

| Slovakia Monthly |

EcoAlert

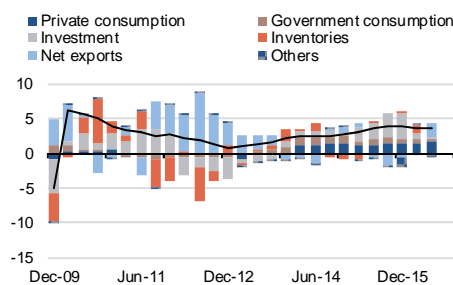
Government capital expenditures do not support the economy



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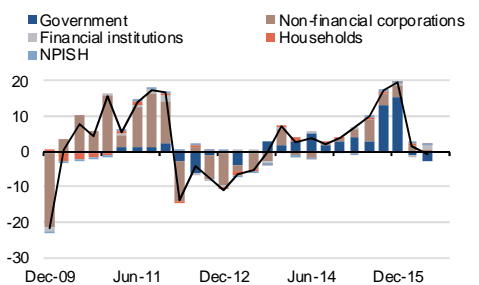
The Slovak economy grew 0.8% qoq (SWDA) in the second quarter of the current year, which is 3.3% yoy (SWDA). Both dynamics can be chiefly attributed to the contribution of net exports. Both export and import dynamics accelerated heavily. Exports were mainly supported by automotive supplies to the eurozone. 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

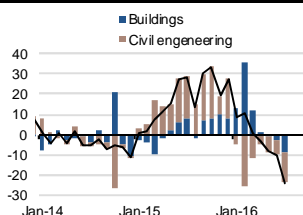
Government investment is further below zero (% yoy, pp)



Source: SSO, Economic & Strategy Research, Komerční banka

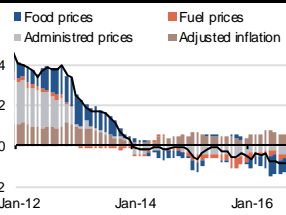
July's data for industry and construction are really disappointing. However, industry output was influenced by the cumulation of factory holidays in the automotive industry. Construction output suffers mostly due to missing government investment. Retail sales in July slowed to 1% yoy growth, which is 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)



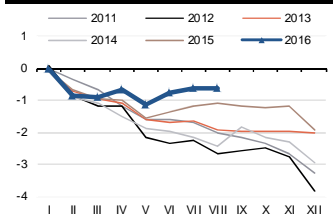
Source: SSO, Economic & Strategy Research, Komerční banka

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

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