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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

The Slovak economy continued to grow in the fourth quarter of 2017, by 0.9% quarter on quarter (compared with 0.8% in the previous quarter). The annual rate of growth reached 3.5%. The main drivers of economic growth were net exports and domestic demand, reflecting the favourable labour market trends.

Employment grew over the quarter under review more moderately than in the previous quarter, i.e. by 0.5% quarter on quarter (compared with 0.6% in the third quarter), representing a year-on-year rise of 2.2%. The quarter-on-quarter slowdown took place mostly in the private sector. The average wage in the economy increased, year on year, by 5.2% in the last quarter of 2017, as in the previous quarter. This increase was largely caused by accelerated wage growth in the private sector.

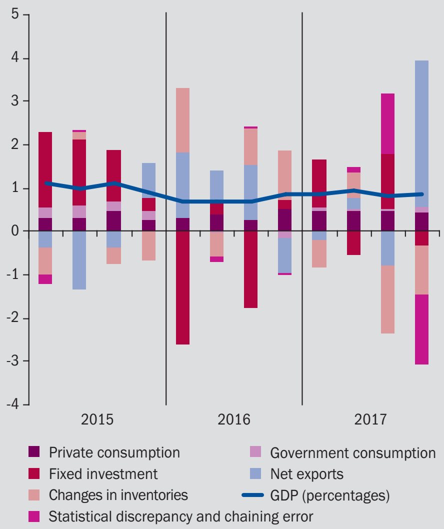
The annual HICP inflation rate continued to accelerate in the quarter under review, to 2.0%. This acceleration was caused almost exclusively by food prices. The steepest increases were recorded in unprocessed and processed food prices.

2 Gross domestic product

The Slovak economy expanded in the fourth quarter of 2017 by 0.9% quarter on quarter (compared with 0.8% in the third quarter), representing an annual growth rate of 3.5% (3.4% in the third quarter). The favourable economic trend in that period was attributable largely to net exports. The quarterly rate of export growth accelerated by 4.6% (up from 2.4% in the third quarter), while that of import growth slowed to 1.2% (after rising in the third quarter by 3.4%). Exports still reflected the impact of the sector's lower output caused largely by investment in the preparation of new export products. Thus, demand pressures for highly specialised imports eased, mainly in sectors linked to the automotive industry. Consumer spending contributed positively to economic growth, despite increasing more moderately than in the previous quarter. Investment fell somewhat at the end of the year. The public sector was the only sector that invested less in 2017 than in 2016 (at current prices).

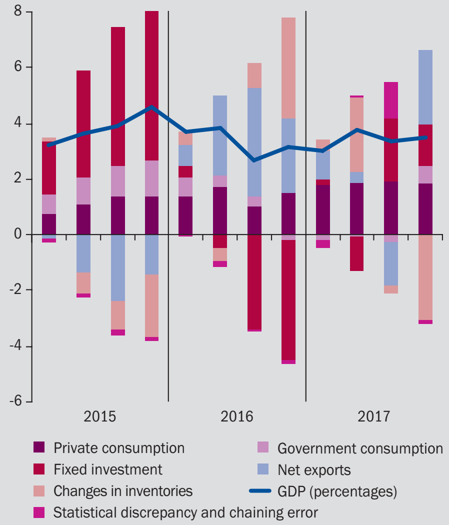
The most value added (expressed in terms of wages, profits and write-offs) was contributed to

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)



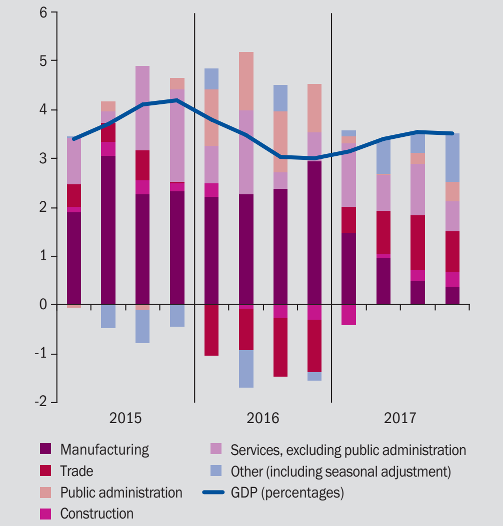
Sources: SO SR and NBS calculations.

Table 1 GDP by expenditure (percentage changes compared with the previous period; constant prices)

	2016	2017				
	Year	Q1	Q2	Q3	Q4	Year
Gross domestic product	**3.3**	0.8	1.0	0.8	0.9	**3.4**
Final consumption of households and non-profit institutions serving households	**2.7**	0.9	0.9	0.9	0.8	**3.6**
Final consumption of general government	**1.6**	0.4	0.3	0.2	0.7	**0.2**
Gross fixed capital formation	**-8.3**	5.4	-2.4	6.1	-1.4	**3.2**
Exports of goods and services	**6.2**	1.0	-2.3	2.4	4.6	**4.3**
Imports of goods and services	**3.7**	1.2	-2.7	3.4	1.2	**3.9**

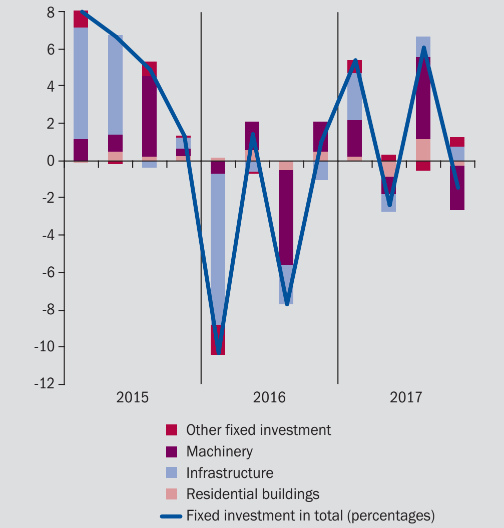
Source: SO SR.

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



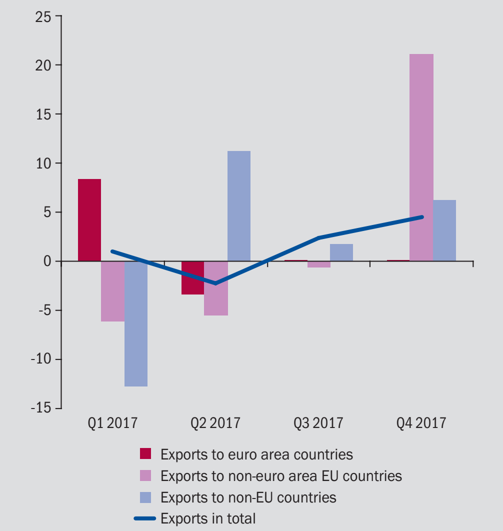
Sources: SO SR and NBS calculations.

Chart 5 Real investment and its components (quarter-on-quarter percentage changes; percentage point contributions; constant prices; seasonally adjusted)



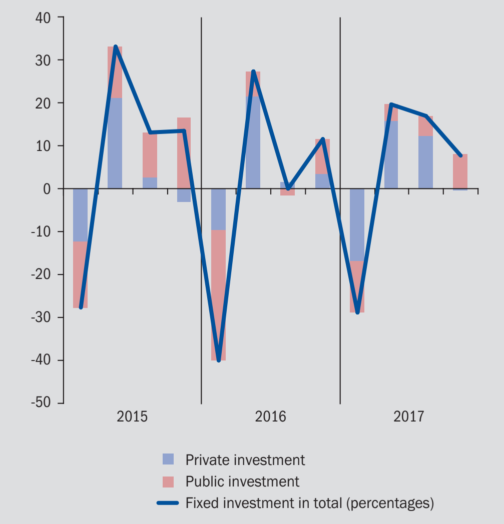
Sources: EC and NBS calculations.

Chart 4 Exports broken down by destination (quarter-on-quarter percentage changes; constant prices)



Sources: SO SR and NBS calculations.

Chart 6 Fixed investment – sectoral contributions to quarter-on-quarter percentage changes (percentage points; current prices; non-seasonally adjusted)



Sources: EC, SO SR and NBS calculations.

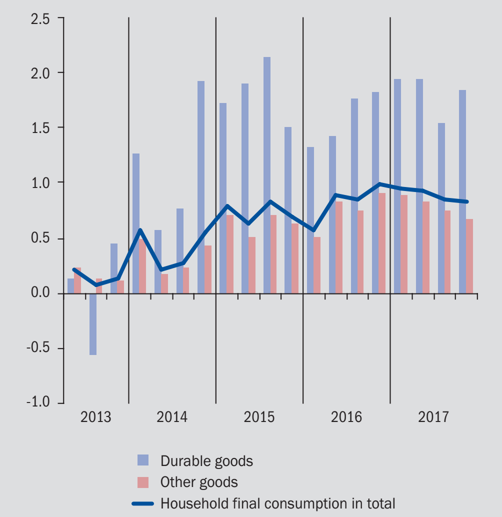
GDP growth by the trade sector. This was a result of strong household consumption. The services sector also made a significant contribution, mainly through the real estate sector. Value added in construction increased to some extent, too. The manufacturing sector contributed less value added to GDP growth, continuing a downward trend that started at the beginning of the year.

The largest contributor to economic growth in the fourth quarter of 2017 was net exports, i.e. accelerated export growth accompanied by slower import growth. Broken down by destination, exports to non-euro area EU countries, as well as exports to non-EU countries, increased considerably (by more than 21%) in the last quarter of 2017. The structure of imports by country of origin shows that, in quarter-on-quarter terms, imports from countries outside the EU decreased by 1.5%. Imports from non-euro area EU countries showed stronger growth dynamics.

Investment declined in quarter-on-quarter terms, owing to a fall in investment in machinery, probably reflecting the effect of increased investment from the previous quarter (mainly in the automotive industry). Investment in residential buildings declined, too. At the same time, investment in infrastructure and in other assets increased to some extent. Broken down by sector, the quarterly rate of investment growth accelerated in the public sector, while slowing somewhat in the private sector. At current prices, however, the public sector invested less in 2017 than in the previous year.

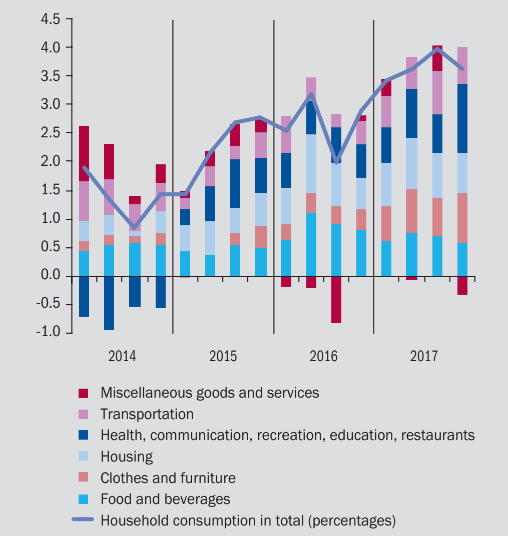
The favourable labour market trends (i.e. growing wages and employment), supported by strong consumer confidence, have led to stable growth in household final consumption. Consumer demand continued to grow in the quarter under review, at a broadly stable pace (i.e. 0.8%, compared with 0.9% in the previous quarter). Consumer confidence led to faster growth in spending on durable goods, which exceeded the growth rate of overall consumption throughout 2017. Faster growth than in overall household consumption was also recorded in spending on health care, communication, recreation, education and restaurant services.

Chart 7 Household final consumption broken down by durability of goods consumed (quarter-on-quarter percentage changes; constant prices)



Sources: EC and NBS calculations.

Chart 8 Private consumption and its components (annual percentage changes; percentage point contributions; constant prices; non-seasonally adjusted)



Sources: EC, SO SR and NBS calculations.

3 THE LABOUR MARKET

3.1 WAGES AND LABOUR PRODUCTIVITY

The average wage in the Slovak economy continued to rise in the last quarter of 2017 by 5.2% year on year, as in the previous quarter. This rise was a result of strong wage growth in the private sector, reaching 4.9% as in the third quarter. Wages increased most rapidly in manufacturing, transportation and storage, professional services, recreation, and in real estate activities. The average rate of wage growth in public administration, education and health care reached 6.1%, which was only slightly less than the figure recorded in the previous quarter (6.2%). This was due to a negotiated increase in teachers' basic salaries (6.6% year on year) and a one-off pay rise in public and state administration (7.6%). Real wages rose in the quarter under review by 3.3% year on year, representing a quarter-on-quarter slowdown (down from 3.6%) resulting from the higher inflation rate. The average wage growth in the economy accelerated over the course of last year, from 3.3% at the end of 2016 to 4.6% at the end of 2017.

Wage growth across the economy was not supported substantially by one-off bonus payments at the end of the year (bonuses were paid in more or less the same amount as a year earlier). One of the main factors behind wage growth was, in all probability, the steeply rising trend in basic wages. This trend is expected to continue in 2018, as some of the country's major employers are considering a wage increase of five or more percent for this year and surveys carried out among employers indicate a further acceleration of wage growth in 2018.[1]

Compensation per employee (including gross wages and social contributions paid by employers) grew less dynamically in the last quarter of 2017, i.e. by 3.9% year on year (compared with 5% in the previous quarter). This was due mainly to volatility in payments to own employees from after-tax profits (including bonuses paid to Board of Directors and Supervisory Board members, royalties and dividends), which recorded

Chart 9 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 statistical classification of economic activities.

Chart 10 Wage developments by component (annual percentage changes; percentage point contributions)

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

1 For example, KPMG's Pulse of the Economy 2017 survey.

Table 2 Wages and labour productivity (annual percentage changes)

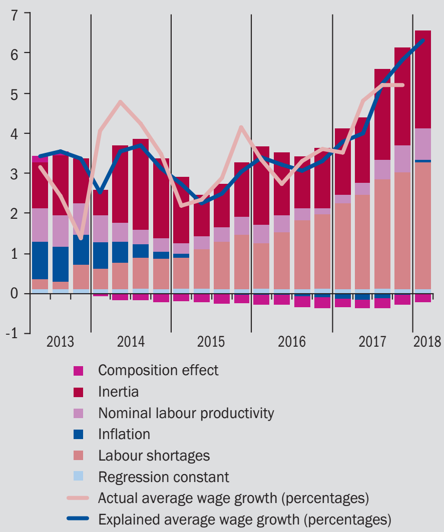
	2016	2017				
	Year	Q1	Q2	Q3	Q4	Year
Average wage (headline)	**3.3**	3.5	4.8	5.2	5.2	**4.6**
Consumer-price inflation	**-0.5**	0.9	1.0	1.5	1.8	**1.3**
Average real wage (headline)	**3.8**	2.6	3.8	3.6	3.3	**3.3**
Average wage (ESA 2010)	**3.0**	2.6	3.7	4.6	3.7	**3.7**
Compensation per employee (ESA 2010)	**2.3**	3.1	4.0	5.0	3.9	**4.1**
Nominal labour productivity (ESA 2010)	**0.5**	1.8	2.3	2.6	3.1	**2.5**
Real labour productivity (ESA 2010)	**0.9**	0.9	1.6	1.0	1.2	**1.2**

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.

a marked increase in the third quarter, followed by a sharp decrease in the fourth quarter. Social contributions paid by employers rose to lesser extent, owing probably to the year-end settlement of health insurance contributions (part of which was repaid to employers). Overall, compensation per employee increased by 4.1% during 2017, representing a relatively significant acceleration in comparison with 2016.

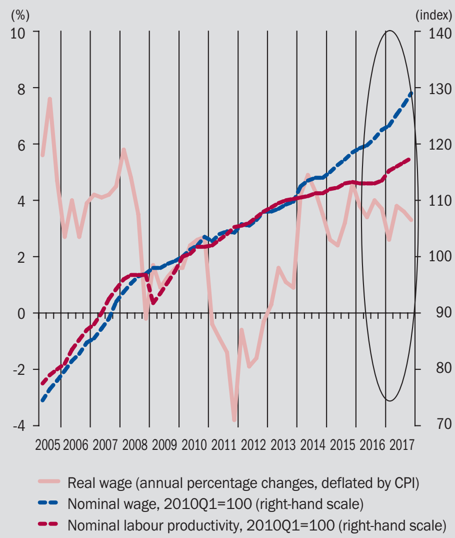
The accelerating wage growth in the period under review was driven by the ongoing tensions in the labour market, while employers' perceptions of labour shortages increased still further. This was due to growth in economic output and in employment, coupled with less favourable demographic developments, which negatively affect the availability of workforce in the labour market. Economic growth was accompanied by

Chart 11 Factors determining wage developments (annual percentage changes; percentage point contributions)



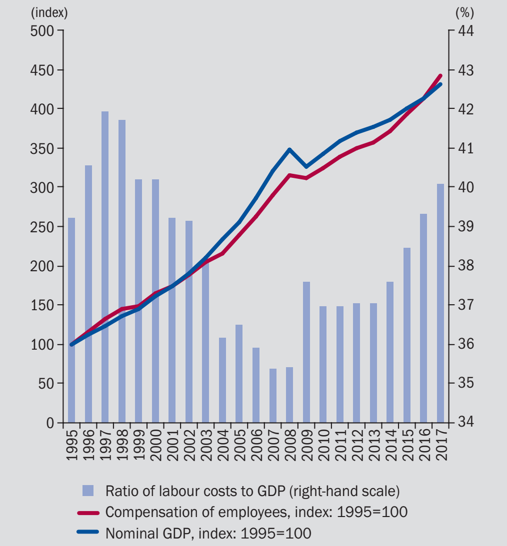
Source: NBS calculations based on a regression analysis.
Note: The following variables have been transformed: four-quarter moving average of labour productivity; four-quarter moving average of CPI inflation recorded three quarters earlier. The figures for labour shortages are based on responses to the 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 2018Q1 are based on the MTF-2018Q1 forecast of NBS.

Chart 12 Wages and labour productivity



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 13 Labour costs in the economy



Sources: SO SR and NBS calculations.

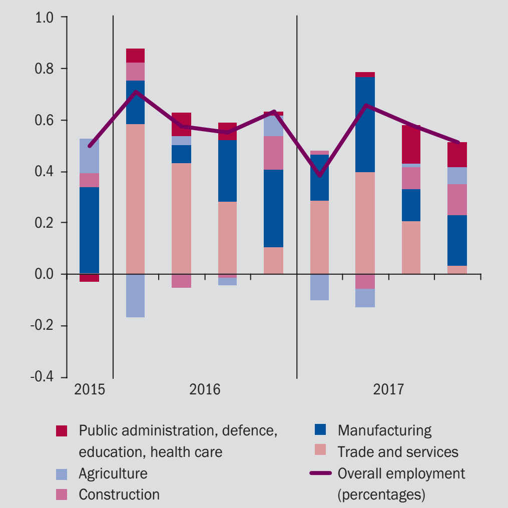
a modest increase in labour productivity, which was positively reflected in the volume of financial resources available for the payment of higher wages. The labour market tensions were also reflected in the average rate of wage growth, which exceeded the rate of nominal labour productivity growth. This may have an upward effect on price levels.

3.2 EMPLOYMENT AND UNEMPLOYMENT

The level of employment in the economy rose in the last quarter of 2017, by 0.5% quarter on quarter. This represented a moderate slowdown in comparison with the previous two quarters. Annual employment growth moderated in the fourth quarter to 2.2%, down from 2.3% in the third quarter. The moderate slowdown took place mostly in the private sector, while employment growth in public administration, education and health care accelerated during the fourth quarter, from 0.9% to 1.4% at the end of the year, mainly in self-government bodies. In the private sector, employment grew dynamically in manufacturing and in construction. A certain slowdown was recorded in services and in retail trade. The number of self-employed persons also increased somewhat. Employers' perceptions of labour shortages may constitute a major barrier to employment growth in the period ahead.

The number of hours worked increased broadly in line with employment during the fourth quarter, by 0.5% quarter on quarter. The share of part-time job offers increased[2] in that period. This may to some extent hamper the increase in the number of hours worked in comparison with employment growth.

Chart 14 Employment – sectoral contributions to quarter-on-quarter percentage changes (percentage points)



Source: SO SR.

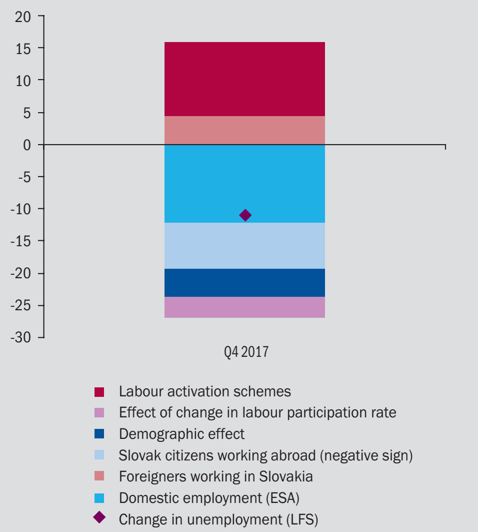
Chart 15 Employment and hours worked (index: 2013Q1 = 100)

Sources: SO SR and NBS calculations.

2 Source: *profesia.sk.*

The number of unemployed (according to the Labour Force Survey) continued to decrease in the last quarter of 2017, by approximately 11,000 quarter on quarter. This was due to employment growth, coupled with a decrease in the size of the population aged 15-64 and a slight fall in the labour market participation rate (after a prolonged upward trend). The number of Slovak citizens working abroad increased in the fourth quarter, in contrast with the decreasing trend observed during the first three quarters of 2017. The unemployment rate dropped by 0.4 percentage point, to 7.6%,[3] representing a historical low. The seasonally adjusted unemployment rate, based on the total number of job seekers registered with the Central Office of Labour, Social Affairs and Family (ÚPSVR), declined during the fourth quarter, from 7.8% to 7.3%.

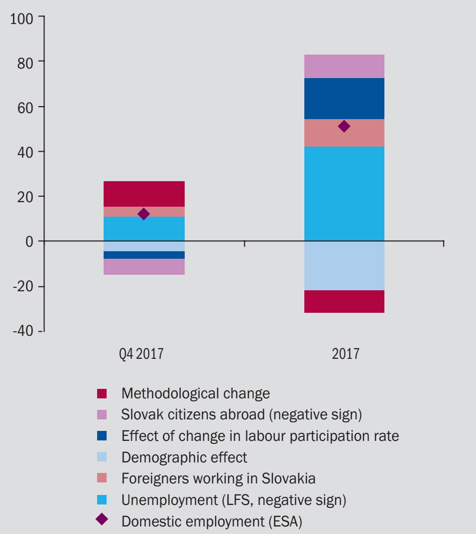
Chart 16 Unemployment – contributions of principal labour market variables to quarter-on-quarter changes (persons; seasonally adjusted)



Sources: SO SR and NBS calculations.
Note: The 'Foreigners working in Slovakia' time series has not been seasonally adjusted owing 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.

Overall, the labour market situation was favourable in 2017. Employment grew during the year by 2.2% (51,000 persons), which was slightly less than the figure for the previous year (2.4%), but represented one of the strongest employment growth rates ever recorded in Slovakia. This growth was supported by a fall in unemployment (by 42,000 persons), accompanied by a rise in the number of foreigners working in Slovakia (by 12,000). Further supporting factors were the rising labour market participation rate and the falling number of Slovak citizens working abroad. A counterbalance to these effects was the continuing decrease in the size of the active population.

Chart 17 Employment – contributions of principal labour market variables to quarter-on-quarter and annual changes (persons; seasonally adjusted)



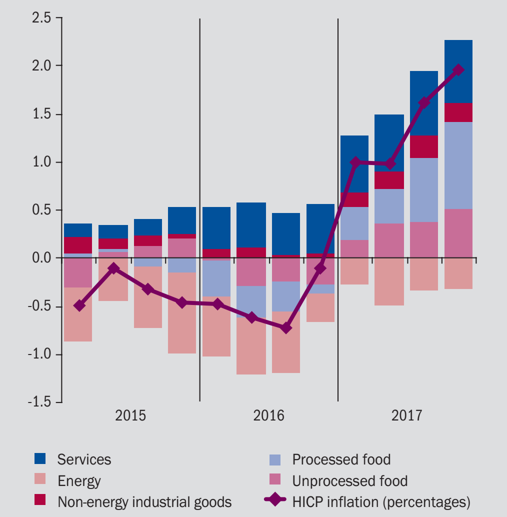
Sources: SO SR and NBS calculations.

3 *Seasonally adjusted data.*

4 Price developments

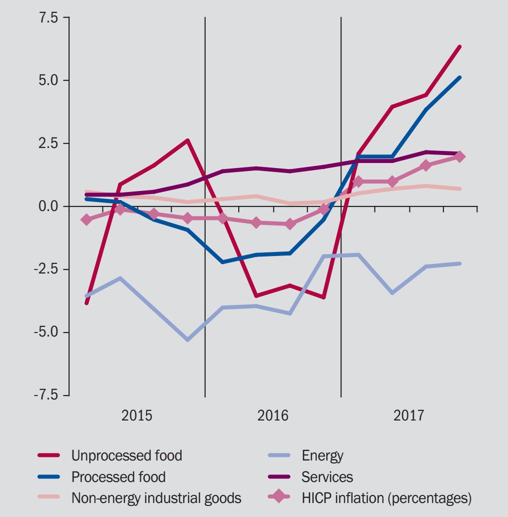
Consumer-price inflation continued to rise in the fourth quarter of 2017, by 2.0% year on year. The rise in inflation was caused first and foremost by steeper year-on-year increases in food prices, mainly in prices for dairy products, fats and eggs. This trend was affected by the withdrawal of contaminated eggs from the European market (i.e. the fipronil egg scandal), accompanied by growing demand for butter made from milk. These factors are expected to influence inflation in the short term only. Services prices also increased, year on year, reflecting the impulses coming from the labour market. The continuing strong growth in nominal and real wages had created conditions for a rise in cost-push and demand-pull prices for services. Energy prices rose in Europe's commodity markets, mainly in the second half of 2017. This rise was not reflected in regulated energy prices. With a certain delay, the rate of increase in these prices is expected to accelerate considerably in 2018. Brent oil prices in EUR increased, too, causing an immediate rise in fuel prices. The average HICP inflation rate accelerated to 1.4% in 2017 (up from -0.5% in 2016), owing mainly to the year-on-year increase in food prices.

Chart 18 Annual headline inflation rate by component (percentage point contributions)



Sources: SO SR and NBS calculations.

Chart 19 Components of HICP inflation (annual percentage changes)



Sources: SO SR and NBS calculations.

Table 3 Annual percentage changes in consumer-price inflation by component

	2016	2017				
	Year	Q1	Q2	Q3	Q4	Year
HICP inflation	**-0.5**	1.0	1.0	1.6	2.0	**1.4**
Unprocessed food	**-2.7**	2.1	4.0	4.4	6.3	**4.2**
Processed food	**-1.6**	2.0	2.0	3.8	5.1	**3.2**
Non-energy industrial goods	**0.2**	0.5	0.7	0.8	0.7	**0.7**
Energy	**-3.5**	-1.9	-3.4	-2.4	-2.2	**-2.5**
Services	**1.5**	1.8	1.8	2.1	2.1	**2.0**

Sources: SO SR and NBS calculations.