Slovak Republic

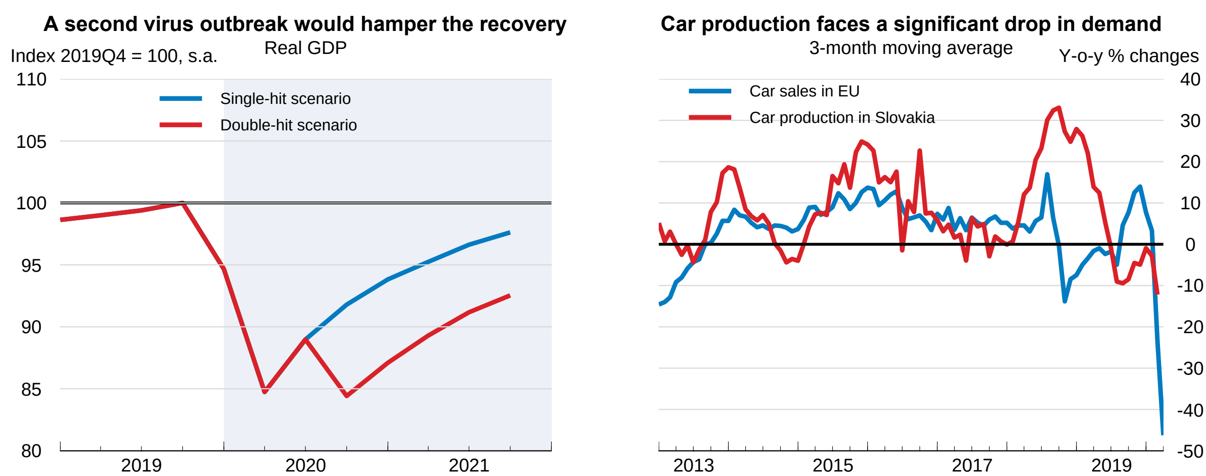
The economy will be hit hard by the current crisis, even if the country has so far successfully managed to contain the pandemic. Plummeting world trade and massive disruption to global value chains will hurt the export-dependent manufacturing sector. In case of a new outbreak later this year (the double-hit scenario), GDP will fall by more than 11% in 2020. GDP will contract by 9.3% if the current outbreak subsides and another wave is avoided (the single-hit scenario). The recovery will be hampered by heightened uncertainty and high unemployment.

The fiscal measures put in place will cushion the impact of the downturn to some extent. Various support programmes provide additional transfers to households, the self-employed and firms. However, effectively supporting people and the economy will require strengthening public employment services and simplifying claim procedures to ensure that benefits are paid without delay. Monitoring and assessing these measures is crucial as support will need to expand and adapt, if the economic costs of the current crisis turn out to be longer lasting. Although relatively low debt provides fiscal space to support the economy, a clear medium-term fiscal strategy should be formulated and communicated. In this regard, a pension reform would be needed to help ensure long-term fiscal sustainability.

The authorities have acted quickly to contain the pandemic

The spread of the COVID-19 pandemic has been limited in the Slovak Republic. The first COVID-19 case was reported on 6 March. The number of new infections stabilised relatively quickly and the number of hospitalised patients has remained low, helping the healthcare system to cope with the pandemic. The first death was reported only at the end of March and the number of deaths per population has remained relatively low.

Slovak Republic



Source: OECD Economic Outlook 107 database; OECD Main Economic Indicators (MEI) database; and National Bank of Slovakia.

StatLink https://doi.org/10.1787/888934139879

Slovak Republic: Demand, output and prices (double-hit scenario)

Slovak Republic: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	81.0	3.0	3.9	2.4	-11.1	2.1
Private consumption	44.6	4.5	4.1	2.1	-9.2	5.2
Government consumption	15.3	1.0	0.2	4.6	3.9	3.2
Gross fixed capital formation	17.0	3.5	2.6	6.8	-32.2	-7.2
Final domestic demand	77.0	3.5	3.0	3.6	-11.6	2.6
Stockbuilding[1]	1.7	-0.2	0.6	-0.3	-0.2	0.0
Total domestic demand	78.6	3.3	3.5	3.2	-11.5	2.6
Exports of goods and services	76.0	3.6	5.3	1.7	-19.0	2.4
Imports of goods and services	73.6	3.9	4.9	2.6	-19.5	3.0
Net exports[1]	2.4	-0.2	0.5	-0.7	0.3	-0.4
Memorandum items						
GDP deflator	_	1.2	2.0	2.6	1.6	1.3
Harmonised index of consumer prices	_	1.4	2.5	2.8	1.1	1.1
Harmonised index of core inflation[2]	_	1.4	2.0	2.0	1.3	1.1
Unemployment rate (% of labour force)	_	8.1	6.5	5.8	9.6	9.2
General government financial balance (% of GDP)	_	-1.0	-1.0	-1.3	-10.5	-8.1
General government gross debt (% of GDP)	_	65.7	63.6	63.4	78.4	84.7
General government debt, Maastricht definition (% of GDP)	_	51.3	49.5	48.0	63.1	69.3
Current account balance (% of GDP)	_	-1.9	-2.6	-2.9	-2.3	-3.5

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138625

The authorities moved quickly to introduce distancing measures, at a time when the country had only a few confirmed cases. A state of emergency was declared on 12 March, ordering the closure of all non-essential shops and banning mass events. Wearing masks became compulsory in public, and international borders were closed.

The economy is contracting at a fast pace

The containment measures coupled with widespread uncertainty have led to an abrupt decline in economic activity, with particularly acute effects on sectors that rely on social interactions, such as tourism, accommodation and restaurants. In April, year-on-year electricity consumption decreased by more than 10% and freight transport fell by more than 20%. Moreover, massive disruption to global value chains, a fall in demand and concerns over workers’ safety forced all four major automotive companies to temporarily suspend production for around one month. Car sales in the European Union, the main export market of the Slovak Republic, have plummeted. This has a significant effect on the economy as the automotive sector is the largest industry, accounting for almost half of the country's total industrial production.

Slovak Republic: Demand, output and prices (single-hit scenario)

Slovak Republic: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices EUR billion	Percentage changes, volume (2015 prices)				
GDP at market prices	81.0	3.0	3.9	2.4	-9.3	6.4
Private consumption	44.6	4.5	4.1	2.1	-7.3	8.3
Government consumption	15.3	1.0	0.2	4.6	3.9	2.9
Gross fixed capital formation	17.0	3.5	2.6	6.8	-28.9	7.3
Final domestic demand	77.0	3.5	3.0	3.6	-9.8	6.8
Stockbuilding[1]	1.7	-0.2	0.6	-0.3	-0.2	0.0
Total domestic demand	78.6	3.3	3.5	3.2	-9.7	6.7
Exports of goods and services	76.0	3.6	5.3	1.7	-15.7	13.9
Imports of goods and services	73.6	3.9	4.9	2.6	-16.3	14.3
Net exports[1]	2.4	-0.2	0.5	-0.7	0.4	-0.1
Memorandum items						
GDP deflator	_	1.2	2.0	2.6	1.6	1.1
Harmonised index of consumer prices	_	1.4	2.5	2.8	1.3	1.2
Harmonised index of core inflation[2]	_	1.4	2.0	2.0	1.4	1.3
Unemployment rate (% of labour force)	_	8.1	6.5	5.8	8.9	7.0
General government financial balance (% of GDP)	_	-1.0	-1.0	-1.3	-9.3	-6.2
General government gross debt (% of GDP)	_	65.7	63.6	63.4	76.2	78.5
General government debt, Maastricht definition (% of GDP)	_	51.3	49.5	48.0	60.8	63.1
Current account balance (% of GDP)	_	-1.9	-2.6	-2.9	-2.2	-3.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138644

Government support to the economy is significant

The government has announced a number of measures, amounting to 5.6% of GDP, including within-year tax and social contribution deferrals and loan guarantees, to mitigate the depth and length of the recession. A large part of the package aims at protecting jobs by maintaining existing employer-employee relationships. The government has been providing subsidies to the self-employed and for employees in companies that have recorded a significant drop in revenues. Other measures include a short-term work scheme, temporary reductions in employer social security contributions for companies that remain closed due to the pandemic and income support of workers who lose their jobs, including those in non-standard forms of employment. ECB measures will help to preserve bank lending and liquidity in the euro area. To further ease liquidity pressures, the government measures also include loan guarantees and temporary deferments of mortgage payments. The central bank has kept the counter-cyclical capital buffer at 1.5%, repealing its previous decision to increase it to 2%.

The recovery will start early, but will be slow

In both scenarios, economic activity is estimated to have picked up in May as a low infection rate has allowed the opening of the economy much sooner than expected. However, high uncertainty will weigh on consumption and investment decisions. In addition, the Slovak export-oriented economy will be further slowed by reorganisation of industrial supply chains and uncoordinated recovery in other countries. GDP is projected to fall 11.1% in the double-hit scenario, as a new COVID-19 outbreak later in the year heightens uncertainty and further reduces economic activity. In the single-hit scenario, GDP is projected to fall by more than 9%.Unemployment will increase steeply, but its rise will be mitigated to some extent by government support. General government debt (Maastricht definition) will increase to 63% of GDP in the single-hit scenario and to 69% of GDP in the double-hit scenario. The supply shock is likely to hold up prices of some items, but substantial slack in the economy should keep headline CPI inflation subdued throughout the projection period.

Support to households and companies should be deployed effectively

Keeping infection rates low as lockdown measures gradually ease will require strengthening the so-called Test-Trace-Treat strategy, which includes preparing procurement and logistics arrangements to scale up testing, as well as effective contact tracing with targeted quarantine. The government has rightly implemented immediate employment and social policy responses to address the negative consequences of the crisis. However, the substantial increase in the number of applications for different benefits poses significant challenges for public employment services, which can lead to delays in compensation and hamper programme effectiveness. Strengthening public employment services and streamlining procedures will be crucial to ensure timely payment of compensation as numerous firms and households face severe liquidity constraints. Close monitoring of implementation and regular assessment of programme design (including targeting and coverage) is key, as further policy responses may be required. Going forward, while a relatively low level of debt provides fiscal space, a pension reform is much needed to help contain rising age-related spending and improve medium and long-term fiscal sustainability.

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