate infrastructure projects and cross-border interconnectors so the country is not pushed aside by Poland and Romania in regional logistics and transit,
- use European funds (MFF 2028 - 2034) strategically as leverage for the green transition, digitalization, and human capital development.

Slovakia's future will not be decided only in debates about sanctions or gas, but above all by whether the country can redefine itself as a confident and reliable member of the

democratic West. Ukraine's reconstruction is a chance that will not come again. Slovakia must choose stand at the center of events - or be left on the sidelines.

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This article was produced as part of the project *Reflections of the War in Ukraine in Visegrad Countries*. The project is co-financed by the governments of the Czech Republic, Hungary, Poland, and Slovakia through Visegrad Grants from the International Visegrad Fund. The Fund's mission is to support ideas of sustainable regional cooperation in Central Europe.