SLOVAK REPUBLIC

Strong economic growth is set to continue, reaching 3.8% in 2018. An improving labour market will underpin household spending. Investment is expected to recover, as a slowdown in projects financed by EU funds in 2016 will be compensated by other new public infrastructure spending and stronger business investment. Exports will continue to benefit from the expansion in the automotive sector, which is ramping up production.

The euro area monetary policy stance remains supportive, but a more ambitious structural reform programme is needed to share prosperity widely across society. In particular, measures to improve efficiency in health care and education services are important to enhance well-being and make growth more inclusive and sustainable.

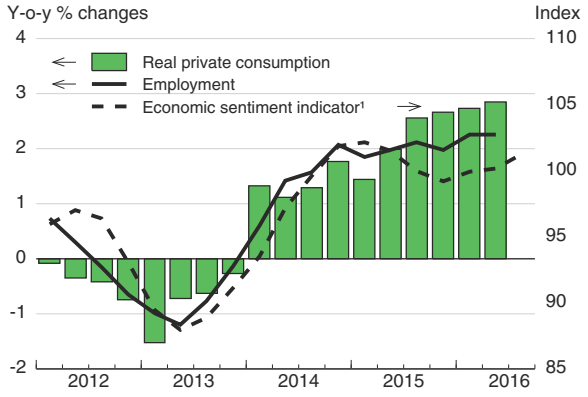
Strong fiscal revenues driven by the improving cyclical position and better tax collection will provide tailwinds for the government's plan to reduce the deficit, as population ageing presents a serious medium-term challenge. Nevertheless, improving public-sector efficiency and changing the composition of spending can provide fiscal space to finance extra growth-enhancing measures in areas such as education and R&D. Additional support can come from rebalancing the tax mix away from direct taxes and social security contributions towards property and environmentally related taxes.

Economic growth is being supported by domestic demand

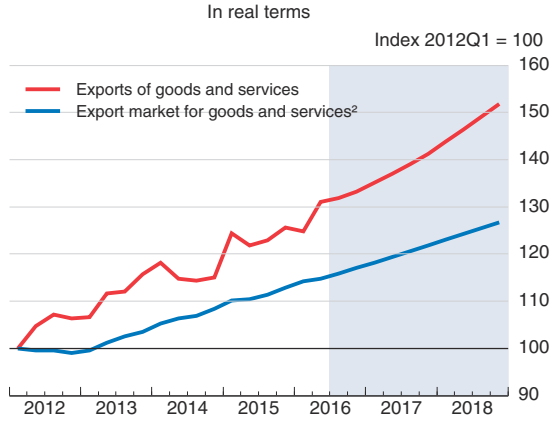
Economic growth has been driven by private consumption, supported by a stronger labour market, lower prices and improving confidence. The unemployment rate has continued to fall, even though, at the same time, skill shortages in some sectors have resulted in rising vacancies. Labour force participation is steadily increasing as more women are entering the market in response to increases in their pension age and wider availability of part-time work. Exports continue to expand, benefiting from favourable

Slovak Republic

An improving labour market and confidence spur consumption



Exports will continue to gain market shares



1. Three-quarter moving average.
2. Calculated as a market share-weighted sum of partner countries' imports.

Source: OECD Economic Outlook 100 database; and Eurostat.

StatLink http://dx.doi.org/10.1787/888933437907

Slovak Republic: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	74.2	2.6	3.8	3.6	3.4	3.8
Private consumption	41.8	1.4	2.2	2.8	3.1	3.3
Government consumption	13.7	5.3	5.4	2.8	1.1	1.0
Gross fixed capital formation	15.4	1.2	16.9	-0.2	5.0	5.0
Final domestic demand	70.8	2.1	6.0	2.1	3.1	3.2
Stockbuilding[1]	0.2	1.1	-1.1	-0.1	0.0	0.0
Total domestic demand	71.0	3.2	4.8	2.0	3.1	3.2
Exports of goods and services	69.6	3.7	7.0	5.3	6.1	7.0
Imports of goods and services	66.4	4.4	8.1	4.1	5.9	6.5
Net exports[1]	3.1	-0.5	-0.7	1.2	0.4	0.7
Memorandum items						
GDP deflator	_	-0.2	-0.2	-0.2	0.9	1.6
Harmonised index of consumer prices	_	-0.1	-0.3	-0.5	0.8	1.4
Private consumption deflator	_	-0.1	-0.1	-0.3	0.9	1.4
Unemployment rate	_	13.2	11.5	9.8	9.1	8.3
General government financial balance[2]	_	-2.7	-2.7	-2.1	-1.5	-0.6
General government gross debt[2]	_	60.5	59.2	59.2	59.2	58.0
General government debt, Maastricht definition[2]	_	53.6	52.5	52.5	52.4	51.2
Current account balance[2]	_	0.1	-1.3	-1.4	-0.7	0.3

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933439188

developments in the important automotive industry and a strong pick-up in tourism. Consumer prices have declined mainly due to falling food and energy prices, while prices of services are still rising, even though only slowly.

More reforms are needed to make growth sustainable

Stronger government revenues fuelled by cyclical improvement and better tax collection provide tailwinds for government plans to reach the goal of budget balance in 2019. As the deficit declines and public-sector efficiency improves there should be room to finance growth-friendly measures in education, R&D and infrastructure. Improving and completing the transport infrastructure network will be important for reducing obstacles for job creation in the eastern region. In this regard, the government should continue to effectively implement the current Value for Money initiatives to incorporate evidence-based analysis in policy making. The Slovak Republic will also need to rebalance its tax mix away from direct taxes and social security contributions towards property and environmentally-related taxes. The government should also keep striving to improve tax collection by strengthening the tax administration in order to reduce non-compliance, especially with respect to value added and corporate income taxes.

Monetary policy in the euro area will remain highly accommodative, boosting investment and consumption through low lending rates. However, more ambitious national structural reforms are needed to ensure that the benefits of higher growth are

shared equitably, making it more inclusive and sustainable. Despite a recent decline, the share of the long-term unemployed remains high. More changes are needed to increase the efficiency of public employment services, with more resources allocated towards effective training measures. The government also needs to pursue much needed reform in education. This should focus on improving the outcomes of students from disadvantaged backgrounds, including Roma, by easing their access to early childhood education.

Growth is projected to stay robust

Growth is projected to strengthen and reach 3.8% in 2018, underpinned by strong domestic demand. Employment growth coupled with higher wages will spur household consumption, while favourable financial conditions will support investment growth. Also, new government infrastructure projects are expected to start during the projection period. Unemployment is expected to fall further to 8.3% in 2018. Exports will benefit from new investment in the automotive industry and will continue to gain market share. Inflation should increase but only slowly, led by an acceleration in wages but restrained by stable commodity prices.

External developments pose both upside and downside risks to the projections as the economy is strongly integrated into global value chains. A more robust euro area recovery would boost already strong exports, while significant slowing would aggravate the impact of uncertainty on investment and economic activity. On the upside, supportive financial conditions and lower saving could result in even stronger private consumption.