# Slovak Republic

Economic growth is projected to slow to around 2½ per cent in 2020-21, as weaker external demand will weigh on export growth. Domestic demand will remain relatively strong, notably due to private consumption, which will be held up by a resilient labour market with historically low unemployment. Inflation will remain above 2% as the economy operates above its normal capacity.

The fiscal stance will be neutral in 2020-21. Nevertheless, containing public spending pressures will be important, given the absence of spare capacity and medium-term challenges posed by population ageing. A thorough reform of the public sector could increase efficiency and finance inclusiveness-friendly reforms in the area of Roma integration and education.

## The economy has slowed

Led by weakening exports, the economy has slowed markedly. The softening of foreign demand weighs on demand for goods in which the Slovak Republic specialises. Persisting uncertainty has been holding back investment. The labour market has remained strong, with a historically low unemployment rate and expanding wages supported by public wage increases. However, its effects on household consumption has been moderated by a significant increase in saving. The inflation rate has increased to 2.6% mainly due to higher food price inflation and continuous pressures on resources.

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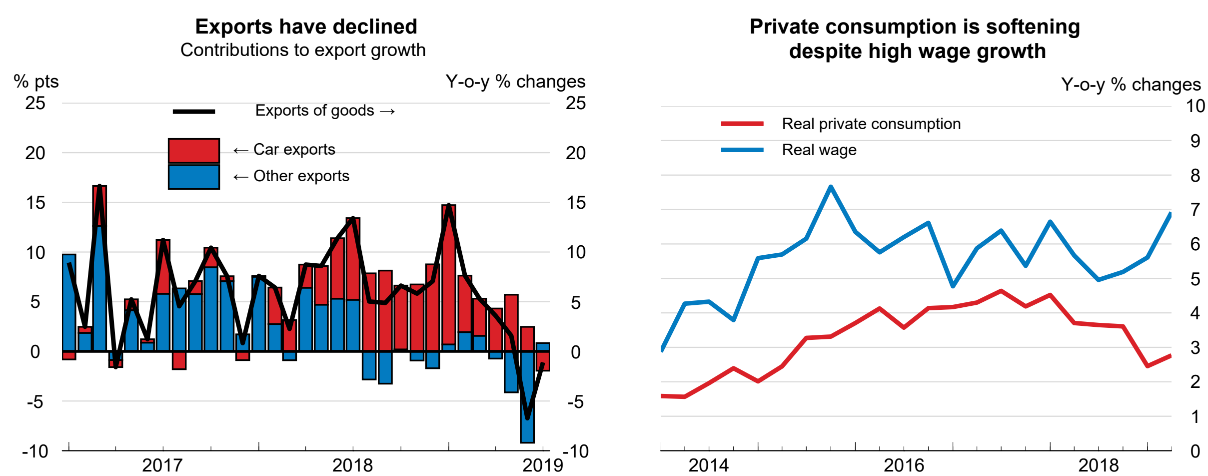


Source: OECD Economic Outlook 106 database; OECD National Accounts database; National Bank of Slovakia; and Statistical office of the Slovak Republic.

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## Slovak Republic: Demand, output and prices

| Slovak Republic | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| | Current prices EUR billion | Percentage changes, volume (2015 prices) | | | | |
| **GDP at market prices** | 81.0 | 3.0 | 4.0 | 2.5 | 2.2 | 2.6 |
| Private consumption | 44.6 | 4.3 | 3.9 | 2.5 | 2.7 | 2.9 |
| Government consumption | 15.3 | 1.0 | 0.2 | 2.9 | 2.7 | 2.3 |
| Gross fixed capital formation | 17.0 | 3.9 | 3.7 | 2.5 | 2.5 | 3.0 |
| Final domestic demand | 77.0 | 3.6 | 3.1 | 2.5 | 2.7 | 2.8 |
| Stockbuilding[1] | 1.7 | -0.2 | 0.5 | 0.2 | 0.0 | 0.0 |
| Total domestic demand | 78.6 | 3.3 | 3.6 | 2.7 | 2.6 | 2.7 |
| Exports of goods and services | 76.0 | 3.5 | 5.4 | 1.5 | 1.8 | 3.6 |
| Imports of goods and services | 73.6 | 3.9 | 5.0 | 1.7 | 2.3 | 3.7 |
| Net exports[1] | 2.4 | -0.2 | 0.5 | -0.1 | -0.4 | -0.1 |
| *Memorandum items* | | | | | | |
| GDP deflator | _ | 1.2 | 2.0 | 2.6 | 2.8 | 2.6 |
| Harmonised index of consumer prices | _ | 1.4 | 2.5 | 2.8 | 2.6 | 2.5 |
| Harmonised index of core inflation[2] | _ | 1.4 | 2.0 | 2.1 | 2.6 | 2.5 |
| Unemployment rate (% of labour force) | _ | 8.1 | 6.5 | 5.8 | 5.7 | 5.7 |
| Household saving ratio, net (% of disposable income) | _ | 2.5 | 2.6 | 4.0 | 4.4 | 4.4 |
| General government financial balance (% of GDP) | _ | -1.0 | -1.1 | -1.0 | -1.2 | -1.2 |
| General government gross debt (% of GDP) | _ | 65.7 | 63.6 | 62.5 | 61.7 | 61.0 |
| General government debt, Maastricht definition (% of GDP) | _ | 51.3 | 49.4 | 48.4 | 47.6 | 46.8 |
| Current account balance (% of GDP) | _ | -1.9 | -2.6 | -1.7 | -2.2 | -2.2 |

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 106 database.

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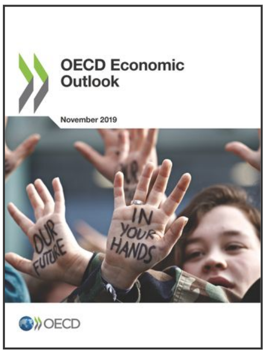
## The fiscal stance is set to be neutral

The budget deficit is assumed to remain broadly constant in the coming two years. However, containing public spending pressures will be important, given the absence of spare capacity and medium-term challenges posed by population ageing. Ageing-related costs will increase significantly, as the Slovak Republic has one of the fastest ageing populations in the OECD area and the new constitutional law has introduced a cap on the statutory pension at the age of 64. Nevertheless, if downside risks materialise and growth were to slow significantly, fiscal policy should stand ready to cushion the downturn.

Implementing the recommendations of broad-based spending reviews would help achieve budget efficiency and help to finance much needed structural reforms. Efficient public investment, particularly in education, training and innovation, should foster productivity and more inclusive growth. The decline in educational performance must be reversed, and more needs be done to improve the chances of children from poorer backgrounds, particularly the Roma. Better-trained and better–paid teachers are necessary to address these issues. Stepping up efforts to develop further high-quality childcare and pre-school facilities would also help increase the participation of women with young children in the labour market.

## Growth will slow in 2020

Growth will slow to 2¼ per cent in 2020 before recovering to around 2½ per cent in 2021. Private consumption will continue to grow at a robust pace due to the tight labour market and rising social transfers. Weak external demand and global uncertainty will continue to hold back exports and investment. Inflation is projected to remain slightly above 2% in the coming two years. Policy uncertainty regarding trade and a further slowdown in export markets, notably in Germany, remain the main negative risks to the outlook, as they would dent exports and investment even further. On the other hand, faster growth in private consumption is an upside risk, as wages could accelerate more than projected and the high saving rate could decline.

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