Euler Hermes Economic Research

Country Risk Analysis

Slovak Republic

Slower growth, but risk remains low overall

General Information

GDP	USD96bn (World ranking 63, World Bank 2011)
Population	5.44 million (World ranking 112, World Bank 2011)
Form of state	Parliamentary Democracy
Head of government	Robert FICO
Next elections	2016, legislative

Strengths

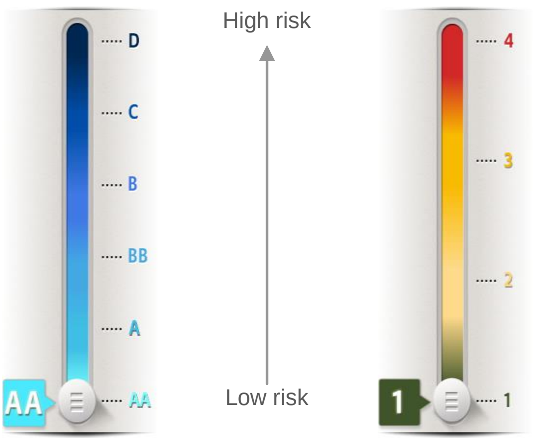
- Low systemic political risk
- Good regional and international relations; EU membership
- Eurozone membership provides for low transfer and convertibility risk
- Current account moved into surplus in 2012
- Solid banking sector
- Strong business environment overall; very attractive for foreign investors

Weaknesses

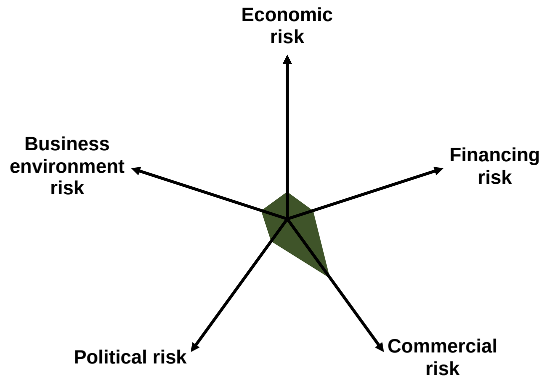
- High dependence of the economy on the automobile sector and on exports
- Public finances
- Large income inequality and high unemployment

Country Rating

AA1



Risk Dimensions



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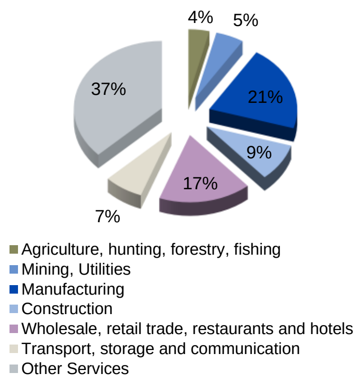
Economic Structure

GDP breakdown (% of total, 2010)



Sources: Chelem, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2010)

By destination/origin

Exports		Rank		Imports
Germany	20%	1	17%	Germany
Czech Republic	13%	2	12%	Czech Republic
Poland	7%	3	8%	Russia
Hungary	6%	4	6%	South Korea
France	6%	5	5%	Hungary

By product

Exports		Rank		Imports
Cars And Cycles	15%	1	7%	Vehicles Components
Consumer Electronics	14%	2	6%	Electrical Apparatus
Vehicles Components	7%	3	5%	Telecommunicat. Equipment
Iron Steel	6%	4	5%	Miscellaneous Hardware
Miscellaneous Hardware	5%	5	4%	Crude Oil

Economic Forecasts

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	5.6	-4.9	4.4	3.2	2.0	1.2	2.0
Inflation (%, end-year)	5.1	0.1	1.3	4.7	3.5	3.0	3.2
Fiscal balance (% of GDP)	-4.7	-8.0	-7.7	-4.8	-5.3	-3.8	-3.2
Public debt (% of GDP)	38.7	35.6	41.1	43.3	53.3	55.0	56.0
Current account (% of GDP)	-6.8	-2.6	-3.7	-2.0	2.3	1.3	1.0
External debt (% of GDP)	56.3	74.8	75.5	71.3	75.2	76.5	77.5

Sources: IHS Global Insight, national sources, Euler Hermes

Economic Growth

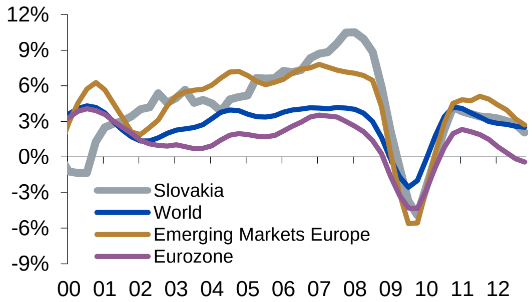
Growth slows in 2013 ...

The Slovak Republic remained the second fastest growing economy in the eurozone in 2012 (after Estonia), with real GDP expanding by +2%. Domestic demand was weak, with both private and public consumption declining by -0.6% and fixed investment contracting by -3.7%. Moreover, the fall in gross capital formation by -10.3% indicates a sharp drop in inventories. Net exports were the sole growth driver in 2012 as exports rose by +8.6% while imports grew by just +2.8%. The launch of new capacity in the automotive sector has supported industrial production and export growth in 2012, mitigating the impact of weakening eurozone demand. However, this effect will wane as already indicated by the sharp GDP growth slowdown to +0.7% y/y in Q4 2012. Domestic demand will remain weak owing to continued fiscal consolidation efforts. We expect GDP growth to ease to +1.2% in 2013 before recovering to +2% in 2014.

… and insolvencies pick up moderately

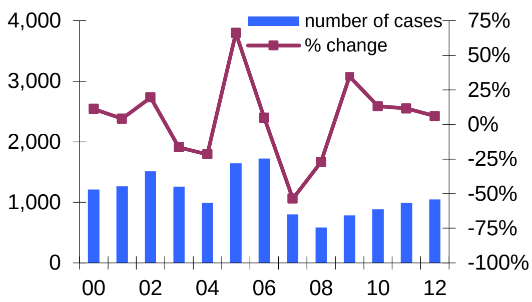
The number of insolvencies rose by +6.1% to 1,050 cases in 2012. We expect a further increase of +5% to around 1,100 cases in 2013.

GDP growth (% y/y, 4 qtrs cumulated)



Sources: IHS Global Insight, national sources, Euler Hermes

Insolvencies



Sources: Ministry of Justice, Euler Hermes

Economic Policies

Thanks to rapidly improving fiscal indicators in 2003-2006 as well as to low inflation and exchange rate stability, the Slovak Republic was able to join the eurozone at the start of 2007. While monetary policy is now conducted by the European Central Bank (ECB), membership of the eurozone provides for low transfer and convertibility risk (as long as the eurozone remains intact which is our central scenario) and has substantially decreased external vulnerabilities related to exchange rate risk.

Inflation will remain moderate

Consumer price inflation (EU harmonised measure) has gradually moderated from a high of 4.7% y/y at end-2011 to 2.2% y/y in February 2013. We expect inflation to pick up again somewhat towards year-end but it should remain reasonable at around 3% in 2013-2014.

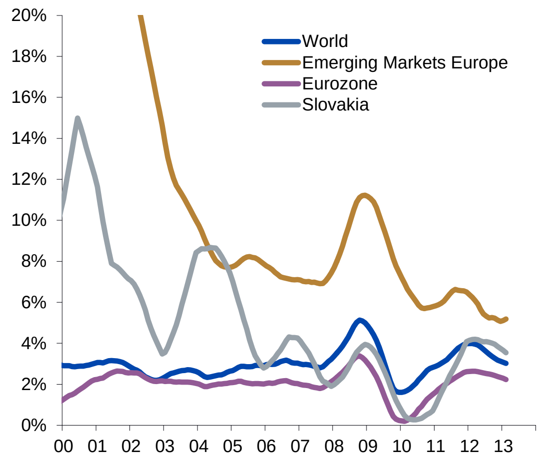
Public finances are a cause of some concern

Public finances deteriorated sharply in the wake of the global economic crisis in 2008-2009 and have to stabilise yet. After narrowing to 4.8% of GDP in 2011, the fiscal deficit rose again to 5.3% in 2012, as the expenditure-based fiscal consolidation observed in 2011 did not continue. Shortfalls in tax revenue and higher-than-budgeted healthcare expenditures also played a role. In view of the subdued economic growth outlook for 2013, it will be difficult to bring the fiscal deficit below 3% this year, as targeted by the government. We expect deficits of around 3.8% in 2013 and 3.2% in 2014.

Gross public debt has risen from a low of 28% of GDP in 2008 to 43% in 2011 and 54% in 2012. While such a level is still moderate by EU standards, the rapid pace of increase is a reason for close monitoring. We expect further though more moderate increases in the next two years.

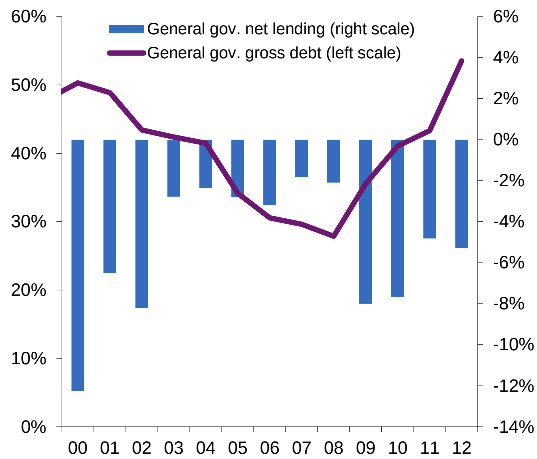
Nonetheless, the Slovak Republic currently has adequate sovereign ratings and is unlikely to become a candidate for an international bailout in the next two years or so, unless the government slides back seriously on its commitment to fiscal austerity. Moreover, the banking sector has weathered the external crises since 2008 relatively well and is 99% controlled by foreign investors, reducing risks to the sovereign from this direction.

Inflation rate (%)



Sources: IHS Global Insight, national sources, Euler Hermes

Fiscal balance and public debt (% of GDP)



Sources: IHS Global Insight, national sources, Euler Hermes

External Sector

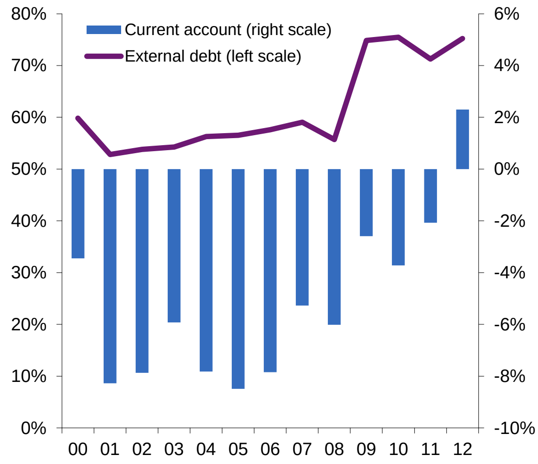
Current account has shifted into surplus

The strong export performance in 2012 has boosted the current account to a surplus of 2.3% of GDP, the first annual surplus since 1995. We expect further somewhat smaller surpluses in 2013 and 2014. Net foreign direct investment inflows were also strong in 2012, reaching 3.2% of GDP.

External debt is manageable

Gross external debt is relatively high in relation to GDP (about 75%) but moderate in relation to export earnings (80%). Overall, the external debt burden should be manageable in the near future, especially since Slovak banks account for just 7% and the private sector (excluding intercompany lending) for only 15% of gross debt. Moreover, external assets are substantial, such that net external debt is estimated at just 15% of GDP.

Current account and external debt (% of GDP)



Sources: IHS Global Insight, national sources, Euler Hermes

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