

# **| How Do International Organisations Assess Slovakia?**

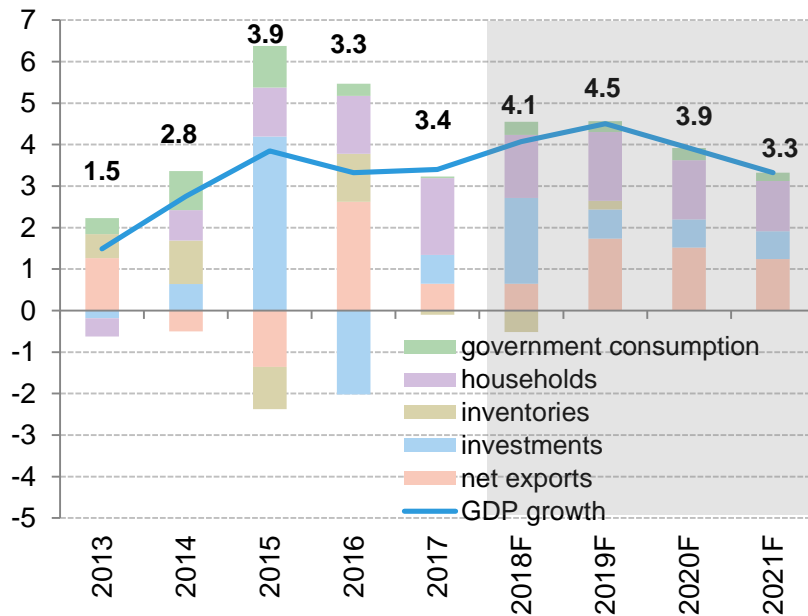
Seminar – September 21, 2018

**Lucia Šrámková**

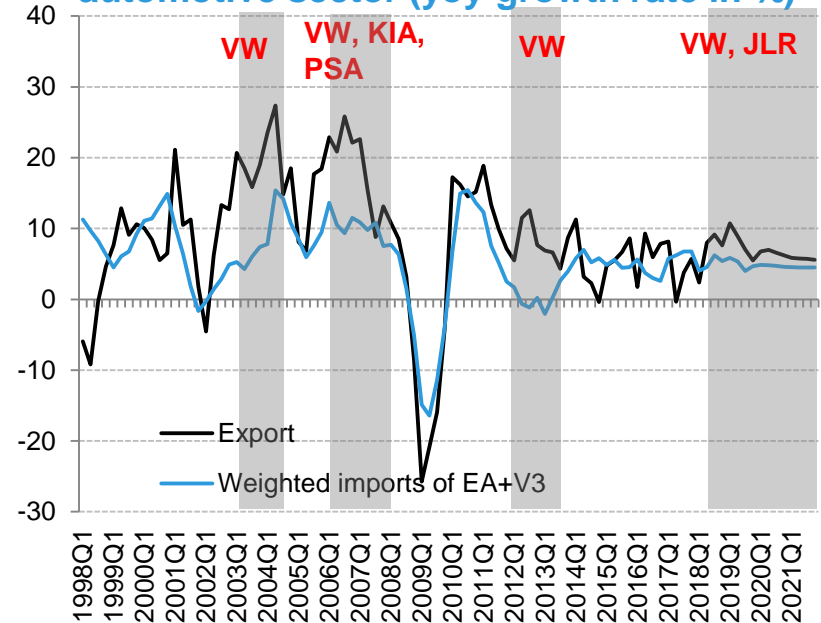
Director of the Institute for Financial Policy

# I Macro development over the medium-term

Contributions to GDP growth (p.p.)



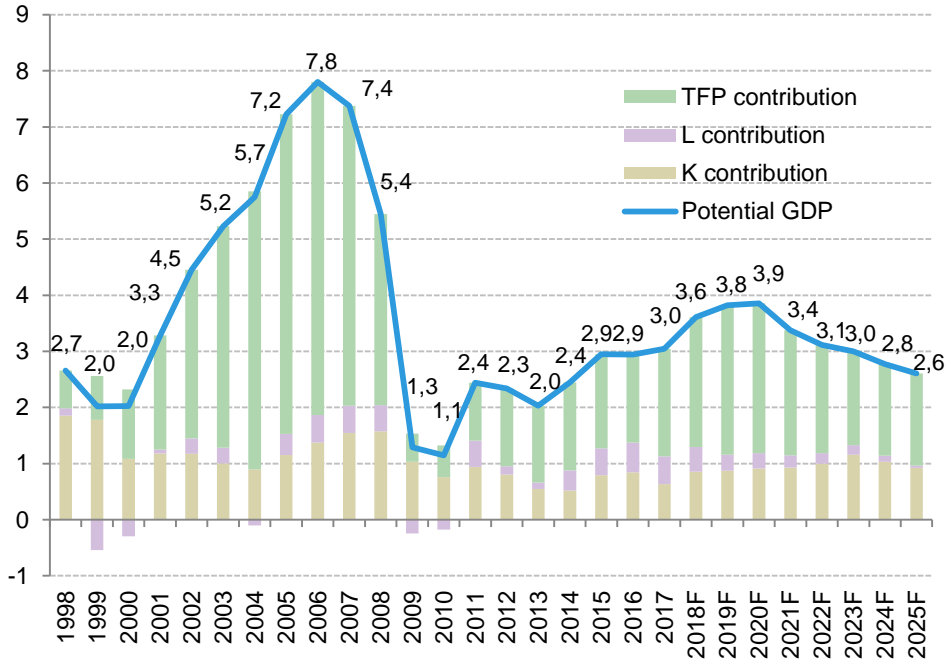
Slovak exports vs. imports of main trading partners: effect of supply shocks in the automotive sector (yoy growth rate in %)



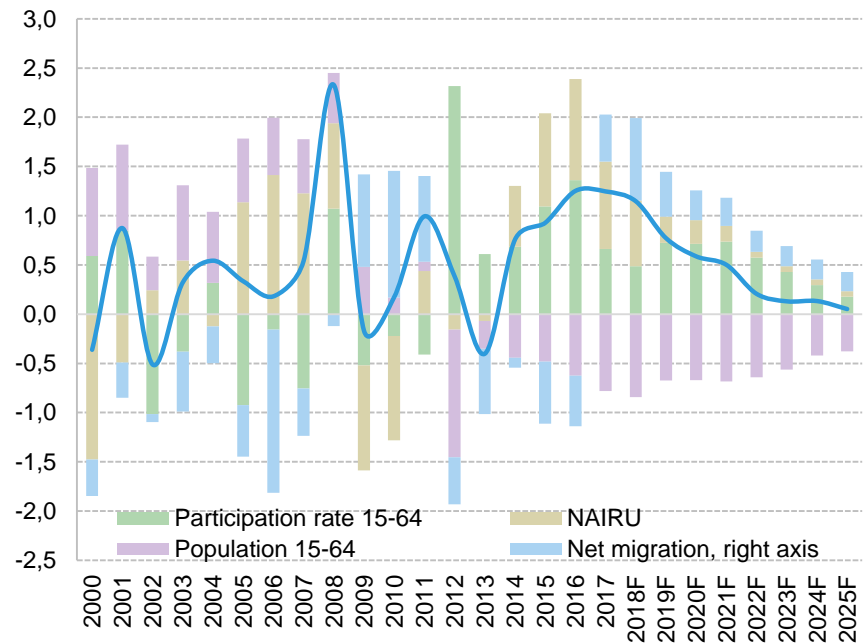
- Accelerating GDP growth in 2019 (as one of the few countries in the EU) due to automotive exports
- Capacity expansion in the automotive sector represents a positive supply shock:
  - After the capacities were built, the export never underperformed
  - The forecasted impact of VW and JLR in 2018-2021 is relatively limited compared to historic data

# Macro development beyond the medium-term

Contributions to potential growth (p.p.)



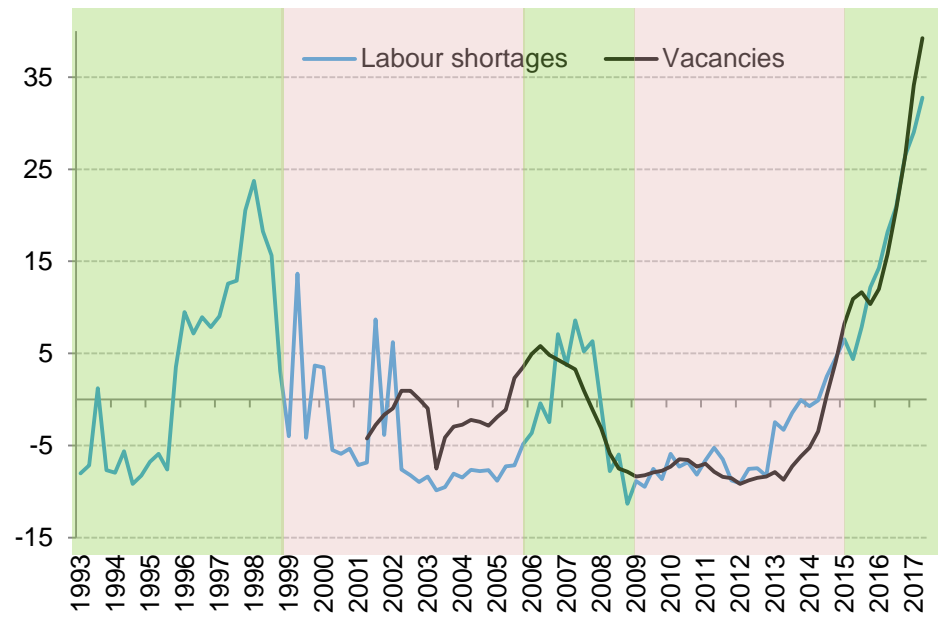
Contributions to potential employment growth (p.p.)



- Potential GDP growth beyond forecast horizon slows down from 3.9 per cent towards 2.5 per cent
- Growth differential between Slovakia and EU 28 slightly above 1 p. p. (experiences of CZ and SI after reaching 80 per cent of EU average)
- Decreasing labour force is more than compensated by higher participation rate and net migration
- Economic growth model based on cheap labour, tax stimuli and chunky FDIs is exhausted

# Labour market challenges

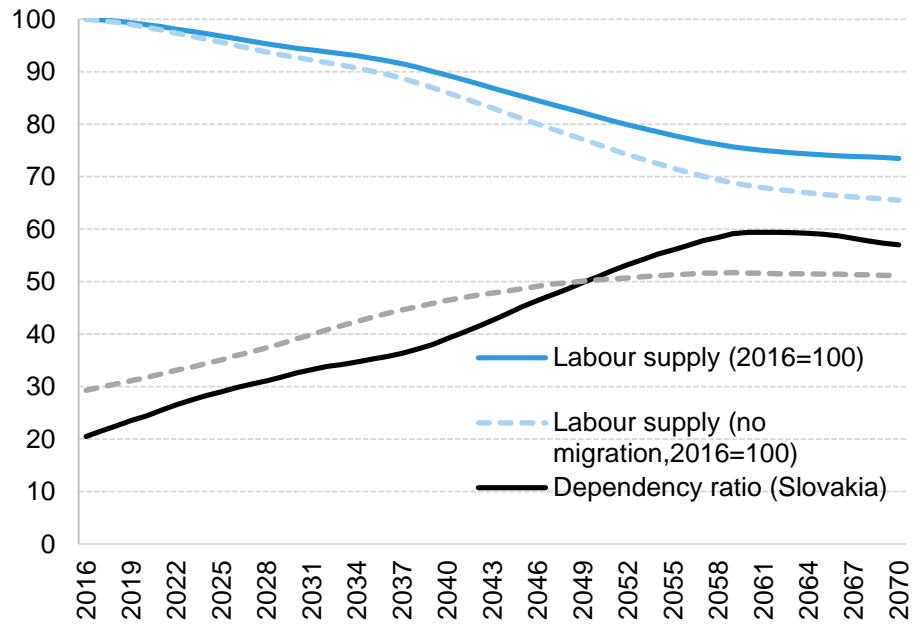
Indicators of overheating of the labour market (normalized in %)\*



\*Labour shortages includes industry, construction and services with the weights according to the weights in ESI.

Source: SO SR, CoLSAF

Labour supply (2016 = 100) and dependency ratio (65+/15-64) projections (%)

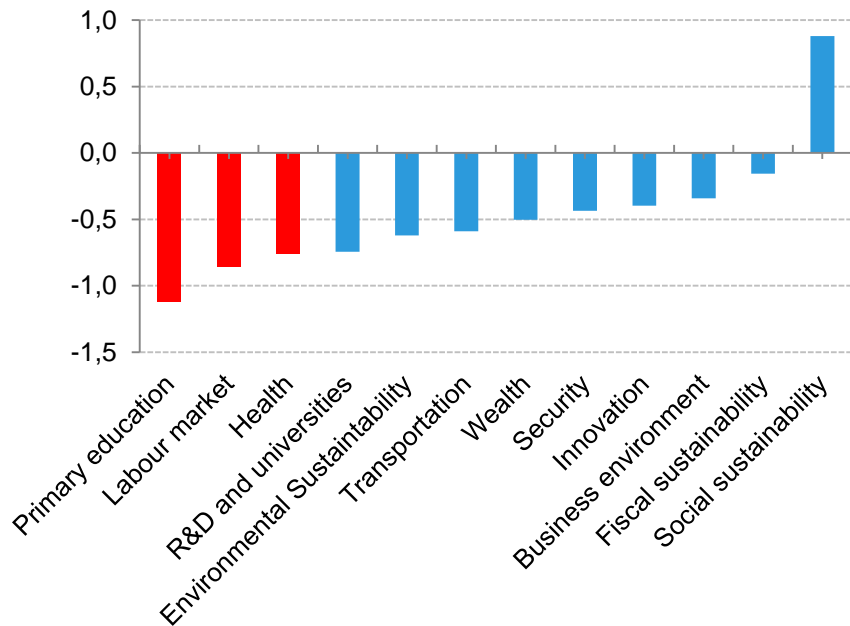


Source: Eurostat

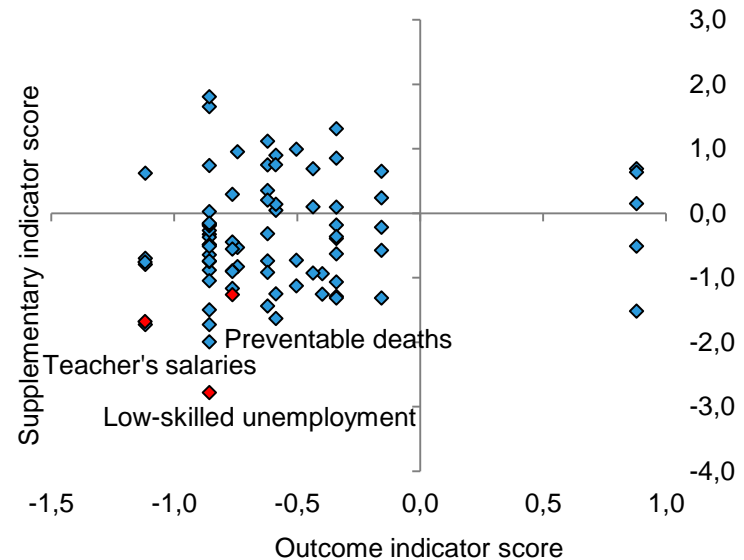
- Short-term and long-term challenges of labour market:
  - Short-term – cyclical labour shortages mostly in industry (lowering administrative barriers for migrants)
  - Long-term – population ageing + challenge of shifting from manufacturing to more advanced economy (integration and upskilling of disadvantaged and low-skilled, smart migration, research oriented economy)

# I Structural challenges for Slovakia

Gap analysis of performance indicators (2017, SD from OECD and EU average)



Indicators disaggregation (2017, SD from OECD and EU average)



Source: IFP calculations based on Eurostat and OECD indicators

- Indicator gap analysis from 2017 identified three priorities of the Slovak economy:
  - Primary education – education system outcomes measured by PISA, low attractiveness of the teacher profession
  - Labour market – low-skilled and long-term unemployment, including employment of women and Roma communities
  - Health care – relatively poor outcomes in amenable and preventable deaths given the expenditure

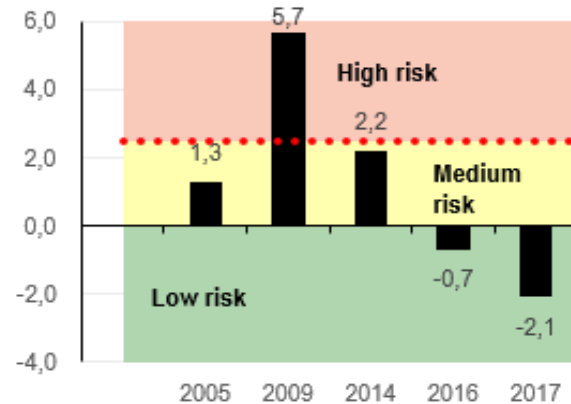
# I Education system reform should get centre-staged due to:

- Impact on the long-term productivity growth and hence, supporting better public finance position in the long-term
- High returns on education compared with other public policies
- Moving towards research- and innovation-oriented economy – must have to survive Industry 4.0
- Inclusive growth model (increasing integration of marginalised communities to labour market, health outcomes)
- Addressing cyclical shortages and skill mismatches
- Tackling with ageing
- Higher quality of public institutions

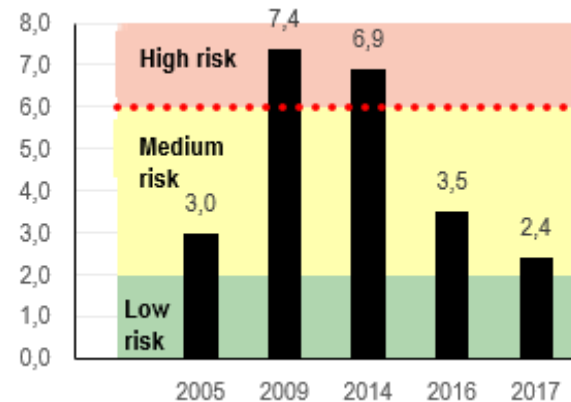
# Key challenges in fiscal policy

- Slovak public finances are sustainable in the medium – term outlook
- But, need to prefund for **long-term fiscal pressure from population ageing starting after 2035** (pensions, healthcare and long term care)
  - **Expenditure ceilings** could become main operational fiscal tool → technical work on specific proposal is under way
- Further progress needed on institutional quality of public finances and its efficiency
  - Broadening the fight on tax evasion beyond VAT
  - Value for money → Spending reviews on half of public expenditure and measures of 0.8 % of GDP

Medium - term sustainability (S1 indicator)



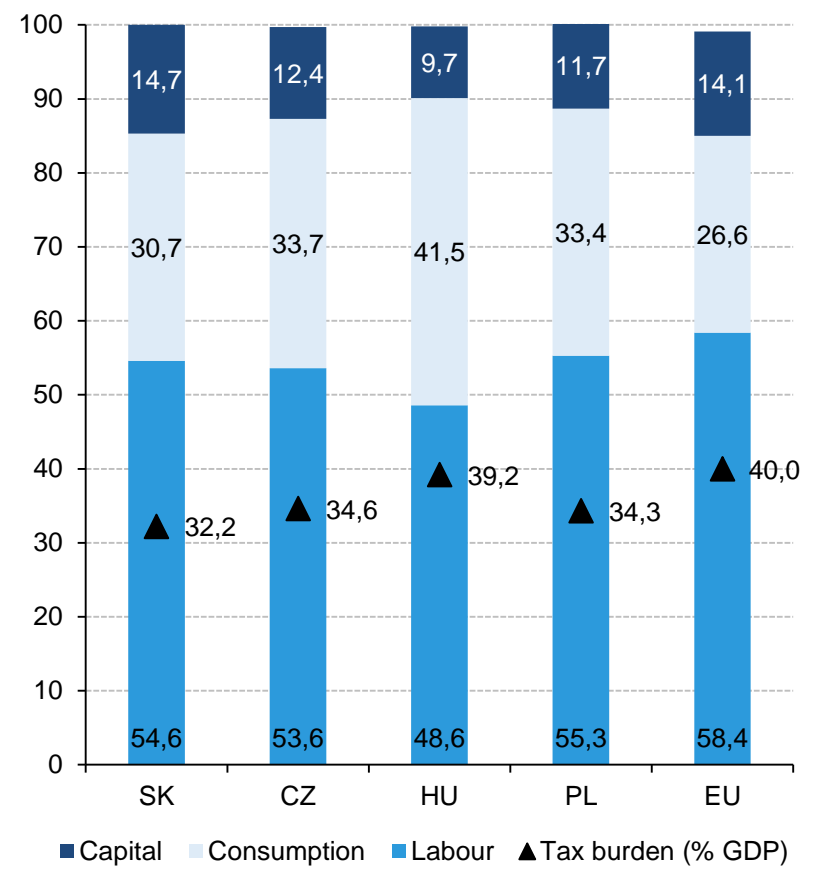
Long term - sustainability (S2 indicator)



# Towards a more appropriate tax mix

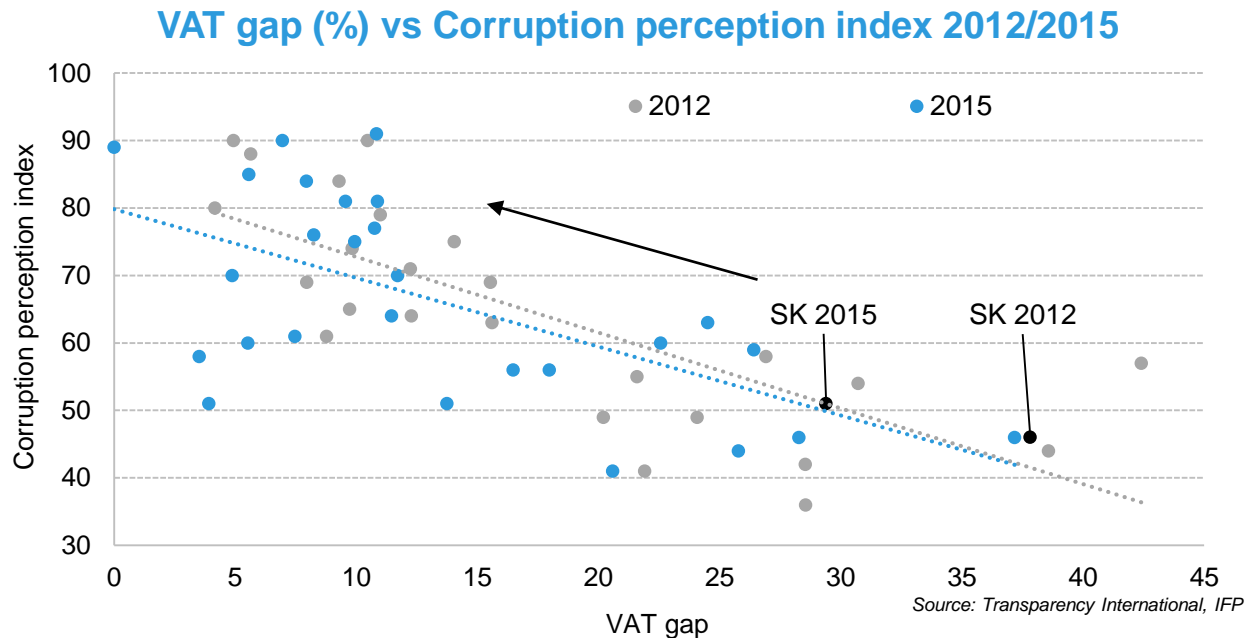
- Slovak tax mix in line with V4 countries, with half of tax revenues from labour → more room for environmental and property taxes
- Property taxation → Lowest economic distortions, but highest costs of implementation
  - Progress with new legislation on cadasters, which could pave the way for taxation based on value
- High social and healthcare contributions for certain income groups
- International organisations' recommendation → "Broaden the base, lower the rate". Current trend is on closing loopholes

Share of taxation of economic factors (in %, 2016)





# I Effectiveness and quality of public administration



- **Public procurement**
  - anti-shell law and subsequent registry of public sector partners, electronization of processes
- **Human resources**
  - analytical units established at various ministries and spending review of public administration wage bill (Value for Money), 2017 amendment to the Civil Service Act
- **Effectiveness of the justice system**
  - a detailed assessment of Slovak judiciary (action plan with measures will be introduced), electronization of processes, independent selection of judges and distraint proceedings reform

