February 3rd, 2021

Macroeconomic Forecast Update

Macroeconomic forecast for 2020 – 2024

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The second wave of the pandemic will slow down the recovery of the Slovak economy. Owing to solid growth in the third quarter, output is expected to decrease by 5.8 per cent in 2020- a better result compared to our previous forecasts. The main contributors to the improved projections include a less pronounced decline in household consumption and a faster recovery of exports, supported mainly by strong car production. GDP will increase by 4.3 per cent in 2021, partly due to the faster than expected recovery following the first wave of the pandemic. After the initial slump, the labour market has stabilised. Yet, it is not expected to add new jobs until the end of the year when the first funds from the EU's Recovery and Resilience Plan may kick in. Potential future waves of the pandemic, however, still pose a risk to future economic prospects.

A new forecast will be published in March. The finalisation of Slovakia's Recovery and Resilience Plan (RRP) will require a new macroeconomic forecast in March, which will also benefit from complete data for Q4 2020 and possibly a better insight into the development of the pandemic. The main goal of this February interim edition was to update the forecast taking into account the most recent developments since September.

Slovak GDP is expected to have shrunk by 5.8 per cent in 2020. The slump is less dramatic than previously projected. The third quarter of 2020 saw a more solid rebound both in the domestic and in foreign markets, which was incorporated into the new forecast. Slovak exports recovered significantly faster than expected, mainly thanks to the automobile sector. At the same time, the new projection also accounts for the economic impact of the second wave of the pandemic. Available data for the fourth quarter seem to suggest that its effect has thus far been milder compared to the first wave in spring. Unemployment increased slightly, but wage development remains positive.

In 2021, output will grow by 4.3 per cent. The second wave of the pandemic will slow down the economic recovery this year. The new projection assumes that, while having a milder impact on economic activity, the second wave will last longer than the first. The stringency of restrictions is expected to remain at its current level for throughout the Q1 2021, gradually easing thereafter and reaching September 2020 levels of strictness by the end of Q3 2021. Our trading partners too will be negatively affected by the pandemic, leading to weaker foreign demand for the most part of this year. The economy will receive an extra stimulus from the one billion COVID reserve made available by the government, as well as the first incoming funds from the EU's Recovery and Resilience Facility in the second half of the year. Yet, the growth dynamic will be weaker in the first quarter, postponing new job creation until the year-end. As a result, employment will fall overall by 0.2 per cent in 2021.

The economy should return to a solid growth trajectory from 2022 onwards, owing to additional funds from the EU. The new projection currently assumes that the Recovery and Resilience Plan will provide 5.8 billion euros in funding that could stimulate growth until 2026. The economy will also benefit from the last minute drawing of EU funds from the current funding period which will end in 2023. EU resources hence compensate for the effects of fiscal consolidation by 1 p.p., from 2022 onwards.

The updated projection prepared by the Ministry of Finance was discussed at the Macroeconomic Forecast Committee's meeting held on February 3rd, 2021. **The forecast was evaluated as realistic by all members of the Committee** (ČSOB, Infostat, NBS, SLSP, VÚB, Tatrabanka, Unicredit, and SAV). The updated forecast, as well as the minutes from the meeting and all supporting documents are available at the IFP website.

Provisional assumptions about the drawing of funds from the RRP (mil. EUR)

	2021	2022	2023	2024	2025	2026
RRP total	440	1001	1230	1221	1146	802
Investment	394	785	1008	1030	982	639
Compensations	19	96	104	93	82	79
Intermediate consumption	27	120	119	98	82	85

MF SR FORECAST – MACROECONOMIC INDIACTORS (Feb 2021)

indicator (growth in %, unless otherwise noted)		forecast					diff. from Sep 2020			
	2019	2020	2021	2022	2023	2024	2020	2021	2022	2023
Gross domestic product										
GDP, real	2,3	-5,8	4,3	3,9	2,5	0,7	0,9	-1,2	1,5	-0,8
GDP, nominal (bn. €)	93,9	90,7	95,8	101,5	106,4	109,6	1,1	0,1	1,6	1,1
Private consumption, real	2,3	-0,6	2,3	2,1	1,1	1,8	0,6	-0,7	0,3	-1,2
Private consumption, nominal	5,1	1,4	3,2	4,3	3,1	3,6	0,4	-0,9	0,6	-1,0
Public consumption	4,7	-2,1	-1,1	-0,3	2,1	-0,1	-0,4	-1,1	-0,5	0,5
Fixed investment	5,8	-11,1	3,3	8,4	7,3	-7,5	-1,2	-4,3	5,1	0,8
Export of goods and services	0,8	-8,4	11,0	4,8	3,7	3,5	0,9	1,3	0,8	0,1
Import of goods and services	2,1	-9,2	11,0	4,1	3,3	2,1	-1,3	2,7	1,3	-0,1
Labour market										
Registered employment	1,0	-1,9	-0,2	0,7	0,5	0,1	-0,3	-0,7	0,2	0,3
Wages, nominal	7,8	3,4	4,8	3,4	4,4	3,9	0,8	0,7	-0,5	-0,4
Wages, real	5,0	1,4	3,6	1,2	2,3	2,1	0,8	0,7	-0,7	-0,6
Unemployment rate	5,8	6,8	7,3	6,5	5,6	4,9	0,0	0,5	0,3	-0,1
Inflation										
CPI	2,7	1,9	1,2	2,2	2,0	1,8	0,0	0,1	0,3	0,2

Sources: ŠÚ SR, IFP