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GRAY/21/1647

June 16, 2021

**Statement by Mr. Dresse and Mr. Manchev on Slovak Republic  
(Preliminary)  
Executive Board Meeting  
June 18, 2021**

We thank staff for the well-focused report, and Messrs. Palotai and Harvan for their useful Buff statement. We welcome the authorities' strong and effective policy response to the COVID-19 pandemic which have limited the economic fallout. The external position also remained broadly in line with the fundamentals and desirable policies during the pandemic. While the uncertainty still prevails, risks to the outlook seem balanced, and we encourage the authorities to accelerate planning of the fiscal consolidation to rebuild buffers and continue structural and governance reforms to set the stage for robust, sustainable, and inclusive growth going forward. This is not an easy task, but the ambitious National Recovery and Resilience Plan (NRRP), support from Next Generation EU (NGEU) and favorable global financing conditions provide a window of opportunity. We believe early progress in these areas is critical. We fully associate ourselves with Mr. Pösö's statement and would like to emphasize the following:

**Fiscal policy should remain accommodative until the recovery takes a firm pace.** However, it should become more targeted to facilitate the necessary resource allocation and minimize scaring effect. An active labor market policy in the near-term would also be essential to foster the reintegration of those affected by the crisis. We agree with staff that the authorities need to save the unspent reserves if economic activity surprises on the upside. The planned reforms in taxation, public finance management, fiscal framework, and pension system should be further operationalized to strengthen credibility of the medium-term fiscal consolidation. Despite the gradual fiscal consolidation, substantial public investments financed from NGEU grants should provide additional fiscal impulse in the next five years. Given the still high uncertainty associated with the outlook and risks, we encourage staff and the authorities to remain in close contact to discuss the timing of the phasing out of the discretionary measures.

**The pandemic has highlighted some of the structural challenges to the economy.** The NRRP seems well-aligned with Slovakia's development needs and tackles many structural gaps flagged in this and previous staff reports. We also welcome measures that have already been implemented to provide adequate income replacement during lockdown periods, supported by the European-wide

SURE program. However, the authorities should swiftly progress with the reforms to strengthen human capital, including to prepare society for technological changes and the digital and green transformation. Reforms and investment into long-term care and early childhood education and care can help improve labor market participation, particularly of women. Population ageing and systemic weaknesses also warrant structural reforms in pension and health systems to ensure their long-term sustainability.

**We welcome the authorities' increasing focus on governance, anti-corruption, and public administration reforms.** Important steps have already been taken to improve the AML framework and better understand how emerging risks affect the country. Going forward, priority should be given on reforms to strengthen effectiveness, integrity, and independence of the juridical system, ensure proper safeguards and accelerate the public procurement procedures, and upgrade the AML/CFT framework in line with the MONEVAL recommendations. These reforms could amplify gains from other structural reforms and thus contribute lifting potential output up. We would also encourage staff's in-depth analyses of these reforms during the next AIV consultation.

**The Slovakia's banking sector has sustained the credit provisioning to the economy, but the full impact of the pandemic is still uncertain and difficult to assess.** Thus, we welcome the highlights provided in Box 2 (p.16) on policy effectiveness to shield the corporate sector during the pandemic, the stress and sensitivity tests of the banking sector stability in Box 3 (p.17), as well as the well-focused selected-issues paper on macroprudential policy calibration. We concur with staff that the current macroprudential stance is broadly adequate and agree that going forward the macroprudential policies should be carefully balanced to continue supporting credit, while preventing a further build-up of vulnerabilities, especially those stemming from the recent increase in housing prices and private debt. Banks have proactively increased provisions ahead of the policy support withdrawal, and the pandemic has not yet increased the NPL ratios. However, we agree with staff that a further strengthening of restructuring mechanisms and insolvency frameworks are needed to support the efficient reallocation of resources going forward.