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EVROSISTEM

SUMMARY OF MACROECONOMIC DEVELOPMENTS

MARCH 2021

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This publication is also available in Slovene.

Summary of macroeconomic developments, March 2021

The euro area remains in economic crisis, but it is significantly less harsh in the second wave of the epidemic than in the first wave, despite an even worse health situation. *Amid slightly less restrictive containment measures, extensive support from economic policy, and a more encouraging international environment, euro area GDP in the final quarter of last year was down only 0.6% on the previous quarter. This took the year-on-year decline to 5.0%, 9.7 percentage points less than in the second quarter, when the shock was at its peak. In February the composite PMI remained in the zone indicating economic contraction. Because the epidemic is not yet under control, services remain in recession, but a larger decline in GDP is still being prevented by manufacturing. A broader economic recovery is expected to begin in the second half of 2021, but it depends on the evolution of the epidemic, which in turn depends largely on the availability and effectiveness of vaccines. It is a different story in the US, where growth in activity has picked up strongly this year as case numbers have gradually fallen, and according to the PMI reached its highest rate in almost six years. In the future higher growth will also be supported by extensive fiscal policy measures, which are expected to be even larger in the US than in the euro area. The price of Brent crude passed USD 65 per barrel in February for the first time since the outbreak of the epidemic. Further indications of the recovery in global demand come from the year-on-year rise in other commodity prices, which together with the strongly accommodative monetary policy are increasing inflation expectations in the international environment. In recent weeks these have also been reflected in a sharp rise in required yields on long-term government bonds and bonds of other issuers.*

The domestic economy is also coping with the second wave significantly better than the first wave. *GDP in the final quarter of last year was down only 1.0% on the previous quarter. This took the year-on-year decline to 4.5% according to original figures, 8.4 percentage points less than in the second quarter.In contrast to the first wave, only sectors that by nature are unable to adapt sufficiently to the stringent containment measures were hit hard on this occasion. The prime example is accommodation and food service activities, where turnover was down 62.4% in year-on-year terms in the final quarter, even slightly more than in the first wave. Wholesale and retail trade also suffered a significant loss: a partial shutdown left turnover down 8.1%, despite the rise in online sales. Nevertheless, private-sector services have largely adapted to the restrictions by moving online and through home deliveries, and have therefore suffered a slightly smaller decline than in the first wave. The business conditions are significantly better than in the early part of the epidemic in industry, which is recovering as foreign demand rises, and in construction, which is mainly being strengthened by infrastructure projects. The easing of the epidemic in February and the partial lifting of containment measures have generated the conditions for rebooting a slightly broader cross-section of the economy. The economic sentiment has also improved, and firms have raised their demand expectations. At the same time February's rise in card payments indicates that private consumption is strengthening, having suffered another sharp shock in the final quarter of last year. Despite this, the situation remains highly uncertain, as the epidemic is not yet under control.*

The situation on the labour market has not deteriorated significantly during the second wave, and with the partial relaxation of containment measures the first signs of recovery have been seen. *Amid an increase in export activity, renewed hiring in manufacturing, and the expansion of human health and social work activities, the year-on-year fall in the workforce in employment did not deepen in the final quarter. The tightening of the containment measures at that time did worsen the situation in accommodation and food service activities, where the workforce in employment was down fully 13.5% in year-on-year terms in December, owing to the shutdown. This brought a renewed surge in the number of furloughed workers. There was also a pronounced rise in numbers in wholesale and retail trade, given the nature of the measures and the ban on working on Sundays and holidays. The job preservation measures have greatly limited the rise in unemployment, and were extended again in the eighth package of anti-coronavirus measures. The rise in unemployment in December and January was merely in line with the usual seasonal movements: the figure peaked at 91.5 thousand during the second wave, almost 40 thousand less than the peak of the previous crisis. Growth in the average gross wage strengthened again, as a result of crisis bonus payments during the second wave, driven primarily by wage growth in human health and social work activities. As the epidemic eased and the containment measures were partially lifted, unemployment began to fall in February. Firms raised their employment expectations at the same time, while consumers' assessment of future developments on the labour market also became less negative. Nevertheless, future conditions on the labour market remain uncertain, as the epidemic is still ongoing.*

Foreign demand is recovering despite the epidemic, and this is improving the situation in the domestic export sector. *According to Markit data, disruptions to supply chains have again appeared, on account of the renewed tightening of containment measures, more difficult access to raw materials and simultaneous growth in demand, but these are yet to have any discernible impact on growth in global industrial production. The shock to the European economy from the second wave of cases has been significantly smaller than the first wave, and limited to fewer sectors, which is also encouraging Slovenia's merchandise exports. In terms of value, they were up 1.1% in year-on-year terms in the final quarter of last year according to balance of payments figures, with positive developments in most product categories. Merchandise imports also recovered, despite the constraints on domestic consumption. They were down just 3.6% in year-on-year terms in the final quarter of last year. The decline was fully 9.5 percentage points smaller than in the third quarter, despite the significantly more stringent containment measures. One highlight is the increase in imports of capital goods, machinery in particular. Trade in most types of services is also improving. The exception remains travel services, which have been drastically curbed by containment measures, and were the main factor in the year-on-year decline in total international trade in the final quarter of last year. The manufacturing sector's rapid response to strengthening foreign demand and the shock to trade in travel services brought profound changes to the structure and size of the current account surplus last year. The surplus increased by EUR 640 million to almost EUR 3.4 billion, and for the first time to date the majority came from merchandise trade, where the surplus amounted to more than EUR 2.5 billion.*

Deflation continues to be driven by the year-on-year fall in energy prices, but domestic price pressures have also been weakening in recent months. *Consumer prices as measured by the HICP were down 1.1% in year-on-year terms in February. The fall in prices deepened, driven by the negative contribution by prices of* *non-energy industrial goods, which were down 1,0% in year-on-year terms in February mainly as a result of extended winter sales of clothing and footwear. Amid the weaker domestic price pressures, services prices remained unchanged in year-on-year terms for the first time since August 2011. Energy prices continued to be the main driver of deflation: they remained down more than 7% in year-on-year terms, despite monthly rises in oil prices. Food price inflation on the domestic market has been slowing since November, as a result of a base effect and falling import prices. It stood at just 0.5% in February. Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco was negative in the amount of 0.5% in February. After five months of deflation, year-on-year price developments in the euro area re-entered positive territory in January, at 0.9%. It should be noted that the rise in euro area inflation was primarily driven by one-off factors, such as the expiry of the temporary cut in VAT and the new carbon emissions tax in Germany. The expectation is that the pronounced changes in the weights in the HICP this year will have a marked impact on price statistics.[1] In Slovenia this effect was negligible in January, although the lowering of the weights of services related to tourism can be expected to reduce headline inflation over the summer. The strong base effect in energy prices will act in the opposite direction as of March.*

The anti-crisis measures are helping to preserve the economic potential of the country and contribute to current recovery, but at the price of worsening the fiscal position. *After two years of surpluses, the consolidated general government position moved into deficit last year, in the amount of EUR 3.5 billion (7.7% of GDP), and the position deteriorated further in January of this year. The decline in economic activity reduced general government revenues. The main decline was in tax revenues, most notably taxes on consumption and corporate income tax. An even larger factor in the deterioration in the position was the increase in expenditure, which primarily reflects the financing of the anti-coronavirus measures. Expenditure related to the epidemic amounted to around EUR 2 billion last year, according to state budget figures. It peaked in June of last year, but the next largest monthly total came in January of this year, when the state budget deficit amounted to EUR 432 million (compared with a surplus of EUR 11 million last year). The National Assembly approved the eighth anti-coronavirus package in February, and a number of measures already in place have been extended in recent months. Although GDP declined by 5.5% last year, there was no major deterioration on the labour market, and the financial position of firms and households remained relatively stable on aggregate. This suggests that for now the measures have helped to preserve the majority of economic potential, which will provide the basis for the recovery after the epidemic eases. When this happens, the lifting of the measures will need to be gradual and targeted, to avoid re-exposing the economy to adverse shocks.*

The majority of the borrowing needed for implementing the state budget had already been undertaken by Slovenia during the first two months of the year. *The figure was estimated at EUR 5.7 billion, according to the financing programme adopted in December. According to state budget figures, borrowing in January amounted to EUR 2.7 billion. Borrowing continued in February, partly via the issuance of 60-year government bonds (EUR 500 million). Meanwhile the government has also drawn down all available funding from the SURE programme in the amount of EUR 1.1 billion (EUR 913 million in February). The new borrowing came at*

[1] The epidemic has had a major impact on household spending patterns, as a result of which the weights have changed significantly more than usual this year. In Slovenia the weights of food and non-energy industrial goods in the consumer basket have increased relative to last year, while services and energy have lower weights. There were similar changes in the weights of the principal aggregates in the euro area overall.

favourable interest rates. Debt repayments amounted to EUR 1.6 billion in January. The state budget debt amounted to EUR 35.4 billion at the end of January, up approximately EUR 1 billion on the end of last year. The financing programme for this year's state budget forecasts the budget debt to reach EUR 36.6 billion at the end of this year, assuming that all necessary borrowing is undertaken. It amounted to EUR 34.3 billion at the end of 2020 (74.1% of GDP), up from EUR 28.6 billion at the end of 2019 (59.0% of GDP).

Selection of macroeconomic indicators on a monthly basis, Slovenia

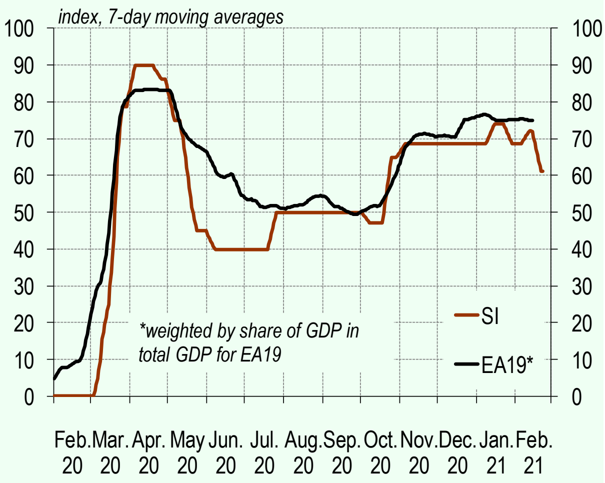
	12 m. 'till Dec.18	12 m. 'till Dec.19	12 m. 'till Dec.20	3 m. 'till Dec.19	3 m. 'till Dec.20	2020 Oct.	2020 Nov.	2020 Dec.	2021 Jan.
Economic Activity									** data for Feb.21*
				balance of answers in percentage points					
Sentiment indicator	10.9	6.0	-11.8	3.2	-9.5	-6.2	-13.2	-9.2	-6.9 (-3.6*)
- confidence indicator in manufacturing	8.1	0.3	-8.6	-2.3	0.3	1.0	-1.0	1.0	5.0 (5.0*)
				year-on-year growth rates in %					
Industry: - total	5.3	2.8	-6.2	1.8	-0.9	-1.3	-0.5	-0.9	...
- manufacturing	5.9	3.2	-6.0	2.5	-1.0	-1.3	-0.8	-0.7	...
Construction: - total	19.8	3.3	0.4	-3.8	7.3	0.5	19.8	-0.3	...
- buildings	16.8	3.5	-3.4	3.0	1.5	1.4	5.9	-3.4	...
Trade and service activities - total	7.3	2.8	-9.6	-0.2	-10.0	-8.3	-9.6	-12.1	...
Wholesale and retail trade and repair of motor vehicles and	12.1	2.7	-14.5	3.4	-18.3	-6.8	-21.6	-27.2	...
Retail trade, except of motor vehicles and motorcycles	3.1	3.5	-5.9	-1.9	-10.0	-4.3	-13.8	-11.7	...
Other private sector services	7.6	2.3	-11.6	-0.1	-11.2	-11.3	-9.4	-12.8	...
Labour market				*year-on-year growth rates in %*					
Average gross wage	3.4	4.3	...	4.2	...	4.6	6.9	...	...
- private sector	4.0	3.9	4.5	3.6	3.9	2.9	3.5	5.3	...
- public sector	3.0	5.4	7.9	5.7	11.5	7.1	12.5	14.6	...
Real net wage[1]	1.0	2.0	7.1	2.3	8.0	5.8	8.8	9.5	...
Registered unemployment rate (in %)	8.3	7.7	...	7.5	...	8.6	8.6	...	...
Registered unemployed persons	-11.5	-5.5	14.6	-4.7	15.9	15.5	16.2	15.9	14.6
Persons in employment	3.2	2.5	-0.6	1.6	-1.2	-1.2	-1.3	-1.1	...
- private sector	4.2	3.0	-0.9	2.0	-1.9	-1.8	-2.0	-1.8	...
- public sector	0.8	1.0	0.1	0.7	0.5	0.5	0.4	0.6	...
Price Developments				*year-on-year growth rates in %*					
HICP	1.9	1.7	-0.3	1.6	-0.9	-0.5	-1.1	-1.2	-0.9 (-1.1*)
- services	2.4	3.1	1.8	3.2	1.3	1.4	1.5	1.0	0.8 (0.0*)
- industrial goods excluding energy	-0.8	0.3	-0.5	0.2	-0.9	-0.1	-1.6	-1.0	0.4 (-1.0*)
- food	2.4	1.6	2.8	2.2	2.1	3.1	2.0	1.3	0.7 (0.5*)
- energy	6.0	0.8	-10.8	-0.9	-12.7	-13.2	-13.2	-11.9	-11.2 (-7.1*)
Core inflation indicator[2]	1.0	1.9	0.8	1.9	0.3	0.8	0.2	0.1	0.6 (-0.5*)
Balance of Payments - Current Account					*in % GDP*				
Current account balance	5.8	5.6	7.3	5.3	8.1	11.7	6.7	5.8	...
1. Goods	2.8	2.7	5.5	2.2	5.5	7.6	5.5	3.2	...
2. Services	5.7	5.8	4.4	5.9	4.5	6.2	3.3	4.0	...
3. Primary income	-1.8	-1.8	-1.4	-2.2	-0.9	-1.6	-0.8	-0.3	...
4. Secondary income	-0.9	-1.1	-1.1	-0.6	-1.0	-0.6	-1.3	-1.1	...
				nominal year-on-year growth rates in %					
Export of goods and services	8.8	4.2	-10.1	0.6	-2.9	-5.7	-4.0	1.7	...
Import of goods and services	9.8	4.1	-12.4	-1.5	-5.1	-7.8	-4.2	-3.2	...

Public Finances	2019	2020	12 m. 'till Jan.21		2020 Jan.-Jan.		2021 Jan.-Jan.	
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	18,531	39.9	-4.3	1,678	8.5	1,672	-0.4
Tax revenue	17,179	16,461	35.3	-5.3	1,582	7.3	1,490	-5.8
From EU budget	731	730	1.6	1.2	28	173.0	55	97.5
Other	1,323	1,341	3.0	5.3	69	8.3	127	83.9
Expenditure	18,969	22,074	48.3	17.2	1,723	9.6	2,067	19.9
Current expenditure	8,228	9,129	19.6	9.3	800	16.1	788	-1.5
- wages and other personnel expenditure	4,470	4,962	10.9	11.7	402	17.4	501	24.7
- purchases of goods, services	2,728	3,024	6.4	7.7	236	21.7	195	-17.3
- interest	791	778	1.5	-11.5	153	5.4	82	-46.2
Current transfers	8,704	10,865	24.2	28.9	782	2.0	1,158	48.1
- transfers to individuals and households	7,324	8,251	18.5	16.7	624	8.1	972	55.9
Capital expenditure, transfers	1,527	1,554	3.3	0.1	65	25.5	52	-19.6
GG surplus/deficit	263	-3,542	-8.4		-45		-395	

Notes: 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.
Sources: SORS, Banka Slovenije, Ministry of finance, Banka Slovenije calculations.

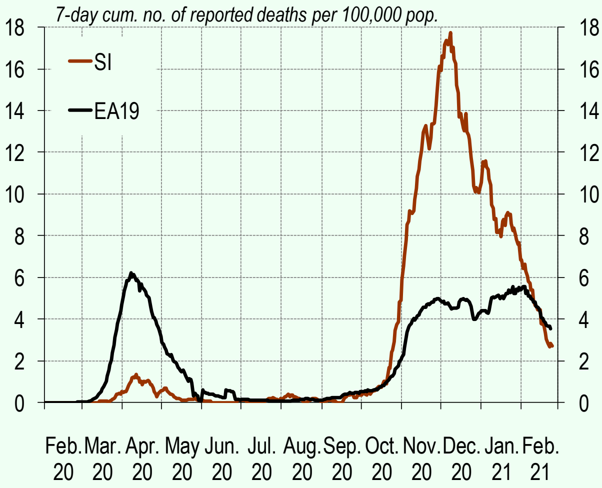
Figure annex: Selected indicators for the international environment and Slovenia

Stringency of containment measures



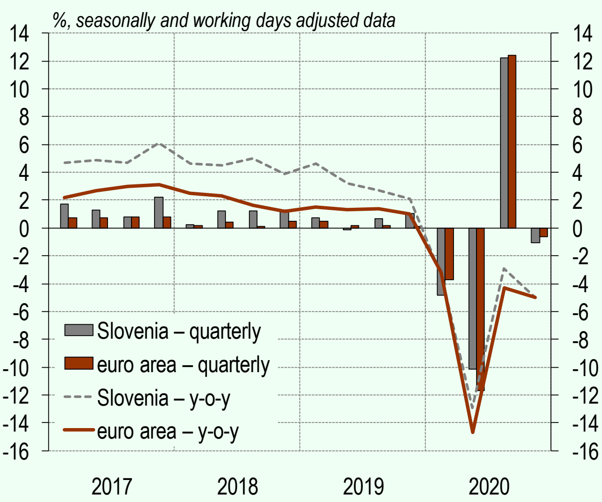
Source: Oxford Economics, Banka Slovenije calculations.

Number of reported Covid-19 deaths



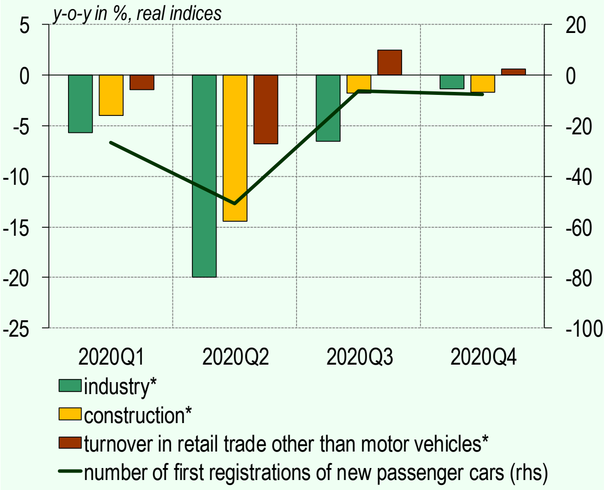
Source: Oxford Economics, Eurostat, Banka Slovenije calculations.

GDP growth rate comparison between Slovenia and euro area



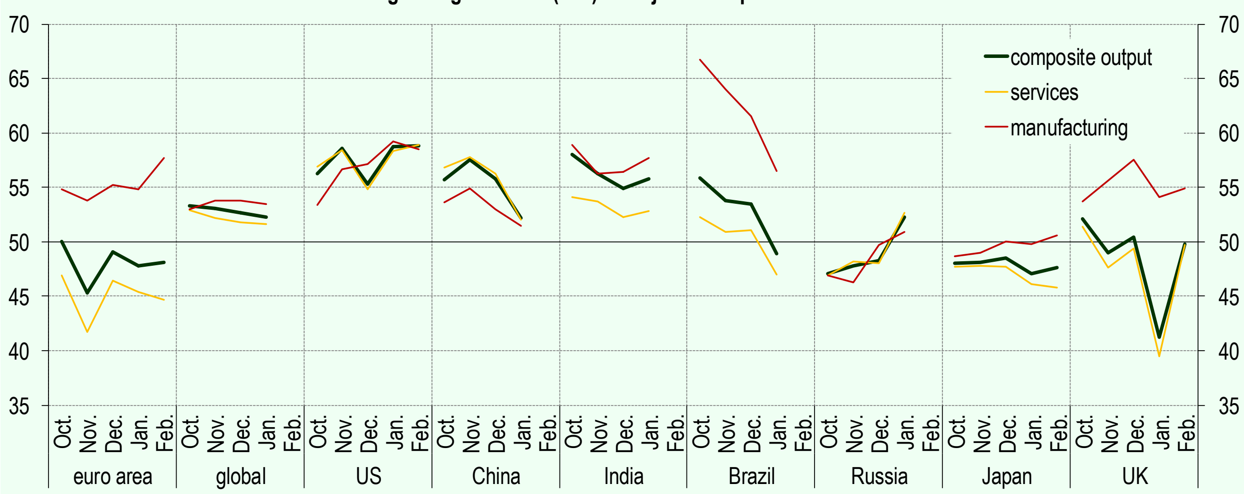
Source: SORS, Eurostat, Banka Slovenije calculations.

Monthly indicators of economic activity in euro area



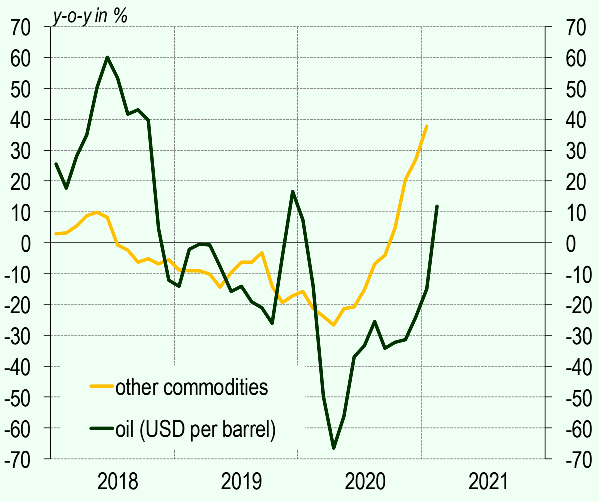
*Note: *Seasonally and working days adjusted data.*
Source: SORS, ACEA, Banka Slovenije calculations.

Purchasing Managers' Index (PMI) in major developed countries and BRIC



Note: Index PMI above 50 indicates an increase in activity and below 50 a decrease in activity.
Source: IHS Markit.

Brent oil and other commodity prices in USD

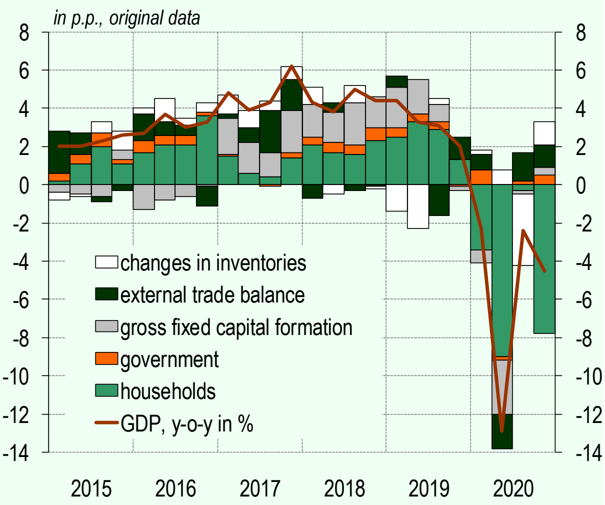


Source: Bloomberg, The Economist, Banka Slovenije calculations.

Yields on 10-year government bonds

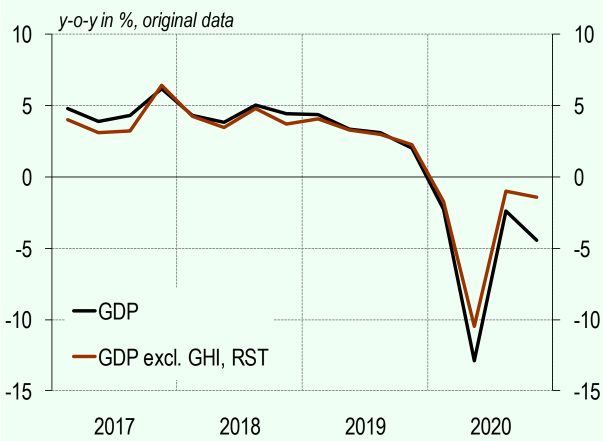
Source: Bloomberg.

Structure of GDP growth, expenditure side



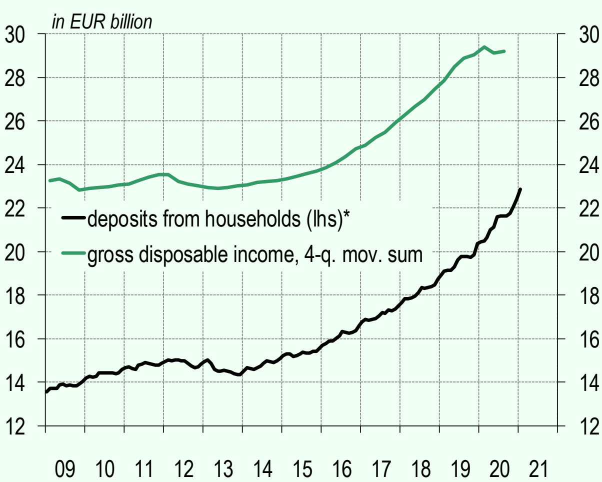
Source: SORS.

GDP with and without selected service activities



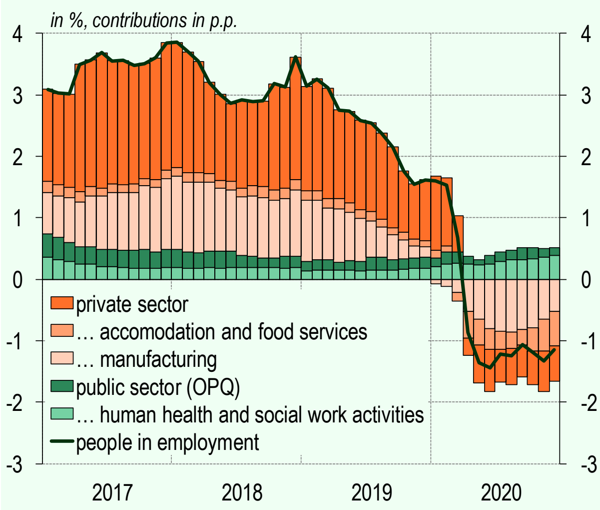
Note: GHI – wholesale and retail trade, repair of motor vehicles, transportation and storage, accomodation and food service activities, RST – other service activities.
Source: SORS, Banka Slovenije calculations.

Financial position of households



*Note: *Domestic banking sector.*
Source: SORS, Banka Slovenije.

Y-o-y growth in the number of people in employment



Source: SORS, Banka Slovenije calculations.

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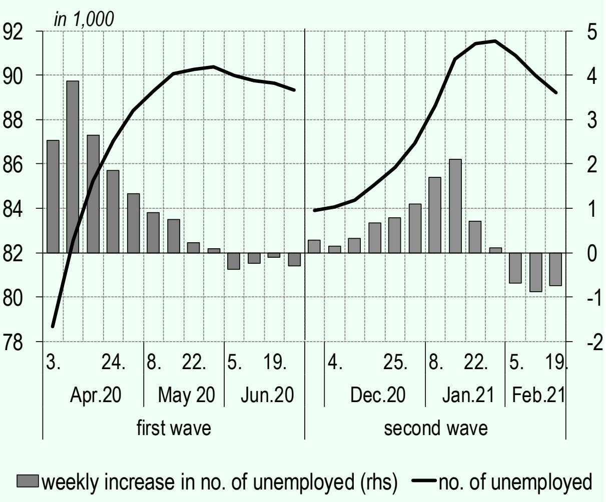
Number of registered unemployed persons by weeks

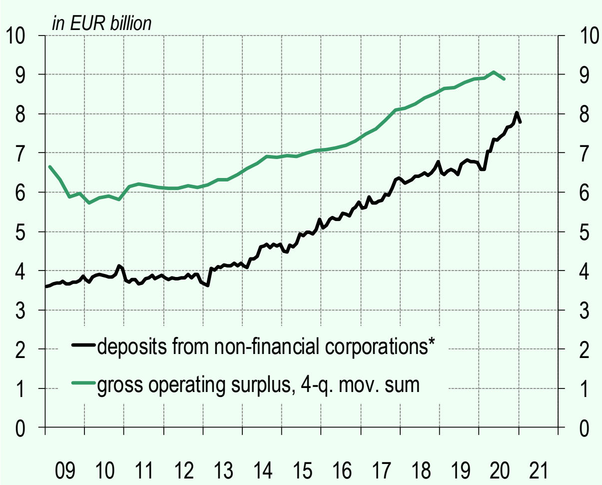


Source: ZRSZ, Banka Slovenije calculations.

Monthly growth in the number of registered unemployed persons

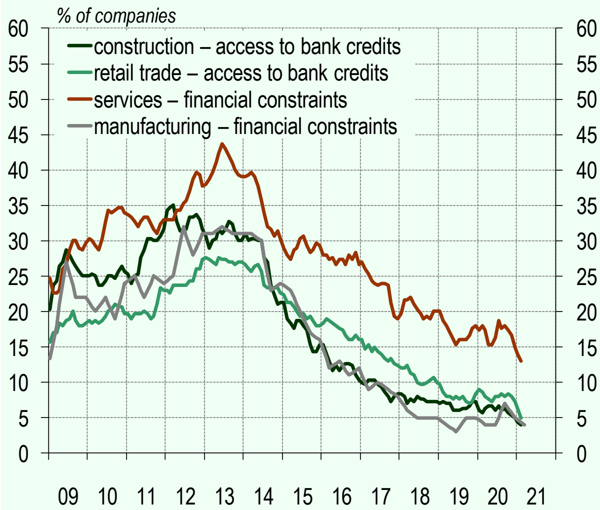
Source: ZRSZ, Banka Slovenije calculations.

Financial position of non-financial corporations



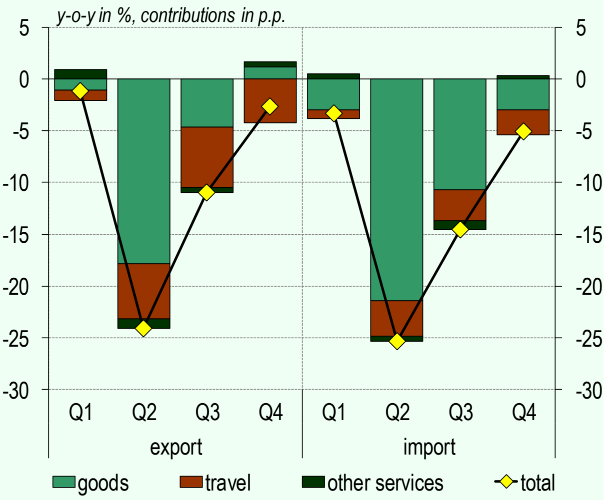
*Note: *Domestic banking sector.*
Source: SORS, Banka Slovenije.

Limiting factors – financing



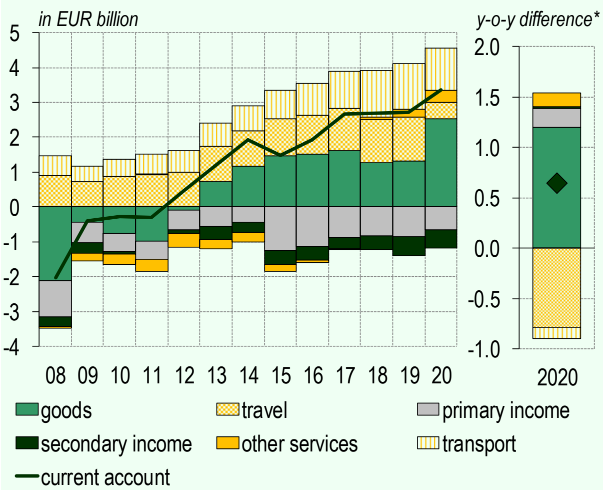
Source: SORS – survey data.

Goods and services trade in 2020



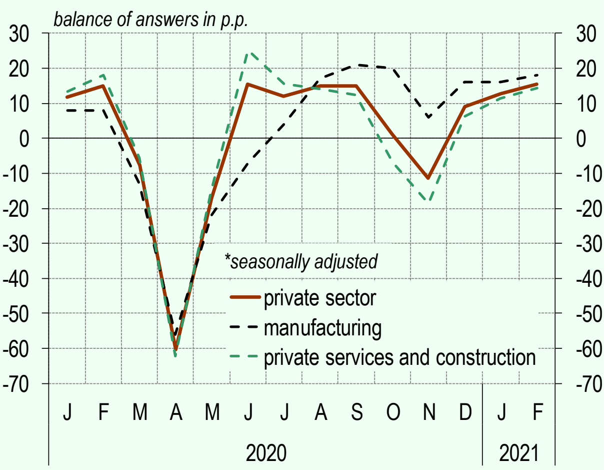
Source: Banka Slovenije.

Current account components



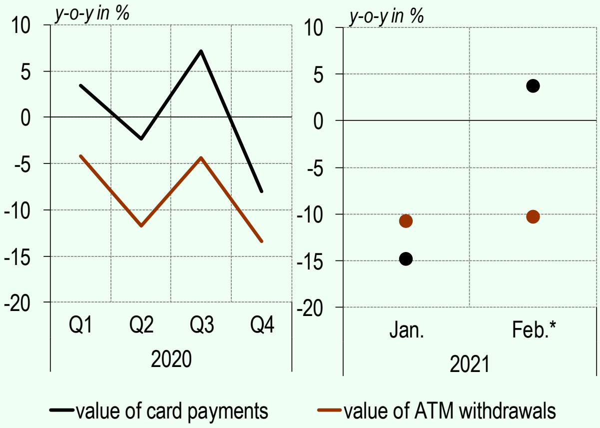
*Note: *Change in 2020 compared to 2019 in EUR billion.*
Source: Banka Slovenije.

Expected demand in the next three months*



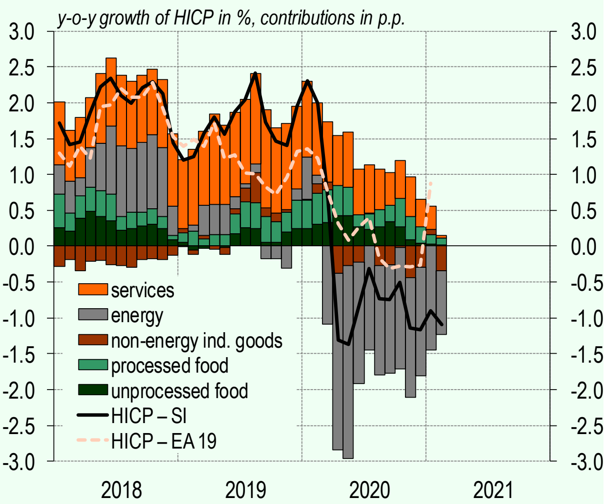
Note: The aggregate measures are calculated by taking into account value added shares.
Source: SORS, Banka Slovenije calculations.

Selected alternative high-frequency indicators



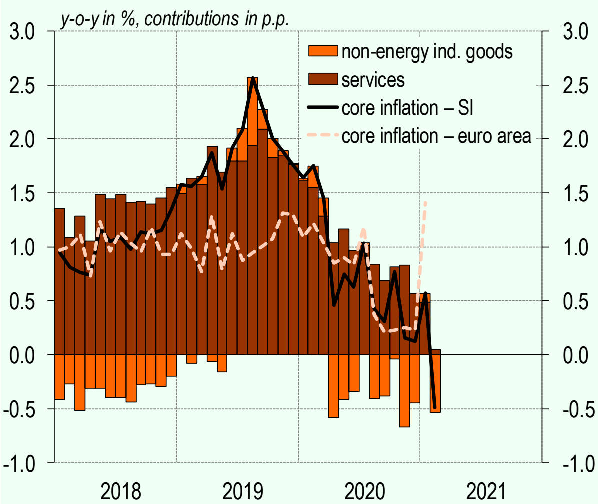
*Note: The data source is Bankart, which covers more than 80% of all card payments and more than 93% of all ATMs in Slovenia. **Based on the data for the first three weeks.*
Source: Bankart, FURS, Banka Slovenije calculations.

Contributions to headline HICP inflation



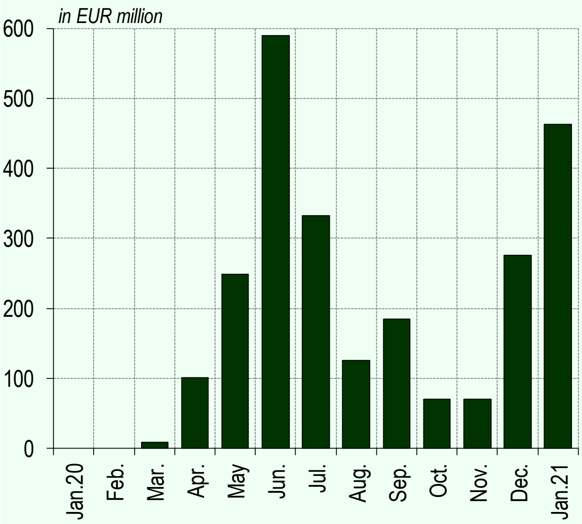
Source: Eurostat, SORS, Banka Slovenije calculations.

Contributions to narrowest indicator of core inflation



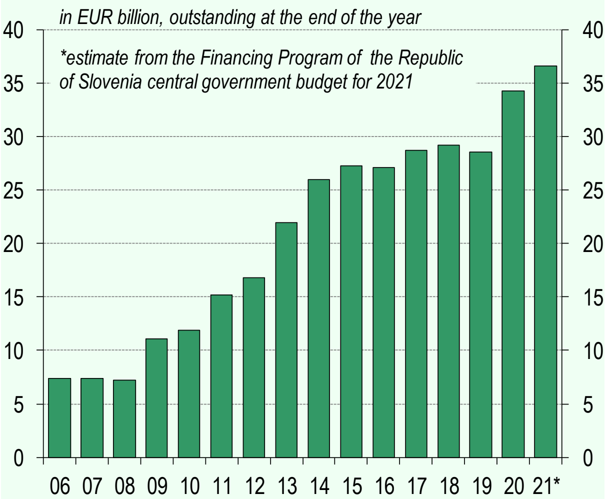
Source: Eurostat, SORS, Banka Slovenije calculations.

Spending on Covid-19 measures – state budget expenditure



Source: Ministry of Finance.

State budget debt



Source: Ministry of Finance.

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