MACROECONOMIC OVERVIEW AND OUTLOOK - SLOVAKIA

PRESENTATION FOR MR LUIGI CUZZOLIN

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VÚB BANKA

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SLOVAKIA

COUNTRY'S ESSENTIALS

Basic information

Geographical

Official Name: Slovak Republic (Slovenská republika)

Area: 49,037 km^2

Population: 5.5 million

Capital: Bratislava (433,000)

Other cities: Košice (239,000), Prešov (89,000)

Socio-Economic info

Official Language: Slovak

Currency: Euro (EUR) since January 1, 2009

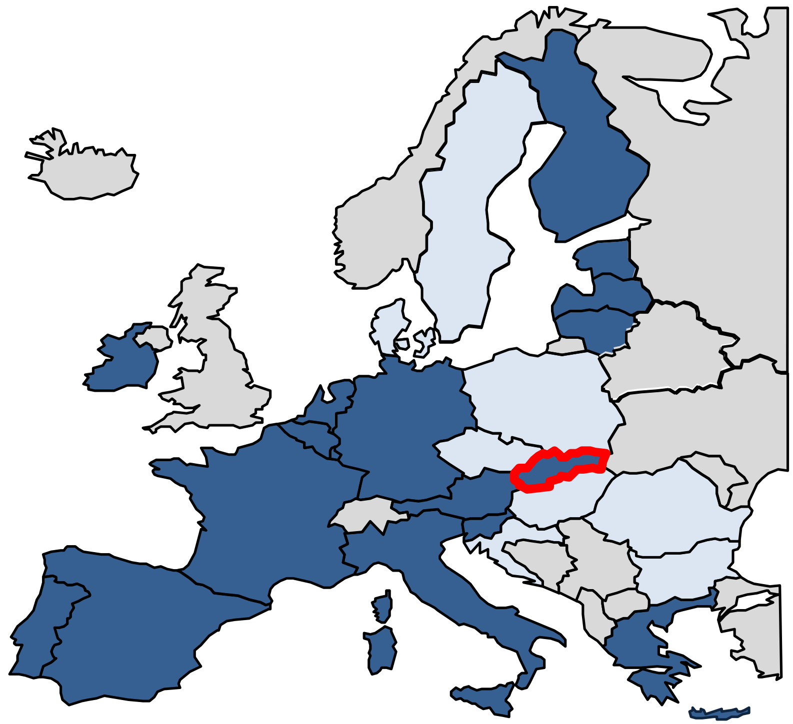
Ethnic groups:

- 80.7% Slovaks
- 8.5% Hungarians
- 10.8% non-identified, Roma, Czechs, Rusyns...

Memberships

Slovakia is a member of:

- **European Union,** since May 2004
- **NATO**, since March 2004
- **Euro area**, since January 2009



Slovakia

European Union (Euro Zone members)

European Union (Non Euro Zone members)

Political framework

Structure

Form of State: Parliamentary Republic

Political Structure: President, unicameral National Council of the Slovak Republic with 150 seats serving four-year term

Parliament

Elections: last ones held in February 2020:

Four parties' coalition:

- **OĽaNO** with 53/150 seats
- **Sme rodina** with 17/150 seats
- **Sloboda a Solidarita** with 13/150 seats
- **Za ľudí** with 12/150 seats

Relevant persons

President: Ms. Zuzana Čaputová

Prime Minister: Mr. Eduard Heger

Governor of the Slovak National Bank: Mr. Peter Kažimír

ECONOMY – SMALL, FAST CONVERGING…

- **A2/A+/A (Moody's/S&P/Fitch) credit ratings comfortable in investment grade**
- EUR 91.1 bn economy (as of 2020). Decline of real GDP in the pandemic year 2020 less steep than in Eurozone (-5.2%) and also less steep than in 2009 (-5.5%).
- GDP per capita in euro terms increased by 46% in the past decade, since 2000 it more than quadrupled (from EUR 4,100 to EUR 17,300 in 2019)
- GDP per capita in purchasing power standard (PPS) increased from 43% of former EU15 average in 2000 to 69% in 2019

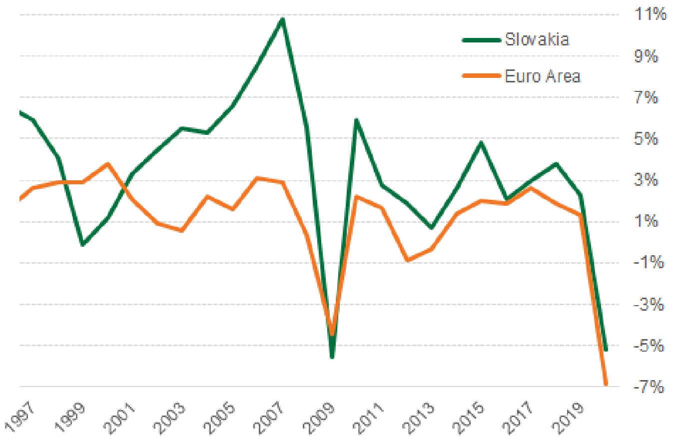
GDP per capita in PPS

(EU15=100; in %)

Country	2000	2017	2018	2019	Change '19/'00
Slovakia	**43**	**66**	**68**	**69**	**26**
Czech Rep.	62	83	84	85	23
Hungary	45	63	66	68	23
Poland	41	64	66	68	27
Germany	104	114	114	113	9
Austria	112	117	119	119	7
EU 27	86	93	93	94	8

Real GDP growth

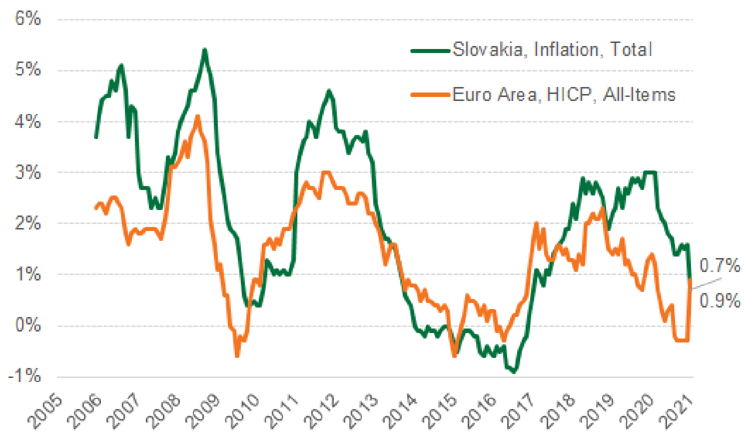
(% y/y)



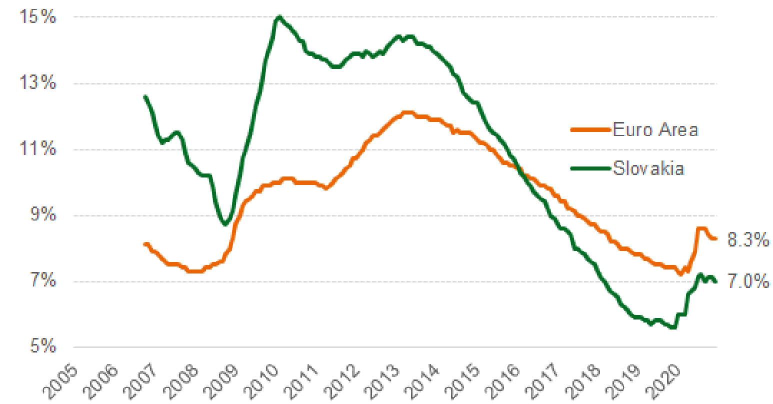
Source: Ameco database, retrieved on May 20, 2020, Slovak Stats Office

...WITH STABLE MACROECONOMIC ENVIRONMENT

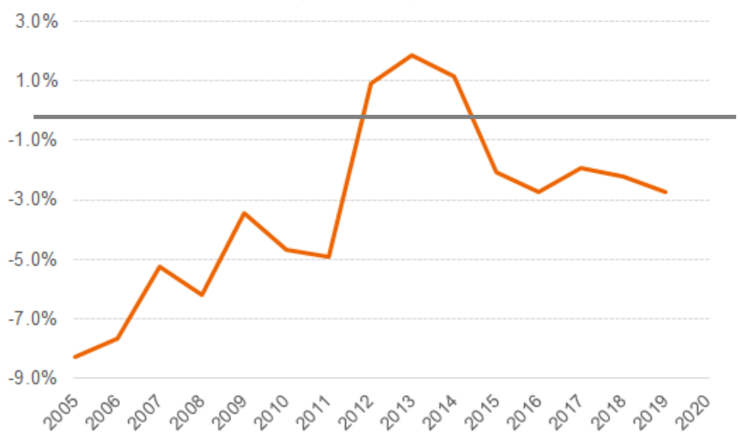
Inflation
(% y/y)



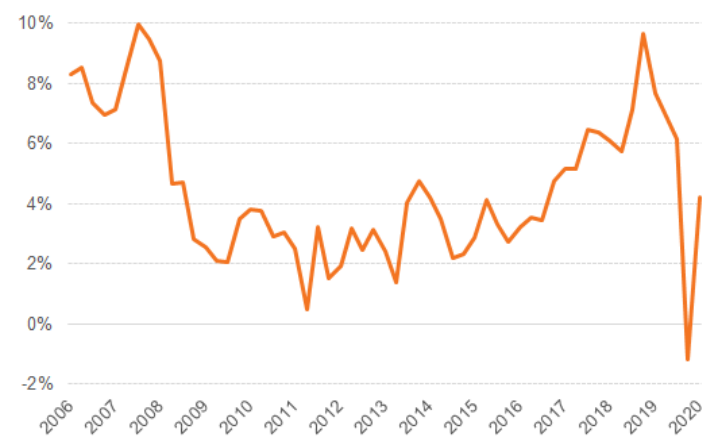
Unemployment
(%, all-economy)



Current account balance
(% GDP)



Disposable income
(% y/y, nominal)



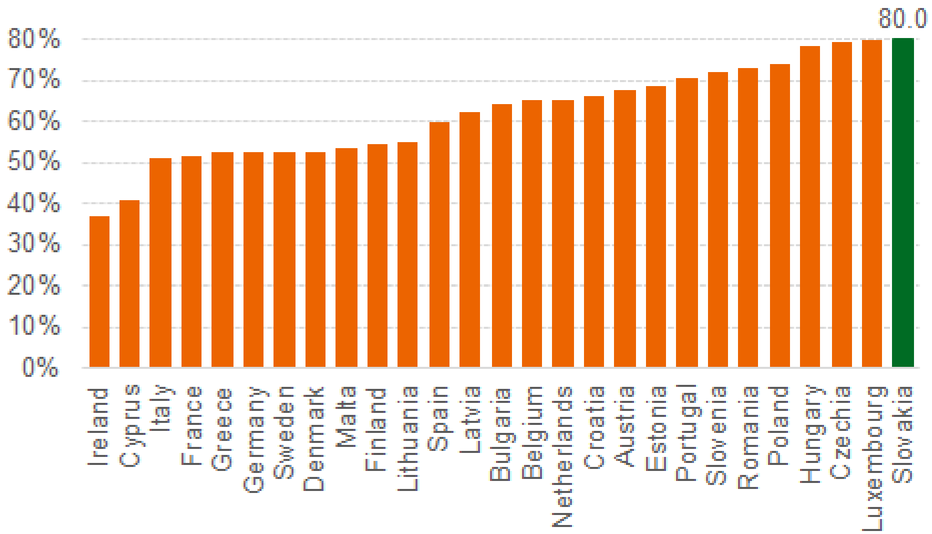
Source: Eurostat, Slovak Stats Office

ECONOMY IS EXPORT-ORIENTED, CLOSELY LINKED TO GERMANY

- Slovakia is one of the most opened economies in the world. Exports and imports of goods and services relative to GDP amounted together to 190% (as of 2018), the highest level among the CE-4 countries
- 80% (as of 2019) of Slovak exports go to the EU27, the highest share among EU members
- Germany is Slovakia's most important trading partner. It directly buys 22% of Slovak exports of goods and probably additional similar share indirectly (being a key importer of Slovakia's other key trading partners). Italy is Slovakia's 8th most important export partner (4.6% share) and 9th largest in terms of merchandise imports (3.5% share). Car industry is Slovakia's key sector (VW, KIA, Stellantis, JLR).

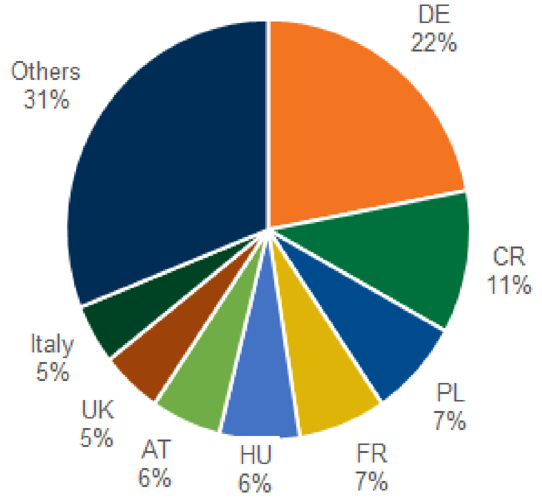
Share of export to EU in total exports

(% share, as of 2019)



Structure of Slovak exports by countries

(% share, as of 2019)



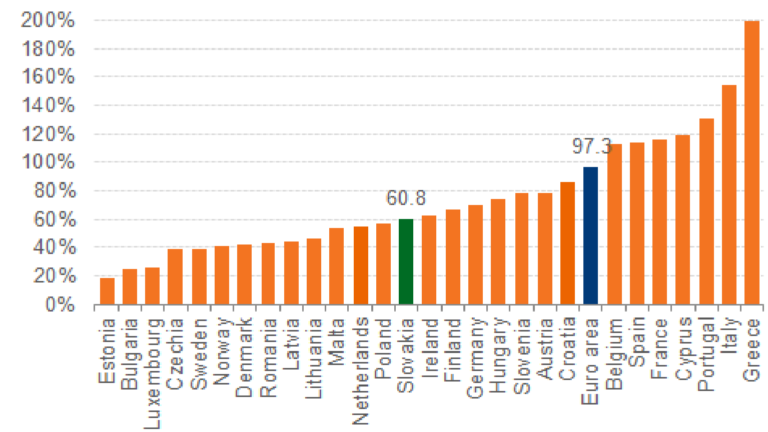
Source: Eurostat, Slovak Stats Office

FISCALLY, SLOVAKIA IS IN A GOOD SHAPE...

- Slovakia meets Maastricht criteria:
  - 2019 deficit 1.3% and debt of 48% of GDP
  - Covid-19 clearly hit fiscal plans big, but less than feared early in the crisis (deficit rose to 7% of GDP an debt slightly over 61%, resp.)
- In 2011, Slovakia adopted a constitutional law preventing debt to breach 60% (by 2027 only 50%) of GDP and established an independent fiscal watchdog. Covid-19 pandemic is seen to derail these plans only temporarily.

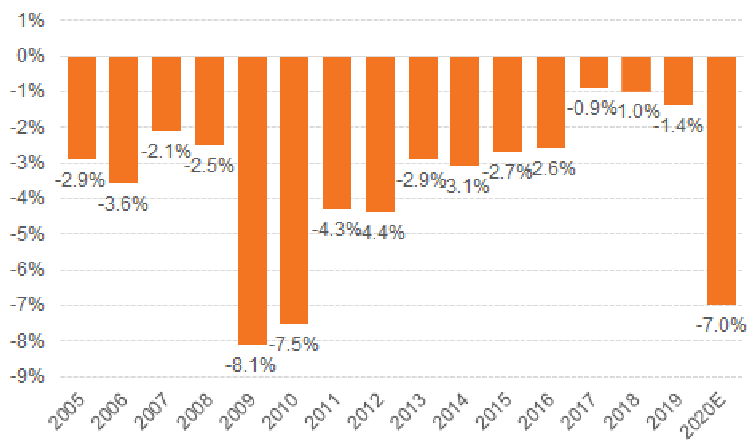
Public debt in comparison

(% GDP, as of 3Q 2020)



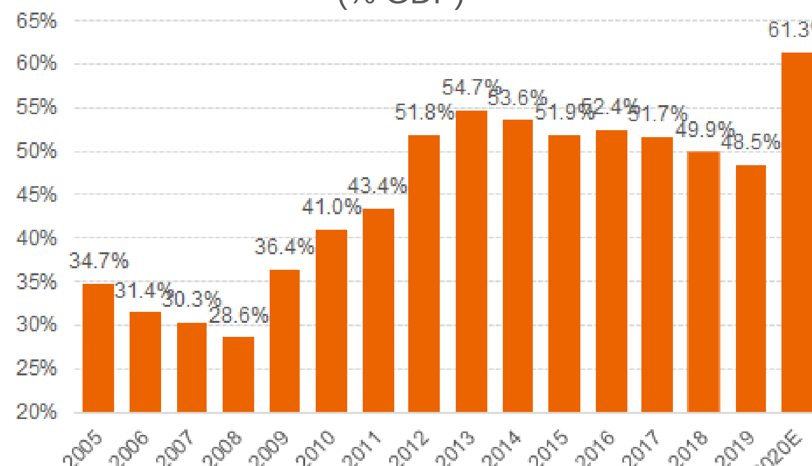
Public finance balance

(% GDP)



Public debt development

(% GDP)



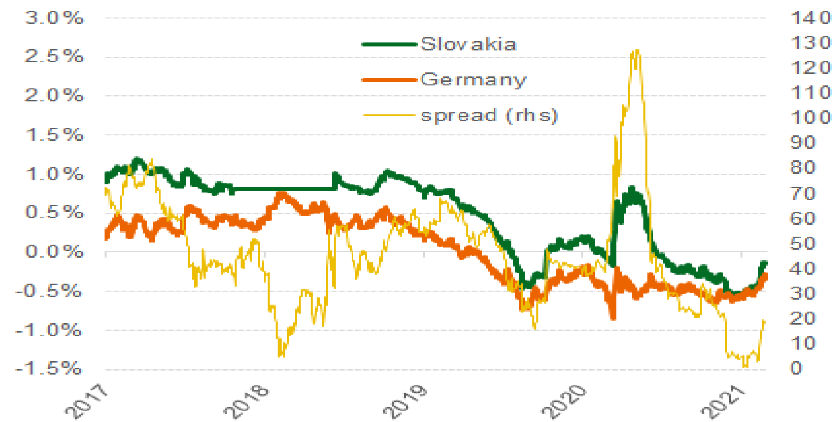
Source: Eurostat, European Commission

...WHICH IS APPRECIATED BY INVESTORS

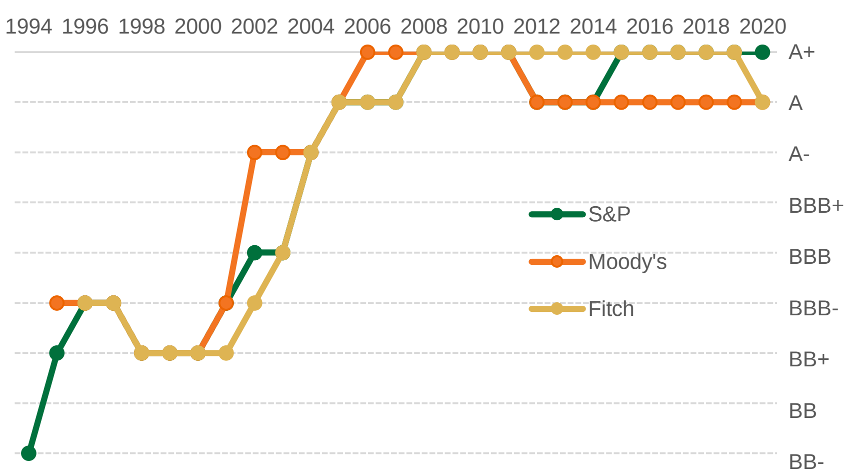
- Slovakia is an A-rated country and one of the most interconnected economies in the Eurozone
- In 2018, Slovak government was the first in CEE to successfully issue a 50-year bond
- Slovak yields copy German with a tight spread, which rose only temporarily amidst Covid-19 uncertainty in the Spring 2020
- Most recent rating action was by S&P, which on January 23, 2021 improved the outlook on the A+ Slovak sovereign from negative to stable.

Yields development

(10y maturity, % p.a.)



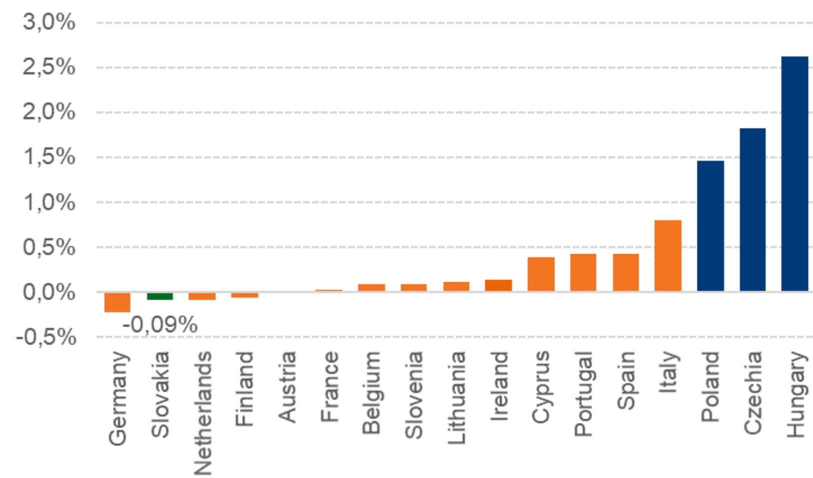
Evolution of Slovakia's rating



Source: Bloomberg, Ardal

Yields in comparison

(10y maturity, % p.a., as of April 19, 2021)



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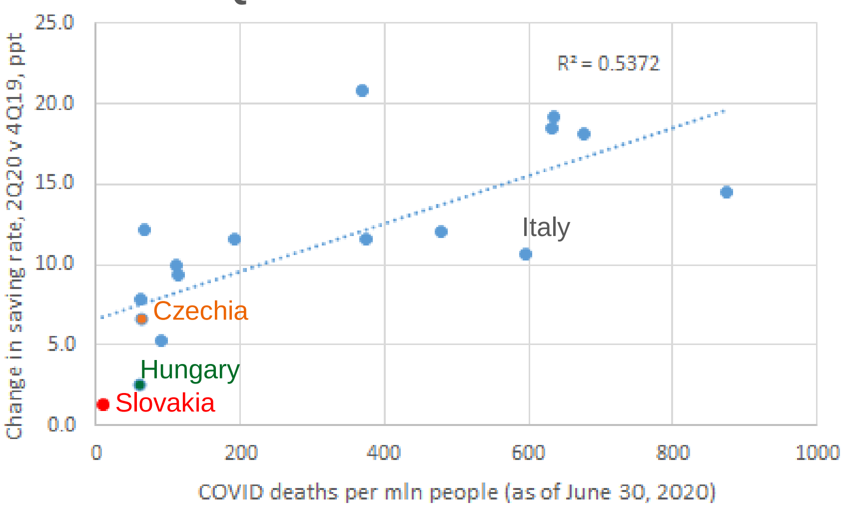
COVID-19 PANDEMIC HAS BEEN KEY TO RECENT ECONOMIC PERFORMANCE…

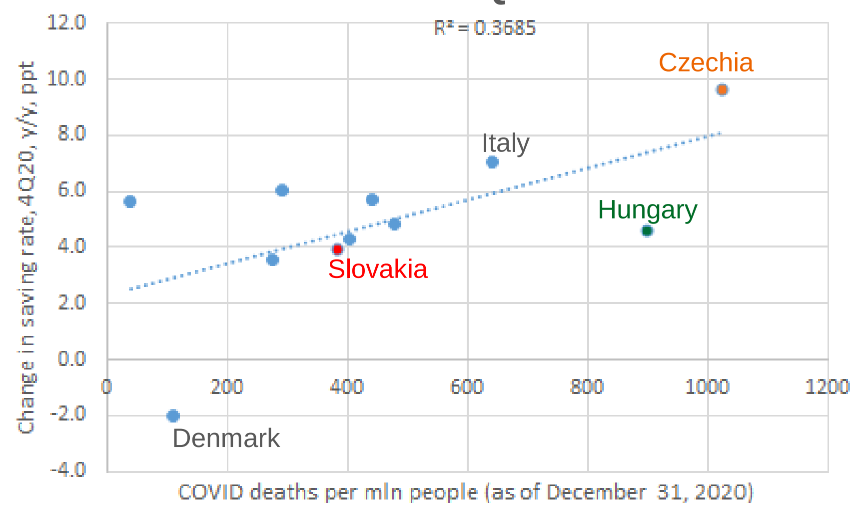
- Much as elsewhere in Europe and indeed the globe, also in Slovakia the recent and current economic developments have been shaped primarily by the covid-19 pandemic and measures to restrict mobility and thus contagion of the disease.
- Slovakia has been successful to avoid the first wave of the pandemic in the Spring 2020, but much less successful (along other CEE countries) in containing the second wave (next slide), which had a pronounced impact on consumer consumption and saving behaviour.

Saving rate and corona shock in EU countries
(change in saving rate since end-2019 vs COVID deaths)

2Q20



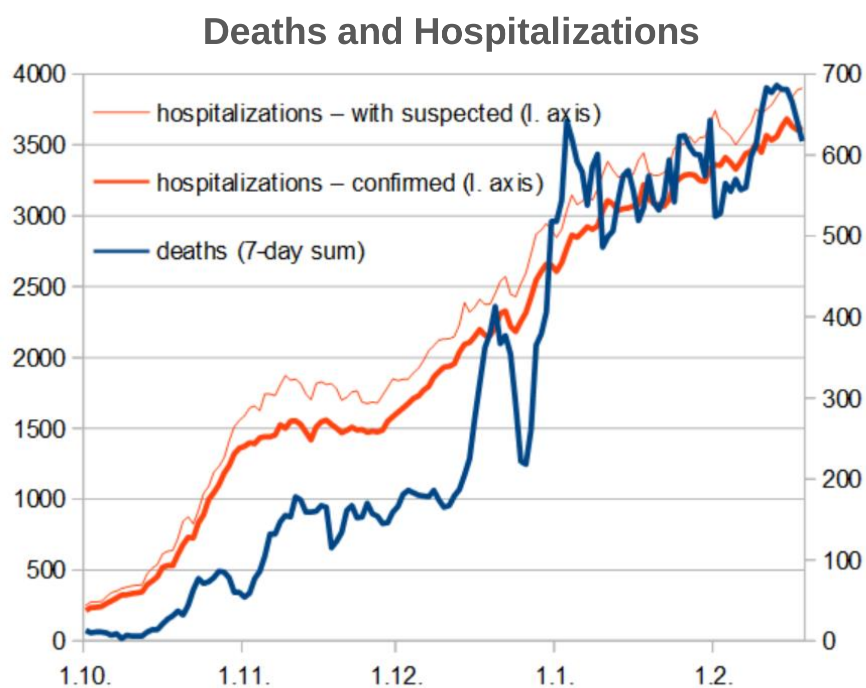
4Q20



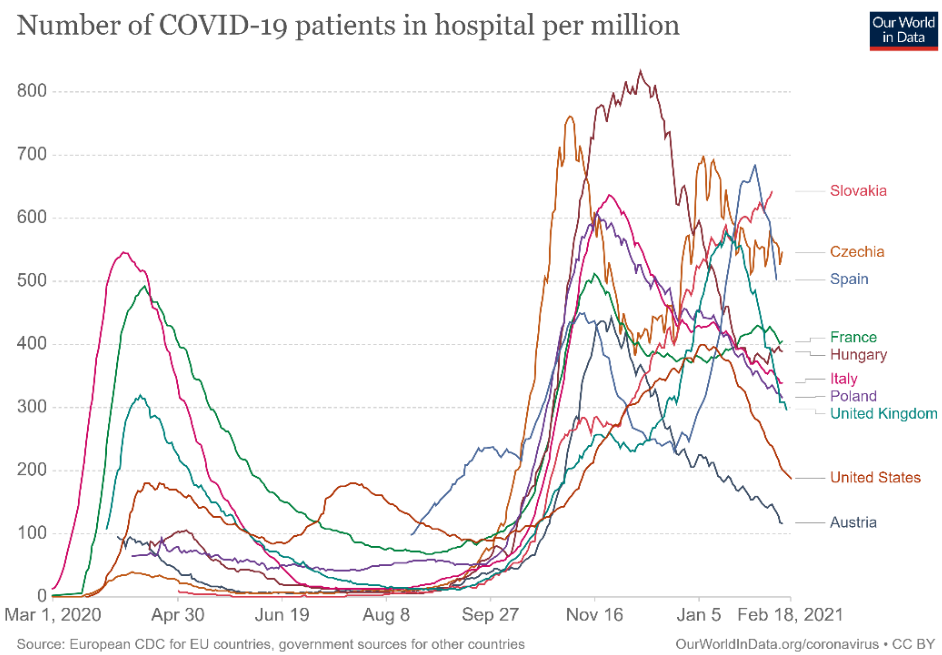
Source: Eurostat, Macrobond, VUB

...AND THE BEGINNING OF 2021 WAS THE WORST IN THIS RESPECT

- As of late February, Slovakia became the worst hit country in the world by covid-19 pandemic with most new deaths and hospitalizations per million of population
- This was probably due to widespread British mutation B.1.1.7. (70-80%) and others and also due to population getting tired of the prolonged restrictions (schools have been closed altogether since late October, full lockdown ordered since New Year)



Source: NCZI



Source: Ourworldindata.org

THUS, AFTER HAVING DONE WELL IN 3Q20 AND STILL REASONABLY OK IN 4Q20…

- Reopening of the economy in 3Q saw Slovak growth recover nearly al the lost output from 1H. IN fact, Slovakia's 3Q GDP result was the third highest in the EU.
- Also 4Q has been still reasonably good, despite the incipient strong 2nd wave of covid-19 infections and countermeasures. The local economy as a whole managed to avoid contraction (unlike Italy and the whole Eurozone), posting in fact a small increase in GDP and employment over the previous quarter in seasonally adjusted terms.

Economy as a Whole Was Stable in 4Q…
(qoq growth in %)

Source: SO SR, VUB

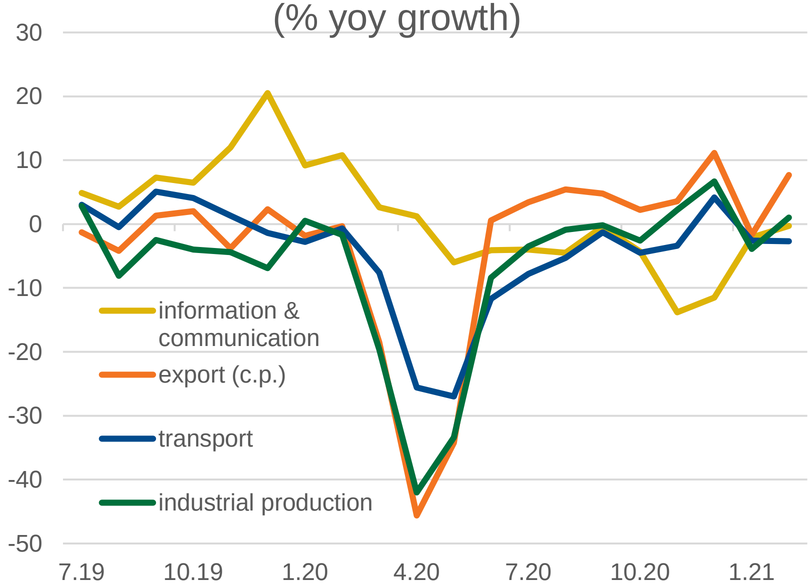
…which was a better result than in most of Europe
(real GDP, % change qoq and yoy, 4Q2020)

Source: Bloomberg, VUB

...IN 1Q21 ECONOMIC SITUATION HAS WORSENED

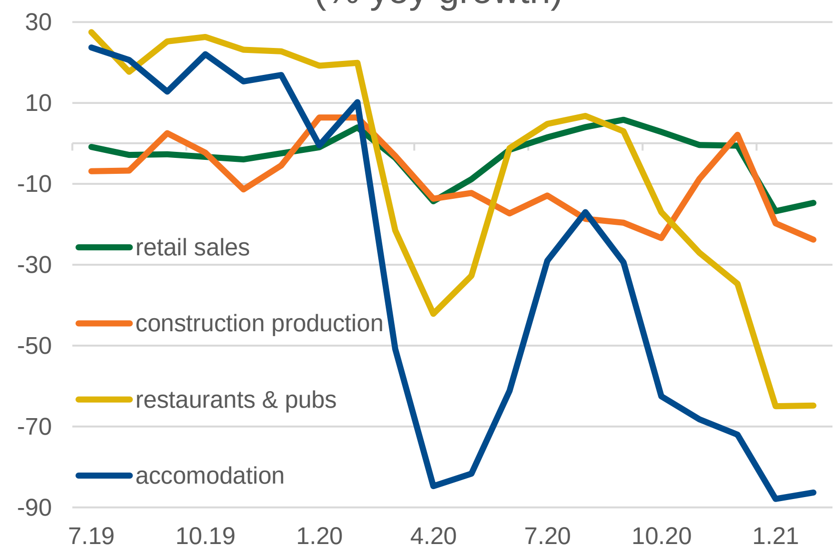
- In 1Q, Slovak economy probably slipped back into contraction as the prolonged lockdown grounded most of the service sector, with tourism (accommodation), restaurants and specialized stores doing and continue to do the worst.
- Yet, the overall impact on GDP will have been probably less severe than in 2Q20 because the lockdown has not been implemented in industry. Indeed, production and exports, especially of key car industry continued to grow as before the pandemic, catering to recovering global demand, especially from Asia.

Sectors doing better...
(% yoy growth)



Source: SUSR, VUB

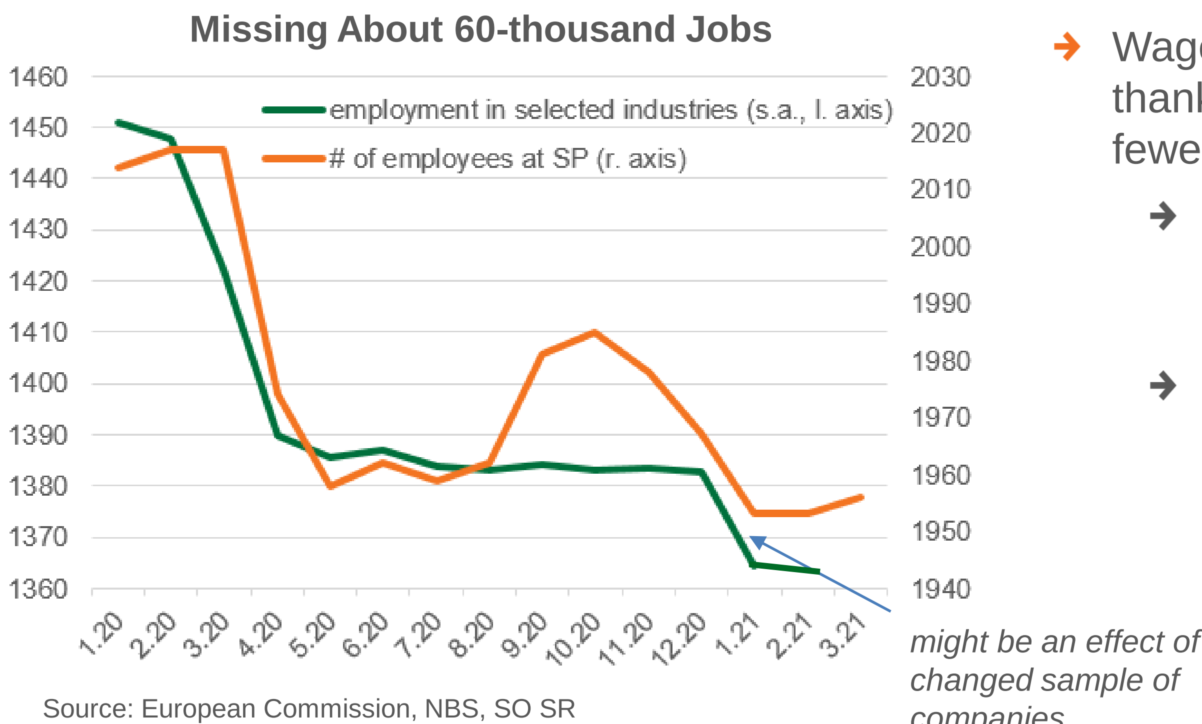
...and sectors doing much worse
(% yoy growth)



Source: SUSR, VUB

LABOR MARKET IS SO FAR RESILIENT…

- The number of jobs has been resilient to the 2nd wave of infections since October. In selected industries, it was stable in 4Q 2020. In ESA terms, it actually grew by 0.2% qoq.
- Employment expectations index (EEI) fell only slightly in January, to 95.2 points (100 being the long-term average), the trend since April last year is upward
- January registered unemployment rate stepped up to 7.8% as expected (8.5% in total), job vacancies fell further. Could slightly rise in the near future as well.



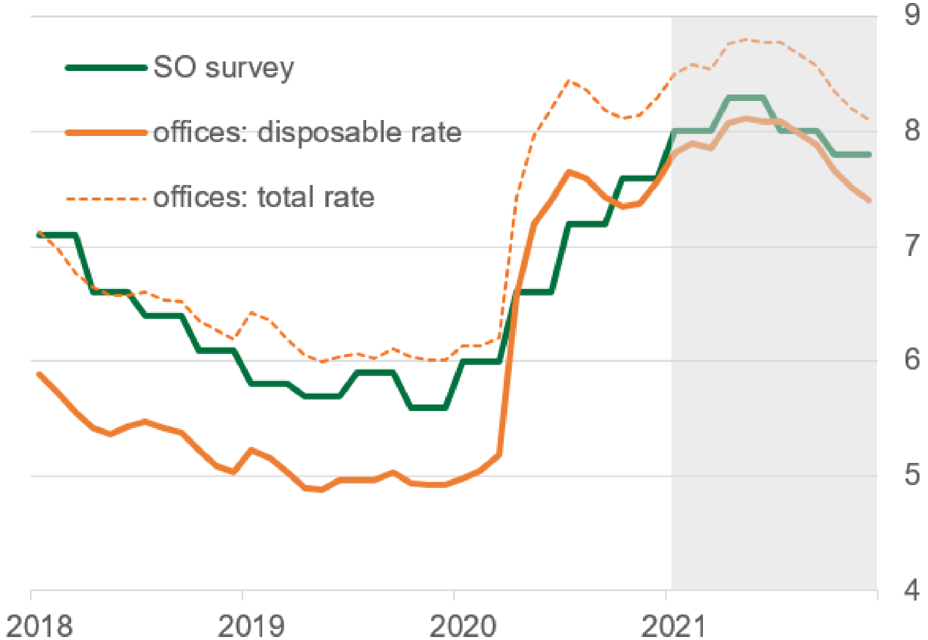
Source: European Commission, NBS, SO SR

- Wages keep growing (not only thanks to the statistical effect of fewer lower-paid workers)
  - In 4Q and selected industries, these returned to 2H19 dynamic of +4.6% yoy
  - Statistical effect could explain at most 2 percentage points of this growth

...BUT DEPENDS ON GOVERNMENT SUPPORT

- NBS estimates that 64-thousand jobs (2.6%) were saved thanks to government support in 2020. That is about the same amount as has been lost up to now.
- The support measures have been expanded and extended also for 2021 (the budget had a reserve prepared for that)
- First Aid++ package prolonged the time period till June 2021 and subsidizes up to 100% of labor costs (with a ceiling). The support for sole traders has been increased as well.

Unemployment rate (%)



Source: SUSR, Labor Offices, shaded: VUB forecast

- Still, the number of jobless could slowly grow during the 1H2021 (see chart on the left) and reach around 8% for the whole year
- After summer, with possible collective immunity and economic recovery thanks to vaccination, the unemployment rate could start to fall

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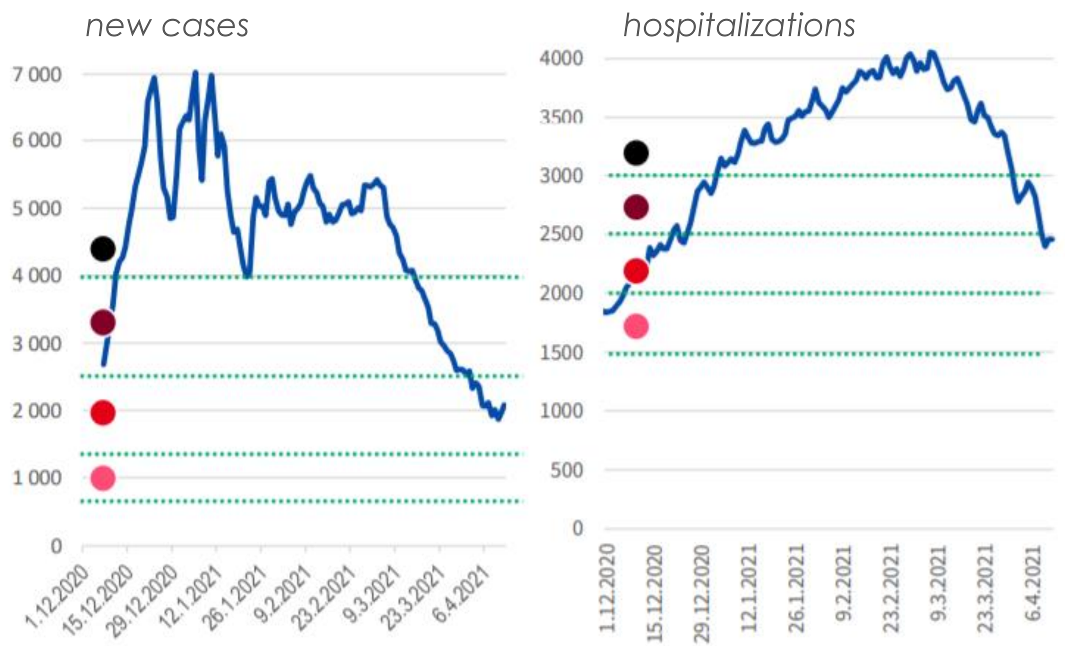
COVID-WISE, BAD WINTER IN NOW OVER…

- New covid-19 cases, hospitalizations and deaths are falling since the beginning of March, allowing the government to ease some anti-covid measures in April
- At first, shops and some services (incl. accommodation) will open, with occupancy restrictions, then outside parts of restaurants, cinemas, theatres, fitness centres etc.
- Plan is to reopen as much of the economy as possible during May

- Clearly, there are still many challenges in overcoming the pandemic eg. vaccination so far fails to protect most vulnerable (only ~40% of 65+ got jab)
- Reversal of measures thus can not be excluded (eg as in Poland recently)
- Yet, as of April 13, 20% of adults received at least one dose, slightly above the EU average and about 50-55% is expected by June. Together with high share of people already overcoming the disease, optimists have reasonable ground to project herd immunity in Slovakia by Fall.

Bad Winter is Over

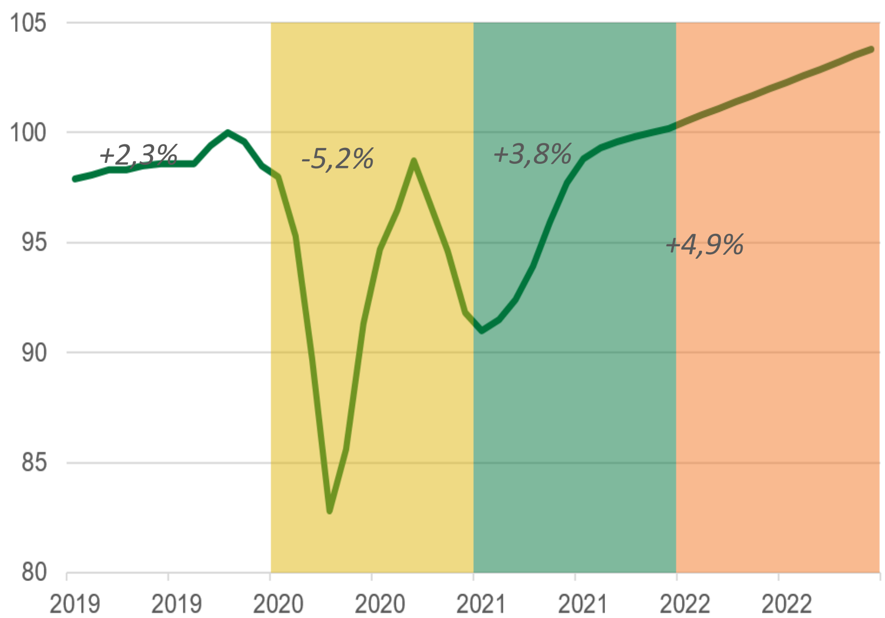


Source: Public Health Office, April 13, 2021

...WHICH SUPPORTS THE CASE FOR INCIPIENT RECOVERY

- Reopening of the economy will bring about a sharp recovery driven by release of pent-up consumer demand. Eg, for vacations and other large expenditures foregone during pandemic, but also for home improvements as consumers adjust to extended work-from-home arrangements and generally release of forced savings accumulated during closure of nonessential shops for all small ticket consumption items such as cloths, footwear etc

Expected development of GDP and y/y change



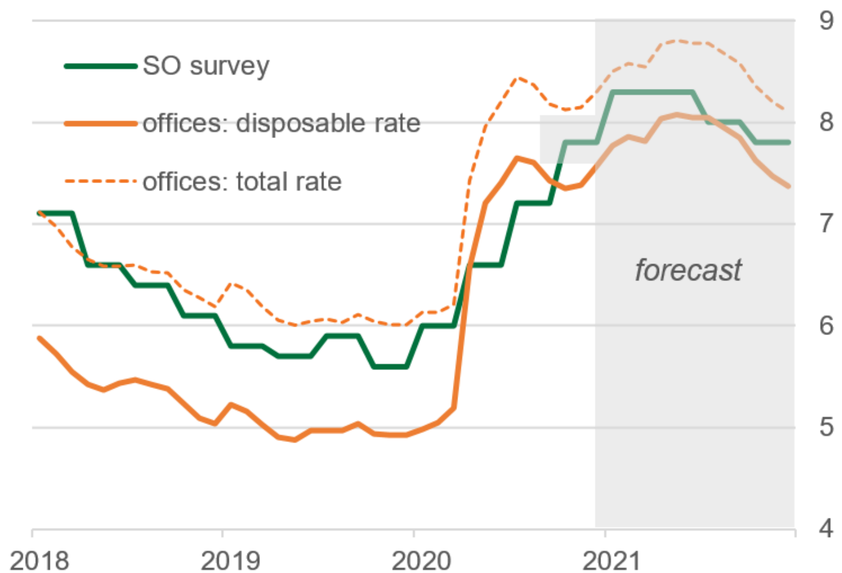
Source: VUB Forecast, nowcasting RRZ

- Beyond the near-term pent-up consumer impulse, GDP growth also will be driven higher in the following period by the investment spending funded in large part by EU money (Next Generation and regular 7-year EU budget)
- Clearly, the recovery is not a foregone conclusion as uncertainty over pandemic lingers on. Forecasts of official institutions though are also positive, ranging from 3.3% growth forecast by the MinFin to 5.0% forecast by the central bank.

JOB MARKET WILL TAKE TIME TO HEAL

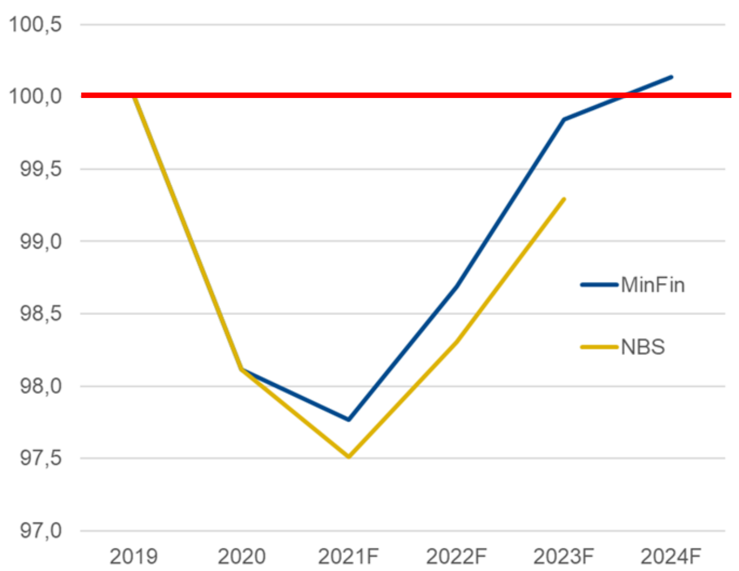
- Despite recovering GDP creation, unemployment rate will probably continue to deteriorate near term on delayed impact of the recession and post-covid adjustments (including for excess labor kept by firms to assure smooth production if workers contract illness)
- Employment is not foreseen to recover to pre-covid levels earlier than in 2024. This also is the view of official institutions, including the central bank and Ministry of Finance

Unemployment rate development(%)



Source: SUSR, OLSF, VUB forecasts

Employment forecasts (2019=100)

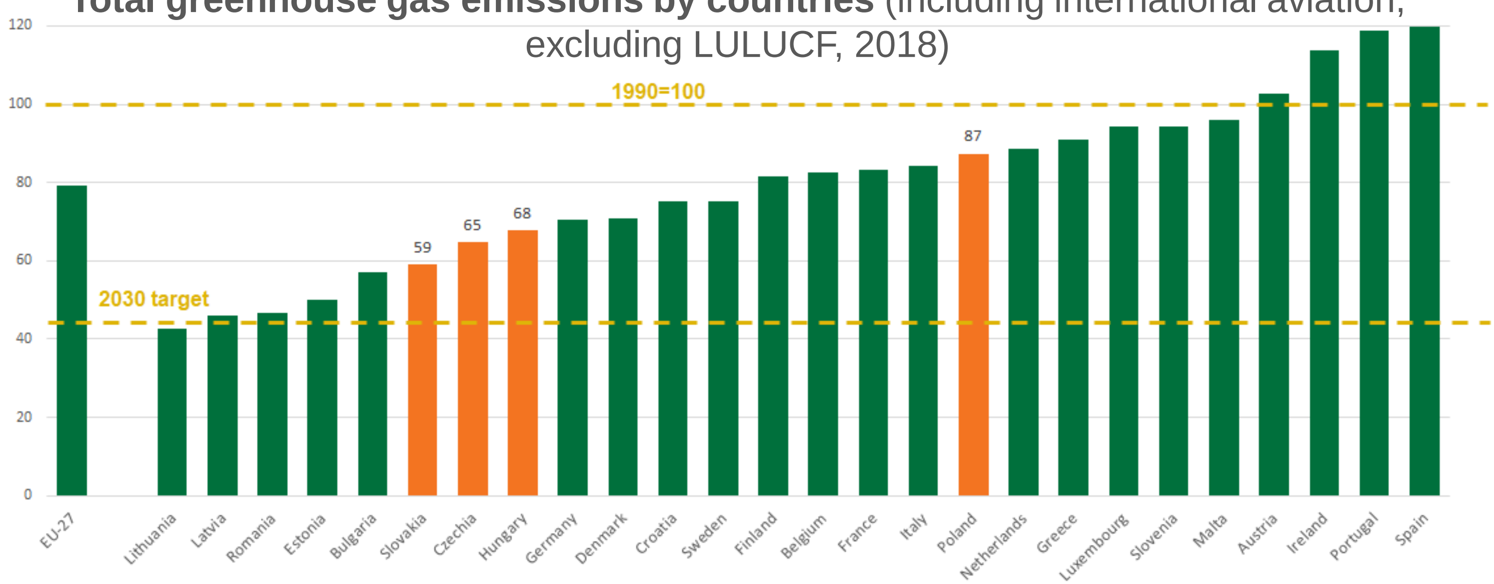


Source: IFP (MinFin), NBS

BEYOND COVID, BEWARE THE CLIMATE CHALLENGE FOR SLOVAKIA

- Post the pandemic, the critical factor shaping Slovakia's economic outlook will be The EU Green Deal and carbon reduction targets agreed in December 2020.
- Targets hitherto were easy to reach for Slovakia, thanks to post-socialism transformation in early 1990s, which resulted in the collapse of puffy heavy industry and thus provided plenty of carbon leeway till 2020. Costly adjustment though will be now due by 2030, centered primarily in improving building energy efficiency, recuperation of heat in industry, and electrification of transport.

Total greenhouse gas emissions by countries (including international aviation, excluding LULUCF, 2018)



Source: Source: European Environment Agency (online data code: env_air_gge)

KEY ECONOMIC INDICATORS OVERVIEW

		2019	2020	2Q20	3Q20	4Q20	XII.20	I.21	II.21	2021F	2022F
GDP											
Real GDP	y/y % growth	2,3	-5,2	-12,1	-2,4	-2,7	-	-	-	3,8	4,9
Nominal GDP	y/y % growth	4,9	-2,9	-10,4	-0,3	-0,4	-	-	-	5,5	7,0
Household consumption	y/y % growth	2,2	-1,2	-4,2	1,0	-2,4	-	-	-	1,7	2,9
Public consumption	y/y % growth	4,7	-2,3	-10,4	-0,3	0,1	-	-	-	2,1	1,0
Gross Fixed Capital Formation	y/y % growth	5,8	-11,9	-15,1	-8,2	-15,4	-	-	-	4,5	6,0
Exports	y/y % growth	0,8	-7,2	-26,0	0,7	1,8	-	-	-	8,1	3,7
Imports	y/y % growth	2,1	-8,5	-26,8	-6,0	0,6	-	-	-	8,7	4,5
Inflation											
CPI	y/y % growth	2,7	2,0	2,0	1,5	1,6	1,6	0,7	0,9	1,6	2,3
HICP	y/y % growth	2,8	2,0	2,0	1,5	1,6	1,6	0,7	0,9	1,6	2,3
Core CPI	y/y % growth	2,3	2,0	2,0	1,5	1,5	1,5	1,2	1,3	2,1	2,0
PPI	y/y % growth	2,6	0,9	0,3	0,3	0,3	0,4	-0,3	-1,4	2,5	2,0
External balances											
Foreign trade balance - cumul.	EUR mio	1063	2714	162	1503	2714	2714	241	-	2 193	1 783
12M Trade balance / GDP	%	1,1	3,0	0,3	2,1	3,0	3,0	3,2	-	2,3	1,8
Exports	y/y % growth	1,5	-6,1	-26,5	4,5	6,1	12,5	-0,1	-	7,9	4,3
Imports	y/y % growth	3,2	-8,3	-27,6	-4,2	2,4	9,6	-3,6	-	8,9	5,0
Labor market											
Unemployment rate	average	5,0	6,8	7,1	7,6	7,5	7,6	7,8	7,9	7,9	7,3
Unemployment (LFS)	average	5,8	6,7	6,6	7,2	7,0	-	-	-	7,7	7,3
Gross monthly wages	EUR average	1092	1133	1088	1113	1245	-	-	-	1 179	1 233
Nominal monthly wages	y/y % growth	7,8	3,8	-1,2	4,2	5,8	-	-	-	4,1	4,5
Real monthly wages	y/y % growth	5,0	1,9	-3,0	2,7	4,2	-	-	-	2,5	2,2
Production, sales & sentiment											
Industrial output	y/y % average	0,5	-9,1	-27,9	-1,5	2,1	6,7	-3,9	-	9,4	3,5
Construction output	y/y % average	-4,1	-11,0	-15,6	-17,7	-22,3	-1,3	-18,9	-	4,7	6,0
Retail sales	y/y % average	-1,3	-1,1	-8,3	3,8	0,6	-0,6	-16,8	-	1,7	2,7
Economic sentiment indicator	eop	97,7	85,3	66,2	87,9	88,1	87,9	83,3	79,2	-	-
Interest rates											
ECB refi rate	eop	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
3M EURIBOR	eop	-0,38	-0,55	-0,42	-0,50	-0,55	-0,55	-0,55	-0,53	-0,53	-0,50
1Y EURIBOR	eop	-0,25	-0,50	-0,23	-0,44	-0,50	-0,50	-0,51	-0,48	-0,48	-0,46
10Y SK bond yield	eop	0,19	-0,52	-0,07	-0,20	-0,52	-0,52	-0,45	-0,05	0,15	0,65
10Y DE bond yield	eop	-0,19	-0,57	-0,46	-0,52	-0,57	-0,57	-0,52	-0,26	-0,20	0,30
Exchange rates											
EUR /USD	eop	1,12	1,22	1,12	1,17	1,22	1,22	1,21	1,21	1,16	1,19
Fiscal policy											
Public finance balance, 12 M	% GDP	-1,3	-7,0	-3,5	-4,7	-	-	-	-	-8,0	-6,5
Public debt	% GDP	48,5	60,9	60,3	60,8	-	-	-	-	64,3	66,3

Sources: National Bank of Slovakia, Statistical Office of SR, National Labor Office, VUB, Intesa Sanpaolo