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EUROSYSTÉM

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EUROSYSTÉM

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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 global economy continued its gradual recovery in the third quarter of 2013. In the euro area, however, overall economic growth slowed quarter-on-quarter, to 0.1%. Euro area growth continued to be driven by domestic demand, while net exports made a negative contribution. Looking at the large euro area economies, Germany reported relatively strong growth and the Netherlands and Spain also saw an increase in real GDP, while French and Italian GDP declined over the previous quarter. The increase in euro area domestic demand was largely accounted for by restocking, and there was again a positive contribution from consumer demand, with private consumption increasing for a second successive quarter. General government consumption, too, made a moderately positive contribution, after remaining flat in the previous quarter. Investment demand increased for a second consecutive quarter. Among the other key trading partners of Slovakia that recorded economic growth were Hungary and Poland. By contrast, the Czech economy contracted. Euro area industrial production fell unexpectedly in October, possibly indicating a risk of external demand recovering more slowly than projected.

The Slovak economy maintained moderate growth in the third quarter in line with developments in other EU countries. The official GDP figure confirmed the previous flash estimate that the economy grew by 0.2%. As with the euro area economy, the main component of growth was changes in inventories. Investment demand declined markedly, even though non-financial corporate profits came to the end of a decreasing trend. Private consumption also fell, after increasing in the previous quarter. The only component that made a positive contribution to domestic demand was general government consumption. Net exports weighed on economic growth, as export performance declined and imports increased moderately. Figures for October imply that the economy continued to expand in the fourth quarter. Industrial production increased slightly, as did sales in the economy as a whole. These favourable data did not, however, extend to exports, which declined in October. Forward-looking indicators in November pointed to a slight deterioration in sentiment, particularly in industry and services.

Turning to the labour market, the quarterly figures confirmed projections, as employment remained unchanged and the unemployment rate increased marginally. The labour market data for October provide grounds for modest optimism, including moderate employment growth and an increase in job vacancies, especially in core sectors of the economy and to a lesser extent in services. Although wage growth accelerated slightly, this was in line with expectations and consistent with labour productivity.

Prices continued to decrease in November, owing mainly to food prices, which fell after being expected to rise. Another contributing factor was the larger than projected drop in energy prices, in particular fuel prices.

The economic growth figures used in the recently published Medium-Term Forecast (MTF-2013Q4) were taken entirely from the flash estimate. The published data therefore point to shifts in the composition of growth over the projection horizon. The growth outlook for the economy as a whole is not, however, expected to be changed by the latest monthly figures. The current situation of moderately lower inflation and declining inflation expectations suggest that the inflation rate could decelerate further in 2014.

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

2 THE REAL ECONOMY

2.1 SALES[2]

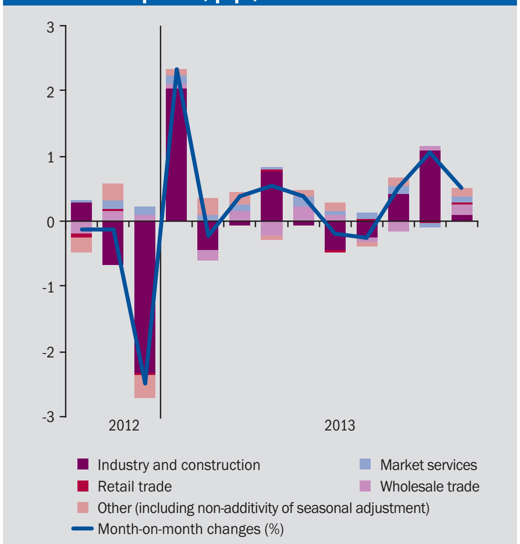
Sales growth sluggish in October owing to sales in industry and market services

Total sales in the Slovak economy increased in October 2013 by 0.5% over the previous month, after rising by 1% in September. In quarter-on-quarter and year-on-year terms, third-quarter sales increased, respectively, by 0.2% and 2.5%. These figures were marginally higher than those for the previous month. The sectors making the strongest contribution to sales growth were industry, wholesale trade and market services. In industry, the segment with the strongest sales growth was manufacture of electrical equipment, while in market services it was legal and accounting activities. By contrast, sales growth declined in information and communication and in retail trade.

The quarter-on-quarter sales growth supports the assumption that GDP growth will accelerate in the fourth quarter of 2013.

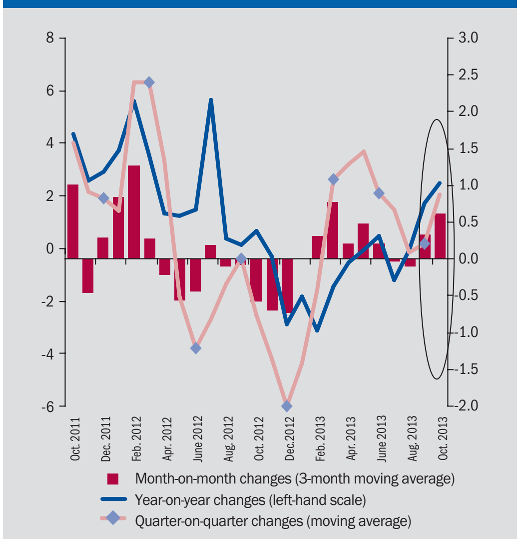
Domestic trade sales in October were markedly higher than in the previous month. This growth was driven mainly by sales in wholesale trade and in sale and repair of motor vehicles. Sales in accommodation activities were the most subdued and remained at their level of the previous month.

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



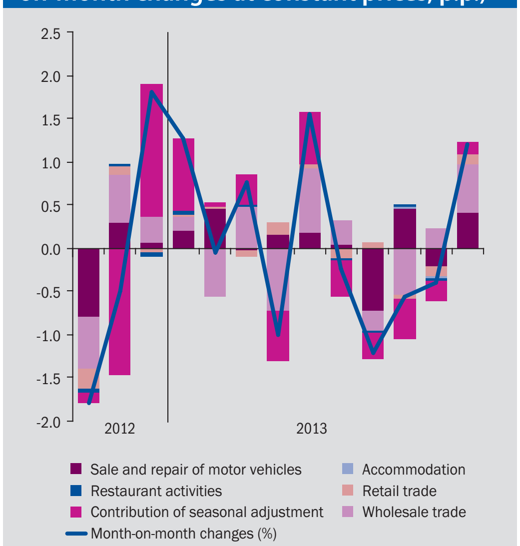
Source: SO SR, NBS calculations.
Note: Internal calculation for constant prices.

Chart 1 Total sales (percentage changes at constant prices)



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

Chart 3 Domestic 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 domestic trade and selected sectors is the most informative "hard" indicator of GDP developments.*

2.2 FORWARD-LOOKING INDICATORS

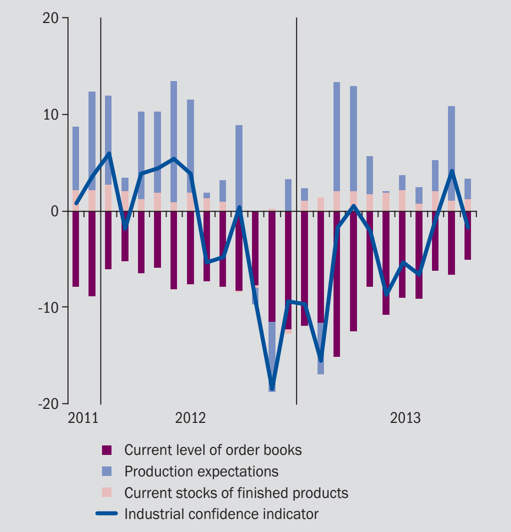
The economic sentiment indicator (ESI) for November declined by 1.6 points over the previous month, to 93.0, and increased year-on-year by 8.3 points. The month-on-month deterioration was based largely on unfavourable developments in industry and services. The retail trade, construction and consumer confidence indicators all improved.

Industry confidence was dented mainly by a worsening of producer's expectations for production, particularly in the following manufacturing segments: transport equipment; computer, electronic and optical products; and rubber and plastics products. Services providers were more negative in their assessments of demand for their services, particularly so in the segments of accommodation and food service activities, information and communication, and financial and insurance activities. The strengthening of consumer sentiment, up to its highest level since April 2010, was broadly based across all four components. Retail trade confidence improved thanks largely to more favourable assessments of the business situation.

Although the ESI dipped in November, its previous upward trend points to continuing growth in Slovakia's economic activity, as projected in the MTF-2013Q4 forecast.

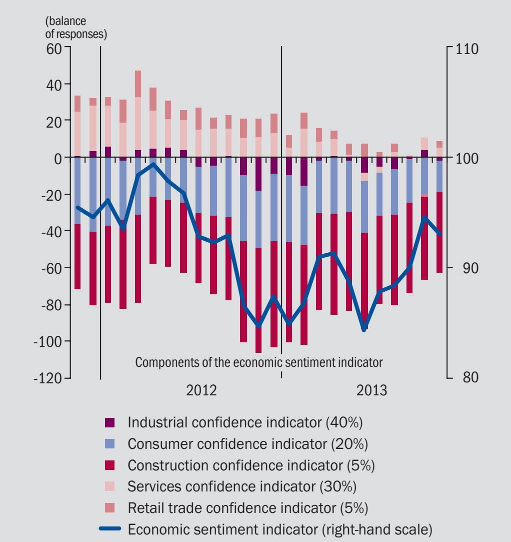
The economic sentiment indicators for the euro area and Germany improved in November for a sixth successive month. Looking at other economic indicators for Germany, including the ZEW and Ifo indices and the Purchasing Managers'

Chart 5 Industrial confidence indicator (balance of responses)



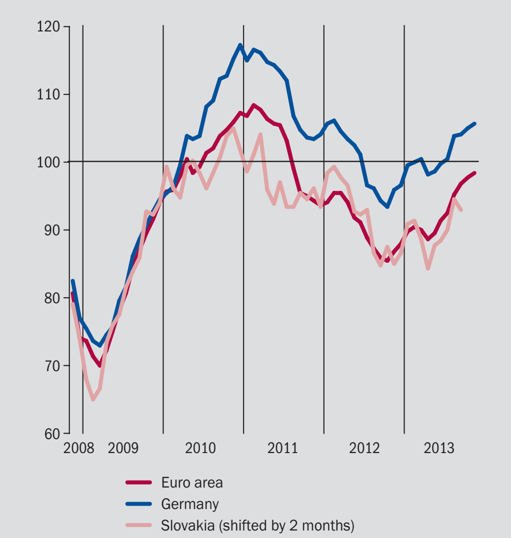
Source: European Commission.

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



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

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

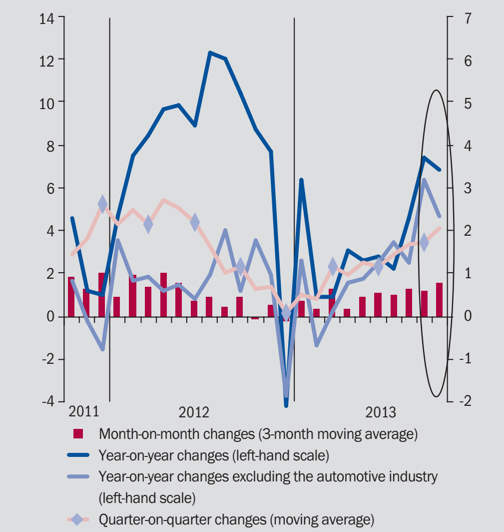


Source: European Commission.

Chart 7 Economic sentiment 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.

Index (PMI), they also picked up during the same period, thus signalling an improvement in the economic outlook for both Germany and the rest of euro area as whole.

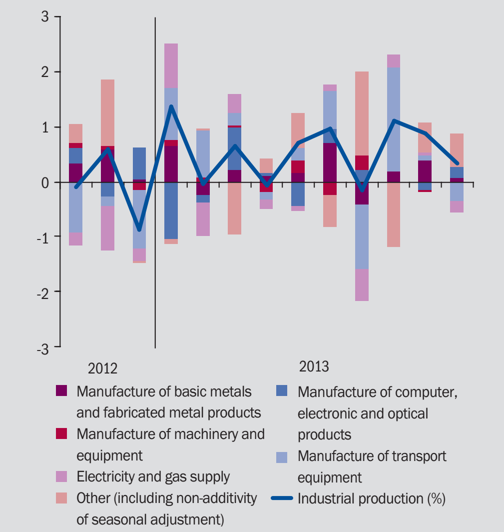
2.3 INDUSTRIAL AND CONSTRUCTION PRODUCTION

Industrial production continued to grow in October, boosted mainly by electrical equipment production

Industrial production in October increased by 0.4% over September, while its annual growth slowed to 6.8% (from 7.4% in the previous month). The segments accounting for most of that growth were manufacture of electrical equipment, manufacture of computer, electronic and optical products, and other industry. There were negative contributions to growth from manufacture of transport equipment and from electricity and gas supply.

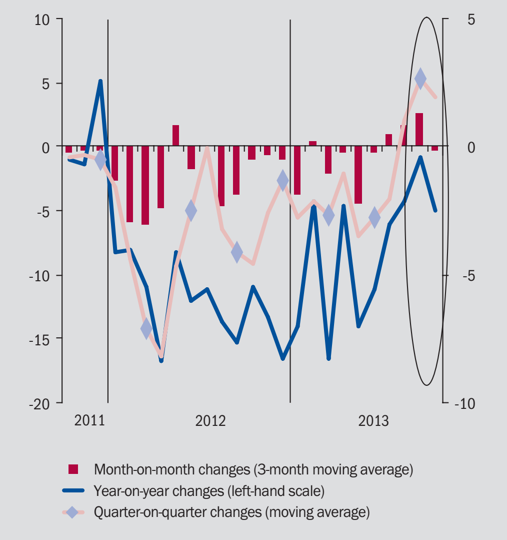
Construction production fell in October by 2% month-on-month, and its annual rate of decline increased to 5% (from 0.8% in September). With production in civil engineering construction remaining almost unchanged, it was other construction activity including construction of buildings that accounted for the overall month-on-month decline. Construction production growth for the quarter to the end of October slowed to 1.9% over the previous three months; nevertheless, this may still be seen as positive considering that the quarterly growth rate had been in negative territory for the previous two years.

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



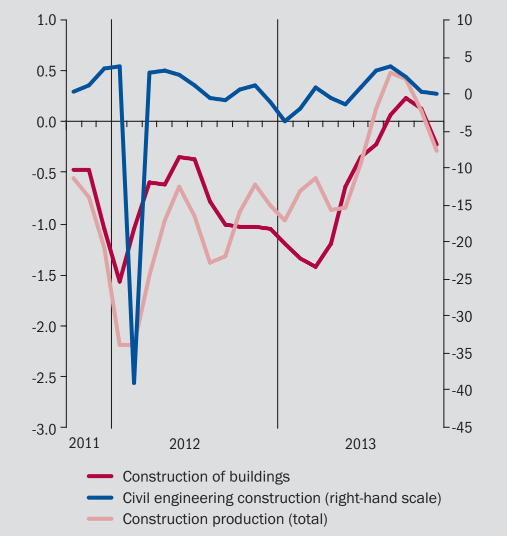
Source: SO SR, NBS calculations.

Chart 10 Construction production (%)



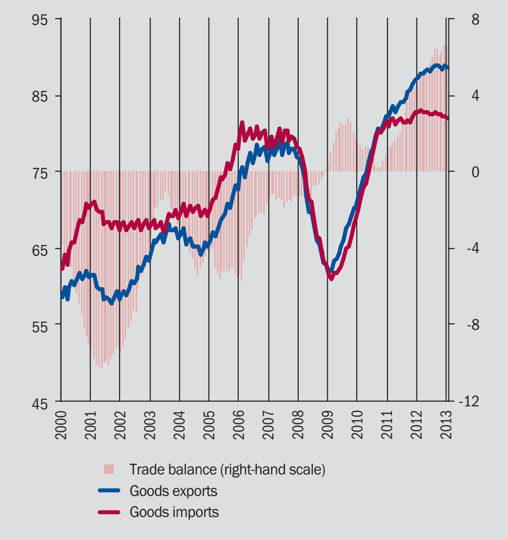
Source: SO SR, NBS calculations.

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



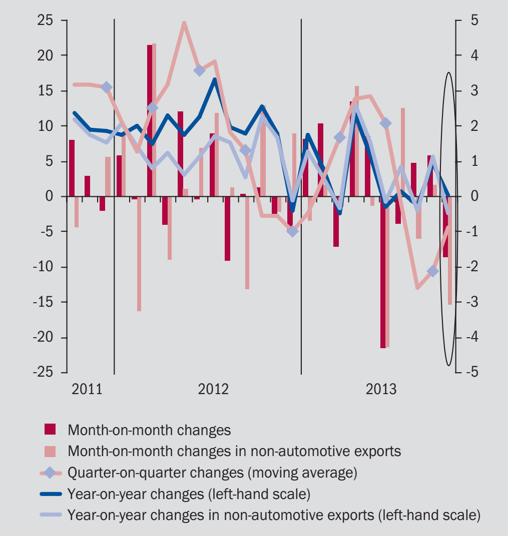
Source: SO SR.
Note: Construction of buildings accounts for around 70% of total construction production.

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



Source: NBS and SO SR.

Chart 13 Goods exports (%)



Source: NBS and SO SR.

2.4 TRADE BALANCE

Exports fell in October while imports increased

The 12-month cumulative trade surplus fell in October to 6.5% of GDP, from 6.7% in the previous month. Export growth remained unchanged year-on-year, while imports increased significantly (by 1.6%).

In month-on-month terms, goods exports declined by 1.7%, and there were also decreases in producers' export prices and in the real amount of exported goods. While car exports increased, non-automotive exports were 3% lower compared to September and their volume edged to its lowest level since the beginning of the year. Major exporters increased their exports, with the decline in overall exports probably accounted for by a wide range of medium-sized and smaller firms.

While exports fell in October, goods imports increased by 1% over the previous month. In the automotive industry, import growth may have reflected the low level of imports in the previous months. Nevertheless, import intensity of the sector has not risen. Exports also increased for producers in the category of computers, electronic and optical products, possibly related to an upturn in exports of major electronics producers.

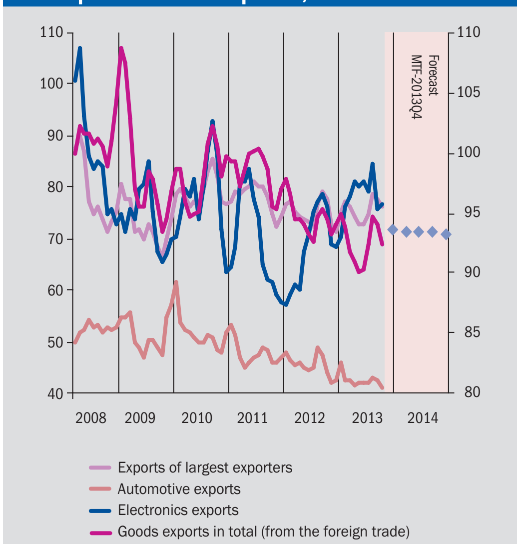
Imports for retail chains fell slightly in October after six months of strong growth. Given the decline in private consumption in the third quarter of 2013, it may be expected that retail chains have used their recent imports more for restocking than for final consumption sale. The retail trade remains prepared and stocked up for the expected upturn in final consumption.

The October foreign trade figures confirmed that only a few large exporters were reporting higher export growth. Overall export performance is expected to improve in the last quarter of 2013, on the assumption that external demand will pick up after two years of weakening.

Chart 15 Imports for private consumption (%)

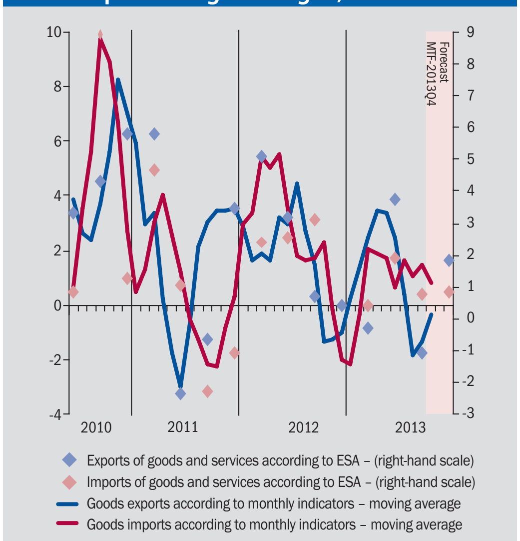
Source: SO SR, NBS calculations.
Note: Indicator of imports for private consumption – monthly amount of goods imports of the largest retail chains (constituting only 2% of imports).

Chart 14 Import intensity (3-month moving average; amount of imports in euro per €100 of exports)



Source: SO SR, NBS calculations.

Chart 16 Exports and imports according to monthly indicators (constant prices; annual percentage changes)



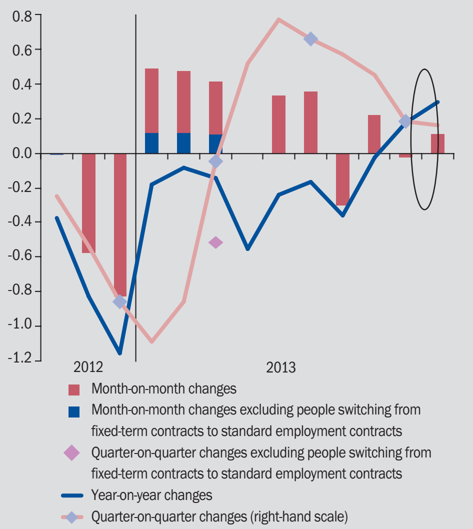
Source: SO SR and NBS calculations.

3 The labour market

The number of persons employed across the selected sectors under review increased moderately in October (by 1%). Despite that growth, the employment situation varies appreciably between sectors, indicating a persisting climate of caution among employers in the real economy. Employment growth was moderately positive in services, as well as in core sectors of industry (mechanical engineering and the automotive industry). It was a different situation in other parts of industry, as food manufacture and non-manufacturing segments (e.g. mining and extraction; energy) reported relatively sharp and probably one-off declines in employment that weighed on the sector's overall employment. Employment in the construction sector declined slightly. According to "soft" indicators of economic activity and employment expectations, the last quarter of 2013 should see employment in the economy as a whole pick up from its currently low levels.

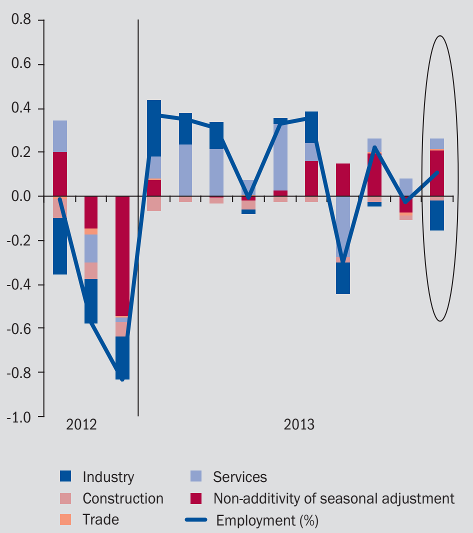
A moderate increase in fourth-quarter employment, after a year of negative trends, is also projected by the latest NBS Medium-Term Forecast (MTF-2013Q4).

Chart 18 Rates of change in employment (%)



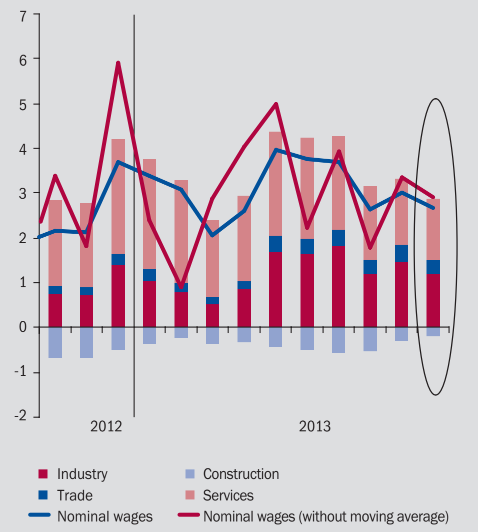
Source: SO SR, NBS calculations.
Note: The rate of change time series excluding the effect of people switching from fixed-term contracts to standard employment contracts was estimated using reports submitted to the SO SR by larger firms (PROD 3-04).

Chart 17 Employment – monthly rate of change by sectoral contributions (p.p.)



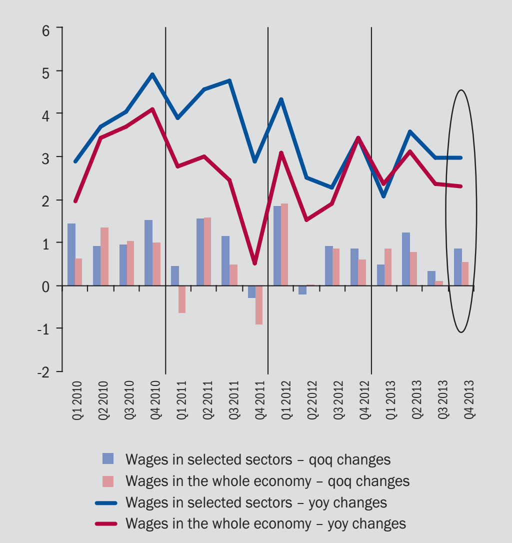
Source: SO SR, NBS calculations.

Chart 19 Nominal wages – annual rate of change by sectoral contribution (3-month moving average; p.p.)



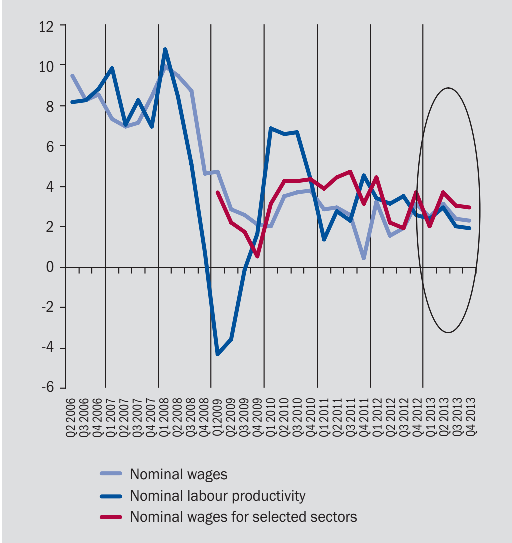
Source: SO SR, NBS calculations.

Chart 20 Wage developments in the economy (annual and quarter-on-quarter percentage changes)



Source: SO SR.
Note: Wage growth in the selected sectors for the fourth quarter is calculated using the SO SR's monthly data and imputations based on ARIMA modelling. The wage growth in the economy as a whole for the fourth quarter of 2013 is an estimate taking into account the monthly figure.

Chart 21 Wage developments and nominal labour productivity (annual percentage changes)



Source: SO SR.
Note: Nominal wage growth for the fourth quarter of 2013 is the projection given in the NBS MTF-2013Q4 forecast. Nominal wage growth in the selected sectors for the fourth quarter of 2013 is a projection based on ARIMA modelling. Nominal labour productivity is based on the NBS MTF-2013Q4 forecast.

Nominal wages in the selected sectors maintained growth in October, at a rate of close to 3% year-on-year, moderately lower compared to the previous month. While the month-on-month wage growth was relatively strong, at 0.4%, it is hard to see such a rate being sustained throughout the quarter. Nevertheless, the October growth could lay the basis for positive quarter-on-quarter nominal wage growth in the economy as a whole, approximately consistent with nominal labour productivity (non-inflationary wages). In that case, the annual rate of change in nominal wages for the whole economy would remain close to the level of the previous quarter. In the services sector, wage growth accelerated slightly, while in trade it remained unchanged from the previous period. Slowdowns in wage growth were observed in construction and in industry, where the wage reductions related to the temporary shutdown of plants may have been a factor.

Wages across the economy as a whole are expected to increase in the fourth quarter at the pace projected in the MTF-2013Q4 forecast (2.3% quarter-on-quarter, compared to 2.4% in the third quarter).

4 Prices

Inflation fell to 0.5%

Annual HICP inflation fell in November 2013 for a thirteen consecutive month. In month-on-month terms, consumer price inflation fell moderately thanks largely to declines in prices of food and fuel. The annual HICP rate was almost 0.3 percentage point lower than projected, largely because the negative contribution of the food component was higher than expected. Price levels for services and non-energy industrial goods were lower than NBS projections.

The continuing slowdown of inflation has for several months been caused mainly by food price developments and to a lesser extent by non-energy industrial goods inflation. Food prices fell for a fifth successive month, whereas in the previous year they declined only in July and August. Therefore food price inflation from the previous year is a key base effect contributing to the current slowdown in headline inflation. The annual HICP inflation rate has fallen by 1.1 percentage point since July with the food component accounting for 0.6 p.p., around 50%, of that drop. Thus the decline in the HICP can be attributed primarily to recent developments in food prices. In November, however, prices of non-energy industrial goods also contributed to the lower headline rate. In the context of the start of the pre-Christmas period, their slowdown may reflect low import prices, strong competition in the market and the persisting caution among consumers with regard to consumption spending. The contributions of services and non-energy industrial goods to the HICP rate fell again in November, thus continuing the multi-month downward trend of these components.

Annual inflation is expected to accelerate moderately in 2014 amid the assumed gradual

Table 1 HICP components – comparison of projected and actual rates of change (%, p.p.)

			Non-energy industrial goods	Energy	Food	Services	HICP
Month-on-month change	A	November 2012 – actual figure	0.2	-0.4	0.3	0.1	**0.1**
	B	November 2013 – forecast	0.06	-0.06	0.23	0.19	**0.12**
	C	**November 2013 – actual figure**	**-0.06**	**-0.30**	**-0.43**	**0.04**	**-0.16**
	BC	Direction of deviation, if any					Moderate decline against a projected moderate rise
	BC	**Difference in contribution to month-on-month rate of change (p.p.)**	**-0.04**	**-0.04**	**-0.16**	**-0.05**	**-0.28**
Year-on-year change	D	October 2013 – actual figure	0.3	-1.3	2.1	1.2	**0.7**
	E	November 2013 – forecast	0.2	-1.0	2.1	1.3	**0.8**
	F	**November 2013 – actual figure**	**0.1**	**-1.2**	**1.4**	**1.1**	0.5
	AC	Base effect	moderate	not significant	significant	moderate	**moderate**
	DF	Movement of prices compared with previous month					**Slowdown**
	EF	Direction of deviation, if any					Slowdown against projected moderate acceleration
	EF	**Difference in contribution to year-on-year rate of change (p.p.)**	**-0.03**	**-0.04**	**-0.17**	**-0.05**	**-0.29**

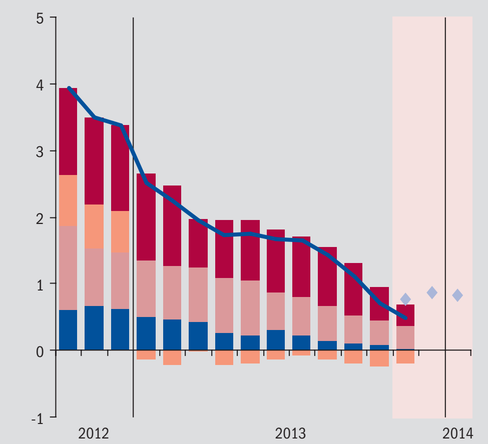
Source: SO SR, NBS calculations.

increases in economic growth and import prices. One risk to this outlook is any appreciation of the USD/EUR exchange rate (in the MTF-2013Q4 forecast, the USD/EUR exchange rate is assumed to depreciate slightly).

Price developments in January will be key to the short-term path of inflation in 2014. Looking at historical developments in all calendar months, the impulses for consumer prices are the highest in January. In this regard, the most significant prices in January will be those of food, electricity, heat and market services.

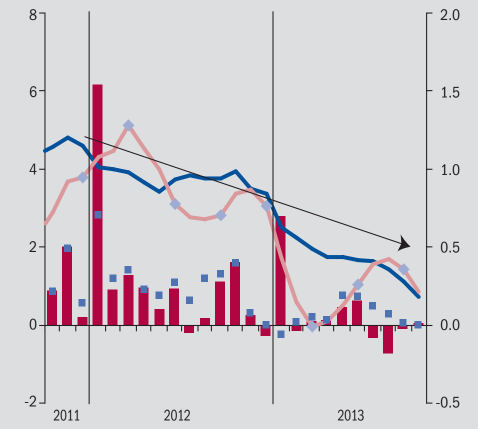
In contrast to their current downward trend, food prices are expected to increase as a result of seasonal rises in fruit and vegetable prices. Electricity prices should fall owing to the base effect of last year's commodity price movements as well as to planned reductions in electricity distribution prices. Market services prices are expected to rise as a result of cost-push factors (moderate wage growth, higher food prices).

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



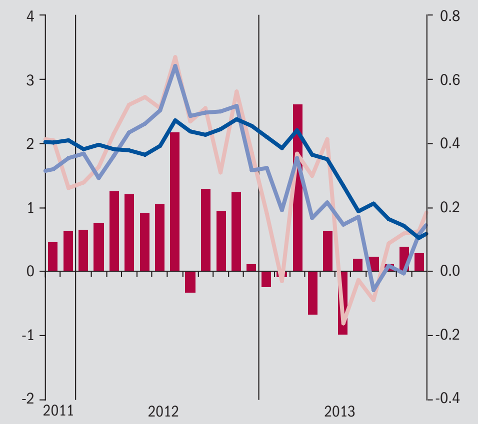
Source: SO SR, NBS calculations.

Chart 23 Headline inflation rate (%)



Source: SO SR, NBS calculations.

Chart 24 Annualised net HICP inflation (%)



Source: SO SR, NBS calculations.
Note: Net inflation comprises non-administered prices of services and of non-energy industrial goods.

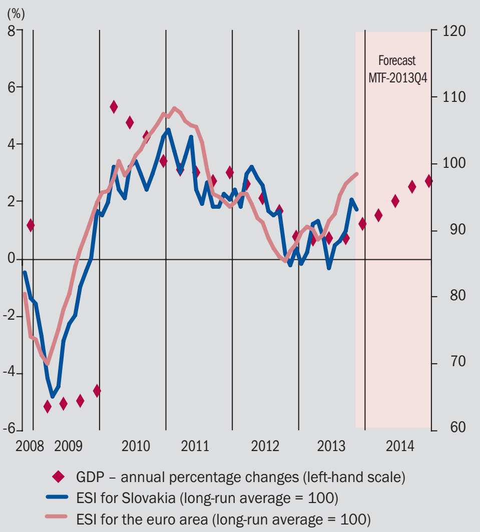
5 Qualitative impact on the forecast

The recently published national accounts have altered the outlook for the composition of economic growth over the projection horizon, since the actual composition differs from the latest forecast. These changes, along with the most recently available monthly indicators will be incorporated into the updated Medium-Term Forecast at the end of January 2014.

Chart 25 GDP, industrial production and sales (annual percentage changes)

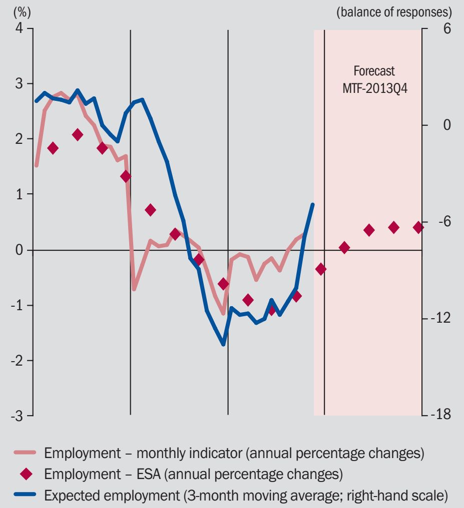
Source: SO SR and NBS.

Chart 26 GDP and the economic sentiment indicator



Source: SO SR, NBS and European Commission.

Chart 27 Employers' expectations (balance of responses) and the annual rate of change in employment (%)



Source: SO SR and European Commission.

Chart 28 Consumers' inflation perceptions (balance of responses) and HICP inflation (annual percentage changes)

Source: SO SR and European Commission.

The overall outlook for economic growth is expected to remain the same, but there should be moderate changes to the projected composition of growth, probably including an upward revision of domestic demand. The labour market situation is in line with expectations, and none of the detailed third-quarter data or monthly figures point to any divergence from the current forecast. The inflation rate continues to undershoot projections, and again in November prices decreased more than expected. Hence the updated forecast is likely to include a slight downward revision of the inflation projection.

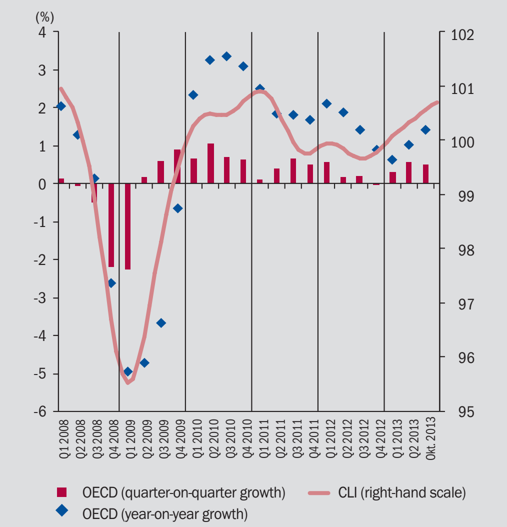
QUARTERLY REPORT ON THE INTERNATIONAL ECONOMY

THE GLOBAL ECONOMY

The global economy's gradual recovery continued in the third quarter of 2013, although growth rates remained heterogeneous across economic regions. While several advanced economies grew at a faster pace compared to the previous quarter, some emerging economies grew more slowly. Overall, economic activity in OECD countries moderated to 0.5% in the third quarter, from 0.6% in the previous quarter, while annual GDP growth increased to 1.4%, from 1.0% in the second quarter. In the United States and United Kingdom, economic growth increased in the third quarter, while in the euro area and Japan it decelerated. For the OECD area as a whole, the composite leading indicator (CLI)[3] of economic sentiment maintained its upward trend in the third quarter and therefore points to a continuation of the economic recovery.

Average consumer price inflation across the OECD fell in the third quarter, from a rate of 1.8% in June to 1.5% in September. The previous trend rise in inflation had continued into July, reflecting increases in energy prices and, to a lesser extent, food prices. Thereafter, as energy price inflation declined sharply, the headline rate decreased. Energy price inflation fell year-on-year from 3.4% in June to 0% in September, and food price inflation slowed slightly, from 2.0% to 1.9%. These downward trends continued in October, as energy prices fell by 1.3%, food price inflation declined to 1.6%, and overall consumer price inflation declined to 1.3%. Core inflation, which does not include food and energy prices, rose slightly between June and September (from 1.5% to 1.6%) and then edged back down in October (to 1.5%).

Chart 29 Overall GDP and the CLI for the OECD area



Source: OECD.
CLI – composite leading indicator.

The risks to the outlook for the global economy include developments in money and financial markets and the associated uncertainty that could adversely affect economic conditions. At the same time, higher commodity prices and weaker than projected global demand could weigh on global economic growth.

COMMODITIES

Oil prices in the third quarter of 2013 fluctuated between USD 103 and 117 per barrel, and the average price of USD 110/barrel was around 7% higher than the average for the previous quarter. From July to the beginning of September, oil prices came under upward pressure from a shortage of supply and geopolitical conditions in the Middle East and North Africa. As these political tensions eased and supply picked up, prices fell back to USD 108/barrel by the end of September. Oil prices maintained a downward path through the first third of November and then increased, ending the month at USD 111/barrel.

Prices of **non-energy commodities** decreased in the third quarter due to lower prices of foods and metals. The main factor in the food price decline was cereal prices. The fall in metal prices was caused by the ongoing growth in mining and extraction, based on past investments in the sector, as well as by the cooling of China's property market.

3 *CLI indicators are published by the OECD on a monthly basis – the latest available data, published in December 2013, are for October 2013.*

UNITED STATES

The US economy maintained its strong accelerating trend in the third quarter of 2013, as its annualised rate increased to 3.6% (from 2.5% in the previous quarter). Annual GDP growth also rose, from 1.6% in the second quarter to 1.8% in the third quarter.

The marked increase in US economic growth was driven mainly by an increase in gross private investment, which was based largely on restocking. The growth in inventories was not, however, accompanied by an adverse situation in sales, as the inventories-to-sales ratio remained unchanged and there was no accumulation of unsold products. Another positive contributor to GDP growth was residential and non-residential fixed investment. Private consumption also boosted growth, although its annual rate of increase was lower compared with the previous quarter. In an environment of ongoing fiscal consolidation measures, general government consumption and investment provided only marginal support to US economic growth. Net exports made a similarly modest contribution, as export growth was moderately higher than import growth.

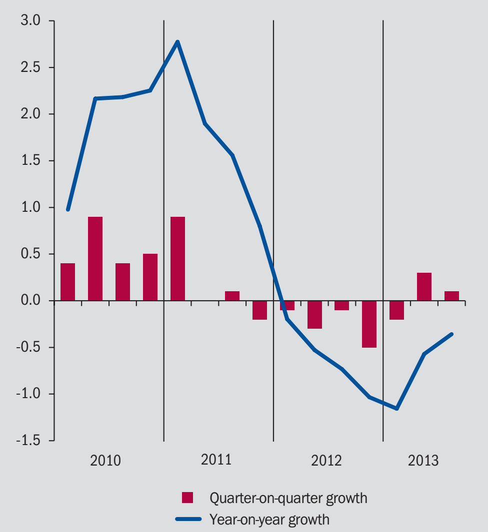
The inflation rate declined significantly in the third quarter, from 1.8% in June to 1.2% in September. In the early part of the quarter, consumer price inflation was under significant upward pressure from the strong base effect of energy prices. In subsequent months, as this effect faded award and energy prices declined year-on-year, consumer prices inflation slowed. In October, the inflation rate fell to 1.0% and energy prices were again a key factor in its development. Inflation in prices of food and services was broadly stable during the third quarter. The core inflation rate edged up from 1.6% in June, to 1.7% in September and remained at that level in October.

The US Federal Open Market Committee (FOMC) decided at its two regular meetings in the third 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%, inflation between one and two years ahead is projected to be no more than half a percentage point above the target rate of 2%, and longer term inflation expectations continue to be well anchored. At its July meeting, the FOMC confirmed that its policy of asset purchases (quantitative easing) would continue. At same time, the Committee indicated that the current pace of asset purchases could be reduced later in the year, should the economy continue to improve as expected. While financial markets assumed that the accommodative monetary policy would be eased, the FOMC confirmed at its September meeting that the asset purchase programme would be sustained until there was firm evidence of a sustainable improvement in economic activity and the labour market. At its meeting in October, the FOMC reaffirmed the conclusions of the September meeting.

THE EURO AREA

The euro area economy maintained quarter-on-quarter growth in third quarter of 2013, although the rate of 0.1% was lower than the rate of 0.3% reported for the second quarter. The growth was driven by an increase in domestic demand, while net exports made a negative contribution. Looking at the large euro area economies, Germany reported relatively strong growth and the Netherlands and Spain also saw an increase in real GDP. In Spain, where the impact of the debt crisis has been particularly severe, the slight growth (0.1%) meant the

Chart 30 Economic growth (at 2005 constant prices; percentage changes)



Source: Eurostat.

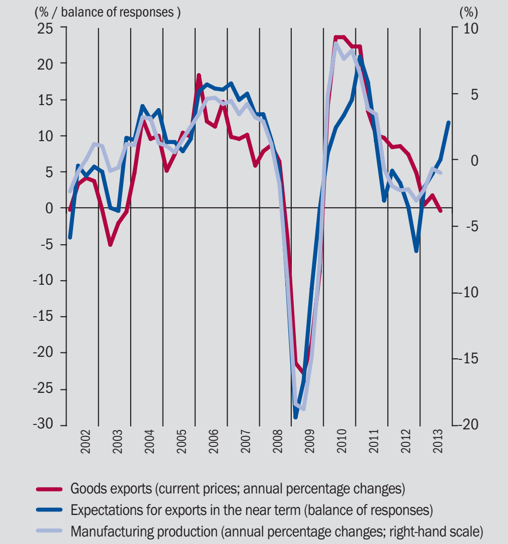
economy avoided a ninth consecutive quarter of contraction. In another two large economies, France and Italy, GDP declined in quarter-on-quarter terms. In Portugal, which like Spain has been one of the countries hardest hit by the crisis, the economy grew for a second successive quarter. The continuing momentum of the euro area economy in the third quarter was reflected in the annual rate of decline in GDP, which eased to -0.4% (from -0.6% in the second quarter).

Euro area economic growth in the third quarter remained driven by domestic demand and in particular by restocking. Consumer demand also continued to increase, with private consumption rising for a second consecutive month. After remaining flat in the previous quarter, general government consumption also made a moderately positive contribution to economic growth. Gross fixed capital formation increased for the second quarter in a row. Net exports, by contrast, weighed heavily on euro area's economic performance, with export growth substantially lower than import growth.

On the supply side of the economy, valued added increased in trade and services, was unchanged in manufacturing industry, and declined in agriculture.

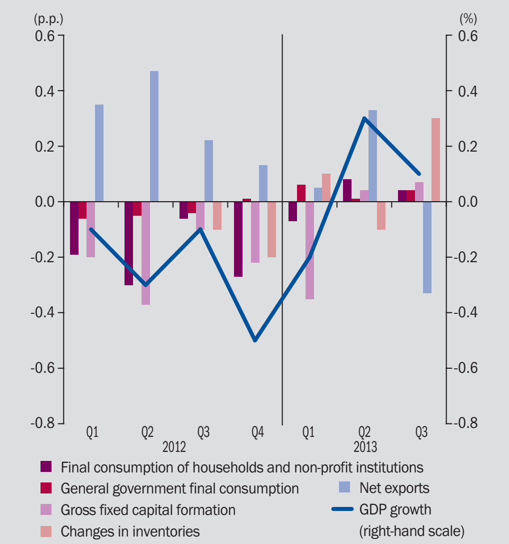
In manufacturing industry, a major exporting sector, production declined in the third quarter after a relatively strong increase in the second quarter, and export growth also decreased. The annual rate of decline in manufacturing production accelerated, reflecting the quarter-on-quarter development. Although growth in nominal goods exports slowed, firms' expectations for exports in the fourth quarter improved, possibly indicating a slight pick-up in exports and manufacturing output. Overall, however, export expectations remain at low levels and point to considerable

Chart 32 Export expectations, exports and manufacturing production



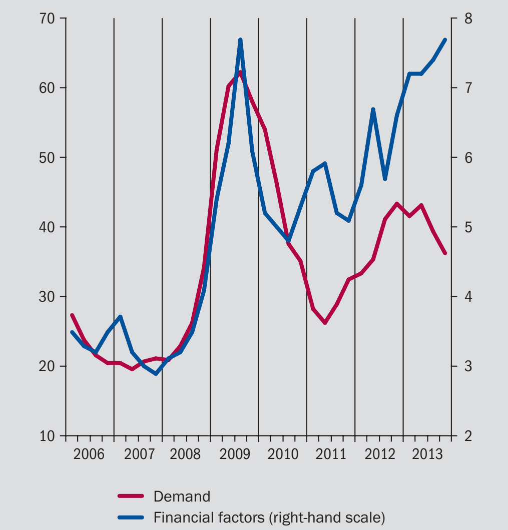
Source: European Commission, Eurostat, NBS calculations.

Chart 31 Contributions to quarterly GDP growth by component



Source: Eurostat, NBS calculations.

Chart 33 Production-limiting factors in industry (%)

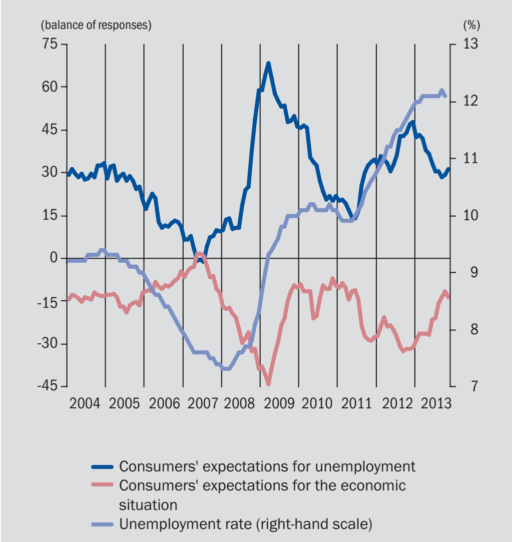


Source: European Commission.

Chart 34 Production-limiting factors in industry (%)

Source: European Commission.

Chart 35 The unemployment rate and consumers' expectations for the economic situation and unemployment over the next 12 months



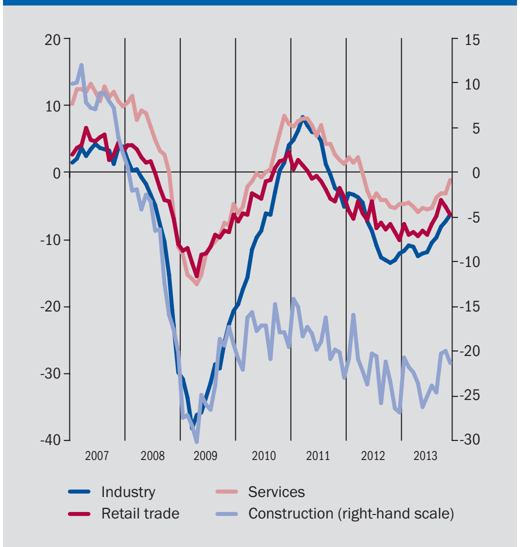
Source: European Commission and Eurostat.

uncertainty about future export performance in manufacturing industry.

Subdued demand continues to limit the scope for recovery in production, although in the fourth quarter, as in the third quarter, its impact was assessed to be moderately lower. By contrast, assessments of the extent to which financial factors are limiting production deteriorated again, down to their lowest level since the third quarter of 2009. Despite the modest increase in economic growth and improved assessments of production capacities and demand, assessments of labour as a production-limiting factor remained unchanged at all-time low levels. This points to persisting weakness in the labour market situation and may hamper the recovery of consumer demand. Plant capacity is not a constraint on production, and capacity utilisation remains at low levels.

The labour market remains a weak link in the economy, and although unemployment stopped rising in 2013, it is still at an all-time high. During the first two months of the third quarter, the jobless rate was around 12.1%, and in September it rose slightly to 12.2%. At the beginning of the fourth quarter, however, the rate edged back down to its August level. The labour market situation underlines the fragility of the economic recovery and the accompanying high degree of uncertainty. Although unemployment growth has ceased rising and the economy grew modestly in the past two quarters, consumers' expectations for both the future economic situation and unemployment deteriorated in November, after

Chart 36 Employment expectations by sector (balance of responses)

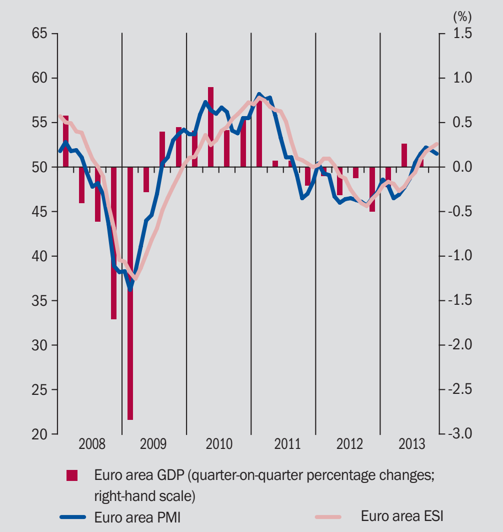


Source: European Commission.

several months of improvement. Consumers' perceptions of the economic situation may be a key factor in whether consumer demand rallies. Employment expectations continued to strengthen in industry and services. In retail trade, by contrast, employment expectations declined significantly in October and November, and in the construction sector they remain at exceptionally low levels.

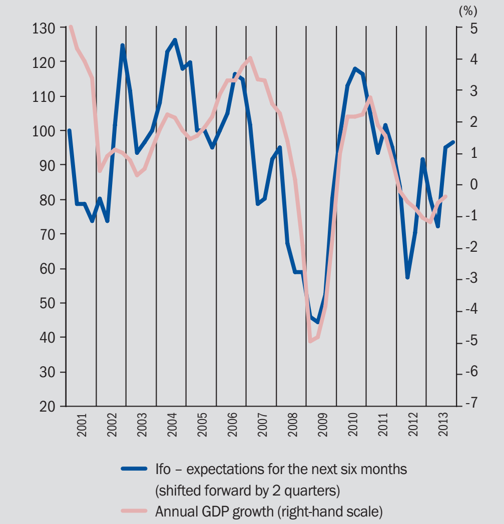
The economic sentiment indicator (ESI) increased in November for the seventh month in a row, reflecting stronger confidence mainly in industry and services and, to a lesser extent, in retail trade. Construction confidence remains flat at very low levels. Although the consumer confidence indicator improved in each of the previous eleven months, the fragility of that upturn was confirmed in November, when the indicator declined. While the ESI has been rising for several months, it remains relatively depressed and points to no more than moderate economic growth. The Ifo indicator for the economic climate in the euro area is providing relatively positive signals, after rising in the third quarter and strengthening significantly again in the fourth quarter. Less positively, however, the Eurozone Composite Purchasing Managers' Index (PMI) for October and November indicates a moderate deterioration in economic outlooks; nevertheless, it remains above the no-growth threshold of 50, and therefore, consistent with other forward-looking indicators, it implies that economic growth will continue moderately. Several forward-looking indicators for the German economy are providing relatively positive signals: the composite PMI, after declining in October, rebounded quite strongly in November; both Ifo and ZEW surveys confirm a brightening outlook for the German economy; and the November ESI for Germany increased for a seventh successive month.

Chart 37 Euro area forward-looking indicators and GDP growth



Source: European Commission, Eurostat and Bloomberg.

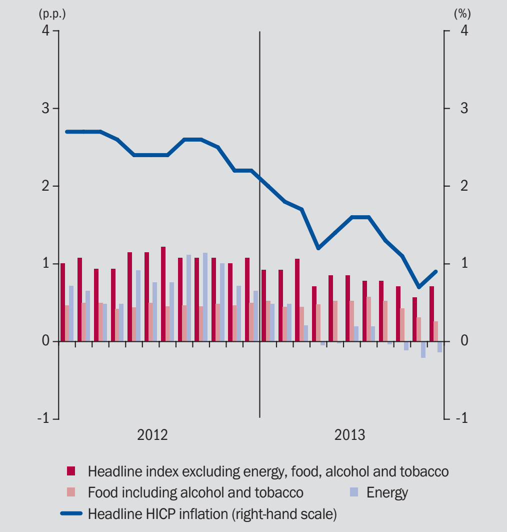
Chart 38 Ifo economic climate index (expectations) and annual GDP growth



Source: Ifo Institute and Eurostat.

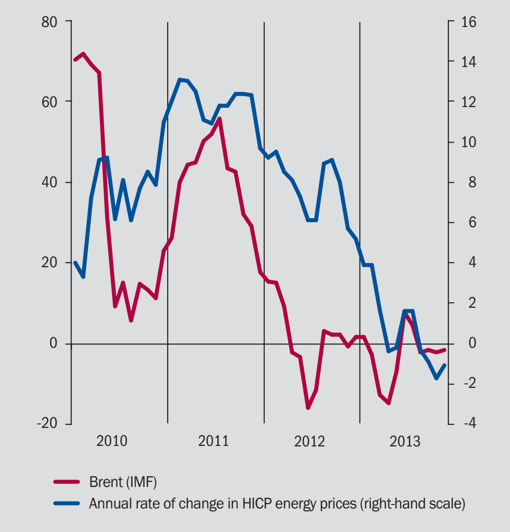
Consumer price inflation had a downward tendency throughout the quarter, mainly because energy prices fell year-on-year at an increasing pace and because food price inflation declined. Price movements were also subdued in the components of services and non-energy industrial goods. In the case of non-energy industrial goods, inflation slowed significantly, while services price inflation remained unchanged from the previous quarter at a relatively subdued level. The headline inflation rate, as measured by the HICP, therefore fell from 1.6% in June to 1.1% in September. Food price inflation continued to fall in October and November, while the annual rate of decline in energy price accelerated further in October and then eased in November. Also in October non-energy industrial goods price inflation decelerated again, and services price inflation remained contained. The headline rate

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



Source: Eurostat, NBS calculations.

Chart 40 Oil and energy prices in the HICP (annual percentage changes)

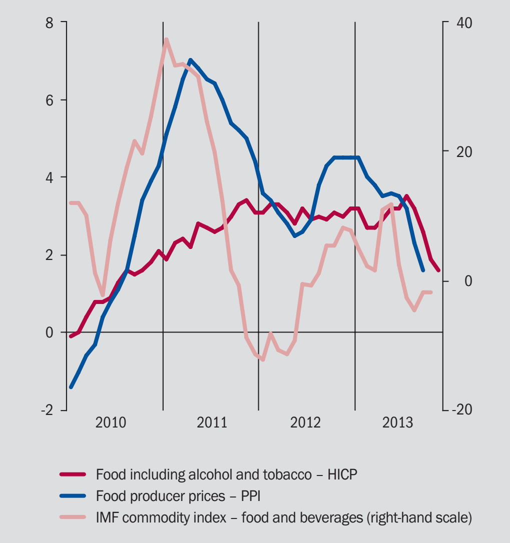


Source: Eurostat and EIA.

increased in November to 0.9%, after decreasing as low as 0.7% in October.

Although the average oil price increased moderately in monthly terms in the third quarter, its annual rate of change was significantly reduced (i.e. the price fell year-on-year). From October, the average oil price began to fall moderately, therefore putting downward pressure on consumer energy prices. This effect was compounded by appreciation of the euro. Food commodity prices fell gradually from July, causing their annual rate of change to decrease and increasing pipeline pressures on food consumer prices. Although food commodity prices stopped declining in October and November, and their annual rate of change corrected slightly upwards, consumer food price inflation continued to decline. In an environment of subdued demand and strong competition, the pass-through from commodity prices to both producer prices and consumer prices was relatively quick.

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

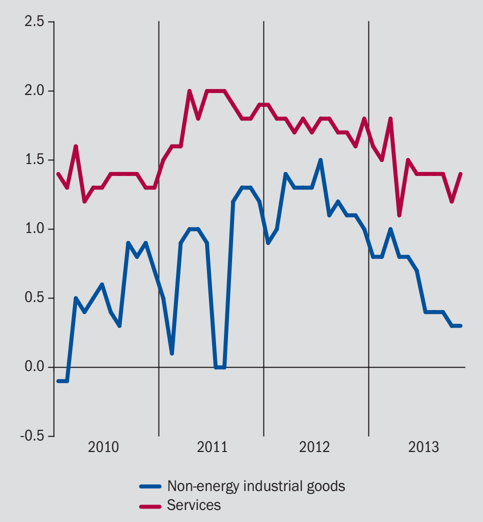


Source: Eurostat and IMF.

The inflation rate not including prices of energy, food alcohol and tobacco (the components most sensitive to demand-side developments) fell gradually in the third quarter, from 1.2% in June to 1.0% in September and decreased further in October (to 0.8%), before rising in November back to the September level.

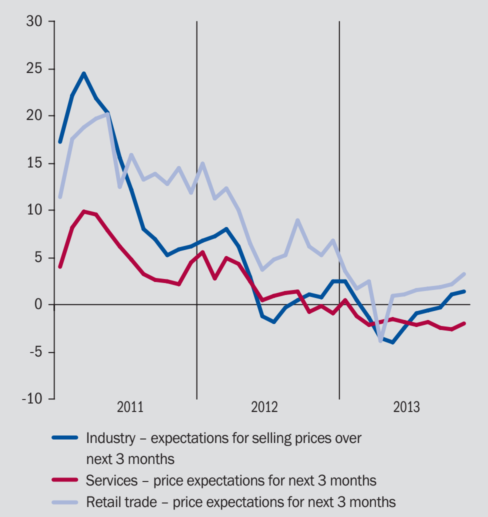
Low demand and elevated competition continued to affect consumer price movements. Non-energy industrial goods price inflation declined sharply at the beginning of the third quarter and moderated further in October and November. The principal cause of that slowdown was a lower rate of increase in pharmaceutical

Chart 42 Goods and services prices (annual percentage changes)



Source: Eurostat.

Chart 43 Price expectations in industry, services and retail trade (balance of responses)



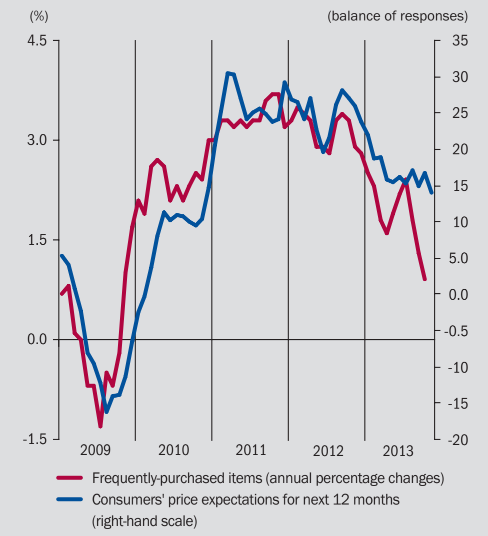
Source: European Commission and Eurostat.

product prices, which reflected the base effect of the substantial increase in these prices in July 2012 (in Spain), as well as the lower increases in furniture and clothing prices. Services price inflation was constrained at relatively low levels throughout the third quarter, before falling in October and then rising back in November to its September level. The main downward pressure on services price inflation was from prices of food services, education services, and holidays.

Inflation expectations continued to reflect the situation of subdued demand and strong competition. Expectations for selling prices are restrained in all sectors, and, despite a few signs of increase in industry and retail trade, they remain at exceptionally low levels. Recent months have seen a slight lowering of consumers' price expectations, as they reflect price developments in frequently purchased items.

At its meetings in the third quarter, the ECB's Governing Council decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility would remain unchanged at 0.50%, 1.00% and 0.00%

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



Source: European Commission and Eurostat.

respectively. At its November meeting, the Governing Council decided to decrease both the main refinancing rate and marginal lending rate by 25 basis points with effect from 13 November 2013 – to 0.25% and 0.75% respectively – while keeping the deposit facility rate unchanged at 0.00%.

Following its first meeting in July, the Governing Council introduced forward guidance for its monetary policy, announcing that the key ECB interest rates would remain at present or lower levels for an extended period of time. This expectation was based on the overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the real economy and subdued monetary dynamics. In the period ahead, the Governing Council would monitor all incoming information on economic and monetary developments and assess any impact on the outlook for price stability. After its first meeting in November, the Governing Council announced that its monetary policy stance would remain accommodative for as long as necessary, and it confirmed that, in line with the forward guidance set out in July, the key ECB interest rates would remain at present or lower levels for an extended period of time.

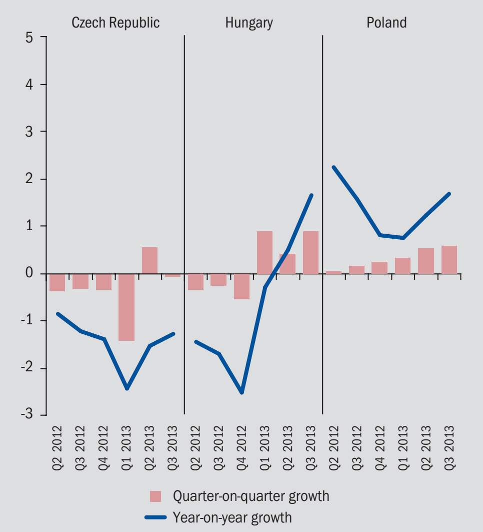
At the same meeting in November, the Governing Council also decided to continue conducting the main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the 6th maintenance period of 2015 on 7 July 2015. This procedure 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 2015. The fixed rate in these special-term refinancing operations will be the same as the MRO rate prevailing at the time. Furthermore, it decided to conduct the three-month longer-term refinancing operations (LTROs) to be allotted until the end of the second quarter of 2015 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

In both Poland and Hungary, year-on-year economic growth was higher in the third quarter of 2013 than in previous quarter, with Polish growth accelerating by 1.1 p.p., to 1.6%, and Hungarian growth by 0.5 p.p. to 1.7%. In the Czech Republic, the economy's annual rate of contraction moderated by 0.2 p.p., to -1.3%.

In quarter-on-quarter terms, both Hungary and Poland reported further increases in economic growth in the third quarter of 2013, with the Hungarian economy growing by 0.5 p.p., to 0.9%, and the Polish economy by a moderate 0.1 percentage point, to 0.6%. Meanwhile, the Czech economy, after expanding by 0.5% in the second quarter, returned to contraction (-0.1%). In the Czech Republic, the largest contribution to the decline in GDP was from net exports, as export growth slowed and import growth increased markedly. Household consumption declined even more than it did in the previous quarter and therefore also weighed on growth. There were positive contributions to growth from general government consumption and changes in inventories. In Hungary, net exports accounted for most of the increase in growth, as export growth increased moderately and import growth declined significantly. Other components mostly had a negative effect on the GDP growth: household consumption returned to decline after increasing in the previous quarter, while the growth rate of general government

Chart 45 GDP growth (%)



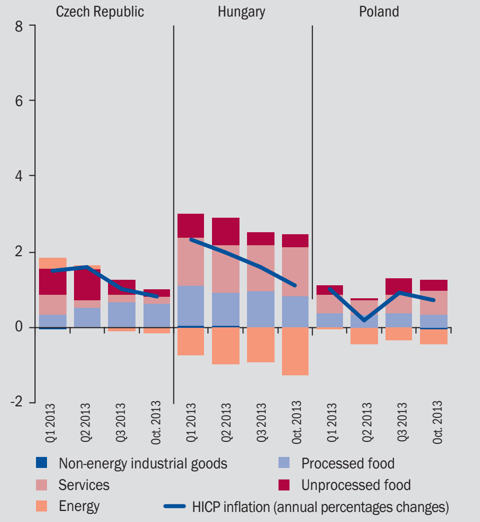
Source: Eurostat.

consumption remained unchanged and that of investment demand fell. Changes in inventories also made a negative contribution. The modest increase in Poland's economic growth was largely attributable to investment demand (which increased strongly, after declining in the previous quarter) and to household private consumption (which accelerated moderately). Changes in inventories also made a positive contribution. By contrast, net exports had a negative impact as a result of import growth exceeding export growth.

In the Czech Republic and Hungary, annual consumer price inflation was lower in the third quarter of 2013 than in the previous quarter, while in Poland it was higher. The Czech inflation rate declined by 0.6 percentage point, to 1.0% and the Hungarian rate by 0.4 percentage point to 1.6%, whereas the Polish rate increased by 0.7 percentage point, to 0.9%. The Czech inflation rate reflected mainly unprocessed food price inflation, which fell by fully 6.0 percentage points, and to a lesser extent the annual rate of change in energy price inflation, which went from 0.7% in the previous quarter, to -0.7%. The rate of inflation in non-energy industrial goods and in services was unchanged, while processed food prices made a positive contribution to the headline rate. In October, the inflation rate in the Czech Republic decelerated again. In Hungary, like the Czech Republic, the decline in the annual CPI inflation was driven mainly by unprocessed food prices and partly also by lower rates of inflation in services prices and non-energy industrial goods prices. There was, however, upward pressure on the headline rate from energy prices, which declined at a more moderate pace. Hungary's inflation rate slowed further in October. In Poland, annual consumer price inflation followed a different path in the third quarter, its increase based mainly on higher annual rates of increase in prices of processed food and, to a lesser extent, unprocessed food, as well as in services prices. The decline in energy prices moderated, while the decline in prices of non-energy industrial goods became more pronounced. In October, Poland's headline inflation fell moderately.

Looking at the currencies of the three countries with regard to their exchange rate against the euro in the third quarter of 2013, the Czech koruna and Polish zloty showed an appreciating trend, while the Hungarian forint weakened. The exchange rates of the currencies were moving in an environment of volatile financial markets (the main cause of which was the mixed signals from the US Federal Reserve about the possibility of tapering its quantitative easing policy, and the

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



Source: Eurostat, NBS calculations.

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

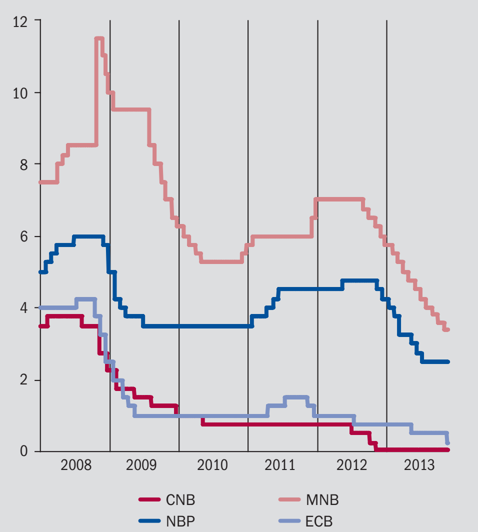
Source: Eurostat, NBS calculations.
Note: A fall in value denotes appreciation.

consequent weakening of the US dollar), but also of positive information from forward-looking indicators (especially for Germany as well as for the euro area as a whole).

In July and August, the Czech koruna appreciated moderately against the euro, and then in September it weakened gradually, down to 26 CZK/EUR, before appreciating again towards the end of the quarter. The currency followed this upward path until 7 November 2013, when the Czech central bank, Česká narodní banka, decided to intervene in foreign exchange markets, causing the koruna to depreciate sharply. Its exchange rate in the third quarter was also adversely affected by political factors (the decision to hold an early general election). After being buoyed by improving sentiment in financial markets towards the end of the second quarter, the Hungarian forint gradually began to weaken against the euro in third quarter as that sentiment deteriorated. Its depreciation was further supported by expectations that the Hungarian central bank would further ease monetary policy, as well as by expectations that a programme to convert foreign-currency mortgages into the local currency would be launched. Appreciation pressure on the exchange rate came from the publication of a surplus in the balance of payments current account. The exchange rate of the Polish zloty against the euro appreciated significantly in the third quarter from its level in the previous quarter. One of the causes of this trend was the July announcement of the Polish central bank to end the cycle of monetary accommodation that had lasted since November 2012.

The Hungarian and Polish central banks adjusted their monetary-policy settings in the third quarter of 2013, while Česká narodní banka (ČNB) kept its interest rates unchanged, leaving the main rate at 0.05% (a "technical zero"). At its meetings in the third quarter, the ČNB Bank Board decided to leave the central bank's key rates unchanged (with forward guidance to maintain them at the current levels over a longer horizon), basing its stance on the fact that economic conditions had not changed and that risks to the inflation forecast were tilted on the downside. At the same time, the Bank Board reaffirmed its readiness to intervene in the foreign exchange market if further easing of monetary policy became necessary. At its November meeting, after discussing the latest forecast, the Bank Board decided to proceed with foreign market interventions. Hungary's Magyar Nemzeti Bank (MNB) cut its base rate by 25 basis points on three occasions in the third quarter – once by 25 basis points and twice by 20 basis points – bringing it down to 3.60% by the end of September. According to the MNB, this stance was a response to persisting levels of unused capacity in the economy, the absence of demand-pull inflationary pressures, and a structural unemployment rate running above the long-run average. The MNB took the view that maintaining an accommodative monetary policy stance would help it to achieve the medium-term inflation target, but that given its previous rate cuts and the volatility of financial markets, any further easing of monetary policy should be more moderate. The Hungarian central bank cut its key rates again in October and November. In Poland, Narodowy Bank Polski (NBP) reduced its base rate once in the third quarter, by 25 basis points in July. In doing so, however, NBP announced the end of its monetary policy easing cycle, taking the view that the significant reduction of rates implemented since November provided sufficient support for economic recovery and limited the risk of inflation running below the central bank's medium-term target.

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



Source: National central banks and the ECB.

QUARTERLY REPORT ON THE REAL ECONOMY

THE REAL ECONOMY IN THE THIRD QUARTER OF 2013

GROSS DOMESTIC PRODUCT

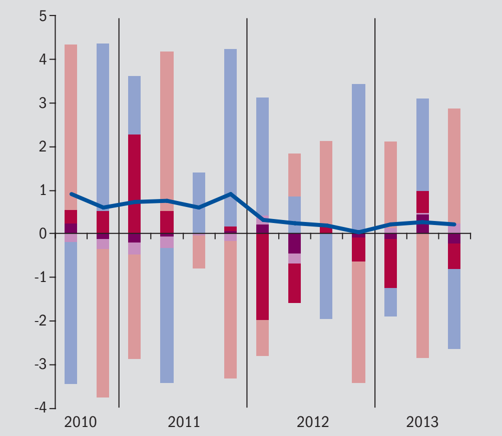
The Slovak economy grew in the third quarter of 2013 by 0.2% compared with the previous quarter, continuing its low-growth trend for the seventh successive quarter. If growth in foreign demand picks up again (after slowing for two years), the quarter under review may mark the end of sluggish economic growth. This would help Slovakia's GDP growth to recover from the current downturn. It is, however, unrealistic to expect a growth rate at the pre-crisis level, because investment activity is still too weak to stimulate stronger economic growth in the near future.

The low-growth period in Slovakia has been characterised by a quarter-on-quarter decline in domestic demand, except in the second quarter of 2013, when both fixed investment and consumption experienced an increase in quarter-on-quarter terms. This was, however, the result of a temporary qualitative change in the structure of economic growth, for the third quarter saw another fall in domestic demand.

Chart 49 Contributions to annual GDP growth (percentage points)

Source: SO SR.

Chart 50 Contributions to quarterly GDP growth (percentage points)



Source: SO SR.

Table 2 GDP by expenditure (quarter-on-quarter percentage changes; at constant prices)

	2012					2013		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Gross domestic product	**0.3**	**0.2**	**0.2**	**0.0**	**1.8**	**0.2**	**0.3**	**0.2**
Final consumption	0.3	-0.6	-0.1	-0.1	**-0.4**	0.0	0.4	0.1
Households and NPISHs	0.4	-0.8	0.0	-0.2	**-0.2**	-0.2	0.9	-0.4
General government	1.2	-1.5	0.0	0.0	**-1.1**	0.8	0.2	1.4
Gross fixed capital formation	-8.2	-4.2	0.7	-2.6	**-10.5**	-5.4	2.7	-3.0
Exports of goods and services	5.1	3.1	0.7	0.4	**9.9**	-0.3	3.8	-1.1
Imports of goods and services	2.4	2.6	3.1	-3.4	**3.3**	0.4	1.9	0.8

Source: SO SR.

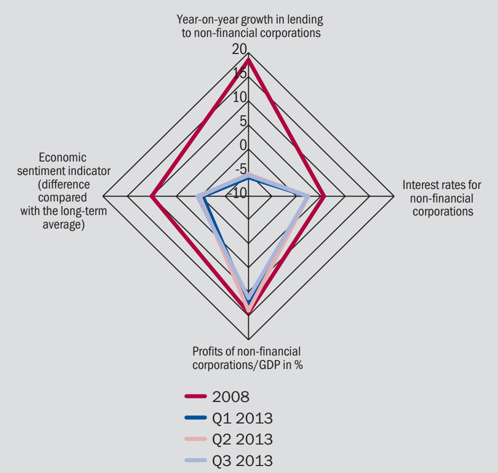
Of the domestic demand components, **fixed investment** has declined most. The decline in investment restrained the pace of economic growth by 0.6 percentage point in the third quarter (by 1.2 percentage points since the beginning of the year). Investment declined in spite of the fact that profits increased again and their ratio to GDP in the third quarter was close to the pre-crisis level. Investment reached only less than 80% of the level of 2008.

In year-on-year terms, total profits were still lower, but their value in the third quarter approached the level of the same period a year earlier. This modest improvement may be reflected in the level of investment activity with a delay of one quarter, i.e. in the final quarter of 2013.

Although firms are not limited to their own funds (this would greatly restrict their investment capacity), the conditions for investment were not improved even by the availability of external financing in an environment of low interest rates and eased lending conditions. Despite the fact that firms view their attitude to financing as positive (in international comparison too), long-term lending to the corporate sector is stagnating, partly because firms show little appetite for bank-financed investment. Increased investment activity is hindered by the persistently low confidence in the corporate sector, well below the pre-crisis level.

Larger-scale investment continues to be subdued as fiscal consolidation efforts continue and drawdowns from eurofunds remain lower than expected. Although funds for investment project financing are at disposal, firms give preference

Chart 51 Investment environment – comparison of the current state with that before the crisis

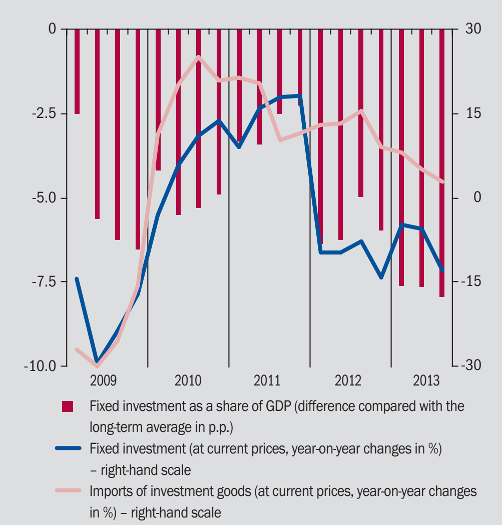


Source: SO SR and NBS.

Chart 52 Financial results and investments of non-financial institutions (year-on-year percentage changes, at current prices)

Source: SO SR.

Chart 53 Decline in investment as a share of GDP compared with the long-term average, fixed investment and imports (at current prices; seasonally adjusted)



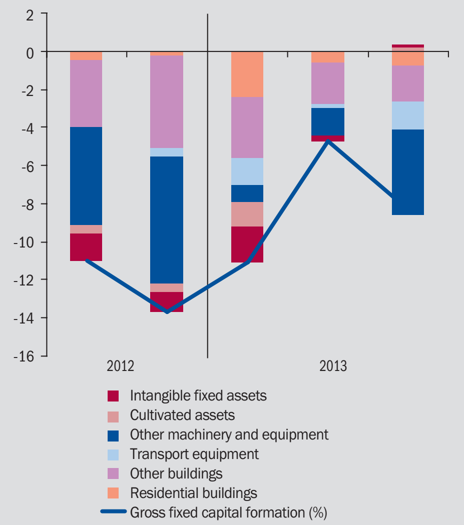
Source: SO SR and NBS.

to non-investment activities such as cash-flow management and profitability enhancement, business process optimisation, and cost optimisation in view of the existing and planned changes in the tax and social security systems. As it had been anticipated by firms, a marked restricting effect on investment activity was exerted by the tax rate increase for corporate entities with effect from January 2013, which reduced the disposable resources of firms as from the beginning of 2013. Another reason behind the stagnation of investment is the time-consuming administration of drawdowns from eurofunds. Although their main purpose is to stimulate investment growth, eurofunds seem to be used to some extent as a substitute source of funding (instead of domestic sources), rather than an additional one. The subdued investment demand has also reduced the need for imported investment goods.

As a result, the investment capacity of the economy has sunk to an all-time low: investment in the third quarter generated only 18% of the seasonally adjusted nominal GDP (the long-term average since 1995 is 26%).

Neither the volume nor the sectoral structure of investments made since the beginning of this year has given the Slovak economy enough impetus for further growth and technological advancement. In the previous three years, investment grew mainly in industries with medium-high technology intensity (manufacture of chemicals, electrical equipment, machinery and transport vehicles). In the first three quarters of this year, however, investment increased in industries with low technology intensity (food, clothing, wood-working, and furniture industries). In services, investment declined in public administration and knowledge-intense services (e.g. IT and other information services, legal activities; science and research), while more investments were made in

Chart 54 Year-on-year changes in fixed capital by contributions of selected products (percentage points; seasonally adjusted, in real terms)



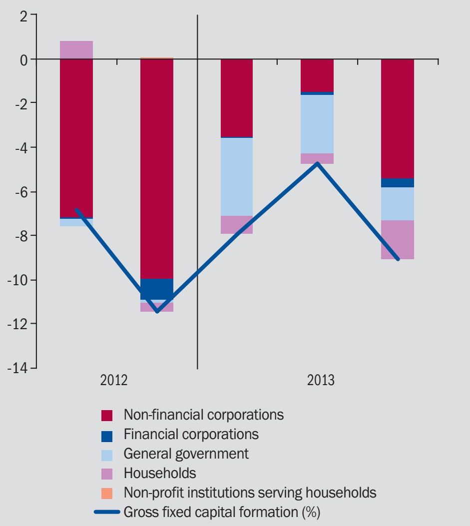
Source: SO SR.

Table 3 Structure of fixed investment in terms of technology and knowledge intensity (%)

Period	Fixed in-vestment in total	Manufacturing					Services				Rest of eco-nomy
		Total	High TI	Medium-high TI	Medium-low TI	Low TI	Total	Knowledge-intense (excluding public adminis-tration)	Public adminis-tration	Less knowledge-intense	
2008	100.0	**25.2**	1.9	8.9	9.0	5.3	**56.1**	11.6	4.5	39.9	**18.7**
2009	100.0	**19.1**	1.4	8.2	5.5	3.9	**62.3**	11.3	8.6	42.4	**18.7**
2010	100.0	**19.0**	1.9	8.8	4.7	3.7	**63.3**	16.6	10.0	36.8	**17.6**
2011	100.0	**26.9**	5.2	11.0	7.3	3.4	**54.8**	10.8	8.3	35.7	**18.3**
2012	100.0	**24.0**	0.8	13.9	6.8	2.5	**56.4**	10.1	7.6	38.7	**19.6**
Q1 2013	100.0	**22.1**	1.3	10.2	7.1	3.4	**63.7**	10.5	3.7	49.5	**14.2**
Q2 2013	100.0	**23.5**	1.1	9.6	6.6	6.3	**58.8**	9.0	6.2	43.6	**17.6**
Q3 2013	100.0	**22.9**	0.7	12.3	6.2	3.7	**62.5**	10.4	8.3	43.8	**14.6**
Q1-Q3 2013	100.0	**22.9**	1.0	10.7	6.6	4.5	**61.6**	9.9	6.3	45.4	**15.5**

Source: SO SR and NBS calculations.
Note: TI – technology intensity.

Chart 55 Year-on-year changes in fixed capital by contributions of selected sectors (percentage points; in nominal terms)



Source: SO SR.

less knowledge-intense services (trade, transport, accommodation, real estate activities).

In addition, investment declined in year-on-year terms across all categories of products, as well as across all sectors.

Domestic demand in the third quarter was weakened not only by the low level of investment activity but also by stagnation in **consumer demand.** Stagnation in overall consumption was the result of growth in public consumption offset by decline in private consumption. The relatively strong growth in public consumption in the third quarter, i.e. the strongest since the beginning of 2010 (in both quarter-on-quarter and year-on-year terms), was caused mainly by the higher level of remuneration paid to employees in that period. Private consumption decreased, along with household final consumption. Public consumption exceeded its pre-crisis level by 2.4% in the third quarter of 2013 (its volume reached 102.4% of the figure for the fourth quarter of 2008), while private consumption remained 2.6% below the pre-crisis level. The recovery of private consumption is still hindered by the labour market situation.

In the final analysis, domestic demand restrained the pace of economic growth by 0.6 percentage point in the quarter under review. The contribution of foreign demand was also negative, because the exports of goods and services fell in the third quarter and thus offset partly the effect of stronger growth from the second quarter. The subdued domestic and foreign demand reduced the need for imports, causing a slowdown in import growth. Since the balance was lower than in the previous quarter, **net exports** had a dampening effect on economic growth in the third quarter.

The main source of economic growth in the third quarter of 2013 was a **change in inventories**, which made a positive contribution of 1.6 percentage points and thus offset the impact of decline in domestic demand and net exports (the statistical discrepancy, chain-linking errors, and errors from non-additive seasonal adjustment contributed positively to the quarter-on-quarter rate of GDP growth, too). The impact of change in inventories varies from quarter to quarter according to the pace of destocking. This was more moderate in the third quarter, so the change in inventories contributed positively to GDP growth and thus replaced the negative contribution from the second quarter.

On the output side of the economy, GDP growth at constant prices was driven largely by net taxes on products in the third quarter. Value added stagnated as a result of growth in intermediate

Table 4 GDP growth in the third quarter of 2013 (%)

	Quarter-on-quarter change	Year-on-year change
Gross domestic product (GDP)	0.2	0.7
Private consumption (households and non-profit institutions)	-0.4	0.0
General government consumption	1.4	2.5
Gross fixed capital formation	-3.0	-8.3
Exports	-1.1	2.7
Imports	0.8	-0.4

Source: SO SR and NBS calculations.

Table 5 GDP and its components (year-on-year percentage changes, at constant prices)

	2012					2013		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Gross output	4.9	2.7	2.0	0.1	2.4	-3.7	0.0	0.9
Intermediate consumption	5.6	2.5	1.9	-1.2	2.1	-5.9	-0.2	1.5
Value added	3.7	3.2	2.3	2.2	2.8	0.2	0.4	-0.1
Net taxes on products[1)]	-7.8	-5.6	-2.8	-14.2	-7.9	3.8	4.9	11.4
Gross domestic product	**2.7**	**2.3**	**1.9**	**0.4**	**1.8**	**0.5**	**0.8**	**0.9**

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

consumption, which declined over the preceding three quarters. After stagnating in the previous quarter, gross output increased somewhat.

WAGES AND LABOUR PRODUCTIVITY

After falling for an extended period, employment remained unchanged over the third quarter of 2013. This was due probably to switches from the category of self-employed persons and that of employees. The number of hours worked increased to a significant extent, signalling the beginning of an upturn in demand for labour. The unemployment rate rose slightly, reflecting the statistical effect of a fall in the number of people on labour activation schemes. Wage growth slowed in the third quarter, following a relatively sharp one-off wage increase in the second quarter. Employee compensation growth remained surprisingly slow, lagging behind the dynamics of wages and salaries (under the ESA methodology), which was in contrast with the high social contributions. Wage growth was broadly in line with the labour productivity growth. The household savings ratio decreased in year-on-year terms, mainly as a result of lower payments made to pension funds.

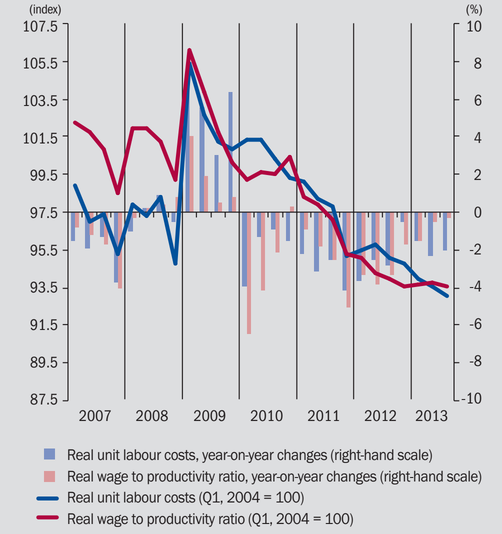
In the third quarter of 2013, the average monthly nominal wage of an employee in the Slovak economy increased by 2.4% year-on-year, representing a slowdown compared with the previous quarter. This was due partly to the waning effect of one-off bonus payments in the second quarter in the manufacturing, information and communication sectors, and partly to the entry into force of new collective agreements in the second quarter. Wage growth in these sectors slowed but remained relatively fast in comparison with the other sectors. As a result, nominal wages rose in the third quarter by only 0.1% quarter-on-quarter. In year-on-year terms, real wages recorded a modest increase, though part of this increase (up to one percentage point) was probably caused by the switching of payrolls from limited work agreements to standard employment contracts, which slightly overvalues the rate of nominal wage growth.

The other sectors witnessed diverse developments. Wages in the real estate sector continued to fall, while the number of employees increased still further, which partly explains why the wages are falling. Wages also declined in agriculture. In construction, trade, transport, accommodation, administration and support service activities, wages grew in year-on-year terms at a slow pace, hardly covering the rate of price inflation. Somewhat faster wage growth (approximately 2%) was recorded in the financial sector. By contrast, wages grew relatively dynamically in professional and scientific activities (by 5.5%). In the public sector, strong wage growth was recorded in education, owing to the recent rise in the wages of teachers.

Compensation per employee[4] continued to grow at a surprisingly slow pace in the third quarter, at 0.7% (at the same pace as wages under the ESA methodology). Employee compensation this year is expected to show somewhat stronger dynamics than wages, owing to increased social contributions paid by employers. This, however, unlike the relatively dynamic growth in social contributions, is not yet reflected in these statistics. Compared with the second quarter, the year-on-year growth slowed by 0.6 percentage point, mainly in manufacturing, agriculture and in professional and scientific activities. Most of the other sectors witnessed slow or negative growth in compensation per employee, which

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

Chart 56 Real labour productivity and real labour costs (index Q1, 2004 = 100)



Source: SO SR and NBS calculations.
Note: Real unit labour costs as defined in the ESA 95 methodology. CPI deflated real wages from quarterly statistical reports. All data are seasonally adjusted.

closely followed the wage growth according to the ESA methodology. The slow growth in wages and employee compensation under this methodology can be explained by the growing number of employees (as more and more self-employed persons are changing their legal form by setting up limited liability companies), which reduced the rate of growth by approximately 0.4 percentage point. Real compensation per employee fell by 0.4% year-on-year.

In real terms, labour productivity under the ESA 95 methodology increased in the third quarter by 1.7% year-on-year, representing a slight slowdown compared with the previous quarter. Its growth also slowed on a quarter-on-quarter basis (0.2%). The growth in productivity did not exceed the growth in real wages and compensations, which was reflected in the relatively stable level of real unit labour costs. A slight fall in unit labour costs under the ESA methodology was caused by the growing number of employees in connection with the transformation of self-employed persons to limited liability companies (s.r.o.), which slightly undervalues the growth in compensation per employee.

HOUSEHOLD INCOME AND EXPENDITURE

The current income of households increased in the third quarter of 2013 by €15 billion, representing a nominal year-on-year increase of 1.9%. Compared with the second quarter of 2013,

Table 6 Generation and use of income in the household sector (at current prices)

	EUR billions		Annual rate of change (%)		Percentage share	
	Q3 2012	Q3 2013	Q3 2012 Q3 2011	Q3 2013 Q3 2012	Q3 2012	Q3 2013
Employee compensation (all sectors)	7.0	7.0	2.8	0.9	47.1	46.8
of which: gross wages and salaries	5.4	5.4	2.3	0.9	36.6	36.3
Gross mixed income	4.5	4.6	3.6	2.2	30.4	30.6
Property income – received	0.3	0.3	-21.0	-1.5	2.3	2.2
Social benefits	2.5	2.5	2.5	2.4	16.8	16.9
Other current transfers – received	0.5	0.5	-7.0	4.9	3.4	3.5
Current income in total	**14.8**	**15.0**	**1.9**	**1.6**	100.0	100.0
Property income – paid	0.1	0.1	-22.6	-10.1	3.4	3.0
Current taxes on income, property, etc.	0.5	0.5	4.9	-5.3	13.3	12.5
Social contributions	2.7	2.7	6.1	2.5	66.4	67.4
Other current transfers – paid	0.7	0.7	4.4	2.4	16.8	17.1
Current expenditure in total	**4.0**	**4.1**	**4.4**	**1.0**	100.0	100.0
Gross disposable income	**10.7**	**10.9**	**1.0**	**1.9**	-	-
Adjustment arising from changes in net assets of households in pension fund reserves	0.3	0.1	12.9	-48.1	-	-
Household final consumption	10.3	10.4	2.9	1.2	-	-
Gross household savings	0.7	0.7	-17.0	-7.0	-	-

Source: SO SR.

Table 7 Gross disposable income (index, same period a year earlier = 100, at current prices)

	2012					2013		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Gross disposable income (1)	103.1	100.5	101.0	102.0	101.6	102.6	102.6	101.9
Adjustment (pension funds) (2)	103.0	145.9	112.9	92.7	113.0	53.1	43.1	51.9
Household final consumption (3)	104.8	103.6	102.9	101.9	103.3	100.5	102.3	101.2
Gross household savings (4=1+2-3)	60.3	79.7	83.0	101.7	89.0	142.6	83.7	93.0
Savings ratio [%, (4)/((1)+(2))]	2.3	7.4	6.7	16.9	8.7	3.2	6.1	6.2

Source: SO SR and NBS calculations.

its annual growth rate slowed by 0.5 percentage point, mainly as a result of slower growth in wages and salaries as well as in gross mixed income, and property income.

Current household expenditure (expenses paid to other sectors and not used for direct consumption) increased by 1.0% year-on-year, to €4.1 billion. The rate of growth slowed by 0.1 percentage point compared with the second quarter of 2013. This slowdown was largely the result of lower growth in property income, lower taxes and other current transfers paid. By contrast, social contributions paid had a pro-growth effect.

The gross disposable income of households (current income less current expenditure) amounted to €10.9 billion in the third quarter, representing a year-on-year increase of 1.9%. Gross household savings declined by 7% year-on-year, to a lesser extent than in the previous quarter. The year-on-year decline was again caused by a decrease in payments to pension funds, coupled with a modest year-on-year increase in consumption. The rate of growth in household final consumption slowed in comparison with the second quarter, and the decrease in payments to pension funds moderated too. Both factors contributed to the moderating year-on-year decline in gross savings. The savings ratio fell by 0.5 percentage point year-on-year, to 6.2%. Excluding the effect of lower payments to the second pension pillar, however, the savings ratio rose by 0.7 percentage point year-on-year.

EMPLOYMENT AND UNEMPLOYMENT

After declining for five quarters, employment remained unchanged in the third quarter of 2013, at the level of the previous quarter. Employment as defined in the ESA methodology declined by 0.9% year-on-year, less than it did in the previous quarter. In quarter-on-quarter terms, employment showed zero dynamics. Labour demand remained week, mainly in smaller companies. According to statistical reports, employment declined year-on-year by 0.8%, while stagnating in quarter-on-quarter terms[1]. According to the Labour Force Survey (LFS), employment declined by 0.4% in both year-on-year and quarter-on-quarter terms. This decline was negatively influenced by the number of people working on activation schemes (a possible statistical effect of the sample selected). The deterioration in the labour market situation has come to a halt. The number of people working abroad continued to grow in year-on-year terms.

Looking at the composition of total employment (ESA 95) in the third quarter, the number of employees increased by 0.4% quarter-on-quarter, while the number of self-employed persons decreased by 1.9%. The data indicate that approximately 6,000 self-employed persons switched to other forms of employment (under the ESA methodology, the owners of limited liability companies are also employees, provided they work for their company) in connection with the legislative changes that came into force at the beginning of the period under review. As a result, the decrease in the number of employees moderated to -0.3%, while the number of self-employed persons fell more sharply than in the previous quarter (by 3.7%).

The number of hours worked in the economy increased in the third quarter by 0.7% compared with the previous quarter, indicating a pick-up in labour demand after three months of stagnancy. Labour demand is expected to cause an increase in the number of hours worked, which may be followed by an increase in the number of employees.

5 *Internal seasonal adjustment.*

The year-on-year decrease in the number of hours worked moderated still further, to 0.6%. The average working week continued to increase, to 37.1 hours, but still remained somewhat shorter than it was during the post-crisis recovery in 2010.

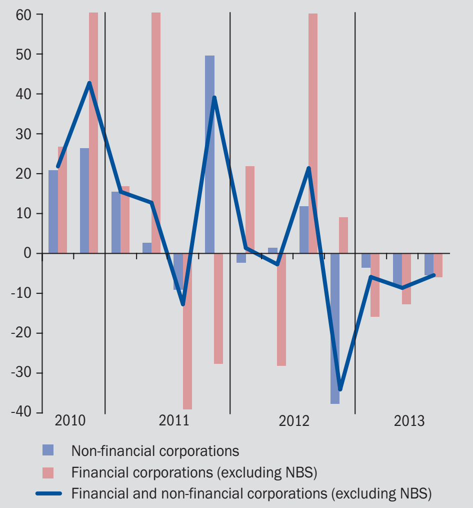
The sectoral breakdown of employment (ESA 95) shows that the most significant contributions to its quarter-on-quarter growth came from manufacturing, trade, scientific and administrative activities, and from transport and other services. A slightly negative impact on employment was exerted by developments in construction and in arts, entertainment and recreation. After a negative trend lasting for more than a year, the situation in manufacturing showed some signs of improvement. According to the Labour Force Survey (LFS), the number of unemployed in the third quarter increased by 2.9% year-on-year, to 382,000, representing a quarter-on-quarter rise of 0.5% (approximately 2,000 persons). The increase in unemployment was partly due to problems in the area of labour activation schemes, which caused a fall in total employment according to the LFS methodology. The number of economically active persons decreased slightly. The seasonally adjusted unemployment rate rose quarter-on-quarter by 0.1 percentage point, to 14.3%. The non-seasonally adjusted rate rose year-on-year by 0.4 percentage point, to 14.1%. According to the registers of Offices for Labour, Social Affairs and Family, the average unemployment rate in the third quarter of 2013 stood at 13.8%.

FINANCIAL RESULTS

The total profits of **financial and non-financial corporations** (excluding NBS) recorded a year-on-year decline of 5.6% in the third quarter of 2013, compared with 8.7% in the second quarter. In seasonally adjusted terms, however, total profits increased quarter-on-quarter by 10.8% (the second quarter saw a decrease of 2.4%). The positive change in quarter-on-quarter terms was caused by an increase in the profits of non-financial corporations, accompanied by an improvement in the financial results of financial corporations.

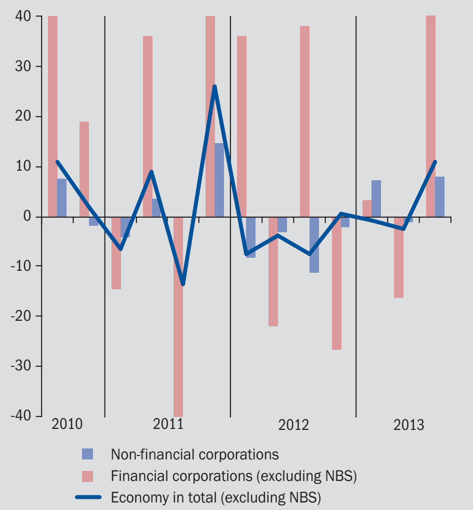
After an unfavourable trend in the profits of **non-financial corporations** in the previous quarters, the third quarter of 2013 saw a pick-up in total profits in the economy (a quarter-on-quarter rise of 7.8%). In the non-financial corporations sector, the manufacturing industries recorded an increase in profits, while profits in services and trade showed a declining tendency. The pick-up in the profits of non-financial corporations also means that their investment activity may improve in the future.

Chart 57 Total profits in the economy excluding NBS (year-on-year percentage changes)



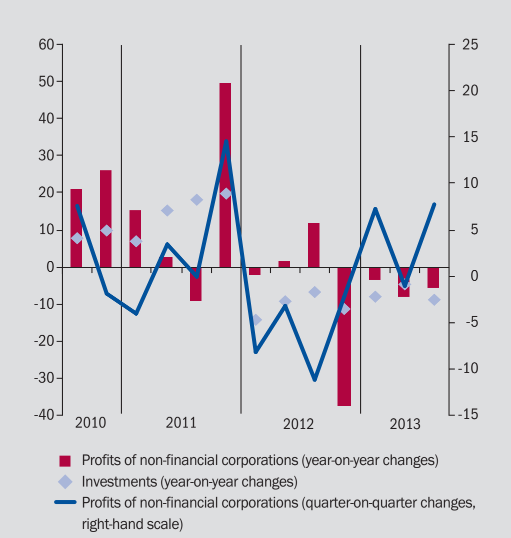
Source: SO SR.

Chart 58 Total profits in the economy (quarter-on-quarter percentage changes)



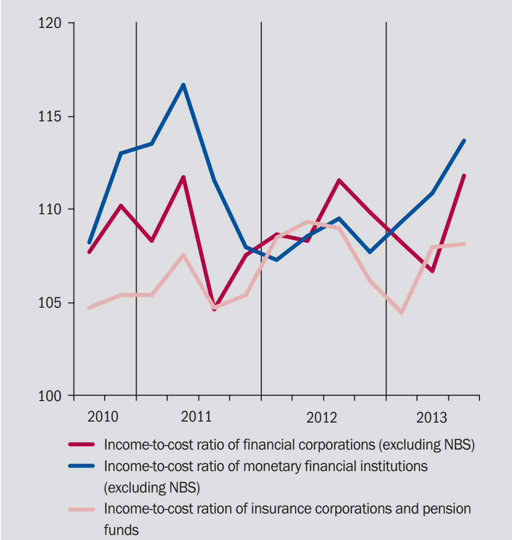
Source: SO SR and NBS calculations.

Chart 59 Investments and profits of non-financial corporations (%)



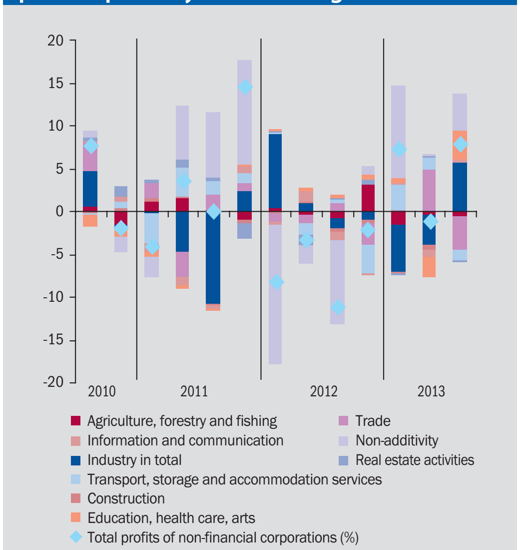
Source: SO SR and NBS calculations.

Chart 61 Income-to-cost ratios of financial corporations (%)



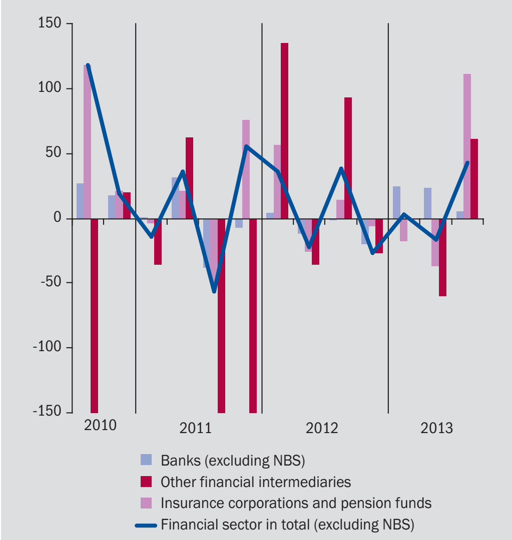
Source: SO SR and NBS calculations.

Chart 60 Total profits of non-financial corporations by sectoral contributions to the profits´quarterly rate of change



Source: SO SR and NBS calculations.

Chart 62 Total profits of financial corporations (quarter-on-quarter percentage changes)



Source: SO SR and NBS calculations.

Improved financial results for the third quarter were also reported from the **financial sector**, where the total profits of financial corporations (excluding NBS) increased by 42.2% quarter-on-quarter (after falling in the previous quarter by 16.3%). This improvement took place mostly in insurance corporations and pension funds, as well as in other financial intermediaries. The banking sector maintained its positive profit growth from the previous quarters (5.5% quarter-on-quarter), with its main source of income being income from banking operations. Interest income, however, declined at most banks.

Overview of main macroeconomic indicators for Slovakia

Table 8 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	-15.7	-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	8.3	7.9	97.9	7.8	1.6	12.5	-4,436.1	-7.7	41.0	-3.7	1.2	1.3257
2011	3.0	4.1	2.7	1.8	13.5	5.4	8.9	97.9	2.9	7.6	11.1	-3,275.7	-5.1	43.4	-3.8	1.5	1.3920
2012	1.8	3.7	3.9	0.1	14.0	8.0	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	0.4	3.6	4.0	-0.6	14.4	4.4	2.7	86.2	8.8	-2.3	10.3	-	-6.6	52.4	2.3	5.3	1.2967
2013 Q1	0.5	2.2	1.8	-1.0	14.5	2.7	-0.5	87.5	7.3	-0.3	9.9	-	-3.2	54.7	4.1	7.5	1.3206
2013 Q2	0.8	1.7	0.1	-1.3	14.0	2.8	2.5	88.1	7.4	-0.1	10.0	-	-2.0	58.0	5.1	9.0	1.3062
2013 Q3	0.9	1.4	-0.7	-0.9	14.1	4.8	1.8	88.7	6.2	0.4	10.3	-	.	.	1.6	4.9	1.3242
2012 Dec.	-	3.4	3.9	-	14.4	-4.1	-0.4	87.4	8.8	-2.3	10.3	-3,810.7	-	-	-	-	1.3119
2013 Jan.	-	2.5	3.1	-	14.8	6.6	1.7	84.9	7.7	-1.3	9.9	-62.5	-	-	-	-	1.3288
2013 Feb.	-	2.2	1.5	-	14.7	1.0	-1.1	86.7	7.9	0.4	9.9	-713.4	-	-	-	-	1.3359
2013 Mar.	-	1.9	0.8	-	14.7	0.8	-1.9	91.0	7.3	-0.3	9.9	-952.7	-	-	-	-	1.2964
2013 Apr.	-	1.7	0.9	-	14.4	3.0	5.4	91.3	7.7	-2.2	10.0	-1,076.1	-	-	-	-	1.3026
2013 May	-	1.8	-0.3	-	14.3	2.7	1.6	88.7	5.8	-2.7	10.0	-1,601.4	-	-	-	-	1.2982
2013 June	-	1.7	-0.3	-	14.3	2.8	0.6	84.4	7.4	-0.1	10.0	-1,664.8	-	-	-	-	1.3189
2013 July	-	1.6	-0.5	-	14.0	2.2	1.6	87.8	5.7	-2.2	10.1	-1,625.6	-	-	-	-	1.3080
2013 Aug.	-	1.4	-0.7	-	13.7	4.4	0.4	88.4	6.3	-0.5	10.2	-1,916.6	-	-	-	-	1.3310
2013 Sep.	-	1.1	-0.8	-	13.8	7.5	3.2	90.0	6.2	0.4	10.3	-1,978.0	-	-	-	-	1.3348
2013 Oct.	-	0.7	-1.4	-	13.7	6.8	3.0	94.6	9.0	1.0	10.2	-1,971.5	-	-	-	-	1.3635
2013 Nov.	-	0.5	.	-	.	.	.	93.0	.	.	.	-1,962.8	-	-	-	-	1.3493

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/StatisticsMB1213.xls