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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 GDP flash estimates for the euro area and Slovakia for the third quarter of 2020 confirmed that both economies are experiencing a strong V-shaped recovery. The results exceeded expectations, showing double-digit economic growth on a quarter-on-quarter basis.

Euro area GDP increased by 12.6% compared with the second quarter. The most notable pick-ups in economic activity were in those countries hardest hit by the pandemic crisis. The recovery in German industry made the largest contribution to the overall growth rate. According to monthly data, the other main driver of euro area economic growth, besides industry (boosted by demand from outside Europe), was household consumption. After the previous growth in their savings – both by default as a result of the lockdown and partly owing to precautionary saving – consumers were releasing pent-up demand.

The resurgence of COVID-19 infections across Europe in recent weeks has dampened the outlook, so it may be expected that economic activity will weaken again in the last quarter of this year.

In Slovakia, the economy expanded by 11.7%, quarter on quarter, in the third quarter, leaving GDP at just 2.8% below its pre-crisis level. The main contributors to that growth are expected to have been household consumption and net exports. Household consumption of services rebounded, and consumption expenditure on goods maintained its strong uptrend. The car industry performed particularly well, with its exports surpassing their pre-crisis level. As in the euro area as a whole, however, GDP growth in the fourth quarter is expected to be checked to some extent by the second wave of the pandemic.

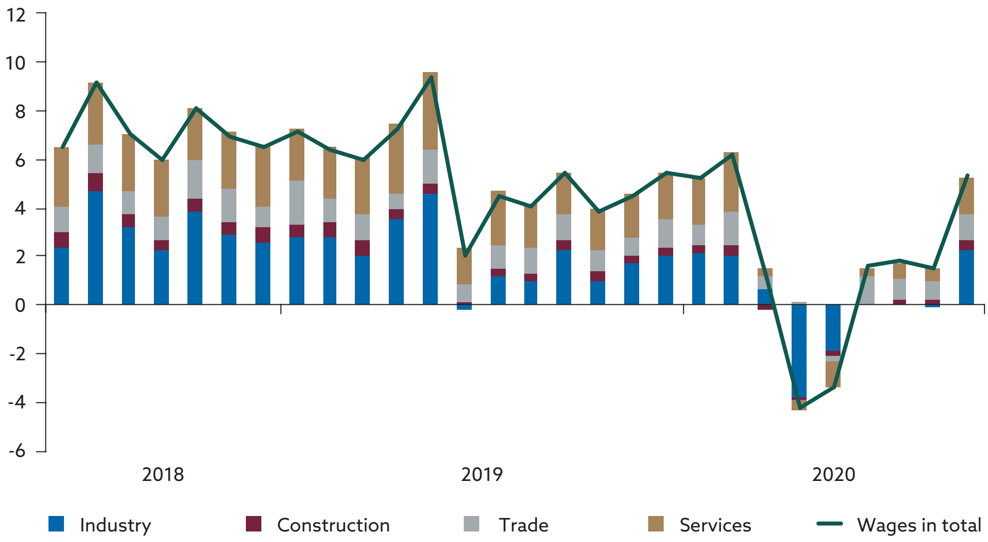
The Slovak labour market has partly reflected the impact of uptrends in the real economy. The level of employment is slightly higher than expected, although employment has continued to decline even during the recovery. Monthly data indicated an improvement at the end of the third quarter. Wage growth ticked up in the third quarter, with all sectors contributing positively to the result. Even industry wages increased, albeit with a slight lag, while the strongest wage growth was in the trade sector.

Annual HICP inflation accelerated to 1.6% in October. Food prices increased, thereby ending their long-running downtrend.

Annual growth in loans to the private sector eased moderately in the third quarter. Both lending to firms and lending to households contributed to the slowdown. Since firms in the industry sector were recording improved sales, their need for external funds was not as great as in the previous period.

Chart of the month

Average monthly nominal wage in selected sectors (annual percentage changes; percentage point contributions)



Sources: SO SR, and European Commission.

The significant annual wage growth in September was largely attributable to wage increases in the industry and services sectors. In industry, wages recorded their first year-on-year increase in five months. As for services sector wages, they returned to positive growth after the first wave of the pandemic and then accelerated significantly in September.

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*	50.0	50.4
Economic Sentiment Indicator	long-run average = 100	*October 2020*	90.9	90.9
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q3 2020*	**-4.4**	-14.8
Industrial production index	annual percentage change	*September 2020*	-6.6	-6.3
Retail sales	annual percentage change, constant prices	*September 2020*	**2.1**	4.2
Unemployment rate	percentage	*September 2020*	**8.3**	8.3
HICP inflation	annual percentage change	*October 2020*	-0.3	-0.3
Oil price in USD[1]	level	*November 2020*	41.7	41.4
EUR to USD exchange rate[1]	level	*November 2020*	1.179	1.178
Slovakia				
Confidence indicators				
Economic Sentiment Indicator	long-run average = 100	*October 2020*	87.2	85.9
Industrial confidence indicator	percentage balance	*October 2020*	**3.8**	-9.0
Consumer confidence indicator	percentage balance	*October 2020*	**-24.7**	-21.7
Economic indicators				
Gross domestic product	annual percentage change, constant prices	*Q3 2020*	**-2.4**	-12.1
Aggregate sales	annual percentage change, constant prices	*September 2020*	-0.9	-3.1
Industrial production index	annual percentage change	*September 2020*	-0.2	-0.8
Private sector credit	annual percentage change	*September 2020*	5.5	6.2
Employment	annual percentage change	*September 2020*	**-4.7**	-5.4
Unemployment rate[2]	percentage	*October 2020*	8.2	8.2
Nominal wages[3]	annual percentage change	*September 2020*	**5.3**	1.5
HICP inflation	annual percentage change	*October 2020*	1.6	1.4

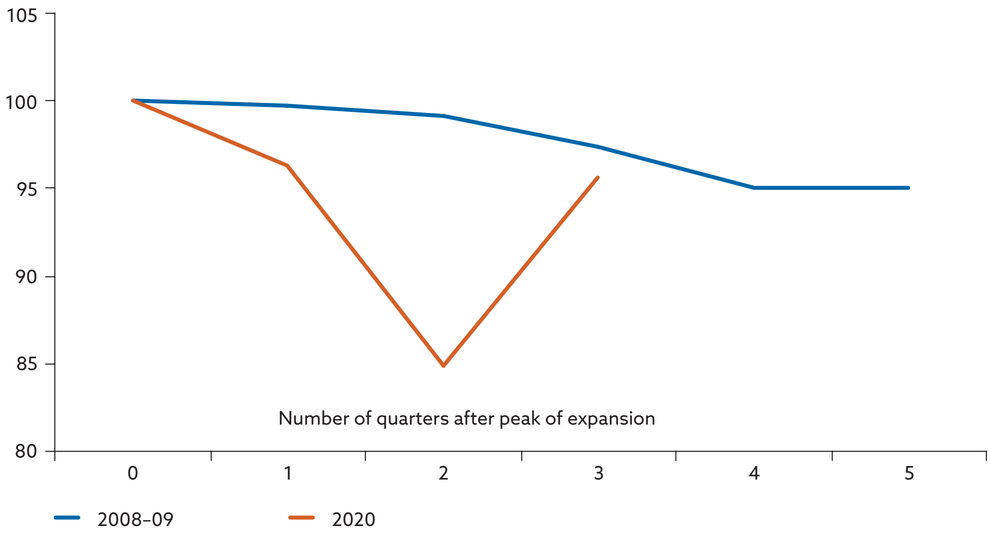
Sources: SO SR, European Commission, Markit, Macrobond, and NBS calculations.
1) The average for the current period is for the period from the start of the month.
2) Seasonally adjusted by NBS.
3) Selected sectors only (excluding public sector).
Notes: **Values in bold show a significant deviation.** 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 is described in NBS's August 2018 Monthly Bulletin.

2 External environment

The euro area economy picked up strongly in the third quarter of 2020, according to Eurostat's flash estimate. Euro area GDP grew, quarter on quarter, by 12.6%, which far exceeded the ECB's September projection[1] of an 8.4% increase. Data from national statistical offices show that the growth was driven mainly by domestic demand, in particular by household consumption. Net exports may also have made a slightly positive contribution. Among the largest euro area economies, the highest GDP growth was seen in France, Spain and Italy, in other words the countries worst affected by the pandemic crisis in the first half of 2020.

The euro area's relatively strong economic growth was not, however, sufficient to offset the cumulative decline during the first half of the year (15.1%), and GDP was therefore still 4.4% below its pre-pandemic level. The third-quarter data imply a faster return to pre-crisis growth than that seen during the 2008/2009 crisis (Chart 1); however, the worsening of the pandemic situation will check that recovery. The tightening of measures to contain the spread of the virus, including the partial lockdown of certain economies, indicates a risk (Chart 2) that the economy may contract in the fourth quarter, albeit not to the extent that it did in the first half of the year.

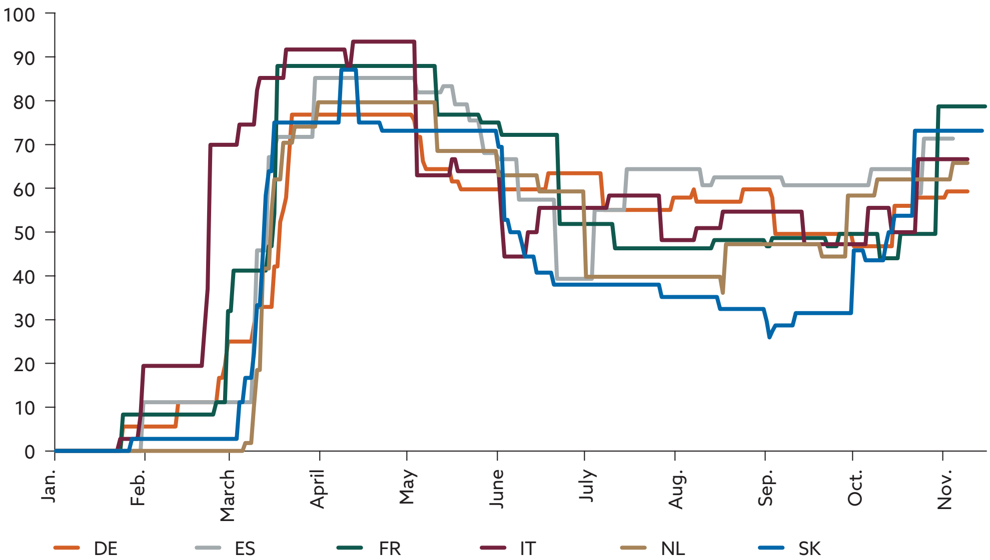
Chart 1
Euro area quarterly GDP after a peak of expansion – comparing the 2008–09 and 2020 crises (100 = peak of expansion)



Sources: Macrobond, and NBS calculations.

1 September 2020 ECB staff macroeconomic projections for the euro area.

Chart 2
Oxford University's Stringency Index (percentages)



Source: Macrobond.
Note: Index of the strictness of pandemic containment measures.

The economic recovery was reflected in employment, which recorded a moderate quarter-on-quarter increase of 0.9% in the third quarter after declining by 3.3% in the previous two quarters.

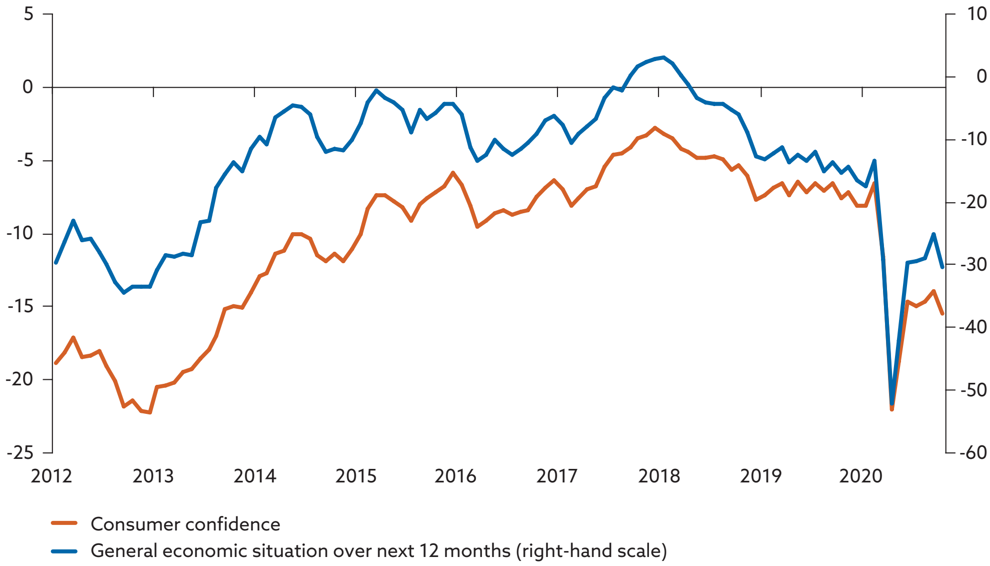
Leading indicators in the euro area are gradually reflecting the economic impact of the resurgence in COVID-19 infections and the tightening of pandemic containment measures. In October, the European Commission's Economic Sentiment Indicator (ESI) for the euro area indicated that the economic activity upturn came to a halt at the beginning of the fourth quarter. The ESI was unchanged from its September level (90.9 points) and was above its average level for the previous quarter (86.9).

Confidence indicators are pointing to differential trends across sectors. The increase in industry confidence indicates that the economic performance of this sector is still relatively favourable. There were also improvements in the construction and retail trade confidence indicators.

By contrast, confidence declined in services, i.e. the sector most sensitive to the pandemic containment measures and the reduction of mobility. The weakening of services confidence was therefore largely a reflection of managers' deteriorating demand expectations. It also had a downward impact on employment expectation in this sector. Consumer confidence declined owing to households' growing concerns about the general economic situation over the next 12 months (Chart 3).

Chart 3

Consumer confidence and expectations for the general economic situation (percentage balances)



Source: Macrobond.

In a similar vein, the final composite **Purchasing Managers' Index (PMI)** for October signalled (with a level of 50.0) economic stagnation in the euro area. The headline index continued, however, to mask contrasting trends in manufacturing industry and services. While manufacturing output growth remained strong, driven mainly by robust growth in Germany, services sector activity continued to contract.

The deteriorating health situation is apparent from the exceptionally high increases in positive tests across euro area countries. As the Stringency Index indicates, however, economic lockdowns are not, for now, as severe as they were in the spring. Once again, the services sector is being hardest hit by containment measures, as evidenced by the gradual decline in mobility in the retail trade and recreation areas (these data largely pertain to services). Mobility was starting to drop as early as September (Chart 4) in some countries, and its decline had become more pronounced by late October/early November. On the other hand, mobility in workplaces (Chart 5) has so far been falling moderately compared with mobility in the services sector. This probably reflects the still favourable trends in manufacturing industry and, in some cases, the construction sector.

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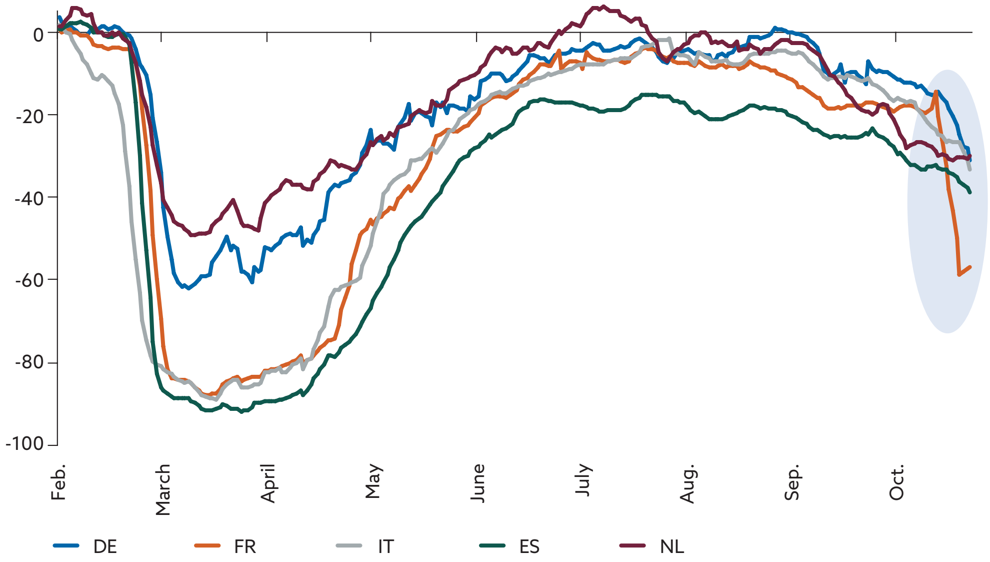
Chart 4

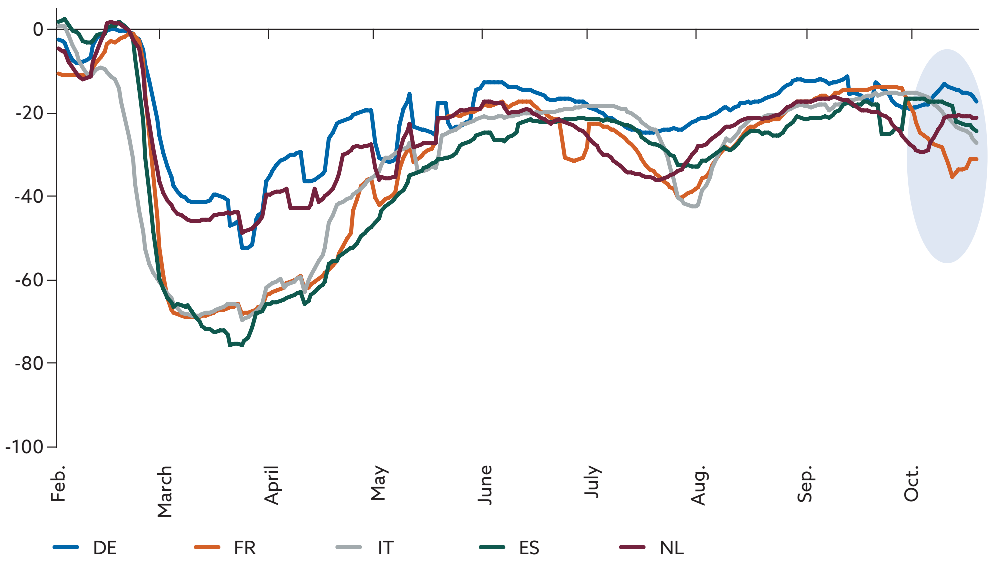
Google Community Mobility Reports – *retail and recreation* category (weekly moving average; deviation from baseline in percentages)[2]



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

Chart 5

Google Community Mobility Reports – *workplaces* category (weekly moving average; deviation from baseline in percentages)



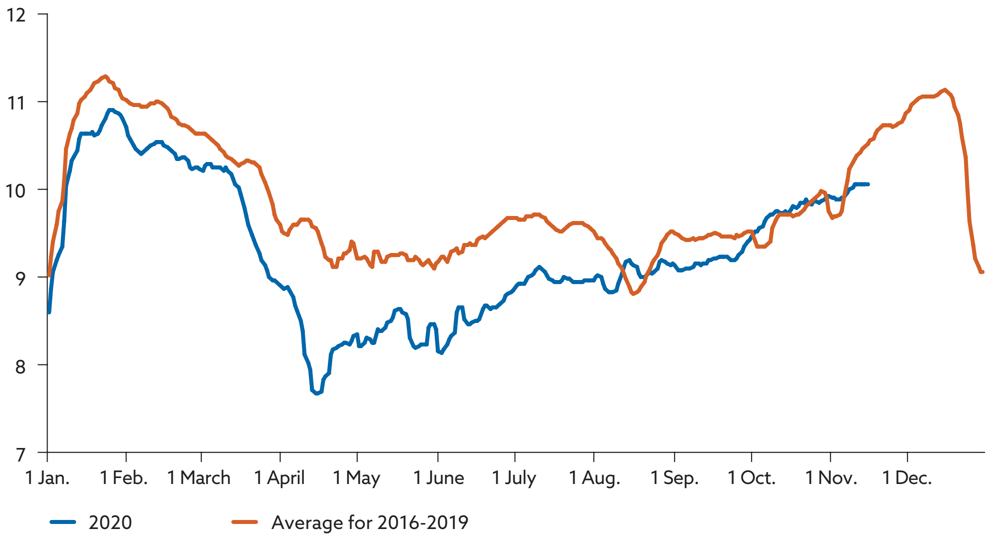
Source: Macrobond.

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

The severity of the economic slowdown will therefore depend largely on what impact, if any, the deteriorating health situation has on manufacturing industries. These have so far been supported by the recovery of the global economy in general and the Chinese economy in particular. After reporting annual GDP growth of almost 5% in the third quarter, China appears to have maintained robust growth. This is indicated by the Caixin China General Manufacturing Output Purchasing Managers' Index (PMI), which in October recorded its highest level since January 2011. Further evidence that the euro area's industrial activity growth remains solid is provided by high-frequency data on electricity consumption in the bloc's largest economies (Chart 6), which are broadly consistent with the consumption levels seen in the same period of previous years. Likewise, Germany's truck toll mileage index is higher than it was a year ago (Chart 7), indicating that industrial activity was continuing its recovery at the beginning of the last quarter.

Chart 6

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

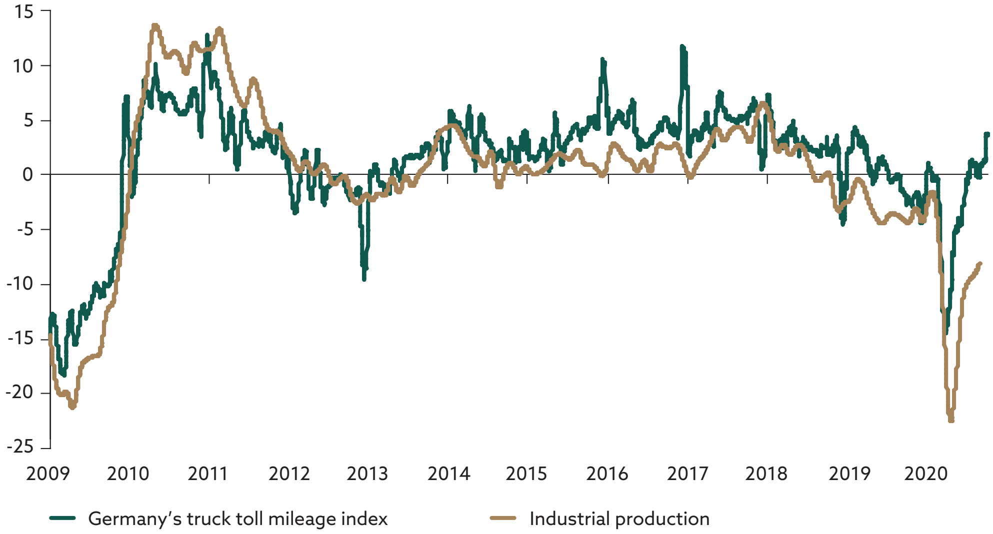


Sources: Macrobond, and NBS calculations.
Note: Germany, France, Italy, Spain, the Netherlands.

In the United Sates, too, there was a relatively strong economic recovery in the third quarter, with GDP increasing by 7.4% over the second quarter. After contracting sharply in the previous quarter, economic activity was buoyed mainly by private consumption. There were also positive contributions from fixed investment and changes in inventories, while net exports had a slightly dampening impact.

Chart 7

Germany's truck toll mileage index vis-à-vis industrial production (monthly moving average; annual percentage changes)



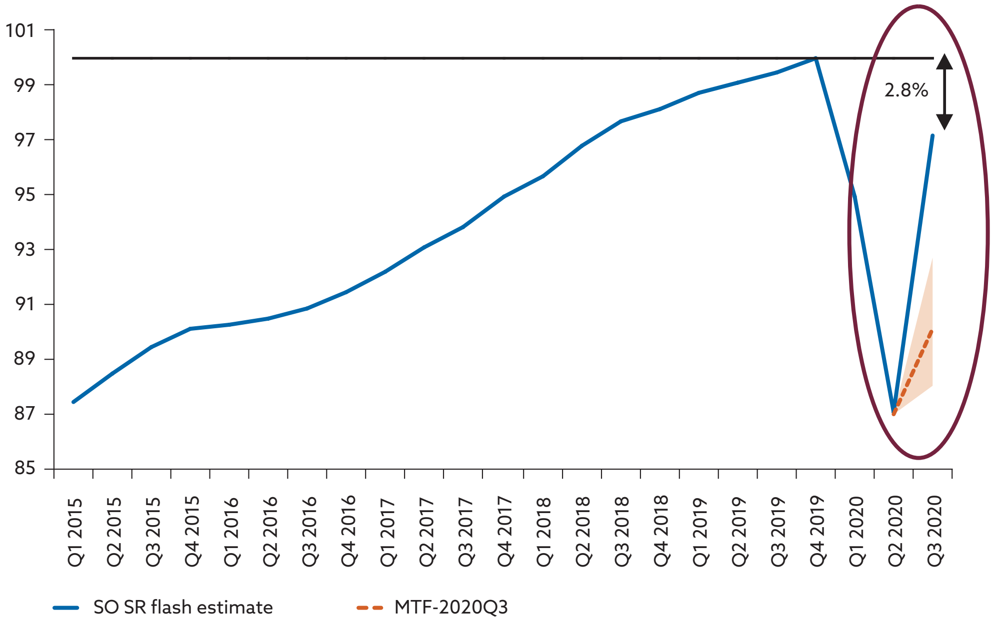
Sources: Macrobond, and NBS calculations.
Note: The industrial production data are linearly interpolated daily values.

3 The Slovak economy

3.1 Economic activity

The easing of pandemic containment measures in early summer had an upward impact on economic activity. Compared with the second quarter, GDP surged by 11.7% in the third quarter, so regaining much of the ground lost in the first half of the year (Chart 8). The result was better than NBS had projected. As for the movements of the principal monthly indicators during each month of the third quarter, they were generally stable at just below their early-year levels. The only exception was exports, which surpassed that level thanks mainly to car industry exports. The latter part of the year is expected to see increasingly adverse repercussions from the rising second wave of the COVID-19 pandemic and the reintroduction of pandemic containment measures in Slovakia and surrounding countries. Amid softening foreign demand, new car registrations in the EU declined at the start of the fourth quarter. The economic recovery therefore appears to be on hold for a while.

Chart 8
Real GDP (index, Q4 2019 = 100)

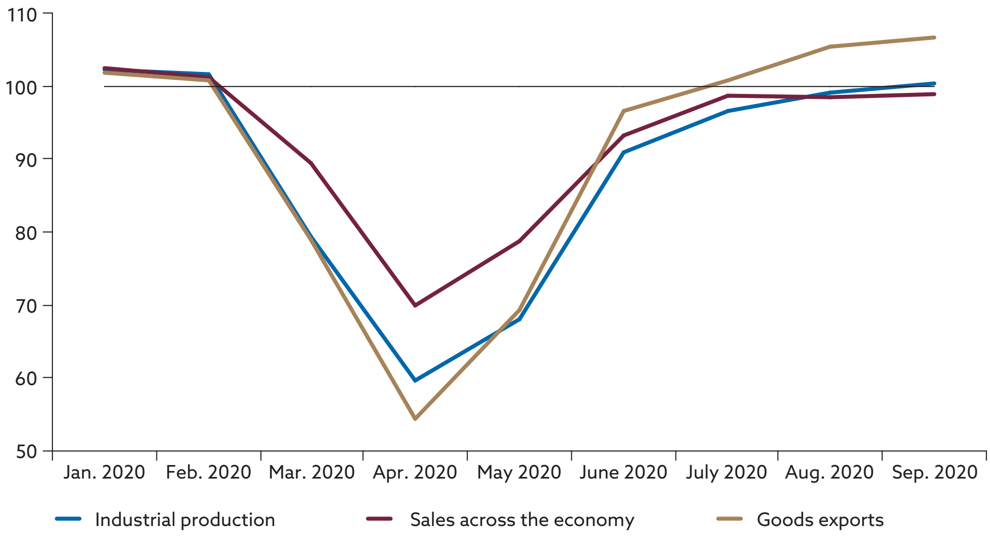


Sources: SO SR, and NBS calculations.

Monthly figures show that the recovery of activity in the third quarter was strongest in the industry sector (Chart 9). A major part of that sector's revival was due to the car industry, which throughout the summer months continued recouping its earlier losses.

Chart 9

Economic indicators (index, Q4 2019 = 100; constant prices)



Sources: SO SR, and NBS calculations.

Foreign trade appears to have been the main source of economic growth in the third quarter of 2020. The positive impact of export growth was further accentuated by the still relatively subdued level of goods imports. Although imports picked up after their sharp decline in the previous quarter, they did not rebound to the extent that export growth would imply. Apparently because of their concerns about future demand, firms were not importing goods in such large volumes and were preferring to use previously accumulated inventories as production inputs.

The summer season and easing of containment measures provided a measure of relief for the services sector. Nevertheless, the sector's sales remained far below their 2019 level.

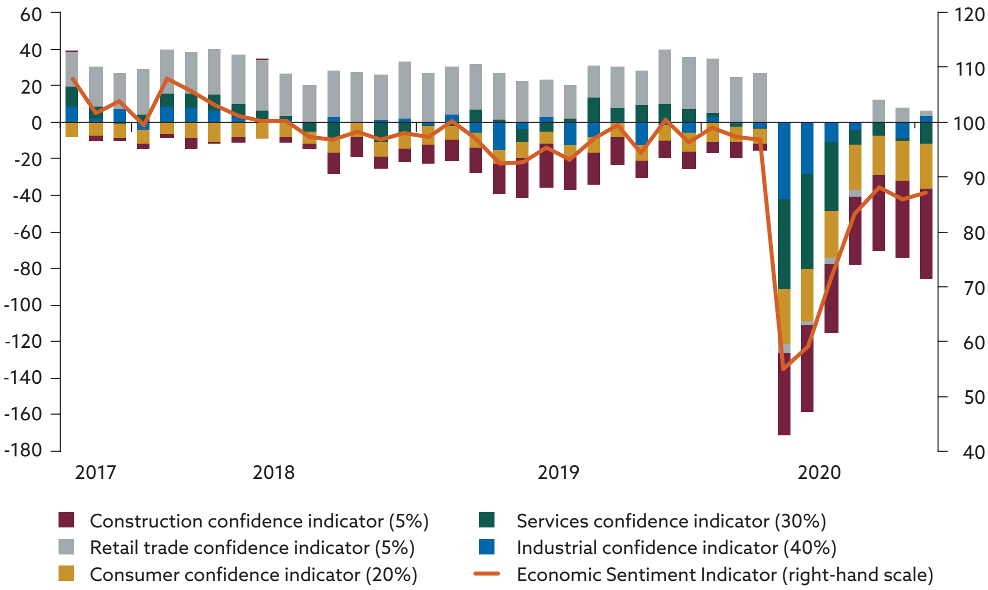
The opening-up of all businesses, as well as borders, supported the recovery of household consumption. In the spring, retail sales were only moderately affected by the pandemic crisis, while in the third quarter they continued rising even after exceeding their pre-crisis level. The labour market situation is improving only very slowly, and during these months households appear to have been releasing demand pent-up from the lockdown period. To some extent, however, services consumption seems to have been replaced with goods consumption.

Investment, too, is expected to have been supported by the revival of economic activity. The surprisingly rapid pick-up in consumer demand appears to have boosted optimism among firms. Consequently, they may begin to increase investment and mitigate the impact of the slump in investment demand in the first half of the year.

In September, the movement of monthly indicators stabilised, while the services sector was already seeing the re-emergence of a downtrend. The introduction of more stringent measures in recent months, including a partial lockdown, appears to have had a negative impact on domestic consumption. The worsening of the pandemic situation in almost all countries in the latter part of the year will adversely affect potential foreign demand.

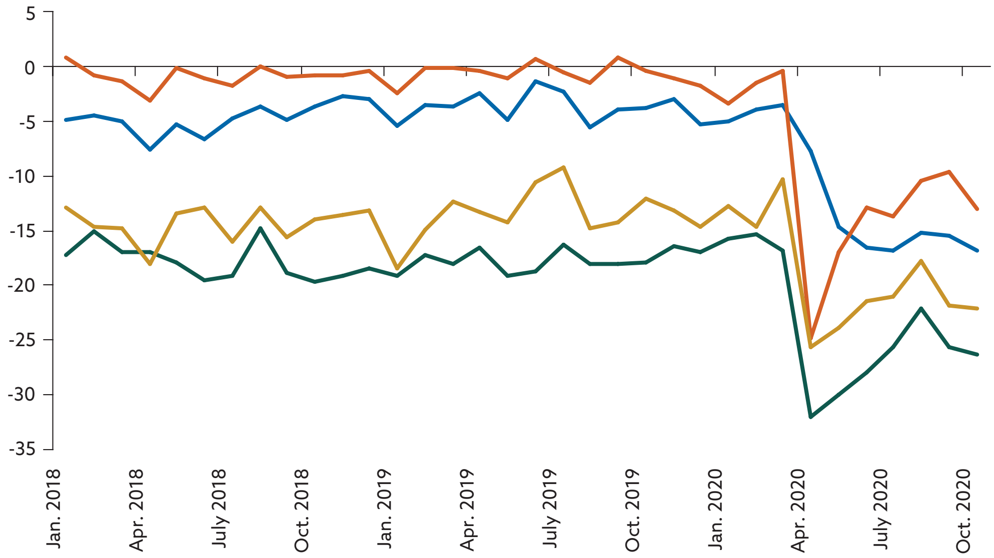
In October the Economic Sentiment Indicator for Slovakia remained at around its levels of previous months (Chart 10). The pick-up in industry activity had an upward impact on managers' production expectations. Services and construction confidence declined as managers brooded about current and future demand, apparently because of the reintroduction of pandemic containment measures. Among consumers there were increasing concerns about the expected general economic situation and about their own financial situation (Chart 11).

Chart 10
Economic Sentiment Indicator (long-term average 2000-2019 = 100)



Source: European Commission.

Chart 11
Financial situation of households (percentage balances)



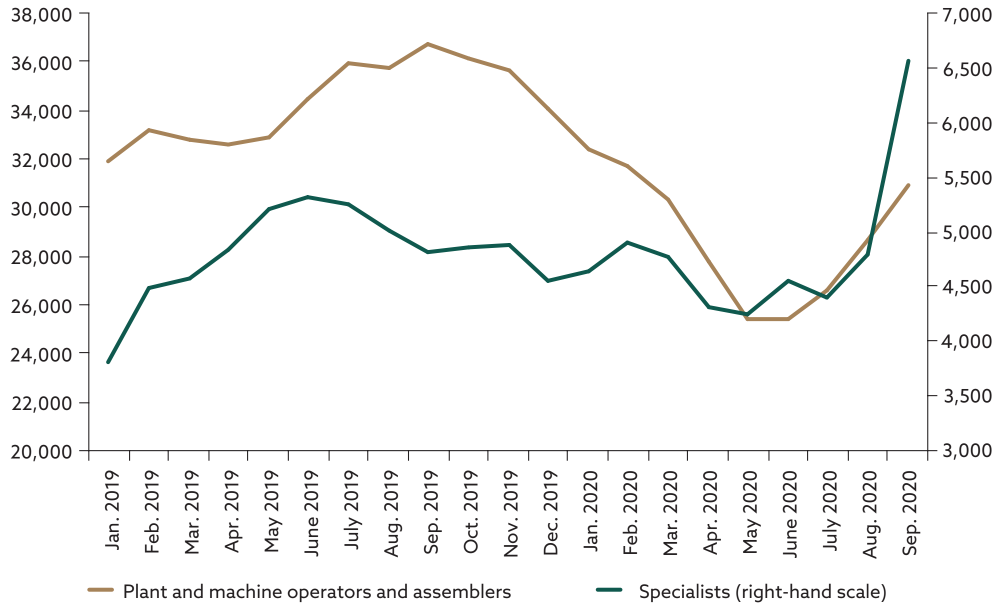
Source: European Commission.

3.2 Labour market

Despite strong growth in economic activity, employment continued to decline in the third quarter, decreasing by 0.3% compared with the previous quarter and by 2.5% year on year. Although industrial production increased significantly, particularly in the transport equipment manufacturing industry, not enough new jobs were created. Rationalisation efforts remain a feature of manufacturing industry, where employers are evidently taking a cautious approach to new recruitment. Paradoxically, however, firms are reporting labour shortages for certain positions (Charts 12 and 13). The mismatch between the supply of and demand for skilled workers (plant and machine operators and assemblers; specialists) is shown by the rising number of job vacancies for these positions. This is partly due to a decline in the number of foreign workers, which is a result of the current pandemic situation.

Chart 12

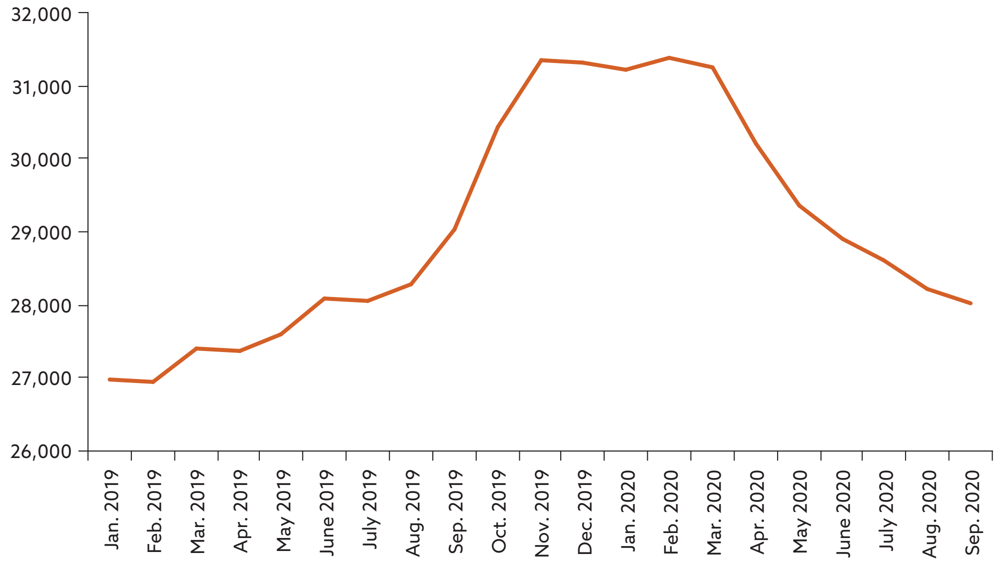
Job vacancies for selected occupations (number of vacancies)



Source: ÚPSVaR.

Chart 13

Number of foreigners employed in jobs under the *plant and machine operators and assemblers* category

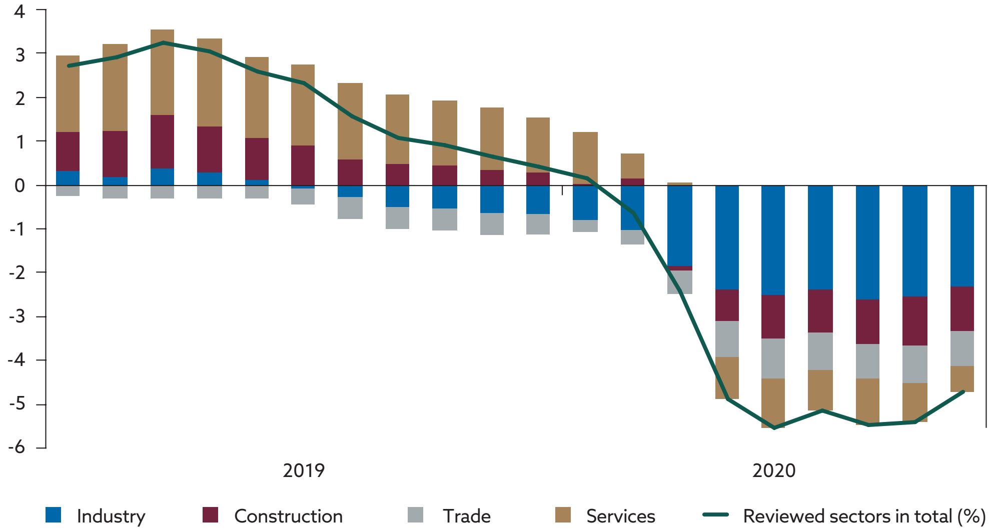


Source: ÚPSVaR.

On the other hand, monthly data for September added a little optimism to the labour market. Employment increased in month-on-month terms (Chart 14), and the unemployment rate decreased. Further evidence of improvement was provided by data from the Social Insurance Agency and health insurers, with increases reported in the numbers of insurance relationships and insurance agreements. Job creation was again increasing, especially in the services and retail trade sectors.

Chart 14

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

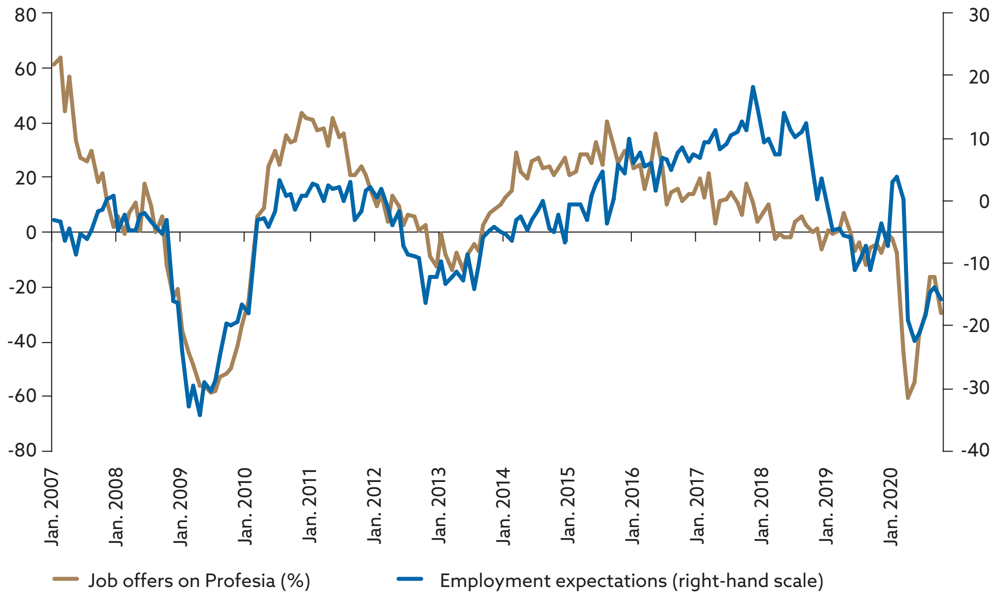


Sources: SO SR, and NBS calculations.
Note: The trend shown by monthly data is indicative; monthly data are an imperfect indicator of the complete quarterly data.

Leading indicators for October are, however, already pointing to a deterioration in the labour market situation (Chart 15). After improving over several months, employers' expectations for job creation worsened in October. This was probably a response to the second wave of COVID-19 infections and the re-introduction of mobility restrictions and social distancing measures, not only in Slovakia. A deterioration in employment expectations is already observable in all sectors. At the same time, the number of job vacancies continued declining in October, by 29.4% year on year, after falling by 16.7% in September.

Chart 15

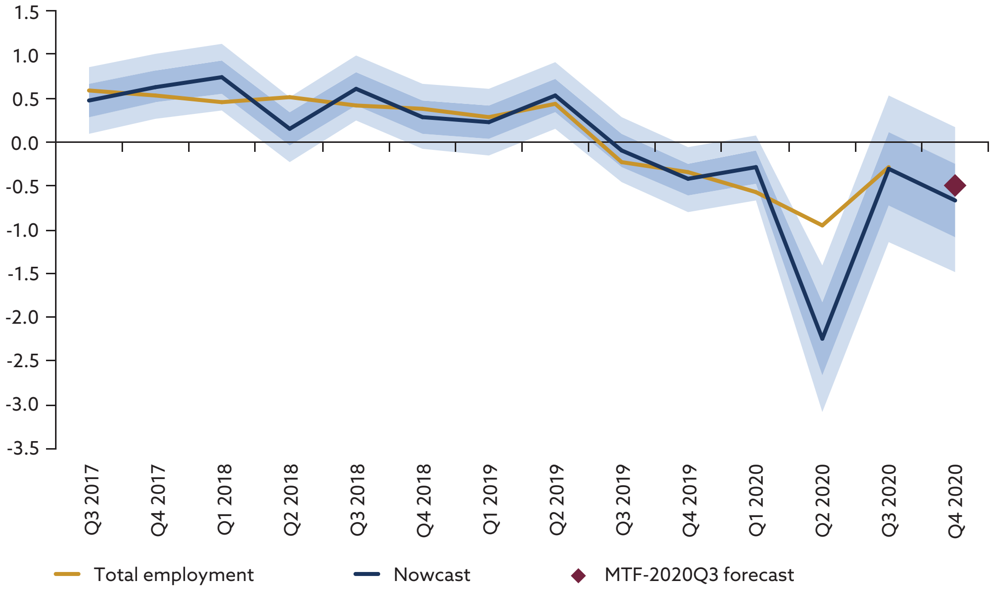
Selected labour market indicators (annual percentage changes; index)



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

The nowcast for employment growth in the fourth quarter of 2020 is lower than the rate projected in NBS's September Medium-Term Forecast (MTF-2020Q3) (Chart 16). The main reason for the downshift in this mechanical projection is the worsening of expectations for employment in coming months.

Chart 16
Nowcast for employment (quarter-on-quarter percentage changes)[3]



Sources: SO SR, and NBS calculations.

The unemployment rate based on the total number of jobseekers remained unchanged in October, at 8.2%. After its previous downtrend, this was the second month in which the rate remained flat. But despite the stagnation in overall unemployment, data show an increase in new jobseekers who have been laid off, mainly from jobs in the accommodation and food service activities industry, as well as the construction and trade sectors.

According to preliminary data, average annual wage growth returned to positive territory in the third quarter, after posting a negative result in the second quarter. Average wage growth across the sectors under review (Chart 17) accelerated strongly in September, to 5.3% (up from 1.5% in August). In September, wages returned to their pre-crisis level or, in the case of the trade sector, even surpassed it (Chart 18). Wages increased in almost all the sub-sectors, except for sale of motor vehicles and accommodation. The largest wage growth was in retail trade, which is further evidence of the uptrend in consumer demand. In services, the sector hardest

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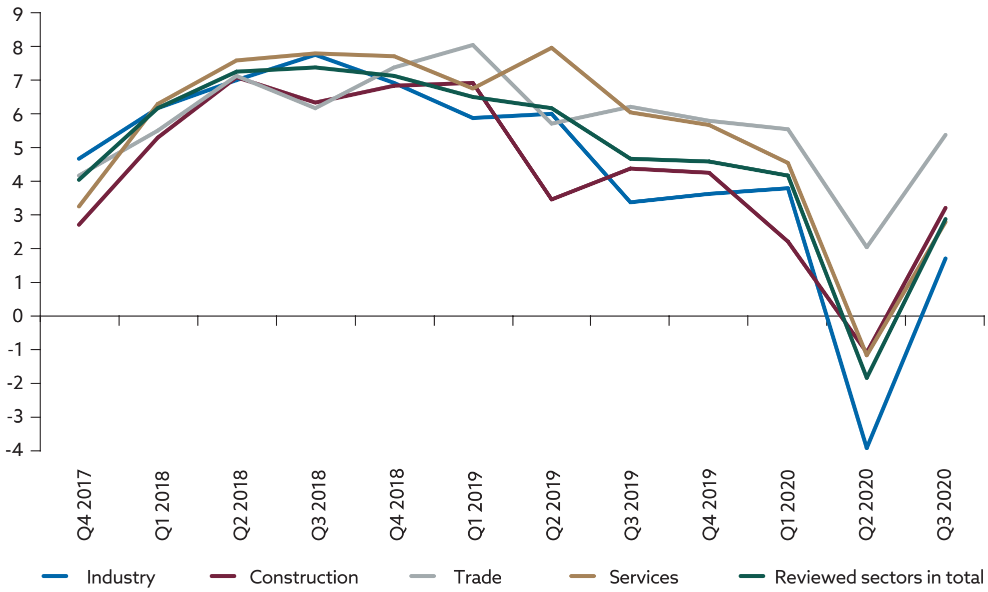
3 The band around the point estimate denotes +/- 1 to 2 times the root mean square error. Nowcasts provide a current estimate of future developments using available monthly figures from the current quarter, their future values forecast with ARIMA models, and their lagged values. The individual model 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.

hit by the crisis, wages jumped significantly. In industry, too, wage growth was strong; it reached its highest level in twelve months and finally, after a moderate lag, reflected impact of manufacturing industry's robust recovery and the increase in hours worked. Nominal wage growth accelerated in all sub-sectors of manufacturing industry, and even the electronics manufacturing industry recorded double-digit wage growth.

In the fourth quarter, average wage growth in the economy as a whole is expected to moderate as economic activity weakens.

Chart 17

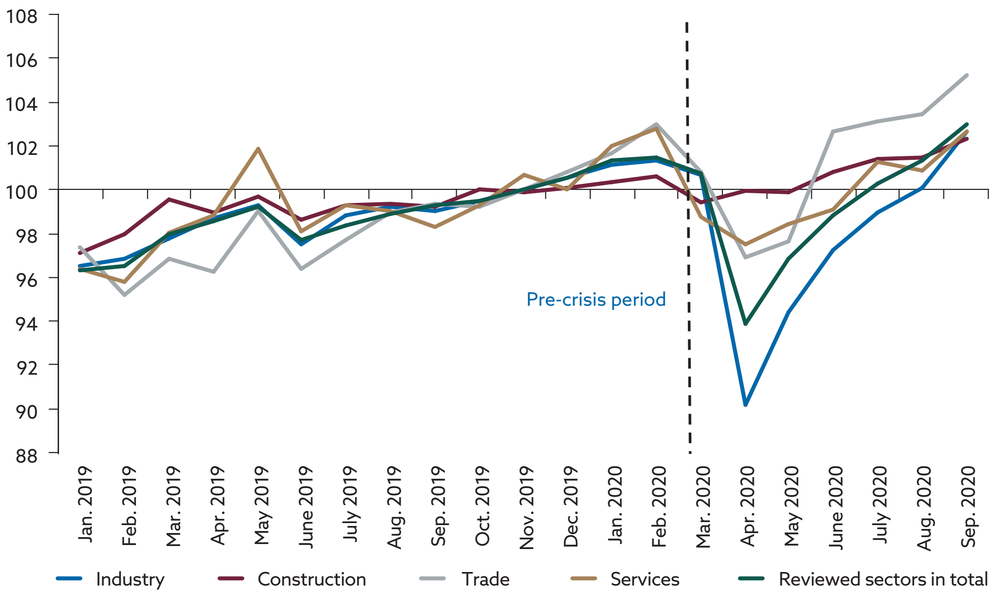
Average wage levels according to monthly data (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 18

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



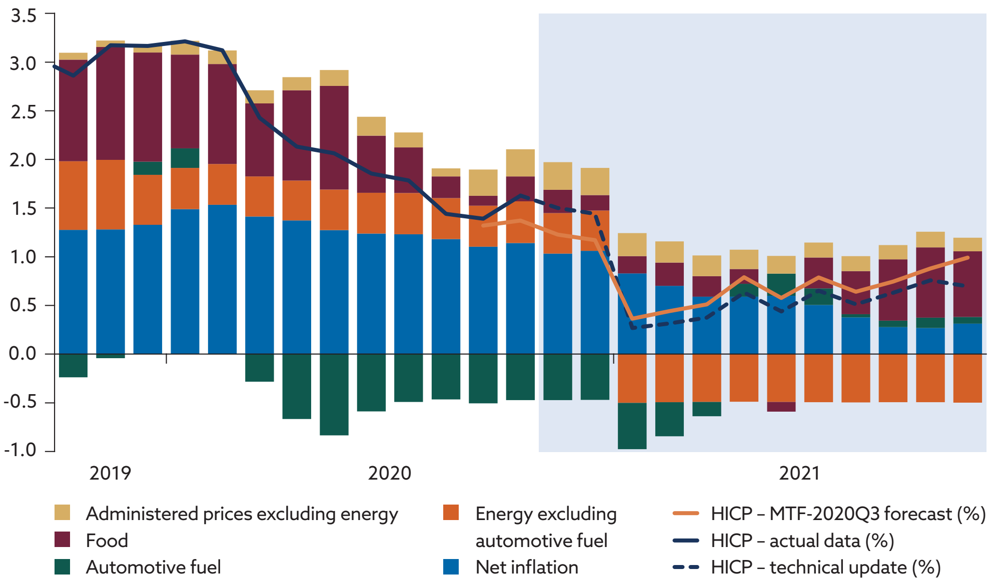
Sources: SO SR, and NBS calculations.

3.3 Prices

Slovakia's annual HICP inflation accelerated to 1.6% in October (Chart 19), so ending a slowing trend that began in January 2020. Net inflation[4] increased slightly, to 2.4%, and is therefore marginally higher than projected (Chart 20).

Chart 19

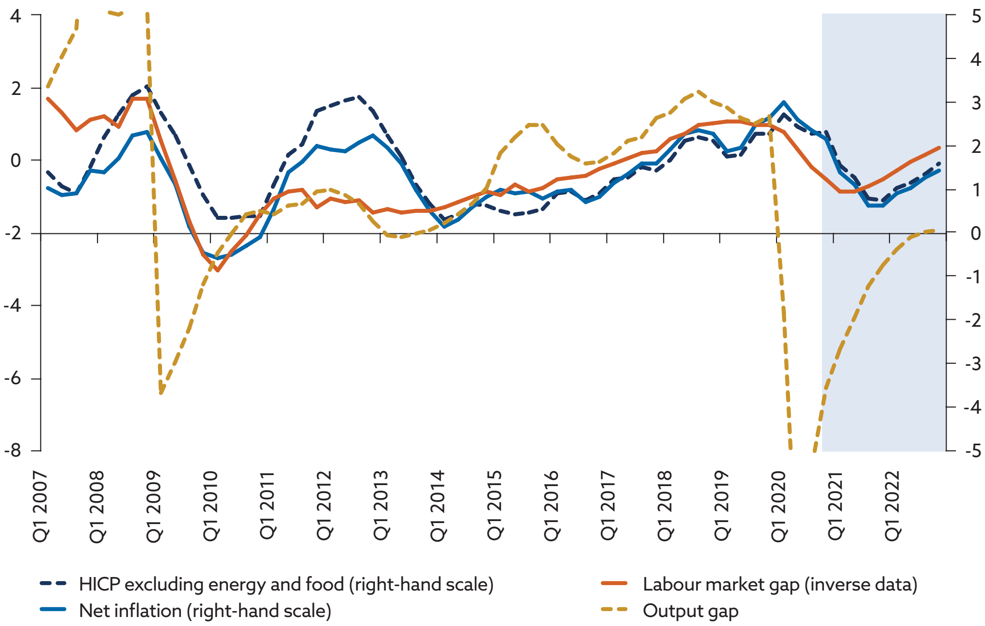
HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 20

Net inflation and imbalances in the economy (annual percentage changes)



Sources: SO SR, and NBS calculations.

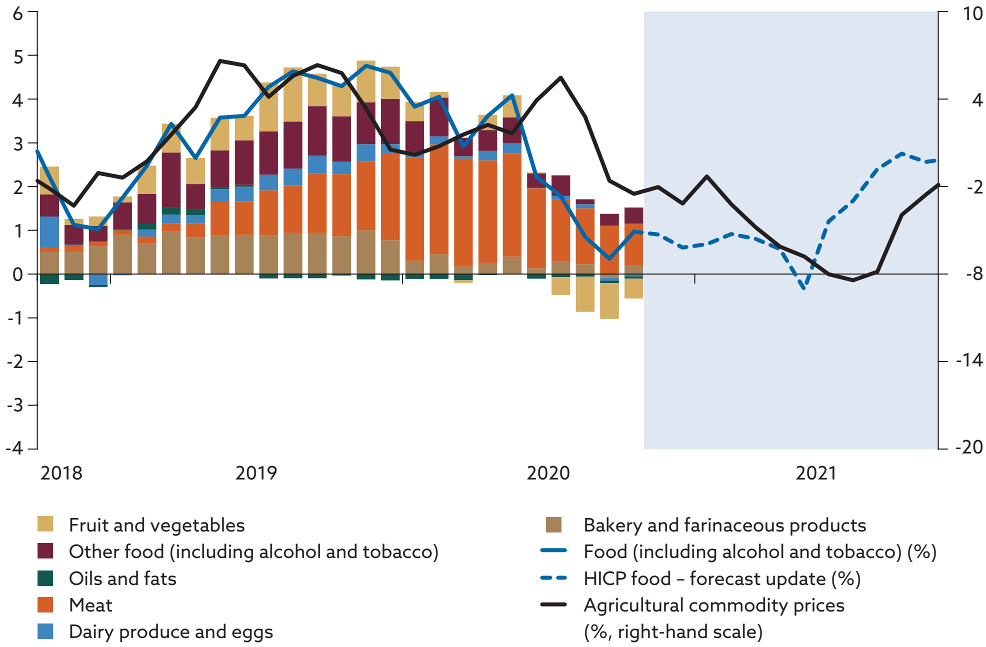
[4] Net inflation is headline HICP inflation excluding energy, food, automotive fuel, and administered prices.

Food prices made the largest contribution to October's acceleration in headline inflation (Chart 22), with increases in prices of vegetables, farinaceous products, and fats. Annual food price inflation therefore accelerated, though this is not yet expected to mark a reversal of its recent moderating trend. The previous weakening of agricultural commodity prices is expected to keep food price inflation subdued until mid-2021 (Chart 21).

The moderate increase in net inflation was supported by international air fares, as their annual rate of decrease eased. Services inflation excluding air fares was stable in October. As a result of the second wave of stricter coronavirus containment measures, services inflation is not expected to moderate significantly before the end of the year. Non-energy industrial goods inflation slowed slightly, owing mainly to non-durable consumption goods prices, whose growth in coming months is expected to converge towards the lower rate of import price inflation. Softening demand for goods is also reflected in households' lower appetite for short-term consumer credit.

Chart 21

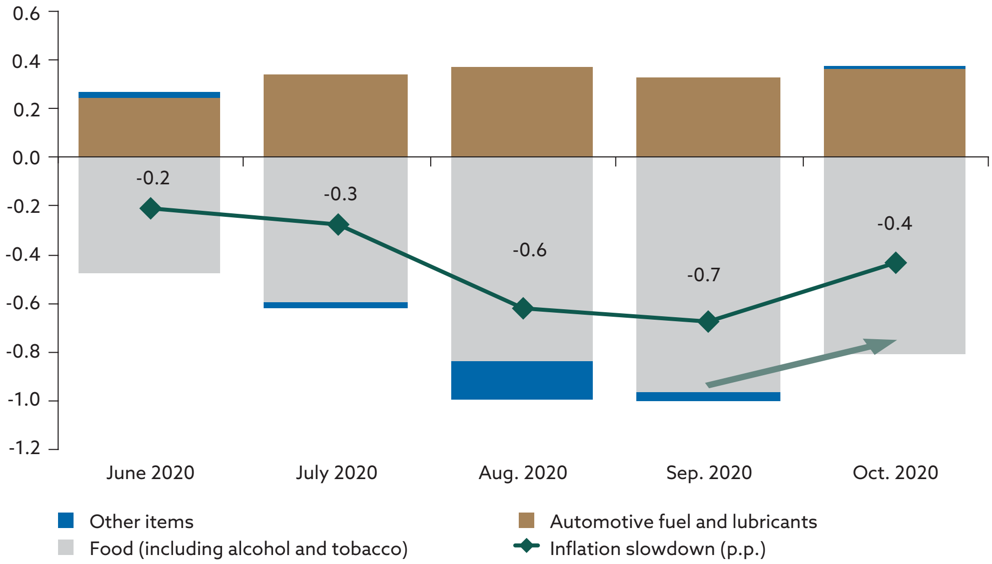
Food inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

Chart 22

Breakdown of the slowdown in HICP inflation since May 2020 (percentage points)



Sources: SO SR, and NBS calculations.

Administered consumer energy prices (gas, electricity and heat prices) are due to be reduced at the beginning of 2021. The decline in energy commodity prices during the ongoing pandemic crisis will, with a lag, have a significant dampening effect on administered energy prices and headline inflation in 2021.

An upside risk to the inflation outlook is the positive financial market sentiment related to promising information about a new COVID-19 vaccine. This may translate into brighter expectations about demand for agricultural commodities and energy.

3.4 Loans and deposits

Annual growth in loans to non-financial corporations (NFCs) was relatively strong in the third quarter of 2020. The growth reflected increasing demand for loans, as further indicated by information from the bank lending survey (Chart 23). Firms' demand for loans centred mainly on loans for refinancing their operations and inventories. The loan growth was also supported to some extent by the roll-out of government guarantee schemes. The current return of uncertainty, however, is weakening demand for long-term loans. On the supply side, banks have eased credit standards for NFCs, mainly on the basis of lower risk perceptions and slightly higher market competition (Chart 24)

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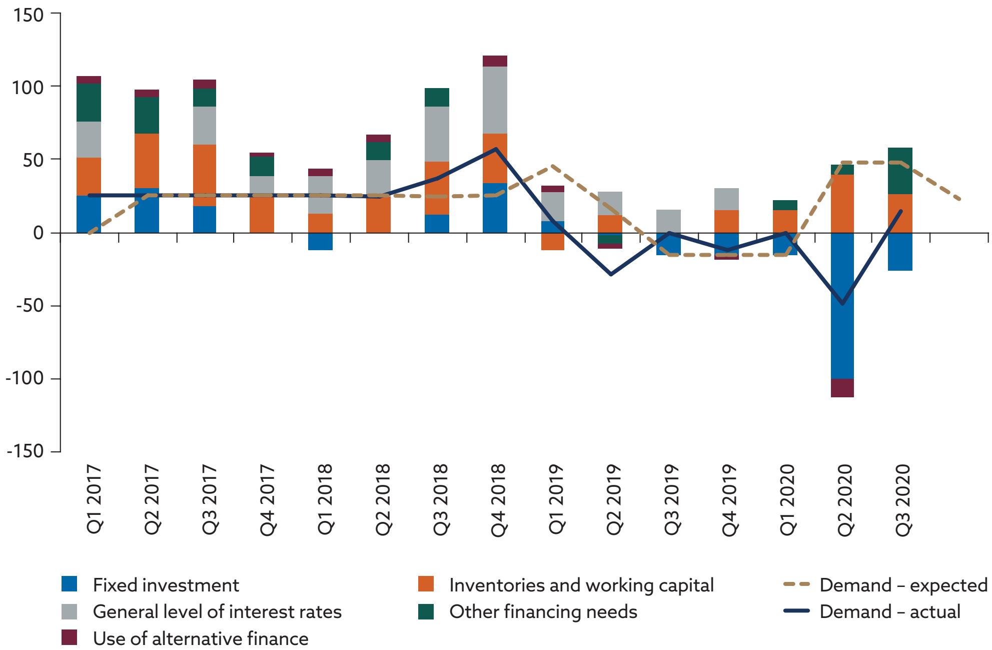
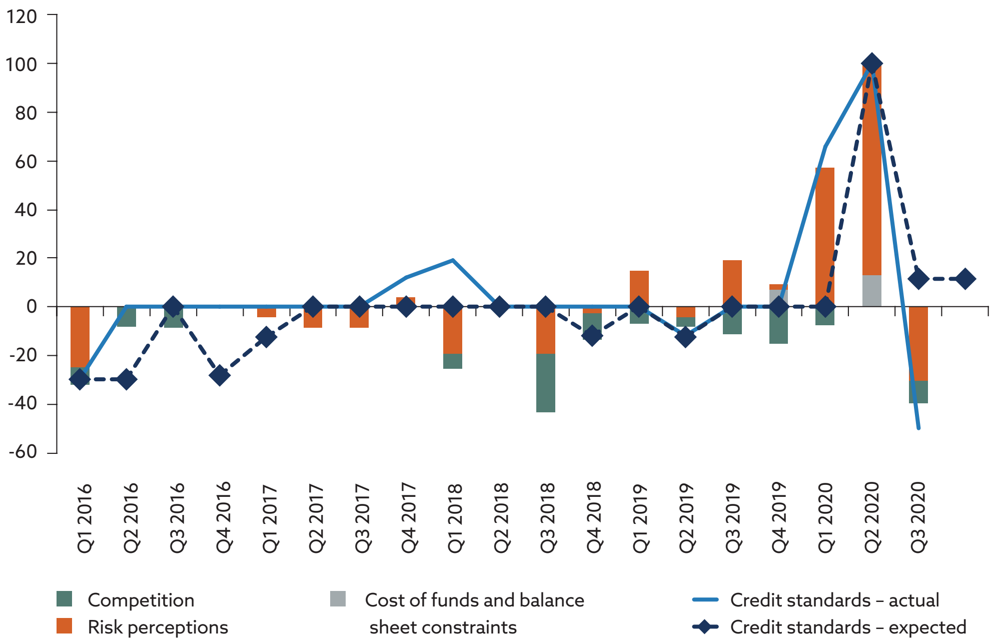
Chart 23
Demand for loans to NFCs (net percentage share)



Source: ECB (bank lending survey).

Chart 24
Credit standards for firms (net percentage share)

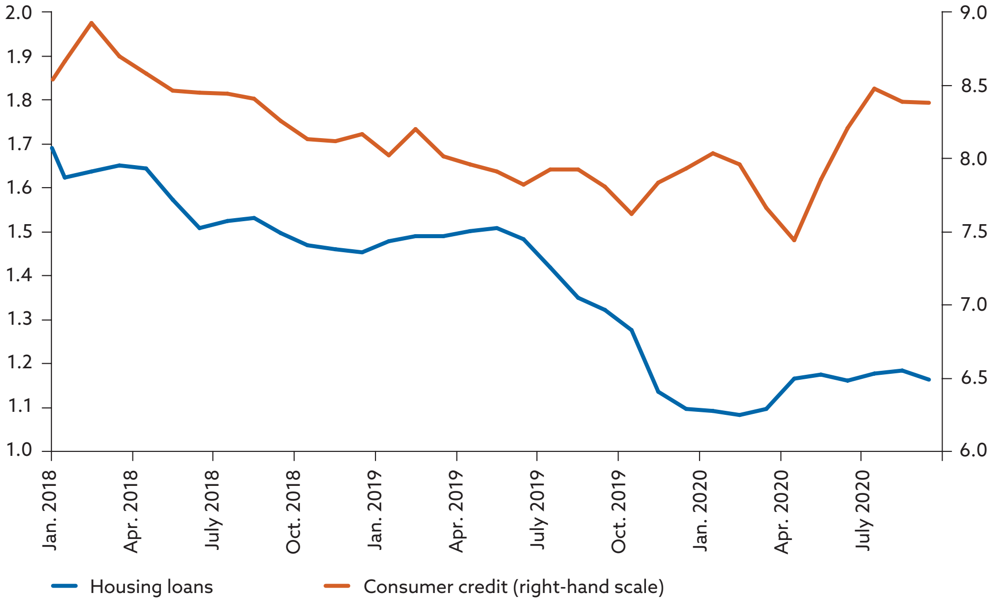


Source: ECB (bank lending survey).

Since the onset of the pandemic crisis, lending to households has been marked by, on the one hand, an ongoing decline in consumer credit and, on the other hand, relatively stable growth in loans for house purchase. Overall, banks are reporting a slight increase in household demand for loans (Chart 26). There has also been an increase in lending rates for households, especially in interest rates on consumer credit (Chart 25).

Chart 25

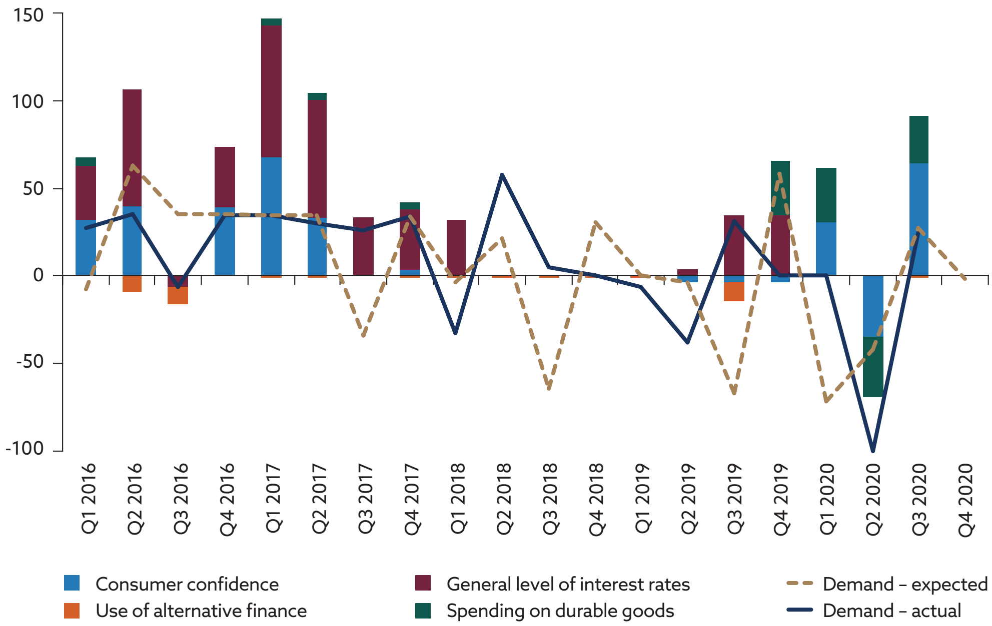
Lending rates for households (percentages per annum)



Source: NBS calculations.

Chart 26

Demand for loans to households (net percentage share)



Source: ECB (bank lending survey).

Box 1
Slovak banks' participation in TLTRO III operations

Targeted longer-term refinancing operations (TLTROs) are non-standard monetary policy instruments by which the ECB offers commercial banks long-term funding at attractive conditions. By creating favourable bank funding conditions, the aim is to support lending to firms and households. TLTROs supplement other monetary policy instruments and reinforce the ECB's accommodative monetary policy stance. The first series of TLTROs was announced in 2014, and now the third series of TLTROs (TLTRO III) is being implemented.

This Box looks at the participation of Slovak banks in TLTRO III operations and the potential impact of this participation on the credit market.

Banks' motives for participating in TLTRO III may vary. Although data are so far available for only three months following the June operation, it seems that TLTRO III, probably in combination with government guarantees, has had a positive impact on lending to non-financial corporations (NFCs). So far, we are not seeing any impact on loan prices. TLTRO III may also have a positive impact on the credit market and, by extension, the real economy via indirect channels.[5]

The coronavirus pandemic and the associated measures introduced by individual European countries have had serious economic and financial repercussions. Financial market turbulence caused firms' borrowing costs to rise and hence a tightening of financial conditions. In order to support lending to the real economy, the ECB recalibrated the conditions of TLTRO III operations.[6] This measure supported liquidity and made it easier for banks to obtain cheap funding. According to information from the euro area bank lending survey, participation in TLTRO III may have partly supported loan growth. Banks also said they were participating in TLTRO III operations because of the favourable conditions as well as because of precautionary considerations.

After the TLTRO III conditions were modified, there was an upsurge in banks' take-up of these operations across the whole euro area. Demand for these funds also increased in the Slovak banking sector (Chart 21). Banks in Slovakia did not participate in the first three rounds of TLTRO III (from

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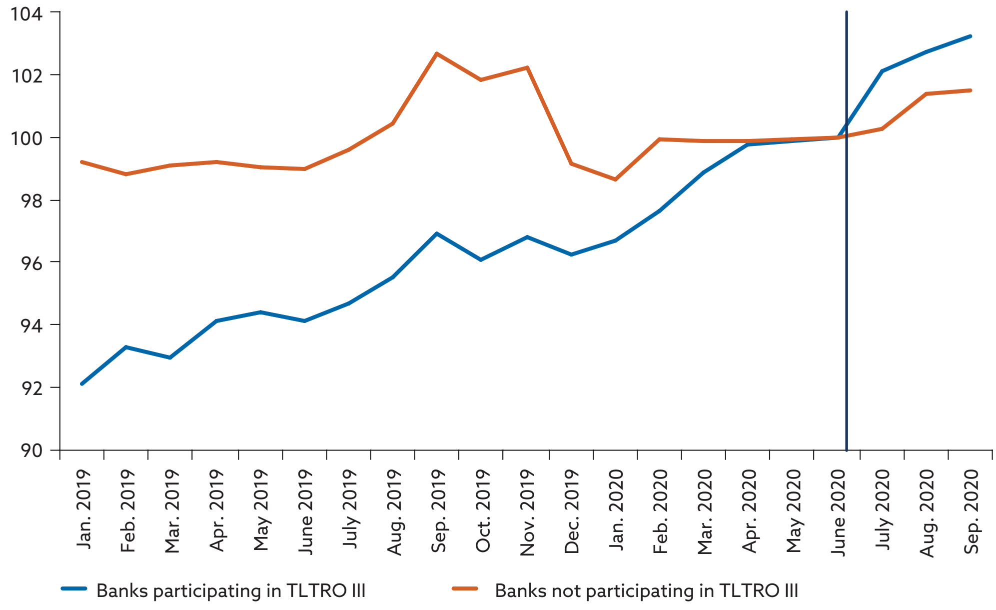
5 For example, although mortgage loans are not counted as financing to the real economy, the subsequent issuance of covered bonds backed by these mortgages and the use of these bonds as collateral in credit operations may provide indirect support to the real economy. Besides, the very generous terms and conditions may also benefit the banking sector's profitability, thereby increasing its capacity for lending to the real economy.

6 The TLTRO III recalibrations, which took place in March 2020, included raising the maximum total amount that banks could borrow under TLRTO III operations and reducing the interest rate on these operations.

September 2019 to March 2020), and their borrowing under the June 2020 operation was their largest ever under any TLTRO operation.

The banks participating in the June 2020 TLTRO III have since provided a larger volume of NFC loans than have the non-participating banks (Charts A and B). Looking at the lending to NFCs by TLTRO III-participating banks and by other banks before and after June 2020, it appears that the growth in NFC loans from the participating banks accelerated by 1.9 percentage points.[7] It should be added, however, that the growth in these banks' aggregate NFC loan book was increasing even before the June TLTRO III. The further (planned) increase, and hence the expectation of smooth qualification for favourable TLTRO III conditions, may have been a motive for participating in TLTRO III, not simply a consequence of doing so. A more detailed empirical analysis will require a larger number of observations. According also to survey information, banks have been participating in TLTRO III operations with the intention of using the funds borrowed for lending purposes.

Chart A
Loans to NFCs (index, June 2020 = 100)

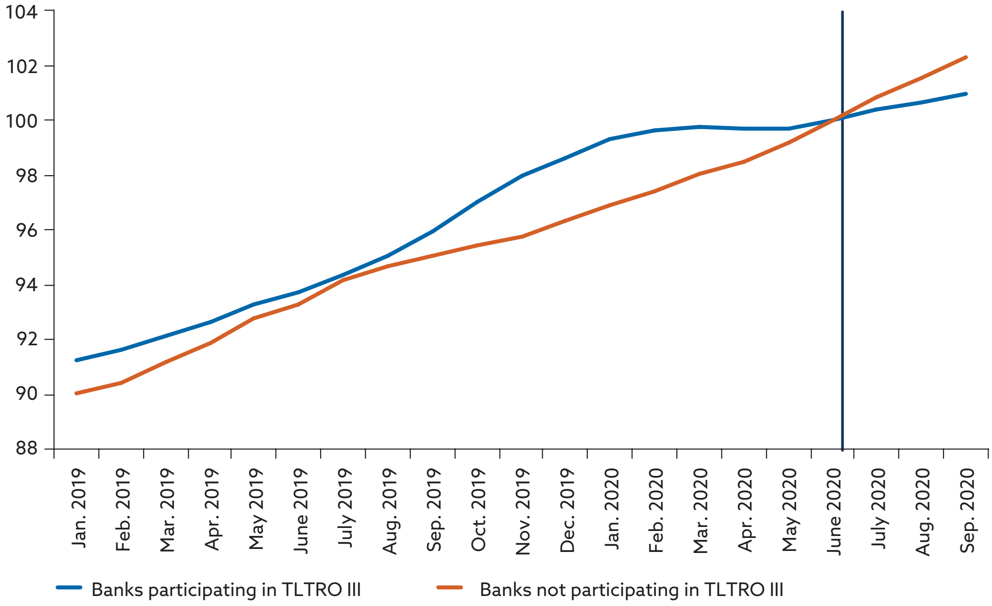


Source: NBS calculations.

7 The simple calculation was made using a diff-in-diff approach, without estimating a regression equation.

Chart B

Loans to households (index, June 2020 = 100)

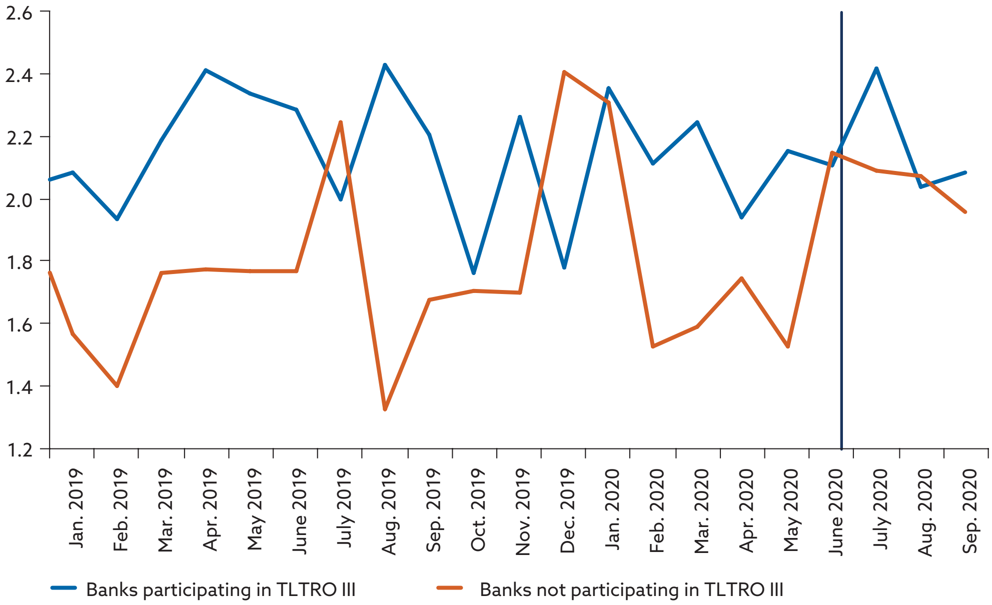


Source: NBS calculations.

While banks' participation in TLTRO III is accompanied by higher growth in lending to NFCs, it is not apparently having an impact on lending rates. Following the outbreak of the pandemic, lending rates for NFCs and households showed a slight uptrend (Charts C and D), but there was no significant increase in rates. The easing of TLTRO III conditions has not had a notable impact on the retail interest rates of banks participating in these operations. Their participation did not result in any reduction in rates and may only have prevented them from rising.

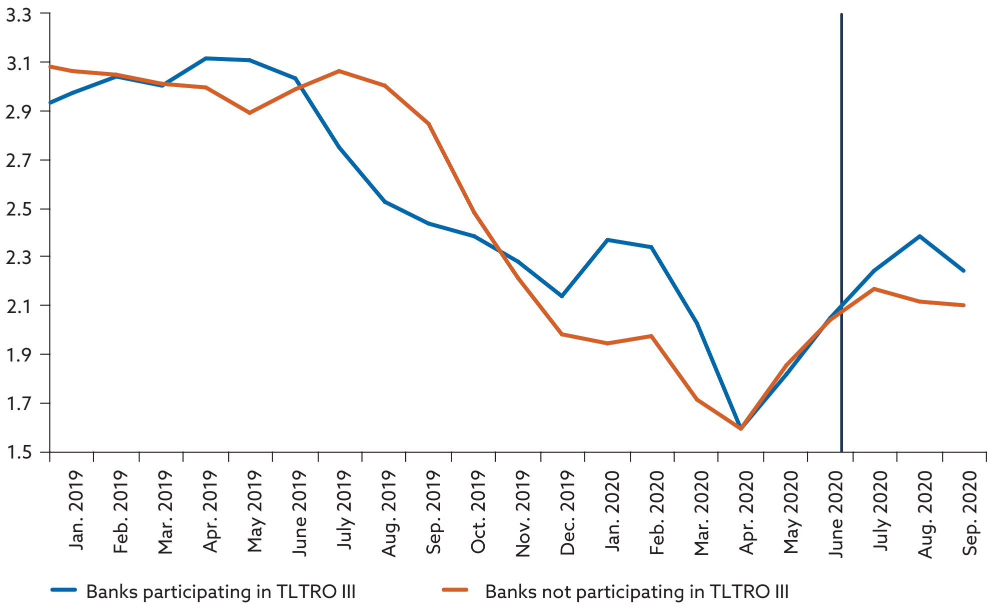
Chart C

Lending rates for NFCs (percentages per annum)



Sources: NBS, and NBS calculations.

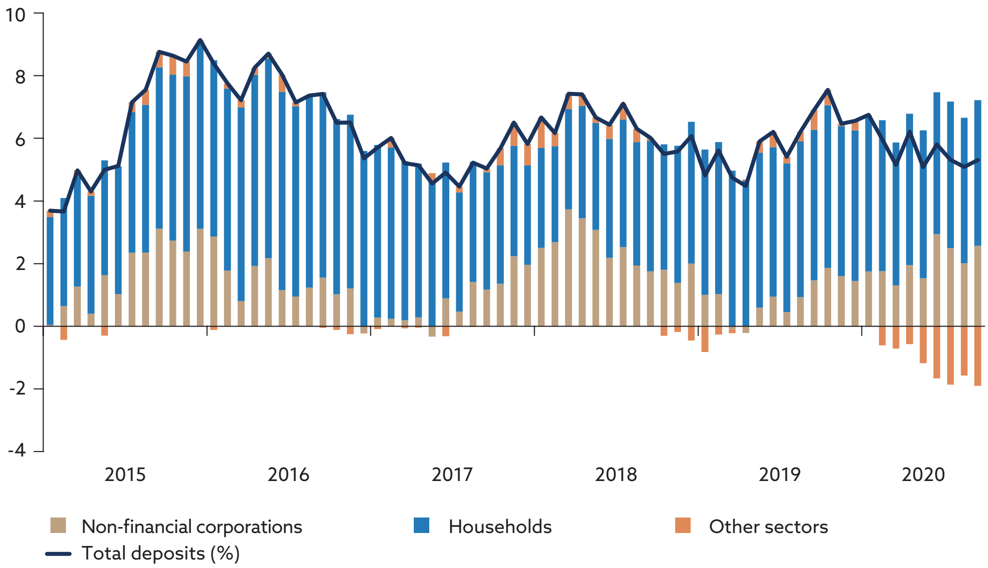
Chart D
Lending rates for households (percentages per annum)



Sources: NBS, and NBS calculations.

Annual growth in total deposits decelerated in the third quarter of 2020 (Chart 27). In the case of NFC deposits, their growth rate slowed but remained in double digits. The least favourable trends in this category were recorded by deposits from firms in construction industry and in the accommodation and food service activities industry. Household deposit growth remained stable, at 6.8%. Deposits of other financial intermediaries, such as insurance undertakings and pension funds, have been declining since the beginning of the year. This may be a consequence of zero or negative interest rates on short-term deposit products, since such rates are probably causing a reallocation of funds to higher-yielding products. A more in-depth look at deposit trends since the outbreak of the pandemic crisis is provided in Box 2.

Chart 27
Total deposits (annual percentage changes; percentage point contributions)



Sources: ECB, and NBS calculations.

Box 2
Deposits of non-financial corporations and households during the COVID-19 pandemic

This box analyses developments in private sector deposits during the coronavirus (COVID-19) pandemic and their implications for the future. The unexpected shock and high uncertainty have underlain an increase in precautionary savings. Non-financial corporations (NFCs) have suffered sales losses and, amid the climate of uncertainty, have deferred investment activity. Meanwhile, households have reined in purchases of durable consumption goods. Compared with the situation in other euro area countries, however, the increases in NFC savings and household savings in Slovakia have been subdued and therefore do not constitute an upside risk to investment or consumption outlooks.

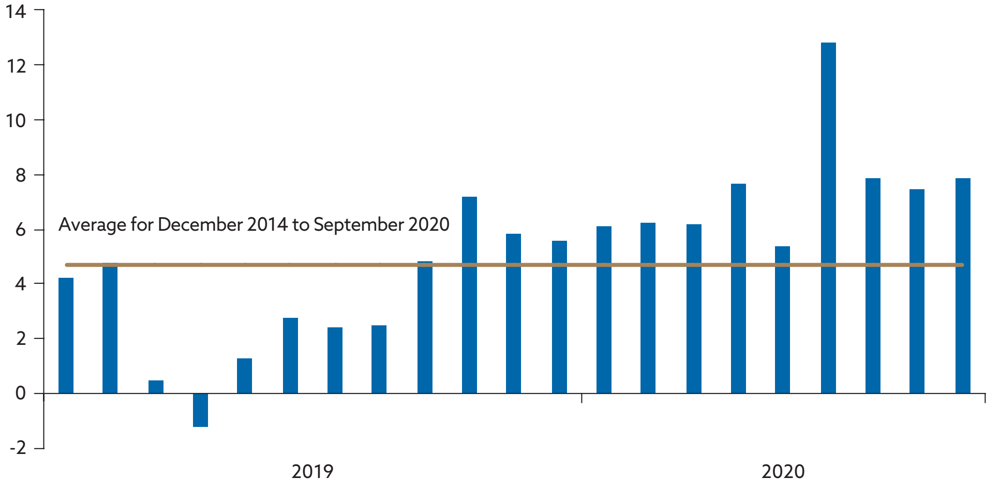
NFC deposits have increased significantly during 2020 with a growth rate far exceeding the average over the last five years (Chart A). During the lockdown period, the build-up of NFC deposits was on a par with its level in late 2019. Sales losses were partially offset by loans and government aid. After the stringent measures were eased, foreign trade recovered relatively quickly. Firms saw business pick up and the growth in their deposits gradually accelerated.

The lockdown imposed as part of the pandemic containment measures caused firms' sales to plummet. In March, firms were still able to deal with this situation, thanks to the frontloading of loans that allowed them to cover their costs. This borrowing consisted largely of working capital loans provided in the first half of March.

As the adverse situation continued, however, firms were increasingly incentivised to hold savings in order to boost their reserves and therefore be able to cope with any shortage of working capital financing. Immediately after the introduction of containment measures, NFC deposits declined in month-on-month terms, but in subsequent months they began to accelerate. The build-up of

NFC deposits has been supported by the use of government credit instruments and relief programmes, i.e. government-guaranteed loans and the option to defer tax payments.

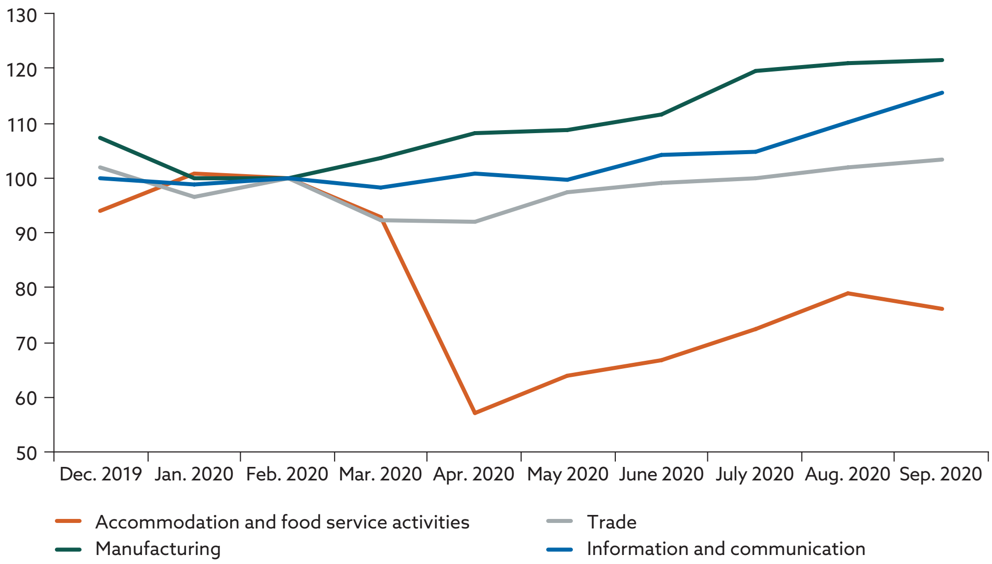
Chart A
NFC deposits (annual percentage changes)



Source: NBS calculations.

Looking at the sectoral breakdown of NFC deposits, the strongest growth has been in deposits from firms in the industry, trade, and information sectors (Chart B), which bears witness to the rapid return of these sectors' output to pre-crisis levels and to the strong solvency position of companies with foreign participation. By contrast, deposits from firms engaged in accommodation and food service activities – the sector hardest hit by the pandemic – have fallen sharply and, despite the summer pick-up in economic activity, have not returned to their 2019 levels.

Chart B
NFC deposits broken down by sector (February 2020 = 100)

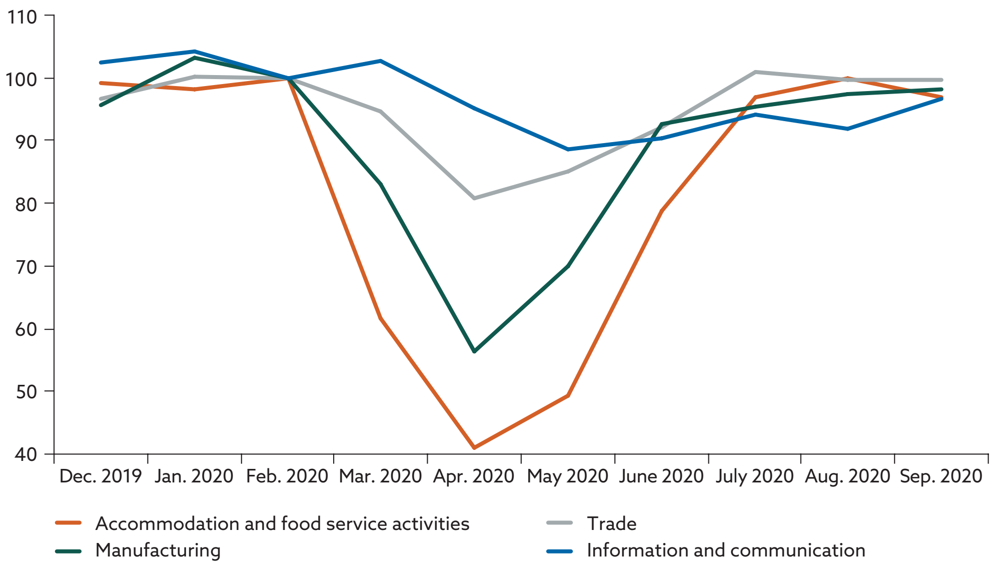


Source: NBS calculations.

Although all of these sectors have seen sales decline and then gradually return to their 2019 level (Chart C), it is those sectors with higher value added that have managed a faster increase in savings. In the case of service sector firms, the costs caused pandemic-related business closures have not been fully covered by credit flows and government relief measures, and their savings growth is far below its pre-crisis level.

Chart C

Sales broken down by sector (February 2020 = 100)

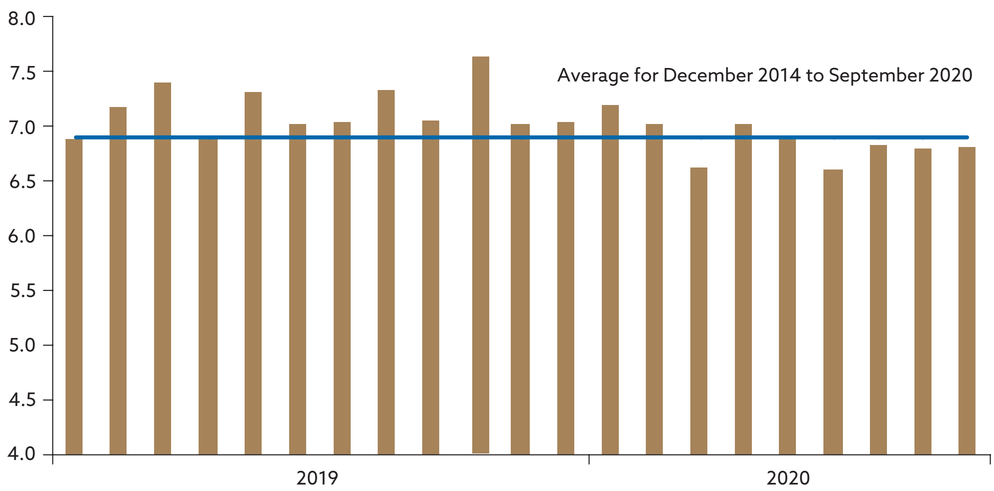


Source: NBS calculations.

Household deposits have increased, albeit at rate slightly below the average for the last five years (Chart D). On the other hand, the strong deposit growth in 2019 stemmed mainly from the favourable labour market situation and the highest wage growth in ten years.

Chart D

Household deposits (annual percentage changes)



Source: NBS calculations.

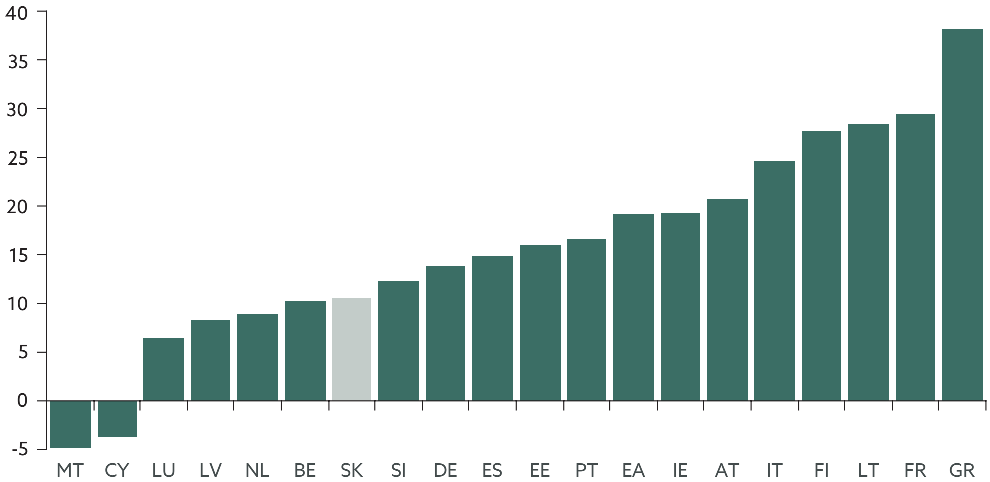
Looking at private sector deposit growth in euro area countries in 2020, deposit growth in Slovakia is more moderate and lies at the lower end of the distribution (Chart E and F). The countries in which NFCs' surplus savings increased most strongly were those countries reporting a high uptake of state-subsidised loans (France and Italy).

Compared with pre-crisis levels, NFCs' surplus savings[8] are only slightly higher (Char G), so it cannot be assumed that they will have a significant positive impact on future investment activity.

As for households' surplus savings, they are actually negative (Chart H), which implies that households have not reined in their consumption expenditure to any great extent. There has probably been a substitution effect, with the drop in expenditure on more luxurious goods (especially services) being replaced by expenditure on consumption goods. Consequently, the closure of large swathes of the services and trade sectors has had a far lower impact on surplus savings. Consumers have deferred only their expenditure on more expensive durable consumption goods, as evidenced by the continuing year-on-year decline in consumer credit.

Chart E

NFC deposits in euro area countries (annual percentage changes; September 2020)

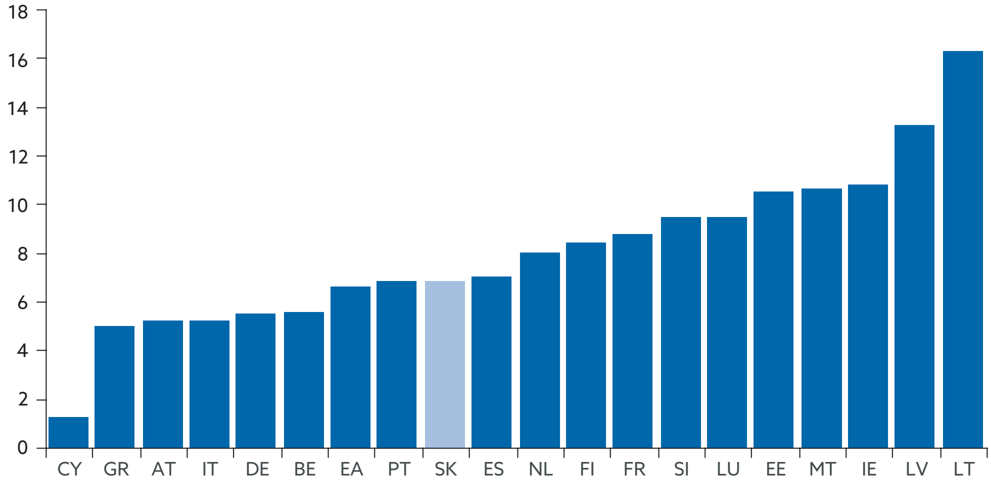


Sources: ECB, and NBS calculations.

8 Surplus savings are calculated as the difference between the level of deposits in September 2020 and the level implied by the average percentage change over the last five years (December to September) applied at the December 2019 level.

Chart F

Household deposits in euro area countries (annual percentage changes; September 2020)

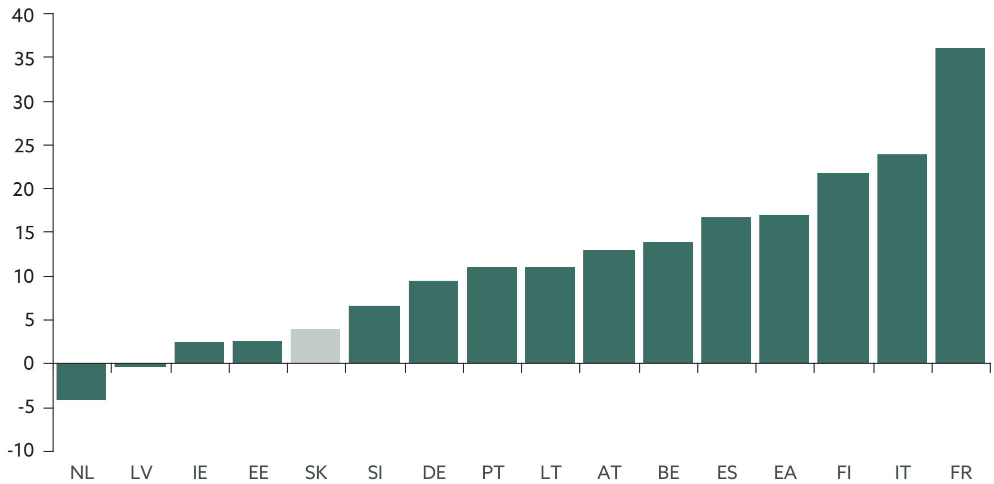


Sources: ECB, and NBS calculations.

Despite the accumulation of NFC deposits (Charts I and J), there is considerable uncertainty about their pass-through to the real economy in the near term. An important factor is the distribution of deposit growth; if deposits were accumulated mainly by large firms, it cannot be assumed that they would stimulate investment. Furthermore, firms may use surplus deposits to settle payments to creditors and the government sector. The household sector has not significantly reduced its consumption, as evidenced, for example, by sales trends, especially in the retail trade sector. The saving ratio in Slovakia has increased only marginally, which raises questions about further developments in consumer demand. In other countries where the saving ratio has increased markedly, it is assumed that households may increase their consumption expenditure with the funds they have accumulated.

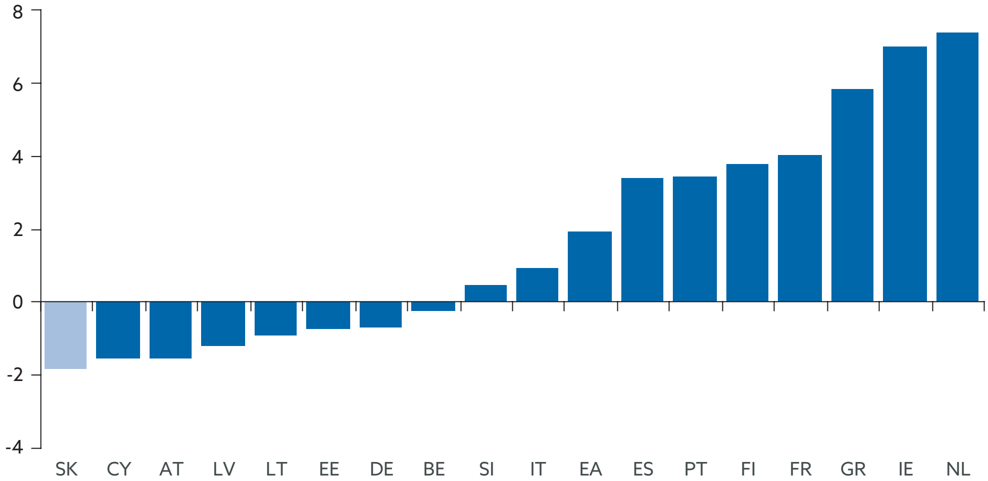
Chart G

Surplus savings of NFCs (ratio to gross fixed capital formation; percentages)



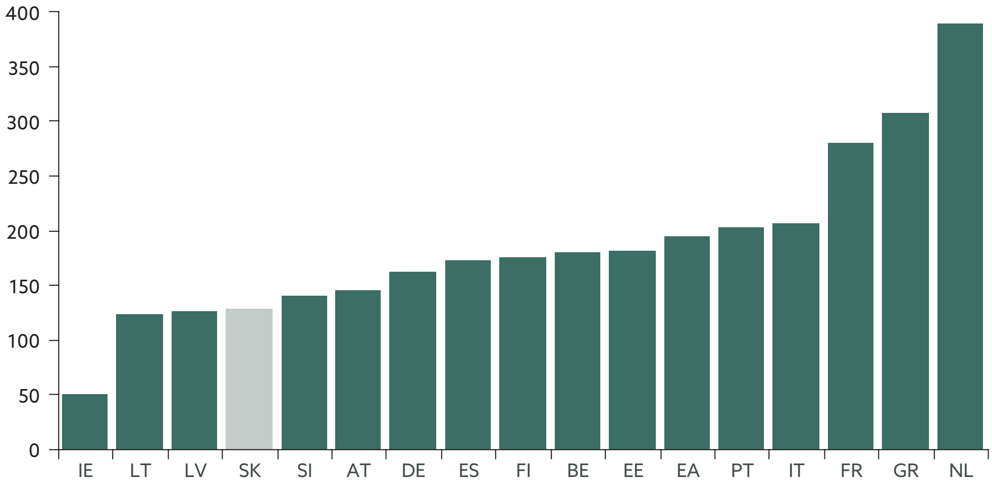
Sources: ECB, and NBS calculations.

Chart H
Surplus savings of households (ratio to household final consumption; percentages)



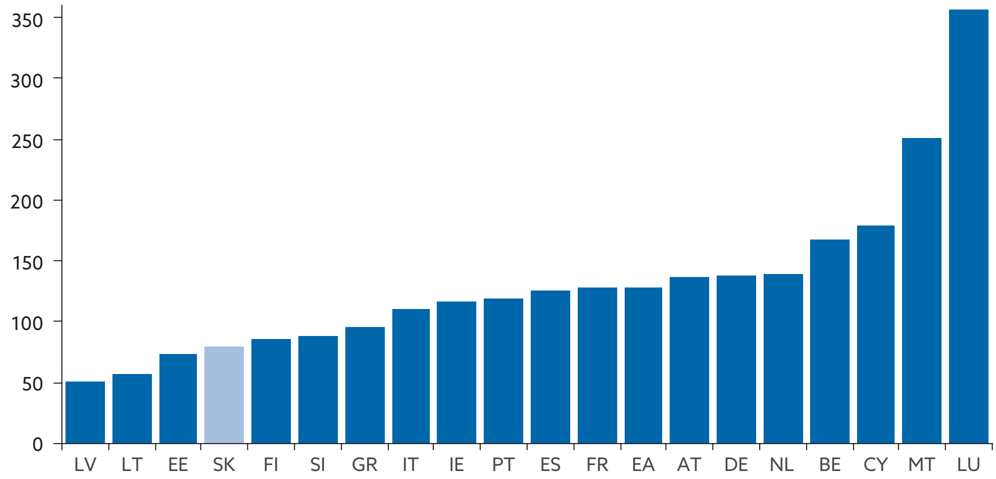
Sources: ECB, and NBS calculations.

Chart I
Total NFC deposits (ratio to gross fixed capital formation; August 2020 vs 2019 average)



Sources: ECB, and NBS calculations.

Chart J
Total household deposits (ratio to household final consumption; August 2020 vs 2019 average)



Sources: ECB, and NBS calculations.

Overview of main macroeconomic indicators for Slovakia

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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	2.6	-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	53.6	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	-2.6	52.4	-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	-0.9	51.7	-1.9	0.7	1.1297
2018	3.8	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	49.9	-2.2	-0.3	1.1810
2019	2.3	2.8	2.5	1.0	5.0	6.1	0.5	0.4	96.3	6.8	7.2	4.4	8.5	-2,201	-1.4	48.5	-2.7	-1.0	1.1195
2019 Q4	2.0	3.1	0.9	0.5	5.0	6.1	-4.7	-4.0	97.0	6.8	7.2	4.4	8.5	-	-3.5	48.3	-2.2	-0.4	1.1071
2020 Q1	-3.6	2.9	2.5	-0.5	5.1	6.2	-7.4	-4.2	97.6	5.7	6.7	4.5	8.5	-	-2.9	50.9	-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	-	-7.3	60.2	-1.4	0.1	1.1014
2020 Q3	-2.4[5]	1.5	0.3	-2.5[5]	7.4	8.2	-1.5	-1.9	85.8	7.0	5.5	3.9	7.0	-	.	.	.	.	1.1689
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	0.5	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	-42.0	-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	8.1	-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	0.5	-	7.4	8.2	-0.2	-0.9	85.9	7.0	5.5	3.9	7.0	-679	-	-	-	-	1.1790
2020 Oct.	-	1.6	.	-	7.4	8.2	.	.	87.2	.	.	.	.	-110	-	-	-	-	1.1780

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.
5) Flash estimate of the Statistical Office of the Slovak Republic.

More detailed time series for selected macroeconomic indicators
http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2020/StatisticsMB1120.xls