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EUROSYSTEM



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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<sup>1</sup>

According to monthly figures, activity in the euro area maintained its momentum in the first quarter of 2014. Forward-looking indicators were more positive than monthly data for the real economy, therefore suggesting an acceleration of euro area growth. The flash estimate showed the euro area economy growing by 0.2% in the first quarter of 2014, less than had been expected on the basis of monthly indicators (Chart 1). On the one hand, the German economy continued to grow quite strongly, driven mainly by domestic demand. This growth, however, was outweighed by negative developments in other euro area countries (particularly the Netherlands, France and Italy).<sup>2</sup> As regards the Czech economy, its slowdown was expected given the substantial stocking up of tobacco products towards the end of 2013 in anticipation of a hike in tobacco excise duty from January of this year. These one-off factors may have overshadowed the growth stimulus from the weaker exchange rate.

Considering its progress in the first quarter of 2014, as well as current forward-looking indicators, the euro area economy is expected to continue expanding in the second quarter of 2014. Questions remain, however, over the pace of that growth, since certain known factors could have opposing effects. On one side, the euro area's growth was constrained in the first quarter by non-standard factors and may therefore be expected to accelerate slightly in the second quarter owing to that base effect. On the other side, sentiment is cooling. This is particularly apparent in expectations for the German economy, which may partly reflect ebbing demand from Russia as well as exchange rate movements. Export growth appears to be slackening, as implied by the composition of Germany's economic growth for the first quarter of 2014 and by forward-looking indicators for global trade.

The flash estimate for the Slovak economy for the first quarter of 2014 showed a modest quarter-on-quarter increase, to 0.6%. The GDP figure was in line with NBS projections in the March forecast (with the quarter-on-quarter growth rate reflecting the effect of seasonal adjustment).

Based on monthly figures, it may be assumed that growth was driven not only by exports, but also by domestic demand. Retail sales and consumer optimism indicate a relatively strong pick-up in private consumption. A turning point may have come in the first quarter, as households increased their consumption expenditure for the first time in a while and made purchases they had previously deferred. Government consumption also contributed positively to growth. Domestic demand would probably have been higher still, but for investment demand, which in quarter-on-quarter terms was subdued by the strong base effect of its exceptional increase of 5% in the last quarter of 2013. Abstracting from the impact of last year's car industry investments, investment in the first quarter of 2014 is expected to have increased moderately. The slowdown in industrial production growth was reflected in weaker export performance in February and March, which is assumed to have slightly reduced the contribution of net exports to GDP growth. The deceleration or decline in these hard indicators in February and March may be seen as a correction of the positive figures in January. For the moment this situation is being put down to volatility, but given the car industry's relative sensitivity to shifts in demand there is a risk of export growth declining in the second quarter.

As the economy continued to grow, job creation gathered pace. According to the flash estimate, employment increased by 0.2% in the first quarter of 2014, broadly in line with projections. Most new jobs are being created in the industry and services sectors. In services, employment growth is largely attributable to the pick-up in private consumption. By way of contrast, the latest unemployment figures suggest that the risk of labour market stagnation has risen slightly. Wages were boosted by the increase in activity, as the annual growth rate of nominal wages accelerated moderately in the first quarter of 2014. The most marked wage rises were in those sectors where production and sales increased, i.e. industry and services.

In the first quarter of 2014, prices across the economy as a whole (the GDP deflator) fell for

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

<sup>2</sup> The Dutch economy was affected by a warm winter. Since the Netherlands is one of the largest exporters of natural gas, declines in production and consumption had a considerable impact on its economy.



a third successive quarter, with production prices and import prices falling the most. The HICP inflation rate in April was unchanged from the previous month and therefore remained negative year-on-year. The annual rate of decline in prices was slightly higher than expected owing to a drop in food prices, and it would have been even greater but for a higher annual rate of increase in industrial goods prices. Prices are expected to remain flat throughout the second quarter.

The latest figures for the real economy confirm that Slovakia's economy continued to grow in

the first quarter of 2014 and indicate a slight shift in the composition of its growth (with stronger household consumption), which will be incorporated in the NBS forecast published in June. Forward-looking indicators, and in particular expectations for output in the next quarter, broadly correspond to the trajectory of economic growth set out in the current NBS forecast. Since the labour market situation was in line with expectations, the projections for employment will probably not require revision. Inflation projections are likely to be revised down marginally in the light of current developments.

## 2 REAL ECONOMY

### 2.1 GDP FLASH ESTIMATE

#### **Euro area growth surprisingly low**

According to Eurostat's flash estimate, euro area GDP grew in the first quarter of 2014 by 0.2% over the previous quarter and was unchanged year-on-year. Details of the composition of the growth will be published on 4 June 2014. According to short-term indicators, however, industrial production and retail trade increased moderately and construction production also picked up.

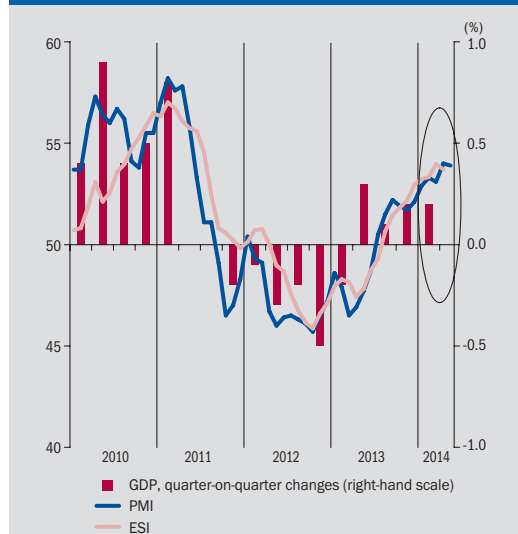
Looking at geographical breakdown of the growth, the only larger economies that contributed positively were Germany (with growth of 0.8%) and Spain (0.4%); the French economy remained flat, while Italy's GDP fell slightly (by 0.1%) and the Dutch economy contracted sharply (by 1.4%). According to the Netherlands' Central Agency for Statistics, the contraction was caused mainly by the effect of the warm winter on the production, consumption and export of natural gas. Since the Netherlands is the world's fifth largest exporter of gas, this commodity has a major impact on country's economy.<sup>3</sup>

Germany's economic growth accelerated to 0.8% in the first quarter of 2014, from 0.4% in the last quarter of 2013. The sole driver of that expansion was domestic demand, with increases in both private consumption and public consumption, including investment in machinery and equipment and in construction. Net exports had a negative impact on first-quarter growth, as imports rose significantly and exports fell.

The French economy remained flat in the first quarter of 2014. Declines in private consumption and investment, as well as a negative contribution from net exports (as import growth exceeded export growth), were offset by an increase in public consumption and restocking. The weakening of private consumption was, however, related to temporary factors: lower energy consumption during a mild winter, and an increase in car purchase taxes.

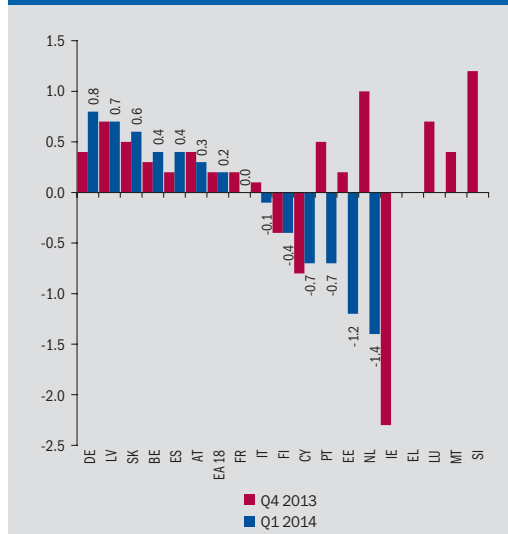
The economic growth of euro area countries in the first quarter of 2014, as well as the latest forward-looking indicators, suggest that the fragile recovery will continue in the second quarter of 2014.

**Chart 1 Forward-looking indicators and euro-area GDP growth**



Source: Eurostat, Bloomberg, European Commission, and NBS calculations.  
Note: The GDP figure for Q1 2014 is Eurostat's flash estimate. ESI normed and centred at the PMI's long-run average.

**Chart 2 Flash estimate of GDP (quarter-on-quarter percentage changes)**



Source: Eurostat.  
Note: The figures for IE, EL, LU, MT and SI have not been published.

<sup>3</sup> Gas exports fell by more than a quarter compared with the same period of the previous year, and gas consumption was down by almost one-third.



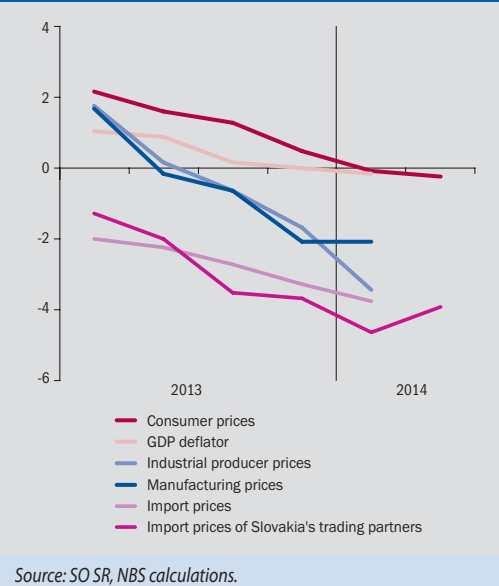
The Czech economy stagnated in the first quarter of 2014 according to preliminary figures, after growing strongly in the last quarter of 2013 (by 1.8%). The main constraining factor was a temporary substantial decline in revenue from tobacco excise duty, owing to the stocking up of tobacco products towards the end of 2013.

### Increase in Slovak economic growth confirmed projections

The flash estimate of the Slovak Statistical Office for Slovakia's economic growth in the first quarter of 2014 confirmed expectations by showing a moderate increase. After rising by 0.5% (originally 0.4%) in the last quarter of 2013, GDP increased further, by 0.6% quarter-on-quarter. The annual growth rate of GDP (seasonally unadjusted) increased from 1.5% in the fourth quarter of 2013 to 2.4% in the first quarter of 2014. The GDP figure was in line with the projection in the current NBS Medium-Term Forecast (MTF-2014Q1).

The general price level of the economy, as measured by the GDP deflator, fell in the first quarter of 2014 (its annual rate of change was negative). Prices declined across a wide range of price categories (consumer prices, production prices, import prices, and others). The available indicators for the second quarter suggest that prices in the economy have continued to fall.

Chart 4 Prices (annual percentage changes; seasonally unadjusted)



GDP growth increased moderately for a second successive quarter. Statistical indicators for the first months of the year and the improved sentiment among economic players may suggest that growth is becoming more balanced. While external demand has been the main driver of growth, domestic demand, too, is assumed to have contributed positively since the

Chart 3 GDP (quarter-on-quarter percentage changes)

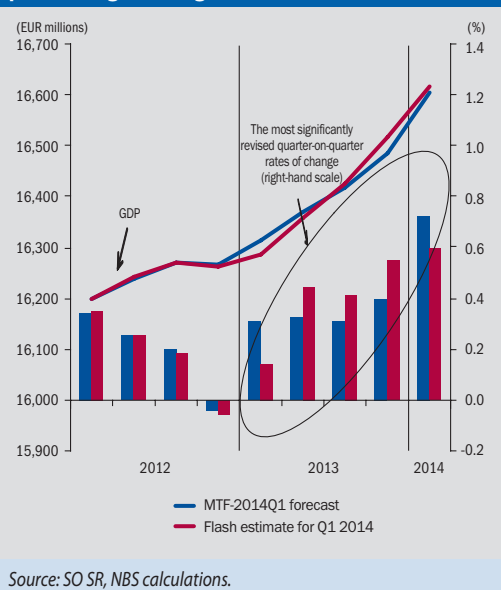
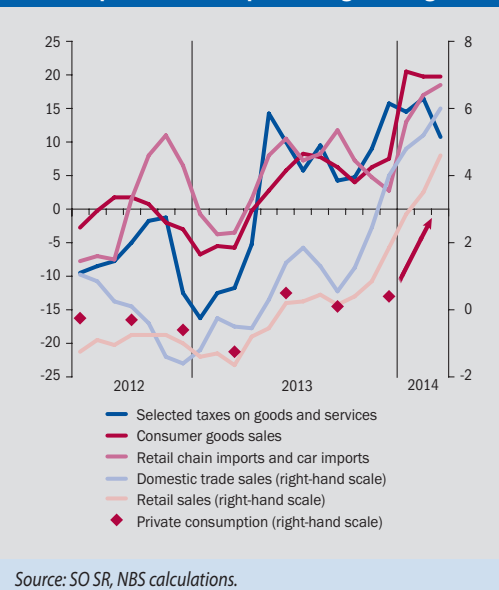
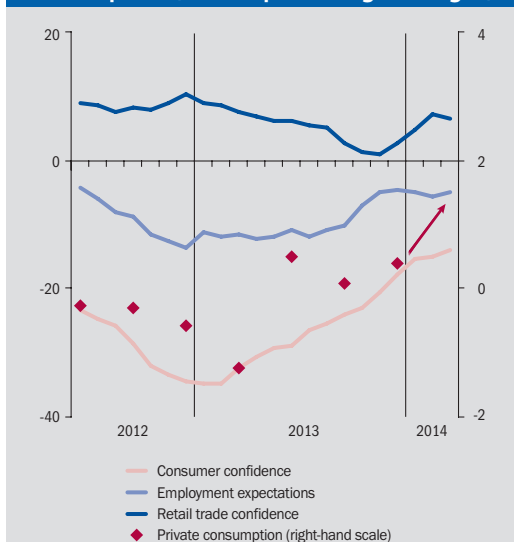


Chart 5 'Hard' indicators of private consumption (annual percentage changes)



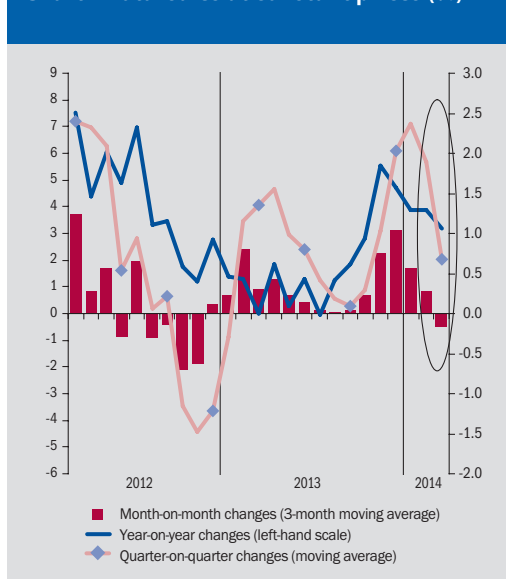


**Chart 6 'Soft' indicators of private consumption (annual percentage changes)**



Source: SO SR, European Commission and NBS calculations.

**Chart 7 Total sales at constant prices (%)**



Source: SO SR, NBS calculations.

Note: Internal calculation for constant prices.

beginning of the year. Given the strengthening of consumer confidence and increase in retail sales, it is mainly private consumption, including household consumption, that is expected to have accelerated – and not, as in the previous quarter, by just a fractional amount.

## 2.2 'HARD' INDICATORS OF ECONOMIC ACTIVITY

### *Sales declined in industry and remained buoyant in trade*

Sales in the economy increased in the first quarter of 2014 by 0.7% quarter-on-quarter, their lower growth reflecting also sales in March, which fell by 0.3% compared to the previous month. Almost all of that decline was attributable to subdued industry sales, particularly in car manufacturing, petroleum product manufacturing, and energy supply.

The negative impact of industry on the month-on-month sales growth was more than compensated by domestic trade sales, especially sales in wholesale trade and retail trade. In wholesale trade, sales of machinery and agricultural raw materials recorded the strongest growth. As for retail sales, the fastest growing segments were

**Chart 8 Total sales by contributions of selected sectors (quarter-on-quarter changes at constant prices; p.p.)**

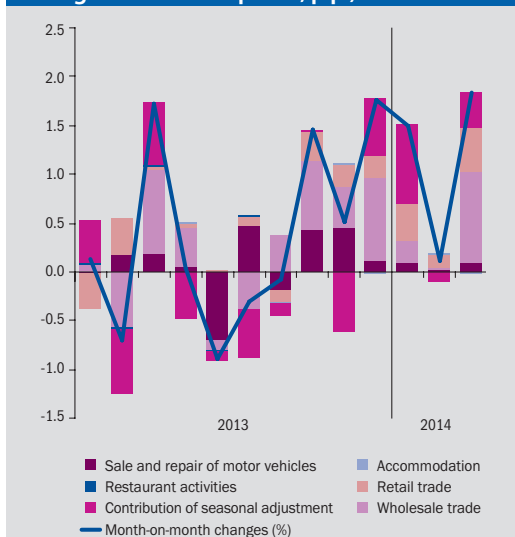


Source: SO SR, NBS calculations.

Note: Internal calculation for constant prices.

retail sale of household equipment in specialised stores and retail sale of automotive fuel. In quarter-on-quarter terms, sales growth reached its highest level in the post-crisis period, providing a sign of the long-awaited acceleration in private consumption.

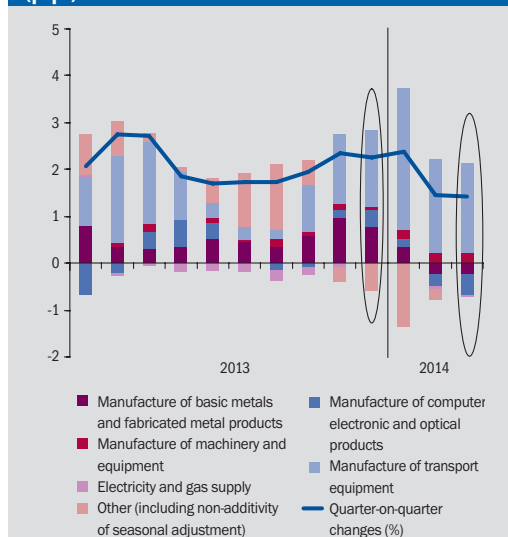
**Chart 9 Domestic trade sales by contributions of selected segments (month-on-month changes at constant prices; p.p.)**



Source: SO SR, NBS calculations.

Note: Internal calculation for constant prices.

**Chart 11 Industrial production – principal contributions to quarterly rate of change (p.p.)**



Source: SO SR, NBS calculations.

**Stagnant industrial production reflected situation in car production and petrochemical industry**

Real industrial production fell more moderately than industry sales, owing mainly to sales in car manufacturing falling more than production and to declining sales in metals manufacturing,

which have probably not yet reflected month-on-month production growth.

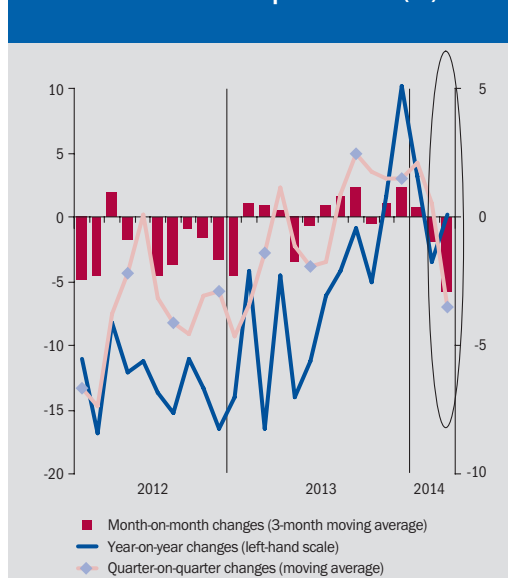
Industrial production rose in the first quarter by 1.4% over the previous quarter, but that growth rate was lower than the figure for the previous quarter, mainly because production in February and March remained broadly flat on a month-on-month basis.

**Chart 10 Industrial production (%)**



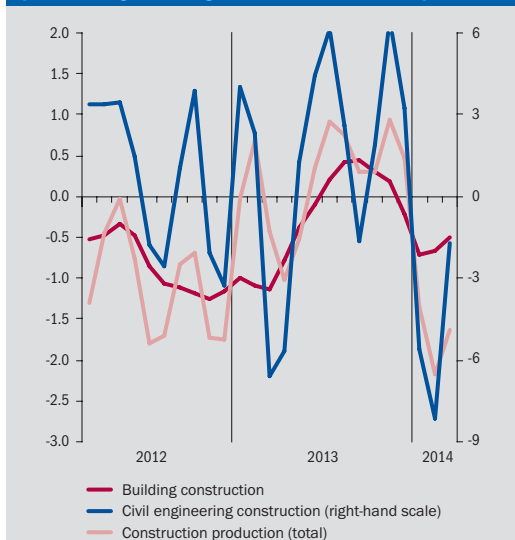
Source: SO SR, NBS calculations.

**Chart 12 Construction production (%)**



Source: SO SR, NBS calculations.

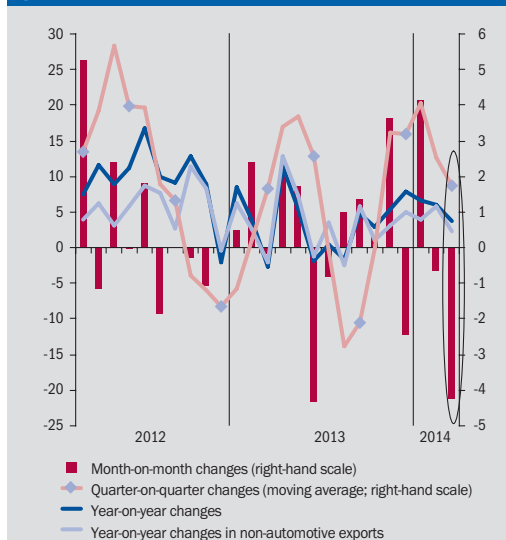
**Chart 13 Construction production (monthly percentage changes; trend; constant prices)**



Source: SO SR.

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

**Chart 14 Goods exports (percent; current prices)**



Source: NBS, SO SR and ECB.

The annual growth rate of industrial production fell to 5.9% (from 9.1% in February). Production growth was curbed by results not only in the car industry, but also in the petrochemical industry, owing to the start of scheduled factory shutdowns and to higher output in the previous month.

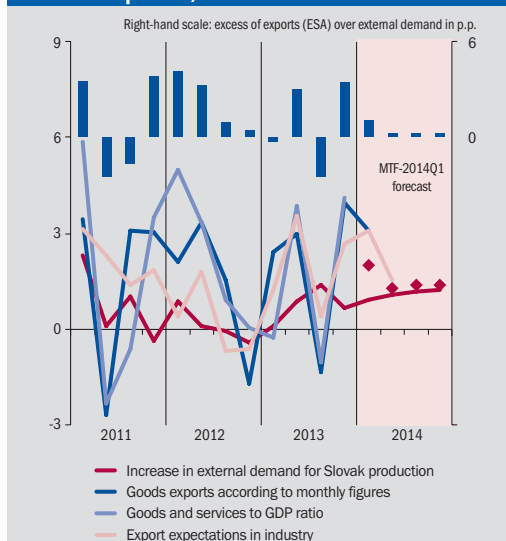
Construction production again fell significantly quarter-on-quarter (by 3.5%), with construction activity slowing from the end of the previous year (in March, production fell by 2.6% month-on-month). Most of that decline was accounted for by the segment of new building construction, while the rate of decline in civil engineering construction moderated. According to the April business survey, sentiment in the construction sector took a negative turn after increased optimism in the previous two months, largely in response to a shortage of orders.

**Despite falling in March, exports appear to have been sufficiently robust to contribute to the increase in Slovakia's GDP in the first quarter of 2014, in line with NBS projections. As exports have now fallen for two consecutive months, it will be important to observe their progress over coming months.**

The volatile performance of exports in the first three months of this year eventually resulted in

nominal export growth of 1.8% in comparison with the previous quarter. The overall quarterly growth was accounted for by the automotive industry, while total exports of other sectors remained unchanged from the previous quarter. Exports of goods in the first quarter of 2014 are estimated to be higher in real terms than in

**Chart 15 Exports and export expectations (quarter-on-quarter percentage changes; constant prices)**



Source: NBS, SO SR, ECB and European Commission.

nominal terms, since export prices of industrial producers declined. It is assumed that in the first quarter goods exports, as well as overall exports of goods and services, again exceeded the expected rate of increase in external demand for Slovak products. Slovak exporters gained market share, albeit to a lesser extent than they did in the previous quarter and probably only in the market for motor vehicles and their accessories.

After recording exceptionally strong growth in January, external trade fell quite markedly month-on-month in both February and March, with these results pointing to future risks. The elevated volatility of exports may be indicative of persisting fragility in external demand with sporadic signs of revival, while Slovak production is able to adjust flexibly in response. Car makers are experiencing elevated volatility, while exporters of electronics and refined petroleum products also contributed to the March decline in external trade.

Nominal growth in goods imports for the first quarter was only 0.4% compared with the previous quarter, as imports rose sharply in January and then fell in the following two months. Real growth in imports is expected to be higher since import prices fell.

The 12-month cumulative trade surplus for the first quarter was just above 6% of GDP, compared to 5.6% for the same period of the previous year. The trade surplus in March 2014 amounted to €358.5 million, which was €84.1 million lower than the figure for March 2013, reflecting an increase in import growth and deceleration in export growth.

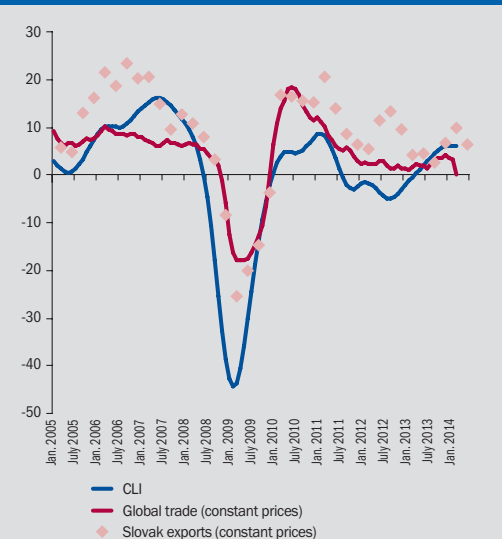
Incipient risks to the activity outlook for 2014 may be the uncertain situation in non-euro area markets, deteriorating hard indicators of activity (sales, production and exports) in March, worse than expected GDP figures in a majority of euro area countries for the first quarter, and weaker outlooks for global trade.

## 2.3 FORWARD-LOOKING 'SOFT' INDICATORS

### Correction of the euro area's strong optimism

The economic sentiment indicators for the euro area and Germany were slightly lower in April than in the previous month, although they remain above the long-run average. The ZEW index for Germany declined markedly in May (by 10.1 points to 33.1), but assessments of the current economic situation in Germany

**Chart 16 CLI, global trade, and Slovak exports (annual percentage changes)**



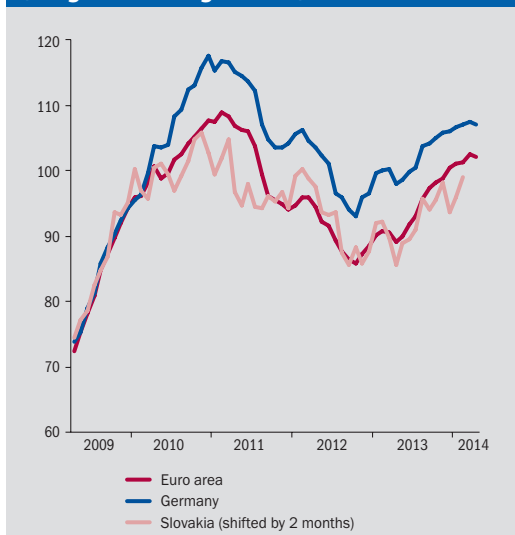
Source: OECD, SO SR, and NBS calculations.  
Note: CLI – composite leading indicator.

**Chart 17 Economic sentiment indicators for Germany**



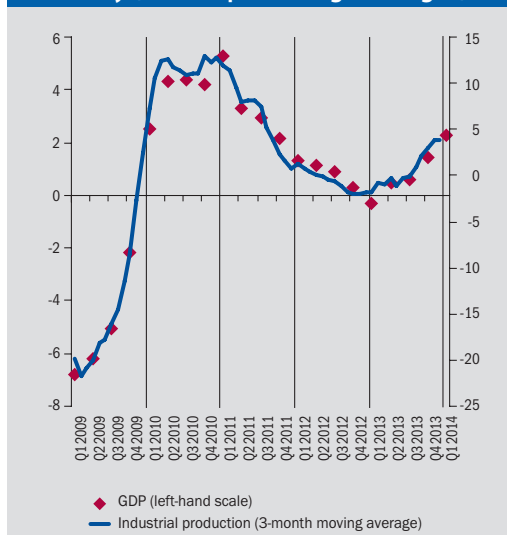
Source: European Commission, Ifo institute, ZEW Centre.  
Note: ESI (long-run average = 100), Ifo index (2005 = 100), ZEW (balance of responses).

**Chart 18 Economic sentiment indicator (long-run average = 100)**



Source: European Commission.

**Chart 20 GDP and industrial production in Germany (annual percentage changes)**



Source: Eurostat.

Note: The GDP figure for Q1 2014 is Eurostat's flash estimate.

**Chart 19 Euro-area GDP growth estimate for Q2 2014 (quarter-on-quarter percentage changes)**



Source: Now-Casting.com

to 54.0 in April), and the PMI for Germany was similarly quiet (56.1).

The cooling of business sentiment may simply be a partial correction of the marked improvement observed in previous months; the indicator values suggest that economic growth in Germany and the euro area as a whole is expected to remain favourable in the second quarter. It should be added, however, that in the first quarter these forward-looking indicators overestimated developments in the real economy of the euro area.

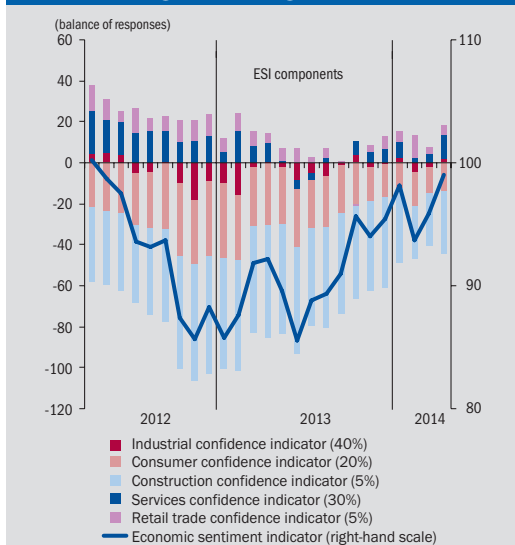
### **Confidence in the Slovak economy continues to grow**

The economic sentiment indicator (ESI) for Slovakia increased month-on-month in February by 3.1 points, to 99.0, mirroring the situation in the euro area (Chart 18). The improvement in the ESI was driven by increases in the industry, services and retail trade confidence indicators, while construction confidence and consumer confidence deteriorated.

In industry, all three components of the confidence indicator improved. The largest increase was in production expectations, especially in the manufacturing segments of food products, chemical products, rubber and

improved again (by 2.6 points, to 62.1). Germany's Ifo Business Climate Index dropped to 110.4 in May, showing deterioration in both assessments of the current business situation and expectations for the next six months. The composite PMI for the euro area remained largely unchanged in May (at 53.9, compared

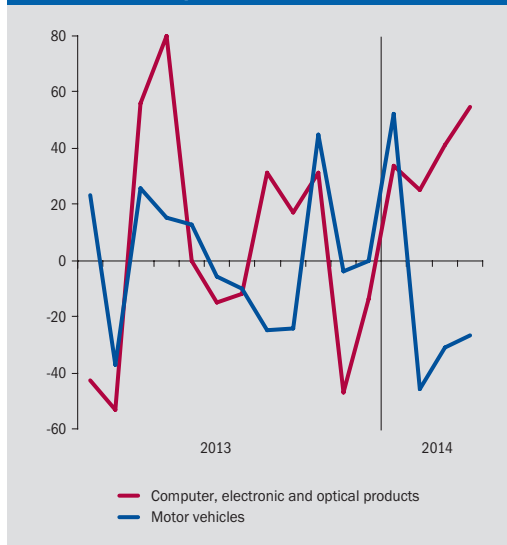
**Chart 21 Economic sentiment indicator for Slovakia (long-run average = 100)**



Source: European Commission.

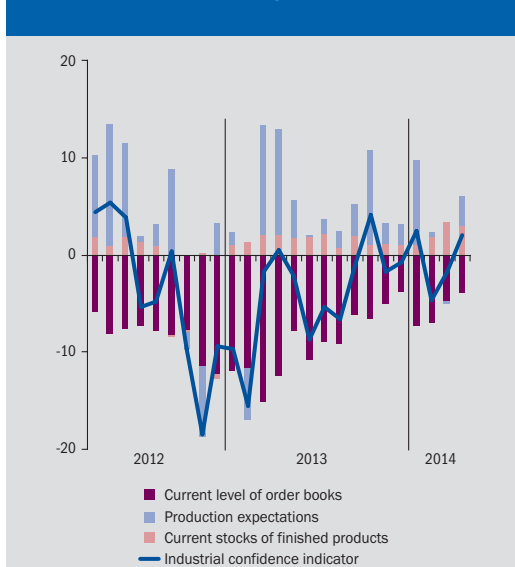
Note: The percentages in the legend represent the weights of the respective components in the ESI.

**Chart 23 Expected industrial production (balance of responses)**



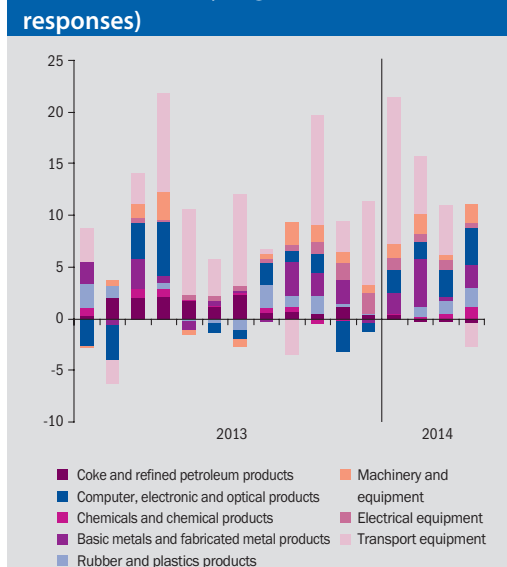
Source: European Commission.

**Chart 22 Industrial confidence indicator for Slovakia (balance of responses)**



Source: European Commission.

**Chart 24 Expected industrial production – contributions by segment (balance of responses)**



Source: European Commission, NBS calculations.

plastics products, machinery and equipment, and fabricated metal products. On the other hand, production expectations in the automotive industry, the largest segment of the Slovak economy, have been relatively pessimistic for several months now. Improving expectations in the electronics industry may

be related to the expected ramping up of its production in coming months.

Services confidence improved mainly because views on expected demand became more positive, particularly in financial and insurance activities and in accommodation and food



service activities. In retail trade, the increase in confidence reflected mainly respondents' satisfaction with the business situation.

The ESI for Slovakia and, even more so, the forward-looking indicators for the euro area

suggest that Slovak economic growth will continue accelerating in the second quarter. Nevertheless, what will be crucial for the period ahead is the extent to which expectations for key sectors are reflected in the real economy.

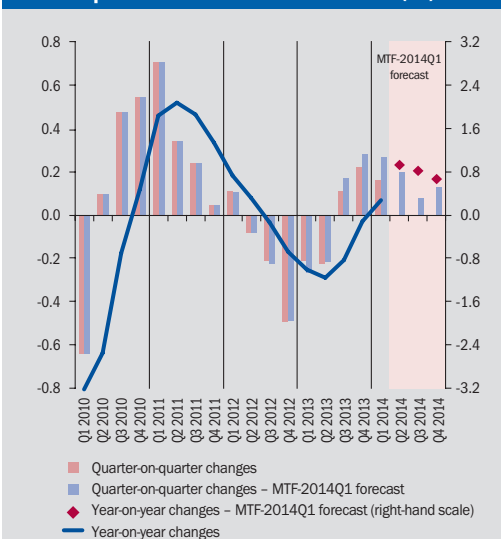


### 3 LABOUR MARKET

Employment continued to increase quarter-on-quarter in the first quarter of 2014, according to the SO SR flash estimate. The growth rate of 0.2%, in line with NBS projections, was the same as in the fourth quarter of 2013 and higher compared with the rest of 2013.

In March employment continued its upward trend from previous months, albeit at a more moderate pace (0.2% month-on-month and 2% year-on-year). The slight rise in economic growth in recent quarters is stimulating an upturn in the labour market. The sectors with the highest employment growth are industry (particularly the manufacturing segments of machinery, electrical equipment and transport equipment) and services (mainly selected market services and, after a prolonged malaise, transportation). Despite previous signs of recovery in construction, employment in this sector is not increasing. In April employment expectations among employers continued to improve in services and industry and remained at the previously improved level in construction, too. Business surveys also indicate growing labour demand in these sectors. Such forward-

**Chart 26 Employment (ESA 95) – recent development and current forecast (%)**

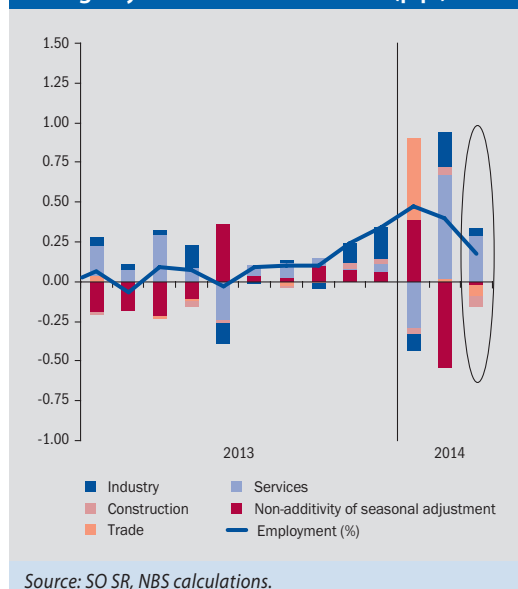


Source: SO SR, NBS calculations.

Note: The employment figure for Q1 2014 is the SO SR's flash estimate.

looking indicators support assumptions of continuing employment growth in the near term.

**Chart 25 Employment – monthly rate of change by sectoral contributions (p.p.)**



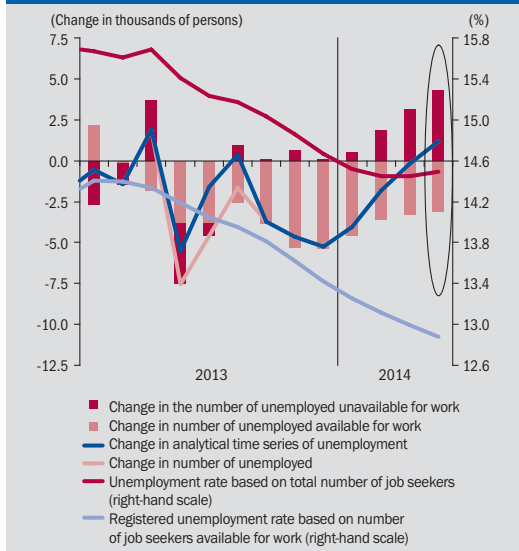
Source: SO SR, NBS calculations.

The downward trend in unemployment came to an end in April, as the seasonally adjusted rate of overall unemployment edged up from 14.44% to 14.49%, or by around 1,200 people.<sup>4</sup> The sizeable drop in the number of job seekers available for work was caused by a rise in the number of work activation programmes. The slight worsening of the month-on-month unemployment dynamics reflected increases in both the inflow and outflow of job seekers. The labour market may also have been affected by employers' uncertainty about the future situation. A positive sign for the near term, however, was the increase in the number of job vacancies in April.

The volatility of the labour market upturn confirms expectations that employment growth and unemployment rate reduction will proceed only slowly, as projected in the MTF-2014Q1 forecast.

<sup>4</sup> Although the seasonally-unadjusted overall unemployment rate fell by 0.26 percentage point, to 14.46%, such a drop is typical at the onset of the spring months. The registered unemployment rate fell by 0.06 percentage point, to 12.96%, which was even greater than the drop in the overall rate. This decline was less than in previous years, hence the increase in the seasonally adjusted unemployment rate.

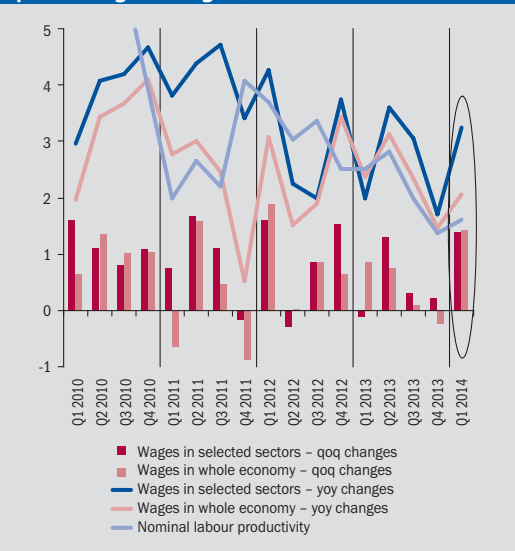
**Chart 27 Unemployment**



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

Seasonally adjusted nominal wages were almost unchanged in March, from February. After falling towards the end of last year, annual wage growth picked up again in the first quarter. This turnaround was supported by improved sales in recent months and probably also by the

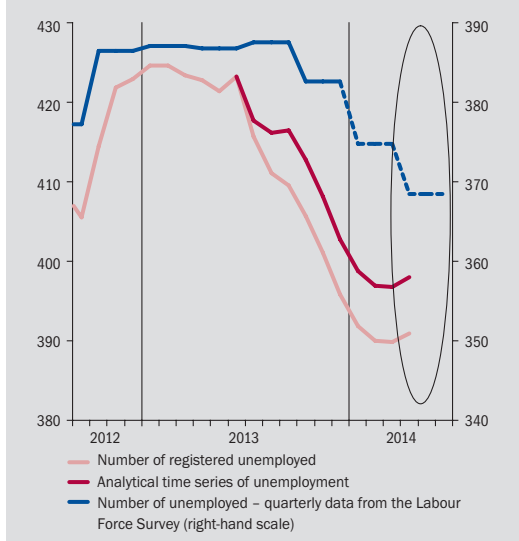
**Chart 29 Wage developments in the economy (annual and quarter-on-quarter percentage changes)**



Source: SO SR.  
Note: Wage growth in the selected sectors for Q1 2014 is calculated using the SO SR's monthly data. Wage growth in the economy as a whole for Q1 2014 is the most probable current estimate. Nominal labour productivity for Q1 2014 is a projection from the MTF-2014Q1 forecast.

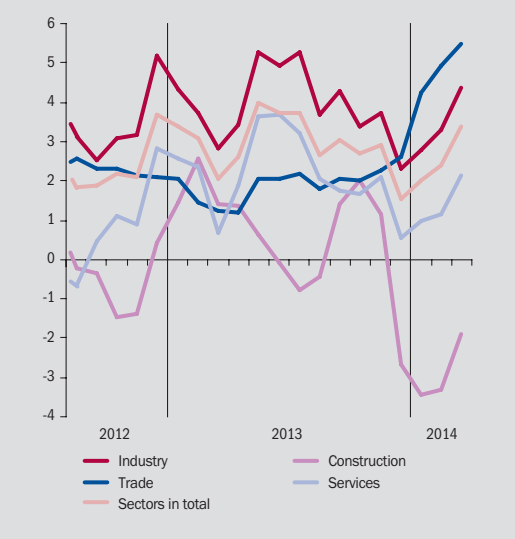
back payment of fourth-quarter wages in the construction sector. In manufacturing industry wages increased moderately month-on-month, and in trade by a larger margin, while in both of these sectors the annual growth rate of wages

**Chart 28 Number of unemployed (thousands of persons)**



Source: Central Office of Labour, Social Affairs and Family, SO SR, and NBS calculations.  
Note: The number of unemployed (Labour Force Survey) for the first and second quarters of 2014 is the projection in the MTF-2014Q1 forecast.

**Chart 30 Wage growth (annual percentage changes; 3-month moving average)**



Source: SO SR.



exceeded 3.5%. In construction and services, by contrast, the annual rate of change in wages was, respectively, negative and only just above zero. Looking ahead, low inflation may constrain nominal wage growth, as is already indicated by the more moderate annual rate of change in March.

Monthly figures suggest that wage growth was higher in the first quarter of 2014 than in the fourth quarter of 2013, and also higher than projected in the MTF-2014Q1 forecast. Wage growth in the public sector is expected to have been somewhat higher than in the private sector.

## 4 PRICES

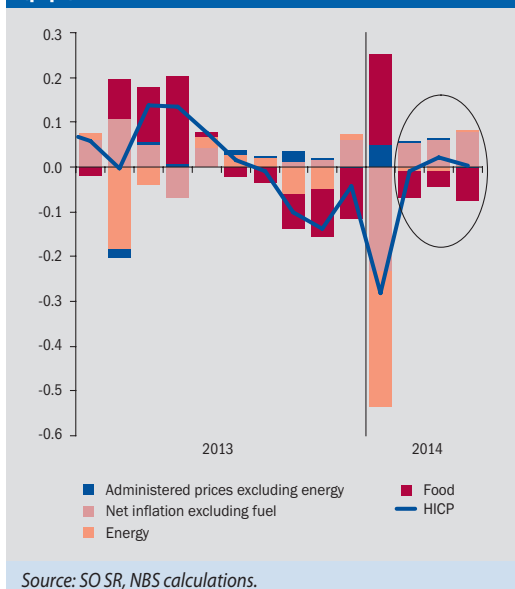
**Prices fell year-on-year by 0.2%. Annual services price inflation remains very low, but stable, compared with its long-run average.**

The annual rate of change in the price level was -0.2% in April, the same as in March, while in month-on-month terms prices remained flat.

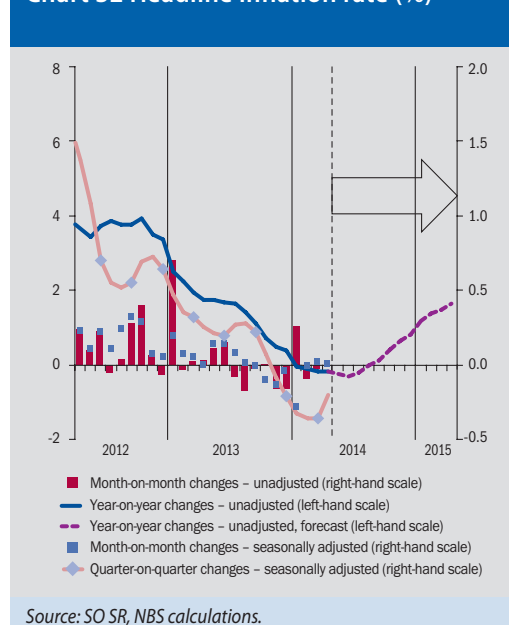
The annual rate of decline was slightly higher than projected by NBS.

The moderate slowdown in the HICP rate was caused mainly by a decline in processed food price inflation. The prices of typically 'Easter' foods fell in both March and April. The historical trend

**Chart 31 Composition of annual inflation (p.p.)**



**Chart 32 Headline inflation rate (%)**



**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	Net HICP inflation excluding fuel	
Month-on-month change	A	April 2013 – actual figure	0.3	-1.1	0.4	0.2	<b>0.0</b>	0.3
	B	April 2014 – forecast	0.2	0.0	0.1	0.1	<b>0.1</b>	0.1
	C	<b>April 2014 – actual figure</b>	<b>0.5</b>	<b>0.0</b>	<b>-0.7</b>	<b>0.1</b>	<b>0.0</b>	<b>0.4</b>
	BC	<b>Difference in contribution to month-on-month rate of change (p.p.)</b>	<b>0.07</b>	<b>0.00</b>	<b>-0.19</b>	<b>0.01</b>	<b>-0.10</b>	<b>0.12</b>
Year-on-year change	D	March 2014 – actual figure	-0.3	-3.4	1.0	0.8	<b>-0.2</b>	0.2
	E	April 2014 – forecast	-0.4	-2.4	0.7	0.8	<b>-0.1</b>	0.0
	F	<b>April 2014 – actual figure</b>	<b>-0.1</b>	<b>-2.3</b>	<b>-0.1</b>	<b>0.8</b>	<b>-0.2</b>	<b>0.2</b>
	AC	Base effect	moderate	<b>significant</b>	<b>significant</b>	insignificant	<b>moderate</b>	insignificant
	EF	<b>Difference in contribution to year-on-year rate of change (p.p.)</b>	<b>0.07</b>	<b>0.00</b>	<b>-0.19</b>	<b>0.01</b>	<b>-0.11</b>	<b>0.12</b>

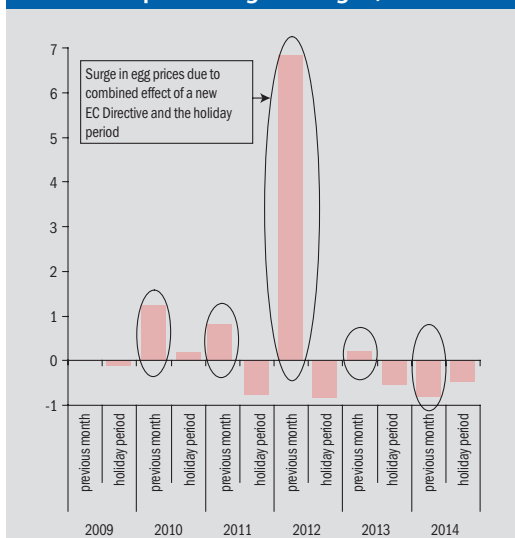
Source: SO SR, NBS calculations.

of those prices rising during the Easter season was not evident this year. The food price level has declined from its all-time high of June 2013, probably affected to some extent by weakening of the Czech koruna exchange rate.

On the positive side, the year-on-year fall in prices of industrial goods moderated in April.

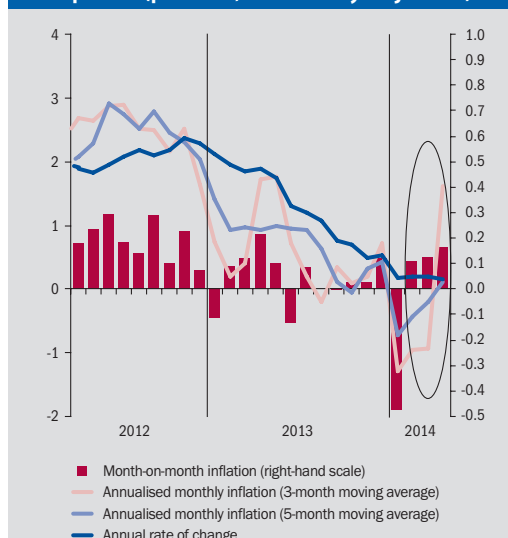
It should be noted that, within this category, the increase in prices of winter clothing and footwear was attributable to the Eurostat methodology used for the calculation. The annual rate of change in services prices remained very low, but stable, compared with its long-run average. Amid low energy and food price inflation, real wage growth in 2014

**Chart 33 Prices of 'Easter foods' (month-on-month percentage changes)**



Source: SO SR, NBS calculations.

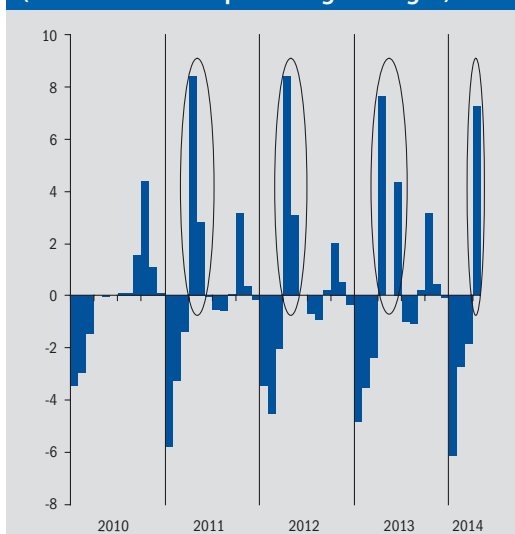
**Chart 35 Annualised net inflation excluding fuel prices (percent; seasonally adjusted)**



Source: SO SR, NBS calculations.

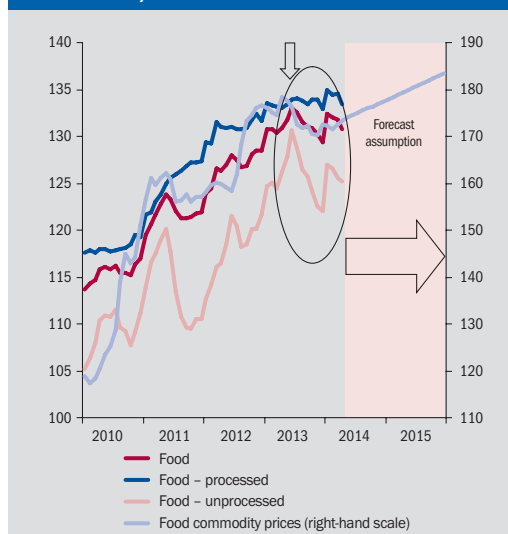
Note: Net inflation comprises non-administered prices of services and non-administered prices of non-energy industrial goods.

**Chart 34 Winter clothing and footwear prices (month-on-month percentage changes)**



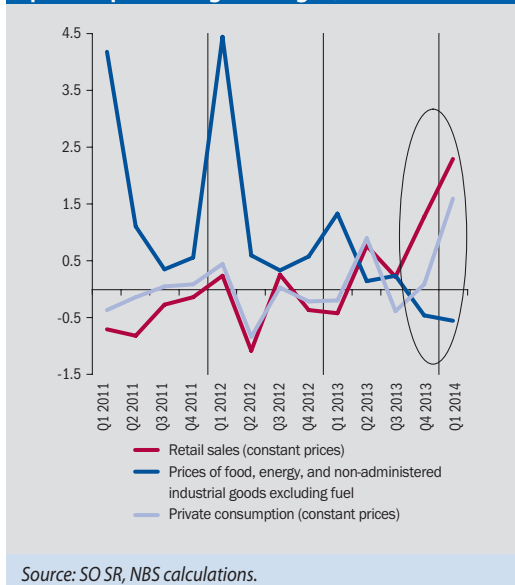
Source: SO SR, NBS calculations.

**Chart 36 Food price inflation (index: 2005=100)**

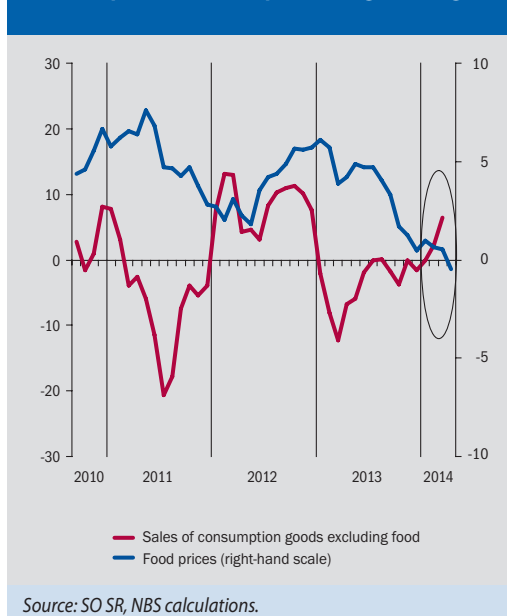


Source: SO SR, NBS calculations.

**Chart 37 Rate of change in prices, retail sales and private consumption (quarter-on-quarter percentage changes)**



**Chart 38 Substitution effect in private consumption (annual percentage changes)**



could support a gradual acceleration in annual services price inflation at the beginning of 2015.

Over the next two months, the annual rate of change in HICP inflation is expected to fluctuate at below, but close to, 0%. Given current price developments and technical assumptions, prices are expected to remain flat, on average, in 2014. Over the second half of the year, the inflation rate is expected to increase towards 1%. A continuing risk to the inflation outlook is the movement of food prices in the second half of 2014, since developments in agricultural commodity prices and the exchange rate are uncertain.

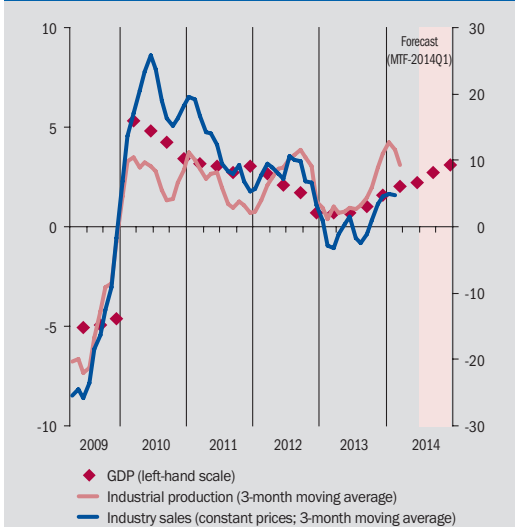
Considering the prolonged downward trend in food and fuel prices, it is assumed that households have made savings on the purchases of these essential items and that they therefore have scope to spend more on less essential items (whether buying better quality items, including food, or less essential items). This is not expected to involve simply replacing consumption of cheaper foods with consumption of other goods, but ultimately this substitution effect could increase household expenditure if households opt to buy costlier consumer goods. The increase in retail sales may therefore be accounted for not only by the making of purchases that had long been deferred and the consumption-supporting effect of price developments, but also by the substitution effect in consumption.

## 5 QUALITATIVE IMPACT ON THE FORECAST

The latest figures do not justify any significant revisions to the economic growth forecast. A slight change in the composition of growth is likely, with an upward revision to the contribution

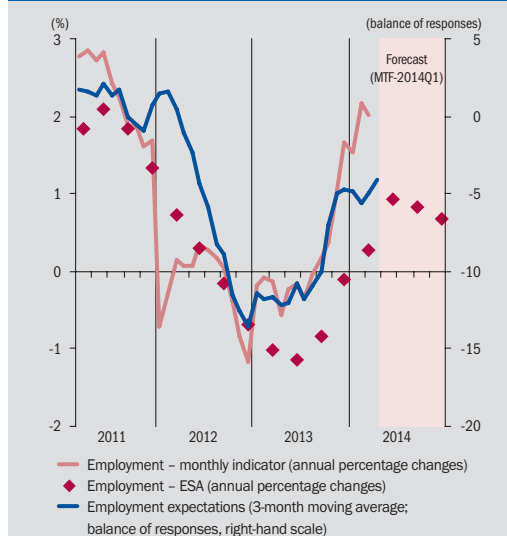
of domestic demand (mainly household consumption, and to a lesser extent government consumption). Exports will continue to make a positive contribution to growth, although

**Chart 39 GDP, industrial production and sales (annual percentage changes)**



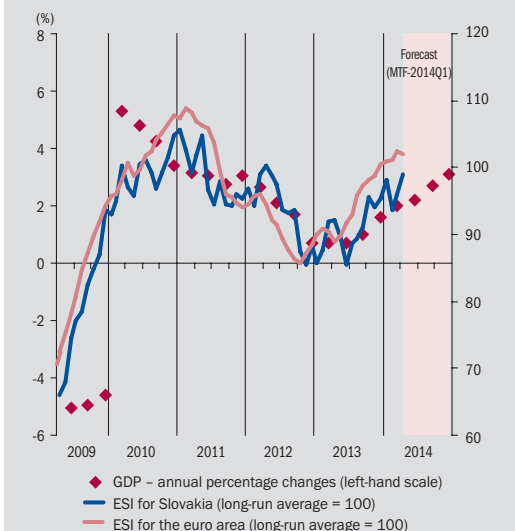
Source: SO SR and NBS.  
Note: The GDP figure for Q1 2014 is the SO SR's flash estimate.

**Chart 41 Employers' expectations and the annual rate of change in employment**



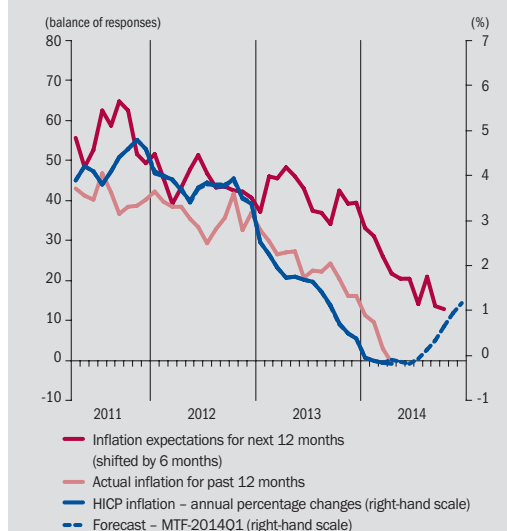
Source: SO SR, NBS and European Commission.  
Note: The employment figure for Q1 2014 is the SO SR's flash estimate.

**Chart 40 GDP (annual percentage changes) and the economic sentiment indicator (long-run average = 100)**



Source: SO SR, NBS and European Commission.  
Note: The GDP figure for Q1 2014 is the SO SR's flash estimate.

**Chart 42 Consumers' inflation perceptions (balance of responses) and HICP inflation (annual percentage changes)**



Source: SO SR, NBS and European Commission.





there is some risk to that outlook given the latest figures and geopolitical uncertainty. Forward-looking indicators for the real economy for the second quarter of 2014 do not suggest any need for substantial revision of the economic forecast. In the labour market, the currently stronger than expected growth in nominal wages may be

reflected in the forecast. Employment is expected to remain at around the levels projected in the latest forecast, since the recent weaker figures may be offset by stronger domestic demand in the future. The fall in HICP inflation in April was greater than expected, and could translate into a lower full-year average rate.



# OVERVIEW OF MAIN MACROECONOMIC INDICATORS FOR SLOVAKIA

**Table 2 Selected economic and monetary indicators for the SR***(annual percentage changes, unless otherwise indicated)*

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 95	Unemployment rate (%)	Industrial production index	Total receipts of sectors	Economic sentiment indicator (long-term average =100)	M3 for analytical purposes <sup>1)</sup>	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
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	-7.5	41.0	-3.7	1.2	1.3257
2011	3.0	4.1	2.7	1.8	13.6	5.3	8.9	98.6	2.9	7.6	11.1	-3,275.7	-4.8	43.6	-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	52.7	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	-2.8	55.4	2.1	5.9	1.3281
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	57.9	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	-	-1.4	57.1	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	-	-4.8	55.4	-0.9	3.6	1.3610
2014 Q1	2.4 <sup>2)</sup>	-0.1	-3.4	0.5 <sup>2)</sup>	.	9.2	4.3	95.9	4.1	0.8	10.7	-	.	.	.	.	1.3696
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	7.1	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	-3.7	-	13.5	9.0	3.9	93.7	5.0	0.0	10.5	-877.1	-	-	-	-	1.3658
2014 Mar.	-	-0.2	-4.0	-	13.3	5.9	4.0	95.9	4.1	0.8	10.7	-1,085.8	-	-	-	-	1.3823
2014 Apr.	-	-0.2	.	-	13.0	.	.	99.0	.	.	.	-1,516.2	-	-	-	-	1.3812

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).

2) Flash estimate Statistical Office of the Slovak Republic.

More detailed time series for selected macroeconomic indicators

[http://www.nbs.sk/\\_img/Documents/\\_MonthlyBulletin/2014/StatisticsMB0514.xls](http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2014/StatisticsMB0514.xls)