SLOVAKIA: Solid growth

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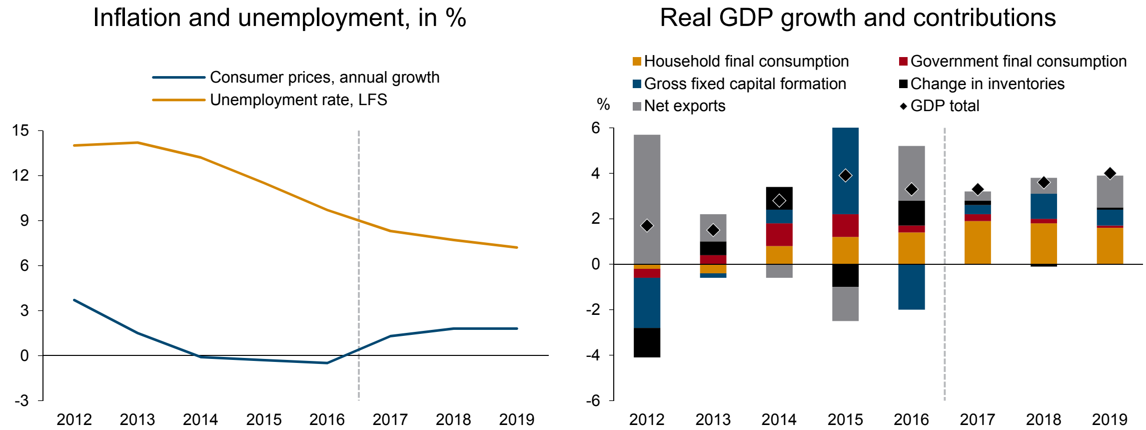
Slovakia experienced solid growth of 3.2% in the first half of 2017, backed by accelerating household consumption. While investment was still down, it is expected to recover in the second half of 2017. Capacity increases in the automotive industry are going to take off at the end of 2018/2019 and will allow for growth rates of close to 4%.

Figure 48 / Slovakia: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Growth in the first half of 2017 was driven by household consumption while investment was still down. In the first half of 2017, Slovak GDP experienced steady growth of 3.2%, about the same as last year when GDP increased by 3.3%. The main growth driver has been household consumption. Finally the favourable situation in the labour market translated into higher and accelerating household demand (+3.5% in the first half of 2017 compared to the same period of last year). The number of employed persons, rising by nearly 3% in both 2015 and 2016, has decreased somewhat recently (only +1.4% in the second quarter of 2017). The unemployment rate is going down as well; it reached 8.1% in the second quarter, a historically low level in Slovakia. In 2008, when the unemployment rate had been the lowest so far, it stood at 9.5%. However, labour shortages of skilled workers are on the rise, and wages are going up. In the first half of the year the real wage increase was still rather moderate, at 3.1%. But recent events such as the strike at the Volkswagen Bratislava plant or the steady increase in the minimum wage signal a stronger wage rise in the future. After three years of deflation, inflation is back but prices are rising only slowly (by 1% in the first half of 2017). Government consumption slightly decreased in the first half of the year (by -0.4%). Investment was down by -3.4%, while stockbuilding resulted in an increase in gross capital formation by 1.5%. The construction sector was still performing poorly (-2.6%), also due to the delay of major infrastructure projects (e.g. Bratislava ring road delayed due to problems with land acquisition).

The weak performance of the automotive sector was compensated by other industries. Looking at sectoral trends, industrial production increased by a robust 4.5% in the first half of 2017. The main industrial sectors showing an overall good performance were basic metals & fabricated metal products, rubber & plastic & other non-metallic mineral products, the food industry and electric equipment. However, the automotive industry, the main industrial sector in Slovak manufacturing, did not contribute to growth. It had a sluggish start into this year and in June Volkswagen Bratislava faced a six-day strike. For the three car companies in Slovakia (VW Bratislava, KIA Motors and PSA Peugeot-Citroën) this year's car production should be around the same number as last year (1.04 million cars were produced in 2016). Jaguar Land Rover, which currently builds a new plant near Nitra, is mulling an extension of its previous plans. Going into operations at the end of 2018, overall capacity will increase by an initial production of 150,000 cars. The major Slovak steel plant U.S. Steel Košice might still change its owner, with Chinese HeSteel being the potential buyer. While negations were said to have stopped in July, they seem to be still ongoing.

The external sector contributed slightly to growth. Net exports had a small positive effect on growth in the first half of 2017. While goods imports rose faster than goods exports (7.2% compared to 6.2%), services exports increased dynamically (+10%, fostered by transport services and telecommunication, computer & information services). Goods exports to Slovakia's main trading partner Germany declined by 3.8%, while exports to its second main trading partner, the Czech Republic, increased by 4.3%. With primary and secondary income the same size as trade balances, the current account is mostly balanced, with a tiny surplus at the end of June 2017.

Efforts were made to change the Fiscal Responsibility Law; at the same timer there is continued strong household loan growth. The most recent figures for 2016 show a general government budget deficit of -1.7% of GDP and a public debt level of 51.9% of GDP. For the years to come, official deficit targets (according to the Slovak Stability Programme 2017-2020) are set at -1.3% for 2017 and -0.5% for 2018, while balanced budgets are envisioned for 2019 and 2020. However, further efforts would be needed to reach these targets. As the thresholds incorporated in the Fiscal Responsibility Law will decline from the fiscal year 2018 onwards (the 50-60% debt to GDP thresholds will continuously decline by 1 percentage point to 40% by 2027), attempts at easing the debt brake law have been made. The draft state budget for 2018 includes social measures such as supplementary payment for work during nights and weekends, an increase in the minimum wage and the introduction of a (voluntary) 13^{th} and 14^{th} salary. These measures have not changed after the recent coalition crisis in August 2017. Loans to households still show continuing high growth rates of 13% although new regulations to curb loan growth came into effect in March. Loans to corporations accelerated in the second quarter of 2017 (from 8% in the first quarter to 10% in the second). The share of non-performing loans remains at a very low level (5% in 2016).

The government experienced a political crisis in August 2017. At the beginning of August, the three-party coalition government headed by Robert Fico (elected in March 2016) faced a crisis when the junior coalition partner, the Slovak National Party (SNS), withdrew from the coalition agreement. This was related to a corruption scandal at the Education Ministry (headed by a minister from SNS), where the distribution of EU funds for research and innovation were said to have been manipulated. Finally, a new collation agreement was signed by the same parties in September. On 4 November, regional elections are going to take place under new rules (only one round).

The growth forecast is favourable as capacity increases in the automobile industry are to take off at the end of 2018. The wiiw forecast for the next three years has not changed as compared to the summer forecast. For the year 2017, GDP growth will reach about 3.3%. The main growth driver will be accelerating household consumption, which benefits from favourable developments in the labour market. Gross fixed capital formation (i.e. investment) is expected to revive in the second half of 2017 (base effect). Net exports will be broadly balanced. On the one hand, investment in new plants will generate import needs; on the other hand, growing household consumption will spur imports as well. For the years 2018 and 2019, export growth will further accelerate thanks to a capacity increase in the automotive industry. With the new Jaguar Land Rover plant going into operation at the end of 2018, exports will surge and provide a strong growth impetus. Thus, growth will be around 4% annually in 2018 and 2019 (3.6% and 3.9%). Internal risks include the shortage of qualified labour, which might constitute an obstacle to higher future growth. External risks remain (uncertainties around Brexit, Trump), but seem to have moved into the background for the moment.

On 1 January 2018, Slovakia is going to celebrate its 25th anniversary. During this quarter century of independence, Slovakia has shown an exceptionally strong growth performance – contrary to some initial expectations and enjoyed a higher growth than the Czech Republic. Slovakia has increased its GDP per capita level (in % of the EU-28 average) by 40 percentage points, starting from 37% of the average EU-28 GDP per capita in 1993 and skyrocketing to 77% in 2016 (compared to 89% in the Czech Republic and 70% in Hungary and Poland).

Table 23 / Slovakia: Selected economic indicators

	2013	2014	2015	2016 1)	2016 January-June	2017 January-June	2017 Forecast	2018 Forecast	2019 Forecast
Population, th pers., average	5,413	5,419	5,424	5,431	.	.	5,430	5,440	5,440
Gross domestic product, EUR mn, nom. 2)	74,170	76,088	78,896	81,154	38,766	40,342	84,900	89,500	94,800
annual change in % (real)	1.5	2.8	3.9	3.3	3.6	3.2	3.3	3.6	4.0
GDP/capita (EUR at PPP)	20,500	21,300	22,400	22,500	.	.	.	.	.
Consumption of households, EUR mn, nom. 2)	41,084	41,605	42,496	43,473	21,392	22,399	.	.	.
annual change in % (real)	-0.8	1.4	2.3	2.6	2.9	3.5	3.5	3.3	3.0
Gross fixed capital form., EUR mn, nom. 2)	15,374	15,772	18,890	17,196	7,521	7,317	.	.	.
annual change in % (real)	-0.9	3.0	19.8	-8.3	0.1	-3.4	2.1	5.0	3.5
Gross industrial production									
annual change in % (real)	3.8	3.6	7.3	4.8	6.2	4.7	3.0	5.0	6.0
Gross agricultural production									
annual change in % (real)	6.7	7.4	-3.2	7.7	.	.	.	.	.
Construction industry									
annual change in % (real)	-5.3	-4.1	17.9	-10.7	-0.9	-2.6	.	.	.
Employed persons, LFS, th, average	2,329	2,363	2,424	2,492	2,476	2,520	2520	2540	2550
annual change in %	0.0	1.5	2.6	2.8	3.0	1.8	1.0	0.7	0.5
Unemployed persons, LFS, th, average	386	359	314	267	276	231	230	210	200
Unemployment rate, LFS, in %, average	14.2	13.2	11.5	9.7	10.0	8.4	8.3	7.7	7.2
Reg. unemployment rate, in %, eop	13.5	12.3	10.6	8.8	9.5	6.9	.	.	.
Average monthly gross wages, EUR	824	858	883	912	884	921	960	1020	1080
annual change in % (real, gross)	1.0	4.2	3.2	3.8	3.6	3.1	3.8	4.4	4.0
Consumer prices (HICP), % p.a.	1.5	-0.1	-0.3	-0.5	-0.5	1.0	1.3	1.8	1.8
Producer prices in industry, % p.a.	-1.0	-3.5	-2.9	-4.1	-4.7	2.8	3.2	2.5	2.5
General governm.budget, EU-def., % of GDP									
Revenues	38.7	39.2	42.7	39.9	.	.	39.8	39.8	39.5
Expenditures	41.4	41.9	45.4	41.5	.	.	41.4	40.9	40.1
Net lending (+) / net borrowing (-)	-2.7	-2.7	-2.7	-1.7	.	.	-1.6	-1.1	-0.6
Public debt, EU-def., % of GDP	54.7	53.5	52.3	51.8	.	.	51.8	50.8	49.7
Stock of loans of non-fin.private sector, % p.a.	5.4	6.7	9.7	9.3	.	.	.	.	.
Non-performing loans (NPL), in %, eop	5.8	6.0	5.2	4.7	.	.	.	.	.
Central bank policy rate, % p.a., eop 3)	0.25	0.05	0.05	0.00	0.00	0.00	.	.	.
Current account, EUR mn	1,379	871	-1,391	-1,205	-88	-326	-1,000	-530	250
Current account, % of GDP	1.9	1.1	-1.8	-1.5	-0.2	-0.8	-1.2	-0.6	0.3
Exports of goods, BOP, EUR mn	62,410	62,581	64,650	67,206	33,451	35,670	70,200	74,800	81,200
annual change in %	3.7	0.3	3.3	4.0	4.9	6.6	4.5	6.5	8.5
Imports of goods, BOP, EUR mn	59,503	59,823	63,601	65,542	32,120	34,805	68,800	72,900	78,400
annual change in %	3.2	0.5	6.3	3.1	4.3	8.4	5.0	6.0	7.6
Exports of services, BOP, EUR mn	6,965	6,889	7,301	7,588	3,589	4,021	8,300	8,700	9,000
annual change in %	15.1	-1.1	6.0	3.9	4.6	12.1	9.0	5.0	3.0
Imports of services, BOP, EUR mn	6,481	6,713	7,144	7,180	3,374	3,612	7,400	7,800	8,200
annual change in %	15.2	3.6	6.4	0.5	2.3	7.1	3.0	5.0	5.0
FDI liabilities, EUR mn	757	-324	1,357	3,234	1,375	3,195	3,000	.	.
FDI assets, EUR mn	976	94	1,266	3,725	2,510	2,181	2,500	.	.
Gross reserves of NB excl. gold, EUR mn	670	1,165	1,648	1,624	1,606	1,613	.	.	.
Gross external debt, EUR mn	60,444	67,776	67,225	73,750	70,200	78,792	80,000	82,500	84,000
Gross external debt, % of GDP	81.49	89.08	85.21	90.88	86.50	92.81	94.2	92.2	88.6

1) Preliminary. - 2) Half-year GDP data unrevised. - 3) Official refinancing operation rates for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.