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EUROSYSTÉM

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Contents

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
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

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 in the second quarter of 2017 largely mirrored its performance in the first quarter of 2017, maintaining a growth rate of 0.8% quarter on quarter. The annual rate of growth reached 3.3%. The main driver of economic growth was domestic demand, which continues to be supported by the improving labour market situation.

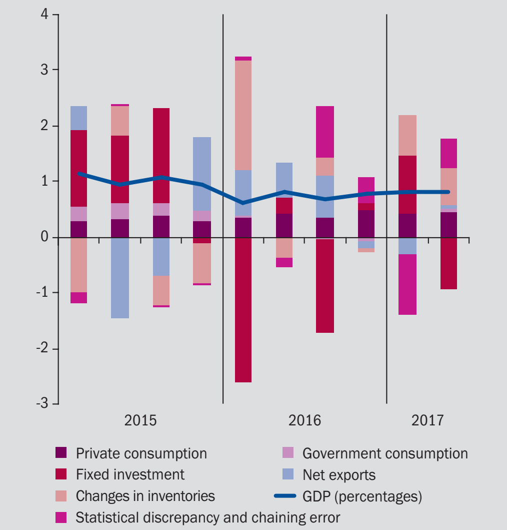
The quarterly rate of employment growth accelerated to 0.6% in the second quarter of 2017, from 0.4% in the previous quarter. The annual rate of employment growth remained unchanged from the previous quarter, at 2.1%, supported mainly by manufacturing and services. The average wage in the economy increased by 4.8%, year on year, up from 3.5% in the first quarter. The most pronounced wage increases were observed at larger firms in the private sector, particularly in manufacturing and retail.

Annual HICP inflation in the second quarter of 2017 was 1.0%, the same as in the first quarter. Looking at the components of HICP inflation, food inflation accelerated and so, to lesser extent, did non-energy industrial goods inflation. Energy (fuel) prices, on the other hand, saw a further acceleration in their annual rate of decline.

2 Gross domestic product

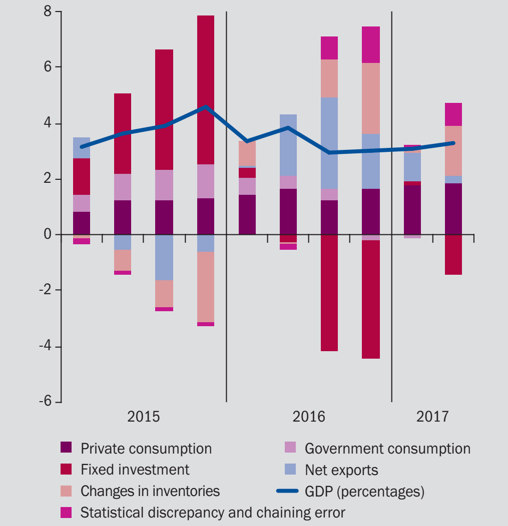
The Slovak economy expanded in the second quarter of 2017 by 0.8%, quarter on quarter, recording a third successive quarter of growth. In year-on-year terms, GDP grew by 3.3% (after 3.1% in the previous quarter), owing to increasing domestic demand. Since the beginning of the year, the economy has witnessed increases in both consumer and producer prices, and consequently higher nominal GDP growth (4.1% in both the first and second quarters). Rising consumer prices did not significantly dent consumer demand in the second quarter, but investment activity declined sharply. Net exports made a moderately positive contribution to both the quarterly and annual rate of GDP growth.

Chart 1 GDP and its components (quarter-on-quarter percentage changes; percentage point contributions; constant prices)



Sources: SO SR and NBS calculations.

Chart 2 GDP and its components (annual percentage changes; percentage point contributions; constant prices; non-seasonally adjusted)



Sources: SO SR and NBS calculations.

The quarter-on-quarter economic growth was driven mainly by private consumption. On the production side, economic activity increased in private sector services (particularly in the category of professional and technical activities) and construction, while industry growth slowed due to investment-related factory shutdowns. Gross capital formation – with inventories included on the assumption that investment includes

Table 1 GDP by expenditure (percentage changes from previous period; constant prices)

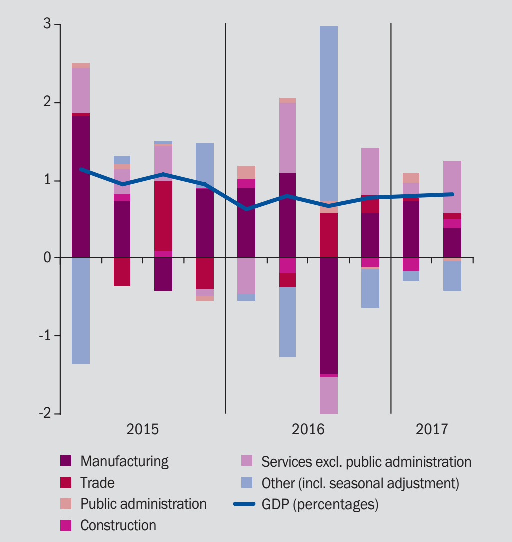
	2016					2017	
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2
Gross domestic product	0.6	0.8	0.7	0.8	**3.3**	0.8	0.8
Final consumption of households and non-profit institutions serving households	0.7	0.8	0.7	0.9	**2.9**	0.8	0.9
Final consumption of general government	0.1	-0.1	-0.1	-0.3	**1.6**	0.1	0.2
Gross fixed capital formation	-10.8	1.4	-7.8	0.7	**-9.3**	5.3	-4.6
Exports of goods and services	-0.8	5.6	-1.8	3.3	**4.8**	1.2	-2.5
Imports of goods and services	-1.8	5.3	-2.7	3.7	**2.9**	1.7	-2.7

Source: SO SR.

projects under construction (unrecorded) – declined by 1.3%.

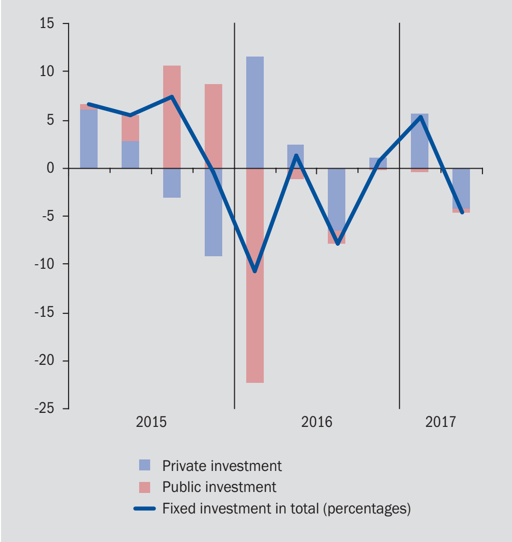
Fixed investment decreased in the second quarter by 4.6%, quarter on quarter, after rebounding in the first quarter with growth of 5.3%. There were declines in investment in infrastructure, in machinery and equipment and in buildings. The low interest rate environment did not stimulate the corporate sector enough to offset the fall in public investment. In fact, the private sector also made a negative contribution to fixed investment growth. In the case of private investment, however, this may have been due to it correcting after a strong performance in the first quarter and to the impact of seasonal adjustment (such adjustment does not take into account calendar effects). In sectoral terms, the most notable investment growth was in the pulp and paper industry and in the electronics/electrical equipment industry, as well as in the service industries of hotels and restaurants and information and communication services.

Chart 3 GDP and its components (quarter-on-quarter percentage changes; percentage point contributions; constant prices)



Sources: SO SR and NBS calculations.

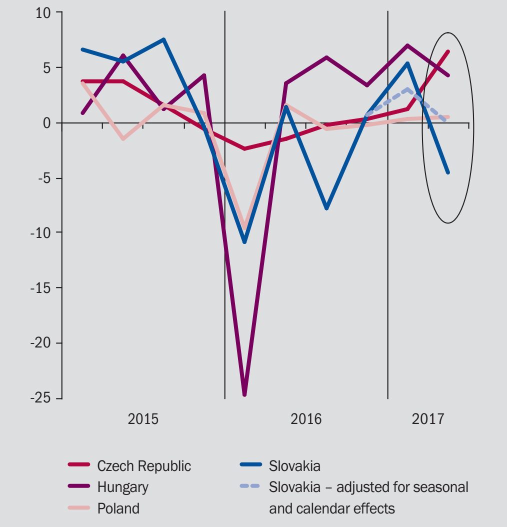
Chart 4 Real investment – sectoral contributions to quarter-on-quarter changes (percentage points; constant prices)



Sources: SO SR and NBS calculations.

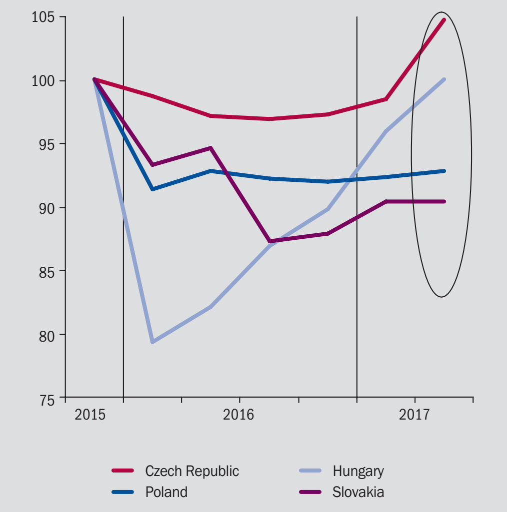
Quarter-on-quarter fixed investment growth in Slovakia has recently been the weakest across the Visegrad Four (V4) countries. According to SO SR seasonally adjusted data, investment in Slovakia fell sharply in the second quarter of 2017, although, unlike in other V4 countries, these data are not adjusted for calendar effects. With these effects taken into account, Slovakia remained the only V4 country not to report investment growth in the second quarter. The Czech Republic had the strongest investment growth (higher compared with the previous quarter), overtaking Hungary's relatively robust and stable growth. Investment growth in Poland was weaker, but still in positive territory.

Chart 5 Fixed investment (quarter-on-quarter percentage changes)



Sources: Eurostat and NBS calculations.

Chart 6 Fixed investment (index: 2015=100)

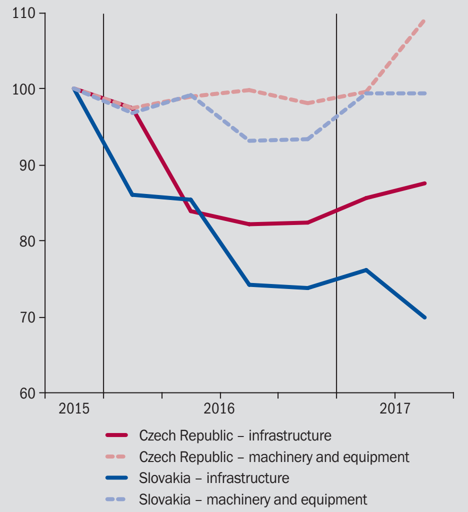


Sources: Eurostat and NBS calculations (data for Slovakia were adjusted).

The gap between investment levels in the recent period and those in 2015, when the absorption of EU funds peaked, is greater in Slovakia than in the other V4 countries, notwithstanding incoming new investment in Slovakia's automotive industry (this investment may be recorded in inventories, but even if inventories are added to fixed investment, Slovakia remains behind the other V4 countries, albeit not as far behind).

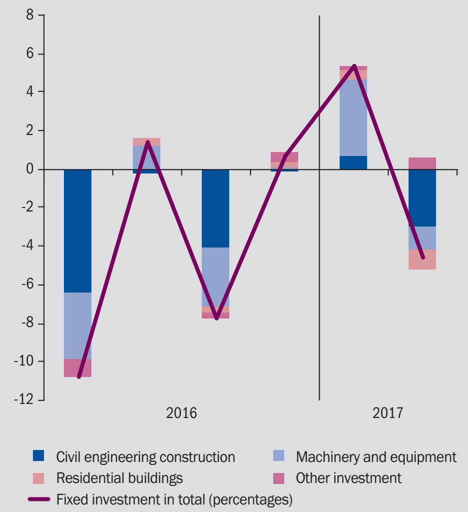
The only country in which fixed investment has yet exceeded its 2015 level is the Czech Republic, owing to investment in machinery and equipment and to residential investment. Both types of investment are stronger in the Czech Republic than in Slovakia. In the case of machinery and equipment investment, the gap widened in the second quarter of 2017 due in part to Slovak investment correcting after its increase in the previous quarter, while other investment in machinery is expected to be finalised in the coming quarters. The drop in residential investment in the second quarter may reflect a decline in the number of building permits issued (in square metres) in the previous quarter. Looking at the number of permits issued, however, it may be assumed that some of Slovakia's residential investment has been recorded in inventories. It is not these types of investment, however, that account for most of the fixed investment gap between Slovakia and the Czech Republic. That position is taken by non-residential investment (notably infrastructure investment, comprising to a large degree public investments co-funded by the EU), which in Slovakia is 32% below its 2015 level and in the Czech Republic only 12%. The impact of a drop, weakening or delay in infrastructure investment on overall investment (and GDP) will be more significant in Slovakia, due to the greater weight of non-residential buildings in gross fixed capital formation (30% in Slovakia, 22% in the Czech Republic).

Chart 7 Selected types of fixed capital (2015=100; constant prices)



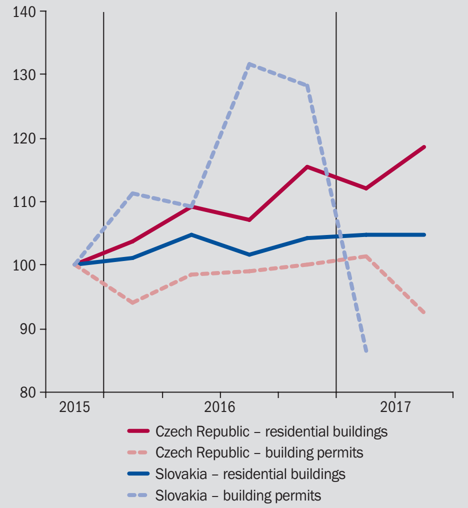
Sources: Eurostat and NBS calculations (data for Slovakia were adjusted).

Chart 9 Fixed investment and its components (quarter-on-quarter percentage changes; percentage point contributions; constant prices) – Slovakia



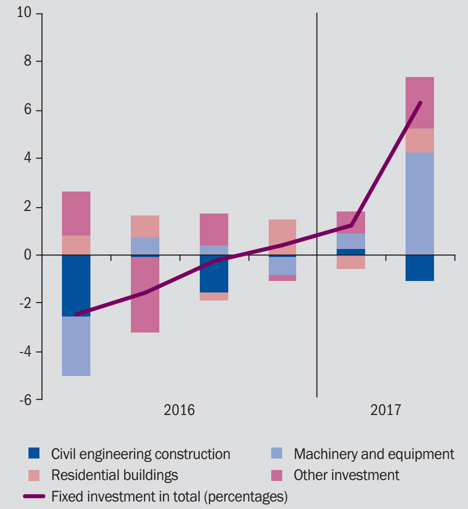
Sources: Eurostat and NBS calculations.

Chart 8 Residential investment compared with building permits issued (2015=100)



Sources: Eurostat and NBS calculations (data for Slovakia were adjusted).
Note: Building permits for residential properties are calculated to square meters.

Chart 10 Fixed investment and its components (quarter-on-quarter percentage changes; percentage point contributions; constant prices) – Czech Republic



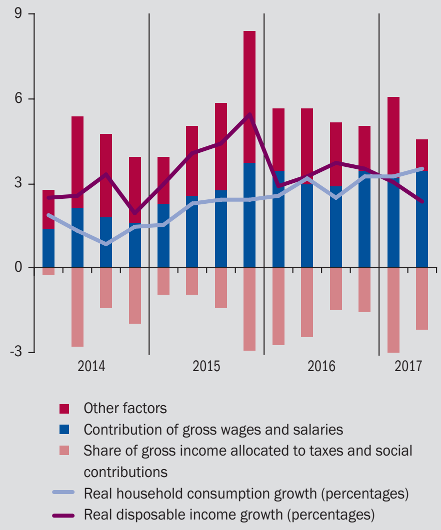
Sources: Eurostat and NBS calculations.

The labour market situation in Slovakia continued to support household consumption growth in the second quarter of 2017. Rising employment and a marked increase in the average wage (by 1.6% quarter on quarter) both had a positive impact on Slovak households' consumption at home and abroad. The longer-run trend of growing income from employment anchored favourable expectations for the future situation, with the result that the household saving ratio fell and household consumption expenditure increased. Large increases in retail sales were reflected in higher household consumption. Private consumption grew by 3.5% year on year.

A rebound in inflation at the beginning of the year did not weigh on consumption. The main drivers of consumer spending in the second quarter of 2017 were housing, health, communication and recreation, clothing, food, and, to a lesser extent, transportation.

Wage growth continued to be dampened by employees' increased contribution burden. The impact of 'other factors' (e.g. social contributions and transfers or property income) was also weaker in the period under review, further mitigating disposable income growth.

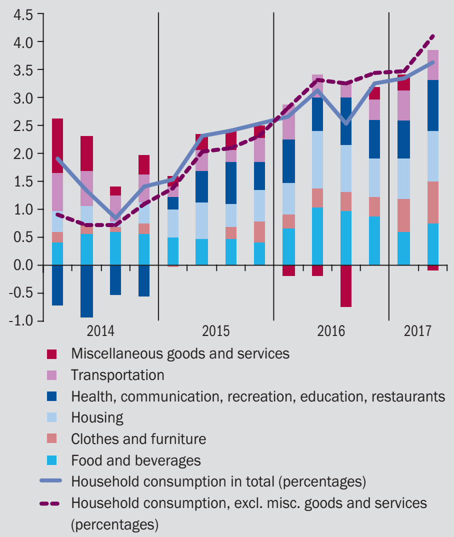
Chart 12 Household real disposable income – contribution of selected factors to annual percentage changes (percentage point contributions; non-seasonally adjusted)



Sources: SO SR and NBS calculations.

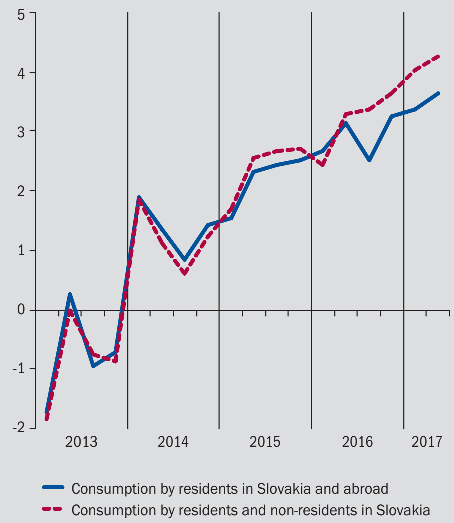
Consumer demand in Slovakia (residents and non-residents) is growing more rapidly than national demand for goods and services (residents at home and abroad), which may point to an in-

Chart 11 Private consumption and its components (annual percentage changes; percentage point contributions; constant prices; non-seasonally adjusted)



Sources: SO SR and NBS calculations.

Chart 13 Household consumption from two perspectives (annual percentage changes; constant prices; non-seasonally adjusted)



Sources: SO SR and NBS calculations.

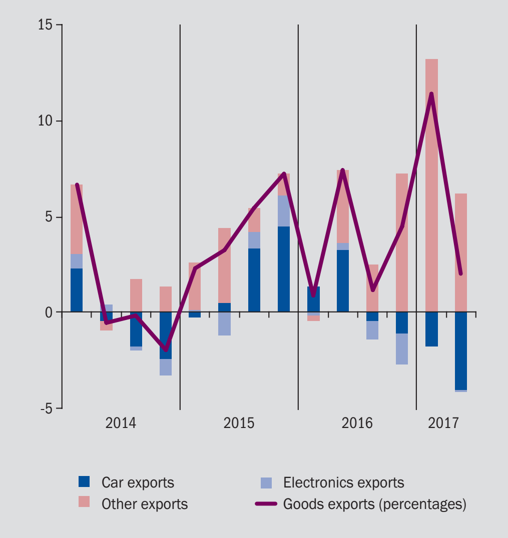
creased interest in Slovakia (mainly as a tourist destination).

Exports decreased in the second quarter of 2017 by 2.5% quarter on quarter (after growing by 1.2% in the previous quarter). A quarterly decline in cross-border exports in the second quarter partially reflected a stronger base effect from previous quarter. The weakening may have been related to lower exports in the automotive industry, as cars exports have been soft since the beginning of the year and remain below 2016 levels. Not only were carmakers not the main driver of exports in the first quarter of 2017, they were one of the main contributors to the fall in exports in the second quarter. Their export performance was undermined mainly by falling demand for high-end SUV vehicles. After more than three years of steady growth, demand for these vehicles has been declining since the beginning of 2017, especially in Europe. As much as a quarter of that decline is accounted for by models produced in Slovakia.

While consumer demand maintained its growth rate, falling investment may have contributed to a decline in imports. Reductions in both output and investment weighed significantly on demand for imports. Imports fell by 2.7% (in the previous quarter, by contrast, they grew by 1.7%). Net exports made a positive contribution to both quarterly and annual GDP growth.

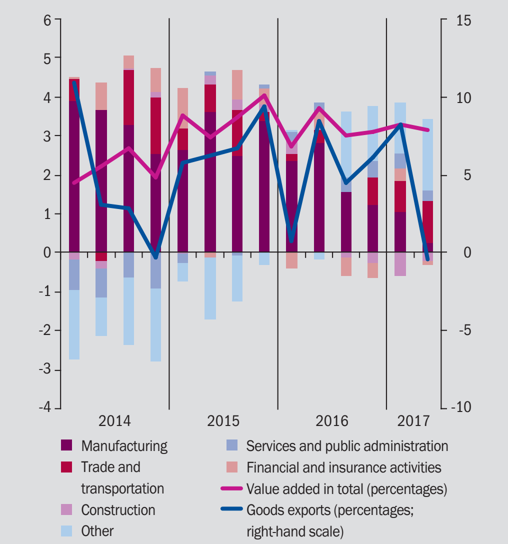
Weaker investment and exports translated into lower value added growth, with the most significant slowdown recorded in manufacturing. In the trade and transportation sectors, on the other hand, value added growth accelerated.

Chart 15 Goods exports and their components (annual percentage changes; percentage point contributions; current prices)



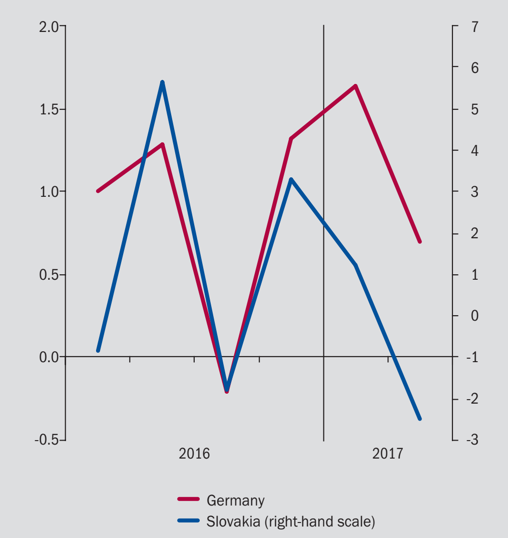
Sources: SO SR and NBS calculations.

Chart 14 Value added and its components (annual percentage changes; percentage point contributions; constant prices)



Sources: SO SR and NBS calculations.
Note: 'Other' includes non-additivity of seasonal adjustment.

Chart 16 Goods and services exports in Slovakia and Germany (quarter-on-quarter percentage changes)



Sources: Eurostat and NBS calculations.

3 The labour market

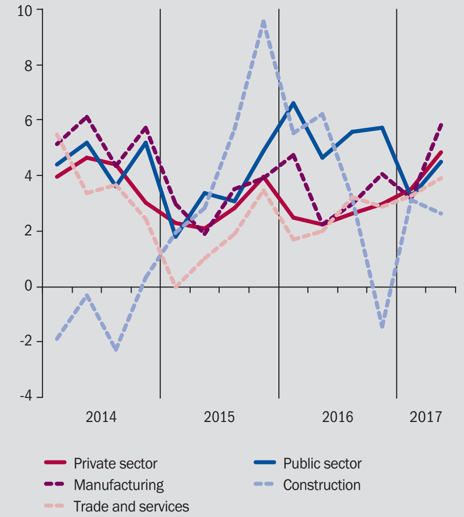
3.1 Wages and labour productivity

The average wage level in the economy rose in the second quarter of 2017 by 4.8% year on year (significantly up from 3.5% in the previous quarter), supported by relatively strong negotiated wages in the private sector, specifically in manufacturing and retail. Marked growth of wages was also recorded in the services sector, notably in accommodation, food services, transportation and storage, and administrative services. To a lesser extent, wages increased also in the general government and health care sectors. The annual pace of wage growth in the public sector accelerated from 3.2% in the first quarter to 4.5% in the second quarter, and is more in line with the negotiated wage growth for this year. According to the terms of collective agreements, wages in the public sector have risen by 4% since 1 January 2017, with teachers' salaries further boosted by an increase of 6% from September of last year.

Looking at individual wage components, one-off bonus payments and payments for days not worked grew more rapidly in both the private and public sector. After a weak first quarter, bonuses growth reached 7.8%. Due to Easter-related calendar effects, i.e. the holiday falling in the first quarter last year and second quarter this year, payments for days not worked (for example, for public holidays during Easter) constituted a greater proportion of overall wages in the second quarter of this year than it did a year earlier, while the share of wages for hours worked fell. Overall, second-quarter wage growth was strong and, together with the second quarter of 2014, higher than in any previous quarter in the post-crisis period. Wage growth continued to benefit mainly from wage increases in larger organisations, while annual wage growth across smaller firms (up to 19 employees) was lower (1.9%).

Compensation per employee growth (including gross wages and social contributions paid by employers) increased further in the second quarter of this year, by 4.3%, year on year, after rising by 3.5% in the previous quarter.

Chart 17 Wage growth by sector (annual percentage changes in average wage level)



Sources: SO SR and NBS calculations.
Note: Data for the public sector were calculated on the basis of developments in the categories O, P and Q of the NACE classification.

Chart 18 Wage trends in the Slovak economy (annual percentage changes in average wage level)

Sources: SO SR and NBS calculations.
Note: The data for 'organisations with 20+ employees' include organisations in the public and financial sectors irrespective of their number of employees.

Table 2 Wages and labour productivity (annual percentage changes)

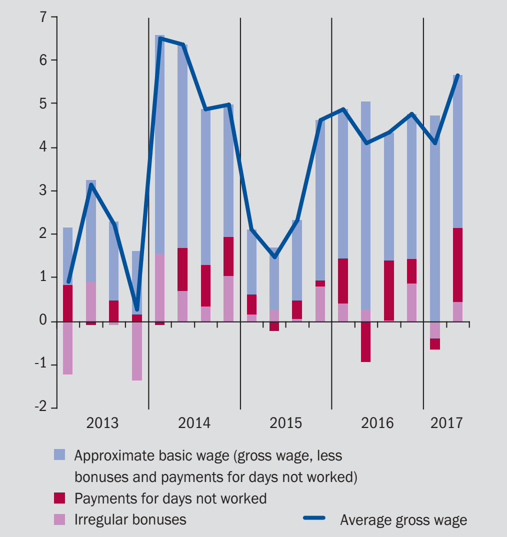
	2016					2017	
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2
Average wage (headline)	3.3	2.7	3.3	3.6	**3.3**	3.5	4.8
Consumer price inflation	-0.5	-0.7	-0.7	-0.1	**-0.5**	0.9	1.0
Average real wage (headline)	3.8	3.4	4.0	3.7	**3.8**	2.6	3.8
Average wage (ESA 2010)	2.7	1.8	2.0	3.3	**2.5**	2.6	3.6
Compensation per employee (ESA 2010)	2.2	1.4	0.8	2.5	**1.8**	3.5	4.3
Nominal labour productivity (ESA 2010)	0.7	1.1	-0.1	0.3	**0.5**	1.9	1.9
Real labour productivity (ESA 2010)	1.1	1.5	0.5	0.4	**0.9**	1.0	1.1

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

While compensation per employee growth in the first quarter was boosted by an increase in contributions payable by high-income employees, its rate in the second quarter probably benefited from higher negotiated wages and bonuses (as was the case with wages). Real wage growth accelerated by 1.2 percentage points in the second quarter, as consumer price inflation was lower than nominal wage growth.

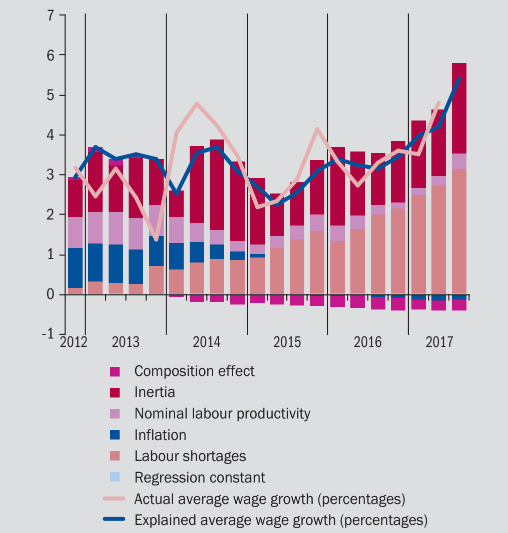
The widening of the gap between wage growth and labour productivity continued in the second quarter of 2017, creating conditions for an increase in price pressures (consumer and producer prices are already recovering). Annual wage growth is still being supported by growing demand for labour and related perceptions of labour shortages.

Chart 19 Average wage level in larger firms (20+ employees) and its components (annual percentage changes; percentage point contributions)



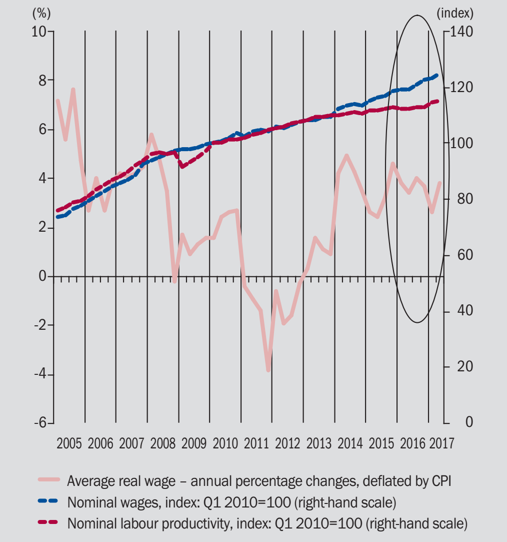
Sources: SO SR and NBS calculations.

Chart 20 Average wage level – contributions to its annual percentage change (percentage points)



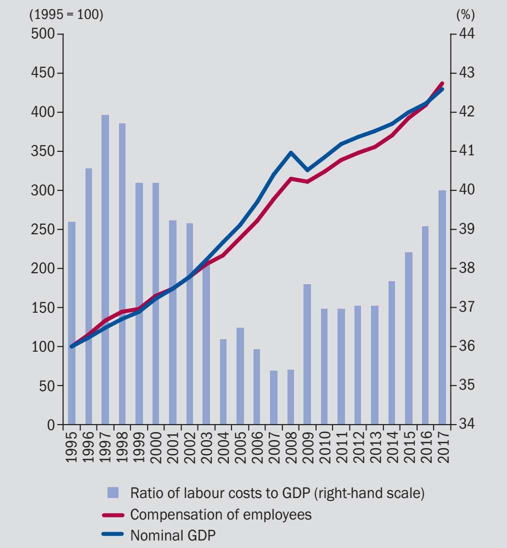
Sources: NBS calculations based on a regression analysis.
Note: The following variables have been transformed: four-quarter moving average of labour productivity; four-quarter moving average of CPI inflation recorded three quarters earlier. The figures for labour shortages are based on responses to European Commission business sentiment surveys, with the sectors weighted by employment trends. The composition effect is given by the impact of annual growth in employment. The data for Q3 2017 are based on the MTF-2017Q3 forecast of NBS.

Chart 21 Wages and labour productivity trends



Sources: SO SR and NBS calculations.
Notes: Wages are based on data from SO SR statistical reports. Nominal labour productivity was calculated from employment according to SO SR statistical reports. Base indices are based on seasonally adjusted data.

Chart 22 Labour costs in the economy



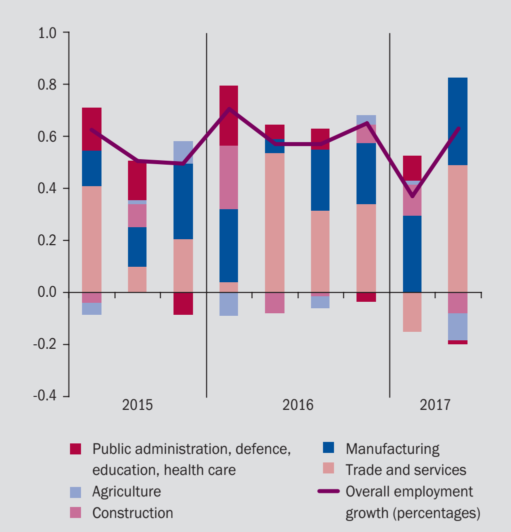
Sources: SO SR and NBS calculations.

3.2 EMPLOYMENT AND UNEMPLOYMENT

Annual employment growth in the second quarter of 2017 remained unchanged from the previous quarter, at 2.1%. The quarterly rate of growth accelerated compared with the first quarter, to 0.6%, partly reflecting seasonal developments in business activities. This sector remains affected by seasonal fluctuations that cannot be fully smoothed out by the seasonal adjustment of overall employment. Marked employment growth was also observed in manufacturing, especially in its key segments, and in services (mainly in transportation, hotels and restaurants, and professional activities). In the construction sector, on the other hand, employment decreased quarter on quarter, but in annual terms remains 1% higher than it was a year ago. The ongoing expansion of employment confirms the current high demand for new employees. The number of self-employed persons remained almost unchanged year on year.

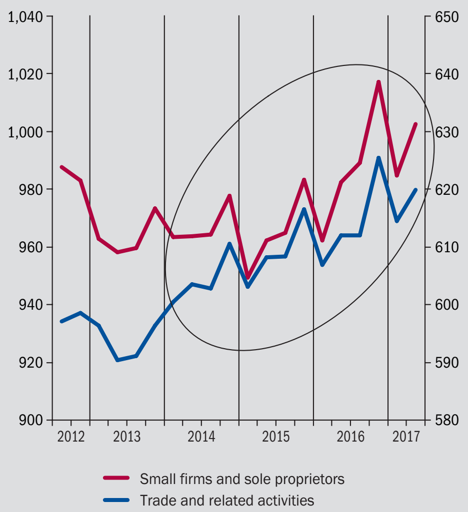
Monthly leading indicators are relatively favourable and, despite employers reporting shortages of skilled labour, they point to a further growth in employment.

Chart 23 Employment – sectoral contributions to quarter-on-quarter percentage changes (percentage points)



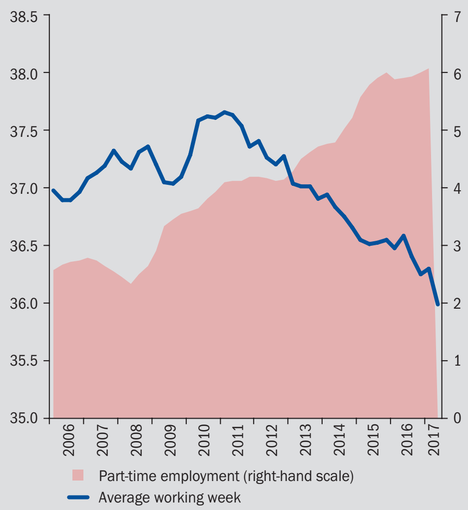
Source: SO SR.

Chart 24 Employment in trade and in small firms (thousands of persons; unadjusted data)



Sources: SO SR and NBS calculations.
Note: Adjusted data for trade and related activities are identical to the unadjusted data.

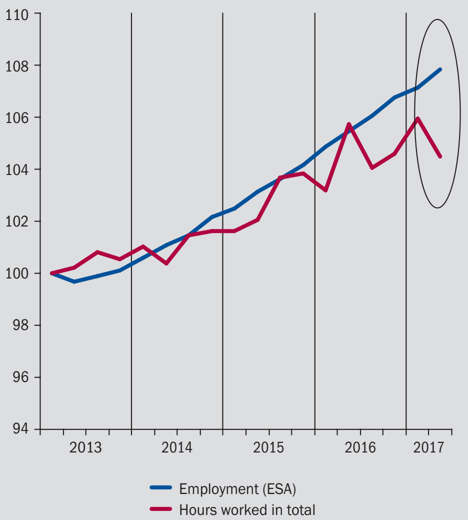
Chart 26 Part-time employment and the average working week (percentages of total employment; hours per person per week; four-quarter moving average)



Sources: SO SR and Eurostat.

After rising in previous quarters, the number of hours worked decreased in the second quarter of 2017 on account of developments in all the main sectors under review. This decrease may, to some extent, also reflect temporary shut-downs in several larger factories and the resulting lower output. Regarding the long-term trend of an increasing number of part-time employees and consequent decline in the average working week, that decline was particularly marked in the second quarter.

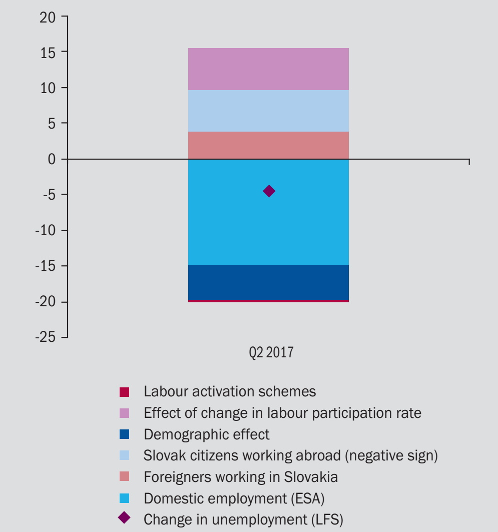
Chart 25 Employment and hours worked (index: Q1 2013=100)



Sources: SO SR and NBS calculations.

The number of unemployed (according to the Labour Force Survey) continued to decrease in the second quarter, albeit more moderately compared with previous quarters. The seasonally adjusted number of unemployed fell by 4,600 quarter on quarter. The relatively moderate decline in unemployment reflected a decrease in the number of Slovak citizens working abroad and the number of people on labour activation schemes, as well as the rising labour participation rate. Nevertheless, the unemployment rate reached a new historical low of 8.4%. Due to relatively strong economic growth coupled with net job creation, the number of unemployed (223,000 according to the Labour Force Survey) is already 11,000 lower than its pre-crisis level.

Chart 27 Unemployment – contributions of principal labour market variables to quarter-on-quarter changes (thousands of persons; seasonally adjusted)



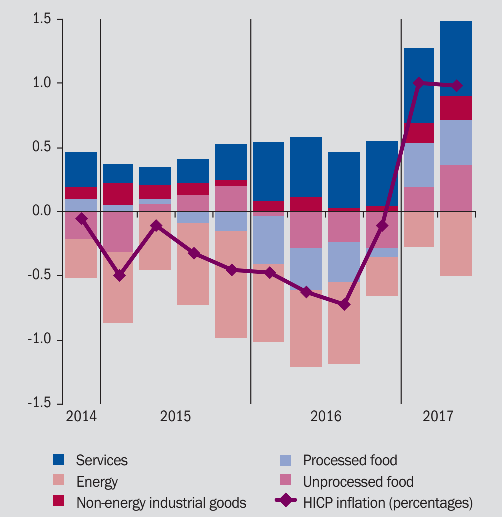
Sources: SO SR and NBS calculations.
Note: The 'Foreigners working in Slovakia' time series has not been seasonally adjusted due to its short history. The seasonality observed in this time series, however, appears to be insignificant. 'Labour activation schemes' is an imputed item which includes the effect of residual differences between the LFS and ESA methodologies.

The unemployment rate based on the total number of job seekers registered with the Central Office of Labour, Social Affairs and Family (ÚPSVR) fell in the second quarter by 0.8 percentage point, to 8.8%. The non-seasonally adjusted average rate of registered unemployment reached 7.3%, representing a year-on-year decline of 2.2 percentage points.

4 Price developments

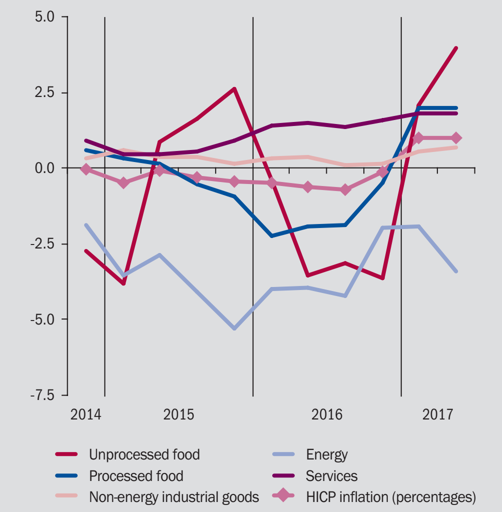
After accelerating in the first quarter of 2017, the annual HICP inflation rate remained unchanged, at 1.0%, in the second quarter. Looking at the components of headline inflation, food price inflation accelerated and so, to a lesser extent, did non-energy industrial goods inflation. Energy prices, on the other hand, saw a further acceleration in their annual rate of decline. In the food component, the highest increase was in prices of unprocessed food, reflecting significant seasonal increases in prices of fresh fruit, meat and meat products. The rise in the prices of industrial goods reflected an upward trend in import prices supported by domestic household demand. Services price inflation remained unchanged from the previous quarter despite continuing growth in wages and real household final consumption. As for energy prices, annual fuel price inflation, after peaking in February, moderated in the second quarter, mainly due to developments in euro-denominated Brent crude oil prices during the period under review. The second quarter of 2017 also saw a decline in US dollar-denominated oil prices and a strengthening of the EUR/USD exchange rate.

Chart 28 HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR and NBS calculations.

Chart 29 HICP inflation components (annual percentage changes)



Sources: SO SR and NBS calculations.

Table 3 Annual percentage changes in inflation by component

	2016					2017	
	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2
HICP inflation	-0.5	-0.6	-0.7	-0.1	**-0.5**	1.0	1.0
Unprocessed food	-0.4	-3.5	-3.1	-3.6	**-2.7**	2.1	4.0
Processed food	-2.2	-1.9	-1.9	-0.5	**-1.6**	2.0	2.0
Non-energy industrial goods	0.3	0.4	0.1	0.2	**0.2**	0.5	0.7
Energy	-4.0	-3.9	-4.2	-2.0	**-3.5**	-1.9	-3.4
Services	1.4	1.5	1.4	1.6	**1.5**	1.8	1.8

Sources: SO SR and NBS calculations.