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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 maintained a steady growth momentum of 0.6% quarter-on-quarter throughout the last quarter of 2014, while both domestic and foreign demand had a balanced structure. Domestic demand continued to stimulate investment activity, which was the main driver of economic growth. Investment continued growing for the fifth quarter in a row. As a result, the actual volume of investment approached the pre-crisis level at the end of the year. The financing of investment spending was also supported by the ECB's accommodative monetary policy, specifically by the eased lending conditions, and by the improved financial results of corporations. Corporate profits were driven in part by lower energy prices, resulting from the oil price decline. The declining oil prices also caused a certain increase in the purchasing power of households. Owing to saving on energy and food costs, household consumption reached its pre-crisis level at the end of 2014. The increased consumer demand, however, was not reflected in the level of consumer prices, which fell in the fourth quarter by 0.1% year-on-year. Another significant factor behind the low-inflation environment at the end of the year was an administrative measure, which directly contributed to the slowdown in the year-on-year rise in services prices.

The level of employment in the services sector continued to rise in connection with the persistent growth in domestic demand, while the rate of wage growth slowed in this sector. After declining for two quarters, foreign demand also increased in the period under review. This increase led to export revival. The growth in export sales, together with the low energy prices, stimulated profit growth, wage growth, as well as employment growth in the manufacturing industry. Overall, employment growth in the labour market accelerated at the end of 2014, causing a fall in unemployment and stagnation in average wages.

2 Gross domestic product

Gross domestic product increased in the fourth quarter of 2014 by 0.6% quarter-on-quarter and by 2.4% year-on-year (as in the third quarter of 2014). Thus, the Slovak economy continued to grow in quarter-on-quarter terms at a steady pace of 0.6% in line with the trend that started one and a half years earlier. The structure of this growth was balanced, both domestic and foreign demand increased proportionally, stimulating impressive growth in investment.

Domestic demand was driven by the low-inflation economic environment, resulting mainly from the 'imported' low oil and energy prices, which caused an increase in real disposable income. Domestic demand contributed 1.2 percentage points to the quarterly rate of GDP growth. The same contribution came from foreign demand. The contribution of foreign demand was almost fully offset by imports. Hence, the contribution of net exports to GDP was closely above zero. The increased aggregate demand was satisfied partly from inventories, so the contribution of inventories accounted for -0.6 percentage point (a negative figure). Slovak exporters also utilised their inventories, which had accumulated in the previous period when production exceeded their exporting capacity.

Increases were recorded in all basic components of domestic demand, especially in fixed investment. Investment grew in the fourth quarter by 3% quarter-on-quarter for the third quarter in a row, which indicated that the stagnation in investment activity persisting since the crisis had finally come to an end and that the long-term decline in the ratio of investment to GDP had bottomed out and started to rise in the last quarter. In certain sectors, the beginning of last year saw mostly reinvestment at the level

Table 1 GDP by expenditure (period-on-period percentage changes, seasonally adjusted; constant prices)

	2013	2014				
	Year	Q1	Q2	Q3	Q4	Year
Gross domestic product (GDP)	1.4	0.6	0.6	0.6	0.6	2.4
Final consumption	0.0	1.1	0.6	0.5	0.7	2.7
Households and non-profit institutions serving households	-0.7	1.1	0.5	0.4	0.6	2.2
General government	2.4	1.2	1.1	0.7	1.0	4.4
Gross fixed capital formation	-2.7	-2.5	3.3	2.0	3.0	5.7
Exports of goods and services	5.2	3.9	-2.8	-2.0	1.3	4.6
Imports of goods and services	3.8	3.2	-2.3	-2.4	1.3	5.0

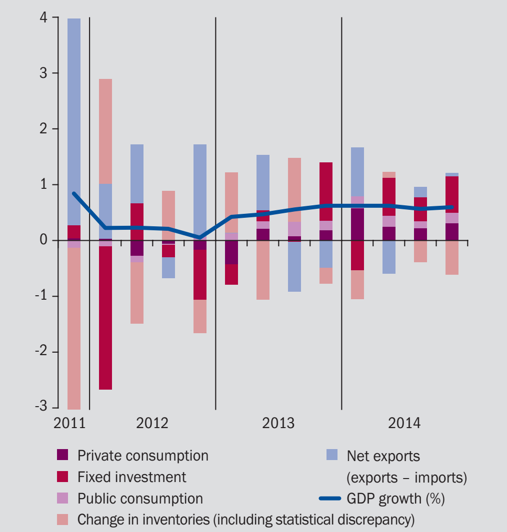
Source: SO SR.

Table 2 GDP by expenditure (year-on-year percentage changes; constant prices)

	2013	2014				
	Year	Q1	Q2	Q3	Q3	Year
Gross domestic product (GDP)	1.4	2.3	2.6	2.4	2.4	2.4
Final consumption	0.0	3.3	3.1	2.0	2.6	2.7
Households and non-profit institutions serving households	-0.7	2.8	2.3	1.6	2.2	2.2
General government	2.4	4.7	5.6	3.3	4.0	4.4
Gross fixed capital formation	-2.7	2.1	5.3	7.7	6.8	5.7
Exports of goods and services	5.2	12.4	4.9	1.6	0.3	4.6
Imports of goods and services	3.8	12.9	6.7	1.7	-0.2	5.0

Source: SO SR

Chart 1 Quarter-on-quarter GDP growth by contributions of selected sectors (percentage points; constant prices)



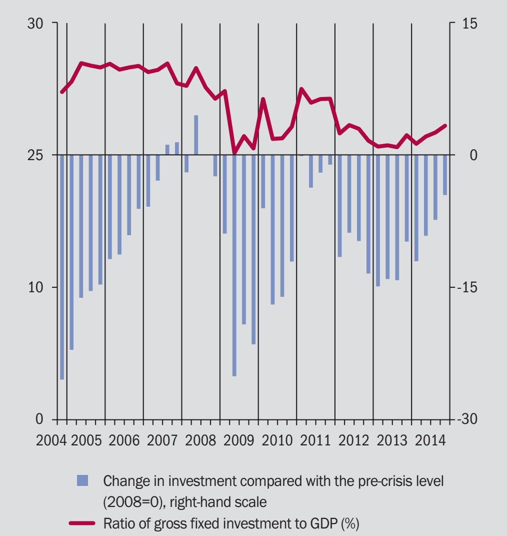
Source: SO SR and NBS calculations.

of write-offs only, while, in other sectors, even the write-offs were not fully reinvested and thus a certain level of profits could be maintained. This was probably followed by forced investment growth, without which the growth potential of companies would be at risk. As a result of a relatively stable upturn in investment activity, investment approached the pre-crisis level in the period under review.

At the end of 2014, however, the actual volume of investment was less than 5% below the pre-crisis level (compared with 10% at the end of 2013). Investment activity was particularly weak in the private sector (during 2014, the sector invested 11% less than in 2008, before the crisis). The public sector, on the other hand, exceeded the pre-crisis level of investment by 12% throughout 2014. This was achieved with the help of EU funds, for this sector has more room for drawing of moneys from such funds.

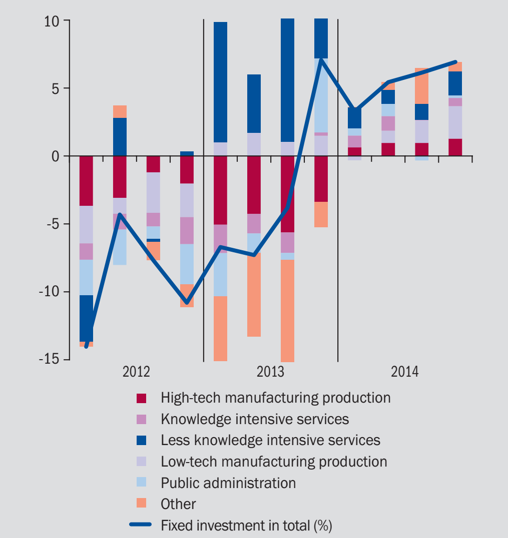
The revival of investment activity in the public sector at the end of 2014 was indicated by a marked quarter-on-quarter increase in infrastructural investments (more than 16%). Owing to infrastructural investments, the public sector generated two-thirds of the year-on-year growth in fixed investment in the last quarter of the year. Broken down by technology intensity, investments were made mostly in transport and storage, i.e. in less knowledge intensive services (Chart 3). State administration made only a minor contribution to investment growth. Another part of public investment took place in knowledge intensive services (mainly in education and, to a lesser extent, in health services). The private sector was responsible for one-third of the year-on-year investment growth. This sector invested mostly in industries that do not belong to the high-tech segment

Chart 2 Changes in fixed investment (at constant prices)



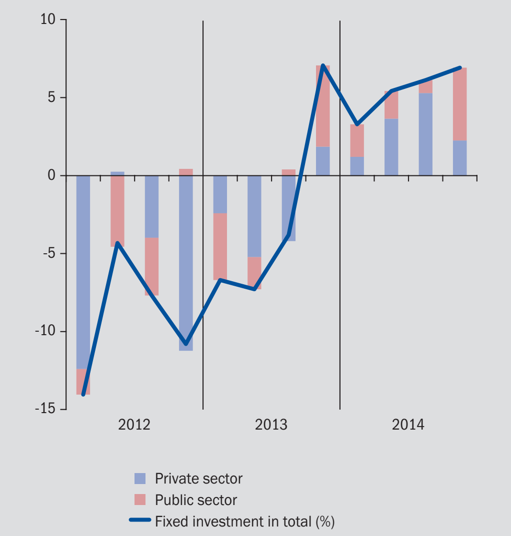
Source: SO SR and NBS calculations.

Chart 3 Year-on-year changes in investment by technology intensity (percentage points; current prices)



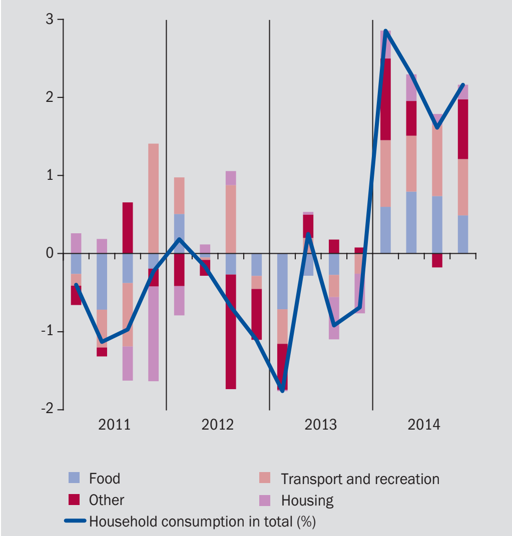
Source: SO SR and NBS calculations.

Chart 4 Year-on-year growth in investment by contributions of selected sectors (percentage points; current prices)



Source: SO SR and NBS calculations.

Chart 5 Year-on-year changes in consumption by expenditure (percentage points; constant prices)

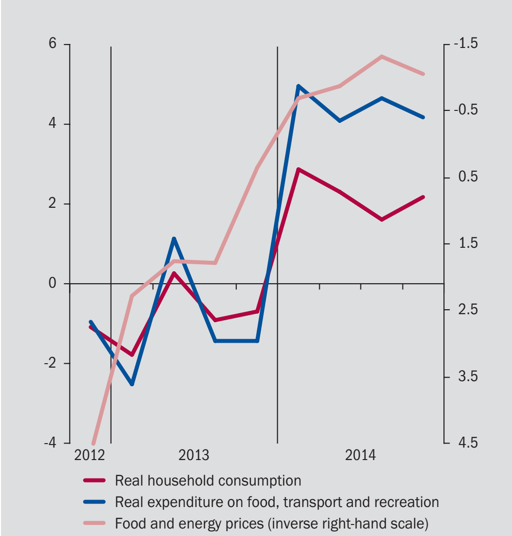


Source: SO SR and NBS calculations.

(refineries) and, in smaller but relatively constant amounts, in high-tech industries (electronic, automotive, and machine industries). The upturn in investment in manufacturing industries and services indicated that investment, supported by expectations of a positive trend in the future, began to show a growing tendency, which was also supported by the ECB's accommodative monetary policy stance and the resulting eased lending conditions.

Private consumption growth accelerated somewhat at the end of the year, to 0.6% quarter-on-quarter (from 0.4% in the previous quarter). Consumption was also supported by the low energy and food prices, which enabled households to save and to use their savings for further consumption. Increased consumption was observed throughout 2014, mostly in segments where households perceived price reductions. The structure of consumption indicated that households spent more on transport, as well as on recreation and culture, while continuing to compensate for the previous restriction of spending on food consumption. When purchasing food, consumers probably focused on the nominal amount of the food purchased. This is why the share of food in consumption remained unchanged over the period under review. Consumer demand in this segment was, in all probability, approaching saturation. This also reflected the changed behaviour of consumers, switching to more expensive but better quality foods, including domestically produced foods. Owing to the fall in energy and food prices, household consumption at the end of 2014 reached a level that was only 0.2% below the pre-crisis level.

Chart 6 Developments in consumption and prices for vital commodities (year-on-year percentage changes)

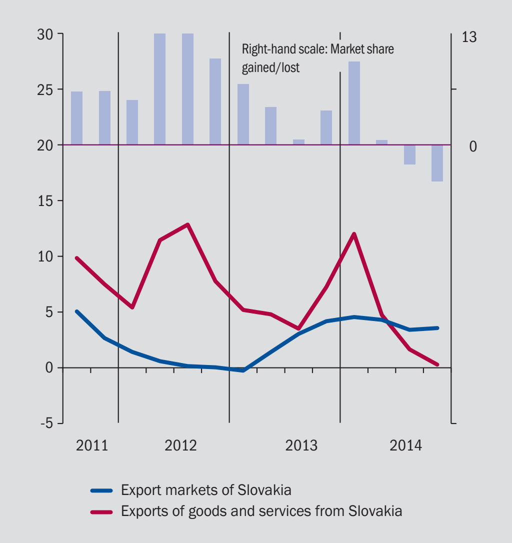


Source: SO SR and NBS calculations.

Government consumption continued to grow (by 1% quarter-on-quarter) more rapidly than household consumption (a trend that starter two years earlier), mainly as a result of faster growth in employee compensation.

The exports of goods and services increased by 1.3% quarter-on-quarter. After two quarters of decline, however, the revival of exports at the end of the year did not suffice to compensate for the previous declines and exports remained relatively weak in year-on-year terms, weaker than demand shown by our foreign partners. The year 2014, except for the first few months, was marked by a decreasing trend in the market share of Slovak exporters.

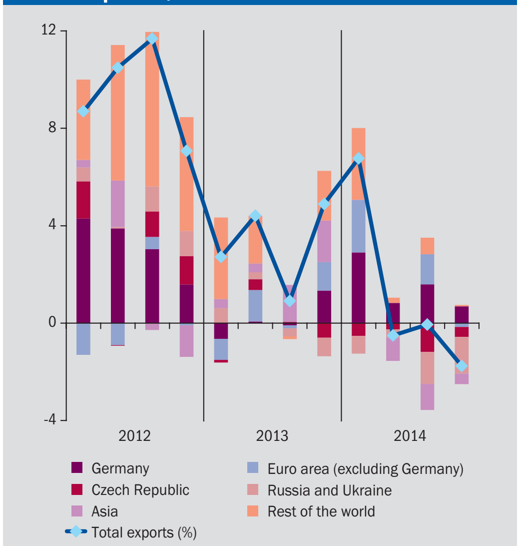
Chart 7 Changes in Slovak exports and export markets (year-on-year percentage changes; constant prices)



Source: SO SR, ECB, and NBS calculations.

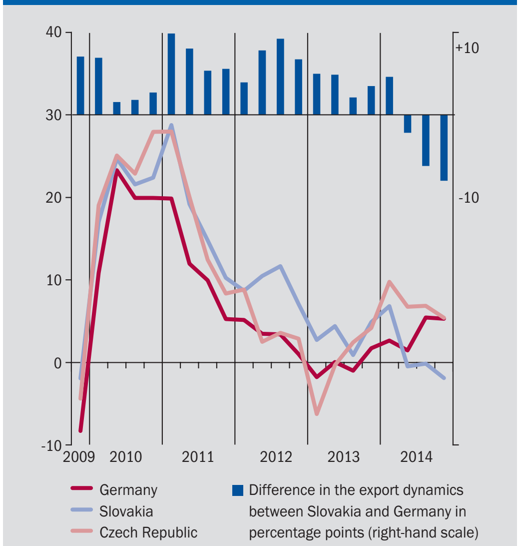
The continuing decline in exports was partially attributable to the slowdown in emerging Asian economies, the conflict between Russia and Ukraine, and the slowdown in exports to the Czech market. Slovak exports continued to be driven by Germany, though with lower intensity than was expected on the basis of its export capacity. German exports started to experience a revival in the second half of 2014, but this was reflected in Slovak exports to a limited extent only. In that period, Slovakia had ample room for a revival of exports (mainly cars and accessories), owing to the export capacity of Germany. For the first time in the post-crisis period, the growth rate of Slovak exports started, as from the second quarter of 2014, to lag behind the dynamics of Germany's export capacity. Czech exporters, by contrast, began to profit more significantly from Germany's export performance, owing to the weakening Czech koruna (since the end of 2013). At the same time, the weaker koruna also started

Chart 8 Territorial structure of commodity exports (year-on-year percentage changes; current prices)



Source: SO SR and NBS calculations.

Chart 9 Year-on-year percentage changes in exports (at current prices)



Source: Eurostat and NBS calculations.
Note: The Czech koruna started to depreciate in relation to the euro in November 2013.

Table 3 GDP and its components (index, same period a year earlier = 100; constant prices)

	2013	2014				
	Year	Q1	Q2	Q3	Q4	Year
Gross domestic product	101.4	102.3	102.6	102.4	102.4	102.4
Gross output	99.4	105.2	102.1	100.6	99.1	101.7
Intermediate consumption	98.4	107.3	101.9	99.2	97.4	101.3
Value added	101.1	102.0	102.3	102.5	102.0	102.2
Net taxes on products [1]	105.4	105.9	105.4	101.1	106.9	104.8

Source: SO SR.
1) Value added tax, excise tax, and import tax, less subsidies.

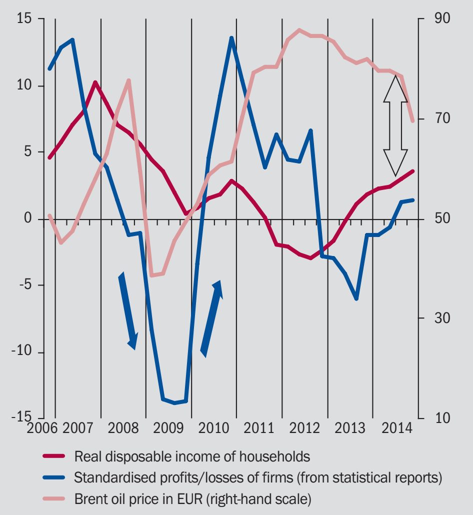
to push Slovak exporters out from the Czech market where 13% of Slovakia's total exports are realised (currency depreciation in Hungary and Poland representing 14% of the export market had similar consequences).

The production side of the economy reflected the favourable impact of lower oil prices throughout the period under review. The lower oil, energy, and input prices reduced the costs of Slovak producers. Although the output of the Slovak economy as a whole in the fourth quarter was lower than a year earlier, it sufficed to ensure relatively strong value added growth owing to the lower input costs. In the context of the low-inflation environment, which creates no impulse for an increase in tax revenue, net taxes on products (value added tax, excise tax, and import tax, less subsidies) increased more significantly than expected, probably as a result of increased domestic demand and effective tax collection, which eventually contributed to GDP growth.

Intermediate consumption at constant prices decreased year-on-year in the second half of 2014, as a result of decline in the energy and material costs of producers, which led to an improvement in their financial results. The profits of non-financial corporations rose for the second quarter in a row. The fourth quarter of 2014 saw a profit increase of 6.6% year-on-year. Profits were generated mostly in the manufacturing industry, which is the biggest consumer of oil and energy. Banks sustained losses, which, coupled with the low profits in the rest of the financial sector, caused a year-on-year decrease of 5.9% in the total profits of non-financial and financial corporations at the end of the year.

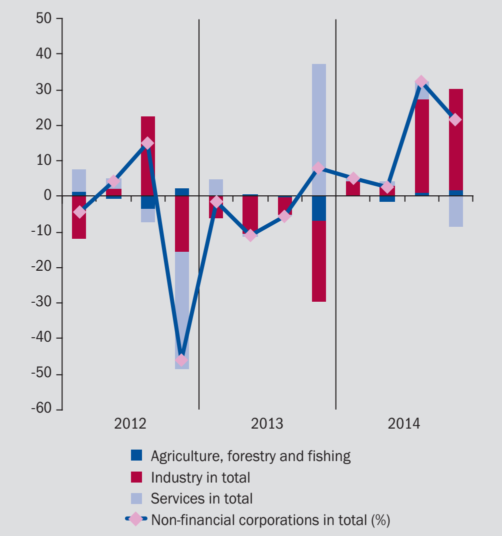
Besides the purchasing power of households, another measurable channel through which oil prices are transmitted to a net oil importer's economy is profitability. The positive effect of low oil prices is reflected in the increased purchasing power of households and the profits of net importers more clearly in the case of a net fall in oil prices. During the crisis, both profits and real incomes declined in spite of the oil price decline, for producers had no market. This was followed by a period of upward correction in oil prices, which, owing to the rising level of demand, led to growth in both profits and disposable incomes. In 2011, however, the continuing rise in oil prices dampened the dynamics of profit growth,

Chart 10 Sources of purchasing power and profits in Slovakia compared with oil prices (year-on-year percentage changes; moving average)



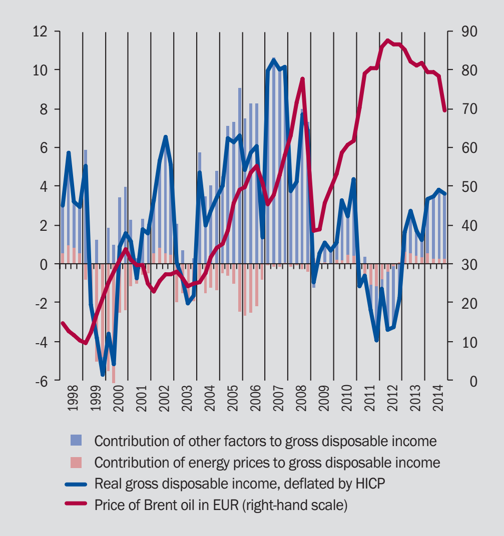
Source: SO SR, ECB, and NBS calculations.

Chart 11 Financial results of non-financial corporations with more than 20 employees by contributions of selected sectors (year-on-year changes in percentage points)



Source: SO SR and NBS calculations.

Chart 12 Changes in disposable household income by contributions of energy prices and other factors (year-on-year percentage changes)

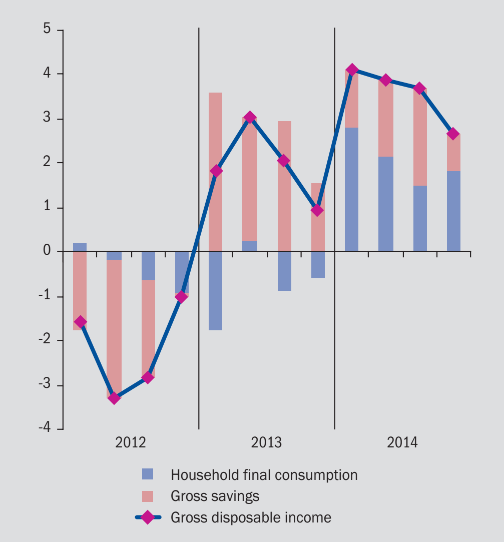


Source: SO SR, ECB, and NBS calculations.
Note: The contribution of a change in energy prices to a change in real disposable income expresses the gains or losses incurred by households as a result of the change in energy prices. The remaining part of the change in real disposable income is due to other factors.

stabilised the profit margins at a relatively low level (in the euro area too), and caused a fall in the real disposable income of households. That is why the recovery of household final consumption after the crisis took such a long time.

In the second half of 2014, oil prices declined as a result of excessive oil production, but their favourable effect on the Slovak economy was, to some extent, dampened by the weakening foreign demand, which prevented the purchasing power and profits from increasing more significantly. In the final analysis, the oil price decline contributed (owing to its long-term nature) to the rise in the purchasing power of households and the profits of corporations[1]. As a result of lower energy prices, the real disposable income of households increased by approximately 0.5% per year. Real disposable incomes continued to grow for the second year in a row (Chart 12), but not every euro saved was used for consumption. Cautious households used the money saved in 2013 to increase their savings (Chart 13). At the beginning of 2014,

Chart 13 Real disposable income used for saving and consumption in the household sector (year-on-year changes in percentage points; constant prices)



Source: SO SR and NBS calculations.

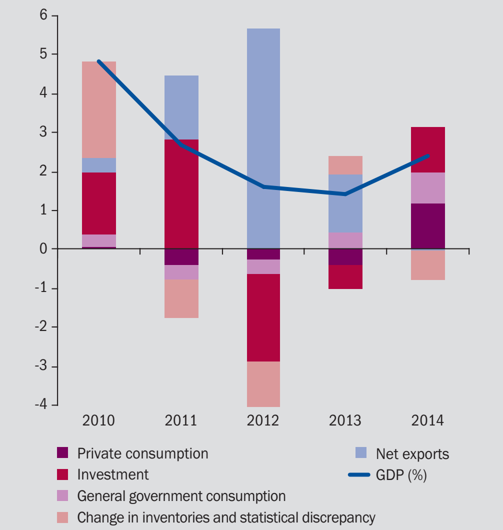
1 *The savings resulting from lower fuel prices can also be illustrated by data obtained from the Association of Petroleum Industry and Trade. According to the Association, the sales of Diesel oil, petrol, and LPG increased by 5% in 2014. As a result of lower fuel prices, households and corporations spent €87 million less (saved 0.12% of GDP) than they would have spent at the 2013 price level, or €193 million less (saved 0.26% of GDP) than they would have spent at the 2012 price level. The unit price for one litre of fuel sold dropped in both previous years to approximately the same extent.*

when the modest energy price decline was reinforced by another pro-consumption factor (i.e. the food price decline), households started to spend more on consumption.

The costs saved in the corporate sector as a result of lower energy prices could be used to support investment and wage growth without threatening the profits of corporations. This is one of the reasons why the increased household demand caused no rise in consumer prices.

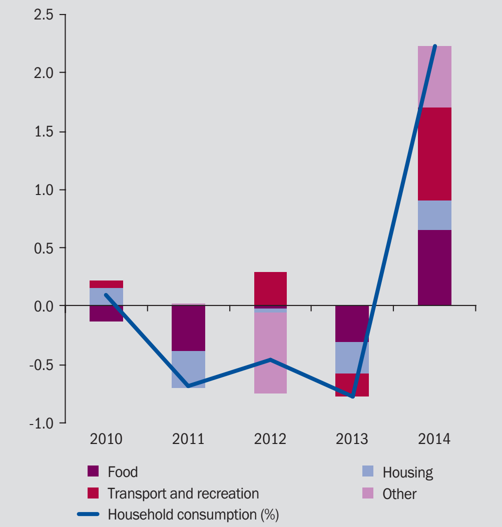
During 2014, GDP increased by 2.4% year-on-year (compared with 1.4% in 2013), owing partly to the oil price decline causing an increase in domestic demand, after two years of decline. A dampening effect was exerted by net imports, i.e. faster growth in imports (5%) than in exports (4.6%). The stronger import growth (compared with last year) was due to accelerated growth in both the investment (5.7%) and consumption components (2.7%) of domestic demand. In volume terms, GDP reached €75.2 billion at current prices. Economic growth in nominal terms (2.2%) was slower than in real terms (2.4%), owing to a fall in the general price level in the economy. The GDP deflator decreased by 0.2% year-on-year (after increasing in 2013 by 0.5%), on the back of a decline in consumer prices, producer prices, import and export prices.

Chart 14 GDP growth by component (year-on-year changes in percentage points; constant prices)



Source: SO SR and NBS calculations.

Chart 15 Household final consumption by component (year-on-year changes in percentage points; constant prices)



Source: SO SR and NBS calculations.

3 The labour market

3.1 WAGES AND LABOUR PRODUCTIVITY

Labour market developments followed a favourable trend throughout 2014. This trend improved in the fourth quarter still further. The growth in employment accelerated, while the decline in unemployment deepened in that period. This was also reflected in the unemployment rate, which fell according to both the Labour Force Survey (LFS) and the register kept by the Central Office of Labour, Social Affairs and Family (ÚPSVR). The number of hours worked also increased, but to a lesser extent than the number of people employed. Thus, the average length of a working week decreased. The decreasing trend in the number of sole proprietors came to an end in the fourth quarter. In this quarter, the relatively rapid growth in average wages slowed for the second quarter in a row, bringing the rate of wage growth closer to that of labour productivity growth. Overall, the nominal disposable income of households grew dynamically, and thus stimulated growth in private consumption, too.

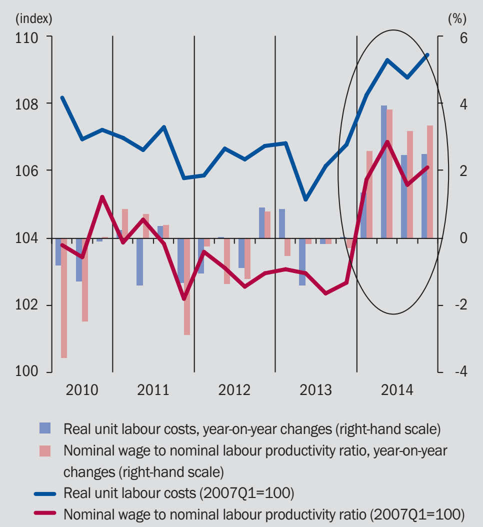
The second half of 2014 saw a certain slowdown in the pace of average wage growth, compared with the first six months. Wage dynamics in the fourth quarter weakened from 4.2% to 3.5%. Wage bargainers should take full account of the current trends in the main wage determinants, mainly inflation and labour productivity, the dynamics of which fluctuate around zero. In view of the relatively strong employment growth, wage growth may be dampened mainly by the newly created poorly paid jobs. In quarter-on-quarter terms, the seasonally adjusted wage level remained unchanged. Wage growth slowed mainly in the private sector, while segments related to the public sector (administration, education or health care) recorded a wage increase of about 5% without a noticeable slowdown. Owing to the absence of inflation, real wages increased by 3.5% in the period under review.

Wage growth slowed most significantly in the services sector (excluding trade). According to statistical reports, the strongest employment growth took place in services, which led to slower average wage growth in this sector in the period under review. Within the scope of services, slowdown was recorded in the majority of sectors. In terms of year-on-year wage growth, employees in industry enjoyed a wage increase of close to 6%. Wage growth at a similar pace was recorded in trade. By contrast, wage growth in construction and services exceeded the average wage growth by only 0% and 1% respectively.

A trend similar to that in wages was observed in compensation per employee according to the ESA methodology, as well as in gross wages and salaries according to the same methodology. A slowdown under the ESA methodology was also recorded in the annual rate of growth. The year-on-year dynamics of compensation per employees is currently at the level of 2.5%.

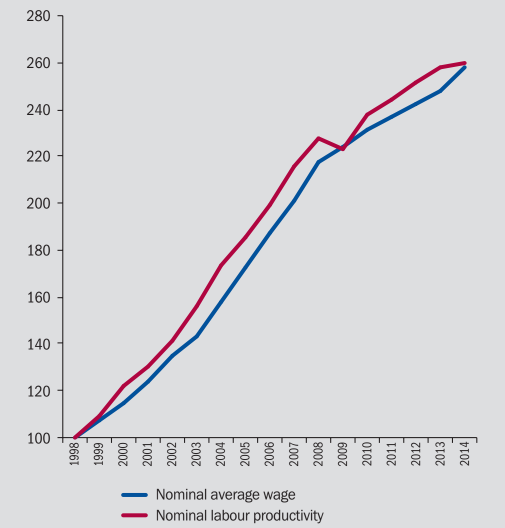
The first half of 2014 saw significant wage increases in most of the sectors and income groups. This was followed by accelerated year-on-year growth in real unit labour costs in the second half of the year. One of the causes of

Chart 16 Real labour productivity, wages, and labour costs (index: 2007Q1=100; %)



Source: SO SR and NBS calculations.
Note: Real labour costs as defined in the ESA 2010 methodology, deflated by the GDP deflator. Nominal wages from the quarterly statistical report of the SO SR. All data are seasonally adjusted.

Chart 17 Long-term trend in labour productivity and average wages in the economy (1998 = 100)



Source: SO SR and NBS calculations.

Chart 18 Factors influencing wage bargaining (year-on-year percentage changes)

Source: SO SR and NBS calculations.

this trend in 2014 was probably the fact that the pace of labour productivity growth slightly exceeded the pace of wage growth for four years, which created room for a wage increase. Another important cause was inflation in 2011 and 2012, when there were heightened inflation expectations. In wage bargaining, these (unfulfilled) expectations in 2013 could influence the wage increases bargained for 2014. In the long-term, such development may threaten the competitiveness of the economy. In the second half of the year, however, this indicator showed signs of stabilisation (at an increased level), i.e. labour costs recorded no further steep increase that is not justified by labour productivity growth. Since the beginning of the year, a gap had been created in the form of faster wage growth than nominal labour productivity growth in industry and services (including trade). In the latter sector, the gap had closed partially by the end of the year.

3.2 EMPLOYMENT AND UNEMPLOYMENT

The situation in the area of employment continued to improve in the fourth quarter, at a more robust pace than in the first three quarters of 2014. Employment as defined in the ESA methodology increased by 0.6%, which was 0.2 percentage point more that the figure for the third quarter. This increase represented approximately 14,500 persons in absolute terms. Employment was favourably influenced by domestic demand growth towards the end of the year. Export sectors, the output of which increased to a lesser extent, also recorded a rise in employment. The year-on-year growth in employment also accelerated, from 1.4% to 2.1%.[2]

Regarding the structure of employment, the prevailing trend continued in the fourth quarter, with a quarter-on-quarter increase of 0.6% in the number of people employed. This represented a modest slowdown in comparison with the second and third quarters, when employment growth was probably accelerated artificially by the shift of a large number of sole proprietors to permanent employment. As far as self-employed people are concerned (sole proprietors, freelance professionals, farmers), their number increased in the quarter under review for the first time in 2014. This increase accounted for approximately 1/5 of the total quarter-on-quarter increase in employment. The number of self-employed people increased most significantly in the segment of business activities. It is, however, questionable whether this increase will become a sustainable trend, because the number of self-employed people is on the decrease in the long

2 The strong quarter-on-quarter increase was recorded based on both the SO SR and LFS methodologies for statistical reporting.

term. In year-on-year terms, the number of self-employed people showed negative dynamics (-3.5%), whereas the number of employees showed positive dynamics (3.1%).

The main contributors to employment growth were the services and trade sectors. In these sectors, employment increased in the following segments: entertainment and recreation, business activities, transport, and IT and communication. The manufacturing industry contributed significantly to the growth in employment. A slight positive contribution to employment growth was also made by sectors related to the public sector (mainly education and health care). After declining for a long time, employment in construction stagnated over the second half of the year. Since this sector currently shows signs of optimism, it is reasonable to assume that the decline in employment has finally bottomed out.

The number of hours worked increased in the fourth quarter by 0.2% quarter-on-quarter, representing a slowdown in comparison with the third quarter. The number of hours worked increased most significantly in construction, owing to the favourable weather conditions in early winter. The number of hours worked also increased in business activities. In year-on-year terms, the number of hours worked increased by 1.4%, representing an acceleration of 0.5 percentage point compared with the previous quarter. Since employment grew more rapidly than the number of hours worked, the average length of a working week decreased, by 0.4% to 36.6 hours. The only exception to this trend was construction, where the number of hours worked per week increased.

According to the Labour Force Sample Survey, the number of unemployed decreased in the fourth quarter by 10.8% year-on-year to 344,800. This decrease, as in the case of employment, was sharper than those recorded in the previous three quarters (3.9% in the last quarter; compared with the average for the first three quarters of 2.5%). The number of economically active persons continued growing, causing the labour force participation rate to increase. At the same time, the number of inactive persons in households decreased, which indicates that improved labour market conditions, combined with the involvement of persons receiving benefits in material need in activation work programmes, tend to increase people's motivation to participate in the labour market. With the changes in the participation rate and in the number of unemployed taken into account, the unemployment rate dropped in the fourth quarter by 0.56 percentage point to 12.5% (from 14.2% to 13.2% during the year). The statement that the fourth quarter saw a substantial fall in unemployment also applies to the number of unemployed registered by labour offices, which dropped, after seasonal adjustment, by 3% (11,500 persons). The average rate of registered unemployment reached 12.3% in the fourth quarter, representing a year-on-year fall of 1.25 percentage points.

4 Household income and expenditure

The current income of households increased by 3.7% year-on-year in the fourth quarter. Compared with the third quarter, the rate of growth accelerated by 0.2 percentage point. This acceleration was mainly due to strong growth in employee compensation. Although the average wage growth slowed, the accelerated growth in employment was strong enough to compensate for the impact of weakened wage dynamics. Overall, current income growth accelerated. The accelerating income growth was, to a lesser extent, supported by gross mixed income, which is a sign of improvement in the corporate sector.

Like current income, the current expenditure of households (expenses paid to other sectors

Table 4 Generation and use of income in the household sector (at current prices)

	EUR billion		Annual rate of change (%)		Percentage share	
	Q4 2013	Q4 2014	Q4 2013 / Q4 2012	Q4 2014 / Q4 2013	Q4 2013	Q4 2014
Employee compensation (all sectors)	7.8	8.2	1.9	5.5	46.7	47.5
of which: Gross wages and salaries	6.1	6.4	0.8	5.4	36.6	37.2
Gross mixed income	5.2	5.2	1.2	1.0	30.9	30.1
Property income – received	0.4	0.5	18.5	3.5	2.7	2.7
Social benefits	2.8	2.9	0.2	3.6	16.6	16.6
Other current transfers – received	0.5	0.5	1.4	3.8	3.2	3.2
Current income in total	16.7	17.3	1.7	3.7	100.0	100.0
Property income – paid	0.1	0.1	-36.5	39.8	2.2	2.9
Current tax on income, property, etc.	0.7	0.7	4.2	3.1	15.6	15.5
Social contributions	2.9	3.0	2.4	3.9	64.9	64.8
Other current transfers – paid	0.8	0.8	4.6	1.2	17.3	16.9
Current expenditure in total	4.4	4.6	1.7	4.1	100.0	100.0
Gross disposable income	12.3	12.7	1.8	3.6	-	-
Adjustment arising from changes in net assets of households in pension fund reserves	0.1	0.1	-42.0	24.9	-	-
Household final consumption	10.3	10.6	0.1	3.1	-	-
Gross household savings	2.1	2.2	6.0	7.2	-	-

Source: SO SR.

Table 5 Gross disposable income (index: same period a year earlier = 100; current prices)

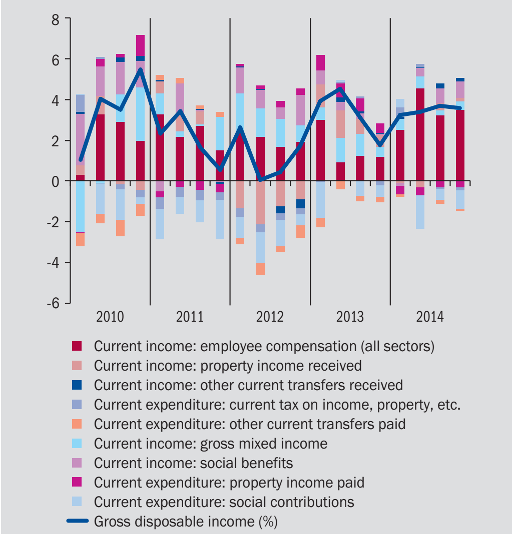
	2013	2014				
	Year	Q1	Q2	Q3	Q4	Year
Gross disposable income (1)	103.3	103.3	103.4	103.7	103.6	103.5
Adjustment (pension funds) (2)	49.1	111.6	109.4	125.6	124.9	118.1
Household final consumption (3)	100.6	102.0	101.8	101.6	103.1	102.1
Gross household savings (4)	120.0	140.5	123.9	135.0	107.2	119.0
Savings ratio [%, (4)/((1)+(2))]	9.0	4.8	8.9	9.2	17.4	10.4

Source: SO SR and NBS calculations.
Note: The savings ratio (not seasonally adjusted) is expressed as an average for the given period.

and not used for direct consumption) showed stronger dynamics in the fourth quarter, and increased year-on-year by 4.1%. Compared with the previous quarter, the growth in current expenditure accelerated by 1.1 percentage points. This was mainly the result of faster growth in social contributions and taxes paid, which can be attributed to the revival of the labour market.

The gross disposable income of households (current income less current expenditure) amounted to €12.7 billion in the fourth quarter. This represented a year-on-year increase of 3.6%, which was 0.1 percentage point less than in the previous quarter. This indicates that current expenditure grew slightly more rapidly than current income. Disposable income, seasonally adjusted by NBS, increased by 0.8% quarter-on-quarter. Nominal consumption increased slightly more significantly, which was reflected in a modest quarter-on-quarter fall in the seasonally adjusted savings ratio.

Chart 19 Disposable household income by component (year-on-year percentage changes; contributions in percentage points)



Source: SO SR and NBS calculations.

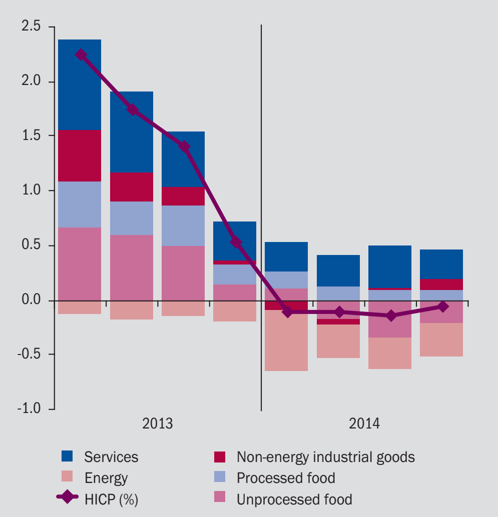
5 Price developments

The persisting low inflation in the fourth quarter of 2014 was mainly attributable to external factors, which were reflected in the negative dynamics of energy and food prices. Another significant factor behind the low-inflation environment at the end of the year was an administrative intervention ('free train tickets'), which directly contributed to the slowdown in the year-on-year rise in services prices. By contrast, upward pressure on inflation in the fourth quarter was exerted by the base effects of food and industrial goods prices from the end of 2013.

Price levels fell by 0.1% year-on-year in the fourth quarter of 2014. Price dynamics (rounded value) remained unchanged in comparison with the previous quarter. Regarding the structure of inflation, the fourth quarter saw the most significant year-on-year decline in unprocessed food and energy prices. A modest rise was recorded in processed food prices, non-energy industrial goods prices, and services prices. Energy prices started to reflect the impact of the recent oil price decline.

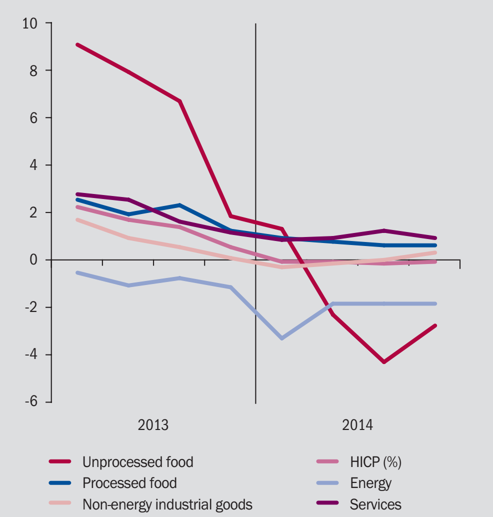
The year-on-year decline in fuel prices deepened in comparison with the previous quarter. Unprocessed food prices continued to decline, owing probably to the excess of supply over demand on the market. The year-on-year

Chart 20 Annual headline inflation rate by component (percentage points)



Source: SO SR and NBS calculations.

Chart 21 Components of inflation (year-on-year percentage changes)



Source: SO SR and NBS calculations.

Table 6 HICP inflation by component (year-on-year percentage changes)

	2013	2014				
	Year	Q1	Q2	Q3	Q4	Year
HICP inflation	1.5	-0.1	-0.1	-0.1	-0.1	-0.1
Unprocessed food	6.4	1.3	-2.3	-4.3	-2.7	-2.0
Processed food	2.0	1.0	0.7	0.6	0.6	0.7
Non-energy industrial goods	0.8	-0.3	-0.1	0	0.3	0.0
Energy	-0.9	-3.3	-1.9	-1.8	-1.9	-2.2
Services	2.0	0.9	1.0	1.3	0.9	1.0

Source: SO SR and NBS calculations.

pace of decline in unprocessed food prices moderated in comparison with the third quarter, as a result of the base effect of a sharp fall in price levels at the end of 2013. The weakening dynamics of services prices was attributable to the administrative intervention in the prices of train tickets. The introduction of free tickets for certain groups of commuters contributed -0.2 percentage point to the fall in inflation. This intervention will also be reflected in the lower level of headline inflation in 2015. Accelerated rise in year-on-year terms was recorded in non-energy industrial goods prices, which reflected the gradual acceleration in import prices for goods from euro area countries. The base effect of the marked slowdown in price dynamics from the second half of 2013 also contributed to the accelerated price increase.