NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

NBS
Monthly Bulletin

JUNE 2013

Published by:

Address:
Národná banka Slovenska
Imricha Karvaša 1, 813 25 Bratislava
Slovakia

Contact:
Press and Editorial Section
+421/02/5787 2146

Fax:
+421/02/5787 1128

http://www.nbs.sk

Debated by the NBS Bank Board on 25 June 2013.

ISSN 1337-9526 (online)

CONTENTS

Abbreviations

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EIA	Energy Information Administration
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]

The revised estimate for the euro area's economic growth confirmed the continuation of the euro area recession in the first quarter of 2013. Domestic demand in the euro area was subdued amid negative sentiment among investors and consumers and a reduction in general government spending. The Slovak economy was affected by the euro area slump, and although it grew by 0.2% quarter-on-quarter, that growth was driven mainly by changes in inventories (including a statistical discrepancy) and, to a lesser extent, by positive contributions from general government consumption and net exports. The increase in general government consumption was based mainly on employee compensation growth, which was substantially higher than the same indicator in the private sector. Negative tendencies in the economy were accentuated by a decline in investment demand and by destocking. Although net exports made a moderately positive contribution to economic growth, they did so because imports fell more than exports. Overall growth was in line with expectations, while its composition differed from the estimates made in the latest forecast (especially for the investment and private consumption components). The labour market situation remained relatively difficult in the first quarter, reflecting the slowdown in economic activity. Employment (ESA 95) declined over the previous quarter by 0.3%.

The negative trends continued in April, according to monthly figures. Industrial production fell slightly, with a downward impact on export performance. The drop in industrial production was largely caused by the automotive industry, which was affected by the sluggishness of the European car market. Sentiment in the economy in May did not point to an improvment in the situation. In industry, production expectations deteriorated. On the other hand, positive tendencies were observed in private consumption. Retail trade sales showed a moderate rising tendency, while retail trade and consumer confidence indicators increased slightly. This may point to moderate growth in private consumption, which could also be supported by growth in real wages.

In the labour market, employment in April fell slightly month-on-month. Firms' expectations for employment in the second quarter remained on the pessimistic side, and it may therefore be expected that employment will fall marginally in the second quarter, in line with the latest forecast.

Price developments in April were consistent with expectations, with HICP inflation decelerating further, to 1.8%. More than half of the increase in the headline rate was accounted for by the food component. In the second half of 2013, average inflation is expected to fall to around 1.5%, following the stabilisation of agricultural commodity prices.

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

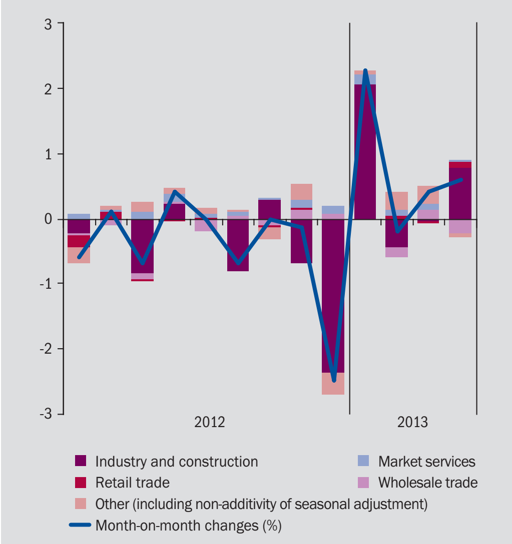
2.1 SALES[2]

Sales growth driven by industry

In April 2013, total sales in the Slovak economy increased by 0.4% over the previous month. While internal trade sales declined, sales in selected sectors increased, owing mainly to the contribution of the industry sector and in particular its electronics segment. The monthly decline in internal trade sales was largely the result of a negative contribution from wholesale trade, which in turn, however, stemmed from positive developments in the previous month. By contrast, retail trade sales mitigated the decline in internal trade sales, as they reported a first annual increase for almost a year.

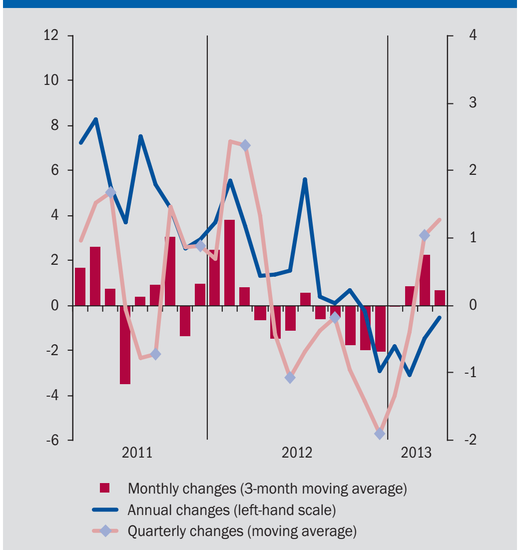
The April sales figures for the selected sectors indicate that the decline in gross production for the second quarter of 2013 may stabilise when compared with its level from the previous quarter. Further evidence that the situation may have improved is provided by business tendency surveys, which have steadied at levels less negative than those observed earlier in the year.

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



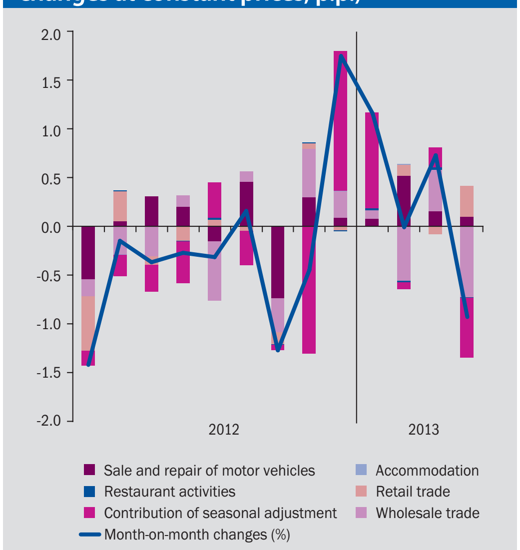
Source: SO SR, NBS calculations.
Note: Internal calculation for constant prices.

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.*

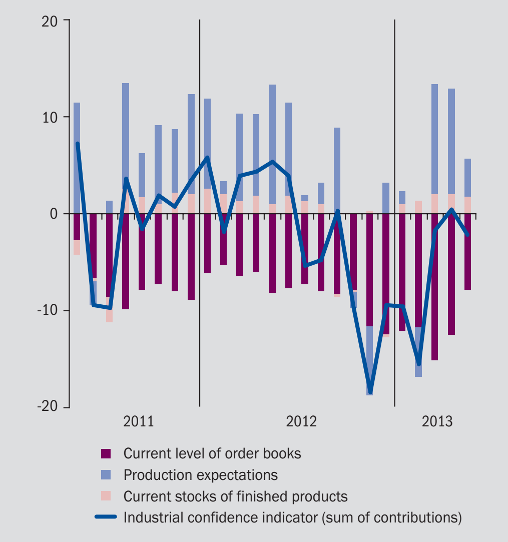
2.2 ECONOMIC SENTIMENT INDICATOR

Sentiment in Slovak firms reflected negative expectations in the euro area

In May, the economic sentiment indicator (ESI) for Slovakia decreased month-on-month by 2.6 points, to 88.7. As projected, the ESI was affected by worsening sentiment in Germany and the euro area as whole. Compared with the same month of the previous year, the ESI was lower by 9.1 points. While sentiment in industry and services declined, the construction, retail trade, and consumer confidence indicators increased.

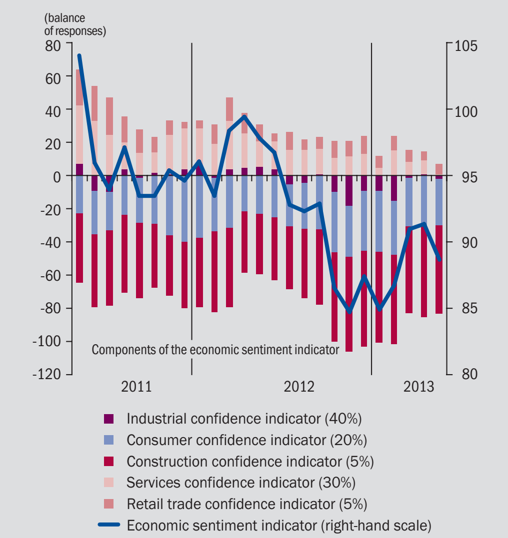
The industry confidence declined mainly on concerns about falling future output, despite improved assessments of the current level of order books and stocks of finished products. Expectations for a drop in production are most prevalent in the following segments: wood processing and manufacture of wood products; manufacture of chemicals and chemical products; manufacture of metals and fabricated metal products; manufacture of computer, electronic and optical products; and manufacture of machinery and equipment. Services confidence fell to its end-2009 level, owing to a worsening of demand expectations, particularly in transportation and storage and in accommodation and food service activities. Construction confidence picked up slightly, mainly because assessments of order books brightened. Retail trade confidence was boosted in particular by improving appraisals of the present business situation. The increase in consumer confidence was supported by all components apart from savings expectations, which deteriorated slightly.

Chart 5 Industrial confidence indicator (balance of responses)



Source: European Commission.

Chart 4 Economic sentiment indicator (long-run average = 100)

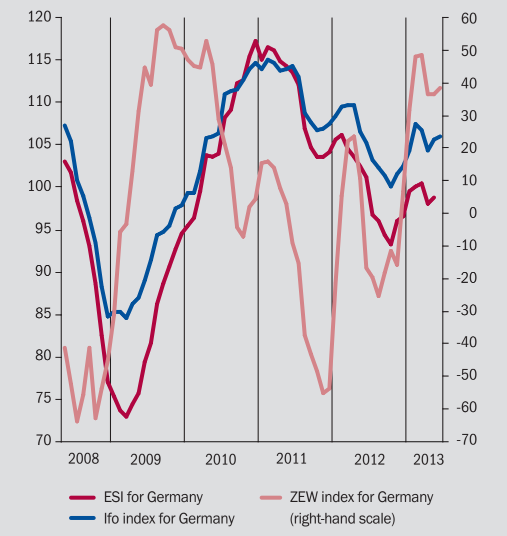


Source: European Commission.
Note: The percentages in the legend represent the weights of the respective components in the ESI.

Chart 6 Economic sentiment indicator (long-run average = 100)

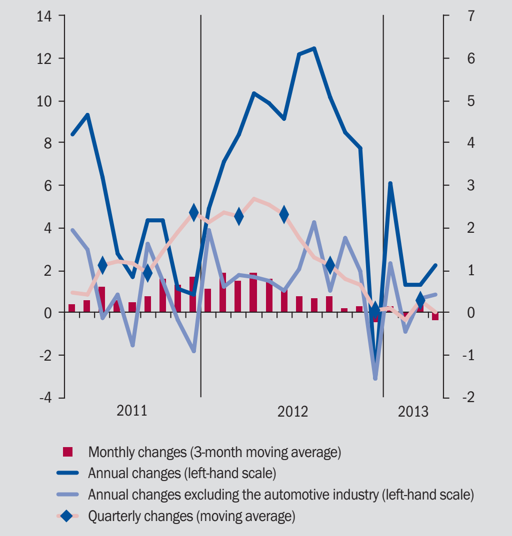
Source: European Commission.

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.

The economic sentiment indicators for the euro area and Germany rallied again in May, after falling in April for the first time since autumn last year. This improvement was confirmed by the ZEW and Ifo indices for May. According to surveys in June, the ZEW and Ifo indices improved moderately again, and the composite PMI[3] indicators for Germany and the euro area also increased. Consequently, financial experts remain optimistic and assume that the Germany economy will pick up in the second half of the year.

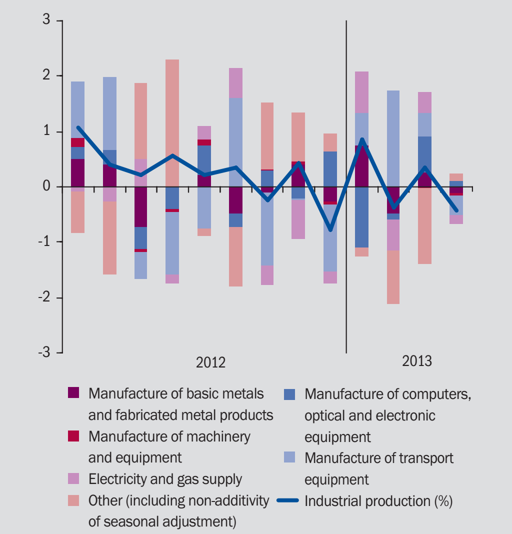
2.3 INDUSTRIAL AND CONSTRUCTION PRODUCTION

Industrial production fell in April due mainly to lower car production

Industrial production in April 2013 fell by 0.4% over the previous month, owing mainly to negative contributions from the automotive and chemical industries. It was the first time this year that the segment of transportation equipment made a significant negative monthly contribution to the industrial production index; nevertheless, the annual growth rate of industrial production accelerated in April. The negative contribution of the chemical industry was largely due to this segment reporting production growth in the previous month. The contrast between the decrease in industrial production and increase in industry sales in April was caused mainly by the manufacturing segments of metals, electronics, and machinery and equipment.

Construction production in April remained flat in month-on-month terms, while its annual rate of decline eased to 4.6%. Compared with the

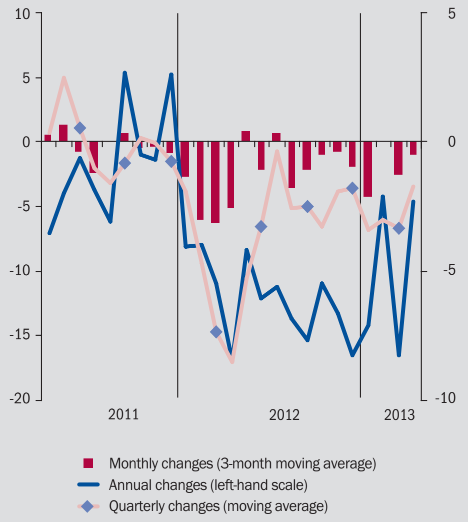
Chart 9 Industrial production – principal contributions to monthly rate of change (p.p.)



Source: SO SR, NBS calculations.

3 *Source: Markit.*

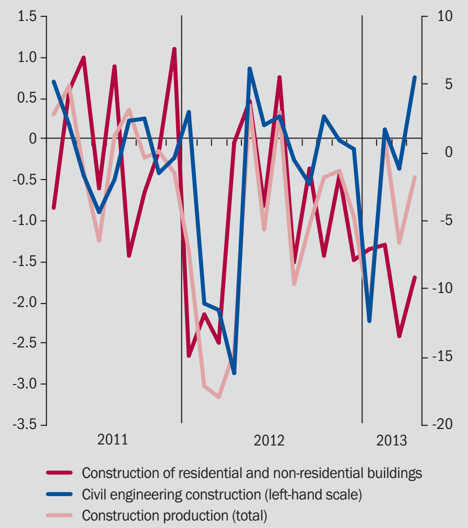
Chart 10 Construction production (%)



Source: SO SR, NBS calculations.

previous month, construction activity increased both domestically and in terms of domestic firms' production in other countries. In addition, both building construction and civil engineering construction contributed to the lower month-on-month decline.

Chart 11 Construction production (monthly percentage changes; constant prices)



Source: SO SR.
Note: Construction of buildings accounts for around 70% of total construction production.

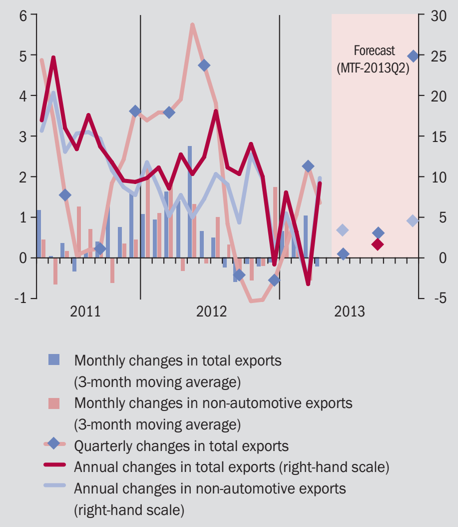
2.4 TRADE BALANCE

Although the April trade surplus was high, the export situation is not improving

Goods exports continued to decline in April 2013, falling by 1.3% over the previous month. Nevertheless, the annual growth rate of exports increased to 9.2%, with the disparity between the monthly and annual rates of change being attributable to the timing of Easter, which fell in March this year and in April last year. The negative export result reflected mainly car exports which, as in March, declined in month-on-month terms.

The substantial lead of annual export growth over import growth was maintained in April (9.2% against 3.6%), resulting in one of the highest trade surpluses and increasing the 12-month cumulative trade balance to 6% of GDP. The cumulative trade balance (since the beginning of 2013) is €1,863.5 million, compared to €1,125.2 million for 2012. This surplus is largely attributable to imports for final consumption, which in the first quarter of 2013 declined by 5.4% year-on-year, possibly indicating a further widening of the negative output gap.

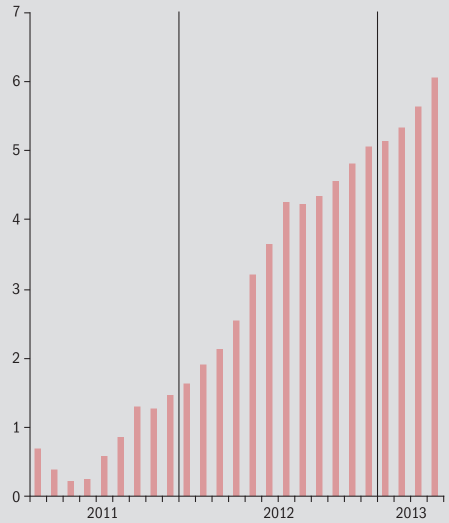
Chart 12 Goods exports (%)



Source: NBS and SO SR.

3 *Source: Markit.*

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



Source: NBS and SO SR.

Developments in April imply that export performance will be particularly dependent on the situation in the rest of the economy, since the automotive industry has since last year been approaching the limit of its production capacity.

3 The labour market

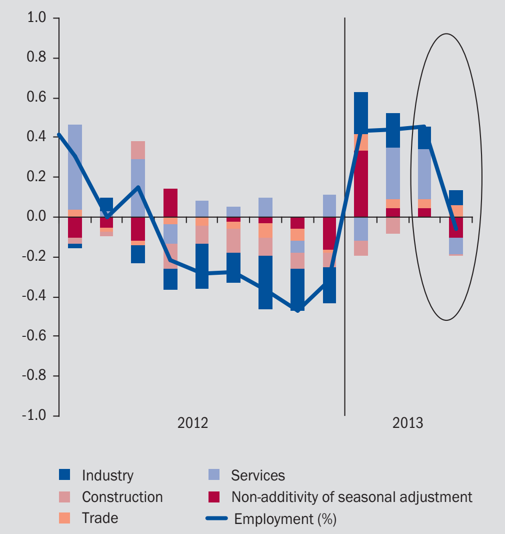
The labour market situation deteriorated further in April. Employment fell by 0.1% over March, after declining by 0.3% in the first quarter of 2013. Economic activity is currently not sufficient to support significant job creation, as the production and export figures for April confirmed. But while employment declined in the services sector, it increased in industry and trade. In selected market services, too, employment has risen since the beginning of the year (by around 4,000 people), particularly in the segments of legal and accounting activities, advertising, and market research.

Firms' expectations for employment in the second quarter remain on the pessimistic side. It may therefore be expected that employment will fall again this second quarter, albeit more moderately than at the beginning of the year, due to the fading of the effect of the cancellation of limited work contracts.

In May, the seasonally-adjusted rate of registered unemployment edged up by 0.05 percentage point, to 14.5%. The unemployment rate based on the total number of job seekers increased even less (by just 0.02 percentage point), reflecting a decline in the number of people unavailable for work. In seasonally-adjusted terms, registered unemployment fell by 0.15 percentage point (around 4,000 people), to 14.26%, probably due mainly to the annual effect of seasonal work. Since the number of job vacancies is rising only marginally and the number of people obtaining work is not increasing, the labour market situation is not expected to recover significantly over coming months.

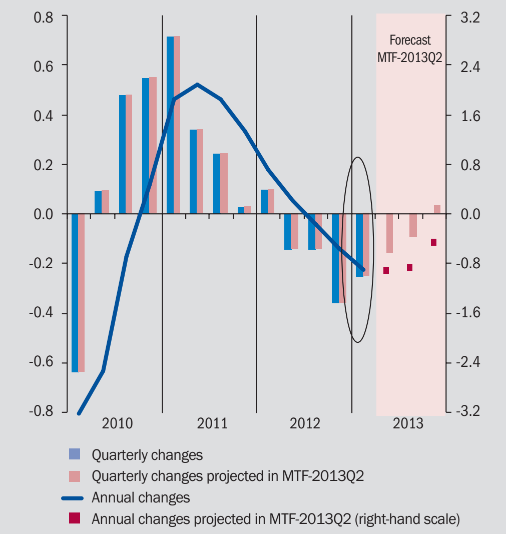
The slight rise in the registered unemployment rate in both April and May indicates that the unemployment rate increase of 0.1 percentage point projected for the second quarter in the latest Medium-Term Forecast (MTF-2013Q2) may be realistic. The main downward risks to that forecast are unemployed people continuing to leave the country for work abroad and a further increase in the implementation of labour activation policies.

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



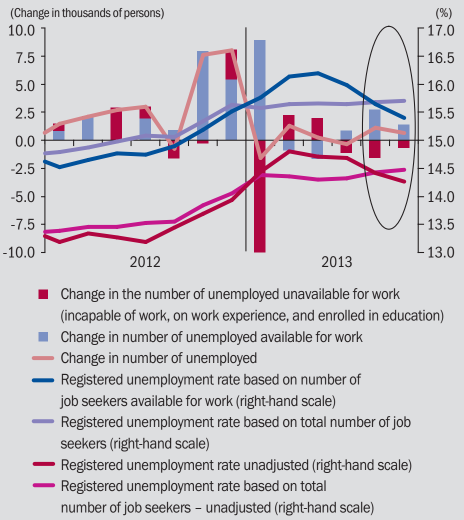
Source: SO SR, NBS calculations.

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



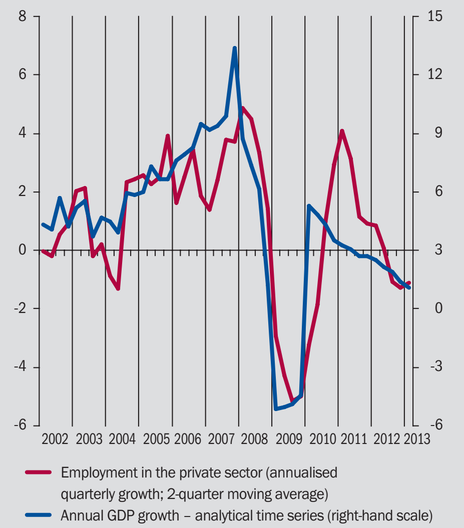
Source: SO SR, NBS calculations.

Chart 16 Unemployment (%)



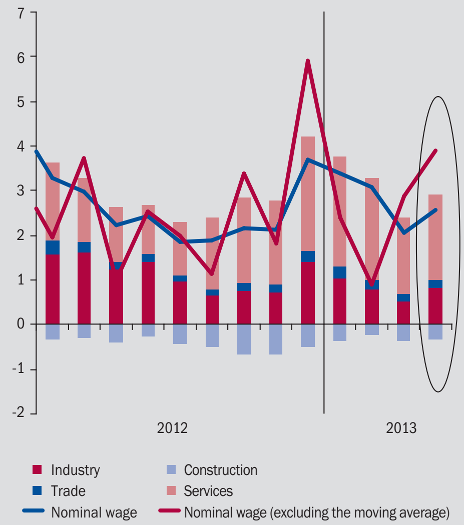
Source: SO SR, NBS calculations.

Chart 17 Employment and GDP (%)



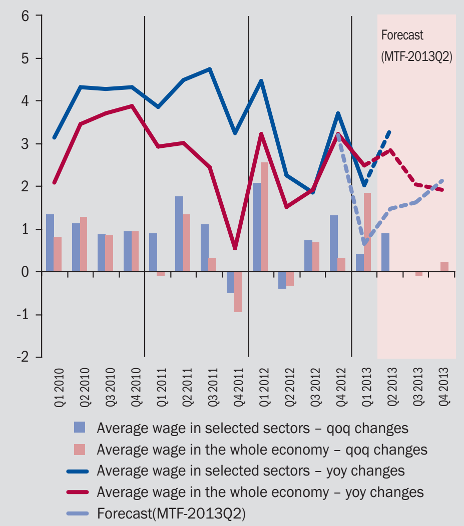
Source: Central Office of Labour Social Affairs and Family, seasonal adjustment by NBS.

Chart 18 Average nominal wage – annual rate of change by sectoral contribution (3-month moving average; p.p.)



Source: SO SR, NBS calculations.

Chart 19 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 the period Q2-Q4 2013 shows a possible divergence from the projection in MTF-2013Q2 forecast. Wage growth in the selected sectors for Q2 2013 is calculated using the SO SR's monthly data for April and an ARIMA model for the rest of the quarter.

In April, the average nominal wage increased again, by 0.3% month-on-month. The annual growth rate accelerated to 3.9%, reflecting the effects of past volatility. At present, factors dampening wage growth are more prevalent. Over recent months wages have continued to increase in the industry, trade and services sectors, but they have declined in construction. With inflation low, real wages are also rising, which may provide some boost to household consumption.

Wage growth in the first quarter was higher than projected by NBS, coming in at 2.5% year-on-year and 1.8% quarter-on-quarter. This may be partly caused by limited work contracts being switched for regular employment contracts, since wages paid under the former are not included in the monthly wage statistics. Assuming that this is the case, the average wage growth for 2013 as a whole would be higher than projected in the MTF-2013Q2 forecast.

4 Prices

Inflation slightly lower than expected

Annual HICP inflation was 1.8% in May, 0.1 percentage point lower than projected. The apparent slight increase from the previous month was in fact the result of rounding (the difference was 0.01 percentage point). In month-on-month terms, the headline rate edged up by 0.1%.

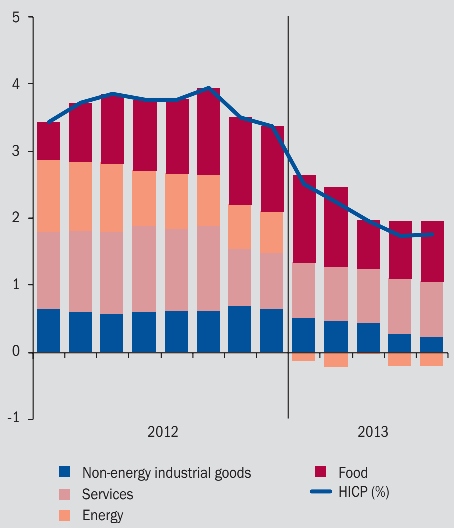
The annual inflation rate remained flat with, on the one hand, the food component increasing slightly and, on the other hand, the tradable goods component declining moderately. It is clear from the composition of inflation that food prices continue to constitute one of the key inflationary factors, as they currently account for precisely half of consumer price inflation. In the short-term horizon, food prices are expected to decelerate moderately and therefore to put downward pressure on HICP inflation. Inflation is expected to remain muted given that energy commodity prices are lower than they were

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

	Projections for May 2013	Actual data	Difference in contributions: actual – projections
Non-energy industrial goods	0.12	-0.01	-0.04
Energy	-0.17	-0.24	-0.01
Food	0.48	0.59	0.03
Services	0.20	0.04	-0.05
HICP in total	**0.18**	**0.11**	**-0.07**

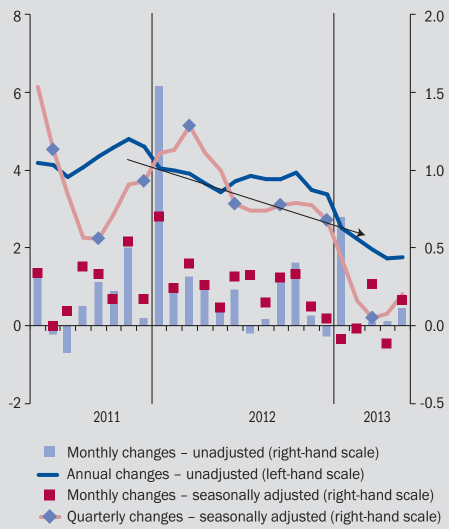
Source: SO SR, NBS calculations.

Chart 20 Composition of annual inflation (p.p.)



Source: SO SR, NBS calculations.

Chart 21 Headline inflation rate (%)



Source: SO SR, NBS calculations.

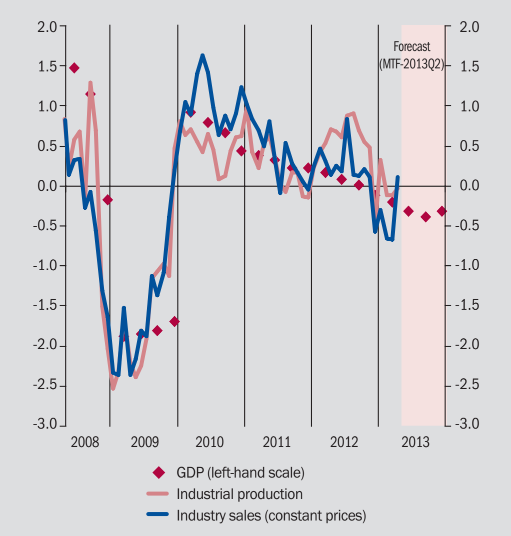
in 2012, import price inflation is falling, and consumer demand for goods and services remains subdued.

The inflation rate is assumed to fall below 1.5% in the second half of 2013, since it has been lower than projected for several months.

5 Qualitative impact on the forecast

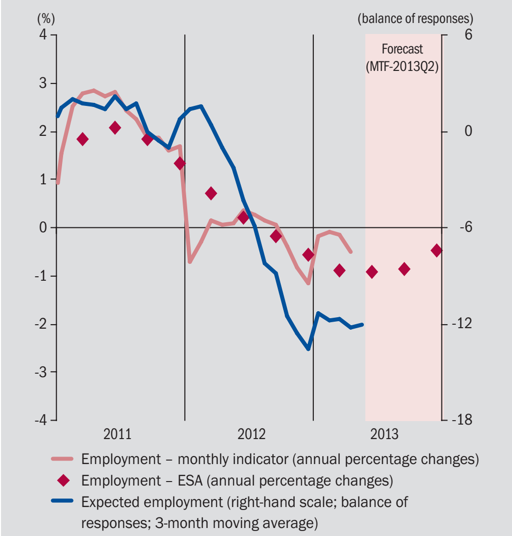
Just before NBS published its latest Medium-Term Forecast (MTF-2013Q2), the SO SR released its revised estimate of GDP growth and GDP growth composition, as well as other quarterly ESA 95 data for the first quarter of 2013. The composition of GDP growth differed slightly from the forecast, with investment declining more markedly than expected and

Chart 22 GDP, industrial production and sales (annual percentage changes)



Source: SO SR and NBS.

Chart 24 Employers' expectations (balance of responses) and the annual rate of change in employment (%)



Source: SO SR, NBS and the European Commission.

Chart 23 GDP (annual percentage changes) and the economic sentiment indicator

Source: SO SR, NBS and the European Commission.

Chart 25 Consumers' inflation perceptions (balance of responses) and HICP inflation (annual percentage changes)

Source: SO SR and the European Commission.

private consumption exceeding expectations by remaining flat. Despite the difference in composition, the growth outlook for 2013 as a whole remained unchanged; nevertheless, the projectioins for GDP components will have to be revised in the next forecast. Monthly data for sales, industrial production, and confidence indicators do not suggest that GDP growth in the second quarter will be significantly different from the forecast. The labour market data for the first quarter of 2013 were broadly in line with the forecast. Likewise the monthly figures did not indicate any need to revise projections for employment in the coming quarters. Inflation in May was basically in line with the forecast, and it is therefore not expected that any revisions will be necessary to the inflation projections for the rest of the year.

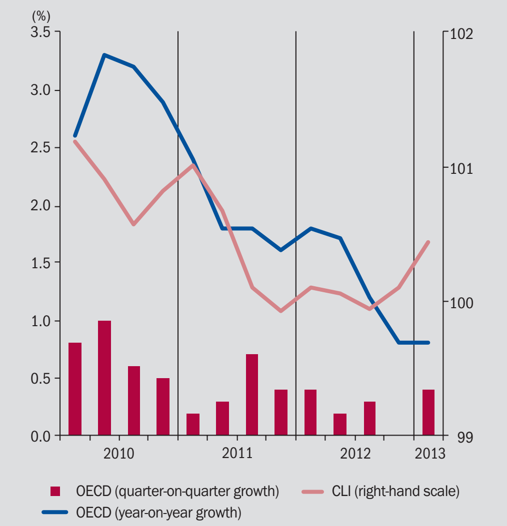
QUARTERLY REPORT ON THE INTERNATIONAL ECONOMY

THE GLOBAL ECONOMY

Economic activity in the OECD area accelerated moderately in the first quarter of 2013. Quarterly GDP growth increased to 0.4%, from 0.0% for the last three months of 2012, while annual GDP growth was unchanged from the previous quarter, at 0.8%. Economic growth trends remained heterogeneous across countries. Whereas the euro area economy contracted, the UK emerged from recession, and Japan and the United States reported increased growth. The OECD's composite leading indicator (CLI)[4] of economic sentiment continued to strengthen, but it remains at low levels.

Consumer price inflation continued to slow in the first quarter of 2013, with the OECD reporting an average headline rate of 1.6% in March, down from 1.9% in December. The inflation rate fell further in April, to 1.3%, its lowest level since the beginning of 2012. The core inflation rate increased slightly from December (1.5%) to March (1.6%), and then slowed in April, to 1.4%. Energy price inflation again decelerated sharply, from 2.9% in December to 0.9% in March, before accelerating to 1.3% in April. Food price inflation was slightly lower in March (1.7%) than in December (2.1%), and increased in April to 2.0%.

Chart 26 GDP and the CLI



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

Risks to the global economic growth outlook exist in the need to repair public finances and the weakness of labour markets in advanced economies. Other risks include slow implementation of structural reforms in the euro area, the manner of fiscal consolidation in the United States, geopolitical tensions in certain areas of the world (which could affect commodity market developments), and, significantly, weaker than expected external demand.

COMMODITIES

The oil price in the first quarter of 2013 was relatively volatile, increasing at the beginning of the year and then declining in March. The average price in the first quarter was USD 110 per barrel, almost unchanged from the previous quarter. Early in the year oil prices were boosted mainly by improving expectations for the global economy as well as by concerns about geopolitical tensions. Gradually, however, projections for oil demand declined and estimates for oil production in North America and the North Sea increased. Owing to these factors, and despite the geopolitical situation, oil prices fell steadily during the rest of the quarter and continued this trend in April. They stabilised in May.

Non-energy commodity prices increased at the beginning of the first quarter and declined gradually in March and April. Metals prices accounted for most of the early increase, as they responded to elevated demand. Agricultural commodity prices fell steadily in the first quarter, similarly to their development in the previous quarter. In April, however, these prices increased slightly.

4 *CLI indicators are published by the OECD on a monthly basis – the latest available data, published in May 2013, are for March 2013.*

UNITED STATES

US economic growth was substantially stronger in the first quarter of 2013 than in the previous quarter, with respective annualised rates of 2.4% and 0.4%. The annual growth rate of GDP also increased, to 1.8%, from 1.7% in the fourth quarter.

The acceleration in US economic growth was driven by household consumption, in particular an increase in services consumption, as well as by substantial restocking. Residential investment and fixed investment also increased, but more slowly than in the previous quarter. Net exports contributed negatively to GDP growth since export growth was lower than import growth. The ongoing fiscal consolidation effort continued to weigh on the economy, although government spending declined less in the first quarter of 2013 than in the previous quarter.

Chart 27 Economic growth (at 2005 constant prices; percentage change)

Source: Eurostat.

Inflation fell in the first quarter over the previous quarter, standing at 1.5% in March compared to 1.7% in December, and its decelerating trend continued in April (1.1%). The slowdown in inflation was led primarily by falling energy prices. The core inflation rate was 1.9% in March, virtually unchanged from December, and it declined to 1.7% in April.

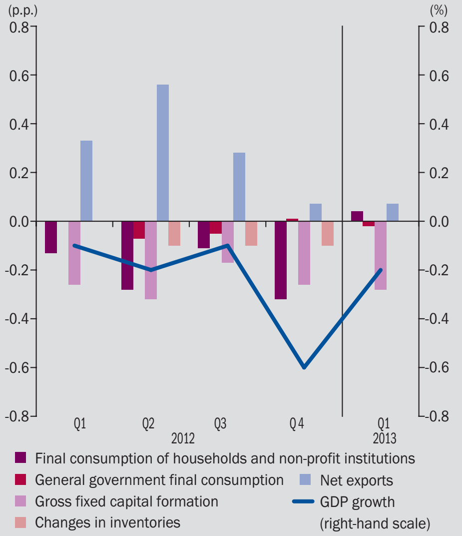
The US Federal Open Market Committee (FOMC) decided at its two regular meetings in the first quarter of 2013 to leave its target range for the federal funds rate unchanged, i.e. at close to zero. The FOMC reiterated its intention to keep the federal funds rate at exceptionally low levels, at least as 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 each meeting, the FOMC decided to continue its policy of high-level monetary accommodation ("quantitative easing"). At its meeting in April, the FOMC again decided not to change the target range for the federal funds rate.

THE EURO AREA

Euro area GDP recorded a sixth successive quarterly decline in the first quarter of 2013. This contraction was, however, more moderate than the relatively sharp decline of 0.6% observed in the last quarter of 2012. The annual rate of decline in GDP increased by 0.1 percentage point, to -1.1%. Economic growth was considerably heterogeneous across euro area countries. While the Germany economy grew modestly in the first quarter, the economies of debt-stressed countries such as Spain and Italy contracted significantly.

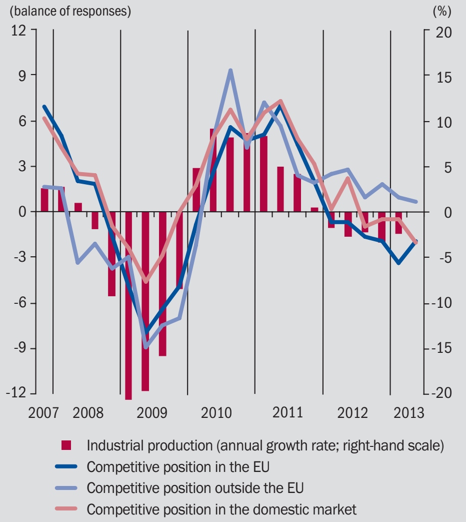
The decline in euro area GDP in the first quarter was mainly due to a large fall in investment demand, reflecting the adverse impact of cold winter weather on construction activity, particularly in Germany. Further downward pressure on GDP came from general government final consumption, which continues to be squeezed by fiscal consolidation measures. Despite persisting difficulties in the labour market and generally low consumer demand, private consumption picked up slightly after declining in each of the previous five quarters. Nevertheless, consumer demand remains fragile and has not returned to pre-crisis levels. The decline in GDP was mitigated mainly by net exports, even though export performance did not improve. In fact, exports declined for a second successive quarter, but imports fell more sharply amid sluggish domestic demand.

Chart 28 Contributions to quarterly GDP growth by component



Source: Eurostat, NBS calculations.

Chart 30 Industrial production and assessment of industrial competitiveness

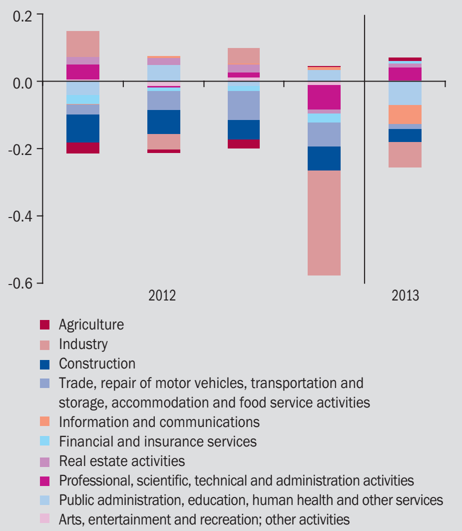


Source: European Commission, Eurostat, NBS calculations.

On the supply side of the economy, value added fell by 0.2% due mainly to negative contributions from industry and construction sectors, as well as from general government and information and communication.

Declining economic activity in industry reflects long-lasting weakness in domestic and external demand. Assessments of industry's competitive position in the domestic market and non-EU markets continued to worsen in the second quarter of 2013, while assessments of its competitive position in EU markets improved modestly (after deteriorating in the first quarter), but remain at very low levels. The generally grim assessments of industrial competitiveness

Chart 29 Valued added by sector – contributions to quarter-on-quarter growth (p.p.)

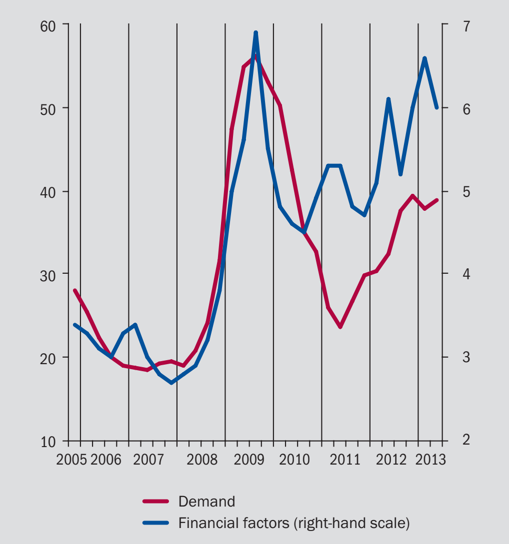


Source: Eurostat; NBS calculations.

Chart 31 Export expectations in industry and the annual growth rate of goods exports (balance of responses, %)

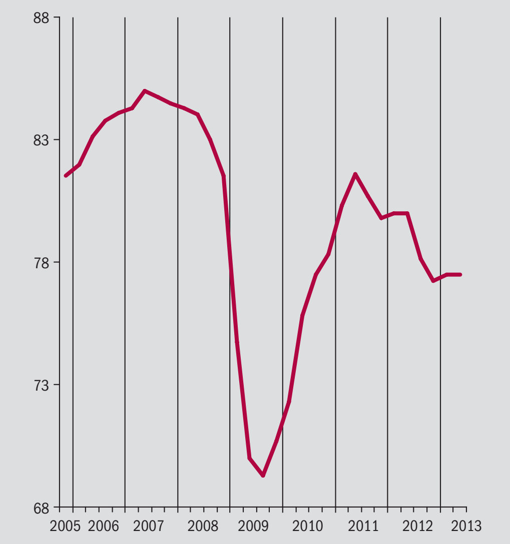
Source: European Commission, Eurostat, NBS calculations.

Chart 32 Production-limiting factors (%)



Source: European Commission.

Chart 33 Assessment of production capacity utilisation in industry (%)



Source: European Commission.

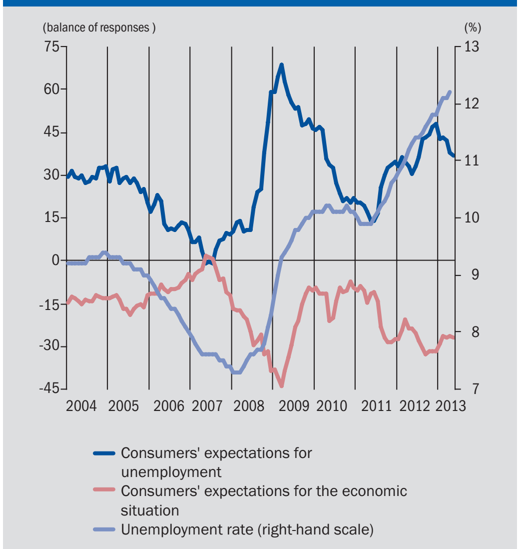
indicate that economic activity in industry will remain subdued at least in the near term. Export expectations in industry are at historically low levels, but their strengthening in the first two quarters of 2013 may point to a gradual stabilisation of exports (the annual growth rate of nominal exports has been falling since the third quarter of 2010).

Weak demand continues to be seen as the key factor limiting economic activity in industry; nevertheless, negative assessments of current order books moderated in the first quarter of 2013 and remained at the same level in the second quarter. The utilisation of production capacities was slightly more positively assessed in the first half of the year. By contrast, the perception of financial factors as limiting economic activity increased again and remains at relatively high levels.

The labour market remains buffeted by declining economic activity, muted demand, and cost-cutting in response to downward pressure on selling prices. The unemployment rate edged up in the first quarter and rose again in April, to an all-time high of 12.2%, from 11.8% at the end of 2012. The adverse labour market conditions continue to colour consumer perceptions about the future economic situation, which are at very low levels.

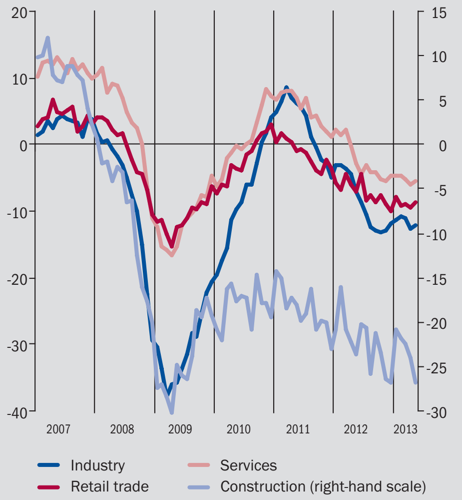
After showing signs of slight improvement at the turn of the year, consumers' expectations for the economy remained practically unchanged from March. Nevertheless, consumers' unemployment expectations brightened (they expect lower unemployment) gradually from January. On the

Chart 34 The unemployment rate and consumers' expectations for the economic situation and unemployment over the next 12 months



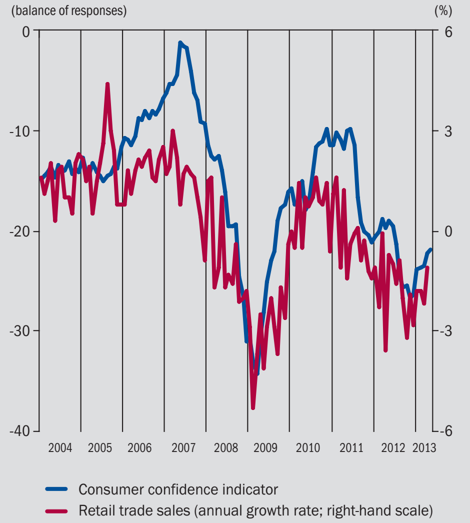
Source: European Commission, Eurostat.

Chart 35 Employment expectations by sector (balance of responses)



Source: European Commission.

Chart 36 Consumer confidence and retail trade sales

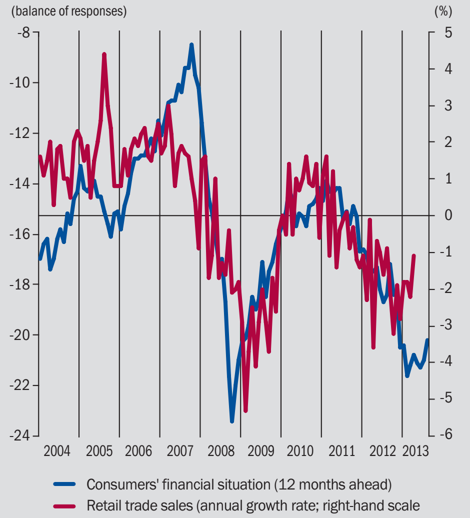


Source: European Commission, Eurostat.

other hand, employment expectations are falling basically in all sectors apart from industry and do not point to any significant improvement in the labour market.

With the labour market situation remaining difficult and consumer confidence still weak, the scope for a recovery of consumer demand is severely limited. Although consumer demand has been firming in 2013 (up to May), it remains at historically low levels. The depressed financial situation of consumers is another factor limiting consumer demand, according to surveys. By the end of 2012, consumers' assessments of their financial situation had fallen close to early-crisis levels, and they improved only marginally in the period up to May 2013.

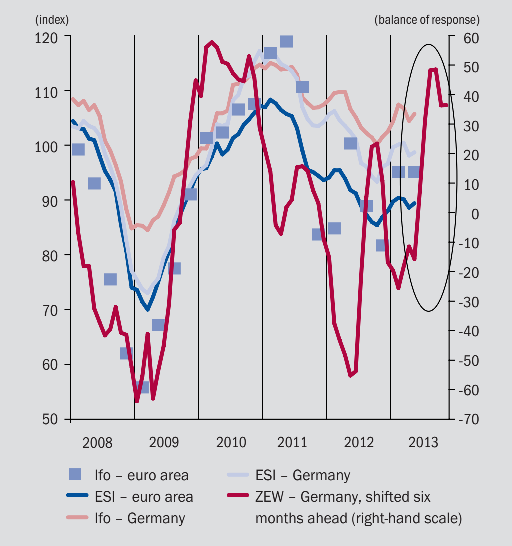
Chart 37 Retail trade sales and consumers' assessments of their financial situation



Source: European Commission, Eurostat.

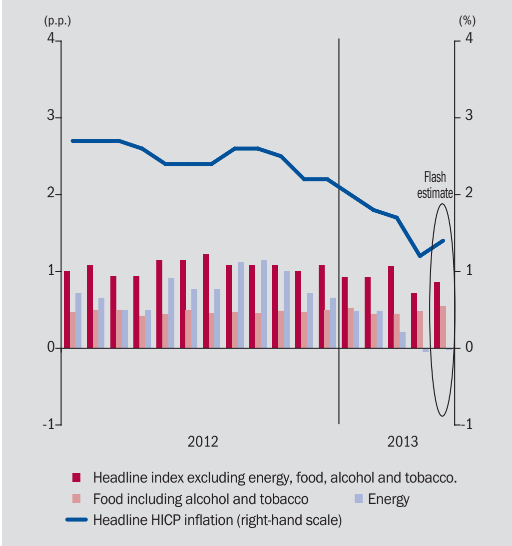
The strengthening tendency observed in several forward-looking indicators in late 2012 and early 2013 came to an end in March and April. The economic sentiment indicator (ESI) fell in March and April after increasing for four consecutive months. While sentiment deteriorated in virtually all sectors, the consumer confidence indicator did not fall. The ESI increased moderately in May with sentiment brightening in all sectors apart from construction. Nevertheless, the ESI and its component confidence indicators remain at very low levels. The Ifo index for the euro area remained flat in the first and second quarters of 2013, after declining in the fourth quarter of 2012. The most notable improvement was in expectations for the future economic situation, while assessments of the current economic situation became more negative. Even in Germany, the economic sentiment indicator suffered a downward blip in April, with declines in the confidence indicators for industry,

Chart 38 Economic sentiment indicators for the euro area and Germany



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

Chart 39 The annual HICP inflation rate and contributions of selected components



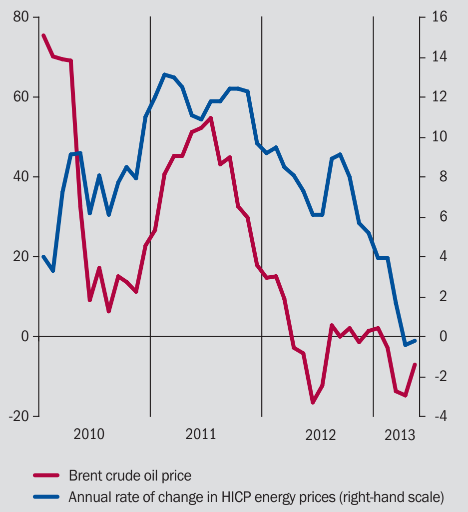
Source: Eurostat; NBS calculations.

services and retail trade. The headline indicator ceased falling in May, although the industrial confidence indicator declined again. The Ifo and ZEW indices each showed a weakening of economic sentiment in March and April, and then they rallied in May. The trends in forward-looking indicators in recent months suggest that the economic situation in the euro area remains very fragile and that the economy can be expected to stabilise in the second half of 2013.

After falling in the last quarter of 2012, the inflation rate maintained a downward trend throughout the first quarter of 2013. This slowdown was caused primarily by falling energy inflation and, to a lesser extent, by declining food inflation. The annual inflation rate in March was 1.7%, compared to 2.2% in December, and it continued to decelerate quite markedly in April, down to 1.2%. The deceleration in this case reflected not only a further drop in energy inflation (which even entered negative territory), but also the timing of Easter, which fell in March this year and in April last year. During the Easter holidays, certain components of the consumer basket, particularly services, have a stronger rising tendency, and therefore services price inflation accelerated in March 2013. Because last year the seasonal effect of Easter on inflation was observed in April, the base effect contributed to the marked slowdown in headline inflation in April 2013. The fading of the Easter effect in May was reflected in a moderate rise in services price inflation and a smaller increase in non-energy industrial goods inflation. Overall, however, inflation rates in April and May confirmed the continuing decline in inflationary pressures and the deceleration of price growth. The inflation rate in May was 1.4%, 0.8 percentage point lower than in December.

As regards oil prices, their annual rate of change increased slightly at the beginning of the year and then declined from February through April. As a consequence, energy price inflation declined gradually and in April it turned negative. In May, oil prices stopped falling in year-on-year terms, owing mainly to a base effect (oil prices in the same month of last year declined sharply), and HICP energy prices recorded a similar trend. Food commodity prices were broadly stable during the first quarter and in April, while their annual growth rate continued to decelerate. This had a downward effect on food producer prices and subsequently on processed food prices. Unprocessed food inflation also fell in

Chart 40 Annual growth rate of oil and energy prices in the HICP



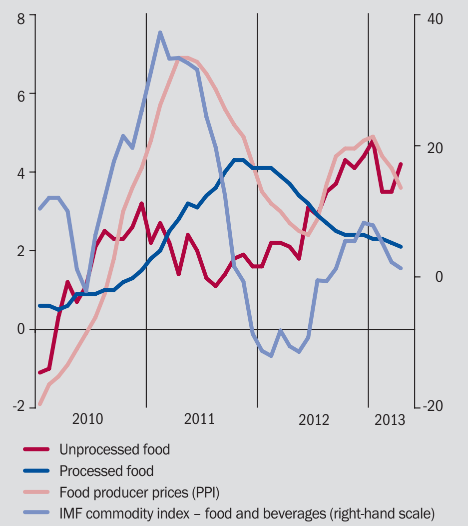
Source: Eurostat, EIA.

February and March, although it then increased significantly.

The inflation rate not including prices of energy, food, alcohol and tobacco, which probably most epitomise the market components of inflation, declined gradually over the first two months and then rose in March back to its December level (1.5%). In April, however, this rate slowed sharply to 1.0% owing to the abovementioned effect of Easter falling at a different time. In May, with the Easter effect no longer a factor, the rate increased moderately, to 1.2%.

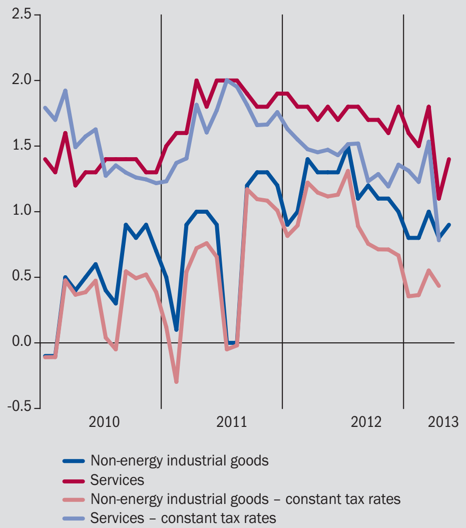
Weak consumer demand and strong competition have continued to affect the market components of inflation in 2013. Although inflation rates in non-energy industrial goods and in services were relatively volatile as a result of the Easter effect, inflation in neither category showed a clear rising tendency. In May, both services inflation and non-energy industrial goods inflation were lower than in December 2012 (by 0.1 p.p. and 0.4 p.p., respectively). The inflation rate in market components is affected by fiscal consolidation measures in the form of indirect tax changes. Their impact on non-energy industrial goods inflation in the first four months of 2013 was virtually unchanged from that at the end of 2012, while their impact on services inflation declined slightly (by around 0.1 p.p.).

Chart 41 Effect of food commodity prices on producer prices and consumer prices (annual percentage changes)



Source: Eurostat, IMF.

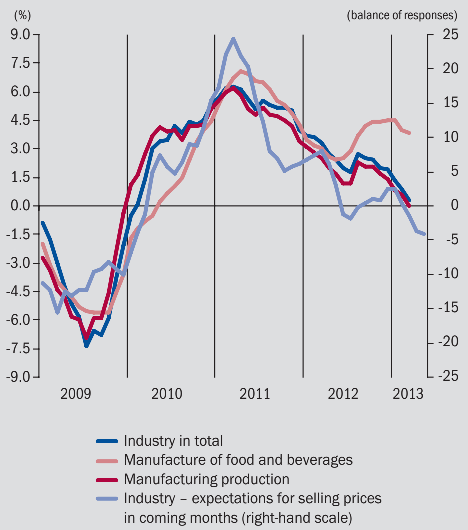
Chart 42 Goods and services prices (annual percentage changes)



Source: Eurostat.
Note: Time series with constant tax rates are published with a one-month lag.

Several surveys indicate that cost-push pressures are subdued and that inflation expectations are low. Expectations for future price developments have declined in the last two months, particularly in the industry and construction sectors, as well as among consumers. In industry, the downward tendency in expectations for selling prices reflects, on the one hand, an easing of cost-push pressures and, on the other hand, subdued demand and strong competition. Industrial producer price inflation is therefore expected to remain low and not to put upward pressure on consumer prices. Consumers' price expectations have been declining almost without interruption for eight months. This largely reflects inflation in frequently purchased items, which has slowed quite markedly since September 2012.

Chart 43 Price expectations in industry and producer prices

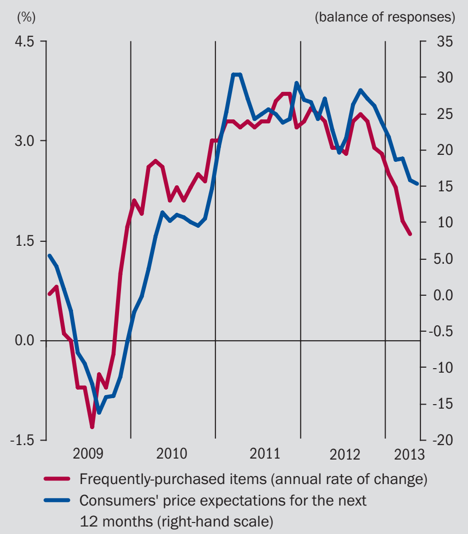


Source: European Commission, Eurostat.

The exchange rate of the euro against the US dollar did not show a clear trend in the first quarter of 2013. It appreciated after the first third of January, and then depreciated steadily in February and March. In the first two months of the second quarter, the exchange rate fluctuated at round 1.30 USD/EUR, reflecting mainly sentiment in financial markets as well as the latest economic results in the euro area and the United States. At the end of March, the euro was trading 3.4% lower against the dollar than at the beginning of the quarter, while at the end of May it was trading 1.6% higher than at the end of March and 4.7% lower than at the beginning of 2013.

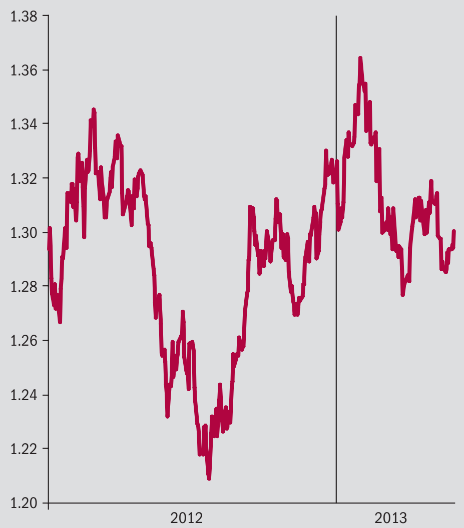
At its monetary-policy meetings in the first quarter of 2013 and in April, the ECB's Governing Council decided not to change the key ECB

Chart 44 Prices of frequently purchased items and consumers' price expectations



Source: European Commission, Eurostat.

Chart 45 USD/EUR exchange rate



Source: ECB.

rates. At its first meeting in May, the Governing Council decided to reduce both the main refinancing rate (by 25 basis points to 0.50%) and the marginal lending rate (by 50 basis points to 1.00%), with effect from 8 May 2013. The deposit facility rate was left unchanged at 0.00%.

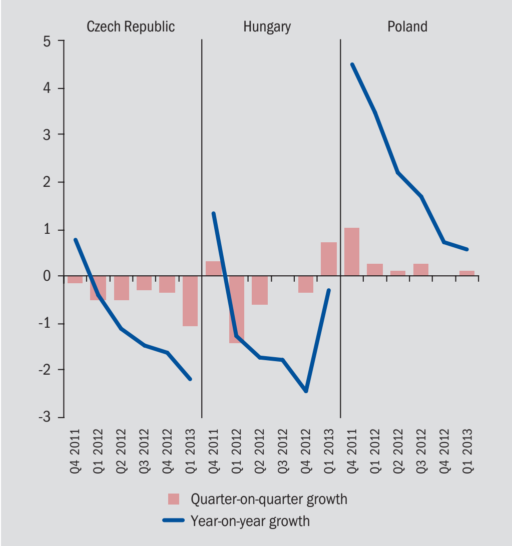
Also at May's monetary-policy meeting, the Governing Council decided to continue conducting the main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the 6th maintenance period of 2014 on 8 July 2014. This procedure will also remain in use for the Eurosystem's special-term refinancing operations with a maturity of one maintenance period, which will continue to be conducted for as long as needed, and at least until the end of the second quarter of 2014. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time. Furthermore, it was decided to conduct the three-month longer-term refinancing operations (LTROs) to be allotted until the end of the second quarter of 2014 as fixed rate tender procedures with full allotment. The rates in these three-month operations will be fixed at the average rate of the MROs over the life of the respective LTRO.

In March, the Governing Council took a decision on the Emergency Liquidity Assistance (ELA) requested by the Central Bank of Cyprus. At its first May meeting, by its decision to suspend the application of the minimum credit rating threshold in the collateral eligibility requirements for the Eurosystem's credit operations in marketable debt instruments issued or guaranteed by the Cypriot government, the Governing Council announced a change in the eligibility of these debt instruments.[5]

DEVELOPMENTS IN POLAND, THE CZECH REPUBLIC AND HUNGARY

In the first quarter of 2013, the Czech economy's annual rate of contraction increased to -2.2% (up by 0.6 percentage point from the previous quarter), while Poland's economic growth

Chart 46 GDP growth (%)



Source: Eurostat.

slowed by 0.2 p.p. to 0.5%. The contraction of the Hungarian economy eased by 2.1 p.p. in the first quarter, to -0.3%.

Comparing economic growth in the first quarter of 2013 with the previous three months, the Czech economy's contraction increased by 0.8 percentage point, to -1.1%, while the Hungarian economy expanded by 0.7% (following a contraction of 0.4% in the previous quarter) and the Polish economy grew by a modest 0.1% (after zero growth in the previous quarter). In the Czech Republic, the more pronounced contraction in GDP was caused mainly by changes in inventories, the only component to make significant negative contribution. By contrast, household final consumption returned to growth, and investment also increased slightly, after declining in the previous two quarters. Net exports, too, made a positive contribution since exports increased (after falling in the previous quarter) while imports remained flat. In Hungary, changes in inventories made the largest positive contribution to GDP growth, while the dampening effect of net exports became less pronounced owing to strong export growth. On the other hand, both consumption and investment demand declined. The Polish economy's moderate improvement was driven

5 *Further information about Governing Council decisions is available at www.ecb.int*

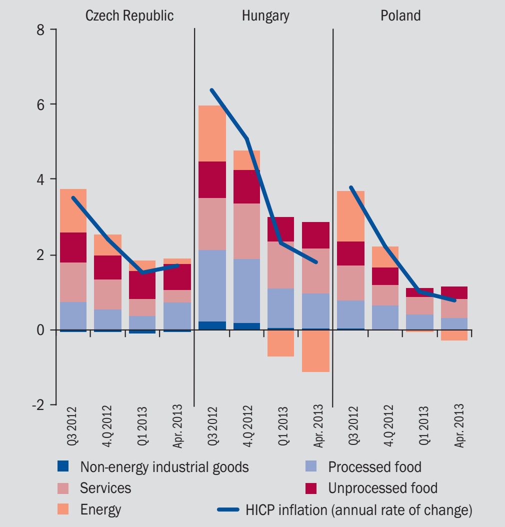
mainly by investment demand, which declined less than in the previous quarter, and by a slight increase in general government consumption. The positive contribution of net exports declined somewhat, owing mainly to import growth exceeding export growth. Household consumption was flat, continuing a long-term trend.

In all the countries under review, the annual rate of consumer price inflation was lower at the end of the fourth quarter of 2013 than at the end of the fourth quarter; it declined in the Czech Republic by 0.9 p.p., to 1.5%, in Hungary by 2.8 p.p., to 2.3%, and in Poland by 1.2 p.p., to 1.0%. The slowdown in the Czech inflation rate, while broadly based across all components, was led by lower prices of energy, services and, to a lesser extent, processed food. In April, the headline inflation rate in the Czech Republic increased slightly. Among the countries under review, Hungary saw the most pronounced decline in inflation in the first quarter. All components contributed to this slowdown, but energy prices, declining year-on-year, had the strongest effect. In April, the headline rate decelerated again, and energy prices also continued to fall. In Poland, the CPI inflation rate declined as a result of almost all components recording a lower annual rate of increase. The most pronounced slowdown was in energy inflation, which turned slightly negative. In April, the headline rate fell further owing mainly to a year-on-year decline in energy prices.

Looking at the currencies of the three countries, their exchange rates tended to depreciate against the euro in the first quarter of 2013. Comparing the rates at the end of the quarter and at the start of the year, the Hungarian forint depreciated by the largest margin. The weakening of the three currencies reflected both negative economic news from the respective countries and uncertain outlooks for euro area economic growth. In financial markets, investor sentiment was largely positive at the beginning of the year, but uncertainty gradually mounted during the quarter, especially in response to the results of the Italian general election and to the financial crisis in Cyprus.

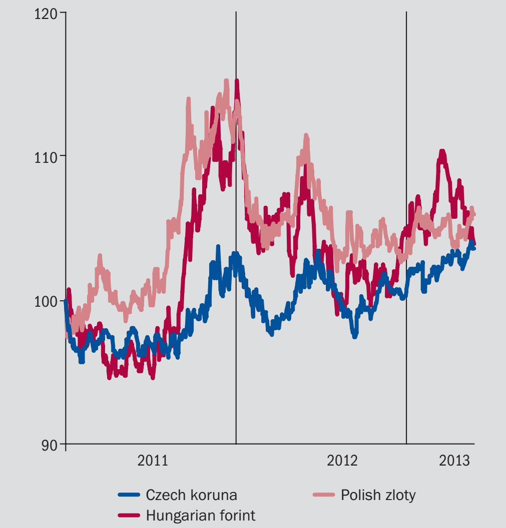
The Czech koruna weakened markedly against the euro at the beginning of the year in response to the Czech central bank's verbal intervention about its readiness, where necessary, to intervene in the foreign exchange market. Later, during the course of January, the koruna stabilised and at the beginning of February it even appreciated significantly, after the central bank stated that further loosening of monetary conditions was

Chart 47 Contributions to HICP inflation (p.p.)



Source: Eurostat, NBS calculations.

Chart 48 Exchange rate indices of the V4 currencies vis-à-vis the euro (index: 4 January 2010 = 100)

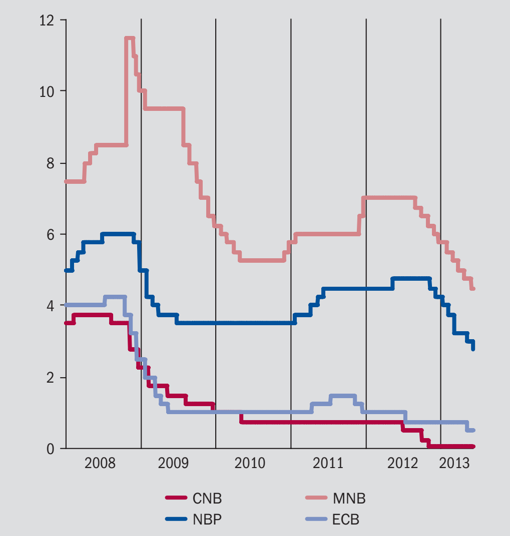


Source: Eurostat, NBS calculations.
Note: A fall in value denotes appreciation.

not required in the current situation. From mid-February, the koruna was affected by adverse information about economic growth in the last quarter of 2012, and in March it weakened further amid uncertainty in financial markets (relating to the election in Italy and crisis in Cyprus). The koruna continued to depreciate against the euro in April and May. The Hungarian forint weakened against the euro in January, continuing its downward trend from the end of last year. In February, the forint was buoyed by Hungary's success in securing public debt funding from financial markets, but it reacted negatively to the published GDP figures for the fourth quarter of 2012. Uncertainty surrounding the future course of Hungarian monetary policy also had a depreciating effect on the forint in first quarter. Towards the end of March, the forint began to appreciate against the euro, and this trend continued in April and May. The Polish zloty's exchange rate against the euro in the first quarter of 2013 was the most stable of those under review. The rate depreciated mainly on negative news about the Polish economic and its future outlook as well as on expectations of a further loosening of monetary policy.

The Hungarian and Polish central banks adjusted their monetary-policy settings in the first quarter of 2013, while Česká narodní banka kept its interest rates unchanged, leaving the main rate at 0.05% (a "technical zero"). According to the Czech central bank, its rates would be likely to stay unchanged for a longer period, since in the context of the fiscal consolidation effort there was an absence of significant demand-pull pressures on inflation in the medium-term horizon. In fact, developments in the domestic economy, particularly in household consumption, are putting downward pressure on inflation. ČNB remains prepared, where necessary, to loosen monetary policy conditions by intervening in the foreign exchange market. The Magyar Nemzeti Bank cut its base rate by 25 basis points on three occasions in the first quarter, so that it fell from 5.75% at the beginning of the year to 5.00% at the end of March. In taking these steps, the central bank noted that weak demand would have a strong disinflationary impact in the near term and that firms would therefore have limited scope to pass on higher production costs to prices. The central bank continued to pursue a more accommodative monetary policy in April and May, reducing its base rate to 4.50%. Narodowy Bank Polski also continued to loosen monetary policy conditions in first quarter, by twice reducing its base rate by 25 basis points and once (in March) by 50 basis points, so that by the end of the quarter it stood at 3.25%. It justified the cuts as a response to the risk of the inflation rate falling below target over the medium-term horizon, especially given the expected continuing decline in economic growth in the current and subsequent quarters. The Polish central bank further loosened its monetary policy in May and June, reducing the base rate down to 2.75%.

Chart 49 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 FIRST QUARTER OF 2013

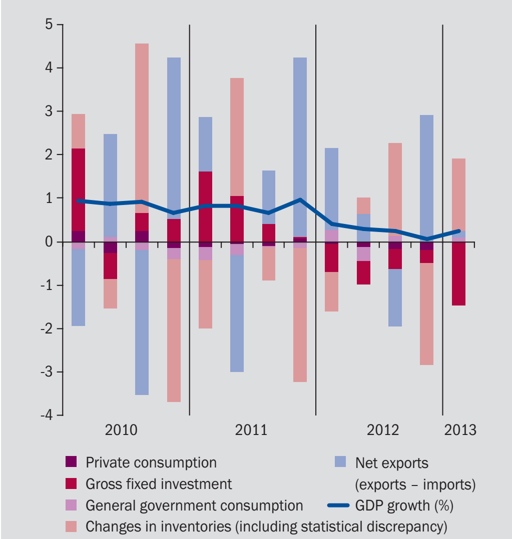
GROSS DOMESTIC PRODUCT

The Slovak economy maintained moderate growth in the first quarter of 2013, rising by 0.2% over the previous quarter. Annual GDP growth was 0.6%, driven entirely by external demand. By contrast, domestic demand contributed negatively to economic growth for the fifth consecutive quarter. A more pronounced decline in domestic demand combined with softer growth in external demand resulted in the lowest annual GDP growth since the crisis, with net exports having the largest mitigating effect on its decline.

Seasonally-adjusted quarterly GDP growth stood at 0.2%, largely accounted for by the positive contribution of changes in inventories (including a statistical discrepancy and chain-linking errors). Although net exports also supported growth, their contribution was minimal due to the weakening of exports.

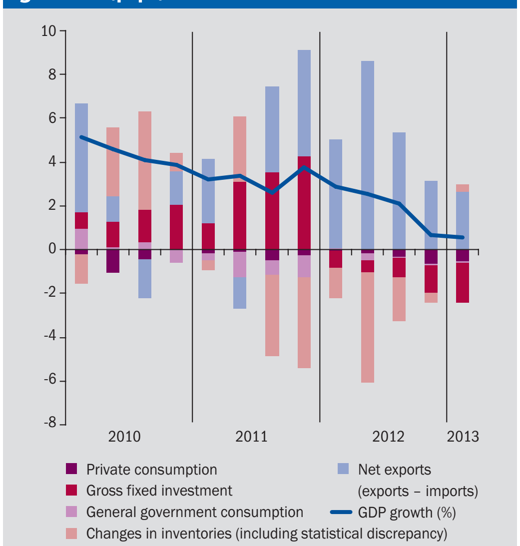
Exports less their imported component contributed negatively to GDP growth by 0.1 percentage point. GDP growth net of these exports would have been moderately higher (at 0.3%) than the actual GDP growth (0.2%).

Chart 51 Contributions to quarterly GDP growth (p.p.)



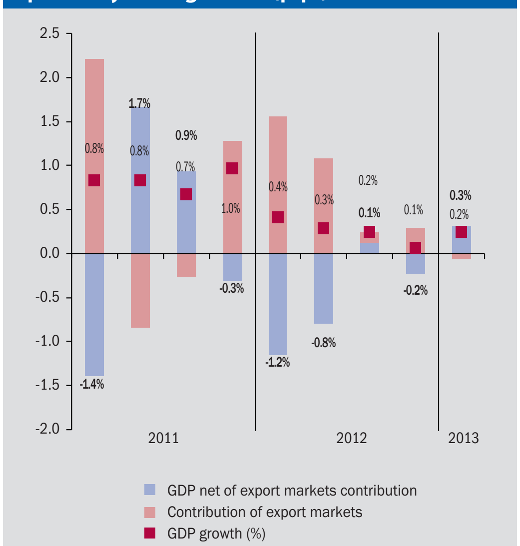
Source: SO SR.

Chart 50 Contributions to annual GDP growth (p.p.)



Source: SO SR.

Chart 52 Contribution of export markets to quarterly GDP growth (p.p.)



Source: NBS calculations.

The domestic part of the economy benefited from the total changes in inventories (including a statistical discrepancy), as well as from a slight increase in general government consumption and from private consumption remaining steady. General government consumption did not accelerate by more than usual, and its total amount in nominal terms was consistent with current consolidation efforts; its higher amount and growth (at constant prices) were entirely attributable to unchanged price levels. The composition of general government consumption growth included larger positive contributions from remuneration of public sector workers as well as from social benefits in kind, reflecting the need to provide essential and stable health-care and education services and low-cost accommodation.

Private consumption of households and non-profit organisations remained unchanged from the previous quarter, after declining in quarterly terms in the last three months of the previous year. Low inflation had a stabilising effect on consumer demand, as was evident from surveys that showed an improvement in consumers' assessments of current and expected inflation. Overall consumer sentiment as measured by the consumer confidence indicator improved very slightly in the first quarter of 2013, even though inflation assessments are not included in this calculation. Consumers were more positive in their assessments of the future economic situation and their own financial situation. Despite its first quarter increase, the consumer confidence indicator remained below its long-term average and oscillated around the level observed at the end of the crisis year 2009. A continuing indicator of low consumer confidence is that real private consumption has still not returned to pre-crisis levels (it is just above the level reported for the fourth quarter of 2007). Consumption in the first quarter was dampened by the unstable and weakened labour market and by a further decline in households' propensity to consume (unlike in other euro area countries, where the propensity to save fell and thereby offset the decline in disposable income).

Investment demand decreased quarter-on-quarter by 6.6% in the first quarter of 2013, the largest decline since its crisis-induced slump at the beginning of 2009. General government reduced its investment activity, as did the non-financial sector, the largest investor in terms of volume. These developments resulted from fiscal consolidation measures, falling profits, lending constraints, and continued uncertainty over the future economic situation (heightened by falling levels of order books, the assessments of which in the first quarter were similar to those at end of 2009). If destocking is added to the decline in fixed investment, gross investment fell as much as 7.6%. Inventories fell in the first quarter for a seventh successive quarter, as the marked destocking trend showed no sign of easing. Given the deflation in producer prices, it may be assumed that destocking was also a response to losses on inventory holdings. Inventories were run down by a greater amount in the first quarter than in the previous quarter, and thus had a negative impact on GDP growth (-0.2 percentage point); by contrast, other components of the imputed category (statistical discrepancy, chain-linking, non-additivity of seasonally-adjusted time series) contributed positively to quarter-on-quarter GDP growth (by 1.8 percentage points).

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

Indicator	2011					2012					2013
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1
Gross domestic product	**0.8**	**0.8**	**0.7**	**1.0**	**3.2**	**0.4**	**0.3**	**0.2**	**0.1**	**2.0**	**0.2**
Final consumption:	-0.6	-0.4	-0.3	-0.1	**-1.5**	0.1	-0.3	-0.2	-0.3	**-0.6**	-0.2
Households and NPISHs	-0.2	-0.1	-0.2	0.2	**-0.5**	-0.1	-0.2	-0.3	-0.4	**-0.6**	0.0
General government	-1.7	-1.5	-0.1	-0.9	**-4.3**	1.7	-2.0	0.8	0.0	**-0.6**	0.6
Gross fixed capital formation	7.3	4.5	1.7	0.1	**14.2**	-2.6	-2.2	-2.0	-1.4	**-3.7**	-6.6
Exports of goods and services	6.4	-2.2	-0.7	3.6	**12.7**	4.2	2.8	0.3	0.7	**8.6**	-0.2
Imports of goods and services	5.3	0.7	-2.2	-1.1	**10.1**	2.4	2.5	1.9	-2.5	**2.8**	-0.4

Source: SO SR.

In expenditure terms, quarter-on-quarter GDP growth was accounted for largely by the statistical discrepancy and marginally by net exports and general government consumption. In terms of income, GDP growth was supported by net taxes on products and value added in professional, scientific, technical, and administration activities. A moderate contribution was also made by value added in the manufacturing sector. The importance of net taxes in GDP at market prices was confirmed by the income method of GDP calculation, as general government saw an increase in tax revenues and reduction in subsidies for production and imports. The real contribution to quarterly GDP growth from seasonally adjusted net taxes on production and imports exceeded that from employee compensation. In the composition of GDP growth, net taxes and employee compensation crowded out the business sector, as the gross operating surplus and mixed income declined substantially (also in nominal terms) for the first time since the crisis.

In year-on-year terms, too, real GDP growth was driven by net taxes on products, with value added rising only marginally. Value added decelerated abruptly and sharply for the first time since 2009, and it was positive only because intermediate consumption fell more than production. After stagnating towards the end of the previous year, real production dropped in the first quarter of 2013, returning to its second lowest level since 2005 (after the slump in 2009).

WAGES AND LABOUR PRODUCTIVITY

Labour market conditions remained difficult in the first quarter. Private sector employment continued to decline, albeit more moderately than at the end of the previous year. Lower demand for labour was reflected in a fall in the number of hours worked. Although the unemployment rate fell slightly, this reflected an outflow of people leaving for work abroad and an increase in the number of people on labour activation schemes. Wage growth slowed, while labour costs in the form of employee compensation accelerated, due in part to an increase in employers' contributions as from the beginning of the year. The increase in labour costs supported a rise in real unit labour costs, reversing the previous trend of cost pressures declining due to the price of labour.

The average nominal monthly wage of an employee in the Slovak economy in the first quarter of 2013 was €789, and its annual rate of change, at 2.5%, was slightly lower than in the previous quarter. In quarter-on-quarter terms, the wage growth increased by a sizeable 1.8%.[6] Firms probably switched part of their payroll from cancelled limited work agreements to regular employment contracts. This view is supported by the overall decline in wages under the ESA 95 methodology (a quarterly drop of 0.4%), since that methodology includes wages paid under limited work contracts. Owing to the lower inflation rate, real wages increased moderately.

Wage growth slowed in the sectors of industry, construction, and transportation and storage. In the sectors of information and communication, and financial and insurance activities wages recorded a sharp, isolated rise in the fourth quarter of 2012 and then a marked decline in the first quarter; this indicates that firms were taking steps to optimise their tax and contributions burden. Wage growth increased in

Table 3 GDP and its components (annual percentage changes; at constant prices)

	2011					2012					2013
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1
Gross output	8.0	8.8	3.8	2.3	**5.6**	4.9	2.7	2.0	0.0	2.4	**-3.7**
Intermediate consumption	11.1	13.0	4.4	2.5	**7.5**	5.8	2.2	1.6	-1.7	1.8	**-5.9**
Value added	3.2	2.4	2.9	2.1	**2.7**	3.5	3.6	2.8	3.0	3.2	**0.1**
Net taxes on products[1)]	2.9	13.6	-0.8	19.9	**9.0**	-3.2	-6.9	-5.2	-19.0	-9.2	**5.2**
Gross domestic product	**3.2**	**3.4**	**2.6**	**3.8**	**3.2**	**2.9**	**2.6**	**2.1**	**0.7**	**2.0**	**0.6**

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

6 *Internal seasonal adjustment.*

the education and human health sectors as well as in professional and administration activities.

The effect of the increase in employers' contributions was seen in the first quarter, when compensation per employee[7] increased by 4.4% year-on-year and by 1.3% on a quarterly basis. The contribution wedge between wages and compensation (under ESA 95) is increasing in line with expectations. Compensation per employee accelerated in the majority of sectors, the exceptions being financial and insurance activities, information and communication, and trade, transportation, accommodation and food service activities. In these sectors the slowdown in employee compensation growth points to the optimisation of costs referred to above as well as to less favourable economic developments. Real compensation per employee increased by 2.3%.

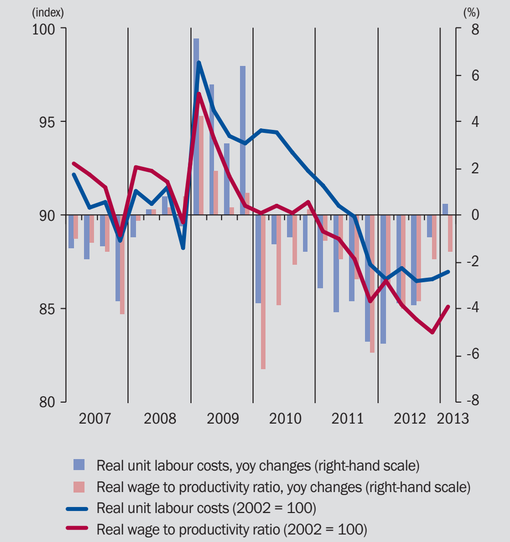
Labour productivity under the ESA 95 methodology maintained stable growth in real terms in the first quarter, increasing by 1.6% year-on-year and 0.5% quarter-on-quarter. While the post-crisis period has seen pressure to keep real compensation down – supporting a recovery in profits, decline in real unit labour costs, and weakening of price pressures, the situation began to change in the first quarter, with real unit labour cost increasing for the first time since the outbreak of the crisis. Employee compensation growth is now exceeding labour productivity growth, but it remains moderate and in an environment of weak demand should not represent an inflationary risk.

Household income and expenditure

The current income of households totalled €13.7 billion in the first quarter of 2013, representing a year-on-year rise of 4.2 % in nominal terms. Compared with the fourth quarter of 2012, its rate of growth slowed by 0.1 percentage point, due mainly to lower increases in gross wages and salaries and in social benefits (excluding social transfers in kind).

Current household expenditure (expenses paid to other sectors and not used for direct consumption) was €4.0 billion for the first quarter, with its annual growth rate increasing

Chart 53 Real labour productivity to real labour costs (index: Q1 2002 = 100)



Source: SO SR, NBS calculations.
Note: Real unit labour costs under the ESA95 methodology. Real wage in quarterly statistical reporting deflated by the CPI. The data are seasonally adjusted.

to 10.5%, from 2.5% in the last quarter of 2012. This reflected mainly a higher increase in households' social contributions, stemming from increases in the contributions and contribution ceilings of employees and self-employed people.

The gross disposable income of households (current income less current expenditure) amounted to €10.2 billion in the first quarter of 2013, representing a year-on-year increase of 2%. Gross household savings fell by 1.9% over same quarter of 2012, although that decline was largely due to movements in pension fund assets related to the introduction of changes in Pillar II of the pension system (contribution rates changing; savers exiting the system). Consequently, the savings ratio (gross savings as a share of gross disposable income) declined by 0.16 percentage point, to 4%. Excluding the impact of the pension system changes, the annual rate of change in the savings ratio would have been higher by around 0.8 p.p. Households are seeking to save to a greater extent amid the slowdown in disposable income growth and difficult situation in 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)

	EUR billions		Annual rate of change (%)		Percentage share	
	Q1 2012	Q1 2013	Q1 2012 / Q1 2011	Q1 2013 / Q1 2012	Q1 2012	Q1 2013
Employment compensation (all sectors)	6.4	6.7	2.3	4.3	46.8	46.8
of which: gross wages and salaries	5.0	5.1	3.0	2.0	36.9	36.1
Gross mixed income	3.8	3.9	4.5	4.1	27.4	27.4
Property income - received	0.5	0.5	4.5	12.8	3.4	3.7
Social benefits	2.5	2.6	5.5	2.9	18.6	18.4
Other current transfers – received	0.5	0.5	6.4	1.8	3.8	3.7
Current income in total	**13.7**	**14.3**	**3.7**	**4.2**	100.0	100.0
Property income – paid	0.1	0.1	-19.8	-17.6	3.4	2.5
Current taxes on income, assets, etc.	0.5	0.5	6.6	3.9	13.2	12.4
Social contributions	2.4	2.8	1.4	15.0	67.8	70.6
Other current transfers – paid	0.6	0.6	5.7	2.6	15.6	14.5
Current expenditure in total	**3.6**	**4.0**	**1.8**	**10.5**	100.0	100.0
Gross disposable income	**10.1**	**10.3**	**4.4**	**2.0**	-	-
Adjustment arising from changes in net assets of households in pension fund reserves	0.2	0.1	-3.3	-43.4	-	-
Household final consumption	9.9	10.0	4.4	1.1	-	-
Gross household savings	0.4	0.4	0.5	-1.9	-	-

Source: SO SR.

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

	2012					2013
	Q1	Q2	Q3	Q4	Q1-Q4	Q1
Gross disposable income	104.4	103.1	102.6	104.9	103.8	102.0
Household final consumption	104.4	103.4	102.9	101.7	103.1	101.1
Gross household savings	100.5	106.7	100.4	118.1	110.1	98.1
Ratio of gross savings to gross disposable income (%)	4.1	10.3	9.0	20.2	11.4	4.0

Source: SO SR, NBS calculations.

EMPLOYMENT AND UNEMPLOYMENT

Labour market conditions remained relatively difficult in the first quarter of 2013. Employment as defined under the ESA 95 methodology declined by 1% year-on-year, which was more pronounced than the drop reported in the previous quarter. In quarter-on-quarter terms, employment fell by 0.3%; this decline was more moderate compared to the end of last year, despite an increase in the cancellation of limited work contracts. The switching from limited work contracts to standard employment contracts was captured by the SO SR's statistical reporting, according to which employment declined by 0.9% year-on-year but increased by 0.3% on a quarterly basis.[8] According to the Labour Force Survey (LFS), the annual rate of employment growth was 0.1% and the quarterly rate was 1.4%. However, these positive figures masked an increase in the number of people on labour activation schemes (up by around 8,000) and a greater outflow of Slovak citizens seeking work abroad.

8 *Internal seasonal adjustment.*

Looking at the composition of total employment (ESA 95) in the first quarter, the number of employees fell by 0.3% over the previous quarter, while the number of self-employed persons remained unchanged, marking the end of a downward trend in their share of total employment. The annual rate of change in the number of employees declined more in the first quarter than in the previous quarter, by 0.8%, while the number of self-employed declined less, by 1.8%. According to the organisational statistics of the SO SR, the number of sole traders is falling quite markedly on a quarterly basis, which may indicate that an increasing number of sole traders are changing their legal form and/or switching to standard employment contracts.

Employment in terms of the number of hours worked fell in the first quarter by 1.5% over the previous quarter, further confirming the difficult situation in the labour market. Accordingly, the average working week fell from 37.1 hours to 36.7 hours.

Looking at the sectoral breakdown of employment (ESA 95), the largest quarterly declines were observed in industry and construction, while employment developed positively in the information and communication sector and also in professional and administration activities.

According to the Labour Force Survey (LFS), the number of unemployed in the fourth quarter increased to 390,400, up by 4% year-on-year and around 0.2% (or 700 people) quarter-on-quarter. The increase in unemployment was mitigated by the abovementioned rises in people leaving for work abroad and in the utilisation of labour activation schemes. There may also have been downward pressure from the gradually increasing number of people who are retiring. On the other hand, the first quarter saw a significantly higher number of economically inactive people (decided or forced) register as job seekers and thus add to the unemployed rate. Since the number of unemployed increased only slightly and the number of economically active recorded a one-time significant increase (of 32,000), the unemployment rate fell quarter-on-quarter by a tenth, to 14.2%. The unadjusted unemployment rate increased year-on-year by 0.5 percentage point, to 14.5%. According to labour office registers, the average unemployment rate in the first quarter of 2013 stood at 14.7 %.

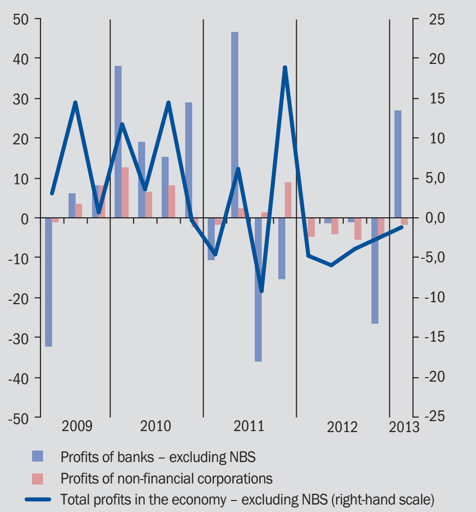
PROFITABILITY OF FINANCIAL AND NON-FINANCIAL CORPORATIONS IN THE FIRST QUARTER OF 2013

In the first quarter of 2012, total profits of financial and non-financial corporations declined by 5.6% year-on-year (seasonally unadjusted), after falling by 35.1% in the last quarter of 2012. In quarter-on-quarter terms they decreased by 5.1% (seasonally adjusted). Non-financial corporations accounted for most of the quarterly decline in profits. Banking sector profits had a strong mitigating effect on the overall decline in profits, as did the fact that the fall in profits of non-financial corporations was far less pronounced than in the previous quarter.

Although the total profits of non-financial corporations declined on a quarterly basis, they mitigated the negative trend since their decline in the first quarter was lower than in the previous quarter (1.6% compared to 4.6%). Profit declines in the services and trade sectors were offset to a large extent by profit growth in industry. The higher profits in manufacturing industry were again largely accounted for by increased profits in the automotive segment.

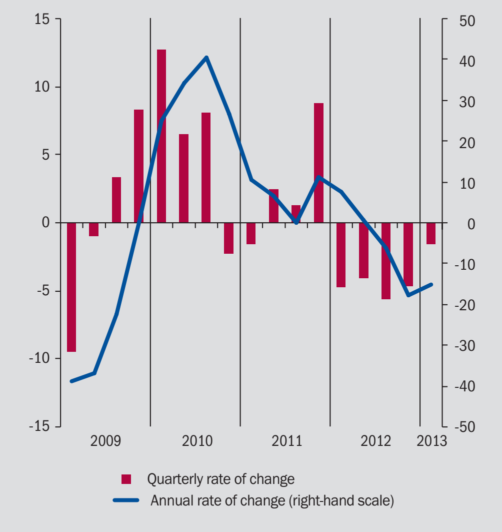
The financial sector (not including NBS) saw the largest quarterly change in profits, reporting an increase of 4.1% in the first quarter after

Chart 54 Profits in the economy (quarterly percentage changes)



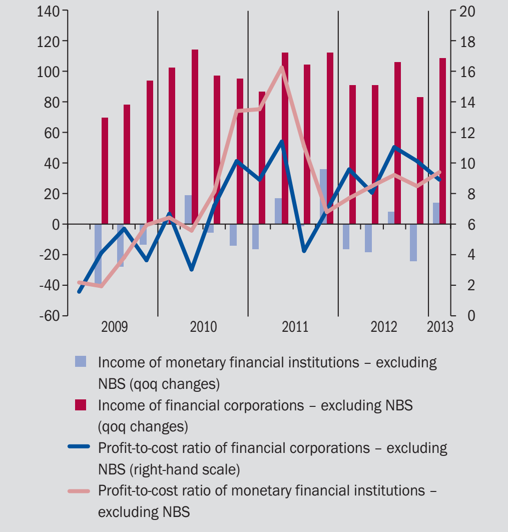
Source: SO SR, NBS calculations.

Chart 55 Profits of non-financial corporations (%)



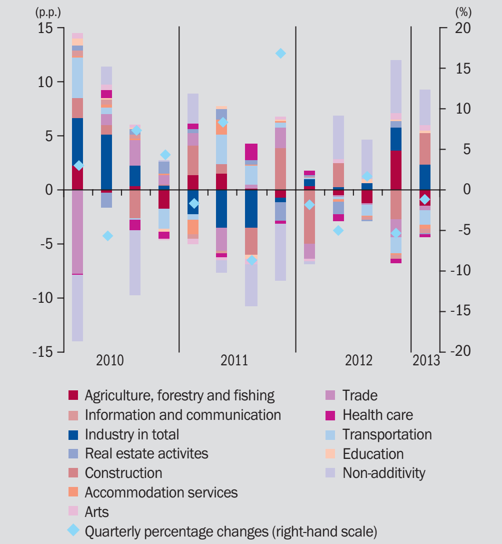
Source: SO SR, NBS calculations.

Chart 57 Financial sector financial indicators (%; seasonally adjusted)



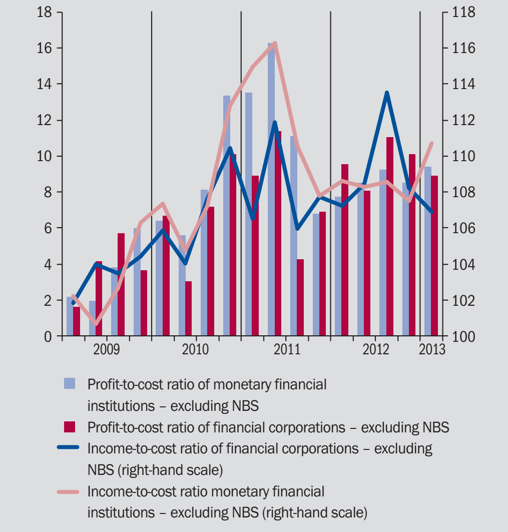
Source: SO SR, NBS calculations.

Chart 56 Total profits of non-financial corporations by sectoral contributions to their quarterly rate of change (seasonally adjusted)



Source: SO SR, NBS calculations.

Chart 58 Financial sector financial indicators (%; seasonally adjusted)

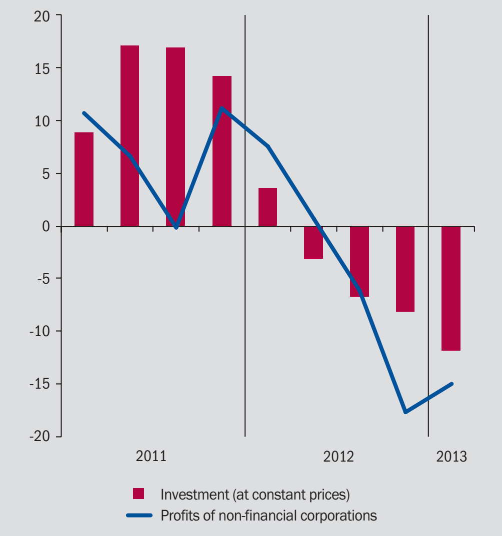


Source: SO SR, NBS calculations.

a decline of 21.3% in the fourth quarter of 2012. The first-quarter growth was driven by the banking sector, whose profits increased by 26.5%, but it was dampened by the insurance sector, which reported a 30% drop in profits.

The banking sector's strong performance (after its profits fell by 26.7% in the fourth quarter of 2012) was probably based on declining funding costs in conjunction with an increase in interest income.

Chart 59 Investment and profits (annual percentage changes; 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
2009	-4.9	0.9	-2.5	-2.0	12.1	-15.5	-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	8.1	7.9	97.8	7.8	1.6	12.5	-4,436.1	-7.7	41.0	-3.72	1.18	1.3257
2011	3.2	4.1	2.7	1.8	13.5	5.3	8.6	97.9	2.9	7.6	11.1	-3,275.3	-4.9	43.3	-2.01	1.47	1.3920
2012	2.0	3.7	3.9	0.1	14.0	8.1	5.5	93.2	8.8	-2.3	10.3	-3,810.7	-4.6	52.1	2.26	5.05	1.2848
2012 Q2	2.6	3.6	4.0	0.2	13.6	9.7	5.1	98.0	4.2	0.2	9.9	-2,325.7	-	-	3.35	6.07	1.2814
2012 Q3	2.1	3.8	4.0	-0.1	13.7	11.4	5.9	92.7	4.3	-1.7	9.8	-2,585.6	-	-	0.65	3.67	1.2502
2012 Q4	0.7	3.6	4.0	-0.6	14.4	4.7	3.0	86.2	8.8	-2.3	10.3	-3,810.7	-	-	2.35	5.36	1.2967
2013 Q1	0.6	2.2	1.7	-1.0	14.5	2.0	-0.3	87.5	7.3	-0.3	9.9	-952.7	-	-	4.33	7.73	1.3206
2012 May	-	3.4	4.2	-	13.2	9.9	5.1	97.8	6.3	3.4	10.4	-2,159.5	-	-	-	-	1.2789
2012 June	-	3.7	4.0	-	13.3	9.1	5.0	96.7	4.2	0.2	9.9	-2,325.7	-	-	-	-	1.2526
2012 July	-	3.8	3.6	-	13.3	12.2	9.5	92.8	5.6	0.8	10.1	-2,238.5	-	-	-	-	1.2288
2012 Aug.	-	3.8	4.1	-	13.2	12.4	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 Oct.	-	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	-3.1	0.1	87.4	8.8	-2.3	10.3	-3,810.7	-	-	-	-	1.3119
2013 Jan.	-	2.5	3.1	-	14.8	6.1	1.8	84.9	7.7	-1.3	9.9	-62.5	-	-	-	-	1.3288
2013 Feb.	-	2.2	1.5	-	14.7	1.3	-0.8	86.7	7.9	0.4	9.9	-713.4	-	-	-	-	1.3359
2013 Mar.	-	1.9	0.8	-	14.7	1.3	-1.7	91.0	7.3	-0.3	9.9	-952.7	-	-	-	-	1.2964
2013 Apr.	-	1.7	0.9	-	14.4	2.2	5.6	91.3	7.7	-2.2	10.0	-1,076.1	-	-	-	-	1.3026
2013 May	-	1.8	.	-	.	.	.	88.7	.	.	.	-1,601.4	-	-	-	-	1.2982

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/StatisticsMB0613.xls