

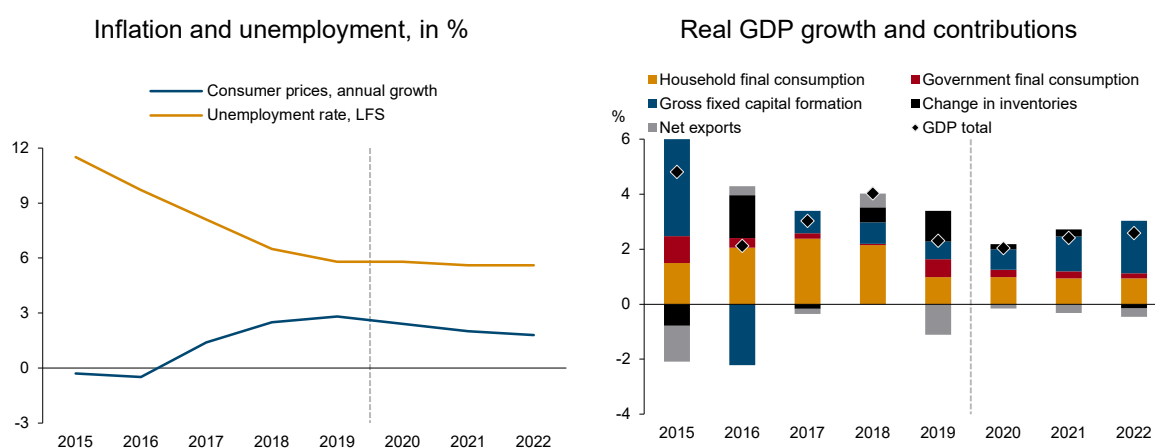


SLOVAKIA: Low and vulnerable growth

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Slovakia's growth halved in 2019, reaching only 2.4%. In 2020, it is forecast to increase by 2%, and by around 2.5% in the years thereafter. Overall, growth is backed by stable household consumption, while the effect of net exports is unclear. Domestic and external risks are rising.

Figure 6.20 / Slovakia: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Growth halved in 2019 compared to 2018. While Slovak GDP grew by 4% in 2018, it increased by only 2.4% in 2019. In fact, growth slowed considerably during 2019 – from 3.8% in the first quarter to 2.2% in the second quarter and to just 1.3% in the third quarter. Surprisingly, the first estimate for the last quarter again shows an upward trend of 2.1%. Positive contributions came from household consumption, government consumption and investment: household consumption rose by 2.1% during the first three quarters, and government consumption by 3.7%. Gross capital formation saw an increase of 6.4%, thanks to gross fixed capital formation (up 3.6%) and inventory build-up. However, construction declined by 3.3% in 2019 (problems with the building of motorways). Net exports had a negative impact on growth in 2019: while exports of services rose by 2.5% over the first three quarters, imports grew by 3.7%.

The labour market is still in good shape. While the labour market continued to enjoy favourable conditions, it failed to spur household consumption accordingly. Rather the rate of savings increased further. Over the first three quarters, employment expanded by nearly 1%. The unemployment rate seems to have reached the lowest level possible, and now stands at 5.8% (LFS). The labour shortage is becoming less acute, due to employers' lower expectations of employment growth. Still, one has to keep in mind the large regional disparities between the west of Slovakia (where there is nearly full employment) and the eastern and southern parts, where there is higher unemployment, fewer jobs and less FDI.

Rising unit labour costs might deter future investment. During the first three quarters of 2019, real wages rose by 5.4%. This was a pronounced increase compared to the last five years, when real wages grew at between 3% and 4% (also because of deflation, whereas inflation reached 2.8% in 2019). This movement was due on the one hand to administrative measures (surcharges for night, holiday and weekend work) and on the other hand to a shortage of labour. In January 2020, the minimum wage increased further to EUR 580 (up EUR 60): this is the biggest increase for 17 years. The minimum wage will be calculated differently from 2021 onwards: it will be at least 60% of the average gross wage over the previous two years.

Industrial production virtually stagnated in 2019. Slovakia's industrial production reported negligible growth of just 0.4%. From June, the country's main industry – the automotive sector – lost its position as the major growth driver (also due to the base effect), and contributed only a slightly positive figure over the whole year (2% increase). Overall, car production numbers in 2019 increased by 7,000 units to more than 1.1 million cars, allowing Slovakia to retain its title as the 'world's largest per capita car producer'. Two of the four car manufacturers published growing car production figures: PSA Peugeot-Citroën in Trnava grew by 5.4% (371,152 cars) and Kia Motors Slovakia in Žilina expanded by 4% (344,000 cars). Volkswagen Slovakia in Bratislava, the country's largest producer in 2018 (408,208) and the new Jaguar Land Rover plant (started in October 2018) have not revealed their figures. While five industries supported manufacturing growth in 2019 (including electrical equipment +21.6%; machinery and equipment +12%), eight industries declined during the year. Worst affected was the basic metals and fabricated metal products sector (-13%). US Steel Košice faced a difficult year in 2019, reporting losses and employment layoff plans, and had to defer investments.

The external sector had a negative impact on growth in 2019, due to greater import dynamics. During 2019, goods exports from Slovakia increased by 1.9%, while goods imports rose by 3.5%. The main products traded – machinery and transport equipment (SITC 7) – rose quite dynamically, by 5.2%, but so did imports (6.7%). Machinery and transport equipment accounted for about 63% of goods exported and 51% of goods imported. While the export dynamics was higher for non-EU countries, import growth from the EU28 was more pronounced than from abroad. Looking at Slovakia's main trading partners of Germany and the Czech Republic, exports to Germany increased by 2%, but exports to the Czech Republic were down 4.4%. On the other hand, imports from Germany fell by almost 7%, while from the Czech Republic they were up by 2%.

Parliamentary elections are taking place on 29 February, and these have had an effect on the budget. The plans for a balanced budget in 2019 have again been postponed. The revised plans envisaged a budget deficit of 0.68% for 2019, 0.49% for 2020 and a balanced budget for 2021. As parliamentary elections are imminent, even the figures will not hold. On the expenditure side, several social measures have been adopted (e.g. changes to minimum pensions, higher child allowance, lower VAT on certain food items). Meanwhile, the bank levy has not been terminated, as envisaged, but has instead been doubled and prolonged indefinitely. For the first time, a cap on 2020 expenditure from the general government budget was introduced in January 2020. Up to 25 parties will participate in the parliamentary elections on 29 February; of these, probably nine will cross the 5% threshold to get into parliament. The rising share of the far-right party L'SNS causes concern. It will be very difficult to form a government.

Vulnerabilities in the housing sector are building up. The elevated household credit growth of recent years (around 13% yearly between 2014 and 2016) declined during 2019 (from 11% in January to 8% in November), but was still at a high level, leading to growing household indebtedness (42.3% of GDP in 2018). Residential property prices accelerated further in 2019. While vulnerabilities were built up in the residential real estate sector, the European System Risk Board (ESRB) did not issue a warning in September 2019, as it considered the national bank's macroprudential policies to be adequate. Credit to corporations fluctuated strongly during the year, but also showed a decelerating trend (from 8% in January to 5% in November).

Future growth is affected by growing domestic and external risks. wiiw growth forecasts for Slovakia have been revised downwards for the coming years. Slovak GDP is expected to grow by 2% this year and by around 2.5% in the coming years. Household consumption will form the backbone of the country's growth in the next few years, but will provide only for a stable expansionary impulse. A stronger impulse is expected from the expansion of investment towards the end of the EU funding cycle (2021/2022). The effect of net exports remains unclear: while export growth remains dependent on external factors, imports also grew dynamically in 2019. Thus, the trend towards a greater import content of exports will be decisive in coming years. Overall, several uncertainties lie ahead: on the domestic side, there is a heavy dependence on the automotive industry, which faces several challenges (dependence on decisions from headquarters, the move towards electric vehicles), low R&D capabilities and rising unit labour costs. On the external side, there are growing risks that affect especially the Slovak automotive industry (difficulties in the world automotive industry, Trump's threats of tariffs on European cars, the Chinese slowdown due to the coronavirus). The outcome of the parliamentary elections may add to the general uncertainty, but should not have too much effect on the economy.

Table 6.20 / Slovakia: Selected economic indicators

	2015	2016	2017	2018	2019 ¹⁾	2020 Forecast	2021 Forecast	2022
Population, th pers., average	5,424	5,431	5,439	5,447	5,450	5,455	5,460	5,460
Gross domestic product, EUR mn, nom.	79,758	81,038	84,517	89,721	94,400	98,500	102,900	107,500
annual change in % (real)	4.8	2.1	3.0	4.0	2.3	2.0	2.4	2.6
GDP/capita (EUR at PPP)	22,500	21,200	21,500	22,600	23,500	.	.	.
Consumption of households, EUR mn, nom.	42,416	43,904	46,473	49,395	51,690	.	.	.
annual change in % (real)	2.8	3.9	4.4	3.9	1.8	1.8	1.7	1.7
Gross fixed capital form., EUR mn, nom.	18,919	17,019	17,965	19,050	20,170	.	.	.
annual change in % (real)	21.6	-9.3	3.9	3.7	3.0	3.5	6.0	9.0
Gross industrial production								
annual change in % (real)	6.7	4.7	3.2	4.4	0.4	2.0	2.0	3.0
Gross agricultural production								
annual change in % (real)	-3.2	13.9	-6.1	-2.4	-3.5	.	.	.
Construction industry								
annual change in % (real)	18.1	-10.7	3.0	8.5	-3.4	.	.	.
Employed persons, LFS, th, average	2,424	2,492	2,531	2,567	2,590	2600	2600	2600
annual change in %	2.6	2.8	1.5	1.4	0.9	0.3	0.0	0.0
Unemployed persons, LFS, th, average	314	267	224	180	160	160	150	150
Unemployment rate, LFS, in %, average	11.5	9.7	8.1	6.5	5.8	5.8	5.6	5.6
Reg. unemployment rate, in %, eop	10.6	8.8	5.9	5.0	4.9	.	.	.
Average monthly gross wages, EUR	883	912	954	1,013	1,090	1160	1220	1280
annual change in % (real, gross)	3.2	3.8	3.3	3.6	5.1	3.8	3.2	3.0
Consumer prices (HICP), % p.a.	-0.3	-0.5	1.4	2.5	2.8	2.4	2.0	1.8
Producer prices in industry, % p.a.	-2.9	-3.9	2.5	2.3	1.9	2.5	3.0	3.0
General governm.budget, EU-def., % of GDP								
Revenues	43.1	40.2	40.6	40.8	41.2	41.6	41.6	41.5
Expenditures	45.8	42.7	41.5	41.8	42.4	43.2	43.2	42.9
Net lending (+) / net borrowing (-)	-2.7	-2.5	-1.0	-1.1	-1.2	-1.6	-1.6	-1.4
General gov.gross debt, EU def., % of GDP	51.9	52.0	51.3	49.4	48.2	47.8	47.5	47.2
Stock of loans of non-fin.private sector, % p.a.	9.7	9.3	9.9	9.8	6.6	.	.	.
Non-performing loans (NPL), in %, eop	4.8	4.4	3.6	3.1	2.8	.	.	.
Central bank policy rate, % p.a., eop ²⁾	0.05	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR mn	-1,669	-2,221	-1,618	-2,371	-2,774	-3,200	-3,000	-2,900
Current account, % of GDP	-2.1	-2.7	-1.9	-2.6	-2.9	-3.2	-2.9	-2.7
Exports of goods, BOP, EUR mn	64,577	66,686	70,510	75,698	78,073	80,300	83,100	86,400
annual change in %	3.2	3.3	5.7	7.4	3.1	2.8	3.5	4.0
Imports of goods, BOP, EUR mn	63,779	65,432	69,913	75,919	78,805	81,600	84,600	88,200
annual change in %	6.6	2.6	6.8	8.6	3.8	3.5	3.7	4.3
Exports of services, BOP, EUR mn	7,324	8,350	9,339	10,209	10,683	11,200	12,000	13,200
annual change in %	6.3	14.0	11.8	9.3	4.6	5.0	7.0	10.0
Imports of services, BOP, EUR mn	7,196	7,967	8,457	9,284	9,665	10,100	10,500	11,300
annual change in %	7.2	10.7	6.1	9.8	4.1	5.0	4.0	8.0
FDI liabilities, EUR mn	1,357	4,326	3,749	2,158	2,143	1,000	.	.
FDI assets, EUR mn	1,266	3,684	1,367	1,354	447	500	.	.
Gross reserves of NB excl. gold, EUR mn	1,648	1,624	1,609	3,426	5,002	.	.	.
Gross external debt, EUR mn	67,398	74,917	94,188	101,914	105,000	110,000	110,000	115,000
Gross external debt, % of GDP	84.5	92.4	111.4	113.6	111.2	111.7	106.9	107.0

1) Preliminary and wiiw estimates. - 2) Official refinancing operation rates for euro area (ECB).

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