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Slovakia Business Forecast Report Q2 2014

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Abstracts

Core Views

Prime Minister Robert Fico will continue to benefit from his party's outright majority in parliament, which has eased the policy formation and implementation process. While this is positive for political stability in the short term, it does not provide much space for consensus politics, with Fico's tax and welfare reforms likely to keep investors cautious.

The short-term economic picture has brightened as export growth remained solid amid a slowdown in regional growth, and household spending showed the first signs of a recovery. The government will continue with its fiscal consolidation plan, with a shrinking deficit likely to buoy market sentiment. Creeping public debt will remain a concern for the authorities, however.

Major Forecast Changes

We have revised up our real GDP growth forecast for 2014 and 2015 to 2.2% and 2.8% respectively, from 2.0% and 2.6% previously. This is based on strong industrial production and retails sales readings in H213 that point to a more broad based economic recovery taking hold.

Our forecast for Slovakia's fiscal trajectory has been revised to reflect the governments updated medium-term budget objectives, which include a slower pace of deficit consolidation. While we previously saw the budget deficit falling to 2.1% of GDP by 2015, our forecast currently stands at 2.6%.

Key Risks To Outlook

The risks to our short-term growth forecast are well balanced, andlargely based on

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ongoing uncertainty over the regional economy. With exports in 2013 representing approximately 100.1% of GDP, Slovakia's economy is vulnerable to any shifts in external demand. The emphasis on revenue-boosting measures to achieve significant fiscal consolidation leaves the deficit reduction programme vulnerable to weaker-than-expected growth while also threatening investment inflows.

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Balance Of Payments
Rebalancing Has Further To Run
Slovakia's current account surplus will peak at 3.2 % of GDP in 2015 before narrowing gradually over the long term, as domestic demand growth drives a narrowing of the trade surplus. Although the external account surplus precludes a reliance on foreign capital, foreign direct investment will remain key to future export growth.
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A cut in the ECB's refinancing rate will do little to ease monetary policy in the eurozone, given the fractured credit transmission channel and passive tightening resulting from banks repaying LTRO funds. While there are few easy options to ease policy in the near term, we warn that if the long running disinflationary trend evolves into full blown deflation, the ECB may have to look at more aggressive forms of policy stimulus.
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CHAPTER 3: 10-YEAR FORECAST

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bolstered in the long term by Slovakia's eurozone membership. However, we believe the drawbacks of having the euro will outweigh the benefits, limiting potential growth in the next decade. Nevertheless, we expect real GDP to average 2.6% over our 10-year forecast period to 2023, well above eurozone averages.

CHAPTER 4: BUSINESS ENVIRONMENT

CHAPTER 5: KEY SECTORS

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CHAPTER 6: BMI GLOBAL ASSUMPTIONS

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