

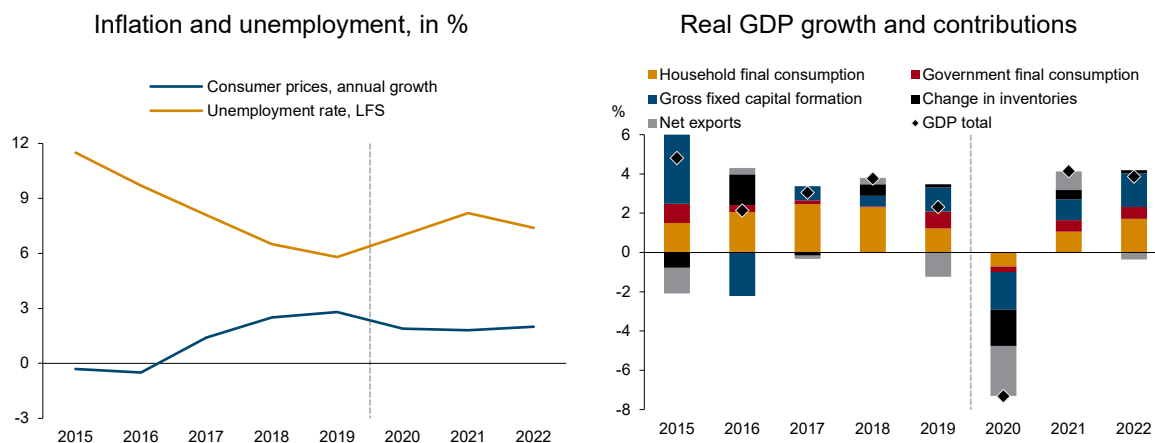


## SLOVAKIA: Second wave threatens recovery

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The COVID-19 pandemic and a related severe lockdown hit the Slovak economy in the second quarter of 2020, when GDP contracted by 12.1% year on year. There was a rapid recovery in the automotive industry, with production and exports growing again by July. However, with the number of infections rising again since September, a sustainable recovery is in doubt. We expect GDP to drop by 7.3% in 2020, and to recover in 2021 by 4.1%.

Figure 4.20 / Slovakia: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**There was a major decline in GDP in the second quarter of 2020 as a result of COVID-19 pandemic restrictions.** In the first half of 2020, Slovak GDP declined by 8.1%. While GDP had already decreased in the first quarter of 2020 by 3.7% year on year (y-o-y), the effects of the COVID-19 pandemic and the related lockdown (starting 16 March) fully hit the Slovak economy in the second quarter: GDP contracted by 12.1% y-o-y. All components of GDP declined during the second quarter: household consumption fell by 4.2% and government consumption by 10.4%. Gross fixed capital formation declined by 14.6% and gross capital formation by 32.3%. Both exports and imports of goods and services decreased by about 27%, and the contribution of net exports was thus slightly negative.

**Industry faced the biggest impact.** The sectors most severely affected in the second quarter were industry (-25%), arts, entertainment and recreation (-22%) and construction (-18%, all y-o-y). Tourism, which was hit hard by the pandemic, is included in the combined service sector (together with wholesale and retail trade, transportation and storage, accommodation, and food service activities), which fell by 16%. In the first seven months of 2020, the overall number of tourists in Slovakia declined by 47%: the number of foreign visitors tumbled by 60%, while domestic tourists were down by 40%. Bratislava was

especially hard hit by the decline in visitor numbers. However, overall, tourism (i.e. accommodation and food services) is rather a small sector of the economy, accounting for only 1.6% of value added in 2019.

**The automotive industry contracted most, but also witnessed the quickest recovery.** Within industry, the automotive industry was affected most by the shutdown of the main automotive plants for over a month. The four largest car manufacturers in the country – Volkswagen Bratislava, PSA Peugeot Citroen, Kia Motors and Jaguar Land Rover (JLR) – closed their factories in mid-March due to a collapse in demand, fear of COVID-19 spreading in large companies (12,000 employees in VW Bratislava), trade union demands for closure (JLR) and problems in the supply chains. Thus, automotive production fared worst in April (-80%); but it recovered quickly, and by July the automotive industry was already doing better than last year. August, however, saw a renewed decline in the automotive industry, while a few other industries (especially rubber and non-metallic mineral products) finally recovered. Over the first eight months of 2020, industrial production decreased by 14%.

**Construction is still in decline.** Construction saw a serious drop during the first eight months of 2020, with output falling by 10%. However, unlike in the automotive industry, no recovery was witnessed in the summer months.

**While the labour market is still not too badly affected, wages are down.** On the labour market, employment fell by 2% in the first half of 2020: the first quarter had already seen a 1.4% decline, and this was followed by a drop of 2.5% in the second quarter. The unemployment rate rose to 6.0% in the first quarter and 6.6% in the second. The labour market stabilised in August. Meanwhile, real wages stagnated in the first half of 2020: while they continued to rise in the first quarter of 2020 (+3.1%), they fell in the second quarter by 3.1%. Although household consumption was negatively impacted by the lockdown in the second quarter, retail trade recovered and actually grew in July (by 1.5%) and August (by 4%), compared to 2019.

**Exports were strongly affected by the severe supply shock, but started to recover from June, while demand remains depressed.** Exports of goods declined by 12% in the first eight months of 2020, and imports of goods by 13%. While exports picked up from June onwards (thanks to the recovery of the automotive industry), imports continued to decline. Exports to Slovakia's main export partners of Germany and the Czech Republic fell by about 16% each (January to July 2020, y-o-y). Export destinations outside Europe were also badly affected: goods exports to the United States fell by 33%, to Russia by 28% and to China by 10%.

**Public finances are suffering from the effects of the COVID-19 pandemic, but there is no cause for concern.** The government deficit and debt-to-GDP ratio reached -1.3% and 48%, respectively, in 2019. Debt reduction has not been ambitious in recent years, despite the good growth performance of the Slovak economy. The coronavirus crisis will shift debt level upwards, due to less revenue and increased expenditure: government debt will reach about 62% of GDP in 2020, while the deficit will increase to -9%. During the first lockdown phase, the government announced EUR 2.2 billion in financial aid (2.3% of 2019 GDP). Several state guarantee schemes up to EUR 4 billion were introduced for both SMEs and large firms, in order to ease liquidity pressures. On October 14 a second package was announced that will provide help for medical workers (higher sickness benefit), entrepreneurs, culture and tourism. At the beginning of October, the Finance Ministry published a reform plan entitled 'A Modern and Successful Slovakia' (Moderné a úspešné Slovensko), designed to govern spending of the

EUR 7.5 billion that is to be received from the Next Generation EU recovery fund. It mentions eight areas: fiscal reforms; the green economy; the labour market and social sustainability; education; science, research and innovation; health; public institutions and regulations; and digitalisation.

**A second wave of the pandemic that has gripped the country since mid-September could threaten the recovery and have an impact on GDP in the last quarter of the year.** Since mid-September, the daily numbers of COVID-19 infections have again been on the rise: this time the numbers are much higher than during the first wave. However, the death toll is still very low compared to other countries (61 as of 12 October). Nonetheless, on 1 October, a national emergency was declared and even stricter regulations were introduced on 15 October. Universities and schools have again shifted to online teaching. The Czech Republic has been placed on the list of 'red' countries, meaning the imposition of tougher travel restrictions (although in this case many exemptions are granted). Hungary and Austria, by contrast, are still not considered risk countries.

**A robust recovery is likely in 2021, but the downside risks are rising.** The wiiw forecast for this year has been revised upwards, due to better-than-expected data for the second quarter and the promising pace of recovery since the middle of the year; furthermore, a second lockdown is not anticipated. We expect the Slovak GDP to decline by 7.3% in 2020, before recovering by 4.1% in 2021 and by 3.9% in 2022. In 2020, household consumption should decline less than initially anticipated, although investments will suffer from uncertainty and risk aversion. Demand is still depressed on the export markets, but Slovakia's trade should improve once the recovery in world trade arrives next year. Overall, however, the risks are rising, as the second wave is threatening many countries in Europe and lockdowns may again be on the cards. Global automotive demand remains sluggish and could threaten the recovery of this important Slovak sector.

Table 4.20 / Slovakia: Selected economic indicators

	2017	2018	2019 <sup>1)</sup>	2020 1Q	2020 2Q	2020 1-2Q	2020 Forecast	2021 Forecast	2022
Population, th pers., average	5,439	5,447	5,454	.	.	.	5,455	5,460	5,460
Gross domestic product, EUR mn, nom.	84,532	89,506	93,865	21,485	21,200	42,685	88,700	94,000	99,600
annual change in % (real)	3.0	3.8	2.3	-3.7	-12.1	-8.1	-7.3	4.1	3.9
GDP/capita (EUR at PPP)	21,130	22,140	22,820	.	.	.	.	.	.
Consumption of households, EUR mn, nom.	46,535	49,590	52,052	13,004	12,652	25,656	.	.	.
annual change in % (real)	4.5	4.2	2.2	1.0	-4.2	-1.6	-1.3	1.9	3.1
Gross fixed capital form., EUR mn, nom.	17,889	18,765	20,090	3,894	4,093	7,987	.	.	.
annual change in % (real)	3.5	2.6	5.8	-4.8	-14.6	-10.1	-9.0	5.0	8.0
Gross industrial production									
annual change in % (real)	3.2	4.4	0.4	-7.3	-28.2	-17.7	-10.0	7.0	5.0
Gross agricultural production									
annual change in % (real)	-6.1	-2.4	-2.7	.	.	.	.	.	.
Construction industry									
annual change in % (real)	3.0	8.5	-3.6	2.7	-14.5	-7.4	.	.	.
Employed persons, LFS, th, average	2,531	2,567	2,584	2,552	2,505	2,528	2520	2490	2510
annual change in %	1.5	1.4	0.7	-1.4	-2.5	-2.0	-2.4	-1.0	1.0
Unemployed persons, LFS, th, average	224	180	158	162	178	170	190	220	200
Unemployment rate, LFS, in %, average	8.1	6.5	5.8	6.0	6.6	6.3	7.0	8.2	7.4
Reg. unemployment rate, in %, eop	5.9	5.0	4.9	5.2	7.4	7.4	.	.	.
Average monthly gross wages, EUR	954	1,013	1,092	1,086	1,088	1,087	1110	1150	1210
annual change in % (real, gross)	3.3	3.6	5.0	3.1	-3.1	0.0	0.0	1.5	3.3
Consumer prices (HICP), % p.a.	1.4	2.5	2.8	2.9	2.0	2.5	1.9	1.8	2.0
Producer prices in industry, % p.a.	2.5	2.3	1.9	1.7	-1.4	0.1	-0.6	1.0	1.7
General governm.budget, EU-def., % of GDP									
Revenues	40.5	40.8	41.6	.	.	.	40.7	40.4	40.9
Expenditures	41.5	41.9	42.9	.	.	.	49.7	47.5	47.0
Net lending (+) / net borrowing (-)	-1.0	-1.1	-1.3	.	.	.	-9.0	-7.1	-6.1
General gov.gross debt, EU def., % of GDP	51.3	49.5	48.2	.	.	.	61.7	63.2	63.4
Stock of loans of non-fin.private sector, % p.a.	9.9	9.8	6.6	6.6	6.1	6.1	.	.	.
Non-performing loans (NPL), in %, eop	3.6	3.1	2.8	2.8	2.7	2.7	.	.	.
Central bank policy rate, % p.a., eop <sup>2)</sup>	0.00	0.00	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR mn	-1,618	-1,973	-2,547	-897	-306	-1,204	-3,500	-2,700	-3,200
Current account, % of GDP	-1.9	-2.2	-2.7	-4.2	-1.4	-2.8	-3.9	-2.9	-3.2
Exports of goods, BOP, EUR mn	70,510	75,142	75,657	18,141	13,437	31,578	64,900	70,700	73,900
annual change in %	5.7	6.6	0.7	-7.6	-29.0	-18.1	-14.2	9.0	4.5
Imports of goods, BOP, EUR mn	69,913	75,381	76,636	18,874	13,423	32,297	67,400	72,100	75,600
annual change in %	6.8	7.8	1.7	-2.9	-30.0	-16.3	-12.1	7.0	4.9
Exports of services, BOP, EUR mn	9,339	10,228	11,009	2,351	1,930	4,281	8,900	9,500	10,500
annual change in %	11.8	9.5	7.6	-3.4	-31.1	-18.2	-19.0	7.0	10.0
Imports of services, BOP, EUR mn	8,457	9,300	9,783	2,066	1,659	3,725	7,900	8,300	9,000
annual change in %	6.1	10.0	5.2	-5.8	-30.5	-18.7	-19.0	5.0	8.0
FDI liabilities, EUR mn	3,749	1,906	2,067	1,204	47	1,251	1,300	.	.
FDI assets, EUR mn	1,367	760	16	861	874	1,734	900	.	.
Gross reserves of NB excl. gold, EUR mn	1,609	3,426	5,002	5,239	6,111	6,111	.	.	.
Gross external debt, EUR mn	91,574	102,016	105,517	105,735	113,021	113,021	120,000	125,000	127,000
Gross external debt, % of GDP	108.3	114.0	112.4	119.2	127.4	127.4	135.3	133.0	127.5

1) Preliminary. - 2) Official refinancing operation rates for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.