

Key messages:

- With new automotive capacities GDP growth is expected to accelerate above 4% starting from 2018
- Fiscal deficit in 2017 may near 1.5% of GDP, if no additional measures are taken by the government
- Meeting the medium-term fiscal objective in 2019 is realistic mainly due to favourable economic development
- Gross debt will remain in the first sanction zone of debt brake throughout the projection period
- Expenditure ceilings should be introduced to facilitate consolidation in good times

Macroeconomic outlook

After the marked GDP growth supported by the peak of EU funds inflow in 2015 (3.8%) the Slovak economy has slowed down in 2016 to 3.3%. Projected pace in 2017 will remain near previous year's levels backed up by expansive automotive exports and stable domestic demand. Along with improving labour market situation the economy will move slightly above its potential 2017 onwards. New automotive production capacities and slowly improving global trade will contribute to acceleration of GDP growth in 2018-2019 above 4% with significant geopolitical risks in the background.

Short-term fiscal outlook

The government estimates the 2017 general government deficit at 1.24% of GDP (budget 1.29% of GDP). CBR identified additional risks amounting to 0.3% of GDP (Table 1). If those materialise and unless the government adopts additional measures, the deficit may in an extreme case near 1.5% of GDP.

Medium-term fiscal outlook

The government declares meeting the medium-term objective (structural deficit of 0.5% of GDP) in 2019. This objective can be considered realistic due to favourable economic developments (Chart 1) without the necessity to adopt any major consolidation measures (the objective would be met also under unchanged policies). Consolidation rests on revenue measures (Chart 2), some expenditure savings are expected in the medium run. 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	-1,1	-0,6	-0,7	-0,4
Non-tax income	-0,2	-0,2	-0,2	-0,2
Central gov't expenditures	-0,3	0,0	-0,2	0,0
Healthcare spending	-0,3	-0,2	-0,1	0,0
Tax revenues	0,0	-0,1	-0,1	-0,1
EU funds corrections	-0,2	0,0	0,0	0,0
Other risks	0,0	0,0	0,0	0,0
TOTAL COVERAGE	0,9	-0,1	0,1	0,2
Savings in co-financing	0,2	-0,1	0,1	0,1
Risk coverage from reserves	0,6	0,0	0,0	0,0
Other coverage	0,1	0,0	0,0	0,0
Overall impact on the GG balance	-0,3	-0,6	-0,6	-0,2

Fiscal framework and national fiscal rules

Despite positive developments, the gross debt remains above the first sanction threshold of the debt brake until 2019 (Chart 3). Moreover, 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. Value for Money project at Ministry of Finance could improve substantially the quality of government's decision making over priorities. Stronger links to the budgetary process need to be established.

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	4,0	4,4	3,8	1
Output Gap	[%]	-0,7	-0,2	0,2	0,7	1,3	1,3	1
GG balance – targets	[% of GDP]	-2,7	-1,7	-1,3	-0,5	0,0	0,0	1
GG balance - CBR est.	[% of GDP]	-2,7	-1,7	-1,5	-1,1	-0,6	-0,2	2
GG debt - MoF est.	[% of GDP]	52,9	51,9	51,8	50,0	48,0	46,0	1
GG debt - CBR est.	[% of GDP]	52,9	51,9	51,8	50,4	48,9	47,5	2
GG structural balance - CBR est.	[% of GDP]	-2,7	-1,9	-1,4	-1,1	-0,6	-0,3	2
Adjusted real GG expenditure growth	[% y-to-y]	6,6	3,4	1,4	1,1	0,2	0,2	3
Discretionary revenue measures	[% of GDP]	0,1	0,0	0,3	0,1	0,0	0,0	3

Sources: 1 – Stability Programme of Slovak republic 2017-2020, adopted on 26.04.2017;

2 - CBR: Evaluation of Medium-term Budgetary Objectives for 2017-2020, 05.06.2017

3 – CBR own estimate

f - forecast

Chart 1: Contributions to change in the GG balance 2017-2020

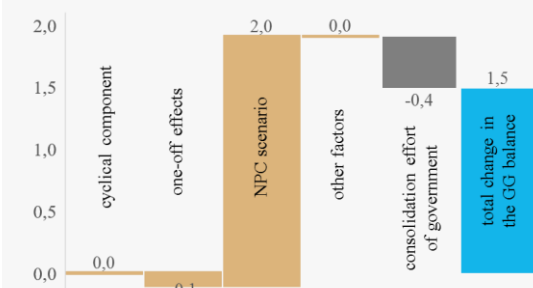


Chart 2: Government measures in 2017 [% of GDP]

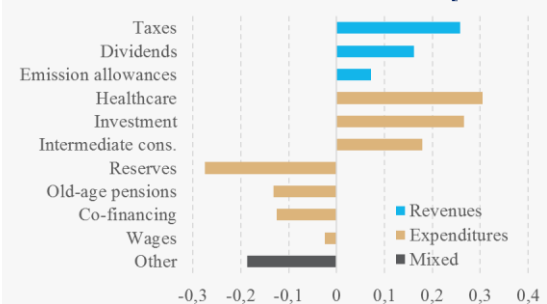


Chart 3: GG gross debt development [% of GDP]

