INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/202

# SLOVAK REPUBLIC

June 2022

## 2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Slovak Republic, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 29, 2022, following discussions that ended on May 20, 2022, with the officials of Slovak Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 13, 2022.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/242

# IMF Executive Board Concludes 2022 Article IV Consultation with Slovak Republic

**FOR IMMEDIATE RELEASE**

**Washington, DC** – **June 30, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Slovak Republic on Wednesday, June 29, 2022, and endorsed the staff appraisal without a meeting.

Growth rebounded to 3.0 percent in 2021, but a stronger recovery was impeded by resurgent infection waves and supply chain disruptions. As a result, the shock of the war in Ukraine is hitting Slovakia before it had fully recovered from the pandemic, with output and employment still slightly below pre-crisis levels as of end 2021.

The war in Ukraine will dampen the recovery given Slovakia's geographical proximity, heavy reliance on energy imports from Russia, and high integration into global value chains. Growth in 2022 is projected to slow to 2.2 percent, with inflation averaging 10 percent in 2022–23. Growth is expected to rebound to 3.5 percent in 2023, supported by large EU funds inflows. Uncertainty is exceptionally high, with key risks tilted to the downside.

## Executive Board Assessment[2]

The war in Ukraine has clouded the outlook for the Slovak economy while it was still recovering from the pandemic. The effects of the war are already felt through surging commodity prices, input shortages, subdued confidence, weaker global demand, and heightened energy security risks, given Slovakia's heavy reliance on Russian energy imports. Slovakia is also feeling acutely the humanitarian toll of the war with more than 440,000 Ukrainian refugees having crossed the Slovak border. Against this backdrop, growth is projected to decline to 2.2 percent in 2022, with inflation averaging close to 10 percent during 2022−23. Uncertainty is exceptionally high. Key risks stem from stronger spillovers from the war, especially disruptions in energy supply, and protracted supply chain breakdowns. Slovakia's external position in 2021 is assessed to be moderately weaker than fundamentals and desirable policies.

Fiscal policy needs to be flexible and ready to adjust, while avoiding adding to inflationary pressures. The immediate policy priority is to mitigate the economic fallout of the war and minimize the humanitarian crisis. As risks may materialize and new spending priorities

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Management has determined it meets the established criteria as set out in Board Decision No. 15207 (12/74); (i) there are no acute or significant risks, or general policy issues requiring a Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact in the near term; and (iii) the use of Fund resources is not under discussion or anticipated.

emerge, automatic stabilizers should be allowed to operate fully. Also, the budget could be revised to reprioritize spending and accommodate possibly higher spending, such as on refugees, energy security, and targeted support. Targeted and time-bound transfers to vulnerable households could cushion the effect of rising commodity prices. Such transfers provide cost effective relief to those who need it most without adding to inflationary pressures, and are preferable to large, permanent, and less targeted increases in benefits. If needed, the authorities could also consider temporary support to viable companies hit hard by rising commodity prices.

Rebuilding fiscal buffers should begin once the economy is on a solid growth path, to create room for maneuver and accommodate rising ageing-related spending. The 0.5 percent of GDP annual consolidation over 2023−25 envisaged in the stability program appears appropriate as high EU fund inflows would help offset the consolidation's drag on growth. A credible medium-term consolidation path would require spelling out concrete measures. The significant progress in reducing the VAT gap is welcome and should be sustained. Raising real estate and environmental taxation could yield sizable revenue. On the expenditure side, stepped-up implementation of value for money measures will help realize the saving potential identified in spending reviews.

Recent reforms to the fiscal framework and the pension system could significantly strengthen public finances**.** The multiyear spending ceilings should strengthen fiscal discipline, while the link between retirement age and life expectancy will improve fiscal sustainability. These reforms could be enshrined in constitutional acts to help prevent their reversal. Some of the other elements of the ongoing fiscal reforms require further consideration. Constraints on the overall tax burden limit the ability of fiscal policy to respond to shocks. The parental bonus would also entail fiscal costs before savings from other elements of the pension reforms are realized.

The banking sector has weathered the pandemic well, but close monitoring, enhanced supervision, and careful calibration of financial sector policies are warranted. Financial sector supervision (including AML/CFT supervision) should continue to closely monitor asset quality, assess risks related to the war and its spillovers and calibrate stress tests accordingly. Adjusting the CCyB may be warranted if there are clear signals that the strong credit cycle continues, but the authorities should stand ready to change course if downside risks materialize. The authorities should continue exploring additional measures to address housing market vulnerabilities, such as capital-based measures on mortgage exposures, including minimum risk weights and targeted use of a sectoral systemic risk buffer. To address specific pockets of vulnerability, such as the rise in mortgages with maturities beyond borrowers' retirement age, adjusting borrower-based measures would be appropriate.

Ensuring energy security, while also advancing Slovakia's climate mitigation goals, is a key policy priority. The immediate focus should be on mitigating the effects of a potential Russian gas shut-off through securing alternative energy sources, accelerating inventory buildup, collaborating at the EU level, and contingency planning. The authorities' plans for higher investment in renewables and improved energy efficiency are welcome and should be accelerated to the extent possible, as they will help simultaneously improve energy security and reduce greenhouse gas emissions. To accelerate the green transition, Slovakia could consider introducing explicit carbon taxation once energy prices have subsided.

Structural reforms and investments to accelerate the green and digital transformation will set the stage for resilient, inclusive, and sustainable growth in a more shock-prone world. These should be coupled with human capital investments, education reforms and effective labor market policies to strengthen labor supply in a rapidly aging society, ease the adjustment to structural changes and ensure the benefits of growth accrue to all. Reforms to improve institutional quality, strengthen governance, and innovation would raise efficiency and productivity and amplify gains from other reforms. Slovakia's Recovery and Resilience Plan outlines sizable investments and reforms in these areas. Their successful execution would go a long way in raising living standards and lifting the economy's potential.

## Table 1. Slovak Republic: Summary of Economic Indicators, 2020−23

| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| | | | Projections | |
| **Output/Demand** | | | | |
| Real GDP | -4.4 | 3.0 | 2.2 | 3.5 |
| Domestic demand | -5.3 | 3.6 | 2.8 | 2.8 |
| Public consumption | 0.9 | 1.9 | 3.4 | 3.8 |
| Private consumption | -1.5 | 1.4 | 1.6 | 0.9 |
| Gross fixed capital formation | -11.6 | 0.6 | 8.4 | 7.3 |
| Exports of goods and services | -7.4 | 10.2 | 2.1 | 4.9 |
| Imports of goods and services | -8.4 | 11.1 | 2.8 | 4.3 |
| Potential Growth | 0.8 | 1.0 | 1.8 | 2.2 |
| Output gap | -4.1 | -2.2 | -1.8 | -0.5 |
| **Contribution to Growth** | | | | |
| Domestic demand | -5.1 | 3.6 | 2.9 | 2.8 |
| Public consumption | 0.2 | 0.4 | 0.6 | 0.7 |
| Private consumption | -0.9 | 0.8 | 0.9 | 0.5 |
| Gross fixed capital formation | -2.5 | 0.1 | 1.6 | 1.5 |
| Inventories | -1.9 | 2.3 | -0.3 | 0.1 |
| Net exports | 0.8 | -0.5 | -0.7 | 0.7 |
| **Prices** | | | | |
| Inflation (HICP) | 2.0 | 2.8 | 10.6 | 9.8 |
| Inflation (HICP, end of period) | 1.6 | 5.0 | 11.2 | 8.0 |
| Core inflation | 2.4 | 3.4 | 8.0 | 5.7 |
| GDP deflator | 2.4 | 2.4 | 7.5 | 9.9 |
| **Employment and Wages** | | | | |
| Employment | -1.9 | -0.6 | 1.1 | 1.3 |
| Unemployment rate (Percent) | 6.6 | 6.8 | 6.4 | 6.2 |
| Nominal wages | 3.7 | 6.8 | 7.5 | 8.8 |
| **Public Finance, General Government** | | | | |
| Revenue | 39.9 | 40.7 | 40.1 | 40.2 |
| Expenditure | 45.3 | 46.8 | 45.3 | 43.4 |
| Overall balance | -5.5 | -6.1 | -5.2 | -3.1 |
| Primary balance | -4.4 | -5.2 | -4.3 | -2.3 |
| Structural balance (Percent of potential GDP) | -1.8 | -1.7 | -3.4 | -2.9 |
| General government debt | 59.7 | 63.1 | 61.5 | 56.3 |
| **Monetary and Financial Indicators** | | (Percent) | | |
| Credit to private sector (Growth rate) | 4.8 | 7.6 | 8.9 | 11.8 |
| Mortgage lending rates 1/ | 1.1 | 1.0 | … | … |
| Government 10-year bond yield 1/ | -0.1 | -0.04 | … | … |
| **Balance of Payments** | | (Percent of GDP) | | |
| Trade balance (goods) | 1.1 | -0.1 | -2.7 | -1.4 |
| Current account balance | 0.3 | -2.0 | -4.5 | -3.2 |
| Gross external debt | 120.5 | 137.0 | 133.5 | 124.7 |
| **Saving and Investment Balance** | | (Percent of GDP) | | |
| Gross national savings | 19.2 | 19.4 | 18.3 | 20.1 |
| Private sector | 21.2 | 22.3 | 18.7 | 18.7 |
| Public sector | -1.9 | -2.9 | -0.4 | 1.3 |
| Gross capital formation | 18.9 | 21.4 | 22.8 | 23.2 |
| **Memo Item** | | | | |
| Nominal GDP (Millions of euros) | 92,079 | 97,123 | 106,746 | 121,428 |

Sources: National Authorities; and IMF staff estimates and projections.
1/ Latest data available for 2022 (average).

INTERNATIONAL MONETARY FUND

# SLOVAK REPUBLIC

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

June 13, 2022

## KEY ISSUES

**Context:** Slovakia is highly vulnerable to the war in Ukraine, given its geographical proximity, heavy reliance on energy imports from Russia, and high integration into global value chains. The shock occurs against the backdrop of an incomplete recovery from the pandemic, with activity hampered by breakdowns in global supply chains and resurgent infection waves. Growth is projected to slow to 2.2 percent and inflation to surge to over 10 percent in 2022, with sizable downside risks amidst exceptionally large uncertainty.

**Policy recommendations:** The immediate policy priority is to address the humanitarian crisis and mitigate the economic fallout of the war, including by securing new energy supplies. Faced with a new shock of uncertain duration and severity, heightened vigilance, policy flexibility and clear communication will be essential.

- **Fiscal Policy**. Near-term fiscal plans should accommodate the cost of refugees and other spending related to the war impacts, with automatic stabilizers allowed to cushion the growth slowdown. Targeted, time-bound and well-designed support to vulnerable households and viable businesses could mitigate the impact of surging commodity prices without adding to inflationary pressures. Given demographic headwinds, a gradual fiscal consolidation will be needed to rebuild buffers once the recovery is on solid ground, buttressed by concrete consolidation measures. The effective implementation of reforms in the fiscal framework and the pension system will help strengthen public finances.

- **Financial Sector Policy.** Financial sector policies should guard against the buildup of risks while supporting credit supply. The authorities should closely monitor asset quality, assess risks stemming from the war and surging inflation and calibrate stress tests accordingly. With systemic risks from real estate rising, capital-based measures on mortgage exposures (e.g. minimum risk weights, a sectoral systemic risk buffer) could be considered if imbalances persist. Adjusting existing borrower-based measures could be explored to tackle specific pockets of vulnerability.

- **Structural Policies**. Structural reforms to strengthen energy security, accelerate the green and digital transition and boost productivity will set the stage for resilient growth in a more shock-prone world. These should be coupled with human capital investments and effective labor market policies to strengthen labor supply in an aging society, integrate refugees, minimize adjustment costs of structural transformation and ensure the benefits of growth accrue to all. Reaching climate mitigation goals calls for a multi-pronged approach possibly including a carbon tax once energy markets normalize and energy prices subside, coupled with complementary policies to protect vulnerable households.

Approved By
**Laura Papi (EUR) and Martin Čihák (SPR)**

Discussions took place in Bratislava, Slovakia, during May 9–20, 2022. The mission met with National Bank of Slovakia Governor Kažimír, State Secretary Klimek of the Ministry of Finance, other senior officials from the Finance, Economy, Education, Environment, Health, Interior, Justice and Labor ministries, the National Bank of Slovakia, the Council for Fiscal Responsibility, ARDAL, and representatives from the private sector, the European Commission, and the ECB. The staff team comprised Ms. Topalova (head), Messrs. Boumediene, and Wu (all EUR). Mr. Tan (FIN) joined the discussions virtually, while Mr. Acosta (LEG) participated in some meetings. Mr. Harvan (OED) also attended the meetings. Mr. Palotai (Executive Director) attended the concluding meetings. Ms. Dumo, Ms. Sandhu, and Mr. Alasal assisted in the staff report preparation.

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## ANNEXES

# CONTEXT AND RECENT DEVELOPMENTS

1. **The Slovak economy is highly vulnerable to the fallout from the war in Ukraine.** The country is already feeling acutely the humanitarian toll, having accepted more than 440,000 Ukrainian war refugees. Slovakia is highly exposed through multiple channels. It relies heavily on Russia for its energy needs, and its integration in global value chains (GVCs) and a dominant auto sector make it particularly vulnerable to supply disruptions that the war may trigger or intensify. Direct trade and financial linkages with Russia and Ukraine are limited, but the war-induced surge in commodity prices is fueling already high inflation, which, together with tighter financial conditions, weaker external demand, exceptionally large uncertainty, and subdued confidence will weigh on activity (Annex 1).

2. **The shock of the war is hitting Slovakia before it has fully recovered from the pandemic.** Slovakia entered 2021 in a strong position to rebound from the 4.4 percent contraction in 2020 as a robust policy response had shielded household and corporate balance sheets, limited the rise in unemployment, and ensured continued credit flow. However, resurgent infection waves and supply chain disruptions hampered the recovery (Figure 1). Containment measures were reintroduced with infections rising sharply in the fall given Slovakia's low vaccination rate (only 51 percent of the population was fully vaccinated as of May 2022). At the same time, global supply bottlenecks weighed heavily on industrial production, with the scarcity of semiconductors forcing car plants to suspend shifts. Staff analysis suggests that Slovakia was disproportionately affected by the global supply chain breakdowns, given its industrial structure, GVC integration and dependence on specialized suppliers (SIP 1). GDP growth in 2021, at 3 percent, was one of the lowest in the EU, leaving economic output at end-2021 1.2 percent short of pre-crisis levels.

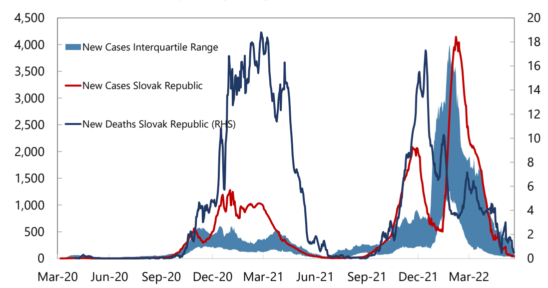
3. **The recovery has also been uneven.** On the demand side, private consumption returned to pre-pandemic levels by 2021:Q3, underpinned by continued policy support and the unwinding of accumulated excess household savings. But private investment has remained weak. On the production side, gross value added of some services, such as ICT, professional, administrative, and public services, already exceeds pre-pandemic levels. The recovery of Slovakia's sizable manufacturing sector and contact-intensive services, however, remains incomplete amidst global supply chain disruptions and pandemic aftereffects.

## Figure 1. Slovak Republic: The Recovery in 2021: Pandemic Headwinds and Supply Side Disruptions

*COVID-19 cases surged in the fall of 2021 (Delta wave) and early 2022 (Omicron wave)…*

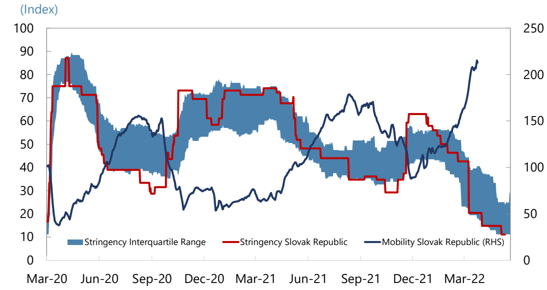
*…prompting the reintroduction of containment measures.*

**New COVID-19 Cases and Deaths**
(Number per Million, 7-day moving average)




Sources: Our World in Data; Apple Inc.; and IMF staff calculations.
Note: The interquartile range is computed across countries in Europe.

**Stringency and Mobility**
(Index)

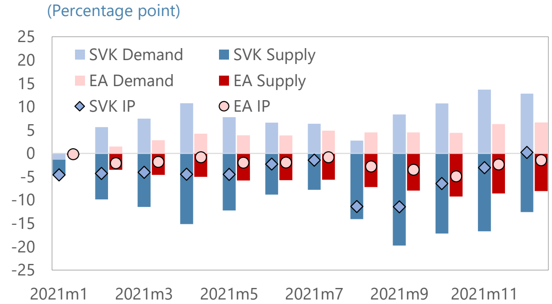



Sources: Our World in Data; Apple Inc.; and IMF staff calculations.
Note: The interquartile range is computed across countries in Europe. Mobility is the simple average of driving, transit and walking mobility, smoothed over 7 days.

*Supply shocks in 2021 weighed more heavily on Slovakia's IP than in the Euro Area.*

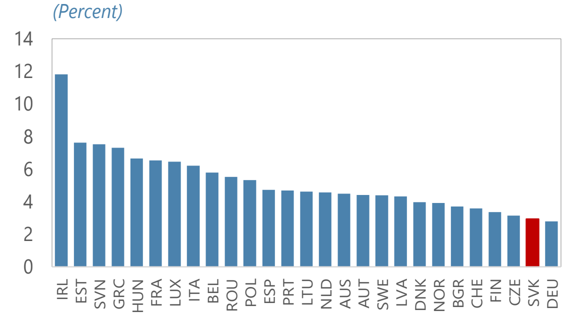
*Growth in 2021 was one of the lowest in the EU.*

**Contributions of Supply and Demand Shocks to IP Growth: Slovakia vs Euro Area**
(Percentage point)




Sources: Eurostat; and IMF staff estimates. See Slovak Republic 2022 Article IV: Selected Issues Paper.

**EU Countries: 2021 GDP Growth**
*(Percent)*

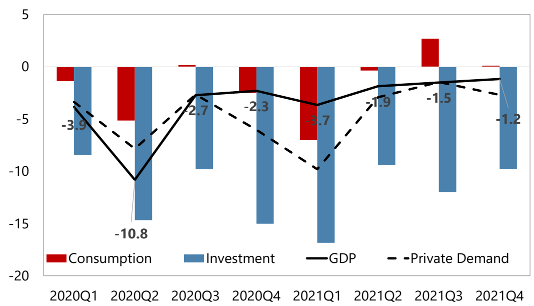



Source: Haver Analytics; and IMF staff calculations.

## Figure 2. Slovak Republic: Real and Inflation Developments

*Household consumption recovered to pre-pandemic levels in 2021, but gross fixed capital formation remains depressed.*

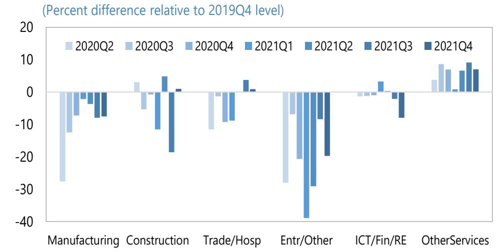
**GDP, Consumption and Investment**
(Percent difference relative to 2019Q4 level)




Sources: Haver Analytics and IMF staff calculations.

*On the supply side, GVA of manufacturing and some services have yet to return to pre-pandemic strength.*

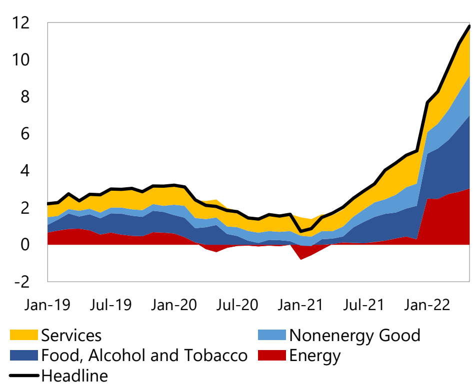
**Real Gross Value Added by Sector**
(Percent difference relative to 2019Q4 level)




Sources: Haver Analytics and IMF staff calculations.
Notes: Other services include public services and professional, scientific, technical, administrative and support services.

*The surge in inflation accelerated in 2022.*

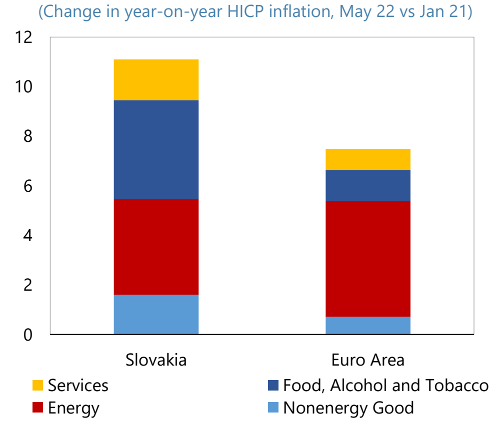
**Slovakia: Inflation Decomposition**
(Year-on-year HICP inflation, percent)




Sources: Haver Analytics; and IMF staff calculations.

*Inflation has been more broad-based than in the Euro Area.*

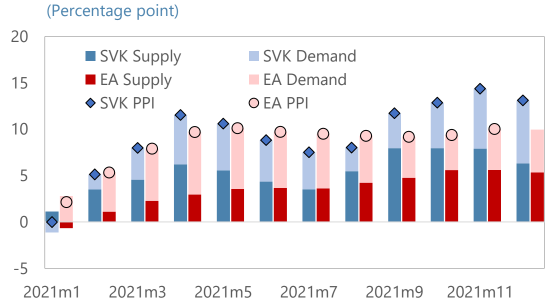
**Contributions to Inflation Change**
(Change in year-on-year HICP inflation, May 22 vs Jan 21)




Sources: Haver Analytics; and IMF staff calculations.

*Supply shocks played a sizable role in PPI growth in 2021.*

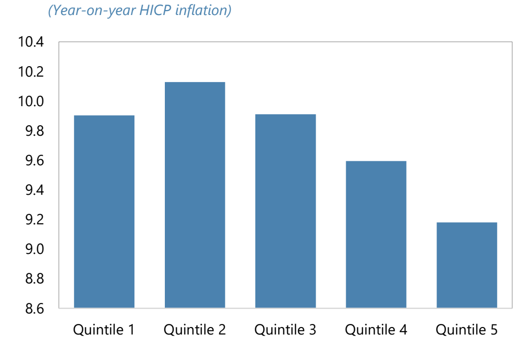
**Contributions of Supply and Demand Shocks to PPI Growth: Slovakia vs Euro Area**
(Percentage point)




Sources: Eurostat; and IMF staff estimates. See Slovak Republic 2022 Article IV: Selected Issues Paper.

*Inflation is felt more acutely by lower-income households.*

**Inflation Across Income Quintiles, March 2022**
*(Year-on-year HICP inflation)*

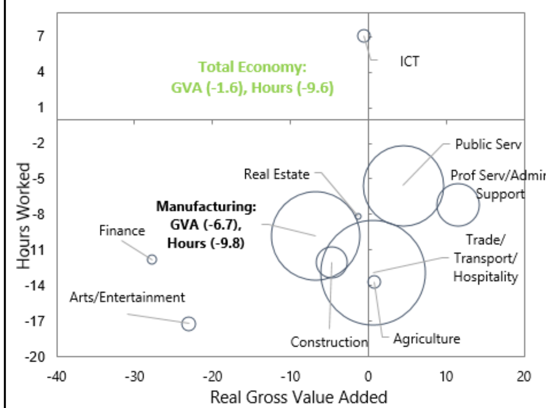



Sources: Eurostat; and IMF staff calcualtions.
Note: The HICP faced by households in different quintiles is computed based on HICP weights from 2015 and inflation across 45 COICOP

**4. Employment is rising, although some labor market slack remains.** Though unemployment has been generally declining and employment rising since April 2021, registered unemployment remains 1.8 percentage points above and employment 1.3 percent below 2019:Q4 levels as of 2022:Q1. Hours worked, which contracted more than in other EU countries, are still 9.6 percent below pre-pandemic levels, with significant sectoral heterogeneity. Yet, reported labor market shortages have increased sharply, likely reflecting skills mismatches (already high pre-pandemic) and reluctance of workers to return to sectors heavily affected by the pandemic. Although multi-year wage agreements in some sectors make wages somewhat sticky, nominal wage growth, at around 7 percent y/y in 2021:Q4, has also increased, particularly in manufacturing.

**Slovak Republic: GVA vs. Hours Worked**

*(Percent difference, 2021Q4 relative to 2019Q4)*




Sources: Haver Analytics; and IMF staff calculations.
Note: The size of the bubbles is proportional to 2019 sector employment.

**5. Inflation has accelerated to multi-year highs.** Headline inflation reached 10.9 percent y/y in April 2022, on the back of rising energy and food prices, hikes in some regulated prices, and one-off policy changes.[1] Compared to the euro area, inflation in Slovakia has been more broad-based, with an acceleration in food, services, and non-commodity goods inflation. Core inflation at 8.1 percent, among the highest in the euro area, has also accelerated and broadened. Staff analysis suggests that supply disruptions have contributed substantially to surging producer prices, putting pressure on CPI (SIP 1). The inflation surge is already weighing more on lower-income households, due to the higher weight of food and energy in their consumption basket (Figure 2).

**6. The external position in 2021 is assessed to be moderately weaker than fundamentals and desirable policies** (Annex III). This assessment is complicated by the sizable pandemic-related supply chain disruptions in 2021, which disproportionately affected the Slovak economy. After registering a small surplus in 2020, the current account turned into deficit in 2021, as imports increased with domestic consumption while supply chain disruptions curtailed exports, particularly of the auto sector. The 2021 current account gap under the EBA-lite CA approach is estimated at 1.8 percent of GDP. Slovakia's €959.4 million SDR allocation in 2021 has strengthened official reserve assets.

**7. Macroeconomic policies remained supportive:**

- Some of the key fiscal measures introduced in 2020 were appropriately extended and made increasingly more targeted, with a permanent wage-subsidy scheme replacing the First Aid scheme

[1] One-off policy changes include the cancellation of free school lunches and a tobacco excise tax increase. Electricity and gas prices for households and small businesses are regulated and are adjusted yearly with a significant lag. Regulated energy prices for households increased by about 15 percent in 2022.

starting March 2022.[2] The debt moratoria and most of the loan guarantee programs were wound down amidst falling demand. The 2020–21 direct fiscal support to the pandemic is estimated at 5.9 percent of GDP, including 2.4 percent of GDP in wage support. Other measures include 0.6 percent of GDP in tax deferrals and 0.9 percent of GDP in loan guarantees.

- Supported by measures extended by the National Bank of Slovakia (NBS), together with the ECB and the European Banking Authorities, bank solvency, liquidity and profitability increased in 2021. Credit growth remained robust even after the end of the guarantee programs, though with significant differences across sectors. Mortgage growth reached double digits and house price growth accelerated. The decline in consumer loans moderated, while growth in corporate credit, especially for investment purposes, strengthened. Corporate bankruptcies picked up in 2021:H2 but remain low and have not led to deterioration in bank asset quality.

**8. Prior to the war in Ukraine, the main focus was the implementation of Slovakia's Recovery and Resilience Plan** (RRP).[3] Slovakia is set to receive €6.3 billion (6.9 percent of 2020 GDP) in grants over 2021–26. In its RRP, Slovakia has committed to ambitious reforms in across many areas, including fiscal framework, pension, education, judiciary, digitalization, climate change, innovation, with EU funds disbursement tied to reforms. As the war erupted, the policy focus shifted to responding to its humanitarian and economic fallout. The government provided refugees financial support, access to public services and the labor market. It is also taking measures to mitigate the impact of surging commodity prices on households, and secure energy supplies. Despite these new policy challenges, Slovakia completed all 14 milestones for the first RRP payment request in April and more than half of the milestones for the second payment request, including passing reforms of the judicial system, higher education, fiscal framework, and public procurement.

# OUTLOOK AND RISKS

**9. Economic activity in the near term will be shaped by the fallout from the war in Ukraine.** The baseline forecast assumes that the war continues with no resolution but does not escalate hence there are no disruptions to natural gas imports from Russia, supply bottlenecks start dissipating towards the end of 2022, the 2022 budget is executed, and ECB monetary policy support is gradually wound down.[4] Under these assumptions, growth is projected to decline to 2.2 percent in 2022, about 2.5 percentage points below the pre-war forecast. The revision reflects lower net exports due to the direct effect of Russian sanctions, lower trading partners' demand and continued

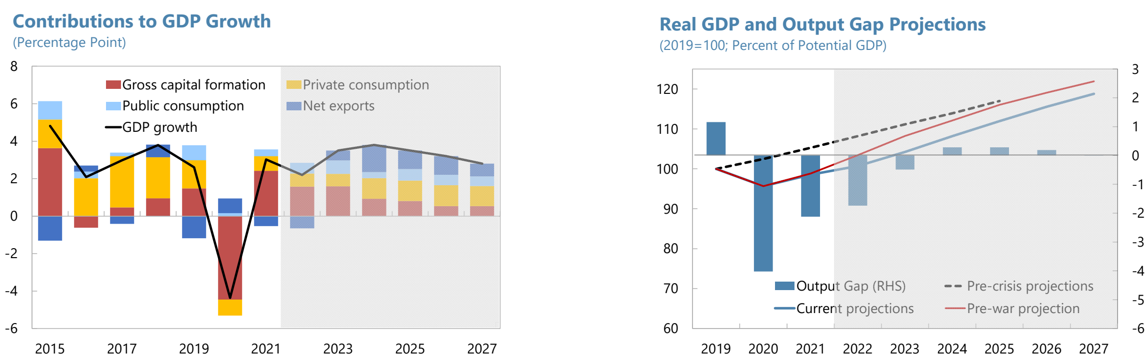
[2] See IMF SR 2021, Annex II, for a list of measures. In addition to the First Aid scheme, the authorities extended the rental subsidy scheme (until February 2022), the deferral of social security contributions for affected businesses (last for the February 2022 contribution), aid to the tourism and gastronomy sector (December 2021), and the sickness and nursing benefits (December 2021 and February 2022), though the generosity of some of the measures was reduced.

[3] Staff estimates RRF grants could significantly raise GDP, with a peak effect of 1.6 percent in 2025. The RRP could also boost potential as investments expand the capital stock (IMF SR 2021), while reforms lift productivity.

[4] As a member of the European Union, Slovakia joined the sanctions adopted at the EU level in response to Russia's invasion of Ukraine, although it was granted temporary exemption from the EU ban on Russian oil imports.

supply bottlenecks, and lower private demand due to high inflation, exceptionally large uncertainty, and tighter financial conditions. Growth is expected to accelerate in 2023 to 3.5 percent under the assumption that the situation gradually normalizes, underpinned by a recovery in net exports, stronger investment, and higher EU grants. The output gap, forecast at 1.7 percent of GDP in 2022, is expected to gradually close by 2025. The war will likely lead to additional scarring, largely due to lower trading partner growth, with 2027 output projected to be 2.5 percent lower than the pre-crisis forecast. In contrast, the assumed integration of 20,000 Ukrainian refugees could relieve some of the aging related labor supply pressures.

**Figure 3. Slovak Republic: The Outlook**




Sources: Haver Analytics; and IMF staff calculations.

Sources: WEO; and IMF staff calculations.

**10. Inflation is projected at around 10 percent in 2022 and 2023, before receding in the medium term.** High global energy and food prices will continue to feed domestic inflation in 2022 with core inflation also remaining elevated. In 2023, the agreement with the main power utility to freeze regulated electricity prices for 2 years will help contain price pressures, yet the backward-looking indexation of regulated natural gas prices, the decline in the output gap and strong wage growth will keep both headline and core inflation high.

**11. Amid exceptionally large uncertainty, risks are tilted to the downside** (Annex IV). The key downside risk is that the war in Ukraine leads to escalation of sanctions and deglobalization, disrupting gas supplies and supply chains.[5] New virus variants continue to pose a threat as only half the population is fully vaccinated. Persistently high inflation could lead to faster-than-expected monetary tightening, which could dampen activity, especially if it triggers a house price correction (2021 SIP 2). Over the medium term, Slovakia remains vulnerable to structural changes such as automation and e-mobility, and reorganization of global supply chains, should the war lead to re-division of the world and reorientation of trade flows (2021 SIP 1). On the upside, faster implementation of RRP reforms, and successful integration of refugees could lift growth above the baseline.

[5] The April 2022 IMF EUR Regional Economic Outlook estimates that a 12-month Russian supply shut-off would lead to outright gas shortfalls estimated at 12 percent for Europe as a whole, and around 25 percent for Slovakia, given its higher reliance on Russian gas. Rationing gas supplies would have significant impact on activity in Slovakia, with output loss estimates ranging from 0.6–6 percent according to recent studies by the ECB, NBS, OECD, and IMF staff.

### *Authorities' Views*

**12. The authorities broadly agreed with staff's assessment of the near-term outlook and risks.** They expect the war in Ukraine to weigh on growth mainly through weaker foreign demand, prolonged supply chain disruptions and subdued domestic demand due to the surge in commodity prices. Economic activity is forecast to gradually strengthen in 2023 as the effects of the war dissipate, but risks are clearly tilted to the downside. The high degree of uncertainty, however, is reflected in the large forecast revisions and the wide range of forecasts among institutions. The key downside risk is a long-lasting war, leading to disruptions to energy supplies, persistent supply chain bottlenecks, continued high inflation, and increased uncertainty.

# POLICY DISCUSSIONS

## A. Fiscal Policy

**13. The 2021 fiscal stance was appropriately expansionary.** Higher Covid-related expenditures widened the fiscal deficit to 6.1 percent of GDP. Nevertheless, the 2021 fiscal deficit outturn was significantly lower than budgeted, mostly on account of higher tax (CIT and VAT) income and under-execution of domestically-financed capital spending.

**14. The government should proceed with the planned reduction in Covid support, but fiscal policy needs to remain nimble and ready to adjust.** According to the 2022 Stability Program, the fiscal deficit is expected to decline to 5.1 percent of GDP as Covid-related measures are phased out, though the overall stance is assessed to be slightly expansionary. The Stability Program also envisages a significant and welcome boost to public investment, facilitated by EU grants. The Stability Program includes only some initial (and small) military and humanitarian aid to Ukraine, and 0.3 percent of GDP reserves for inflation-mitigating measures. The budget will likely be revised to fully accommodate war-related fiscal needs. The authorities should continue to monitor war and pandemic developments and adjust policies as needed, allowing automatic stabilizers to fully operate, and accommodating possibly higher spending on refugees, energy security investments, and targeted support.[6]

**Fiscal Outturn/Projection 1/**
(Percent of GDP unless otherwise indicated)

| | 2019 | 2020 | 2021 | | 2022 | | | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| | Outturn | Outturn | Budget | Outturn | Budget | Stability Program | Proj. | Proj. | |
| Revenue | 39.3 | 40.1 | 41.4 | 40.7 | 41.9 | 40.2 | 40.1 | 40.2 | 37.7 |
| EU grants | 1.0 | 1.2 | 1.2 | 1.2 | 2.2 | 2.1 | 2.1 | 3.5 | 1.8 |
| Expenditure | 40.7 | 45.6 | 48.9 | 46.8 | 46.8 | 45.3 | 45.3 | 43.4 | 40.5 |
| Covid measures | | 2.4 | 1.1 | 3.5 | 0.7 | 1.0 | 1.0 | | |
| Net lending | -1.3 | -5.5 | -7.4 | -6.1 | -4.9 | -5.1 | -5.2 | -3.1 | -2.8 |
| Structural balance 2/ | -1.8 | -2.0 | -5.6 | -1.7 | -4.1 | -3.8 | -3.4 | -2.9 | -2.9 |
| Cyclically-adjusted primary balance excluding EU grants 3/ | -1.7 | -3.6 | | -5.4 | | | -5.5 | -5.6 | -3.9 |
| Public debt | 48.1 | 59.7 | 65.0 | 63.1 | 61.5 | 61.6 | 61.5 | 56.3 | 54.7 |

Sources: Slovakia authorities and staff calculations and projections.
1/ Baseline without consolidation.
2/ In % of potential GDP except for the Budget columns. Excluding Covid-related one-off measures.
3/ In % of potential GDP. Staff's preferred measure of fiscal stance. EU grants excluded from revenue.

[6] The Stability Report expects that additional spending related to refugees could amount to 0.4 percent of GDP, to be largely financed by EU funds. This does not include the costs associated with the integration of Ukrainians into society, such as language and retraining courses.

**Text Table. Slovak Republic: Measures Taken by the Government to Address High Commodity Prices**

| | Time of Implementation | Budgetary Cost (in % of GDP) |
|---|---|---|
| Reduced electricity distribution fee for the unregulated market | Nov-21 | 0.1 |
| Reduced electricity system operation tariff for the regulated market | Nov-21 | 0.04 |
| Agreement with the main power utility provider to freeze regulated electricity prices for households until 2024 | Feb-22 | 0 |
| Advancing the payment of the 13th pension from November to July | Jul-22 | 0 |
| Inflation aid package (child benefits and one-off support to selected vulnerable groups) | Jun-22 | 0.3 |
| Inflation aid package (child benefits) | Jan-23 | 1.0 |

Sources: Ministry of Finance, Ministry of Labor.

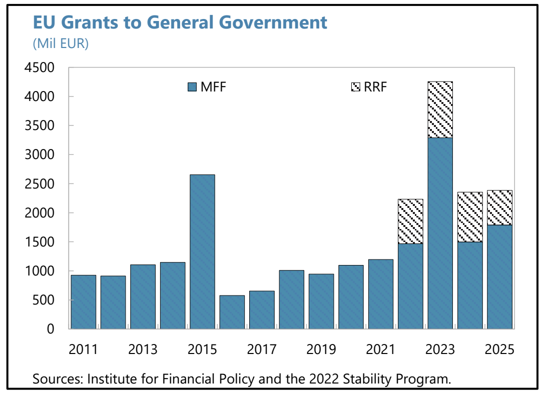
15. **The authorities are taking measures to help households cope with rising commodity prices** (Text Table). They struck an agreement with the main power utility provider to freeze regulated electricity prices for households until 2024, though some better targeting could be considered to maintain price signals.[7] The payment for the 13th pension was advanced to July. An inflation aid package is currently being considered. It is composed of some one-off support to selected vulnerable groups but mostly higher and permanent child allowances and child tax credit, to be introduced in June 2022 with benefits raised to about 1.0 percent of GDP in 2023.[8] The package would be partially financed by higher taxes including a potential windfall tax on the main oil refinery. While strengthening the social safety net is in principle desirable, the inflation aid package is not very well targeted, is quite sizable, and unless properly financed, would significantly widen the fiscal deficit. Targeted and temporary transfers to vulnerable households would provide more cost-effective relief to those who need it the most without adding to inflationary pressures. The government could also consider temporary support to viable companies hit hard by energy prices, including using policies in the 2021 EC Energy Prices Toolbox and the recent Temporary Crisis Framework, to prevent unnecessary bankruptcies.[9]

[7] The cost of the agreement to the utility provided is limited as more than 50 percent of electricity in Slovakia is generated by the nuclear power plant it owns. The industrial sector, public institutions, and apartment buildings with their own heating are part of the unregulated electricity market, for which the authorities reduced distribution fees and system operation tariffs in November 2021.

[8] The controversial package was not supported by all coalition members, was passed in a shortened legislative procedure by Parliament in May and was vetoed by the President. It will be discussed again by Parliament in June. For 2022, the fiscal cost of the package is expected to be covered by the 0.3 percent of GDP provision in the Stability Program. Financing beyond 2022 will be fully specified in the 2023 Budget.

[9] On the viability assessment of firms, see "Policy Options for Supporting and Restructuring Firms Hit by the COVID-19 Crisis," IMF, 2022/002.

**16. Fiscal buffers will need to be rebuilt once the economy is on a sustained growth path.** The 2020 downturn and pandemic measures significantly raised public indebtedness, which may be exacerbated by unforeseen spending needs. At 63 percent of GDP, public debt is not particularly high, but, with its aging population, Slovakia faces a sharp rise in pension spending and needs to rebuild buffers. The 2022 Stability Program foresees a 0.5 percent of GDP annual consolidation for 2023–25 in line with the new multiannual expenditure ceilings. Under the baseline, the timing and pace of consolidation strike an appropriate balance between rebuilding buffers and protecting activity, as large EU funds inflows would mitigate consolidation's drag on growth. With elections forthcoming in 2024, spelling out concrete consolidation measures that underpin the envisaged fiscal path for the 2023 budget will be important.[10]



Sources: Institute for Financial Policy and the 2022 Stability Program.

**17. A credible consolidation path will require efforts on the revenue and expenditure side.** As argued in past staff reports, raising real estate taxation (e.g., by linking real-estate taxes to market values) could generate revenue and help contain house price growth, with adverse effects on vulnerable populations mitigated by means-test exemptions. Raising environmental taxation (e.g., by introducing a carbon tax, once energy prices subside) could be another source of revenue, which would also support Slovakia's green transition (SIP 2). There is significant scope to increase revenue and spending efficiency. The impressive reduction of the VAT gap in 2021, reflecting in part continued efforts against fraud and improved compliance, should be sustained. The introduction of e-invoicing should help further strengthen tax collection, especially if accompanied by a broad compliance package. Stepped-up implementation of value for money measures and their more systematic integration in the budget process could improve spending efficiency and yield savings.

**Estimated Fiscal Yields from Possible Measures**
(Percent of GDP)

| | |
|---|---|
| Raising property tax to the EA level controlling for income | 0.7 |
| Closing VAT gap with the EU average level | 0.2 |
| Raising environmental tax to the OECD-Europe level (in % of tax revenue) | 0.2 |
| Realizing half of additional VfM saving potential | 0.5 |
| **Total** | **1.5** |

Sources: Draft Budget Plan (2022), Eurostat, OECD, and IMF staff calculations.

**18. Prompt implementation of planned reforms in the fiscal framework and the pension system will help strengthen public finances, while addressing structural weaknesses.** Staff welcomes the recent introduction of expenditure limits, which will mitigate policy procyclicality, enhance the credibility of consolidation plans, facilitate the integration of spending reviews in the budget process, and improve fiscal sustainability (Annex VI). As discussed in the recent Fiscal Transparency Evaluation, successful implementation would require strong public finance management and better cooperation between government entities and line ministries. Envisaged

[10] The authorities envisage savings mainly in wages and goods and services which will be specified in the Fall.

amendments to the Constitutional Act on Budgetary Responsibility, namely debt rules and multiannual spending ceiling, and strengthening the role of the Council on Budgetary Responsibility (CBR) and the independent committees for macroeconomic and fiscal forecasts, would strengthen the fiscal framework. In contrast, introducing constraints on the overall tax burden, as is currently considered, will limit government savings in good times and would not help ensure fiscal sustainability. The recently approved amendment to the Social Insurance Law re-introduces the link between retirement age and life expectancy in the pension system (a RRP milestone). This is welcome: its approval by parliament and implementation will be critical to secure public finances in the long run and boost labor supply in an aging population (2021 IMF SR, Annex V). However, the authorities should seek to minimize the fiscal cost of the parental pension bonus, included in the same amendment, which would allow working children to pay part of their pension contributions to their parents' pensions.[11] Enshrining the multiyear spending ceilings and the link between retirement age and life expectancy in constitutional acts will help prevent their reversal.

**19. Effective absorption of EU funds is crucial to boost growth and requires further efforts.** With only about half of 2014–20 Multiannual Financial Framework (MFF) EU funds absorbed and significant inflows through the RRF, the government would need to spend a record 3.5 percent of GDP in EU grants in 2023. The establishment of an Investment Authority to streamline and increase the quality of investment projects, and recent public procurement law amendments that aim to simplify processes, align regulations with EU directives, and improve controls are welcome. As recommended in the 2019 PIMA, better coordination between regional and sectoral strategies and stronger oversight of SOEs would also help improve fiscal governance (see Annex VII).

***Authorities' Views***

**20. The authorities agreed with most of staff's policy recommendations and underscored the adoption of binding multiyear expenditure ceilings to underpin the medium-term consolidation path.** They stand ready to further adjust fiscal policy in the short term given the high uncertainties brought on by the war in Ukraine and are introducing measures to help households cope with surging inflation. The recently approved social aid package is a mixture of temporary targeted transfers to vulnerable households and enhanced family support, as households with more children are more likely to be in the lower part of the income distribution and are more exposed to rising inflation. The package largely affects the 2023 balance and offsetting revenue increasing measures are being discussed.

**21. The authorities have been taking steps continuously to improve the absorption of EU funds, while also enhancing supervision.** They highlighted the amendments to the Public Procurement Act which introduced changes such as simplified procedure for below-threshold contracts and will speed up the public procurement processes. Other measures taken such as ensuring maximum transparency, centralized strategic purchases, greater digitalization, a crisis

[11]Working children will be allowed to contribute 1.5 percent of their gross salary to their parents' pensions, estimated to cost 0.2 to 0.3 percent of GDP over the entire projection horizon of 2070.

management system to minimize the risk of insufficient absorption and unifying the rules for public procurement will also help.

## B. Financial Sector Policy

**22. The banking sector is well capitalized, liquid, and profitable.** Non-performing loans have declined, despite the gradual withdrawal of support measures. Lower provisioning costs, coupled with the elimination of the bank levy, contributed to higher profits and stronger capital ratios in 2021. The banking sector's liquidity improved as well. Larger capital buffers, low NPLs and adequate provisions suggest that previous stress test results and sensitivity analysis indicating that the banking system has sufficient capital buffers to withstand a wide range of shocks most likely still hold.[12] The war in Ukraine has not disrupted the banking sector so far, given its strong fundamentals and limited direct exposure to Russia and Ukraine. Loans to corporates in industries that are both energy-intensive and highly competitive are manageable, amounting to 6 percent of NFC credit (NBS FSR November 2021).

**23. Nevertheless, close monitoring, enhanced supervision, and careful calibration of financial sector policies are needed to ensure continued banking sector resilience in the highly uncertain environment.** The surge in inflation could erode corporate profits and is already depressing household disposable income, which could impair the quality of the credit portfolio. While effective policy support prevented a surge in bankruptcies and NPLs, repayment difficulties in previously restructured loans are rising, especially in the consumer loan market segment, and corporate bankruptcies have picked up, even if levels remain modest.[13] Risks in the housing market, to which the Slovak financial sector is increasingly exposed, have clearly risen with the acceleration in house prices and higher mortgage rates. Supply-chain bottlenecks, already present in 2021, are now amplified by the war in Ukraine. The war has also raised the global threat of cyber-attacks.

- The authorities should stand ready to adjust the countercyclical capital buffer (CCyB) in line with cyclical conditions, a challenging task as large downside risks related to the war in Ukraine have emerged in the midst of a strong credit cycle. Raising the CCyB from its current level of 1 percent may be warranted if there are clear signals that the strong credit cycle continues. However, the authorities should stand ready to delay the CCyB increase or release buffers to support credit if risks materialize.

- The authorities should continue to closely monitor asset quality, assess risks related to the war and its spillovers, such as rising cost pressures, and calibrate stress tests accordingly. The rise in NPLs among loans that were previously under moratoria, particularly in the consumer segment, deserve particular attention together with loans that were subject to guarantees, and in sectors

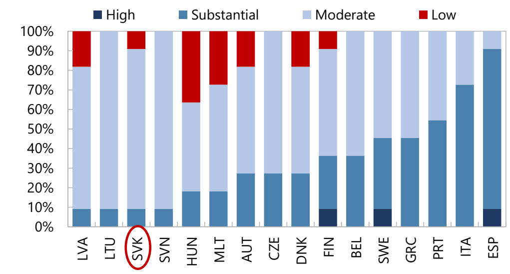
[12] See Box 2 of the 2021 SR. A reverse stress test based on data as of early 2021 suggests that the Slovak banking sector could afford an increase in NPLs of 7.5 percent given its 550-basis point capital management buffer.

[13] Non-performing loans among those that were previously under moratoria accounted for 0.3 percent of total corporate loans and 0.4 percent of total retail loans as of September 2021 (NBS FSR November 2021).

supported by pandemic-related measures.[14] In addition, the staging of loans should be sufficiently forward-looking and provisioning levels appropriate under the International Financial Reporting Standards (IFRS) for timely risk identification. Heightened cyber risk calls for its inclusion in financial stability analysis, strong cyber regulation and supervision, and improvements in response and recovery capacities to ensure swift operations return after a potential attack.

- The authorities are upgrading the AML/CFT framework but there is room for improvement in implementing a risk-based supervisory model, ensuring the availability of beneficial ownership information, and mitigating risks posed by politically exposed persons (based on the deficiencies highlighted in MONEYVAL's AML/CFT assessment). The NBS has developed an IT tool for risk-based supervision. The transposition of the 6AMLD and the implementation of the recently adopted Resolution of the Government of the Slovak Republic No. 381 will further enhance the AML/CFT legislative framework. Continued progress in strengthening the AML/CFT and governance frameworks is expected to help manage reputational risks that may arise from sanctions evasion, particularly in the current geopolitical context. Staff welcomes the ongoing audit of the government's response to the COVID-crisis and encourages the authorities to follow up on its findings.

**Assessment Ratings of AML/CFT Effectiveness**
*(Ratings low to high from left to right)*




Source: Financial Action Task Force (FATF), Consolidated Assessment Ratings, 11/30/2021.
Note: Includes only euro area countries. Ratings reflect effectiveness of countries' measures, based of 11 key goals of an effective AML/CFT system.

**24. Given the large and long-lasting shocks of the pandemic and the war in Ukraine, strong restructuring mechanisms and insolvency frameworks could facilitate needed reallocation.** Slovakia is in the process of reforming its insolvency framework, with the goal of fully digitalizing insolvency processes, establishing early warning systems, and introducing a specialized court. The law modernizing insolvency law and implementing the EU Restructuring Directive was adopted in March 2022. The reform effort is commendable: implementation of these measures would significantly strengthen the efficiency of the insolvency framework and facilitate effective restructuring, in particular for enterprises that are distressed but not insolvent.

***Authorities' Views***

**25. The authorities noted that the war in Ukraine and the surge in inflation have weakened the financial sector outlook.** Direct exposures to Russia, Belarus and Ukraine are limited. Nevertheless, rising input costs and weaker demand are expected to weigh on corporate profits and, consequently, on the quality of the credit portfolio. Authorities' stress tests suggest that the financial sector is largely resilient to the effects of the war due to its strong capital and liquidity buffers, and low and adequately provisioned for NPLs. The authorities are taking active steps to

[14] With the majority of borrowers taking advantage of the statutory moratoria in 2020, most loans have already emerged from the 9-month debt moratoria. All but one very small government guarantee programs expired as of December 2021. The pandemic-related wage support scheme ended in March 2022, with support shifting to contact-intensive services, such as accommodation and trade (Figure 10, Panel 1).

ensure continued banking sector soundness through enhanced monitoring of credit risk, more intensive communication with banks, and refocused supervisory actions on the direct and indirect exposures to the war.

**26. The NBS is considering increasing the CCyB over the next months if the strong credit cycle continues.** The risks and heightened uncertainties related to the war in Ukraine are being carefully monitored and an increase in the CCyB would be contingent on those risks not materializing. Authorities also noted the recent rise in the interest rates on new mortgage loans. The authorities are continuing to enhance the AML/CFT framework. They noted that amendments to the AML law and the Act on the Central Register of Bank Accounts address MONEYVAL recommendations including in mitigating risks posed by politically exposed persons. They have also approved an AML/CFT action plan for 2022–24 and are preparing the first follow-up report to MONEYVAL.

## C. Housing Market and Macroprudential Policy

**27. House price growth has continued to accelerate amid rapid mortgage credit growth, driven by record low borrowing costs and looser credit standards.** House price growth increased throughout 2021, reaching 22 percent y/y in 2022:Q1, with a wide gap between actual and model-predicted house prices. While housing affordability (as captured by the share of disposable income taken up by mortgage payments) remained quite high until mid-2021 given low interest rates and robust wage growth, and housing cost overburden for lower-income households is moderate from an international perspective, tightening financial conditions and higher inflation could quickly change this.[15]

**28. Macrofinancial vulnerabilities related to the housing market warrant close monitoring.** Household debt relative to GDP has risen faster and is higher than in peer countries, due to the increase in homeowners with mortgages and the topping-up of existing mortgages. The active use of borrower-based measures has reduced the share of high LTV, DTI, and DSTI mortgages, but the cluster of mortgages right below regulatory limits is a potential source of vulnerability.[16] There has also been an increase in mortgages with maturities extending beyond borrowers' retirement age.

[15] Consistent with previous years, 91 percent of mortgage loans originated in 2021 had a fixed interest rate for 1–5 years, while 7 percent had rates fixed up to 1 year.

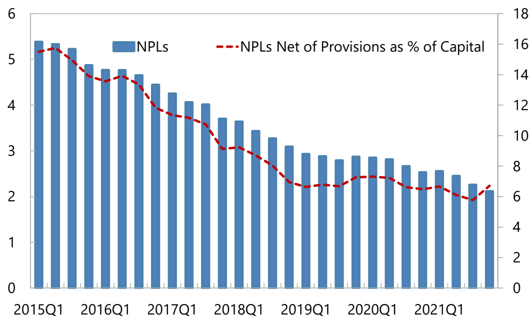
[16] In Slovakia, DSTI ratio is computed after deducting subsistence costs from income. For a 2 adult, 2 children household with €2,000 net income, 80 percent DSTI in Slovakia would be roughly equivalent to 40 percent DSTI in peer countries.

## Figure 4. Slovak Republic: The Banking Sector

*Nonperforming loans are on a downward trend …*

**Nonperforming Loans**

(Percent of Total Loans)

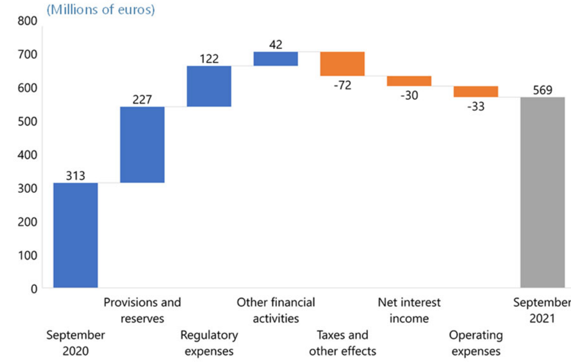



Source: Haver Analytics.

*… and bank profits have risen due to lower cost of provisioning and the cancellation of the bank levy.*

**Banking Sector Net Profits**

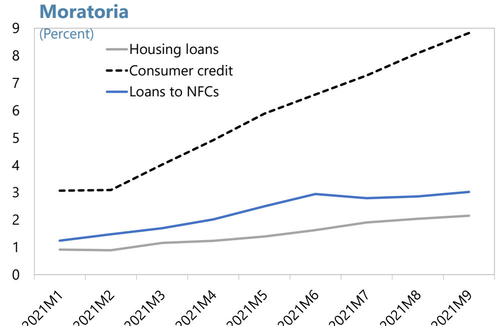
(Millions of euros)




Sources: National Bank of Slovakia.

*However, some signs of stress are visible in previously restructured loans …*

**NPL Ratio of Loans That Were Previosuly Under Moratoria**

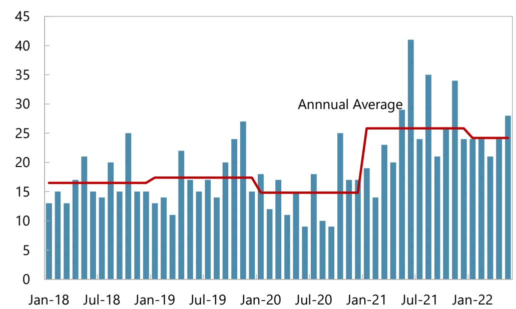



Sources: Haver Analytics and IMF staff calculations.

*… and corporate bankruptcies have inched up.*

**Declared Corporate Bankruptcies**

(Number)

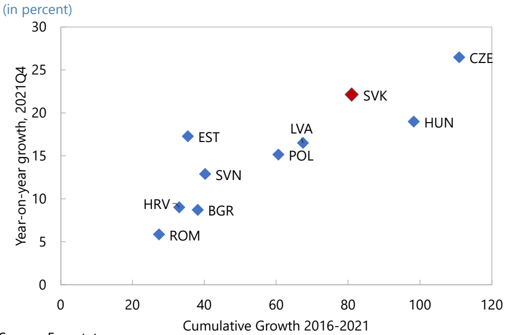



Source: Ministry of Justice of the Slovak Republic.

*House price growth has accelerated.*

**House Price Growth in Select EU Countries**

(in percent)

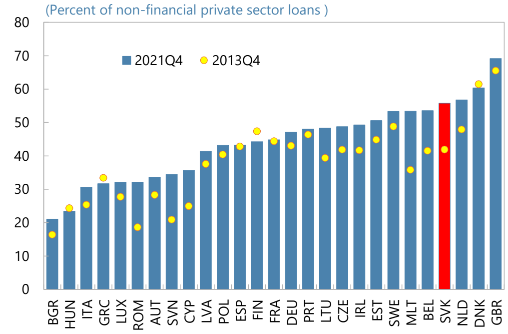



Source: Eurostat

*Banks' exposure to the real estate sector is rising.*

**Share of Mortgage Loans to Households**

(Percent of non-financial private sector loans )




Sources: Haver Analytics; and IMF staff calculations.

**29. While the macroprudential stance is broadly adequate from a financial stability point of view, the authorities could consider introducing additional macroprudential policy measures to address housing market vulnerabilities if imbalances persist.[17]** As recommended in the 2021 IMF Staff Report and the ESRB, the NBS could consider introducing capital-based measures on mortgage exposures, including minimum risk weights, to strengthen banks' resilience to adverse housing market shocks. The NBS could also explore applying the sectoral systemic risk buffer (SyRB) to target systemic risks from mortgage loans under the new Capital Requirements Directive (CRD V) flexibility, after conducting a cost-benefit analysis. To address pockets of vulnerability, such as the concentration of loans below regulatory limits and the rise in loans with maturities beyond retirement age, the authorities could consider adjusting borrower-based measures. For example, additional amortization requirements for new mortgages at the regulatory ceilings could reduce their clustering right underneath those ceilings. The proposal of a gradually falling DTI limit as borrowers approach retirement age would help limit overindebtedness of vulnerable pensioners, though it will be important to monitor its implementation and ensure that it does not reduce excessively access to credit to potentially credit-worthy older borrowers.

**30. Addressing housing supply shortages and reforming property taxation could help alleviate property market pressures.** Over the past decade, the overcrowding rate in Slovakia has declined but remains significantly higher than the EU average, especially among the younger population.[18] The inflow of refugees might also raise housing demand. Improving housing supply will have social benefits as well as dampen house price growth and associated vulnerabilities. In that regard, the recently approved construction and spatial planning laws, which aim to simplify the construction code, shorten the lengthy building permit process and reduce bureaucracy are welcome. Developing the rental market could also help contain house price inflation. Finally, raising Slovakia's property taxes would strengthen public finances and dampen overheating pressures.

***Authorities' Views***

**31. The authorities broadly concurred with staff's assessment of housing market risks.** They are open to expanding their macroprudential toolkit with capital-based measures, such as minimum risk weights, but a thorough cost-benefit analysis would be needed, especially given the sizable differences in mortgage risk-weights among IRB banks. They plan to introduce age-related DTI limits to address the rise in mortgages with maturities extending beyond retirement age. Their analysis suggests that the early adoption of such a precautionary measure would help limit excessive indebtedness and reduce the accumulation of risks, with only a slight reduction of credit growth. They also highlighted recent regulatory changes to bolster housing supply flexibility.

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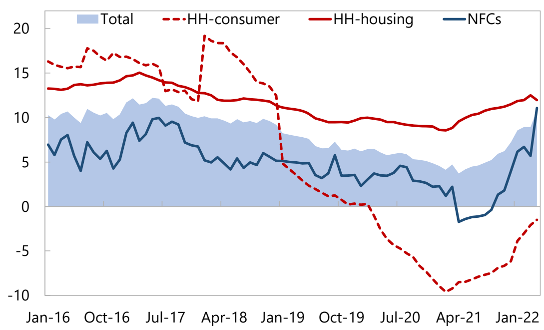
[17] Staff stress test suggests that under a mortgage stress scenario, with a 25 percent housing price correction, bank capital could fall by about 150 bps but remain above the Maximum Distributable Amount given the estimated 550 bps capital management buffer (IMF SR 2021).

[18] The population share living in an overcrowded household declined from 40 to 30 percent between 2011 and 2020, compared to the EU average of about 18 percent.

## Figure 5. Slovak Republic: The Housing Market

*Mortgage credit growth accelerated in 2021 …*

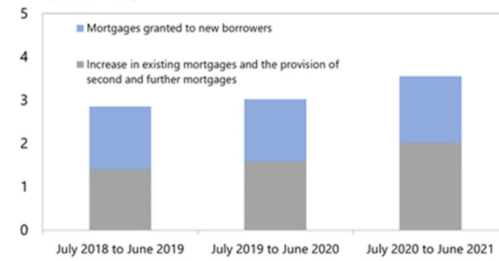
**Private Sector Credit Growth**
(Year-on-year percent change)




Sources: Haver Analytics; and IMF staff calculations.

*…driven partly by loan refinancing.*

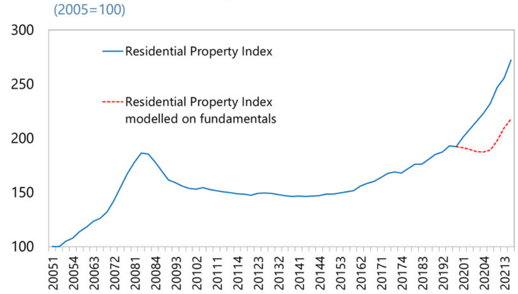
**New Housing Loans**
(Euro, billions)




Source: NBS.

*Model-based estimates suggest a house price overvaluation of about 20 percent.*

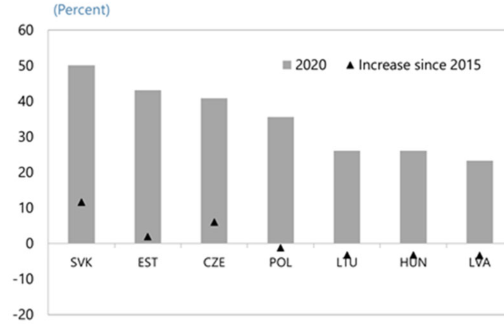
**Residential Property Index (RPI)**
(2005=100)




Source: Haver and IMF staff calculations.

*Household debt has increased more and is higher than in peer countries.*

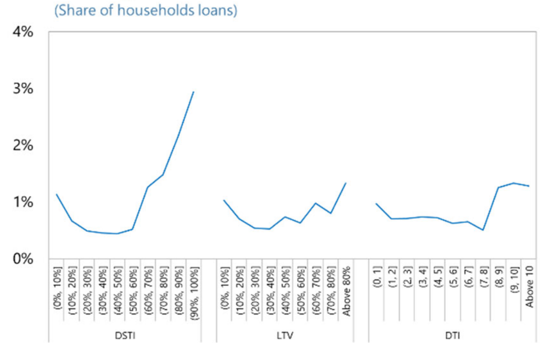
**Households Debt to GDP**
(Percent)




*Source: Haver and IMF staff calculations.*

*Repayment difficulties are significantly more common for mortgages with higher DSTI, DTI and LTV.*

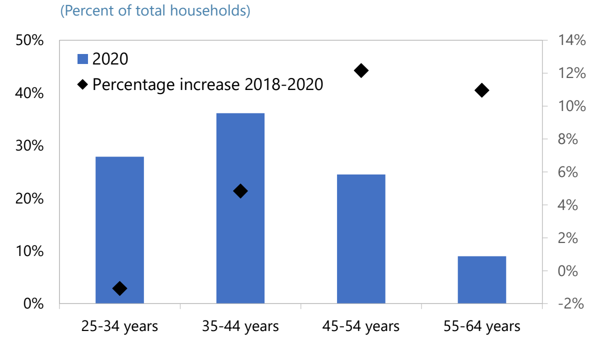
**Housing Loan NPLs**
(Share of households loans)




*Source: NBS.*
Note: Where DSTI is debt-service-to-income, LTV is loan-to-value and DTI is debt-to-income.

*The average age of mortgage holders is increasing rapidly.*

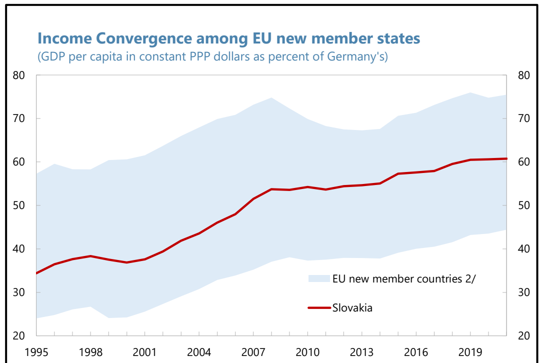
**Mortgage Holders by Age Group**
(Percent of total households)




Source: NBS.

## D. Structural Policies

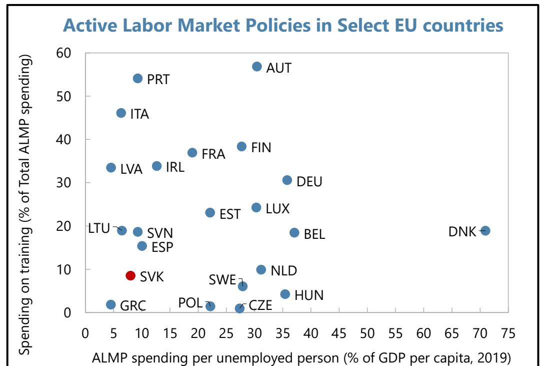
**32. Structural reforms will be needed for resilient, inclusive, and sustainable growth in a more shock-prone world.** Slovakia's growth model of high GVC integration and specialization in the auto sector has led to decades of strong export growth and income convergence. However, it has left it vulnerable to external shocks and global trends, such as climate mitigation, digitalization, and automation that the pandemic and the war may accelerate (Figure 6). High reliance on energy imports from Russia is another vulnerability that the war in Ukraine has exposed. Structural reforms that address these vulnerabilities, accelerate the green and digital transition, and boost productivity will set the stage for resilient growth, and should be coupled with investments in human capital and effective labor market policies to facilitate needed reallocation of resources, strengthen labor supply in an aging society, integrate refugees, and ensure the benefits of growth accrue to all (see Annex II for recently implemented reforms). Slovakia's RRP outlines sizable investments and reforms in these areas whose implementation would go a long way in addressing structural weaknesses and strengthening growth.



Sources: IMF World Economic Outlook; and IMF staff calculations.
1/ Income convergence is measured as the ratio fo GDP PPP per Capita to that in Germany..
2/ EU new member states include Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovak Republic, Slovenia, Estonia, Latvia, and Lithuania.

### Supporting Labor

**33. More effective Active Labor Market Policies (ALMP) can address labor market mismatches, facilitate resource reallocation, and speed up refugee integration.** Despite the incomplete labor market recovery, signs of mismatches are already visible with reported labor shortages in some sectors rising sharply. Over the medium term, the pandemic shock and accelerated structural transformation triggered by the green transition and automation and digitalization, will require significant reallocation of labor across sectors and firms. Two-thirds of jobs in Slovakia are estimated to be at risk of automation. The switch to electric vehicles—an integral part of Europe's green transition—may also have employment consequences. Effective ALMP, like training and reskilling, combined with job search assistance and well-targeted hiring subsidies, can help reduce skill mismatches, prepare workers whose jobs are at risk, and support workers' reallocation. ALMP specifically targeted to refugees (such as tailored introductory programs, language training, and possible wage subsidies to private sector employers) can help their successful labor market integration. Recent initiatives to boost employment of those disproportionately hurt by the crisis, and with difficult employment prospects (e.g., youth, long-term unemployed, and the like) are welcome. Nevertheless, Slovakia's ALMP spending, in particular spending on training, remains low among OECD countries.

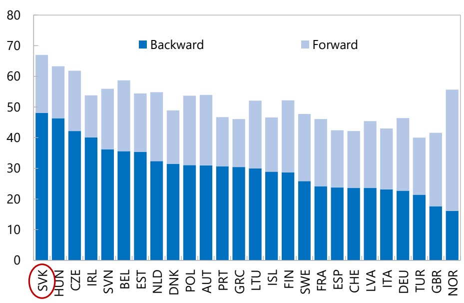


Source: OECD Labour Market Programmes database.

## Figure 6. Slovak Republic: Structural Vulnerabilities, Gaps, and Reforms

*Slovakia is highly exposed to external shocks and global trends such as automation, digitalization and climate mitgation, given its deep integration in GVCs, …*

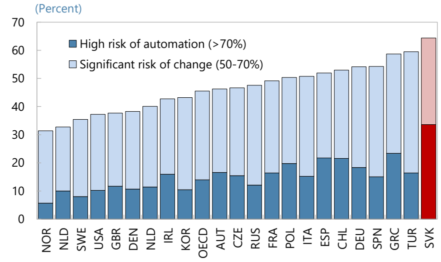
**GVC Participation Index in 2018**




Source: OECD

*… the high share of jobs estimated to be at risk of automation, …*

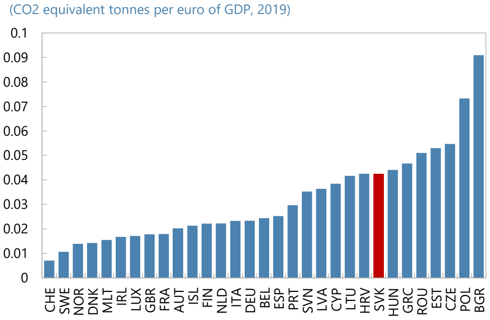
**Jobs at Risk of Automation**
(Percent)




Source: Nedelkoska, L. and G. Quintini (2018), "Automation, skills use and training", OECD Social, Employment and Migration Working Papers.

*.. and relatively high green house gas emissions intensity of output.*

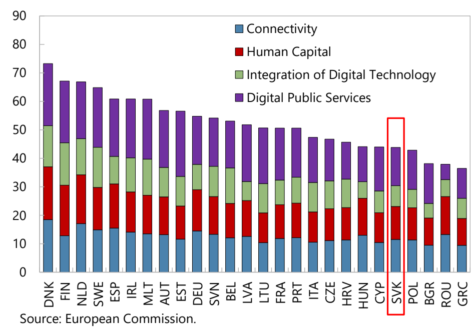
**Greenhouse Gas Emissions Intensity of Output**
(CO2 equivalent tonnes per euro of GDP, 2019)




Sources: Eurostat; and IMF staff calculations.

*There is also significant scope to strengthen digitalization.*

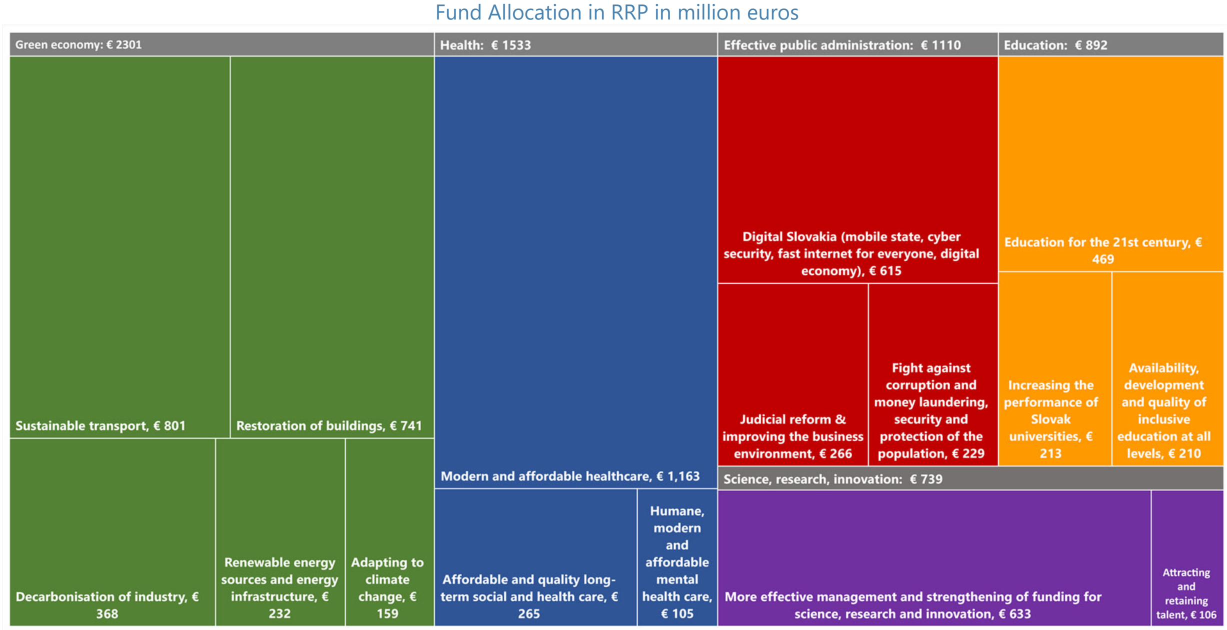
**Digital Economy and Society Index, 2021**




Source: European Commission.

*In its RRP, Slovakia aims to address many of its structural weaknesses through investments and reforms*

**Fund Allocation in RRP in million euros**



**34. Over the medium and long-term, the Slovak labor market faces significant structural challenges from population aging.** Raising labor participation of women of childbearing age and the elderly, reducing long-term unemployment, especially among the disadvantaged Roma community,[19] and attracting foreign workers will be crucial to sustain potential output. Improving the availability of childcare facilities and pre-primary education would reduce barriers to female employment, while targeted upskilling programs could help reduce long-term unemployment. As outlined in the RRP, educational reform, which aims to address Slovakia's long-standing gaps in education and prepare graduates for the rapidly changing demand for skills, could not only strengthen human capital but discourage the emigration of the Slovak youth. The authorities could also introduce a one-stop-shop portal for employment opportunities for foreign workers and Slovaks abroad, and strengthen integration services for foreign workers. Improving long-term elderly care and strengthening health care, as envisaged in the RRP, is also welcome in Slovakia's rapidly aging society.

### Accelerating the Green Transition and Securing Energy Supplies

**35. Slovakia has made important strides in reducing its carbon and energy intensity, but significant effort is needed to reach its climate mitigation goals (SIP 2).** Existing and envisaged policies will contribute to further emission reductions, but may fall short of delivering carbon neutrality by 2050. To accelerate the green transition, Slovakia could consider introducing explicit carbon taxation. Staff analysis suggests that a carbon tax could significantly decrease emissions and energy consumption, with adverse growth consequences mitigated by the use of tax revenue for lower labor taxation and efficient transfers to low-income households. The introduction of carbon taxation, however, should be gradual, predictable, complemented with policies to protect vulnerable households, and carefully timed to take place once energy prices have subsided. Preparations for its introduction should start as soon as feasible.

**36. Ensuring energy security will require review of energy strategies, collaboration with neighboring countries and at the EU level, and higher investment.** The immediate policy focus should be on mitigating the effects of a potential shut-off, which could lead to further increases in gas prices and potential rationing, through sourcing alternative energy supplies, accelerating the build-up of inventories, and contingency planning. In that regard, recent steps to secure gas supplies from non-Russian sources and LNG purchases are welcome. Extending inter-country solidarity agreements, and rolling out public campaigns to incentivize energy efficiency and reduce consumption could also help.[20] Frontloading and expanding some of the planned green and energy security investments, including by making use of the Recovery and Resilience Facility (RRF), RePowerEU and other EU funds, can strengthen the recovery, while addressing energy and climate objectives. Over the medium term, the authorities plan to develop other renewable energy sources,

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[19] See Figure 13 of the 2021 staff report.

[20] The National Bank of Slovakia estimates almost 7% natural gas consumption savings for each 1°C cut in household thermostats.

expand nuclear energy,[21] diversify natural gas sources and alternatives (e.g. geothermal, hydrogen, biomethane), update technology to utilize renewable fuels, and increase energy efficiency. Targeted investments in energy storage facilities, LNG supplies and transmission and distribution networks should also be accelerated.

## Boosting Productivity

**37. Strengthening institutional quality and governance could raise efficiency and productivity and amplify gains from other structural reforms.** In its RRP, Slovakia has committed to important reforms in these areas, including reforming the judiciary system, improving public procurement, and strengthening public investment efficiency. These efforts to strengthen governance could be usefully complemented by addressing the recommendations made by the Council of Europe's Group of States against corruption (GRECO).[22] Moreover, 30 percent of resources of the RRP will be devoted to boosting digitalization. Reforms envisaged in the areas of higher education, and R&D, through stronger public and private cooperation, more efficient grant evaluation and incentives to attract and retain talent, could also spur innovation and boost productivity.

### *Authorities' Views*

**38. The authorities agreed with the policy priorities identified by staff and highlighted the significant progress made in implementing reforms.** Slovakia's RRP has served as a catalyst for reforms and an important incentive for gathering political consensus. In addition to the reforms committed to and already implemented under the RRP, the authorities also noted several active labor market measures aimed at supporting labor and refugee integration, such as the "take your chance" program which supports disadvantaged jobseekers, and the comprehensive support provided to Ukrainian refugees to facilitate their labor market integration. The permanent Kurzarbeit scheme, which became effective in March, is also already being used. A lifelong learning strategy was approved in November, that aims to help Slovak workers prepare for the structural transformation of the future, and would complement the comprehensive education reform in the RRP. Institutional quality and governance have also been strengthened by the judicial map reform and reforms of the insolvency regime.

**39. The authorities highlighted the importance of EU-level coordination in addressing energy security, complementing measures being taken at the national level.** Slovakia has diversified its gas routes, with pipelines to the Czech Republic, Hungary, Austria and Ukraine, and a connection with Poland to start operations in mid-2022. The Slovak gas company has also made LNG purchases and authorities have developed a contingency plan should natural gas rationing be needed. However, they stressed that ensuring energy security will require coordination at the EU level and solidarity. The authorities remain committed to the green transformation, and plan to scale

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[21] The Mochovce Unit 3 nuclear reactor is expected to come on stream in 2022 with unit 4 following in 2024. The additional power generation capacity would turn Slovakia into a net electricity exporter.

[22] The authorities are preparing an updated National Anti-Corruption Program.

up investment in renewables, industry decarbonization, green transport and improved energy efficiency. Their recent analysis, based on marginal abatement cost curves, suggests that reaching Slovakia's 2030 climate mitigation goals is feasible. They noted that a potential introduction of a carbon tax once energy prices recede should be coordinated at the regional level to minimize competitiveness and carbon leakage concerns.

# STAFF APPRAISAL

**40. The war in Ukraine has clouded the outlook for the Slovak economy while it was still recovering from the pandemic.** The effects of the war are already felt through surging commodity prices, input shortages, subdued confidence, weaker global demand and heightened energy security risks, given Slovakia's heavy reliance on Russian energy imports. Slovakia is also feeling acutely the humanitarian toll of the war with more than 440,000 Ukrainian refugees having crossed the Slovak border. Against this backdrop, growth is projected to decline to 2.2 percent in 2022, with inflation averaging close to 10 percent during 2022−23. Uncertainty is exceptionally high. Key risks stem from stronger spillovers from the war, especially disruptions in energy supply, and protracted supply chain breakdowns. Slovakia's external position in 2021 is assessed to be moderately weaker than fundamentals and desirable policies.

**41. Fiscal policy needs to be flexible and ready to adjust, while avoiding adding to inflationary pressures.** The immediate policy priority is to mitigate the economic fallout of the war and minimize the humanitarian crisis. As risks may materialize and new spending priorities emerge, automatic stabilizers should be allowed to operate fully. Also, the budget could be revised to reprioritize spending and accommodate possibly higher spending, such as on refugees, energy security, and targeted support. Targeted and time-bound transfers to vulnerable households could cushion the effect of rising commodity prices. Such transfers provide cost effective relief to those who need it most without adding to inflationary pressures, and are preferable to large, permanent and less targeted increases in benefits. If needed, the authorities could also consider temporary support to viable companies hit hard by rising commodity prices.

**42. Rebuilding fiscal buffers should begin once the economy is on a solid growth path, to create room for maneuver and accommodate rising ageing-related spending.** The 0.5 percent of GDP annual consolidation over 2023−25 envisaged in the stability program appears appropriate as high EU fund inflows would help offset the consolidation's drag on growth. A credible medium-term consolidation path would require spelling out concrete measures. The significant progress in reducing the VAT gap is welcome and should be sustained. Raising real estate and environmental taxation could yield sizable revenue. On the expenditure side, stepped-up implementation of value for money measures will help realize the saving potential identified in spending reviews.

**43. Recent reforms to the fiscal framework and the pension system could significantly strengthen public finances.** The multiyear spending ceilings should strengthen fiscal discipline, while the link between retirement age and life expectancy will improve fiscal sustainability. These reforms could be enshrined in constitutional acts to help prevent their reversal. Some of the other elements of the ongoing fiscal reforms require further consideration. Constraints on the overall tax burden limit the ability of fiscal policy to respond to shocks. The parental bonus would also entail fiscal costs before savings from other elements of the pension reforms are realized.

**44. The banking sector has weathered the pandemic well, but close monitoring, enhanced supervision, and careful calibration of financial sector policies are warranted.** Financial sector supervision (including AML/CFT supervision) should continue to closely monitor asset quality, assess risks related to the war and its spillovers and calibrate stress tests accordingly. Adjusting the CCyB may be warranted if there are clear signals that the strong credit cycle continues, but the authorities should stand ready to change course if downside risks materialize. The authorities should continue exploring additional measures to address housing market vulnerabilities, such as capital-based measures on mortgage exposures, including minimum risk weights and targeted use of a sectoral systemic risk buffer. To address specific pockets of vulnerability, such as the rise in mortgages with maturities beyond borrowers' retirement age, adjusting borrower-based measures would be appropriate.

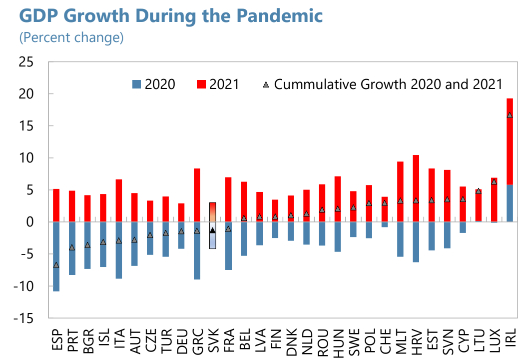
**45. Ensuring energy security, while also advancing Slovakia’s climate mitigation goals, is a key policy priority.** The immediate focus should be on mitigating the effects of a potential Russian gas shut-off through securing alternative energy sources, accelerating inventory buildup, collaborating at the EU level, and contingency planning. The authorities’ plans for higher investment in renewables and improved energy efficiency are welcome and should be accelerated to the extent possible, as they will help simultaneously improve energy security and reduce greenhouse gas emissions. To accelerate the green transition, Slovakia could consider introducing explicit carbon taxation once energy prices have subsided.

**46. Structural reforms and investments to accelerate the green and digital transformation will set the stage for resilient, inclusive, and sustainable growth in a more shock-prone world.** These should be coupled with human capital investments, education reforms and effective labor market policies to strengthen labor supply in a rapidly aging society, ease the adjustment to structural changes and ensure the benefits of growth accrue to all. Reforms to improve institutional quality, strengthen governance, and innovation would raise efficiency and productivity and amplify gains from other reforms. Slovakia’s Recovery and Resilience Plan outlines sizable investments and reforms in these areas. Their successful execution would go a long way in raising living standards and lifting the economy’s potential.

**47. It is recommended that the next Article IV consultation with the Slovak Republic take place on the standard 12-month consultation cycle.**

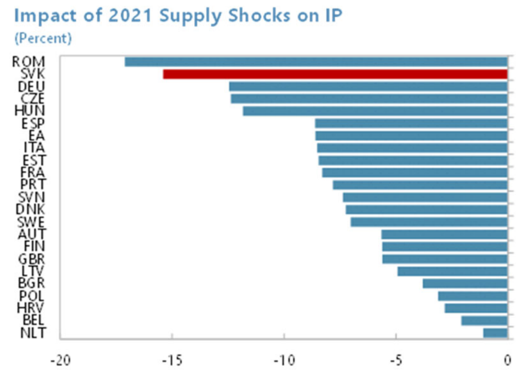
## Figure 7. Slovak Republic: Real Sector Developments

*Slovakia has yet to fully recover from the pandemic.*



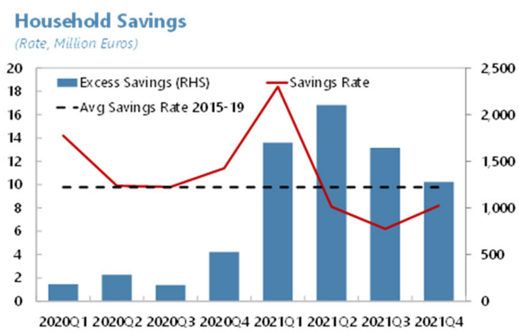

Sources: Eurostat; and Haver Analytics.

*Supply disruptions have weighed on industrial production.*




Source: IMF Staff calculations

*The drawdown of household savings supported consumption, along with effective policy measures…*

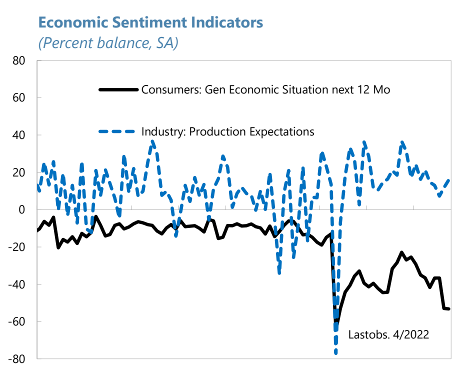



Sources: Haver Analytics; and IMF staff calculations.
Note: Excess savings is computed as the difference between actual deposits and levels predicted based on the average increase in deposits 2015-19.

*…resulting in resilient retail trade in 2021H2 and in early 2022 despite high infection rates.*

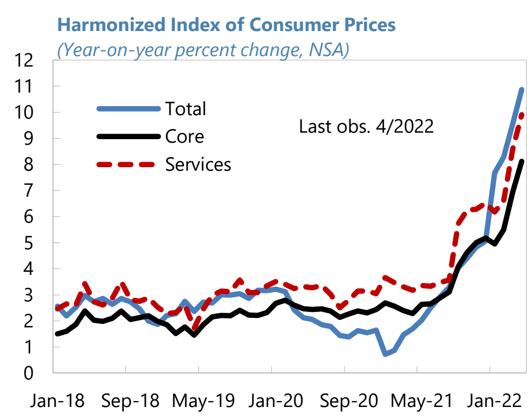

Source: National Bank of Slovakia.

*Economic sentiment among consumers weakened amid large uncertainties related to the Ukraine war…*




Source: Haver Analytics.

*…and consumer price inflation surged to record highs.*

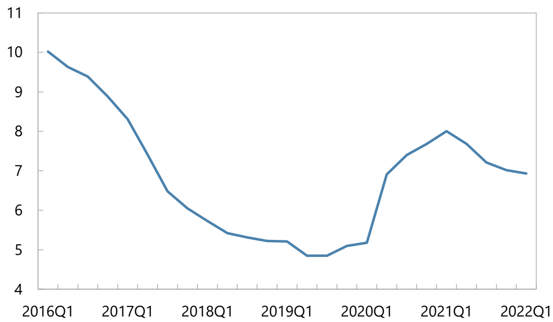



Source: Haver Analytics.

## Figure 8. Slovak Republic: Labor Market Developments

*Unemployment is declining gradually…*

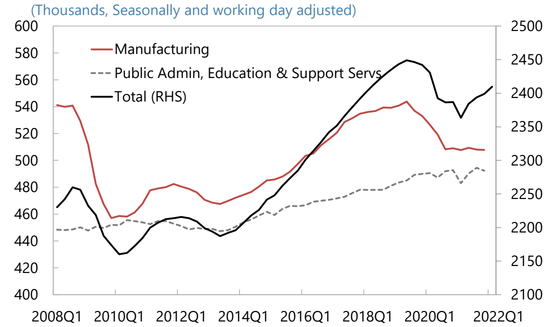
### Registered Unemployment Rate
(Percent of labor force, SA)




Source: Haver Analytics; and IMF staff calculations.

*…and employment is recovering…*

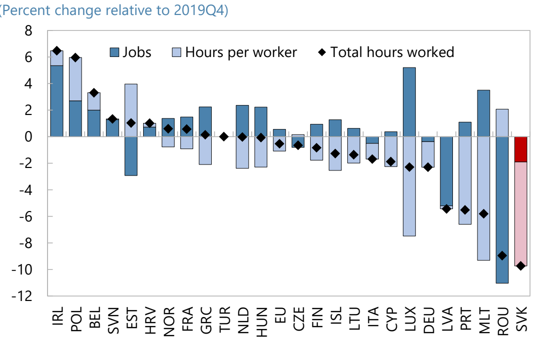
### Employment by Sector
(Thousands, Seasonally and working day adjusted)




Source: Haver Analytics

*…though hours worked remain significantly below pre-crisis levels.*

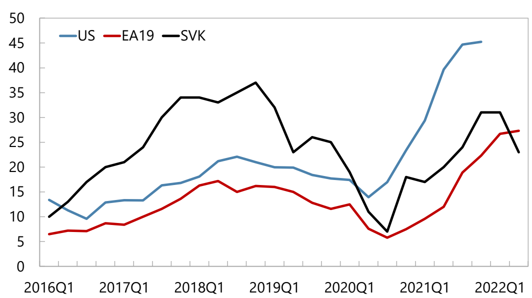
### Working Hours Growth Decomposition, 2021Q4
(Percent change relative to 2019Q4)




Sources: Eurostat; and IMF staff calculations.

*Labor market shortages have increased …*

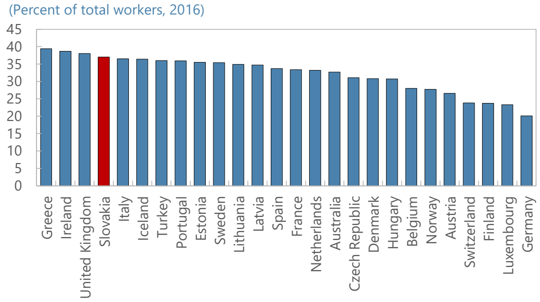
### Share of Producers Reporting Shortages of Labor
(SA; US: percent, EA19 and SVK: percent balance)




Sources: Haver Analytics; U.S. Census Bureau; and IMF staff calculations.
Notes: The latest data show 2021Q4 for US and 2022Q2 for EA19 and Slovakia.

*…possibly reflecting the long-standing mismatches in Slovakia's labor market.*

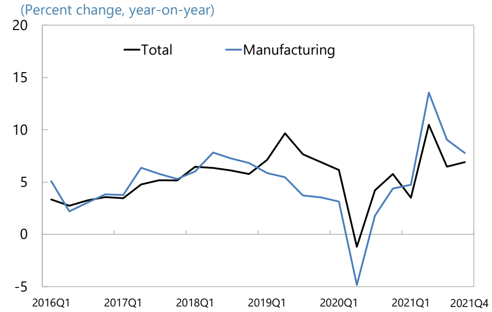
### Field-Of-Study Mismatch
(Percent of total workers, 2016)




Sources: OECD; and IMF staff calculations.
Note: Field-of-study mismatch arises when workers are employed in a different field from what they have specialised in.

*Wage growth has been particularly strong in the manufacturing sector.*

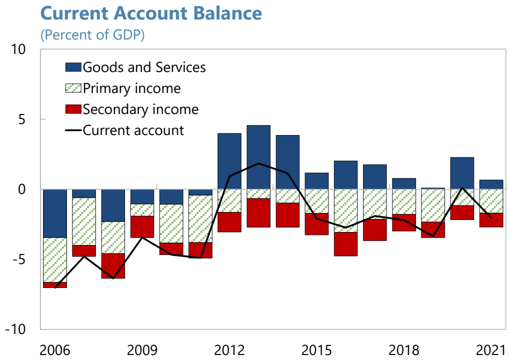
### Average Nominal Wages
(Percent change, year-on-year)




Source: Haver Analytics; and IMF staff calculations.

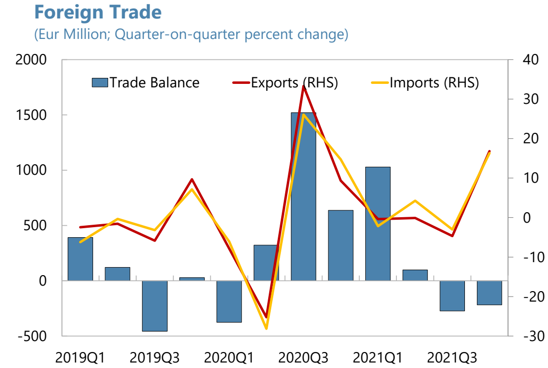
## Figure 9. Slovak Republic: External Sector Developments

*The current account deteriorated in 2021…*



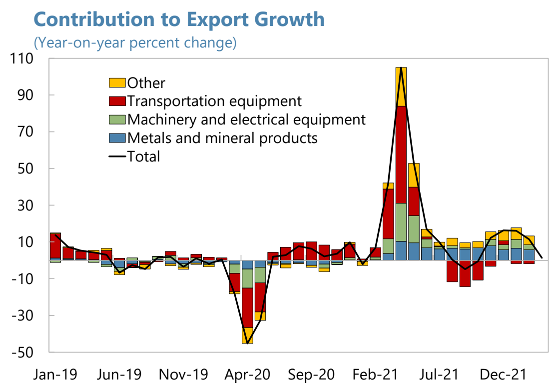

Sources: Eurostat; NBS; and IMF staff calculations.

*… mainly due to a deterioration in trade balance after Q1.*



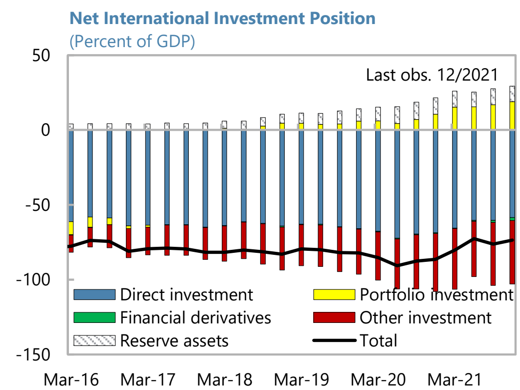

Source: Haver Analytics.

*Car exports declined in the second half of 2021.*



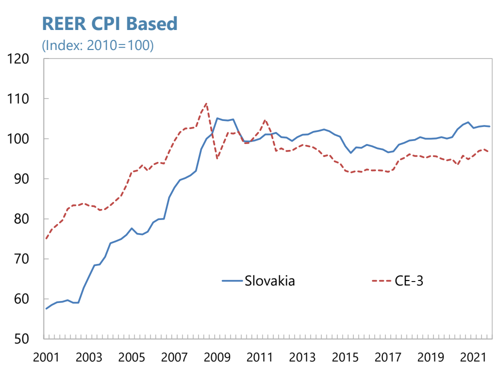

Sources: Haver Analytics; and IMF staff calculations.

*Slovakia has a large negative NIIP, but external liabilities are FDI-heavy, reducing exposure to capital flow reversals.*



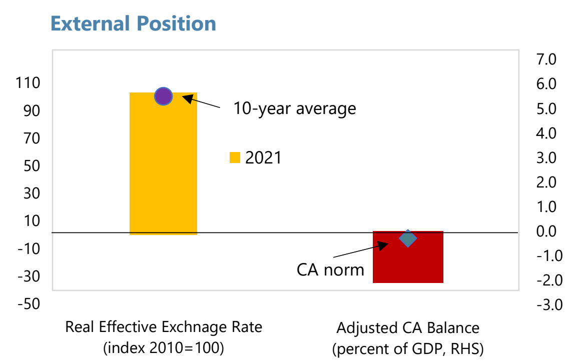

Source: Haver Analytics.

*The REER has remained in line with peer countries…*




Sources: IMF, International Financial Statistics.

*…and staff assesses the external position in 2021 to be moderately weaker than fundamentals.*

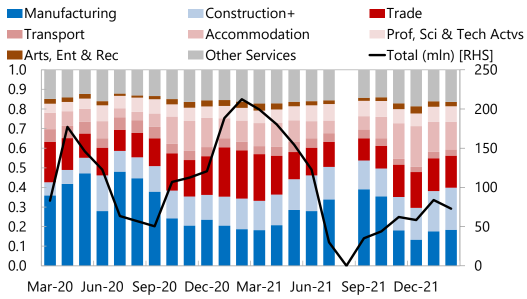



Sources: IMF INS database; and IMF staff calculations.

## Figure 10. Slovak Republic: Fiscal Sector Developments and Challenges

*Wage support has declined significantly from peak levels and shifted to contact-intensive service (e.g. accommodation and trade).*

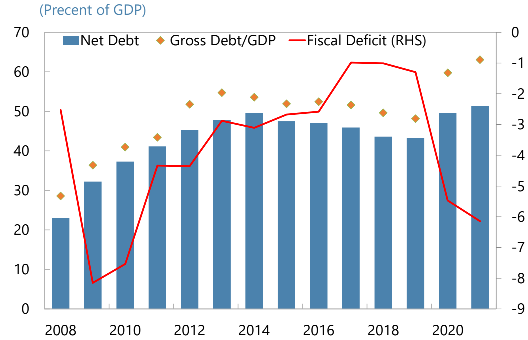
**Government Wage Support: Distribution Across Sectors**
(Monthly Share in Total Aid under the First Aid Program; Total in Mln Euros)




Sources: Social Policy Institute and IMF Staff calculations.
Note: The Construction+ sector includes utilites, mining and agriculture.

*A sizable deficit in 2021 led to a further increase in public debt…*

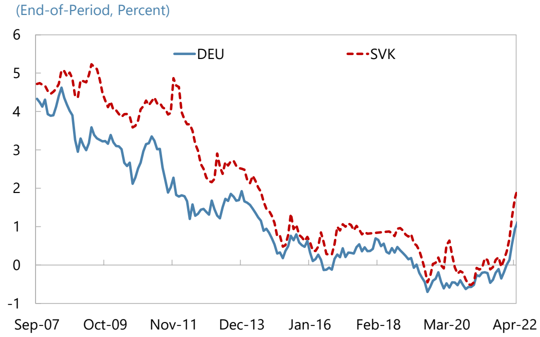
**Fiscal Deficit and Public Debt**
(Precent of GDP)




Source: Slovakia Authorities

*… while financing costs have also started to rise.*

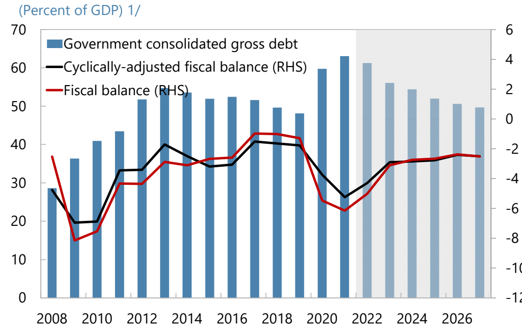
**10-year Bond Yield**
(End-of-Period, Percent)




Source: Bloomberg.

*The public debt-to-GDP ratio is reduced only moderately over the medium term in the no-consolidation scenario.*

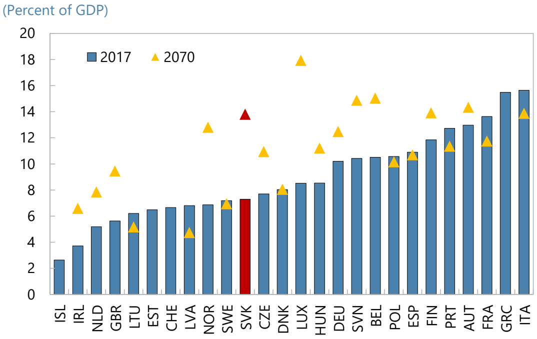
**Fiscal Balance and Public Debt**
(Percent of GDP) 1/




Sources: Slovak authorities; and IMF staff projections.
1/ Percent of potential GDP for cyclically-adjusted fiscal balance.

*Fiscal consolidation would be needed given Slovakia's long-term pension cost challenges.*

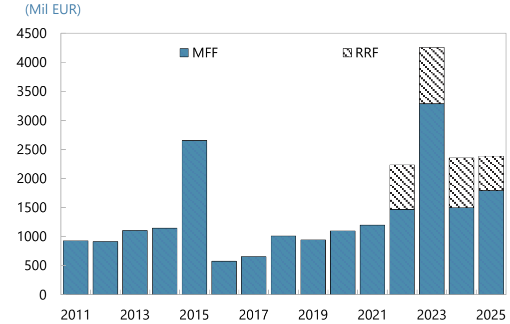
**Public Pension Spending**
(Percent of GDP)




Sources: OECD; and European Commission 2018 Ageing Report.

*Strong EU funds inflows will help cushion the negative growth impact from fiscal consolidation.*

**EU Grants to General Government**
(Mil EUR)

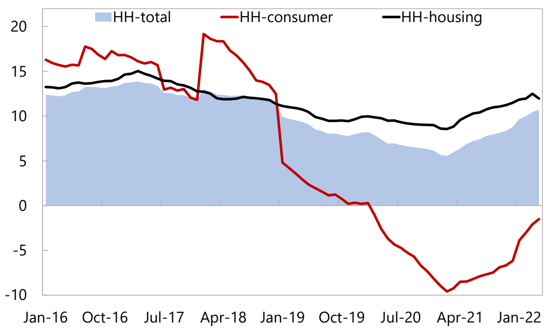



Sources: Institute for Financial Policy and the 2022 Stability Program.

## Figure 11. Slovak Republic: Financial Sector Developments

*Credit growth to households accelerated*

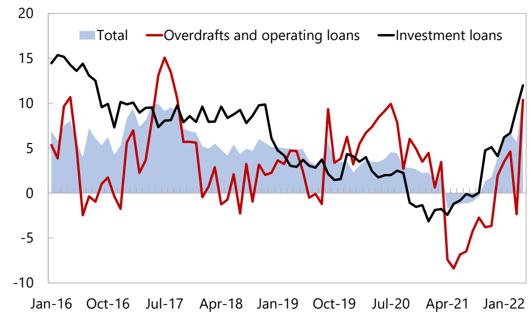
**Household Loan Growth**
(Year-on-year percent change)




Sources: Haver Analytics; and IMF staff calculations.

*… as did credit to non-financial corporates…*

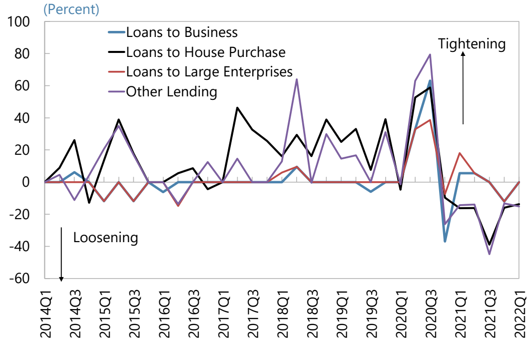
**NFC Loan Growth**
(Year-on-year percent change)




Sources: Haver Analytics; and IMF staff calculations.

*… amidst looser lending standards in 2021.*

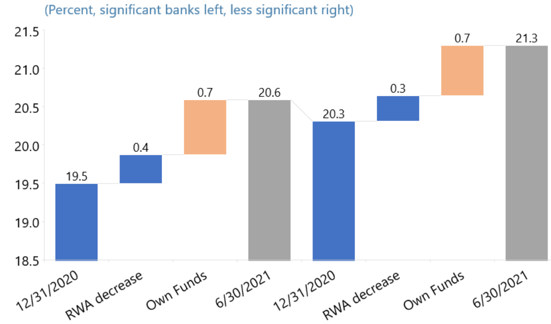
**Credit Standards**
(Percent)




Source: Haver Analytics.

*Higher own funds raised capital buffers.*

**Bank Tier 1 Capital Ratios**
(Percent, significant banks left, less significant right)



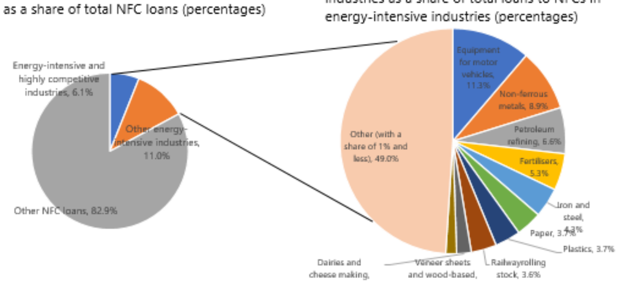

Source: National Bank of Slovakia

*Only 6 percent of NFC loans were to firms in both energy-intensive and highly competitive industries.*

**Loans to NFCs in Energy-Intensive Industries**

Loans to NFCs in energy-intensive industries as a share of total NFC loans (percentages)

Loans to NFCs in the most significant energy-intensive industries as a share of total loans to NFCs in energy-intensive industries (percentages)

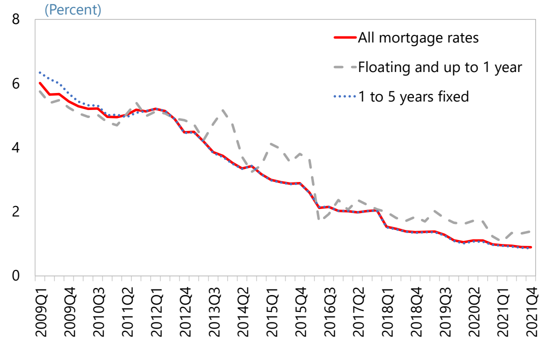



Source: NBS.
Note: The list of energy-intensive industries is provided in the European Commission's Guidelines on State aid for environmental protection and energy 2014–2020 (2014/C 200/01).

## Figure 12. Slovak Republic: Housing Sector and Household Debt

*Record low borrowing costs have supported mortgage credit growth…*

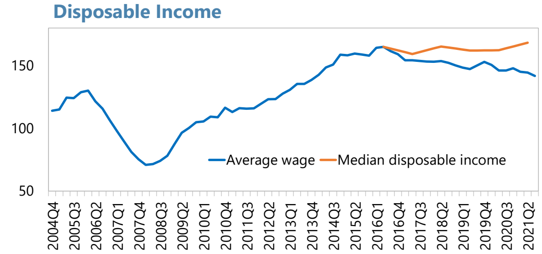
**New Domestic Mortgage Rates**
(Percent)




Source: Haver.

*.. and kept the cost of mortgage servicing stable despite the sharp increase in house prices.*

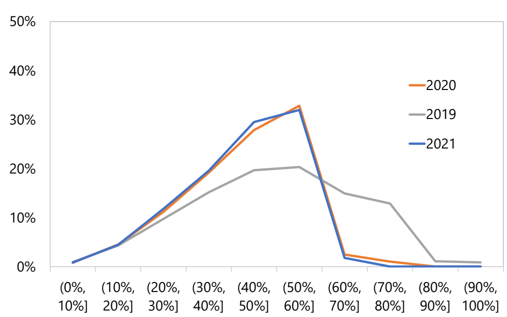
**Housing Affordability for Average and Median Disposable Income**




Sources: NBS, CMN, and SO SR.
Notes: The housing affordability index is calculated as the share of income taken up by the instalment on a loan for the purchase of a flat. Median disposable income is net income less the minimum subsistence amount and subject to the application of the debt service-to-income (DSTI) ratio limit. Housing affordability based on the median disposable income is linked to the housing affordability index based on the average wage in 2016.

*The tightening of macroprudential measures has been associated with a clustering of mortgages right below the regulatory DSTI limit.*

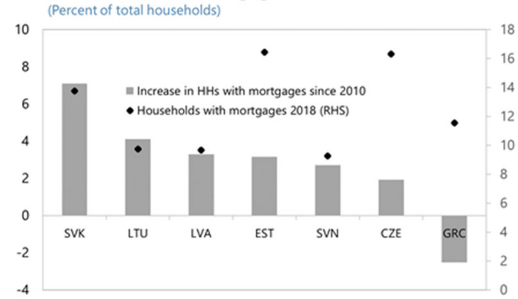
**Percentage of Mortgages per DSTI Bucket**




Source: NBS.

*The share of households that own a house with a mortgage has increased contributing to overall higher debt.*

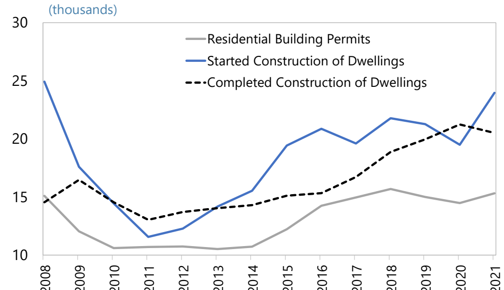
**Households with Mortgages**
(Percent of total households)




*Source: EU-SILC and IMF staff calculations.*
Note: 2017 data for SK.

*Housing construction has been on an upward trend.*

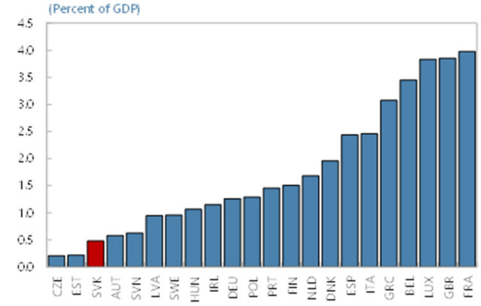
**Housing Supply**
(thousands)




Source: Haver Analytics and IMF staff calculations.

*Property tax income is low by international standards.*

**Property Income Tax, 2020**
(Percent of GDP)

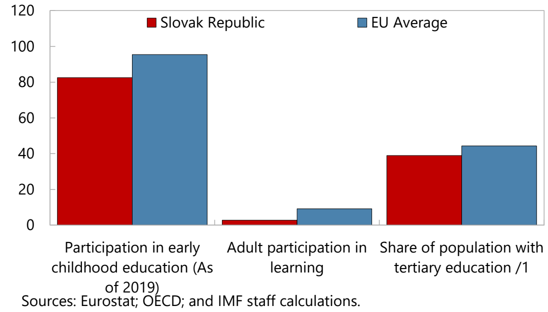



Source: OECD.

## Figure 13. Slovak Republic: Structural Gaps

*Efforts will be needed to strengthen participation in non-compulsory education....*

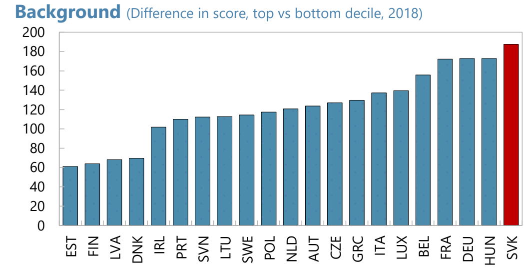
**Participation in Early Childhood Education, Adult Training and Tertiary Education**
(Percent)




Sources: Eurostat; OECD; and IMF staff calculations.
1/ The EU average includes only EU countries in the OECD.

*... make the educational system more inclusive,*

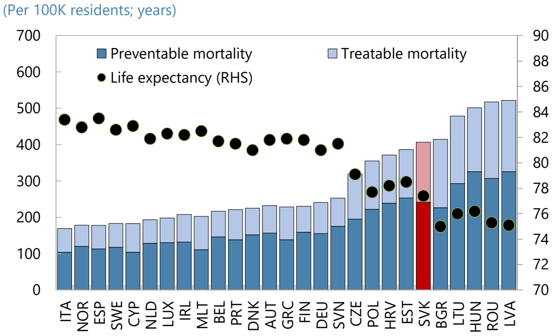
**Difference in Reading Performance by Socio-Economic Background** (Difference in score, top vs bottom decile, 2018)




Sources: OECD (2019), PISA 2018 Results (Volume I-III), OECD Publishing, Paris; OECD (2016), PISA 2015 Results (Volume I-III), OECD Publishing, Paris; OECD (2013), PISA 2012 Results (Volume I-III), OECD Publishing, Paris; OECD (2010), PISA 2019 Results (Volume I-III), OECD Publishing, Paris; OECD (2008), PISA 2006 Results (Volume I-III), OECD Publishing, Paris; and OECD calculations.

*... and improve health outcomes.*

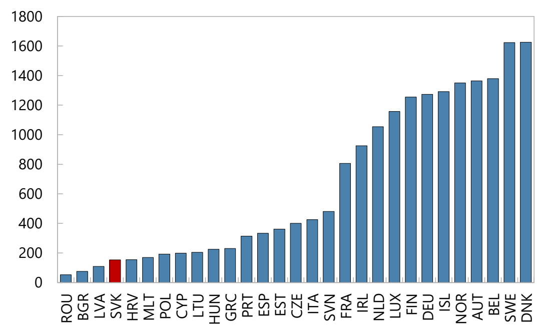
**Preventable and Treatable Deaths, 2018**
(Per 100K residents; years)




Source: Eurostat.
Note: Life expectancy as of 2020.

*Expenditure in R&D is low relative to other EU countries*

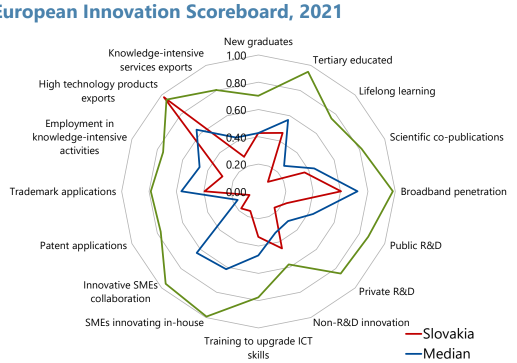
**Expenditure in R&D, 2020**
(Euros per capita)




Source: Eurostat.

*Slovakia lags behind most EU countries on the innovation scoreboard....*

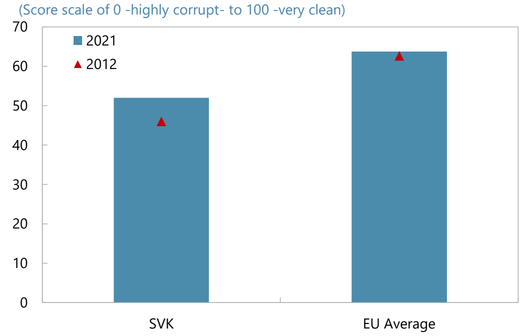
**European Innovation Scoreboard, 2021**




Sources: European Commission; and IMF staff calculations.

*... and perception of governance quality.*

**Corruption Perceptions Index**
(Score scale of 0 -highly corrupt- to 100 -very clean)




Source: Transparency International.

## Table 1. Slovak Republic: Summary of Economic Indicators, 2019–27

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| **Output/Demand** | | | | | | | | | |
| Real GDP | 2.6 | -4.4 | 3.0 | 2.2 | 3.5 | 3.8 | 3.5 | 3.2 | 2.8 |
| Domestic demand | 3.8 | -5.3 | 3.6 | 2.8 | 2.8 | 2.4 | 2.6 | 2.3 | 2.2 |
| Public consumption | 4.6 | 0.9 | 1.9 | 3.4 | 3.8 | 1.7 | 3.3 | 3.0 | 2.6 |
| Private consumption | 2.7 | -1.5 | 1.4 | 1.6 | 0.9 | 2.0 | 2.0 | 2.1 | 2.0 |
| Gross fixed capital formation | 6.7 | -11.6 | 0.6 | 8.4 | 7.3 | 4.0 | 3.5 | 2.2 | 2.3 |
| Exports of goods and services | 0.8 | -7.4 | 10.2 | 2.1 | 4.9 | 5.3 | 4.4 | 4.1 | 3.4 |
| Imports of goods and services | 2.1 | -8.4 | 11.1 | 2.8 | 4.3 | 4.0 | 3.6 | 3.3 | 2.9 |
| Potential Growth | 3.0 | 0.8 | 1.0 | 1.8 | 2.2 | 3.0 | 3.5 | 3.3 | 3.0 |
| Output gap | 1.1 | -4.1 | -2.2 | -1.8 | -0.5 | 0.2 | 0.2 | 0.2 | 0.0 |
| **Contribution to Growth** | | | | | | | | | |
| Domestic demand | 3.8 | -5.1 | 3.6 | 2.9 | 2.8 | 2.4 | 2.5 | 2.2 | 2.1 |
| Public consumption | 0.8 | 0.2 | 0.4 | 0.6 | 0.7 | 0.3 | 0.6 | 0.6 | 0.5 |
| Private consumption | 1.5 | -0.9 | 0.8 | 0.9 | 0.5 | 1.1 | 1.1 | 1.1 | 1.1 |
| Gross fixed capital formation | 1.4 | -2.5 | 0.1 | 1.6 | 1.5 | 0.9 | 0.7 | 0.5 | 0.5 |
| Inventories | 0.1 | -1.9 | 2.3 | -0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Net exports | -1.2 | 0.8 | -0.5 | -0.7 | 0.7 | 1.4 | 1.0 | 1.0 | 0.7 |
| **Prices** | | | | | | | | | |
| Inflation (HICP) | 2.8 | 2.0 | 2.8 | 10.6 | 9.8 | 3.1 | 2.5 | 2.2 | 2.0 |
| Inflation (HICP, end of period) | 3.1 | 1.6 | 5.0 | 11.2 | 8.0 | 3.1 | 2.5 | 2.2 | 2.0 |
| Core inflation | 2.5 | 2.4 | 3.4 | 8.0 | 5.7 | 3.5 | 2.8 | 2.3 | 2.0 |
| GDP deflator | 2.5 | 2.4 | 2.4 | 7.5 | 9.9 | 3.0 | 2.3 | 2.1 | 1.9 |
| **Employment and Wages** | | | | | | | | | |
| Employment | 1.0 | -1.9 | -0.6 | 1.1 | 1.3 | 0.5 | -0.1 | -0.3 | -0.2 |
| Unemployment rate (Percent) | 5.7 | 6.6 | 6.8 | 6.4 | 6.2 | 5.9 | 5.7 | 5.7 | 5.7 |
| Nominal wages | 7.8 | 3.7 | 6.8 | 7.5 | 8.8 | 7.3 | 6.0 | 5.5 | 4.9 |
| **Public Finance, General Government** | | | | | | | | | |
| Revenue | 39.4 | 39.9 | 40.7 | 40.1 | 40.2 | 37.7 | 37.2 | 37.2 | 36.8 |
| Expenditure | 40.7 | 45.3 | 46.8 | 45.3 | 43.4 | 40.5 | 39.9 | 39.7 | 39.4 |
| Overall balance | -1.3 | -5.5 | -6.1 | -5.2 | -3.1 | -2.8 | -2.7 | -2.5 | -2.6 |
| Primary balance | -0.2 | -4.4 | -5.2 | -4.3 | -2.3 | -2.0 | -2.0 | -1.8 | -1.8 |
| Structural balance (Percent of potential GDP) | -1.8 | -1.8 | -1.7 | -3.4 | -2.9 | -2.9 | -2.8 | -2.6 | -2.6 |
| General government debt | 48.1 | 59.7 | 63.1 | 61.5 | 56.3 | 54.7 | 52.3 | 52.1 | 52.4 |
| **Monetary and Financial Indicators** | | | | | (Percent) | | | | |
| Credit to private sector (Growth rate) | 6.6 | 4.8 | 7.6 | 8.9 | 11.8 | 7.4 | 6.4 | 5.9 | 5.3 |
| Mortgage lending rates 1/ | 1.4 | 1.1 | 1.0 | ... | ... | ... | ... | ... | ... |
| Government 10-year bond yield 1/ | 0.2 | -0.1 | -0.04 | ... | ... | ... | ... | ... | ... |
| **Balance of Payments** | | | | | (Percent of GDP) | | | | |
| Trade balance (goods) | -1.2 | 1.1 | -0.1 | -2.7 | -1.4 | -0.4 | 0.1 | 0.6 | 1.0 |
| Current account balance | -3.4 | 0.3 | -2.0 | -4.5 | -3.2 | -1.9 | -1.3 | -0.5 | 0.0 |
| Gross external debt | 112.7 | 120.5 | 137.0 | 133.5 | 124.7 | 122.7 | 121.2 | 121.0 | 121.9 |
| **Saving and Investment Balance** | | | | | (Percent of GDP) | | | | |
| Gross national savings | 20.2 | 19.2 | 19.4 | 18.3 | 20.1 | 22.9 | 24.0 | 24.7 | 25.2 |
| Private sector | 18.1 | 21.2 | 22.3 | 18.7 | 18.7 | 21.6 | 22.7 | 23.3 | 24.4 |
| Public sector | 2.1 | -1.9 | -2.9 | -0.4 | 1.3 | 1.3 | 1.3 | 1.3 | 0.9 |
| Gross capital formation | 23.6 | 18.9 | 21.4 | 22.8 | 23.2 | 24.9 | 25.2 | 25.2 | 25.2 |
| **Memo Item** | | | | | | | | | |
| Nominal GDP (Millions of euros) | 94,048 | 92,079 | 97,123 | 106,746 | 121,428 | 129,840 | 137,526 | 144,934 | 151,868 |

Sources: National Authorities; and IMF staff estimates and projections.

1/ Latest data available for 2022 (average).

## Table 2. Slovak Republic: Statement of Operations of the General Government, 2019–27[1]

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| | | | | (Millions of euros) | | | | | |
| **Revenue** | **37,022** | **36,695** | **39,512** | **42,799** | **48,842** | **49,005** | **51,195** | **53,875** | **55,877** |
| Taxes | 18,090 | 17,832 | 19,173 | 20,566 | 22,787 | 23,622 | 24,683 | 26,013 | 27,257 |
| Personal income tax | 3,534 | 3,500 | 3,794 | 4,203 | 4,594 | 4,789 | 5,145 | 5,422 | 5,681 |
| Corporate income tax | 2,878 | 2,800 | 2,942 | 3,276 | 3,782 | 3,801 | 3,908 | 4,118 | 4,315 |
| VAT | 6,830 | 6,820 | 7,538 | 8,249 | 9,167 | 9,656 | 10,081 | 10,624 | 11,132 |
| Excises | 2,839 | 2,752 | 2,958 | 2,753 | 2,951 | 2,982 | 3,069 | 3,234 | 3,389 |
| Other taxes | 2,008 | 1,960 | 1,941 | 2,085 | 2,293 | 2,393 | 2,480 | 2,614 | 2,739 |
| Social contributions | 14,315 | 14,500 | 15,620 | 16,337 | 17,965 | 19,116 | 20,130 | 21,214 | 22,229 |
| Grants | 1,526 | 1,510 | 1,506 | 2,900 | 4,858 | 2,950 | 2,950 | 3,031 | 2,601 |
| o/w EU Grants | 945 | 1,098 | 1,196 | 2,235 | 4,254 | 2,355 | 2,384 | 2,437 | 1,978 |
| Other revenue | 3,092 | 2,853 | 3,214 | 2,996 | 3,231 | 3,317 | 3,433 | 3,617 | 3,790 |
| **Expenditure** | **38,241** | **41,730** | **45,485** | **48,350** | **52,661** | **52,616** | **54,922** | **57,492** | **59,819** |
| Expense | 34,814 | 38,402 | 42,336 | 43,230 | 47,223 | 47,290 | 49,413 | 51,922 | 54,533 |
| Compensation of employees | 9,610 | 10,498 | 11,243 | 11,281 | 11,959 | 12,473 | 12,838 | 13,565 | 14,137 |
| Use of goods and services | 5,165 | 5,260 | 5,814 | 7,268 | 9,160 | 7,933 | 8,550 | 8,922 | 9,301 |
| Interest | 1,165 | 1,105 | 1,083 | 1,045 | 1,072 | 1,076 | 1,105 | 1,056 | 1,334 |
| Subsidies | 928 | 1,240 | 1,369 | 1,224 | 933 | 807 | 888 | 953 | 1,014 |
| Grants and transfers | 1,712 | 2,763 | 3,978 | 2,561 | 3,327 | 2,876 | 2,932 | 3,080 | 3,233 |
| Social benefits | 15,711 | 16,736 | 18,376 | 19,034 | 20,246 | 21,743 | 22,691 | 23,914 | 25,058 |
| Other expense | 524 | 799 | 473 | 817 | 526 | 381 | 409 | 433 | 456 |
| Net acquisition of nonfinancial assets | 3,427 | 3,328 | 3,149 | 5,120 | 5,438 | 5,326 | 5,509 | 5,570 | 5,286 |
| o/w Defense spending 2/ | 196 | 289 | 238 | 642 | 635 | 774 | 1,295 | 1,035 | 935 |
| Gross Operating Balance | 2,208 | -1,707 | -2,824 | -431 | 1,618 | 1,715 | 1,782 | 1,953 | 1,345 |
| **Net Lending(+)/Borrowing(-)** | **-1,219** | **-5,035** | **-5,973** | **-5,551** | **-3,819** | **-3,611** | **-3,727** | **-3,617** | **-3,942** |
| | | | | (Percent of GDP) | | | | | |
| **Revenue** | **39.4** | **39.9** | **40.7** | **40.1** | **40.2** | **37.7** | **37.2** | **37.2** | **36.8** |
| Taxes | 19.2 | 19.4 | 19.7 | 19.3 | 18.8 | 18.2 | 17.9 | 17.9 | 17.9 |
| Personal income tax | 3.8 | 3.8 | 3.9 | 3.9 | 3.8 | 3.7 | 3.7 | 3.7 | 3.7 |
| Corporate income tax | 3.1 | 3.0 | 3.0 | 3.1 | 3.1 | 2.9 | 2.8 | 2.8 | 2.8 |
| VAT | 7.3 | 7.4 | 7.8 | 7.7 | 7.5 | 7.4 | 7.3 | 7.3 | 7.3 |
| Excises | 3.0 | 3.0 | 3.0 | 2.6 | 2.4 | 2.3 | 2.2 | 2.2 | 2.2 |
| Other taxes | 2.1 | 2.1 | 2.0 | 2.0 | 1.9 | 1.8 | 1.8 | 1.8 | 1.8 |
| Social contributions | 15.2 | 15.7 | 16.1 | 15.3 | 14.8 | 14.7 | 14.6 | 14.6 | 14.6 |
| Grants | 1.6 | 1.6 | 1.6 | 2.7 | 4.0 | 2.3 | 2.1 | 2.1 | 1.7 |
| o/w EU grants | 1.0 | 1.2 | 1.2 | 2.1 | 3.5 | 1.8 | 1.7 | 1.7 | 1.3 |
| Other revenue | 3.3 | 3.1 | 3.3 | 2.8 | 2.7 | 2.6 | 2.5 | 2.5 | 2.5 |
| **Expenditure** | **40.7** | **45.3** | **46.8** | **45.3** | **43.4** | **40.5** | **39.9** | **39.7** | **39.4** |
| Expense | 37.0 | 41.7 | 43.6 | 40.5 | 38.9 | 36.4 | 35.9 | 35.8 | 35.9 |
| Compensation of employees | 10.2 | 11.4 | 11.6 | 10.6 | 9.8 | 9.6 | 9.3 | 9.4 | 9.3 |
| Use of goods and services | 5.5 | 5.7 | 6.0 | 6.8 | 7.5 | 6.1 | 6.2 | 6.2 | 6.1 |
| Interest | 1.2 | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 | 0.8 | 0.7 | 0.9 |
| Subsidies | 1.0 | 1.3 | 1.4 | 1.1 | 0.8 | 0.6 | 0.6 | 0.7 | 0.7 |
| Grants and transfers | 1.8 | 3.0 | 4.1 | 2.4 | 2.7 | 2.2 | 2.1 | 2.1 | 2.1 |
| Social benefits | 16.7 | 18.2 | 18.9 | 17.8 | 16.7 | 16.7 | 16.5 | 16.5 | 16.5 |
| Other expense | 0.6 | 0.9 | 0.5 | 0.8 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Net acquisition of nonfinancial assets | 3.6 | 3.6 | 3.2 | 4.8 | 4.5 | 4.1 | 4.0 | 3.8 | 3.5 |
| o/w Defense spending 1/ | 0.2 | 0.3 | 0.2 | 0.6 | 0.5 | 0.6 | 0.9 | 0.7 | 0.6 |
| Gross Operating Balance | 2.3 | -1.9 | -2.9 | -0.4 | 1.3 | 1.3 | 1.3 | 1.3 | 0.9 |
| **Net Lending(+)/Borrowing(-)** | **-1.3** | **-5.5** | **-6.1** | **-5.2** | **-3.1** | **-2.8** | **-2.7** | **-2.5** | **-2.6** |
| **Memorandum Items:** | | | | | | | | | |
| Primary balance | -0.2 | -4.4 | -5.2 | -4.3 | -2.3 | -2.0 | -2.0 | -1.8 | -1.8 |
| Structural primary balance 3/ | -0.7 | -0.8 | -0.8 | -2.5 | -2.1 | -2.1 | -2.1 | -1.9 | -1.7 |
| Cyclically-adjusted primary balance adj. for EU grants | -1.7 | -3.7 | -5.4 | -5.5 | -5.6 | -3.9 | -3.8 | -3.6 | -3.1 |
| Gross public debt | 48.1 | 59.7 | 63.1 | 61.5 | 56.3 | 54.7 | 52.3 | 52.1 | 52.4 |
| GDP at current market prices (Millions of euros) | 94,048 | 92,079 | 97,123 | 106,746 | 121,428 | 129,840 | 137,526 | 144,934 | 151,868 |

Sources: National Authorities; and IMF staff estimates and projections.

1/ Baseline without consolidation. The baseline also does not include the inflation aid package

2/ Reflects the accrual recording for the acquisition of military equipment in line with ESA methodology with delivery starting 2022.

3/ Percent of potential GDP.

## Table 3. Slovak Republic: Balance of Payments, 2019–2027

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| | | | | (Millions of euros) | | | | | |
| **Current Account** | **-3,163** | **319** | **-1,910** | **-4,846** | **-3,849** | **-2,505** | **-1,735** | **-739** | **-1** |
| Trade balance (goods) | -1,135 | 1,015 | -75 | -2,849 | -1,747 | -572 | 87 | 911 | 1,476 |
| Exports, f.o.b. | 75,522 | 70,011 | 81,464 | 89,226 | 94,968 | 101,185 | 106,931 | 112,296 | 117,201 |
| Imports, f.o.b. | 76,658 | 68,996 | 81,539 | 92,075 | 96,715 | 101,757 | 106,844 | 111,385 | 115,725 |
| Services balance | 1,218 | 1,078 | 796 | 843 | 1,022 | 1,214 | 1,349 | 1,496 | 1,611 |
| Receipts | 10,981 | 9,022 | 9,459 | 10,337 | 10,987 | 11,691 | 12,341 | 12,948 | 13,503 |
| Payments | 9,763 | 7,944 | 8,663 | 9,494 | 9,965 | 10,476 | 10,992 | 11,452 | 11,892 |
| Primary income balance | -2,198 | -1,076 | -1,678 | -1,814 | -1,994 | -1,971 | -1,918 | -1,818 | -1,681 |
| Credit | 4,029 | 3,857 | 3,483 | 3,653 | 3,801 | 3,918 | 4,035 | 4,185 | 4,338 |
| Debit | 6,227 | 4,934 | 5,161 | 5,468 | 5,795 | 5,889 | 5,952 | 6,003 | 6,020 |
| Secondary income balance | -1,048 | -697 | -954 | -1,025 | -1,130 | -1,177 | -1,254 | -1,328 | -1,406 |
| Credit | 1,187 | 1,271 | 1,437 | 1,546 | 1,715 | 1,738 | 1,807 | 1,884 | 1,945 |
| Debit | 2,235 | 1,968 | 2,390 | 2,571 | 2,845 | 2,915 | 3,060 | 3,212 | 3,351 |
| **Capital Account** | **673** | **701** | **1,328** | **1,529** | **1,583** | **1,624** | **1,354** | **996** | **943** |
| **Financial Account** | **-1,406** | **1,190** | **-1,487** | **-3,317** | **-2,266** | **-882** | **-382** | **257** | **942** |
| Direct investment, net | -2,204 | 1,896 | 279 | -45 | -51 | -55 | -58 | -61 | -64 |
| Assets | -162 | 1,682 | 1,097 | 854 | 971 | 1,039 | 1,100 | 1,159 | 1,215 |
| Liabilities | 2,042 | -213 | 818 | 899 | 1,023 | 1,094 | 1,158 | 1,221 | 1,279 |
| Portfolio investment, net | 336 | 2,689 | 4,954 | -433 | 491 | 668 | 1,419 | 74 | -22 |
| Assets | 2,093 | 4,305 | 6,239 | 1,939 | 2,025 | 2,151 | 1,991 | 2,102 | 2,183 |
| Liabilities | 1,757 | 1,616 | 1,285 | 2,371 | 1,534 | 1,483 | 572 | 2,028 | 2,205 |
| Other investment, net | -1,093 | -4,793 | -7,032 | -2,865 | -2,732 | -1,521 | -1,769 | 218 | 1,003 |
| Assets | -616 | 392 | 16,271 | 4,163 | 4,736 | 4,804 | 5,088 | 6,812 | 8,656 |
| Liabilities | 477 | 5,185 | 23,303 | 7,028 | 7,467 | 6,325 | 6,857 | 6,594 | 7,654 |
| Financial derivatives, net | 94 | 51 | -106 | 26 | 26 | 26 | 26 | 26 | 26 |
| Reserve assets | 1,460 | 1,347 | 418 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Errors and Omissions** | **1,084** | **169** | **-905** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Net International Investment Position** | **-61,993** | **-60,517** | **-60,081** | **-63,398** | **-65,664** | **-66,546** | **-66,928** | **-66,671** | **-65,729** |
| **External Debt** | **106,016** | **110,925** | **133,057** | **142,456** | **151,458** | **159,266** | **166,695** | **175,317** | **185,176** |
| | | | | (Percent of GDP) | | | | | |
| **Current account** | **-3.4** | **0.3** | **-2.0** | **-4.5** | **-3.2** | **-1.9** | **-1.3** | **-0.5** | **0.0** |
| Trade balance (goods) | -1.2 | 1.1 | -0.1 | -2.7 | -1.4 | -0.4 | 0.1 | 0.6 | 1.0 |
| Exports, f.o.b. | 80.3 | 76.0 | 83.9 | 83.6 | 78.2 | 77.9 | 77.8 | 77.5 | 77.2 |
| Imports, f.o.b. | 81.5 | 74.9 | 84.0 | 86.3 | 79.6 | 78.4 | 77.7 | 76.9 | 76.2 |
| Services balance | 1.3 | 1.2 | 0.8 | 0.8 | 0.8 | 0.9 | 1.0 | 1.0 | 1.1 |
| Receipts | 11.7 | 9.8 | 9.7 | 9.7 | 9.0 | 9.0 | 9.0 | 8.9 | 8.9 |
| Payments | 10.4 | 8.6 | 8.9 | 8.9 | 8.2 | 8.1 | 8.0 | 7.9 | 7.8 |
| Primary income balance | -2.3 | -1.2 | -1.7 | -1.7 | -1.6 | -1.5 | -1.4 | -1.3 | -1.1 |
| Credit | 4.3 | 4.2 | 3.6 | 3.4 | 3.1 | 3.0 | 2.9 | 2.9 | 2.9 |
| Debit | 6.6 | 5.4 | 5.3 | 5.1 | 4.8 | 4.5 | 4.3 | 4.1 | 4.0 |
| Secondary income balance | -1.1 | -0.8 | -1.0 | -1.0 | -0.9 | -0.9 | -0.9 | -0.9 | -0.9 |
| Credit | 1.3 | 1.4 | 1.5 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 |
| Debit | 2.4 | 2.1 | 2.5 | 2.4 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 |
| **Capital Account** | **0.7** | **0.8** | **1.4** | **1.4** | **1.3** | **1.3** | **1.0** | **0.7** | **0.6** |
| **Financial Account** | **-1.5** | **1.3** | **-1.5** | **-3.1** | **-1.9** | **-0.7** | **-0.3** | **0.2** | **0.6** |
| Direct investment, net | -2.3 | 2.1 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Portfolio investment, net | 0.4 | 2.9 | 5.1 | -0.4 | 0.4 | 0.5 | 1.0 | 0.1 | 0.0 |
| Other investment, net | -1.2 | -5.2 | -7.2 | -2.7 | -2.2 | -1.2 | -1.3 | 0.2 | 0.7 |
| Financial derivatives, net | 0.1 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserve assets | 1.6 | 1.5 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Errors and Omissions** | **1.2** | **0.2** | **-0.9** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Net International Investment Position** | **-65.9** | **-65.7** | **-61.9** | **-59.4** | **-54.1** | **-51.3** | **-48.7** | **-46.0** | **-43.3** |
| **External Debt** | **112.7** | **120.5** | **137.0** | **133.5** | **124.7** | **122.7** | **121.2** | **121.0** | **121.9** |

Sources: National Bank of Slovakia; and IMF staff estimates.

## Table 4. Slovak Republic: Financial Soundness Indicators for the Banking Sector, 2014–21

(Percent, unless otherwise indicated)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | | | | |
| Regulatory capital to risk-weighted assets | 17.3 | 17.8 | 18.0 | 18.6 | 18.3 | 18.2 | 19.7 | 19.8 |
| Regulatory Tier 1 capital to risk-weighted assets | 16.0 | 16.5 | 16.2 | 16.6 | 16.6 | 16.6 | 18.1 | 18.3 |
| Capital to assets | 11.9 | 11.5 | 10.8 | 10.7 | 10.5 | 10.4 | 10.3 | 9.7 |
| **Asset Quality** | | | | | | | | |
| Nonperforming loans to gross loans | 5.2 | 4.7 | 4.3 | 3.6 | 3.1 | 3.0 | 2.6 | 2.1 |
| Nonperforming loans net of provisions to capital | 22.2 | 18.6 | 16.0 | 11.7 | 9.0 | 9.5 | 8.3 | 6.7 |
| **Earnings and Profitability** | | | | | | | | |
| Return on assets (after tax) | 1.2 | 1.3 | 1.4 | 1.1 | 1.1 | 1.0 | 0.7 | 0.9 |
| Return on equity (after tax) | 7.8 | 8.4 | 10.0 | 7.7 | 7.8 | 7.5 | 5.1 | 7.6 |
| Interest margin to gross income | 80.4 | 76.9 | 67.2 | 74.4 | 72.8 | 71.5 | 63.9 | 61.8 |
| Noninterest expenses to gross income | 60.8 | 58.4 | 54.4 | 59.7 | 59.6 | 60.9 | 63.7 | 61.2 |
| **Liquidity** | | | | | | | | |
| Customer deposits to total (noninterbank) loans | 101.3 | 102.7 | 98.3 | 94.3 | 93.4 | 92.1 | 95.5 | 93.3 |
| Liquid assets to total assets | 34.0 | 34.1 | 31.6 | 29.6 | 26.8 | 23.9 | 27.3 | 30.0 |
| Liquid assets to short-term liabilities | 46.0 | 45.9 | 42.1 | 39.5 | 35.4 | 31.9 | 37.7 | 43.7 |
| **Sectoral Distribution of Loans to Total Loans 1/** | | | | | | | | |
| Interbank loans | 9.7 | 8.9 | 8.0 | 9.4 | 6.9 | 4.5 | 6.0 | 7.1 |
| Resident | 1.0 | 0.4 | 0.6 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 |
| Nonresident | 8.8 | 8.5 | 7.5 | 9.0 | 6.7 | 4.3 | 5.9 | 7.0 |
| Noninterbank loans | 90.3 | 91.1 | 92.0 | 90.6 | 93.1 | 95.5 | 94.0 | 92.9 |
| General government | 2.1 | 2.1 | 1.6 | 1.4 | 1.5 | 1.5 | 1.8 | 2.0 |
| Other financial corporations | 1.8 | 1.8 | 1.8 | 1.9 | 1.4 | 1.7 | 1.3 | 1.4 |
| Nonfinancial corporations | 31.1 | 31.4 | 30.2 | 28.9 | 28.6 | 28.6 | 27.5 | 26.2 |
| Other domestic sectors | 49.8 | 51.9 | 54.0 | 54.3 | 56.8 | 59.2 | 58.9 | 58.8 |
| Nonresidents | 5.6 | 3.9 | 4.4 | 4.1 | 4.8 | 4.6 | 4.5 | 4.5 |
| **Other Indicators** | | | | | | | | |
| Nonfinancial corporation debt (in percent of GDP) | 89.6 | 86.7 | 92.9 | 94.5 | 90.5 | 90.2 | 88.7 | 91.0 |
| Households debt (in percent of GDP) | 35.8 | 37.9 | 41.0 | 43.5 | 45.0 | 46.4 | 49.1 | 50.0 |
| Households debt (in percent of disposable income) | 63.4 | 65.6 | 69.6 | 74.1 | 74.2 | 76.1 | 78.2 | 80.6 |
| Gross asset position in financial derivatives to capital | 7.6 | 5.8 | 4.6 | 3.5 | 3.9 | 5.4 | 7.2 | 4.2 |
| Gross liability position in financial derivatives to capital | 9.4 | 7.4 | 6.0 | 4.4 | 4.4 | 5.4 | 7.0 | 4.2 |
| Trading income to total income | 3.9 | 4.0 | 7.3 | 5.8 | 2.7 | 1.8 | 3.5 | 3.7 |
| Personnel expenses to noninterest expenses | 38.9 | 40.5 | 42.7 | 44.2 | 44.7 | 46.4 | 41.0 | 41.8 |
| Foreign currency-denominated loans to total loans | 3.6 | 3.5 | 5.0 | 6.2 | 4.3 | 2.4 | 2.9 | 2.4 |
| Foreign currency-denominated liabilities to total liabilities | 4.2 | 3.8 | 3.3 | 3.5 | 3.2 | 2.9 | 2.8 | 2.5 |
| Net open position in foreign exchange to capital | 0.9 | 5.0 | 5.0 | 0.9 | 0.7 | 5.1 | 0.5 | 0.2 |

Sources: Haver; National Bank of Slovakia; IMF FSI Database; and IMF staff estimates.

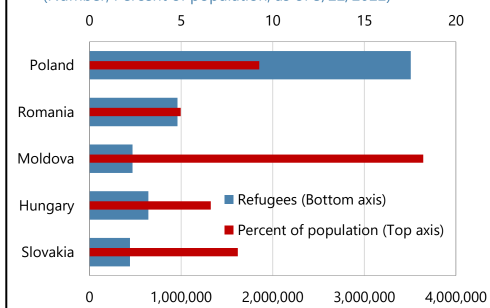
1/ Data under 2020Q3 shows data as of 2020Q4.

# Annex I. Exposures to the War in Ukraine

*While direct non-energy trade links with Russia and Ukraine are limited, Slovakia is highly reliant on energy imports from Russia, including for industrial activities, making it vulnerable to potential restrictions on energy trade. The war's main channels of impact will be through energy and other supply chain disruptions, higher commodity prices, refugee flows, subdued demand for exports from lower growth of trading partners, lower confidence, and higher uncertainty.*

**1. Refugees.** More than 440,000 refugees arrived in Slovakia by end-May, equivalent to over 8.1 percent of the local population, with over 78,000 people requesting temporary protection status. The government has facilitated border crossing, provided financial support to refugees, and promptly amended legislation to allow refugees access to public services and the labor market.

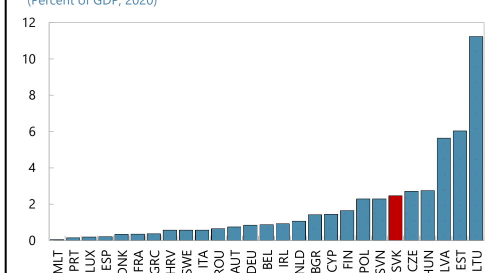
**Ukrainian Refugees: Top 5 Destinations**
(Number; Percent of population; as of 5/22/2022)




Source: UNHCR and IMF World Economic Outlook Database.

**2. Direct trade and financial exposure.** Slovakia's direct gross and value-added exports to Russia and Ukraine amount to only 2.4 and 1.6 percent of total exports respectively. The war, however, will weigh indirectly through lower demand of other trading partners. Financial exposures to Russia and Ukraine are limited, and banks' operations have been smooth.

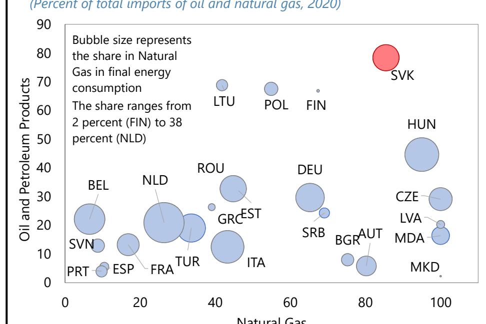
**Goods and Services Exports to Russia and Ukraine**
(Percent of GDP, 2020)




Sources: Sources: BIS locational statistics; European Central Bank; IMF, World Economic Outlook; and IMF staff calculations.

**3. Energy supplies.** Slovakia relies almost exclusively on Russian imports for three key sources of energy: natural gas, oil, and nuclear fuel. While steps are being taken to secure supplies, by boosting stockpiles of nuclear fuel and LNG imports, Slovakia remains highly vulnerable to disruptions in Russian natural gas supplies given limited substitutability in the short-run. Over the medium term, the authorities plan to expand nuclear energy, diversify natural gas sources, develop other renewable energy sources (e.g., geothermal, hydrogen, biomethane), and update technology to utilize renewable fuels.

**Oil and Natural Gas Imports from Russia**
*(Percent of total imports of oil and natural gas, 2020)*




Source: Eurostat; IEA World Energy Balances; and IMF staff calculations.

**4. Supply chains and commodity prices.** More prolonged or new supply chain breakdowns (e.g., for palladium, nickel, and inert gases, which are heavily sourced from Russia and Ukraine and are key inputs in car manufacturing) would be particularly disruptive for Slovakia. The sharp rise in commodity prices triggered by the war is eroding household real disposable incomes, and possibly depressing firm profits, which could weigh on consumption and investment. High energy prices could also hamper production of some of the more energy intensive manufacturing sectors, which account for roughly one-tenth of Slovakia's manufacturing turnover.

# Annex II. Authorities' Response to Past IMF Policy Recommendations

| IMF 2021 Article IV Recommendations | Authorities' Response |
|---|---|
| **Fiscal Policy** | |
| Continued fiscal support to affected households and firms to secure the recovery. | Some of the key fiscal measures introduced in 2020 were extended and made increasingly more targeted. The permanent Kurzarbeit scheme came into force in March 2022. |
| Policies should increasingly shift to targeted support that facilitates the necessary resource reallocation and minimizes long-term scarring. | In October 2021, the government introduced the "Take Your Chance" program, financed by React EU, to support employment and entrepreneurship of disadvantaged job seekers (youth, elderly, long-term unemployed, single parents, refugees etc.) |
| A gradual fiscal consolidation should begin when the recovery is well underway; the government should identify concrete consolidation measures that underpin a credible medium-term fiscal path. | The 2022 Stability Program envisages starting consolidation in 2023, but concrete consolidation measures are still not spelled out. |
| Take actions to improve EU grants absorption, such as establishing a specialized unit to strengthen the financial oversight of major SOEs, better coordination between regional and sectoral strategies, and stronger procurement auditing. | An Investment Authority was established in the Ministry of Finance to streamline project preparation, increase the quality of investment projects, and monitor investment projects in all phases. The October 2021 amendments to the public procurement law aim to simplify procurement processes, align regulations with EU directives, and improve procurement controls. (see Annex VII) |
| Implementing envisaged reforms to Slovakia's pension system and fiscal rules framework. | The parliament adopted expenditure ceilings in March 2022, though as an ordinary law instead of as part of constitutional amendments as originally envisaged (see Annex VII). Reforms to debt rules and to the pension system (re-linking retirement age to life expectancy) are still to be passed by the parliament. |
| Link real-estate taxation to the market value of the property. | The RRP envisages an increase in property taxation, but no reforms are implemented yet. |
| Strengthen VAT and corporate income tax collection. | The authorities plan to introduce e-invoicing which will help strengthen VAT and CIT collection. |

| Financial Sector | |
|---|---|
| The loan guarantee program should be maintained and strengthened. | Most of the loan guarantee programs were wound down as planned amidst falling demand from households and businesses. |
| Consider targeted capital-based measures on mortgage exposures, including minimum risk weights and the sectoral systemic risk buffer to target systemic risks from mortgage loans. | Not implemented. |
| Strengthening restructuring mechanisms and insolvency frameworks. | As part of the RRP, Slovakia is in the process of reforming its insolvency framework, with the goal of fully digitalizing insolvency processes (including a major revamp of the existing insolvency register), establishing early warning systems, professionalizing insolvency administrators, and introducing specialized court. |
| Upgrade the AML/CFT framework including by developing a risk-based supervisory model, ensuring the availability of beneficial ownership information, and taking measures to mitigate risks posed by politically exposed persons. | The NBS has developed an IT tool for risk-based supervision. A draft act on central register of account will transpose Article 32a of the Fifth Anti-Money Laundering Directive. |
| **Structural Reforms** | |
| Adjust labor market policies to facilitate resource reallocation and foster the reintegration of those affected by the crisis. | The government introduced the "Take Your Chance" program in October 2021 to support the employment and entrepreneurship of disadvantaged job seekers (e.g., youth, elderly, long-term unemployed, less educated, single parents, refugees, etc.). |
| Address gaps in human capital, including long-standing gaps in education. | The government is committed to ensure legal entitlement to pre-primary education from the age of 3 years by 2026, and improve the quality of university education by governance reform and changes to the system of university funding. Ongoing optimization of the hospital network aims to improve health outcomes. |
| Accelerate the green and digital transition. | The Slovak Ministry of Economy and the Slovak electricity transmission system operator have declared the release of restrictions on technical capacities for electricity transmission and an increase of capacity for connecting renewable sources to the grid. A third nuclear reactor will be commissioned in 2022 and a fourth one expected in two years. A network of 5 European Digital Innovation Hubs and Digital Innovation Centers will be set |

| Structural Reforms | |
|---|---|
| | up in 2022 to provide services to businesses. A National Digital Skills Strategy will be developed by end-2022. |
| Close Slovakia's gaps in the area of governance and public sector efficiency to boost productivity. | The authorities have introduced a reform package in the summer of 2020 to reduce red tape ("Lex Korona"). The government is working on a second package to improve business environment, some of the measures from the package have already been adopted.<br><br>The parliament has approved bills related to the reform of the court map which will help improve the specialization of judges and the efficiency of the judicial system. |
| Strengthen investments in innovation and upskilling to move towards higher value-added production. | The parliament approved in October 2021 an amendment to allow companies to claim an additional deduction of investment expenses from the tax depreciation of these assets. At the same time, R&D tax savings are lowered. |

# Annex III. External Sector Assessment

***Overall Assessment:*** The external position of the Slovak Republic is assessed to be moderately weaker than the level implied by its medium-term fundamentals and desirable policies in 2021. This assessment is complicated by the sizable pandemic-related supply chain disruptions in 2021, which disproportionately affected the Slovak economy. Fiscal consolidation (as currently envisaged in the Stability Program) will help improve the external position. Slovakia is a member of the euro zone and does not have independent monetary policy.

The current account turned from a small surplus in 2020 to a deficit of 2.0 percent of GDP in 2021, as imports increased together with domestic consumption while export growth was curtailed by supply chain disruptions. Supply bottlenecks had an outsize effect on the Slovak economy, given its high integration into global value chains, the dominant auto sector, and dependence on specialized suppliers. Staff analysis suggests that for Slovakia, sizeable supply shocks have more than offset the boost to output from higher demand (SIP 1). While uncertainty is exceptionally large in light of the ongoing war in Ukraine, imports are expected to be robust in 2022−23, underpinned by large public investments. Supply chain disruptions, however, will continue to weigh on exports. As a result, the current account deficit is expected to widen in 2022 and decline gradually over the medium term.

## Foreign Assets and Liabilities: Position and Trajectory

**Background.** The net international investment position (NIIP) of the Slovak Republic stood at -62 percent of GDP at end-2021, reflecting some improvement from the 2020 level. Both gross assets and gross liabilities increased during 2021, the former mainly driven by portfolio investment (both debt and equity), and the latter driven mainly by other investment and financial derivatives. Gross liabilities were at 170 percent of GDP, while gross assets at 108 percent of GDP in 2021.

**Assessment.** The negative NIIP does not imply notable risks to external sustainability. Robust export and GDP growth, under the baseline assumption that the situation normalizes, and significant inflows of EU funds (under both the RRF and MFF) are expected to improve the NIIP to --44 percent of GDP by 2027. In addition, the high share of FDI liabilities and long-term, euro-denominated debt reduce the vulnerability to capital outflows.

| | | | | | |
|---|---|---|---|---|---|
| 2021 (% GDP) | NIIP: -62 | Gross Assets: 130 | Debt Assets: 66 | Gross Liab.: 192 | Debt Liab.: 71 |

## Current Account

**Background.** The current account deficit (CAD) turned from a surplus of 0.1 percent of GDP in 2020 into a deficit of 2.0 percent of GDP in 2021. Imports increased together with domestic demand while export growth was curtailed by supply chain disruptions, particularly in the auto sector. The CAD is expected to widen in 2022 due to the impact of the war on Slovakia's exports, before narrowing over the medium-term. Higher public investment will also be financed by higher EU grants.

**Assessment.** The EBA-lite CA model suggests a cyclically adjusted norm of -0.3 percent of GDP for 2021. The cyclically-adjusted CA balance is at -2.3 percent of GDP. An additional COVID-19 related adjustment of 0.2 percentage points reflects continued low tourism due to the pandemic, where we also assume that higher demand for tradable goods is fully offset by supply chain bottlenecks (SIP 1).[1] The final adjusted CA balance is thus -2.1 percent of GDP, implying a CA gap of 1.8 percent of GDP vs. the adjusted CA norm of -0.3 percent of GDP. This implies that Slovakia's external position is moderately weaker than fundamentals.

**Slovak Republic: Model Estimates for 2021 (in percent of GDP)**

| | CA model | REER model |
|---|---|---|
| **CA-Actual** | **-2.0** | |
| Cyclical contributions (from model) (-) | 0.3 | |
| COVID-19 adjustor (+) 1/ | 0.2 | |
| Additional temporary/statistical factors (+) | 0.0 | |
| Natural disasters and conflicts (-) | -0.1 | |
| **Adjusted CA** | **-2.1** | |
| **CA Norm** (from model) 2/ | **-0.3** | |
| **Adjusted CA Norm** | **-0.3** | |
| **CA Gap** | **-1.8** | **-5.2** |
| o/w Relative policy gap | 0.4 | |
| Elasticity | -0.69 | |
| **REER Gap (in percent)** | **2.6** | **7.6** |

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.2%) and a tradable adjustor reflecting higher demand for tradable goods. The latter's calculation takes into account of the disproportionate effects of supply chain bottleneck on Slovakia, as analyzed in the SIP.
2/ Cyclically adjusted, including multilateral consistency adjustments.

## Real Exchange Rate

**Background.** CPI-based real effective exchange rate (REER) depreciated slightly in 2021, underpinned by the depreciation in nominal effective exchange rate, while ULC-based REER appreciated slightly reflecting higher wage growth in the Slovak Republic relative to trading partners

**Assessment.** The REER EBA-lite approach points to a larger overvaluation of 7.6 percent. Given that the estimated overvaluation in this approach is mostly driven by large residuals, staff relies on the CA approach for assessment of the external position.

## Capital and Financial Accounts: Flows and Policy Measures

**Background.** The capital account is expected to continue to display significant inflows in the coming years as Slovakia receives sizable funds under the NGEU and MFF. FDI reversed sharply to a net outflow of 2.1 percent of GDP in 2020 in the context of the COVID-19 pandemic. Sizable FDI inflows resumed in 2021, but were offset by continued FDI outflows, resulting in marginal net outflows in 2021. Portfolio outflows also increased markedly in 2021.

**Assessment.** While the impact of the war in Ukraine on near-term FDI is hard to predict, FDI inflows are expected to remain strong over the medium term with sizable new investments planned in the automotive sector. The importance of FDI in capital inflows mitigates risks from sudden changes in market sentiment. The new SDR allocation and significant inflows of EU funds will also help improve Slovakia's external position.

## FX Intervention and Reserves Level

**Background.** The euro has the status of a global reserve currency.

**Assessment.** Reserves held by euro area economies are typically low relative to standard metrics, but the currency is free floating.

[1] The SIP finds that Slovakia is one of the euro area countries most affected by supply chain disruptions. Staff estimates suggest that its manufacturing output would have been 15 percent higher during 2021H2 in the absence of supply shocks. While it is difficult to disentangle this effect from the boost to Slovakia's exports related to the shifting composition of demand towards goods—estimated at 1.68 percent of GDP—the SIP suggests that the estimated boost to output from the recovery in demand was more than offset by supply shocks. It therefore seems reasonable to assume that these two effects roughly offset each other with regard to the impact on the current account.

# Annex IV. Risk Assessment Matrix[1]

| | Source of Risks, Relative Likelihood | Expected Impact | Policy Response |
|---|---|---|---|
| Global | High<br>**Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions.** Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs. | High<br>Slovakia is highly vulnerable to the war in Ukraine given its geographical proximity, high reliance on energy imports from Russia, and high integration in global value chains. Further sanctions that may curtail Russia's energy exports to Slovakia could weigh on economic activity, given the limited substitutability of Russian natural gas in the short run. | • Deploy additional discretionary fiscal support to accommodate the cost of the refugee influx and other war-related spending needs.<br>Secure alternative energy supplies and develop contingency plans in case of gas supply shortages (e.g., extend inter-country solidarity agreements, incentivize energy efficiency). |
| | Medium<br>**Outbreaks of lethal and highly contagious Covid-19 variants.** Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs. | Medium<br>Low level of vaccination in Slovakia implies potentially high impact though risks would be mitigated by Slovakia's policy space. Extended containment measures could lead to prolonged uncertainty and require the downsizing of some sectors of the economy. This sets back the recovery and potentially leads to a rise in bankruptcies and the need for reallocation of resources towards less contact-intensive industries. | • Ramp up vaccination efforts, maintain public health measures and ensure adequate resources for the health system.<br>• Use available fiscal space to provide targeted support to vulnerable households and affected but viable businesses when needed. |
| | Low/Medium for EA<br>Medium for USA<br>**De-anchoring of inflation expectations in the U.S. and/or advanced European economies.** Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs. | Medium<br>Tightening financial conditions weaken growth prospects. Higher risk premium for sovereigns reduces fiscal space to provide policy support. The risk will be mitigated by Slovakia's membership in the euro area, the role of the euro as a reserve currency, and the potential back-stop from the EU and the ECB. | • A coordinated monetary policy response will be needed at the euro area level.<br>• Continue to extend debt maturity to reduce roll-over needs in the event of an increase in premiums.<br>• Accelerate absorption of available EU funds to finance public spending.<br>• Provide liquidity support to viable firms and recalibrate macro-prudential policies as necessary to ensure the smooth flow of credit. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent).

| Source of Risks, Relative Likelihood | Expected Impact | Policy Response |
|---|---|---|
| High<br>**Geopolitical tensions and deglobalization.** Intensified geopolitical tensions, security risks, conflicts, and wars cause economic and political disruptions, fragmentation of the international monetary system, production reshoring, a decline in global trade, and lower investor confidence. | High<br>Slovakia is highly vulnerable to the war in Ukraine given its geographical proximity, high reliance on energy imports from Russia, and high integration in global value chains.<br>A retreat from multilateralism and globalization would significantly impact Slovak growth potential given its export dependence and integration in the global value chains of select industrial products (e.g. cars). | • Participate in European policy responses.<br>• Accelerate structural reforms, including by leveraging EU funds, to boost productivity and competitiveness, move up value chains and diversify export products and destinations.<br>• Invest in human capital and effective labor market policies to facilitate needed reallocation of resources.<br>• Engage in support for the multilateral rules-based trade system and advocate trade liberalization. |
| High<br>**Widespread social discontent and political instability.** Social unrest fueled by increasing prices and shortages of essentials, rising inequality, inadequate healthcare, financial and social scars from the prolonged pandemic, and heavier household debt burdens amid rising interest rates trigger political instability, capital outflows, higher unemployment, and slower economic growth. | Medium<br>Rising food and energy prices amid continued tensions due to the pandemic and a depressed global economy increase tensions in society, challenging policymaking. | • Provide targeted support to the most vulnerable groups, including through ALMPs to ensure inclusive recovery.<br>• Accelerate policies to facilitate the reallocation of factors of production while providing an adequate social safety net. |
| High<br>**Rising and volatile food and energy prices.** Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space). | High<br>A sharp rise in commodity prices would transmit to consumer prices, reducing real disposable income of households and weighing on consumption.<br>Higher energy prices would also depress firms' profit margins and deter investment. | • Provide targeted, timely, and temporary transfers to vulnerable households and viable firms to cushion the impact of commodity price spikes.<br>• Incentivize domestic food production. |
| Medium<br>**Abrupt growth slowdown in China.** A combination of extended Covid-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, and/or inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels. | Medium<br>A growth slowdown in China could weigh on Slovakia's exports, particularly in the auto sector, through other intermediate destinations. | • Use fiscal space if necessary to support economic activity, with an eye on measures that also boost the supply potential of the economy, e.g. investment in human capital, green and digital infrastructure, and stronger spending on R&D to boost productivity growth and move up value chains. |

| | Source of Risks, Relative Likelihood | Expected Impact | Policy Response |
|---|---|---|---|
| Local | High<br>**Extended global supply chains disruptions.** Persistent disruptions in the production and shipment of components caused by lockdowns and logistical bottlenecks continue until 2023. This leads to shortages of intermediate and final consumer goods, growth slowdowns, and price surges, compounded by the passthrough from currency depreciations in vulnerable countries. | High<br>Input shortages continue to disrupt the industrial sector. Car manufacturers in particular continue to suspend shifts due to shortages of semiconductors and other key inputs, with important macro implications given the auto sector dominant role in the economy. | • Participate in EU wide initiatives.<br>• Manage risk through supply diversification.<br>• Leverage EU funds to invest in education and upskilling strategies that take into account rapidly changing skill demands and could help affected workers reallocate.<br>• Boost spending on R&D and increase its efficiency to lower dependence on foreign suppliers and move up the value chains. |
| | Medium<br>**Disorderly migration flows**<br>Different than expected migration flows from Ukraine, and/or different than anticipated costs per migrant, and/or success in assimilating migrants and integrating them into local labor markets result in unanticipated net fiscal costs and alters potential output. | Medium<br>Migration flows from Ukraine will increase short-term fiscal costs, while boosting aggregate demand. Medium term, successful integration of refugees could raise potential output by a much-needed expansion of labor supply given Slovakia's rapidly aging population. | • Revise near-term fiscal plans, as needed, to accommodate the cost of the refugee influx and other war-related spending needs. |
| | Medium<br>**Property market downturn.** A sharp decline in housing prices would weaken household balance sheets and would affect financial stability with adverse effects on lending and growth. | High<br>Sharp reversal in the real estate market after years of rapid price growth could deteriorate the quality of banks' credit portfolio leading to tighter credit conditions, given banks' large exposure to housing mortgages. The negative wealth effect and weaker consumer confidence would weigh on consumption. | • Continue close monitoring of financial conditions and recalibrate macro-prudential policies as needed.<br>• Adjust financial sector regulations to maintain the flow of credit. |
| | Low/Medium<br>**Auto sector fails to adjust to shift to electric vehicles and increased automation.**<br>Increasing automation erodes Slovakia's competitive advantage as a source of low-cost skilled industrial labor. Slovakia's competitiveness is further deteriorated by the limited fragmentation in electric car production processes, curtailing the scope for supply-chain-based expansion. | High<br>Loss of competitiveness and shrinking market share of Slovak auto exports threaten the country's growth model, lowering potential growth and wages. | • Use EU funds to invest in education and upskilling strategies that take into account rapidly changing skill demands.<br>• Boost spending on R&D and increase its efficiency to move up value chains. |

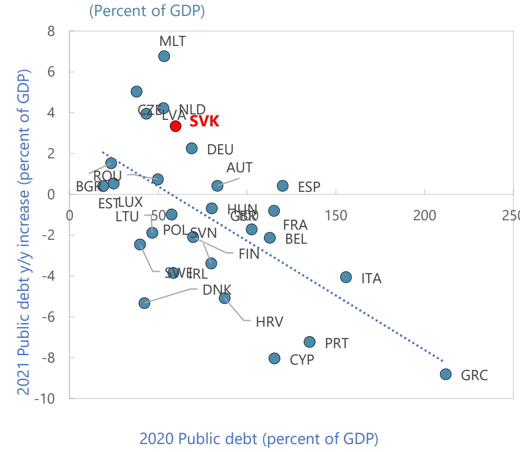
# Annex V. Debt Sustainability Analysis

## A. Public Debt Sustainability Analysis

*General government gross debt increased only slightly from 59.7 percent of GDP in 2020 to 63.1 percent of GDP in 2021 as liquid assets were drawn to help finance the fiscal deficit. Over the medium term, the debt-to-GDP ratio is projected to decline moderately from the 2021 level under the baseline scenario. However, debt could increase steadily over the medium term under various shocks. Given the long-term fiscal challenges of an aging population, a gradual fiscal consolidation is warranted.*

**1. Background.** Gross public debt increased by almost 12 percent of GDP in 2020 as a result of the large fiscal deficit and accumulation of liquid assets. While the fiscal deficit widened by 0.7 percent of GDP to 6.1 percent of GDP in 2021, Slovakia's public debt rose by 3.3 percent of GDP in 2021 to 63.1 percent of GDP, though net public debt only rose by 1.7 percent of GDP. There was no issuance of T-bills in 2021. All the increase in debt in 2021 took place through long-term instruments.

**Public Debt across Europe, 2020-21**
(Percent of GDP)



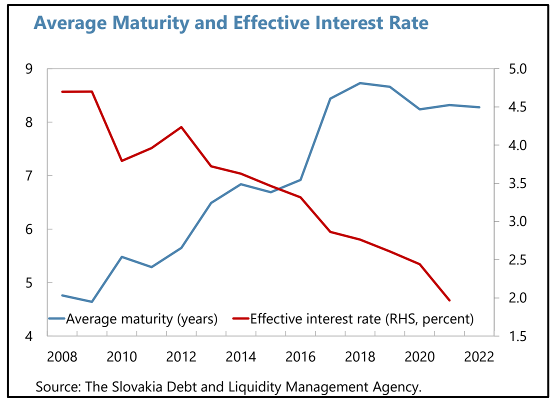

Sources: WEO Database; and IMF staff calculations.

**2. Baseline forecast assumptions.** The baseline fiscal scenario is based on the 2022 Stability Program. The baseline assumes no consolidation efforts and does not include the recently adopted inflation aid package given ongoing discussions regarding its financing beyond 2022. Real GDP growth is projected to slow from 3.0 percent in 2021 to 2.2 percent in 2022 amid the war in Ukraine, before rebounding to 3.5 percent in 2023 under the baseline, though uncertainty surrounding this forecast is exceptionally large. A boost in spending financed by EU funds under the 2013–20 cycle and RRF grants will help support growth in 2022–23. Growth is projected to rise slightly in 2024 but decline over 2025–27 with the phasing out of peak spending under the previous EU cycle. During 2011–19, staff's growth projections have been mostly optimistic, similar to the median forecast bias of other countries.

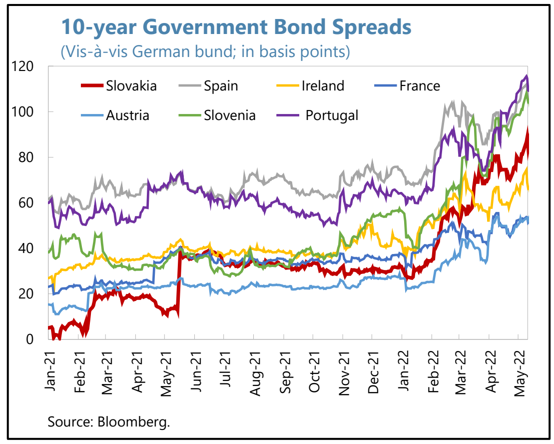
**3. Baseline Projections.**

- **Fiscal deficit.** Staff projects the primary fiscal deficit to decline from 5.2 percent of GDP in 2021 to 4.3 percent in 2022, as Covid support measures are withdrawn. The primary deficit is projected to reach 1.8 percent of GDP in 2027, lower than the debt-stabilizing level (2.5 percent of GDP).

- **Maturity risks.** The average maturity of public debt has been generally rising since the global financial crisis. We assume no T-bills issuance in the coming years and an average maturity of new sovereign bonds of 10 years.




- **Interest rates.** Despite rising average maturity, the effective interest rate has been on a declining trend since the global financial crisis, dropping from 4.7 percent in 2008 to 2.0 percent in 2021. More recently, the spread over the 10-year Germany sovereign bond has risen from a trough of 5 bps in January 2021 to 89 bps in May 2022. With the phasing out of ECB's pandemic purchase emergency program (PEPP) in early 2022, and the end of net asset purchases under the ECB's asset purchase programme (APP) and the expected policy rate hike in July 2022, sovereign yields are projected to rise on the back of: (i) a projected increase of roughly 70 bps of in German sovereign yields between 2022 and 2027; and (ii) a gradual widening of about 150 bps of Slovak bonds' spread over the German bonds as they return to 2010 levels. The effective interest rate, however, is expected to remain broadly similar to 2022 levels: even with the projected increase in bond yields, the interest rate of new debt would be lower than the rate of the maturing debt it would replace.




- **Debt and gross financing needs.** The debt level is projected to decline slightly in 2022 to 61.5 percent of GDP, and continue declining to 52.4 percent of GDP by 2027 under the no consolidation baseline. The reduction in the debt-to-GDP ratios reflects declining fiscal deficits, high inflation over 2022–23, and still favorable interest-growth dynamics. The gross financing needs of the government would remain below 8.6 percent of GDP.

**4.** **Fan charts.** The symmetric fan charts, which assume symmetric upside and downside risks, indicate that the debt-to-GDP ratio could drop to 49 percent by 2027 with a 25 percent probability. On the other hand, the upper bands indicate that the debt ratio could increase to 56.5 percent by 2027 with a 25 percent probability. In a more stringent exercise, assuming only downside shocks to interest rates and GDP growth, there is a 25 percent chance that debt-to-GDP could increase to 59.5 percent of GDP in the medium term.

**5.** **Shocks and stress tests.** Slovakia's debt dynamics would worsen under negative shocks to growth, interest rates and the primary balance. If all negative shocks are combined, debt could reach 63.3 percent of GDP in 2027, more than 10 percentage points above the baseline forecast.

- **Growth shocks.** Under this scenario, real GDP growth rates in 2023–24 are assumed to be one standard deviation (2.5 percentage points) lower than in the baseline. Lower growth rates are assumed to also lead to lower inflation/GDP deflator and, with a higher deficit-to-GDP ratio, a higher interest rate. Public debt would increase to 58.8 percent of GDP by 2027 under this scenario. Gross financing needs would peak in 2024 and decline afterwards.

- **Primary balance shock.** Under a 1 percentage point assumed deterioration in the primary balance in 2022 and 2023, public debt would increase to 54.1 percent of GDP in 2027.

- **Interest rate shock.** This scenario assumes an increase of 500 basis points in interest rate for 2023–27 (with real interest rate projected at the highest level reached over 2012–21). The deterioration in public debt is back-loaded, as old debt gradually matures, and new debt is contracted at higher interest rate. Public debt would reach 55.9 percent of GDP by 2027, with gross financing needs at 9.4 percent of GDP.

- **Real exchange rate shock.** This scenario assumes a 14 percent nominal exchange rate depreciation in 2023, calibrated to emulate the maximum historical movement of the exchange rate in the last 10 years. The impact on the public debt stock and gross financing needs would be marginal, reflecting the low share of public debt in foreign currency.

- **Combined macro-fiscal shock.** Under the scenario of a combined shocks to real growth, the interest rate, the exchange rate, and the primary balance, debt would reach 63.3 percent of GDP by 2027. Gross financing needs would peak at 11 percent of GDP in 2024.

- **Contingent liability.** In response to the pandemic, multiple loan guarantees programs were introduced. The announced programs total EUR 4.02 billion and guarantee up to 80–90 percent of the loan value. The usage, however, has been lower, at 831 million (0.9 percent of 2021 GDP). The DSA does not explicitly incorporate these guaranteed programs. If we assume 30 percent of the used guarantees are called, it would amount to 0.2 percent of 2022 GDP. Invoked loan guarantees only amounted to 25 million in 2020 and 23 million in 2021.

**6. Debt sustainability analysis risk assessment (heat map).** The heat map highlights risks from the large total external financing requirements (56 percent of GDP in 2021), mainly reflecting high short-term external debt. "Currency and deposits" liabilities of the National Bank of Slovakia (NBS), influenced mainly by transactions of other central banks or other institutions which are participating in Target 2 payment system, account for about half of the total short-term external debt. "Loan" liabilities of the NBS, accounting for 8 percent of the short-term external debt, are connected mainly with repurchase agreements, reflecting the active investment policy of the NBS. Gross external financing needs are also boosted by a high level of intra-company FDI loans (16 percent of total short-term external debt), which tend to be more stable. While the share of public debt held by non-residents is relatively high (54 percent), this risk is mitigated by the important role of institutional investors, which tend to be more long-term investors. The ECB also plays a backstop role. The ECB holdings of Slovak government securities through the public sector purchase program amount to about 42 percent of total government debt (84 percent of government external debt).

## Figure AV.1. Slovak Republic: Public Sector Debt Sustainability Analysis—Baseline Scenario

(in percent of GDP unless otherwise indicated)

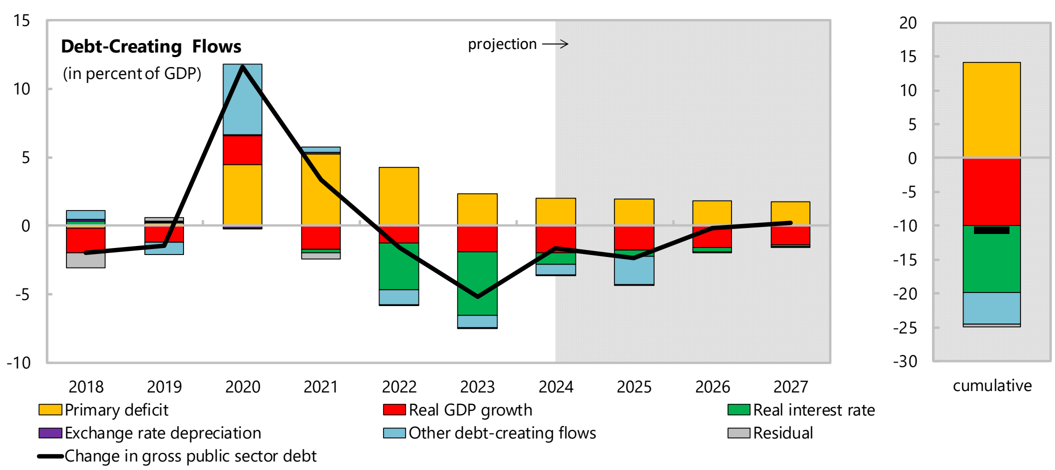
### Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011-2019 [2/] | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| Nominal gross public debt | 50.8 | 59.7 | 63.1 | 61.5 | 56.3 | 54.7 | 52.3 | 52.1 | 52.4 |
| Public gross financing needs | 6.8 | 5.5 | 6.1 | 6.4 | 7.5 | 7.4 | 8.5 | 6.9 | 7.6 |
| Net public debt | 45.7 | 49.6 | 51.3 | 51.6 | 48.4 | 47.5 | 46.6 | 46.7 | 47.2 |
| Real GDP growth (in percent) | 2.7 | -4.4 | 3.0 | 2.2 | 3.5 | 3.8 | 3.5 | 3.2 | 2.8 |
| Inflation (GDP deflator, in percent) | 0.9 | 2.4 | 2.4 | 7.5 | 9.9 | 3.0 | 2.3 | 2.1 | 1.9 |
| Nominal GDP growth (in percent) | 3.6 | -2.1 | 5.5 | 9.9 | 13.8 | 6.9 | 5.9 | 5.4 | 4.8 |
| Effective interest rate (in percent) [4/] | 3.4 | 2.4 | 2.0 | 1.7 | 1.6 | 1.6 | 1.6 | 1.5 | 1.8 |

| As of May 25, 2022 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | 78 |
| 5Y CDS (bp) | | 50 |
| Ratings | Foreign | Local |
| Moody's | A2 | A2 |
| S&Ps | A+ | A+ |
| Fitch | A | A |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011-2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | cumulative | debt-stabilizing primary balance [9/] |
| Change in gross public sector debt | 0.8 | 11.6 | 3.3 | -1.6 | -5.2 | -1.6 | -2.4 | -0.2 | 0.2 | -10.7 | |
| Identified debt-creating flows | 1.4 | 11.6 | 3.8 | -1.5 | -5.1 | -1.6 | -2.3 | -0.1 | 0.3 | -10.4 | |
| Primary deficit | 1.2 | 4.4 | 5.2 | 4.3 | 2.3 | 2.0 | 2.0 | 1.8 | 1.8 | 14.1 | -1.5 |
| Primary (noninterest) revenue and gr | 39.1 | 39.7 | 40.5 | 40.0 | 40.2 | 37.7 | 37.2 | 37.1 | 36.7 | 228.9 | |
| Primary (noninterest) expenditure | 40.3 | 44.1 | 45.7 | 44.3 | 42.5 | 39.7 | 39.1 | 38.9 | 38.5 | 243.1 | |
| Automatic debt dynamics [5/] | 0.0 | 2.0 | -1.8 | -4.7 | -6.6 | -2.8 | -2.3 | -1.9 | -1.5 | -19.8 | |
| Interest rate/growth differential [6/] | -0.1 | 2.2 | -2.0 | -4.7 | -6.6 | -2.8 | -2.3 | -1.9 | -1.5 | -19.8 | |
| Of which: real interest rate | 1.2 | 0.1 | -0.3 | -3.4 | -4.7 | -0.8 | -0.4 | -0.4 | -0.1 | -9.8 | |
| Of which: real GDP growth | -1.3 | 2.1 | -1.7 | -1.3 | -1.9 | -2.0 | -1.8 | -1.6 | -1.4 | -9.9 | |
| Exchange rate depreciation [7/] | 0.1 | -0.2 | 0.2 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | 0.3 | 5.1 | 0.4 | -1.1 | -0.9 | -0.8 | -2.0 | 0.0 | 0.0 | -4.8 | |
| Privatization/Drawdown of Deposits | 0.3 | 5.1 | 3.1 | -0.8 | -0.8 | -0.3 | -1.0 | 0.0 | 0.0 | -2.9 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other debt-creating flows (specify) ( | 0.0 | 0.0 | -2.8 | -0.3 | -0.1 | -0.5 | -1.0 | 0.0 | 0.0 | -1.9 | |
| Residual, including asset changes [8/] | -0.6 | 0.0 | -0.4 | -0.1 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | -0.3 | |




Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

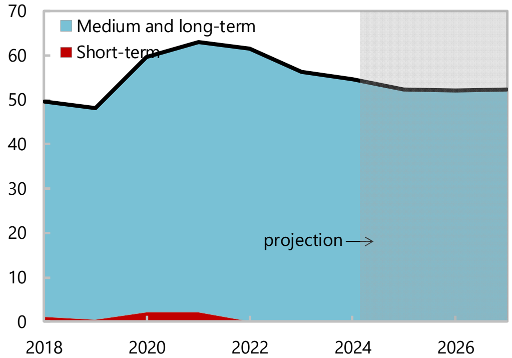
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

## Figure AV.2. Slovak Republic: Public Debt Sustainability Analysis —Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

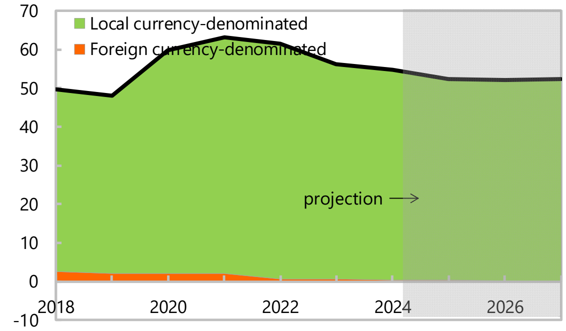
**By Maturity**

(in percent of GDP)




**By Currency**

(in percent of GDP)

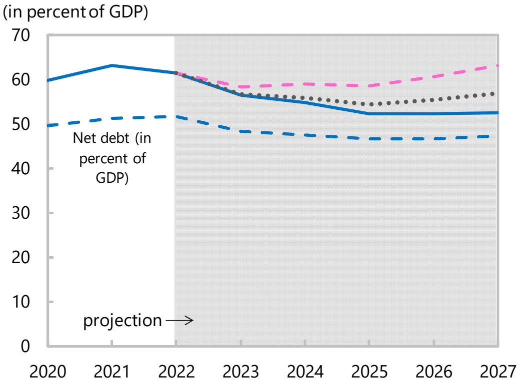



### Alternative Scenarios

Baseline   Historical   Constant Primary Balance

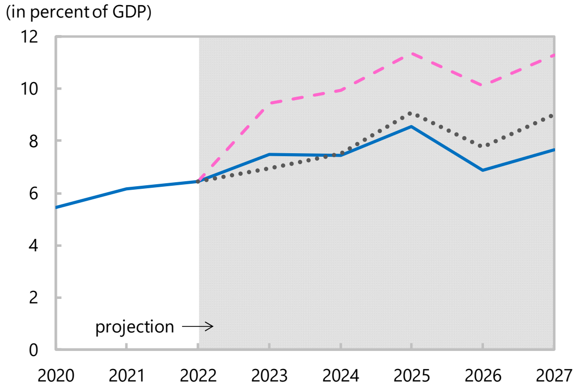
**Gross Nominal Public Debt**

(in percent of GDP)




**Public Gross Financing Needs**

(in percent of GDP)




### Underlying Assumptions

(in percent)

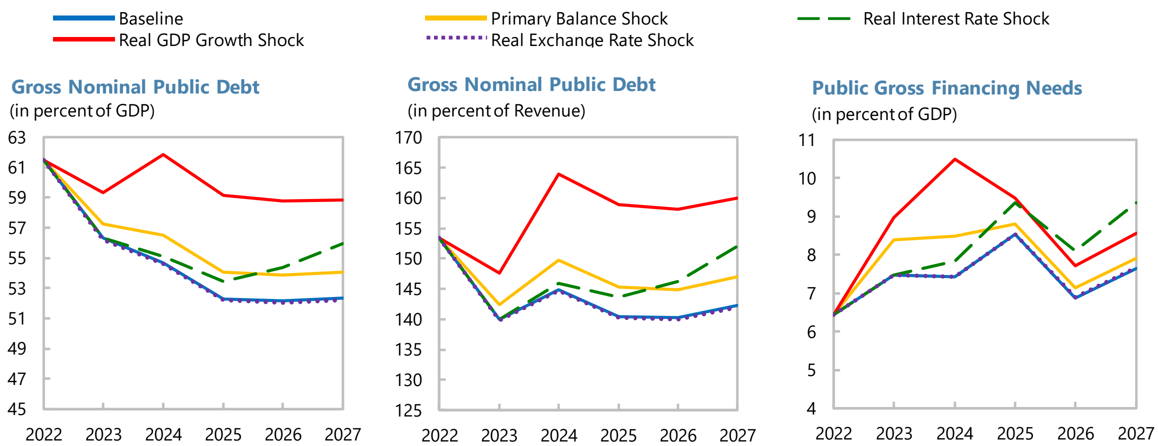
| Baseline Scenario | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.2 | 3.5 | 3.8 | 3.5 | 3.2 | 2.8 |
| Inflation | 7.5 | 9.9 | 3.0 | 2.3 | 2.1 | 1.9 |
| Primary Balance | -4.3 | -2.3 | -2.0 | -2.0 | -1.8 | -1.8 |
| Effective interest rate | 1.7 | 1.6 | 1.6 | 1.6 | 1.5 | 1.8 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 2.2 | 3.5 | 3.8 | 3.5 | 3.2 | 2.8 |
| Inflation | 7.5 | 9.9 | 3.0 | 2.3 | 2.1 | 1.9 |
| Primary Balance | -4.3 | -4.3 | -4.3 | -4.3 | -4.3 | -4.3 |
| Effective interest rate | 1.7 | 1.6 | 1.6 | 1.6 | 1.5 | 1.8 |

| Historical Scenario | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Inflation | 7.5 | 9.9 | 3.0 | 2.3 | 2.1 | 1.9 |
| Primary Balance | -4.3 | -1.7 | -1.7 | -1.7 | -1.7 | -1.7 |
| Effective interest rate | 1.7 | 1.6 | 2.1 | 2.5 | 2.9 | 3.6 |

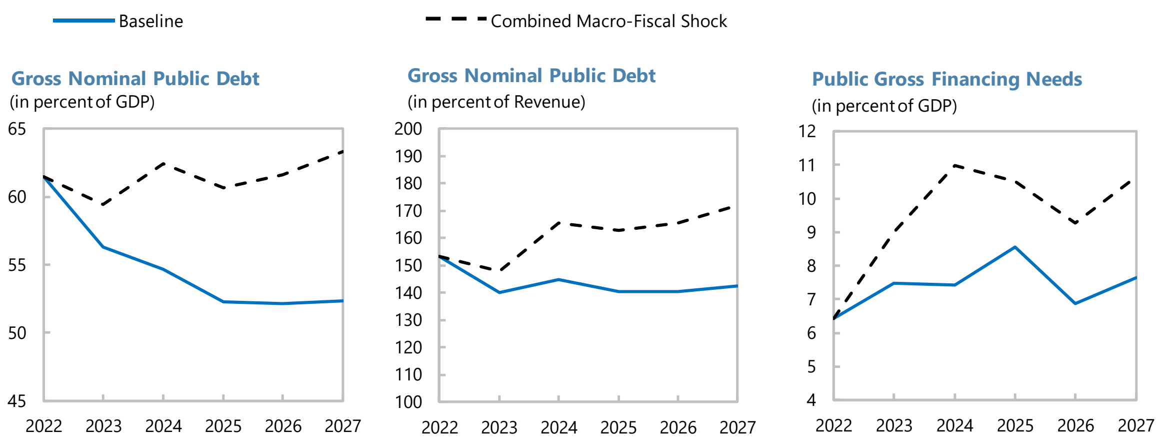
Source: IMF staff.

## Figure AV.3. Slovak Republic: Public Debt Sustainability Analysis—Stress Tests

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions
(in percent)

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| **Primary Balance Shock** | | | | | | |
| Real GDP growth | 2.2 | 3.5 | 3.8 | 3.5 | 3.2 | 2.8 |
| Inflation | 7.5 | 9.9 | 3.0 | 2.3 | 2.1 | 1.9 |
| Primary balance | -4.3 | -3.2 | -2.9 | -2.0 | -1.8 | -1.8 |
| Effective interest rate | 1.7 | 1.6 | 1.6 | 1.6 | 1.5 | 1.8 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 2.2 | 3.5 | 3.8 | 3.5 | 3.2 | 2.8 |
| Inflation | 7.5 | 9.9 | 3.0 | 2.3 | 2.1 | 1.9 |
| Primary balance | -4.3 | -2.3 | -2.0 | -2.0 | -1.8 | -1.8 |
| Effective interest rate | 1.7 | 1.6 | 2.3 | 3.0 | 3.7 | 4.5 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 2.2 | 0.9 | 1.2 | 3.5 | 3.2 | 2.8 |
| Inflation | 7.5 | 9.3 | 2.4 | 2.3 | 2.1 | 1.9 |
| Primary balance | -4.3 | -3.7 | -4.5 | -2.0 | -1.8 | -1.8 |
| Effective interest rate | 1.7 | 1.6 | 2.5 | 3.3 | 3.9 | 4.8 |

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| **Real GDP Growth Shock** | | | | | | |
| Real GDP growth | 2.2 | 0.9 | 1.2 | 3.5 | 3.2 | 2.8 |
| Inflation | 7.5 | 9.3 | 2.4 | 2.3 | 2.1 | 1.9 |
| Primary balance | -4.3 | -3.7 | -4.5 | -2.0 | -1.8 | -1.8 |
| Effective interest rate | 1.7 | 1.6 | 1.6 | 1.7 | 1.6 | 1.9 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 2.2 | 3.5 | 3.8 | 3.5 | 3.2 | 2.8 |
| Inflation | 7.5 | 10.3 | 3.0 | 2.3 | 2.1 | 1.9 |
| Primary balance | -4.3 | -2.3 | -2.0 | -2.0 | -1.8 | -1.8 |
| Effective interest rate | 1.7 | 1.6 | 1.6 | 1.6 | 1.5 | 1.8 |

Source: IMF staff.

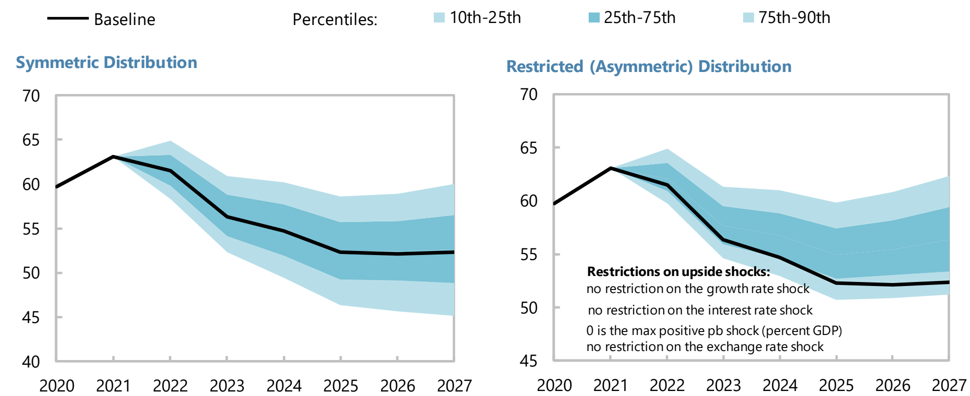
## Figure AV.4. Slovak Republic: Public Debt Sustainability Analysis Risk Assessment

### Heat Map

| | | | | | |
|---|---|---|---|---|---|
| Debt level 1/ | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability shock |
| Gross financing needs 2/ | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability Shock |
| Debt profile 3/ | Market Perception | External Financing Requirements | Change in the Share of Short-Term Debt | Public Debt Held by Non-Residents | Foreign Currency Debt |

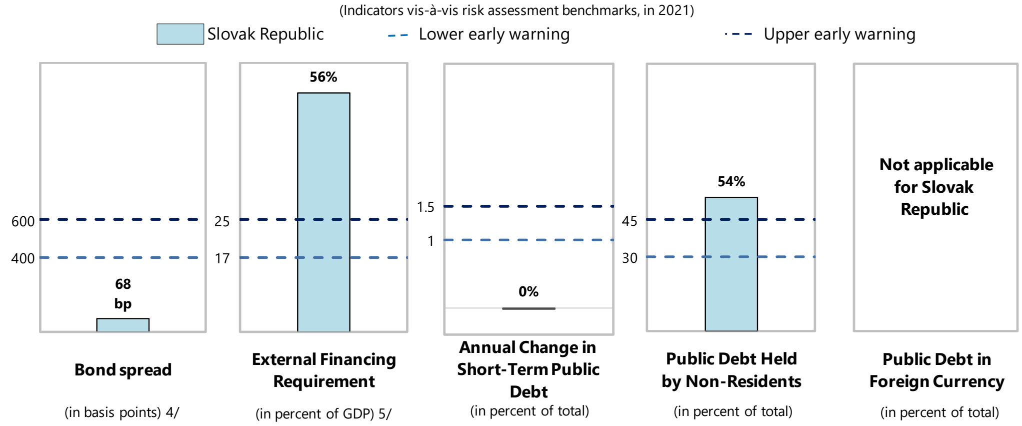
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)




Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

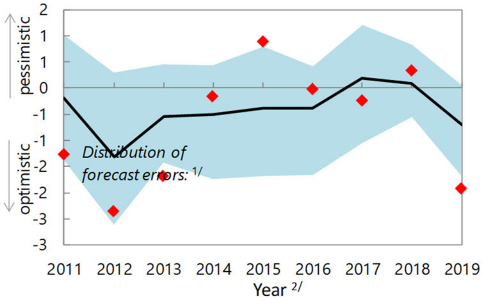
4/ Long-term bond spread over German bonds, an average over the last 3 months, 24-Feb-22 through 25-May-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

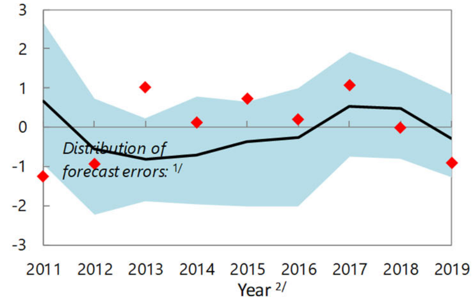
## Figure AV.5. Slovak Republic: Public Debt Sustainability Analysis—Realism of Baseline Assumptions

### Forecast Track Record, versus all countries

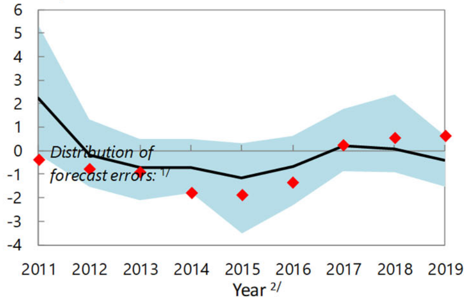
**Real GDP Growth**
(in percent, actual-projection)
Slovak Republic median forecast error, 2011-2019: -0.24
Has a percentile rank of: 53%




**Primary Balance**
(in percent of GDP, actual-projection)
Slovak Republic median forecast error, 2011-2019: 0.11
Has a percentile rank of: 61%

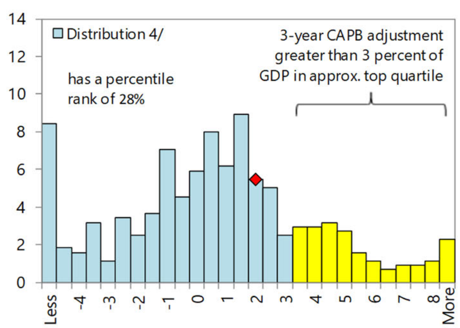



**Inflation (Deflator)**
(in percent, actual-projection)
Slovak Republic median forecast error, 2011-2019: -0.79
Has a percentile rank of: 29%

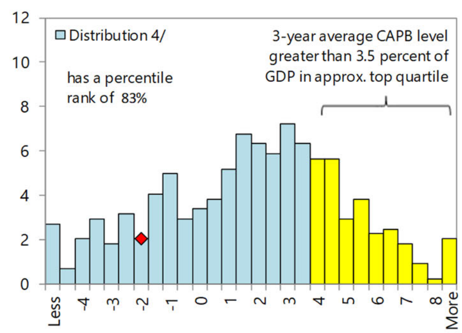



### Assessing the Realism of Projected Fiscal Adjustment

**3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)**
(Percent of GDP)

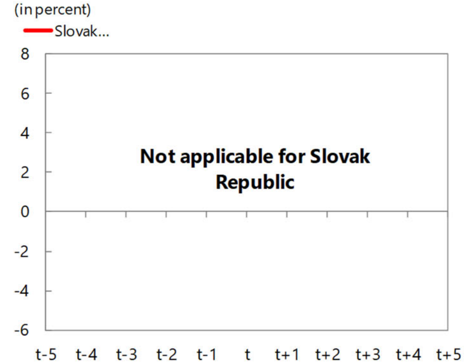



**3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)**
(Percent of GDP)




### Boom-Bust Analysis 3/

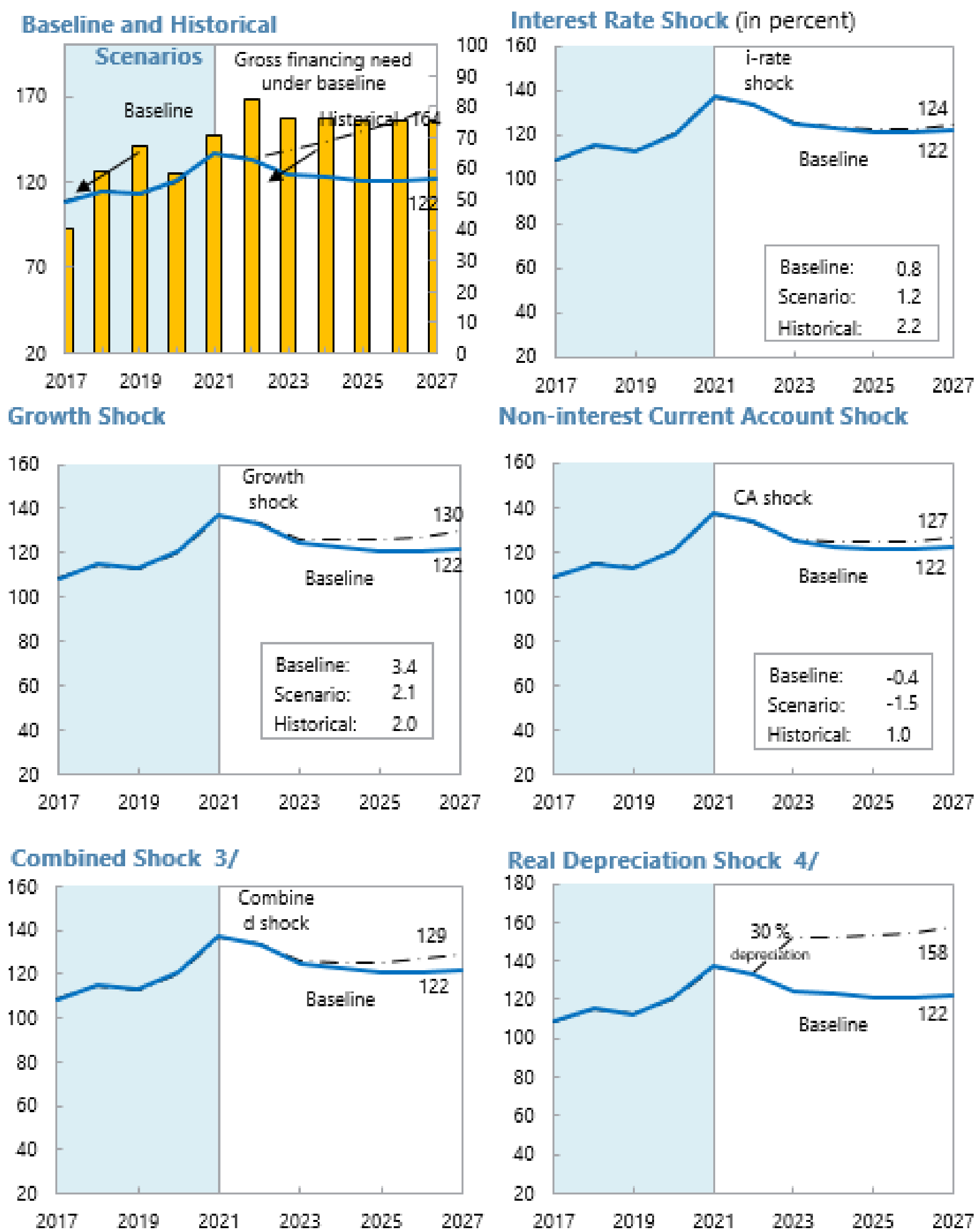
**Real GDP Growth**
(in percent)




Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Slovak Republic, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

**Figure AV.6. Slovak Republic: External Debt Sustainability: Bound Tests 1/2/**

(External debt in percent of GDP)




Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviatio shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

**Slovak Republic: External Debt Sustainability Framework, 2017–2027**
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | | | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | Debt-stabilizing non-interest current account 6/ |
| **Baseline: External Debt** | 108.4 | 115.0 | 112.7 | 120.5 | 137.0 | | | **133.5** | **124.7** | **122.7** | **121.2** | **121.0** | **121.9** | **-4.7** |
| Change in external debt | 15.9 | 6.6 | -2.3 | 7.7 | 16.5 | | | -3.5 | -8.7 | -2.1 | -1.5 | -0.2 | 1.0 | |
| Identified external debt-creating flows (4+8+9) | -4.3 | -4.7 | -4.3 | 2.6 | -2.1 | | | 1.7 | -0.9 | -2.5 | -2.8 | -3.2 | -3.3 | |
| Current account deficit, excluding interest payments | 0.0 | 0.4 | 1.6 | -1.8 | 0.7 | | | 3.3 | 2.1 | 1.0 | 0.3 | -0.4 | -1.0 | |
| Deficit in balance of goods and services | -1.7 | -0.8 | -0.1 | -2.1 | -0.8 | | | 1.9 | 0.6 | -0.5 | -1.0 | -1.7 | -2.0 | |
| Exports | 90.2 | 99.1 | 92.7 | 80.5 | 98.0 | | | 92.8 | 86.8 | 86.5 | 86.4 | 86.2 | 85.9 | |
| Imports | 88.5 | 98.3 | 92.6 | 78.4 | 97.2 | | | 94.7 | 87.4 | 86.0 | 85.3 | 84.6 | 83.8 | |
| Net non-debt creating capital inflows (negative) | -2.8 | -1.3 | -2.5 | 2.0 | 0.3 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Automatic debt dynamics 1/ | -1.4 | -3.7 | -3.4 | 2.5 | -3.1 | | | -1.5 | -3.0 | -3.4 | -3.1 | -2.8 | -2.2 | |
| Contribution from nominal interest rate | 1.8 | 1.9 | 1.8 | 1.5 | 1.4 | | | 1.2 | 1.1 | 1.0 | 0.9 | 0.9 | 1.0 | |
| Contribution from real GDP growth | -2.4 | -4.0 | -2.9 | 4.6 | -3.7 | | | -2.7 | -4.1 | -4.4 | -4.0 | -3.7 | -3.2 | |
| Contribution from price and exchange rate changes 2/ | -0.9 | -1.6 | -2.3 | -3.6 | -0.8 | | | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2–3) 3/ | 20.2 | 11.3 | 2.0 | 5.1 | 18.7 | | | -5.3 | -7.8 | 0.4 | 1.3 | 2.9 | 4.2 | |
| External debt-to-exports ratio (in percent) | 120.2 | 116.1 | 121.7 | 149.7 | 139.8 | | | 143.8 | 143.7 | 141.8 | 140.3 | 140.3 | 142.0 | |
| **Gross External Financing Need (in billions of US dollars) 4/** | 40.4 | 60.0 | 70.4 | 65.0 | 77.7 | | | 99.4 | 105.9 | 114.9 | 122.0 | 128.7 | 135.5 | |
| in percent of GDP | 40.4 | 58.9 | 67.4 | 58.0 | 70.7 | 10-Year | 10-Year | 82.1 | 75.9 | 76.2 | 75.7 | 75.3 | 75.3 | |
| **Scenario with Key Variables at Their Historical Averages 5/** | | | | | | | | **133.5** | **138.8** | **143.9** | **149.2** | **156.1** | **164.5** | **0.4** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | Historical Average | Standard Deviation | | | | | | | |
| Real GDP growth (in percent) | 3.0 | 3.8 | 2.6 | -4.4 | 3.0 | 2.0 | 2.6 | 2.2 | 3.5 | 3.8 | 3.5 | 3.2 | 2.8 | |
| GDP deflator in US dollars (change in percent) | 13.6 | -1.9 | 0.1 | 12.1 | -4.9 | -0.1 | 8.5 | 7.8 | 11.4 | 4.1 | 3.3 | 2.8 | 2.4 | |
| Nominal external interest rate (in percent) | 2.3 | 1.8 | 1.6 | 1.4 | 1.1 | 2.2 | 0.8 | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 0.9 | |
| Growth of exports (US dollar terms, in percent) | 8.6 | 11.9 | -4.0 | -6.9 | 19.3 | 3.0 | 9.6 | 4.3 | 7.8 | 7.8 | 6.7 | 5.8 | 4.9 | |
| Growth of imports (US dollar terms, in percent) | 9.0 | 13.0 | -3.3 | -9.2 | 21.6 | 2.9 | 10.1 | 7.3 | 6.4 | 6.4 | 6.0 | 5.1 | 4.4 | |
| Current account balance, excluding interest payments | 0.0 | -0.4 | -1.6 | 1.8 | -0.7 | 1.0 | 2.2 | -3.3 | -2.1 | -1.0 | -0.3 | 0.4 | 1.0 | |
| Net non-debt creating capital inflows | 2.8 | 1.3 | 2.5 | -2.0 | -0.3 | 0.8 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

# Annex VI. Introducing Expenditure Ceilings

**1. In March 2022, the Slovak parliament approved amendments to the budgetary law that introduce expenditure ceilings (RRP milestone for 2021Q4).**[1] General government expenditure ceilings will become the core operational instrument to achieve long-term fiscal sustainability. Expenditure limits will be set in nominal terms and are based on the minimum required structural balance change that are linked to long-term fiscal sustainability indicators. A consolidation of 0.5 (or 0.25) percent of GDP in structural balance will be required if the long-term sustainability risks are considered high/medium (or low). The Slovak Council for Budget Responsibility (CBR) will play a critical role in implementing the amended law, including calculating the expenditure ceilings and reviewing compliance.

**2. Certain expenditures are excluded from the ceilings.** Specifically, the limits will exclude i) expenditure driven by economic cycles, such as unemployment benefits, and one-off expenditures; ii) general government debt service; iii) local government expenditures; and iv) EU-related expenditures including co-financing. Overall, the expenditure ceilings cover more than 80 percent of general government spending.

**3. The expenditure ceilings will be set for the four-year parliamentary term.** Initially the ceilings will only cover 2023 and 2024, the remaining years of the current government (though as an experiment and not legally binding). An escape clause can be triggered if a decline in quarterly GDP is observed and annual GDP is expected to decline, allowing the government to increase spending.[2] The spending ceilings will be recalibrated after the end of the recession escape clause, where in the first year, there is a 50 percent "discount" to the required consolidation.[3] If the revenue forecast (by the Tax Revenue Forecast Committee) turns out to be higher or lower by 3 percent of GDP compared with the assumption used in calculating the ceilings, the ceilings also need to be recalculated using the updated forecast.

**4. The CBR will assess the fulfillment of the ceilings and update the ceilings regularly.** The expenditure ceilings can be revised reflecting new revenue measures and measures affecting long-term fiscal sustainability (e.g., pension policy changes). If the government's action leads to lower revenue or a worsening of fiscal sustainability, the expenditure ceiling will be reduced by the same amount. If the government policy improves fiscal sustainability, spending will be allowed to increase, by not more than 0.5 percent of GDP. If the limit from the previous year is unspent, it would be

[1] Multi-annual expenditure ceilings have been a constitutional provision since 2011 but had not been implemented thus far. Introducing expenditure ceilings was originally envisaged as part of the amendments to the Constitutional Act on Budgetary Responsibility, which also includes reforms on debt rules. With the constitutional amendments stalled, expenditure ceilings were passed separately as an ordinary law in March 2022. Consequently, future governments can change the law by a simple majority.

[2] If annual GDP is expected to fall by less/more than 3 percent, there is a 1-year/2-year break from the spending ceilings.

[3] E.g., if the long-term sustainability risk is assessed as high, there will be a required consolidation of 0.5 percent of GDP. But in the first year this will be lowered to 0.25 percent of GDP.

possible to have the limit for the next year exceeded accordingly. Updated spending ceilings need to be approved two parliamentary committees (budget and economic affairs). The CBR will publish the methodology for calculating, updating, and assessing of expenditure ceilings, but the methodology needs to be agreed with the ministry of finance.

5. **The expenditure rule will be supported by a correction mechanism.** If the government does not comply with the spending limit for one year, spending limit will be lowered in the following year. If the government breaks the ceiling for two years in a row and by more 1 percent of GDP, the government must ask the parliament for a vote of confidence.

6. **Implementing binding multi-year expenditure ceilings will strengthen fiscal discipline and improve medium-term budget performance.**

- The introduction of multiannual spending ceilings will enhance the credibility of fiscal consolidation plans and improve fiscal sustainability. Their design would help support countercyclical fiscal policy, as the level ceilings, set in nominal terms, would constrain spending in boom times when revenues are high, while allowing automatic stabilizers to operate during downturns (the ceilings exclude expenditures influenced by the cycle, like unemployment benefits). Setting the ceilings for the entire election cycle could also curtail excessive expenditure growth in pre-election years.

- The successful implementation of multiannual spending ceilings would require strong public investment management and improved cooperation between all general government entities and line ministries. It would strengthen top-down budgeting, encourage better baseline and policy bottom-up costing, and shift the budget culture away from line-item budgeting to a dialog on the quality and affordability of policies, eventually resulting in improved budget outcomes. Importantly, having multiannual spending ceilings would encourage better integration of spending reviews/Value for Money initiative with the budget process. Giving the CBR a greater role will also help improve fiscal transparency and governance (see Annex VII).

- It will be important to enshrine the implementation of spending ceilings in the amendments to the Constitutional Act on Budgetary Responsibility to prevent its reversal or regressing to less demanding objectives.

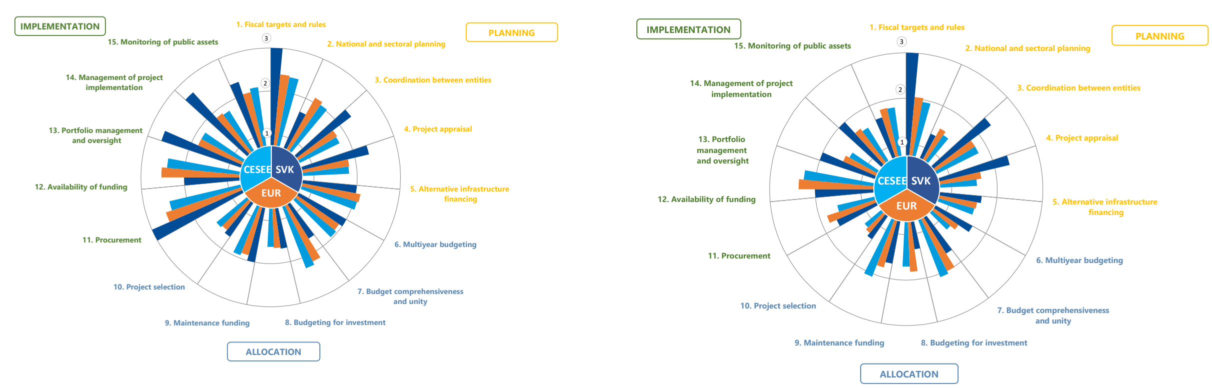
# Annex VII. Strengthening Fiscal Governance

As one of the largest beneficiaries of the Next Generation EU program, the Slovak Republic will receive €6.3 billion in grants (or over 6.9 percent of 2020 GDP) over 2021–26 as part of the Recovery and Resilience mechanism. These funds will be in addition to sizable transfers under the 2014–20 and 2021–28 Multiannual Financial Frameworks. Strengthening fiscal governance and improving public sector spending efficiency will be essential to make the most of these resources, which could significantly raise Slovakia's potential output. Improvements in revenue efficiency would also be essential to strengthen public finance over the medium run. Against this backdrop, this annex reviews progress, and remaining challenges in strengthening fiscal governance in Slovakia, drawing on the findings of the recently completed 2022 Fiscal Transparency Evaluation, the 2019 Public Investment Management assessment (PIMA) and the 2018 Tax Administration Diagnostic Assessment Tool (TADAT).

## Public Investment Management

1. **The 2019 Public Investment Management Assessment (PIMA) for Slovakia suggests a broadly effective framework with room for improvements in some areas,** namely project selection, procurement practices, and oversight of state-owned enterprises (SOEs). The report recommended the creation of an integrated pipeline of major projects to be monitored by a dedicated central unit, together with a specialized unit to strengthen financial oversight of major SOEs, including their annual budgets and investment plans.

**Institutional Design** | **Effectiveness**




Source: IMF staff.

2. **Notable progress has been made since the publication of the PIMA report.** An Investment Authority (IA) was established within the Ministry of Finance (MoF) Value for Money Unit to streamline project preparation, increase the quality of investment projects, and monitor investment projects in all phases. Feasibility studies and cost-benefit analyses are now required for all projects above EUR 40 million (and above EUR 10 million in the IT area). In November 2020, the mandate of the IA was extended to review all projects above EUR 1 million. In 2021 alone, the IA

evaluated more than 250 projects with a total cost of EUR 6.3 billion and identified potential savings of over EUR 800 million (IMF, 2022).

3. **An amendment to the Public Procurement Act recently entered into force which should help improve public procurement.** The 2019 PIMA found that weak administrative capacity and anticompetitive practices impacted negatively on public procurement procedures, and while most large procurements followed open and transparent procedures, uncompetitive practices still prevailed. There is also much room to improve the frequency and depth of external audits of procurement and the Public Procurement Office's reporting. The new law, which also fulfills reform commitments under the Recovery Resilience Plan (RRP), should help improve current practices, by speeding and simplifying procurement processes, aligning domestic regulations with EU directives, ensuring contractors' and suppliers' rights, and improving procurement controls by automating contract evaluation and award. It would also extend the use of e-procurement, and ensure the efficient collection and analysis of data. The reform could also help speed up EU funds absorption.

4. **The central oversight of SOEs could be strengthened.** Around half of SOEs were loss making in 2020. Total SOE liabilities are manageable (5.7 percent of GDP as of 2020) and transfers between the government and SOEs are disclosed. Nevertheless, as recommended by the PIMA, the establishment of a specialized unit to strengthen financial oversight of major SOEs, including their annual budgets and investment plans, could help improve public investment efficiency as SOEs carry out half of public investment in Slovakia (IMF SR 2019).

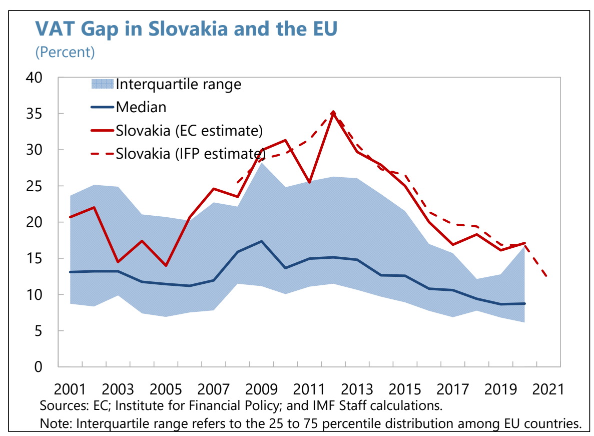
## Tax Administration

**Strengths**

- Strong VAT controls.
- Comprehensive electronic filing and payment systems.
- Strong framework of withholding and advance payment systems.
- Regular tax gap analysis and contribution to revenue forecasting.
- Relatively high rates of on-time filing and payment compliance.

**Weaknesses**

- Lack of compliance focus on income taxes.
- Taxpayer register shortcomings that hamper compliance management.
- Unstructured management of compliance and institutional risks.
- Unbalanced audit program.
- Insufficient attention to reducing taxpayer compliance costs.
- High stock of old tax arrears.
- Poorly designed dispute resolution system.
- Lack of public perception surveys.




5. **Recent progress notwithstanding, there is room to further improve the efficiency of tax collection.** The 2018 IMF TADAT assessment identified main strengths and weaknesses of Slovakia's tax administration against international good practice. Key recommendations included the strengthening and broadening of audits to include all core tax areas, upskilling of audit staff, identification and assessment of risks of non-compliance by taxpayers, more effective dispute resolution mechanisms, and communication with taxpayers. With the tax administration's focus on strengthening VAT collection, significant progress has been made in recent years in reducing the VAT gap. The VAT gap has declined from the 2012 peak of 35 percent to 12.1 percent in 2021, an

18-year historic low, though it is still higher than the EU average (10.3 percent). The reduction in the VAT gap is the outcome of continued efforts to eliminate inactive corporations from the business register, more effective auditing strategy (in line with TADAT recommendations), and measures to support voluntary tax compliance, as well as lower sales in the gastronomic sector (where tax evasion is high) and the increase in on-line shopping as a result of the pandemic.

**6. The introduction of electronic cash registers (eKasa) in 2020 should help improve tax collection and further reduce the VAT gap** though the impact is difficult to gauge amidst the Covid-19 pandemic. The authorities also plan to introduce an e-invoicing system in 2024, where businesses will need to send all their (electronic) invoices directly to the tax administration. This should also help reduce VAT and CIT frauds and mistakes. To make it effective, the introduction of e-invoicing should be part of a broad package of measures and backed by a robust and credible tax administration, especially in audit and enforcement.

### Fiscal Transparency

**7. Slovakia has a generally strong track record of fiscal transparency,** which is a critical element of effective fiscal management and strong fiscal governance. According to the 2022 FTE, Slovakia has relatively strong institutions in place to support fiscal transparency, and most aspects of Slovakia's fiscal reporting, budgeting, and risk management are in line with good or advanced practices in IMF's Fiscal Transparency Code.

**8. The FTE also highlights several areas where Slovakia's fiscal transparency practices need improvement,** namely budget process, rules, and control, external auditing, fiscal reporting, and analysis and monitoring of fiscal risks. Recommendations of the FTE include enhancing the institutional setup and fiscal rules for medium-term budgeting and the oversight of budget execution (more details below); conducting regular strategic review of tax expenditures; improving the central oversight of public corporations and the analysis of specific fiscal risks such as the long-term risks to the health fund; and aligning the external audit process with accepted international practices.

**9. The fiscal outturn shows a systematic optimism bias in the medium-term budget framework (MTBF).** The annual Draft Budget Plan (DBP) presents the MTBF covering three years. During 2012 to 2016, the draft budget consistently underestimated both revenue and expenditure forecasts, resulting in an optimism bias for the overall fiscal balance. Moreover, the budgets repeatedly contained risks of revenue shortfall for certain items that often materialized.[1] The government's tax revenue forecasts are assessed and validated by the independent Tax Revenue Forecasting Committee. Since 2021, the forecasts prepared by the Committee have been expanded to include selected items of non-tax revenues. This could help improve the revenue forecast.

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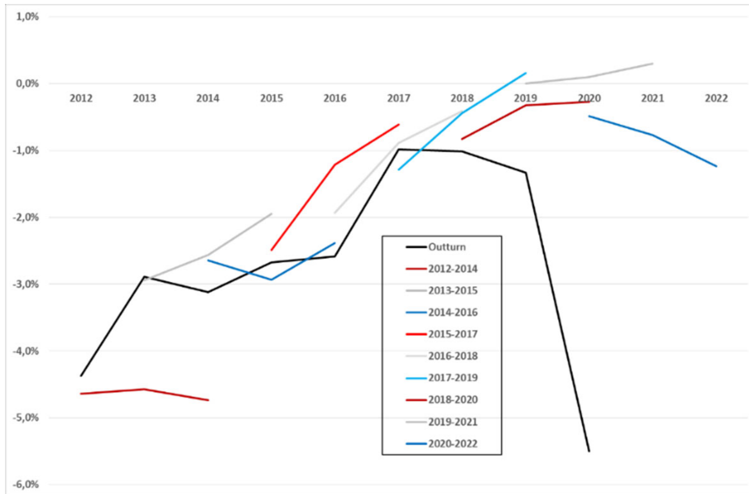
[1] See CBR's report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules for 2019. For 2020, budgeted revenue gains from fuel identification nanomarkers did not materialize. There was also an overvaluation of selected non-tax revenues.

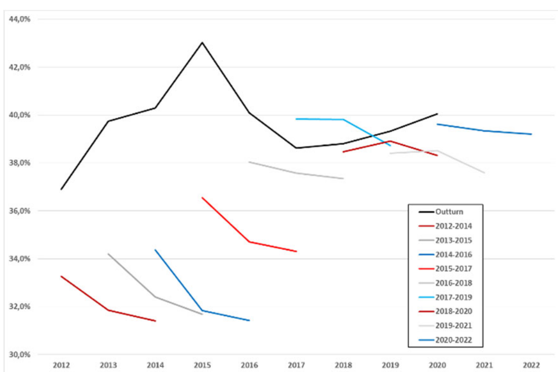
## Figure. 1. Slovak Republic: Budget Balance Outturn vs. Forecast, 2012–2020

(Percent of GDP)



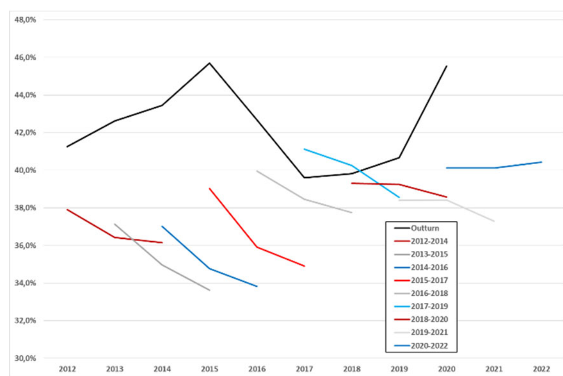

### Aggregate Revenue Outturn vs. Forecast, 2012–2020

(Percent of GDP)



### Aggregate Expenditure Outturn vs. Forecast, 2012–2020

(Percent of GDP)



Sources: Ministry of Finance and staff calculations.

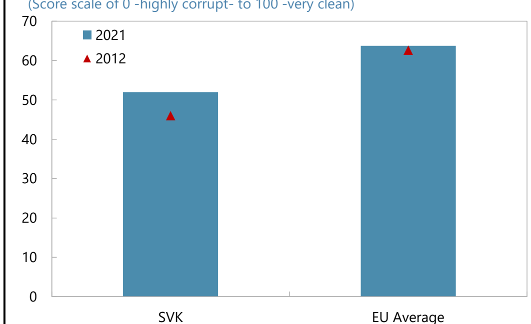
**10. On expenditure, while the budgets for the first year constitute binding spending ceilings, the budgets for the two outer years are only indicative.** There is only limited participation of line ministries in discussion on preparing the budget for outer years. The systematic deviation between forecasts and the actual outturn suggests that the estimates for the outer years have little influence on the preparation of the next annual budget. Furthermore, both the 2020–22 MTBF and the 2021–23 MTBF, while noting the size of the consolidation needs in outer years, did not spell out specific measures to achieve the consolidation. The forthcoming introduction of multiannual expenditure ceilings will help address this issue (see Annex VI).

**11. Reforming the legislative framework for budget approval and enhancing the parliament's oversight role on budget execution could also help improve budget outcomes.** While the DBP covers the general government's three-year budget and is in accordance with ESA2010, what is approved by the parliament is a cash-based state budget for the next year. As noted by the CBR[2], this is not in line with the best international practice and is not sufficient to capture the key monitored parameters of public finances. Furthermore, as noted in the FTE report, enhancing the oversight role of the parliament on budget execution, in particular the authorization of in-year virements, and creating stronger relationships between the parliament and the Supreme Audit Office on the audit of public finances, and the CBR on the management of fiscal policy and fiscal risks.

## Judicial Reforms and Governance

**12. Recent and planned reforms in the judicial system and measures taken to fight corruption will also generally help strengthen fiscal governance.** The constitutional amendment on judicial reforms passed in December 2020 includes changes to the Constitutional Court and the Judicial Council, the setting-up of a new Supreme Administrative Court, and introducing property checks for all judges. The government's efforts to repress corruption have also led to a number of high-level corruption cases being investigated and prosecuted. The reform of the judicial map aims to improve the efficiency of the judicial system including through increased court specialization. The *2021 EC Rule of Law Report* on Slovakia praised continued efforts to improve the justice system's independence, integrity, quality, and efficiency. The report also noted that progress in preventing corruption was still slow and several attempts to regulate lobbying have failed, and called for more involvement of stakeholders and civil society in the legislative process. On preventing corruption amongst persons with top executive functions (ministers, senior government officials and political advisers) and members of the police force, a recent GRECO report shows that Slovakia has satisfactorily implemented only two (out of twenty-one) GRECO recommendations. More actions are needed to address outstanding recommendations, including those on operational corruption prevention action plan, conflicts of interest, and asset declarations.

**Corruption Perceptions Index**
(Score scale of 0 -highly corrupt- to 100 -very clean)




Source: Transparency International.

[2] Report on Compliance with the Fiscal Responsibility and Fiscal Transparency Rules for 2020.

INTERNATIONAL MONETARY FUND

# SLOVAK REPUBLIC

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 13, 2022

Prepared By European Department

## CONTENTS

# FUND RELATIONS

(As of April 30, 2022)

**Membership Status:** Joined January 01, 1993; Article VIII

| General Resources Account: | SDR Million | Percent of Quota |
|---|---|---|
| Quota | 1,001.00 | 100 |
| Fund holdings of currency | 733.48 | 73.27 |
| Reserve position | 267.52 | 26.73 |
| Lending to the Fund | | |

| SDR Department: | SDR Million | Percent of Allocation |
|---|---|---|
| Net cumulative allocation | 1,299.89 | 100 |
| Holdings | 1,311.16 | 100.87 |

**Outstanding Purchases and Loans:** None

**Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-by | 7/22/1994 | 3/21/1996 | 115.80 | 32.15 |

**Projected Payments to Fund:**
(SDR Million; based on existing use of resources and present holdings of SDRs):

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 |
| Principal | | | | | |
| Charges/Interest | | 0.02 | 0.02 | 0.02 | 0.02 |
| Total | | 0.02 | 0.02 | 0.02 | 0.02 |

**Exchange Rate Arrangement:**

The currency of Slovak Republic is the euro. The exchange rate arrangement of the euro area is free floating. The Slovak Republic participates in a currency union (EMU) with 18 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies.

The Slovak Republic has accepted the obligations under Article VIII, Section 2(a), 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than restrictions notified to the Fund under Executive Board Decision No. 144-(52/51).

**Article IV Consultation:**

The Slovak Republic is on a standard 12-month consultation cycle. The previous consultation with the Slovak Republic was concluded on June 18, 2021 (IMF Country Report No. 2021/133).
FSAP Participation and ROSCs:

An FSAP was concluded with the completion of the 2002 Article IV consultation on August 7, 2002 (IMF Country Report No. 02/198). An FSAP update mission was held in December 2006 (IMF Country Report 07/243).

The report on the Fiscal ROSC was issued in August 2002 (IMF Country Report No. 02/189), and updates were issued in August 2003 (IMF Country Report No. 03/236) and in March 2005 (IMF Country Report No. 05/73). The report on the Data ROSC was issued in May 2005 (IMF Country Report No. 05/161).

**Technical Assistance:** See the attached table.

**Resident Representative Post:** None (closed at end-April 2004).

**Text Table. Slovak Republic: Technical Assistance, 2000–2022[1]**

| Department | Timing | Purpose |
|---|---|---|
| MCM | February 2000 | Mission on pros and cons, and modalities of moving to an inflation targeting framework, operational issues (money markets and policy instruments), and dealing with potential problems posed by capital inflows for monetary operations |
| | December 2001 | Long-term resident expert on banking supervision |
| | May 2002 | Two missions on inflation modeling |
| FAD | April 2000 | Tax administration |
| | February 2001 | Tax administration (follow-up) |
| | April 2001 | Public Finance Management (follow-up) |
| | August 2001 | Tax administration: Installation of resident expert to advise on establishment of Large Taxpayer Unit (LTU) |
| | August 2001–August 2002 | Regular visits by FAD consultant on establishment of LTU |
| | December 2001 | Tax administration follow-up, tax investigation/fraud issues |
| | June 2002 | Mission to prepare Report on the Observance of Standards and Codes (ROSC), Fiscal Transparency Module |
| | February 2003 | Tax policy |
| | March 2003 | Tax administration |
| | May 2003 | Expenditure policy |

**Text Table. Slovak Republic: Technical Assistance, 2000–2022**[1] (Continued)

| Department | Timing | Purpose |
|---|---|---|
| | December 2013 | VAT gap analysis |
| | November 2015 | Expenditure review |
| | December 2015 | workshop |
| | April 2016 | VAT gap follow-up and excise gap analysis |
| | | Expenditure review |
| | November 2016 | Tax efficiency |
| | | Expenditure review |
| | March 2017 | Corporate income tax |
| | May 2017 | gapExpenditure review |
| | November 2017 | Cost-benefit analysis of transport investment projects |
| | | Expenditure review (follow-up) |
| | April 2018 | TADAT |
| | April 2018 | International taxation |
| | May 2018 | Expenditure review (preparing baselines) |
| | November 2018 | Expenditure review |
| | February 2019 | Public Investment Management Assessment |
| | July 2019 | Expenditure review |
| | September-December 2020 | Fiscal rules and budget reforms |
| | October 2020 | Technical review of the Spending Review Process |
| | April-September 2021 | Expenditure review (National Transport Modeling) |
| | January 2022 | Fiscal Transparency Evaluation |
| STA | February 2000 | National accounts and price statistics |
| | March 2001 | Multi sector mission |
| | July 2003 | Government finance statistics |
| | February–March 2004 | Data ROSC mission |

[1]See Appendix I of IMF Country Report No. 05/71 for technical assistance during 1991–99.

# STATISTICAL ISSUES

1. **Coverage, periodicity, and timeliness of data provided to the Fund are adequate for surveillance purposes.** The Slovak Republic subscribed to the Special Data Dissemination Standard (SDDS) Plus on September 16, 2019, and observes or exceeds all related standards. The Slovak Republic received an IMF mission in 2004 to produce a Data module of the Reports on Observance of Standards and Codes (data ROSC) through which the IMF assesses in detail the quality of the statistical systems of its member countries. A full report was published in 2005 and may be found at: https://dsbb.imf.org/dqrs/reports-on-the-observance. The Slovak Republic is subject to the statistical requirements and timeliness and reporting standards of Eurostat and the European Central Bank (ECB).

2. **Real sector.** All data on national accounts follow the ESA 2010.

3. **Fiscal sector.** The compilation of general government statistics is in line with the ESA 2010. Monthly reconciliation of government operations above and below the line is restricted to state budget transactions on a cash basis quarterly reconciliation of general government operations above and below the line, as well as a financial balance sheet data are available on an accrual basis within 85 days after the end of the quarter.

4. **External sector.** External sector statistics are generally of good quality and are reported on a timely basis to the Fund following the standard of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). Official BPM6 basis data are available back to 2004.

5. **Monetary statistics:** The ECB reporting framework is used for monetary statistics and data are reported to the IMF through a "gateway" arrangement with the ECB. The arrangement provides an efficient transmission of monetary statistics to the IMF and for publication in the International Financial Statistics. Monetary statistics for Slovak Republic published in the IFS cover data on central bank and other depository corporations (ODCs) using Euro Area wide and national residency criteria.

6. **Financial sector surveillance:** Slovak Republic reports all core and encouraged financial soundness indicators (FSIs) for deposit takers, except for large exposures and spread between highest and lowest interbank rate. The authorities also report two FSIs for other financial corporations and one FSI for real estate markets. Slovak Republic also reports data on some key series and indicators of the Financial Access Survey (FAS), including two indicators of the United Nations' Sustainable Development Goals.

**Table 1. Slovak Republic: Table of Common Indicators Required for Surveillance**
(As of April 30, 2022)

| | Date of Latest Observation | Date Received | Frequency of Data [6/] | Frequency of Reporting [6/] | Frequency of Publication [6/] |
|---|---|---|---|---|---|
| Exchange Rates | Current | Current | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1/] | April 2022 | May 2022 | D | W | W |
| Reserve/Base Money | April 2022 | May 2022 | M | M | M |
| Broad Money | March 2022 | May 2022 | M | M | M |
| Central Bank Balance Sheet | March 2022 | May 2022 | M | M | M |
| Consolidated Balance Sheet of the Banking System | March 2022 | May 2022 | M | M | M |
| Interest Rates [2/] | Current | Current | D | D | D |
| Consumer Price Index | April 2022 | May 2022 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing [3/] — General Government [4/] | 2021 | April 2022 | A | A | A |
| Revenue, Expenditure, Balance and Composition of Financing [3/] —Central Government | April 2022 | May 2022 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt [5/] | 2021Q4 | April 2022 | Q | Q | Q |
| External Current Account Balance | February 2022 | April 2022 | M | M | M |
| Exports and Imports of Goods and Services | February 2022 | April 2022 | M | M | M |
| GDP/GNP | 2022Q1 | May 2022 | Q | Q | Q |
| Gross External Debt | 2021Q4 | March 2022 | Q | Q | Q |
| International Investment Position [7/] | 2021Q4 | March 2022 | Q | Q | Q |

[1/] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2/] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3/] Foreign, domestic bank, and domestic nonbank financing.
[4/] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5/] Including currency and maturity composition.
[6/] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).
[7/] Includes external gross financial asset and liability positions vis-à-vis nonresidents.