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EUROSYSTEM



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Národná banka Slovenska
Imricha Karvaša 1, 813 25 Bratislava
Slovakia

Contact:
+421/2/5787 2146

<http://www.nbs.sk>

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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 third quarter of 2015, by 3.7% year-on-year. This growth was, as in the previous quarter, driven by domestic demand, in particular by investment. Massive investments were made by the general government, which intensified the drawdown of EU funding in the final stage of the programme period and continued to finance large infrastructural projects. Private consumption continued to grow in the quarter under review, owing to the favourable labour market conditions and the low-inflation environment.

The orientation of investors and consumers towards the domestic economy generated profits

in trade and services, stimulated demand for loans in the corporate sector, and boosted employment growth. The number of employees increased, while that of unemployed persons decreased. Accelerated wage growth was recorded in the private sector, especially in construction.

The stronger domestic demand did not generate inflationary impulses; consumer prices were prevented from going up by the relatively low imported inflation and the falling energy commodity prices. As a result of the persistent decline in energy commodity prices, the rate of change in price levels was negative for the seventh consecutive quarter.

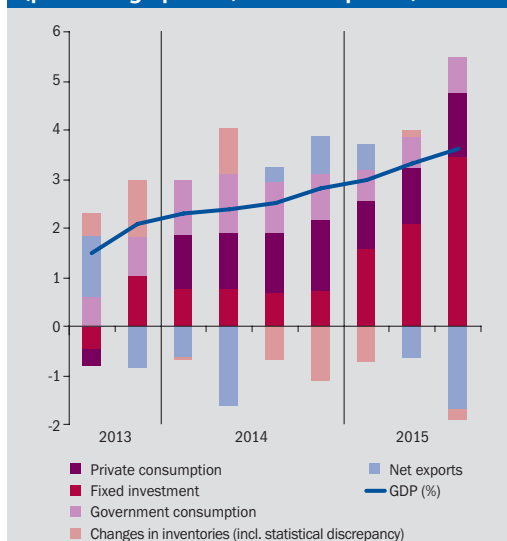


2 GROSS DOMESTIC PRODUCT

The Slovak economy continued to expand in the third quarter of 2015, for the fourth consecutive quarter, with GDP growing by 0.9% quarter-on-quarter. The annual growth rate accelerated from 3.4% in the second quarter to 3.7% in the third quarter, representing the fastest growth in the last five years. This growth was driven by the domestic economy, which benefited from the increased drawdown of resources from EU funds at the end of the second programme period.

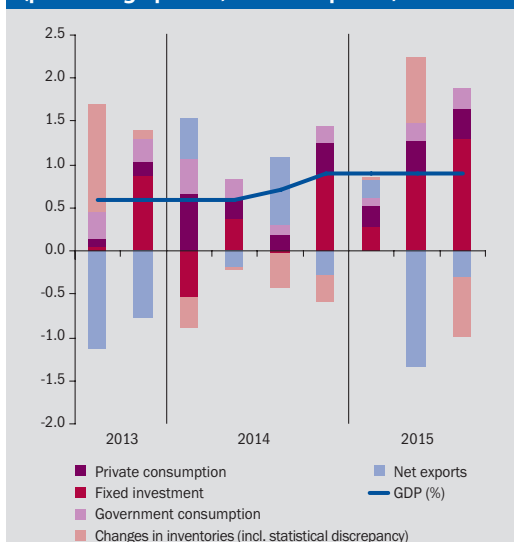
The capital transfers from EU funds were used mostly to finance public investments, especially infrastructural projects. Public investments, including projects financed from EU funds, increased by 30% quarter-on-quarter in the

Chart 2 Annual GDP growth by component (percentage points; constant prices)



Sources: SO SR and NBS calculations.

Chart 1 Quarterly GDP growth by component (percentage points; constant prices)



Sources: SO SR and NBS calculations.

quarter under review and thus stimulated value added growth in construction, as well as GDP growth, and generated demand for imported investment goods. EU funding was also provided for selected private investments, mainly in science and technology, and in accommodation and catering services (i.e. for the reconstruction of accommodation facilities / expansion of supplementary services, partially from imports). The drawdown of EU funding also supported public spending through increased intermediate consumption, i.e. expenditure on the acquisition of goods and services needed for operating activities. Since these goods and services came almost exclusively from domestic sources, the transfers from EU funds supported the domestic economy in this segment.

Since the beginning of 2015, EU funding alone (without resources of project implementers) has generated approximately one-third of the annual GDP growth (excluding the increased demand for imports). This, however, does not mean that, without EU funding, GDP would be lower by one-third of its current volume, because EU funding was probably used for investments and public expenditures that would otherwise be financed from own resources or from loans.

Chart 3 Estimated impact of EU funds on GDP growth (contributions to annual growth in percentage points; constant prices, seasonally adjusted)

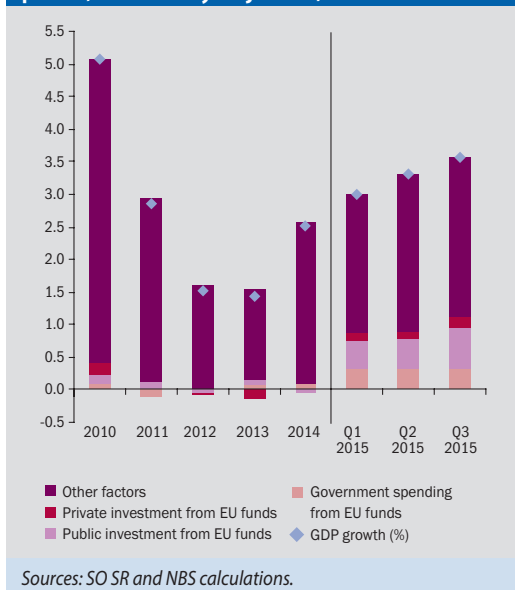
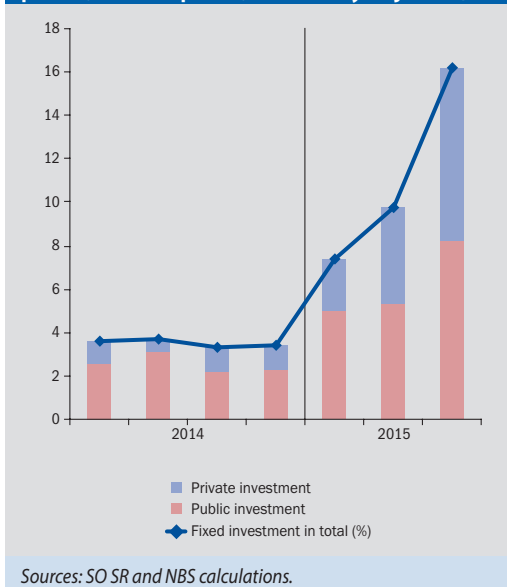
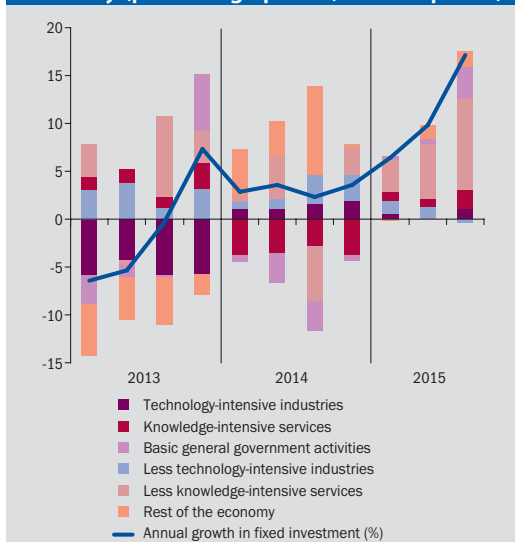


Chart 4 Annual growth in fixed investment by contributions of selected sectors (percentage points; current prices, seasonally adjusted)



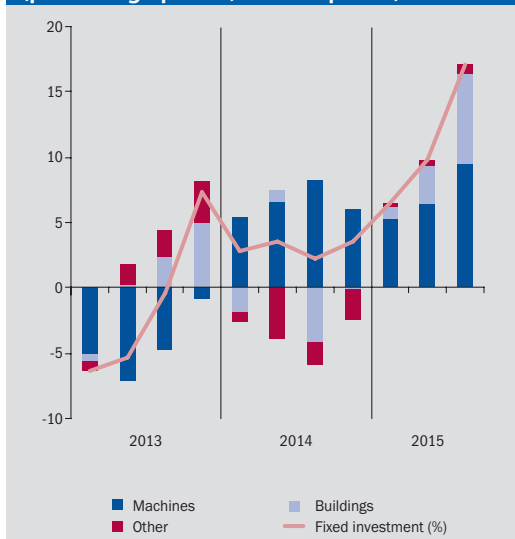
A breakdown of investments by technology intensity and knowledge intensity shows that most investments were made in less knowledge-intensive sectors, such as motorway construction and accommodation & catering services. Among the more technology-intensive sectors, the automotive industry and machinery & equipment manufacturing contributed most significantly to the growth in investment. A positive trend this year is that investment activity has increased in all segments, irrespective of their technology intensity and assets (investment in machines as well as in construction).

Chart 5 Annual growth in fixed investment by contributions of selected sectors broken down by technology and knowledge intensity (percentage points; current prices)



Sources: SO SR and NBS calculations.

Chart 6 Annual growth in fixed investment by contributions of selected types of assets (percentage points; current prices)

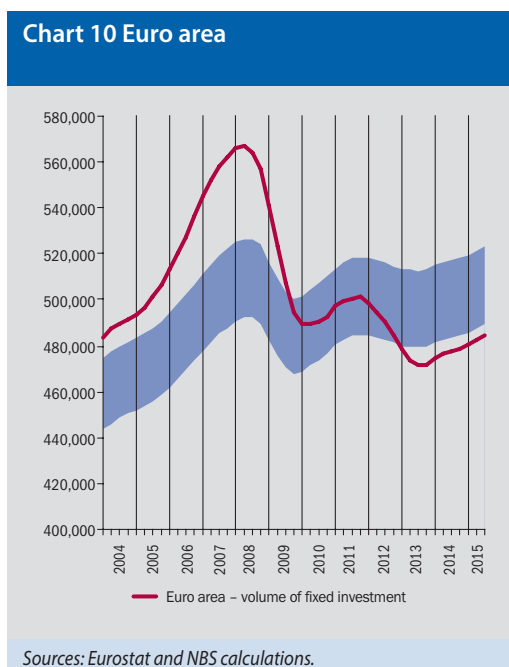
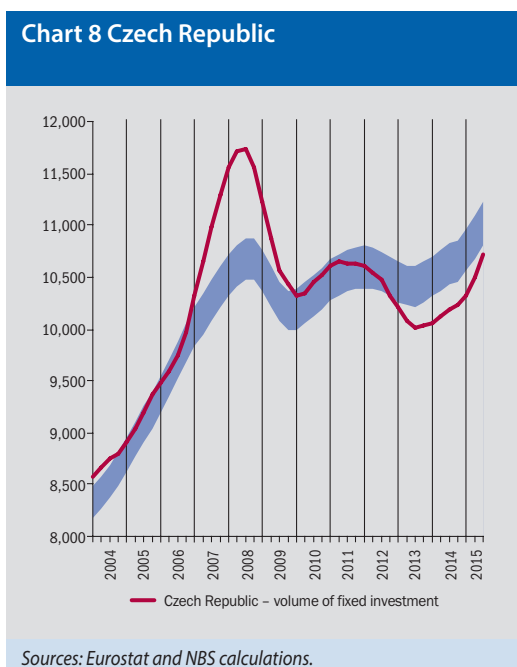
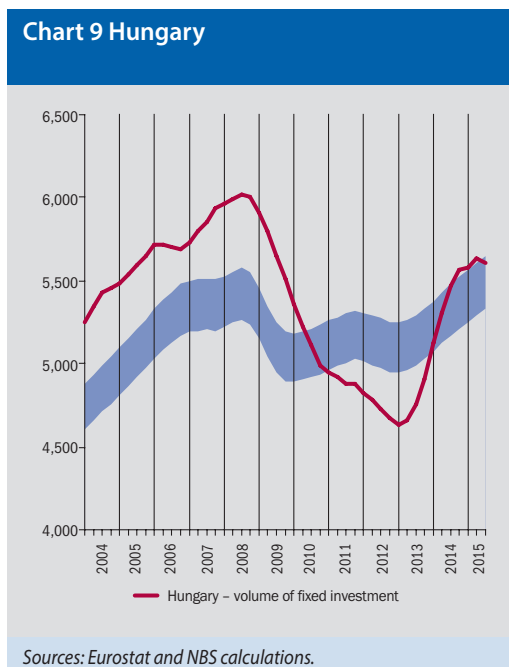
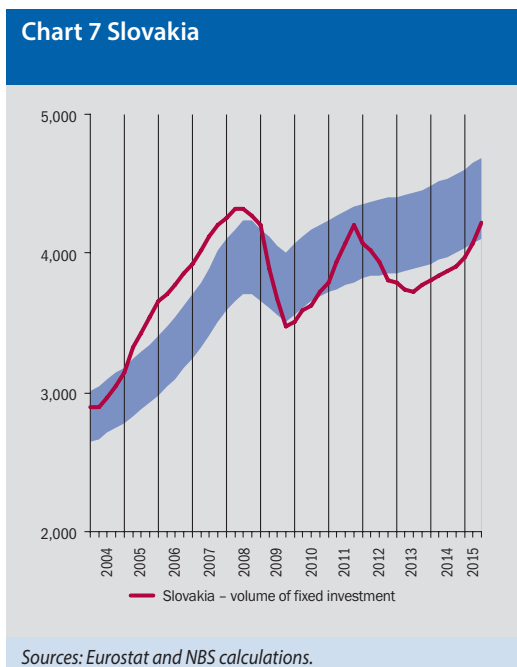


Sources: SO SR and NBS calculations.

Fixed investment grew in the third quarter by 5.7% quarter-on-quarter (compared with 4.1% in the second quarter), representing the strongest growth since the second quarter of 2011. Thus, for the first time, the volume of fixed investment exceeded its pre-crisis level (the quarterly average for 2008) by more than 5% and returned to the zone of sustainable investment. Sustainable investment means such a volume of investment that can be expected on the basis of historical records in relation to GDP. The upper limit of sustainable investment is given by the long-term ratio of investment to GDP (25%) and its lower limit is given by the post-crisis value of the same ratio (22%). Investment in Slovakia, as in the euro area, has been below the lower limit of sustainable investment since the beginning of 2013. The situation in Slovakia has improved this year, owing to the possibility of drawing EU funds from the second programme period (2007–13) until the end of the year (the same possibility has been opened up for the Czech Republic). This was also supported to some extent by a revival in the corporate loan market. Although the revival in bank lending was probably dampened by increased demand for EU funding, the growing volume of loans provided has contributed to the restructuring of old debts and created conditions for the implementation of certain investment projects.



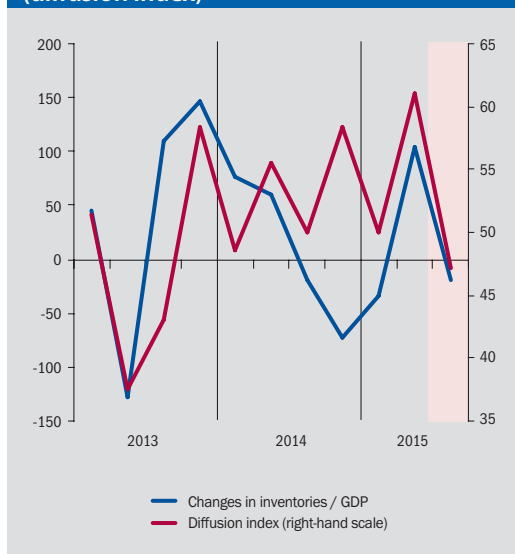
**Investment and its sustainable trend (average volume for four quarters in EUR millions;
constant prices)**



According to the industrial producers' assessments expressed in the diffusion index, the volume of inventories in the Slovak economy has decreased in real terms. The inventories accumulated in the previous period have been absorbed

by the increased domestic and foreign demand. Within the scope of domestic demand, both investment and consumption have increased. As in the second quarter, both public and private consumption increased in the third quarter, by 1.2% and 0.7% quarter-on-quarter, respectively. Public consumption has exceeded private consumption since the end of 2012, owing partly to the drawdown of EU funds.

Chart 11 Change in inventories in the economy (EUR millions; constant prices) and inventories as assessed by producers (diffusion index)

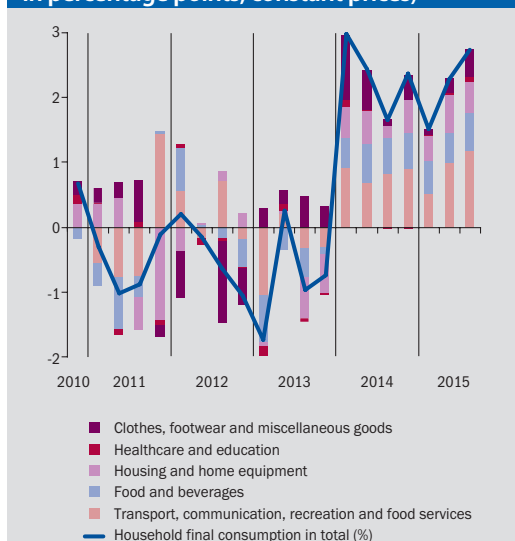


Sources: SO SR and NBS calculations.

Note: The diffusion index expresses the common tendencies of a group of selected confidence indicators. If more indicators are rising than falling within the group, the index is higher than 50; in the opposite case, the index is below 50.

The fundamentals of stable growth in private consumption during the third quarter were the growing disposable household income and the low inflation. The household sector benefited from the favourable labour market developments (growth in both employment and average wages), as well as from the external shock caused by the persistent decline in oil prices. The nominal volume of gross wages in the third quarter (increased by 5.4% year-on-year) created the best conditions for private consumption growth in the last 4.5 years. Owing to the growing amount of taxes and social contributions paid, however, the higher than expected wage growth was not fully transformed into disposable income growth, which accelerated by only 2.6%.

Chart 12 Structure of household consumption (contributions to annual growth in percentage points; constant prices)



Sources: SO SR and NBS calculations.

The growth in consumption resulted from the propensity of households to use the overall annual increase in their disposable income for consumption. Households ceased to increase their savings, as their confidence had probably been strengthened by the favourable labour market developments. The ratio of savings to gross disposable income, adjusted for changes in the pension funds, dropped to 9.7% in the third quarter (from 10% in the second quarter and 10.1% in the same period a year earlier). The savings ratio was probably prevented from falling more significantly by the rapidly growing credit burden of households and by the retaining of part of their disposable income for loan repayment.

Part of the disposable household income was absorbed by tax and contribution payments, but was subsequently compensated for by the lower energy prices. The decline in oil prices and the resulting fall in energy prices (for fuel, electricity, heating and, in the third quarter, for natural gas) contributed 0.6 percentage point¹ to the non-seasonally adjusted annual growth rate of real disposable household income (to 2.6%) and household consumption (to 2.7%). In the third

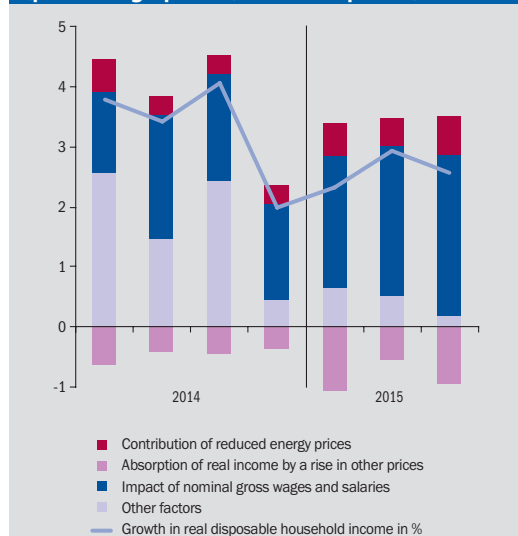
¹ The contribution of falling energy prices to household real disposable income growth expresses the increase in income that households could save as a result of the decline in their spending on energy. Further details are available in the Report on the Slovak Economy (March 2015), available on NBS's website at: http://www.nbs.sk/_img/Documents/_Publikacie/SESr/protected/SESr_0315.pdf

quarter, the purchasing power of households was boosted by the lower energy prices more significantly than ever before in the post-crisis period.

This was beneficial to both consumption and the domestic economy, since it helped boost pro-

ceeds from the sale and repair of cars, accommodation and catering services. The retail sales of goods did not cover the whole range of growing consumption, owing probably to the growing interest of consumers in services. The structure of consumption pointed to an increasing trend in

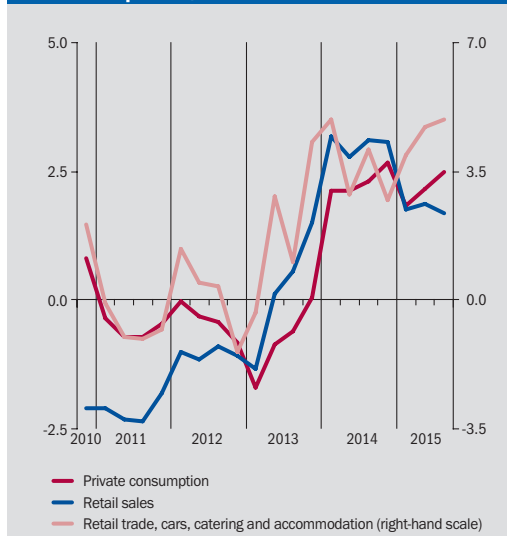
Chart 13 Impact of price and wage factors on disposable household income (percentage points; constant prices)



Sources: SO SR and NBS calculations.

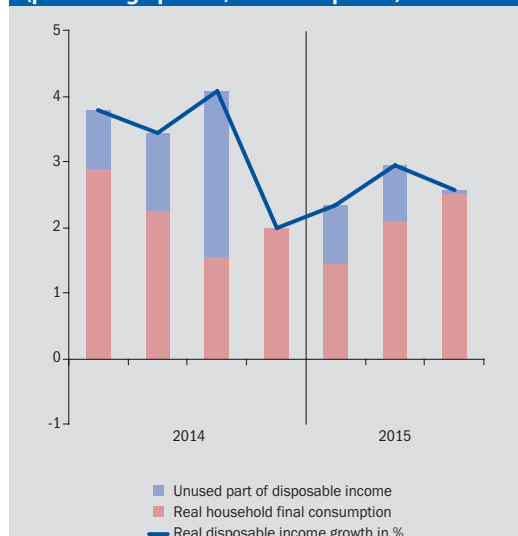
Note: Gross wages are partly absorbed by tax and social contribution payments, which explains the diminishing impact of 'other factors' in the chart.

Chart 15 Household consumption and selected sales (annual growth in %; constant prices)



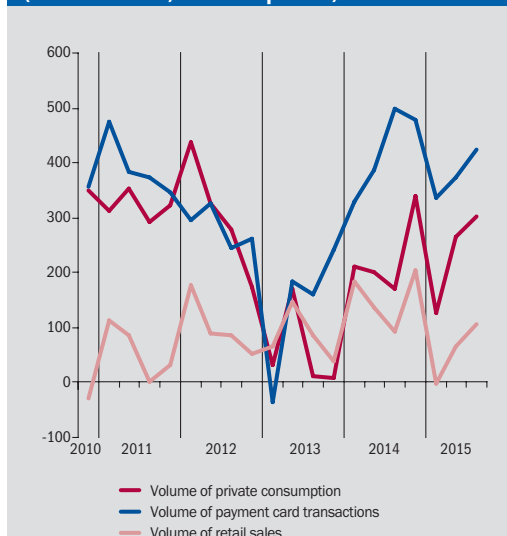
Sources: SO SR and NBS calculations.

Chart 14 Structure of annual increases in disposable households income (percentage points; constant prices)



Sources: SO SR and NBS calculations.

Chart 16 Absolute annual increase in consumption, sales and payments (EUR millions; current prices)



Sources: SO SR and NBS calculations.

spending on transport, communication, recreation, catering and accommodation services. Payment card transactions indicated growth in the volume of payments above the level of growth in consumer spending, owing probably to use of payment cards for intermediate consumption and for capital spending. It should, however, be noted that payment card transactions and household consumption followed the same trend in volume terms.

As in the previous quarter, domestic demand remained the main driver of economic growth in the third quarter. The prices of services and non-energy industrial goods did not push the already high demand even higher, because import prices had a dampening effect. The orientation of consumers and investors towards the domestic economy, however, stimulated employment growth in the private sector as well as in construction, profit growth in trade and services, and interest in loans among firms (including small

Chart 18 Annual GDP growth by contributions of selected sectors (percentage points; constant prices)

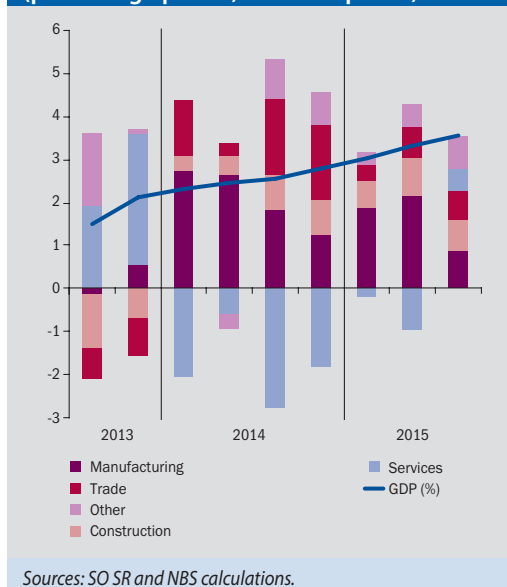
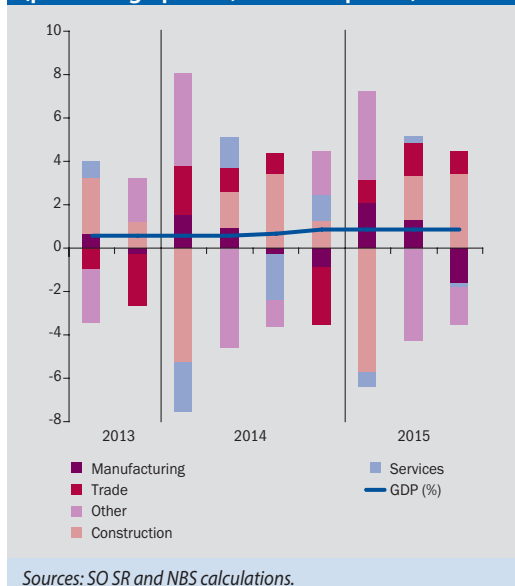


Chart 17 Quarterly GDP growth by contributions of selected sectors (percentage points; constant prices)

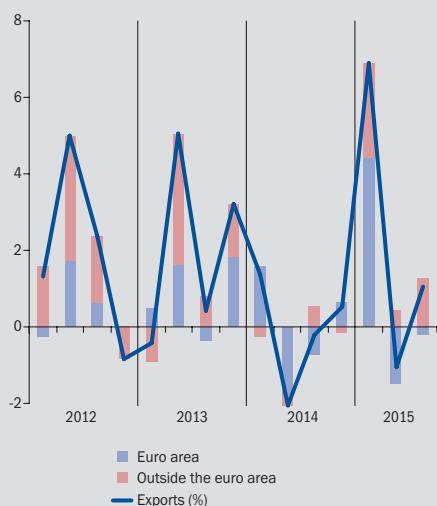


and medium-sized enterprises with a targeted clientele in the domestic market).

A sectoral breakdown indicates that the domestic economy strengthened in the quarter under review. Value added creation improved mainly in construction and trade, and, for the first time after six quarters, services also contributed to economic growth in year-on-year terms (information, financial, real estate, professional, technical and recreational services, and support services activities, excluding the public sector).

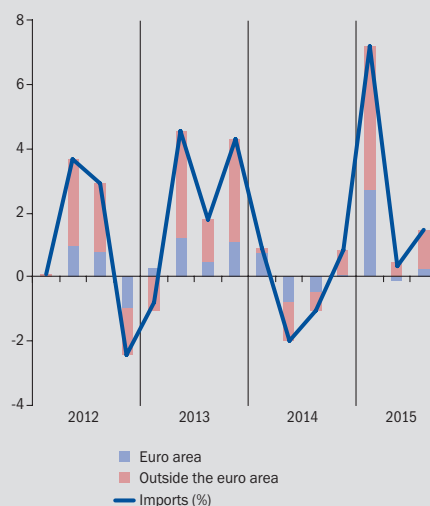
Exports increased in the third quarter by 1.1% quarter-on-quarter, compensating for the loss from the previous quarter (-1.1%). Imports increased, owing to the high import intensity of domestic demand, by 1.4% quarter-on-quarter (compared with 0.3% in the previous quarter). Net exports contributed negatively to the quarterly and annual growth rates of the economy, for the second quarter.

Chart 19 Structure of exports according to the ESA 10 methodology (contributions to annual changes in percentage points; constant prices)



Sources: SO SR and NBS calculations.

Chart 20 Structure of imports according to the ESA 10 methodology (contributions to annual changes in percentage points; constant prices)



Sources: SO SR and NBS calculations.

Box 1

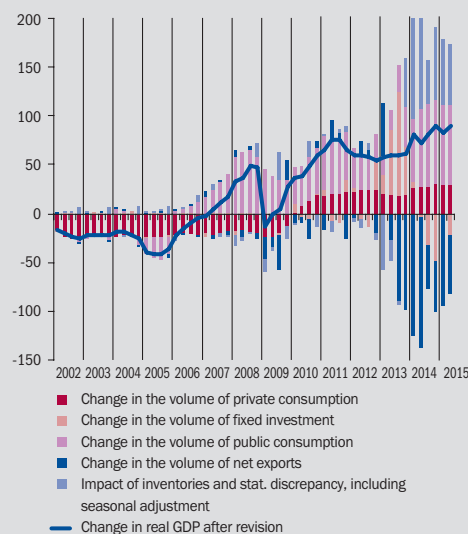
REVISIONS TO THE NATIONAL ACCOUNTS

The annual and quarterly data in the national accounts (time series since 1997) have been revised in accordance with the Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013. The data for 2014 have been left unchanged (classified as 'preliminary'). The revisions comprise:

- **common** revisions to data for 2010–14;
- changes in the **sources and methodologies**: revisions to *Balance of Payments* data for 2009–14 according to the BPM6 methodology;
- **sectoral reclassification** according with the ESA 2010 methodology in the entire time series;
- revisions made on the basis of **reservations** in the time series from 2002.

The volume of GDP in 1997–2001 remained virtually unchanged (after revision). The volume changes in the individual quarters ranged from -0.02% to +0.02% of real GDP with a slight deviation in the last quarter of 2001 (-0.05%), when private consumption

Chart A Changes in the revised volumes compared with the original volumes at constant prices, after seasonal adjustment (EUR millions)



Sources: SO SR and NBS calculations.

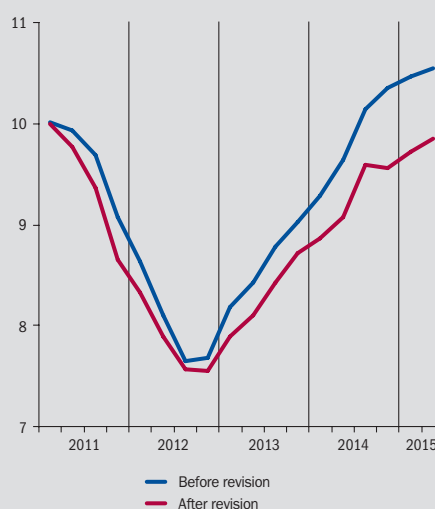
started to decline. The downward revision in private consumption in 2002–06 led to a fall in the volume of GDP (after revision). Starting from 2007, the volume of HDP increased (after revision), mainly as a result of a sector reclassification, coupled, from the beginning of 2010, with a growing trend in private consumption (revised within the scope of reservations) and, from the fourth quarter of 2012, with a growing trend in investment and inventories (common revisions).

Household consumption was revised on the basis of two conflicting reservations: the exclusion of unoccupied flats from imputed rents led to lower consumption, while changes in financial intermediation services indirectly measured (FISIM) had an opposite impact. As a result, consumption decreased in 2002–09 and rose from 2010. Spending on food, alcohol and tobacco decreased in 2014, as well as spending on recreation and culture, but FISIM output was so significant that the steepest increase in the time series was recorded in the level of household final consumption for 2014. As a result, the date on which the pre-crisis level was exceeded changed from the beginning of 2015 to the end of 2014.

Despite having been reflected in the **lower savings ratio since 2011**, the increased volume of consumption was not the only factor in the downward revision in the savings ratio; another factor was the reduced volume of gross disposable income (GDI). GDI decreased in the 'mixed income' component, from which the surpluses of imputed rents were deducted after the exclusion of unoccupied flats. Income from property owned abroad was added to GDI, but this addition did not compensate for the reduced surplus of imputed rents. A reservation was implemented concerning income from property owned abroad, which required that any important income from property owned by residents abroad or by non-residents in Slovakia be recorded in the national accounts. This primarily applied to reinvested earnings from direct foreign investments, interest yields and dividends from collective investments (revised in cooperation with NBS) and to real properties owned outside the home country. Within

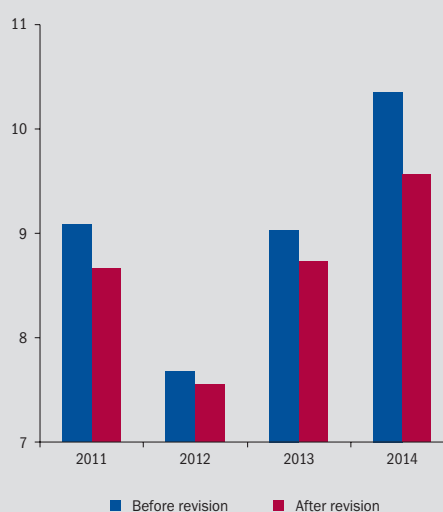
the scope of GDI, the remuneration of employees in Slovakia and abroad is to be specified precisely in the year-end revisions, because the quarterly data are rather inaccurate. The remuneration paid to employees in 2014 has been reduced by 1.5% of the original amount. This has increased its negative impact on GDI still further.

Chart B Quarterly savings ratio in the household sector (% , current prices; 4-quarter moving average)



Sources: SO SR and NBS calculations.

Chart C Annual savings ratio in the household sector (% , current prices)



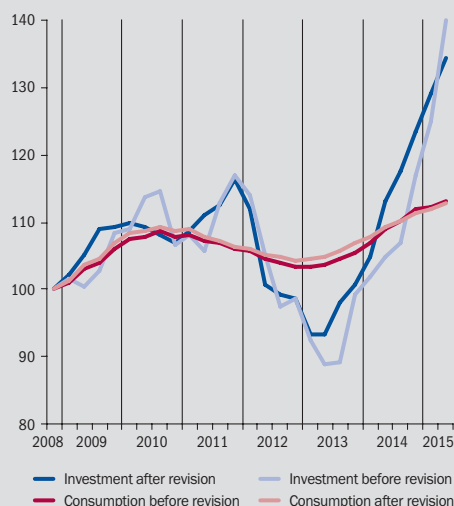
Sources: SO SR and NBS calculations.

The volume of public spending has been on the increase, owing to the inclusion of hospitals, budgetary organisations and Eximbanka in the public sector. According to the consumption method, public spending increased to the detriment of spending by non-profit institutions. According to the output method, the relocation of certain entities from the business or non-profit sector to the public sector has led to an increase in the volume of GDP, because their operating loss or low operating surplus is no longer included in the output (the output valued at costs is included instead). This is deemed to be a financial expression of their potential contribution to value added creation in the economy. Last year, the National Motorway Corporation and the Slovak Railways were reclassified as part of another sector.

The volume of fixed investment has changed a lot as a result of common revisions. A one-off increase in investment at the end of 2012 was caused by the reclassification of proceeds from the sale of emission quotas (implementation of the *Debt and Deficit Manual for the Public Sector*) from 'inventories' to 'fixed investments.' This contributed somewhat to the growth in public spending through increased fixed capital consumption in the following year. A substantial part (2/3) of the increase in investment in 2013 was generated by updated data from administrative sources, and a smaller part (1/3) by data from the annual statistical reports of firms. In 2014, investments were revised downwards, or were verified in the firms concerned. Also revised was the volume of investment in the household sector, which had been growing since 2013. As a result, the previous inconsistency between the weakening investment activity and growing bank lending for housing purposes has been corrected to some extent.

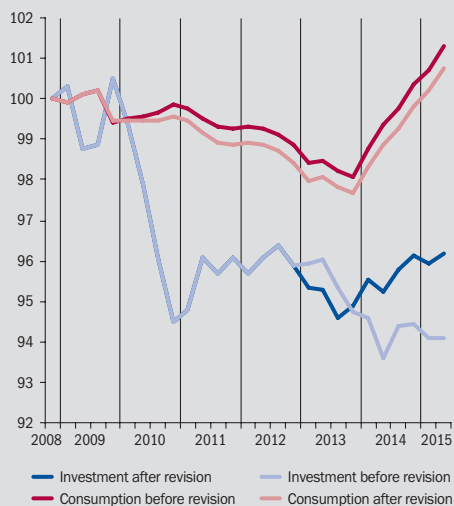
The structure of fixed investments has changed in connection with the reclassification of entities as part of the public sector. Until 2004, investments had been reclassified from the financial institutions sector (Eximbanka) to the public sector. After 2005, certain business entities were also included in the public sector. One of the reservations that was accepted but not implemented (due to its negligible effect

Chart D The general government sector (2008=100, constant prices; 4-quarter moving average)



Sources: SO SR and NBS calculations.

Chart E The household sector (2008=100, constant prices; 4-quarter moving average)



Sources: SO SR and NBS calculations.

on GDP) was the structure of fixed capital in the public sector.²

The annual profile of investments remained virtually unchanged after the quarterly revisions. Investment continued to be concentrated in the last quarter of the current year (in the fourth quarter of 2014, for example, invest-

² The reservation requires that public sector buildings are classified into residential buildings, non-residential buildings and public infrastructures, and that roads are separated from other infrastructural investments. Although the changed structure of investments of the same volume does not affect GDP, the calculation of fixed capital consumption according to other categorisation may have a modest effect on GDP. According to preliminary data, however, fixed capital consumption of the required structure is below the threshold of significance and is therefore not included in this year's revision plan, but may be the subject of the next revision.

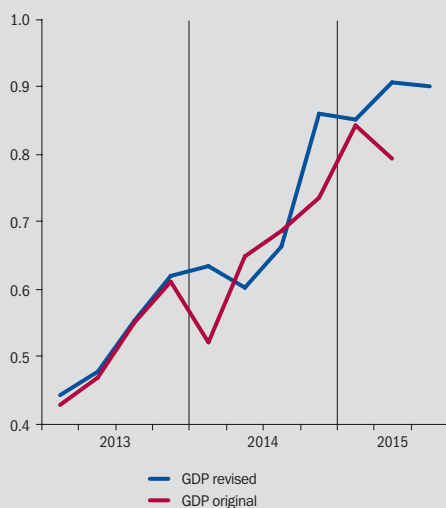
ment before revision accounted for 30.9% of its annual nominal volume, then it decreased to 30.3% after revision).

The volume of net exports was substantially reduced in 2008 by a common revision, including a change of source and methodology,

and has remained low since that time with the strongest negative impact in 2014. Data from the balance of payments compiled by Národná banka Slovenska according to the new methodology (BPM6) were also taken into account and the transactions of non-residents registered in Slovakia for VAT purposes were revised, too.

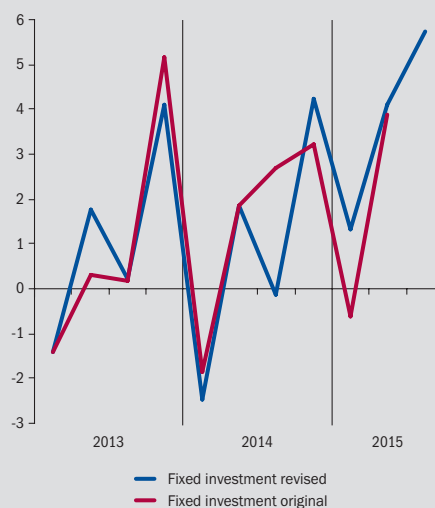
**Quarterly changes in GDP and its components before and after revision
(%, constant prices; seasonally adjusted)**

Chart F GDP



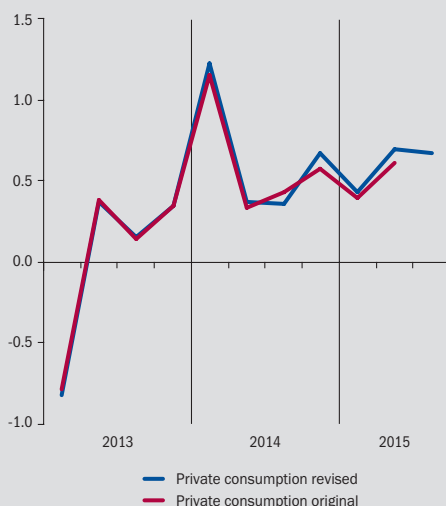
Sources: SO SR and NBS calculations.

Chart H Fixed investment



Sources: SO SR and NBS calculations.

Chart G Private consumption



Sources: SO SR and NBS calculations.

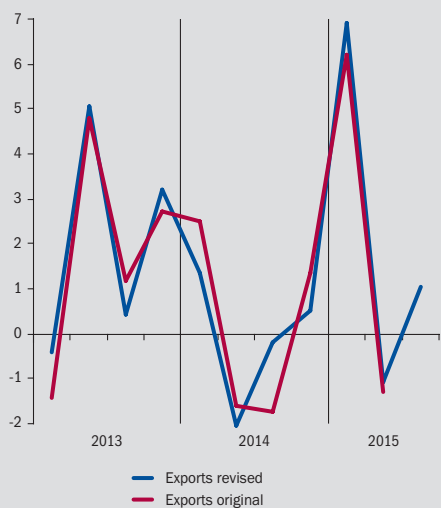
Chart I Public spending



Sources: SO SR and NBS calculations.

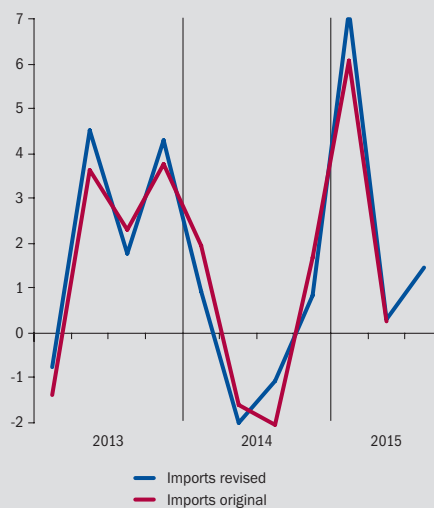


Chart J Exports



Sources: SO SR and NBS calculations.

Chart K Imports



Sources: SO SR and NBS calculations.

3 THE LABOUR MARKET

3.1 WAGES AND LABOUR PRODUCTIVITY

Employment continued to grow in the third quarter. It was boosted by economic growth and demand for labour stimulated by the post-crisis recovery. This trend was also reflected in the growing number of hours worked and the gradually increasing length of a working week. The number of employees continued to increase, while that of self-employed persons decreased. The average wage in the economy grew at an accelerated pace, especially in the private sector. This can be attributed to the continuing economic growth and revival on the demand side of the labour market.

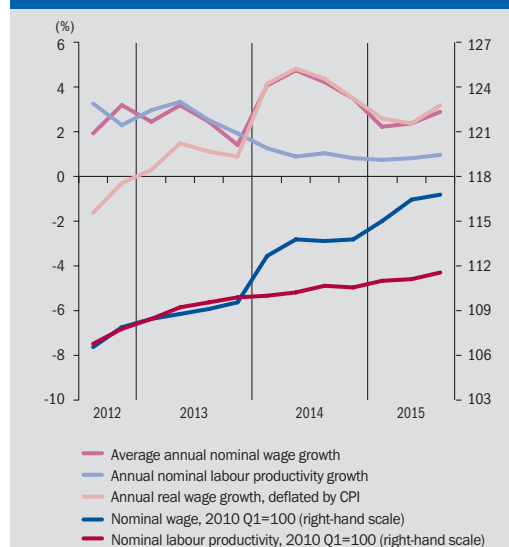
The average annual rate of wage growth accelerated in the third quarter to 2.9%, from 2.3% in the second quarter. This acceleration took place in the private sector (from 2.1% to 2.8%). Wage growth in the public sector slowed somewhat, from 3.3% to 3.1%. The accelerated average wage growth was a result of strong economic growth coupled with growing demand for labour. Wage costs this year have been more evenly distributed over time than they were last year (when a marked increase in the first quarter was followed by a relatively sharp slowdown). The increase in wage rates in the public sector with effect from 1 July 2015 has not yet been reflected in the annual wage growth, owing to the dampening effect of irregular wage components. By contrast, wage growth in health services has accelerated somewhat (under the influence of regular wage components, except for premiums), mainly as a result of an increase in the salaries of doctors in the second half of 2015.

Wage growth in the private sector has accelerated in construction (from 2.9% to 5.7%) and, to a lesser extent, in manufacturing (from 1.9% to 3.5%) and in services and trade (from 1% to 1.9%). In construction, wages represent the main channel through which households benefit from the sector's recovery.

Compensation per employee, like wages, grew at an accelerating pace (from 1.5 % to 2.1%).

The slower growth in compensation than in wages can partly be explained by the relief on social contributions for low-income employees. Despite a downward revision this year, this relief still represents a factor that adversely affects the profitability of firms. Wages are currently growing at a faster pace than nominal labour productivity. One of the factors behind the robust wage growth is the attempt of trade unions to approach the level of wages in advanced economies. The other factors can be identified on the basis of a regression analysis using annual wage growth (as an explained variable) and inflation, nominal labour productivity, and the perceived shortage of employees (as explanatory variables) from economic trends surveys. In the period under review, the accelerated wage growth was mainly driven by the perceived shortage of employees (associated with the revival in demand for labour) and, in the last quarter, by the modest increase in labour productivity. An alternative indicator of productivity is profit per employee, which also shows some signs of revival.³

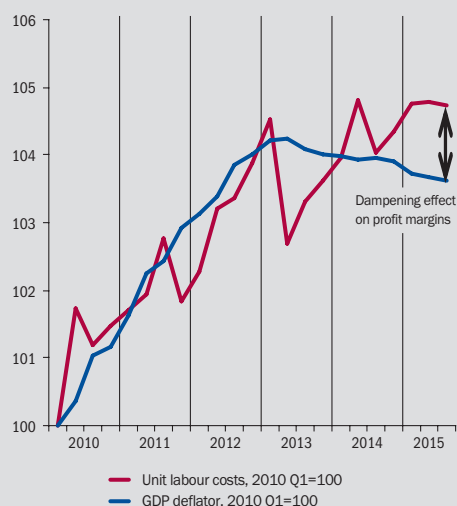
Chart 21 Wages and labour productivity



Sources: SO SR and NBS calculations.

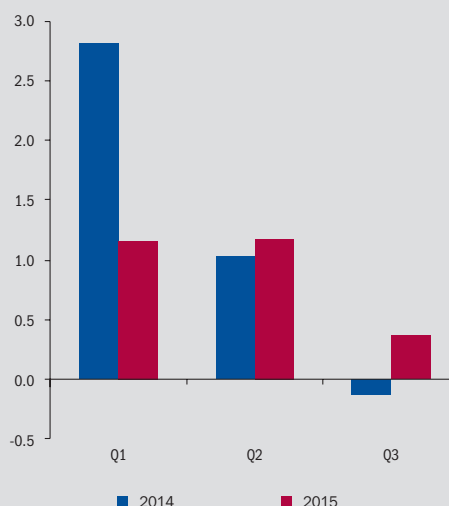
Note: Wages are from the statistical records of SO SR. Nominal labour productivity is calculated on the basis of employment from the statistical records of SO SR.

³ Profit per employee also represented a statistically important indicator in the alternative regression analysis (excluding labour productivity).

Chart 22 Labour costs and price developments


Sources: SO SR and NBS calculations.

Note: Unit labour costs are calculated as nominal compensation per employee divided by real labour productivity based on the ESA 2010 methodology.

Chart 23 Volatility of quarterly wage developments in 2014 and 2015


Sources: SO SR and NBS calculations.

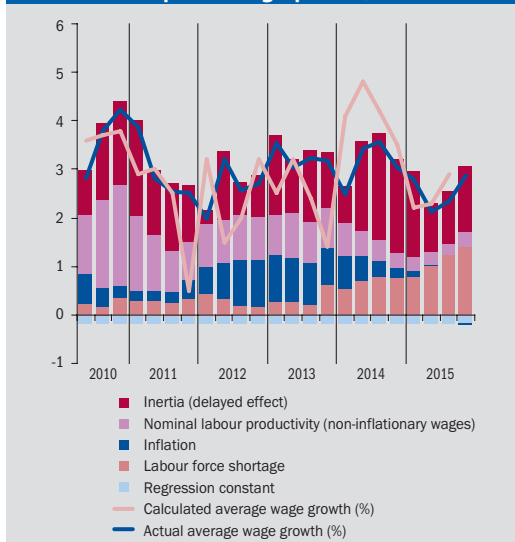
Table 1 Wages and labour productivity (annual percentage changes)

	2014					2015		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Average wage (headline)	4.1	4.8	4.2	3.5	4.1	2.2	2.3	2.9
CPI inflation	-0.1	-0.1	-0.1	0.0	-0.1	-0.4	-0.1	-0.3
Average real wage (headline)	4.1	4.8	4.4	3.5	4.2	2.6	2.4	3.2
Average wage (ESA 2010)	2.0	2.2	1.5	0.1	1.5	1.8	2.2	2.2
Compensation per employee (ESA 2010)	1.2	3.4	1.6	1.0	1.8	1.9	1.5	2.1
Labour productivity (non-inflationary wages), nominal	1.3	0.9	1.0	0.8	1.0	0.7	0.8	1.0
Labour productivity (non-inflationary wages), real	1.8	1.3	1.0	0.7	1.2	1.1	1.1	1.3
Labour productivity ESA 2010, nominal	1.3	0.6	1.0	0.8	0.9	0.8	1.0	1.2
Labour productivity ESA 2010, real	1.8	1.0	0.9	0.7	1.1	1.2	1.3	1.5

Source: SO SR and NBS calculations.

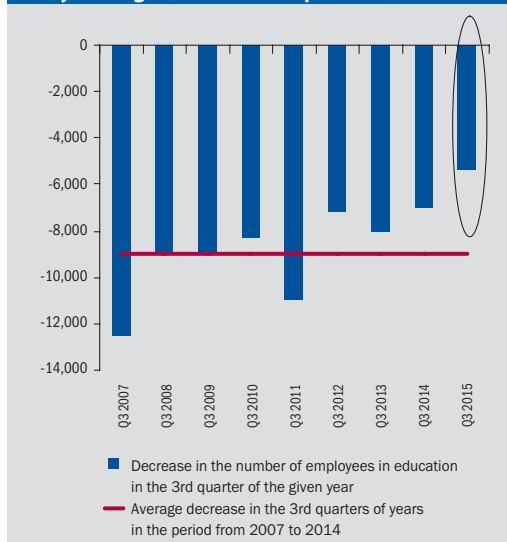
Note: Average wages (headline) are based on data from the statistical reports of SO SR. Average real wages are calculated on the basis of CPI inflation. Labour productivity (non-inflationary wages) is calculated as the ratio of real GDP to employment as defined in the methodology of statistical reporting (SO SR). Labour productivity ESA 2010 is calculated as the ratio of real GDP to employment according to the ESA 2010 methodology.

Chart 24 Factors determining the rate of wage growth (annual growth in % and contributions in percentage points)



Source: NBS calculations based on a regression analysis.
Note: Transformation of the variables applied: 4-quarter moving average of labour productivity growth; 4-quarter moving average of CPI inflation with a delay of three quarters. Shortage of employees according to the results of economic-trend research carried out by the European Commission; sectors weighted by employment figures.

Chart 25 Moderation of the typical summer decline in employment in education (quarterly changes, number of persons)



Sources: SO SR and NBS calculations.
Note: Based on employment data from statistical reports.

3.2 EMPLOYMENT AND UNEMPLOYMENT

Employment continued to grow in the third quarter at a pace of 0.4% quarter-on-quarter. In year-on-year terms, employment increased by 2.2%, representing approximately 48,000 persons. The quarterly rate of growth slowed in the third quarter, after accelerating in the second quarter under the influence of one-off effects.⁴ The increase in employment took place mostly in the private sector, specifically in manufacturing, construction and more moderately in services. In construction, this was the first quarter-on-quarter increase this year and the largest since 2010, which can be attributed to the sector's recovery. Although employment growth in services has moderated, the expectations of employers for the coming months are still positive. Employment in the public sector has contributed roughly 0.1 percentage point to the growth in employment. The number of employees increased in education, probably as a result of a legislative restriction imposed on the dismissal of teachers before the summer holidays. Employment is currently growing at a somewhat slower pace than before the crisis

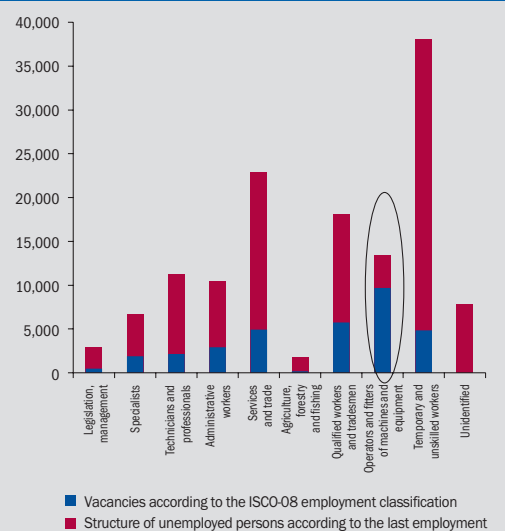
(it grew during 2005–08 by 2.3 % year-on-year and 0.6% quarter-on-quarter).

Employment rose in the third quarter exclusively in the segment of employees. Their number increased by 2.6% year-on-year (as in the second quarter). By contrast, the number of sole proprietors continued to fall (by 0.6%, i.e. 1,900 persons, year-on-year). The favourable trend in employment has a significant positive impact on household income and subsequently on domestic demand.

The increased demand for labour is reflected in the heightened perception of labour shortages among employers, confirmed by approximately 11% of the employers in the latest economic trends survey (compared with 12.4% before the crisis). According to the statistics of the Central Office of Labour, Social Affairs and Family (ÚPS-VR), the situation is getting relatively tense in the case of fitters and operators of machines and equipment. Employers having such vacancies are faced with a shortage of suitably qualified applicants. By contrast, the situation in trade, services and crafts is fairly favourable, and a rela-

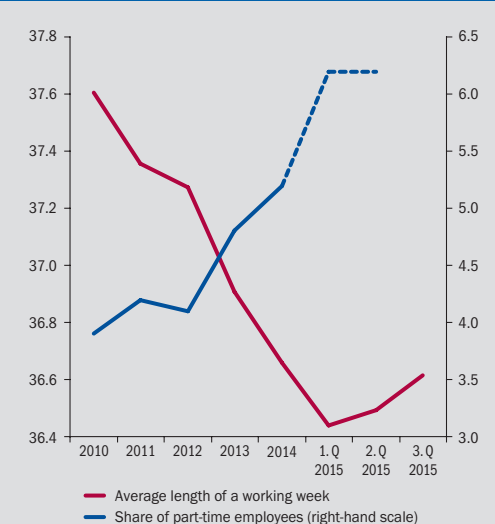
⁴ Described in the Report on the Slovak Economy, September 2015.

Chart 26 Comparison of the structure of vacancies and applicants according to the type of employment (persons; data for October 2015)



Source: Central Office of Labour, Social Affairs and Family.

Chart 27 Share of part-time employees and the average length of a working week (% , hours per person per week)



Sources: SO SR and Eurostat.

Note: The shorter working hours for the first and second quarters of 2015 were calculated in the same way as the average figure for the first half of the year.

tively large labour surplus is formed by unskilled and temporary workers. This contrast points to the importance of taking a proactive approach to tackling unemployment (requalification, training courses, etc.).

As in the previous quarter, the number of hours worked increased in the third quarter by 0.8% quarter-on-quarter. In year-on-year terms, the number of hours worked increased by 2.1% (to a somewhat lesser extent than employment measured in terms of the number of persons employed). Sectors other than the private sector contributed as much as 50% to the quarterly increase. The length of a working week increased in the third quarter in the public sector, education and health services. In the private sector, however, the length of a working week increased as in the previous quarter by 0.1%, especially in services. This trend is expected to continue with the improving cyclical position of the Slovak economy. A conflicting trend is the growing number of part-time employees.

The number of unemployed persons according to the Labour Force Survey decreased in the third quarter by 0.3% quarter-on-quarter, i.e. to a lesser extent than in the previous quarters and lesser than the quarterly employment growth implies. This development can be attributed to the return of inactive persons to the labour market, either as job applicants (registered unemployed) or newly hired employees. Thus, the labour force participation rate increased in the quarter under review. The number of unemployed persons dropped considerably in year-on-year terms, to 41,000 persons. In quarter-on-quarter terms, the unemployment rate fell only slightly, by 0.08 percentage point to 11.48%. The unemployment rate calculated from the total number of job applicants registered with ÚPSVR decreased in the third quarter by 0.2%, which was less than the figure for the first half of the year. In year-on-year terms, the non-seasonally adjusted average rate of registered unemployment fell by 1.2 percentage points, to 11.39% in the third quarter.



4 PRICE DEVELOPMENTS

Price levels fell in the third quarter by 0.3% year-on-year, compared with 0.1% in the second quarter of 2015. The accelerated price decline was fuelled by the continuing year-on-year fall in energy prices, coupled with the negative rate of change in processed food prices (which rose in the second quarter).

Consumer-price inflation as measured by changes in the Harmonised Index of Consumer Prices (HICP) has been in negative territory for the last seven quarters. The main cause of price deflation lies in the continuing decline in energy commodity prices, which is reflected in the negative rate of change in fuel, gas and electricity prices for consumers. In view of the base effect of the sharp fall in oil prices at the turn of 2014/2015, the year-on-year decline in energy prices is expected to slow down gradually. The year-on-year fall in processed food prices has also contributed to the low-inflation environment. These prices recorded a negative rate of change in 2009 (during the financial crisis), which led to a fall in agricultural commodity prices.

The rate of change in services prices still reflects the impact of rail fare reductions from the end of 2014. Hence, the year-on-year rise in services prices is inconsistent with the current growth in wages and in household final consumption. These factors are expected to influence the rate of change in services prices with a certain time delay. Non-energy industrial goods prices still show a moderately rising tendency. This tendency is supported by the weakening exchange rate of the euro (since the beginning of 2015).

The low-inflation environment is still caused primarily by external factors. Over the last five quarters, price developments have been influenced, directly or through secondary effects, by the relatively low imported inflation and the falling energy commodity prices more strongly than by domestic factors, i.e. growing employment, growing wages, and growing household final consumption.

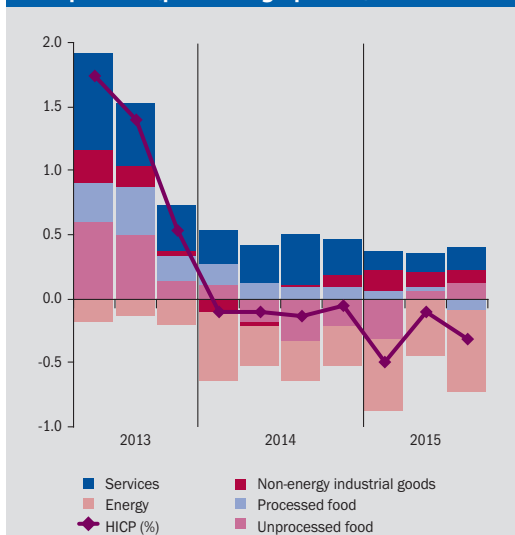
Table 2 Developments in inflation by component (annual percentage changes)

	2014					2015		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
HICP inflation	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5	-0.1	-0.3
Unprocessed food	1.3	-2.3	-4.3	-2.7	-2.0	-3.8	0.9	1.6
Processed food	1.0	0.7	0.6	0.6	0.7	0.3	0.2	-0.5
Non-energy industrial goods	-0.3	-0.1	0.0	0.3	0.0	0.6	0.4	0.4
Energy	-3.3	-1.9	-1.8	-1.9	-2.2	-3.5	-2.9	-4.1
Services	0.9	1.0	1.3	0.9	1.0	0.5	0.5	0.6

Sources: SO SR and NBS calculations.

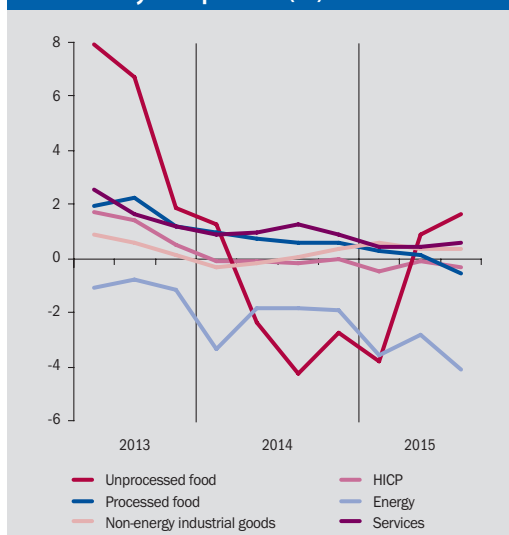


Chart 28 Annual headline inflation by component (percentage points)



Sources: SO SR and NBS calculations.

Chart 29 Annual percentage changes in inflation by component (%)



Sources: SO SR and NBS calculations.