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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

The recovery of euro area economic activity continued in August. Industrial production increased for a fourth consecutive month, and retail sales growth was stronger than expected. Construction production growth also accelerated. Despite their uptrend, however, both industrial and construction output were not yet back to pre-pandemic levels. October leading indicators suggest there are concerns about the future economic situation.

In Slovakia, economic activity across the sectors under review stabilised in August at pre-crisis levels. Industrial production increased only marginally, while sales across the economy fell slightly. Retail trade and export results were positive. Goods exports continued to pick up in August, driven mainly by the car and electronics industries. In September, surveyed firms expressed concerns about current and expected developments, and there was a decline in economic sentiment.

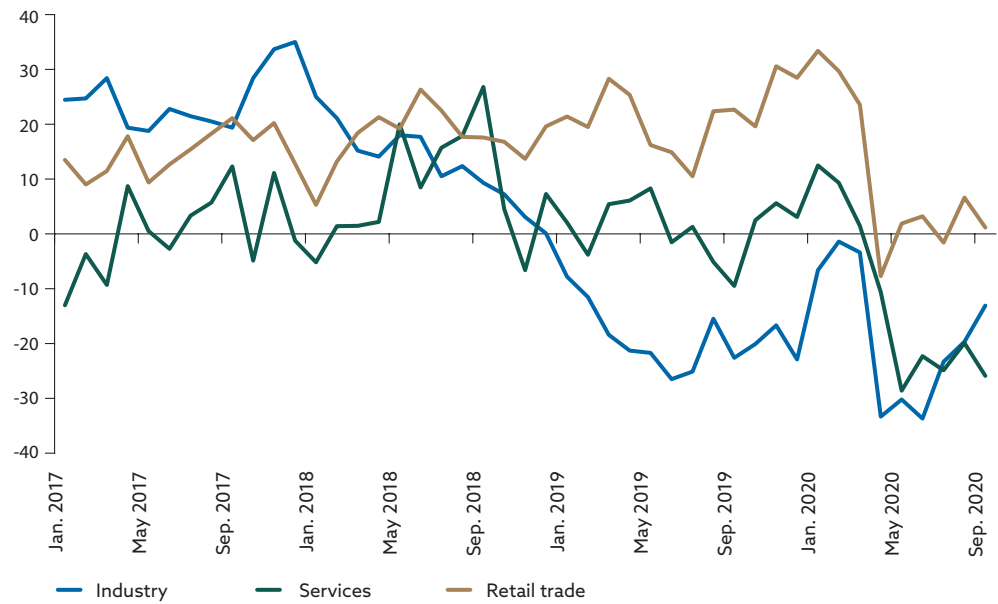
Employment in Slovakia remained on a downward path in August. The largest job losses were in the industry and construction sectors. Industry has been experiencing long-term employment decline, as firms pursue rationalisation measures. This is particularly notable in the car industry. In the construction sector, falling output is having a negative impact on employment. Employment in the services sector increased moderately in August. September brought signs of improvement in the labour market, as the unemployment rate for the month fell to 8.1% and there was an increase in the number of employed people paying social security contributions to the Social Insurance Agency. This indicates that the economy was reabsorbing some of the workforce by the end of the third quarter. Given, however, the incoming second wave of the coronavirus (COVID-19) pandemic, the sustainability of these positive developments is in doubt. Average annual wage growth moderated in August, with almost all sectors contributing to the slowdown.

Annual HICP inflation was the same in September as in the previous month, at 1.4%. Net inflation decelerated, but remained higher than expected. Since May, food prices have been the main drag on headline inflation.

Annual growth in loans to the private sector eased in August. Long-term loans recorded the strongest growth. Household loan growth slowed amid weak demand for consumer loans.

Chart of the month

Employment expectations (percentage balances)



Source: European Commission.

The uncertainty surrounding employment is evident from survey data on employment expectations in the sectors of services, retail trade, and industry. In trade and services, the sectors hardest hit by the pandemic containment measures, there is noticeable caution in the area of employment. In industry, by contrast, employment expectations have become significantly less pessimistic, including in September, which saw the onset of the second wave of the pandemic.

Table 1 Macroeconomic indicators released since the previous monthly bulletin

| Indicator | Unit | Period | Current period | Previous period |
|--|---|----------------|----------------|-----------------|
| Euro area | | | | |
| Confidence indicators | | | | |
| PMI | index | October 2020 | 49.4 | 50.4 |
| Economic Sentiment Indicator | long-run average = 100 | September 2020 | 91.1 | 87.5 |
| Economic indicators | | | | |
| Gross domestic product | annual percentage change, constant prices | Q2 2020 | -14.7 | -3.2 |
| Industrial production index | annual percentage change | August 2020 | -6.5 | -7.0 |
| Retail sales | annual percentage change, constant prices | August 2020 | 4.0 | 0.2 |
| Unemployment rate | percentage | August 2020 | 8.1 | 8.0 |
| HICP inflation | annual percentage change | September 2020 | -0.3 | -0.2 |
| Oil price in USD ¹⁾ | level | October 2020 | 42.1 | 41.9 |
| EUR to USD exchange rate ¹⁾ | level | October 2020 | 1.176 | 1.179 |
| Slovakia | | | | |
| Confidence indicators | | | | |
| Economic Sentiment Indicator | long-run average = 100 | September 2020 | 85.9 | 88.2 |
| Industrial confidence indicator | percentage balance | September 2020 | -9.0 | -0.4 |
| Consumer confidence indicator | percentage balance | September 2020 | -21.7 | -21.6 |
| Economic indicators | | | | |
| Gross domestic product | annual percentage change, constant prices | Q2 2020 | -12.1 | -3.7 |
| Aggregate sales | annual percentage change, constant prices | August 2020 | -3.1 | -1.6 |
| Industrial production index | annual percentage change | August 2020 | -0.8 | -3.6 |
| Private sector credit | annual percentage change | August 2020 | 6.2 | 6.3 |
| Employment | annual percentage change | August 2020 | -5.4 | -5.5 |
| Unemployment rate ²⁾ | percentage | September 2020 | 8.1 | 8.3 |
| Nominal wages ³⁾ | annual percentage change | August 2020 | 1.5 | 1.8 |
| HICP inflation | annual percentage change | September 2020 | 1.4 | 1.4 |

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

1) The average for the current period is for the period from the start of the month.

2) Seasonally adjusted by NBS.

3) Selected sectors only (excluding public sector).

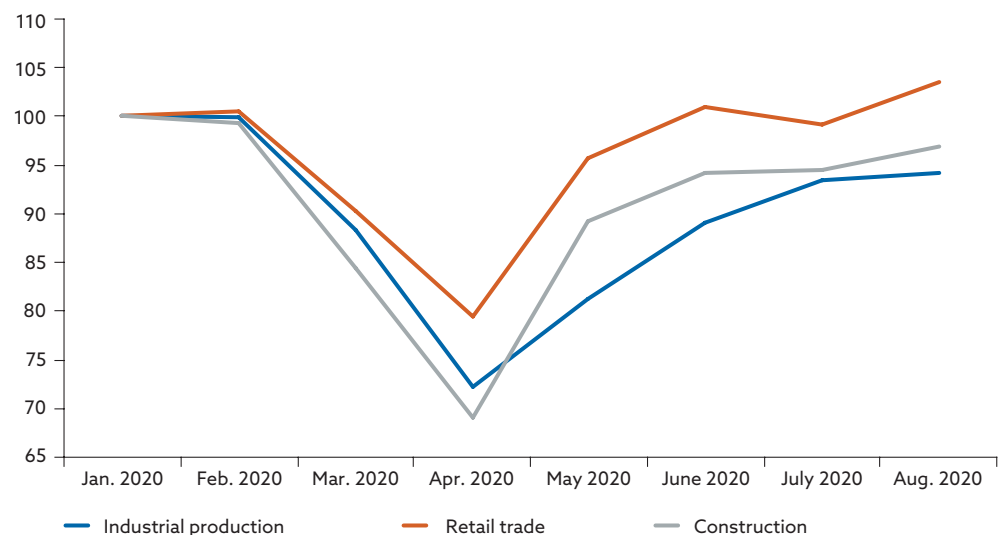
Notes: Values in bold show a significant deviation. In the case of macroeconomic indicator values for the euro area, deviations are calculated/determined by comparing the values with market expectations, and in the case of macroeconomic indicator values for Slovakia, including the oil price and exchange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

August's **short-term indicators for the euro area provided confirmation of the recovery of economic activity** in the third quarter of 2020 (Chart 1). **Industrial production increased** for a fourth consecutive month, its month-on-month growth rate moderating from 5% in July to 0.7% in August. From a geographical perspective, the headline figure was driven by strong output growth in Italy and, to a lesser extent, France. After falling in July, **retail sales** returned to robust growth in August with a month-on-month increase of 4.4%. Non-food product sales recorded the strongest growth, and food sales also increased. Greater mobility during the holiday season was reflected in a further increase in automotive fuel sales. Month-on-month **construction production** growth accelerated to 2.6% in August. Unlike retail trade, neither industrial nor construction production were back up to their pre-pandemic level.

Chart 1

Euro area - short-term economic indicators (index, January 2020 = 100)



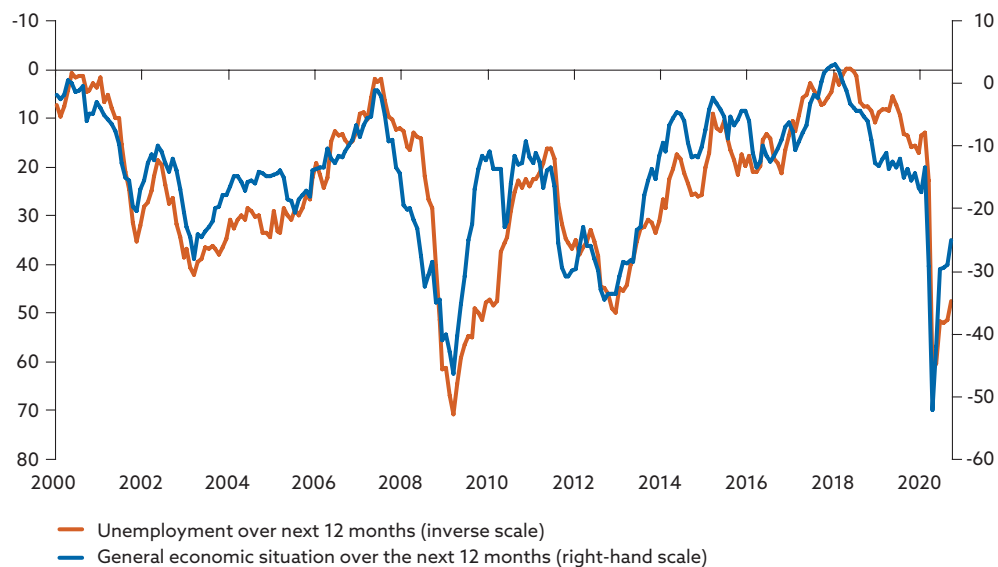
Source: Macrobond.

The European Commission's Economic Sentiment Indicator (ESI) continued its recovery in September (rising by 3.6 points to 91.1), thus providing confirmation of the relatively strong recovery of economic activity in the third quarter. Its level, however, still remains below the long-term average. All sectors contributed to September's improvement in confidence, and services confidence registered the largest increase. In all sectors, respondents indicated an improvement in their expectations about employment. At the same time, however, **respondents in the services and retail trade sectors** expressed rising concerns about the future business situation and future demand. In industry and construction, expectations for produc-

tion and assessments of the level of order books improved only slightly. The consumer confidence indicator registered a further modest increase, based on a marked pick-up in expectations about the general economic situation over the next 12 months and less pessimistic expectations for unemployment (Chart 2). There was an upward shift in consumer assessments of current and future savings, which may have implications for future consumer demand trends.

Chart 2

Consumer confidence in the euro area – expectations for the economic situation and unemployment (percentage balances)



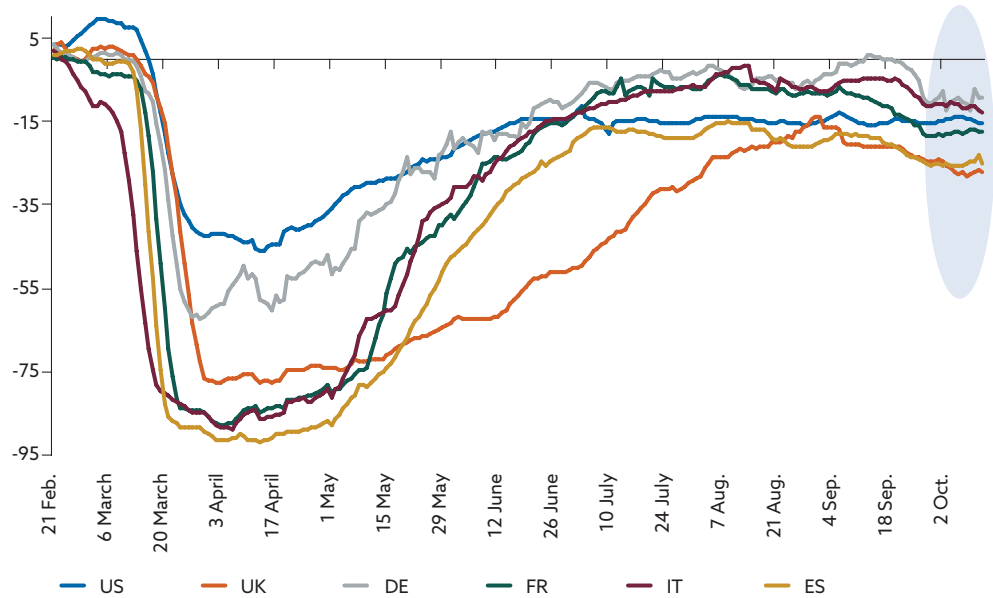
Source: Macrobond.

October's flash composite **Purchasing Managers' Index (PMI)** for the euro area reflected the economic risks related to the second wave of the COVID-19 pandemic, as it fell into the sub-50 territory indicating a decrease in economic activity. The PMI declined to a four-month low of **49.4**, from 50.4 in September. The decline was caused entirely by a deterioration of activity in the services sector, which resulted in the PMI services sub-index dropping to 46.2 (from 48 in September) and therefore recording a second successive month in contraction territory. By contrast, manufacturing output growth accelerated in October, driven mainly by surging activity growth in Germany.

With the pandemic situation becoming worse, mobility has declined in several countries, especially in the areas of retail trade and recreation. High-frequency data from Google Community Mobility Reports (Chart 3) add weight to concerns – indicated, inter alia, by the October PMI figures – regarding the pace of economic activity recovery, especially in the services sector.

Chart 3

Google Community Mobility Reports for selected large countries (*retail and recreation category; weekly moving average; deviation from baseline in percentages*)¹



Source: Macrobond.

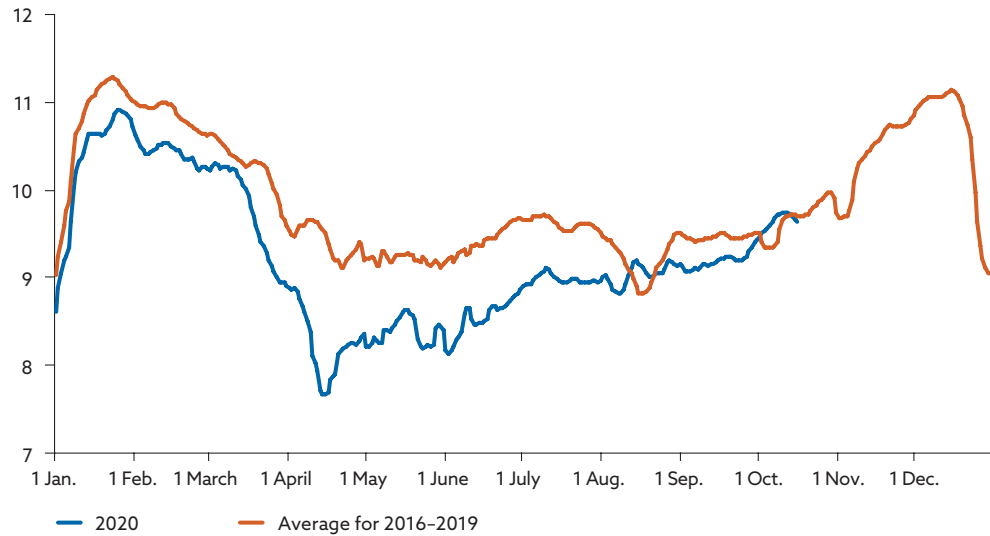
Note: The data show mobility trends for places like restaurants, cafes, shopping centres, theme parks, museums, libraries, and cinemas.

The available high-frequency data imply that the relatively rapid recovery of manufacturing activity will continue in the early part of the fourth quarter, in contrast to the situation in the services sector. These data therefore complement the relatively favourable industrial production growth data of the four months to August. In early October, electricity consumption in the five largest euro area economies was close to its average level for recent years (Chart 4). In Germany, the truck toll mileage index was actually higher compared with the same period of the previous year (Chart 5). Economic activity growth in the manufacturing sector is therefore expected to maintain a relatively healthy pace at the beginning of the fourth quarter.

¹ Further information is available at <https://www.google.com/covid19/mobility/>

Chart 4

Electricity consumption in the five largest euro area countries (millions of megawatts)

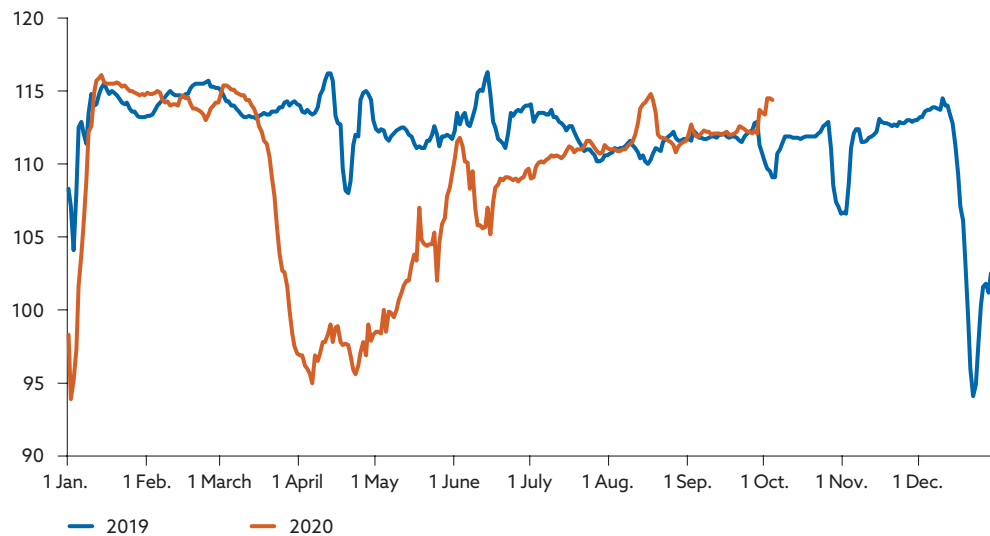


Sources: Macrobond, and NBS calculations.

Note: Germany, France, Italy, Spain, Netherlands.

Chart 5

Germany's truck toll mileage index (2015 = 100)



Source: Macrobond.

In its **October 2020 World Economic Outlook**, the International Monetary Fund projects that global GDP will contract by 4.4% in 2020, which is 0.5 percentage point less severe than the IMF forecast in June. The revision reflects better-than-anticipated second quarter GDP outturns, mostly in advanced economies, as well as indicators of a stronger recovery in the third quarter. Global economic growth is projected at 5.2% in 2021, 0.2 percentage point lower than projected in June. The IMF expects that GDP levels across advanced and emerging market economies will be below 2019

levels in both 2020 and 2021. An exception is China, where GDP is expected to record positive growth even this year.

The relatively strong **recovery of the Chinese economy** continued in third quarter of 2020. Annual GDP growth accelerated to 4.9% (from 3.2% in the second quarter). In terms of its components, GDP growth was driven mainly by gross fixed investment and to a lesser extent by consumer demand, which in the previous quarter was still in decline. On the production side, manufacturing production made the largest contribution to GDP growth, and recovering services output also had a positive impact.

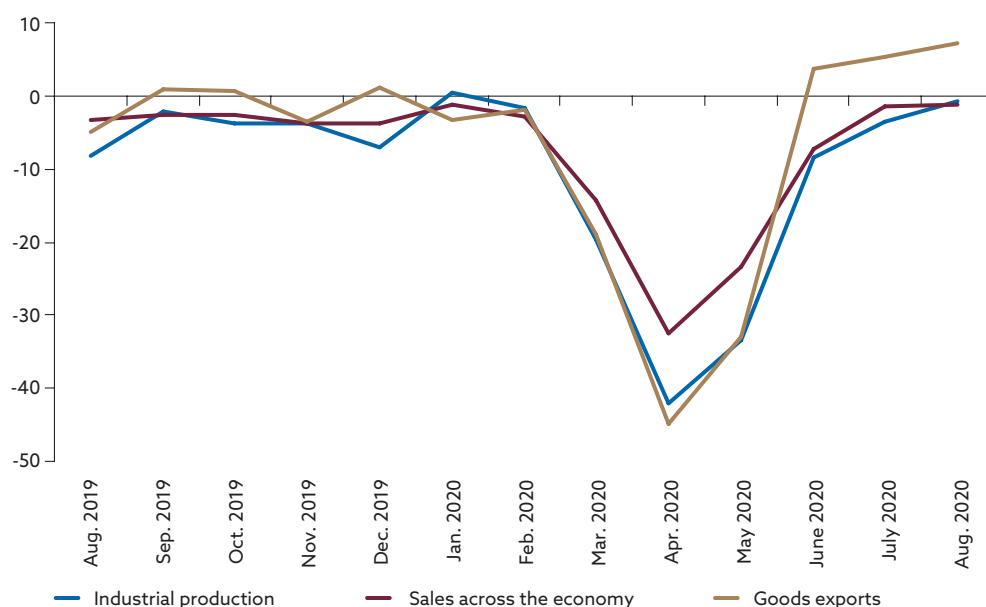
3 The Slovak economy

3.1 Economic activity

The growth rate of most short-term economic indicators slowed appreciably in August after rebounding strongly in previous months. Industrial production increased only marginally in August, while sales across the economy were actually lower compared with July. These indicators were still not back to their levels of the previous year. Only goods exports accelerated, so maintaining their upward trend (Charts 6 and 7).

Chart 6

Economic indicators (annual percentage changes; constant prices)

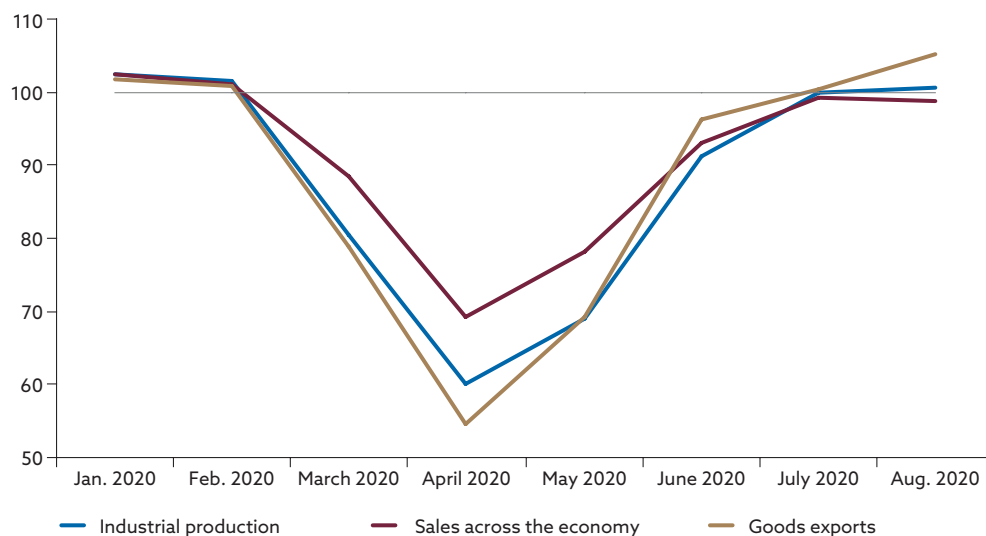


Sources: SO SR, and NBS calculations.

Industrial production was 0.8% higher in August than in July (in year-on-year terms it was lower by 0.8%). In almost all sub-sectors of industry, production growth decelerated in August. The car industry recorded the largest slowdown (Chart 8), which was the main cause of the negative annual rate of change in overall industrial production. Owing mainly to favourable developments in the petrochemical and electronics industries, industrial production was approaching pre-pandemic levels in August.

Chart 7

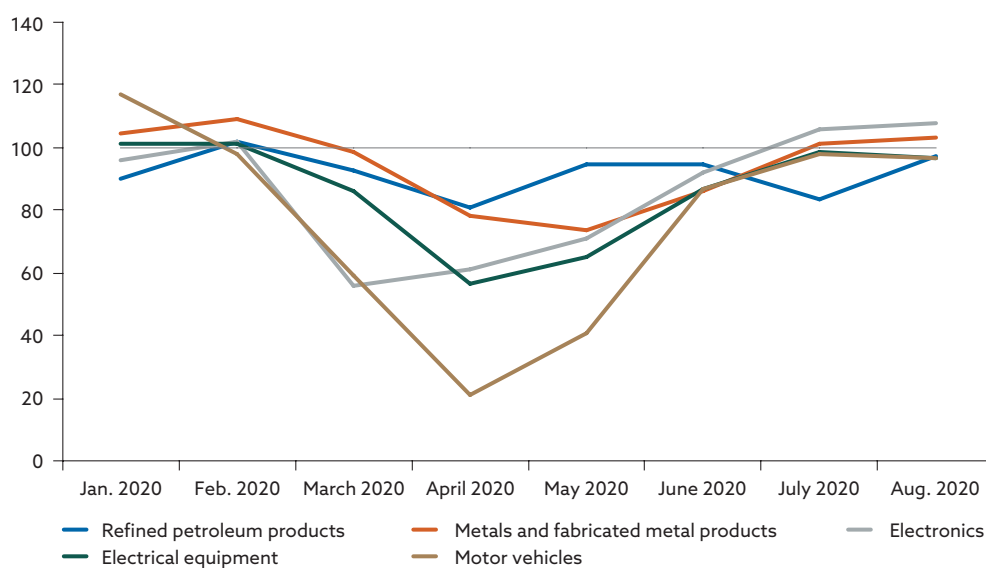
Economic indicators (index, Q4 2019 = 100)



Sources: SO SR, and NBS calculations.

Chart 8

Selected sectors of industrial production (index, Q4 2019 = 100)



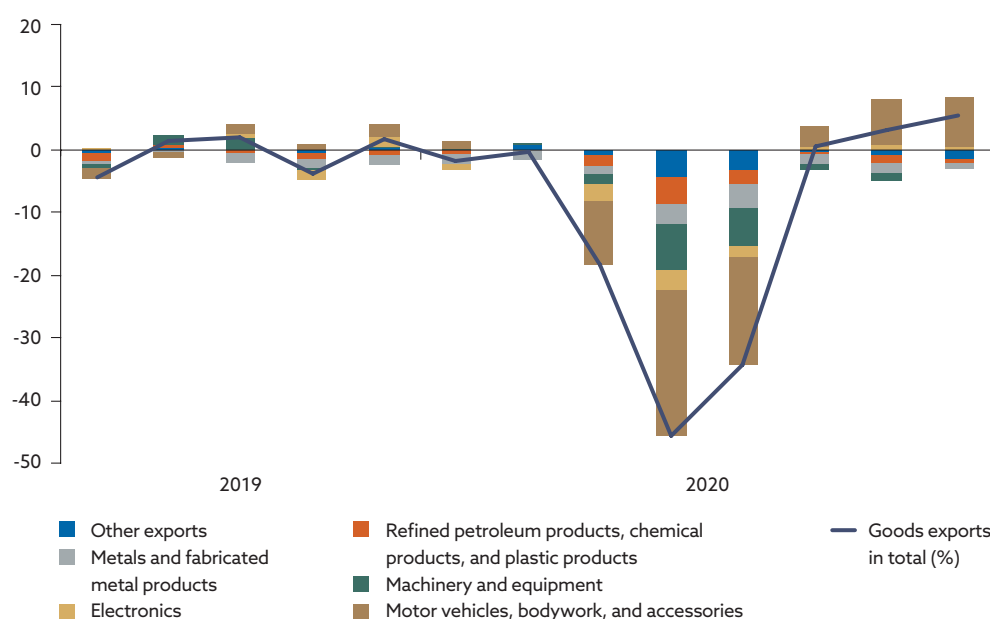
Sources: SO SR, and NBS calculations.

Sales across the economy decreased slightly in August by 0.5% month on month (and by 3.1% year on year). In the trade sector, retail sales increased, but wholesale trade sales declined. Lodging sales picked up slightly in August, but remained far (13.9%) below their level of the previous year. In industry, sales growth performed similarly to production growth, decelerating mainly because of developments in the car industry. Going forward, the recovery of sales will be largely dependent on how the second wave of the pandemic progresses.

As regards goods exports, their month-on-month growth accelerated to **5.5% in August (they increased by 5.4% year on year)**. In the car industry, exports managed to maintain positive growth in August despite both sales and production decelerating. These together with electronics exports were the sole drivers of export growth (Chart 9). Producers are treating the recovery with caution amid concerns surrounding the second wave of the pandemic and its implications for future demand. In addition, partly because of the impact of persistently low commodity prices, goods imports are lagging behind exports, and even in August they were still not back to their early-year level. Consequently, the trade balance remained positive in August, at €335.4 million.

Chart 9

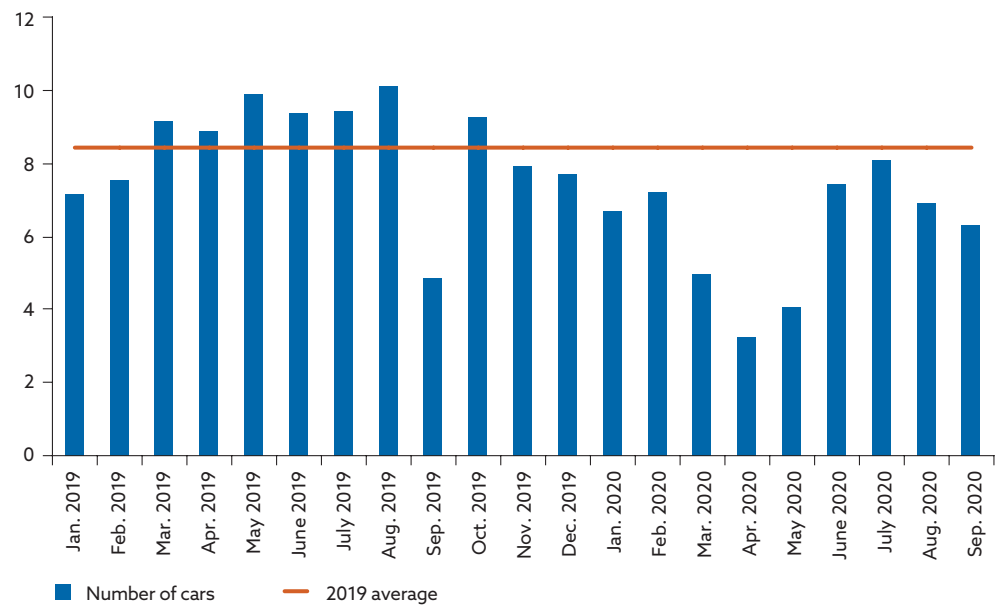
Goods exports (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

New car registrations decreased, month on month, for a second successive month in September 2020 (Chart 10). Their number has for some time been below last year's average. They increased slightly after the post-lockdown reopening of businesses, but probably just because of the release of pent-up demand. Since August, this indicator has settled at lower levels, partly reflecting the heightened uncertainty about the future situation.

Chart 10
New car registrations (thousands)



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

Box 1

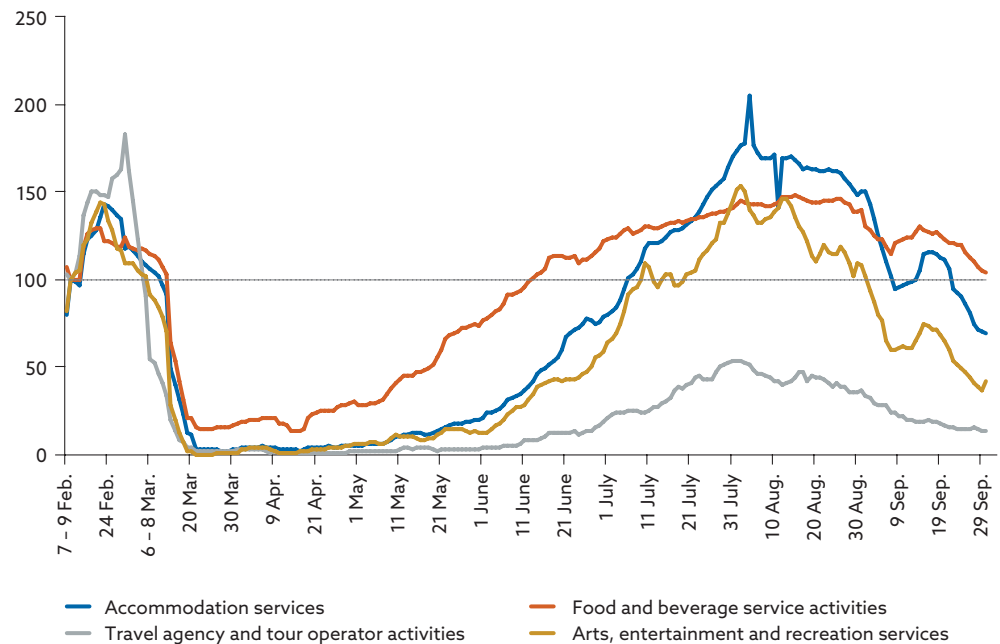
How is the recovery in the hardest hit services industries?

The introduction of coronavirus pandemic containment measures at the beginning of March 2020 had an impact on all sectors of the economy. Hardest hit were services in which direct contact with customers is unavoidable. During the lockdown, almost all businesses in this segment had to remain closed and their sales slumped to historical lows. Although such services constitute only a small percentage of overall value added (1.8% in 2018 and 3.6% in 2019), they have an important role in the area of employment, since they employ a greater number of lower-skilled workers. Hence the importance of taking a close look at this sector of the economy.

Restaurants managed to adapt to the situation to some extent by offering meals through deliveries and window sales. Partly because a large number of people were working remotely, demand for such services was slightly higher during the lockdown. Restaurant income gradually recovered and it was back to pre-crisis levels in May, after the reopening of the economy. It was a different story in **accommodation services**, where services could not be offered in alternative ways and sales remained very low throughout the lockdown (Chart A). Other tourism-related services such as arts, entertainment and recreation services fared similarly badly. Travel agencies and tour operators have experienced the longest-lasting consequences, since they are largely dependent on international tourism, which is not expected to recover for a long time. The tourism industry experienced a slight pick-up during the summer season and the temporary easing of containment measures, but its sales in September were already on a downward path again.

Chart A

Sales in selected services industries (moving weekly average, 10 February 2020 = 100)



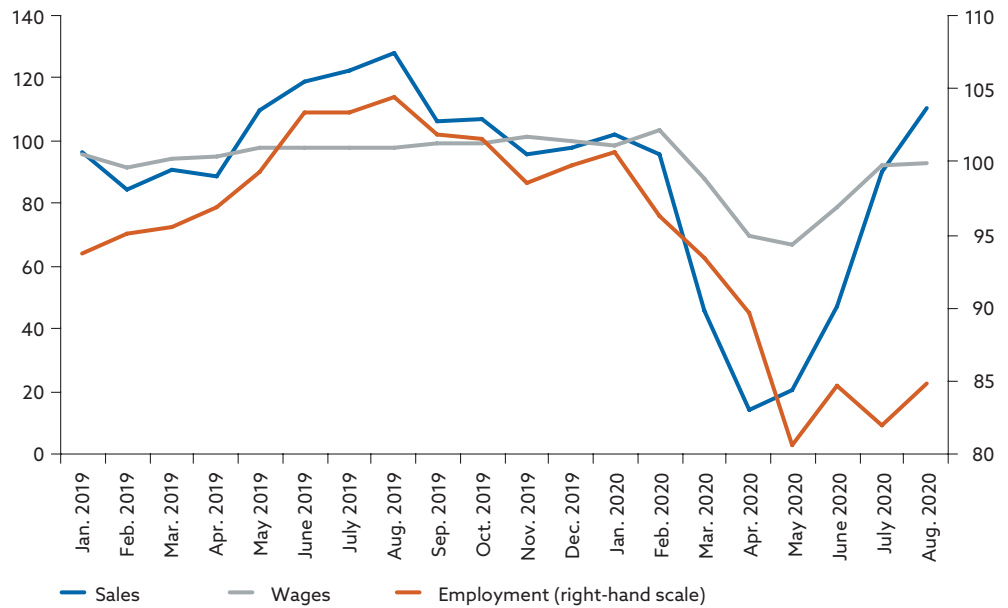
Sources: eKasa, and NBS calculations.

After experiencing a sharp decline in sales, firms also had to cope with a consequent shortage of liquidity. Government measures covered part of their income losses, and firms also made reductions in their variable costs (Chart B), which in the services sector comprise mainly wage expenditures. Besides cutting wages, firms also engaged in laying off workers. In the restaurant industry, firms cautiously took staff back on as the situation improved and sales gradually recovered; nevertheless, employment in the industry remains below pre-crisis levels. The arrival of the summer season provided a measure of relief for the lodging industry. Nevertheless, the negative repercussions persisted, and the whole season was depressed by people's cautiousness about travelling. Although sales gradually returned to early-year levels, they were far lower compared with the same period of the previous year. The caution and concern among lodging operators is evident from employment in the industry, which remains subdued. While wages in the industry returned to pre-crisis levels in July, the number of employees has remained unchanged, even during the summer. Nor was there any of the seasonal recruitment that is usually a feature of the main holiday period. Employers were probably retaining only their essential permanent staff.

Chart B

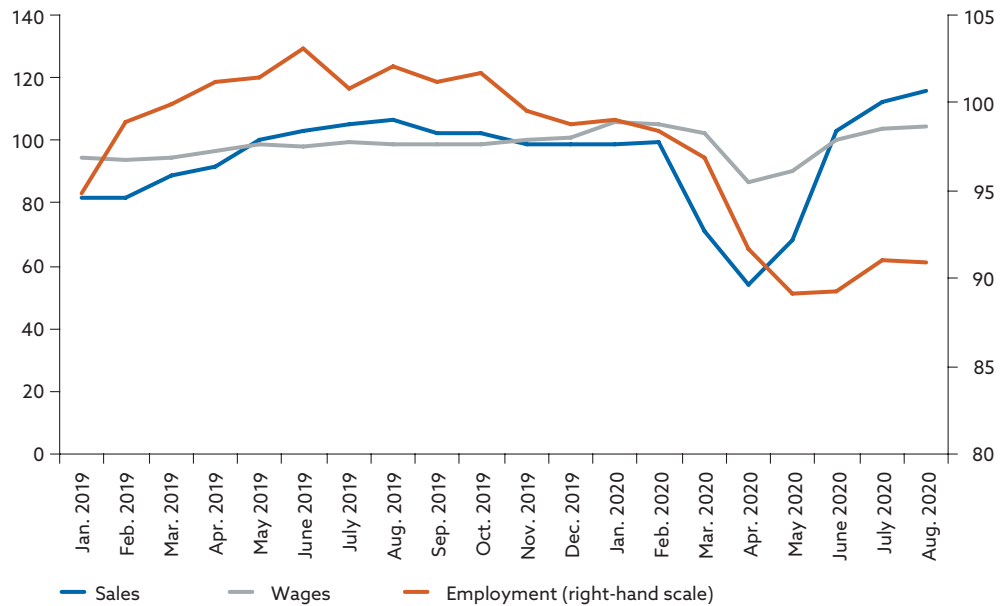
Selected monthly indicators (average for Q4 2019 = 100)

Accommodation services



Sources: SO SR, and NBS calculations.

Food and beverage service activities

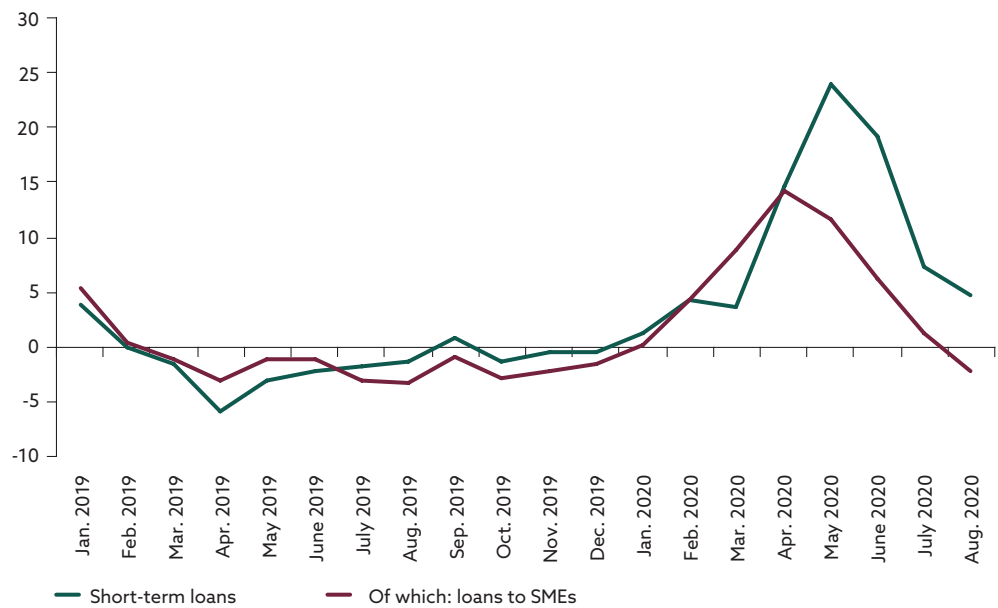


Sources: SO SR, and NBS calculations.

In response to their temporary income losses and resulting liquidity shortages, firms in the services sector increased their uptake of **short-term loans** (Chart C). During the months when these firms were worst affected by the containment measures, the annual growth rate of their short-term borrowing soared to 25%.

Chart C

Loans to firms in the accommodation and food services sector (annual percentage changes)

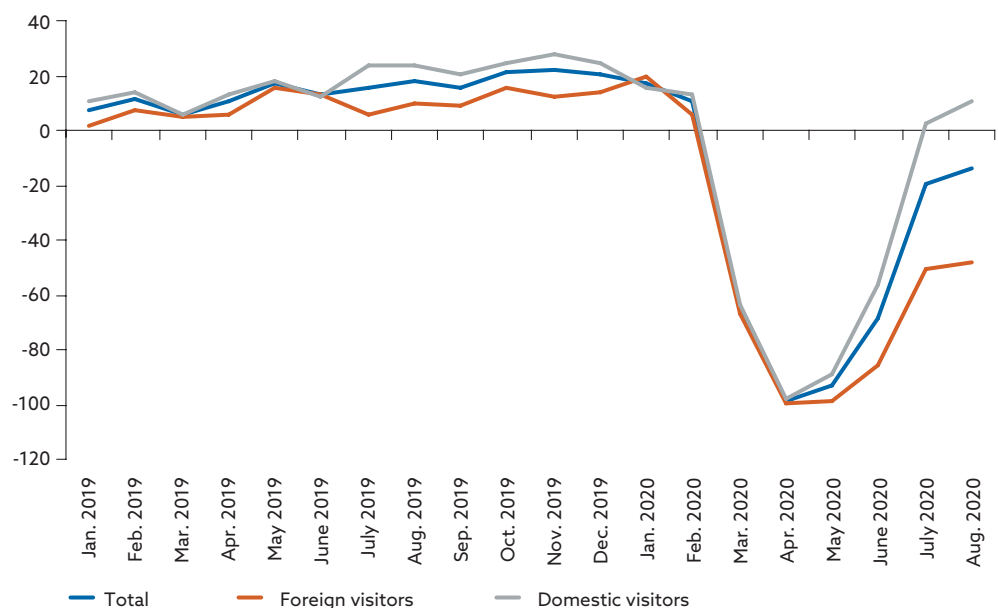


Source: NBS calculations.

Border closures across Europe had a severe impact on travelling and on tourism-related services. On the other hand, lodging operators in Slovakia benefited from the fact that a majority of Slovak citizens opted to take their holidays in Slovakia rather than abroad. Although the overall number of overnight stays during the summer was lower year on year, the decline was due mainly to a sharp drop in the number of foreign tourists (Chart D). Concerns about foreign travel resulted in a moderate year-on-year increase in the number of domestic visitors. Hotels in towns and cities were hardest hit by the decline in foreign tourists and the restrictions placed on most work and mass events (conferences, business trips, etc.).

Chart D

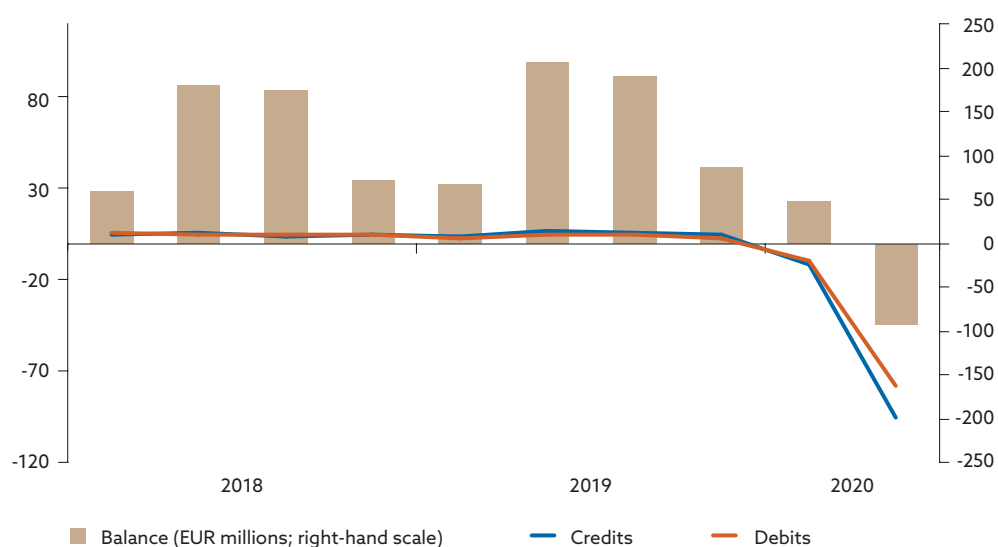
Overnight stays in tourist accommodation (annual percentage changes)



Sources: SO SR, and NBS calculations.

The severe restrictions on the cross-border movement of people have been reflected in balance of payments data. **The second quarter of 2020 saw sharp declines in both credits and debits under the travel component of the goods and services balance** (Chart E). Until the border closures, the domestic economy was profiting from the fact that receipts from non-residents were greater than payments made by Slovak residents outside the territory of Slovakia, but following the closures, the opposite was the case. The significant drop in receipts from non-residents resulted in the balance of cross-border travel services turning negative for the first time in almost eight years.

Chart E
Cross-border travel services (EUR millions; annual percentage changes)



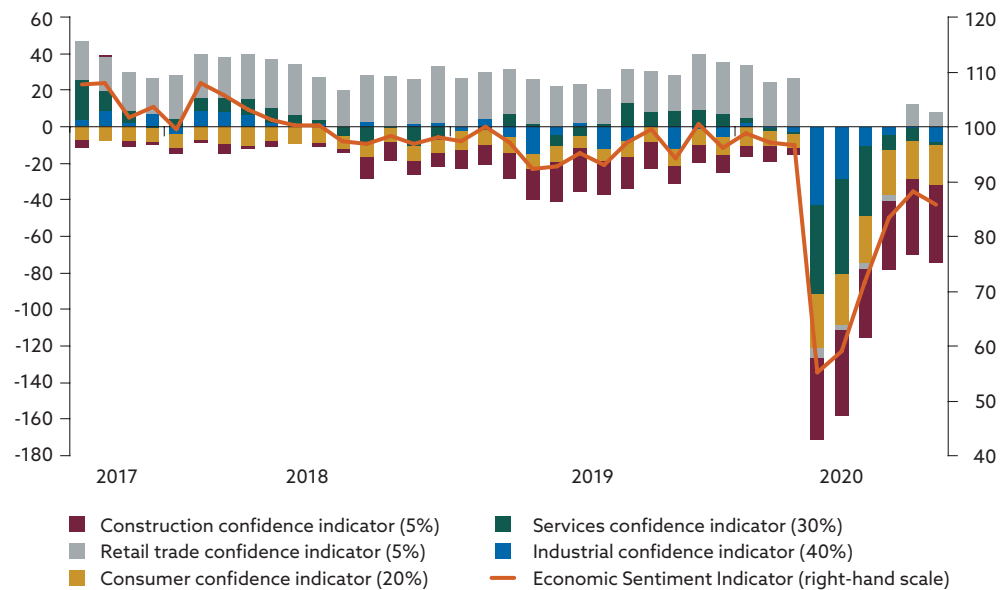
Source: NBS calculations.

Although the situation in travel services improved slightly during the summer months, the approach of autumn and the retightening of containment measures in response to the second wave of the pandemic imply further downside risks to the outlook. If the measures continue during the winter holiday season and people remain wary of travelling, the liquidity problems could become more severe and pose a threat to a greater than expected number of businesses.

The recent uptrend in the Economic Sentiment Indicator for Slovakia came to a halt in September. Compared with the previous month, the ESI fell by 2.3 points, to 85.9 (Chart 11), as a result of declines in all sub-indicators apart from services confidence. Since the survey was conducted in the first half of September, it did not yet reflect the uncertainty surrounding the rising second wave of the pandemic.

Chart 11

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



Source: European Commission.

Box 2

Qualitative assessment of economic sentiment

This box aims to explain economic sentiment developments during the recent period. The main message is that while the summer saw an improvement in sentiment, the onset of autumn is bringing not just damper and chillier weather, but also increasing gloom to the economy. Sentiment is considerably heterogeneous across economic sectors and sub-sectors. Given the arrival of the second wave of the pandemic and adoption of stricter containment measures, we expect a downturn in sentiment to be highly likely, especially in the services sector.

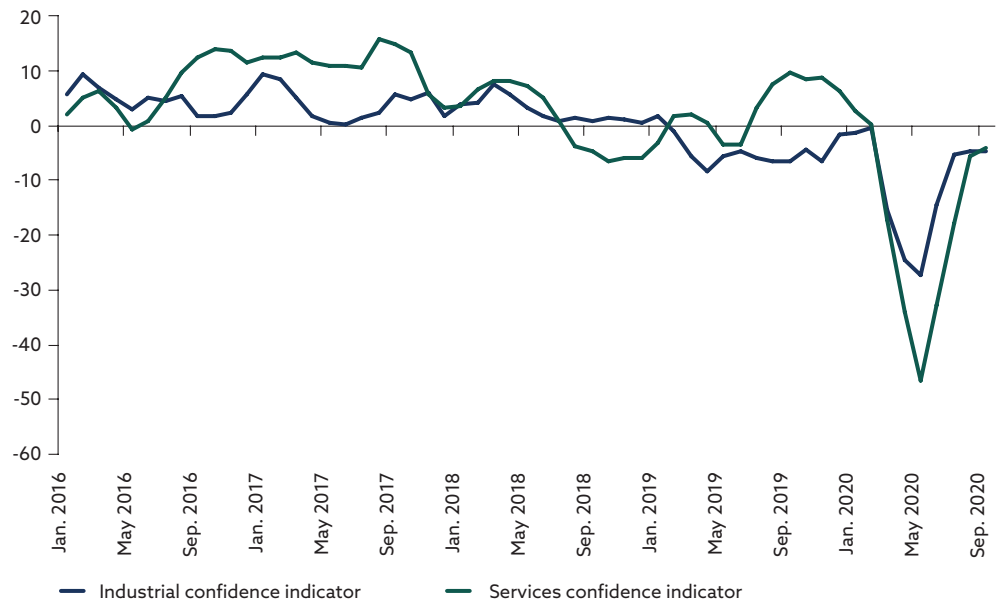
After plummeting at the start of the pandemic, economic confidence in Slovakia rebounded almost to its early-year level amid a relatively rapid recovery of economic activity. Compared with the second quarter, managers in all economic sectors see the economic situation in a less pessimistic light, and among the respondents in the retail trade sector, assessments were largely optimistic.

Industry confidence has recovered quite quickly on the back of the revival of global trade and global value chains (Chart A). The increase in new orders, which started to appear back in May, supported favourable production expectations and firms' improved assessment of demand for their production (Chart C). As a result, sentiment began to approach pre-crisis levels in the summer months, as was reflected in favourable export expectations (Chart B). The situation across industry is, however, heterogeneous. While the food industry performed well during the first wave of the crisis, it is the car industry and certain industries producing durable consumer goods that have benefited most from the recovery. The car industry was meeting pent-up demand during the summer, and certain other sub-sectors were profiting from the ways in which households have adapted to the current circumstances. For example, the rising number of people working from home stimulated demand for household appliances, which benefited also domestic producers of, and domestic suppliers of components for, household appliances and office equipment. Firms

found access to financing to be significantly more difficult during the pandemic. In the summer months, firms were reporting fewer financing constraints, but these firms were still more numerous than those which had no difficulty in obtaining funding from foreign parent undertakings.

Chart A

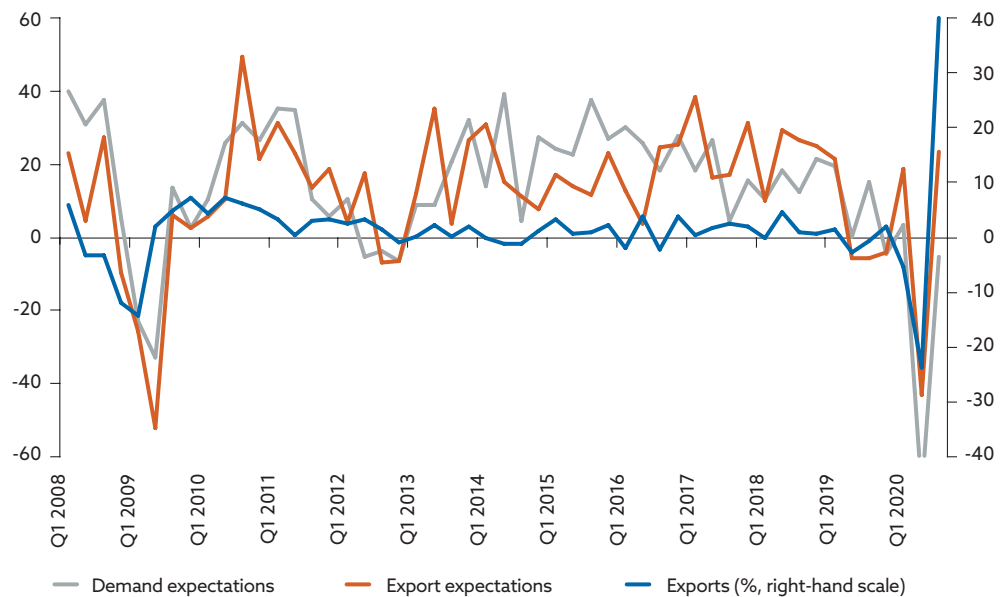
Components of the Economic Sentiment Indicator (three-month moving average; percentage balances)



Sources: European Commission, and NBS calculations.

Chart B

Expectations for exports and overall demand (percentage balances) vis-à-vis real exports (quarter-on-quarter percentage changes)

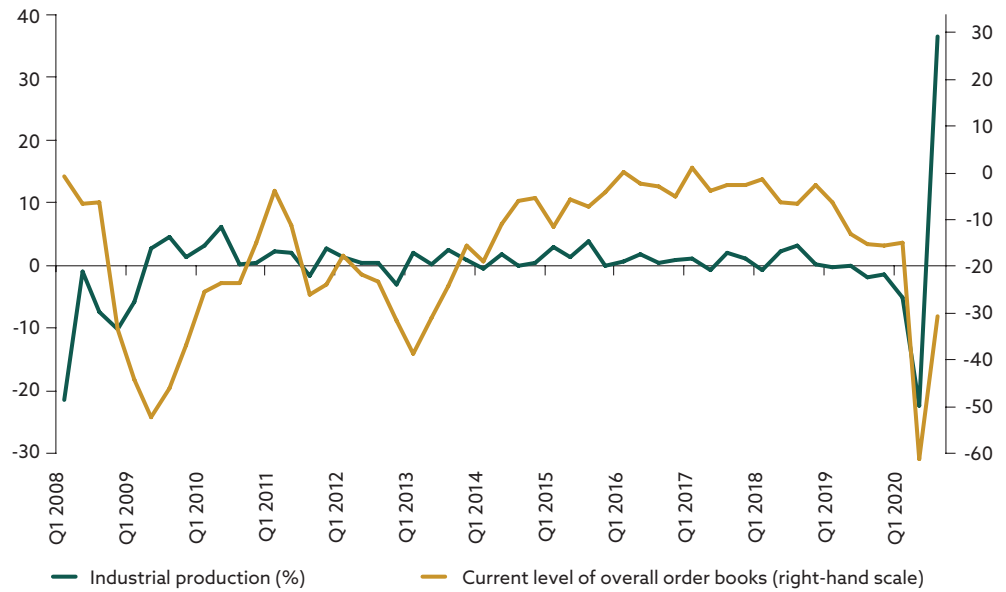


Sources: European Commission, SO SR, and NBS calculations.

Note: Exports for Q3 2020 are the average for July and August.

Chart C

Level of demand (percentage balances) vis-à-vis industrial production
(quarter-on-quarter percentage changes)



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

Note: Industrial production for Q3 2020 is the average for July and August.

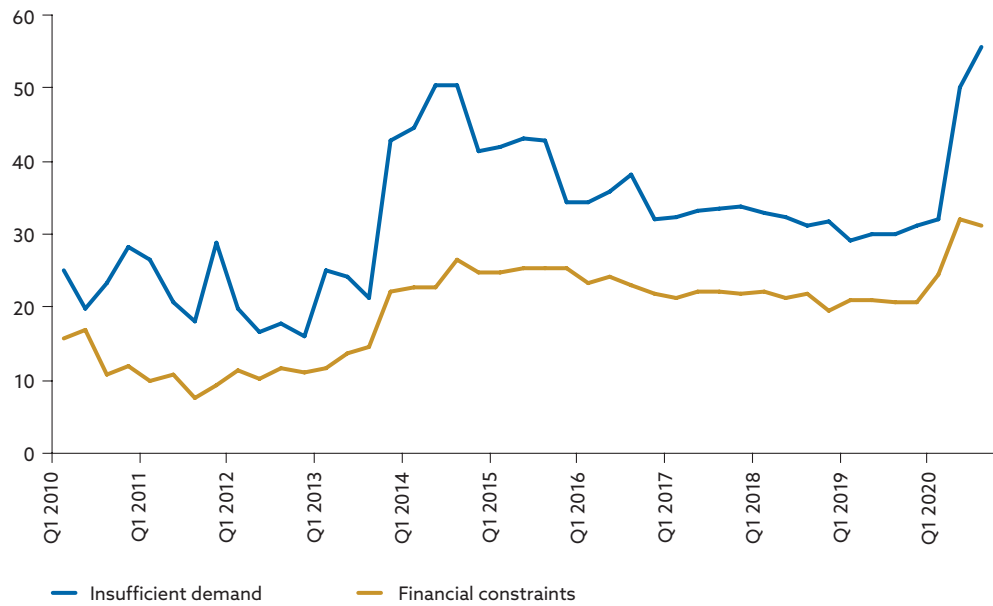
Industrial production and sales have now almost returned to their start-of-year levels. At the same time, sentiment has improved and outlooks based on labour market indicators have become less pessimistic. Although rationalisation measures in the industry sector have been a continuing trend since early 2019, most firms still expect to be laying staff off rather than hiring. Like production assessments, sentiment among firms is relatively varied across sectors. Firms whose production is going well are looking to rehire staff. Some firms are taking on more people than they laid off during the crisis, because they see a risk of rising absences if containment measures are reapplied as strictly as they were applied in spring of this year.

After showing initial signs of recovery in June, services confidence increased appreciably during the third quarter of the year. Even so, confidence remains low compared with its 2019 level. The increase in optimism was caused by the return of businesses to normal operation and to the summer holiday season, which had a positive impact in particular on assessments of current and expected demand. Relative satisfaction in the third quarter was most prevalent among respondents in the transportation industry and in the accommodation and food service activities industry, which were worst affected by the pandemic containment measures. The factor that is proving the greatest constraint to the business activity of services firms continues to be insufficient demand (Chart D). Services firms also have relatively unfavourable assessments of financial conditions. This is probably because banks are assessing services firms as higher risk on the grounds that these firms are more exposed to the negative repercussions of the pandemic containment measures. This raises the question of whether the government guarantee programme is providing sufficient assistance. This issue is addressed in Box 4.

Sales losses in the services sector were reflected in redundancies (around 12 thousand people lost their job in the first half of the year). Despite the improvement in sentiment and recovery of sales in most services sub-sectors (except for accommodation), firms' employment expectations remain pessimistic (Chart E).

Chart D

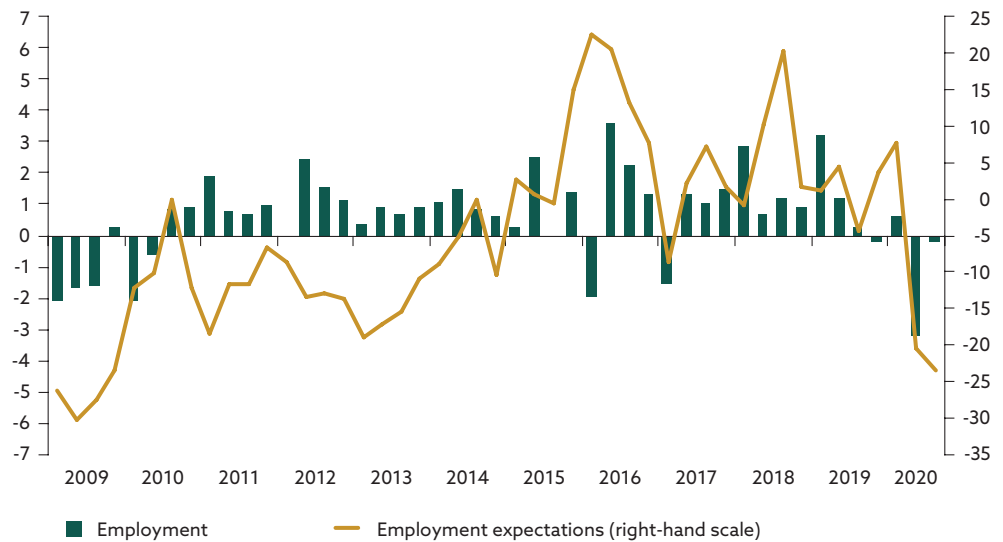
Factors limiting service sector business (percentages)



Source: European Commission.

Chart E

Employment expectations (percentage balances) vis-à-vis employment (annual percentage changes) in the services sector



Sources: European Commission, SO SR, NBS calculations.

Note: Employment for Q3 2020 is the average for July and August.

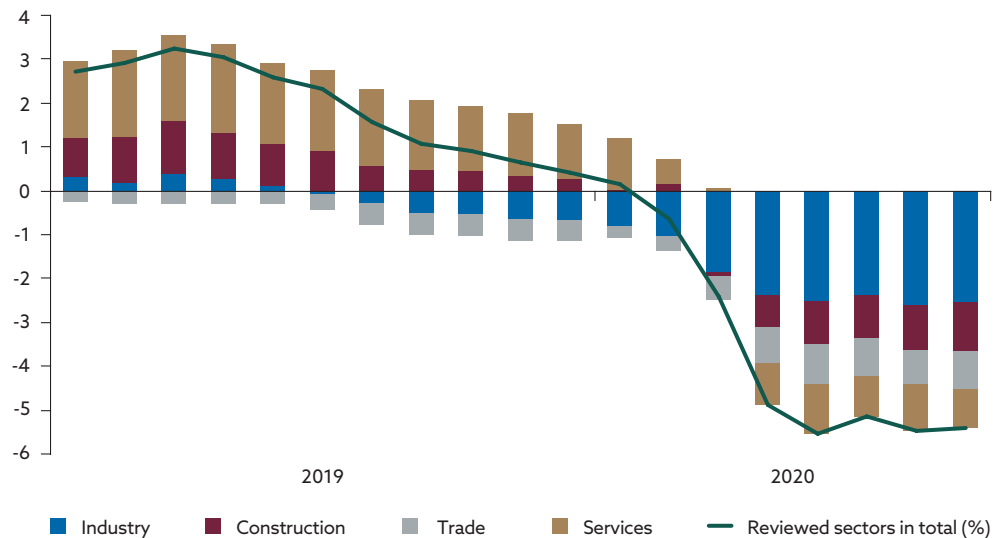
Although conditions and economic sentiment have developed promisingly in recent months, the rising second wave of the pandemic and imposition of stricter containment measures are bringing uncertainty, particularly to expectations for demand (domestic and foreign) and to employment expectations. It is therefore assumed that these concerns will be to some extent captured by October's survey, which respondents completed earlier in the month.

3.2 Labour market

Employment in the sectors under review continued its moderate downtrend in August. Compared with August 2019 there were almost 77 thousand fewer jobs, which represented a decline of 5.4% (Chart 12). Almost all sectors contributed to the month-on-month slowdown in employment growth, and industry – recording its sixteenth successive month-on-month decline in employment – had the largest negative impact. In March and April, in the wake of supply chain disruptions and the implementation of the first pandemic containment measures, the decline in industrial employment was most severe. Construction employment also fell in August, while employment in the trade sector remained broadly unchanged. In the services sector there was a slight month-on-month increase in employment, which included some rehiring of workers laid off during the height of the pandemic crisis, especially in the lodging industry (where employment rose by 3.6%). Although economic activity increased in the summer months, employers remain cautious about new hiring and are rationalising their businesses.

Chart 12

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



Sources: SO SR, and NBS calculations.

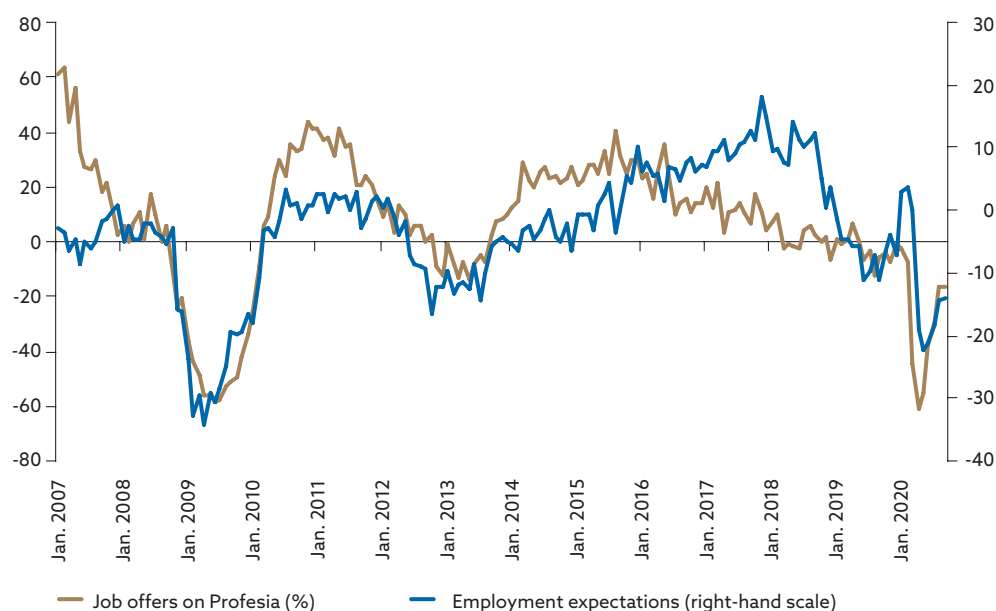
Note: The trend shown by monthly data is indicative; monthly data are an imperfect indicator of the complete quarterly data.

Leading indicators in September point to a continuing uptrend in the labour market (Chart 13). Employers' expectations for job creation are improving, but they remain pessimistic and their rate of improvement slowed significantly in September. In services, the sector hardest hit by the pandemic crisis, employment expectations are already deteriorating. In September they fell sharply, and pessimism about employment in the sector increased almost to its level during the first wave of the pandemic. A similar trend could

be seen in the number of service sector job vacancies in September, as their month-on-month growth rate – strong in previous months – eased to 3.0%.

Chart 13

Selected labour market indicators (annual percentage changes; index)



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

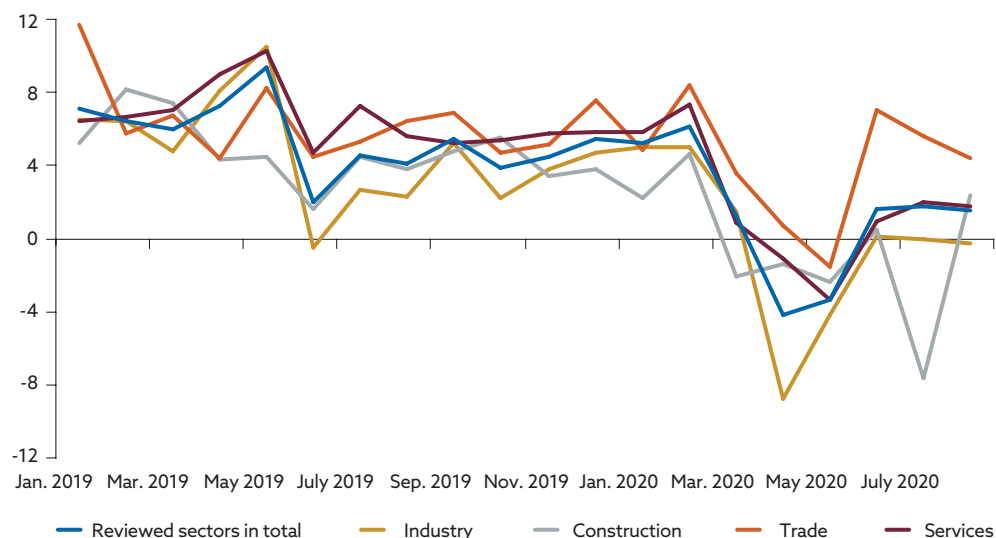
The unemployment rate fell in September by 0.18 percentage point month on month, to 8.1% (representing a drop of almost five thousand people). The rate of decrease in the unemployment rate therefore accelerated in September. The number of jobseekers leaving the unemployment rolls, mainly because of finding work, was relatively high. On the other hand, the number of new jobseekers remained flat in September. The average unemployment rate for the third quarter was 8.2%, up from 7.9% in the second quarter).

Average annual wage growth slowed moderately in August. Across the sectors under review (Chart 14), wage growth moderated to 1.5% in August (from 1.8% in July). Among key sectors and sub-sectors, the strongest wage growth was in retail trade, food services activities, and wholesale trade, while wages declined in accommodation services and transportation. In accommodation services, the rate of decrease in wages was more moderate compared with the previous month. Overall, wage growth in both the services and trade sectors remained relatively strong in August. In trade, favourable sales results had an upward impact on wages, which approached their pre-crisis level. In manufacturing industry, wages fell in such key sub-sectors as the car industry, machinery and equipment industry, and metal industry. In industry as a whole, despite a relatively strong pick-up in activity, wages were not yet back to their level of the last quarter of 2019. Across the sectors under review, the average wage in September was close to its end-2019 level (Chart 15).

Average wage growth in the economy as a whole is expected to have rebounded in the third quarter, performing moderately better than projected in NBS's September forecast.

Chart 14

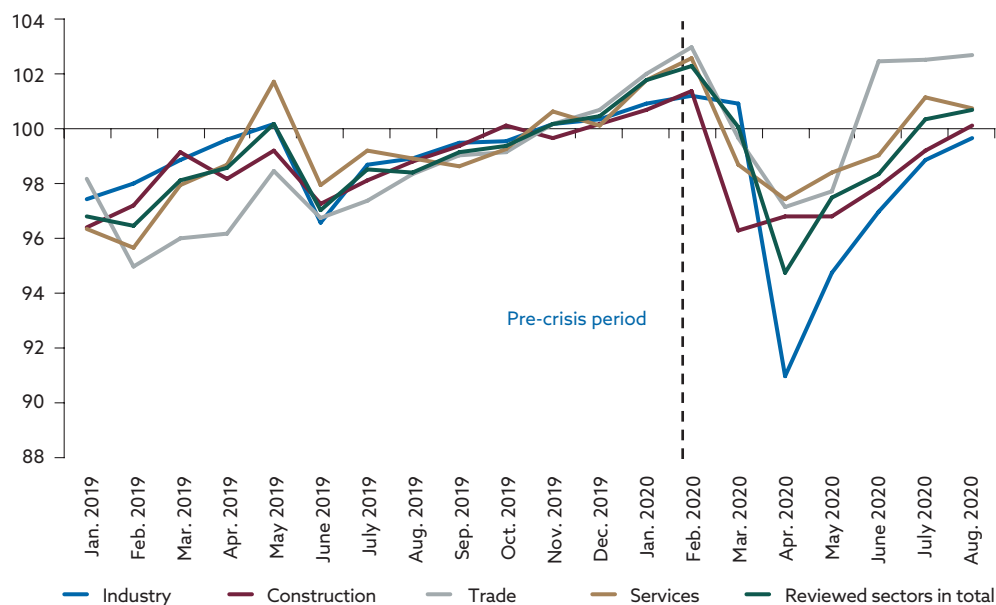
Average wage levels according to monthly data (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 15

Wage levels since the onset of the coronavirus crisis (index, Q4 2019 = 100)



Sources: SO SR, and NBS calculations.

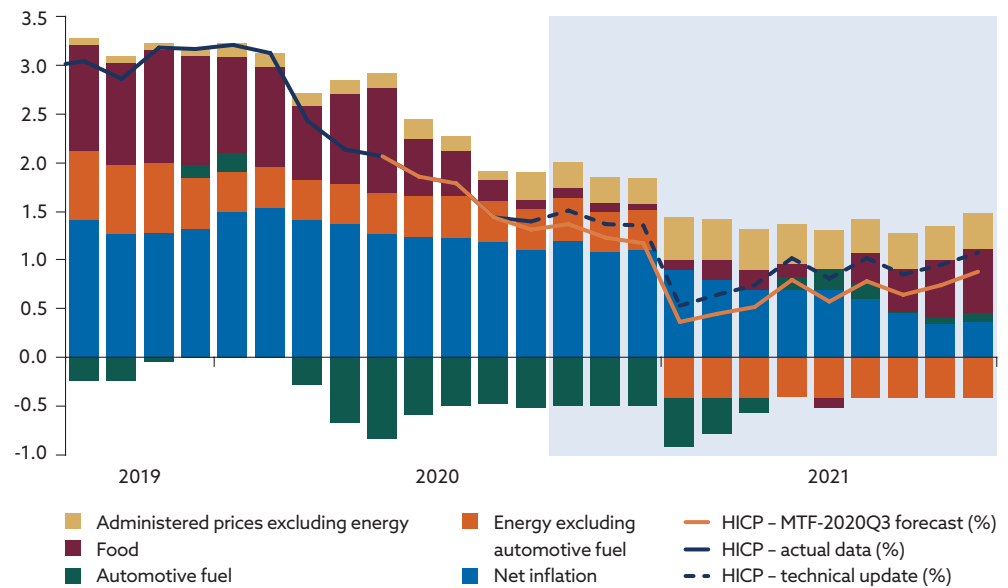
3.3 Prices

Slovakia's annual HICP inflation was 1.4% in September (Chart 16), the same as its level in August. Net inflation² slowed to 2.2%.

² Net inflation is headline HICP inflation excluding energy, food, automotive fuel, and administered prices.

Chart 16

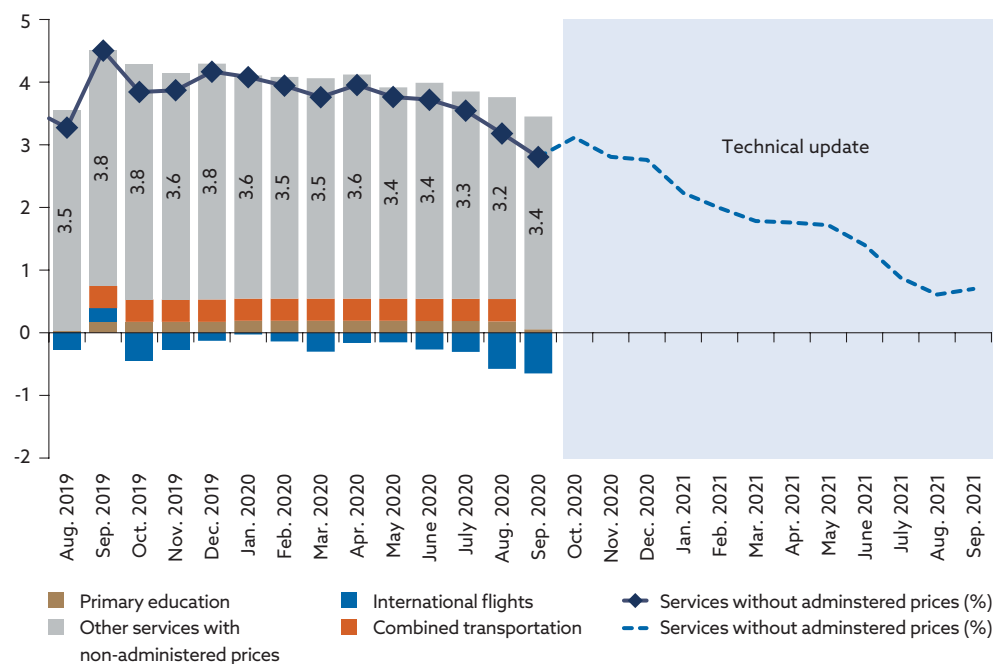
HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 17

Non-administered prices of services (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Net inflation slowed in September, owing largely to developments in services prices, in particular the fading of the impact of the September 2019 increase in combined transport prices. Services inflation excluding air transport and combined transport has been stable since May. The current

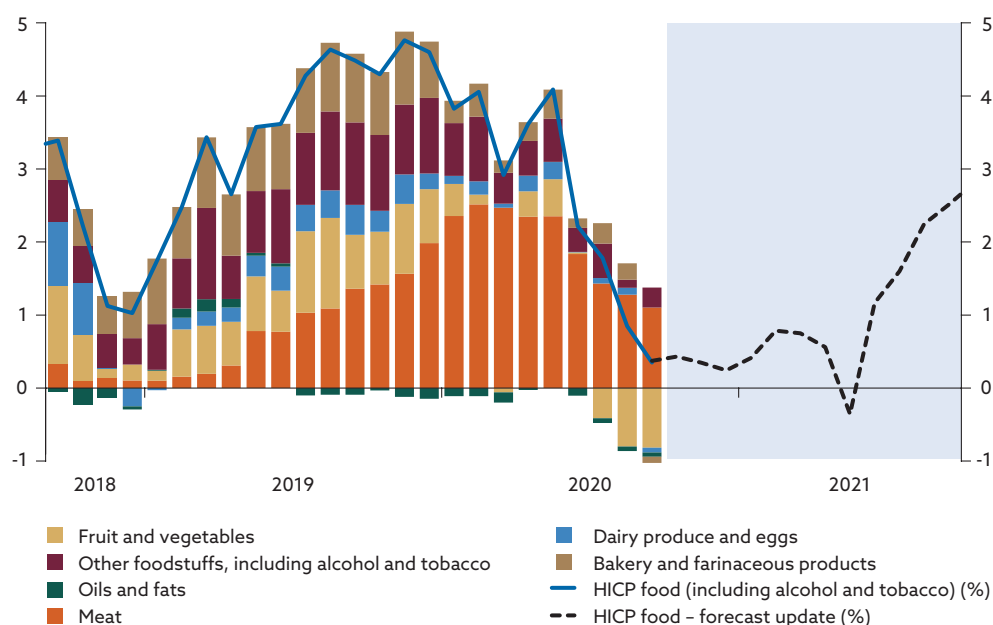
tightening of pandemic containment measures is adding great uncertainty to service price projections for the period ahead (Chart 17). The weakness of household consumer demand will have a dampening effect on services prices, and it is expected that slower wage cost growth in the services sector will add to that effect. On the other hand, the application of stringent and blanket measures in the services sector may act as a supply side constraint in the medium term and keep the price decline in check.

Despite its continuing downtrend, net inflation is higher than expected. This partly reflects increasing prices of non-durable industrial goods (pharmaceutical preparations and products, household goods). Industrial goods inflation is nevertheless expected to decelerate, as implied by low import price inflation in euro area countries and the decline in consumer demand (partly reflected in the weakening of demand for consumer loans).

Food prices continued to fall in September in month on month terms. Since May, the food component has been the main cause of the slowdown in headline inflation (Charts 18 and 19). The food price decline has reflected, inter alia, the fading of a meat price supply shock and the recent decline of agricultural commodity prices in Europe. Annual food inflation is expected to remain subdued until mid-2021.

Chart 18

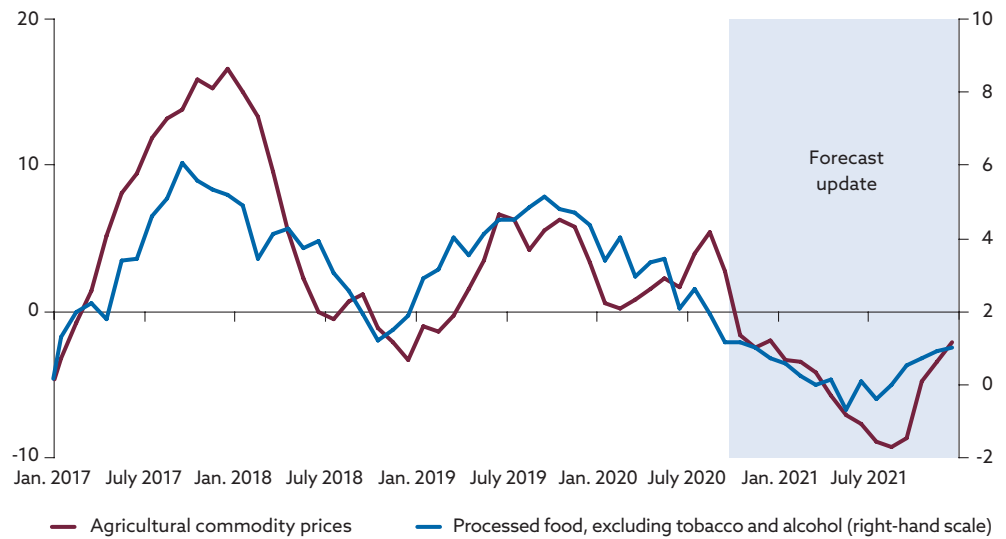
Food inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 19

Prices of processed food and agricultural commodities (annual percentage changes)



Sources: SO SR, and NBS calculations.

Consumer energy (gas and electricity) prices are expected to fall at the start of 2021, and their decline is expected to contribute to a further significant slowdown in headline inflation.

Box 3

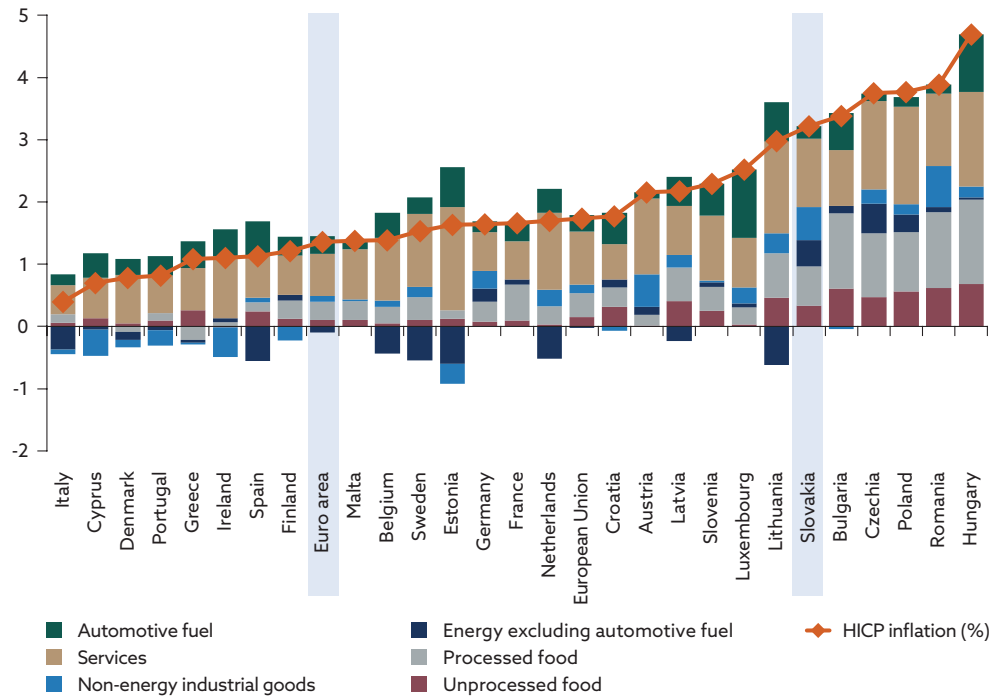
Analysis of the inflation slowdown and how it compares with developments in the rest of the euro area

Through a combination of supply and demand effects, the COVID-19 pandemic has had a negative impact on headline inflation in Slovakia and other euro area countries. But while average inflation in the euro area as a whole has entered negative territory, inflation in Slovakia has remained positive. Slovakia therefore has a higher headline rate, but the trend and extent of its deceleration is similar to the movement of the euro area inflation rate.

Slovakia's inflation is higher than the euro area average across all key components. It also reflects the previous acceleration of wage growth, which had an upward impact on prices of services and industrial goods. The rigidity of administered energy prices is also contributing to the current higher inflation. The decline in commodity prices in the first half of this year is expected to pass through to administered energy prices, which should decelerate from January of next year. Another contributor to the higher headline inflation is the decline in the share of expenditure on automotive fuel.

Chart A

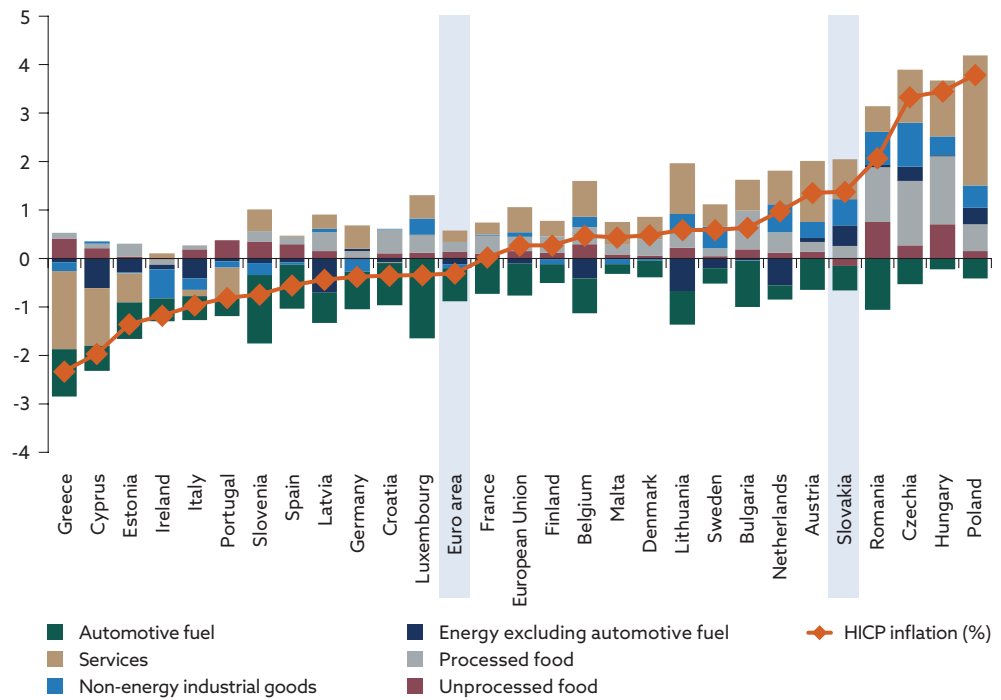
HICP inflation and its components in January 2020 (annual percentage changes and percentage point contributions)



Sources: Eurostat, and NBS calculations.

Chart B

HICP inflation and its components in September 2020 (annual percentage changes and percentage point contributions)



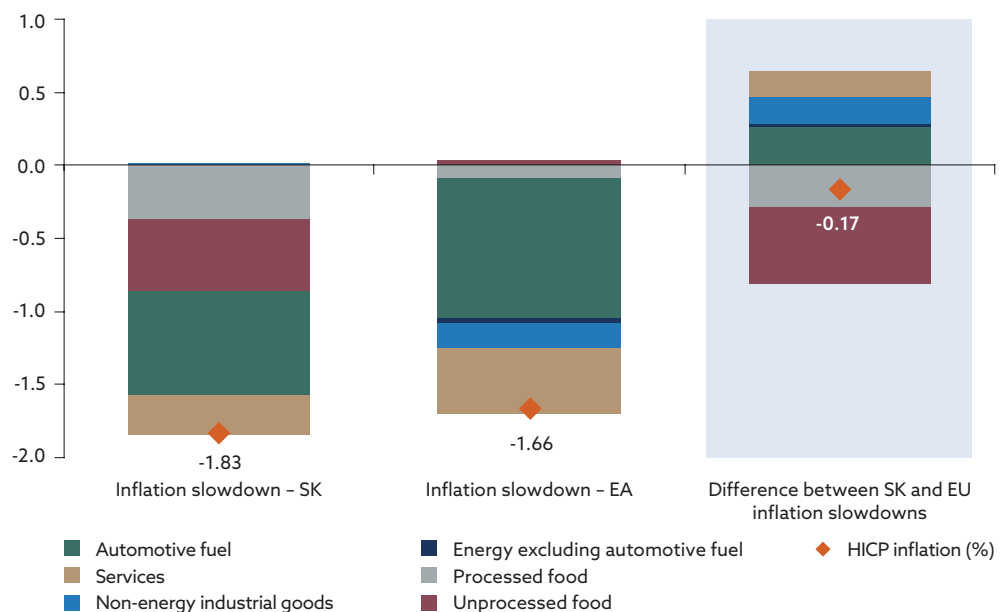
Sources: Eurostat, and NBS calculations.

Headline inflation in Slovakia was higher than the euro area average both in January and in September. Nevertheless, the cyclical position in all euro area countries is expected to be broadly similar, given the presence of a global shock in the form of the pandemic. The pass-through of the consumer demand decline to price developments is not expected to be the same across countries. It is noteworthy that Slovakia's neighbouring countries are also reporting high inflation and that even in September the average inflation rate in these countries was still above 3%. A common feature of headline inflation in central European countries is the sizeable contribution of services prices and, to a lesser extent, non-energy industrial goods prices. In these countries, it is likely that cost factors are more prevalent in the services sectors. Industrial goods prices reflected the exchange rate impact resulting from currency depreciation.

Between January and September, headline inflation slowed slightly faster in Slovakia (by 1.83 percentage points) than in the euro area as a whole (by 1.66 percentage points). That the slowdown in Slovakia was more pronounced was largely due to a sharper drop in processed and unprocessed food prices and to the fact that the weight of the food component in the consumption basket is larger in Slovakia than in the euro area on average. Conversely, the lower weight of automotive fuel prices in the Slovak consumption basket had a moderating effect on the slowdown of Slovakia's inflation. The weakening of consumer demand during the pandemic was a major reason for the deceleration of inflation in Slovakia and other euro area countries.

Chart C

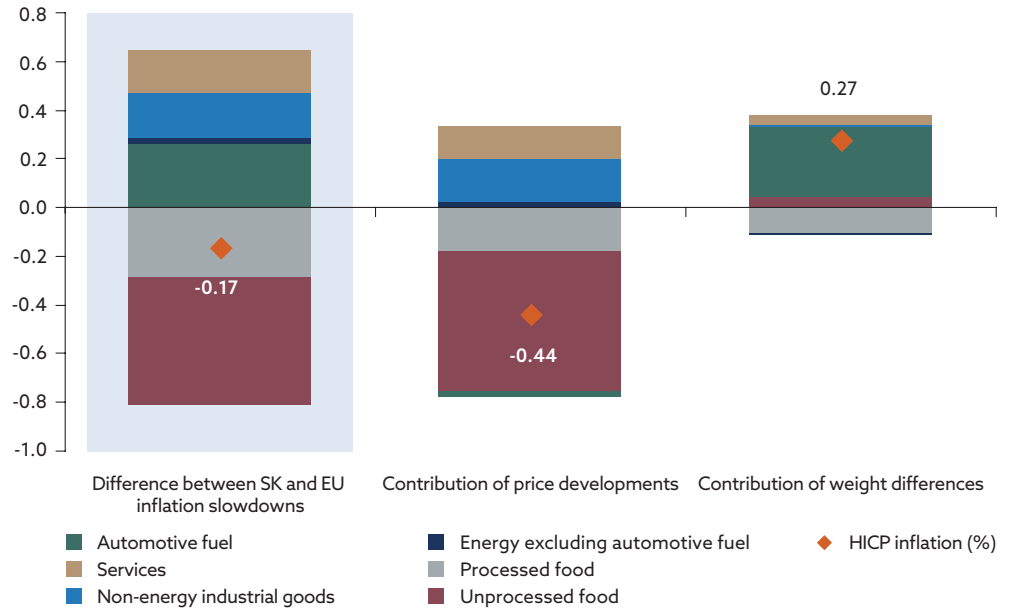
Inflation slowdown between January and September 2020 in Slovakia and in the euro area on average (percentage points)



Sources: Eurostat, and NBS calculations.

Chart D

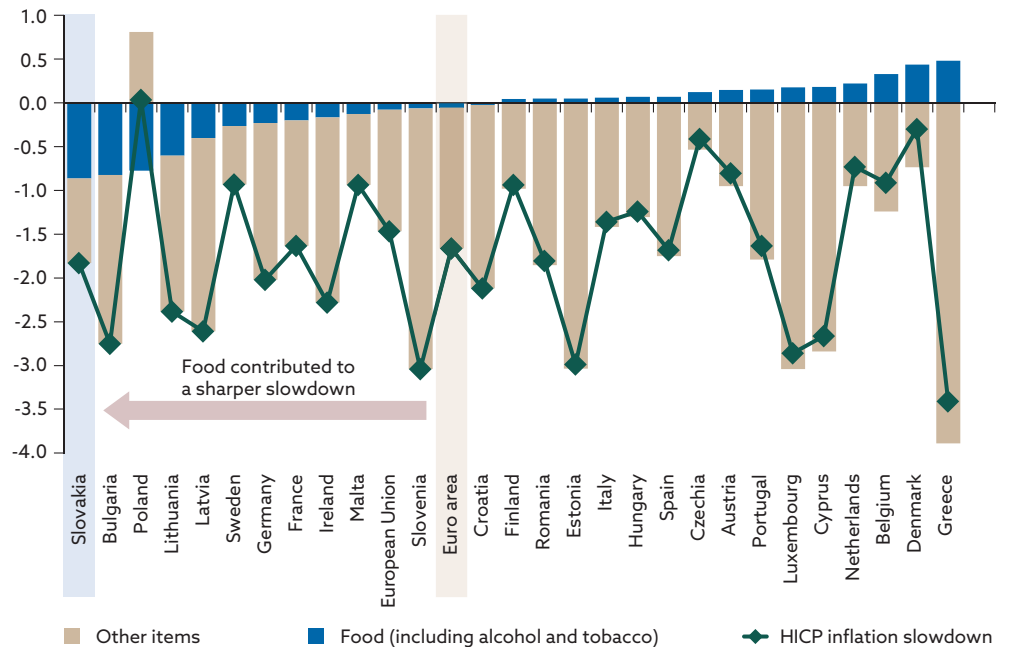
Breakdown of the difference between the inflation slowdown in Slovakia and in the euro area on average between January and September 2020 (percentage points)



Sources: Eurostat, and NBS calculations.

Chart E

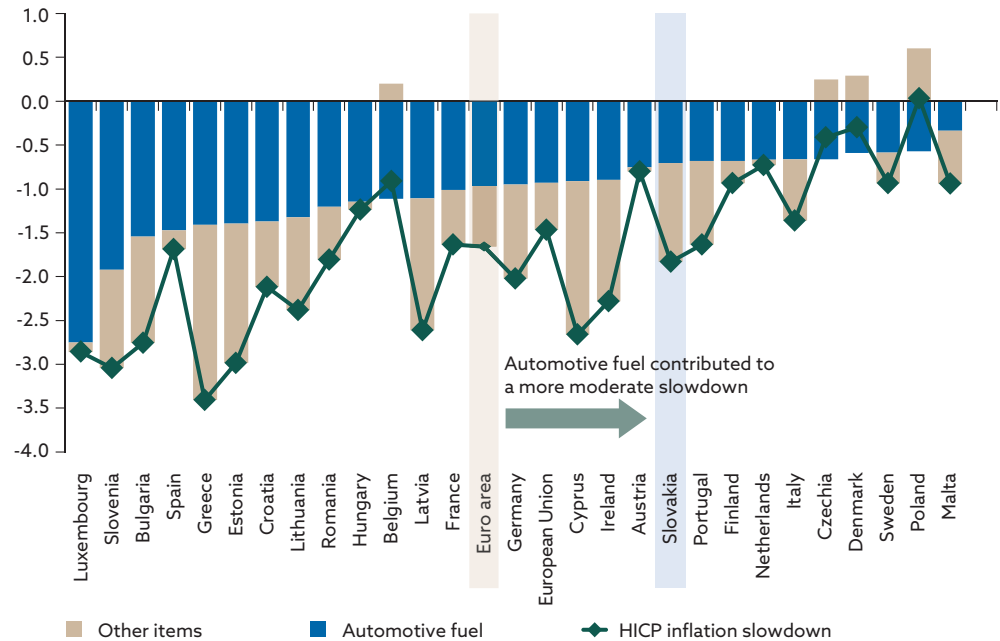
Impact of food prices on the inflation slowdown between January and September 2020 (percentage points)



Sources: Eurostat, and NBS calculations.

Chart F

Impact of automotive fuel prices on the inflation slowdown between January and September 2020 (percentage points)



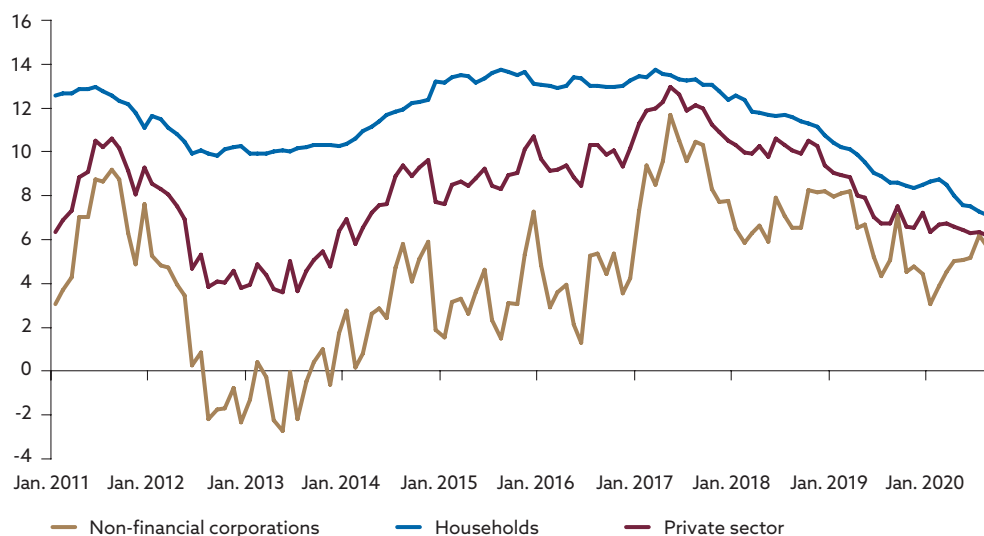
Sources: Eurostat, and NBS calculations.

3.4 Loans and deposits

Annual growth in loans to the private sector is decelerating (Chart 20). Nevertheless, the flow of loans to non-financial corporations (NFCs) in August was the second-highest monthly flow of NFC loans since February, standing at €173 million. There was an acceleration of lending to firms in the trade, construction, and transportation and storage sectors, probably supported by the roll-out of government guarantee schemes. NFC loan growth also continued to be driven by business financing needs resulting from reduced cash flows. Among euro area countries, NFC loan growth in Slovakia was the ninth highest in August (Chart 21), below the euro area average. August saw strong NFC loan growth in almost all large euro area countries (notably so in France), mainly because of the increased uptake of government-guaranteed loans. The share of these loans in total new loans was more than 60% in some countries.

Chart 20

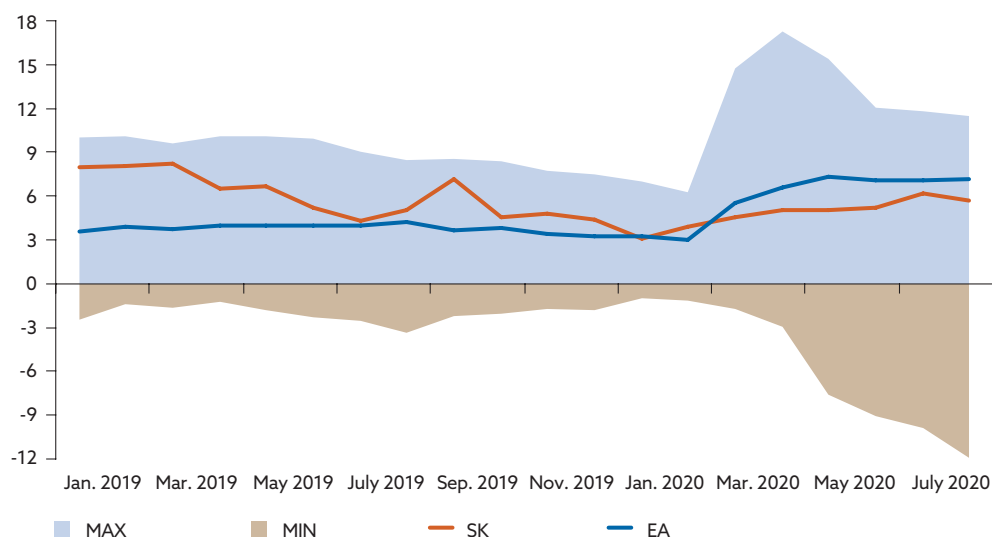
Total loans (annual percentage changes)



Sources: ECB, and NBS calculations.

Chart 21

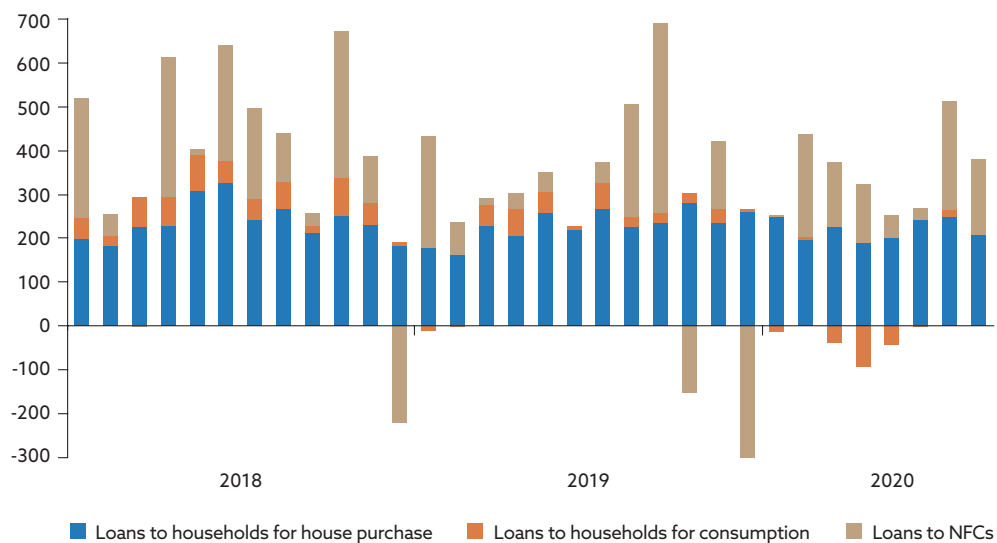
Total loans to NFCs in the euro area (annual percentage changes)



Sources: ECB, and NBS calculations.

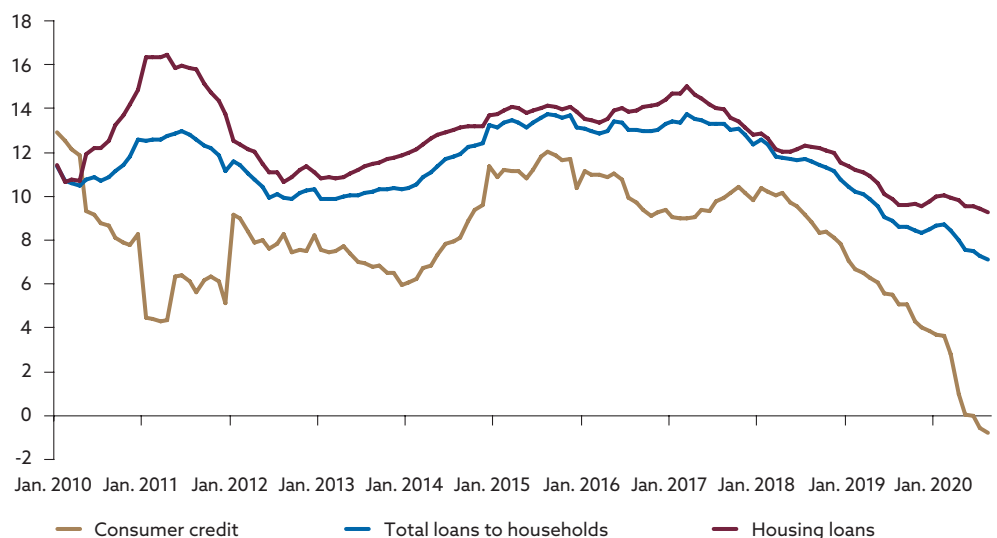
The gradual decelerating trend in total loans to households continued in August. Their annual growth rate fell to 7.1%, reflecting the impact of the trend decline in consumer credit (Chart 22). This decline stems from the climate of uncertainty and to some extent from rising lending rates. The flow of housing loans remained relatively strong, with an annual growth rate of 9.3% (Chart 23).

Chart 22
Monthly flows of loans (EUR millions)



Source: ECB.

Chart 23
Loans to households (annual percentage changes)

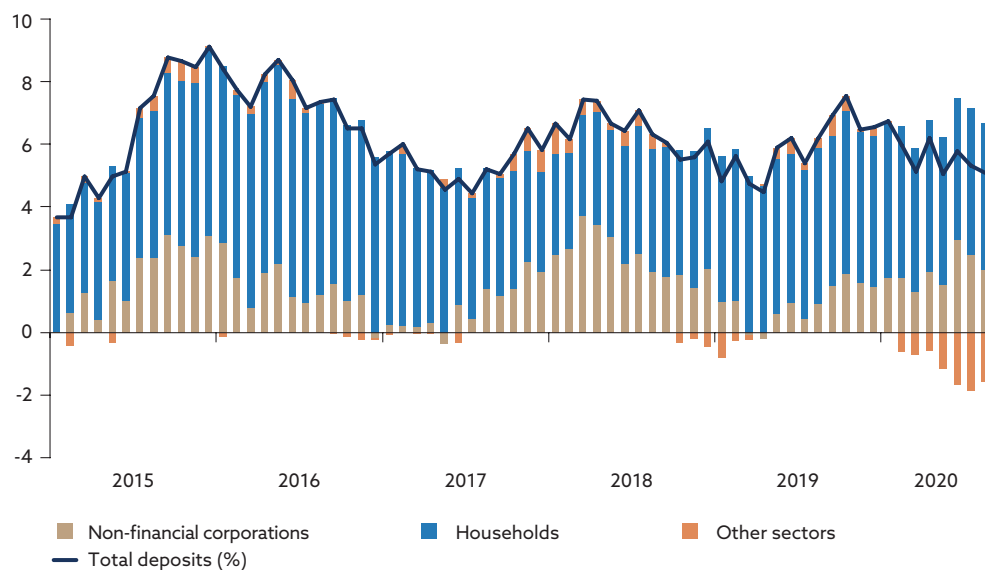


Source: ECB.

As regards private sector deposits, their annual growth in August was similar to that in previous months (Chart 24). NFC deposit growth slowed, most notably among firms dependent on domestic demand. This slowdown was particularly apparent in the trade sector and the transportation and storage sector, despite an acceleration of lending to firms in these sectors. Furthermore, wholesale trade sales also slowed sharply in August. Household deposit growth remained the same as in the previous month.

Chart 24

Total deposits (annual percentage changes; percentage point contributions)



Sources: ECB, and NBS calculations.

Box 4

What is the uptake like for government-guaranteed loans and who are they going to?

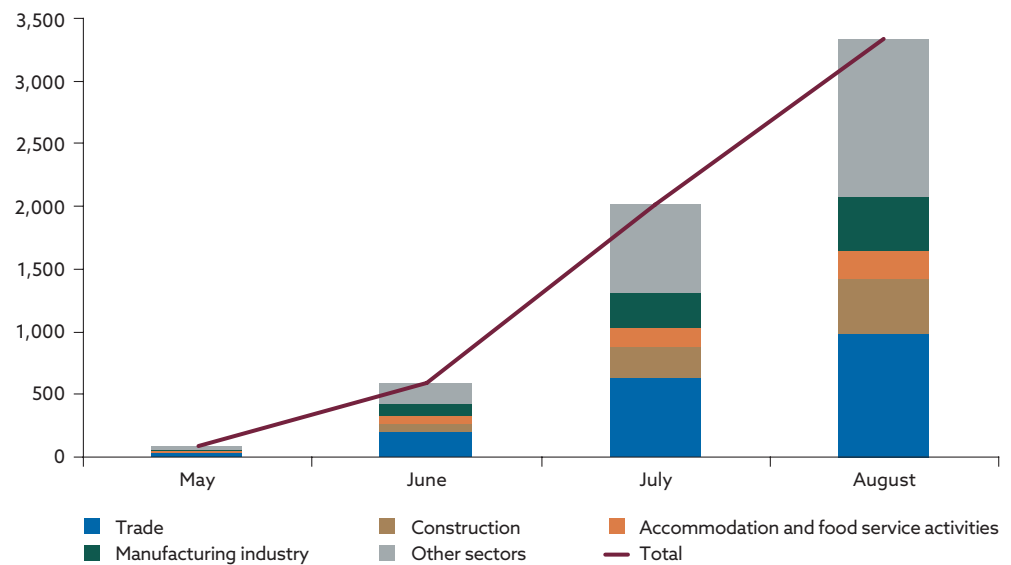
Among the pandemic relief measures implemented by governments in EU countries are government-guaranteed loans. These loans have been one of the main tools employed by European countries to mitigate the liquidity shock that hit firms in the first wave of the pandemic. In Slovakia, this measure has been implemented as the so-called large guarantee scheme, divided into two stages. In the first stage, government-guaranteed loans were offered to small and medium-sized enterprises; in the second stage, the scheme was extended to large enterprises. The purpose of the scheme is to assist firms and sole traders that have been adversely affected by the pandemic crisis and, at the same time, were not facing financial difficulties at the end of 2019. This box examines the extent of the uptake of government-guaranteed loans and whether they are finding their way to the worst affected sectors of the economy. The data indicate that these loans are being received mainly by firms and businesses in the industry and trade sectors. This implies that the hardest hit sector – services – is not yet getting significant liquidity support through this channel. The question, however, is whether this is caused by banks' reluctance to lend to this sector or by services firms' unwillingness or inability to borrow. What provides some optimism for the future is that the maturities of these loans are mostly long term.

Firms' demand for bank loans increased in July and August, as they sought to bridge liquidity gaps caused by the pandemic crisis. The demand increased mainly because firms' capacity to finance their costs via cash flows had been reduced by falling sales. This resulted in acute needs for working capital finance. Given the uncertainty about the future progress of the pandemic crisis and related government measures, firms were also seeking to build up liquidity buffers. The recent growth in loans to non-financial corporations (NFCs) is partly attributable to the government guarantees.

The inflow of applications for government-guaranteed loans was slow to begin with. In May there were 92 applicants, but by the end of August the number had increased to more than 3.3 thousand (Chart A) and the total amount of loans applied for was more than €254 million. The available data show that demand for these preferential bridging loans has come from a broad spectrum of enterprises, including small traders and the smallest firms at one end, and medium-sized and larger enterprises at the other.

Chart A

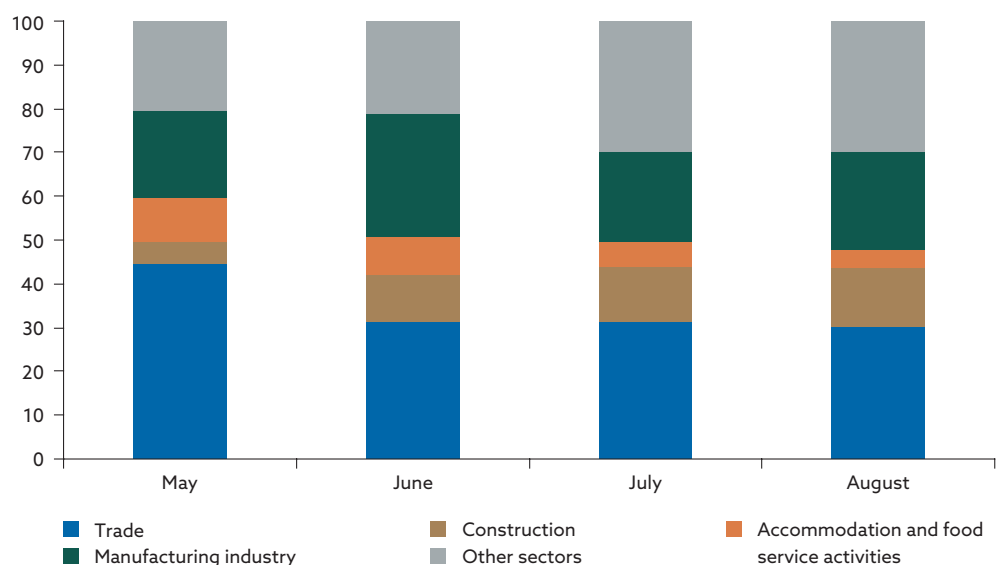
Number of applicants for government-guaranteed loans (cumulative)



Source: NBS calculations.

Chart B

Total government-guaranteed loans broken down by NACE sector (percentages)

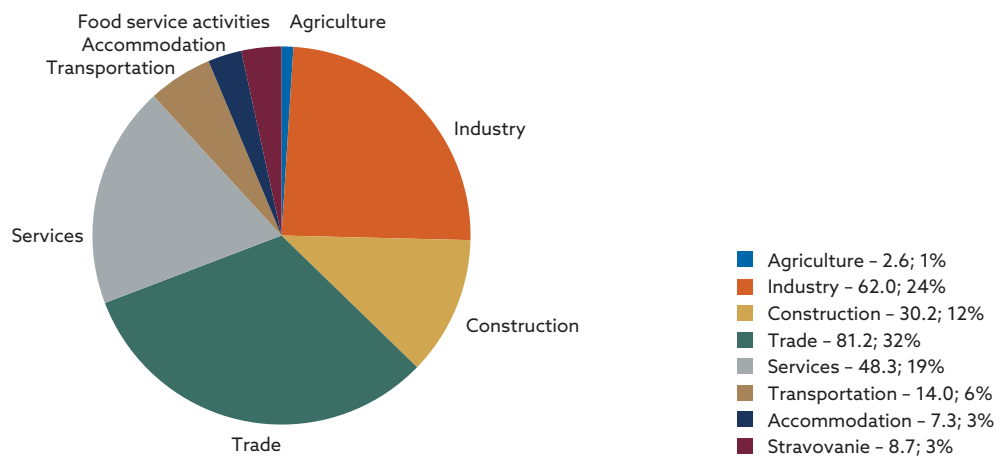


Source: NBS calculations.

The main beneficiaries of these guaranteed loans have been firms in the trade and manufacturing industry sectors. Their combined share in the volume of the loans averages 57%. The uptake by firms in the category of other sectors increased significantly in August, and a large share of those applicants were operating in the transportation and storage sector and in the sectors of other professional activities and administrative and support service activities. These sectors include various consultancy services, services related to advertising and the organisation of conventions, and business support activities. The increase in their share was probably related to the greater impact that the pandemic containment measures had on their business activity, as well as on the reduced use of advertising services and various support services as a result of firms seeking to cut costs in these areas.

Chart C

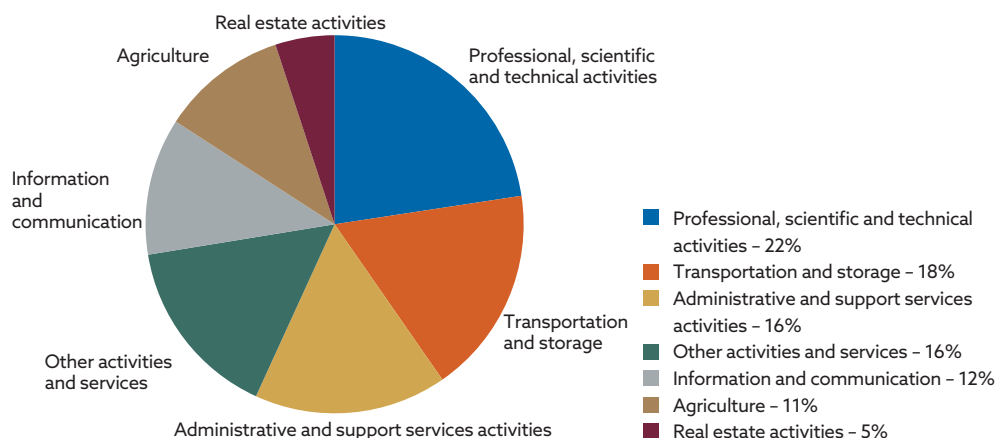
Uptake of government-guaranteed loans broken down by sector (EUR millions; percentages)



Source: NBS calculations.

Chart D

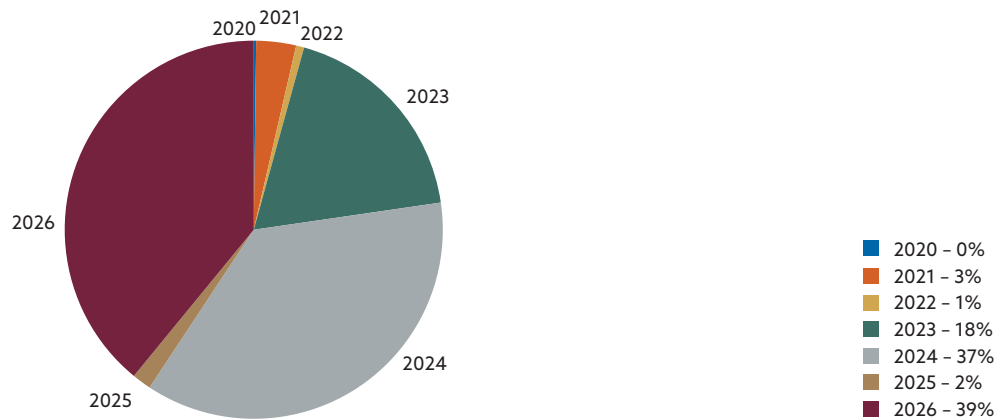
Sectoral breakdown of government-guaranteed loans to firms in the other sectors category in August 2020 (percentages)



Source: NBS calculations.

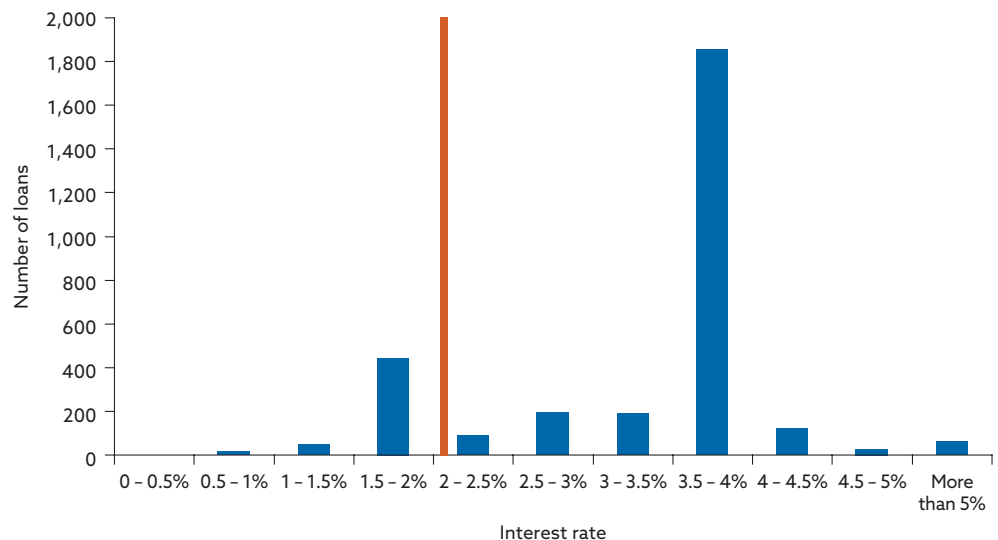
Most of the government-guaranteed loans have a long-term maturity, which is positive from the perspective of macroeconomic stability. Almost 40% of the loans provided mature in 2026, and the second most common maturity is 2024. The borrowing firms have therefore gained something of an operating buffer.

Chart E
Maturities of government-guaranteed loans



Source: NBS calculations.

Chart F
Histogram of interest rates



Source: NBS calculations.

Note: The red bar denotes the average interest rate on all NFC loans between May and August 2020 (2.07%).

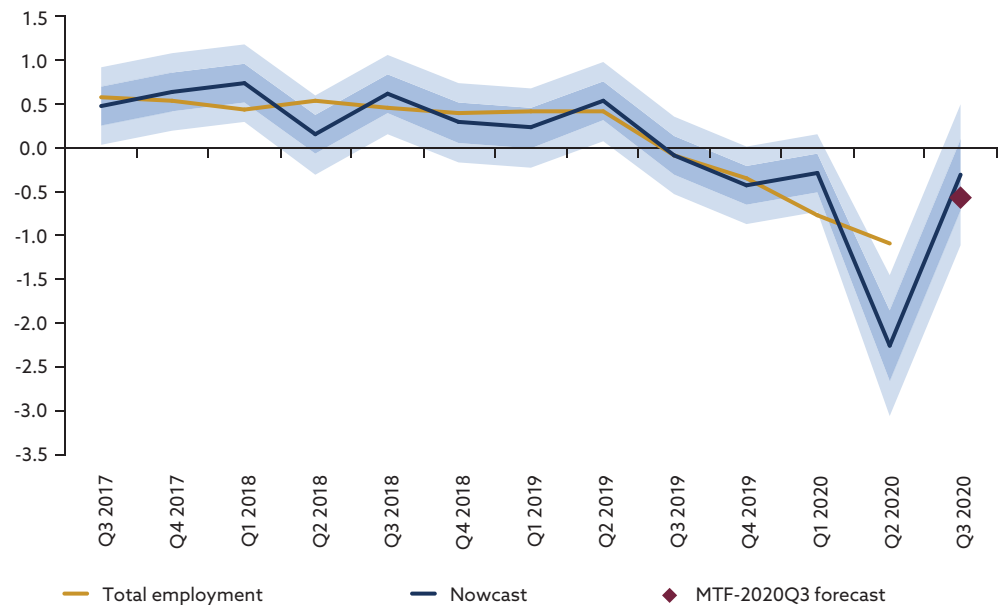
Firms' debt servicing costs for government-guaranteed loans are largely set by law. The lending rate was set at either 1.9% or 3.9% depending on the size of the loan and the type of borrower. It is noteworthy that most of the interest rates on government-guaranteed loans are higher than the average lending rate for NFCs. After meeting statutory conditions, firms should be able to have their interest costs on the loans refunded by the state.

4 Indicative impact on the forecast

The nowcast for employment growth (Chart 25) in the third quarter of 2020 shows a slightly less negative rate than that projected in NBS's September 2020 Medium-Term Forecast (MTF-2020Q3). The slight rise in the nowcast reflected new employment data in July and August for the sectors under review, as well as data from insurers.

Chart 25

Nowcast for employment (quarter-on-quarter percentage changes)³



Sources: SO SR, and NBS calculations.

³ 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](#).

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 | -2.2 | -0.3 | 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 | -2.7 | -1.0 | 1.1195 |
| 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 | -2.2 | -0.4 | 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 | -4.2 | -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 |
| 2020 Q3 | - | 1.5 | - | - | 7.4 | 8.2 | - | - | 85.8 | - | - | - | - | - | - | - | - | - | 1.1689 |
| 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 | - | 5.0 | 6.1 | 0.5 | 0.6 | 98.9 | 7.4 | 6.3 | 3.1 | 8.7 | -95 | - | - | - | - | 1.1100 |
| 2020 Feb. | - | 3.1 | 2.9 | - | 5.1 | 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 | - | 5.3 | 6.3 | -19.6 | -12.4 | 96.7 | 5.7 | 6.7 | 4.5 | 8.5 | -824 | - | - | - | - | 1.1060 |
| 2020 Apr. | - | 2.1 | 1.3 | - | 6.7 | 7.6 | -42.0 | -31.9 | 55.1 | 7.1 | 6.6 | 5.0 | 8.0 | -874 | - | - | - | - | 1.0860 |
| 2020 May | - | 2.1 | -0.6 | - | 7.3 | 8.0 | -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 | -8.4 | -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 | 0.1 | - | 7.5 | 8.3 | -0.8 | -3.1 | 88.2 | 6.4 | 6.2 | 5.7 | 7.1 | -154 | - | - | - | - | 1.1830 |
| 2020 Sep. | - | 1.4 | - | - | 7.3 | 8.1 | - | - | 85.9 | - | - | - | - | - | - | - | - | - | 1.1790 |

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/StatisticsMB1020.xls