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September 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 Eurostat's second estimate, **euro area GDP dropped by 11.8%, quarter on quarter, in the second quarter of 2020**. That decline was driven mainly by household consumption and, to a lesser extent, by investment demand and net exports. **Short-term indicators** at the start of the third quarter point to a **continuing, albeit only moderate, economic recovery.** Industrial and construction production levels were higher in July than in the second quarter, but remained below their pre-crisis January levels. Retail sales in July were also up from the second quarter, rising close to pre-pandemic levels. **The Economic Sentiment Indicator continued to rebound in August,** but still remained below its long-term average. The strongest increases in confidence were in services and retail trade. Industry confidence also continued to improve.

In Slovakia, GDP declined by 8.3%, quarter on quarter, in the second quarter of 2020, bringing GDP for the first half of the year down to a level last seen in 2015. All components fell significantly, and domestic demand recorded the sharpest drop. Investment activity across the economy continued to decline, reflecting mainly negative contributions from the car manufacturing and transportation segments. Consumer demand weakened. Although hardest hit by falling exports, the car industry has managed the speediest recovery. Since manufacturing firms have largely been running down inventory for production, the decline in imports has been greater than export data would imply. According to monthly data, the economy bottomed out in April and then began to recover. In July, **short-term economic indicators** were moving close to pre-crisis levels, thus implying the continuing recovery of **economic activity. The Economic Sentiment Indicator** for Slovakia improved further in August, supported by a strengthening of all components apart from construction confidence.

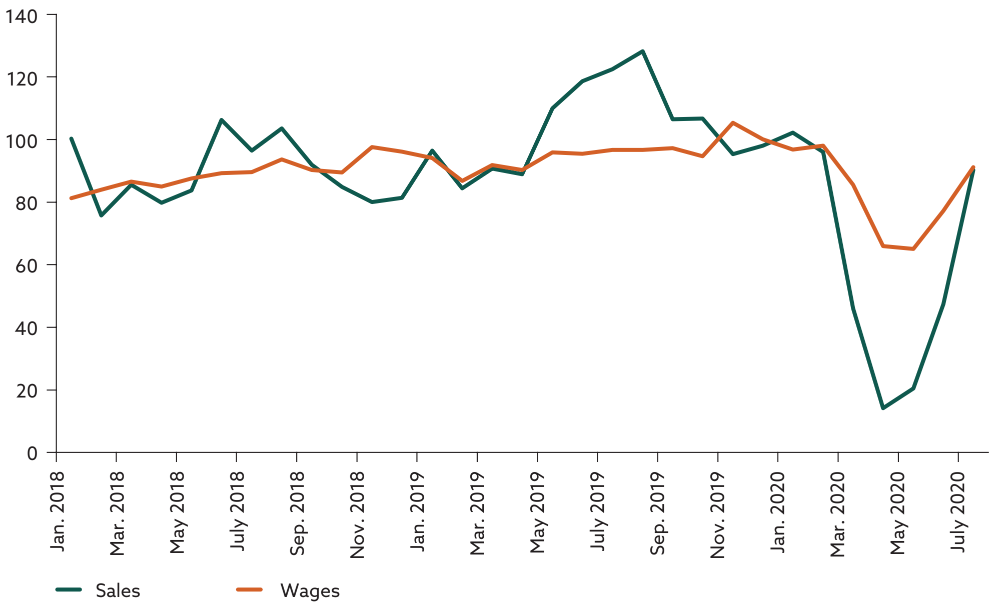
Employment declined by 1.1% in the second quarter compared with the first quarter. The monthly employment data for July indicated a continuing adverse trend. The unemployment rate remained unchanged in August. The average wage increased in July by 1.8%, year on year, amid a gradual pick-up in the number of hours worked, which is slowly rising back towards pre-crisis levels.

The annual HICP inflation rate slowed to 1.4% in August. Food inflation accounted for most of that slowdown. Net HICP inflation edged down to 2.4%, but remains higher than projected.

Total loans to the private sector increased in July. It is positive to note that lending to non-financial corporations was gathering significant pace. Household loan growth continued to decelerate.

Chart of the month

Wages and sales in the accommodation services sector (index, Q4 2019 = 100)



Sources: SO SR, and NBS calculations.

In accommodation services, the sector hardest hit by the pandemic containment measures, nominal wages and sales fell sharply during the height of the measures and are gradually returning to pre-crisis levels now that the measures have been eased. The asymmetric impact on sales and variable costs indicates possible liquidity problems for many firms. These pressures have, however, been mitigated by fiscal and monetary policy measures.

Table 1 Macroeconomic indicators released since the previous monthly bulletin

Indicator	Unit	Period	Current period	Previous period
Euro area				
Confidence indicators				
PMI	index	*September 2020*	**50.1**	51.9
Economic Sentiment Indicator	long-run average = 100	*August 2020*	**87.7**	82.4
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q2 2020*	-14.7	-3.2
Industrial production index	annual percentage change	*July 2020*	-7.8	-11.6
Retail sales	annual percentage change, constant prices	*July 2020*	0.6	1.5
Unemployment rate	percentage	*July 2020*	7.9	7.7
HICP inflation	annual percentage change	*August 2020*	**-0.2**	0.4
Oil price in USD[1)]	level	*September 2020*	41.9	45.0
EUR to USD exchange rate[1)]	level	*September 2020*	1.184	1.183
Slovakia				
Confidence indicators				
Economic Sentiment Indicator	long-run average = 100	*August 2020*	**88.2**	83.3
Industrial confidence indicator	percentage balance	*August 2020*	**-0.4**	-4.4
Consumer confidence indicator	percentage balance	*August 2020*	**-21.6**	-24.8
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q2 2020*	**-12.1**	-3.7
Aggregate sales	annual percentage change, constant prices	*July 2020*	**-1.6**	-4.9
Industrial production index	annual percentage change	*July 2020*	**-3.6**	-8.5
Private sector credit	annual percentage change	*July 2020*	6.3	6.3
Employment	annual percentage change	*July 2020*	-5.5	-5.2
Unemployment rate[2)]	percentage	*August 2020*	8.3	8.3
Nominal wages[3)]	annual percentage change	*July 2020*	**1.8**	1.6
HICP inflation	annual percentage change	*August 2020*	1.4	1.8

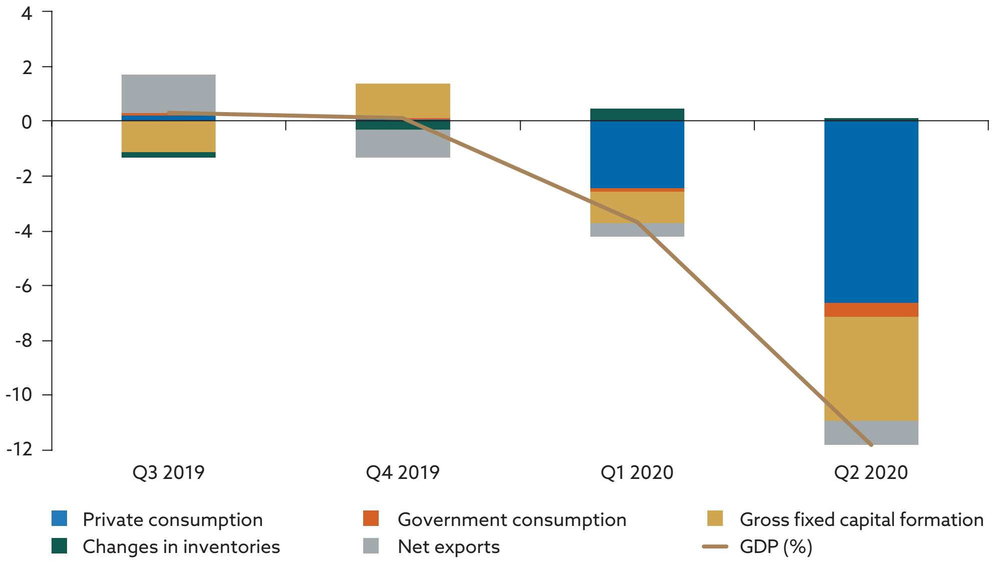
Sources: SO SR, European Commission, Markit, Macrobond, and NBS calculations.
1) The average for the current period is for the period from the start of the month.
2) Seasonally adjusted by NBS.
3) Selected sectors only (excluding public sector).
Notes: **Values in bold show a significant deviation.** 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 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 second estimate, **euro area GDP dropped by 11.8%, quarter on quarter, in the second quarter of 2020** (Chart 1). The economic slump was due largely to the containment measures taken in response to the coronavirus (COVID-19) pandemic. These caused a household consumption collapse that was the principal contributor to the downturn in economic activity. Investment demand also fell significantly. Net exports, too, had a negative impact, as the decline in exports was only partly offset by the decline in imports. The only positive contribution to GDP growth was a marginal one from changes in inventories, which may have reflected the involuntary build-up of inventories in the current circumstances.

Chart 1

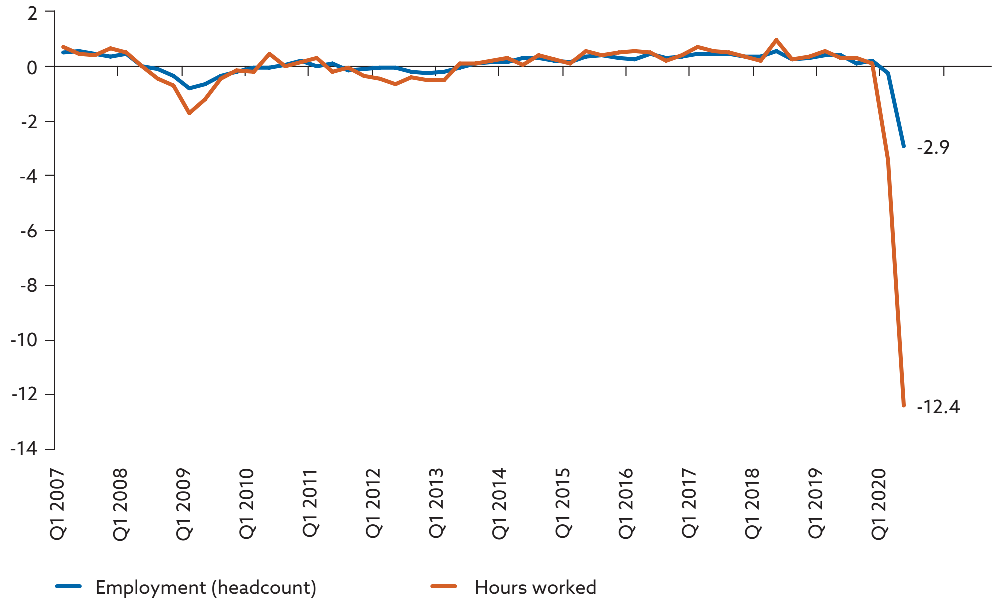
Euro area – GDP and its components (quarter-on-quarter percentage changes; percentage point contributions)



Sources: Macrobond, and NBS calculations.

Euro area employment, as expressed by the number of people in employment, **fell in the second quarter by 2.9%** (after decreasing by 0.3% in the first quarter), while hours worked slumped by 12.4% (Chart 2). The large difference between the figures for hours worked and employment was closely connected with the implementation of short-time work schemes in several countries, especially Germany and France.

Chart 2
Euro area – employment and hours worked (quarter-on-quarter percentage changes)



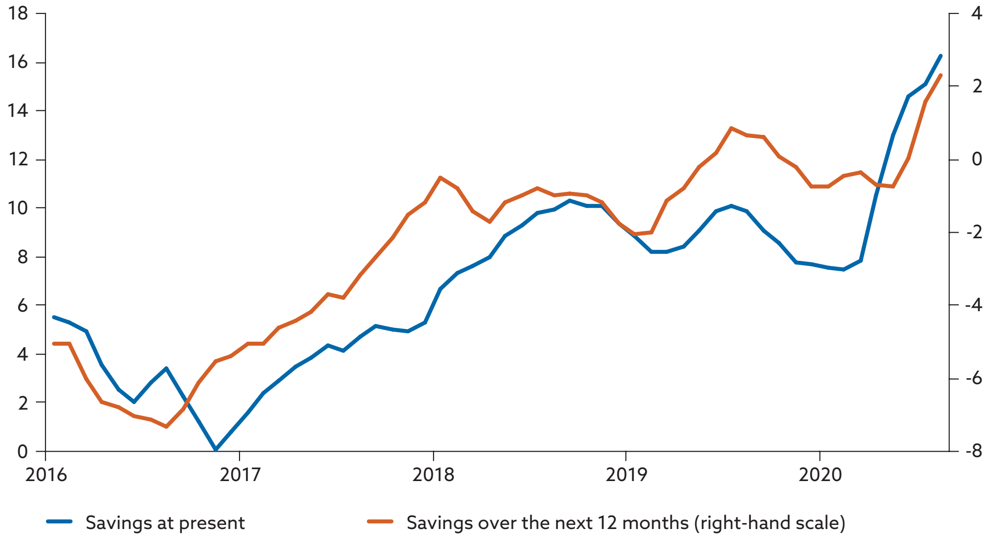
Source: Macrobond.

Short-term indicators at the start of the third quarter point to a **continuing, albeit only moderate, economic recovery.** While industrial production increased in July for a third successive month, construction activity was almost unchanged and retail sales activity decreased. **Industrial production** increased by 4.1%, month on month, in July and its level was 14.6% higher than its average in the second quarter. Even so, industrial production remained more than 7% below its pre-crisis level of January 2020. The construction production index increased only marginally (by 0.2%), to stand 12% higher than its second quarter average but still almost 6% below its pre-crisis January level. **Retail sales fell** by 1.3% as a result of a decline in sales of non-food products, especially clothing and footwear. On the other hand, the summer easing of pandemic containment measures resulted in increased mobility and growth in automotive fuel sales. Despite their month-on-month drop in July, retail sales were around 8.2% above their average level in the second quarter, owing to their significant growth in May and June. At the same time, they were still close to pre-pandemic levels.

The European Commission's **Economic Sentiment Indicator** (ESI) for the euro area **continued its uptrend** in August 2020 (increasing by 5.3 points to 87.7), reflecting the ongoing recovery of economic activity following pandemic-related economic lockdowns. Nevertheless, the ESI remains below its long-term average (99.6). The August increase was based mainly on improvements in the services, retail trade and, to a lesser extent, industry confidence indicators. The rising confidence in these sectors was largely underpinned by more positive assessments of economic activity and demand. Construction confidence declined slightly but, uniquely among the sub-indicators, it remained marginally above its long-term average. Consumer confidence increased marginally, but households continued to have relatively unfavourable expectations for unemployment. At the same time, households' heightened uncertainty was reflected in their assessments of their current and future savings (Chart 3), which may in future limit the recovery of consumer demand.

Chart 3

Consumer confidence – savings at present and over the next 12 months (three-month moving average; percentage balances)



Source: Macrobond.

September's flash composite **Purchasing Managers' Index (PMI)** for the euro area suggests that the economic recovery will be slower owing to the onset of a second wave of the coronavirus pandemic. The **PMI** fell to 50.1 in September (from 51.9 in the previous month), just above the 50 level that indicates economic stagnation. Concerns about rising infection rates are being reflected in social distancing measures, and these have hit the services sector particularly hard. The PMI services index fell from 50.5 in August to 47.6 in September, into the sub-50 territory that denotes contracting economic activity in the sector. In manufacturing, by contrast, the output growth accelerated, most notably in Germany. The PMI manufacturing index rose to its highest level in 25 months, but its contribution to the headline PMI was outweighed by the negative impact of the services index.

In the United States, **the Federal Reserve's Federal Open Market Committee (FOMC)** announced at the end of August that it had approved changes to its "Statement on Longer-Run Goals and Monetary Policy Strategy".[1]

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[1] https://www.federalreserve.gov/newsevents/pressreleases/monetary20200827a.htm
https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy.htm

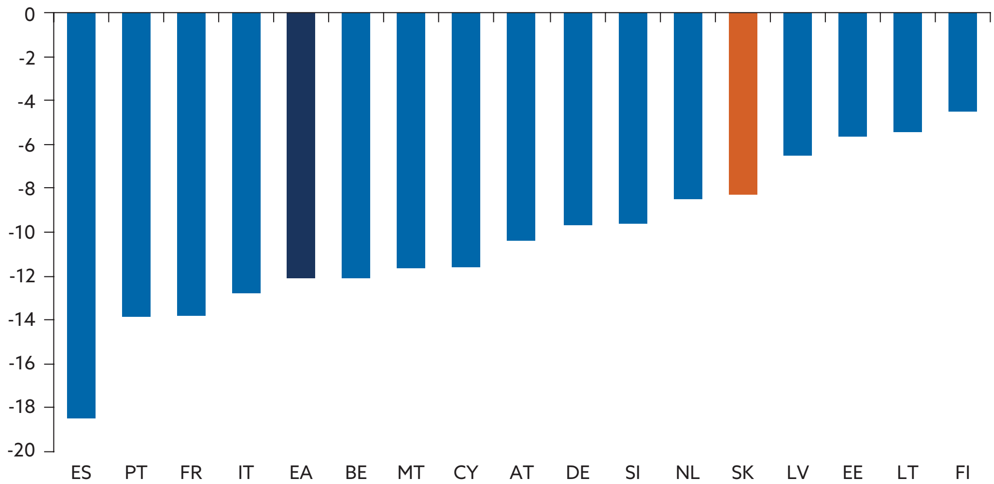
The changes were presented by FOMC Chair Jerome Powell at the annual conference of central bankers at Jackson Hole, Wyoming. There were two key changes. The first concerned **maximum employment**, on which the FOMC emphasises that maximum employment is a broad-based and inclusive goal and states that its policy decision will be informed by its "assessments of the *shortfalls* of employment from its maximum level". The original document referred to "*deviations* from its maximum level". Put simply, this means the Committee will not be tightening monetary policy just because actual employment exceeds maximum employment, so long as this is not accompanied by signs of unwanted increases in inflation or the emergence of other risks. The second key change concerned the **inflation goal**. The FOMC adjusted its strategy for achieving its longer-run inflation goal of two percent by noting that it "seeks to achieve inflation that averages two percent over time". To this end, the FOMC says that following periods when inflation has been running persistently below two percent, appropriate monetary policy will likely aim to achieve inflation moderately above two percent for some time. If inflation runs below two percent following economic downturns but never moves above two percent, then, over time, inflation will average less than two percent and may be reflected in lower long-term inflation expectations.

3 The Slovak economy

3.1 Economic activity

Slovakia's GDP declined in the second quarter of 2020 by 8.3% quarter on quarter (12.1% year on year). The negative impact of the coronavirus pandemic was most pronounced at the start of the quarter. According to monthly indicators, economic activity bottomed out in April and then began to rebound as businesses gradually reopened. Compared with other euro area countries, Slovakia has been among the less hard hit by the crisis (Chart 4). On the other hand, Slovakia experienced one of the larger declines in GDP in the first quarter, and its GDP for the first half of the year fell back to a level last seen in 2015.

Chart 4
GDP in euro area countries for Q2 2020 (quarter-on-quarter percentage changes)



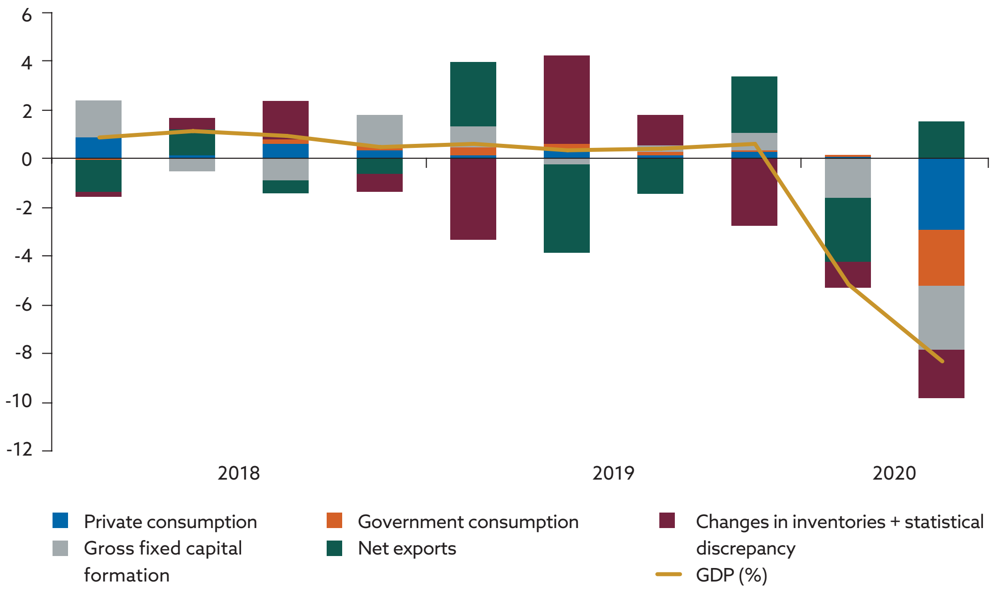
Sources: Eurostat, and NBS calculations.

In the second quarter, all GDP components were negatively affected by the pandemic crisis and domestic demand was particularly hard hit (Chart 5). Because of business closures at the start of the quarter, household consumption decreased across almost all items. The only exceptions were food and housing, the consumption of which continued to increase (Chart 7). The economic shutdown and subsequent drop in sales adversely affected the labour market situation. However, the introduction of government measures such as pandemic-related carer payments, sick leave payments, and short-time work schemes ('Kurzarbeit') partly compensated for the decline in household income from work. Consumers were nevertheless deferring purchases, in particular purchases of costlier durable consumption goods, owing to concerns about the future situation; they preferred to build-up savings, hence the saving ratio increased to a historical high

(Chart 6). At the same time, retail sales gradually returned back to pre-pandemic levels, probably because demand deferred from the previous period was being met.

Chart 5

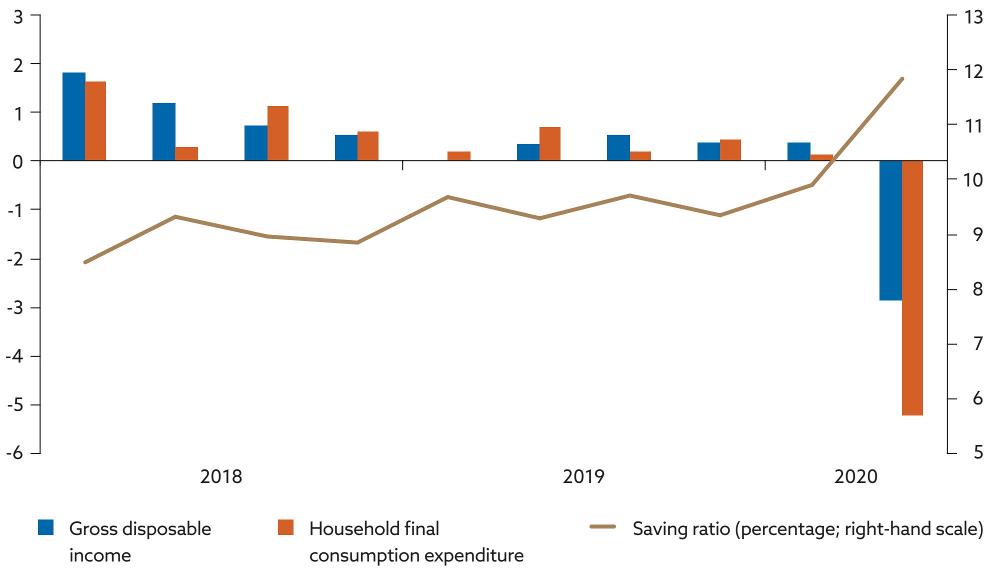
GDP in Slovakia and its components (quarter-on-quarter percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 6

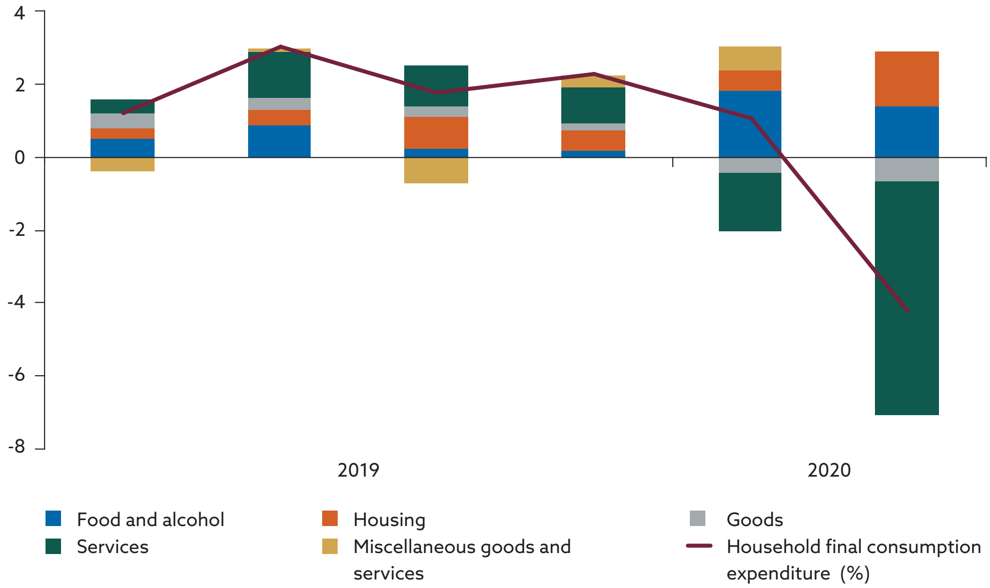
Household income and consumption (quarter on quarter percentage changes)



Sources: SO SR, and NBS calculations.

Chart 7

Household consumption broken down by Classification of Individual Consumption According to Purpose (COICOP) (annual percentage changes; percentage point contributions; constant prices)



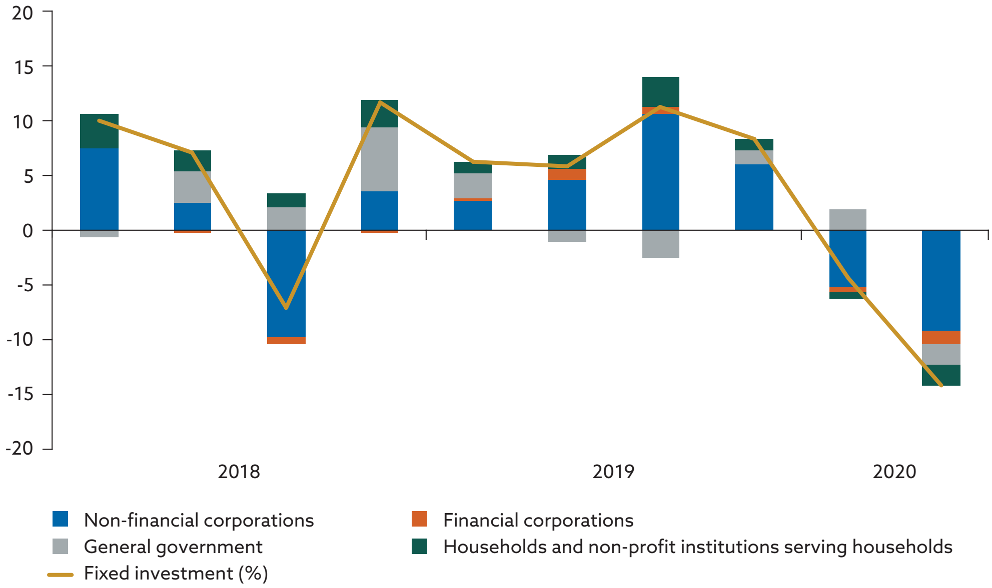
Sources: SO SR, and NBS calculations.

Investment activity in the economy continued its downtrend from the first quarter of 2020, as it declined in the second quarter of 2020 by 12.1% quarter on quarter (14.6% year on year). All sectors reported a decline in gross fixed capital formation, and non-financial corporations (NFCs) experienced the largest drop (Chart 8). More specifically, the largest negative contributions to overall investment were from car manufacturing and transportation. As the suspension of production put pressure on their liquidity, firms were keeping expenditure to a minimum in order to preserve their finances. Although both production and economic sentiment are gradually improving in month-on-month terms, their levels remain below where they were at in February 2020. Business surveys show that despite the restarting of production in the current quarter, firms are not utilising their capacity to the extent they were before. It is therefore rather more likely that investment activity will moderate further. There is a risk that firms seeking to bridge liquidity problems will increase their borrowing.

Net exports had a slightly positive impact on GDP despite a sizeable decline in exports. Deteriorating foreign demand and the shutdown of almost all economies resulted in exports of goods and services falling by 25.6% quarter on quarter. Exports of all commodities decreased. The segment worst affected by the export slump was the car industry. However, the same industry also managed the speediest recovery and in June its exports were back to the level recorded at the end of 2019. Looking at exports by destination, the largest drop was in exports to those European countries hardest hit by the pandemic. A combination of the inventories built up earlier in the year and concerns about future production was reflected in imports, which fell more sharply than exports (by 27.2% quarter on quarter). As a result, the trade balance at the second quarter showed a quarterly improvement (Chart 9), so it had a positive impact on economic growth.

Chart 8

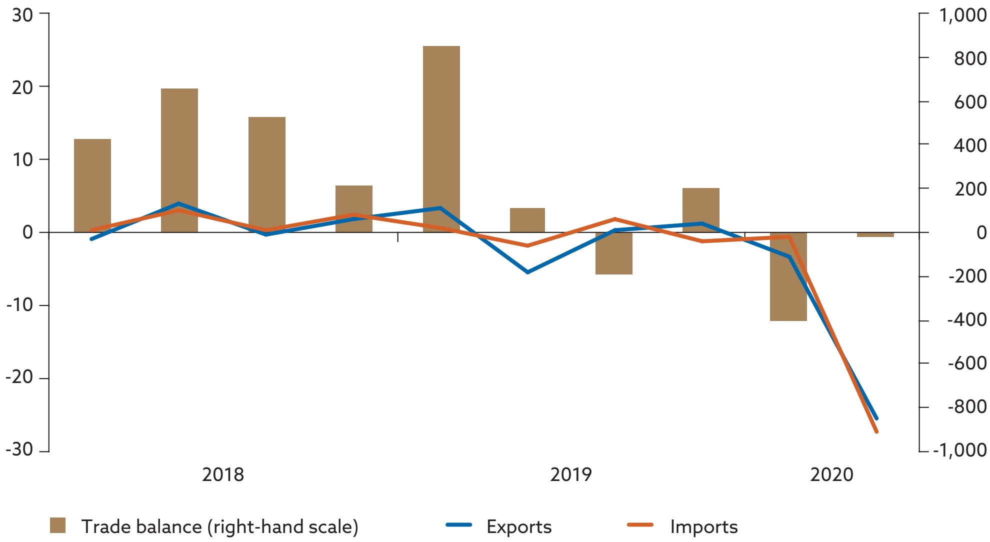
Fixed investment (annual percentage changes; percentage point contributions; current prices)



Sources: SO SR, and NBS calculations.

Chart 9

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

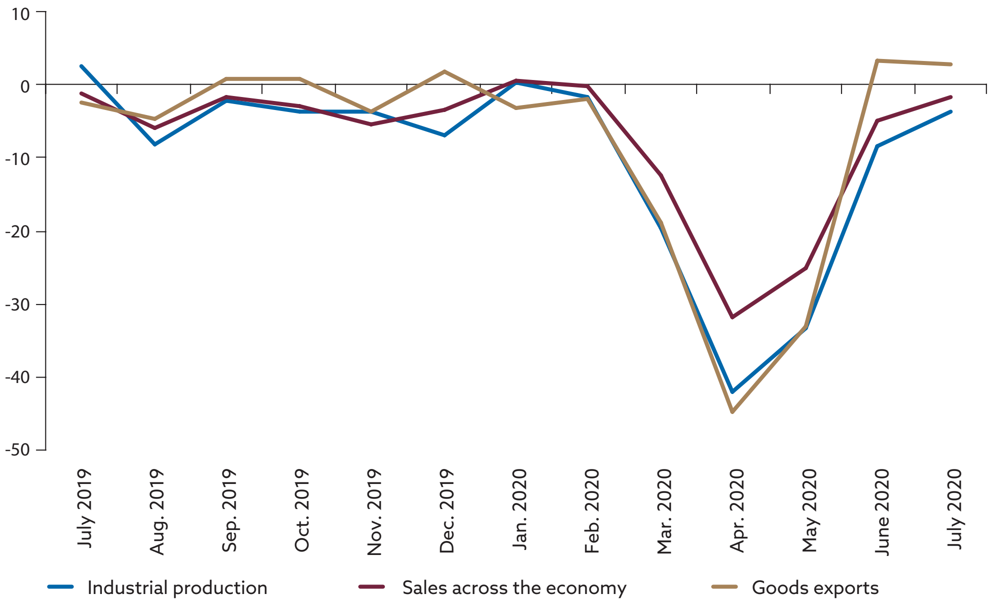


Sources: SO SR, and NBS calculations.

In July, short-term economic indicators were moving back towards pre-crisis levels. Goods exports were higher year-on-year for a second successive month, and although production and sales were lower year on year, their decreases were not as large as they had been in previous months (Chart 10). Despite the start of the holiday period, all three indicators managed to increase in month-on-month terms (Chart 11). The car industry recorded the most notable improvement, and the electronics industry, in which production has been somewhat subdued in recent years, also picked up significantly.

Chart 10

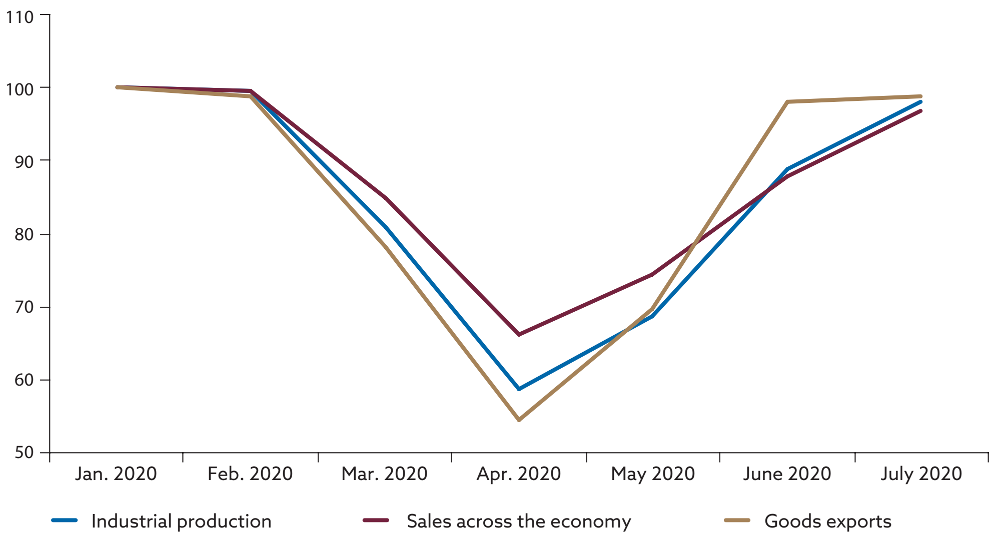
Economic indicators (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 11

Economic indicators (index, January 2020 = 100)

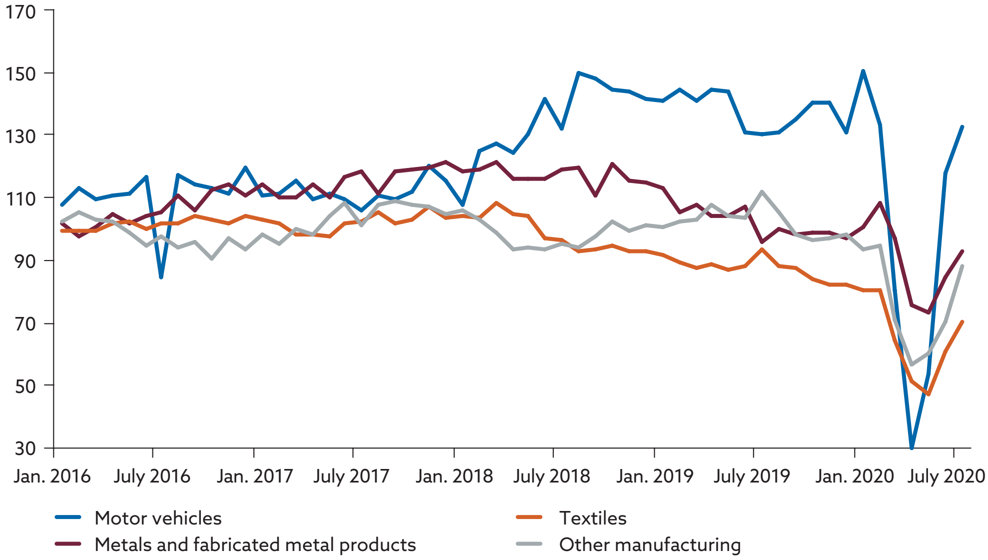


Sources: SO SR, and NBS calculations.

Industrial production fell, year on year, by 3.6% in July. Production is recovering most sluggishly in the textile industry (Chart 12), and it also remains lower year on year in manufacture of rubber and plastic products, manufacture of other machinery, and other manufacturing. In some industries, however, output recorded an annual increase in July. Besides in the petrochemical industry, which experienced extensive plant shutdowns a year earlier, production also increased significantly in the energy supply industry, which has been barely affected by the pandemic containment measures. The car industry reported a moderate year-on-year increase in output, its first in five months.

Chart 12

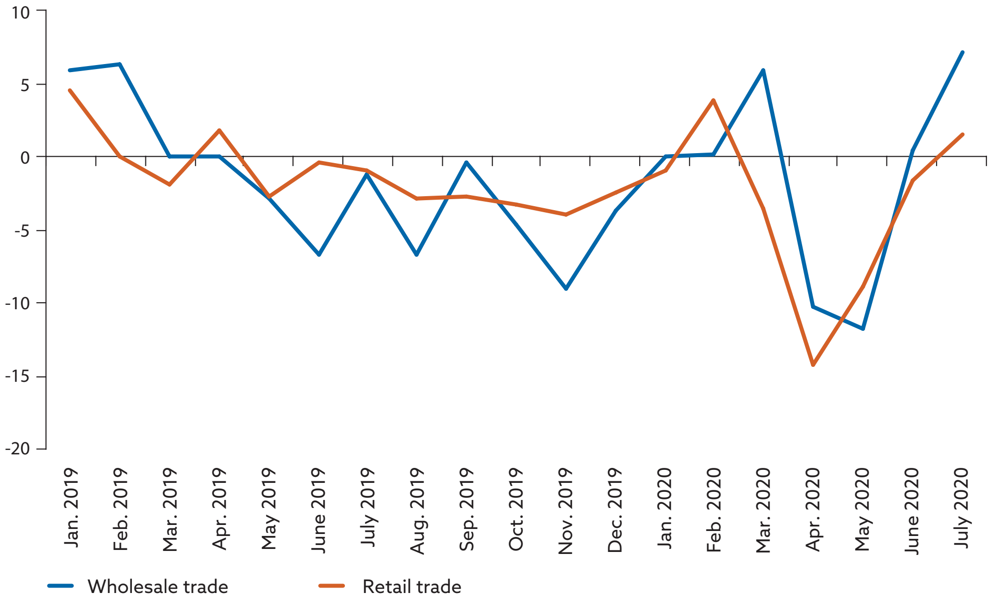
Selected sectors of industrial production (index, 2015 = 100)



Sources: SO SR, and NBS calculations.

Chart 13

Retail and wholesale sales (annual percentage changes)



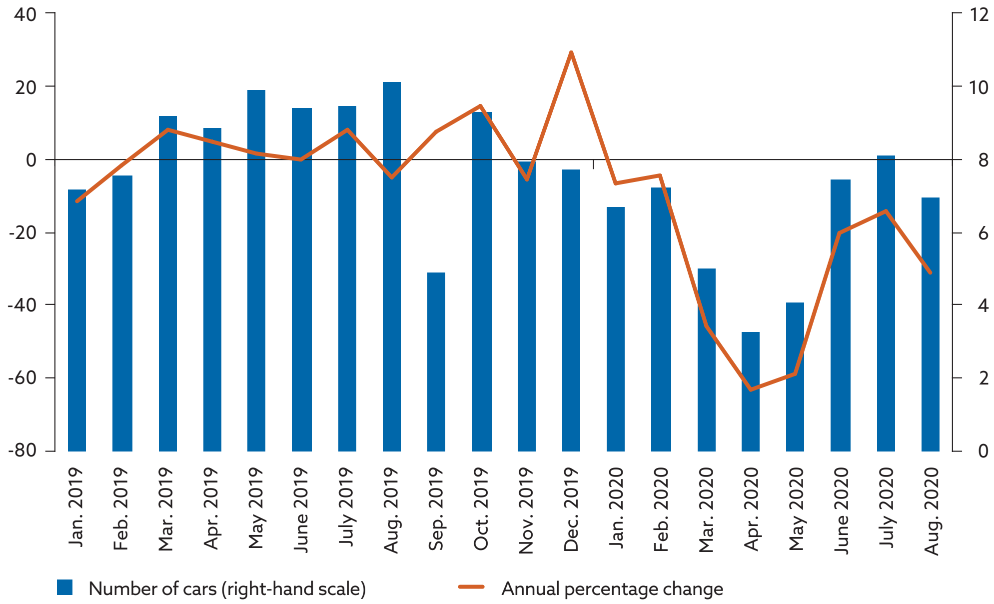
Sources: SO SR, and NBS calculations.

Sales across the economy were 1.6% lower in July compared to a year earlier and approximately similar to their level at the end of last year. While trade sales were performing relatively well, sales in industry and other sectors declined. These trends were similar to production trends. Wholesale trade sales increased by more than 7%, and retail sales rose for the first time since the onset of the pandemic (Chart 13). By contrast, lodging sales slumped by 29% in July, not even helped by it being the first holiday month. This sector remained the worst affected by the coronavirus crisis.

New car registrations were relatively low in August 2020 (Chart 14), even taking into account the summer seasonal effect. Their year-on-year drop was, however, distorted by a base effect in the form of the impact of emission standards tightening a year earlier (as also happened the year before that), when sellers were registering cars largely on their own account.

Chart 14

New car registrations (thousands; percentages)



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

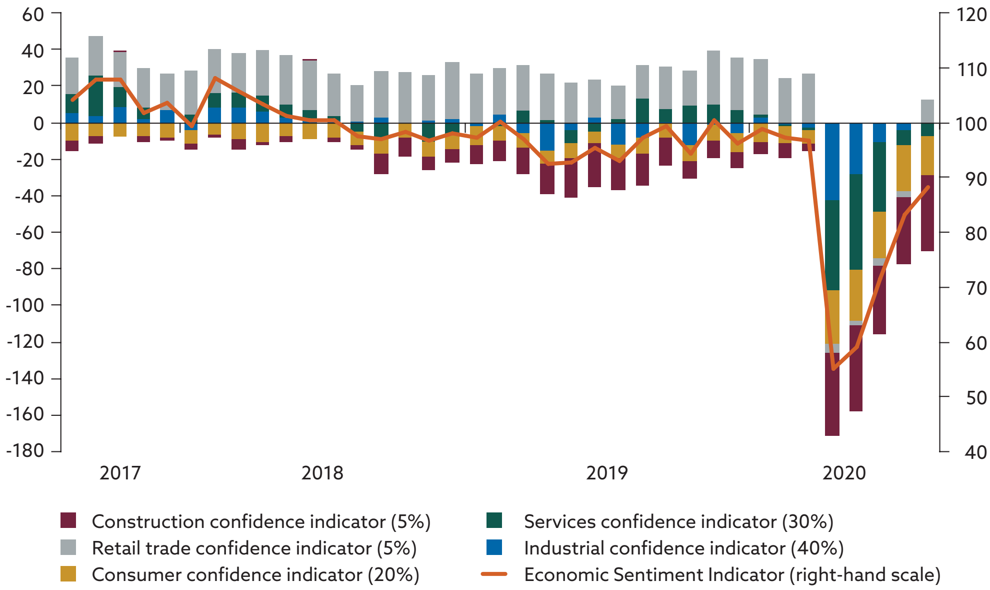
July saw goods exports increase by 2.8%, year on year, with their growth driven mainly by the car and electronics industries. Exports across the rest of the economy continued their downtrend. The car industry's export growth was based on an increase in demand. Imports continued to decline, as firms were probably taking a cautious approach in regard to future imports.

Among other monthly indicators of economic activity, the largest year-on-year increase was recorded by **new orders**, which may also be a favourable sign for the months ahead.

The **Economic Sentiment Indicator for Slovakia increased** by 4.9 points in August, **to 88.2, supported by rises in all sub-indicators apart from construction confidence** (Chart 15). The industry and services confidence indicators were boosted mainly by improved assessments of the current level of overall order books in industry and of demand in services. By contrast, construction confidence decreased owing to a worsening of appraisals of order book levels. Retail trade confidence increased significantly; its return to growth for the first time in four months was based on a brightening of views about the current and future business situations. The consumer confidence indicator rose amid an easing of negative assessments and expectations across all of its components.

Chart 15

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



Source: European Commission.

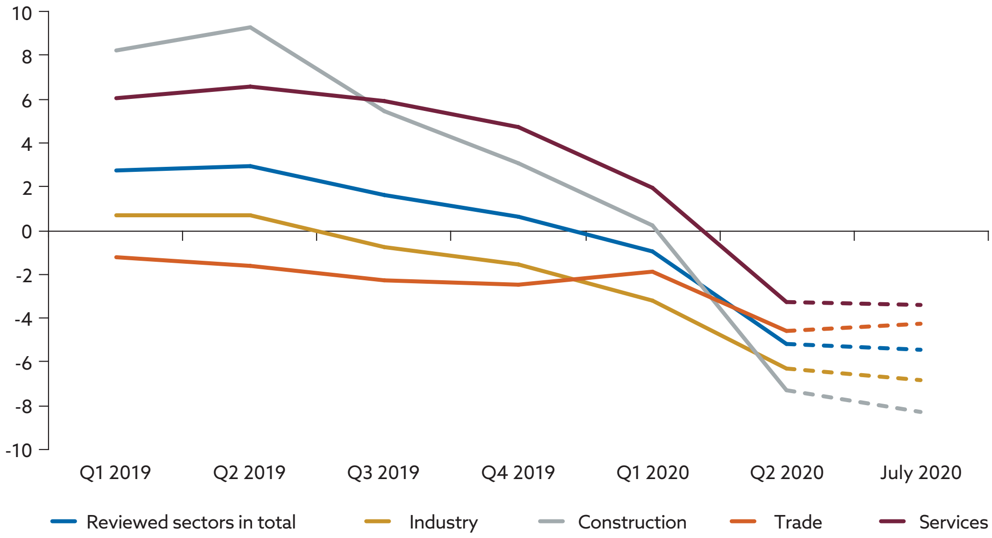
3.2 Labour market

Employment in Slovakia fell by 1.1%, quarter on quarter, in the second quarter of 2020 and its downtrend continued in July. Employment in the private sector segments under review was 0.3% lower in July than in the previous month, and its year-on-year rate of decrease accelerated (Chart 16). The number of people in employment decreased in most economic sectors; the only exception was the information and communication sector, which recorded a slight increase in employment. Across the core manufacturing industries, there were 6.8% fewer jobs in July 2020 compared with a year earlier. Employment declined in most manufacturing industries, with the exception of the pharmaceutical industry. Employment is falling in the car industry, where rationalisation measures continue to be pursued despite the return of production to pre-crisis levels.

Forward-looking data for August do not indicate positive changes in the labour market situation, only its stabilisation (Chart 17). Employers' expectations for job creation remain gloomy, although their pessimism is easing. In the wholesale and retail trade sector, employment expectations are positive, following an upturn in consumer demand. At the same time, the number of job vacancies in this sector continued to decline in July (by

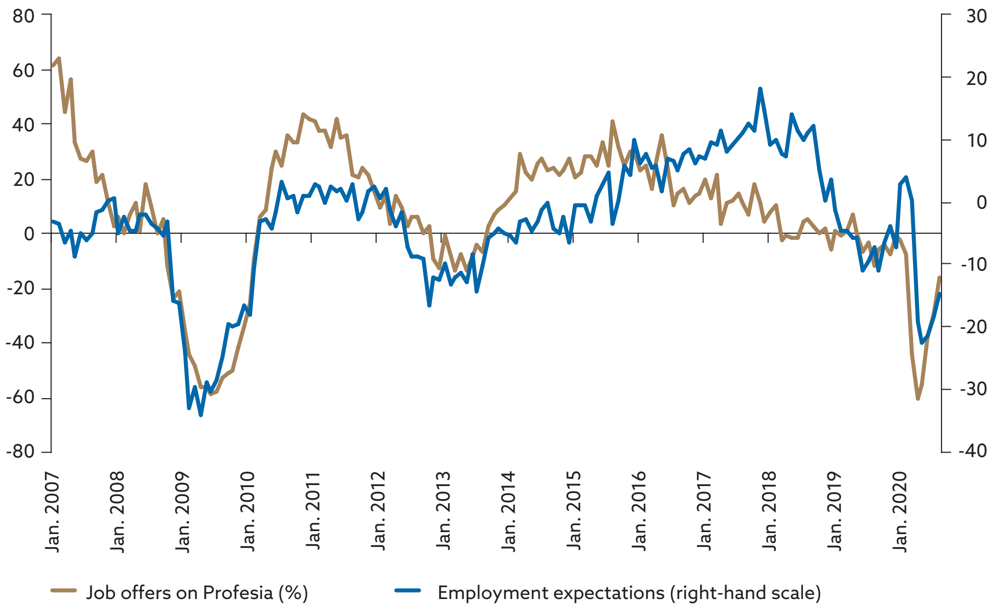
16.6% year on year), albeit more moderately than in previous months. According to a survey by the company Trexima, 9% of respondents were expecting to lay off staff before the end of September.[2]

Chart 16
Employment in sectors under review (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 17
Selected labour market indicators (annual percentage changes; index)



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

The unemployment rate based on the total number of jobseekers remained unchanged in August, at 8.3% (there was a month-on-month increase

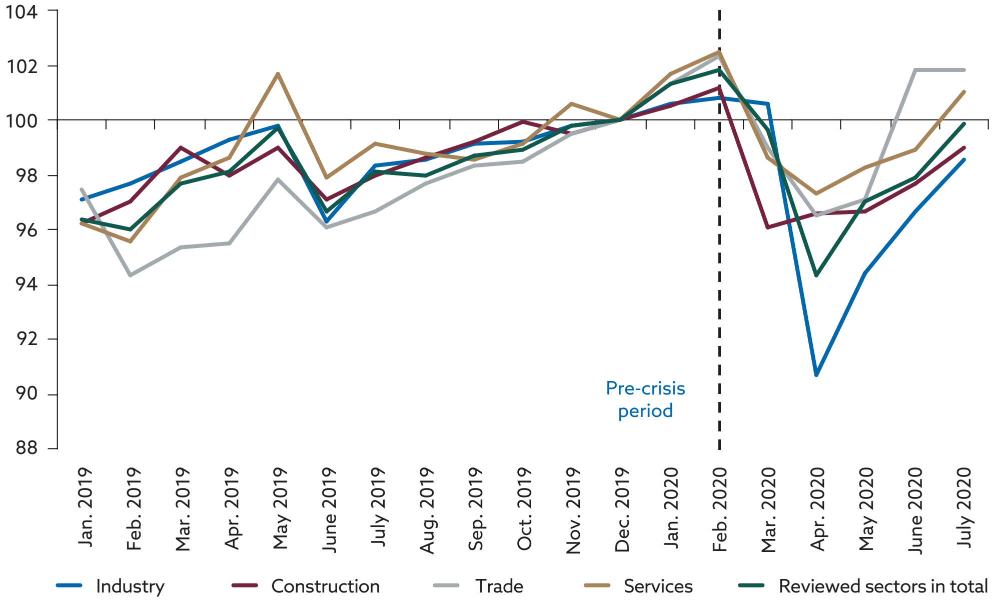
[2] https://www.trexima.sk/wp-content/uploads/2020/09/Infografika-analýza-dopadov-COVID-19.pdf

of 0.02 percentage point, equating to around 600 people).[3] This ended a months-long rising trend in the number of unemployed. The number of jobseekers leaving the unemployment rolls remained similar to the figure for July, while the inflow of registered jobseekers moderated. In previous months, labour offices had been registering elevated numbers of newly laid off workers from the largest sectors, industry and trade, but in July these inflows were down to levels typical for the pre-crisis period.

Average annual wage growth edged back into positive territory in July owing to an increase in hours worked (Chart 18). For the second quarter as a whole, wages fell by 1.2% (and by 2.6% in the private sector alone). According to a survey by the company Trexima,[3] more than half of the respondent firms were reducing staff benefits or wages or both in response to the economic consequences of the coronavirus crisis. At the start of the third quarter, however, with economic activity on a recovery path, the number of hours worked rose back to almost pre-crisis levels. This was reflected in the average wage, which increased by a marginal 1.8% year on year. Among key sectors, the largest wage growth was recorded in wholesale trade (6.1%), retail trade (5.9%) and the restaurant industry (4.7%), while the construction sector and lodging industry saw wages fall by 7.6% and 5.7% respectively, and wages in the industry sector were also lower compared with a year earlier. The wage figures for July imply that the third quarter as a whole will see a return to positive average wage growth across the economy (Chart 19).

Chart 18

Wage levels since the onset of the coronavirus crisis (index, December 2019 = 100)



Sources: SO SR, and NBS calculations.
Note: Nominal average wage levels.

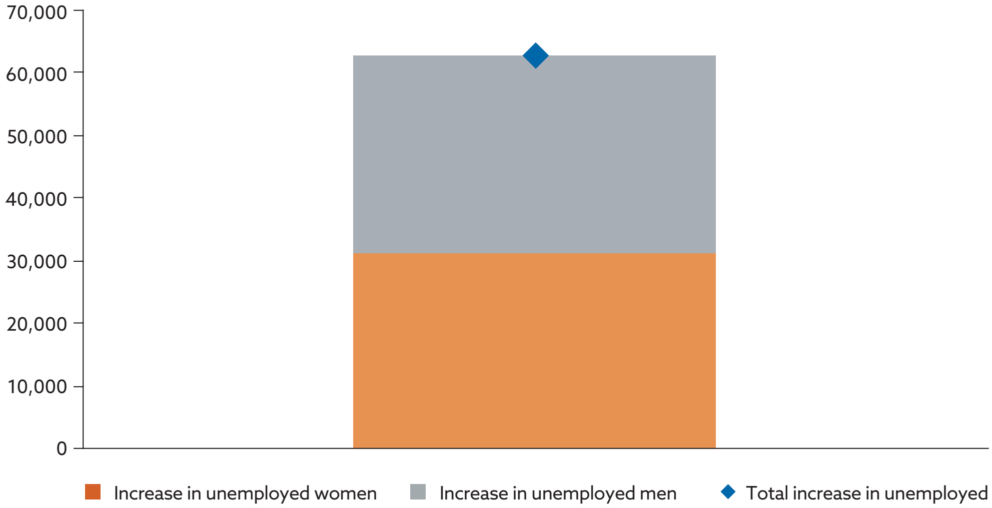
3 Seasonally adjusted by NBS. Without that adjustment, the number of unemployed would have decreased by almost two thousand.

Box 1
Who's been hit by the worsening labour market?

The labour market situation in Slovakia experienced broad deterioration in the second quarter of 2020. Many firms laid off staff, recruitment activity was extremely subdued, and wage negotiations and bonus payments reflected the worsening position of employees and low sales. However, the aggregate decline in the number of people in employment – a drop of around 45 thousand[4] in the first half of the year (and around 63 thousand year on year in the second quarter) – masked a wide range of effects on different population groups, and it is useful to have more detailed knowledge of these effects.

From the beginning of March to the end of July, the number of people registered as unemployed increased by around 63 thousand (Chart A). The breakdown of that increase between men and women is very balanced, virtually 50-50. The female unemployment rate increased by 2.5 percentage points, to 9.8%[5] and the male rate increased by 2.1 percentage points (Chart B). The percentage point increase in the female rate was slightly higher owing to the lower level of female economic activity, which means that the same increase in the number of unemployed women and men translates into a higher percentage point increase in the female category. Overall, however the changes in female and male unemployment were on a par.

Chart A
Increase in unemployment between end-February and end-July 2020 broken down by gender (number of persons)



Sources: ÚPSVR, and NBS calculations.

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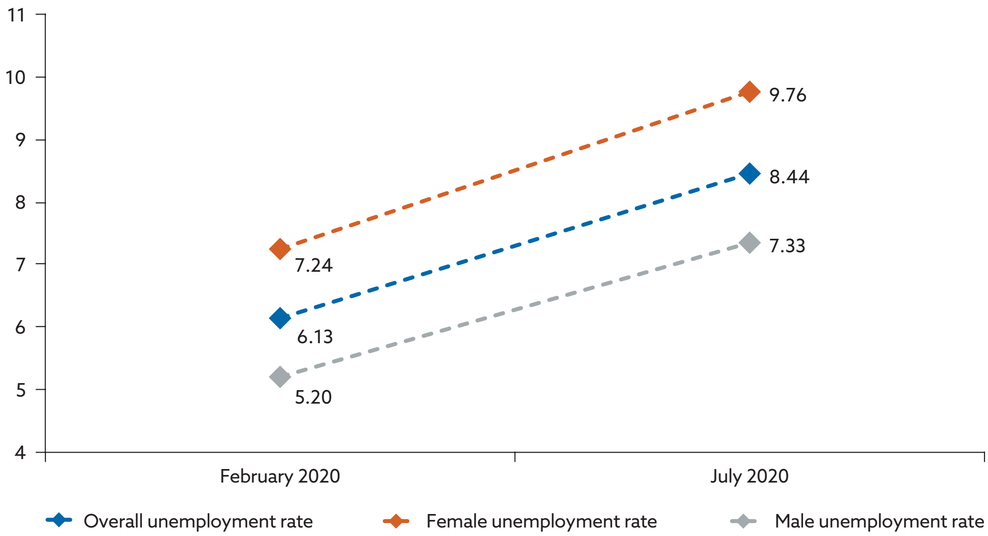
4 The figure for the first half of 2020 is the seasonally adjusted SO SR figure. Based on additional data, this figure may be still further revised in subsequent quarters. The year-on-year decline in the first quarter (non-seasonally adjusted) is, however, unlikely to be revised significantly.

5 Unless otherwise stated, we are using the unemployment rate based on the total number of jobseekers, i.e. without distinguishing between those who are available and unavailable for work.

Chart B
Unemployment rate broken down by gender (percentages)



Sources: ÚPSVR, and NBS calculations.

Labour Force Survey (LFS) data are available on a quarterly basis and, unlike labour office (ÚPSVR) data, they are collected from a questionnaire survey conducted on a sample of around 20 thousand people. These data have so far been showing a lower increase in unemployment (23 thousand people for the period from the fourth quarter of 2019 to the second quarter of 2020). One reason for this divergence is methodological differences; for example, the VZPS measures the average situation in a given period, while ÚPSVR reports the situation as at the end of the period. Another reason is the survey-based nature of the LFS, owing to which the reported level of unemployment may fluctuate randomly around the actual overall rate of unemployment, thereby distorting attempts to produce a detailed quarterly overview of changes in this indicator. Nevertheless, these data may be used to compare changes in the positions of different groups in the labour market, which cannot be done with the ÚPSVR data.

The LFS data provide the additional information that the pandemic crisis has affected male and female employment to similar extents. Male employment was 3.5% lower in the second quarter of 2020 than in the fourth quarter of 2019), while female employment was down by 3.2%. Most of the employment decline has so far been reflected in increasing inactivity and only to a smaller extent in rising unemployment.

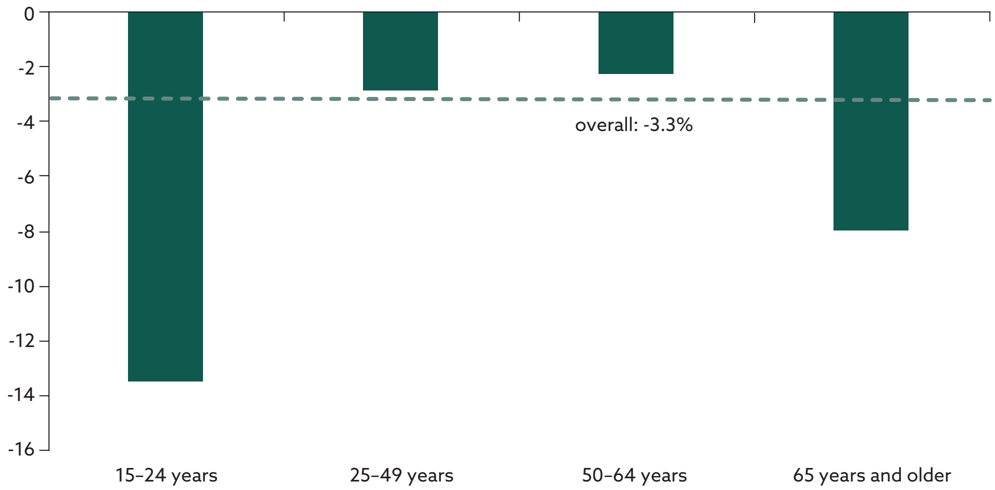
As regards the age structure of employment, the largest decrease (in percentage point terms[6]) was in the cohort of young people (Chart C). There was also a shop drop in the cohort of pensioners. In their response to the pandemic crisis, employers clearly have certain goals: to cancel temporary

[6] As regards the impact of the crisis on a given population group, the most relevant variable to look at is the percentage change in employment in the given group. If we took into account absolute differences, the position of different groups would differ according to whether they accounted for a lesser or greater share of the labour force (for example, the oldest age cohort has low labour force participation, but a large percentage of these workers have lost their job during the pandemic).

and student work positions; to protect more experienced core staff in preference to younger staff (according to anecdotal information about the cutting of jobs, for example during trial periods); and probably also to reduce the social impact of the crisis by releasing workers who are entitled to an old-age pension. Further evidence that firms are seeking to end temporary and auxiliary employment is the sharp decline in the number of people employed on the basis of a contract for work, particularly in the second quarter (Chart E). Job cuts have not so far had a disproportionate impact on foreign workers: jobs filled by foreigners as a share of total jobs fell in the second quarter by just 0.1 percentage point, to 3.1% (Chart F).

Chart C

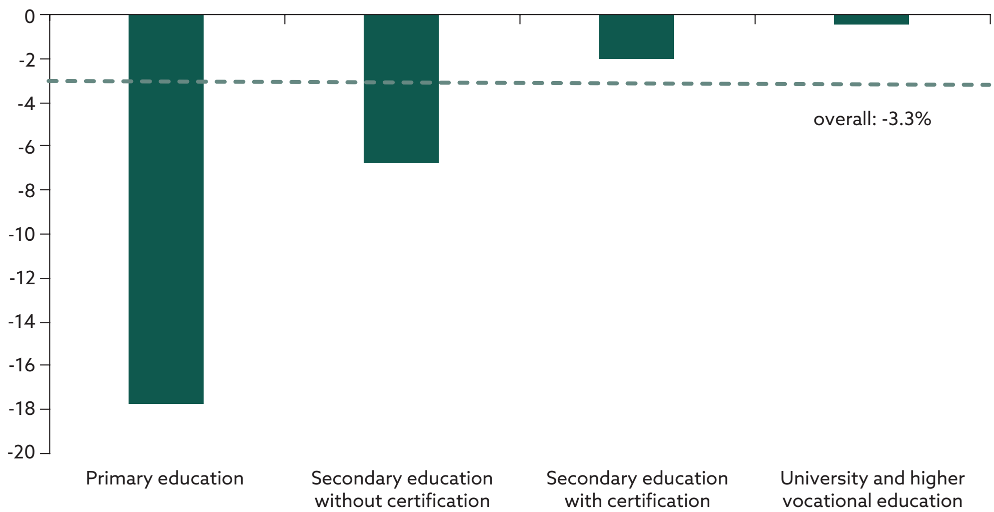
Decline in employment broken down by age cohort (percentages; Q2 2020 versus Q4 2019)



Sources: SO SR, and NBS calculations.

Chart D

Decline in employment broken down by educational attainment (percentages; Q2 2020 versus Q4 2019)

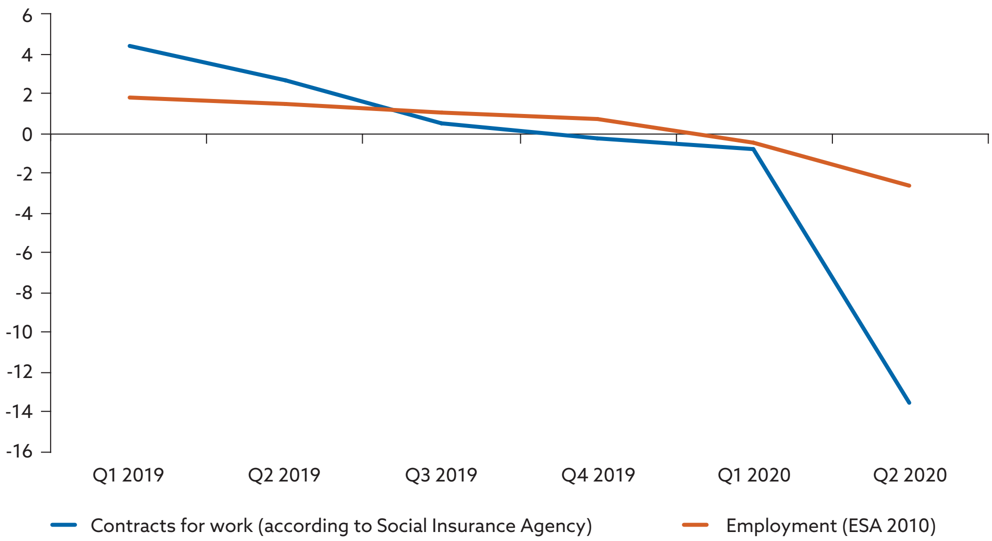


Sources: SO SR, and NBS calculations.

Employers have naturally been trying to retain their more highly skilled staff, as is clear from the overview of employment percentage changes in employment broken down by educational attainment (Chart D). As a result, the pandemic may be serving to exacerbate income disparities across the population. At the same time, losses of lower-income jobs have probably caused an upward impact of the composition effect on average wage growth. Besides employees (whose number fell by 2.5%, year on year, in the second quarter), sole traders have also been adversely affected by the crisis; their number decreased by 3.2% in the second quarter, according to the SO SR.

Chart E

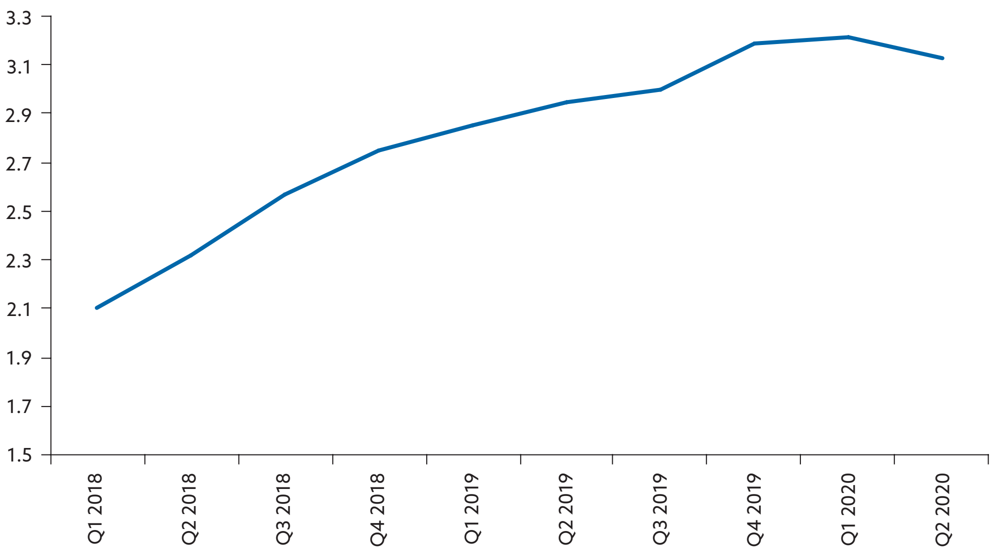
Total employment and employment on the basis of a contract for work (annual percentage changes)



Sources: SO SR, Social Insurance Agency, NBS calculations.

Chart F

Share of foreigners in the Slovak labour market (percentage of total employment)

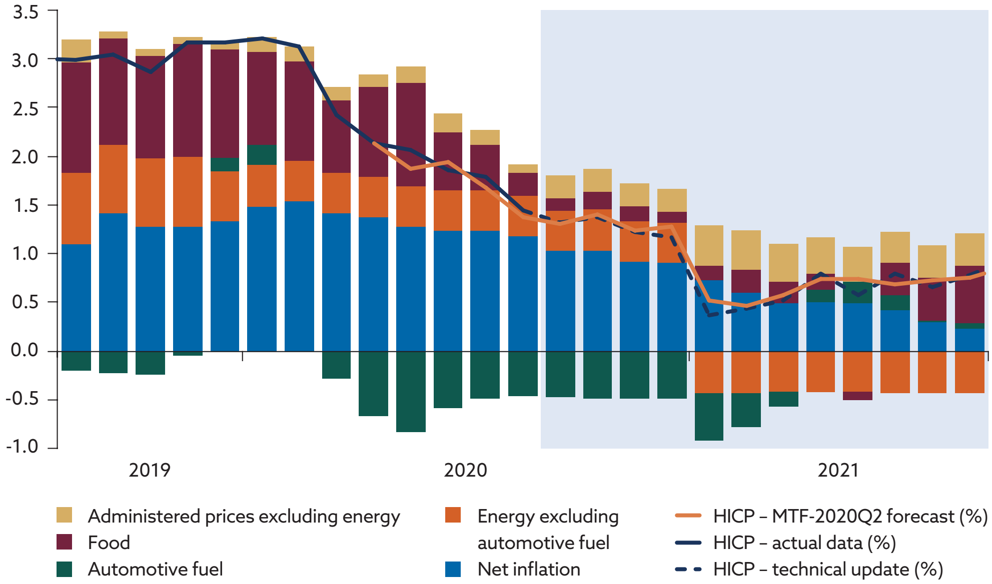


Sources: SO SR, ÚPSVR, and NBS calculations.

3.3 Prices

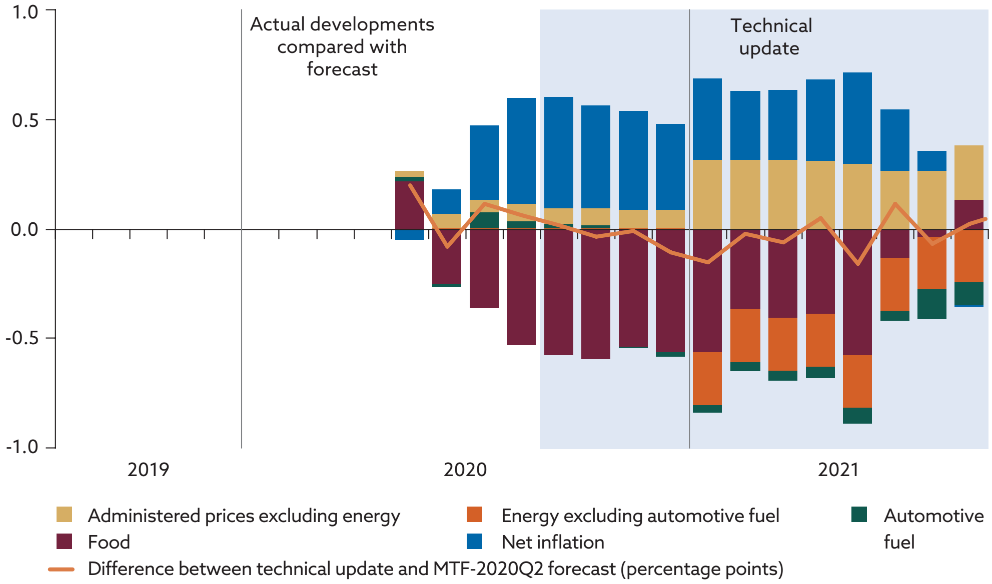
Slovakia's annual HICP inflation slowed to 1.4% in August and has fallen by 1.7 percentage points since the start of the year (Chart 19). The headline rate is in line with expectations, but its structure is different from projections. Net HICP inflation slowed to 2.4%.

Chart 19
HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 20
Comparison with the forecast (percentage point contributions)

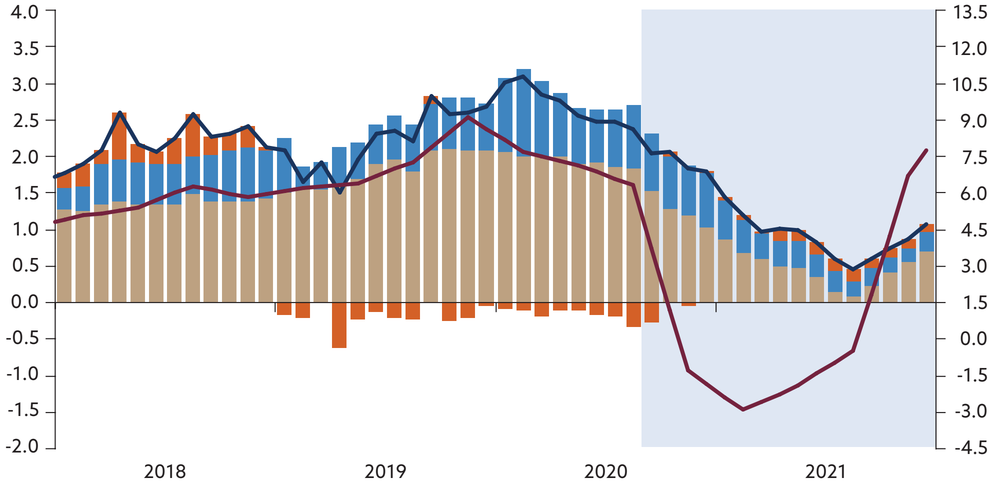


Sources: SO SR, and NBS calculations.

Despite its downward trend, net inflation is falling more slowly than the headline rate (Chart 22) **and remains higher than expected** (Chart 20). It is experiencing upward pressure from rises in prices of non-durable consumption goods and prices of personal care and food services. The deteriorating labour market situation is expected to soon start having a lagged downward impact on the annual rate of change in these prices (Chart 21). Net inflation is projected to be in the region of under 2% by the end of the year.

Chart 21

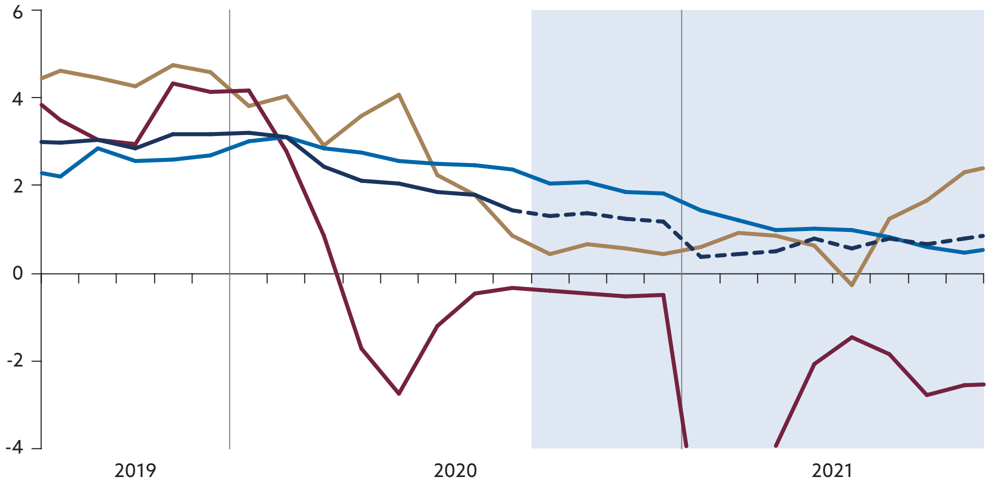
Net inflation and the average wage level (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 22

Headline HICP inflation has slowed faster than net inflation since the start of the year (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

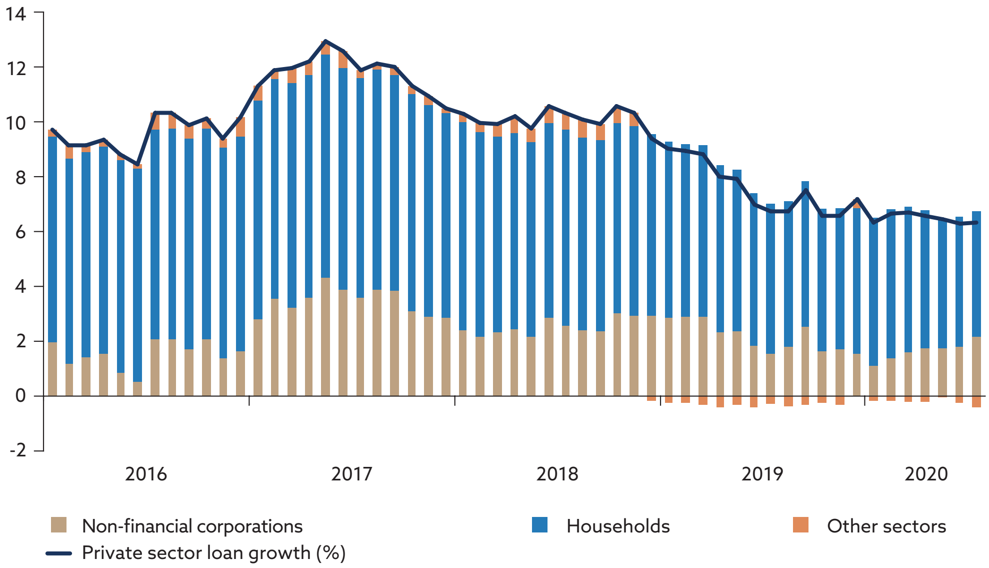
The slowdown in headline inflation is still largely due to food price developments. In month-on-month terms, food prices fell in August for a third successive month, the most pronounced drop being in fruit and vegetable prices. The continuing decline in agricultural commodity prices and weakened wage growth is expected to have downward impact on annual food inflation, which, despite a notable increase in cigarette prices, is projected to be running at below 1% into the first half of 2021.

The easing of headline inflation in the last two months also reflected base effects related to non-energy administered prices, specifically the year-on-year increases in postal services prices in July 2019 and bus fares in August 2019.

3.4 Loans and deposits

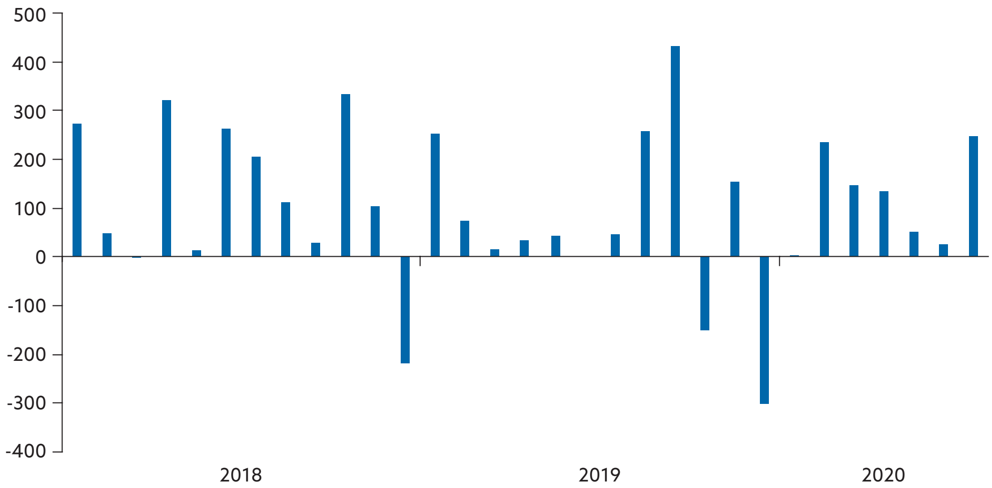
Total loans to the private sector increased in July by 6.3% year on year. The strongest growth was in loans to non-financial corporations (NFCs) (Chart 23), stimulated to some extent by government guarantees. Firms' demand for loans increased as the economy reopened, and banks were able to meet that demand (Chart 24). As a result, the flow of loans to NFCs was higher in July than in any previous month this year. This demand was driven by firms' limited ability to finance their own costs with cash flow, owing to the slump in their income during the pandemic. Hence there was an acute need for liquidity to finance working capital. Besides short-term loans, which contributed significantly to loan growth right at the start of the pandemic crisis, growth in loans with longer maturities also accelerated in July.

Chart 23
Total loans (annual percentage changes; percentage point contributions)



Sources: ECB, and NBS calculations.

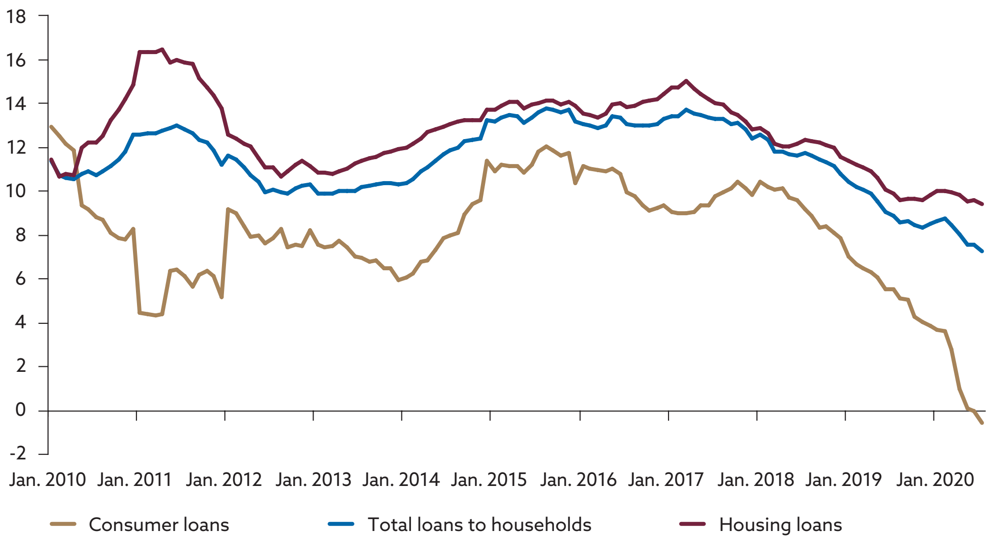
Chart 24
Monthly flows of NFC loans (EUR millions)



Source: ECB.

Annual growth in loans to households continued its decelerating trend in July. During the pandemic, households have significantly reined in their spending on durable consumption goods, which are often partly financed by loans. This has caused a decline in total consumer loans, which became still more pronounced in July (Chart 25). Annual growth in housing loans slowed slightly, but remained relatively stable at 9.4%.

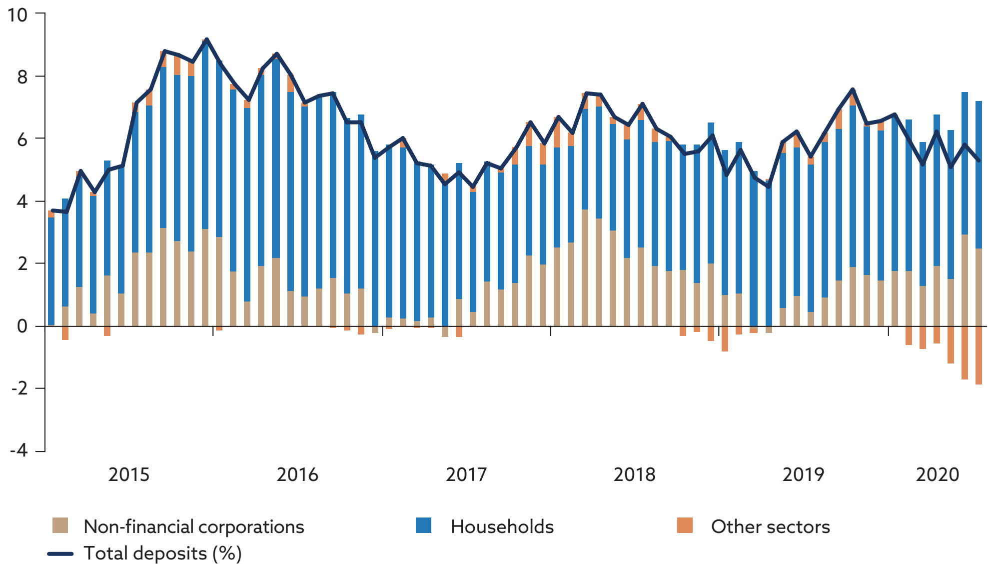
Chart 25
Loans to households (annual percentage changes)



Sources: ECB, and NBS calculations.

Chart 26

Total deposits (annual percentage changes; percentage point contributions)



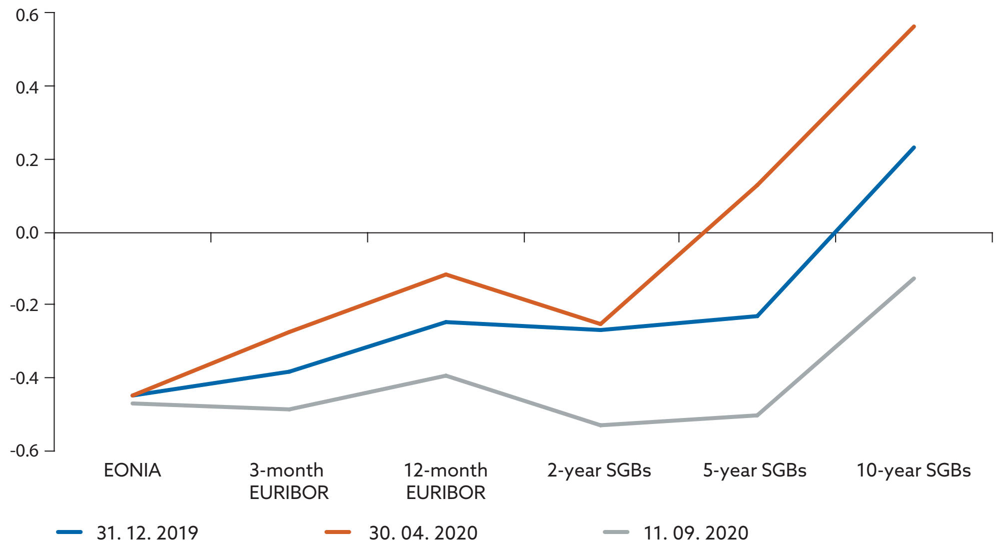
Sources: ECB, and NBS calculations.

Annual growth in private sector deposits slowed moderately in July (Chart 26). Growth in total NFC deposits moderated slightly but, as in June, remained in double digits. Household deposits increased by 6.8% year on year. Their growth was largely driven by sight deposits, which allow savers immediate access to their savings.

Box 2
Lending rates in Slovakia

Recent months have seen a slight uptrend in lending rates for NFCs and households. The pandemic crisis has thus started to have an impact on the credit market. There has not, however, been a significant reduction in lending, nor extensive increases in NFC and household lending rates. The rate movements are not outside the bounds of the ordinary volatility that stems more from assessments of borrowers and therefore takes into account their riskiness. Following the onset of the pandemic crisis, market interest rates shifted noticeably. Concerns about government debt financing were relatively short-lived, being assuaged by the adoption of fiscal and monetary measures. As a result, long-term interest rates stabilised (Chart A), and even they have now entered negative territory.

Chart A
Market rate movements (percentages)

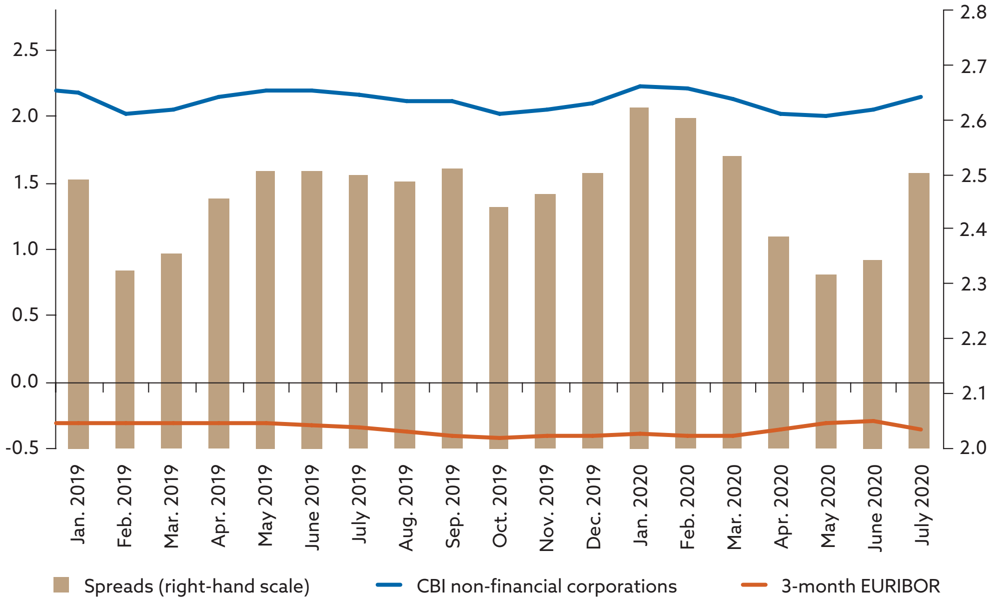


Sources: ECB, and NBS.
Note: SGB – Slovak government bond.

In the case of NFC lending rates, their slight increase (Chart B) has reflected both demand and supply factors in the credit market. Banks' perception of macroeconomic risks increased, as did their cost of funds and balance sheet constraints. Banks had to take account of the worsening situation in certain sectors when determining their interest margins, and therefore retail interest rates increased moderately. On the other hand, firms were less inclined to borrow for investment purposes and were rather concentrating on their financing needs for inventories and working capital. This is apparent from responses given in the July 2020 bank lending survey. In order to mitigate the effects of the pandemic crisis on lending to the economy, the ECB has eased its monetary policy significantly by adopting relief measures (in particular by recalibrating its targeted longer-term refinancing operations), so creating conditions in which banks could obtain cheaper funding (the interest rate on TLTRO operations can be as lows as -1%, provided that certain conditions for lending to firms and households are met). This has to some extent prevented lending rates from rising even further.

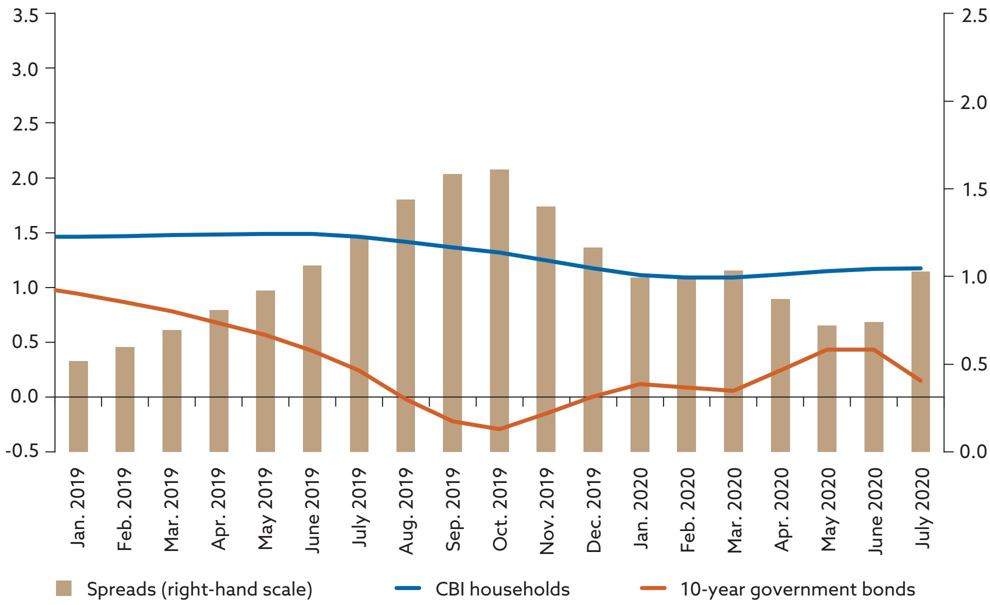
Market and retail interest rates and spreads (three-month moving average; percentages)

Chart B
Non-financial corporations



Sources: ECB, and NBS calculations.
Note: CBI – cost-of-borrowing indicator.

Chart C
Households



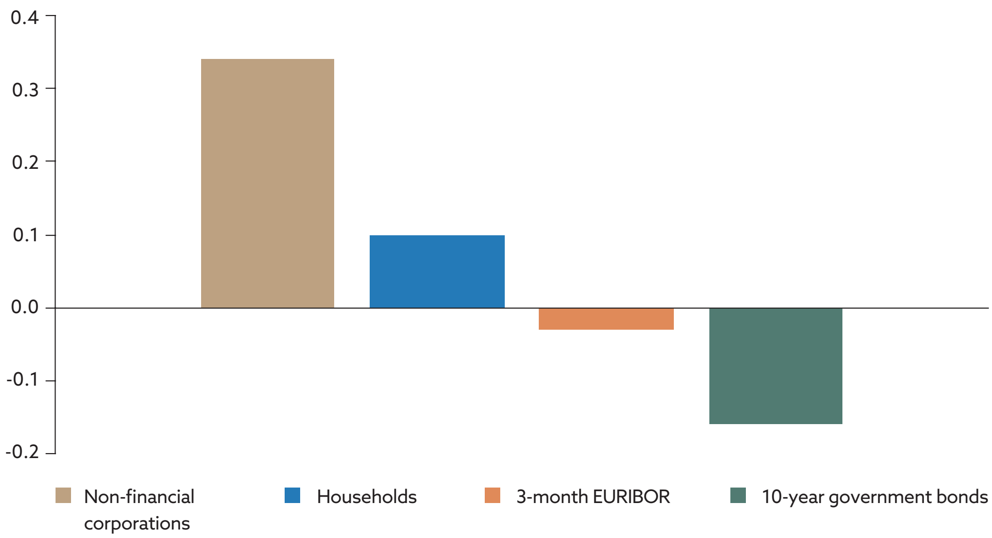
Sources: ECB, and NBS calculations.
Note: CBI – cost of borrowing indicator.

Since housing loans are excluded from direct support under TLTRO III operations, their trend reflects only the cost of funds, i.e. similar long-term financial products. Interest rates on housing loans to households (Chart C) are usually compared with the yield on 10-year government bonds, with the difference representing the risk premium. This increased significantly during the pandemic crisis, before returning back to last year's levels after the situation became calmer.

Banks' response to the changed macroeconomic outlook is shown in Chart D. As a result of the ECB's monetary policy measures, market rates have fallen marginally, while retail lending rates have increased slightly. Hence risk margins and interest expenses have increased, especially for firms. Even so, monetary conditions remain loose, so they are supporting the recovery of the real economy.

Chart D

Retail and market interest rate movements since the pandemic onset (July 2020 versus February 2020; percentage points)



Sources: ECB, and NBS calculations.

Overview of main macroeconomic indicators for Slovakia

Table 2 Selected economic and monetary indicators for Slovakia

(annual percentage changes, unless otherwise indicated)

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 2010	Registered unemployment rate[1]	Unemployment rate based on the total number of 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	4.6	4.3	102.2	6.1	10.2	4.2	13.3	-980	-2.5	52.0	-2.7	1.5	1.1069
2017	3.0	1.4	1.9	2.2	7.1	8.3	3.3	3.9	103.6	7.8	10.5	7.8	12.4	-1,220	-1.0	51.3	-1.9	0.7	1.1297
2018	3.9	2.5	5.0	2.0	5.4	6.6	4.3	6.0	100.5	5.1	9.4	8.2	10.7	-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	7.2	4.4	8.5	-2,201	-1.3	48.0	-2.9	-0.8	1.1195
2019 Q3	1.5	3.0	1.8	1.0	4.9	6.0	-2.8	-2.9	96.5	6.0	7.5	7.1	8.6	-	-0.9	47.8	-5.1	-3.1	1.1119
2019 Q4	2.1	3.1	0.9	0.7	5.0	6.1	-4.7	-4.0	97.0	6.8	7.2	4.4	8.5	-	-3.4	48.0	-2.4	-0.3	1.1071
2020 Q1	-3.7	2.9	2.5	-0.5	5.1	6.2	-7.4	-4.2	97.6	5.7	6.7	4.5	8.5	-	-3.1	49.3	-4.5	-3.4	1.1027
2020 Q2	-12.1	2.0	0.3	-2.6	7.1	7.9	-28.1	-20.8	61.9	7.2	6.3	5.2	7.5	-	.	.	-1.4	0.1	1.1014
2019 Sep.	-	3.0	1.3	-	4.9	6.0	-2.0	-1.6	99.4	6.0	7.5	7.1	8.6	-202	-	-	-	-	1.1000
2019 Oct.	-	2.9	-0.1	-	5.0	6.1	-3.8	-3.0	94.3	7.8	6.6	4.5	8.4	242	-	-	-	-	1.1050
2019 Nov.	-	3.2	1.2	-	5.0	6.1	-3.8	-5.5	100.5	7.0	6.5	4.8	8.3	-212	-	-	-	-	1.1050
2019 Dec.	-	3.2	1.7	-	5.0	6.1	-7.0	-3.4	96.2	6.8	7.2	4.4	8.5	-391	-	-	-	-	1.1110
2020 Jan.	-	3.2	2.4	-	4.9	6.1	0.4	0.6	98.9	7.4	6.3	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	8.7	-626	-	-	-	-	1.0910
2020 Mar.	-	2.4	2.1	-	5.2	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	-	6.7	7.5	-42.1	-31.9	55.1	7.1	6.6	5.0	8.0	-874	-	-	-	-	1.0860
2020 May	-	2.1	-0.6	-	7.3	7.9	-33.3	-25.2	59.0	6.4	6.5	5.1	7.6	-717	-	-	-	-	1.0900
2020 June	-	1.8	0.0	-	7.4	8.2	-8.5	-4.9	71.6	7.2	6.3	5.2	7.5	-774	-	-	-	-	1.1250
2020 July	-	1.8	0.4	-	7.5	8.3	-3.6	-1.6	83.3	6.6	6.3	6.2	7.3	77	-	-	-	-	1.1460
2020 Aug.	-	1.4	.	-	7.5	8.3	.	.	88.2	.	.	.	.	-154	-	-	-	-	1.1830

Sources: Statistical Office of the Slovak Republic, MF SR, 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/StatisticsMB0920.xls