



NÁRODNÁ BANKA SLOVENSKA  
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
EIA	Energy Information Administration
EMU	Economic and Monetary Union
EONIA	euro overnight index average
ESA 95	European System of National Accounts 1995
EU	European Union
Eurostat	Statistical Office of the European Communities
FDI	foreign direct investment
Fed	Federal Reserve System
EMU	Economic and Monetary Union
EURIBOR	euro interbank offered rate
FNM	Fond národného majetku – National Property Fund
GDP	gross domestic product
GNDI	gross national disposable income
GNI	gross national income
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
IPI	industrial production index
IRF	initial rate fixation
MFI	monetary financial institutions
MF SR	Ministry of Finance of the Slovak Republic
MMF	money market fund
NARKS	National Association of Real Estate Offices of Slovakia
NBS	Národná banka Slovenska
NEER	nominal effective exchange rate
NPISHs	Non-profit Institutions serving households
OIF	open-end investment fund
p.a.	per annum
p.p.	percentage points
qoq	quarter-on-quarter
PPI	Producer Price Index
REER	real effective exchange rate
SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Asset Management Companies
SO SR	Statistical Office of the Slovak Republic
SR	Slovenská republika – Slovak Republic
ULC	unit labour costs
VAT	value-added tax
yoy	year-on-year

Symbols used in the tables

- . – Data are not yet available.
- – Data do not exist / data are not applicable.
- (p) – Preliminary data



# 1 SUMMARY

The Slovak economy continued to grow in the first quarter of 2015, by 0.8% year-on-year. This growth was driven by exports to euro area markets and to markets outside the euro area. Exports were stimulated by the eased monetary-policy conditions and by the consequent weakening of the euro, as well as by the economy's production capacity reacting flexibly to any change in foreign demand.

Domestic demand made no contribution to economic growth in the first quarter but its components continued to stimulate investment creating further potential for growth. Although total investment declined in quarter-on-quarter terms, firms invested heavily in machinery and equipment. Private consumption growth slowed down owing to an increase in the propensity of households to save. Despite their growing optimism and improving future prospects, households remained cautious and spent less on consumption than they could have afforded. Household deposits increased to the detriment of consumption, causing a rise in the sector's savings ratio. The cautious approach of households to spending was probably a consequence of increased borrowing in the previous periods.

The favourable trends in the labour market continued in the first quarter, though at a more moderate pace than in the previous quarter. The resulting slower wage growth better reflects the fundamental indicators, i.e. labour productivity, low inflation, and the still positive unemployment gap. The growing number of part-time employees and the growing popularity of temporary employment through employment agencies seem to indicate that labour market flexibility is improving. There is a certain shortage of qualified employees in manufacturing industries, while construction shows signs of revival in terms of both output and wage growth.

Price levels in Slovakia fell to a historical low in the first quarter (by 0.5% year-on-year) owing to external factors causing a fall in energy and unprocessed food prices. The administrative adjustment of rail fares also contributed to the price decline. The weakening of the euro and the consequent rise in import prices generated only a modest price increase in the Slovak consumer market.



## 2 GROSS DOMESTIC PRODUCT

The Slovak economy continued to expand at the beginning of 2015, with GDP growing by 0.8% quarter-on-quarter and 3.1% year-on-year (compared with 0.7% and 2.4% respectively in the last quarter of 2014). After being driven by domestic demand for three consecutive quarters, economic growth was stimulated primarily by exports in the first quarter. Overall domestic demand had no effect on the quarterly rate of GDP growth, while the effect of inventories was slightly negative.

Domestic demand provided a zero contribution to economic growth at the beginning of the year, as it remained at the level of the previous quarter despite the stimulating environment (price decline, positive labour market developments, low interest rates, easier access of firms to loans, availability of public and European resources).

After seven quarters of steady growth, the quarter-on-quarter decline in domestic demand is probably of a short-term nature, as it seems to be the result of a partial correction of the strong growth seen in the previous quarter.

The growth correction took place mostly in respect of fixed investment, which declined by 1.1% quarter-on-quarter, after increasing by 2.9% in the fourth quarter of 2014. The quarter-on-quarter decline can be ascribed to the base effect of accounting for major investments in other buildings (e.g. motorways) at the end of 2014. In the last quarter of 2014, motorway construction was recorded in the national accounts with a massive increase, as it may contain construction output from the previous quarters, too. Hence, return to the usual output in the first quarter of 2015 resulted in a numerical decrease in the

**Table 1 GDP by expenditure (quarterly percentage changes at constant prices; seasonally adjusted)**

	2014					2015
	Q1	Q2	Q3	Q4	Year	Q1
Gross domestic product (GDP)	0.5	0.7	0.6	0.7	2.4	0.8
Final consumption	1.2	0.5	0.4	0.6	2.7	0.3
Households and non-profit institutions serving households	1.2	0.4	0.4	0.5	2.2	0.3
General government	1.5	0.9	0.5	0.7	4.4	0.4
Gross fixed capital formation	-2.1	3.0	1.9	2.9	5.7	-1.1
Exports of goods and services	2.8	-2.4	-1.6	1.7	4.6	6.7
Imports of goods and services	2.1	-1.9	-1.9	1.8	5.0	6.2

Source: SO SR.

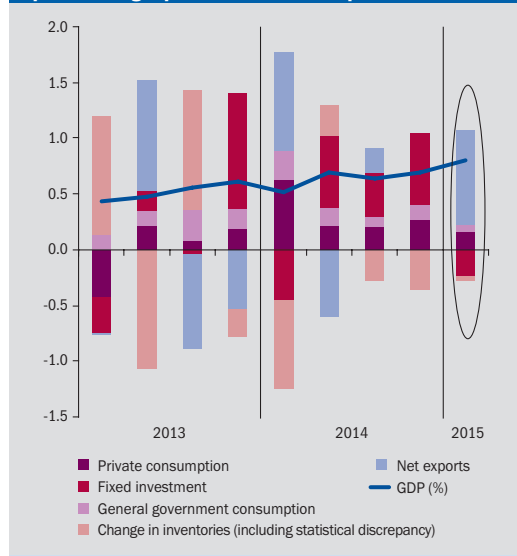


**Table 2 GDP by expenditure (annual percentage changes at constant prices)**

	2014					2015
	Q1	Q2	Q3	Q4	Year	Q1
Gross domestic product (GDP)	2.3	2.6	2.4	2.4	2.4	3.1
Final consumption	3.3	3.1	2.0	2.6	2.7	1.5
Households and non-profit institutions serving households	2.8	2.3	1.6	2.2	2.2	1.5
General government	4.7	5.6	3.3	4.0	4.4	1.6
Gross fixed capital formation	2.1	5.3	7.7	6.8	5.7	6.6
Exports of goods and services	12.4	4.9	1.6	0.3	4.6	4.4
Imports of goods and services	12.9	6.7	1.7	-0.2	5.0	4.3

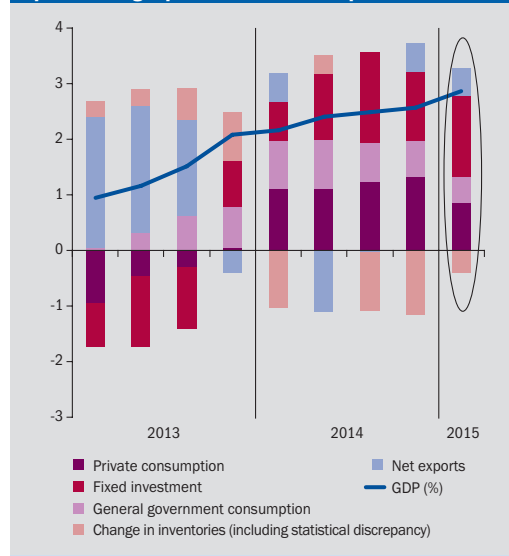
Source: SO SR.

**Chart 1 Quarterly GDP growth by contributions of selected sectors (percentage points; constant prices)**



Source: SO SR and NBS calculations.

**Chart 2 Annual GDP growth by contributions of selected sectors (percentage points; constant prices)**

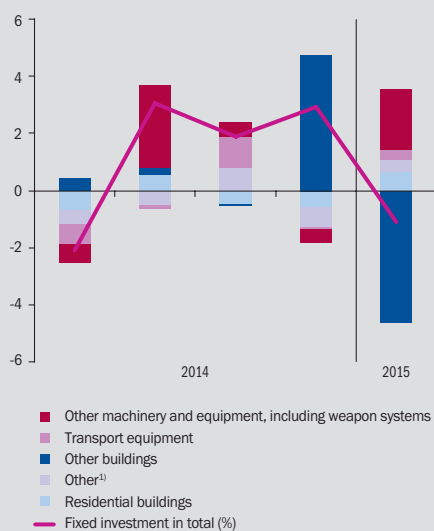


Source: SO SR and NBS calculations.

rate of investment (as in the previous years). Irrespective of this numerical decrease, the public sector still accounts for a large volume

of investment as a result of an increase in the amount of eurofunds drawn before the end of the current programme period.

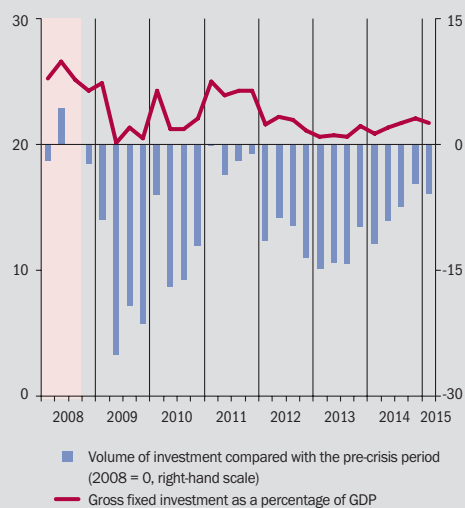
**Chart 3 Structure of quarterly changes in investment (percentage points; constant prices)**



Source: SO SR and NBS calculations.

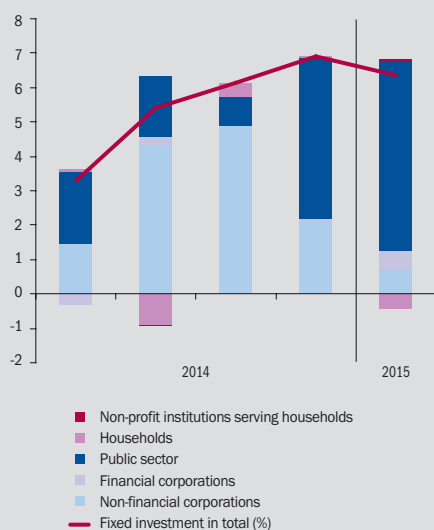
1) Information & communication technologies, cultivated biological resources, intellectual property products.

**Chart 5 Investment as a percentage of GDP compared with the pre-crisis level (2008 = 0)**



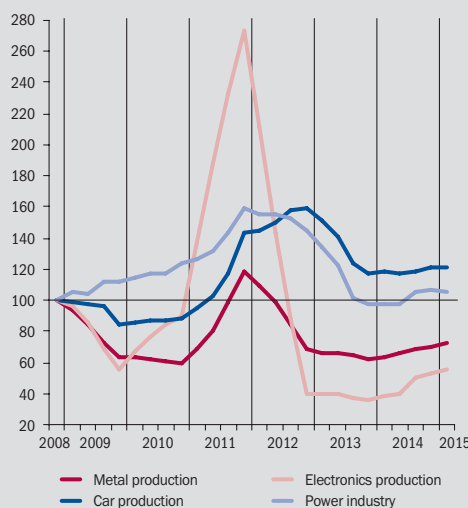
Source: SO SR and NBS calculations.

**Chart 4 Structure of annual changes in investment (percentage points; current prices)**



Source: SO SR and NBS calculations.

**Chart 6 Investment in the key sectors (2008 = 100, constant prices; 4-quarter moving average)**



Source: SO SR and NBS calculations.



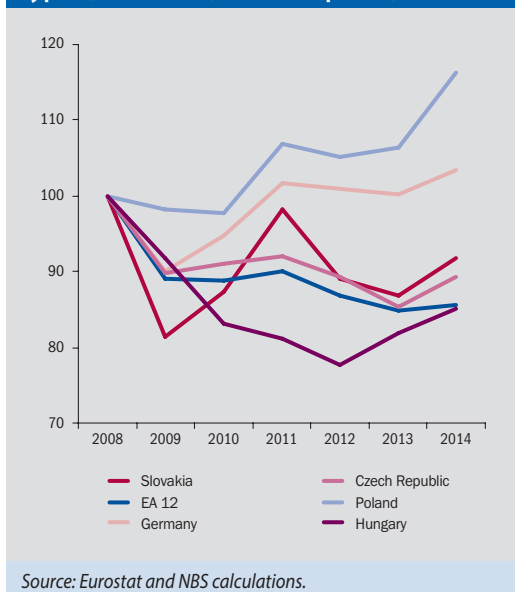


The most positive development in fixed capital investment was a quarter-on-quarter increase in investment in machinery and equipment, which forms the core of production capacity and strengthens economic potential. The first months of the current year saw the creation of conditions for long-term growth in fixed investment in machinery and equipment. In

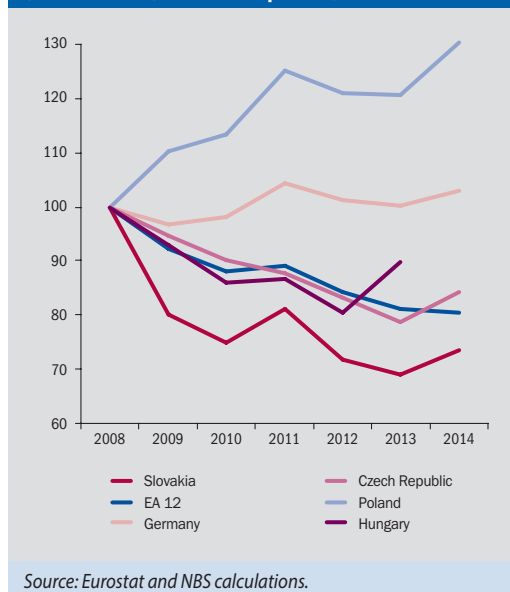
addition, the general trend from last year when investments in machines were made across the whole spectrum of sectors continued in the first quarter, while 2011 saw only a few large one-off investments (mainly in the electrical industry).

In terms of investment in other buildings (e.g. motorways), however, Slovakia is one of the

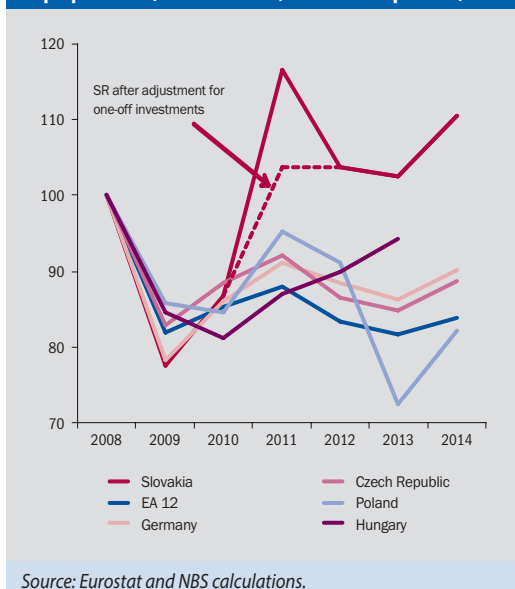
**Chart 7 Fixed investment in assets of all types (2008 = 100; constant prices)**



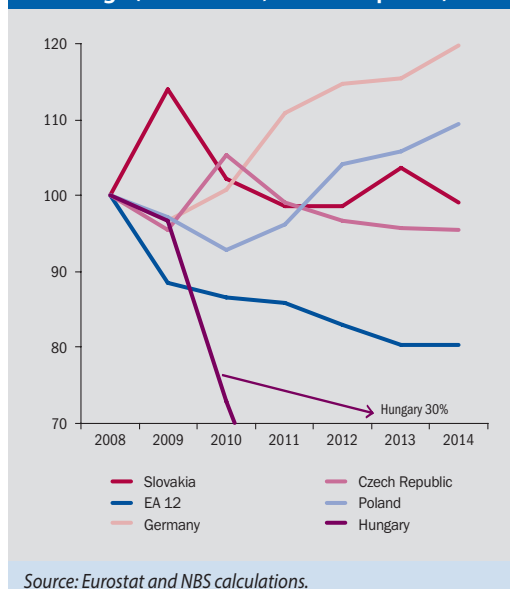
**Chart 9 Fixed investment in other buildings (2008 = 100; constant prices)**



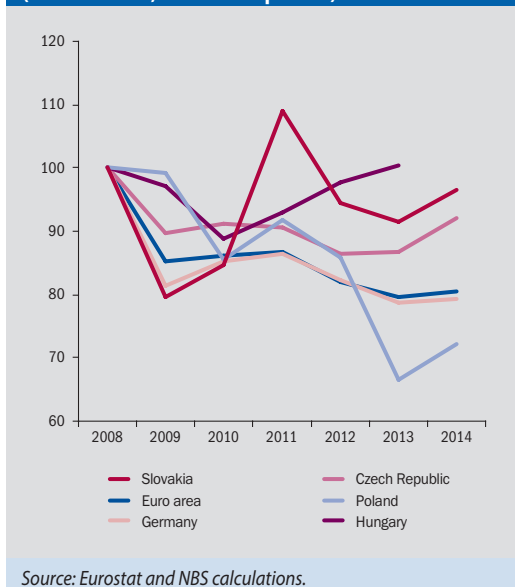
**Chart 8 Fixed investment in machinery and equipment (2008 = 100; constant prices)**



**Chart 10 Fixed investment in residential buildings (2008 = 100; constant prices)**



**Chart 11 Fixed investment in machinery and equipment as a percentage of GDP (2008 = 100; constant prices)**



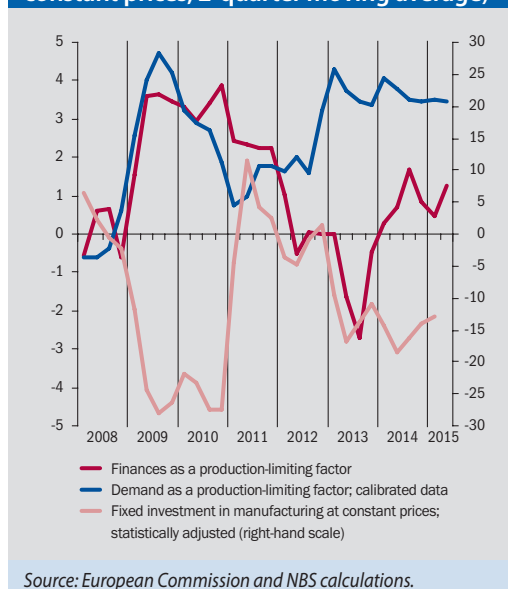
periods). It appears that firms still consider domestic and foreign demand too instable for the launch of new large-scale investment projects. After the forced renewal of investments last year, they tend to give preference to projects that were suspended before the crisis. Since there is an adequate stock of fixed assets in machinery and equipment, firms are not forced to enter into other, more risky projects.

Total investment in manufacturing is still below the pre-crisis level, owing to the availability of free production capacities in industry for a longer period. The suitable composition of production capacities in Slovak industry with adequate stocks of machinery and equipment enables firms to adjust their output to the fluctuating demand in a flexible manner. This was evident at the beginning of this year when foreign demand increased steeply, encouraging firms to increase the utilisation of production capacities above the pre-crisis level, without any major investment.

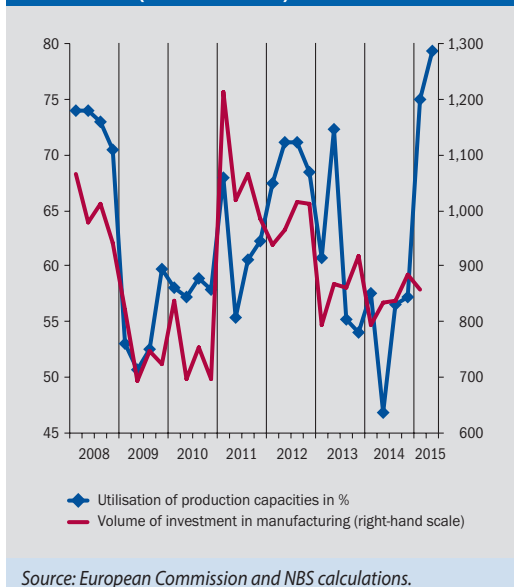
weakest investors in the EU. As regards investment in residential buildings, Slovakia is in the middle of the spectrum of European countries, but well above the euro area level. In investment in general, Slovakia ranks eleventh among the 31 European countries under comparison and is above the average level of investment in the euro area (it ranks sixth within the euro area in terms of the rate of recovery to the pre-crisis level).

Total investment in industry in an environment of low interest rates could be stronger under demand growth at a stable pace. For more than three years, demand has been perceived by industrial firms as a far more serious impediment to progress than access to finance. While access to finance is close to the pre-crisis level, demand is still at the crisis level (despite a temporary increase in 2011). The soft indicators indicate that decision-making in respect of corporate investment is strongly influenced by the perception of demand by firms, almost irrespective of their access to finance (in certain

**Chart 12 Fixed investment in industry and factors limiting such investment (2008 = 100, constant prices, 2-quarter moving average)**



**Chart 13 Utilisation of production capacities (%) and volume of investment in real terms (EUR millions)**



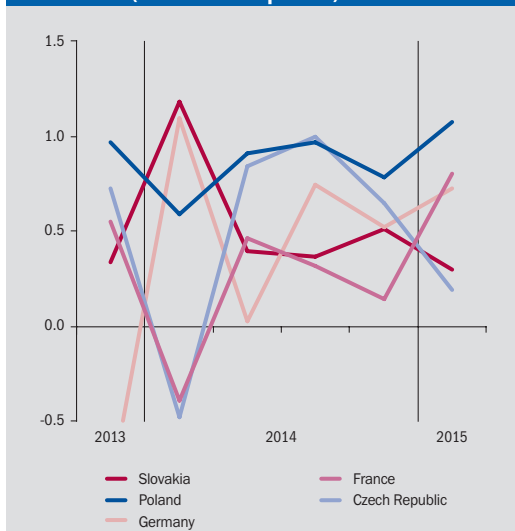
further at the beginning of this year, price developments also had a stimulating effect. Such disinflation in the previous period made it possible for households to spend more funds on consumption. While an average household in the euro area spent more on consumption owing to the lower energy prices (mainly in large countries), Slovak households were far more cautious though they could have spent more from their increased earnings. They could, for example, have spent more on cross-border shopping, because the favourable exchange rate developments temporarily created good conditions for cheap shopping abroad (according the SO SR, retail sales at the beginning of 2015 dropped most sharply in the Nitra and Košice regions, owing to an increase in cross-border shopping, in particular in Hungary and the Ukraine). In addition to cash payments for purchases abroad, the statistically recorded amount of card payments made by Slovak citizens abroad increased too (by 6% year-on-year).

Domestic demand was not stimulated effectively by the consumption components either. Government consumption growth slowed to 0.4% in the first quarter, from 0.7% in the previous quarter. Private consumption grew by only 0.3% in the quarter under review, compared with 0.6% in the previous quarter. This took place in the presence of strong consumption-friendly fundamentals, which signalled an acceleration in the rate of consumption growth. Labour market developments followed a favourable trend and sentiment in the household and retail sectors improved to the pre-crisis level in the first quarter. Increased consumption was also indicated by value added tax collection. The low interest rates and growth in lending to households also contributed to the favourable environment. While new lending increased at an accelerating pace, old loans continued to be refinanced in the first quarter, often in combination with an increase in principal. This has created additional sources of financing for households. Since the decline in food and fuel prices deepened still

According to statistical reports, households were very cautious about spending money in retail shops at the beginning of this year. As a result, retail sales did not increase in that period. Household consumption growth slowed, because it closely followed the trend in retail sales. A comparison of the absolute year-on-year increases in consumption and retail sales shows only minimal differences. The beginning of 2013 saw a change in the consumer behaviour of households. Since that time, any year-on-year increase in household consumption has occurred almost exclusively as a result of spending on retail shopping. In the last few quarters, the increase in consumption has slightly exceeded the amount of retail purchases. The extent of this excess, however, was minimal if we assume that it should contain the increase in car purchases, and that in purchases that are not necessarily captured fully in retail sales (internet purchases from non-resident dealers, door-to-door sales of expensive consumer goods, cross-border shopping tourism, etc.), including the purchase

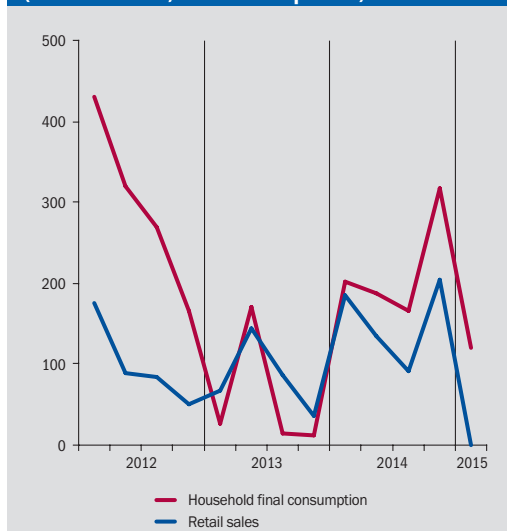


**Chart 14 Quarterly percentage changes in household consumption in selected countries (at constant prices)**



Source: Eurostat and NBS calculations.

**Chart 15 Annual absolute changes in household consumption and in retail sales (EUR millions; at current prices)**



Source: SO SR publications and NBS calculations.

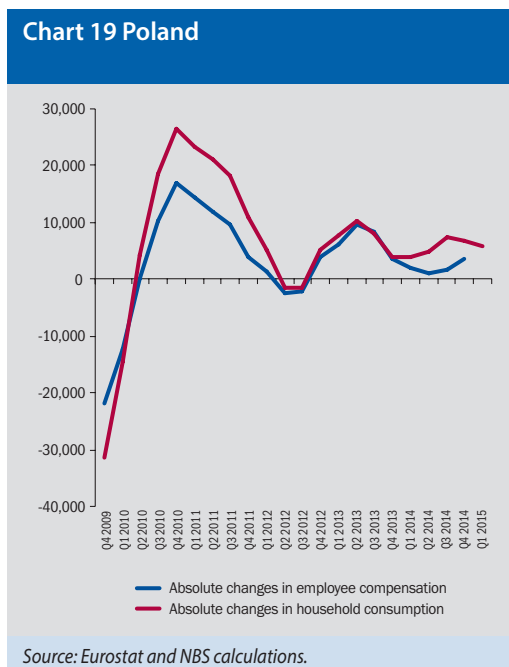
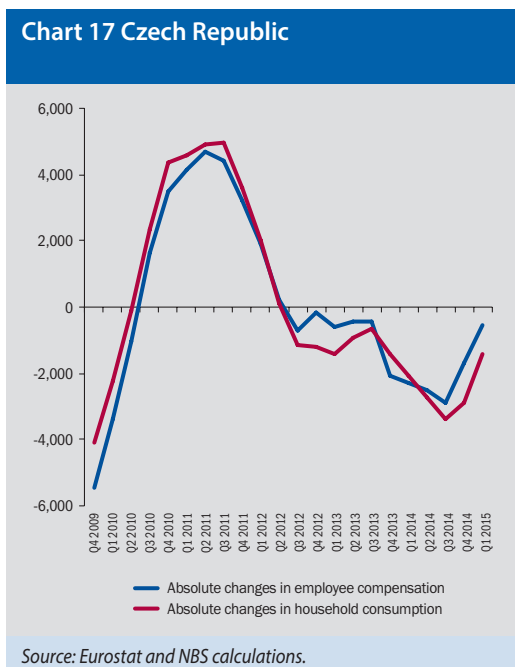
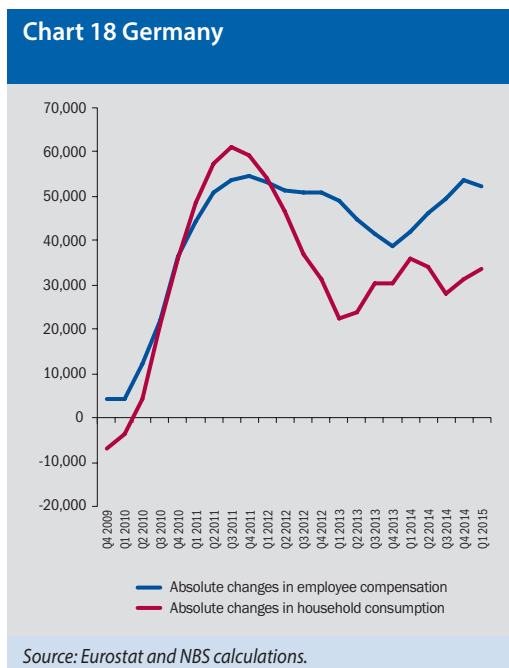
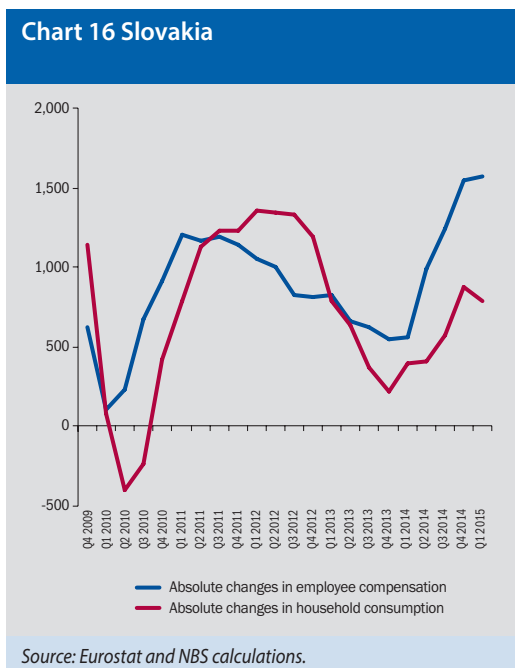
of a wide range of services, as well as a possible increase in consumer spending in the grey economy.

At the beginning of 2015, households spent only part of the increase in their earnings on consumption (the absolute year-on-year increase in household consumption was smaller than the increase in employee compensation). On the basis of statistical data, Slovakia belongs to the

group of advanced economies with a relatively high wage quota, comprising Germany, France, Denmark, Italy, and Austria. Households in comparable countries show a higher correlation between the increases in compensation and consumption, i.e. the two indicators measured according to the concept of national accounts, from the different sides of GDP (compensation from the income side; consumption from the expenditure side).



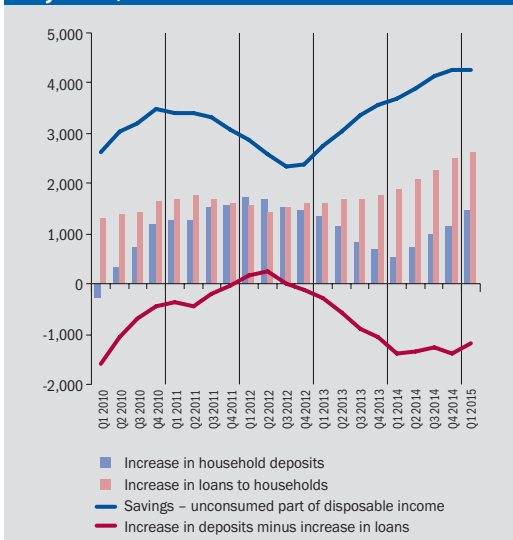
### Annual absolute changes in household consumption and in employee compensation (EUR millions; at current prices)



In the first quarter of 2015, the increase in consumption fell still further below the increase in employee compensation in Slovakia. The opening of the scissors between the relatively stable employees compensation and weaker consumption was reflected in the deposit accounts of households. Household deposits increased in the first quarter to the detriment

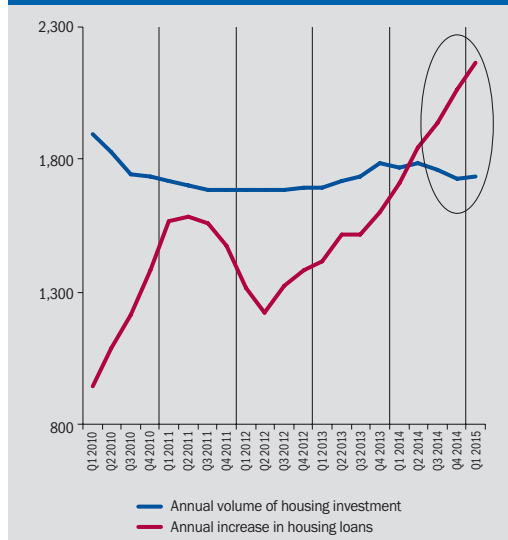
of consumption, causing a rise in the household sector's savings ratio. The cautious behaviour of households was probably a consequence of increased borrowing in the previous periods. This indicates that households tend to keep more money in reserve for their current and future loan repayments in view of their increasing debt burden, or for larger purchases.

**Chart 20 Changes in deposits, loans, and gross savings (EUR millions, annualised amounts at current prices; not seasonally adjusted)**



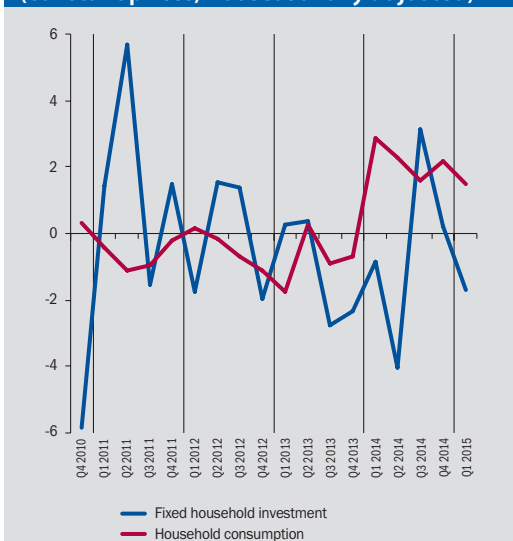
Source: SO SR and NBS calculations.

**Chart 22 Changes in housing investment and housing loans (EUR millions, current prices; not seasonally adjusted)**



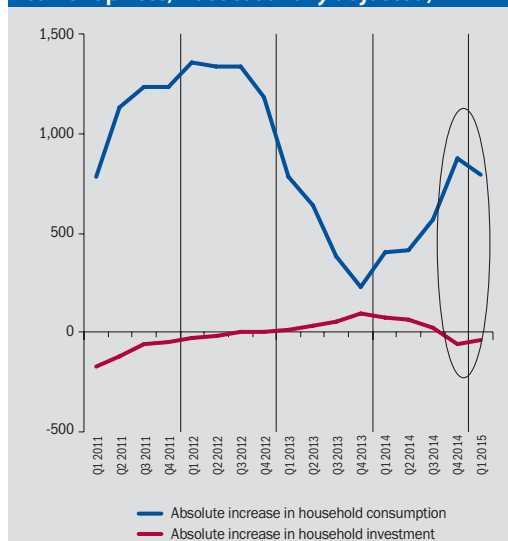
Source: SO SR and NBS calculations.

**Chart 21 Annual percentage changes in investment and households consumption (constant prices; not seasonally adjusted)**



Source: SO SR and NBS calculations.

**Chart 23 Absolute changes in household consumption and in investment (EUR millions; current prices; not seasonally adjusted)**



Source: SO SR and NBS calculations.



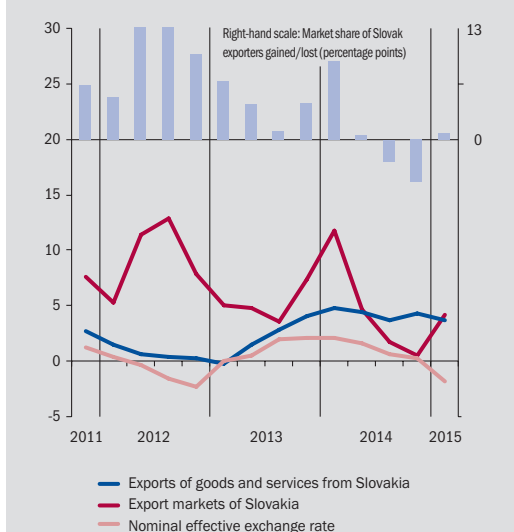
Households (i.e. private persons and sole proprietors) restricted their investment activities to a greater extent than the level of consumption. Despite the growing trend in incomes and lending coupled with brighter prospects in the household sector, investment by households declined in the quarter under review. An administrative impediment to investment at the beginning of the year was the adoption of stricter rules for property depreciation, which affected the investment decisions of sole proprietors and caused a decline in investment across the household sector.

The exports of goods and services increased by 6.7% quarter-on-quarter, compared with 1.7% in the previous quarter. A comparable increase in exports in the national accounts was last recorded in 2006, in the period of a robust expansion in Slovakia's automotive industry. Exports were also stimulated by the eased monetary policy conditions and the consequent weakening of the euro, combined with a well-functioning automotive industry capable of reacting quickly to an increase in foreign demand.

In year-on-year terms, Slovak exports were stronger than demand in the countries of our trading partners, which means that it is necessary to find new export markets. The strong revival in exports led to a fall in the volume of inventories in the economy. Apart from exploiting the country's production capacities, exporters also utilised the inventories of finished products. Imports increased less dynamically than exports owing to the weakening domestic part of the economy. Thus, the quarterly rate of GDP growth in the first quarter was generated exclusively by trade with foreign countries.

The strong exports generated an increase in gross product, as well as in value added creation in the economy. The annual rate of value added growth accelerated to 2.5%, from 2.0% at the end of 2014. Apart from exports, this acceleration was also supported by services in the areas of real estate activities, recreation, culture, and, after two years of stagnation, in construction. Value added, including net taxes on products (value added tax, excise tax, and import tax, less subsidies), again contributed to the accelerated GDP growth.

**Chart 24 Annual percentage changes in Slovak exports and export markets (at constant prices)**



Source: SO SR, ECB, and NBS calculations.

**Chart 25 Structure of annual changes in exports (percentage points, current prices)**



Source: SO SR and NBS calculations.



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

	2014					2015
	Q1	Q2	Q3	Q4	Year	Q1
Gross domestic product	2.3	3.1	2.4	2.4	2.4	3.1
Gross product	5.2	2.7	0.6	-0.9	1.7	2.7
Intermediate consumption	7.3	2.9	-0.8	-2.6	1.3	2.9
Value added	2.0	2.5	2.5	2.0	2.2	2.5
Net taxes on products <sup>1)</sup>	5.9	9.6	1.1	6.9	4.8	9.6

Source: SO SR.

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





## 3 THE LABOUR MARKET

### 3.1 WAGES AND LABOUR PRODUCTIVITY

Employment continued to grow with the rate of unemployment falling in the first quarter of 2015, though at a more moderate pace than in the fourth quarter of last year. The growth in employment, however, was not reflected in the number of hours worked. A factor that adversely affects the length of a working week in the long term is the gradual increase in the number of part-time employees. The decreasing trend in the number of sole proprietors came to a halt in the quarter under review. The average wage growth in the economy slowed in the first quarter. This slowdown had been signalled for a longer period by the fundamental indicators, in particular by labour productivity and the low inflation rate. However, the real income of households, coupled with the favourable trend in employment, have the potential to stimulate growth in household consumption.

In line with expectations, the average nominal wage growth in the economy slowed during the first quarter, from 3.5% to 2.2%<sup>1</sup>. The current factors that tend to cause a slowdown in the wage growth are the slow rise in nominal labour productivity, low inflation, and the positive unemployment gap. The seasonally adjusted wage level rose by 1.1% quarter-on-quarter. This development was supported by an increase in the minimum wage from €352 to €380 per month, which, however, did not suffice to stop the decelerating trend in the annual rate of wage growth. The slowdown in the wage growth was also supported by the private and public sectors. A surprising fact in public administration is the absence of average wage growth, despite an increase of 1.5% in wage rates. Health care also recorded only a modest rise in wages, despite another statutory increase in the wages of doctors. Wages in the public sector may accelerate during the year, if the effect of this year's increase in wage rates is fully reflected in the wage levels. Owing to the zero inflation, even a modest rise in wages may cause a relatively robust increase in real wages.

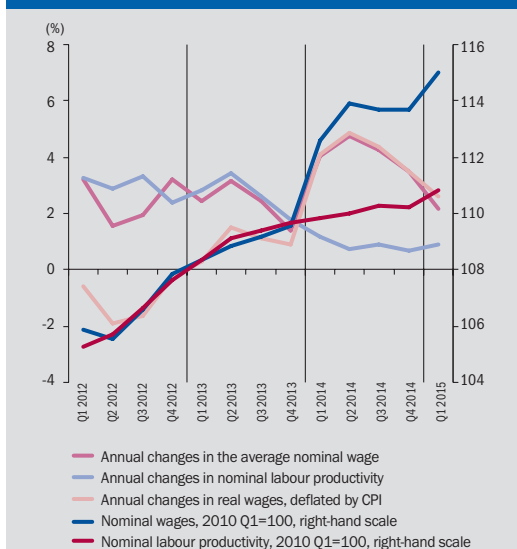
Wage growth showed a decelerating tendency in most sectors in the first quarter. Wages in services and trade remained virtually unchanged. One of the reasons may be the fall in profitability in the services sectors in 2014, which started to be reflected in wage levels at the beginning of this year. By contrast, industry recorded a relatively sharp rise in profits, which is likely to stimulate stronger wage growth this year, though the beginning of the year saw a slowdown in wage dynamics. In addition, there is a somewhat more acute shortage of qualified employees in industry than in services (according to the business surveys). One of the exceptions is construction where wage growth accelerated to some extent in the first quarter, probably as a result of a revival in the sector supported by the higher minimum wage. Even faster wage growth was recorded in accommodation and food services, which can also be attributed partly to the higher minimum wage.

As regards compensation per employee according to the ESA methodology, a slowdown similar to that in wages was recorded, but its pace was somewhat faster. In nominal terms, this indicator showed a year-on-year rise of only 1.7% in the first quarter. This was due probably to the exemption of employees with low incomes from the obligation to pay contributions (i.e. contribution relief and contribution-deductible items for the long-term unemployed). Wages according to the ESA methodology increased at a somewhat faster pace (2% year-on-year) than compensation.

After rising significantly last year, labour costs are expected to increase more moderately this year. This expectation became a reality in the first quarter. The quarterly and annual profiles indicate that wages are still growing slightly more dynamically than labour productivity. Such development, if persists for a longer period, has the potential to generate price pressures in the economy. After wages considerably exceeded labour productivity last year, the gap between them is now closing in both industry and services. By contrast, labour productivity is currently rising in construction, while wages are growing at a more moderate pace.

<sup>1</sup> According to the statistical reports of SO SR.

Chart 26 Wages and labour productivity



Source: SO SR and NBS calculations.

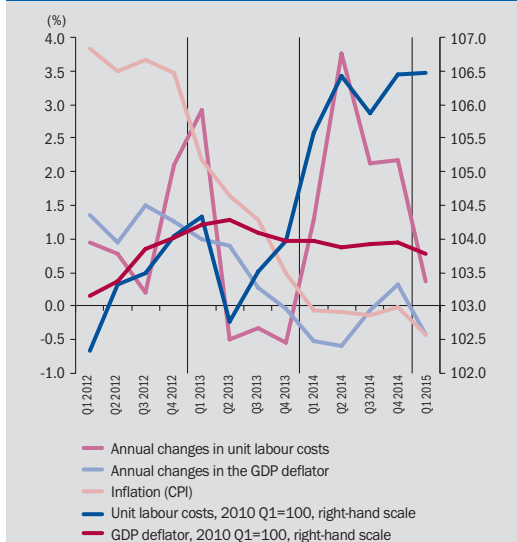
Note: Wages are based on data from the statistical reports of SO SR. Nominal labour productivity is calculated from data on employment from the statistical reports of SO SR. Base indices are based on seasonally adjusted data.

### 3.2 EMPLOYMENT AND UNEMPLOYMENT

The favourable trend in employment, consisting in an increase in the number of employees and a decrease in the number of unemployed, continued in the first quarter, though at a slower pace than in the fourth quarter of last year, when developments were supported by the effects of mild weather, increased creation of job vacancies in business activities, and by the strong effect of the government's support measures. This trend changed somewhat in the first quarter. Employment grew by 0.2% quarter-on-quarter, representing a slowdown of 0.4 percentage point compared with the previous quarter. Employment growth at a pace of roughly 0.3 to 0.4% can be regarded as adequate on the basis of the current rate of economic growth in Slovakia. The annual rate of employment growth also slowed, from 2.1% to 1.8%.

The categories of employees and self-employed persons contributed roughly equally to the rise in employment. Both categories recorded an increase of about 2,000 persons, after seasonal adjustment. In the category of self-employed persons, the number of economically active persons has stabilised over the last two years, after decreasing since the beginning of 2009. In the post-crisis period, the number of employees increased more rapidly than overall employment, which can be explained by the shift of sole proprietors to permanent employment. This trend has gradually come to a halt over the last two quarters. The annual change in the number of employees, however, still exceeds the change in the number of sole proprietors (+2.5%, compared with -2.1%).

Chart 27 Labour costs and price developments

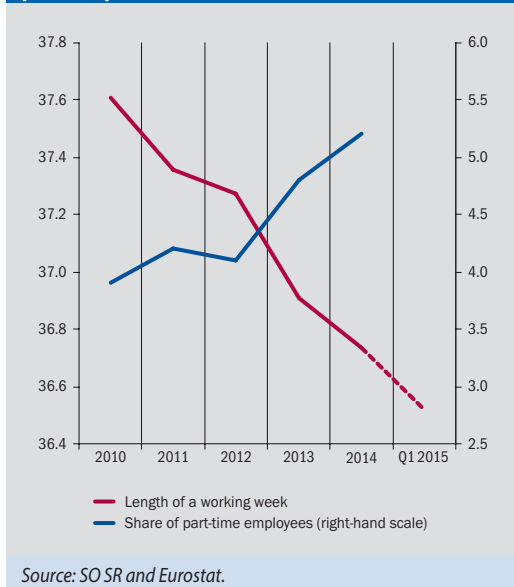


Source: SO SR and NBS calculations.

Note: Unit labour costs are calculated as nominal compensation per employee divided by real labour productivity as defined in the ESA 2010 methodology. Base indices are based on seasonally adjusted data.

The first quarter saw uneven developments across the sectors compared with the previous quarter when 23,000 job vacancies were created in services (mainly in professional and administrative services) while 18,500 job positions ceased to exist in the rest of the economy. One of the main factors behind these developments is temporary employment through employment agencies, which is recorded as stand-

**Chart 28 Increase in the share of part-time employees (%) and its effect on the length of a working week (hours worked per person per week)**



ard employment in administrative and support services. Further subsectors of these services, which recorded marked increases, were advisory activities, architectural and engineering activities, other administrative activities, security services, maintenance of equipment, and landscape architecture. According to the latest business surveys, however, the majority of sectors have the potential to increase the level of employment.

The number of hours worked decreased by 0.1% quarter-on-quarter, after increasing in the previous quarter by 0.25%. The number of hours worked was positively influenced by developments in the financial sector, real estate activities, and in professional and administrative services. The opposite effect was exerted by construction (owing to the mild weather in last year's fourth quarter, which, however, changed

in the first quarter of this year) and by business activities. In year-on-year terms, the number of hours worked increased by 0.5%, representing a slowdown of 0.85 percentage point compared with the previous quarter. The average length of a working week decreased by 0.3% quarter-on-quarter, to 36.5 hours. This was mainly due to developments in professional and administrative services, where employment increased more significantly than the number of hours worked (by 10.2%, compared with 7.8%). The length of a working week shows a decreasing tendency in the long term, probably as a result of an increase in the share of part-time employees. This is a favourable trend in terms of labour market flexibility and labour force participation.

According to the Labour Force Survey (LFS), the seasonally adjusted number of unemployed decreased quarter-on-quarter by 9,500 (2.8%), which was less than the figure recorded at the end of last year. The total number of unemployed reached 339,000 in the period under review. The number of economically active persons decreased somewhat, after a massive increase last year. The decrease in the number of persons in productive age is expected to be reflected more strongly in the economy, though its effect may be diminished by the rising labour force participation rate. The decrease in the number of unemployed, coupled with the absence of fluctuation in the number of economically active persons, led to a fall in the seasonally adjusted unemployment rate in the first quarter, by 0.34 percentage point to 12.1%. The data of the Central Office of Labour, Social Affairs and Family (ÚPSVR) point to similar developments: the unemployment rate calculated from the total number of job applicants fell by 0.33 percentage point (9,200 persons), compared with a decline of 0.37 percentage point in the previous quarter. The average rate of registered unemployment reached 12.0% in the first quarter, representing a year-on-year fall of 1.2 percentage points.

## 4 PRICE DEVELOPMENTS

Price levels fell by 0.5% year-on-year in the first quarter of 2015. As regards the structure of inflation, the first quarter saw a 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 continued to reflect the effect of the sharp fall in oil prices at the turn of 2014/2015.

In the first quarter of 2015, the year-on-year price decline deepened in comparison with all four quarters of 2014. This was due mainly to external factors, which led to an acceleration in the year-on-year decline in energy and food prices. A significant factor behind the low-inflation environment was a slowdown in the monthly rate of increase in services prices to an all-time low in January. A steeper year-on-year increase was only recorded in the prices of non-energy industrial goods.

The year-on-year decline in fuel prices accelerated in comparison with the previous quarter. The sharp fall in Brent oil prices at the turn of 2014/2015 was directly reflected in the prices of oil derivatives and subsequently in the consumer prices of petrol and Diesel oil. Unprocessed food prices continued to fall and thus contributed to the historically sharpest year-on-year price decline in Slovakia. The weakening dynamics of services prices resulted from the slow price increase in January. Despite the rising real wages in the economy and rising nominal wages in the services sector, the prices of services were prob-

ably influenced by the secondary effects of low energy prices, food prices, and the unutilised capacities of service providers. The continuing slow year-on-year rise in services prices is also influenced by the administrative abolition of rail fares for certain groups of people from the end of 2014. This measure is expected to contribute to the dynamics of services prices until the end of 2015. A steeper year-on-year rise was recorded in non-energy industrial goods prices, which reflected the gradual acceleration in prices for goods imported from euro area countries and the depreciation of the euro.

Chart 29 Annual headline inflation by component (percentage points)

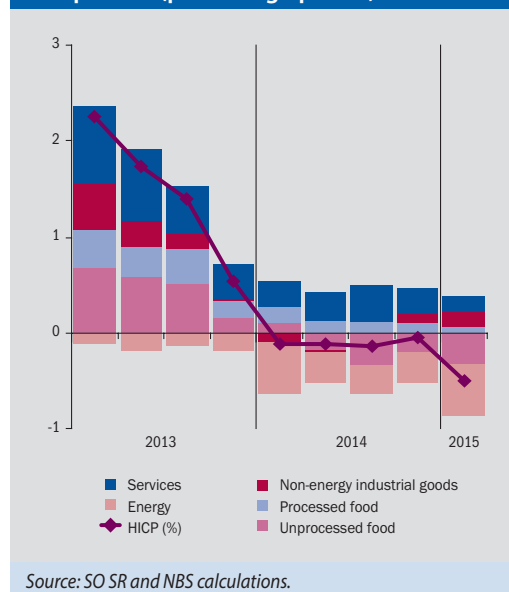


Table 4 HICP inflation by component (annual percentage changes)

	2014					2015
	Q1	Q2	Q3	Q4	Year	Q1
HICP inflation	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Unprocessed food	1.3	-2.3	-4.3	-2.7	-2.0	-3.8
Processed food	1.0	0.7	0.6	0.6	0.7	0.3
Non-energy industrial goods	-0.3	-0.1	0.0	0.3	0.0	0.6
Energy	-3.3	-1.9	-1.8	-1.9	-2.2	-3.5
Services	0.9	1.0	1.3	0.9	1.0	0.5

Source: SO SR and NBS calculations.



**Chart 30 Annual percentage changes in inflation by component**

