

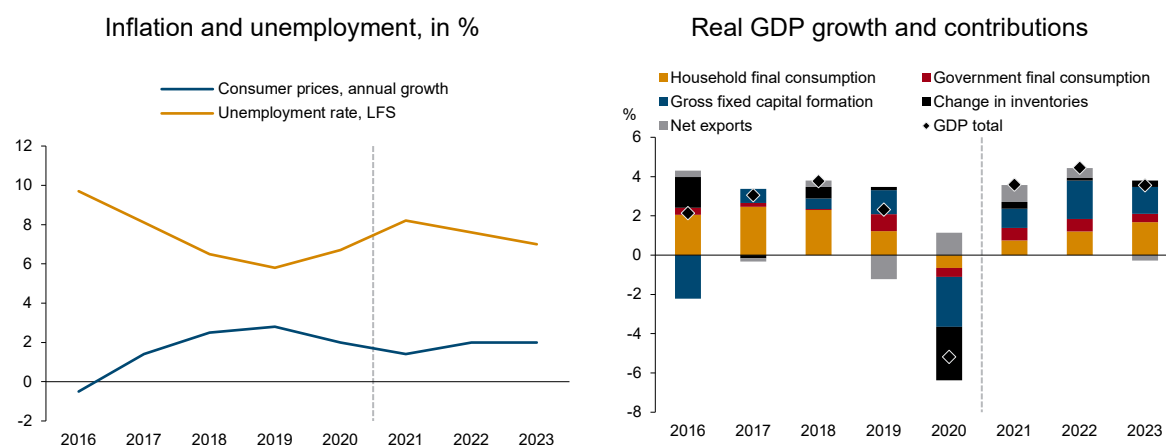


SLOVAKIA: Uncertainties prevail

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Slovakia's GDP dropped by 5.2% in 2020. This year the economy is expected to recover by 3.6%; in the following years the inflow of EU funds should foster gross fixed capital formation. However, the pandemic plus internal and external uncertainties pose several downside risks.

Figure 4.20 / Slovakia: Main macroeconomic indicators



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

The COVID-19 pandemic hit Slovakia in 2020, cutting GDP by 5.2%. The decline was less than expected but still constituted a major decline for the economy. While GDP fell markedly in the second quarter (-12.1%) due to the hard lockdown in March, it recovered during the second half of 2020 and experienced only smaller declines in the third and fourth quarters (-2.4% and -2.7%). This was due to household consumption being less affected than in other EU countries (it even grew in the third quarter), as well as rising exports towards the end of the year. Overall, household consumption decreased by 1.2% during 2020, while the savings rate rose only modestly. Gross fixed capital formation experienced a steep slump of 11.9%, and gross capital formation fell by 22.4%. In fact, construction was the hardest hit sector within the economy (value added fell by more than 20%). Net exports showed a positive contribution to growth: while exports of goods and services decreased by 7.8%, imports declined by 8.5%.

The automotive industry is both an engine of growth and matter of concern for the future.

Industry's good overall performance by the end of the year could not make up for the huge drop witnessed during the first lockdown and the closure of automotive plants in March. Over the whole year 2020, industry declined by 9.1% (and was thus the second most affected sector in the economy). Due to its size, the transport equipment sector contributed most to this decline, followed by machinery & equipment, other manufacturing & repair, and rubber & plastic & other non-metallic mineral products. Only two sectors, chemicals & chemical products and coke & refined petroleum products, actually grew

in 2020. In the first month of 2021 industry declined by 4.7% and transport equipment by 15%, but this is no reason for concern due to the strong base effect of last January. Production of passenger cars by the four large car manufacturers in Slovakia - Volkswagen Slovakia, Stellantis (previously PSA Peugeot-Citroen), KIA Motors Slovakia, and Jaguar Land Rover – dropped by 11% in 2020 to 985,000 cars and thus again fell below the 1 million threshold first reached in 2015. Current challenges - not only for the Slovak automotive industry- include disturbed trade due to Germany's border closures with Czechia and Austria, and a shortage of semiconductors caused by incorrect forecasting of future demand – the latter having already affected the company Stellantis in Slovakia. The move towards electric car production is rather slow and thus matter of concern: Recently Stellantis launched production of the electric Peugeot 208 and Kia began producing a diesel mild hybrid car. At the end of 2020 the Volkswagen group announced new investment plans for Volkswagen Slovakia of EUR 1bn for five years and production of two new models in 2023 but with conventional engines (combustion engines but with the possibility of a plug-in hybrid electric version).

The labour market was only modestly affected in 2020, and retail trade was down due to pandemic measures in January. The COVID-19 pandemic hit the labour market in 2020 but the deterioration was softened by governmental measures (Kurzarbeit). Employment declined by 2% during the year. Unemployment, which stood at its lowest level ever in 2019 (at 5.8%), climbed only slowly to 6.7%. While real wages fell during the first half of 2020, growth accelerated during the second half (2.7% in Q1 and 4.2% in Q3) and real wages finally increased by 2% for the whole year. Retail trade was affected negatively mostly during the first lock-down in March but recovered over the summer months, and thus declined by only 1.1% during 2020. The savings rate thus rose only slightly. The first month of 2021, however, saw retail trade plunge by 17%, a decline not even witnessed during the first lockdown.

Developments in the external sector show a positive trend. The strong decline of goods exports that occurred during the lockdown in March was followed by a swift recovery during the summer months and towards the end of the year. Overall, however, goods exports declined by 6% in 2020, whereby exports to Slovakia's main export partners Germany (18% of all exports) and Czechia (10% of all exports) fell by 6% and 10% respectively. Exports outside the EU, towards the US and China, increased by 13% and 21% on the other hand. Negative and then positive trends in automotive exports shaped these developments as machinery and transport equipment (SITC7) represent two thirds of exports and half of goods imports. Goods imports declined by 8% during 2020, while imports from Slovakia's main trading partner Germany (22% of all imports) increased by 1.6%, and those from Czechia (11% of all imports) declined by about 12%. The first data for January 2021 are quite good and show a slight decrease in exports (-0.6%), with exports from the most important sector of machinery and transport growing by 3.4%, while imports fell by 3.6% in that month.

A coalition crisis after one year in office brings additional instability. Overall, the COVID-19 pandemic has shifted the government deficit and debt level upwards in 2020, due to less revenue and increased expenditures, including pandemic aid measures. This amounted to EUR 4.6bn or 5.1% of GDP in 2020, not all of it however affecting the budget. For 2020, the government deficit is forecast to reach about 9%, with government debt to GDP at about 62% (up from 48% in 2019), but still no cause for concern. At the beginning of March a coalition crisis emerged among the four-party government headed by Igor Matovič, increasing uncertainty at a time when clear measures and regulations are needed. Also, Slovakia's recovery plan, implementing the EU's Recovery and Resilience Facility for Slovakia, is now at inter-departmental review and should be sent to Brussels by April 30. It has five

priority areas adding up to a sum of EUR 6bn: green economy (about EUR 2.17bn), healthcare (EUR 1.45bn), effective public administration (EUR 1.04bn), education (EUR 80m) and science, research and development (EUR 700m). This opportunity to move the Slovak economy towards a greener and more digitalised economy should not be missed or delayed, but this might now be at stake.

The pandemic situation worsened in the first three months of 2021. Slovakia was less seriously affected during the first wave of the pandemic in 2020 as measured by cases and death rates. At the end of October 2020 Slovakia was the first country to conduct mass testing and thus circumvented a lockdown. Nevertheless, the pandemic situation deteriorated during the first three months of 2021 with high numbers of cases and deaths. On March 25, 2021 there were 1,654 new cases and 52 deaths in Slovakia. With a death rate of 170 per 100,000 population, Slovakia ranks thirteenth among the most affected countries (in fact Czechia is in third place and Hungary in fourth).³⁰ Due to the lack of doctors the country had to call for international help. The vaccination rollout has been slow. Measures were tightened accordingly and non-essential shops have been closed since the start of the year, a regional alert system was introduced, and aid measures partly extended.

Future growth subject to high uncertainty. Wiiw growth forecasts for Slovakia have been revised downwards for the coming years. Slovak GDP is expected to grow by 3.6% this year, 4.4% in 2022 and about 3.5% in 2023. This year's forecast rests on a strong base effect, a gradual reopening of the economy in spring and the assumption of relatively good export performance by the automotive industry. Next year's surge in GDP results from an extra impulse of gross fixed capital formation due to the EU's budgeting period 2014-2020 coming to an end, as well as from the distribution of funds resulting from the recovery plan. However, several uncertainties are ahead and pose a number of downward risks: foremost the evolution of the pandemic, its mutations and the role of vaccination. Internal risks such as the revival of household consumption, and external risks including uncertainty about the pace of export recovery, should be added to this.

³⁰ <https://www.worldometers.info/coronavirus/> data as of 25 March 2021.

Table 4.20 / Slovakia: Selected economic indicators

	2017	2018	2019	2020 ¹⁾	2021	2022	2023
					Forecast		
Population, th pers., average	5,439	5,447	5,454	5,459	5,465	5,470	5,475
Gross domestic product, EUR m, nom.	84,532	89,506	93,865	91,105	95,700	102,000	107,700
annual change in % (real)	3.0	3.8	2.3	-5.2	3.6	4.4	3.5
GDP/capita (EUR at PPP)	20,670	21,400	21,860	21,110	.	.	.
Consumption of households, EUR m, nom.	46,535	49,590	52,052	52,530	.	.	.
annual change in % (real)	4.5	4.2	2.2	-1.2	1.3	2.1	2.9
Gross fixed capital form., EUR m, nom.	17,889	18,765	20,090	17,827	.	.	.
annual change in % (real)	3.5	2.6	5.8	-11.9	5.0	10.0	7.0
Gross industrial production							
annual change in % (real)	3.2	4.4	0.4	-9.0	7.0	5.0	5.0
Gross agricultural production							
annual change in % (real)	-6.1	-2.4	-4.2	0.0	.	.	.
Construction industry							
annual change in % (real)	3.0	8.5	-3.6	-11.1	.	.	.
Employed persons, LFS, th, average	2,531	2,567	2,584	2,531	2510	2540	2570
annual change in %	1.5	1.4	0.7	-2.0	-1.0	1.0	1.0
Unemployed persons, LFS, th, average	224	180	158	181	220	210	190
Unemployment rate, LFS, in %, average	8.1	6.5	5.8	6.7	8.2	7.6	7.0
Reg. unemployment rate, in %, eop	5.9	5.0	4.9	7.6	.	.	.
Average monthly gross wages, EUR	954	1,013	1,092	1,133	1170	1220	1290
annual change in % (real, gross)	3.3	3.6	5.0	1.9	1.5	2.5	3.3
Consumer prices (HICP), % p.a.	1.4	2.5	2.8	2.0	1.4	2.0	2.0
Producer prices in industry, % p.a.	2.5	2.3	1.9	-0.6	1.0	1.7	2.0
General governm.budget, EU-def., % of GDP							
Revenues	40.4	40.7	41.4	40.7	40.4	40.9	41.0
Expenditures	41.4	41.7	42.7	49.7	47.5	47.0	47.0
Net lending (+) / net borrowing (-)	-0.9	-1.0	-1.4	-9.0	-7.1	-6.1	-6.0
General gov.gross debt, EU def., % of GDP	51.7	49.9	48.5	61.7	62.5	63.6	65.0
Stock of loans of non-fin.private sector, % p.a.	9.9	9.8	6.6	5.0	.	.	.
Non-performing loans (NPL), in %, eop	3.6	3.1	2.8	2.4	.	.	.
Central bank policy rate, % p.a., eop ²⁾	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR m	-1,618	-1,973	-2,547	-307	-200	-100	-500
Current account, % of GDP	-1.9	-2.2	-2.7	-0.3	-0.2	-0.1	-0.5
Exports of goods, BOP, EUR m	70,510	75,142	75,657	69,737	75,200	79,700	83,300
annual change in %	5.7	6.6	0.7	-7.8	7.9	6.0	4.5
Imports of goods, BOP, EUR m	69,913	75,381	76,636	69,122	74,300	78,400	82,600
annual change in %	6.8	7.8	1.7	-9.8	7.5	5.5	5.3
Exports of services, BOP, EUR m	9,339	10,228	11,009	8,855	9,600	10,200	10,800
annual change in %	11.8	9.5	7.6	-19.6	8.0	6.0	6.0
Imports of services, BOP, EUR m	8,457	9,300	9,783	7,762	8,200	8,600	9,000
annual change in %	6.1	10.0	5.2	-20.7	6.0	5.0	5.0
FDI liabilities, EUR m	3,749	1,906	2,067	496	.	.	.
FDI assets, EUR m	1,367	760	16	2,439	.	.	.
Gross reserves of CB excl. gold, EUR m	1,609	3,426	5,002	6,050	.	.	.
Gross external debt, EUR m	91,574	102,701	105,517	114,000	117,000	120,000	122,000
Gross external debt, % of GDP	108.3	114.7	112.4	125.1	122.3	117.6	113.3

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.