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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

The great uncertainty caused by the coronavirus (COVID-19) outbreak and the administrative measures adopted in response will shape economic developments in 2020. Almost none of the regularly monitored indicators have yet managed to capture the adverse impact of the pandemic. One exception is the ZEW Indicator of Economic Sentiment, whose March readings for Germany and the euro area showed a historically large slump. Developments in international financial and commodity markets also point to a dramatic deterioration in the outlook of major world economies.

Even before the pandemic struck, euro area performance indicators had been subdued, although economic sentiment indicators in the pre-March period were showing signs of stabilisation. In the fourth quarter of 2019, euro area economic growth slowed to 0.1% quarter on quarter, owing mainly to a marked softening of household consumption and to destocking (at the expense of new production). The euro area's annual GDP growth for the whole of 2019 stood at 1.2%, which was lower compared with the previous year. In early 2020 there have been mounting concerns about the impact of coronavirus on the global economy. The combination of uncertainty, reduced global demand expectations, and the breakdown of OPEC+ talks resulted in oil prices experiencing one of their sharpest ever declines.

The Organisation for Economic Co-operation and Development (OECD) was the first international institution to publish an outlook for the global economy in the light of the new situation. It warns that a longer-lasting and more intensive coronavirus outbreak – spreading into several regions, including Europe, and affecting countries representing some 70% of global GDP – would considerably weaken global economic and trade prospects. For the euro area, this would mean recession in 2020.

The dramatic developments of recent days followed a relatively positive start to the year. In Slovakia, January's monthly data on economic activity were quite favourable. Production, sales and exports performed well in month-on-month terms, buoyed mainly by the car industry. On the other hand, the Economic Sentiment Indicator fell in February on the back of weakening demand.

The Slovak labour market continued its gradually cooling trend at the beginning of 2020. Structural changes in the economy continue to have a downward impact on employment in the industry and trade sectors. Annual average wage growth in the private sector segments under review was slightly higher in January 2020 than in the fourth quarter of 2019. This acceleration was supported by an increase in the minimum wage and in related wage premia. Given, however, the increasing restrictions in the global and domestic economies, the near term may be expected to see a decline in employment and significant slowdown in wage growth.

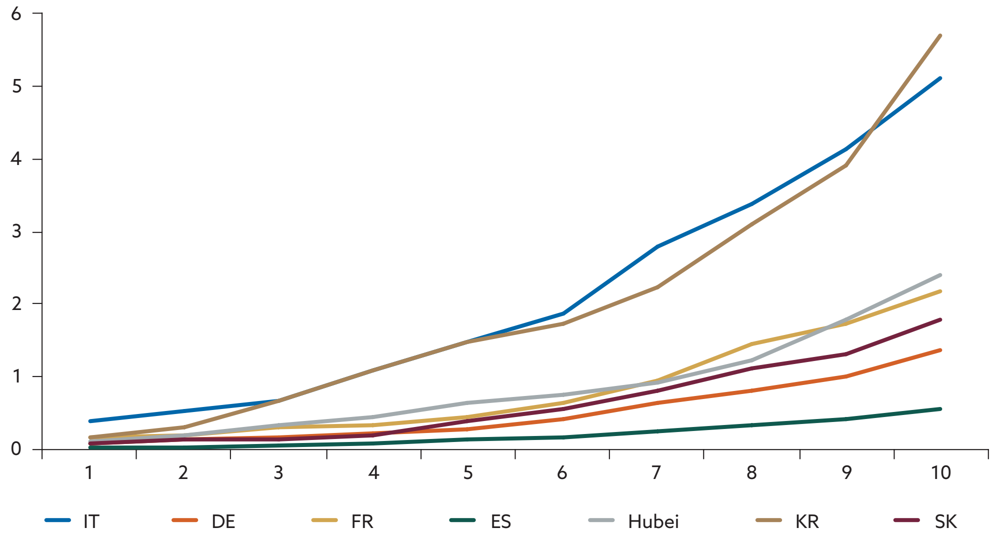
The annual inflation rate edged down to 3.1% in February. The main contributor to this slowdown was a strong base effect in motor fuel prices. By contrast, demand-pull inflation surprised slightly on the upside. Over the short term, demand-pull inflation is expected to moderate as a result of weaker demand. The lag between the sharp drop in oil prices and its downward impact on headline inflation is likely to be minimal.

Growth in lending to the private sector maintained is decelerating trend. With economic activity gradually cooling and with firms seeking to cut costs, demand for operating loans weakened. At the same, though, household demand for loans, especially housing loans, increased moderately on the back of low interest rates.

Measures to mitigate the impact of the coronavirus pandemic have gradually been taken by all major central banks. At its meeting on 12 March, the ECB's Governing Council decided to provide immediate liquidity support to the euro area financial system by conducting additional long-term refinancing operations. In addition, the Governing Council decided to expand its asset purchases this year by €120 billion, mainly through the ECB's private sector purchase programmes. These measures were followed on 18 March by the ECB's announcement of a €750 billion Pandemic Emergency Purchase Programme (PEPP), a new temporary asset purchase programme of private and public sector securities, amounting to €750 billion until the end of 2020. By expanding its asset purchase programme, the ECB aims to support all citizens of the euro area through these difficult times. The volume of assets purchased under the new measures exceeds the amounts purchased so far in any other asset purchase programme. The ECB is therefore sending a signal that it will use all the tools available under its mandate to ensure the smooth functioning of the monetary policy transmission mechanism.

Chart of the month

Cumulative number of confirmed coronavirus cases per 100,000 citizens (day 1 = approximately 0.1)



Sources: Macrobond, and NBS calculations.

The coronavirus pandemic is spreading most rapidly in advanced countries, so the risk is shifting from Asia to Europe and the United States. The European country hardest hit by the outbreak is Italy. All countries are taking administrative measures aimed at countering the spread of the virus, but the impact of these measures on the global economy will be sizeable.

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	*February 2020*	**103.5**	102.6
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q4 2019*	1.0	1.3
Industrial production index	annual percentage change	*January 2020*	**-1.8**	-3.3
Retail sales	annual percentage change, constant prices	*January 2020*	1.8	1.8
Unemployment rate	percentage	*January 2020*	7.4	7.4
HICP inflation	annual percentage change	*February 2020*	1.2	1.4
Oil price in USD[1)]	level	*March 2020*	**39.3**	55.5
EUR to USD exchange rate[1)]	level	*March 2020*	1.119	1.091
Slovakia				
Confidence indicators				
Economic Sentiment Indicator	long-run average = 100	*February 2020*	97.2	98.9
Industrial confidence indicator	percentage balance	*February 2020*	-0.8	2.5
Consumer confidence indicator	percentage balance	*February 2020*	-9.2	-10.9
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q4 2019*	2.0	1.3
Aggregate sales	annual percentage change, constant prices	*January 2020*	0.7	-3.4
Industrial production index	annual percentage change	*January 2020*	0.5	-6.9
Private sector credit	annual percentage change	*January 2020*	6.4	7.3
Employment	annual percentage change	*January 2020*	0.3	0.4
Unemployment rate	percentage	*February 2020*	6.0	6.0
Nominal wages[2)]	annual percentage change	*January 2020*	5.3	5.1
HICP inflation	annual percentage change	*February 2020*	3.1	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) Seasonally adjusted by NBS.
3) Selected sectors only (excluding public sector).
Note: **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 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 estimate published in March 2020, which confirmed its preliminary flash estimate, **euro area GDP growth slowed relatively sharply in the fourth quarter of 2019, to 0.1%** quarter on quarter (from 0.3% in the third quarter). The composition of that growth is, however, distorted to a large degree by data for Ireland, which recorded investment growth of more than 120% due to an upsurge in investment in intellectual property products. This, on the other hand, drove up imports (by more than 30%), without affecting economic growth. Abstracting from this effect, the slowdown in economic growth was affected mainly by the significant softening of household consumption and by destocking. For the whole of 2019, euro area GDP grew by 1.2%, after increasing by 1.9% in the previous year.

Despite the deceleration of economic growth, **quarter-on-quarter employment growth in the euro area increased slightly in the fourth quarter of 2019, to 0.3%** (from 0.2% in the third quarter). Overall employment growth for 2019 stood at 1,2 % (0.3 percentage lower than the rate for 2018).

After falling in December, **euro area short-term indicators picked up in January**. At that stage, however, they were still not reflecting the adverse repercussions of the coronavirus outbreak, both on supply chains and demand. **Industrial production** rebounded in January, increasing by 2.3% (after falling by a sizeable 1.8% in December). This recovery was broad-based across almost all industrial subsectors. The largest increases were observed in the production of intermediate goods and capital goods. On the other hand, motor vehicle production fell slightly in January. The production of consumer goods increased moderately. Industrial production rose in all the major euro area economies: Italy recorded the strongest growth (3.7%), followed by the Netherlands (3.2%), Germany (2.7%), France (1.2%) and Spain (0.1%). Retail sales also increased in January, by 0.6% month on month (after falling by 1.1% in December). This upturn was based mainly on sales in non-specialised stores and sales of automotive fuel. Construction production, too, climbed in January (by 3.6%) after decreasing in December (by 1.1%).

February's leading indicators for the euro area did not yet reflect the downturn in expectations brought on by the coronavirus outbreak. **The European Commission's Economic Sentiment Indicator (ESI) for the euro area** increased in February 2020 for a fifth consecutive month (by 0.9 point), to stand at a nine-month high of 103.5. The improvement of sentiment resulted from increases in consumer confidence and, to a lesser extent, industry confidence. Despite the improvement, sentiment among industrial firms remains relatively subdued. In the next month, moreover, production may be affected by reductions in supplies from China. Services confidence strengthened marginally. The survey, however, was conducted before the coronavirus outbreak in Italy, which is likely to weigh heavily on the March results. February's **composite PMI for the euro area** was unchanged from the flash reading of 51.6, which represented an improvement on January's 51.3. The increase in economic growth was supported by firmer growth in service sector activity, coupled with a weaker contraction of manufacturing production (its most moderate level in 12 months). Although the index was still not showing a significant coronavirus impact on the euro area economy, there were signs of longer delivery delays related to the spread of the virus. Furthermore, the increasing severity of the outbreak in Italy (where on 10 March a quarantine lockdown was extended to the whole country) is expected to have adverse implications not just for the Italian economy, but also for other euro area countries.

The uncertainty surrounding the impact of the coronavirus outbreak on global economic developments became more pronounced during February and early March. The contagion was spreading beyond China, with increasing numbers of infected people recorded in South Korea, Iran and Italy. Besides having a further negative impact on equity markets, this resulted in a **sharp drop in the global composite PMI,** from 52.2 in January to 46.1 in February. Both global manufacturing output and service sector business activity fell below 50 in February, into the range indicating contraction.

The **first March indicators to reflect the adverse impact of the coronavirus outbreak** were the **ZEW** Indicators of Economic Sentiment for **Germany** and **the euro area**. Compared with their levels in February, both indicators **slumped** by around 60 points in March, each falling to 49.5. These drops were the largest in the survey's history (since December 1991), though at the same time they were broadly expected.

In its Interim Economic Outlook published in early March, **the OECD warns that global economic prospects are very uncertain due to the coronavirus outbreak.** It says that output contractions in China are being felt around the world, reflecting the key and rising role China has in global supply chains, travel and commodity markets. Subsequent outbreaks in other economies are having similar effects, albeit on a smaller scale. The expected adverse effects of the contagion on economic sentiment, financial markets and the travel sector, as well as the disruption to supply chains, have been reflected in the projection for global economic growth in 2020, which, compared with the projection in the OECD's November 2019

Economic Outlook, has been revised down by 0.5 percentage point, to 2.4%. The projection for euro area GDP growth in 2020 has been revised down by 0.3 percentage point, to 0.8%. The OECD warns that a longer-lasting and more intensive coronavirus – spreading into several regions, including Europe, and affecting countries representing some 70% of global GDP – would considerably weaken global economic prospects. In this event, global growth could drop to 1.5% in 2020, almost half the rate projected in November (2.9%). At the same time, world trade would decline by around 3.75%.

The latest **ECB staff macroeconomic projections for the euro area,** published on 12 March 2020, presents **two scenarios** of an intensification of the **coronavirus (COVID-19)** crisis beyond what is contained in the current baseline. The first **"mild"** scenario considers the implication of a more persistent coronavirus outbreak for **China** (with the domestic economy not recovering until the second half of 2020) **and the euro area** (with supply-chain disruptions and adverse impacts on employment, the financing conditions of firms and households, and tourism). The second, **"severe"**, scenario includes the same shocks as in the mild scenario, plus additional financial shocks (credit spreads increasing by 80 basis points in 2020, equity prices and housing wealth both falling by 10%, and **oil prices falling** by an additional 20%). Under the mild scenario, euro area GDP growth in 2020 is between 0.6 and 0.8 percentage point lower than envisaged in the March 2020 projections (0.8%) and inflation is around 0.2 percentage point lower (1.1%). Under the severe scenario, the negative impact on euro area GDP growth is between 0.8 and 1.4 percentage point lower, while inflation is between 0.4 and 0.8 percentage point lower. It should be noted that in both scenarios, monetary and fiscal policy do not react and that including such policy reactions could significantly mitigate the effects in both scenarios.

Concerns about the impact of the coronavirus outbreak increased in the second week of March after the intensifying spread of the infection in Italy and the imposition of a quarantine lockdown throughout the country. This was followed almost immediately by a slump in **stock markets**. A few days later the United States imposed a 30-day ban on most travel from Europe to the United States, and the next day, 12 March, the declines in stock markets were among the largest ever recorded in a single day. After a slight subsequent rally, and despite a substantial monetary policy response from the Federal Reserve, the S&P 500 index fell again at the start of the following week (16 March 2020), suffering its largest daily drop since 1987. Stock market volatility increased considerably.

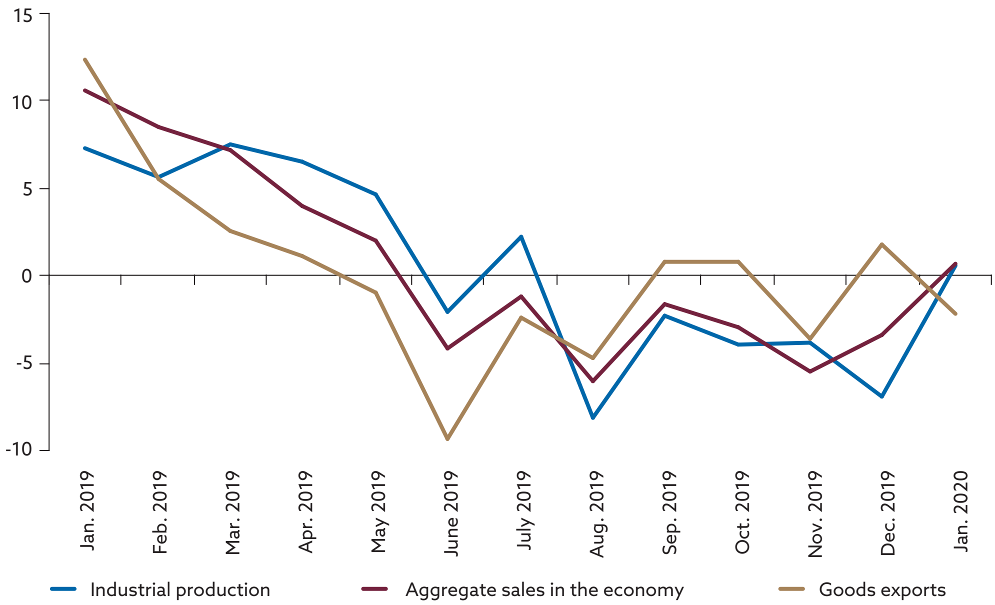
In early March, the alliance of OPEC countries and allied oil producers led by Russia (OPEC+) failed to agree on a further **cut in oil production**, a move intended to support the oil price amid falling demand. Russia refused to agree to a reduction and removed all limits on its own production, effectively ending the alliance's existing oil restraint deal. In response, Saudi Arabia slashed its official oil prices and announced plans to increase its output. This was in effect the start of an oil price war. The price responded by falling by more than 25% on 9 March (to around USD 33 USD per barrel), representing its largest daily drop since the first Gulf War in 1991. Subsequent days saw the price correct and fluctuate at just above USD 35 per barrel. The continuation of the price war, together with the downward impact of the coronavirus crisis on oil demand, resulted in the oil price falling back to USD 25 per barrel in mid-March, approximately 50% below its level at the start of the month.

3 The Slovak economy[1]

3.1 Economic activity

Monthly data improved in January 2020, building on favourable developments in December. Production, sales and exports (Chart 1) were buoyed by the car industry, where output increased, year on year, for the first time in seven months.

Chart 1
Economic indicators (annual percentage changes; constant prices)



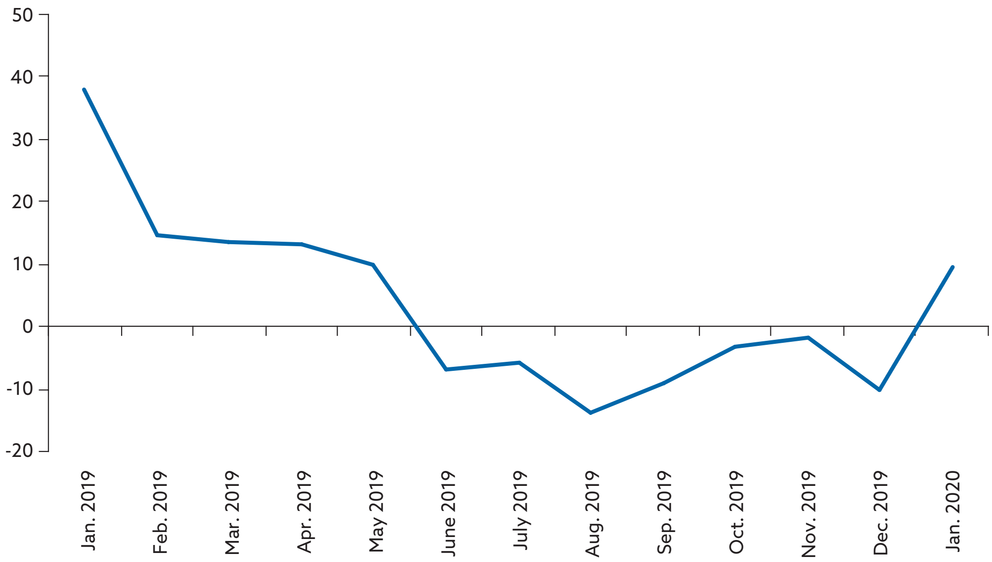
Sources: SO SR, and NBS calculations.

The upturn in car production probably resulted from rising demand for the new generation of a car model made at the plant in Trnava (Chart 2). At the same time, electrical equipment production maintained its strong uptrend. January's industrial performance would have been better still but for output declines in metal manufacturing and electronics manufacturing, where production capacity is being reduced.

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

Chart 2

Car production (annual percentage changes)



Source: SO SR.

In the first quarter of 2020, however, monthly indicators of economic activity will be adversely affected by measures to prevent the spread of the coronavirus (COVID-19). Several large firms have already announced the suspension of production operations and, given the state of supply chains, other firms following suit is the least that can be expected. Production disruptions have up to now been caused by the need to prevent contagion, by falling demand, or by input material shortages.

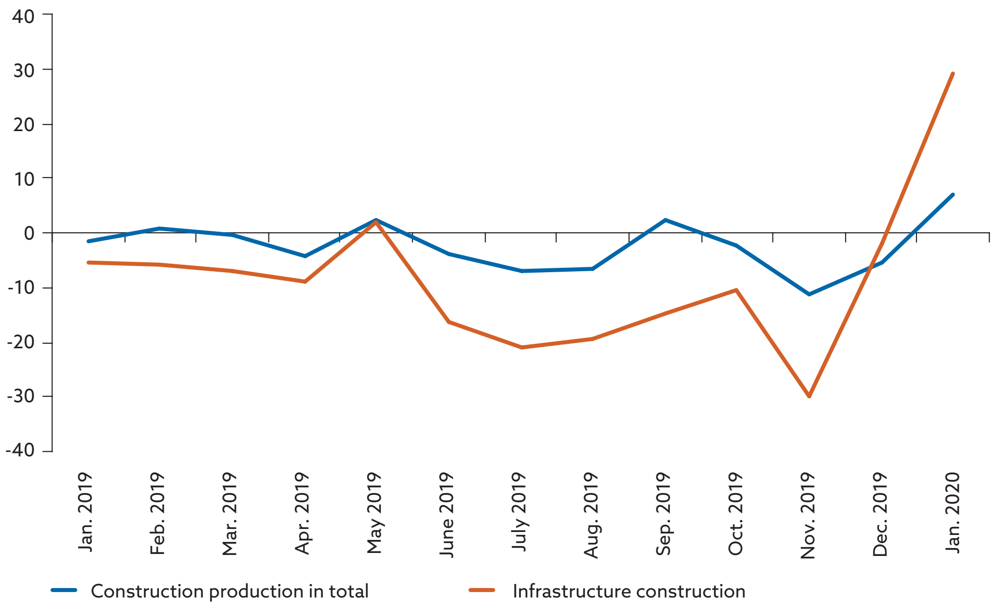
Growth in aggregate sales in January was driven mainly by industry. The construction sector also reported a sharp rise in sales, likely related to the ongoing construction work on the Bratislava bypass. On the other hand, there were negative trends in retail sales and in motor vehicle sales. In the context of people stocking up in response to the coronavirus outbreak, March's figures are expected to show an increase in sales of food and medical supplies; however, the impact of that increase will probably be cancelled out by falling sales in other stores and services.

Car exports rallied in January, while exports of metals and refined petroleum products declined. The year-on-year drop in overall export growth was caused largely by the base effect of elevated export growth a year earlier; in month-on-month terms, export growth was on a par with production and sales growth.

Construction output in January recorded its strongest growth in 12 months. Domestic firms' construction activity abroad also increased, as did production related to new construction and to repair and maintenance construction. However, the subsector that recorded the largest growth in activity was infrastructure construction (Chart 3), probably due to ongoing work on the Bratislava bypass.

Chart 3

Construction production (annual percentage changes)



Source: SO SR.

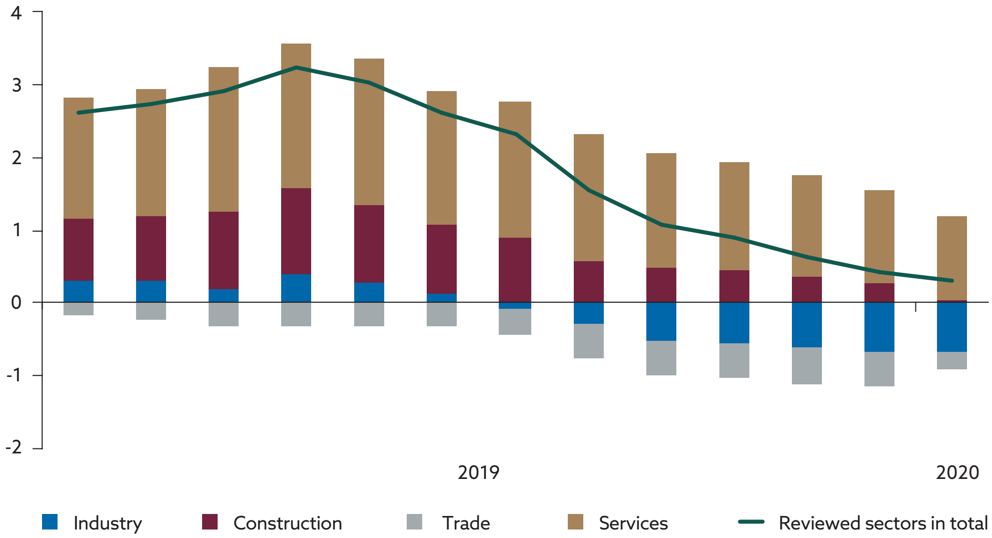
The Economic Sentiment Indicator for Slovakia fell to 97.2 in February, 1.7 points below its level in the previous month. The drop reflected declines in industry, services, retail trade, and construction confidence indicators. Only consumer confidence improved. The March survey is expected to be affected by concerns about the coronavirus outbreak and related measures.

3.2 Labour market

Employment growth was flat at the beginning of 2020. The improved outlook based on recent surveys is, however, likely to deteriorate. Across the private sector segments under review, employment growth increased in January by 0.3% year on year (Chart 4) and remained flat in month-on-month terms – the ninth successive month it has stagnated. The pick-up in economic growth in January (after an extended slowdown) did not have any immediate impact on employment. Employment in industry (Chart 5) and trade remained on a downtrend. Industrial firms previously warned that rapidly rising labour costs would force them to abandon less profitable operations and to automate production, and now these policies are contributing to the adverse situation in the sector. In the trade sector, too, automation and rationalisation measures, not to mention ever increasing competition from e-commerce, are weighing on employment. In services, employment continued rising in January (albeit more slowly), due to strong domestic demand and to favourable developments in the tourism. Employment growth in the construction sector slowed in January, after a period of strong recruitment in the previous year. Given current restrictions in the global and domestic economy (the reduction in consumption in the services and trade sectors, the limiting of goods purchases to essential products, the decreases in production in industrial subsectors), the near term is expected to see a drop in employment, especially among auxiliary and temporary workers: for example, persons employed on the basis of a contract for work or for a fixed period, agency workers, and foreign workers working in Slovakia (often on a short-term contract). If the effects of these restrictions are already evident in March, employment growth in the first quarter may be expected to fall moderately.

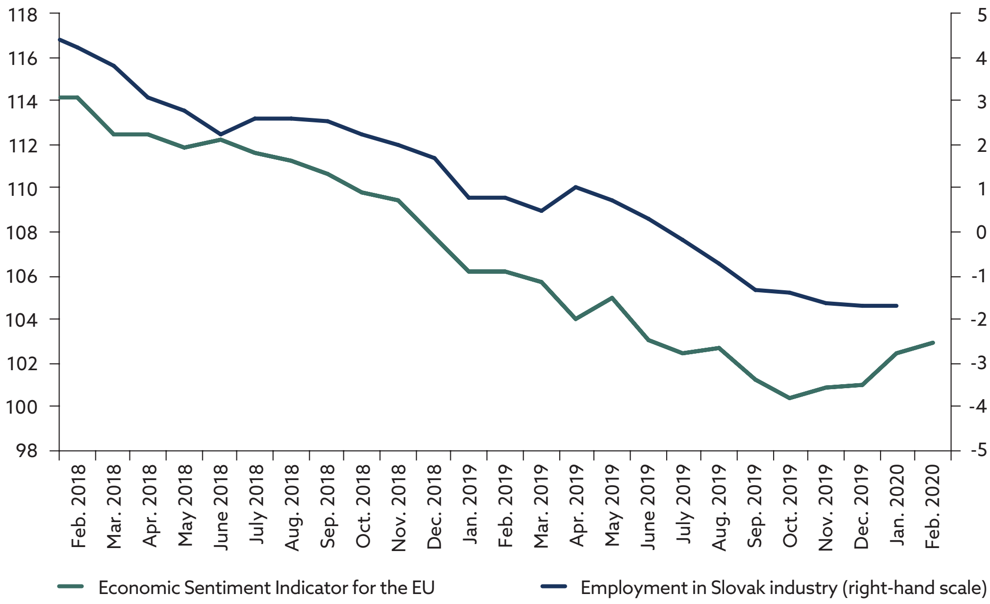
Chart 4

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)

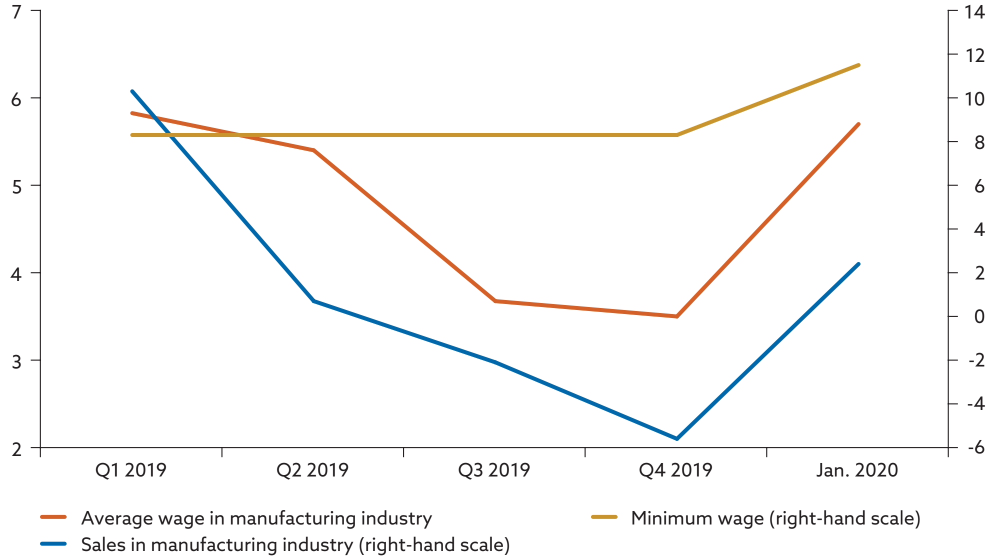


Sources: SO SR, EC, and NBS calculations.

Compared with its average for the fourth quarter, wage growth accelerated slightly in January 2020. Annual average wage growth in the private sector segments under review was a relatively solid 5.3% in January. Wage growth was also strong in month-on-month terms, at 1.5% (seasonally adjusted by NBS). For the fourth quarter as whole, average wage growth stood at 4.6%. January's acceleration was based mainly on wage developments in manufacturing industry (Chart 6), which in the early part of the year recorded a pick-up in economic activity as measured by sales, production and exports. In the services sector, too, annual wage growth accelerated, while in the construction and trade sectors it slowed. Month-on-month wage growth was, however, relatively strong in most sectors, suggesting that processes taking place in January were supporting higher wage and bonus payments. The most important factors in this regard were an increase in the minimum wage (by 11.5%) and related increases in wage premia for night, weekend and public holiday work, as well as the positive impact on variable wage components of January's upturn in economic activity. Looking at these facts, as well as the increase in contractual wages in the public sector and the growth-supporting impact of the leap day, average wage growth in January and February would imply a relatively favourable outlook. However, as with the job growth outlook, the necessary measures being taken to prevent the spread of the coronavirus will have a dampening effect on wage growth, with the rate being significantly reduced by declines in performance bonuses, overtime, and premia payments, as well as by increased taking of sick leave and of time off work to care for a family member.

Chart 6

Factors supporting wage growth in manufacturing industry in January 2020 (annual percentage changes; nominal variables)



Sources: SO SR, and NBS calculations.

The acceleration of economic activity in the manufacturing sector (as measured by sales, production and exports) and the increase in the minimum wage were the main factors supporting average wage growth in January.

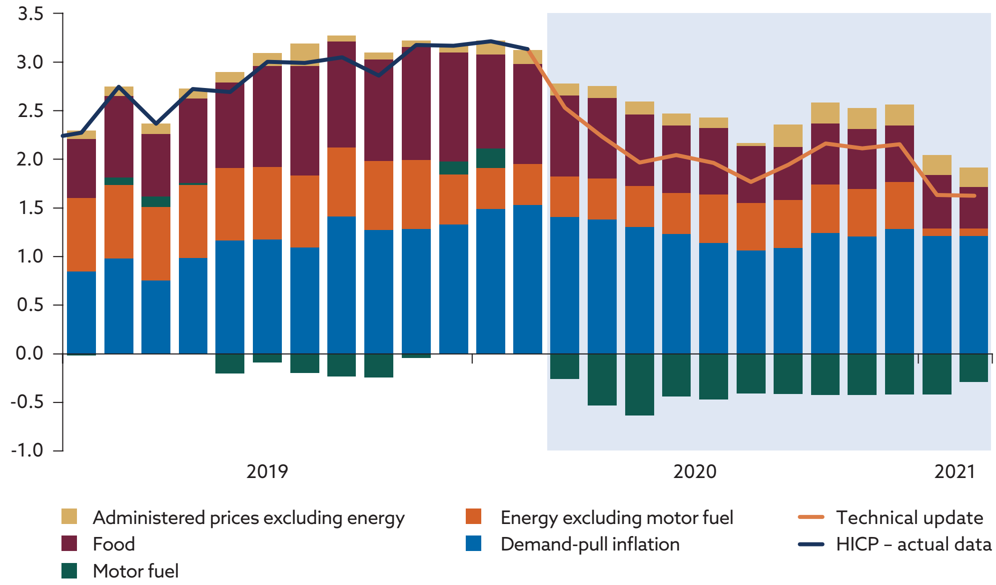
3.3 Prices

Slovakia's annual HICP inflation edged down to 3.1% in February (after remaining unchanged at 3.2% for three months). The slowdown stemmed mainly from a decrease in motor fuel inflation (Chart 7). The headline rate's slowdown would have been more pronounced but for the impact of demand-pull inflation.

Demand-pull inflation surprised slightly on the upside, at 3.1% (after recording 3.0% in January). This was caused largely by non-durable goods prices (Chart 8), specifically the acceleration in prices of non-durable household goods and personal care and hygiene goods. Going forward, demand-pull inflation is expected to decelerate gradually due to moderating labour market pressures (Chart 9) and to the adverse impact of the coronavirus outbreak on the economy. Since peaking in the second quarter of 2019, annual wage growth has dropped appreciably and its slowdown is expected to pass through to demand-pull inflation during 2020, mainly via non-administered prices of services. The coronavirus situation is expected to have a downward impact on services price inflation.

Chart 7

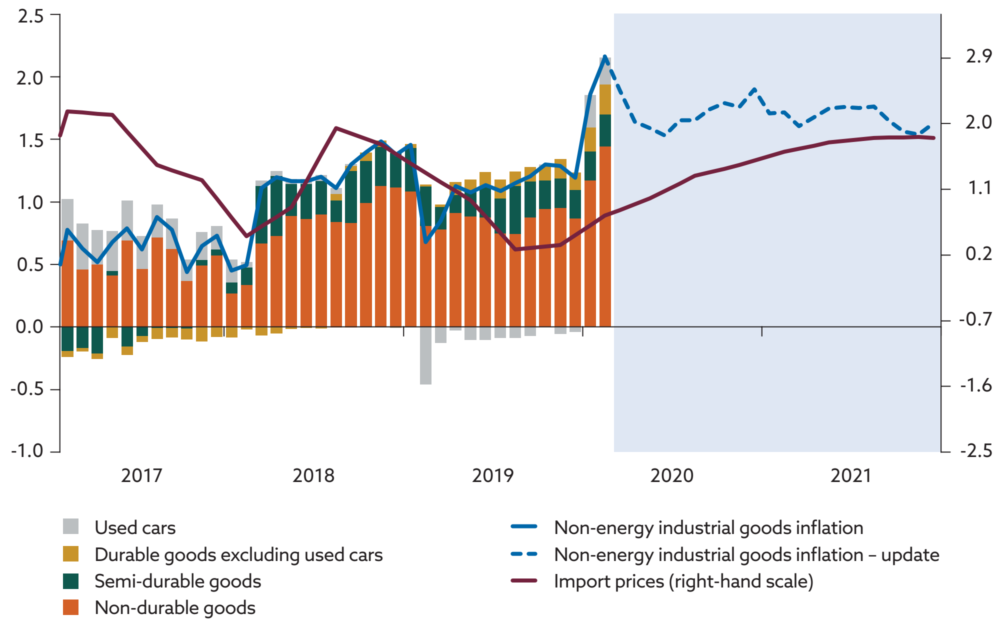
Contributions of components of HICP inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 8

Contributions of components of non-energy industrial goods inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

Annual food inflation (including alcohol and tobacco) remains elevated. Cost factors are having the main impact on food inflation. Food commodity prices are also increasing, owing to the destabilised meat market. It is meat prices that are making the largest positive contribution to overall food inflation.

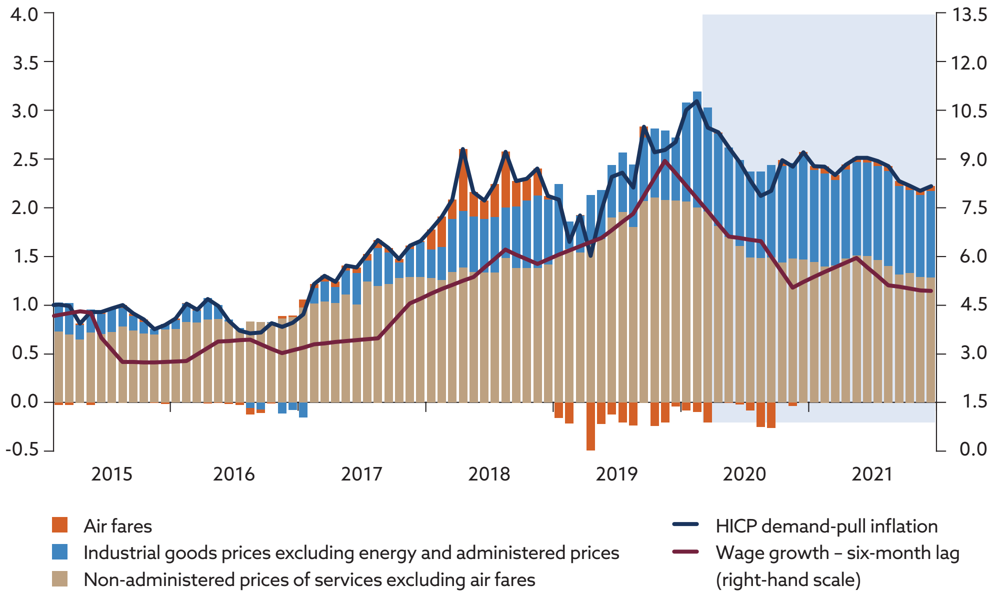
Annual energy inflation (excluding motor fuel) was the same in February as in January. Administered energy prices had been expected to remain unchanged until July, when the country's largest household gas supplier was expected to implement a modest price increase that it had previously postponed. At this moment, however, with non-energy commodity prices falling rapidly, that scenario may not materialise.

Motor fuel prices decelerated in January in line with expectations, owing to a strong base effect that is expected to continue weighing on their annual rate of increase until April 2020. March's slump in oil prices is expected to add downward pressure to motor fuel prices in the near term.

The main risk to the inflation outlook is the impact of coronavirus measures on the external and domestic economic environment. At present we are assuming a two-month duration for the restrictions.[2]

Chart 9

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



Sources: SO SR, and NBS calculations.

3.4 Loans and deposits

Lending activity continued to slow in January (Chart 10). A weaker flow of loans to the economy at the start of the year was reflected in the annual growth rate of loans to the private sector, which fell to 6.4% in January (0.9 percentage point lower compared with the previous month). This was

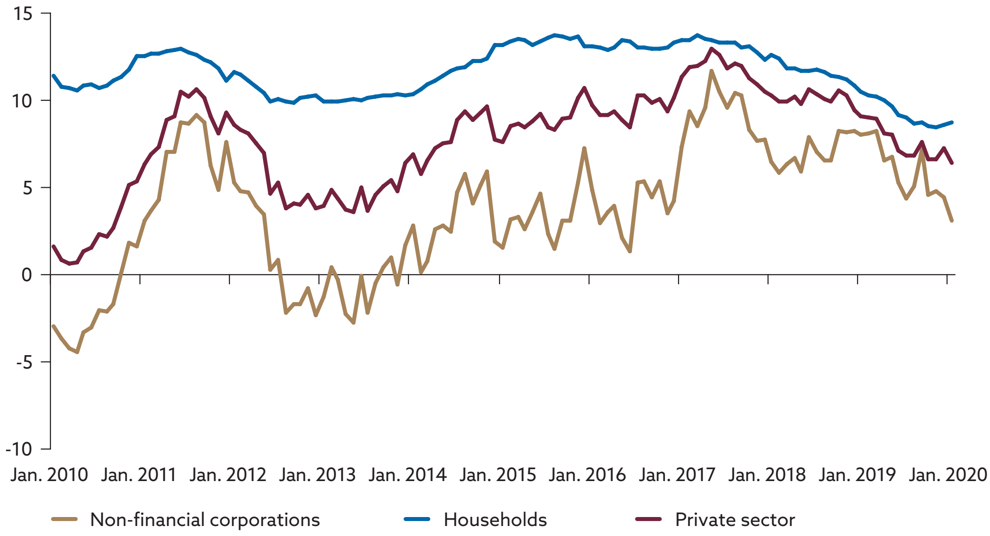
2 Assumptions about the extent of the measures that could have an impact on inflation are based on the situation as at 16 March 2020.

accounted for by lending to non-financial corporations (NFCs), whose growth rate moderated to 3.1%. There was a slowdown in lending to firms operating in the area of real estate activities. On the other hand, borrowing demand among manufacturing firms increased slightly after several months of decline. Growth in lending to NFCs in the construction and trade sectors also increased.

In contrast to NFC loan growth, **the annual growth rate of loans to households increased slightly in January,** to 8.7%. Although households' demand for consumer loans moderated, their demand for housing loans accelerated (Chart 11). Household borrowing was not yet affected by the recent tightening of regulatory limits on lending, given that low interest rates were incentivising households to borrow and that the frontloading of loans at the end of 2019 was reflected in an increase in the outstanding amount of loans.

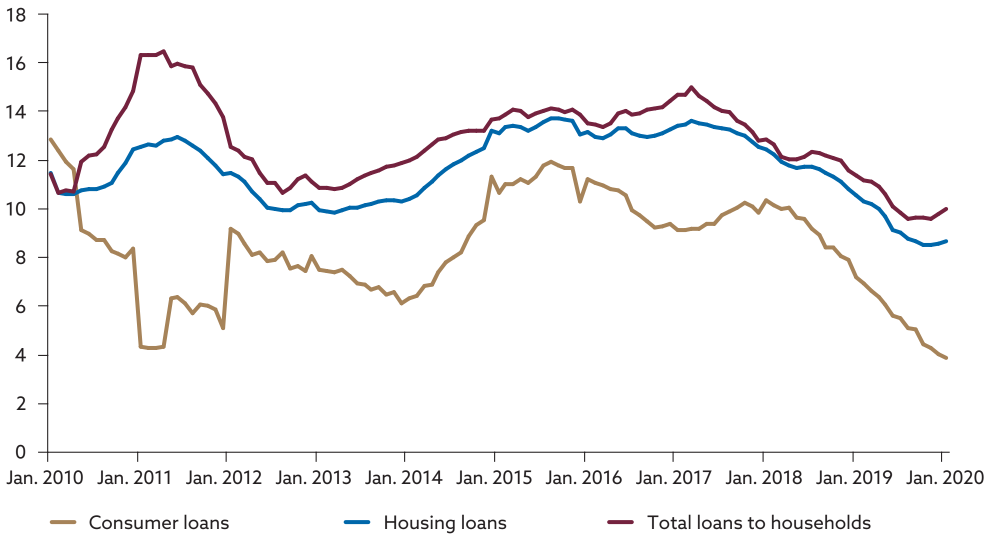
Chart 10

Total loans (annual percentage changes)



Sources: ECB, and NBS calculations.

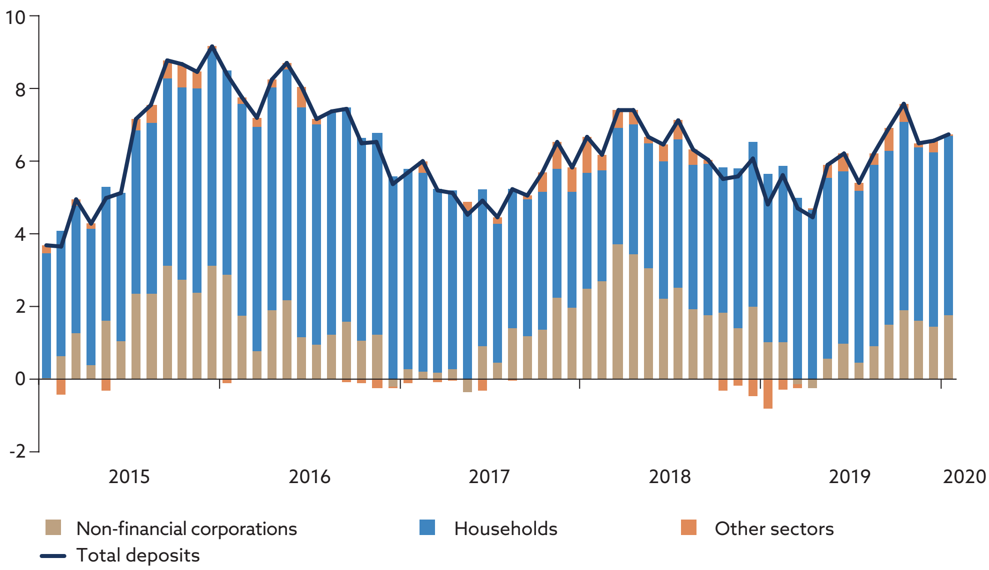
Chart 11
Total loans to households (annual percentage changes)



Sources: ECB, and NBS calculations.

The annual growth rate of private sector deposits increased moderately in January, by 0.2 percentage point to 6.8% (Chart 12). Both household and NFC deposits contributed to this acceleration. Households that had been benefiting from last year's relatively favourable labour market situation probably started to be more cautious in January, so their outstanding bank deposits increased. The increase in NFC deposit growth was supported by firms from almost all key sectors, but the largest contribution was from manufacturing firms. This reflected the improvement in sales across the economy.

Chart 12
Contributions of components of total deposits (percentage point contributions; annual percentage changes)



Source: NBS calculations.

4 Monetary policy

Amid mounting concerns about the economic impact of the coronavirus outbreak, the Federal Open Market Committee (FOMC) delivered its response at unscheduled meetings held on 3 March and 15 March 2020. At the first meeting, the Committee decided to lower the target range for the federal funds rate by 50 basis points, to 1-1.25%. At the second meeting, it decided to slash the benchmark rate by a further 100 basis points, to 0-0.25%. At the same time, in order to support the smooth functioning of markets and lending to households and businesses, the Committee announced it would be increasing its holdings of Treasuries and mortgage-backed securities by at least USD 700 billion in coming weeks. Subsequently, on 17 March, the Federal Reserve Board announced that it would establish a Commercial Paper Funding Facility (CPFF) to support the flow of credit to households and businesses. The CPFF will provide a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle that will purchase these securities. On the same day, the Board announced that it would establish a Primary Dealer Credit Facility (PDCF) enabling primary dealers to support smooth market functioning and facilitate the availability of credit to businesses and households. This facility will offer funding with maturities of up to 90 days, and the interest rate charged will be the primary credit rate, or discount rate, at the Federal Reserve Bank of New York. The credit extended under this facility may be collateralised by a broad range of investment-grade debt securities, including commercial paper and municipal bonds. On 18 March the Federal Reserve Board further broadened its programme of support for the flow of credit to households and businesses by taking steps to enhance the liquidity and functioning of money markets. Through the establishment of a Money Market Mutual Fund Liquidity Facility (MMLF), loans will be made available to financial institutions secured by high-quality asses purchased by the financial institution from money market mutual funds.

The ECB's Governing Council has also taken measures to mitigate the impact of the coronavirus (COVID-19) outbreak. At its meeting on 12 March, the Governing Council decided that **additional longer-term refinancing operations** (LTROs) would be conducted temporarily, to provide immediate liquidity support to the euro area financial system. According to the post-meeting press release, these operations will provide an effective backstop in case of need. They will be carried out through a fixed rate tender procedure with full allotment, with an interest rate that is equal to the average rate on the deposit facility. The LTROs will provide liquidity at favourable terms to bridge the period until the TLTRO III operation in June 2020. **In TLTRO III**, considerably more favourable terms will be applied during the period from June 2020 to June 2021 to all TLTRO III operations outstanding during that same time. These operations will support bank lending to those affected most by the spread of the coronavirus, in particular small and medium-sized enterprises. The interest rate on these TLTRO III operations will be 25 basis points below the average rate applied in the Eurosystem's main refinancing operations. For counterparties that maintain their levels of credit provision, the rate applied in these operations will be lower, and, over the period ending in June 2021, can be as low as 25 basis points below the average interest rate on the deposit facility. Moreover, the maximum total amount that counterparties will henceforth be entitled to borrow in TLTRO III operations is raised to 50% of their stock of eligible loans as at 28 February 2019. In this context, possible collateral easing measures will be assessed. In addition, the Governing Council has also decided that a temporary envelope of **additional net asset purchases of €120 billion** will be added until the end of the year, largely through the private sector purchase programmes. On 18 March the Governing Council took the **extraordinary decision to launch a new temporary asset purchase programme of private and public sector securities** to counter the risks that the coronavirus outbreak poses to the monetary policy transmission mechanism and to the economic outlook for the euro area. The new **Pandemic Emergency Purchase Programme (PEPP)** will have an overall envelope of **€750 billion.** Purchases will be conducted until the end of 2020 and will include all the asset categories eligible under the existing asset purchase programme (APP). A waiver of the eligibility requirements for securities issued by the Greek government will be granted for purchases under PEPP. The Governing Council will terminate net asset purchases under PEPP once it judges that the coronavirus crisis phase is over, but in any case not before the end of the year. Following the announcement about PEPP, the ECB's total volume of asset purchases in 2020 is expected to amount to more than €1,100 billion, i.e. more than the purchases made during the period when the monthly pace of asset purchases was at a high €80 billion (from April 2016 to March 2017).

Measures to contain the economic impact of the coronavirus outbreak have also been adopted by the **Bank of England**. On 10 March 2020 the Bank **reduced its monetary policy rate by 50 basis points,** to 0.25%, and then on 19 March reduced it further, to 0.1%. In addition, on 10 March, the Bank introduced a new Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). The TFSME will, over the next 12 months, offer four-year funding to SMEs at interest rates at, or very close to, the monetary policy rate. Another new facility was unveiled on 17 March which the Bank of England will implement on behalf of the UK Treasury. The Covid Corporate Financing Facility (CCFF) will provide funding to businesses by purchasing commercial paper of up to one-year maturity, issued by firms making a material contribution to the UK economy. According to the Bank, the CCFF will help businesses across a range of sectors to pay wages and suppliers, even while experiencing severe disruption to cashflows. The scheme will operate for at least twelve months and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy. On 19 March the Bank of England announced that it would increase its holdings of UK government bonds and sterling non-financial investment grade corporate bonds by GBP 200 billion to a total of GBP 645 billion.

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Overview of main macroeconomic indicators for Slovakia

Table 2 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	91.9	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	1.8	88.5	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	3.0	2.3	99.7	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	7.6	100.8	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	3.9	103.6	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	4.4	6.0	100.5	5.1	9.5	8.2	10.8	-1,182	-1.1	49.4	-2.6	-0.2	1.1810
2019	2.3	2.8	2.5	1.2	5.0	6.1	0.5	0.4	96.3	6.8	7.3	4.4	8.6	-2,201	.	.	-2.9	-0.8	1.1195
2019 Q1	3.8	2.4	3.9	1.8	5.1	6.2	6.8	8.7	98.1	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	3.0	0.5	93.5	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	-2.9	-2.9	96.5	6.0	7.6	7.2	8.7	-	-1.2	48.4	-5.1	-3.1	1.1119
2019 Q4	2.0	3.1	0.9	0.7	4.9	6.0	-4.8	-4.0	97.0	6.8	7.3	4.4	8.6	-	.	.	-2.7	-0.3	1.1071
2019 Mar.	-	2.7	4.4	-	5.0	6.2	7.5	7.2	97.0	4.0	8.9	8.2	10.2	-560	-	-	-	-	1.1300
2019 Apr.	-	2.4	3.9	-	5.0	6.1	6.5	4.0	92.4	3.8	8.1	6.6	10.0	-41	-	-	-	-	1.1240
2019 May	-	2.7	4.2	-	5.0	6.1	4.7	2.0	92.8	4.9	8.0	6.7	9.7	-318	-	-	-	-	1.1180
2019 June	-	2.7	2.8	-	5.0	6.1	-2.1	-4.2	95.3	5.3	7.1	5.2	9.1	33	-	-	-	-	1.1290
2019 July	-	3.0	2.1	-	5.0	6.1	2.3	-1.2	93.1	4.6	6.8	4.4	9.0	65	-	-	-	-	1.1220
2019 Aug.	-	3.0	1.9	-	4.9	6.1	-8.2	-6.0	97.1	5.4	6.8	5.1	8.7	-213	-	-	-	-	1.1130
2019 Sep.	-	3.0	1.3	-	4.9	6.1	-2.3	-1.6	99.4	6.0	7.6	7.2	8.7	-202	-	-	-	-	1.1000
2019 Oct.	-	2.9	-0.1	-	4.9	6.1	-3.9	-3.0	94.3	7.8	6.6	4.6	8.5	242	-	-	-	-	1.1050
2019 Nov.	-	3.2	1.2	-	5.0	6.0	-3.9	-5.5	100.5	7.0	6.6	4.8	8.4	-212	-	-	-	-	1.1050
2019 Dec.	-	3.2	1.7	-	4.9	6.0	-6.9	-3.4	96.2	6.8	7.3	4.4	8.6	-391	-	-	-	-	1.1110
2020 Jan.	-	3.2	2.4	-	4.9	6.0	0.5	0.7	98.9	7.4	6.4	3.1	8.7	-95	-	-	-	-	1.1100
2020 Feb.	-	3.1	.	-	5.0	6.0	.	.	97.2	.	.	.	.	-626	-	-	-	-	1.0910

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.

More detailed time series for selected macroeconomic indicators
http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2020/StatisticsMB0320.xls