1 Macroeconomic developments

1.1 External economic environment

1.1.1 Global trends in output and prices

Compared with the previous year, global economic activity weakened in 2019. According to IMF estimates, world GDP growth slowed to 2.9%, down from 3.6% in 2018. The main headwind facing the global economy was an increase in protectionist measures, with the escalation of tit-for-tat tariffs between the United States and China. This was reflected in increasing uncertainty and a softening of business confidence. Global economic growth was further dampened by specific factors that weighed on the performance of certain emerging market economies, as well as by geopolitical tensions. The global slowdown was driven mainly by a decline in manufacturing industry. Rising import tariffs resulted in the weakening of trade growth and, with a certain lag, investment. Uncertainty about the timing of Brexit and about the subsequent renegotiation of the United Kingdom's relations with the European Union continued in 2019, but became more moderate in the second half of the year. The impact of dampening factors was partially offset by further monetary policy accommodation. At the same time, towards the end of the year, the United States and China announced a "Phase 1" trade deal. These developments were expected to support the global economy in the next period.

Global price developments in 2019 were affected mainly by energy commodity prices, as was also the case in the previous year. Falling world oil prices had a strong downward impact on energy price inflation. Food inflation remained largely unchanged, as did core inflation. Across advanced economies, average annual consumer price inflation slowed to 1.4% in 2019, down from 2.0% in the previous year. Average headline inflation in emerging market economies did not change significantly in 2019, edging up by 0.3 percentage point to 5.1%.

1.1.2 The euro area

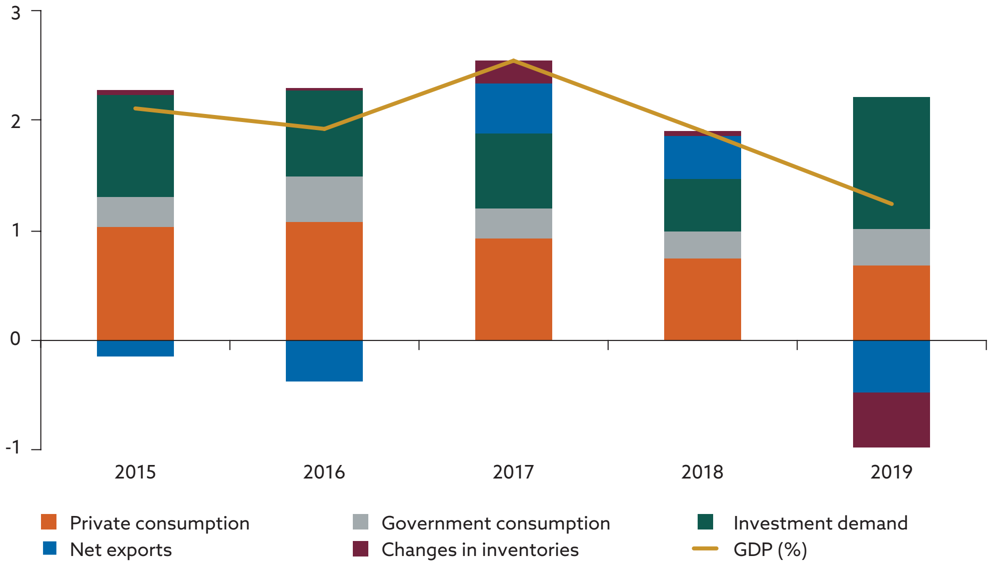
The euro area's annual GDP growth moderated to 1.2% in 2019, down from 1.9% in the previous year (Chart 1). The slowdown stemmed largely from the weakening of the global economy and international trade in an environment of persisting uncertainty. This adversely affected the most significant export sector – manufacturing industry – which saw its output contract for the first year since 2013. The hardest hit segment was the car industry. On the other hand, the economy was boosted by continuing monetary policy accommodation and favourable trends in employment and wages, which stoked domestic demand and contributed to positive developments in the service sector.

Private consumption continued to benefit from labour market buoyancy, which resulted in increases in employment and wage growth. Despite a decelerating global economy and increasing uncertainty, investment contributed positively to economic growth in 2019. Net exports, by contrast, had a negative impact.

The further strengthening of the labour market supported economic activity in 2019. Employment increased by 1.1% and the unemployment rate fell to 7.6% (its 2008 level).

Chart 1

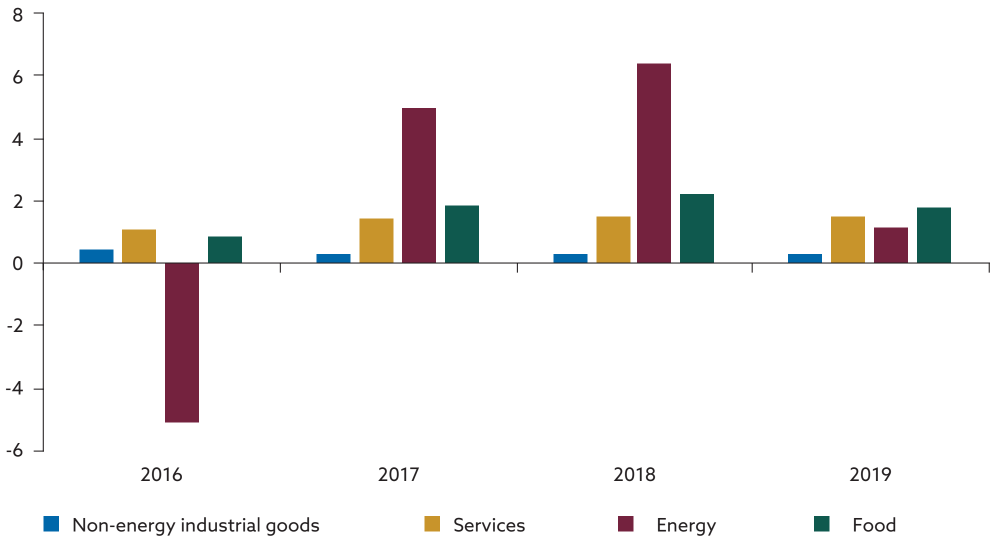
Euro area GDP and its components (annual percentage changes; percentage point contributions)



Source: Eurostat.

The euro area's average annual HICP inflation eased to 1.2% in 2019, from 1.8% in the previous year. The slowdown was due largely to the energy and food components (Chart 2). HICP inflation excluding energy and food was at around its historical levels, averaging 1.0% in 2019, the same as in the previous two years.

Chart 2
Components of HICP inflation (annual percentage changes)



Source: Eurostat.

1.2 Macroeconomic developments in Slovakia

Slovakia's annual GDP growth slowed to 2.3% in 2019 (from 4.0% in 2018), largely because foreign demand weakened.

The economic slowdown had only a partial impact on the labour market. This was confined mainly to the industry sector, which experienced a decline in production. Overall annual employment growth eased to 1.2% in 2019 (from 2.0% in 2018). The increase in the number of employed people was reflected in the average unemployment rate, which fell to a historical low of 5.8% (6.6% in 2018). The labour market's ongoing tightness coupled with elevated labour demand put upward pressure on annual wage growth, which rose to 7.8% (up from 6.2% in 2018). This growth was also supported by increases in public sector wages and the impact of certain legislative amendments.

In the balance of payments for 2019, the current account showed a deficit of €2.7 billion (after a deficit of €2.4 billion in 2018), with the change caused mainly by an increase in the trade deficit.

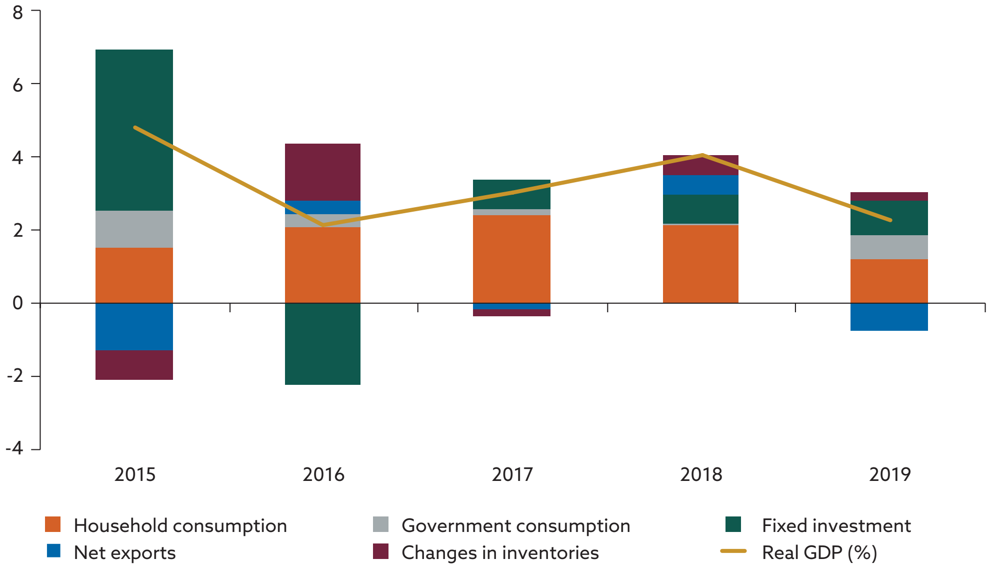
Average annual HICP inflation accelerated to 2.8% in 2019 (from 2.5% in 2018), owing mainly to developments in administered energy prices and to increases in food and services inflation.

1.2.1 The real economy

Slovakia's annual GDP growth eased to 2.3% in 2019 (from 4.0% in 2018). The slowdown resulted from a gradual weakening of foreign demand and its consequent downward impact on Slovak export performance. The main driver of growth was the domestic side of the economy. Household consumption and investment continued to grow, albeit more moderately compared with the previous year (Chart 3).

Chart 3

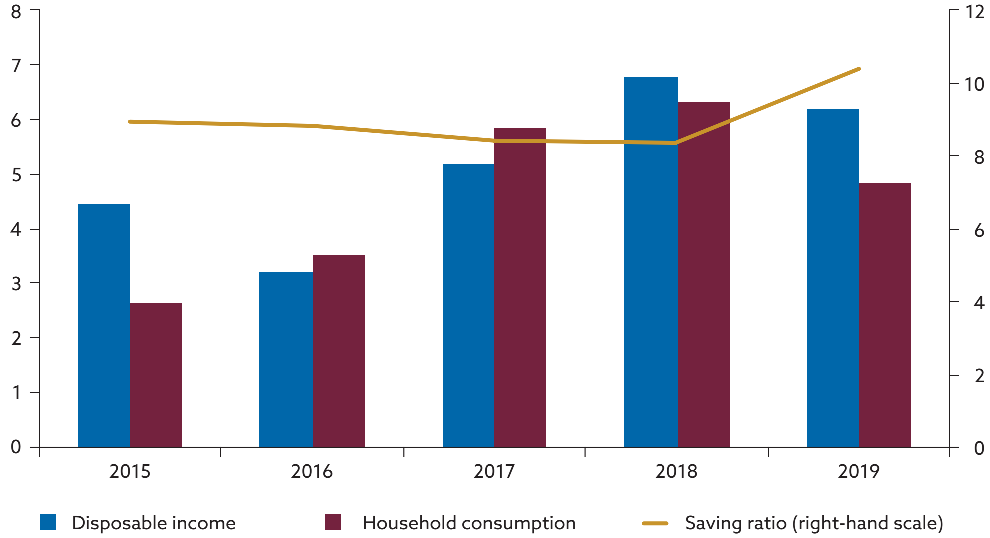
Real GDP and its components (annual percentage changes; percentage point contributions)



Source: SO SR.

Household consumption increased by 2.2% in 2019, supported by a still favourable labour market situation. Wages and salaries continued to grow in relative terms during the period under review and represented the main source of household income. Consumption growth was driven mainly by services, in particular by spending in restaurants and hotels, which was boosted partly by the introduction of employee vouchers for domestic holidays as well as by households' increasing preference for higher-end goods. At the same time, the growth rate for spending on everyday goods, such as food, decelerated. Despite the consumption growth, households' consumption spending relative to income was lower than in the past and their propensity to save increased. As a result, the saving ratio rose above 10%, a level not previously exceeded since 2000 (Chart 4).

Chart 4
Household consumption and disposable income (annual percentage changes; constant prices)



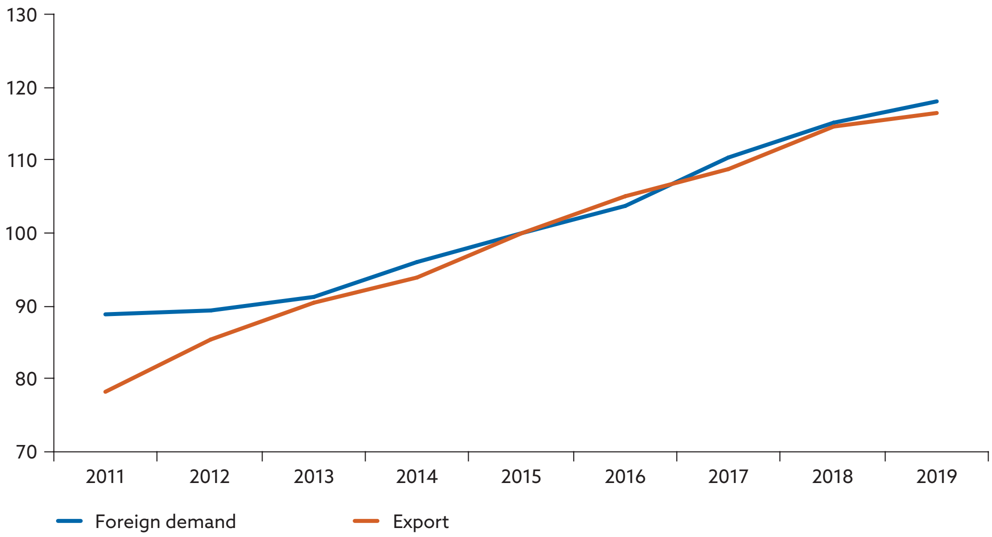
Source: SO SR, and NBS calculations.

Fixed investment growth accelerated to 4.4% in 2019, underpinned by an increase in private sector investment activity. Another contributor was the favourable situation in financial markets. Interest rates remained subdued, so firms could finance investment activities on favourable terms. The strongest-growing area of investment was in residential construction and in other construction. The absorption of EU funds slowed in 2019, as certain infrastructure projects were halted. The only sector that contributed negatively to overall investment activity growth was the general government sector.

Slovakia's export growth moderated in 2019, owing to the weakening of global demand and to specific difficulties in certain sectors. It was the third successive year in which the country's export growth was lower than foreign demand growth (Chart 5). This trend may be related to structural factors. Looked at through the lens of the real effective exchange rate (REER) (Chart 6), the Slovak economy's competitiveness appears to have deteriorated appreciably. Weaker demand from trading partners has dented exports not only in the car industry, but also in metal manufacturing and in the petrochemical industry. Imports maintained their uptrend amid strong domestic demand and increasing inventories; their growth rate surpassed export growth.

Chart 5

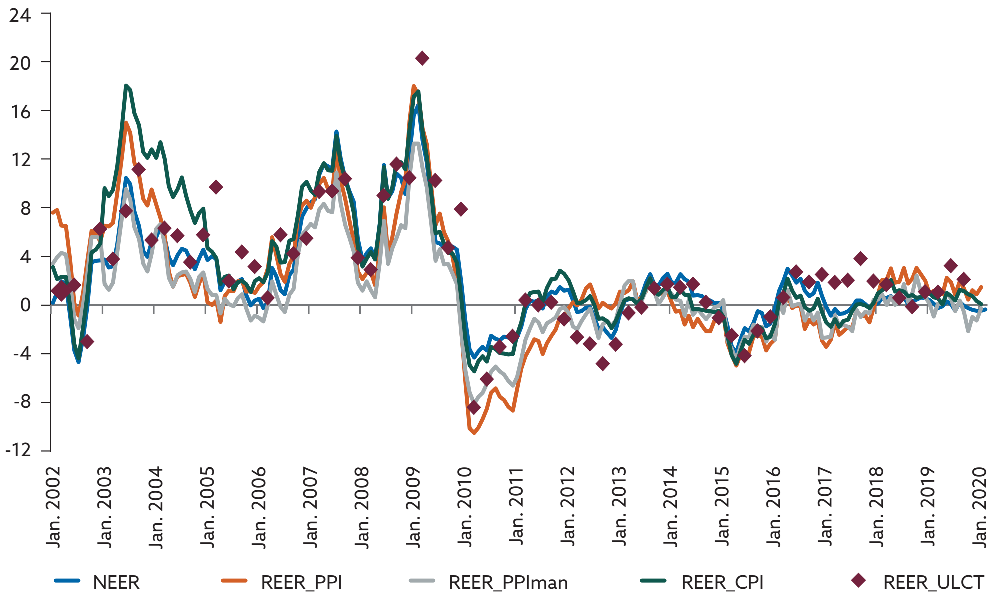
Exports and foreign demand (index: 2015 = 100; constant prices)



Sources: SO SR, and NBS calculations.

Chart 6

NEER and REER indices (calculated with respect to 15 trading partners; annual percentage changes)



Source: NBS calculations.
Note: Appreciation and depreciation of the NEER and REER indices are denoted by positive figures and negative figures respectively.

As regards GDP calculated by the production approach, its slower growth rate in 2019 was caused mainly by a decline in value added in industry. The sectors of services (excluding trade) and construction made the largest contributions to GDP growth. In the services sector, the highest increase in value added was recorded in public services, possibly owing to increased expenditure on wages and salaries. Higher tax collection also contributed positively to growth.

Table 1 GDP based on the expenditure approach (annual percentage changes; constant prices)						
	2018	2019				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross domestic product	**4.0**	**3.8**	**2.2**	**1.3**	**2.0**	**2.3**
Final consumption of households and non-profit institutions serving households	3.9	1.9	2.7	1.9	2.2	2.2
Final consumption of general government	0.2	2.3	5.0	3.7	3.9	3.8
Gross fixed capital formation	3.7	0.0	2.4	7.8	6.2	4.4
Exports of goods and services	5.4	9.0	-0.9	-0.2	-0.5	1.7
Imports of goods and services	5.0	6.5	1.5	3.3	-0.5	2.6

Source: SO SR.

1.2.2 Labour market

The weakening of economic activity growth was reflected in a slowdown in job creation. Average wage growth remained strong, due mainly to increases in contractual wages in the public sector and civil service. The unemployment rate fell to a historical low.

Table 2 Labour market indicators						
	2018	2019				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Nominal wages (index)	6.2	7.1	9.7	7.7	6.9	7.8
Real wages (index)	3.6	4.6	7.0	4.7	3.9	5.0
Nominal compensation per employee – ESA 2010 (index)	5.6	5.7	8.0	6.1	5.1	6.2
Labour productivity – GDP per person (index; current prices)	4.1	4.9	3.4	2.3	4.3	3.7
Labour productivity – GDP per person (index; constant prices)	2.0	2.0	0.7	0.2	1.3	1.0
Employment – ESA 2010 (index)	2.0	1.8	1.4	1.0	0.7	1.2
Unemployment rate – LFS[1)] (percentage)	6.6	5.8	5.7	5.9	5.6	5.8
Nominal unit labour costs (ULCs)[2)]	3.5	3.7	7.2	5.8	3.8	5.1

Sources: SO SR; NBS calculations.
1) Labour Force Survey.
2) Ratio of compensation per employee at current prices to labour productivity growth (ESA 2010) at constant prices.

Employment

Employment as defined in the ESA 2010 increased, year on year, by 1.2% in 2019 (after rising by 2.0% in 2018), and net job creation amounted to around 30,200. The sectors that contributed most to the employment growth slowdown were industry, in which employment fell by 0.3% year on year, and trade. Employment growth in the services sector slowed growth, due largely to an easing of recruitment in the IT sector; nevertheless, it remained above the national average. Construction outperformed other sectors on the employment front, with a growth rate of almost 5%. In the public sector, too, most notably in the health sector, employment trends were favourable. The average number of Slovak citizens working abroad fell for a third consecutive year, by 10,200 in headcount terms. On the other hand, the number of foreigners working in Slovakia is increasing year by year and climbed by 14,400 in 2019.

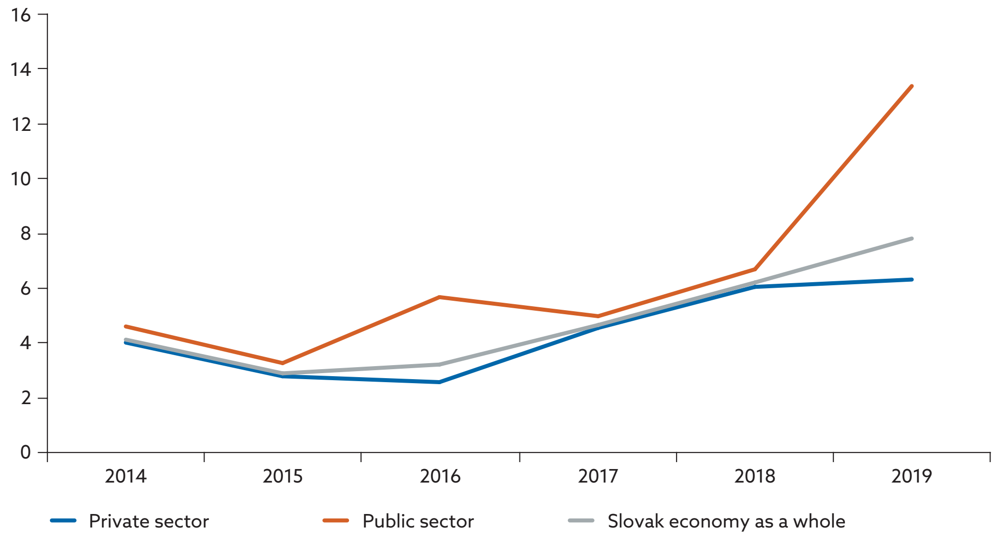
Unemployment

The number of unemployed (as measured by the Labour Force Survey) continued falling in 2019, albeit more moderately than in the previous year. The year-on-year decrease of 22 thousand was approximately half of the 2018 figure. Compared with the previous year, the average unemployment rate dropped by 0.8 percentage point, to 5.8%. This reflected not only net job creation, but also the continuing decrease in the economically active population.

Wages and labour productivity

Average annual wage growth accelerated to 7.8% in 2019 (Chart 7), owing mainly to double-digit increases in contractual wages in the public sector and civil service. Private sector wage growth accelerated only slightly and was also affected by notably slower wage growth in industry and construction. Services, on the other hand, contributed positively to wage growth, mainly through rising wages in the tourism industry. Another factor supporting overall wage growth was the payment of “13th” and “14th” salaries exempt from income tax and health insurance contributions. The weakening of demand resulted in an easing of labour market tightness and therefore a gradual moderation of wage growth. Amid decelerating economic growth, nominal labour productivity growth slowed in 2019 and thus lagged behind wage growth.

Chart 7
Average nominal wage (annual percentage changes)



Sources: SO SR, and NBS calculations.

1.2.3 Inflation

Slovakia's annual average HICP inflation increased slightly in 2019, to 2.8% (from 2.5% in 2018) (Chart 8). The inflation rate reflected the impact of both domestic factors and the external environment. The labour market's continued overheating accounted for the domestic environment's impact on price developments. The external factors consisted mainly of the cost-push pressures from rising energy commodity prices and agricultural commodity prices and of lower foreign inflation. Compared with other euro area countries, Slovakia had one of the higher inflation rates. Administered energy prices accelerated and so did food inflation and services inflation.

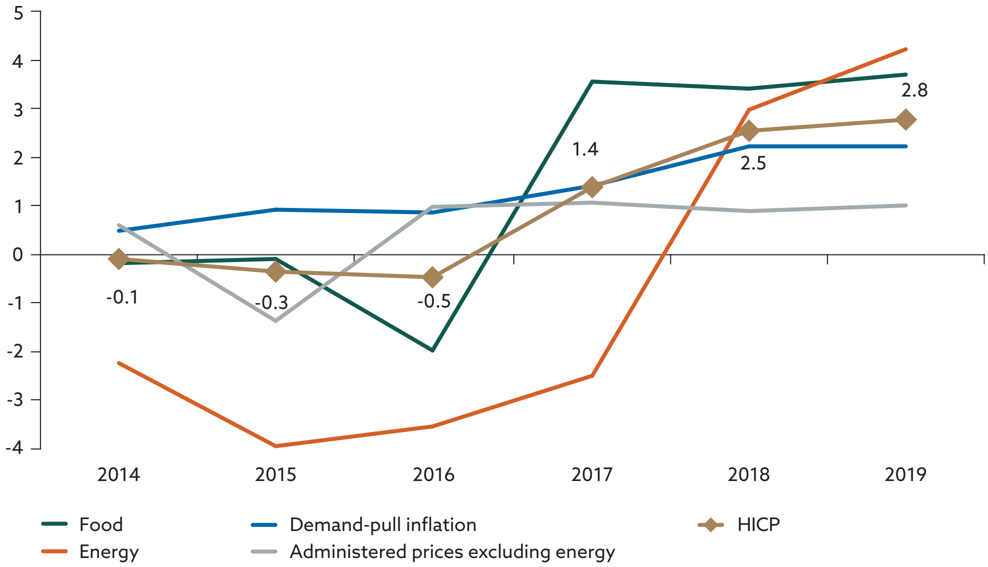
The increase in headline inflation was due mainly to a large rise in administered prices in the energy sector. Household gas and electricity prices were raised significantly, as a consequence of energy commodity price developments in 2018. Via the regulatory framework, these developments passed through with a lag to consumer prices at the start of 2019.

Food inflation was relatively elevated in 2019, reflecting labour costs and the gradual increase in global meat prices. Labour costs were heightened by increases in the minimum wage and in wage premia. The rise in meat prices stemmed from the impact of Swine flu on pork production in Asia.

Average demand-pull inflation was the same in 2019 as in the previous year (Chart 9). Increases in wage growth, energy inflation and food inflation pushed up costs in the services sector. At the same time, the continuing strength of real wage growth generated additional consumer demand for personal care and recreation services. The introduction of employee vouchers for domestic holidays helped increase household demand and simultaneously put upward pressure on prices of accommodation-related services. Import price inflation gradually moderated during 2019 and eventually averaged just above 1%. This trend was reflected in increasing prices of non-energy industrial goods in Slovakia.

Chart 8

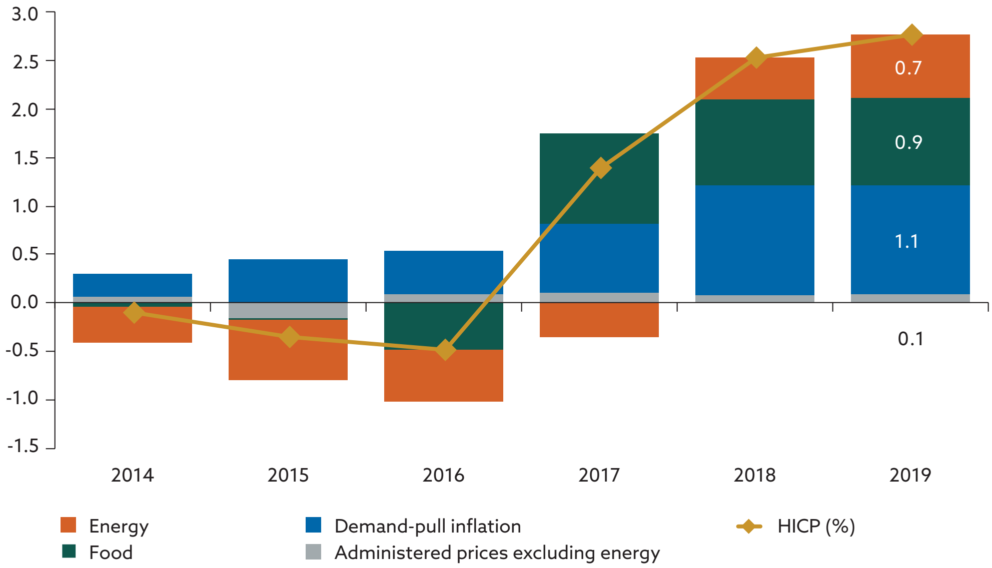
HICP inflation and selected components (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 9

Contributions of components of HICP inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

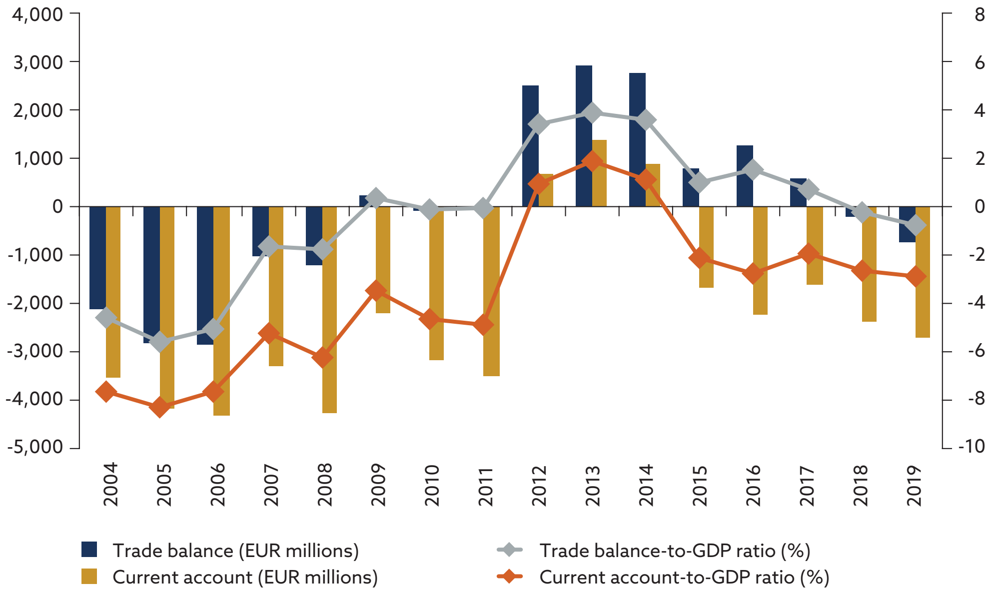
1.2.4 Balance of payments

Current and capital accounts

In Slovakia's balance of payments for 2019, the current account showed a deficit of €2.7 billion, which was €0.3 billion higher than the deficit in 2018 owing mainly to an increase in the trade deficit. The ratio of the current account deficit to GDP (at current prices) increased by 0.3 percentage point year on year, to 2.9% (Chart 10).

Chart 10

Current account balance and trade balance (EUR millions; percentages)



Sources: SO SR, and NBS calculations.

Goods export growth was lower in 2019 than in the previous year. For a third successive year, export growth (2.9%) was slower than import growth (3,6 %). As a result of that difference, the goods trade deficit increased in year-on-year terms.

As for other components of the current account, their balances changed only marginally compared with 2018. It is worth noting that despite the softening of foreign demand, the services balance continued the improvement which began in 2016.

The capital account surplus fell year on year, reflecting the lower absorption of EU funds.

Table 3 Current account and capital account balances (EUR billions, unless otherwise indicated)		
	2018	2019
Goods	-0.2	-0.7
Exports	75.7	77.9
Imports	75.9	78.6
Services	0.9	1.0
Primary income balance	-1.9	-2.0
Secondary income balance	-1.2	-1.0
Current account	-2.4	-2.7
Current account-to-GDP ratio (percentage)	-2.6	-2.9
Capital account	1.2	0.9

Sources: SO SR, and NBS calculations.

Financial account

The balance of payments financial account recorded a net inflow of €1.6 billion in 2019, which was €0.3 billion lower than the inflow in 2018.

Table 4 Financial account balance (EUR billions)		
	2018	2019
Direct investment	-0.8	-2.1
Portfolio investment and financial derivatives	3.8	0.4
Other investment	-6.3	-1.4
Reserve assets	1.4	1.5
Financial account	-1.9	-1.6

Source: NBS calculations.
Note: The figures for the financial account balances are shown in net terms (assets minus liabilities), with a positive value denoting a net outflow and a negative value denoting a net inflow.

The main factors affecting the financial account balance were the non-resident investment inflow in the direct investment balance and the decline in banks' deposits abroad in the other investment balance.

External debt of Slovakia

Slovakia's balance of payments transactions in 2019 resulted in its external debt increasing by €3.5 billion (from €101.9 billion to €105.4 billion). The country's ratio of gross external debt to GDP (at current prices) was 111.9% in 2019, which was 1.7 percentage points lower than the figure for 2018 (113.6%). The ratio of short-term external debt to gross external debt decreased by 2.9 percentage points in 2019, to 47.4%. Debt per capita rose by €611 in 2019, to €19,309 as at the year-end.