

# Medium-Term Forecast

Q2 2020

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# 1 Overview

The coronavirus (COVID-19) pandemic has crippled the global economy. World trade growth has almost come to a halt following the progressive adoption of pandemic containment measures. This has naturally resulted in a sharp contraction of economic activity. **In Slovakia, GDP shrank in the first quarter by 5.4% compared with the previous quarter, falling back to a level last seen in 2017.** In this unprecedented situation, the Slovak Government has implemented measures to mitigate the social repercussions and the strains on the healthcare system. The main focus of the measures has been on preserving jobs, compensating households for lost income, and ensuring that businesses have sufficient liquidity.

**The uncertainty surrounding the further progress of the pandemic represents the greatest risk to the projections in this Medium-Term Forecast (MTF-2020Q2).** The baseline assumes the pandemic will be stopped, but that some containment measures and changes in the behaviour of consumers and investors may remain for a longer time and that the crisis will not be completely over until a vaccination becomes available next year. This implies a sluggish economic recovery.

**The baseline assumes there will be a double-digit (-10.3%) economic contraction in 2020.** The headwinds will originate abroad and have their greatest impact in the second quarter. As a result of the imposition of a state of emergency, the domestic side of the economy has also suffered significant losses.

**We expect the recovery to be gradual. The economy will not return to its pre-crisis level until the first half of 2022.** GDP growth is projected to be 8.4% in 2021 and 4.5% in 2022.

**Despite the economic recovery, there is expected to be a permanent loss of potential output** resulting from changes in global trade relations, firms going out of business, one-off capital depreciations, and reduced investment activity caused by a deterioration in financial conditions. A mix of economic policies could, however, do much to mitigate the repercussions on households and firms.

**A deep recession will take a toll on the labour market through job losses.** The first signs of this impact were already evident in data for the first quarter. Redundancies are expected to accelerate further in the second quarter, despite the positive effects of government measures. Given that most of these measures are aimed at preserving jobs, a better picture of the labour market situation may be gained by looking at the number of hours worked,

from which income from work is derived. The number of hours worked will be partly affected by people having to look after minor children during school closures. It is envisaged that the number of hours worked will fall sharply in the first half of 2020, causing a decline in wages. In the second half of the year, as lockdown measures are eased, the number of hours worked is expected to increase. This will not, however, be reflected in the employment figures. A lasting improvement in the labour market is not expected to occur until a vaccine arrives and the economic recovery gathers significant momentum.

**As for price developments, cost factors are expected to have a prevailing impact in the short term.** Gradually, however, weak consumer demand and the oil price slump will start having an effect, and headline inflation will decelerate.

**The economic contraction and the government measures to support employment will seriously impair the government's fiscal performance.** It is projected that the budget deficit will increase to 8.2% of GDP this year and that the public debt will rise above the 60% of GDP threshold. Once the current crisis has faded, public finances will face challenges in regard to their long-term sustainability.

**This forecast is subject to significant risks tilted to the downside.** A further two scenarios have been produced for this period of uncertainty. The first rests on optimistic assumptions, including a rapid recovery of both foreign and domestic demand. The other is more pessimistic in its assumptions, which envisage the coronavirus crisis having a more pronounced impact on the economy, mainly by coming back in further waves and necessitating the reintroduction of strict administrative measures. On the other hand, an upside risk to the outlook for economic developments both abroad and in Slovakia is the effective implementation of the EU's planned budget package to support economic recovery.

## 2 Recent developments in the external environment and in Slovakia

The coronavirus pandemic had a severe impact on the **euro area** economy in the first quarter of 2020. In order to protect people's health and lives, individual countries adopted measures to contain the spread of the virus; however, these measures also caused a historically unparalleled downturn in economic activity and a significant reduction in mobility. Many businesses, especially in the services sector, were shut down. Manufacturing industry was impeded by supply chain disruptions. The impact of these measures did not become apparent until March, when there were exceptionally large declines in manufacturing output and retail sales (each fell by more than 11% month on month). The euro area's **annual GDP growth fell by 3.3%**, so GDP fell back to the level it was at in the second quarter of 2017. According to available indicators,<sup>1</sup> the main downward pressure on GDP came from domestic demand (both consumer and investment). Exports also slumped, but so did imports and therefore net exports are not expected to have had a significant impact on economic growth. By contrast, government consumption made a positive contribution to growth. Since most of the coronavirus containment measures were adopted at the turn of February and March, they are expected to continue having an impact in the second quarter of 2020. This was also implied by several leading indicators dropping to all-time lows. The pandemic has also had a significant effect on price developments, as the decline in global oil demand has been reflected in the oil price and subsequently in energy prices in the consumption basket. Mainly because of the sharp drop in energy prices, the HICP inflation rate fell from 1.3% at the end of December 2019 to 0.7% at the end of March 2020 – by almost half – and then dropped to 0.4% in April. Contributing to the slowdown of consumer price growth was the deceleration of services inflation and non-energy industrial goods inflation. By contrast, food inflation accelerated.

**Slovakia has been only slightly affected by the coronavirus pandemic, but the timely adoption of containment measures has taken a toll in the form of a severe economic contraction (GDP fell by 5.4%, quarter on quarter, in the first quarter of 2020).** Among the highest in the euro area, this contraction represented a downside surprise and resulted in Slovakia's GDP

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<sup>1</sup> The composition of the GDP growth will be released on 9 June 2020.

falling back to a level last seen in mid-2017. Looking at the composition of GDP growth, exports recorded the largest decline, which stemmed from the collapse in demand for cars in China and other non-European markets. Exports to China came almost to a standstill. On the other hand, imports fell only moderately and were fully meeting consumer demand, rising demand for medicines and medical supplies, and demand for intermediate goods in the automotive industry. Consumer demand increased marginally despite the adoption of pandemic containment measures which in late March caused the shutdown of many services. Some factors supporting private consumption were of a one-off character (for example, the stocking up of food and medicines), while others (such as higher energy consumption) are expected to continue for more months. Amid the persisting uncertainty, investment activity declined.

**The severe economic decline was already having an impact on labour market indicators in the first quarter.** Employment dropped by 0.5%, and the sector making the largest contribution to that decline was industry, which has been in the doldrums for some time. The shutdown of part of the domestic economy resulted in an almost immediate decline in the number of employees. Redundancies across a large swathe of the economy are starting to affect the unemployment rate, which rose quite sharply in April (the headcount increase was around 34 thousand). Wages were still rising in the first quarter, supported by the indexation of public sector wages, increases in the minimum wage and wage premia, and the fact that the number of working days was higher in February 2020 than in February 2019 (the leap-year effect). The widespread economic shutdown in March was reflected in the number of hours worked, which caused a marked slowdown in annual wage growth.

**Inflation continued to be relatively high in the early part of the year.** The headline rate remained at just below 3% in the first quarter (down from 3.1% in the fourth quarter of 2019), with all the main prices in the consumption basket recording strong increases. There was a gradual fading of the impact of high food prices related to strong global demand for agricultural commodities. Administered energy prices increased, and consumer demand remained on an uptrend that supported increases in prices of goods and services. In March, however, the headline inflation slowed, as cost factors had an increasing impact. The collapse of the oil market resulted in declining motor fuel prices, and this was accompanied by decelerating food inflation.



# 3 Technical assumptions of the forecast<sup>2</sup>

## 3.1 Commodities, the exchange rate, and interest rates

The **exchange rate** of the euro against the US dollar<sup>3</sup> has not changed significantly since the cut-off date for the technical assumptions of this forecast. The average exchange rate over the projection period is assumed to be USD 1.083 per euro, which is 0.57% less compared with the assumption used in April's update of the March forecast. Compared with the April forecast update, there is no change in the nominal effective exchange rate (calculated with respect to Slovakia's 15 most significant trading partners).

**Oil prices** have been seriously affected by the slump in global oil demand resulting from the pandemic-related downturn in economic activity. In the first half of March, however, the downward pressure on oil prices became even greater following the triggering of a price war by Saudi Arabia (after Russia, as part of the OPEC+ alliance, refused to agree to an oil production cut). As a result, oil storage facilities gradually became filled to the brim, and although OPEC+ agreed in early April on a record production cut, the price per barrel of Brent crude declined to around USD 20. The oil market did not begin to recover until the turn of April and May. Oil prices increased in response to Saudi Arabia's announcement of a further production cut and to the improved outlook for oil demand amid the gradual easing of pandemic containment measures.

Compared with April's forecast update, assumptions for **market interest rates** are largely unchanged. Short-term rates are assumed to remain negative over the projection period (at an average level of -0.4%), while long-term rates are assumed to increase appreciably, mainly in the second quarter of the year. Ten-year government bond yields are assumed to be 0.5% in 2020, before accelerating to around 0.7% in subsequent years.

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<sup>2</sup> The technical assumptions of this Medium-Term Forecast are based on the June 2020 Eurosystem staff macroeconomic projections for the euro area, for which the cut-off date for technical assumptions was 18 May 2020.

<sup>3</sup> The bilateral EUR/USD exchange rate is assumed to remain unchanged over the projection period at the average level prevailing in the ten-working day period ending on the cut-off date.

## 3.2 Fiscal and monetary policy

**The mix of fiscal and monetary policy measures will support household income, prevent a disproportionate increase in the unemployment rate, avert a surge in firm bankruptcies, and help partly redress the deterioration in financial conditions.** In order to contain the spread of the coronavirus, the Government imposed restrictions on certain parts of the economy. These have had a major impact not only on economic activity, but also on the income situation of many households. At the same time, the Government also adopted measures aimed at mitigating such negative effects, as did the European Central Bank and the European Commission. This forecast takes into account those such measures which had been elaborated by the forecast cut-off date<sup>4</sup> and at the same time have an impact on macroeconomic developments. The most significant of these measures is the partial reimbursement of wages for all businesses and self-employed persons whose activity was restricted by the administrative measures or whose sales fell significantly as a result of them (the relief measures amount to around €1.1 billion). Account was also taken of the following automatic stabiliser: the taking of time off work to care for a family member or the taking of sick leave because of the lockdown. Government guarantees and bank loans are expected to stabilise firms' liquidity positions. The effects of all the fiscal policy measures have been quantified on the basis of the financial envelopes as presented and therefore represent the maximum impact on economic and financial indicators. It is assumed that part of these measures will be financed from the EU's common budget.

Meanwhile, the ECB has introduced measures to ensure the smooth functioning of the monetary policy transmission mechanism and financial market. The measures are intended to provide sufficient liquidity for ensuring the smooth flow of lending and for maintaining favourable financing conditions for different economic sectors. The effects of these measures are factored into the technical assumptions of this forecast.

## 3.3 Foreign demand

The impact of the coronavirus crisis was taken into account in the Eurosystem's June 2020 projection exercise.<sup>5</sup> The baseline rests on assumptions about the future evolution of the pandemic and the necessary containment measures. It assumes only partial success in containing the virus, with some resurgence in infections over coming quarters accompanied by necessary measures. A medical solution for the virus is assumed to be

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<sup>4</sup> For fiscal measures, the date was 15 May 2020.

<sup>5</sup> Eurosystem staff macroeconomic projections for the euro area, June 2020.

available by mid-2021. Elevated uncertainty and worsened labour market conditions are expected to weigh on spending by households and firms. At the same time, however, substantial support from monetary, fiscal and labour market policies will benefit the economy. The economy is projected to pick up in the third quarter of 2020, but its return to pre-crisis levels will be only gradual. Euro area GDP is projected to fall by 8.7% in 2020 and to rebound by 5.2% in 2021 and by 3.3% in 2022. This implies that the level of GDP at the end of the projection period would be around 4% below the level expected in the March 2020 projections.

In the light of new information about the economic situation in Slovakia's pandemic-hit trading partners, the assumptions for **foreign demand** for Slovak exports have been revised down substantially. There has been a revision of outlooks both for trading partners within the euro area and for those outside the bloc. In 2020, foreign demand is now assumed to decline by a record 14.5% (representing a downward revision of four percentage points from the previous forecast). It is assumed that foreign demand will rally in the second half of the year as global markets rebound but that the recovery will not be enough to restore demand to pre-crisis levels. Foreign demand is assumed to increase by 6.6% in 2021 (0.9 percentage point lower compared with the previous forecast) and by 4.7% in 2022 (0.2 percentage point lower).

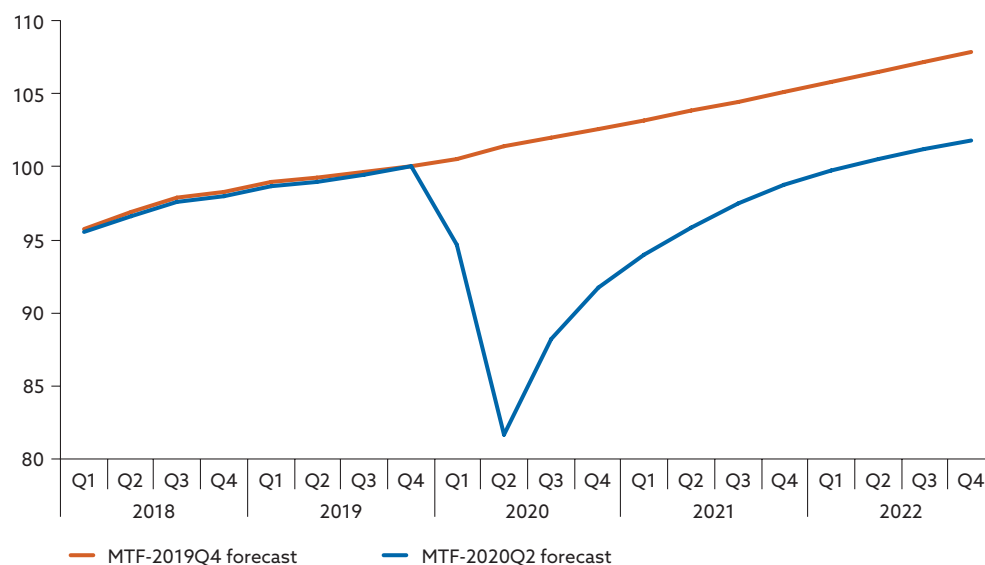
# 4 Macroeconomic forecast for Slovakia

## 4.1 Economic growth

**The Slovak economy will fall into a deep recession in 2020, and its recovery will take longer than we envisaged a month ago.** The spread of the pandemic across almost the whole world and the sharp slowdown in world trade resulting from global-level pandemic containment measures will cause a severe decline in foreign demand for Slovak goods and services. This decline is expected to be similar in scope to that in 2008 and 2009 during the global financial crisis. The headwinds from the external environment will be further amplified by the shutting down of a large part of the domestic economy under the state of emergency and by the closure of some businesses. The provision of services involving social contact will be particularly hard hit. The economy is projected to contract sharply in the second quarter of 2020, before returning to growth in the second half of the year. However, the low level of economic activity during the lockdown period and the ongoing climate of uncertainty will prevent the economy from returning to its pre-crisis level in the near term.

**Chart 1**

**GDP growth (annual percentage changes)**



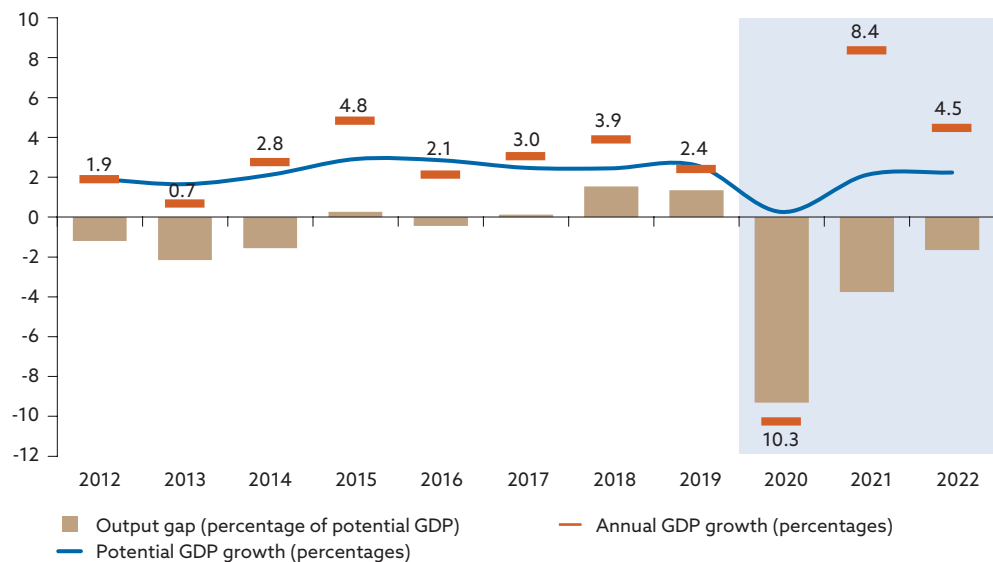
Source: NBS calculations.

**The Slovak economy is expected to contract by 10.3% in 2020.** The main difference between this downturn and the 2009 crisis is in the private consumption situation. During the global financial crisis, consumer demand

stagnated, whereas now it is expected to decline sharply. GDP is projected to accelerate by 8.4% in 2021 and by a more moderate 4.5% in 2022. This upturn is predicated on the expected recovery of global economic activity and the consequent boost to Slovakia's export performance.

**Slovakia's GDP is not expected to return to its pre-crisis level (fourth quarter of 2019) until the first half of 2022, and there are also envisaged to be permanent economic losses.** Allowance must also be made for shifts and problems in global trade and for firms going out of business both in Slovakia and abroad. This implies that potential output will be reduced by a slowdown in productivity, one-off capital devaluation, reduced investment activity, and an increase in structural unemployment.

**Chart 2**  
GDP and the output gap (percentages)



Sources: SO SR, and NBS calculations.

## Box 1

### Estimating the impact of the coronavirus on the supply side of the economy

From a central bank perspective, it is important to look equally at both the demand and supply sides of the economy. The supply side sheds key light on demand-pull inflation pressures. From a broader economic-policy perspective, this is essential to ensuring the correct policy stance between short-term stimuli and measures that have a long-term impact on the labour market and investment climate.

The current pandemic-affected economic situation will very probably have an impact on both the demand and supply sides of the economy. In the short term, the supply side is operating in an emergency regime, as labour supply restrictions as well as forced shutdowns of production

capacities mean it cannot operate at potential. In the longer term, the current crisis will have implications for potential output owing to the disruption of global value chains (GVCs), firm bankruptcies, one-off capital depreciations, and the reduction of investment activity amid worsened financial conditions. It will likewise have a negative impact on the labour market.

Potential output is an unobservable variable which cannot be measured. In a certain sense it is a long-term indicator that should not change significantly over time; in other words, it should be stable over time. Nevertheless, potential output cannot be estimated with certainty even during standard periods. The situation becomes more complicated in the event of a non-standard change or turning point and the resulting doubts about the future. In such cases, where statistical methodologies or simpler models are used to estimate potential output, the condition of stability may be infringed over time. This means that if the type of turning point cannot be correctly identified in the observable data, i.e. the problematic period has not passed, it is extremely difficult to estimate potential output without additional information and expert judgement.

An unexpected crisis should not, however, have an impact on the revision of past (historical) developments. It must also be considered that there will be permanent losses of productive capacity which will have a noticeable effect on potential output.

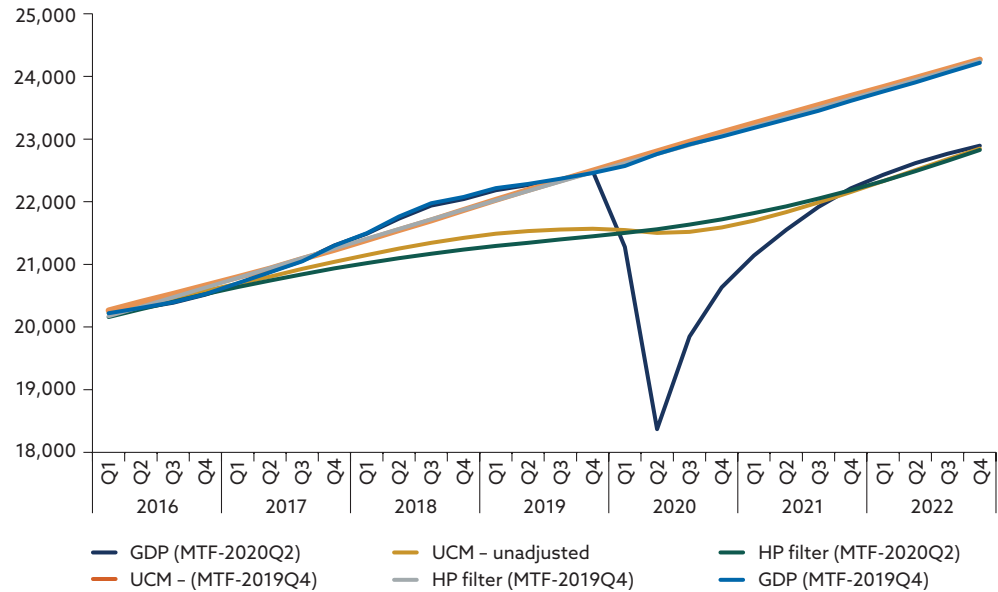
The use of traditional filtering techniques in the case of an unexpected, sharp economic downturn is limiting, because such turning points tend to result in a revised view of previous years. Using a simple HP filter along with the estimation of an unobserved components model (UCM)<sup>6</sup> (a model with unobserved components based on a Kalman filter) would cause a significant deceleration in potential output growth, i.e. economic overheating, in 2019 (see Chart A). Such a development is intuitively inconsistent with the gradual decelerating of the economy that we have been observing (see Chart B). A higher degree of stability is provided by, for example, approaches based on principal components analysis (PCA)<sup>7</sup> (based on a common factor obtained from analysis of principal components). Compared with filtering models, they have the advantage of not being subject to any significant revisions of input data. Their drawback, however, is that they do not offer insights into the projection horizon. These estimations were the source of the information that the pandemic should not affect the development of historical data (see Chart C).

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<sup>6</sup> Developed by the ECB and modified by an ECB working group (Task Force for Potential Output) for use in central banks, the UCM is here estimated for Slovak data and adjusted to the needs of NBS. Further information on the measurement of potential output may be found at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecbop156.en.pdf>, <https://www.ecb.europa.eu/pub/pdf/ecbu/eb201807.en.pdf>

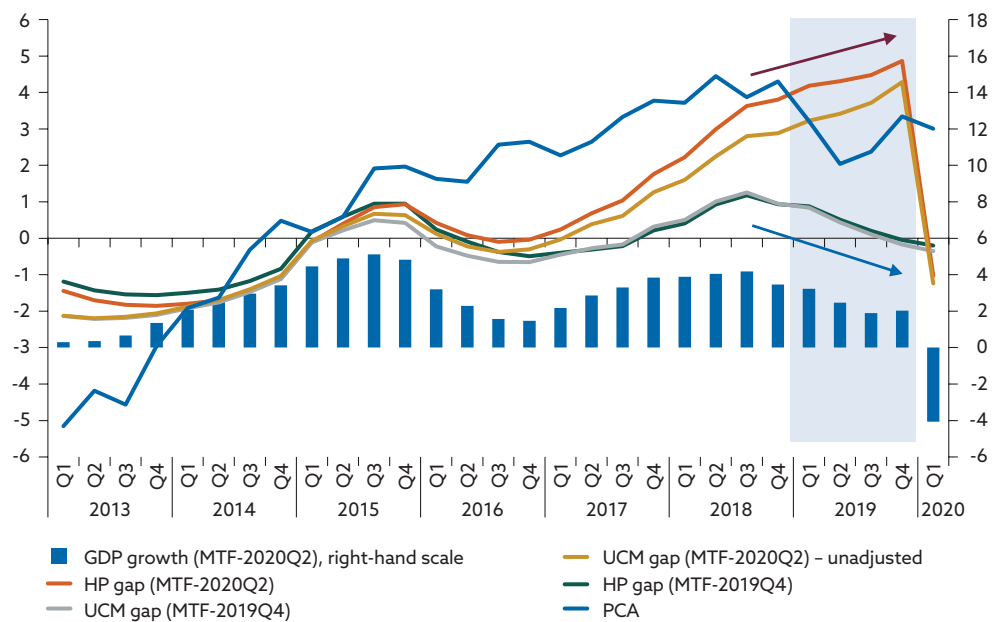
<sup>7</sup> Michal Benčík (2019), “Construction of a Survey-based Measure of Output Gap”, NBS Working Paper, No 3/2019, available online at [http://www.nbs.sk/\\_img/Documents/PUBLIK/WP\\_3\\_2019\\_Bencik\\_Construction\\_of\\_a\\_Survey-based\\_Measure\\_of\\_Output\\_Gap\\_EN.pdf](http://www.nbs.sk/_img/Documents/PUBLIK/WP_3_2019_Bencik_Construction_of_a_Survey-based_Measure_of_Output_Gap_EN.pdf)

**Chart A**  
Potential output – unadjusted (EUR billions)



Source: NBS calculations.

**Chart B**  
Output gap and GDP growth (percentages)

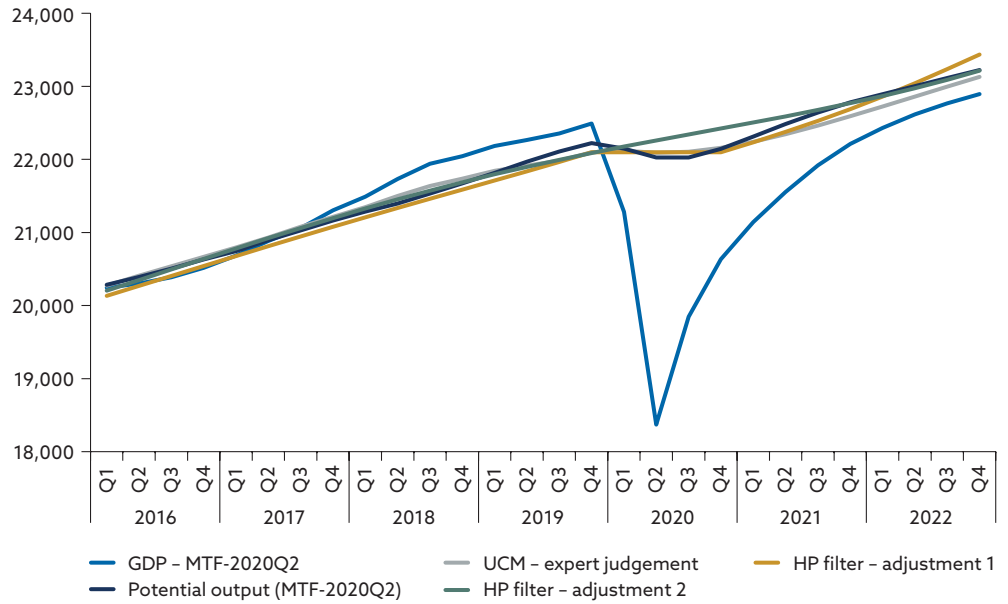


Source: NBS calculations.

Given the current situation and great uncertainty about future developments, the most feasible (temporary) solution appears to be expert judgement in the estimation of models, for example the split of the data range into a pre-crisis period and post-crisis period, the adjustment of input data, expert intervention (local) in the statistical properties of the models, or a combination of all approaches, so that the final potential output results in as few historical revisions as possible but also in a realistic adjustment over the projection period. Illustrative estimations of statistical models adjusted in this way are given in Chart C. These results were employed indicatively in determining potential output for the MTF-2020Q2 forecast using a production function.

Chart C

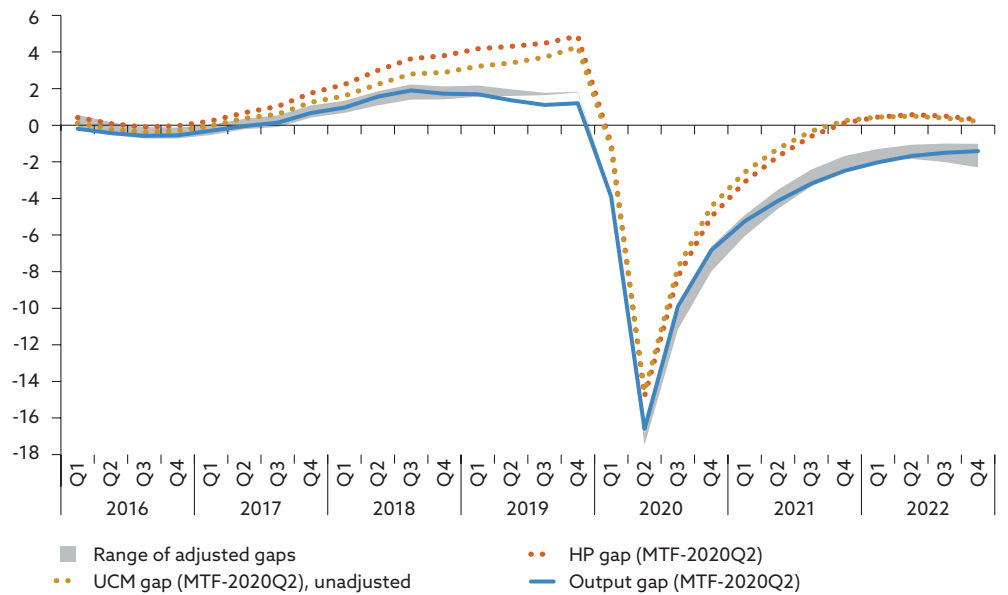
Adjusted estimations of potential output (EUR billions)



Source: NBS calculations.

Chart D

Output gap - MTF-2020Q2 (percentages)

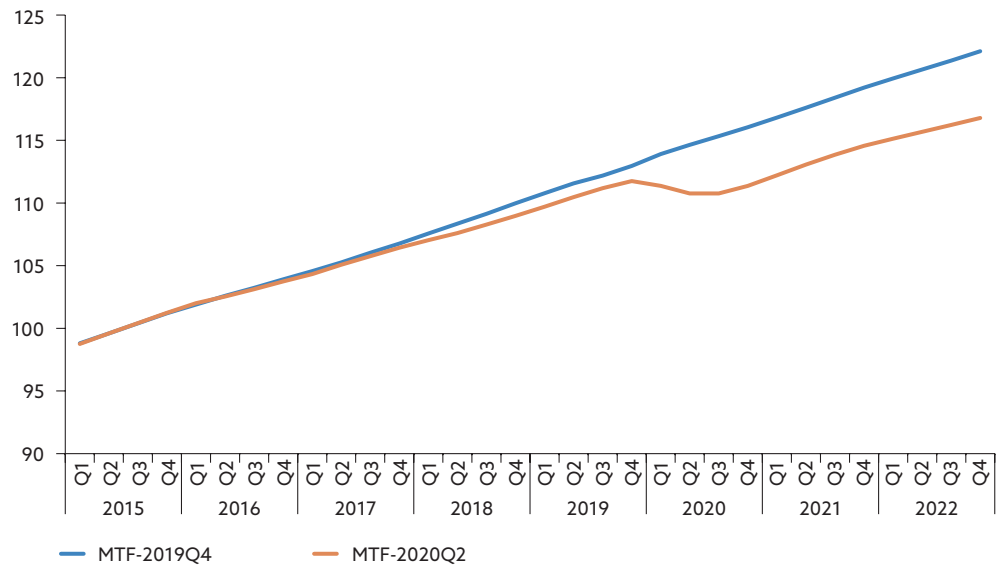


Source: NBS calculations.

In this forecast, the pandemic is assumed to cause the Slovak economy a permanent loss of production capacity of around 3% by the end of 2022. (Compared with the MTF-2019Q4 forecast, the cumulative change in potential output is 4%, although one percentage point of that figure is due to a national accounts revision.) The largest contribution to this revision is expected to come from reduced capital accumulation (see Chart F) resulting from a deterioration in financial conditions and a decline in investment activity. Because of short-term restrictions related to the state of emergency, potential output is projected to decline moderately in the first half of 2020, before gradually returning to growth during the economic recovery.

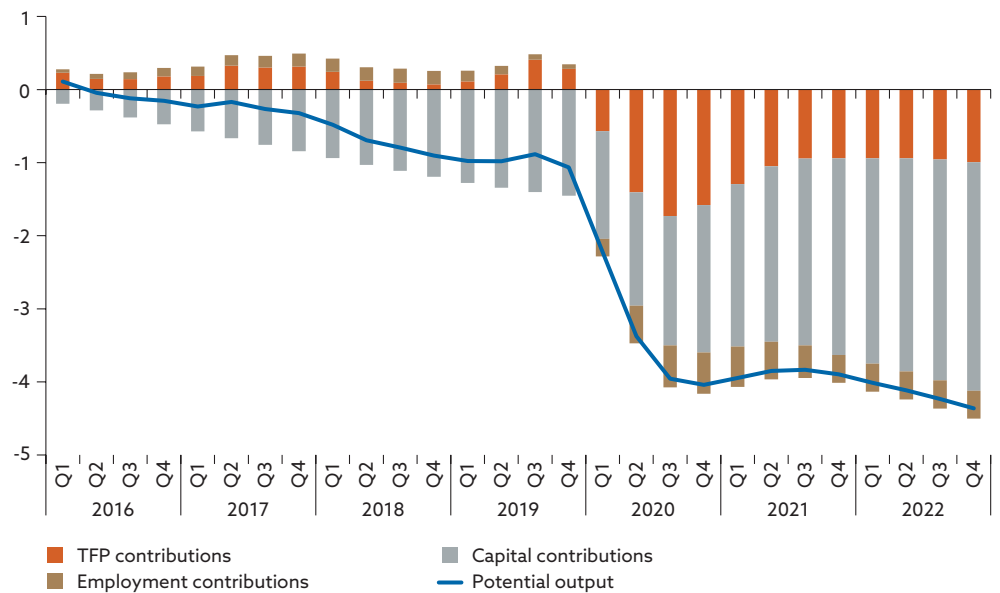


**Chart E**  
Potential output (2015 = 100)



Source: NBS calculations.

**Chart F**  
Contributions to change in potential output (vis-à-vis MTF-2019Q4)



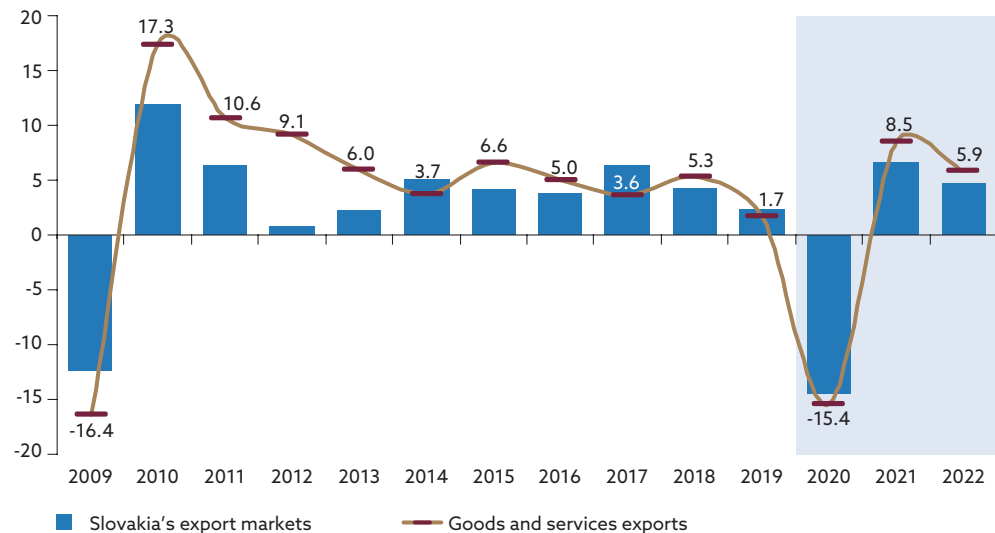
Source: NBS calculations.

**Exports will fall sharply in 2020.** Global trade and supply chains have been severely disrupted by the pandemic and the restrictive measures taken by countries in response to it. This became apparent during the first half of the year. The extent to which this development will affect Slovak industry and, by extension, exports will depend on consumer preferences in the country's external markets. Despite the high share of cyclical sectors in manufacturing industry, the Slovak economy is assumed to pick up in the second half of the year as world trade begins to recover. In subsequent

years, rising foreign trade will have an upward impact on export performance and the economy will begin regaining market shares.

**Chart 3**

**Slovakia's foreign demand and exports of goods and services (annual percentage changes; constant prices)**



**Sources:** SO SR, ECB, and NBS calculations.

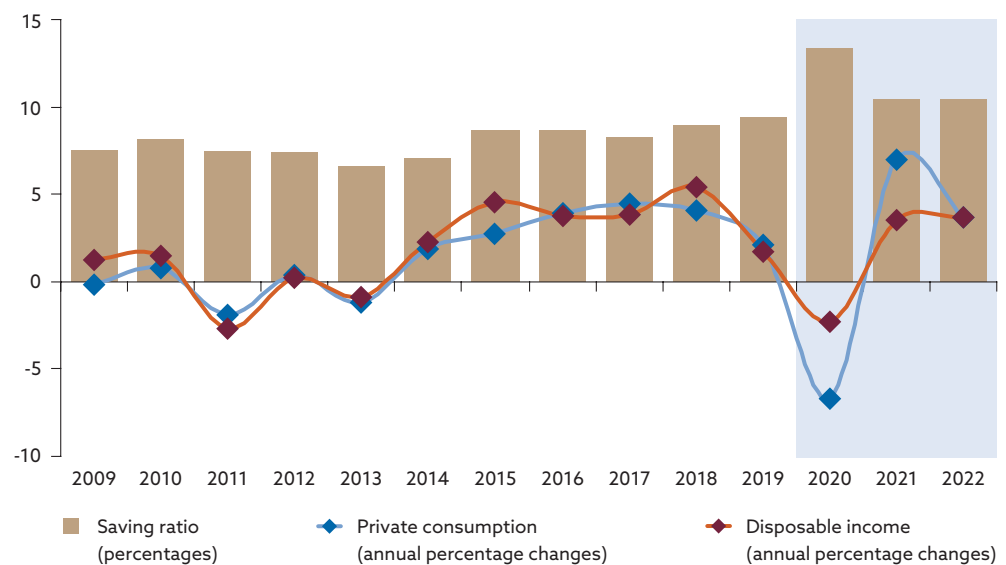
**Amid the pandemic and climate of uncertainty, investment demand will decline markedly in 2020.** This is already indicated by developments in the first quarter of the year. In response to the uncertainty, firms were reining in investment plans, and that pattern is expected to continue in subsequent quarters. By the end of 2022, total investment will be around 4% below its pre-crisis level, despite financial conditions remaining favourable and increased absorption of EU funds. The decline in private investment is expected to be particularly severe, owing to excess capacity and to uncertainty about future developments – mainly in the economy's cyclical sectors dependent on future consumer demand. After its sharp decline this year, investment demand is expected to recover on the coattails of economic activity growth.

**Coronavirus containment measures will reduce consumer demand in 2020 and push up savings. Thereafter, however, demand is expected to pick up significantly in the medium term.** The pandemic and contraction of economic activity will be reflected in lower disposable income this year. Nominal income from work is expected to fall for the first time on record, owing to a decline in the number of hours worked (reflecting the imposition of short-time working in various forms), to a drop in corporate profitability and consequently in variable components of compensation, and to an increase in sickness benefit claims. The slump in disposable income and its impact on private consumption would be expected to be even more pronounced, but for the adoption of fiscal measures aimed at preserving jobs. The potential for consumer demand growth appears to be limited this

year. Besides the negative income effect, another factor expected to weigh on consumer demand is the impact of business closures during the state of emergency, especially in the services sector. There will be a forced decline in consumption of certain services. The impact of pandemic-related administrative measures is expected to peak in the second quarter of the year. During this period, the household saving rate has increased significantly. On the positive side, the economy will recover as the containment measures are gradually eased. It is projected that income will rebound and that households will not only meet their current expenditure needs, but also make purchases they had previously deferred. Hence the saving rate is expected gradually to decrease. Over the medium term, consumer demand is projected to increase on the back of recovering domestic and foreign demand and an improving labour market situation. Private consumption is expected to have returned to its pre-crisis level by the end of the year.

**Chart 4**

**Household income, household consumption and the household saving ratio**



Sources: SO SR, and NBS calculations.

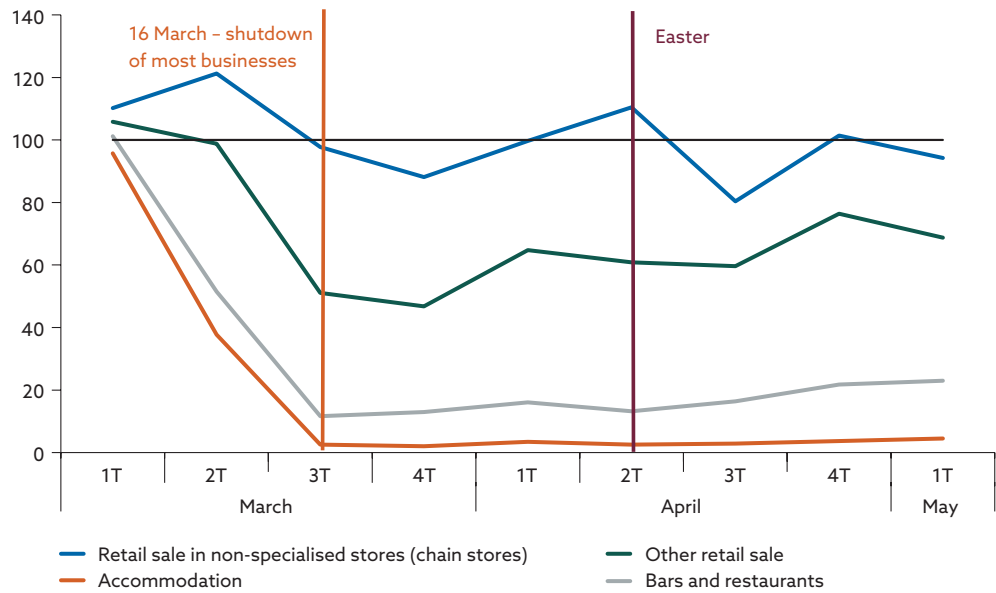
**Box 2**

**Estimation of consumer demand in the first half of 2020**

Unlike the foreign demand assumptions, which were based on ECB assumptions, the projections for the domestic side of the economy were especially difficult to make in this unprecedented situation. Monthly data on economic developments are typically released with a lag of one and a half months, and the more granular quarterly national accounts data (having better coverage of reporting entities) are released with a lag of more than three months. It is therefore exceptionally hard to estimate the impact of the pandemic while measures are changing from day to day. For that reason, we used only one source of high-frequency data: eKasa data from the Financial Administration of the Slovak Republic. These data indicated how large may be the declines in private consumption, broken down by the Classification of Individual Consumption According to Purpose (COICOP).

Chart A

Retail sales (average week in February 2020 = 100)

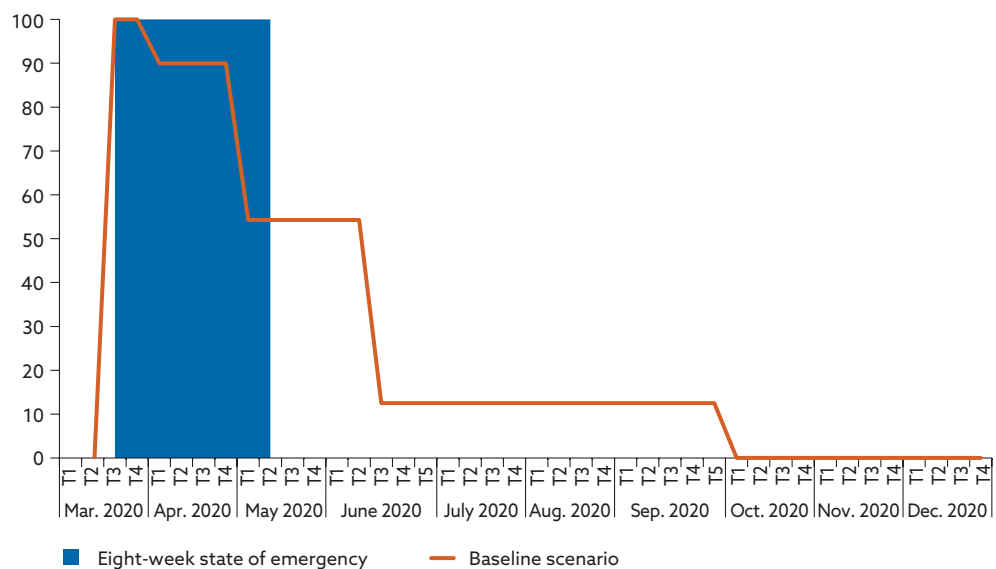


Sources: eKasa, and NBS calculations.

This forecast assumes that households have already adapted to the situation under the state emergency and have begun using the shopping options available to them. This is what the eKasa data imply. The decline in private consumption has therefore slowly moderated since its peak at the outset of the pandemic, and consumer demand is expected to rally as the economy is gradually reopened. The uncertainty among households as a result of the worsening labour market situation will result in them taking a cautious approach to increasing their expenditure, and that uncertainty is not expected to have fully dissipated until the last quarter of this year.

Chart B

Decline in private consumption (percentage of peak decline during state of emergency)



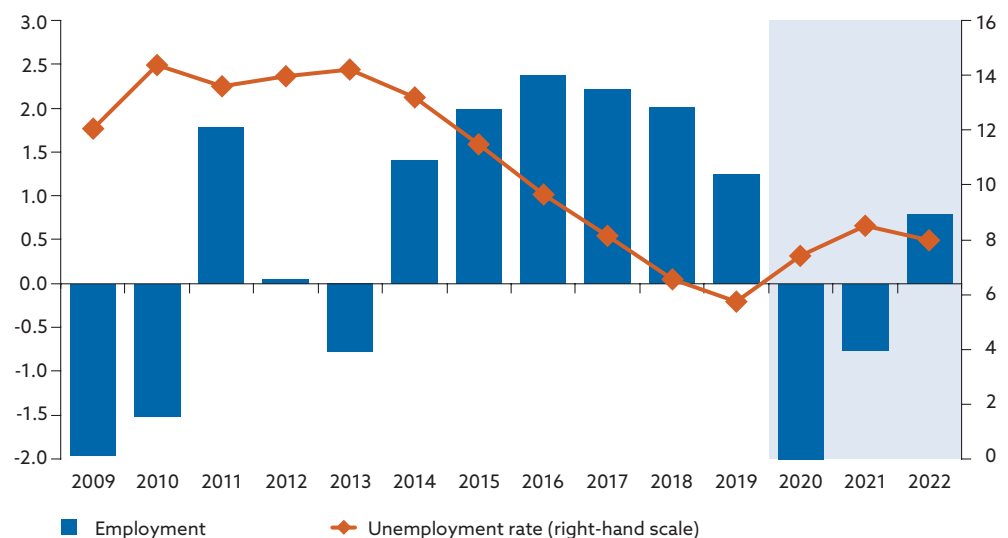
Source: NBS calculations.

## 4.2 Labour market

The recession will have a severe impact on the labour market. It is estimated that as many jobs will be lost this year as were created in the previous two and a half years (around 70 thousand). Given labour market rigidity and the impact of labour market policy instruments, a better indicator of the real situation in the labour market is the number of hours worked. This is expected to plummet in the second quarter of 2020 under the effect of the state of emergency in place at that time, and household income will consequently be impacted. In the subsequent period, after the measures restricting the economy have been eased, the number of hours worked is expected to rebound, which will improve the labour market situation at least in regard to income from work. This improvement is expected to gather momentum in the medium term. Economic policies, especially in the form of fiscal measures, have been targeted at preserving jobs. It is estimated that these measures will save some 50 thousand jobs. That, however, will not be enough to stop employment decreasing this year by a projected 2.1% or the unemployment rate increasing by more than 8%. Even if the economy recovers quite rapidly, the labour market is expected to remain stagnant for still some time because of the climate of uncertainty. No recovery is envisaged until economic activity regains significant momentum in the second half of 2021.

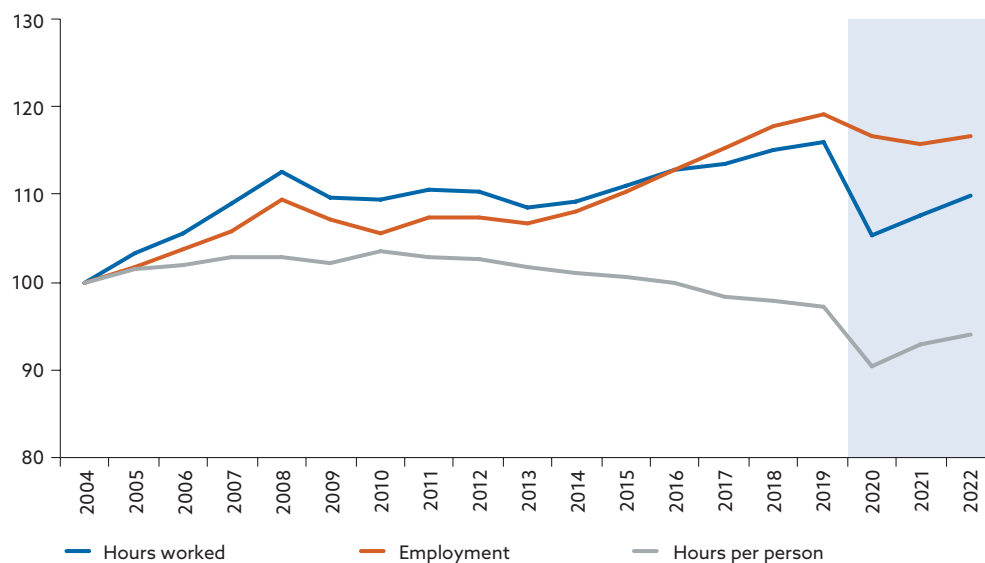
Chart 5

Employment and the unemployment rate (annual percentage changes)



Sources: SO SR, and NBS calculations.

**Chart 6**  
**Labour market indicators (index 2004 = 100)**



Sources: SO SR, and NBS calculations.

**Wages are expected to decline in 2020 and then to grow strongly in line with increasing hours worked.** This year's wage outlook is poor, as implied by monthly data for March. Average annual wage growth across the private sector segments under review fell to 1.7%. The pandemic-related downward pressure on wages is expected to be even greater in the second quarter. In many firms, employees have been working from home on between 60% and 80% of their average salary. Firms in several sectors will apparently not be able to afford to pay ad hoc bonuses. Negotiated wage increases, which in previous years have been very high, will also come under pressure. The impact of the unfavourable situation in the private sector will be partly offset by strong wage growth in the public sector. Over the medium term, wage growth is expected to be robust and in line with labour productivity growth.

**Table 1 Wages (annual percentage changes)**

	2019	2020	2021	2022
Nominal labour productivity	4.1	-7.1	9.0	5.3
Whole economy - nominal wages	7.8	-1.7	8.0	5.7
Whole economy - real wages	5.0	-3.5	7.1	4.3
Private sector - nominal wages	6.3	-4.7	8.6	6.2
Private sector - real wages	3.5	-6.4	7.7	4.8
Public administration, education and health care - nominal wages	13.4	8.3	5.8	4.1
Public administration, education and health care - real wages	10.4	6.3	4.9	2.7

Sources: SO SR, and NBS calculations.

Notes: Deflated by the CPI. The sector 'Public administration, education and health care' corresponds to sections O, P and Q of the SK NACE Rev. 2 statistical classification of economic activities.

## Box 3

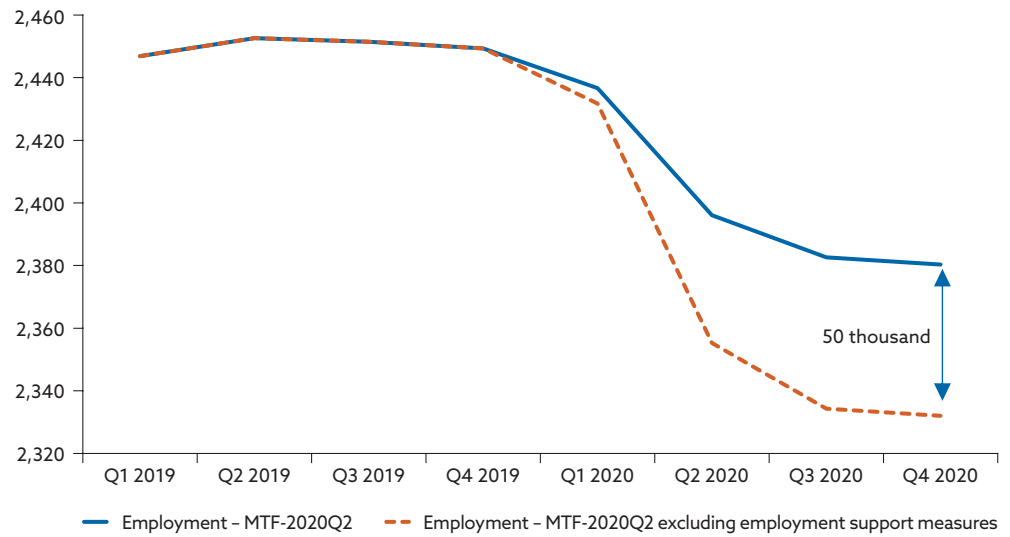
### Estimation of the impact of fiscal measures on labour market indicators

The purpose of this box is to outline what account has been taken of the Slovak Government's measures to support the preservation of jobs and household income.<sup>8</sup> The impact of the measures on labour market indicators were estimated on the basis of the financial envelope and the terms and conditions of the disbursement of financial aid to firms and self-employed persons. The first of the measures (measure 1) was the approval of aid to small and medium-sized enterprises (SMEs). Under this measure, the Government defined state aid for these firms in accordance with EU legislation and undertook to reimburse 80% of the salaries of employees of such firms for the time that the firms were forced to shut down under the pandemic containment measures. The Government has also approved the partial reimbursement (measure 2) of the salaries of self-employed persons or employees whose business or employer has experienced a decrease in sales during the crisis; the Government's contribution ranges from €180 to €540 depending on the sales decrease. These two measures were targeted at the hardest hit SMEs, and the aid per firm was capped at €200,000 per month or €800,000 per year. In April the Government approved a so-called Kurzarbeit scheme (measure 3) which extends the reimbursement of wage costs to large enterprises. In addition, the Government dispensed employers from having to pay social security contributions for April (measure 4). Measure 1 is estimated to affect between 160,000 and 180,000 employees with the average salary reimbursement per employee amounting to between €320 and €630 (data for March, April and May). Under measure 2, around 640,000 people could claim an average wage reimbursement of €435. Measure 3 is expected to save large enterprises around €320 million in total, and measure 4 will bring savings of €40 million. All of these measures are aimed at preserving jobs and thereby keeping employees out of the welfare net. The measures have a positive impact on employment by reducing employers' labour costs. At the same time, they may give some self-employed persons an incentive to keep their trade licence and to remain in business during the crisis. The overall amount of aid payments for supporting income from employment is expected to be €1.1 billion in 2020. Based on estimates of the reduction in employers' labour costs, the impact of the measures on employment has been estimated and indicates that employment would be some 50 thousand lower without the measures than with them, which represents 1.5 percentage point of the rate of change in annual employment in 2020.

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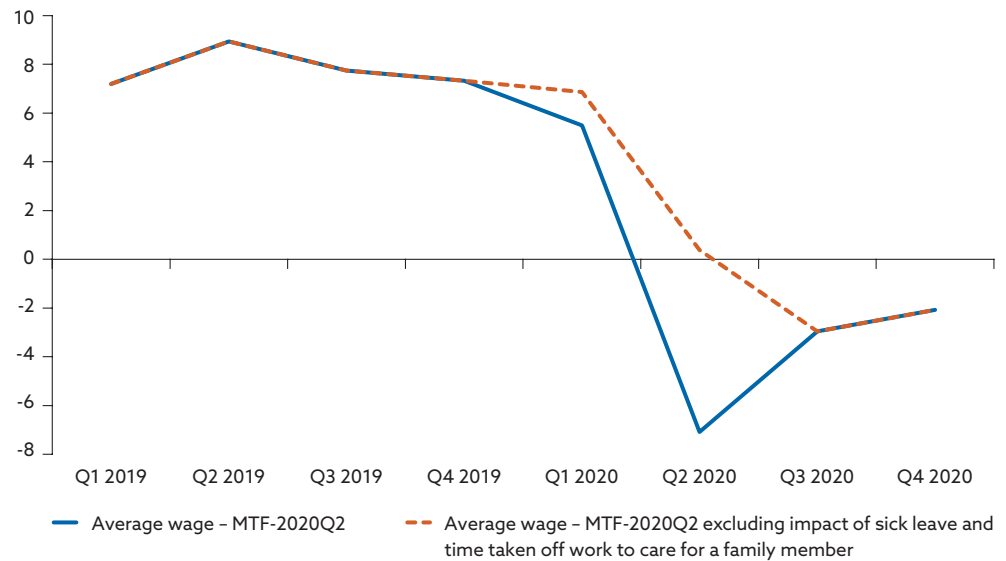
<sup>8</sup> Further information on the Government's measures and the conditions for drawing funds are available at [www.pomahameludom.sk](http://www.pomahameludom.sk)

**Chart A**  
Employment (thousands of persons)



Source: NBS calculations.

**Chart B**  
Wage growth (baseline scenario) (annual percentage changes)



Source: NBS calculations.

Wages will be dampened this year by the “technical” factor of nursing benefit and sickness benefit claims resulting from the pandemic. The forecast estimates that government spending on such payments will be €381 million. This will cause labour costs to drop by around €870 million and its negative impact on wage growth will be around 2.2 percentage points. So, instead of increasing by a marginal 0.5% in 2020, the average base wage is expected to decline by approximately 1.7%. The downward pressure on wage is expected to be strongest in the second quarter of 2020, when the average wage will fall sharply. The lost wages will not be fully reflected in the decline in disposable income, as people will receive wage compensation under sickness insurance schemes.



### 4.3 Price developments

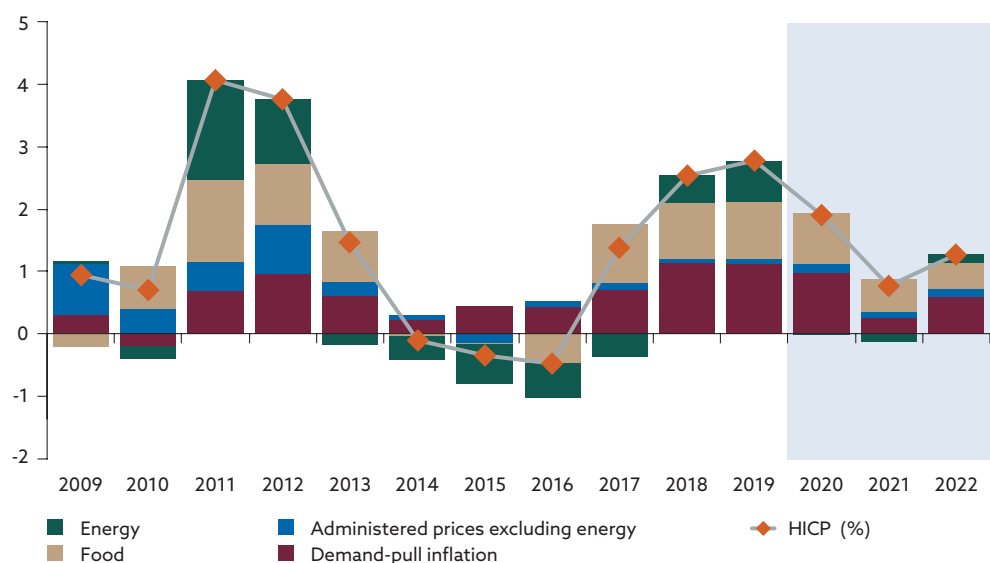
**Annual HICP inflation will decelerate owing not only to falling energy prices, but also to the softening of consumer demand.** The slump in energy commodity prices has been passing through to motor fuel prices. Falling oil prices will be reflected in administered prices from January of next year. Core inflation has been only slightly dampened by reduced demand, since the cyclical position is not for now directly linked to price developments.

The headline inflation rate is projected to be relatively steady in the short term, partly because of technical difficulties in tracking prices. Cost factors are expected to be opposing the downward pressure on inflation until the end of 2020. Agricultural commodity prices are expected to continue rising as a result of supply chain disruptions and the limiting factor of a shortage of seasonal workers. At the same time, especially in the services sector, firms are having to pay fixed costs while their income declines amid the partial loss of consumer demand. This therefore makes firms less willing to reduce prices.

Over the longer term, the impact of cost factors on headline inflation will be outweighed by the dampening effects of lower consumer demand as well as lower imported inflation. This, together with the disinflationary path of energy prices, will see inflation fall temporarily to below 1% in 2021. Later that year, as the global economic recovery gathers significant momentum, inflation is expected to pick up again with all of its components making a positive contribution.

**Chart 7**

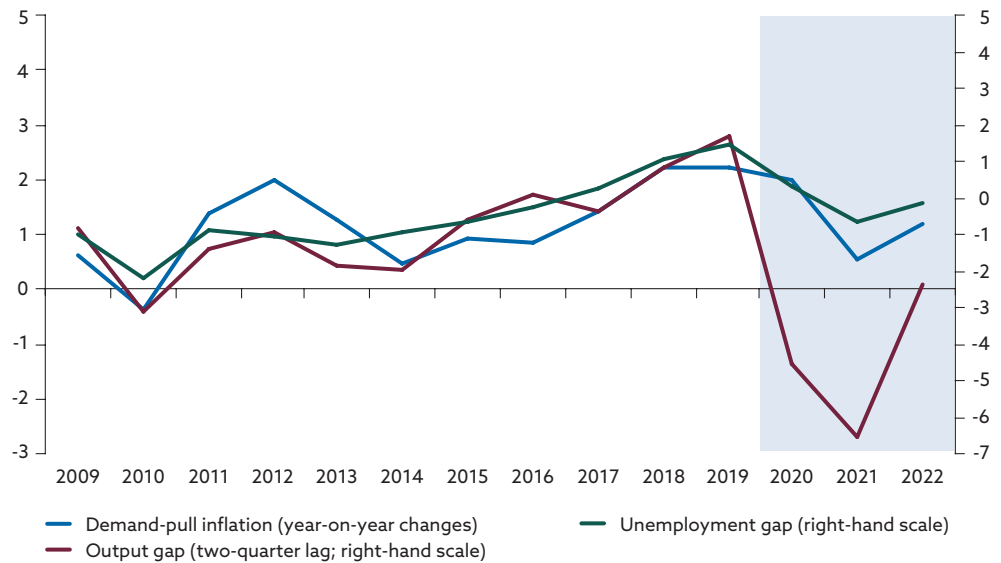
**HICP inflation and its components (annual percentage changes; percentage point contributions)**



Sources: SO SR, and NBS calculations.

Chart 8

Demand-pull inflation and the output gap (percentages)



Sources: SO SR, and NBS calculations.

Note: Demand-pull inflation comprises the following: services inflation excluding administered prices; and non-energy industrial goods inflation excluding administered prices.

Table 2 Components of HICP inflation (annual percentage changes)

	Average 2004-2008 (pre-crisis period)	Average 2010-2014 (post-crisis period with euro currency)	2018	2019	2020	2021	2022
HICP	4.1	2.0	2.5	2.8	1.9	0.8	1.3
Food	3.6	3.1	3.4	3.7	3.1	2.0	1.6
Non-energy industrial goods	0.2	0.3	1.1	1.1	1.4	0.4	0.5
Energy	8.3	2.3	3.0	4.2	-0.1	-0.9	0.9
Services	5.3	2.5	2.8	2.8	2.3	0.8	2.0
Demand-pull inflation	1.8	1.0	2.2	2.2	2.0	0.5	1.2

Sources: SO SR, and NBS calculations.

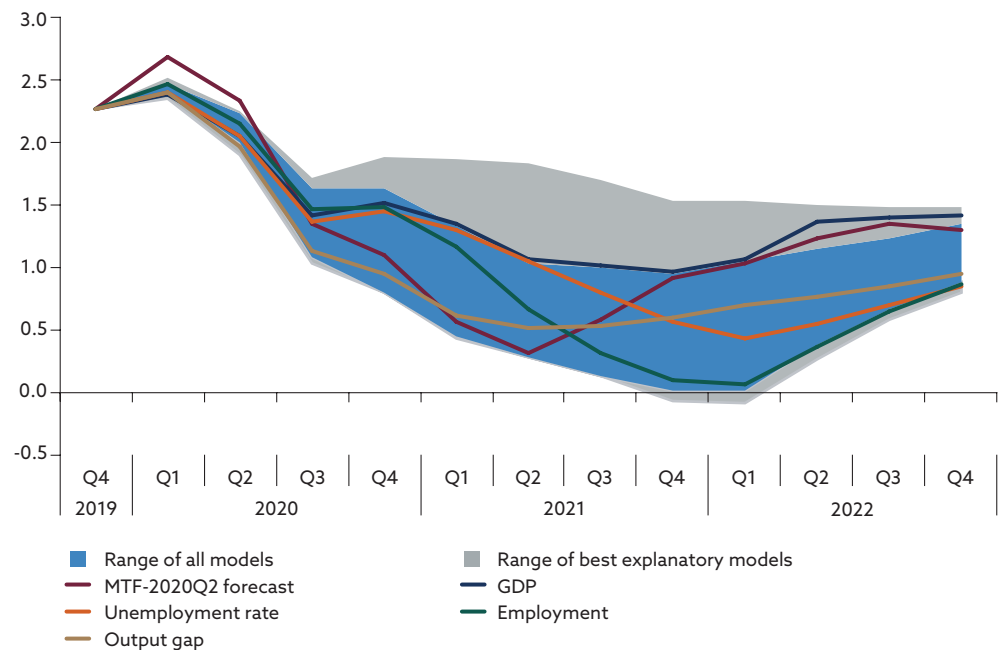
The impact of higher cost factors will be more than offset, mainly by the economy's negative cyclical position. Price growth is expected to be dampened as the worsened labour market situation undercuts consumer demand. Based on several simple Phillips curve estimations,<sup>9</sup> it may be

<sup>9</sup> We used the following Phillips curve specification:  $inf_t = \mu + \rho inf_{t-1} + \theta inf_t^e + \beta x_{t-1} + \gamma inf_{t-1}^{imp} + \delta inf_t^{sec} + \varepsilon_t$ , where  $inf_t$  is annualised quarterly HICP inflation excluding energy and food,  $inf_t^e$  is an indicator of inflation expectations,  $x_{t-1}$  is an indicator of domestic cost factors,  $inf_{t-1}^{imp}$  is imported inflation, and  $inf_t^{sec}$  is secondary effects.

The calculation used several alternative indicators for domestic cost or demand factors and alternative indicators of foreign inflation, and so we obtained a total of 100 combinations of different Phillips curve specifications. **Domestic factor indicators:** GDP growth; employment growth; output gap estimation (HP filter); NBS estimation of the output gap; unemployment gap (HP filter); NBS estimation of the unemployment gap; employment

expected that demand factors will culminate in late 2021/early 2022. Thereafter, core inflation is expected to return to an upward path.

**Chart 9**  
**Inflation and the Phillips curve (annual percentage changes)**



Source: NBS calculations.

gap; capacity utilisation in industry; nominal unit labour costs; change in the unemployment rate. **Imported inflation indicators:** weighted average deflators of exports of Slovakia's trading partners; weighted average export deflators (excluding exchange rate factor and Russia); euro area non-energy industrial goods prices; deflator of goods and services imports; oil price. **Indicators of secondary effects of inflation:** administrated price inflation; energy price inflation.

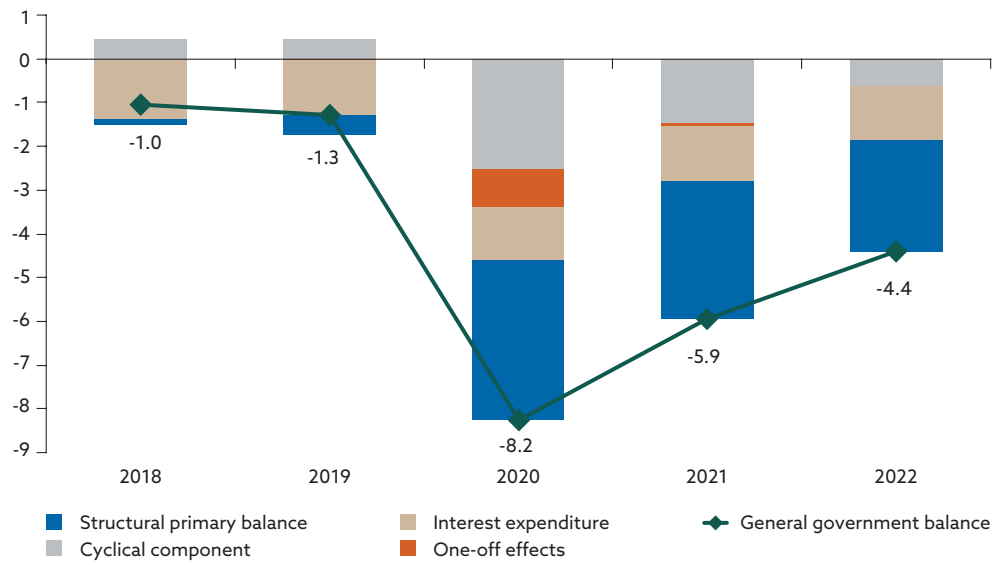
## 5 Fiscal outlook

**The general government deficit for 2020 is forecast to climb to 8.2% of GDP.** The increase is predicated on a sharp economic downturn and its downward impact on tax and social security contributions, mainly via the contraction of private consumption and the labour market. This development is amplified by a surge in current expenditure driven mainly by higher social payments to households and aid to firms – including coronavirus relief measures amounting to around 2% of GDP (part of which, amounting to around 1.1% of GDP, is assumed to be financed from EU funds). In subsequent years, with the business cycle gradually improving and the fiscal stance expected to be restrictive, the fiscal deficit is projected to fall to 5.9% of GDP in 2021 and 4.4% of GDP in 2022.

Besides the grim pandemic-affected outlook for macroeconomic developments, another major contributor to the deficit increase will be the suite of new fiscal measures aimed at mitigating the economic consequences of the crisis. Among the most significant of them are changes in the payment of social benefits (nursing and sickness benefits), allowances for firms whose business has been restricted or whose sales have declined as a result of the crisis, and the waiving of April social security contributions for those employers whose business has been restricted by the pandemic containment measures. Another fiscal measure, under consideration, is the provision of liquidity guarantees to firms in the form of loans on favourable terms. This forecast also materialises the risk that the implementation of the guarantees will weigh on public finances to some extent. A significant part of the measures will be financed from the EU budget, including, for example, the Kurzarbeit scheme under which employees who have been prevented from reporting for work by the containment measures are reimbursed income lost as a result. Public finances are also assumed to face a further headwind in 2020 in the form of a sizeable correction in EU funds.

Chart 10

Breakdown of the general government balance (percentages of GDP)

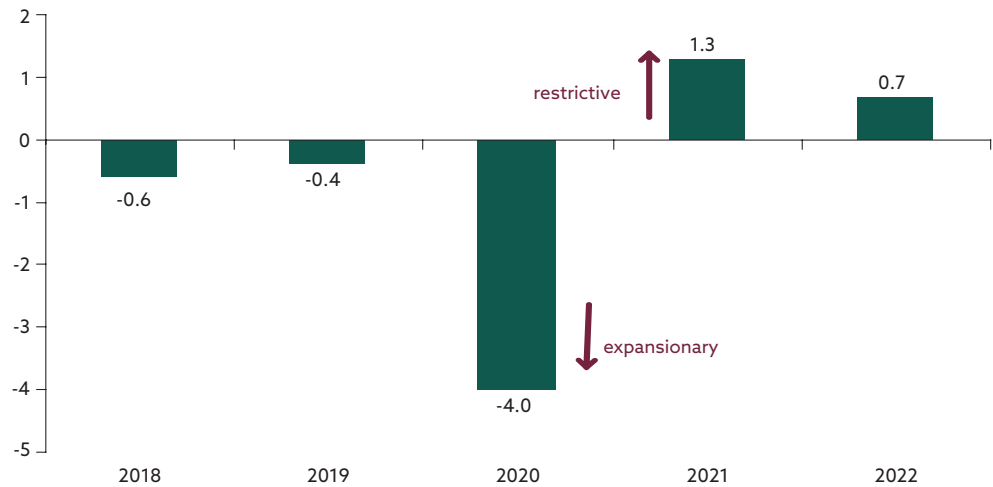


Sources: SO SR, and NBS calculations.

Note: One-off factors include non-cyclical effects that have a temporary impact on the general government balance and should be eliminated in the future.

Chart 11

Fiscal stance (percentage points of GDP)



Sources: SO SR, and NBS calculations.

Note: Annual rate of change in the cyclically adjusted primary balance, excluding the impact of EU funds.

Public debt is projected to soar year on year, by 12.6 percentage points in 2020, to 60.6% of GDP. The main components of that increase are expected to be an elevated primary deficit and a substantial annual decline in GDP. Gradual fiscal consolidation is expected to occur over the projection period, resulting in less need for debt financing. The public debt in 2022 is projected to be 61.8% of GDP.

## Box 4

### The application of exemptions under the Fiscal Responsibility Act may deactivate the three strictest sanction zones until 2026

The Fiscal Responsibility Act (FRA) sets debt brakes and sanction zones for public debt, i.e. debt thresholds which if exceeded trigger specific sanctions aimed at reducing the debt. In certain situations, however, the FRA lays down exemptions from this regime. In the current situation where Slovakia has a newly installed government and is dealing with the coronavirus crisis, exemptions from the three strictest sanction zones are in play, i.e. exemptions based on the fact that:

- sanctions do not apply for a period of 24 months following the approval of the Government's policy statement and a vote of confidence in the Government;
- sanctions do not apply for a period of 36 months in the event of a substantial decline in GDP growth (a decline in nominal GDP growth rates of at least 12 percentage points between two fiscal years).

The recent vote of confidence in the new Government and the approval of its policy statement activated the 24-month exemption, which will apply until spring 2022. Owing to the adverse impact of the coronavirus pandemic and assuming the materialisation of the GDP growth projection for 2020, the 36-month exemption is expected to be activated and to apply until spring 2024 (Slovakia's GDP growth for 2020 is due to be published by the Statistical Office in March 2021). The next general election is due in 2024; it will produce a new government, and the vote of confidence in that government and the approval of its policy statement will activate another 24-month exemption, lasting until spring 2026.

The projection for general government final consumption expenditure is that it will decelerate in 2020 because of weak growth rates in compensation, intermediate consumption, and healthcare spending (owing to the lower number of medical interventions during the period of economic lockdown). On the other hand, final consumption expenditure is expected to come under upward pressure from the pandemic-related slump in sales revenues of public sector entities. Given the rapid increase in the general government deficit, it is envisaged that compensation growth and intermediate consumption growth will slow over the projection period and will therefore have a moderating impact on final consumption expenditure growth.

Like private investment, public investment is expected to decline. The main reason for this is the postponement of own investment, particularly in the local government sector. However, as the absorption of EU funds accelerates and own investment gradually rebounds, government investment is expected to gather momentum in 2021. In 2022 own investment activity is expected to be further supported by a delivery of military technology.

**Table 3 Fiscal developments (annual percentage changes at constant prices, unless otherwise stated)**

	2018	2019	2020	2021	2022
General government final consumption expenditure	0.2	4.6	2.5	2.7	1.6
Government investment	14.9	-1.2	-2.5	12.8	14.7
<i>Contribution of EU funds to rate of change (percentage points)</i>	11.4	-4.3	0.3	7.8	7.8
General government balance (percentage of GDP)	-1.0	-1.3	-8.2	-5.9	-4.4
Fiscal stance (year-on-year change in percentage points of GDP)	-0.6	-0.4	-4.0	1.3	0.7
Gross debt (percentage of GDP)	49.5	48.0	60.6	61.0	61.8

Sources: SO SR, and NBS calculations.

## 6 Risks to the forecast

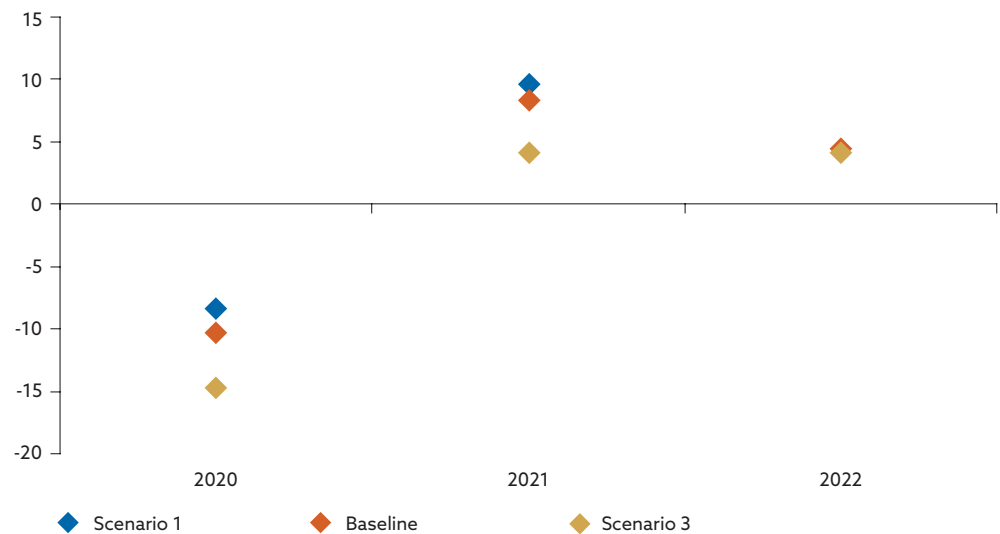
**Given the great uncertainty related to the coronavirus crisis, we have again produced two alternative scenarios (1 and 3) on either side of the baseline (scenario 2). The risks to the forecast remain on the downside.**

The **positive scenario (scenario 1)** assumes that, both globally and in Slovakia, there will be a relatively rapid and successful suppression of the pandemic. The period of economic lockdown is short (eight weeks) and is followed by a rapid recovery that includes strong economic growth as early as the third quarter of 2020. Another assumption is that some service sector activities will remain subdued for several weeks longer, before gradually normalising in subsequent quarters. It is envisaged that the economy will have returned to its originally projected level by the end of 2021. In other words, this scenario does not assume a significant permanent loss of either GDP or potential output. Price developments remain relatively stagnant, notwithstanding the short-term economic contraction. An effective EU fiscal package to help restart the economy may also contribute to the improving situation.

The **adverse scenario (scenario 3)** assumes that the pandemic is less successively suppressed and comes back in a second wave in the period ahead. No significant improvement in the situation is expected until a vaccine is developed sometime next year. The pandemic's second wave results in the economy being locked down again, albeit to a lesser extent than it was during the initial outbreak. Given, however, the restrictions imposed on social contact, the scenario assumes that private consumption losses continue in the second half of the year. A more serious deterioration is envisaged for the supply side of the economy, leading to a permanent loss of potential output. Many firms go bankrupt, capital is depreciated, and there are significant increases in the costs of both market financing and bank loans. Banks' funding costs increase, as do non-performing loans. Under this scenario, economic normalisation is a slow process and results in a gradual closing of the negative output gap. In such a situation, there may already be significant pass-through to inflation.

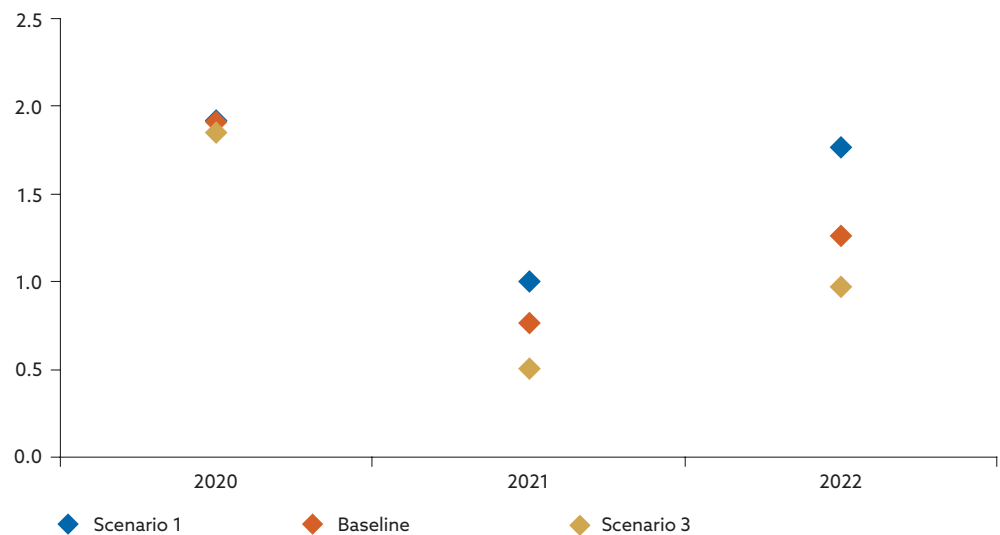


**Chart 12**  
GDP growth (annual percentage changes)



Source: NBS calculations.

**Chart 13**  
Inflation (annual percentage changes)

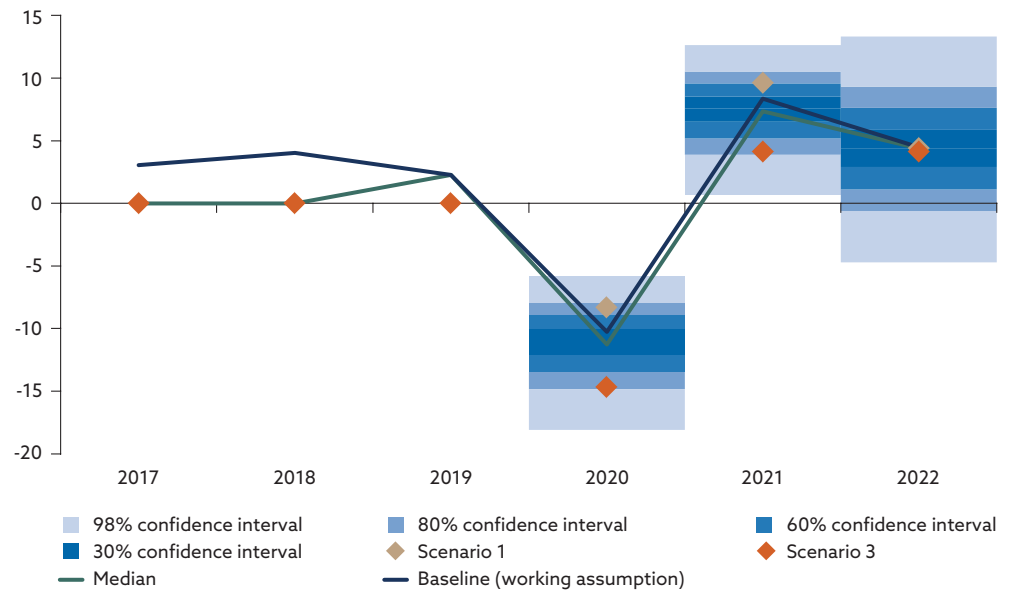


Source: NBS calculations.

**The uncertainty surrounding the forecast has been evaluated not only with scenarios, but also with an expert risk assessment.** In this case, too, the risks to the economic growth and inflation outlooks for the years 2020 and 2021 are largely on the downside. As regards GDP growth in 2020 and 2021, we estimate with a confidence level of around 60% that the final official GDP figure will be lower than that assumed in the baseline scenario. The outlook for inflation in 2021 is subject to considerable uncertainty. According to the mid-estimate, the final inflation rate for the year is expected to be at the upper end of the 0%–1% range. There is, however, an approximately one-third probability that the inflation rate turns neg-

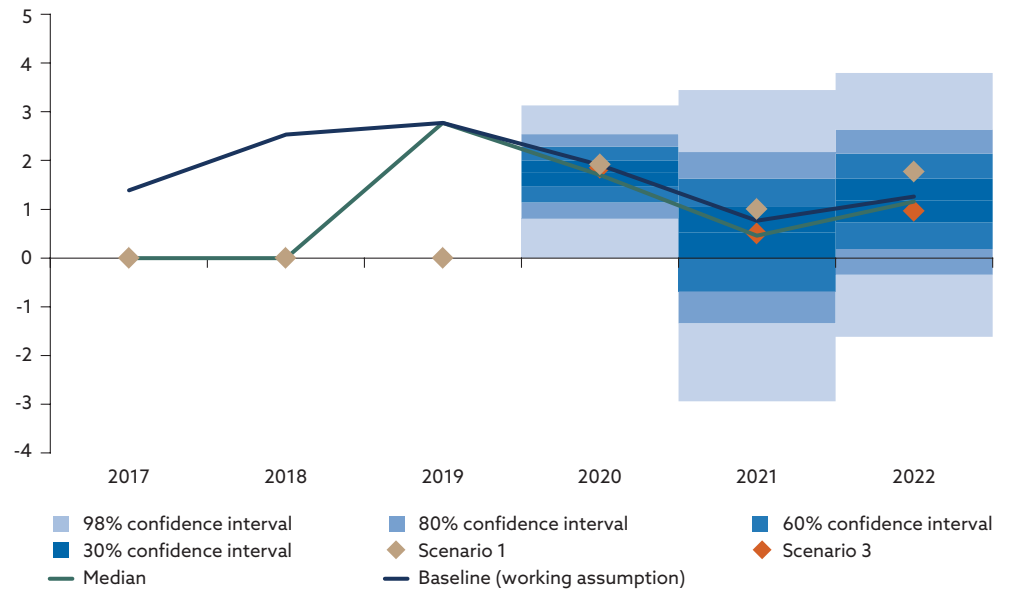
ative. The same probability is attached to an inflation rate of between 1% and 3%.

**Chart 14**  
GDP growth (annual percentage changes)



Sources: NBS calculations.

**Chart 15**  
Inflation (annual percentage changes)



Source: NBS calculations.

**Table 4 Comparison of scenarios (annual percentage changes, unless otherwise stated)**

	Scenario 1			Baseline			Scenario 3		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
GDP	-8.3	9.6	4.4	-10.3	8.4	4.5	-14.7	4.1	4.1
- private consumption	-5.9	6.8	3.7	-6.7	6.9	3.7	-11.0	3.0	3.9
- government consumption	2.4	2.4	1.5	2.5	2.7	1.6	2.4	2.6	1.7
- fixed investment	-15.2	12.8	9.9	-19.4	9.3	11.1	-27.1	1.2	9.8
- exports	-9.9	11.0	5.9	-15.4	8.5	5.9	-20.6	5.5	5.8
Employment	-1.7	-0.2	0.9	-2.1	-0.8	0.8	-3.3	-2.6	0.6
Unemployment rate (percentage)	7.1	7.8	7.1	7.4	8.5	8.0	8.5	11.2	10.9
Wages	-0.3	7.0	6.0	-1.7	8.0	5.7	-2.9	6.6	4.3
Inflation	1.9	1.0	1.8	1.9	0.8	1.3	1.8	0.5	1.0
Foreign demand	-9.5	9.5	4.7	-14.5	6.6	4.7	-20.7	4.5	4.5

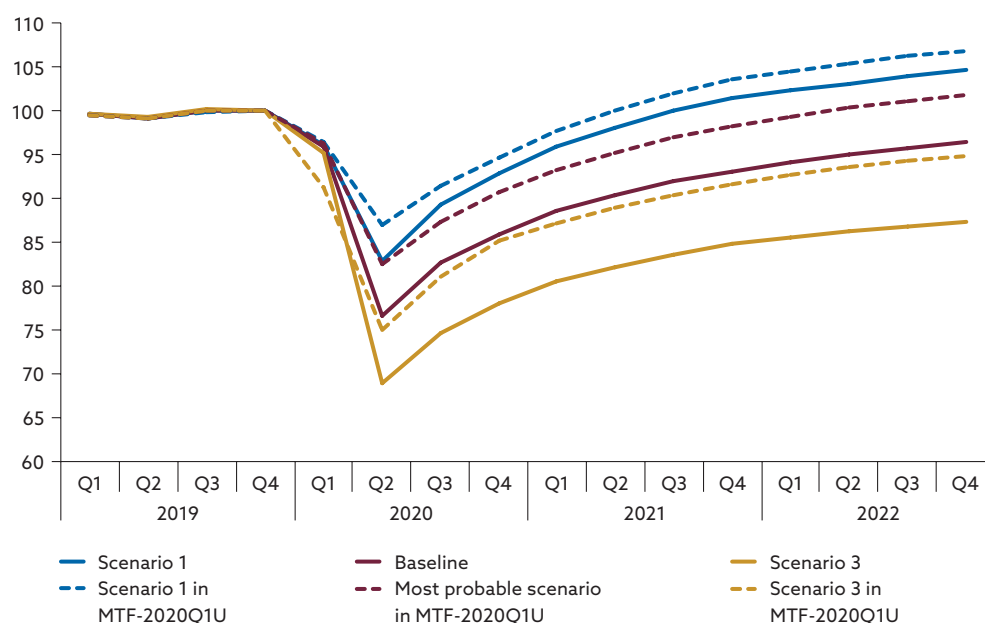
Source: NBS calculations.

## 7 Comparison with the previous forecast<sup>10</sup>

Compared with the April projections, the assumptions for growth in foreign demand have been revised down in all three scenarios. The largest drop is in the adverse scenario, which envisages a second wave of the pandemic, a more drawn-out economic recovery, a higher rise in firm bankruptcies, and increasing borrowing costs for both firms and households.

**Chart 16**

Foreign demand (index, Q4 2019 = 100)



Source: NBS calculations.

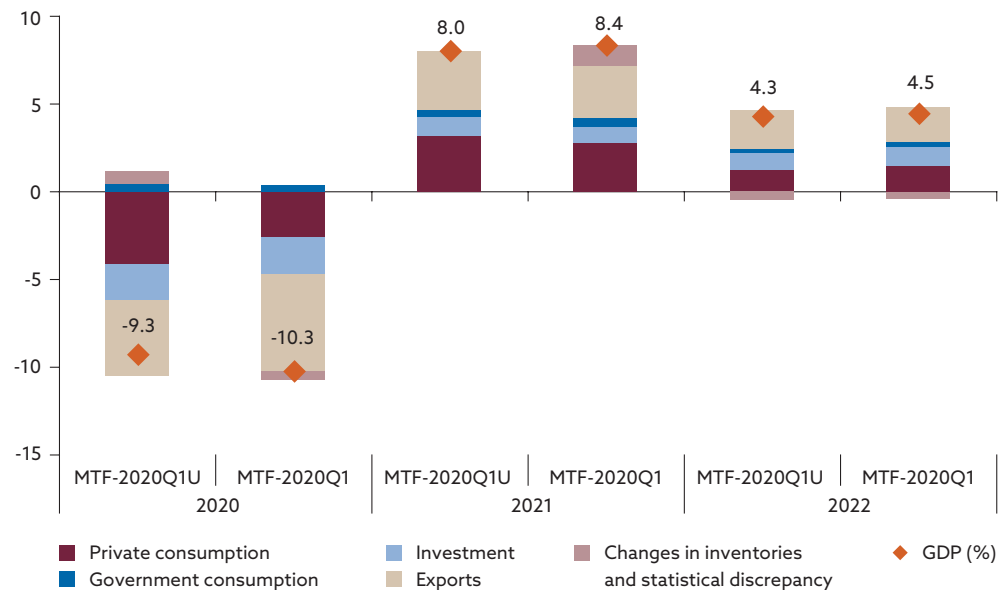
**Compared with the April projections, the economic contraction is projected to be larger.** Revisions to the economic outlooks of Slovakia's main trading partners have resulted in the downward revision of Slovakia's projected export performance in 2020 and so also of projected labour productivity on the domestic side of the economy. Besides the deterioration in foreign demand, another factor taken into account was the worse than expected developments in the first quarter of the year, which to a large extent caused the sharp rise in imports. On the other hand, private consumption

<sup>10</sup> In this section, the baseline of the current forecast is compared with the most probable scenario set out in the April update (MTF-2020Q1U) of the March 2020 Medium-Term Forecast (MTF-2020Q1).

trends have improved, and therefore so has the outlook for private consumption in the period ahead. Further evidence of more positive consumer developments has come from some recent high-frequency data (eKasa data from the Financial Administration of the Slovak Republic). Therefore, compared with the previous forecast, the recovery is projected to be moderately faster

**Chart 17**

**GDP and its components<sup>11</sup> (annual percentage changes; percentage point contributions)**

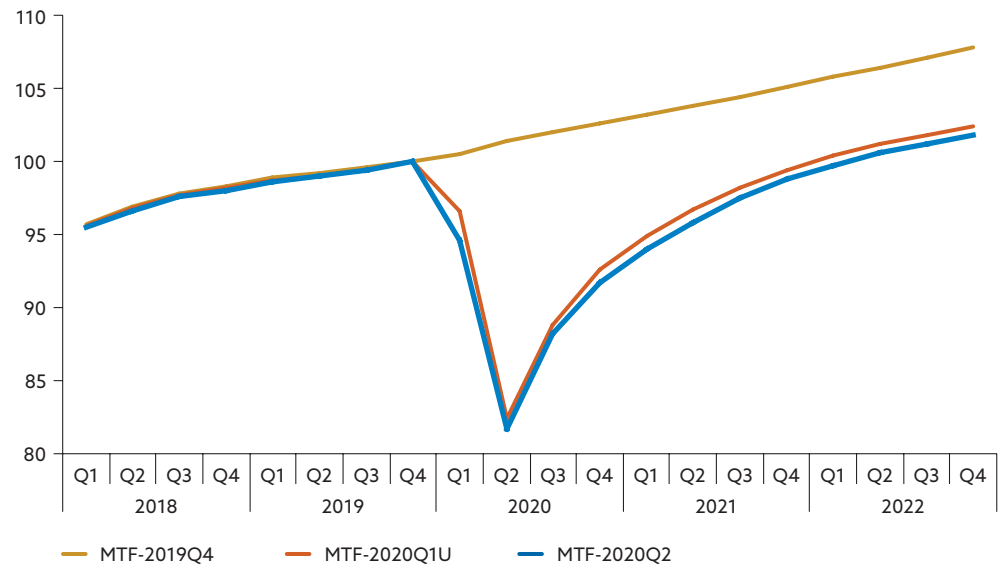


**Sources:** SO SR, and NBS calculations.

**Note:** The item 'Changes in inventories and statistical discrepancy' includes uncategorised imports that remained after the calculation of import intensity.

<sup>11</sup> The composition of GDP growth is calculated as the contributions of components to GDP growth after deducting their import intensity. In this case the calculation uses the constant import intensity of the different GDP components (household final consumption – 30%, government consumption – 7%, investment – 50%, and exports – 62.5%). Remaining imports were included under changes in inventories and the statistical discrepancy.

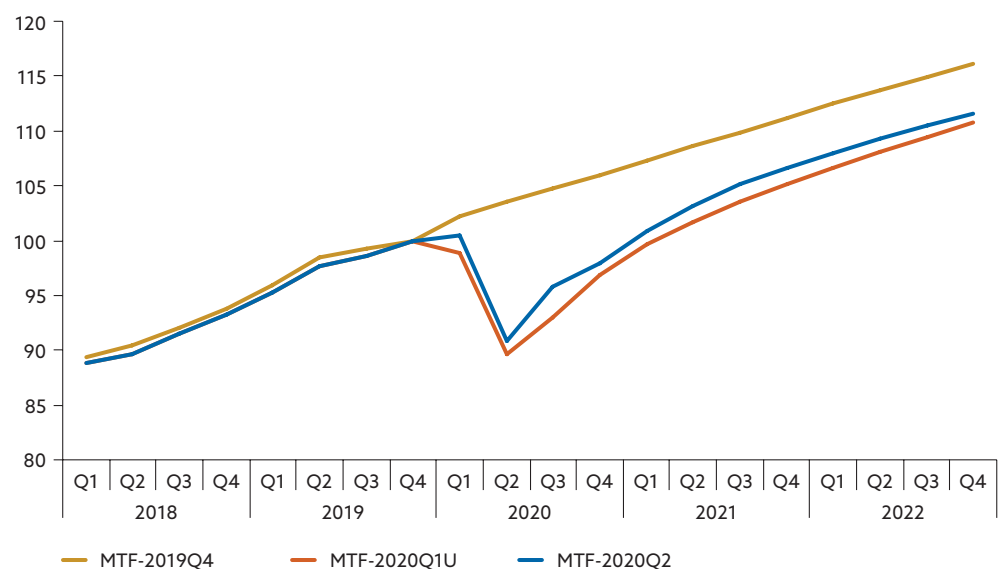
**Chart 18**  
GDP (index, Q4 2019 = 100)



Sources: SO SR, and NBS calculations.

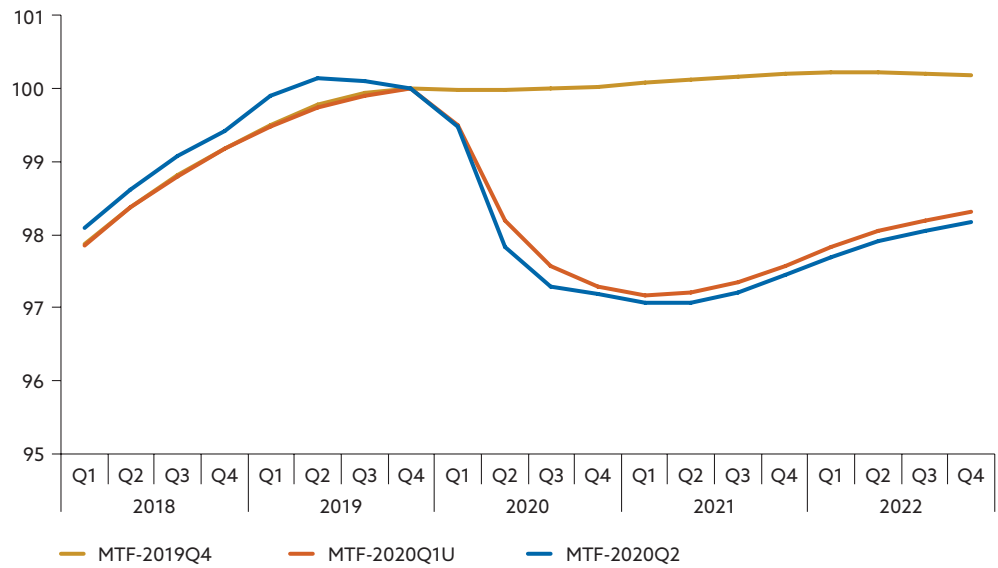
**The stronger than projected economic contraction is reflected in the outlook for the labour market situation. This forecast projects a greater decline in employment in 2020 than does the April forecast.** Recent developments have been less favourable than previously envisaged. Pandemic-related redundancies were already occurring in the first quarter 2020, so the projected decline in employment in 2020 is higher in this forecast than it was in the April forecast. As regards wages, their projected decline has also been revised higher. This is based on data that to a large extent changed assumptions about the numbers of people who would be drawing nursing or sickness benefits in the near term.

**Chart 19**  
Average wage across the economy (index, Q4 2020 = 100)



Sources: SO SR, and NBS calculations.

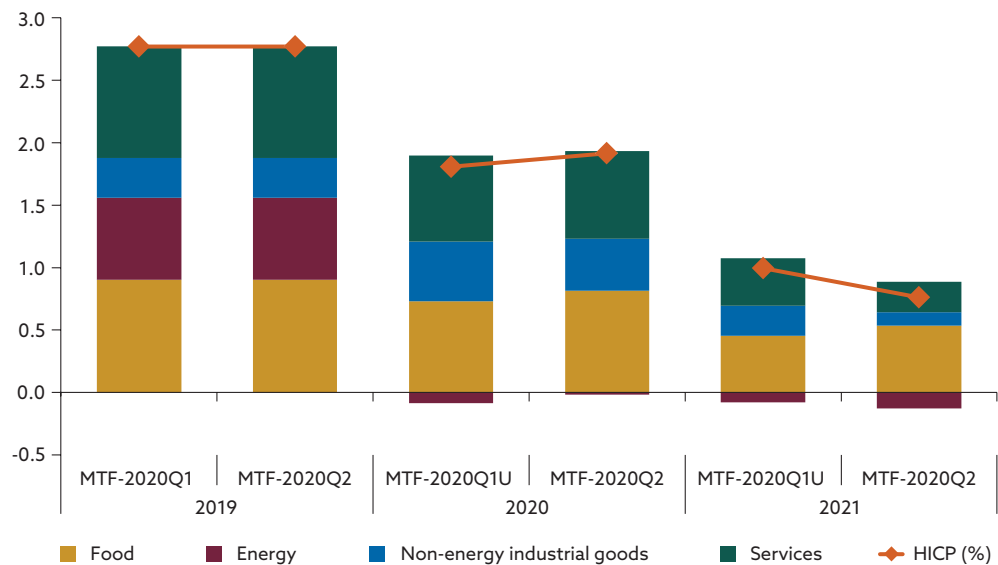
**Chart 20**  
Employment (index, Q4 2020 = 100)



Sources: SO SR, and NBS calculations.

**The medium-term projection for headline inflation has been revised down. Compared with the April forecast, cost factors are expected to be higher this year and next year, especially in food prices. Subsequently, however, the economy’s cyclical position is expected to outweigh cost factors, and the inflation rate is expected to accelerate more slowly than previously projected. This will be reflected in a lessening of the impact of demand-pull inflation.**

**Chart 21**  
HICP inflation and its components (annual percentage changes; percentage point contributions)



Sources: SO SR, and NBS calculations.

**Table 5 Medium-Term Forecast (MTF-2020Q2) for key macroeconomic indicators**

Indicator	Unit	Actual data	MTF-2020Q2				Difference vis-à-vis MTF2020Q1U		
		2019	2020	2021	2022	2020	2021	2022	
<b>Prices</b>									
HICP inflation	annual percentage change	2.8	1.9	0.8	1.3	0.1	-0.2	-0.4	
CPI inflation	annual percentage change	2.7	1.9	0.8	1.3	0.1	-0.3	-0.5	
GDP deflator	annual percentage change	2.6	1.4	-0.2	1.6	0.2	-0.8	-0.4	
<b>Economic activity</b>									
Gross domestic product	annual percentage change, constant prices	2.4	-10.3	8.4	4.5	-1.0	0.4	0.2	
Private consumption	annual percentage change, constant prices	2.1	-6.7	6.9	3.7	3.9	-1.4	0.5	
Final consumption of general government	annual percentage change, constant prices	4.6	2.5	2.7	1.6	-0.6	0.5	0.1	
Gross fixed capital formation	annual percentage change, constant prices	6.8	-19.4	9.3	11.1	0.0	-2.4	1.6	
Exports of goods and services	annual percentage change, constant prices	1.7	-15.4	8.5	5.9	-3.6	-0.9	-0.5	
Imports of goods and services	annual percentage change, constant prices	2.6	-13.0	7.2	6.1	-0.7	-1.4	-0.2	
Net exports	EUR millions at constant prices	2,393	38	1,018	909	-2,472.0	-2,325.4	-2,716.5	
Output gap	percentage of potential output	1.3	-9.3	-3.8	-1.7	-0.7	-0.1	0.4	
Gross domestic product	EUR millions at current prices	94,171	85,689	92,656	98,367	-800.9	-1,352.0	-1,585.4	
<b>Labour market</b>									
Employment	thousands of persons ESA 2010	2,450	2,399	2,381	2,399	-10.8	-9.2	-9.5	
Employment (rate of change)	annual percentage change ESA 2010	1.2	-2.1	-0.8	0.8	-0.5	0.0	0.0	
Number of unemployed	thousands of persons <sup>1)</sup>	158	201	231	216	-0.9	5.9	5.2	
Unemployment rate	percentage	5.8	7.4	8.5	8.0	0.0	0.2	0.3	
NAIRU estimate <sup>2)</sup>	percentage	7.2	7.7	7.9	7.8	0.0	0.0	0.0	
Labour productivity <sup>3)</sup>	annual percentage change	1.1	-8.4	9.2	3.7	-0.6	0.3	0.2	
Nominal labour productivity <sup>4)</sup>	annual percentage change	4.1	-7.1	9.0	5.3	-0.7	-0.6	-0.2	
Nominal compensation per employee	annual percentage change ESA 2010	7.1	-1.8	7.9	5.8	1.7	-0.4	-0.4	
Nominal wages <sup>5)</sup>	annual percentage change	7.8	-1.7	8.0	5.7	1.7	-0.3	-0.4	
Real wages <sup>6)</sup>	annual percentage change	5.0	-3.5	7.1	4.3	1.5	-0.1	0.1	
<b>Households and non-profit institutions serving households</b>									
Disposable income	annual percentage change, constant prices	1.7	-2.3	3.5	3.7	-0.2	-1.1	-0.1	
Saving ratio <sup>7)</sup>	percentage of disposable income	9.5	13.3	10.4	10.4	-4.5	-4.5	-5.0	
<b>General government sector<sup>8)</sup></b>									
Total revenue	percentage of GDP	41.5	42.5	42.5	42.9	0.8	1.0	1.0	
Total expenditure	percentage of GDP	42.8	50.8	48.5	47.3	0.7	1.8	1.6	
General government balance <sup>9)</sup>	percentage of GDP	-1.3	-8.2	-5.9	-4.4	0.1	-0.8	-0.6	
Cyclical component	percentage of trend GDP	0.4	-2.5	-1.5	-0.6	-0.2	-0.1	0.1	
Structural balance	percentage of trend GDP	-1.7	-4.9	-4.4	-3.8	-0.2	-0.6	-0.7	
Cyclically adjusted primary balance	percentage of trend GDP	-0.5	-4.5	-3.2	-2.5	0.3	-0.7	-0.7	
Fiscal stance <sup>10)</sup>	year-on-year change in p. p.	-0.4	-4.0	1.3	0.7	0.3	-1.0	0.0	
General government gross debt	percentage of GDP	48.0	60.6	61.0	61.8	0.7	1.8	2.5	



**Table 5 Medium-Term Forecast (MTF-2020Q2) for key macroeconomic indicators (continued)**

Indicator	Unit	Actual data	MTF-2020Q2			Difference vis-à-vis MTF2020Q1U		
		2019	2020	2021	2022	2020	2021	2022
<b>Balance of Payments</b>								
Goods balance	percentage of GDP	-0.8	-2.5	-1.8	-1.9	-1.8	-1.9	-2.3
Current account	percentage of GDP	-2.9	-4.4	-4.2	-4.1	-2.0	-2.2	-2.4
<b>External environment and technical assumptions</b>								
Slovakia's foreign demand	annual percentage change	2.4	-14.5	6.6	4.7	-4.1	-0.9	-0.2
Exchange rate (EUR/USD) <sup>11), 12)</sup>	level	1.12	1.09	1.08	1.08	-0.4	-0.6	-0.6
Oil price in USD <sup>11), 12)</sup>	level	64.0	36.0	37.2	40.7	-4.2	-7.6	-5.9
Oil price in USD <sup>11)</sup>	annual percentage change	-9.9	-43.7	3.2	9.5	-2.5	-3.7	2.0
Oil price in EUR <sup>11)</sup>	annual percentage change	-5.0	-42.1	3.7	9.5	-2.3	-3.6	2.0
Non-energy commodity prices in USD	annual percentage change	-3.7	-2.5	3.5	3.0	-0.4	0.4	-0.2
Three-month EURIBOR	percentage per annum	-0.4	-0.4	-0.4	-0.4	-0.1	0.0	0.0
Ten-year Slovak government bond yields	percentage	0.2	0.5	0.7	0.7	-0.1	-0.1	-0.1

Sources: NBS, ECB and SO SR.

**Notes:**

- 1) Labour Force Survey.
- 2) Non-accelerating inflation rate of unemployment
- 3) GDP at constant prices / employment – ESA 2010.
- 4) Nominal GDP divided by persons in employment (according to SO SR quarterly statistical reporting).
- 5) Average monthly wages according to SO SR statistical reporting.
- 6) Wages according to SO SR statistical reporting, deflated by CPI inflation.
- 7) Saving ratio = gross savings / (gross disposable income + adjustments for any pension entitlement change) \*100; Gross savings = gross disposable income + adjustments for any pension entitlement change – private consumption.
- 8) Sector S.13; fiscal outlook.
- 9) B9n – Net lending (+) / net borrowing (-).
- 10) Year-on-year change in cyclically adjusted primary balance; a positive value denotes a restrictive stance.
- 11) Year-on-year percentage changes and changes vis-à-vis the previous forecast are calculated from unrounded figures.
- 12) Changes vis-à-vis the previous forecast (percentages).

More detailed time series of selected macroeconomic indicators can be found on the NBS website at:

[http://www.nbs.sk/\\_img/Documents/\\_Publikacie/PREDIK/2020/protected/P2Q-2020.xls](http://www.nbs.sk/_img/Documents/_Publikacie/PREDIK/2020/protected/P2Q-2020.xls)