



Weekly Briefing

**Slovakia Economy briefing:
Latest economy development in Slovakia
Institute of Asian Studies, Bratislava**


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

The recent political crisis did not affect the country's economy

The first half of March was affected mainly by the murder of the investigative journalist Ján Kuciak and the subsequent mass protests led to a temporary political instability in the country. The political crisis has not resulted in any negative implications on the economy and should have no pronounced impact on the development of the national economy in the near future.

The situation was resolved promptly, as on 21st March the Slovak President Andrej Kiska accepted the list of ministers proposed by newly appointed Prime Minister Peter Pellegrini. Since the new Prime Minister is a member of the ruling party SMER-SD and the coalition forming the Slovak government remained the same, it is unlikely for the economic policy to change. Also, no shift in the position of the Ministry of Finance promises that the economy will follow the same path and maintain the same pro-EU posture as it was during the period of Robert Fico's governance.

The above described prompt solution of the political crisis was a favorable point for the economy, as long-term instability or uncertain political crises usually lead to a lowering of the interest from investors, which then affects other sectors of the economy, such as unemployment or economic growth in a negative way.

Currently, the unemployment rate, which stands at 5.72%, is the lowest it has been since the establishment of the Slovak Republic. The result indicates a drop down of 0.16% month-on-month and 2.67% year-on-year. In terms of regional districts, the unemployment rate declined in 75 out of 79 in total. The additional four districts reported a slight increase in the number of job seekers.¹ The unemployment rate keeps decreasing as the economic growth still goes up.

The last witnessed increase of the unemployment rate was in 2015. Due to a stable national economic growth analysts also expect a continuous positive

¹ --, "Unemployment rate reaches historical minimum in Slovakia," *The Slovak Spectator*, 20 March 2018, <<https://spectator.sme.sk/c/20785739/unemployment-rate-reaches-historical-minimum-in-slovakia.html>>

development on the labor market, which has experienced an unceasing increase in the number of open vacancies. The current demand for labor should continue to reduce the unemployment rate in the country. Even though the labor market has been affected by some limits, the employment rate is still growing. The situation should be better disposed after the launch of the production in the Jaguar Land Rover plant.

On the contrary, there is a slow-down in the dynamics of the unemployment rate's decline, compared to the statistics of this period last year. This situation may have occurred because the demand for labor does not overlap with the unemployment rate. Currently, the gap is especially visible in the regional distribution as well as the unsatisfying education structure of jobseekers. Due to this fact, there is an increasing trend in decreasing the demands from employers on the workforce (concerning the knowledge and skills of their job applicants), as indicated by the latest figures on the amount of open vacancies and the import of labor.

The situation is slightly different for the economic growth. According to the prediction of the National Bank of Slovakia the economy is supposed to grow by 4.2% for this year, which is a worse prediction compared to the previous forecast from this year (that indicated growth by 4.3%). According to the Governor of the National Bank of Slovakia, Jozef Mikúch, the slight adjustments are mainly related to the lower prices of commodities, such as food and oil, and also to a stronger foreign demand. The central bank does not expect any more significant changes in the development of consumer prices. Moreover, the latest Labor Code changes related to the introduction of the 13th and 14th salary, as well as to the hikes in bonuses for working at night or during weekends and holidays, have been reflected in the latest forecast of the bank. The prediction is also taking into consideration the anticipated production

activity of the British carmaker Jaguar Land Rover in his Slovak plant, which should increase production capacities in the automotive industry.²

Overall, the conditions for economic growth are favorable, the foreign environment has been improving, and the investments are helping to boost the economy's growth potential. At this point, analysts expect a growth of the gross domestic product by approximately 3.5% this year.³ The growth in household consumption is projected to increase as a result of the higher disposable income, driven by the wage growth and the declining unemployment rates.

In the long-term Slovakia-based companies qualified labor force is lacking. This resulted in the employment of foreign manpower in greater numbers. A new law, which should simplify the employment of people from abroad (focusing on inhabitants of non-EU countries), will become effective in May. Targeted are the regions with the highest unemployment rate and also professions with a lack of experts. Foreign workers are mostly concentrated in the capital and the western part of the country. The majority of the foreign labor import is coming from states outside the European Union. Continual increase in participation, as well as employment of workers from abroad, should affect the cost of labor as well. Wage growth will be supported by new measures under the Labor Code. These in particular due to surcharges should increase the average wage cumulatively by 0.6% and thus be passed on to consumption.

What is more, the number of Slovaks returning from abroad has been increasing along with the arriving of foreigners. The last time the country registered a positive migration balance was in 2009 during the economic crisis. The number of Slovakia's population increased last year by almost 15.000, which was an expansion comparing to year 2016. Nevertheless, the migration

² --, "NBS: Slovakia's economic growth prediction worsens mildly," *The Slovak Spectator*, 28 March 2018, <<https://spectator.sme.sk/c/20791088/nbs-slovak-economy-to-grow-by-4-2-percent-in-2018-growth-worsens-mildly.html>>.

³ Massimo Bassetti, "Slovakia: Political crisis unlikely to affect economic policy," *Focus Economics*, 26 March 2018, <<https://www.focus-economics.com/countries/slovakia/news/politics/political-crisis-unlikely-to-affect-economic-policy>>.

balance has shown an increasing trend in the last years. Without the arrival of citizens from other countries the balance would have remained negative.

As for the measures above, the situation on the Slovak market seems favorable for both the commerce and the workforce. What is more, The Ministry of Economy has introduced a set of measures to ensure the improving of the business environment in the country. It is based on 25 measures and 200 incentives, which aim to improve Slovakia's position and make the country more attractive for investors globally. The enhancement of the measures should encourage family businesses and dismantle some of the administrative tasks required by entrepreneurs. In order to create a more open and challenging labor market, the government will also analyze the current procedures while granting temporary residence permission to foreigners.⁴

State budget deficit details

Slovakia's state budget reported a deficit of €454.9 million at the end of March, which is €117.9 million lower than the deficit for the same period last year. Both the state budget incomes and also the expenditures signaled growth. In case of the incomes, the growth showed an increase by €29.2 million per annum. Expenditures swelled up by €147.1 million year-on-year. State budget incomes from the European Union went up by €102.2 million year-on-year.

Expenditures on debt servicing went up by €60.9 million year-on-year. A year-on-year growth of €91.7 million was also declared in the category of state budget expenditures related to the drawing of resources from the European Union budget, which in total means a €13.4 million increase in the co-financing fund.

Capital incomes indicated an increase of €1 million compared to the statistics from the last year. Collection of income tax paid by private individuals and corporate income tax reported a recession over the monitored period. On the

⁴ --, "Economy Ministry unveils measures to improve the business environment," *The Slovak Spectator*, 12 April 2018, <<https://spectator.sme.sk/c/20801789/economy-ministry-unveils-measures-to-improve-the-business-environment.html>>.

contrary, positive statistics were presented in VAT revenues, which mounted by €68.5 million, while the collection of excise taxes climbed up by €12.4 million, withholding tax indicated increase of €8.4 million. According to the Ministry of Finance, the decrease in tax revenues amounted to €71.2 million.⁵

Agreement with Oman on taxation

A Double Taxation Avoidance Agreement (DTAA) has been signed with Oman within the framework of the official talks held at the Ministry of Finance. Both sides discussed the cooperation aspects in the economic field, collaboration in the tax field and possible investment opportunities.⁶ In their debate, the two countries reviewed different topics of common concern, mainly related to income tax, which Oman would like to impose in the future. Also, the talks were held as means of enhancing trading relations and discussing several economic sectors in order to facilitate investments in the field of energy, business and trade.

Conclusion

All in all, the current and future performance of the Slovak economy should not be affected at this point, nor threatened by the impact of the recent political crisis. As predicted, a slight wage growth as well as the current labor market conditions should support the consumer spending and ensure a steady economic growth. In connection with a strong consumer demand, the impact of service prices should increase in the context of inflation developments. The effect of energy and food prices should be gradually mitigated.

The growing economy is expected to generate new jobs and bring the unemployment rate to a historical minimum. In case of Slovakia's national budget, the statistics resulted in better numbers compared to the same period last

⁵ --, "Štátny rozpočet v marci so schodkom 454 mil. eur," *Ministry of Finance*, 3 April 2018, <<http://www.mfsr.sk/Default.aspx?CatID=38&id=975>>.

⁶ --, "O Slovensko je v Ománe záujem," *Ministry of Finance*, 26 March 2018, <<http://www.finance.gov.sk/Default.aspx?CatID=38&id=973>>.

year, meaning a lower deficit. The state budget incomes and also expenditures report growth by the end of the first quarter 2018.

On the field of foreign economic relations, a Double Taxation Avoidance Agreement has been signed with Oman accompanied with debates over mutual cooperation between the countries.