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ABBREVIATIONS

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EMEs	emerging market economies
EONIA	euro overnight index average
ESA 2010	European System of Accounts 2010
ESI	Economic Sentiment Indicator (European Commission)
EU	European Union
EUR	euro
EURIBOR	euro interbank offered rate
Eurostat	statistical office of the European Union
FDI	foreign direct investment
GDP	gross domestic product
GNDI	gross national disposable income
GNI	gross national income
HICP	Harmonised Index of Consumer Prices
Ifo Institute	Leibniz Institute for Economic Research at the University of Munich
IMF	International Monetary Fund
MFI	monetary financial institutions
MF SR	Ministry of Finance of the Slovak Republic
MMF	money market fund
MTF	NBS's Medium-Term Forecast (published on a quarterly basis)
NACE	Statistical Classification of Economic Activities in the European Community (Rev. 2)
NARKS	National Association of Real Estate Offices of Slovakia
NBS	Národná banka Slovenska
NEER	nominal effective exchange rate
NFC	non-financial corporation
NPISHs	Non-profit institutions serving households
OECD	Organisation for Economic Co-operation and Development
p.a.	per annum
p.p.	percentage point
PMI	Purchasing Managers' Index
REER	real effective exchange rate
SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Asset Management Companies
SME	small and medium-sized enterprise
SO SR	Statistical Office of the Slovak Republic
ULC	unit labour costs
ÚPSVR	Ústredie práce, sociálnych vecí a rodiny – Central Office of Labour, Social Affairs and Family
ÚRSO	Úrad pre reguláciu sieťových odvetví – Regulatory Office for Network Industries
USD	US dollar
VAT	value-added tax
ZEW	Das Zentrum für Europäische Wirtschaftsforschung – The Centre for European Economic Research

Symbols used in the tables

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



1 SUMMARY¹

Strong leading indicator figures in the euro area were reflected in the area's real economy data for May. Retail sales growth and industrial production growth both accelerated in month-on-month terms. The monthly increase in the euro area's industrial production was the highest so far this year. Soft indicators for July also point to the continuation of the current favourable trend, as they remained at high levels despite a downward correction.

The buoyancy of the euro area's foreign demand has not as yet had a significant impact on the Slovak economy. Owing to weak results in April, industrial production continued to worsen on a three-month-on-three-month basis. This also had a dampening effect on sales growth. As a result, the GDP growth nowcast indicates a slight deceleration in second-quarter GDP growth. Investment-related temporary plant shutdowns in the car and refining industries may have had a short-term downward impact on output in the second quarter, but are not expected to contribute negatively to economic growth for the year as a whole.

The labour market situation continues to improve. Employment growth was relatively strong in May and its rate for the second quarter is expected to be in line with the NBS forecast. This view is further supported by the unemployment rate, which is falling quite appreciably and in June reached a historical low of 7.0%.² Job creation was strongest in industry, but also began picking up in construction following the recovery of activity in that sector. Wage growth remained robust in May, indicating that its rate for the second quarter will slightly exceed that for the first quarter. Wage growth is highest in those sectors that are experiencing labour shortages (services, industry).

The annual inflation rate slowed in June, to 1.0%, owing mainly to the continuing decrease in automotive fuel prices and a drop in services inflation. The fall in headline inflation would have been greater but for an increase in the food component. The overall inflation trend is consistent with the NBS forecast.

¹ All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using NBS internal models.
² Registered unemployment rate for job seekers available for work, seasonally adjusted.

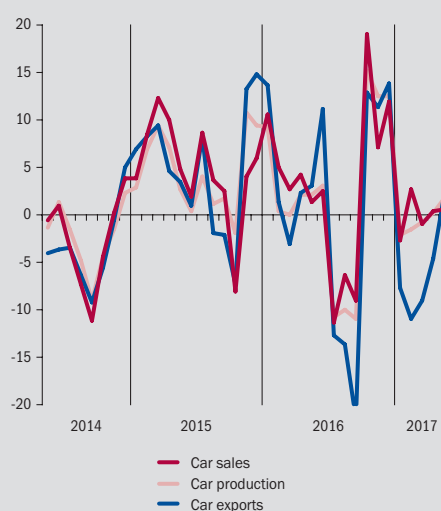
2 THE REAL ECONOMY

2.1 'HARD' INDICATORS OF ECONOMIC ACTIVITY

Owing mainly to April's weak results, industrial production fell in May on a three-month-on-three-month basis, and total sales growth continued to slow. As for goods exports, their three-month-on-three-month rate of change increased in May, after remaining flat in the first quarter.

Average industrial production for the three months to May 2017 was 0.9% lower than the corresponding average three months earlier. The decline was caused mainly by results in petroleum products manufacturing (currently experiencing extensive overhauls) as well as in electronics manufacturing and in mining and quarrying. But although industrial output fell in three-month-on-three-month terms, its level in May increased back to the average for previous months, thanks mainly to rising production in the industries manufacturing foodstuffs, cars and electrical equipment. In June however, overall industrial production will have been adversely affected by temporary production shutdowns in the car industry. This one-off impact may be compensated for by increased

Chart 2 Automotive industry trends
(three-month-on-three-month percentage changes in the three-month moving average; constant prices)



Sources: SO SR and NBS calculations.

production in the subsequent period and therefore need not have an adverse impact on GDP growth for the whole of 2017.

Chart 1 Sales, industrial production and exports
(three-month-on-three-month percentage changes in the three-month moving average; constant prices)



Sources: SO SR and NBS calculations.

Total sales growth across the economy slowed in May to 1.1% on a three-month-on-three-month basis. While sales in wholesale and retail trade accelerated (with retail sales recording their highest post-crisis growth rate), industry sales had a negative impact on overall sales. Industry sales, like industrial production, reflected weaker results in petroleum products manufacturing and electronics equipment manufacturing, as well as in energy supply.

Export growth increased moderately in May, supported by an upturn in car exports. Car exports were lower in the first months of 2017 than in the previous year, as carmakers enforced temporary production shutdowns in order to install substantial amounts of capital equipment received towards the end of the previous year. Since plants reopened, car exports have been picking up only gradually. Both export growth and import growth were partly weakened by production shutdowns in the refining industry.

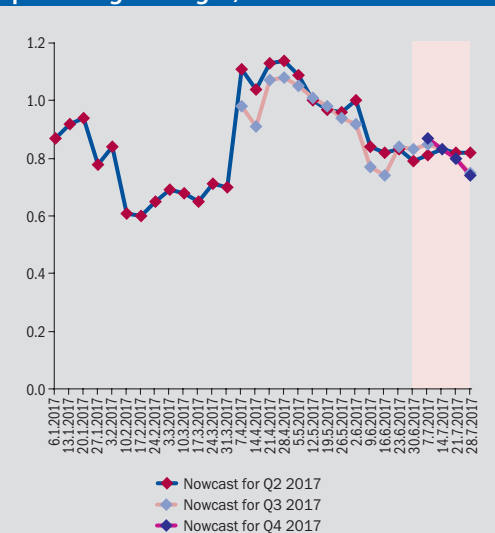


2.2 'SOFT' LEADING INDICATORS

The European Commission's **Economic Sentiment Indicator** (ESI) for the euro area remained broadly unchanged in July, while the ESI for Germany increased. The composite **Purchasing Managers' Index** (PMI) for the euro area fell moderately in July (to 55.8, from 56.3 in June) owing to a slowdown in manufacturing activity growth; nevertheless, it remained at a high level. The PMI for Germany also declined (to 55.1%, from 56.4% in June) amid a marked drop in manufacturing activity growth and a more moderate slowdown in services growth. Germany's **ZEW** current conditions index also edged down in July, but remained elevated. The **Ifo Business Climate Index** for Germany maintained its upward trend, and included improving expectations for the next six months.

Leading indicators, as well as short-term forecasts, suggest that economic growth in both the euro area and Germany will continue in the beginning of the third quarter of 2017.

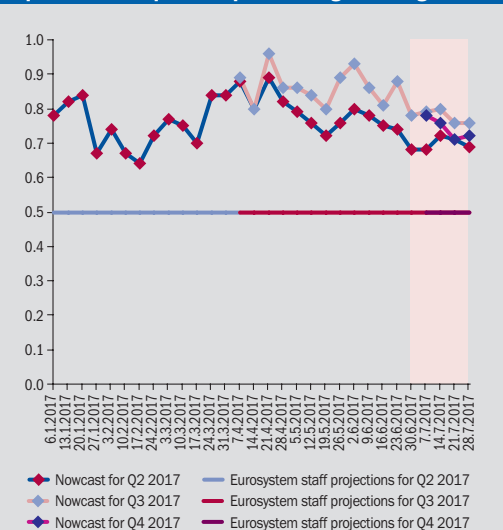
Chart 4 GDP growth estimate for Germany in Q2, Q3 and Q4 2017 (quarter-on-quarter percentage changes)



Source: Now-Casting Economics Ltd.

Note: The highlighted area denotes developments since the previous Monthly Bulletin.

Chart 3 GDP growth estimate for the euro area in Q2, Q3 and Q4 2017 (quarter-on-quarter percentage changes)

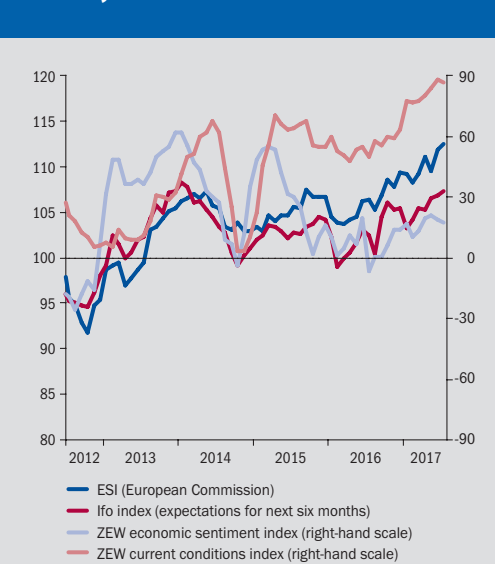


Sources: Now-Casting Economics Ltd and ECB (June 2017)

Eurosystem staff macroeconomic projections for the euro area.

Note: The highlighted area denotes developments since the previous Monthly Bulletin.

Chart 5 Economic sentiment indicators for Germany



Sources: European Commission, Ifo Institute and ZEW Centre.

Note: ESI (long-run average = 100); Ifo index (2005 = 100); ZEW (balance of responses).



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



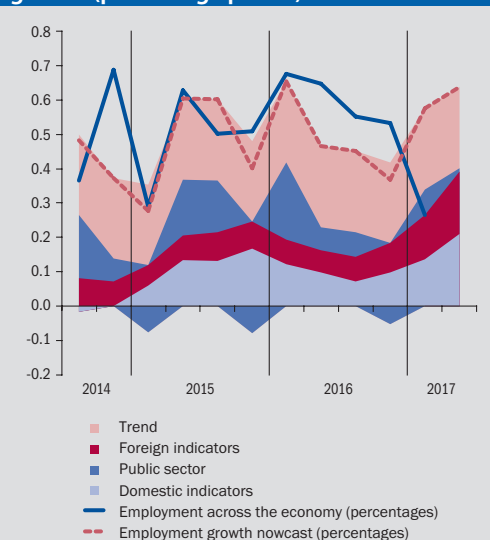
Sources: Eurostat, Markit, Ifo Institute and NBS calculations.

3 THE LABOUR MARKET

Employment across the reviewed sectors increased strongly in May, by 3.1% year on year (0.3% month on month), which indicates that overall employment growth for the second quarter could be relatively high. All the principal sectors, but most of all industry, contributed to May's job growth. Employment in the construction sector has been picking up appreciably since the beginning of the year. The implied pace of employment growth for the second quarter is in line with NBS's MTF-2017Q2 forecast.

Unemployment maintained its favourable trend in June. The registered unemployment rate based on the total number of job seekers fell by 0.54 percentage point to an all-time low of 8.2%. The registered unemployment rate for job seekers available for work fell by 0.51 percentage point, seasonally adjusted, to 7%.³ The drop in unemployment was supported by the fact that the number of job seekers decreased while the number of people registering as unemployed remained largely unchanged from the previous

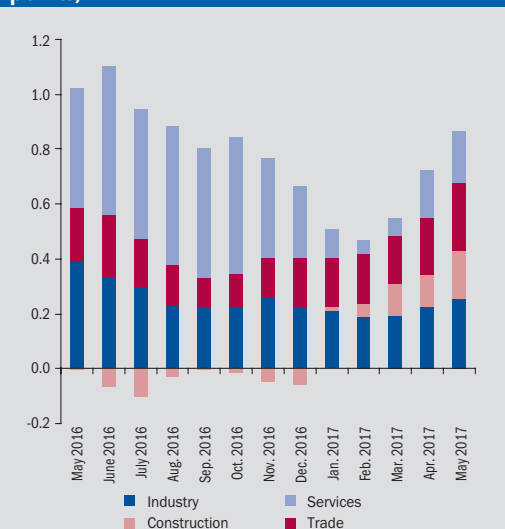
Chart 8 Indicator contributions to the nowcast for quarter-on-quarter employment growth (percentage points)



Sources: SO SR, ÚPSVR and NBS calculations.

Note: The public sector comprising public administration, education and human health as defined in the sections O, P and Q of the NACE statistical classification of economic activities.

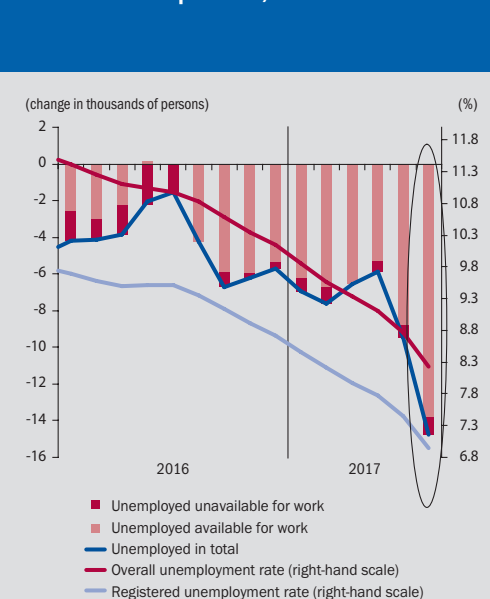
Chart 7 Employment – sectoral contributions to three-month-on-three-month changes in the three-month moving average (percentage points)



Sources: SO SR and NBS calculations based on monthly figures for employment in the reviewed sectors.

Note: The contribution of employment in trade and services does not include the impact of a methodological change in January 2016.

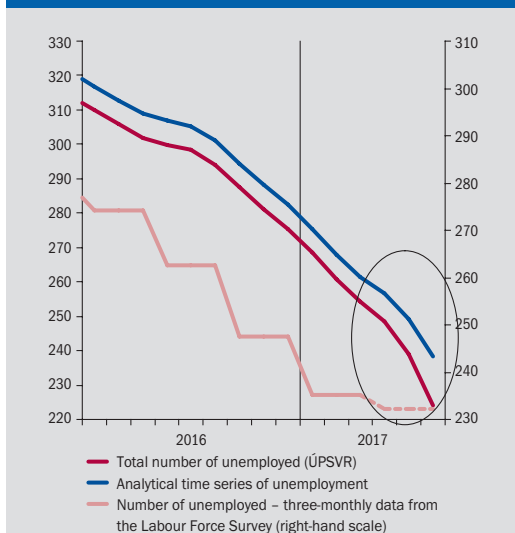
Chart 9 Unemployment (percentages; change in thousands of persons)



Sources: ÚPSVR and NBS calculations.

³ In non-seasonally adjusted terms, the registered unemployment rate for job seekers available for work decreased month on month by 0.45 percentage point, to 6.9%, and the registered unemployment rate based on the total number of job seekers fell by 0.55 percentage point, to 8.14%.

**Chart 10 Number of unemployed
(thousands of persons)**



Sources: SO SR, ÚPSVR and NBS calculations.

Note: The Labour Force Survey unemployment figures for Q2 2017 are the MTF-2017Q2 projections. The analytical time series of unemployment is based on ÚPSVR figures and is defined in the MTF-2013Q3 forecast.

**Chart 11 Wage growth by sector based on
monthly figures (annual percentage changes
in the three-month moving average)**



Sources: SO SR and NBS calculations.

month. The drop in the number of job seekers was caused partly by people finding work and partly by a large increase in the number of people removed from the unemployment register for reasons other than finding work (such as non-cooperation, voluntary deregistration, exceeding the permitted income limit, etc.). The scope for earning additional income while registered as unemployed has been further restricted by an amendment to the law on employment services which entered into force in May 2017. The downward trend in unemployment supported the continuing improvement in employment in the second quarter.

Annual average wage growth across the reviewed sectors stood at 3.8% in May, which is still higher than its average rate for the first quarter. Going forward, wage growth is expected to be supported by increasing labour demand – with firms increasing wages as they compete for labour – as well as by the economy's improving performance.

The sector in which wage growth in May most exceeded its average for the first quarter was services (where month-on-month wage growth was fully one per cent), and there were also ac-

celerations in industry and construction. Wage growth in the trade sector remained unchanged.

Wage trends are broadly in line with the MTF-2017Q2 projections.

**Chart 12 Wage trends in the economy
(annual percentage changes)**



Sources: SO SR and NBS calculations.

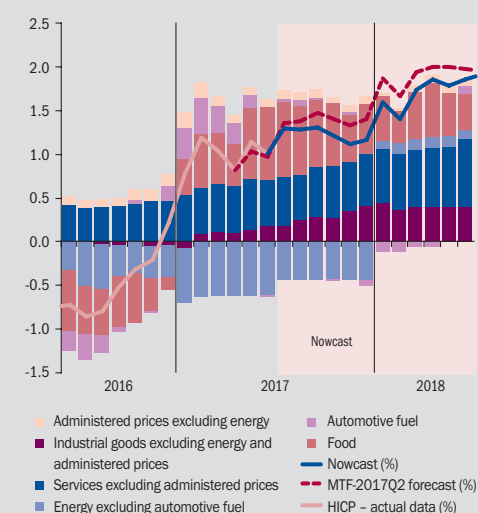
Note: The average wage for the economy as a whole in the second quarter of 2017 as projected in the MTF-2017Q2 forecast.

4 PRICES

Annual HICP inflation slowed in June, to 1.0% (from 1.1% in May), which was fully in line with the MTF-2017Q2 forecast. In month-on-month terms, the price level remained unchanged.

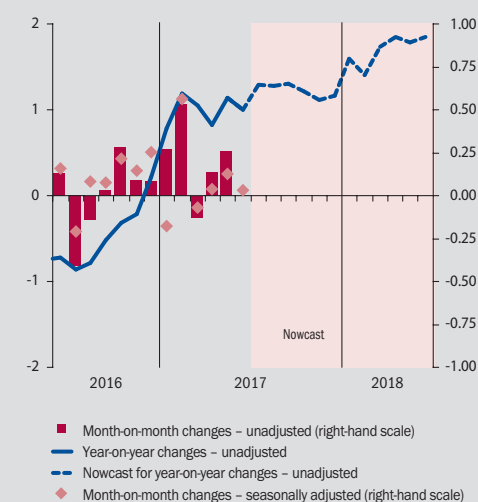
While food inflation edged up, year on year, its impact on June's headline rate was offset by energy inflation, which was more negative compared with the previous month, and by ser-

Chart 13 HICP inflation and contributions of components (annual percentage changes; percentage point contributions)



Sources: SO SR and NBS calculations.

Chart 14 HICP inflation (percentage changes)



Sources: SO SR and NBS calculations.

vices inflation, which fell slightly. Non-energy industrial goods continued to accelerate, in line with MTF-2017Q2 projections. Services prices remained flat month on month, which was unexpected given the continuing strong demand for labour. As a result, their annual rate of change, which had been increasing since the beginning of the year, fell in June. Going forward, however, services inflation is expected to resume its upward trend on the back of strong domestic

Table 1 HICP components – comparison of projected and actual rates of change (percentages; percentage point contributions)

			Non-energy industrial goods	Energy	Food	Services	HICP	Net inflation excluding fuel
Year-on-year changes		May 2017 – actual figure	0.7	-3.3	3.1	1.9	1.1	1.4
	A	June 2017 – MTF-2017Q2 forecast	0.8	-3.8	2.5	2.0	1.0	1.5
	B	June 2017 – actual figure	0.8	-4.3	3.2	1.7	1.0	1.4
	B-A	June – actual figure minus forecast	0.0	-0.5	0.6	-0.2	0.03	-0.1
	(B-A) * weight	Contribution to overall forecast error¹⁾	0.00	-0.07	0.17	-0.07	0.03	-0.07

Sources: SO SR and NBS calculations

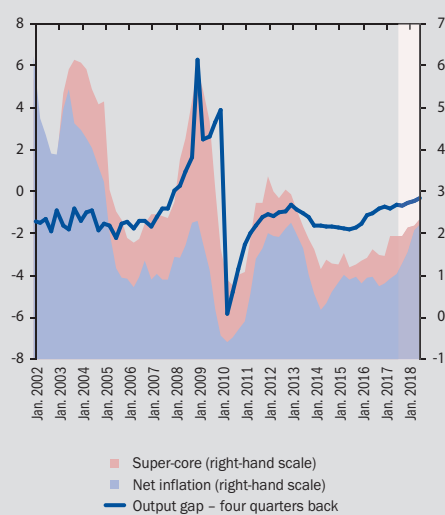
1) Projections taken from NBS's June 2017 Medium-Term Forecast (MTF-2017Q2).



demand. The negative rate of annual energy inflation became more pronounced in June owing to the impact of falling automotive fuel prices.

Although annual headline inflation slowed in June, its average rate for the whole of 2017 is expected to be higher than 1%.

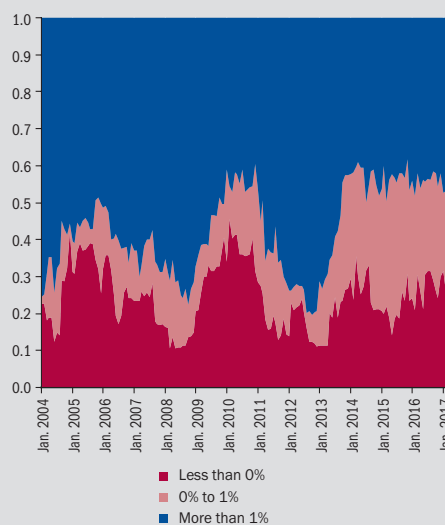
Chart 15 Demand-pull inflation unadjusted for methodological revisions (annual percentage changes; seasonally adjusted)



Sources: SO SR and NBS calculations.

Note: Demand-pull inflation comprises non-energy industrial goods. The super-core index comprises sub-items in the HICP for which the output gap has predictive power with statistical significance.

Chart 16 HICP core inflation broken down by price-change intervals



Source: NBS calculations.

5 INDICATIVE IMPACT ON THE FORECAST

The GDP growth nowcast for the second quarter of 2017 is slightly lower than the growth rate of 0.8% projected in NBS's June 2017 Medium-Term

Forecast (MTF-2017Q2). The nowcast figure reflects the softening of sales in the reviewed sectors, and of construction production, in May. The employment growth nowcast for the second quarter is in line with the MTF-2017Q2 projection (0.5% quarter on quarter). The first nowcast for GDP growth in third quarter points to a slight slowdown in its rate.

The private consumption and export nowcasts are also consistent with the forecast projections.

Chart 17 Nowcast for GDP in Q2 2017 (quarter-on-quarter percentage changes)



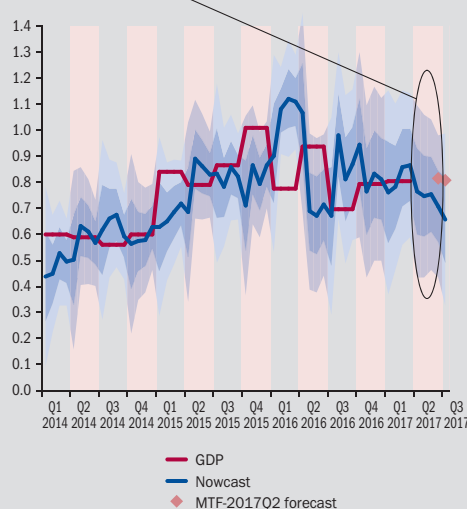
Sources: SO SR and NBS calculations.

Chart 18 Nowcast for GDP in Q3 2017 (quarter-on-quarter percentage changes)



Sources: SO SR and NBS calculations.

Chart 19 GDP nowcast (quarter-on-quarter percentage changes)⁴



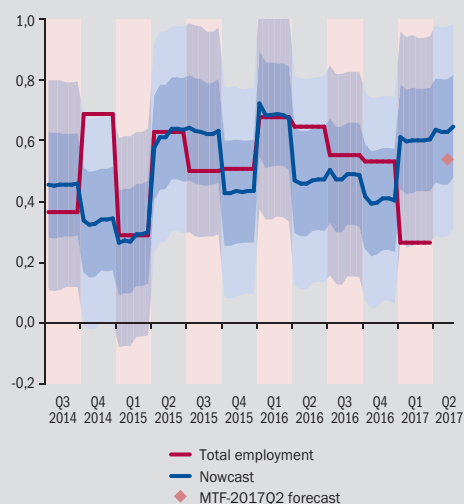
Sources: SO SR and NBS calculations.

Note: The GDP nowcast excludes qualitative impacts and one-off effects (e.g. EU funds).

4 The band around the point estimate denotes ± 1 and ± 2 times the root mean square error. Nowcasts are calculated using OLS time series models based on selected sets of monthly indicators (for employment, a factor model is used). Nowcasts provide a current estimate of future developments using available monthly figures from the current quarter, their future values forecast with ARIMA models, and their lagged values. The individual model projections are independent of each other and therefore a forecasting error in a past quarter cannot affect current projections. Further details are available in the commentaries on the GDP nowcasts, private consumption nowcasts, export nowcasts and employment nowcasts.

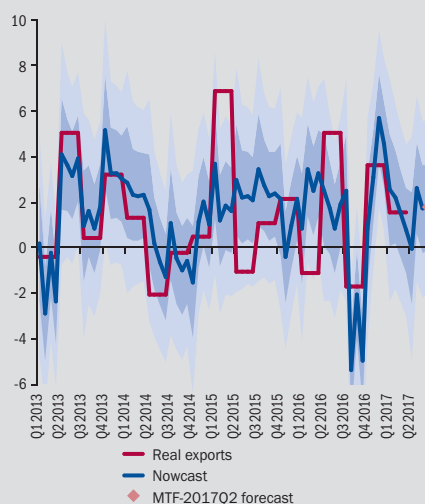


**Chart 20 Employment nowcast
(quarter-on-quarter percentage changes)⁴**



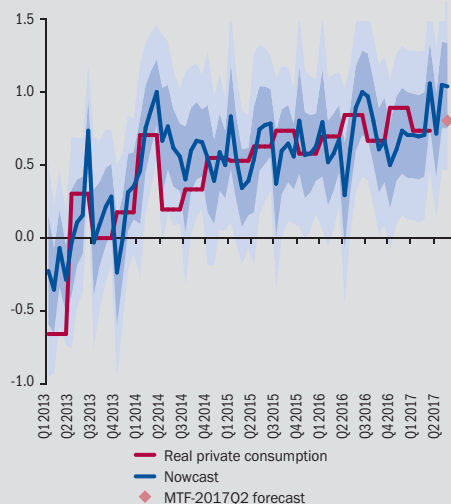
Sources: SO SR and NBS calculations.

**Chart 22 Nowcast for goods and services
exports (quarter-on-quarter percentage
changes)⁴**



Sources: SO SR and NBS calculations.

**Chart 21 Private consumption nowcast
(quarter-on-quarter percentage changes)⁴**



Sources: SO SR and NBS calculations.



OVERVIEW OF MAIN MACROECONOMIC INDICATORS FOR SLOVAKIA

Table 2 Selected economic and monetary indicators for Slovakia
(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 ¹⁾	Economic Sentiment Indicator (long-term average=100)	M3 (for analytical use) ²⁾	Loans to private sector ³⁾	Loans to non-financial corporations ³⁾	Loans to households ³⁾	State budget balance (EUR mil.)	General government balance (% of GDP)	General government gross debt (% of GDP)	Current account (% of GDP)	Balance of trade (% of 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	18
2009	-5.4	0.9	-2.6	-2.0	12.1	-15.5	-16.5	76.9	-2.8	1.1	-3.3	11.0	-2,791.3	-7.8	36.3	-3.4	0.4	1.3948
2010	5.0	0.7	-2.7	-1.5	14.4	8.1	8.0	98.7	7.8	5.3	1.6	12.5	-4,436.1	-7.5	41.2	-4.7	-0.1	1.3257
2011	2.8	4.1	2.7	1.8	13.6	5.2	6.2	98.8	2.9	9.3	7.6	11.1	-3,275.7	-4.3	43.7	-5.0	-0.1	1.3920
2012	1.7	3.7	3.9	0.1	14.0	8.0	4.4	93.9	8.8	3.8	-2.3	10.3	-3,810.7	-4.3	52.2	0.9	3.4	1.2848
2013	1.5	1.5	-0.1	-0.8	14.2	3.8	1.9	90.2	6.4	6.4	1.7	10.3	-2,023.3	-2.7	54.7	1.9	3.9	1.3281
2014	2.6	-0.1	-3.5	1.4	13.2	3.5	2.7	100.4	2.5	7.7	1.9	13.2	-2,923.4	-2.7	53.6	1.1	3.6	1.3285
2015	3.8	-0.3	-4.2	2.0	11.5	7.4	7.4	99.7	11.5	10.7	7.3	13.1	-1,932.6	-2.7	52.5	0.2	2.6	1.1095
2016	3.3	-0.5	-4.3	2.4	9.7	4.7	4.1	101.6	6.1	10.2	4.2	13.4	-980.3	-1.7	51.9	-0.7	2.8	1.1069
2016 Q3	3.0	-0.7	-4.2	2.4	9.5	2.8	2.1	102.4	9.3	9.9	4.4	13.1	-	-0.6	52.4	-1.0	2.2	1.1166
2016 Q4	3.0	-0.1	-2.4	2.6	9.1	4.1	3.6	102.7	6.1	10.2	4.2	13.4	-	-3.1	51.9	-1.8	1.8	1.0789
2017 Q1	3.1	1.0	2.0	2.1	8.7	7.8	6.2	104.3	5.7	11.1	8.0	12.6	-	.	.	1.0	2.4	1.0648
2017 Q2	.	1.0	.	.	.	.	.	101.7	.	.	.	.	-	.	.	.	.	1.1021
2016 July	-	-0.9	-4.6	-	9.4	-11.9	-5.3	104.0	8.9	10.3	5.3	13.1	112.2	-	-	-	-	1.1069
2016 Aug.	-	-0.8	-4.8	-	9.4	17.8	9.6	99.9	9.0	10.4	5.4	13.1	13.1	-	-	-	-	1.1212
2016 Sep.	-	-0.5	-3.2	-	9.4	4.0	2.4	103.4	9.3	9.9	4.4	13.1	-33.2	-	-	-	-	1.1212
2016 Oct.	-	-0.3	-2.8	-	9.1	3.4	3.2	102.8	8.7	10.1	5.4	13.0	223.7	-	-	-	-	1.1026
2016 Nov.	-	-0.2	-2.6	-	8.8	3.3	3.4	101.3	8.1	9.4	3.5	13.1	-201.6	-	-	-	-	1.0799
2016 Dec.	-	0.2	-1.8	-	8.8	5.8	4.2	103.9	6.1	10.2	4.2	13.4	-358.1	-	-	-	-	1.0543
2017 Jan.	-	0.8	0.4	-	8.6	7.6	4.8	104.6	6.2	11.4	7.3	13.5	92.3	-	-	-	-	1.0614
2017 Feb.	-	1.2	2.6	-	8.4	2.5	5.5	106.6	6.6	11.9	9.4	13.5	-500.0	-	-	-	-	1.0643
2017 Mar.	-	1.0	3.0	-	8.0	13.1	8.3	101.6	5.7	12.0	8.5	13.8	70.7	-	-	-	-	1.0685
2017 Apr.	-	0.8	3.5	-	7.7	-3.3	4.3	101.6	6.1	12.3	9.6	13.6	-298.2	-	-	-	-	1.0723
2017 May	-	1.1	1.9	-	7.4	5.1	4.6	102.6	5.7	13.0	11.7	13.6	-256.4	-	-	-	-	1.1058
2017 June	-	1.0	.	-	6.9	.	.	100.8	.	.	.	.	72.6	-	-	-	-	1.1229
2017 July	-	.	.	-	.	.	.	102.1	.	.	.	.	.	-	-	-	-	.

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

1) Constant prices (seasonally adjusted).

2) Currency in circulation in M3 refers to money held by the public (according to methodology in place prior to 2008).

3) Adjusted for sales and securitisation.

More detailed time series for selected macroeconomic indicators

http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2017/StatisticsMB0717.xls