NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

NBS
Monthly Bulletin

August 2015

Published by:
© Národná banka Slovenska

Address:
Národná banka Slovenska
Imricha Karvaša 1, 813 25 Bratislava
Slovakia

Contact:
+421/2/5787 2146

http://www.nbs.sk

Debated by the NBS Bank Board on 4 September 2015.

ISSN 1337-9526 (online)

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Abbreviations

CF	Consensus Forecast
CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EECF	Eastern Europe Consensus Forecast
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
MPE	Macroeconomic Projection Exercises
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
ÚPSVR	Ústredie práce, sociálnych vecí a rodiny – Central Office of Labour, Social Affairs and Family
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 continued to grow in the second quarter of 2015, albeit at a slightly slower rate (0.3%) than expected. According to preliminary data, growth was driven mainly by exports, which were buoyed by weakening of the exchange rate. Domestic demand, in contrast, increased at a slower pace. The national economies that made the largest contributions to the overall growth were Spain and Germany. The French economy, however, unexpectedly remained flat. Leading indicators provide a mixed outlook for the third quarter. On the one hand, indicators such as the PMI and Ifo index are improving, while on the other hand the ZEW index is sending out negative signals. Overall, however, the outlook for growth in the second half of the year, in both Germany and the euro area as whole, is weaker than it was in the previous month.

The Slovak economy grew by 0.8% in the second quarter of 2015, in line with projections. According to preliminary figures, domestic demand accounted for most of that growth. A key aspect of the increase in domestic demand was investment activity, as firms took advantage of low interest rates. Private consumption was supported by strong sentiment levels and an improving labour market situation. Monthly sales figures point to relatively strong private consumption growth.

Labour market developments in the second quarter were more positive than projected. **Employment increased by 0.65%**, with smaller firms, too, reporting an increase in job vacancies. With its growth driven by domestic demand, the economy is creating an increasing number of jobs, but, according to survey results, vacancies are becoming more difficult to fill. In some sectors, firms are experiencing a labour shortage and consequently wage growth is rising slightly. Average wage growth across selected sectors in June was 3.5%. The largest increase was in construction, as improved output is having an upward effect on wages, but not employment in the sector.

The annual inflation rate in July was -0.2%,[2] reflecting a marked drop in prices of food and automotive fuel. The inflation rate continued to be affected by falling commodity prices and a lack of demand-pull pressures.

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

2 The real economy

2.1 Flash estimate of euro area GDP

Euro area growth in the second quarter slightly lower than expected

According to Eurostat's flash estimate, euro area economic growth eased slightly in the second quarter of 2015, to 0.3% quarter-on-quarter (down from 0.4% in the first quarter). Whereas private consumption and investment increased more slowly than expected, according to the preliminary figures, net exports made a surprisingly strong positive contribution to GDP growth, with export performance apparently boosted by weakening of the euro exchange rate.

Among the larger national economies in the euro area, the highest growth rates were reported by Spain (1.0%) and Germany (0.4%). There was also strong growth in Latvia (1.2%) and in Greece, Estonia and Slovakia (all 0.8%). After experiencing marked growth in the first quarter of 2015 (0.7%), the French economy unexpectedly stagnated in the second quarter.

Germany's economic growth accelerated slightly in the second quarter of 2015, to 0.4%, from 0.3% in the previous quarter. Net exports made the largest positive contribution, since, according to preliminary data, export growth was markedly higher than import growth owing to depreciation of the euro. Domestic demand also had a positive impact, with both private and public consumption continuing to increase. There were negative contributions to growth from gross fixed capital formation (including a significant fall in construction investment), as well as from the running down of inventories.

The French economy remained flat in the second quarter of 2015 after its significant growth (0.7%) in the first quarter. Private consumption growth eased considerably, while gross fixed capital consumption returned to negative territory. Investment on the side of both non-financial corporations and government also decelerated. Overall, with its growth rate falling substantially, domestic demand had only a marginal positive impact on GDP growth. Net exports made a positive contribution as import growth slowed and export growth accelerated. Changes in inventories contributed negatively to GDP growth.

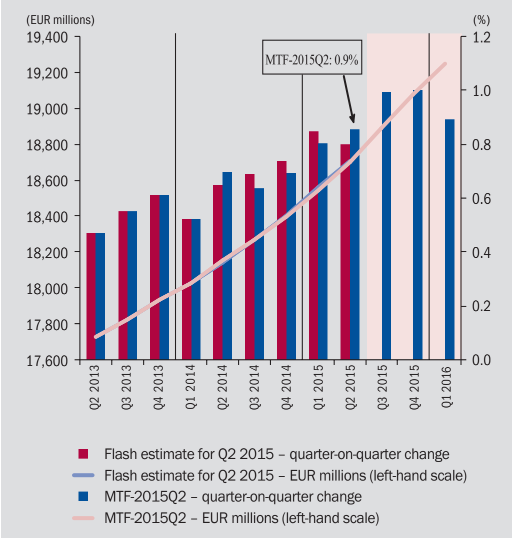
In the Czech Republic, according to the flash estimate, GDP in the second quarter increased by 0.9% quarter-on-quarter (after growth of 2.5% in the first quarter). In contrast to the previous quarter, the growth was more evenly spread across all sectors of the national economy. The growth was driven by household consumption, as well as by increased investment activity.

2.2 GDP flash estimate and 'hard' indicators of economic activity in Slovakia

Slovakia's economic growth in the second quarter was line with the June forecast

According to the SO SR's flash estimate, the Slovak economy grew in the second quarter by 0.8% quarter-on-quarter (the same as in the first quarter). The annual GDP growth rate increased from 3.1% in the first quarter, to 3.2% in the second quarter (seasonally unadjusted). GDP

Chart 1 Forecast and flash estimate for Slovak GDP



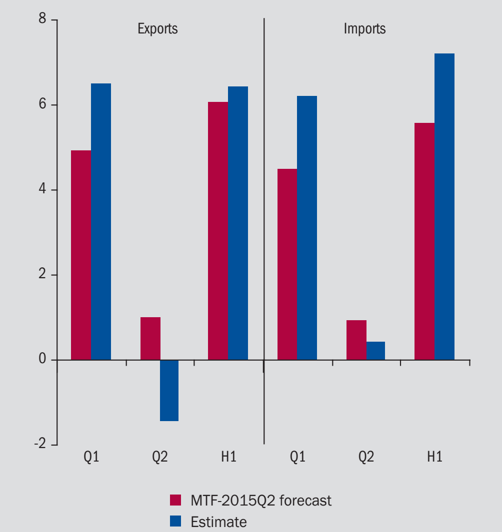
Source: SO SR, NBS calculations.

growth was closely in line with the projection in the June 2015 Medium-Term Forecast (MTF-2015Q2).

Although the pace of quarter-on-quarter GDP growth was the same in the first and second quarters, the composition differed. In the first quarter, the main driver of growth was net exports, whereas in the second quarter it is assumed to have been the domestic economy (since the GDP composition is not due to be published until 4 September 2015, the assumption is based on monthly indicators). Monthly figures show that export volume did not manage to reach the exceptionally high level posted in the first quarter. Although exports are assumed, in the national accounts, to have fallen, this is due primarily to the base effect of the previous quarter's result and does not yet imply a deterioration in the export performance of Slovak industry. Export developments for the whole of the first half of 2015 are consistent with the MTF-2015Q2 projections.

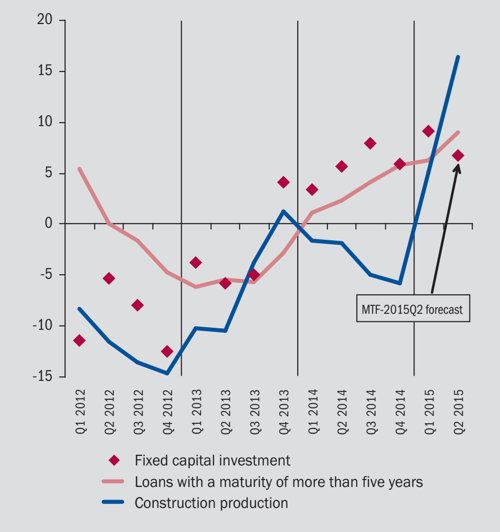
Although imports, unlike exports, increased in the second quarter, their growth rate was far lower than in the first quarter. It is therefore assumed that net exports did not contribute positively to second-quarter growth, as they had been projected to do, albeit modestly, in the MTF-2015Q2 forecast. Import developments may reflect growth in domestic demand components.

Chart 2 Foreign trade in the first half of 2015 (index: previous period = 100; constant prices)



Source: SO SR, NBS calculations.

Chart 3 Investment demand indicators (index: same period of previous year = 100)

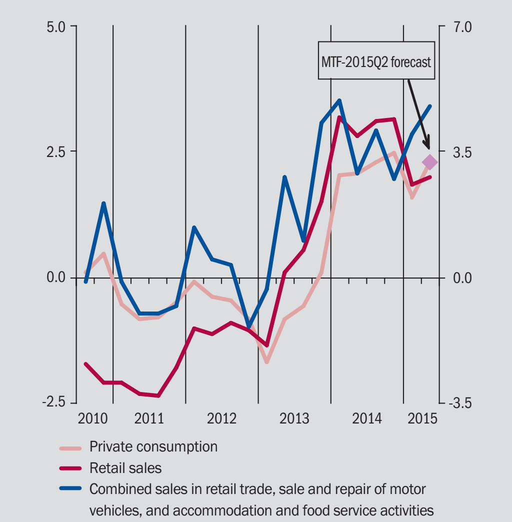


Source: SO SR, NBS calculations.

Slovak GDP growth in the second quarter is therefore expected to have been driven by domestic demand. This assumption is supported by sales in the domestic market, which grew faster than sales abroad. Looking at the composition of domestic demand, fixed capital formation is assumed to have been substantially higher in the second quarter in comparison with both the start of the year and the MTF-2015Q2 projection (1% quarter-on-quarter). Investment is expected to have increased markedly, owing mainly to growth in the construction sector as well as to accelerated imports of capital goods. It is assumed that firms began to ramp up investment in order to take advantage of low interest rates and that large public-sector infrastructure projects also boosted gross fixed capital formation. Residential investment was supported on both the demand and supply side.

Retail sales growth in the second quarter further boosted expectations that private consumption growth for the period will reach the projection given in MTF-2015Q2 (0.7% quarter-on-quarter), which would mean private consumption exceeding its pre-crisis high. Such consumption growth is not precluded by the drop in consumer sentiment observed in the second quarter. This

Chart 4 Private consumption and sales (annual percentage changes; constant prices)



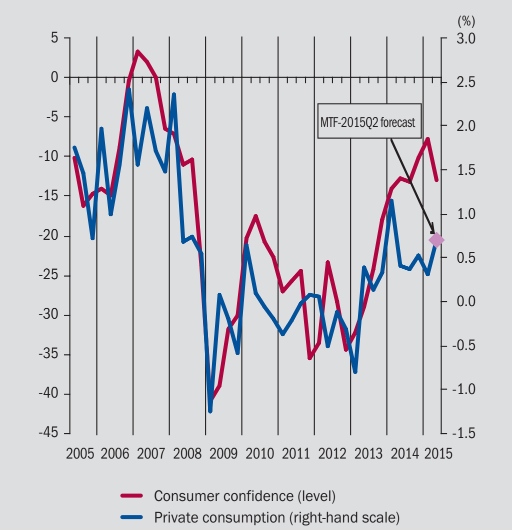
Source: SO SR, MF SR, NBS calculations.

may simply have been due to the base effect of the previous quarter's improvement in consumer confidence, which was reflected not in higher consumption, but in savings (a dynamic that has for some time accounted for the discrepancy between brightening sentiment and weaker consumption)**.** Retail sales gathered pace again (at odds with the broader EU trend) after faltering in the previous quarter.

2.3 FORWARD-LOOKING 'SOFT' INDICATORS

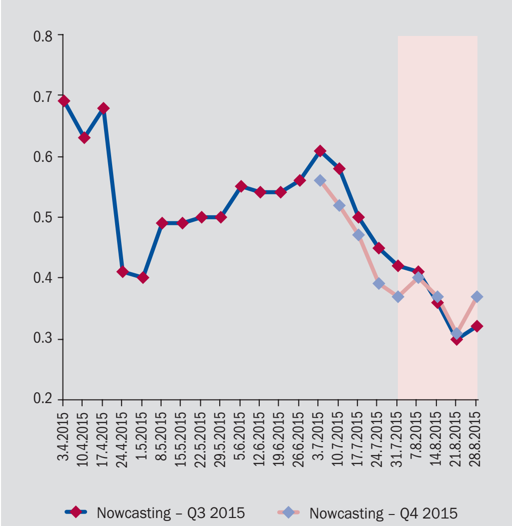
The **economic sentiment indicator (ESI)** for the euro area increased by a modest 0.2 point in April (to 104.2), with improvement observed in all components other than industry (services, construction, retail trade, and consumer confidence). The ESI for Germany fell slightly. As for **PMI indices** in August, the euro area PMI increased to 54.1 (from 53.9 in July), reflecting a slight acceleration of services activity, and the German PMI was boosted by industry to 54.0 (from 53.7 in July). In Germany, the **ZEW indicator** of economic sentiment fell in August for a fifth consecutive month (by 4.7 points, to 25), with analysts' expectations for the next six months reaching their lowest level since November 2014. On the other hand, the ZEW indicator for the current situation in the German economy improved moderately (by 1.8 points, to 65.7). The **Ifo Business Climate Index** for Germany increased by 0.3 point in August (to 108.3), with firms' assessments of the current situation showing an improvement and their expectations for the future remaining broadly unchanged.

Chart 5 Private consumption (quarter-on-quarter percentage changes; constant prices) and consumer confidence



Source: European Commission, NBS calculations.

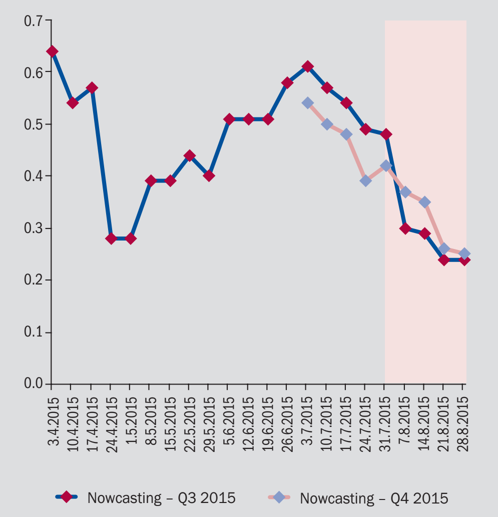
Chart 6 GDP growth estimate for the euro area in Q3 and Q4 2015 (quarter-on-quarter percentage changes)



Source: Now-Casting Economics Ltd.
Note: The beige area denotes developments since the previous Monthly Bulletin.

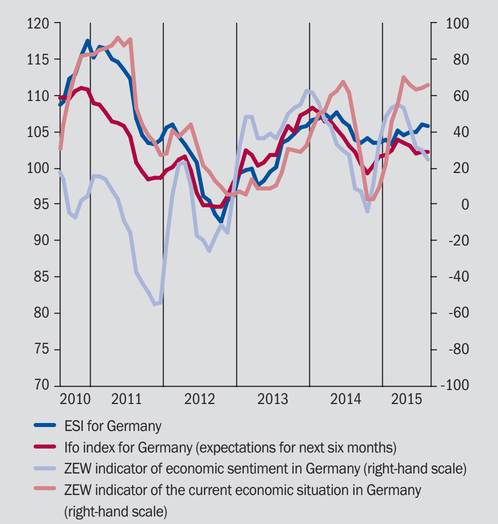
The way that indicators for Germany and the euro area as a whole are developing does not presage any significant pick up in their economic growth before the end of the year. The geopolitical and global economic developments are having a dampening effect on sentiment.

Chart 7 GDP growth estimate for Germany in Q3 and Q4 2015 (quarter-on-quarter percentage changes)



Source: Now-Casting Economics Ltd.
The beige area denotes developments since the previous Monthly Bulletin

Chart 8 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 9 Germany – Ifo index (2005 = 100) and annual GDP growth

Source: Eurostat, Ifo Institute, NBS calculations.
Note: GDP for Q2 2015 is Eurostat's flash estimate.

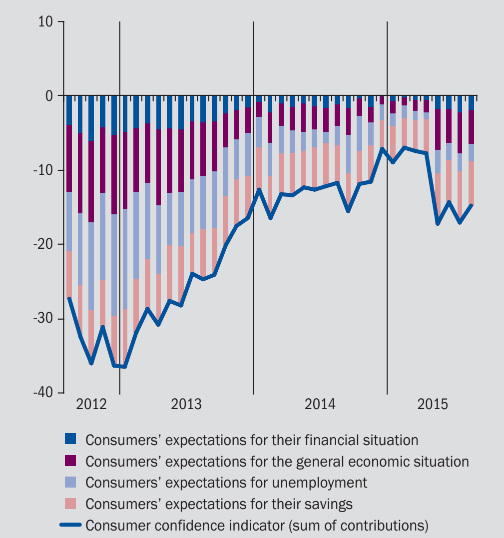
The **economic sentiment indicator for Slovakia** increased month-on-month in August by 3 points, to 98.7. Confidence improved in all components of the ESI with the exception of construction.

The improvement in the industry and consumer confidence indicators suggest that the Slovak economy will remain on a growth trajectory in the second half of 2015.

Chart 10 Economic sentiment indicator (long-run average = 100)

Source: European Commission.

Chart 11 Consumer confidence indicator (balance of responses)

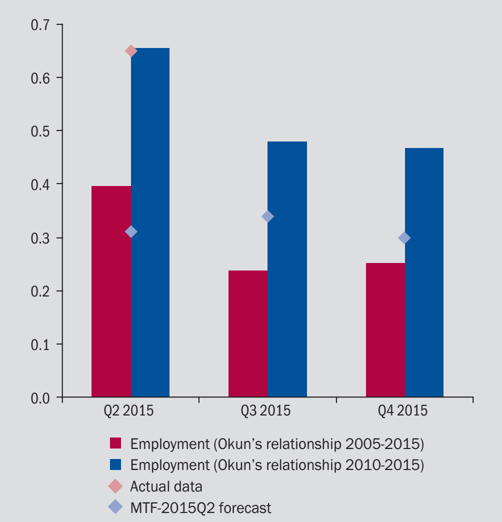


Source: European Commission.

3 The labour market

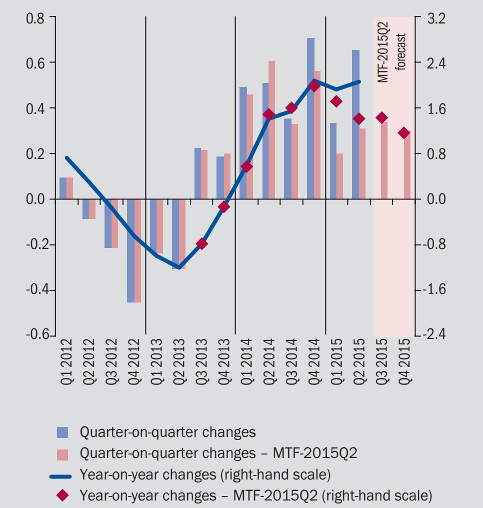
The economic upturn is having a positive impact on the labour market. Employment in the second quarter was 0.65% higher than in the first quarter, with the number of people employed increasing by around 14,700. The growth rate was higher than projected in MTF-2015Q2 (by 0.34 percentage point) and higher than the corresponding rate in the first quarter (0.3%). Since monthly figures had pointed to job growth of around 0.4% in the second quarter, it may be assumed that the overall rate was boosted by the increase in job vacancies at smaller firms, which are less well captured by the monthly data. The stronger employment growth may also be attributed to the workforce expansion necessary in an economy transitioning from a crisis period to "normal" performance. This conclusion is further supported by looking at Okun's law estimated exclusively for the post-crisis period, i.e since 2010.[3] The increased recruitment may, however, prove to be temporary, meaning the growth rate would moderate in the quarters ahead. In sectoral terms, according to the monthly figures, the second-quarter job growth appears to have been accounted for largely by services, and to a lesser extent by the industry and trade sectors.

Chart 12 Employment growth explained by Okun's law (quarter-on-quarter percentage changes)



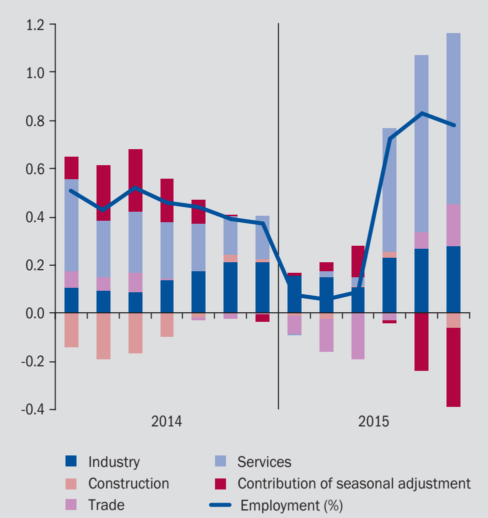
Source: SO SR, NBS calculations.
Note: Okun's law estimated using the explanatory variables of foreign and domestic demand by the method described in an NBS Analytical Commentary[3]. The values of domestic and foreign demand for the period Q2 2015 to Q4 2015 are the projections given in the MTF-2015Q2 forecast.

Chart 13 Comparison of employment forecasts and employment according to the ESA 2010 methodology (%)



Source: SO SR, NBS calculations.

Chart 14 Employment – sectoral contributions to the three month-on-three month rate of change (moving average; p.p.)



Source: SO SR, NBS calculations.

3 *Further details about Okun's law are available in the following Analytical Commentary: http://www.nbs.sk/_img/Documents/_komentare/AnalytickeKomentare/2015/AK20_Okun_SJ.pdf*

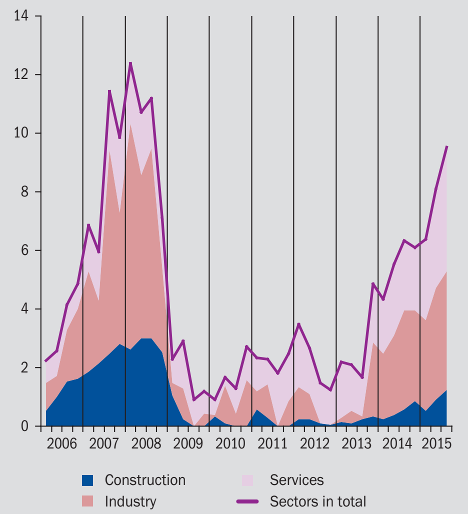
The unemployment rate based on the total number of job seekers fell slightly in July, by 0.08 percentage point to 13.16%.[4] The decrease was smaller than that observed in most months during the first half of the year, and may signal a certain moderation in the pace of job creation during the third quarter. The downward trend in unemployment is nevertheless expected to continue. Although the number of vacancies is high and rising, the number finding work is relatively stable and even fell slightly in July. The first signs of tension in the labour market are appearing, as job vacancies are being created mainly in the wealthiest regions with low levels of unemployment. This is also why labour shortage is once again being mentioned as a constraint on production, according to business surveys. Labour shortage may result in lower employment growth and increased labour costs.

In the four months from April to July, the number of people removed from the unemployment rolls for administrative reasons fell below the recent average. Since NBS makes forecasts for unemployment primarily on the basis of the quarterly Labour Force Survey, which does not take into account such administrative effects, it has adjusted the analytical time series of unemployment in order to incorporate these effects. According to this methodology, in comparison with the official

Chart 16 Concentration of job creation (per cent; p.p.)

Source: ÚPVSR, NBS calculations.
Note: The rate of job creation is calculated as the ratio of job vacancies to the economically active population multiplied by 100. The points on the chart denote the average for the period January-July 2015. The chart captures both districts and regions. Key to abbreviations: BB = Banská Bystrica; MA = Malacky; SC = Senec; BAR = Bratislava Region; RA = Revúca; RS = Rimavská Sobota; PT = Poltár; VT = Vranov nad Topľou; RV = Rožňava; KK = Kežmarok.

Chart 15 Labour shortage in the Slovak economy (per cent of respondents)



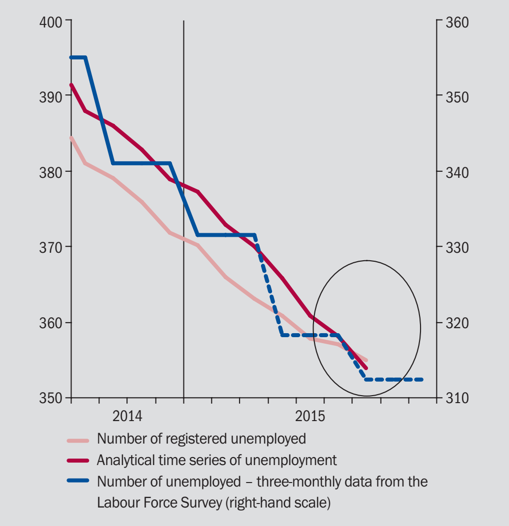
Source: European Commission, NBS calculations.
Note: The time series "Sectors in total" is a weighted average of the different sectors based on the level of employment in each of them.

Chart 17 Unemployment (per cent; thousands of persons)

Source: ÚPVSR, NBS calculations.

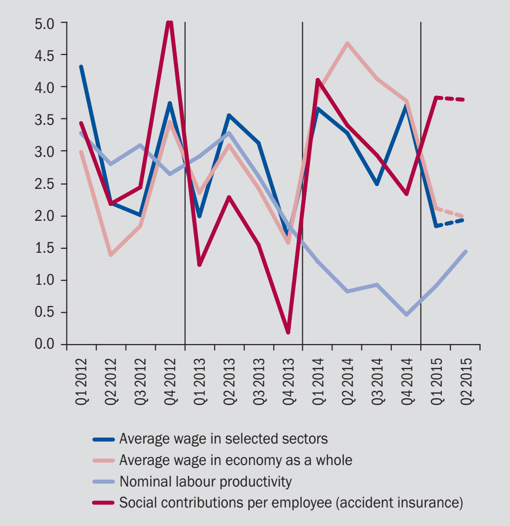
4 *The seasonally-unadjusted registered unemployment rate decreased month-on-month by 0.09 percentage point, to 11.46%. The unemployment rate based on the total number of job seekers fell by 0.08 percentage point, to 13.04%.*

Chart 18 Number of unemployed (thousands of persons)



Source: ÚPVSR, SO SR, NBS calculations.
Note: For Q2 2015, the number of unemployed (Labour Force Survey) is the SO SR's flash estimate. The estimate for Q3 2015 is based on the projected quarter-on-quarter change given in the MTF-2015Q2 forecast. The analytical time series of unemployment is described in the MTF-2013Q3 forecast.

Chart 19 Wage developments in the economy (annual percentage changes)

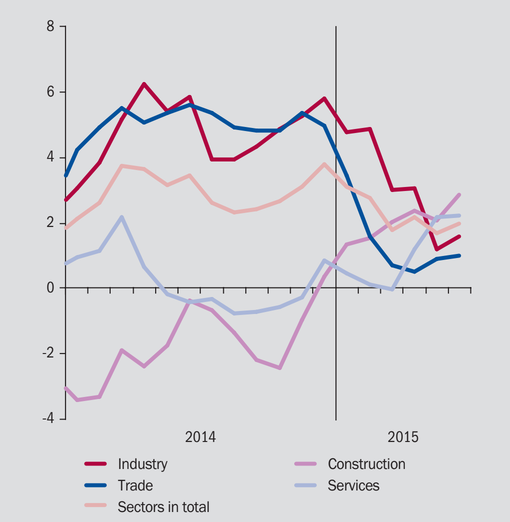


Source: SO SR, Social Insurance Agency.
Note: The average wage for the economy as a whole and nominal labour productivity in Q2 2015 are the projections given in the MTF-2015Q2 forecast. Contributions per employee are calculated on the basis of the number of employees projected in the MTF-2015Q2 forecast.

time series of unemployment, the drop in the number of unemployed has been higher by 2,000 per month. It may therefore be expected that the decrease in unemployment (and increase in employment) may be slightly greater than projected in the MTF-2015Q2 forecast. With employment growth having been more robust than expected, particularly so in the first half of the year, it is assumed that employment growth for the whole year will exceed the MTF-2015Q2 projection.

Annual wage growth across selected sectors was higher in June (3.5%) than in any previous month this year. In the context of the second quarter, this was a counterbalance to the weaker wage growth observed in April and May. The sector with the highest wage growth in June was construction (6.1%). Employers in this sector have so far clearly preferred to use the existing workforce rather than to recruit new workers. Wage growth also accelerated in industry, retail trade, restaurants, transportation, and other services. Based on these data, and in particular the relatively large rise in the collection of social contributions per employee, average wage growth in the economy in the second quarter is expected to be slightly higher than projected in the MTF-2015Q2 forecast. Thus domestic demand may have benefited from increases in both employment and average wages. Given the improved economic performance and the demand for labour, it may be assumed that wage growth will accelerate in the second half of the year.

Chart 20 Wage growth (annual percentage changes; three-month moving average)



Source: SO SR.

4 Prices

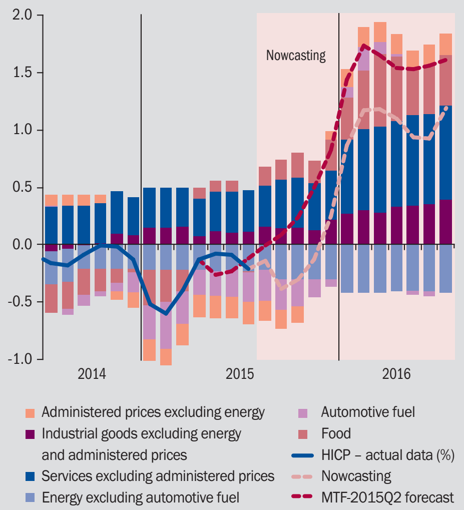
The annual inflation rate in July 2015 was -0.2%, slightly more negative than in June

The annual HICP inflation rate was slightly more negative in July, at -0.2%, than in June (-0.1%), while the month-on-month inflation rate was 0.3%. The inflation rates were lower than projected by NBS.

The lower than projected inflation rate was due in large part to lower than expected food price inflation. Other components of the headline inflation rate were in line with projections.

The year-on-year decrease in the overall price level was slightly greater in July than in June. Looking at the composition of inflation, food prices fell, while the rate of increase in prices of services and non-energy industrial goods was unchanged from June. Net inflation excluding automotive fuel was marginally higher.

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



Source: SO SR, NBS calculations.

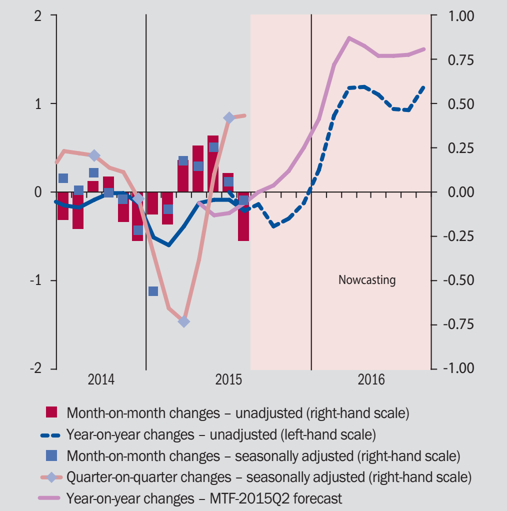
The most significant factor for price developments in Slovakia over the near term appears to be the current slump in oil prices and relatively low food commodity prices. Given the ongoing decline in euro-denominated Brent oil prices and the current trend in automotive fuel prices in the Netherlands, petrol prices are expected to fall in August and September. The marked drop in oil prices could pass through to gas commodity prices. Should they stabilise at lower levels, they

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 automotive fuel
Month-on-month change	A	July 2014 – actual figure	-0.2	0.1	-0.6	0.2	**-0.2**	0.0
	B	July 2015 – forecast	-0.1	-0.2	-0.4	0.1	**-0.1**	0.0
	C	**July 2015 – actual figure**	**-0.2**	**-0.1**	**-1.0**	**0.2**	**-0.3**	**0.0**
	BC	**Difference in contribution to month-on-month rate of change (p.p.)**	**-0.02**	**0.01**	**-0.17**	**0.02**	**-0.16**	**-0.01**
Year-on-year change	D	June 2015 – actual figure	0.4	-2.9	0.4	0.5	**-0.1**	0.9
	E	July 2015 – forecast	0.5	-3.2	0.6	0.5	**0.0**	1.0
	F	**July 2015 – actual figure**	**0.4**	**-3.1**	**-0.1**	**0.5**	**-0.2**	**1.0**
	AC	Base effect	insignificant	insignificant	moderate	insignificant	**insignificant**	insignificant
	EF	**Difference in contribution to year-on-year rate of change (p.p.).**	**-0.03**	**0.01**	**-0.17**	**0.02**	**-0.17**	**-0.01**

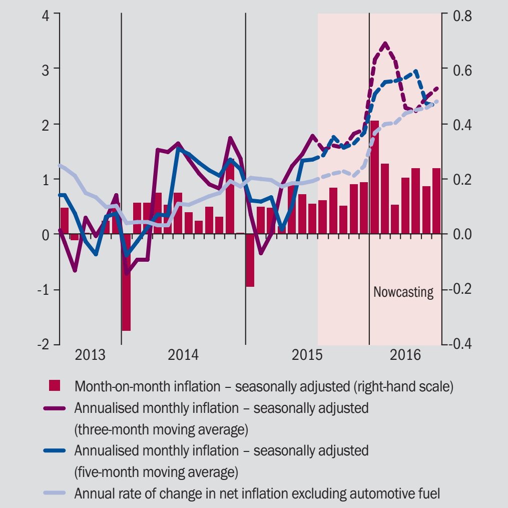
Source: SO SR, NBS calculations.

Chart 22 Headline inflation rate (%)



Source: SO SR, NBS calculations.

Chart 23 Annualised net inflation excluding automotive fuel (per cent; seasonally adjusted)



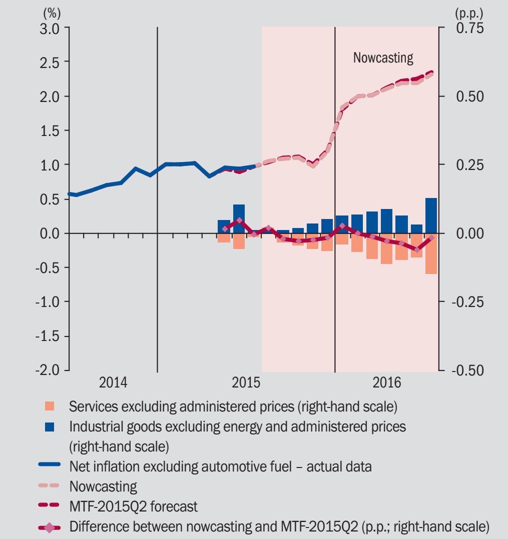
Source: SO SR, NBS calculations.
Note: Net inflation comprises non-administered prices of services and non-administered prices of non-energy industrial goods.

could put downward pressure on household gas prices in the medium-term horizon. How food prices develop will depend on the state of this year's global harvests in agricultural commodities.

Risks to the short-term inflation outlook include high volatility in prices of oil and agricultural commodities in the second half of 2015, since their pass-through to prices in Slovakia could be significant.

Inflation for the whole of 2015 is expected to be moderately lower than projected in the MTF-2015Q2 forecast. The annual inflation rate is projected to be -0.1% in August and to edge into positive territory by the end of the year. Net inflation, on the other hand, is expected to remain in line with the MTF-2015Q2 forecast.

Chart 24 Annual net inflation excluding automotive fuel – trend and forecast (p.p.; per cent)



Source: SO SR, NBS calculations.

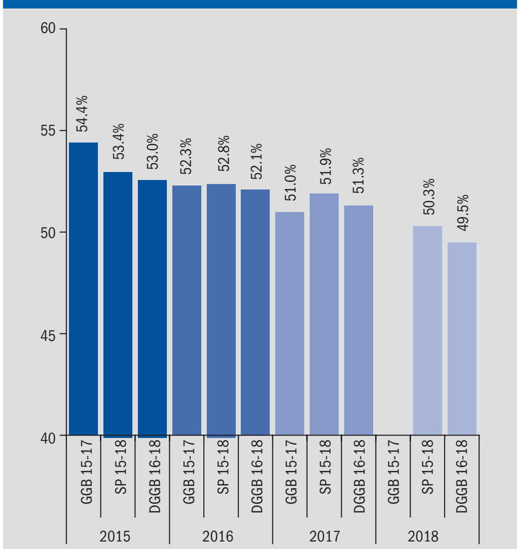
5 Public finances

Submitted to the Government by the Ministry of Finance of the Slovak Republic (MF SR), the Draft General Government Budget (DGGB) for 2016-2018 envisages that in 2015 the budget deficit will be 2.4% of GDP, which is lower than the fiscal target by 0.1 percentage point, and that in 2016 it will fall to 1.9% of GDP. After being eased in 2014, the consolidation effort is projected to be neutral in 2015 and 2016, while more stringent structural consolidation measures are postponed until 2017, when the structural primary balance is expected to return to its 2013 level.[5] **Not even such consolidation may be sufficient, however, to meet the medium-term objective (MTO), i.e. a structural deficit of 0.5% of GDP in 2017**. The impact of public finances on the economy is expected to be relatively limited: moderately expansive in 2015, supported mainly by the absorption of EU funds, and slightly restrictive in 2016. As for gross debt, the budget reckons on further use of liquidity and, consistent with deficit reduction, a gradual decrease in public debt, from 53.0% of GDP in 2015 to 50% of GDP by the end of 2018.

In differing from the approved budget for 2015-2017, the draft budget takes account of most of the risks that NBS pointed out in its analysis[6]. The most significant positive factors in the revision of the deficit are expected to be improved collection of taxes and social contributions (0.2% of GDP), the non-utilisation of economic downturn reserves (0.2%), and higher income of the State Housing Development Fund (0.1% of GDP), although in this case there is a risk that the higher income will be recorded under the ESA 2010 methodology.[7] Savings from lower co-financing of EU-funded projects, as well as from lower contributions to the EU budget, are expected to have a positive impact on the budget for 2015 (0.1% of GDP). The most significant negative factors are financial corrections of EU funds (-0.3%) and the financial performance of public health insurers. It is assumed for the period 2016-2018, similarly as in the Stability Programme, that owing to the ongoing consolidation effort there will be a primary budget surplus and that the budget deficit will gradually be reduced towards the level of 0.5% of GDP.

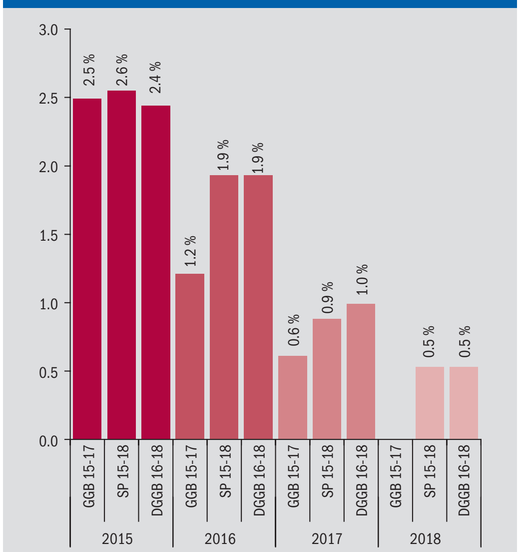
Comparison of general government debt and deficit: GGB for 2015–2017, Stability Programme for 2015–2018, and DGGB for 2016–2018

Chart 25 General government debt (% of GDP)



Source: MF SR and NBS.

Chart 26 General government deficit (% of GDP)



Source: MF SR and NBS.

5 According to the national methodology, with the output gap estimated by NBS.

6 In its Analysis of the General Government Budget for 2015-2017, NBS noted in particular the risks attached to health insurance revenues and the reduction in EU funds.

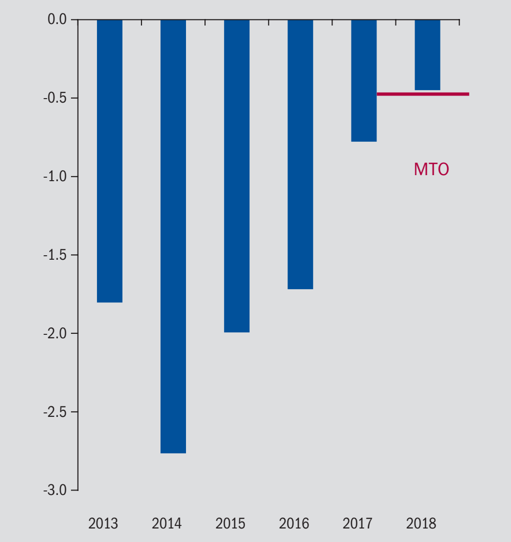
7 EU transfers should have no impact on the government deficit at the time when they are made. According to Eurostat's opinion, in accordance with the main principles for the recording of EU grants, income from EU grants should be recorded at the time when the funds are used.

Public debt at the end of 2015 is expected to be lower than originally budgeted. The factors behind this outturn, besides revenues from the privatisation of Slovak Telecom, include income from the opening of the second pillar of pension system (allowing pension assets to be shifted to the public first pillar scheme)[8] and other sources of liquid assets. In subsequent years, the public debt is expected to fall gradually in parallel with economic growth and the reduction in the primary budget deficit.

Structural balance, consolidation effort, and fiscal impulse

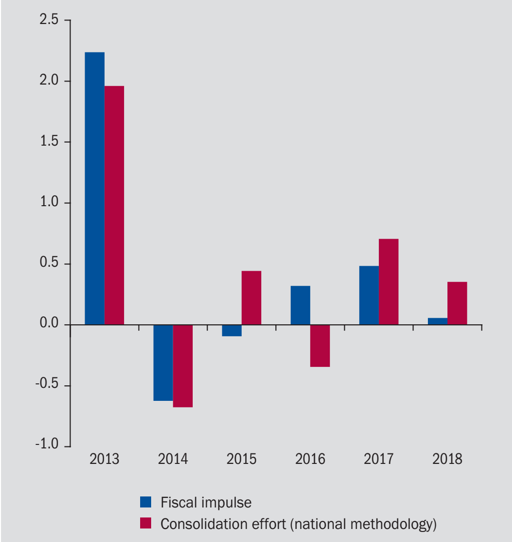
The draft budget assumes high absorption of EU funds, particularly in 2015, which NBS considers a positive development. The calculation of the structural balance, fiscal consolidation effort and fiscal impulse was made using NBS's assumptions for the future absorption of EU funds. Assuming the realisation of savings from lower co-financing of EU-funded projects, the nominal deficit is projected to be 2.2% of GDP in 2015, falling to 1.9% in 2016, 0.8% in 2017, and 0.3% in 2018. The **structural deficit** (EC methodology[9]) is assumed to be 2.0% of GDP in 2015, decreasing to 1.7% in 2016, 0.8% in 2017 and 0.4% in 2018. **Therefore the draft budget does not envisage achieving the medium-term objective (MTO) in 2017**. It is assumed that the **fiscal consolidation effort** (following the national methodology) will be 0.4% of GDP in 2015 and that it will then be eased, to -0.3% of GDP in 2016. The announced increase in the collection of corporate income tax for 2014[10] may result in a revision of the budget deficit for the same year, which would improve the structural balance in 2014 and have a negative impact on the fiscal effort in 2015. For 2017, the year after the general election, the consolidation effort is assumed to be 0.7% of GDP, and in 2018 it should ease to 0.4% of GDP. The **fiscal impulse** for the economy is expected to have a moderately expansive impact in 2015, at -0.1% of GDP (owing mainly to a short-term acceleration in the absorption of EU funds) and subsequently a somewhat restrictive impact of 0.3% of GDP in 2016, 0.5% in 2017 and 0.1% in 2018.

Chart 27 Structural balance – EC methodology (per cent of GDP)



Source: NBS.

Chart 28 Consolidation effort and fiscal impulse (per cent of GDP)



Source: NBS.

8 The budgeted transfer to the Social Insurance was revised down from €906 million to €587 million, thus reducing the funding requirement for the central government deficit.

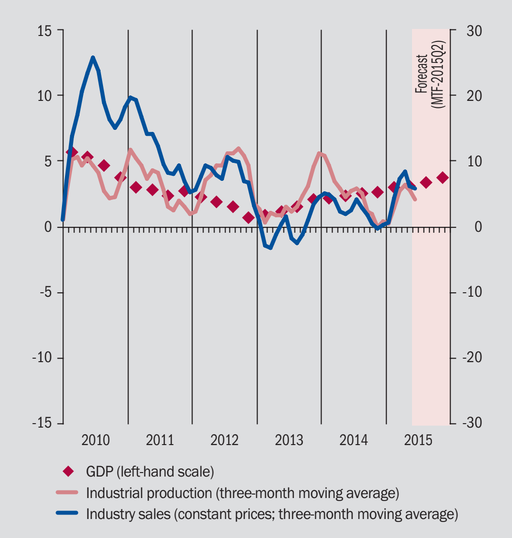
9 In the view of NBS, the output gap as estimated using the European Commission's methodology differs from the gap measured by other methods (by, for example, taking insufficient account of structural reforms), and at the same time it shows considerable instability over time, such that subsequently causes volatility in the cyclical component of public finances. For that reason, NBS shows the cyclical component as estimated using the methodology of the European System of Central Banks (ESCB).

10 According to the latest information from the Ministry of Finance, the original estimate for corporate tax collection, given in the spring notification of the government debt and deficit, may be revised up, which would improve the overall budget balance.

6 Qualitative impact on the forecast

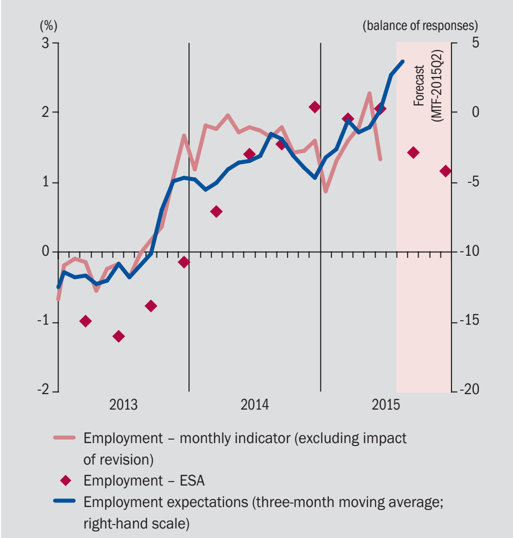
The current flash estimate for economic growth in the second quarter of 2015 is in line with the projections made in the latest NBS Medium-Term Forecast (MTF-2015Q2), and therefore the outlook for this year remains unchanged. Nevertheless, monthly indicators point to a poten-

Chart 29 GDP, industrial production and sales (annual percentage changes)



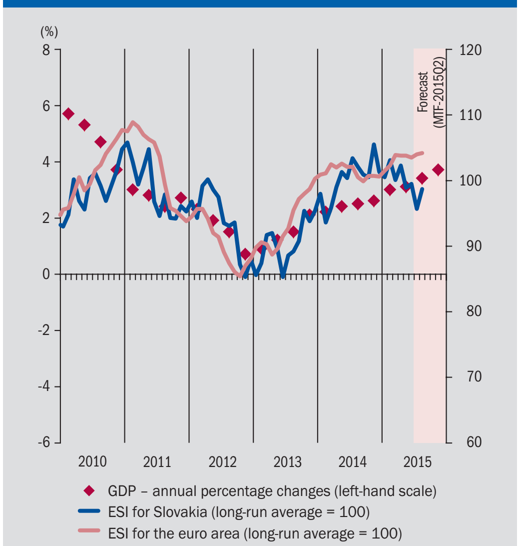
Source: SO SR and NBS.
Note: GDP for Q2 2015 is the SO SR's flash estimate.

Chart 31 Employers' expectations (balance of responses) and employment (annual percentage changes)



Source: : SO SR, NBS and European Commission.
Note: Employment for Q2 2015 is the SO SR's flash estimate.

Chart 30 GDP and the economic sentiment indicator



Source: : SO SR, NBS and European Commission.
Note: GDP for Q2 2015 is the SO SR's flash estimate.

Chart 32 Consumers' inflation perceptions (balance of responses) and HICP inflation (annual percentage changes)

Source: SO SR, NBS and European Commission.

tial divergence in regard to the composition of growth. Export growth is expected to have moderated in the second quarter owing to the base effect of its acceleration in the first-quarter. This drop, however, was offset by improved investment demand. Developments in the labour market were better than projected, and this will be reflected in the next forecast. It is expected that employment growth will be higher and that the unemployment rate will fall to lower levels. While the price level in July had been expected to remain flat, it in fact fell, and therefore the headline inflation rate projection, especially for this year, will probably need to be revised down.

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	Employ-ment ESA 2010	Unem-ployment rate	Industrial produc-tion index	Total sales of sectors	Economic Sentiment Indicator (long-term average=100)	M3[1] (for ana-lytical use)	Loans to non-financial corpora-tions	Loans to house-holds	State budget balance (EUR mil.)	Deficit ratio (general govern-ment deficit 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
2007	10.7	1.9	1.8	2.1	11.0	16.7	-	114.9	12.9	25.4	28.6	-781.0	-1.8	29.6	-	-	1.3705
2008	5.4	3.9	6.1	3.2	9.6	2.9	-	99.1	4.9	15.3	25.3	-704.2	-2.1	27.9	-6.3	-1.8	1.4708
2009	-5.3	0.9	-2.6	-2.0	12.1	-15.6	-18.3	77.5	-2.8	-3.3	11.0	-2,791.3	-8.0	35.6	-3.5	0.4	1.3948
2010	4.8	0.7	-2.7	-1.5	14.4	8.2	8.0	98.6	7.8	1.6	12.5	-4,436.1	-7.5	41.0	-4.7	-0.1	1.3257
2011	2.7	4.1	2.7	1.8	13.6	5.3	8.9	98.7	2.9	7.6	11.1	-3,275.7	-4.8	43.6	-5.0	-0.1	1.3920
2012	1.6	3.7	3.9	0.1	14.0	8.0	4.9	93.9	8.8	-2.3	10.3	-3,810.7	-4.2	52.1	0.9	3.5	1.2848
2013	1.4	1.5	-0.1	-0.8	14.2	5.2	2.3	90.4	5.2	1.7	10.2	-2,023.3	-2.6	54.6	1.5	4.6	1.3281
2014	2.4	-0.1	-3.5	1.4	13.2	3.7	2.2	100.2	1.3	1.2	13.1	-2,923.4	-2.9	53.6	0.1	4.5	1.3285
2014 Q3	2.4	-0.1	-3.4	1.4	12.9	2.3	1.5	102.1	2.0	3.9	12.1	-	-2.5	55.4	-0.7	3.8	1.3256
2014 Q4	2.4	-0.1	-3.5	2.1	12.6	0.6	1.1	102.4	1.3	1.2	13.1	-	-4.5	53.6	-2.4	1.8	1.2498
2015 Q1	3.1	-0.5	-3.9	1.8	12.4	5.6	3.1	101.2	4.2	2.7	13.4	-	-2.4	54.0	1.8	5.1	1.1261
2015 Q2	3.2[2]	-0.1	-3.8	2.0[2]	.	4.2	4.0	100.2	6.0	4.0	13.2	-	.	.	.	.	1.1053
2014 Aug.	-	-0.2	-3.6	-	12.6	2.7	1.1	102.1	2.9	5.7	11.8	-266.9	-	-	-	-	1.3316
2014 Sep.	-	-0.1	-3.8	-	12.4	0.2	0.4	100.9	2.0	3.9	12.1	579.6	-	-	-	-	1.2901
2014 Oct.	-	0.0	-3.9	-	12.3	3.2	2.4	100.5	-0.1	4.5	12.2	-283.8	-	-	-	-	1.2673
2014 Nov.	-	0.0	-2.9	-	12.2	-3.6	-0.3	105.5	1.8	5.3	12.3	-181.2	-	-	-	-	1.2472
2014 Dec.	-	-0.1	-3.7	-	12.3	2.6	1.2	101.3	1.3	1.2	13.1	-618.4	-	-	-	-	1.2331
2015 Jan.	-	-0.5	-3.9	-	12.4	2.3	0.6	100.5	2.9	0.9	13.1	-60.5	-	-	-	-	1.1621
2015 Feb.	-	-0.6	-4.4	-	12.3	3.6	2.9	103.1	2.8	2.5	13.3	-619.5	-	-	-	-	1.1350
2015 Mar.	-	-0.4	-3.3	-	12.1	10.6	5.9	100.1	4.2	2.7	13.4	-271.7	-	-	-	-	1.0838
2015 Apr.	-	-0.1	-3.5	-	11.7	4.8	2.4	102.3	3.6	2.0	13.3	-38.8	-	-	-	-	1.0779
2015 May	-	-0.1	-3.5	-	11.5	1.4	3.4	98.9	5.0	2.9	13.0	-535.8	-	-	-	-	1.1150
2015 June	-	-0.1	-4.4	-	11.5	6.4	6.2	99.5	6.0	4.0	13.2	183.6	-	-	-	-	1.1213
2015 July	-	-0.2	-4.2	-	11.5	.	.	95.7	.	.	.	156.9	-	-	-	-	1.0996
2015 Aug.	-	.	.	-	.	.	.	98.7	.	.	.	.	-	-	-	-	1.1139

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/2015/StatisticsMB0815.xls