NBS Monthly Bulletin

May 2020

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

www.nbs.sk

Published by

Electronic version

https://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-monthly-bulletin

Address

Národná banka Slovenska
Imricha Karvaša 1
813 25 Bratislava
info@nbs.sk

Discussed by the NBS Bank Board on 26 May 2020.

ISSN 1337-9526 (ONLINE)

Contents

List of charts in boxes

Abbreviations

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

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

1 Summary

According to the flash estimate, the euro area economy contracted by 3.8%, quarter on quarter, in the first quarter of 2020. Some national statistical data indicate particularly strong declines in private consumption and investment. Among the larger euro area economies, those hardest hit by the coronavirus (COVID-19) pandemic (France, Spain and Italy) experienced the most pronounced decline in GDP. The economic downturn was also reflected in the labour market situation in the euro area, as employment fell by 0.2% in the first quarter. In April and May the majority of leading indicators posted their lowest ever readings, which were mirrored by a further substantial drop in economic activity. The current relief measures in almost all EU countries may give a boost to economic activity in the period ahead.

In Slovakia, the introduction of lockdown measures resulted in the country's GDP declining by 3.9% in the first quarter of 2020 as compared with the same quarter of the previous year. According to monthly data, exports and investment demand exerted the main downward pressure on GDP. Since the state of emergency was still in force in April and May, the economic contraction in the second quarter is expected to be even larger.

The coronavirus crisis began to have an impact on employment in the first quarter, causing it to fall by 0.5% year on year. This decline centred mainly on the industry sector, which has for some time been facing economic headwinds. The services sector, too, was affected by the first consequences of the pandemic. Indicators of labour market developments in the second quarter point to a substantial drop in demand for labour. In April, as a result of mass redundancies, the unemployment rate recorded its highest ever one-month increase, climbing to 7.4% (the headcount increase was around 34 thousand). Average annual wage growth slowed sharply in March, to stand at 1.7% across the sectors under review. Annual wage growth is expected to turn negative in the second quarter.

The annual inflation rate continued decelerating in April and, for a second successive month, fuel prices were the main cause of the slowdown. The weakening of demand-pull inflation is not yet fully evident due to difficulties in the measuring of services prices. The inflation rate will in coming months reflect the impact of labour market cooling and low import prices.

Growth in lending to the private sector was the same in March as in the previous month. While the growth rate of loans to households moderated, lending to non-financial corporations (NFCs) accelerated as firms tapped credit lines secured before the onset of the pandemic. Total private sector deposits declined in March, largely due to a fall in NFC deposits.

Chart of the month

Change in the loan application rejection ratio (net percentages)

Source: ECB.

Banks are perceiving high risk in the economic impact of the coronavirus pandemic and associated government administrative measures. As a result, they are tightening credit standards. Furthermore, the loan application rejection ratio increased significantly compared with the fourth quarter of 2019. This problem is most apparent in lending to NFCs. The rapid implementation of government lending guarantees could help firms overcome current liquidity difficulties.

Table 1 Macroeconomic indicators released since the previous monthly bulletin

Indicator	Unit	Period	Current period	Previous period
Euro area				
Confidence indicators				
PMI	index	*May 2020*	**30.5**	13.6
Economic Sentiment Indicator	long-run average = 100	*April 2020*	**67.0**	94.2
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q1 2020*	-3.2	1.0
Industrial production index	annual percentage change	*March 2020*	-12.8	-1.9
Retail sales	annual percentage change, constant prices	*March 2020*	**-9.2**	2.3
Unemployment rate	percentage	*March 2020*	**7.4**	7.3
HICP inflation	annual percentage change	*April 2020*	**0.4**	0.7
Oil price in USD[1)]	level	*May 2020*	30.5	27.4
EUR to USD exchange rate[1)]	level	*May 2020*	1.084	1.086
Slovakia				
Confidence indicators				
Economic Sentiment Indicator	long-run average = 100	*April 2020*	**55.1**	96.7
Industrial confidence indicator	percentage balance	*April 2020*	**-42.3**	-3.1
Consumer confidence indicator	percentage balance	*April 2020*	**-29.9**	-7.8
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q1 2020*	**-3.9**	2.1
Aggregate sales	annual percentage change, constant prices	*March 2020*	**-12.4**	-0.2
Industrial production index	annual percentage change	*March 2020*	**-19.6**	-1.6
Private sector credit	annual percentage change	*March 2020*	6.7	6.7
Employment	annual percentage change	*March 2020*	**-2.0**	-0.4
Unemployment rate[2)]	percentage	*April 2020*	**7.5**	6.2
Nominal wages[3)]	annual percentage change	*March 2020*	**1.7**	6.7
HICP inflation	annual percentage change	*April 2020*	**2.1**	2.4

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).

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

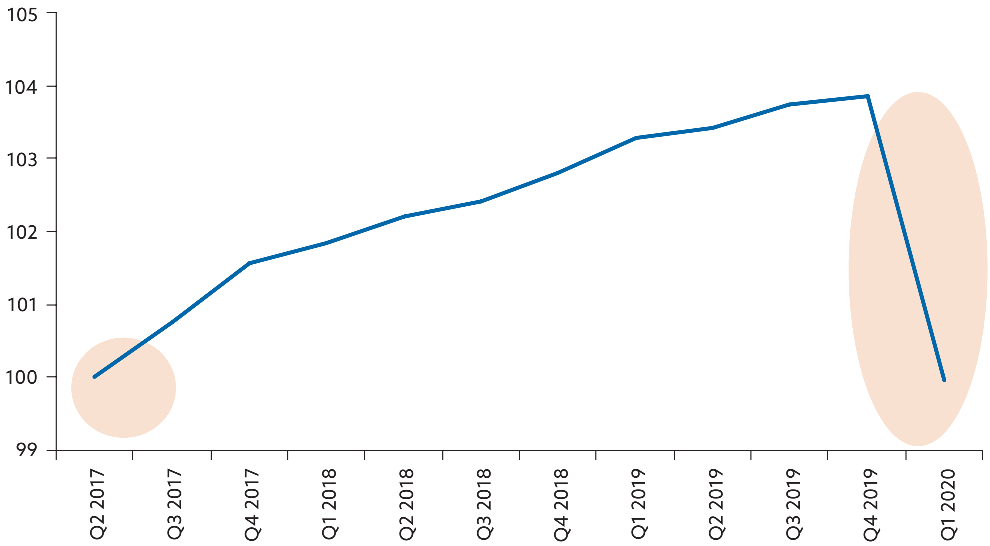
Indicator	Unit	Period	Current projection	Qualitative shift
Gross domestic product – Slovakia	quarterly percentage change, constant prices	*Q2 2020*	-9.9	↑↑
Gross domestic product – euro area	quarterly percentage change, constant prices	*Q2 2020*	0.1	↓↓
Employment (ESA) – Slovakia	quarterly percentage change	*Q2 2020*	-1.3	↓↓
Nominal wages – Slovakia	annual percentage change	*Q1 2020*	3.8	↑↑
HICP inflation – Slovakia	annual percentage change	*Q2 2020*	2.0	=

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

2 External environment

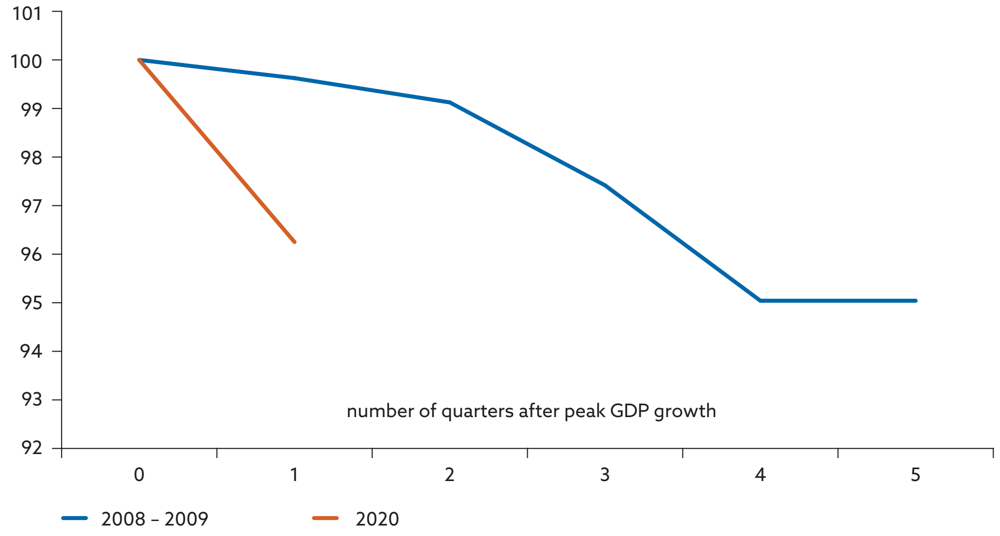
The **euro area economy contracted by 3.8%** in the first quarter of 2020, according to Eurostat's flash estimate for the quarter-on-quarter change in GDP (which was the same at its preliminary flash estimate). Although the coronavirus pandemic did not start affecting most euro area countries until March, its impact on the economy was considerable. Due to the coronavirus crisis, euro area GDP declined for the first time since the first quarter of 2013, **falling back to the level it was at in the second quarter of 2017** (see Chart 1). Compared with the 2008/2009 crisis (see Chart 2), the economic contraction was exceptionally sharp. Over the first five quarters of the previous crisis, GDP shrank by around 5%, whereas in the first quarter of 2020 alone, it fell by almost 4%. What is more, the majority of measures restricting economic activity were introduced only at the end of March. The composition of first-quarter GDP growth will not be released until 9 June. According to some national statistical data, the GDP components that had the largest negative impact were private consumption and investment. Exports also fell significantly, but with imports dropping to a similar extent, net trade is not expected to have been a major contributor to the decline in GDP. Government consumption appears to have had a positive impact, probably as a result of the measures adopted to address the pandemic.

Chart 1
GDP (index: Q2 2017 = 100; constant prices)



Sources: Macrobond, and NBS calculations.

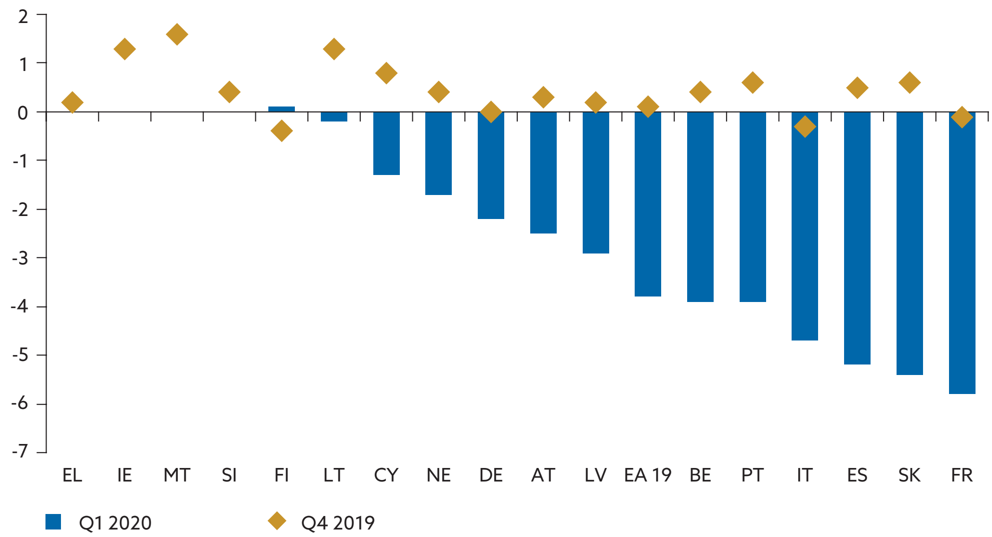
Chart 2
The "corona contraction" in 2020 vis-à-vis GDP in the first quarters of the 2008-2009 crisis (100 = peak of expansion)



Sources: Macrobond, and NBS calculations.

From a cross-country perspective, the impact of the coronavirus crisis on the economy was heterogeneous depending on the severity of the measures adopted to contain the pandemic (see Chart 3). Of the larger euro area economies, those that experienced the sharpest contraction of GDP in the first quarter of 2020 were France (-5.8%), Spain (-5.2%) and Italy (-4.7%). GDP declined more moderately in Germany (by 2.2%) and the Netherlands (by 1.7%).

Chart 3
GDP in euro area countries (quarter-on-quarter percentage changes)



Source: Macrobond.
Note: Date for the first quarter were not available for Greece, Ireland, Luxembourg and Slovenia.

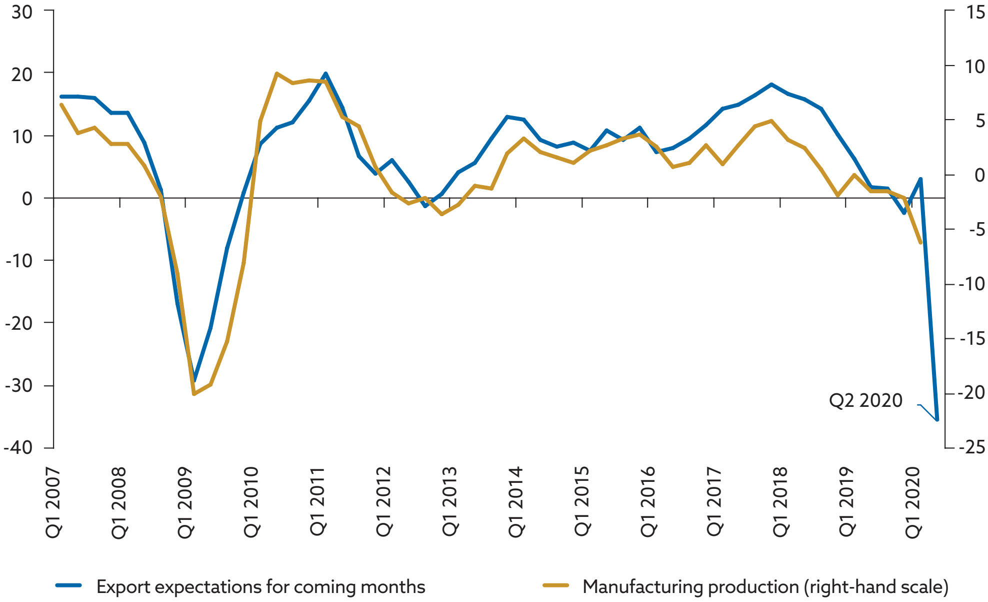
The economic downturn was also reflected in a deterioration of the labour market situation, as **employment fell by 0.2% compared with the previous quarter.**

Euro area industrial production recorded its largest ever monthly decline in March 2020, falling by 11.3% compared with the previous month (see Chart 4). The decline was more pronounced in durable goods production, which decreased by more than 12%. Across manufacturing industries, **production fell most sharply in the car industry** (down by more than 26%). The countries whose industrial production fell the most were those worst affected by the pandemic and those which adopted the strictest coronavirus containment measures. Among the largest euro area countries, industrial production fell most markedly in Italy, by almost 30%, while in the Netherlands, where the containment measures were quite moderate, it dropped by just 0.8%. In quarter-on-quarter terms, industrial production decreased by 3.3% in the first quarter of 2020, which implies that the services sector was a more significant factor behind the 3.8% contraction of GDP in the first quarter. According to several leading indicators, a further significant weakening of industrial performance can be expected in April and the second quarter as a whole. For example, export expectations have slumped (see Chart 4). The introduction of coronavirus containment measures caused **retail sales to plummet by 11.2% in March** (see Chart 5). In the case of clothing and footwear sales, the decline was almost 40%. Restrictions on movement and travel caused motor fuel sales to decline significantly (by more than 20%). By contrast, sales of food and beverages increased strongly (by 5.0%). For the first quarter as a whole, retail sales fell by 2.9%, implying a notable weakening of household consumption within the composition of GDP growth (see Chart 5). The virus containment measures have also had a sizeable impact on **construction production**, which **declined by 14,1% in March.** Among the largest euro area economies, construction production declined the most in France (by 40.2%) and Italy (by 36.2%), and more moderately in Spain (by 2.5%). In Germany and the Netherlands, construction production increased (by 1.8% and 1.5% respectively). In quarter-on-quarter terms, euro area construction production fell by 1.8%.

Looking at the **Purchasing Managers' Index** (PMI) for the euro area, its sharp decline resulting from countries' coronavirus containment measures showed the first signs of easing in May. The flash **composite PMI** rose from an all-time low of 13.6 in April to 30.5 in May (still far below 50 and therefore well in contraction territory). In both **the manufacturing PMI and the services PMI**, the rate of decline moderated, reflecting both a reduction in the number of firms reporting lower activity and an increase in the number of firms reporting an improvement. The **services PMI** increased to 28.7 (from 12.0 in April), but lockdown measures continued to hit the hospitality, travel and tourism industry. The **manufacturing PMI** also increased, from 33.4 in April to 39.5. The pandemic was again the most commonly cited cause of falling output, resulting in closures of many business, disrupting supply chains, and weighing on demand for a wide variety of goods and services.

Chart 4

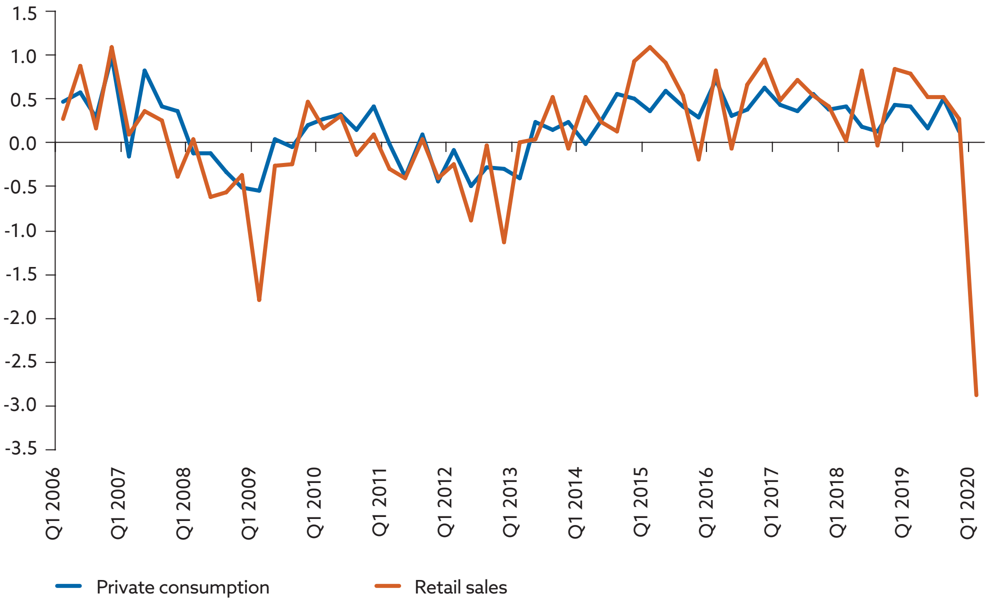
Euro area: export expectations and manufacturing production (percentage balances; annual percentage changes; constant prices)



Source: Macrobond.

Chart 5

Euro area: private consumption and retail sales (quarter-on-quarter percentage changes; constant prices)

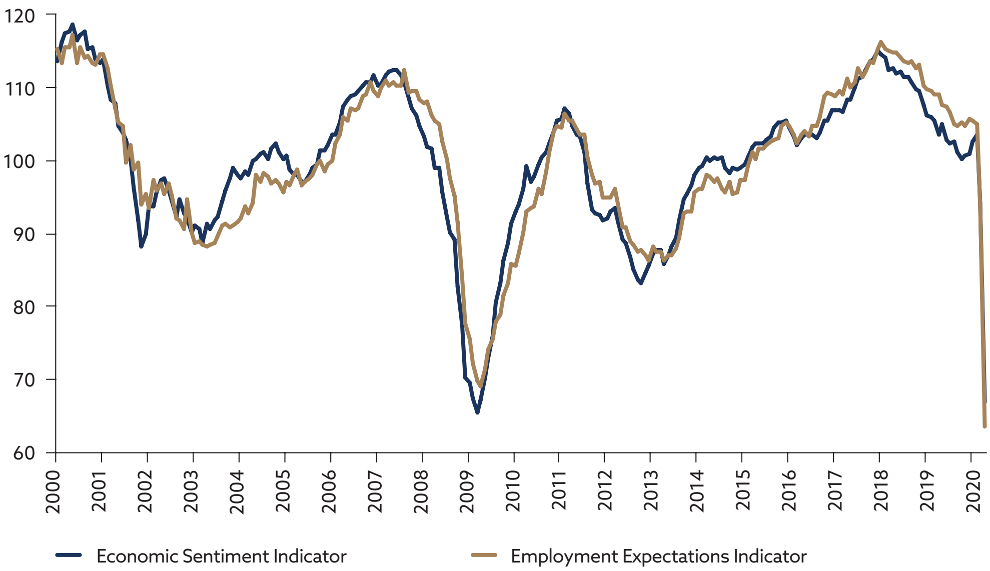


Source: Macrobond.

The European Commission's **Economic Sentiment Indicator (ESI)** for the euro area crashed by 27.2 points in April, to 67.0 (see Chart 6), ending up close to the lowest levels registered during the 2008-2009 crisis. This was the ESI's strongest monthly decline on record. All of the component indicators posted their largest ever decreases, with the decline being particularly marked in the services and retail trade sectors as well as among consumers. Among the largest euro area economies, the ESI crashed in the Netherlands, Spain, Germany and France, while no data could be collected in Italy due to the strict lockdown measures. It is assumed that the euro area ESI's decline would have been even greater had the Italian data been included. In many countries, the response rate was lower than usual. The adverse outlook for the labour market situation was reflected in the **Employment Expectations Indicator** (see Chart 6), which fell in April to its lowest ever level. Survey results also indicate that production problems relate not only to supply chain interruptions, but also to a significant increase in the share of respondents who see insufficient demand as a factor limiting production (see Chart 7). Capacity utilisation in manufacturing fell to the historical low recorded during the 2008-2009 crisis (see Chart 7).

Chart 6

Euro area: economic sentiment and employment expectations (index)

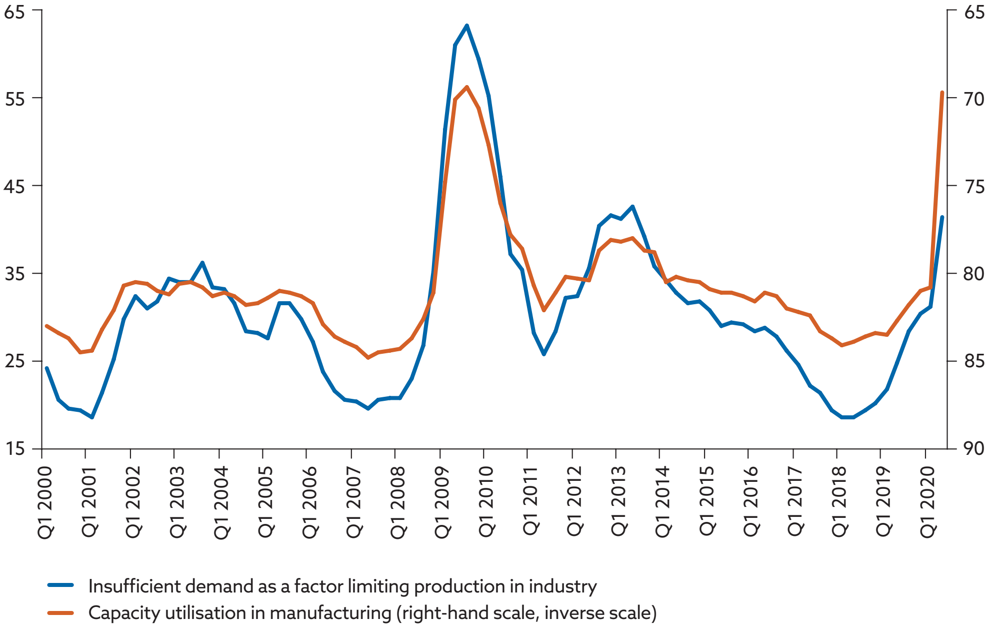


Source: Macrobond.

In the **United States**, GDP declined at a 4.8% annualised rate in the first quarter of 2020, even though coronavirus containment measures were not implemented extensively until the second half of March. Private consumption had the largest negative impact on GDP growth, plummeting by almost 8% on an annualised basis; the decline in services consumption was particularly severe.

Chart 7

Euro area: capacity utilisation in manufacturing and assessments of demand as a factor limiting production in industry (percentages)



Source: Macrobond.

According to the April employment report released by the Bureau of Labor Statistics (BLS), non-farm employment in the United States slumped by 20.5 million in April, with the leisure and hospitality industry accounting for more than one third of the decline. This severe result had been signalled by an upsurge in unemployment claims. In April the unemployment rate soared by 10.3 percentage points, to 14.7%, recording its highest monthly jump and highest level since this time series began in 1948. According to the BLS report, the most notable increase was in the number of workers temporarily unemployed. The major difference between the United States and the euro area in terms of labour market indicator changes stems from different economic policy approaches. In the euro area, fiscal measures have been aimed at preserving employment, whereas the US Administration has targeted measures at unemployment support.

Data from **Google Community Mobility Reports** show that economic activity has continued to contract across several major economies in the second quarter. These data express the percentage deviation from the baseline.[1] Charts 8 and 9 show the monthly average for reported mobility trends in the location categories (including 'workplaces', 'retail and recreation', 'transit stations' and 'grocery and pharmacy')[2] excluding 'parks' and

---

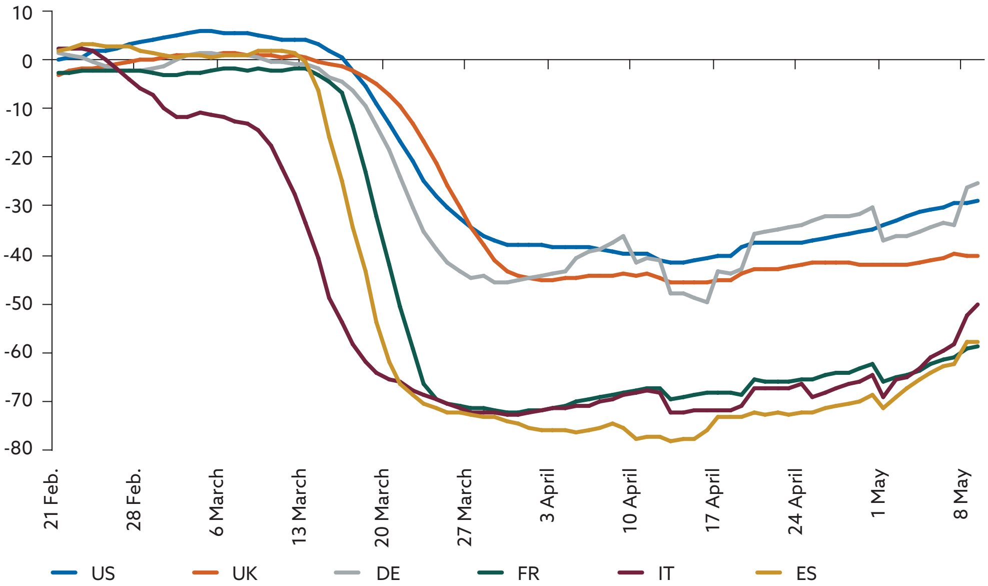
1 The baseline is the median value for the corresponding day of the week during the five-week period from 3 January to 6 February 2020.

2 Further information is available at https://www.google.com/covid19/mobility/

‘residential’. Mobility in most countries fell sharply in late March and early April. Although mobility has increased gradually in the second quarter, it remains far below the baseline.

Chart 8

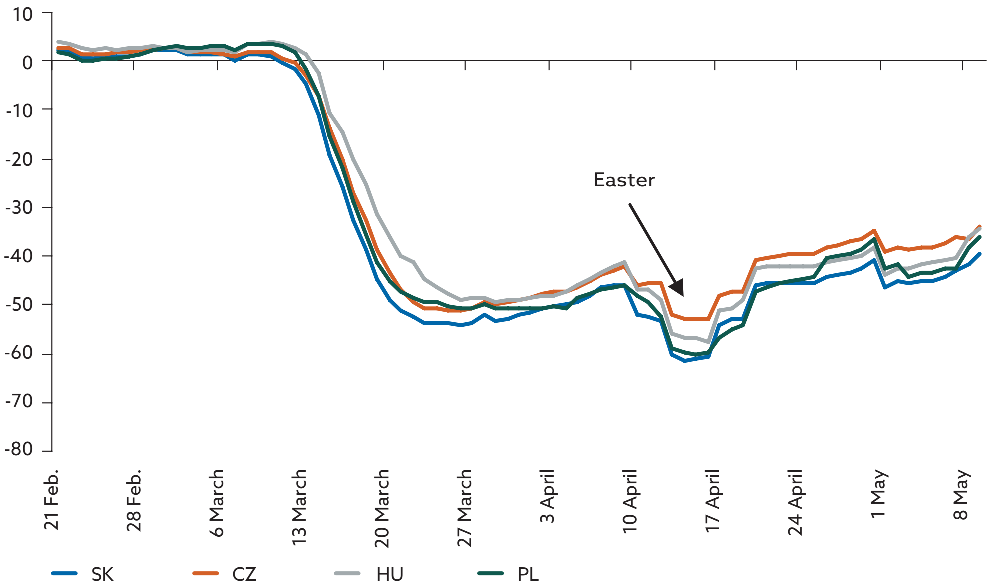
Google Community Mobility Reports for selected large countries (excluding the parks and residential categories; weekly moving average; deviation from baseline; percentages)



Sources: Macrobond, and NBS calculations.

Chart 9

Google Community Mobility Reports for the Visegrad Four countries (excluding the parks and *residential* categories; weekly moving average; deviation from baseline; percentages)



Sources: Macrobond, and NBS calculations.

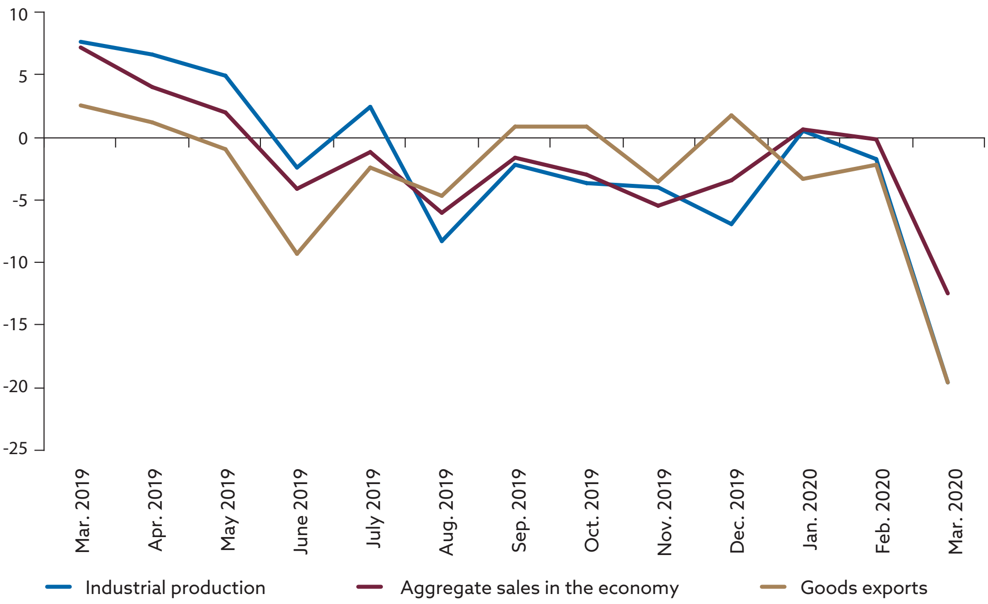
In early May the **European Commission** published its **Spring 2020 Economic Forecast**, which takes into account the coronavirus pandemic and the associated measures that have resulted in a severe economic downturn. In this context, **the Commission projects that global real GDP (excluding the EU) will contract by 2.9% in 2020** before a recovery of 5.0% in 2021. It envisages that China's economic growth will slow to 1% and that the US economy will contract by 6.5%. International trade is also projected to fall sharply (by more than 10%, excluding the EU). **The forecast for euro area GDP is a decline of 7.7% in 2020,** followed by growth of 6.3% in 2021. The Commission's outlooks for the global economy and euro area economy are broadly similar to what the IMF projected in April 2020, i.e. that global GDP will fall by 3.0% and euro area GDP by 7.5% in 2020.

3 The Slovak economy[3]

3.1 Economic activity

The Slovak economy contracted by 3.9%, year on year, in the first quarter of 2020. Economic growth had already been weakening in the second half of 2019 (see Chart 10), but the subsequent coronavirus pandemic and rapid roll-out of measures to contain it had a substantial impact on the behaviour of firms and households. In view of the lengthy state of emergency put in place, the recession is expected to bottom out during the second quarter. Compared with the fourth quarter of 2019, GDP declined by 5.4% in the first quarter of 2020 after adjustment for seasonal effects (see Chart 11); this figure exceeded NBS expectations.

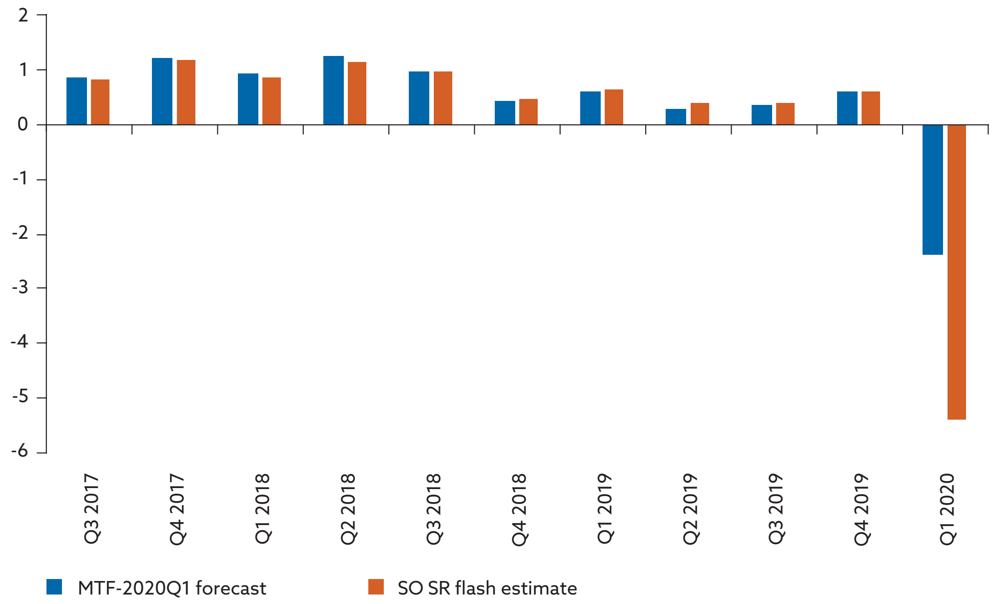
Chart 10
Economic indicators (annual percentage changes)



Sources: SO SR, and NBS calculations.

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

Chart 11
GDP flash estimates vis-à-vis projections (annual percentage changes)



Sources: SO SR, and NBS calculations.

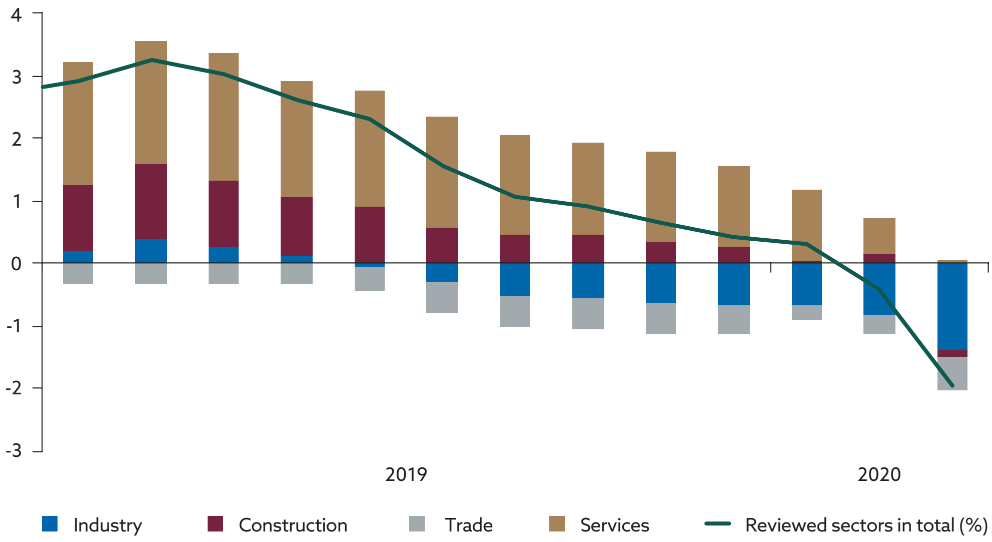
The composition of the first quarter's GDP growth under the expenditure approach will be known in early June. Monthly data indicate that the lockdown measures introduced across the world have adversely affected Slovakia's foreign trade, with exports declining sharply in the first quarter of the year. On the domestic side of the economy, corporate investment is expected to have fallen sharply. In the car industry, which faces structural changes and waning demand, investment has come to a halt. The government-declared state of emergency and associated restrictions have weighed on household consumption. After its favourable trends in the first two months of the year, demand for hospitality and personal services is expected to have collapsed in March; nevertheless, demand for services in the first quarter as a whole may not have fallen sharply. Furthermore, demand increased in the retail trade sector owing to stocking up by households.

3.2 Labour market

Because of the adverse impact of the coronavirus outbreak in March, employment decreased in the first quarter of 2020 on both a year-on-year and quarter-on-quarter basis. March saw employment across the reviewed sectors slump by 2%, which was its largest decline since August 2010. This was to a large extent reflected in annual employment growth in the Slovak economy as a whole, which fell by 0.5% in the first quarter (see Chart 12). In quarter-on-quarter terms, the number of persons employed in the Slovak economy declined by around 13 thousand. The impact of the coronavirus crisis on the March data was evident from the year-on-year decline in employment in industry, trade, market services (accommodation and food services, cultural and recreational services) and, to a lesser extent, construction. On a positive note, employment continued increasing in information and communication services and in logistical and delivery services.

Chart 12

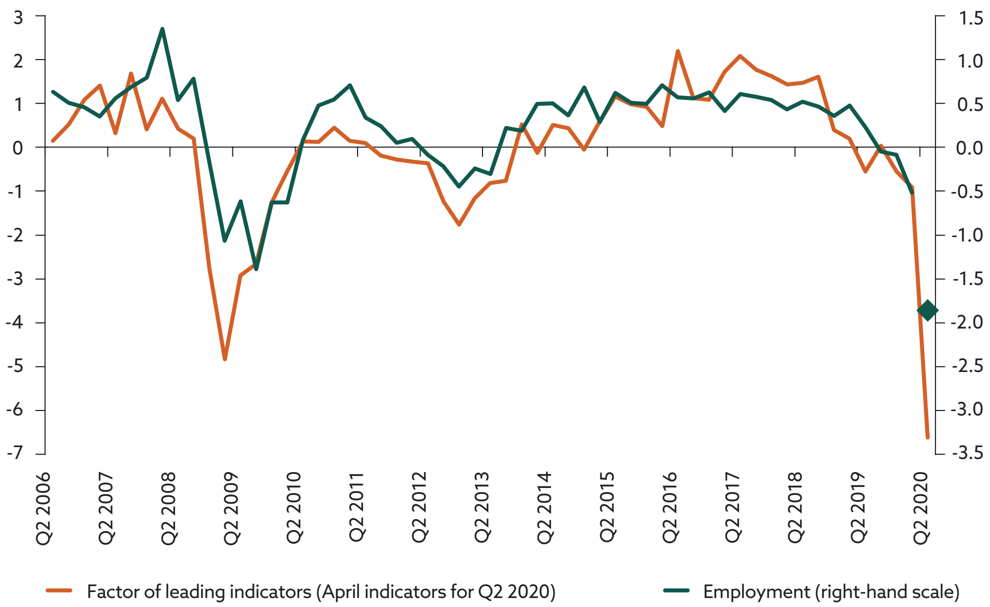
Employment by sector (annual percentage changes; percentage point contributions)



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.

Chart 13

Employment estimate for Q2 2020 based on current monthly indicators (level; quarter-on-quarter percentage changes)



Sources: SO SR, and NBS calculations.
Note: Employment in Q2 2020 is estimated using a model based on monthly indicators entered into a summarising factor. The monthly indicators used in the calculation are employment and unemployment expectations according to EC surveys, the job vacancy rate based on data from the Profesia online job portal (Profesia.sk), and labour shortages as reported by firms.

Employment is expected to fall most sharply in the second-quarter months (see Chart 13), probably because the pandemic and associated containment measures were a factor for only part of March. For example, carmakers did not begin gradually shutting down production until the period from 17 to 23 March, and measures restricting the functioning of services and trade entered into force in mid-March. The economy is not expected to begin any moderate recovery until May, when businesses started to gradually reopen in larger numbers; it is a similar story in Slovakia's trading partners abroad. Employment, however, usually reflects economic performance only with a lag, so it is not expected to start rebounding yet. There will need to be a longer period of economic recovery before that happens.

As expected, the first partial indicators of labour market developments in the second quarter painted a gloomy picture. The number of job vacancies plummeted by a cumulative 53% in March and April, which was their largest ever drop over a two-month period. Reported labour shortages likewise recorded their largest ever decline, and employment and unemployment expectations as reported by business surveys were close to worst ever levels. The figures imply a sharp drop in demand for labour and a further decline in employment (greater than in the first quarter), as well as the elimination of the labour market tightness that had been present due to labour shortages. This is expected to have a substantial dampening effect on negotiated wage rates and on average wage growth.

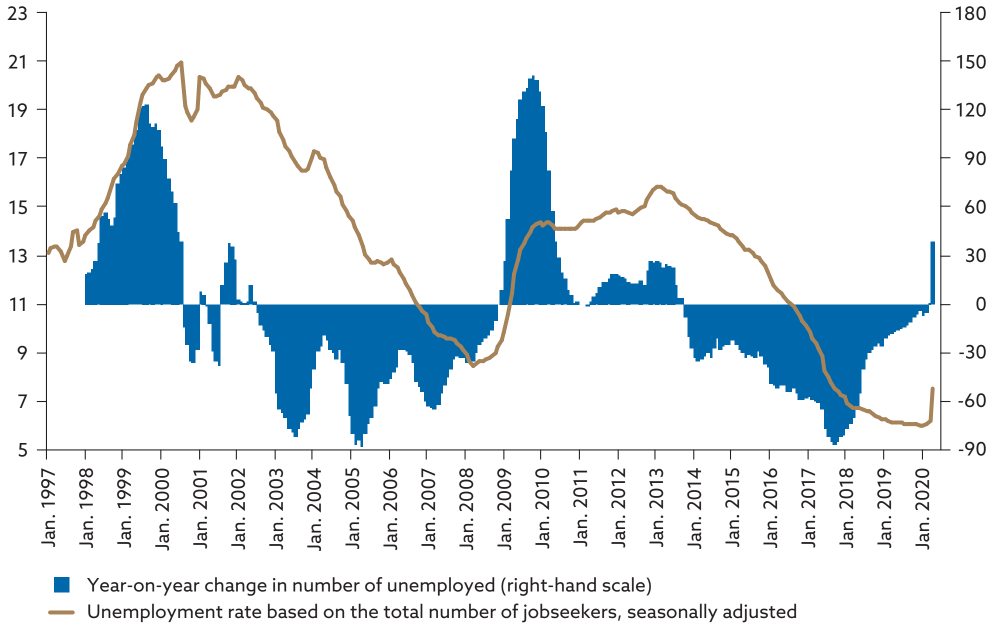
In April the unemployment rate recorded its highest ever monthly increase. Compared with the previous month, the total number of unemployed increased by 34 thousand, thereby accelerating the overall unemployment rate from 6.2% in March to 7.4%[4] in April (see Chart 14). Redundancies were already becoming more numerous in April, and the inflow of new jobseekers doubled. On the other hand, the number of jobseekers finding work fell by a half, which shows that it is currently difficult to get a job. Redundancies were highest in the industry and trade sectors and in the hospitality industry and other services. Despite the easing of lockdown measures and reopening of many businesses, new recruitment is likely to proceed cautiously at first. Furthermore, several firms were reporting pandemic-related redundancies even in May, so the uptrend in unemployment is expected to continue for some time yet.

---

4 Original data from the Central Office of Labour, Social Affairs and Family (ÚPSVR). The result after seasonal adjustment would be virtually the same.

Chart 14

Extended time series of the unemployment rate and number of unemployed (thousands of persons; percentages)

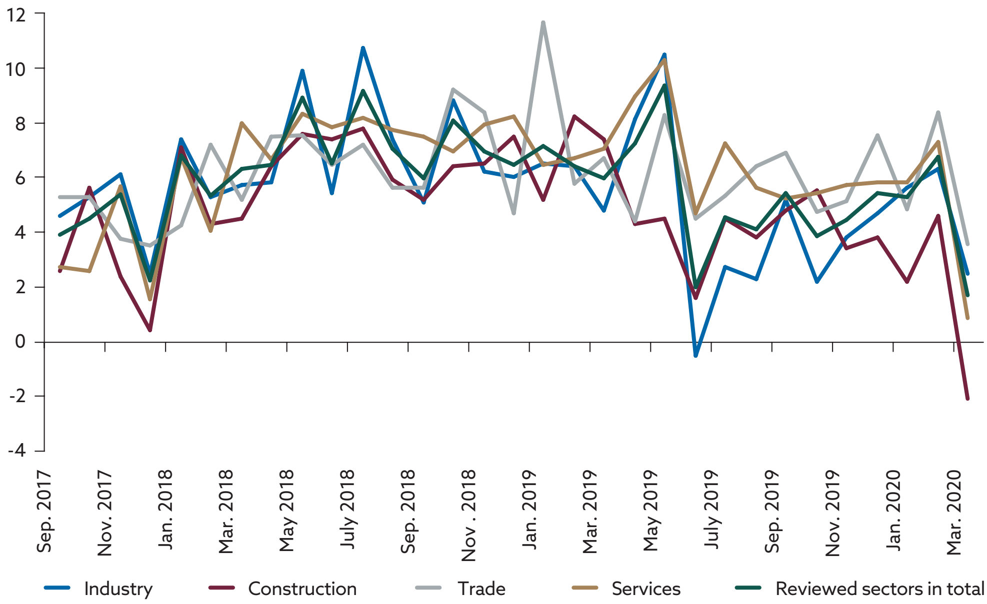


Sources: ÚPSVR, and NBS calculations.

Average wage growth slowed sharply in March because of the pandemic's impact on employee salaries. Annual average wage growth across the reviewed economic sectors fell to just 1.7%, down from 6.7% in February (see Chart 15). In quarter-on-quarter terms, wage growth across the whole economy is expected to have moderated in the first quarter;[5] for the reviewed sectors, it dropped by a mere 0.1 percentage point, to 4.5%. Public sector salaries and bonuses may have had a negative impact of more than one percentage point on overall wage growth, given that their growth rate is expected to have slowed at the start of the year. Average wage growth appears to have eased appreciably in the first quarter (see Chart 16) and probably to a far greater extent than projected in the current NBS forecast.

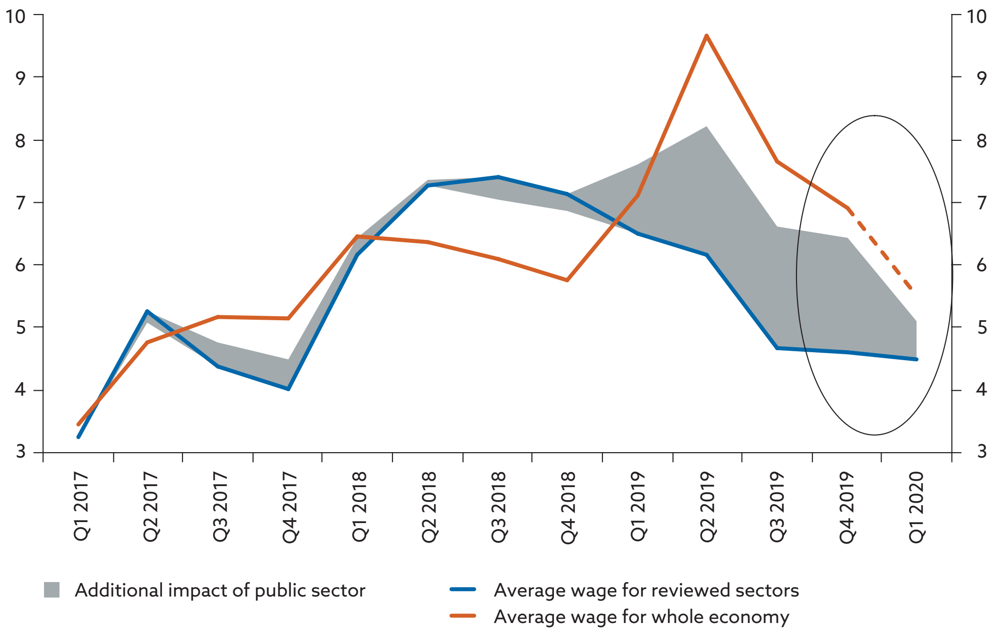
5 The official data for the whole economy are due to be released on 5 June 2020.

Chart 15
Average wage levels according to monthly data (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 16
Average wage levels (annual percentage changes)



Sources: SO SR, and NBS calculations.
Note: For Q1 2020, the average wage for the whole economy is based on the MTF-2020Q1 forecast, and the impact of the public sector is based on the update to that forecast (MTF-2020Q1U).

The pandemic was already having an impact in March. Annual wage growth slowed markedly in manufacturing industry (to 0.8%) and turned negative in construction (-2.1%), sale of motor vehicles (-2.3%), accommodation services (-6.9%), transportation and storage (-0.4%) and other market services (-0.9%). By contrast, wage growth remained largely solid in retail trade, restaurant services, and the information and communication sector. In the early part of 2020, employees were still experiencing wage growth vis-à-vis 2019, owing to significant minimum wage and wage premia increases, as well as to wage increases negotiated in the previous year. Gradually, however, the pandemic's impact is expected to result in wage growth rates falling to below their March levels. The second quarter will see increased drawing of nursing benefits and employees becoming more weakly positioned in wage negotiations. Payments of bonuses, overtime and premia cannot be envisaged, given the substantially reduced need for labour inputs during the pandemic. According to firm-level information, workers in many sectors are being paid between 60% and 80% of their average salary because of "obstacles on the part of the employer". Annual wage growth in the second quarter is therefore expected to turn negative.

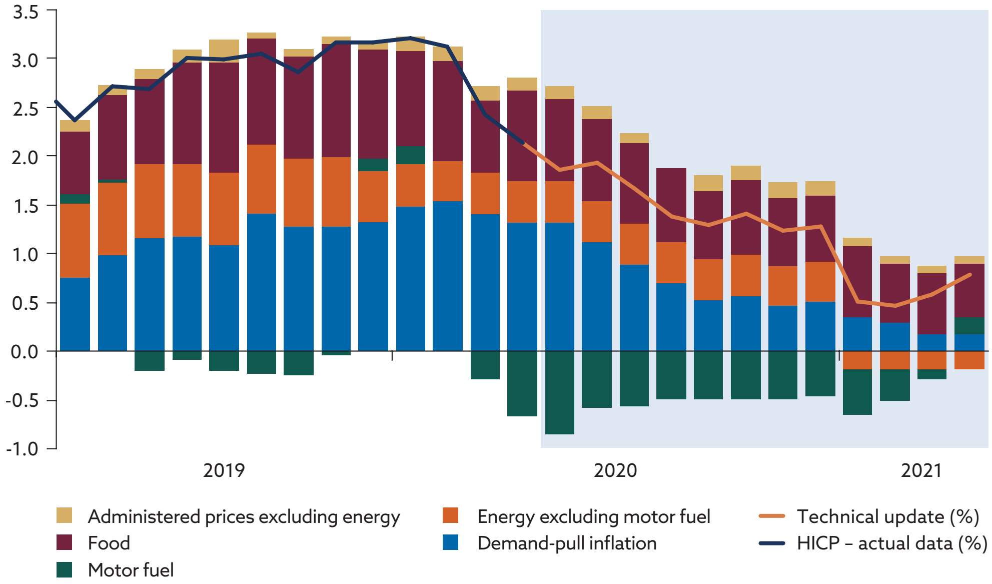
Average wage growth in March was largely underpinned by the notable payment of variable components of compensation in the energy sector. As a result, and because the corresponding payments in 2019 took place in April, wage growth in this sector soared to 29%. It is therefore expected that the sector's wage growth in April will be significantly negative and that its downward impact on wage growth across the reviewed sectors will be around 0.4 percentage point. Overall wage growth could be around 0.8 percentage point lower in April than in March.

3.3 Prices

Slovakia's annual HICP inflation continued its downtrend in April, falling to 2.1% (see Chart 17). For the second consecutive month, decreasing motor fuel prices were the main cause of the slowdown.

Chart 17

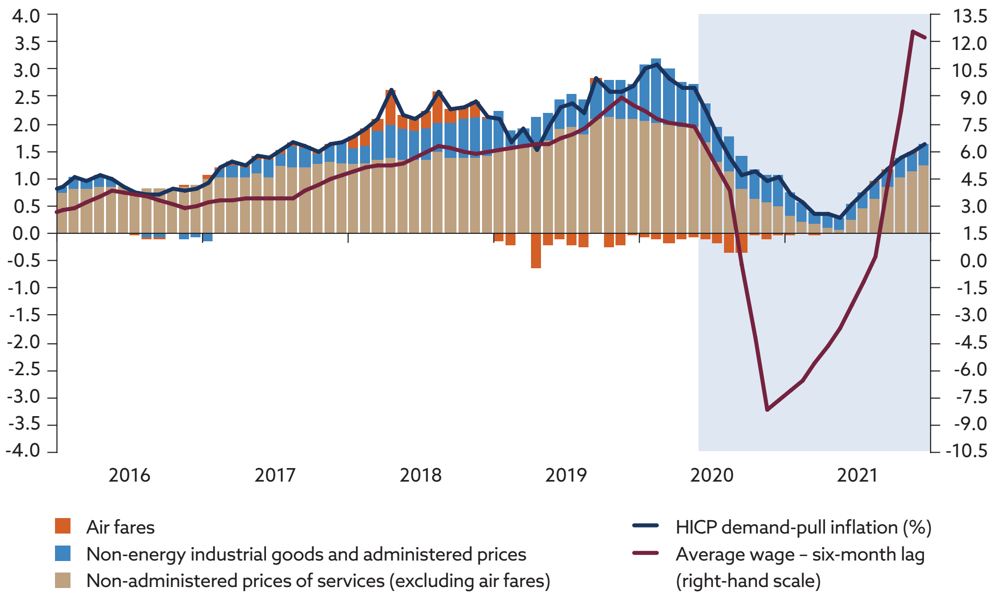
HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 18

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



Sources: SO SR, and NBS calculations.

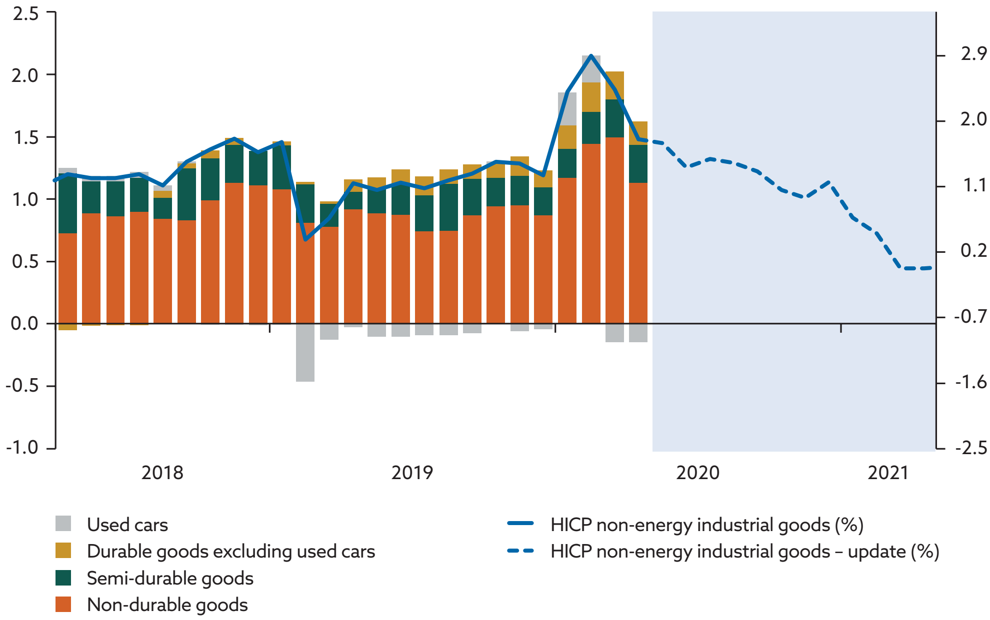
Demand-pull inflation remained stable at 2.8% in April (see Chart 18). There was, however, a moderate weakening of non-energy industrial goods inflation excluding administered prices, attributable mainly to decelerating prices of goods related to recreational and cultural activities and of personal hygiene goods, which are mainly of a non-durable nature (Chart 19).

The services sector was hard hit by the coronavirus containment measures. The collapse of sales was most pronounced in hospitality and recreational services. The price effects of the severe downturn in economic activity were not, however, reflected to any significant extent in non-administered prices of services contributing to demand-pull inflation. This was largely due to the reduced possibilities for measuring price developments while the containment measures are in force.

In subsequent months, after the lifting of the coronavirus containment measures, developments in demand-pull inflation factors are expected to include low import price inflation having a gradually moderating impact on non-energy industrial goods inflation (see Chart 20). The grim labour market situation and slump in consumer confidence (households' tumbling expectations for both their own financial situation and the general economic situation) may translate into a weakening of annual services inflation (see Chart 18). The full pass-through of the economic downturn to price developments may be thwarted by the impact of price rigidity in services and cost factors on other components of the consumption basket.

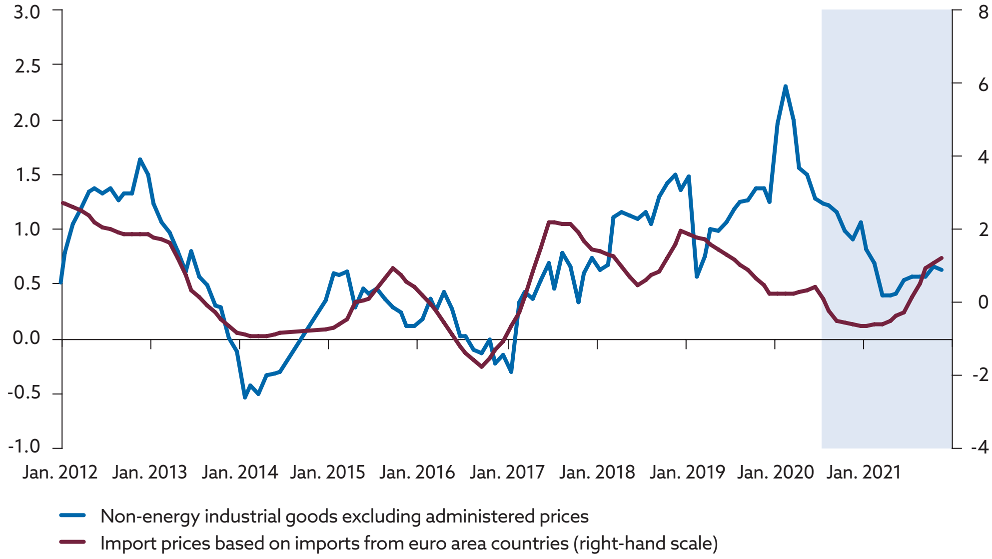
Chart 19

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



Sources: SO SR, and NBS calculations.

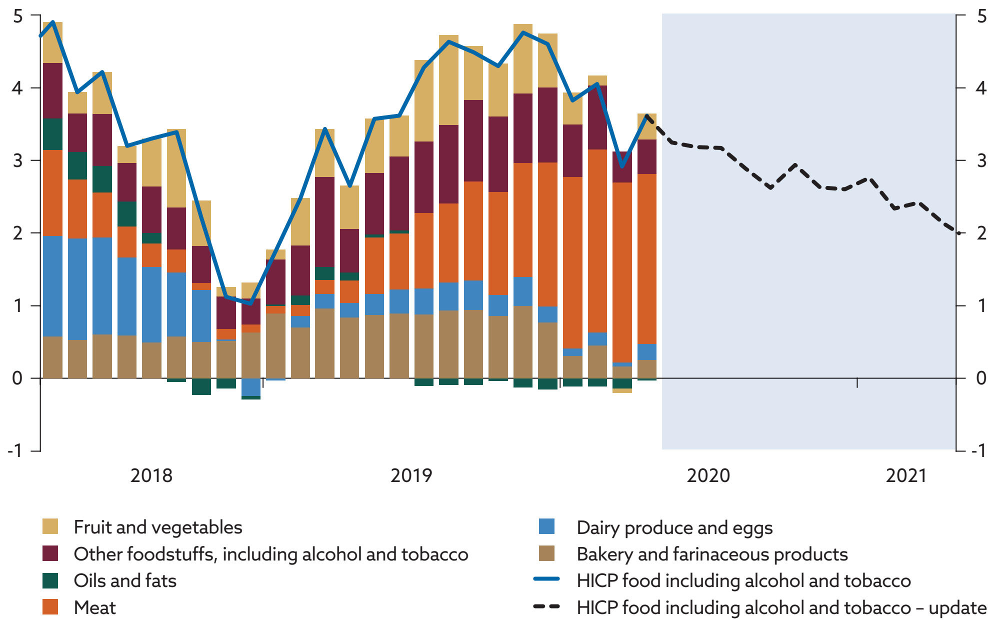
Chart 20
Non-energy industrial goods inflation vis-à-vis import prices (annual percentage changes)



Sources: SO SR, and NBS calculations.

Annual food inflation (including alcohol and tobacco) accelerated in April. This increase was driven mainly by fruit and vegetable prices (see Chart 21). By contrast, annual meat price inflation began to moderate and shown signs of the fading of the supply price shock. We continue to expect that food price inflation will be higher than average headline inflation in 2020.

Chart 21
Food inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

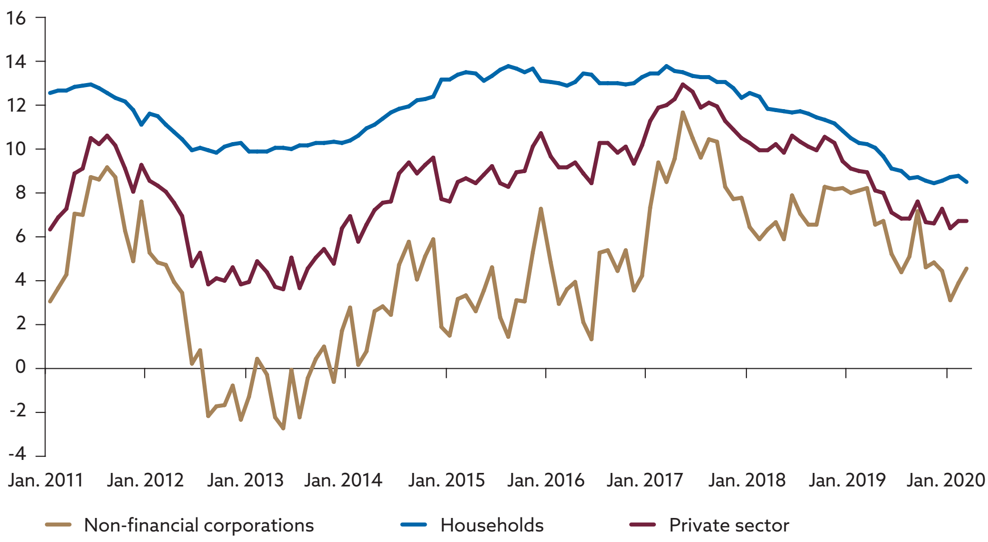
Motor fuel prices continued falling in April, when year-on-year rate of decline gathered considerable pace. The collapse of oil prices is expected to be one of the most important factors in overall price developments in 2020 (see Chart 17), not only in Slovakia. There is little likelihood of oil prices rebounding to their February 2020 levels within the next two months. Their recovery will depend on economic activity developments and on the extent to which lockdown measures are lifted in the strongest economies.

3.4 Loans and deposits

The annual growth rate of loans to the private sector was the same in March as in the previous month, at 6.7% (see Chart 22). The coronavirus containment measures were not yet having any significant impact on lending to the private sector. While the demand for household loans softened, corporate borrowing accelerated prior to the introduction of the containment measures. Annual growth in loans to non-financial corporations (NFCs) increased from 3.1% in March to 4.5% in April. Data from the bank lending survey indicates that bank lending to NFCs will deteriorate. Banks are perceiving elevated risk and expect to tighten credit standards (loan approval criteria) for loans to NFCs (see Chart 23).

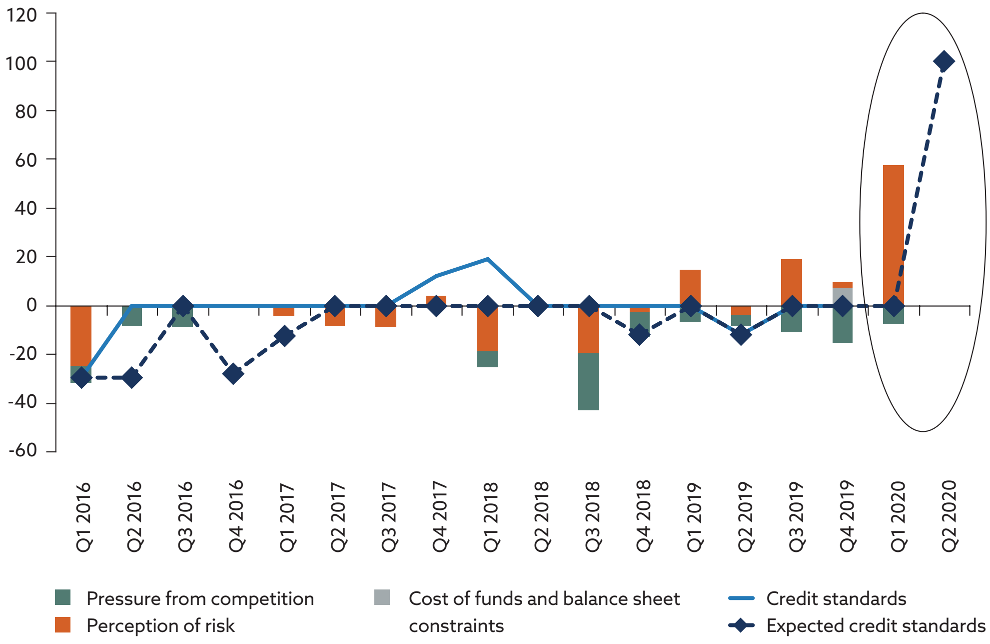
Chart 22

Total loans (annual percentage changes)



Sources: ECB, and NBS calculations.

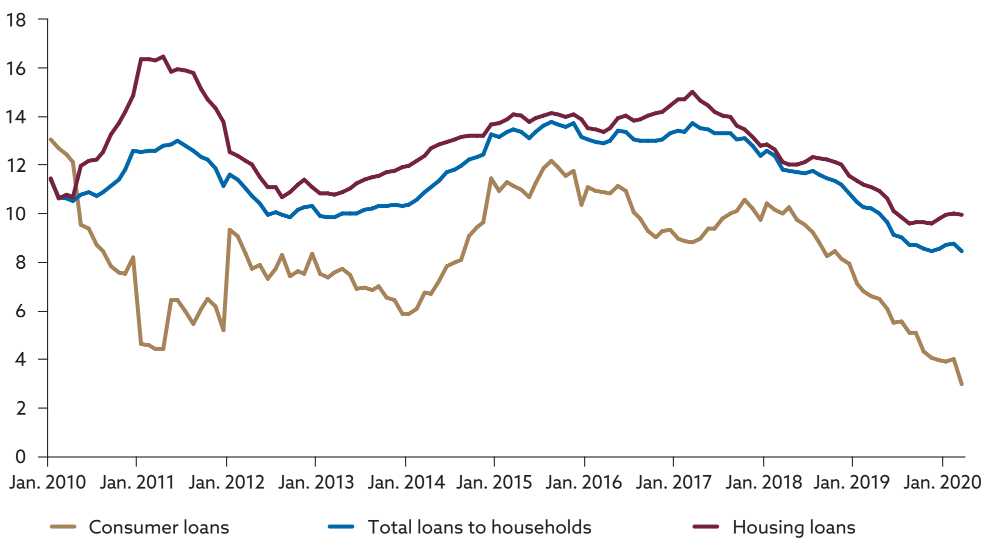
Chart 23
Credit standards for loans to NFCs (net percentage share)



Sources: ECB, and NBS calculations.

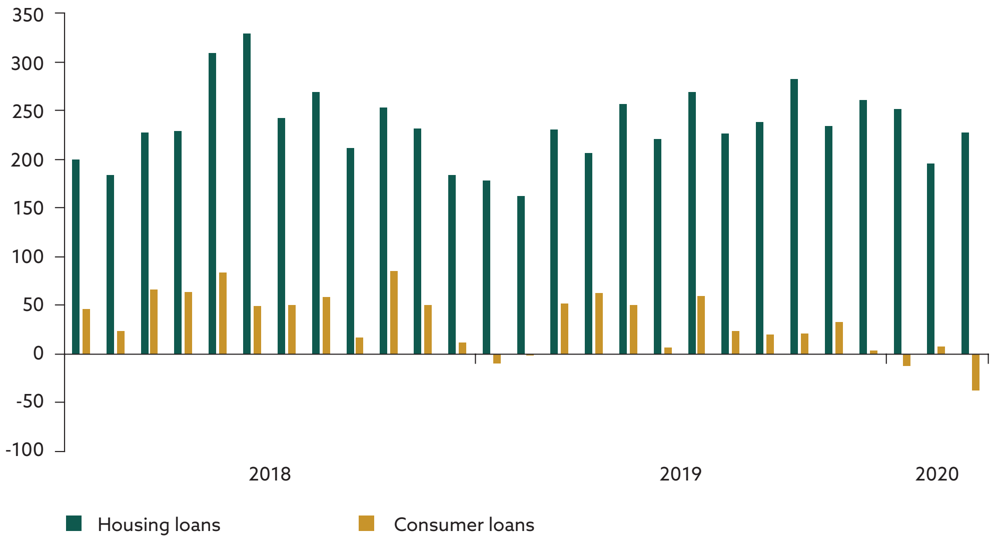
Household loan growth slowed moderately in March, to 8.5% year on year. While the flow of housing loans maintained its growth rate, the growth rate of consumer loans eased significantly (see Chart 24). After averaging close to zero in the first two months of the year, the volume of consumer loan transactions fell by €37 million in March (see Chart 25).

Chart 24
Total loans to households (annual percentage changes)



Sources: ECB, and NBS calculations.

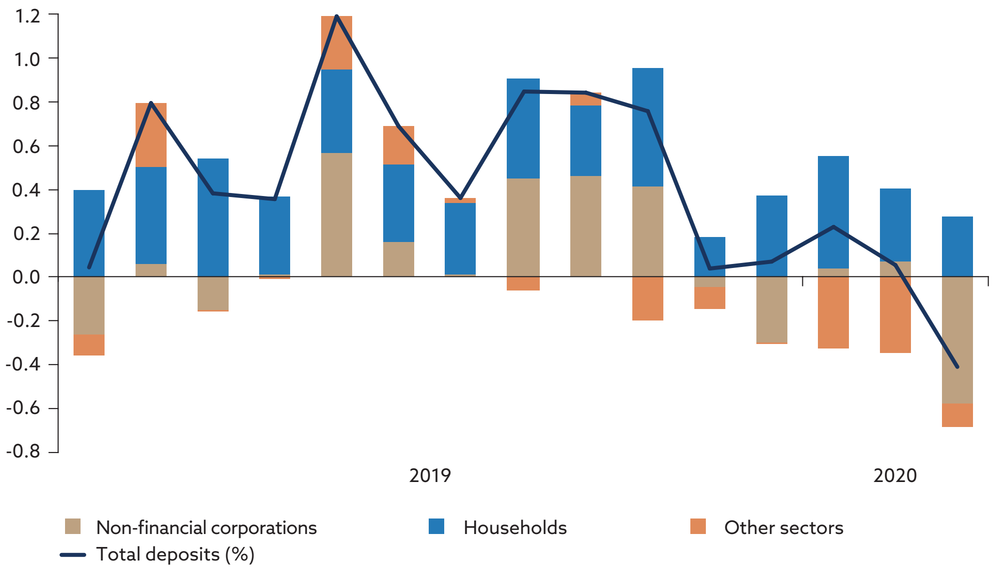
Chart 25
Monthly transactions (EUR millions)



Sources: ECB, and NBS calculations.

Total bank deposits declined in March in month-on-month terms. This was due mainly to deposits of NFCs, which fell by 0.6% (see Chart 26). Their decline was broad-based across almost all NFC sectors. The largest drop was in deposits from firms in the trade sector, which felt the full impact of pandemic-induced businesses closures. Household deposit growth slowed slightly.

Chart 26
Total deposits (annual percentage changes; percentage point contributions)



Sources: ECB, and NBS calculations.

4 Monetary policy

At the end of April 2020, the ECB's Governing Council decided on a further **easing of conditions on targeted longer-term refinancing operations (TLTRO III)**.[6, 7] The main adjustment was to reduce by 25 basis points the interest rate on TLTRO III operations during the period from June 2020 to June 2021, thus bringing the rate down to 50 basis points below the average interest rate on the Eurosystem's main refinancing operations prevailing over the same period. At present the rate stands at -0.5%. Moreover, for counterparties whose eligible net lending reaches the lending performance threshold, the interest rate over the period from June 2020 to June 2021 will now be 50 basis points below the average deposit facility rate prevailing over the same period. Under these conditions, the interest rate on TLTRO III operations can be as low as -1.0%.

The start of the period over which banks' lending performance will be assessed in order to ascertain whether they qualify for this lower rate will be brought forward to 1 March 2020, from 1 April 2020. According to the ECB, this adjustment recognises the funding support that banks have already provided to firms in March at the start of the crisis related to the coronavirus (COVID-19) pandemic, in line with the aims of TLTRO III.

Besides easing TLTRO III conditions, the Governing Council also at the end of April decided to conduct a **new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs)** to support liquidity conditions in all segments of the euro area financial system and contribute to preserving the smooth functioning of money markets. The PELTROs consist of seven additional refinancing operations commencing in May 2020 and maturing in a staggered sequence between July and September 2021. They will be carried out as fixed rate tender procedures with full allotment, with an interest rate that is 25 basis points below the average rate on the main refinancing operations prevailing over the life of each PELTRO.

Purchases continue to be conducted under the Governing Council's new pandemic emergency purchase programme (PEPP), which has an overall envelope of €750 billion for the conduct of purchases until the end of 2020. At the same time, net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the pur-

6 https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200430~1eaa128265.en.html
7 https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200312_1~39db50b717.en.html

chases under the additional €120 billion temporary envelope until the end of the year.

The Governing Council also confirmed that it is fully prepared to increase the size of the PEPP and adjust its composition, by as much as necessary and for as long as needed. In any case, it stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

In the United States, **the Federal Reserve** is committed to using its full range of tools to support the US economy during the coronavirus crisis and thus to promoting its maximum employment and price stability goals, according to the statement issued after the Federal Open Market Committee's meeting at the end of April.[8] The Committee decided to maintain the target range for the federal funds rate at 0.00% to 0.25%. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events, according to the statement. The Federal Reserve also stressed that it will continue to purchase assets in the amounts needed to support smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions.

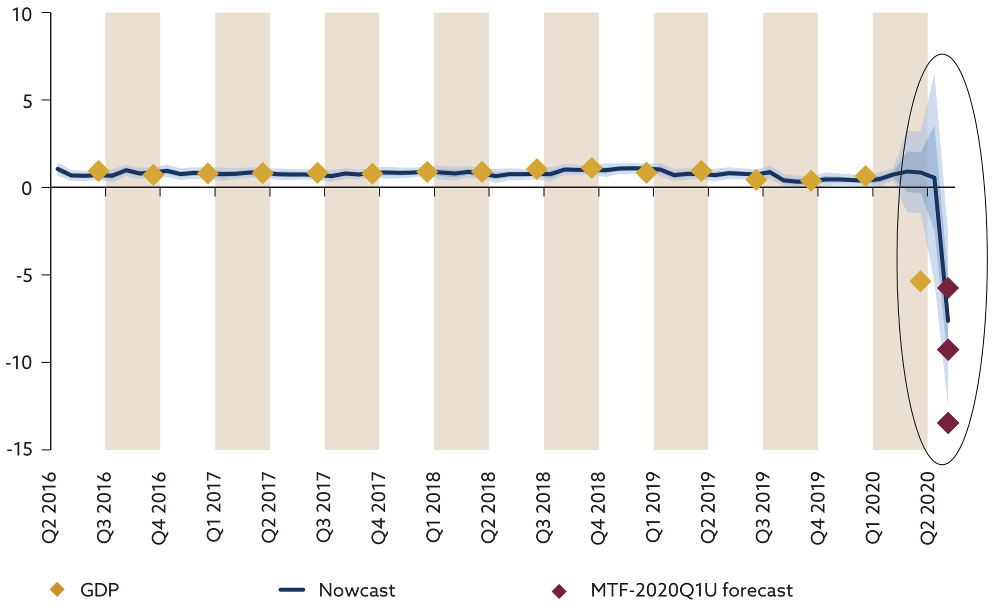
8 https://www.federalreserve.gov/newsevents/pressreleases/monetary20200429a.htm

5 Indicative impact on the forecast

The GDP nowcast for the second quarter of 2020 (Chart 27) shows GDP contracting by 7.62% on a quarter-on-quarter basis. The main cause of the decline was the flash GDP estimate for the first quarter of 2020, according to which GDP fell by 5.4% quarter on quarter. The nowcast also reflected the double-digit declines in March monthly indicators, resulting from the introduction of coronavirus containment measures. Their full effect will be seen in subsequent months, and therefore the economic contraction in the second quarter may be more pronounced. The nowcast for employment growth in the second quarter indicates that growth will be slightly lower than projected in the update to NBS's March 2020 Medium-Term Forecast (MTF-2020Q1U). The nowcast's construction was adjusted to include only those input leading indicators that provide relevant and timely information about probable employment developments in the current quarter.

Chart 27

Nowcast for GDP (quarter-on-quarter percentage changes)[9]

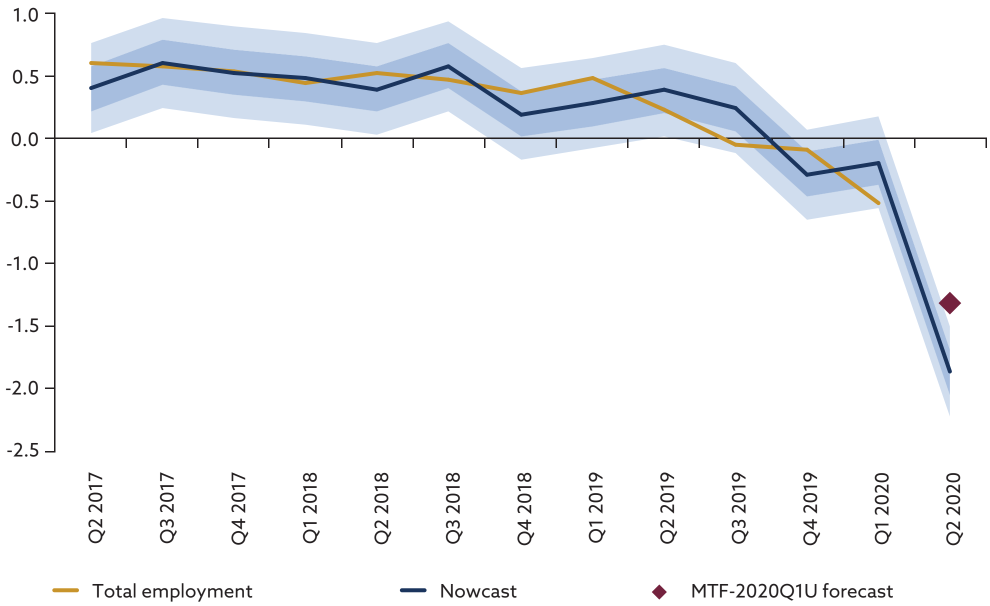


Sources: SO SR, and NBS calculations.

---

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

Chart 28
Nowcast for employment (quarter-on-quarter percentage changes)[9]



Sources: SO SR, and NBS calculations.

Box 1
How have monthly data been affecting the GDP nowcast?

Like other economies, the Slovak economy is now having to contend with the repercussions of the coronavirus (COVID-19) pandemic. The adoption of different measures and the subsequent relaxing of them is very dynamic. Economic estimates are being produced in conditions that are changing on an almost daily basis, and there is still a great deal of uncertainty about the ultimate consequences of the pandemic.

One of the tools has up to now been providing consistently up-to-date estimates of potential economic developments is the GDP nowcast, which is based on regularly published monthly indicators. However, even the results of these estimates are considerably limited by the publication time lag inherent in the monthly data. Since most monthly indicators are released with a lag of one to two months, the GDP nowcast for Slovakia was not in recent months able to capture the expected economic contraction (see Chart 27) and so its publication was temporarily suspended during that period.

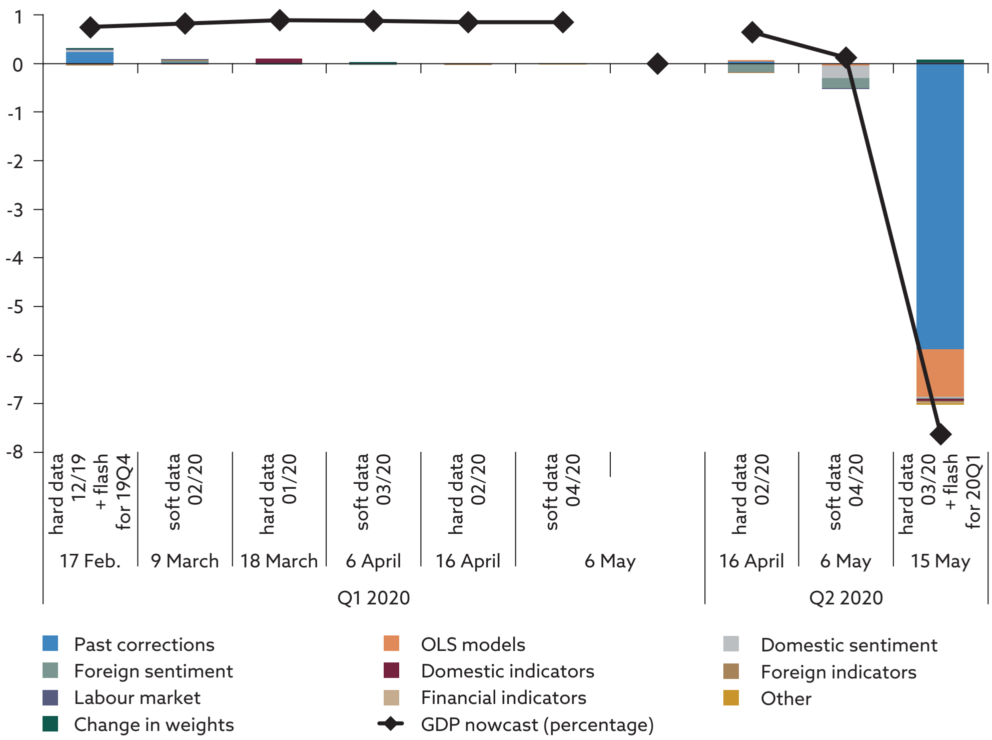
Other countries and institutions facing similar difficulties and decisions have likewise suspended nowcast releases. Most of the analytical work in this area is starting to focus on the possibilities for incorporating high-frequency data, which could provide relatively meaningful information about current economic activity. These data may include, for example, data on current toll collection, electricity consumption or transport frequency. We have also considered including data from internet browsers, as these data are available almost immediately at any given time. There are, however, various technical difficulties in regard to incorporating such data into estimates, concerning not only publication length (most of the time series are short), but also their weak historical statistical significance.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

NBS's GDP nowcast has in recent months not been adequately reflecting the developments currently expected. It is not so long ago that favourable data were translating into positive estimates for GDP growth in the first and second quarters of 2020. Our nowcast models use monthly data from the current quarter and the imputation of these data for future months is based on their past trend. This is another reason why the GDP estimates have not managed to capture the decline in economic activity and the negative sentiment and expectations for the current quarter. By the end of March 2020, the effects of the pandemic were already being felt, yet the nowcast at that time was based on data for January which were still positive. Hence the estimate for GDP growth in the first quarter was in positive territory (0.89% quarter on quarter).

The first indicators affected by developments are the "soft" indicators that gauge the current state of economic sentiment. In early April they started to decline moderately in Slovakia and more so in the external environment (many other European countries experienced the effects of the coronavirus crisis before Slovakia did). The negative impact of foreign sentiment was sufficient to cancel out the impact of the domestic economy's still positive figures for industrial production, sales, exports and the labour market for February 2020. So, although April's GDP nowcast fell slightly, economic growth was expected to continue in the first quarter of 2020 and to slow gradually down to 0.65%, quarter on quarter, in the second quarter.

Chart A
Nowcast for GDP (quarter-on-quarter percentage changes; percentage point contributions)



Source: NBS calculations.

It was not until the second half of April that all confidence indicators, both domestic and external, slumped to historical lows. Their impact on the GDP nowcast is, however, limited and is not as significant as that of "hard" data. Hence the economic growth estimate was revised only slightly, towards stagnation. The nowcast fell into negative territory only when it incorporated the double-digit declines in March's industrial production, sales and exports. The largest impact on the nowcast came, however, from the mid-May publication of the flash estimate of GDP for the first quarter of 2020, which saw the estimation for quarter-on-quarter growth drop to its current level of -7.62%. But even the most recent available data captured only the start of the pandemic, which affected around two weeks' data in March. With further data for April we can expect that the GDP growth estimate will again be revised down significantly.

Overview of main macroeconomic indicators for Slovakia

Table 3 Selected economic and monetary indicators for Slovakia

(annual percentage changes, unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 2010	Registered unemployment rate[1]	Unemployment rate based on the total number of jobseekers[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	1.6	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	3.9	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	-1.0	49.4	-2.6	-0.2	1.1810
2019	2.4	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	2.5	2.6	3.7	1.4	5.0	6.1	2.9	0.5	93.5	5.3	7.1	5.2	9.1	-	-0.3	47.6	-2.8	-0.8	1.1237
2019 Q3	1.5	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	2.1	3.1	0.9	0.7	4.9	6.0	-4.7	-4.0	97.0	6.8	7.3	4.4	8.6	-	-3.4	48.0	-2.4	-0.3	1.1071
2020 Q1	-3.9[5]	2.9	2.5	-0.5[5]	5.1	6.1	-7.3	-4.2	97.6	5.7	6.7	4.5	8.5	-	.	.	.	.	1.1027
2019 May	-	2.7	4.2	-	5.0	6.1	4.8	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	-2.3	-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	2.4	-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	-8.2	-6.0	97.1	5.4	6.8	5.1	8.7	-213	-	-	-	-	1.1130
2019 Sep.	-	3.0	1.3	-	4.9	6.0	-2.1	-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	-3.7	-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	-4.0	-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	0.6	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	2.1	-	5.2	6.2	-19.6	-12.4	96.7	5.7	6.7	4.5	8.5	-824	-	-	-	-	1.1060
2020 Apr.	-	2.1	.	-	6.7	7.5	.	.	55.1	.	.	.	.	.	-	-	-	-	1.0860

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

More detailed time series for selected macroeconomic indicators
http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2020/StatisticsMB0520.xls