SLOVAK REPUBLIC

GDP growth has been driven mainly by exports and investment. Private consumption has remained subdued, reflecting persistent high unemployment and the effect of fiscal consolidation. Economic activity is now projected to grow by about 2½ per cent in 2012 and 3% in 2013 as world trade recovers. However, employment prospects remain poor as firms try to increase productivity growth to regain competitiveness.

The new government is rightly committed to reduce the fiscal deficit to below 3% of GDP by 2013. Fiscal consolidation should be carefully designed, so as to preserve the growth potential of the economy. Deep structural reforms are necessary to reverse the emerging duality in the economy between the highly productive, capital intensive export sector and the domestic sector, which is not innovative enough.

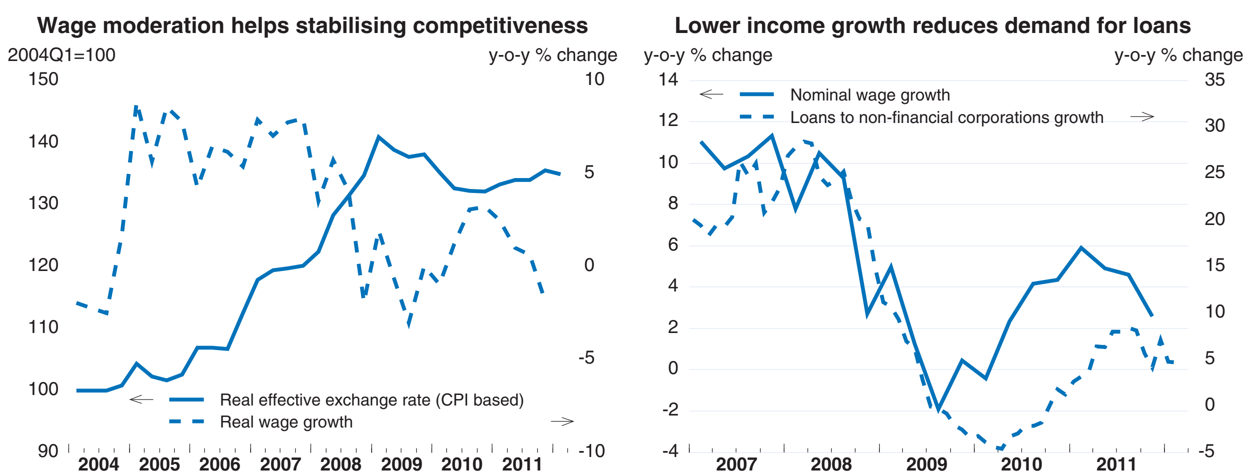
A jobless recovery has taken hold

Industrial production and productivity in export manufacturing have recovered strongly and FDI inflows are strengthening productivity and competitiveness in existing enterprises. But recovery in the labour market is slowing and employment remains below pre-crisis levels. The high levels of youth unemployment and the extraordinarily high share of long-term unemployed are particularly worrying. Real wage growth has come to a standstill. While this has improved competitiveness, further adjustments of wages and productivity are likely to be required if the Slovak Republic is to remain attractive for export-manufacturing FDI projects. Depressed income prospects and increased borrowing costs are both cutting the demand for credit and subduing consumption growth.

Fiscal consolidation is weighing on the economy

While still below 60% of GDP, government debt has risen sharply over the past decade and is on an unsustainable path. Interest rate spreads have increased in the wake of the euro crisis. The general government deficit needs to be reduced to restore fiscal sustainability. The windfall generated by the lower fiscal deficit last year should be used to frontload

Slovak Republic



Source: OECD Economic Outlook 91 database; OECD, Main Economic Indicators database.

StatLink http://dx.doi.org/10.1787/888932609000

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

	2008	2009	2010	2011	2012	2013
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	66.8	-4.9	4.2	3.3	2.6	3.0
Private consumption	38.2	0.2	-0.7	-0.4	0.3	1.1
Government consumption	11.7	6.1	1.1	-3.5	-0.7	-1.8
Gross fixed capital formation	16.6	-19.7	12.4	5.7	3.8	4.8
Final domestic demand	66.5	-3.7	2.2	0.4	0.9	1.4
Stockbuilding[1]	1.9	-3.5	1.8	-1.9	-1.1	0.1
Total domestic demand	68.4	-6.4	4.2	-1.5	-0.2	1.6
Exports of goods and services	55.8	-15.9	16.5	10.8	6.1	6.3
Imports of goods and services	57.4	-18.1	16.3	4.5	2.0	4.9
Net exports[1]	- 1.6	2.3	0.0	5.1	3.7	1.6
Memorandum items						
GDP deflator	_	-1.2	0.5	1.6	3.5	1.9
Harmonised index of consumer prices	_	0.9	0.7	4.1	3.2	2.3
Private consumption deflator	_	0.1	1.0	3.7	3.4	2.3
Unemployment rate	_	12.0	14.4	13.5	14.0	13.5
General government financial balance[2]	_	-8.0	-7.7	-4.8	-4.6	-2.9
General government gross debt[2]	_	40.4	47.1	46.8	52.1	54.2
General government debt, Maastricht definition[2]	_	35.6	41.1	43.3	48.6	50.6
Current account balance[2]	_	-2.6	-2.5	0.1	1.5	2.3

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods)*.

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.

Source: OECD Economic Outlook 91 database.

StatLink http://dx.doi.org/10.1787/888932610539

fiscal consolidation in 2012. The new government is rightly sticking to its plan of reducing the deficit to below 3% of GDP by 2013, but is expected to rely more on revenue increases than earlier planned.

The financial sector is under stress

The financial sector faces multiple objectives including absorbing non-performing loans, helping finance the cost of the crisis, adapting to stricter regulation, and financing the recovery. Reaching these objectives may induce some trade-offs. In particular, the increase in capital adequacy ratios for banks and new macro-prudential regulation, while improving the financial framework, may limit credit supply. Also, a bank levy reduces the overall profitability of the banking sector and may make it more difficult to raise new capital. Close co-operation with mother-bank supervisors is important to minimise the risk of a credit crunch.

The outlook is for strong output growth, but weak job creation

The economy is projected to benefit from the improving external environment and, in particular, from a firming outlook for the German economy. Efforts to restore competitiveness will weigh on wage growth, however, while capital deepening will raise productivity but create few new jobs. Unemployment will therefore remain high. Headline inflation will rise because of higher oil prices and the pass-through of past euro weakness.

Relocation is a downside risk

There is a risk that foreign investors come to the conclusion that the room for productivity increases and wage moderation is not sufficient to restore competitiveness. In this case, production might move to more cost-advantageous countries. An upside risk could come from a successful mobilisation of domestic drivers of growth, in particular the activation of the unemployed.

From:

OECD Economic Outlook, Volume 2012 Issue 1

Access the complete publication at:

https://doi.org/10.1787/eco_outlook-v2012-1-en

Please cite this chapter as:

OECD (2012), “Slovak Republic”, in *OECD Economic Outlook, Volume 2012 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2012-1-32-en