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1 Summary

Slovakia's economic growth for the second quarter of 2015 was a relatively strong 0.8%, quarter-on-quarter, the same as for the first three months and in line with the projections of the previous forecast. The main drivers of that growth were robust investment demand and, to a lesser extent, both private and government consumption expenditure. With this activity supporting job creation, **employment increased by 0.7%** and the unemployment rate fell noticeably.

The positive tendencies in domestic demand are expected to be maintained in the near term. However, headwinds from global developments – in particular the growth slowdown in China and interlinked emerging market economies – prompted a revision to the path of external demand for Slovak goods and services, which is still expected to grow in coming years, but at a weaker pace. **Annual GDP growth is projected to be 3.2% in 2015** (unchanged from the previous forecast), **3.4% in 2016** (down by 0.4 percentage point), and **3.3% in 2017** (down by 0.2 percentage point)**.** The composition of GDP growth is expected to be balanced in both this year and next, while growth in 2017 is expected to be driven mainly by exports.

Labour market conditions are expected to continue improving, albeit more slowly than at present. **With the labour market situation currently better than envisaged, the forecast for employment growth in 2015 has been revised up to 2.0%.** The outlook for employment growth over the rest of the projection horizon remains unchanged, based on projections for increases in hours worked and weaker labour demand.

The average inflation rate for 2015 is still projected to be slightly negative (-0.3%), owing to further declines in energy and food prices as well as downward pressure from import prices. Based on assumptions of stability in agricultural commodity prices and a further drop in oil prices, **the inflation projection for 2016 has been revised down to 1.0%** (from 1.6% in the previous forecast). **In 2017 inflation should accelerate to 1.9%**, reflecting an upswing in commodity prices, gradual growth in import prices and a partial revival of demand-side pressures.

The risks to the GDP growth outlook over the projection horizon are on the upside, with **the principal risk being the plans of carmaker Jaguar Land Rover to build a new car plant in Slovakia**. The risks to the inflation outlook over the forecast period are balanced.

Table 1 GDP and inflation projections (baseline scenario excluding the impact of the Jaguar Land Rover investment)

	MTF-2015Q3			Difference vis-à-vis MTF-2015Q2		
	2015	2016	2017	2015	2016	2017
GDP	3.2	3.4	3.3	0.0	-0.4	-0.2
HICP	-0.3	1.0	1.9	-0.2	-0.6	-0.3
Net inflation excluding automotive fuel	1.0	2.0	2.5	0.0	-0.3	-0.2

Sources: SO SR and NBS.
Note: Net inflation excluding automotive fuel refers to the HICP inflation rate excluding food, energy and administered prices.

2 Current developments in the external environment and Slovakia

The euro area's economic growth slowed in the second quarter, while Germany's accelerated

According to Eurostat, euro area economic growth slowed to 0.4% in the second quarter of 2015 (after accelerating to 0.5% in the first quarter).[1] Among the larger national economies within the euro area, GDP growth accelerated in Germany (to 0.4%) and Spain (1.0%), while weakening in Italy (0.3%), the Netherlands (0.1%) and France (0.0%). The overall growth was driven mainly by net exports, as well as by private and, to a lesser extent, government consumption expenditure. On the other hand, investment demand fell. Survey-based leading indicators for August mostly showed an improvement in sentiment among managers and consumers. Consumer price inflation was broadly stable, with the HICP inflation rate standing at 0.1% in August (after rates of 0.2% in both June and July). Although the decline in energy prices became more pronounced, it was broadly counterbalanced by increases in food price inflation and, to some extent, non-energy industrial goods inflation, while services price inflation was unchanged from the previous month.

The recovery of activity in the euro area is expected to continue, albeit **at a somewhat weaker pace than expected earlier**. The dynamics of domestic demand should gradually strengthen, supported by the ECB's monetary policy (including non-standard measures) as well as falling oil prices. The contribution of external factors to euro area activity is expected to weaken in view of the **less favourable developments in emerging market economies** and their dampening effect on external demand. Private consumption expenditure is expected to remain the key driver of the recovery. Wage income is expected to pick up against a background of steady employment growth and accelerating nominal compensation per employee, while an increase in other personal income is also expected as the overall economy recovers. Private consumption should be supported by low financing costs and easing financing conditions, as well as, to some extent, rising household net worth – reflecting increases in financial asset prices in 2015 and further improvements in housing markets. Following years of fiscal consolidation, the fiscal stance is expected to be slightly expansionary over the projection horizon. In some countries, however, public and private sector indebtedness is still at high levels and structural unemployment also remains high. Concerns about the long-term growth potential and the relatively slow progress in implementing structural reforms may continue to be a drag on investment spending. Annual GDP growth is projected to accelerate to 1.4% in 2015, 1.7% in 2016 and 1.8% in 2017. Compared with the ECB/Eurosystem staff projections published in June, the GDP growth forecasts have been revised down by 0.1 percentage point for 2015, 0.2 percentage point for 2016, and 0.1 percentage point for 2017.[2]

Slovakia's economic growth[3] remains robust and in line with projections

Slovakia's economy grew in the second quarter by 0.8%, quarter-on-quarter, and so, as projected, maintained the same robust pace recorded in the previous period. The domestic economy provided the main driver of growth, with a significant increase in investment activity (supported by higher absorption of EU funds and by infrastructure construction) and with relatively strong growth in private consumption expenditure (accounted for mainly by services). Since private consumption growth was supported by employment and wage growth, the implication is that it may accelerate further, although households have so far shown a high propensity to save. The government sector contributed to GDP growth both through investment and consumption expenditure. The country's export performance fell slightly in the second quarter owing to weaker external demand.

Since economic growth was driven mainly by domestic demand, job creation in the second quarter was higher than expected. Employment increased by 0.7%, with the new jobs

1 *For further details, see the "Report on the International Economy – June 2015".*
2 *According to the "June 2015 Eurosystem Staff Macroeconomic Projections for the Euro Area".*
3 *For further details, see the "Report on the Slovak Economy – September 2015".*

being generated mainly in services and also in industry.

After stagnating in the second quarter of 2015, consumer prices fell moderately in July and August (by 0.2% year-on-year in each case). This decline stemmed from falling prices of oil and agricultural commodities and their pass-through to fuel and food prices. The drop in import prices also had a deflationary effect.

3 Technical assumptions of the forecast[4]

3.1 Commodities and the exchange rate

The exchange rate of the euro against the US dollar hovered around USD 1.11 per euro from mid-May (the cut-off date for the previous forecast). This level is assumed as the average exchange rate over the projection horizon and is only marginally weaker than the rate assumed in the previous forecast.

The price of a barrel of Brent crude oil fell sharply from May and by the end of August it was down to USD 42. Amid turmoil in the Chinese stock market and the consequent roiling of global financial markets there were heightened concerns about diminishing demand from China. Oil prices subsequently rallied slightly. For this forecast (MTF-2015Q3), on the basis of current developments, the per-barrel price of oil is assumed to be USD 54.1 in 2015, USD 53.1 in 2016, and USD 57.7 in 2017, which in comparison with the previous forecast is 15% lower in 2015 and more than 20% lower in both 2016 and 2017. Since the euro's exchange rate against the dollar is assumed to depreciate only marginally, the decline in the oil price should be similar in both euro and US dollar terms.

3.2 External demand

Slovakia's **external demand growth** in the second quarter of 2015 was weaker than earlier expected. Owing to the assumed global growth slowdown stemming from emerging market economies (including China), the assumption for Slovakia's external demand growth over the projection horizon is lower in this forecast than in the previous forecast, at 3.1% in 2015, 4.3% in 2016, and 5.2% in 2017.

4 The technical assumptions of this Medium-Term Forecast are based on the "September 2015 ECB Staff Macroeconomic Projections for the Euro Area", with a cut-off date of 12 August 2015. Assumptions for the EUR/USD exchange rate, Brent crude oil price, and Slovakia's external were later updated, however, on the basis of information available up to 7 September 2015.

4 Macroeconomic forecast for Slovakia

4.1 Economic growth

Temporary slowdown in exports owing to external environment

The second quarter of 2015 saw a slight decline in Slovak exports that reflected weaker external demand and the base effect of strong export growth in the previous quarter. Nevertheless, improved monthly figures for nominal exports and assessments of competitiveness in foreign markets imply that export performance in the third quarter should not be dampened by weaker growth in external demand. The relatively strong export growth reported this year is expected to result in further market share capture. Given the current lowering of exporters' expectations following the slowdown of GDP growth in China and other emerging market countries, export growth in 2016 is expected to weaken temporarily. Overall, however, export growth should be moderately higher than foreign demand growth, and therefore the Slovak economy is expected to gain market shares.

Chart 1 Forecast for external demand and for Slovak exports of goods and services (annual percentage changes; constant prices)

Sources: SO SR, ECB, and NBS calculations.

Investment growth expected to slow

This year's relatively strong growth in investment demand is expected to be largely based on high government investment. There is significant upward pressure on investment from increased absorption of EU funds allocated under the second programming period and from infrastructure construction. Private investment, too, is projected to continue picking up, and residential investment should also grow quickly, considering the number of apartments and houses under construction. Overall investment growth is expected to ease in 2016 and 2017, owing mainly to a slump in government investment stemming from the initially slow absorption of EU funds under the new programming period. The decline in government investment is expected to be counterbalanced in part by higher growth in private investment, which should be supported by accommodative monetary policy.

Consumer demand to accelerate moderately next year

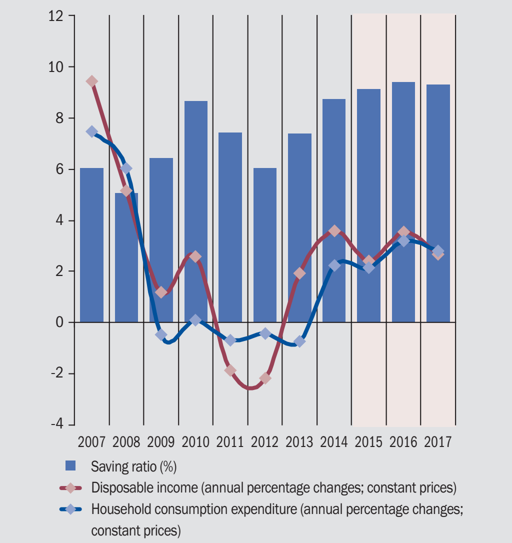
Private consumption expenditure is expected to continue accelerating in the second half of 2015. The favourable labour market situation, supported by strong sentiment among consumers and growth in real incomes, should add further impetus to private consumption growth this year. As for private consumption in 2016, it is expected to reflect additionally the positive impact of

Table 2 Forecast for gross fixed capital formation (annual percentage changes; constant prices)

	2014	2015	2016	2017
Gross fixed capital formation in total	5.7	8.1	4.0	3.3
– private sector[1)]	3.7	6.2	7.7	4.5
– public sector [1)]	17.9	18.2	-14.0	-3.4

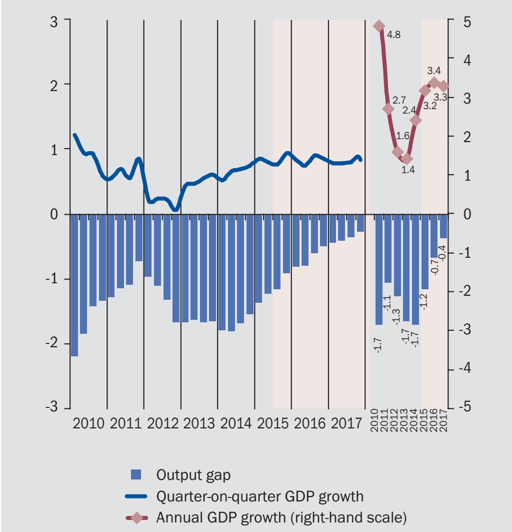
Sources: SO SR.
1) NBS calculations.

Chart 2 Household income, consumption and saving ratio



Sources: SO SR and NBS.

Chart 3 GDP growth and the output gap (%)



Sources: SO SR and NBS.

administrative factors[5]. Owing to the fading out of these factors and an assumed slight increase in inflation, real income growth is expected to weaken somewhat in 2017. Given Slovak households' high propensity to save, the impact of the slowdown on private consumption growth should be moderate.

Government expenditure to continue making a positive, albeit more moderate, contribution to economic growth

Government consumption expenditure growth in the first half of 2015 was higher than envisaged in the previous quarter, owing mainly to price deflator growth. Looking at the composition of public consumption, the increase in spending on goods and services was higher than projected in the previous forecast due to the higher absorption of EU funds. Thus the outlook for government consumption growth for the whole of 2015 has been revised up, while its pace should moderate over the rest of the projection horizon.

As for government investment expenditure, its outlook for 2015 has been revised up on the basis of its robust increase in the first half of 2015, which stemmed from the increased utilisation of EU funds. In 2016 and 2017, with the absorption of EU funds assumed to decline following the end of the second programming period and slower onset in their absorption under the third programming period, government investment is expected to fall year-on-year.

Economic growth to stay above 3% over the projection horizon

External demand growth, supported by accommodative monetary policy, is expected to accelerate moderately over the projection horizon (while still not reaching its pre-crisis levels), and therefore the output gap should have closed by the end of the horizon. **GDP is expected to be balanced both this year and next, with its rate projected to be 3.2% in 2015, 3.4% in 2016 and 3.3% in Slovakia.**

Table 3 Forecast for government consumption and government investment expenditure (annual percentage changes; constant prices)

	2014	2015	2016	2017
Government final consumption	4.4	3.1	2.0	1.0
Government investment	17.9	18.2	-14.0	-3.4

Sources: SO SR and NBS.

5 *An increase in the minimum wage, rebates on household gas bills, and a reduction in VAT on selected food products.*

4.2 THE LABOUR MARKET

Employment growth to remain robust both this year and in 2016

So far this year employment growth has been driven by relatively strong domestic demand that has supported rapid job creation, and to some extent by employment growth in the public sector. The pace of job creation is expected to be maintained in the near-term, considering mainly leading indicators that signal optimism among employers – especially in the services sector – about the employment situation in the coming period. In the public sector, the level of job creation within local authority-run public employment programmes is expected to be scaled down. Overall, employment growth is expected to be 2.0% in 2015 – its highest level since 2008 – before slowing over the rest of the projection horizon due to increasing labour supply constraints (stemming from demographic trends) and, to a lesser extent, the assumed stronger growth in exports than in the domestic economy. This should in turn see an increase in hours worked per employee and an acceleration of wage growth. The high employment growth has been reflected in the projection for the unemployment rate, which is expected to average 11.4% in 2015 and reach its natural rate (around 9.3%) by the end of the forecast period.

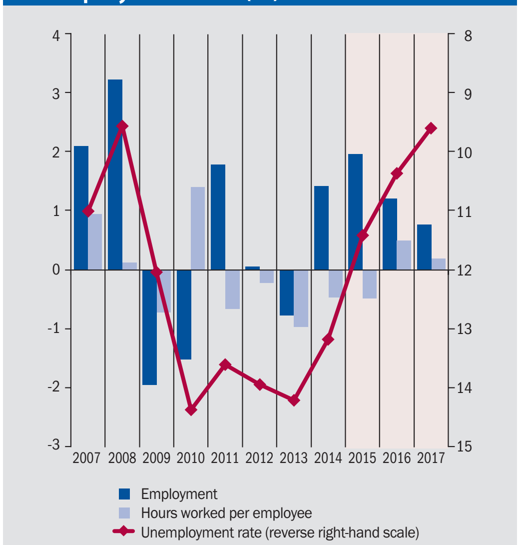
4.3 LABOUR COSTS AND PRICE DEVELOPMENTS

Marginal costs in the consumer sector expected to rise

The upward trend in nominal marginal costs in the consumer sector ended in the second quarter of 2015. This stemmed from both the lengthy downward trend in import prices and from a decline in intermediate goods prices, which reflected pipeline cost pressures from the domestic economy, mostly in the form of wage costs.

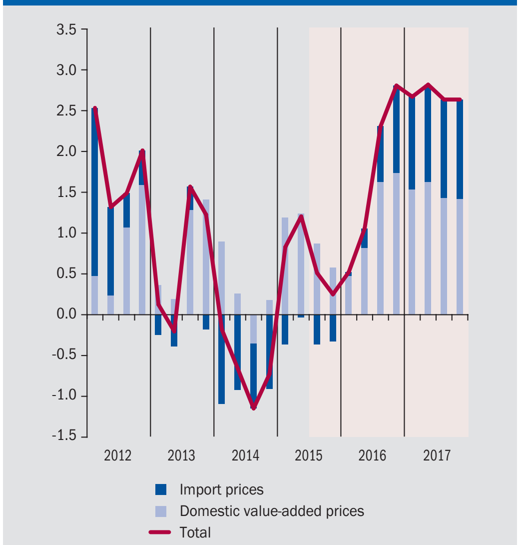
The upward impact of cost pressures on consumer prices is expected to increase over the projection horizon, reflecting rising cost growth in the domestic economy and above all the impact of wage cost growth (through both wages and employment), as well as the assumed acceleration of imported inflation. It is not envisaged, however, that these costs will pass through fully to consumer prices, but rather that they will be partially moderated by reduced profit margins in the sector concerned.

Chart 4 Employment, hours worked (annual percentage changes) and the unemployment rate (%)



Sources: SO SR and NBS.

Chart 5 Marginal costs in the consumer sector (year-on-year percentage changes)



Source: NBS calculations.

Table 4 Wages (annual percentage changes)

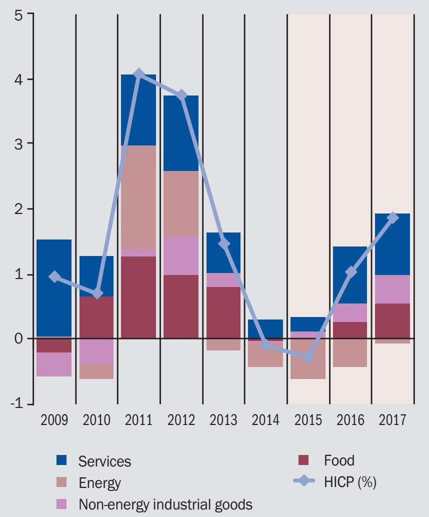
	2014	2015	2016	2017
Nominal labour productivity	0.9	1.0	3.6	4.8
Whole economy – nominal	4.1	2.7	3.5	3.9
Whole economy – real	4.2	3.0	2.5	1.9
Private sector – nominal	4.0	2.6	3.4	4.1
Private sector – real	4.1	2.8	2.3	2.1
Public administration, education and health care – nominal	4.6	3.4	4.0	3.3
Public administration, education and health care – real	4.7	3.6	2.9	1.3

Sources: SO SR, NBS calculations.
Note: Deflated by the CPI. The sector „Public administration, education and health care" corresponds to sections O, P and Q of the SK NACE Rev. 2 statistical classification of economic activities. Nominal average wage growth in the general government sector (ESA S.13) is expected to be 3.1% in 2015, 4.6% in 2016 and 3.1% in 2017.

Prices to rise only gradually over the projection horizon

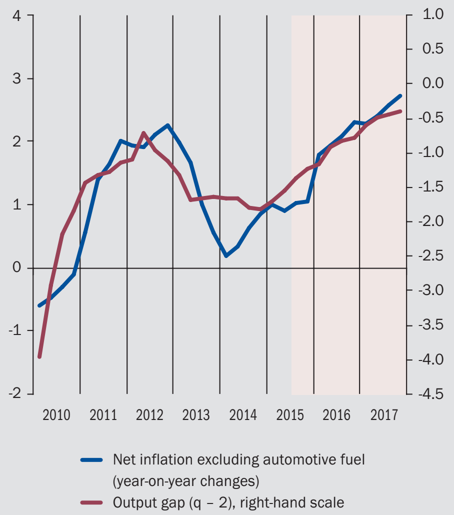
Given inflation dynamics in the past two months, the low-inflation environment (marginal year-on-year decline in prices) is expected to continue for the rest of this year. On the basis of technical assumptions, oil prices are projected to fall still further in 2016 and so put downward pressure on energy prices. This forecast therefore assumes reductions in gas prices as from September of this year and from January 2016, and in addition takes account of planned reductions in VAT on selected food products as from January 2016. Import prices are expected to continue having a dampening effect on inflation next year. For these reasons, the inflation rate is expected to remain relatively low in 2016. Despite the assumed decline in gas prices, average inflation in 2017 is expected to accelerate to 2%. This should reflect upward pressure from commodity prices and imported inflation, as well as from demand-side pressures that are projected to start rising gradually.

Chart 6 Composition of annual inflation (p.p.)



Sources: SO SR and NBS.

Chart 7 Net inflation excluding automotive fuel and the output gap (%)



Source: SO SR, NBS calculations.

Table 5 Inflation components (annual percentage changes)

	Average 2004 - 2008 (pre-crisis period)	Average 2009 - 2014 (post-crisis period)	2014	2015	2016	2017
HICP	4.1	1.8	-0.1	-0.3	1.0	1.9
Food	3.6	2.5	-0.2	0.0	1.1	2.3
Non-energy industrial goods	0.2	0.1	0.0	0.4	1.0	1.4
Energy	8.3	2.0	-2.2	-3.9	-2.7	-0.4
Services	5.3	2.8	1.0	0.7	2.8	3.0
Net inflation excluding automotive fuel	1.8	0.9	0.5	1.0	2.0	2.5

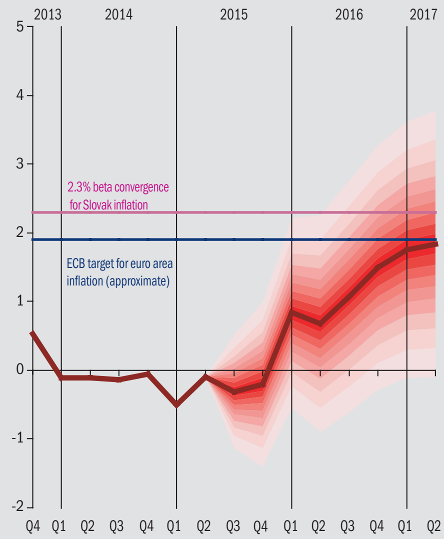
Sources: SO SR, NBS calculations.

5 Risks to the forecast

The risks to the outlook for the real economy over the projection horizon are on the upside, and include principally a planned new car plant in Slovakia. As a result of that, there may also be upward pressures on economic growth from construction and technological impulses over the forecast period. Only after the end of the period would the new car plant, if built, have a significant upward impact on export performance and the domestic economy.

The risks to the inflation forecast over the projection horizon are balanced.

Chart 8 HICP inflation forecast HICP (%)



Sources: SO SR and NBS.

Table 6 Risks to the forecast

	2015	2016	2017
GDP	Balanced	↑ Investment (Jaguar Land Rover)	↑ Investment (Jaguar Land Rover)
Inflation	Balanced	Balanced	Balanced

Source: NBS.

Box 1

IMPACT ASSESSMENT OF THE PLANNED NEW CAR PLANT IN SLOVAKIA

On 11 August 2015 the carmaker Jaguar Land Rover signed a letter of intent with the Slovak government to build a new car plant in Nitra region. Thus Slovakia is now the preferred, albeit still not finally selected, location for this major investment. If built, the plant would have a significant impact on the Slovak economy, due not only to the size of the investment (mentioned in the media, but still not confirmed), but also to its nature, since it would involve a large inflow of productive capital with considerable export potential. Furthermore, this would be invested in a sector where positive spillover effects for sub-suppliers are among the most extensive in the economy.

The impacts of this investment on GDP and employment were assessed using empirical research on the automotive industry[6]. The calculations are based on conservative assumptions that carmakers will maintain value added at around 10%, and their sub-suppliers at around 20%, of gross output. The assessment incorporating these assumptions was made through the production approach to measuring GDP.

6 *Luptáčik, M. et al., "Národohospodársky význam automobilového priemyslu pre Slovensko", EU, Bratislava 2013.*
Lábaj, M., "Analýza spillover efektov z priamych zahraničných investícií v SR", Finančné trhy, Bratislava 2013.

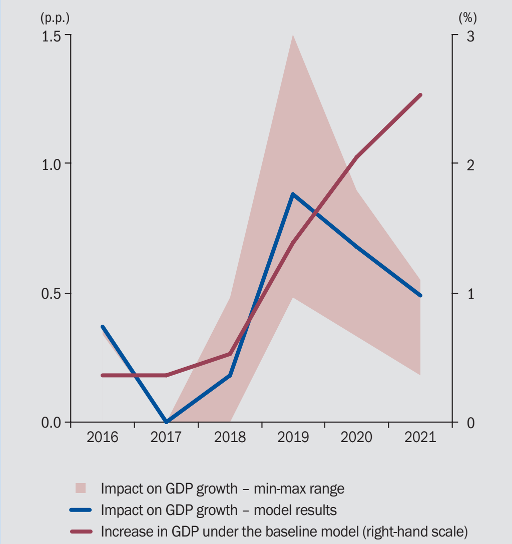
Looking at the composition of the investment in terms of domestic and imported inputs, the ratio was estimated (based on the experience of carmakers already established in the country) to be 25:75 in favour of imported inputs. As regards the impact on employment, the plant is expected to reach peak job creation when it is at full production. The impact in terms of the ratio between direct and induced job creation[7] is estimated at 1:3 under the baseline model.

The baseline model envisages that the investment will be phased in. The first year (2016) will be focused on construction investment, with a direct positive impact on the domestic construction sector and, through the increase in fixed capital formation, on GDP growth. In the second stage (from the end of 2016 to early 2018), construction investment will be overlapping with investment in imported plant and machinery. This in turn will increase demand for imports, which although they will not affect GDP at that time, will have an upward impact on labour productivity over the medium-term horizon. It was assumed that the roll-out of production will be in 2018 (as reported in the media) and that the gradual ramping up of production to the projected level of 300,000 cars per year will be completed in 2021.

The estimated minimum impact of the investment on GDP comprises the direct impact of plant construction and car production using imported and domestic inputs, and it is calculated to be 1.1% by 2021. The maximum impact comprises the direct effects plus the estimates for indirect and induced production. Car production calls for suppliers of car parts and accessories and has a multiplication effect in the automotive industry. This sector surpasses all others in its demand for supplies and in this way indirectly stimulates production, particularly in the manufacture of metals, electronics, rubber plastic products, and textiles, in the energy sector, and in the provision of transport and business services. Such a boost to output across the economy brings additional wage earnings, which in turn supports demand for consumer goods and services, two-thirds of which are produced in the domestic economy. Additional wages are a source of induced production. Taking into account the multiplier effect, the positive impact on GDP is assumed to be 3.3% by 2021.

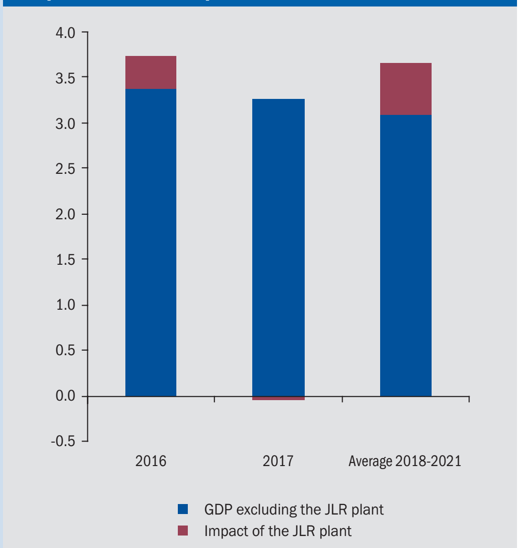
The baseline model is based on an NBS economic model incorporating the direct (minimum) impact of the car plant. According to the model outcomes, the new plant could increase GDP by around 2.6% (while the minimum im-

Chart A Estimated impact of the JLR plant on GDP growth (p.p.) and GDP



Source: NBS calculations.

Chart B Estimated GDP growth including the impact of the JLR plant (%)



Source: NBS calculations.

7 Empirical research shows that for every one job generated in car production, three to six are generated elsewhere in the economy, both among firms throughout the production chain and as a result of induced consumption demand in the household sector. A ratio of 1:6 is assumed for the period when the production chain is being established and foreign sub-suppliers of systems and parts relocate to Slovakia. In the meantime, the interlinkage of domestic firms may increase at the expense of foreign rivals, implying among other things a lower import intensity of car exports.

Table A Impact of the JLR plant on the economy – simulated impact on growth (p.p.)

	2016	2017	2018	2019	2020	2021	cumulative
HICP	0.00	0.00	-0.02	0.10	0.19	0.29	**0.6**
Household consumption	0.01	0.03	0.04	0.28	0.21	0.22	**0.8**
Investment	1.96	6.59	-8.45	-0.41	0.72	0.58	**1.0**
Exports	0.02	-0.01	1.29	2.51	1.50	0.69	**6.0**
Imports	0.10	1.69	-0.95	1.89	1.29	0.58	**4.6**
GDP	0.37	-0.04	0.18	0.88	0.68	0.49	**2.6**
Employment	0.02	0.01	0.07	0.15	0.24	0.28	**0.8**
Employment (in thousands of persons)	0.40	0.20	0.90	3.50	5.70	6.70	**17.4**

Source: NBS calculations (broad estimate based on previous investments in automotive industry).

pact is estimated at 1.1% and the maximum impact at 3.3%) and could increase headcount employment by 17,400 by 2021.

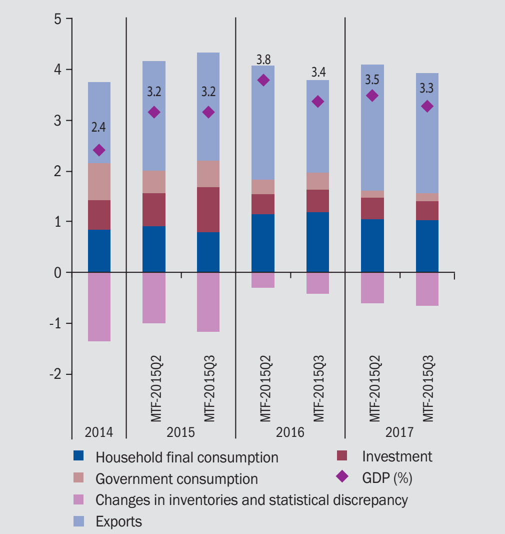
Under this scenario, a large part of the current deterioration in the macroeconomic outlook would be removed. The model calculation (in particular the impact on specific years) is highly sensitive to input assumptions. Since more detailed data are not yet available, this calculation should be treated as no more than indicative.

6 Comparison with the previous forecast

Weaker pace of GDP growth owing to deterioration in global growth outlooks

Compared with the previous forecast, the projections for external demand over the projection horizon have been revised down in this forecast by a cumulative 2.1 percentage points. External demand growth is therefore expected to be weaker than envisaged in the June forecast, with the slowdown being negatively reflected in Slovakia's export performance. As for the domestic economy, its currently stronger than expected dynamics have prompted an upward revision of next year's projections for all components of domestic demand. In 2017, however, domestic demand is expected to be affected by weakening exports and its growth should be slightly lower than projected in the previous forecast.

Chart 9 Composition of GDP growth[1)] (annual percentage changes; contributions in p.p.)



Sources: SO SR and NBS.
Note: The item "Changes in inventories and statistical discrepancy" includes uncategorised imports that remained after the calculation of import intensity.
1) The composition of GDP growth is calculated as the contributions of components to GDP growth after deducting their import intensity. In this case the calculation uses the constant import intensity of the different GDP components (household final consumption – 30%, government consumption – 7%, investment – 50%, and exports – 62.5%). Remaining imports were included under changes in inventories and the statistical discrepancy.

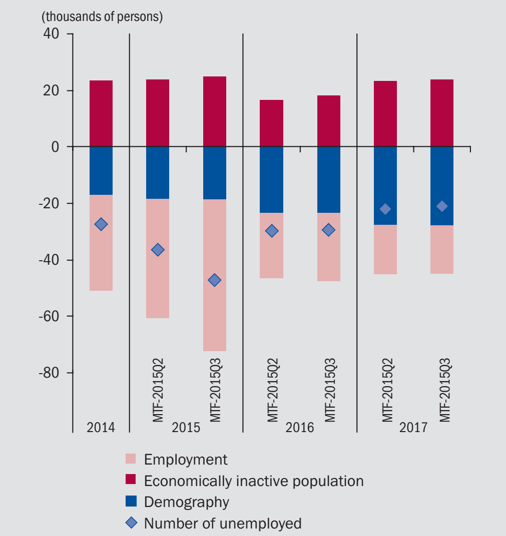
More favourable labour market trends

The better than expected conditions in the labour market have been reflected in the latest projections for this year. Compared with the previous forecast, employment growth is expected to be higher and the unemployment rate should fall more rapidly. The real household income growth forecast for this year has been revised up in response to lower inflation and administrative measures (an increase in the minimum wage and rebates on household gas bills). The projection for real disposable income growth in 2017 has been revised down slightly in 2017, reflecting two factors with opposing impacts.

Inflation forecast over projection horizon revised down

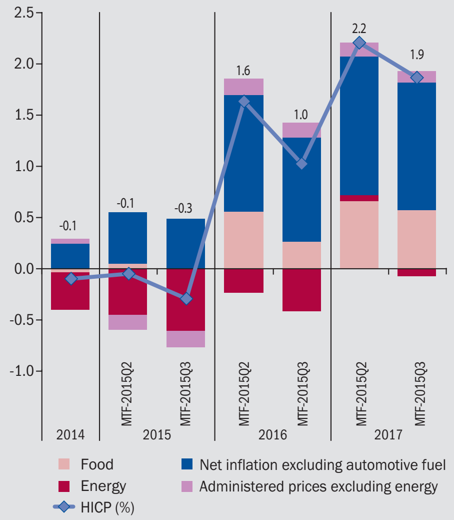
The projections for the inflation rate have been revised down, largely on the basis of technical assumptions. Prices of oil and agricultural commodities are expected to be lower than projected in the previous forecast, resulting in weaker food price inflation and a more marked decrease in energy prices.

Chart 10 Comparison of labour market indicators (contributions to unemployment)



Sources: SO SR and NBS.

Chart 11 Comparison of inflation components (annual percentage changes; contributions in p.p.)



Sources: SO SR and NBS.

7 Impact of the MTF-2015Q3 macroeconomic forecast on public finances

Applying the macroeconomic assumptions of this forecast (MTF-2015Q3) to the legislative assumptions from the September 2015 meeting of the Tax Revenue Forecasting Committee, the projected collection of taxes and social contributions would be unchanged in 2015 (a negligible difference of €7 million) and higher in the next two years, by 0.3% of GDP in 2016 and 0.2% of GDP in 2017. The improved macroeconomic projections for the labour market imply mainly an increase in the collection of social contributions as well as growth in direct tax revenues. The revised government investment projections have a negative impact on the VAT revenue outlook for both 2016 and 2017, but that is offset by the projection for nominal consumption growth, which is higher than the September assumption of the Finance Ministry's Financial Policy Institute (FPI). If the baseline scenario were to include the planned car plant investment of Jaguar Land Rover, there would be only a marginal increase in tax and social contribution revenues in 2016 and 2017.

Table 7 Differences in projections for tax and social contribution revenues in Slovakia's public finances (EUR millions, unless otherwise stated)

How the tax collection outlook under MTF-2015Q3 macroeconomic projections differs from the outlook according to FPI assumptions (September 2015)	2015	2016	2017
Personal income tax	8	26	11
Corporate income tax	2	23	25
Withholding tax	0	0	0
VAT	-48	65	65
Excise duties	0	5	3
Social and health insurance	29	92	35
Total (impact of taxes and contributions)	-9	212	141
Total (impact of taxes and contributions, % of GDP)	0.0	0.3	0.2
Impact of nominal GDP changes on the deficit target[1)]	1	17	9
Total	**-7**	**228**	**149**
Total (% HDP)	**0.0**	**0.3**	**0.2**
Special item – additional estimated impact of the scenario including the planned JLR investment[2)]	**0**	**20**	**17**

Source: NBS – based on the estimated impact of macroeconomic developments on the general government balance, as calculated by the Finance Ministry's Financial Policy Institute (FPI).
1) Change in nominal deficit resulting from change in GDP, assuming attainment of fiscal target as a percentage of GDP (where "-" denotes an improvement in the nominal deficit and "+" denotes a deterioration).
2) Not including potential negative impacts, such as tax breaks, etc.

Table 8 Medium-Term Forecast (MTF-2015Q2) for key macroeconomic indicators

Indicator	Unit	Actual	MTF-2015Q3			Difference versus MTF-2015Q2		
		2014	2015	2016	2017	2015	2016	2017
Prices								
HICP inflation	annual percentage changes	-0.1	-0.3	1.0	1.9	-0.2	-0.6	-0.3
CPI inflation	annual percentage changes	-0.1	-0.2	1.1	2.0	-0.2	-0.6	-0.3
GDP deflator	annual percentage changes	-0.2	-0.1	1.5	2.2	-0.2	-0.3	-0.1
Economic activity								
Gross domestic product	annual percentage changes, constant prices	2.4	3.2	3.4	3.3	0.0	-0.4	-0.2
Final consumption of households	annual percentage changes, constant prices	2.2	2.2	3.2	2.8	-0.2	0.1	-0.1
Final consumption of general government	annual percentage changes, constant prices	4.4	3.1	2.0	1.0	0.5	0.3	0.2
Gross fixed capital formation	annual percentage changes, constant prices	5.7	8.1	4.0	3.3	2.0	0.4	-0.5
Exports of goods and services	annual percentage changes, constant prices	4.6	5.9	4.9	6.3	-0.1	-1.2	-0.3
Imports of goods and services	annual percentage changes, constant prices	5.0	7.1	4.9	5.8	1.8	-0.6	-0.3
Net exports	EUR millions in constant prices	5,085	4,623	4,878	5,543	-1,194	-1,743	-1,896
Output gap	% of potential output	-1.7	-1.2	-0.7	-0.4	-0.1	-0.6	-0.9
Gross domestic product	EUR millions in current prices	75,215	77,541	81,347	85,865	-177	-783	-1,143
Labour market								
Employment	thousands of persons, ESA 2010	2,223	2,267	2,294	2,311	11.9	13.1	12.8
Employment	annual percentage changes, ESA 2010	1.4	2.0	1.2	0.8	0.6	0.0	0.0
Number of unemployed	thousands of persons [1)]	359	311	282	261	-10.8	-10.5	-9.4
Unemployment rate	%	13.2	11.4	10.4	9.6	-0.4	-0.4	-0.4
Unemployment gap [2)]	p. p.	2.0	1.1	0.5	0.2	0.1	0.1	0.2
Labour productivity [3)]	annual percentage changes	1.0	1.2	2.1	2.5	-0.6	-0.5	-0.2
Nominal productivity [4)]	annual percentage changes	0.9	1.0	3.6	4.8	-0.7	-0.9	-0.3
Nominal compensation per employee	annual percentage changes, ESA 2010	3.4	2.1	3.6	3.9	-0.5	0.0	-0.5
Nominal wages [5)]	annual percentage changes	4.1	2.7	3.5	3.9	0.1	-0.1	-0.5
Real wages [6)]	annual percentage changes	4.2	3.0	2.5	1.9	0.4	0.6	0.0
Households								
Disposable income	constant prices	3.6	2.4	3.5	2.7	-0.3	0.4	-0.2
Saving ratio	% of disposable income	8.7	9.1	9.4	9.3	0.1	0.4	0.3
Balance of payments								
Goods balance	% of GDP	4.5	3.2	3.0	3.1	-1.2	-1.5	-1.6
Current account	% of GDP	0.1	0.0	-0.5	-0.2	-1.0	-1.5	-1.6
External environment and technical assumptions								
External demand growth for Slovakia	annual percentage changes	4.4	3.1	4.3	5.2	-0.8	-0.9	-0.4
Exchange rate (EUR/USD) [7) 8)]	level	1.33	1.11	1.11	1.11	-0.3	-0.3	-0.3
Oil price in USD [7) 8)]	level	98.9	54.1	53.1	57.7	-15.2	-25.2	-21.1
Oil price in USD	annual percentage changes	-9.1	-45.3	-1.8	8.6	-9.7	-13.2	5.6
Oil price in EUR	annual percentage changes	-9.2	-34.8	-1.9	8.6	-11.5	-13.2	5.6
Non-energy commodity prices in USD [9)]	annual percentage changes	-8.6	-19.7	-4.6	4.4	-6.1	-7.5	-0.5
EURIBOR 3M [9)]	% p. a.	0.2	0.0	0.0	0.1	0.0	-0.1	-0.1
10-Y Slovak government bond yields	%	2.1	0.8	0.7	0.9	-0.1	-0.2	-0.2

Sources: NBS, ECB and SO SR.

1) *Labour Force Survey.*
2) *Difference between the unemployment rate and NAIRU (non-accelerating inflation rate of unemployment). A positive value indicates that the unemployment rate is higher than the NAIRU.*
3) *GDP at constant prices / employment – ESA 2010.*
4) *Nominal GDP divided by persons in employment (according to SO SR quarterly statistical reporting).*
5) *Average monthly wages (according to SO SR statistical reporting).*
6) *Wages according to SO SR statistical reporting, deflated by CPI inflation.*
7) *Changes vis-à-vis the previous forecast (in per cent).*
8) *Technical assumptions for the exchange and oil prices are based on information available at 7 September.*
9) *Technical assumptions for interest rates and non-energy commodity prices are based on market expectations, with a cut-off date of 12 August 2015. The assumption for short-term interest rates is of a purely technical nature.*

Time series of selected macroeconomic indicators can be found on the NBS website at
http://www.nbs.sk/_img/Documents/_Publikacie/PREDIK/2015/protected/P3Q-2015.xls