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Deloitte Weekly Newsletter

Deloitte in Slovakia

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Slovaks want better food too

- Central and Eastern European consumers eat poorer quality branded products than people who live in western countries.
- "I had enough of poor quality food in Slovakia. Could you advise me where to go for shopping to Austria?", came one recent question in an online debate forum, but it is not a new issue.
- Over the past few years many Bratislavans and others living in the near the border with Austria have gotten used to doing their grocery shopping in Austria. They claim that the food they get in the supermarket in Kittsee or Hainburg is much better than what they get in Slovakia – even if the products carry the same brand.
- The Slovak government has recently acknowledged the complaint too when it joined the initiative of all the Visegrad Group (V4) countries to raise the issue in Brussels.
- Czech Agriculture Minister Marian Jurečka reported the problem to the EU Council of Ministers, Agriculture Minister Gabriela Matečná told the Sme daily on May 25.
- "We have followed him as we have the same experience," she said.
- What is at stake is dual quality of products which are imported under the same brand name. The list includes sweetened beverages, coffee, chocolate products, cosmetics and detergents.
- Jarmila Halgašová, the director of the Food Chamber of Slovakia (PKS), said that Austrian food is generally not better than that in Slovakia.

- "The quality requirements in Slovakia are more stringent than in other countries, however, restrictive legislation does not affect imported goods," said Halgašová, as quoted by the Sme daily.
- EU competency
- Dual quality is an issue that the EU needs to deal with since the mutual recognition clause applies within the common market, said Jana Gasperová of the Agriculture Ministry.
- "Individual member countries do not have a legal framework to monitor quality of food produced in other member countries," Gasperová told The Slovak Spectator.
- The Czech Ministry of Agriculture plans to open the discussion also on the Forum for a Better Functioning Food Supply Chain which will take place this September.
- "Expert discussion should lead to legislative amendment that will make the practice of dual quality impossible," said Czech Czech Ministry of Agriculture spokeswoman Markéta Ježková, as quoted by Sme.
- Unofficial tests show differences
- While EU authorities have called on the V4 countries to prove their claim about dual quality with official laboratory tests, they so far based complaints on the unofficial analyses of consumer associations and inspection authorities, Gasperová noted.
- Miroslav Tulák of the Association of Slovak Consumers (ZSS) sees a long-term problem recalling tests by Miloš Lauko of another association, the Association of Consumers in Slovak Republic (ASS), who first drew attention to varying quality of selected beverages, chocolate, coffee and spices in 2011.
- "Lauko found significant differences, for example, in the sweeteners used," Tulák told The Slovak Spectator.
- Research of the University of Chemistry and Technology in Prague also revealed a different fat content in yoghurts or the caffeine in coffee, as reported by Sme.
- However, Halgašová said that complaints are unjustified until they are not confirmed by the evidence of accredited laboratories.
- "Producers may legitimately complain for damaging their reputation," Halgašová told The Slovak Spectator.

Cabinet: State assistance up 36.79 percent to €440.65 mn

- Slovak state's aid in 2015 increased by more than one third, according to the Anti-monopoly Office's report.
- Slovakia provided state assistance to companies amounting to €440.65 million, of which €207.01 million came from national resources and €233.64 million from the European Union's coffers, according to an Anti-monopoly Office (PMÚ) report approved by the cabinet on June 8.
- Compared with 2014, the overall volume of state assistance last year went up by €118.51 million which represents an increase of 36.79 percent. The volume of state assistance provided as a proportion of gross domestic product was 0.56 percent, the TASR newswire quoted from the report.
- State assistance last year was mainly provided in the form of subsidies and grants (84.60 percent) and tax relief (15.40 percent). The lion's share went to regional development (49.82 percent); production, transmission and distribution of energy (15.28 percent), and support for research and development (11.96 percent).

Analyst: Foreign trade in April made up for a weak March

- The foreign trade surplus increased in April 2016 to €404 million, fulfilling expectations after weaker "Easter" figures in March.
- The Slovak Statistics Office (ŠÚ), based on more accurate data, also revised the surplus for the first quarter (Q1, by €46 million). Thus, the 12-month surplus of foreign trade increased in March from 4.1 percent to 4.2 percent of GDP.
- The more significant correction of the lower March figures was in accordance with our expectations, Ľubomír Koršňák, macroeconomic markets analyst of the UniCredit Bank Czech Republic and Slovakia, wrote on March 9.

- Even more positive than the overdraft itself was the recovery of turnover in foreign trade. Both exports and imports were marked by a strong correction, virtually totally annulling the March losses. In April, exports increased by 3.0 percent against the previous month (seasonally adjusted, according to UniCredit Bank).

  They returned to black numbers in year-on-year comparison, higher by 6.4 percent against 2015. Thus, they seem to also confirm the hypothesis about Easter falling at the end of month (and quarter) having impacted the balance, at least partially. This would also explain the weaker growth dynamics of exports. It seems that the automotive industry remains to be the main driving force behind exports.

- Also imports grew dynamically in April, according to Koršňák, by 4.1 percent (seasonally adjusted) and their y-o-y growth was revived, too – increasing by 3.9 percent compared to last year. The post-Easter stocking of stores with goods seems to be behind this dynamic growth, as well as stronger consumer imports. Nominally, also the recovering oil prices on global markets increased the amount of imports.

- The outlook is for the foreign trade surpluses to gradually grow and then stabilise in the following months – around 4.5 percent of GDP, Koršňák concluded.

Eurozone GDP growth revised upwards for Q1

- It seems the eurozone's economic growth was slightly better than previously thought in the first three months of this year, but still nothing to shout about.

- In its third and final assessment, the European statistics agency Eurostat said gross domestic product increased by 0.6 percent from the previous quarter – the highest rate for 12 months.

- Year-on-year it expanded by 1.7 percent.

- The rate of growth matched the level in the first quarter of 2015, a pace only surpassed at the start of 2011, when the euro zone economy raced ahead at 0.9 percent.

- Quarter-on-quarter growth was at a healthy 0.7 percent in Germany, the eurozone's largest economy, 0.6 percent in France and 0.3 percent in Italy.

- Greece was the only one of the bloc's 19 countries where the economy contracted. It fell 0.5 percent quarter-on-quarter. Year-on-year it was down 1.9 percent.

- The greatest growth contributioners were household spending and private sector investment.

- Changes in companies' inventories and public sector spending were also positive, but imports increased by more than exports.

European Central Bank corporate bond buying starts

- The European Central Bank has started buying corporate bonds as part of its latest effort to get businesses to borrow and spend, thereby boosting the eurozone economy and causing inflation to rise.

- Buying the debt of some of Europe's biggest companies is an unprecedented move and comes on top of the ECB purchasing 80 billion euros worth of mostly government bonds each month – which hasn't had a significant effect on the region's growth or rock-bottom inflation.

- Traders said the ECB has been buying the bonds of utility, insurance and telecoms companies, including Italy's leading insurance company Generali and Spain's Telefonica.

- Other names being mentioned were Belgian brewer Anheuser-Busch InBev, French carmaker Renault and German engineering firm Siemens. Power companies Engie from France and Germany's RWE were also believed to have been bought, along with chemical and and property firms under the Corporate Sector Purchase Programme.

- ECB purchases were generally seen in the three million to five million euros range per trade and bond prices moved little. That suggested additional demand from the eurozone's central bank was anticipated and had already been priced in.

- We won't find out exactly what bonds the Bank has bought until 18 July after which it will release word on its latest purchases weekly on Mondays.
- Success will largely depend on the ECB's ability to attract new borrowers and on cheaper borrowing costs trickling down to weaker economies like Italy's and Spain's, where costs remain high.

Big job cuts in Britain's oil and gas sector

- As many as 120,000 workers will have lost their jobs in Britain's oil and gas sector by the end of the year, according to the industry's lobby group.
- Oil and Gas UK said that would mean a 25 percent fall in the workforce since mid-2014 when oil prices started declining.
- The losses include those directly employed and people in the supply chain and providing services.
- Major oil industry employers in the UK like Royal Dutch Shell, BP and Chevron have all announced substantial job cuts as they reduce costs.
- "The total employment we will sustainably provide depends on the level of investment attracted into the basin," said Deirdre Michie, chief executive of Oil and Gas UK.
- "If investment falls, then so will jobs," she added.
- Britain's North Sea fields have been particularly strongly impacted as they have some of the world's highest exploration and production costs.
- Shell announced an additional 475 job cuts in its UK and Ireland upstream business two weeks ago, part of a global drive to shed 12,500 roles between 2015 and the end of 2016.

Russia cuts cost of borrowing as inflation falls

- Russia's central bank has cut its main interest rate by 0.5 percent to 10.5 percent.
- The reduction in the cost of borrowing is the first since July 2015.
- The move – which was expected by most economists – pushed up the value of the rouble slightly and lowered the amount of interest that investors demand to buy government bonds.
- The Russian currency is up by around 25 percent since hitting a record low in January, thanks to a recovery in global oil prices.
- The interest rate cut signals confidence by the bank's policymakers that inflation risks are declining, helped by the rouble's gains.
- Inflation has fallen sharply over the last year and remained stable at 7.3 percent for the last three months, a better-than-expected outcome that suggests the bank is on track to meet its target of 4 percent inflation by the end of 2017.
- In a statement the bank said it "will consider the possibility of a further cut based on estimates for inflation risks and alignment of inflation decline with the forecast trajectory".

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