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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 SUMMARY¹

Real economy data for Slovakia's most important trading partners were not unfavourable in July. Both industrial production and retail sales increased moderately. Nevertheless, some leading indicators for August and September were already implying a slight deterioration in outlooks for the euro area, stemming from the weakening of economic growth in China and in other emerging market economies. At the same time, the ECB reduced its projection for euro area growth, notwithstanding the positive impact of lower oil prices. It is therefore assumed that external demand for Slovak products will increase more slowly than earlier expected, and this assumption has been incorporated into NBS's latest Medium-Term Forecast (MTF-2015Q3).

The Slovak economy grew by 0.8% in the second quarter of 2015, so confirming the mid-August flash estimate. The main driver of that growth was domestic demand and in particular the investment component. Exports fell slightly after increasing strongly in the first quarter. Private consumption dynamics were strong in the second quarter, and the household sector saw increases in both consumption expenditure and the saving ratio.

Hard indicators for the Slovak real economy, like those for the euro area as a whole, showed positive trends. Industrial production, sales, and exports all recorded higher growth in July, suggesting that economic growth remained solid in the third quarter.

The labour market situation in the second quarter was more favourable than expected. Employment growth of 0.7% exceeded projections, with most of the new jobs being generated in the services sector. Unemployment rate figures indicate that this trend continued in July and probably also in August, albeit more moderately. Given employment expectations and the rapid pace of job creation, outlooks for the second half of the year remain healthy. Wage growth accelerated somewhat, thus strengthening pipeline pressures for private consumption growth.

The negative inflation rate in August was unchanged from July, at -0.2%². This reflected continuing downward contributions from the energy and, to a lesser extent, food components. The months ahead could see a more marked drop in prices, following the reduction of gas prices in September. Demand-pull inflation is not yet increasing significantly, owing to the counteractive secondary effects of energy and commodity prices. Given the downward revision of the euro area inflation forecast and the relatively sharp drop in oil prices, inflation in Slovakia is expected to be lower than previously projected, the impact being most noticeable in energy inflation and imported goods inflation.

All available monthly figures and leading indicators have been incorporated into the MTF-2015Q3 forecast.

Before 2015 the Monthly Bulletin included quarterly annexes on developments in the international economy and in the Slovak economy. These matters are now addressed in two separate quarterly publications, entitled "[Report on the International Economy](#)" and "[Report on the Slovak Economy](#)".

- 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.

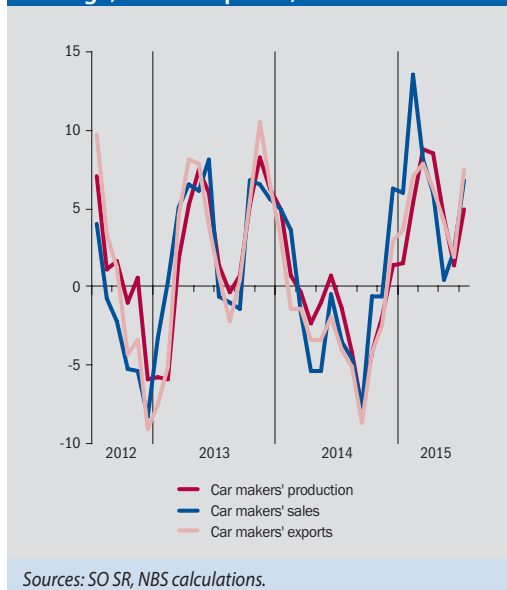
2 THE REAL ECONOMY

2.1 'HARD' INDICATORS OF ECONOMIC ACTIVITY

In July, monthly indicators for production, sales, and exports sent positive signals for the economy's performance in the third quarter of 2015. The summer months are, however, usually a time when factories shut down for holidays, and in August 2015 the number of days of holiday downtime among major firms was higher compared with the same month of the previous year (particularly in the automotive sector). If the number of downtime days at car plants had been the same as in 2014, industrial production and other monthly indicators would, after recalculation, likely show only a modest increase. It may therefore be assumed that the relatively favourable trends of July moderated somewhat in August.

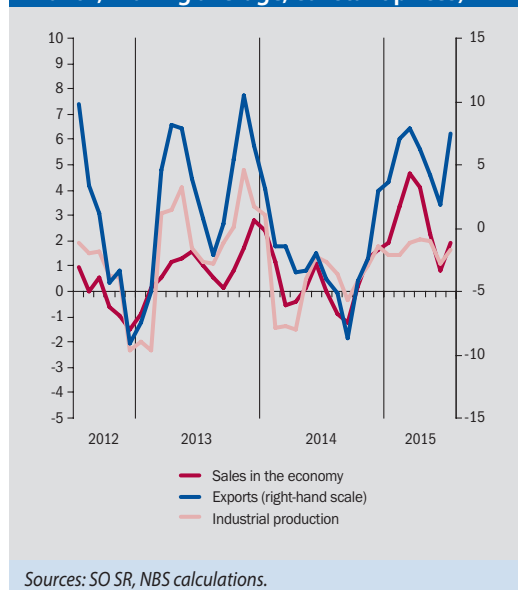
Sales in the economy and industrial production were, cumulatively, 1.9% higher for the three-months to end-July than for the previous three months. That increase was driven mainly by the car, metal, and plastic manufacturing sectors, as well as by the wholesale trade and services sectors. Although monthly indicators do not

Chart 2 Automotive industry indicators (per cent, three month-on-three month; moving average, constant prices)



yet show any signs of Slovak industry being adversely affected by external developments in China and other emerging market, the risk of such repercussions remains present.

Chart 1 Sales, industrial production and exports (per cent, three month-on-three month; moving average, constant prices)

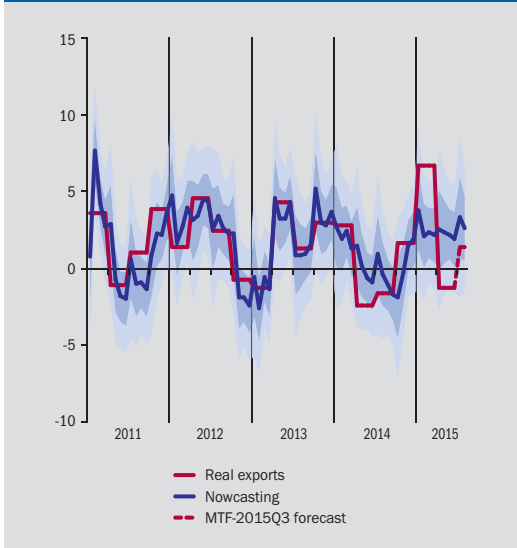


As for goods exports, at constant prices, they returned to positive three month-on-three month growth for the period to end-July, with an increase of 1.2%. The July figures imply a moderate quarter-on-quarter increase in exports in the third quarter. The main contributors to the end-July three-monthly growth were exports of passenger cars as well as bodies for motor vehicles. Not only did car plants' exports pick up, so did exports of tyres, air pumps, and refined petroleum products.

The three-month moving average for goods imports up to end-July, after adjustment for estimated price developments, increased by 2.5% in comparison with the previous three-month average. It may be assumed that imports maintained their intensity of earlier months, with increased imports of investment goods (and related parts and accessories), transport equipment (particularly for industry), and



Chart 3 Real exports of goods and services (quarter-on-quarter percentage changes)³



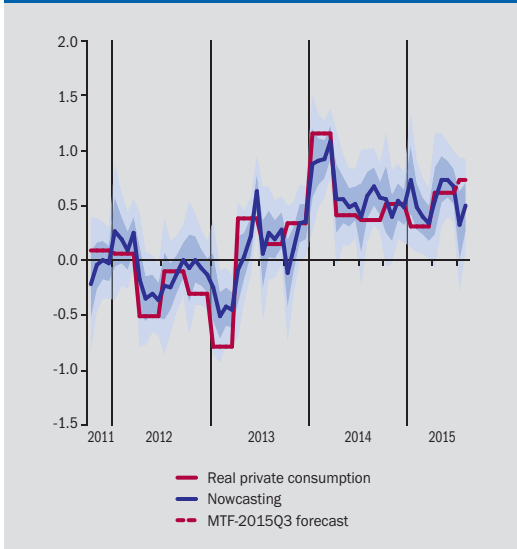
Sources: SO SR, NBS calculations.
Note: The band around the point estimate denotes +/- 1 and 2 times the root mean square error.

Chart 5 Economic sentiment indicators for Germany



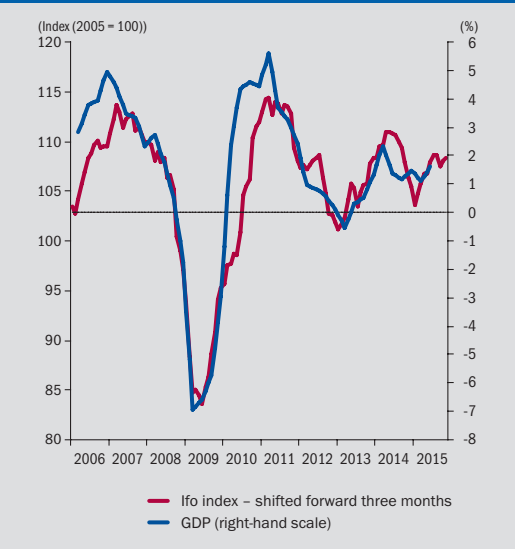
Sources: European Commission, Ifo institute, and ZEW Centre.
Notes: ESI (long-run average = 100), Ifo index (2005 = 100), ZEW (balance of responses).

Chart 4 Real private consumption (quarter-on-quarter percentage changes)³



Sources: SO SR, NBS calculations.
Note: The band around the point estimate denotes +/- 1 and 2 times the root mean square error.

Chart 6 Germany – Ifo index (2005 = 100) and annual GDP growth



Sources: Eurostat, Ifo Institute, and NBS calculations.

urable and semi-durable consumption goods. The three-monthly acceleration in wholesale and retail sales in July supports assumptions that private consumption will remain buoyed by dynamics in the domestic economy, in line with the projections of the MTF-2015Q3 forecast.

2.2 LEADING 'SOFT' INDICATORS

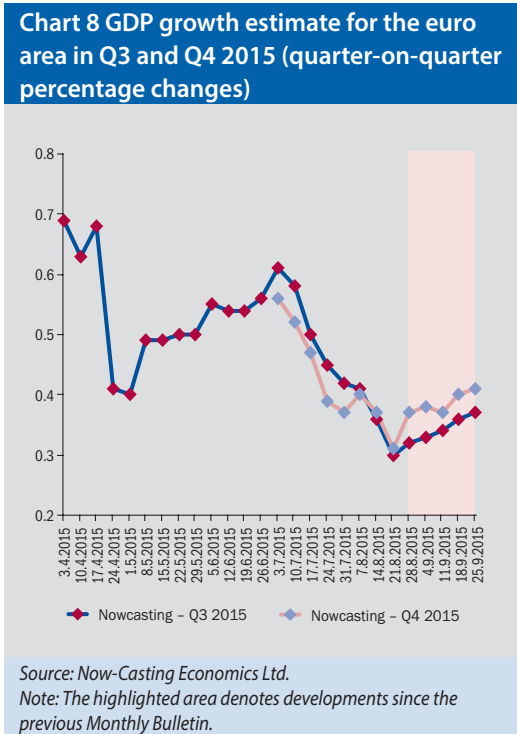
German leading indicators maintained a broadly weakening path in September. The **ZEW index** of economic sentiment fell by 12.9 points, to 12.1 (below its long-run average of 24.9). The **Ifo Business Climate Index** edged up

3 Charts 3 and 4 show nowcasting results for real growth in, respectively, exports and private consumption. Nowcasting is calculated using OLS time series models based on selected sets of monthly indicators. The indicators are entered in the models with a certain lag, so as to allow the forecast to be calculated with the required time horizon. Nowcasting therefore provides a current estimate of future developments using available monthly figures from the current quarter. The individual model projections are independent of each other and therefore forecasting error in a past quarter cannot affect current projections. Further details about the nowcasting of private consumption is available at: http://www.nbs.sk/_img/Documents/_komentare/2014/224_HDP_kratkodoba%20pgn%20C_Rychly%20komentar.pdf



to 108.5 (from 108.4 in August) on improved expectations for the future, while also including worsened assessments of the current situation. As for purchasing managers' indices (PMI), both the German and euro area PMIs fell slightly in September owing to lower activity growth in manufacturing and in services. Since leading indicators are unlikely to have yet been affected by the Volkswagen scandal, the most recent economic sentiment indicators are assumed to reflect mainly stock market developments (including developments in China).

German leading indicators are likely reflecting concerns about weakening growth in emerging market economies that are key export markets for Germany. The euro area's economy is expected to maintain stable growth.

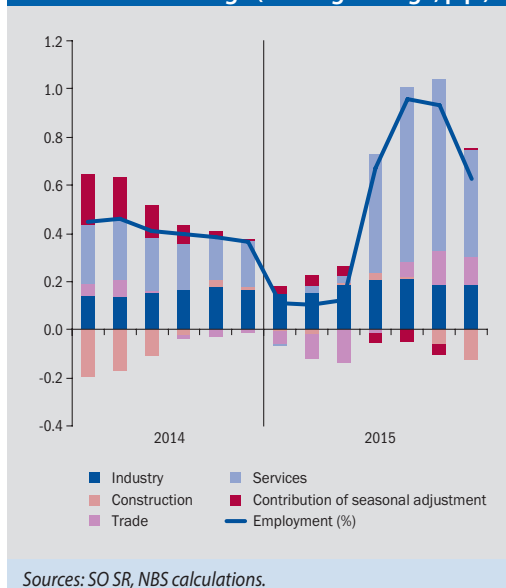


3 THE LABOUR MARKET

Employment continued to grow in July, by 0.1% month-on-month and 1.6% year-on-year. In three month-on-three month terms, the increase in employment's moving average for the period to end-July was lower than its strong growth in the second quarter. Employment continues to be supported mainly by the services sector, and specifically by continuing job-growth in the segments of IT and communication, accommodation and food service activities, and other market services. Employment is more moderate in business activities, as well as in industry (where the highest job creation is in the transport equipment, metal, electronics, and rubber and plastic product manufacturing sectors). In the construction sector, employment dynamics remain subdued, while increased output is translating into higher wages. Employers in most sectors are relatively optimistic about their recruitment plans.

Unemployment as measured by the employment office (ÚPSVR) methodology fell further in August, after seasonal adjustment, by around 1,700 people, and so the unemployment rate edged down to 13.1%⁴. The drop was, however, somewhat below the average for the previous quarter. Like the employment figures for select-

Chart 11 Employment – sectoral contributions to the three month-on-three month rate of change (moving average; p.p.)



ed sectors, the unemployment data imply a certain moderation in the labour market's upturn, after its strong dynamics in the second quarter. The number of job seekers finding work fell to some extent, while the number of job vacancies increased and continues to indicate ongoing employment growth in the near term. The decrease in the analytical time series of unemployment is further supported by the historically low number of people being removed from the unemployment rolls for administrative reasons, and hence it is somewhat more marked that the decrease in ÚPSVR's standard time series of unemployment. Even adjusting for this, however, the decrease in unemployment is expected to be lower in the third quarter than it was in the previous quarter.

Monthly figures indicate that the current favourable trends will continue, albeit more moderately than in the second quarter, as is projected in the MTF-2015Q3 forecast. The Slovak economy is facing a structural challenge in that some sectors are beginning to experience a shortage of labour related to regional imbalances in job creation⁵.

⁴ The seasonally-unadjusted registered unemployment rate decreased month-on-month by 0.15 percentage point, to 11.32%. The unemployment rate based on the total number of job seekers fell by 0.18 percentage point, to 12.86%.
⁵ For further details, see NBS's Monthly Bulletin, August 2015.

Chart 10 Rates of change in employment (%)

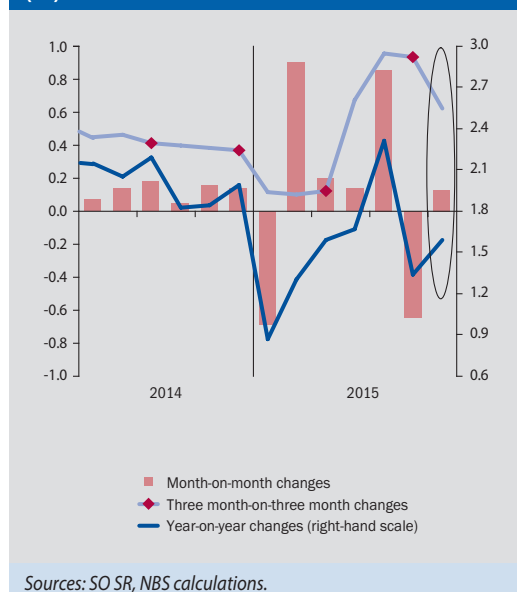
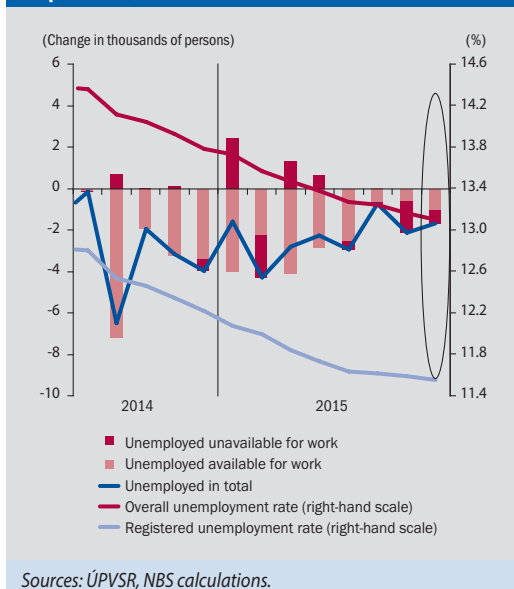
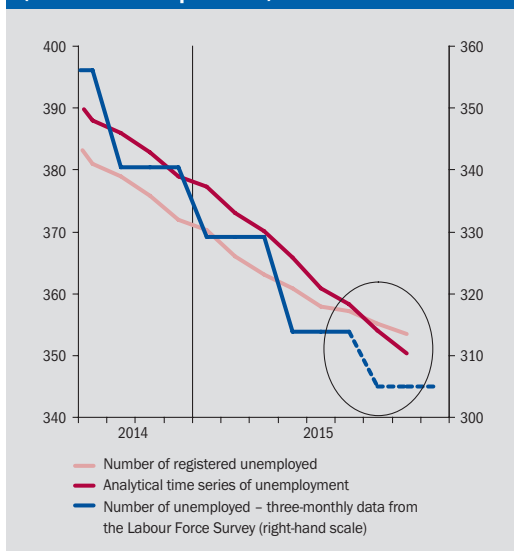


Chart 12 Unemployment (per cent; thousands of persons)



Average annual wage growth accelerated in July, to 2.7%, in comparison with its average for the first half of the year (2%). This may reflect the shortage of labour that some sectors are beginning to experience and the economy's continuing growth. The increase in wage growth was most marked in the construction sector, at 4%. It was also strong in the business activities sector and in a majority of services sectors (in services overall, wage growth for July stood at 2.9%, and in trade overall, at 2%). Wages in industry have not yet shown any significant acceleration. Wage growth in the third quarter is expected to be boosted by mid-year 1% increase in public sector salary rates. In the MTF-2015Q3 forecast, too, wage growth is projected to be higher in the third quarter than in the first half of the year.

Chart 13 Number of unemployed (thousands of persons)



Notes: For Q3 2015, the number of unemployed (Labour Force Survey) is the projection given in the MTF-2015Q3 forecast. The analytical time series of unemployment is described in the MTF-2013Q3 forecast.

Chart 14 Wage developments in the economy (annual percentage changes)



Notes: The average wage for the economy as a whole and nominal labour productivity in Q3 2015 are the projections given in the MTF-2015Q3 forecast. The average wage in the selected sectors for the period August-September is based on an ARIMA model forecast.



Chart 15 Wage growth (annual percentage changes; three-month moving average)



Sources: SO SR.

4 PRICES

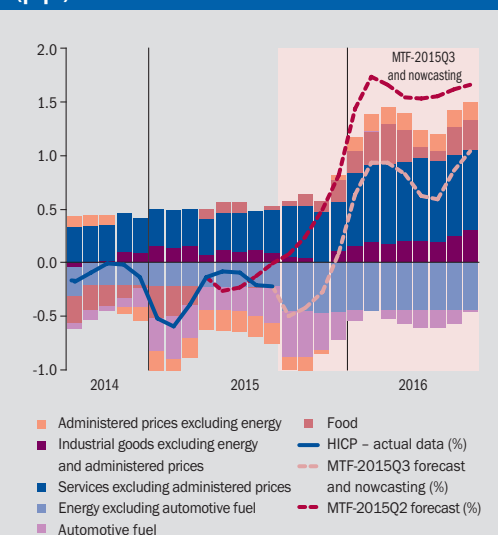
The inflation rate in August was unchanged from July, despite a marked month-on-month drop in fuel prices

The annual HICP inflation rate for August 2015 was unchanged from the previous month, at -0.2%, and the month-on-month rate was also -0.2%. The inflation rates were lower than projected by NBS.

In comparison with projections, the energy and non-energy industrial goods components of the annual inflation rate were slightly lower. Energy inflation was more negative than expected owing to the pass-through of falling oil prices to pump prices of petrol and diesel. Other components of the headline inflation rate were in line with projections.

The year-on-year decreases in the overall price level and in net inflation excluding automotive fuel were the same in August as in July. The inflation dynamics currently feature two counteractive trends. On the one hand, falling oil prices are gradually putting downward pressure on automotive fuel prices. The acceleration of petrol and diesel price inflation into negative

Chart 16 Composition of annual inflation (p.p.)



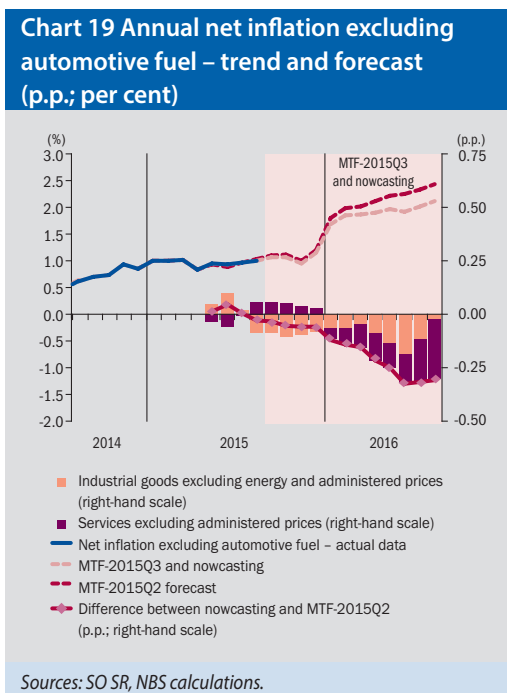
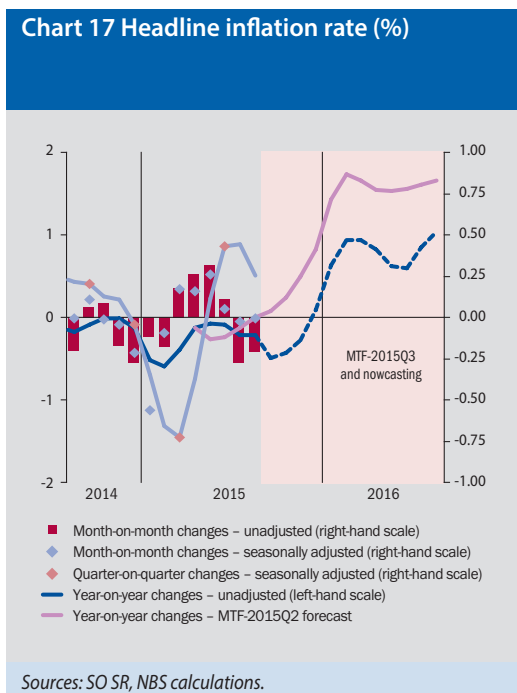
Sources: SO SR, NBS calculations.

territory is expected to stop in October, after which these prices should gradually begin to increase. On the other hand, a gradual increase in prices of non-regulated services has been apparent since the beginning of 2015. Real wage

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	August 2014 – actual figure	-0.1	-0.2	-0.7	0.1	-0.2	0.0
	B	August 2015 – forecast	0.0	-0.2	-0.6	0.2	-0.1	0.1
	C	August 2015 – actual figure	-0.2	-0.7	-0.5	0.2	-0.2	0.0
	BC	Difference in contribution to month-on-month rate of change (p.p.)	-0.07	-0.07	0.04	0.02	-0.09	-0.03
Year-on-year change	D	July 2015 – actual figure	0.4	-3.1	-0.1	0.5	-0.2	1.0
	E	August 2015 – forecast	0.6	-3.1	0.0	0.6	-0.1	1.0
	F	August 2015 – actual figure	0.4	-3.5	0.1	0.6	-0.2	1.0
	AC	Base effect	moderate	significant	insignificant	insignificant	insignificant	insignificant
	EF	Difference in contribution to year-on-year rate of change (p.p.)	-0.07	-0.07	0.04	0.02	-0.08	-0.02

Sources: SO SR, NBS calculations.



growth and household final consumption are therefore, to a limited extent, beginning to be reflected in services price inflation. Their upward impact, however, continues to be contained by the secondary effects of low or negative food and energy inflation.

A continuing risk to the short-term inflation outlook is high volatility in prices of oil and food commodities in the second half of 2015.

The annual inflation rate in September is projected to be -0.5%, based on expected

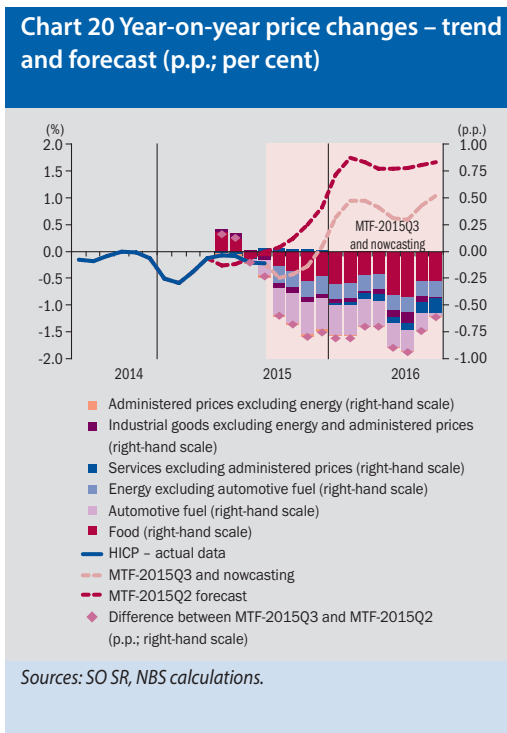
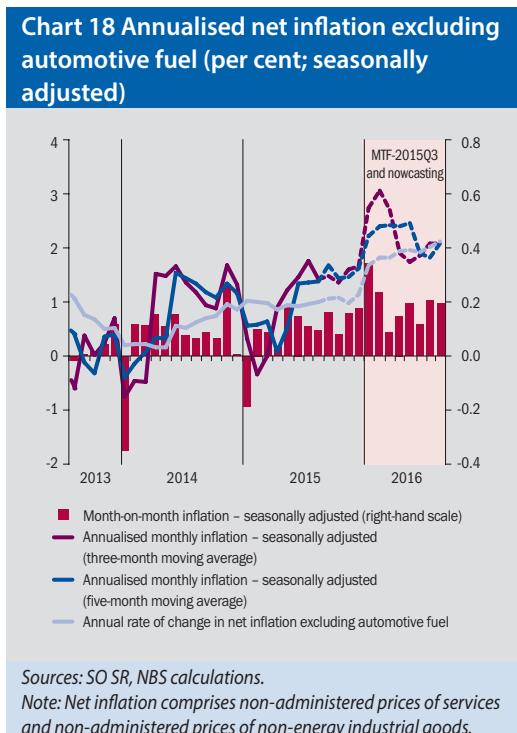
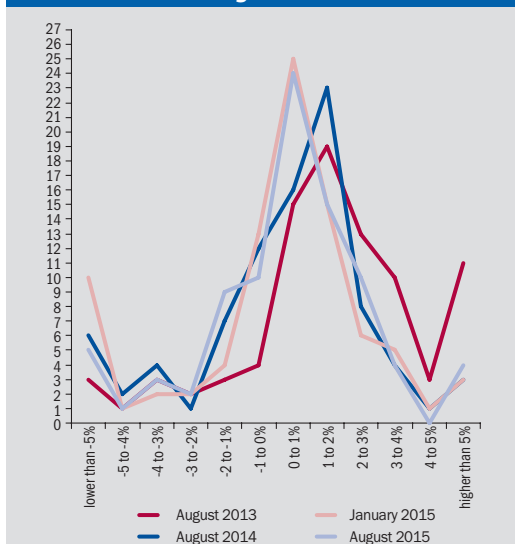




Chart 21 HICP components – distribution of annual rates of change



Sources: SO SR, NBS calculations.

Note: The chart shows that in the comparison with August 2014, the largest increase was in the proportion of HICP components with an annual rate of change of between 0% and 1% (at the expense of the range 1%–2%). The leftward shift in the distribution reflects mainly price developments in transportation (including automotive fuel), accommodation (affected also by energy prices), clothing, footwear, and beverages.

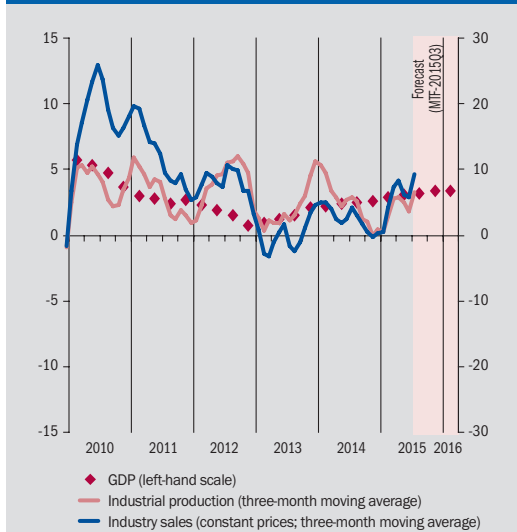
decreases in household gas prices (by around 3.9%) and automotive fuel prices. The overall price level is still expected to start rising by the end of 2015.



5 QUALITATIVE IMPACT ON THE FORECAST

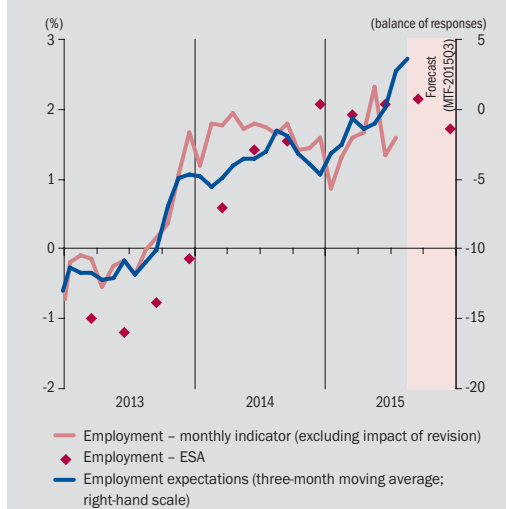
All the latest data, including the ECB's most recent projection, have been incorporated into NBS's September 2015 Medium-Term Forecast (MTF-2015Q3).

Chart 22 GDP, industrial production and sales (annual percentage changes)



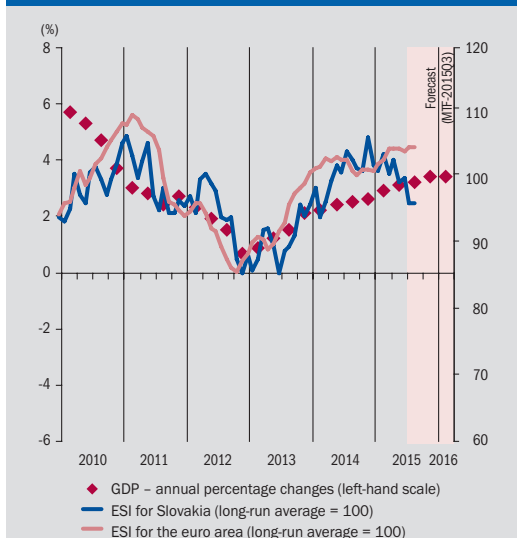
Sources: SO SR and NBS.

Chart 24 Employers' expectations (balance of responses) and employment (annual percentage changes)



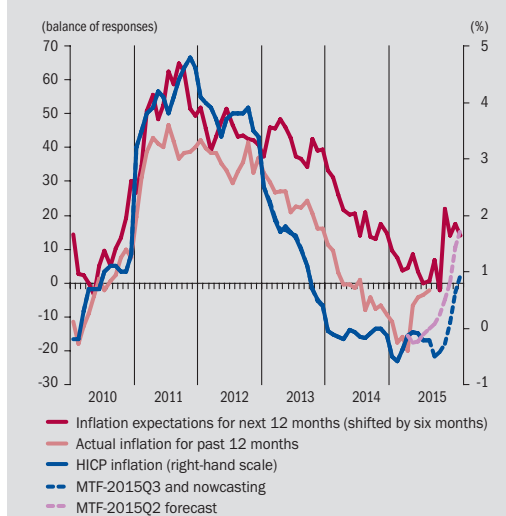
Sources: SO SR, NBS and European Commission.

Chart 23 GDP and the economic sentiment indicator



Sources: SO SR, NBS and European Commission.

Chart 25 Consumers' inflation perceptions (balance of responses) and HICP inflation (annual percentage changes)



Sources: SO SR, NBS and European Commission.



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 2010	Unemployment rate	Industrial production index	Total sales of sectors	Economic Sentiment Indicator (long-term average=100)	M3 ¹⁾ (for analytical use)	Loans to non-financial corporations	Loans to households	State budget balance (EUR mil.)	Deficit ratio (general government deficit 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
2007	10.7	1.9	1.8	2.1	11.0	16.7	-	114.9	12.9	25.4	28.6	-781.0	-1.9	29.8	-	-	1.3705
2008	5.4	3.9	6.1	3.2	9.6	3.0	-	99.1	4.9	15.3	25.3	-704.2	-2.4	28.2	-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	-7.9	36.0	-3.5	0.4	1.3948
2010	4.8	0.7	-2.7	-1.5	14.4	8.2	7.9	98.6	7.8	1.6	12.5	-4,436.1	-7.5	40.9	-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	-4.1	43.4	-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	2.1	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	2.4	1.2	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	1.0	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	3.4	101.2	4.2	2.7	13.4	-	-2.4	54.0	1.8	5.1	1.1261
2015 Q2	3.2	-0.1	-3.8	2.0	11.2	3.6	4.4	100.2	6.0	4.0	13.2	-	.	.	-1.6	3.2	1.1053
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	3.0	2.1	100.5	-0.1	4.5	12.2	-283.8	-	-	-	-	1.2673
2014 Nov.	-	0.0	-2.9	-	12.2	-3.5	-0.4	105.5	1.8	5.3	12.3	-181.2	-	-	-	-	1.2472
2014 Dec.	-	-0.1	-3.7	-	12.3	2.7	1.2	101.3	1.3	1.2	13.1	-618.4	-	-	-	-	1.2331
2015 Jan.	-	-0.5	-3.9	-	12.4	2.1	0.9	100.5	2.9	0.9	13.1	-60.5	-	-	-	-	1.1621
2015 Feb.	-	-0.6	-4.4	-	12.3	3.5	3.1	103.1	2.8	2.5	13.3	-619.5	-	-	-	-	1.1350
2015 Mar.	-	-0.4	-3.3	-	12.1	11.0	6.3	100.1	4.2	2.7	13.4	-271.7	-	-	-	-	1.0838
2015 Apr.	-	-0.1	-3.5	-	11.7	2.8	2.7	102.3	3.6	2.0	13.3	-38.8	-	-	-	-	1.0779
2015 May	-	-0.1	-3.5	-	11.5	1.0	3.8	98.9	5.0	2.9	13.0	-535.8	-	-	-	-	1.1150
2015 June	-	-0.1	-4.4	-	11.5	6.8	6.8	99.5	6.0	4.0	13.2	183.6	-	-	-	-	1.1213
2015 July	-	-0.2	-4.2	-	11.5	11.9	9.3	95.7	7.9	1.7	13.5	156.9	-	-	-	-	1.0996
2015 Aug.	-	-0.2	.	-	11.3	.	.	98.7	.	.	.	105.8	-	-	-	-	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).

More detailed time series for selected macroeconomic indicators

http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2015/StatisticsMB0915.xls