Expected macroeconomic developments in Slovakia according to NBS's macroeconomic forecast (MTF-2016Q1)

Economic and Monetary Analyses Department of NBS

Slovakia's economy continued its steady growth in the fourth quarter of 2015, driven mainly by the absorption of EU funds and export performance. It is projected to slow slightly this year, owing to a decrease in government investment. This decline should be partially offset by other components of domestic demand. The economy's growth is projected to reach 3.2% in 2016 and then to accelerate slightly to 3.3% in 2017. The horizon of the March forecast has been extended to 2018, when economy should accelerate to 4.2%, thanks mainly to new investment. The contribution of new investment in the car industry should account for 0.7 percentage point in 2018. New job creation should continue and employment growth is projected to be steady, at above 1%, over the whole projection horizon. Low inflation environment is expected to continue also in 2016. Inflation is projected to be at -0.2% in 2016, accelerating to 1.3% in 2017 and 1.9% in 2018, on the back of renewed demand, higher imported inflation and rising food prices. (p. 2)

ECB's monetary policy operations and money market developments in 2015

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In early 2015, after reassessing its monetary policy stance, the ECB launched the expanded asset purchase programme (APP). Under the programme, monthly purchases of public and private sector securities were set at €60 billion, to be carried out at least until end September 2016. In late 2015, the APP was prolonged by a further 6 months, to March 2017. The programme led to a surge in total liquidity provided by the ECB. The excess liquidity rose considerably, to €650 billion. Slovak banks continued to show a low interest in monetary policy operations. Money market turnover plummeted to the levels of 2012. The decline was rather pronounced both in the secured and unsecured markets. (p. 5)

Divergence between the monetary policies of major central banks

Miroslava Kosáková, Národná banka Slovenska

The recent decade has been a great challenge for major central banks and their monetary policies. After a difficult period of the global crisis between 2007 and 2008, the banks had to cope with extremely low inflation bordering on deflation, while key interest rates were reduced to zero. Several banks decided to try an unprecedented experiment and introduced negative interest rates. Despite their record low levels, interest rates – as a qualitative instrument – have not solved the issue. Therefore the decision-making bodies of central banks have applied non-standard quantitative tools such as quantitative easing. Continued low, zero or even negative inflation growth has motivated central banks to introduce additional innovative measures and to further accommodate their monetary policies. This global trend, however, was not seen in the United States where domestic economy recovered. As a result, the Federal Reserve has already started to tighten its monetary policy stance. Owing to that, divergence between monetary policies can be observed at the global monetary-policy scene. (p. 10)

Slovak capital market

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The current Slovak capital market is characterised by prolonged stagnation and failing basic functions. In fact, the domestic capital market does not facilitate efficient reallocation of available financial resources, hence questions about its purpose have arisen. The efforts to make it more efficient can be justified by the fact that current challenges on the capital market, if not solved, might threaten stability of the financial sector in a long run. In February 2015, the European Commission launched a discussion on removing barriers to free movement of capital, which has given us room for tackling questions on whether there is a potential for recovery on the Slovak capital market and whether its more efficient functioning may add value to the Slovak economy. (p. 14)

Analysis of trends and risks in the Slovak financial sector in 2015

Jozef Kalman, Národná banka Slovenska

Financial sector stability is generally perceived as a necessary condition for sound functioning of the real economy. Regular monitoring of long-term economic trends and current risks to the economy is thus inherent part of financial market supervision. The article analyses those trends and risks which may affect the Slovak financial sector, regardless of whether they come from the external or domestic environment. It draws on the Analysis of the Slovak Financial Sector for 2015 published by Národná banka Slovenska. (p. 18)

In which markets are Slovak car exports gaining ground?

Tomáš Kendera, Národná banka Slovenska

The Slovak car exports have been successfully increasing in the post-crisis period. The car industry has progressed and strengthened its position in the Slovak economy. The aim of this article is to identify countries where the market share of the Slovak car production rose between 2010 and 2015. Among the important markets traditionally belonged those of EU countries as a whole. In addition, cars produced in Slovakia increased their market share in China and the USA, and the expansion on the markets of North Africa also appeared substantial. The success of individual brands or models largely depended on the preference of local consumers. Export growth was often due to one-off factors and sales remained relatively elevated during the next years. Thus the rise in market shares seemed rather connected with the launch of new models than with the use of standard competitive instruments, while competitive advantages, such as lower costs, higher productivity or new technologies, played a bigger role in management decisions. (p. 23)

Wage rigidities and jobless recovery in Slovakia: New survey evidence

Peter Tóth, Národná banka Slovenska, Katarína Vaľková, Vienna University of Economics and Business

The aim of this paper is to test the determinants of labour cost adjustments by Slovak firms during the recent recovery period from 2010 to 2013. We use a new dataset from a firm-level survey, which has been conducted in cooperation with the ECB's Wage Dynamics Network. Our estimates highlight the importance of demand shocks in explaining labour cost adjustments. The role of collective agreements and wage rigidities seems also crucial, which forces firms to downsize their labour inputs rather than cut wages. Finally, we find that large and foreign owned firms face fewer barriers to adjusting their labour costs. These factors seem to be the main explanation for the recent jobless recovery in Slovakia. (p. 27)

Currency circulation in Slovakia in 2015

Milada Vlnková, Národná banka Slovenska

The article reviews developments in the main indicators of currency circulation in Slovakia. In comparison with previous years, 2015 witnessed an increase in demand for cash. At the same time, another series of new banknotes were issued. A new €20 banknote, the third banknote of the Europa series, was launched on 25 November 2015. (p. 32)