

FOREIGN DEMAND OUTLOOK

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Given the Slovak economy's openness, foreign demand is of key importance for its development. According to data from the Statistics Office in 2002 60.5% of the total export of goods from the SR went to EU countries and 28.3% to CEFTA countries. Thus, almost 90% of the total export will go to the enlarged EU. From among the EU countries the most important trading partner for the SR is Germany, which in 2002 took approximately 26% of the country's total export and in CEFTA the Czech Republic dominates with a share of 15.2%. In view of the persistent import intensity of production in Slovakia these countries comprise a dominant share also in the total import of goods to the SR.

The eurozone economy in 2002 grew on a year-on-year basis by 0.9 per cent following 1.5 per cent growth in 2001. New estimates by international economic institutions forecast economic growth in the eurozone for 2003 in a range between 0.5 and 1%. The revision of the forecasts has been significantly influenced by the development of the largest eurozone economy – Germany, where internal problems are being manifested in a public finance deficit deepening as a consequence of worsening external conditions. Exporters have been adversely affected primarily by fast growth in the euro exchange rate against the dollar and the lower growth of the American economy, where approximately 10% of Germany's exports go. At present a revaluation of the forecasts for the German economy for 2003 is underway, the value moving from essentially stagnation of -0.2% through to growth of 0.75%.

The German economy through foreign trade influences the Czech economy. Roughly 40% of the Czech export goes to Germany. According to the Czech Statistics Office GDP in 2002 grew on a year-on-year basis by 2% following 3.1% growth in 2001. The Czech economy in 2002 according to analysts was negatively affected, besides stagnation in the German economy, also by an appreciation in the Czech koruna and a fall in revenues from tourism in consequence of the summer floods.

According to forecasts by economic institutions Czech economic growth in 2003 should move in the range 2.3% to 3%.

Depreciation of the dollar

The dollar's process of depreciation has significantly

*For example the European Commission published an estimate of 0.7%

affected global economic development. It was a logical manifestation of the American economy's problems, which appeared following the fall on the stock markets, terrorist attacks, accounting scandals and both wars with an adverse impact on investor and consumer confidence also in the eurozone. Reactions by means of base-rate reductions by both central banks were an effort to resolve the negative impacts of the appreciating euro on European exports and to contribute to the process of economic recovery.

On the other hand the gradual cheapening of imports into the eurozone from the dollar area (primarily energy) and pressures for reducing costs in the business sector caused a fall in the price level and, to a certain extent, protected competitiveness. If in the medium term a global recovery led by the American economy were not to occur, then a continuation of this development could feed deflationary risks.

A more favourable outlook

A more favourable environment for the export of goods from the eurozone is taking shape for 2004. A series of base rate cuts by the Fed, the approval of reduced tax relief schemes by the American Senate in conjunction with a weak dollar create room for acceleration in the growth of the American economy, stabilisation of business finances and increased attractiveness of their shares on the stock markets. Already we can observe the process of the American dollar's slide coming to a halt and its gradual strengthening. This development could last also in 2004 with a positive impact on the economies of Slovakia's main trading partners. Achieving parity should however be prevented by a double deficit in the USA and a gradual recovery of the eurozone economy.

This outlook should help in particular Germany to implement the planned public finance reforms and to reduce the risk of not squeezing the deficit below 3% of GDP in 2004.

In conclusion it needs to be said that the presence of strategic foreign investors in Slovakia and their foreign trade relations realised on the basis of long-term agreements have so far eliminated adverse developments in trading partner countries. In connection with this, a positive factor in the future will be the planned activities of Volkswagen for 2004 – 2005, as well as the construction of a new automobile plant by the French concern PSA.