



# Weekly Briefing

**Slovakia economy briefing:**

**Slovakia – Economy in 2020**

**Martin Grešš**


## **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](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

## Slovakia – Economy in 2020

### Overview of the economic activity in 2020<sup>1</sup>

According to OECD (2019), economic growth is projected to slow to around 2.2% in 2020, as weaker external demand will weigh on export growth. Domestic demand will remain relatively strong, notably due to private consumption (up by 0.2 percentage points in 2020), which will be held up by a resilient labor market with historically low unemployment (decrease by 0.1 percentage points in 2020). Inflation will remain above 2% as the economy operates above its normal capacity with the deflator rising by 0.2 percentage points in 2020 compared to 2019. However, looking at the data provided by EC (2019), we note differences in GDP growth (EC estimates are at 2.6% in 2020) and Morvay et al. (2019) with the estimate of 3.2-3.7%.

**Table 1 Forecast of basic macroeconomic indicators**

	<b>2019</b>	<b>2020</b>
GDP at market prices	2,5	2,2
Private consumption	2,5	2,7
Government consumption	2,9	2,7
Gross fixed capital formation	2,5	2,5
Exports of goods and services	1,5	1,8
Imports of goods and services	1,7	2,3
Net exports	-0,1	-0,4
GDP deflator	2,6	2,8
Harmonized index of consumer prices	2,8	2,6
Harmonized index of core inflation (excluding food, energy, alcohol and tobacco)	2,1	2,6
Unemployment rate (% of labor force)	5,8	5,7
General government financial balance (% of GDP)	-1	-1,2
General government gross debt (% of GDP)	62,5	61,7
Current account balance (% of GDP)	-1,7	-2,2

Source: OECD (2019).

<sup>1</sup> Data in this part are based on EC (2019), OECD (2019) and Morvay et al. (2019).

## **Legislative changes in the business environment**

Based on TREND (2019c, 2020d), there were 116 documents with the impact on the business environment accepted in 2019. One of the most important changes is the change in the level of minimum wage which also impacts companies with multishift operations where costs will be increased significantly for work carried out during night or weekends. According to TREND (2020a), the highest number of legal changes concerns the income tax law, the Labor Code and the Commercial Code. Among the most important impacts on the business environment in 2020 are following changes:

- Five weeks of vacation – Slovak Labor Code states five weeks of holidays for those employees that are over 33 years of age. However, from 2020, this provision will also become valid for the employees that are younger than 33, but take care of a child. The aim is to allow also the younger parents/employees to spend more time with their children.
- Allowance for sports activities of children – employees may ask the employers to reimburse the sporting expenses of their children. Maximum of EUR 275 (or maximum of 55% of eligible expenses) may be provided in case the child is registered in the sport club for at least 6 months. Besides, also self-employed persons may use this allowance provided they conduct business activities continually for at least 24 months.
- Stopping of old executions – as of January 1<sup>st</sup>, 2020, the law on the cessation of certain executions is in force. All executions started before April 1<sup>st</sup>, 2017, where no more than EUR 15 has been recovered in the last 18 months, are stopped costing the creditors extra money. Regarding the old executions, executor draws up a notice of suspension of the old execution and sends it to the creditor within 180 days. The notice will also include a call for flat-rate costs of EUR 35 (EUR 42 in case the executor is a payer of value added tax). The creditor will then have 30 days to file a new execution order, which will entail a fee of EUR 16.5. TREND (2020d) estimates these new rules will affect thousands of entrepreneurs.
- Same wage for foreign employees working in Slovakia – foreign employees coming to work in Slovakia for longer than 12 months will be entitled to the same minimum wage of EUR 580 as resident employees together with benefits and bonuses for working during holidays, weekends and overtime. The aim is to harmonize the Slovak legislation with the EU legislation and to impede the social dumping.
- Higher allowance for housing – contribution to an employee's rent accommodation was established in January 2019 at EUR 60. From January 2020, this

contribution increases to EUR 100 and must be provided by a company with mostly multishift operations.

As TREND (2020a) puts it, regarding the work costs, Slovakia's costs are the highest among the V4 countries, Austria and Germany. The employer currently has to bear 35.2% of gross salary as tax and levy burden, while the burden in aforementioned countries vary from 19% in Hungary to 33.8% in Czechia. The biggest tax and levy burden has to be borne by companies with multishift operations and higher numbers of employees, who are seeing a significant increase in night and weekend labor costs.

The Income Tax Act created a new category of entrepreneur - micro-business, which is a natural person as well as a legal entity whose income for the tax period does not exceed EUR 49 790. Also, as of January 2020, self-employed persons with an annual income of up to EUR 100 thousand will pay a tax of 15%. They will do so for the first time in a tax return filed in March 2021 (TREND, 2020e). regarding employees, there are two tax rates that are determined by the amount of income. The basic income tax rate is 19%, applying to an annual income of 176.8 times the subsistence minimum (amount of EUR 37 163.36). If an employee exceeds this annual income limit, the tax rate is 25% (TREND, 2019a).

The Commercial Register will undergo several changes in 2020 such as: 1. Submissions will only be recorded in electronic form, 2. Inactive companies will be deleted from the Register (according to the Ministry of Justice, there is more than 100 thousand of these companies (TREND (2020a)). Also, the amendment to the Commercial Code will make it more difficult to conduct business for individuals in execution. Such person will no longer be able to establish a limited liability company, acquire a business share in it or transfer it to someone or be its executive.

Since January 2020, the statutory audit conditions have been 'softened'. The amendment to the Act on Accounting changes the size criteria with respect to the statutory audit, on the basis of which firms are obliged to have regular or extraordinary individual financial statements audited: the total gross amount of the property must be more than EUR 2 and the net turnover must exceed EUR 4 million (TREND, 2020c).

### **Wages, bonuses, allowances in 2020<sup>2</sup>**

In 2020, there will be an increase in some of the surcharges and allowances as well as an increase in the minimum wage as presented below. Subsistence minimum from July 1<sup>st</sup>, 2020

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<sup>2</sup> Data in this part are based on TREND (2019b).

will be EUR 210.20 monthly for one adult with EUR 95.96 monthly for a child. Parental allowance will be increased to EUR 370 per month for a parent who received maternity benefits before the parental leave and EUR 270 for a parent who did not receive maternity benefits. Child allowance (which is calculated based on the subsistence minimum) will be EUR 24.95 per month since January 2020. Minimum wage will be increased to EUR 580 in the lowest degree (with a minimum of EUR 3.333 per hour). Degrees of minimum wage according to labor intensity are presented in the following table.

**Table 2 Minimum wage according to labor intensity in 2020**

Degree of intensity	Coefficient	Minimum wage (EUR)
1 (charwoman, worker)	1.0	580
2 (work in administration, shop assistant)	1.2	696
3 (accountant, nurse)	1.4	812
4 (manager, senior accountant)	1.6	928
5 (production manager, general practitioner)	1.8	1 044
6 (managing director, executive director)	2.0	1 160

Source: TREND (2020b).

Regarding the wage, working on Saturdays, Sundays, during the nights and during state holidays are entitled to bonuses paid besides the regular wage. In case of Saturdays, the bonus is 50% of minimum wage or EUR 1.667 per hour. Working during Sundays and state holidays, employees are entitled to the bonus of 100% of minimum wage or EUR 3.333 per hour. Regarding the work carried out in the night (working between 10 p.m. and 6 a.m.), the bonus reaches 40% of minimum hourly wage or EUR 1.333 per hour.

### **Conclusion**

Economic growth is forecasted to slow down in 2020 with inflation at the rate above 2%, even though the forecasts of economic growth of the Slovak economy differ among OECD (2019), EC (2019) and Morvay et al. (2019).

Regarding the changes in the business environment caused by the legal changes of significant laws regulating the business activities, we may say that the situation might worsen in 2020 especially because of the rapid change (increase of 11.2%) in the minimum wage which will increase from January 2020 to EUR 580 from EUR 520 in 2019 affecting also various bonuses for working during weekends, holidays and night. The most affected businesses will be those with multishift operations and large number of employees.

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