NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

NBS
Monthly Bulletin

October 2014

Published by:
© Národná banka Slovenska

Address:
Národná banka Slovenska
Imricha Karvaša 1, 813 25 Bratislava
Slovakia

Contact:
+421/2/5787 2146

http://www.nbs.sk

Debated by the NBS Bank Board on 28 October 2014.

All rights reserved.
Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

ISSN 1337-9526 (online)

Contents

Abbreviations

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EIA	Energy Information Administration
EMU	Economic and Monetary Union
EONIA	euro overnight index average
ESA 95	European System of National Accounts 1995
EU	European Union
Eurostat	Statistical Office of the European Communities
FDI	foreign direct investment
Fed	Federal Reserve System
EMU	Economic and Monetary Union
EURIBOR	euro interbank offered rate
FNM	Fond národného majetku – National Property Fund
GDP	gross domestic product
GNDI	gross national disposable income
GNI	gross national income
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
IPI	industrial production index
IRF	initial rate fixation
MFI	monetary financial institutions
MF SR	Ministry of Finance of the Slovak Republic
MMF	money market fund
NARKS	National Association of Real Estate Offices of Slovakia
NBS	Národná banka Slovenska
NEER	nominal effective exchange rate
NPISHs	Non-profit Institutions serving households
OIF	open-end investment fund
p.a.	per annum
p.p.	percentage points
qoq	quarter-on-quarter
PPI	Producer Price Index
REER	real effective exchange rate
SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Asset Management Companies
SO SR	Statistical Office of the Slovak Republic
SR	Slovenská republika – Slovak Republic
ULC	unit labour costs
VAT	value-added tax
yoy	year-on-year

Symbols used in the tables
. – Data are not yet available.
- – Data do not exist / data are not applicable.
(p) – Preliminary data

1 Summary[1]

The deterioration described by forward-looking indicators in the euro area and Germany has to some extent begun to weigh on hard indicators. Industrial production in Germany fell markedly in August, although calendar effects (changes in holiday dates) may also have been a factor. German exports were adversely affected by decline in industrial production.

The downturn in the euro area has already begun to affect Slovakia. This is evident in overall sales, whose three-month average for June-August declined against the corresponding average three months earlier. On the other hand, industry remains on a growth trajectory, as partly reflected in an increase in exports. Industrial production increased moderately in August, boosted mainly by the manufacturing segments of fabricated metal products and electricals/electronics. Economic sentiment in Slovakia is slowly receding from previously favourable levels, although still remains above its long-run average. Sentiment indicators are beginning to be affected by headwinds from the euro area. Car production is losing momentum.

The slight slowdown in activity has not yet had a significant impact on the labour market. After employment fell in July, it corrected in August with a marginal increase. The unemployment rate in September fell significantly, to 12.51%.[2] As for wages, their annual growth rate continued to fall slightly in line with projections. The labour market situation is still having an upward effect on private consumption.

The annual rate of change in the inflation rate was, as expected, slightly less negative in September, at -0.1%[3]. This slower decline in the price level was caused largely by increased inflation in non-energy industrial goods and by higher tariffs for operating the electricity distribution network. The average inflation rate for the full year is still expected to be around zero.

The signs of worsening sentiment in the euro area do not as yet represent a significant risk to the current forecast for Slovakia. If, however, sentiment were to remain on a deteriorating course, from its current low levels, the assumptions of the current NBS Medium-Term Forecast (MTF-2014Q3) for the external environment would have to be revised down.

1 *All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using NBS internal models.*
2 *Registered unemployment rate, seasonally adjusted by NBS.*
3 *The annual rate of change in the price level as measured by the HICP.*

2 The real economy

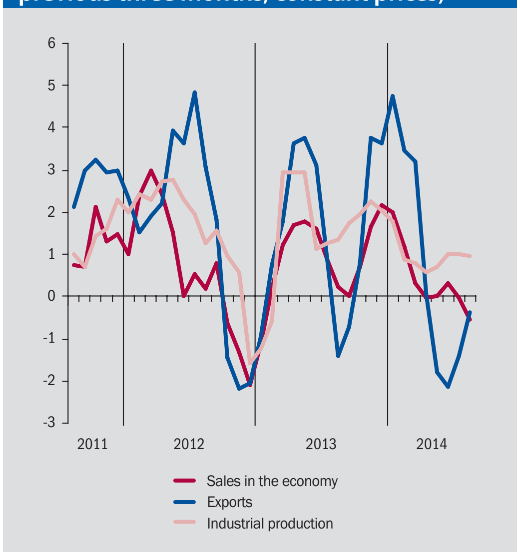
2.1 'HARD' INDICATORS OF ECONOMIC ACTIVITY

As regards overall sales, their three-month average for the period June-August, measured against the corresponding average three months earlier, maintained a downward trend owing mainly to lower sales in services. As for industrial production, the three month-on-three month change in its average for June-August was unchanged from that for May-July, due to an upward correction in exports as well as sustained levels of domestic demand.

Drop in sales caused by construction and services sectors

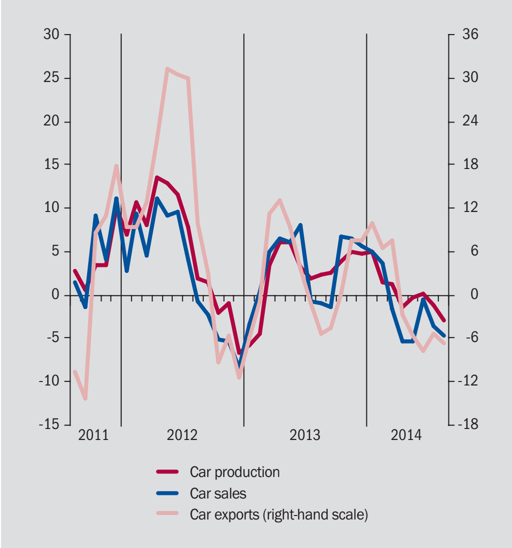
Looking at total sales in the economy, their three-month average for June-August was 0.5% lower than that for the previous three months. While domestic trade sales made a broadly positive contribution to overall sales growth, the main downward pressure came from sales in the construction, information and technology, and selected market services sectors. At the same time, the positive contributions from wholesale trade and industry were more moderate compared with previous months.

Chart 1 Sales, industrial production and exports (percent; three-month moving average against corresponding average for previous three months; constant prices)



Source: SO SR, NBS calculations.

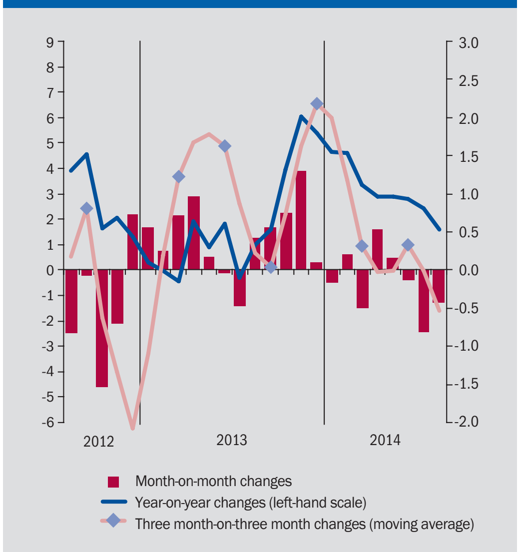
Chart 2 Automotive industry indicators (percent; three-month moving average against corresponding average for previous three months; constant prices)



Source: SO SR, NBS calculations.

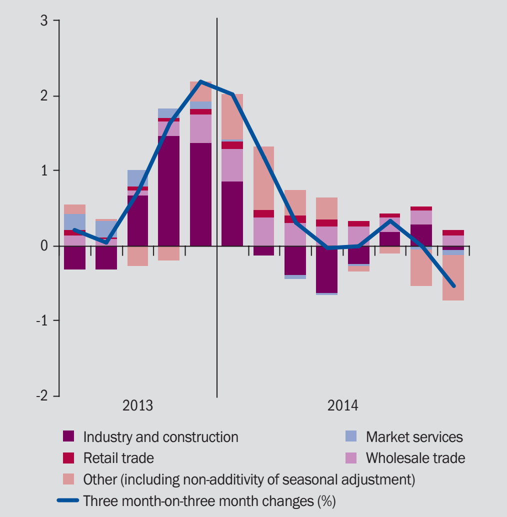
The contribution of wholesale trade to overall sales growth was lower in August than in any previous month of 2014; nevertheless, wholesale trade and retail trade continued to be the largest positive contributors to total sales.

Chart 3 Total sales at constant prices (%)



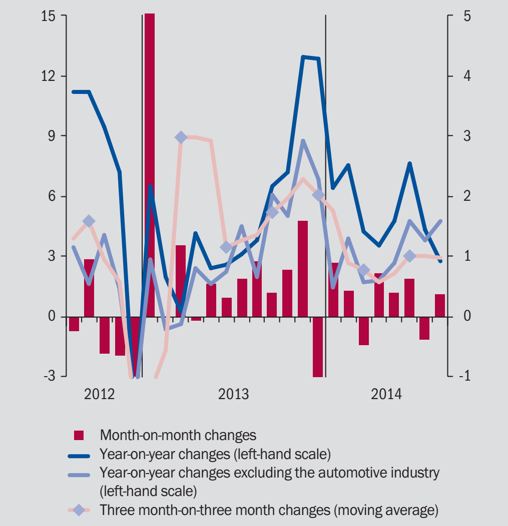
Source: SO SR, NBS calculations.

Chart 4 Total sales by contributions of selected sectors to three month-on-three month rate of change (p.p.; constant prices)



Source: SO SR, NBS calculations.

Chart 5 Industrial production (%)



Source: SO SR, NBS calculations.

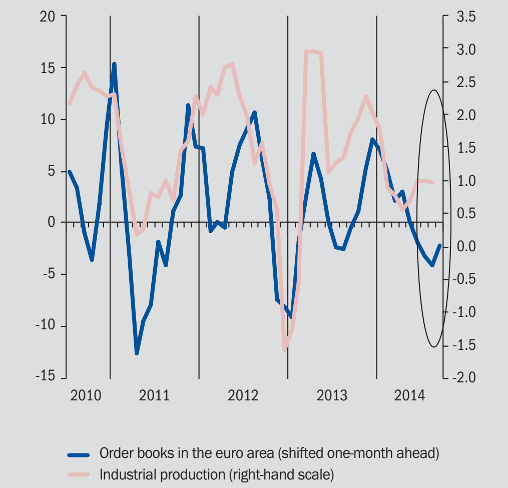
The only sector to report sales growth was industry, although its positive impact on overall sales also moderated in August. The largest drag on industry sales was the automotive sector, where the rate of change in sales (their average for June-August against that for March-May) became more negative. Other sectors that contributed negatively to industry sales were food and chemicals. At the same time sales growth moderated in both the metal sector and the electrical and electronics sector. Outside industry, sales declined in real estate activities, architecture and engineering activities, and also overall administrative services.

Overall sales fell also in month-on-month terms. This was caused by results in wholesale trade, services and, in particular, industry (reflecting mainly negative contributions from the electrical/electronic, energy supply and food manufacturing industries).

Production growth in August continued to be driven by metal and electronics industries

Turning to industrial production, its three month moving average for June-August was 1% higher than that for the previous three months. With output growth similar to the levels observed in the second quarter, the signs are that GDP growth will continue in line with NBS

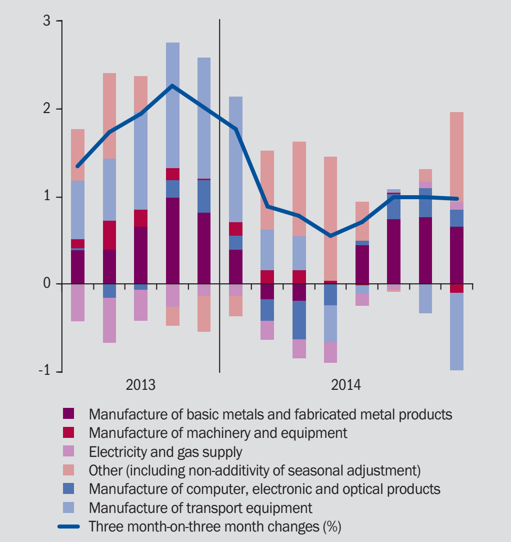
Chart 6 Industrial order books and production (three month-on-three month percentage changes)



Source: SO SR, NBS calculations.
Note: New orders are converted into constant prices using the producer price index.

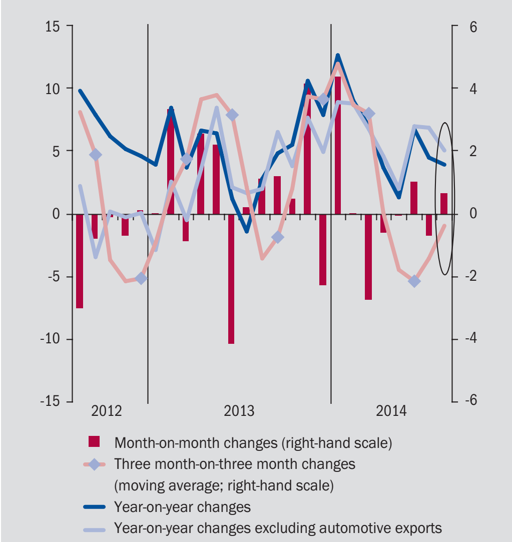
projections. Unlike sales, industrial production is maintaining growth, supported not only by an upward correction in exports but also by domestic demand. However, while the prevailing expectations in industry are for further growth, September saw some lessening of optimism in this regard. Diminishing expectations and a falling level of order books may point to

Chart 7 Industrial production – principal contributions to three month-on-three month rate of change (p.p.; moving average)



Source: SO SR, NBS calculations.

Chart 8 Goods exports (percent; constant prices)



Source: SO SR, NBS calculations.
Note: Converted by NBS into constant prices.

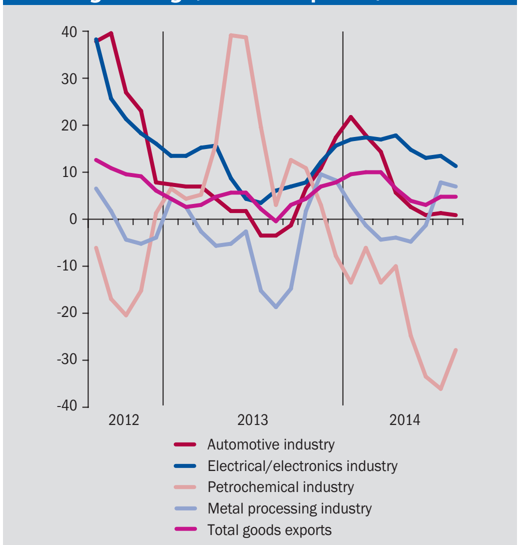
declining demand in the automotive industry and therefore to increasing uncertainty about the how the Slovak economy will perform in coming quarters.

The main contributors to production growth continued to be the metal and electrical/electronics sectors, although their positive impact on the average growth rate for June-August (three month-on-three month) was lower than that for May-July. As in July, the automotive industry contributed negatively to production growth.

More moderate decline in exports

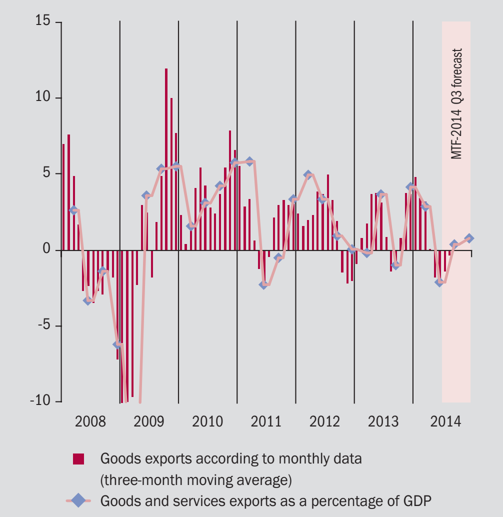
As regards goods exports, at constant prices, their three-month average for June-August was lower than that for March-May by 0.4%, which was a more moderate decrease compared to the difference between February-April and May-July (-1.4%). Preliminary figures show that the decline in exports was eased by a majority of sectors that had previously been facing exceptional constraints. These sectors included the petrochemical industry, whose exports picked up after a period of investment-related shutdowns, and the energy production industry, which had seen elevated volatility in foreign trade owing to geopolitical tensions. The marked rise in exports of fabricated metal products may be no more than a correction after previous declines. These export segments could report quarter-on-quarter growth in the third quarter. However, exports of cars and components are falling and are therefore unlikely to support the third-quarter acceleration of exports.

Chart 9 Exports – annual percentage changes in selected sectors (three-month moving average; constant prices)



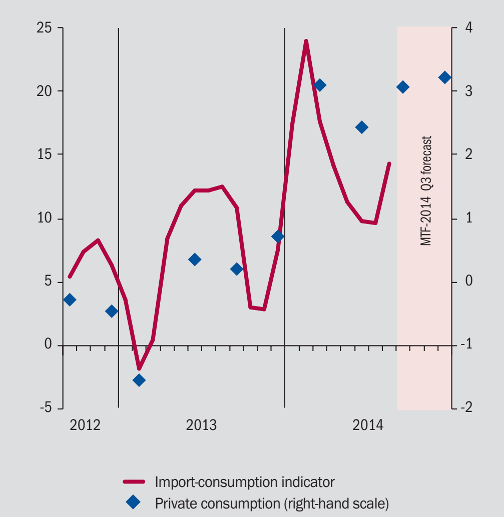
Source: SO SR, NBS calculations.
Note: Converted by NBS into constant prices.

Chart 10 Export developments and outlook (three month-on-three month percentage changes; constant prices)



Source: SO SR, NBS calculations.

Chart 12 Import-consumption indicator (three month-on-three month percentage changes; constant prices)

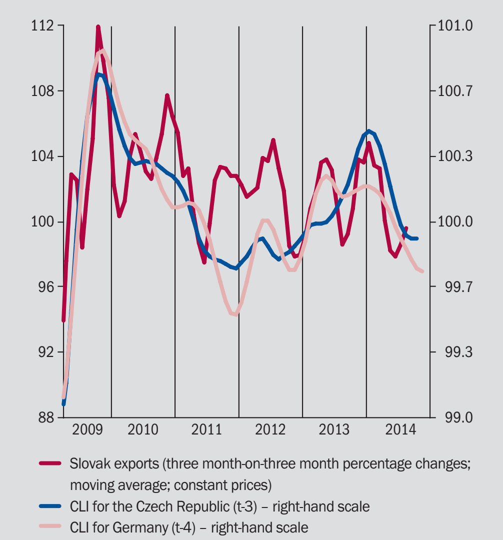


Source: SO SR, NBS calculations.

By falling more slowly during the summer months, export levels aligned more closely to the export growth projections for the third quarter as stated in the NBS Medium-Term Forecast (MTF-2010Q3). So far, however, exports are simply correcting after their decline in the previous quarter.

Slovak exports remain at risk from deteriorating economic sentiment in Germany and the wider euro area. In Germany, both industrial production and exports fell significantly in August. The OECD's composite leading indicators (CLIs) for Germany and the Czech Republic – Slovakia's largest trading partners, as the destination for more than one-third of Slovak exports – suggest that external demand will fall further in the near term.

Chart 11 Slovak exports and composite leading indicators (CLIs) for key trading partners



Source: SO SR, OECD, NBS calculations.

Looking at goods imports, at constant prices, their three-month average for June-August was lower than that for March-May by 3.6%, a slightly more moderate decrease compared to the difference between February-April and May-July (-4%). The assumption of the MTF-2014Q4 forecast of a decline in external demand is supported by the marked contraction in imports for the automotive industry as well as for the electrical/electronic industry. Imports for oil refineries remain below their long-term average. By contrast, imports for retail chains rebounded in August. Taking into account also the favourable development in retail chain sales, the signs are that consumption is increasing in line with MTF-2014Q3 projections. There may, however, be a risk to the outlook from September's deterioration in consumer sentiment in Slovakia, although with retail trade confidence holding up and with the labour market situation and price level developments providing an impetus for private consumption growth, that risk is so far being contained.

Box 1

NEW ESA 2010 METHODOLOGY

Impact on GDP

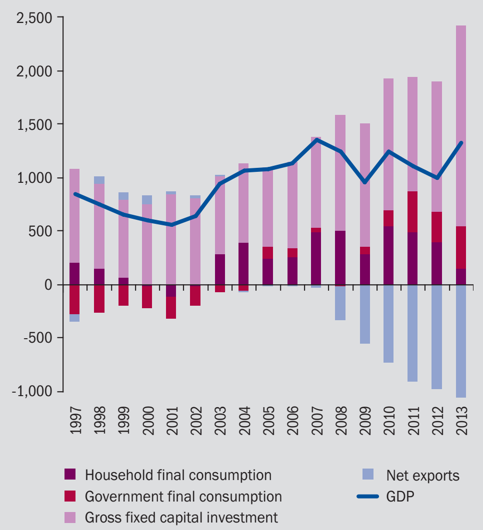
The Slovak Statistical Office (SO SR) and Eurostat have published a time series of revised data based on the ESA 2010. Looking at Slovakia's nominal GDP for the period 1995-2013, it was on average 1.9% higher under the new methodology than under the original methodology. Under the expenditure approach of GDP, investment increased (due mainly to capitalisation of expenditure), as did, to a lesser extent, household consumption (due mainly to imputed rent); these increases were slightly subdued towards the end of the period under review owing to lower net exports (stemming from ownership changes in transactions with non-residents). Under the production approach of GDP, intermediate consumption declined (mainly due to expenditure components being shifted to gross capital formation), causing an increase in value added and GDP. Since the revised imputations were not uniform over time, the real annual growth rate corrected from -0.4 to +0.6 percentage point over the whole period. The annual growth rate remained broadly unchanged on average. Further information can be found at: http://www.nbs.sk/_img/Documents/_komentare/2014/233_FLASH_HDP_ESA10.pdf

Impact on the government deficit and debt

Under the new stricter ESA 2010 methodology, the government deficit and debt figures were revised throughout the time series. From 2005 the size of the revision was affected by factors other than simply the impact of ESA 2010 on GDP. The new methodology requires the inclusion in the public sector of public corporations that in qualitative terms do not meet conditions of market behaviour: Národná diaľničná spoločnosť (the National Motorway Company), Agentúra pre núdzové zásoby ropy (the Emergency Oil Stocks Agency), public hospitals, and Eximbanka (the Export-Import Bank of the Slovak Republic). The figures for 2012 and 2013 were also affected by the exclusion of one-off revenue from pension funds.

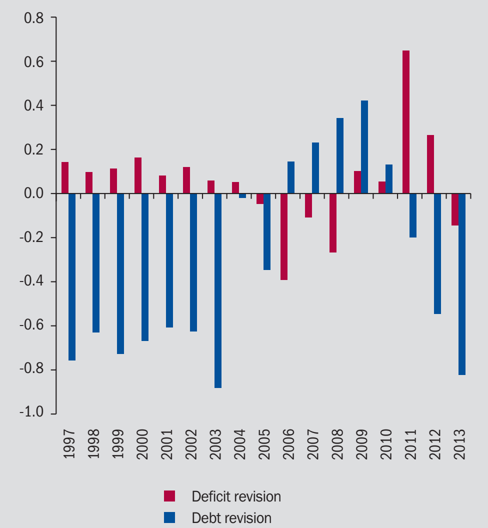
The impact of ESA 2010 implementation on Slovakia's public deficit for 2013 was an upward

Chart A Change in GDP components under ESA 2010 as against ESA 95 (EUR millions, constant prices)



Source: SO SR, NBS calculations.

Chart B Revision of the government deficit and debt due to implementation of ESA 2010 (p.p.)



Source: SO SR, NBS calculations.

revision of 0.1 percentage point, although owing to other revisions not related to the change in methodology (for example, the updating of income taxes), the deficit was reduced to 2.63% of GDP, from April's level of 2.76% of GDP, and remained below the 3% threshold. The negative impact of ESA 2010 was mostly accounted for by the exclusion of one-off revenue from the temporary opening-up of the second pension pillar (0.3% of GDP), while the inclusion of selected new items in the general government sector eased the deficit by 0.1% of GDP. Government debt increased in nominal terms, but because of the higher level of GDP (denominator effect), it fell to 54.6% of GDP, by 0.8 percentage point from its level in April (55.4%, according to the EDP notification for that month). Consequently, the debt was below the 55% of GDP debt brake threshold laid down in the Fiscal Responsibility Act. Further information can be found at: http://www.nbs.sk/_img/Documents/_komentare/AnalytickeKomentare/2014/AK15_ESA%202010_24_9.pdf

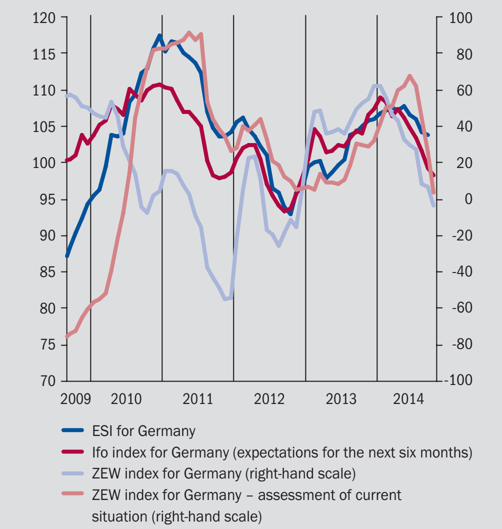
2.2 FORWARD-LOOKING 'SOFT' INDICATORS

Euro area and German indicators remain in decline

The economic sentiment indicators for both the euro area and Germany declined in September, from the previous month, with the euro area's ESI falling to below its long-term average (down to 99.9). Both the euro area and German ESIs registered a deterioration in confidence in all surveyed sectors apart from services and construction. The composite PMI for the euro area and the one for Germany each increased slightly in October due to an increase in the manufacturing PMI. Germany's ZEW index entered negative territory for the first time since November 2012, falling to -3.6 (from 6.9 in September). There was also a marked deterioration in appraisals of the current economic situation in the country, and the Ifo index for Germany also deteriorated in October.

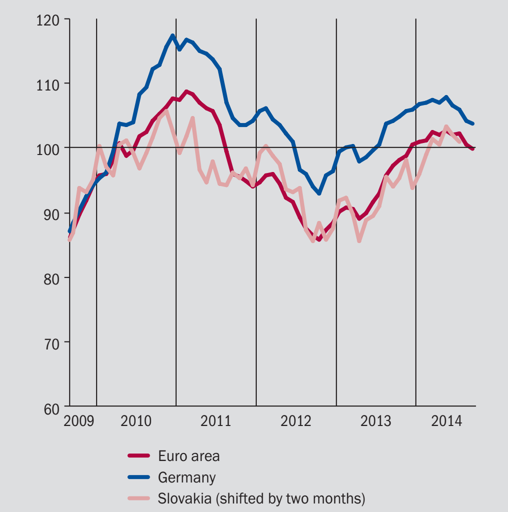
While indicator developments suggest that the euro area economy will grow moderately (quarter-on-quarter) in the third quarter, those for Germany confirm the risk that growth will be weaker than projected.

Chart 13 Economic sentiment indicators for Germany



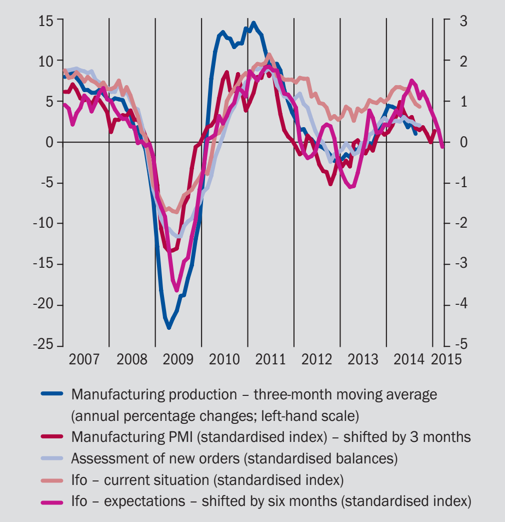
Source: European Commission, Ifo institute, ZEW Centre.
Note: ESI (long-run average = 100), Ifo index (2005 = 100), ZEW (balance of responses).

Chart 14 Economic sentiment indicator (long-run average = 100)



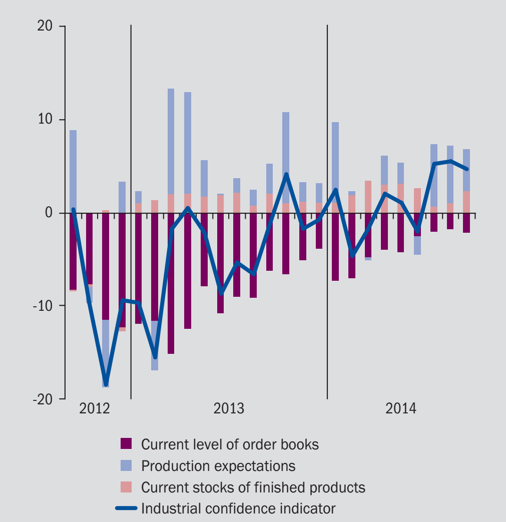
Source: European Commission.

Chart 15 Germany – industrial production and forward-looking indicators



Source: Eurostat.

Chart 17 Industrial confidence indicator for Slovakia (balance of responses)

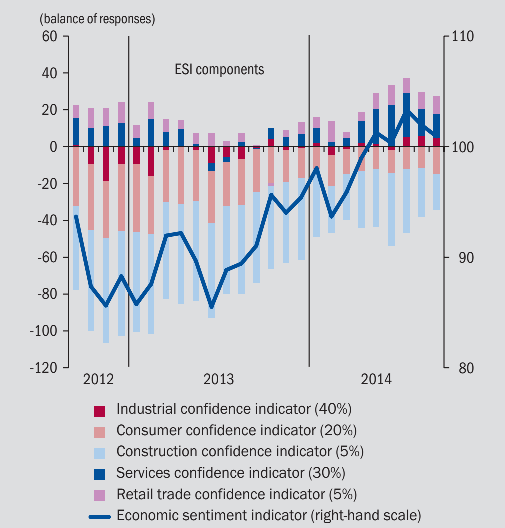


Source: European Commission.

Sentiment in Slovakia worsened

The economic sentiment indicator for Slovakia (ESI) fell month-on-month in September by 1.1 points, to 100.9, but it still remains above its long-term average. The ESI's decline reflected a deterioration in industry confidence, services confidence and consumer confidence. On the other hand, confidence increased in both the retail trade and construction sectors.

Chart 16 Economic sentiment indicator for Slovakia (long-run average = 100)

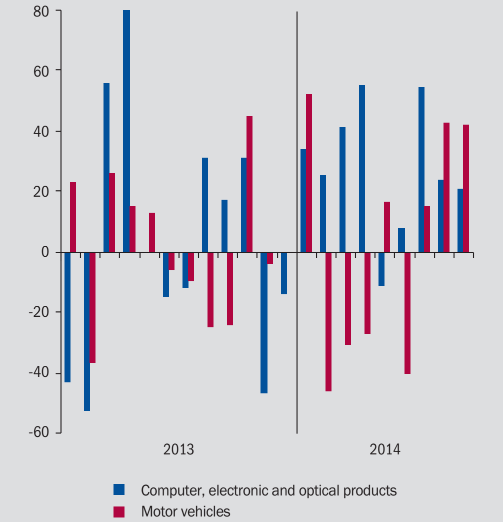


Source: European Commission.
Note: The percentages in the legend represent the weights of the respective components in the ESI.

In industry, the drop in confidence was largely a result of reduced expectations for industrial production growth, particularly in the manufacturing segments of fabricated metal products, machinery and equipment, and textiles. Services confidence was dampened mainly by more negative assessments of current demand for services, especially in the sectors of transportation and storage, entertainment and recreation, and real estate activities. The fall in consumer confidence reflected worsened assessments in all components apart from future savings, which remained broadly unchanged. Construction confidence is now at its highest level since January 2009, with its latest increase supported mainly by brighter assessments of order book levels and improved expectations for employment. The increase in retail trade confidence was based largely on more optimistic appraisals of the future business situation.

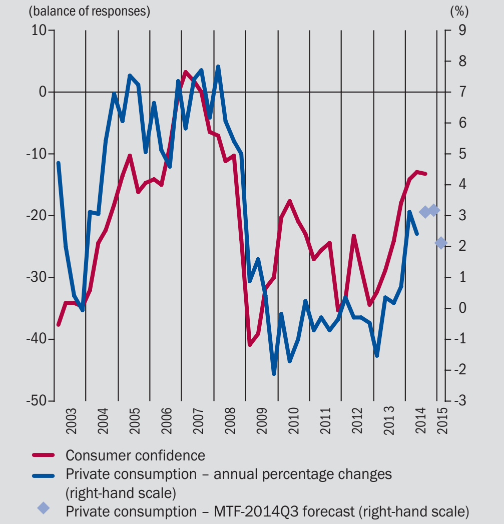
The deterioration of forward-looking indicators in the euro area and Germany also had a downward effect on overall sentiment in Slovakia. Nevertheless, the weakening of confidence in industry has not as yet resulted in

Chart 18 Industrial production expectation (balance of responses)



Source: European Commission.

Chart 19 Consumer confidence and private consumption



Source: SO SR, European Commission and NBS.

any significant lowering of expectations in key industrial sectors. Likewise, consumer confidence developed favourably in the third quarter, providing credence to MTF-2014Q3 projections for growth in domestic demand, particularly in private consumption.

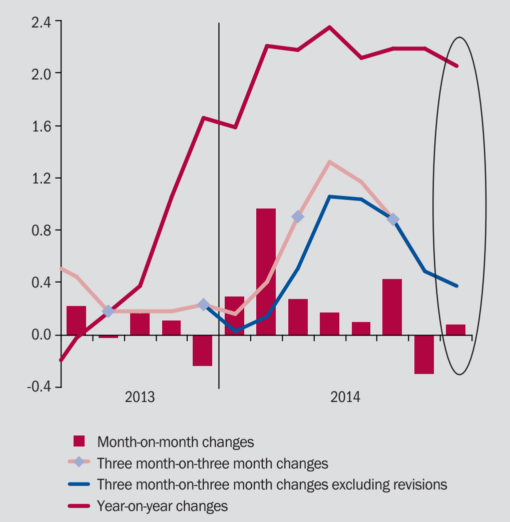
3 Labour market

Employment increased only marginally in August (by 0.1%, seasonally adjusted), while its annual growth rate slowed slightly from the previous month, to 2%. As expected, employment's month-on-month decline in July proved to be an exception to the trend. The employment figures for July and August do, however, indicate that the upward trend of the first half may moderate in the third quarter, which may be due to a lack of significant acceleration in the Slovak economy. Looking at the three month moving average for employment, as against the corresponding average three months earlier, the pace of its growth is gradually decelerating. In industry, as well as in business activities, employment remained virtually flat. Employment in the services sector is so far maintaining a positive growth rate, while construction sector employment continues a moderate downward trend. The recent optimism among employers regarding future job creation declined slightly in September.

Monthly employment indicators still remain consistent with the assumption of the MTF-2014Q3 forecast that employment growth in the third quarter will be lower compared with the first half of the year.

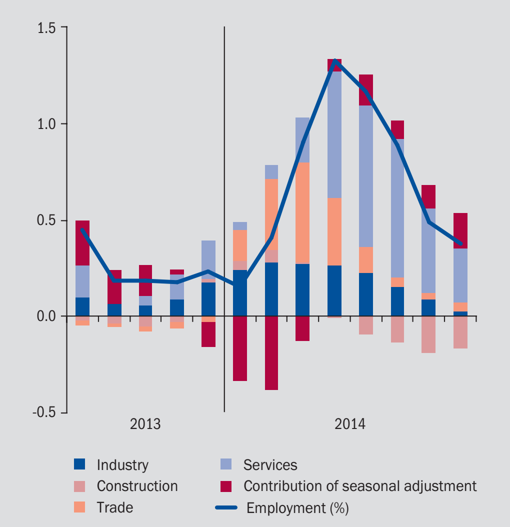
With employment growth slowing, the unemployment rate fell only marginally in July and remained flat in August. In September, however, after barely improving for half a year, unemployment fell significantly[4]. In month-on-month terms, the overall unemployment rate fell by 0.27 percentage point, representing a headcount drop of 7,200. There was a marked drop in the number of people other than graduates and school leavers who joined the unemployment rolls. Furthermore, the number of registered job vacancies increased moderately. These figures confirm that the labour market has not yet been significantly affected by the uncertainty stemming from worsening confidence indicators. Nevertheless, given that economic performance may have a lagged impact on the labour market, it cannot be assumed that the favourable developments

Chart 21 Rates of change in employment (%)



Source: SO SR, NBS calculations.
Note: In January, upward revisions were made to employment growth in the segments of business activities, accommodation, and restaurants. At the same time, the figures for 2013 were not revised and hence there was probably no upward effect on the labour market situation.

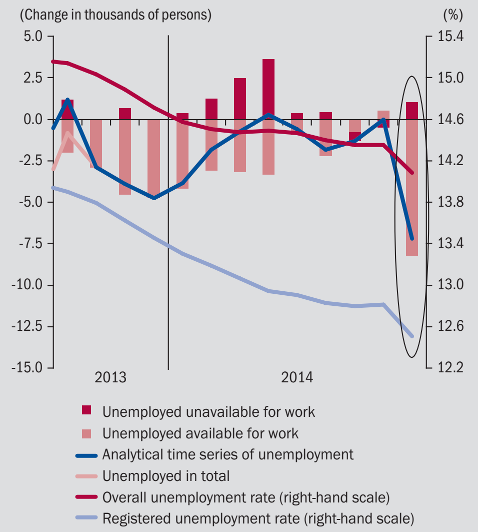
Chart 20 Employment – sectoral contributions to the three month-on-three month rate of change (moving average; p.p.)



Source: SO SR, NBS calculations.

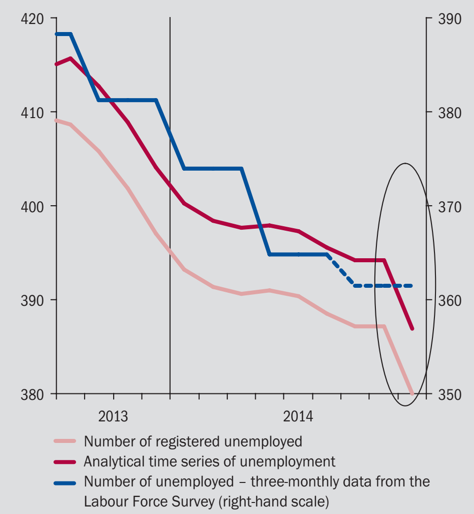
4 *The seasonally unadjusted unemployment rate fell by 0.12 percentage point, to 12.44 %. Despite secondary school leavers signing on as unemployed in September, the overall drop in job seekers (predominantly accounted for by people finding work) was sufficient to result in a month-on-month fall in overall unemployment.The unemployment rate based on the total number of job seekers fell by 0.1 percentage point, to 14.01 %.*

Chart 22 Unemployment (%)



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

Chart 23 Number of unemployed (thousands of persons)



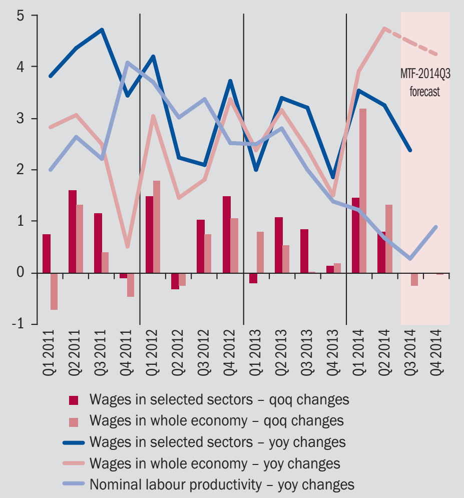
Source: Central Office of Labour Social Affairs and Family, SO SR, and NBS calculations.
Note: The number of unemployed (Labour Force Survey) for Q3 2014 is based on the MTF-2014Q3 forecast.

in unemployment observed in September will be maintained until the end of the year.

Since unemployment remained almost flat in July and August, the September figures resulted in a slight decrease in registered unemployment in the third quarter. This indicates that unemployment according to the Labour Force Survey also fell moderately in the third quarter, approximately as projected in the MTF-2014Q3 forecast.

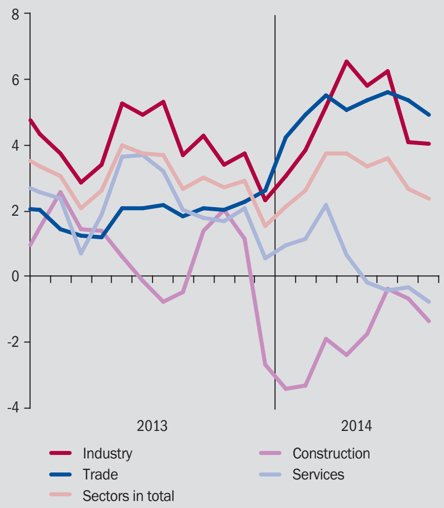
The relatively strong nominal wage growth in the first half of the year was probably based on a relatively substantial rise in negotiated base wages for this year, as well as on higher ad hoc bonuses. Figures for August (as well as July) indicate that wage growth may moderate in the second half of the year, as the annual growth rate slowed to 1.8% (from 2% in July) and the average wage fell by 0.1% month-on-month after seasonal adjustment. In the first half of the year annual wage growth averaged 3.7%, although only across selected sectors. As with employment, the slowdown in wage growth may reflect a moderation of the optimism about near-term developments and a slowdown in economic growth, as well as a return to a more standard level of bonus payments. Annual wage growth fell in a majority of sectors. Nevertheless, annual wage growth continues to differ between sectors, with relatively strong growth

Chart 24 Wage developments in the economy (annual and quarter-on-quarter percentage changes)



Source: SO SR.
Note: Wage growth in the selected sectors for Q3 2014 is calculated using the SO SR's monthly data for July and August and an estimate for September based on ARIMA modelling. The wage growth figures for the economy as a whole in Q3 to Q4 2014 are the projections given in the MTF-2014Q3 forecast. The nominal labour productivity figures follow the MTF-2014Q3 forecast.

Chart 25 Wage growth (annual percentage changes; three-month moving average)



Source: SO SR.

observed in industry, business activities, and transportation, and negative rates of change reported in construction and certain services (in the case of services, this reflects the recruitment of new lower-paid staff).

In line with these developments, the MTF-2014Q3 forecast assumes that wage growth will moderate in the second half of the year.

4 Prices

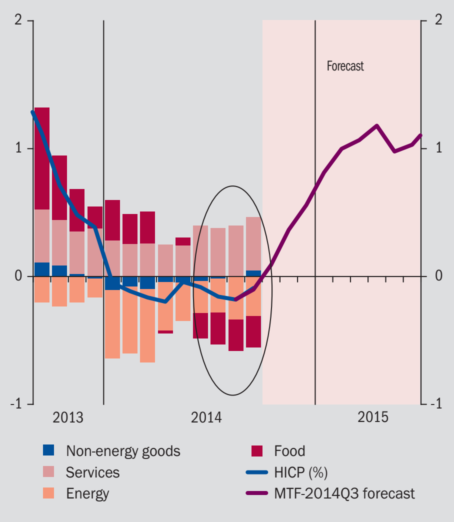
The inflation rate became less negative in September

The annual rate of change in the HICP inflation rate was, as expected, slightly less negative in September, at -0.1%. The month-on-month inflation rate was 0.1%.

September's more moderate decline in prices reflected a slightly increased rate of inflation in non-energy industrial goods as well as a slower rate of decrease in energy prices. Food price inflation and services prices inflation remained unchanged from the previous month (and the former was at -1% for a third successive month). As for energy prices, electricity prices for households increased in September. The higher electricity prices stemmed from an increase in operating tariffs (photovoltaic systems and brown coal electricity generation) and in the levy payable to the Nuclear Fund. The decrease in food prices was largely accounted for by prices of oils, fats, products containing sugar, and dairy products.

Retail trade sales at constant prices have increased quite markedly, supported by an increase in real wages over the previous six months. So far, however, the growth in household final consumption has not increased demand-pull pressures. Real household consumption growth is expected to have an upward impact (later through a substitution effect) on the consumption of higher-quality goods (without affecting price developments). Services prices inflation may gradually increase under the impact of nominal wage growth on the supply side (higher producer costs) and of

Chart 26 Composition of annual inflation (p.p.)



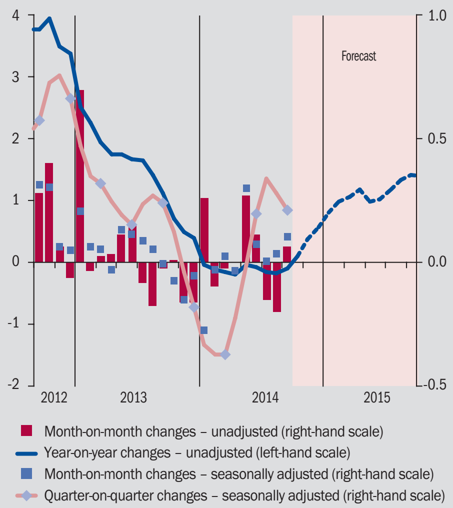
Source: SO SR, NBS calculations.

Table 1 HICP components – comparison of projected and actual rates of change (in percent unless otherwise stated)

			Non-energy industrial goods	Energy	Food	Services	HICP	Net inflation excluding fuel
Month-on-month change	A	September 2013 – actual figure	0.0	0.1	-0.4	0.1	**0.0**	0.1
	B	September 2014 – forecast	-0.1	-0.2	0.0	0.3	**0.1**	0.1
	C	**September 2014 – actual figure**	**0.1**	**0.4**	**-0.3**	**0.2**	**0.1**	**0.2**
	BC	**Difference in contribution to month-on-month rate of change (p.p.)**	**0.05**	**0.09**	**-0.07**	**-0.05**	**0.02**	**0.00**
Year-on-year change	D	August 2014 – actual figure	0.0	-2.1	-1.0	1.3	**-0.2**	0.6
	E	September 2014 – forecast	0.0	-2.3	-0.7	1.4	**-0.1**	0.7
	F	**September 2014 – actual figure**	**0.1**	**-1.8**	**-1.0**	**1.3**	**-0.1**	**0.7**
	AC	Base effect	insignificant	moderate	insignificant	insignificant	**insignificant**	insignificant
	EF	**Difference in contribution to month-on-month rate of change (p.p.)**	**0.05**	**0.09**	**-0.07**	**-0.05**	**0.01**	**0.00**

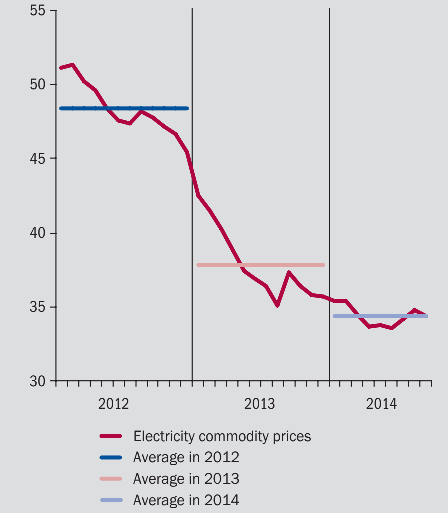
Source: SO SR, NBS calculations.

Chart 27 Headline inflation rate (%)



Source: SO SR, NBS calculations.

Chart 29 Electricity commodity prices for 2015 (EUR per MWh)

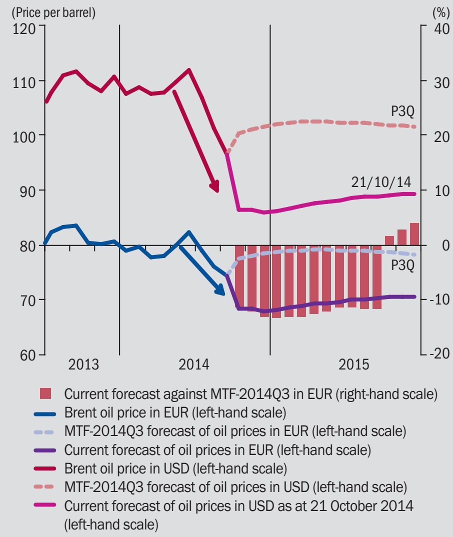


Source: www.pxe.cz, NBS calculations.

Chart 28 Annualised net inflation excluding fuel prices (percent; seasonally adjusted)

Source: SO SR, NBS calculations.
Note: Net inflation comprises non-administered prices of services and non-administered prices of non-energy industrial goods.

Chart 30 Comparison of current and projected developments in Brent oil prices



Source: www.investing.com and NBS calculations.

real wage growth on the demand side (higher disposable income of consumers in a low-inflation environment). The weakening of the euro's exchange rate against the US dollar could have an inflationary effect through the increase in import prices. On the other hand, lower oil prices represent a downward risk to the outlook for the annual HICP inflation rate in 2015.

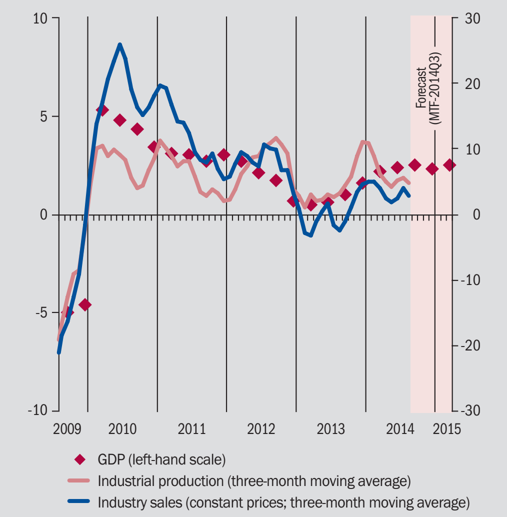
Global stocks of cereals (including maize) are expected to be higher this year than last, with cereal production projected to exceed the rate of cereal consumption for a second successive year.[5] The developments in prices of basic food commodities and in oil prices represent the most significant downward risk to the inflation outlook for the near-term horizon.

5 The final figures for Slovakia's grain harvest in 2014 are not yet finalised. This year's yield of densely sown cereals is, however, according to preliminary estimates, expected to be higher than last year's by around 10%. According to agricultural market information, the farm-gate prices of slaughter pigs has fallen sharply, the supply of vegetables and apples from domestic producers is outstripping demand, and the selling price of raw cow's milk is decreasing significantly.

5 Qualitative impact on the forecast

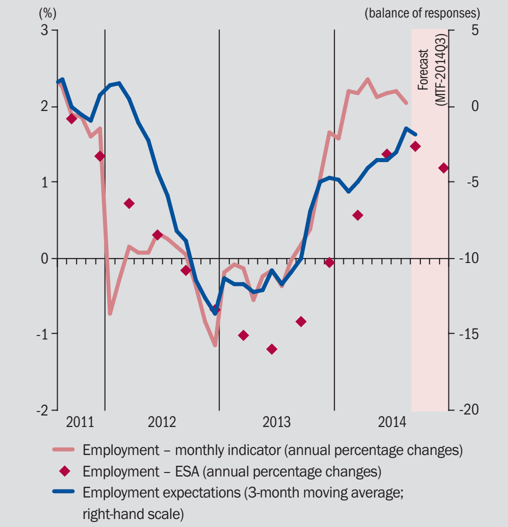
The monthly indicators imply that the uncertainty surrounding future developments in the Slovak economy will continue in coming quarters. The deteriorating sentiment in the euro area has so far had only a partial impact on the hard data and therefore it was not seen as adversely affecting the Slovak economy. The labour market situation is developing as projected in

Chart 31 GDP, industrial production and sales (annual percentage changes)



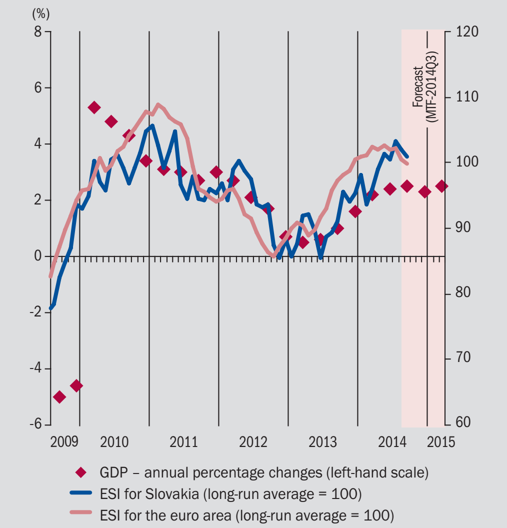
Source: SO SR and NBS.

Chart 33 Employers' expectations and the annual rate of change in employment (%)



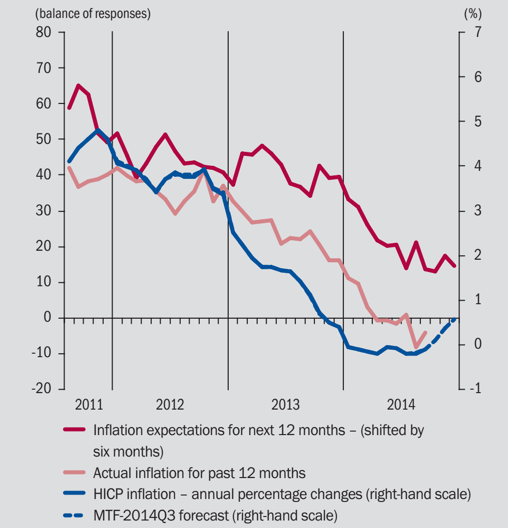
Source: SO SR, NBS and European Commission.

Chart 32 GDP and the economic sentiment indicator



Source: SO SR, NBS and European Commission.

Chart 34 Consumers' inflation perceptions and HICP inflation



Source: SO SR, NBS and European Commission.

the current NBS Medium-Term Forecast (MTF-2014Q3), with confirmation of the marginal increase in employment in August and decrease in the unemployment rate in September. As for inflation, its annual rate of change became slightly less negative 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[1]	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
2006	8.3	4.3	6.4	2.1	13.3	15.6	-	112.5	15.3	-	-	-1,051.5	-3.2	30.5	-7.8	-4.7	1.2556
2007	10.5	1.9	1.8	2.1	11.0	16.7	-	114.6	12.9	25.4	28.6	-781.0	-1.8	29.6	-5.3	-1.2	1.3705
2008	5.8	3.9	6.1	3.2	9.6	2.9	-	99.1	4.9	15.3	25.3	-704.2	-2.1	27.9	-6.0	-1.1	1.4708
2009	-4.9	0.9	-2.6	-2.0	12.1	-15.4	-18.1	78.0	-2.8	-3.3	11.0	-2,791.3	-8.0	35.6	-2.6	1.5	1.3948
2010	4.4	0.7	-2.7	-1.5	14.4	8.0	7.6	98.7	7.8	1.6	12.5	-4,436.1	-7.5	41.0	-3.7	1.2	1.3257
2011	3.0	4.1	2.7	1.8	13.6	5.3	9.1	98.6	2.9	7.6	11.1	-3,275.7	-4.8	43.6	-3.8	1.5	1.3920
2012	1.8	3.7	3.9	0.1	14.0	7.7	5.0	94.0	8.8	-2.3	10.3	-3,810.7	-4.5	52.7	2.2	5.0	1.2848
2013	0.9	1.5	-0.1	-0.8	14.2	5.3	2.3	90.6	5.2	1.7	10.2	-2,023.3	-2.8	55.4	2.1	5.9	1.3281
2013 Q4	1.5	0.5	-1.7	0.1	14.2	10.8	4.5	95.0	5.2	1.7	10.2	-	-4.8	55.4	-0.9	3.6	1.3610
2014 Q1	2.4	-0.1	-3.4	0.6	14.1	6.0	3.9	95.9	4.1	0.8	10.9	-	-3.1	58.4	3.0	7.4	1.3696
2014 Q2	2.5	-0.1	-3.7	1.4	13.2	5.2	2.2	100.2	3.7	2.4	11.6	-	.	.	1.7	7.1	1.3711
2014 Q3	.	-0.1	.	.	.	.	.	102.1	.	.	.	-	.	.	.	.	1.3256
2013 Oct.	-	0.7	-1.4	-	13.7	7.2	3.4	95.6	9.0	1.0	10.2	6.5	-	-	-	-	1.3635
2013 Nov.	-	0.5	-2.0	-	13.5	12.9	5.5	94.0	6.5	-0.6	10.3	8.7	-	-	-	-	1.3493
2013 Dec.	-	0.4	-1.7	-	13.5	12.9	4.7	95.4	5.2	1.7	10.2	-60.5	-	-	-	-	1.3704
2014 Jan.	-	0.0	-2.5	-	13.6	6.3	5.2	98.1	4.8	2.8	10.3	-122.9	-	-	-	-	1.3610
2014 Feb.	-	-0.1	-3.7	-	13.5	7.6	3.5	93.7	4.9	0.2	10.5	-754.2	-	-	-	-	1.3658
2014 Mar.	-	-0.2	-4.0	-	13.3	4.1	3.2	95.9	4.1	0.8	10.9	-208.7	-	-	-	-	1.3823
2014 Apr.	-	-0.2	-4.4	-	13.0	3.5	1.7	99.0	3.6	2.6	11.1	-430.4	-	-	-	-	1.3812
2014 May	-	0.0	-3.6	-	12.8	4.6	2.5	101.3	3.7	2.8	11.3	-362.8	-	-	-	-	1.3732
2014 June	-	-0.1	-3.3	-	12.8	7.6	2.5	100.4	3.7	2.4	11.6	-90.6	-	-	-	-	1.3592
2014 July	-	-0.2	-2.8	-	12.7	4.4	1.9	103.3	4.0	4.6	11.7	-182.9	-	-	-	-	1.3539
2014 Aug.	-	-0.2	-3.6	-	12.6	2.7	0.2	102.0	2.9	5.7	11.8	-266.9	-	-	-	-	1.3316
2014 Sep.	-	-0.1	.	-	12.4	.	.	100.9	.	.	.	579.6	-	-	-	-	1.2901

Sources: Statistical Office of the Slovak Republic, MF of the SR, the European Commission and NBS.
1) Currency in circulation in M3 refers to money held by the public (according to methodology in place prior to 2008).

More detailed time series for selected macroeconomic indicators
http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2014/StatisticsMB1014.xls