

Strong domestic demand drives growth

General Information



GDP	USD99.8bn (World ranking 64, World Bank 2014)
Population	5.42mn (World ranking 115, World Bank 2014)
Form of state	Parliamentary Democracy
Head of government	Robert FICO (Prime Minister)
Next elections	2019, presidential



Strengths

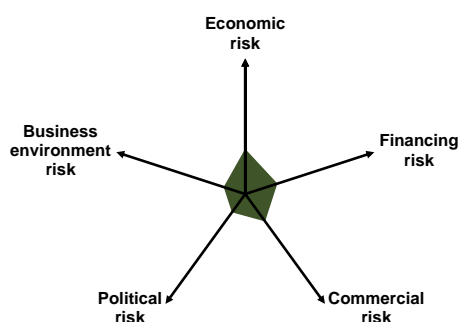
- Low systemic political risk
- Good regional and international relations; EU membership
- Eurozone membership providing for low transfer and convertibility risk
- Solid banking sector
- Strong business environment overall; very attractive for foreign investors

Weaknesses

- High dependence of the economy on the automobile sector and on exports
- Large income inequality and high unemployment
- Relatively high external debt level

Country Rating

A1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	20% 1	17% Germany
Czech Republic	14% 2	17% Czech Republic
Poland	9% 3	7% China
Hungary	7% 4	6% Poland
France	5% 5	6% Hungary

By product (% of total)

Exports	Rank	Imports
Cars And Cycles	17% 1	9% Telecommunications Equipment
Vehicles Components	8% 2	8% Vehicles Components
Consumer Electronics	8% 3	6% Electrical Apparatus
Miscellaneous Hardware	6% 4	5% Miscellaneous Hardware
Telecommunications Equipment	5% 5	5% Engines

Source: Chelem (2014)

Economic Overview

Robust growth to continue

The Slovak economy gained further momentum and became one of the fastest growing in the EU in 2015, with real GDP accelerating to +3.6%, up from +2.4% in 2014. Domestic demand was the main growth driver last year, in particular fixed investment which soared by +14% (+3.5% in 2014). Private consumption increased by +2.4% in 2015 (+2.3 in 2014) and government consumption by +3.4% (+5.9% in 2014). Inventory destocking subtracted -0.7pps from overall 2015 growth. External trade activity also picked up, with export growth rising to +7% in 2015 (+3.6% in 2014) and imports up by +8.2% (+4.3% in 2014). As a result, net exports made a negative contribution of -0.9pps to 2015 growth.

In Q1 2016, real GDP grew by +3.4% y/y, with domestic demand remaining the key growth driver. Euler Hermes expects full-year GDP growth to moderate somewhat to +3.2% in both 2016 and 2017, as the surge in fixed investment will abate while private consumption may pick up slightly. Both exports and imports are expected to expand at a slower pace than in 2015.

Macroeconomic fundamentals to remain favourable overall

Headline inflation has been in deflationary territory and slightly below the Eurozone average since the start of 2014. During the same time, however, monetary easing of the ECB – Slovakia is a member of the Eurozone since 2009 which provides for low transfer and convertibility risk and has substantially decreased external vulnerabilities related to exchange rate risk – has encouraged a rebound of private sector credit growth which reached about +10% y/y at the end of 2015, thus supporting the domestic demand driven economic recovery. Euler Hermes expects inflation to turn slightly positive again by the end of 2016 while continued accommodating monetary policy should help sustain reasonable credit growth.

Public finances have improved. The annual fiscal deficit has been below -3% of GDP since 2013 and is forecast to remain so in 2016-2017. Public debt rose to 55% of GDP in 2013 in the wake of the global financial crisis but has since slightly fallen and is forecast to remain in the 50-55% range in the near future.

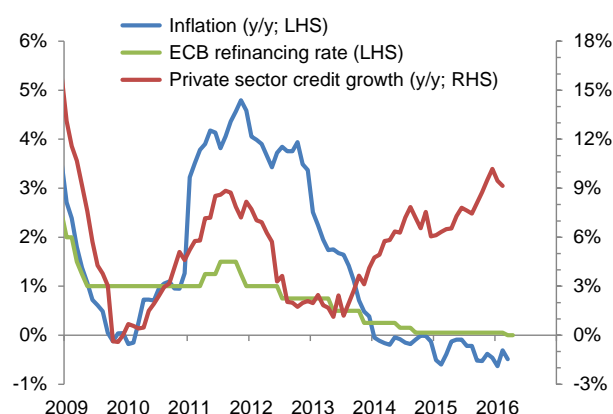
After three consecutive years of annual surpluses, the current account shifted to a moderate deficit of -1.3% of GDP in 2015. Positively, it was 87% covered by net foreign direct investment inflows. Further unproblematic deficits of up to -2% of GDP are forecast in 2016-2017.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	2.4	3.6	3.2	3.2
Inflation (% end-year)	-0.1	-0.5	0.5	1.5
Fiscal balance (% of GDP)	-2.7	-3.0	-2.5	-2.5
Public debt (% of GDP)	53.9	52.9	52.5	52.0
Current account (% of GDP)	0.1	-1.3	-2.0	-1.8
External debt (% of GDP)	89.7	86.1	86.0	85.0

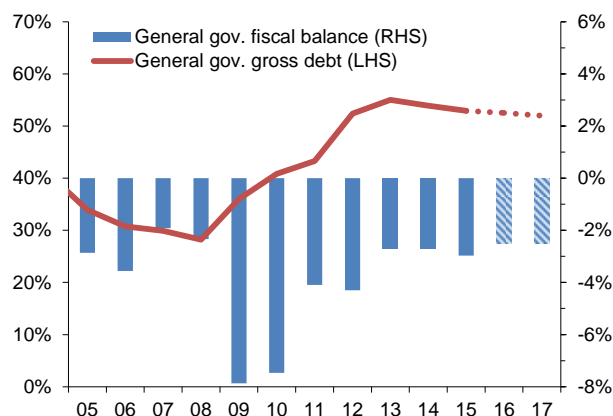
Sources: National sources, IHS, Euler Hermes

Inflation, credit growth and monetary policy



Sources: National sources, ECB, IHS, Euler Hermes

Public finances (% of GDP)



Sources: Eurostat, Euler Hermes

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