NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

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Abbreviations

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

Symbols used in the tables
. – Data are not yet available.
- – Data do not exist / data are not applicable.
(p) – Preliminary data

1 Summary[1]

The euro area economy's fragile recovery stalled in the second quarter of 2014, according to Eurostat's flash estimate. Activity in the euro area remained flat, surprisingly, and therefore failing to meet the expectations of Národná banka Slovenska (NBS) and other institutions for further GDP growth. Short-term indicators pointed to stagnation in industrial production, a marked decline in construction output (affected by strong activity in the first quarter of 2014 that was caused by the mild winter), and moderate increase in retail trade. The only major euro area countries that reported GDP growth were Spain (0.6%) and the Netherlands (0.5%); the French economy had zero growth, while Germany and Italy each experienced a contraction of 0.2%. The Czech economy, like the euro area, remained flat in the second quarter. The impact of current geopolitical developments on forward-looking indicators for the euro area was significantly detrimental. If these factors persist, they could slow the growth in external demand for Slovak products and services and therefore impair activity in Slovakia.

Despite the struggles of largest trading partners, Slovakia managed to maintain relatively strong economic growth. GDP was 0.6% higher in the second quarter than in the first quarter, in line with projections of the current NBS forecast. On the other hand, monthly figures indicate a slight shift in the composition of growth, which will be reflected in the forecast due to be published in September. Slovakia's second quarter growth was probably accounted for by domestic demand, with increases in private consumption and investment. Exports made a negative contribution.

The labour market in Slovakia rebounded significantly in the second quarter of 2014, according to preliminary figures. Employment was boosted by economic growth, with its quarter-on-quarter growth rate increasing to 0.5%, slightly higher than projected in the current forecast. Domestic demand was strong enough to support a large increase in new jobs. According to labour market figures for July, the upturn is likely to continue. Although the unemployment rate did not change (at 12.87%),[2] both the number of new jobs and employers' expectations offer positive signs for the third quarter of 2014.

The inflation rate in July was marginally more negative than in the previous month, at -0.2%,[3] with the decline in prices slightly greater than expected. The downward pressure came mainly from a marked drop in food prices. The drop in consumer prices stems from falling producer prices and import prices, and from their pipeline effect throughout the economy.

The principal downward risks to the growth outlook for the Slovak economy in the next quarter lie in other countries' forward-looking indicators and in the continuing geopolitical tensions with the related possibility of further economic sanctions. The new medium-term forecast will take account of the labour market's moderate improvement, but is not expected to make any significant revisions to the inflation outlook.

1 *All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using internal seasonal models.*
2 *Registered unemployment rate, seasonally adjusted by NBS.*
3 *The annual rate of change in the price level as measured by the HICP.*

2 The real economy

2.1 GDP flash estimate

Euro area economy stagnated in the second quarter

According to Eurostat's flash estimate, the euro area economy stagnated in the second quarter of 2014, after reporting moderate growth (0.2%) in the first quarter. One reason was probably the decline in investment, particularly in the construction industry, after this component had increased sharply in the first quarter (especially in Germany) owing to the mild winter. Exports also made a negative contribution, possibly affected by an increase in geopolitical tensions in the wider world. On the other hand, private and government consumption grew in several large economies.

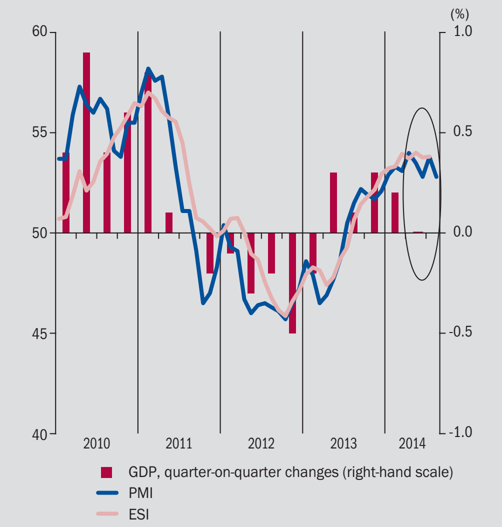
The detailed composition of euro area GDP will not be published until 3 September 2014. However, short-term indicators point to stagnation in industrial production (including a decline in manufacturing output), a marked drop in construction output (affected by strong first-quarter activity caused by the mild winter), and a moderate increase in retail trade.

The only major euro area countries that reported GDP growth were Spain (0.6%) and the Netherlands (0.5%); the French economy had zero growth, while Germany and Italy each experienced a contraction of 0.2%. Among the large euro area economies, only Spain's growth was higher than the ECB's BMPE forecast, while German growth was markedly lower.

The German economy's contraction of 0.2% followed growth of 0.7% in the first quarter. The drop in activity was largely accounted for by falling investment demand and the negative contribution of net exports. Construction investment saw a particularly marked fall, whereas in the first quarter it had been boosted by the mild winter. Net exports were negative because import growth was higher than export growth. On the upside, both private and government consumption increased.

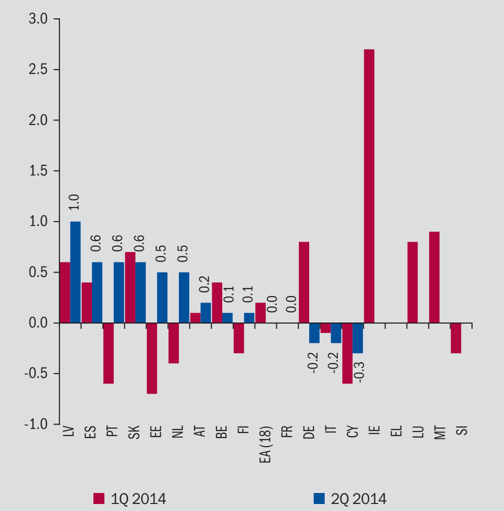
In France, the economy remained flat for a second successive quarter. While private and government consumption contributed positively to growth, investment demand continued to decline (particularly in the construction sector) and net exports were negative.

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



Source: Eurostat, Bloomberg, European Commission, and NBS calculations.
Note: The GDP figure for Q2 2014 is Eurostat's flash estimate. ESI normed and centred at the PMI's long-run average.

Chart 2 GDP flash estimate (quarter-on-quarter percentage changes)



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

Given the current economic situation in euro area countries, as well the available forward-looking indicators, growth in the euro area is expected to remained subdued in coming quarters.

In the Czech Republic, the economy stagnated in the second quarter according to preliminary figures, after reporting relatively strong growth (0.8%) in the first quarter. That GDP did not change was due mainly to a marked decline in tobacco excise revenue in the first and second quarters, caused by stocking up of cigarettes towards the end of last year.

Slovak economic growth remained strong

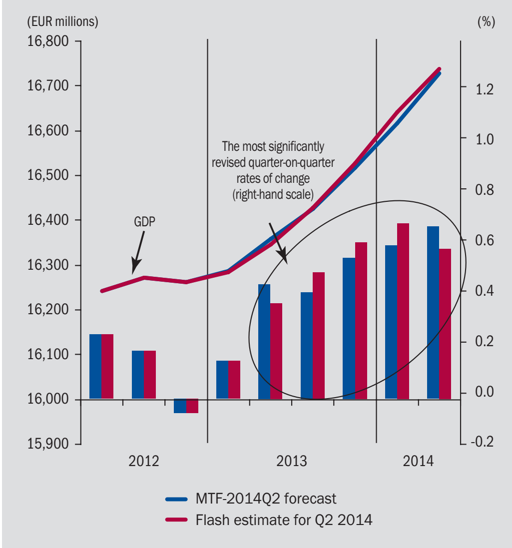
Slovakia's economic growth remained relatively strong in the second quarter of 2014, with employment increasing, according to the SO SR's flash estimate. Although the published figures do not yet give the composition of GDP, it may be inferred from monthly data that a drop in exports was offset by growth in domestic demand.

Quarter-on-quarter GDP growth was 0.6% in the second quarter (after 0.7% in the first quarter), while employment growth for the period increased to 0.5% (from 0.4% in the first quarter). In year-on-year terms, GDP increased by 2.5% (seasonally unadjusted) and employment rose by 1.4%.

The economy's growth rate has now exceeded 0.5% for three successive quarters, such performance having seemed unattainable from the beginning of 2012 to the third quarter of 2013. As economic performance improved in recent quarters, labour demand increased. Headcount employment rose by around 11,000 in the second quarter, not having registered such a rise since the end of 2010, when employment was rebounding from the effects of the crisis. It remains the case, however, that although GDP exceeds its pre-crisis level by more than 5%, employment is 2% below the high point it reached before the crisis.

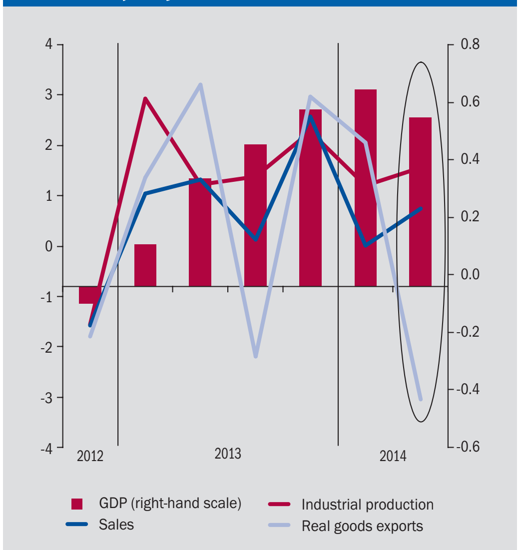
The current NBS Medium-Term Forecast (MTF-2014Q2) projected second-quarter GDP to be €16.727 million, almost the same as the flash estimate of €16.738 million, but it assumed lower employment growth. Although employment growth was higher than NBS projected, its composition (so far only available from monthly data) was closely related to a slight difference in the composition of economic growth from that assumed by the forecast. Employment growth was highest in services sectors focused on satisfying domestic demand more than external demand (information and communication services, professional activities and, to lesser extent, business activities). This supports NBS inferences from hard indicators that domestic

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



Source: SO SR, NBS calculations.

Chart 4 GDP and indicators (percent; seasonally adjusted)



Source: SO SR, NBS calculations.

demand component of GDP is increasing. The decline in exports may have been offset by an expanding domestic market, through rising sales and industrial production.

Estimates for the components of domestic demand (not yet available) seem to be balanced, with the sources of both consumption and investment demand being sufficient to ensure relatively satisfactory growth. The sources of consumption demand growth are to be found not only in rising employment, but also in wage growth – which accelerated at the beginning of the year (to 3.7% year-on-year) and remained high, albeit slightly lower, in the second quarter (at 3.3%) – as well as in sales growth in selected services and in rising imports of consumer goods. Investment demand growth may stem from a revival in long-term lending to firms and continuing growth in lending to households, as well as from investment imports. The assumption is that investment is now growing significantly after a long period of underinvestment in the corporate sector, where real investment had been gradually declining to levels last seen four years ago and where, in certain sectors, the simple replacement of investments financed solely through depreciation was prevalent.

The general price level of the economy, as measured by the GDP deflator, continued to fall in the second 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).

2.2 'HARD' INDICATORS OF ECONOMIC ACTIVITY

Growth in both sales and industrial production was higher in the second quarter of 2014 than in the first quarter. Although export performance in June was favourable, export growth is the second quarter did not reach the strong three month-on-three month increase recorded at the beginning of the year.

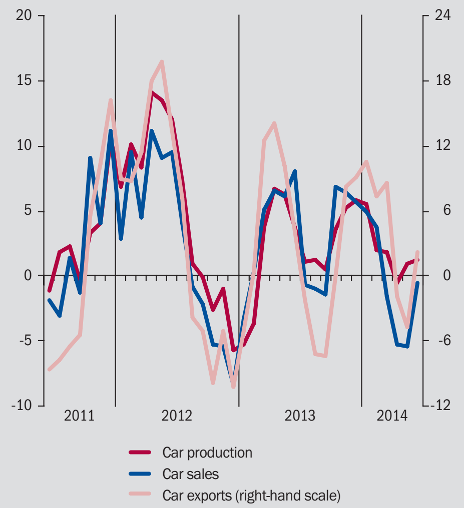
Second-quarter sales growth driven mainly by metal industry

Sales in the second quarter increased quarter-on-quarter by 0.7%, after remaining flat in the first quarter. The sales growth was driven not only by sales in industry, but also by sales in domestic trade, particularly wholesale trade and retail trade. This suggests that the pick-up in domestic demand did not stall in the second quarter, although, in line with projections, the quarter-on-quarter increase in private consumption will probably be lower than it was in the first quarter. The weaker sales results at the beginning of

Chart 5 Sales, industrial production and exports (percent; three-month moving average compared against average for previous three months)

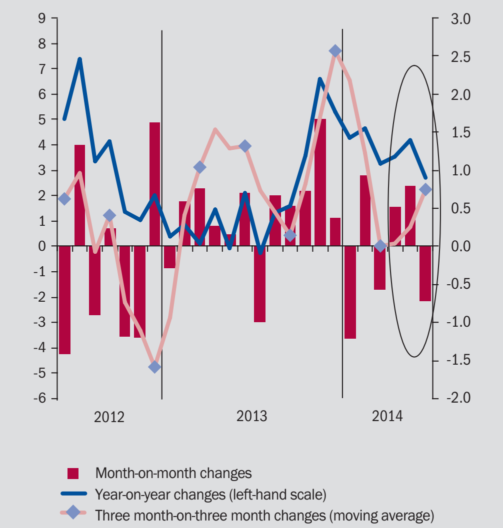
Source: SO SR, NBS calculations.

Chart 6 Automotive industry indicators (percent; three-month moving average compared against average for previous three months)



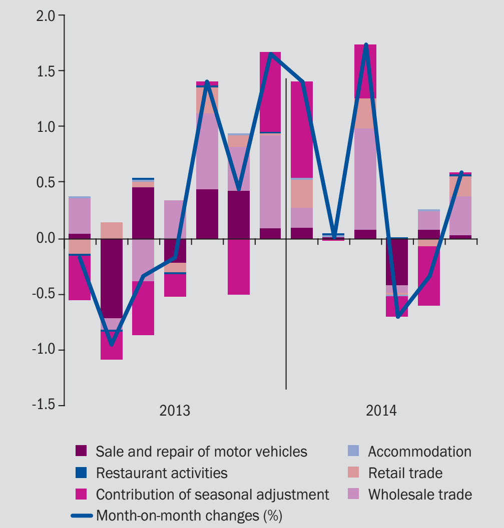
Source: SO SR, NBS calculations.

Chart 7 Total sales at constant prices (%)



Source: SO SR, NBS calculations.

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

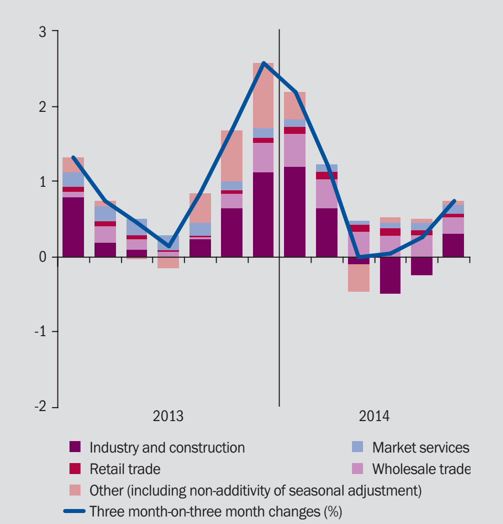


Source: SO SR, NBS calculations.

the second quarter point to the fragility of the gradual recovery in trade.

The quarter-on-quarter growth in industry sales was accounted for mostly by the sector of metal manufacture and to some extent also by the car industry. The petrochemical industry made a significant negative contribution to overall industry sales growth, quarter-on-quarter, owing to planned shutdowns occurring up to mid-June.

Chart 8 Total sales by contributions of selected sectors to three-monthly rate of change (p.p.; constant prices)



Source: SO SR, NBS calculations.

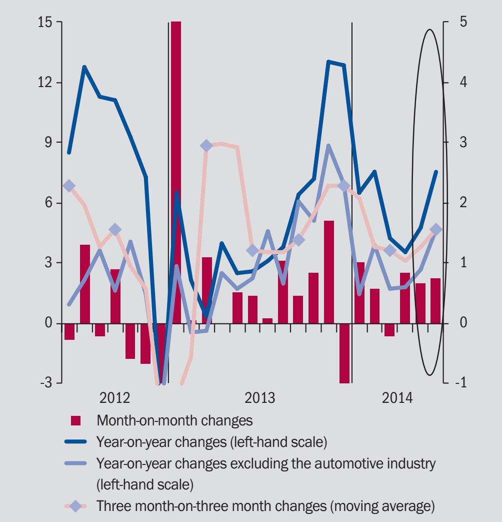
In month-on-month terms, trade sales increased on the basis of results in both wholesale trade (higher sales of information technology) and retail trade (probably higher food sales). In industry, however, sales fell as a result of negative contributions from the petrochemical, electronics, and automotive industries, which may indicate slower activity growth in the period ahead.

Industrial production growth was also driven mainly by the metal industry

Industrial production was 1.6% higher in the second quarter of 2014 than in the first quarter (when it increased by 1.2% quarter-on-quarter). Despite heightened uncertainty related to the external environment and economic contraction in Slovakia's largest trading partner, industrial production continued to grow. The main driver of the growth was the metal industry, although the automotive and electronics industries also made positive contributions. Like sales, overall industrial production was negatively affected by results in the petrochemical industry.

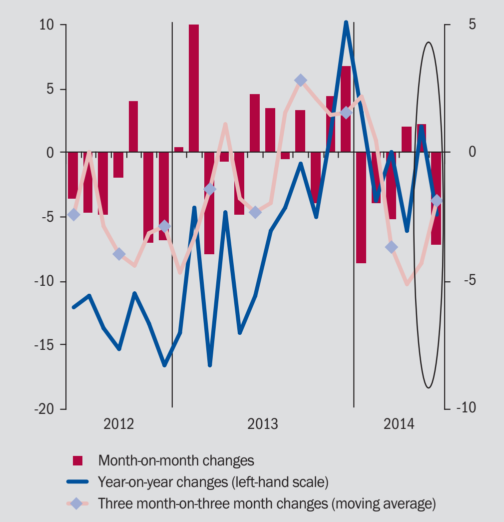
Although July's business survey in industry was favourable (especially in regard to future

Chart 10 Industrial production (%)



Source: SO SR, NBS calculations.

Chart 12 Construction production (%)



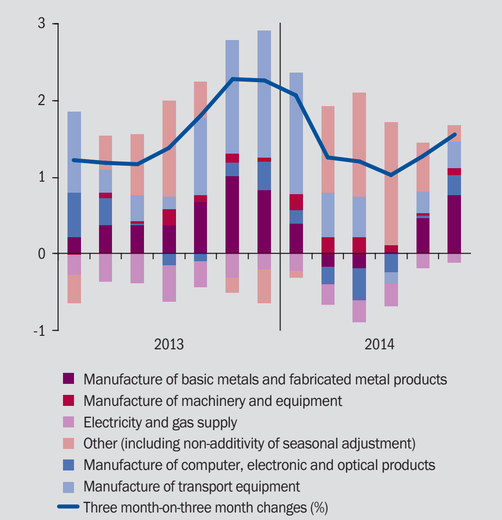
Source: SO SR, NBS calculations.

expectations), this optimism was checked by industrial order books, particularly the level of orders from euro area countries. Given that the euro area economy stagnated in the second quarter, the order books may be a first harbinger of slower industrial production growth in Slovakia. The largest declines in new orders, in comparison with the first quarter, were observed in the electronics, machinery, and chemical manufacturing industries.

Construction production continued to decline

Construction production fell in the second quarter of 2014 by 1.9% quarter-on-quarter. The largest negative contribution came from new

Chart 11 Industrial production – principal contributions to three-monthly rate of change (p.p.; moving average)



Source: SO SR, NBS calculations.

Chart 13 Construction production (trend; constant prices; index: average for 2010 = 100)

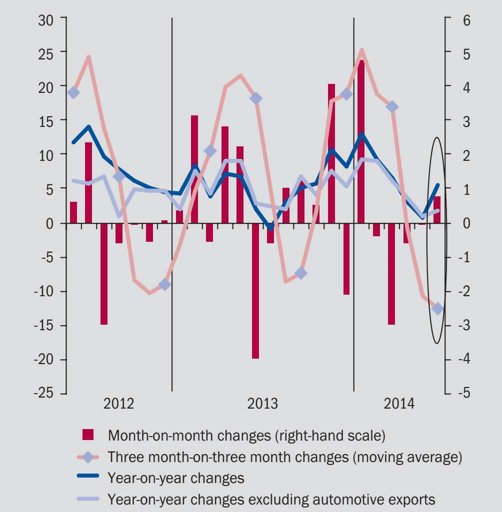
Source: SO SR, NBS calculations.
Note: Building construction accounts for around 70% of total construction production.

domestic construction, in particular residential construction and civil engineering construction. The downward trend in construction is generally expected to end in 2014, and this view is supported by business surveys. Despite a mild winter, construction production fell by 1.9% in the first half of 2014. Weak results in June were a major reason for that drop, with activity falling by 3.6% month-on-month (the only segment in which activity increased was repair and maintenance of buildings).

Despite improving in June, export performance was weaker in the second quarter than in the first quarter

Goods exports (converted into constant prices) increased in June by 0.8% month-on-month, thanks mainly to car exports. The largest contribution to their real growth was a marked drop in export prices (industrial producer export prices fell by 0.7% month-on-month). Despite rising in June, goods export growth for the second quarter was lower quarter-on-quarter, by 2.5%. The decline in export performance reflects both the high comparison base of the first quarter (attributable to strong exports in January) and the subsequent weakening of exports as a result of geopolitical tensions. Such a pattern was particularly evident in the automotive industry, as well as in the electronics and petrochemical industries.

Chart 14 Goods exports (percent; constant prices)



Source: SO SR, NBS calculations.
Note: Converted by NBS into constant prices.

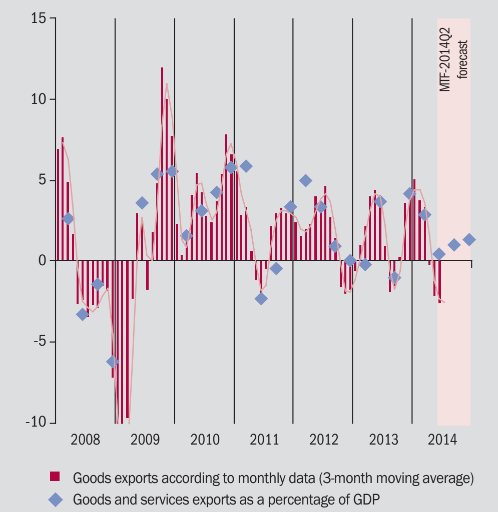
Chart 15 Annual rate of change in exports in selected sectors (3-month moving average; percent; current prices)

Source: SO SR, NBS calculations.

Foreign trade figures confirmed the quarter-on-quarter decline in goods exports in the second quarter, while the MTF-2014Q2 forecast had assumed they would increase (by 0.4%), albeit by less than they did in the first quarter (2.8%).

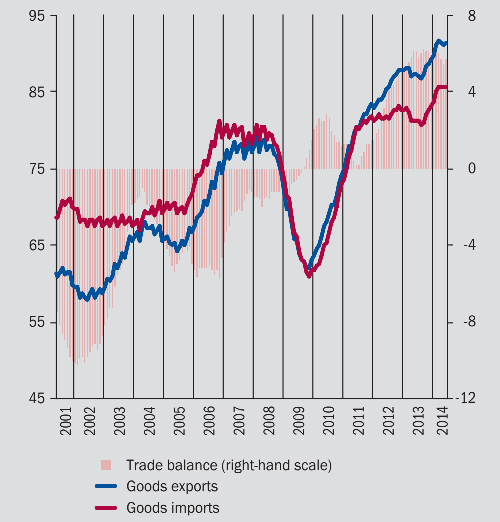
Imports, too, are assumed to have made a negative contribution to GDP growth, rather

Chart 16 Exports (three month-on-three month percentage changes; constant prices)



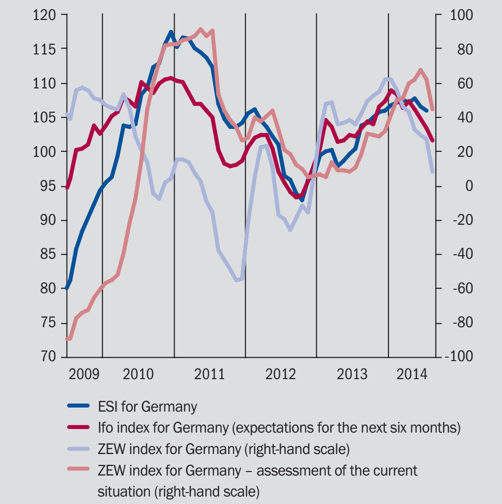
Source: SO SR, NBS calculations.

Chart 17 Ratios to GDP (12-month percentage)



Source: SO SR, NBS calculations.

Chart 18 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).

than the projected positive impact. Goods imports, converted into constant prices, fell by 1.5% quarter-on-quarter. The MTF-2014Q2 forecast assumes that import growth will drop from 2.2% in the first quarter to 1.3% in the second quarter. There were declines in imports of fuel, lubricating oils and greases, food, and beverages. By contrast, imports of consumption goods increased significantly, with the largest rises observed in non-durable and semi-durable goods, as well as in passenger cars.

Net exports are expected to have had a negative impact on GDP growth in the second quarter, as projected in the MTF-2014Q2 forecast.

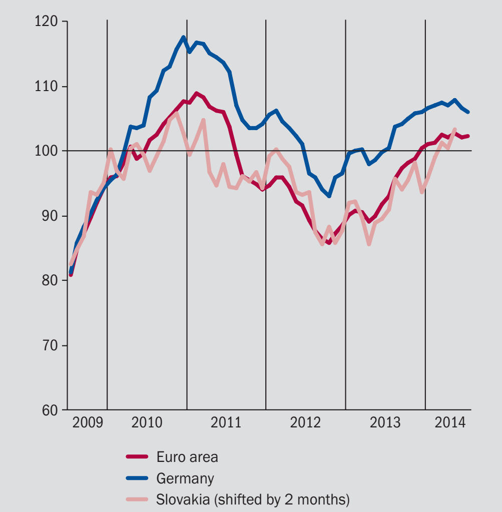
The 12-month trade surplus in June amounted to €522.8 million (seasonally unadjusted), or 5.7% of GDP (the corresponding figure for June 2013 was 6.1% of GDP). Nominal goods exports increased year-on-year by 1.8%, while goods imports fell by 0.7%.

2.3 FORWARD-LOOKING 'SOFT' INDICATORS

Weak business confidence in the euro area and Germany

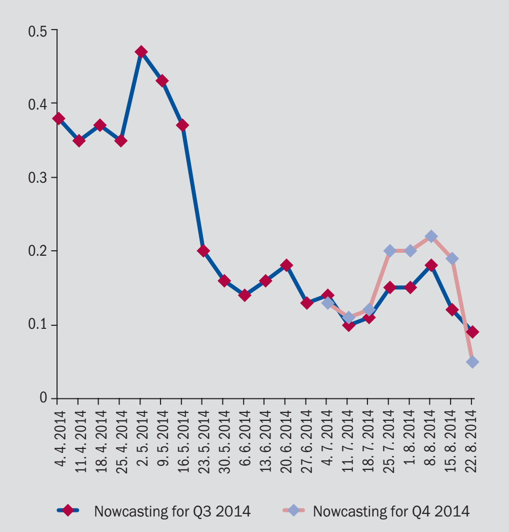
In July, the economic sentiment indictor (ESI) for the euro area remained almost unchanged from the previous month, while the ESI for Germany declined. In the euro area, industry and construction confidence increased, and in Germany the only improvement in sentiment was a moderate one in industry. Germany's ZEW index slumped from 27.1 in July to 8.6 in

Chart 19 Economic sentiment indicator (long-run average = 100)



Source: European Commission.

Chart 20 Euro-area GDP growth estimate for Q3 and Q4 2014 (quarter-on-quarter percentage changes)



Source: Now-Casting.com

August, falling to below its long-run average (24.6) for the first time in 19 months. In addition to a drop in expectations, assessments of the current economic situation in Germany also became more pessimistic (down by 17.5 points). The PMIs for both the euro area and Germany fell in August after rising in July; the euro area PMI declined to 52.8 (from 53.8) and the German PMI to 54.9 (from 55.7). Germany's Ifo Business Climate Index also dropped in August, to 106.3 (from 108.0), largely on the basis of deteriorating outlooks for the future situation.

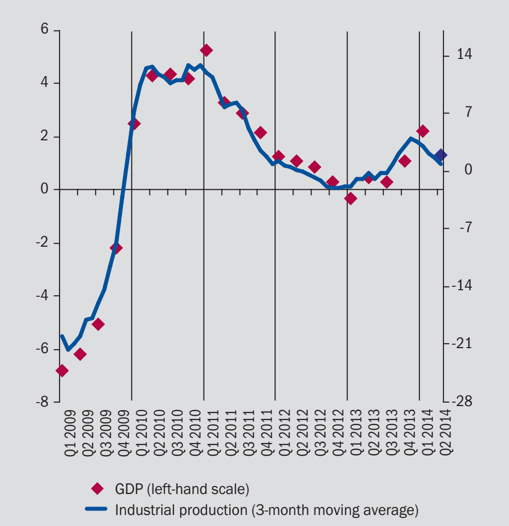
The risk of weaker economic activity in the third quarter is being increased by the gradual worsening of economic sentiment, as well as by the escalation of geopolitical tensions and emerging barriers to international trade.

Rising confidence in the Slovak economy led by industry

The economic sentiment indicator for Slovakia increased month-on-month in July by 2.9 points, to 103.3, its highest level since May 2011. There were improvements in all ESI components with the exception of retail trade.

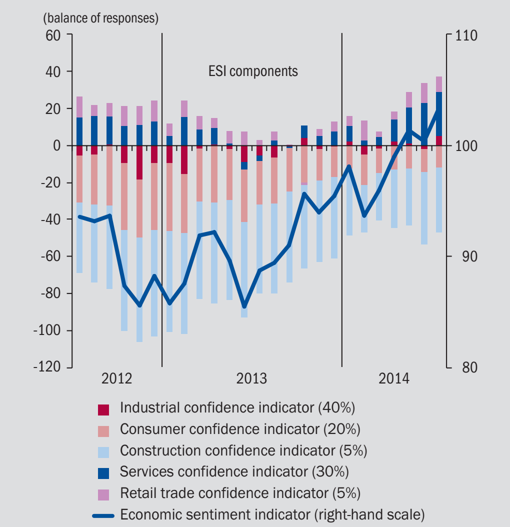
The strongest improvement was in industry confidence, based largely on more positive assessments of future production growth, particularly in the automotive, electronics, wood processing, and metal industries. The increase in construction confidence reflected mainly expectations that employment in the sector will increase in coming months. In services, the most improved assessments were those of current

Chart 21 GDP and industrial production in Germany (annual percentage changes)



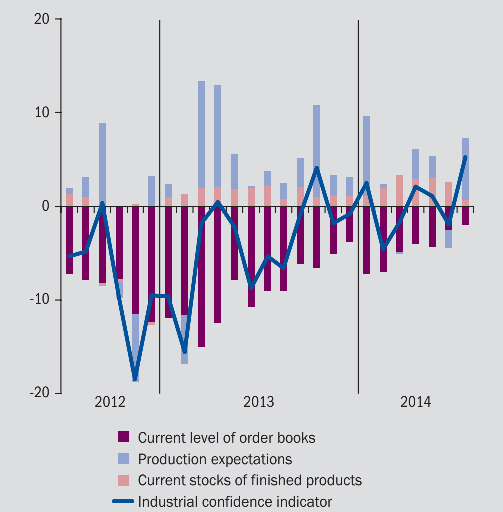
Source: Eurostat.
Note: GDP for Q2 2014 is a flash estimate.

Chart 22 Economic sentiment indicator for Slovakia (long-run average = 100)



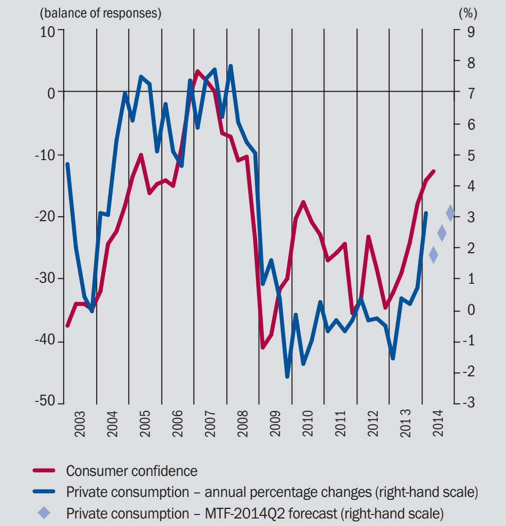
Source: European Commission.
Note: The percentages in the legend represent the weights of the respective components in the ESI.

Chart 23 Industrial confidence indicator for Slovakia (balance of responses)



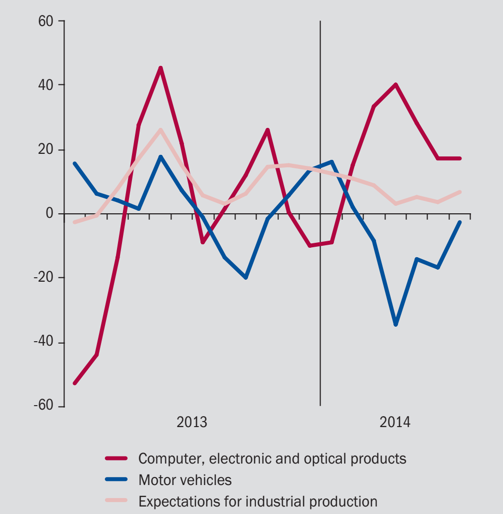
Source: European Commission.

Chart 25 Consumer confidence and private consumption



Source: SO SR, European Commission and NBS.

Chart 24 Industrial production expectations (balance of responses; 3-month moving average)



Source: European Commission and NBS.

demand for services, particularly in transportation and storage, financial and insurance activities, and in entertainment and recreation. The continuing pick-up in the consumer confidence indicator was accounted for by positive expectations for employment, while the other components of this indicator deteriorated. Retail confidence slid due to increased pessimism regarding the expected business situation.

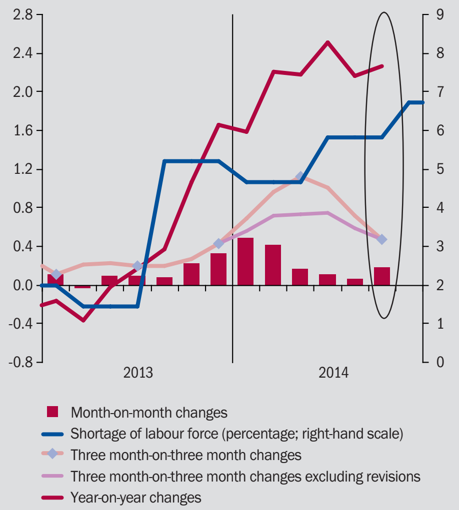
It is notable that the cooling of sentiment in the euro area and Germany has not yet been reflected in the expectations of Slovak agents and that overall sentiment in the Slovak economy suggests that the economy will continue growing in the third quarter.

3 Labour market

Employment growth was higher in the second quarter than in the first quarter, at 0.5%, according to the SO SR flash estimate. At the same time, employment growth for the previous three quarters was revised up, although solely on grounds of seasonal adjustment (the unadjusted figures are unchanged). The economy's moderate pick-up in recent quarters has had an upward effect on the labour market, with the improvement expected to have been greater in the category of employees than in the category of the self-employed. A more detailed breakdown of the employment figures will be released in September.

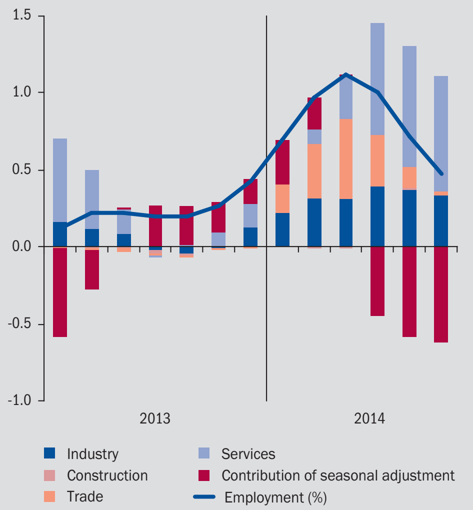
Also pointing to employment growth is employment in selected sectors of the private economy, which increased in June by 0.2% month-on-month (around 2,400 people) and 2.3% year-on-year (slightly higher compared to the previous month). Recent employment growth has occurred mainly in services (notably market services, and IT and communication) and, to a lesser extent, in business activities; this may be evidence of the revival of the domestic side

Chart 27 Rates of change in employment (%)



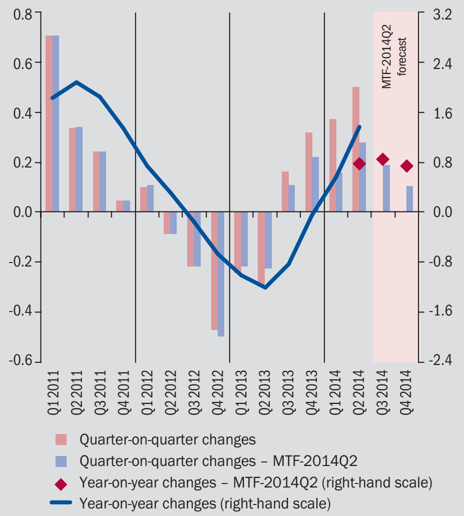
Source: SO SR, NBS calculations.
Note: The indicator 'shortage of labour force' is included in EC business surveys. In January, upward revisions were made to employment growth in the segments of business activities, accommodation, and restaurants. At the same time, the figures for 2013 were not revised and hence there was probably no upward effect on the labour market situation.

Chart 26 Employment – sectoral contributions to the three-monthly rate of change (p.p.)



Source: SO SR, NBS calculations.

Chart 28 Comparison of the current forecast and employment as defined in ESA 95 (%)

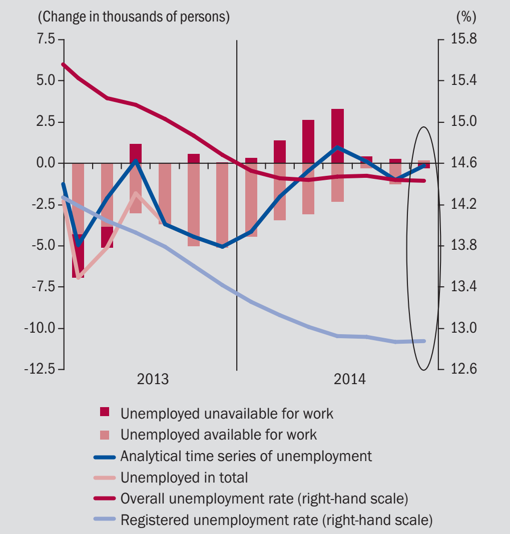


Source: SO SR, NBS calculations.
Note: The employment figure for Q2 2014 is the SO SR's flash estimate.

of the economy. Employment in export-oriented industries increased only slightly. Construction firms continue to underperform, and this is reflected in employment in the sector. Despite signs of a slowdown in economic activity growth, forward-looking indicators for employment still suggest that it will increase moderately in the period ahead, as projected in the MTF-2014Q2 forecast.

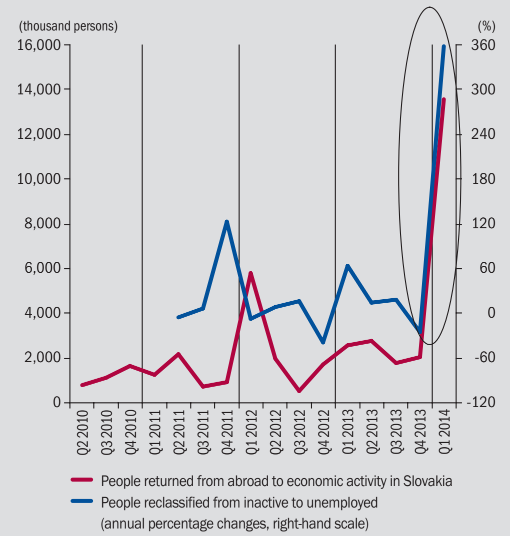
The number of unemployed registered at labour offices remained flat in July. Both overall and registered unemployment were unchanged month-on-month, after seasonal adjustment.[4] Unemployment last fell significantly in January, since when it has decreased only marginally, by around 2,500 people (after seasonal adjustment). The fall in the number of unemployed available for work was slightly greater, albeit because the number of people on work activation schemes increased over the same period (these people remain registered with labour offices). Considering the relatively favourable situation in employment, it is slightly surprising that overall unemployment has decreased only marginally. This may be accounted for by the inflow of economically inactive people reclassified as unemployed (people at home, students, people who have given up seeking work), as well as by the return of some people from working abroad. These statements are backed by certain indicators in the Labour Force Survey. Abstracting from these factors, the decrease in the registered

Chart 30 Unemployment (%)



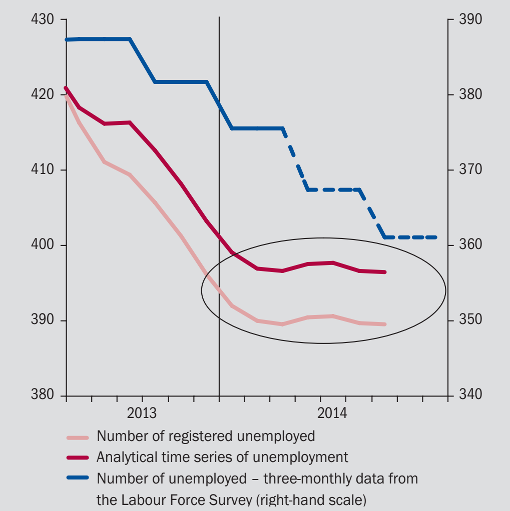
Source: Central Office of Labour Social Affairs and Family, NBS calculations.

Chart 29 Flows into the Slovak labour supply of inactive people reclassified as unemployed and people returning from abroad



Source: Anonymised data from the Labour Force Survey (SO SR), NBS calculations.

Chart 31 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 Q2 and Q3 2014 is based on the MTF-2014Q2 forecast.

4 *The seasonally unadjusted unemployment rate fell by 0.12 percentage point, to 12.67%. The unemployment rate based on the total number of job seekers fell by 0.03 percentage point, to 14.23%.*

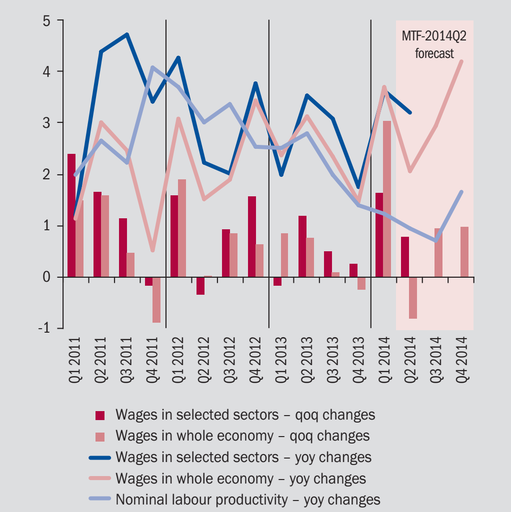
unemployment rate would probably have been greater. The number of job vacancies remained at the increased level of the previous period, which is a positive sign for the future situation.

Assuming that these additional inflows of unemployed are only temporary, it may be expected that the number of unemployed in the period ahead will return to a downward trajectory similar to that projected in the MTF-2014Q2 forecast.

Nominal wages fell month-on-month in June by 0.3%, similar to their decline in May. In each of those two months the annual growth rate of wages decreased moderately. Nominal labour productivity is increasing quite slowly and, at the level of average wages, it may be reflected in the period ahead with wages lower than they were in the first quarter. Annual wage growth is more pronounced in business activities and, to a lesser extent, in industry. In the construction and services sectors wage growth is around zero. In the case of services, this is due mainly to the recruitment of new lower-paid staff (in, for example, the IT sector and shared services centres).

Wages in selected sectors for the second quarter point to slower wage growth in the economy as a whole. After rising sharply in the first quarter, owing partly to the payment of ad hoc bonuses, annual wage growth in the second quarter is expected to have decelerated and therefore to be closer to its projection in the MTF-2014Q2 forecast.

Chart 32 Wage developments in the economy (annual and quarter-on-quarter percentage changes)



Source: SO SR.
Note: Wage growth in the selected sectors for Q2 2014 is calculated using the SO SR's monthly data. The wage growth figures for the economy as a whole in Q2 to Q4 2014 are the projections given in the MTF-2014Q2 forecast, while the figure for Q2 2014 is the current most plausible estimate. Nominal labour productivity was calculated using data from MTF-2014Q2 forecast.

Chart 33 Wage growth (annual percentage changes; 3-month moving average)

Source: SO SR.

4 Prices

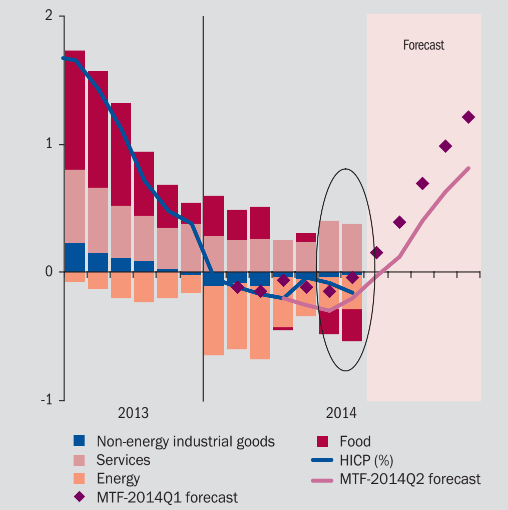
Annual inflation remained negative in July

The annual rate of HICP inflation edged further into negative territory in July, at -0.2%, after recording -0.1% in June. This decrease in prices was greater than expected. The month-on-month inflation rate was also -0.2%.

The slightly more marked decline in the annual rate of the overall price index was due largely to a greater drop in food prices. The downward trend in energy and food price inflation has been a determining factor of low inflation since the beginning of 2014, and in the last two months the contribution of food to the headline rate has even been negative. The price level in Slovakia may be further subdued as a consequence of current geopolitical tensions that have resulted in Russia taking import measures; this effect may be direct, through an increase in supply, or indirect, through a decline in economic growth. Another downward risk to the inflation outlook may be pipeline pressure on consumer food prices from farm gate prices, which are expected to be pushed down by a good harvest. Hence food prices represent the principal risk to the inflation forecast in the short term.

The gradual increase in retail sales is evidence of improving consumer sentiment supported by growth in real wages. It is assumed that the emerging trend in household final consumption will be reflected, with a lag, in price decision and that services price inflation will accelerate slightly.

Chart 34 Composition of annual inflation (p.p.)



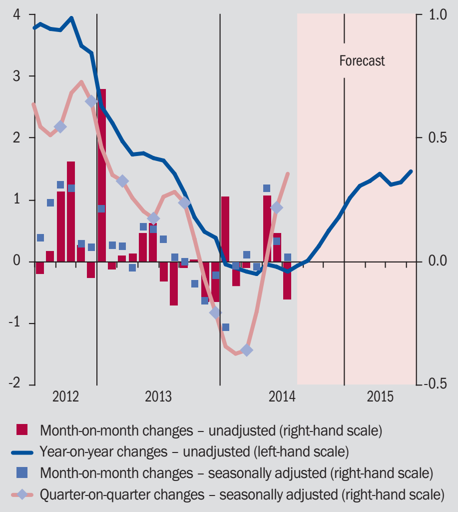
Source: SO SR, NBS calculations.

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 inflation excluding fuel
Month-on-month change	A	July 2013 – actual figure	-0.3	0.2	-0.4	0.3	**-0.1**	0.0
	B	July 2014 – forecast	0.0	0.0	-0.2	0.2	**0.0**	0.0
	C	**July 2014 – actual figure**	**-0.2**	**0.1**	**-0.6**	**0.2**	**-0.2**	**0.0**
	BC	**Difference in contribution to month-on-month rate of change (p.p.)**	**-0.05**	**0.01**	**-0.11**	**0.00**	**-0.16**	**-0.03**
Year-on-year change	D	June 2014 – actual figure	-0.1	-1.6	-0.9	1.3	**-0.1**	0.6
	E	July 2014 – forecast	0.1	-1.7	-0.6	1.2	**0.0**	0.6
	F	**July 2014 – actual figure**	**-0.1**	**-1.7**	**-1.0**	**1.2**	**-0.2**	**0.5**
	AC	Base effect	insignificant	insignificant	insignificant	insignificant	**insignificant**	insignificant
	EF	**Difference in contribution to month-on-month rate of change (p.p.)**	**-0.05**	**0.01**	**-0.11**	**0.00**	**-0.16**	**-0.03**

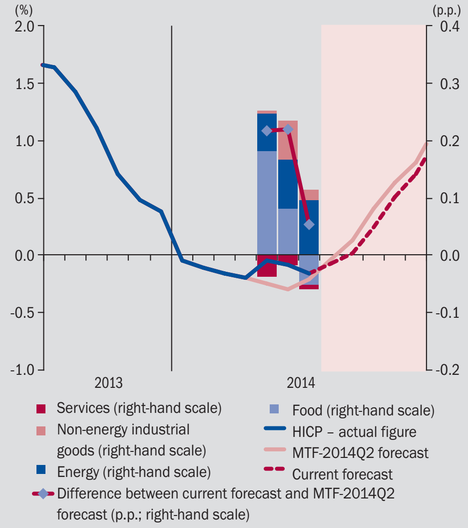
Source: SO SR, NBS calculations.

Chart 35 Headline inflation rate (%)



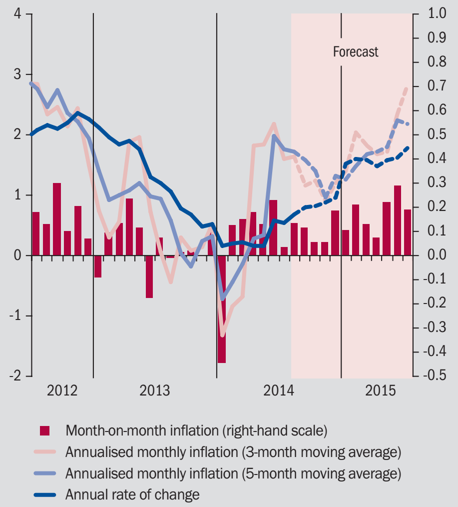
Source: SO SR, NBS calculations.

Chart 37 Price developments compared with forecast (MTF-2014Q2)



Source: SO SR, NBS calculations.

Chart 36 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.

Based on price movements in July and technical assumptions, NBS assumes that the average annual inflation rate for 2014 will be in the range 0% to 0.1%. In the shorter term, the annual inflation rate in August and September is projected to be -0.1% and zero, respectively. Subsequent months should see price inflation gradually pick up (boosted in particular by the base effect of the decline in food prices towards the end of 2013), although that outlook is subject to the risks mentioned above.

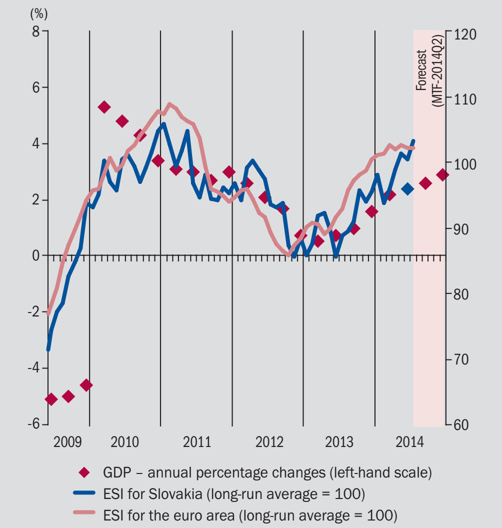
5 QUALITATIVE IMPACT ON THE FORECAST

The latest figures for economic growth confirm the assumptions of the current forecast. Overall growth was almost in line with projections, and therefore the forecast due to be published in September is not expected to include any significant revisions in this regard. Should,

Chart 38 GDP, industrial production and sales (annual percentage changes)

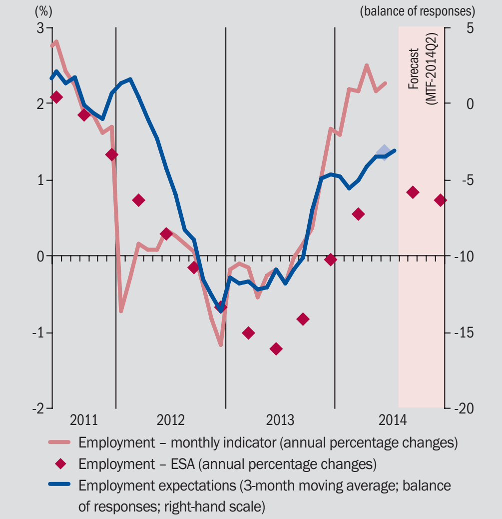
Source: SO SR and NBS.
Note: GDP for Q2 2014 is the SO SR's flash estimate.

Chart 39 GDP and the economic sentiment indicator



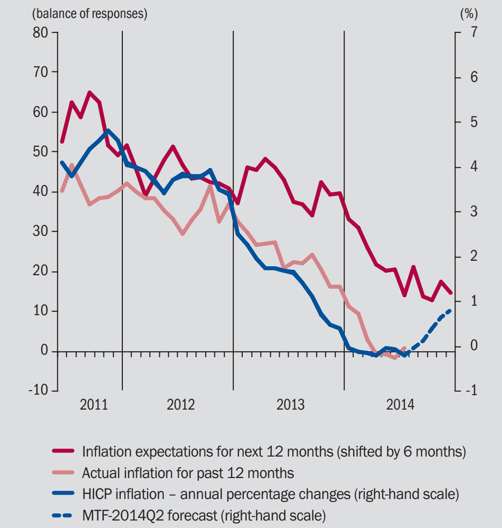
Source: SO SR, NBS and European Commission.
Note: GDP for Q2 2014 is the SO SR's flash estimate.

Chart 40 Employers' expectations and the annual rate of change in employment



Source: SO SR, NBS and European Commission.
Note: GDP for Q2 2014 is the SO SR's flash estimate.

Chart 41 Consumers' inflation perceptions and HICP inflation



Source: SO SR, NBS and European Commission.

however, geopolitical tensions escalate, the growth forecast would need to be adjusted. The September forecast will include revisions to the composition of GDP growth, with monthly figures indicating, on the one hand, an increase in domestic demand (particularly in private consumption) and, on the other hand, a decline in export performance. As for the labour market, its slightly more positive developments represent an upside risk and will probably result in an upward revision to the employment forecast for this year. The inflation forecast is not expected to change, despite the marginal greater decline in prices.

Overview of main macroeconomic indicators for Slovakia

Table 2 Selected economic and monetary indicators for the SR

(annual percentage changes, unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 95	Unemployment rate (%)	Industrial production index	Total receipts of sectors	Economic sentiment indicator (long-term average =100)	M3 for analytical purposes[1]	Loans to non-financial corporations	Loans to households	State budget balance (EUR mil.)	General government balance as % of GDP	Debt ratio (general government gross debt as % of GDP)	Current account (% GDP)	Balance of trade (% GDP)	USD/EUR exchange rate (average for the period)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2006	8.3	4.3	6.4	2.1	13.3	15.6	-	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	16.7	-	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	2.9	-	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	-18.4	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	8.0	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	5.4	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	4.9	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	2.3	90.6	5.2	1.7	10.2	-2,023.3	-2.8	55.4	2.1	5.9	1.3281
2013 Q3	0.9	1.4	-0.7	-0.9	14.1	4.5	1.5	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	10.9	4.3	95.0	5.2	1.7	10.2	-	-4.8	55.4	-0.9	3.6	1.3610
2014 Q1	2.4	-0.1	-3.4	0.6	14.1	6.0	3.4	95.9	4.1	0.8	10.9	-	-3.1	58.4	2.9	7.2	1.3696
2014 Q2	2.5[2]	-0.1	-3.7	1.4[2]	.	5.2	3.0	100.2	3.7	2.4	11.6	-	.	.	.	.	1.3711
2013 Aug.	-	1.4	-0.7	-	13.7	3.9	1.0	89.4	6.3	-0.5	10.2	-291.0	-	-	-	-	1.3310
2013 Sep.	-	1.1	-0.8	-	13.8	6.4	2.6	91.0	6.2	0.4	10.3	-61.4	-	-	-	-	1.3348
2013 Oct.	-	0.7	-1.4	-	13.7	7.2	2.9	95.6	9.0	1.0	10.2	6.5	-	-	-	-	1.3635
2013 Nov.	-	0.5	-2.0	-	13.5	12.9	4.9	94.0	6.5	-0.6	10.3	8.7	-	-	-	-	1.3493
2013 Dec.	-	0.4	-1.7	-	13.5	12.8	5.1	95.4	5.2	1.7	10.2	-60.5	-	-	-	-	1.3704
2014 Jan.	-	0.0	-2.5	-	13.6	6.4	4.9	98.1	4.8	2.8	10.3	-122.9	-	-	-	-	1.3610
2014 Feb.	-	-0.1	-3.7	-	13.5	7.5	3.5	93.7	5.0	0.2	10.5	-754.2	-	-	-	-	1.3658
2014 Mar.	-	-0.2	-4.0	-	13.3	4.2	1.7	95.9	4.1	0.8	10.9	-208.7	-	-	-	-	1.3823
2014 Apr.	-	-0.2	-4.4	-	13.0	3.4	3.6	99.0	3.6	2.6	11.1	-430.4	-	-	-	-	1.3812
2014 May	-	0.0	-3.6	-	12.8	4.7	2.5	101.3	3.7	2.8	11.3	-362.8	-	-	-	-	1.3732
2014 June	-	-0.1	-3.3	-	12.8	7.5	3.1	100.4	3.7	2.4	11.6	-90.6	-	-	-	-	1.3592
2014 July	-	-0.2	.	-	12.7	.	.	103.3	.	.	.	-182.9	-	-	-	-	1.3539

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 of Statistical Office of the Slovak Republic.

More detailed time series for selected macroeconomic indicators
http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2014/StatisticsMB0814.xls