# Slovakia

*Country note, July 2018*

## Key messages:

- **Labor market pulls tighter while new production capacities expected to accelerate GDP**
- **Fiscal deficit in 2018 may near 1.05% of GDP if no additional measures are taken by the government**
- **Government maintains a target for achieving a balanced budget in 2020; positive effects of favorable economic developments are used to raise expenditures rather than to speed up consolidation**
- **Gross debt expected by government to leave the first sanction zone of debt brake in 2019**

## Macroeconomic outlook

The GDP growth rate is expected to accelerate from 3.4% to values above 4% in 2018 and 2019, mainly through increases in investment and resurgence of exports with new production capacities. The labor market is slowly heading towards its maximum, showing slower decrease of unemployed, higher fluctuation between jobs, faster growth of wages, and thus accelerating inflation. Overheated market raises domestic risks of labor supply constraints and concerns about productivity, while main foreign risks lie in emerging global trade barriers.

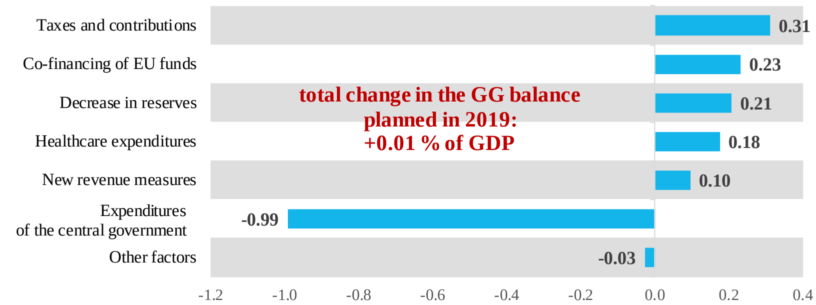
## Short-term fiscal outlook

The government estimates the general government (GG) deficit in 2018 at the value of 0.80% of GDP, a minor improvement relative to the budgeted value of 0.83% of GDP. CBR identified additional positive and negative risks, amounting in sum to -0.22% of GDP (Chart 1). If those materialize and unless the government adopts additional measures, the deficit may reach 1.05% of GDP.

## Medium-term fiscal outlook

Fiscal targets outlined in the Stability programme forecast the balanced budget (the GG balance of 0% of GDP) achieved in 2020 and sustained in 2021. The targets have remained unchanged relative to the previous forecast (Draft Budgetary Plan 2018), as positive changes due to favorable economic developments and other measures over medium-term period have been offset by expenditure increases (Chart 2). CBR estimates that additional consolidation measures need to be adopted to meet the objective (Chart 3).

Chart 2: Changes in the GG balance budgeted in 2019: Stability programme 2018-2021 relative to Draft budgetary plan 2018-2020 [% of GDP]




## Fiscal framework and national fiscal rules

If fiscal targets are met, the government will meet its medium-term objective (structural deficit of 0.5 % of GDP) in 2019. In the same year, the gross debt is expected to leave the sanction zones of debt brake where it has remained since 2012 (Chart 4). From the perspective of long-term sustainability, CBR views that the fiscal targets set by the government are not ambitious enough to fully reflect the upcoming impacts of population ageing. A structural surplus target of 0.3-0.4 % of GDP by 2021 would secure long-term sustainability of public finances for the next 50 years.

Chart 1: Selected factors of the CBR estimate of the GG balance in 2018 relative to the budget [% of GDP]

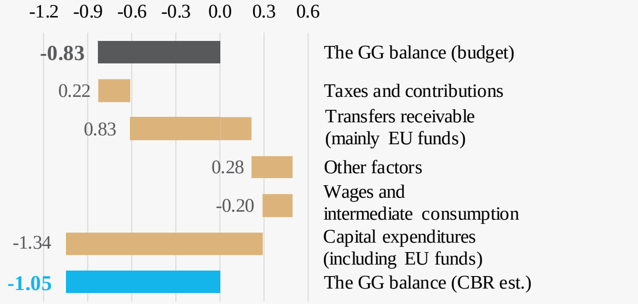



Chart 3: Contributions to change in the GG balance 2017-2021 [GDP ppt]

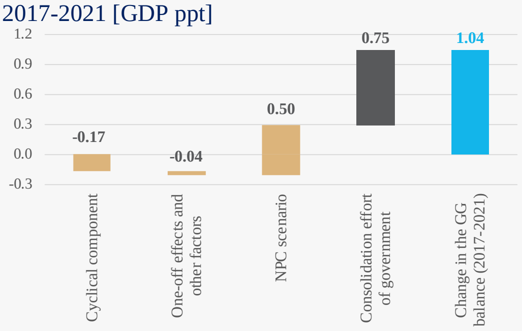
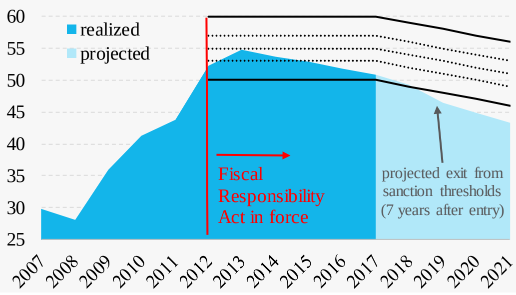



Chart 4: GG gross debt development [% of GDP]




## Key indicator forecast

| | | 2016 | 2017 | 2018f | 2019f | 2020f | 2021f | Source |
|---|---|---|---|---|---|---|---|---|
| Real GDP growth rate | [% y-to-y] | 3.3 | 3.4 | 4.2 | 4.5 | 3.9 | 3.4 | 1 |
| Output Gap | [%] | -0.3 | 0.1 | 0.6 | 1.1 | 1.1 | 0.8 | 1 |
| GG balance – targets | [% of GDP] | -2.2 | -1.0 | -0.8 | -0.3 | 0.0 | 0.0 | 1 |
| GG balance - CBR est. | [% of GDP] | -2.2 | -1.0 | -1.0 | | | | 2 |
| GG debt - MoF est. | [% of GDP] | 51.8 | 50.9 | 49.3 | 46.5 | 44.9 | 43.3 | 1 |
| GG structural balance - CBR est. | [% of GDP] | -2.0 | -1.2 | -1.0 | -0.5 | -0.1 | 0.0 | 3 |
| Adjusted real GG expenditure growth | [% y-to-y] | 2.7 | 1.5 | 2.7 | 1.5 | 1.9 | 1.8 | 3 |
| Discretionary revenue measures | [% of GDP] | -0.1 | 0.2 | -0.3 | -0.2 | -0.1 | -0.3 | 3 |

*Sources*

*:1 - Stability Programme of Slovak republic 2018-2021, adopted on 25.4.2018;*

*2 - CBR: Evaluation of Medium-term Budgetary Objectives for 2018-2021, 12.6.2018*

*3 – Fiscal targets recalculated by the CBR methodology*

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