UniCredit Bank

Weekly

N . o . t . e . s

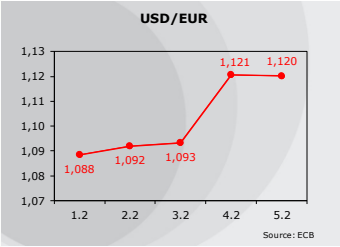
English translation by an external party

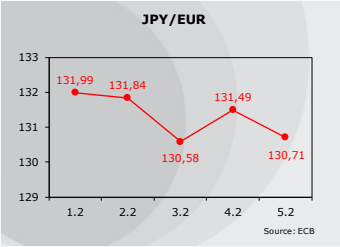
HIGHLIGHTS OF THE WEEK 05/2016

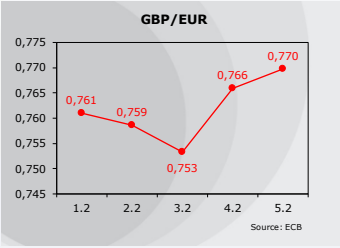
> Chart of the Week: Slovak hoteliers doing quite well last year; however, their occupancy rate remains the lowest in the EU

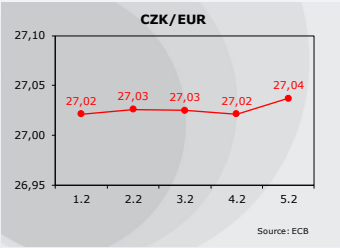
> Retail sales rising also at the end of the year

WEEK ON THE MARKETS









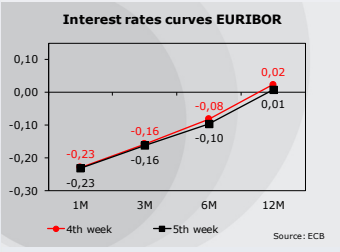
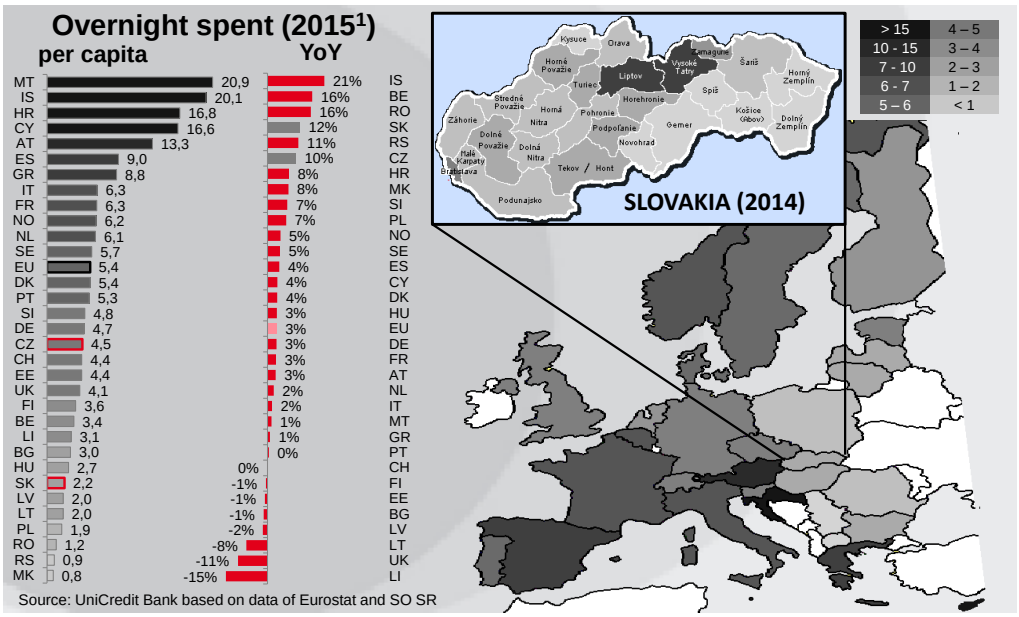


CHART OF THE WEEK



Source: UniCredit Bank based on data of Eurostat and SO SR

Note: 1. Data for December 2014 to November 2015, for AT, CZ, GR, ES, EU, HR, IS, NL, NO, PT for November 2014 to October 2015 and for RS for October 2014 to September 2015; data for IE and LU are not available

2. The boundaries of SK regions follow the administrative borders of districts instead of the natural borders of regions

After years of struggling with poor demand, hoteliers in Slovakia report a slightly better season. Therefore, the current *Chart of the Week* focuses on the number of overnight stays in hotels and other accommodation facilities in Europe last year. Eurostat statistics do confirm the recovered interest in Slovak hotels; with a growth by 12% yoy, Slovakia ranks among the European growth leaders. A faster growth of the number of overnight stays has been reported by only 3 European countries – Romania, Belgium and Iceland. Quite a dynamic increase in the number of clients was, however, reported also by hotels and accommodation facilities in the neighbouring Czech Republic, where the number of overnight stays increased roughly by 10% yoy. On average in the EU countries, the interest of clients in local hotels and accommodation facilities went up by 3% yoy – only 6 EU countries (Finland, Estonia, Bulgaria, Latvia and especially Lithuania and the United Kingdom) reported a lower number of overnight stays on a yoy basis last year.

Last year, growing interest in Slovak accommodation facilities was reported by both domestic (by 11%) and foreign guests (by 14%). In the neighbouring Czech Republic, mainly the demand by domestic clients increased (by 15%), and although the increase in the number of overnight stays was reported by Czech hotels also in the case of foreign clients, the growth dynamics was significantly slower here (by 6%). Clients in Czech accommodation facilities consist, approximately, of equal shares of

foreign and domestic clients. On the contrary, it is mainly domestic clientele that is predominant in Slovakia, accounting for as much as 64% of all overnight stays.

Despite the fact that Slovak hoteliers experienced a better year, they are far from being in an ideal situation. The number of overnight stays in Slovak hotels is still well behind most EU countries. While accommodation facilities in EU countries account for 5.4 overnight stays per capita on average, it is only 2.2 in Slovakia. The highest number of overnight stays per capita is reported by hotels and accommodation facilities in seaside resorts – Malta (21), Cyprus (17), Croatia (17), Spain (9) and Greece (9). Alpine Austria (13) can compete with them as it reports a strong interest of tourists and business clients virtually throughout the year. Iceland (20) is another rival as it is increasingly popular among tourists. The bottom of the scale includes countries in the Balkans – Serbia and Macedonia with a number of overnight stays lower than the number of their population. As for the EU countries, the bottom of the scale includes, besides Slovakia, also other CEE countries – Romania (1.2), Poland (1.9), Latvia (2.0), Lithuania (2.0), or Hungary (2.7). As for the V4 countries, the strongest interest (per capita) in their services is reported by accommodation facilities in the Czech Republic; however, even here the number of overnight stays (4.5) is still lower than the EU average.

The problem of Slovakia is not only the low interest of tourists in local accommodation services, it is also the considerable excess of supply, which does not correspond to the still relatively low demand. Despite a slight improvement last year, the occupancy rate of Slovak hotels is still at 30%, being one of the lowest in Europe (even the lowest from among the EU countries). Lowe occupancy rate is reported only by hotels in Macedonia (23%), Liechtenstein (23%), and Serbia (27%). Despite a relatively higher interest of tourists in the Czech Republic, even here the supply is well above the demand and the occupancy rate of local accommodation facilities is also only at 34%. Accommodation facilities in Malta, Iceland or Cyprus report net occupancy rate of more than 50% (which is partially due to the fact that a large portion of capacities here is available only during the main tourist season). Hotels in Spain, the United Kingdom or Denmark report an occupancy rate close to 50%, too.

In Slovakia, the highest number of accommodated guests is reported by hotels in Bratislava, accounting for roughly 17% of all overnight stays in the country. Hotels in Bratislava are significantly seconded only by accommodation facilities in the Tatras regions – in the High Tatras (14%) and Liptov (11%). On the other hand, the highest number of guests per capita is accommodated in hotels and accommodation facilities in Liptov (9.4) and the High Tatras (8.5). These two regions are also the only two regions of Slovakia with a number of overnight stays per capita exceeding the EU average. Hotels in the capital of Bratislava report 4.3 overnight stays per capita. An above-average (in Slovak context) number of overnight stays (per capita) is reported also by the region of Zamagurie (3.1 - mainly thanks to the Pieniny National Park) and regions with the main Slovak spas – Podpoľanie (2.8 – Sliač and Kováčova spas), Dolné Považie (2.6 – Piešťany spa), Turiec (2.6 – Turčianske Teplice), Hont/Tekov (2.5 – Dudince) or Horné Považie (2.0 – Rajecké Teplice). The bottom of the scale includes regions of Zemplín - Dolný (0.3) and Horný Zemplín (0.4), failing to follow up on the former glory of Zemplínska Šírava (Dolný Zemplín) and Domaša (Horný Zemplín), or to use the potential of the Poloniny National Park (Horný Zemplín), or the Tokaj wine region (Dolný Zemplín). Poor interest is reported also by regions in the south of Central Slovakia – Novohrad (0.4) and Gemer (0.8), struggling with high unemployment rates in the long run, or by the region of Kysuce (0.5) and, surprisingly, also by region of a lower Spiš (0.6 - even despite the magnet in the form of the Slovenský Raj National Park) and the Abov region (0.9) with its centre in Košice (it seems that Košice failed to attract more tourists even despite being the European Capital of Culture in 2013).

In the Czech Republic, the highest number of accommodated guests (per capita) is reported by hotels in Karlove Vary region (as much as 15 overnight stays per capita), followed by Prague hotels (12 overnight stays per capita). The number of overnight stays above the EU average is reported also by accommodation facilities in Hradec Králové region (6.5 overnight stays per capita – also thanks to Krkonoše), in Liberec region (5.8 – Jizerské mountains) and Southern Bohemia region (5.7 – rich cultural heritage and spa, part of Šumava, Novohradské mountains and the popular Vltava weir). The bottom of the scale includes regions of Pardubice (0.9), Ústí nad Labem

(1.6), Central Bohemian region (1.7), and Moravian-Silesian region (1.8). The highest number of guests in absolute terms is still accommodated by hotels in Prague - more than 15 million overnight stays, i.e. one third of all overnight stays in accommodation facilities in the Czech Republic. Karlove Vary and vicinity account for 10% of overnight stays in the Czech Republic, with southern Bohemia and the vicinity of Krkonoše (Southern Bohemia and Hradec Králové regions) accounting for 8%. (lk)

ECONOMIC CALENDAR

Week	Indicator	Period	Market Consensus	UniCredit Bank Estimate	Reality
5.	State budget (February 1)	January	-	0 mil. EUR	9 mil. EUR
	Retail sales (February 3)	December	-	3.5% yoy	2.7% yoy
6.	Foreign trade (February 8)	December	30 mil. EUR	-5 mil. EUR	-
	Industrial production (February 11)	December	-	6.9% yoy	-
	Construction production (February 11)	December	-	13.1% yoy	-
	GDP flash (February 12)	4Q	3.7% yoy	3.4% yoy	-
	Employment flash (February 12)	4Q	-	2.0% yoy	-

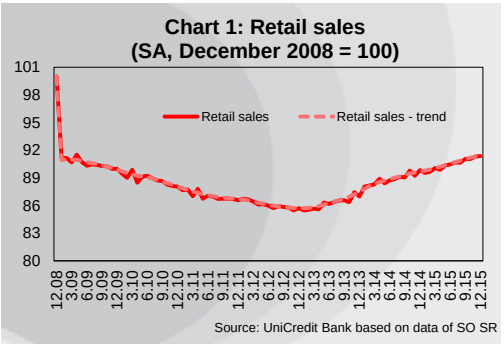
Source: Bloomberg, Reuters, NBS, SOSR, UPSVaR, MinFin SR, UniCredit Bank Slovakia

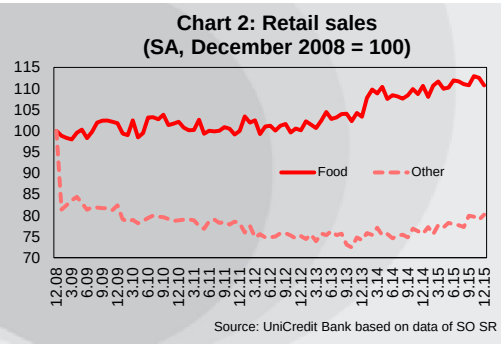
ECONOMY

RETAIL SALES

Retail sales rising also at the end of the year

Retail sales (without car sales) increased slightly once again at the end of the year - growing by 0.1% in December compared to the previous month (adjusted for the season, calculation of UniCredit Bank on the basis of data of the Statistical Office of the SR). However, the dynamics of their yoy growth slightly decelerated from 3.2% to 2.7%. Mainly the recovering economy, positively affecting the labour market (growth of employment and wages), relaxed monetary stance of ECB (record low interest rates) or absent inflation are still providing room for the growth of sales of domestic merchants.





Sales in December are traditionally influenced by the approaching Christmas. This year, too, we could see increase in sales, in particular in categories of traditional Christmas goods. The most significant growth in sales was reported by shops selling good for culture and leisure, i.e. books, toys, sports gear, with specialised shops selling other goods (e.g. clothes and shoes) or ICT shops reporting a yoy growth close to 10%. Even despite the increase in sales in specialised ICT shops it does seem that it was this category of shops selling Christmas goods that reported the slowest growth in sales compared to the previous year. However, it seems that the Statistical Office continues to experience problems with recording sales of online shops, where the poor 0.8% yoy increase in sales seems untrustworthy, given the general trends in consumers' behaviour.

Last year, food shops had smaller profits from the Christmas period. Sales of merchants in non-specialised shops with predominance of food (in particular larger stores) even declined slightly – by -0.5% yoy. Also December confirmed the trend of previous months - a gradual shift of consumers from large-scale shops towards

smaller specialised food shops. They maintained the double-digit dynamics of yoy growth also in December. Nevertheless, an overwhelming majority of sales in the food segment still comes from large-scale shops in stores, while the share of small specialised shops is still only at around 5 to 6%.

The recent improved situation of Slovak households and the courage to make larger investments are still confirmed by the sales from sale and maintenance of cars – the dynamics of their yoy growth remained close to the record levels also in December, reaching 21.8% (sales from the sale of cars itself were higher by as much as nearly one third). With the beginning of winter tourist season, the growth of sales of domestic hoteliers accelerated again (growing by 6.6% yoy).

Last quarter saw no major changes in trends as regards sales of merchants. Cumulated sales from retail, sales and maintenance of cars, catering and accommodation went up by 1.8% (seasonally adjusted, calculation of UniCredit Bank) compared to the previous quarter, maintaining the same dynamics of growth as in 3Q. However, owing to the lower last year's comparison basis, dynamics of their growth accelerated from 6.3% to 7.4% yoy. The slightly slower growth of sales in retail (by 0.5% qoq and by 2.6% yoy in Q4) is still compensated by record strong sales of cars. The number of new cars sold last year even exceeded the volumes of the "scrappage-scheme" period. Thus, the improved condition of Slovak households is still not more substantially reflected in ordinary consumption but in more courage of Slovak households to make even higher investments than buying a new car or new property for living.

The figures of sales in retail, sale of cars, hotels and restaurants indicate that household consumption contributed to the GDP growth also in the last quarter of the previous year, and the dynamics of its yoy growth could accelerate again very slightly. However, household consumption is still not the main driver of the current growth of the economy (which are still investments) and it slightly lags behind our expectations based on the positive development on the labour market.

OUTLOOK

The positive development on the labour market and increasing disposable income of households, low interest rates and absent inflation should be beneficial to the growth of household consumption also at the beginning of this year. (lk)

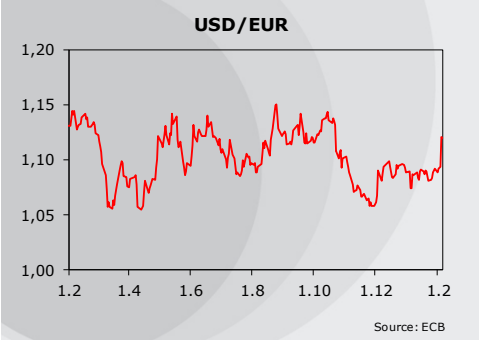
ECONOMIC OUTLOOK

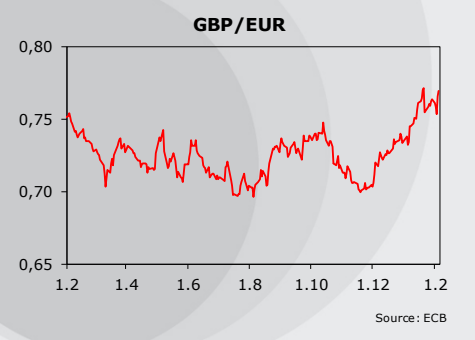
Slovakia	2011	2012	2013	2014	2015F	2016F	2017F
Real GDP growth	**2,8**	**1,5**	**1,4**	**2,5**	**3,4**	**3,0**	**3,0**
GDP per capita	13 052	13 398	13 643	13 947	14 372	14 788	15 291
Household consumption	**-0,6**	**-0,4**	**-0,8**	**2,4**	**2,5**	**2,9**	**2,6**
Government consumption	-1,7	-2,6	2,2	5,9	3,8	1,7	0,5
Gross investments	7,6	-14,0	1,5	2,6	11,4	-2,5	6,8
Exports	12,0	9,3	6,2	3,6	6,4	5,6	4,1
Imports	9,6	2,5	5,1	4,3	8,1	4,1	4,5
Industrial Production	**6,9**	**13,4**	**5,3**	**3,7**	**5,8**	**5,5**	**6,5**
Construction	-1,7	-12,5	-5,3	-4,2	15,1	2,7	6,5
Retail Sales	-2,8	-1,0	0,1	3,6	1,7	2,3	2,5
CPI (average)	**3,9**	**3,6**	**1,4**	**-0,1**	**-0,3**	**0,3**	**1,5**
CPI (Dec.)	4,4	3,2	0,4	-0,1	-0,2	0,9	1,6
Real Estate inflation	-3,0	-1,1	-0,9	-0,8	0,9	2,3	2,4
Average Wage level	786	805	824	858	880	904	930
Nominal Wage growth	**2,2**	**2,4**	**2,4**	**4,1**	**2,5**	**2,8**	**2,9**
Real Wage growth	-1,6	-1,2	1,0	4,2	2,8	2,5	1,4
Employment growth (LFS)	1,5	-1,0	0,0	1,5	2,2	1,0	1,0
Unemployment (average, LFS)	**13,5**	**14,0**	**14,2**	**13,2**	**11,6**	**10,8**	**9,9**
Fiscal deficit (% of GDP)	-4,1	-4,2	-2,7	-2,8	-2,7	-2,0	-1,0
Public Debt (% of GDP)	43,3	51,9	54,6	53,5	53,1	52,9	51,7
Foreign Direct investment (EURbn)	2,8	3,2	-0,3	0,2	2,0	2,5	3,3
ECB Refi rate (%, Dec.)	**1,00**	**0,75**	**0,25**	**0,05**	**0,05**	**0,05**	**0,50**
3M EURIBOR (%, Dec.)	1,2	0,2	0,3	0,1	-0,2	-0,2	0,5
3Y SK gov't bonds(%,Dec.)	2,7	0,3	0,7	-0,1	-0,6	0,0	1,5
10Y SK gov't bonds(%,Dec.)	5,2	3,9	2,7	1,2	0,7	1,0	2,0

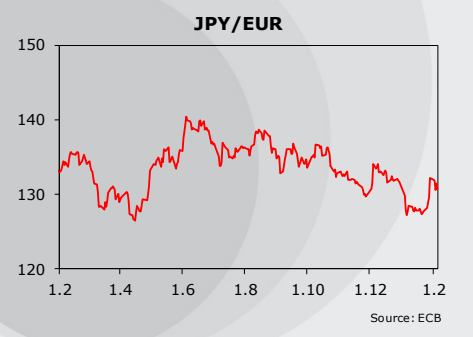
Abroad	2011	2012	2013	2014	2015F	2016F	2017F
Eurozone GDP	**1,5**	**-0,6**	**-0,4**	**0,9**	**1,5**	**1,9**	**1,6**
German GDP	**3,1**	**0,9**	**0,5**	**1,6**	**1,7**	**2,1**	**1,4**
Czech R GDP	1,7	-1,0	-0,9	2,0	4,3	2,3	3,0
USA GDP	1,7	2,8	1,9	2,4	2,5	2,6	2,4
Eurozone Inflation	2,7	2,5	1,3	0,4	0	0,9	1,4
EUR/USD (average)	**1,39**	**1,28**	**1,33**	**1,33**	**1,11**	**1,08**	**1,16**
EUR/USD (Dec)	1,32	1,31	1,37	1,21	1,09	1,12	1,18
EUR/CZK (Dec)	25,8	25,1	27,5	27,7	27,0	27,0	26,5
EUR/HUF (Dec)	304,2	285,8	300,2	315,5	314,0	320,0	325,0
EUR/PLN (Dec)	4,5	4,1	4,2	4,3	4,3	4,2	4,2

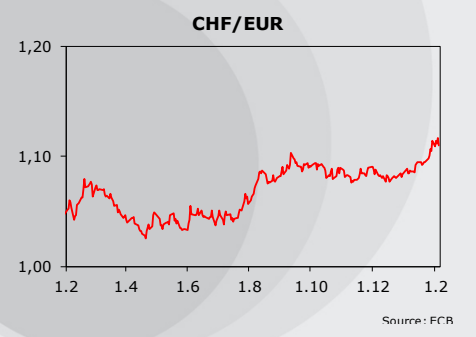
Source: NBS. SOSR. ÚPSVaR. MinFin SR. Eurostat. ECB
Forecasts: UniCredit Bank Slovakia – Slovakia. Eurozone. USA (EURIBOR. USDLIBOR. Brent. USD/EUR); UniCredit Group (CEE Economic Research. CIB) – Eurozone. USA

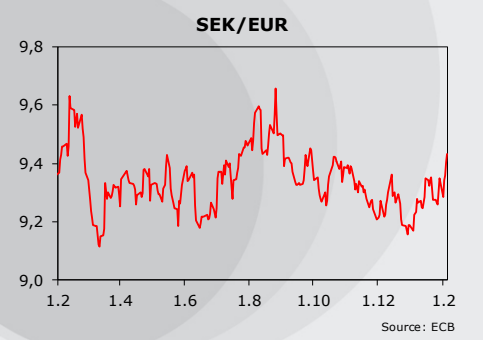
FOREIGN EXCHANGE

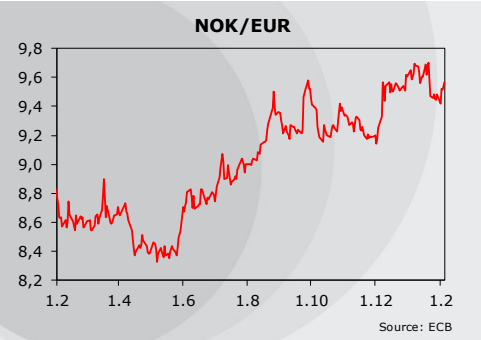


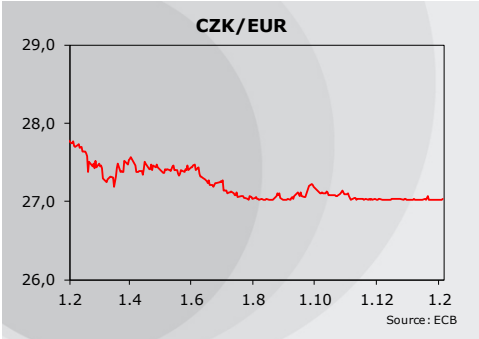


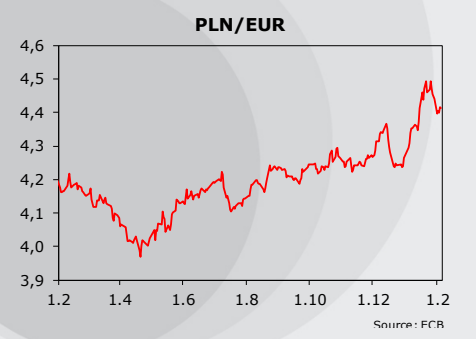


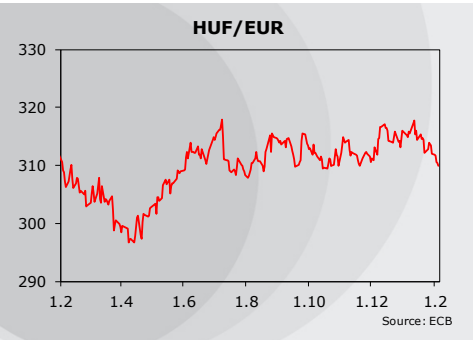


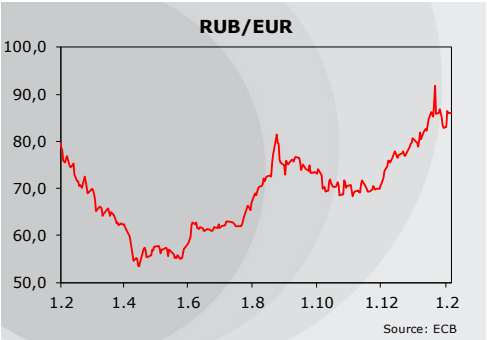






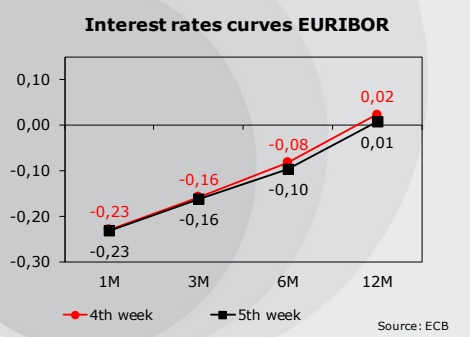




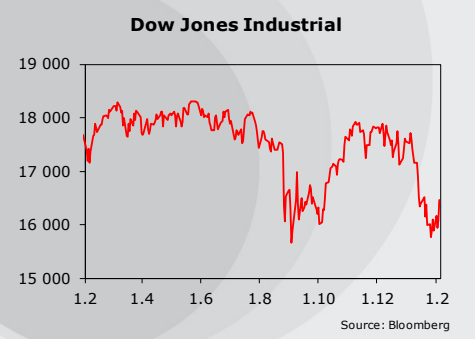


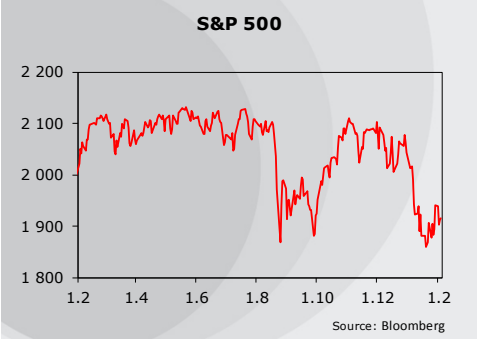
MONEY MARKET

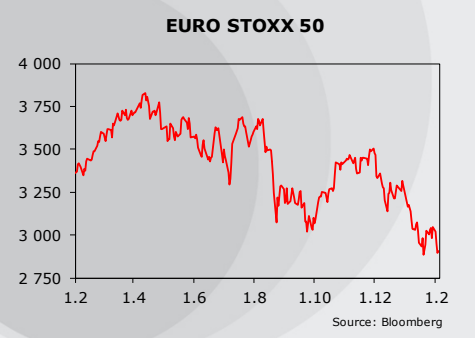
MONEY MARKET

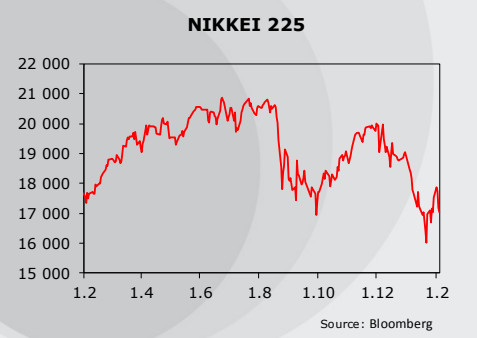


EQUITY









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