

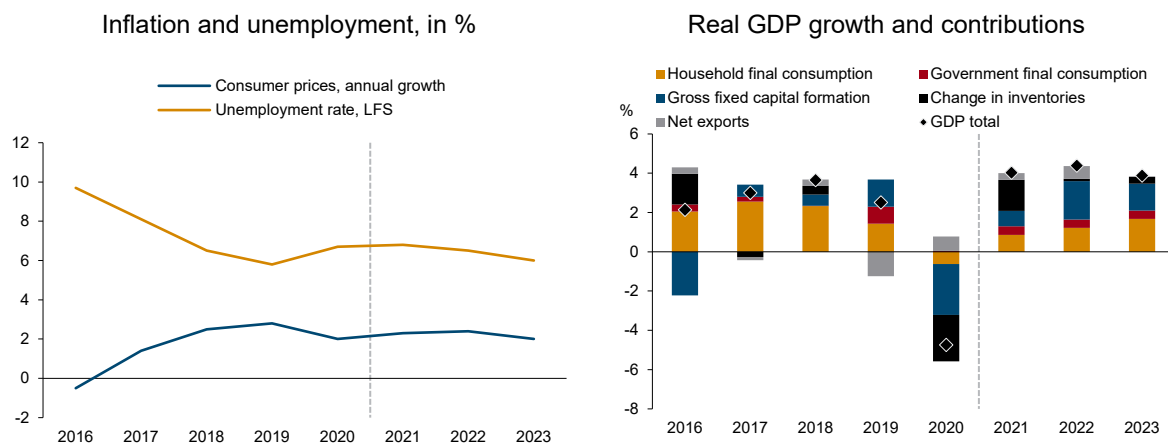


SLOVAKIA: Shortage of semiconductors starting to bite

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Slovakia's GDP recovered by 9.6% in Q2 2021. Manufacturing – especially the automotive industry – is driving growth, but the shortage of semiconductors is of increasing concern. Slovakia's GDP is expected to rise by 4% this year, while the influx of EU money will drive up investment in coming years.

Figure 4.20 / Slovakia: Main macroeconomic indicators



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

Slovakia's GDP grew by 4.9% in the first half of 2021, but has not yet reached its pre-COVID level.

The picture for the two quarters is very different. Q1 2021 was hampered by a lockdown and the closure of non-essential retail outlets shops, and so GDP increased by only 0.2% year on year. The crisis measures were then lifted on 19 April. The Q2 results were better, but not as good as expected, leading to GDP growth of 9.6%. The main driver of growth in Q2 was gross capital formation – especially the accumulation of inventories, which is also related to supply-chain bottlenecks. Markedly positive contributions also came from the revival of household consumption after the lockdown and government consumption. Net exports, which were the main growth driver in Q1, likewise made a positive contribution, but less than might have been the case had imports not had such a negative effect in Q2. Thus, overall, growth rates for the first half of 2021 were still negative for household consumption (-0.5%) and gross fixed capital formation (-1.9%), but were positive for government consumption (+3.5%) and gross capital formation (10.8%). Exports of goods and services increased by 23% in the first half of the year, and imports by 20%.

Manufacturing is driving growth, while some service sectors are still suffering. Looking at sectoral developments, industry – in particular, manufacturing – fuelled growth in the first half of the year, with value added increasing by 19% year on year. Services grew by only 1.6% in H1, as that sector was still badly affected by the lockdown in Q1. Arts, entertainment and recreation (R-U) and professional,

scientific and technical activities (M-N) fell by 14% and 7%, respectively, in H1. Construction also performed poorly in H1 (-3%), though it improved during Q2. However, the prospects are rather gloomy, as bottlenecks in building materials, a shortage of labour and rising prices are all affecting the sector. If we look at the situation in more detail, the main Slovak manufacturing industry – the automotive sector – contributed most to growth in the first half of the year, followed by basic metals and fabricated metal products, and machinery & equipment. However, from June onwards the automotive sector lost steam, and thereby its position as the 'engine of growth'. The major automotive companies – Volkswagen Slovakia, KIA Motors Slovakia, Stellantis (previously PSA Peugeot-Citroen) and Jaguar Land Rover – were troubled by a shortage of semiconductors and either suspended production for several days, cut work shifts or dropped certain production lines (e.g. large SUVs for VW). Thus, the semiconductor shortage is already thought to have affected Q2 results.

The labour market improved modestly in Q2 2021, and there was a wage hike. While still hampered by lockdown in Q1 2021, the situation on the labour market improved in Q2, albeit slowly. Overall, employment fell by 3.1% year on year in H1. Although employment still declined in Q2, the figure was much smaller than in the previous quarter (-1.5% in Q2, compared to -4.8% in Q1). The unemployment rate reached 7% on average for H1 2021, with a declining trend in the second quarter (6.9% in Q2, compared to 7.1% in Q1). Government measures ('Kurzarbeit' or short-time working) stabilised the labour market during the COVID-19 pandemic in 2020 and go some way to explaining the slower reactions now. The third wave of the pandemic and the supply-chain bottlenecks may further retard full recovery on the labour market. Real monthly wages climbed by 5.3% during the first half of the year – a consequence of the strong base effect in Q2, when wages rose by 8.1%. However, full-year data will be more moderate. Inflation reached only 1.5% in H1 – very low by comparison with other countries, as inflation was very low at the start of the year. However, it began to rise and reached 3.3% in August, with the expectation of further increases. Administered prices will also rise at the beginning of next year.

Trade in goods recovered, while services exports were still affected by the pandemic. Over the first half of the year, goods exports increased by 29.5% year on year, while imports rose by 25.5% (based on trade statistics). Exports to the country's main trading partners of Germany and Czechia grew by 32% and 31%, respectively, and imports by 57% and 15%. Slovakia's main export product – cars (HS 87), which make up 35.6% of total exports – saw an increase of 46%. Trade in services did not recover so quickly, and services exports continued to decline in H1 2021 (by 2%), while imports were already growing (by 4%). The current account will be negative and could further deteriorate due to the higher dynamics of imports.

Pandemic-related expenditure is still affecting the budget. The COVID-19 pandemic bumped up the level of government deficit and debt in 2020, as there was less revenue but greater expenditure (including on pandemic aid measures). In 2020, the government deficit reached 6%, and the government debt-to-GDP level was about 60.3% (up from 48% in 2019). Thus, the debt was pushed up above the highest sanction bracket of the debt-brake rule. Debt will grow further this year, as a record high budget deficit (-10%) was approved in June.²⁹ Higher expenditure is partly – but not exclusively – related to the pandemic (e.g. subsidies to maintain employment, healthcare expenditure and assistance to the affected sectors). Slovakia's recovery plan – which takes advantage of the EU's Recovery and Resilience Facility for Slovakia and is worth EUR 6.3bn – was among the 12 plans of member states approved by the European

²⁹ <https://spectator.sme.sk/c/22673820/mps-okayed-record-high-budget-deficit-critics-expect-future-tax-hike.html> as of 03/06/2021

Commission in July. Areas that are to receive funding first include health (hospitals), the judiciary (reorganisation of courts) and education (changes in the financing and evaluation of universities).

The third wave of the pandemic is building up. Since September, Slovakia has witnessed the start of the third wave of the pandemic: whereas there were 417 new cases on 7 September, that figure had climbed to 1,500 by 28 September.³⁰ The rate of vaccination is very low: at the end of September, only 51.3% of the adult population was fully vaccinated, compared to an EU average of 79.3%.³¹ Measures are being taken at the regional level and are applied according to the current alert system, called 'Covid Automat'. In the week of 27 September to 3 October, only one district was green (good level); 34 were amber, 39 were red; and 5 were dark red (no district was in the worst – black – tier).³² Measures in the black tier, for example, include takeaway meals only from restaurants and the de facto closure of hotels. It is mostly regions in the eastern part of Slovakia that are affected by a higher number of COVID cases, due to the lower rates of vaccination there.

Robust growth is expected, but the risks are rising. wiiw growth forecasts for Slovakia have not changed, compared to the summer forecast. Slovak GDP is expected to grow by 4% this year, 4.4% in 2022 and by about 3.9% in 2023. The good GDP performance this year rests on the strong base effect. Domestic demand, including household and government consumption and the accumulation of inventories, should form the backbone of this year's growth. The impact of net exports remains a risk, as imports are showing a stronger dynamic than exports (also due to rising prices). In the years to come, gross fixed capital formation should provide an extra impetus to growth, as the EU's budgeting period 2014-2020 is coming to an end and recovery plan funds are distributed. In addition, household consumption should recover next year, on the back of improving labour markets. The risks are still manifold and include developments surrounding the pandemic and related measures (although these are tending to shift to the regional level and not to encompass national lockdowns), as well as the shortage of semiconductors, which is affecting production of the important automotive industry and which has become more acute in the course of the year.

³⁰ <https://spectator.sme.sk/c/22365153/coronavirus-in-slovakia-statistics-and-graphs.html> (position as at 29 September 2021).

³¹ <https://gap.ecdc.europa.eu/public/extensions/COVID-19/vaccine-tracker.html#uptake-tab> (position as at 29 September 2021).

³² <https://korona.gov.sk/>

Table 4.20 / Slovakia: Selected economic indicators

	2018	2019	2020 ¹⁾	2020 January-June	2021	2021 Forecast	2022 Forecast	2023
Population, th pers., average	5,447	5,454	5,459	.	.	5,465	5,470	5,475
Gross domestic product, EUR m, nom.	89,357	93,901	91,555	42,934	45,648	97,400	104,100	110,300
annual change in % (real)	3.7	2.5	-4.8	-7.4	4.9	4.0	4.4	3.9
GDP/capita (EUR at PPP)	21,360	21,870	21,260	.	.	.	.	.
Consumption of households, EUR m, nom.	49,683	52,334	52,837	25,843	26,111	.	.	.
annual change in % (real)	4.2	2.6	-1.1	-1.6	-0.5	1.5	2.1	2.9
Gross fixed capital form., EUR m, nom.	18,707	20,184	17,879	7,886	7,853	4.0	10.0	7.0
annual change in % (real)	2.7	6.6	-12.0	-11.8	-1.9	.	.	.
Gross industrial production								
annual change in % (real)	4.4	0.4	-9.0	-17.7	19.4	12.0	5.0	5.0
Gross agricultural production								
annual change in % (real)	-2.4	-4.2	1.5	.	.	.	.	.
Construction industry								
annual change in % (real)	8.5	-3.6	-11.3	-7.4	-4.3	.	.	.
Employed persons, LFS, th, average ²⁾	2,567	2,584	2,531	2,528	2,519	2490	2510	2540
annual change in %	1.4	0.7	-2.0	-2.0	-3.1	-1.6	1.0	1.0
Unemployed persons, LFS, th, average ²⁾	180	158	181	170	190	180	170	160
Unemployment rate, LFS, in %, average ²⁾	6.5	5.8	6.7	6.3	7.0	6.8	6.5	6.0
Reg. unemployment rate, in %, eop	5.0	4.9	7.6	7.4	7.8	.	.	.
Average monthly gross wages, EUR	1,013	1,092	1,133	1,087	1,163	1190	1260	1330
annual change in % (real, gross)	3.6	5.0	1.9	0.0	5.3	2.4	3.0	3.5
Consumer prices (HICP), % p.a.	2.5	2.8	2.0	2.5	1.5	2.3	2.4	2.0
Producer prices in industry, % p.a.	2.3	1.9	-0.6	0.1	1.7	3.5	4.0	3.0
General governm. budget, EU-def., % of GDP								
Revenues	40.7	41.3	41.6	.	.	40.4	40.9	41.2
Expenditures	41.7	42.7	47.8	.	.	47.5	46.0	45.3
Net lending (+) / net borrowing (-)	-1.0	-1.3	-6.1	.	.	-7.1	-5.1	-4.1
General gov. gross debt, EU def., % of GDP	49.7	48.2	60.3	.	.	62.5	61.2	60.0
Stock of loans of non-fin. private sector, % p.a.	9.8	6.6	5.0	6.1	5.1	.	.	.
Non-performing loans (NPL), in %, eop	3.1	2.8	2.3	2.7	2.1	.	.	.
Central bank policy rate, % p.a., eop ³⁾	0.00	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR m	-1,973	-3,163	105	-1,114	-166	-700	-600	-600
Current account, % of GDP	-2.2	-3.4	0.1	-2.6	-0.4	-0.7	-0.6	-0.5
Exports of goods, BOP, EUR m	75,142	75,522	70,011	31,663	40,710	80,200	85,000	89,000
annual change in %	6.6	0.5	-7.3	-17.7	28.6	14.5	6.0	4.7
Imports of goods, BOP, EUR m	75,381	76,658	68,996	32,270	39,697	78,700	83,000	87,200
annual change in %	7.8	1.7	-10.0	-16.4	23.0	14.0	5.5	5.1
Exports of services, BOP, EUR m	10,228	10,981	9,032	4,368	4,224	9,100	9,600	10,200
annual change in %	9.5	7.4	-17.8	-16.4	-3.3	1.0	6.0	6.0
Imports of services, BOP, EUR m	9,300	9,763	7,944	3,815	3,914	8,600	8,900	9,300
annual change in %	10.0	5.0	-18.6	-16.7	2.6	8.0	4.0	4.0
FDI liabilities, EUR m	1,906	2,042	-214	1,159	650	1,000	.	.
FDI assets, EUR m	760	-162	1,683	1,472	1,035	1,000	.	.
Gross reserves of CB excl. gold, EUR m	3,426	5,002	6,050	6,111	6,160	.	.	.
Gross external debt, EUR m	102,870	106,016	110,925	113,330	110,779	115,000	119,000	123,000
Gross external debt, % of GDP	115.1	112.9	121.2	123.8	113.7	118.1	114.3	111.5

1) Preliminary. - 2) From 2021 the new LFS methodology is applied in line with the Integrated European Social Statistics Regulation (IESS). - 3) Official refinancing operation rates for euro area (ECB).

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