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SUMMARY OF MACROECONOMIC DEVELOPMENTS

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This publication is also available in Slovene.

Summary of macroeconomic developments, December 2021

The economic situation in the euro area remained solid in November, despite the worsening pandemic and the supply-side disruptions, while inflation is also continuing to rise, driven by a number of specific interacting factors. *Euro area GDP in the third quarter was down just 0.5% on its pre-crisis peak, while quarterly growth remained elevated at 2.2%. Growth is expected to be slightly slower in the final quarter of this year, particularly in light of deterioration in the epidemiological picture and the extensive tightening of containment measures to prevent the renewed spread of the pandemic. For now these are not having a significant impact on the economy: the composite PMI actually strengthened slightly in November, while the economic sentiment indicator remained high. Manufacturing output is continuing to grow, although according to Markit, who compile the PMIs, the situation is worsening in supply chains and is now heavily curtailing activity. The situation in contact intensive services is also deteriorating, but aggregate activity in private-sector services nevertheless remains strong. According to the latest OECD forecasts released on 1 December (Eurosystem will publish new projections on 16 December), euro area GDP growth is expected to stand at 5.2% this year, and 4.3% in 2022. The forecast is subject to high risk on account of the bad epidemiological picture in Europe, the spread of the new coronavirus variant, the bottlenecks in supply chains, and the high energy prices and input commodity prices. In the context of strong domestic demand, falling unemployment, and major imbalances between supply and demand on global markets, headline inflation and core inflation are currently relatively high. They stood at 4.9% and 2.6% respectively in November.*

Despite the increased volatility on the financial markets, the financing conditions remain highly favourable for the government sector and the private sector alike. *The volatility is attributable to uncertainty in connection with the duration of the increased inflationary pressures, the deterioration in the epidemiological situation, and the expectations that global central banks will begin gradually scaling back their accommodative stance. Market expectations of the first rate increase in the ECB's deposit facility are also evolving; at the end of November the first hike was anticipated in the first quarter of 2023. Government bond yields have fallen over recent weeks, with sharper falls in core countries, which is attributable in part to investors' strong demand for high-quality liquid assets as the end of the year approaches. Despite the rise, corporate bond asset swap spreads remain at their pre-pandemic levels, which means that the private sector's financing costs remain favourable. The strong earnings results by listed firms in the third quarter drove European and US equity indices to record highs, although this was followed by a downward correction in light of the renewed deterioration in the epidemiological situation. The euro continued to depreciate against the US dollar due to the ECB's more accommodative monetary policy compared with that of the Fed, while the uncertainty surrounding the rise of the omicron variant also drove down oil prices in November, following sharp rises in previous months.*

Domestic economic activity remained strong in the third quarter as it surpassed its pre-pandemic level. *Quarterly GDP growth nevertheless slowed to 1.3% in the third quarter. The slowdown was mostly attributable to supply-side constraints, while private consumption continued to strengthen fast. Capacity utilisation is high, despite the investment in machinery and equipment, and a shortage of intermediate goods is evident. In* *the euro area overall and in Slovenia the problems are most pronounced in the automotive industry, as evidenced by the 22.0% year-on-year decline in the number of first-time car registrations in the EU in the third quarter. Firms, especially in manufacturing and construction, are also facing problems with higher commodity and energy prices, and a shortage of skilled labour, and are building up inventories due to precautionary and compulsory reasons. Merchandise exports in the third quarter were thus down 0.6% on the second quarter in real terms. On the demand side, the disruptions in international tourism remain prominent: the number of overnight stays by foreign guests in the third quarter of this year was down 37.7% on the third quarter of 2019. Amid financial support from the government, the gap was largely filled by domestic guests, whose overnight stays were up 131.4% over the same period. The relatively normal business conditions for private-sector services resulted in 1.7% increase in their value-added in quarterly terms, amid high growth in private consumption. In the case the pandemic was brought under control, a gradual slowdown in economic growth would have been expected even without the supply-side issues, as the activity gap has already closed. This has been reflected in GDP, which in the third quarter was 1.2% above its pre-crisis level.*

The uncertainty surrounding the economic outlook has increased in recent weeks. *There was a sharp deterioration in the epidemiological situation, which was followed by the tightening of containment measures, which alongside high inflation could curtail growth in private consumption. The negative impact should however be relatively small, as for now the measures are mostly less restrictive than in previous waves. The measures have also not yet been reflected in certain high-frequency data related to consumption. The disruptions to supply chains are continuing. A year ago, they had not yet been identified as a major limiting factor of production, now they are a serious obstacle, especially for the automotive industry. Further evidence that the business conditions are less restrictive this autumn comes from November's unexpected rise in economic sentiment, while surveyed export expectations also saw an increase. The risks are more complex over the longer term: they relate to ensuring the conditions for a successful transition to a digital, low-carbon society, where a shortage of people with the requisite qualifications and the need to consolidate the public finances could be the major limiting factors. In the wake of a longer period of higher inflation, the monetary policy stance might also become less accommodative than currently expected.*

The situation on the labour market is in some respects perhaps the best to date. *The workforce in employment increased again to stand at 906,434 in September, up 2.2% in year-on-year terms, setting a new high since records began for the third consecutive month. After a small seasonal rise in October, registered unemployment fell significantly again in November to 65,379, down almost 19,000 on the same month last year. According to the seasonally adjusted figures, registered unemployment has been falling continuously since July of last year, thus increasing labour shortages. Firms have responded by hiring foreign nationals as the domestic pool of labour becomes increasingly exhausted. Having reached record levels in the second quarter, the number of vacancies increased further in the third quarter, and firms are continuing to express pronounced optimism with regard to further growth in employment over the coming months, despite the current rise in uncertainty in connection with the epidemiological situation. Wage growth slowed in recent months, primarily in reflection of lower wage growth in the public sector driven by a decline in bonus payments. The average gross wage in September was up 4.1% in year-on-year terms, driven by rises of 0.3% in mostly public services, and 5.7% in the private sector activities. September's wage growth in the private sector activities was approximately 2 percentage points higher than the average in 2019. Such acceleration in growth can be at-*

tributed to January's rise of 8.9% in the minimum wage, the impact of increased hiring as services opened up over the summer, and a growing general shortage of labour.

The strong price pressures in the international environment and exceptionally strong domestic demand are speeding up the narrowing of the current account surplus in recent months. *Year-on-year growth in nominal merchandise imports again exceeded 34% in September according to balance of payments figures, while growth in import prices stood at 22.5% in October. The comparable growth in nominal merchandise exports stood at 15.8%, and was again outpaced by imports; growth in export prices is significantly lower, and issues are arising in car industry exports because of the shortage of intermediate goods. Growth in services trade remains high, although both imports and exports of travel services in the third quarter were again down significantly on the pre-pandemic period, despite fewer restrictions on crossing borders. Amid the high economic growth, the deficit in income from FDI is widening as expected this year, but the deficit in aggregate income remains narrower in year-on-year terms thanks to the low cost of servicing public debt, inflows of EU funds, an increase in the government sector's social transfers, and good performance by domestic insurance corporations on foreign markets. The current account surplus over the preceding 12 months amounted to EUR 2,521 million in September, down EUR 941 million on its peak in December of last year. The main factor was a decline in the merchandise trade surplus amid rising import prices and buoyant domestic demand. Further evidence of the profound strength of the latter comes from the negative contribution made by net trade, which halved year-on-year GDP growth in the third quarter to 5.0%.*

Inflation is rising fast at the end of the year as a number of particular factors interact. *Annual inflation reached 4.9% in November, of which energy prices accounted for 2.8 percentage points. The rise in energy prices was attributable to a low base effect, and high prices of oil and natural gas on international markets, while prices of emissions allowances are also rising. Heat energy and motor fuels again recorded sharp price rises in November, and further rises can be expected in December. In light of the price rises, and the start of the heating season, the government reintroduced controls on heating oil prices on 9 November. Food inflation is also rising, and stood at 1.4% in the wake of a rise in excise duties on tobacco products. Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco reached 2.7% in November. The supply chain logjams and rising growth in import prices and producer prices of industrial goods are also being reflected in a rise in prices of non-energy industrial goods (furniture, vehicles, clothing, …), which were up 4.0% in year-on-year terms in November. Services inflation remained relatively weak at 1.6%, on account of this year's change in the weights for computing the HICP. The expectation is that inflation will persist at higher levels over the coming months, until the situation in global supply chains and on the energy markets is resolved. The risk of a longer period of higher inflation primarily comes from the current high level of prices passing through into longer-term inflation expectations on the part of households, firms and financial markets, and from the situation on the labour market. The fiscal policy stance will also have an impact on domestic price factors.*

The general government deficit is narrowing this year, and is forecast to continue doing so over the following years. *The consolidated general government deficit over the first ten months of this year amounted to EUR 2.0 billion, EUR 413 million narrower in year-on-year terms. Revenues were up in year-on-year terms as the economy strengthened, and were also up on the same period of 2019. This is the case for tax revenues, and other revenues. General government expenditure also increased, driven in part by increased ex-*

penditure on measures in connection with the epidemic, which was up a fifth on last year. There was also a significant increase in investment expenditure. Slovenia is running a surplus in its position against the EU budget, which over the first ten months of the year was down slightly on the same period last year. In its approved budget documents the government is planning to gradually reduce the state budget deficit and the general government deficit over the following years. The planned high growth in investment will help strengthen economic growth, but the realisation will also depend on the ability to draw down funds. Given the deterioration in the epidemiological situation, a tenth anti-coronavirus package has been drawn up. Alongside temporary measures in connection with the epidemic, longer-term measures such as social care and changes to personal income tax are also in the process of being adopted. The key is maintaining the long-term sustainability of the public finances, where the structural risks relate to the planned changes in taxation amid the demographic pressures that are already present.

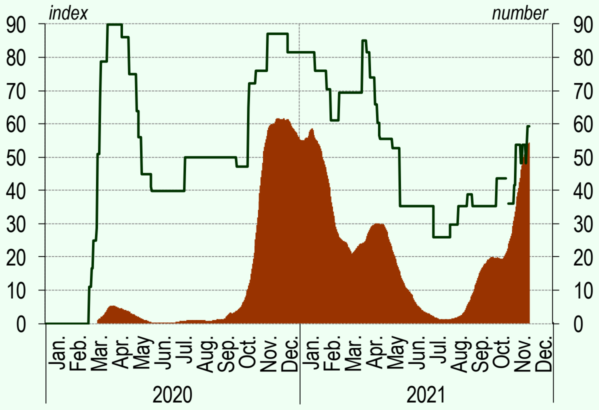
Selection of macroeconomic indicators on a monthly basis, Slovenia

	2019	2020	12 m. 'till Sep.21	3 m. 'till Sep.20	3 m. 'till Sep.21	2021 Jul.	2021 Aug.	2021 Sep.	2021 Oct.	2021 Nov.
Economic Activity										
				balance of answers in percentage points						
Sentiment indicator	6.0	-11.8	-0.8	-8.8	5.6	5.7	6.5	4.7	2.4	3.2
- confidence indicator in manufacturing	0.3	-8.7	6.7	-3.3	9.3	10.0	11.0	7.0	3.0	5.0
				year-on-year growth rates in %						
Industry: - total	2.8	-6.3	8.5	-3.6	8.2	8.7	8.1	7.7	...	...
- manufacturing	3.2	-6.1	9.6	-3.5	9.7	10.2	9.5	9.3	...	...
Construction: - total	3.4	-0.7	-0.8	2.7	-4.8	-8.2	-7.5	0.7	...	...
- buildings	0.1	-7.8	-13.6	0.3	-27.6	-36.3	-18.6	-27.1	...	...
Trade and service activities - total	2.4	-9.6	4.3	-4.8	10.3	8.3	11.6	10.9	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	2.7	-14.5	-0.1	1.8	-6.5	-13.0	-3.7	-1.7	...	...
Retail trade, except of motor vehicles and motorcycles	3.5	-5.9	5.5	-1.0	10.5	7.5	9.4	14.9	...	...
Other private sector services	2.2	-11.5	3.9	-6.9	12.9	12.2	15.2	11.6	...	...
Labour market				*year-on-year growth rates in %*						
Average gross wage	4.3	6.0	...	4.8	...	7.1	4.8	...	...	...
- private sector	3.9	4.5	5.1	4.6	6.1	6.1	6.0	6.2	...	...
- public sector	5.4	7.9	10.3	4.6	4.6	9.3	3.4	1.0	...	...
Real net wage[1]	2.0	7.1	...	6.2	...	4.2	2.1	...	...	...
Registered unemployment rate (in %)	7.7	8.7	8.1	9.0	7.1	7.3	7.1	6.8	...	...
Registered unemployed persons	-5.5	14.6	-3.7	22.6	-21.1	-21.0	-21.4	-21.1	-20.3	-22.3
Persons in employment	2.5	-0.6	0.3	-1.2	2.2	2.2	2.3	2.2	...	...
- private sector	3.0	-0.9	0.1	-1.6	2.5	2.5	2.6	2.5	...	...
- public sector	1.0	0.1	0.9	0.1	1.3	1.3	1.3	1.1	...	...
Price Developments				*year-on-year growth rates in %*						
HICP	1.7	-0.3	0.7	-0.6	2.3	2.0	2.1	2.7	3.5	4.9
- services	3.1	1.8	0.5	1.5	0.4	-0.2	0.2	1.2	1.4	1.6
- industrial goods excluding energy	0.3	-0.5	0.2	-0.6	1.7	1.9	1.8	1.3	1.7	4.0
- food	1.6	2.8	0.8	2.4	0.4	0.1	0.0	0.9	0.5	1.4
- energy	0.8	-10.8	2.2	-11.8	14.2	13.4	13.8	15.5	20.7	25.0
Core inflation indicator[2]	1.9	0.8	0.4	0.6	0.8	0.6	0.7	1.2	1.6	...
Balance of Payments - Current Account					*in % GDP*					
Current account balance	6.0	7.4	5.0	6.5	1.7	3.7	1.8	-0.4	...	...
1. Goods	2.7	5.0	2.2	5.7	-1.0	1.3	-1.1	-3.1	...	...
2. Services	6.0	4.3	4.2	4.6	4.6	4.2	4.5	5.3	...	...
3. Primary income	-1.7	-0.9	-0.9	-3.0	-1.5	-1.9	-1.0	-1.5	...	...
4. Secondary income	-1.1	-1.0	-0.6	-0.8	-0.4	0.2	-0.5	-1.0	...	...
				nominal year-on-year growth rates in %						
Export of goods and services	4.5	-10.1	11.6	-10.5	17.8	9.9	26.5	18.9	...	...
Import of goods and services	4.0	-11.7	16.5	-14.1	30.4	21.9	33.8	36.1	...	...

Public Finances	2019	2020	12 m. 'till Oct.21		2020 Jan.-Oct.		2021 Jan.-Oct.	
Consolidated general government (GG) balance[3]	EUR milions		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %
Revenue	19,232	18,529	40.9	10.3	15,281	-3.3	17,397	13.8
Tax revenue	17,179	16,460	36.2	10.0	13,592	-4.0	15,409	13.4
From EU budget	731	730	1.5	-0.2	564	8.9	609	7.9
Other	1,323	1,338	3.2	20.5	1,125	-0.1	1,379	22.6
Expenditure	18,969	22,071	47.1	12.3	17,647	14.3	19,350	9.6
Current expenditure	8,228	9,128	19.8	13.9	7,316	8.0	8,178	11.8
- wages and other personnel expenditure	4,470	4,965	11.3	16.9	4,118	10.6	4,840	17.5
- purchases of goods, services	2,728	3,021	6.4	12.8	2,316	5.9	2,519	8.7
- interest	791	778	1.5	-5.8	698	-1.9	653	-6.5
Current transfers	8,704	10,868	22.5	8.5	8,960	24.3	9,437	5.3
- transfers to individuals and households	7,324	8,251	18.1	12.9	6,876	12.4	7,747	12.7
Capital expenditure, transfers	1,527	1,549	3.6	23.0	956	-3.5	1,241	29.9
GG surplus/deficit	263	-3,542	-6.2		-2,366		-1,953	

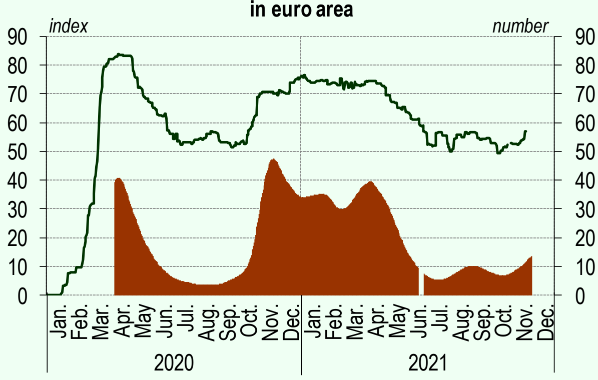
Note: Economic activity data are working day adjusted (with exception of sentiment and confidence indicators data, which are seasonally adjusted). Other data in the table are original. Monthly activity indicators for industry, construction and services are shown in real terms.
[1] HICP deflator. [2] Inflation excluding energy, food, alcohol, tobacco. [3] Consolidated central government budget, local government budgets and social security funds (pension and disability insurance fund and health insurance fund) in cash accounting principle.
Source: SORS, Banka Slovenije, Ministry of finance, Banka Slovenije calculations.

Number of Covid-19 patients in hospital and stringency index in Slovenia



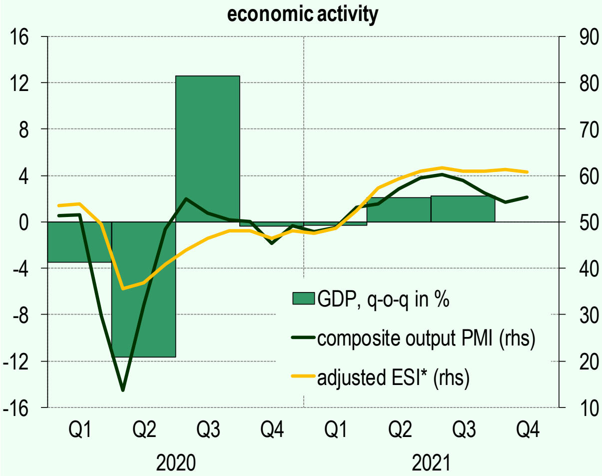
Note: The stringency index is an estimate of measures and may underestimate or overestimate real measures in a given period.
Source: Johns Hopkins University CSSE COVID-19 Data.

Number of Covid-19 patients in hospital and stringency index in euro area



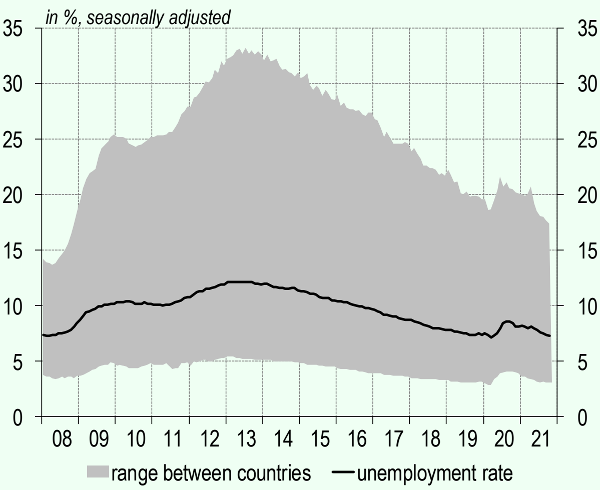
*Note: *Euro area countries with available data included: Austria, Belgium, Cyprus, Estonia, France, Italy, Luxembourg, Netherlands, Portugal and Slovenia. **The stringency index is an estimate of measures and may underestimate or overestimate real measures in a given period. It's calculated as a weighted average of individual members' indices, weighted by their GDP. Cyprus, Greece and Slovakia are not included due to data unavailability.*
Source: Johns Hopkins University CSSE COVID-19 Data.

GDP growth in the euro area and high-frequency indicators of economic activity



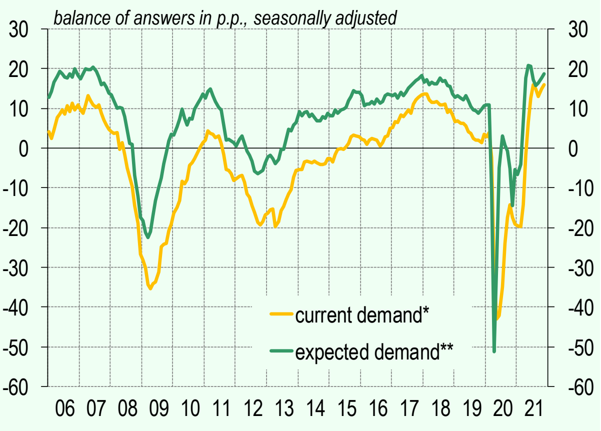
*Note: *The ESI is standardised and rescaled to have the same mean and standard deviation as the PMI.*
Source: IHS Markit, Eurostat, Banka Slovenije calculations.

Unemployment rate in the euro area



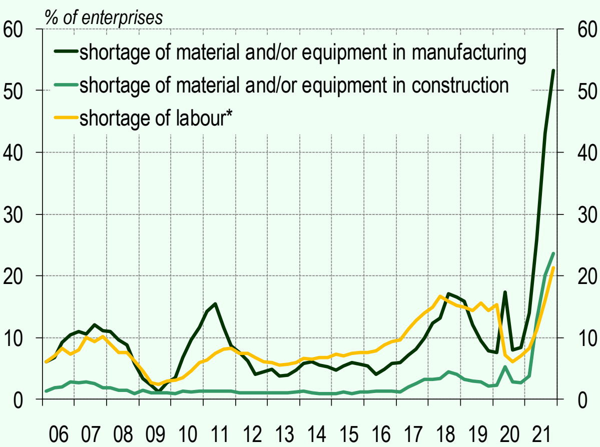
Source: Eurostat.

Current and expected demand in the euro area



*Note: The indicators are calculated by taking into account value added shares. *Included are companies in retail trade, other private services, industry and construction. **Included are companies in retail trade, other private services and industry.*
Source: Eurostat, Banka Slovenije calculations.

Limiting factors in the euro area



*Note: *Banka Slovenije's assessment. The indicator is calculated by taking into account value added shares. Included are companies in other private services, industry and construction, who as a limiting factor indicated the lack of workers.*
Source: Eurostat, Banka Slovenije calculations.

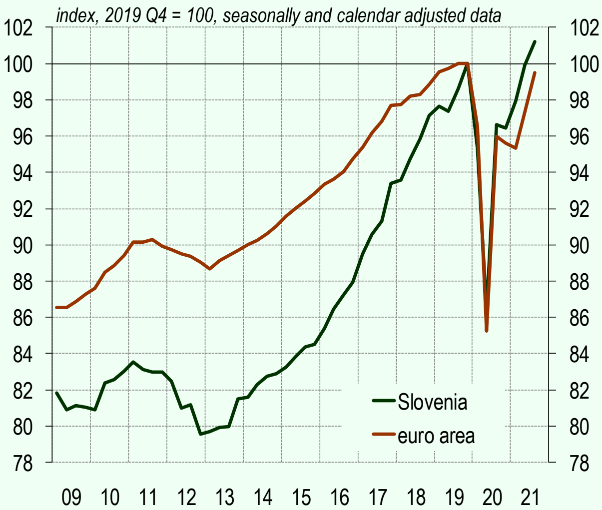
Financing costs for sovereign and corporate sector

Note: 10Y EA yield represents an average of GDP weighted government bond yields of euro area members. iBoxx corporate asset swap spread includes corporate bond issuers of financial and non-financial sector.
Source: Bloomberg, Refinitiv, Banka Slovenije calculations.

EUR/USD exchange rate and price of Brent crude

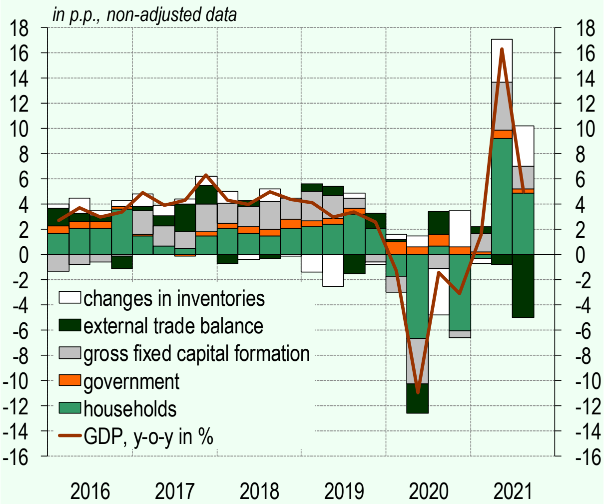
Source: Bloomberg.

GDP of Slovenia and the euro area



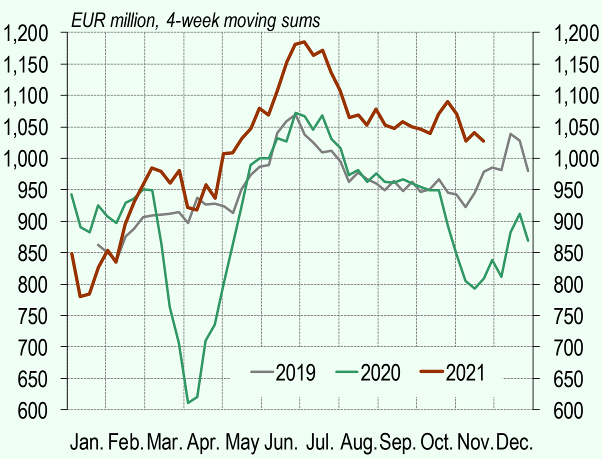
Source: SORS, Eurostat.

Structure of GDP growth in Slovenia, expenditure side



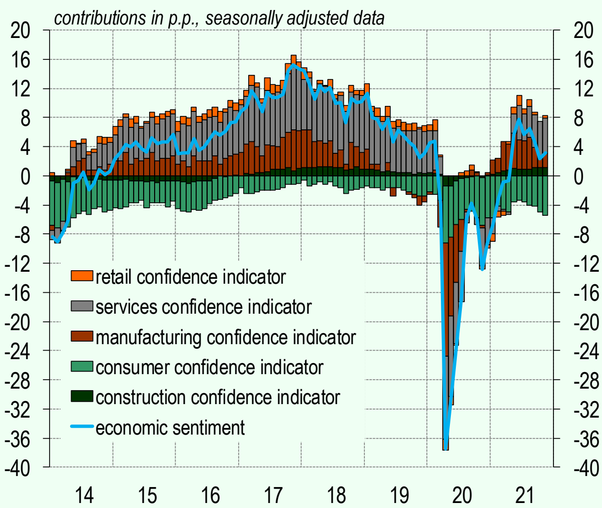
Source: SORS.

Value of card payments and ATMs withdrawals



Note: *The source is Bankart, which covers more than 80% of all card payments and more than 90% of all ATMs in Slovenia.
Source: Bankart, Banka Slovenije calculations.

Economic sentiment indicator for Slovenia

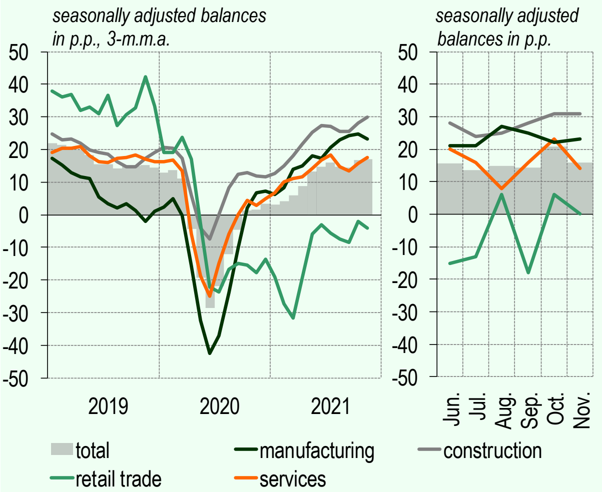


Source: SORS, Banka Slovenije calculations.

Workforce in employment and registered unemployed persons

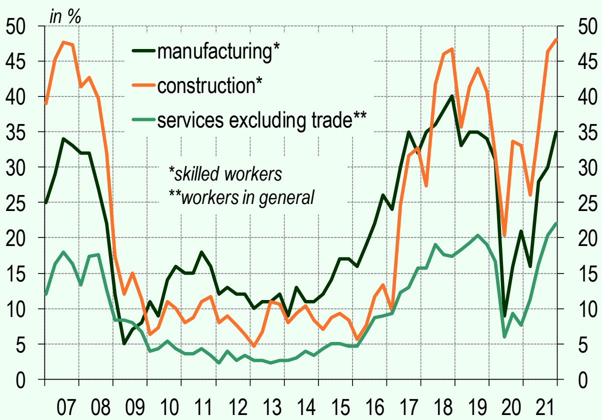
Source: SORS, Banka Slovenije calculations.

Expected employment in the next three months



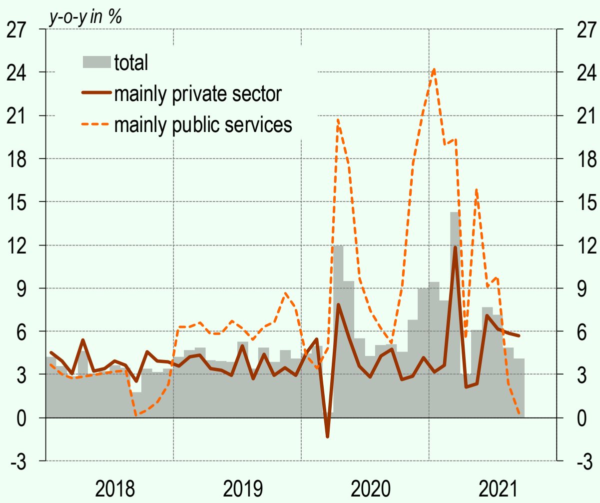
Note: Aggregate indicator is calculated with shares in total value-added.
Source: SORS, Banka Slovenije calculations.

Labour shortage as a limiting factor



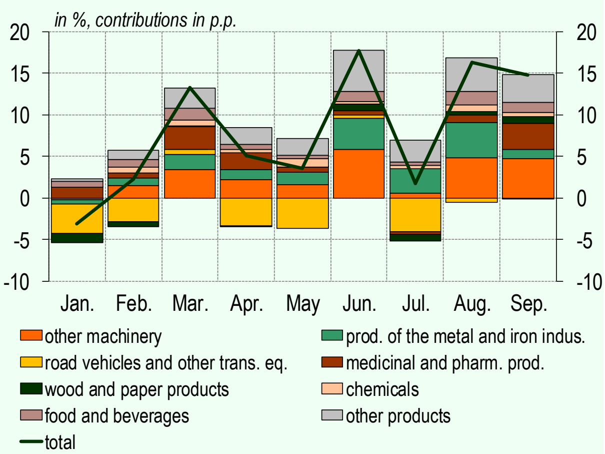
Note: The figure shows a balanced percentage of companies in a certain activity, who as a limiting factor indicated the lack of workers. Q4 2021 data for construction and services is calculated as average of October and November data.
Source: SORS, Banka Slovenije calculations.

Growth of average gross wage per employee



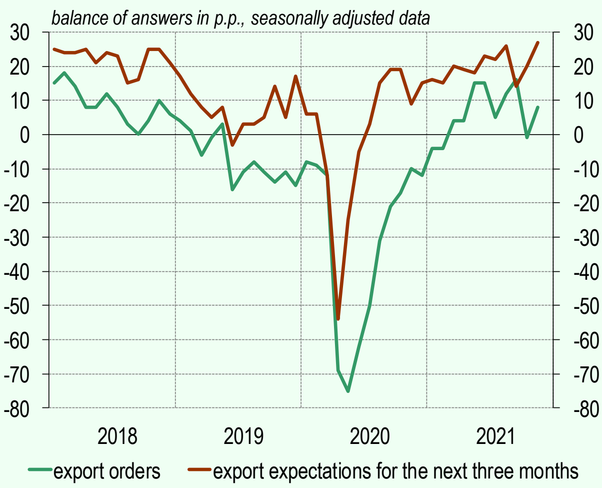
Source: SORS, Banka Slovenije calculations.

Growth of adjusted merchandise export* in 2021 compared to 2019



*Note: *Excluding exports of medicinal and pharmaceutical products to Switzerland, oil and petroleum products, electric energy and gas.*
Source: SORS, Banka Slovenije calculations.

Export orders and export expectations in manufacturing

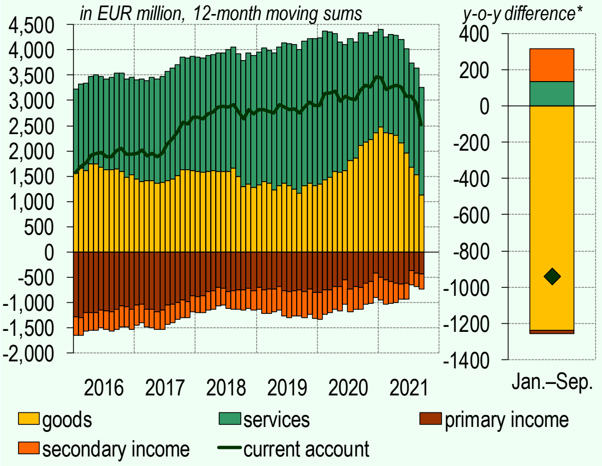


Source: SORS.

Import prices in Slovenia

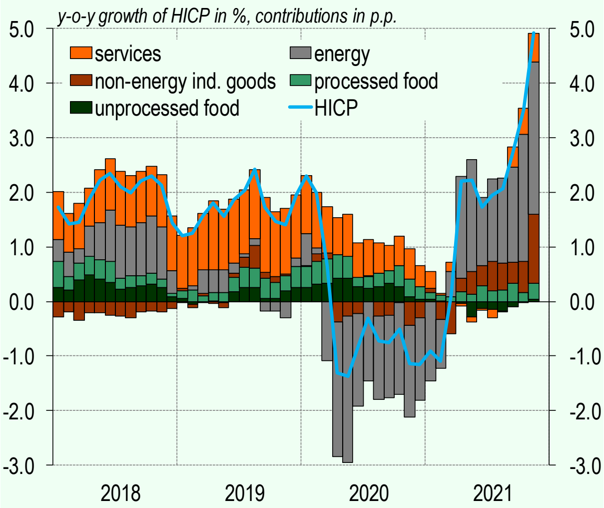
Source: SORS, Banka Slovenije calculations.

Current account components



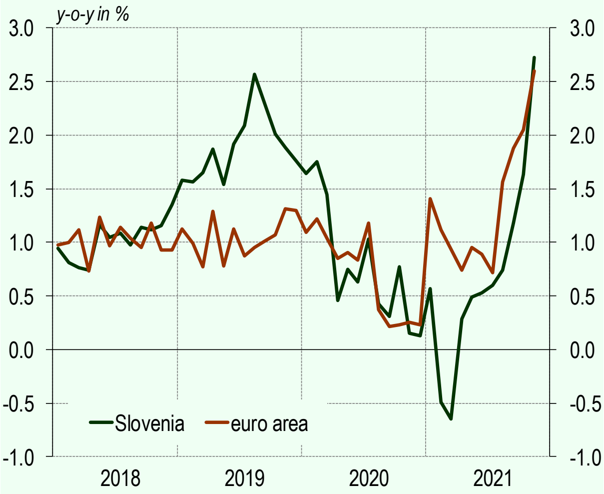
*Note: *Change in EUR million in the first nine months of 2021 compared to the same period last year.*
Source: Banka Slovenije.

Contributions to headline HICP inflation in Slovenia



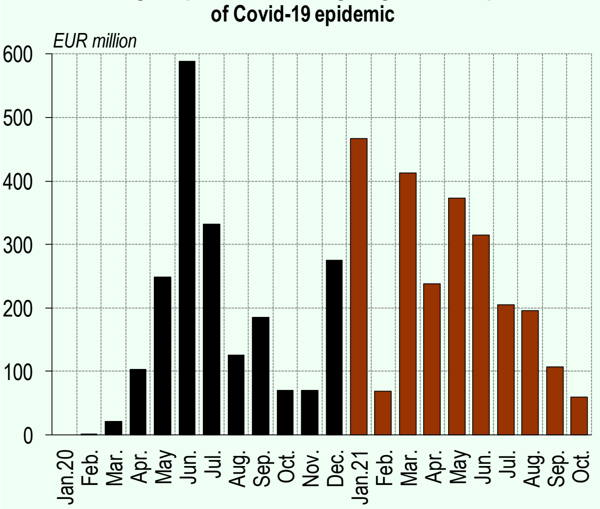
Source: Eurostat, SORS, Banka Slovenije calculations.

Core inflation (HICP excluding energy and food)



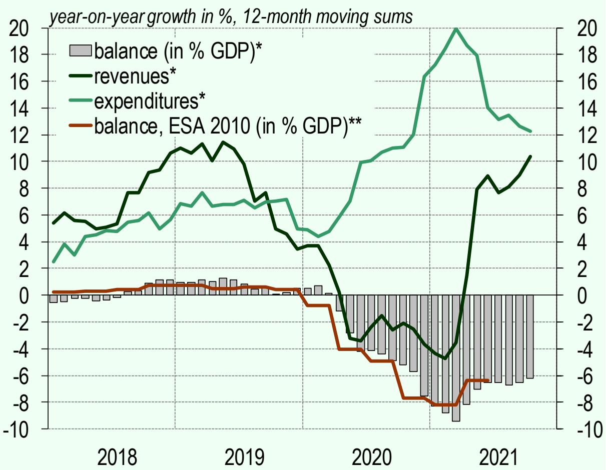
Source: Eurostat, Banka Slovenije calculations.

State budget expenditure for mitigating the consequences of Covid-19 epidemic



Note: Payments from the budget reserve are also included.
Source: Ministry of Finance, Banka Slovenije calculations.

Public finance developments



*Note: *National methodology, **sum of quarterly public finance balances in last 12 months.*
Source: SORS, Ministry of Finance, Banka Slovenije calculations.