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EUROSYSTEM



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CONTENTS

1	SUMMARY	5	Chart 5	Economic sentiment indicators for Germany	7
2	THE REAL ECONOMY	6	Chart 6	Germany – Ifo index and annual GDP growth	7
2.1	'Hard' indicators of economic activity	6	Chart 7	Economic sentiment indicator	8
2.2	'Soft' leading indicators	6	Chart 8	Components of the economic sentiment indicator for Slovakia	8
3	THE LABOUR MARKET	9	Chart 9	Employment – sectoral contributions to the three month-on-three month rate of change	9
4	PRICES	12	Chart 10	Unemployed	9
5	INDICATIVE IMPACT ON THE FORECAST	14	Chart 11	Number of unemployed	10
			Chart 12	Regional trends in the labour market	10
	OVERVIEW OF MAIN MACROECONOMIC INDICATORS FOR SLOVAKIA	16	Chart 13	Wage growth	11
			Chart 14	Wage developments in the economy	11
	LIST OF TABLES		Chart 15	Impact of Easter on wages	11
Table 1	HICP components – comparison of projected and actual rates of change	12	Chart 16	Annual HICP inflation and its composition	12
Table 2	Selected economic and monetary indicators for Slovakia	16	Chart 17	HICP inflation	12
			Chart 18	Demand-pull inflation	13
			Chart 19	HICP core inflation broken down by price-change intervals	13
	LIST OF CHARTS		Chart 20	Employment nowcast	14
Chart 1	Sales, industrial production and exports	6	Chart 21	GDP nowcast	14
Chart 2	Automotive industry indicators	6	Chart 22	GDP nowcast	14
Chart 3	GDP growth estimate for the euro area in Q2 and Q3 2016	7	Chart 23	Private consumption nowcast	15
Chart 4	GDP growth estimate for Germany in Q2 and Q3 2016	7	Chart 24	Nowcast for goods and services exports	15



ABBREVIATIONS

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EMEs	emerging market economies
EMU	Economic and Monetary Union
EONIA	euro overnight index average
ESA 2010	European System of Accounts 2010
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)
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
PPI	Producer Price 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
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 SUMMARY¹

Monthly figures indicate that the euro area economy remains on a growth trajectory, after its acceleration in the first quarter. Industrial production increased appreciably in April, owing mainly to results in the largest economies (Germany and France). Retail sales, however, stayed flat in that month, possibly reflecting a slight slowdown in domestic demand. The signals from leading indicators are mixed at present.

The Slovak economy grew by 0.8% in the first quarter of 2016, with private consumption and changes in inventories accounting for most of the increase. Both the investment and export components declined. After dipping in March, GDP growth in April returned to the growth path observed in the first two months of the year. Industrial production grew, similarly as in the euro area, and the largest contribution to that growth came from transportation equipment manufacturing. The acceleration of exports in April more than compensated their weakening in March. Sales in the economy also remained favourable, and the fact that the trade sector had the highest sales growth may point to a continuing recovery in private consumption.

Employment increased by 0.5% in the first quarter of 2016, and that upward trend continued in

the beginning of the second quarter. Strengthening economic growth in industry in April was the main driver of job growth in the economy as a whole. Other sectors, too, reported net job growth, albeit more moderate, which suggests that domestic demand is continuing to pick up. In this context, the unemployment rate fell further, to 9.5%. Wage growth decreased in April and therefore is more consistent with the quarterly figures.

The inflation rate became more negative in April, reaching -0.7%, which was in line with expectations. The main cause of that decline was falling food prices. A reduction in regulated gas prices from July will ensure an overall decrease in energy prices in 2016. This, together with food price developments, will delay the return of headline inflation to positive territory, which is now not expected to happen until the turn of next year.

Nowcasts for GDP and employment growth in the second quarter of 2016 are consistent with the projections in NBS's current Medium-Term Forecast (MTF-2016Q2). The inflation rate is at present slightly lower than projected, owing to declining food prices.

¹ All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using NBS internal models.

2 THE REAL ECONOMY

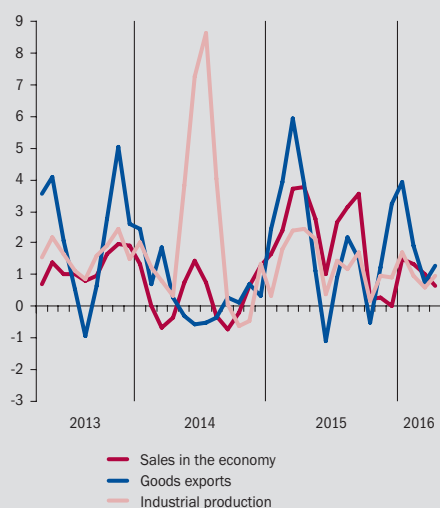
2.1 'HARD' INDICATORS OF ECONOMIC ACTIVITY

Economic activity indicators returned to relatively respectable growth rates in April. It therefore appears that March's month-on-month declines in industrial production, sales and exports were blips. The acceleration of export growth in April more than exceeded its slowdown in March and bodes well for export performance in the second quarter as a whole.

Industrial production increased by 1% in terms of the difference between its average for the three months to end-April and the three months to end-January. This appreciable increase was largely accounted for by transportation manufacturing industry (which in the previous month made a negative contribution to overall output growth) and by metal manufacturing industry (somewhat paradoxically given the increasing difficulties it faces from cheap competition in China).

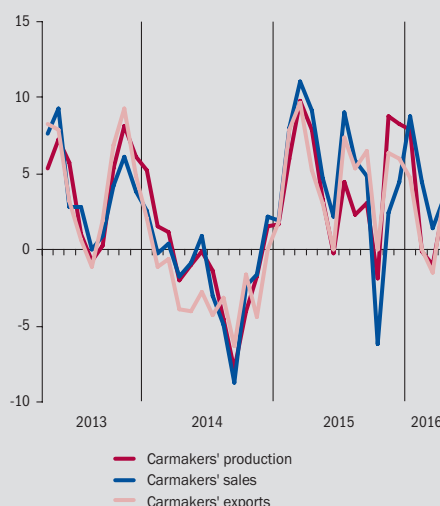
As for sales in the economy, their three month-on-three month growth rate was 0.6% in April, with internal trade making the largest positive contribution. The strongest sales growth was in whole-

Chart 1 Sales, industrial production and exports (percentages, three month-on-three month; moving average; constant prices)



Sources: SO SR and NBS calculations.

Chart 2 Automotive industry indicators (percentages, three month-on-three month; moving average; constant prices)



Sources: SO SR and NBS calculations.

sale trade, as all of its components increased (after contributing to the overall slowdown in sales growth in the previous month). In industry, sales growth was lower than output growth, due mainly to metal manufacturing industry, which had a positive impact on production growth while exerting a drag on sales growth. Monthly figures showed that steel production itself did not fall, despite weaker sales growth. Therefore the slowdown in sales was not even offset by car production, which saw a further increase in three month-on-three month terms.

2.2 'SOFT' LEADING INDICATORS

The European Commission's Economic Sentiment Indicator (ESI) continued to increase in May, as did the ESI for Germany. All components of the euro area ESI improved, with the exception of the services confidence indicator. The ESI for Germany also saw a decrease in the services component, while the industrial confidence indicator remained flat and the other components improved. The **Purchasing Managers' Indices (PMIs)** for the euro area and Germany both fell slightly in June amid a slowdown in

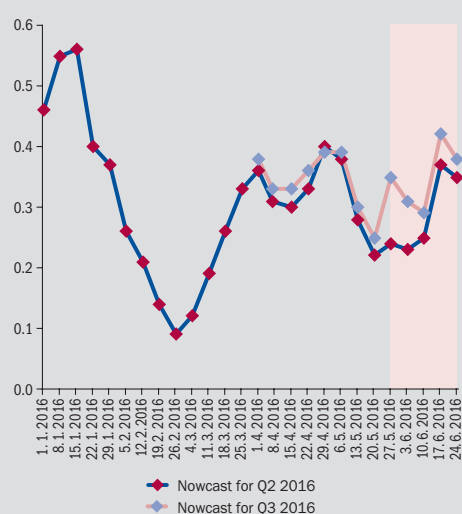


economic activity in the services sector. In contrast, manufacturing activity accelerated in both the euro area and Germany. In Germany, the **ZEW economic sentiment index** increased notably in the second quarter, after slowing in the previous two quarters. The **Ifo Business Climate Index** continued to improve in June, and

included bright assessments in the survey of future expectations.

Leading indicators for the euro area and Germany indicate that the economy will continue to grow in the second quarter, but probably more moderately compared with the previous quarter.

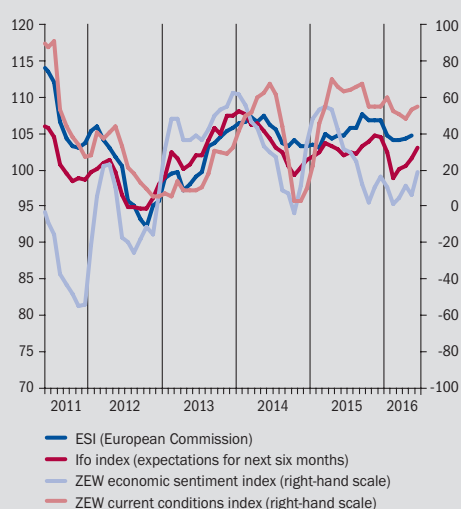
Chart 3 GDP growth estimate for the euro area in Q2 and Q3 2016 (quarter-on-quarter percentage changes)



Source: Now-Casting Economics Ltd.

Note: The highlighted area denotes developments since the previous Monthly Bulletin.

Chart 5 Economic sentiment indicators for Germany

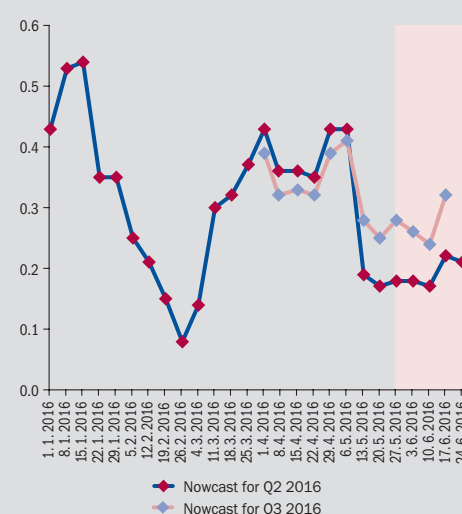


Sources: European Commission, Ifo Institute and ZEW Centre.

Notes: ESI (long-run average = 100);

Ifo index (2005 = 100); ZEW (balance of responses).

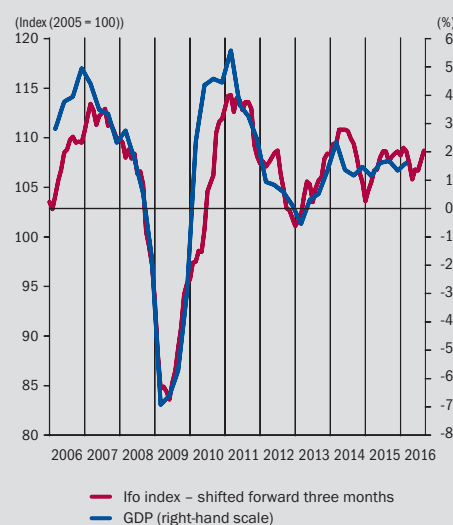
Chart 4 GDP growth estimate for Germany in Q2 and Q3 2016 (quarter-on-quarter percentage changes)



Source: Now-Casting Economics Ltd.

Note: The highlighted area denotes developments since the previous Monthly Bulletin.

Chart 6 Germany – Ifo index (2005 = 100) and annual GDP growth



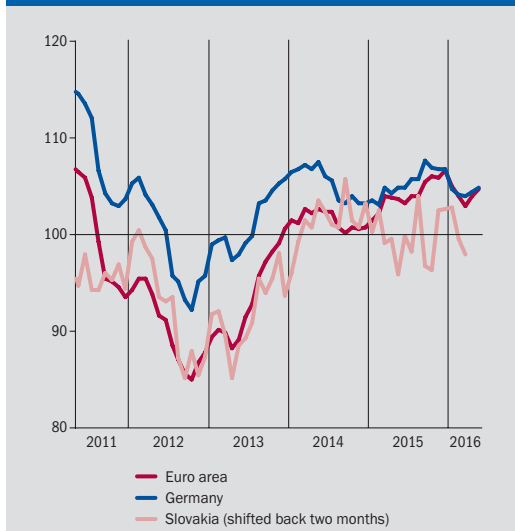
Sources: Eurostat, Markit, Ifo Institute and NBS calculations.



The **ESI for Slovakia** was lower in May than in April owing to decreases in the confidence indicators for services, industry, and retail trade. The

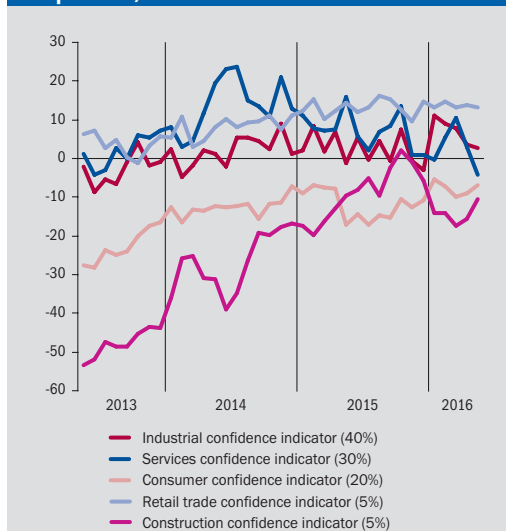
consumer and construction confidence indicators improved.

Chart 7 Economic sentiment indicator
(long-run average = 100)



Source: European Commission.

Chart 8 Components of the economic sentiment indicator for Slovakia (balance of responses)



Source: European Commission.

3 THE LABOUR MARKET

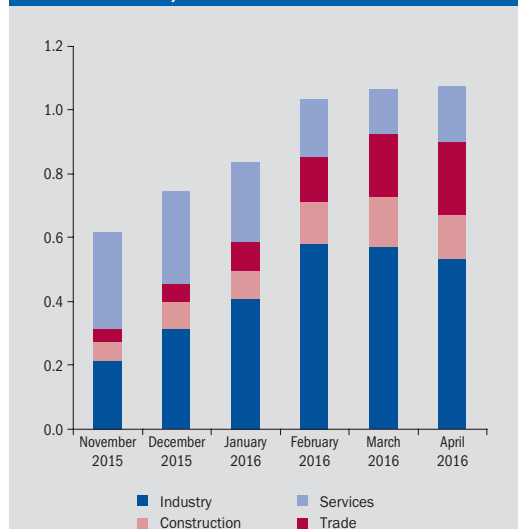
Employment increased in April by a solid 2.2% in year-on-year terms and 0.6% month-on-month, which suggests that the second quarter will see further growth in headcount employment. Looking at the three-month moving average of employment compared with the corresponding average three months earlier, its growth rate was largely attributable to the industry sector, but included significant positive contributions from other sectors, too.

The trend improvement in the labour market was also evident in the unemployment figures for May. As the number of unemployed fell by 2,700² month-on-month, the overall unemployment rate edged down by 0.1 percentage point. A similar trend was observed in the registered unemployment rate, with no significant fluctuation in the number of unemployed unavailable for work. Based on the figures for April and May, the number of unemployed is expected to fall only around half as fast in the second quarter as it did in the first quarter. The number of people registering as job seek-

ers has increased in recent months, while the number entering employment has moderated and therefore so has the net decrease in job seekers. Two potential causes of this moderation may be identified. The first is that real economic activity slowed at the beginning of the year. The second is that public sector employment grew strongly in the first quarter, probably due in large part to the launch of a new job-creation project. Thus, for the period from the beginning of the year to the end of the first quarter, around 6,000 job seekers³ entered employment. It is realistic to expect that the contribution of this measure has diminished in the second quarter, given that the funding for the project is being gradually used up and that the jobs created by the project are essentially temporary.

Monthly indicators suggest that employment growth in the second quarter could be around 0.4%, quarter-on-quarter, which would be in line with the MTF-2016Q2 projection and slightly lower than the rate in the first quarter.

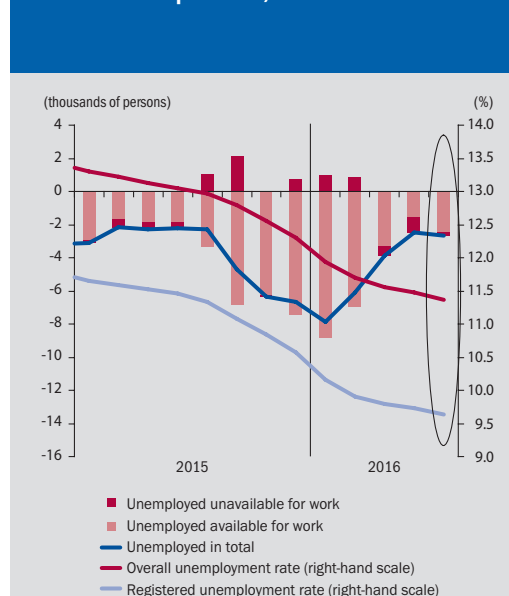
Chart 9 Employment – sectoral contributions to the three month-on-three month rate of change (moving average; percentage point contributions)



Sources: SO SR and NBS calculations.

Note: The contribution of employment in trade and services does not include the impact of a methodological change in January 2016.

Chart 10 Unemployed (percentages; thousands of persons)



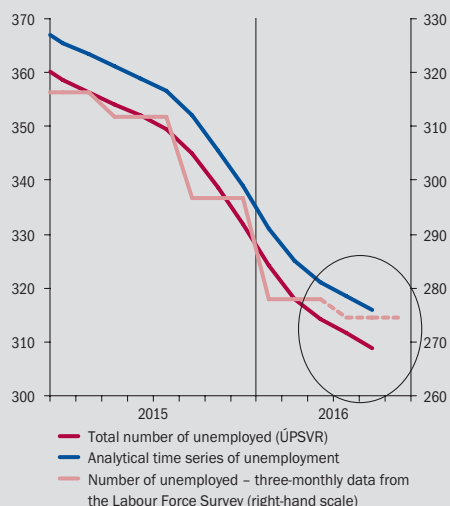
Sources: ÚPVSVR and NBS calculations.

² In seasonally-unadjusted terms, the registered unemployment rate decreased month-on-month by 0.19 percentage point, to 9.45% and the unemployment rate based on the total number of job seekers fell by 0.27 percentage point, to 11.13%.

³ Sources: ÚPVSVR, Chance for Employment Project.



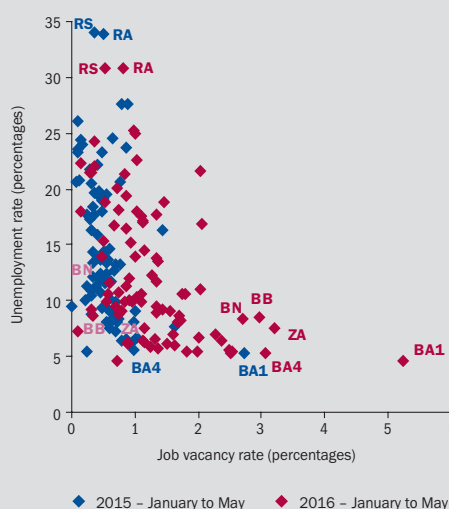
**Chart 11 Number of unemployed
(thousands of persons)**



Sources: ÚPSVR and NBS calculations.

Note: The Labour Force Survey unemployment figure for Q2 2016 is the MTF-2016Q2 projection. The analytical time series of unemployment is based on ÚPSVR figures and is defined in the MTF-2013Q3 forecast.

**Chart 12 Regional trends in the labour
market**



Source: ÚPSVR.

Note: The job vacancy rate is defined as the percentage ratio of the number of job vacancies to the number of economically active people in the given district.

In terms of its regional breakdown,⁴ job creation is, like last year, concentrated largely in the more developed regions that have a lower unemployment rate. This is one of the explanations for the emerging shortage of skilled labour revealed in business surveys. Nevertheless, the improving labour demand situation in the recent period has also been reflected in poorer regions, through falling unemployment and an increase in the job vacancy rate. In Slovakia at present, the unemployment rate has been falling year-on-year in every district and the job vacancy rate has decreased in only three districts. It is in the more developed regions, however, that the job vacancy rate growth is highest. It is also apparent that regions with higher unemployment have in the past year experienced weakening growth or an appreciable decrease in their economically active population, reflecting the impact of migration to more developed regions.

Annual average wage growth across the sectors under review increased in April by 2.6%, which

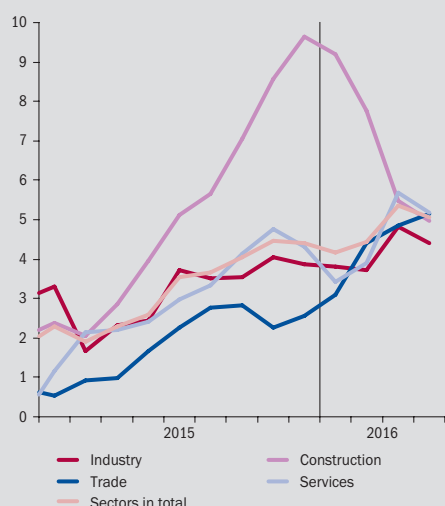
was lower than the growth rate for the first quarter. The slowdown is attributable to several factors, the first of which, already known, is the base effect of strong wage growth a year earlier. Another factor, however, was the slowdown related to the end of the seasonally adjusted series (an adjusted decline of 1.8% month-on-month). Most of the month-on-month decline in wage growth was the result of Easter falling earlier than usual, in March, since this increased extra pay in March and, conversely, had a downward impact on April's wage growth. The rest of the slowdown (around 0.9 percentage point) is expected to have been caused by a degree of moderation in real activity at the turn of the year.

These factors are accentuating volatility in the average wage time series for the sectors under review, and an upward correction may be expected in the following month. A slowdown in wage growth in April was observed in several sectors.

⁴ This regional overview is based on developments for the period January-May 2016.

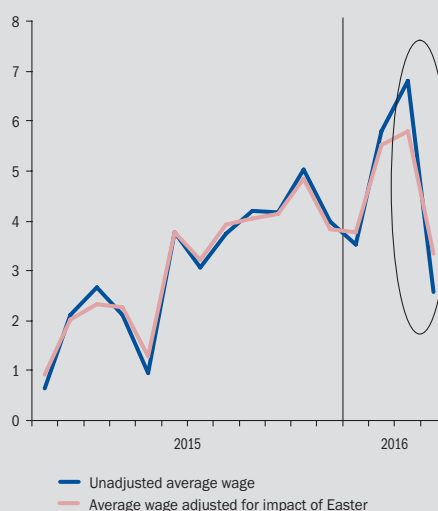


Chart 13 Wage growth (annual percentage changes; three-month moving average)



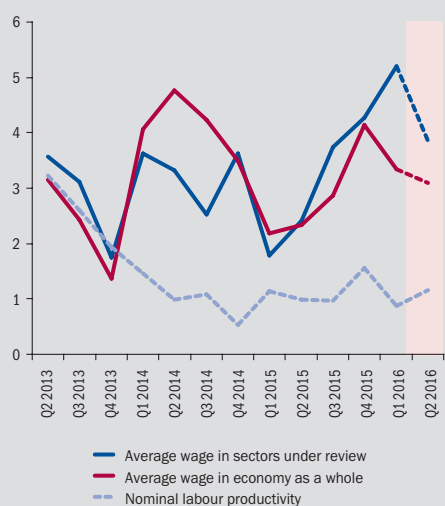
Sources: SO SR and NBS calculations.

Chart 15 Impact of Easter on wages (annual percentage changes)



Sources: SO SR and NBS calculations.

Chart 14 Wage developments in the economy (annual percentage changes)



Sources: SO SR and the Social Insurance Agency.

Note: The Q2 2016 figures for the average wage in the economy as a whole and for nominal labour productivity are the MTF-2016Q2 projections. The average wage figures for the selected sectors in May and June 2016 are imputed using an ARIMA model.

The first-quarter wage figures for the selected sectors implied markedly higher average wage growth for the economy as a whole than was eventually recorded in the quarterly data. Wage growth subsequently eased in April and appears to be following a similar path to that projected in MTF-2016Q2.

4 PRICES

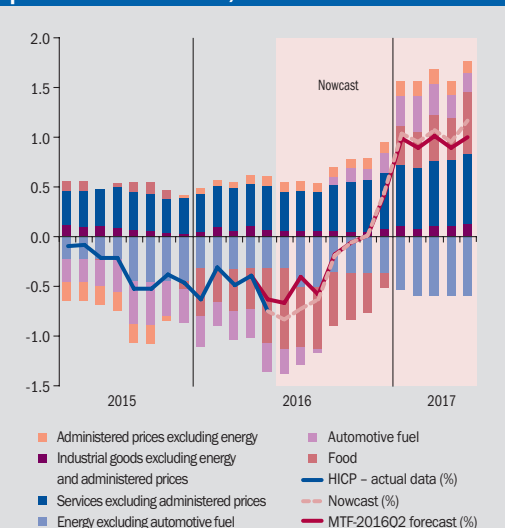
The annual HICP inflation rate for Slovakia was more negative in May 2016 (-0.7 %) than in the previous month (-0.4%). In month-on-month terms, the price level fell slightly. Food prices decreased, while automotive fuel prices increased.

As Brent oil prices continue to rise, they are having an upward impact on automotive fuel prices. Subdued commodity gas prices created scope for the regulator (ÚRSO) to decide to reduce

household gas prices by around 5%, with effect from 4 July 2016. An environment of low food commodity prices in global markets is helping to keep food inflation in negative territory.

In the medium-term, the inflation rate is expected to come under increasing demand-pull pressures through the continuing upward trajectories of wages and employment. Services price inflation nevertheless remains weak and is

Chart 16 Annual HICP inflation and its composition (percentages; percentage point contributions)



Sources: SO SR and NBS calculations.

Chart 17 HICP inflation (percentages)



Sources: SO SR and NBS calculations.

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

			Non-energy industrial goods	Energy	Food	Services	HICP	Net inflation excluding fuel
Year-on-year changes	A	April 2016 – actual figure	0.5	-4.1	-1.6	1.5	-0.4	1.1
	B	May 2016 – forecast	0.4	-4.2	-2.5	1.6	-0.6	1.1
	B	May 2016 – actual figure	0.4	-4.0	-3.0	1.5	-0.7	1.0
	B-A	May – actual figure minus forecast	0.0	0.1	-0.4	-0.1	-0.11	-0.1
	(B-A) *	Contribution to overall forecast error (percentage point)¹⁾	0.00	0.02	-0.11	-0.03	-0.11	-0.03
	weight							

Sources: SO SR and NBS calculations.

1) Projections taken from NBS's Medium-Term Forecast (MTF-2016Q2).

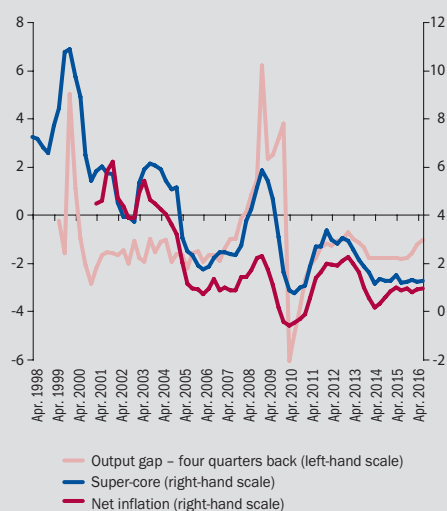


not expected to pick up until the second half of 2016 (nor is the cyclical super-core index implying a closure of the output gap – Chart 18). The negative rate of import price inflation is putting downward pressure on the annual inflation rate in non-energy tradable goods.

As a result of the expected decline in gas prices in the months ahead, average energy price infla-

tion for 2016 is still expected to remain negative (despite the upward trend in Brent oil prices). It is therefore expected that cost-push inflation will in the short term counteract strengthening demand-pull impulses from the labour market. The average headline inflation rate for 2016 is expected to be slightly negative, similar to the MTF-2016Q2 projection.

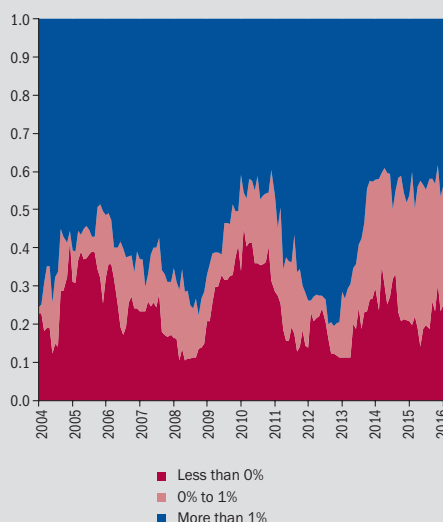
**Chart 18 Demand-pull inflation
(percentages; seasonally adjusted)**



Sources: SO SR and NBS calculations.

Note: Net inflation comprises non-administered prices of services and non-administered prices of non-energy industrial goods. The super-core index comprises sub-items in the HICP for which the output gap has predictive power with statistical significance.

**Chart 19 HICP core inflation broken down
by price-change intervals**



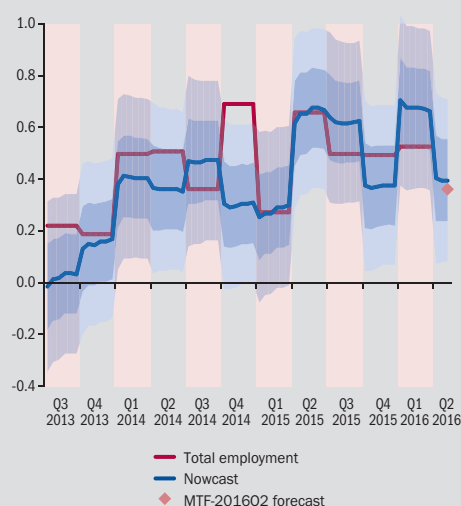
Source: NBS calculations.

5 INDICATIVE IMPACT ON THE FORECAST

Nowcasts for GDP and employment in the second quarter of 2016 are in line with the MTF-2016Q2 forecast, which projects GDP and employment to grow by, respectively, 0.7% and 0.4% in quarter-on-quarter terms.

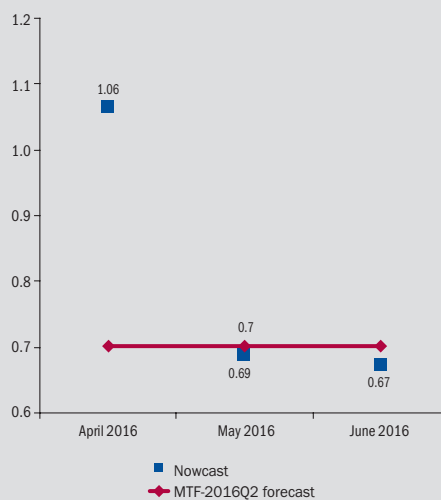
The private consumption nowcast indicates the risk that consumption growth will be slightly lower than projected, while the export nowcast points to slightly stronger than projected export performance.

Chart 20 Employment nowcast (quarter-on-quarter percentage changes)⁵



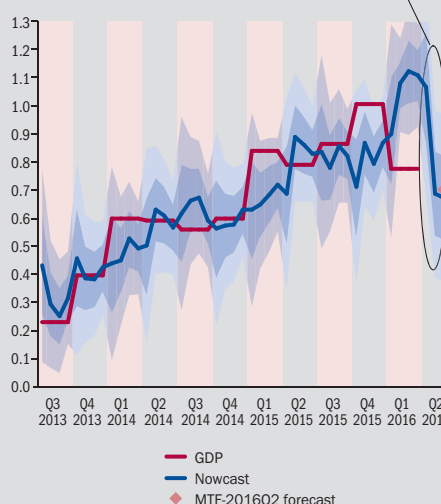
Sources: SO SR and NBS calculations.

Chart 21 GDP nowcast (quarter-on-quarter percentage changes)



Source: NBS calculations.

Chart 22 GDP nowcast (quarter-on-quarter percentage changes)⁵



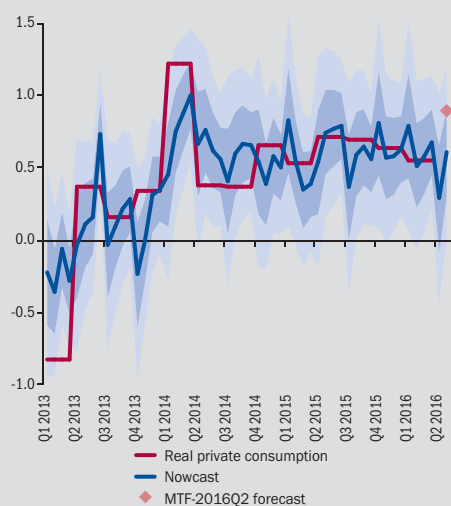
Sources: SO SR and NBS calculations.

Note: The nowcast of GDP excludes qualitative impacts and one-off effects (e.g. EU funds).

⁵ The band around the point estimate denotes +/- 1 and 2 times the root mean square error. Nowcasts are calculated using OLS time series models based on selected sets of monthly indicators (for employment, a factor model is used). Nowcasts provide a current estimate of future developments using available monthly figures from the current quarter, their future values forecast with ARIMA models, and their lagged values. The individual model projections are independent of each other and therefore forecasting error in a past quarter cannot affect current projections. Further details are available in the commentaries on the [GDP nowcasts](#), [private consumption nowcasts](#), [export nowcasts](#) and [employment nowcasts](#).



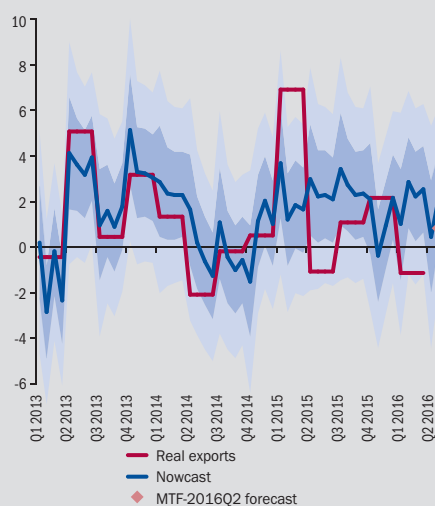
**Chart 23 Private consumption nowcast
(quarter-on-quarter percentage changes)⁵**



Sources: SO SR and NBS calculations.

Note: The forecast takes account of one-off effects at the beginning of the year.

**Chart 24 Nowcast for goods and services
exports (quarter-on-quarter percentage
changes)⁵**



Sources: SO SR and NBS calculations.



OVERVIEW OF MAIN MACROECONOMIC INDICATORS FOR SLOVAKIA

Table 2 Selected economic and monetary indicators for Slovakia
(annual percentage changes, unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 2010	Unemployment rate	Industrial production index	Total sales of sectors ¹⁾	Economic Sentiment Indicator (long-term average=100)	M3 (for analytical use) ²⁾	Loans to non-financial corporations	Loans to households	Government budget balance (EUR mil.)	Government deficit (% 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
2008	5.7	3.9	6.1	3.2	9.6	2.9	-	99.3	4.9	15.3	25.3	-704.0	-2.3	28.2	-6.2	-1.8	1.4708
2009	-5.5	0.9	-2.6	-2.0	12.1	-15.5	-16.5	77.3	-2.8	-3.3	11.0	-2,791.3	-7.9	36.0	-3.5	0.4	1.3948
2010	5.1	0.7	-2.7	-1.5	14.4	8.2	8.2	98.7	7.8	1.6	12.5	-4,436.1	-7.5	40.8	-4.7	-0.1	1.3257
2011	2.8	4.1	2.7	1.8	13.6	5.2	6.2	98.8	2.9	7.6	11.1	-3,275.7	-4.1	43.3	-5.0	-0.1	1.3920
2012	1.5	3.7	3.9	0.1	14.0	8.0	4.4	94.0	8.8	-2.3	10.3	-3,810.7	-4.3	52.4	0.9	3.5	1.2848
2013	1.4	1.5	-0.1	-0.8	14.2	3.9	1.8	90.4	6.4	1.7	10.2	-2,023.3	-2.7	55.0	2.0	4.1	1.3281
2014	2.5	-0.1	-3.5	1.4	13.2	8.6	2.5	100.4	2.5	1.2	13.1	-2,923.4	-2.7	53.9	0.1	3.8	1.3285
2015	3.6	-0.3	-4.2	2.0	11.5	7.0	7.4	99.7	11.5	6.8	13.0	-1,932.6	-3.0	52.9	-1.3	2.4	1.1095
2015 Q2	3.4	-0.1	-3.8	2.0	11.2	4.8	5.4	100.4	7.2	4.0	13.2	-	-2.4	54.7	-1.7	3.2	1.1053
2015 Q3	3.7	-0.3	-4.5	2.2	11.3	6.0	9.9	98.0	10.4	2.6	13.5	-	-1.6	53.9	-3.8	0.8	1.1117
2015 Q4	4.3	-0.5	-4.8	2.0	11.0	5.0	8.6	99.0	11.5	6.8	13.0	-	-5.2	52.9	-1.1	0.8	1.0953
2016 Q1	3.4	-0.5	-5.3	2.2	10.4	2.3	5.7	102.6	10.1	3.1	12.8	-	.	.	-0.6	4.3	1.1020
2015 June	-	-0.1	-4.4	-	11.5	7.1	8.9	99.6	7.2	4.0	13.2	183.6	-	-	-	-	1.1213
2015 July	-	-0.2	-4.2	-	11.5	11.2	18.7	95.9	9.0	1.7	13.5	156.8	-	-	-	-	1.0996
2015 Aug.	-	-0.2	-4.1	-	11.3	-0.3	0.7	99.9	9.2	0.8	13.6	105.8	-	-	-	-	1.1139
2015 Sep.	-	-0.5	-5.2	-	11.4	7.1	10.8	98.3	10.4	2.6	13.5	-96.0	-	-	-	-	1.1221
2015 Oct.	-	-0.5	-5.0	-	11.0	1.0	4.8	104.0	10.2	2.9	13.3	-29.1	-	-	-	-	1.1235
2015 Nov.	-	-0.4	-5.0	-	10.8	8.3	11.3	96.8	10.4	5.1	13.5	24.1	-	-	-	-	1.0736
2015 Dec.	-	-0.5	-4.5	-	10.6	6.1	9.0	96.3	11.5	6.8	13.0	-751.2	-	-	-	-	1.0877
2016 Jan.	-	-0.6	-5.2	-	10.4	1.7	2.2	102.5	11.3	4.4	12.9	8.6	-	-	-	-	1.0860
2016 Feb.	-	-0.3	-4.7	-	10.1	7.0	3.8	102.6	10.5	2.8	12.6	-842.7	-	-	-	-	1.1093
2016 Mar.	-	-0.5	-5.9	-	9.9	-1.4	5.0	102.8	10.1	3.1	12.8	-44.8	-	-	-	-	1.1100
2016 Apr.	-	-0.4	-5.6	-	9.6	7.2	12.2	99.6	10.0	3.3	12.9	232.8	-	-	-	-	1.1339
2016 May	-	-0.7	.	-	9.5	.	.	98.0	.	.	.	-465.4	-	-	-	-	1.1311

Sources: Statistical Office of the Slovak Republic, MF SR, the European Commission and NBS.

1) Constant prices (seasonally adjusted).

2) 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/2016/StatisticsMB0616.xls