



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM



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## ABBREVIATIONS

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
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<sup>1</sup>

The euro area economy contracted in the first quarter of 2013 by a moderate 0.2% over the previous quarter, according to the flash estimate (the decline was broadly in line with expectations). The euro area recession is affecting developments in Slovakia.

According to the flash estimate of the Slovak Statistical Office, the Slovak economy grew in the first quarter by 0.3% in quarter-on-quarter terms. This slight acceleration against the last quarter of the previous year was based on positive monthly figures for manufacturing industry and total sales, which were reflected in exports (notably in car production, which rebounded from its downturn at the end of the previous year). Based on these indicators, it is assumed that economic growth was driven entirely by net exports. Net exports were heavily affected by a fall in imports which probably reflected a renewed decline in the domestic part of the economy. Labour market developments in the first quarter were consistent

with the current forecast. Employment fell quarter-on-quarter by 0.3%, while monthly data indicate no change in the unemployment rate. Wage growth increased moderately in month-on-month terms, but this trend is not expected to continue. Forward-looking indicators imply that the economic situation will improve slightly in the next quarter; the most marked improvement in sentiment was observed in industry, where the current situation was more positively assessed and export expectations increased. Forward-looking indicators in Germany have also stabilised and point to growth in the second and third quarters. The disinflationary trend in Slovakia continued in April, as the inflation rate declined to 1.7%, due mainly to a drop in electricity prices. This slowdown was moderately greater than projected in the most recent forecast. Overall, the latest data indicate a marginal change in the composition of economic growth. A higher contribution from external demand is expected to be offset by a larger decline in domestic demand.

<sup>1</sup> All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using internal seasonal models.



## 2 THE REAL ECONOMY

### 2.1 GDP FLASH ESTIMATE

#### ***Slovakia's economic growth slowed moderately***

According to the SO SR's flash estimate, real seasonally-adjusted GDP growth for the first quarter of 2013 was 0.3% quarter-on-quarter (0.6% in year-on-year terms). The full composition of economic growth will be published on 5 June 2013.

The increase in quarterly growth and moderate decline in annual growth were in line with projections published in the March Medium-Term Forecast (MTF-2013Q1). Key indicators (sales, industrial production index) indicated that economic activity was slightly higher compared to the previous quarter. As expected, GDP growth in individual quarters of 2012 was revised down slightly. Net exports probably remained the sole contributor to economic growth, as the domestic part of the economy decelerated. Last year's trend rise in the trade surplus carried over into the first months of

2012. Low imports contributed to the trade surplus, and in regard to the domestic side of the economy they may indicate destocking and a decline in investment (low imports in the past were recorded when firms were running down their stocks). Fixed investment is expected to continue contributing negatively to GDP growth. Turning to domestic demand, household consumption is expected to have stabilised, as indicated by the steady improvement in consumer confidence and retail trade sales in the first quarter (as against the fourth quarter of 2012).

The persisting downside risks to the future macroeconomic situation and the flash estimate for growth are reflected in the cautious outlook for GDP growth in 2013.

### 2.2 SALES<sup>2</sup>

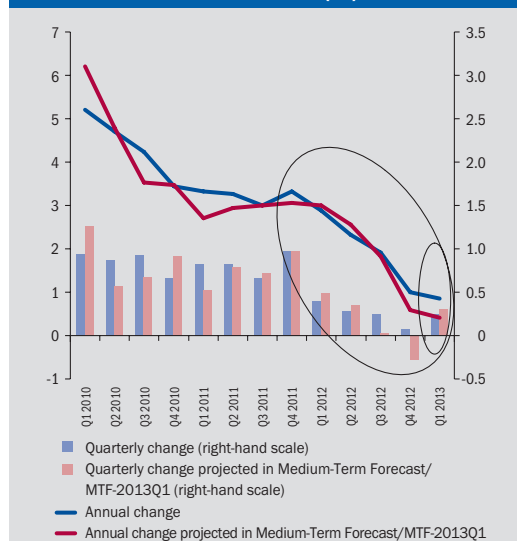
#### ***Sales growth driven by internal trade as well as by selected sectors***

In March 2013 total sales at constant prices increased by 0.5%. Sales grew in all sectors apart from construction, with the highest increases observed in transportation and storage, services, and industry. In the case of trade, the month-on-month sales growth was largely accounted for by sales in wholesale trade and in the sale and repair of motor vehicles. After rising in January and February, retail trade sales growth slowed moderately in March due to lower sales in specialised stores and in retail sale of automotive fuel.

Sales growth in the first quarter of 2013 increased quarter-on-quarter, after decelerating in the last quarter of 2012. This development is consistent with the quarterly acceleration of GDP growth. In industry, business tendency surveys for March and April show an improvement in production expectations. In the retail trade sector, expectations for the second quarter are more

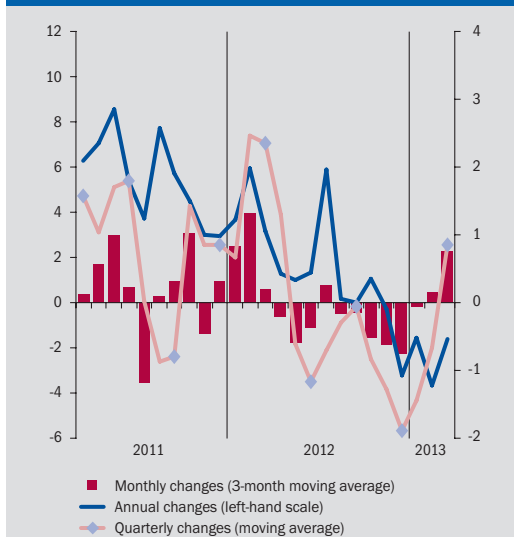
<sup>2</sup> Turnover in internal trade and selected sectors is the most informative „hard“ indicator of GDP developments.

**Chart 1 Comparison of the current forecast and flash estimate for GDP (%)**



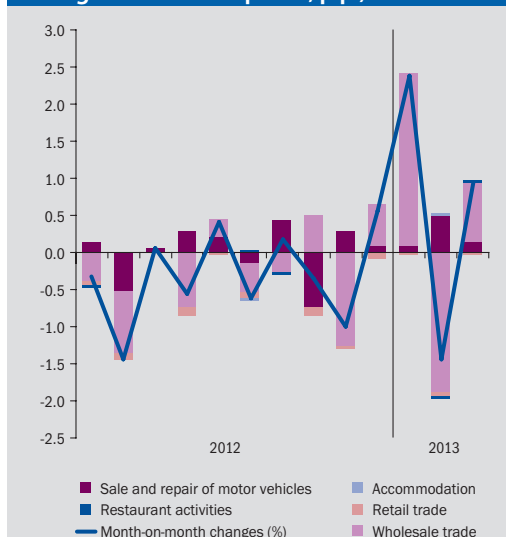
Source: SO SR and NBS.

**Chart 2 Total sales (percentage changes at constant prices)**



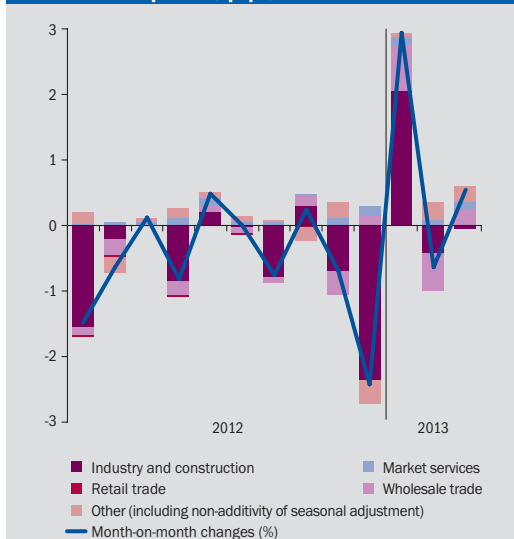
Source: SO SR, NBS calculations.  
Note: Internal calculation for constant prices.

**Chart 4 Internal trade sales by contributions of selected segments (month-on-month changes at constant prices; p.p.)**



Source: SO SR, NBS calculations.  
Note: Internal calculation for constant prices.

**Chart 3 Total sales by contributions of selected sectors (month-on-month changes at constant prices; p.p.)**



Source: SO SR, NBS calculations.  
Note: Internal calculation for constant prices.

## 2.3 ECONOMIC SENTIMENT INDICATOR

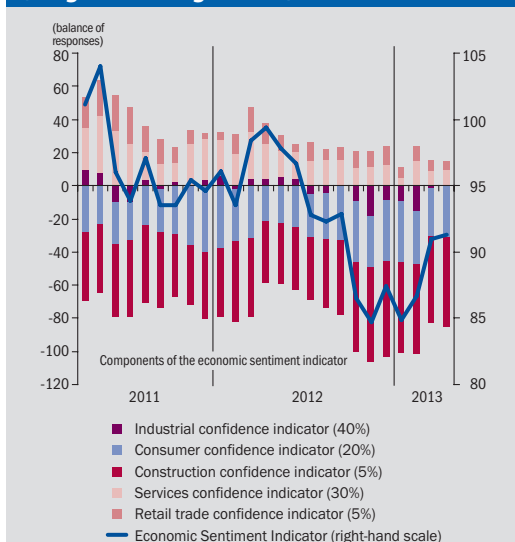
### *Industry expectations remain positive*

In April the Economic Sentiment Indicator (ESI) increased by 0.3 points month-on-month, to 91.3. Compared with the same month in 2012, however, it was lower by 8.1 points. The moderate increase in the indicator reflected improved sentiment in industry and services. The retail trade, construction and consumer confidence indicators all declined.

The industrial confidence indicator was boosted mainly by improved assessments of the current level of overall order books, particularly in the following segments: manufacture of computer, electronic and optical products; wood processing and manufacture of wood products; and manufacture of rubber and plastics products. In the quarterly survey, firms' assessments of export order books for the next three months improved sharply from the previous quarter, as did assessments of production capacity utilisation. Industrial production growth is being limited significantly by low demand. After previously improving, the competitive position of firms

pessimistic than they were at the beginning of the year, even though assessments of the current business situation have stabilised.

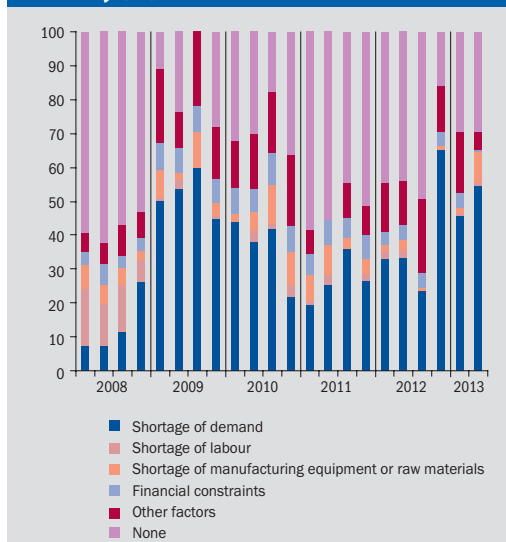
**Chart 5 Economic Sentiment Indicator  
(long-run average = 100)**



Source: European Commission.

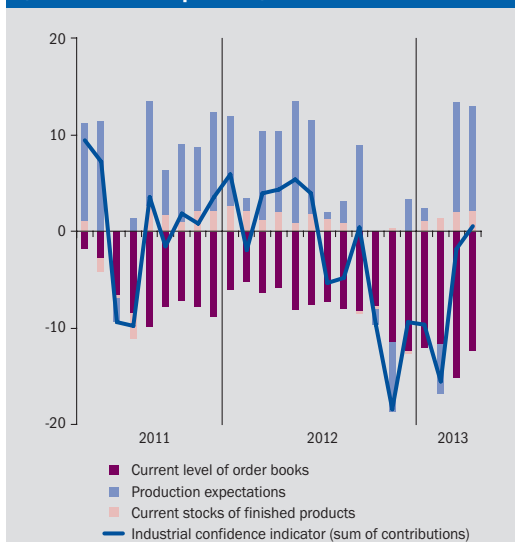
Note: The percentages in the legend represent the weights of the respective components in the ESI.

**Chart 7 Production-limiting factors in industry (%)**



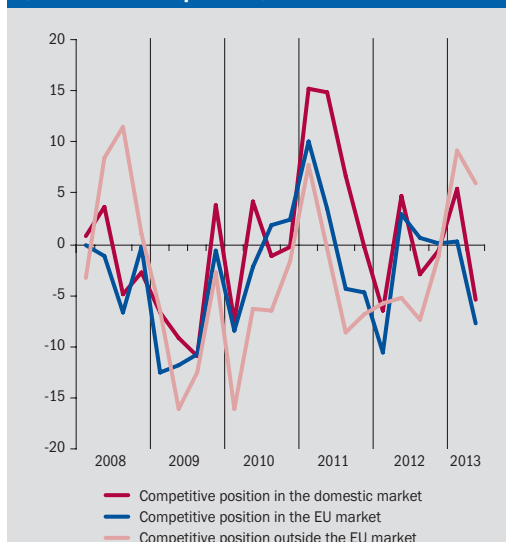
Source: European Commission.

**Chart 6 Industrial confidence indicator  
(balance of responses)**



Source: European Commission.

**Chart 8 Competitiveness in industry  
(balance of responses)**



Source: European Commission.

deteriorated in the domestic market as well as in external markets both within the European Union and outside it. The quarterly survey's results indicate that economic developments will remain largely unchanged in the second quarter.

Services confidence rallied mainly due to improved expectations for demand, particularly for services

in the segments of real estate activities and arts, entertainment and recreation. The construction confidence indicator declined amid worsening of both employment expectations and assessments of order books. In the retail trade sector, both the current and expected business situation were more negatively assessed. All components of consumer sentiment deteriorated with the



**Chart 9 Economic Sentiment Indicator (long-run average = 100)**



Source: European Commission.

exception of unemployment expectations, which improved for a fourth consecutive month.

The ESIs for Germany and the euro area as a whole worsened in April, thereby dampening expectations for a more marked economic recovery. Germany's ZEW economic sentiment

index remained largely unchanged in May after rising sharply month-on-month in April, while the Ifo economic climate index for Germany increased. At the same time, PMI<sup>3</sup> indicators for Germany and the euro area increased moderately in April.

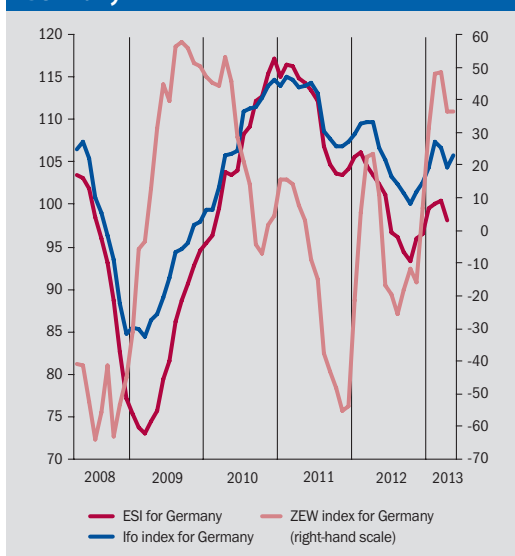
## 2.4 INDUSTRIAL AND CONSTRUCTION PRODUCTION

### Industrial production increased moderately in March.

Industrial production in March 2013 increased by 0.5% month-on-month, and as in the previous month manufacture of transport equipment made the largest contribution to its monthly rate of change. Other segments that contributed positively in March were manufacture of metals and manufacture of refined petroleum products. The annual growth rate of industrial production was 1.6%. This growth was higher than that observed in 2012, even though last year saw production boosted by the launch of new car production.

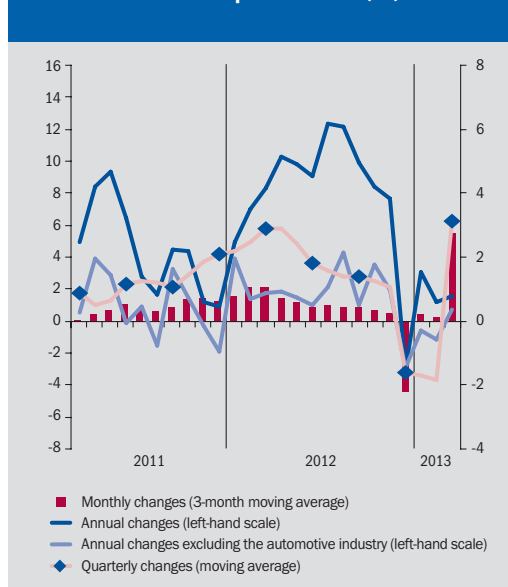
Construction production fell in March by 5.4% month-on-month after increasing in the previous month. Its annual rate of decline increased to

**Chart 10 Economic Sentiment Indicator for Germany**



Source: European Commission, Ifo institute, ZEW.  
Note: ESI (long-run average = 100), Ifo index (2005 = 100), ZEW (balance of responses).

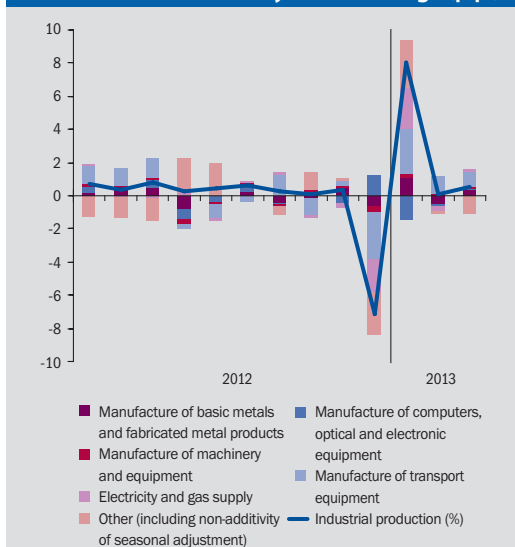
**Chart 11 Industrial production (%)**



Source: SO SR, NBS calculations.

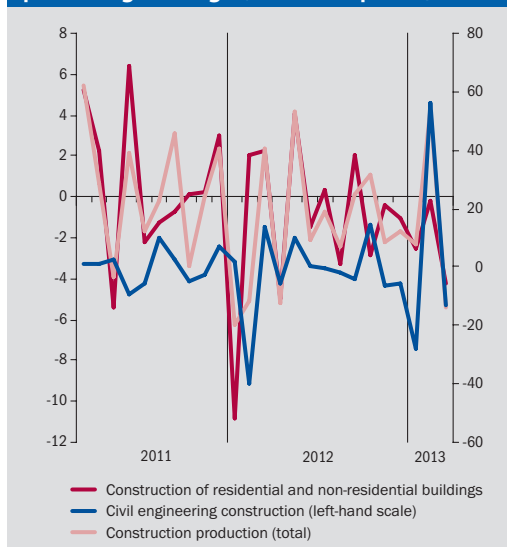
3 Source: Markit.

**Chart 12 Industrial production – principal contributions to monthly rate of change (p.p.)**



Source: SO SR, NBS calculations.

**Chart 14 Construction production (monthly percentage changes; constant prices)**



Source: SO SR.

Note: Construction of buildings accounts for around 70% of total construction production.

**Chart 13 Construction production (%)**



Source: SO SR, NBS calculations.

16.5%. The deterioration was largely attributable to domestic construction, in particular the segment of new construction. The buoyancy in infrastructure construction observed in February did not continue in March.

## 2.5 TRADE BALANCE

### *The trade balance was in surplus despite a drop in exports*

Goods exports in March 2012 slumped by 4.3% year-on-year and also fell in month-on-month terms, by 0.9%. The slowdown of external demand affected mainly non-automotive sectors of the economy (exports excluding automotive exports declined by 1.7%), but also caused a deceleration in car exports.

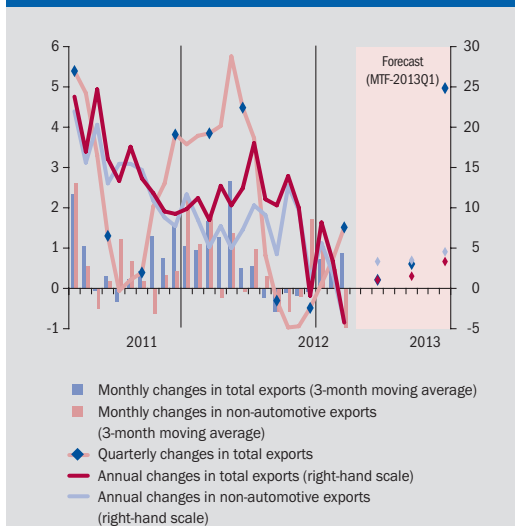
Compared with the fourth quarter of 2012, goods exports increased by 2.2%, while non-automotive sectors saw only a modest quarterly revival with growth of 0.9%.

Despite the decline in export growth, March saw one of the highest ever trade surpluses, at €527.2 million. This was because the decline in import growth was more marked than the drop in export growth, owing to a downturn in domestic demand.

The export developments in March had a significant effect on the level of exports in the



Chart 15 Goods exports (%)



Source: NBS and the SO SR.

Chart 16 Foreign demand and exports (quarterly percentage changes)



Source: NBS and the SO SR.

first quarter of 2013; export growth was lower than the assumptions for foreign demand would imply, possibly indicating export growth

(especially in the non-automotive sectors) slowing to the level of external demand.

## 3 THE LABOUR MARKET

### **The labour market continued to deteriorate slightly**

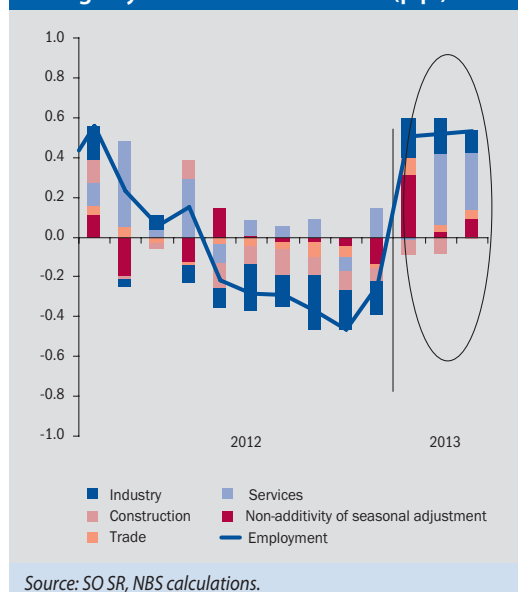
The number of employed people increased in March by 0.5% month-on-month, after rising in the previous month, too (employment for the quarter rose by 0.7%). The annual growth rate in employment was 0.1% for both March and the quarter, and, superficially, the labour market appeared to be improving. All sectors apart from construction contributed to that growth, with industry and selected market services making the largest contributions. In the case of selected market services, this positive development continued a trend from the previous year and was based mainly on the segments of legal and accounting activities, business consultancy, and intermediation (detailed data for the first quarter will not, however, be available until June).

Nevertheless, the SO SR flash estimate for total employment in the first quarter confirmed that, as expected, total employment was lower than the monthly figures indicated (declines of 0.3% quarter-on-quarter and 1% year-on-year); this probably reflected the cancellation of limited

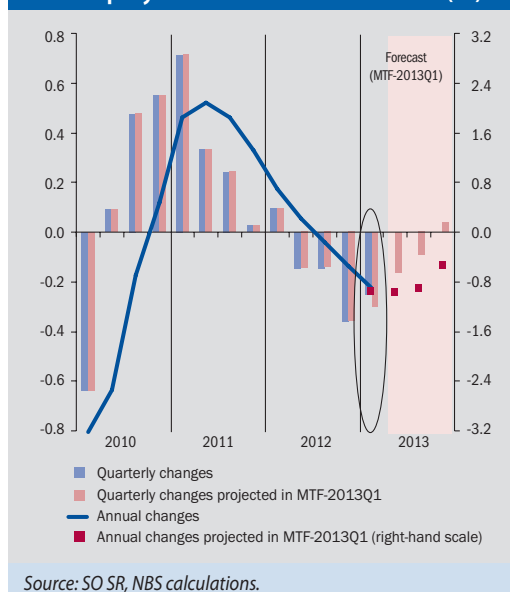
work agreements (not captured by monthly statistical reporting) due to their expiry or replacement with standard work agreements. Given that real economy indicators are relatively subdued at present, employment is not expected to improve significantly in the next period. Assuming that the effect of the cancellation of limited work agreements gradually fades, the decline in employment may moderate during the period ahead. The employment situation in the near term may therefore be similar to that in the first quarter, in line with the Medium-Term Forecast (MTF-2013Q1).

The rate of registered unemployment edged up by 0.1 percentage point in April, to 14.5%. The unemployment rate based on the total number of job seekers also increased, although seasonally adjusted it fell from 14.68% to 14.41% (by 7,304 people), owing mainly to seasonal work. While the sharply rising trend in unemployment ceased at the beginning of the second quarter, the labour market is still not showing any signs of significant recovery. The number of people coming off the unemployment register declined and the number of registered job vacancies again stopped increasing.

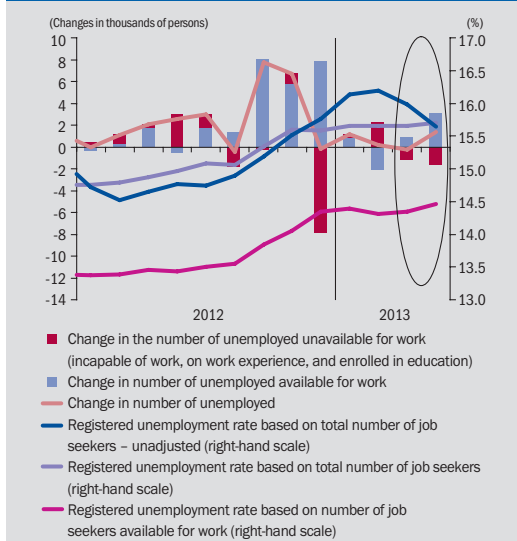
**Chart 17 Employment – monthly rate of change by sectoral contributions (p.p.)**



**Chart 18 Comparison of the current forecast and employment as defined in ESA 95 (%)**

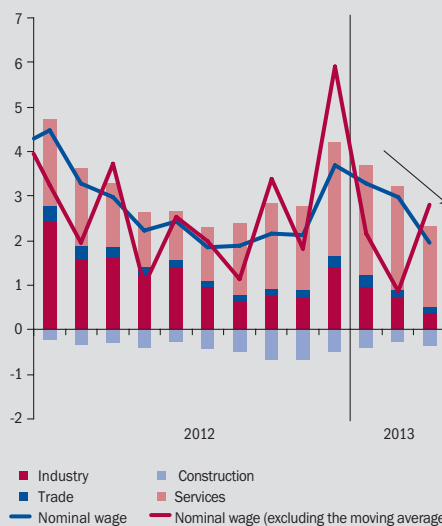


**Chart 19 Unemployment (%)**



Source: Central Office of Labour Social Affairs and Family.

**Chart 20 Average nominal wage – annual rate of change by sectoral contribution (3-month moving average; p.p.)**



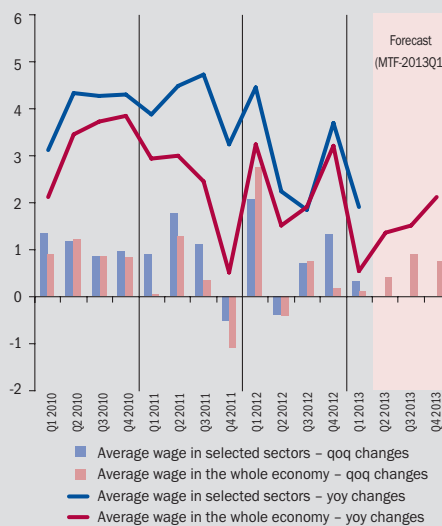
Source: SO SR, NBS calculations.

The NBS forecast MTF-2013Q1 assumes that the unemployment rate will rise slightly in the second quarter over the first quarter. This projection, however, does not take into account the increase in temporary jobs created by the government or any rise in welfare-to-work jobs. Such measures represent downside risks to the projected unemployment rate.

Average annual wage growth accelerated to 2.8% in March, after being very low at the beginning of the year. In month-on-month terms the average wage increased by 1.2%. Although wage developments are somewhat volatile, that volatility is diminishing on a quarterly basis and wage growth is more moderate than it was at the end of 2012. Looking at the economic fundamentals such as foreign and domestic demand, or inflation, they are expected to have no more than a modest upward effect on wages in the months ahead. The sectors that made the largest contributions to the March wage growth were IT, industry, and transportation.

The moderate wage growth for 2013 projected in the MTF-2013Q1 forecast may have to be revised slightly upwards, due mainly to the increase

**Chart 21 Wage developments in the economy (annual and quarterly percentage changes)**



Source: SO SR, NBS calculations.

Note: The average wage growth in the economy as a whole for Q1 2013 is a projection from the latest Medium-Term Forecast (MTF-2013Q1). Wage growth in the selected sectors for Q1 2013 is calculated on the SO SR's monthly data.

observed in March and in the first quarter as a whole.



## 4 PRICES

Annual HICP inflation in Slovakia fell from 1.9% in March to 1.7% in April March, which was 0.1 percentage point higher than projected. In month-on-month terms the inflation rate remained unchanged. The slowdown in the annual rate was largely accounted for by the energy component.

The inflation rate reflected mainly a decline in electricity prices and a lower increase in prices of pharmaceutical products. The slowdown in the headline rate could have been more pronounced but for an increase in prices of fruit and vegetables (unprocessed food). The currently low inflation rate is affected by the annual rate of decline in energy commodity prices on world markets, low import

price inflation, and the persisting sluggishness of consumer demand, which given also the currently high savings ratio shows no signs of picking up significantly. Inflation expectations in the retail trade sector remain on the low side, according to business tendency surveys.

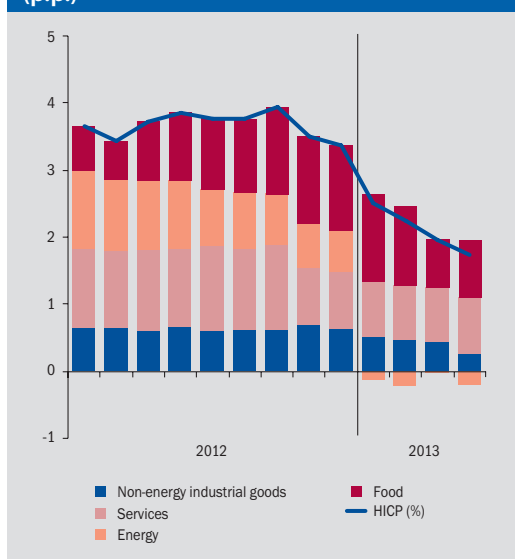
The low projections for annual consumer price inflation reflect positive developments in energy commodity prices, the economy's negative output gap over the short-term horizon, the deceleration in import price inflation, and the relatively slow growth in employee compensation. Given developments in the beginning of the year, the inflation rate projection for 2013 remains low at close to and just below 2%.

**Table 1 HICP components – comparison of projected and actual month-on-month percentage changes**

	Projections for April 2013	Actual data	Difference in contributions: actual – projections
Non-energy industrial goods	0.32	0.27	-0.02
Energy	-0.12	-1.10	-0.16
Food	0.11	0.39	0.07
Services	0.17	0.17	0.00
<b>HICP in total</b>	<b>0.15</b>	<b>0.04</b>	<b>-0.11</b>

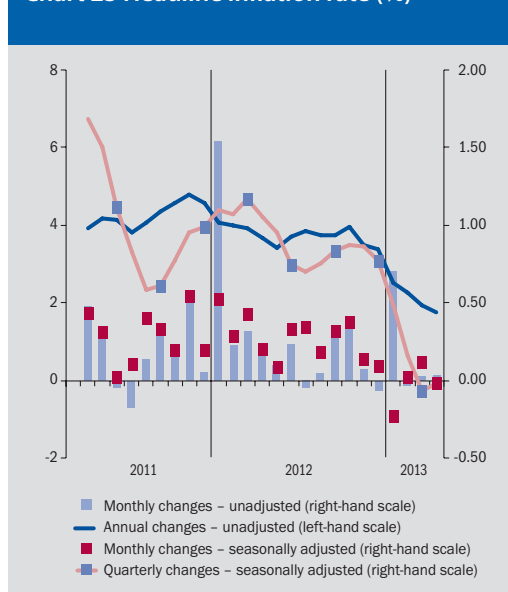
Source: SO SR, NBS calculations.

**Chart 22 Composition of annual inflation (p.p.)**



Source: SO SR, NBS calculations.

**Chart 23 Headline inflation rate (%)**



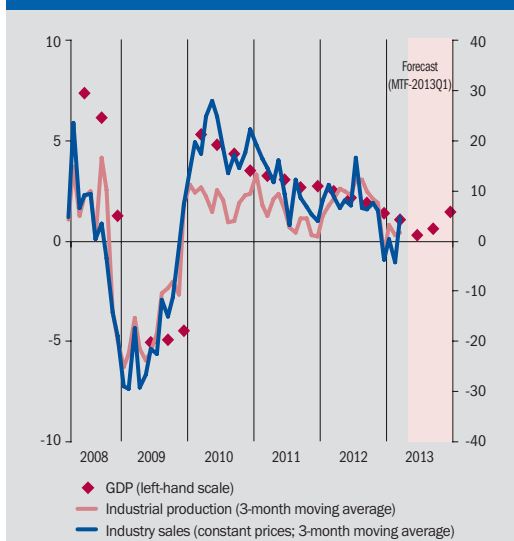
Source: SO SR, NBS calculations.

## 5 QUALITATIVE IMPACT ON THE FORECAST

The latest flash estimate for economic growth confirmed projections. However, the growth composition will probably have to be revised since net exports are expected to have driven growth to

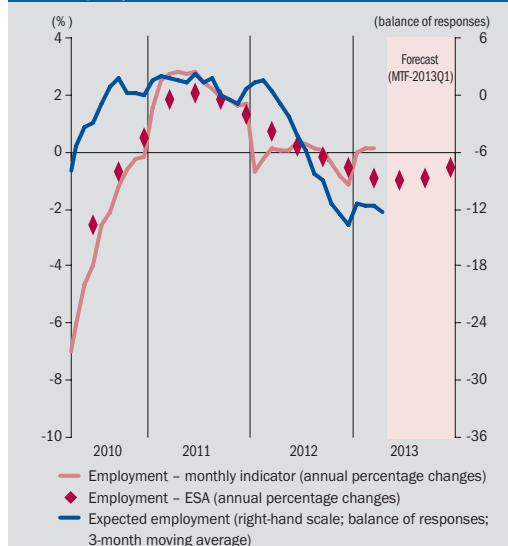
a greater extent than projected. Domestic demand remained largely subdued, and its recovery is likely to be slower than was previously expected. With labour market data confirming the projected

**Chart 24 GDP, industrial production and sales (annual percentage changes)**



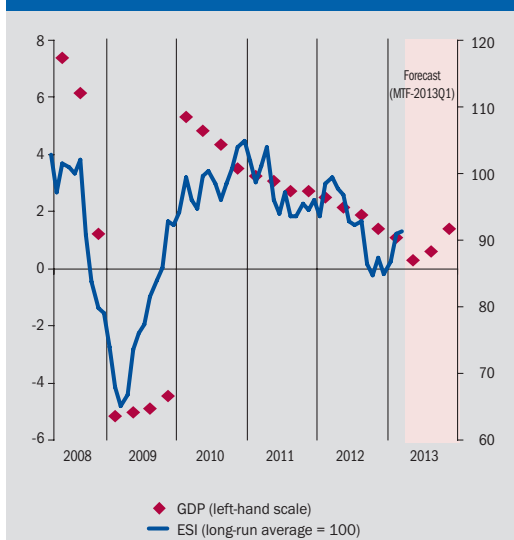
Source: SO SR and NBS.

**Chart 26 Employers' expectations (balance of responses) and the annual rate of change in employment (%)**



Source: SO SR, NBS and the European Commission.

**Chart 25 GDP (annual percentage changes) and the Economic Sentiment Indicator**



Source: SO SR, NBS and the European Commission.

**Chart 27 Consumers' inflation perceptions (balance of responses) and HICP inflation (annual percentage changes)**



Source: SO SR and the European Commission.



developments, indicators of employment and wages are expected to be in line with the current forecast. However, the forecast does not take into account the increase in the number of government-created temporary jobs, which represent a positive risk to the labour market projections. Inflation was slightly lower than forecast, which could lead to

the inflation projection being revised down. The only second quarter data available for this Bulletin were sentiment indicators for the euro area and Slovakia, which pointed to a confirmation of economic stagnation in the second quarter and implied that growth in the whole of 2013 would be in line with projections.





# OVERVIEW OF MAIN MACROECONOMIC INDICATORS FOR SLOVAKIA

**Table 2 Selected economic and monetary indicators for the SR***(annual percentage changes, unless otherwise indicated)*

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 95	Unemployment rate (%)	Industrial production index	Total receipts of sectors	Economic sentiment indicator (long-term average =100)	M3 for analytical purposes <sup>1)</sup>	Loans to non-financial corporations	Loans to households	State budget balance (EUR mil.)	General government balance as % of GDP	Debt ratio (general government gross debt as % of GDP)	Current account (% GDP)	Balance of trade (% GDP)	USD/EUR exchange rate (average for the period)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2009	-4.9	0.9	-2.5	-2.0	12.1	-15.5	-18.6	77.0	-2.8	-3.3	11.0	-2,791.3	-8.0	35.6	-2.59	1.51	1.3948
2010	4.4	0.7	-2.8	-1.5	14.4	8.1	7.9	97.8	7.8	1.6	12.5	-4,436.1	-7.7	41.0	-3.72	1.18	1.3257
2011	3.2	4.1	2.7	1.8	13.5	5.3	8.6	97.9	2.9	7.6	11.1	-3,275.3	-4.9	43.3	-2.01	1.47	1.3920
2012	2.0	3.7	3.9	0.1	14.0	8.1	5.5	93.2	8.8	-2.3	10.3	-3,810.7	-4.6	52.1	2.26	5.05	1.2848
2012 Q2	2.6	3.6	4.0	0.2	13.6	9.7	5.1	98.0	4.2	0.2	9.9	-2,325.7	-	-	3.35	6.07	1.2814
2012 Q3	2.1	3.8	4.0	-0.1	13.7	11.4	5.9	92.7	4.3	-1.7	9.8	-2,585.6	-	-	0.65	3.67	1.2502
2012 Q4	0.7	3.6	4.0	-0.6	14.4	4.7	3.0	86.2	8.8	-2.3	10.3	-3,810.7	-	-	2.35	5.36	1.2967
2013 Q1	0.6 <sup>2)</sup>	2.2	1.7	-1.0 <sup>2)</sup>	.	2.0	-0.3	87.5	7.3	-0.3	9.9	-952.7	-	-	.	.	1.3206
2012 Apr.	-	3.7	3.8	-	13.4	10.3	5.1	99.4	5.3	4.0	10.8	-1,171.1	-	-	-	-	1.3162
2012 May	-	3.4	4.2	-	13.2	9.8	5.1	97.8	6.3	3.4	10.4	-2,159.5	-	-	-	-	1.2789
2012 June	-	3.7	4.0	-	13.3	9.1	5.0	96.7	4.2	0.2	9.9	-2,325.7	-	-	-	-	1.2526
2012 July	-	3.8	3.6	-	13.3	12.3	9.5	92.8	5.6	0.8	10.1	-2,238.5	-	-	-	-	1.2288
2012 Aug.	-	3.8	4.1	-	13.2	12.2	4.3	92.3	3.4	-2.2	9.9	-2,675.5	-	-	-	-	1.2400
2012 Sep.	-	3.8	4.4	-	13.4	9.9	4.2	92.9	4.3	-1.7	9.8	-2,585.6	-	-	-	-	1.2856
2012 Oct.	-	3.9	4.2	-	13.7	8.4	5.3	86.5	4.7	-1.7	10.1	-2,466.0	-	-	-	-	1.2974
2012 Nov.	-	3.5	3.9	-	13.9	7.7	3.4	84.7	4.5	-0.8	10.2	-2,743.5	-	-	-	-	1.2828
2012 Dec.	-	3.4	3.9	-	14.4	-3.0	0.1	87.4	8.8	-2.3	10.3	-3,810.7	-	-	-	-	1.3119
2013 Jan.	-	2.5	3.1	-	14.8	3.1	1.8	84.9	7.7	-1.3	9.9	-62.5	-	-	-	-	1.3288
2013 Feb.	-	2.2	1.5	-	14.7	1.2	-0.8	86.7	7.9	0.4	9.9	-713.4	-	-	-	-	1.3359
2013 Mar.	-	1.9	0.8	-	14.7	1.6	-1.7	91.0	7.3	-0.3	9.9	-952.7	-	-	-	-	1.2964
2013 Apr.	-	1.7	.	-	14.4	.	.	91.3	.	.	.	-1,076.1	-	-	-	-	1.3026

Sources: Statistical Office of the Slovak Republic, MF of the SR, NBS, the European Commission.

1) Currency in circulation in M3 refers to money held by the public (according to methodology in place prior to 2008).

2) Flash estimate of Statistical Office of the SR.

More detailed time series for selected macroeconomic indicators

[http://www.nbs.sk/\\_img/Documents/\\_MonthlyBulletin/2013/StatisticsMB0513.xls](http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2013/StatisticsMB0513.xls)