

NBS Monthly Bulletin

June 2020



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Abbreviations

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

Symbols used in the tables

- . - Data are not yet available.
- - Data do not exist / data are not applicable.
- (p) - Preliminary data

1 Summary

According to revised data, the euro area GDP contracted by 3.6% in the first quarter of 2020, compared with the previous quarter, owing mainly to sharp declines in private consumption, investment demand, and exports. Short-term economic indicators (industrial output, retail sales and unemployment) slumped even further in April. There was some sign of improvement with a slight increase in the Economic Sentiment Indicator. High-frequency data indicate that there will be no noticeable recovery until the second half of May or early June.

In its June Economic Outlook, the OECD estimates that world economic output in 2020 will decrease by 7.6% if there is a renewed outbreak of the coronavirus pandemic, or by 6.0% if a second wave is avoided.

In Slovakia, the economy contracted severely in the first quarter of 2020, as previously indicated by the mid-May flash estimate. Slovakia's GDP declined, year on year, by 3.7% in the first quarter, with decreases in all components apart from private consumption. The decline was largely attributable to adverse developments in foreign trade. All sectors other than general government reported a drop in investment activity. The pandemic's impact on the behaviour of Slovak households has been seen mainly in purchasing decisions, primarily in their reining in durable goods purchases.

Monthly real economy indicators plummeted to record lows in April 2020. Industrial production fell across all industries, but most sharply in the car industry.

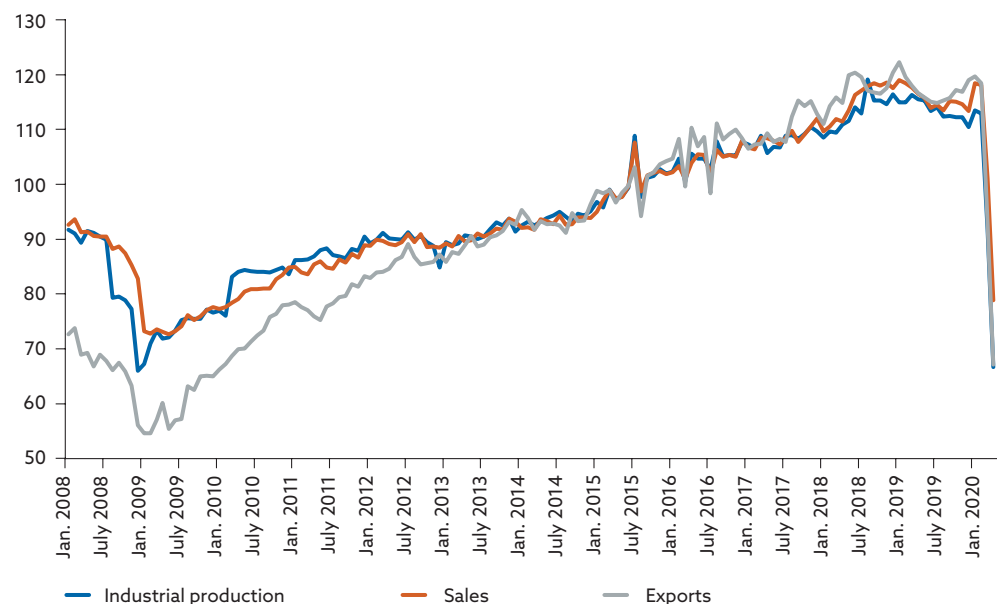
After declining moderately in the first quarter, employment will apparently record a larger decrease in the second quarter. Employment across the private sector segments under review fell in April by 4.8% in year-on-year terms and by 2.3% compared with the previous month. The number of employed persons fell sharply in most sectors apart from the information and communication sector, where employment increased. Forward-looking data for May were not yet showing any signs of an end to the employment downtrend. On the positive side, however, the increase in unemployment in May was approximately one-third the level of its all-time high increase in April; the unemployment rate rose by 0.5 percentage point in May, after rising by 1.3 percentage points in April. The recent excess of supply over demand in the labour market has been completely eliminated, so causing a sharp decline in the indicator of labour market tightness and a consequent impact on wage developments. The average wage fell in April by 4.2% year on year.

The annual HICP inflation rate remained flat in May, at 2.1%. The easing of demand-pull inflation would have been more pronounced but for obstacles to the measuring of services prices. Growth in prices of food (including alcohol and tobacco) made a larger than expected contribution to headline inflation in May. Negative pressures from the labour market and from lower household demand could begin passing through to demand-pull inflation from June.

In April the impact of the coronavirus crisis was most pronounced in the provision of consumer loans, which resulted in a slowdown in the growth rate of loans to households. The borrowing of non-financial corporations (NFCs) through operating loans and investment loans accelerated in April. After declining in the previous month, private sector deposit growth increased in April, mainly because of relatively strong growth in NFC deposits.

Chart of the month

Monthly indicators (index, 2015 = 100; seasonally adjusted)



Sources: SO SR, and NBS calculations.

As a result of the coronavirus containment measures, monthly indicators of economic activity fell to record lows in April 2020. In level terms, the indicator readings were similar to those in the global financial crisis years of 2008 and 2009.

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	May 2020	67.5	64.9
Economic indicators				
Gross domestic product	annual percentage change, constant prices	Q1 2020	-3.1	1.0
Industrial production index	annual percentage change	April 2020	-27.9	-13.4
Retail sales	annual percentage change, constant prices	April 2020	-19.8	-9.0
Unemployment rate	percentage	April 2020	7.3	7.1
HICP inflation	annual percentage change	May 2020	0.1	0.3
Oil price in USD ¹⁾	level	June 2020	40.0	32.7
EUR to USD exchange rate ¹⁾	level	June 2020	1.127	1.090
Slovakia				
Confidence indicators				
Economic Sentiment Indicator	long-run average = 100	May 2020	59.0	55.1
Industrial confidence indicator	percentage balance	May 2020	-28.6	-42.3
Consumer confidence indicator	percentage balance	May 2020	-27.8	-29.9
Economic indicators				
Gross domestic product	annual percentage change, constant prices	Q1 2020	-3.7	2.1
Aggregate sales	annual percentage change, constant prices	April 2020	-31.9	-12.4
Industrial production index	annual percentage change	April 2020	-42.0	-19.6
Private sector credit	annual percentage change	April 2020	6.6	6.7
Employment	annual percentage change	April 2020	-4.8	-2.4
Unemployment rate ²⁾	percentage	May 2020	8.1	7.6
Nominal wages ³⁾	annual percentage change	April 2020	-4.2	1.2
HICP inflation	annual percentage change	May 2020	2.1	2.1

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).

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	2020 Q2	-9,9	↑↑
Gross domestic product - euro area	quarterly percentage change, constant prices	2020 Q2	-13,0	↑↑
Employment (ESA) - Slovakia	quarterly percentage change	2020 Q2	-1,7	↓↓
Nominal wages - Slovakia	annual percentage change	2020 Q2	-7,1	↑↑
HICP inflation - Slovakia	annual percentage change	2020 Q2	2,0	=

Source: NBS calculations.

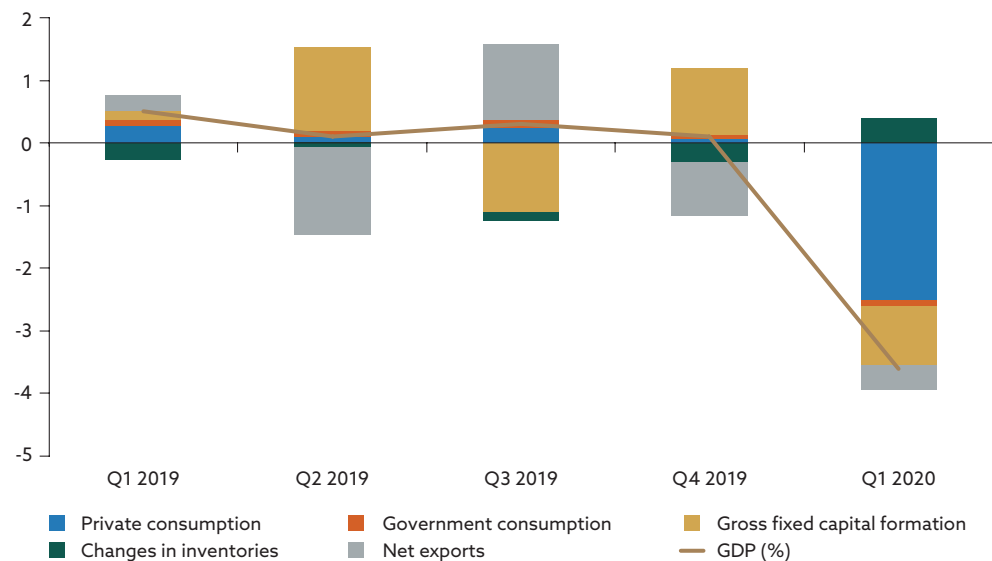
Notes: Values in bold show a significant deviation. In the case of macroeconomic indicator values for the euro area, deviations are calculated/determined by comparing the values with market expectations, and in the case of macroeconomic indicator values for Slovakia, including the oil price and exchange 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

According to Eurostat's most recent estimate, euro area GDP fell, quarter on quarter, by 3.6% in the first quarter of 2020 (see Chart 1) owing to the impact of coronavirus containment measures. The revised contraction was 0.2 percentage point more moderate than Eurostat's previous flash estimate. The impact of the economic shutdown was seen mainly in private consumption, which slumped by 4.7%, as well as in the sharp declines in investment demand (-4.3%) and exports (-4.2%). Because imports fell markedly, the negative contribution of net exports was relatively small. Despite the adoption of economic relief measures, government consumption had a negative impact on GDP growth in the first quarter. Changes in inventories made a positive contribution to GDP growth, but this probably reflected their involuntary build-up.

Chart 1

Euro area GDP and its components (constant prices; quarter-on-quarter percentage changes; percentage point contributions)



Sources: Macrobond, and NBS calculations.

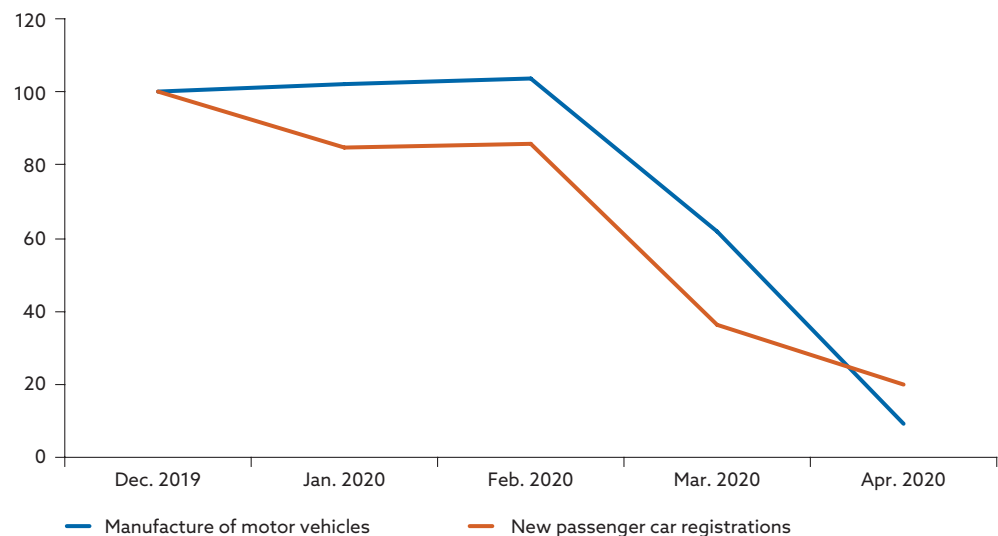
After declining severely in March 2020, short-term economic indicators, as expected, fell even more sharply in April. This was because coronavirus containment measures – restricting human movement, trade and business – reached a peak in most euro area countries in that month. Industrial production and construction output in April were only 74% of their level in December 2019, and retail sales just under 80%.

Industrial production plummeted, month-on-month, by a record 17.1% in April, after falling by almost 12% in March. The sharpest declines were in production of durable consumer goods (-28.9%) and capital goods (-26.6%).

As in the previous month, manufacture of motor vehicles reported an exceptionally large decline (see Chart 2), as its output tumbled by almost 85% and stood at less than 10% of its December 2019 level. At the same time, new passenger car registrations also fell sharply (to around 20% of their December level). Looking at the five largest euro area economies, industrial production declined by broadly similar margins in Germany, France, Italy and Spain (by between around 19% to 22%), but declined more moderately in the Netherlands (by 7%).

Chart 2

Euro area: manufacture of motor vehicles and new passenger car registrations (constant prices; index, December 2019 = 100)

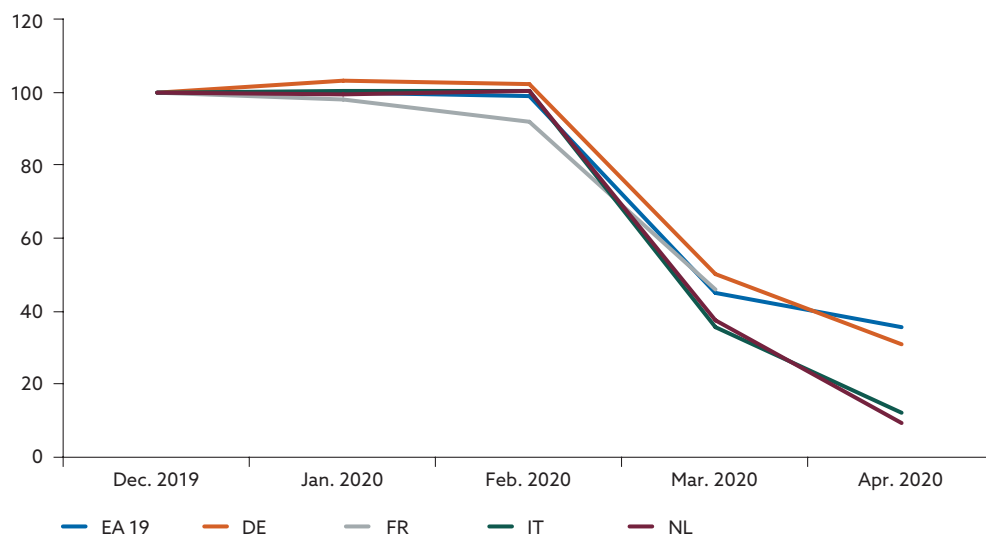


Sources: Macrobond, and NBS calculations.

Following their contraction of more than 11% in March, **retail sales again fell sharply in April, by 11.7%** month-on-month (see Chart 3). Non-food retail sales fell by 17%, while food sales, after increasing in February and March amid substantial stocking up, also declined in April (by 5.5%). Automotive fuel sales decreased markedly in April (by 27.7%) after a similar result in March (when they fell by 26.4%). Clothing and footwear sales also fell sharply in April (by 20.1%), after plummeting in March (by 54.7%). Their decline stemmed from the restrictions on retail trade adopted as part of the coronavirus containment measures.

Chart 3

Retail sales: clothing and footwear (constant prices; index, December 2019 = 100)



Sources: Macrobond, and NBS calculations.

Construction production also remained on a steep downward path, falling by 14.6% in April (after a decline of 15.7% in March). The situation in individual countries continued to be determined by the strictness of the pandemic containment measures being applied. As regards April construction production in the largest euro area economies, it declined most sharply in France (by 32.6%) and Spain (26.3%) and more moderately in Germany (4.1%) and the Netherlands (0.9%).¹

The pandemic containment measures coupled with the closure of many businesses resulted in the **unemployment rate** edging up to 7.3% in April (from a historical low of 7.1% in March). However, the relatively small increase in the number of unemployed (211 thousand) was also a corollary of extensive short-time working schemes. In just Germany and France, the two largest euro area economies, almost 23 million people were registered in such schemes in April and their number increased to almost 25 million in May.

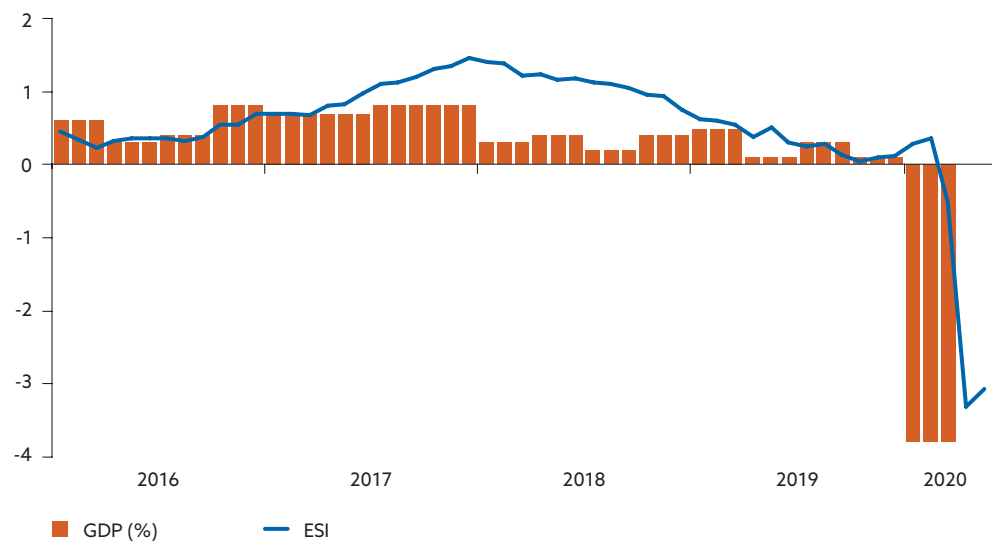
After its slumps in March and April, the European Commission's **Economic Sentiment Indicator (ESI)** for the euro area improved marginally in May (increasing by 2.9 points to 66.7), but remained at a very low level (see Chart 4). The modest rise in the indicator reflected mainly a recovery in industry and consumer confidence. Services confidence, by contrast, continued declining, albeit at a more moderate rate than before. This reflected the gradual easing of pandemic containment measures, which had affected this sector to a greater extent than any other sector. Construction confidence fell

¹ Data for Italy were not published.

slightly, while retail trade confidence remained virtually flat. The situation across the major euro area economies was to some extent heterogeneous, with economic sentiment picking up slightly in the Netherlands, Germany and Spain, remaining broadly unchanged in France, and falling sharply in Italy (by more than 20 points). The divergent result in Italy was, however, related to the fact that no data were collected there in April owing to its strict lockdown measures. The overall trends in economic sentiment imply that the economic recovery will be modest and the crisis will continue having a severe impact on the euro area economy in the second quarter of 2020.

Chart 4

Euro area: Economic Sentiment Indicator and GDP growth (standardised index; annual percentage changes)



Sources: Macrobond, and NBS calculations.

High-frequency data also indicate that the downturn in economic activity remained relatively strong in May. No incipient recovery can be expected until late May or early June, as can be seen in data from **Google Community Mobility Reports**² (percentage deviation from the baseline)³ (see Chart 5). Despite a pick-up observable in the euro area countries that applied the most stringent pandemic containment measures, the Google Community Mobility Reports show that euro area activity in early June was still 20%–30% below the baseline. A similar development is observed in **electricity consumption** in the five largest euro area economies, which, after recovering slightly, remains far behind its average for the period 2016–2019 (see Chart 6). Together

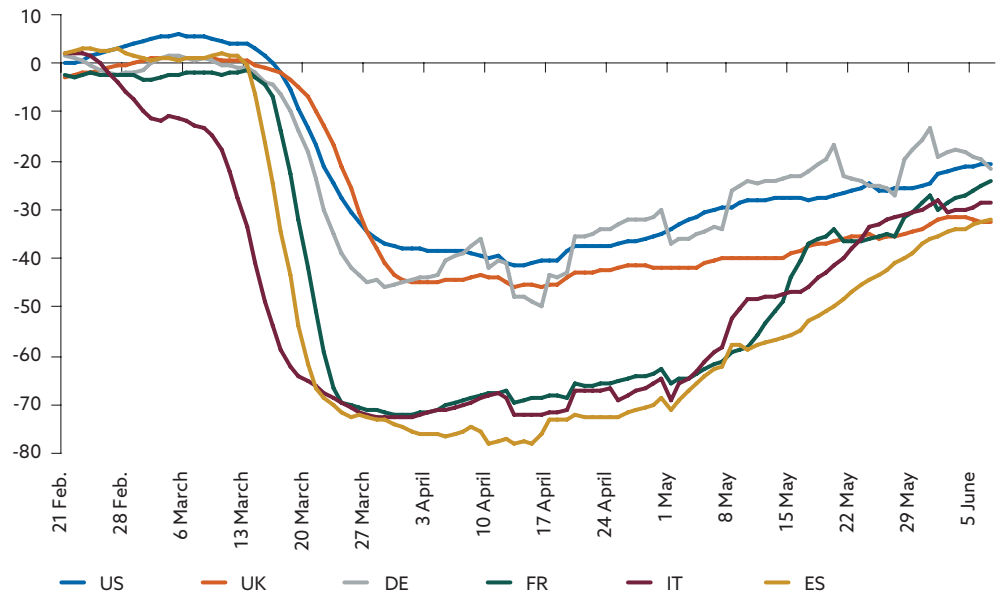
² The charts show the monthly average for reported mobility trends in the location categories (including ‘workplaces’, ‘retail and recreation’, ‘transit stations’ and ‘grocery and pharmacy’) excluding ‘parks’ and ‘places of residence’.

³ 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.

with the marked decline in short-term economic data in April as well as the muted rebound in leading indicators, these daily indicators imply significant contraction of economic activity in the second quarter.

Chart 5

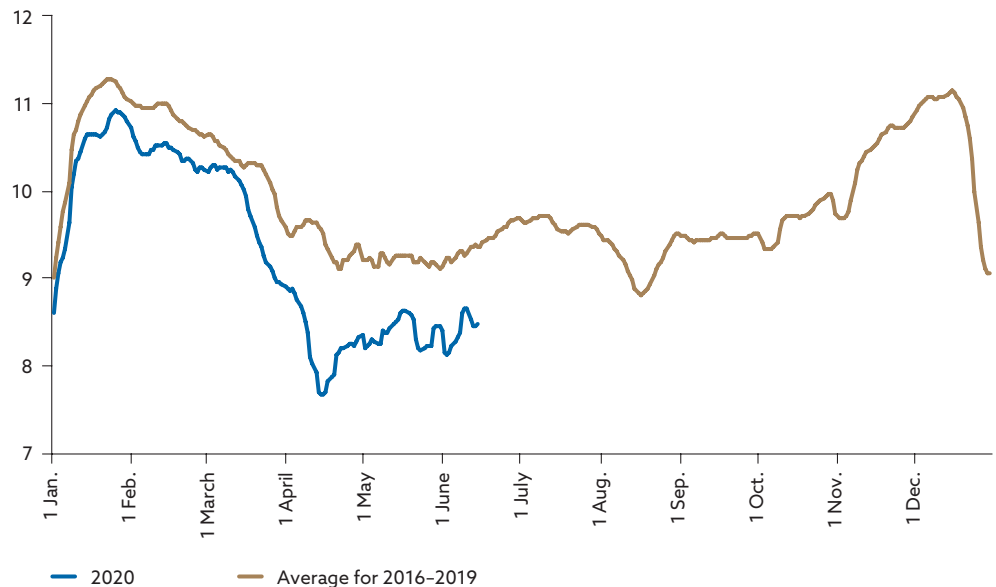
Google Community Mobility Reports for selected large countries (excluding the *parks* and *places of residence* categories; weekly moving average; deviation from baseline in percentages)



Sources: Macrobond, and NBS calculations.
Note: The data cut-off date is 7 June 2020.

Chart 6

Electricity consumption in the five largest euro area economies - DE, FR, IT, ES, NL (millions of megawatts)



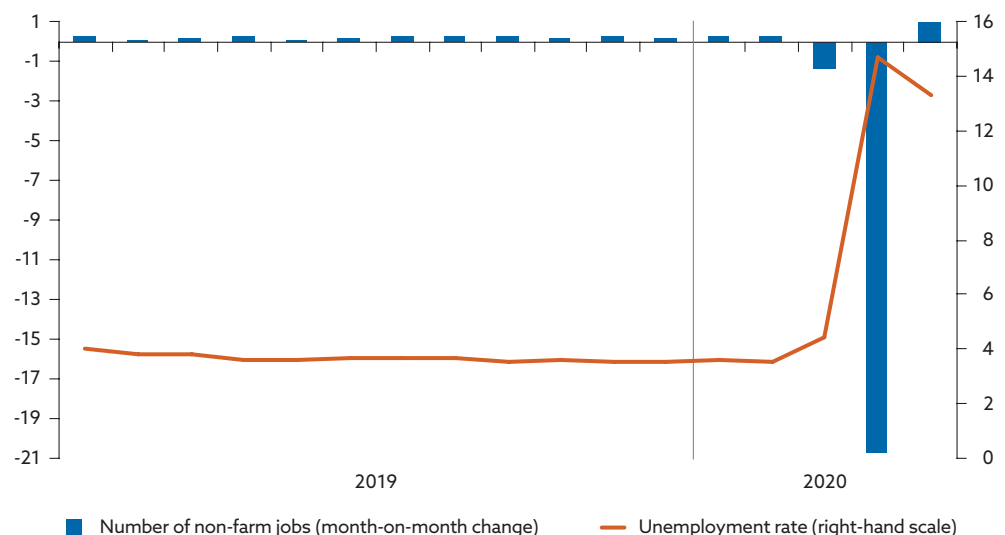
Sources: Macrobond, and NBS calculations.
Note: The data cut-off date is 14 June 2020.

At the end of May, the **European Commission** put forward its proposal for a major recovery plan. This includes a €750 billion new recovery instrument called Next Generation EU, which will be embedded in a 2021–2027 EU budget totalling €1.85 trillion. Of the Next Generation EU funds, €500 billion will be distributed in grants and €250 billion in loans passed on to Member States. The proposal is still subject to approval by the European Council.

In the **United States**, the gradual easing of pandemic containment measures was reflected in a slight improvement in the labour market. After April, when the unemployment rate surged to a record high of 14.7% and the number of non-farm jobs collapsed by more than 20 million, there was a slight correction in May. Non-farm jobs increased by 2.5 million, with around half of that increase occurring in the leisure and hospitality industry, the sector hardest hit by the coronavirus crisis. Besides the easing of containment measures, another stimulus to job growth may have been the Paycheck Protection Program (PPP), under which loans are provided to small business and are forgiven if used to keep workers on the payroll or to quickly rehire them. In May the unemployment rate fell to 13.3% (see Chart 7). The labour market situation could be further supported by the extension of the PPP coverage period from 30 June 2020 to 31 December 2020.

Chart 7

United States: unemployment rate and change in number of non-farm jobs (percentages; millions of jobs)



Source: Macrobond.

In the June edition of its **Global Economic Prospects** report,⁴ the **World Bank** published its projections for the global economy. The recent period

⁴ <https://www.worldbank.org/en/publication/global-economic-prospects>

has also seen the publication of projections by the International Monetary Fund (in April) and the European Commission (in May). The World Bank envisages a 5.2% contraction of global GDP in 2020, the largest recession since the Second World War. The World Bank projection is around 2 percentage points stronger than the contractions projected by the IMF and the European Commission. In 2021, the World Bank expects the global economy to grow by 4.2%.

June also saw the publication of the **OECD Global Economic Outlook**, which focuses on two scenarios: one in which there is second wave of the coronavirus and one in which another outbreak is avoided. In the event of a renewed outbreak of the pandemic, the OECD projects that world economic output will fall by 7.6% in 2020; in the more moderate scenario it projects a contraction of 6.0%. Each of the OECD projections are therefore more pessimistic than the World Bank projection. In 2021, the OECD sees the global economy growing by either 2.8% or 5.2%, depending on the scenario.

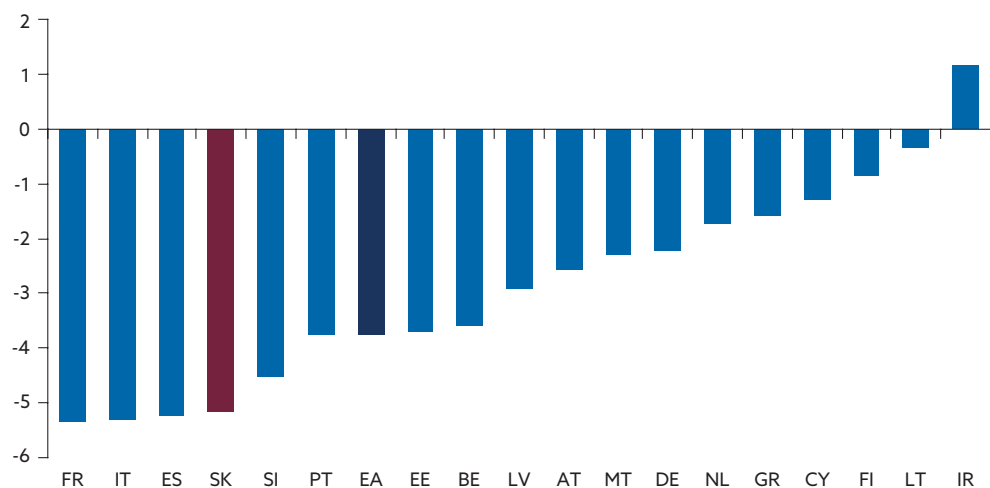
3 The Slovak economy⁵

3.1 Economic activity

Slovakia's GDP fell in the first quarter of 2020 by 3.7% year on year and by 5.2% in quarter-on-quarter seasonally adjusted terms. This result was in line with the Statistical Office's flash estimate and reflected the impact of the global spread of the coronavirus (COVID-19) pandemic. The stringent lockdown measures imposed by China, the first country affected by the virus, did not have a major impact on the Slovak economy. The headwinds only began hitting the domestic economy in late March, after the virus had spread to European countries including Slovakia itself. The domestic containment measures resulted in the temporary closure of most trade and services businesses and the gradual shutting down of manufacturing production. Although the pandemic's impact in Slovakia in the first quarter was confined to the last two weeks, it was one of the largest among euro area countries (see Chart 8). Monthly indicators up to the end of March were not showing any signs of a severe economic contraction; they mostly reflected only the impact of the gradual cooling of foreign demand in recent quarters. Nevertheless, the economy contracted in the first quarter, and the cause was not just reduced foreign trade, but also a decline in domestic demand (see Chart 9).

Chart 8

GDP in euro area countries for Q1 2020 (quarter-on-quarter percentage changes; seasonally adjusted)

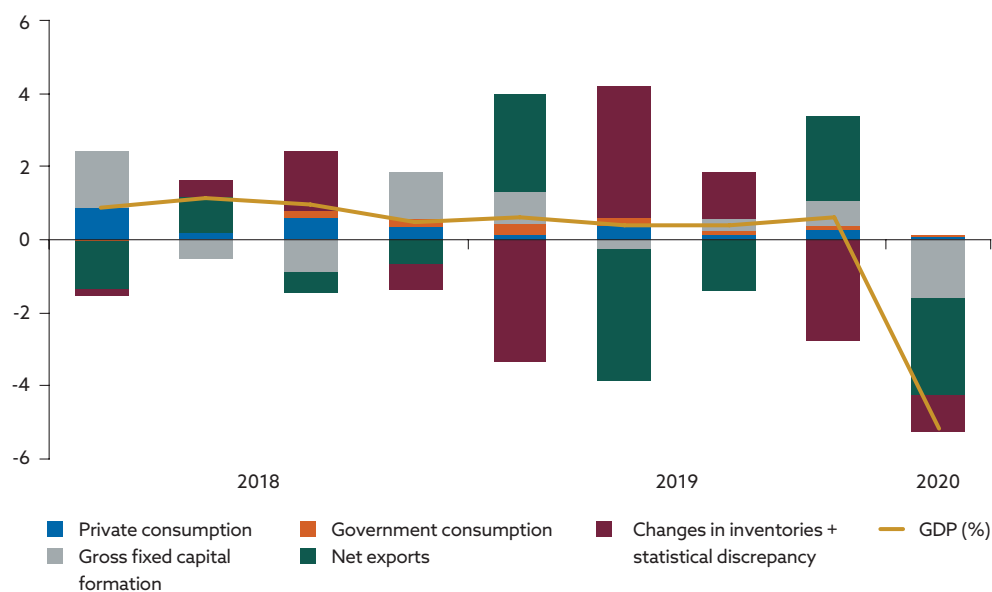


Sources: Eurostat, and NBS calculations.

⁵ All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using NBS internal models.

Chart 9

GDP and its components (quarter-on-quarter percentage changes, percentage point contributions; seasonally adjusted)



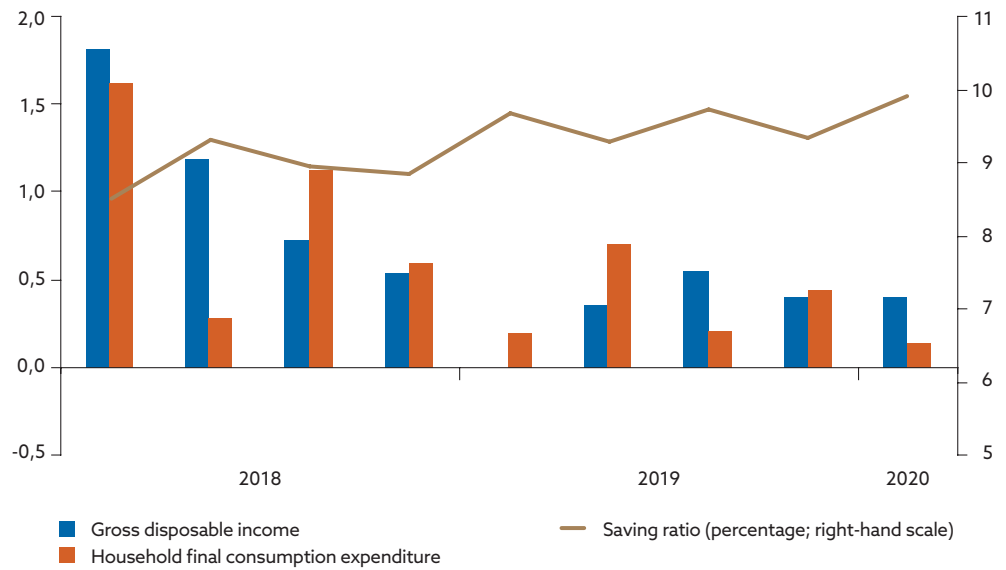
Sources: SO SR, and NBS calculations.

The first quarter saw declines in all GDP components apart from private consumption, whose growth rate decelerated to 1.0% year on year and to 0.2% compared with the previous quarter.⁶ Ahead of expected business closures, households were stocking up on food and medicines, which resulted in a temporary rise in consumption expenditure. In the overall composition of household expenditure, however, these were the only items that were increasing in the first months of the year. The subsequent slump in consumer confidence and in sales indicates that this area of expenditure will be severely affected in the second quarter. Consumers have primarily been reining in their purchases of durable consumer goods. Household income growth has decelerated, but to a lesser extent compared with household consumption. Amid the deteriorating labour market situation, a proportion of income from work has been substituted with social benefit increases introduced as part of the Government's special relief measures. Partly because of their wariness and concern about the future situation, consumers have been taking a cautious approach to purchases and their propensity to save has increased. Hence the saving ratio continued to rise in the first quarter of 2020 (see Chart 10). May's gradual improvement in monthly indicators (trade sales, consumer confidence, new car registrations) is also providing modest grounds for optimism about future consumption developments. The complete revival of consumption depends mainly, however, on labour market developments and the recovery of the economy per se.

⁶ Further information is available in Slovak in the Analytical Commentary "Spotrebiteľské správanie slovenských domácností v čase pandémie".

Chart 10

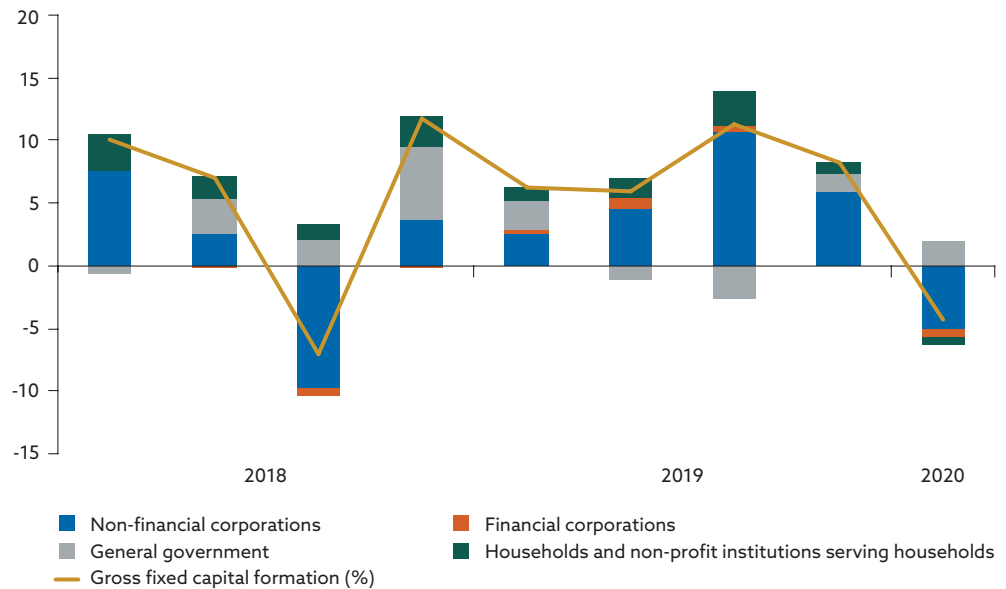
Household income and consumption (quarter-on-quarter percentage changes; seasonally adjusted)



Sources: SO SR, and NBS calculations.

Chart 11

Fixed investment (current prices; annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

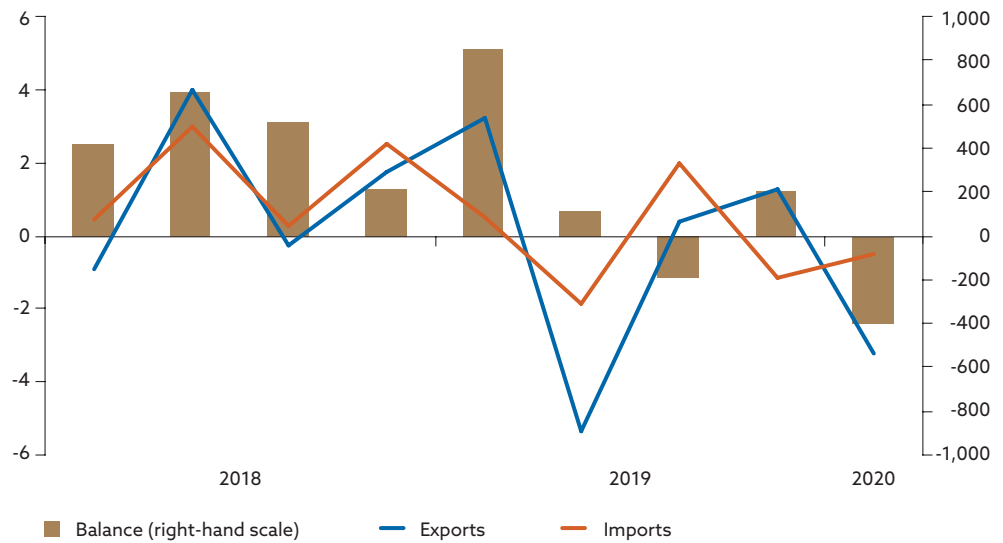
Investment activity in the economy fell in the first quarter of 2020 by 4.8% year on year and by 7.2% quarter on quarter. All sectors apart from general government recorded a decline in gross fixed capital formation (see Chart 11). Government investment held up mainly because of ongoing infrastructure projects. Since these are long-term projects, investment in buildings made the only positive contribution to fixed capital formation

in the early part of the year. Firms have been reviewing their investment plans. With their short-term liquidity clearly also affected by business closures and production shutdowns, firms have been seeking ways to cut their expenditure to a minimum. Now, in the second quarter, it is expected that firms will continue this behaviour and that the investment decline will be more pronounced. As surveys indicate, capacity utilisation has fallen sharply and there is currently pressing concern about future liabilities. The return of investment appetite will depend on the rate of recovery in foreign demand.

Unfavourable foreign trade developments were the main factor behind the economy's contraction in the first quarter of 2020. As a result of the deterioration in foreign trade, further exacerbated by the onset of the coronavirus pandemic, Slovakia's exports of goods and services were 6.8% lower in the first quarter of 2020 than in the same period of 2019 (and 3.2% down on the previous quarter). All commodity exports declined. The car industry was the industry hardest hit by the disruption of production and closing of national borders. Looking at the geographical breakdown of exports, only exports to non-EU countries managed to maintain growth (see Chart 13). This was driven mainly by exports to South Korea and Turkey, countries that were not so actively contending with the pandemic until subsequent months. The growth in exports to third countries was also partly supported by an increase in exports to the United Kingdom, which since the end of January has no longer been an EU country. Compared with exports, imports of goods and services fell more moderately, so the trade balance for the period was negative (see Chart 12). The excess of imports over exports apparently ended up in firms' inventories. The expectation is that they will use these stocks after production resumes and that imports will then be lower. The spread of the virus to Europe in March had a major impact on almost all countries, which has in turn weighed heavily on Slovakia's foreign trade. This is evident from goods exports in April, which collapsed by more than 40% year on year. The gradual widespread resumption of production in May following the easing of containment measures may be a sign of a partial return to recovery in foreign trade. Nevertheless, its future progress will be heavily dependent on the recovery of global demand.

Chart 12

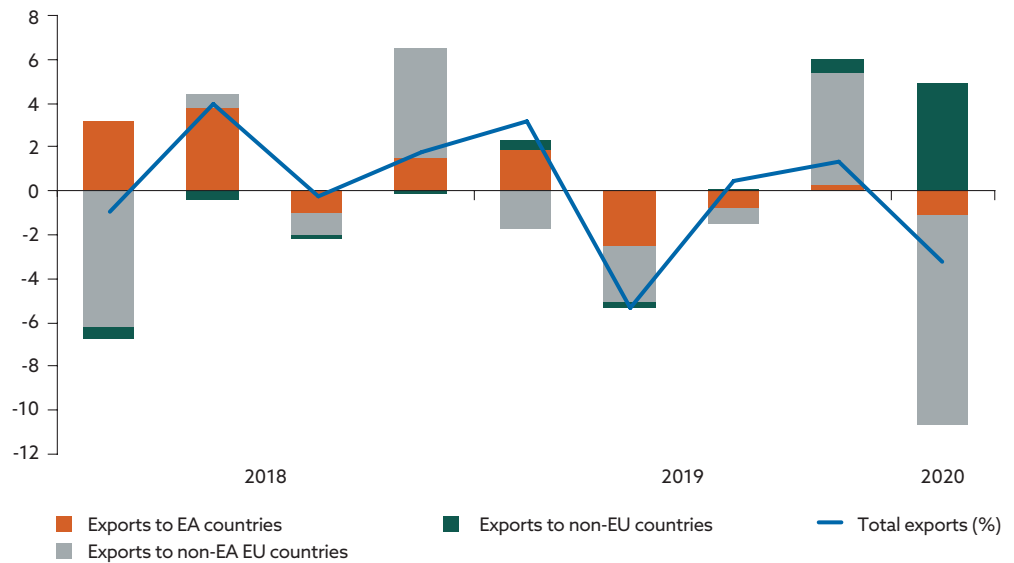
Foreign trade (EUR millions; quarter-on-quarter percentage changes; seasonally adjusted)



Sources: SO SR, and NBS calculations.

Chart 13

Exports broken down by destination (quarter-on-quarter percentage changes; percentage point contributions)

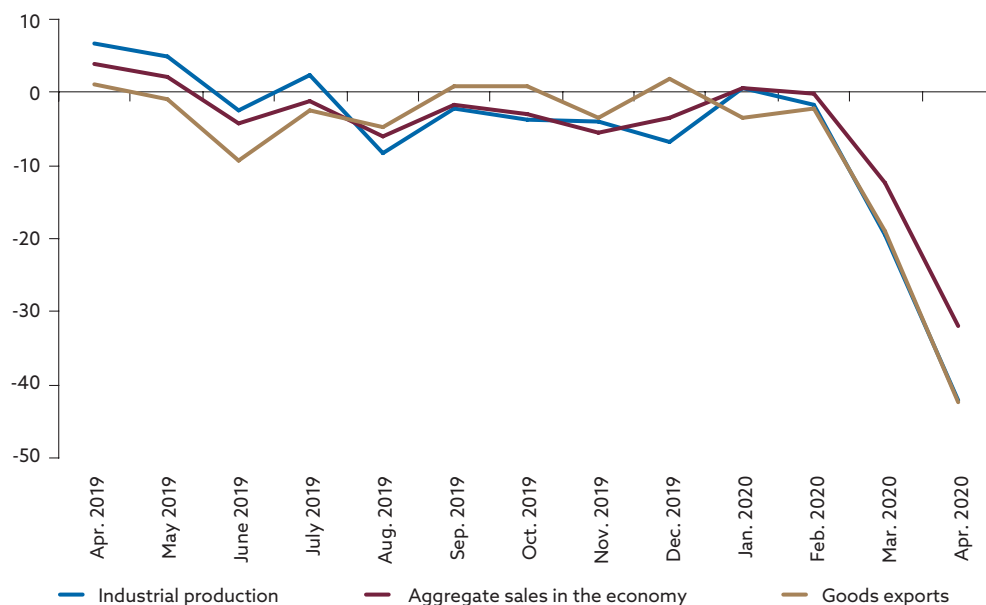


Sources: SO SR, and NBS calculations.

Monthly real economy indicators fell to historical lows in April 2020. Pandemic containment measures reduced economic activity to a minimum. The year-on-year decline in economic indicators was even more severe than that observed during the global financial crisis in 2008 (see Chart 15). In April, industrial production fell by 42% year on year; goods exports, by 27.7%; imports, by 35.7%; and aggregate sales in the economy, by 31.9% (see Chart 14). The main cause of the downward impact on production and

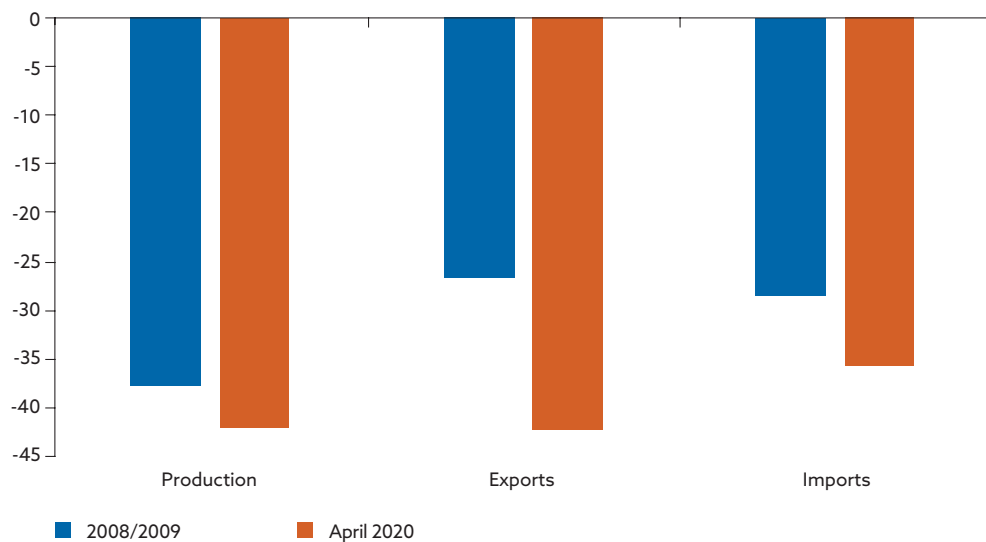
exports was the shutdown of car plants, while in the case of domestic trade sales it was the closure of most businesses.

Chart 14
Economic indicators (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 15
Economic indicators' steepest declines during the global financial crisis and the coronavirus crisis (annual percentage changes)



Sources: SO SR, and NBS calculations.

Industrial production fell across all industries, but most sharply in the car industry (see Chart 16). In that industry, the year-on-year drop of almost 79% reduced output to below the level it was at in 2009, when Slovakia was producing fewer than half a million vehicles.

Chart 16

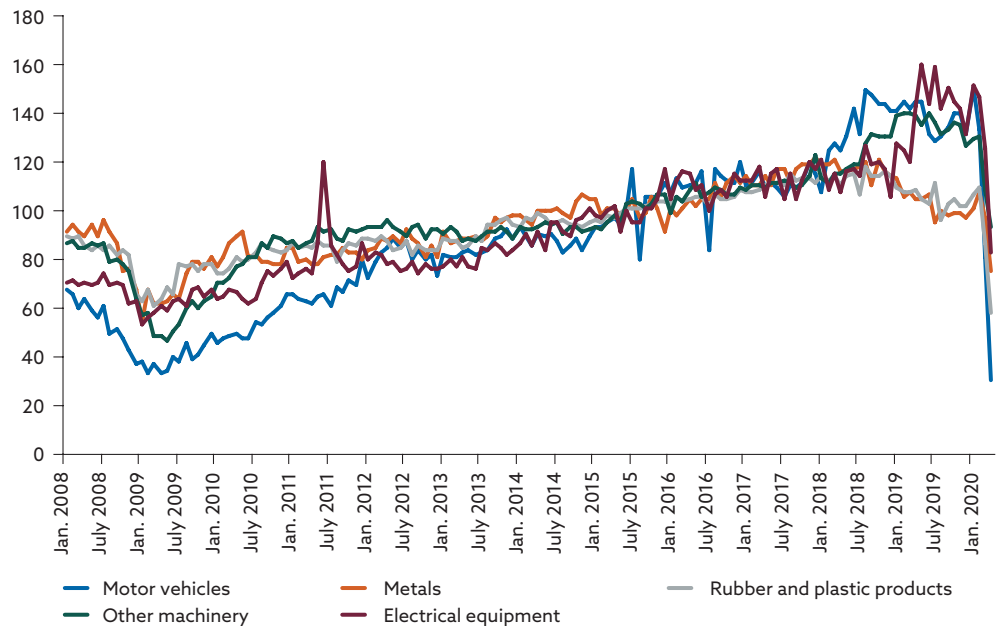
Car industry developments (index, 2015 = 100; seasonally adjusted)



Sources: SO SR, and NBS calculations.

Chart 17

Key sectors of industrial production (index, 2015 = 100; seasonally adjusted)



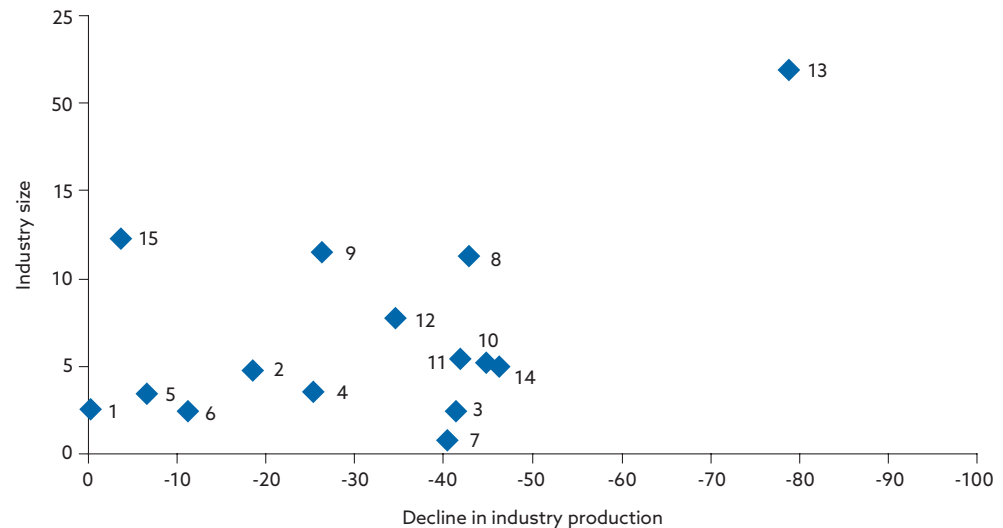
Sources: SO SR, and NBS calculations.

In all of the most significant industries, production was clearly cut back in April (see Chart 17). Even though households were increasingly stocking up on food and the health sector was facing increasing difficulties, production in the pharmaceutical and food industries declined sharply. The mining and quarrying industry and energy industry were the least affect-

ed industries, and the decline in their production was within the margins of normal fluctuation (see Chart 18).

Chart 18

Industries according to the NACE classification – annual percentage rate of decline in April 2020 and industry size



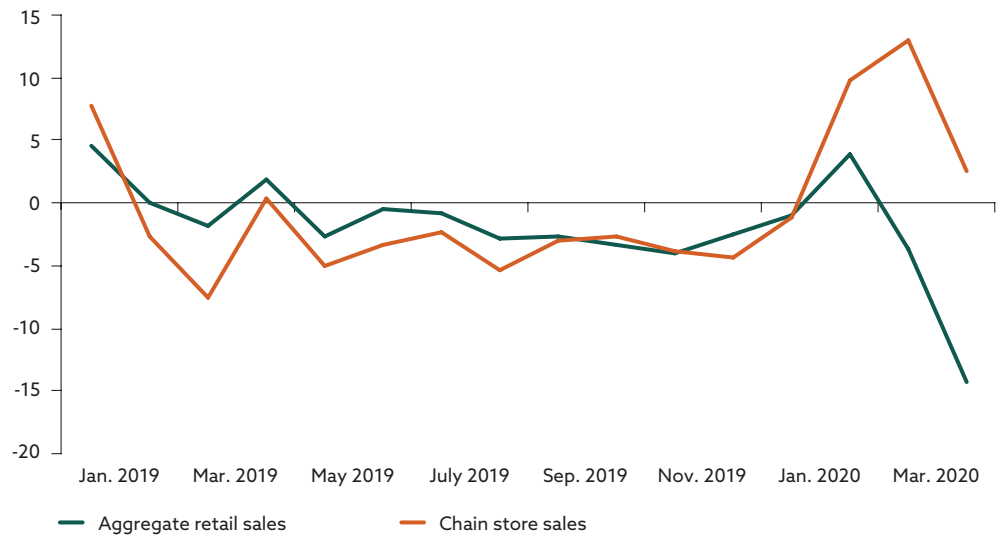
Sources: SO SR, and NBS calculations.

Note: 1 – Mining and quarrying; 2 – Manufacture of food products; 3 – Textiles; 4 – Wood and paper products; 5 – Refined petroleum products; 6 – Chemicals and chemical products; 7 – Pharmaceuticals; 8 – Rubber and plastic products; 9 – Metals and fabricated metal products; 10 – Electronics; 11 – Electrical equipment; 12 – Other machinery and equipment; 13 – Motor vehicles; 14 – Other manufacturing, and repair and installation of machinery and equipment; 15 – Energy supply.

April saw a more moderate decline in aggregate sales than in production, although the decline in industry sales was larger. An exception was sales in the pharmaceutical industry, which, in contrast to production, increased strongly. It therefore appears that firms met their increased demand for medical supplies more with imported supplies than with those domestically produced. This is also indicated by the foreign trade data.

Lodging sales fell quite sharply in April (by almost 85%) and so too did motor vehicle sales (by 49%). In retail trade, where a majority of shops were closed, sales fell by 14.3% (see Chart 19). Only chain stores reported a year-on-year increase in sales, in contrast to the decline recorded across small grocery stores. Despite projections of an increase in online sales, sales fell slightly among vendors in the category *Other retail sale not in stores, stalls or markets*, which includes online sales. In wholesale trade, the only sector that reported sales growth in March, sales also fell in April. The only exception in this category was sales of agricultural raw materials and live animals, which posted relatively strong growth. In the information and communication sector, sales increased in the subsectors of computer programming and telecommunication services.

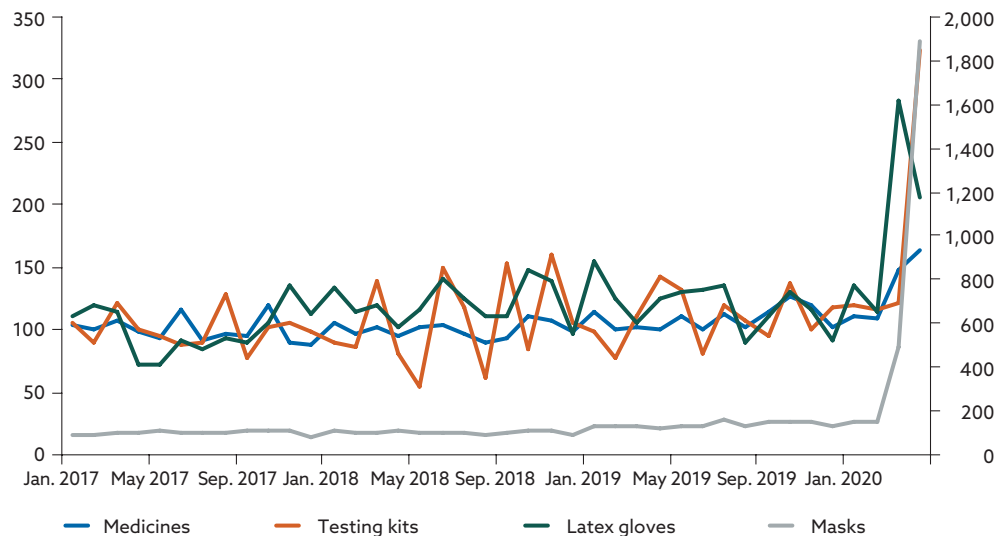
Chart 19
Retail sales (annual percentage changes)



Sources: SO SR, and NBS calculations.

Foreign trade entered a deep downturn in April. Exports and imports were affected above all by shutdowns in the car industry and electronics industry. **As a corollary of the pandemic, imports of medical supplies increased in April, as they had also done in March** (see Chart 20). But although these imports recorded strong growth, their volume share of total imports was not significant. Some types of food imports also showed rising growth, but unlike medical supplies, their growth rates were not at historical highs (with the exception of pasta imports).

Chart 20
Imports of selected medical supplies

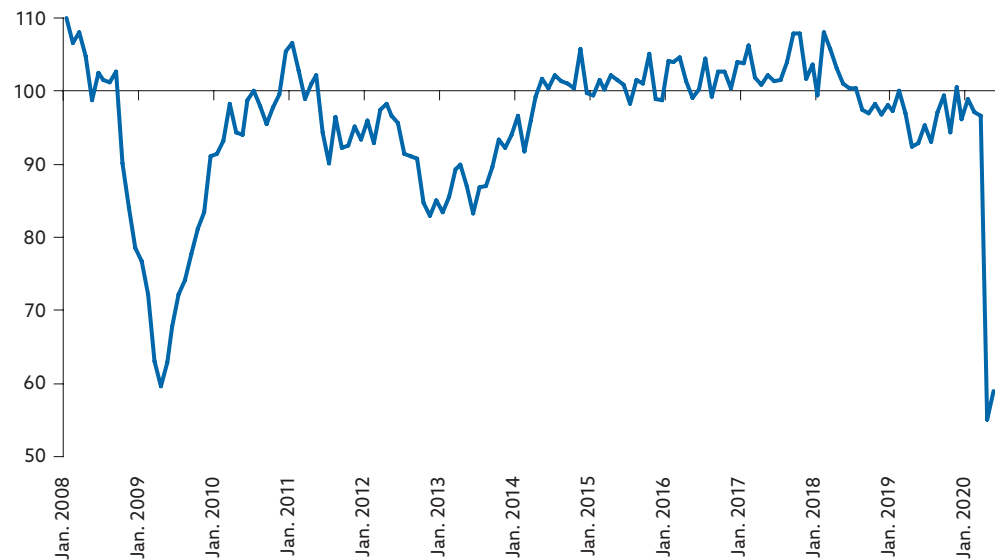


Sources: SO SR, and NBS calculations.

After tumbling in April, the **Economic Sentiment Indicator for Slovakia** recorded only a slight improvement in May, edging up by 3.9 points to 59.0 (see Chart 21). This small correction was supported by industry, retail trade and consumer confidence. Industry confidence rose on the back of an upturn in managers' production expectations. Services and construction confidence continued to decline, albeit more moderately, mainly owing to negative assessments of current demand.

Chart 21

Economic Sentiment Indicator (2000-2019 long-term average = 100)



Source: European Commission.

3.2 Labour market

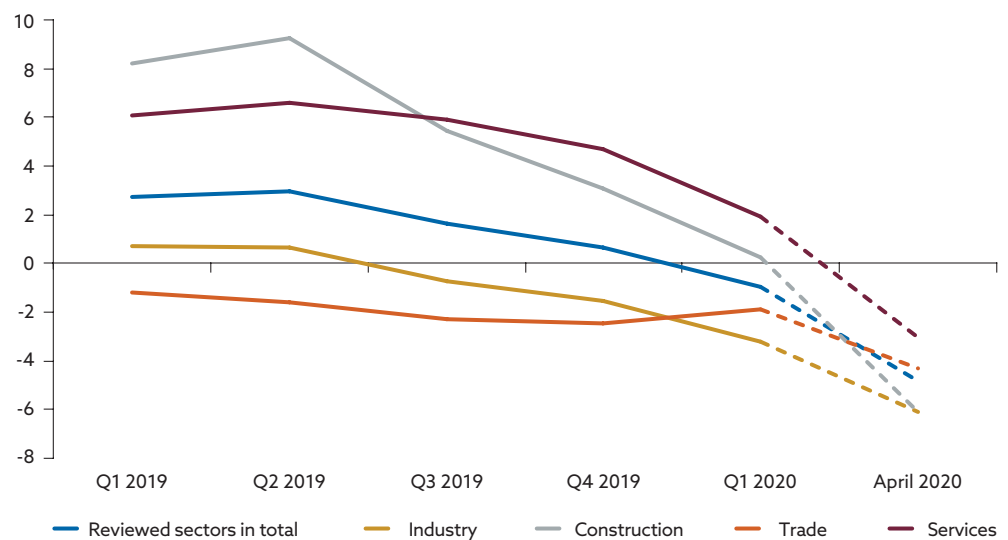
After declining moderately in the first quarter of 2020, employment will apparently record a large decrease in the second quarter. Employment across the private sector segments under review fell in April by 4.8% in year-on-year terms and by 2.3% compared with the previous month (see Chart 22). This implies that employment may decline, year on year, more sharply in the second quarter than in the first quarter (when it fell by 1%). The number of employed persons fell markedly in most sectors apart from the information and communication sector, where employment increased by 4.8% year on year. In manufacturing industry, a core sector, employment fell in April by 7% year on year, whereas before the outbreak of the coronavirus crisis its decline was only around 2%. In the pre-pandemic period, the softening of global demand was having a noticeable impact on manufacturing in late 2019 and early 2020, as were structural changes (the impact on employment of high labour costs and the streamlining of production processes). In most branches of manufacturing industry, employment fell sharply in April; in the car industry, however, the decline was a more moderate 2.8%.

Forward-looking data for May were not yet showing any signs of an end to the employment downtrend (see Chart 23). Employers' expectations about job creation remain pessimistic and, accordingly, the number of job vacancies is very low (it fell in May by 55% year on year). Job creation is therefore subdued for the time being. There are already indications from employers that employment growth will not pick up even in the third quarter. According to a Manpower survey,⁷ for example, job losses are expected to outweigh the creation of new jobs.

These soft data are further supported by hard data. The unemployment rate based on the total number of jobseekers increased in May by 0.5 percentage point, month on month, to 8.1% (representing a headcount increase of around 14 thousand).⁸ On a positive note, however, this rise in the number of unemployed is only one-third of the April figure. These data imply that the labour market may have already experienced its most severe phase of deterioration (in April), assuming that the containment measures are eased and the economy makes a gradual recovery. Compared with April, the number of unemployed finding a job almost doubled in May, although it remained low in historical terms, at 9.5 thousand. The number of newly registered unemployed stood at 17 thousand in May, down from 20 thousand in April.

Chart 22

Employment in sectors under review (annual percentage changes)



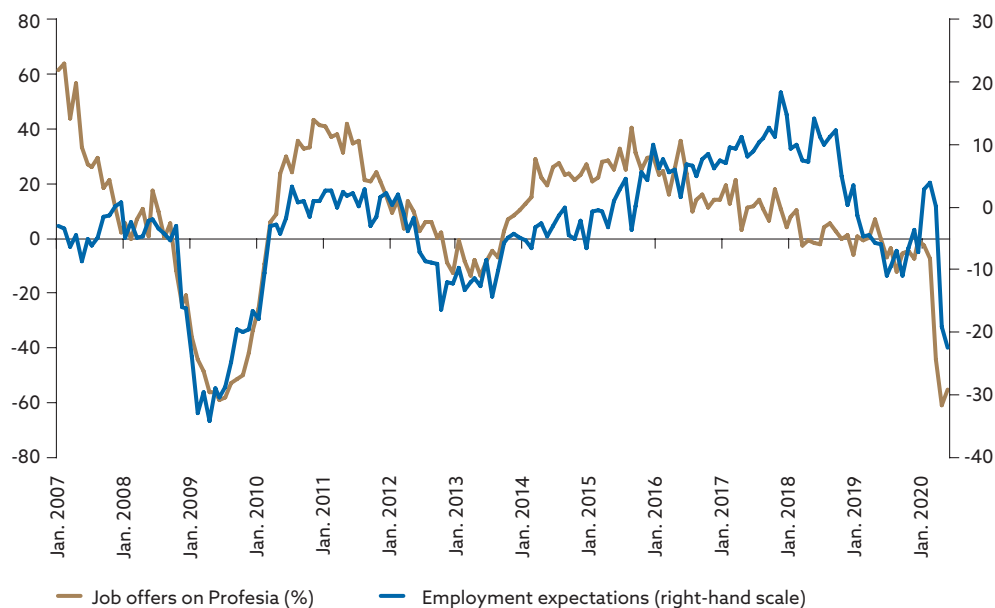
Sources: SO SR, and NBS calculations based on monthly data for reviewed sectors.

⁷ <https://www.manpower.sk/manpower/sk/manpower-index-trhu-prace-q2-2020-2/>

⁸ Seasonally adjusted by NBS. The non-adjusted increase would be almost 15 thousand (0.5 percentage point after rounding).

Chart 23

Selected labour market indicators (annual percentage changes; index)



Sources: Profesia online job portal (www.profesia.sk), European Commission, and NBS calculations.

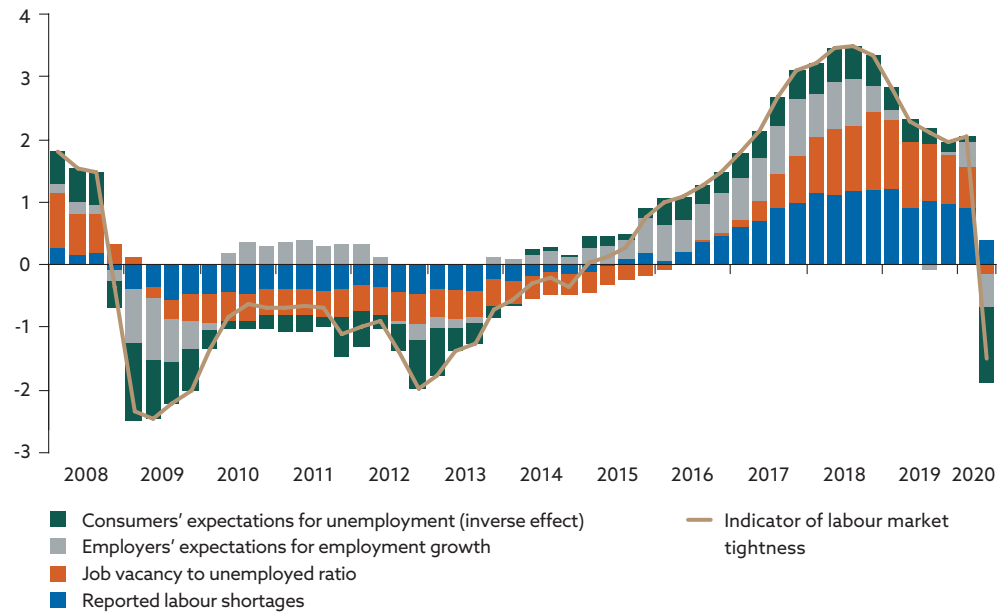
The recent excess of demand over supply in the labour market has been completely eliminated, so causing a significant decline in the indicator of labour market tightness and a consequent negative impact on wage developments. The average wage fell in April by 4.2% year on year. This is in line with projections of a steep drop in wages in the second quarter (see Chart 24), but so far the decline is more moderate than projected in NBS's June Medium-Term Forecast (MTF-2020Q2).⁹ The drop in wages reflected a decline in the number of hours worked per person, which was dramatic in April (see Chart 25). Hence all variable components of compensation related to the decline in hours worked came under downward pressure. There were also wage losses resulting from production shutdowns and from people taking sick leave and taking time off work to care for a family member. Data on second quarter growth in base wages are not yet available for the second quarter. Their growth rate, however, is also expected to be dampened this year by the impact of the coronavirus crisis. From a sectoral perspective (see Chart 26), wages declined most markedly in industry (by 8.8% year on year) and more moderately in construction and services (by around 1% in each case). Only in the trade sector did wages rise (by a modest 0.7%). In services, wages fell most sharply in the subsector of accommodation services (by 27%).

⁹ The lower than projected decline may have been caused by, among other things, a lower than expected number of people taking time off work to care for a family member – reflecting a higher rate of leave-taking and a more pronounced decline in employment that could result in an additional positive composition effect on the average wage.

April's negative result indicates that annual wage developments will be far worse in the second quarter than in the first quarter (see Chart 27). Annual wage growth for the first quarter was still in positive territory, supported by marked increases in the minimum wage and wage premia as well as by wage increases negotiated in the previous years. Wage growth across the economy stood at 6.2% (the figure for the private sector was 4.8%), which was 0.7 percentage point lower compared with the fourth quarter of 2019 (see Chart 28).

Chart 24

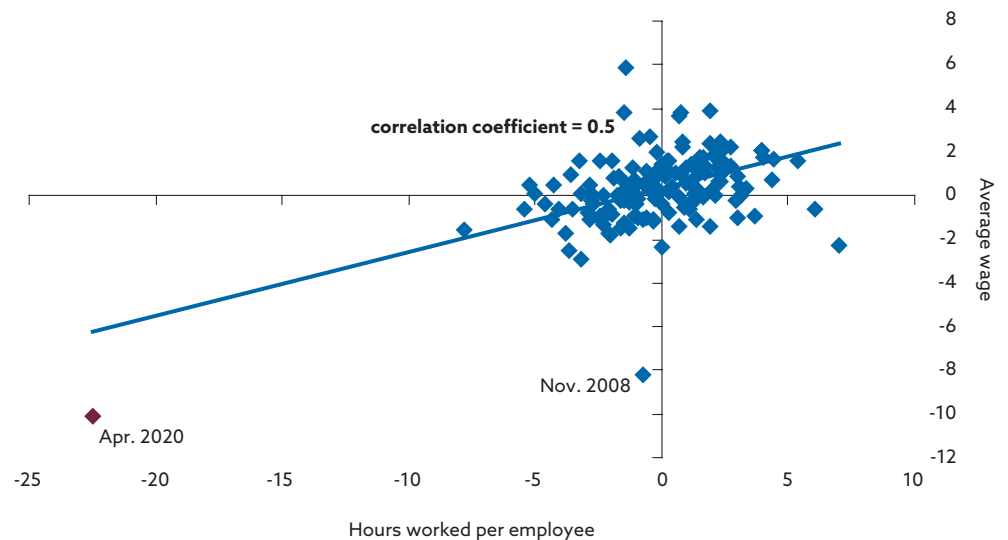
Indicator contributions in the calculation of labour market tightness (standardised indicators and their weighted average; level)



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

Chart 25

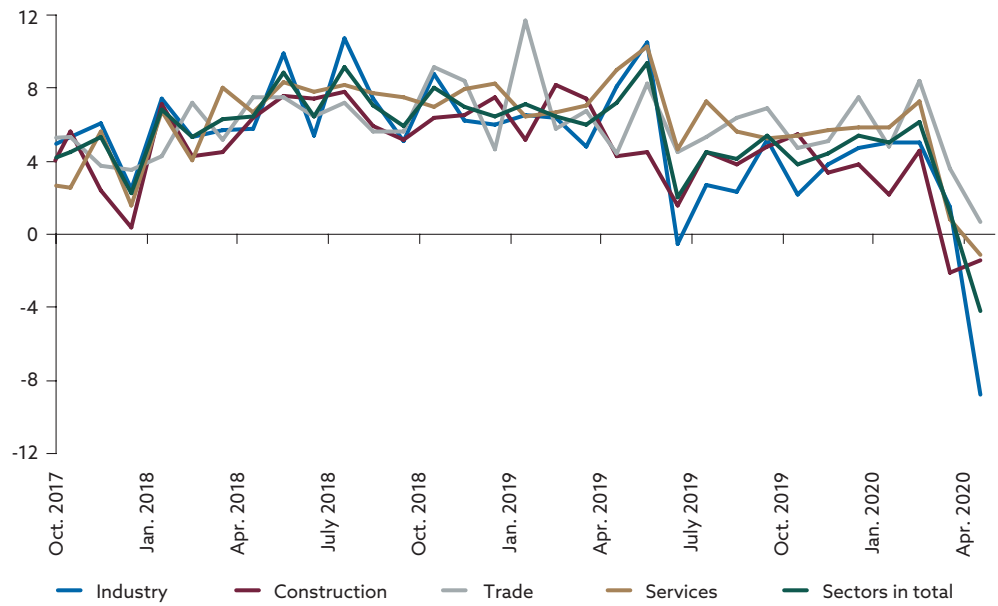
Correlation between hours worked per employee and the average wage in industry (month-on-month percentage changes)



Sources: SO SR, and NBS calculations.

Chart 26

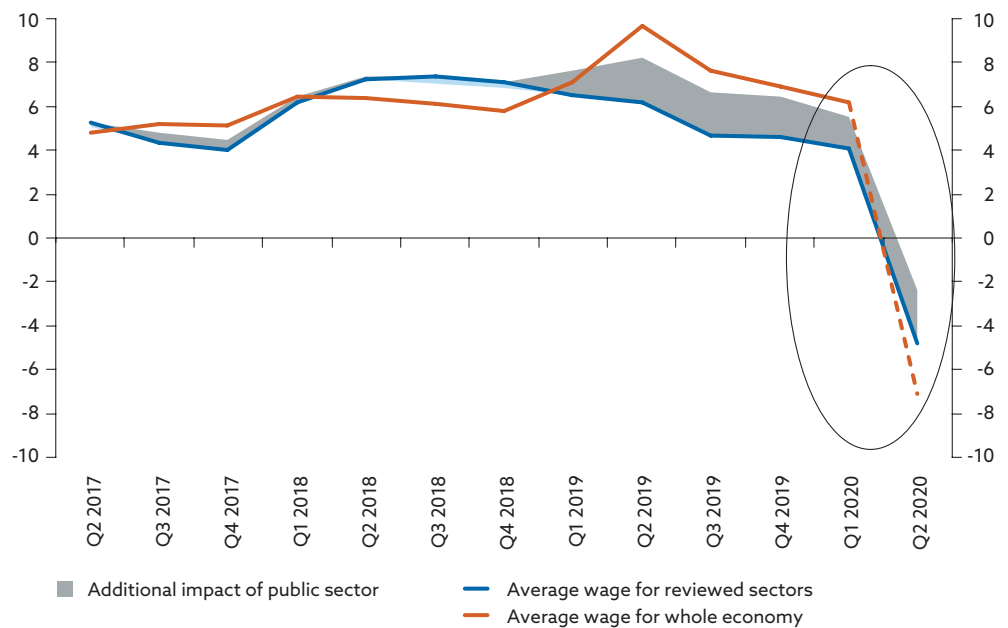
Average wage levels according to monthly data (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 27

Average wage levels - trend and forecast (annual percentage changes)

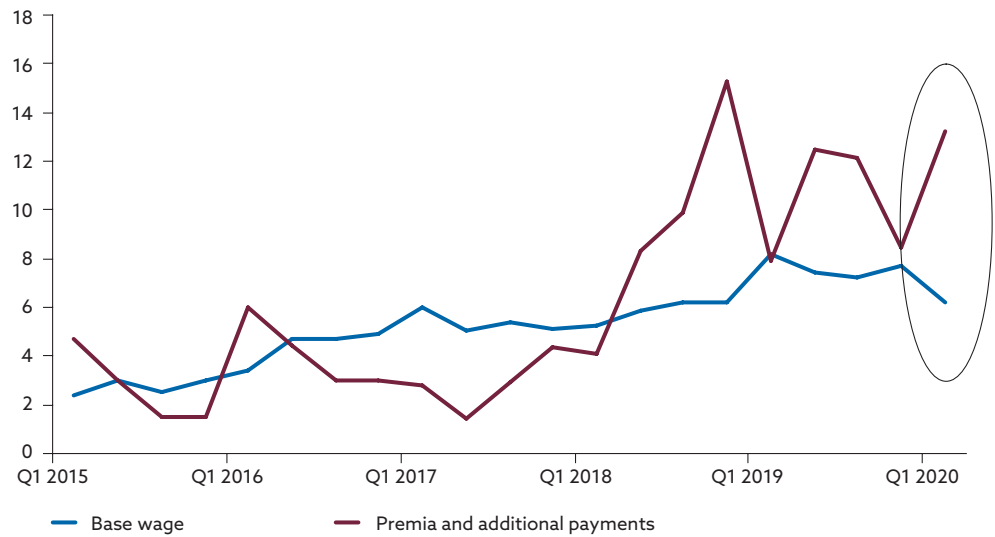


Sources: SO SR, and NBS calculations.

Note: For Q2 2020, the average wage for the whole economy and the impact of the public sector are based on the MTF-2020Q2 forecast.

Chart 28

Average wage components (annual percentage changes)



Sources: Trexima, and NBS calculations.

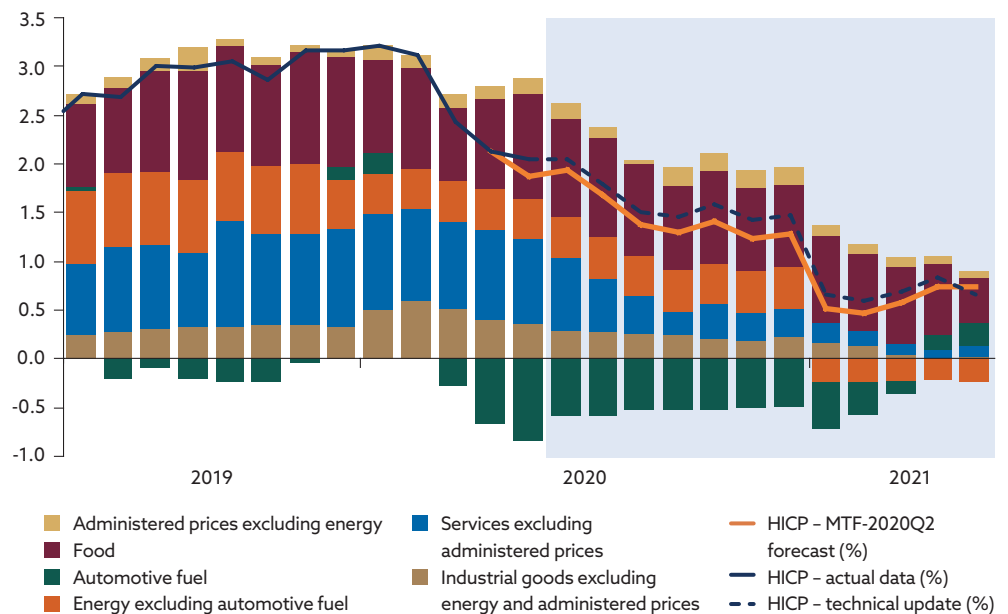
Note: The item “premia and additional payments” includes the impact of an increase in premia for night, weekend and public holiday work.

3.3 Prices

Slovakia’s annual HICP inflation rate remained unchanged in May, at 2.1% (see Chart 29). Demand-pull inflation slowed to 2.5% (see Charts 30 and 32).

Chart 29

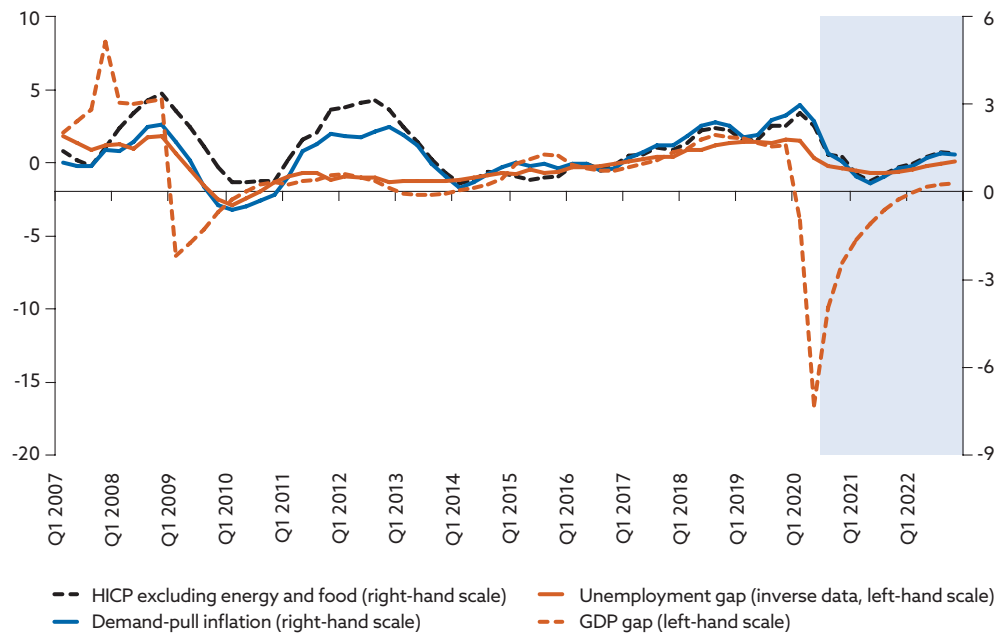
HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 30

Demand-pull inflation and the unemployment gap (annual percentage changes; percentage gap)



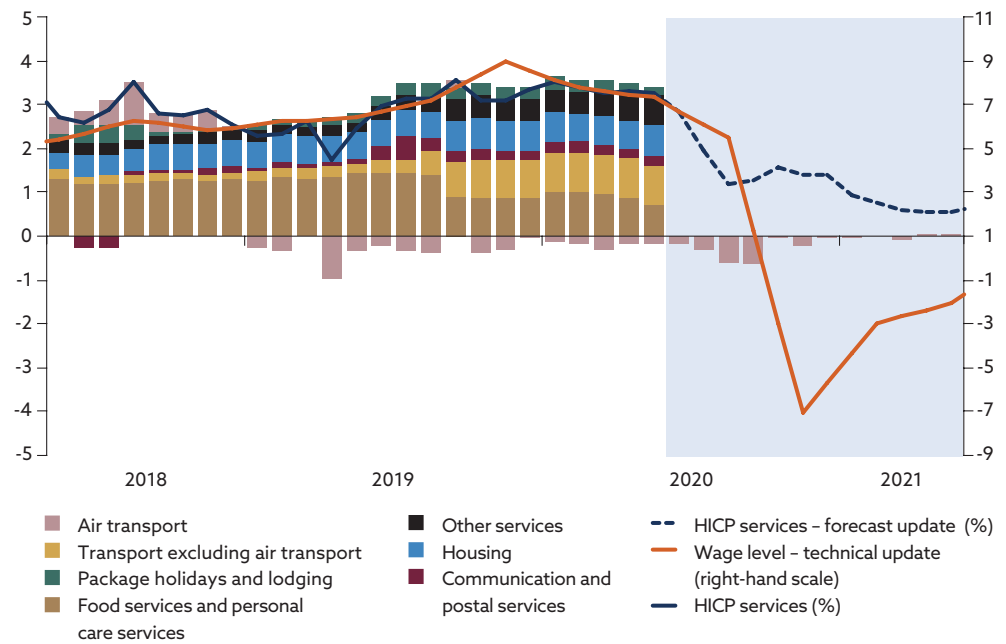
Sources: SO SR, and NBS calculations.

Partly because some prices for the previous month were imputed owing to price-measuring difficulties, demand-pull inflation in May was lower than projected (see Chart 33). In the services sector, there was slower growth in prices of food services, personal care services, recreation services, and accommodation services (see Chart 31). The current trend in services inflation is therefore being affected more by the calculation methodology for the price index than by real economic factors. As for the industrial goods component, it included decelerating prices of durable and semi-durable consumer goods.

Negative pressures from the labour market (see Chart 30) **and from lower household demand are not expected to pass through to demand-pull inflation until June.** A risk to the demand-pull inflation outlook in the medium term may be supply constraints in accommodation, recreation and food services.

Chart 31

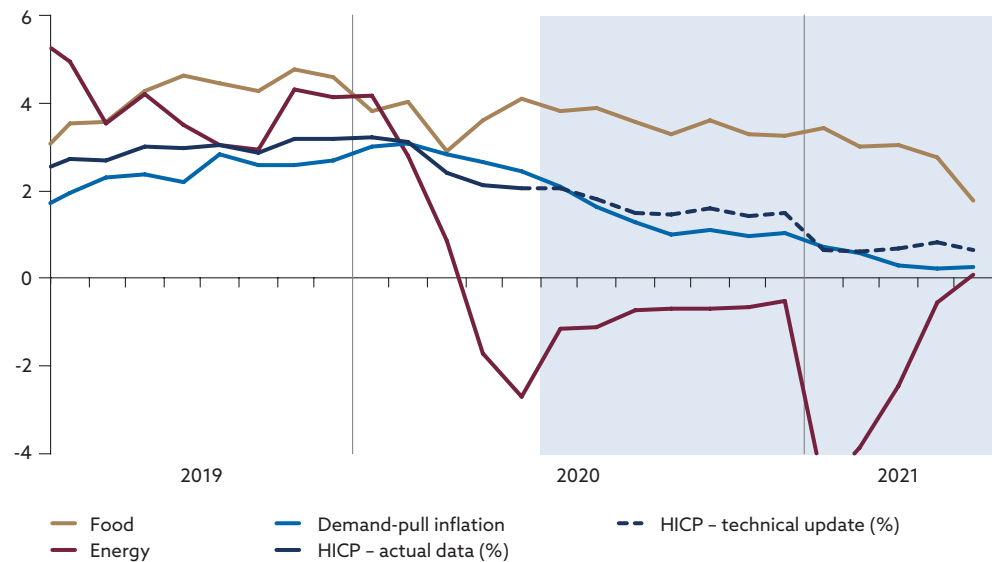
Food service inflation has been easing (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 32

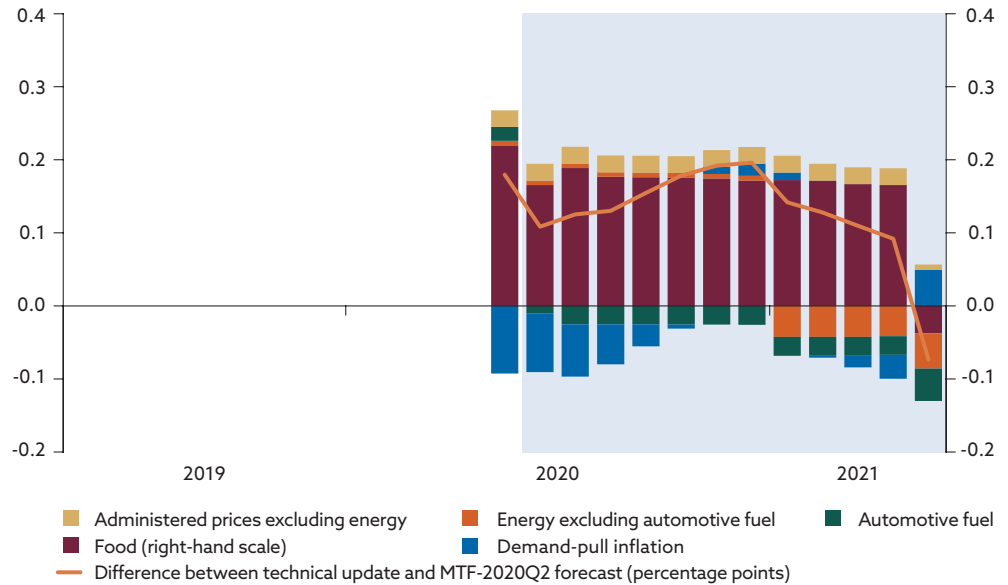
Inflation and demand-pull inflation are expected to decelerate (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 33

Inflation has been higher than projected (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

An increase in prices of food (including alcohol and tobacco) was partly why HICP inflation in May was higher than projected (see Chart 33). Prices of fruit and farinaceous products accelerated, and meat prices continued to surprise on the upside, maintaining the same rate of increase. Hence the food component continued to have a significant positive impact on headline inflation. As a result, there was no materialisation of the projected fading of the meat price supply shock. Unlike other components of consumer demand, food price inflation is still supported by relatively stable domestic demand.

The downtrend in automotive fuel and energy prices probably reached its lowest point in May (see Chart 32). The Brent crude oil price was rising until mid-June, riding expectations of economic recovery and oil production restraint. The possibility of a second coronavirus wave represents a downside risk to both a complete rebound in oil prices and to the headline inflation outlook for subsequent quarters.

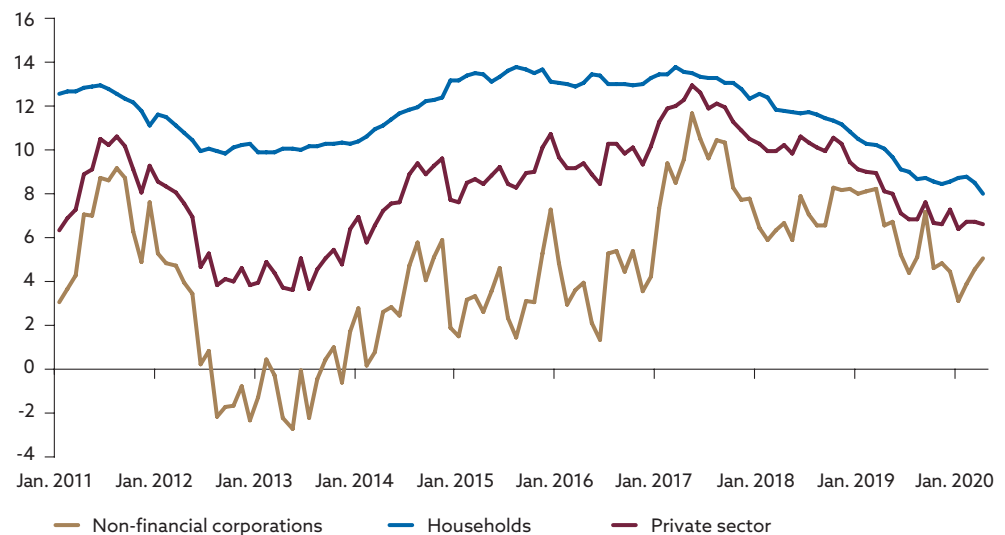
3.4 Loans and deposits

In April the impact of the coronavirus crisis was most pronounced in the provision of consumer loans. The annual growth rate of loans to the private sector as a whole slowed marginally, to 6.6% (from 6.7% in March). This figure masked contrasting trends (see Chart 34). Growth in loans to non-financial corporations (NFCs) continued to accelerate in April (to 5%, from 4.5% in March), even though the provision of state-guaranteed loans as part of the pandemic relief measures had not yet begun. On the other hand,

lending to households moderated. April saw an increase in NFC borrowing in the form of operating and investment loans. Compared with the period before the introduction of pandemic containment measures, there was also an increase in new housing loans, i.e. real estate liability. In lending to NFCs, the strongest increase in the last two months has been in lending to large enterprises (Chart 35).

Chart 34

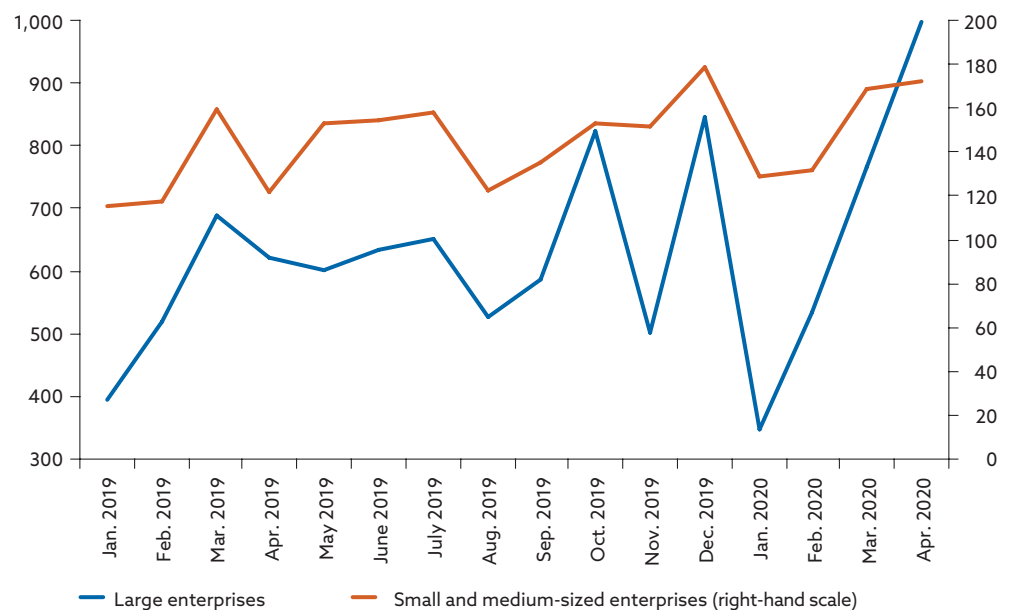
Total loans (annual percentage changes)



Sources: ECB, and NBS calculations.

Chart 35

New loans to NFCs (EUR millions)

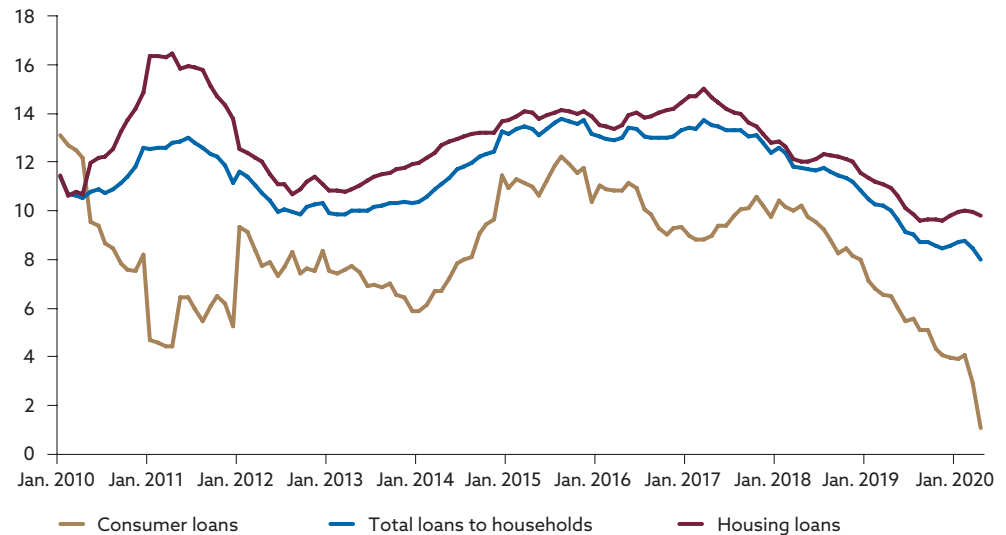


Source: NBS calculations.

Annual growth in loans to households slowed to 8.0% in April. The main drag on the growth rate came from total consumer loans, which in April

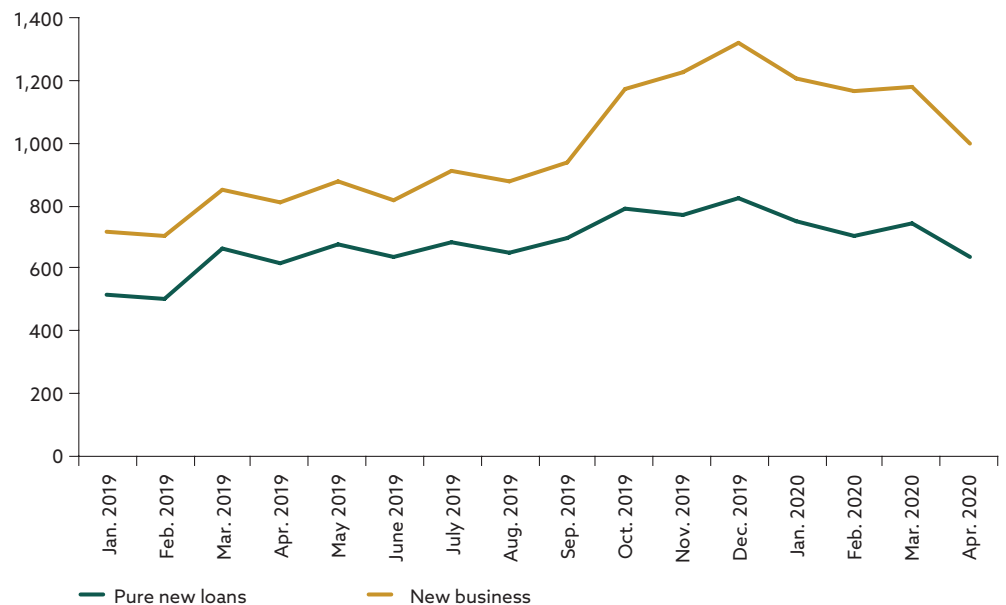
increased by just 1.1% year on year. In month-on-month terms, consumer loans fell in April for second successive month and by a greater margin compared with March. In contrast to consumer loans, growth in housing loans has not changed significantly in recent months (see Chart 36). And although new business in housing loans has shown a decelerating trend, it remains elevated in comparison with the same period of the previous year (see Chart 37). Interest rates on housing loans increased slightly in April.

Chart 36
Loans to households (annual percentage changes)



Sources: ECB, and NBS calculations.

Chart 37
Housing loans (EUR millions)

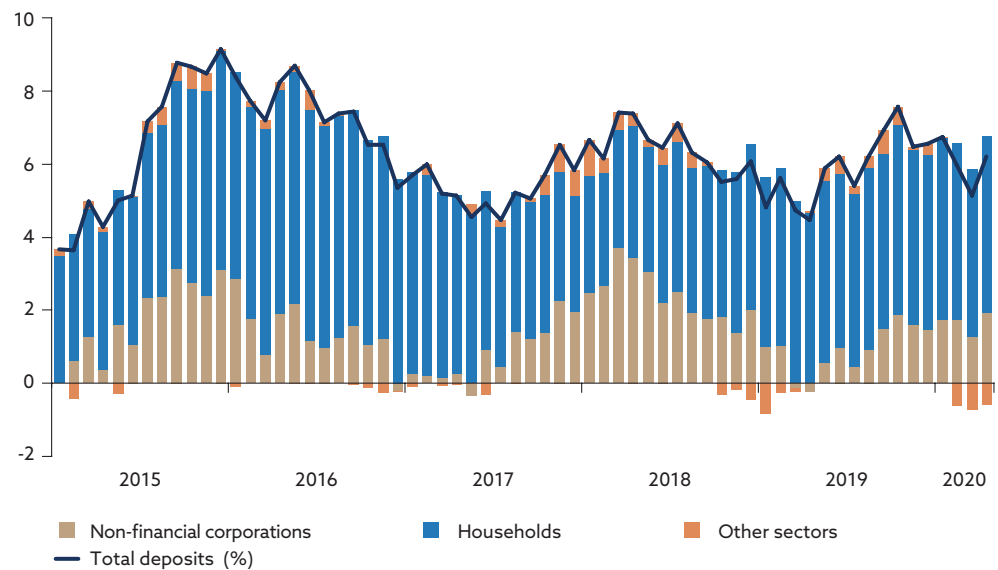


Sources: ECB, and NBS calculations.

Total private sector deposits increased appreciably in April. After moderating in March, mainly because of lower growth in NFC deposits (see Chart 38), annual deposit growth accelerated by a relatively robust 2.7 percentage points in April, to 8.1%. That figure also encompassed declines in deposits from firms in certain sectors, mainly accommodation and food services, owing to the continuing impact of pandemic-induced business closures. Despite the flow of loans to the hospitality industry, the rate of decline in the hospitality industry deposits became more pronounced. Business closures and fears about future employment, as well as about future income developments, caused a slight increase in deposits from households.

Chart 38

Total deposits (annual percentage changes; percentage point contributions)



Sources: ECB, and NBS calculations.

4 Monetary policy

For the purpose of ensuring the necessary degree of monetary accommodation and a smooth transmission of monetary policy across sectors and countries, the **ECB's Governing Council**, at its June 2020 meeting, decided on a set of monetary policy measures to support the economy¹⁰ during its gradual reopening and to safeguard medium-term price stability. First, the Governing Council decided to increase the envelope for the pandemic emergency purchase programme (PEPP) by €600 billion to a total of €1,350 billion. The PEPP expansion will further ease the general monetary policy stance, supporting funding conditions in the real economy. Second, the Governing Council decided to extend the horizon for net purchases under the PEPP to at least the end of June 2021. In any case, net asset purchases under the PEPP will be conducted until the Governing Council judges that the coronavirus crisis phase is over. Third, the Governing Council decided to reinvest the maturing principal payments from securities purchased under the PEPP until at least the end of 2022. Fourth, net purchases under the ECB's asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope until the end of the year.

As for the **US Federal Reserve**, the Federal Open Market Committee decided at its meeting in June 2020 to maintain the target range for the federal funds rate at 0.0% 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 post-meeting statement. The Committee stressed that the Federal Reserve would increase its holdings of Treasury securities and agency residential and commercial mortgage-backed securities at least at the current pace to sustain smooth market functioning, thereby fostering effective transmission of monetary policy to broader financial conditions. The economic projections of Federal Reserve Board members and Federal Reserve Bank presidents imply that they do not expect the federal funds rate to be taken into negative territory; their median projection for the rate over the period 2020–2021 is around 0.1%.

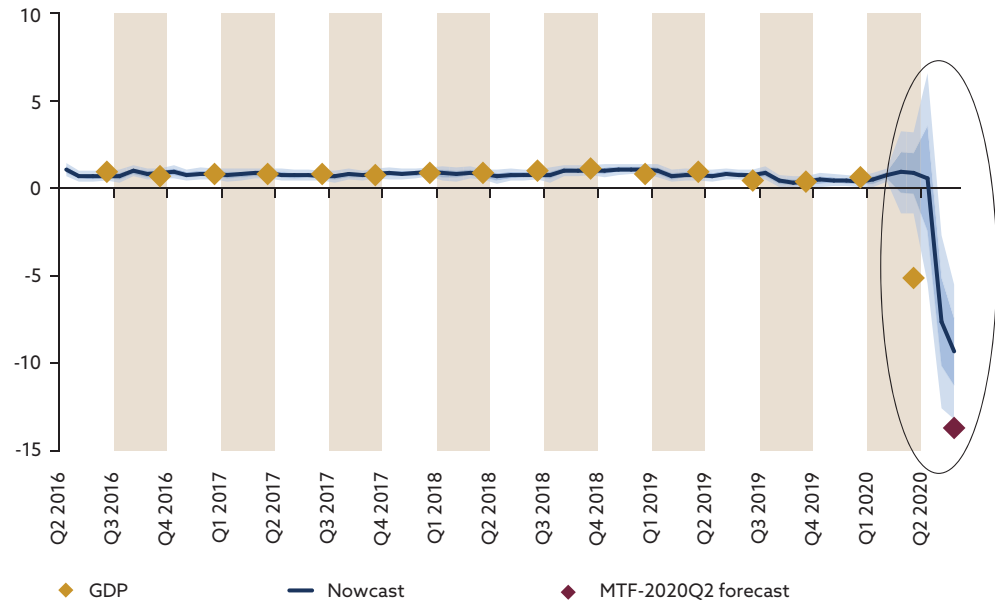
¹⁰ Further information is available at: <https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200604-a307d3429c.sk.html>

5 Indicative impact on the forecast

The latest nowcast for Slovakia's GDP growth (see Chart 39) shows the economy contracting more sharply in the second quarter of 2020 than in the previous quarter period, by 9.33% in quarter-on-quarter terms. This is mainly because all monthly indicators fell dramatically in April, when they fully reflected the impact of the coronavirus crisis. The negative effect of the hard data was partly offset by the fact that the economic contraction in the first quarter of 2020 was more moderate compared with the Statistical Office's initial flash estimate. After the gradual easing of coronavirus containment measures in May, economic sentiment began to edge back up both in Slovakia and abroad, although not to an extent that had any appreciable impact on the nowcast. The nowcast for employment growth in the second quarter of 2020 (see Chart. 40) indicates that its rate will be slightly lower than projected in NBS's June Medium-Term Forecast (MTF-2020Q2). The April employment data for the sectors under review had a slight downward impact on the nowcast.

Chart 39

Nowcast for GDP (quarter-on-quarter percentage changes)¹¹

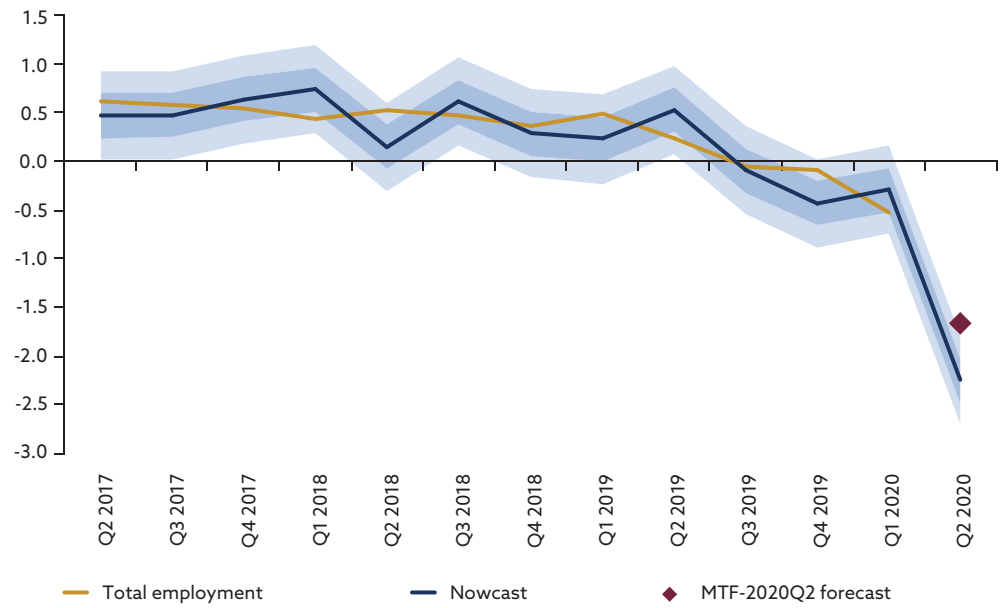


Sources: SO SR, and NBS calculations.

¹¹ 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 40

Nowcast for employment (quarter-on-quarter percentage changes)¹¹



Sources: SO SR, and NBS calculations.

Overview of main macroeconomic indicators for Slovakia

Table 3 Selected economic and monetary indicators for Slovakia

(annual percentage changes, unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 2010	Registered unemployment rate ¹⁾	Unemployment rate based on the total number of 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	6.8	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	4.7	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	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	1.5	3.0	1.8	1.0	4.9	6.0	-2.8	-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	-3.7	2.9	2.5	-0.5	5.1	6.1	-7.4	-4.2	97.6	5.7	6.7	4.5	8.5	-	-	-	-4.4	-2.9	1.1027
2019 June	-	2.7	2.8	-	5.0	6.1	-2.5	-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	2.6	-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	-8.3	-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	-	4.9	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	0.4	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	-1.7	-0.2	97.2	6.7	6.7	3.9	8.8	-626	-	-	-	-	1.0910
2020 Mar.	-	2.4	2.1	-	5.3	6.3	-19.6	-12.4	96.7	5.7	6.7	4.5	8.5	-824	-	-	-	-	1.1060
2020 Apr.	-	2.1	1.3	-	6.8	7.6	-42.0	-31.9	55.1	7.1	6.6	5.0	8.0	-874	-	-	-	-	1.0860
2020 May	-	2.1	-	-	7.4	8.1	-	-	59.0	-	-	-	-	-717	-	-	-	-	1.0900

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/StatisticsMBO620.xls