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Contents

Abbreviations

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

Symbols used in the tables

. – Data are not yet available.
- – Data do not exist / data are not applicable.
(p) – Preliminary data

1 Summary[1]

The global economy continued to grow in the last quarter of 2013, and euro area GDP growth accelerated slightly in comparison with the previous quarter, to 0.3%. The main drivers of euro area growth were stronger external demand and investment demand, and to a lesser extent private consumption. The recovery is expected to continue at a moderate pace this year, as suggested by forward-looking indicators. Hard indicators for retail sales were favourable in January. By contrast, industrial production declined further, to some extent dampening optimistic expectations.

Slovakia's economic growth increased slightly in the fourth quarter, reflecting positive developments in the external environment. The quarter-on-quarter growth of 0.4% was based mainly on external demand and a pick-up in investment activity. Domestic consumption also contributed to the growth, although private consumption was weaker than expected. January's monthly figures suggest the economy will maintain a positive course. Industrial production saw a significant increase, which was reflected in relatively strong export growth. Aggregate sales in non-industry sectors dampened the positive results in industry, indicating a sluggish recovery in that part of the economy.

The labour market situation began to improve in the last quarter of 2013, as the effects of growth in the real economy fed through. Employment growth was substantially higher than projected, at 0.3%, and it maintained an upward course in January, rising 0.1% month-on-month. The unemployment rate declined, continuing its downward trend of the previous year. The stagnation in nominal wages observed at the end of 2013 corrected partially in January as wage growth accelerated.

The drop in prices in February, 0.1% year-on-year, was slightly less than expected. The largest contribution to that slowdown came from the decline in food price inflation. Thus the risk identified in the previous month materialised. The inflation rate is still expected to be close to 0% in the short-term horizon, before gradually beginning to increase.

All relevant data have already been incorporated into the latest forecast, and no significant risks have been identified in the current developments.

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

2 Real economy

2.1 SALES[2]

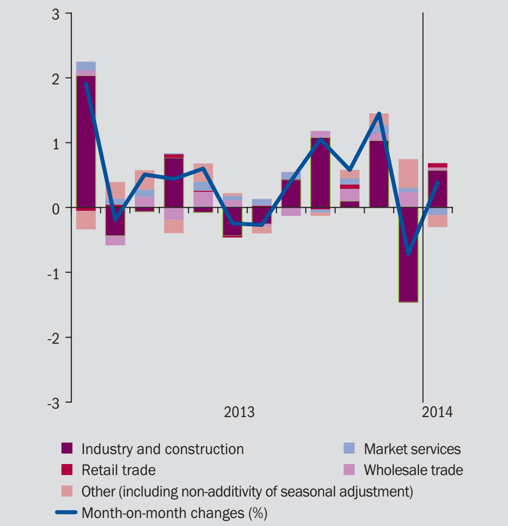
Industry sales returned to growth, but their effect was dampened by other sectors

Total sales in the economy increased in January by 0,4% month-on-month, after falling in December. The increase was largely accounted for by industry, in particular the segments of automotive, metals, and plastics manufacturing. However, industry's positive contribution was largely offset by decreased sales in other sectors, most notably in transportation and in IT and communication, which may have been partly due to the strong month-on-month sales growth that these sectors recorded in December 2013.

Trade sales maintained a positive month-on-month growth rate, notwithstanding their higher growth and comparison base at the end of 2013. Both the wholesale and retail sectors contributed to overall sales growth.

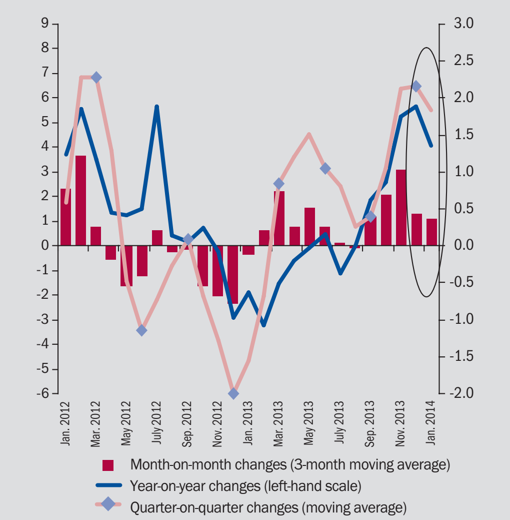
As sales continue to increase in quarter-on-quarter terms, they may indicate growth in household final consumption, as projected in the latest NBS Medium-Term Forecast (MTF-2014Q1). Although consumer sentiment deteriorated in February, the retail trade confidence indicator

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



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

Chart 1 Total sales at constant prices (%)



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

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

almost doubled its value in the same month, reaching its highest level for two years. This may boost sales and consumption growth over the short-term horizon.

2.2 FORWARD-LOOKING INDICATORS

Economic growth in Germany and the euro area as a whole is set to continue, according to a majority of forward-looking indicators. The economic sentiment indicator maintained its upward trend in February. The composite PMI for the euro area increased again in February, to 53.3, its highest level for 32 months. In the case of Germany, the PMI also increased significantly and there was a moderate improvement in the Ifo index. The ZEW index for Germany declined in March, but remains at relatively high levels.

The economic sentiment indicator (ESI) for Slovakia declined month-on-month in February by 4.4 points, to 93.7. Confidence fell in industry, services and among consumers, while confidence in the retail and construction sectors improved significantly. Despite dropping, the ESI remains at a level that points to the continuance of economic growth in Slovakia over coming quarters.

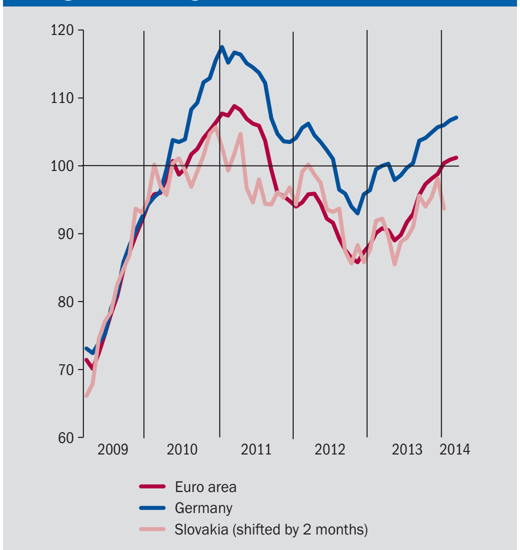
Chart 4 Economic sentiment indicators for Germany

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

Chart 5 Euro-area GDP growth estimate for Q1 2014 (quarter-on-quarter percentage changes)

Source: Now-casting.com

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



Source: European Commission.

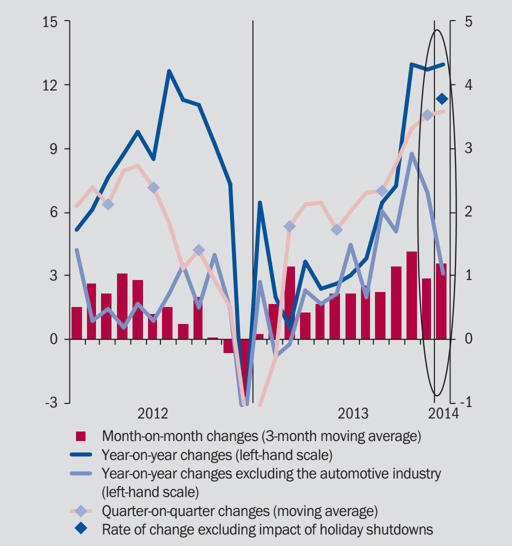
2.3 INDUSTRIAL AND CONSTRUCTION PRODUCTION

Production returned to growth as car production picked up

Industrial production in January was 2.0% higher compared to the previous month, returning to the relatively strong level observed in November of the previous year. Thus production provided confirmation of the improving situation in external trade. In year-on-year terms production increased by 12.9%, partly because holiday shutdowns in January were not as long as those at the beginning of 2013 (the estimated impact of this base effect was around 1.6 percentage points). The sharp rise in production was almost entirely driven by the automotive industry. Car production is increasing amidst a gradual recovery of the European automotive market, which, if sustained, could continue to benefit Slovak industry over the coming period.

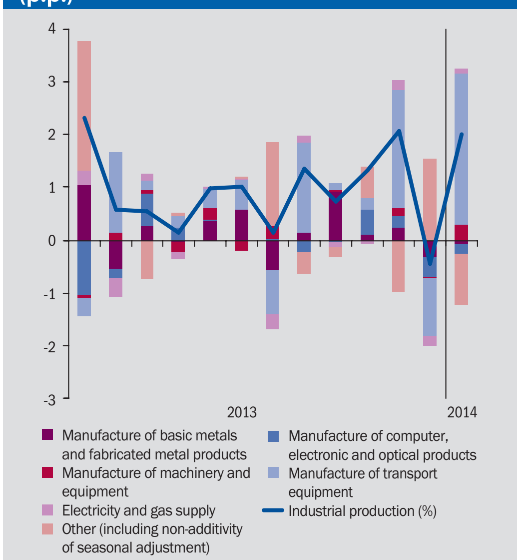
January's industrial production figures give credence to expectations that GDP growth in the next period will increase quarter-on-quarter.

Chart 7 Industrial production (%)



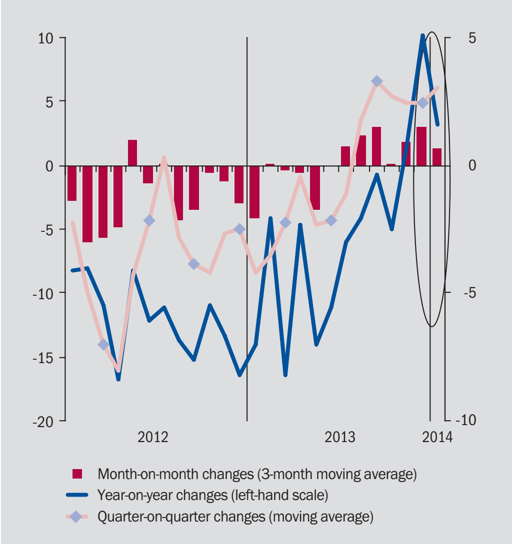
Source: SO SR, NBS calculations.

Chart 8 Industrial production – principal contributions to monthly rate of change (p.p.)



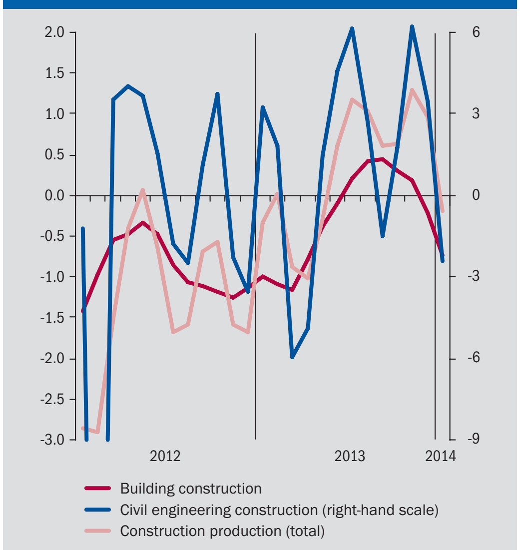
Source: SO SR, NBS calculations.

Chart 9 Construction production (%)



Source: SO SR, NBS calculations.

Chart 10 Construction production (monthly percentage changes; trend; constant prices)



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

Construction production fell 3.9% in January 2014 compared with the previous month, and its annual growth rate slowed to 3.2% year-on-year. There were decreases in both domestic production and domestic construction firms' activity abroad. Another cause of the month-on-month decline may have been the strong growth in December 2013. According to February business surveys, however, sentiment among construction firms is improving, particularly in their assessments of the overall situation and new orders.

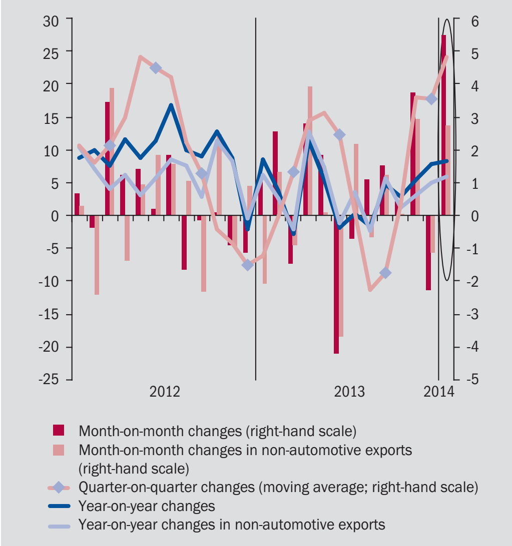
2.4 TRADE BALANCE

Exports grew significantly in January, not only in the automotive industry

Slovakia posted a trade surplus of €342.2 million in January 2014 (€363.9 million in January 2013). The 12-month cumulative trade surplus amounted to just under 6% of GDP. Exports and imports increased year-on-year by 8.3% and 9.9% respectively.

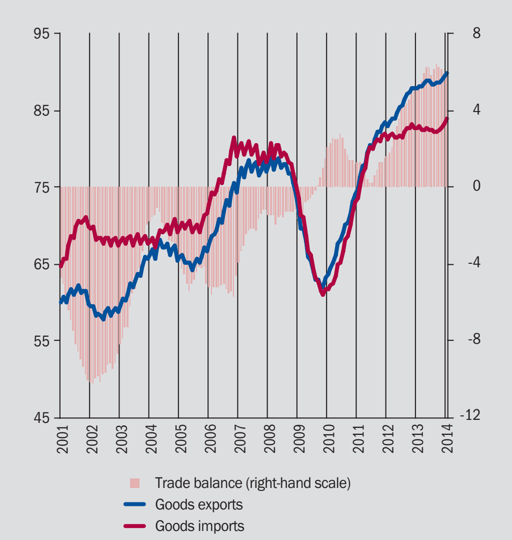
Nominal goods exports were 5.5% higher in January than in December, recording one of their highest monthly increases in the last three years. The main driver of export growth was the automotive industry, although other manufacturing segments also saw exports increase. This growth was partly a correction of the decline registered in December. Exports at constant prices are expected to have increased even further, since export producer prices fell again month-on-month, by a margin significantly exceeding usual decreases observed during the previous year.

Chart 12 Goods exports (%)



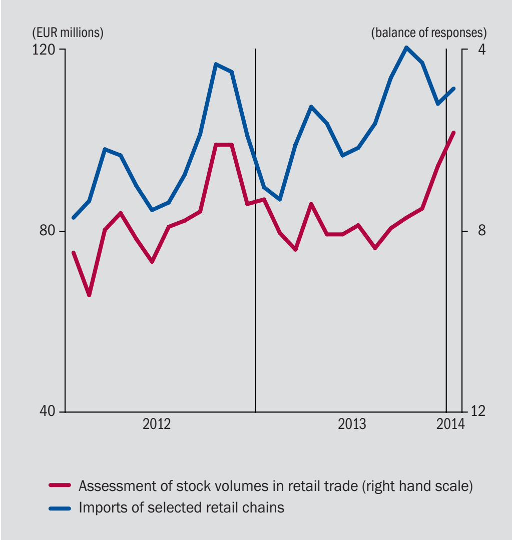
Source: NBS and SO SR.

Chart 11 Twelve-month cumulative trade balance (% of GDP)



Source: NBS and SO SR.

Chart 13 Amount of consumer goods imports and retailers' assessments of stock volumes



Source: SO SR, European Commission and NBS calculations.

The strong export growth had an upward effect on imports, which increased by 4.6% compared with the previous month. As is clear from preliminary import figures (to be further refined), import growth reflected not only the increasing requirements of exporters, but also the rise in imports for retail chains.

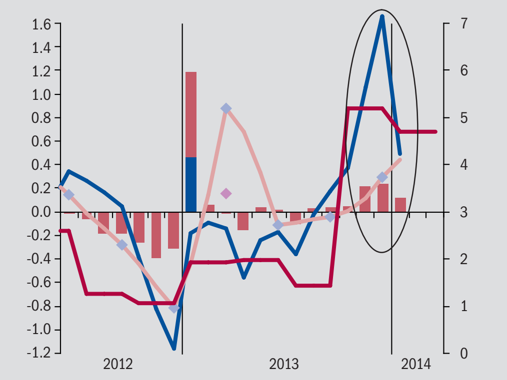
After consumer goods imports fell towards the end of last year, retail chains replenished their inventories of imported consumer goods. At the same time, retailers' assessments of their stock volumes improved (according to business surveys). Longer-term observations show that retailers' assessments of stock volumes usually improve in conjunction with rising imports of consumer goods, and vice versa. It therefore appears that trade remains prepared for a recovery in consumer demand, in accordance with the NBS forecast.

January's figures create an upside risk to the latest NBS forecast for foreign trade.

3 Labour market

Employment growth across the selected sectors stalled in January, after a promising upturn in previous months. Annual employment growth fell 1.2 percentage points, to 0.5%, although that drop is assumed to reflect the base effect of an increase in the number of employees at the beginning of 2013 (the effect of people switching from fixed-term contracts to standard employment contracts). Compared with the previous month, after seasonal adjustment, employment grew by a mere 0.1%. Employment in the sector of selected market services fell substantially (by almost 7,000 people, seasonally unadjusted, which is a very high figure regardless of the time of year); this decline may be a one-off result. Firms expectations for employment remain significantly more optimistic than they were a year ago, when the labour market situation was deteriorating. In industry, employment continues to record moderate year-on-year growth. Following a period of stagnation, employment in the IT and communication sector increased in both month-on-month and year-on-year terms. In the construction and trade sectors employment fell slightly in comparison with the previous month.

Chart 14 Rates of change in employment (%)



Source: SO SR, European Commission, 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). The indicator "shortage of labour force" is included in EC business surveys.

Given that annual employment growth in the selected sectors remains positive and that economic activity indicators are still improving, it may be expected that the recovery in employment that began at the end of last year will continue. Accordingly, the MTF-2014Q1 forecast envisages that quarter-on-quarter employment growth in the first quarter of 2014 will be similar to that in the last quarter of 2013.

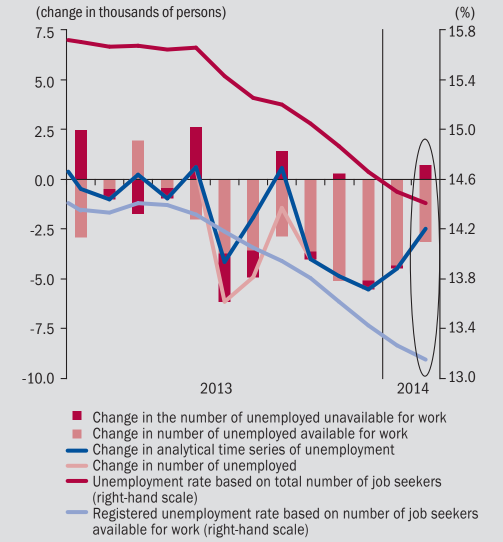
The employment growth expectations at the beginning of year are further supported by a decline in the number of unemployed. February's unemployment figures confirmed the labour market's favourable trajectory, with the registered unemployment rate falling by 0.12 percentage point, to 13.49%. The overall unemployment rate fell more moderately, by only 0.01 percentage point, since a proportion of job seekers were recategorised as unavailable for work (with reassignment to minor municipal services). Nevertheless, it is unusual for unemployment to fall in February since labour demand is lower during winter months. After seasonally adjustment, the overall unemployment rate decreased by 0.09 percentage point (approximately 2,500 people) and the registered unemployment rate by 0.12 percentage point. The number of people finding work remained relatively stable, similar to its level at the end of last year (when unemployment began to fall significantly).

The upturn in the labour mark accords with the improved unemployment outlook in the MTF-2014Q1 forecast.

Annual wage growth rebounded in January. Wage growth excluding the base effect[3] is far less volatile; nevertheless, there is an evident effect of its slowdown at the end of last year and subsequent correction in January. Positive month-on-month wage growth is being maintained in the sectors of manufacturing industry, sale of motor vehicles, and IT and

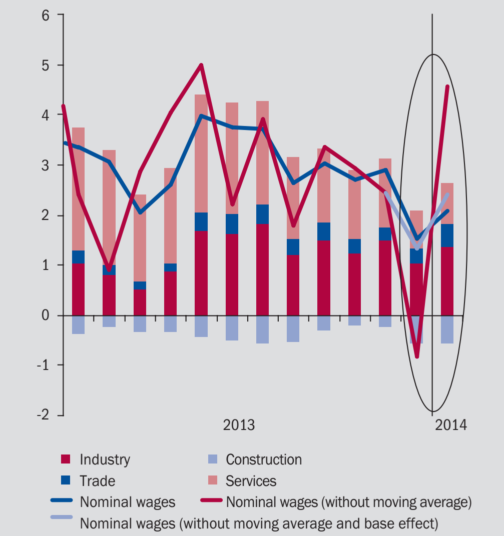
3 *For further details, see the NBS Monthly Bulletin for February 2014.*

Chart 15 Unemployment (%)



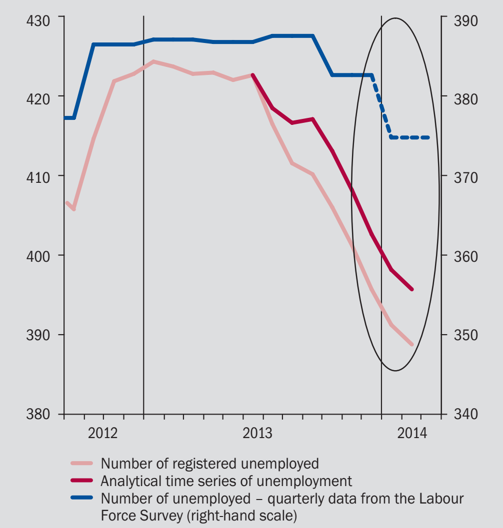
Source: Central Office of Labour Social Affairs and Family, NBS calculations.

Chart 17 Nominal wages – annual rate of change by sectoral contribution (3-month moving average, p. p.)



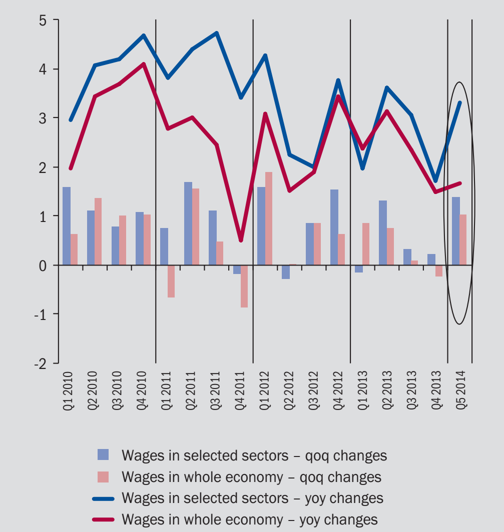
Source: SO SR, NBS calculations.

Chart 16 Number of unemployed (thousands of persons)



Source: Central Office of Labour Social Affairs and Family, NBS calculations.
Note: The number of unemployed for the first quarter of 2014 is the projection given in the MTF-2014Q1 forecast.

Chart 18 Wage developments in the economy (annual and quarter-on-quarter percentage changes)

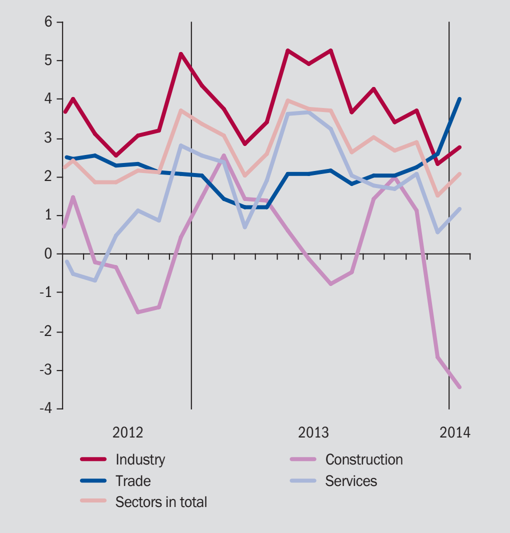


Source: SO SR.
Note: Wage growth in the selected sectors for Q1 2014 is calculated using the SO SR's monthly data and ARIMA modelling for February and March 2014. Wage growth in the economy as a whole for Q1 2014 is a projection from the MTF-2014Q1 forecast.

communication. In these three sectors, wage developments correspond approximately to an upturn in sales over recent months. Significant year-on-year wage growth is reported in industry, sale of motor vehicles, trade, transportation, and IT and communication.

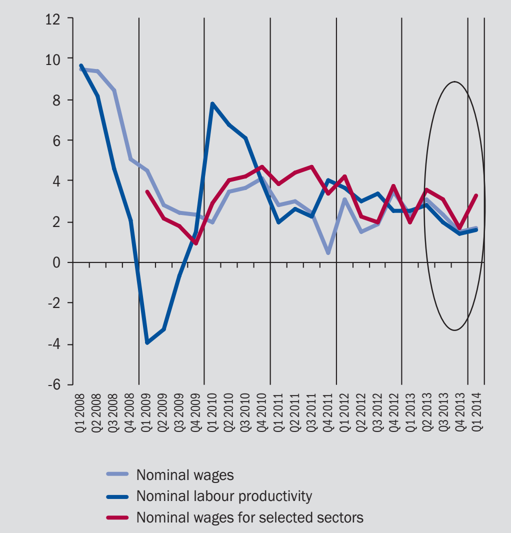
The MTF-2014Q1 forecast assumes that the correction in monthly wage indicators at the turn of the year will be reflected in the first-quarter figures for the private sector (wage growth of 0.8% in the first quarter after a decline of 0.4% in the fourth quarter of 2013).

Chart 19 Wage growth (annual percentage changes; 3-month moving average)



Source: SO SR.

Chart 20 Wage developments and nominal labour productivity (annual percentage changes)



Source: SO SR.
Note: The nominal wage growth and nominal labour productivity figures for Q1 2014 are the projections given in MTF-2014Q1. Nominal wage growth in the selected sectors is based on the quarterly average of the monthly wage indicator (using ARIMA modelling for February and March 2014).

4 Prices

Annual rate of change in the price level was -0.1%

Annual consumer price inflation turned negative in February 2014, as its downward trend continued. Compared with the previous month, prices fell by a moderate 0.1%. The annual HICP rate was almost 0.2 percentage point lower than projected, largely owing to the negative contribution of the food component.

The negative annual rate of change in the HICP for February was largely attributable to a slowdown in annual food price inflation. Given the passing of pre-Christmas sales and subsequent increase in prices in January, the month-on-month fall in prices in February probably reflected depreciation of the Czech koruna. There were decreases in prices of meat, oils, fats, flour-based products, and vegetables. In the component of non-energy industrial goods, prices of beer and other alcoholic beverages declined.

Services price inflation remained flat, at low levels in comparison with its long-run average. The assumed growth in real wages may have an upward effect on annual services price inflation, through stronger demand for personal care services and hotel and restaurant services. Prices of industrial goods are being affected by low import prices (and probably also by excess supply) materialising mainly in negative rates of change in prices of durable goods.

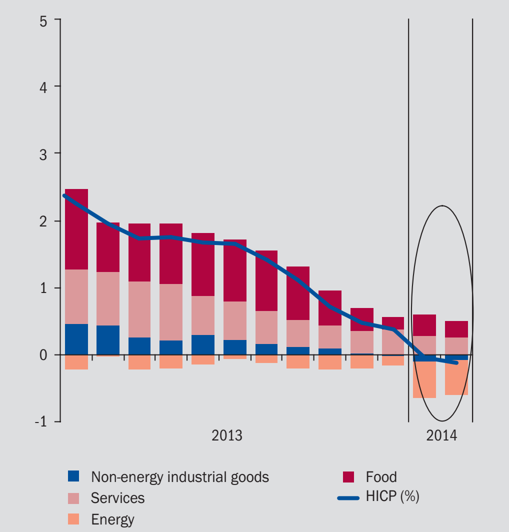
Over the next two years, the annual rate of change in the price level measured by the HICP is expected to fluctuate at below, but close to, 0%. The average annual inflation rate in 2014 is expected to reach very low levels. The risk of deflation in the second half of 2014 is significantly lower owing to the fading of the base effects of price decreases in the second half of 2013.

Table 1 HICP components – comparison of projected and actual rates of change (in percent unless otherwise stated)

			Non-energy industrial goods	Energy	Food	Services	HICP
Month-on-month change	A	February 2013 – actual figure	0.0	0.0	0.0	0.0	**0.0**
	B	February 2014 – forecast	-0.1	0.1	0.6	0.1	**0.1**
	C	**February 2014 – actual figure**	**-0.1**	**-0.1**	**-0.3**	**0.1**	**-0.1**
	BC	Direction of deviation, if any					lower increase
	BC	**Difference in contribution to month-on-month rate of change (p.p.)**	**-0.02**	**-0.02**	**-0.22**	**0.01**	**-0.23**
Year-on-year change	D	January 2014 – actual figure	-0.4	-3.2	1.3	0.9	**0.0**
	E	February 2014 – forecast	-0.2	-3.2	1.8	0.8	**0.1**
	F	**February 2014 – actual figure**	**-0.3**	**-3.3**	**1.0**	**0.9**	**-0.1**
	AC	Base effect	insignificant	insignificant	moderate	insignificant	**insignificant**
	DF	**Movement of prices compared with previous month**					**moderate slowdown**
	EF	Direction of deviation, if any					**slightly lower than projected**
	EF	**Difference in contribution to year-on-year rate of change (p.p.)**	**-0.02**	**-0.02**	**-0.21**	**0.01**	**-0.22**

Source: SO SR, NBS calculations.

Chart 21 Composition of annual inflation (p.p.)

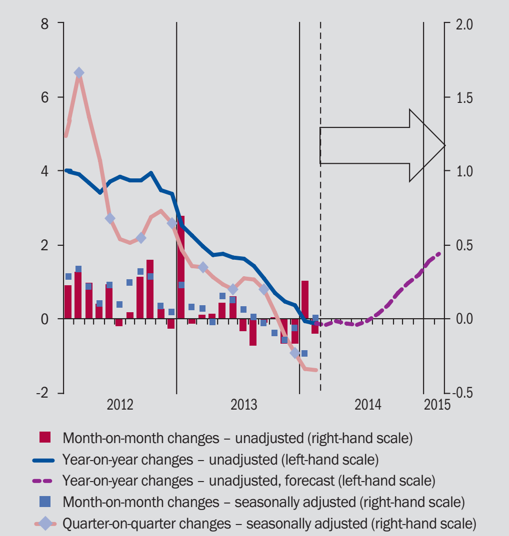


Source: SO SR, NBS calculations.

Chart 23 Selected inflation components (annual percentage changes)

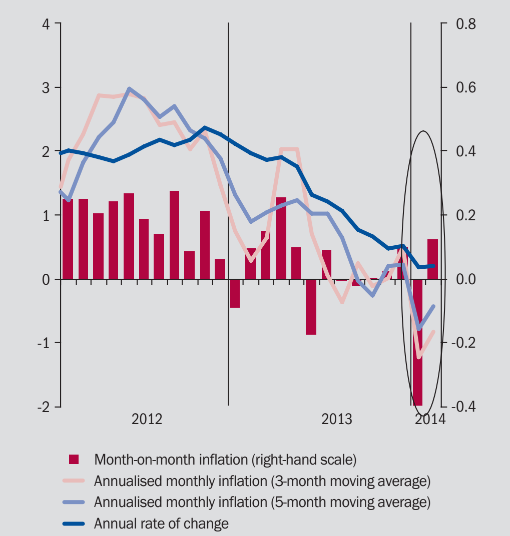
Source: SO SR, NBS calculations.
Note: Net inflation comprises non-administered prices of services and non-administered prices of non-energy industrial goods.

Chart 22 Headline inflation rate (%)



Source: SO SR, NBS calculations.

Chart 24 Annualised net inflation excluding fuel prices (percent; seasonally adjusted)

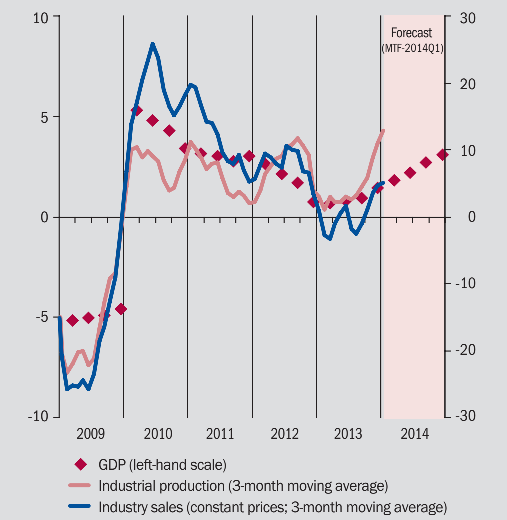


Source: SO SR, NBS calculations.
Note: Net inflation comprises non- administered prices of services and non-administered prices of non-energy industrial goods.

5 Qualitative impact on the forecast

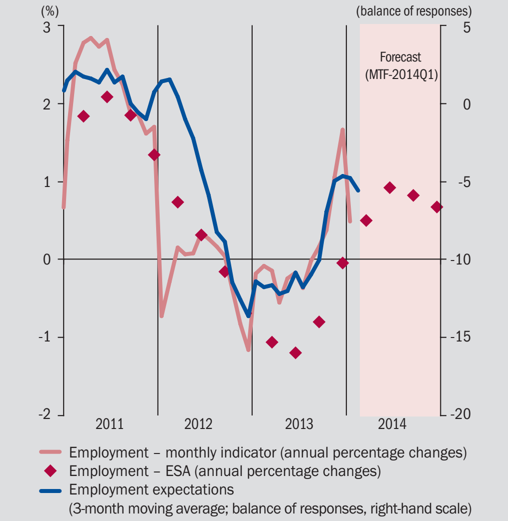
All the figures published in this bulletin have been incorporated into the latest NBS Medium-Term Forecast (MTF-2014Q1). The projection for economic growth in 2014 has been revised up marginally on the basis of positive export results and a moderately stronger pick-up in investment

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



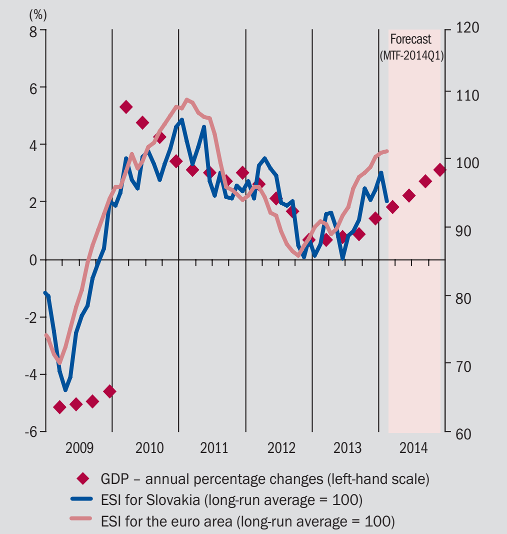
Source: SO SR and NBS.

Chart 27 Employers' expectations and the annual rate of change in employment



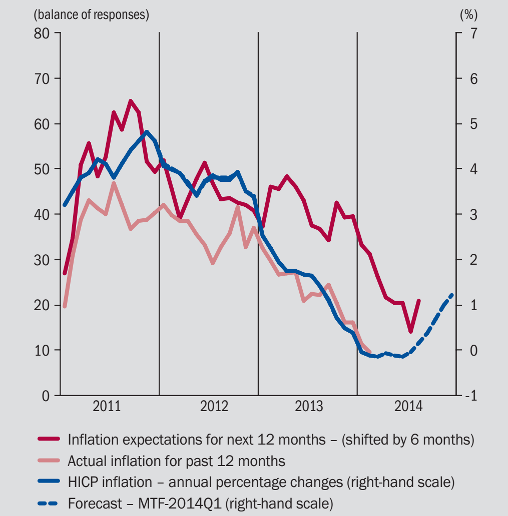
Source: SO SR, NBS and European Commission.
Note: The future figures are based on the quarter-on-quarter increases projected in the MTF–2014Q1 forecast.

Chart 26 GDP and the economic sentiment indicator



Source: SO SR, NBS and European Commission.

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



Source: SO SR, NBS and European Commission.

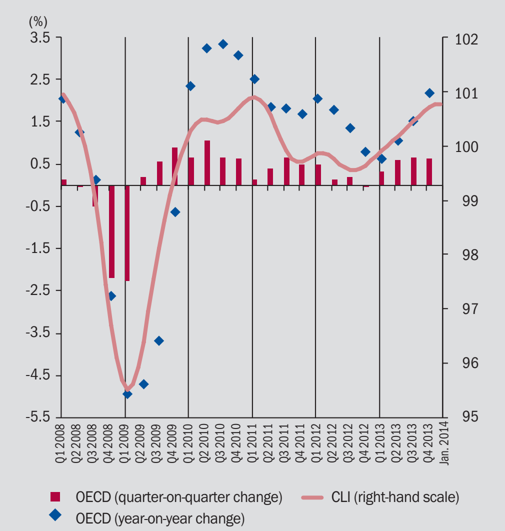
demand. Turning to the labour market, the outlook for employment in 2014 has brightened slightly and, accordingly, unemployment rate projections have been revised down. Wage growth was lower than expected in the last quarter of 2013 and corrected slightly in the first quarter of 2014; nevertheless, the wage growth forecast for 2014 has been lowered. The projections for inflation have again been revised down in response to current trends.

QUARTERLY REPORT ON THE INTERNATIONAL ECONOMY

THE GLOBAL ECONOMY

The global economy's gradual recovery continued in the fourth quarter of 2013, though growth rates remained heterogeneous across economic regions. While economic growth in advanced countries strengthened, emerging economies grew at a slower pace as a result of weak domestic demand, limited room for domestic support policies, and financial market tension. Overall, economic activity in OECD countries moderated to 0.6% in the fourth quarter, from 0.7% in the previous quarter. The annual rate of GDP growth accelerated to 2.2% as at the end of 2013, from 1.5% in the third quarter of 2013. Despite a slowdown, the US economy continued to grow relatively dynamically in the quarter under review. A similar trend was observed in the United Kingdom. The euro area economy profited from foreign demand towards the end of 2013. Economic growth in Japan slowed in the second half of 2013, as a result of a downturn in export performance. At the end of 2013 and the beginning of 2014, the Composite Leading Indicator (CLI)[4] of economic sentiment increased in almost all major OECD countries. In emerging economies, however, the CLI pointed to a slowdown or stagnation in the pace of economic growth.

Chart 29 GDP and CLI (annual and quarterly percentage changes)



Source: OECD.
Note: CLI – Composite Leading Indicator.

Consumer price inflation in OECD countries was more or less stable over the fourth quarter of 2013. It reached 1.6% in December, after hovering around 1.5% in September. In October, the inflation rate dropped temporarily to 1.3%, owing to a fall in energy prices and a slower rise in food prices. Although the deflationary trend in food prices continued in the following months, energy prices started to rise again, causing a dynamic increase in consumer prices. This trend also continued at the beginning of 2014, when the annual inflation rate rose to 1.7% in January. Core inflation was relatively stable over the last quarter of 2013. Except in October, when it fell to 1.5%, core inflation stood at 1.6% until January 2014.

The outlook for the global economy is surrounded by considerable uncertainty. The absence of adequate medium-term fiscal consolidation plans in the United States and Japan, which may increase the risk premium related to long-term interest rates, and the pursuit of less accommodative monetary policies in non-euro area countries represent risks that may have a dampening effect on the global economy in the medium term.

COMMODITIES

The Brent oil price fluctuated over the last quarter of 2013 between USD 103 and 113 per barrel. The average price stood at USD 109/barrel and was only slightly lower than in the previous quarter (USD 110/barrel). A sharper fall in oil prices in that period was prevented by the continuing oil supply disruptions in several OPEC countries (Iraq, Libya, and Nigeria). January 2014 saw a rise in oil prices, but this rise was corrected by the improved demand and supply conditions at the end of January and the beginning of February. This was followed by another rise, but then oil prices hovered around the level of USD 109/barrel until the end of February.

4 CLI indicators are published by OECD on a monthly basis – the latest available data, published in March 2014, are for January 2014.

Non-energy commodity prices were more or less stable in the last quarter of 2013. Compared with the previous quarter, food prices declined as a result a fall in meat and cooking oil prices. By contrast, the price of metals rose in that period, except in November, in response to the continuing revival in global economic activity in industry. The stable trend in non-energy commodity prices also continued at the beginning of 2014.

UNITED STATES

Economic growth in the United States moderated in the last quarter of 2013, but continued to show relatively strong dynamics. The annualised quarterly growth rate reached 2.4% in the fourth quarter, compared with 4.1% in the third quarter. In year-on-year terms, economic growth accelerated to 2.5% in the quarter under review, from 2.0% in the previous quarter.

The US economy recorded a slowdown at the year-end as a result of a decline in government consumption, as well as in investment, caused partly by the federal government's insolvency and partly by uncertainty surrounding the debt ceiling. The government sector thus reduced the pace of economic growth by roughly one percentage point. Gross private investment grew at a slower pace than in the previous quarter, with resident investment declining and non-resident investment growing less dynamically. Changes in inventories contributed to GDP growth only minimally. Investment in that period was probably affected to some extent by the extremely cold weather. At the same time, economic growth was stimulated by private consumption and net exports as a result of faster growth in exports and slower growth in imports.

In the last quarter of 2013, consumer price inflation in the United States rose from 1.2% in September to 1.5% in December, mainly as a result of energy price developments. While food price dynamics weakened and services prices were more or less stable, the year-on-year rate of decline in energy prices slowed gradually, into positive territory in December. This trend was also reflected in consumer prices in January 2014, when inflation rose to 1.6%. Core inflation remained stable over the fourth quarter, at the level of 1.7%, and then fell to 1.6% in January.

The US Federal Open Market Committee (FOMC) decided at its October meeting to leave its target range for the federal funds rate unchanged, at 0% to 0.25%. 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 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 the same time, the Committee decided to wait for clearer signals from the economy and the labour market, before modifying its asset purchase programme (quantitative easing). At its December meeting, the Committee reduced the monthly volume of asset purchases by USD 10 billion to USD 75 billion with effect from January 2014. At the January meeting, the said volume was reduced by another USD 10 billion with effect from February 2014. The FOMC announced at both meetings that a further reduction in the volume of asset purchases would depend on the assessment of economic developments. The Committee also strengthened its monetary policy stance from December 2012 by announcing its decision to leave the federal funds rate unchanged as long as the unemployment rate falls below 6.5%, mainly if the predicted inflation rate is below the FOMC's long-term target rate (2%).

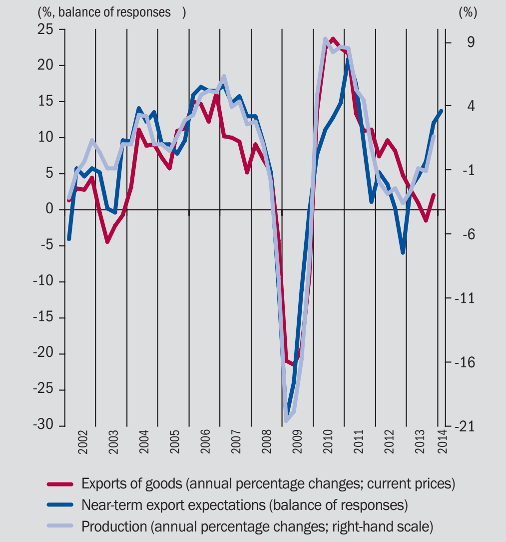
THE EURO AREA

The euro area economy continued to grow in the last quarter of 2013, for the third consecutive quarter. Compared with the previous quarter, the pace of economic growth accelerated from 0.1% to 0,3%. The economic recovery was driven mostly by foreign demand, but was also supported by growth in private consumption and investment demand. All the key euro area economies contributed positively to the recovery. The strongest growth was recorded in the Netherlands (0.7%) and Germany (0.4%). Economic growth, however, was also reported from France (0.3%), Spain (0.2%), and Italy (0.1%). Owing to the accelerating growth in the euro area economy, the year-on-year decline that had started in the first quarter of 2012 came to

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

Source: Eurostat.

Chart 32 Export expectations, exports of goods, and manufacturing production

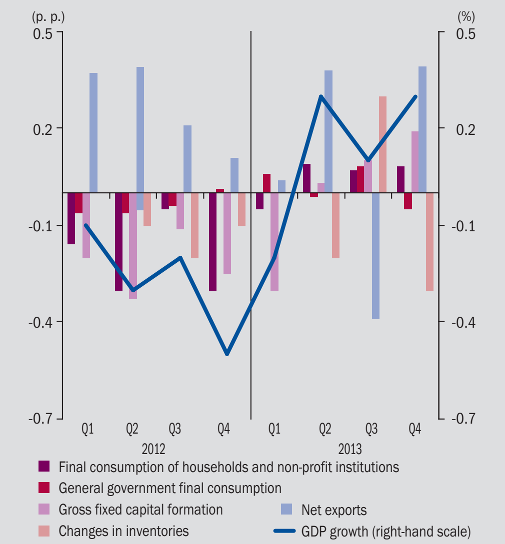


Source: European Commission, Eurostat and NBS calculations.

a halt in the quarter under review. GDP increased by 0.5% year-on-year, after falling in the third quarter of 2013 by 0.3%.

Euro area economic growth in the fourth quarter was driven primarily by export growth, which exceeded the growth in imports and the resulting net exports made a significant positive contribution to economic growth. Regarding the components of domestic demand, economic growth was stimulated for the third quarter in a row by consumer demand in the household sector and in particular by the growing investment demand. By contrast, general government consumption and changes in inventories had a dampening effect on economic growth.

Chart 31 Contributions to quarterly GDP growth by component

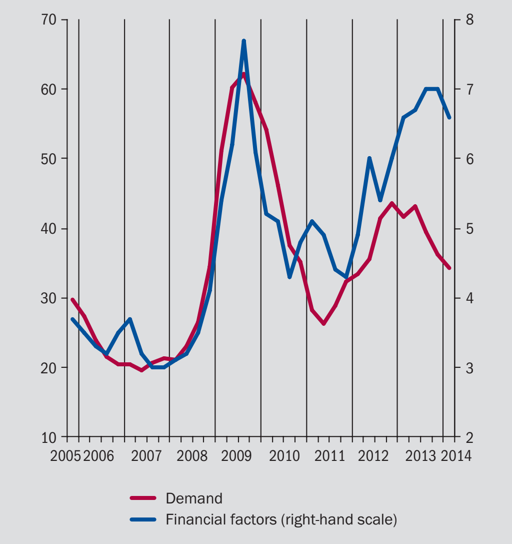


Source: Eurostat and NBS calculations.

On the supply side of the economy, value added increased by 0.4%. This increase took place mainly in industry, trade, construction, agriculture, and in the general government sector.

Manufacturing production, which is a key export sector, increased by 0.8% in the last quarter of 2013. The growing production in this sector corresponded to the strengthening export growth and thus met the positive export expectations. The strengthening quarter-on-quarter growth in manufacturing production led to an increase in its year-on-year dynamics, too. The growth in goods exports (at current prices) also strengthened in year-on-year terms. The weakening trend came to an end and the growth rate returned to positive territory in the last quarter of 2013. In the first quarter of 2014, the export expectations continued to improve. At the same time, the manufacturing sector's competitive position improved in the domestic

Chart 33 Production-limiting factors in industry (%)



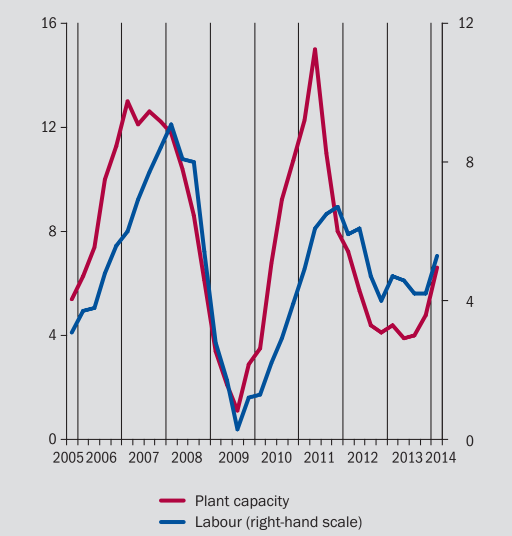
Source: European Commission.

market, as well as in euro area and non-euro area markets. The utilisation of production capacities improved, too.

Subdued demand in the economy continued to limit the scope for recovery in production, but its impact in the first quarter of 2014 was assessed to be weaker. It was weakening for the third quarter in a row. At the same time, the assessment of the extent to which financial factors are limiting production decreased in the first quarter of 2014, after increasing steadily since the first quarter of 2012. By contrast, the assessment of plant capacity and labour as production-limiting factors increased, in line with the increasing utilisation of production capacities. Although all indicators pointing to an improvement in the trends in industry have remained at low levels, they suggest that the economy is on the road to recovery.

The labour market still represents a relatively weak link in the economy. Although unemployment stopped rising in the summer of 2013 and recorded a slight fall in October, it is still at an all-time high. At the beginning of the last quarter of 2013, the unemployment rate fell slightly, by 0.1 percentage point, and remained at this level until February 2014. Thus, the weak labour market situation still represents a factor hampering the recovery of the euro area economy, in particular the recovery of consumer demand. The expectations of consumers regarding unemployment, however, improved considerably in the first two months of 2014, compared with the last quarter of 2013. At the same time, the improving trend in consumers'

Chart 34 Production-limiting factors in industry (%)

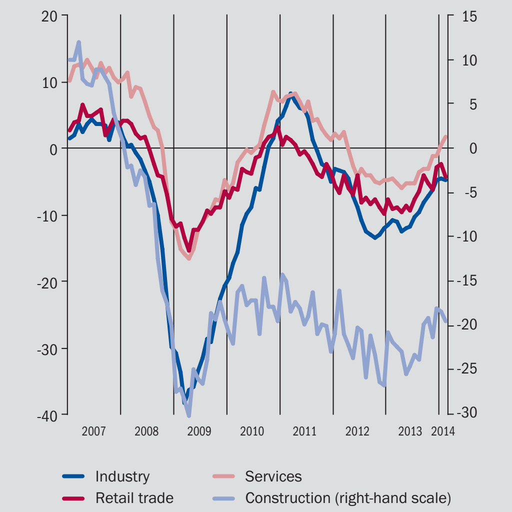


Source: European Commission.

Chart 35 The unemployment rate and consumers' expectations regarding the economic situation and unemployment in the next 12 months

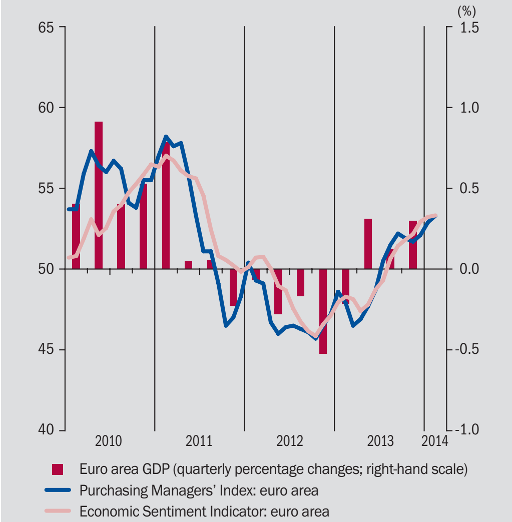
Source: European Commission and Eurostat.

Chart 36 Employment expectations by sector (balance of responses)



Source: European Commission.

Chart 37 Euro area forward-looking indicators and GDP growth

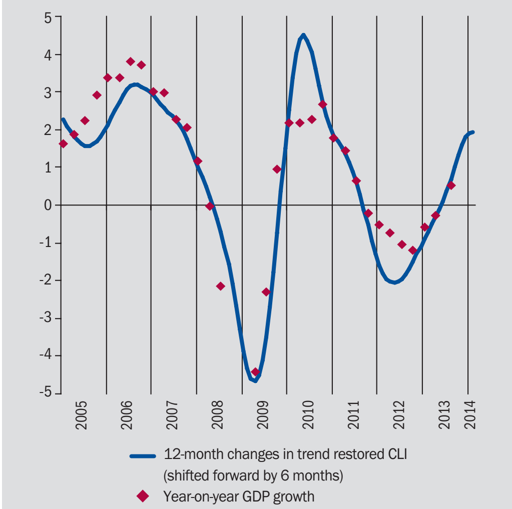


Source: European Commission, Eurostat, Bloomberg and NBS calculations.

expectations regarding the future economic situation continued. The expectations regarding employment continued to improve in the services sector and, at the turn of the year, in industry. The level of optimism continued to rise in all sectors.

The majority of forward-looking indicators suggest that the euro area economy will continue growing in the period ahead. The Economic Sentiment Indicator (ESI) increased in February for the tenth month in a row, reflecting strengthening confidence in services, industry, and retail trade. Consumer confidence weakened somewhat in February, after strengthening considerably for two months. Overall, the gradually rising optimism among consumers observed since the end of 2012 was not disrupted. Although there are signs of a modest increase in consumer demand, this recovery is still fragile. The OECD Composite Leading Indicator (CLI) still provides relatively positive signals for the euro area, suggesting that the economic recovery will continue. The Purchasing Managers' Index (PMI) for February also indicates an improvement: it rose to 53.3, representing its 32-month maximum. The PMI indicator for the German economy also points to a significant improvement. A modest improvement is also indicated by the German Ifo index, while the ZEW index has fallen slightly, but is still relatively high.

Chart 38 OECD Composite Leading Indicator (expectations) and annual GDP growth



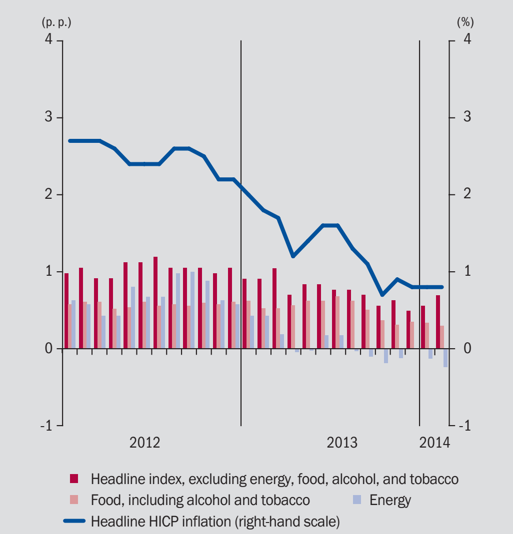
Source: OECD and Eurostat.

The relatively steep fall in HICP inflation since the summer of 2013 was influenced largely by developments in energy and food prices. The rise in non-energy industrial goods prices and services prices slowed, too. During the third quarter, the inflation rate fell from 1.1% in September to 0.8% in December. It also remained at an all-time low in the first two months of 2014. The dampening effect of energy prices on headline inflation weakened gradually over the last quarter of 2013, but then strengthened again in the first months of 2014. Food prices contributed less to inflation in the last quarter of 2013 than they did in the previous quarter, and their rise moderated again at the beginning of 2014. By contrast, industrial goods and services prices rose somewhat faster at the beginning of 2014, after moderating in the fourth quarter of 2013.

The energy price inflation continued to reflect the year-on-year dynamics of oil prices in the world markets. After a temporary slowdown in the last two months of 2013, the year-on-year decline in oil prices continued to deepen at the beginning of 2014. This decline was also reflected in the level of energy prices. The decline in food commodity prices moderated over the third quarter. As a result, the slowdown in the rate of increase in food producer prices and in food prices within the consumer basket came to an end.

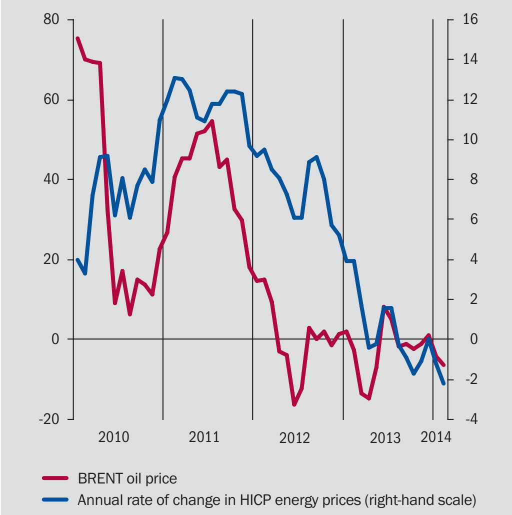
Consumer price inflation, excluding energy, food, alcohol, and tobacco prices (the components most sensitive to demand-side developments) continued to fall in the fourth quarter, from 1.0% to 0.7% in December. In the first two months of

Chart 39 Annual headline HICP inflation and contributions of selected components



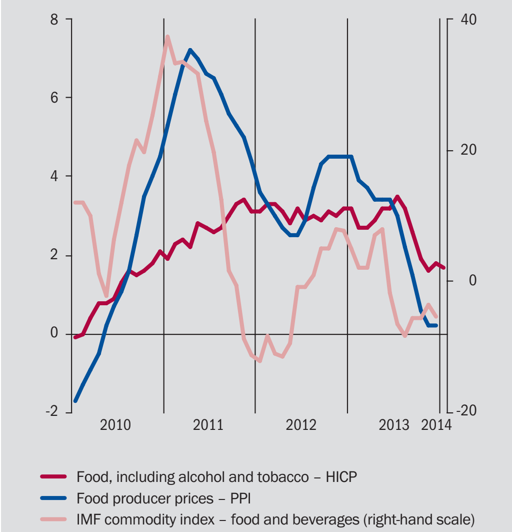
Source: Eurostat and NBS calculations.

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



Source: Eurostat and EIA.

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



Source: Eurostat and IMF.

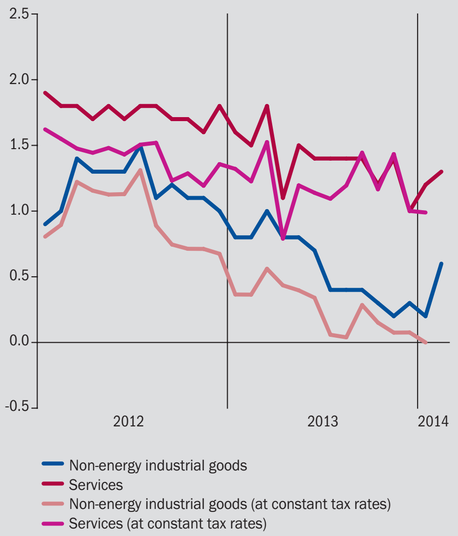
2014, however, the inflation rate returned to its September level (1.0%).

Depressed demand and increased competition continued to affect developments in consumer prices. The dynamics of services prices and industrial goods prices were more or less weakening over the fourth quarter. Services prices were more volatile: after a temporary rise in November, they continued to moderate. The most significant contribution to the slowdown in services prices came from the slackening price rise in education, recreation (package tours), hotels and restaurants, and in transport, especially in air transport. Price inflation in the services sector slowed most significantly in countries whose public finances or banking sectors[5] were hit by the crisis and where the rise in services prices fell below its long-term average, to approximately 0.3%[6]. Markedly dampened price developments were also recorded in non-energy industrial goods prices. The rise in these prices moderated still further as a result of developments in clothing and footwear prices. In January 2014, the increase in services prices accelerated. This acceleration was influenced by an increase in indirect tax rates in France. In February, services price inflation continued to rise, along with the rise in non-energy industrial goods prices. This development was probably not affected by the change in indirect tax rates.

Inflation expectations continued to reflect the environment of subdued demand and relatively strong competition. In February, selling price expectations weakened in industry and in retail trade. The price expectations of consumers, who tend to react rather sensitively to changes in the prices of frequently purchased items, deteriorated, too. Inflation in this segment fell most significantly from August to October. By contrast, selling price expectations increased somewhat for the fourth quarter in a row, but remained at very low levels.

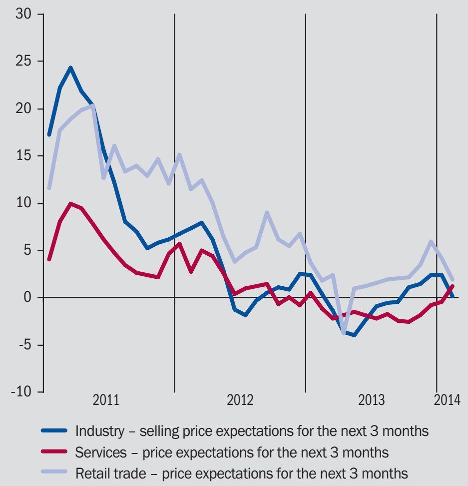
At its monetary-policy meetings held in the fourth quarter, the Governing Council of the European Central Bank (ECB) decided to lower its

Chart 42 Goods and services prices (annual percentage changes)



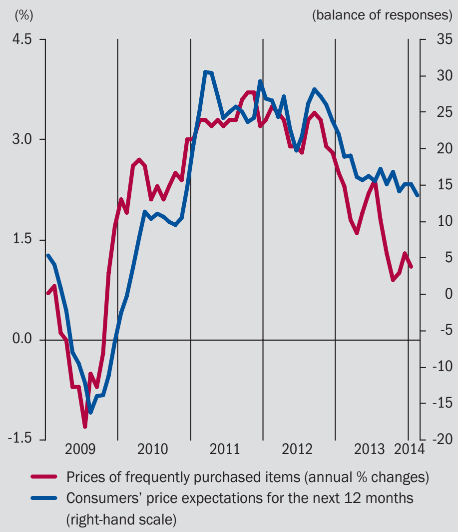
Source: Eurostat.

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



Source: European Commission and Eurostat.

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



Source: European Commission and Eurostat.

5 *Greece, Ireland, Spain, Portugal, Italy, Cyprus, and Slovenia.*
6 *NBS calculations.*

key interest rates on one occasion – in November. With effect from 13 November 2013, the interest rate on the main refinancing operations of the Eurosystem was reduced by 25 basis points to 0.25%, the interest rate on the marginal lending facility was cut by 25 basis points to 0.75%, and the interest rate on the deposit facility was kept unchanged at 0.00%. At its following meetings (until March 2014), the Governing Council kept the key ECB interest rates unchanged.

After its first meeting in November, the Governing Council of the ECB announced that its monetary-policy stance would remain accommodative for as long as necessary, in line with the forward guidance issued in July. The Governing Council confirmed that the key ECB interest rates would remain at the current or lower levels for an extended period of time. After the first meeting in March, the Governing Council announced that, a medium-term price and economic growth forecast and an analysis of other available information had confirmed its decision to pursue an accommodative monetary policy for as long as necessary. Such monetary policy is expected to facilitate the recovery of the euro area economy. The Governing Council unanimously confirmed its decision to continue signalling its monetary-policy stance in the future. Interest rates will remain at the current or lower level, for a longer period of time. This expectation is based on the medium-term inflation forecast, reflecting the dampened economic activity, high level of unused capacity, and subdued loan dynamics.

At its monetary-policy meeting in November, the Governing Council decided to continue conducting the Eurosystem's 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 reserve 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, the Governing Council decided to conduct the three-month longer-term refinancing operations (LTROs) to be allotted at 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.

In January the Governing Council of the European Central Bank, in cooperation with the Bank of England, the Bank of Japan, and the Swiss National Bank, decided that, in view of the considerable improvement in the US dollar funding conditions, the ECB would cease to conduct three-month US dollar liquidity-providing operations as of April 2014. One-week US dollar liquidity-providing operations will continue to be conducted at least until 31 July 2014.

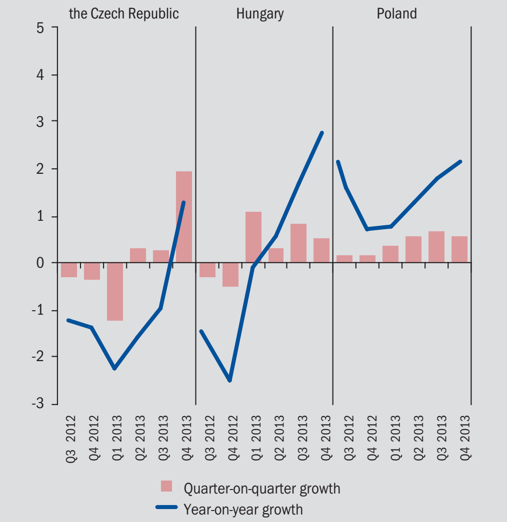
On 1 January 2014, the euro was successfully introduced in Latvia. The number of European Union (EU) Member States using the single European currency has therefore increased to eighteen. Following the adoption of the euro in Latvia, Latvijas Banka, the national central bank of Latvia, became a member of the Eurosystem, the central banking system of the euro area, which comprises the ECB and, as of 1 January 2014, the 18 national central banks of the EU Member States that have adopted the euro.

DEVELOPMENTS IN THE CZECH REPUBLIC, HUNGARY, AND POLAND

In the last quarter of 2013, all three countries under review recorded better economic performance in year-on-year terms: the Czech economy grew by 1.3% (after declining by 1.0% in the previous quarter), the Hungarian economy expanded by 2.7% (accelerating by 1.0 percentage point compared with the previous quarter), and the Polish economy grew by 2.2% (accelerating by 0.4 percentage point).

Accelerated growth in quarter-on-quarter terms was recorded only in the Czech economy, which grew by 1.9% in the fourth quarter, i.e. 1.6 percentage points faster than in the third quarter (due largely to one-off factors). By contrast, the Hungarian and Polish economies recorded a slight slowdown: Hungary reached a growth rate of 0.5% (a slowdown of 0.3 percentage point) and Poland 0.6% (a slowdown of 0.1 percentage

Chart 45 GDP growth (%)

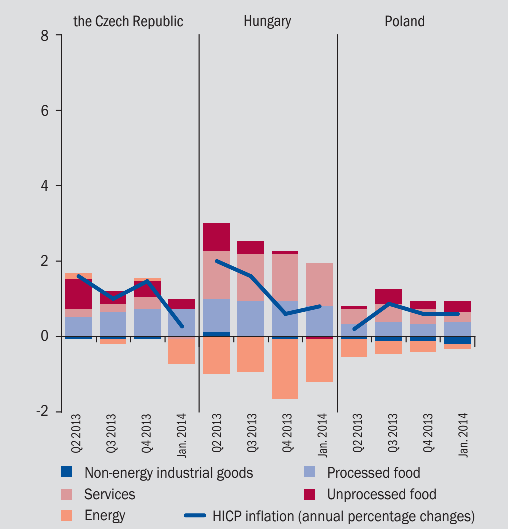


Source: Eurostat.

point). GDP growth in **the Czech Republic** was strongly influenced by the uneven excise tax collection on tobacco products in connection with the stocking up with tobacco products as a result of the excise tax increase with effect from the beginning of 2014. Another pro-growth factor was investment demand, which may be associated with investment in transport vehicles (cars) as a result of the Czech central bank's decision to use the exchange rate (depreciation) as a monetary-policy tool. Net exports also had a pro-growth effect, mainly as a result of faster growth in exports than in imports. A positive trend was also observed in household final consumption. This, however, was also connected with the weakening of the Czech koruna. The moderate slowdown in GDP growth in **Poland** was caused probably by a marked decrease in inventories. Investment also showed weaker dynamics. On the other hand, final consumption in the household and general government sectors had a pro-growth effect. Another pro-growth factor was net exports, resulting from a marked slowdown in import growth, compared with the growth in exports. GDP data for **Hungary** were not available at the time when the present quarterly report was compiled.

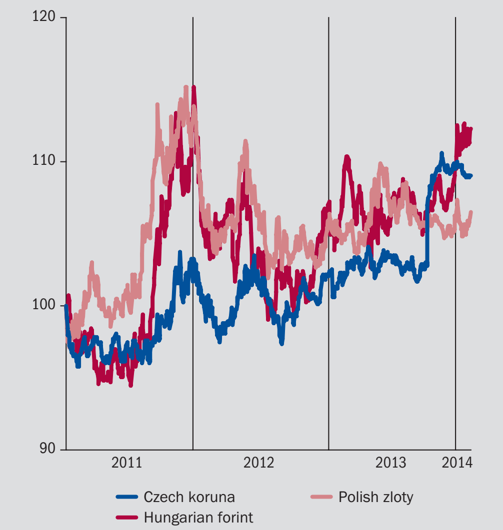
In quarter-on-quarter terms, the 12-month rate of consumer price inflation slowed in the quarter under review in Hungary and Poland, while accelerating in the Czech Republic. Inflation in the Czech Republic accelerated by 0.5 percentage point, to 1.5%. This acceleration was caused mainly by energy prices, which recorded a steep increase (after a fall in the previous quarter). The overall price increase was also supported by processed food prices and services prices. The decline in non-energy industrial goods prices moderated somewhat. In January 2014, however, the Czech Republic's inflation rate slowed considerably. In Hungary, the rise in consumer prices slowed by 1.0 percentage point, to 0.6% as at the end of the quarter. This slowdown can be ascribed mostly to the deepening decline in energy prices (by 3 percentage points), as well as to a fall in non-energy industrial goods prices. The dynamics of unprocessed food prices weakened considerably; those of food prices weakened to a lesser extent. The only item to record a faster increase was services prices. Consumer prices in Hungary increased in January at somewhat faster pace. Poland's headline inflation rate slowed by 0.3 percentage point, to 0.6% as at the end of the fourth quarter. This was caused mainly by unprocessed food prices, whose dynamics weakened by as much as 2.2 percentage points, and by services prices. The decline in energy prices and non-energy industrial goods prices moderated. Poland's consumer price inflation in January remained unchanged.

Chart 46 Contributions to HICP inflation (percentage points)



Source: Eurostat and NBS calculations.

Chart 47 Exchange rate indices of the V4 currencies vis-à-vis the euro (3 Jan. 2011 = 100)



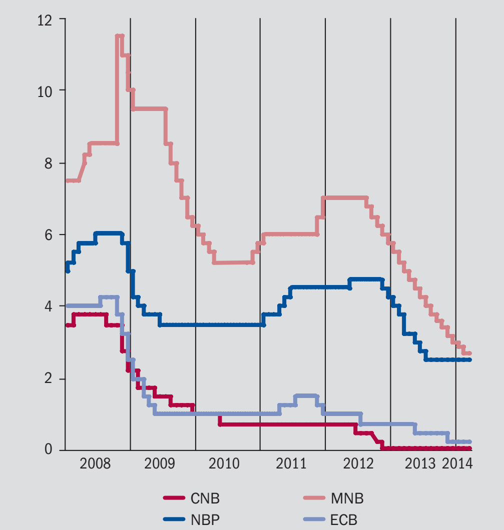
Source: Eurostat and NBS calculations.
Note: A fall in value denotes appreciation.

In the last quarter of 2013, the Polish zloty appreciated somewhat in comparison with the previous quarter. The Hungarian forint first appreciated, then depreciated in that period. By contrast, the Czech koruna weakened in the fourth quarter as a result of the central bank's decision to make foreign exchange interventions in order to maintain the eased monetary-policy conditions. In that period, the exchange rates of the Hungarian forint and Polish zloty fluctuated in an environment of relatively calm financial markets (after the US federal government's shutdown had ended and concerns about the possible suspension of qualitative easing by the Fed had dissipated) and relatively positive information from forward-looking indicators on the gradual recovery of the euro area economy.

The Czech koruna fluctuated slightly above the level of CZK 25.50/EUR in the period from October to 7 November 2013, when the Czech central bank, Česká národní banka (CNB), decided to intervene in the foreign exchange markets, causing the koruna to depreciate to CZK 27/EUR. The main reason for intervention was that the interest rate tool for reaching the medium-term inflation target had been exhausted. Furthermore, the CNB confirmed that, unless the economic conditions change substantially, this approach will be used at least until the beginning of 2015. Over the quarter under review, the Hungarian forint was favourably influenced by financial market sentiment, but a depreciating effect on its exchange rate vis-à-vis the euro was exerted by the expectation and implementation of another cycle of monetary policy easing by the Hungarian central bank. The exchange rate was also affected positively by macrodata for the third quarter (mainly GDP). The exchange rate of the Polish zloty against the euro continued to strengthen gradually in the fourth quarter, mainly as a result of positive economic information and expectations of a marked upturn in economic activity in the period ahead. Another positive factor was the confirmation of the Polish central bank's commitment to maintain low interest rates at least until the middle of 2014.

In the fourth quarter of 2013, the only central bank within the group of countries under review to use its base rate to change the monetary-policy conditions was the Hungarian central bank. In the Czech Republic, the base rate remained unchanged, at 0.05% ('technical zero'), but the Czech national bank decided in November to use the exchange rate as a monetary-policy tool and approved foreign-exchange interventions for the maintenance of price stability in the Czech economy in line with the inflation target. The CNB undertook to

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



Source: National central banks and ECB.

prevent the exchange rate from strengthening to a level below CZK 27/EUR. In the fourth quarter Magyar Nemzeti Bank (MNB) cut its base rate by 0.20 percentage point on three occasions, down to 3.00% as at the end of 2013. MNB justified this decision with the fact that, despite an upturn in economic activity, there were still free capacities in the economy and the inflationary pressure remained weak over the medium-term horizon. According to MNB, this monetary policy stance may, in the current situation, help to achieve the medium-term inflation target by maintaining eased monetary conditions. In view of the risks involved in the Hungarian economy, however, it is necessary to maintain a prudential approach to the further course of monetary policy easing. The Hungarian central bank continued to lower its base rate in January and February 2014, down to 2.70%. Narodowy Bank Polski (NBP) kept its base rate unchanged in the fourth quarter, at 2.50%, since it assumed that this rate was low enough to support economic recovery and to limit the risk of inflation running above the central bank's medium-term target. The NBP also confirmed its commitment to maintain the base rate at this level at least until the middle of 2014.

Quarterly report on the real economy

THE REAL ECONOMY IN THE FOURTH QUARTER OF 2013

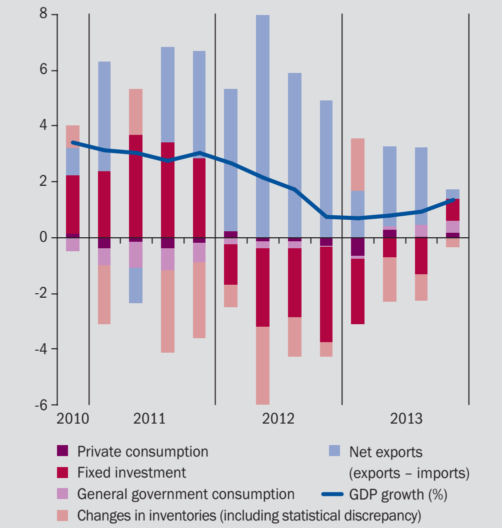
GROSS DOMESTIC PRODUCT

The Slovak economy grew in the fourth quarter of 2013 by 0.4% compared with the previous quarter, representing a slight acceleration after stable growth in the first three quarters (by 0.3%). Gross domestic product was 1.5% higher than in the same period a year earlier.

A qualitative change in economic growth in the fourth quarter was a positive contribution from domestic demand. On the expenditure side, economic growth in the fourth quarter was generated mostly by fixed investment and was also supported by net exports.

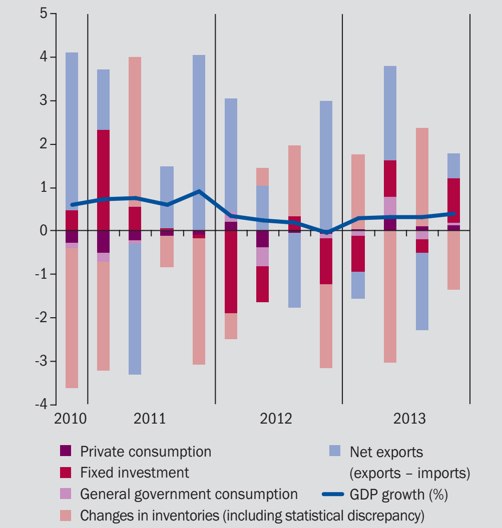
Excluding the contribution of export markets and the effect of statistical discrepancy, GDP increased by 0.2% quarter-on-quarter, compared with the statistically recorded 0.4%.

Chart 49 Contributions to annual GDP growth (percentage points)



Source: SO SR.

Chart 50 Contributions to quarterly GDP growth (percentage points)



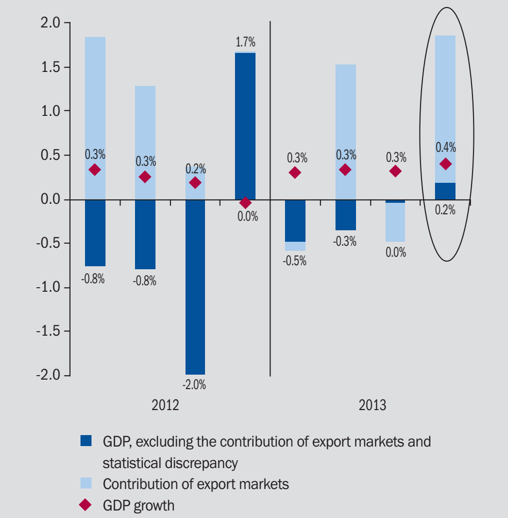
Source: SO SR.

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

	2012					2013				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Gross domestic product	**0.3**	**0.3**	**0.2**	**0.0**	**1.8**	**0.3**	**0.3**	**0.3**	**0.4**	**0.9**
Final consumption	0.3	-0.6	0.0	-0.1	**-0.4**	0.0	0.5	0.2	0.2	**0.3**
Households and NPISHs	0.4	-0.8	0.0	-0.2	**-0.2**	-0.2	0.9	-0.4	0.1	**-0.1**
General government	1.1	-1.5	0.0	0.1	**-1.1**	0.7	0.2	1.4	0.3	**1.4**
Gross fixed capital formation	-7.9	-3.7	1.6	-4.9	**-10.5**	-4.1	4.4	-1.4	5.2	**-4.3**
Exports of goods and services	5.0	3.3	0.9	0.0	**9.9**	-0.3	3.9	-1.1	4.1	**4.5**
Imports of goods and services	2.4	2.6	3.1	-3.4	**3.3**	0.4	1.9	0.8	4.1	**2.9**

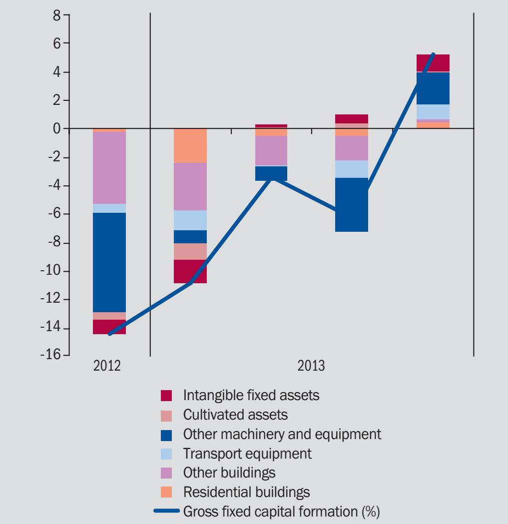
Source: SO SR.

Chart 51 GDP, excluding the contribution of export markets and statistical discrepancy (%)



Source: SO SR and NBS calculations.

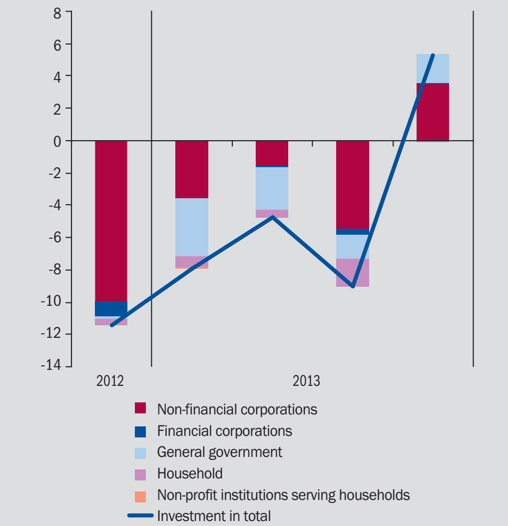
Chart 52 Year-on-year changes in fixed capital by contributions of selected products (percentage points; seasonally adjusted, in real terms)



Source: SO SR.

The most significant contribution to economic growth in the fourth quarter came from the recovering domestic demand. It was generated almost entirely by fixed investment, which grew by 5.2% quarter on quarter. Although the annual growth in total investment remained in negative territory in the last quarter, it was fairly significant in comparison with the previous 2.5-year period of subdued investment demand, when periods of sharp decline comparable with the crisis years alternated with periods of uncertain growth. There was an upturn in investment activity in the last quarter of 2013, following a downturn in the third quarter. This, however, was not only a correction of the investment decline from the previous quarter, in terms of volume or structure. The sources of investment financing were probably the postponed investment projects and the gradually recovering profits in the previous quarter. In the area of foreign resources, the decline in long-term lending to non-financial corporations came to a halt. The need to restore underfunded investments led to growth in investment in all sectors (mostly in non-financial corporations and in the general government), and in all categories (mostly other than transport equipment and intangible fixed assets). Investment demand was satisfied partly from domestic demand, as in the construction sector, and partly from imports.

Chart 53 Year-on-year changes in fixed capital by contributions of selected sectors (percentage points; in nominal terms)



Source: SO SR.

Apart from fixed investment, household final consumption also contributed somewhat to the recovery of domestic demand. Its growth (by 0.1%) was negligible in comparison with the growth in fixed investment, but a positive aspect of this development was that household consumption stopped declining. This was due to

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

	2012					2013				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Gross output	4.9	2.7	2.1	0.1	**2.4**	-3.7	0.0	0.9	3.1	**0.1**
Intermediate consumption	5.6	2.5	1.9	-1.2	**2.1**	-5.9	-0.2	1.5	4.1	**-0.1**
Value added	3.7	3.2	2.3	2.2	**2.8**	0.2	0.4	-0.1	1.5	**0.5**
Net taxes on products[1)]	-7.8	-5.6	-2.8	-14.2	**-7.9**	3.8	4.9	11.4	2.3	**5.6**
Gross domestic product	**2.7**	**2.3**	**1.9**	**0.4**	1.8	**0.5**	**0.8**	**0.9**	**1.5**	0.9

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

the slow price increase, falling unemployment, and strengthening consumer confidence.

The total contribution of domestic demand to GDP growth in quarter-on-quarter terms (1.1 percentage points) was almost twice as high as the contribution of net exports (0.6 percentage point). The external sector contributed to the quarter-on-quarter rate of economic growth as a result of a marked increase in exports (+4.1%), following a decrease in the third quarter. Imports recorded an increase as a result of an upturn in investment demand, accompanied by growth in export-oriented production.

The low-inflation environment in the consumer market and the current decline in export, import, and producer prices pushed down the GDP deflator to a level close to zero.

On the production side, GDP growth at constant prices was generated mostly by value added (almost 90%), the remaining 10% came from net taxes on products.

WAGES AND LABOUR PRODUCTIVITY

After a relatively unfavourable trend lasting for more than a year, the labour market situation started to improve gradually. Employment increased in the fourth quarter, causing the unemployment rate to fall. Labour offices also recorded a decrease in the number of registered unemployed. An increase was recorded in the number of employees, as well as in the number of self-employed persons. A surprising result was a decrease in the number of hours worked. There was, however, certain room for an increase in this area. The increased demand for work was not reflected in the wages of employees. Both nominal wages and compensation per employee showed slower dynamics in year-on-year terms. The growth in compensation and wages in real terms was broadly in line with labour productivity growth. Hence, the situation did not give rise to strong inflationary pressure. The savings rate was lower in both quarter-on-quarter and year-on-year terms.

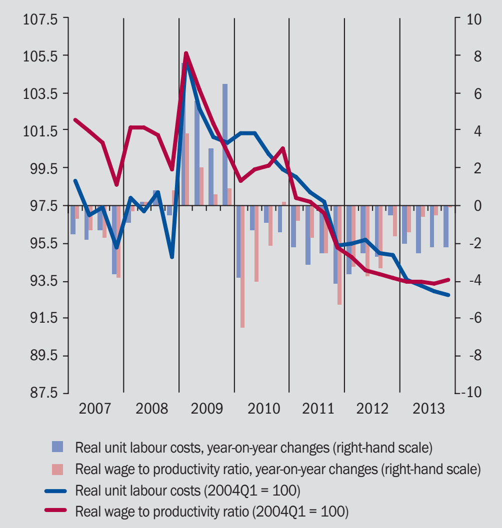
In the last quarter of 2013, the average monthly nominal wage in the Slovak economy increased by 1.4% year-on-year, representing a slowdown of one percentage point compared with the previous quarter. A slowdown was recorded in both the private and public sectors (mainly in public administration, defence, and compulsory social insurance). In quarter-on-quarter terms, the seasonally adjusted rate of wage growth decreased slightly (by 0.2%), after increasing gradually in the previous quarter. Real wages increased by 0.9% year-on-year, but the shift of remuneration from agreements to employment contracts accounted for approximately one percentage point of this increase, so employees did not receive higher wages in real terms.

A quarter-on-quarter wage decline was recorded in accommodation services and construction in particular. In the former case, this was due probably to stagnation at the start of the winter season, while a negative factor in the latter case was unpaid wages in certain companies. Apart from this factor, the sluggish nominal wage growth was caused partly by a slowdown in labour productivity growth in nominal terms (mainly as a result of slow price inflation) and partly by a modest slowdown in the public sector (except in education where wages grew relatively dynamically) and in health care. In addition, wage growth slowed on a year-on-year basis in industry and in IT and communication.

The year-on-year rate of growth in employee compensation, as in wages, slowed from 0.7% to zero. This figure was slightly undervalued because of two factors, i.e. the effect of a steep increase in the number of employees in the third quarter (a legislative effect, offset by a decrease in the number of self-employed persons) and the surprising zero growth in social contributions paid by employers (including tax payments that markedly increased in 2013 according to the statistics of the Minister of Finance). In quarter-on-quarter terms, an increase of 0.2% was recorded. The year-on-year rate growth slowed in the majority of sectors. The only exceptions were professional and support service activities and real estate activities. The rate of compensation growth was slow in most of the sectors, at the level of zero, or was decelerating gradually. An exception was a steep increase in professional and support service activities. Real compensation per employee fell by 0.8% year-on-year.

Labour productivity growth, as defined in the ESA 95 methodology, reached 1.5% year-on-year, which represented a modest slowdown compared with the previous quarter. In quarter-on-quarter terms, productivity grew only slowly (by 0.1%), which was associated with the moderate GDP growth and the revival in employment. Real wages, as well as compensation per employee, showed quarter-on-quarter dynamics around zero. Thus, unit labour costs continued to stabilise in real terms. In relation to GDP, both compensation and profitability were relatively stable in the period under review, which created conditions for balanced development in terms of price pressures.

Chart 54 Real labour productivity and real labour costs (index: 2004Q1 = 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.

HOUSEHOLD INCOME AND EXPENDITURE

The current income of households increased by 1.1% year-on-year, to €16.4 billion in the fourth quarter of 2013. Compared with the third quarter, the annual growth rate slowed by 0.6 percentage point. The slowdown was caused mainly by the weakening dynamics of wages and salaries, gross mixed income, and, in smaller measure, by the deepening negative dynamics of property income. By contrast, the growth in social benefits accelerated to a significant extent.

Current household expenditure (expenses paid to other sectors and not used for direct consumption) increased by 0.7% year-on-year, to €4.3 billion. Compared with the previous quarter, the growth rate slowed by 0.3 percentage point. The slowdown was caused by the deepening decline in income and property taxes, accompanied by a slowdown in social contributions paid. Current expenditure growth was generated by accelerated growth in property income paid.

The gross disposable income of households (current income less current expenditure) amounted to €12.2 billion, representing a year-on-year increase of 1.2%. Gross savings declined by 2.5% year-on-year, which represented a slowdown of 4.4 percentage points in the rate of decline compared with the previous quarter. Adjustments in pension fund reserves decreased in year-on-year terms as a result of reduced contributions paid to Pillar II of the pension scheme over the past year. This decrease continued in the last quarter of 2013, though it was moderated by a base effect. The slightly positive dynamics of household final consumption remained unchanged in the fourth quarter, despite a slowdown in the rate of gross disposable income growth. In year-on-year terms, final consumption increased, while income remained virtually unchanged. As a result of this development, the seasonally adjusted savings ratio decreased in both year-on-year and quarter-on-quarter terms.

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

Item	EUR billion		Annual rate of change (%)		Percentage share	
	2012 Q4	2013 Q4	2012 Q4 / 2011 Q4	2013 Q4 / 2012 Q4	2012 Q4	2013 Q4
Employee compensation (all sectors)	7.7	7.7	3.5	0.7	47.1	46.9
of which: Gross wages and salaries	6.1	6.1	4.5	0.2	37.3	37.0
Gross mixed income	5.0	5.0	2.2	0.2	30.9	30.6
Property income – received	0.4	0.4	-13.5	-5.4	2.4	2.2
Social benefits	2.7	2.8	6.6	4.1	16.4	16.9
Other current transfers – received	0.5	0.5	-9.3	3.8	3.2	3.3
Current income in total	**16.3**	**16.4**	**2.6**	**1.1**	100.0	100.0
Property income – paid	0.1	0.1	-25.5	3.5	3.2	3.3
Current taxes on income, property, etc.	0.6	0.6	8.1	-5.7	14.0	13.1
Social contributions	2.8	2.8	4.1	1.5	65.7	66.3
Other current transfers – paid	0.7	0.7	10.8	2.4	17.0	17.3
Current expenditure in total	**4.2**	**4.3**	**4.4**	**0.7**	100.0	100.0
Gross disposable income	**12.0**	**12.2**	**2.0**	**1.2**	-	-
Adjustment arising from changes in net assets of households in pension fund reserves	0.2	0.1	-7.3	-39.3	-	-
Household final consumption	10.2	10.3	1.9	1.2	-	-
Gross household savings	2.1	2.0	1.7	-2.5	-	-

Source: SO SR.

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

	2012			2013				
	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Gross disposable income (1)	101.0	102.0	101.6	102.6	102.6	101.9	101.2	102.0
Adjustment (pension funds) (2)	112.9	92.7	113.0	53.1	43.1	51.9	60.7	51.3
Household final consumption (3)	102.9	101.9	103.3	100.5	102.3	101.2	101.2	101.3
Gross household savings (4)	83.0	101.7	89.0	142.6	83.7	93.0	97.5	96.5
Savings ratio [%, (4)/((1)+(2))]	6.7	16.9	8.7	3.2	6.1	6.2	16.4	8.3

Source: SO SR and NBS calculations.

EMPLOYMENT AND UNEMPLOYMENT

The gradual revival in employment, which began in the third quarter of 2013 after five quarters of decline, continued in the quarter under review. According to the ESA 95 methodology, employment increased by 0.1% year-on-year, compared with a decrease of 0.9% recorded in the third quarter. In quarter-on-quarter terms, the rate of employment growth accelerated to 0.3%.

Employment also followed a more favourable trend than in the previous quarter according to the other methodologies. According to statistical reports, employment increased in both year-on-year and quarter-on-quarter terms (by 0.2% and 0.3% respectively). According to the Labour Force Survey (LFS), employment grew year-on-year by 0.6% and quarter-on-quarter by 0.3%. The number of people working abroad was still higher than a year earlier (by 9.1%), but the growing trend in quarter-on-quarter terms observed since the end of 2011 came to a halt. In that period, the number of people working abroad increased by approximately 21,000 according to the LFS.

In terms of structure (ESA 95), the number of employees increased by only 0.1% quarter-on-quarter, but that of self-employed persons grew by as much as 1.4% in the fourth quarter. The total number of economically active persons increased by approximately 6,000, three-quarters of which were self-employed persons. Their number increased mostly in the business sector. The number of employees increased by 0.3% (with the growth rate accelerating by 0.6 percentage point), while the decrease in the number of self-employed persons moderated by 2.4 percentage points, to -1.3%.

After a modest revival in the third quarter, the number of hours worked in the economy decreased slightly in the fourth quarter (by 0.2%), despite an increase in the number of employees. This, however, was a negligible decrease and the current indicators of economic activity suggest that the number of hours worked will increase again. In year-on-year terms, the number of hours worked decreased by 1.1%, representing a slight deterioration compared with the third quarter. After increasing in the second and third quarters, the average weekly number of hours worked decreased somewhat, from 37 to 36.9 hours. In the longer term, there is room for this indicator to return to its pre-crisis level or to levels seen during the post-crisis recovery in 2010 and 2011.

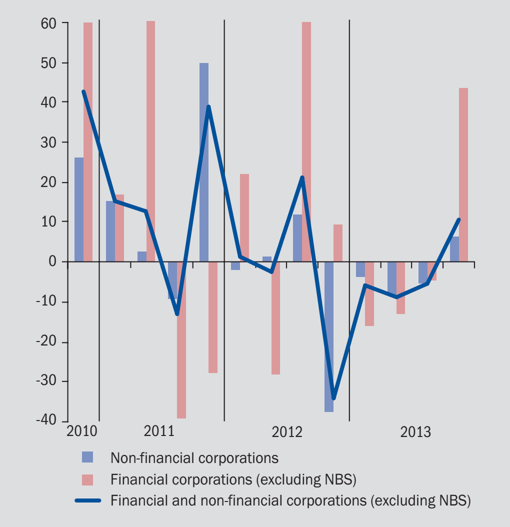
According to the ESA methodology, employment growth in quarter-on-quarter terms was stimulated by developments in industry, construction, trade, and in certain services (e.g. arts and entertainment, professional activities, etc.). A slightly negative effect was exerted by developments in sectors related to the public sector, real estate activities, and agriculture. Relatively favourable quarter-on-quarter developments were recorded in the private sector.

According to the Labour Force Survey, the number of unemployed in the fourth quarter decreased by 1% year-on-year, to 387,000 persons. This was a positive change, because the number of unemployed had been increasing steadily in year-on-year terms (as well as in quarter-on-quarter terms) since the end of 2011. The seasonally adjusted number of unemployed dropped by 1.3% quarter-on-quarter (by approximately 4,900 persons). Although the number of economically active persons increased somewhat, the unemployment rate remained virtually unchanged. The seasonally adjusted rate fell by 0.2 percentage point quarter-on-quarter (as well as year-on-year), to 14.1%, reflecting the fall in the number of unemployed. A favourable trend was also recorded in the number of job applicants in the registers of job offices. The average rate of registered unemployment reached 13.6% in the fourth quarter, representing an improvement of 0.4 percentage point year-on-year and 0.5 percentage point quarter-on-quarter.

FINANCIAL RESULTS

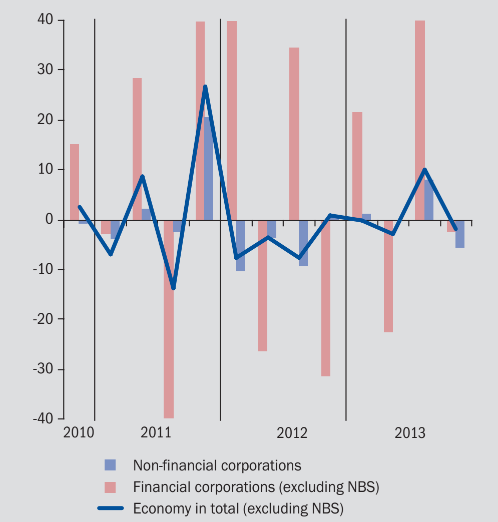
In the last quarter of 2013, the total profits of financial and non-financial corporations (excluding NBS), expressed in seasonally adjusted terms, declined by 1.8% quarter-on-quarter, after growing in the previous quarter by 10.1%. In year-on-year terms, however, total profits increased by 10.8%, after decreasing in the third quarter by 5.6%. The quarter-on-quarter dynamics of profits were adversely affected by a fall in the profits of non-financial corporations, causing the financial results of the financial sector (excluding NBS) to deteriorate.

Chart 55 Total profits in the economy (excluding NBS) (annual percentage changes)



Source: SO SR.

Chart 56 Total profits in the economy (quarter-on-quarter percentage changes)

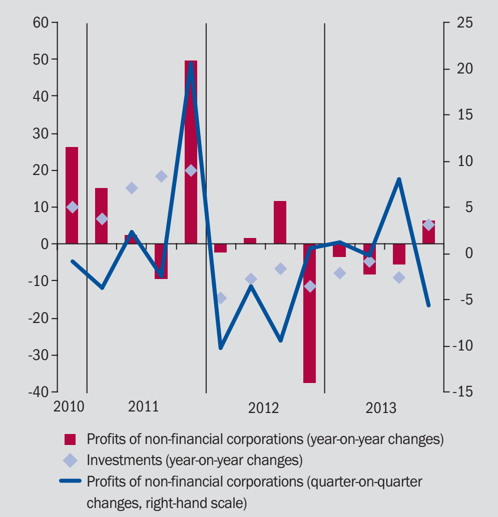


Source: SO SR and NBS calculations.

After a positive trend in the previous quarter, the financial results of **non-financial corporations** again worsened in the fourth quarter of 2013 (the quarter-on-quarter growth rate dropped to -5.6%, from 8.0% in the previous quarter). The fall in profits was caused by the negative financial results of corporations in the oil and chemical industries (probably due to the weakening Czech koruna and the worsening price conditions) and in mining and quarrying. The profit decline in these industries was partly offset by an increase in profits in electricity and gas supply, trade, the manufacture of transport equipment, and in real estate activities.

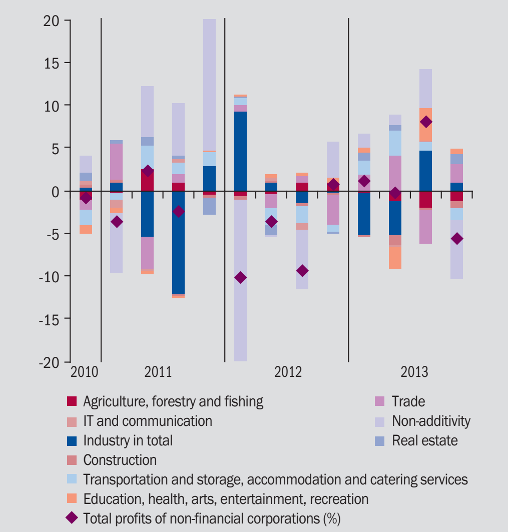
The fourth quarter of 2013 also witnessed a profound change in the **financial sector (excluding NBS)**, where the profits of financial corporations, excluding NBS, decreased by 2.6% quarter-on-quarter, after increasing in the previous quarter by 47.5%. This deterioration took place mostly in the profits of other financial intermediaries, insurance companies, and pension funds. The banking sector (excluding NBS) maintained the positive trend in its profits from the previous quarters, thanks to interest yields and proceeds from trading. The level of profits was negatively affected by an increase in provisioning.

Chart 57 Investments and profits of non-financial corporations (%)



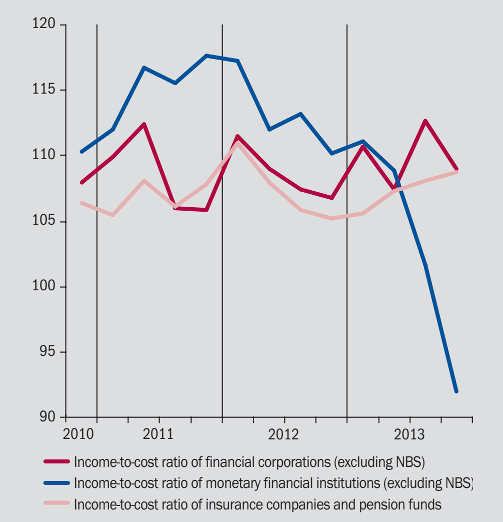
Source: SO SR and NBS calculations.

Chart 58 Total profits of non-financial corporations by sectoral contributions to their quarterly rate of change



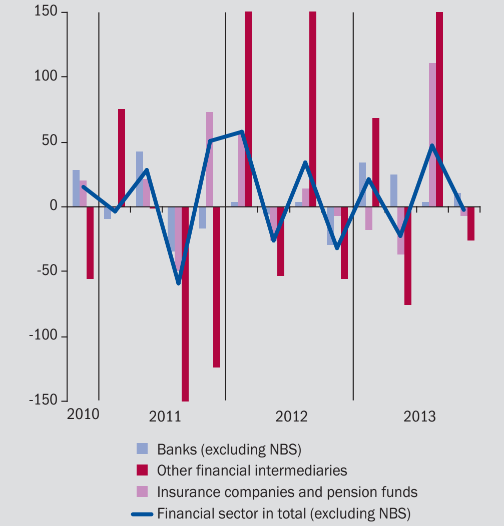
Source: SO SR and NBS calculations.

Chart 59 Income-to-cost ratios of financial corporations (%)



Source: SO SR and NBS calculations.

Chart 60 Total profits of financial corporations (quarter-on-quarter percentage changes)



Source: SO SR and NBS calculations.

Overview of main macroeconomic indicators for Slovakia

Table 6 Selected economic and monetary indicators for the SR

(annual percentage changes, unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employ-ment ESA 95	Unem-ployment rate (%)	Industrial produc-tion index	Total receipts of sec-tors	Economic sentiment indicator (long-term average =100)	M3 for ana-lytical pur-poses[1]	Loans to non-financial corpora-tions	Loans to house-holds	State budget balance (EUR mil.)	General govern-ment balance as % of GDP	Debt ratio (general govern-ment 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
2006	8.3	4.3	6.4	2.1	13.3	-	-	112.5	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	-	-	114.6	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	-	-	99.1	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	-15.4	-18.6	78.0	-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	8.0	7.9	98.7	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	98.6	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	7.7	5.2	94.0	8.8	-2.3	10.3	-3,810.7	-4.5	52.4	2.2	5.0	1.2848
2013	0.9	1.5	-0.1	-0.8	14.2	5.3	2.1	90.6	5.2	1.7	10.2	-2,023.3	.	.	2.1	5.9	1.3281
2013 Q1	0.5	2.2	1.8	-1.0	14.5	2.9	-0.5	88.4	7.3	-0.3	9.9	-	-3.5	54.7	3.9	7.3	1.3206
2013 Q2	0.8	1.7	0.1	-1.3	14.0	2.9	2.5	89.1	7.4	-0.1	10.0	-	-2.1	58.0	4.8	8.6	1.3062
2013 Q3	0.9	1.4	-0.7	-0.9	14.1	4.5	1.8	89.7	6.2	0.4	10.3	-	-2.2	57.2	1.1	4.5	1.3242
2013 Q4	1.5	0.5	-1.7	0.1	14.2	10.8	4.3	95.0	5.2	1.7	10.2	-	.	.	-0.9	3.6	1.3610
2013 Mar.	-	1.9	0.8	-	14.7	0.6	-1.9	91.9	7.3	-0.3	9.9	-952.7	-	-	-	-	1.2964
2013 Apr.	-	1.7	0.9	-	14.4	3.7	5.4	92.2	7.7	-2.2	10.0	-1,076.1	-	-	-	-	1.3026
2013 May	-	1.8	-0.3	-	14.3	2.4	1.6	89.6	5.8	-2.7	10.0	-1,601.4	-	-	-	-	1.2982
2013 June	-	1.7	-0.3	-	14.3	2.6	0.6	85.5	7.4	-0.1	10.0	-1,664.8	-	-	-	-	1.3189
2013 July	-	1.6	-0.5	-	14.0	3.0	1.6	88.8	5.7	-2.2	10.1	-1,625.6	-	-	-	-	1.3080
2013 Aug.	-	1.4	-0.7	-	13.7	3.9	0.4	89.4	6.3	-0.5	10.2	-1,916.6	-	-	-	-	1.3310
2013 Sep.	-	1.1	-0.8	-	13.8	6.4	3.2	91.0	6.2	0.4	10.3	-1,978.0	-	-	-	-	1.3348
2013 Oct.	-	0.7	-1.4	-	13.7	7.2	3.0	95.6	9.0	1.0	10.2	-1,971.5	-	-	-	-	1.3635
2013 Nov.	-	0.5	-2.0	-	13.5	12.9	4.2	94.0	6.5	-0.6	10.3	-1,962.8	-	-	-	-	1.3493
2013 Dec.	-	0.4	-1.7	-	13.5	12.7	5.9	95.4	5.2	1.7	10.2	-2,023.3	-	-	-	-	1.3704
2014 Jan.	-	0.0	-2.5	-	13.6	12.9	4.9	98.1	4.8	2.8	10.2	-122.9	-	-	-	-	1.3610
2014 Feb.	-	-0.1	.	-	13.5	.	.	93.7	.	.	.	-877.1	-	-	-	-	1.3658

Sources: Statistical Office of the Slovak Republic, MF of the SR, the European Commission and NBS.
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/2014/StatisticsMB0314.xls