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June 16, 2021

**Statement by Mr. Moreno and Ms. Moral Betere on Slovak Republic
(Preliminary)
Executive Board Meeting
June 18, 2021**

We thank staff for their insightful report and the comprehensive selected issues. We also thank Mr. Palotai and Mr. Harvan for their informative Buff statement and associate ourselves with the statement by Mr. Pösö. We mainly share staff's analysis and recommendations, which are aligned with the authorities' views, and we would like to add some remarks.

We commend the authorities for the comprehensive and effective response to the crisis.

The Slovak Republic has endured well the COVID-19 pandemic thanks to the broad and timely measures implemented by the authorities and the strong fiscal and financial buffers. The economic outlook is subject to an unprecedented level of uncertainty, mainly associated to the global developments in relation to the evolution of the pandemic. Going forward, a swift vaccination campaign and the sizable Next Generation EU (NGEU) resources will provide an additional boost to growth and investment. In addition, the structural reforms envisaged in the Recovery and Resilience Plan (RRP) will help to redirect the economy towards a greener, more inclusive and digital convergence path. *Which is the staff's assessment on Slovakia's absorption capacity ?*

When conditions allow, fiscal response should become increasingly targeted in order to ensure long-term fiscal sustainability.

Fiscal support has been timely and adequate and should remain in place until the recovery is underway. In addition, substantial public investments from Next Generation EU (NGEU) should provide further fiscal impulse while accelerating the green and digital transformation. We agree with staff that as the pandemic recedes, support measures should become increasingly targeted, encouraging the needed resource reallocation across firms and labor. In addition, achieving prudent medium-term fiscal positions is paramount given Slovakia's rapidly aging population. In this regard, we

welcome the proposed pension system reform but also share staff's view that further efforts will be needed to ensure long-term sustainability. The planned reforms in taxation, public finance administration and the fiscal framework will help to strengthen tax collection, improve the efficiency of public spending and increase buffers.

Despite a strong financial sector, potential risks related to the real estate sector need to be closely monitored.

We agree with staff that the focus should be to continue to target support for borrowers and ensure continued credit supply from the banks, while avoiding at the same time the build-up of risks around mortgage credit/ real estate. We commend staff for its analysis on how liquidity has helped to avoid an increase in bankruptcies.

Additionally, banks have been responsive building up provisions even if NPLs have not seen an increase to date. However, the authorities need to remain vigilant in the shorter term around the lifting of support, and in the medium and longer term, around the potential risks posed by the fast increases in household indebtedness and housing prices. They also need to make sure that the insolvency and resolution regimes are aligned with best practices, in order to deal with any potential negative developments around private credit and banks. We also encourage the Slovak Authorities to continue to make progress on their ALM framework.

Effective implementation of the investments and reforms envisaged in the RRP will be paramount to achieve a greener, more digital and inclusive growth.

The pension system reform remains one of Slovakia's main challenges. Despite ongoing modifications, additional efforts are needed. In this regard, we feel reassured by the changes envisaged in the RPP, including the intention to restore the link between retirement age and life expectancy. With regard to the labor market, we concur with staff on the need for a more effective labor, education policies and targeted steps to protect those groups affected disproportionately by the pandemic. These measures will prevent scarring and will enhance flexibility and mobility. Finally, we would like to commend the authorities for the ambitious reforms and investments envisaged in the RPP, and we would like to encourage them to persevere with efforts to strengthen transparency, efficiency and accountability.

With all these comments, we wish the Slovak Authorities all the best.