Towards a sustainable recovery in the Slovak Republic

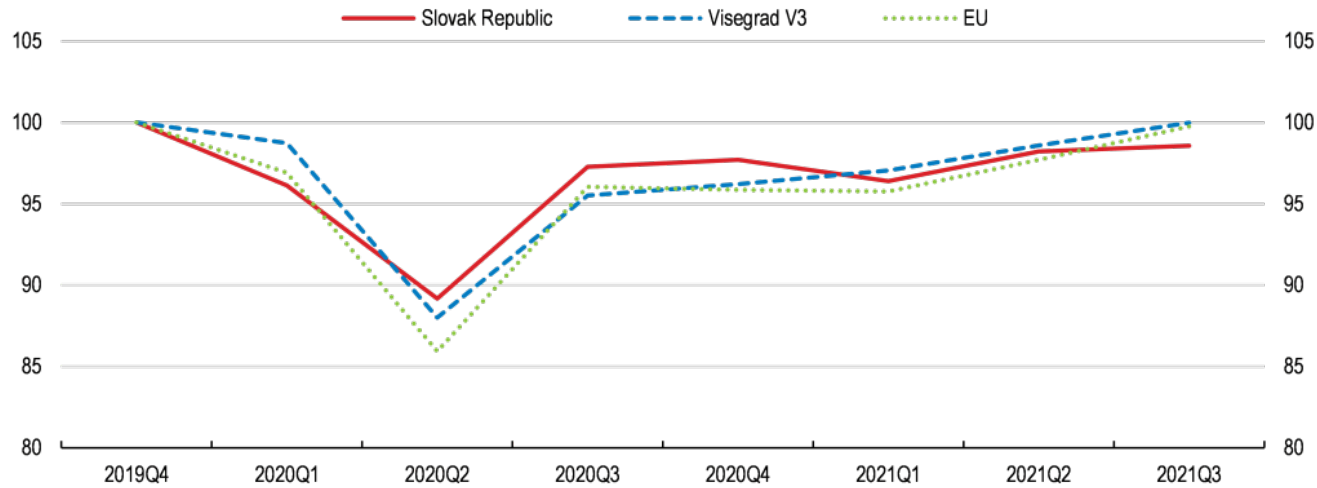
By Hyunjeong Hwang and Oliver Roehn, OECD Economics Department

The COVID-19 crisis has disrupted the remarkable progress in lifting living standards of Slovakia, which had consistently ranked among the fastest-growing OECD economies since 2000. Timely policy support, including job retention schemes, limited the impact of the crisis. However, GDP still remained around 1.5% below its pre-crisis level in the fall of 2021 (Figure 1), as global supply chain disruptions together with subsequent waves of the pandemic have slowed the recovery.

With about half of the population still unvaccinated, moving beyond the crisis will first and foremost require continued efforts to accelerate vaccinations, including by enhancing trust in vaccinations and tackling misinformation. At the same time, targeted and flexible policy support to the most vulnerable households and firms should be maintained until the recovery is self-sustained. The government’s recovery and resilience plan and substantial inflows of EU funds will strengthen the recovery, provided that investments and accompanying reforms are implemented effectively and in a timely manner.

Figure 1. Activity has rebounded but the pace of the recovery has slowed

Real GDP, index 2019Q4=100



Note: Visegrad V3 includes Czech Republic, Hungary and Poland.
Source: OECD Economic Outlook: Statistics and Projections database.

Beyond the immediate priority to minimise the human and economic costs of the pandemic, the OECD Economic Survey of the Slovak Republic 2022 highlights two key economic policy challenges in the medium term: (i) addressing the challenges of rapid population ageing, and (ii) boosting productivity and sustainable economic growth.

I. Addressing the challenges of population ageing

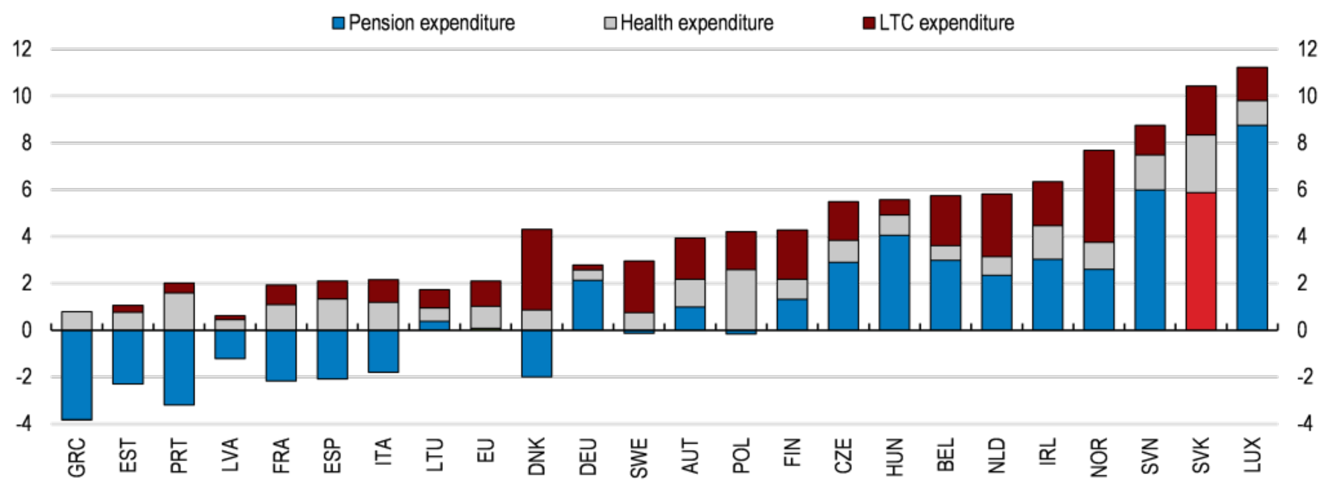
Slovakia's population is ageing rapidly. The share of the working-age population is expected to shrink by about a fifth between 2021 and 2050, which will weigh on future economic growth. Expenditures for pensions, health and long-term care are estimated to rise more than 10 percentage points of GDP by 2070, one of the largest increases among EU countries (Figure 2). This puts fiscal sustainability at risk, exacerbating the fiscal challenges from the COVID-19 crisis.

Addressing the challenges of ageing will require longer working lives and higher efficiency of public spending, through a combination of pension, health, long-term care, and labour market reforms. Slovaks retire earlier than people in other OECD countries, reflecting a low statutory retirement age, many pathways to early retirement, and poor health outcomes. Extending working lives by re-linking the retirement age to life expectancy and tightening pathways into early retirement would significantly improve the sustainability of the public pension system and ensure adequate pension income in the future. Improving health outcomes is also essential to prolong working lives. Health and long-term care reforms should include improving preventative care, enhancing efficiency in hospitals, increasing the number of general practitioners and expanding home and community based long-term care. At the same time, labour market reforms should aim to help more mothers, low-skilled persons, Roma and older workers integrate into the labour market to mitigate the impact of a shrinking work force.

Such a reform package should be part of a medium-term consolidation strategy. Strengthening the medium-term fiscal framework, including by implementing multi-annual spending ceilings and by better integrating spending reviews into the budget process, can help improve spending efficiency.

Figure 2. Ageing-related public expenditures are expected to increase rapidly

Change in expenditure between 2019 and 2070, % points of GDP



Source: European Commission (2021), “The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070)”, Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.

II. Boosting productivity and sustainable growth

Productivity growth and economic convergence to high-income OECD countries has slowed since the global financial crisis. Sustaining productivity gains, historically largely based on integration into global value chains by foreign-owned firms, is essential to increase living standards in an ageing society. This will require strengthening Slovakia’s own capacity to innovate, adopt new technologies and make the most of the digital transformation.

Education reform needs to be at the forefront of these efforts to improve the opportunities of all children and ensure adequate skills of adults in a digitalised economy. This will require enhanced access to affordable early childhood education, better training and pay for teachers, improved opportunities of children from disadvantaged families, strengthening the responsiveness of the educational system to labour market needs and investing in adult learning. In addition, helping firms adopt new technologies, raising R&D spending and enhancing the business environment would help strengthen Slovakia’s capacity to innovate and benefit from the digital transformation. It is also vital to attract highly skilled workers from abroad, including Slovaks who have emigrated for their studies.

Finally, reaching carbon neutrality by 2050 will require additional policy action. A higher and more consistent pricing of carbon across sectors would help ensure the associated costs are minimised, together with further efforts to improve energy efficiency and boost renewable energy. Planned investments in housing renovations including the replacement of inefficient and high-emission boilers and heaters will improve energy efficiency and reduce air pollution, which remains a serious health concern. More rigorous climate policies will have distributional impacts, requiring compensations for the most vulnerable households.

References

OECD (2022), OECD Economic Surveys: Slovak Republic 2022, OECD Publishing, Paris.