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EUROSYSTEM



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ABBREVIATIONS

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
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
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
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

The Slovak economy continued to grow in the fourth quarter of 2015, by 4% year-on-year. It expanded over the year by 3.6% year-on-year, compared with 2.5% in 2014. The accelerating economic growth was driven mostly by investment, financed from EU funds. However, with the ending of the increased absorption of EU funds, the temporarily accelerated GDP growth is likely to return to its previous level. A more stable component of GDP is household consumption, which continued growing at the end of the year, owing to the favourable labour market conditions and the low-inflation environment. The falling energy prices generated a marked increase in households' real disposable income and strengthened their purchasing power. This was reflected mainly in services. Households used their increased real disposable income partly for consumption and partly for saving.

The orientation of investors and consumers towards the domestic economy generated profits, stimulated value added creation in services, and boosted employment growth. The output of export-oriented sectors increased at the end of the year, stimulating profit growth and value added creation in manufacturing. Thus, the balanced economic growth, coupled with increased output, generated accelerated wage growth, which was supported by irregular bonus payments.

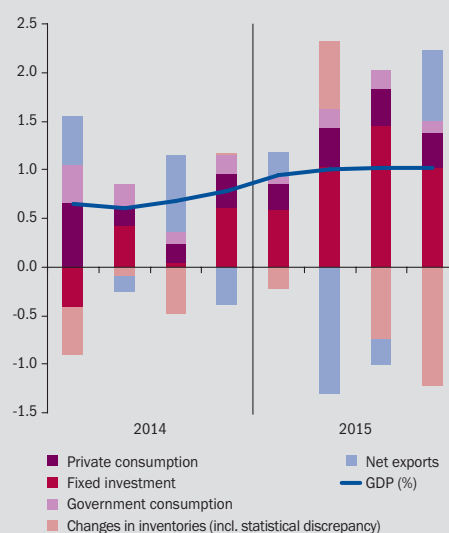
The increased domestic demand exerted no inflationary pressure. The rise in consumer prices was dampened by the relatively low imported inflation and by the continuing fall in energy commodity prices. Owing to the persisting decline in energy commodity prices, price levels showed negative dynamics for the second successive year.

2 GROSS DOMESTIC PRODUCT

During 2015, the Slovak economy grew at the most rapid pace seen in the past five years. GDP expanded during the year by 3.6%, compared with 2.5% during 2014. The accelerated growth was due mainly to the absorption of EU funds, which increased from 63% in 2014 to 90% in 2015. The most rapidly growing GDP component was investment (public investment grew by 55.3%, private investment by 5.2%), followed by household consumption and exports. Imports grew faster than exports, owing to the growing demand for imported goods (mainly investment goods and consumer goods).

In the fourth quarter of 2015, the Slovak economy continued expanding by 1% quarter-on-quarter for the third successive quarter. The annual rate of economic growth accelerated from 3.8% in the third quarter to 4% in the fourth quarter (from 3.7% to 4.3% before seasonal adjustment), repre-

Chart 1 Quarterly GDP growth by component (percentage points; constant prices)



Sources: SO SR and NBS calculations.

Table 1 GDP by expenditure (quarterly percentage changes; constant prices)

	2014	2015				Year
	Year	Q1	Q2	Q3	Q4	
Gross domestic product	2.5	0.9	1.0	1.0	1.0	3.6
Final consumption						
Households and non-profit institutions	2.3	0.5	0.7	0.7	0.7	2.4
General government	5.9	0.4	1.1	1.1	0.7	3.4
Gross fixed capital formation	3.5	2.7	4.7	6.3	4.3	14.0
Exports of goods and services	3.6	7.0	-1.0	1.1	2.1	7.0
Imports of goods and services	4.3	7.2	0.3	1.4	1.5	8.2

Source: SO SR.

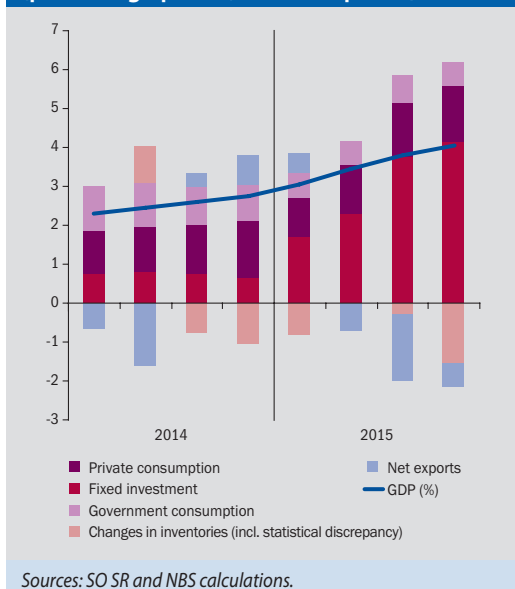
Table 2 GDP and its components (index, same period a year earlier = 100; constant prices)

	2014	2015				Year
	Year	Q1	Q2	Q3	Q3	
Gross domestic product	102.5	102.9	103.4	103.7	104.3	103.6
Gross product	102.2	102.9	104.5	107.1	107.2	105.4
Intermediate consumption	102.3	102.9	105.7	110.1	109.4	107.0
Value added	102.1	103.1	102.6	103.1	103.7	103.1
Net taxes on products ¹⁾	106.9	101.2	110.9	110.4	109.2	108.2

Source: SO SR.

¹⁾ Value added tax, excise tax, import tax, less subsidies.

Chart 2 Annual GDP growth by component (percentage points; constant prices)



senting the fastest pace in the last five years. The main driver of economic growth was the domestic economy, which benefited from the increased absorption of EU funds at the end of the second programming period. At the end of the year, the rate of export growth accelerated and the resulting net exports contributed to economic growth. The only component that tended to reduce GDP was a change in inventories in the economy. Inventories decreased as a result of an increase in domestic and foreign demand.

As regards the components of domestic demand, investment increased in the quarter under review, especially in machines and buildings. The volume of investment grew in quarter-on-quarter terms by 4.3%, compared with 6.3% in the third quarter. The year-end volume of fixed investment exceeded the pre-crisis level (the quarterly average for 2008) by almost 12%. Private investment, however, remained below its pre-crisis level. Investment growth was determined by the public sector and its ability to absorb EU funding. Capital transfers from EU funds were earmarked largely for financing public infrastructural projects. Public investment continued to grow at a two-digit pace in the fourth quarter (12.2% quarter-on-quarter), after growing in the third quarter by 20.7%.

Increased investment activity was also recorded in the private sector, which was not only a re-

ipient of EU funds but also a beneficiary of the recent revival in the corporate loan market. Private investment increased by 1.6% quarter-on-quarter, compared with 2.3% in the third quarter. At the end of the year, most investments were made in the automotive, waste management and water supply sectors.

Chart 3 Structure of annual changes in investment by type of assets (percentage points; constant prices, non-seasonally adjusted)

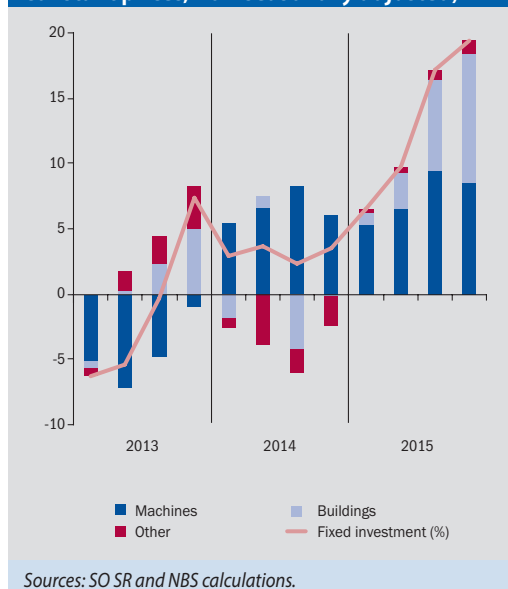
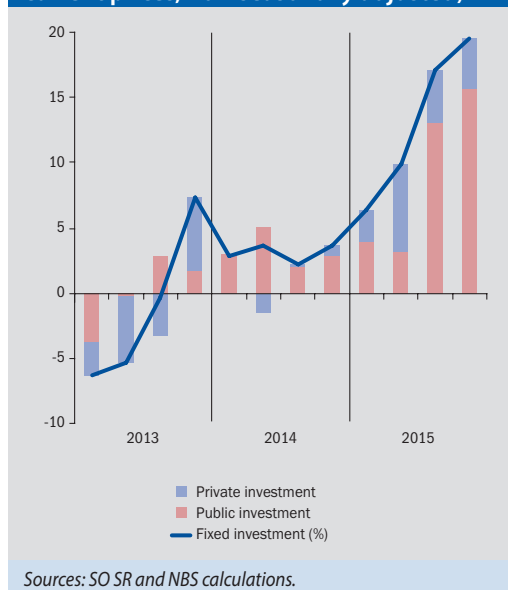


Chart 4 Structure of annual changes in investment by sector (percentage points; current prices, non-seasonally adjusted)



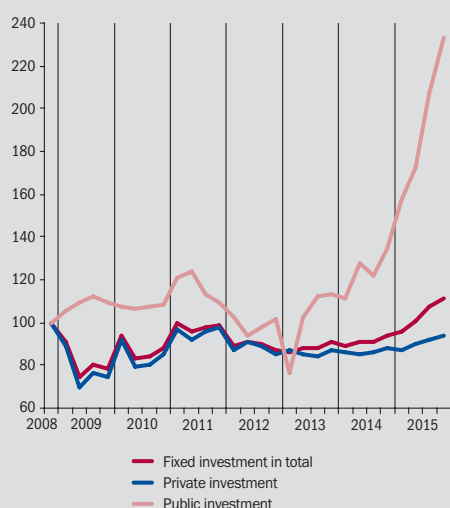


Despite being stimulated by the increased absorption of EU funds, investment growth was also boosted in the quarter under review by investment in machinery and equipment. These segments form the skeleton of the country's production capacity and economic potential. Investment in machinery and equipment followed the trend from the end of 2014, across the whole spectrum

of sectors (except for several large one-off investments in the electrical industry in 2011).

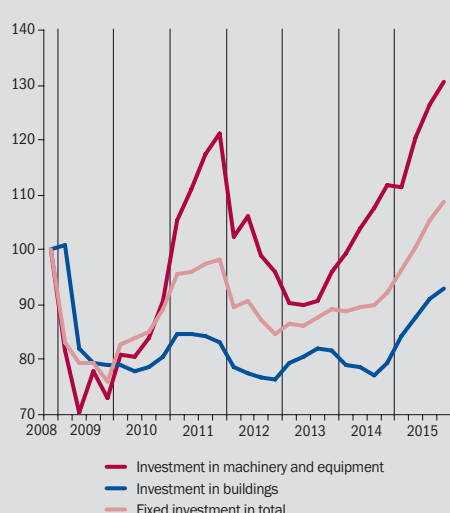
While investment contributed 1 percentage point to the quarterly rate of economic growth, consumption contributed only 0.5 percentage point. Public and private consumption increased equally by 0.7% in the fourth quarter. Private consumption maintained its growth rate for the third successive quarter, confirming that it had sound fundamentals for stable growth (unlike investment).

Chart 5 Changes in investment by sector compared with the pre-crisis level (constant prices; 2008=100)



Sources: SO SR and NBS calculations.

Chart 6 Changes in investment by type of assets compared with the pre-crisis level (current prices; 2008=100)



Sources: SO SR and NBS calculations.

The fundamentals of stable growth in private consumption were the growing disposable income of households and the absence of inflation, which created conditions for an increase in the purchasing power of households (mainly in the services sector). The household sector profited from the favourable labour market developments, i.e. employment growth and average wage growth. The nominal volume of gross wages grew over the fourth quarter at the most rapid pace seen since the financial crisis (7.1% year-on-year). Faster growth, however, was also recorded in taxes and contributions, and thus the above-standard wage base growth was not fully reflected in the growth rate of nominal disposable income (4.3%). The strong growth in taxes and social security contributions was due probably to the combined effect of several factors (e.g. the non-taxable part of the tax base was not increased; more employees were subject the millionaire tax; the minimum wage was increased but the newly introduced non-taxable item for health insurance was probably used by less than one-third of the eligible low-income employees; the maximum basis of assessment for health and social insurance was changed; some of the self-employed started, on their own initiative, to pay social security contributions higher than the minimum amounts).

Part of households' income was absorbed by tax and contribution payments, but was partly compensated for by the lower energy prices. The oil price decline and the resulting fall in energy prices (fuel, electricity, heating and gas prices) caused an increase in households' real disposable income, by 0.9 percentage point to 4.8% (non-seasonally adjusted annual increase at constant prices). Real household income had been positively influenced by energy prices since the

beginning of 2013. This influence reached a post-crisis high at the end of 2015.

Since energy consumption is not responsive to price changes (a fall in energy prices does not tend to boost energy consumption), the three years of steady decline in energy prices had made it possible for households to save some

money on their energy bills. The money saved, however, was not used entirely for consumption. In 2013, cautious households used such savings to increase their financial reserves. They started to spend more on consumption only from the beginning of 2014, when the energy price decline was joined by another pro-consumption factor (i.e. a fall in food prices). Household consumption had been driven by spending on durable goods since the beginning of 2014. Nonetheless, savings continued to increase in the household sector. At the turn of 2014/2015, the saving ratio was stabilised by the favourable labour market trends. At the end of 2015, however, the saving ratio increased again in connection with the plans of households to make large purchases, which were revealed by a consumer survey. This implies that the unconsumed part of disposable income will be used for future consumption and the rest – with increasing loan burden – will be used for loan repayments.

The household sector saw an increase in both savings and consumption in the quarter under review. The increased purchasing power of households, resulting from the lower energy prices, was reflected mainly in the increased level of spending on recreation, culture, communication and transport, which were the first segments to enjoy increased demand in connection

Chart 7 Relationship between the saving ratio and large purchases planned by households



Chart 8 Division of annual changes in disposable household income (percentage points; constant prices, non-seasonally adjusted)

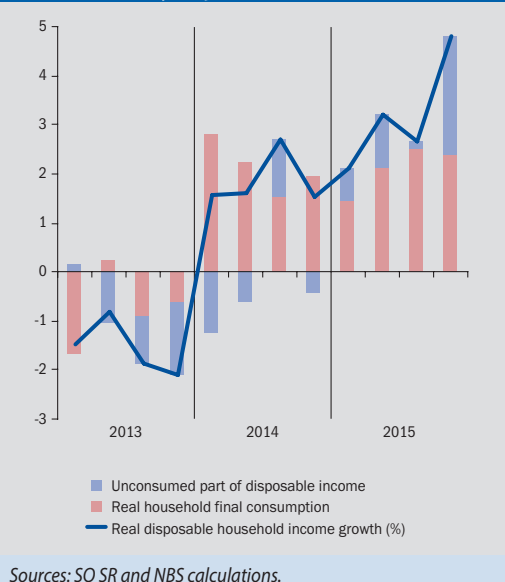


Chart 9 Impact of energy prices on real disposable household income (percentage points; constant prices, non-seasonally adjusted)

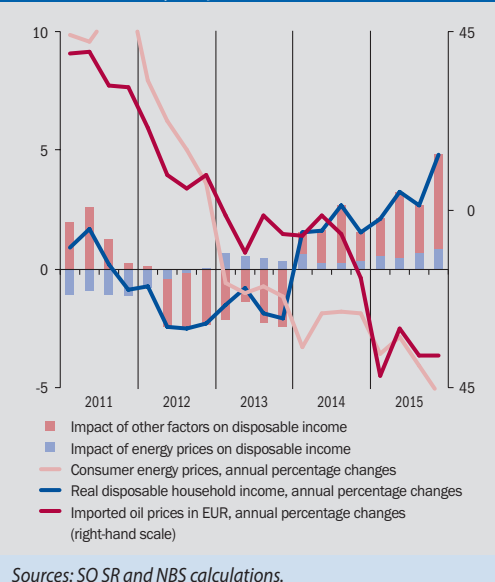
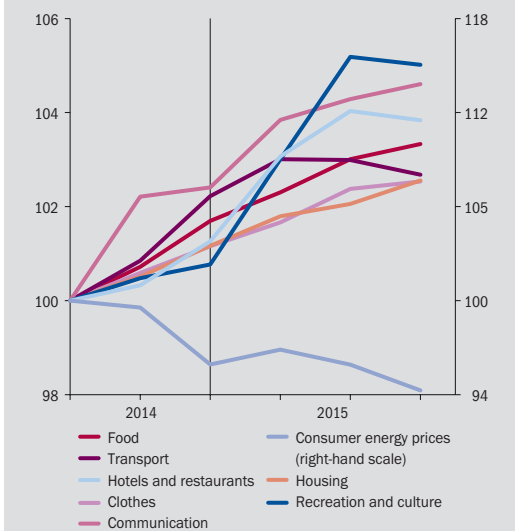
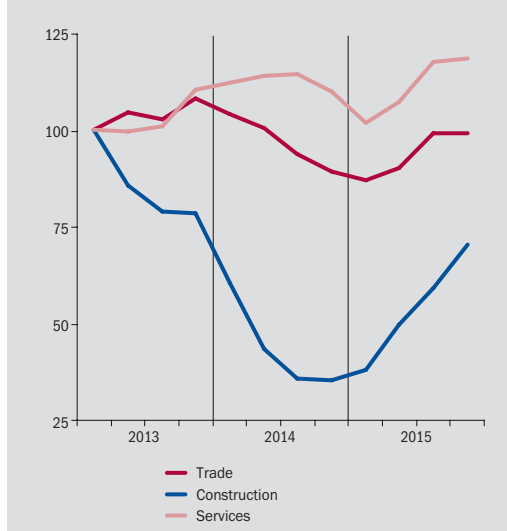


Chart 10 Segments benefiting from the increased purchasing power of household in the second wave of energy price reduction starting in 2014 Q3 (2014 Q3 = 100; const. prices, seasonally adjusted)



Sources: SO SR and NBS calculations.

Chart 12 Profit growth in trade, construction and services (2013 Q1 = 100, annual cumulative changes)

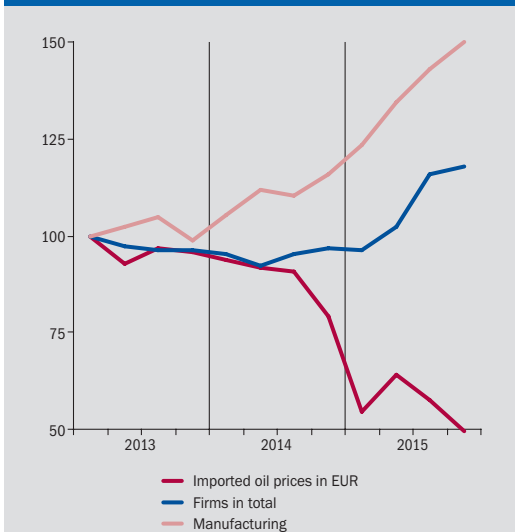


Sources: SO SR and NBS calculations.

with the energy price decline. Households spent part of their savings on energy bills on restaurants, hotels, food, clothes and housing (spending on beverages, furniture, health and education increased less dynamically).

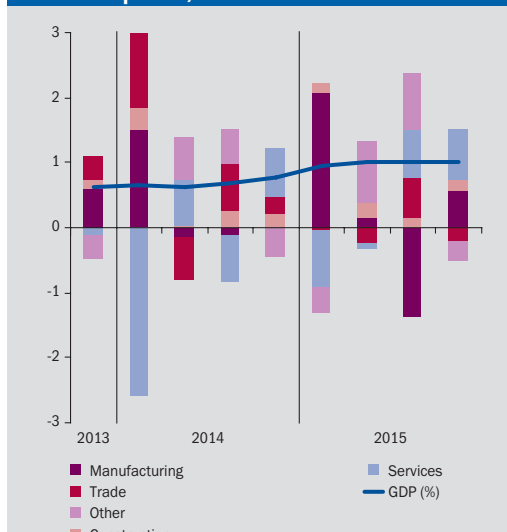
Besides the purchasing power of households, profitability represents another measurable channel through which oil prices are transferred into a net oil importer's economy. The profits of non-financial corporations rose by 8% year-on-

Chart 11 Profit growth in manufacturing (2013 Q1 = 100, annual cumulative changes)



Sources: SO SR and NBS calculations.

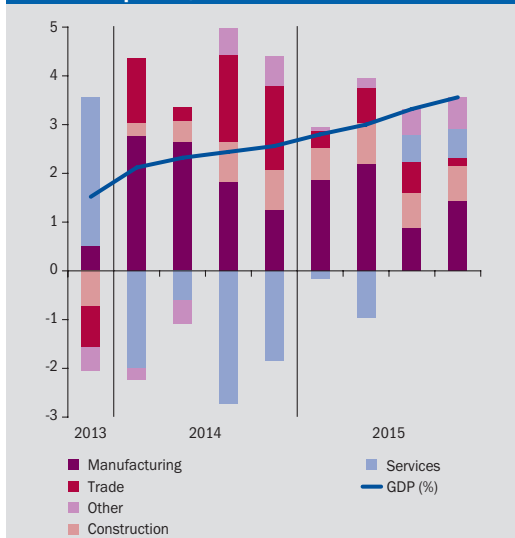
Chart 13 Quarterly GDP growth by contributions of selected sectors (percentage points; constant prices)



Sources: SO SR and NBS calculations.



Chart 14 Annual GDP growth by contributions of selected sectors (percentage points; constant prices)



Sources: SO SR and NBS calculations.

year during the fourth quarter. The strongest profit growth (i.e. 50% year-on-year) took place in manufacturing, which related to the accelerated export performance of this tradables sector over 2015. Reflecting flexibly our trading partners' demand, exports grew further to 2.1% in the fourth quarter of 2015 (from 1.1% in the third quarter). In particular, car makers' exports increased.

The improved export market conditions led to increased value added creation in manufacturing. The increased domestic demand stimulated profit growth and value added creation in services for the second successive quarter. Amid burgeoning investment demand, the financial output of the construction sector started to increase. This led to sound value added creation in this sector.



3 THE LABOUR MARKET

3.1 WAGES AND LABOUR PRODUCTIVITY

The favourable trend in employment continued over the fourth quarter of 2015. It was supported by the country's robust economic growth and by the increased absorption of EU funds. This applies mainly to employment in the private sector. The negative trend in the number of self-employed persons came to halt. The need for more hours worked in the period under review led to accelerating wage growth, which was boosted by irregular bonus payments in particular. Over the long-term horizon, wage growth in excess of labour productivity growth may pose a threat to economic competitiveness.

The annual rate of average wage growth in the economy accelerated in the fourth quarter to 4.1%, from 2.9% in the third quarter. Wage growth accelerated in both the private (from

2.8% to 4%) and public sectors (from 3.1% to 4.9%). The structure of wages paid became dominated by irregular bonus payments, which contributed 1 percentage point to the overall wage growth. This seems to be associated with the intense economic activity taking place in connection with the absorption of EU funds at the end of 2015. Hence, wage growth is expected to slow somewhat at the beginning of 2016. In the public sector, wage growth accelerated in the fourth quarter, mainly in public administration (general government). In the private sector, the strongest wage growth took place in construction (9.6%), but the other key sectors (services and manufacturing) also experienced faster wage growth, while wage growth in trade activities remained virtually unchanged.

Average wage growth slowed during 2015 to 2.9% (from 4.1% in 2014), owing probably to the low inflation and its impact on wage bargaining. Wage growth, however, followed a gradually accelerating trend over the year, amid accelerating economic growth and growing demand for labour. This was also reflected in the factors that contributed to wage growth as identified on the basis of a regression analysis. The accelerating wage growth was driven by the growing perceived shortage of labour, coupled with increased labour productivity at the end of the year (an alternative indicator of labour productivity is profit per employee, which also had an upward effect on wages in the fourth quarter). Overall, wages grew at faster pace than labour productivity. Over the long-term horizon, this may represent an inflation risk or a risk to competitiveness.

Compensation per employee grew over the fourth quarter at a pace similar to that of wages, i.e. 3.9% year-on-year (compared with 2.1% in the third quarter). The slightly slower rate of growth in compensation than in wages can be explained by the introduction of social security contribution allowances for low-income employees.

Chart 15 Bonuses and other wage components (annual percentage changes; contributions in percentage points)



Source: SO SR.

Note: Statistics on companies with 20 or more employees (public administration and financial intermediation, irrespective of the number of employees).

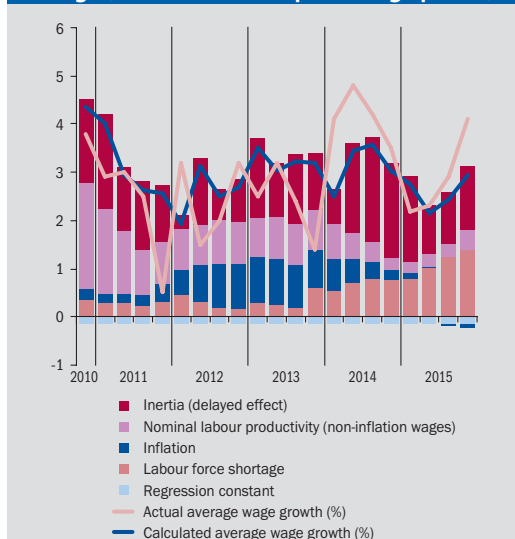
Table 3 Wages and labour productivity (annual percentage changes)

	2014	2015				Year
	Year	Q1	Q2	Q3	Q4	
Average wage (headline)	4.1	2.2	2.3	2.9	4.1	2.9
Consumer price inflation	-0.1	-0.4	-0.1	-0.3	-0.5	-0.3
Average real wage (headline)	4.2	2.6	2.4	3.2	4.6	3.2
Average wage (ESA 2010)	1.5	1.8	2.2	2.2	4.0	2.6
Compensation per employee (ESA 2010)	1.8	1.9	1.5	2.1	3.9	2.4
Labour productivity (non-inflationary wages), nominal	1.0	0.7	0.8	1.0	2.1	1.2
Labour productivity (non-inflationary wages), real	1.2	1.1	1.1	1.3	2.2	1.4
Labour productivity ESA 2010, nominal	0.9	0.8	1.0	1.2	2.2	1.3
Labour productivity ESA 2010, real	1.1	1.2	1.3	1.5	2.3	1.6

Sources: SO SR and NBS calculations.

Note: Average wages (headline) are based on data from the statistical reports of SO SR. Average real wages were calculated on the basis of CPI inflation. Labour productivity (non-inflationary wages) was calculated as the ratio of real GDP to employment as defined in the methodology of statistical reporting (SO SR). Labour productivity ESA 2010 was calculated as the ratio of real GDP to employment as defined in the ESA 2010 methodology.

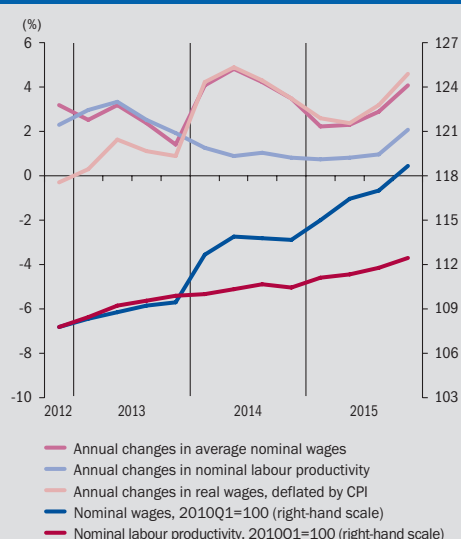
Chart 16 Factors determining the rate of change in wages (annual percentage changes; contributions in percentage points)



Source: NBS calculations based on a regression analysis.

Note: The following variables were transformed: 4-quarter moving average of labour productivity growth, 4-quarter moving average of CPI inflation with a delay of 3 quarters. Shortage of employees according to the results of economic trend surveys carried out by the European Commission; sectors weighted by employment figures.

Chart 17 Annual changes in wages and labour productivity



Source: SO SR.

Note: Wages are based on data from the statistical reports of SO SR. Nominal labour productivity was calculated from employment data from the statistical reports of SO SR. Base indices were calculated from seasonally adjusted data.

3.2 EMPLOYMENT AND UNEMPLOYMENT

Employment continued to grow in the fourth quarter, by 0.4% quarter-on-quarter (compared with 0.45% in the third quarter). Its annual growth rate reached 2%, compared with 2.2% in the previous quarter. The growth in employment took place mostly in the private sector and was driven, inter alia, by demand generated by the absorption of EU funds. In the public sector, the number of employees decreased somewhat, because the previous increases in employment were due in part to temporary factors (e.g. projects for the support of employment, the legislative restriction on the dismissal of teachers in the third quarter¹). In the private sector, employment rose most significantly in manufacturing, to a somewhat lesser extent in services and trade, and only slightly in construction (demand for labour in this sector was reflected in the amount of wages paid and the number of hours worked). According to the latest economic trend surveys, the services sector has the greatest potential for hiring new employees in the near future. Employment increased over the year by 2%, compared with 1.4% in 2014. This acceleration can be ascribed to the impact of strong domestic demand last year and to the waning post-crisis uncertainty surrounding the recruitment of employees.

Chart 18 Quarterly changes in employment by contributions of selected sectors (percentage points)

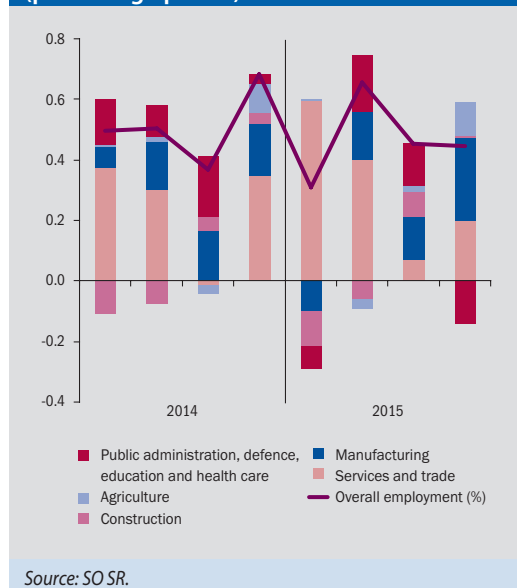
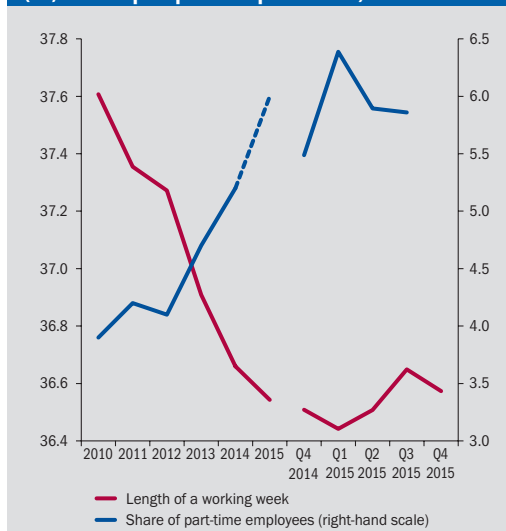


Chart 19 Part-time employment and the average length of a working week (% , hours per person per week)



Sources: SO SR and Eurostat.

Note: The number of part-time employees for 2015 was calculated as the average figure for the first three quarters.

In the last quarter, employment growth took place not only in the segment of employees but also in the segment of self-employed persons. The increase in the number of employees accounted for almost two-thirds of the overall quarter-on-quarter growth in employment, and the rest (approximately 4,000 persons) was formed by self-employed persons. Thus, the decreasing trend in their number persisting since the outbreak of the financial crisis came to a halt in the quarter under review.

The growth in employment was also accompanied by a quarter-on-quarter increase of 0.24% in the number of hours worked. Since employment grew at a faster pace, the average length of a working week decreased somewhat. This can be attributed to developments in the public sector (including education and health care), as well as in the private sector. An increase in this indicator took place in information technology, communication and construction. Overall, the length of a working week had been decreasing gradually for roughly five years, owing to the increasing share of part-time employees in the total number of people employed. This trend may to some extent disrupt the expected improvement in the Slovak economy's competitive position and the related increase in demand for labour.

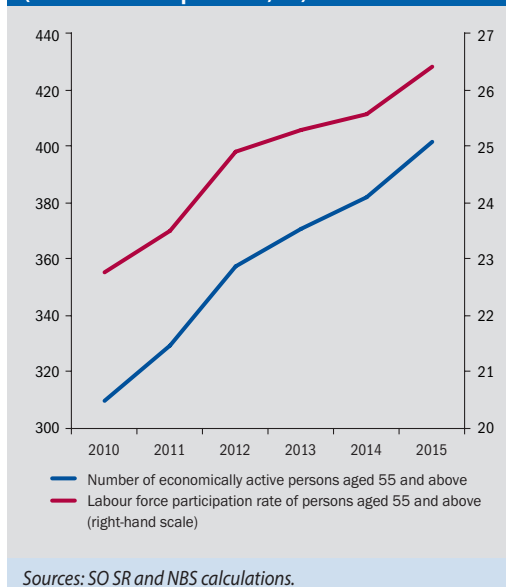
¹ More detailed information is available in the Report on the Slovak Economy, December 2015.



The total number of unemployed according to the latest Labour Force Survey decreased in the fourth quarter by 4.4% quarter-on-quarter (i.e. by approximately 14,000 persons). The rate of unemployment fell by 0.5 percentage point quarter-on-quarter, to 10.8%. This was due to employment growth, i.e. growth in the number of persons working abroad and in Slovakia (to roughly the same extent). The fall in unemployment, on the other hand, was dampened by the labour force participation rate. More and more people before and after retirement participate actively in the labour market. This can be attributed partly to the demographic situation with the number of younger people and school leavers falling gradually, while older persons are welcomed on the labour market. Consequently, employers hire less employees from the unemployed. At the same time, the number of foreigners employed in Slovakia is on the increase. This indicates that employers are hesitant to hire new staff members from the unemployed. In addition, the improved labour market conditions seem to stimulate increased participation among people from younger age groups (20 to 29 years).

The unemployment rate calculated from the total number of job applicants registered with the Central Office of Labour, Social Affairs and Family

Chart 20 Increased economic activity of persons before and after retirement (thousands of persons, %)



(ÚPSVR) dropped in the fourth quarter by 0.6 percentage point, to 12.5%. The non-seasonally adjusted rate of registered unemployment reached an average of 10.79% in the fourth quarter, representing a year-on-year fall of 1.5 percentage points.



4 PRICE DEVELOPMENTS

Price levels fell in the fourth quarter by 0.5% year-on-year, compared with 0.3% in the third quarter of 2015. The accelerated price decline was fuelled by the continuing year-on-year fall in energy and processed food prices, coupled with a slowdown in the rate of increase in non-energy industrial goods prices.

The negative rate of change in the overall price level had persisted for the eighth successive quarter. The price deflation was due in part to the falling energy and food commodity prices. The lower oil and gas prices were taken into account in the price decisions of the Regulatory Office for Network Industries (ÚRSO), which led to a reduction in gas and electricity prices with effect from 1 January 2016. The low-inflation environment was also supported by an accelerating year-on-year decline in processed food prices, which was due probably to the impact of a sharper than expected fall in food commodity prices at the end of 2015.

Despite a certain acceleration, the rate of change in services prices remained low in the quarter under review, without reflecting the effects of positive labour market and wage developments. The demand impulses were probably dampened by the lower energy and food prices and the resulting fall in household expenditure. Non-energy industrial goods prices continued to rise at a moderate pace. Their increase slowed somewhat in comparison with the previous quarter, owing to a slowdown in the rate of change in import prices.

External factors continued to contribute substantially to the low-inflation environment without a time lag (fuel prices) or with various time lags (food, industrial goods and energy prices). The secondary effects of external factors, especially in services prices, continued to dampen the domestic factors of growing employment, wages and household final consumption.

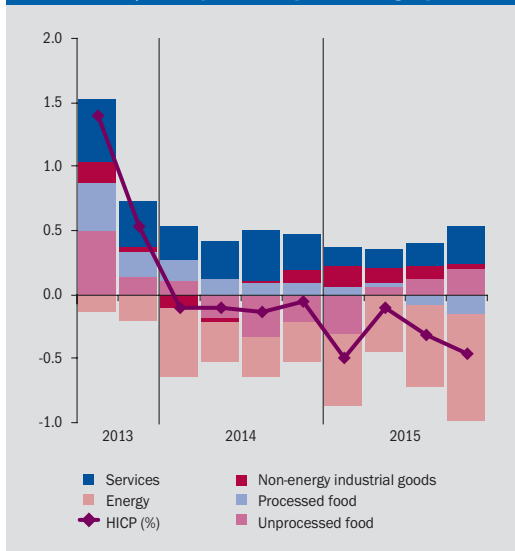
Table 4 Annual percentage changes in inflation by component (%)

	2014	2015				
	Year	Q1	Q2	Q3	Q4	Year
HICP inflation	-0.1	-0.5	-0.1	-0.3	-0.5	-0.3
Unprocessed food	-2.0	-3.8	0.9	1.6	2.6	0.3
Processed food	0.7	0.3	0.2	-0.5	-0.9	-0.2
Non-energy industrial goods	0.0	0.6	0.4	0.4	0.2	0.4
Energy	-2.2	-3.5	-2.9	-4.1	-5.3	-3.9
Services	1.0	0.5	0.5	0.6	0.9	0.6

Sources: SO SR and NBS calculations.

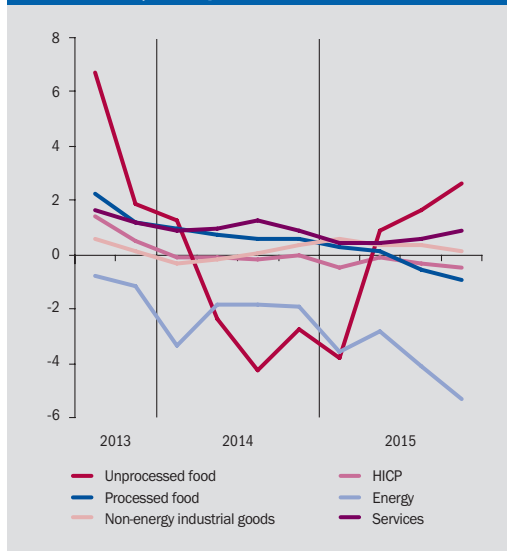


Chart 21 Annual changes in headline inflation by component (percentage points)



Sources: SO SR and NBS calculations.

Chart 22 Annual percentage change in inflation by component (%)



Sources: SO SR and NBS calculations.