



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM



# MEDIUM-TERM FORECAST

UPDATE Q4  
2012

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## SUMMARY

In January 2013, Národná banka Slovenska (NBS) revised the NBS Medium-Term Forecast published in December 2012 (MTF-2012Q4). This is the first time that NBS has revised its quarterly MTF outside the official forecasting process; it did so as part of its activities related to the Committee for Macroeconomic Forecasts, which under the new Constitutional Act on Fiscal Responsibility is required to produce a macroeconomic and fiscal forecast by 15 February. Consequently, NBS is to publish a revised forecast providing professionals and the wider public with an updated outlook for economic developments in Slovakia. The revised forecast takes into account the most recently published national accounts statistics (composition of GDP for the third quarter of 2012 and labour market data) as well as monthly data from October and November 2012.<sup>1</sup> The latest developments in external demand are also taken into consideration.

Two factors weighed particularly heavily on the revised forecast: first, moderately **slower growth in external demand** has dampened export growth; second, **worse than expected indicators for the domestic economy** resulted in a downward revision of the economic growth forecast for 2013 and 2014. The general trends have not changed since the release of MTF-2012Q4, and therefore the forecast continues to be predicated on a recovery of confidence and gradual acceleration in external demand from the second half of 2013. Following a temporary slowdown in 2013, economic growth is expected to pick up again in 2014. The labour market in 2013 is expected to continue reflecting adverse developments in employment, since economic growth will not be sufficiently robust to generate net employment. Nevertheless, with both external and domestic demand recovering during the course of 2013, it is assumed that employment will increase slowly and that the unemployment rate will gradually decline. Looking at price developments, no significant revisions have been made over the projection horizon and inflationary pressures are slightly lower.

The macroeconomic outlook has deteriorated since the December forecast. The projection for

Slovakia's economic growth remains at **2.4% in 2012, and has been revised down to 1.3% in 2013 and 3.3% in 2014**. The annual inflation rate is assumed to **decelerate from 3.7% in 2012, to 2.2% in 2013 and 1.9% in 2014**. In the revised forecast, the risks to the economy projections are **balanced** in 2013 and remain on the downside in 2014. The most significant risk factor is the possibility that additional fiscal consolidation measures will be adopted in Slovakia and the euro area (not including Germany). No significant risks to the inflation forecast were identified.

## TECHNICAL ASSUMPTIONS<sup>2</sup>

The revisions to the medium-term forecast incorporate technical assumptions that are based on several external data published since the previous forecast as well as on NBS staff projections.

The technical assumptions did not change significantly. The stronger exchange rate of the euro against the US dollar offset a moderately higher oil price, and so the oil price in euro remained at around the same level as in the December forecast. There was also no change in assumptions for non-energy commodity prices or for short-term interest rate levels in comparison with the December forecast.

The revised forecast reckons on the same revenue-side consolidation measures as did the December forecast.<sup>3</sup>

## FORECAST FOR THE EXTERNAL ENVIRONMENT

The growth of **Slovakia's export markets** has been revised down from the December forecast in the light of subsequent economic indicators, projections of international institutions<sup>4</sup> and estimates based on specialist surveys – to 2.0% in 2013 (by 0.3 p.p.) and 5.1% in 2014 (by 0.8 p.p.).

## MACROECONOMIC FORECAST FOR SLOVAKIA

The downward revision of external demand in both 2013 and 2014 will have repercussions for the export-oriented Slovak economy. **Export growth**

<sup>1</sup> The cut-off date for the data used as the basis for this forecast was 21 January 2013.

<sup>2</sup> The technical assumptions for the Revision of the Medium-Term Forecast (MTF-2012Q4R), as well as the assumptions for external demand developments are based on data with a cut-off date of 21 January 2013.

<sup>3</sup> Further details about the fiscal consolidation measures may be found in the December forecast (MTF-2012Q4) on the NBS website at [http://www.nbs.sk/\\_img/Documents/\\_Publikacie/PREDIK/2012/protected/P4Q-2012.pdf](http://www.nbs.sk/_img/Documents/_Publikacie/PREDIK/2012/protected/P4Q-2012.pdf)

<sup>4</sup> The latest projections of the International Monetary Fund and Consensus Forecasts were available for the revised forecast (MTF-2012Q4R).

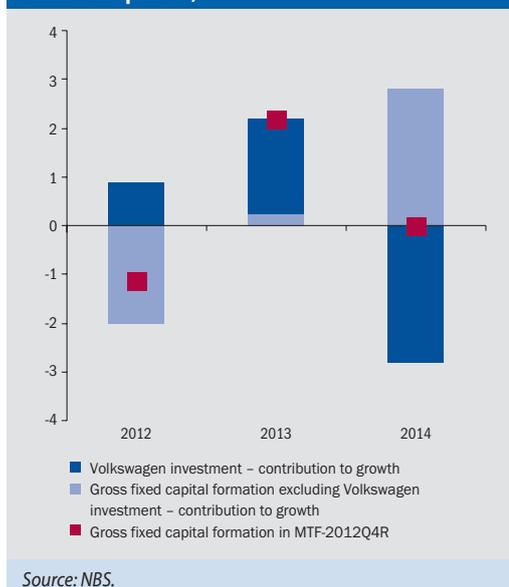
is assumed to decline temporarily in 2013 as external demand increases very modestly in comparison with the previous year. A stimulus for export growth from the automotive industry, such as happened in 2012, is not expected given that car production is now running at close to capacity. Considering the situation in global demand, export growth in 2014 is expected to be based on a broader range of manufacturing sectors.

The forecast for **domestic demand** has been revised down in the light of worse macroeconomic statistics. The composition of GDP and monthly indicators indicated that developments in the domestic part of the economy were markedly worse than projected in the December forecast. **Consumer demand** appears to be considerably subdued as households concerned about the future situation are consuming less. Low nominal wage growth and relatively high inflation are squeezing real disposable income. The revised forecast assumes that consumer demand remained muted even in the last quarter of 2012, based on monthly figures for retail trade sales, the relatively adverse situation in employment and wages, and the persisting negative expectations of households. A further sign of weaker domestic demand is that the trade balance is at a record high at a time of falling exports. Consequently, the household final consumption forecast has been revised down for 2013 and to a lesser extent for 2014 as well.

The forecast for **general government consumption** growth has been revised down slightly from the December forecast for the whole projection horizon, largely in response to revised national accounts data.

**Investment demand** in the first half of 2013 is expected to be weighed down significantly by the persisting climate of uncertainty and fiscal consolidation measures. The forecast for overall investment growth over the projection horizon is largely predicated on a planned investment project in the automotive industry. If automotive investments were excluded, investment growth would be projected to **remain unchanged** in 2013 and then to accelerate in 2014 amid a recovery of economic growth. The investment growth forecast has been revised down slightly since December on the basis of the latest nation-

**Chart 1 Investment growth (annual percentage changes; contributions in p.p.; constant prices)**

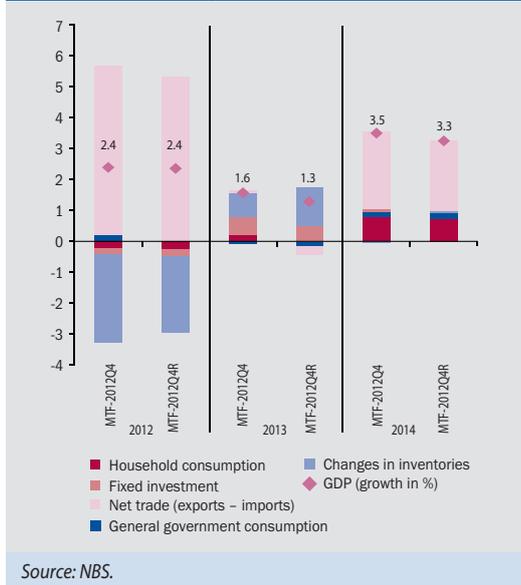


al accounts data, with investment demand maintaining its downward trend of previous quarters.

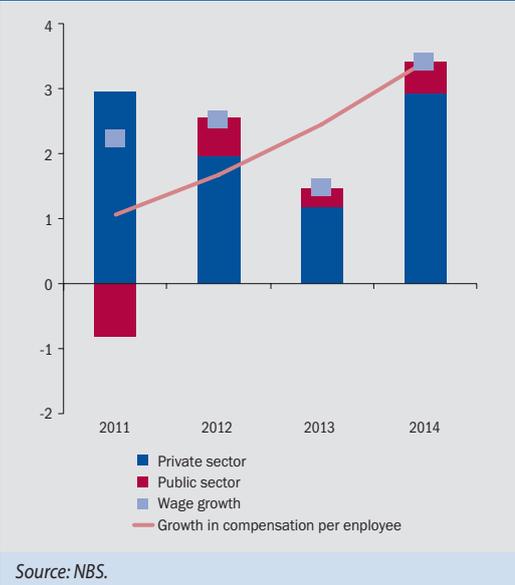
Based on projections of slower growth in exports and domestic demand, the forecast for **import growth** has been revised down over the projection horizon. Import growth is expected to remain temporarily higher than import growth in 2013 due to technology imports for the automotive industry and to the inventory cycle. In 2014, export growth is expected to pick up and net trade should be the main driver of economic growth. The projection for the balance of payments current account (in nominal terms) has been revised up from the previous forecast. Although external trade is deteriorating in real terms, the projections for nominal external trade have been revised up in the light of recent data, in particular price developments.

The adverse **labour market** situation deteriorated further in the fourth quarter. Monthly data for the period indicate that unemployment **fell more markedly than projected**. Since there was also a decline in economic growth, **employment** in 2013 and 2014 is expected to be lower than projected in the December forecast. In line with these developments, the **unemployment rate** forecast for 2013 has been re-

**Chart 2 Comparison of forecasts for economic growth (annual percentage changes in GDP at constant prices; contributions to growth in p.p.)**



**Chart 3 Forecast for nominal wages and compensation per employee (annual percentage growth; contributions to growth in p.p.; wages broken down by sector)**

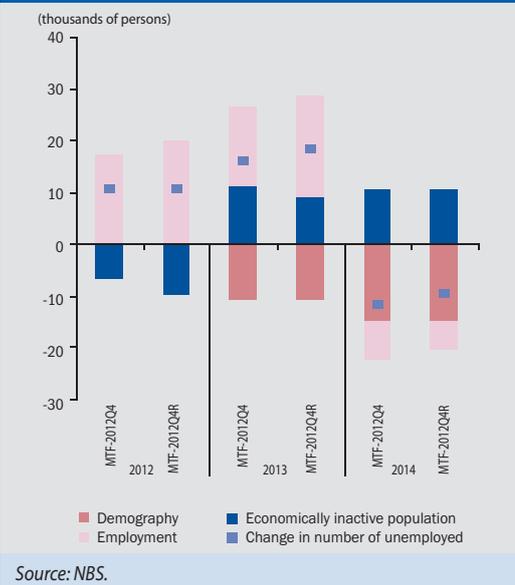


vised up slightly, to **14.7%**. The rate is then expected to fall gradually to 14% by the end of the projection horizon. The cautiousness of firms in response to lower external and domestic demand and to the effects of fiscal consolidation measures on the corporate sector started to be reflected in compensation per employee in the fourth quarter of 2012, with relatively **weak growth in nominal wages**<sup>5</sup>

With labour supply exceeding demand, the bargaining position of workers is weakened. Private sector wages are expected to increase only moderately over the projection horizon, even though labour productivity growth is creating scope for more marked wage growth. Wages in the public sector are assumed to remain flat due to the need for fiscal consolidation measures. Given the increasingly marked gap between labour productivity growth and compensation per employee growth, the Slovak economy is expected to become more competitive due to a **very low increase in labour costs**.

In an environment of low consumer demand, slower growth in labour costs, and stabilising prices in commodity markets, the **inflation rate is expected to decelerate** over the projec-

**Chart 4 Comparison of labour market indicators (contributions to unemployment)**



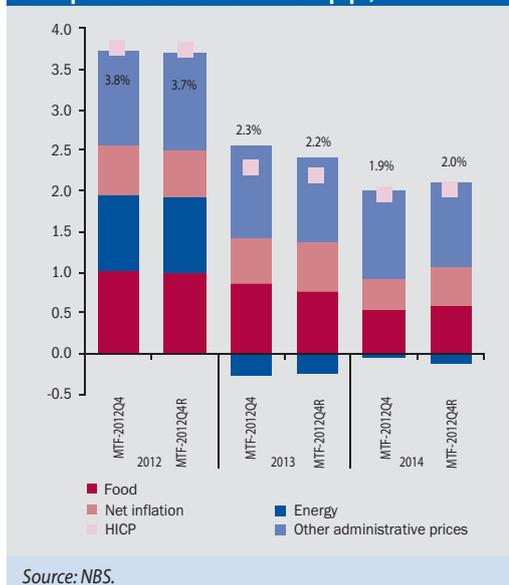
tion horizon. The inflation projections have not been change significantly against the previous forecast. The average inflation rate for 2013 has been revised down slightly, due mainly to lower than expected price growth in the last quarter

<sup>5</sup> The marked revision of compensation per employee for the previous period have change the previous assumptions about household disposable and may partly explain the weakness of household consumption. Based on the revision of compensation figures and on wage developments in the fourth quarter of 2012, the forecast for growth in compensation per employee has been revised down over the projection horizon.



of 2012. The only change in inflation assumptions over the projection horizon is a downward revision of electricity prices, the effect of which will be seen in 2014. The downward pressure on electricity prices is coming from a decline in European power prices. The projections for other items of the consumer basket remain practically unchanged. Pipeline pressures from agricultural commodity prices and food producer prices are expected to have a disinflationary effect on prices of processed and unprocessed food. Services inflation is expected to remain stable at around 3%, reflecting cost increases and to some extent the dampening effect of relatively weak consumer demand. Prices of non-energy industrial goods are assumed to increase in line with import prices and also to be restrained by weak demand at both home and abroad.

**Chart 5 Comparison of price developments (annual percentage growth of the HICP; component contribution in p.p.)**



**Table 1 Risks to the forecast**

	2013	2014
<b>GDP</b>	Balanced	↓ Fiscal consolidation measures, sovereign debt crisis, external demand
<b>Inflation</b>	Balanced	Balanced

Source: NBS.



**Table 2 Updated medium-term forecast (MTF-2012Q4U) of main economic indicators**

Indicator (y-o-y change in % unless otherwise indicated)	2011	2012	2013	2014	2012	2013	2014
	Actual	Forecast			Difference with MTF-2012Q3		
<b>Prices</b>							
HICP inflation (average)	4.1	3.7	2.2	1.9	-0.1	-0.1	0.0
CPI inflation (average)	3.9	3.6	2.2	2.0	-0.1	-0.2	0.1
ULC <sup>1)</sup> (Compensation per employee at curr.p./ Labour productivity ESA 95 at const.p.)	-0.4	-0.6	0.4	0.4	-1.5	-1.4	0.1
Labour productivity ESA 95	1.4	2.3	2.1	3.0	0.0	-0.1	-0.2
Compensation per employee ESA 95	1.1	1.7	2.5	3.4	-1.5	-1.5	-0.1
Nominal wages <sup>2)</sup>	2.2	2.5	1.5	3.4	-	-	-
Real wages <sup>3)</sup>	-1.8	-1.2	-0.7	1.5	-	-	-
<b>Economic activity</b>							
Real GDP	3.2	2.4	1.3	3.3	0.0	-0.3	-0.2
Final consumption of households	-0.5	-0.4	0.0	1.4	0.0	-0.4	-0.1
Final consumption of general government	-4.3	-0.1	-0.8	1.5	-1.3	-0.3	0.3
Gross fixed capital formation	14.2	-1.1	2.2	0.0	-0.2	-0.2	-0.3
Exports of goods and services	12.7	9.0	3.0	5.6	0.0	-0.9	-0.6
Imports of goods and services	10.1	3.5	3.7	3.7	0.2	-0.7	-0.6
Real gross disposable household income	-0.9	-0.6	0.3	1.2	-0.7	-0.6	-0.2
Output gap (% of potential output)	-0.9	-1.0	-2.1	-1.7	0.2	0.3	0.1
<b>Labour market</b>							
Employment (ESA 95)	1.8	0.1	-0.7	0.2	0.0	-0.1	-0.1
Employment in persons (thousands, ESA 95)	2 208.3	2 210.1	2 193.7	2 198.8	-	-	-
Unemployment rate (Labour Force Sample Survey, %)	13.5	14.0	14.6	14.3	0.0	0.1	0.2
Number of unemployed people (thousands)	367.9	378.3	396.6	386.9	-	-	-
<b>Balance of payments</b>							
Economic openness (% of GDP)	177.7	185.4	187.1	189.8	0.2	0.4	0.1
Trade balance (% of GDP)	1.4	4.6	3.9	5.4	0.2	0.7	0.6
Balance of services (% of GDP)	-0.5	0.4	0.4	0.4	0.0	0.0	0.0
Current account (% of GDP)	-2.1	2.6	2.2	3.7	0.1	0.7	0.5
Current and capital account (% of GDP)	-0.8	4.4	4.0	5.5	0.1	0.7	0.6
<b>External assumptions for the forecast</b>							
<b>External environment</b>							
Slovak foreign demand growth	6.3	0.8	2.0	5.1	0.0	-0.3	-0.8
<b>Technical assumptions</b>							
Exchange rate (EUR/USD) <sup>4)</sup>	1.39	1.28	1.31	1.31	0.0	2.3	2.3
Brent crude oil (USD per barrel) <sup>4)</sup>	111.0	111.9	108.3	102.2	0.2	3.1	1.7
Brent crude oil (EUR per barrel) <sup>4)</sup>	79.7	87.1	82.4	77.7	-0.1	0.1	-1.4
Oil prices growth (in USD)	39.3	0.8	-3.2	-5.7	0.1	2.8	-1.4
Oil prices growth (in EUR)	32.7	9.3	-5.4	-5.7	-0.1	0.2	-1.4
Prices of non-energy commodities growth (in USD)	17.9	-7.5	-1.5	3.3	0.0	0.0	0.0
EURIBOR 3M (%)	1.4	0.6	0.2	0.3	0.0	0.0	0.0

Source: NBS, ECB, SO SR.

Note: Inflation and technical assumptions for 2012 refer to actual data.

1) ULC – unit labour costs.

2) Average monthly wages; SOSR Statistics.

3) Wages deflated by HICP; SOSR Statistics.

4) Changes against the previous forecast in %.



**Table 3 Medium-term forecast (MTF-2012Q4) of main economic indicators**

Indicator (q-o-q change in % unless otherwise indicated)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
	Actual				Forecast							
<b>Prices</b>												
HICP inflation (average)	2.0	0.7	0.3	0.6	0.8	0.5	0.2	0.5	0.9	0.4	0.2	0.2
CPI inflation (average)	1.9	0.7	0.3	0.6	0.7	0.5	0.3	0.6	0.9	0.3	0.1	0.5
ULC <sup>1)</sup> (Compensation per employee at curr.p./ Labour productivity ESA 95 at const.p.)	0.0	1.2	-0.2	-0.3	0.3	0.0	0.3	0.2	0.1	0.0	0.1	0.0
Labour productivity ESA 95	0.4	0.6	0.6	0.4	0.5	0.4	0.6	0.6	0.8	0.9	0.8	0.9
Compensation per employee	0.4	1.8	0.3	0.1	0.8	0.4	0.9	0.8	0.9	0.9	1.0	0.9
<b>Economic activity</b>												
Real GDP	0.5	0.6	0.6	-0.2	0.4	0.3	0.5	0.7	0.9	1.0	0.9	1.1
Final consumption of households	0.0	-0.2	-0.3	-0.3	0.1	0.1	0.3	0.3	0.3	0.4	0.4	0.6
Final consumption of general government	1.9	-1.5	0.9	0.6	-0.6	-0.7	-0.5	0.2	0.7	0.5	0.7	1.0
Gross fixed capital formation	-4.3	-1.3	-0.3	3.6	-0.3	0.1	0.3	0.5	-1.9	0.9	0.9	1.0
Exports of goods and services	4.2	3.1	0.4	0.3	0.3	0.8	1.1	1.3	1.3	1.6	1.7	1.7
Imports of goods and services	2.3	2.8	2.4	-0.7	1.1	0.8	0.8	1.0	0.3	1.3	1.5	1.5
Real gross disposable household income	0.2	-0.3	-0.3	0.1	0.6	-0.5	0.3	0.1	0.4	0.5	0.4	0.6
Output gap (% of potential output)	-0.9	-0.9	-0.8	-1.5	-1.8	-2.1	-2.3	-2.2	-2.1	-1.8	-1.6	-1.2
<b>Labour market</b>												
Employment (ESA 95)	0.1	0.0	0.0	-0.6	-0.1	-0.1	-0.1	0.0	0.1	0.1	0.1	0.1
Unemployment rate (Labour Force Survey, %)	13.7	13.8	13.9	14.5	14.6	14.7	14.7	14.6	14.5	14.4	14.3	14.1

Source: NBS, ECB, SO SR.  
1) ULC – unit labour costs.