

# COVID-19 & the economy: The Slovak Experience

JVI Webinar on Macrofinancial Considerations for  
Assessing the Impact of the COVID-19 Pandemic



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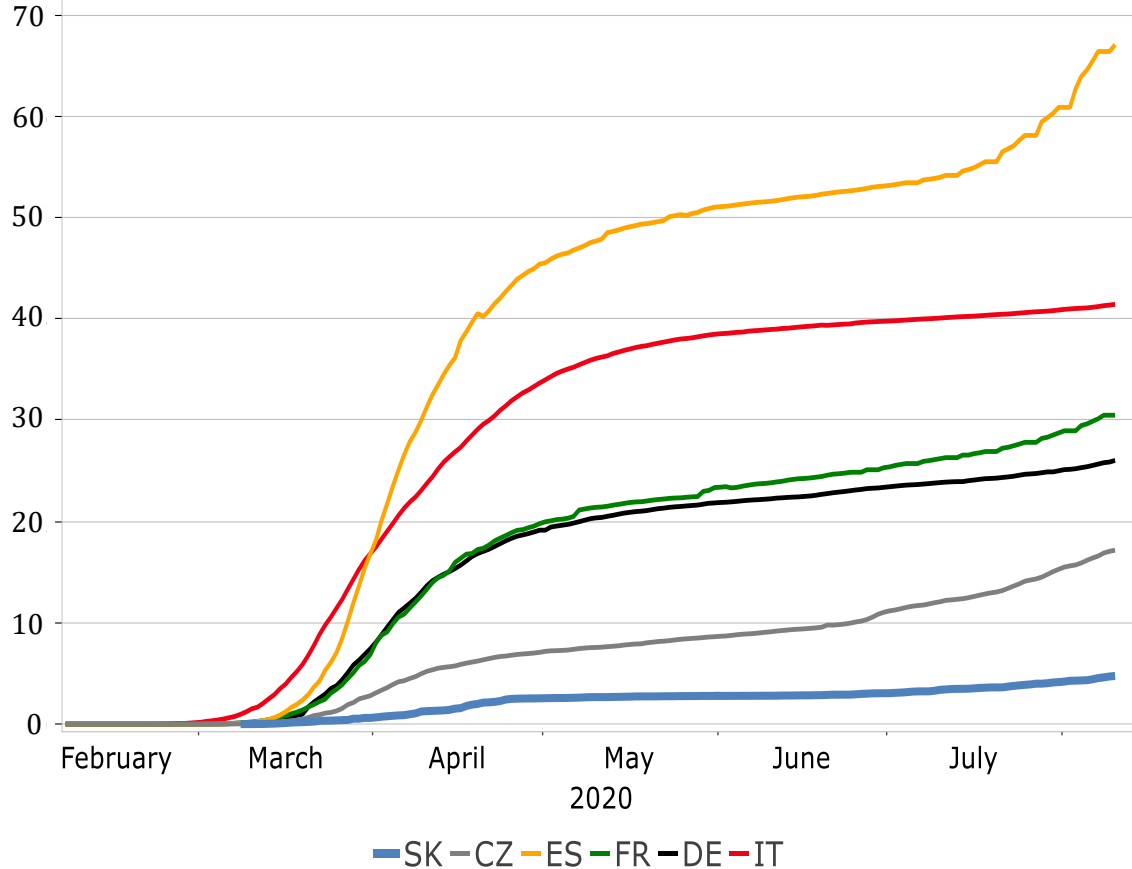


August 26, 2020

# Slovakia has been successful in containing the virus so far

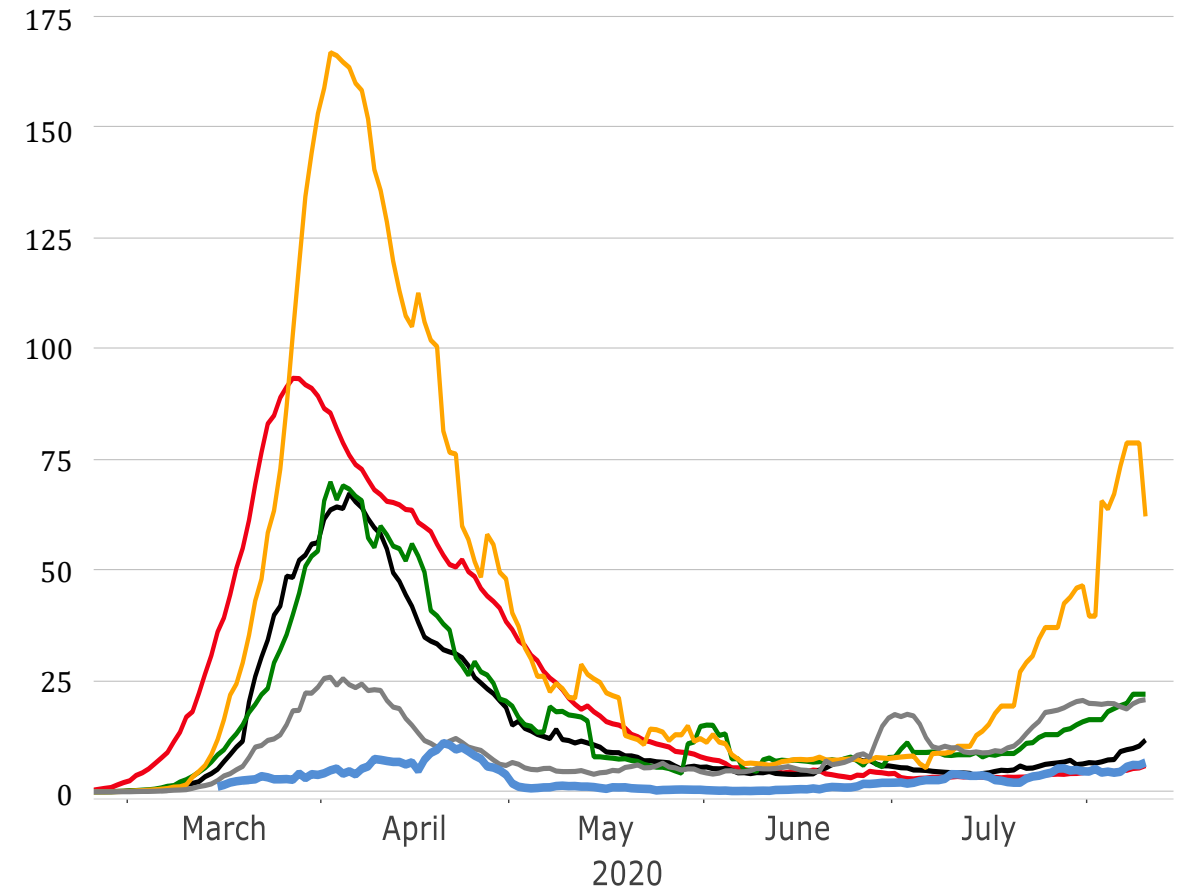
## Covid-19 - Confirmed Cases per 100 000 inhabitants

(in thousands)



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## Covid - 19 - New Confirmed Cases per 100 000 inhabitants

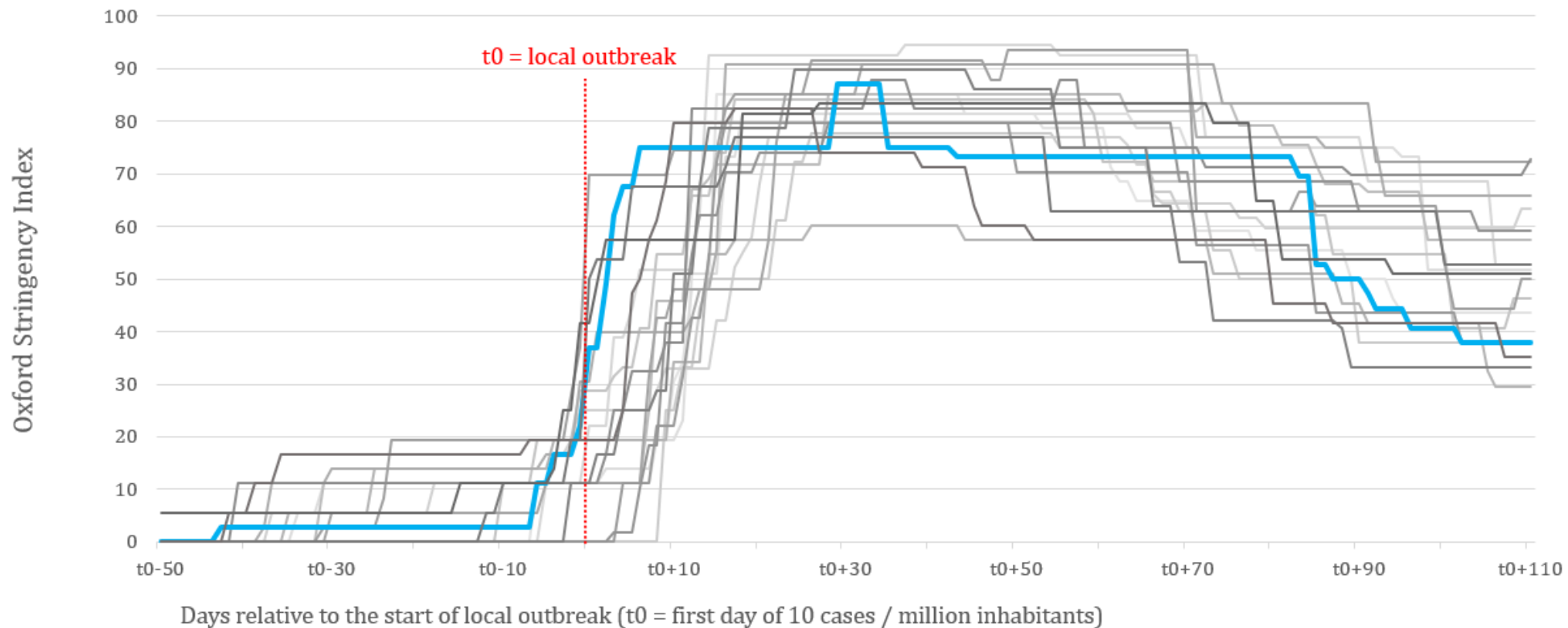


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# Slovakia went into a strict lockdown mode relatively swiftly

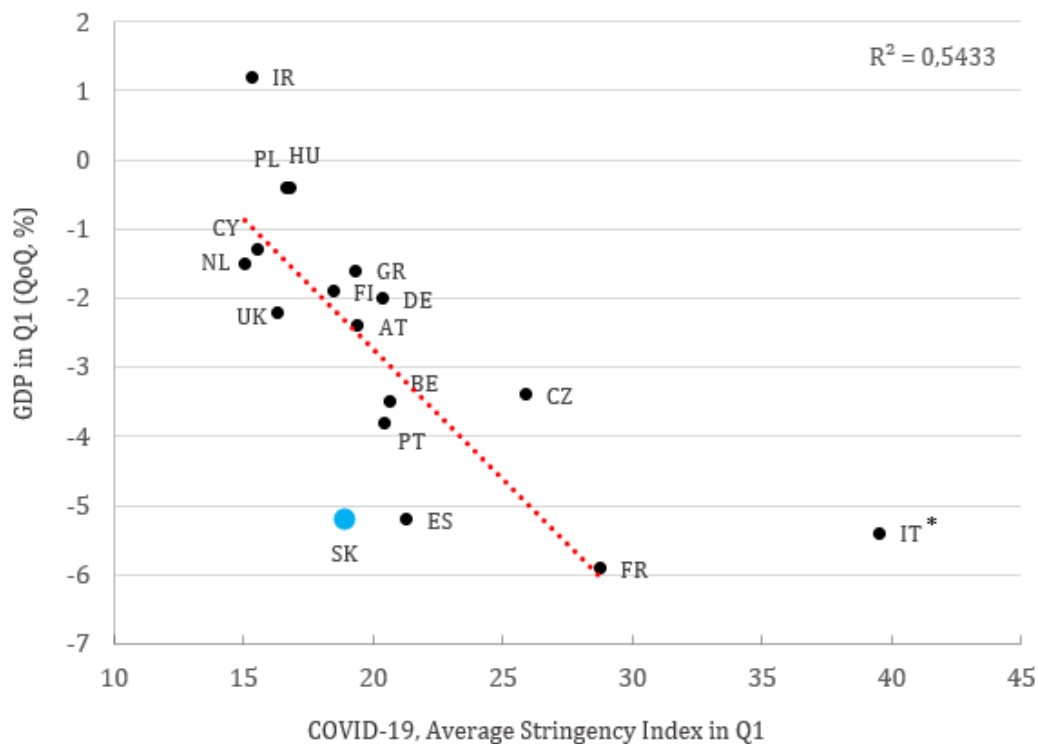
Stringency index relative to the first day of the outbreak in individual countries



Source: Oxford COVID-19 Government Response Tracker

# The quick and strict lockdown contributed to a relatively sharp drop in GDP in 1Q20

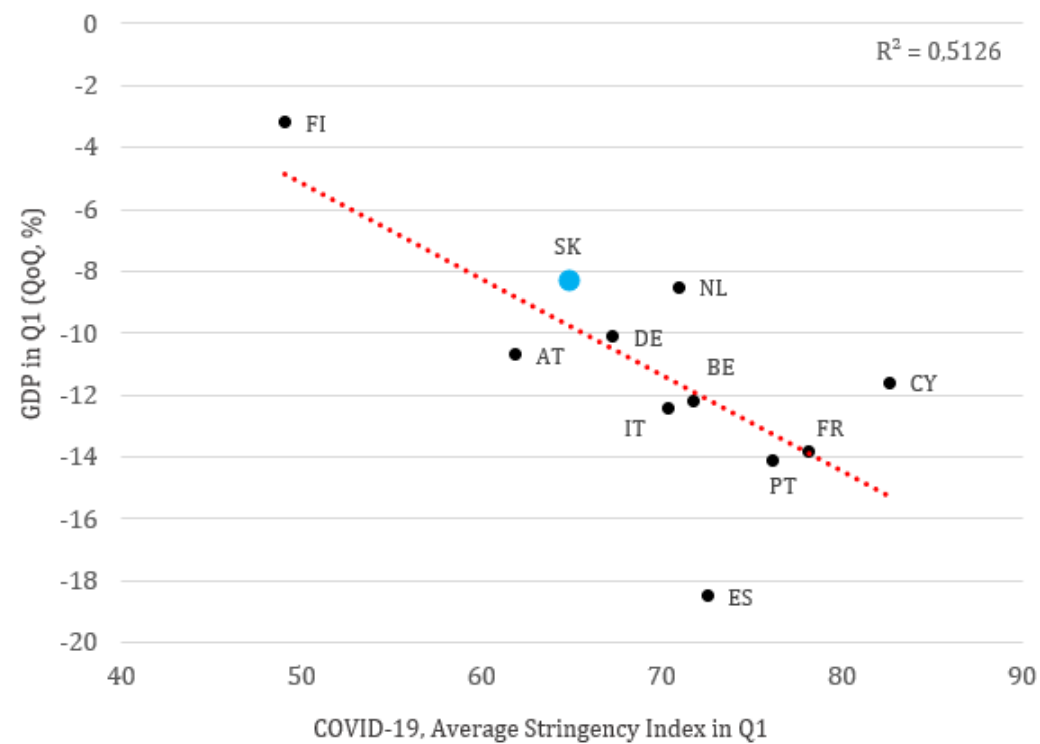
## Stricter lockdowns resulted in sharper GDP declines in Q1



\*Italy excluded from the trendline as an outlier

Source: Macrobond

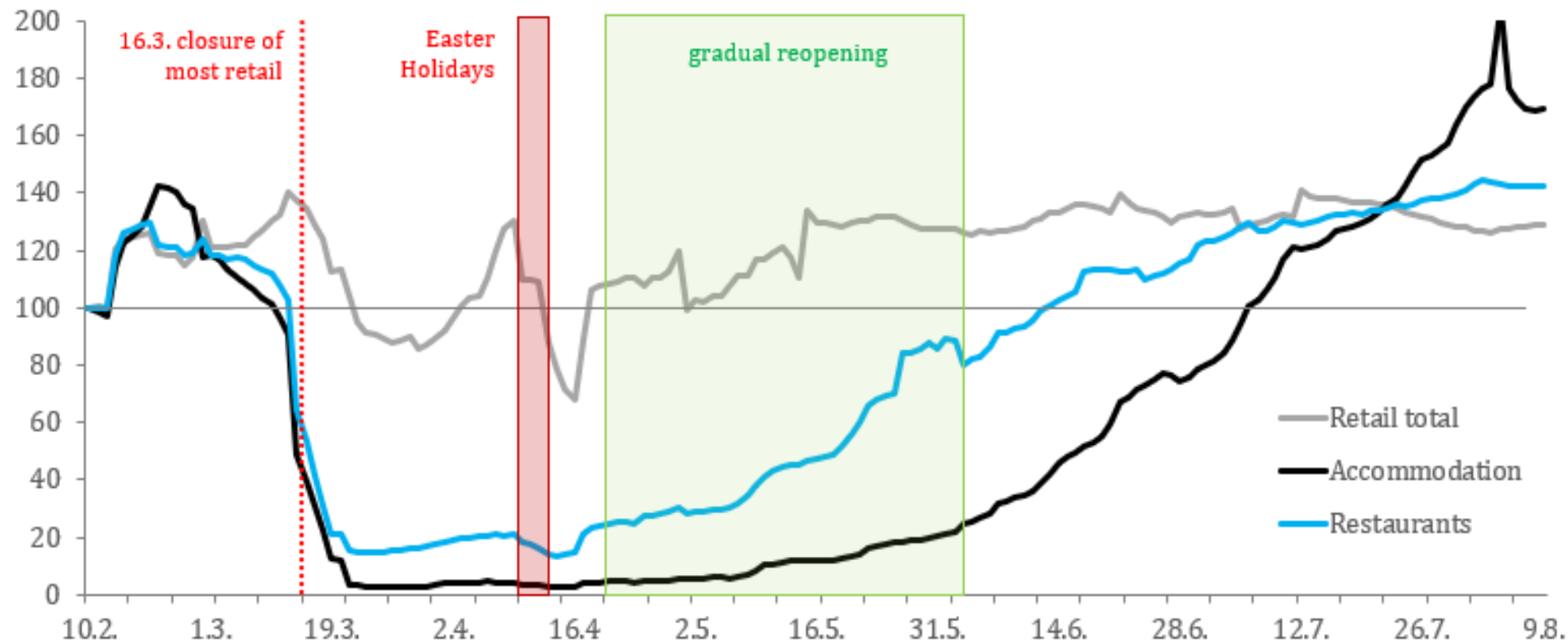
## Earlier reopenings coincided with lower GDP drops in Q2



Source: Macrobond

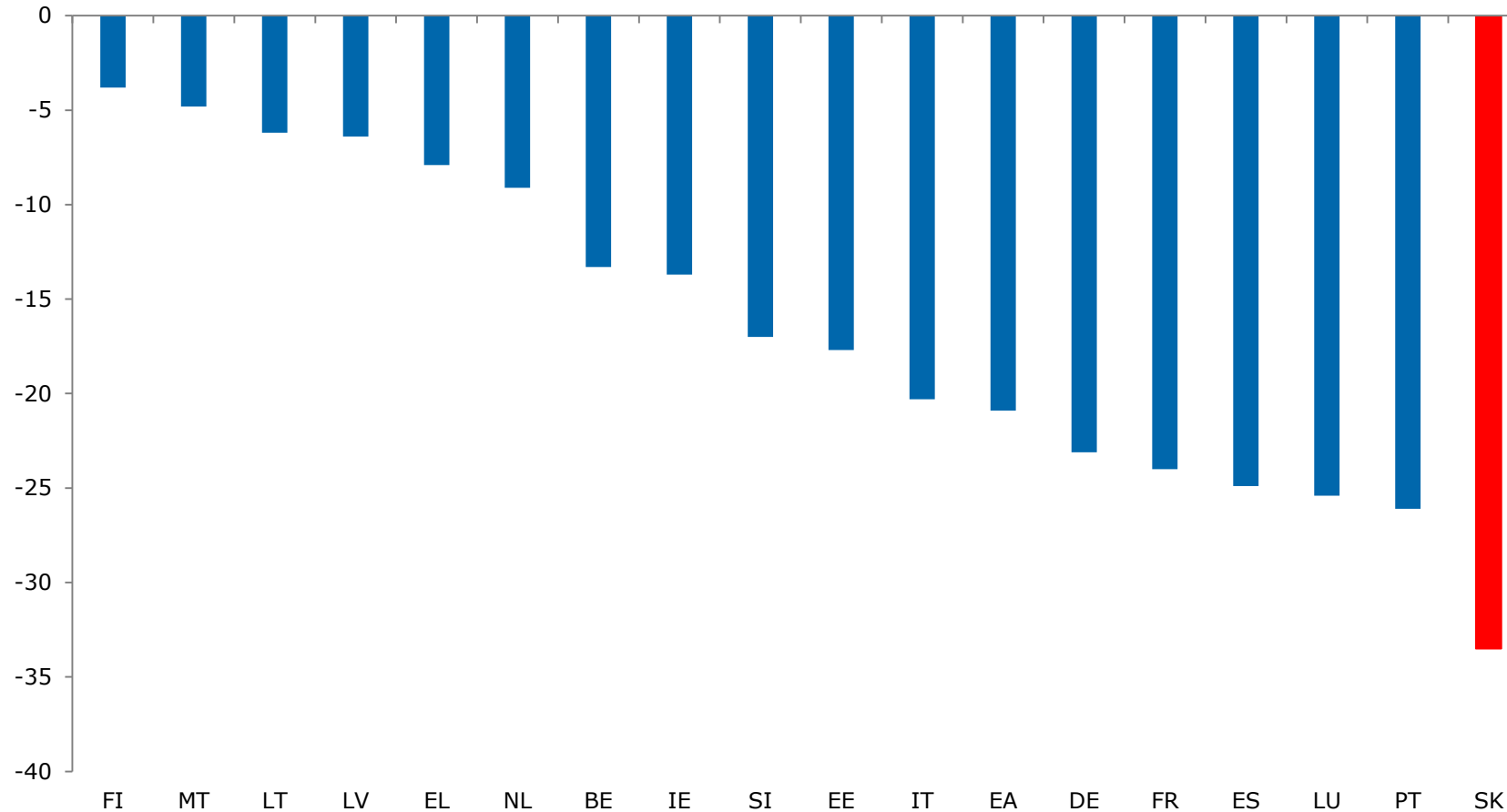
# Contact-intensive services hit very hard

Retail and service revenues  
(moving weekly average, 10.2. = 100)

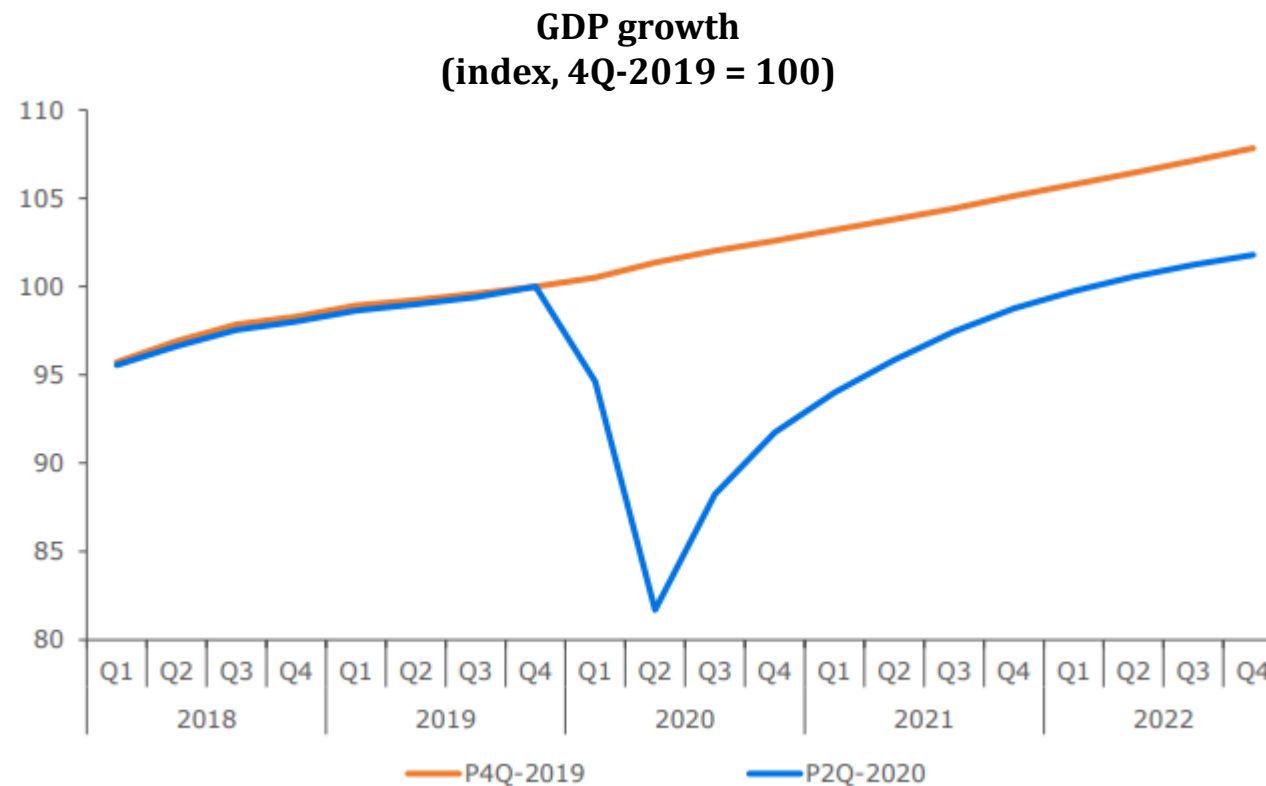


# Industrial production went into freefall as car production hit particularly hard

Industrial production in individual euro area countries  
(y-on-y change, May 2020)



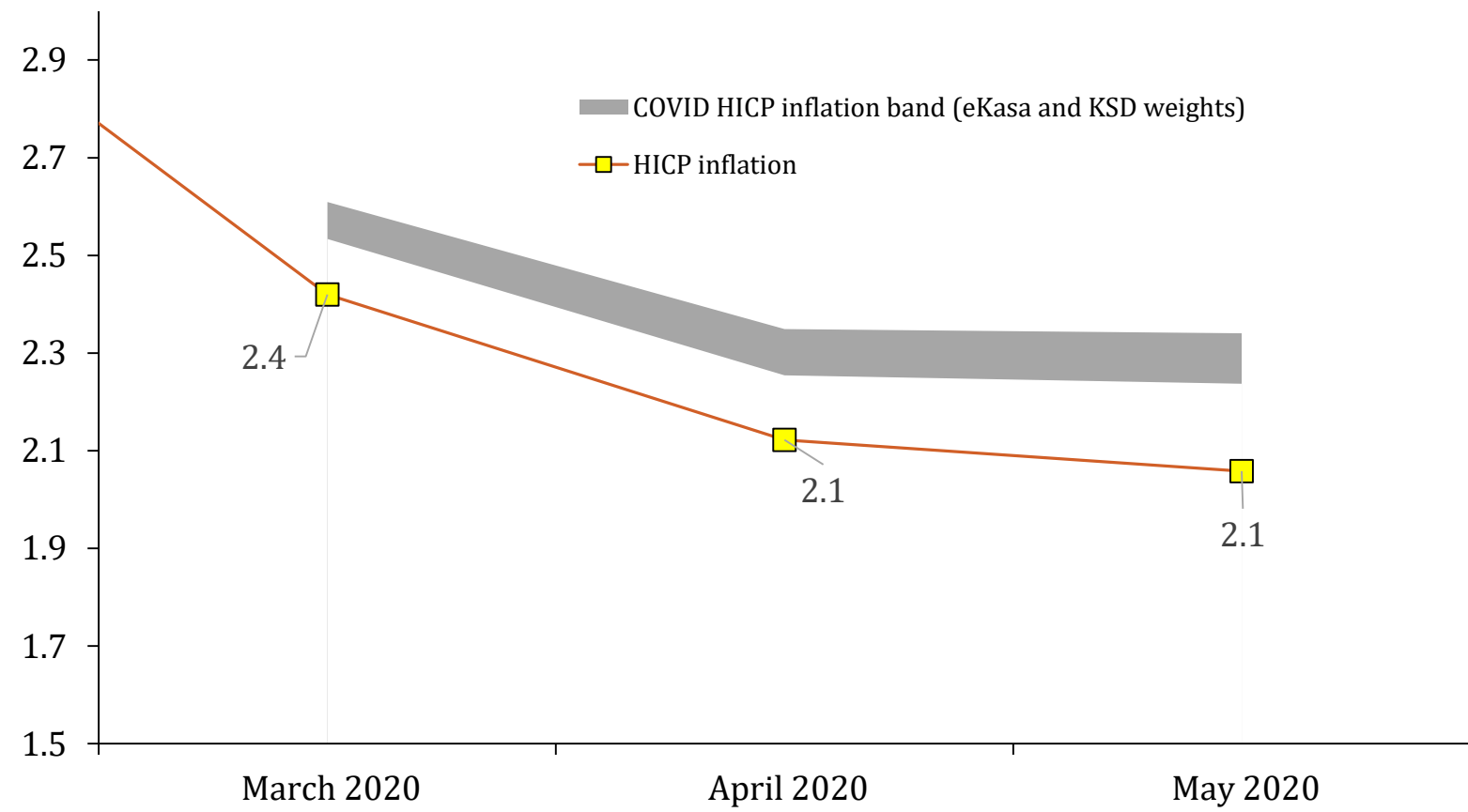
# Return to pre-crisis levels expected to be gradual only



	2019	2020	2021	2022
GDP (YoY, %)	2,4	-10,3	8,4	4,5
Revision (p.p.)	0,1	-1,0	0,4	0,2

# "Real" inflation higher by at least 0.2 - 0.3 pps compared to published figures during pandemic

HICP inflation and inflation proxy based on adjusted weights in the basket of consumer goods (%)

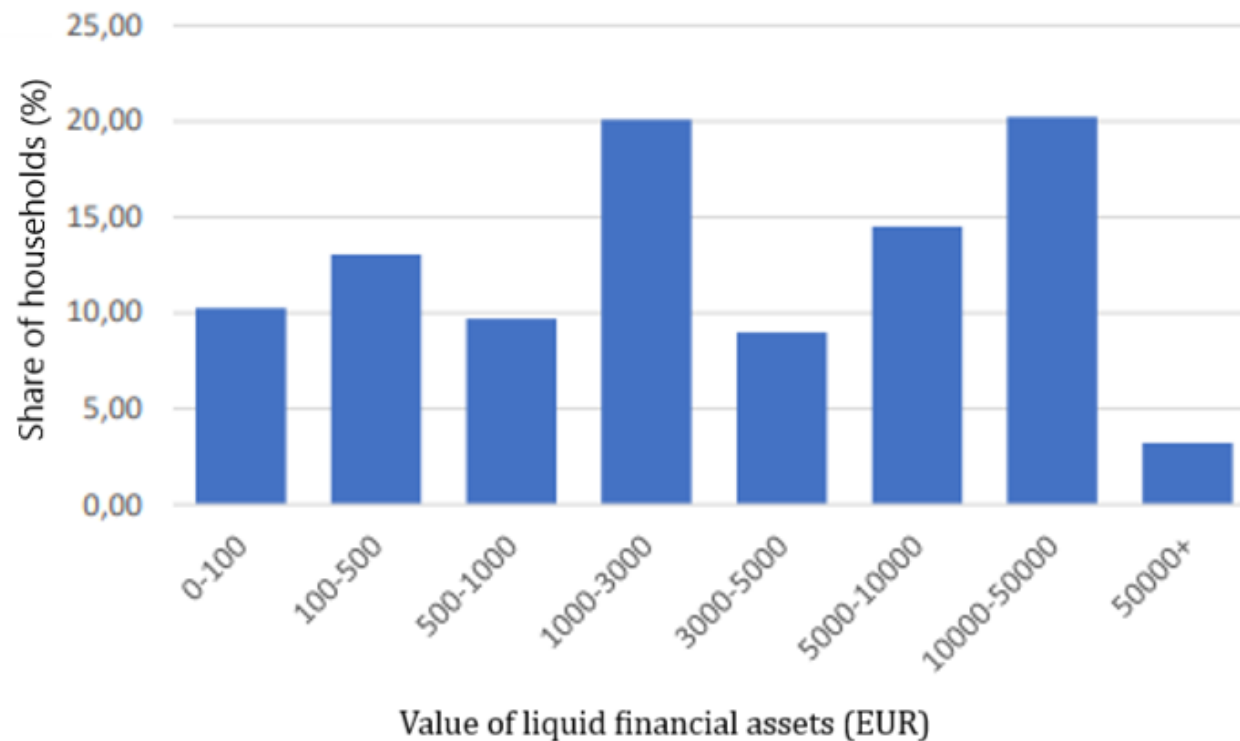


Source: Statistical office of Slovak Republic, NBS calculations.  
Link: [https://www.nbs.sk/\\_img/Documents/komentare/AnalytickeKomentare/2020/AK85\\_Skutocna\\_inflacia\\_pocas\\_pandemie.pdf](https://www.nbs.sk/_img/Documents/komentare/AnalytickeKomentare/2020/AK85_Skutocna_inflacia_pocas_pandemie.pdf)  
Notes: \* weights used in calculations are Ekasa and KSD.



# Financial situation of Slovak households and firms was fragile already before the pandemic...

## Distribution of households liquid financial assets in 2017



Source: HFCS 2017, NBS calculations

Notes: We assume that 500 eur is sufficient for a standard family to survive for one month. This corresponds to the living wage of a family of two parents and one child plus 10% buffer.

Notes: Analytical commentaries by NBS: "Do Slovak households have enough reserves before the crisis" (2020) by Cupák A., Klacso J. and M. Šuster, link:

[https://www.nbs.sk/img/Documents/komentare/AnalytickeKomentare/2020/AK78\\_Financne\\_rezervy\\_domacnosti.pdf](https://www.nbs.sk/img/Documents/komentare/AnalytickeKomentare/2020/AK78_Financne_rezervy_domacnosti.pdf) and "Do companies have financial reserves to overcome the corona crisis?" (2020) by Buchta S., Lalinský T. and R. Peter, link: [https://www.nbs.sk/img/Documents/komentare/AnalytickeKomentare/2020/AK80\\_Fin\\_rezervy\\_podnikov\\_korona\\_2020Apr.pdf](https://www.nbs.sk/img/Documents/komentare/AnalytickeKomentare/2020/AK80_Fin_rezervy_podnikov_korona_2020Apr.pdf).

## Households before pandemic:

- 10% of Slovak households did not have any financial reserves before this crisis
- 20% had reserves for up to one month; half of households had reserves for up to six months

## Firms before pandemic:

- 7% of companies had a negative operating margin and were not able to cover their fixed costs with short-term financial resources

# SK government responded with an array of policy measures

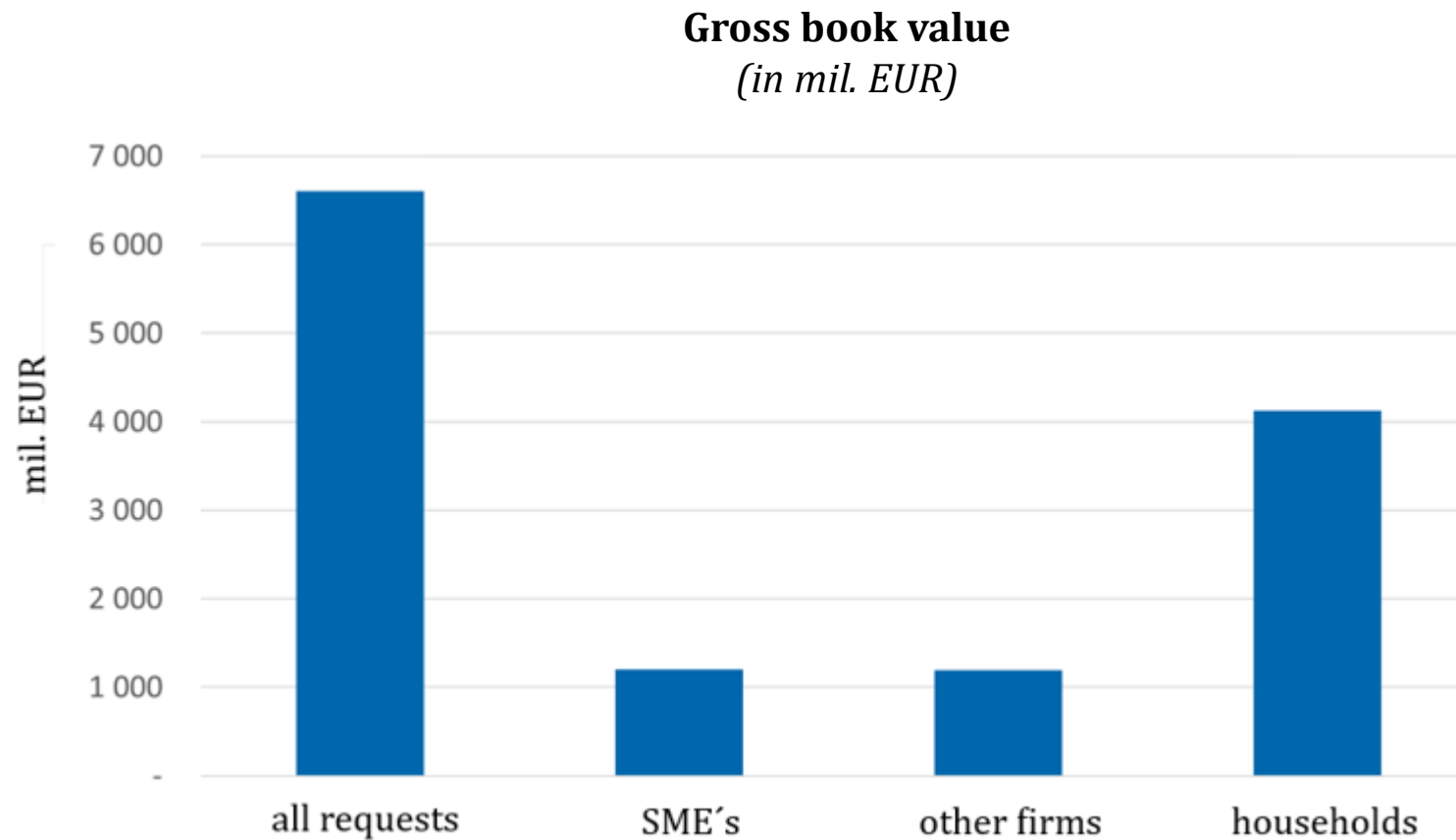
## **Fiscal measures include (2.0 bn. EUR / 2.2% GDP):**

- wage compensation for affected businesses and self-employed, and subsidies to individuals without income (the “First Aid” program)
- enhanced unemployment benefits, and sickness and nursing benefits
- deferral and waiver of employers' health insurance and social security contributions for affected companies and self-employed
- deferral of payroll and corporate tax payments for businesses whose revenues decline by more than 40 percent
- individuals, self-employed and SMEs are also allowed to defer loan repayments for up to 9 months, including rent payment moratorium

## **State guarantee schemes for SME's and large firms:**

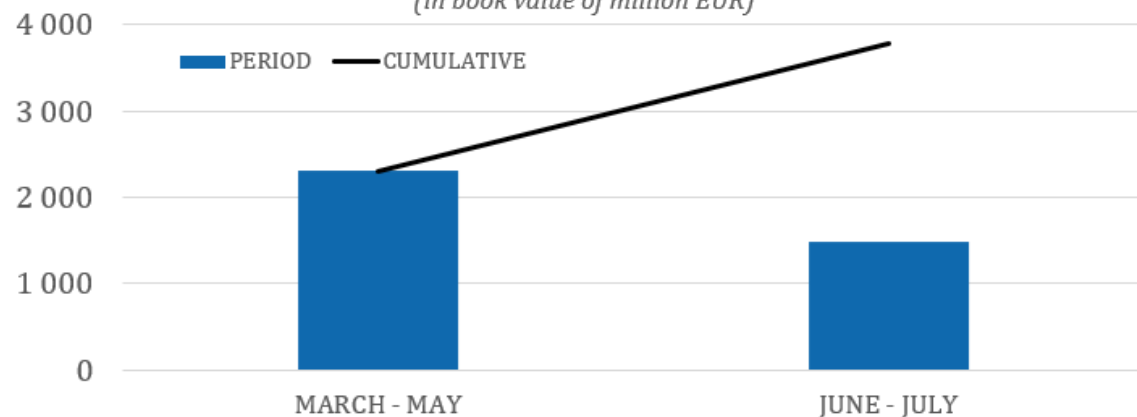
- bonified (zero-interest) loans to SME's and self-employed

# Deferred payments of 6.6 billion EUR approved

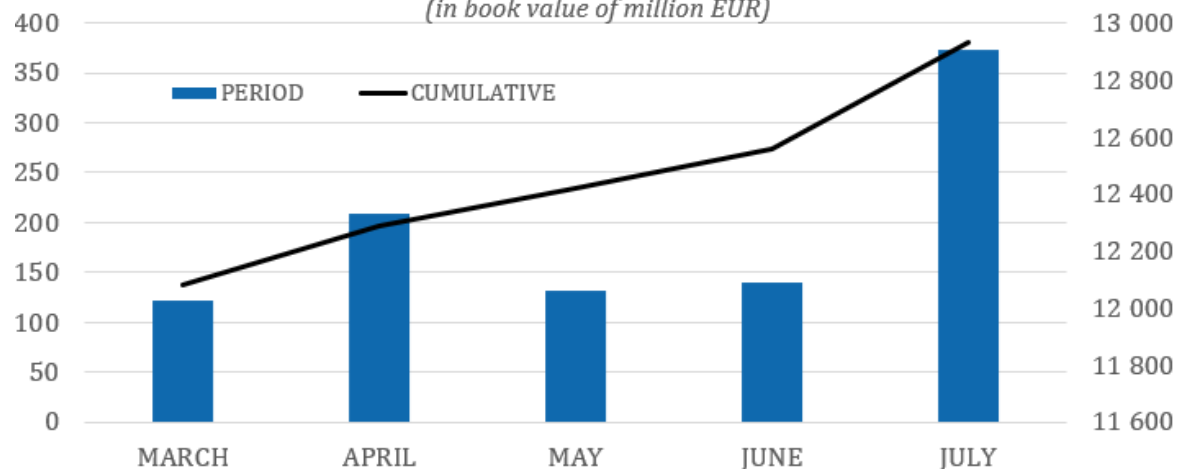


# Monetary policy played its part too...

Bimonthly & Cumulative Net Eurosystem's Purchases of SLOVGB  
under the PEPP  
(in book value of million EUR)



Monthly & Net Cumulative (Rhs) Eurosystem's Purchases of  
SLOVGB under the PSPP  
(in book value of million EUR)



## 1. New Pandemic Emergency Purchase Programme (PEPP)

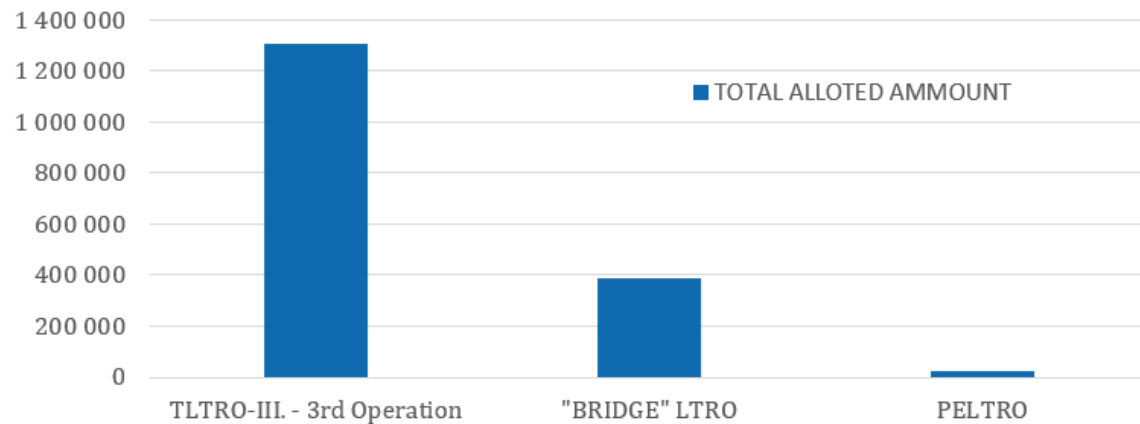
- Total envelope of **€1,350 bn.**, so far **€440 bn.** of total assets bought at the end of July 2020
- Purchases of Slovak government bonds reached **€3,790 mil.** at the end of July 2020

## 2. Expanding of Asset Purchase Programmes (APP)

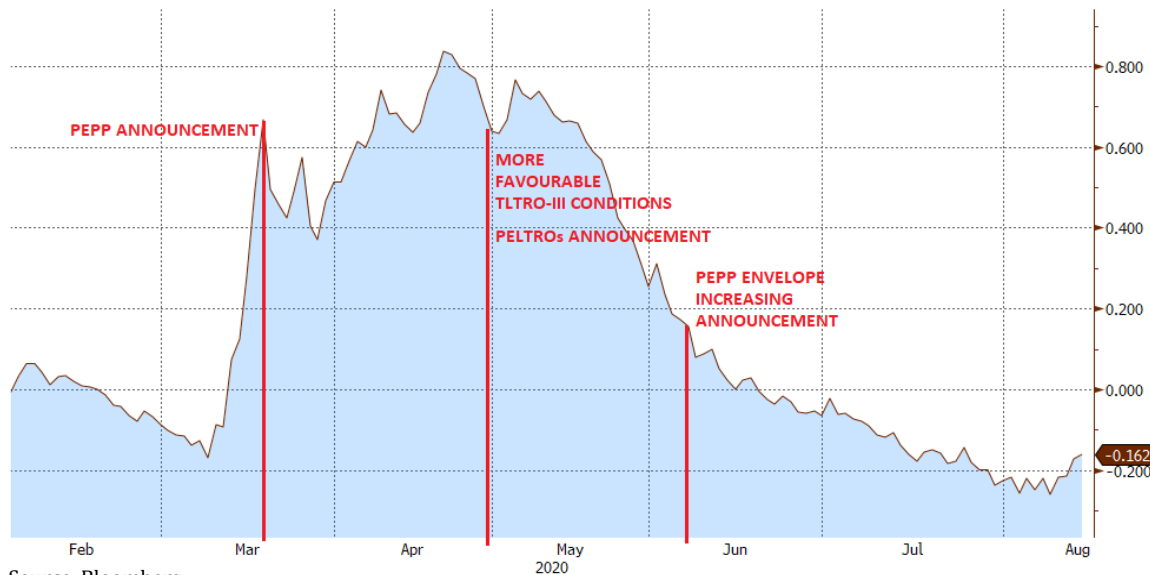
- Additional **€120 bn.** in temporary envelope for APP until the end of the year
- Purchases of Slovak government bonds reached **€12,932 mil.** at the end of July 2020 (€976 mil. since March)

# ...and contributed to the easing of financing conditions in Slovakia

Using of ECB's Additional Liquidity through Refinancing Operations by Banks of Eurosystem  
(in million EUR)



Source: Bloomberg



Source: Bloomberg

## 3. Providing ample liquidity through refinancing operations

- More favourable Targeted Longer-term Refinancing Operations **TLTRO III** with demand of **€1,308 bn.**
- New „**Bridge**“ Longer-term Refinancing Operations bridging the period until the TLTRO III with demand of **€390 bn.**
- New Pandemic Emergency Longer-term Refinancing Operations **PELTRO** with demand of **€22bn.**

## Reaction of 10-year Slovak Government benchmark bond

- Overall decline in yields from mid-March to end of July: **-100bps**
- The decline of **Slovak yields spread to 10Y Bunds** from **131bps to 25bps**

# In addition, NBS decreased its countercyclical capital buffer to 1%

## Micro- and macro-prudential measures taken by ECB and NBS:

- ECB Banking Supervision provided temporary capital and operational relief in reaction to coronavirus
  - Banks allowed to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR)
  - These temporary measures were enhanced by the appropriate relaxation of the countercyclical capital buffer (CCyB) by the national macroprudential authorities
  - July 2020 NBS decreased CCyB to 1%
- ECB asks banks not to pay dividends until at least January 2021

Capital buffers in Slovakia	Current value
Capital conservation buffer - CCB	2,5%
Countercyclical capital buffer - CCyB	1,0%
Other systemically important institutions - OSII	0,5%-1%
Systemic Risk Buffer - SRB)	1,0%

