NBS Monthly Bulletin

April 2020

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

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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

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1 Summary

February's **short-term indicators for the euro area** were still not fully reflecting the impact of the coronavirus (COVID-19) pandemic on the economy. Industrial production fell only slightly, though construction output recorded a larger drop. Retail trade increased quite sharply on the back of a record increase in food sales, apparently a result of people stocking up on food products. The pandemic's adverse impact on economic developments was evident in April's leading indicators, which fell dramatically.

In its World Economic Outlook published at the beginning of April 2020, the International Monetary Fund (IMF) revised down its projections for the world economy. Global GDP is now projected to contract by 3% in 2020, which far exceeds even the economic downturn during the 2008-09 financial crisis. **Global trade is projected to slump by 11% in 2020.**

On the domestic front, February's monthly indicators of economic activity were not significantly affected by the coronavirus crisis. By contrast, the March figures are expected to show a sharp decline in activity. Industrial production was dampened mainly by the subdued performance of car manufacturing amid weakening exports. Overall sales decreased year on year, though retail sales increased, mainly in supermarket chains. Economic sentiment deteriorated in March.

After a long-term uptrend, employment declined in February. This reflected the situation in industry, where weak performance translated into an appreciable decline in employee numbers. Besides industry, all areas of the services sector saw a decline in demand for labour. Wage growth remained robust in February, and the highest rates were recorded in the trade and services sectors. The fact that there were more working days (the leap year effect) contributed to the wage growth. In March, there is expected to be a substantial decline in wages in the car industry, in accommodation and food service activities, and in market services.

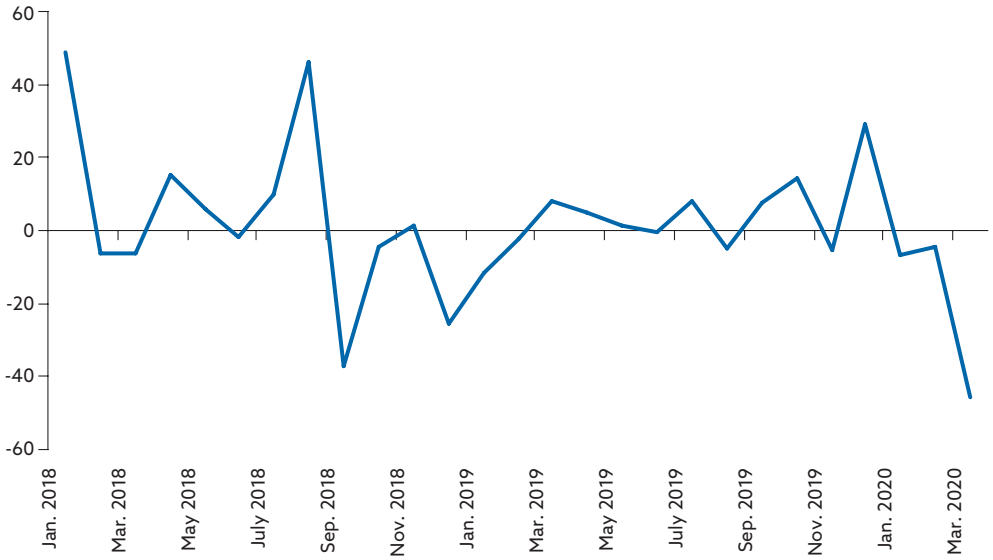
After peaking at the beginning of the year, the annual inflation rate slowed sharply in March. The main downward pressure on headline inflation came from motor fuel prices and, to a lesser extent, food prices. Motor fuel prices fell in response to the collapse of oil prices. The moderation of demand-pull inflation reflected developments in used car prices and air fares. In the short-term, demand-pull inflation is expected to be affected mainly by a significant reduction in domestic economic activity and a slowdown in wage growth.

Both lending to non-financial corporations and lending to households accelerated slightly in February. In the case of households, lending growth continues to be driven mainly by housing loans, demand for which is supported by all-time low interest rates.

The European Central Bank has adopted several measures to support a euro area economy hit hard by the coronavirus crisis. They largely concern monetary policy implementation and the banking sector. **The European Union** has also been stepping up its response. Seeking to address the social and economic fallout from the crisis, EU finance ministers have adopted measures to strengthen the healthcare sector and to protect households, employment and the worst affected economic sectors. Liquidity-support measures adopted for firms have included mainly public guarantee schemes and the deferral of tax payments.

Chart of the month

New car registrations (annual percentage changes)



Sources: Ministry of Interior of the Slovak Republic, and NBS calculations.

In March 2020 new car registrations in Slovakia fell by almost 46%, year on year, due to falling demand and restrictions on selling cars during the coronavirus emergency. The annual drop in registrations was even greater than that recorded in September 2018, when new emission standards entered into force (car dealerships therefore brought forward the registration of many vehicles that would otherwise have been registered in that month). Many car dealerships are now expanding their online activity, though this has not managed to prevent a relatively sharp decline in demand.

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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	*April 2020*	**13.5**	29.7
Economic Sentiment Indicator	long-run average = 100	*March 2020*	**94.5**	103.4
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q4 2019*	1.0	1.3
Industrial production index	annual percentage change	*February 2020*	-1.6	-1.6
Retail sales	annual percentage change, constant prices	*February 2020*	**2.7**	2.1
Unemployment rate	percentage	*February 2020*	7.3	7.4
HICP inflation	annual percentage change	*March 2020*	0.7	1.2
Oil price in USD[1)]	level	*April 2020*	**29.3**	34.1
EUR to USD exchange rate[1)]	level	*April 2020*	1.087	1.106
Slovakia				
Confidence indicators				
Economic Sentiment Indicator	long-run average = 100	*March 2020*	96.7	97.2
Industrial confidence indicator	percentage balance	*March 2020*	-3.1	-0.8
Consumer confidence indicator	percentage balance	*March 2020*	-7.8	-9.2
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q4 2019*	2.0	1.3
Aggregate sales	annual percentage change, constant prices	*February 2020*	-0.2	0.6
Industrial production index	annual percentage change	*February 2020*	-1.6	0.5
Private sector credit	annual percentage change	*February 2020*	6.7	6.4
Employment	annual percentage change	*February 2020*	**-0.4**	0.3
Unemployment rate[2)]	percentage	*March 2020*	**6.2**	6.1
Nominal wages[3)]	annual percentage change	*February 2020*	6.7	5.3
HICP inflation	annual percentage change	*March 2020*	**2.4**	3.1

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.

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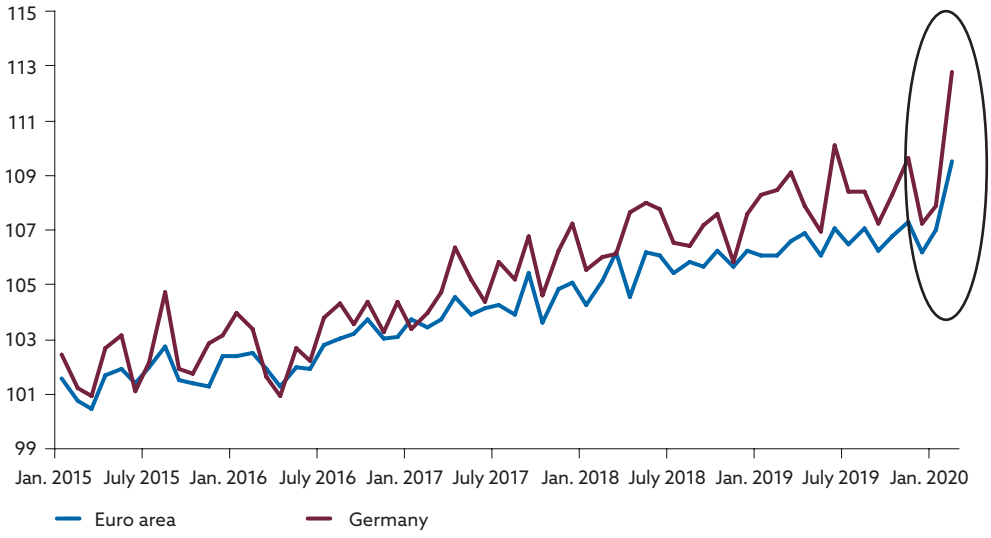
2 External environment

Looking at short-term indicators for the euro area, February's readings were not yet showing any significant impact of the coronavirus pandemic on the euro area economy, or they reflected it only indirectly; for example, **retail trade** recorded a relatively sizeable month-on-month increase of 0.9% in February (after rising by 0.7% in January) which **largely resulted from food sales** (Chart 1) posting their highest month-on-month increase since 1999 (when monitoring of the retail sales index began). This increase was probably supported by **the stocking up of food** in certain countries (in particular Germany) amid pandemic-related fears. After increasing sharply in January (by 2.3%), **industrial production fell slightly in February** (by 0.1%). The largest declines were in the production of capital goods and durable consumer goods. By contrast, there were increases in intermediate goods production, non-durable goods production and energy production. The country reporting the largest decline in industrial production was Italy, where the drop of 1.4% may have been partly related to the pandemic. Among the other major euro area economies, industrial production also fell in the Netherlands (by 1.6%) and Spain (0.3%), but it increased moderately in France (0.9%) and Germany (0.5%). **Construction production declined notably in February** (by 1.5%), after posting its highest increase in three years in the previous month.

Chart 1
Retail sales of food, beverages and tobacco (index: 2015 = 100; constant prices; adjusted for seasonal and calendar effects)

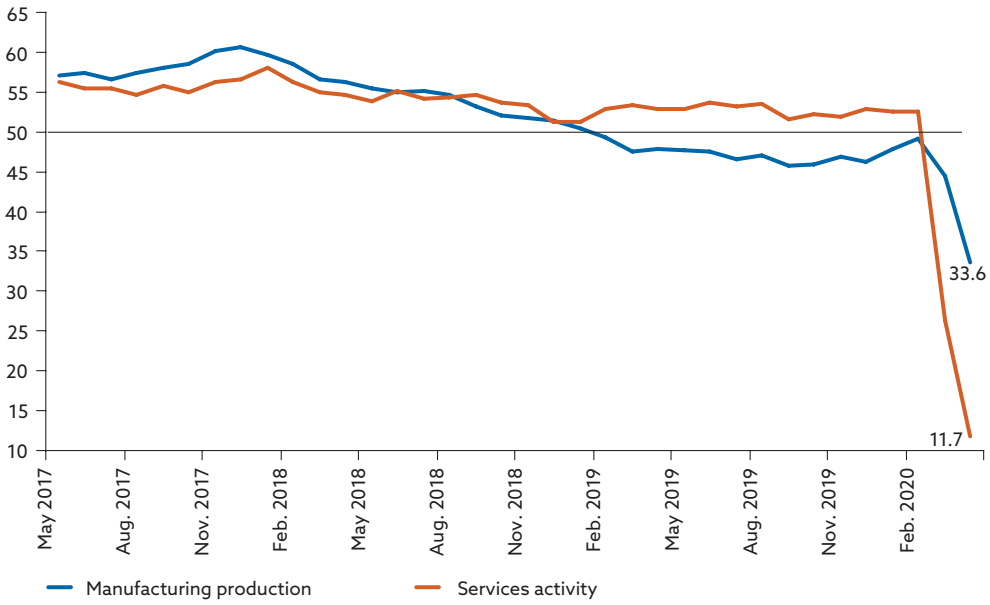


Source: Macrobond.

Overall, compared with the fourth quarter of 2019, **euro area short-term indicators showed relatively favourable trends over the first two months**

of 2020. Industrial production increased by 0.8% (after falling by 1.1% in the fourth quarter); construction production increased by 2.3% (after falling by 0.3%), and retail trade increased by 0.9% (after rising by 0.4%).[1] Given the signals from leading indicators , however, the pandemic is expected to have a major impact on these sectors in March.

Chart 2
Purchasing Managers' Index



Source: Macrobond.

The European Commission's **Economic Sentiment Indicator (ESI) for the euro area fell dramatically in March 2020** – by 8.9 points – to 94.5 (below its long-term average for the period since 1985: 99.8).[2] The ESI's slump reflected declining confidence across all sectors. Services reported the largest drop, followed by retail trade and then industry. Construction confidence recorded the most modest decrease and it was the only indicator that remained above its long-term average. Consumer confidence also fell dramatically. As regards the largest euro area economies, the ESIs for Italy and Germany declined most sharply (by 17.6 and 9.8 respectively), and those for France, the Netherlands and Spain also fell. The exceptionally adverse impact of the pandemic (or the measures to contain it) was reflected in **April's**

[1] The quarterly averages are calculated from monthly data.

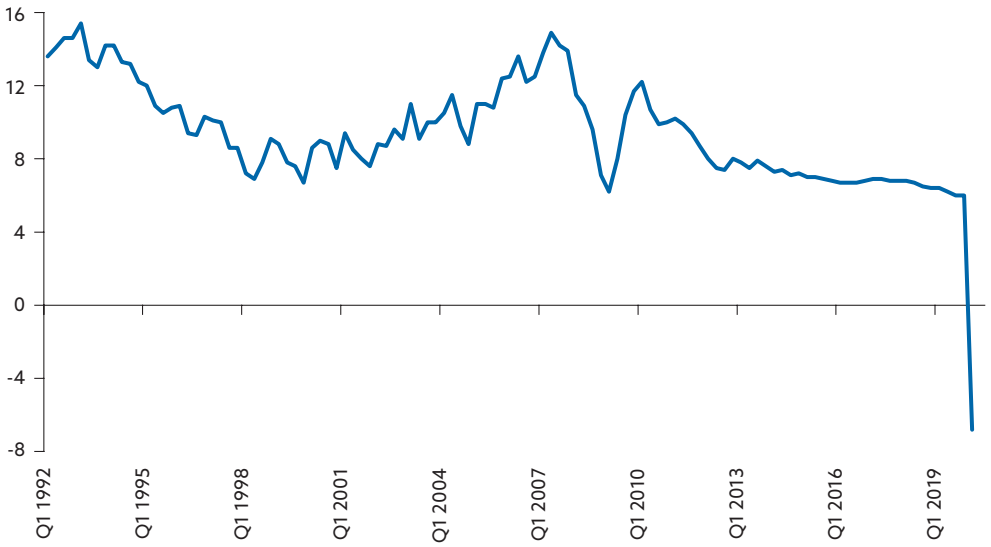
[2] The European Commission prefaced its March ESI results with the following important notice: "In the context of the fight against the Corona virus, the data published in this release may be less accurate and comparable across countries than usual. While in principle the survey responses have been collected between 26 February and 23 March, there are considerable differences across countries as to when the fieldwork effectively stalled due to containment measures enacted to combat the spread of the virus. In many countries, the vast majority of survey responses were collected before such strict containment measures were enacted."

flash composite PMI for the euro area, which **posted its largest ever drop**, plummeting from 29.7 in March to 13.5 – its lowest level since July 1998 (see Chart 2). The services PMI fell to 11.7 (from 26.4 in March), hit hard by the impact of the pandemic on activity in accommodation services, food services and tourism. The manufacturing PMI also suffered a large drop, down to 33.6 (from 44.5 in March). The composite PMI indicates a severe impact on employment, as the rate of job reduction recorded by the survey was the highest in its history.

As a result of the coronavirus outbreak and measures adopted to contain its spread, **the Chinese economy contracted in the first quarter of 2020 by an annualised 6.8%** (see Chart 3). This was the first decline in China's GDP since 1976.

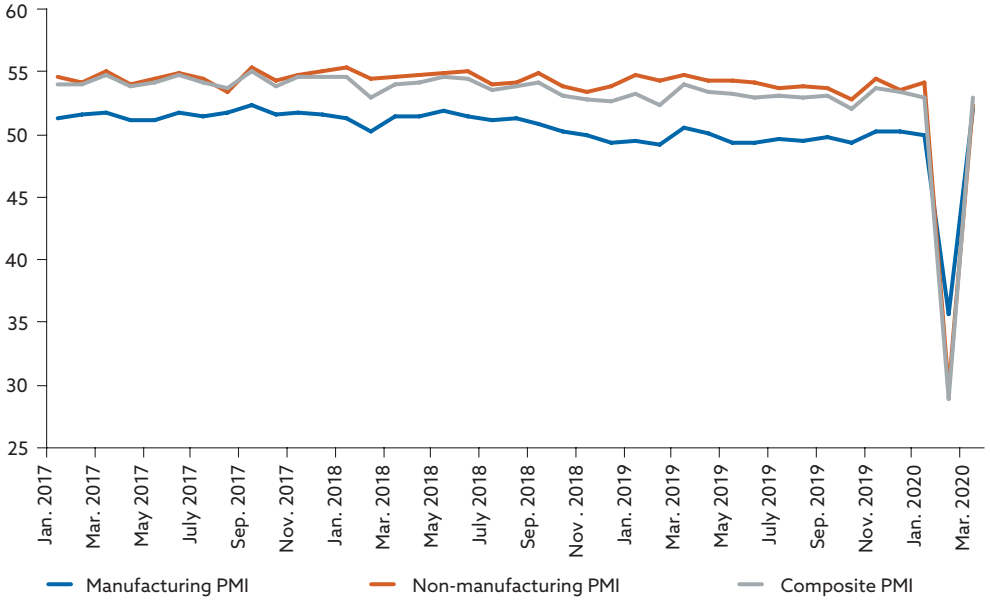
With the coronavirus epidemic in China having abated considerably, the country's economy is showing signs of recovery. **China's official PMI**, published by the National Bureau of Statistics, **surged to 53 in March** (Chart 4) after slumping to 30 in February (a figure above 50 indicates economic growth). There were strong increases in both sub-indexes, the non-manufacturing PMI and manufacturing PMI, with each increasing to around 52. A similar rebound was also seen in China's **Emerging Industries PMI (EPMI)**, the high-tech industries gauge which surveys a higher proportion of smaller firms. The EPMI increased from around 30 to around 55, which represents its long-term average.

Chart 3
China: annualised quarterly GDP growth (percentages)



Source: Macrobond.

Chart 4
China: PMI published by the National Bureau of Statistics



Source: Macrobond.

In the **United States,** the spread of the pandemic has resulted in a severe contraction of the labour market. Initial claims for state unemployment benefits skyrocketed to more than 26 million for the five weeks up to 17 April; the historical average is around 350,000. At the same time, March's data showed that non-agricultural jobs fell by around 701,000, which represented the largest monthly drop since February 2009 (743,000). The haemorrhaging of jobs was most severe in the accommodation and leisure industries (where almost 460,000 jobs were cut). The **unemployment rate** in March **increased to 4.4%,** almost one percentage point higher than the rate in February. The pandemic's highly adverse impact on the US economy was also evident from March's **industrial production** result, which showed a decline of **5.4%,** the largest since January 1946. A major contributor to that decline was the fall in manufacturing production, in particular the 28% slump in motor vehicle production.

In late March 2020 the United States adopted a law providing a comprehensive **fiscal response** to the economic fallout of the coronavirus pandemic. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) is an economic relief package worth over USD 2 trillion (more than 9% of US gross domestic product). Under the package, a direct payment of USD 1,200 will be made to each eligible individual who earns up to USD 75,000 per year – or a payment of USD 2,400 will be made to each married couple that files a joint tax return and has a total annual income of up to USD 150,000 – and there is an additional payment of USD 500 for each dependent child. The package also allocates USD 500 billion to a lending programme for eligible

large businesses, including USD 46 billion appropriated for passenger air carriers, air cargo carriers and businesses critical to maintaining national security. For small businesses, the CARES Act establishes a Paycheck Protection Program that authorises up to USD 349 billion in funds with which firms can pay up to eight weeks payroll costs and certain other expenses. These funds are provided in the form of loans that will be fully forgiven provided the employer maintains employees and salary levels. A further USD 130 billion is allocated to the medical and hospital industries. Under an item allocated USD 250 billion, the new law increases unemployment benefits by USD 600 per week for a period of up to four months. This economic relief package also includes many other expenditures, including, for example, support for public transport, individual states, the agriculture sector and food industry, medications, and postal services. The law also directs lenders to defer mortgage and student loan payments.

In early April the **IMF** published its latest **World Economic Outlook**.[3] As a result of the measures taken to protect lives (including isolation, lockdowns, and widespread closures), the coronavirus pandemic will have a severe impact on economic activity. In a baseline scenario which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the IMF **projects that the global economy will contract by 3% in 2020.** That is far worse than during the 2008-09 financial crisis, which saw global GDP drop by 0.1% in 2009. In **2021 the global economy is projected to grow by 5.8%** as economic activity normalises, helped by policy support. The volume of **world trade** is expected **to decline by 11% in 2020** and then **to increase by 8.4% in 2021.** The economic contraction in 2020 is expected to be more pronounced across advanced economies, with their aggregate GDP projected to shrink by 6.1% (euro area GDP is estimated to fall by 7.5%, and US GDP by 5.9%). Across emerging market and developing economies, GDP is envisaged to fall by a modest 1.0%, while in China it is expected to remain positive, slowing to 1.2%. As for the economic recovery in 2021, the IMF projects it will be stronger in emerging market and developing countries (6.6%) than in advanced economies (4.5%). In addition to the baseline scenario, the IMF considers a further three alternative scenarios: the first scenario estimates the fight against the spread of the virus taking longer than assumed in the baseline; the second scenario assumes there is a second outbreak of the virus in 2021; and the third scenario assumes that it takes longer to contain the outbreak in 2020 and that there is a second outbreak in 2021. Under the first scenario, global output is 3% lower than in the baseline in 2020, and then recovers towards the baseline gradually and remains around 1% below the baseline by the end

[3] https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

of the projection period (2024). Under the second scenario, global output is almost 5% below the baseline in 2021, while under the third scenario it is almost 8% below the baseline in 2021.

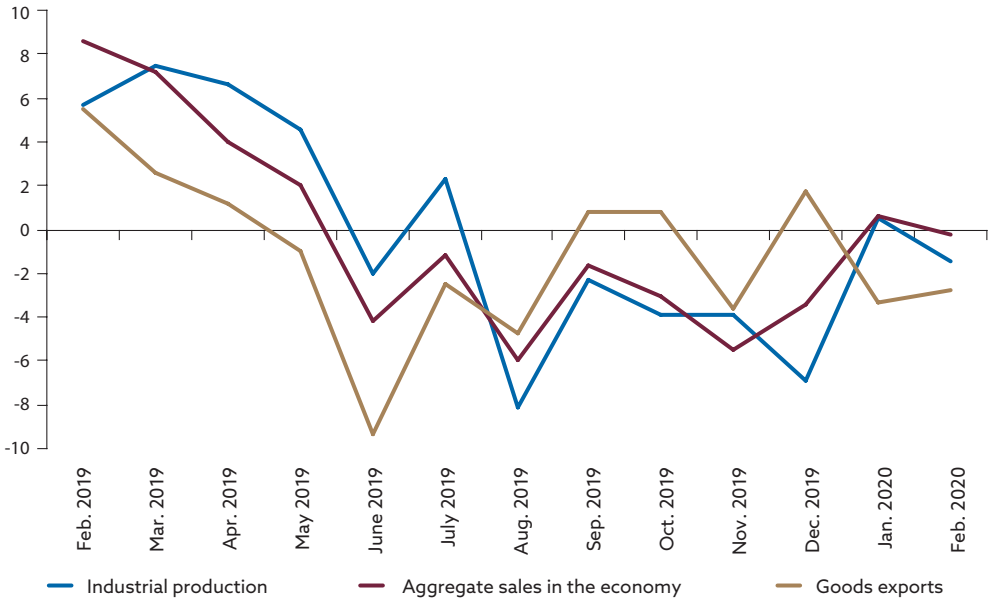
After falling to almost USD 20 at the end of March 2020, the price of a barrel of Brent crude **oil** continued to be affected in the first part of April by an oil price war. On 12 April, the Organization of the Petroleum Exporting Countries and its allies including Russia, a group called **OPEC+**, **agreed to reduce oil output by record amount** (almost 10 million barrels per day in May and June), but **the deal did not result in rising oil prices**. The output cut appears to have only partly resulted from falling demand related to the coronavirus pandemic and consequent economic cooling. Oil prices were also coming under downward pressure from a lack of storage capacity, particularly in the United States, which later in the month saw the West Texas Intermediate crude price go negative for the first time in history. According to the April edition of the Short-Term Energy Outlook published by the U.S. Energy Information Administration, oil consumption in the first four months of 2020 will be almost 20% lower than consumption in December 2019 and consumption for the whole of 2020 will be more than 5% lower than consumption for the whole of 2019. Furthermore, despite the agreed production cut, there are signs that the oil price war is not over; in May Aramco, Saudi Arabia's state oil company, reduced its official selling prices to certain markets, mainly Asia, while moderately raising prices for US buyers.

3 The Slovak economy[4]

3.1 Economic activity

Monthly indicators of real economic activity corrected in February after favourable readings in January. Sales, industrial production, and goods exports all declined in year-on-year terms (see Chart 5). In February, the indicators were not yet affected by fallout from the coronavirus pandemic. By contrast, the March figures are expected to show a sharp decline in economic activity.

Chart 5
Economic indicators (annual percentage changes; constant prices)



Sources: SO SR, and NBS calculations.

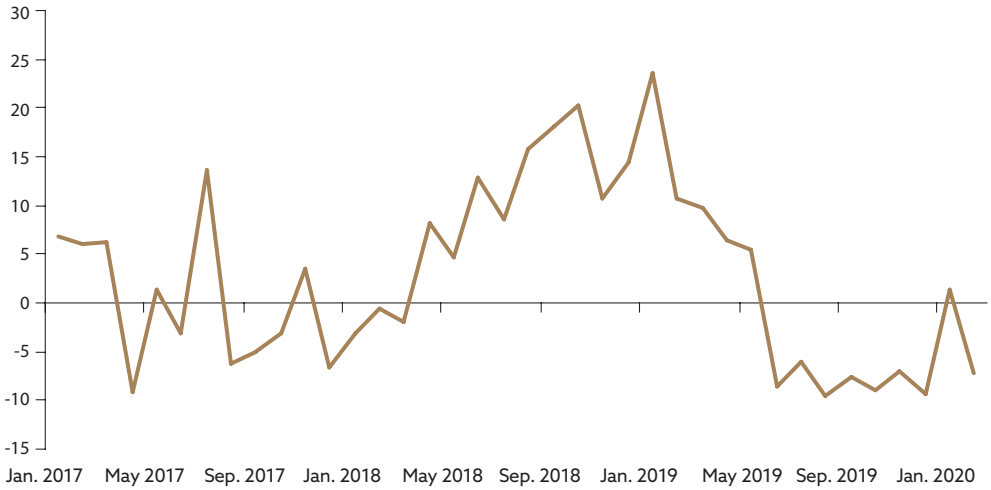
Industrial production fell, year on year, by 1.5% in February 2020. However, average growth in the first two months of 2020 was positive compared with the fourth quarter of 2019. February's industrial production was dampened mainly by the subdued performance of car manufacturing, which probably already reflected the impact of weaker demand from China (where new car registration plummeted by 80% in February. It should however be noted that, in year-on-year terms, North American demand for new models of Slovak-made cars peaked a year earlier. Besides car manufacturing and electronics manufacturing (which is on an extended down-

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

trend), manufacturing of other machinery also had a negative impact on overall industrial production.

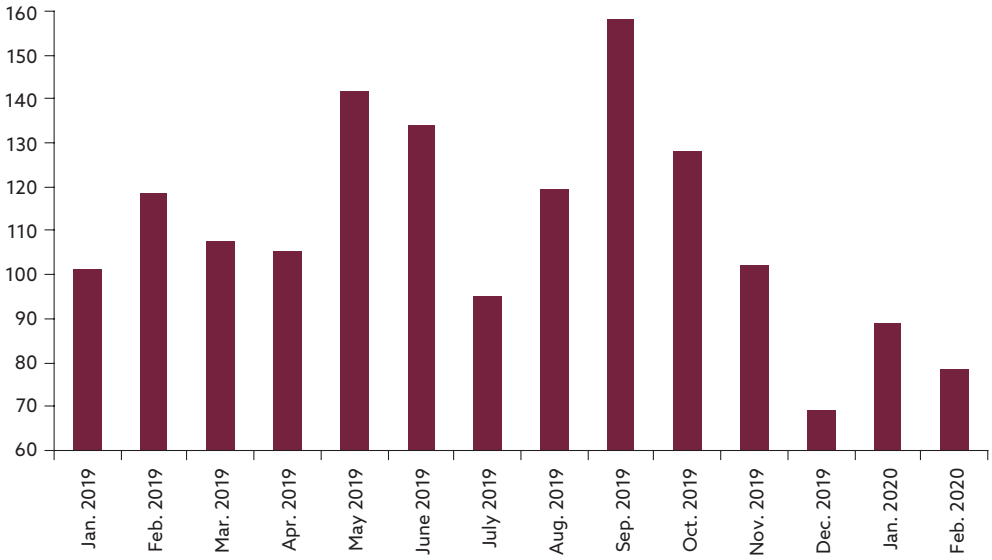
The decrease in new orders in February was only moderate compared, for example, with the end of the previous year (see Chart 6). Industrial order statistics were not yet showing any significant impact from the approaching economic downturn. The largest year-on-year drop in orders was observed in the metal manufacturing industry.

Chart 6
Industrial new orders (annual percentage changes; current prices)



Sources: SO SR, and NBS calculations.

Chart 7
Exports of cars and key auto parts to China (non-seasonally adjusted; EUR millions)



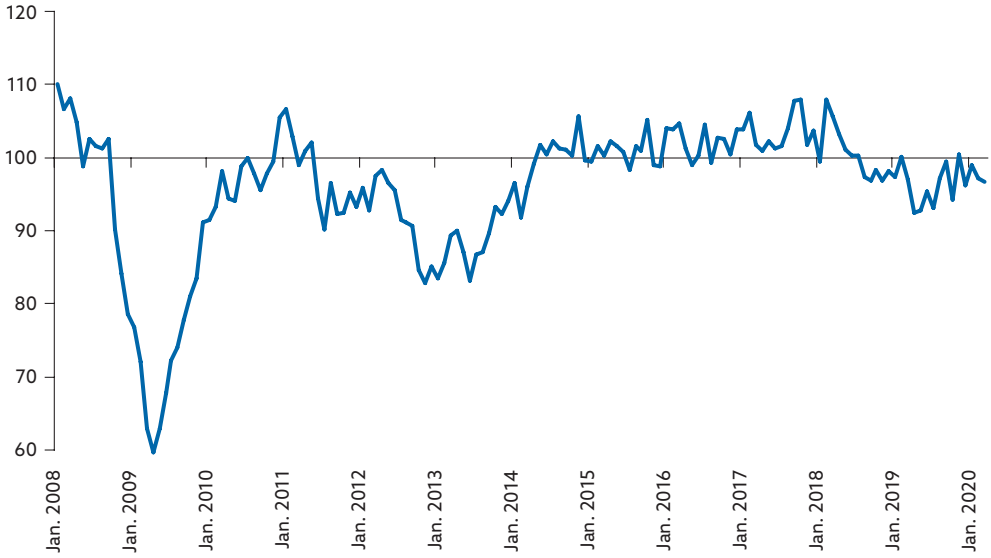
Sources: SO SR, and NBS calculations.

Aggregate sales fell in February by 0.2% year on year, with the largest declines observed in industry, wholesale trade, and sale of motor vehicles. New car registrations were already falling moderately in February, but in March they collapsed by almost 46%. By contrast, retail sales increased in February, based largely on the sales results of supermarket chains.

February's data for goods exports reflected mainly declines in exports of metals, machinery and equipment. Car industry exports to China – the first country to impose strict coronavirus quarantine measures – fell by almost 34% year on year (see Chart 7). The decline encompassed not only exports of cars, but also exports of key auto parts. This was also, however, the third successive month in which the Slovak automotive industry's exports to China weakened.

The **Economic Sentiment Indicator (ESI) for Slovakia** fell to 96.7 in March, 0.5 point below its February level (see Chart 8). The decrease in industry confidence was largely due to deteriorating production expectations for the months ahead. The services, retail trade, construction, and consumer confidence indicators increased. The survey, however, was conducted in the first half of March, so was still not registering concerns about the impact of coronavirus containment measures.

Chart 8
Economic Sentiment Indicator (2000-19 long-term average = 100)

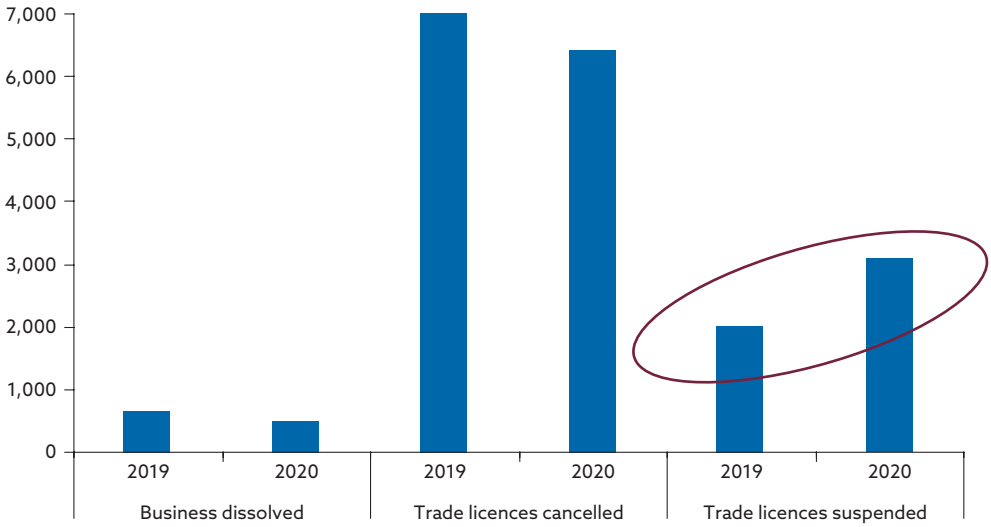


Source: European Commission.

Box 1
First signs of pandemic-related changes in the business environment

Figures for March and the first half of April 2020 did not show an increase in the number of firms going out of business due to changes in consumer behaviour or to the implementation of coronavirus containment measures. **Minor changes can be seen, however, in the number of sole traders who have suspended their trade licences;** this number has increased, as these individuals are able to respond more flexibly to the new situation.

Chart A
Business dissolutions and trade licence cancellations (number of businesses or sole traders)

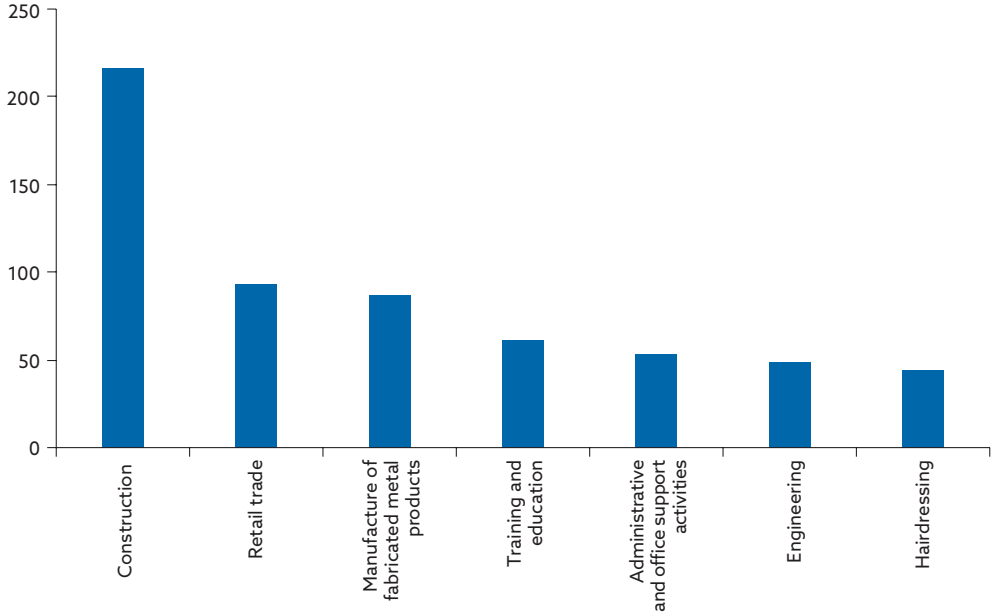


Source: Finstat.
Note: For the period from 1 March to 17 April 2020.

Before the current emergency situation, trade licences could be suspended for a period of not less than six months, but now they can be suspended for shorter periods. **As a result, small sole traders and people compelled to work under a trade licence may see the suspension of their licence as a solution. These sole traders probably do not have sufficient financial capital to see them through the current situation and they may want to save on costs related to social contribution payments.**

During the period under review, from the start of March to 17 April 2020, a total of 3,083 trade licences were suspended. Since the figure for the same period last year was 2,025, this represents a year-on-year increase of 52%. In the breakdown of these suspensions by economic activity, the largest differences vis-à-vis the same period in 2019 were in **construction work, retail trade, and manufacture of fabricated metal products** (in this case the traders were mostly welders and locksmiths), training and education (mostly course providers), administrative and office support activities, architecture and engineering activities, and other personal service activities (hairdressing and other beauty treatment, massage parlours).

Chart B
Trade licence suspensions in selected sectors (difference vis-à-vis 2019)



Sources: Finstat, and NBS calculations.
Note: For the period from 1 March to 17 April 2020.

The increase in the number of suspended trade licences so far amounts to only a few dozen. **Some of the changes mentioned may therefore be the result of natural change in the business environment,** especially in those areas where elevated fluctuation has also been observed in the past, namely construction work and manufacture of fabricated metal products. Sole traders who suspended their trade licence within one year after obtaining them account for around 14% of the overall difference from the previous year's number. In construction work and in manufacture of fabricated metal products, new trade licences accounted for, respectively, 46% and 29% of the year-on-year change in the number of licences suspended, while in training and education the corresponding figure was only 13%.

3.2 Labour market

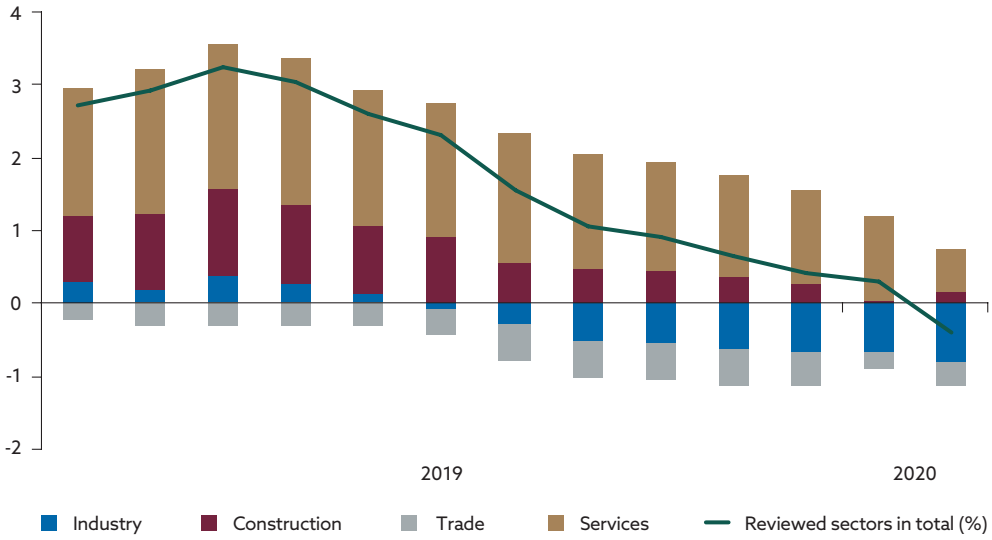
The number of employees in Slovakia decreased in February 2020, as the country's car industry faced headwinds of weak demand. Employment across the reviewed sectors fell, year on year, by 0.4% (after increasing by 0.3% in January). Much of that drop was attributable to manufacturing industry, where the rate of decline in employment accelerated to 2.2% (see Chart 9). This figure was largely accounted for by weaker employment in transport equipment manufacture. The number of passenger cars sold in China in February slumped by more than 80% in year-on-year terms.[5] In the European Union, new car registrations did not start falling sharply un-

[5] Source: Statista.com

til March (by 55% year on year),[6] so the impact of this trend on employment figures is expected to be even greater in the next month. In February, the recent adverse developments in industry spilled over into a slowdown in services employment growth. There was a clear decline in labour demand across all types of services, including restaurants, hotels, transportation, information technology, and other market services. In the construction sector, too, job growth is now modest and far below its 2019 level.

Chart 9

Employment by sector (annual percentage changes; percentage point contributions)

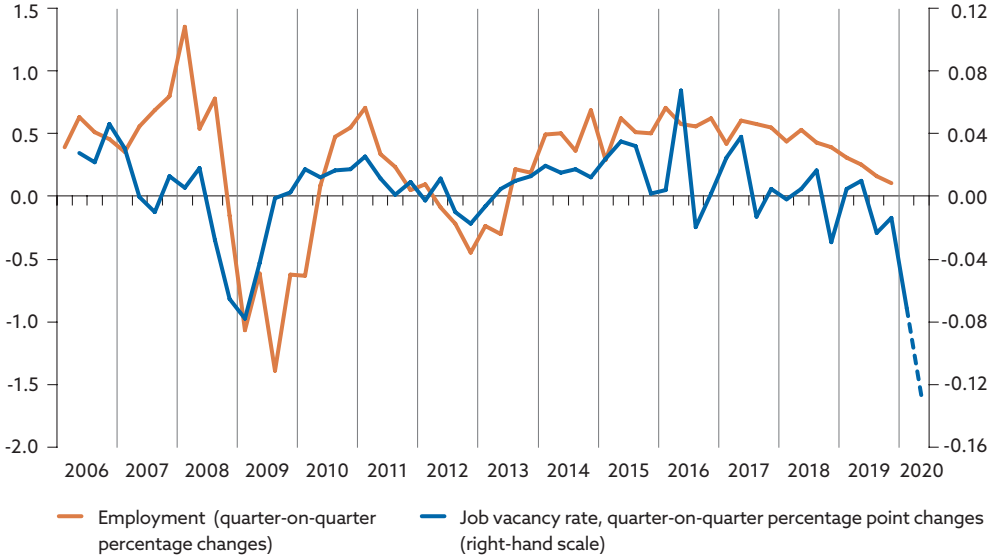


Sources: SO SR, and NBS calculations based on monthly data for the reviewed sectors.
Note: The trend shown by monthly data is indicative; monthly data are an imperfect indicator of the complete quarterly data.

The first real sign of how severe an impact the pandemic will have on employment in Slovakia is the number of jobs advertised on the online job portal operated by Profesia (www.profesia.sk) (see Chart 10). At the end of March the number recorded its largest drop since 2005. Since this indicator is closely related to trends in employment and the unemployment rate, employment can be expected to fall sharply in 2020 and its decline may be fully mirrored in the unemployment rate. Further upward pressure on the unemployment rate will come from the inflow of Slovaks who have returned to the country after their temporary employment abroad was terminated due to the pandemic. Government measures to mitigate the impact of the crisis on the labour market are extensive; nevertheless, it is realistic to expect that they will protect only firms' key employees essential for business continuity. Auxiliary, temporary and lower-skilled positions in particular will probably be cut in large numbers.

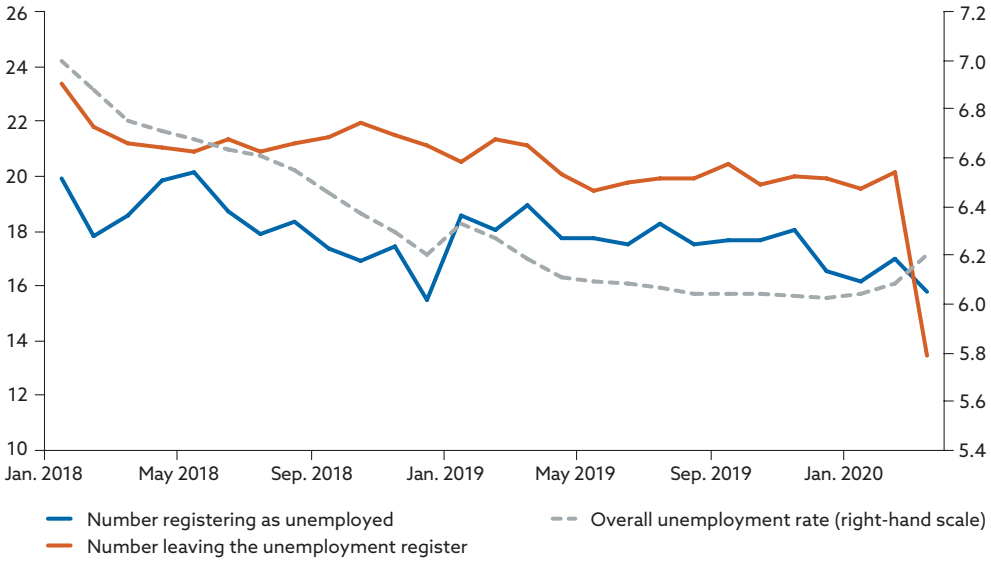
[6] Source: European Automobile Manufacturers' Association (ACEA). In February they declined by 7.4% year on year.

Chart 10
Employment and the job vacancy rate



Sources: Profesia, SO SR, and NBS calculations.
Notes: Seasonally adjusted data. The job vacancy rate is the ratio of the total number job vacancies to the economically active population. The rate for Q2 2020 is imputed on the basis of its level at the end of March 2020 and the projection for labour market activity.

Chart 11
The unemployment rate and the numbers of people joining and leaving the job seeker category (percentages; thousands of persons)



Sources: ÚPSVR, NBS calculations (including seasonal adjustment).

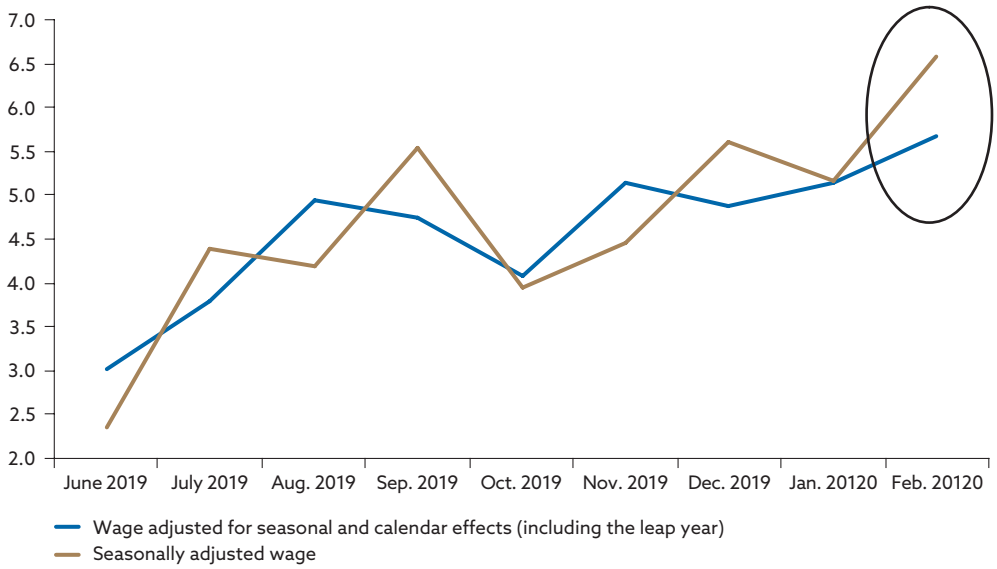
The unemployment rate increased in March by 0.1 percentage point, to 6.2% (see Chart 11). The number of unemployed rose by around three thousand, which is still a relatively low figure compared with the crisis year of 2009. The unemployment data were so far capturing only the significant limitation on recruitment; the number of job seekers finding work stood at an all-time low. Job creation was therefore clearly suffering, as indicated

by data from the Profesia online job portal (www.profesia.sk.). As regards job cuts and redundancies, the number of newly registered unemployed was not yet higher than in previous months, according to data from the Central Office of Labour, Social Affairs and Family (ÚPSVR). The ÚPSVR information shows, however, that the number of applications for unemployment registration was increasing in the second half of March. These applications take some time to process, though, so the impact on unemployment of rising redundancies and of Slovaks returning from abroad will be seen only in subsequent months. The increase in the unemployment rate in those months is expected to be greater than it was in March.

Average annual wage growth remained robust in February, but that trend will not hold out for long. Across the private sector segments under review, wages increased by 6.7% year on year (after rising by 5.3% in January). All the main economic sectors contributed to the acceleration, and the highest rates were seen in trade and services. Wage growth was significantly boosted by the leap year effect, which increased the number of hours worked. In the case of variable components of compensation, overtime payments, and employment contracts stipulating an hourly wage, the leap year has a significant impact on the amount of the wage paid. Leaving aside this effect, February's wage growth would have been one percentage point lower (see Chart 12). It may therefore be said that wage growth in February was fundamentally similar to that in January and continued to be supported by the increase in the minimum wage and wage premia at the start of the year, as well as by the relatively large increases in negotiated wages at around the same time. From a sectoral perspective, both construction and industry reported wage growth of 5-6% in February, while services and trade experienced slightly stronger growth (7-8%).

Wages are expected to have already declined sharply in March. The reasons include the following: a surge in the number of working parents taking time off work to care for a family member; a surge in the number of workers taking sick leave, in particular on grounds of quarantine; the decline in variable components of compensation and in wage premia in sectors that are weakened or shut down; and certain employers' reducing wage compensation to 60% of the average level, as permitted by the Labour Code for substantial operational reasons (in this case the pandemic). A substantial drop in wages may be expected in the automotive industry (which saw plant shutdowns in March), in accommodation and food service activities, and in market services. As a result, average annual wage growth is expected to turn negative in March.

Chart 12
Average wage across reviewed sectors, adjusted for the leap year effect (annual percentage changes)



Sources: SO SR, and NBS calculations.

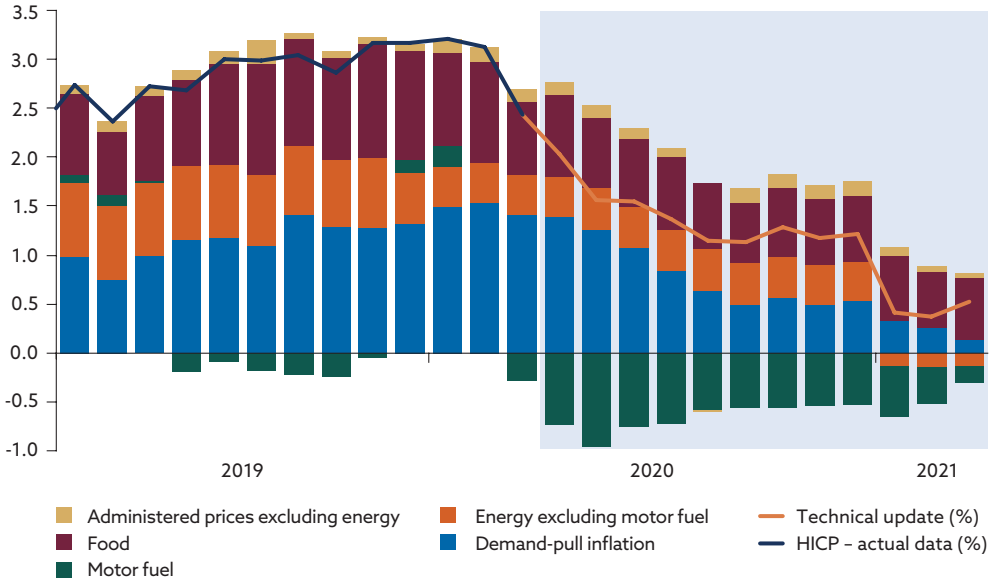
3.3 Prices

After peaking at the beginning of 2020, Slovakia's annual HICP inflation slowed sharply in March, to 2.4%. The main causes were a decline in motor fuel prices and a slowdown in food inflation (see Chart 13).

Demand-pull inflation moderated in line with projections (see Chart 14), owing mainly to a base effect in the rate of change in used car prices (see Chart 15). Services price inflation also eased, largely on the back of air fare movements. In the short term, given the adverse repercussions of the coronavirus pandemic, demand-pull inflation is expected to reflect mainly a significant reduction in domestic economic activity and a slowdown in wage growth. The measures and restrictions adopted in response to the pandemic are suppressing consumer demand for durable goods and for recreation, accommodation and restaurant services. In the services sector in particular, however, we can expect price rigidity and reduced scope for measuring price developments during the implementation of virus containment measures.

Chart 13

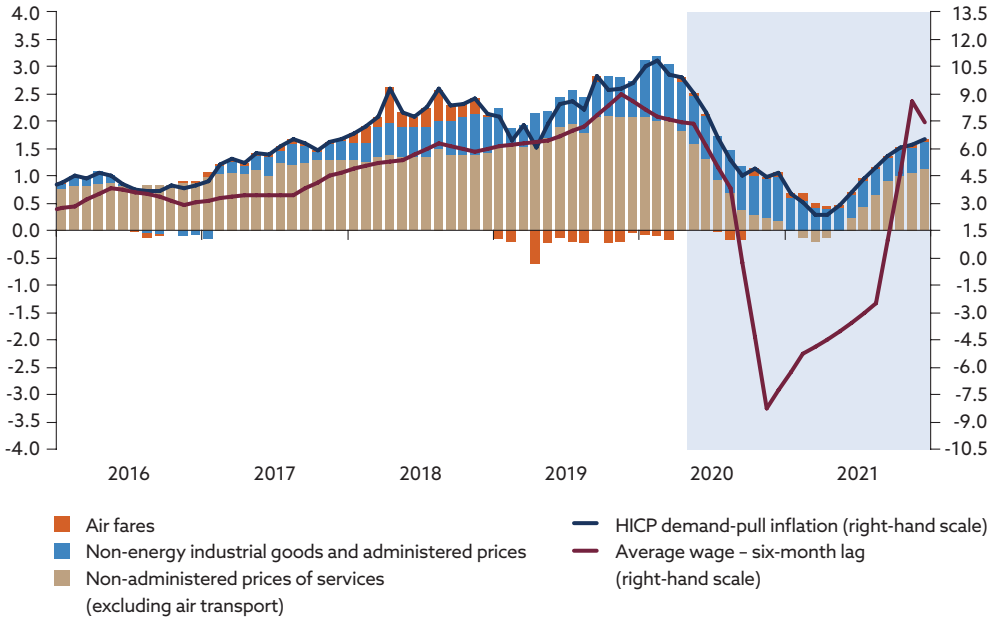
HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 14

Demand-pull inflation and wages (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

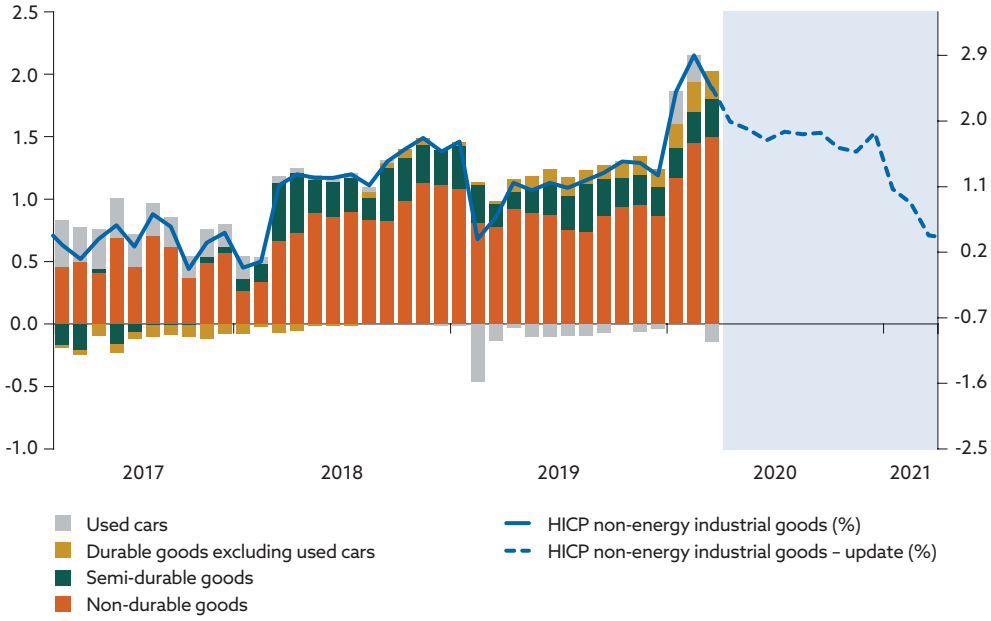
Annual food inflation (including alcohol and tobacco) moderated in March. The months ahead are expected to see the pass-through of accelerating agricultural commodity prices dampened by trends in other

cost factors. Food inflation is projected to be higher than headline inflation in 2020.

Motor fuel prices fell sharply in March, so their year-on-year rate of decrease became more pronounced (see Chart 16). The global economic slowdown has been reflected in a severe decline in demand for oil. The combination of an oil supply glut and dwindling storage capacity saw the price of a barrel of Brent crude oil fall to multi-year lows in March. With just a short lag, this movement passed through to motor fuel prices in Slovakia. Their marked downward trend is expected to continue in April and May (assuming that the OPEC+ countries do not agree on further significant cuts in oil output). Motor fuel prices may be one of the key factors behind this year's slowdown in headline inflation.

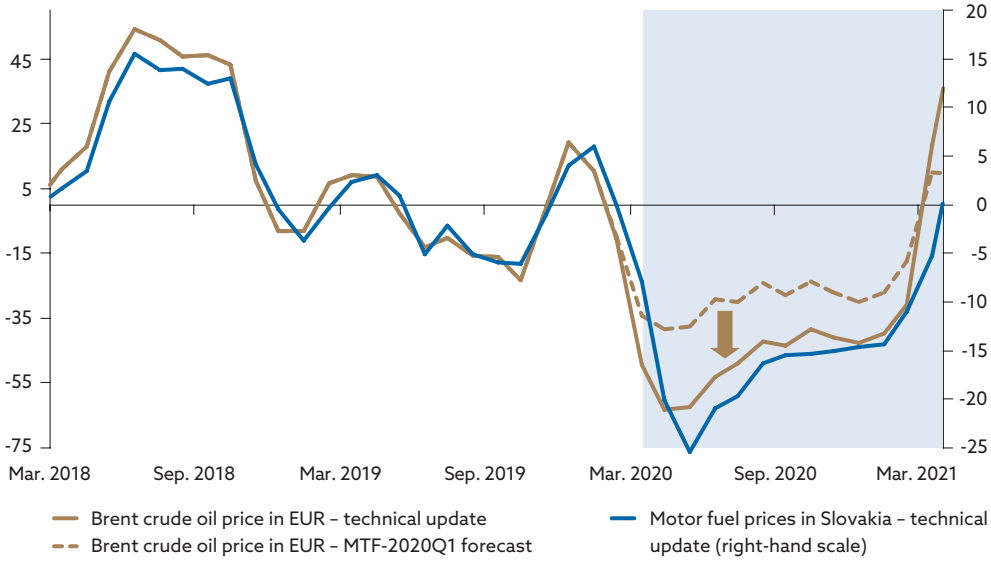
Chart 15

Non-energy industrial goods inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 16
Oil prices and motor fuel prices (annual percentage changes)

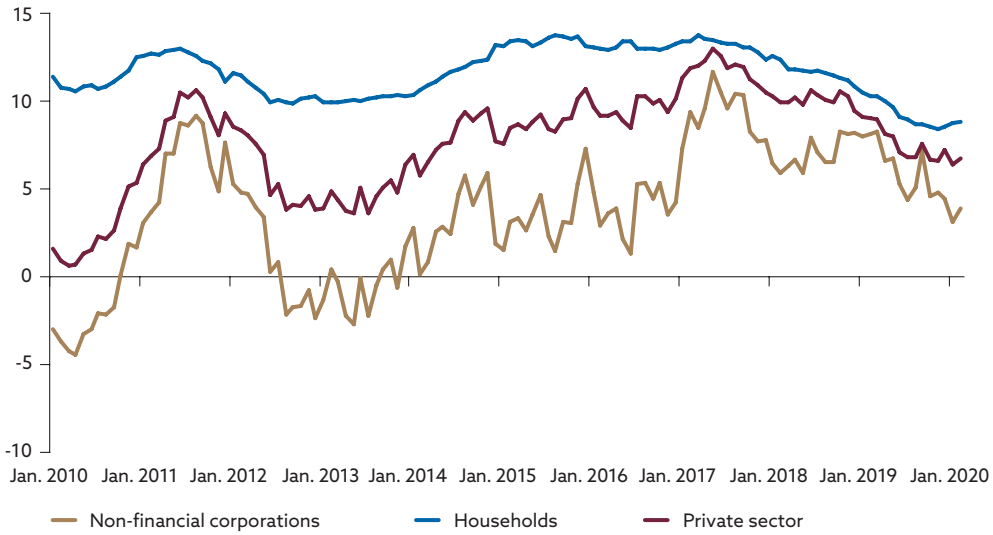


Sources: SO SR, and NBS calculations.

3.4 Loans and deposits

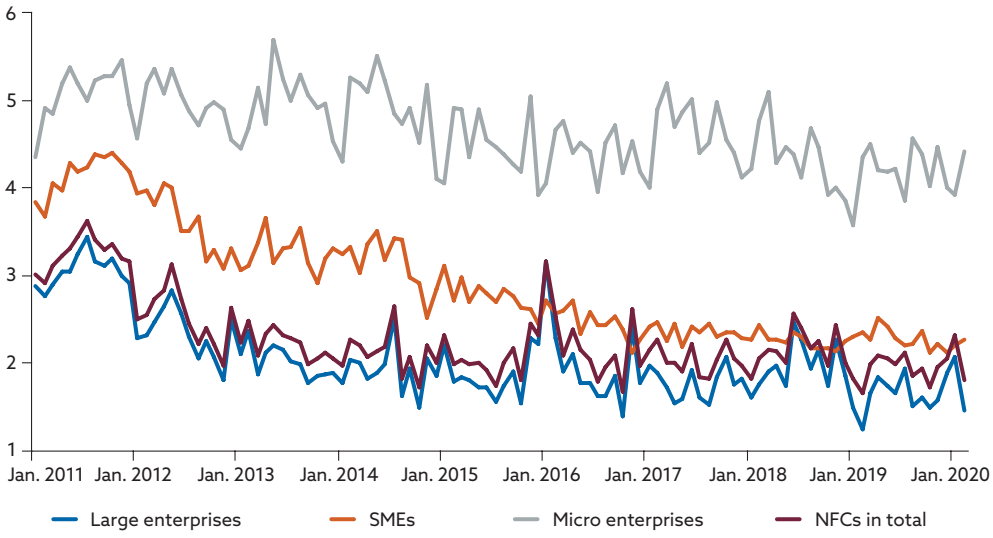
Lending activity in all segments increased in February 2020 (see Chart 17). The annual growth rate of loans to the private sector was 6.7% in February, 0.3 percentage point higher than its rate in January. This result put an end to a decelerating trend and included a moderate pick-up in lending to non-financial corporations (NFCs). Supported by declining interest rates, growth in the outstanding amount of NFC loans rose to 3.9% (from 3.1% in January). The decrease in interest rates was mostly confined to loans to large enterprises; borrowing costs for small and medium-sized enterprises increased (see Chart 18). From a sectoral perspective, the growth in demand for NFC loans was driven mainly by firms in industry and, to a lesser extent, by firms in the area of real estate activity, which in the previous period recorded a decline in borrowing.

Chart 17
Total loans (annual percentage changes)



Sources: ECB, and NBS calculations.

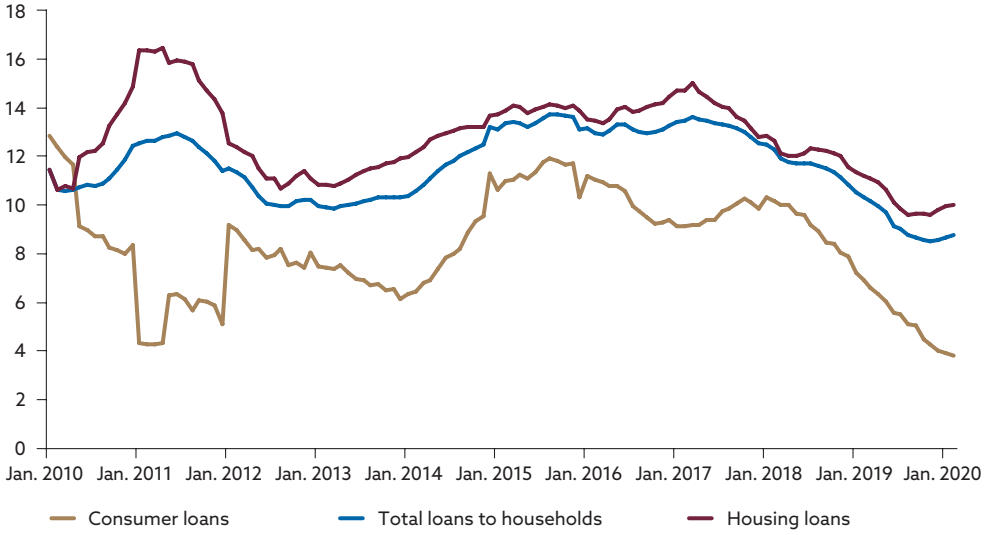
Chart 18
Lending rates for non-financial corporations (percentages per annum)



Source: NBS calculations.

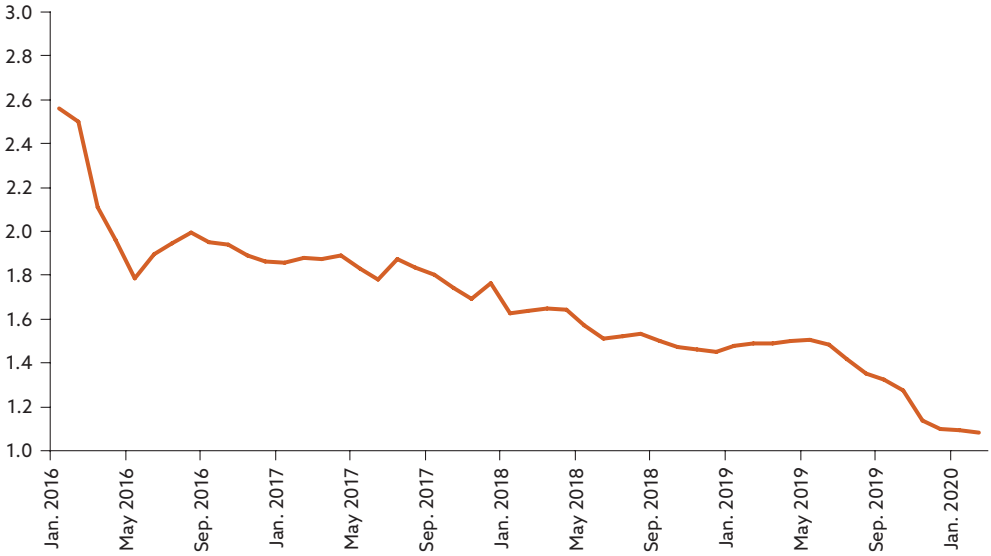
The annual growth rate of loans to households edged up to 8.8% in February, the third month in a row in which it accelerated moderately (see Chart 19). Lending growth has for a long time been driven mainly by housing loans, whose growth rate in February was the same as in January (10%). Despite recent tightening of regulatory limits in the area of mortgage lending, the growth rate of mortgage loans was relatively high in February, supported by the prolonged period of low interest rates (see Chart 20). After rising slightly in January, these interest rates fell back to a historical low in February.

Chart 19
Total loans to households (annual percentage changes)



Sources: ECB, and NBS calculations.

Chart 20
Mortgage lending rates (percentages per annum)



Source: NBS calculations.

As regards private sector deposits, their annual growth rate weakened in February (Chart 21) after accelerating in the previous month. In month-on-month terms, they increased by 0.1%. The slowdown in year-on-year growth was caused mainly by a decline in deposits of other financial intermediaries. Household deposit growth eased slightly. NFC deposit growth was relatively robust, probably supported by the uptick in corporate borrowing.

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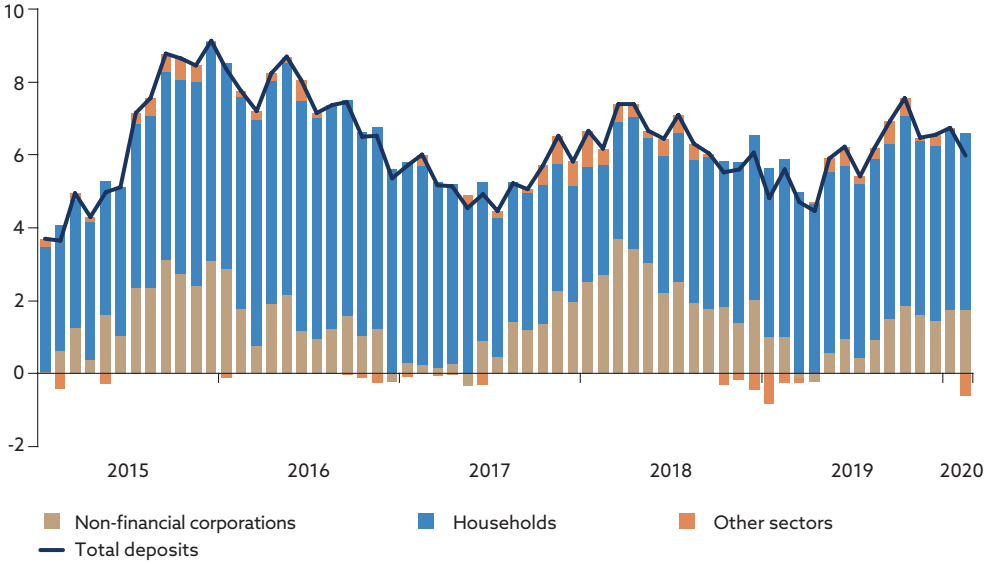
Chart 21

Total deposits (annual percentage changes; percentage point contributions)



Source: NBS calculations.

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4 Monetary policy

On 27 March **the ECB** updated **its recommendation to banks on dividend distribution.**[7] To boost banks' capacity to absorb losses and support lending to households, small businesses and corporates during the coronavirus (COVID-19) pandemic, the ECB recommended that banks should not pay dividends for the financial years 2019 and 2020 until at least 1 October 2020. Banks should also refrain from share buy-backs aimed at remunerating shareholders. Then on 7 April the ECB adopted an **unprecedented set of temporary collateral easing measures**[8] to facilitate the availability of eligible collateral for Eurosystem counterparties to participate in liquidity providing operations, such as the targeted longer-term refinancing operations (TLTRO-III). The ECB described the package as complementary to other recently announced measures, including additional longer-term refinancing operations (LTROs) and the Pandemic Emergency Purchase Programme (PEPP). The measures collectively support the provision of bank lending especially by easing the conditions at which credit claims are accepted as collateral (through the potential expansion of the additional credit claims framework). At the same time the Eurosystem is increasing its risk tolerance to support the provision of credit via its refinancing operations, particularly by lowering collateral valuation haircuts for all assets consistently. The ECB also adopted a waiver to accept Greek sovereign debt instruments as collateral in Eurosystem credit operations.

In the United States, **the Federal Reserve** followed up the array of monetary policy measures it adopted in the first half of March – including decisions to reduce significantly the target range for the federal funds rate, to increase its holdings of Treasury securities and agency mortgage-backed securities by at least €700 billion, and to establish several programmes to support lending – by deciding on 23 March **to significantly expand its asset purchases**. The Federal Reserve **will be increasing purchases of Treasuries and agency mortgage-backed securities** not in the amount stated previously, but **in the amounts needed** to support smooth market functioning and effective transmission of monetary policy to broader financial conditions. At the same time, the Federal Reserve announced that, in cooperation with the Department of the Treasury, it was **establishing several new programmes** that would support the flow of credit to businesses and households by providing up to USD 300 billion in new financing. The

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[7] For further information, see the ECB press release: https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200327~d4d8f81a53.en.html

[8] For further information, see the ECB press release: https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200407~2472a8ccda.en.html

Treasury, using the Exchange Stabilization Fund (ESF), will provide USD 30 billion in equity to these facilities. The new credit-supporting initiatives include the following: a Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance; a Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds; and a Term Asset-Backed Securities Loan Facility (TALF). In addition, the Money Market Mutual Fund Liquidity Facility (MMLF) and the Commercial Paper Funding Facility (CPFF), whose establishment was announced earlier in the month, will be expanded to include a wider range of securities. Besides these measures, the Federal Reserve on 9 April announced the establishment of a Paycheck Protection Program Liquidity Facility (PPPLF) that will extend credit to eligible financial institutions that originate loans under the Paycheck Protection Programme (PPP), taking the loans as collateral at face value. To support lending to small and medium-sized businesses, the Federal Reserve announced it was establishing a Main Street Lending Program through which it will purchase up to USD 600 billion of loans provided by banks to such entities. The Treasury will make an initial equity investment of USD 75 billion in the facility. The Federal Reserve will purchase 95% of each Main Street Loan, with the banks retaining a 5% stake in them. The Federal Reserve established a Municipal Liquidity Facility to support lending to state and local governments. The facility will purchase up to USD 500 billion of eligible notes from eligible issuers, while the Treasury will make an initial equity investment of USD 35 billion in the facility.[9]

On 6 April the Federal Reserve launched a **temporary repurchase agreement facility for foreign and international monetary authorities** (FIMA Repo Facility) to help support the smooth functioning of financial markets, including the US Treasury market. This facility allows FIMA account holders, which consist of central banks and other international monetary authorities, to enter into repurchase agreements with the Federal Reserve. In these transactions, the account holders temporarily exchange their US Treasury securities for US dollars, which can then be made available to institutions in their jurisdictions. This facility provides an alternative source of dollar liquidity other than sales of securities in the open market. It will also serve, along with US dollar liquidity swap lines the Federal Reserve has established with other central banks, to help ease strains in US dollar funding markets.

[9] For further information, see the following Federal Reserve press releases: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm, https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm

In the United Kingdom, **HM Treasury and the Bank of England** agreed in April to extend temporarily the use of the Ways and Means facility, the government's pre-existing overdraft at the Bank. This step is intended to ensure that the government has access to funds if the coronavirus pandemic leaves it unable to raise money from markets easily. Any drawings will be repaid before the end of the year. The highest drawing under the facility was GBP 19.9 billion in 2008. Ordinarily a standing balance of around GBP 0.4 billion is maintained.

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5 EU response to the coronavirus (COVID-19) pandemic

On 9 April EU finance ministers agreed on measures to mitigate the economic fallout from the coronavirus pandemic.[10] These measures were in addition to those already taken by Member States to strengthen the healthcare sector and to protect households, employment and the worst affected economic sectors. Member States had also already committed to provide liquidity support for sectors facing disruptions and companies facing liquidity shortages, consisting of public guarantee schemes and deferred tax payments. The European Council has called for proposals at the EU level for economic measures to be taken in response to the pandemic and its economic consequences. The measures so far adopted or under discussion are focused on four priorities: limiting the spread of the virus; ensuring the provision of medical equipment; promoting research for treatments and vaccines; and supporting jobs, businesses and the economy.

Flexibility in EU rules. One of the first steps was the approval of the European Commission's assessment that the conditions had been fulfilled for use of the general escape clause of the EU fiscal framework, which in difficult economic times allows for a certain flexibility in the application of EU rules in Member States. The Commission has also issued a specific temporary state-aid framework to expedite public support to companies and extended the framework to cover support for research, testing and production relevant in the fight against the coronavirus pandemic. In addition, the Commission has issued guidance on the use of all the flexibilities offered by the EU public procurement framework in this emergency situation.

Use of the EU budget. The Commission has issued proposals on how to use existing EU budget resources to fight the crisis. The proposal for a Coronavirus Response Investment Initiative (CRII) will allow the use of €37 billion to address the crisis, and these funds are expected to be used to support the healthcare sector, to provide operating capital to small and medium-sized enterprises, and to support short-term employment schemes. The funding is expected to comprise non-utilised support from European structur-

[10] For further information, see the following press release: https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/

al and investment funds from the previous year and support from the EU cohesion policy budget for 2020. This is not expected to affect the overall allocation of EU funds under the 2014-2020 multiannual financial framework; there will merely be a shift in priorities and a temporary easing of conditions to expedite the use of funds. The scope of the Solidarity Fund has been broadened to allow the hardest hit Member States to get access to financial support of up to €800 million in 2020.

EU budget flexibility. There will temporarily be greater flexibility in the use of EU funds, such as allowing transfers between funds, regions and policy objectives, and abandoning national co-financing requirements. One of the first measures is the reactivation of the Emergency Support Instrument, using it to allocate €2.7 billion in grants to the healthcare sector.

SURE. A new instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) has been created and will be used to channel up to €100 billion to schemes to support short-time work, unemployment benefits, and other labour protection schemes.

Strengthening EIB activities. The European Investment Bank Group has backed the creation of a €25 billion pan-European Guarantee Fund that will enable the EIB to scale up its support for European companies up to an additional €200 billion, with a focus on small and medium-sized enterprises.

Aid for Member States. It is proposed that the European Stability Mechanism establish a Pandemic Crisis Support providing euro area countries with a credit line amounting to 2% of the respective Member State's GDP. For Member States that have not adopted the euro, support can be provided through the Balance of Payments Facility.

Recovery fund. At a meeting in late April, EU leaders agreed to work towards establishing a Recovery Fund for helping economies recover once the pandemic is over. The European Commission has been tasked with producing a proposal for the financing of the fund. Playing a role in this initiative will be the EU's 2021-2027 multiannual financial framework, which may justifiably be adapted to some extent in response to the need for recovery of EU economies.

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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	6.8	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	4.3	6.0	100.5	5.1	9.5	8.2	10.8	-1,182	-1.0	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	-1.3	48.0	-2.9	-0.8	1.1195
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	47.6	-2.8	-0.8	1.1237
2019 Q3	1.3	3.0	1.8	1.0	4.9	6.1	-2.9	-2.9	96.5	6.0	7.6	7.2	8.7	-	-0.9	47.8	-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	-	-3.4	48.0	-2.4	-0.3	1.1071
2020 Q1	.	2.9	.	.	5.1	6.1	.	.	97.6	.	.	.	.	-	.	.	.	.	1.1027
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	-	4.9	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	6.0	-8.1	-6.0	97.1	5.4	6.8	5.1	8.7	-213	-	-	-	-	1.1130
2019 Sep.	-	3.0	1.3	-	4.9	6.0	-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	6.0	-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	-3.8	-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	-7.0	-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	0.6	98.9	7.4	6.4	3.1	8.7	-95	-	-	-	-	1.1100
2020 Feb.	-	3.1	2.9	-	5.0	6.1	-1.6	-0.2	97.2	6.7	6.7	3.9	8.8	-626	-	-	-	-	1.0910
2020 Mar.	-	2.4	.	-	5.2	6.2	.	.	96.7	.	.	.	.	-824	-	-	-	-	1.1060

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/StatisticsMB0420.xls