

Slovakia | Instant Comment

Net exports and fixed investment dragged down growth

GDP (y/y)

Actual, 2Q19	2%	Previous:	3.7%	Erste:	1.9%	Consensus:	1.9%
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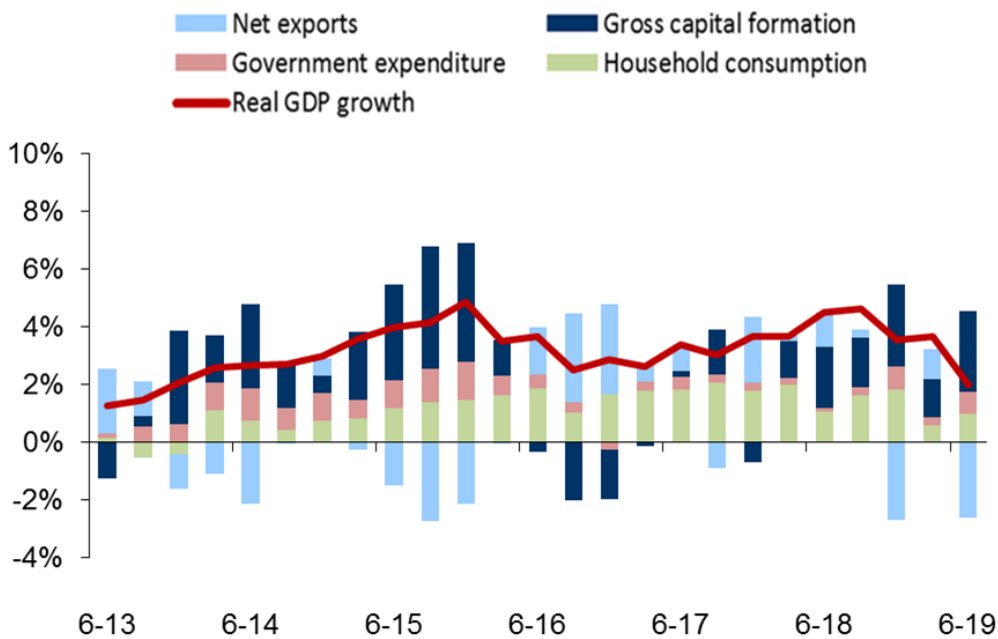
Real GDP growth reached 2% y/y in 2Q19, slightly above the flash estimate of 1.9% y/y. The seasonally-adjusted quarterly pace stood at 0.5% q/q. The economy decelerated from the 3.7% y/y at the beginning of the year.

The key reason behind the slowdown was the disappointing performance of net exports that contributed -2.6pp to the GDP growth pace. Foreign trade marked a weak quarter as exports fell by 1.9% y/y and imports grew by 0.8% y/y. **Gross fixed investment fell by 3.7% y/y, affected by the high base of fixed investment last year**, linked to the building of the fourth car plant in Slovakia. **However, due to the strong rise in inventories, gross investment was up by 11.9% y/y** and thus contributed 2.8pp to GDP growth. Households fared better than at the beginning of the year, as their consumption increased by 1.9% y/y and added 1pp to GDP growth.

Labour market improvement continued as the unemployment rate fell to an all-time low of 5.7% (lower by 0.9pp compared to 2Q18). Employment growth (LFS methodology) eased its pace and only rose by 0.5% y/y in 2Q19 (-0.5% q/q).

Nominal wage growth exceeded expectations as it shifted up a gear to 9.7% y/y, reflecting the still tight labour market conditions and recent administrative changes (night/holiday/weekend work). Real wages increased by 7% y/y in 2Q19, growing slower than their nominal counterpart due to inflation.

In light of the recent data, we have adjusted our GDP growth forecast downwards – from the original 3.4% to 2.5% in 2019 and from 3.3% to 2.3% in 2020. The revisions reflect the much weaker than expected 2Q 2019 as well as the ongoing tensions in the global economy. Even though the domestic side of the economy should continue to support growth, the external environment remains overcast – slower growth in Germany and China, uncertain Brexit outcome, unresolved protectionism in foreign trade and possible impact on local car makers. Furthermore, this year's high investment base on inventories will likely cause a mild correction next year.



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