SLOVAK REPUBLIC

Economic growth is projected to pick up in 2014 and 2015 as export markets strengthen and the pace of fiscal consolidation slows down. Private consumption will contribute positively to GDP growth for the first time in five years with the recovery of the labour market and stronger real wages. Investment will progressively pick up thanks to a more favourable environment in the euro area, and will further expand the export-oriented manufacturing base. The completion of the highway network will further broaden the regional base for export-oriented activities.

To ensure that fiscal consolidation is sustainable, the authorities need to reduce the role of one-off budgetary measures. The ongoing reform of the public sector and the absorption of European Union funds should be strengthened. More effective active labour market policies and reforms in education would reduce long-term unemployment. Reforms to increase productivity in services will help to improve the resilience of the economy.

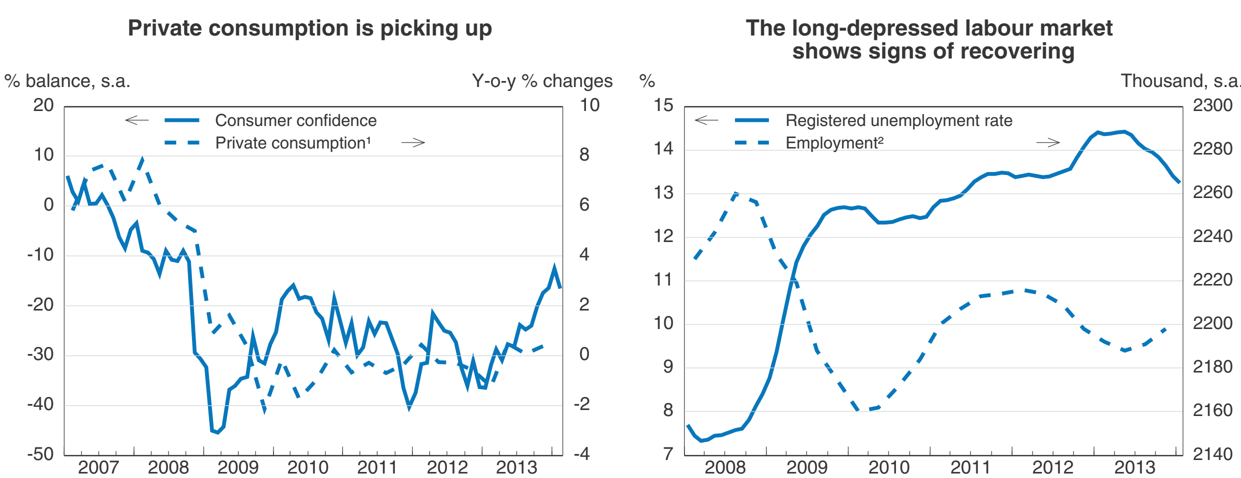
Growth is picking up

The economic recovery has strengthened and broadened as exports, investment and consumption all picked up. Low inflation supported real disposable income growth. Major investment projects were made in the last quarter of 2013, reaffirming the commitment of major investors to their existing operations in the Slovak Republic. Economic sentiment has been improving since the second half of 2013.

Growth is projected to shift more towards domestic demand

Exports and foreign investment will gain momentum with the expected acceleration of world demand in 2014 and 2015, in particular in the euro area and the Visegrad countries. Wage growth will progressively catch up with productivity gains, resulting in only a small improvement in price competitiveness, but fuelling consumption. Inflation is projected to remain subdued given the large economic slack remaining.

Slovak Republic



1. In volume terms.
2. Domestic concept.
Source: OECD Main Economic Indicators database; OECD Economic Outlook 95 database; and OECD Quarterly National Accounts database.

StatLink http://dx.doi.org/10.1787/888933049724

Slovak Republic: **Demand, output and prices**

	2010	2011	2012	2013	2014	2015
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	65.9	3.0	1.8	0.9	2.0	2.9
Private consumption	38.5	-0.5	-0.2	-0.1	1.1	1.9
Government consumption	12.7	-4.3	-1.1	1.4	1.3	-0.2
Gross fixed capital formation	13.9	14.2	-10.5	-4.3	3.0	3.8
Final domestic demand	65.0	1.9	-2.8	-0.7	1.5	1.9
Stockbuilding[1]	1.0	-0.8	-1.4	-0.1	0.3	0.0
Total domestic demand	66.1	0.8	-4.2	-0.8	1.9	1.9
Exports of goods and services	53.0	12.2	9.9	4.5	6.2	6.1
Imports of goods and services	53.1	9.7	3.3	2.9	5.7	5.4
Net exports[1]	- 0.2	2.0	5.9	1.7	0.9	1.1
Memorandum items						
GDP deflator	_	1.6	1.3	0.5	0.7	1.0
Harmonised index of consumer prices	_	4.1	3.7	1.5	0.4	1.0
Private consumption deflator	_	3.8	3.4	1.3	0.5	1.0
Unemployment rate	_	13.6	13.9	14.2	13.9	13.2
General government financial balance[2]	_	-4.8	-4.5	-2.8	-2.7	-2.6
General government gross debt[3]	_	48.3	56.9	59.3	59.1	60.1
General government debt, Maastricht definition[2]	_	43.6	52.7	55.4	55.2	56.2
Current account balance[2]	_	-3.7	2.2	2.1	1.6	2.2

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
3. As a percentage of GDP at market value.

Source: OECD Economic Outlook 95 database.

StatLink http://dx.doi.org/10.1787/888933051396

Fiscal consolidation will slow

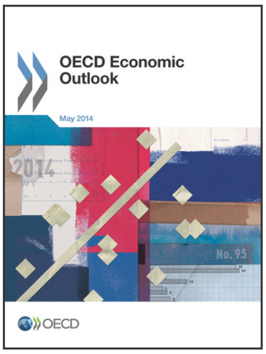
In 2013, higher revenues and some spending cuts led to a decline in the fiscal deficit of 1.7 percentage points of GDP. Fiscal consolidation should continue at a slower pace, as planned. Although it would be desirable to allow the automatic stabilisers to work, this would require Parliament to overrule the constitutional debt ceiling. In the medium term, the authorities should ensure that enough room is generated under the debt ceiling to allow automatic stabilisers to work without triggering the constitutional rule provisions. Improved tax collection, stronger consumption and rising incomes will all expand the tax base. However, the importance of one-off budgetary measures (such as revenues coming from the auction of a telecommunication frequency band and sales of state property) raises concerns regarding the sustainability of fiscal consolidation. The debt-to-GDP ratio is expected to stay just below the constitutional debt ceiling of 57% of GDP in 2014 and 2015, taking into account one-offs and planned privatisation revenues.

Structural policies are needed to strengthen medium-term growth

Economic growth is projected to rise to 3% in 2015, well below pre-crisis growth rates. To raise growth further, active labour market, education and innovation policies need to be strengthened. In the context of ongoing fiscal consolidation, higher absorption of EU funds would provide room for more public investment.

Risks are mainly external

The recovery could be delayed if economic growth in the euro area, in particular in Germany, is lower than expected or if deflation risks materialise. It could also be weakened by events in Ukraine. The particularly large share of domestic government bonds held by banking sector is a negative risk for credit growth. On the other hand, steps to implement a comprehensive banking union in the euro area, including a fiscal backstop, more quickly could reduce uncertainty. This will contribute to boosting and rebalancing lending towards the corporate sector, in particular to finance start-up investment.



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