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**Joint Statement by Ms. Grant, Ms. Kashima, Mr. Mochtar, Mr. Ong, Mr. Becker, and  
Mr. Kuretani on Slovak Republic  
(Preliminary)  
Executive Board Meeting  
June 18, 2021**

We thank staff for the informative papers and Mr. Palotai and Mr. Harvan for their helpful buff statement. We broadly concur with the staff appraisal, and thus limit our comments to the following points.

**We commend the authorities for their prompt and effective response to the COVID-19 shock.** The Slovak Republic entered the pandemic with fiscal space and comfortable banking sector buffers, ensuring that effective policy support could be put in place to limit the economic fallout. Slovakia's policy support has limited the damage to households and corporates by preserving jobs, providing liquidity support and ensuring credit supply. The distribution of vaccines is of utmost importance in the near-term.

**While we commend the continuation of fiscal support to affected households and firms until the recovery is well entrenched, policies should gradually shift from emergency support to targeted measures.** The planning process for fiscal consolidation could start now and identify concrete consolidation measures to prepare for rising aging-related spending. To rebuild fiscal buffers, strengthening tax efficiency and raising real estate and environmental taxes are warranted once the recovery is on a firm footing. We also commend the authorities' progress on improving public investment efficiency and encourage them to implement further actions following the 2019 PIMA recommendations, which would be key to maximize the effectiveness of the sizable EU transfers. In addition, envisaged amendments to the Constitutional Act on Budgetary Responsibility are crucial to strengthen the fiscal framework. The authorities should also ensure governance safeguards and accountability of crisis-related spending, including transparency in procurement. It is concerning that pension reforms in 2019 and 2020 will raise pension expenditure, while ongoing pension reforms could have a mixed fiscal impact. We encourage the authorities to prioritize long-term

pension sustainability, including delivering on the commitment under the RRP to reestablish the link between retirement age to life expectancy. Specifically on the Debt Sustainability Analysis, it was noted that Slovak's primary deficit will decline to the debt-stabilizing level of 1.9% only in 2026, while the debt-to-GDP ratio will peak in 2022 under the baseline scenario. *Staff comments are welcome.*

**While we note that the banking system has sufficient capital buffers to withstand a wide range of shocks, financial policies need to be carefully calibrated to sustain the flow of credit while preventing the build-up of vulnerabilities.** Insolvency risks in the corporate sector have increased, and rising real estate prices and rapid mortgage growth require vigilant monitoring. In this regard, staff listed the strengthening of the loan guarantee program as one of the key policy recommendations. *Could staff comment on the aspects to be improved, and how this can be aligned with the broader need for policy support to become more targeted?* Once economic conditions allow, prudential flexibility for loan loss provisions should be carefully withdrawn. While the macroprudential policy stance is broadly adequate, we note that the authorities are open to expanding their macroprudential toolkit and exploring minimum risk weights if housing market imbalances persist in a manner that could adversely affect financial stability. Strengthening restructuring mechanisms and insolvency frameworks through the implementation of the RRP would also be important. We also encourage the authorities to continue to upgrade the AML/CFT framework.

**We welcome authorities' commitment to implement RRP to close structural gaps to sustain robust and inclusive growth.** We concur with staff that adjusting labor market policy should be an immediate priority to facilitate resource reallocation and foster the reintegration of people into the labor market. There should be consistency between near-term labor market policies to assist the recovery from the pandemic, with a focus on workers and regions that have been particularly hard hit, and the need to support labor market skills and mobility over the medium-term. A comprehensive program of education reforms, and reforms to strengthen productivity and accelerate the green and digital transformation are also needed. Such reforms are aligned with the RRP agenda. It is also welcome that the RPP envisions an increase in R&D investments which will be essential to move towards higher value-added production and reduce its vulnerabilities to global supply chain disruptions. We welcome that the authorities are appropriately leveraging the sizable NGEU fund for implementing these reforms. The progress that the authorities make in improving governance and public investment efficiency will be important to benefit fully from the grants for investment within the NGEU Recovery Plan.