UniCredit Bank

Weekly

N . o . t . e . s

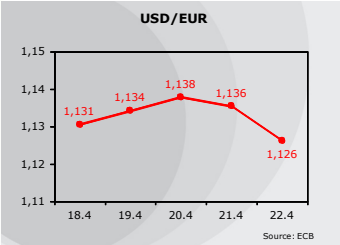
English translation by an external party

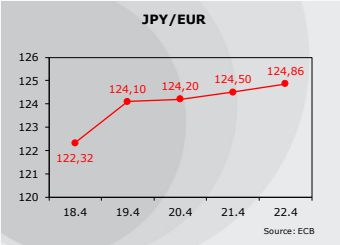
HIGHLIGHTS OF THE WEEK 16/2016

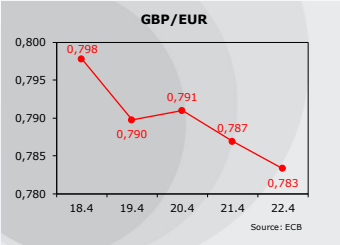
> Chart of the Week: General government deficit increased to -3.0% of GDP last year

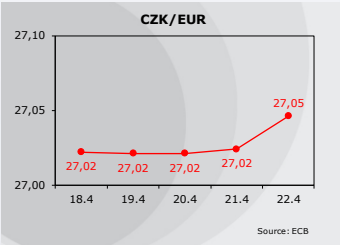
> In March, unemployment fell again below the magic threshold of 10% after 7 years

WEEK ON THE MARKETS









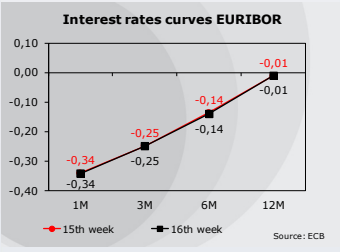
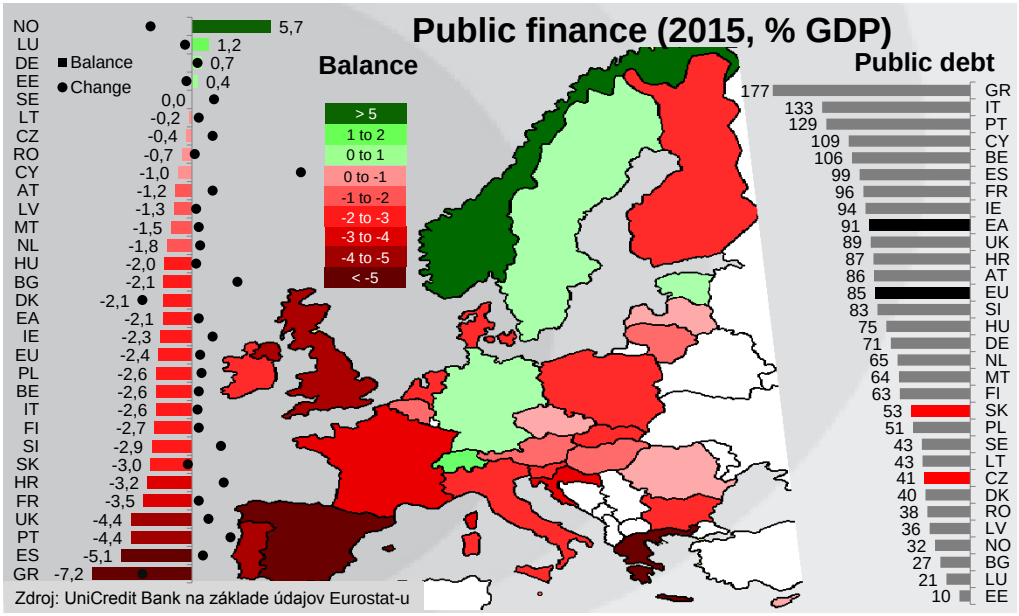


CHART OF THE WEEK



According to the first, spring notification of Eurostat, EU countries reported the 2015 general government deficit at -2.4% of GDP in 2015. Compared to the previous year, the management of EU countries improved by 0.6% of GDP. Development of public finance in the euro area was similar, with general government deficit being at -2.1% of GDP with improvement by 0.5% of GDP. Last year, surplus was reported by 3 EU countries, all of them countries using EUR - Luxembourg, Germany and Estonia. The bottom of this rating includes mainly countries to the south of Europe (Greece, Spain, Portugal) as well as Great Britain. In 2015, deficits exceeding 3% of GDP were reported by six EU countries (of which 4 euro area countries), with France and Croatia along with the countries mentioned above. The biggest improvement of general government deficit was reported by Cyprus – by as much as 7.9% of GDP to -1.0% of GDP. Considerable improvement, by more than 2% of GDP, was reported also by Portugal and some south-east European countries – Bulgaria, Croatia, and Slovenia. On the contrary, the general government balance deteriorated only in 5 EU countries (of which in 4 euro area countries), with the biggest deterioration being reported by Greece and Denmark (by as much as -3.6% of GDP). 3 out of 5 countries reported general government surpluses in 2014. The general government surplus was maintained by Estonia and Luxembourg also in 2015, with Denmark, after the 2014 surplus, returning back to a deficit of -2.1% of GDP. Besides Greece, the only country reporting general government deficit in 2014, with that deficit increasing last year, was Slovakia – the deficit increased by 0.3% of GDP from -2.7% to -3.0% of GDP. Our neighbours to the west did considerably better; general government deficit in the Czech Republic went down by 1.5% of GDP to only -0.4% of GDP last year.

According to the Ministry of Finance's press release, Slovakia entered the notification negotiations with a deficit of -2.56% of GDP. However, Eurostat did not recognise some general government revenue – income from repayable financial assistance payments from Cargo or contribution of the State Housing Development Fund (ŠFRB) from EU Funds, which ultimately increased the deficit up to -2.97% of GDP. The 2015 general government budget anticipated a deficit of only -2.49% of GDP. It can be expected that the Ministry of Finance will further discuss this disputable revenue with Eurostat ahead of the autumn notification. Regardless of the outcome of these negotiations, we do not assess results of the state's management in the last pre-election year very positively. Given the relatively dynamic growth of the economy, we consider the Government's fiscal objectives as lacking ambition; moreover, in the pre-election year, the government failed to better use the tax revenue, which was a combination of a stronger-than-expected growth of the economy and improvement of tax collection efficiency, to reduce the deficit more quickly but it was largely directed to consumption in the form of social packages. However, the state's deteriorated management was not due to the state budget only (which, on the cash principle, reported even a lower-than-planned deficit) but mainly to other components of the public administration – despite surpluses, the management of local governments failed to achieve the budgeted levels, with deteriorated management reported by the Environmental Fund or the "newly included" entities (ŽSR (Slovak Railways), NDS (National Motorway Company), Recycling Fund and public hospitals).

The newly formed left-right coalition Government has no high ambitions in the field of public finances either. Upon agreement of the coalition parties, the objective of balanced public finances is postponed by two more years from 2018 to 2020, i.e. to a new government which should normally start in the spring of 2020. It seems that Slovakia has learnt nothing from the errors of the past, when it consolidated public finances with similar poor ambitions in a period of strong economic growth prior to 2008. The absent buffer subsequently appeared during the crisis period. The current poor move in consolidation of public finances during a period of a relatively dynamic growth of the economy (general government deficit has been stagnating or, as the case may be, growing slightly over the last 3 years) increases the vulnerability of public finance (and the economy) in the event of a repeated deceleration of economic growth (for any reasons).

Despite the increase of general government deficit, Slovakia's government debt went down from 53.9% to 52.9% of GDP last year. In most EU countries, government debt was falling, on average by 1.6% of GDP to 85.2% of GDP (in the euro area by -1.3% of GDP to 90.7% of GDP). Government debt was rising mainly in Finland (by 3.8% of GDP to 63.1% of GDP) and Slovenia (by 2.2% to 83.2% of GDP), and falling in Ireland (by 13.7% of GDP to 93.8% of GDP) and Denmark (by 4.6% of GDP to 40.2% of GDP). The highest government debt is still reported by Greece (176.9% of GDP), which however managed to reduce it by 3.2% of GDP last year. The lowest government debt is reported by Estonia, only 9.7% of GDP. In 2015, the Czech Republic reduced government debt by -1.6% of GDP (as well as the EU average) to 41.1% of GDP.

Although the debt brake in Slovakia is deactivated by the elections (new Government) for the next 2 years but the government debt is maintained below its painful thresholds anyway. Last year, it even dropped just below 53% of GDP, deactivating also the freezing of salaries of members of the Government. From 2018, the debt brake levels start to go down gradually, by 1% of GDP p.a., until the objective is met in 2027, with the debt brake starting at 40% and ending at 50% of GDP. Thus, the low fiscal ambitions of today's Government are only moving the pressure on consolidation of public finances to the next government, which commences after 2020. (lk)

ECONOMIC CALENDAR

Week	Indicator	Period	Market Consensus	UniCredit Bank Estimate	Reality
16.	Unemployment (April 15-20)	March	-	9.91%	9.89%
17.	Producer prices (April 28)	March	-	-4.9% yoy	-
18.	State budget (May 2)	April	-	-750 mil. EUR	-
	Retail sales (May 4)	March	-	3.1% yoy	-

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

ECONOMY

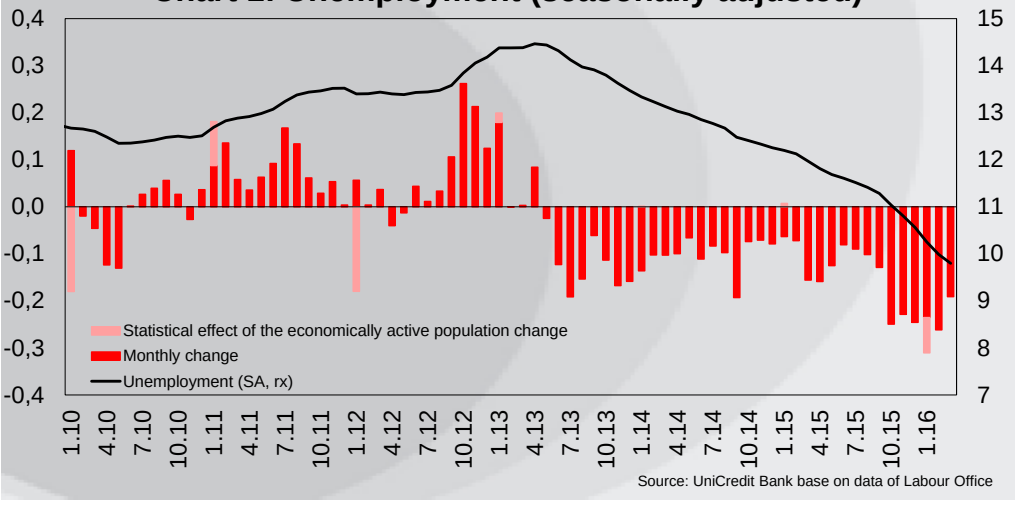
UNEMPLOYMENT

In March, unemployment fell again below 10% after 7 years

The labour market maintains its positive trend; in March, precisely after 7 years, unemployment in Slovakia fell again below 10% - according to the methodology of the Central Office of Labour, Social Affairs, and Family, (disposable) unemployment went down by -0.20 pp to 9.89%. The seasonally adjusted unemployment (calculation of UniCredit Bank) went down by -0.19 pp to 9.80%. Despite the fact that unemployment is going down, its decline in March (after adjustment for the season) decelerated slightly compared to the record previous months. Unemployment was lower by 2.17 pp, i.e. by more than 57 thousand unemployed, compared to the same period a year ago.

The decline in unemployment is largely due to the growing economy, which is able to generate new jobs. The number of job seekers at labour offices who were placed on the labour market decreased slightly compared to the turn of the year, being almost 18 thousand after adjustment for the season (calculation of UniCredit Bank) - it was roughly by 2 thousand less compared to the record November, however, approximately one thousand more unemployed were employed in March than in an average month of the last year. So, at first sight it seems that the increased demand for new employees remains relatively strong, however, it does get weaker. But it may not necessarily be the case, the gradually decreasing number of job seekers placed on the labour market does not have to be a consequence of a diminishing number of job offers but also a result of an inappropriate structure of the job seekers. Such explanation would be confirmed by the statistics of vacancies – their number grew to as much as 35.5 thousand in March, which represents a yoy growth by 20 thousand.

Chart 1: Unemployment (seasonally adjusted)



Source: UniCredit Bank base on data of Labour Office

After adjustment for traditional season, unemployment was falling also in March in all Slovak regions, with the strongest decline being reported by the regions of Banská Bystrica and Prešov, and the slowest decline being reported by the region of Bratislava. In terms of districts, unemployment went up slightly (after adjustment for the season) in only 8 out of 79 districts compared to the previous month - the

strongest increase was reported by the districts in western Slovakia: Medzilaborce, Sobrance and Vranov nad Topľou – unemployment remained unchanged in 2 districts and was falling in the remaining 69 districts, with the strongest decline being reported by the districts of Krupina, Rožňava, Kežmarok, Námestovo and Snina. Unemployment higher than 15% was reported in March only by 18 out of 79 Slovak districts (the same number as in February), with only 5 of them reporting unemployment highest than 20% - Rimavská Sobota (26.9%), Kežmarok (21.6%), Revúca (20.5%), Rožňava (20.4%) and Poltár (20.1%). The lowest unemployment rate is still reported by the vicinity of the capital – districts of Bratislava (from 4.3% to 5.1%), Galanta (4.3%), Trnava (5.1%), Senec (5.3%), Pezinok (5.4%), followed by some districts in the area of Považie – Piešťany (4.8%), Púchov (4.9%), Trenčín (5.6%), as well as the district of Martin (5.6%) or districts in the area of Záhorie – Skalica (5.5%) and Malacky (5.6%). Unemployment below 10% was reported in March by more than one half of Slovak districts - as much as 48 out of 79 Slovak districts (3 more than in February), with unemployment falling below 7% in 22 Slovak districts.

OUTLOOK

Growing economy should be able to generate new jobs also in the next months. We expect that unemployment continues to fall gradually, also thanks to the commencing seasonal jobs. At present, a more significant decline in unemployment in most Slovak regions is not hindered by the lack of jobs but by the inadequate structure of job seekers. The lack of suitable labour force increases the pressure on the growth of wages in the economy or speeds up the import of labour force from abroad (although the number of foreigners working in Slovakia is still at only around 1% of employees and it is well below the number of Slovaks working abroad). (lk)

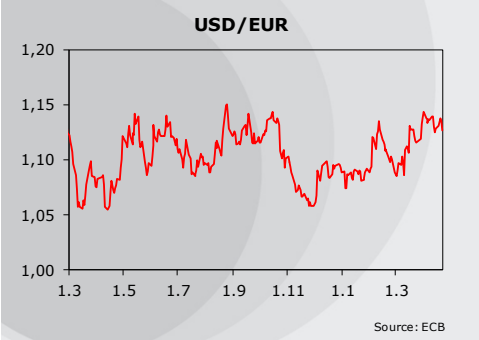
ECONOMIC OUTLOOK

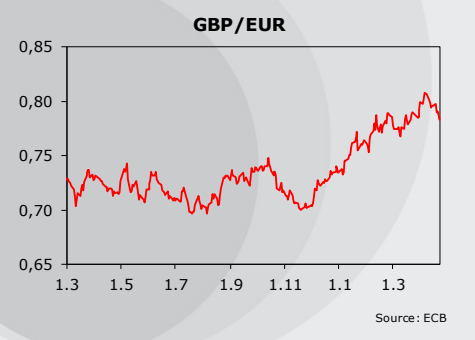
Slovakia	2011	2012	2013	2014	2015	2016F	2017F
Real GDP growth	**2,8**	**1,5**	**1,4**	**2,5**	**3,6**	**3,2**	**3,2**
GDP per capita	13 052	13 398	13 643	13 947	14 287	14 860	15 383
Household consumption	**-0,6**	**-0,4**	**-0,8**	**2,4**	**2,4**	**2,9**	**2,6**
Government consumption	-1,7	-2,6	2,2	5,9	3,4	1,7	0,0
Gross investments	7,6	-14,0	1,5	2,6	13,1	-0,2	10,8
Exports	12,0	9,3	6,2	3,6	7,0	6,1	5,1
Imports	9,6	2,5	5,1	4,3	8,2	5,1	6,1
Industrial Production	**6,9**	**13,4**	**5,3**	**3,7**	**7,0**	**5,5**	**6,5**
Construction	-1,7	-12,5	-5,3	-4,2	16,3	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**	**1,4**
CPI (Dec.)	4,4	3,2	0,4	-0,1	-0,5	0,5	1,6
Real Estate inflation	-3,0	-1,1	-0,9	-0,8	0,3	2,3	2,5
Average Wage level	786	805	824	858	883	911	941
Nominal Wage growth	**2,2**	**2,4**	**2,4**	**4,1**	**2,9**	**3,1**	**3,4**
Real Wage growth	-1,6	-1,2	1,0	4,2	3,2	3,3	2,0
Employment growth (LFS)	1,5	-1,0	0,0	1,5	2,6	1,0	1,3
Unemployment (average, LFS)	**13,5**	**14,0**	**14,2**	**13,2**	**11,5**	**10,6**	**9,4**
Fiscal deficit (% of GDP)	-4,1	-4,2	-2,7	-2,8	-3,0	-2,0	-1,0
Public Debt (% of GDP)	43,3	52,4	55,0	53,9	52,9	52,6	51,3
Foreign Direct investment (EURbn)	2,8	3,2	-0,3	0,2	0,7	2,5	3,5
ECB Refi rate (%, Dec.)	**1,00**	**0,75**	**0,25**	**0,05**	**0,05**	**0,00**	**0,00**
3M EURIBOR (%, Dec.)	1,2	0,2	0,3	0,1	-0,1	-0,3	-0,3
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

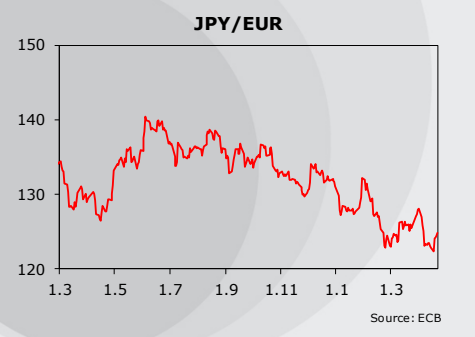
Abroad	2011	2012	2013	2014	2015	2016F	2017F
Eurozone GDP	**1,5**	**-0,6**	**-0,4**	**0,9**	**1,5**	**1,7**	**1,6**
German GDP	**3,1**	**0,9**	**0,5**	**1,6**	**1,7**	**1,8**	**1,4**
Czech R GDP	1,7	-1,0	-0,9	2,0	4,3	2,2	3,0
USA GDP	1,7	2,8	1,9	2,4	2,4	2,2	2,4
Eurozone Inflation	2,7	2,5	1,3	0,4	0	0,4	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

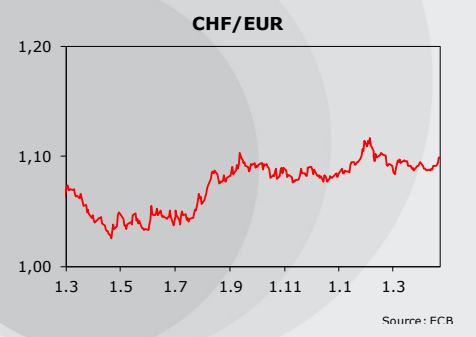
Source: NBS. SOSR. ÚPSVaR. MinFin SR. Eurostat. ECB
Forecasts: UniCredit Bank Slovakia – Slovakia. Eurozone. USA (EURIBOR. USDLIBOR. Brent. USD/EUR); UniCredit Group (CEE Economic Research. CIB) – Eurozone. USA

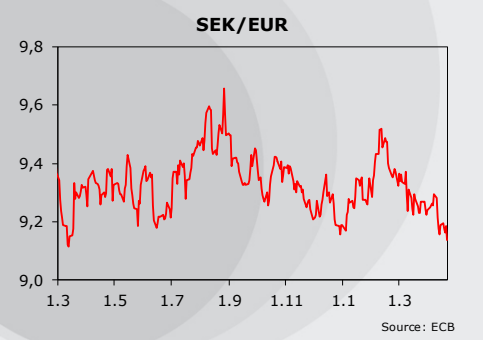
FOREIGN EXCHANGE

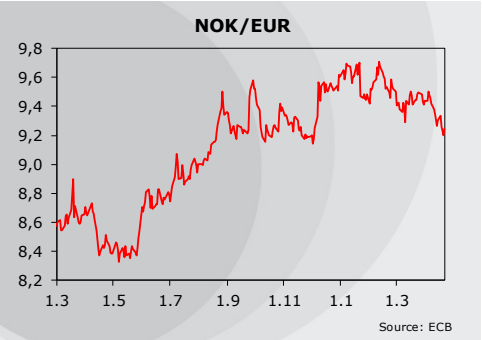


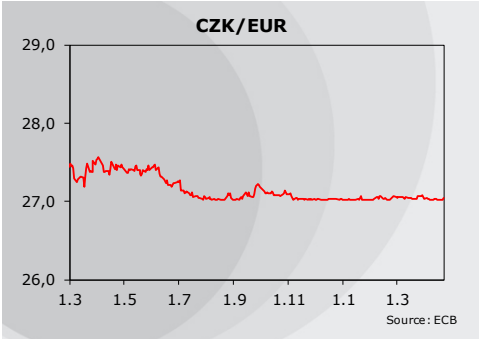


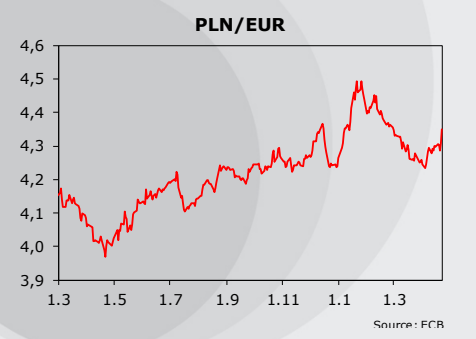


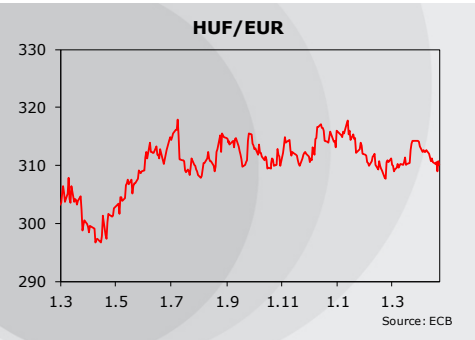


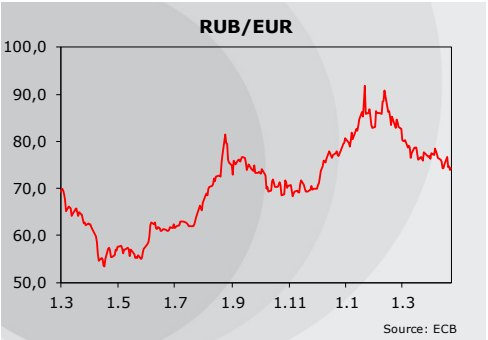












MONEY MARKET

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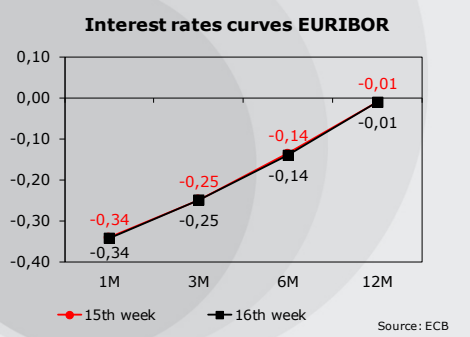
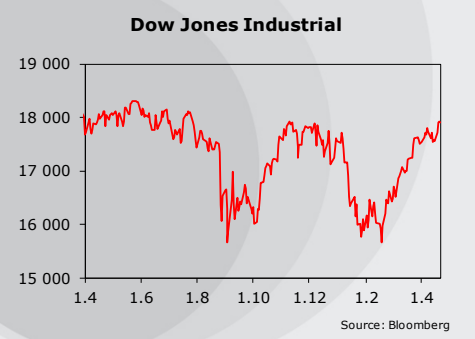
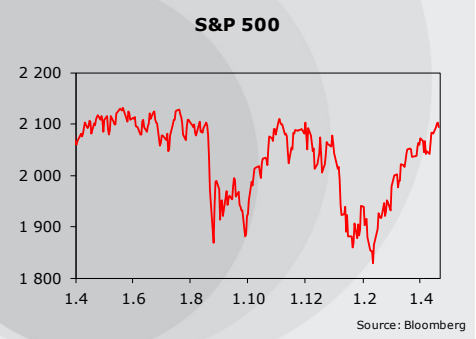
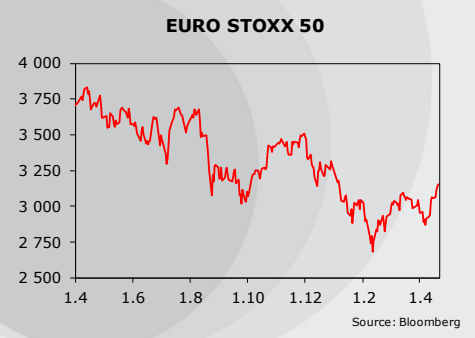
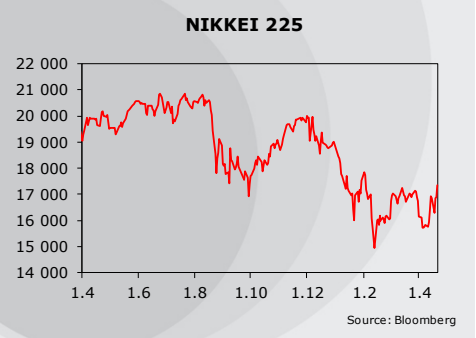


EQUITY









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