Report on the Slovak Economy

June 2019

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Abbreviations

CPI	consumer price index
EA	euro area
ECB	European Central Bank
EC	European Commission
EMEs	emerging market economies
EONIA	euro overnight index average
ESA 2010	European System of Accounts 2010
ESI	Economic Sentiment Indicator (European Commission)
EU	European Union
EUR	euro
EURIBOR	euro interbank offered rate
Eurostat	statistical office of the European Union
FDI	foreign direct investment
GDP	gross domestic product
GNDI	gross national disposable income
GNI	gross national income
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MFI	monetary financial institutions
MF SR	Ministry of Finance of the Slovak Republic
MMF	money market fund
MTF	NBS's Medium-Term Forecast (published on a quarterly basis)
NACE	Statistical Classification of Economic Activities in the European Community (Rev. 2)
NARKS	National Association of Real Estate Offices of Slovakia
NBS	Národná banka Slovenska
NEER	nominal effective exchange rate
NFC	non-financial corporation
NPISHs	non-profit institutions serving households
OECD	Organisation for Economic Co-operation and Development
p.a.	per annum
p.p.	percentage point
PMI	Purchasing Managers' Index
REER	real effective exchange rate
SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Asset Management Companies
SME	small and medium-sized enterprise
SO SR	Statistical Office of the Slovak Republic
ULC	unit labour costs

ÚPSVR	Ústredie práce, sociálnych vecí a rodiny – Central Office of Labour, Social Affairs and Family
ÚRSO	Úrad pre reguláciu sieťových odvetví – Regulatory Office for Network Industries
USD	US dollar
VAT	value-added tax

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 expanded in the first quarter of 2019 by 3.7% year on year, compared with 3.6% in the fourth quarter of 2018. The quarter-on-quarter rate of growth reached 0.9%. The higher annual growth rate was due mainly to net exports. Private and public consumption, as well as investment grew at a more moderate pace.

Employment rose in the period under review by 1.8% year on year, compared with 1.7% in the last quarter of 2018. The rise in employment took place mostly in services. The average wage in the economy increased more steeply in the first quarter of this year, by 7.1% year on year (compared with 5.8% in the previous quarter), owing mainly to favourable developments in the public sector.

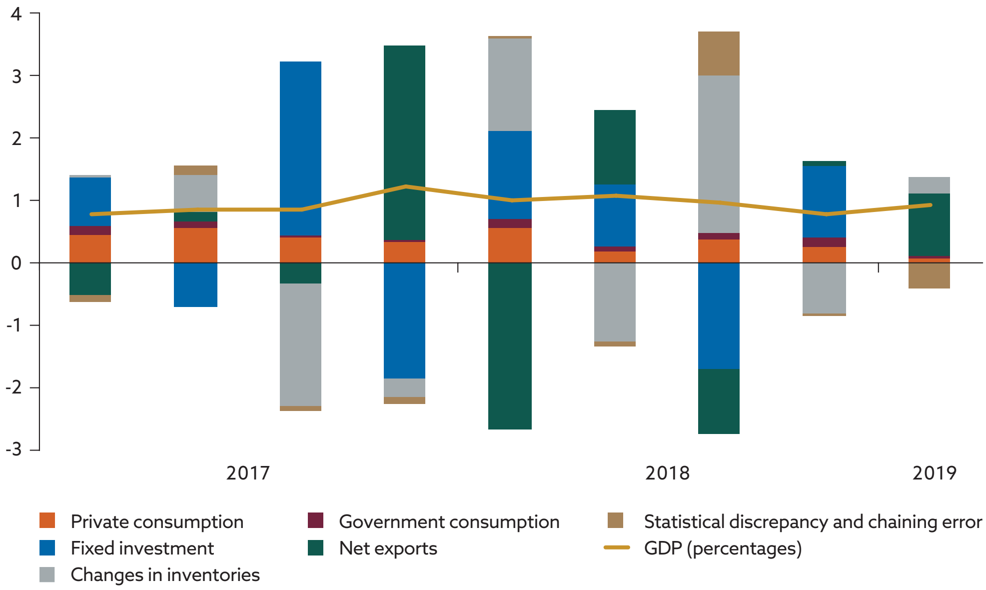
Annual HICP inflation accelerated somewhat in the first quarter of 2019, to 2.4% (from 2.1% in the previous quarter), owing mainly to a rise in energy and processed food prices.

2 Gross domestic product

The Slovak economy continued growing in the first quarter of 2019 at broadly the same pace as at the end of last year (3.7% year on year). The structure of growth was, however, different in the period under review, with foreign trade being the main driver of growth. Exports continued to profit from the production of new car models, while imports grew at a more moderate pace, making a positive contribution to the improving trade balance. The domestic part of the economy made only a marginal contribution to growth. At the beginning of this year, all components of domestic demand, private and public consumption, and investment recorded a slowdown.

Chart 1

GDP and its components (quarter-on-quarter percentage changes; percentage point contributions; constant prices)



Sources: SO SR and NBS calculations.

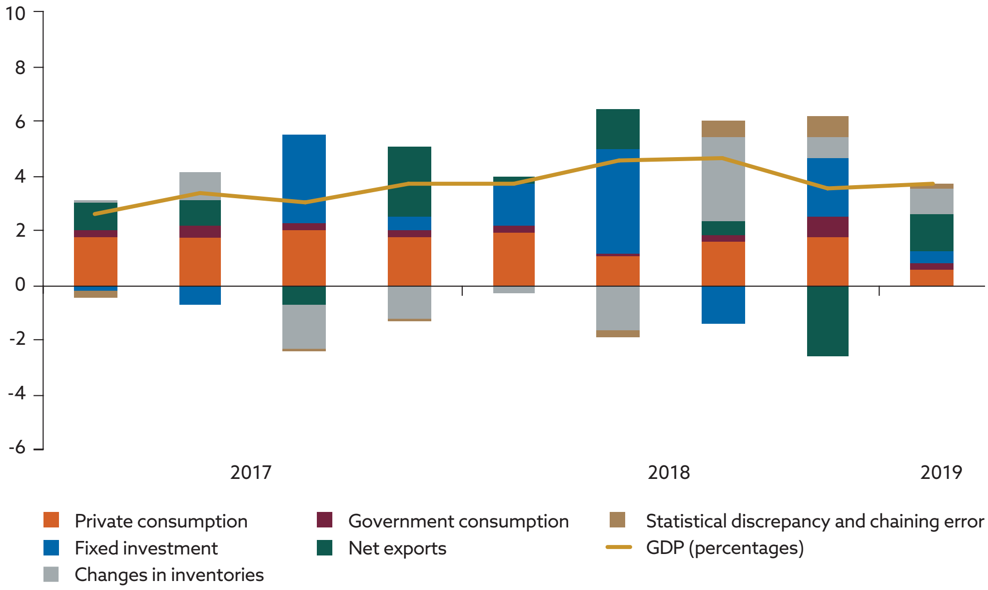
In quarter-on-quarter terms, Slovakia's GDP increased in the period under review by 0.9%, after seasonal adjustment. The country's economic output in the first quarter was supported mostly by net exports, while the contribution of domestic demand was close to zero.

Table 1 GDP by expenditure (percentage changes compared with the previous period; constant prices)						
	2018					2019
	Q1	Q2	Q3	Q4	Year	Q1
Gross domestic product	1.0	1.1	1.0	0.8	**4.1**	0.9
Final consumption of households and non-profit institutions serving households	1.1	0.3	0.7	0.5	**3.0**	0.1
Final consumption of general government	0.7	0.4	0.6	0.7	**1.9**	0.2
Gross fixed capital formation	6.8	4.5	-7.2	5.4	**6.8**	0.0
Exports of goods and services	-1.3	2.9	0.7	2.4	**4.8**	1.1
Imports of goods and services	1.4	1.8	1.8	2.5	**5.3**	0.1

Source: SO SR.

Chart 2

GDP and its components (annual percentage changes; percentage point contributions; constant prices; non-seasonally adjusted)

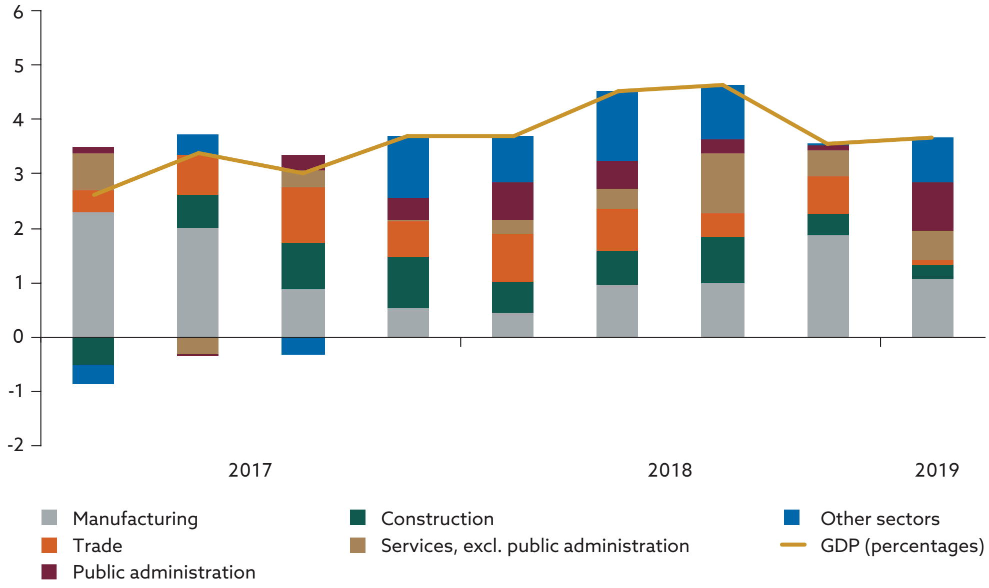


Sources: SO SR and NBS calculations.

On the production side, economic growth was stimulated more or less by all sectors. The contribution of value added from manufacturing and trade diminished at the beginning of the year. This was, however, compensated for by other sectors. Production growth in the public and energy sectors recovered in the period under review, and GDP growth continued to be supported by effective tax collection.

Chart 3

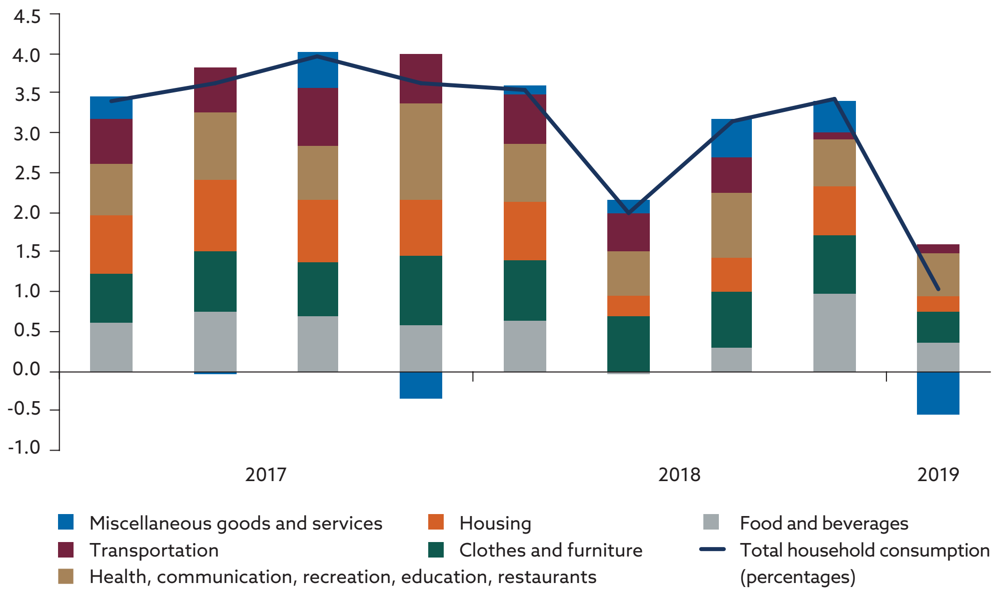
GDP – production-side contributions of sectors to annual percentage changes (percentage points; constant prices, non-seasonally adjusted)



Sources: SO SR and NBS calculations.

Chart 4

Private consumption of households – contributions to annual percentage changes (percentage points; constant prices; non-seasonally adjusted)

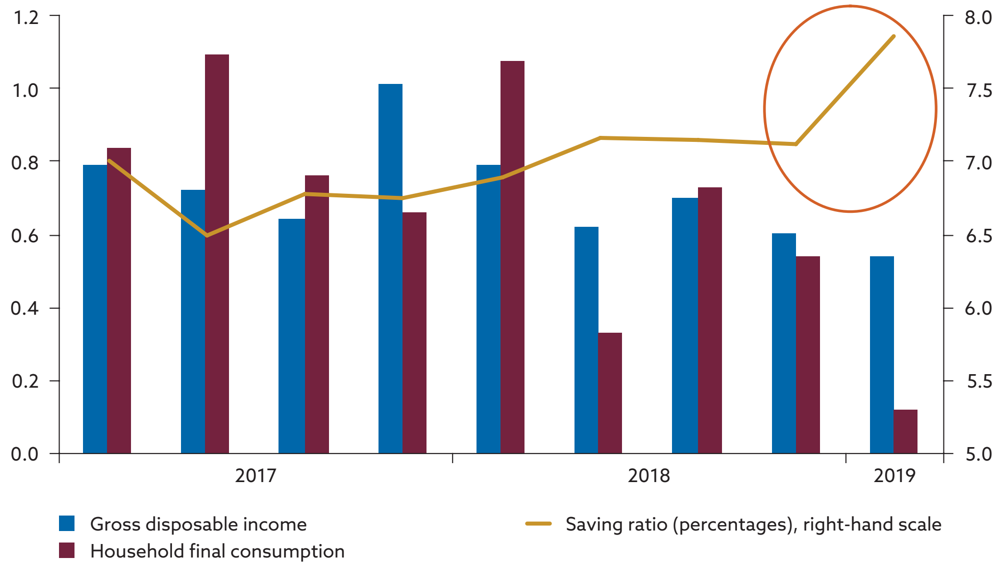


Sources: SO SR and NBS calculations.

Although household income continued rising, household final consumption growth slowed considerably in the first quarter, to 1.1% year on year. The positive trends in employment and wages led to growth in households' disposable income. Household income rose partly as a result of an increase in employee compensation and partly owing to a modest rise in the income of self-employed persons. However, households did not use their higher disposable income to increase their final consumption, which led to a rise in the saving ratio. Broken down by component, the slowdown in consumption growth was caused mainly by lower spending on miscellaneous goods and services, housing, clothes and furniture. Households' food purchases decreased, too, but this was probably due in part to the concentration of pre-Easter purchases in the second quarter this year. The non-standard consumer preferences of households were also reflected in the substantially lower level of spending on non-durable goods and services in the period under review. In the previous period (when the saving ratio increased), the majority of households restricted their purchases of durable goods in particular, but the rate of growth in such purchases slowed only slightly at the beginning of the year.

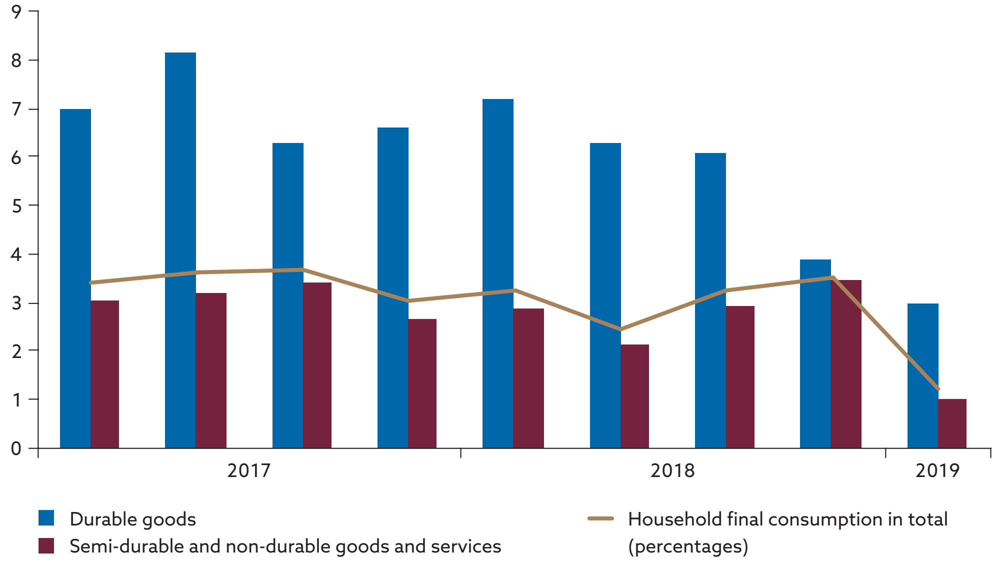
Chart 5

Gross disposable income and household consumption (quarter-on-quarter percentage changes; constant prices)



Sources: SO SR and NBS calculations.

Chart 6
Household consumption broken down by durability of goods consumed
(annual percentage changes; constant prices; non-seasonally adjusted)



Sources: SO SR and NBS calculations.

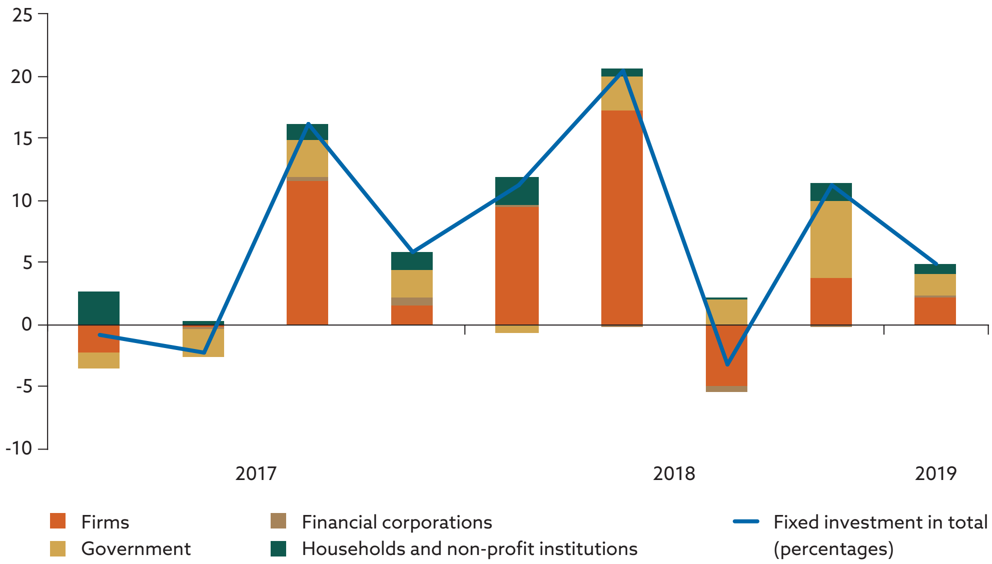
General government consumption rose by only 1.5%, because the increase in employees' compensation at the beginning of the year was offset by a marked fall in spending on goods and services.

Fixed investment growth slowed to 2.1% year on year, owing to a moderation in public investment accompanied by decline in investment in the automotive industry. After an increased drawdown of EU funds at the end of last year, fixed capital formation moderated in the public sector. Government investment in infrastructure, however, remained the main component of fixed investment. The private sector recorded a fall in investment activity in the automotive industry, which was, however, offset by increased capital formation in the energy sector, trade and real estate activities. Broken down by the classification of production, the main source of growth was investment in other machines and residential buildings.

The positive contribution of foreign trade to economic growth recovered in the first quarter of this year, with foreign trade becoming the main source of growth. The positive balance resulted, on the one hand, from faster growth in the exports of goods and services (by 7.2% year on year) and, on the other hand, from slower growth in imports (by 6.4% year on year). The main driver of export growth was still the automotive industry. Exports to euro area countries increased considerably, in particular exports to Germany, which is, within the global value chain, the major destination country for Slovak exports. Other destination countries are the United Kingdom and the USA, owing probably to car importers stocking up ahead of the introduction of customs and non-tariff trade barriers at the end of last year. Imports of goods and services, unlike exports, increased year on year at a slower pace in the period under review. This was probably connected with a moderation in the domestic part of the economy.

Chart 7

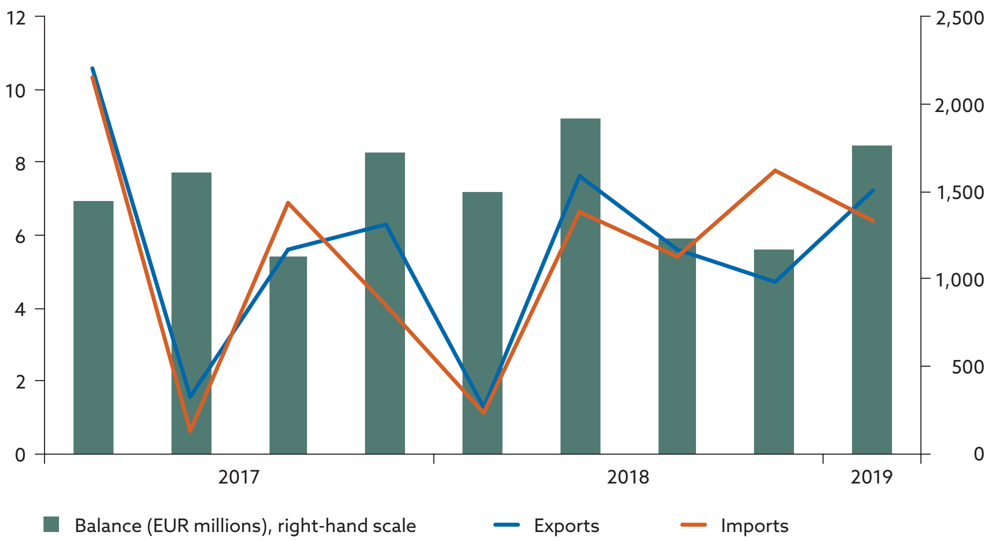
Investment – sectoral contributions to annual percentage changes (percentage points; current prices; non-seasonally adjusted)



Sources: SO SR and NBS calculations.

Chart 8

Exports and imports of goods and services (annual percentage changes; constant prices; non-seasonally adjusted)

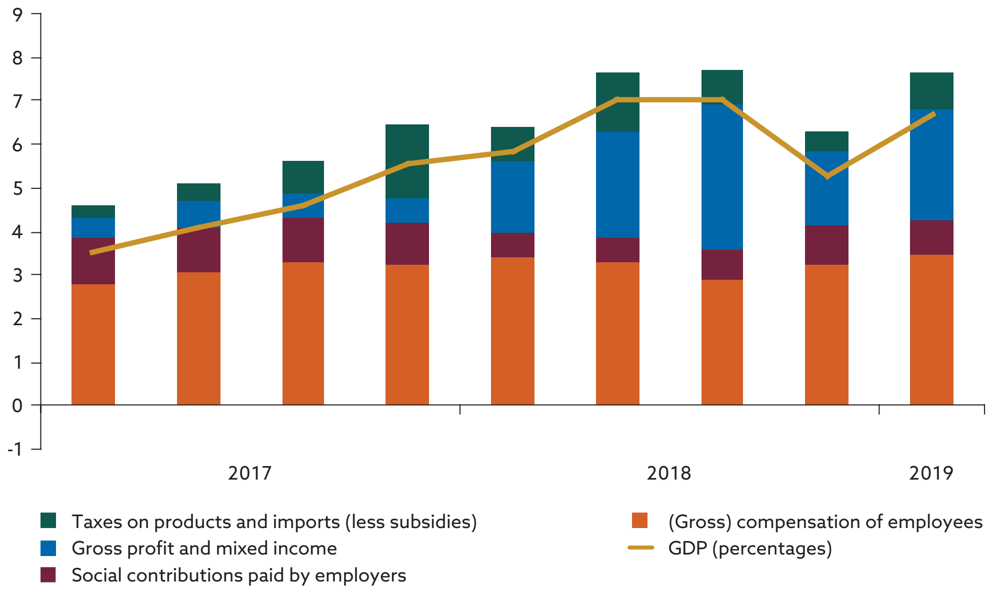


Sources: SO SR and NBS calculations.

Looking at GDP at current prices as calculated using the income approach, it is evident that the accelerated economic growth at current prices was caused mainly by faster growth in entrepreneurial income (gross profits and mixed income) and, to a lesser extent, by faster growth in taxes on products and imports. Income from work remained strong in the period under review and its contribution to annual GDP growth increased slightly.

Chart 9

GDP – revenue-side contributions to annual percentage changes (percentage points; current prices; non-seasonally adjusted)



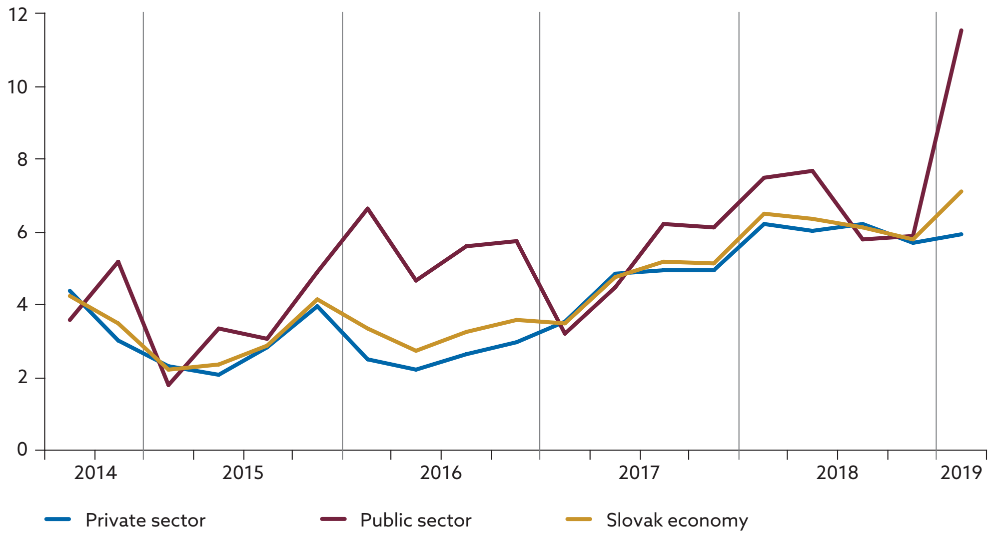
Sources: SO SR and NBS calculations.

3 The labour market

3.1 Wages and labour productivity

Average wage growth in the economy as a whole accelerated significantly in the first quarter of 2019. The annual rate of average wage growth rose, quarter on quarter, by 1.3 percentage points, to 7.1%, owing mainly to accelerated wage growth in the public sector (from 5.9% to 11.5%). This development was caused by increases in the contractual wages of court employees (24%) and of employees working in public and state services (10%), recorded since the beginning of this year. By contrast, the private sector contributed only slightly to the accelerating wage growth. Wage growth in the private sector was stimulated by trade and services, while manufacturing had a dampening effect on wage growth. In general, higher wage increases were recorded in sectors with lower average wages. Real wages rose by an average of 4.6% year on year, representing an acceleration of 1.1 percentage points compared with the last quarter of 2018. An important factor in wage growth in the economy as a whole was the rise in basic wages, as the volume of irregular one-off bonus payments decreased year on year (in both the private and public sectors). In view of the anticipated slower rise in economic activity, wage growth in the private sector is not expected to accelerate significantly in the periods ahead. Wage growth in the second quarter, however, may be supported to some extent by an increase in extra pays as from 1 May 2019.

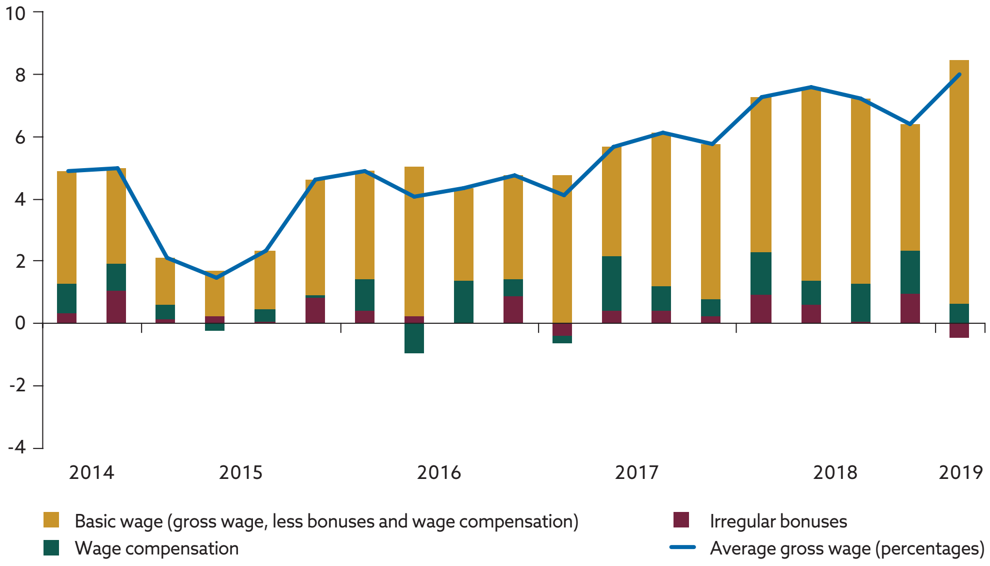
Chart 10
Wage developments in the main sectors of the economy (annual percentage changes)



Sources: SO SR and NBS calculations.
Note: The data for the public sector were calculated on the basis of developments in the categories O, P and Q of the NACE classification.

Chart 11

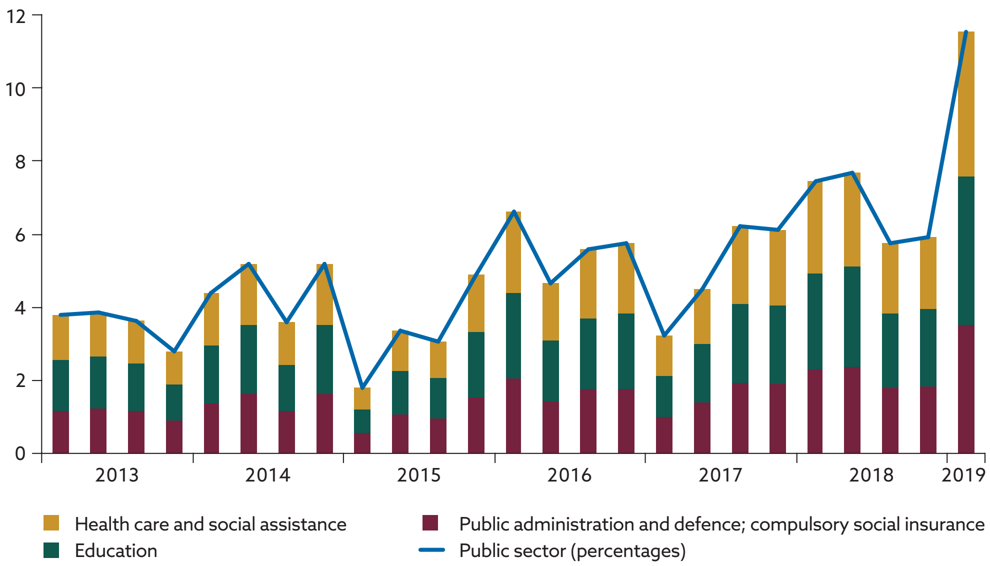
Average wage components (annual percentage changes; percentage point contributions)



Sources: SO SR and NBS calculations.
Note: The data for organisations with 20+ employees include organisations in the public and financial sectors, irrespective of the number of employees.

Chart 12

Wages developments in the public sector (annual percentage changes; percentage point contributions)



Sources: SO SR and NBS calculations.

Compensation per employee, i.e. gross wages and other employee-related expenses, increased in the first quarter of 2019 by 6.3% year on year, representing an acceleration in comparison with the previous quarter (5.5%). This was mainly due to growth in the volume of wages and salaries paid in the public sector. Despite its acceleration (to 4.8% year on year), nominal labour productivity growth continued to lag behind the growth in average wages and labour costs. The faster growth in labour costs may lead to a gradual acceleration in price inflation.

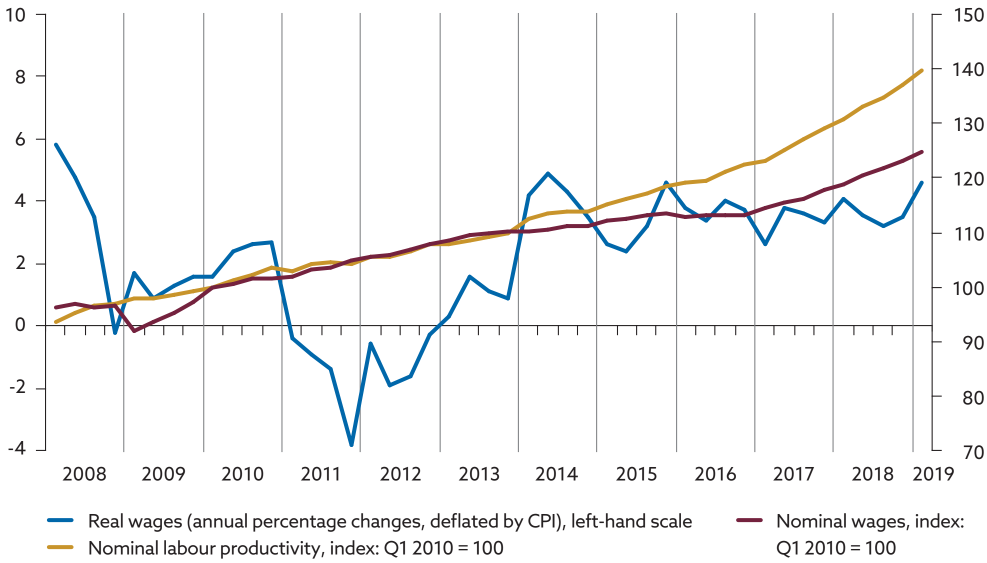
Table 2 Wages and labour productivity (annual percentage changes)

	2018					2019
	Q1	Q2	Q3	Q4	Year	Q1
Average wage (headline)	6.5	6.4	6.1	5.8	**6.2**	7.1
Consumer price inflation	2.3	2.8	2.7	2.2	**2.5**	2.4
Average real wage (headline)	4.1	3.5	3.3	3.5	**3.6**	4.6
Average wage (ESA 2010)	6.2	6.2	5.5	4.9	**5.7**	6.4
Compensation per employee (ESA 2010)	5.4	5.6	5.3	5.5	**5.4**	6.3
Nominal labour productivity (ESA 2010)	3.5	4.8	5.0	3.5	**4.2**	4.8
Real labour productivity (ESA 2010)	1.4	2.3	2.7	1.8	**2.1**	1.8

Sources: SO SR and NBS calculations.
Note: Average wages (headline) are based on data from SO SR statistical reports. Average real wages were calculated on the basis of CPI inflation. Labour productivity (ESA 2010) was calculated as the ratio of nominal GDP to employment as defined in the ESA 2010 methodology.

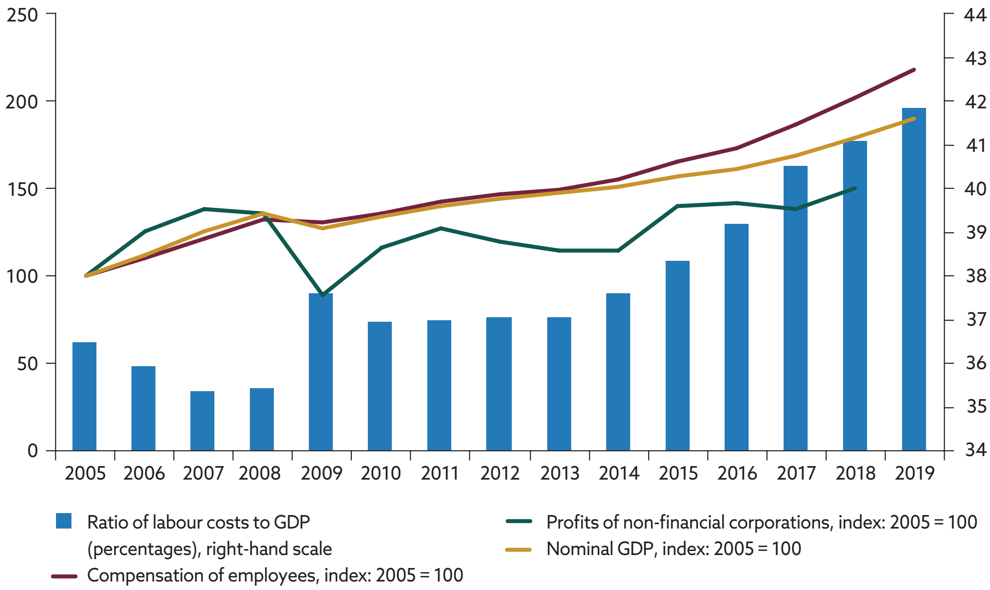
Chart 13

Wages and labour productivity (percentages; index)



Sources: SO SR and NBS calculations.
Note: Wages are based on data from SO SR statistical reports. Nominal labour productivity was calculated from employment according to SO SR statistical reports. Base indices are based on seasonally adjusted data.

Chart 14
Labour costs in the economy (percentages; index)



Sources: SO SR and NBS calculations.

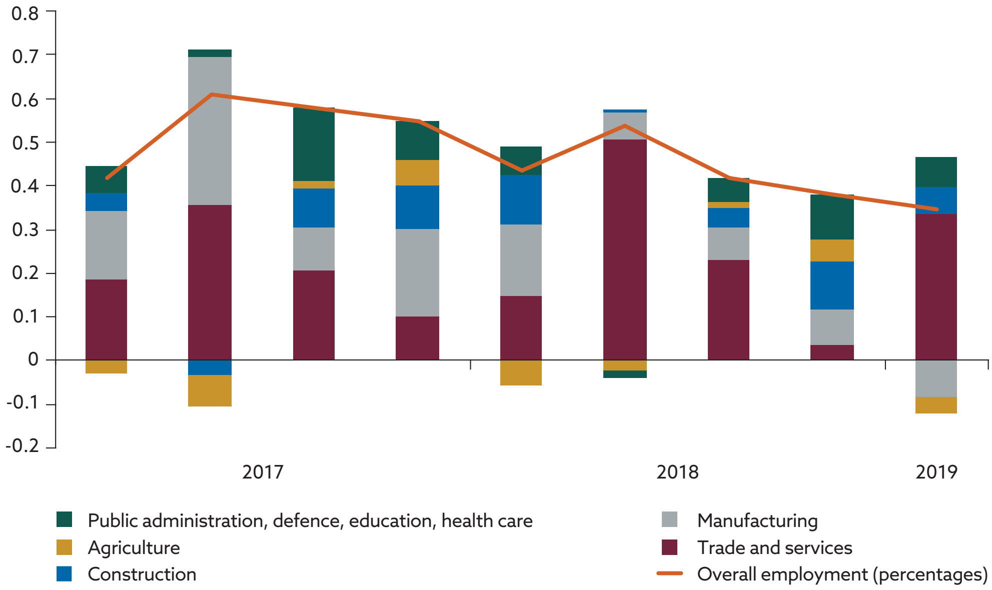
3.2 Employment and unemployment

Employment continued to grow relatively dynamically. The rate of employment growth in the first quarter of 2019 was more moderate than the average figure for 2018, in both year-on-year and quarter-on-quarter terms. The annual rate of employment growth reached 1.8%, compared with 2.0% in 2018. Employment growth was supported by services, in particular by real estate activities and professional and administrative services, which accounted for more than a half of the overall year-on-year rise in employment. On the other hand, the rate of employment growth in manufacturing continued to slow amid the weakening global demand, below 1% (in quarter-on-quarter terms, it even fell into negative territory). Employment in trade also declined quarter on quarter, owing probably to the reduced opening hours of some retail chains. The gradual slowdown in employment growth was a consequence of skilled labour shortages and of the slower economic growth. Employers' expectations for the second quarter point to a possible moderation in the rate of employment growth in the period ahead, especially in manufacturing.

The number of job vacancies increased gradually. According to data from Trexima, a company conducting statistical surveys of job vacancies, the average period during which a job vacancy remains unoccupied was 48 days in the first quarter (compared with 27 days a year ago). Their surveys also indicate that the biggest problems firms are facing in filling job vacancies are the applicants' inappropriate qualification, unacceptable wage demands, and insufficient skills.

Chart 15

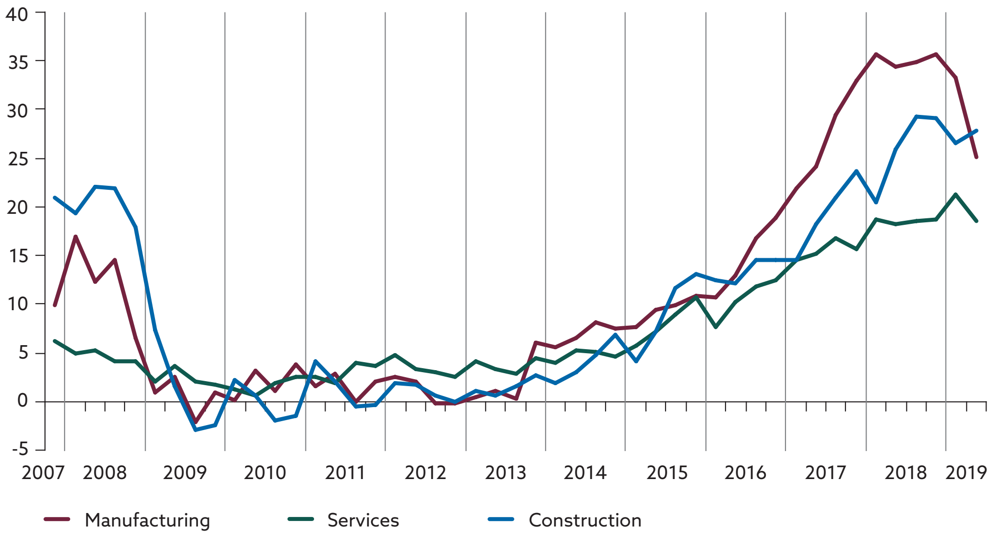
Employment – sectoral contributions to quarter-on-quarter percentage changes (percentage points)



Source: SO SR.

Chart 16

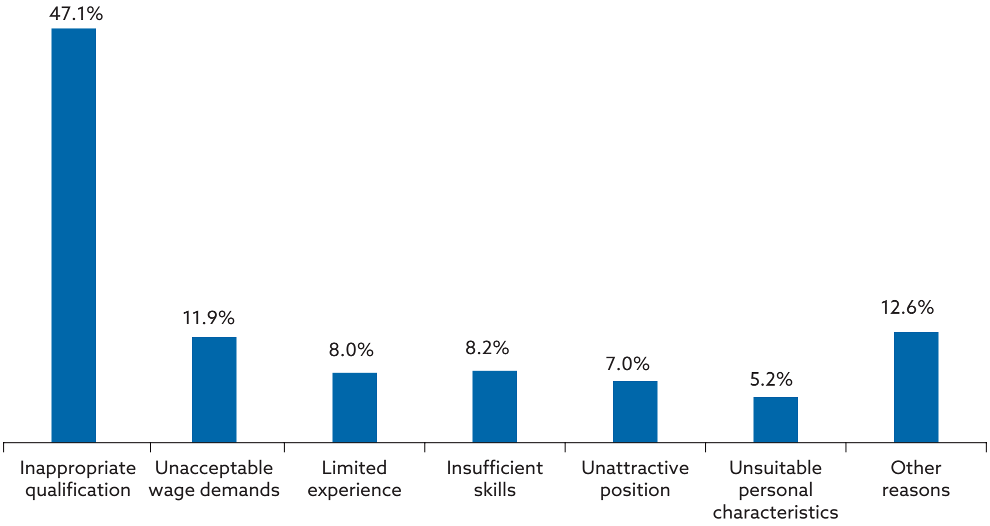
Perceived labour shortages broken down by sector (percentage of respondents)



Sources: EC and NBS calculations.
Note: The data on construction for Q2 2019 are average figures for April and May 2019.

Chart 17

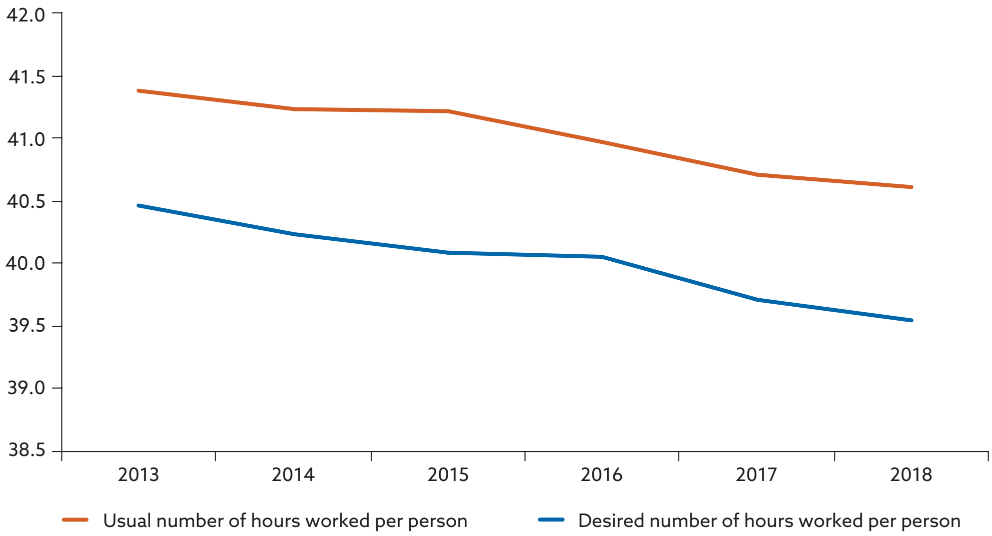
Problems faced by firms in filling job vacancies from the ranks of self-employed persons (percentages)



Source: Trexima.

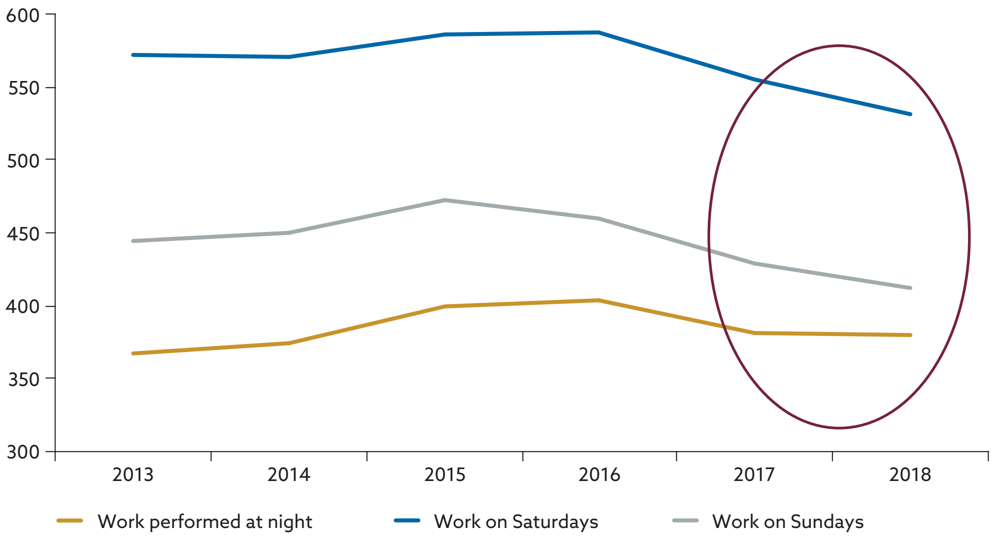
The number of hours worked in the economy as a whole increased in the period under review by 0.3% quarter on quarter. This represented a year-on-year increase of 0.7%. The number of hours worked had for a long time been growing more slowly than the number of employees. Thus, the average number of hours worked per person decreased gradually. Data from Labour Force Surveys (LFS) indicate that the usual number of hours worked in full-time employment decreased, too. One of the reasons behind the falling number of hours worked per person is the ageing population. Older persons naturally prefer shorter working weeks. The share of such persons in the total number of employees has been steadily increasing in recent years. Another reason is the strengthening preference of younger age groups to work fewer hours. The wage costs of employers increased steeply in the period under review. Employers therefore attempt to make the production process more effective and to limit the number of extra hours worked, and work at non-standard times. The opening hours of shops have been shortened and some producers have reduced the number of shifts worked. The more moderate growth in the global economy is another reason for reducing the number of hours worked in some industrial companies. So the shortening of the average length of a working week has numerous reasons, which are likely to ensure that this trend continues in the period ahead.

Chart 18
The usual and desired number of hours worked per week



Sources: SO SR and NBS calculations.
Note: The usual number of hours worked by full-time employees. The desired number of hours worked in all jobs per person.

Chart 19
The number of persons working regularly at night and at weekends (thousands)

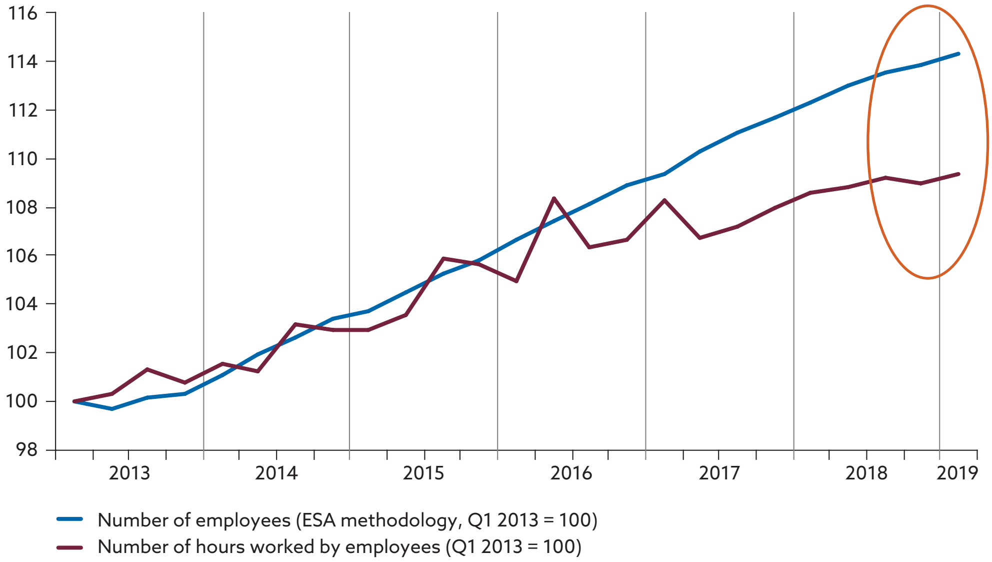


Sources: SO SR and NBS calculations.

The number of unemployed (according to the LFS methodology) continued to diminish in the first quarter, but at a slower pace. The seasonally adjusted number of unemployed dropped by 5,500 persons quarter on quarter. The unemployment rate fell by 0.2 percentage point, to 5.7%. Thus, employers still managed to fill job vacancies from the ranks of the unemployed, though their number fell quarter on quarter to a much lesser extent (compared with 10,800 in the fourth quarter of 2018). Employment growth was also supported by the continuing increase in the number of foreigners working in Slovakia, accompanied by a decrease in the number of Slovak citizens working abroad and a rise in the labour force participation rate.

Chart 20

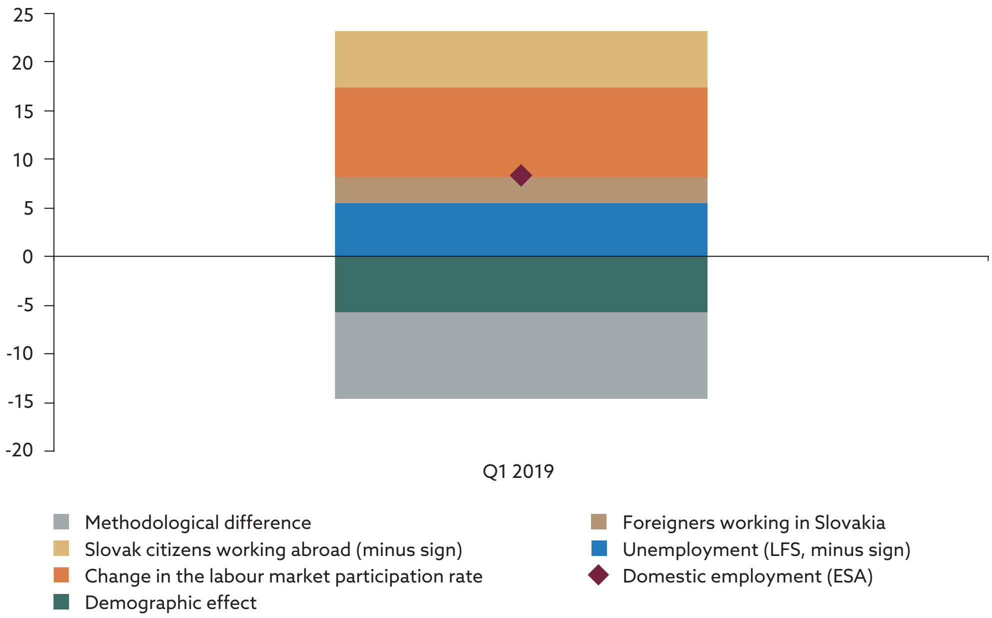
Employment growth and the number of hours worked (index)



Sources: SO SR and NBS calculations.

Chart 21

Employment – contributions of principal labour market variables to quarter-on-quarter changes (thousands of persons)



Sources: SO SR and NBS calculations.
Note: The 'foreigners working in Slovakia' time series has not been seasonally adjusted owing to its short history. The seasonality observed in this time series, however, appears to be insignificant. The 'methodological difference' item includes the effect of residual differences between the LFS and ESA methodologies.

4 Price developments

Inflation accelerated in the first quarter of this year, owing to a rise in energy and processed food prices. The annual inflation rate increased to 2.4% in the first quarter of 2019 (from 2.1% in the last quarter of 2018).

The higher energy prices reflected the rise in energy commodity prices in 2018. This rise translated, with a certain delay, into adjustments to regulated prices for gas (+5.8% in December 2018), electricity and heat for households (+6.7% in January 2019). By contrast, an even steeper rise in energy prices was offset in the period under review by a fall in Brent oil prices in euros. This led to a slowdown in the rate of increase in fuel prices.

The strong growth in labour costs in retail trade and the rise in agricultural commodity prices in the European market caused a steeper increase in processed food prices year on year. The acceleration in the annual rate of increase in processed food prices reflected the fading of the base effect of supply shocks from the last quarter of 2018, which had a marked downward effect on their dynamics. The acceleration was also supported by an increase in excise duty on tobacco products. Unprocessed food prices had a disinflation effect in the period under review, owing mainly to a slowdown in the rate of increase in fruit prices.

The annual rate of increase in services prices slowed amid strong growth in wage costs and strong real domestic demand. The slower rate of increase in services prices also reflected the effect of free school meals introduced for nursery children in the preschool year and that of the modest decrease in the weight of air transport owing to the cancellation of domestic flights.

Non-energy industrial goods prices increased at a slower pace, mainly the prices of non-durable goods (cleaning & maintenance products, personal care products) and durable goods. In the category of durable goods, the slower rate of increase in industrial goods prices was also supported by a time shift in the price increase for used cars. In 2018, used car prices rose in February, while in 2019 they rose in March. Thus, used car prices recorded a temporary fall in February, year on year.

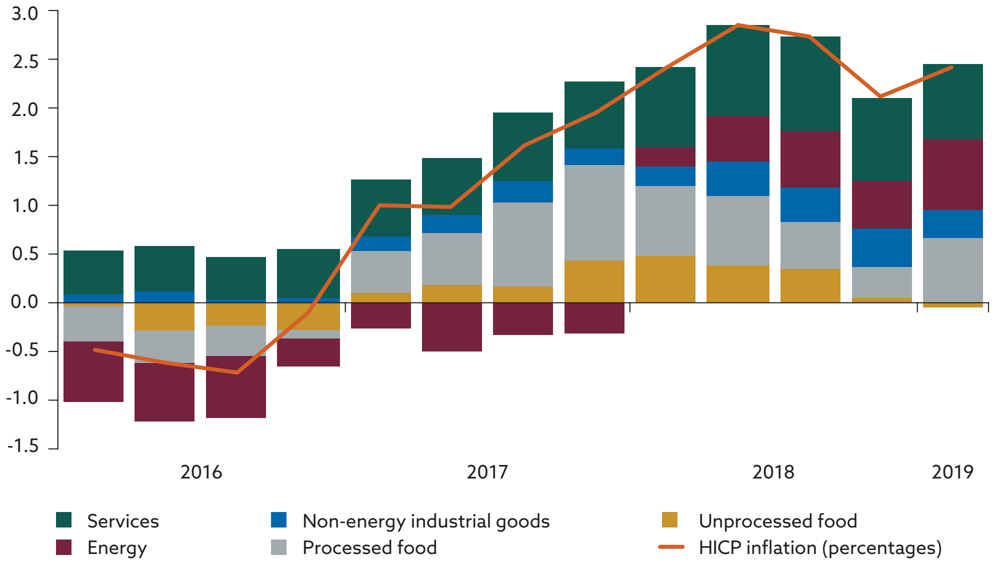
Table 3 Annual percentage changes in consumer price inflation by component

	2018					2019
	Q1	Q2	Q3	Q4	Year	Q1
HICP inflation	2.4	2.9	2.7	2.1	**2.5**	2.4
Unprocessed food	11.0	8.8	7.1	0.4	**6.8**	-0.9
Processed food	3.4	3.4	2.3	1.5	**2.7**	3.3
Non-energy industrial goods	0.7	1.2	1.2	1.4	**1.1**	1.0
Energy	1.4	3.3	4.0	3.2	**3.0**	4.8
Services	2.6	2.9	3.1	2.7	**2.8**	2.4

Sources: SO SR and NBS calculations.

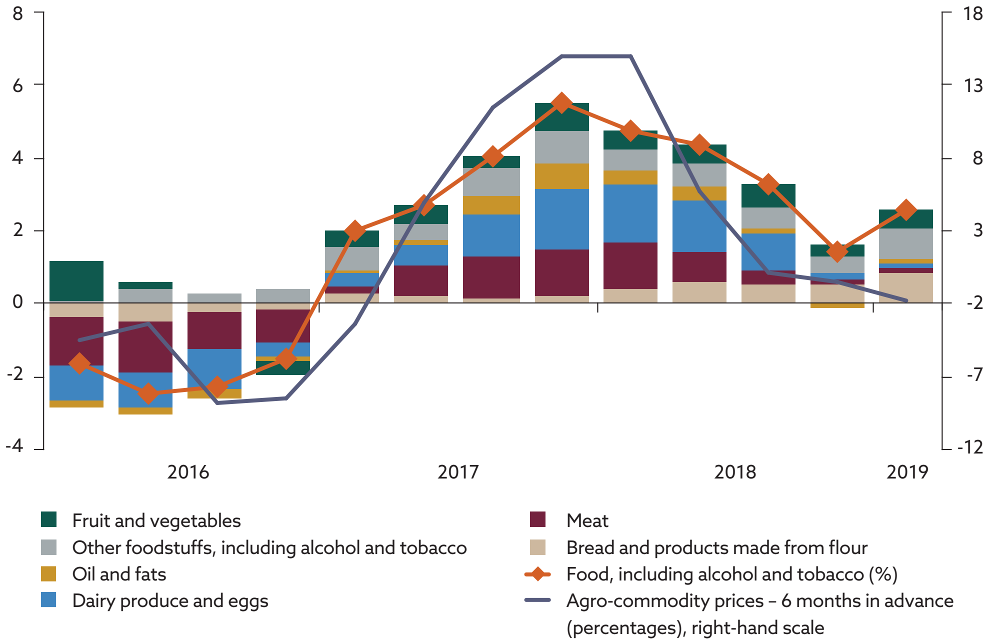
Chart 22

Contributions of components to annual HICP inflation (percentage points)



Sources: SO SR and NBS calculations.

Chart 23
Contributions of components to food inflation (annual percentage changes; percentage point contributions)



Sources: SO SR and NBS calculations.