NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

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

Contact:
+421/2/5787 2146

http://www.nbs.sk

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EUROSYSTÉM

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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 latest published figures for the euro area showed an upturn from the downward trend observed in forward-looking indicators over recent months. Euro area GDP growth accelerated marginally in the third quarter of 2014, to 0.2%. The assumption is that this growth was driven mainly by domestic demand and partly by exports, which benefited from exchange rate depreciation. The national economies that led the growth were the largest ones, in particular Germany (albeit not to the extent that had recently been expected), Spain and, somewhat surprisingly, France. On the other hand, Italy's economic activity contracted further, with a significant dampening effect on overall euro area growth. Available forward-looking indicators imply that the euro area economy will continue to grow moderately in the fourth quarter.

The Slovak economy, as projected, maintained its growth trajectory in the third quarter of 2014, reporting the same level of quarter-on-quarter growth, 0.6%, as it did in the previous quarter. It is assumed on the basis of monthly figures that the growth was caused mainly by domestic demand. Levels of retail sales, household and retail sentiment, and new registrations of passenger cars suggest that the pick-up in private consumption will continue. Investment demand is likely to have boosted growth, too, given the launch of infrastructure projects and the moderate recovery in business investment. Export performance was weaker than in the previous quarter. Imports fell significantly, indicating a decline in import intensity and a slowdown in gas flows from Russia.

Although economic growth remains subdued, it still supported net job creation in the third quarter. Employment growth slowed slightly, in line with projections, to 0.3% quarter-on-quarter. The unemployment rate in October fell to 12.49%.[2] The slight worsening of sentiment in the economy was reflected in the labour market, with weaker expectations pointing to lower employment growth in the next quarter.

Annual HICP inflation was at zero in October. The rate of inflation in non-energy industrial goods increased slightly, possibly reflecting the impact of exchange rate weakening. The downward pressure on the headline rate came almost entirely from food and energy prices. The average inflation rate for 2014 is expected to be -0.1%, and next year should see a continuation of the low inflation environment favourable for consumption.

The latest published indicators for the real economy and labour market were consistent with projections in NBS's current forecast, and therefore no significant revision of these projections is expected in the short-term horizon. As for price developments, inflation forecasts for next year are expected to be revised down significantly on the basis of the main technical assumptions (commodities).

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.

2 THE REAL ECONOMY

2.1 GDP FLASH ESTIMATE

Euro area growth picked up slightly in the third quarter

The euro area economy grew by 0.2% in the third quarter according to Eurostat's flash estimate, after growth of 0.1% in the second quarter. The modest increase is expected to be based on investment and private consumption. Net exports may also have made a positive contribution to growth, after benefiting from a weaker exchange rate. The third-quarter increase in euro area growth occurred despite a deterioration in several forward-looking indicators (Chart 1). Developments in industrial production and construction also pointed to weakening performance. Meanwhile, recent market expectations have been fluctuating below the flash estimate for euro area GDP growth.

The detailed composition of euro area GDP will be published on 5 December 2014. However, short-term indicators point to a decline in industrial production and moderate growth in construction and retail trade.

Looking at the largest economies in the euro area, Spain maintained solid GDP growth with a rate of 0.5%, and France's growth surprisingly increased to 0.3%. The German economy also picked-up, with growth of 0.1%, and Dutch GDP increased by 0.2%, less than it did in the second quarter. The Italian economy contributed negatively to euro area growth, although its rate of contraction moderated to -0.1%.

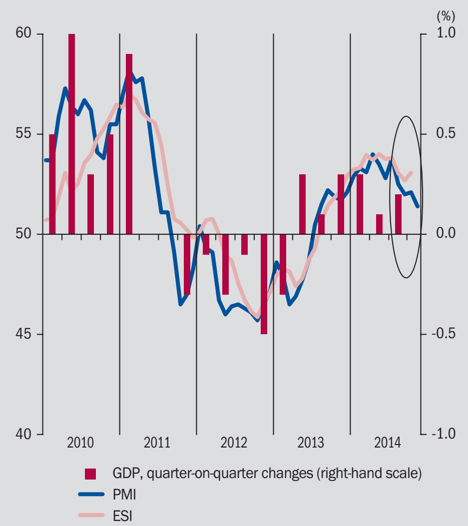
The German economy's modest growth of 0.1% followed a contraction of 0.1% in the second quarter. The growth was accounted for by domestic demand and net exports. Although private consumption was far higher in the third quarter than in the second quarter, investment fell. Changes to inventories made a negative contribution. Germany's economy may have been further constrained by the one-off factor of school holidays, since this year they fell entirely in the third quarter, while last year they were divided between the two quarters.

The French economy increased by 0.3% in the third quarter after contracting slightly in the second quarter. The quarter-on-quarter growth was the highest recorded since the second quarter of 2013. Domestic demand contributed positively to the growth, despite the continuing decline in investment, as household consumption increased further and government consumption also accelerated. Net exports had a negative impact on growth owing to an acceleration of imports. Inventory changes made a substantial positive contribution.

The signals from available forward-looking indicators are mixed at present. November's PMI figures were weaker and imply that the euro area quarter-on-quarter growth in the fourth quarter will be around 0.1%. Now-Casting projects that growth will be flat in the next two quarters. Euro area activity remains at risk from ongoing geopolitical tensions and barriers to international trade.

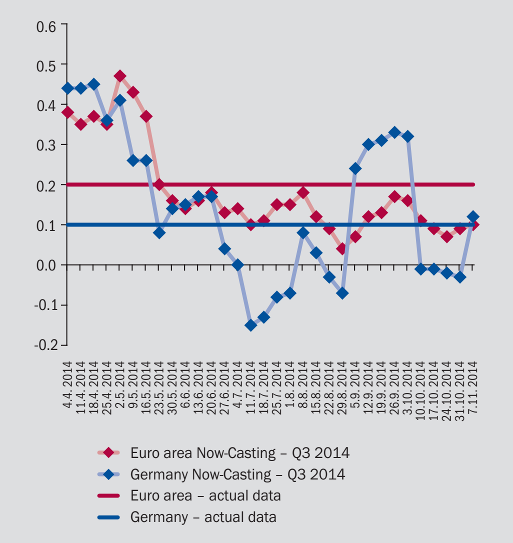
In the Czech Republic, GDP growth in the third quarter was the same as in the previous quarter, at 0.3%, according to preliminary figures. The

Chart 1 Forward-looking indicators and euro-area GDP growth



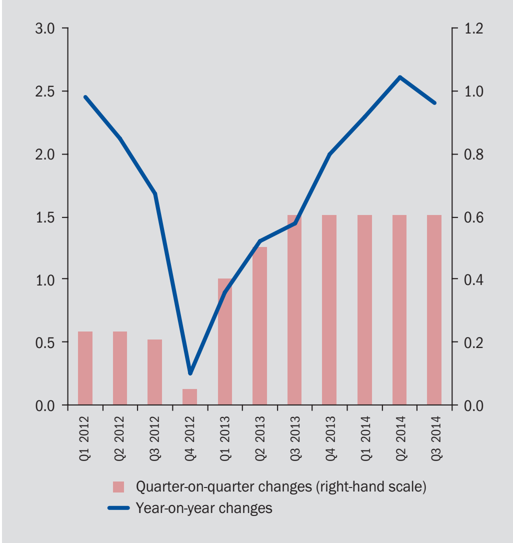
Source: Eurostat, Bloomberg, European Commission.
Note: The GDP figure for Q3 2014 is Eurostat's flash estimate.
ESI normed and centred at the PMI's long-run average.

Chart 2 GDP forecast according to Now-Casting and actual third-quarter figures for the euro area and Germany



Source: Now-Casting Economics Ltd.

Chart 3 GDP (percentage changes)



Source: SO SR, NBS calculations.

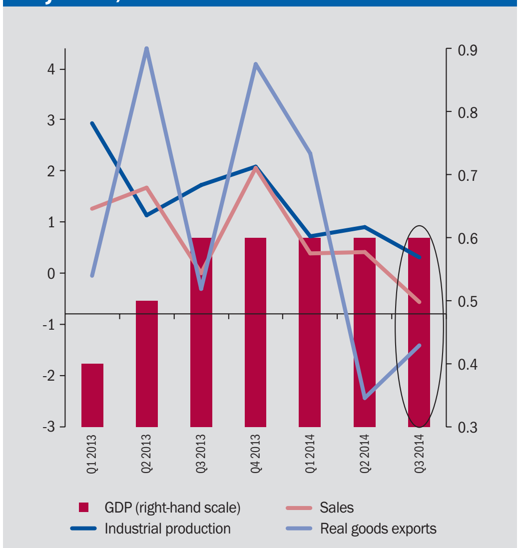
growth was driven mainly by manufacturing industry, in particular the manufacture of transport equipment and manufacture of chemicals and chemical products.

Slovakia's economic growth remained relatively strong, with an upward effect on employment

The assumption of the current Medium-Term Forecast (MTF-2014Q3) that Slovakia's economy would continue to grow, quarter-on-quarter, in the third quarter was confirmed by the flash estimate published by the Slovak Statistical Office (SO SR). GDP growth was 0.6% (the same as in the second quarter) and it had an upward effect on employment, which rose by 0.3% quarter-on-quarter (after increasing by 0.5% in the second quarter). Annual GDP growth, seasonally unadjusted was 2.4% (2.6% in the second quarter), while annual employment growth was 1.4% (unchanged).

For five successive quarters now, the economy has maintained a stable quarterly growth rate of 0.6%. Although the latest GDP figures do not describe the composition of growth, it may be assumed that the tendencies in the third quarter were the same as those in the previous quarter and that domestic demand's contribution to growth increased significantly at the expense of external demand. Overall export growth was again in negative territory and exports were probably not as high as in the previous quarter. Offsetting this decline, however, was growth in industrial production (albeit lower than in the previous quarter), which was based on the more successfully performing domestic market as well as on changes in the production side of the economy. It is assumed that production costs

Chart 4 GDP and indicators (quarter-on-quarter percentage changes; seasonally adjusted)



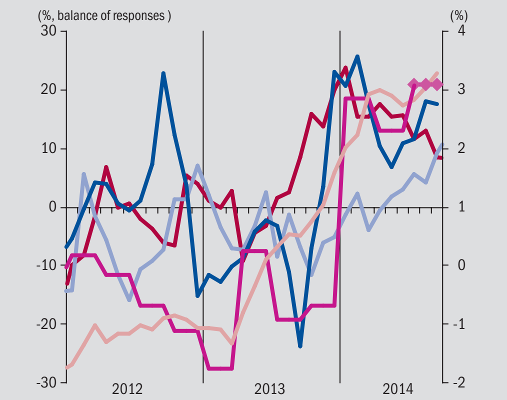
Source: SO SR, NBS calculations.

in the Slovak economy were lower in the third quarter (both energy imports and imports for intermediate consumption fell markedly), and that therefore lower-cost production generated higher value added.

Monthly retail sales figures imply that the consumption component of domestic demand is about to increase. The investment component is expected to have been supported by loans, ongoing infrastructure projects, and investment projects launched in a whole range of sectors. It remains the assumption that the pick-up in fixed capital formation is largely caused by overdue long-term investment in the business sector, where, in certain sectors, the simple replacement of fixed capital financed solely through depreciation has been prevalent.

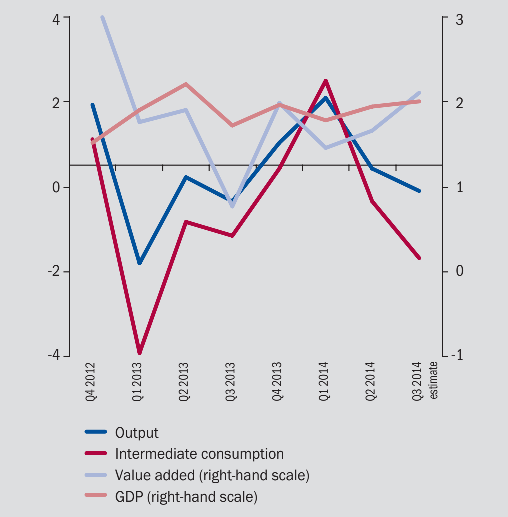
The Slovak economy's relatively favourable growth in the third quarter is assumed to already reflect compositional changes, especially in the area of exports. After their drop in the previous quarter, exports did not correct upwards sufficiently (not even with a pick-up in oil refinery exports) and car exports in particular acted as a drag. Although external indicators are not falling as sharply as they were, the uncertain geopolitical situation means that the risk of Slovak economic growth decelerating in the quarters ahead remains elevated.

Chart 5 Household final consumption and indicators (annual percentage changes; balance of responses)



Source: Source: SO SR, European Commission, NBS calculations.

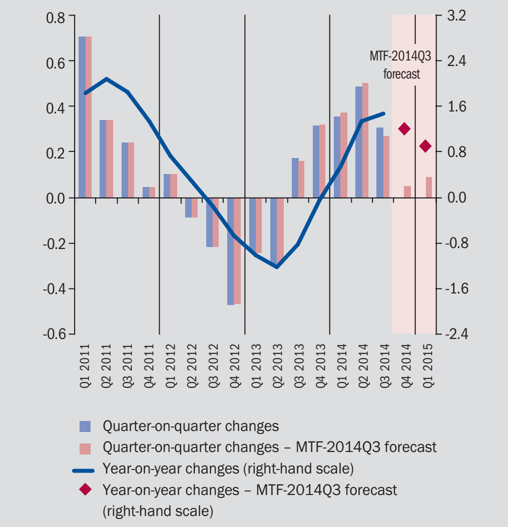
Chart 6 Value added according to the production approach (annual percentage changes; current prices)



Source: SO SR, NBS calculations.

Employment increased, quarter-on-quarter, by 0.3% (in line with NBS expectations). The number of employed people is 30,000 higher than it was a year ago, which represents a relatively robust recovery from the weak job figures in 2012 and, to a lesser extent, 2013. Nevertheless, employment growth in the third quarter was lower than in the first half of the year, possibly

Chart 7 Employment – comparison of current forecast and actual developments (%)



Source: SO SR, NBS calculations.

affected by signs of uncertainty about the future performance of the Slovak economy. Should GDP growth decrease further, employment growth may be expected to keep moderating, and that prospect can already be inferred from surveys of employers' expectations.

2.2 "HARD" INDICATORS OF ECONOMIC ACTIVITY

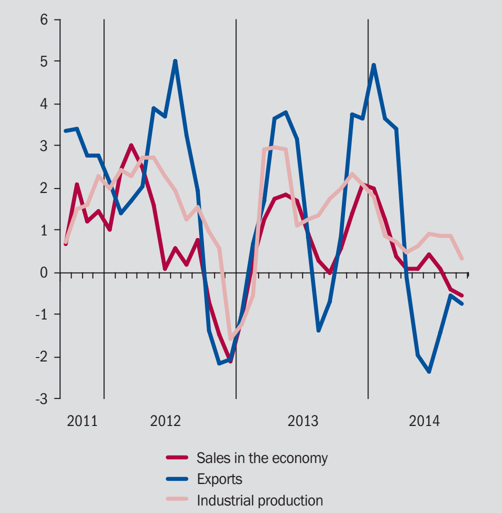
Sales, measured by comparing their three-month moving average against the corresponding average three months earlier, maintained a downward trend in the third quarter of 2014. Exports also declined, as their upward correction of the previous period had faded. Industrial production growth reflected both factors, as its rate of change, on a three month-on-three month basis, moved towards zero after remaining flat in previous months. Hard indicators of activity imply that Slovakia's economic growth may decelerate in the fourth quarter.

Sales decline caused by industry

Although overall sales in the economy increased in September by 1.5% month-on-month, that performance could not make up for their weakness in July and August. Hence their three-month moving average for July-September was 0.6% lower than that for the previous three months, with most of the downward pressure coming from sales in industry, transportation and storage, information and communication, and selected market services.

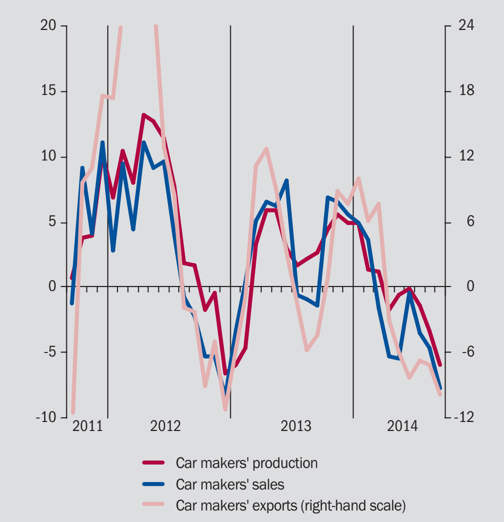
The largest drag on industry sales was the automotive sector, where the rate of change in

Chart 8 Sales, industrial production and exports (percent; three-month moving average against corresponding average for previous three months; constant prices)



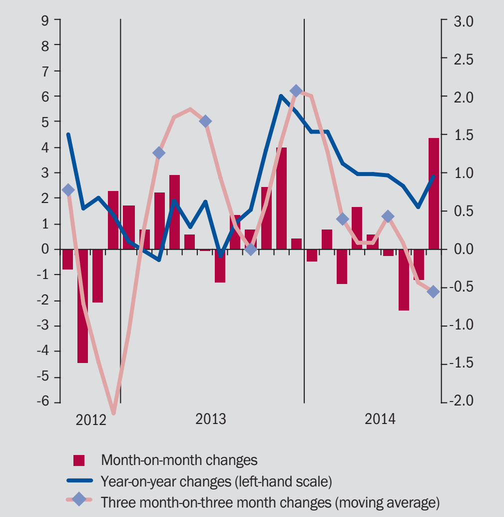
Source: SO SR, NBS calculations.

Chart 9 Automotive industry indicators (percent; three-month moving average against corresponding average for previous three months; constant prices)



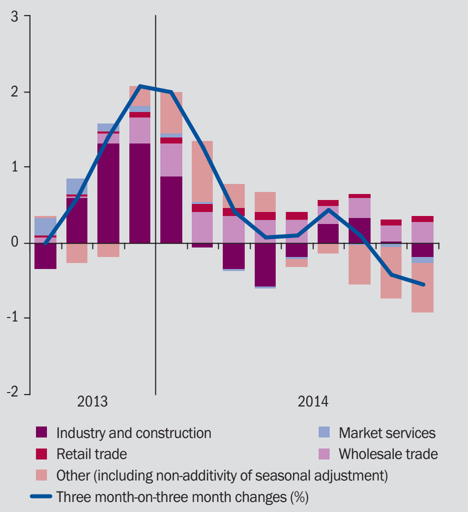
Source: SO SR, NBS calculations.

Chart 10 Total sales at constant prices (%)



Source: SO SR, NBS calculations.

Chart 11 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.

sales (their average for July-September against that for April-June) became increasingly negative. At the beginning of the third quarter, automotive sales were still increasing in three month-on-three month terms, but in August and September that trend reversed. This was partly caused by temporary shutdowns of car plants in September. Production and exports of cars also declined.

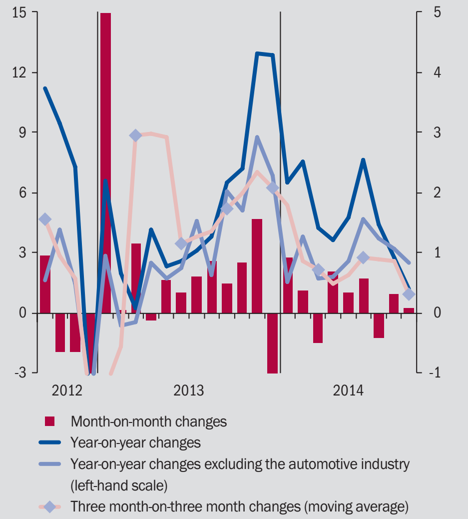
Trades sales, by contrast, especially in the wholesale and retail sectors, made a positive contribution to overall sales growth, and slightly more than they did in the previous quarter.

Overall sales were higher in September than in the previous month, owing to results in retail trade, wholesale trade and, in particular, industry, where sales had been lagging behind production in previous months.

Three month-on-three month production growth driven by manufacture of metals

Turning to industrial production, its three month moving average for July-September was 0.3% higher than that for the previous three months, but lower than the increase of 0.9% between the averages for March-May and June-August. Unlike sales, industrial production is maintaining positive growth, supported by domestic demand. The decline in the three month-on-three month rate

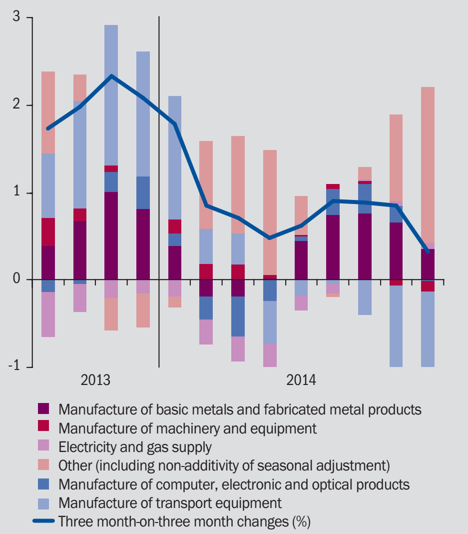
Chart 12 Industrial production (%)



Source: SO SR, NBS calculations.

of change in production was caused mainly by the automotive industry, which saw output fall in the third quarter in comparison with the second quarter. Two factors in particular accounted for that drop, namely weaker performance during the summer and temporary shutdowns of car plants in September. Unless the car industry recovers from this downturn, it could weigh on production growth in the fourth quarter of 2014.

Chart 13 Industrial production – principal contributions to three month-on-three month rate of change (p.p.; moving average)



Source: SO SR, NBS calculations.

As for sectors supporting production growth, the metals, electricals/electronics, and chemicals manufacturing industries contributed far less to the overall rate the than they had in the previous period.

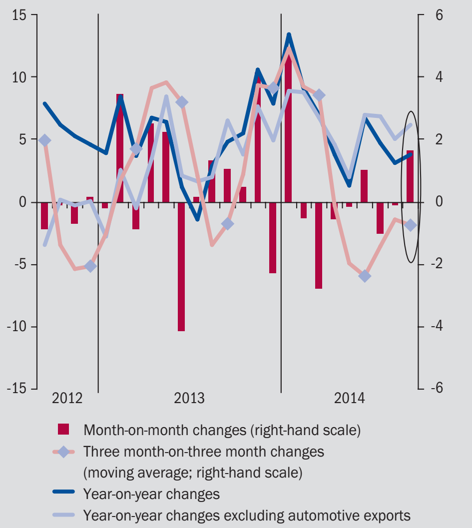
In month-on-month terms, industrial production growth in September remained unchanged from August (at 0.3%) and was constrained mainly the automotive and electricals/electronics industries. Metals manufacture, too, made a lower contribution to the headline rate. The sectors reporting the largest rise in production, month-on-month, were manufacture of machinery and manufacture of wood and paper products.

Goods exports in September pushed the quarterly figure to below the previous quarter's level

As regards goods exports, at constant prices, their three-month average for July-September was lower than that for April-June by 0.7%, which was a greater rate of decrease compared to the difference between and March-May and June-August (-0.5%). The decline of exports in the foreign trade figures for the third quarter (-0.7%) was not, however, as marked as in the second quarter (-2.4%).

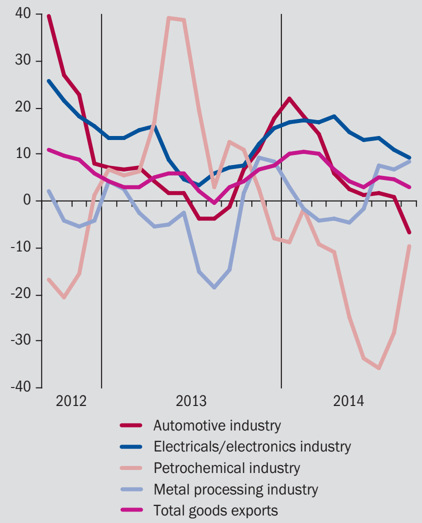
For a second successive quarter, the main cause of the decline in exports was exports of cars and

Chart 14 Goods exports (percent; constant prices)



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

Chart 15 Exports – annual percentage changes in selected sectors (three-month moving average; constant prices)



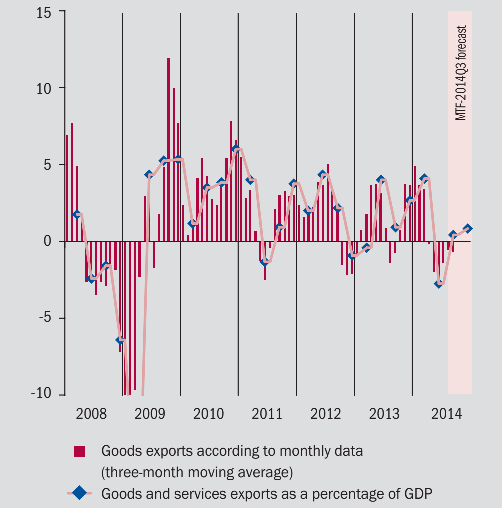
Source: SO SR, NBS calculations.
Note: Converted by NBS into constant prices.

components, which in volume terms, at constant prices, fell almost to the level recorded at the end of 2012. Exports of electricals/electronics provided the main upward pressure on the overall rate, owing to demand from the Chinese, European and US markets, according to market information. In the petrochemical and energy production sectors, exports returned to standard levels after a period in which they were temporarily constrained. Nevertheless, overall goods exports were unable to fully correct from their decline in the second quarter and fell again in the third quarter on a quarter-on-quarter basis. This implies that the contribution of overall exports of goods and services to GDP may be lower than projected in NBS's latest Medium-Term Forecast (0.4%).

The OECD's composite leading indicators (CLIs) for Germany and the Czech Republic imply a downward trajectory for Slovak exports in the next period.

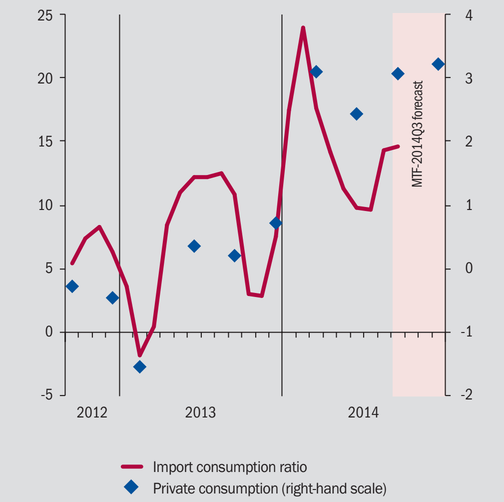
Turning to imports, at constant prices (following recalculation via import prices), they fell by 1.9% quarter-on-quarter. Imports for the automotive industry were significantly subdued, and gas imports decreased, implying a decline in imports for intermediate consumption and in energy imports. According to preliminary figures, imports of investment goods and consumption

Chart 16 Export developments and outlook (three month-on-three month percentage changes; constant prices)



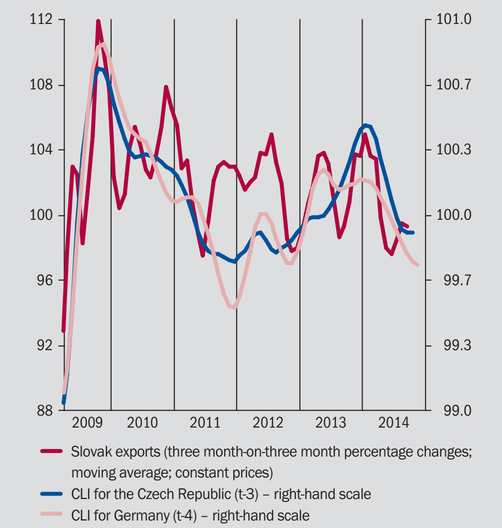
Source: SO SR, NBS calculations.

Chart 18 Import consumption ratio (annual percentage changes; constant prices)



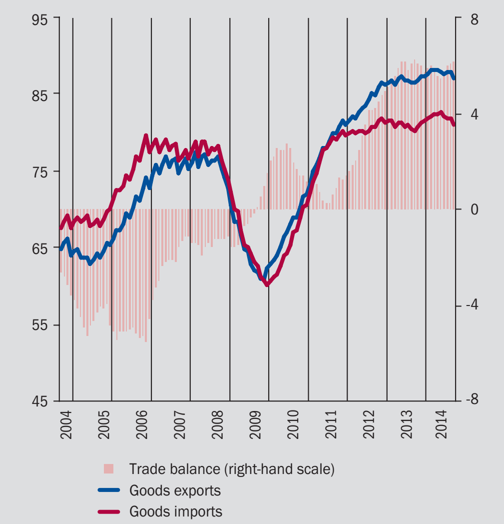
Source: SO SR, NBS calculations.

Chart 17 Slovak exports and composite leading indicators (CLIs) for key trading partners



Source: SO SR, OECD, NBS calculations.

Chart 19 Ratios to GDP (12-month percentage)



Source: SO SR, NBS calculations.

goods continued to increase, while the previously promising revival in imports for retail chains moderated and the import consumption indicator stands below the level of consumption projected in MTF-2014Q3.

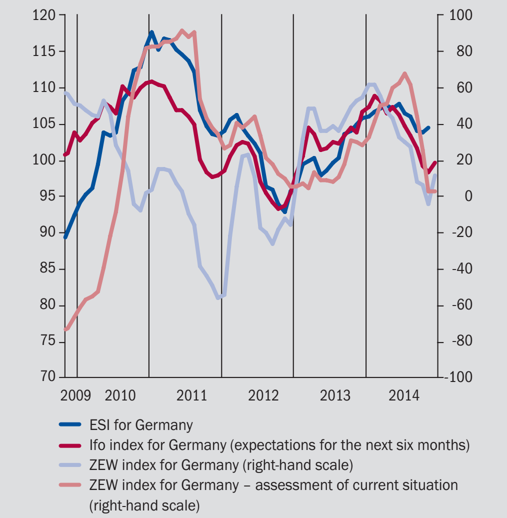
The 12-month trade surplus in September amounted to 6% of GDP, the same as its level in September 2013.

2.3 FORWARD-LOOKING "SOFT" INDICATORS

Euro area and Germany see end to downward trend in several indicators

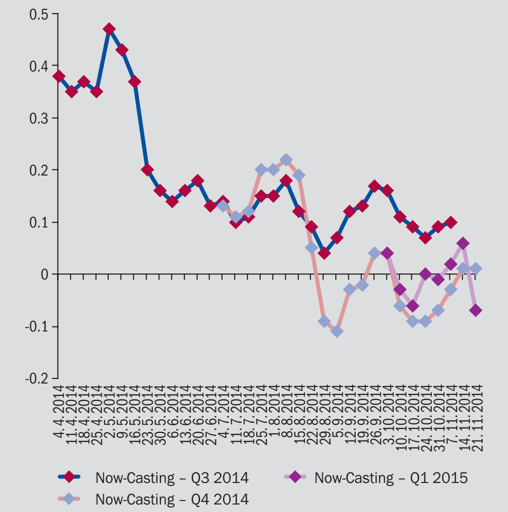
The economic sentiment indicators for both the euro area and Germany increased in October. The ESI for the euro area rose above its long-

Chart 20 Economic sentiment indicators for Germany



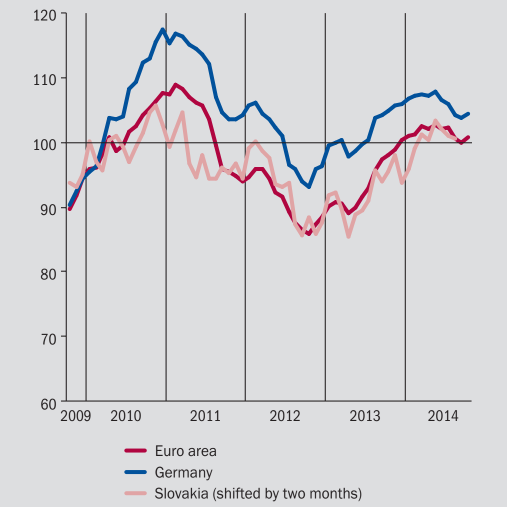
Source: European Commission, Ifo institute, ZEW Centre.
Note: ESI (long-run average = 100), Ifo index (2005 = 100), ZEW (balance of responses).

Chart 22 Euro-area GDP growth estimate for Q4 2014 and Q1 2015 (quarter-on-quarter percentage changes)



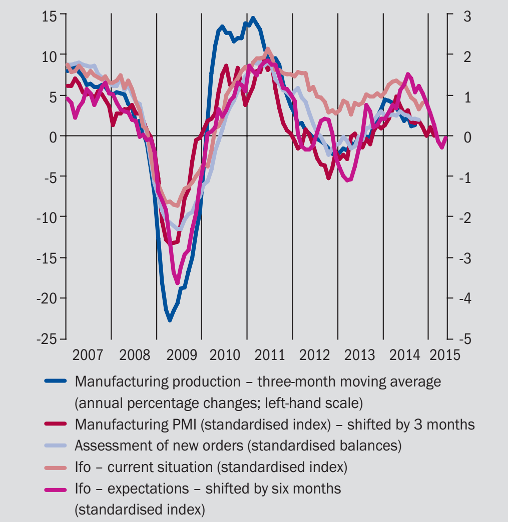
Source: Now-Casting Economics Ltd.

Chart 21 Economic sentiment indicator (long-run average = 100)



Source: European Commission.

Chart 23 Germany – industrial production and forward-looking indicators



Source: Eurostat, Ifo institute and Markit.

term average (to 100.7), with increases in all component sectors. In Germany, the ESI's improvement (to 104.4) was accounted for by the services, construction and consumer sectors. Still in Germany, the ZEW index rallied significantly in November (rising to 11.5, from -3.6 in October), and the Ifo index also increased (to 104.7, from 103.2 in October). By contrast, the composite PMIs for the euro area and Germany fell to their lowest level for 16 months.

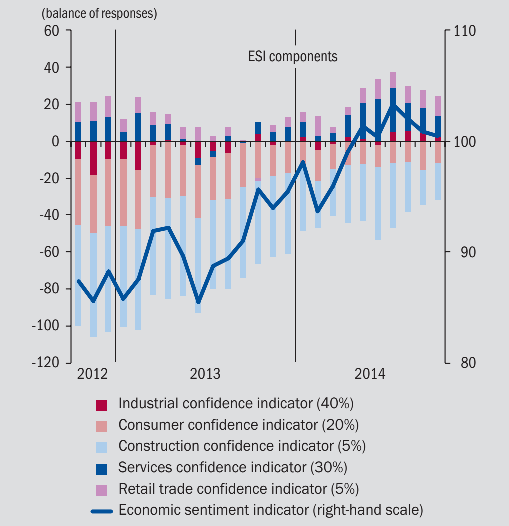
The latest forward-looking indicators for the euro area and Germany provide, if not a clear picture, grounds for a slightly more optimistic outlook for economic growth in the last quarter of 2014.

Sentiment in the Slovak economy deteriorated further

The economic sentiment indicator (ESI) for Slovakia fell month-on-month in October by 0.4 point, to 100.5, with declines in industry, services and construction confidence. Retail trade and consumer confidence increased.

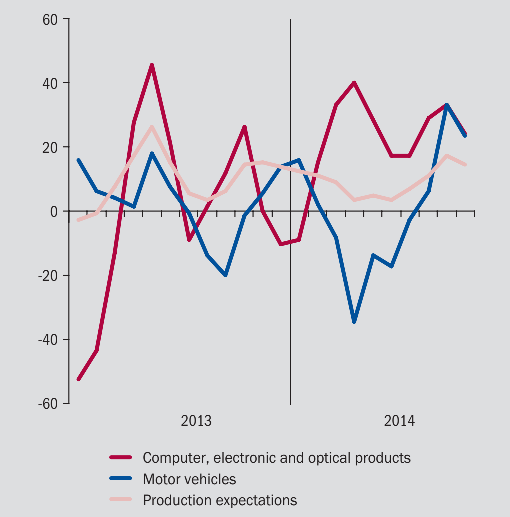
Decreasing industry confidence resulted mostly from less favourable assessments of the current level of order books as well as from slightly less optimistic expectations for future production,

Chart 24 Economic sentiment indicator for Slovakia (long-run average = 100)



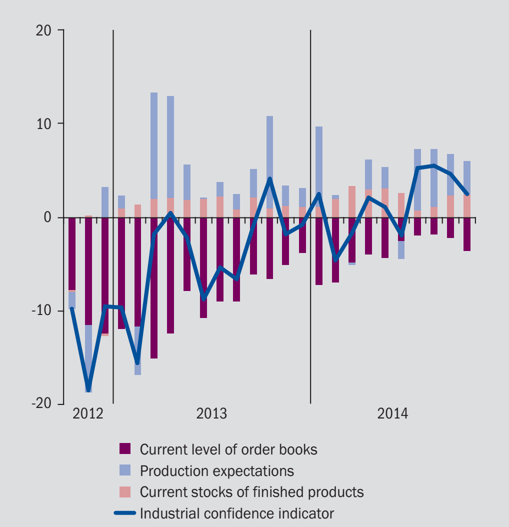
Source: European Commission.
Note: The percentages in the legend represent the weights of the respective components in the ESI.

Chart 26 Industrial production expectations (three-month moving average, balance of responses)



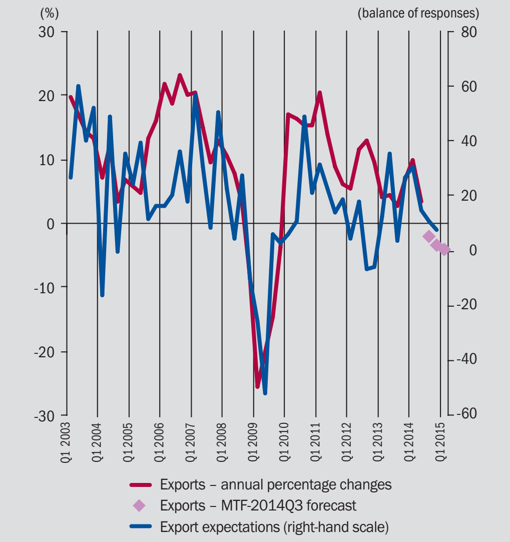
Source: European Commission.

Chart 25 Industrial confidence indicator for Slovakia (balance of responses)



Source: European Commission.

Chart 27 Export expectations (balance of responses) and real exports (%)



Source: Source: SO SR, European Commission, and NBS calculations.

particularly in the sectors manufacturing chemicals, rubber and plastics products, and motor vehicles. Services confidence was dented mainly by more negative assessments of demand, principally in the sectors of transportation and storage, information and communication, and professional and scientific activities. The drop in construction confidence reflected expectations for a decline in employment in the sector. The increase in consumer confidence was broadly based, with all components showing an improvement. Retail trade confidence picked up mainly owing to more optimistic appraisals of the present and future business situation.

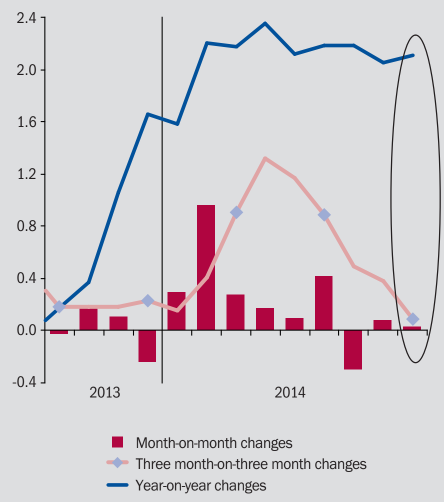
The fact that the ESI, despite falling, remains above its long-term average indicates continuing economic growth in the fourth quarter. "Soft" indicators are therefore supporting acertain optimism about economic developments in the period ahead. It remains to be seen, however, how and whether these indicators will be reflected in the "hard" monthly figures, and what will be the developments in sentiment abroad.

3 Labour market

Employment growth continues to decelerate on a three month-on-three month basis, as the figure for the July-September period confirms. In month-on-month terms, employment growth in September was only marginally above zero, while year-on-year it stood at 2.1% (after 2% in August). The slowdown is affecting most sectors of the economy, in particular services and to a lesser extent industry and business activities. In the construction sector, employment ceased falling on a month-on-month basis, but the brighter outlook that would result only from the pick-up in construction production in certain segments has yet to materialise. The continuing positive employment developments in IT and communication are an exception. Expectations for employment in the months ahead moderated, albeit not substantially, with optimism waning mainly in industry and services.

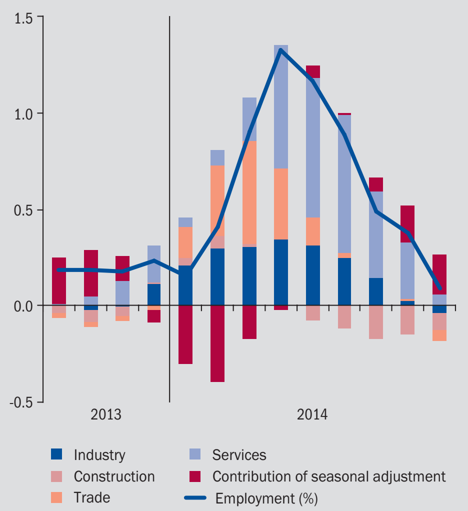
The SO SR's flash estimate for employment growth in the whole economy showed its falling to 0.3% in the third quarter, from 0.5% in the second quarter. The MTF-2004Q3 forecast assumes that employment growth will moderate further in the fourth quarter and that job creation will be lower towards the end of 2014 than at any other time during the year.

Chart 29 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 28 Employment – sectoral contributions to the three month-on-three month rate of change (moving average; p.p.)

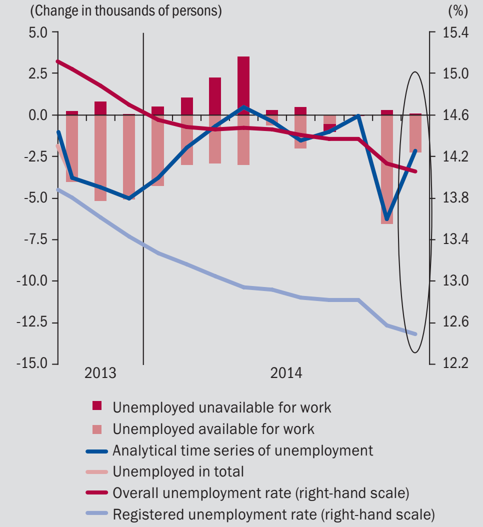


Source: SO SR, NBS calculations.

The number of unemployed people fell by around 2,200 in October, more moderately than in September. The registered unemployment rate dropped by 0.08 percentage point after seasonal adjustment.[3] A similar development was seen in the unemployment rate based on the total number of job seekers. Job seekers are leaving the unemployment rolls mainly due to finding work, and since their numbers are significantly exceeding the number of people leaving the workforce to register as unemployed, the economy is now a net generator of new jobs. Furthermore, the number of registered job vacancies is also rising markedly, although that development is probably caused partly by the increasing trend in the registration of job vacancies with state labour offices. This is indicated by the fact that the number of job seekers finding work is rising far more slowly than the number of job vacancies.

3 The seasonally unadjusted unemployment rate fell by 0.09 percentage point, to 12.35%. The unemployment rate based on the total number of job seekers fell by 0.08 percentage point, to 13.93%.

Chart 30 Unemployment (%)



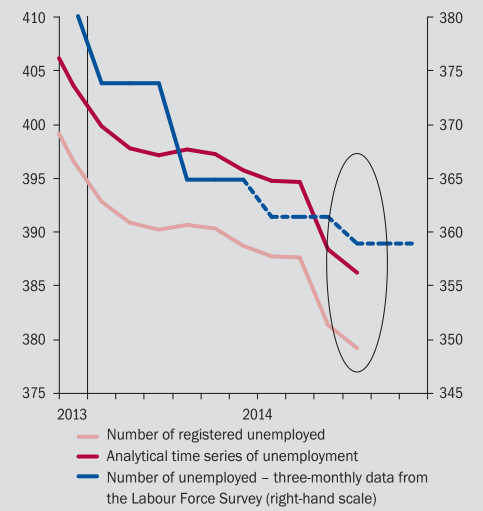
Source: Central Office of Labour Social Affairs and Family, NBS calculations.

The relatively substantial drop in unemployment in September and October may be reflected in the quarterly unemployment rate as measured by the Labour Force Survey, which could therefore end the year slightly lower than projected by the MTF-2014Q3 forecast. Despite ongoing risks in the form of external demand, the fourth quarter should see a further increase in employment and a fall in the unemployment rate.

Average annual wage growth in the selected sectors increased moderately in September, to 3.8%, after being more subdued in July and August (1.9% in each month). Even so, wage growth for the third quarter as a whole fell to 2.5%, from 3.6% in the second quarter. Wage growth in industry decreased, but still remained close to 5%, and the situation was similar in business activities. In the construction sector, and to a lesser extent services, the annual rate of change in wages became more negative. Wage growth may be coming under downward pressure from falling bonuses as well as weak growth in nominal labour productivity.

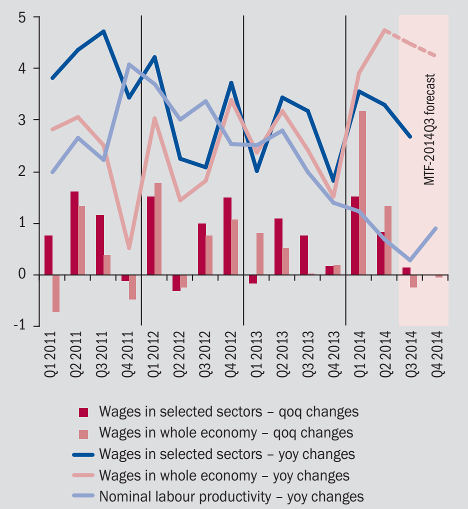
The quarterly wage growth figures for the economy as a whole may therefore also be expected to show a certain slowdown. Further support for this assumption is to be found in the collection of social contributions by the Social Insurance Agency for August and September (the annual growth rate for the collection of accident insurance contributions fell from an

Chart 31 Number of unemployed (thousands of persons)



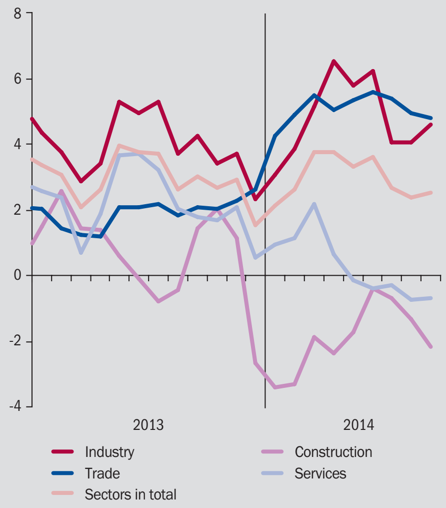
Source: Central Office of Labour Social Affairs and Family, SO SR, and NBS calculations.
Note: The number of unemployed (Labour Force Survey) for Q3 and Q4 2014 is based on the MTF-2014Q3 forecast.

Chart 32 Wage developments in the economy (annual and quarter-on-quarter percentage changes)



Source: SO SR.
Note: 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 33 Wage growth (annual percentage changes; three-month moving average)



Source: SO SR.

average of 6% for the months from May to July, to an average of just below 5% for August and September). Wage indicators for the selected sectors, along with the figures for social contributions, imply that the slowdown in wage growth between the second and third quarters was greater than projected in the MTF-2014Q3 forecast.

4 Prices

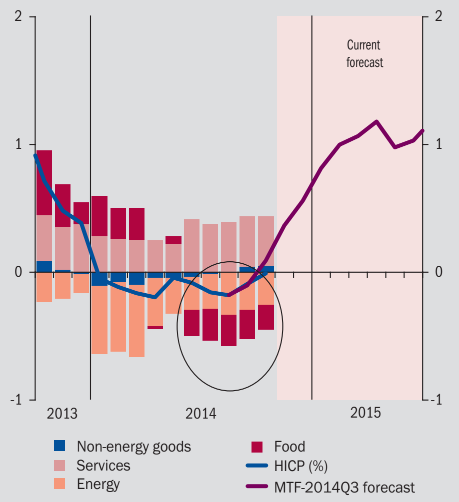
Annual inflation was at zero in October

Annual HICP inflation was at zero in October, while in month-on-month terms the overall price level edged up by 0.1%. NBS had expected the annual rate to increase slightly.

The inflation rate returned to zero in October, from negative territory, owing partly to a slight increase in non-energy industrial goods inflation and despite falling energy and food prices.

Food price inflation remains negative and, along with energy prices, is the principal cause of the low-inflation environment in 2014. The energy price figures for October included a month-on-month drop in fuel prices. At a time when oil prices are low and on a downward trend there is minimal lag in their pass-though to oil derivative prices on the Rotterdam market and subsequently to fuel prices. The current falling oil prices may also be reflected in a year-on-year decrease in administered energy prices (gas prices for households) in 2015. Owing to pipeline pressure from low prices of basic agricultural commodities (cereals, oilseeds), inflation in particular food price groups is expected to be weak or negative in the first half of 2015. Net inflation excluding fuel is gradually increasing. Services inflation may come under upward pressure from nominal wage growth (a cost-push impulse) and real wage growth (demand-pull). Growth in household consumption has so far been evident in higher-quality purchases.

Chart 34 Composition of annual inflation (p.p.)



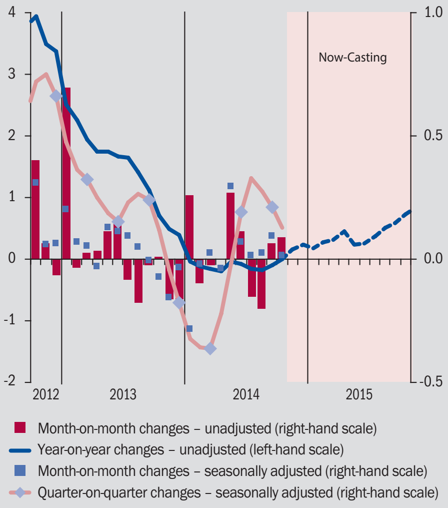
Source: SO SR, NBS calculations.

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	October 2013 – actual figure	0.4	-0.4	-0.2	0.0	**0.0**	0.2
	B	October 2014 – forecast	0.4	0.0	0.3	0.1	**0.2**	0.2
	C	**October 2014 – actual figure**	**0.4**	**-0.1**	**0.0**	**0.0**	**0.1**	**0.2**
	BC	**Difference in contribution to month-on-month rate of change (p.p.)**	**0.01**	**-0.03**	**-0.07**	**-0.01**	**-0.10**	**0.03**
Year-on-year change	D	September 2014 – actual figure	0.1	-1.8	-1.0	1.3	**-0.1**	0.7
	E	October 2014 – forecast	0.1	-1.4	-0.5	1.3	**0.1**	0.7
	F	**October 2014 – actual figure**	**0.2**	**-1.6**	**-0.8**	**1.3**	**0.0**	**0.7**
	AC	Base effect	insignificant	moderate	insignificant	insignificant	**insignificant**	insignificant
	EF	**Difference in contribution to month-on-month rate of change (p.p.)**	**0.01**	**-0.03**	**-0.07**	**-0.02**	**-0.10**	**0.02**

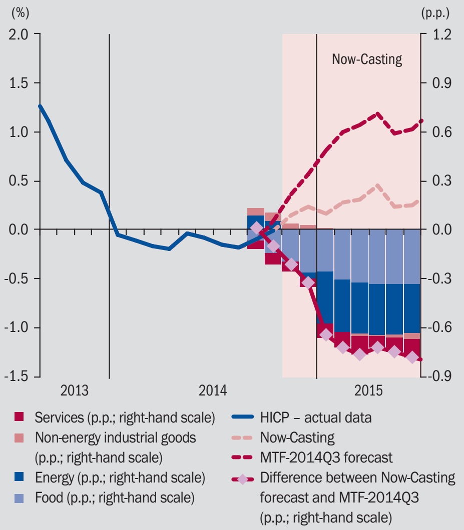
Source: SO SR, NBS calculations.

Chart 35 Headline inflation rate (%)



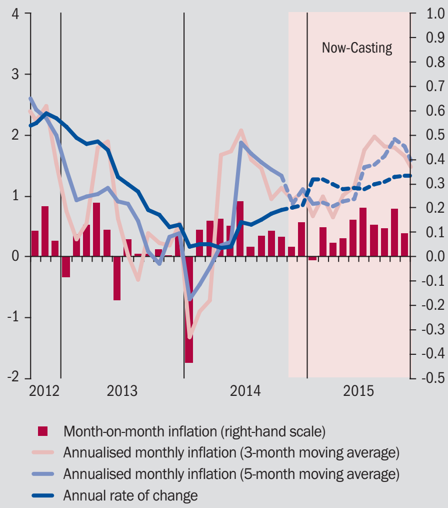
Source: SO SR, NBS calculations.

Chart 37 Price developments compared with forecast (MTF-2014Q3)



Source: SO SR, NBS calculations.

Chart 36 Annualised net inflation excluding fuel prices (percent; seasonally adjusted)



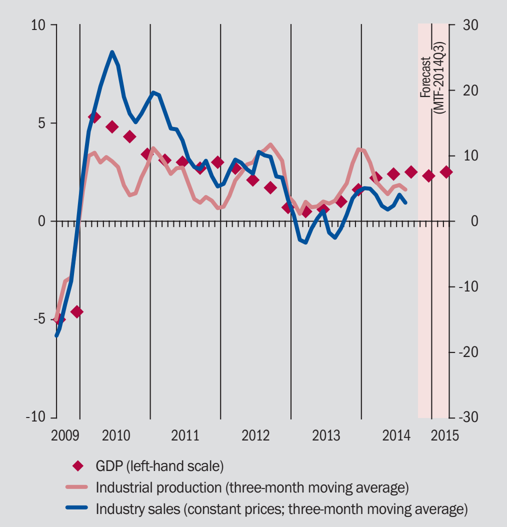
Source: SO SR, NBS calculations.
Note: Net inflation comprises non-administered prices of services and non-administered prices of non-energy industrial goods.

Prices of basic food commodities and oil price developments represent the principal risk to the short-term inflation outlook. Based on October's developments, it is assumed that average inflation for 2014 will, after rounding, be -0.1%, slightly lower than projected in the MTF-2014Q3 forecast. Inflation in 2015 is expected to be very low, owing mainly to a negative rate of change in energy prices (affected by significant decreases in oil prices) and to food price inflation, which is projected to be very subdued in the first half of 2015 (Chart 37).

5 Qualitative impact on the forecast

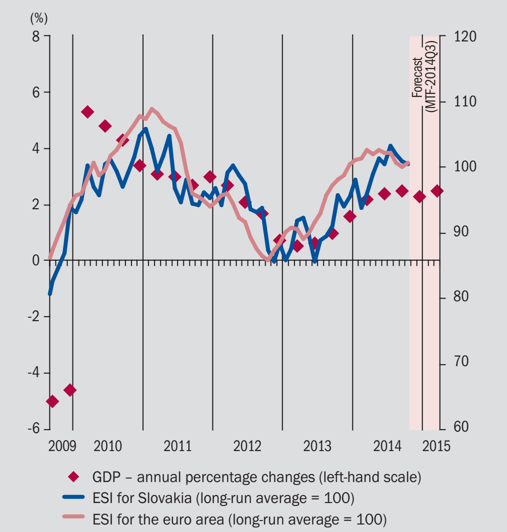
The latest aggregate figures for the real economy and the labour market were fully in line with the projections of NBS's current forecast (MTF-2014Q3). It is therefore unlikely that the growth forecast for this year will be revised or that the employment projections will be significantly adjusted. Current price developments and technical assumptions for commodity prices

Chart 38 GDP, industrial production and sales (annual percentage changes)



Source: SO SR and NBS.
Note: GDP for Q3 2014 is the SO SR's flash estimate.

Chart 39 GDP and the economic sentiment indicator

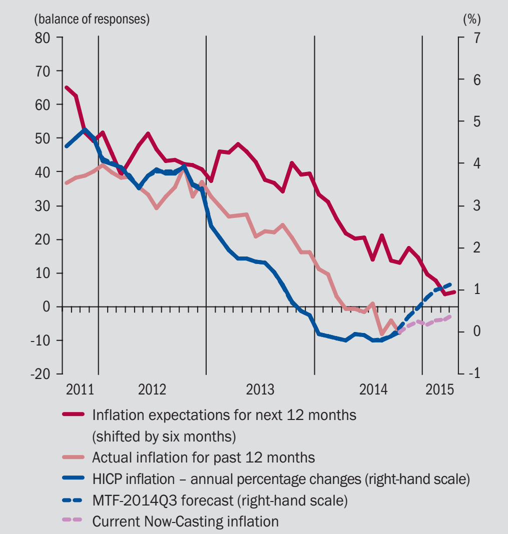


Source: SO SR, NBS and European Commission.
Note: GDP for Q3 2014 is the SO SR's flash estimate.

Chart 40 Employers' expectations and the annual rate of change in employment (%)

Source: SO SR, NBS and European Commission.
Note: GDP for Q3 2014 is the SO SR's flash estimate.

Chart 41 Consumers' inflation perceptions and HICP inflation



Source: SO SR, NBS and European Commission.

imply that the inflation forecast for next year will need to be revised down substantially owing to consumption-supporting external supply-side shocks (energy and food prices). All relevant soft and hard indicators will be taken into account in the next forecast, MTF-2014Q4, to be published in early December.

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	-18.3	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	8.0	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	5.4	8.9	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	4.9	94.0	8.8	-2.3	10.3	-3,810.7	-4.2	52.1	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	-2.6	54.6	2.1	5.9	1.3281
2013 Q4	1.5	0.5	-1.7	0.1	14.2	10.8	4.3	95.0	5.2	1.7	10.2	-	-5.4	54.6	-0.9	3.6	1.3610
2014 Q1	2.4	-0.1	-3.4	0.6	14.1	6.0	3.4	95.9	4.1	0.8	10.9	-	-2.8	58.7	3.0	7.3	1.3696
2014 Q2	2.5	-0.1	-3.7	1.4	13.2	5.2	2.5	100.2	3.7	2.4	11.6	-	-1.7	56.7	1.8	7.1	1.3711
2014 Q3	2.4[2]	-0.1	-3.4	1.4[2]	.	2.7	1.4	102.1	2.0	3.9	12.1	-	.	.	.	.	1.3256
2013 Nov.	-	0.5	-2.0	-	13.5	12.9	4.8	94.0	6.5	-0.6	10.3	8.7	-	-	-	-	1.3493
2013 Dec.	-	0.4	-1.7	-	13.5	12.8	5.1	95.4	5.2	1.7	10.2	-60.5	-	-	-	-	1.3704
2014 Jan.	-	0.0	-2.5	-	13.6	6.4	4.8	98.1	4.8	2.8	10.3	-122.9	-	-	-	-	1.3610
2014 Feb.	-	-0.1	-3.7	-	13.5	7.5	3.4	93.7	4.9	0.2	10.5	-754.2	-	-	-	-	1.3658
2014 Mar.	-	-0.2	-4.0	-	13.3	4.1	1.9	95.9	4.1	0.8	10.9	-208.7	-	-	-	-	1.3823
2014 Apr.	-	-0.2	-4.4	-	13.0	3.5	3.1	99.0	3.6	2.6	11.1	-430.4	-	-	-	-	1.3812
2014 May	-	0.0	-3.6	-	12.8	4.7	2.0	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	2.7	103.3	4.0	4.6	11.7	-182.9	-	-	-	-	1.3539
2014 Aug.	-	-0.2	-3.6	-	12.6	2.7	1.0	102.0	2.9	5.7	11.8	-266.9	-	-	-	-	1.3316
2014 Sep.	-	-0.1	-3.8	-	12.4	1.2	0.4	100.9	2.0	3.9	12.1	579.6	-	-	-	-	1.2901
2014 Oct.	-	0.0	.	-	12.3	.	.	100.5	.	.	.	-283.8	-	-	-	-	1.2673

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).
2) Flash estimate Statistical Office of the Slovak Republic.

More detailed time series for selected macroeconomic indicators
http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2014/StatisticsMB1114.xls