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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]

Global economic activity accelerated in the second quarter of 2013. Euro area GDP returned to growth after a long period in recession, and both the US and UK economies grew at an increased pace. The Visegrad Four (V4) countries also registered positive growth. The euro area's upturn provided a boost to the Slovak economy, observed not only in net exports but also in higher domestic demand. Among the large euro area economies that reported real GDP growth were Germany, with a relatively strong performance, and France. By contrast, the Italian, Dutch, and Spanish economies continued to shrink, although more moderately than in the previous quarter.

Slovakia maintained positive GDP growth in the second quarter with an increase of 0.3% over the first quarter, which reflected the pick-up of economic growth in its main trading partners. Exports contributed positively to growth, and so did domestic demand after a long period in negative territory. Private consumption and investment also increased quarter-on-quarter. In the labour market, however, conditions remained relatively difficult, with employment continuing to decline in the second quarter (by 0.4% quarter-on-quarter). Given the current levels of economic growth and the persisting climate of uncertainty, not enough jobs are being created. The increase in disposable income has not been sufficient to support a full recovery of private consumption, and therefore households' higher consumption has been partly funded by their savings.

The monthly figures for July were considerably distorted by a shift in the timing of car factories' summer shutdowns, which caused a decline in both output and sales in the economy. This is evident from the fact that aggregate output in non-automotive industry increased slightly over the previous month. The decline in overall industrial production affected exports, which fell month-on-month for a second successive month. Sentiment in the economy improved slightly in August and September, confirming the continuation of the economy's fragile recovery. Retail trade sales, a key indicator for private consumption, suggest that the positive trend will continue in the third quarter.

The inflation rate decreased further in August. Declines in import and export prices contributed to a moderate month-on-month drop in prices of non-energy industrial goods, while services prices remained flat and therefore also had a downward effect on the headline rate.

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

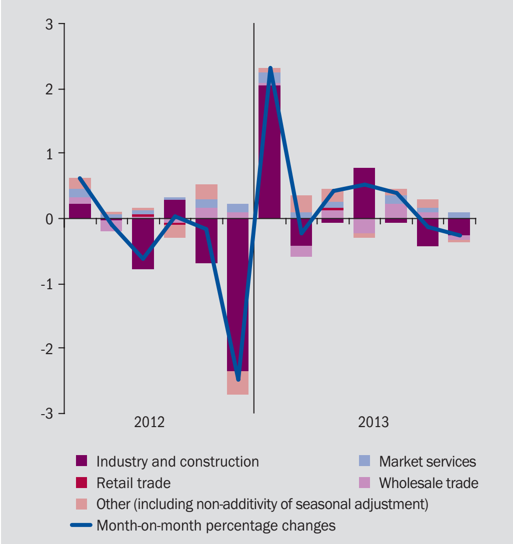
2.1 SALES[2]

Moderate drop in sales caused mainly by industry (car factory summer shutdowns)

Sales in July 2013 fell month-on-month by 0.3% due largely to industry sales. Like industrial production, industry sales were dampened mostly by transport production, which fell mainly as a result of car factory summer shutdowns in Slovakia. In both month-on-month and year-on-year terms, the automotive sector recorded declines in sales, production and exports. Had sales not been affected by the shift in factory summer shutdowns (which last year were mainly in August and this year were in July), sales growth in the economy in July would have been positive, at around 0.3%[3] and the month-on-month rate of change in industry sales would have been 0.6% rather than -0.6%.

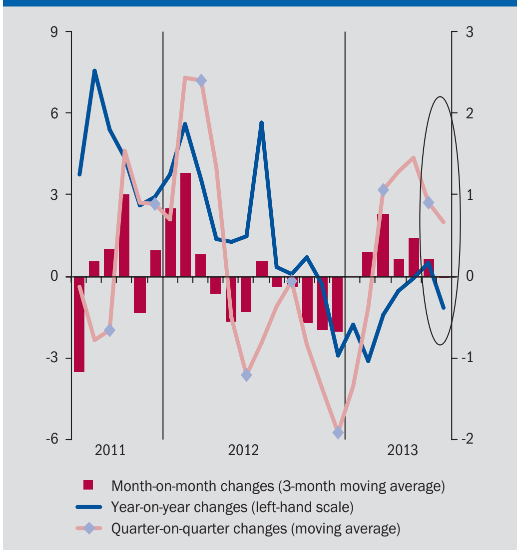
Although retail trade sales in July remained largely unchanged from the previous month, they increased year-on-year for a fourth successive month. Total sales in internal trade were significantly dampened by lower sales of passenger cars, which probably reflected saturation of the market for new car models and the stabilising of demand. This is further implied by the relatively sharp slowdown in their annual rate of growth.

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



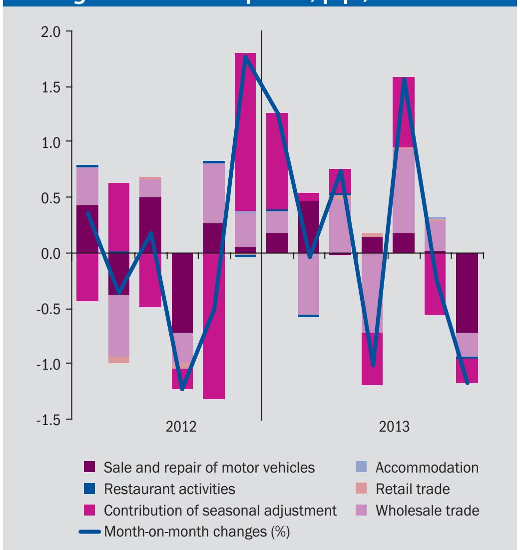
Source: SO SR, NBS calculations.
Note: Internal calculation for constant prices.

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.*
3 *Estimated on the basis of information about the shift in summer shutdowns at two of the three largest car makers in Slovakia (assuming that part of the lost output was made up for through overtime worked in July).*

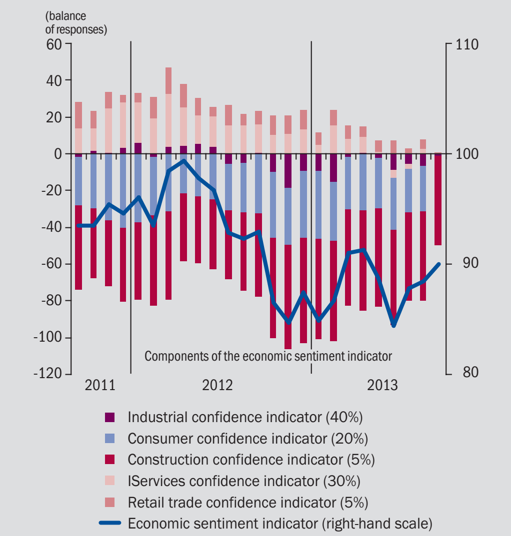
Rising sales in previous months were reflected in GDP growth, which accelerated in the second quarter, as well as in an upward revision of the GDP forecast for 2013. July's sales figures (adjusted for the effect of factory summer shutdowns) point to moderate quarter-on-quarter GDP growth in the third quarter. The stagnation in retail trade sales, along with the improving confidence indicators for trade and services, indicate that private consumption may also have risen in the third quarter, although with an annual growth rate appreciably lower than in the previous quarter.

2.2 FORWARD-LOOKING INDICATORS

The economic sentiment indicator (ESI) for Slovakia increased in August by 0.6 point over the previous month, to 88.4, while remaining below its long-run average. In year-on-year terms the ESI fell by 3.9 points. The monthly increase in the indicator reflected mainly strengthening sentiment in services and retail trade. The industrial, construction and consumer confidence indicators all declined.

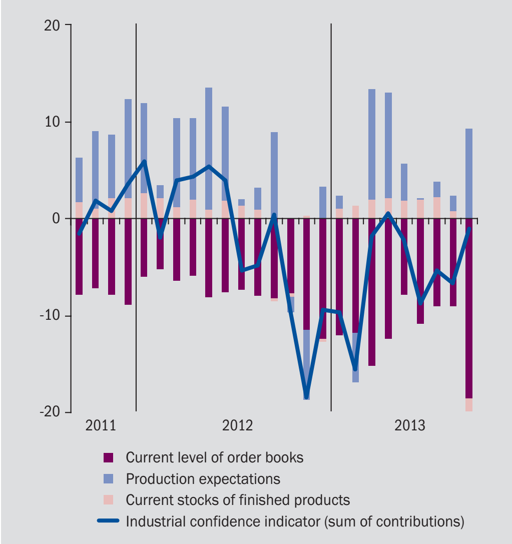
The strong increase in services confidence, which returned to positive figures after two months in negative territory, was based mainly on improved appraisals of demand expectations, mainly in the transportation and storage sector and entertainment and recreation sector. In retail trade, the main boost to the confidence indicator came from exceptionally favourable assessments of the future business situation. Industry confidence was dented mainly by an increase in stocks of finished products, particularly in the chemical industry and in manufacture of transport equipment, while assessments of the current level of order books and production expectations remained broadly unchanged from the previous month. Sentiment in the construction sector declined as current order books for construction production were assessed more negatively. The drop in consumer confidence was broadly based across all components registered The decline in the consumer confidence indicator was broadly based across all components except for assessments of the future situation of the Slovak economy.

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 5 Industrial confidence indicator (balance of responses)

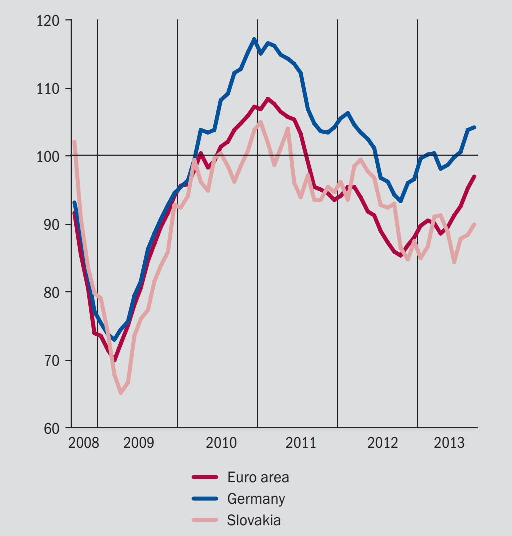


Source: European Commission.

The strengthening of confidence in Slovakia points to an improvement in the country's economic situation in 2013, and this is reflected in the latest NBS forecast.

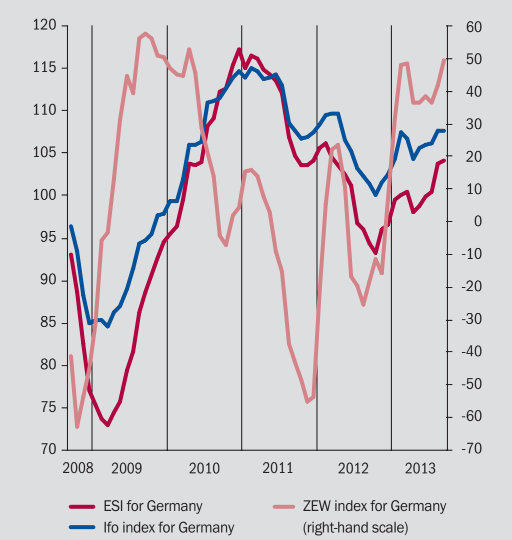
Forward-looking indicators for August confirmed that sentiment in the euro area and Germany is picking up. The economic sentiment indicator for the euro area increased for a fourth successive month, and the ESI for Germany rose above its long-run average. The euro area PMI, at 52.1, indicates moderate economic growth, while Germany's PMI, at 53.8, points to stronger growth. Further evidence of the positive trends in Germany are provided by the ZEW index, which increased markedly in September, and by the Ifo index, which rose moderately in September and is now on a five-month upward trend. The strengthening sentiment in the euro area and Germany indicates that external demand continued to increase in the third quarter.

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



Source: European Commission.

Chart 7 Economic sentiment indicators for Germany

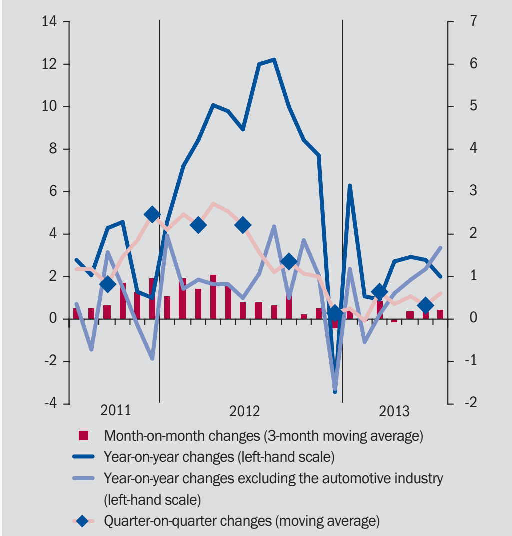


Source: European Commission, Ifo institute, ZEW.
Note: ESI (long-run average = 100),
Ifo index (2005 = 100), ZEW (balance of responses).

2.3 INDUSTRIAL AND CONSTRUCTION PRODUCTION

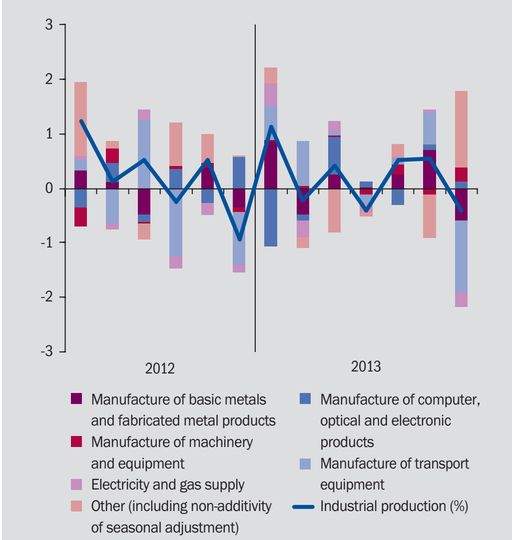
Industrial production in July 2013 fell by 0.4% month-on-month, although it was affected by the timing of summer shutdowns at the country's largest car plants, which were shifted to July this year, from August last year. The drop in overall production was significantly mitigated

Chart 8 Industrial production (%)



Source: SO SR, NBS calculations.

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

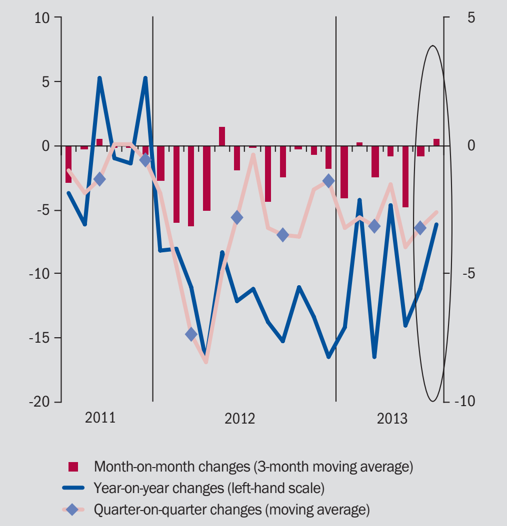


Source: SO SR, NBS calculations.

by the production of electrical and electronic equipment.

Industrial production for the third quarter is expected to have decelerated in comparison with the previous quarter, and therefore, in line with the NBS forecast, quarter-on-quarter economic growth is also assumed to be moderately lower in the third quarter.

Chart 10 Construction production (%)



Source: SO SR, NBS calculations.

Chart 11 Construction production (month-on-month percentage changes; trend; constant prices)

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

Construction production in July 2013 increased by 2.2% over the previous month, which compared with its month-on-month rise in June was higher by almost two percentage points. The year-on-year decline in construction production further moderated, to 6.1% (after falling to 11.2% in June), with most of the improvement accounted for by domestic firms' construction production in other countries. Looking at types of construction production, the largest growth was recorded in civil engineering construction.

2.4 TRADE BALANCE

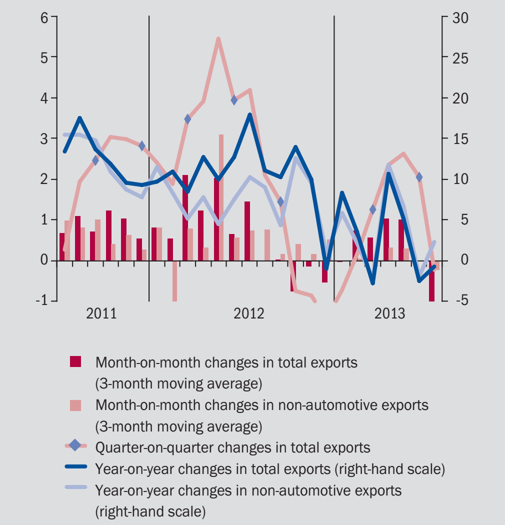
After two years of continual growth, the trade surplus as a percentage of GDP declined

The 12-month cumulative trade balance as a percentage of GDP fell to 6.2% in July, from an all-time high of 6.5% in June, after increasing continuously since July 2011. The decline was caused mainly by goods exports, which fell by 1.2% over the previous month and by 0.7% year-on-year. Goods exports were affected mainly by declining car exports, which in previous months had already been pointing to a slowdown and which was due in part to car factory summer shutdowns. Total exports would have fallen further but for improved export performance in other sectors, in particular the electrical equipment industry.

Despite the drop in exports, imports increased moderately, by 0.7% month-on-month and 0.7% year-on-year. This result may be explained by a revival in domestic demand, in particular household financial consumption, with retail chains recording strong annual growth in imports for a fourth consecutive month. Imports of electronics also grew, with increases in inputs for the electrical equipment industry as well as in investment goods and durable items. By contrast, imports for the automotive industry declined, most likely due to its limited summer production.

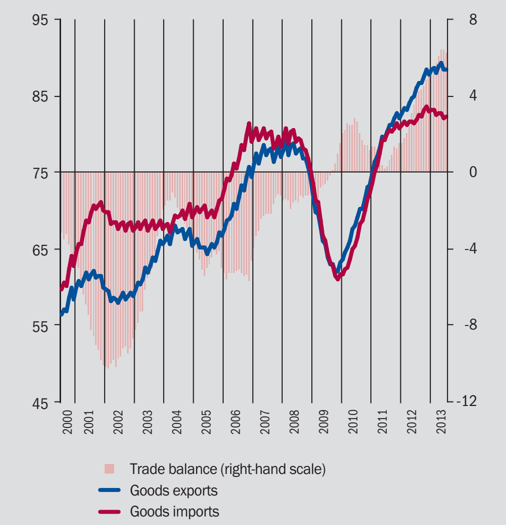
As exports fell and imports rose slightly, the trade surplus fell from €459.3 million in June, to €204.3 million in July. It is expected, however, to increase again in August. The cumulative trade

Chart 12 Goods exports (%)



Source: NBS and SO SR.

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



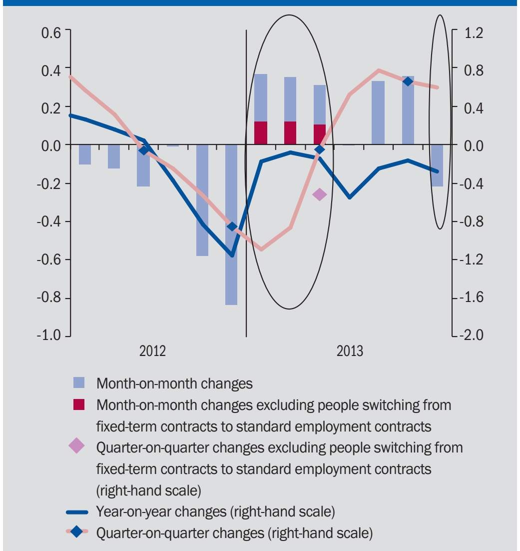
Source: NBS and SO SR.

balance for the first seven months is 1.4 times higher this year than last year, and therefore the latest NBS forecast includes an upward revision of the trade balance projection for the full year.

3 The labour market

Total employment in the sectors under review declined moderately in July, by 0.2% in month-on-month terms, owing mainly to developments in selected market services and in information and communication. In both the industry and construction sectors, employment fell only marginally. Looking at services in Slovakia, the decline in employment may be temporary given that the sector has long been trending upwards and has potential for further growth. Firms' expectations for the near term indicate a gradual lessening of their pessimism about the future employment situation and may imply that the rate of change in employment for the whole economy will remain broadly flat in the second half of 2013, supported by further modest economic growth.

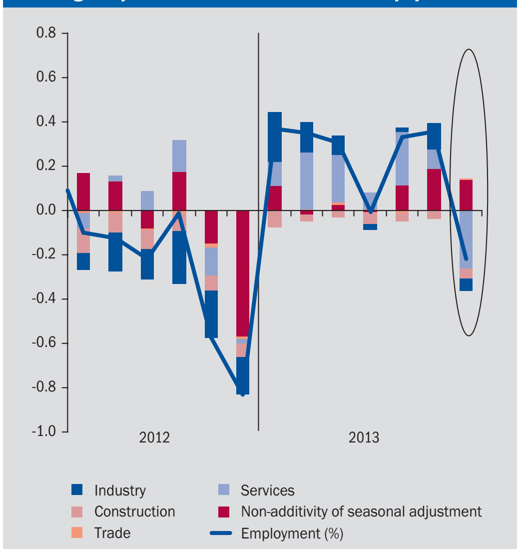
Chart 15 Rates of change in employment (%)



Source: SO SR, NBS calculations.
Note: The time series of rates of change that exclude the effect of people switching from fixed-term contracts to standard employment contracts was estimated using reports submitted to the SO SR by larger firms (PROD 3-04).

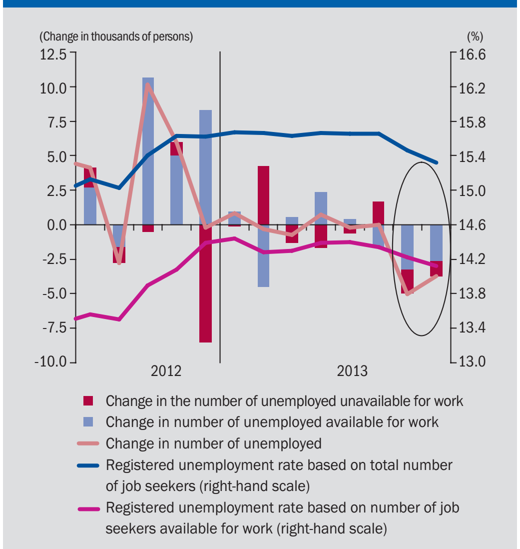
Some improvement in the labour market situation may be inferred from registered unemployment figures for the summer months. The total number of unemployed fell in August by 3,700 (seasonally adjusted).[4] At the same time, however, the number of people coming off the unemployment rolls "for reasons other than placement in the labour market" is rising slightly. For the purposes of analysis, it is therefore desirable to focus on the seasonally adjusted rate of change in the number of unemployed during normal changes in deregistration. By this measure, the number of unemployed fell by 3,000 in July and 1,000 in August

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



Source: SO SR, NBS calculations.

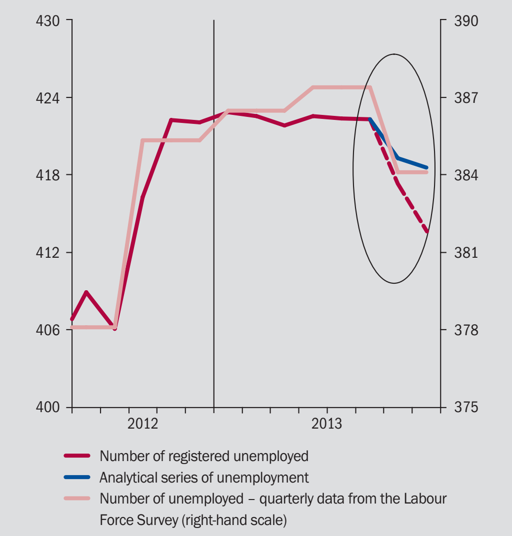
Chart 16 Unemployment



Source: Central Office of Labour Social Affairs and Family, NBS calculations.

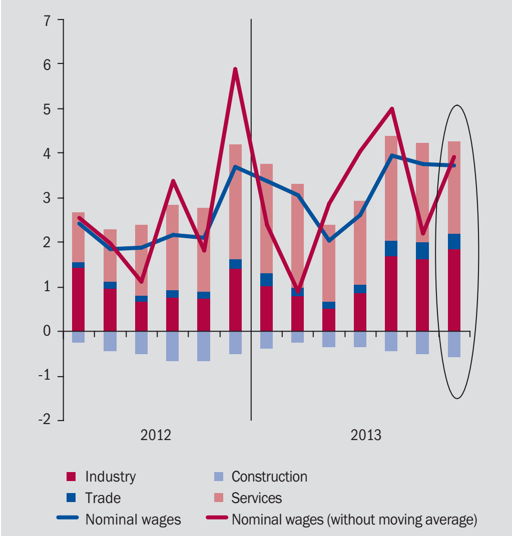
4 *The unadjusted rate of registered employment declined more sharply owing to seasonal summer work, by 0.29 percentage point to 13.7% (a drop of 7,800 people).*

Chart 17 Number of unemployed (thousands of persons)



Source: Central Office of Labour Social Affairs and Family, and SO SR.
Note: Seasonal adjustment and NBS calculations. The number of unemployed according to the Labour Force Survey for the third quarter of 2013 constitutes the projection in the NBS Medium-Term Forecast (MTF-2013Q3).

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

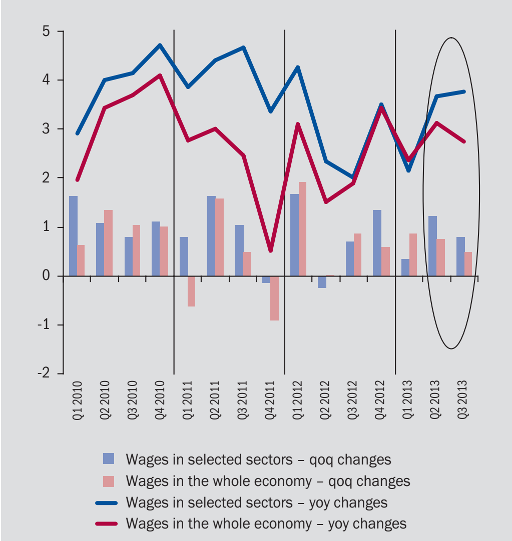


Source: SO SR, NBS calculations.

after remaining unchanged at a high level in the second-quarter level.[5] These figures are in line with the optimistic assumptions of the NBS Medium-Term Forecast published in the second quarter (MTF-2013Q2), namely that the unemployment trend could stabilise or very moderately improve in the second half of 2013. These assumptions are retained in the latest NBS forecast.

At the same time, current developments in registered unemployment are making further declines in employment less likely. The monthly employment figures do not capture the economy as a whole and, as noted above, the drop in service sector employment may be temporary. It may therefore be expected that employment will remain unchanged in the third quarter at the current low levels. The fall in the number of unemployed was also affected by the number of people becoming eligible for an old-age pension, and so may not necessarily imply an increase in employment. In line with the latest NBS forecast it is therefore assumed that employment in the third quarter will be unchanged from the second quarter, and this assumption is further supported by the less pessimistic expectations for employment and the continuing moderate increase in economic activity.

Chart 19 Wage developments in the economy (annual and quarterly percentage changes)



Source: SO SR.
Note: Wage growth in the selected sectors for the third quarter is calculated using the SO SR's monthly data and imputations based on ARIMA modelling for August and September. The wage growth in the economy as a whole for the third quarter of 2013 represents the projected quarterly wages taking into account the monthly indicator.

Nominal wage growth accelerated in July, to 3.9%, partially correcting the very low June figure. The figures indicate that summer bonuses

5 *The decline in the number of unemployed was probably caused to some extent by a higher number of people being deregistered as unemployed for reasons other than finding work; for example, for not cooperating with a labour office or for failing to meet the statutory conditions for registration with a labour office. It is estimated that around 56% (5,000) of those deregistered as unemployed would still be registered if the number who came off the unemployment rolls for reasons other than placement in the labour market had not been higher in July and August. This adjusted time series for the number of unemployed is termed the analytical series of unemployment.*

were to some extent put back from June to July, thereby dampening wage growth in June and boosting it in July. Compared to its strong increase in May, wage growth only partially rebounded (the May result was probably affected by the payment of bonuses and higher salaries under new collective agreements in the automotive and machinery industries and in the information and communication sector). This profile of wage developments was observed mainly in the sectors of industry, business activities, and information and communication. With inflation low, real wages are also rising moderately and boosting the real consumption of households.

Considering the upward effect that one-off factors had on wages in the second quarter, the latest NBS forecast continues to project a moderation of wage growth in the third quarter, in both quarter-on-quarter and year-on-year terms, owing to a correction of the previous stronger growth. Therefore the latest NBS forecast makes almost no change in the projection for overall real disposable income of households (revising it up by 0.1%).

4 Prices

Inflation declined to 1.4%

Annual HICP inflation continued its downward trend in August, falling by 0.2 percentage point from the previous month and down by 1.1 p.p. compared to its level at the beginning of the year. In month-on-month terms, the HICP rate declined by 0.2% (after rounding).

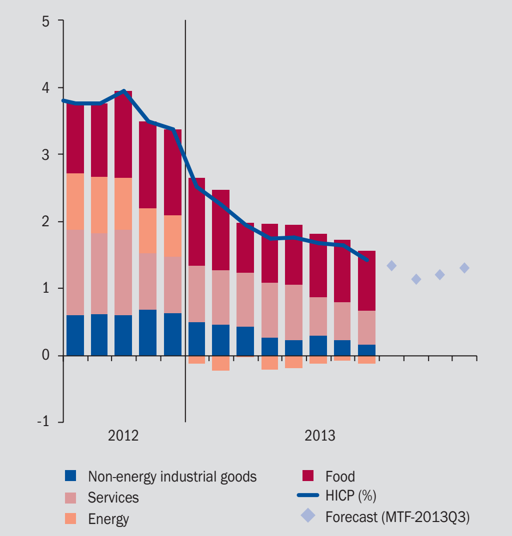
The annual inflation rate was lower in August than in July mainly because of lower rates of inflation in non-energy industrial goods and in services.

Table 1 HICP components – comparison of projected and actual rates of change

			Non-energy industrial goods	Energy	Food	Services	HICP
Month-on-month change	A	August 2012 – actual figure	0.1	0.4	-0.6	0.3	**0.0**
	B	August 2013 – projected figure	0.1	0.1	-0.3	0.1	**0.0**
	C	**August 2013 – actual figure**	**-0.2**	**0.2**	**-0.7**	**0.1**	**-0.2**
	BC	Direction of deviation, if any					
	BC	**Difference in contribution to month-on-month rate of change**	**-0.08**	**0.00**	**-0.09**	**0.00**	**-0.17**
Year-on-year change	D	July 2013 – actual figure	0.8	-0.5	3.9	1.9	**1.6**
	E	August 2013 – projected figure	0.8	-0.8	4.2	1.7	**1.6**
	F	**August 2013 – actual figure**	**0.5**	**-0.7**	**3.8**	**1.7**	**1.4**
	AC	Significant base effect	moderate	no	no	moderate	**no**
	EF	Direction of deviation, if any					
	EF	**Difference in contribution to year-on-year rate of change**	**-0.08**	**0.00**	**-0.09**	**0.00**	**-0.17**

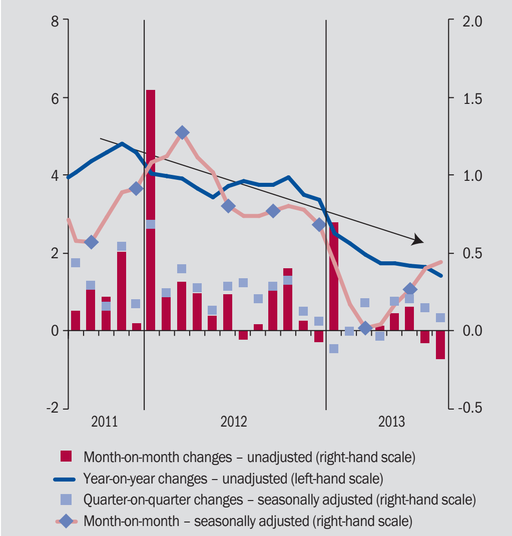
Source: SO SR, NBS calculations.

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



Source: SO SR, NBS calculations.

Chart 21 Headline inflation rate (%)



Source: SO SR, NBS calculations.

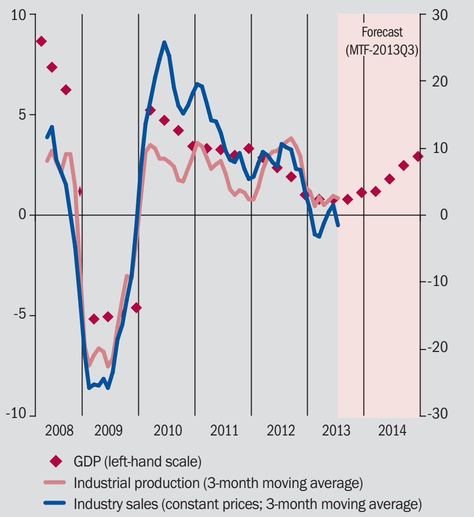
The current trend in the headline rate continues to reflect the fact that demand-pull pressures are subdued and imported inflation is low. Looking at the composition of headline inflation, the annual rate of food price inflation accounts for almost two-thirds of the total, despite having decelerated moderately. Food prices in August were affected not only by a seasonal drop in unprocessed food prices, but probably also by the effect of a good harvest on prices of certain processed foodstuffs.

The rate of change in prices of services and non-energy industrial goods is expected to reach a turning point in October and November. Given expectations for developments in the domestic and external macroeconomic environment, the inflation rate in these components could gradually accelerate from the beginning of 2014. At present, the main downward pressure on inflation is expected to be from persistently low import prices and developments in consumer demand, particularly demand for semi-durable and durable goods, which lacks a significant stimulus. In the short-term horizon, until the end of 2013, the inflation rate is expected to remain below 1.5%.

5 Qualitative impact on the forecast

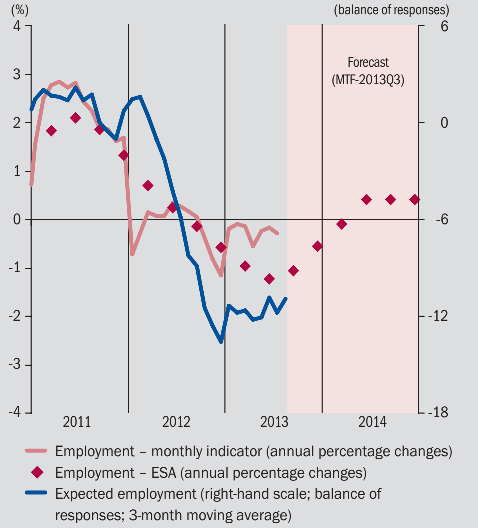
The published composition of economic growth for the second quarter differed markedly from what was forecast in June (when the composition of first-quarter GDP was not known). Consequently, a revised view of the economy's condition has emerged since publication of the June forecast, and this has been incorporated into the latest NBS

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 European Commission.

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

Source: SO SR, NBS and European Commission.

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

Source: SO SR and European Commission.

forecast published in September. Since overall economic growth was higher than projected, the GDP forecast for the whole of 2013 has been revised up from the previous forecast and includes a significantly stronger recovery of domestic demand and higher export growth. As implied by monthly sales indicators and an improvement in sentiment, domestic demand was boosted mainly by higher final consumption. It is assumed, however, that the upturn in domestic demand in the first-half of 2013 was temporary and that its growth moderated in the subsequent period. This view has so far been supported by available indicators for the third quarter. Looking at the labour market, the full-year projection for employment will incorporate the adverse impact of the more pronounced decline in employment observed in the second quarter. Figures for July point to labour market stabilisation, consistent with the latest forecast for the second half of the year. Reflecting improvements in current wage developments, the wage growth forecast for 2013 has been revised up. Although inflation was moderately lower than expected, it is not assumed to deviate significantly from the trajectory projected in the latest forecast. Sentiment indicators for August, the most recent available, suggest that the economic recovery will continue to proceed slowly and gradually.

QUARTERLY REPORT ON THE INTERNATIONAL ECONOMY

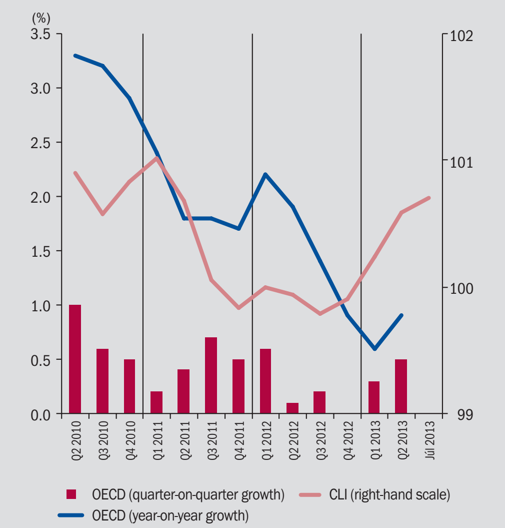
THE GLOBAL ECONOMY

Economic activity in the OECD area again accelerated moderately in the second quarter of 2013, with GDP increasing by 0.5% after a rise of 0.3% in the first quarter. This was reflected in annual GDP growth, which increased to 0.9% (from 0.6% in the first quarter). The euro area economy grew after six quarters in recession, and both the US and UK economies grew at an increased pace. By contrast, the Japanese economy decelerated slightly. The OECD's composite leading indicator (CLI)[6] of economic sentiment improved moderately for a third successive quarter, but it remains at a relatively low level.

Consumer price inflation increased slightly in the second quarter of 2013, with the OECD reporting an average headline rate of 1.8% in June, up from 1.6% in March. This trend continued in July, when inflation edged up to 1.9%. The higher consumer price inflation reflected rising energy price inflation, which climbed from 0.9% in March to 3.4% in June and then continued to accelerate in July, to 4.5%. Food price inflation also increased, from 1.7% in March to 2.0% in June, and up to 2.2% in July. By contrast, the rate of inflation in non-energy industrial goods was 0.1 percentage point lower in June than in March, at 1.5%, and it remained at this level in July.

With risks to the global economic outlook still elevated, the recovery of economic activity remains fragile. Risks continue to exist in the form of Europe's sovereign debt crisis, fiscal consolidation requirements, a weak labour market, and the ongoing repair of banks' balance sheets as well as private sector balance sheets. At the same time, geopolitical tensions in certain regions of the world could weigh on commodity markets, while higher commodity prices may hinder economic recovery.

Chart 26 GDP and the CLI



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

COMMODITIES

The oil price in the second quarter of 2013 was relatively stable, fluctuating between USD 98 and 110 per barrel, and the average barrel price was almost 9% lower than in the previous quarter (down from USD 112.5 to USD 102.5). At the beginning of the quarter, oil prices fell owing mainly to a decline in oil demand estimates and there was an increase in estimates for North American oil production. Towards the end of the quarter, however, geopolitical tensions in certain countries were causing oil prices to rise gradually. This upward trend continued in subsequent months, and by the end of August oil was trading at around USD 115 per barrel.

Non-energy commodity prices declined in the second quarter and fell further in July. This development stemmed mainly from metals prices, which were pushed down largely by reduced demand in China. Agricultural commodity prices fell in the second quarter, as they had in the first quarter and continued to do so in July.

6 *The CLI indicators are published by the OECD on a monthly basis – the latest available data, published in August 2013, are for June 2013.*

UNITED STATES

As in the previous quarter, US economic growth increased quite strongly in the second quarter of 2013, with an annualised rate of 2.5% (up from 1.1% in the first quarter). The annual rate of GDP growth increased to 1.6%, from 1.3% in the fourth quarter. GDP figures were extensively revised in second quarter, and consequently the average annual GDP growth rate for the previous ten years was increased by 0.2 percentage point.

The acceleration in US economic growth was driven mainly by a marked rise in investment growth, notably in non-residential investment. Residential investment growth remained virtually unchanged. Although private consumption growth decelerated, it continued to make the largest contribution to economic growth. Changes in inventories also contributed positively to growth, while net exports had a neutral impact, with relatively strong growth in both exports and imports. Fiscal consolidation efforts continued to have a constraining effect on economic growth, although the reduction in government spend was significantly lower in the second quarter than in the previous quarter.

The inflation rate increased moderately in the second quarter, to stand at 1.8% in June (compared to 1.5% in March), and it increased further in July, to 2.0%. The price growth was largely accounted for by energy price inflation. In contrast to the headline rate, core inflation declined in June, to 1.6% (down from 1.9% in March). In July, however, the core rate edged back up to 1.7%.

The US Federal Open Market Committee (FOMC) decided at its two regular meetings in the second quarter of 2013 to leave its target range for the federal funds rate unchanged 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 quantitative easing. At its meeting in July, the FOMC again decided not to change the target range for the federal funds rate.

THE EURO AREA

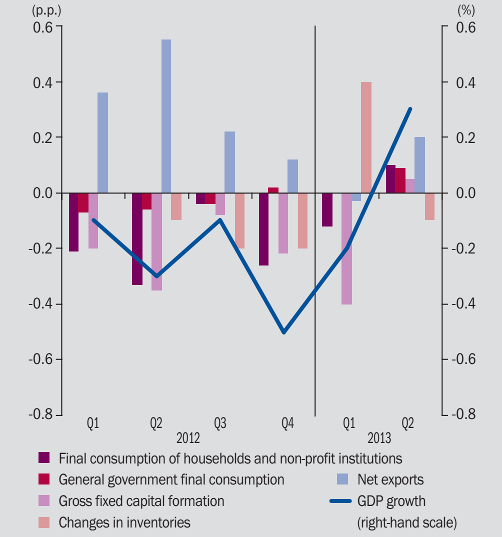
The euro area economy grew by 0.3% in the second quarter of 2013 after six quarters in recession (including a contraction of 0.2% in the first quarter). The growth was driven by a pick-up in domestic demand as well as by net exports. Among the large economies that reported real GDP growth were Germany, with a relatively strong performance, and France. By contrast, the Italian, Dutch, and Spanish economies continued to shrink, although more moderately than in the previous quarter. Portugal's economy, one of the hardest hit by the sovereign debt crisis, grew quite strongly. As a result of the economic upturn in the second quarter, the annual rate of decline in euro area GDP fell to -0.5% (from -1.0% in the first quarter).

The second-quarter growth reflected a pick-up in domestic demand. Private consumption increased after six quarters of decline and general government consumption also made a modest positive contribution to GDP growth. Investment demand rallied, with gross fixed capital formation increasing for the first time in nine quarters. Investment demand growth was, however, partly due to catch-up activity in the construction sector (especially in Germany), which lost output during the hard winter. Hence, growth is not expected to remain as strong in

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

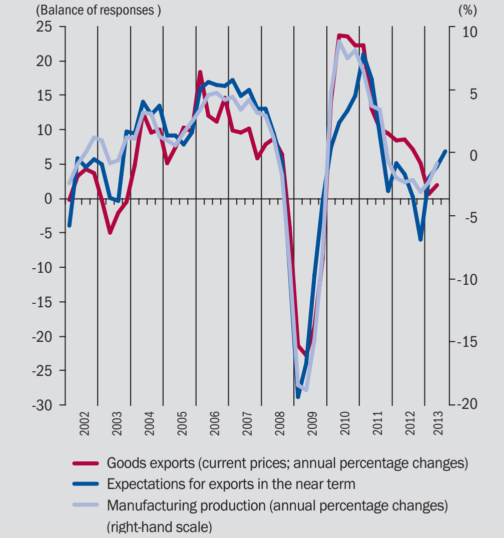
Source: Eurostat.

Chart 28 Contributions to quarterly GDP growth by component



Source: Eurostat, NBS calculations.

Chart 29 Export expectations, exports and manufacturing production



Source: European Commission, Eurostat, NBS calculations.

subsequent quarters. Changes in inventories had a slightly negative impact on economic growth. External demand boosted the economy, as euro area export growth recovered from a two-quarter downward trend. Although import growth was also quite strong, the contribution of net exports to GDP growth was moderately positive.

Manufacturing production, which covers significant exporting sectors, saw relatively strong growth in the second quarter of 2013, and therefore its annual rate of decline moderated significantly. The growth in manufacturing production followed improving expectations for exports. As manufacturing production picked up, goods exports increased. Export expectations are continuing to improve in the third quarter, indicating the further growth in exports and manufacturing production may be expected in the second half of the year. Overall, however, export expectations remain at very low levels and the prospects for exports and manufacturing are clouded by considerable uncertainty.

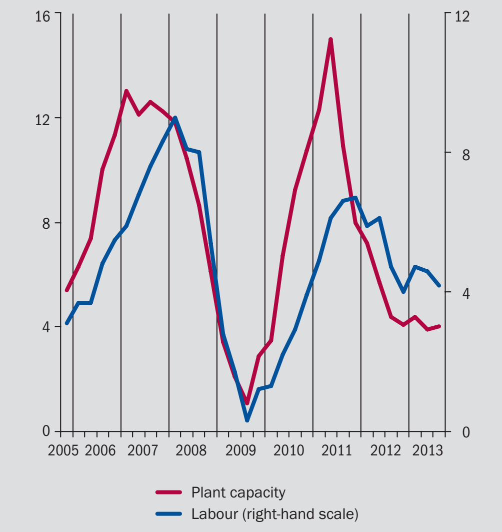
Although demand remains low, industry assessments of demand as a production-limiting factor moderated in the third quarter. By contrast, assessments of financial factors deteriorated. Reflecting the weak labour market situation, the assessment of labour as a production-limiting factor worsened for a second consecutive quarter, despite signs of a moderate upturn in economic activity and improved assessments of order books and the utilisation of production capacities. Plant capacity is not a constraint on production, while capacity utilisation remains at a low level.

The labour market remains a weak link in the economy and is one of the factors which suggests that the current recovery is fragile and

Chart 30 Production-limiting factors in industry (%)

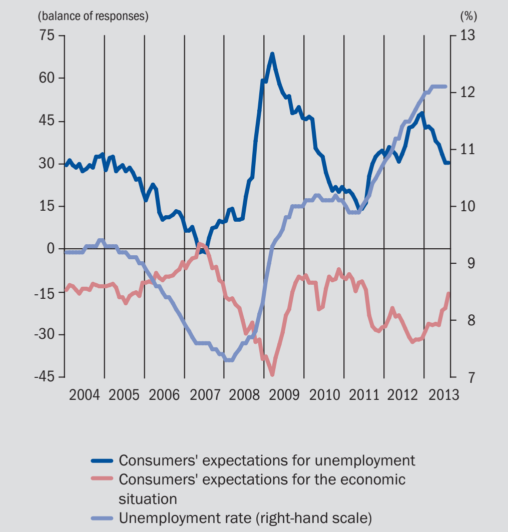
Source: European Commission.

Chart 31 Production-limiting factors in industry (%)



Source: European Commission.

Chart 32 The unemployment rate and consumers' expectations for the economic situation and unemployment over the next 12 months

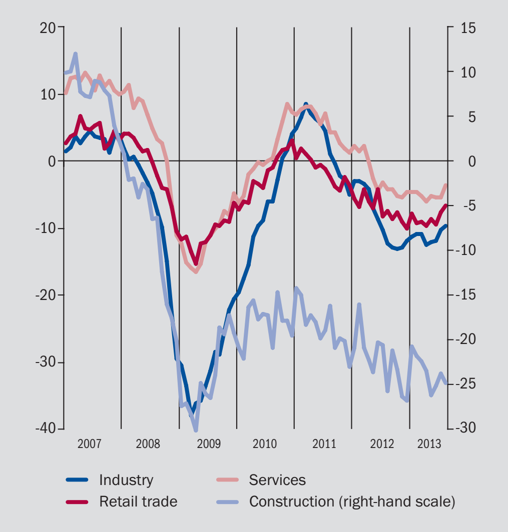


Source: European Commission and Eurostat.

accompanied by a high degree of uncertainty. The headwinds affecting the labour market include the downward effect of low demand on selling prices and the consequent pressure to cut production costs. The unemployment rate, however, stopped rising in the second quarter of 2013 and remained at its March level of 12.1%. Nor did the jobless rate increase in July, meaning that it remained flat for four consecutive months after increasing almost continuously for the previous 22 months. As unemployment remained flat, consumers' expectations for the future economic situation gradually improved and in August they strengthened for a third month in a row. At the same time, consumers' expectations for unemployment stopped deteriorating in August, ending an upward trend that began in March. A key factor for the labour market situation is the recovery of consumer demand. Expectations for employment have gradually been improving across sectors, with the exception of construction where they remain subdued.

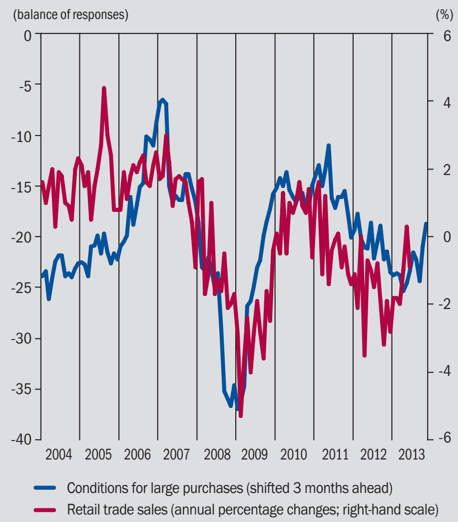
Nevertheless, the unemployment rate remains at all-time high levels and the labour market situation continues to be a major obstacle to any significant revival in consumer demand. Stabilisation of the jobless rate has probably, however, contributed to the moderate improvement in consumer sentiment, which has now strengthened for eight consecutive months. Not only have expectations for the future economic situation picked up, so have consumers' assessments of their financial situation, although they remain at very low levels. The moderate optimism is also reflected assessments of conditions for large purchases,

Chart 33 Employment expectations by sector (balance of responses)



Source: European Commission.

Chart 34 Retail trade sales and consumers' assessments of conditions for large purchases



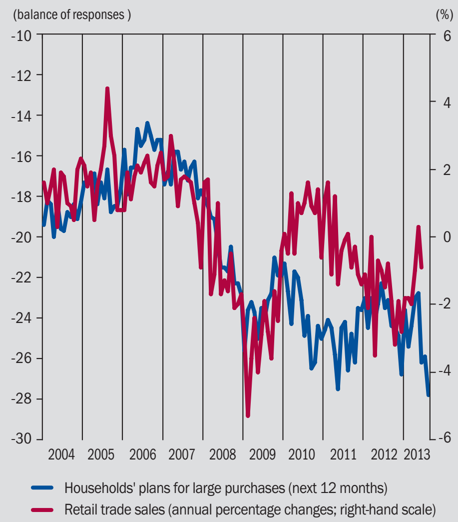
Source: European Commission and Eurostat.

which improved in July and August. In regard to their plans for large purchases, however, households have become increasingly negative in their assessments, which are now at historically low levels. The correlation between this indicator and retail trade sales has, though, weakened substantially during the course of the crisis.

After the upward tendency in several forward-looking indicators came to a halt in March and April, economic sentiment rebounded in May and June. The economic sentiment indicator (ESI) increased in August for a fourth successive month. Improvements were observed in all component sectors apart from construction. Further positive signs can be found in the composite PMI for the euro area, which broke through the no-growth threshold of 50 in July and increased again in August, to 51.7. The Ifo index for the euro area also improved quite markedly in the third quarter, and the OECD's Composite Leading Indicator (CLI) is pointing to a recovery in economic activity. The German economy, too, has been sending out positive signals: in August, Germany's ESI increased for a fourth consecutive month and its composite PMI rose quite sharply, to 53.4. The buoyancy in German economic sentiment was further confirmed by the results of Ifo and ZEW surveys. Thus the available forward-looking indicators suggest that the euro area will continue to see moderate economic growth.

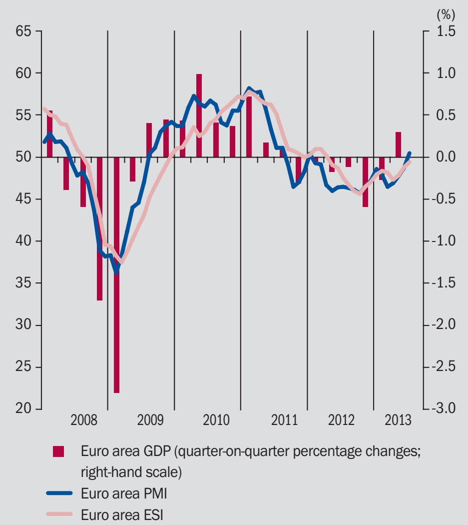
Consumer price inflation in the second quarter reflected mainly changes in energy price inflation and a gradual increase in food price inflation. Furthermore, at the beginning of the quarter, the headline rate was affected by a shift in the

Chart 35 Retail trade sales and households' plans for large purchases



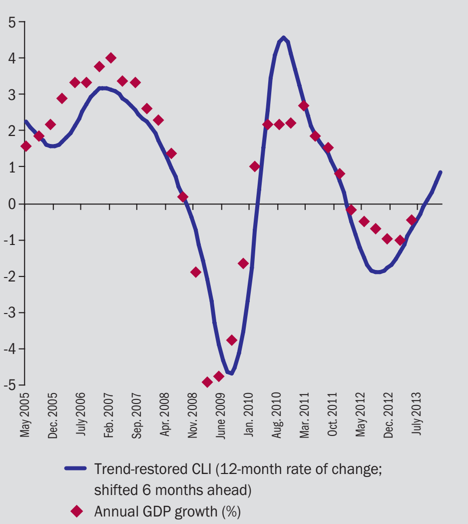
Source: European Commission and Eurostat.

Chart 36 Euro area forward-looking indicators and GDP growth



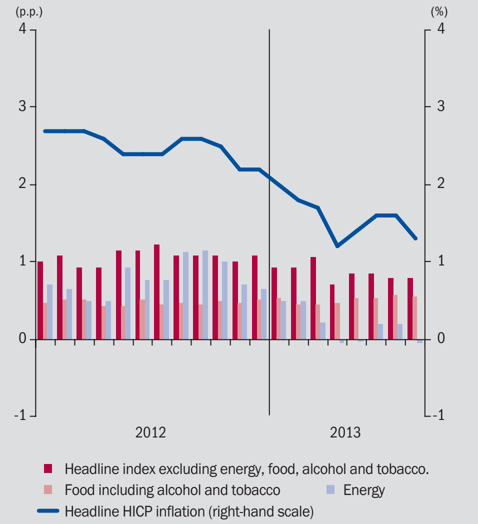
Source: European Commission, Eurostat and Bloomberg.

Chart 37 Euro area: OECD Composite Leading Indicator and GDP growth



Source: OECD and Eurostat.

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

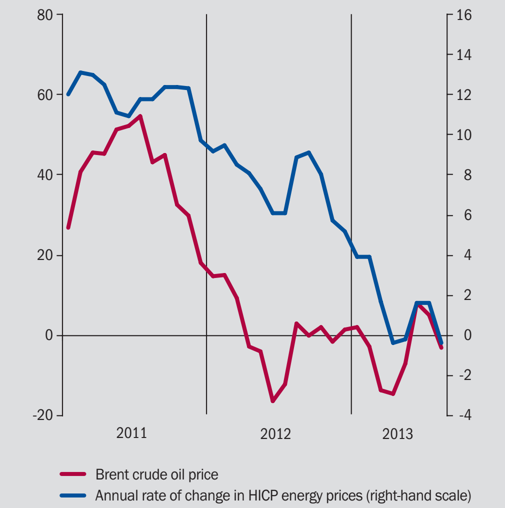


Source: Eurostat, NBS calculations.

seasonal price growth associated with the Easter, which fell in March in 2013 after falling in April in the previous year (prices of certain consumer basket components, particularly services, have a tendency to rise more sharply during the Easter holidays). Consequently, the Easter price effect was recorded in March and the annual rate of change in services inflation increased in that month. Because last year the seasonal effect of Easter on inflation was observed in April, the base effect of that increase contributed to a 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. The annual rate of change in energy inflation fell significantly in April and then began to increase, accelerating markedly in June due mainly to a base effect. Reflecting the effect of its different components, the overall HICP fell quite sharply in April, down to 1.2% (from 1.7% in March), and then began to accelerate gradually in the next two months, to 1.4% and 1.6%. The inflation rate remained unchanged in July, when a slowdown in non-energy industrial goods inflation was offset by an increase in food inflation. Despite rising global oil prices in July and August, energy inflation decelerated in August owing to a base effect. At the same time, the rate of inflation in food and in non-energy industrial goods also moderated. As a result, the headline rate in August fell to 1.3%.

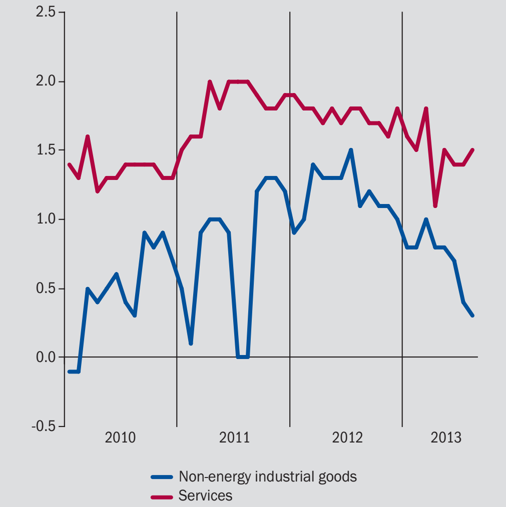
The annual rate of change in energy prices largely mirrored the annual increase in oil prices, which in turn was affected by a base effect. When oil prices fell substantially at the beginning of the second quarter of 2013, the annual rate of energy inflation also declined. The oil price remained broadly stable up to June, but in that month its annual rate of change declined sharply owing to a base effect. In August, despite an increase in global oil prices, the base effect caused the annual rate of change in oil prices to turn negative. Food commodity prices fell in April and rose over the next two months, with an upward effect on their annual rate of change. In July, the prices of these commodities fell moderately and their annual rate of increase was substantially lower owing mainly to a base effect. Food commodity prices gradually accelerated from summer 2012, and unprocessed food prices were relatively responsive to their movement. On the other hand, in an environment of strong competition and low demand, the pass-through from commodity market prices to processed food inflation was far more limited, and producers' profit margins were squeezed as a result.

Chart 39 Oil and energy prices in the HICP (annual percentage changes)



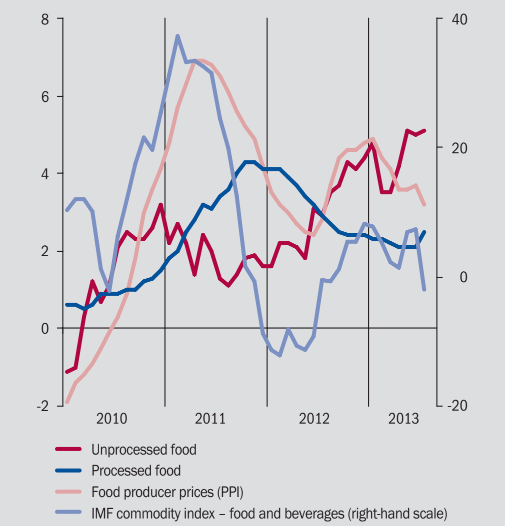
Source: Eurostat and EIA.

Chart 41 Goods and services prices (annual percentage changes)



Source: Eurostat.

Chart 40 Effect of food commodity prices on producer prices and consumer prices (annual percentage changes)



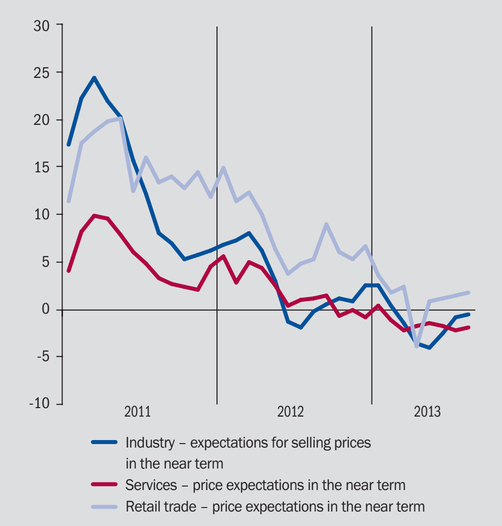
Source: Eurostat and IMF.

The inflation rate not including prices of energy, food, alcohol and tobacco, which probably best capture the market-based components of inflation, was lower in the second quarter than in the first months of the year, falling from 1.5% in March to 1.2% in June. In March and April, however, the rate was affected by the shift in the date of Easter mentioned above. The rate continued to decline in July, down to 1.1%, and remained at this level in August.

Price developments remained affected by low demand and strong competition. The rate of inflation in services and in non-energy industrial goods was somewhat volatile owing to the shift in the date of Easter. Overall, however, non-energy industrial goods inflation maintained a decelerating tendency in the second quarter as well as in July and August. Services price inflation was also lower in the second quarter than in the first quarter, and it was broadly stable in July and August.

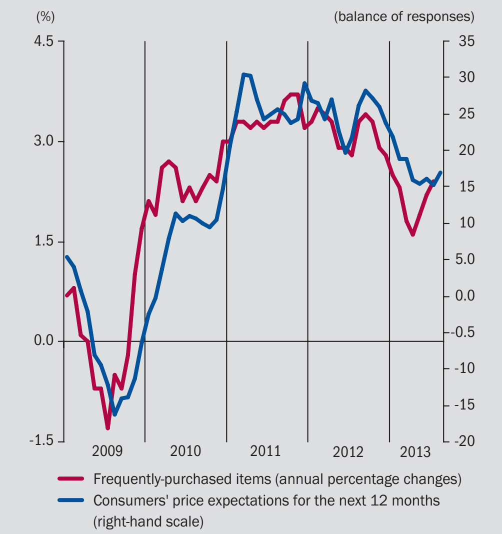
According to several surveys, inflation pressures are subdued and price expectations across sectors are at historically low levels. The downward trend in expectations has, however, petered out in recent months, particularly in industry and retail trade, probably because certain cost-push items are increasing again in response to commodity prices and also because the scope for limiting the pass-through of cost-push pressures to selling prices has been exhausted. Similarly, consumers' inflation expectations have stopped falling; however, these usually follow price movements in frequently purchased items, which have been gradually accelerating since May.

Chart 42 Price expectations in industry, services and retail trade (balance of responses)



Source: European Commission and Eurostat.

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



Source: European Commission and Eurostat.

At its monetary-policy meeting in May, the ECB's Governing Council decided to lower 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, while keeping the deposit facility rate unchanged at 0.00%. None of the ECB's key rates have been adjusted since then.

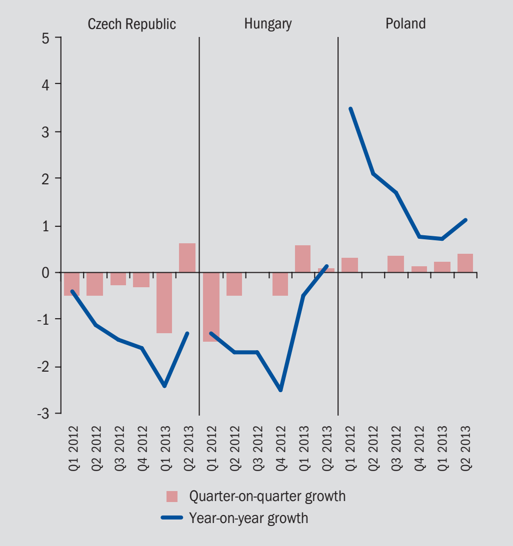
Also at May's monetary-policy meeting, the Governing Council decided to continue conducting the main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the 6th maintenance period of 2014 on 8 July 2014. This procedure 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.

DEVELOPMENTS IN POLAND, THE CZECH REPUBLIC AND HUNGARY

Each of these countries saw a year-on-year improvement in economic performance during the second quarter of 2013: the Czech economy's annual rate of contraction moderated by 1.1 percentage points, to -1.3%; the Hungarian economy grew by a modest 0.1% (after shrinking by 0.5% in the first quarter); and Polish economic growth accelerated by 0.4 percentage point, to 1.1%.

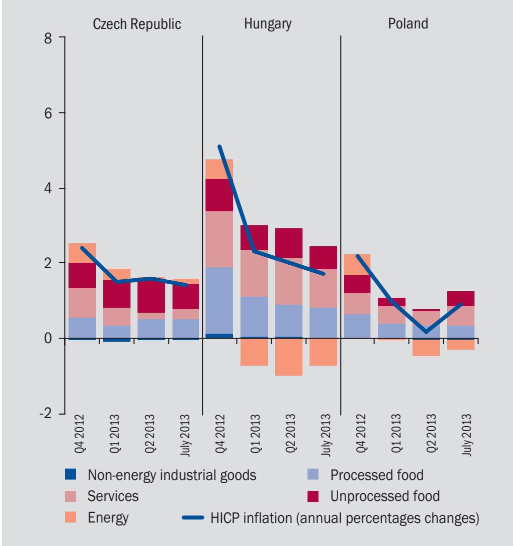
Compared with the previous quarter, all three economies grew in the second quarter, although the Hungarian economy's quarter-on-quarter growth was 0.4 percentage point lower than in the first quarter, at 0.1%. The Czech economy returned to growth (0.6%) after six consecutive quarters of contraction, and Polish economic growth accelerated by a moderate 0.2 percentage point, to 0.4%. In the Czech Republic, net exports made the largest contribution to GDP growth and changes in inventories also had a positive impact. The other components contributed negatively, including household consumption, which declined again after increasing strongly in the first quarter. In Hungary, the slowdown in growth reflected the dampening effect of

Chart 44 GDP growth (%)



Source: Eurostat.

Chart 45 Contributions to HICP inflation (p.p.)



Source: Eurostat, NBS calculations.

net exports, since, as in the previous quarter, imports increased more than exports. Other components had a positive effect on growth: investment demand accelerated significantly and domestic consumption also increased, after falling moderately in the first quarter. The modest increase in Poland's economic growth was largely accounted for by net exports, which reflected a marked decline in imports. Both public and private consumption also contributed positively to economic growth, while the main negative effects came from investment demand and changes in inventories.

In the Czech Republic, annual consumer price inflation in the second quarter increased by 0.1 percentage point over the previous quarter, to 1.6%, while in Hungary the rate declined by 0.3 p.p., to 2.0%, and in Poland it fell by 0.8 p.p., to 0.2%. The acceleration of Czech inflation at the end of the second quarter was caused mainly by higher annual rates of inflation in processed and unprocessed food. By contrast, energy and services inflation continued their decelerating trend from the previous quarter. The rate of decline in prices of non-energy industrial goods moderated. In July, the headline inflation rate in the Czech Republic decreased slightly. The decline in Hungary's annual CPI inflation stemmed mainly from energy prices, as their annual rate of decline was higher than in the previous quarter. Processed food price inflation moderated and therefore added to the downward pressure on the headline rate, while unprocessed food priced inflation increased. Services inflation and non-energy industrial goods inflation remained unchanged from the first quarter. In July, Hungary's annual inflation rate declined further. The slowdown in Polish inflation at the end of the second quarter was broadly based across all components, and included higher rates of decline in prices of non-energy industrial goods and particularly in energy prices. Food and services inflation moderated. In July, Poland's headline rate increased again, its level matching that at the end of the first quarter.

Looking at the currencies of the three countries vis-à-vis the euro, it was in particular the Czech koruna and Polish zloty that continued in the second quarter the weakening tendency observed in the first quarter, while the Hungarian forint moved more in the opposite direction. The exchange rates came under downward pressure mainly in the first half of the second quarter, following the publication of negative economic news for the respective countries and for the euro area. Financial market turbulence toward the end of the second quarter, triggered by the US Federal Reserve's statement regarding the unwinding of its quantitative easing programme, also had a negative effect on the exchange rates.

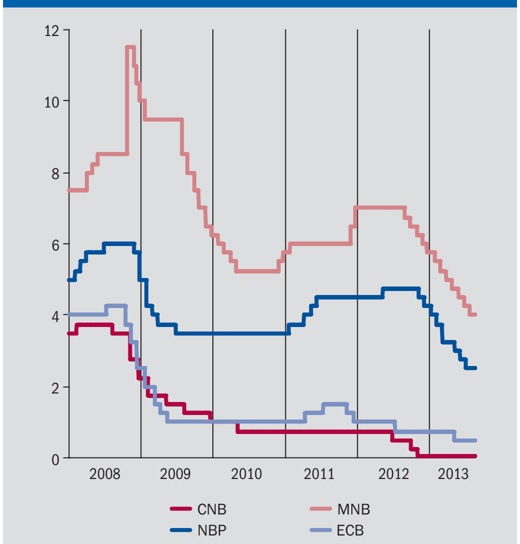
Chart 46 Exchange rate indices of the V4 currencies vis-à-vis the euro (index: 4 January 2010 = 100)

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

In April and May, the Czech koruna weakened against the euro, continuing its trend from the end of the first quarter, largely in response to published estimates of economic results in the first quarter of 2013 as well as to the Czech central bank's stated readiness, if necessary, to begin intervening in the foreign exchange market. At the end of May and in the first half of June, the Czech koruna appreciated moderately, its upward movement being halted only by the escalating turbulence in Czech politics. In July and August, the Czech koruna strengthened slightly against the single currency. In contrast, the Hungarian forint's second-quarter trend vis-à-vis the euro was clearly rising, due partly to the fact that Hungarian economic news for the first quarter was not as negative as expected: in May, a further package of consolidation measures was announced, and then in June the European Council abrogated the excessive deficit procedure (EDP) for Hungary. Towards the end of the quarter, the forint had a weakening tendency against the euro, stemming mainly from the adverse situation in financial markets that in turn reflected the risk associated with the potential tapering of the US quantitative easing programme. The currency maintained a downward trend in July and August. As for the Polish zloty's exchange rate against the euro, it was relatively stable in the first quarter and then began to depreciate in April, continuing on this trajectory almost until the end of the quarter. The main reason was the weak economic data for Poland as well as the unfavourable situation in financial markets. Adding to the downward pressure on the currency was the announcement of a two-year extension to the country's deadline for correcting its excessive deficit. At the beginning of June, the Polish central bank attempted to correct the zloty's exchange rate by intervening in the foreign exchange market. In July, the central bank announced the end of the cycle of monetary accommodation, causing the exchange rate to appreciate.

The Hungarian and Polish central banks adjusted their monetary-policy settings in the second quarter of 2013, while Česká narodní banka (ČNB) kept its interest rates unchanged, leaving the main rate at 0.05% (a „technical zero"). The Czech central bank opted to leave its key rates unchanged (with forward guidance not to change them in the longer-term) after it assessed the economic risks to its future monetary-policy setting as disinflationary, requiring more accommodative monetary conditions. Hence ČNB remains ready to intervene in the foreign exchange market, if necessary, and the Bank Board even voted at its August meeting on whether to launch

Chart 47 Key interest rates of the V4 national central banks (%)



Source: National central banks and the ECB.

interventions (deciding not to do so for now). The Magyar Nemzeti Bank cut its base rate by 25 basis points on three occasions in the second quarter, bringing it down from 5.00% at the beginning of April to 4.25% at the end of June. Its reasoning centred on the economy's substantial unused capacities as well as the fact 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 Hungarian central bank further loosened monetary policy in July and August, pushing the base rate down to 3.80% at the beginning of September; at the same time, it noted that the substantial rate cuts to date, as well as the perceived deterioration of risks associated with the Hungarian economy, should lead to an easing of monetary policy accommodation. The Polish central bank, Narodowy Bank Polski, continued its gradual loosening of monetary policy in the second quarter of 2013, when it reduced its base rate by 25 basis points on two occasions, down to 2.75 % by the end of June. The central bank confirmed that the economy was experiencing low demand and weak cost-push pressures, accompanied by a further decline in inflation expectations. The bank cut rates again in July, at the same time announcing the end of the monetary loosening cycle.

QUARTERLY REPORT ON THE REAL ECONOMY

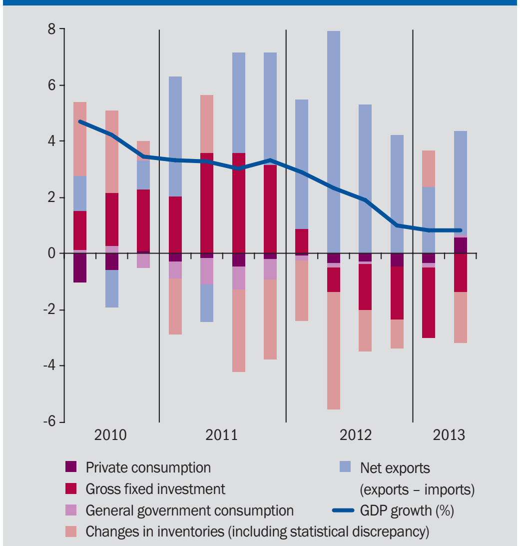
THE REAL ECONOMY IN THE SECOND QUARTER OF 2013

GROSS DOMESTIC PRODUCT

The Slovak economy grew in the second quarter by 0.3% over the previous quarter, continuing its low-growth trend of the past one and a half years. However, faint signs of acceleration have appeared in recent periods, with growth rising from 0.1% in the last quarter of 2012 to 0.2% in the first quarter of 2013, and then to 0.3% in the second quarter.

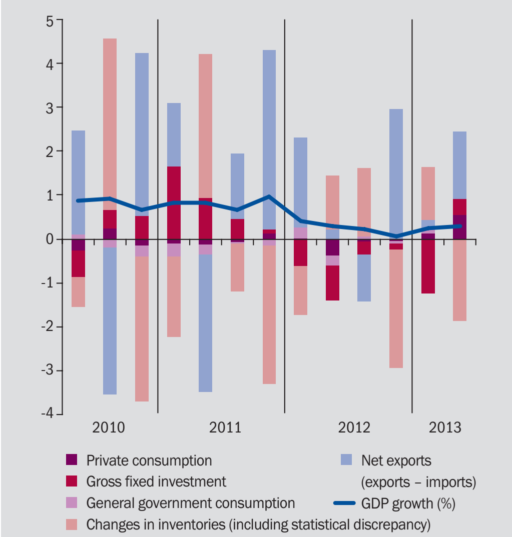
A qualitative change in the second-quarter growth was the positive contribution of domestic demand. For the first quarter in one and a half years, GDP growth was not driven entirely by net exports, although their contribution was still higher than that of domestic demand. Real economic growth would have been higher but for imputed components of GDP, in particular the large increase in destocking, as well as a negative statistical discrepancy. On the expenditure side, the second-quarter growth was driven mainly by net exports and domestic demand, while on the output side the main contribution was from value added in manufacturing industry. In year-on-year terms, GDP increased by 0.9%.

Chart 48 Contributions to annual GDP growth (p.p.)



Source: SO SR.

Chart 49 Contributions to quarterly GDP growth (p.p.)



Source: SO SR.

With growth in exports and services picking up and import growth decelerating, net exports made a relatively substantial contribution of 1.5 percentage points to quarter-on-quarter GDP growth (0.3%).

Not only did net exports have a positive impact, so did domestic demand, which after falling in the previous five quarters and bottoming in the first quarter, perked up in the second quarter to a level close to that observed in the second half of 2010. Domestic demand's contribution to GDP (0.9 percentage point) was accounted for by returns to growth in private consumption and fixed investment. After a long downward trend interspersed with occasional improvements, private consumption remained flat in the first quarter and increased in the second quarter by its highest margin since the slump in 2009, with support from low inflation and a pick-up in consumer confidence. Private consumption growth was driven by households (although in real terms their consumption did not reach the pre-crisis level). The higher consumption of households was funded from an increase in disposable income supported by earnings of self-employed people and remuneration of Slovak citizens working abroad. Hitherto cautious Slovak consumers also tapped their savings to finance higher consumption. General government consumption remained stable and would have declined significantly but for an increase in social benefits in kind, which have to be provided and which have a relatively stable volume.

Fixed investment returned to relatively tentative growth after five quarters in decline. The moderate investment growth was to some extent probably a correction of the decline in the previous quarter and was linked to a slight increase in profits of non-financial corporations. Larger-scale investment continues to be subdued as fiscal consolidation efforts continue, firms show little appetite for bank-financed investment, and credit conditions fail to incentivise borrowing. Fixed investment growth was supported by falling prices. Taking into account not only fixed investment developments but also destocking, gross investment declined by more than 7% quarter-on-quarter, i.e. at a similar pace to its decline in the first quarter. Given the quarterly decline in producer prices, it is assumed that the destocking was also a result of rising losses on inventory holdings. The negative impact on quarterly GDP growth of destocking, the statistical discrepancy, chain-linking errors, and errors from non-additive seasonal adjustment amounted to 2.1 percentage points.

On the output side of the economy, two-thirds of GDP growth (at constant prices) was accounted for by value added and one third by net taxes on products. The increase in value added resulted almost entirely from reduced intermediate consumption, since gross output was virtually unchanged after falling in the previous quarter. In year-on-year terms, value added remained flat.

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

Ukazovateľ	2012					2013	
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2
Gross domestic product	**0.4**	**0.3**	**0.2**	**0.1**	**2.0**	**0.2**	**0.3**
Final consumption	0.2	-0.5	0.1	-0.1	**-0.6**	0.1	0.4
Households and NPISHs	0.0	-0.7	-0.1	-0.1	**-0.6**	0.3	1.1
General government	1.6	-1.5	0.3	-0.2	**-0.6**	0.5	0.1
Gross fixed capital formation	-2.5	-3.4	-1.4	-0.6	**-3.7**	-5.6	1.7
Exports of goods and services	4.3	2.7	0.3	0.8	**8.6**	-0.2	3.9
Imports of goods and services	2.3	2.8	1.6	-2.5	**2.8**	-0.5	2.8

Source: SO SR.

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

	2012					2013	
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2
Gross output	4.9	2.7	2.0	0.0	**2.4**	-3.7	0.0
Intermediate consumption	5.8	2.2	1.6	-1.7	**1.8**	-5.9	-0.3
Value added	3.5	3.6	2.8	3.0	**3.2**	0.1	0.7
Net taxes on products[1)]	-3.2	-6.9	-5.2	-19.0	**-9.2**	5.2	3.9
Gross domestic product	**2.9**	**2.6**	**2.1**	**0.7**	**2.0**	**0.6**	**0.9**

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

WAGES AND LABOUR PRODUCTIVITY

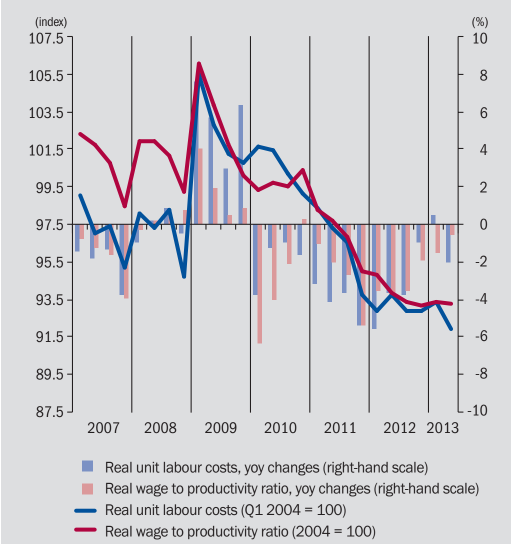
The labour market situation did not show signs of improvement in the second quarter of 2013. Employment in the business sector continued to decline, and at a higher rate than it did in the first quarter. The number of hours worked remained low, indicating no pick-up in demand for labour. Reflecting this adverse situation, the unemployment rate rose slightly. The increase in the number of unemployed is, however, being mitigated by people leaving work for retirement and partly also by an increase in the number of other non-active persons. The acceleration in wage growth may be partly explained by one-off hikes in salaries and bonuses. The changes in employee compensation growth, including a marked slowdown in the second quarter, are surprising, but may simply be a case of quarterly volatility since contribution revenues do not point to any decrease in payments from firms, rather the opposite. Wage growth is approximately in line with labour productivity growth, meaning that the ratio between these two variables was relatively stable in the second quarter. Unit labour costs are being affected by the volatility in compensation. The household savings rate fell year-on-year as household final consumption rallied.

The average nominal monthly wage of an employee in the Slovak economy in the second quarter of 2013 was €818, representing a year-on-year rise of 3.2%, notably higher than the annual increase in the first quarter. In quarter-on-quarter terms, wages climbed by a relatively substantial 0.8%.[8] The main upward pressure on wages was from higher regular bonuses, particularly in manufacturing industry and in the information and communication sector. Another factor was increased wage rates in the machinery and automotive industries, following the entry into force of new collective agreements. Given the significant rise in nominal wage growth and the low rate of inflation, real wage growth also started to rise.

Other sectors in which average wage growth increased included: transportation and storage; financial activities; and public administration and education. In the case of transportation and storage, the increase was supported by a substantial decline in the number of lower-income employees, while in the financial sector there was an upward correction from the unusually low wage growth recorded in the first quarter of 2013 (possibly affected by the optimising of assessment bases). The business activities sector also saw a relatively sharp rise in wages. Wage growth declined in the construction sector, where the situation remains difficult despite signs of recovery, as well as in real estate activities, which may have been affected by new staff recruitment. Annual wage growth moderated in the health-care sector, with the period of higher wage rises in this sector probably coming to a temporary halt. Wages in the entertainment and recreation sector declined, possibly reflecting a sharp rise in the number of employees.

Compensation per employee[9] surprisingly recorded much slower year-on-year growth in the second quarter, at 1.5%, while compared with the previous quarter it declined by 0.6%. By contrast, wages as defined in the ESA methodology increased similarly to the way described above. The difference between these two quantities comprises the amount of payroll taxes paid by employers. Compensation growth declined in construction, industry and, most sharply, in real estate activities and in administration and support service activities. In most sectors, however, compensation growth was not appreciably lower than wage growth. Real compensation per employee increased year-on-year by 0.2%.

Chart 50 Real labour productivity and real labour costs (index: Q2 2004 = 100)



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

8 Internal seasonal adjustment.
9 As defined by the Statistical Office of the Slovak Republic, compensation per employee means remuneration payable to employees.

Labour productivity under the ESA95 methodology recorded a real year-on-year increase of 2.3%. Its growth also continued to accelerate on a quarter-on-quarter basis, registering 0.7% in the second quarter. Firms remain able to increase their volume of goods and services in real terms amid moderately declining employment.

The post-crisis squeeze on labour costs, aimed at reviving profits, has been gradually easing and the relationship between real wages and productivity is stabilising. Real unit labour costs are affected by volatility in employee compensation.

HOUSEHOLD INCOME AND EXPENDITURE

The current income of households increased in the second quarter of 2013 to €14.9 billion, representing a nominal year-on-year rise of 2.1%. Compared with the first quarter of 2013, its annual growth rate fell by 2.1 percentage points, due mainly to lower growth in remuneration as well as in gross mixed income, property income and social benefits.

Current household expenditure (expenses paid to other sectors and not used for direct consumption) increased on a year-on-year basis by 1.9%, to €3.9 billion, which was 8.5 percentage points lower than in the last quarter of 2013. This slowdown was largely the result of substantially lower growth in social contributions paid, following their sharp rise in the first quarter when higher contributions were introduced.

The gross disposable income of households (current income less current expenditure) amounted to €11 billion in the second quarter of 2013, representing a year-on-year rise of 2.1%. Gross household savings declined by 19.1%, owing partly to a decline in payments transferred to the second pension pillar, but mainly to a pick-up in household final consumption, indicating a moderation in consumers' uncertainty. Consequently, the savings ratio (gross savings as a share of gross disposable income) declined by 2.1 percentage points year-on-year, to 8.2%.

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

	EUR billions		Annual rate of change (%)		Percentage share	
	Q2 2012	Q2 2013	Q2 2012 / Q2 2011	Q2 2013 / Q2 2012	Q2 2012	Q2 2013
Employee compensation (all sectors)	6.9	7.0	3.2	1.1	47.1	46.7
of which: gross wages and salaries	5.4	5.4	2.2	1.4	36.7	36.4
Gross mixed income	4.1	4.2	3.9	2.7	28.3	28.4
Property income - received	0.5	0.6	-4.2	6.2	3.6	3.8
Social benefits	2.5	2.6	4.5	2.0	17.2	17.2
Other current transfers – received	0.5	0.6	9.1	6.2	3.7	3.9
Current income in total	**14.6**	**14.9**	**3.5**	**2.1**	100.0	100.0
Property income – paid	0.1	0.1	-21.3	-9.9	3.1	2.7
Current taxes on income, property, etc.	0.5	0.6	4.3	4.0	14.0	14.3
Social contributions	2.6	2.6	6.2	2.2	67.6	67.8
Other current transfers – paid	0.6	0.6	5.8	1.2	15.4	15.3
Current expenditure in total	**3.8**	**3.9**	**4.8**	**1.9**	100.0	100.0
Gross disposable income	**10.8**	**11.0**	**3.1**	**2.1**	-	-
Adjustment arising from changes in net assets of households in pension fund reserves	0.3	0.1	37.0	-54.1	-	-
Household final consumption	9.9	10.2	3.4	2.9	-	-
Gross household savings	1.1	0.9	6.7	-19.1	-	-

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	Q2
Gross disposable income	104.4	103.1	102.6	104.9	103.8	102.0	102.1
Household final consumption	104.4	103.4	102.9	101.7	103.1	101.1	102.9
Gross household savings	100.5	106.7	100.4	118.1	110.1	98.1	80.9
Ratio of gross savings to gross disposable income (%)	4.1	10.3	9.0	20.2	11.4	4.0	8.2

Source: SO SR, NBS calculations.

EMPLOYMENT AND UNEMPLOYMENT

Labour market conditions did not improve in the second quarter. Employment as defined by the ESA 95 methodology declined year-on-year by 1.3%, more than it did in the previous quarter. The quarter-on-quarter decline in employment increased to -0.4%, partly reflecting the adverse situation in smaller firms. The impact of fixed-term contract cancellations became less pronounced since, according to figures from the Social Insurance Agency, their year-on-year decline remained stable. A similar picture is provided by the SO SR's statistical reporting, according to which employment fell by 1.2% year-on-year and 0.4% over the previous quarter.[10] The Labour Force Survey (LFS) showed the annual rate of employment growth at 0.3% and the quarterly rate at 0.6%, further confirming the difficult situation in the labour market. After increasing in the first quarter, the number of Slovak citizens working abroad and the number of people on labour activation schemes remained stable in the second quarter.

Looking at the composition of total employment (ESA 95) in the second quarter, the number of employees fell by 0.3% over the previous quarter, while the number of self-employed persons fell by half a percentage point more than that. It is likely that self-employed persons are to some extent responding to their increased contribution obligations by switching to other forms of employment. The annual rate of decline in the numbers of employees and self-employed persons increased to -1.2% and -2.1%, respectively. The increasing preference for limited liability companies (s.r.o.) over trade licences is also indicated by the SO SR's organisational statistics.

The number of hours worked in the economy fell in the second quarter by 0.03% over the first quarter, which saw a more pronounced decline in this figure. In year-on-year terms, the number of hours work decreased by 1.6%, more moderately than at the beginning of the year. Nevertheless, this decline was still substantially higher than any recorded during the previous three years, and it further confirms the weak demand for labour. The average working week is 36.8 hours and remains around an hour shorter than it was during the post-crisis recovery in 2010.

Looking at the sectoral breakdown of employment (ESA 95), the largest contribution to the quarter-on-quarter decline came from the sectors of trade and professional activities. Manufacturing industry has had a downward effect on employment for half a year, but in the second quarter this amounted to only four hundredths of a percentage point (fewer than one thousand people). There was upward pressure on employment from the sectors of real estate activities and entertainment and recreation.

According to the Labour Force Survey (LFS), the number of unemployed in the second quarter of 2013 increased to 380,000, representing a year-on-year increase of 3.3% and a quarter-on-quarter rise of around 0.2% (almost 1,000 people). The drop in employment was prevented from being higher (considering the increase in the number of unemployed) by the numbers of people retiring and, to a lesser extent, switching to other forms of economic inactivity (for example, parental leave, homemaking). The moderate increase in the number of unemployed in conjunction with a decline in the economically inactive population resulted in the unemployment rate increasing by 0.1 percentage point over the previous quarter. The unadjusted unemployment rate increased year-on-year by 0.4 percentage point, to 14%. According to labour office registers, the average unemployment rate in the second quarter of 2013 stood at 14.3%.

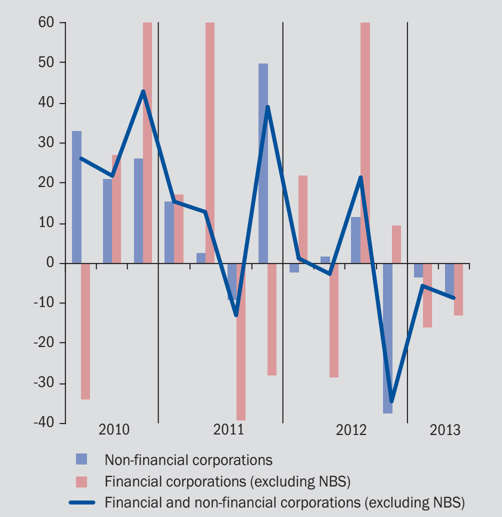
10 Internal seasonal adjustment.

FINANCIAL RESULTS

The total profits of **financial and non-financial corporations** (excluding NBS) fell in the second quarter of 2013 by 8.7% year-on-year and by a seasonally adjusted 2.0% quarter-on-quarter (the respective figures for the first quarter were declines of 5.7% and 1.9%). In year-on-year terms, the continuing slump in profits was affected by falling profits of both financial and non-financial corporations, while the quarterly drop was largely accounted for by the financial sector. A slight improvement in the aggregate profit of the non-financial sector mitigated the decline in the overall figure.

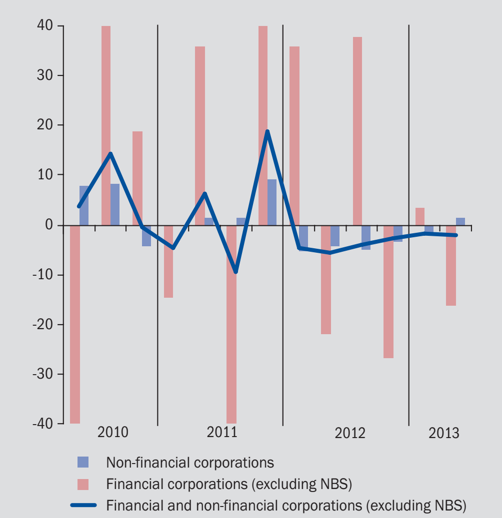
The total profits of non-financial corporations increased in the second quarter by a modest

Chart 51 Total profits in the economy (annual percentage changes)



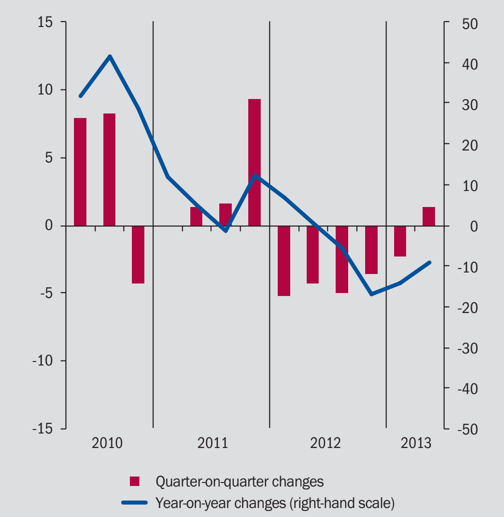
Source: SO SR, NBS calculations.

Chart 52 Total profits in the economy (quarter-on-quarter percentage changes)



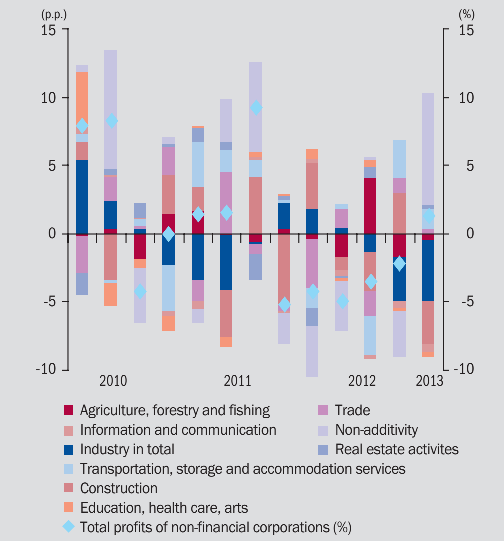
Source: SO SR, NBS calculations.

Chart 53 Total profits of non-financial corporations (%; seasonally adjusted)



Source: SO SR, NBS calculations.

Chart 54 Total profits of non-financial corporations by sectoral contributions to their quarterly rate of change

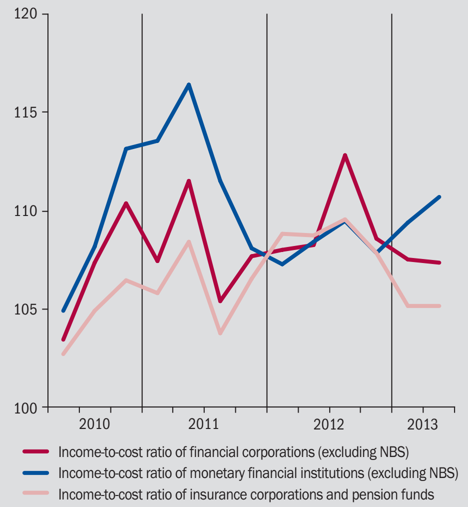


Source: SO SR, NBS calculations.

1.3% over the first quarter, after declining in the previous five quarters (since the first quarter of 2012). The pick-up in profits in services and trade was, however, somewhat offset by results in industry, where profits remain depressed.

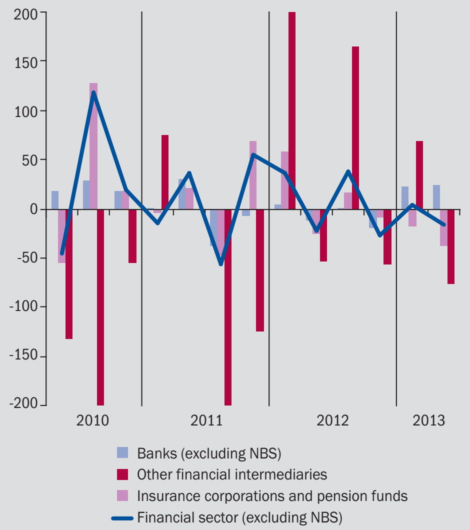
Total profits in the **financial sector** (excluding NBS) for the second quarter slumped by 16.3% over the first quarter (when they increased by 3.3%). While banks' profits recovered (up by 23.7%), insurance corporations and pension funds saw profits decline by 37% and other financial intermediaries recorded a drop of 70%. The banking sector maintained positive quarter-on-quarter profit growth from the previous quarter, with its main source of income being income from banking operations. Interest income, however, declined at most banks. Monetary financial institutions (excluding NBS) even reported a year-on-year increase in profits after seven quarters of negative results (the previous increase came in the third quarter of 2011).

Chart 56 Income to cost ratios in the financial sector (p.p.)



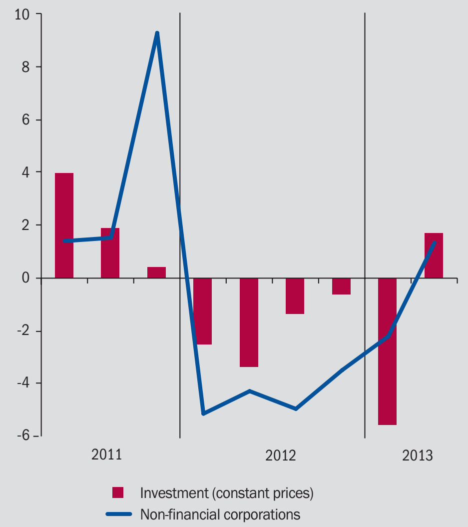
Source: SO SR, NBS calculations.

Chart 55 Total profits of financial corporations (quarter-on-quarter percentage changes)



Source: SO SR, NBS calculations.

Chart 57 Investment and profits (quarter-on-quarter percentage changes)



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
2005	6.7	2.8	3.8	1.6	16.2	-	-	105.5	7.8	-	-	-1,124.8	-2.8	34.2	-8.5	-5.0	1.2441
2006	8.3	4.3	6.4	2.1	13.3	-	-	111.8	15.3	-	-	-1,051.5	-3.2	30.5	-7.8	-4.7	1.2556
2007	10.5	1.9	1.8	2.1	11.0	-	-	113.8	12.9	25.4	28.6	-781.0	-1.8	29.6	-5.3	-1.2	1.3705
2008	5.8	3.9	6.1	3.2	9.6	-	-	98.2	4.9	15.3	25.3	-704.2	-2.1	27.9	-6.0	-1.1	1.4708
2009	-4.9	0.9	-2.6	-2.0	12.1	-15.5	-18.6	77.0	-2.8	-3.3	11.0	-2,791.3	-8.0	35.6	-2.6	1.5	1.3948
2010	4.4	0.7	-2.7	-1.5	14.4	8.1	7.9	97.9	7.8	1.6	12.5	-4,436.1	-7.7	41.0	-3.7	1.2	1.3257
2011	3.2	4.1	2.7	1.8	13.5	5.3	8.9	97.9	2.9	7.6	11.1	-3,275.7	-4.9	43.3	-2.0	1.5	1.3920
2012	2.0	3.7	3.9	0.1	14.0	8.1	5.2	93.2	8.8	-2.3	10.3	-3,810.7	-4.3	52.1	2.2	5.0	1.2848
2012 Q3	2.1	3.8	4.0	-0.1	13.7	11.4	5.6	92.7	4.3	-1.7	9.8	-	-3.2	51.2	0.8	3.9	1.2502
2012 Q4	0.7	3.6	4.0	-0.6	14.4	4.7	2.7	86.2	8.8	-2.3	10.3	-	-6.4	52.1	2.4	5.4	1.2967
2013 Q1	0.6	2.2	1.8	-1.0	14.5	2.6	-0.5	87.5	7.3	-0.3	9.9	-	-3.2	54.9	4.2	7.6	1.3206
2013 Q2	0.9	1.7	0.1	-1.3	14.0	2.8	2.5	88.1	7.4	-0.1	10.0	-	.	.	5.3	9.1	1.3062
2012 Sep.	-	3.8	4.4	-	13.4	10.0	3.9	92.9	4.3	-1.7	9.8	-2,585.6	-	-	-	-	1.2856
2012 Oct.	-	3.9	4.2	-	13.7	8.6	5.1	86.5	4.7	-1.7	10.1	-2,466.0	-	-	-	-	1.2974
2012 Nov.	-	3.5	3.9	-	13.9	7.9	3.3	84.7	4.5	-0.8	10.2	-2,743.5	-	-	-	-	1.2828
2012 Dec.	-	3.4	3.9	-	14.4	-3.2	-0.4	87.4	8.8	-2.3	10.3	-3,810.7	-	-	-	-	1.3119
2013 Jan.	-	2.5	3.1	-	14.8	6.1	1.7	84.9	7.7	-1.3	9.9	-62.5	-	-	-	-	1.3288
2013 Feb.	-	2.2	1.5	-	14.7	1.2	-1.1	86.7	7.9	0.4	9.9	-713.4	-	-	-	-	1.3359
2013 Mar.	-	1.9	0.8	-	14.7	1.0	-1.9	91.0	7.3	-0.3	9.9	-952.7	-	-	-	-	1.2964
2013 Apr.	-	1.7	0.9	-	14.4	2.7	5.4	91.3	7.7	-2.2	10.0	-1,076.1	-	-	-	-	1.3026
2013 May	-	1.8	-0.3	-	14.3	2.8	1.6	88.7	5.8	-2.7	10.0	-1,601.4	-	-	-	-	1.2982
2013 June	-	1.7	-0.3	-	14.3	2.9	0.6	84.4	7.4	-0.1	10.0	-1,664.8	-	-	-	-	1.3189
2013 July	-	1.6	-0.5	-	14.0	1.9	1.6	87.8	5.7	-2.2	10.1	-1,625.6	-	-	-	-	1.3080
2013 Aug.	-	1.4	.	-	13.7	.	.	88.4	.	.	.	-1,916.6	-	-	-	-	1.3310

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/StatisticsMB0913.xls