Economic and Monetary Developments

Summer 2024

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Abbreviations

ARDAL	Debt and Liquidity Management Agency / Agentúra pre riadenie dlhu a likvidity
bp	basis point(s)
CPI	Consumer Price Index
DDA	debt-deficit adjustment
DSA	debt sustainability analysis
EA	euro area
ECB	European Central Bank
EC	European Commission
ESA 2010	European System of Accounts 2010
ESCB	European System of Central Banks
EU	European Union
EUR	euro
EURIBOR	euro interbank offered rate
Eurostat	statistical office of the European Union
GDP	gross domestic product
HAI	housing affordability index
HICP	Harmonised Index of Consumer Prices
ICT	information and communication technology
LFS	Labour Force Survey
MFF	multiannual financial framework
MF SR	Ministry of Finance of the Slovak Republic
MIRRI SR	Ministry of Investment, Regional Development and Informatisation of the Slovak Republic / Ministerstvo investícií, regionálneho rozvoja a informatizácie Slovenskej republiky
MTF	medium-term forecast (of NBS)
NACE	Statistical Classification of Economic Activities in the European Community (Rev. 2)
NARKS	Slovak National Association of Real Estate Agencies / Národná asociácia realitných kancelárií Slovenska
NBS	Národná banka Slovenska
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
p.a.	per annum
PMI	Purchasing Managers' Index
pp	percentage point(s)
PP	programming period (of the European Union)
RRF	Recovery and Resilience Facility (of the European Union)
RRP	recovery and resilience plan (of the Slovak Republic)
SO SR	Statistical Office of the Slovak Republic

ÚPSVaR SR	Central Office of Labour, Social Affairs and Family of the Slovak Republic / Ústredie práce, sociálnych vecí a rodiny Slovenskej republiky
US	United States
USD	US dollar
VAT	value-added tax

Conventions used in the tables
- data do not exist/data are not applicable
. data are not yet available
... nil or negligible
(p) provisional

1 Summary

The economy managed to cope with the effects of high inflation and exceeded growth expectations not only last year but also in the first part of this year. Economic growth in 2023 was buoyed by EU funds and by fiscal measures to support household and corporate budgets. The first months of 2024 were marked by a rebound in domestic demand. With their purchasing power picking up again, households have started to consume more; nevertheless, they are still expected to continue building up their savings.

Foreign demand for Slovak products is seen to recover in the coming months. The European economy is expected to gradually gain momentum after a favourable start to the year, aided by monetary policy easing and an upturn in global trade. Export growth will thus gradually join domestic demand as a driver of Slovakia's economic growth.

Slovakia's GDP growth over 2024 and 2025 is projected to average 3%, which is close to pre-pandemic levels. At the same time, however, public finances face necessary consolidation. Fiscal deficit–reducing measures will likely dampen growth slightly from next year onwards.

The unemployment rate has fallen to an all-time low. Anticipated moderate employment growth is expected to push the rate down further while driving wages upwards. An upsurge in people taking early retirement has reduced employment in the economy and exacerbated labour shortages. Firms have managed to create new jobs, aiming to fill them from the ranks of the domestic unemployed. There has also been an increase in foreign workers. Labour shortages are having an upward impact on wages. We expect that firms' struggles to find skilled labour will continue in the years ahead, so wage growth should remain strong.

Inflation has fallen markedly owing to the easing of cost factors and to monetary policy stabilising expectations. Price growth is easing across the consumption basket. Maintaining inflation at current levels above 2% will bring relief to households in the form of real income growth. In the next two years, however, with the unwinding of energy price compensation measures, energy prices will contribute to a slight acceleration of headline inflation. Strong wage growth will pass through to prices of services and food. Further upward pressure on prices is expected from the necessary consolidation of public finances.

The general government deficit in 2024 is now estimated to be 5.8% of GDP, representing a year-on-year deterioration of almost 1 pp of GDP. This exceeds the deficits recorded during the pandemic crisis and is the highest since the global financial crisis. The deficit increase stems mainly from strong growth in social spending (due to standard inflationary growth and adopted measures) and expected deliveries of military equipment, as well as from rising interest costs. Public debt is projected to reach 57.6% of GDP in 2024. Continued high deficits in the coming years and rising debt servicing costs will push public debt towards the 60% of GDP level in 2026. The fiscal outlook is envisaged to be somewhat improved by expected consolidation measures. Nevertheless, reversing the public debt trajectory will require ongoing public finance consolidation for the rest of this decade.

Table 1 Key economic indicators

	Actual data	Summer 2024 medium-term forecast (MTF-2024Q2)			Difference vis-à-vis the spring 2023 forecast (MTF-2024Q1)		
	2023	2024	2025	2026	2024	2025	2026
GDP (annual percentage change)	1.6	2.8	3.2	2.1	0.5	0.0	0.1
HICP (annual percentage change)	11.0	2.8	3.5	3.4	0.0	-0.2	-0.3
Average nominal wage (annual percentage change)	9.7	7.4	5.2	5.0	0.2	-0.1	-0.2
Average real wage (annual percentage change)	-0.7	4.5	1.6	1.5	**0.2**	**0.0**	**0.1**
Employment (annual percentage change; ESA 2010)	0.3	0.0	0.6	0.2	-0.3	0.2	0.2
Unemployment rate (percentage; Labour Force Survey)	5.8	5.5	5.2	5.2	0.0	-0.1	-0.1

Source: NBS.
Note: Real wages deflated by CPI inflation.

This report takes a closer look at the following topics:

- *The absorption of EU funds in Slovakia – a retrospective (Annex 1) and a look at the start of the new programming period by way of comparison (Box 1)*
  Slovakia has managed to absorb all the funds allocated to it under the EU's 2014–2020 programming period. Capital expenditure supporting potential economic growth dominates the economic classification of EU fund disbursements in Slovakia, although part of this spending was used to mitigate the adverse effects of the pandemic crisis, energy crisis, and support for people displaced by the war in Ukraine. Slovakia has still not managed to accelerate the absorption of EU funds and has one of the lowest absorption rates for funds allocated under the new programming period. A challenge will be to combine the use of EU funding from the Recovery and Resilience Facility (on the basis

of Slovakia's recovery and resilience plan) with the use of regular EU funds.

- *The rising cost of servicing sovereign debt (Box 2)*
  Monetary policy is affecting the Slovak government's debt servicing costs. In the past, low interest rates helped the government in this respect, but now higher interest rates are making debt financing more expensive. If, however, public finance sustainability and a prudent fiscal policy are to be maintained, due account should be taken of the impact of monetary policy on government refinancing costs. When assessing the evolution of public finances, it makes more sense to assess the balance adjusted for interest payments, as provisionally taken into account by new European rules.

2 Current macroeconomic developments in the external environment and Slovakia

2.1 External environment

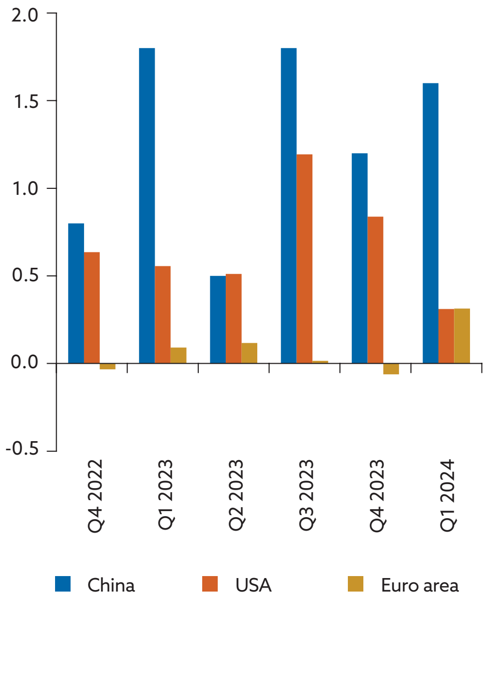
The global economy continued to recover in the first quarter of 2024 (Chart 1). The performance of the world's major economies continued, however, to be dampened by past concerted tightening of monetary policy. On the other hand, economic activity was supported by a gradual bolstering of supply chains and a partial easing of the energy crisis.

In the United States, economic growth remained relatively strong in the first quarter thanks to a robust labour market, but it nevertheless slowed. The economy benefited mainly from strong domestic demand. The slowdown of GDP growth to 0.4% (around half of the level recorded in the last quarter of 2023) was due to high imports in conjunction with a much subdued export performance.

The euro area economy grew by 0.3% in the first quarter of 2024 after five quarters of stagnation. Its growth was largely accounted for by service sector activity, while industry continued to face weaker demand and higher energy costs compared with other countries, notably the United States. Industrial firms in the euro area are thus experiencing a loss of competitiveness both domestically and abroad (Chart 2).

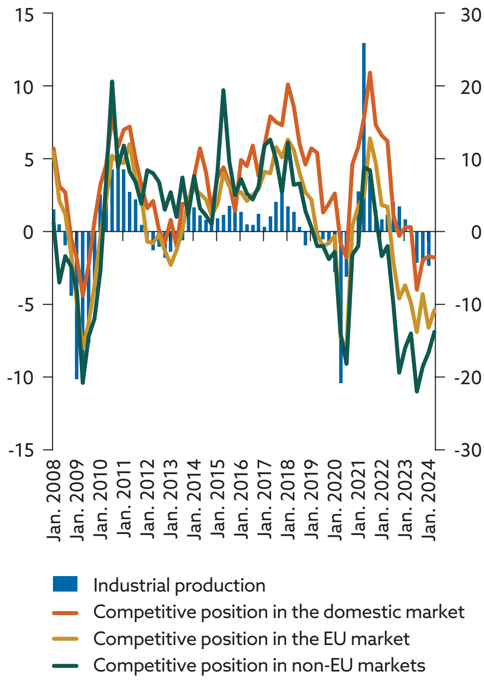
China's economy continued to be adversely affected by a troubled real estate sector. Heightened uncertainty weighed on consumer demand; nevertheless, with investment demand being boosted by government stimulus, the Chinese economy's annual growth accelerated slightly in the first quarter, to 5.3% (up by 0.1 pp from the previous quarter). The relatively solid start to 2024 implies a good chance that China will meet its full-year economic growth target of 5%.

Chart 1
GDP (quarter-on-quarter percentage changes)



Source: Macrobond.

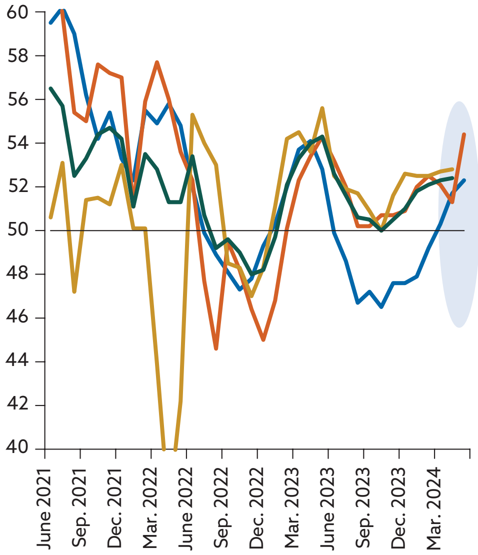
Chart 2
Euro area: Industrial production and industrial competitiveness assessments (annual percentage changes; percentage balances)



Source: Macrobond.

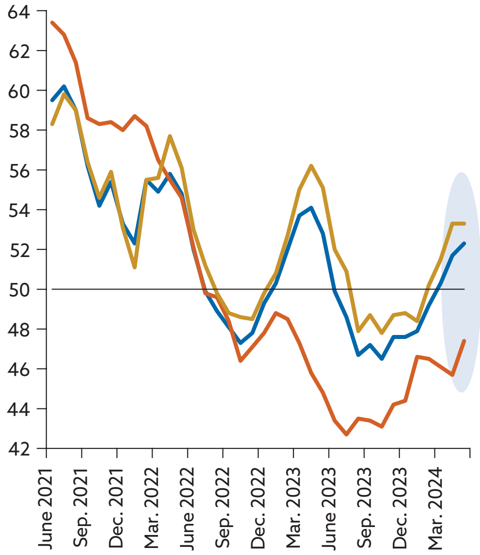
According to the Purchasing Managers' Index (PMI), the global economy's moderate recovery should continue in the second quarter. Economic activity is expected to strengthen in the euro area and also in China despite the difficulties in the Chinese real estate sector (Chart 3). The Chinese economy is likely to be supported by further measures to stabilise the real estate sector. As for the US economy, its relatively dynamic growth is also expected to continue. Euro area economic growth in the second quarter is expected to be driven mainly by services (Chart 4).

Chart 3
Global Purchasing Managers' Index (PMI)



Source: Macrobond.

Chart 4
Euro area Purchasing Managers' Index (PMI)

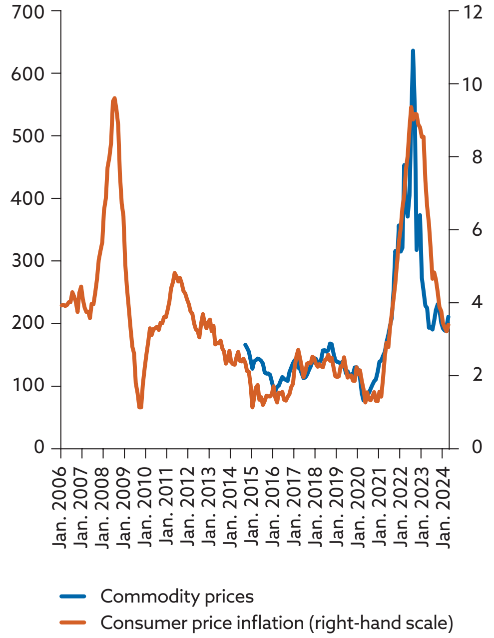


Source: Macrobond.
Note: PMI readings above 50 indicate an expansion of economic activity, while readings of below 50 indicate a contraction.

Global inflation has continued its gradually slowing trend so far in 2024, mainly because of goods prices benefiting from the normalisation of supply chains as well as from the past easing of price pressures from several commodities (Chart 5).

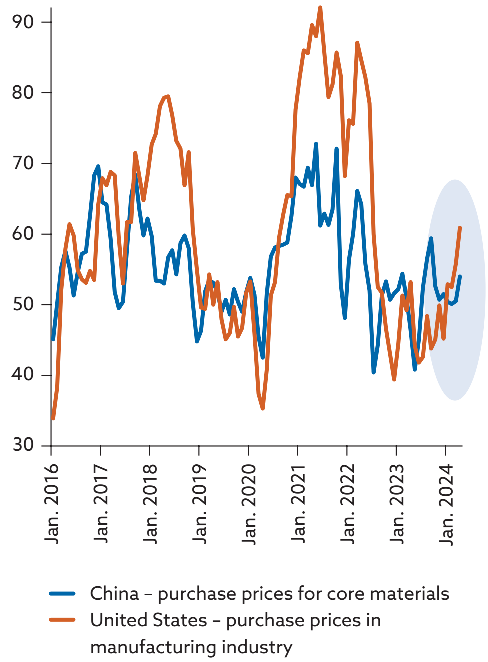
Recently, however, some commodity prices have started to rise. Oil prices have increased slightly, on the back of OPEC+ decisions to cut production. Meanwhile, the oil market outlook has changed in comparison with previous forecasts, with a slight supply deficit expected to emerge in 2024. The situation in the Red Sea has necessitated the use of longer shipping routes and has thus led to an increase in container shipping rates. The expected acceleration of global economic activity has translated into higher metal prices. Copper prices in particular have risen, as expectations of a significant shift away from fossil fuels and towards electric power have resulted in higher demand for copper. Surveys suggest that purchase prices in manufacturing industry have started to increase slightly, which could put modest upward pressure on goods prices (Chart 6).

Chart 5
Global inflation and commodity prices (annual percentage change; index)



Source: Macrobond.

Chart 6
Purchase prices in manufacturing industry – national PMI (index)

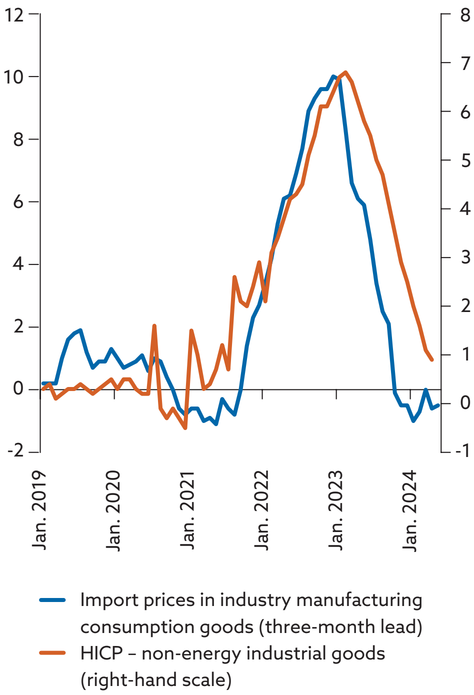


Source: Macrobond.

The euro area inflation rate fell to 2.3% in April, down from around 7% a year earlier. Also in the euro area, the softening of inflation has been due to slower growth in goods prices (Chart 7), supported by falling import prices. With the gradual pass-through of lower input costs, food price inflation has continued to moderate. Around a quarter of the food items in the consumption basket are actually showing a year-on-year decline in price. On the other hand, the dampening effect of energy prices on consumer inflation has faded (Chart 8). Faster disinflation has been hindered by quite stubborn services inflation. Services inflation edged down in April after four months of stagnation, but it is still around 4%. The stickiness of services inflation is a corollary of a relatively strong labour market, rising wage costs and higher wage intensity. Partly because of higher demand in the sector, rising wage costs in services are more easily passed on to consumer prices.

Chart 7

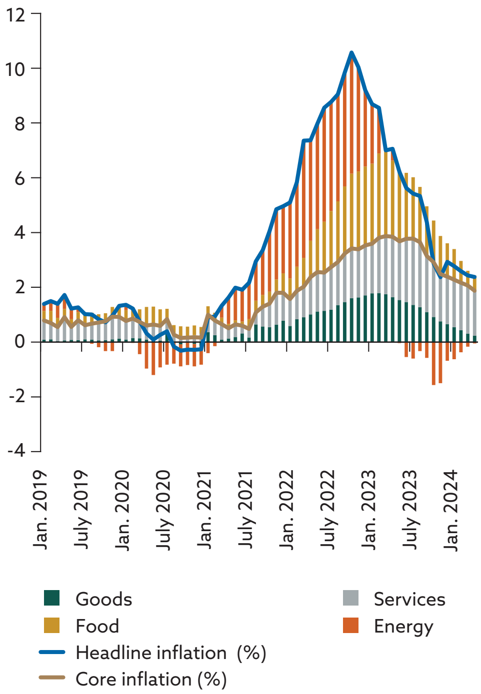
Euro area: Goods inflation and import prices (annual percentage changes)



Source: Macrobond.

Chart 8

Euro area: HICP inflation and its components (annual percentage changes; percentage point contributions)



Source: Macrobond.

2.2 Slovakia

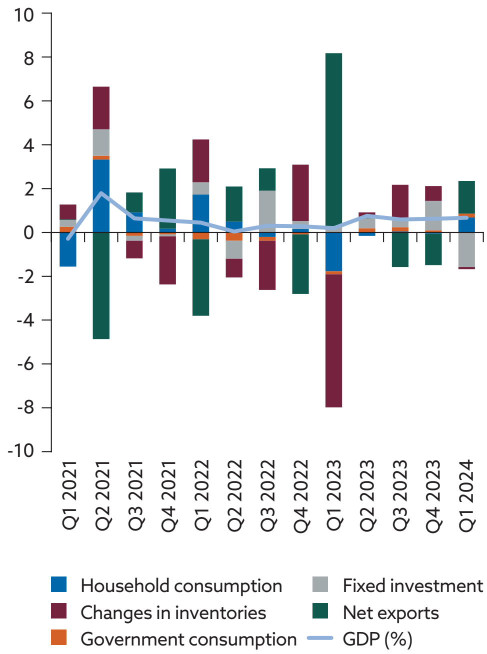
2.2.1 Economic growth

The Slovak economy continued its growth trend in the first quarter of 2024, with GDP increasing by 0.7% compared with the previous quarter. In April, all of last year's figures for the total volume of goods and services output and economic growth were revised upward (Chart 10). According to the revised data, the absorption of EU funds was higher than originally estimated, while the decline in household consumption was more pronounced. Because of declines in purchases and exports, firms' inventories expanded, with an upward impact on economic growth.

In the first part of this year, economic growth was supported by a pick-up in consumption and continued low imports. As real incomes grew, household budgets became less constrained. Consumers gradually started to step up their spending, not only on food, but also on services and other goods. Even so, households remained cautious in their behaviour, and many focused on replenishing their savings. After last year's surge in the absorption of EU funds, investment activity returned to a normal level, similar to that seen at the beginning of 2023. Amid underwhelming foreign demand, industry continued to reduce output. Given weak export performance and traders' full inventories from past stockbuilding, imports remained subdued in the first quarter.

Chart 9

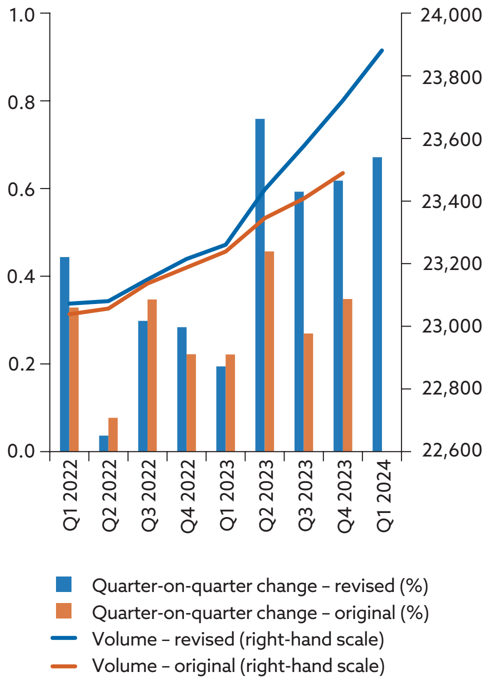
GDP (quarter-on-quarter percentage changes, percentage point contributions)



Sources: SO SR, and NBS.

Chart 10

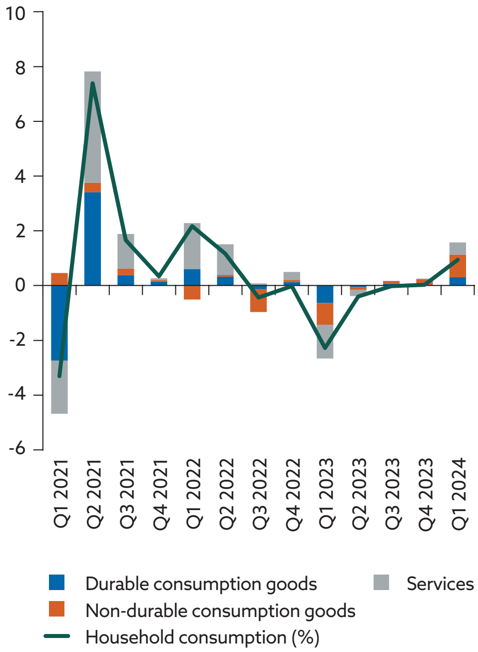
GDP before and after data revision (quarter-on-quarter percentage changes; volume of GDP in EUR millions)



Source: SO SR, and NBS.

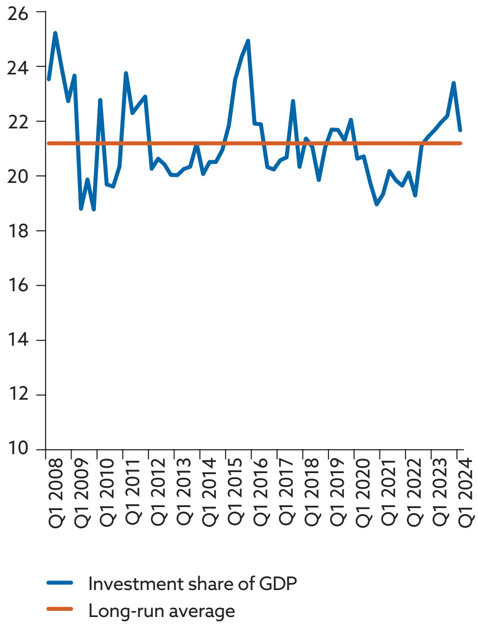
The trend of real income growth supported by slowing inflation continued in the first quarter, allowing households to spend more. In addition to increasing their regular food purchases, households did more travelling and made greater use of various services. Last year, growth in household income was supported by the government's anti-inflation measures, while today it is driven mainly by labour income. But despite their improved budgets, consumers remain cautious. A proportion of income continues to be allocated to savings deposits, while spending on higher-end goods has risen only very slowly. Elevated interest rates are discouraging people from buying more expensive consumer durables.

Chart 11
Household consumption (quarter-on-quarter percentage changes; percentage point contributions)



Sources: SO SR, and NBS.

Chart 12
Investment share of GDP (percentages)



Source: SO SR, and NBS.

Exports continued to decline in the first quarter owing to a gloomy external environment. Weaker demand limited output in almost all sectors, with not even car manufacturing avoiding a drop in exports. As exports remained subdued and traders' inventories were likely fuller after a period of weak consumption, there was no need to ramp up imports significantly. Thus, the trade balance improved and had a positive impact on economic growth.

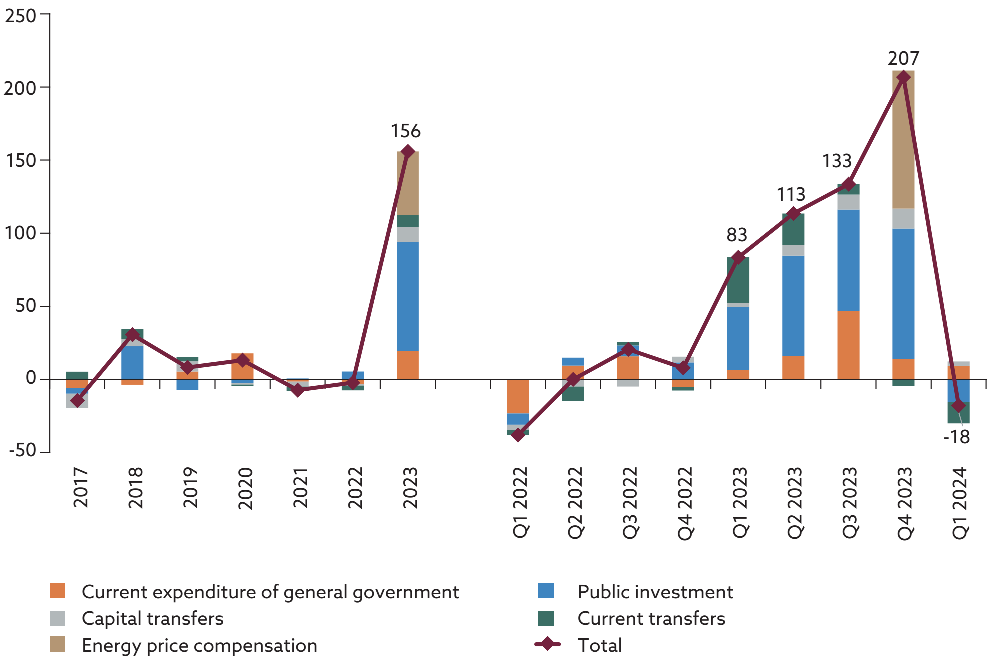
Government consumption has continued growing in 2024, but at a decelerating pace. The main drivers of its growth remain compensation per employee and spending on goods, services and health care.

After the end of disbursements of funds allocated under the EU's previous programming period, investment activity returned to standard levels in the first quarter (Chart 12). The most notable drop was in public investment in transportation and infrastructure. Investment by private sector firms continued to increase moderately. The largest investments were made in the automotive industry, including subcontractors. This spending focused mainly on revamping machinery and equipment related to preparation for new production. Tighter monetary policy is constraining mainly household investment, and the sector's real estate investment remained subdued in the first quarter.

The absorption of funds allocated to Slovakia under the new EU programming period has started slowly, as was typical in previous periods. There has also been a sluggish initial uptake of EU funds from the Recovery and Resilience Facility (through the implementation of Slovakia's recovery and resilience plan) (Chart 13). As for Slovakia's funding under the cohesion policy of the 2021–2027 programming period, no funds have yet been disbursed, even though the funds already committed to cohesion policy projects exceed 10% (€12.8 billion) of the overall allocation of EU budget funds. The spending of RRF funds is stagnating, and compared with the state budget plan, their disbursement was at a negligible level in the first quarter.

Chart 13

Absorption of EU funds (annual percentage changes) [1)]



Sources: MF SR, and NBS.
1) Adjusted for spending on financial instruments.

Box 1

Slovakia's sluggish absorption of EU funds continues into the new programming period

In Slovakia and a number of other EU countries, there is weak absorption of funds allocated under the EU's 2021–2027 programming period. Compared with the previous period, all countries that are significant recipients of cohesion policy funds are reporting below average absorption (Chart A). Slovakia, however, is among the most underperforming countries in this regard, with one of the lowest absorption rates (Chart B). The current trend is thus a continuation of what we saw in the previous period, when Slovakia's absorption of EU funds was far below that of other countries.

Chart A
Cumulative absorption of EU funds from the EC level in the third year of the compared programming periods (percentage of funds allocated)

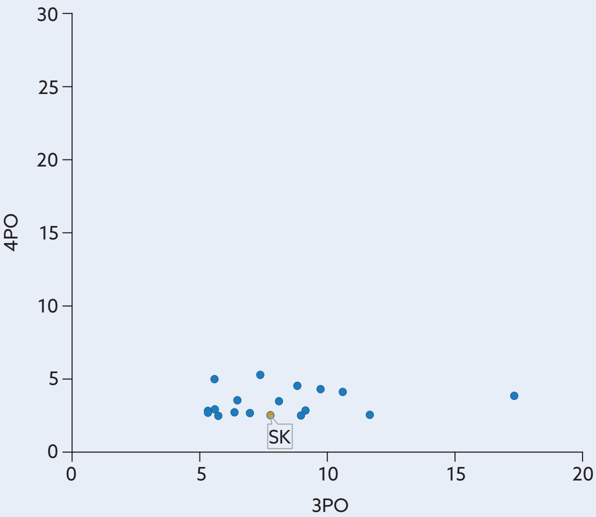
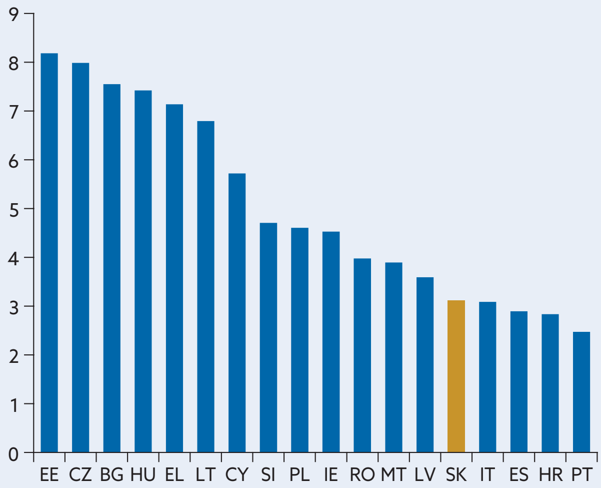


Chart B
Cumulative absorption of EU funds from the EC level allocated under the 2021–27 EU programming period (amount as at May 2024; percentage of funds allocated)



Sources: NBS, and European Commission.[1]

Sources: NBS, and European Commission.[1]

Notes: Absorption represents the share of cumulative advance payments made by the EC in the total allocation of funds to Member States. Absorption does not include agricultural funds. The comparison is made between the level of absorption at the end of the third year of each programming period, i.e. 2016 and 2023.

2.2.2 Labour market

Employment fell in the first quarter of 2024 owing to the early retirement of older workers. The level of employment is therefore still below the peak it reached in the second quarter of 2019, with around 20,000 fewer filled jobs in the economy. The easing of early retirement rules has had a greater impact on employment than was envisaged in the spring forecast. The level of economic performance would imply a higher level of employment in the first quarter of 2024[2] (Chart 14). The structural change and large uptake of early retirement are evident in data on the decline in employment, while the number of self-employed has risen. Looking across economic sectors, we observe the largest decreases in employment in trade and services (Chart 15).

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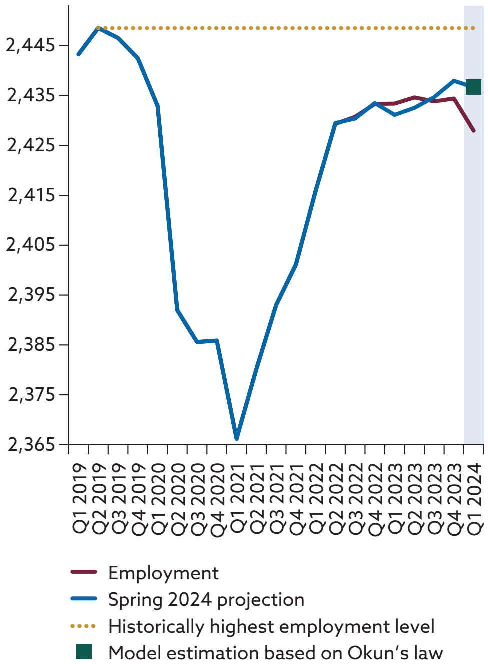
1 European Commission: 2021–2027: EU total payments by Programme; 2014–2020: EU total payments by Programme

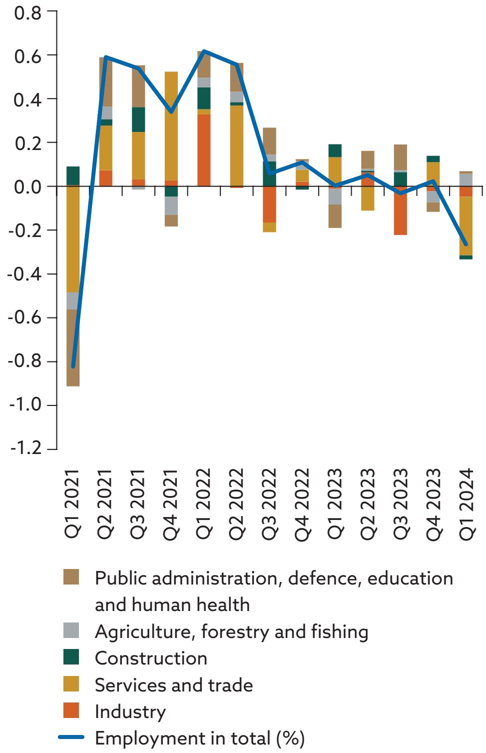
2 Model calculation based on Okun's law.

Chart 14
Employment level (thousands of persons)



Sources: SO SR, and NBS.

Chart 15
Employment by sector (quarter-on-quarter percentage changes; percentage point contributions)



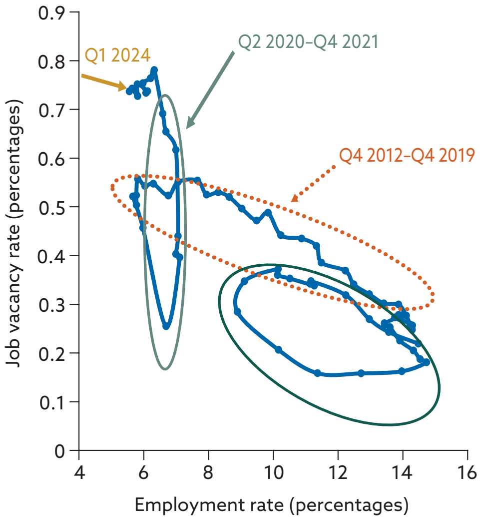
Sources: SO SR, and NBS.

The labour market continues to see labour shortages, while spare capacity of domestic labour is dwindling. The number of jobseekers registered with labour offices has fallen to an all-time low. Firms have to some extent managed to replace people taking early retirement from the ranks of the unemployed. They have also been tapping pools of foreign workers, whose numbers swelled by more than 1,200 in the first quarter of 2024.

Despite historically low unemployment, the domestic labour market has a large number of job vacancies. Their ratio to the total number of filled and vacant jobs (the job vacancy rate) is now at one of its highest levels in recent years. The labour market's ongoing significant tightness is evidenced by the high job vacancy rate and slow decline in the unemployment rate (Chart 16). This development indicates that the Slovak labour market may be close to the point where a further decline in the number of unemployed is no longer likely. The large mismatch between labour demand and labour supply is expected to persist. Appropriate measures will therefore need to be taken to increase the labour market participation rate and attract workers from abroad.

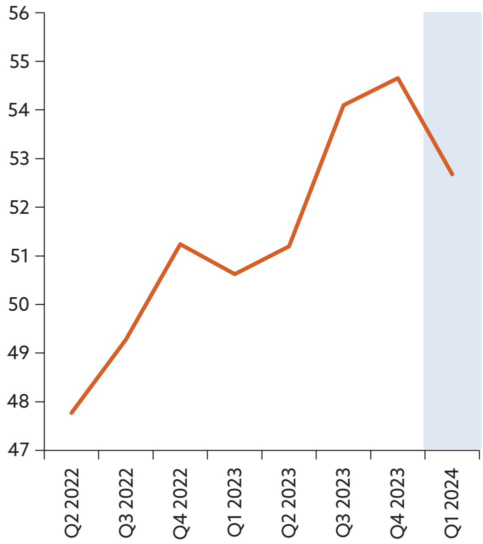
Early retirements have reversed the positive trend of recent years, where increasing numbers of older people were remaining in employment. As a result of the gradual pushing back of the retirement age and the demand for labour, the labour market participation of older people aged 60 to 64 was on a rising trend until the end of last year. Following the easing of rules for early retirement, the number of older people in employment fell in the first quarter, thereby reducing their labour market participation rate (Chart 17)

Chart 16
Beveridge curve



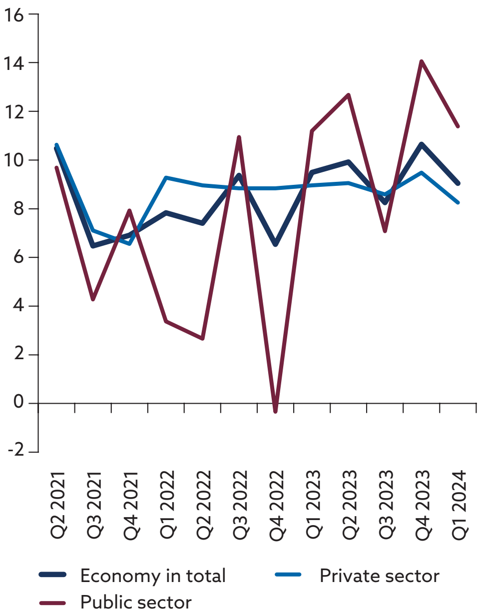
Sources: Profesia online job portal (www.profesia.sk), SO SR, and NBS.

Chart 17
Labour market participation of people aged 60–64 (percentages)



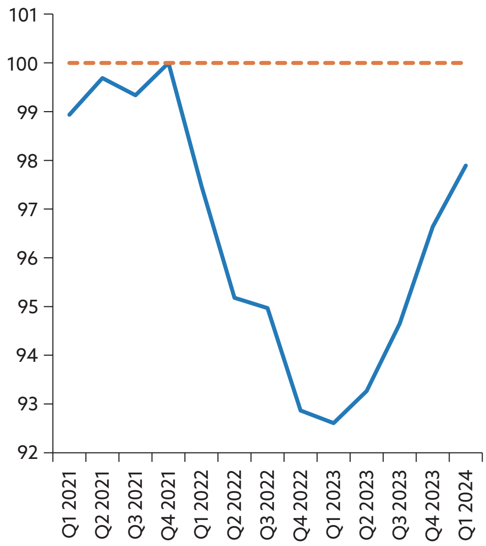
Sources: SO SR, and NBS.

Chart 18
Nominal wages by sector (annual percentage changes)



Sources: SO SR, and NBS.

Chart 19
Real wages (index: Q4 2021 = 100, seasonally adjusted)



Sources: SO SR, and NBS.

Nominal wage growth remains strong, supported by labour shortages. The rapid slowdown in inflation is causing a rebound in purchasing power.

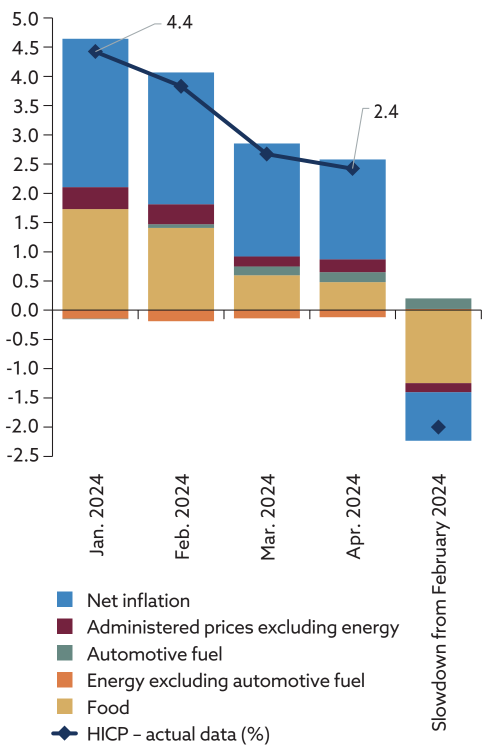
Nominal wage growth slowed slightly in the first quarter but remains robust in year-on-year terms. In both the private and public sectors, wage growth moderated (Chart 18). Public sector wages were, however, still rising at a double-digit pace, reflecting wage increases in the healthcare sector, both those from September 2023 and automatic increases that took effect in January 2024. As for the private sector, wages rose significantly in industry and in real estate activities in the first quarter. Real wages accelerated year-on-year owing to the easing of inflation, but they remain below their peak of late 2021 (Chart 19).

2.2.3 Consumer prices

The headline annual inflation rate was slowing until April (Chart 20). Its level of 2.4% in that month probably represented a short-term low. The rate was falling towards levels observed in other euro area countries, with the food component in particular contributing to its slowdown since the beginning of 2024. Inflation evolved in line with projections made in the spring 2024 forecast (Chart 21). All core components increased slightly faster than envisaged, while their impact was almost entirely cancelled out by slower food inflation.

Chart 20

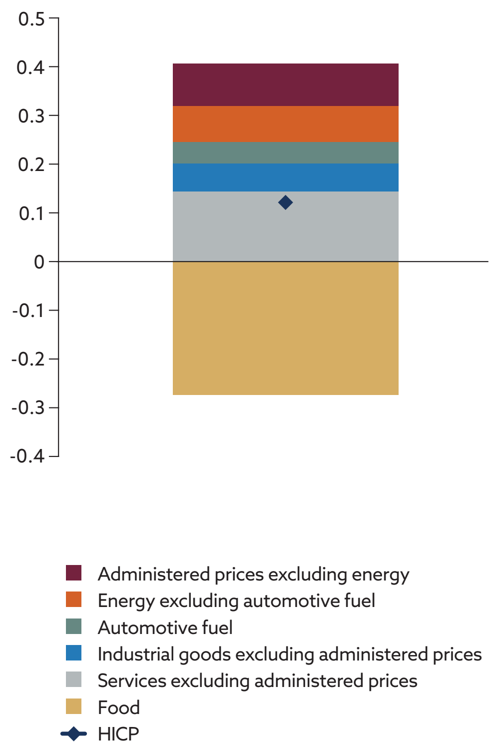
HICP inflation and the decomposition of its slowdown (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS.

Chart 21

Decomposition of the difference between the actual inflation rate and the rate projected in the spring 2024 forecast (percentage point contributions)

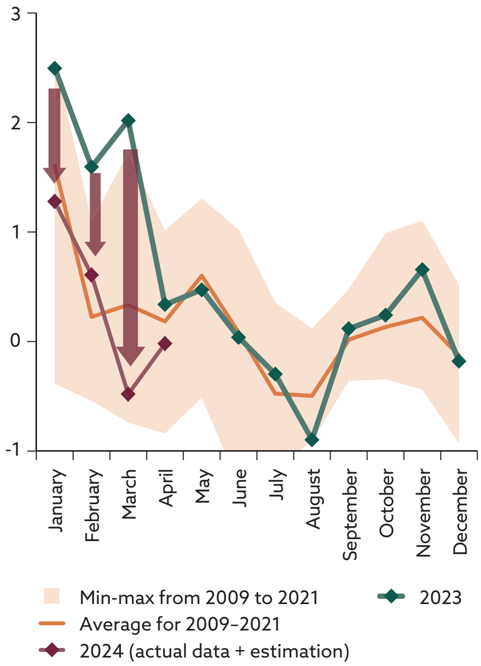


Sources: SO SR, and NBS.

Annual food inflation in April 2024 was lower than in any month since May 2021. Its slowdown was supported by the base effect of higher comparative month-on-month price increases in early 2023 (Chart 22). The month-on-month price changes in 2024 were lower because of significant dampening of pipeline pressures from agricultural food prices and food producer prices. Food inflation was therefore slightly lower than projected in the previous forecast. The main factors behind this result were lower than expected prices of agricultural commodities and significantly lower promotional prices over the Easter period.

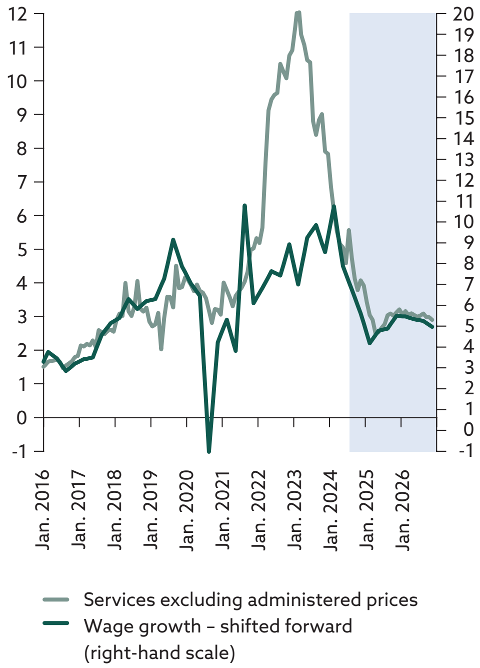
Net inflation has been slowing and dropped to 3.8% in April. The lagged pass-through of slower wage growth (Chart 23) and the year-on-year declines in import prices and in prices of manufactured goods for the domestic market are curbing the increase in prices of goods and services (excluding administered prices). The slowdown of food inflation is also a factor here, acting as a drag on food services inflation. On the other hand, still relatively high labour shortages are preventing a more substantial slowdown of wage growth in the services sector. This could prove a source of more sustained cost pressures on cost- and wage-sensitive services prices.

Chart 22
Food price evolution and the base effect (month-on-month percentage changes)



Sources: SO SR, and NBS.

Chart 23
Evolution of wages and of services prices excluding administered prices (annual percentage changes)



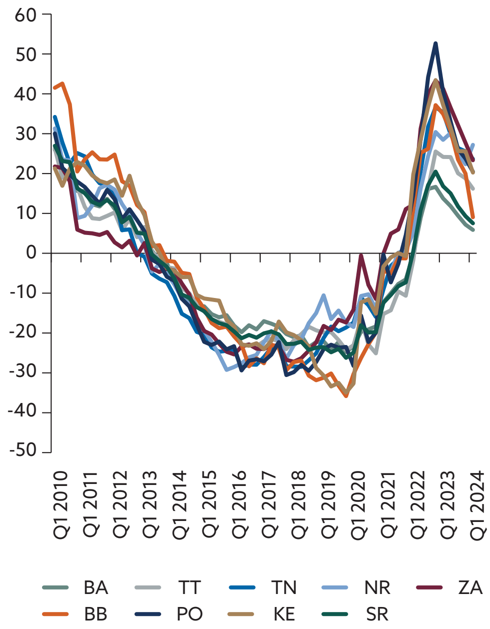
Sources: SO SR, and NBS.

Annual energy price inflation is hovering close to zero (0.3% in April). Administered prices of energy are unlikely to change during this year. Energy inflation movements are therefore stemming entirely from the current evolution of global oil prices and their pass-through to automotive fuel prices, which in April increased by 5% year-on-year.

2.2.4 Residential property prices

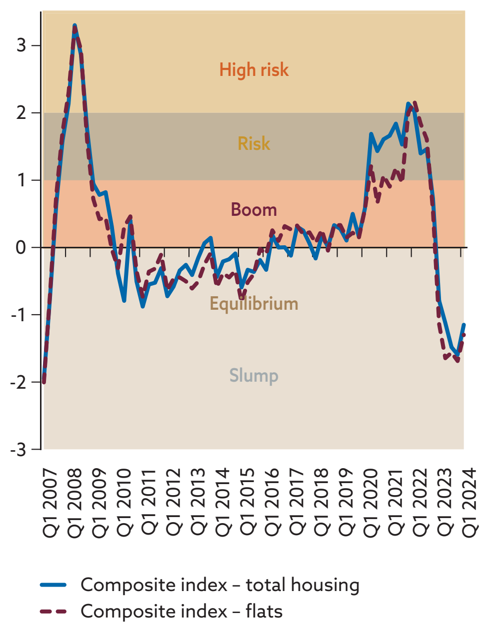
Housing prices in Slovakia continued their downward trend in the first quarter of 2024. Compared with the previous quarter, housing prices were 0.4% lower, while their year-on-year decline slowed to -5.2%. In the previous report, we noted signs of potential recovery in the monthly data, but these were not confirmed by data prints in February and March. We observe, however, that housing supply has stopped declining after being on a downtrend throughout 2023. Housing prices in Bratislava Region increased in the first quarter for the first time since the end of 2022. In Nitra Region, too, prices turned up, but in other regions they continued to decrease.

Chart 24
Housing affordability index (HAI) value as a ratio of its historical average (percentages)



Sources: NARKS, SO SR, United Classifieds, and NBS.

Chart 25
Composite index to assess housing price developments



Sources: NARKS, SO SR, United Classifieds, and NBS.

Wage growth is improving housing affordability, despite mortgage rates remaining unchanged. The impact of housing price movements was relatively low in the first quarter, as they only declined slightly. All Slovak regions except Nitra Region saw a decline in the housing affordability index (HAI).[3] For the HAI to return to its long-term average, housing prices would have to fall by a further 6.8%.

The composite index[4] for assessing housing price developments is starting to show signs of recovery (Chart 25). Most of the index's sub-indicators (ratios) contributed to its rise, the only exception being the ratio of residential construction to GDP. The year-on-year increase in housing prices is gradually starting to fall in line with underlying fundamentals. The narrowing of what has been a persistent gap is also supported by slower inflation in the economy and more moderate growth in rents.

New mortgage originations remained subdued in the first part of 2024. Interest rates on pure new mortgages reached an all-time high in December 2023 and have remained largely unchanged since then. The volume of mortgage originations rose slightly during April.

The construction sector and wage growth may bring the property market into positive figures as early as the second half of this year. As regards the building of flats, the number of construction starts and building permits issued increased in the early part of 2024. The current situation in construction completions is exactly the opposite. We still expect construction sector developments to provide an upward impetus to housing prices in the coming quarters, given the declining number of residential developments under construction.

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3 The HAI calculation is based on a so-called adequate income derived from the current average cost of mortgage loan servicing (taking into account current housing prices and interest rates). The adequate income is compared with the wage level on a region-by-region basis. The final ratio is then interpreted in relation to the long-run average.

4 In order to assess the impact of housing prices on financial and economic stability, we compare their evolution with the evolution of their underlying theoretical fundamentals. We do so using a composite index based on ratio indicators (the real housing price; price/income; price/rent; mortgage loans/households' gross disposable income; amount of residential construction/GDP). Further information on the composite index's compilation is provided in Cár, M. and Vrbovský, R., 'Composite index to assess housing price development in Slovakia', Biatec, Vol. 27, No 3, Národná banka Slovenska, Bratislava, 2019.

3 Medium-term forecast

3.1 Global outlook and technical assumptions of the forecast[5]

The outlook for foreign demand for Slovak products in the forecast horizon 2025–2026 has improved moderately. The dampening effects of past crises, as well as the impact of tight monetary policy, will recede in the coming years, and the global economy should gain significant momentum. As the euro area emerges from stagnation, there will be increasing demand for Slovak products. For Slovakia, as an export-oriented economy, this will bring positive effects through export growth.

Our expectations regarding the recovery of Slovakia's trading partners have stabilised after being shifted out several times. The outlook is even slightly brighter now than it was in the spring of this year, largely thanks to stronger expected demand from Germany. Compared with the spring 2024 forecast, the assumption for the level of foreign demand at the end of 2026 has been revised up by 1 percentage point.

Our oil price assumptions have been revised up slightly throughout the projection horizon, owing mainly to oil price increases in the early part of this year. However, the barrel price of oil is assumed to decline gradually, from USD 86 at the end of 2023 to USD 73 at the end of 2026. The assumption for the euro's exchange rate against the US dollar is 0.8% weaker in this forecast than in the spring edition, but it is assumed to remain stable until the end of the projection horizon, at just under 1.08 US dollars per euro.

Markets expect a slower reduction in short-term interest rates. Compared with the spring forecast, the assumptions for these rates have been revised up by 20 bp in 2024 and 40 bp in 2025. The baseline assumptions for long-term rates have been revised up slightly and remain around 3.6% until the end of 2026 (Charts 26 and 27).

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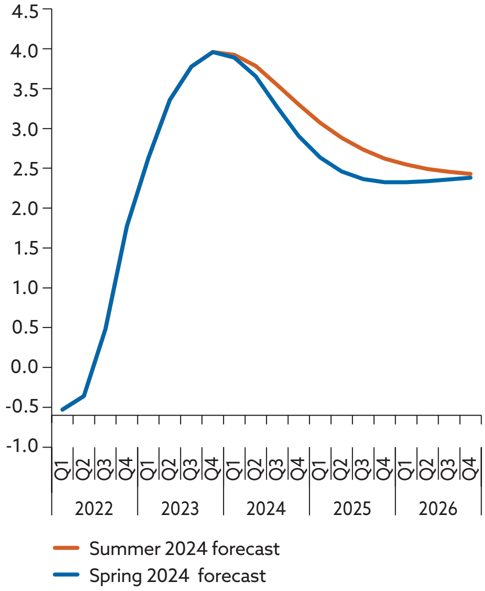
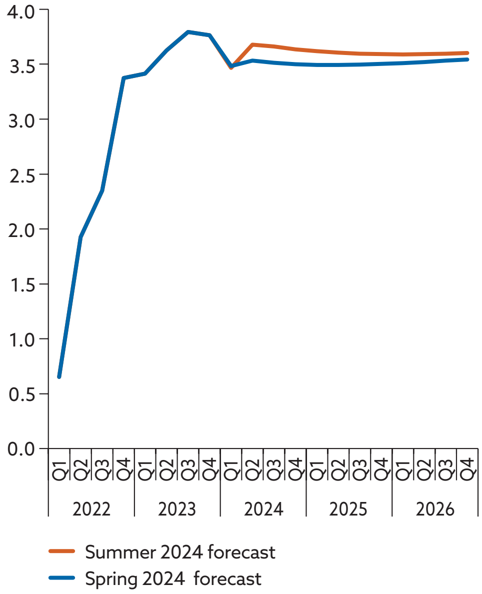
[5] The technical assumptions of this medium-term forecast are based on the June 2024 Eurosystem staff macroeconomic projections for the euro area.

Chart 26
Three-month EURIBOR



Sources: European Commission, and NBS.

Chart 27
Ten-year Slovak government bond yield



Sources: SO SR, and NBS.

Table 2 External environment and technical assumptions (annual percentage changes, unless otherwise indicated)

	Actual data	Summer 2024 forecast (MTF-2024Q2)			Difference vis-à-vis the winter forecast (MTF-2024Q1)		
	2023	2024	2025	2026	2024	2025	2026
Slovakia's foreign demand	-0.9	1.2	3.7	3.6	-0.3	0.3	0.2
USD/EUR exchange rate [1), 2)] (level)	1.08	1.08	1.08	1.08	-0.6	-0.8	-0.8
Oil price in USD [1), 2)] (level)	83.7	83.8	78.0	74.5	2.9	2.7	2.2
Oil price in USD [1)]	-19.2	0.0	-6.9	-4.5	2.9	-0.2	-0.4
Oil price in EUR [1)]	-21.3	0.3	-6.7	-4.5	3.4	-0.1	-0.4
Non-energy commodity prices in USD [1)]	-12.5	11.4	3.9	0.9	10.8	1.9	0.8
Three-month EURIBOR (percentage per annum)	3.4	3.6	2.8	2.5	0.2	0.4	0.1
Ten-year Slovak government bond yield (percentage)	3.6	3.6	3.6	3.6	0.1	0.1	0.1

Sources: ECB, SO SR, and NBS.
Notes:
1) Annual percentage changes and changes vis-à-vis the previous forecast are calculated from unrounded figures.
2) Differences vis-à-vis the previous forecast are in percentages.

3.2 Macroeconomic forecast for Slovakia

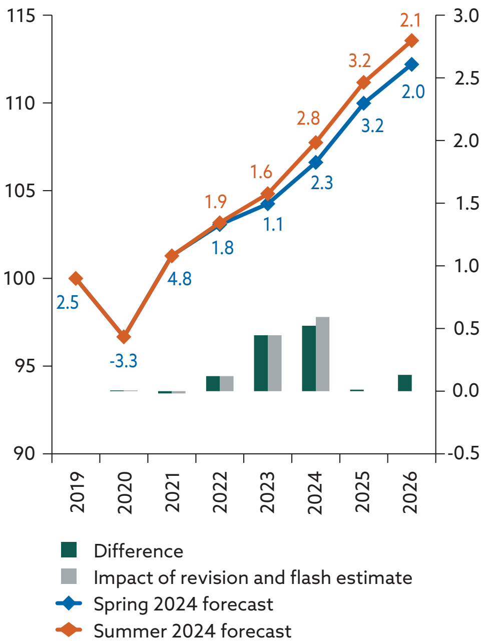
The domestic economy's improved performance in 2023 and its promising start to this year laid a sound basis for a significant acceleration of economic activity (Chart 28). Hence, we have revised up the economic

growth projection for this year. To have maintained the projection at the spring forecast's level would have implied lower growth rates per quarter that were significantly misaligned with assumptions of gradual recovery in the global economy and domestic consumption.

Private consumption is picking up slightly faster than expected (Chart 29), and the economy is also being boosted by loose fiscal policy. Because of this policy, the economy has not cooled and is operating at its long-term potential.

Chart 28

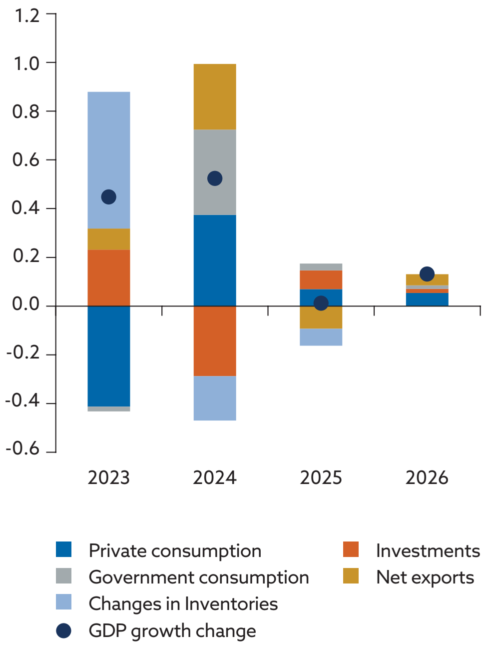
Economic growth (index: 2019 = 100; percentage point contributions)



Sources: SO SR, and NBS.

Chart 29

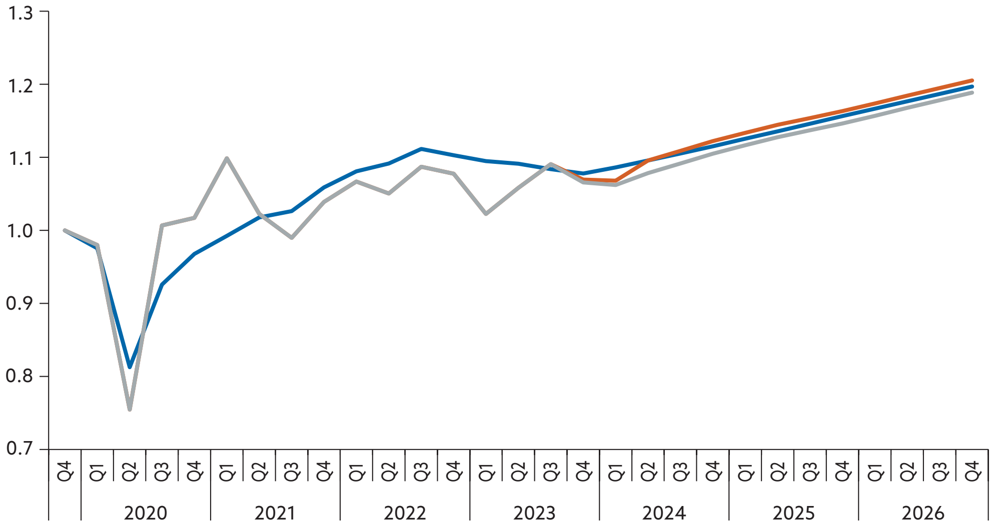
Change in projection vis-à-vis the spring 2024 forecast (percentage points)



Sources: SO SR, and NBS.

A large part of this year's acceleration in economic activity is already included in historical data. Our economic outlook for subsequent quarters remains largely unchanged. We continue to expect a notable upturn in foreign demand (Chart 30) for Slovak products, in line with the anticipated resurgence in global trade and, even more importantly, in the European market. The main driver of the domestic recovery is expected to be the automotive industry. Besides improving their export performance, firms are expected to produce more from their accumulated inventories. Although this will weigh slightly on economic growth through changes in inventories, it will have an overall positive impact owing to stronger export performance.

Chart 30
Exports and foreign demand (index: Q4 2019 = 100)

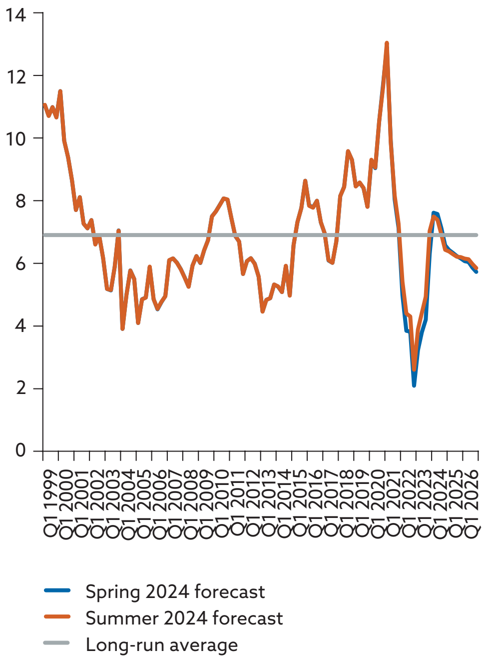


Source: NBS.

The Slovak economy will benefit from a slightly faster recovery in consumer demand. During the first half of this year, households are expected to regain the purchasing power lost in the previous two years. In a low inflation environment, strong growth in wages as well as in other incomes will enable households to increase both their spending and their savings. The spring forecast's assumption that households will increasingly replenish their savings and that the saving ratio will temporarily increase above the long-run average (Chart 31) continues to hold. The split between the proportions of their income that they save and spend will change slightly. Private consumption growth may thus be more robust this year (Chart 32). With inflation running slightly higher than over the next two years, real income growth will moderate. We expect households to continue increasing their spending on goods and services, partly at the expense of savings.

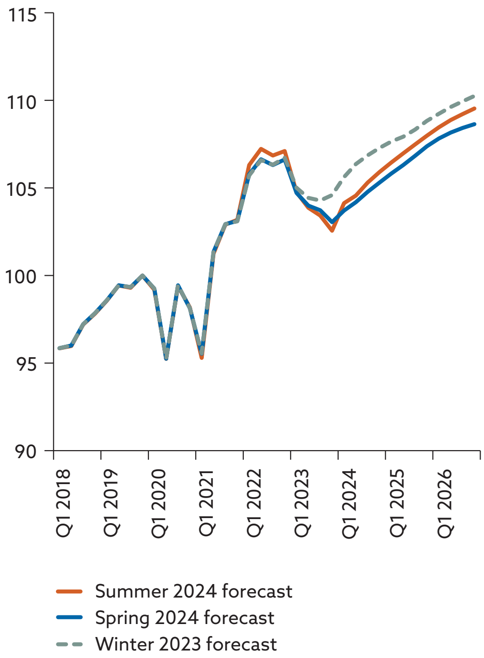
Firms are expected to maintain their investment activity (Chart 33). Current developments show that the private sector has more than coped with higher interest rates as well as with large investments associated with the final EU fund disbursements from the previous programming period. There has been no crowding-out of private investment, just a shifting of capacities from residential construction. In the automotive industry in particular, large investments have been undertaken as part of the transition to a green economy. This favourable trend is expected to continue in the period ahead. The anticipated easing of monetary policy may further boost corporate investment. Following the stabilisation of real estate prices, we expect investment to recover in this sector as well. Government investment will remain volatile amid the conjunction of several one-off factors, such as increased absorption of the EU's RFF funds in 2025 (through the national recovery and resilience plan) and planned investments in military equipment in the coming years.

Chart 31
Saving ratio (percentage of disposable income)



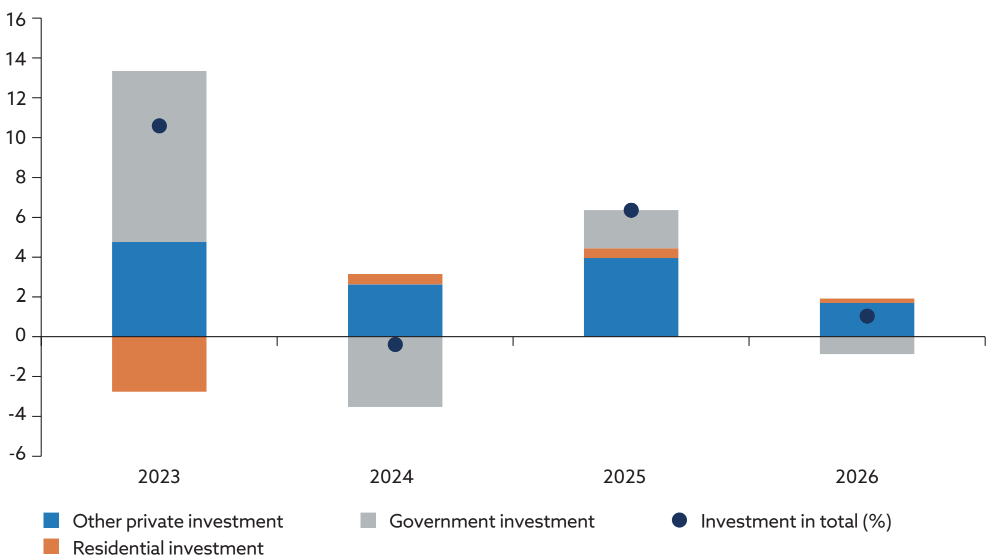
Source: NBS.

Chart 32
Private consumption (index: Q4 2019 = 100)



Source: NBS.

Chart 33
Investment (annual percentage changes; percentage point contributions)



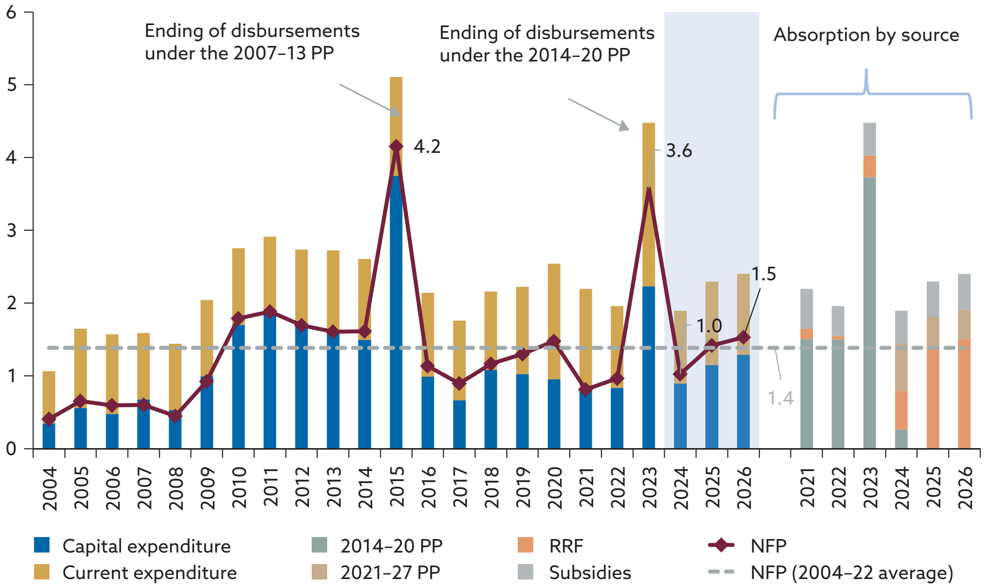
Source: NBS.

The absorption of EU funds is expected to slow down in 2024, with the fading of the impetus provided by last year's completion of disbursements

under the 2014–2020 programming period (Chart 34).** Slovakia's net receipts from the EU budget, i.e. its position net of payments to the budget, are expected to fall below the long-term average, to 1.0% of GDP. The stimulus that EU funds give the economy is set to cool, with the weak start of project financing under the 2021–27 EU budget. This financing, together with RFF investments, will fall short of the average levels seen in recent years. Slovakia's net financial position vis-à-vis the EU budget is envisaged to gradually improve over the forecast horizon. With the expected acceleration of RFF funding, net receipts from the EU budget are projected to be exceeding the long-run average towards the end of the horizon.

Chart 34

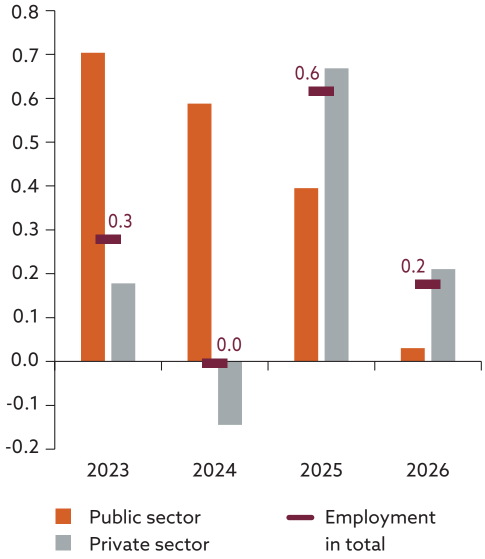
Slovakia's absorption of EU funds and net financial position (percentages of GDP)



Sources: NBS.
Note: NFP – net financial position; PP – programming period.

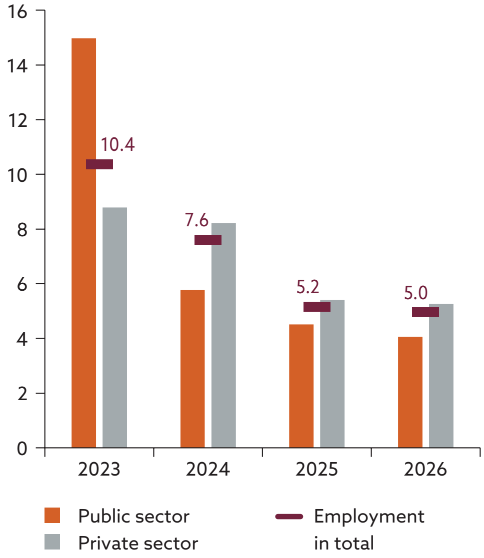
Employment is expected to stagnate this year (Chart 35) owing mainly to early retirements. The outlook, however, remains favourable. Stronger economic growth can generate new jobs, and current data indicate the number of job vacancies remains close to historical highs. The mismatch has been temporarily exacerbated by new rules enabling early retirement on advantageous terms. We expect this effect to persist this year, manifesting mainly through a decline in private sector employment. The good news from a societal and well-being perspective is that the unemployed will continue to be integrated into the labour force. On the other hand, this process is greatly limited by the shrinking pools of domestic labour, making the further recruitment of foreign workers necessary. Employment could thus still increase slightly in the coming years.

Chart 35
Employment (annual percentage changes)



Sources: SO SR, NBS.

Chart 36
Nominal compensation per employee (annual percentage changes)



Sources: SO SR, and NBS.

Labour income is expected to grow as a result of labour shortages and the catch-up of purchasing power (Chart 36). The latest wage data add credence to this scenario, as wage growth in the early part of the year was higher than expected. Since wage adjustments in collective bargaining are largely based on past inflation developments, purchasing power is expected to start rising. In addition, wage growth will come under upward pressure from labour shortages, due in part to an increase in the number of people retiring early. Fewer workers will have to work more hours, resulting in faster growth in total incomes. Nominal wage growth is projected to be slightly higher than labour productivity growth over the next two years.

Table 3 Wages (annual percentage changes)

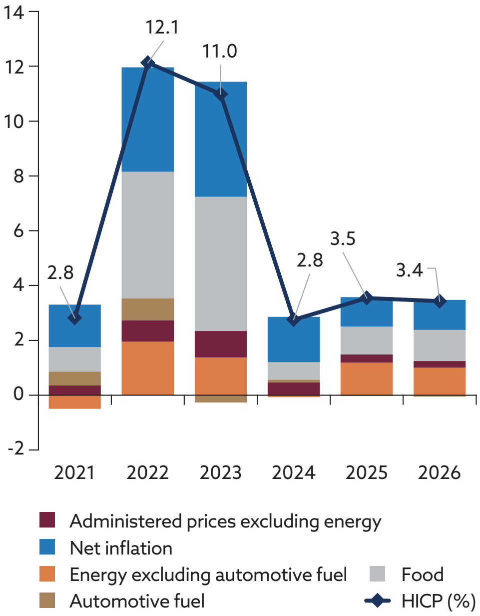
	2022	2023	2024	2025	2026
Nominal labour productivity	7.6	11.0	7.3	4.0	6.5
Whole economy – nominal wages	6.4	9.7	7.4	5.2	5.0
Whole economy – real wages	-5.6	-0.7	4.5	1.6	1.5
Private sector – nominal wages	7.6	8.4	8.1	5.4	5.1
Private sector – real wages	-4.6	-1.9	5.2	1.8	1.7
Public administration, education and health care – nominal wages	2.8	14.0	4.9	4.5	4.4
Public administration, education and health care – real wages	-8.9	3.2	2.1	0.9	1.0

Sources: SO SR, and NBS.
Notes: Deflated by the CPI. Nominal labour productivity – GDP divided by persons in employment (ESA 2010).

External cost factors are fading and annual inflation is expected to fall to almost 2% by the end of the year (Chart 37). Since inflation is fully in line with expectations, its projected path remains unchanged compared with the spring forecast. Expectations of the fading impact of external cost factors such as commodity prices and import prices have been confirmed. Conversely, despite weak consumer demand, domestic cost factors, particularly wages, appear to be having the greater impact. Because of its strong dynamics, services inflation is higher than projected. Its greater impact on headline inflation should, however, be fully offset by slower food inflation, reflecting declines in agricultural and food producer prices.

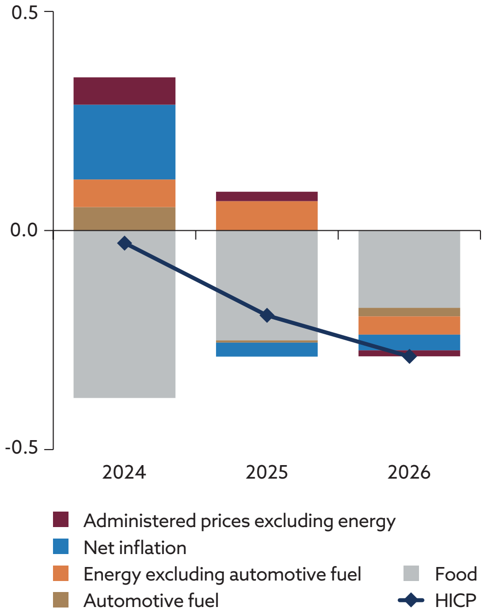
Domestic price pressures are expected to recede in the coming years. Nominal wage growth is projected to slow down, resulting in lower services inflation. Logistics problems and component shortages have subsided significantly, thus making imported goods more accessible. Our outlook for the raising of administered energy prices remains unchanged for the time being, with these prices expected to be brought in line with prices on world markets.

Chart 37
HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS.

Chart 38
Change in projection vis-à-vis the spring 2024 forecast (percentage points)



Sources: SO SR, and NBS.

Table 4 Components of HICP inflation (annual percentage changes)

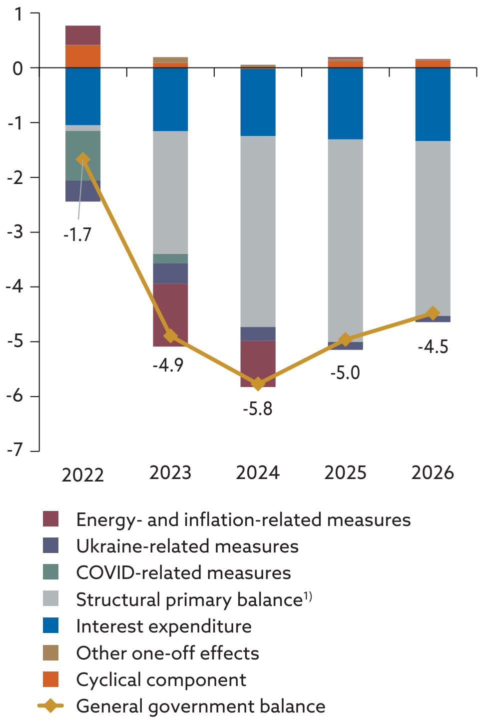
	Average for 2004–08 (pre-crisis period)	Average for 2010–14 (post-crisis period with euro currency)	2022	2023	2024	2025	2026
HICP	**4.1**	**2.0**	**12.1**	**11.0**	**2.8**	**3.5**	**3.4**
Food	3.6	3.1	16.1	15.6	2.0	3.2	3.6
Non-energy industrial goods	0.2	0.3	7.3	8.8	2.6	1.9	1.9
Energy	8.3	2.3	18.8	7.4	0.2	7.8	6.6
Services	5.3	2.5	9.3	10.1	5.0	3.2	3.1
Net inflation	1.8	1.0	8.3	9.3	3.7	2.4	2.4

Sources: SO SR, and NBS.

3.3 Public finance projections

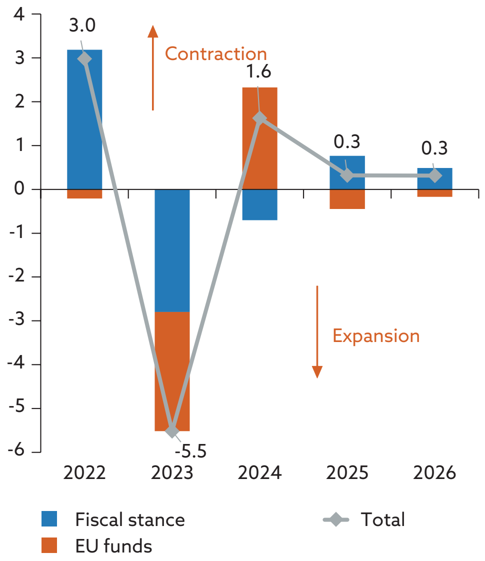
Slovakia's general government deficit for 2024 is projected to reach 5.8% of GDP (Chart 39), which is a deterioration of 0.9 pp of GDP compared with last year. This year, the impact of the unwinding of energy price compensation measures is cancelled out mainly by weak growth in tax revenues, sharply rising social expenditure (due either to standard inflation indexation or adopted measures) and expected deliveries of military equipment. The following years are projected to see a gradual improvement in the fiscal deficit, falling to 4.5% of GDP in 2026. This forecast is based mainly on a recovery in tax and social contribution revenues, the phasing-out of energy price compensation measures, and the adoption of some consolidation measures with delayed effect (a tax on sweetened beverages, a tobacco tax increase, etc.), as well as on the assumption that the government will manage to moderate public spending growth.

Chart 39
Decomposition of the general government balance (percentages of GDP)



Sources: SO SR, and NBS.
1) The fiscal balance excluding interest expenses and one-off items (including, for example, measures related to the pandemic, Ukraine, and energy crises), adjusted for the business cycle's estimated impact on different revenue and expenditure items.
Note: One-off factors include non-cyclical effects that have a temporary impact on the general government balance and are supposed to be eliminated in the future.

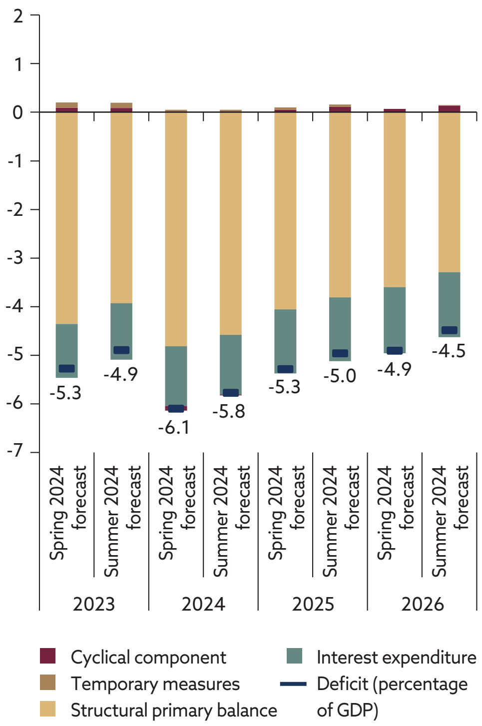
Chart 40
Fiscal stance (percentage points of GDP)



Sources: SO SR, and NBS.
Note: Fiscal stance – annual rate of change in the cyclically adjusted primary balance.

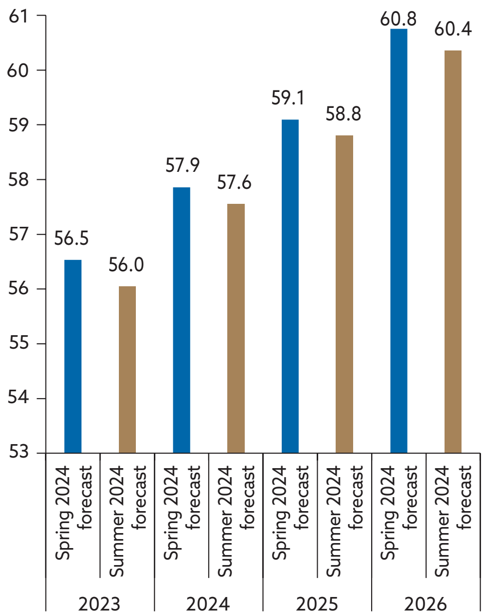
Compared with the previous forecast, the fiscal deficit projection for 2024 has been revised down by 0.3 pp of GDP (Chart 41). This is due to improved developments in late 2023 and their carry-over into the following years, as well as to a revision of the macroeconomic outlook. The deficit revision for 2025 is almost the same as that for 2024, while the projection for 2026 shows an improvement of 0.4 pp of GDP, owing to the incorporation of a tobacco tax increase.

Chart 41
Comparison of projections for the deficit and its decomposition (percentages of GDP; percentage point contributions)



Source: NBS

Chart 42
Comparison of public debt projections (percentages of GDP)



Sources: NBS.

Gross general government debt is forecast to increase steadily and to exceed the 60% of GDP threshold at the end of the projection horizon (Chart 42). Nevertheless, it should gradually move away from the upper limit of the debt brake.[6] The public debt projection for 2026 is 60.4% of GDP, which is 4.3 pp higher than the 2023 figure following a period of gradual increase. The country's rising debt burden is primarily due to deficit budgets. The cumulative impact of the fiscal balance net of

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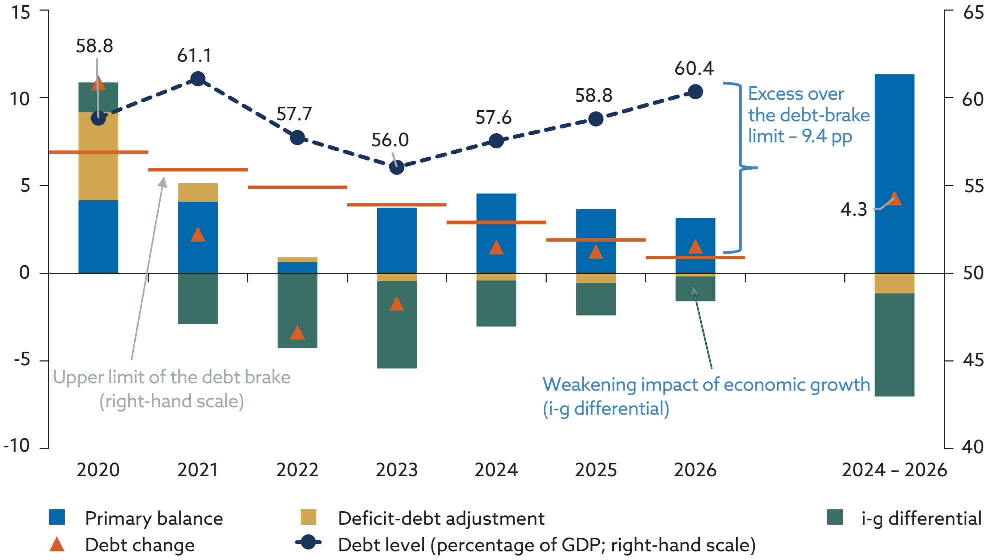
[6] For 2023, the upper limit of sanction bands under the debt brake regime was 54% of GDP. Under a transitional provision of the constitutional Fiscal Responsibility Act, the upper limit of general government debt is to be reduced by one percentage point per year from 2018 to 2027, when it will drop to the level of 50% of GDP.

interest payments is projected to contribute more than 11 pp to public debt growth over the three-year horizon. However, the expected fiscal deficit consolidation should gradually ease financing pressures. While the adverse impact of deficit budgets is expected to be mitigated by nominal economic growth at a still relatively low implicit interest rate,[7] this positive effect diminishes over time. The partial coverage of financing needs with government financial reserves is also seen to have a positive impact. The gap between public debt and the debt brake[8] upper limit is projected to be more than 9 pp by the end of the horizon (Chart 43).

Chart 43

Public debt and factors of change (percentages of GDP; percentage points of GDP)



Sources: NBS, and SO SR.
Notes: Debt-deficit adjustment – a factor of consistency between the fiscal deficit and the debt change; i-g differential – a factor taking into account the impact of interest costs and economic growth on the debt change.

Although the deficit projections for the next three years have been revised down slightly (compared with the spring forecast), fiscal consolidation still needs to be continued beyond the forecast horizon. Without additional consolidation measures within that horizon, public debt will not stabilise until after 2030, even if the consolidation effort is maintained at 0.5% of GDP beyond the horizon. Such consolidation would do no more than stabilise the debt, whereas bringing it back down below 60% of GDP would require improving the fiscal balance by 0.75 pp of GDP per year beyond 2026. In the increased consolidation scenario, the fiscal balance would reach a surplus in 2030. In the event of no further

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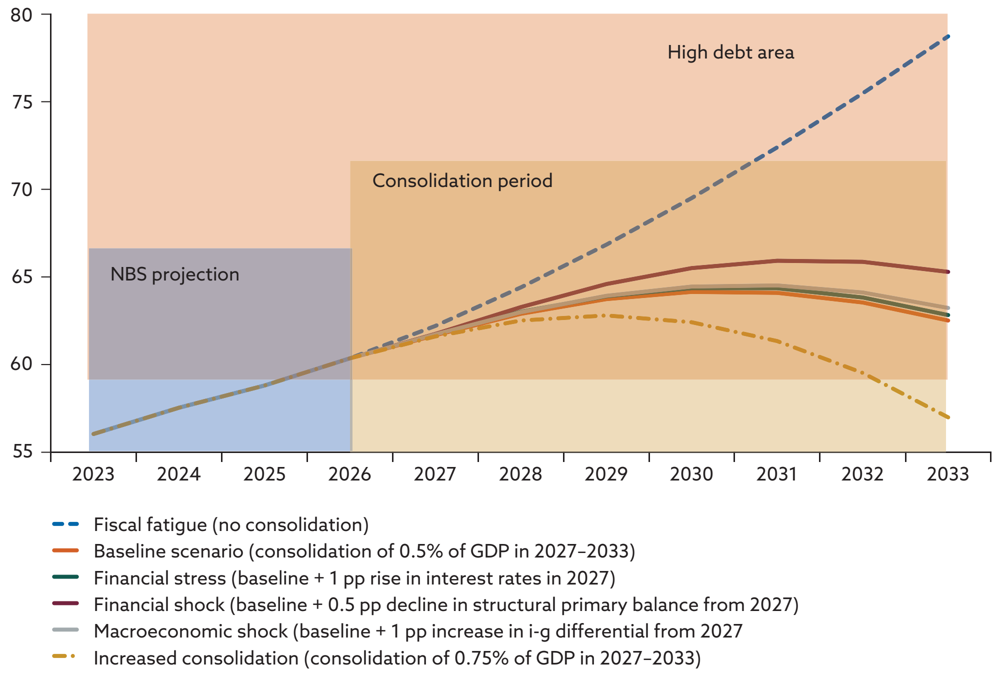
7 The implicit interest rate is calculated as the ratio of interest payments to debt in the previous year.

8 The upper debt-brake limit applicable to gross debt in 2026 is 51%.

consolidation, i.e. 'fiscal fatigue', after 2026, public debt would spiral up to 80% of GDP in 2033 (Chart 44). Moreover, postponing consolidation does not create fiscal space for any unexpected adverse fiscal, macroeconomic or financial shocks.

Chart 44
General government gross debt under DSA[9] scenarios (percentages of GDP)



Source: NBS.

Box 2
Rising interest expenses are draining public resources and raising the costs of public finance consolidation

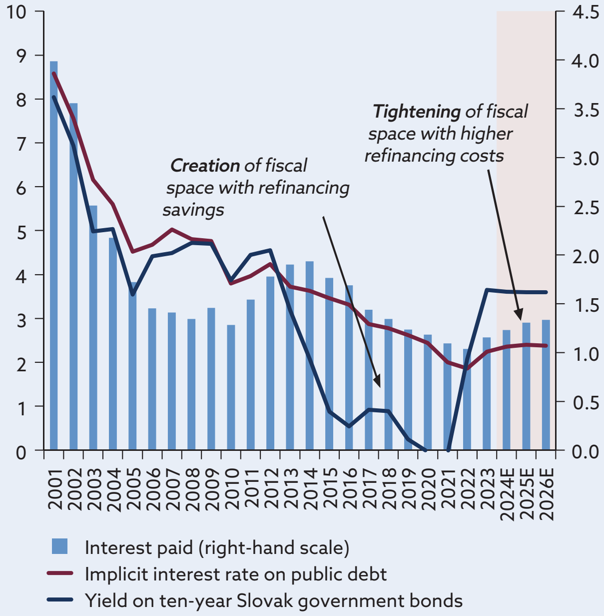
Higher interest rates are pushing up the cost of new government borrowing. When inflation was low, Slovakia's public finances benefited from low interest expenses. Since last year, however, the situation has changed. The refinancing costs for sovereign bonds maturing within the next three years, amounting to €15 billion, will increase by approximately €200 million. Public finance consolidation goals are thus becoming more expensive, as rising interest expenses increase the need for additional government measures.[10]

9 DSA – debt sustainability analysis. The DSA analyses debt sustainability by simulating possible scenarios of public debt developments under certain assumptions. This approach is suitable for projecting medium to long-term trajectories over a horizon of 3 to 15 years. The DSA's core component includes a set of deterministic projections based on fiscal consolidation scenarios up to 2033 and on assumptions for macroeconomic and financial variables, including the assumption of population ageing.

10 This box focuses primarily on the economy's inflationary developments and monetary policy on refinancing costs. For simplicity, we do not look at the specific evolution of the

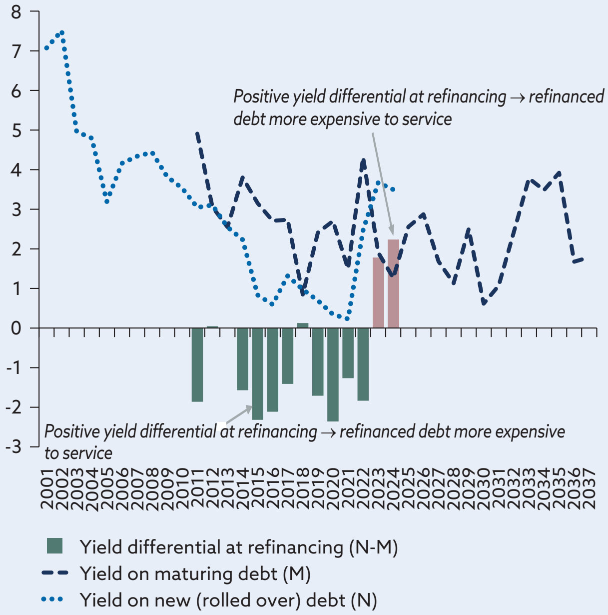
The recent past period of low inflation was accompanied by loose monetary policy. From 2016 until mid-2022, the ECB's interest rate on main refinancing operations was set at zero, and euro area public finances therefore benefited from low debt servicing costs. By rolling over costlier maturing debt with cheaper funding, Slovakia reduced its interest expenses (Chart A). The loose monetary policy was conducive to a prudent countercyclical fiscal policy that did not burden the budget with additional funding costs.[11]

Chart A
Fiscal space from refinancing costs for maturing debt (percentages per annum; percentages of GDP)



Sources: SO SR, ARDAL, and NBS.
Note: The figures for 2024 to 2026 are taken from the current NBS fiscal forecast.

Chart B
Refinancing interest rate for maturing sovereign bonds (percentages per annum)



Source: NBS.

The monetary policy response to inflation developments in 2022 was a gradual raising of the base rate. Its transmission to financial markets had an upward impact on the cost of new borrowing. The average interest rate[12] on new debt increased from 0.2% p.a. in 2021 to 2.5%

risk premium, which is therefore included in the debt costs. The risk premium's benchmark indicator – the interest rate spread between ten-year Slovak and German bonds – is not constant. From 2012 to 2023 the spread averaged 0.9 pp, but during periods of heightened global uncertainty, such as 2022–23, the spread was up to 1 pp, while during the 'relatively normal' period of 2014–21 it was around half of that level.

11 In addition, the state created additional liquid reserves by issuing more bonds at low interest rates. Later, as interest rates increased, it benefited from these reserves.

12 The average cost is calculated from the yield on outstanding government bonds weighted by their par value.

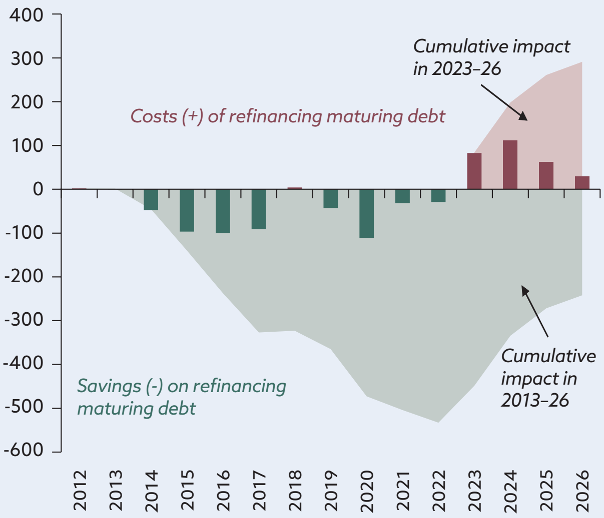
p.a. the following year. The average cost of new debt was still lower than for maturing debt (Chart B).

Monetary policy remained restrictive in 2023. The average yield on outstanding government bonds reached 3.7% p.a. and refinancing ceased to be advantageous. Cheaper maturing debt has been replaced with more expensive debt with a spread of up to 1.8 pp under the given market conditions. This trend is expected to continue in 2024.[13]

The cumulative gain resulting from lower interest expenses over the period[14] 2013–22 and amounting to €500 million started to dissipate in 2023 (Chart C). Rising costs are depleting resources, and as much as three-quarters of those (notional) gains are expected to be consumed within four years on the given assumptions.

Chart C

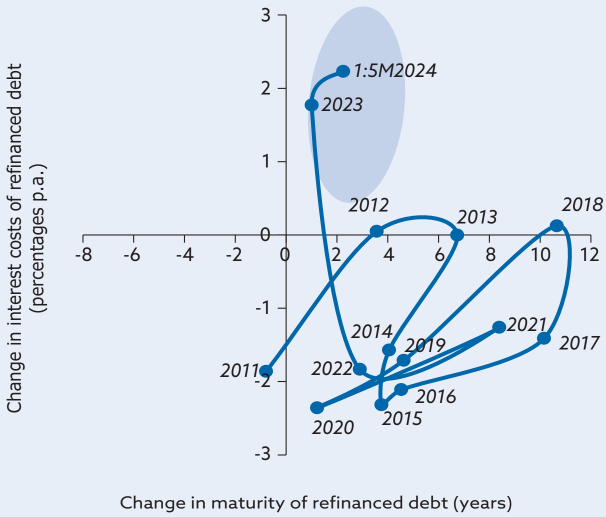
Savings/costs of refinancing maturing government bonds (EUR millions)



Sources: ARDAL, and NBS.

Chart D

Evolution of the change in refinancing costs and maturity (percentages per annum)



Sources: ARDAL, and NBS.

Note: The average values (maturity, interest rates) are calculated as an average weighted by the bonds' par value.

In addition to the interest rate on sovereign debt, it is also important to monitor the maturity of the debt. A country's refinancing risk is the possibility of losing the ability to roll over its debt and meet liabilities as they mature. Not so long ago, during favourable financial market conditions, the government was rolling over expensive, short-maturity debt with cheaper, longer-maturity debt. In recent years, the maturity of new debt has been similar to that of

[13] The average yield on new government debt in the first five months of 2024 was 3.5% p.a., while the average yield on all the government debt maturing in 2024 is 1.3% p.a.

[14] The reference period is the period when the first bonds issued since 2001 were maturing.

the debt being rolled over[15] (Chart D). At the same time, the average total residual maturity of government bonds has for a long time remained at around nine years. If specific factors (such as an increasing risk to the long-term sustainability of public finances) gradually raise costs and significantly reduce the maturity of new debt, the conditions for targeting refinancing risk could deteriorate.[16]

If public finance sustainability and a prudent fiscal policy[17] are to be maintained, due account should be taken of the impact of monetary policy on government refinancing costs. Changes in the advantageousness of refinancing are transitory and largely related to inflation developments in the economy. As for what to monitor when assessing public finance developments, the balance adjusted for interest payments is preferable to the overall fiscal balance (surplus/deficit),[18] since it does not give a distorted view of either public finance developments or fiscal consolidation.[19]

3.4 Risks to the forecast

The risks to Slovakia's economic growth outlook are tilted to the downside. The risks remain the same as in the spring forecast. The biggest risk stems from the announced need for public finance consolidation. If Slovakia is to meet at least the minimum requirements of EU fiscal consolidation rules, especially in respect of reducing the economy's vulnerability, additional measures will need to be adopted in the coming years. These may dampen the domestic demand recovery to an appreciable but manageable extent over the forecast horizon.

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15 Or slightly longer, which nevertheless, compared with previous years, marks a discernible shift towards rolling over debt into debt with a similar maturity.

16 The aim is not to argue whether an average debt maturity of 8-9 years is optimal in terms of the trade-off between costs and maturity: (1) issuing short-term debt results in lower costs but increases refinancing risk; (2) issuing long-term debt has the opposite effect.

17 One of the core tasks of fiscal policy is the stabilisation function. By supporting (dampening) domestic demand in times of recession (expansion), it contributes to the stabilisation of macroeconomic developments. Fiscal policy becomes particularly important in a monetary union environment, where the options for individual monetary policy are limited.

18 More specifically, the structural primary balance, i.e. the primary balance adjusted for cyclical developments and one-off factors. In current practice, the cyclical component does not take into account the cycle's impact on the evolution of interest expenses.

19 For the assessment of consolidation efforts under the EU's new economic governance framework, the structural primary balance will be used from 2025 to 2027, while the overall structural balance will be used from 2028 onwards. The pressure on fiscal performance will therefore be temporarily curbed, with interest costs excluded from the assessment of consolidation efforts.

A downside risk among domestic factors is a slower than projected upturn in consumer spending. At the same time, based on historical experience, we see a risk of weaker absorption of EU funds, in particular funds from the Recovery and Resilience Facility (through the implementation of Slovakia's recovery and resilience plan).

The external environment is also a source of downward risk to the economic outlook. A weaker-than-forecast recovery in global trade would weigh on domestic export-oriented industries and therefore dampen economic growth. In addition to global trade, developments in the euro area also pose a risk if they evolve less favourably than projected.

The main risks to the inflation outlook are geopolitical risks that could put upward pressure on commodity prices. Further upside risks to the outlook include the inflationary impact of any additional fiscal consolidation and potentially greater demands for wage increases in an environment of labour shortages.

Table 5 Forecast for key macroeconomic indicators

Summer 2024 forecast (MTF-2024Q2)								
Indicator	Unit	Actual data	Summer 2024 forecast (MTF-2024Q2)			Difference vis-à-vis the spring 2024 forecast (MTF-2024Q1)		
		2023	2024	2025	2026	2024	2025	2026
Price developments								
HICP inflation	annual percentage change	11.0	2.8	3.5	3.4	0.0	-0.2	-0.3
CPI inflation	annual percentage change	10.5	2.6	3.5	3.4	-0.2	-0.2	-0.2
GDP deflator	annual percentage change	10.1	4.5	2.5	2.7	-0.6	-0.1	0.0
Economic activity								
Gross domestic product	annual percentage change, constant prices	1.6	2.8	3.2	2.1	0.5	0.0	0.1
Private consumption	annual percentage change, constant prices	-3.0	1.3	2.1	1.7	0.7	0.1	0.1
General government final consumption	annual percentage change, constant prices	-0.6	2.2	3.3	2.3	2.1	0.2	0.1
Gross fixed capital formation	annual percentage change, constant prices	10.6	-0.4	6.4	1.0	-1.3	0.4	0.0
Exports of goods and services	annual percentage change, constant prices	-1.0	3.6	4.6	3.5	-0.6	0.4	0.1
Imports of goods and services	annual percentage change, constant prices	-6.9	4.2	4.8	3.1	-0.9	0.5	0.1
Net exports	EUR millions at constant prices	6,851	6,608	6,717	7,336	366.5	278.3	329.8
Output gap	percentage of potential output	0.1	-0.1	0.4	0.4	0.3	0.2	0.2
Gross domestic product	EUR millions at current prices	122,813	131,899	139,522	146,356	661.1	665.5	859.3
Labour market								
Employment	thousands of persons, ESA 2010	2,434	2,434	2,449	2,453	-7.1	-1.3	2.7
Employment	annual percentage change, ESA 2010	0.3	0.0	0.6	0.2	-0.3	0.2	0.2
Number of unemployed	thousands of persons, LFS [1)]	162	153	145	143	0.1	-0.7	-1.7
Unemployment rate	percentage	5.8	5.5	5.2	5.2	0.0	-0.1	-0.1
NAIRU estimate [2)]	percentage	6.2	6.1	6.1	6.1	0.0	0.0	0.0
Labour productivity [3)]	annual percentage change	1.3	2.8	2.5	2.0	0.8	-0.3	0.0
Nominal productivity [4)]	annual percentage change	11.6	7.4	5.1	4.7	0.3	-0.3	-0.1
Nominal compensation per employee	annual percentage change, ESA 2010	10.4	7.6	5.2	5.0	0.4	-0.1	-0.1
Nominal wages [5)]	annual percentage change	9.7	7.4	5.2	5.0	0.2	-0.1	-0.2
Real wages [6)]	annual percentage change	-0.7	4.5	1.6	1.5	0.2	0.0	0.1
Households and non-profit institutions serving households								
Disposable income	annual percentage change, constant prices	-2.3	3.5	1.3	1.4	-0.1	0.3	0.2
Saving ratio [7)]	percentage of disposable income	6.6	8.5	7.7	7.5	1.3	1.4	1.6
General government sector [8)]								
Total revenue	percentage of GDP	43.0	40.2	39.8	39.7	0.2	0.3	0.3
Total expenditure	percentage of GDP	47.9	45.9	44.8	44.2	-0.1	-0.1	-0.1
General government balance [9)]	percentage of GDP	-4.9	-5.8	-5.0	-4.5	0.3	0.3	0.4
Cyclical component	percentage of trend GDP	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Structural balance	percentage of trend GDP	-5.1	-5.8	-5.1	-4.6	0.2	0.3	0.3
Cyclically adjusted primary balance	percentage of trend GDP	-3.8	-4.5	-3.8	-3.3	0.2	0.2	0.3
Fiscal stance [10)]	annual percentage point change	-2.8	-0.7	0.8	0.5	-0.2	0.0	0.1
General government gross debt	percentage of GDP	56.0	57.6	58.8	60.4	-0.3	-0.3	-0.4

Table 5 Forecast for key macroeconomic indicators (continued)

Indicator	Unit	Actual data	Summer 2024 forecast (MTF-2024Q2)			Difference vis-à-vis the spring 2024 forecast (MTF-2024Q1)		
		2023	2024	2025	2026	2024	2025	2026
Balance of payments								
Goods balance	percentage of GDP	1.3	1.1	0.6	1.1	0.3	0.1	0.1
Current account	percentage of GDP	-1.6	-1.6	-1.8	-1.3	0.3	0.2	0.2
External environment and technical assumptions								
Slovakia's foreign demand	annual percentage change	-0.9	1.2	3.7	3.6	-0.3	0.3	0.2
USD/EUR exchange rate [11), 12)]	level	1.08	1.08	1.08	1.08	-0.6	-0.8	-0.8
Oil price in USD [11), 12)]	level	83.7	83.8	78.0	74.5	2.9	2.7	2.2
Oil price in USD [11)]	annual percentage change	-19.2	0.0	-6.9	-4.5	2.9	-0.2	-0.4
Oil price in EUR [11)]	annual percentage change	-21.3	0.3	-6.7	-4.5	3.4	-0.1	-0.4
Non-energy commodity prices in USD	annual percentage change	-12.5	11.4	3.9	0.9	10.8	1.9	0.8
Three-month EURIBOR	percentage per annum	3.4	3.6	2.8	2.5	0.2	0.4	0.1
Ten-year Slovak government bond yield	percentage	3.6	3.6	3.6	3.6	0.1	0.1	0.1

Sources: NBS, ECB, and SO SR.

1) Labour Force Survey.
2) Non-accelerating inflation rate of unemployment
3) GDP at constant prices / employment (ESA 2010).
4) Nominal GDP divided by persons in employment (according to SO SR quarterly statistical reporting).
5) Average monthly wages (ESA 2010).
6) Wages (ESA 2010) deflated by CPI inflation.
7) Saving ratio = gross savings / (gross disposable income + adjustments for any pension entitlement change) *100. Gross savings = gross disposable income + adjustments for any pension entitlement change – private consumption.
8) Sector S.13.
9) B9n – Net lending (+) / net borrowing (-).
10) Year-on-year change in cyclically adjusted primary balance; a positive value denotes a restrictive stance.
11) Year-on-year percentage changes and changes vis-à-vis the previous forecast are calculated from unrounded figures.
12) Changes vis-à-vis the previous forecast (percentages).

More detailed time series of selected macroeconomic indicators can be found on the NBS website at:
https://nbs.sk/en/publications/economic-and-monetary-developments/

Special Annex 1

How Slovakia used the EU funds it was allocated under the 2014–20 programming period

EU cohesion policy plays an important role in Slovakia's development, contributing to its economic, social and environmental progress. Slovakia absorbed €14.5 billion in EU funds allocated to it under the 2014–20 programming period (PP), with the funds being disbursed on various projects focused on infrastructure, innovation, digital transformation, sustainable development and improving citizens' living conditions.[20]

The total volume of disbursements on these projects, including co-financing from domestic public and private sources, amounted to €18 billion. A proportion of the funds were used to mitigate the impact of unexpected crisis events (the COVID-19 pandemic and the war in Ukraine).

The sector that received most of the EU funds was central government (i.e. the state and other government entities except for municipalities/self-governing regions (VÚC) and social security funds). In this sector, the funds were disbursed mainly among major projects concerning regional connectivity (modernisation and construction of road and rail infrastructure), projects supporting employment and social inclusion (through the Central Office of Labour, Social Affairs and Family of the Slovak Republic), and projects focused on the digitalisation of services and of education and research infrastructure. One-third of the total EU funds went to support projects at the local level (run by local authorities, firms, and non-profit organisations).

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[20] The current absorption stands at 105% of the 2014–23 PP allocation, with over-contracting and other measures in place to eliminate the loss of EU funds; sources: MF SR (Informácia o čerpaní fondov EÚ k 31.05.2024); MIRRI SR (Informácia o stave implementácie európskych štrukturálnych a investičných fondov 2014 – 2020 a Programu Slovensko 2021 – 2027 k 10.05.2024). According to the rules, most projects should be completed by 31 December 2023; the only activities that should take place in 2024 are administrative operations and the settlement of final payments. The final absorption level for 2014–20 PP funds will be known at the earliest in 2025, based on the submission of the final accounts to the EC and their approval by the EC.

As for their economic classification, the vast majority EU funds were categorised as capital expenditure supporting potential economic growth, mainly through projects focused on connecting regions with better transport infrastructure, on innovation and modernisation of business technologies and the educational and R&D base, and on the digitalisation of services (e-government). Half of the disbursements classed as current expenditure – mainly financing interventions in the social area and labour market – were spent on measures to mitigate different crises (including the pandemic, energy, and Ukrainian refugee crises). In addition to support in the form of non-repayable grants, part of the EU funds were also allocated to what are known as financial engineering instruments. These resources are accumulated in funds to support SME business projects through favourable loans, guarantees, or venture capital collaboration.

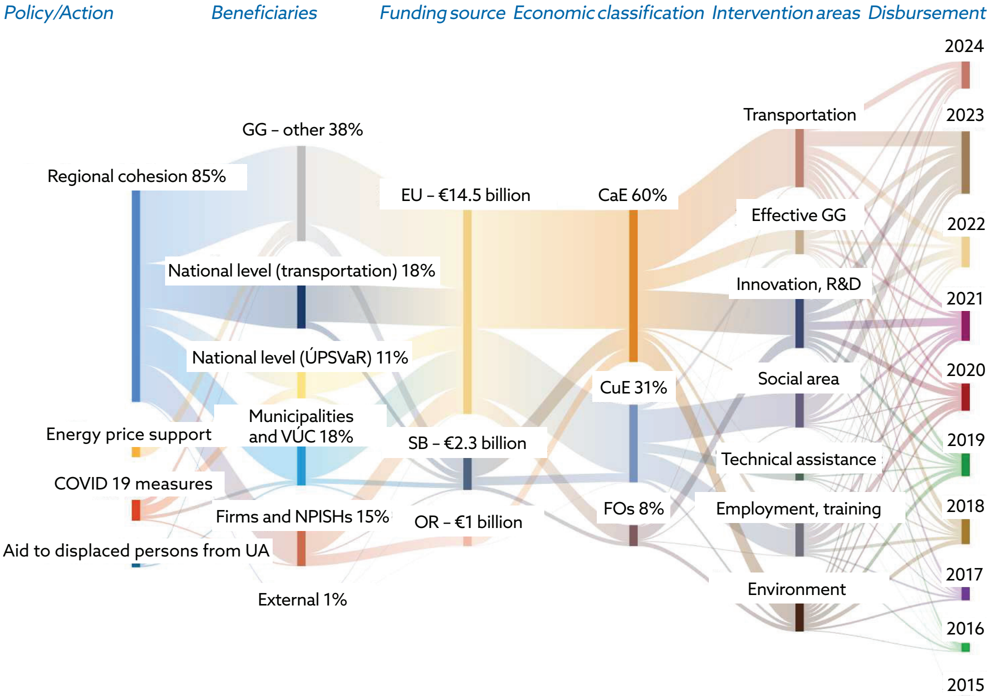
The funds allocated under the 2014–20 EU PP had to be disbursed by the end of 2023. The implementation of 2014–20 PP projects resulted in the accumulation of large volume of undisbursed funds with the disbursement deadline approaching. By the end of 2022, only 66% of the allocated funds had been disbursed, with €5 billion still unabsorbed. The absorption of EU funds was accelerated by the government's adoption of crisis measures, which resulted in an upsurge in EU-funded expenditure in 2023, notably in the completion of transportation, innovation and R&D projects. The acceleration was significantly supported by reallocations of funds to help households cope with rising energy prices (via the Support Affordable Energy (SAFE) initiative) and to help people displaced by the war in Ukraine (via the FAST-CARE initiative).

EU funds are supposed to help Slovakia catch up with more developed parts of Europe. However, long-term trends indicate a crowding-out of domestic resources, which undermines the expected benefits.[21] EU funds should not be a substitute for national, in particular public, funding, but rather serve as an additional stimulus in addressing highly problematic areas. This is an extended perspective not only on evaluating the benefits of 2014–20 PP funds, but also on viewing the new programming period and the implementation of Slovakia's recovery and resilience plan.

[21] Blog post by Marián Labaj, "Achillova päta Slovenska – eurofondy" (Slovakia's Achilles heel – EU funds), Národná banka Slovenska, 14 July 2023 (in Slovak only).

Chart 1

Overview of the absorption and disbursement of EU funds allocated to Slovakia under the 2014–20 programming period



Sources: NBS, and MIRRI SR (ITMS 2014+).

Notes: Under 'Funding source', the sum of the nominal values (in EUR billions) is approximately €18 billion. The other areas illustrate the breakdown of this value by specification. The absorption is indicative according to the cash settlement of applications for EU funds (source ITMS 2014+). It does not take into account adjustments in the ESA 2010 methodology (e.g. accrual recording of short-time work schemes ('Kurzabeit') and energy price support) or individual corrections based on ex post-detected irregularities. In 2024 the administrative backlog in the settlement of EU fund payments to beneficiaries is being cleared. By this time, the project activities funded under the 2014–20 budget have been completed.

Explanatory notes: GG – general government; VÚC – self-governing regions (vyššie územné celky); NPISHs – non-profit institutions serving households; ÚPSVaR – Central Office of Labour, Social Affairs and Family; UA – Ukraine; EU – EU Structural and Investment Funds; SB – co-financing from the state budget; OR – other co-financing from own resources; CaE/CuE – capital expenditure/current expenditure; FOs – financial operations (transfers to the funds of financial instruments).