SLOVAKIA: Better growth prospects ahead

DORIS HANZL-WEISS

The forecast for Slovakia for the period 2014-2016 is quite positive. We expect the Slovak economy to grow by 2.4% in 2014, 3% in 2015 and 3.2% in 2016. All components of GDP should contribute to this hike in 2014, including net exports, gross capital formation and final consumption. The latter two categories should increasingly contribute to growth in the two consecutive years. This is based on the assumption that growth occurs in Slovakia's main trading partners, foremost Germany and the Czech Republic, and that the investment climate improves.

In 2012, Slovakia had experienced a successful year due to the expansion of car production and exports. Because of this base effect economic growth was lower in 2013 and reached about 0.9%. GDP growth continued to be driven by net exports, with exports rising by 3.7% in the first three quarters of 2013 and imports by 1.3% only. Exports to Slovakia's main markets – Germany and the Czech Republic, accounting for 35% of total exports – grew slightly. Exports to Poland, the UK and China grew more vividly. Overall, the trade surplus reached an all-time high that year (EUR 4.4 billion or 6% of GDP). Household consumption remained flat due to a still high unemployment rate and marginally rising wages. Final consumption of the government increased by 1%. Gross capital formation as well as gross fixed capital formation showed a substantial decline of nearly 9% and 8% respectively.

Looking at the branch structure, industrial production rose by 5% in 2013. Again, the important transport equipment industry, which had spurred growth in 2012, was the main growth driver, followed by the electrical equipment industry. Also basic metals and fabricated metal products, rubber and non-metallic mineral products, and textiles and wearing apparels contributed to growth in industry. Construction declined in 2013 for the fifth year in a row. In November, however, construction production turned positive for the first time since December 2011. Value added of the services sector slightly increased during the first three quarters of 2013.

Concerning the labour market, GDP growth was too small to have a positive effect in 2013 – employment remained constant, the unemployment rate (LFS) rose slightly and thus remained on a high level. Real wages increased by 1% in 2013. As of January 2014, the minimum monthly wage increased by 4.2% to EUR 352. Regional disparities are pronounced and reflected in unemployment as well as wage figures: Median wages were highest in the Bratislava region in 2012 (125% of the Slovak average), around the average in the regions of Trnava, Žilina and Košice and lowest in the Prešov region in the East (87%). This is because large foreign-owned car companies (VW, Peugeot-Citroën, KIA) are located in the West, while there is less FDI in the East (except, for instance, U.S. Steel in Košice).

In 2013, the budget deficit is expected to remain slightly below the threshold of 3% of GDP, thus allowing for the abrogation of the EU's Excessive Deficit Procedure. The debt level has reached about 54% of GDP – up from some 52% in 2012 – thus surpassing the second threshold of the country's Fiscal Responsibility Act ('debt brake law'). As a consequence, wages of government members are frozen in the 2014 budget. This year's fiscal discipline is eased, deficit targets fluctuate between 2.64% (most recent figure from December 2013) and 2.83%. The 2014 budget consolidation is mainly based on the revenue side and one-off measures, including the extended bank levy or the levy on regulated industries introduced in September 2012. The corporate income tax rate (increased from 19% to 23% as of January 2013) is being cut to 22%, instead a so-called 'tax licence' is introduced. On the expenditure side, salaries for public employees increase by 2% this year, teachers get a pay rise of 5%. Also doctors receive a higher salary, while nurses miss out despite their protests. Thus, the debt level will climb to close to 57% of GDP this year, exceeding the next threshold of the Fiscal Responsibility Act: at 55%, state budget expenditure has to be reduced by 3% (surpassing 57%, the general government budget has to be balanced or in surplus). The deficit targets for 2015 and 2016 are at -2.6% and -1.5%; however, considerable consolidation efforts are needed in order to reach these objectives. Thus, the space of manoeuvre is narrowing conspicuously because of the debt to GDP level coming closer to the 60% Maastricht limit. Public investment projects continue targeting highway construction, including that to Košice. In March 2013 five highway tenders were announced worth EUR 1.2 billion.

Looking at investment in 2013, the Slovak Investment Agency (SARIO) reported some 50 unfinished investment projects worth EUR 1.4 million and possible job creation of 11,000. The main areas were: production of tires, automobile components, construction of shared services centres, metal processing, and manufacturing of electronic products, machinery, sanitary products and plastic products.[1]

Over the years, the foreign-owned car industry has been a main growth driver in Slovakia and companies continue to invest in modernisation or new technology (hybrid electric car). As 2012 was a very successful year for automobile production in Slovakia – car production increased by an enormous 45% due to the launch of new models and the introduction of a third shift by all three main car manufacturers – 2013 figures were lower because of the base effect and adverse conditions on the West European car markets. Nonetheless, car production in Slovakia is reported to have again increased in 2013, by almost 6%. Kia produced 7% more cars in 2013, PSA Peugeot even 15.5% more and VW increased production by nearly 5% in the first half of 2013. Overall, more than 980,000 passenger cars were manufactured in 2013. For this year, the number of cars produced may slightly decline due to a change in models.

Looking at another major investment, the completion of the third and fourth units of the nuclear power plant in Mochovce will cost EUR 1 billion more than expected (total costs of EUR 3.8 billion) due to meeting increased security standards following the accident in Fukushima. Construction started in 2008 and should finish at the end of 2014 and 2015 respectively. The main shareholders of Slovenské Elektrárne, the owner of the power plant, are Italy's Enel (66%) and the Slovak National Property Fund (34%). Companies from the Czech Republic, Russia, Slovakia and Italy are involved in the construction.

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[1] SARIO Newsletter January 2014.

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Table 1 / Slovakia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	5386.4	5391.4	5398.4	5407.6	5412.0	5420	5430	5440
Gross domestic product, EUR mn, nom.	62794	65897	68974	71096	72800	76000	80600	85700
annual change in % (real)	-4.9	4.4	3.0	1.8	0.9	2.4	3.0	3.2
GDP/capita (EUR at exchange rate)	11600	12100	12800	13200	13500	14000	14800	15800
GDP/capita (EUR at PPP)	17100	18300	18900	19400	19900	.	.	.
Consumption of households, EUR mn, nom.	37637	37757	39025	40307	40900	.	.	.
annual change in % (real)	0.1	-0.7	-0.5	-0.2	0.0	1.0	3.0	3.5
Gross fixed capital form., EUR mn, nom.	13025	13851	15957	14298	13490	.	.	.
annual change in % (real)	-19.7	6.5	14.3	-10.5	-7.0	3.0	4.0	4.5
Gross industrial production								
annual change in % (real)	-15.5	8.2	5.3	7.9	5.1	5.0	5.0	4.0
Gross agricultural production								
annual change in % (real)	-12.3	-8.2	8.7	-5.7	2.0	.	.	.
Construction industry								
annual change in % (real)	-11.3	-4.6	-1.8	-12.6	-5.2	.	.	.
Employed persons, LFS, th, average 3)	2366.3	2317.5	2351.4	2329.0	2330.0	2350	2390	2430
annual change in % 3)	-2.8	-2.1	1.5	0.6	0.0	1.0	1.5	1.5
Unemployed persons, LFS, th, average 3)	323.5	389.2	368.3	378.0	392.0	.	.	.
Unemployment rate, LFS, in %, average 3)	12.0	14.4	13.5	14.0	14.4	14.0	13.0	12.0
Reg. unemployment rate, in %, end of period	12.7	12.5	13.6	14.4	13.5	13.0	12.0	11.0
Average monthly gross wages, EUR	745	769	786	805	824	.	.	.
annual change in % (real, gross)	1.4	2.2	-1.6	-1.2	1.0	.	.	.
Consumer prices (HICP), % p.a.	0.9	0.7	4.1	3.7	1.5	2.0	3.0	3.0
Producer prices in industry, % p.a.	-6.9	0.4	4.5	1.9	-1.0	1.0	2.0	2.0
General governm.budget, EU-def., % of GDP								
Revenues	33.5	32.3	33.3	33.2	32.9	34.0	31.6	31.2
Expenditures	41.6	40.0	38.4	37.8	35.9	36.8	34.8	33.8
Net lending (+) / net borrowing (-)	-8.0	-7.7	-5.1	-4.5	-3.0	-2.8	-3.2	-2.6
Public debt, EU-def., % of GDP	35.6	41.0	43.4	52.4	54.3	56.8	56.4	55.7
Central bank policy rate, % p.a., end of period 4)	1.00	1.00	1.00	0.75	0.25	.	.	.
Current account, EUR mn	-1627	-2454	-2597	1593	2350	2265	2000	1800
Current account, % of GDP	-2.6	-3.7	-3.8	2.2	3.2	3.0	2.5	2.1
Exports of goods, BOP, EUR mn	39721	48273	56783	62782	65100	68000	71000	74000
annual change in %	-19.8	21.5	17.6	10.6	3.7	5.0	4.0	4.0
Imports of goods, BOP, EUR mn	38775	47494	55768	59196	60700	64000	67000	71000
annual change in %	-22.9	22.5	17.4	6.1	2.5	5.0	5.0	5.5
Exports of services, BOP, EUR mn	4342	4396	4749	5570	5570	5800	6100	6500
annual change in %	-27.6	1.2	8.0	17.3	0.0	5.0	5.0	7.0
Imports of services, BOP, EUR mn	5367	5140	5121	5263	5320	5700	6100	6500
annual change in %	-17.3	-4.2	-0.4	2.8	1.1	7.0	7.0	7.0
FDI inflow, EUR mn	-4	1336	2511	2199	200	.	.	.
FDI outflow, EUR mn	652	715	513	-58	80	.	.	.
Gross reserves of NB excl. gold, EUR mn	481	541	659	620	676	.	.	.
Gross external debt, EUR mn	45338	49262	52934	53755	62000	.	.	.
Gross external debt, % of GDP	72.2	74.8	76.7	75.6	85.2	.	.	.
Purchasing power parity EUR/EUR	0.6801	0.6691	0.6760	0.6775	0.6770	.	.	.

1) Preliminary and wiiw estimates. - 2) According to census May 2011. - 3) From 2012 data according to census May 2011. - 4) Official refinancing operation rates for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.