Medium-Term Forecast

Update Q1 2020

NÁRODNÁ BANKA SLOVENSKA
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Outlook update for the Slovak economy

- *The Slovak economy will contract by between 5.8% and 13.5% in 2020, with the most probable current estimate being a decline in the region of 9%.*
- *Government measures will help mitigate the increase in unemployment; we estimate that around 50,000 jobs will be under threat this year.*
- *We estimate that the general government deficit for 2020 will be between 6.9% and 10.3% of GDP and that the government debt-to-GDP ratio will increase to between 57% and 64%.*
- *The key risks to the outlook are the ongoing uncertainty about the future progress of the coronavirus (COVID-19) pandemic and about the implementation of lockdown measures, as well as the behaviour of financial markets and consumers.*

Národná banka Slovenska (NBS) has updated its March projections for economic developments in Slovakia on the basis of more precise estimates. These projections incorporate new information about foreign demand and about the domestic side of the Slovak economy, including the measures taken to mitigate the impact of the coronavirus (COVID-19) pandemic on the economy. In view of the ongoing climate of uncertainty, we have produced three scenarios for this update of NBS's March 2019 Medium-Term Forecast, as we did for the March forecast (MTF-2020Q1) itself.

The Slovak economy is still expected to slide into a deep recession in 2020. Based on the updated estimates, **the Slovak economy is now projected to contract by between 5.8% and 13.5% in 2020.** This is a more pronounced decline than that projected in March, with the mid-range of the forecast now close to the projection under March's adverse scenario. At present, the middle scenario (B) appears to be the most probable.

The three scenarios (A, B and C) differ mainly in their assumptions about the spread and suppression of the pandemic. All three assume that the global economy will experience a V-shaped recovery following a dramatic fall in foreign demand in the second quarter of 2020. In the most optimistic scenario (A), the global economy rebounds almost back to pre-crisis levels, while in the other two scenarios (B) and (C) the global economy and world trade experience heavier permanent losses.

All three scenarios envisage the Slovak economy following a similar path to that of the global economy, with the contraction assumed to bottom out in the second quarter and to be followed by a V-shaped recovery underpinned by both foreign and domestic demand. This trend is expected to continue in 2021 and 2022. Under the more adverse scenarios, however, production is not expected to regain its lost ground before the end of the projection period.

As regards the labour market, the recession is estimated to cost between around 46,000 and 100,000 jobs. Under the most adverse scenario, the unemployment approaches double digits. On the positive side, however, fiscal measures have been adopted to address the pandemic's negative impact on the economy, and they centre mainly on strengthening liquidity and maintaining employment. By our estimation, **the measures taken will save around 50,000 jobs**. Under the most adverse scenario, and without these measures, the number of people in employment would drop by as much as 150,000. **Wages are expected to decline this year,** under downward pressure from fewer hours worked, far fewer bonus payments, and the large number of people who will be drawing social benefits as a result of school closures and lockdown measures. In subsequent years, as economic growth begins to recover, both employment and wages are expected to return to growth.

Inflation will decelerate in the near term. Slovakia's headline inflation rate is expected to hold relatively steady in the short term, due partly to technical constraints on the monitoring of prices. The only immediate impact will be from the decline in motor fuel prices. The positive supply shock of low oil prices is not expected to translate into increasing consumer demand for other services. Over the longer term, inflation is expected to come under moderate downward pressure from the demand side as well as from lower imported inflation. On the other hand, firms' higher costs resulting from lost production are likely to have a positive impact on inflation.

The recession coupled with hefty expenditure on easing the adverse economic consequences will result in a marked deterioration in the general government deficit and an increase in the government debt. **The deficit is estimated to be between 6.9% and 10.3% of GDP in 2020, and the government debt-to-GDP is estimated to increase to 56.6%, rising to 64.0% under Scenario C.** The fiscal response is, however, essential in order to avert even greater economic damage.

The economic outlook is subject to both upside and downside risks. The greatest uncertainty concerns the future progress of the pandemic, how quickly and effectively it can be suppressed, and whether a vaccine will soon be found. Another question is how long parts of the global economy will be shut down, the answer to which may put back or bring forward the economic recovery. Other considerations include potential changes in consumer behaviour and the high uncertainty surrounding financial market developments.

Table 1 Key macroeconomic indicators

Indicator	Scenario A			Scenario B			Scenario C			MTF-2020Q1 negative scenario
(annual percentage change)	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020
Gross domestic product	-5.8	8.3	4.5	-9.3	8.0	4.3	-13.5	7.2	4.2	-9.2
Private consumption	-5.9	6.9	4.1	-10.6	8.3	3.2	-14.0	8.1	3.2	-3.6
Final consumption of general government	3.0	2.3	1.6	3.1	2.2	1.5	3.2	2.3	1.2	3.1
Gross fixed capital formation	-16.4	14.6	9.4	-19.4	11.7	9.5	-25.9	5.3	10.7	-17.2
Export of goods and services	-8.3	10.9	6.0	-11.8	9.4	6.4	-17.8	9.1	7.0	-19.3
Employment	-1.2	-0.1	0.8	-1.6	-0.8	0.8	-2.5	-1.9	1.0	-3.2
Unemployment rate (percentage)	7.0	7.4	7.0	7.4	8.3	7.7	8.2	10.1	9.5	8.6
Wage	-2.5	8.3	6.4	-3.4	8.3	6.1	-5.3	8.8	6.1	-1.5
HICP inflation	1.8	1.1	1.8	1.8	1.0	1.7	1.8	0.8	1.6	2.0
Foreign demand	-7.3	9.2	4.9	-10.4	7.5	4.9	-16.6	7.8	4.8	-17.6

Source: NBS.