

EcoAlert

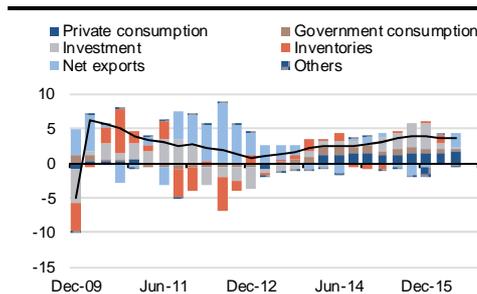
Government capital expenditures do not support the economy



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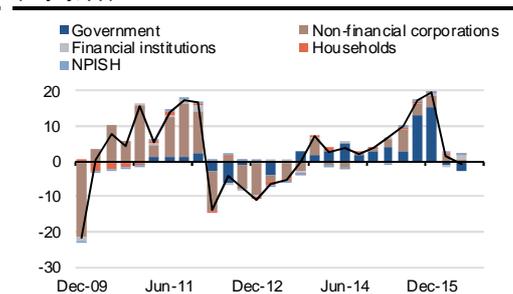
The Slovak economy grew 0.8% qoq (SWDA) in the second quarter of the current year, which is 3.3% yoy (SWDA). Both dynamics can be chiefly attributed to the contribution of net exports. Both export and import dynamics accelerated heavily. Exports were mainly supported by automotive supplies to the eurozone. Imports have reacted subsequently. However, import activity is suppressed by low investment activity, as well. Fixed capital formation added 0.9% qoq in the second quarter, which due to the increasing statistical base achieved only 0.6% yoy. Slowing investment activity is primarily the result of steadily decreasing government investment, because a lack of EU funding still prevails. Generally speaking, our assumption for the second quarter was remarkably correct in terms of the expenditure side composition. The supply side of the economy was mainly supported by manufacturing and trade. Nevertheless, all sectors recorded a positive or zero contribution.

Net exports support GDP growth (% yoy, pp)



Source: SSO, Economic & Strategy Research, Komerční banka

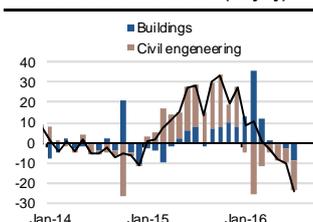
Government investment is further below zero (% yoy, pp)



Source: SSO, Economic & Strategy Research, Komerční banka

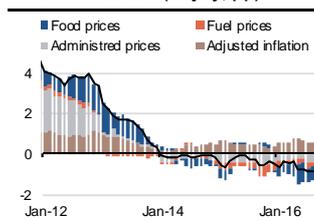
July's data for industry and construction are really disappointing. However, industry output was influenced by the cumulation of factory holidays in the automotive industry. Construction output suffers mostly due to missing government investment. Retail sales in July slowed to 1% yoy growth, which is just a temporary move since industrial wages growth and unemployment rate decline show a continuous gradual improvement.

Construction sector (% yoy)



Source: SSO, Economic & Strategy Research, Komerční banka

HICP inflation (% yoy, pp)



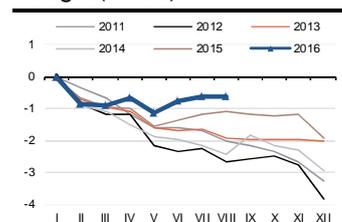
Source: SSO, Economic & Strategy Research, Komerční banka

Industry wages (% yoy)



Source: SSO, Economic & Strategy Research, Komerční banka

Budget (bn EUR)



Source: Ministry of Finance, Economic & Strategy Research, Komerční banka

Even inflation in August moved toward zero, since adjusted inflation recorded 0.1% mom, food prices added 0.3% mom, and the lower statistical base for fuel prices erased 3.3 pp in the yoy decrease. The government deficit remains at record lows since expenditures especially capital ones are muted.

Key economic indicators

| | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 2015 | 2016 | 2017 |
|--------------------------------------|-------|-------|------|-------|------|------|------|------|-------|------|------|
| GDP (real, yoy, %) | 3.7 | 3.7 | 2.7 | 1.4 | 2.0 | 1.6 | 2.4 | 3.3 | 3.6 | 2.8 | 2.3 |
| Household consumption (real, yoy, %) | 2.8 | 2.9 | 2.6 | 3.5 | 4.2 | 5.0 | 4.9 | 4.1 | 2.4 | 2.8 | 4.5 |
| Fixed investments (real, yoy, %) | 3.1 | 0.6 | -5.8 | -10.7 | 1.4 | 0.9 | 4.7 | 5.5 | 13.2 | -3.4 | 3.1 |
| External trade (EUR bn) | 0.8 | 1.1 | 1.0 | 0.8 | 0.7 | 0.6 | 0.7 | 0.5 | 3.3 | 3.6 | 2.5 |
| Industrial production (real, yoy, %) | 2.1 | 5.8 | 5.3 | 4.5 | 5.2 | 5.0 | 6.1 | 5.4 | 7.0 | 4.4 | 5.4 |
| Construction (real, yoy, %) | 11.1 | -8.9 | -5.4 | -4.8 | -2.2 | 2.8 | 5.9 | 7.7 | 20.2 | -2.0 | 3.6 |
| Retail sales (real, yoy, %) | 0.1 | 3.4 | 2.5 | 2.7 | 2.9 | 5.9 | 7.1 | 7.8 | 1.8 | 2.2 | 5.9 |
| Wages (real, yoy, %) | 3.8 | 3.4 | 3.0 | 2.0 | 2.9 | 4.3 | 4.4 | 3.8 | 3.2 | 3.0 | 3.8 |
| Unemployment (COLSAF, %) | 10.1 | 9.5 | 10.5 | 10.5 | 10.7 | 10.5 | 10.0 | 9.8 | 11.5 | 10.1 | 10.2 |
| Inflation (HICP, yoy, %) | -0.5 | -0.7 | -0.1 | 0.2 | 1.8 | 1.6 | 1.3 | 1.5 | -0.3 | -0.3 | 1.6 |
| Adjusted inflation (yoy, %) | 1.1 | 1.5 | 2.0 | 2.2 | 2.0 | 1.7 | 0.6 | 1.0 | 1.0 | 1.7 | 1.3 |
| Food prices (yoy, %) | -2.0 | -3.5 | -2.4 | -1.4 | 1.5 | 2.5 | 1.6 | 1.4 | -0.3 | -2.3 | 1.8 |
| Fuel prices (yoy, %) | -11.2 | -11.2 | 1.6 | 8.4 | 17.3 | 14.4 | 7.8 | 8.1 | -12.6 | -3.1 | 11.9 |
| Regulated prices (yoy, %) | -1.6 | -1.0 | 0.2 | -0.1 | 1.3 | 1.5 | 1.9 | 1.9 | -1.9 | -0.6 | 1.6 |

Source: Eurostat, SSO, NBS, MF, COLSAF, Economic & Strategy Research,

Note: KB forecasts are highlighted blue

Slovak long-term macroeconomic forecasts

| | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------------|-------------------------|------|-------|------|------|------|------|------|------|------|
| Gross Domestic Product | current prices, EUR bn | 70.4 | 72.4 | 73.8 | 75.6 | 78.1 | 79.9 | 82.6 | 86.8 | 90.3 |
| Gross Domestic Product | real growth, % | 2.8 | 1.6 | 1.4 | 2.5 | 3.6 | 2.8 | 2.3 | 2.5 | 1.2 |
| Industrial Output | real growth, % | 5.3 | 7.4 | 3.8 | 8.7 | 7.0 | 4.4 | 5.4 | 4.0 | 1.6 |
| Construction | real growth, % | -0.5 | -11.9 | -4.4 | -2.8 | 20.2 | -2.0 | 3.6 | 5.0 | 2.1 |
| Retail Sales | real growth, % | -2.6 | -1.1 | 0.2 | 3.7 | 1.8 | 2.2 | 5.9 | 3.9 | 3.0 |
| Unemployment Rate | end of period, % | 12.5 | 13.6 | 14.4 | 12.3 | 10.5 | 10.6 | 9.7 | 9.5 | 10.2 |
| Average National Wage | EUR, nominal, average | 786 | 806 | 824 | 858 | 883 | 907 | 958 | 996 | 1039 |
| Average National Wage | average growth, real, % | -1.8 | -1.2 | 0.9 | 4.2 | 3.2 | 3.0 | 3.8 | 1.7 | 2.2 |
| Consumer Prices | HICP, average, % | 4.1 | 3.7 | 1.5 | -0.1 | -0.3 | -0.3 | 1.6 | 2.2 | 2.1 |
| Consumer Prices | HICP, end of period, % | 1.3 | 4.6 | 3.4 | -0.3 | -0.5 | 1.0 | 1.7 | 2.5 | 1.7 |
| External trade | current prices, EUR bn | 1.0 | 3.6 | 4.2 | 4.7 | 3.3 | 4.4 | 3.6 | 3.2 | 3.3 |
| Export of Goods | current prices, EUR bn | 56.8 | 62.1 | 64.2 | 64.7 | 67.9 | 69.8 | 71.1 | 74.1 | 76.3 |
| Import of Goods | current prices, EUR bn | 55.8 | 58.6 | 59.9 | 60.0 | 64.6 | 65.4 | 67.5 | 70.9 | 73.1 |
| Export of Goods | nominal growth, % | 18.5 | 9.2 | 3.5 | 1.4 | 4.3 | 2.1 | 1.9 | 4.1 | 2.9 |
| Import of Goods | nominal growth, % | 18.6 | 4.9 | 2.5 | 0.8 | 6.9 | 0.5 | 3.2 | 4.9 | 3.0 |
| Current Account | current prices, EUR bn | -3.5 | 0.7 | 1.4 | 0.1 | -1.0 | 0.0 | -1.0 | -1.2 | -1.1 |
| Current Account | % of GDP | -5.0 | 0.9 | 2.0 | 0.1 | -1.3 | 0.0 | -1.3 | -1.4 | -1.2 |
| Balance of goods | % of GDP | -0.1 | 3.5 | 4.1 | 3.8 | 2.4 | 4.3 | 3.0 | 3.0 | 3.2 |
| Balance of services | % of GDP | -0.4 | 0.6 | 0.6 | 0.1 | 0.1 | 0.2 | 0.1 | -0.1 | -0.5 |
| Income balance | % of GDP | -3.4 | -1.7 | -0.9 | -2.2 | -2.3 | -3.2 | -3.2 | -2.9 | -2.8 |
| Public sector deficit | % of GDP | -4.1 | -4.3 | -2.7 | -2.7 | -3.4 | -2.3 | -2.1 | -1.8 | -1.9 |
| Public debt | EUR bn | 30.5 | 37.9 | 40.6 | 40.7 | 41.3 | 42.1 | 43.8 | 45.4 | 47.1 |
| Public debt | % of GDP | 43.3 | 52.4 | 55.0 | 53.9 | 52.9 | 52.7 | 53.0 | 52.3 | 52.1 |
| External debt | % of GDP | 78.5 | 75.8 | 81.9 | 89.7 | 86.1 | 81.2 | 78.8 | 77.7 | 80.4 |

Source: SSO, NBS, MF, COLSAF, Economic & Strategy Research, Komerční banka

Note: KB forecasts are highlighted blue

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