Slovakia

Country note, July 2019

Key messages:

- **Labor market near maximum, new export capacities compensate for the cooling-off phase abroad**
- **Fiscal deficit in 2019 may deviate from the balanced budget and reach 0.93 % of GDP if no additional measures are taken by the government**
- **Budgetary targets for 2020 and 2021 have been worsened as expenditure increases have offset positive changes**
- **Government has loosened the MTO for 2020 despite non-negligible risks to long-term sustainability**

Macroeconomic outlook

The GDP growth rate is expected to decelerate from 4 % in 2018 towards 3.5 % in 2019 following external slowdown as the risks from trade conflicts have partly materialized and political uncertainty has widened. The tight labour market drives a stronger wage growth, but the weakening foreign demand holds back further employment growth and decline in the unemployment rate. New supply in the automotive industry will prevent deeper slowdown as much as no new trade barriers are reinforced and cooling-off in the eurozone stays moderate.

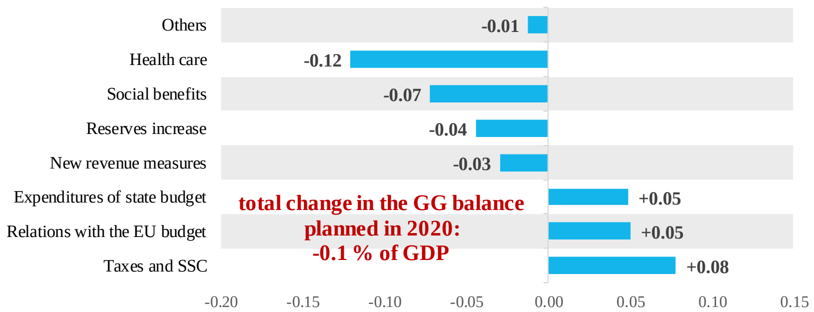
Short-term fiscal outlook

The government estimates the general government (GG) deficit in 2019 to follow the budgeted value of 0 % of GDP. Already at the time of budget approval, CBR identified negative risks, which have been supported by new data and their impact has been magnified. Unless the government adopts additional measures, the deficit may reach 0.93% of GDP (Chart 1).

Medium-term fiscal outlook

Fiscal targets outlined in the Stability programme forecast the balanced budget (the GG balance of 0 % of GDP) achieved in 2019 and sustained until 2022. The targets have been loosened relative to the previous forecast (Draft Budgetary Plan 2019), as positive changes 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 2020: Stability programme 2019-2022 relative to Draft budgetary plan 2019-2021 [% of GDP]



Fiscal framework and national fiscal rules

Despite not meeting the necessary condition of low risks to long-term sustainability (required by national transposition of the Fiscal Compact), the government has loosened its medium-term objective for 2020 from the structural deficit of 0.5 % of GDP to 1 % of GDP. 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 costs of population ageing exaggerated by a recently adopted measure that introduced a constitutional cap on the retirement age. A structural surplus target of 1.5 % of GDP by 2022 would secure long-term sustainability of public finances for the next 50 years. With respect to the debt limit, in 2018 the gross debt narrowly left the sanction zones where it had remained since 2012 (Chart 4). Furthermore, CBR estimates that a safe debt level below 20 % of GDP reached before 2038 is necessary to provide a sufficient space to accommodate for the costs of ageing.

Chart 1: Selected factors of the CBR estimate of the GG balance in 2019 relative to the budget [% of GDP]

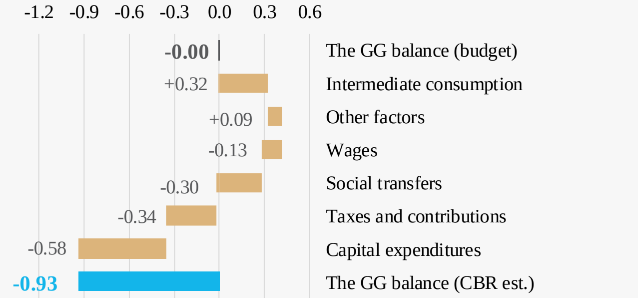


Chart 3: Contributions to change in the GG balance 2019-2022 [GDP ppt]

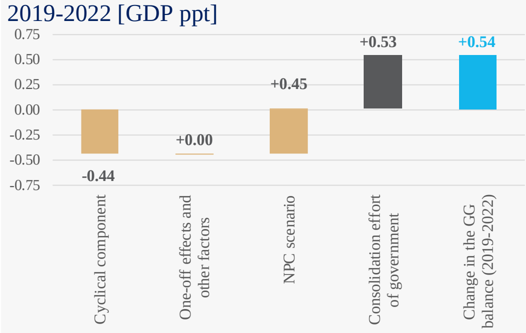
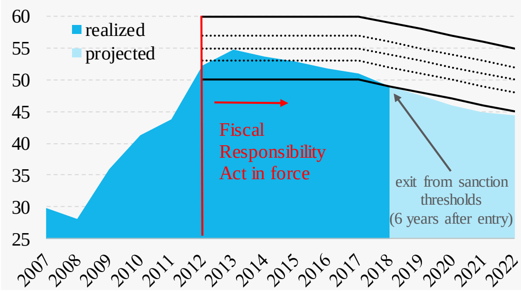


Chart 4: GG gross debt development [% of GDP]



Key indicator forecast

		2017	2018	2019 f	2020 f	2021 f	2022 f	Source
Real GDP growth rate	[% y-to-y]	3.2	4.1	4.0	3.7	3.2	2.5	1
Output Gap	[%]	0.1	0.9	1.1	1.1	0.9	0.6	1
GG balance – targets	[% of GDP]	-0.8	-0.7	0.0	0.0	0.0	0.0	1
GG balance - CBR est.	[% of GDP]	-0.8	-0.7	-0.9	-0.6	-0.4	-0.4	2
GG debt - MoF est.	[% of GDP]	50.9	48.9	47.5	45.9	44.9	44.4	1
GG debt - CBR est.	[% of GDP]	50.9	48.9	48.2	47.2	46.4	46.1	2
GG structural balance - CBR est.	[% of GDP]	-1.0	-1.3	-1.2	-0.8	-0.4	-0.2	2
Adjusted real GG expenditure growth	[% y-to-y]	0.7	4.3	4.1	3.1	1.1	0.6	2
Discretionary revenue measures	[% of GDP]	0.2	-0.1	-0.1	-0.1	-0.2	0.0	2

Sources:

1 – Stability Programme of Slovak republic 2019-2022, adopted on 17.4.2019;

2 - CBR: Evaluation of Medium-term Budgetary Objectives for 2019-2022, 13.6.2019

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