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Charts in boxes

Abbreviations

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EME	emerging market economy
EONIA	euro overnight index average
ESA 2010	European System of Accounts 2010
ESI	Economic Sentiment Indicator (European Commission)
EU	European Union
EUR	euro
EURIBOR	euro interbank offered rate
Eurostat	statistical office of the European Union
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
IPI	industrial production index
MFI	monetary financial institution
MF SR	Ministry of Finance of the Slovak Republic
MTF	NBS's Medium-Term Forecast (published on a quarterly basis)
NACE	Statistical Classification of Economic Activities in the European Community (Rev. 2)
NBS	Národná banka Slovenska
NEER	nominal effective exchange rate
NFC	non-financial corporation
OECD	Organisation for Economic Co-operation and Development
p.a.	per annum
p.p.	percentage point
PMI	Purchasing Managers' Index
REER	real effective exchange rate
SME	small and medium-sized enterprise
SO SR	Statistical Office of the Slovak Republic
ÚPSVR	Ústredie práce, sociálnych vecí a rodiny – Central Office of Labour, Social Affairs and Family
USD	US dollar
VAT	value-added tax

Symbols used in the tables
. – Data are not yet available.
- – Data do not exist / data are not applicable.
(p) – Preliminary data

1 Summary

Euro area economic growth slowed to 0.1%, quarter on quarter, in the fourth quarter of 2019, according to Eurostat's flash estimate. Among the euro area national economies, GDP growth slowed more sharply in the larger ones and stood at zero in Germany. In early 2020, despite the modest optimism suggested by short-term indicators, the coronavirus outbreak has caused increasing uncertainty about the global situation.

In Slovakia, according to preliminary estimates, annual GDP growth accelerated to 2.1% in the fourth quarter of 2019. The impact of negative trends in industry appears to have outweighed value added growth in the services sector. Monthly indicators suggest that the economy's stronger performance was due mainly to its domestic side. Towards the end of the year there was also a pick-up in export growth.

The labour market's gradual cooling continued, as expected, in the fourth quarter. Employment growth was dampened not only by the adverse situation in industry, but also by structural factors. The negative impact of headwinds from the external environment was therefore compounded by employers' efforts to make production processes more efficient in response to rapidly rising labour costs. Wage growth also continued to slow moderately, so reflecting the weaker trends in the manufacturing side of the economy. The unemployment rate remained at 6% in January 2020.

The annual inflation rate in January was 3.2%. While the rates of food and energy inflation moderated, demand-pull inflation accelerated. Going forward, however, the demand-pull component is expected to slow gradually owing to labour market developments. This year is expected to see a gradual deceleration in headline inflation.

Demand for loans to non-financial corporations eased in the latter part of the year amid the cooling of economic activity in a majority of key sectors. Firms' demand for investment loans increased slightly, which may imply an upturn in investment activity in the period ahead. Household borrowing growth stagnated in the fourth quarter of 2019.

At its meeting in January, the Governing Council of the European Central Bank decided to launch a review of the ECB's monetary policy strategy. The review will encompass mainly the quantitative formulation of price stability, the monetary policy toolkit, and economic and monetary analyses and communication practices. The review is expected to be concluded by the end of 2020.

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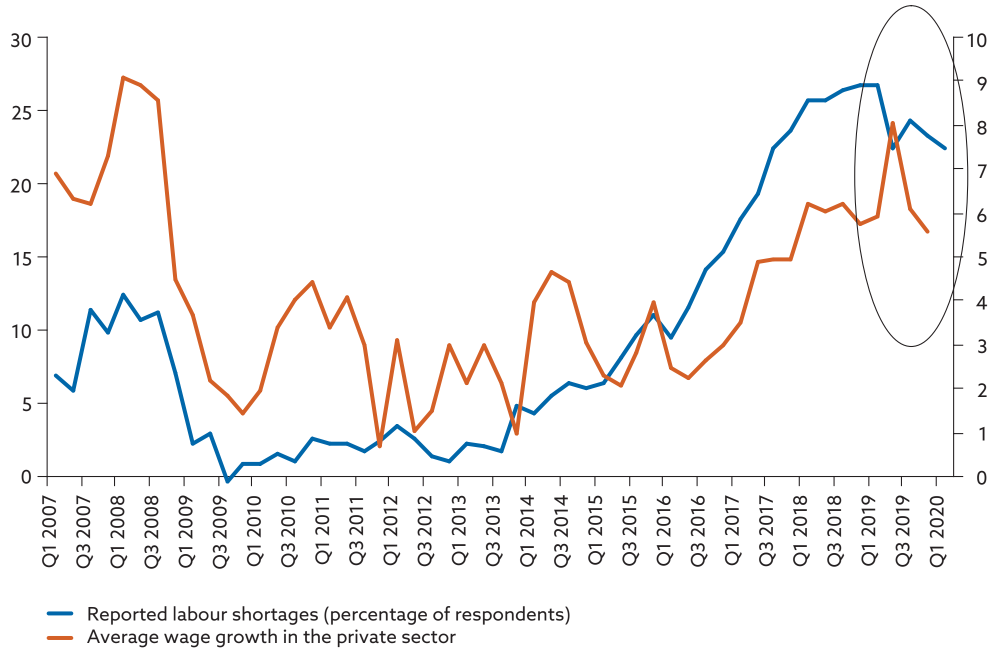
The updated nowcast for Slovakia's quarter-on-quarter GDP growth in the first quarter of 2020 shows a moderate acceleration, to 0.75%, based mainly on stronger than expected growth in the last quarter of 2019.

Chart of the month

Reported labour shortages as a factor limiting activity (percentage of respondents)



Sources: European Commission, and NBS calculations.
Note: Average wage growth in the private sector approximated by sections O, P and Q of the SK NACE REV. 2 statistical classification of economic activities. Wage growth in Q4 2019 is estimated on the basis of monthly data for the sectors under review.

Amid subdued growth in external demand for Slovak products, domestic industrial output is declining. As a result, industrial firms are not reporting such large labour shortages as they were in recent years. In this context, negotiated wage increases are expected to be more modest in 2020. But despite its recent moderation, the labour shortage indicator remains at historically high levels.

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Table 1 Macroeconomic indicators released since the previous monthly bulletin

Indicator	Unit	Period	Current period	Previous period
Euro area				
Confidence indicators				
PMI	index	*February 2020*	51.6	51.3
Economic Sentiment Indicator	long-run average = 100	*January 2020*	**102.8**	101.3
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q4 2019*	0.9	1.2
Industrial production index	annual percentage change	*December 2019*	-3.5	-1.7
Retail sales	annual percentage change, constant prices	*December 2019*	**1.4**	2.2
Unemployment rate	percentage	*December 2019*	7.4	7.5
HICP inflation	annual percentage change	*January 2020*	**1.4**	1.3
Oil price in USD[1)]	level	*February 2020*	54.3	63.7
EUR to USD exchange rate[1)]	level	*February 2020*	1.097	1.111
Slovakia				
Confidence indicators				
Economic Sentiment Indicator	long-run average = 100	*January 2020*	100.2	97.8
Industrial confidence indicator	percentage balance	*January 2020*	2.5	-6.0
Consumer confidence indicator	percentage balance	*January 2020*	-10.9	-10.0
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q4 2019*	**2.1**	1.3
Aggregate sales	annual percentage change, constant prices	*December 2019*	-3.4	-5.5
Industrial production index	annual percentage change	*December 2019*	-7.1	-4.3
Private sector credit	annual percentage change	*December 2019*	7.3	6.6
Employment	annual percentage change	*December 2019*	0.5	0.7
Unemployment rate	percentage	*January 2020*	6.0	6.0
Nominal wages[2)]	annual percentage change	*December 2019*	5.1	4.1
HICP inflation	annual percentage change	*January 2020*	3.2	3.2

Sources: SO SR, European Commission, Markit, Macrobond, and NBS calculations.
1) The average for the current period is for the period from the start of the month.
2) Selected sectors only (excluding public sector).

Table 2 Qualitative impact of indicators on projections for key macroeconomic indicators

Indicator	Unit	Period	Current projection	Qualitative shift
Gross domestic product – Slovakia	quarterly percentage change, constant prices	*Q1 2020*	0.5	↑
Gross domestic product – euro area	quarterly percentage change, constant prices	*Q1 2020*	0.3	=
Employment (ESA) – Slovakia	quarterly percentage change	*2020 Q1*	0.0	=
Nominal wages – Slovakia	annual percentage change	*Q4 2019*	6.6	=
HICP inflation – Slovakia	annual percentage change	*2020 Q1*	2.8	=

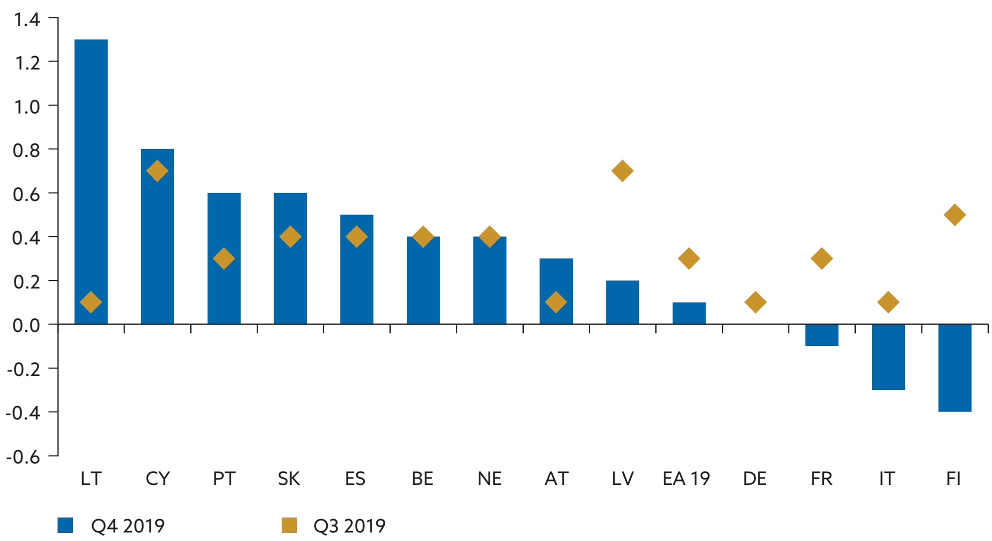
Source: NBS calculations.
Notes: **Values in bold show a significant deviation.** In the case of macroeconomic indicator values for the euro area, **deviations are calculated/determined** by comparing the values with market expectations, and in the case of macroeconomic indicator values for Slovakia, including the oil price and exchange rate, by comparing them with their three-month averages. The qualitative impact of indicators on projections for key macroeconomic indicators is determined on the basis of the difference between the current nowcast and the most recent published forecast for the given variable. Deviations from the forecast are indicated by arrows. The method of constructing threshold intervals for the values in bold or which deviate from the forecast are described in NBS's August 2018 Monthly Bulletin.

2 External Environment

According to Eurostat's flash estimate, euro area GDP growth slowed quite sharply in the fourth quarter of 2019 (Chart 1)**, to 0.1% quarter on quarter** (down from 0.3% in the third quarter). Short-term indicators suggest that the softening of growth is due to slower consumer demand growth, while declining industrial production implies weaker export performance. Looking at the euro area's largest economies, GDP contracted in France and Italy (by 0.1% and 0.3% respectively, after increasing in the third quarter by 0.3% and 0.1%), remained unchanged in Germany (after rising by 0.2% in the previous quarter), maintained an unchanged growth rate in the Netherlands (0.4%), and accelerated in Spain (to 0.5%, up by 0.1 percentage point).

Chart 1

Euro area GDP (quarter-on-quarter percentage changes)



Source: Macrobond.
Note: GDP growth data for Q4 2019 were not available for Estonia, Ireland, Greece, Luxembourg, Malta and Slovenia.

Even though economic activity growth slowed, employment growth accelerated in the fourth quarter, to 0.3% (from 0.1% in the third quarter).

December's short-term indicators reflected a dampening of economic activity, as evidenced by the GDP flash estimate. Industrial production fell, month on month, by 2.1% in December (after remaining flat in the previous month). Output was lower in virtually all sectors, and the largest drop was in capital goods production, including in motor vehicle manufacturing. Production declined in all the euro area's large national economies, most markedly in Italy, France and Germany. In quarter-on-quarter terms, industrial production decreased in the fourth quarter by 1.4%,[1] while its year-on-year decline accelerated to 4.1% in December (from 1.7% in November). Construction production also fell sharply in December, by 3,1%, mainly in the construction of buildings segment. As a result of its slump in December, construction production in the fourth quarter fell by 0.9% on a quarter-on-quarter basis. As for retail sales in the euro area, they fell in December by 1.6% month on month; the most pronounced declines were in sales in non-specialised stores and in sales of automotive fuel. On the other hand, there was an increase in retail sales via mail order houses and over Internet. December's decline more than outweighed the impact of the increase in retail sales in November (0.8%). In quarter-on-quarter terms, retail sales broadly stagnated.

The European Commission's Economic Sentiment Indicator (ESI) for the euro area increased in January for a third successive month, by 1.5 points, and its level of 102.8 was higher than its average for the fourth quarter of 2019. The improved sentiment stemmed mainly from increases in confidence in the industry and construction sectors. The increase in industry confidence reflected firms' improved assessments of the current level of order books and production expectations. These results were consistent with those from the previous month, indicating stabilisation of the sector. In the services and retail trade sectors, by contrast, confidence declined; nevertheless, both the services and retail trade confidence indicators remained above their long-term average. The drop in services confidence resulted from a worsened assessment of past demand, while views on expected demand remained unchanged. As regards the ESIs for the largest euro area economies, those for Germany and France increased, the ESI for Italy remained broadly flat, and the ESIs for the Netherlands and Spain declined. The euro area economy grew at its fastest rate in six months during February, according to the flash estimate of the composite PMI for the region. Although remaining subdued, euro area economic growth accelerated for a third successive month in February. **The composite PMI increased to 51.6 in February** (up from 51.3 in January). Growth was driven by accelerating activity in the services sector, while the rate of contraction in the manufacturing sector eased to its most moderate level in eight months. The economy was therefore not yet greatly affected by complications related to the coronavirus outbreak (in regard to supply chains, tourism, and transportation). Even so, delivery times increased notably in February, and in many cases the outbreak was identified as the cause of the increase. This

1 The quarterly average for each short-term indicator – industrial production, construction production, and retail sales – is calculated from monthly data.

situation could weigh on production in subsequent months. Hence, overall, there was increasing uncertainty about the future situation.

The rapid spread of coronavirus at the start of the year fuelled a significant **increase in uncertainty about the global economic outlook**. The first negative reaction was seen in global equity markets, and the most serious decline was in Chinese equity markets. The Brent crude oil price also responded negatively, falling by more than USD 10 per barrel during January and early February, to below USD 55 per barrel. Amid concerns about falling oil production, however, the price subsequently increased. In an effort to support investment sentiment and reduce the impact of the coronavirus outbreak on economic growth, **China** announced in early February that it would **halve tariffs on certain goods imported from the United States**. Equity markets rallied in response to this step and to signs that the spread of the virus was being contained.

Nevertheless, **the coronavirus outbreak will certainly have a negative impact on economic activity in China**. Several Chinese provinces extended the Lunar New Year holiday by more than a week, so there will inevitably be a drop in production. The services sector is likewise expected to suffer, given virus-related restrictions on rail and air transport as well as the adverse implications for tourism. By comparison, the SARS virus crisis in 2003 resulted in annualised quarterly GDP growth falling from 11.5% in the first quarter of 2003 to 3.7% in the second quarter. Thereafter, however, the economy rebounded. Overall, GDP growth was almost two percentage points lower in 2003 than in the previous year.

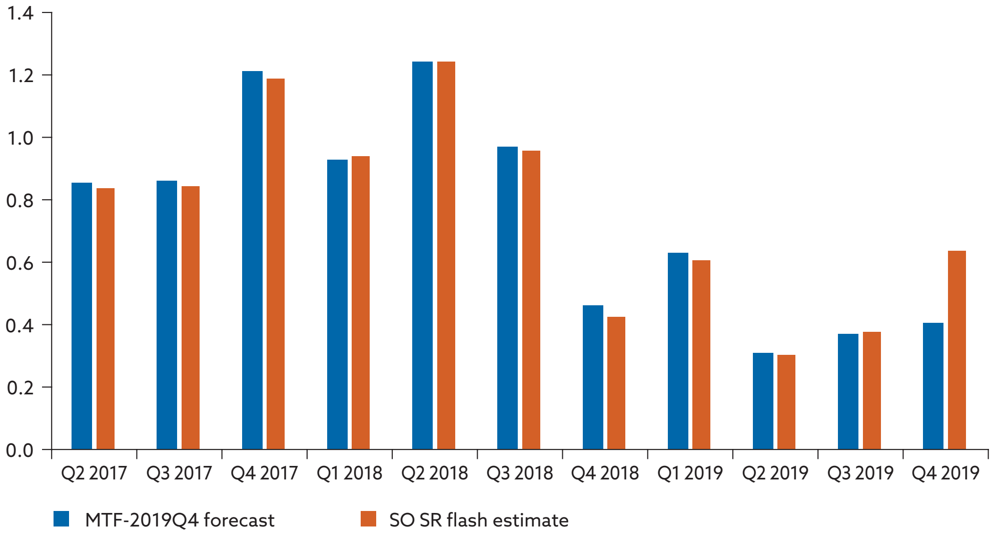
In mid-February, in response to the consequences of the coronavirus outbreak, **OPEC revised down its outlook for global oil demand** by 0.23 million barrels per day (bpd), to 0.99 million bdp. The amended forecast is expected to put pressure on producers to support the oil price by making further output cuts.

3 The Slovak economy[2]

3.1 Economic activity

Slovakia's annual GDP growth accelerated to 2.1% in the fourth quarter of 2019 (from 1.3% in the third quarter). In seasonally adjusted quarter-on-quarter terms, economic growth stood at 0.6% (Chart 2). GDP growth for the year as a whole amounted to 2.3%. The economy's performance in 2019 was therefore in line with NBS's MTF-2019Q4 forecast.

Chart 2
GDP flash estimates vis-à-vis projections (quarter-on-quarter percentage changes)



Sources: SO SR, and NBS calculations.

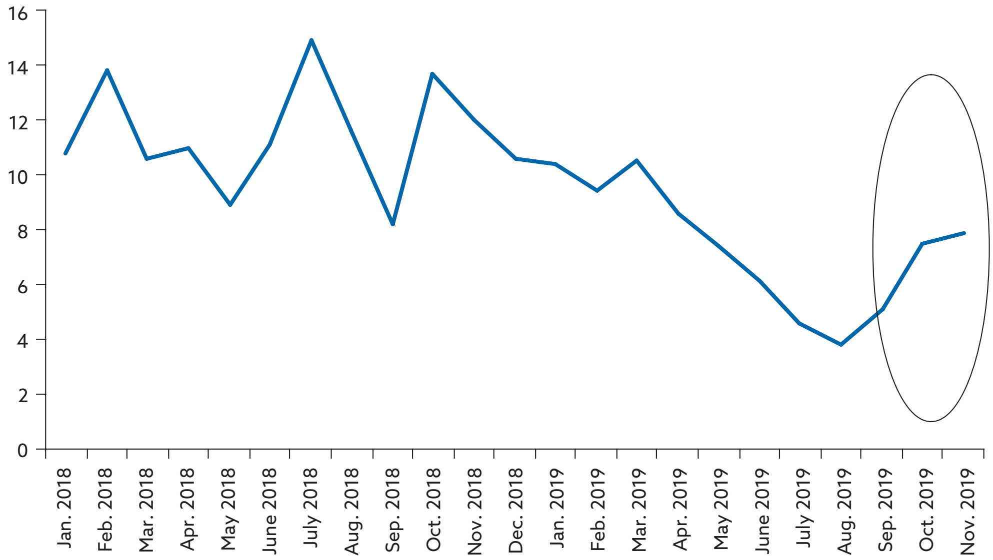
The acceleration of GDP growth in the fourth quarter appears to have been driven mainly by the domestic side of the economy. The negative impact of the external side of the economy was probably not as large as in the previous quarter. The composition of GDP growth under the expenditure approach will be known at the start of March. Monthly data are pointing to moderately **positive developments in foreign trade**. Goods exports in the fourth quarter increased slightly in year-on-year terms, while the rate of import growth eased slightly. The slowdown in import growth may have reflected the impact of destocking since, owing to substantial stockbuilding in previous quarters, production and exports were not dependent on imports. After being in deficit in the third quarter, the trade balance recorded a surplus in the fourth quarter. **Household consumption continued to grow,** probably due to increasing demand for services (Chart 3). The impact of this growth

[2] All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using NBS internal models.

on overall GDP growth is expected to have been cancelled out by the decline in retail sales. The investment component is likely to have been boosted by ongoing infrastructure construction and by the completion of investments in certain industrial sectors (in particular the energy sector).

Chart 3

Services output (annual percentage changes; adjusted for the number of calendar days)



Sources: SO SR, and NBS calculations.

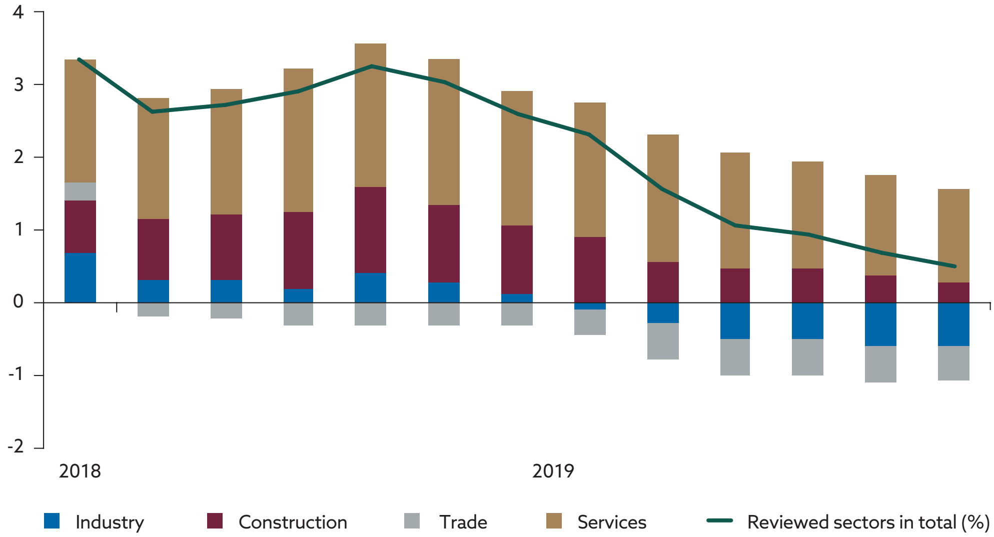
3.2 Labour market

Annual employment growth in the fourth quarter was dampened by less favourable trends in industry and by structural factors. The growth rate for overall employment in Slovakia continued to slow in the fourth quarter (Chart 4), to 0.7% year on year (down from 1% in the third quarter). In quarter-on-quarter terms, employment increased by 0.1%. Looking at the monthly employment data for the segments under review (Chart 4), the slowdown appears to have been broad-based across all the main private sector segments. The only upward pressure on job growth again came from the public sector. The industry sector continued to face headwinds from external demand (Chart 5). In the trade sector, as in industry, employment fell in year-on-year terms. These developments are clearly spilling over into the sectors more reliant on domestic demand (construction and services), which experienced a substantial slowdown in employment growth in the fourth quarter. Annual job growth is also being dampened by employers' efforts to make production processes more efficient, partly in response to rapidly rising labour costs. Demographic trends are having a longer-term negative impact on employment and will gradually be reflected in a slowdown in structural employment growth. These factors are expected to weigh on employment growth in the near term, too.

January business surveys in Slovakia and the EU showed moderate improvements in several areas (for example in employment expectations, and in economic sentiment in Slovakia and in the EU as a whole); nevertheless, these changes are not yet sufficient (Chart 6) to merit any significant revision of the employment outlook.

Chart 4

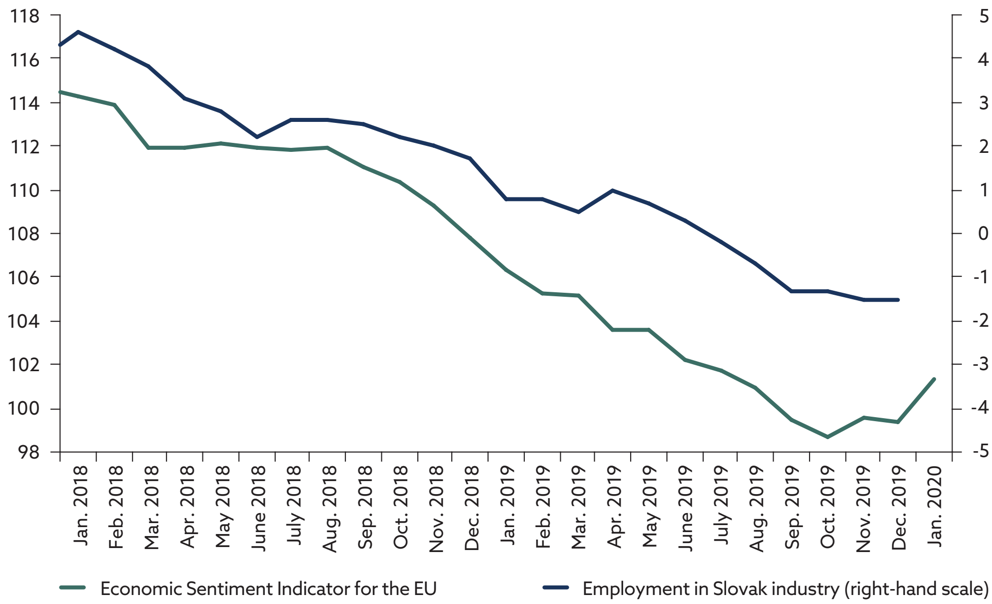
Employment in sectors under review (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations based on monthly data for the reviewed sectors.
Note: The trend shown by monthly data is indicative; monthly data are an imperfect indicator of the complete quarterly data.

Chart 5

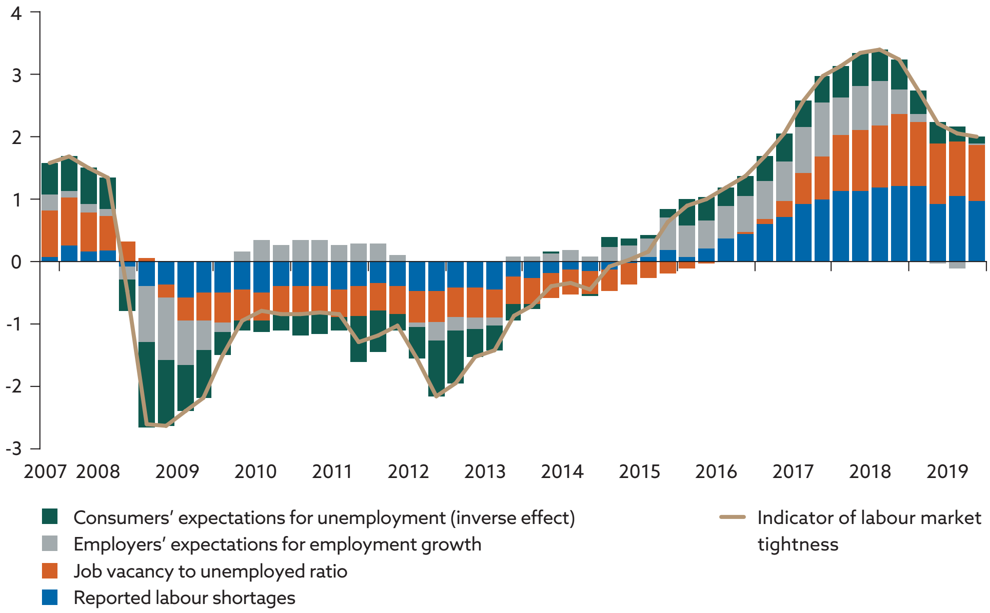
Employment in industry (long-term average = 100; annual percentage changes)



Sources: SO SR, and European Commission.

Chart 6

Indicator contributions in the calculation of labour market tightness (standardised indicators and their weighted average; level)



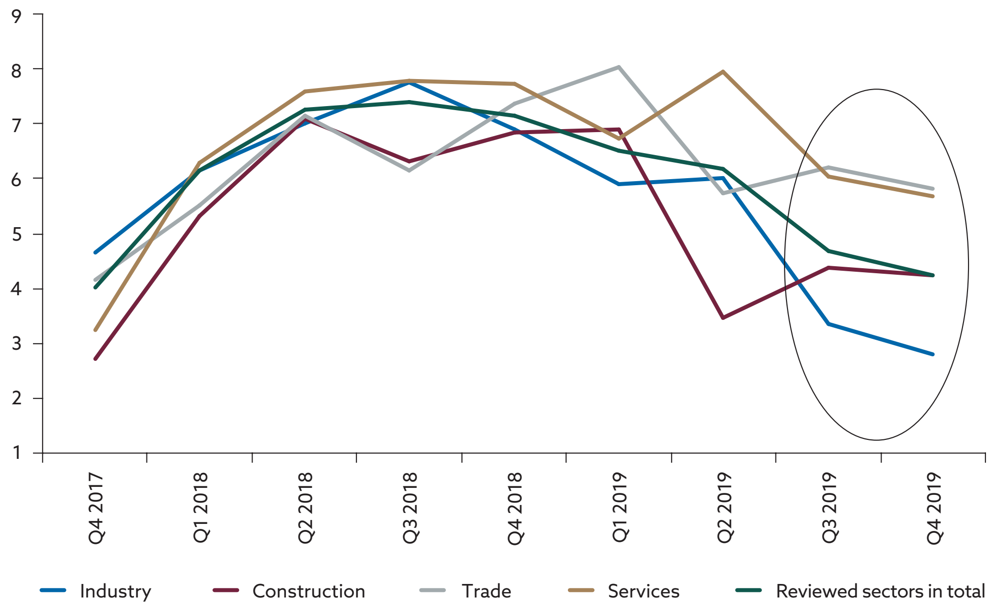
Sources: SO SR, ÚPSVR, European Commission, NBS calculations, and profesia.sk.

Unemployment data for January 2020 indicate little change in the labour market situation as compared with the end of 2019. The unemployment rate based on the total number of job seekers was 6% (seasonally adjusted by NBS) in January and it has been around the same level since April 2019. As economic performance moderated, so the period of sharply falling unemployment came to an end. The official registered unemployment rate for January stood at 5%, its lower level being due to the exclusion of certain job seekers, including those in training, those on sick leave, and those on job activation schemes.

Annual average wage growth in the private sector slowed in the fourth quarter of 2019 (Chart 7)**, according to monthly data.** Across the selected segments of the private sector, average wage growth in December stood at 5.1% year on year, a relatively high rate given the less favourable developments in sales and production. For the fourth quarter as a whole (Chart 8), however, average wage growth slowed to 4.2% (down from 4.7% in the third quarter), owing to the significantly lower rates recorded in October and November. All the main sectors saw wage growth slow moderately in the fourth quarter. The NBS forecast projects further upward pressure on wage growth from increases in basic salaries and bonuses in the public sector. Weaker production growth and labour demand in the Slovak economy had a downward impact on the indicator of labour market tightness in the fourth quarter (Chart 9), and this is expected to weigh on negotiated wage growth in near term. Labour productivity growth has likewise been softening in recent quarters amid a less favourably performing economy, and its downward impact on wage growth is also expected to become more pronounced. By contrast, inflation's upward pressure on wage growth has recently been increasing slightly. Despite moderating somewhat, the indicator of labour market tightness remains relatively high by historical standards, which may be due in part to unfavourable demographic trends and the related labour shortages reported by employers. Hence wage growth, despite its slowdown, may remain robust in the near term (according to NBS's current forecast, the average rates of wage growth in the private and public sectors in 2020 are projected to be, respectively, just below 5% and around 9%). Wage growth will also be supported by increases in wage premia for night, weekend and public holiday work as well as by increases in contractual wages in the public sector.

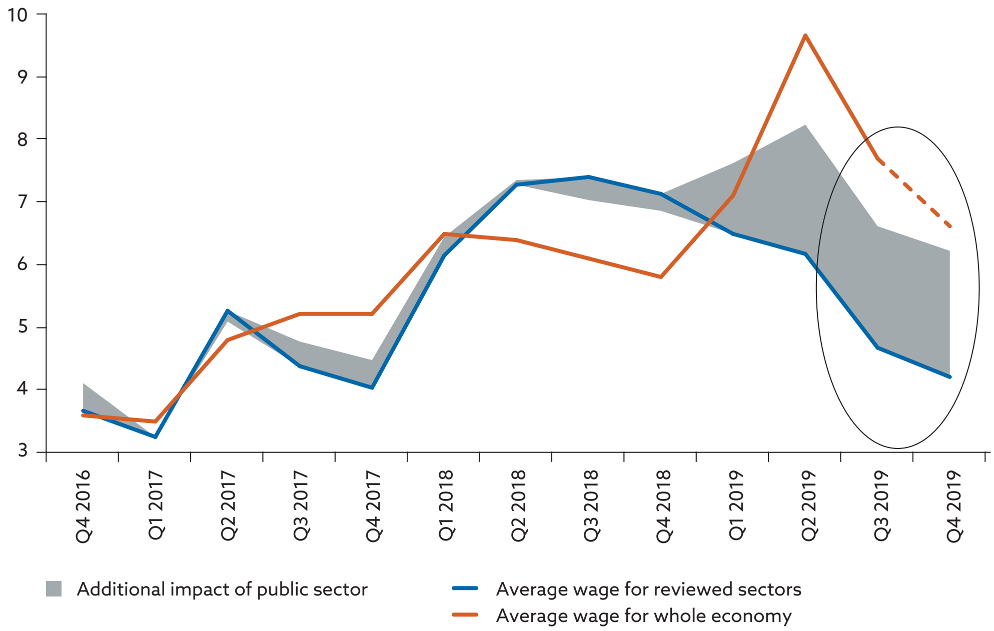
Chart 7

Average wage levels according to monthly data (annual percentage changes)



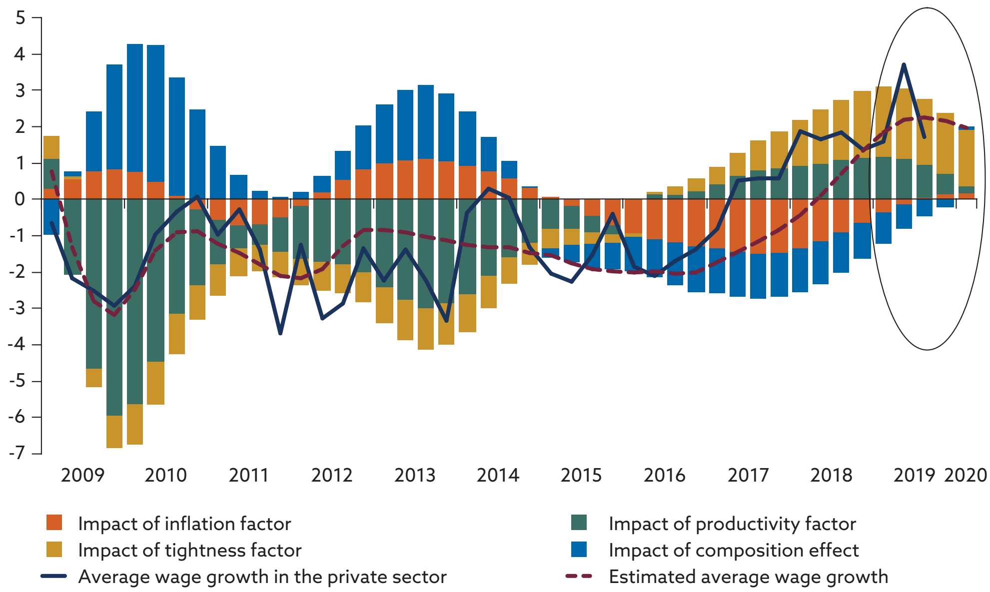
Sources: SO SR, and NBS calculations.

Chart 8
Average wage levels (annual percentage changes)



Sources: SO SR, and NBS calculations.
Note: The average wage for the whole economy and the impact of the public sector in Q4 2019 are based on the MTF-2019Q4 forecast.

Chart 9
Factor-model-based wage determinants (annual percentage changes; percentage point contributions; deviations from long-term average)



Source: NBS calculations.
Note: Wages and productivity are given in nominal terms. Long-term average annual wage growth in the private sector is 4.3%.

Box 1
The impact of economic performance indicators on employment growth

The purpose of this box is to highlight the impact of economic growth indicators, such as production and sales, on economic growth in Slovakia. A useful first step is to separate indicators that are affected mainly by developments in the external environment from those affected largely by the domestic economy. For this purpose, we created an "industrial performance factor" as a summation of year-on-year trends in indicators of industrial production, real exports, industrial orders, and industrial sales, as well as of confidence levels in industry. A second explanatory indicator of employment is the "domestic demand factor", encompassing year-on-year growth in real non-industrial sales and construction production and levels of the Economic Sentiment Indicator for Slovakia excluding the industrial component.[3]

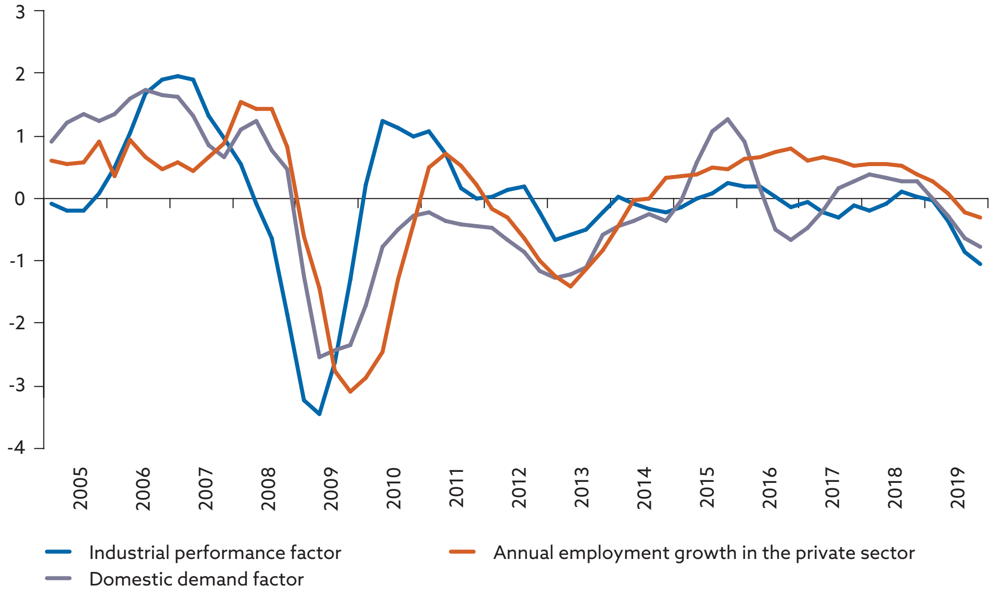
The chart clearly shows both indicators declining since the start of 2019 after an extended period of relative stability (i.e. stable economic growth). In the case of export-oriented sectors, the decline in the indicators is slightly more pronounced and is largely related to the cooling of the global economy during the period in question. Both indicators are evidently contributing to a slowdown in private sector employment growth.

For the purpose of quantitatively assessing the indicators' impact on employment growth, we estimated a regression equation with annual employment growth in the private sector as the dependent variable. The regression results show that the impact on employment of changes in domestic demand is almost twice as large as the impact of export (or industrial) performance, probably due mainly to the greater labour intensity of services. Both explanatory variables have, as expected, positive coefficients. The time lag maximising the explanatory power of the regression equations is three quarters for the foreign demand factor and one quarter for the domestic demand factor. This time lag may indicate that employment growth will continue moderating in the near term.

3 All the input indicators are given as a smoothed two-quarter moving average.

Chart A

Impact on employment of domestic demand and industrial performance factors (standardised indicators)



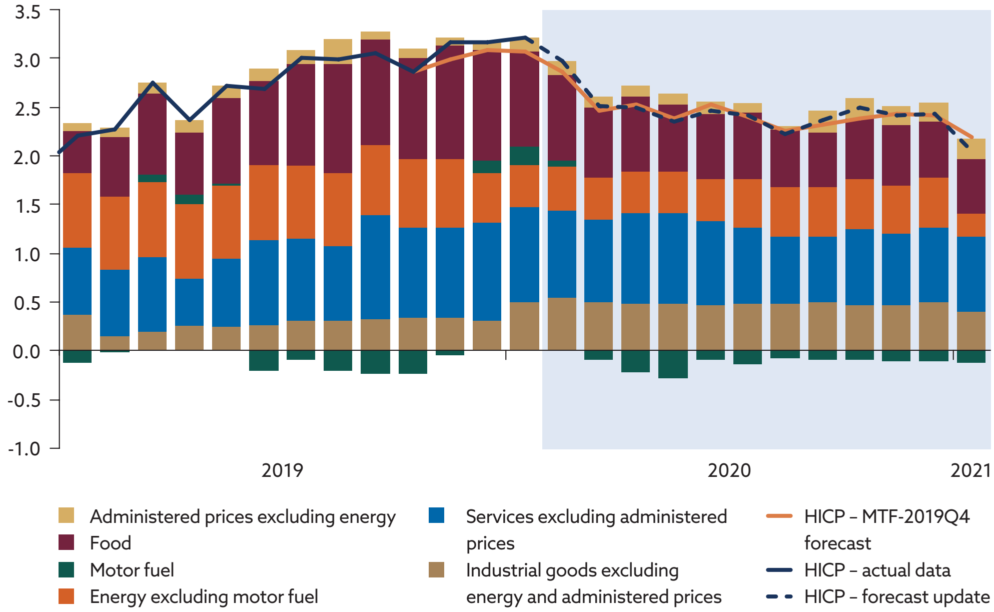
Source: NBS calculations.

3.3 Prices

Slovakia's annual HICP inflation stood at 3.2% in January 2020, the same as its rate in the previous month. This result included lower rates of increase in food prices and administered energy prices (Chart 10), as well as a stronger increase in industrial goods prices. In month-on-month terms, the consumer price level increased by 1.3%.

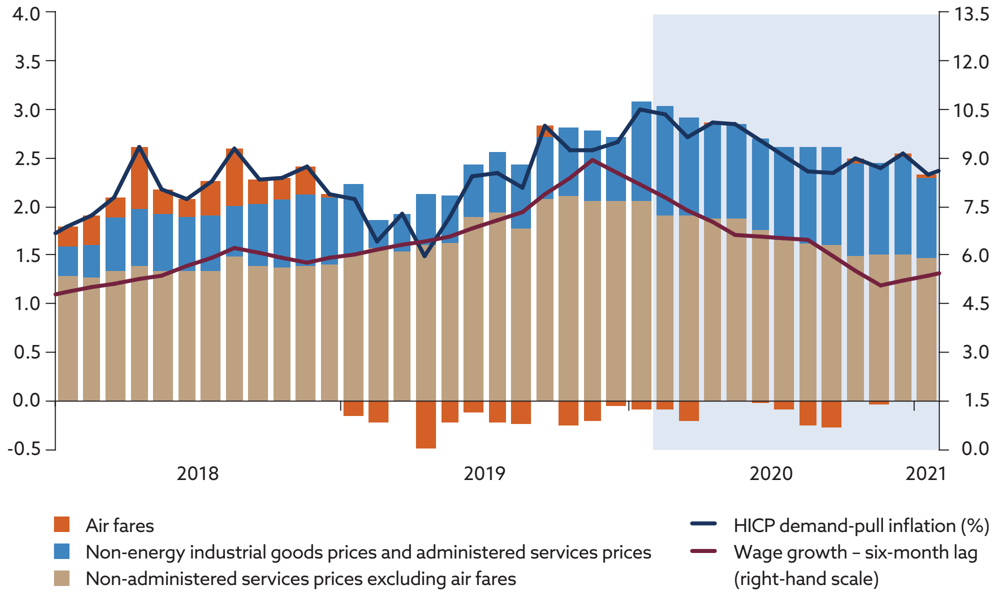
Demand-pull inflation accelerated to 3.0% (from 2.7% in December). It has probably reached a short-term peak, given the easing of labour market pressures (Chart 11). Both demand-pull and headline inflation are expected to decelerate steadily over the course of 2020.

Chart 10
Contributions of components of HICP inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 11
Contributions of components of demand-pull inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, NBS calculations.

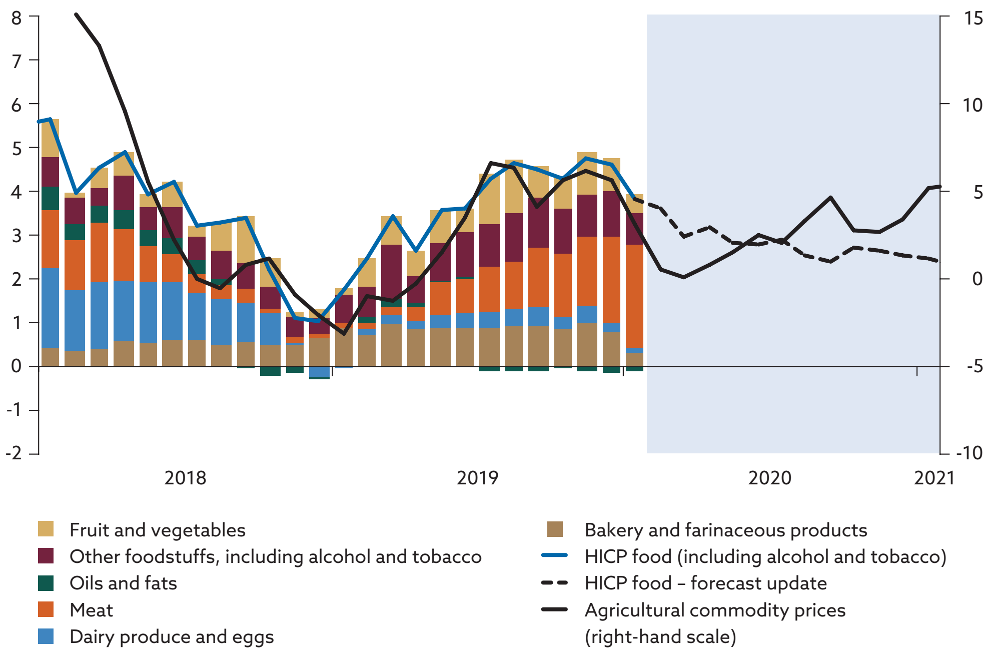
Annual food inflation (including alcohol and tobacco) slowed in January, due in part to **VAT reductions** on certain foodstuffs **and to the strong base effect of elevated food inflation in January 2019.** The VAT cuts did not fully pass through to prices in January. The relatively high rate of food inflation remains driven by continuing strong growth in labour costs and rapidly rising global food commodity prices. Meat and meat product prices are still exerting the largest upward pressure on food inflation (Chart 12).

Annual energy inflation (excluding motor fuel) continued to moderate in January, owing mainly to heat prices rising more slowly than they did in January 2019 (Chart 13). In January 2020 heat prices increased by 0.2%, while a year earlier they soared by 6.1%. Prices of electricity and gas also increased in January, by 8.8% and 1.5% respectively. Gas prices are expected to be raised after the end of the current heating season. In the light of current trends, **administered energy price inflation** in 2020 is expected to be lower than projected in the MTF-2019Q4 forecast.

As for motor fuel prices, their annual rate of increase accelerated in January in line with expectations predicated on a strong base effect. In view of the recent significant decline in Brent crude oil prices (because of risks related to oil demand developments), motor fuel inflation is expected to slow over coming months and to contribute to an easing of headline inflation.

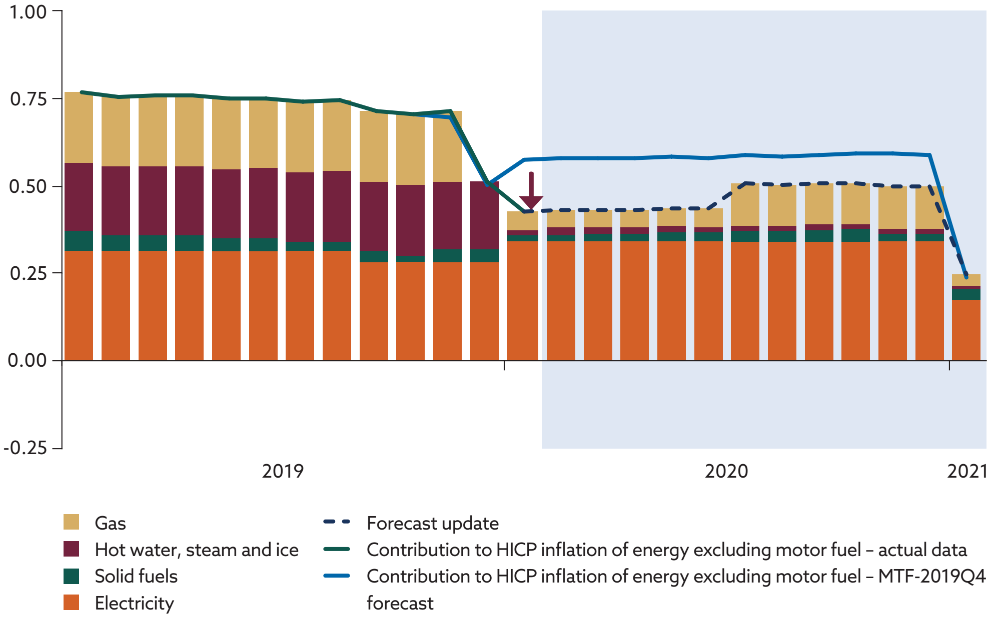
Chart 12

Contributions of components of food inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 13
Energy price inflation excluding motor fuel was lower than projected in the MTF-2019Q4 forecast (percentage point contributions to HICP inflation)



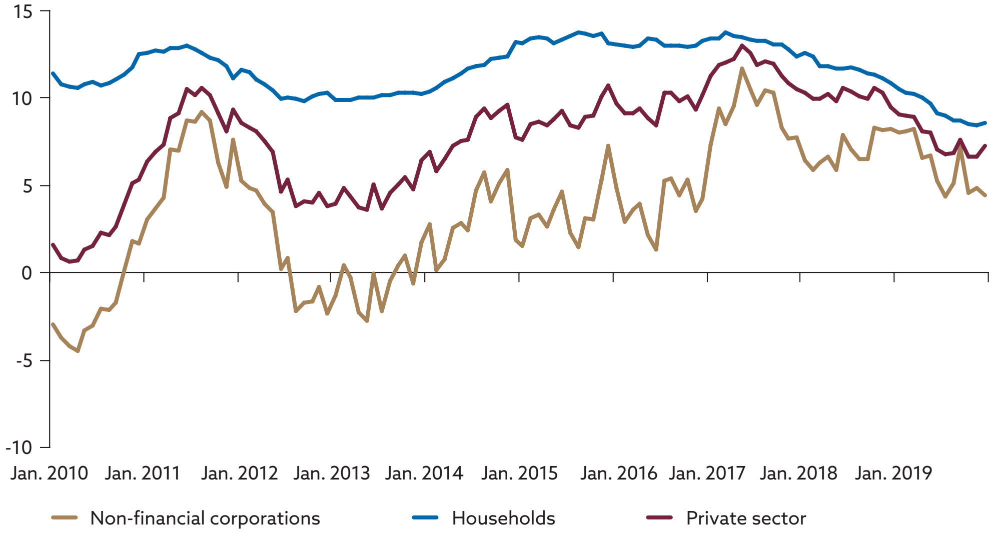
Sources: SO SR, and NBS calculations.

3.4 Loans and deposits

Growth in lending to the private sector slowed towards the end of 2019 (Chart 14). The annual growth rate of loans to non-financial corporations (NFCs) eased significantly in the fourth quarter of 2019 (from 7.2% in September to 4.6% in December). In a majority of key sectors, cooling economic activity dampened firms' demand for loans. In December itself, the growth rate of outstanding NFC loans slowed only slightly, and there was an increase in investment loan growth that may imply a slight upturn in investment demand in the period ahead.

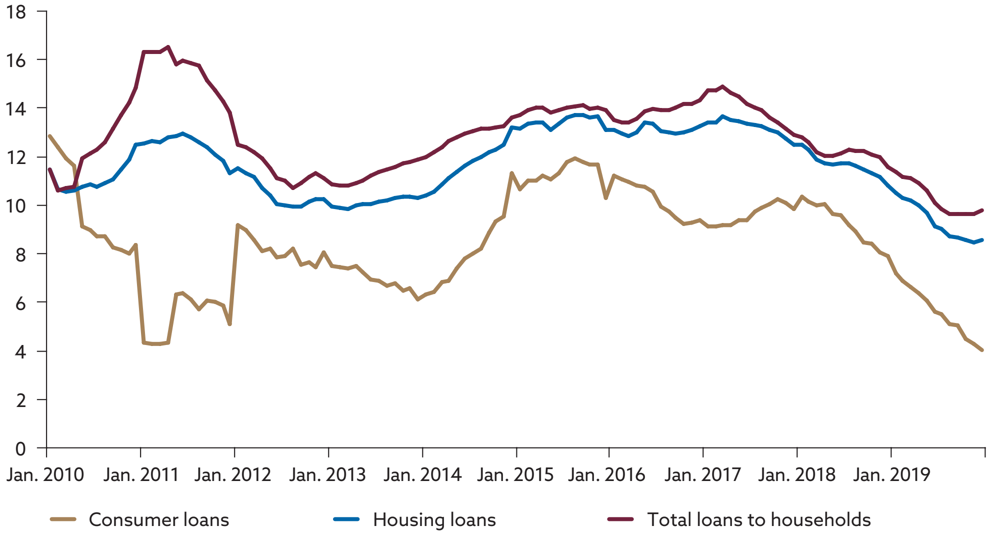
Household borrowing growth stagnated in the fourth quarter of 2019. Annual growth in loans to households stood at 8.6% in December 2019 and at 8.7% in September 2019. The main driver of household loan growth was housing loans, notwithstanding the slowdown in their growth over the year (Chart 15). Lending trends were affected by several factors. The main factors supporting loan growth were low interest rates, relatively strong wage growth during the year, and possibly the frontloading of loans ahead of a further tightening of regulatory limits on lending.

Chart 14
Total loans (annual percentage changes)



Sources: ECB, and NBS calculations.

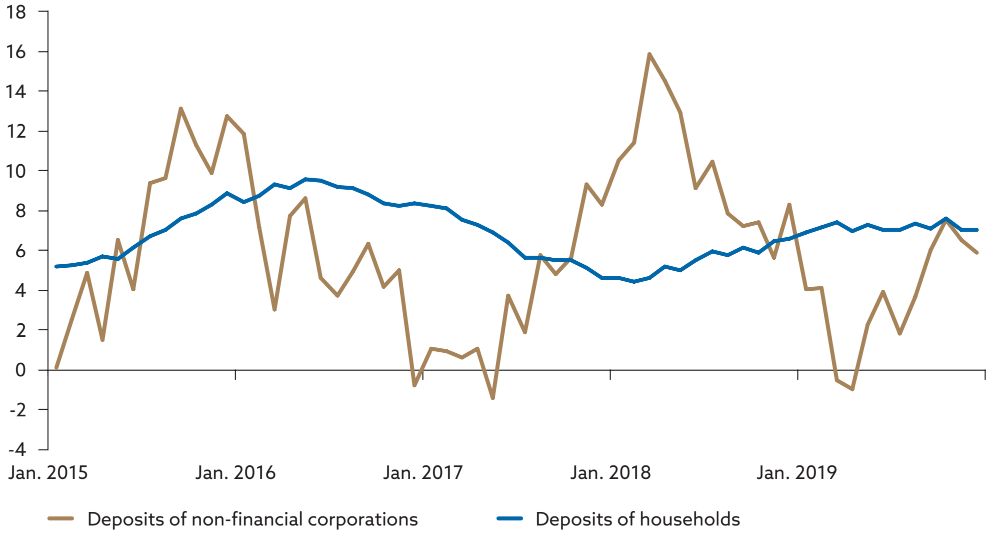
Chart 15
Total loans to households (annual percentage changes)



Sources: ECB, and NBS calculations.

The annual growth rate of private sector deposits (Chart 16) slowed in the fourth quarter of 2019 (from 6.9% in September to 6.6% in December). Household deposit growth, supported by relatively positive trends in household income, maintained a stable rate of around 7% over the year. Growth in NFC deposits moderated slightly in the fourth quarter, but still remained relatively solid at just under 6%. Firms were behaving with increased caution due to the climate of uncertainty. They were investing less and were probably preferring to build up their bank deposits.

Chart 16
Outstanding deposits (annual percentage changes)



Sources: ECB, and NBS calculations.

4 Monetary policy

At its meeting on 23 January 2020, **the ECB's Governing Council decided to launch a review of the ECB's monetary policy strategy. The review will encompass mainly the quantitative formulation of price stability, the monetary policy toolkit, and economic and monetary analyses and communication practices.** Other considerations, such as financial stability, employment and environmental sustainability will also be part of the review. The review is expected to be concluded by the end of 2020.

The review of the monetary policy strategy is seen as necessary in view of the profound structural changes that have taken place in the euro area and the world economy since the strategy was formulated.

In its press release on the review, the ECB says that declining growth, on the back of slowing productivity and an ageing population, as well as the legacy of the financial crisis, have driven interest rates down, reducing the scope for the ECB and other central banks to ease monetary policy by conventional instruments.

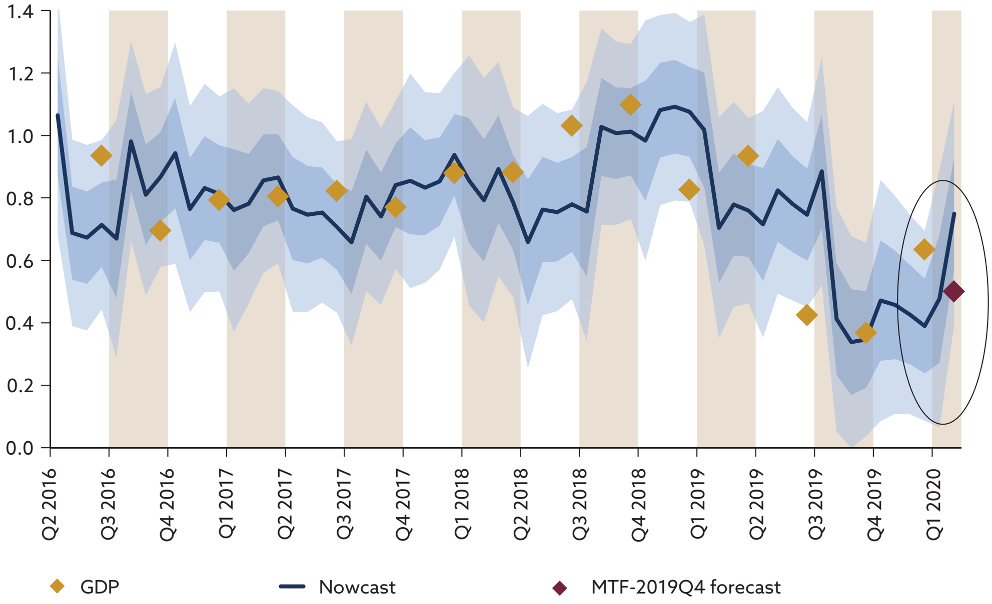
It adds that the threat to environmental sustainability, rapid digitalisation, globalisation and evolving financial structures have further transformed the environment in which monetary policy operates, including the dynamics of inflation.

5 Indicative impact on the forecast

The nowcast for quarter-on-quarter GDP growth in the first quarter of 2020 (Chart 17) shows growth accelerating to 0.75%, based mainly on stronger than expected growth in the last quarter of 2019. As regards monthly data, the negative impact of the continuing downtrend in hard indicators in December was mitigated somewhat by an improvement in confidence indicators. The nowcast for employment growth in the first quarter (Chart 18) indicates stagnation in the total number of people in employment, in line with the projection in the NBS's December 2019 Medium-Term Forecast (MTF-2019Q4). The employment outlook is, however, subject to an upside risk of around 0.1 percentage point in the form of a continuation of the recent high growth rate in public sector employment.

Chart 17

Nowcast for GDP (quarter-on-quarter percentage changes)[4]

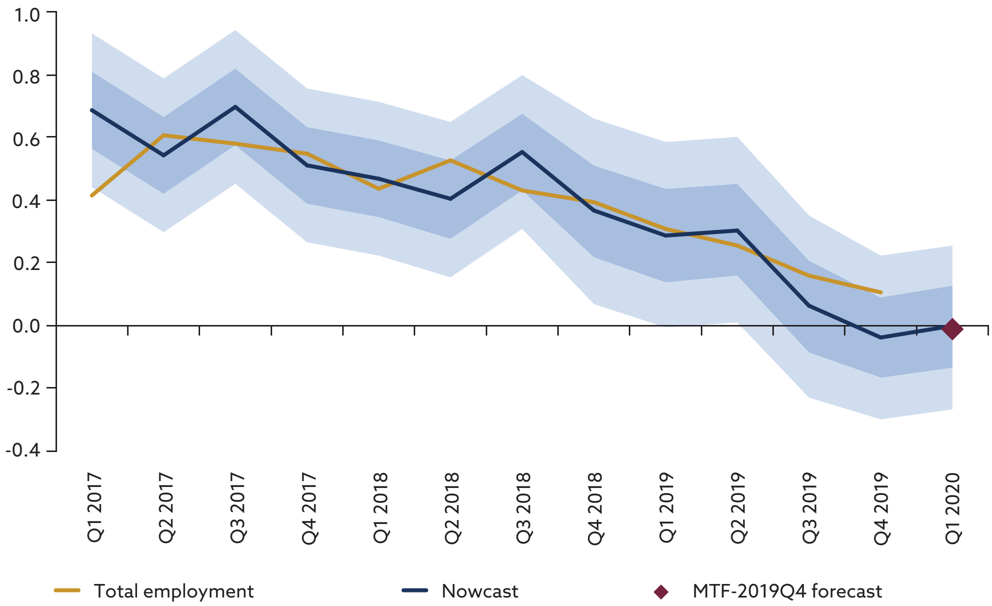


Sources: SO SR, and NBS calculations.

[4] The band around the point estimate denotes +/- 1 to 2 times the root mean square error. Nowcasts provide a current estimate of future developments using available monthly figures from the current quarter, their future values forecast with ARIMA models, and their lagged values. The individual model projections are independent of each other, and therefore a forecasting error in a past quarter cannot affect current projections. Further details can be found in the commentaries on the GDP nowcasts and employment nowcasts.

Chart 18

Nowcast for employment (quarter-on-quarter percentage changes)[4]



Sources: SO SR, and NBS calculations.

Overview of main macroeconomic indicators for Slovakia

Table 3 Selected economic and monetary indicators for Slovakia

(annual percentage changes, unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 2010	Registered unemployment rate[1]	Unemployment rate based on the total number of job seekers[1]	Industrial production index	Total sales of sectors [2]	Economic Sentiment Indicator (long-term average=100)	M3 (for analytical use)[3]	Loans to private sector[4]	Loans to non-financial corporations[4]	Loans to households[4]	State budget balance (EUR mil.)	General government balance (% of GDP)	General government gross debt (% of GDP)	Current account (% of GDP)	Balance of trade (% of GDP)	USD/EUR exchange rate (average for the period)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2012	1.9	3.7	3.9	0.1	13.6	15.0	2.8	4.5	92.9	8.8	3.8	-2.3	10.3	-3,811	-4.4	51.8	0.9	3.4	1.2848
2013	0.7	1.5	-0.1	-0.8	14.1	15.4	1.5	1.9	89.2	6.4	6.4	1.7	10.3	-2,023	-2.9	54.7	1.9	3.9	1.3281
2014	2.8	-0.1	-3.5	1.4	12.8	14.3	3.1	2.3	99.8	2.5	7.7	1.9	13.2	-2,923	-3.1	53.5	1.1	3.6	1.3285
2015	4.8	-0.3	-4.2	2.0	11.5	13.1	6.7	7.5	100.7	11.5	10.7	7.3	13.1	-1,933	-2.7	51.9	-2.1	1.0	1.1095
2016	2.1	-0.5	-4.3	2.4	9.5	11.1	4.6	4.3	102.2	6.1	10.2	4.2	13.3	-980	-2.5	52.0	-2.7	1.5	1.1069
2017	3.0	1.4	1.9	2.2	7.1	8.3	3.3	4.0	103.7	7.8	10.5	7.8	12.4	-1,220	-1.0	51.3	-1.9	0.7	1.1297
2018	4.0	2.5	5.0	2.0	5.4	6.6	4.3	6.0	100.6	5.1	9.5	8.2	10.8	-1,182	-1.1	49.4	-2.6	-0.2	1.1810
2019	.	2.8	2.5	.	5.0	6.1	0.4	0.4	97.2	6.8	7.3	4.4	8.6	-2,201	.	.	.	.	1.1195
2019 Q1	3.8	2.4	3.9	1.8	5.1	6.2	6.8	8.7	98.6	4.0	8.9	8.2	10.2	-	-0.4	48.3	-1.0	1.3	1.1358
2019 Q2	2.2	2.6	3.7	1.4	5.0	6.1	2.9	0.5	94.6	5.3	7.1	5.2	9.1	-	-0.3	48.2	-2.8	-0.8	1.1237
2019 Q3	1.3	3.0	1.8	1.0	5.0	6.1	-3.0	-2.9	97.5	6.0	7.6	7.2	8.7	-	-1.2	48.4	-5.1	-3.1	1.1119
2019 Q4	2.1[5]	3.1	0.9	0.7[5]	4.9	6.0	-5.0	-4.0	98.1	6.8	7.3	4.4	8.6	-	.	.	.	.	1.1071
2019 Feb.	-	2.3	4.0	-	5.1	6.2	5.7	8.5	100.4	4.7	9.0	8.1	10.3	-740	-	-	-	-	1.1351
2019 Mar.	-	2.7	4.4	-	5.1	6.2	7.4	7.1	98.0	4.0	8.9	8.2	10.2	-560	-	-	-	-	1.1302
2019 Apr.	-	2.4	3.9	-	5.0	6.1	6.5	4.0	92.9	3.8	8.1	6.6	10.0	-41	-	-	-	-	1.1238
2019 May	-	2.7	4.2	-	5.0	6.1	4.5	2.0	93.9	4.9	8.0	6.7	9.7	-318	-	-	-	-	1.1185
2019 June	-	2.7	2.8	-	5.0	6.1	-2.0	-4.2	97.1	5.3	7.1	5.2	9.1	33	-	-	-	-	1.1293
2019 July	-	3.0	2.1	-	5.0	6.1	2.3	-1.2	93.8	4.6	6.8	4.4	9.0	65	-	-	-	-	1.1218
2019 Aug.	-	3.0	1.9	-	4.9	6.1	-8.2	-6.0	98.2	5.4	6.8	5.1	8.7	-213	-	-	-	-	1.1126
2019 Sep.	-	3.0	1.3	-	4.9	6.1	-2.4	-1.6	100.6	6.0	7.6	7.2	8.7	-202	-	-	-	-	1.1004
2019 Oct.	-	2.9	-0.1	-	4.9	6.0	-3.9	-3.0	95.3	7.8	6.6	4.6	8.5	242	-	-	-	-	1.1053
2019 Nov.	-	3.2	1.2	-	4.9	6.0	-4.3	-5.5	101.3	7.0	6.6	4.8	8.4	-212	-	-	-	-	1.1051
2019 Dec.	-	3.2	1.7	-	4.9	6.0	-7.1	-3.4	97.8	6.8	7.3	4.4	8.6	-391	-	-	-	-	1.1113
2020 Jan.	-	3.2	.	-	4.9	6.0	.	.	100.2	.	.	.	.	-95	-	-	-	-	1.1100

Sources: Statistical Office of the Slovak Republic, MF SR, the European Commission and NBS.
1) Monthly and quarterly data based on seasonal adjustment of NBS.
2) Constant prices (seasonally adjusted).
3) Currency in circulation in M3 refers to money held by the public (according to methodology in place prior to 2008).
4) Adjusted for sales and securitisation.
5) Flash estimate of the Statistical Office of the Slovak Republic.

More detailed time series for selected macroeconomic indicators
http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2020/StatisticsMB0220.xls