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October 2019

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Contents

Charts in boxes

Abbreviations

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

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

1 Summary

Euro area economic activity remained subdued in the third quarter of 2019. Monthly data pointed to a moderate improvement, but not to an extent that would offset the deterioration in results observed in previous months. According to data available to date, industrial production was lower in the third quarter than in the previous quarter. Retail sales performed somewhat better, maintaining their second-quarter level. The sole source of growth for the euro area in the third quarter is expected to have been the services sector, which is benefiting from the favourable labour market situation. Confidence indicators have not improved, so euro area economic growth is expected to remain muted.

Slovakia, too, reported weak growth in economic activity in August. Industrial production, sales, and exports fell, year on year. The most marked deterioration was in car manufacturing, and car industry suppliers also experienced headwinds. The latest data suggest that the difficulties in industry are starting to weigh on trade to some extent. An uptrend in the propensity to save was reflected in weak retail trade sales in August.

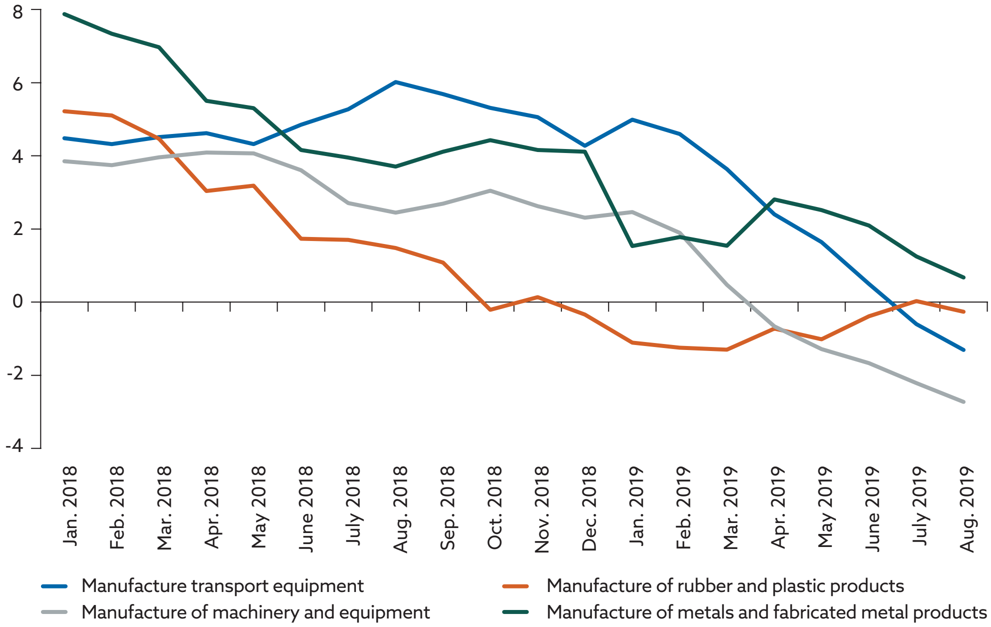
On the positive side, however, the labour market has so far been generally resilient to mounting problems in manufacturing industry. The first indications of a labour market slowdown may, though, be seen in employers' deteriorating expectations for future employment. Annual employment growth slowed appreciably in August, and in some sectors employment declined. After its high levels in the first half of the year, wage growth slowed significantly in July and August. This correction probably stems from widespread efforts among employers to mitigate the impact of labour cost increases in the first six months, which were due in part to administrative measures.

The annual inflation rate was the same in September as in August, at 3.0%. Food prices pushed up by cost factors were the main driver of inflation. Demand-pull inflation accelerated notably in September owing to increases in prices of combined transport, canteen meals, tuition fees, and nursery school meals. Services prices are reflecting the impact of rising cost factors.

Annual growth in lending to non-financial corporations (NFCs) picked up in August (increasing to 5.1%) By contrast, the growth rate for loans to households maintained its decelerating trend (falling to 8.7%).

Chart of the month

Employment trends in major segments of Slovak industry (annual percentage changes)



Sources: SO SR, and NBS calculations.

The global economic situation has remained unfavourable in recent months and has already begun to have a negative impact on employment in Slovak industry, with employment falling in both year-on-year and month-on-month terms.

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Table 1 Macroeconomic indicators released since the previous monthly bulletin

Indicator	Unit	Period	Current period	Previous period
Euro area				
Confidence indicators				
PMI	index	*September 2019*	**50.1**	51.9
Economic Sentiment Indicator	long-run average = 100	*September 2019*	**101.7**	103.1
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q2 2019*	1.2	1.3
Industrial production index	annual percentage change	*August 2019*	-2.8	-2.1
Retail sales	annual percentage change, constant prices	*August 2019*	2.1	2.2
Unemployment rate	percentage	*August 2019*	7.4	7.5
HICP inflation	annual percentage change	*September 2019*	0.8	1.0
Oil price in USD1)	level	*October 2019*	58.8	62.1
EUR to USD exchange rate1)	level	*October 2019*	1.100	1.100
Slovakia				
Confidence indicators				
Economic Sentiment Indicator	long-run average = 100	*September 2019*	**100.4**	97.9
Industrial confidence indicator	percentage balance	*September 2019*	**0.7**	-8.0
Consumer confidence indicator	percentage balance	*September 2019*	-8.4	-8.7
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q2 2019*	**2.0**	3.7
Aggregate sales	annual percentage change, constant prices	*August 2019*	-6.0	-1.2
Industrial production index	annual percentage change	*August 2019*	**-8.1**	2.8
Private sector credit	annual percentage change	*August 2019*	6.9	6.8
Employment	annual percentage change	*August 2019*	**1.5**	2.2
Unemployment rate	percentage	*September 2019*	6.1	6.1
Nominal wages	annual percentage change	*August 2019*	4.1	4.6
HICP inflation	annual percentage change	*September 2019*	3.0	3.0

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.

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	*Q3 2019*	0.4	=
Gross domestic product – euro area	quarterly percentage change, constant prices	*Q3 2019*	0.1	=
Employment (ESA) – Slovakia	quarterly percentage change	*Q3 2019*	0.1	=
Nominal wages – Slovakia	annual percentage change	*Q3 2019*	7.8	=
HICP inflation – Slovakia	annual percentage change	*Q4 2019*	2.8	↑

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

2 The real economy[1]

2.1 External environment

After contracting in the previous two months, euro area industrial production increased moderately in August (by 0.4% month on month). The impact of increases in production of intermediate goods and capital goods was partly offset by declines in energy-related production and production of non-durable and durable consumption goods. Although motor vehicle production rallied in August in month-on-month terms (increasing by 2.5%), it remained almost 12% below its level at the end of 2018. Looking at the largest economies within the euro area, industrial production increased in Germany (by 0.6 %), Spain (1.1 %) Italy (0.3 %) and the Netherlands (0.9%), while in France it fell (by 0.8%). Retail trade in the euro area increased in August (by 0.3% month on month), and construction production declined (by 0.5%). In year-on-year terms, euro area industrial production dropped by 2.8 % in August, while retail sales and construction output both increased, by 2.1% and 1.2% respectively. Despite its month-on-month improvement, industrial production was 1.0% lower in the third quarter than in the previous quarter;[2] retail trade increased marginally (by 0.1% quarter on quarter) and construction output fell (by 0.1%). The short-term indicator data available to date from the third quarter continue to imply a softening of economic activity.

The European Commission's Economic Sentiment Indicator (ESI) decreased markedly in September, by 1.4 points to 101.7. The drop stemmed from a substantial deterioration of confidence in industry, a slight decline in retail trade, and a marginal decline in construction. The decrease in industry confidence resulted from managers' more pessimistic views on all three components: the current level of overall order books; the stocks of finished products; and production expectations for the next three months. By contrast, confidence improved in services and among consumers. The ESIs for the five largest euro area economies included significant decreases in those for the Netherlands, Spain and Germany, and a more moderate drop in the ESI for Italy; the ESI for France remained broadly unchanged. The flash **composite PMI** for the euro area was **lower** in September 2019 than in the previous month, at 50.4 (down from 51.9 in August). The overall PMI reading included a more pronounced rate of decline in manufacturing output and a slower rate of growth in services activity.

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

2 The indicator's averages for the third quarter are calculated from their available monthly readings, i.e. those for July and August.

On 2 October 2019 the European Central Bank (ECB) published for the first time the euro short-term rate (€STR),[3] which is intended to complement the European money market's existing benchmark interest rates. Since that date, the euro overnight index average (EONIA) has been redefined, according to a new methodology, as the €STR plus a fixed spread. The ECB set this spread on 31 May 2019, at 8.5 basis points. EONIA will be discontinued on 3 January 2022.

At its meeting on **18 September 2019** the Federal Open Market Committee **(FOMC)** decided t**o lower the target range for the federal funds rate by 25 basis points** to 1.75% to 2.00%. This was the US central bank's second base rate cut in 2019. In its post-meeting statement, the Committee pointed out that the labour market remained strong and that economic activity had been rising at a moderate rate. In the light, however, of the implications of global development for the US economic outlook as well as muted inflation pressures, the Committee lowered its benchmark lending rate. Seven of the Committee's ten members voted for the reduction, while two voted to keep the rate unchanged and one sought a cut of 50 basis points.

The second half of September saw **the Federal Reserve intervene in the interbank market** in order to keep short-term interest rates under control. Banks had been facing a shortage of short-term liquidity owing to firms withdrawing funds to pay tax bills as well as to a recent issue of US government bonds. These had drained banks mandatory reserve funds and led to an increase in short-term rates.[4] In response **the Federal Reserve began offering daily repo operations**, which was the first time it had intervened in this way since the during the global financial crisis.

The OECD published its **Interim Economic Outlook** on 19 September 2019. According to this outlook, economic prospects are weakening for both advanced and emerging economies, and global growth could get stuck at persistently low levels without fiscal support. Trade conflicts are judged to be taking an increasing toll on confidence and investment, adding to policy uncertainty, aggravating risks in financial markets and endangering already weak growth prospects worldwide. The OECD projects that the global economy will grow by 2.9% in 2019 and 3% in 2020 – the weakest annual growth rates since the financial crisis. Compared with the OECD's May 2019 Economic Outlook, **the projections for global economic growth have been revised down significantly** (by 0.3 percentage point in 2019 and by 0.4 percentage point in 2020). As regards economic growth in the euro area,

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3 https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate

4 The overnight repo rate temporarily rose to 10% – significantly above top of the federal funds target range.

the projections have been revised down, slightly in 2019 (by 0.1 percentage point, to 1.1%) and significantly in 2020 (by 0.4 percentage point, to 1.0%).

A combination of escalating tensions in international trade and a decelerating global economic growth have resulted in a **substantial downward revision of the global trade growth projection**. In Europe, moreover, trade growth outlooks are being further dented by the persisting uncertainty surrounding the United Kingdom's withdrawal from the European Union. In its outlook published on 1 October 2019, the **World Trade Organization (WTO)** projects global trade to grow by just 1.2% in 2019 (down by 1.4 percentage point from its projection in April 2019) and by 2.7% in 2020 (down by 0.3 percentage point).

The IMF, in its latest outlook published on 15 October 2019, **forecasts** global economic growth to fall to 3.0% in 2019, its l**owest level since the global financial crisis. Compared with the IMF outlook in July, the global growth projection has been downgraded** by 0.2 percentage point. Economic growth is expected to accelerate to 3.4% in 2020, which compared with the IMF's July projection represents a downward revision of 0.1 percentage point. One of the main reasons for the pessimistic expectations is the persisting trade tensions between the United States and China, which have weighed on business confidence and investment and dampened global trade. The response of central banks has been to cut interest rates in order to support economic growth.

The United States and China resumed top-level trade talks on 10 October 2019. These resulted in what, according to the US President, was the **first phase of a deal**, which covers purchases of agricultural products (China agreed to make purchases of USD 40 billion to USD 50 billion per year in US agricultural goods), the currency issue (China should issue guidelines on how it manages its currency) and some aspects of intellectual property protections. At the same time, the US President announced the suspension of a planned tariff hike that would have seen tariffs on USD 250 billion worth of Chinese goods increase from 25% to 30% with effect from 15 October (the hike was originally planned for 1 October). The interim deal represents the most significant effort to date to resolve the trade war between the world's largest economies, which has so far lasted more than a year. The deal is not expected to have a major impact on the global economy, since protectionist measures already adopted by the United States and China remain in force.

Ecuador announced at the beginning of October that it **will leave the OPEC oil cartel from 1 January 2020** due to fiscal problems. After exiting OPEC, the country could significantly increase its crude oil production, which at present is being curbed by OPEC's production restraint agreement. The move would mean an increase in the country's budget revenues.

The United States announced at the beginning of October that it **will impose 10% tariffs on aircraft and 25% on other industrial and agricultural products from the European Union**. The measure was taken in reprisal for payments of illegal subsidies to Airbus in the past. At the end of the case brought over the subsidies, the WTO ruled that the United States may impose tariffs on USD 7.5 billion worth of EU goods. The tariffs took effect on 18 October 2019, after the WTO's Dispute Settlement Body formally authorised the measure.

European and US stock markets came under **downward pressure** in early October, **and the decline then spread to Asian markets**. Stocks fell mainly on the back of negative economic and political news, with markets becoming nervous in response to weak data on industrial orders and employment in the United States and on a lack of progress in the Brexit discussions.

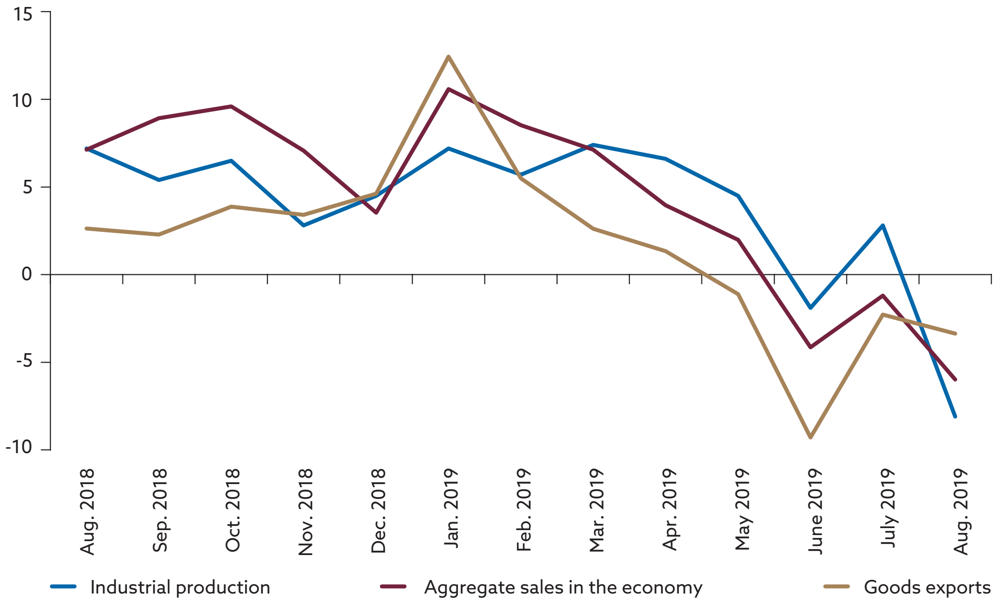
2.2 The Slovak Economy

2.2.1 Economic activity indicators

Economic indicators fell, year on year, in August 2019. Several key segments of Slovak industry were weaker compared with a year earlier. Industrial production and industry sales recorded their largest declines in three years.

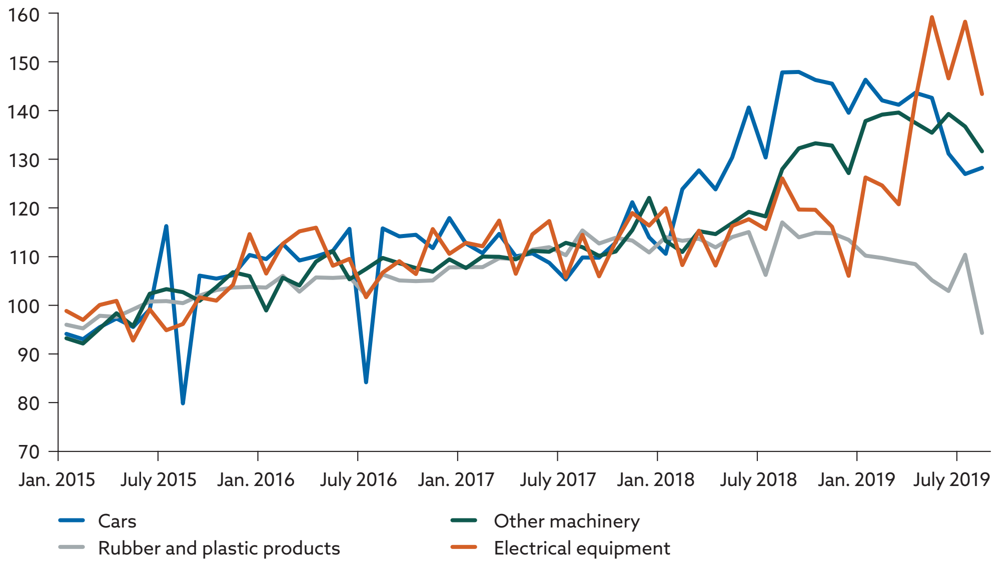
Chart 1

Economic indicators (annual percentage changes; constant prices)



Sources: SO SR, and NBS calculations.

Chart 2
Main industrial production subsectors (index: 2015 = 100)



Sources: SO SR, and NBS calculations.

Industrial production fell by 8.1% in year-on-year terms. Within industry, the car manufacturing segment experienced a marked drop in output. Other manufacturing segments in which output fell included rubber and plastic products, and metals. In the previous month, the automotive supplier industry was still reporting positive results, but in August its production also declined. The petrochemical industry continued its recovery from the impact of extensive plant shutdowns in previous months.

Sales were affected by the decline in industrial production. In wholesale and retail trade, the downtrend in sales became more pronounced. Although sales in accommodation services and restaurant services were at all-time highs in August, they did not manage to prevent the decline in overall sales.

The Economic Sentiment Indicator for Slovakia increased slightly in September, to just above its long-term average. Confidence improved in industry, retail trade, and construction, and among consumers. The three-month uptrend in services confidence came to a halt in August.

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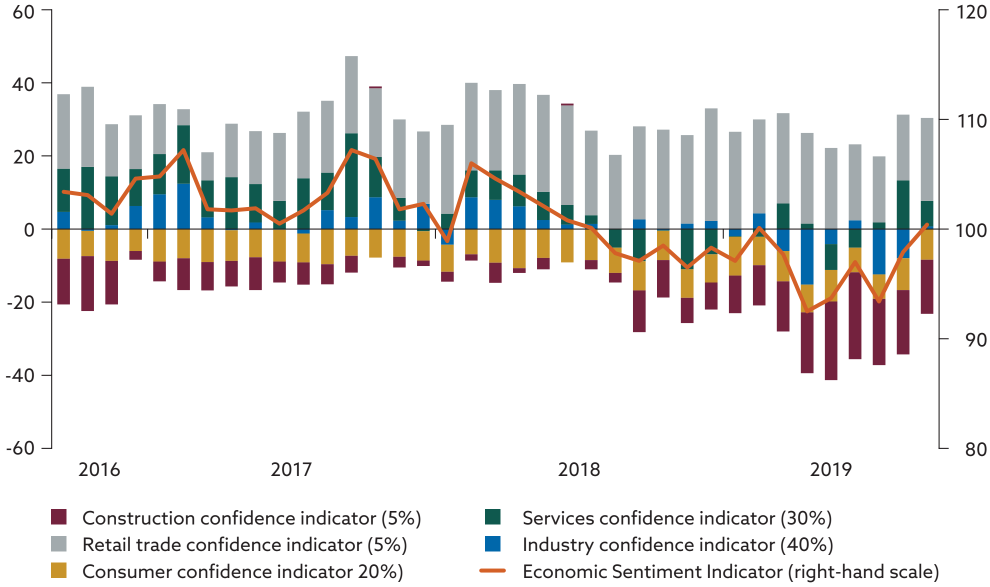
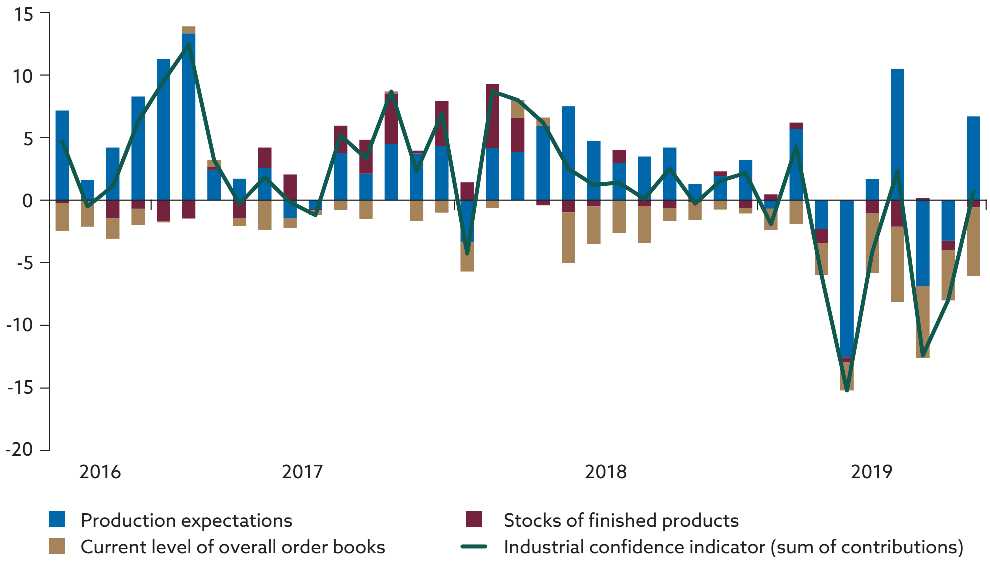
Chart 3
Economic Sentiment Indicator (percentage balances; long-term average = 100)



Source: European Commission.

Chart 4
Industrial confidence indicator (percentage balances)



Sources: European Commission, and NBS calculations.

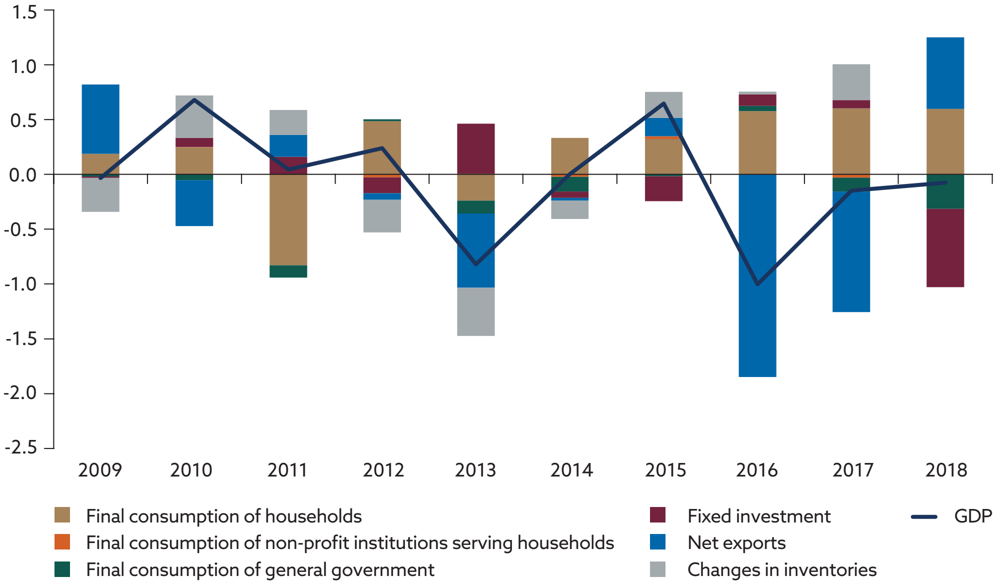
Box 1
Revision of annual GDP data

The Statistical Office of the Slovak Republic (SO SR) has carried out a major benchmark revision of annual GDP data for the period 1995-2017, including the preliminary annual account for 2018 (the revision of quarterly data is due to be released on 14 November 2019, together with the GDP flash estimate for the third quarter of 2019). The purpose of the revision was to incorporate updated data sources and refinements to the methodology for compiling specific national accounts indicators. What had the greatest impact were the changes in the refinement of data on self-employed persons, the estimation of the grey economy, the refinement of data on own-account construction production, the estimations of household spending on health and energy, and the revision of foreign trade figures (further information is available on the SO SR website, at slovak.statistics.sk).

The overall impact of the revisions on growth in GDP at constant prices for individual years ranged between -1.0 and 0.7 percentage point. The available data show that investment activity in the economy was far lower than expected. As a result, there was a downward revision of fixed capital growth, which is expected to have a negative impact on potential economic growth and subsequently on the cyclical position. The amount of fixed capital was revised down in 2018 following an adjustment to the amount of investment in the car industry. This change is also expected have an upward impact on investment growth in 2019. As the revision also shows, household consumption was considerably underestimated in previous years. Its contribution to economic growth was greater than expected, and it is also envisaged to have a stronger impact in the periods ahead. In the area of foreign trade there was a downward revision of the amount of goods and services exports. This alters the view of the Slovak economy's market shares, which appear to have been lower than previously thought. Based on the refined annual data, annual GDP growth in 2018 has been revised down slightly, to 4.0% (from 4.1%). Compared with the projections in NBS's September 2019 Medium-Term Forecast (MTF-2019Q3), the projection for aggregate GDP at current prices over the forecast period has been revised up by around 3% (GDP in 2018 amounted to €87,314 million); this adjustment stemmed largely from a change in the base year for 2015, with the calculation of constant prices by chain-linking.

Nominal GDP figures for past years have been revised down. This change has significant implications for public finance indicators. As reported in the autumn 2019 Excessive Deficit Procedure (EDP) notification, the general government deficit for 2018 was 1.06% of GDP and the gross government debt (Maastricht debt) was 49.4% of GDP. Compared with the April EDP notification, the deficit-to-GDP ratio has been revised up by 0.36 percentage point, with the benchmark revision accounting for 0.13 percentage point of that increase. The increase in the debt-to-GDP figure, by 0.5 percentage point, was due mainly to the nominal GDP revision.

Chart A
Contributions of components to the upward revision of growth in GDP at constant prices (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

2.2.2 Labour market

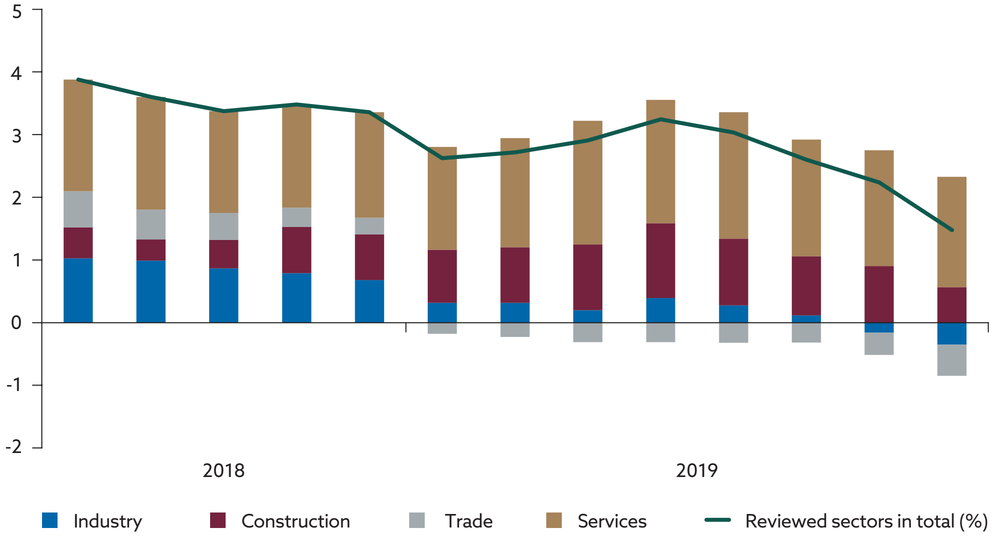
Employment growth has weakened appreciably. Annual employment growth across selected segments of the private sector was 1.5% in August (down from 2.2% in July). In month-on-month terms, employment remained flat. The slowdown reflected developments in industry, where employment declined notably (by 0.9% year on year), as well as in trade, where it fell by 2.5%, and in construction, where it decelerated sharply (to 4.7%, from 7.7% in July). Behind this negative trend is an unfavourable global economic situation and firms' efforts to make efficiency savings. Rising labour costs[5] are currently one of the biggest obstacles to job growth and to corporate performance in general, although employers have in recent months (July and August) been attempting to limit the increase in these costs. Furthermore, the downturn in the construction sector has begun to weigh on employment in the sector. Employment fell, month on month, in all the sectors under review except for services, which therefore provided the only counterbalancing impact. The services segments where job growth is strongest are those benefiting from tourism growth (accommodation, restaurants, etc.), transportation, information technology, and other market services (real estate, legal, accounting, and administrative service activities). Since leading indicators are so far not pointing to any

[5] For example, the Automotive Suppliers Survey 2019 by PWC and ZAP SR.

resumption of the previous favourable trend, employment growth is expected to continue moderating in line with the MTF-2019Q3 projection.

Chart 5

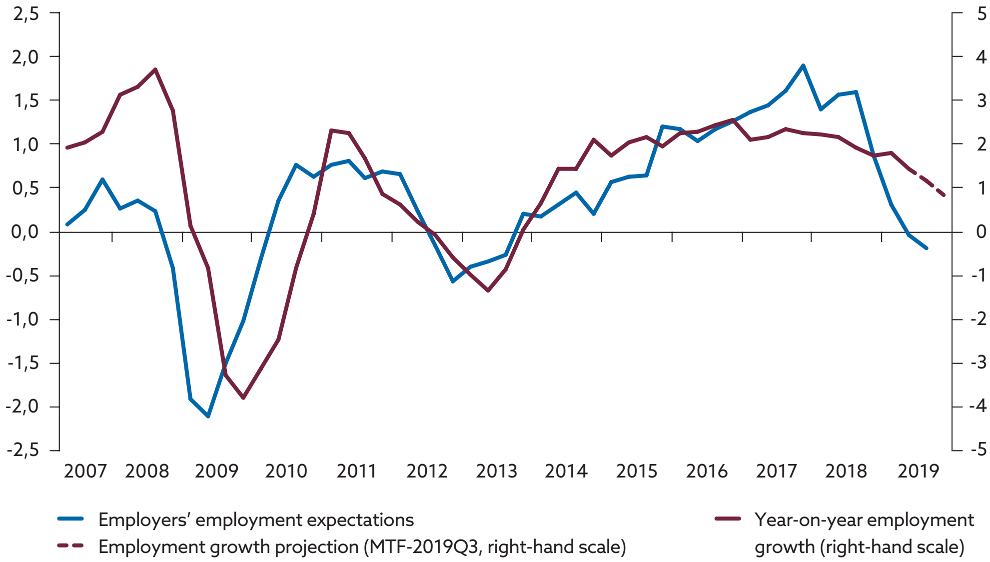
Employment in sectors under review (annual percentage changes; percentage point contributions)



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

Chart 6

Employment and employers' expectations (annual percentage changes; standardised percentage balances)



Sources: SO SR, European Commission, and NBS calculations.

The unemployment rate based on the total number of job seekers **remained at 6.1% in September** (after seasonal adjustment by NBS). The rate has been at that level since March 2019. There was an increase in the number of people who registered as unemployed after being laid off from a job in industry; however, the impact of that rise was offset by favourable developments in other sectors. The adverse situation in industry was probably reflected in the year-on-year increase in the unemployment rate in certain districts in western and central Slovakia, including, for example, Bytča, Kysucké Nové Mesto, Skalica, and Galanta. By contrast, other districts, especially in eastern Slovakia, saw a sharp year-on-year drop in the unemployment rate.

Average wage growth is far lower compared with the second quarter. Annual average wage growth across the reviewed sectors slowed to 4.1% in August (from 4.6% in July). That rate was far lower than average wage growth in the second quarter (6.2% across the sectors). The August slowdown in wage growth was most pronounced in industry, which reported a rate of 2.2%. In the construction sector, too, wage growth was significantly weaker in August (at 3.8%) compared with its levels at the start of this year and 12 months earlier. Wage growth in the services sector was moderately softer in August than in the second quarter, but it remained quite robust (at 5.6%) thanks to the relatively favourable situation in this sector. In the trade sector, wage growth was slightly stronger than in previous months, although this increase may have been partly due to cancellations of lower-paid positions.[6] At the same time, competition for labour has recently been supporting a strong increase in basic salaries in the trade sector. Overall, it seems that the slower wage growth may be reflecting employers' efforts to mitigate the impact of a marked increase in labour costs in the first half of the year, due in part to administrative measures. A further cause may be the fact that bonus payments in the form an additional monthly salary subject to advantageous conditions were shifted forward to May, implying lower bonuses in subsequent months. The situation also reflects weaker demand for output, particularly in industry, which is leading to a lower number of hours worked and is increasing cautiousness among firms in the area of wages.

So far, it seems that average wage growth in the economy as a whole may be significantly lower in the third quarter of 2019 than it was in the second quarter. Wage growth is expected to continue being supported by strong growth in contractual wages in the public sector. These assumptions were incorporated into NBS's MTF-2019Q3 forecast.

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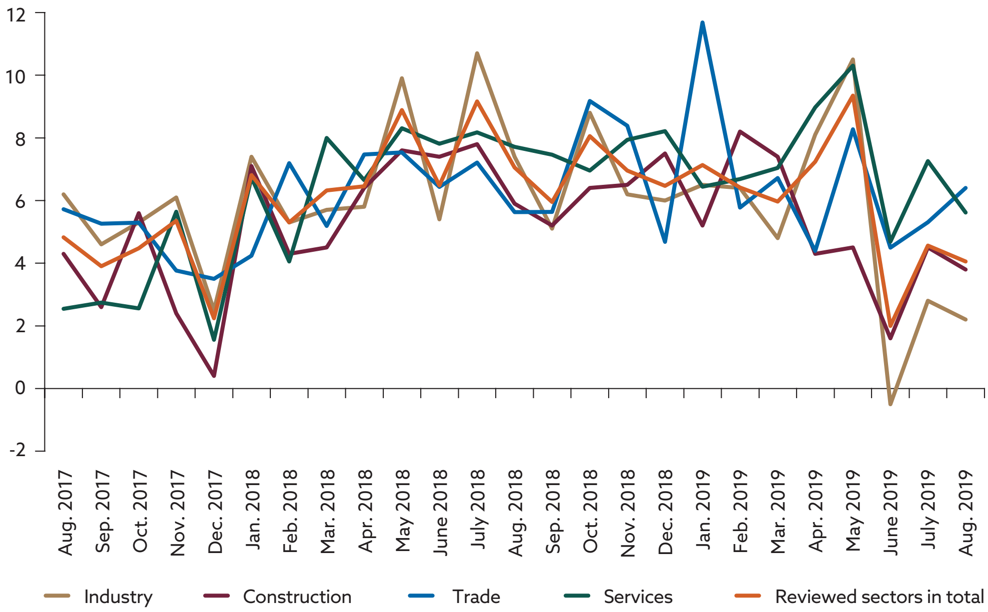
6 The available data, however, cannot at present provide further information about this composition effect.

Chart 7

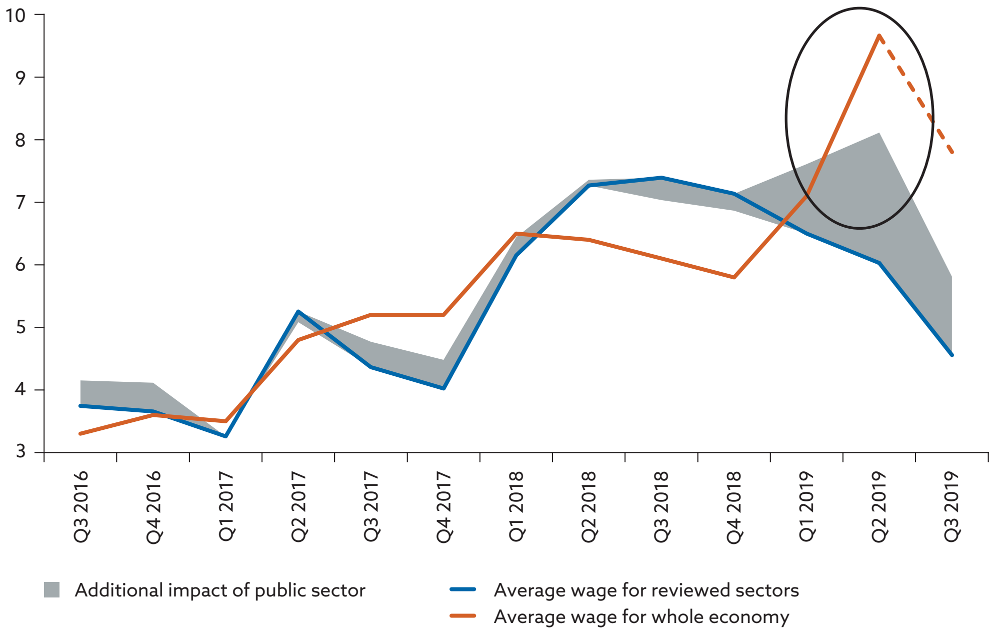
Average wage levels based on monthly data (annual percentage changes)



Sources: SO SR, and NBS calculations.

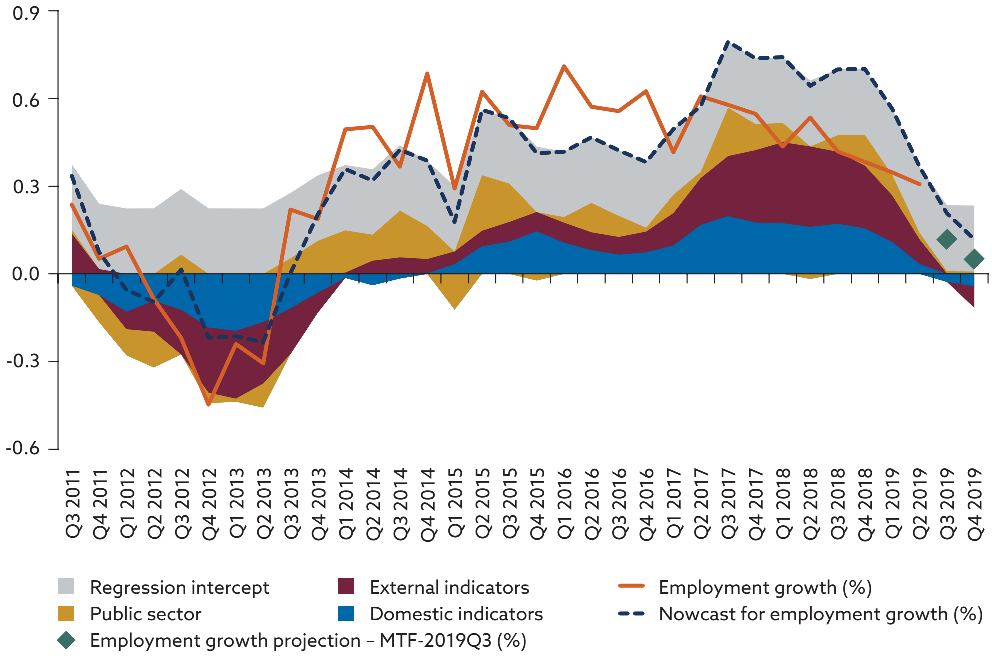
Chart 8

Average wage levels (annual percentage changes)



Sources: SO SR, and NBS calculations.
Note: The average wage for the whole economy and the impact of the public sector in Q3 2019 are based on the MTF-2019Q3 forecast.

Chart 9
Factor-model-based indicator contributions to employment growth (quarter-on-quarter percentage changes; percentage points)



Sources: SO SR, and NBS calculations.

2.2.3 Prices

Slovakia's annual HICP inflation stood at 3.0% in September, its third successive month at that level. The main upward pressure came from the services component, while energy price inflation decelerated. In month-on-month terms, the price level increased by a moderate 0.1%.

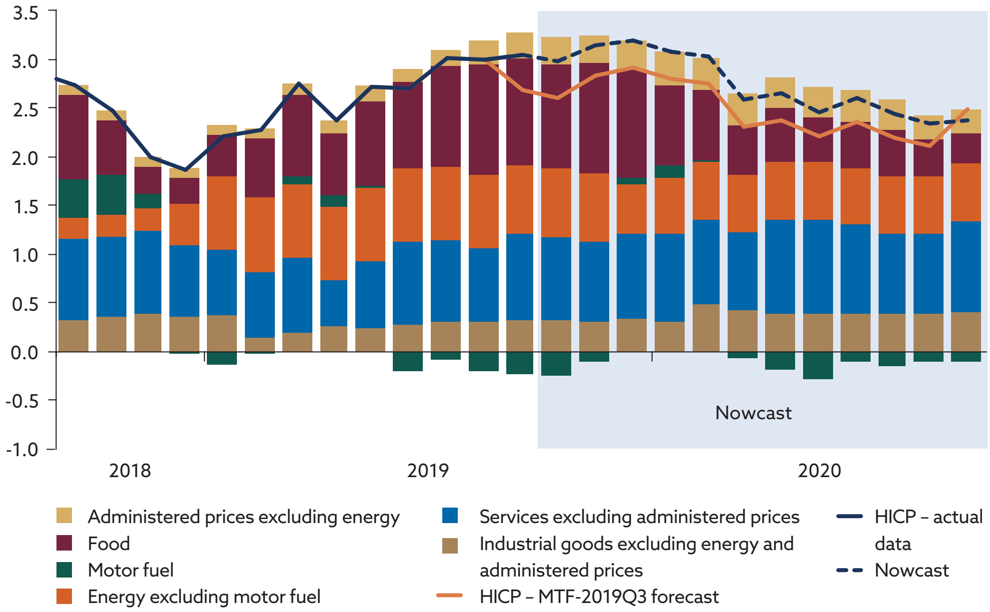
Prices of food (including alcohol and tobacco) continued to increase at a rate of more than 4%. Their recent trend reflects rising labour costs on the domestic front and the impact of external factors on meat price developments. Higher wage costs are pushing up pastry product prices in particular. Meat price inflation is being affected by the mismatch between supply and demand in the pork market. The food component accounted for more than one-third of the headline inflation rate in September, as was also the case in the previous month.

Administered prices excluding energy accelerated slightly in September, owing partly to an increase in sewerage charges.

Demand-pull inflation increased significantly in September, despite the expected dampening effect of the introduction of free school meals for children in the first four years of primary school. The acceleration of demand-pull inflation and of non-administered prices of services was supported mainly by increases in prices of combined transport, canteen meals, tuition fees, and nursery school meals. Rising wage costs and food prices are having an indirect and intermittent upward impact on services prices.

Chart 10

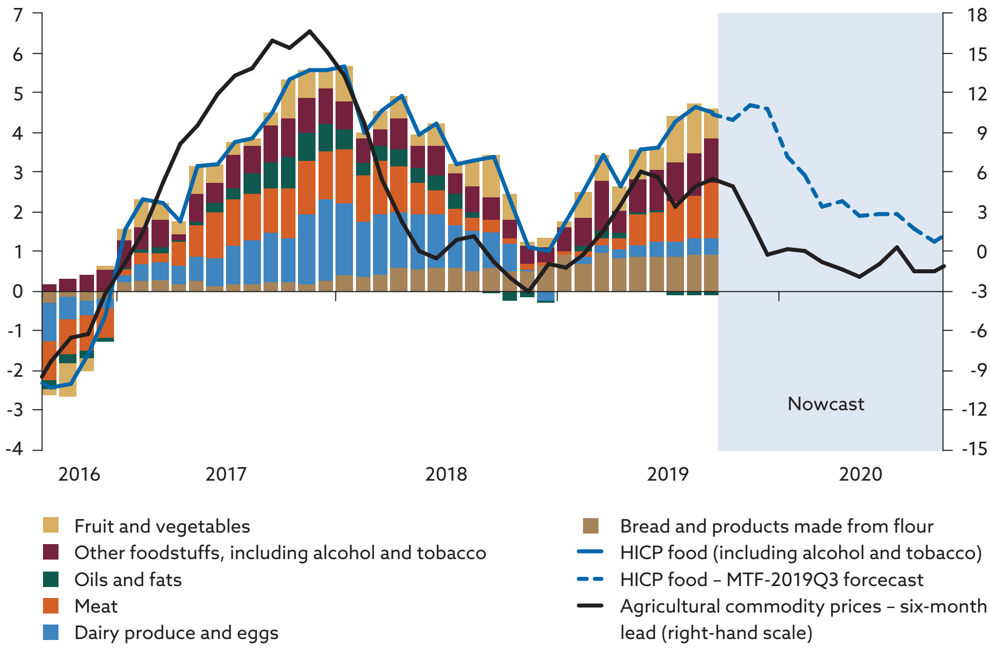
Contributions of components of HICP inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 11

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

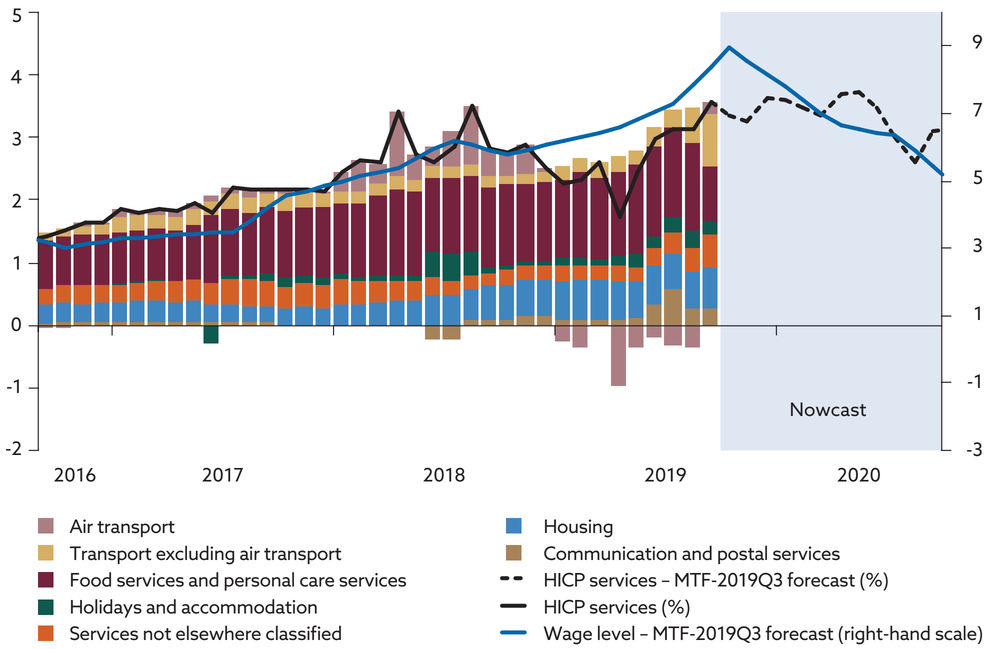


Sources: SO SR, and NBS calculations.

The slowdown in energy inflation was due mainly to a base effect arising from electricity prices. The consumer price of electricity rose in September 2018 following an increase in subsidies for electricity production from domestic coal.

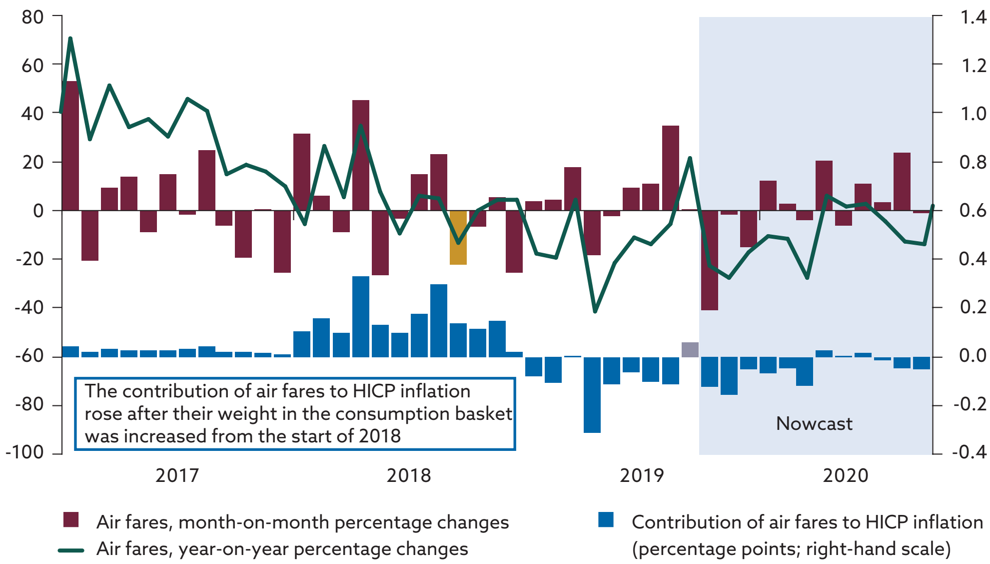
On the basis of current technical assumptions and of price developments in September, the average headline inflation rate in 2019 is expected to be slightly higher than projected in the MTF-2019Q3 forecast.

Chart 12
Contributions of components of services inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 13
Air fares



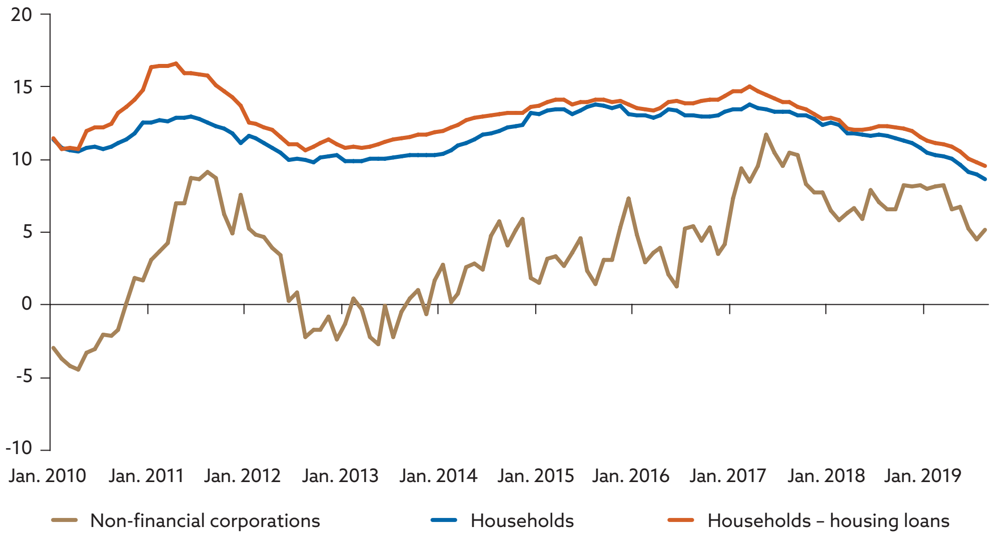
Sources: SO SR, and NBS calculations.

2.2.4 Loans and deposits

The annual growth rate for loans to non-financial corporations (NFCs) accelerated to 5.1% in August 2019. Firms' demand for bank loans was appreciably higher in a wide range of sectors, although not in industry. The stock of loans to industrial firms is falling amid a slowdown in industrial production. Among NFCs in other sectors of the economy, their uptake of long-term loans is showing the strongest growth, which may indicate a moderate increase in investment demand. In August, NFC loan growth in Slovakia was the seventh highest among euro area countries, and such lending activity is supporting corporate investment. The euro area countries reporting the highest recent growth in corporate lending are Austria, Belgium, France and Ireland. These trends are also accompanied by increasing corporate investment activity.

Chart 14

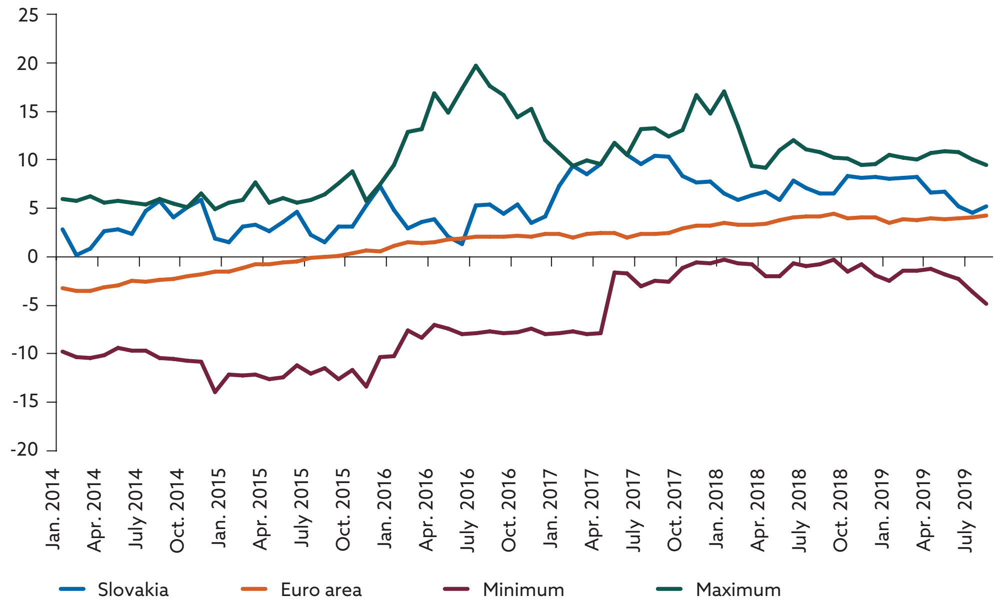
Total loans (annual percentage changes)



Source: NBS calculations.

Chart 15

Total NFC loans in the euro area (annual percentage changes)

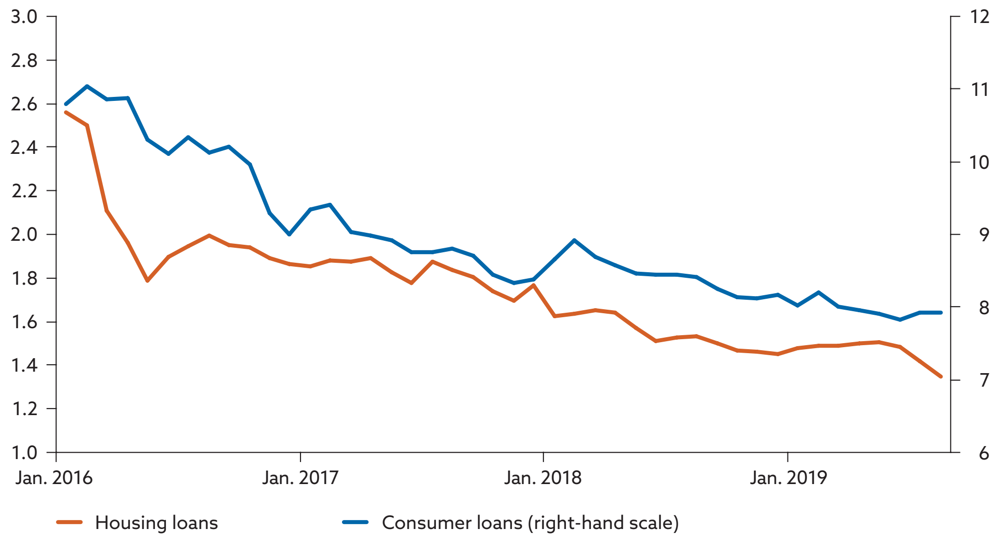


Source: ECB.

The year-on-year increase in total loans to households eased slightly in August. Its increase in July was probably a blip, and the weaker growth in August occurred despite mortgage rates falling to an all-time low.

Chart 16

Lending rates for households (percentages per annum)



Source: NBS calculations.

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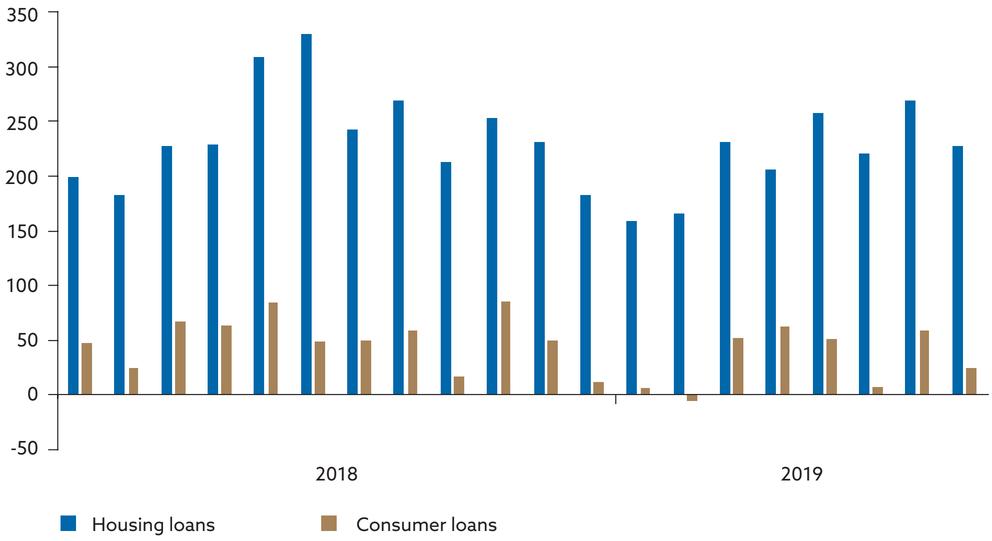
Chart 17

Monthly credit flows (EUR millions)

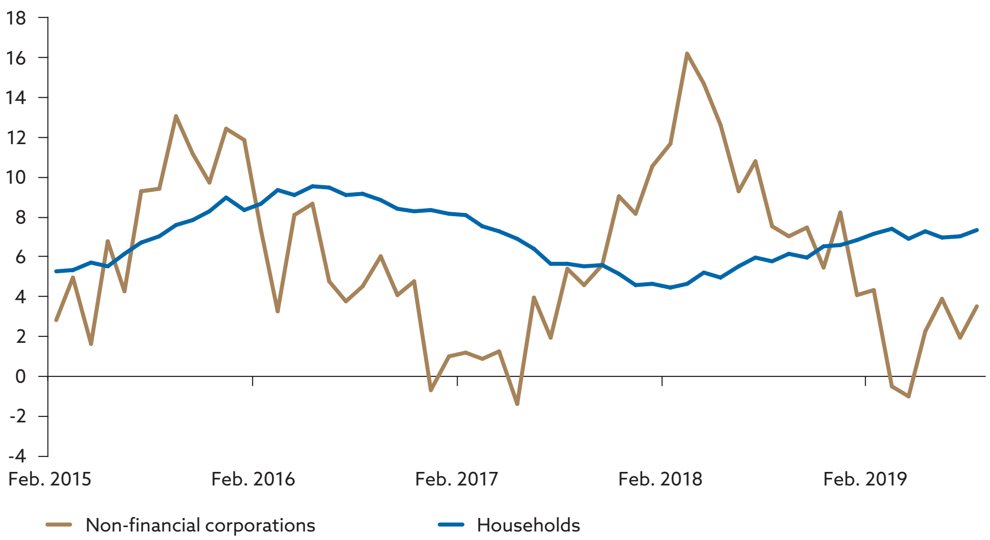


Source: NBS calculations.

Total NFC deposits increased significantly in August. Their annual growth rate accelerated to 3.5% (from 1.9% in July). The most marked rise in deposits was among those held by firms reliant on domestic demand. Deposits of firms in the trade and transport sectors registered double-digit growth. These deposit trends are not, however, corresponding to data on economic activity (sales). Household deposit growth increased slightly in August, to 7.4% year on year (from 7.0% in July). Households are therefore building up their deposits in line with their increasing wages. Although deposit rates are almost at zero, no increase in the propensity for riskier investments has been observed.

Chart 18

Total deposits (annual percentage changes)



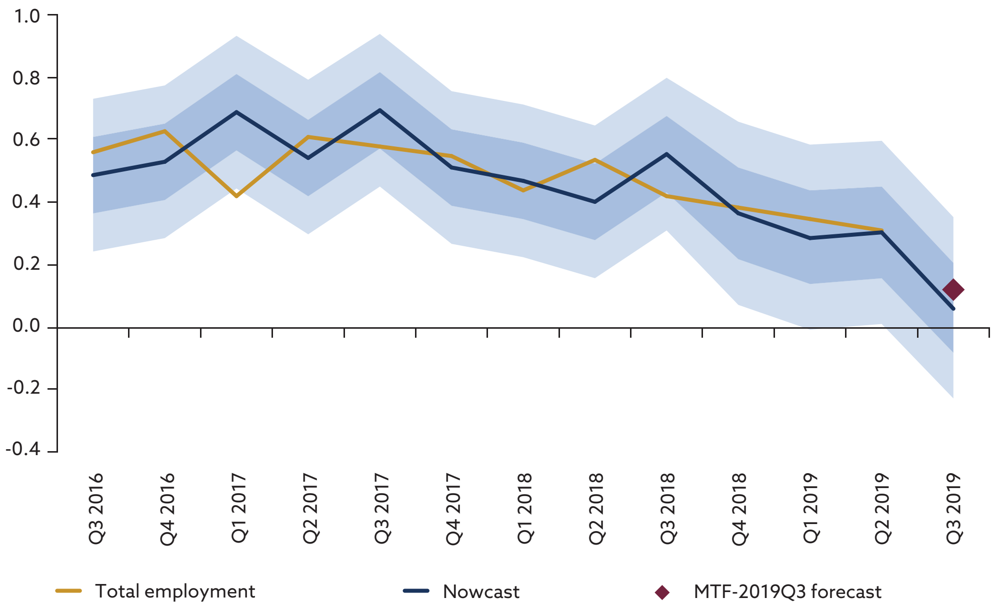
Source: NBS calculations.

3 Indicative impact on the forecast

The nowcast for GDP growth in the third quarter has remained almost unchanged (at 0.35% quarter on quarter). Looking at the readings of monthly indicators, the impact of negative production and labour market data was offset by improvements in confidence indicators, both domestically and externally, and by a moderate pick-up in German production. Economic growth in the third quarter is expected to be close to the projection in NBS's latest Medium-Term Forecast (MTF-2019Q3). The following quarter is expected to see GDP growth increase slightly, to 0.47% quarter on quarter. The nowcast for employment growth in the third quarter continues to indicate a slowdown in the rate, approximately as projected in the MTF-2019Q3 forecast.

Chart 19

Nowcast for employment (quarter-on-quarter percentage changes)[7]

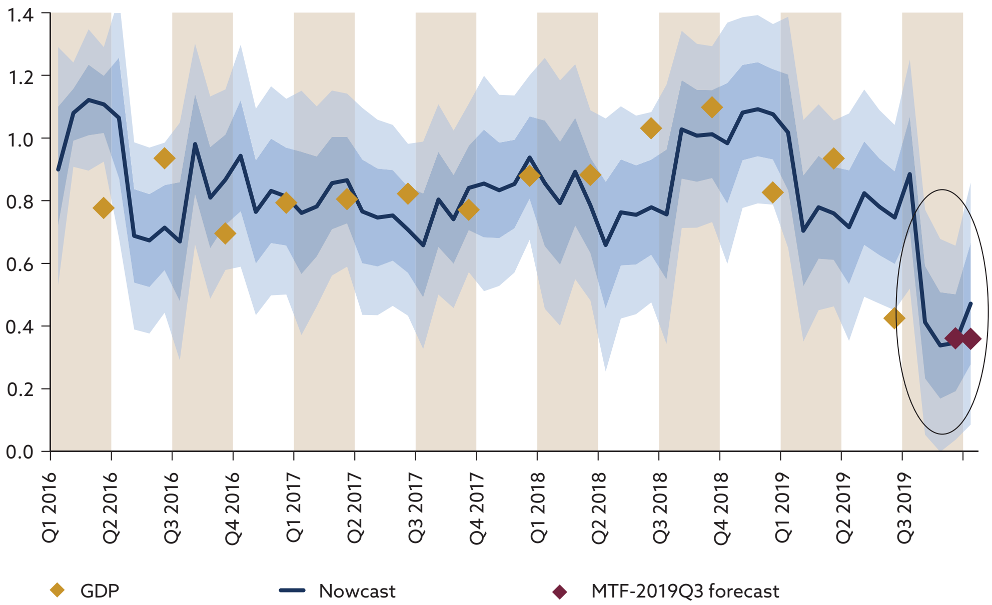


Sources: SO SR, and NBS calculations.

7 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 20

Nowcast for GDP (quarter-on-quarter percentage changes)[7]



Sources: SO SR, and NBS calculations.

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Overview of main macroeconomic indicators for Slovakia

Table 3 Selected economic and monetary indicators for Slovakia

(annual percentage changes, unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 2010	Registered unemployment rate[1]	Unemployment rate based on the total number of job seekers[1]	Industrial production index	Total sales of sectors [2]	Economic Sentiment Indicator (long-term average=100)	M3 (for analytical use)[3]	Loans to private sector[4]	Loans to non-financial corporations[4]	Loans to households[4]	State budget balance (EUR mil.)	General government balance (% of GDP)	General government gross debt (% of GDP)	Current account (% of GDP)	Balance of trade (% of GDP)	USD/EUR exchange rate (average for the period)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2011	2.8	4.1	2.7	1.8	13.2	14.6	5.8	5.9	97.9	2.9	9.3	7.6	11.1	-3,275.7	-4.5	43.5	-5.0	-0.1	1.3920
2012	1.7	3.7	3.9	0.1	13.6	15.0	2.8	4.5	92.8	8.8	3.8	-2.3	10.3	-3,810.7	-4.4	51.8	0.9	3.4	1.2848
2013	1.5	1.5	-0.1	-0.8	14.1	15.4	1.5	1.9	89.1	6.4	6.4	1.7	10.3	-2,023.3	-2.9	54.7	1.9	3.9	1.3281
2014	2.8	-0.1	-3.5	1.4	12.8	14.3	3.2	2.3	99.6	2.5	7.7	1.9	13.2	-2,923.4	-3.1	53.5	1.1	3.6	1.3285
2015	4.2	-0.3	-4.2	2.0	11.5	13.1	6.7	7.5	100.4	11.5	10.7	7.3	13.1	-1,932.6	-2.7	51.9	-2.1	1.0	1.1095
2016	3.1	-0.5	-4.3	2.4	9.5	11.1	4.6	4.3	102.0	6.1	10.2	4.2	13.3	-980.3	-2.5	52.0	-2.7	1.5	1.1069
2017	3.2	1.4	1.9	2.2	7.1	8.3	3.3	4.0	103.4	7.8	10.5	7.8	12.4	-1,220.1	-1.0	51.3	-1.9	0.7	1.1297
2018	4.1	2.5	5.0	2.0	5.4	6.6	4.4	6.0	100.3	5.1	9.5	8.2	10.8	-1,182.2	-1.1	49.4	-2.6	-0.2	1.1810
2018 Q4	3.6	2.1	5.7	1.7	5.2	6.3	4.6	6.8	97.8	5.1	9.5	8.2	10.8	-	-2.9	49.1	-5.4	-2.3	1.1414
2019 Q1	3.7	2.4	3.9	1.8	5.0	6.2	6.8	8.7	98.3	4.0	8.9	8.2	10.2	-	-0.4	48.5	-1.0	1.3	1.1358
2019 Q2	2.0	2.6	3.7	1.4	5.0	6.1	3.0	0.5	94.4	5.3	7.1	5.2	9.1	-	-0.3	48.2	-2.8	-0.8	1.1237
2019 Q3	.	3.0	.	.	5.0	6.1	.	.	97.2	.	6.4	5.0	8.0	-	.	.	.	.	1.1119
2018 Oct.	-	2.5	7.3	-	5.3	6.4	6.5	9.6	98.5	5.4	10.6	8.3	11.3	195.9	-	-	-	-	1.1484
2018 Nov.	-	2.0	5.7	-	5.2	6.3	2.8	7.1	96.5	5.1	10.3	8.1	11.2	-442.1	-	-	-	-	1.1367
2018 Dec.	-	1.9	4.3	-	5.1	6.2	4.5	3.5	98.3	5.1	9.5	8.2	10.8	-326.5	-	-	-	-	1.1384
2019 Jan.	-	2.2	3.3	-	5.1	6.2	7.2	10.6	97.1	4.1	9.1	8.0	10.5	133.7	-	-	-	-	1.1416
2019 Feb.	-	2.3	4.0	-	5.0	6.2	5.7	8.5	100.1	4.7	9.0	8.1	10.3	-740.3	-	-	-	-	1.1351
2019 Mar.	-	2.7	4.4	-	5.0	6.1	7.4	7.1	97.7	4.0	8.9	8.2	10.2	-559.7	-	-	-	-	1.1302
2019 Apr.	-	2.4	3.9	-	5.0	6.1	6.6	4.0	92.5	3.8	8.1	6.6	10.0	-41.2	-	-	-	-	1.1238
2019 May	-	2.7	4.2	-	5.0	6.1	4.5	2.0	93.7	4.9	8.0	6.7	9.6	-317.7	-	-	-	-	1.1185
2019 June	-	2.7	2.8	-	5.0	6.1	-2.0	-4.2	97.0	5.3	7.1	5.2	9.1	32.8	-	-	-	-	1.1293
2019 July	-	3.0	2.1	-	5.0	6.1	2.8	-1.2	93.4	4.6	6.8	4.5	9.0	65.0	-	-	-	-	1.1218
2019 Aug.	-	3.0	1.9	-	5.0	6.1	-8.1	-6.0	97.9	5.4	6.9	5.2	8.7	-212.6	-	-	-	-	1.1126
2019 Sep.	-	3.0	.	-	4.9	6.1	.	.	100.4	.	.	.	.	-201.6	-	-	-	-	1.1004

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/2019/StatisticsMB1019.xls