Euler Hermes Economic Research

Country Report

Slovak Republic

Private consumption and inventories drive growth

General Information

GDP	USD87.3bn (World ranking 64, World Bank 2015)
Population	5.42mn (World ranking 115, World Bank 2015)
Form of state	Parliamentary Democracy
Head of government	Robert FICO (Prime Minister)
Next elections	2019, presidential

Strengths

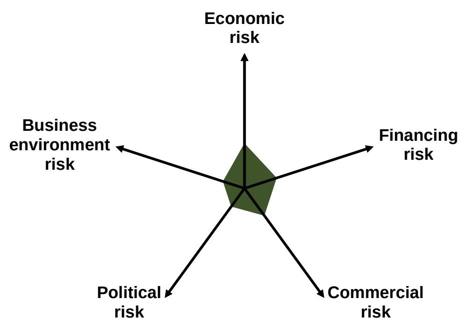
- Low systemic political risk
- Good regional and international relations; EU membership
- Eurozone membership providing for low transfer and convertibility risk
- Solid banking sector
- Strong business environment overall; very attractive for foreign investors

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%	Czech Republic
Czech Republic	14%	2	17%	Germany
Poland	9%	3	9%	Miscellaneous
Hungary	7%	4	8%	China
France	5%	5	6%	Poland

By product (% of total)

Exports		Rank		Imports
Cars And Cycles	18%	1	10%	Telecommunications Equipment
Vehicles Components	9%	2	8%	Vehicles Components
Consumer Electronics	7%	3	6%	Electrical Apparatus
Miscellaneous Hardware	6%	4	5%	Miscellaneous Hardware
Telecommunications Equipment	5%	5	5%	Engines

Source: Chelem (2015)

Economic Overview

Growth slows slightly but remains robust

Real GDP growth moderated to +3.3% in 2016 from +3.8% in 2015, mainly because fixed investment dropped by -9.3% (after a very strong performance in 2015, at +16.9%) as a result of reduced EU fund absorption. However, investment bottomed out in H2 2016 and is expected to grow modestly in 2017.

In H1 2017, real GDP grew by +3.2% y/y, driven by robust private consumption (+3.5% y/y) thanks to employment gains over recent years, while public spending contracted by -0.4% y/y. Fixed investment fell by -2.9% y/y in H1 (after rebounding to +0.9% in Q1, it dropped -6.7% in Q2). Similarly, foreign trade activity gained strong momentum in Q1 but was flat in Q2. As a result, exports expanded by +4.4% y/y in H1, slightly faster than imports at +4.1% y/y, so that net exports contributed +0.5pp to growth. Inventories added +1.5pp to H1 growth. We expect the inventory build-up to gradually wane in the course of the year while the H1 growth pattern should broadly continue otherwise, resulting in full-year growth of +3% in 2017, followed by +3.4% in 2018.

Adequate economic policies

As expected, headline inflation turned positive again at the end of 2016 (after almost three years of deflation) and has averaged +0.9% y/y in H1 2017. Also over the past three years, 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 +9% in 2016 and +11.4% y/y in May 2017, thus supporting the domestic demand driven economic recovery. We expect inflation to pick up slightly in H2 and to reach an annual average of +1.2% in 2017 and +1.8% in 2018, while continued accommodating monetary policy should help sustain reasonable credit growth.

Public finances have continued to improve. The annual fiscal deficit has been below -3% of GDP since 2013 and fell to -1.7% in 2016. We expect similar ratios in 2017-2018. Public debt rose to 55% of GDP in 2013 in the wake of the global financial crisis but has since gradually fallen to 52% in 2016 and is forecast to remain around that level in the near future.

Unproblematic external liquidity position

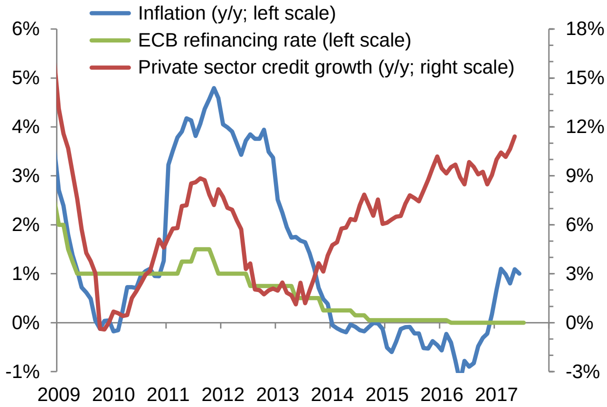
After four consecutive years of annual surpluses, the current account shifted to a moderate deficit of -0.7% of GDP in 2016. Positively, it was 83% covered by net foreign direct investment inflows. Further unproblematic shortfalls of less than -1% of GDP are forecast in 2017-2018.

Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	3.8	3.3	3.0	3.4
Inflation (%, annual avg.)	-0.3	-0.5	1.2	1.8
Fiscal balance (% of GDP)	-2.7	-1.7	-1.6	-1.4
Public debt (% of GDP)	52.5	51.9	51.5	51.0
Current account (% of GDP)	0.2	-0.7	-0.5	-0.5
External debt (% of GDP)	86.1	86.8	88.0	89.0

Sources: National sources, IHS, Euler Hermes

Inflation, credit growth and monetary policy



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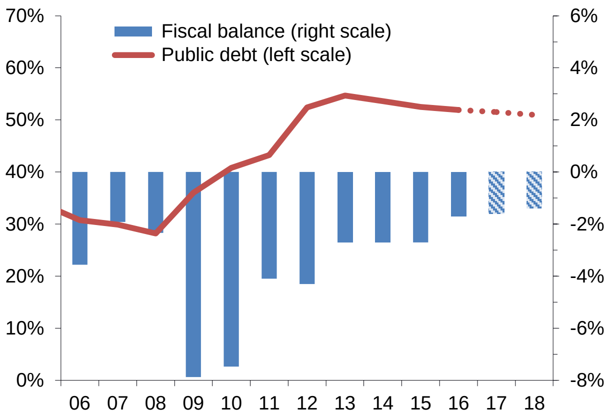
Public finances (% of GDP)



Sources: Eurostat, Euler Hermes

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