

Instant Comment Slovakia

Debt and fiscal deficit fall further in 2018

Eurostat reservations raise the prospect of possibly higher deficit

According to Eurostat's spring notification, Slovak fiscal deficit fell by 0.1pp to 0.7% of GDP last year, slightly surpassing both our expectations and the budgeted deficit (both at 0.8% of GDP). Nevertheless, it remained above the Euro Area average of 0.5 % of GDP (half the deficit EA had in 2017).

Government debt decreased by 2pp to 48.9% of GDP in 2018, falling below the lower limit of the local debt brake rule (which stood at 49% of GDP last year) for the first time since the legislation came into force. It remains comfortably below the Maastricht criterion of 60% of GDP as well as the Euro Area average of 85.1% of GDP.

However, despite the favourable figures, **Eurostat noted some reservation regarding the data reported by Slovakia.** It will investigate the issue of expenditures amounting to around 0.3% of GDP (which could increase the deficit in the autumn notification) with the relevant Slovak statistical authorities.

The Ministry of Finance expects a balanced budget this year. Yet, given that most of the consolidation relies on better tax revenues (courtesy of economic growth and labour market development), as well as a sizable surplus of municipalities and other non-central government bodies, we are more conservative in our projections, especially in light of the headwinds for this year's GDP growth. **We foresee the 2019 fiscal deficit at 0.7% of GDP.** Government debt as a ratio of GDP is likely to fall further this year.

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