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Contents

CHARTS IN BOXES

Abbreviations

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EMU	Economic and Monetary Union
EONIA	euro overnight index average
ESA 95	European System of National Accounts 1995
EU	European Union
Eurostat	Statistical Office of the European Communities
FDI	foreign direct investment
Fed	Federal Reserve System
EMU	Economic and Monetary Union
EURIBOR	euro interbank offered rate
FNM	Fond národného majetku – National Property Fund
GDP	gross domestic product
GNDI	gross national disposable income
GNI	gross national income
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
IPI	industrial production index
IRF	initial rate fixation
MFI	monetary financial institutions
MF SR	Ministry of Finance of the Slovak Republic
MMF	money market fund
NARKS	National Association of Real Estate Offices of Slovakia
NBS	Národná banka Slovenska
NEER	nominal effective exchange rate
NPISHs	Non-profit Institutions serving households
OIF	open-end investment fund
p.a.	per annum
p.p.	percentage points
qoq	quarter-on-quarter
PPI	Producer Price Index
REER	real effective exchange rate
SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Asset Management Companies
SO SR	Statistical Office of the Slovak Republic
SR	Slovenská republika – Slovak Republic
ULC	unit labour costs
VAT	value-added tax
yoy	year-on-year

Symbols used in the tables
. – Data are not yet available.
- – Data do not exist / data are not applicable.
(p) – Preliminary data

1 Summary[1]

At the beginning of the year the euro area faced headwinds from a decrease in industrial production and a continuing decline in lending. In February a second early repayment of refinancing operations was lower than expected. Although the situation in certain core countries (France and the Netherlands) is deteriorating, "soft" indicators point to a period of stabilisation ahead, especially in Germany. In Slovakia, industrial production and exports, after falling sharply in December, stabilised in January owing mainly to the performance of the automotive sector. There was also a surprising increase in retail trade sales for the first month in a very long time. Nevertheless, consumer confidence as well as sentiment in retail trade remained at relatively low levels in comparison with their long-run average. The labour market situation stabilised, while wage growth remained depressed following the payment of year-end bonuses in December. The slowdown in inflation, especially demand-pull inflation, was more pronounced than expected. In the absence of demand-pull factors and with cost-push factors fading, inflation is being driven by the components of food, services and non-energy industrial goods, while, on the other hand, energy prices are having a dampening effect. In general, the modestly optimistic monthly statistics should be treated with a great deal of caution.

1 *All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using internal seasonal models.*

2 The Real Economy

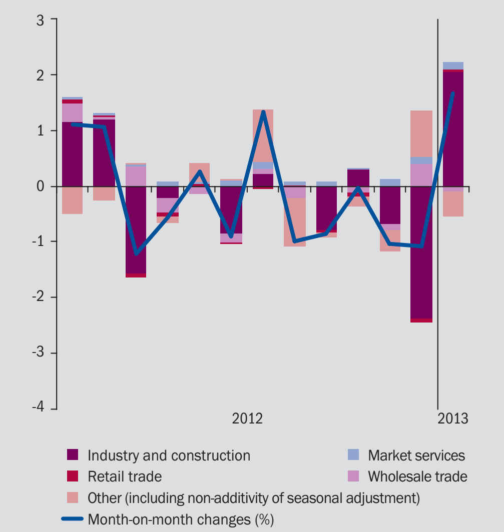
2.1 SALES[2]

Sales growth driven by industry

In January 2013 sales in the Slovak economy increased month-on-month by 1.7% at constant prices (compared to a decline of 1.1% in December). The sales growth was driven largely by industry, in particular the manufacturing segments of transport equipment, metals and food. Sales therefore confirmed the positive January data for industrial production and foreign trade. These developments indicate that after decelerating in the fourth quarter of 2012 due mainly to the performance of the automotive industry, economic growth has now ceased slowing again due mainly to the automotive industry.

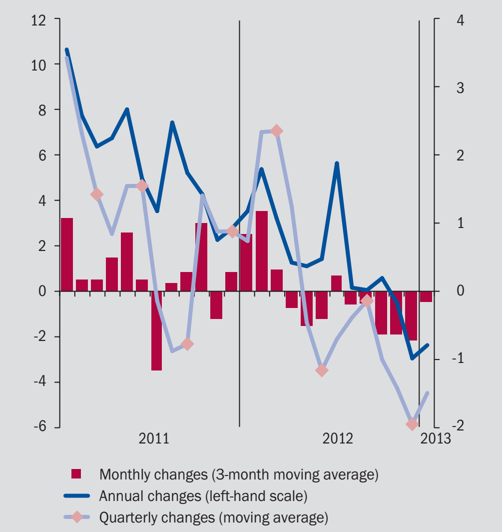
Overall trade sales in January remained more or less flat in month-on-month terms, since growth in retail trade sales was largely offset by sales results in wholesale trade. Despite the upturn in retail trade sales, both consumer confidence and the retail trade confidence indicator remain at relatively low levels in comparison with their long-run average. Hence consumer demand is not expected to pick up in the months ahead.

Chart 2 Total sales by contributions of selected sectors (month-on-month changes at constant prices; p.p.)



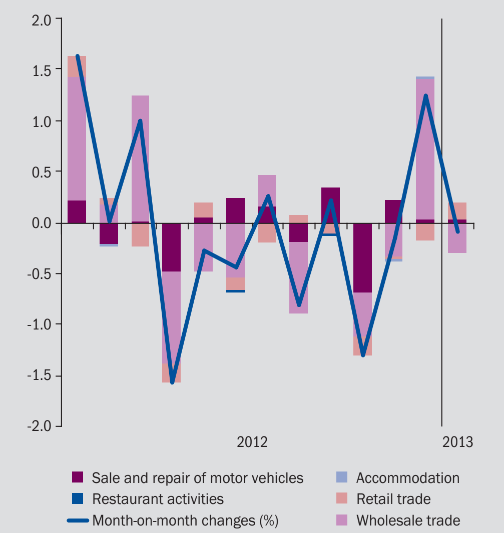
Source: SO SR, NBS calculations.
Note: Internal calculation for constant prices.

Chart 1 Total sales (percentage changes at constant prices)



Source: SO SR, NBS calculations.
Note: Internal calculation for constant prices.

Chart 3 Internal trade sales by contributions of selected segments (month-on-month changes at constant prices; p.p.)



Source: SO SR, NBS calculations.
Note: Internal calculation for constant prices.

2 Turnover in internal trade and selected sectors is the most informative "hard" indicator of GDP developments and therefore it is important for the compilation of GDP figures.

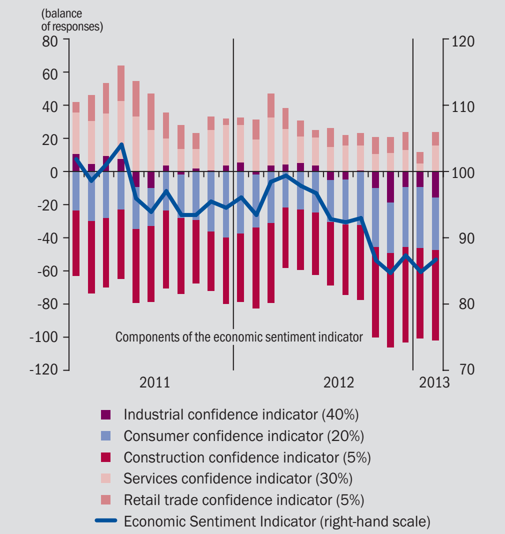
2.2 ECONOMIC SENTIMENT INDICATOR

Economic sentiment improved due mainly to an increase in the services confidence indicator

In February the Economic Sentiment Indicator (ESI) increased by 1.8 points month-on-month, to 86.7. In year-on-year terms the ESI was lower by 6.8 points.

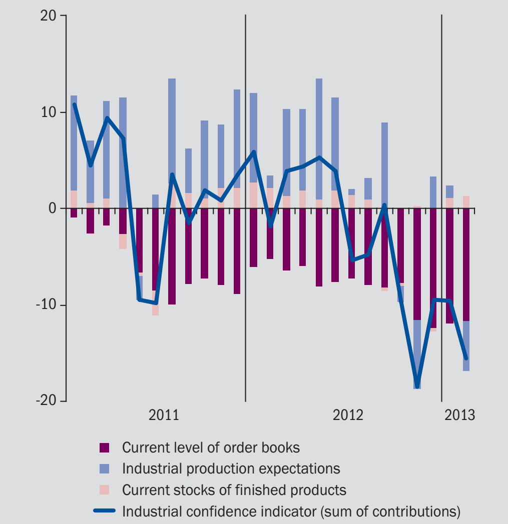
The ESI's monthly increase reflected improved expectations in the services, retail trade and construction sectors and among consumers. By contrast, sentiment among industrial producers remained largely negative. The overall ESI was boosted mainly by the services component, and in particular by an increase in demand expectations. Sentiment in retail trade reflected mainly an improvement in assessments of the business situation. The construction sector confidence indicator increased largely because current order books were more positively assessed. As for consumer confidence, all components of the indicator improved, but the most marked increase was in consumers' assessments of the future economic situation in Slovakia. Sentiment in industry deteriorated sharply, owing mainly to more negative assessments of production expectations, especially in the manufacturing segments of transport equipment, metals, and chemicals.

Chart 4 Economic Sentiment Indicator (long-run average = 100)



Source: European Commission.
Note: Percentages in the chart legend represent weights of individual components of the Economic Sentiment Indicator.

Chart 5 Industrial confidence indicator (balance of responses)



Source: European Commission.

The ESI for the euro area as a whole and for Germany continued its upward trend in February, reflecting mainly increases in the industry and services confidence indicators. In the case of Germany, the ZEW economic sentiment index increased marginally in March, while the Ifo economic climate index and composite PMI[3] output index indicate a slowdown in economic activity. There are persisting differences across euro area economies, especially between the two largest. In France, according to the PMI output index, the decline in activity in industry and services was the largest since March 2009, whereas activity in Germany increased for a fourth consecutive month. The rest of the euro area is seeing a sharp decline in activity. According to now-casting, the worsened PMI index corresponds to a downward revision of the euro area GDP forecasts for the first and second quarters by 0.04 p.p. and 0.29 p.p. respectively. GDP growth is now projected to slow by 0.21% in the first quarter and by 0.26% in the second quarter.

Looking at the overall indicator for Slovakia, it is not clear whether the Slovak economy has already turned the corner. On the one hand, "hard" in the chart legend there is the prospect

3 Source: Markit.

Chart 6 Economic Sentiment Indicator for the euro area

Source: European Commission, Ifo institute.
Note: ESI (long-run average = 100), Ifo index (2005 = 100).

that sentiment in Slovakia will react with a lag to February's positive sentiment news from Germany; on the other hand, however, expectations in industry and other key sectors remain relatively depressed. The latest indicators for the euro area are likewise inducing caution.

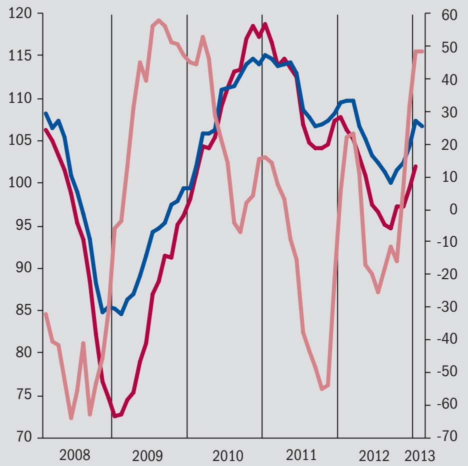
2.3 INDUSTRIAL AND CONSTRUCTION PRODUCTION

Production still driven by the automotive industry

Industrial production in January 2013 increased month-on-month by 4.1%. This relatively strong result was largely attributable to the components of energy supply and manufacturing (which saw a restart of car and metals production). Negative contributions to the overall industrial production index for January came from the manufacture of electronics and the manufacture of machinery and equipment. Manufacturing production was stable in January in comparison with the end of 2012, as confirmed by the three-month moving average of the month-on-month change.

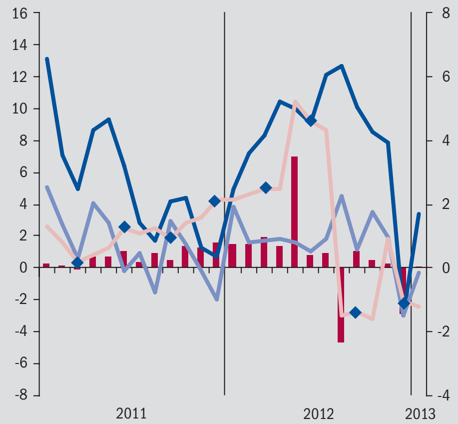
A comparison of the monthly rate of change with its three-month moving average shows that the upturn of production in January to a large extent only corrected December's decline in production.

Chart 7 Economic Sentiment Indicator for Germany



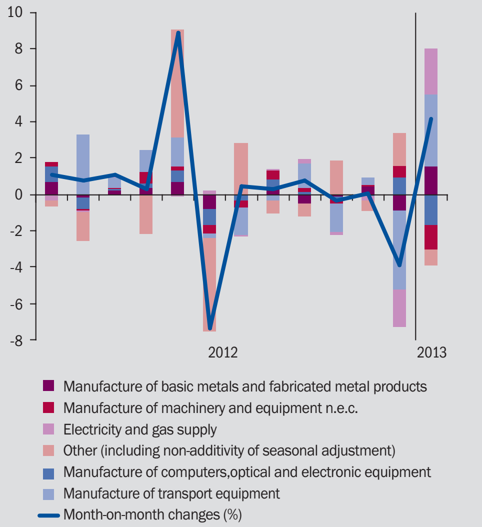
Source: European Commission, Ifo institute, ZEW.
Note: ESI (long-run average = 100), Ifo index (2005 = 100), ZEW (balance of responses).

Chart 8 Industrial production (%)



Source: SO SR, NBS calculations.

Chart 9 Industrial production – principal contributions to monthly rate of change (p.p.)

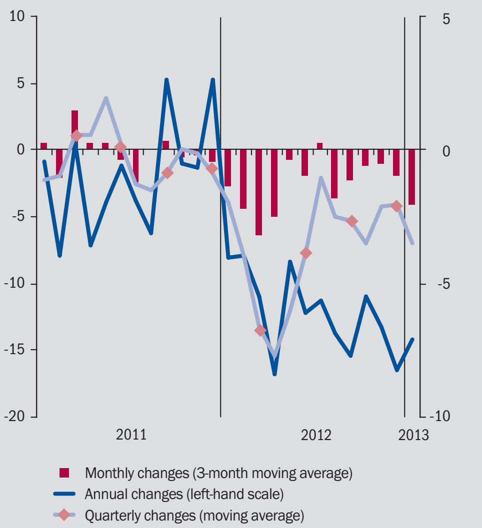


Source: SO SR, NBS calculations.

Risks to manufacturing production in 2013 include plans for lay-offs at several car makers in Slovakia and weakening demand for cars in Europe.

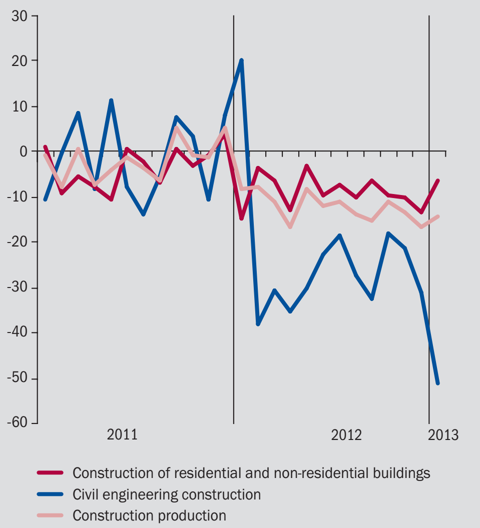
Construction production declined month-on-month in January more sharply than in the previous month. This was caused largely by new construction, renovation and modernisation in Slovakia, while the segments of production abroad and repair and maintenance in Slovakia reported more moderate monthly declines. The largest negative contribution to domestic construction production was from new civil engineering construction. The situation in this segment may be improved this year by the implementation of new infrastructure projects and the construction of new motorway sections. Construction production for 2012 as whole declined by 12.5% and no significant recovery is expected in 2013, either. This is also evident from business tendency surveys, according to which sentiment in the construction sector has long been at low levels.

Chart 10 Construction production (%)



Source: SO SR, NBS calculations.

Chart 11 Domestic construction production (annual percentage changes; constant prices)



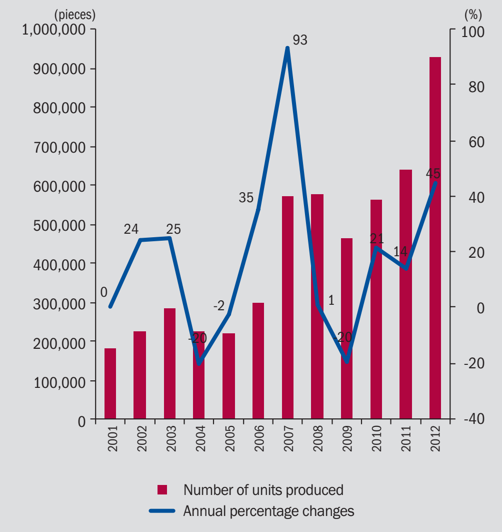
Source: SO SR.

Box 1

CAR PRODUCTION FIGURES REVISED SIGNIFICANTLY BY THE SO SR

Among EU countries in 2012, Slovakia reported the highest growth in industrial production, undoubtedly due in large part to the performance of its automotive industry. This industry was boosted by the production launch of new car models and by increased demand for its products from non-European countries. The Slovak car industry produced around 925,000 vehicles in 2012, compared to fewer than 640,000 in 2011.

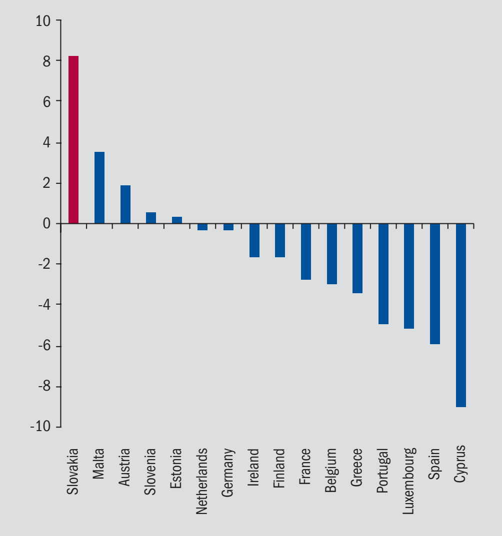
Chart A Car production in Slovakia



Source: Slovak Automotive Industry Assocation.

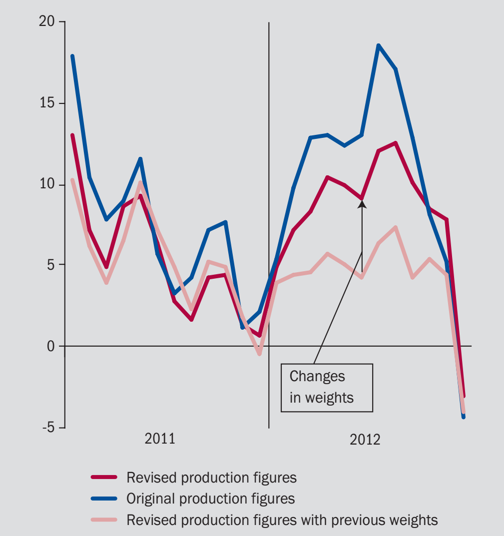
According to December's data on industrial production for the whole of 2012, overall industrial production increased by 10.3%, and in the manufacture of transport equipment component there was record growth of 43.6%. Following the publication of data for January 2013, the figures for 2012 were revised down significantly: industrial production growth was cut to 8.2% and car production growth was almost halved. There was also a change in the weights of different sectors in the overall index, with the weight of the automotive industry more than doubling. At first glance the tendencies may seem contradictory; the weight of the automotive industry increased, while at the same time there was a slowdown in overall industrial production growth in 2012, of which car production accounted for a major part.

Chart B Industrial production in 2012 (annual percentage changes)



Source: Eurostat.

Chart C Industrial production (annual percentage changes)



Source: SO SR, NBS internal calculations.

The IPI growth would logically be expected to increase, not decrease, following the revision, given the increase in weighting of the sector with the strongest growth (the automotive industry). This prima facie paradox arose from the revision of production growth in manufacture of transport equipment, from 43.6% to 26% (if the annual rates of change of each sector had been multiplied by the original weights, industrial production growth for the whole of 2012 would have been slower). The revision of production growth in manufacture of transport equipment may to a large extent have been due to closer monitoring of different statistical representatives in production and to an upward revision car production which increased the number of smaller vehicles (with a lower index weight), in line with the product profile of car makers in Slovakia.

While the number of cars produced in Slovakia in 2012 increased by around 45%, the revision of production growth in manufacture of transport equipment, as a component of the IPI (from 42.6% to 26%) brought the annual growth rate of car production closer to the increase in gross production of the automotive industry (21.3%, according to an NBS estimate), as well as to the annual growth rate of car exports from Slovakia (22.7%) and to sales growth in manufacture of transport equipment (20%). Because of these statistical revisions, the analysis and forecasting of economic developments is more complicated.

Chart D Exports and sales (annual percentage changes)

Source: SO SR.

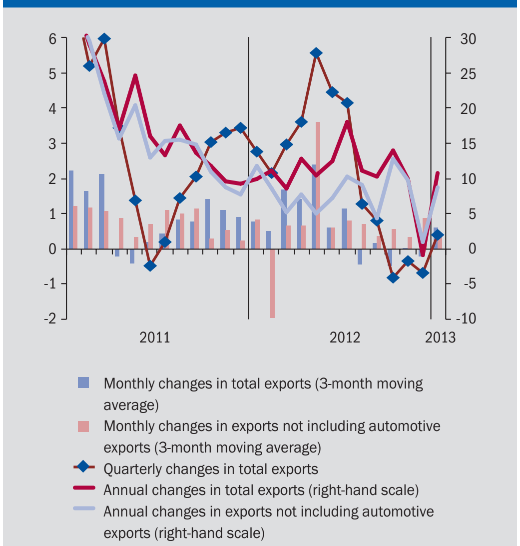
2.4 TRADE BALANCE

The 12-month cumulative trade balance ended January with a surplus equivalent to 5.1% of GDP.

Exports in January increased month-on-month by 2.2%, therefore returning to the level they were at before their decline in December. This was largely attributable to the revival of the automotive industry, which rebounded to previous levels.

Exports of other economic sectors (excluding the automotive industry) rose by 0.4%, similar to the levels observed in previous months. The buoyancy of exports may therefore be linked to the temporary improvement in economic sentiment at the beginning of 2013, although considering the expected slowdown in foreign

Chart 12 Goods exports (%)



Source: NBS and SO SR.

Chart 13 Twelve-month cumulative trade balance (percentage of GDP)

Source: NBS and SO SR.

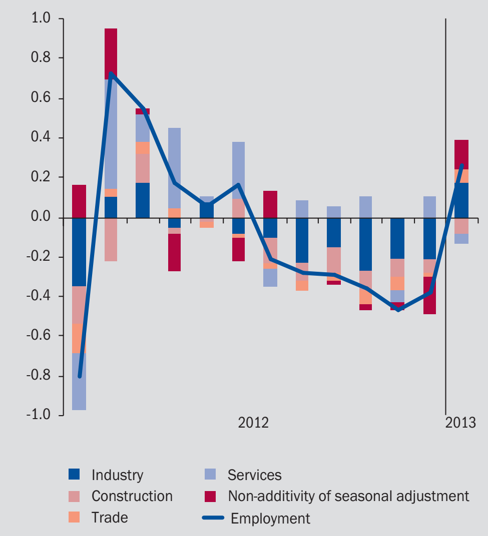
demand and gradual fading of the base effect in the automotive industry, it may not necessarily continue.

3 LABOUR MARKET

Employment in January ended a falling trend as it increased month-on-month by 0.3%. Year-on-year, employment declined by 0.1%. The turnaround in the monthly rate of change reflected mainly employment growth in the industry and trade sectors. By contrast, employment continued to decline in the construction sector and remained flat in services. The data indicate that employment will not decrease in the first quarter to the extent that it did at the end of 2012. This view is also evident from firms' expectations for employment in the first quarter, which have improved moderately from previously pessimistic levels. The published monthly data do not, however, include people working on the basis of limited work agreements, and their number may have declined sharply in the first quarter. How this affects the quarterly employment figures will depend on the extent to which the terminated agreements constituted main employment or secondary employment.

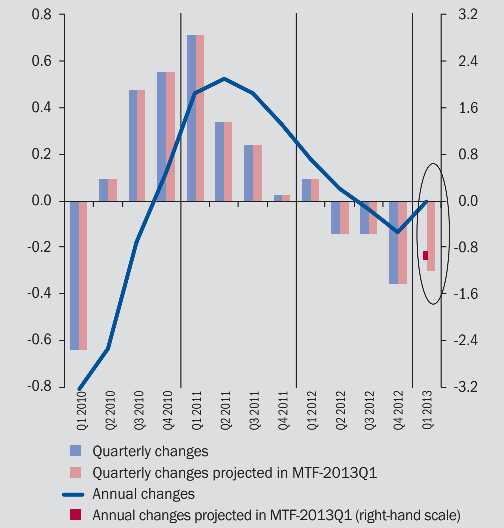
Based mainly on the current expectations of employers and preliminary data on the number of limited work agreements in the first quarter, total employment for the first quarter is expected to record a further moderate decline.

Chart 14 Employment – monthly rate of change by sectoral contributions (p.p.)



Source: SO SR, NBS calculations.

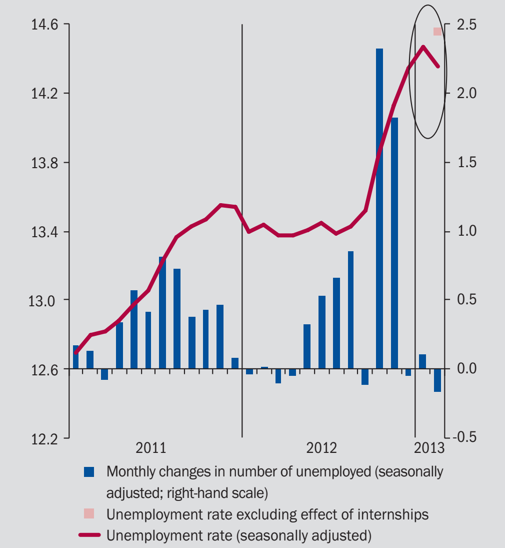
Chart 15 Comparison of the current forecast and employment as defined in ESA 95 (%)



Source: SO SR, NBS calculations.

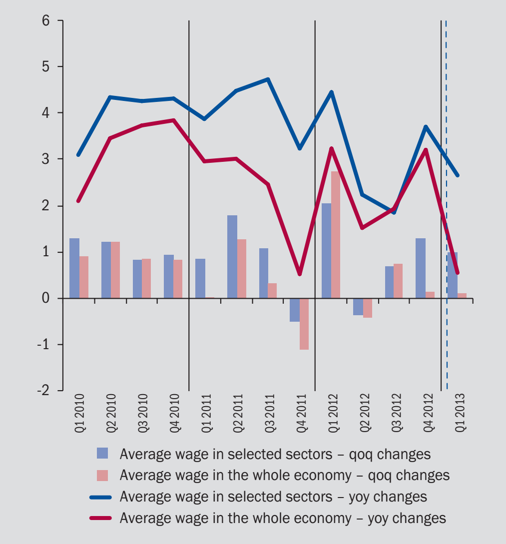
The rate of registered unemployment in February fell month-on-month by 0.1 percentage point to 14.35% (seasonally adjusted), indicating some stabilisation in the number of job seekers. At the same time, however, the number of people working in internships increased, thereby reducing the number of job seekers and the unemployment rate. Without this effect, the unemployment rate would have been almost unchanged. What is positive, however, is that the number of job seekers entering the labour market has increased slightly since the end of last year and that the number of job vacancies has risen moderately. Nevertheless, the register of the Central Office of Labour Social Affairs and Family (ÚPSVaR) might not be capturing all of the limited work by agreement or trade licence that may have been cancelled in the first quarter. For instance, some workers who worked under the agreements are simultaneously registered as job seekers at a labour office. On the other hand, such people should be captured after the work agreement termination by the labour force survey (LFS), which would explain why at the beginning of the year the unemployment rate according to the LFS was higher than the rate according to ÚPSVaR register. A further reason

Chart 16 Unemployment (%)



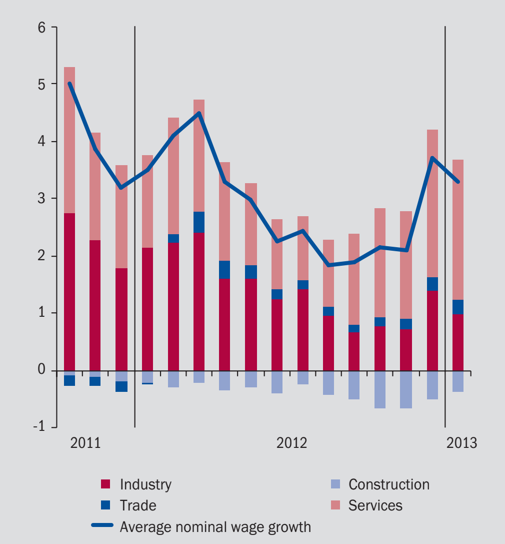
Source: Central Office of Labour Social Affairs and Family.

Chart 18 Wage developments in the economy (annual and quarterly percentage changes)



Source: SO SR, NBS calculations.
Note: The average wage growth in the economy as a whole for Q1 2013 is a projection from the latest Medium-Term Forecast (MTF-2013Q1). Wage growth in the selected sectors is calculated on the basis of NBS estimates for February and March.

Chart 17 Average nominal wage growth – annual rate of change by sectoral contribution (3-month moving average, p.p.)



Source: SO SR, NBS calculations.

why unemployment according to the LFS may be higher in the first quarter is the recategorisation of economically inactive people as unemployed, since the unemployment rate according to the ÚPSVaR methodology had already taken account of this recategorisation by the end of December.

After wage growth recorded a one-off increase at the end of 2012 (owing to the payment of year-end bonuses), it fell back to lower levels in January. The annual rate of wage growth in January was 2.2%, in line with the trend of slow growth observed in the second half of last year. In month-on-month terms wages remained unchanged. Firms probably remained cautious at the beginning of the year in view of the economic situation and increased contribution burden. The slowdown in wage growth has been most pronounced in the sectors of industry, transportation and IT.

4 Prices

Inflation slowed by more than expected

Annual HICP inflation in Slovakia slowed from 2.5% in January to 2.2% in February. In month-on-month terms, the inflation rate remained unchanged. Against a backdrop of low consumer demand, all items of the inflation basket contributed to the slowdown in the annual inflation rate, which was 0.1 percentage point more than expected.

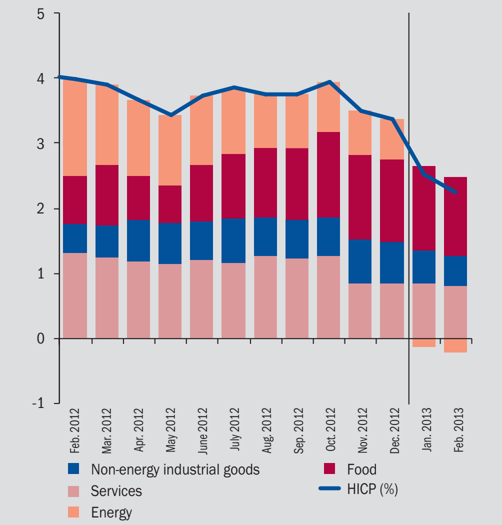
Cost-push factors were subdued in February and did not cause any change in the headline inflation rate. Looking at month-on-month inflation, the most notable developments were a decline in non-energy industrial goods inflation (with a fall in prices of semi-durable goods) and, offsetting this, a moderate increase in services inflation (including rises in prices of personal care services, social services, and education). The trend deceleration in net inflation (excluding fuel prices) has gradually become more pronounced in recent months. It may therefore be assumed that if agricultural prices and energy prices remain stable during 2013, the average inflation rate for this year will be close to 2%.

Table 1 HICP components – comparison of projected and actual month-on-month percentage changes (p.p.)

	Projections for February 2013	Actual data	Difference in contributions: actual – projections
Non-energy industrial goods	0.07	-0.19	-0.08
Energy	-0.11	-0.02	0.01
Food	0.29	-0.05	-0.08
Services	0.24	0.15	-0.03
HICP in total	**0.14**	**-0.03**	**-0.17**

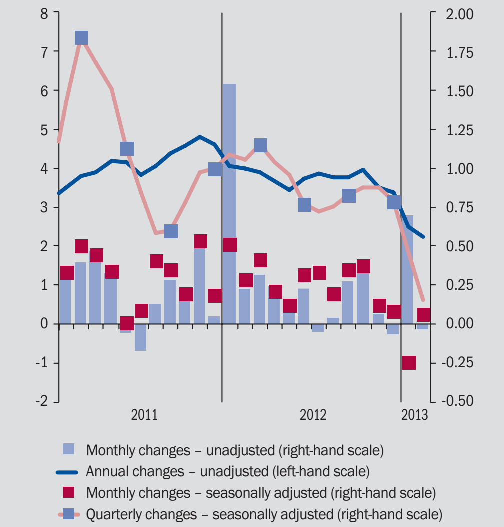
Source: SO SR, NBS calculations.

Chart 19 Composition of annual inflation (p.p.)



Source: SO SR, NBS calculations.

Chart 20 Headline inflation rate (%)

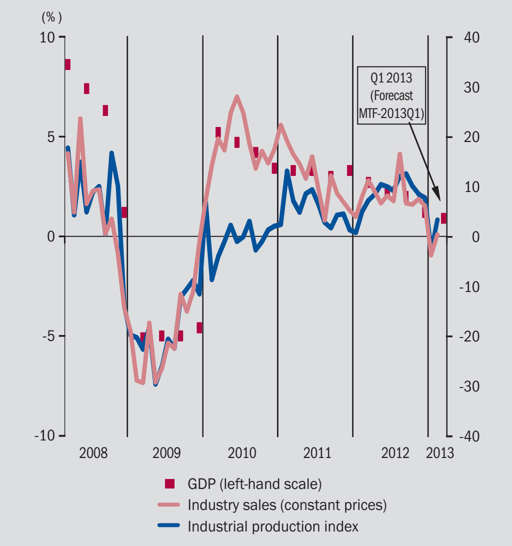


Source: SO SR, NBS calculations.

5 Qualitative impact on the forecast

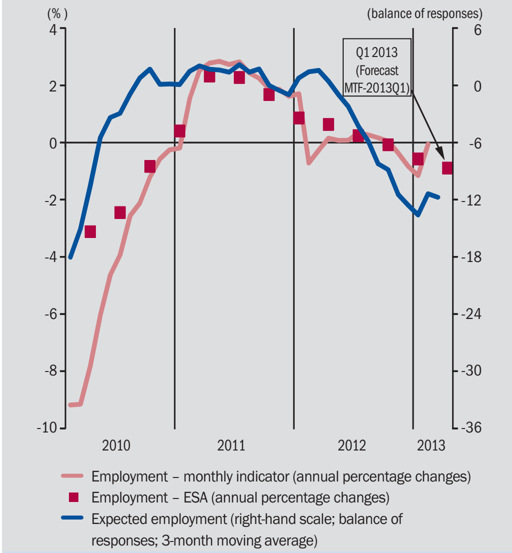
Since this Monthly Bulletin was prepared at the same time as the latest Medium-Term Forecast (MTF-2013Q1), the relevant quarterly data for the fourth quarter of 2012 and monthly data for January and February 2013 were incorporated in the forecast. As a consequence, and taking into account the lower projections for foreign demand, the economic growth forecasts for 2013

Chart 21 Industrial production and sales (annual percentage changes)



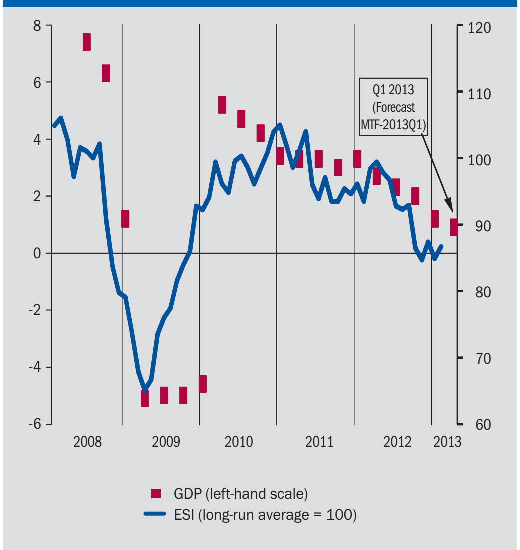
Source: SO SR and NBS.

Chart 23 Employers' expectations (balance of responses) and the annual rate of change in employment (%)



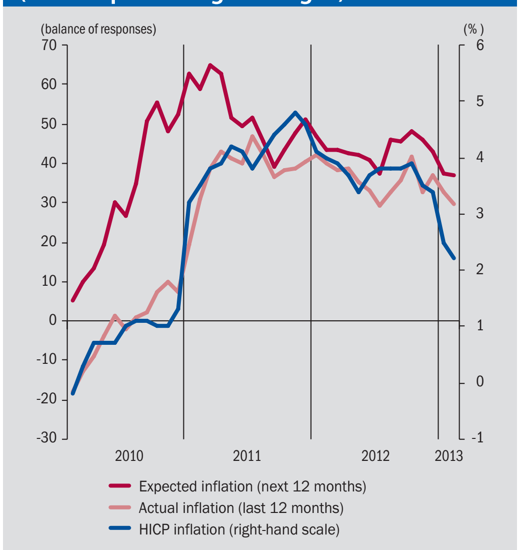
Source: SO SR, NBS and the European Commission.

Chart 22 GDP (annual percentage changes) and the Economic Sentiment Indicator



Source: SO SR, NBS and the European Commission.

Chart 24 Consumers' inflation perceptions (balance of responses) and HICP inflation (annual percentage changes)



Source: SO SR and the European Commission.

and 2014 have been revised down by 0.6 p.p. and 0.7 p.p. respectively, to 0.7% for 2013 and 2.8% for 2014. The lower economic activity over the projection horizon reflects to a large extent the slump in domestic demand observed since the last quarter of 2012. Commensurate with the decline in economic activity and considering the latest quarterly and monthly figures, the forecasts for labour market indicators have been revised down slightly. As for inflation, the better than expected recent developments have resulted in a downward revision of the inflation forecast.

QUARTERLY REPORT ON THE INTERNATIONAL ECONOMY

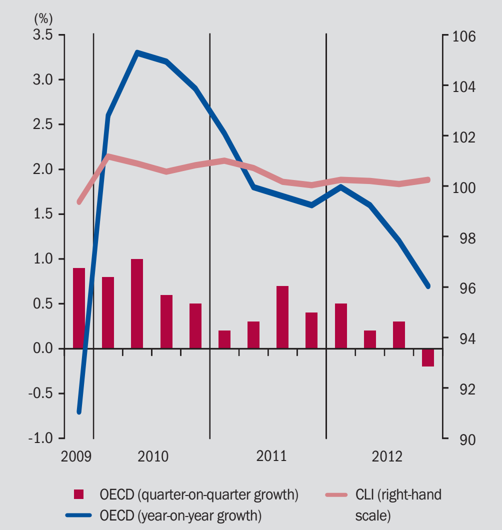
THE GLOBAL ECONOMY

Quarterly gross domestic product (GDP) in the OECD area fell by 0.2% in the fourth quarter of 2012, after a 0.3% increase in the previous quarter. Compared with the fourth quarter of 2011, GDP growth for the OECD area slowed to 0.7%, down from 1.2% in the third quarter. A majority of advanced countries fell into recession in the last quarter of 2012, and both the euro area and Japan saw their economies shrink for a third successive quarter. The UK economy also contracted. According to revised data, the US gross domestic product grew marginally in the fourth quarter, by an annualised rate of 0.1%, contrary to initial estimates indicating that it had declined. Nevertheless, the OECD's composite leading indicator (CLI) of economic sentiment improved moderately during the fourth quarter. The indicator remains at low levels, however, despite pointing to a moderately more optimistic outlook for 2013.

Consumer price inflation slowed gradually in the fourth quarter of 2012 and by the year-end it was at its lowest level since the beginning of the year. The OECD's annual inflation rate was 1.9% in December, down from 2.2% in September, and it declined further in January, to 1.7%. The core inflation rate slowed slightly to stand at 1.5% in December (compared to 1.6% in September), and it remained at that level in January. Energy price inflation decelerated sharply, from 5.1% in September to 2.9% in December. Food price inflation was the same in December as in September, at 2.1%.

The greatest obstacles to stronger economic growth in advanced countries remain the euro area debt crisis, weak labour markets, and the financial situation of households. A further downside risk to economic growth is the necessity for advanced economies to implement further fiscal consolidation measures. In the case of emerging economies, the main risk is a further slowdown in global trade and increase in commodity prices. For the global economy as a whole there remains the risk of geopolitical tensions in several regions of the world.

Chart 25 GDP and the CLI



Source: OECD.
Note: Composite Leading Indicator (CLI).

COMMODITIES

The oil price in the fourth quarter fluctuated between USD 105 and 115 per barrel, while the average price for the quarter was USD 110 per barrel, slightly higher compared to the previous quarter (USD 109). The oil price developments stemmed, on the one hand, from geopolitical tensions and, on the other hand, from weak demand and concerns about the global economic situation.

Non-energy commodity prices increased moderately in the fourth quarter. Most of that growth was accounted for by metals prices, which increased in December in response to stronger demand. Nevertheless, the average price of metals was lower in 2012 than in the previous year. Agricultural commodity prices declined in the last quarter of 2012, and their average level for the year was lower than in 2011.

UNITED STATES

US economic growth was far slower in the fourth quarter of 2012 than in the previous quarter, with respective annualised rates of 0.1% and 3.1%. The annual growth rate of GDP also decelerated, from 2.6% in the third quarter to 1.6% in the last quarter, due mainly to temporary factors and in particular to a substantial reduction in government spending.

The largest component of GDP growth was private consumption, which recorded a higher increase in the fourth quarter than in the third quarter, based mainly on growth in the durable goods segment. There were also positive contributions to GDP growth from residential and non-residential investment. GDP growth came under downward pressure from private inventories, as their strong decline ensured that total gross investment made a negative contribution to growth. Although imports declined in the fourth quarter, there was also a marked drop in exports. Net exports still contributed positively to GDP growth, but to a lesser extent than they did in the previous quarter. Federal government spending made a large negative contribution to GDP growth, as did state and local government spending. In the third quarter federal government expenditure, and particularly defence spending, had risen sharply, but in the fourth quarter federal expenditure, and especially its defence component, fell markedly.

The previous quarter witnessed significant fears of the fiscal cliff, but although automatic activation of the fiscal cliff was averted, there remain concerns about fiscal consolidation. These reflect uncertainty about the increase in the debt ceiling and about the automatic activation of spending cuts (the „sequester").

Inflation decelerated gradually in the fourth quarter, mainly due to a slowdown in energy price inflation. The inflation rate fell from 2.0% in September to 1.7% in December, and it declined further in January, to 1.6%. The core inflation rate in December was unchanged from September, at 1.9%, and it remained at this level in January.

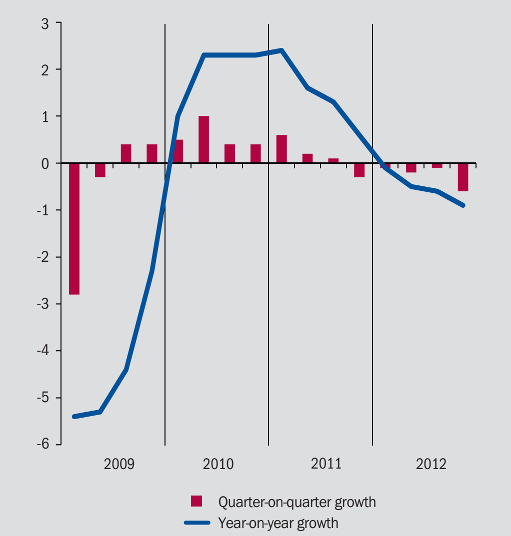
The US Federal Open Market Committee (FOMC) decided at its two regular meetings in the fourth quarter to leave its target range for the federal funds rate unchanged, i.e. at close to zero. The FOMC reiterated its intention to keep the federal funds rate at exceptionally low levels, at least as long as the unemployment rate remains above 6.5% and inflation in the medium-term horizon is projected to be no more than 2.5%. At its meeting in January the FOMC decided to continue the policy of quantitative easing that it launched at its meeting in September 2012.

THE EURO AREA

Euro area GDP contracted for a fifth successive quarter in the fourth quarter of 2012, but whereas in previous quarters the economy shrank by between 0.1% and 0.3%, in the fourth quarter it slumped by 0.6%. The annual rate of decline in GDP also increased, from -0.6% in the third quarter, to -0.9% in the fourth quarter.

All components of domestic demand contributed to the economy's pronounced contraction in the fourth quarter. The most marked decline was in gross fixed capital formation, which fell for a seventh consecutive quarter. Therefore subdued demand and unused production capacities continued to dampen private investment. As in the previous quarter there was destocking, which may also be caused by firms adjusting to low demand and seeking to optimise production processes and reduce costs. An adverse labour

Chart 26 Economic growth (at 2005 constant prices; percentage change)

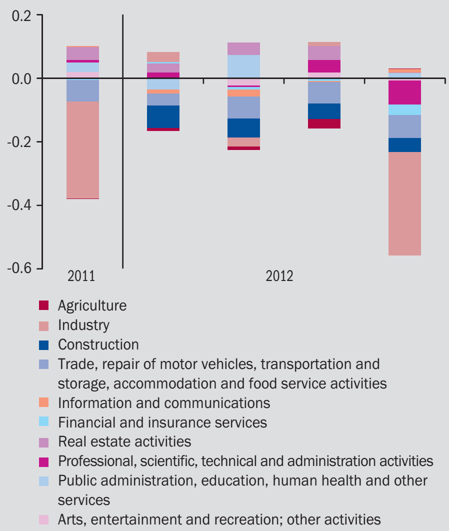


Source: Eurostat.

market situation and weak consumer confidence continued to dampen consumer demand. Household consumption consequently declined for a fifth successive quarter, and to a greater extent than it did in the previous quarter. The necessity of implementing fiscal consolidation measures is constricting general government consumption, which declined in the fourth quarter for the third quarter in row. In the previous thirteen quarters external demand had supported GDP growth, but in the last quarter of 2012 the decline in imports was less than the decline in exports of goods and services and therefore the contribution of net exports to GDP growth turned negative.

On the supply side of the economy, negative contributions from a wide range of sectors caused value added to fall by 0.5%. The sector reporting the largest drop in value added was industry, and particularly manufacturing industry. Value added increased, moderately, in only three sectors.

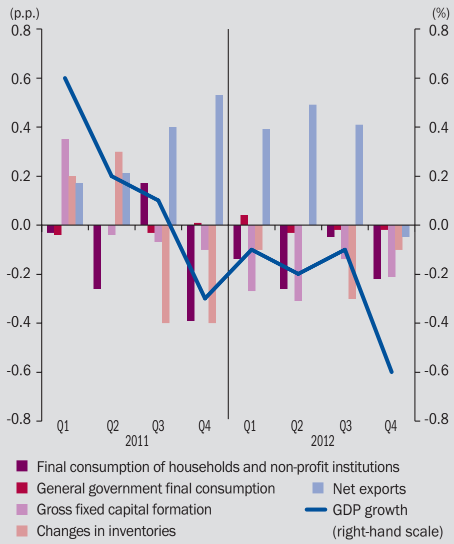
Chart 28 Value added by sector – contributions to quarter-on-quarter growth (p.p.)



Source: Eurostat; NBS calculations.

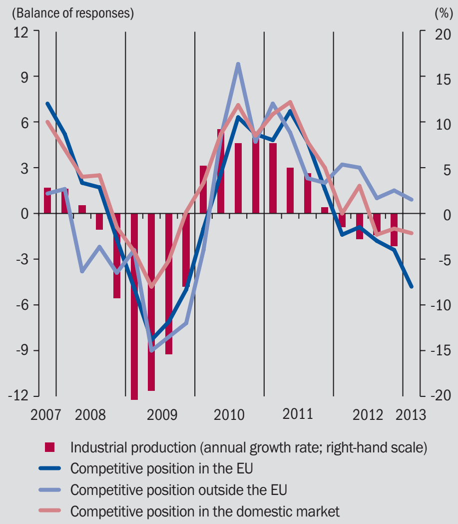
The fall in economic activity in industry and manufacturing reflects subdued domestic and external demand. According to assessments given by industry representatives in surveys conducted in the first quarter of 2013, the competitive position of industry is continuing to deteriorate, particularly in EU markets, and to some extent also in the domestic market and in non-EU markets. On the other hand, export expectations in industry improved slightly in the first quarter of 2013 after falling sharply in the previous quarter; nevertheless, they remain subdued. Since industry is the most significant export sector, the survey results indicate that the sector will not recover in the near future, although it may stabilise.

Chart 27 Contributions to quarterly GDP growth by component



Source: Eurostat; NBS calculations.

Chart 29 Industrial production and assessment of industrial competitiveness

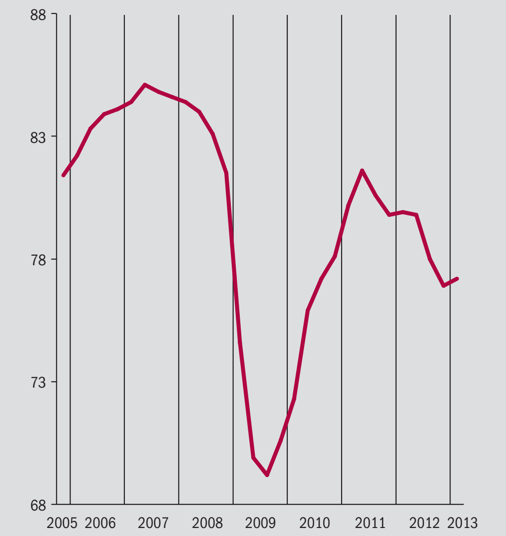


Source: European Commission, Eurostat, NBS calculations.

Chart 30 Export expectations in industry and the annual growth rate of goods exports (balance of responses, %)

Source: European Commission, Eurostat, NBS calculations.

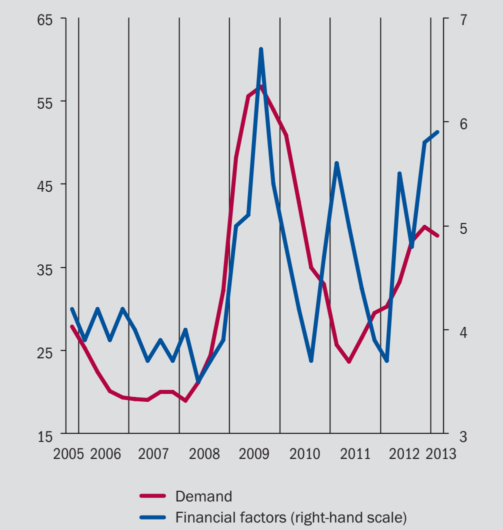
Chart 32 Assessment of production capacity utilisation in industry (%)



Source: European Commission.

According to surveys, subdued demand continues to be seen as the key factor limiting economic activity in industry. Nevertheless, the perception of demand as a production-limiting factor moderated in the first quarter of 2013 after worsening in each of the previous seven quarters. Assessments of production capacity utilisation also improved slightly, after falling sharply in the previous quarter. Like the surveys of export expectations, these surveys indicate that sentiment in this sector is stabilising. This view is further supported by the industrial confidence indicator, which has improved for four consecutive months, albeit while still at historically low levels.

Chart 31 Production-limiting factors (%)

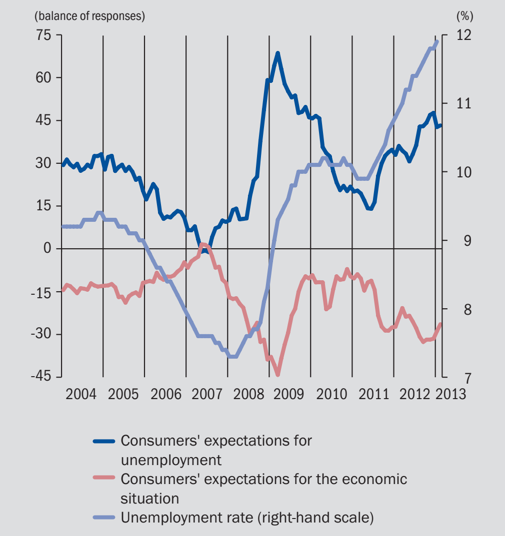


Source: European Commission.

The labour market situation is being affected by a gradual downturn in economic activity as well as by relatively adverse economic sentiment and cost-minimisation measures. The unemployment rate climbed by 0.2 percentage point in the third quarter, to 11.8 %, and edged up again in October to a new all-time high of 11.9 %. Despite the adverse situation in the labour market, consumers' expectations for the future economic situation are improving slightly. In January 2013 consumers expectations for unemployment became significantly less pessimistic, marking a turnaround from the previous trend; in February 2013, however, they deteriorated slightly again. Employment expectations in different sectors do not indicate any clear improvement. Only in industry has there been a gradual rising trend in these expectations (over four consecutive months). In retail trade, services and construction, however, there are no signs of improvement.

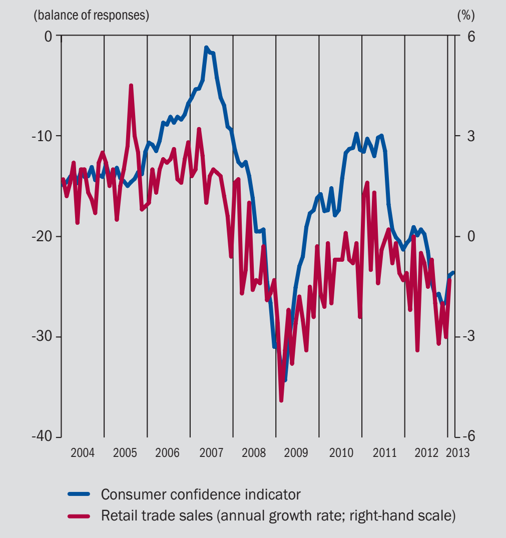
Since the labour market is weak and consumer demand remains subdued, no significant

Chart 33 The unemployment rate and consumers' expectations for the economic situation and unemployment over the next 12 months



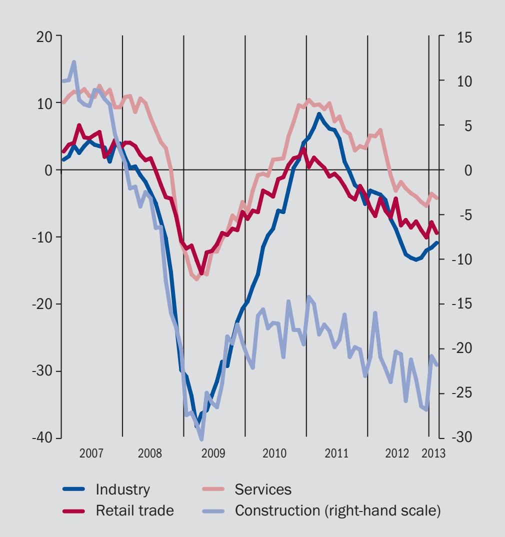
Source: European Commission, Eurostat.

Chart 35 Consumer confidence and retail trade sales (%)



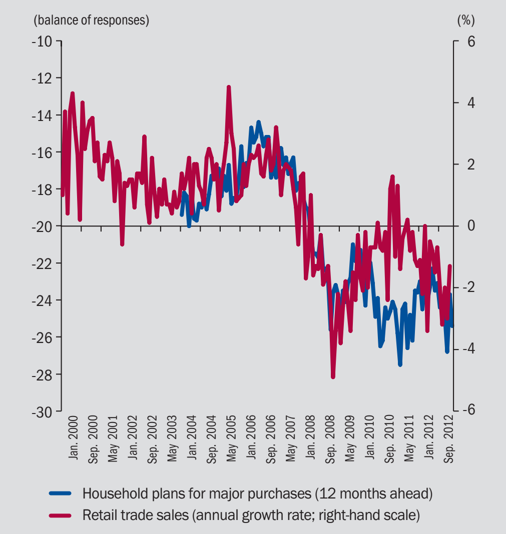
Source: European Commission, Eurostat.

Chart 34 Employment expectations by sector and consumers' expectations for unemployment (balance of responses)



Source: European Commission.

Chart 36 Household plans for major purchases and retail trade sales



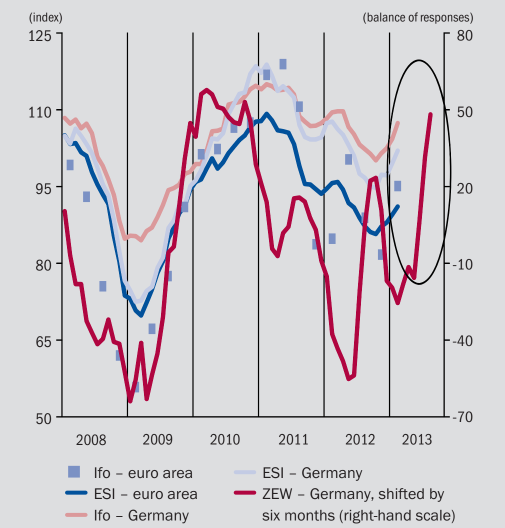
Source: European Commission, Eurostat.

recovery of consumer demand can be expected. Although consumer confidence has been increasingly moderately since December 2012, it remains at low levels. With households remaining cautious in their plans for major purchases, there are no signs of stimulus to consumer demand.

After falling from March 2012, the Economic Sentiment Indicator stopped declining last November as sentiment among economic agents gradually began to improve, and this trend continued in the first two months of 2013. The main drivers of the ESI's increase were the industrial and services confidence indicators, and the consumer confidence indicator also improved. Although both the overall ESI and its component indicators remain at very low levels, their increase in recent months may point to a gradual stabilisation of economic activity. The Ifo index for the euro area also increased in the first quarter of 2013 (after declining in third and fourth quarters of 2012), showing more positive assessments of both the current economic situation and, to a greater extent, expectations for the next six months. Furthermore, the Ifo index for Germany increased in February 2013 for a third successive month. Further evidence of the improving sentiment in Germany was provided by the ZEW index, which, after entering positive territory in December 2012, increased again in both January and February. Although a majority of surveys show it to be strengthening, sentiment remains at a low level in comparison with its long-run average. An adverse labour market situation and weak consumer confidence are dampening consumer demand, while at the same time the weakening of industry's competitive position may limit the recovery of economic growth.

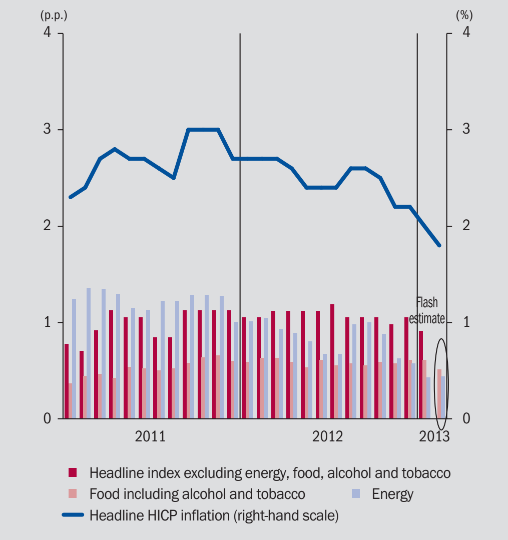
The inflation rate had a more or less decreasing tendency in the fourth quarter, falling from 2.6% in September to 2.2% in December. The main downward pressure on the headline rate came

Chart 37 Economic sentiment indicators for the euro area and Germany



Source: Ifo Institute for Economic Research, Centre for European Economic Research (ZEW), European Commission.

Chart 38 The annual HICP inflation rate and contributions of selected components



Source: Eurostat; NBS calculations.
Note: Eurostat's flash estimate does not provide data for the headline index excluding energy, food, alcohol and tobacco.

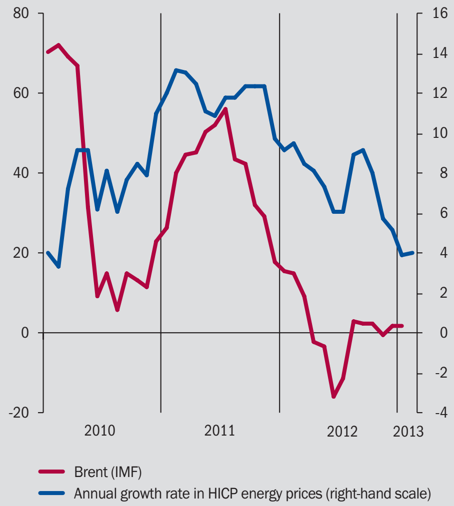
from slowdowns in energy inflation and, to lesser extent, in non-energy industrial goods inflation. By contrast, prices of food and services increased at a slightly faster pace, putting upward pressure on the inflation rate. Inflation continued to decline gradually in the first months of 2013, down to 2.0% in January and 1.8% in February (according to Eurostat's flash estimate). In January the lower inflation rate was due to falling price growth in energy, non-energy industrial goods and also services, while in February it was based on a slowdown in food inflation.

Oil prices fell moderately in the fourth quarter, and their annual growth rate remained virtually unchanged at low levels. This was reflected in energy inflation, which fell relatively sharply in November and more moderately in the next two months. Although food commodity prices were relatively stable in the fourth quarter, their annual rate of change increased quite sharply owing to a base effect. Food producer prices were quite responsive to commodity market developments, but the pipeline pressures on consumer prices were largely offset by the effects of low demand and strong competition. Food producers are therefore partly moderating the price inflation in commodity markets by reducing their profit margins. Although unprocessed food inflation is increasing as a result of commodity price movements, processed food inflation had a downward tendency during 2012.

Core inflation (i.e. the headline index excluding prices of energy and unprocessed food) remained largely stable in the fourth quarter of 2012, standing at 1.6% in both September and December. It then declined to 1.5% in January 2013.

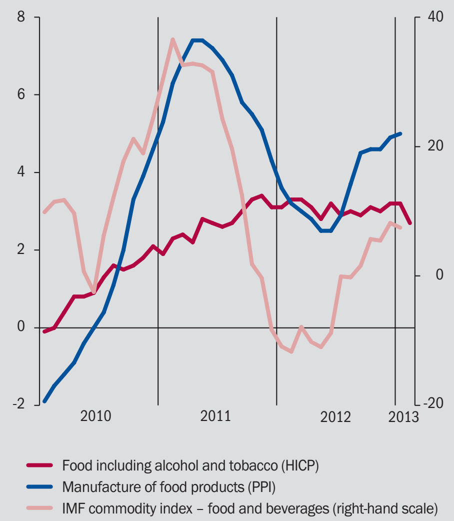
Weak demand and strong competition also affected the market components of the inflation rate. Non-energy industrial goods inflation fell gradually in the fourth quarter (by 0.2 percentage point, to 1.0%) and it declined further in early 2013 (to 0.8%). Services inflation was volatile during the fourth quarter as it fell in November and rose in December. In January, however, it slowed again, basically continuing a trend of moderate deceleration. Although market components of the inflation rate are being dampened by weak demand and strong competition, they are also subject to upward pressure from indirect tax changes. In the cases of services prices, the gap between services inflation at constant taxes and the services inflation reported as part of the standard HICP was widening from the summer of 2011 and increased quite markedly in September 2012; it did not, however, widen any further in the last quarter of the year, implying that indirect tax changes in that quarter did not have a significant effect. Likewise with non-energy industrial goods inflation, the gap increased in the third quarter of the year and remained virtually unchanged in the last quarter.

Chart 39 Annual growth rate of oil and energy prices in the HICP (%)



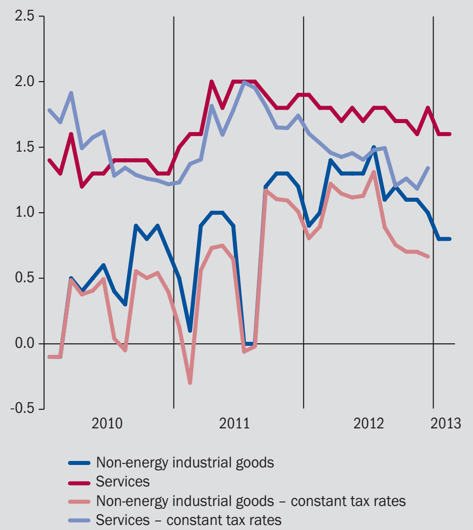
Source: Eurostat, IMF.

Chart 40 Effect of food commodity prices on producer prices and consumer prices (annual rate of change)



Source: Eurostat, IMF.

Chart 41 Goods and services prices (annual percentage changes)



Source: Eurostat.
Note: Time series with constant tax rates are published with a lag of around two months.

Price expectations are indicative of low inflation pressures and reflect subdued demand and the competition environment. The decline in price expectations in the previous two months (January and February 2013) was most pronounced in the industry and services sectors. In industry, price expectations indicate downward pressure on selling prices as well as a slowdown in producer price inflation that will eventually feed through to consumer prices. Consumers' price expectations fell for a fifth successive month, owing largely to increases in prices of frequently purchased items.

The exchange rate of the euro against the US dollar fluctuated over the fourth quarter of 2012, appreciating moderately in October, depreciating by a similar margin in November, and strengthening again in December. This movement stemmed largely from the situation in specific euro area economies and in the United States. The euro was trading 2.5 % higher against the dollar at the end of the fourth quarter than at the end of the third quarter, and by the end of February it had depreciated by 1% (therefore it was still 1.5% stronger than at the end of the third quarter of 2012).

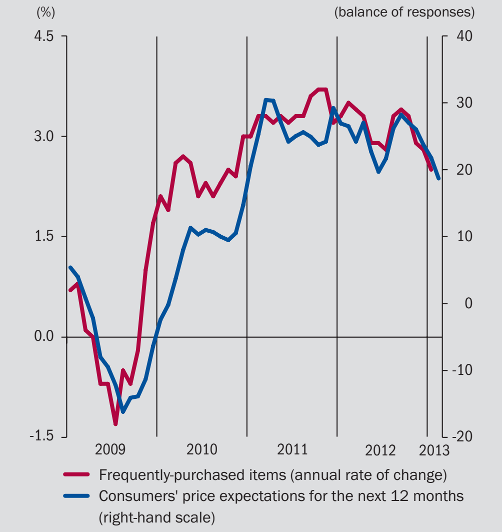
At its monetary-policy meetings in the fourth quarter of 2012, the ECB's Governing Council did not make any changes to the key ECB interest rates, deciding to leave the main refinancing rate at 0.75%, the marginal lending rate at 1.50%, and the deposit rate at 0.00%.

On 31 October 2012, at the decision of the ECB's Governing Council, the ECB ended its covered bond purchase programme (CBPP2), which

Chart 42 Price expectations industry and producer prices

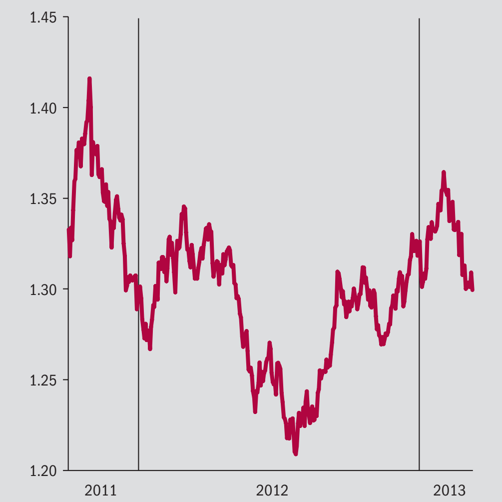
Source: European Commission, Eurostat.

Chart 43 Prices of frequently purchased items and consumers' price expectations



Source: European Commission, Eurostat.

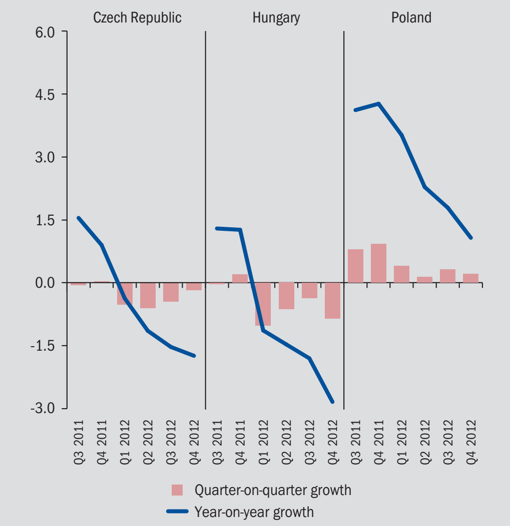
Chart 44 USD/EUR exchange rate



Source: ECB.

had been introduced in November 2011. At its first meeting in December 2012, the Governing Council decided to continue conducting main refinancing operations (MROs) as fixed rate tender procedures with full allotment at least until 9 July 2013. This procedure will also remain in use for the Eurosystem's special-term refinancing operations, which will continue to be conducted at least until the end of the second quarter of 2013. The fixed rate in these special-term refinancing operation will be the same as the MRO rate prevailing at the time. Furthermore, the Governing Council decided on the conduct of the sixth of the three-month longer-term refinancing operations to be allotted between January and June. Also in December the Governing Council decided to extend until February 2014 the existing foreign-currency swap arrangements with other central banks.

Chart 45 GDP growth (%)



Source: Eurostat.

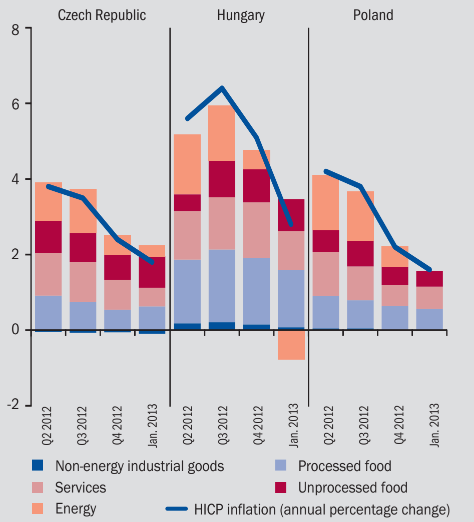
DEVELOPMENTS IN POLAND, THE CZECH REPUBLIC AND HUNGARY

Each of the countries under review recorded a year-on-year decline in economic performance in the fourth quarter of 2012, with Hungary experiencing the most marked deterioration. In the Czech Republic and Hungary the annual rates of decline in GDP were, respectively, -1.7% (0.2 p.p. higher than in the second quarter) and -2.8 % (1.0 p.p. higher), while in Poland economic growth slowed by 0.7 p.p., to 1.1%.

Compared to the previous quarter, the Hungarian economy's contraction increased by 0.5 percentage point, to -0.9%, and the Polish economy's growth slowed by 0.1 percentage point, to 0.2%. On the other hand, Czech GDP declined more moderately, by 0.2 percentage point, to -0.2%. The easing of the Czech economy's contraction was largely attributable to changes in inventories, which contributed positively to GDP for a second successive quarter. There were also positive contributions from household consumption (after three quarters in decline) and from general government consumption. Net exports, however, had a dampening effect, due mainly to a sharp decline in exports. In Hungary, the main cause of the more pronounced contraction was net exports, which made a significantly negative contribution to GDP growth after previous two quarters. The investment component of GDP also declined. On the other hand, private consumption made a moderately positive contribution to GDP growth after declining in the previous four quarters. In Poland, both private consumption and investment put downward pressure on economic growth, while general government consumption and net exports made moderately positive contributions.

In all the countries under review, the annual consumer price inflation rate was lower at the end of the fourth quarter of 2012 than at the end of the third quarter; it declined in the Czech Republic by 1.1 p.p., to 2.4%, in Hungary by 1.3 p.p., to 5.1%, and in Poland by 1.6 p.p., to 2.2%. The slowdown in the Czech inflation rate was broadly based across all components apart from non-energy industrial goods (where inflation declined more moderately than in the previous quarter). The energy price component, declining from 8.2% to 3.7%, made the largest negative contribution to the headline rate, while the services and food price components had a more modest dampening effect. In Hungary, all the inflation components decelerated with the exception of services, which increased slightly. Energy price inflation accounted for most of the slowdown in the headline rate (declining from 8.7% to 3%.) and food price inflation for a smaller part. In Poland, the inflation rate slowed

Chart 46 Contributions to HICP inflation (p.p.)



Source: Eurostat; NBS calculations.

Chart 47 Exchange rate indices of the V4 currencies vis-à-vis the euro (index: 4 January 2010 = 100)

Source: Eurostat; NBS calculations.
Note: A fall in value denotes appreciation.

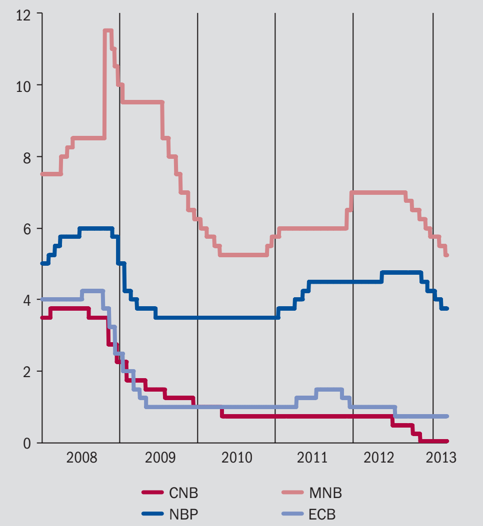
sharply again, under downward pressure from all components. The annual rate of change in prices of non-energy industrial goods was negative. As in the other two economies, energy price inflation caused most of the slowdown, while services price inflation also made a negative contribution. In January 2013 annual consumer price inflation decelerated in all the countries under review, due mainly to a further decline in energy price inflation. In Hungary, the annual rate of change in the energy price component was even negative.

Looking at the currencies of the three countries, their exchange rates against the euro followed differing courses but with a slightly depreciating tendency. The Hungarian forint weakened by the largest margin and the Czech koruna depreciated to a lesser extent. The Polish zloty tended to depreciate until approximately mid-November and then tended to appreciate until the end of the year. The exchange rates of the three currencies were particularly affected by negative economic reports about the respective countries as well as by adverse outlooks for the economic growth in the euro area. In financial markets, however, investor sentiment was largely positive during the period under review.

The Czech koruna's depreciation against the euro in October stemmed mainly from expectations of an interest rate cut, which were confirmed in November when rates were reduced to a „technical zero". Furthermore, the Czech central bank confirmed its readiness to respond to any further appreciation of the koruna by intervening in the foreign exchange market. The koruna's further weakening against the euro from the beginning of 2013 was also due to a verbal intervention. The currency appreciated strongly February after the central bank noted that monetary easing had become less urgent. The Hungarian forint, after appreciating slightly against the euro at the beginning of October, began gradually to depreciate in the following months, owing mainly to fears about developments in the Hungarian economy and to the downgrading of the Hungary's credit rating in November. Further downward pressure came in late December and early 2013 from concerns about the central bank's monetary policy course. The movement of the Polish zloty in October, as in November, was affected mainly by negative reports about the Polish economy and the related expectations of a further cut in interest rates. From mid-November until the year-end the zloty appreciated against the euro; in January, however, it began to depreciate again, after the central bank further reduced its key rates and observed that the inflation rate could be lower than the inflation target over the medium-term horizon.

The central banks of all three countries made changes to their monetary-policy settings in the fourth quarter of 2012. Česká národní banka cut its main interest rate twice; on 1 October (by 25 basis points, to 0.25%) and in November (by 20 basis points, to 0.05% or a „technical zero“) and has since left it unchanged. In the absence of demand-side pressures and with the domestic economy subdued, the risk is that inflation declines towards the lower end of the target range. The bank gave notice that if any further loosening of monetary conditions were required, it would be ready to intervene directly on foreign exchange markets to that end. The Magyar Nemzeti Bank cut its base rate by 25 basis points on three occasions, from 6.5% at the beginning of the quarter to 5.75% by the end. Since the risk premium of the Hungarian economy had declined amid calming of financial markets, and since domestic demand was weak, the monetary policy setting could keep inflation at the 3% target level over the medium-term horizon, according to the bank's explanation for its rate cuts. The Hungarian central bank continued to pursue a more accommodative monetary policy in 2013, cutting its base rate by 25 basis points in January and again at the end of February, to 5.25%. The Polish central bank, Narodowy Bank Polski, embarked on a loosening of monetary policy in the fourth quarter, when it reduced its base rate by 25 basis points on two occasions, down to 4.25% at the end of the year. By way of explanation the bank pointed out that the economy was decelerating sharply and that, with wage and inflation pressures contained, it was necessary to maintain the inflation rate at close to target over the medium-term horizon. The central bank cut the base rate further in 2013, down to 3.25% in March, arguing that such monetary easing was helping not only to achieve the inflation target, but also to support a recovery of the Polish economy.

Chart 48 Key interest rates of the V4 national central banks (%)



Source: National central banks, ECB.

QUARTERLY REPORT ON THE REAL ECONOMY

THE REAL ECONOMY IN THE FOURTH QUARTER OF 2012

GROSS DOMESTIC PRODUCT

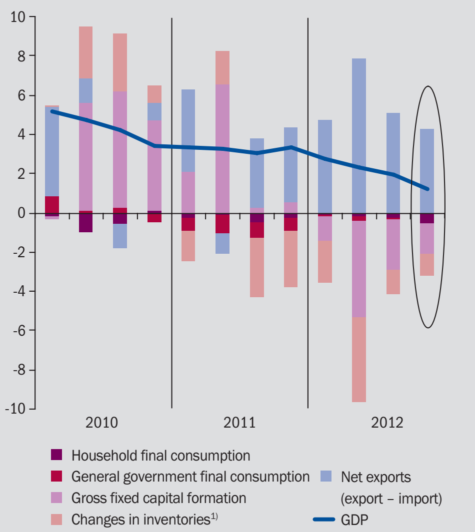
Gross domestic product (GDP) in the fourth quarter of 2012 reported the slowest growth in the last three years with its real value standing at 0.2%. In annualised terms, GDP grew by 0.7% in the last quarter of the year. GDP growth for the whole of 2012 stood at 2.0%. Economic growth was driven by foreign demand, while the domestic part of the economy made a negative contribution to GDP growth.

Looking at developments in industrial production and sales, real GDP growth in the fourth quarter will be probably lower than expected (which is probably to be shown in official data only after their revision). Industrial production and sales decreased compared to the previous quarter. At the same time, the GDP growth figures for previous quarters (seasonally adjusted) were revised. This significant revision in GDP time series (seasonally adjusted) may have resulted from a one-off VAT payment made in the fourth quarter of 2011 by the PPP concessionaire for the R1 high-speed road project and the related effect on seasonally adjusted data.

The GDP time series adjusted for the one-off VAT payment made in the fourth quarter of 2011 by the PPP concessionaire for the R1 high-speed road project, and the spreading of this VAT payment over the whole construction period and its later adjustment for seasonality, indicated a slowdown in the economy in the fourth quarter of 2012 (-0.3%). Developments in GDP have thus become closer to output indicator figures.

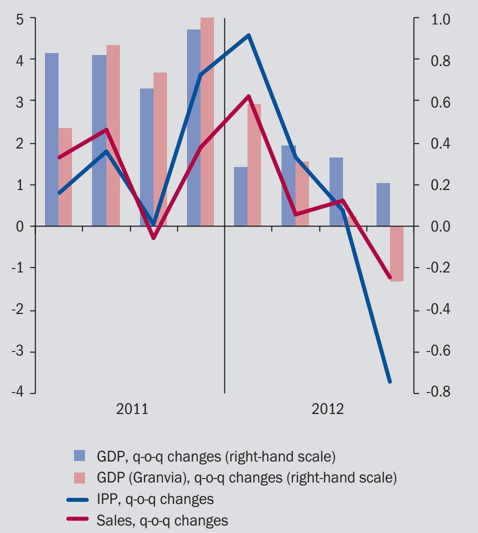
Looking at the decomposition of GDP into export markets and the domestic part of the economy, GDP net of the export market component would decrease even more substantially in the last quarter of 2012, as NBS calculations show. While the decline in car exports was more pronounced, GDP growth was positively influenced by other export-oriented sectors of the economy (electronics manufacturing).

Chart 49 Contributions to year-on-year GDP growth (p.p.; seasonally adjusted)



Source: SO SR.
Note: 1) Including statistical discrepancy and chain-linking errors.

Chart 50 Comparison of real GDP adjusted for the R1 project, industrial production and sales (%; seasonally adjusted)

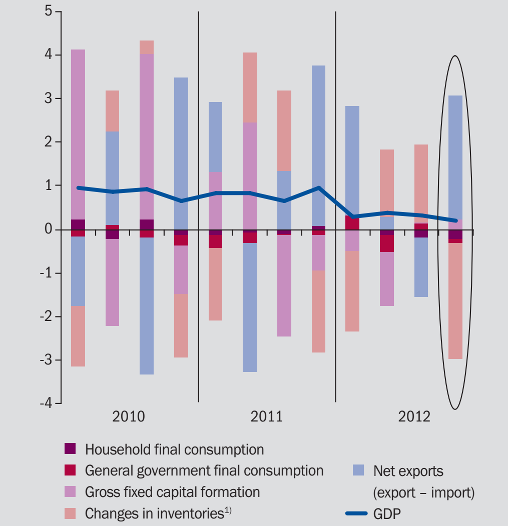


Source: NBS calculations.

Chart 51 Contribution of export markets to GDP growth (p.p.)

Source: NBS calculations.

Chart 52 Contributions to quarterly GDP growth (p.p.; seasonally adjusted)



SSource: SO SR, NBS calculations.
Note: 1) Including statistical discrepancy and chain-linking errors.

Demand

According to quarterly data, the main driver of economic growth in the fourth quarter of 2012, as in previous quarters, was rising external demand (exports of goods and services rose by 1.1% while imports fell by 2.1%). On the hand, domestic demand did not make any contribution to output growth, and household final consumption fell in the last quarter. Household approach to consumption has thus been rather cautious, due to high unemployment rates and uncertainty regarding the future, which was reflected in negative consumer confidence indicators. As a result, the savings ratio continued to grow. Consumption declined in the households sector, and also in the general government sector that followed a prudent fiscal policy. However, the most marked decrease was reported in fixed investment (adjusted for one-off investment in the automotive industry).

The decline in gross fixed capital formation resulted from a more marked decrease in non-

Table 2 GDP by expenditure (quarterly percentage changes; at constant prices)

	2011					2012				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Gross domestic product	0.8	0.8	0.7	0.9	3.2	0.3	0.4	0.3	0.2	2.0
Final consumption:	-0.6	-0.4	-0.3	-0.1	-1.5	0.1	-0.3	-0.2	-0.3	-0.6
Households and NPISHs	-0.2	-0.1	-0.2	0.1	-0.5	0.0	-0.3	-0.4	-0.4	-0.6
General government	-1.7	-1.4	-0.1	-0.9	-4.3	2.0	-2.4	0.9	-0.6	-0.6
Gross fixed capital formation	6.6	4.9	2.2	0.7	14.2	-5.1	-1.7	-0.4	0.8	-3.7
Gross fixed capital formation excl. VW1)	6.6	4.9	2.2	0.7	14.2	-5.1	-1.7	-1.0	-5.1	-5.4
Exports of goods and services	6.0	-2.1	-0.6	3.4	12.7	4.1	2.9	0.2	1.1	8.6
Imports of goods and services	4.5	1.2	-2.2	-0.7	10.1	1.6	3.0	1.9	-2.1	2.8

Source: SO SR.
1) Excluding investments of Volkswagen.

financial corporations' investment and a slump in financial corporations' investment. The decline in investment may have been caused by the declining profitability of firms and uncertainty about future developments. The imposition of special levies on selected financial institutions might translate into plunging investment of the financial sector.[4]

Exports growth accelerated to 1.1% in the fourth quarter of 2012, after recording a relatively weak rate in the previous quarter. Developments in imports of goods and services differed. Imports fell by 2.1% quarter-on-quarter, which led to a positive contribution of net exports to economic growth, possibly as a result of declining domestic demand and an excessive negative statistical discrepancy. After the discrepancy is solved, an upward revision of exports may be expected.

According to seasonally adjusted data, GDP growth was driven mainly by net exports. By contrast, changes in inventories made a large negative contribution to GDP growth.[5]

Supply

The GDP annual rate of change decelerated due primarily to net taxes (a base effect of the one-off tax payment made at the end of 2011). On the other hand, rising value added at a pace equal to the previous quarter (3.0% at constant prices) supported GDP growth. Developments in value added were influenced by stagnating gross output growth and a decline in intermediate consumption.

The sectors that made the largest contribution to value added growth were industry, the most significant sector in terms of volume, followed by the information and communication sector. By contrast, contribution from construction, agriculture, forestry and fishing to value added declined. The decrease in net taxes on products became even more marked.

WAGES AND LABOUR PRODUCTIVITY

Main indicators of labour market further deteriorated in the fourth quarter of 2012. Declining employment in the private sector has signalled a worsening of the economic situation. At the same time, the fall in the number of hours worked was less pronounced than that in overall employment. Reflecting the reported decline in employment, the rate of unemployment rose. Employers' demand for labour has been falling. Wages grew more rapidly than would be expected based on the economic situation. However, this seems to be an isolated rise that may not continue in the first quarter of 2013. Real unit labour costs declined further in the fourth quarter, although at a lower pace than in previous quarters. Despite growing compensation, households' propensity to save exceeded their propensity to consume.

The average monthly nominal wage of an employee in the Slovak economy in the fourth quarter of 2012 increased in year-on-year terms by 3.2%, to €875. However, this increase resulted from developments at the end of 2011 when firms and general government postponed the payment of year-end bonuses to the following quarter. The average nominal wage increased by a seasonally adjusted 0.1% quarter-on-quarter and 0.6% year-on-year.[6] Owing to consumer price inflation, the average real wage declined both in the year-on-year and quarter-on-quarter terms.

Table 3 GDP and its components (%; at constant prices)

	2011					2012				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Gross output	8.0	8.8	3.8	2.3	5.6	4.9	2.7	2.0	0.0	2.4
Intermediate consumption	1.1	3.0	4.4	2.5	7.5	5.8	2.2	1.6	-1.7	1.8
Value added	3.2	2.4	2.9	2.1	2.7	3.5	3.6	2.8	3.0	3.2
Net taxes on products[1)]	2.9	3.6	-0.8	19.9	9.0	-3.2	-6.9	-5.2	-19.0	-9.2

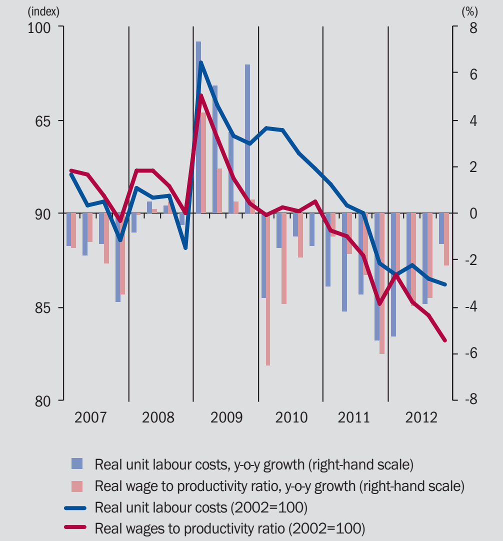
Source: SO SR.
1) Value added tax, excise tax, import tax, less subsidies.

4 For more information see the analytical commentary *Je pokles investičnej aktivity v roku 2012 rizikom pre budúci rast?* (Does the decline in investment activity in 2012 pose a risk to future growth?).
5 For more information see the analytical commentary *Vývoj zásob* (Inventory developments).
6 Own seasonal adjustment.

Over the last quarters, a slowdown in wage growth was the most significant in the sectors of agriculture, transportation and storage, accommodation and catering services, real estate activities, and, in the last quarter of 2012, also in health care and social work. By contrast, wage growth accelerated in mining and quarrying, construction, as well as in information and communication, while, in the last quarter, high bonuses were probably paid in the sector of financial and insurance activities. In quarter-on-quarter terms, wage growth was generally subdued both in the private and public sectors.

As for nominal compensation per employee[7] (ESA 95), its rate of growth in the fourth quarter of 2012 was similar to that of wages (3.2%), which was 1.9 percentage points higher compared to the previous quarter. Reasons behind this increase may be comparable to those influencing wage developments, although compensation could have also been affected by severance payments, or bonuses not showed in statistical reporting. The rise in compensation per employee accelerated in the sectors of trade and information and communication, while it is likely that a one-off increase was recorded in general government and financial and insurance activities. Real compensation per employee was 0.2% higher than a year earlier.

Chart 53 Real labour productivity to real labour costs (index Q2 2012 = 100; annual percentage growth)



Source: SO SR, NBS calculations.
Note: Real unit labour costs expressed in the ESA 95 methodology. CPI deflated real wage from the quarterly statistical reporting. The data are seasonally adjusted.

Labour productivity, calculated according to ESA 95, increased year-on-year by 2.6% in nominal terms and by 1.2% in real terms. When confronting real labour productivity and real wages, the trend of higher increase in productivity compared to real wages, or real compensation per employee, continued, which translated into a decline in unit labour costs. Expressed in the ESA methodology, this decline slowed in the last quarter of 2012. Such developments have suggested a lack of excessive price pressures in the economy.

Income and expenditure of households

The current income of households increased in nominal terms by 4.3% year-on-year, to €16.6 billion in the fourth quarter of 2012. Compared with the third quarter of 2012, the rate of growth accelerated by 1.9 percentage points, due mainly to higher rises in gross wages and salaries and social benefits, excluding social transfers in kind.

The current expenditure of households (expenses paid to other sectors and not used for direct consumption) increased on a year-on-year basis by 2.5%, to €4.1 billion. When compared with the third quarter of 2012, their rate of growth accelerated by 0.7 percentage point. The main contributions came from a larger rise in current taxes and other current transfers.

The gross disposable income of households (current income less current expenditure) amounted to €12.5 billion, which represented a year-on-year rise of 4.9%. Of that income, households spent 81.2% on final consumption, which was the lowest amount reported for a fourth quarter since 1999. Gross household savings rose by 18.1%. The savings ratio (gross savings as a share of gross disposable income) increased by 0.7 percentage point to 11.4% in 2012 compared to the previous year, owing mainly to developments in the last quarter of 2012. The high savings ratio in the fourth quarter (20.2%) confirmed uncertainty among consumers regarding the future as well as a possible weakening of the labour market.

7 *As defined by the Statistical Office of the Slovak Republic, compensation per employee means remuneration payable to employees.*

Table 4 Generation and use of income in the household sector (at current prices)

Item	EUR billions		Annual rate of change (%)		Share in %	
	Q4 2011	Q4 2012	Q4 2011 / Q4 2010	Q4 2012 / Q4 2011	Q4 2011	Q4 2012
Employment compensation (all sectors)	7.3	7.6	1.5	3.3	46.1	45.7
of which: gross wages and salaries	5.8	6.0	0.9	4.0	36.2	36.0
Gross mixed income	5.0	5.2	5.5	2.7	31.7	31.2
Property income – received	0.4	0.5	-7.1	4.4	2.8	2.8
Social benefits	2.5	2.8	-0.7	11.4	15.7	16.7
Other current transfers – received	0.6	0.6	-1.5	0.3	3.7	3.6
Current income in total	**15.9**	**16.6**	**2.0**	**4.3**	100.0	100.0
Property income – paid	0.2	0.1	34.0	-28.6	4.5	3.2
Current taxes on income, assets, etc.	0.5	0.6	5.1	6.1	13.2	13.6
Social contributions	2.7	2.8	6.0	3.8	66.0	66.9
Other current transfers – paid	0.7	0.7	-4.2	2.6	16.3	16.3
Current expenditure in total	**4.0**	**4.1**	**5.1**	**2.5**	100.0	100.0
Gross disposable income	**11.9**	**12.5**	**1.0**	**4.9**	-	-
Adjustment arising from changes in net assets of households in pension fund reserves	0.2	0.2	-6.6	-13.0	-	-
Household final consumption	10.0	10.1	3.4	1.7	-	-
Gross household savings	2.1	2.5	-9.4	18.1	-	-

Source: SO SR.

Table 5 Gross disposable income (index: same period a year earlier = 100, current prices)

	2011	2012				
	Year	Q1	Q2	Q3	Q4	Year
Gross disposable income	102.4	104.4	103.1	102.6	104.9	103.8
Household final consumption	103.4	104.4	103.4	102.9	101.7	103.1
Gross household savings	94.4	100.5	106.7	100.4	118.1	110.1
Ratio of gross savings to gross disposable income (%)	10.7	4.1	10.3	9.0	20.2	11.4

Source: SO SR, NBS calculations.

EMPLOYMENT AND UNEMPLOYMENT

Employment dynamics deteriorated slightly in comparison with the previous period. According to statistical reporting and the methodology of national accounts (ESA 95), employment further declined in the fourth quarter to -0.8% and -0.6%, respectively (after falling by 0.1% according to both methods in the third quarter of 2012). The Labour Force Survey (LFS)[8] revealed a downward change in employment in the fourth quarter (a decline of 0.1%), causing its rate of growth to fall by 0.6 percentage point. Based on the ESA methodology, it dropped by 0.4% in seasonally-adjusted quarter-on-quarter terms. According to the other two methodologies (LFS and statistical reporting), it declined by 1% and 0.7%, respectively, which means a serious deterioration in the current developments of employment.

In terms of structure, overall employment (ESA 95) was influenced in the fourth quarter of 2012 by a further decrease in the number of employees and self-employed persons (0.3% and 0.8% respectively), thus adding to their previous

8 *The labour force survey methodology (LFS) uses data calculated on the basis of the population as at 1 January 2012, derived from the Census of Population, Houses and Apartments 2011; indices are calculated based on comparable data.*

decline. The number of entrepreneurs and their share in overall employment have continued to decline in quarter-on-quarter terms since the beginning of 2010 (from 16.8% to 15.5%).

Employment in terms of the number of hours worked decreased by 0.1% quarter-on-quarter in the last three months of 2012, i.e. at a lower pace than employment itself. Thus, demand for labour declined in the last quarter. The average number of hours worked in a week remained almost unchanged in quarter-on-quarter terms, and throughout the year it stood at levels slightly below those of 2011.

Broken down by sector (ESA 95), the slower year-on-year growth in employment in the fourth quarter of 2012 was negatively affected by the deepening decline of employment in industry, information and communication, real estate activities and arts, entertainment and recreation.

According to the Labour Force Survey (LFS), the number of unemployed in the fourth quarter increased by 3.1% year-on-year, to 390,400. In quarter-on-quarter seasonally adjusted terms, the number of unemployed rose by approximately 8,000. This was reflected in the unemployment rate, which increased by 0.5 percentage point year-on-year in the fourth quarter, to 14.4%, representing a seasonally adjusted quarterly growth of 0.4 percentage point. The economically-inactive population (on a sick leave) rose by approximately 9,000 according to the LFS, potentially representing hidden unemployment, which may pass through to real unemployment only after a longer lag. According to the registers of Offices for Labour, Social Affairs and Family, the average unemployment rate in the fourth quarter of 2012 stood at 14%.

PROFITABILITY OF FINANCIAL AND NON-FINANCIAL CORPORATIONS IN THE FOURTH QUARTER OF 2012

In the fourth quarter of 2012, profits of financial and non-financial corporations declined by 35.1% in seasonally adjusted year-on-year terms and 5.1% in quarter-on-quarter terms. Deteriorating economic activity has been reflected in falling profitability of the economy. Its quarter-on-quarter decline can be attributed to financial as well as non-financial corporations.

Falling profits of the financial sector over the fourth quarter related primarily to worsening profits of banks (down by almost 50% or €50 million in the fourth quarter) due to lower interest income and the imposition of special levies on selected financial institutions (amounting in total to approximately €100 million in the last quarter of 2012). The special levies have been introduced by legislative changes effective since September 2012 and apply not only to corporate deposits but also to household deposits.

Quarterly profitability of non-financial corporations deteriorated, being affected by negative financial results in construction, trade and transportation and storage, as well as by subdued profits in industry. A positive impact on manufacturing production came from car producers as their profits rose quarter-on-quarter.

Chart 54 Profitability of non-financial corporations (%; seasonally adjusted)

Source: SO SR, NBS calculations.

Overview of main macroeconomic indicators for Slovakia

Table 6 Selected economic and monetary indicators for the SR

(annual percentage changes. unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 95	Unemployment rate (%)	Industrial production index	Total receipts of sectors	Economic sentiment indicator (long-term average =100)	M3 for analytical purposes[1]	Loans to non-financial corporations	Loans to households	State budget balance (EUR mil.)	General government balance as % of GDP	Debt ratio (general government gross debt as % of GDP)	Current account (% GDP)	Balance of trade (% GDP)	USD/EUR exchange rate (average for the period)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2008	5.8	3.9	6.1	3.2	9.6	0.0	-	98.2	4.9	15.5	25.3	-703.8	-2.1	27.9	-6.02	-1.13	1.4708
2009	-4.9	0.9	-2.5	-2.0	12.1	-17.2	-18.6	77.0	-2.8	-3.3	11.0	-2,791.3	-8.0	35.6	-2.59	1.51	1.3948
2010	4.4	0.7	-2.8	-1.5	14.4	-0.6	7.9	97.8	7.8	1.6	12.5	-4,436.1	-7.7	41.1	-3.72	1.18	1.3257
2011	2.0	4.1	2.7	1.8	13.5	5.3	8.6	97.9	2.9	7.6	11.1	-3,275.3	-4.8	43.3	-1.94	1.42	1.3920
2012	.	3.7	.	0.1	13.9	8.1	5.5	93.2	8.8	-2.3	10.3	-3,810.7	.	.	.	.	1.2848
2011 Q4	3.8	4.7	2.8	0.9	14.0	2.2	5.8	94.5	2.9	7.6	11.1	-3,275.3	-	-	-1.09	2.58	1.3482
2012 Q1	2.9	4.0	3.6	0.6	14.1	6.9	8.6	96.0	5.3	4.7	11.1	-1,155.4	-	-	2.83	5.19	1.3108
2012 Q2	2.6	3.6	4.0	0.2	13.6	9.8	5.1	98.0	4.2	0.2	9.9	-2,325.7	-	-	3.35	6.07	1.2814
2012 Q3	0.7	3.8	4.0	-0.1	13.7	11.5	5.9	92.7	4.3	-1.7	9.8	-2,585.6	-	-	0.67	3.81	1.2502
2012 Q4	0.7	3.6	.	-0.6	14.4	4.7	3.0	86.2	8.8	-2.3	10.3	-3,810.7	-	-	.	.	1.2967
2012 Feb.	-	4.0	3.8	-	13.8	7.2	10.7	93.5	3.7	4.8	11.5	-846.0	-	-	-	-	1.3224
2012 Mar.	-	3.9	4.2	-	13.7	8.3	7.8	98.4	5.5	4.7	11.1	-1,155.4	-	-	-	-	1.3201
2012 Apr.	-	3.7	3.8	-	13.4	10.4	5.1	99.4	5.3	4.0	10.8	-1,171.1	-	-	-	-	1.3162
2012 Máj	-	3.4	4.2	-	13.2	10.0	5.1	97.8	6.3	3.4	10.4	-2,159.5	-	-	-	-	1.2789
2012 Jún	-	3.7	4.0	-	13.3	9.1	5.0	96.7	4.2	0.2	9.9	-2,325.7	-	-	-	-	1.2526
2012 Júl	-	3.8	3.6	-	13.3	12.1	9.5	92.8	5.6	0.8	10.1	-2,238.5	-	-	-	-	1.2288
2012 Aug.	-	3.8	4.1	-	13.2	12.6	4.3	92.3	3.4	-2.2	9.9	-2,675.5	-	-	-	-	1.2400
2012 Sep.	-	3.8	4.4	-	13.4	10.1	4.2	92.9	4.3	-1.7	9.8	-2,585.6	-	-	-	-	1.2856
2012 Okt.	-	3.9	4.2	-	13.7	8.5	5.3	86.5	4.7	-1.7	10.1	-2,466.0	-	-	-	-	1.2974
2012 Nov.	-	3.5	3.9	-	13.9	7.8	3.4	84.7	4.5	-0.8	10.2	-2,743.5	-	-	-	-	1.2828
2012 Dec.	-	3.4	3.9	-	14.4	-3.0	0.1	87.4	8.8	-2.3	10.3	-3,810.7	-	-	-	-	1.3119
2013 Jan.	-	2.5	3.1	-	14.8	3.4	1.8	84.9	7.8	-1.3	9.9	-62.5	-	-	-	-	1.3288
2013 Feb.	-	.	.	-	.	.	.	86.7	.	.	.	-713.4	-	-	-	-	1.3359

Sources: Statistical Office of the Slovak Republic, MF of the SR, NBS, the European Commission.
1) Currency in circulation in M3 refers to money held by the public (according to methodology in place prior to 2008).

More detailed time series for selected macroeconomic indicators
http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2013/StatisticsMB0313.xls