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EUROSYSTEM



REPORT ON THE SLOVAK ECONOMY

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ABBREVIATIONS

| | |
|----------|--|
| CPI | consumer price index |
| EA | euro area |
| ECB | European Central Bank |
| EC | European Commission |
| EMEs | emerging market economies |
| EONIA | euro overnight index average |
| ESA 2010 | European System of Accounts 2010 |
| ESI | Economic Sentiment Indicator (European Commission) |
| EU | European Union |
| EUR | euro |
| EURIBOR | euro interbank offered rate |
| Eurostat | statistical office of the European Union |
| FDI | foreign direct investment |
| GDP | gross domestic product |
| GNDI | gross national disposable income |
| GNI | gross national income |
| HICP | Harmonised Index of Consumer Prices |
| 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

In the third quarter of 2017, the Slovak economy maintained its growth dynamics from the first half of the year. It continued to grow quarter on quarter by 0.8% (compared with 0.9% in the second quarter), representing an annual growth rate of 3.4%. The main driver of economic growth was domestic demand, reflecting the improving labour market situation. The third quarter saw an upturn in investment activity, following a decline in the previous quarter.

Employment grew, quarter on quarter, at the same pace in the third quarter of 2017 as in the previous quarter, by 0.6%. The annual rate

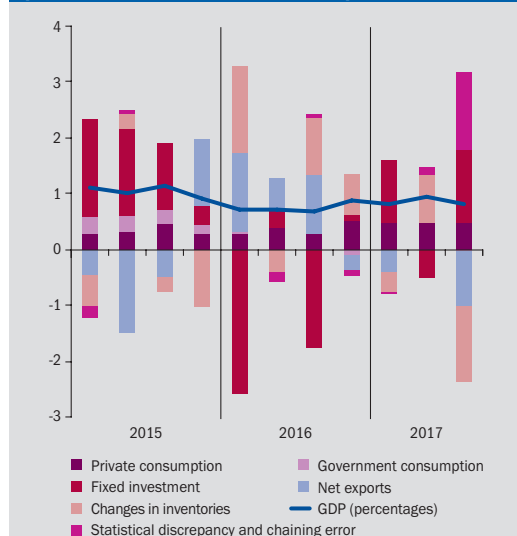
of growth accelerated to 2.3%. Employment growth was stimulated by all the key segments of the private sector. The average wage in the economy increased by 5.2% year on year, up from 4.8% in the second quarter. This increase was caused by accelerated wage growth in the public sector and in education.

After stagnating in the second quarter, annual HICP inflation rose to 1.6% in the third quarter of 2017. Increases were recorded in all of its basic components. The strongest dynamics were shown by processed food and energy prices.

2 GROSS DOMESTIC PRODUCT

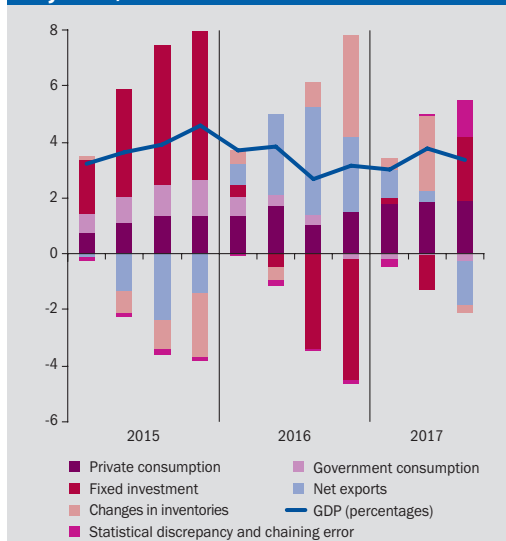
The Slovak economy expanded in the third quarter of 2017 by 0.8% quarter on quarter (compared with 0.9% in the second quarter), representing an annual growth rate of 3.4% (3.7% in the second quarter). Households did not cut back their spending on consumer goods in the quarter under review: their consumption achieved the strongest growth seen in the post-crisis period. After declining in the second quarter, investment and exports continued to grow, too. This growth generated stronger than expected demand for imports. Investment demand for specialised technologies in particular (mainly for the automotive industry and intelligent buildings) was satisfied from imports, rather than from do-

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.

mestic sources. Although these imports were not fully reflected in the rate of economic growth in the quarter under review, they provided impetus to further growth in the Slovak economy and employment, especially in sectors linked to the automotive industry.

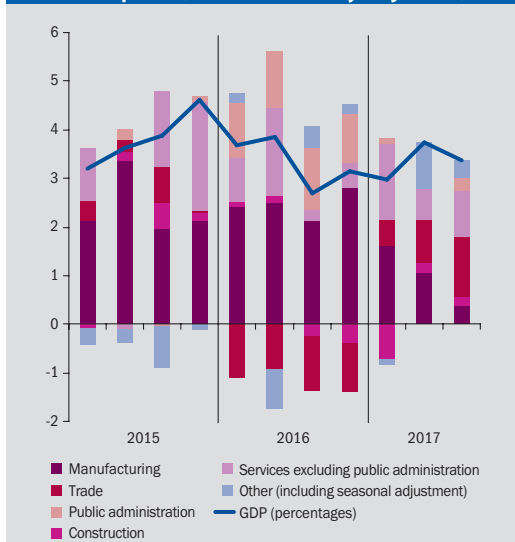
Improvements were recorded in private services and trade as a result of strong household consumption and growing lending to households, wishing to buy or build a new home and thus creating value added in the real estate sector (within 'private services'). Although sales growth in construction enjoyed a revival stimulated by

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

| | 2016 | | | | | 2017 | | |
|---|-------|------|------|------|-------------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1-Q4 | Q1 | Q2 | Q3 |
| Gross domestic product | 0.7 | 0.7 | 0.7 | 0.9 | 3.3 | 0.8 | 0.9 | 0.8 |
| Final consumption of households and non-profit institutions | 0.6 | 0.8 | 0.5 | 1.0 | 2.7 | 0.9 | 0.9 | 1.0 |
| Final consumption of general government | 0.1 | -0.1 | 0.0 | -0.6 | 1.6 | -0.1 | 0.0 | -0.2 |
| Gross fixed capital formation | -10.2 | 1.5 | -7.7 | 0.6 | -8.3 | 5.4 | -2.3 | 6.2 |
| Exports of goods and services | 0.5 | 5.7 | -1.8 | 3.3 | 6.2 | 0.8 | -2.5 | 2.2 |
| Imports of goods and services | -1.0 | 5.5 | -3.1 | 3.9 | 3.7 | 1.2 | -2.7 | 3.4 |

Source: SO SR.

Chart 3 GDP – sectoral contributions to annual changes (percentage points; constant prices; non-seasonally adjusted)



Sources: SO SR and NBS calculations.

Chart 4 Consumer confidence in the euro area and Slovakia (deviations from the average for 2000-2017)



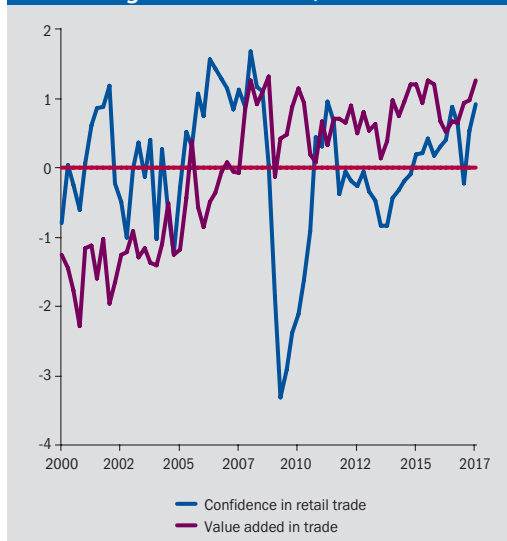
Sources: EC and NBS calculations.

residential investments, value added in this sector (expressed in terms of wages, profits and write-offs) remained virtually unchanged in the quarter under review. Value added in export-oriented manufacturing had been decreasing since the beginning of the year, reflecting the slower pace of export growth recorded in that period.

Investment growth in the third quarter was significantly boosted by lending to potential home buyers. New investors also contributed to this growth: they helped to offset the impact of unjustifiably weak investment demand from the first half of 2017. Thus, private investment grew over the first three quarters by 4.2% year on year in real terms. In the third quarter, investment activity also increased in public administration. With transport infrastructure, health care and other segments of the public sector taken into account, however, public investment remained in negative territory in the first three quarters (falling in real terms by almost 12% year on year). Overall fixed investment increased by 3.7% year on year.

The contribution of private consumption to economic growth in the third quarter was stronger than at any other time in the post-crisis period. Private consumption rose quarter on quarter by 1% (compared with 0.9% in the second quarter). The growing trend in private consumption was reinforced by elevated consumer confidence, which

Chart 5 Confidence in retail trade and value added in trade in Slovakia (deviations from the average for 2000-2017)



Sources: EC, SO SR and NBS calculations.

well exceeded its long-term average¹ and reached a ten-year high in the quarter under review.

Confidence in services had been below its long-term average since the second half of 2011. Confidence in retail trade, however, exceeded its long-term average at the beginning of 2015. With the fall recorded in the first quarter of 2017

¹ The deviation from the long-term average was calculated using the Z-score approach. A Z-score is a measure of a variable's deviation from its long-term average, expressed as the variable's standard deviation.

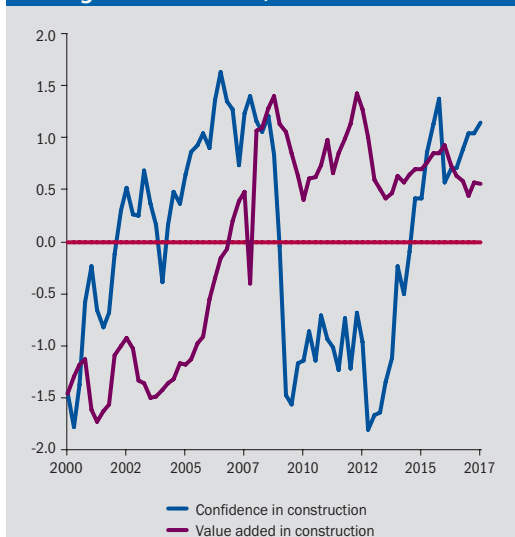
left out of account, confidence in this segment followed a trend similar to that seen in consumer confidence. The improving confidence in retail trade, coupled with elevated consumer confidence, has created conditions for favourable year-end results this year.

Ambiguous signals are coming from data on confidence in construction and manufacturing in regard to value added creation in these sectors. Value added in construction exceeded its long-term average in 2008, while confidence in construction did so as late as the end of 2014.

Since the second half of 2016, confidence in construction has been above the level of value added. This has created conditions for favourable developments in construction, which is expected to boost GDP growth until the end of 2017.

A different trend can be observed in manufacturing. Value added has been above its long-term average since the second half of 2011, with confidence in manufacturing hovering around its average level. Weaker confidence may cause a decrease in value added, which may weaken the contribution of manufacturing to GDP growth.

Chart 6 Confidence in construction and value added in construction (deviations from the average for 2000 -2017)



Sources: EC, SO SR and NBS calculations.

Chart 7 Confidence in manufacturing and value added in manufacturing (deviations from the average for 2000 -2017)



Sources: EC, SO SR and NBS calculations.

Box 1

SLOVAKIA'S CURRENT SLOWER GROWTH COMPARED WITH THE OTHER V4 COUNTRIES HAS FROM A LONGER-TERM PERSPECTIVE ONLY REDUCED ITS RELATIVE LEAD

Slovakia is currently losing its lead over the other Visegrad Four (V4) countries in terms of economic growth. Economic growth in Poland, the Czech Republic, and Hungary accelerated strongly in the first three quarters of 2017 and thus the lead of Slovakia has diminished to a certain extent. Slovakia's GDP

growth has stabilised this year, but in terms of added value, it has come to a halt. The added value indicates that economic activity has fallen more sharply than GDP; Slovakia's GDP is boosted by taxes on products (VAT less subsidies) more significantly than in the neighbouring countries.²

² Except Poland, where taxes are increased in line with the rise in economic activity. Apart from net taxes (data from administrative sources), the composition of economic growth in the first three quarters of 2017 was also different in Slovakia. It mirrored both the composition of growth in the neighbouring countries and that of expenditure items (fixed investment, exports, private consumption).



Chart A GDP (annual percentage changes)



Sources: Eurostat and NBS calculations.

Chart C Manufacturing (annual percentage changes in value added)



Sources: Eurostat and NBS calculations.

Chart B Value added (annual percentage changes)



Sources: Eurostat and NBS calculations.

Chart D Construction (annual percentage changes in value added)



Sources: Eurostat and NBS calculations.

The weakening of Slovakia's economic position is attributable largely to developments in manufacturing. After reaching two-digit figures in the previous three years (2014-2016), the pace of value added growth has slowed somewhat this year, but manufacturing production has from a longer-term perspective retained its solid lead.

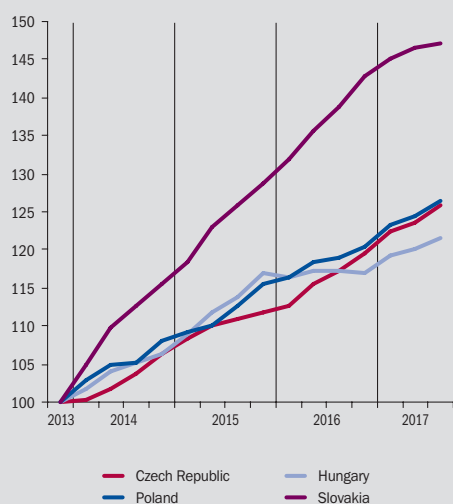
By contrast, Slovakia lags behind its neighbours in private services, trade and construction from a longer-term perspective. Value added growth in trade and private services has accelerated this year, but not enough to offset the country's lag in these areas. Trade is on the upturn this year as a result of growth in private consumption, which, however, still

lags behind the rate of growth in the other V4 countries.

The situation in construction is less favourable: this sector has not yet recovered enough to recoup its losses. Slovakia is the only V4

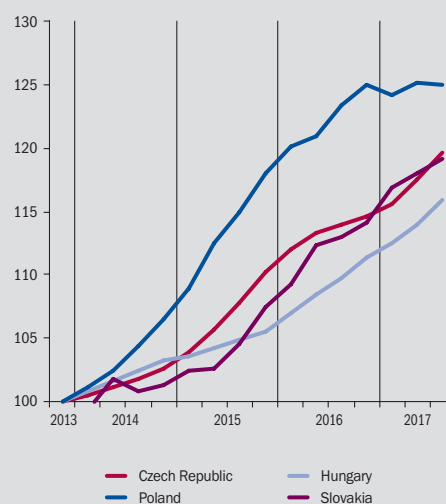
country in which construction remained in negative territory in the first three quarters of 2017. The other V4 countries recorded a revival in this sector. This is also reflected in the weakening fixed investment growth in Slovakia.

Chart E Value added in manufacturing (2013 = 100)



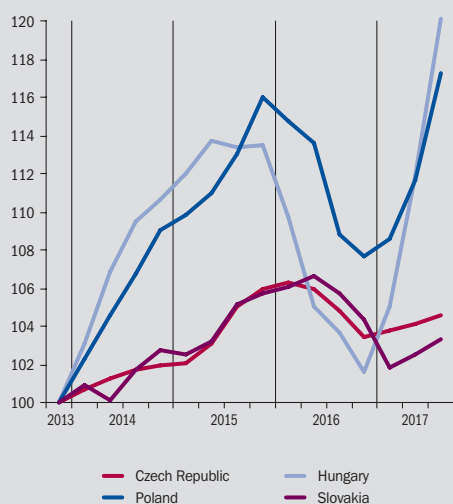
Sources: Eurostat and NBS calculations.

Chart G Value added in private services (2013 = 100)



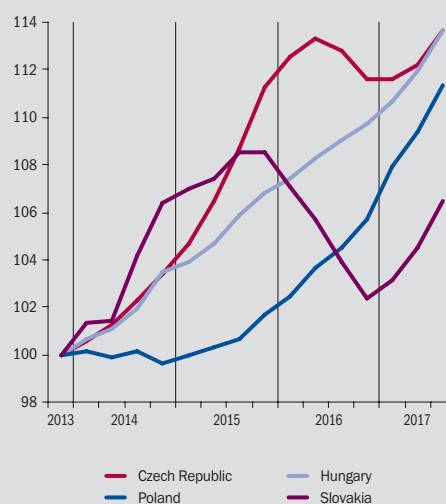
Sources: Eurostat and NBS calculations.

Chart F Value added in construction (2013 = 100)



Sources: Eurostat and NBS calculations.

Chart H Value added in trade (2013 = 100)



Sources: Eurostat and NBS calculations.



Chart I Private consumption (annual percentage changes)



Sources: Eurostat and NBS calculations.

Chart J Fixed investment (annual percentage changes)



Sources: Eurostat and NBS calculations.

Box 2

PRIVATE CONSUMPTION, COUPLED WITH HOUSEHOLDS' WEAKENING PROPENSITY TO SAVE, HAS REMAINED THE MAIN DRIVER OF ECONOMIC GROWTH

Since the end of 2016, private consumption (net of imported consumption) has been generating almost 40% of the Slovak economic

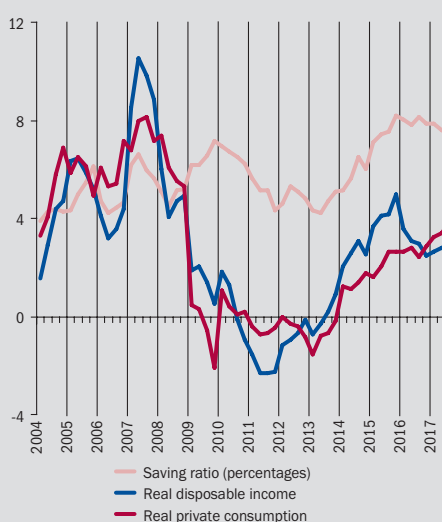
growth, which represents its most significant contribution recorded in the post-crisis period. Private consumption is currently the main fac-

Chart A Contribution of private consumption from domestic sources to annual GDP growth (percentage points; constant prices)



Source: SO SR.

Chart B Saving ratio, income and consumption of households (annual percentage changes)



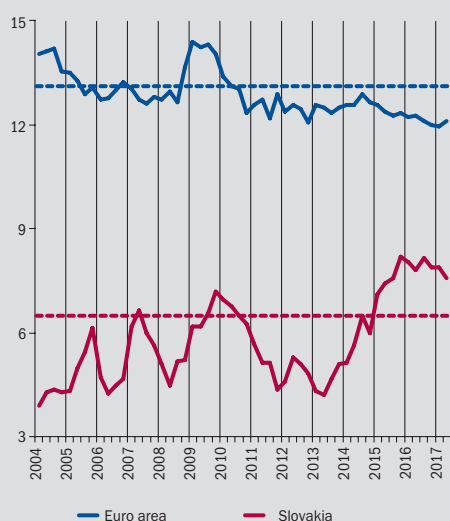
Source: SO SR.

tor in economic growth throughout the euro area. **Households' weakening propensity to save** has contributed to consumption growth in both Slovakia and the euro area as a whole.

Households' propensity to save weakened at a time when consumer confidence was strengthening. It exceeded its long-term average

level at the end of 2013 in both Slovakia and the euro area as a whole. Subsequently, an average household in the euro area needed one year to overcome the tendency to save more and more (households' propensity to consume moderated at the turn of 2014/2015); an average household in Slovakia needed two years (the sharply rising trend in the saving ratio came to a halt at the beginning of 2016).³

Chart C Household saving ratio (percentages)

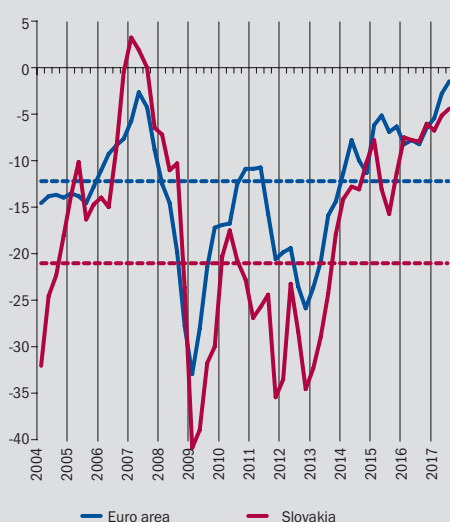


Sources: Eurostat and NBS calculations.

The same change in the saving ratios in Slovakia and the euro area as a whole points to different conclusions from a longer-term perspective. The saving ratio in the euro area is still below its long-term average, while that in Slovakia exceeds both its long-term average and the level recorded during the crisis. Looking at the ratios under comparison, we may assume that the rising saving ratio in Slovakia is a consequence of convergence towards the euro area.

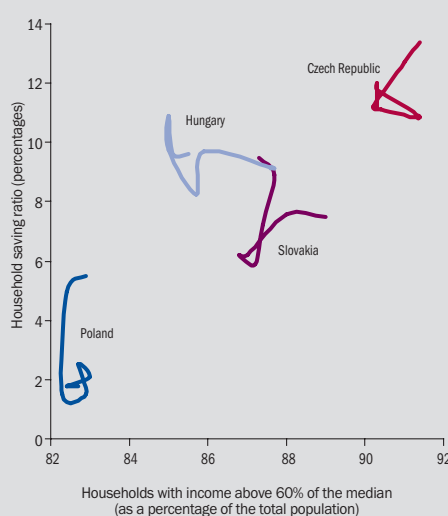
Convergence itself is not necessarily a factor causing a rise in the saving ratio in the medium term. With economic convergence, households' disposable income converges too, but the saving ratio may remain a 'national feature', because it is influenced by numerous conflicting factors with various intensity as

Chart D Consumer confidence (balance of responses)



Sources: Eurostat and NBS calculations.

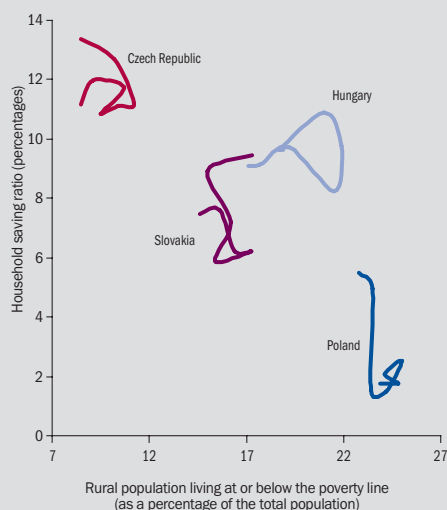
Chart E Household saving ratio in relation to household income (2009-2016)



Sources: Eurostat and NBS calculations.

3 The saving ratio rose only slightly in 2016. The year-on-year increase in savings can almost fully be attributed to households' growing loan principal repayments owing to heightened households' indebtedness. More detailed information is available in the 'Report on the Slovak Economy, March 2017, Box 1' https://www.nbs.sk/_img/Documents/_Publikacie/SESR/2017/protected/SESR_0317sk.pdf

Chart F Saving ratio in relation to the structure of the population (2009 – 2016)



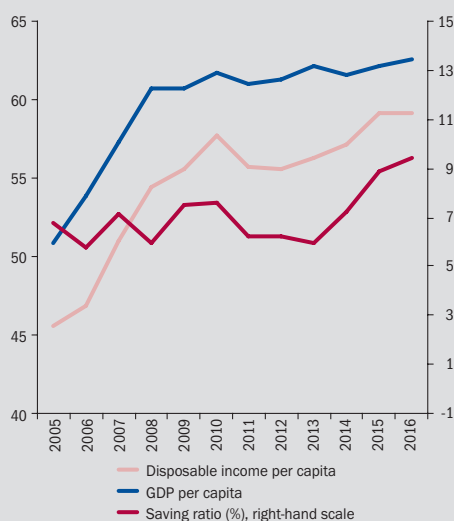
Sources: Eurostat and NBS calculations.

regards the income and demographic differentiation of households, wealth, investment methods, fixed asset ownership, social systems, customs, etc. The highest saving ratio is recorded in the Czech Republic, which boasts the highest share of households with an income above 60% of the EU median among the V4 countries. Poland with the highest share of rural population living at or below the poverty line has the lowest saving ratio.

The above (and other) slowly changing features of households explain why the long-term correlation between the real economy's convergence and the saving ratio is low. While the real economies of V4 countries converge gradually, the saving ratio (after falling in the 1990s) fluctuates around the 'national' level or continues to fall (in Poland).

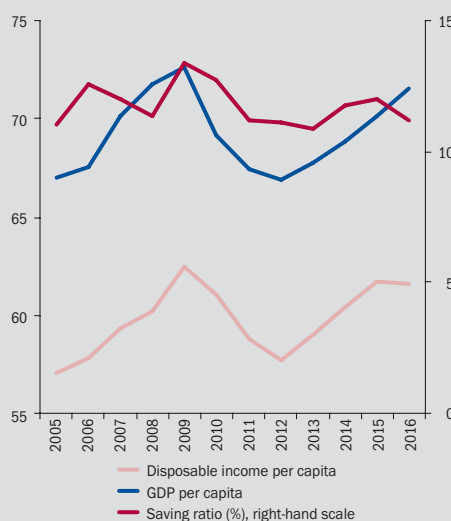
Convergence of per capita GDP and income (index: purchasing power parity; Germany = 100) and developments in the household saving ratio (percentages)

Chart G Slovakia



Sources: Eurostat and NBS calculations.

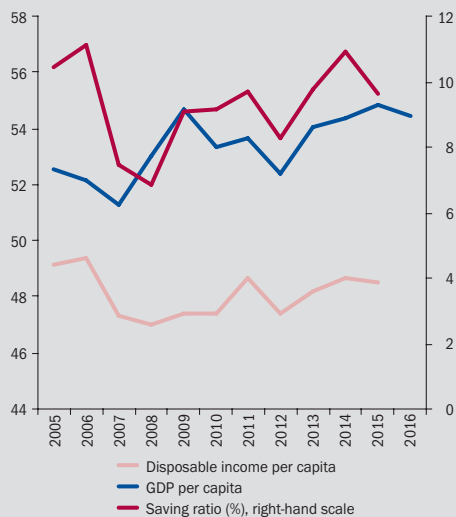
Chart H Czech Republic



Sources: Eurostat and NBS calculations.

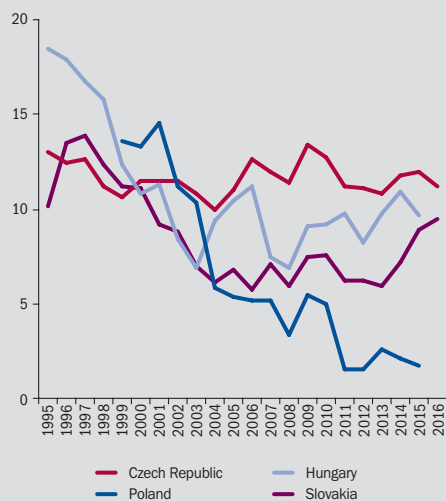


Chart I Hungary



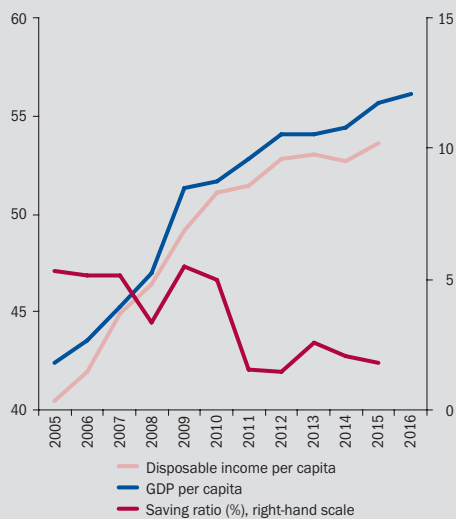
Sources: Eurostat and NBS calculations.

Chart K Household saving ratio in the V4 countries (percentages)



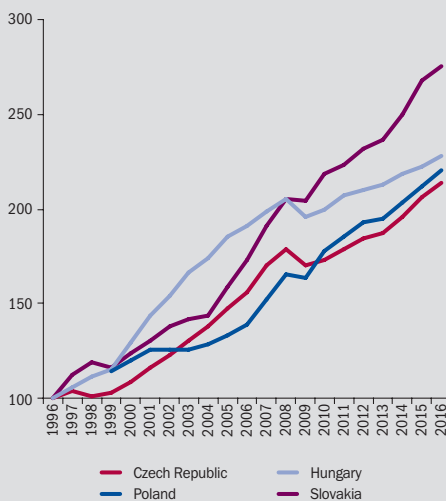
Sources: Eurostat and NBS calculations.

Chart J Poland



Sources: Eurostat and NBS calculations.

Chart L Compensation of employees (index: 1996 = 100)

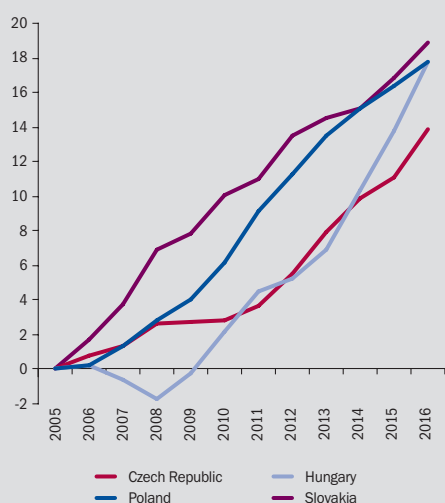


Sources: Eurostat and NBS calculations.

In the case of Slovakia, economic developments in 2014-2015 represented an exception. The saving ratio rose abruptly in that period as a result of a reduction in energy prices, supported by households' real disposable income and the favourable labour market situation. A marked increase (compared with the other V4 countries) was recorded in the compensation of employees, as well as in the disposable income

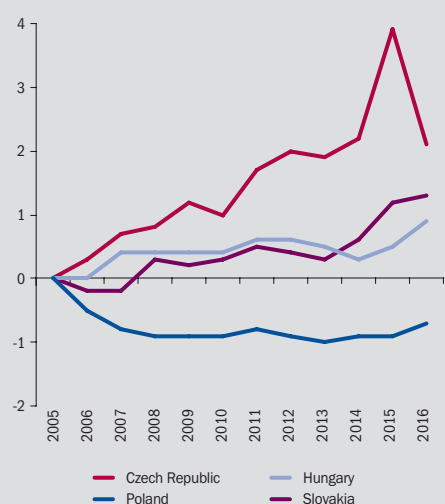
of households. At the same time, the structure of employees changed in favour of groups with higher motivation to save. The labour force participation rate rose most significantly in the 55–64 age cohort (persons motivated to save for retirement) and among old-age pensioners (in order to increase their savings from two sources – labour market and pensions).

Chart M Employment rate in the 55–64 age cohort (percentage point changes compared with 2005)



Sources: Eurostat and NBS calculations.

Chart N Employment rate in the 65+ age cohort (percentage point changes compared with 2005)



Sources: Eurostat and NBS calculations.

The rate of convergence of the real economy does not necessarily determine the rate of convergence of the saving ratio. In the medium term, the saving ratio in Slovakia will be determined by conflicting factors, which appear to be balanced for the time being.

The saving ratio is influenced primarily by the gradual strengthening of cyclical expansion and the smoothing of consumption over time. In the expansive phase of the cycle, consumption is usually below the level that could be maintained from the disposable income of households, part of which is used for saving (during bad times, savings are also used for consumption, i.e. to maintain consumption at a certain level). This effect will be strengthened by administrative measures (13th and 14th salaries, bonuses, fiscal stimuli to wage growth in the public sector in the year preceding the elections, and their possible spillover into the private sector). A rise in the saving ratio may also be caused by the continuing rapid growth in the indebtedness of households; this factor is, however, moderated by macroprudential policy measures.

The saving ratio is expected to come under downward pressure from the fading impact of low oil prices, which previously caused a temporary revival in the saving ratio (profits from the reduced energy prices were first used for saving, then for the purchase of consumer goods). Secondly, households' propensity to save has exceeded its level seen during the crisis, owing stimuli coming from the labour market. The use of unemployed persons or foreign workers to fill job vacancies is not expected to cause a rise in the saving ratio. The (re)integration of unemployed persons into the labour market is likely to reduce the level of preventive savings. The filling of job vacancies with foreign workers will result in an outflow of funds in the form of wages and bonuses.

3 THE LABOUR MARKET

3.1 WAGES AND LABOUR PRODUCTIVITY

The average wage level in the economy rose in the third quarter of 2017 by 5.2% year on year, up from 4.8% in the previous quarter. This rise was a result of accelerated wage growth in the public sector and in education. The pace of wage growth in these sectors (including health care) accelerated from 4.5% in the second quarter to 6.2% in the third quarter. This was due to a negotiated rise of 6% in teachers' basic salaries, a pay increase of 2% in public administration, and irregular bonus payments. On the other hand, the average wage in the private sector rose to the same extent as in the second quarter (by 4.9%), representing the strongest wage growth in the post-crisis period. Even faster wage growth, i.e. 5.6%, was recorded in larger firms (with 20 or more employees). Apart from wages in the public sector, the average wage growth was supported by wage increases in manufacturing (5.3%), trade (6%), transport (7.1%), and professional activities (8%). Real wages grew at a relatively fast pace (3.6%) year on year. This growth, however, may be dampened by the gradually rising inflation.

One-off bonus payments in the private sector were relatively stable in the quarter under review: their amount per employee increased by 5.4% year on year. In line with expectations, the wage growth driven mostly by payments for days not worked in the second quarter (for public holidays during Easter) continued to be fuelled by wages for hours worked in the third quarter.

Compensation per employee continued to grow in the third quarter, by 5% year on year. This growth was supported by an increase in, or the cancellation of, the maximum basis of assessment for social and health insurance contributions, and by bonuses paid from profits. On the other hand, compensation per employee growth was dampened by lower payments classified as expenditure items (payments to persons working on the basis of a contract for work, members of boards of directors and supervisory boards, etc.) and by severance pays, which are not included in the average wage.

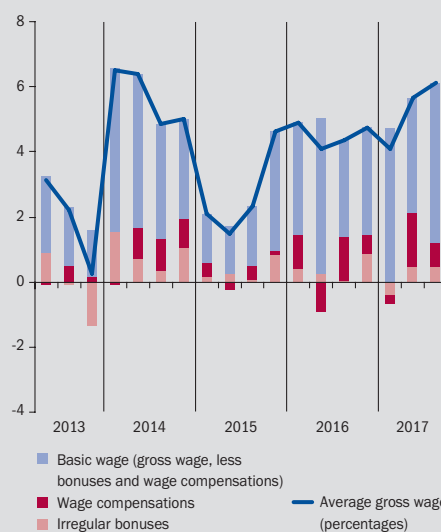
Chart 8 Wage developments by sector (annual percentage changes in average wage levels)



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 9 Wage developments by component (annual percentage changes; percentage point contributions)



Sources: SO SR and NBS calculations.

Note: The data for 'organisations with 20+ employees' include organisations in the public and financial sectors irrespective of the number of employees.

Table 2 Wages and labour productivity (annual percentage changes)

| | 2016 | | | | | 2017 | | |
|--|------|------|------|------|-------------|------|-----|-----|
| | Q1 | Q2 | Q3 | Q4 | Q1-Q4 | Q1 | Q2 | Q3 |
| Average wage (headline) | 3.3 | 2.7 | 3.3 | 3.6 | 3.3 | 3.5 | 4.8 | 5.2 |
| Consumer-price inflation | -0.5 | -0.7 | -0.7 | -0.1 | -0.5 | 0.9 | 1.0 | 1.5 |
| Average real wage (headline) | 3.8 | 3.4 | 4.0 | 3.7 | 3.8 | 2.6 | 3.8 | 3.6 |
| Average wage (ESA 2010) | 3.1 | 2.2 | 2.7 | 3.7 | 3.0 | 2.6 | 3.7 | 4.6 |
| Compensation per employee (ESA 2010) | 2.6 | 1.8 | 1.8 | 2.9 | 2.3 | 3.1 | 4.0 | 5.0 |
| Nominal labour productivity (ESA 2010) | 0.9 | 1.0 | -0.4 | 0.4 | 0.5 | 1.8 | 2.3 | 2.6 |
| Real labour productivity (ESA 2010) | 1.4 | 1.5 | 0.2 | 0.6 | 0.9 | 0.9 | 1.6 | 1.0 |

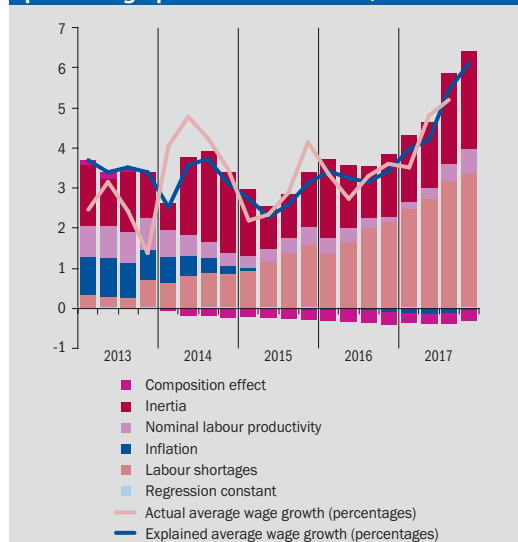
Sources: SO SR and NBS calculations.

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.

Despite its current acceleration (to 3% year on year), nominal labour productivity growth lags behind the growth in average wages and labour costs. The faster growth in labour costs may lead to a gradual acceleration in price inflation. As regards the main determinants

of wage growth, the major stimuli are still the perceived shortage of skilled labour and the slightly accelerated labour productivity growth. Another stimulus to wage growth in the near future will be moderately rising inflation.

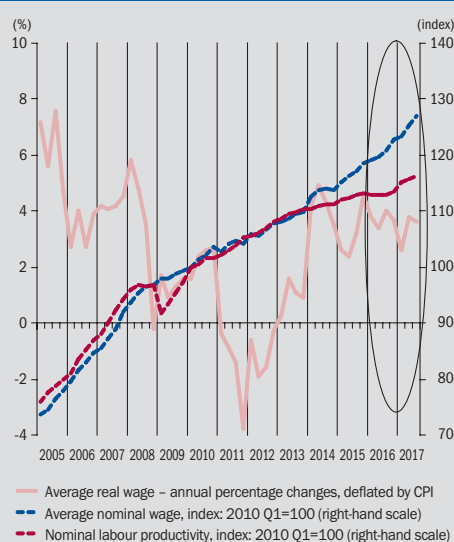
Chart 10 Factors determining wage developments (annual percentage changes; percentage point contributions)



Source: 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 the European Commission's 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 2017 Q4 are based on the MTF-2017Q4 forecast.

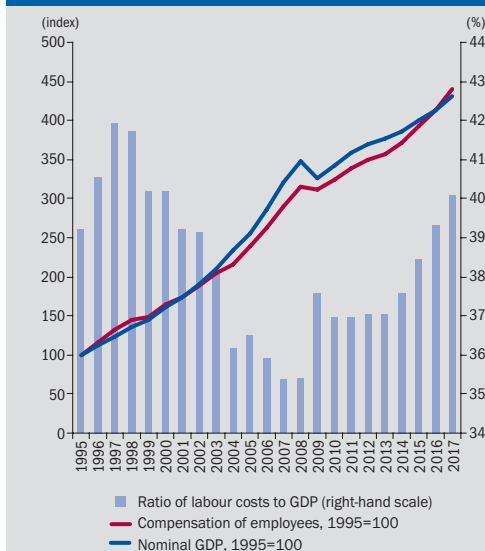
Chart 11 Wages and labour productivity trends



Sources: SO SR and NBS calculations.

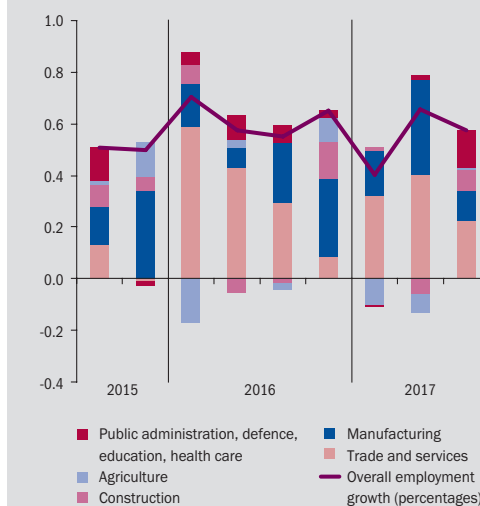
Notes: Wages are based on data from SO SR statistical reports. Nominal labour productivity was calculated from employment according to SO SR statistical reports. Base indices are based on seasonally adjusted data.

Chart 12 Labour costs in the economy



Sources: SO SR and NBS calculations.

Chart 13 Employment – sectoral contributions to quarter-on-quarter percentage changes (percentage points)



Source: SO SR.

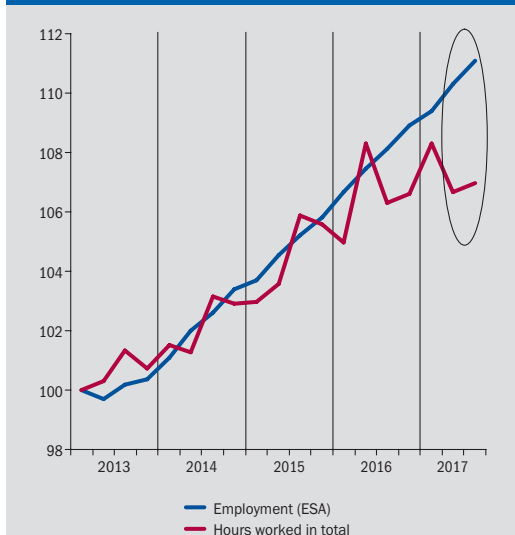
3.2 EMPLOYMENT AND UNEMPLOYMENT

Annual employment growth in the third quarter of 2017 accelerated somewhat, to 2.3% (from 2.1% in the previous quarter). The quarterly rate of growth also remained relatively fast, at 0.6% (after seasonal adjustment). This growth was supported by all the key segments of the private sector. In manufacturing, employment rose in the key segments, especially in the automotive industry. Strong employment growth was also recorded in wood processing. In trade and services, employment increased considerably in the majority of segments. Employment also rose in public administration, partly as a result of new labour activation schemes launched in the public sector. The number of self-employed persons fell somewhat; this fall was offset by a marked increase in the number of employees.

The monthly leading indicators point to a further rapid increase in the number of job vacancies, despite employers reporting shortages of skilled labour, which may hamper the recruitment of new employees in the long term.

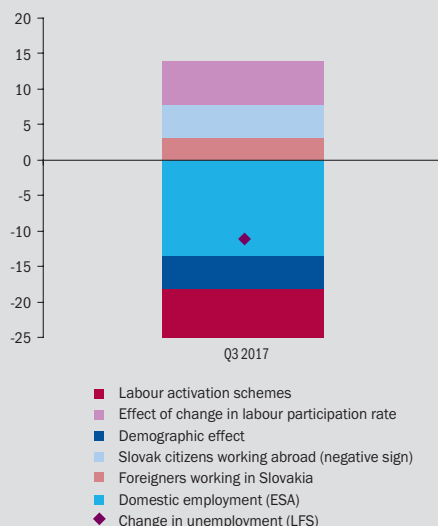
The number of hours worked tend to grow at a much slower pace than the number of employees. Specifically, the number of hours worked in the third quarter increased by 0.3% quarter on quarter, while that of employees rose by 0.7%. Since 2013, the number of employees had increased in cumulative terms by 4 percentage points more than the number of hours worked. This difference can be attributed largely to smaller firms (with less than 20 employees) and, to a lesser extent, to larger firms (with 20 or more employees). The difference in number between the hours worked and employment can be attributed to the shortage of skilled labour for full-time employment, the creation of more part-time jobs, and to the smaller number of hours assigned to part-time employees. In the case of smaller firms, however, the number of hours worked may be underestimated in relation to the number of employees. The smaller number of hours worked resulting from the ban on retail sales on public holidays could also contribute to the difference in number between the hours worked and employment, but no more than 0.2-0.3 percentage point in 2017.

Chart 14 Employment and hours worked
(index: 2013 Q1 = 100)



Sources: SO SR and NBS calculations.

Chart 15 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 number of unemployed (according to the Labour Force Survey) continued to decrease in the third quarter, to 11,100 (seasonally adjusted figure). The labour market situation was still influenced by the growing number of foreigners working in Slovakia, the falling number of Slovak citizens working abroad, and the rising labour participation rate. These effects were supported by favourable developments in the Slovak labour market in both demand and wages. In terms of size, they were at around the same level as in the

previous quarter. Unemployment fell considerably in quarter on quarter terms, owing mainly to an increase in the number of persons involved in labour activation schemes. The rate of unemployment dropped in the third quarter below 8% (from 8.4% in the second quarter).⁴ The unemployment rate based on the total number of job seekers registered with the Central Office of Labour, Social Affairs and Family (ÚPSVR) decreased in the third quarter by 0.9 percentage point, to 7.8% (after seasonal adjustment).

⁴ Seasonally adjusted data.

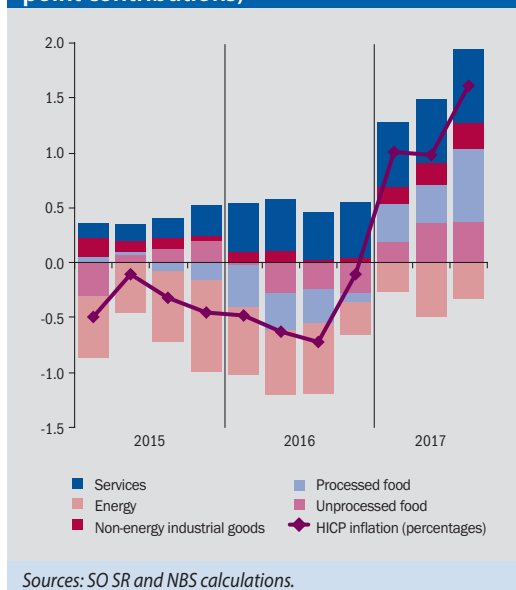


4 PRICE DEVELOPMENTS

After stabilising in the second quarter of 2017, the annual HICP inflation rate accelerated in the third quarter, to 1.6%. Steeper increases were recorded in all of its basic components, especially in energy and processed food prices (the prices of dairy products and fats in particular). The year-on-year fall in energy prices moderated in the third quarter of this year, owing mainly to the strong base effect of gas price reduction

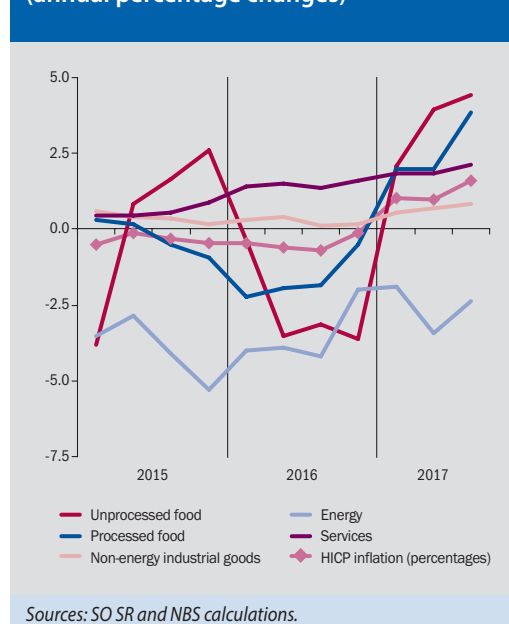
from the third quarter of 2016. Consumer prices remained unchanged in the quarter under review. Gas and electricity prices, however, rose in the commodity market. This is likely to generate a further increase in gas and electricity prices for consumers at the beginning of 2018. The rise in services prices accelerated in year-on-year terms, in response to cost-push and demand-pull pressures.

Chart 16 HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR and NBS calculations.

Chart 17 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 | Q3 |
| HICP inflation | -0.5 | -0.6 | -0.7 | -0.1 | -0.5 | 1.0 | 1.0 | 1.6 |
| Unprocessed food | -0.4 | -3.5 | -3.1 | -3.6 | -2.7 | 2.1 | 4.0 | 4.4 |
| Processed food | -2.2 | -1.9 | -1.9 | -0.5 | -1.6 | 2.0 | 2.0 | 3.8 |
| Non-energy industrial goods | 0.3 | 0.4 | 0.1 | 0.2 | 0.2 | 0.5 | 0.7 | 0.8 |
| Energy | -4.0 | -3.9 | -4.2 | -2.0 | -3.5 | -1.9 | -3.4 | -2.4 |
| Services | 1.4 | 1.5 | 1.4 | 1.6 | 1.5 | 1.8 | 1.8 | 2.1 |

Sources: SO SR and NBS calculations.