Slovakia

CBR
COUNCIL FOR BUDGET RESPONSIBILITY

Country note, January 2019

Key messages:

- **Growth above potential starting from 2018 with risks stemming from foreign development**
- **Fiscal deficit in 2018 may reach 0.9 % of GDP if no additional measures are taken by the government**
- **Government projects meeting the medium-term fiscal objective in 2019; meeting the MTO requires adoption of additional measures**
- **Gross debt is expected to exit sanction zone of the debt brake in 2018**

Macroeconomic outlook

Economic growth is expected to be above potential from 2018 onwards with growth rates nearing 4% until 2020. Starting 2018, expanding production capacities in the automotive industry are boosting exports, while domestic demand remains stable. Unemployment is falling towards new record lows, while government-lead increase in wages can contribute to stronger overheating of the economy. Continuous distress from Brexit, potential world trade barriers and developments in Italy and France serve as main risks for the domestic economy.

Short-term fiscal outlook

The government estimates the 2018 general government deficit at 0.60% of GDP, an improvement relative to the budgeted value of 0.83% of GDP. CBR identified additional risks amounting to 0.3% of GDP (Table 1, as of mid-November 2018). If those materialise and unless the government adopts additional measures, the deficit may reach 0.9% of GDP.

Medium-term fiscal outlook

Based on the fiscal targets outlined in the budget, the government expects to meet the medium-term objective (structural deficit of 0.5% of GDP) in 2019. In the view of CBR, it requires adoption of additional measures due to several risks identified in the budget proposal (Table 1). Favourable economic developments are the main contributor to improvements in the GG balance, total impact of government measures on the balance is negative (Chart 1). Consolidation in 2019 rests on revenue measures (Chart 2), which also finance additional expenditures. The gross debt could decrease to 46.3 % of GDP in 2021 according to CBR.

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

[% of GDP]	2018 f	2019 f	2020 f	2021 f
TOTAL RISK	-0.5	-2.2	-2.6	-2.6
Non-tax income	0.0	-0.3	-0.2	-0.1
Central gov't expenditures	-0.2	-1.2	-1.8	-1.9
Healthcare spending	0.1	-0.1	-0.2	-0.3
Tax revenues	0.0	-0.2	-0.2	-0.1
Co-financing	-0.1	-0.2	0.0	-0.1
Other GG entities	-0.1	-0.2	-0.2	-0.1
Other risks	0.0	0.0	0.0	0.0
TOTAL COVERAGE	0.1	1.6	2.0	2.3
Risk coverage from reserves	0.1	1.5	1.9	2.2
Other coverage	0.0	0.1	0.1	0.1
Overall impact on the GG balance	**-0.3**	**-0.6**	**-0.6**	**-0.4**

Fiscal framework and national fiscal rules

If fiscal targets are met, the gross debt will fall below the first sanction threshold of the debt brake in 2018, which means that sanctions have been active for 6 years (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. Value for Money project covers a growing share of public sector. Yet, application of its recommendations within the budgetary process is weak.

Chart 1: Contributions to change in the GG balance 2018-2021 [GDP ppt]

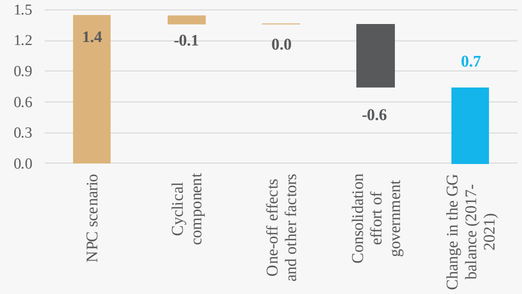


Chart 2: Government measures in 2019 [% of GDP]

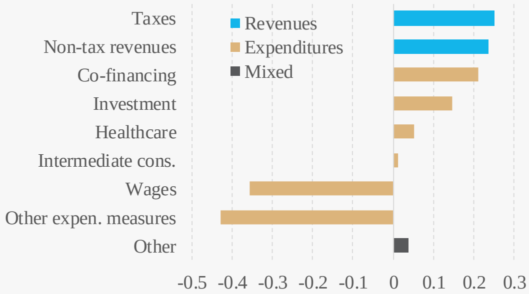
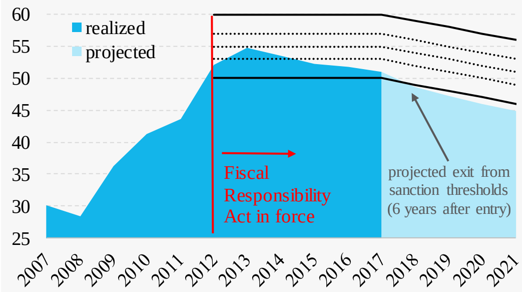


Chart 3: GG gross debt development [% of GDP]



Key indicator forecast

		2016	2017	2018 f	2019 f	2020 f	2021 f	Source
Real GDP growth rate	[% y-to-y]	3.3	3.4	4.1	4.5	3.9	3.3	1
Output Gap	[%]	-0.1	0.1	0.6	1.2	1.3	1.2	1
GG balance - targets	[% of GDP]	-2.2	-0.8	-0.6	-0.1	0.0	0.2	1*
GG balance - CBR est.	[% of GDP]	-2.2	-0.8	-0.9	-0.7	-0.6	-0.2	2*
GG debt - MoF est.	[% of GDP]	51.8	50.9	48.7	47.3	46.0	44.8	1
GG debt - CBR est.	[% of GDP]	51.8	50.9	48.7	48.0	47.2	46.3	2
GG structural balance - CBR est.	[% of GDP]	-1.8	-0.8	-1.1	-0.9	-0.8	-0.2	2
Adjusted real GG expenditure growth	[% y-to-y]	2.8	0.9	3.8	3.5	3.0	1.2	2
Discretionary revenue measures	[% of GDP]	-0.1	0.2	0.0	-0.4	-0.1	-0.2	2

Sources:1 – Draft Budgetary Plan of Slovak republic for 2019, adopted on 10.10.2018;

2 - CBR: Evaluation of the General Government Budget Proposal for 2019-2021, 14.11.2018

f - forecast

** On 5th December 2018, Parliament approved the budget with slightly improved targets (balanced budget in 2019, surplus of 0.1 % of GDP in 2020 and 0.3 % of GDP in 2021). These changes had negligible impact on the assessment of the CBR since improved targets have not been accompanied with additional consolidation measures.*

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