China-CEE Institute
中国—中东欧研究院

ISSN: 2560-1601

Vol. 2, No. 2 (SK)

December 2017

Weekly Briefing

Slovakia Economy briefing:
Economy in 2017

Kristina Kironska

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.
Szerkesztésért felelős személy: Chen Xin
Kiadásért felelős személy: Huang Ping

1052 Budapest Petőfi Sándor utca 11.
+36 1 5858 690
office@china-cee.eu
china-cee.eu

Economic situation – basic indicators

The economy of Slovakia was doing quite well during the last year, which can be evidenced by pointing to several macroeconomic indicators. Looking at the data on economic growth, we see that Slovakia had one of the fastest growing economies in the European Union. In 2017, the Slovak gross domestic product (GDP) grew by approximately 3.3%. This level of growth sets a good base for the future, with the expected growth in 2018 being at 3.8%, and even growing as high as 4% in 2019, according to the European Commission estimates. This would propel Slovakia to become the country with the highest economic growth from among all the Visegrad Four countries.

According to both private and public sectors analysts, the high level of economic growth was achieved primarily thanks to the growing household spending. The spending has been increasing due to stable growth of employment, rise of the real wages, and low prices of loans. Over the past ten years, average income of the Slovak workers has been steadily increasing. According to the data from the National Bank of Slovakia, the average income has reached 922 euros per month in 2017 (for all sectors of the economy). In industry the average monthly income was even higher at 1,042 euros. The same goes for the minimum wage, which was set by the government at 435 euros last year. The minimum wage was further increased for 2018, as in October 2017 the government has passed a decree increasing the minimum wage to 480 euros per month. However, there has been criticism of the measure, as it was calculated that the increased minimum wage would result only in a small hike of net income for the poor, while at the same time substantially increasing the cost of labor for the employers. Jozef Mihál, an independent member of the National Council of the Slovak Republic, even went as far as calling the state the only beneficiary of the minimum wage hike, as the state would collect additional 70 million euros in social and health insurance payments.

At the same time, as wages of the workers have been increasing in the last year, the unemployment rate has been decreasing. Slovakia had an unemployment rate of 8.13% in 2017. This is a 1.5 percentage point drop compared to 2016. Despite the dropping unemployment rate and increasing wages, the demand for labor has been increasing. In 2017, the National Bank of Slovakia reported that there are almost 60 thousand available vacancies while in 2016 there were only 38 thousand vacancies. This has led to a situation labeled by some as workforce shortage. This situation has impacted mostly the automotive industry, even though the average wages in the industry are much higher than the national average. To deal with the workforce shortage many companies had to rely on migrant workers from other countries, mostly from Ukraine and Serbia.

However, despite the improving economic situation of the country overall, the East-West divide is persisting. Based on the monthly household income data, the two Eastern regions of Presov and Kosice, are the two poorest. This is partially caused by the lack of foreign investments in the Eastern part of the country. In this regard, the two rumored Chinese investments (see below), could improve the situation, even though the details of the two investments still remain quite murky.

As for trade, Slovakia's export has reached 74.8 billion euros in 2017. This is a calculation by the National Bank of Slovakia. Precise data on trade for 2017 has not been published yet, however, the data from 2016 can offer some insight into Slovakia's trade instead. In 2016, the largest trade partners of Slovakia were the European Union member states, which altogether accounted for 85% of the Slovak export. The share of export to EU member states has been steady over the past ten years. Germany and other V4 states are the most important trade partners from among the 28 EU member states, accounting for approximately 22% and 25% respectively. Non-EU states are not large recipients of Slovak export. The two largest economies in the world, the USA and China received only small shares of the Slovak export. 2.43% went to the USA, while China received as little as 1.63% of the Slovak export in 2016. These numbers were relatively steady in the last few years, and there is only a little chance that they could change in 2017. The Slovak import has reached the volume of 71.8 billion euros last year, giving Slovakia an overall positive trade balance. The import structure is very much similar to that of the export, with EU countries accounting for a majority of the goods imported by Slovakia.

Sino-Slovak economic relations

Improving the economic ties of Slovakia with China was quite high on the government's list in 2017. The government's wishes to deepen the economic ties with Chine were formalized in April 2017, when the government has passed the Conception of Developing the Economic Relations between Slovak Republic and People's Republic of China for 2017-2020. This is Slovakia's only strategic document relating to a single country only. Moreover, Slovakia is the only V4 country to have a specific China strategy. The Conception is further developed in an Action plan, however it has not been approved by the government yet as it is still a subject to negotiation between various ministries and stakeholder groups. As provided in the Conception, Slovakia wishes to benefit from the Chinese Belt and Road Initiative (BRI). Shall the Slovak government's ambitions set out in the Conception bear fruits, we can expect intensification of Sino-Slovak relations. In short, the documents suggest that Slovakia needs to utilize (while still strengthen) its relatively good political relations with China for economic purposes. The documents then moves on to mention various measures to achieve this goal, including increasing the number of diplomatic personnel in China, opening "Slovak houses" in various parts of China to attract Chinese investors and tourists, attempting to prepare schemes how to use Chinese funds to build infrastructure at home, and many others.

Until now, Slovakia received the lowest amount of Chinese foreign direct investments among the V4 countries. However, this could change soon. Throughout 2017, there have been rumors of several potential Chinese investments in Slovakia. The largest of them all is the potential overtaking of the U. S. Steel factory in Kosice, the largest employer in Eastern Slovakia, by the Chinese Hesteel Group. With the upcoming cessation of the Memorandum of Understanding signed by the American company U. S. Steel and the Government of Slovakia in 2018, the major obstacle for the investment by Hesteel will be removed. This single investment has the potential to make Slovakia the country with the largest stock of Chinese investment in the region.

Two other investments were talked about throughout 2017. It was openly stated in the media that the Chinese company CEFC China Energy Group, which has invested prominently in the neighboring Czech Republic, is set on purchasing the parent company of Slovakia's largest TV station Markíza. This would be a joint investment together with a Czechoslovak investment group called Penta. Another rumored investment is the potential setting up of a factory by the Chinese automaker Zhi Dou (a subsidiary of Geely, which recently purchased Volvo), possibly in Eastern Slovakia as well. This would be yet another addition to the Slovak automotive industry. However, some commentators voiced their concerns that this investment would be rather small, as Zhi Dou plans to produce about 36 thousand cars annually, which is a small portion of what other automakers already produce in Slovakia.

Trade-wise, Slovakia is maintaining a negative trade balance with China. Over the course of last ten years the value of imports from China to Slovakia have been much higher than that of Slovak exports to China. The scale of the negative trade balance vis-à-vis China has been growing over time. While in 2010 the negative trade balance reached the value of negative 1.9 billion euros, in 2016 it was already as high as 4.5 billion euros.

Concluding remarks

Overall, the economic situation of Slovakia is improving. Based on the hard macroeconomic data it is evident that the gross national product keeps growing at rates, which are relatively high for an EU country. Nevertheless, despite the improving state of the economy overall, this does not lead to improved living standards of all the people and the traditional East-West divide is persisting. Attracting foreign investors to the Eastern part of the country could partially alleviate the situation. The rumored Chinese investments by Hesteel and Zhi Dou could be a good start. However, the government still needs to work on promoting investments in the East.