

Short Note Slovakia

Solid pace of growth confirmed amidst a blossoming labour market

Real GDP growth was confirmed at 3.7% y/y in 1Q19 (0.9% q/q). This year's first quarter thus presents a mild acceleration in economic growth compared to 4Q18.

Both domestic and external demand were behind the 1Q19 growth figure. **Investment was the largest contributor to economic growth**, as gross capital formation increased by 6.6% y/y (gross fixed capital formation rose by 2.1 % y/y), contributing 1.3pp to the overall GDP growth rate. **Household consumption was rather underwhelming as it only brought 0.6pp to the growth print, having eased its pace to 1% y/y.** Households were more cautious at the start of the year, despite the favourable labour market and gross disposable income development.

Net exports marked an improvement after their shabby performance at the end of last year. **Exports rose by 7.2% y/y as import growth reached 6.4% y/y, thus the net foreign trade contribution was positive at 1pp towards the GDP growth rate.**

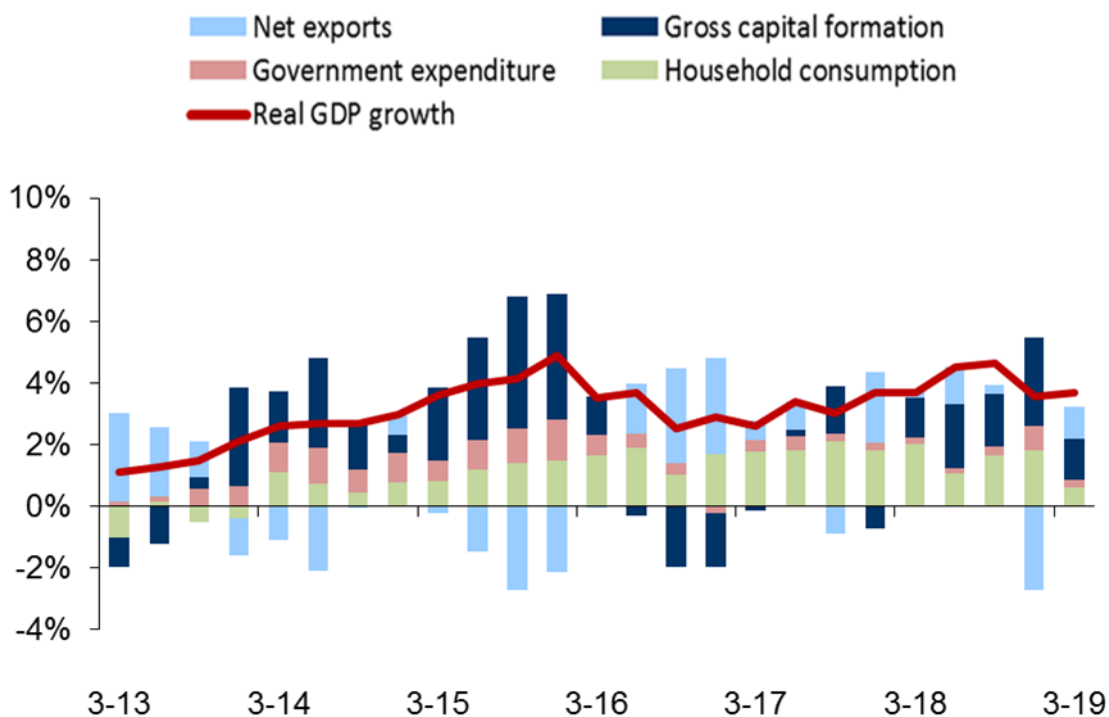
Similar to the previous two quarters, statistical discrepancy accounted for a sizeable amount of 0.4pp in 1Q19.

Labour market improvement continued as **the unemployment rate fell to an all-time low of 5.8%** (lower by 1.3pp compared to 1Q18). **Employment growth (LFS methodology) marked 1.8% y/y in 1Q19, easing marginally from 4Q18.**

Nominal wage growth exceeded our expectations as it shifted up a gear to 7.1% y/y, reflecting tighter labour market conditions. Real wages increased by 4.6% y/y in 1Q19, growing slower than their nominal counterpart due to inflation.

Even though the start of the year brought some welcome news about net exports, the clouds over the external environment have not dissipated – some of them (esp. Brexit) have even become more prominent. **This year, we expect economic growth to average 3.4%, driven largely by domestic demand as the external environment is likely to remain cloudy** (Germany and China slowing down, uncertainty stemming from Brexit, unresolved protectionism in foreign trade and possible impact on local car makers). The slowdown is mostly attributable to external demand changes and should prove to be temporary. We stick to our 2020 GDP growth forecast of 3.6%.

Contributions to real GDP growth



Note: ESA 2010, year-on-year real GDP growth rates. Statistical discrepancy accounted for 0.4pp in 1Q19.
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