SLOVAK REPUBLIC

Economic growth, mainly driven by exports in the automotive sector, slowed in the second half of 2012, but was still among the strongest in the OECD area. The economy is projected to pick up slowly through 2013 and grow by about 3½ per cent in 2014 on the back of stronger world trade. Private consumption is likely to remain subdued due to the weak labour market and significant fiscal consolidation.

Reaching the budget deficit target of 3% of GDP by 2013 would be a welcome step towards the long-term sustainability of public finances and will require a strong consolidation effort. Spending restraint should avoid affecting growth enhancing items like education and active labour market policies.

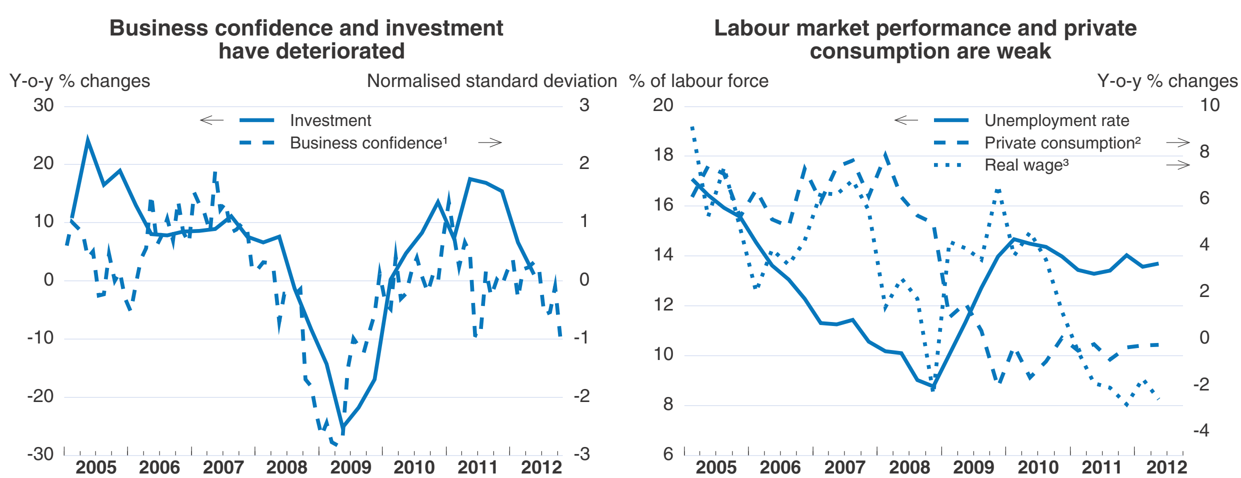
The economy has slowed

Business confidence has deteriorated sharply over the past few months. The automotive sector and the launch of new factories have slowed. The euro area debt crisis has caused uncertainty among investors and has reduced external demand. Fiscal consolidation and weak labour market outcomes weigh on disposable income, resulting in stagnant private consumption.

Fiscal consolidation is intensifying

Curbing the growth of public debt and ensuring fiscal sustainability require strong fiscal consolidation. Despite the cyclical deterioration, the government is committed to reduce the budget deficit below 3% of GDP by the end of 2013 from almost 5% in 2011. This consolidation effort is to be mainly achieved by revenue increases (including the enlargement of the size of the first pension pillar financed by the reduction in the share of social security contributions put into pension funds). Public spending is

Slovak Republic



1. Manufacturing confidence indicator from Joint Harmonised EU Programme on Business Opinion Surveys. Data are shown as deviations from the mean, expressed in standard deviations.
2. Quarterly real private consumption year-on-year percentage changes.
3. Annual real wage growth is per employee and deflated by the private consumption deflator.

Source: OECD Economic Outlook 92 database; OECD, Main Economic Indicators database.

StatLink http://dx.doi.org/10.1787/888932743786

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

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	62.8	4.4	3.2	2.6	2.0	3.4
Private consumption	38.3	-0.7	-0.5	-0.1	0.8	1.4
Government consumption	12.5	1.0	-4.3	-0.6	0.2	0.7
Gross fixed capital formation	13.0	6.5	14.2	0.5	0.6	2.5
Final domestic demand	63.8	1.0	1.9	0.0	0.6	1.5
Stockbuilding[1]	- 0.8	2.5	-0.7	0.0	-0.1	0.0
Total domestic demand	63.1	3.8	1.1	0.0	0.5	1.5
Exports of goods and services	44.3	16.0	12.7	8.8	4.7	6.7
Imports of goods and services	44.6	14.9	10.1	6.3	3.7	4.9
Net exports[1]	- 0.3	0.7	2.0	2.3	1.0	1.9
Memorandum items						
GDP deflator	_	0.5	1.6	1.8	1.4	1.6
Harmonised index of consumer prices	_	0.7	4.1	3.7	2.5	2.4
Private consumption deflator	_	1.0	3.8	3.6	2.5	2.4
Unemployment rate	_	14.4	13.5	13.7	13.6	13.0
General government financial balance[2]	_	-7.7	-4.9	-4.6	-2.9	-2.4
General government gross debt[2]	_	45.9	48.0	57.0	59.7	60.9
General government debt, Maastricht definition[2]	_	41.0	43.3	52.2	54.9	56.2
Current account balance[2]	_	-3.7	-2.1	1.7	1.8	3.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 92 database.

StatLink http://dx.doi.org/10.1787/888932745192

also to be contained (including by freezing public wages and restraining public consumption and investment). In 2014, the pace of consolidation will ease, and the deficit is projected to fall to 2.4% of GDP.

The labour market will improve only slowly

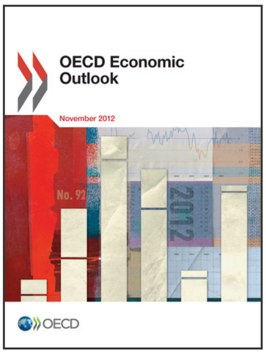
Employment gains are likely to be limited as export-dependent firms are focusing on improving productivity to maintain competiveness rather than expanding jobs. Unemployment will remain higher than its pre-crisis level over the projection period. Although real wages will continue to lag behind productivity gains, household disposable income will increase slightly, providing some support to private consumption.

Growth is set to pick up gradually

After a slowdown at the end of 2012, real GDP growth is projected to progressively broaden and return to its trend rate in 2014. The gradual improvement in the international environment will raise exports and foreign direct investment. Domestic demand should contribute increasingly to growth as business and consumer sentiment improve. Investment should also be boosted by higher absorption of EU funds. Private consumption is expected to gradually pick up in line with real disposable income as employment performance improves, inflation decelerates, and the pace of fiscal consolidation slows.

Downside risks dominate

The euro crisis could lead to a deterioration of the financial conditions, depress investor sentiment and reduce FDI inflows and external demand. There is a risk of FDI moving to locations with greater cost advantages. By contrast, a successful growth-friendly fiscal consolidation would strengthen confidence and thus stimulate domestic demand and, perhaps, foreign investment.



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