

Key messages:

- With new automotive capacities GDP growth is expected to accelerate above 4% starting from 2018
- Fiscal deficit in 2017 may near 1.7% of GDP if no additional measures are taken by the government
- Government projects meeting the medium-term fiscal objective in 2020, one year later than declared in the Stability Programme; meeting the MTO requires adoption of additional measures
- Gross debt will remain in the first sanction zone of debt brake throughout the projection period

Macroeconomic outlook

The Slovakia's GDP growth will keep its dynamics at the previous year's level (3.3%), gradually utilizing recovery in the euro area. A build-up of new automotive capacities (2016-2017) eventuates into GDP growth acceleration above 4% in the coming years. In the favourable environment, strengthened domestic demand is moving the economy above potential with some signs of overheating in the labour market, financial sector and firms' sentiment. The build-up of household's credit and external political development in the US and Europe serve as main risks in the proximate future.

Short-term fiscal outlook

The government estimates the 2017 general government deficit at 1.63% of GDP, an increase relative to the budgeted value of 1.29% of GDP. CBR identified additional risks amounting to 0.1% of GDP (Table 1, as of mid-November 2017). If those materialise and unless the government adopts additional measures, the deficit may in near 1.7% of GDP.

Medium-term fiscal outlook

Fiscal targets outlined in the budget forecast that the medium-term objective (structural deficit of 0.5% of GDP) is met in 2020. It is one year later than the target year 2019 declared in the Stability Programme. The budget does not specify all measures necessary to meet the government's objective (Chart 1). CBR estimates that additional consolidation measures need to be adopted to meet the objective despite favourable economic developments (Chart 2). The gross debt could decrease to 47.5 % of GDP in 2020 according to CBR.

Tab 1: Medium-term risks for the general government balance according to CBR

[% of GDP]	2017 f	2018 f	2019 f	2020 f
TOTAL RISK	-0.5	-1.2	-1.4	-1.5
Non-tax income	-0.1	-0.2	-0.2	-0.2
Central gov't expenditures	0.0	-0.5	-0.8	-1.0
Healthcare spending	-0.1	-0.2	-0.1	0.0
Tax revenues	0.0	0.0	-0.1	-0.1
EU funds corrections	0.0	-0.1	-0.1	-0.1
Other risks	-0.2	-0.2	-0.1	-0.1
TOTAL COVERAGE	0.4	0.6	0.9	1.0
Savings in co-financing	0.0	-0.1	0.1	0.1
Risk coverage from reserves	0.3	0.8	0.7	0.9
Other coverage	0.1	0.0	0.0	0.0
Overall impact on the GG balance	-0.1	-0.6	-0.5	-0.5

Fiscal framework and national fiscal rules

If fiscal targets are met, the gross debt will remain above the first sanction threshold of the debt brake until 2019 (Chart 3). The fiscal framework is weak as it enabled worsening of the targets repeatedly despite significant revenue windfalls. CBR recommends the introduction of expenditure ceilings to facilitate consolidation in good times. Recently introduced Value for Money project of Ministry of Finance covers a growing share of public sector. Yet, application of its recommendations within the budgetary process is weak.

Key indicator forecast

		2015	2016	2017 f	2018 f	2019 f	2020 f	Source
Real GDP growth rate	[% y-to-y]	3.8	3.3	3.3	4.2	4.4	3.9	1
Output Gap	[%]	-0.8	-0.2	0.2	0.8	1.3	1.3	1
GG balance – targets	[% of GDP]	-2.7	-2.2	-1.6	-0.8	-0.1	0	1
GG balance - CBR est.	[% of GDP]	-2.7	-2.2	-1.7	-1.4	-0.9	-0.8	2
GG debt - MoF est.	[% of GDP]	52.3	51.9	51.1	49.9	47.8	45.5	1
GG debt - CBR est.	[% of GDP]	52.3	51.8	51.1	50.7	49.3	47.5	2
GG structural balance - CBR est.	[% of GDP]	-2.6	-1.9	-1.6	-1.6	-1	-0.9	2
Adjusted real GG expenditure growth	[% y-to-y]	5.6	2.7	2.5	2.9	1.1	2.4	2
Discretionary revenue measures	[% of GDP]	0.4	-0.1	0.1	0	0	0	2

Chart 1: Budget and target for the GG balance [% of GDP]

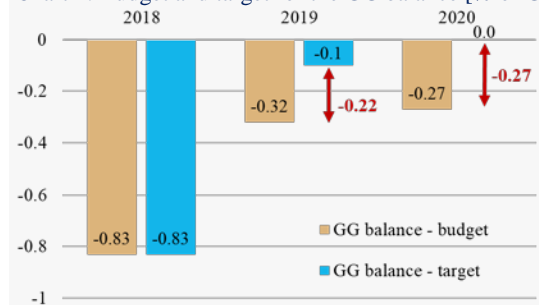


Chart 2: Contributions to change in the GG balance 2016-2020 [GDP ppt]

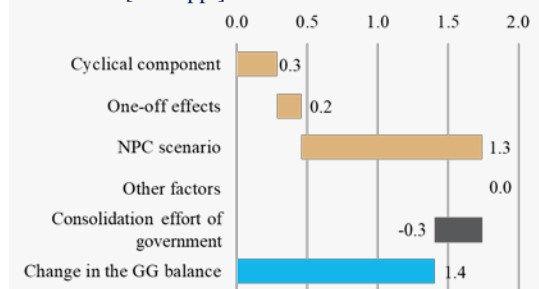
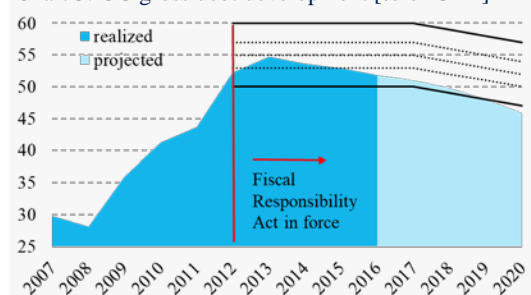


Chart 3: GG gross debt development [% of GDP]



Sources: 1 - Draft Budgetary Plan of Slovak republic for 2018, adopted on 11.10.2017;

2 - CBR: Evaluation of the General Government Budget Proposal for 2018-2020, 15.11.2017

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