Slovakia

An overview of Slovakia’s economy
Having weathered the financial crisis well, Slovakia’s success is led by strong exports and foreign direct investment.

In 1993, after the first years of post-communist restructuring, Slovakia peacefully broke away from the Czech Republic in what later became known as the "Velvet Divorce." Following the establishment of the Slovak Republic, the country saw robust economic growth. In 2004, Slovakia became a member of the European Union along with seven other Central and Eastern European countries and Cyprus and Malta.

Slovakia subsequently joined the Economic and Monetary Union and introduced euro notes and coins in January 2009. In the years from 2005 to 2009, when the country was preparing for euro adoption, fiscal sustainability became a key government priority. Aided by institutional and structural reforms, the Slovak economy rapidly integrated with its EU neighbors.

After joining the EU, strengthened external competitiveness and macroeconomic stability were overarching policy priorities for the Slovak authorities. Solid progress on privatization and low labor costs attracted substantial foreign direct investment (FDI). Low taxes, both for corporations and individuals, as well as a favorable geographic location were seen as assets for investors. FDI inflows were particularly concentrated in high value-added export industries such as transport equipment (mainly automobile manufacturing and related activities) and electronic goods.

A surge in investment activity in the first half of 2018 will allow investment growth in 2018 to reach double-digits. Much of this private investment has been directed towards the construction of a new car factory, which will boost Slovakia’s export capacities in the automotive industry. The year 2020 will mark the near-end of the current programming period of EU funding, from which a large number of public infrastructure investments are likely to spur more public investment.

The tightening labor market and increased exports are supporting growth and wage pressures. These are creating more favorable demand conditions and fostering renewed private consumption. The growth is helping boost tax revenues, allowing for new policy measures including higher social and healthcare contribution ceilings.

Did you know . . . ?

History The Slovak capital Bratislava is a melting pot of cultures and a political hub for the region. It was the capital of the Hungarian Empire from 1526-1784.

Geography The Slovak landscape is dominated by the Carpathian Mountains, which are home to one of the largest populations of brown bears in Europe.

Music The Fújara is a unique, traditional shepherd's flute that gained popularity in folk festivals across Europe. It is protected by the United Nations as intangible cultural heritage.

Sports The Slovak national ice hockey team is ranked as the seventh strongest in the world. A notable number of Slovaks play on NHL teams, such as the New York Rangers.

Fun Fact Štefan Banič, a Slovak immigrant to the US, invented the first actively used parachute. He tested it himself by jumping out of a high building in Washington, DC.
Slovakia’s Economy – Key Facts

- Although Slovakia is a relatively small, landlocked country, it has a well-integrated and export-oriented economy. Slovakia is considered a first-class world exporter. Germany and the Czech Republic are its largest trading partners.

- The World Economic Forum (WEF) Global Competitiveness Report for 2018 ranked Slovakia 41st out of 140 countries in terms of national competitiveness. The country ranked favorably on its infrastructure and technological readiness; however, it ranked low on its health, labor market, product market, and market size.

- The World Bank’s Doing Business Report for 2019 ranked Slovakia 42nd out of 190 countries on the ease of doing business. Improvements in enforcing contracts have helped Slovakia’s ranking; however, starting a business and dealing with construction permits are still very difficult in Slovakia.

- According to the European Commission’s Autumn 2018 Forecast, GDP is expected to reach 4% in 2018 and accelerate slightly further to 4.1% in 2019, when the current business cycle is likely to peak. Improvements in the labor market are likely to make private consumption a key contributor to GDP growth over the forecast. Increased investment in the automotive sector will also increase the country’s export capacities and GDP growth.

- Inflation is set to remain somewhat elevated at 2.6% over the 2018-2019 horizon due to robust domestic demand.

References
- http://www.doingbusiness.org/en/data/exploreeconomies/slovakia#

Exports Thanks to increases in foreign demand and production expansions in the automotive industry, Slovakia is seeing increased export growth and a positive net exports contribution to GDP.

Unemployment has decreased markedly over recent years from 9.7% in 2016 to an expected 6.9% in 2018. By 2020, it is anticipated to reach 6.0%.

Wage Cross-sector employment prospects have decreased unemployment. The increase in employment projects has drawn previously inactive workers back to the job market. Still, there are labor shortages in some sectors and regions, which are causing nominal wages to increase.

Fiscal Policy Despite the abolition of a minimum corporate income tax in 2017, tax revenues are increasing thanks to the growing profitability of companies. Revenues from personal income taxes and social contributions are also expected to expand. The general government debt is forecast to decline to 46.4% of GDP by 2019 and 44.2% in 2020. The government deficit should decline from 0.6% in 2018 to 0.3% in 2019.