NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

NBS
Monthly Bulletin

OCTOBER 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 29 October 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 expected continuation of the euro area's fragile recovery was confirmed by developments in August and September. In August, hard indicators maintained a moderate upward trend, with month-on-month growth in industrial production and retail trade sales. Industrial production growth had an upward effect on exports, while retail sales figures indicated a further rise in private consumption. In September and October, soft indicators such as the economic sentiment indicator and the Ifo and ZEW indices pointed to positive trends in the third quarter. The latest PMI index for the euro area declined for the first time in seven months, indicating that euro-area GDP growth was around 0.2% at the beginning of the fourth quarter of 2013. Given the weaker employment figures in the United States and temporary fiscal tightening, the acceleration in global growth may be restrained around the turn of the year.

The summer's positive sentiment in the euro area as a whole was reflected in Slovakia, where sentiment – particularly the industrial and consumer confidence indicators – maintained an upward course in September. This suggests that the Slovak economy continued to grow moderately in the second quarter. Hard indicators in August confirmed assumptions based on the timing of summer holiday shutdowns in the car industry (which occurred in July this year, as opposed to August last year). Industrial production and sales figures for August more than offset the slight decline that these indicators recorded in July. Industrial production growth was largely driven by the automotive sector, with other sectors of industry remaining flat. Consequently, export growth decelerated, and it was further restrained by falling prices. Imports continue to decrease.

The labour market situation has stabilised, with employment no longer falling and the unemployment rate (according to the Central Office of Labour, Social Affairs and Family, remaining steady after falling slightly. Wage growth slowed in the second quarter in line with expectations, but being positive in real terms it may nevertheless be contributing to private consumption.

The HICP inflation rate continued to decrease, falling to 1.1% in September. That drop was higher than projected owing to the falling rates of inflation in food and in non-energy industrial goods.

The situation in the real economy confirms the trends outlined in the latest NBS forecast. But although economic growth is expected to be at the projected level, its composition may differ from the forecast. The contribution of exports to growth appears to have been lower than projected, looking at monthly data for external trade. On the other hand, domestic demand indicators are showing positive changes. The inflation forecast may have to be revised down again.

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

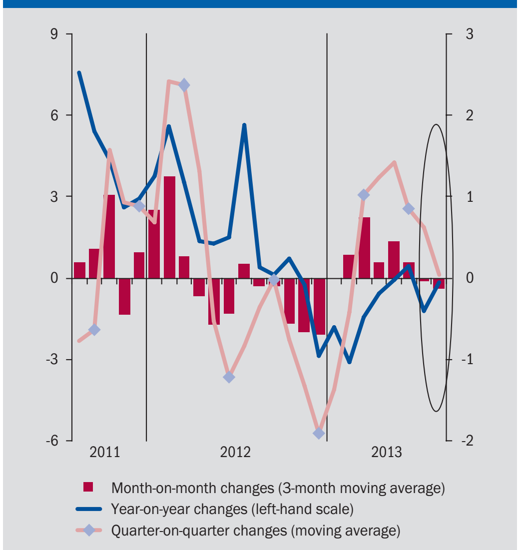
2.1 SALES[2]

The car industry made up the drop in sales related to the holiday break in production

Sales in the Slovak economy increased in August by 0.3% over the previous month, with most of the growth driven by industry. The industrial segment reporting the largest sales growth was manufacture of electronic products. By contrast, the manufacture of machinery and electrical equipment made a negative contribution to sales growth. Since industry sales were affected by holiday shutdowns, average sales for the two summer months remained broadly unchanged from June.

Total sales growth was also dampened by wholesale trade sales, as their rate of decline accelerated in August owing mainly to negative sales results in the segments of specialised wholesale trade, household goods, and information technology. As for retail trade sales in August, they fell slightly year-on-year after four months of growth, while in month-on-month terms they remained flat.

Chart 1 Total sales (percentage changes at constant prices)



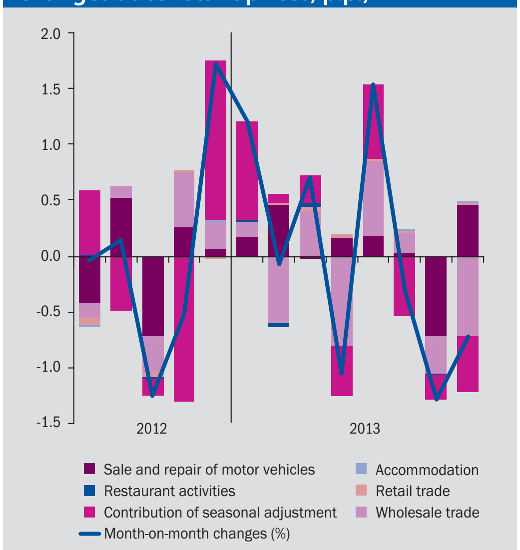
Source: SO SR, NBS calculations.
Note: Internal calculation for constant prices.

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.

The latest sales figures suggest that sales growth in the third quarter was subdued. Such a development would be consistent with the moderate GDP

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.

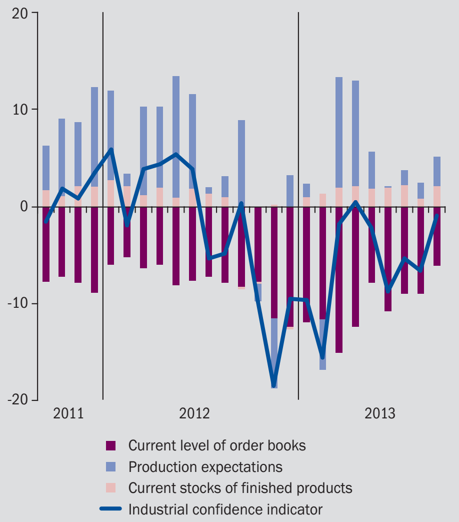
2 *Turnover in internal trade and selected sectors is the most informative „hard" indicator of GDP developments.*

growth projected in the current NBS Medium-Term Forecast (MTF2013Q3), and it is also implied by the industrial confidence indicator, which even after an upward correction in September remains slightly below its long-run average. In addition, retail trade sales and household demand indicate that household consumption going forward will be is stagnating rather than growing.

2.2 FORWARD-LOOKING INDICATORS

Positive signals from forward-looking indicators in the euro area and Germany were also a basis for the improving sentiment in Slovakia. The economic sentiment indicator (ESI) for Slovakia increased in September by 1.6 points over the previous month, to 90.0. The growth reflected increases in consumer and industrial sentiment, while the optimism was tempered by declines in the services, retail trade and construction confidence indicators.

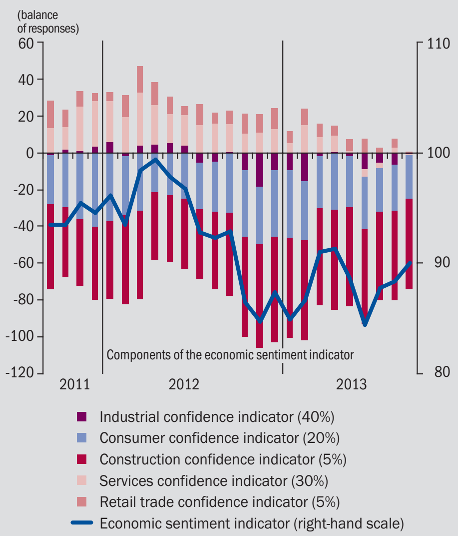
Chart 5 Industrial confidence indicator (balance of responses)



Source: European Commission.

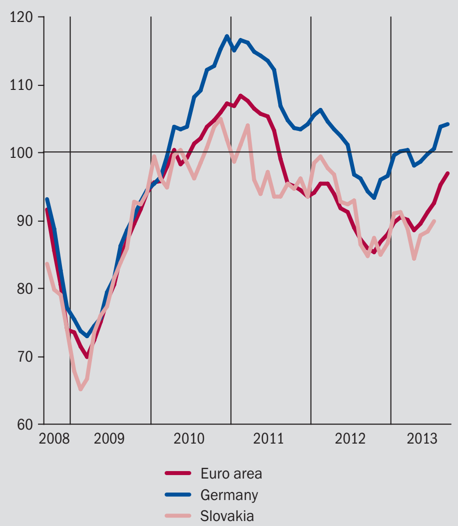
At the same time, the ESI for the euro area and Germany points to a recovery of economic growth in the euro area as a whole. Further confirmation of improving sentiment among economic agents in Germany was provided by the ZEW index for October. On the other hand, the Ifo index declined slightly, and the PMI figures for October suggested that euro area growth at the beginning of the fourth quarter had slowed to around 0.2%. While it is positive that differences in growth rates are narrowing, in industry there is a widening gap between production and employment. Furthermore, the latest developments in the United States suggest the growth rate may decline towards the year-end, as the country undergoes significant fiscal adjustment.

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



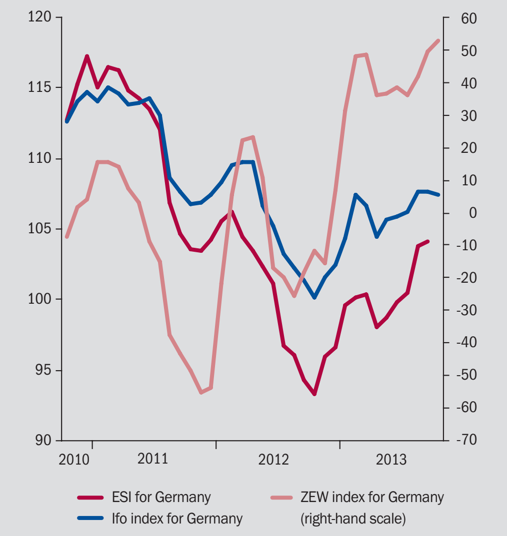
Source: European Commission.
Note: The percentages in the legend represent the weights of the respective components in the ESI.

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



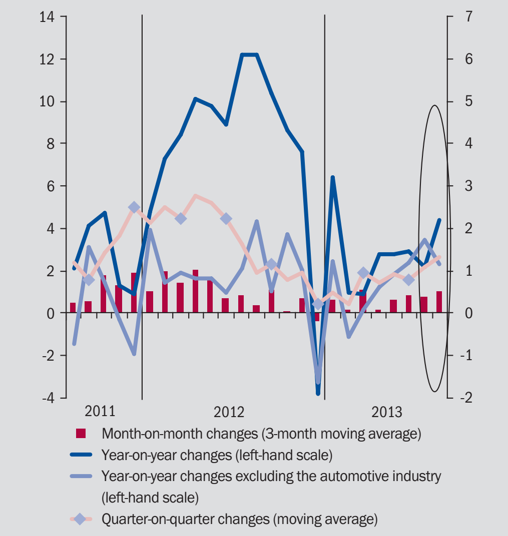
Source: European Commission.
Note: The ESI for Slovakia shifted back by 2 months.

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).

Chart 8 Industrial production (%)



Source: SO SR, NBS calculations.

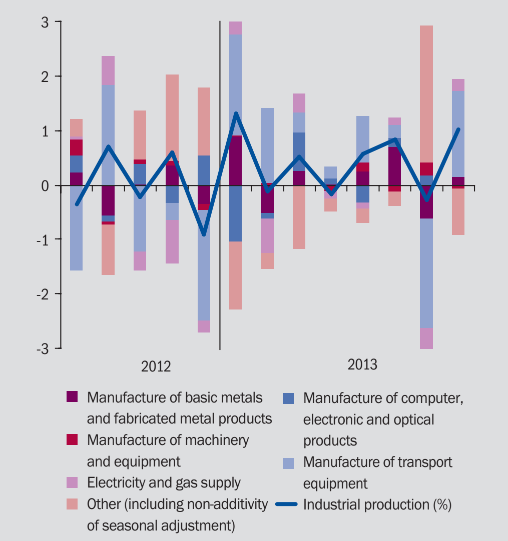
2.3 INDUSTRIAL AND CONSTRUCTION PRODUCTION

Pick-up in production growth, as in sales growth, was driven by the automotive industry

Industrial production in August increased by 1.0% over the previous month and its annual growth rate rose to 4.4%. As in the previous month, industrial production was influenced by car factory holidays. Since the summer holiday shutdown of the country's two largest car plants fell mostly in July, their return to operation was, as expected, the principal factor behind the August increase in overall production. Average industrial production for July and August was 0.2% higher than production in June. Other segments that contributed positively to overall production growth were manufacture of metals and energy supply. Production in the electronics industry stagnated, in contrast to sales in the segment.

Industrial production growth is expected to be lower in the third quarter than in the previous quarter (after taking into account holiday shutdowns and the projected decline in September). This implies that economic growth will decline in quarter-on-quarter terms as projected in the current MTF-2013Q3 forecast (from 0.3% in the second quarter to 0.2% in the third quarter). Another indication of moderately slower third-quarter growth is provided by business tendency surveys, which show that average assessments of the present situation for the whole of the third quarter were worse than in the previous quarter.

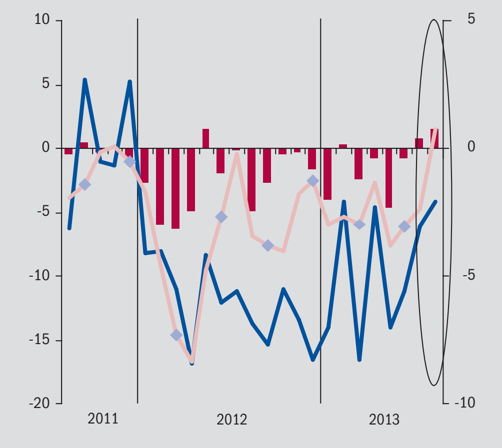
Chart 9 Industrial production – principal contributions to monthly rate of change (p.p.)



Source: SO SR, NBS calculations.

Construction production in August followed its month-on-month growth in the previous month with an increase of 0.4%. (while declining by 4.2% year-on-year). Residential construction declined over the previous month, as did civil engineering construction following a sharp rise in the previous month. Although business tendency surveys for the third quarter showed the present situation being more positively assessed, the overall construction confidence indicator remains low, and it is therefore difficult to expect a stable recovery in the sector.

Chart 10 Construction production (%)



Source: SO SR, NBS calculations.

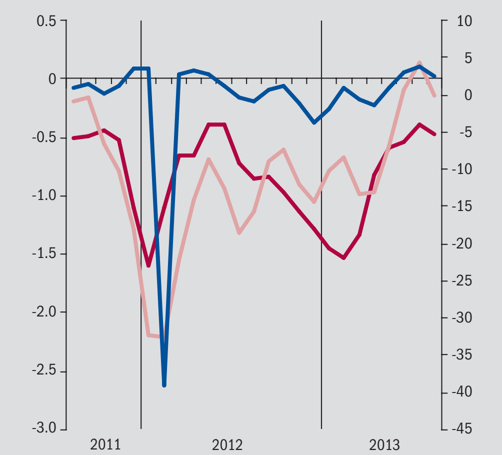
2.4 TRADE BALANCE

Although goods exports in August made up their decline in July, they remain subdued

The trade surplus increased to €261 million in August (from €170.9 million in July). After falling in July following a two-year rising trend, the 12-month cumulative trade balance rose back to 6.5% of GDP, which is consistent with the full-year trade surplus projection in the MTF-2013Q3 forecast.

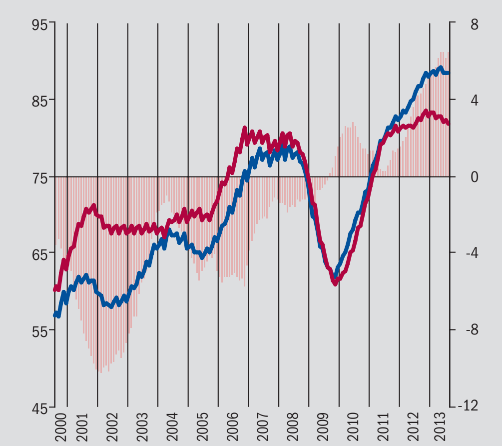
Goods exports increased in August by 1.3% over the previous month, after falling by 1.1% in July. The summer fluctuation in export levels was largely the result of holiday shutdowns at major car factories, the timing of which differed from that in the previous year. The July drop in car exports was followed by a correction in August; nevertheless, the average level of exports for the two summer months was lower compared to the same period last year, and also lower than the average monthly level since the beginning

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



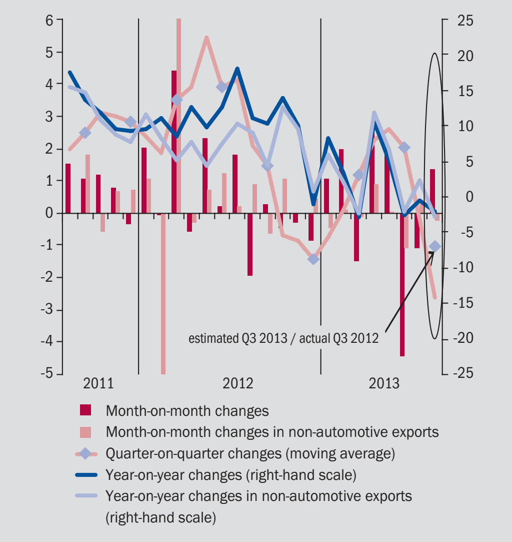
Source: SO SR.
Note: Construction of buildings accounts for around 70% of total construction production.

Chart 12 Twelve-month cumulative trade balance (% of GDP)



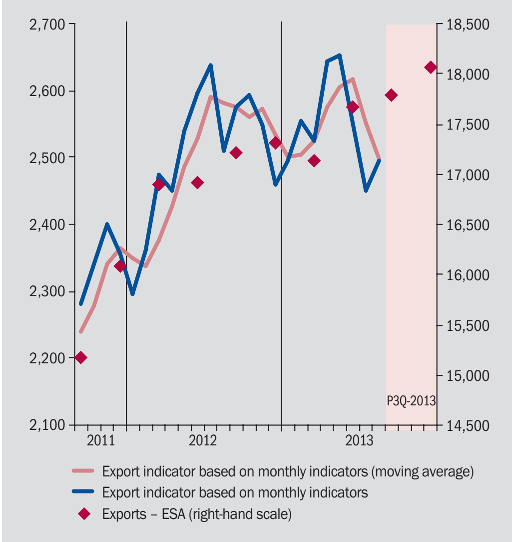
Source: NBS and SO SR.

Chart 13 Goods exports (%)



Source: NBS and SO SR.

Chart 14 Exports (EUR millions; at current prices)



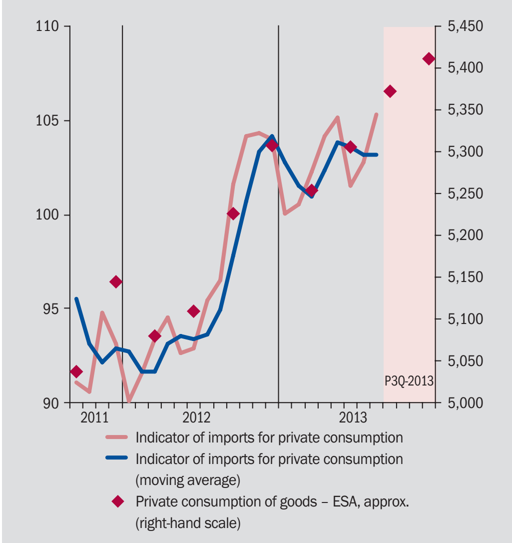
Source: SO SR, NBS calculations.

of 2013. Furthermore, with their decline in June, car exports have now been weaker for three consecutive months. Non-automotive exports were 0.2% lower in August than in July.

The overall amount of exports fell year-on-year for a third successive month, by 2.2%, despite strong export results from the electronics industry. The lower nominal amount of exports are, however, reflecting falling export prices, with core export items recording marked price decreases. The segment that accounted for most of the decline in export prices was manufacture of computer, electronic and optical products, and there was also downward pressure from manufacture of basic metal and fabricated metal products and manufacture of transport equipment. The real amount of exports in the summer months, after adjusting for the decline in export prices, was largely unchanged from the same period of the previous year. Real export growth decelerated from the second quarter, in line with the MTF-2013Q3 forecast; nevertheless, export growth for the third quarter will be largely determined by September's exports figures (given that the results for July and August offset each other).

Despite exports rising, imports fell in August by 1% over the previous month and by 6.8% year-on-year. The most pronounced drop was in imports for the car industry and its sub-suppliers. While overall imports declined, retail trade imports continued to increase, with retail chains maintaining strong import growth for a fifth consecutive month. The sustained growth rate of retail trade imports may be indicative of a moderate rise in private consumption in line with the MTF-2013 forecast, and/or a replenishment of retail trade inventories in response to promising consumer demand figures in the previous quarter.

Chart 15 Imports for private consumption (EUR millions; at current prices)



Source: SO SR, NBS calculations.

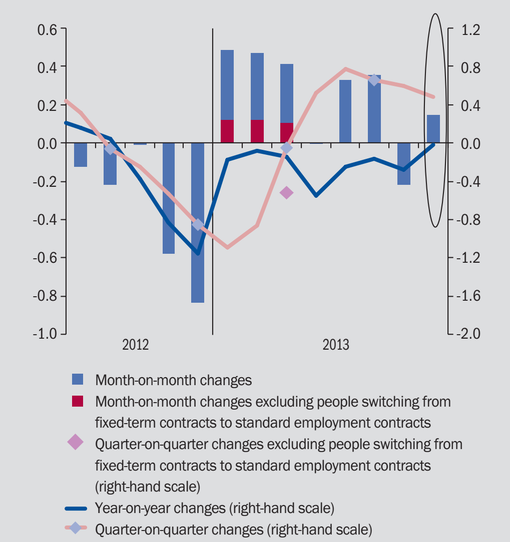
3 THE LABOUR MARKET

Looking at the labour market in August, employment did not change significantly, increasing by 0.1% over the previous month. That growth was accounted for by the services sector, while employment in industry and construction remained at depressed levels. Improved confidence indicators in Slovakia and the external environment provide a positive sign for the labour market going forward. But since sentiment dipped by a similar margin in July and employers' employment expectations are improving only gradually, no employment growth is projected for the third quarter as a whole. Quarterly employment across the whole economy is expected to remain at a relatively low level, in line with the third-quarter employment projection given in the MTF-2013Q3 forecast.

Unemployment remained largely unchanged in September, with the total number of job seekers (seasonally adjusted) increasing by only around 300. Taking into account the analytical time series of unemployment,[3] the number of unemployed is estimated to have risen by around 2,000 month-on-month. The quarterly figure therefore shows that the declines in unemployment in July and August were partly offset. Overall, however, the analytical time series of unemployment indicates that the number of unemployed fell by around 3,000 in the third quarter, which is consistent with the moderate drop in unemployment projected in the MTF-2013Q3 forecast. The seasonally unadjusted unemployment rate based on the total number of job seekers increased by 0.2 percentage point, to 15.1%, although that reflects the annual effect of the inflow of new graduates into the job market. The September inflow of graduates was around 5,000 higher this year than last year, while at the same time the inflow of other job seekers declined by a similar number. This implies that while it is becoming more difficult for graduates to find work, the situation for other groups of job seekers is improving slightly.

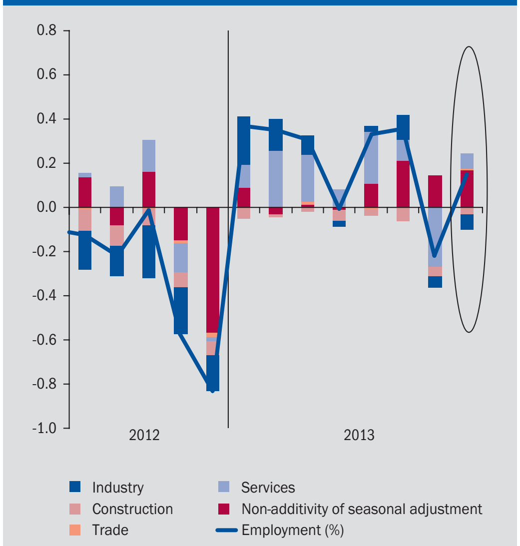
As expected there has been no recurrence of the sharp rise in nominal wages observed in the second quarter of 2013, as the effects of above-average bonuses in industry and in the information and communication sector

Chart 17 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).

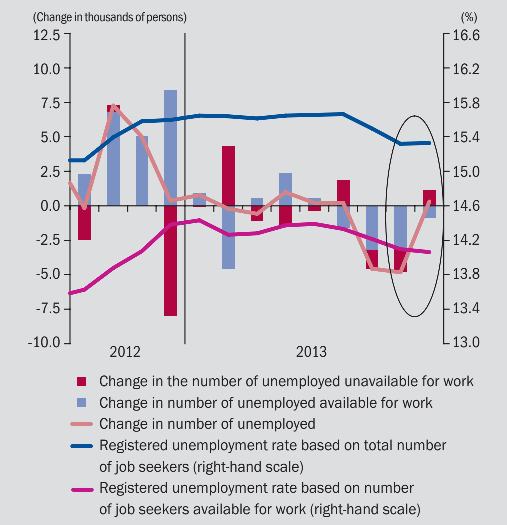
Chart 16 Employment – monthly rate of change by sectoral contributions (p.p.)



Source: SO SR, NBS calculations.

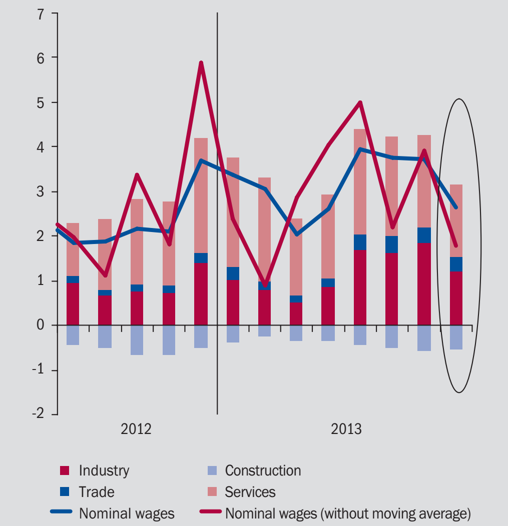
3 *The concept is explained in the MTF-2013Q3 forecast.*

Chart 18 Unemployment



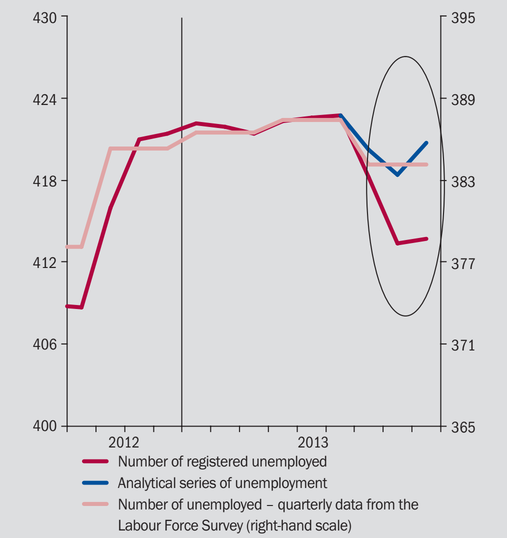
Source: Central Office of Labour Social Affairs and Family, NBS calculations.

Chart 20 Nominal wages – annual rate of change by sectoral contribution (3-month moving average; p.p.)



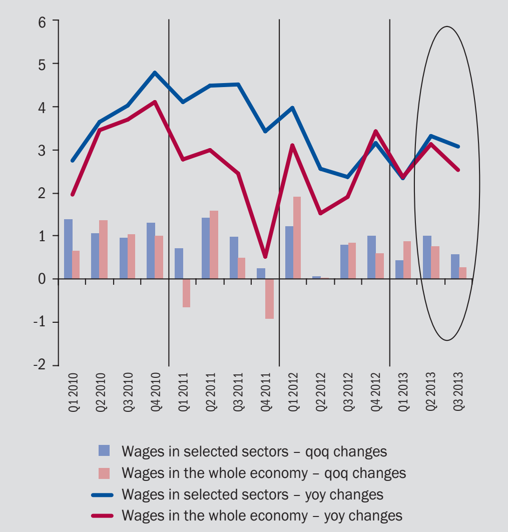
Source: SO SR, NBS calculations.

Chart 19 Number of unemployed (thousands of persons)



Source: Central Office of Labour Social Affairs and Family, NBS calculations.
Note: 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 21 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.

have faded away. Annual wage growth in August was 1.8%, down from 3.9 in July. Both the industry and services sectors reported a decline in wage growth. Looking ahead, quarter-on-quarter wage growth is expected to be positive (albeit lower than in the second quarter), reflecting the continuing increase in labour productivity. The summer holiday shutdowns in the automotive industry are expected to have a short-term impact on wage growth, but that should not exceed 0.2 percentage points.

A slowdown in third-quarter wage growth is also projected in the MTF-2013 forecast. As for annual real wage growth, it is supporting household private consumption.

4 Prices

Inflation fell to 1.1%

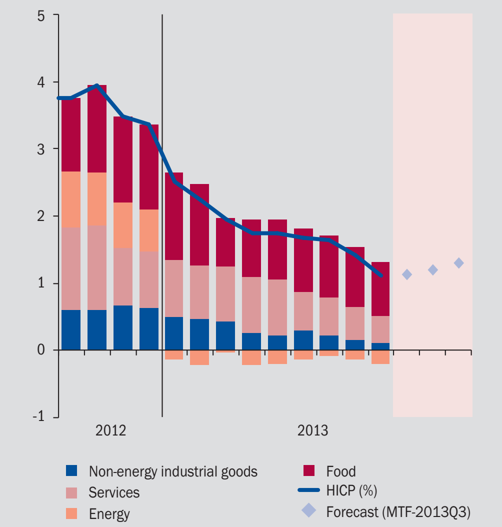
Annual HICP inflation continued its downward trend in September, falling to 1.1%. It has declined by 1.4 percentage points since January (2.5%) and the September figure was 0.15 percentage point lower than projected. Compared with the previous month, the inflation rate fell by 0.2% (after rounding).

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	September 2012 – actual figure	0.1	0.5	0.1	0.5	**0.3**
	B	September 2013 – projected figure	0.10	-0.18	0.23	0.21	**0.12**
	C	**September 2013 – actual figure**	**-0.02**	**0.14**	**-0.36**	**0.14**	**-0.02**
	BC	Direction of deviation, if any					The rate fell more than projected
	BC	**Difference in contribution to month-on-month rate of change (p.p.)**	**-0.04**	**0.05**	**-0.14**	**-0.02**	**-0.15**
Year-on-year change	D	August 2013 – actual figure	0.5	-0.7	3.8	1.7	**1.4**
	E	September 2013 – projected figure	0.5	-1.4	3.9	1.4	**1.3**
	F	**September 2013 – actual figure**	**0.4**	**-1.1**	**3.3**	**1.4**	**1.1**
	AC	Base effect	moderate	moderate	significant	significant	**moderate**
	EF	Direction of deviation, if any					The rate fell more than projected
	EF	**Difference in contribution to year-on-year rate of change (p.p.)**	**-0.04**	**0.05**	**-0.14**	**-0.02**	**-0.15**

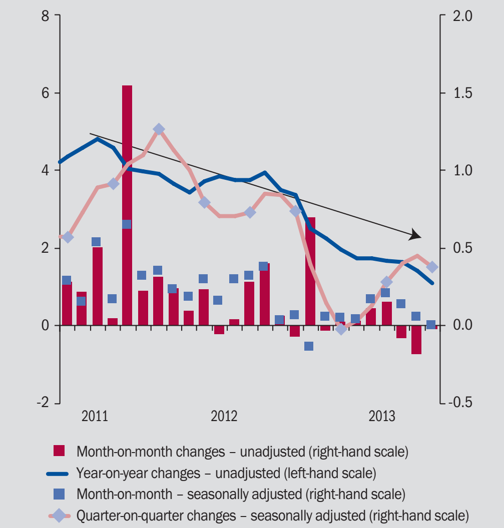
Source: SO SR, NBS calculations.

Chart 22 Composition of annual inflation (p.p.)



Source: SO SR, NBS calculations.

Chart 23 Headline inflation rate (%)



Source: SO SR, NBS calculations.

The slowdown in the headline rate was based mainly on lower rates of inflation in food and services, with each of these components being significantly affected by the base effect of their higher month-on-month increase in the same month of the previous year. The current low inflation in services and non-energy industrial goods during the early autumn reflects low import prices and the stabilising of consumer demand. Surprisingly, food inflation was the main cause of the HICP inflation rate being lower than projected. Looking at the composition of the HICP rate, however, the food component continued to record a relatively higher rate of change, despite its current short-term downward trend, accounting for more than two-thirds of annual HICP inflation.

With inflation being affected by both the external environment (low imported inflation) and domestic factors (weak domestic demand and current developments in real wages, it is expected to decelerate further in October and November. The annual HICP may begin to accelerate slightly from the beginning of 2014, as import prices gradually rise and consumer demand picks up amidst the projected increase in real wages.

5 Qualitative impact on the forecast

The situation in the real economy confirms the trends outlined in the latest NBS forecast. But although economic growth is expected to be at the projected level, its composition may differ from the forecast. The contribution of exports to growth appears to have been lower than projected, looking at monthly data for external trade. On the other hand, demand indicators

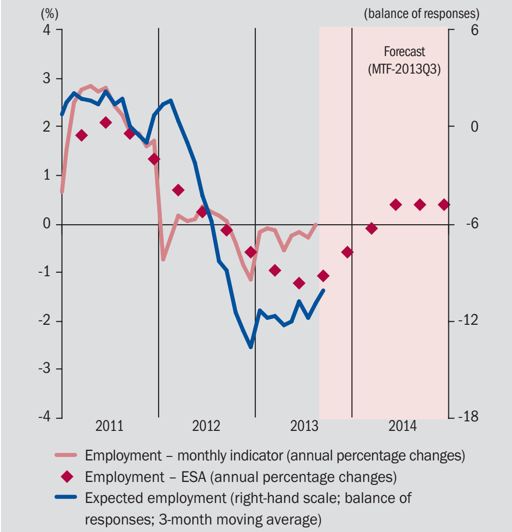
Chart 24 GDP, industrial production and sales (annual percentage changes)

Source: SO SR and NBS.

Chart 25 GDP (annual percentage changes) and the economic sentiment indicator

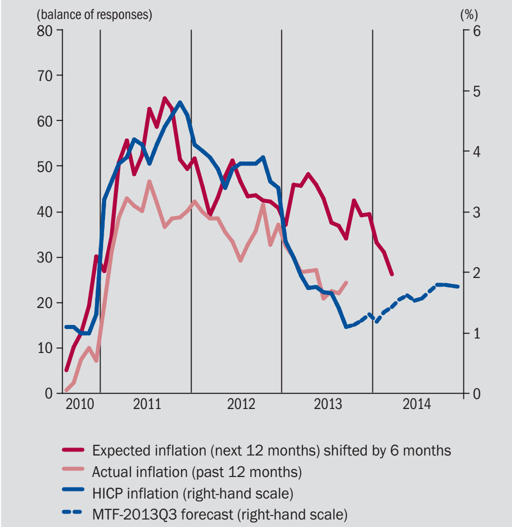
Source: SO SR, NBS and European Commission.

Chart 26 Employers' expectations (balance of responses) and the annual rate of change in employment (%)



Source: SO SR, NBS and European Commission.

Chart 27 Consumers' inflation perceptions (balance of responses) and HICP inflation (annual percentage changes)



Source: SO SR and European Commission.

are showing positive changes. The labour market situation is in line with projections in the current forecast; both employment and the unemployment rate stabilised, while wage growth decelerated. As for the inflation forecast, it may have to be revised down again.

Overview of main macroeconomic indicators for Slovakia

Table 2 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	-5.1	43.4	-3.8	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	-4.5	52.4	2.2	5.0	1.2848
2012 Q4	0.7	3.6	4.0	-0.6	14.4	4.7	2.7	86.2	8.8	-2.3	10.3	-	-6.6	52.4	2.4	5.4	1.2967
2013 Q1	0.6	2.2	1.8	-1.0	14.5	2.8	-0.5	87.5	7.3	-0.3	9.9	-	-3.2	54.5	4.1	7.5	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	-	-2.0	57.7	5.2	9.0	1.3062
2013 Q3	.	1.4	.	.	.	.	.	88.7	.	.	.	-	.	.	.	.	1.3242
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	6.3	1.7	84.9	7.7	-1.3	9.9	-62.5	-	-	-	-	1.3288
2013 Feb.	-	2.2	1.5	-	14.7	1.4	-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	2.9	5.4	91.3	7.7	-2.2	10.0	-1,076.1	-	-	-	-	1.3026
2013 May	-	1.8	-0.3	-	14.3	2.5	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	2.1	1.6	87.8	5.7	-2.2	10.1	-1,625.6	-	-	-	-	1.3080
2013 Aug.	-	1.4	-0.7	-	13.7	4.6	0.4	88.4	6.3	-0.5	10.2	-1,916.6	-	-	-	-	1.3310
2013 Sep.	-	1.1	.	-	13.8	.	.	90.0	.	.	.	-1,978.0	-	-	-	-	1.3348

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/StatisticsMB1013.xls