BANKA SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

SUMMARY OF MACROECONOMIC DEVELOPMENTS

MAY 2020

Title: Summary of macroeconomic developments
No.: May 2020

Published by: BANKA SLOVENIJE
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This publication is also available in Slovene.

Summary of macroeconomic developments, May 2020

The global economy is in turmoil, and this is being reflected in record falls in numerous economic indicators, which are reaching lower levels than during the financial crisis of 2008 and 2009, and point to a significant recession in the first half of 2020. *The WEI,[1] an index of economic activity published by the Fred, is pointing to a deep recession in the US, where the unemployment rate had reached 14.7% by April, the highest figure since the great depression of the 1930s, and the number of unemployed continued to increase sharply in May. Economic activity in the euro area contracted by 3.8% in the first quarter of this year, and was down 3.2% in year-on-year terms. Because the measures to prevent the spread of coronavirus were imposed in mid-March in most member states, it was mainly household consumption that declined in that month, at least judging by the indicators of activity and confidence. Further evidence that this was the case came from the largest decline to date in real turnover in retail trade other than motor vehicles, and the fall of more than 55% in the number of first-time car registrations, which deepened further in April. An even more pronounced fall in economic activity and a sharp downturn in the labour market can be expected in the second quarter. Having hit a record low of 13.6 points in April, the PMI rebounded to 30.5 points in May as the lockdown measures began to be lifted, but it remains well below its level of 2009. To date the sole impact of the crisis on euro area inflation has been a fall in energy prices, while inflation in other categories was broadly unchanged between March and April.*

According to the European Commission's latest forecasts, this year will see a pronounced decline in economic activity. *It is expected to be the largest global decline (-3.5%) since the great depression, while the contraction in euro area GDP is also expected to be significantly larger than during the crisis of 2009 (-7.7%). Recovery is projected in 2021. The European Commission is emphasising that the forecasts are subject to considerable uncertainty, and the size of the decline in GDP and the pace of the recovery will depend above all on how long the epidemic lasts, and how effective the comprehensive economic policy measures to alleviate the impact of the crisis are. Given the downturn, the Governing Council of the ECB has taken two additional measures at end April, and with the aim of providing additional liquidity has introduced a new instrument in the form of the pandemic emergency longer-term refinancing operations (PELTROs), while further easing the terms of the existing TLTRO-III. Euro area countries are gradually lifting their measures to curb the spread of coronavirus, which together with comprehensive monetary and fiscal policy measures will lay the foundation for reigniting the economy.*

Judging by numerous indicators, the Slovenian economy is also facing a deep crisis. *Several of the survey indicators of activity published by the SORS reached record lows in April. The lifting of the restrictive measures meant that an uptick followed in May, although the figures continue to point to a sharp decline in economic activity. The economic sentiment indicator stood at -33.1 percentage points, comparable to its lowest level of 2009. Firms are continuing to assess current demand as extremely weak, but became less pessimistic*

[1] The average weekly economic index (WEI) between 15 March and 16 May was down 9.2% in year-on-year terms. During the financial crisis of 2009 its largest decline over a similar period was 3.6%.

than in April with regard to order books over the next three months. Consumers remained extremely pessimistic about spending: the indicator of major purchases over the next 12 months reached -41 percentage points in May, surpassing its low of 2009 by 11 percentage points. Judging by the short-term indicators, economic activity had declined significantly already in March. According to balance of payments figures, imports and exports were down more than a tenth. The decline in tourism was predictably sharp (more than 56% on the export side), while retail turnover declined by 15.1%, industrial production by 7.7% and construction activity by 3.8%.[2]

With the lifting of measures to curb the epidemic, signs of revival in the economy have emerged. *A number of alternative high-frequency indicators suggest that the largest decline in domestic economic activity came after the introduction of the measure prohibiting the direct offer and sale of goods and services to consumers on 16 March. For example, the total value of card payments towards the end of March was down 41% on its six-week average before the introduction of the aforementioned measure, while payments at POS terminals were down fully 47%. Freight transport on motorways was down 51% in year-on-year terms towards the end of March. The gradual lifting of the measures brought a partial revival in economic activity, particularly after the relaxation of sales of durables and certain services on 20 April. At the same time a number of large firms began restarting production, at least to a limited extent. In the third week of May the value of card payments actually exceeded its six-week average from before measures were imposed, and freight tonnage also recovered slightly, although it remained down 25% in year-on-year terms in the third week of May. Similar conclusions could be drawn from electricity consumption, which was down 20% in year-on-year terms in the second week of April, comparable to the largest decline in 2009, but was down only 12% in the penultimate week of May. It should be reiterated that many of the high-frequency indicators are highly volatile, and the time series of some are very short.*[3]

The domestic labour market has undergone a severe downturn, although the rise in the number of unemployed is slowing for now. *The number of people newly registering as unemployed over the first four months of the year was up 46.1% in year-on-year terms, driven largely by permanent redundancies and workers whose temporary employment expired. The largest year-on-year increases in inflows into unemployment came in accommodation and food service activities, manufacturing, wholesale and retail trade, and administrative and support service activities, which includes employment agencies. Unemployment stood at 88,648 in April, up 19.9% in year-on-year terms. Following the declaration of the epidemic, according to unofficial figures the number of people newly registering as unemployed peaked in the first half of April, when it often exceeded a thousand per day. According to provisional figures, unemployment continued to rise in May, albeit significantly less than in April: the figure stood at 90,272 on 22 May. The government's emergency measures also helped to slow the rise in unemployment. Almost 260,000 applications for wage compensation had been submitted by 13 May, according to the Employment Office. The large number of applications is a reflection of the current high level of uncertainty on the labour market, which could lead to a further rise in unemployment*

[2] An even sharper decline in retail turnover was prevented by the increased demand for food products, while sales of non-food products and motor fuels were down more than a fifth in year-on-year terms. The aggregate year-on-year decline in industrial production was less than in the euro area overall, where it stood at 12.9%, albeit mostly as a result of growth of almost 13% in production of high-tech products, where pharmaceuticals are dominant. The decline in aggregate construction activity was relatively small because of a favourable dynamic in residential construction. The figures illustrated are calendar-adjusted.

[3] Selected alternative high-frequency indicators are illustrated in the appendix.

should the economic recovery prove insufficient. According to the latest SORS survey figures, firms and consumers are expecting unemployment to rise further.[4]

The economic crisis is already being reflected in domestic price developments, while price measurement was made significantly more difficult in April. *Prices as measured by the HICP were down 1.3% in year-on-year terms in April. Despite the inflationary pressures from barriers in supply chains, year-on-year inflation was down 2 percentage points on March as a result of falling commodity prices on global markets and a decline in domestic demand. Slovenia saw the most pronounced deflation in the euro area, where inflation remained positive overall, at 0.3%. The fall in inflation in Slovenia was for the second consecutive month mainly driven by falling energy prices. In addition to falling prices of motor and liquid fuels, which were down 21.5% in year-on-year terms as a result of plummeting global oil prices, Slovenia also saw a significant fall in electricity prices already in March in line with a government ordinance. Core inflation also fell by 1 percentage point in April, to 0.5%, albeit primarily as a result of a fall in prices of non-energy industrial goods. These were down 1.3% in year-on-year terms, partly driven by a rundown in inventories in the quest for liquidity. Service price inflation meanwhile remained relatively high at 1.8%, and was not yet reflecting the outbreak of the epidemic. This is most likely because numerous services were unavailable in April, which prevented price data collection. The SORS used substitutes for the missing data in line with Eurostat recommendations, and warned that certain price indices were less reliable owing to difficulties in data collection. More than a fifth of the data in the overall price index was substituted.*

The anti-crisis measures will lead to a deterioration in the general government fiscal position, although according to provisional figures it should remain better than the euro area average. *The European Commission is forecasting a general government deficit of 7.2% of GDP in Slovenia this year, while the general government debt is expected to reach 83.7% of GDP. This is better than the euro area overall, where a deficit of 8.5% is forecast and the debt is expected to reach 102.7% of GDP. The Ministry of finance is forecasting a slightly larger deficit (8.1% of GDP), and a lower debt (82.4% of GDP). The forecasts were drawn up at the end of April, and are highly uncertain because of the crisis; they also take no account of the third package of government assistance. The official end of the epidemic in Slovenia will see certain fiscal measures terminated at the end of May. The measures had placed a heavy burden on the public finances, and were aimed at preserving economic potential, alleviating the impact of the crisis on the labour market, and maintaining public welfare. The heaviest burden on the public finances came from the funding of wage compensation and social security contributions for furloughed employees and employees staying at home for reasons of force majeure. Some measures will remain in place, for example those to alleviate liquidity difficulties for firms and households through government guarantees, which are available until the end of the year. The government has approved a third package of measures, which include co-financing of part-time work and tourist vouchers, while the subsidisation of furlough will remain in place for the tourism sector, hotels and restaurants, and supplementary activities on farms. Alongside the measures, the general government position is also under pressure from the decline in economic activity, which is reducing revenues. This is already being reflected in April's pro-*

[4] The downturn in the labour market is also evident from the provisional figures for March, which show a significant slowdown in year-on-year growth in the workforce in employment excluding self-employed farmers. The year-on-year rate of growth stood at just 0.6% in March, down almost 1 percentage point on February. Nominal year-on-year growth in the average gross wage was also minimal in March, at 0.3%. The slowdown reflects that wage compensation paid by the government as part of the measures taken to curb the spread of coronavirus was not included in the wage statistics, and consequently there was a sharp decline in the average wage of employees who were furloughed for part of the month.

visional figures, when revenues from taxes and social security contributions were down approximately a quarter in year-on-year terms.

Although there is great uncertainty surrounding the pace of the economic recovery, certain sectors can be expected to take quite some time to revive. *The extensive and coordinated measures by governments and central banks at the global level have increased the chances of a quick rebound in economic activity as measures to curb the pandemic are lifted, but the response of consumers remains an unknown. Given the downturn on the labour market, and the significantly increased level of consumer caution, household consumption will decline despite the fiscal measures, in particular demand for non-essential goods. If uncertainty on the part of firms makes the labour market slow to recover, the period of weak demand will also be longer, which will in turn further weaken the labour market, and with it inflation. Another potential problem is long-term changes in consumer behaviour, particularly social distancing, which makes it hard for numerous services to operate, most obviously tourism. The World Travel & Tourism Council (WTTC) estimates that tourism-related activities account for more than tenth of Slovenia's GDP.[5] At the same time the World Tourism Organisation (UNWTO) estimates that global tourism revenues will be down between 20% and 30% this year, and that the recovery – if it is the same as after the previous crisis – could take between five and seven years.[6] This scenario would see Slovenia lose tourism revenues of between EUR 550 million and EUR 830 million from foreign visitors. Other specific issues facing the Slovenian economy include the situation in neighbouring Italy, Slovenia's second most important trading partner, and the very weak global demand for cars, at least at present, which is sharply reducing activity in manufacturing in Slovenia.*

The crisis will have long-term consequences, but also offers up a few opportunities. *Ensuring fiscal stability and fixing corporate balance sheets will be a lengthy process, which together with slight changes in consumer habits will curb growth in aggregate demand. The experience of the previous crisis, at least in terms of the public finances, counsels caution in the implementation of consolidation measures. There will also be a rise in unemployment, which runs the danger of becoming long-term if the recovery proves to be weak. Meanwhile, in certain sectors a number of new opportunities are being opened up as a result of the current situation. Demand for pharmaceutical products and medical devices will remain extremely strong, at least temporarily. Although social distancing is a powerful limiting factor for a number of traditional services, it is also accelerating the digitalisation of the economy and strengthening the development of high-tech services and their export potential. Firms' experience of organising their production during the fight against coronavirus could also lead to technological improvements in the direction of greater automation. This would raise labour productivity, which even during the boom after the previous crisis was too low to allow for significant catch-up with more advanced economies. Remote working has also become better-accepted. Another new opportunity for Slovenia could be the shortening of European firms' production chains by switching production from Asia to Europe, with the aim of ensuring more secure access to intermediate goods. This could increase inflows of FDI, and might improve the situation on the labour market. The European Green Deal Investment Plan also offers an opportunity to encourage investment, which, with the appropriate support from the government, could contribute to a more environmentally sustainable economy.*

[5] Source: Slovenian Tourist Board (https://www.slovenia.info/uploads/dokumenti/raziskave/raziskave/slovenia2019.pdf).

[6] Source: Impact assessment of the COVID 19 outbreak on international tourism, UNWTO (https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-03/24-03Coronavirus.pdf).

Main macroeconomic indicators – Slovenia

	12 m. 'till Mar.18	12 m. 'till Mar.19	12 m. 'till Mar.20	3 m. 'till Mar.19	3 m. 'till Mar.20	2020 Jan.	2020 Feb.	2020 Mar.	2020 Apr.
Economic Activity									* data for May.20
				balance of answers in percentage points					
Sentiment indicator	13.3	10.8	4.3	9.9	1.8	4.0	5.0	-3.7	-39.5 (-33.1*)
- confidence indicator in manufacturing	10.3	6.2	-1.3	4.0	-3.0	-1.0	0.0	-8.0	-39.0 (-27.0*)
				year-on-year growth rates in %					
Industry: - total	9.1	4.0	1.5	3.9	-2.0	-2.5	4.8	-7.7	...
- manufacturing	9.9	4.4	2.2	4.1	-0.7	-0.6	7.1	-7.6	...
Construction: - total	17.5	20.6	0.1	23.1	3.1	8.0	7.2	-3.8	...
- buildings	25.6	15.7	-0.7	18.7	-1.4	4.6	-7.8	-0.1	...
Trade and service activities - total	6.9	7.3	...	5.8	...	0.5	0.0	...	...
Wholesale and retail trade and repair of motor vehicles anc	13.8	11.0	...	8.6	...	4.1	-3.7	...	...
Retail trade, except of motor vehicles and motorcycles	4.0	4.8	...	7.3	...	0.6	0.3	...	...
Other private sector services	6.4	7.4	...	5.1	...	-0.2	1.5	...	...
Labour market				*year-on-year growth rates in %*					
Average gross wage	3.2	3.6	4.0	4.6	3.2	4.5	5.0	0.3	...
- private sector	3.5	4.1	3.6	4.3	3.3	5.3	6.1	-1.4	...
- public sector	3.3	3.5	4.8	5.6	3.3	3.2	3.2	3.5	...
Real net wage[1]	1.9	1.2	2.0	2.5	2.4	2.7	3.5	0.9	...
Registered unemployment rate (in %)	9.0	8.1	7.6	8.3	8.0	8.2	7.9	8.0	...
Registered unemployed persons	-14.7	-9.0	-4.5	-5.8	-2.0	-3.6	-4.1	1.7	19.9
Persons in employment	3.6	3.1	2.0	3.2	1.3	1.6	1.5	0.7	...
- private sector	4.8	3.9	2.4	4.0	1.6	2.0	2.0	0.9	...
- public sector	0.7	0.9	0.8	1.1	0.3	0.5	0.3	0.2	...
Price Developments				*year-on-year growth rates in %*					
HICP	1.4	1.9	1.8	1.3	1.6	2.3	2.0	0.7	-1.3
- services	1.9	2.6	3.1	2.8	2.6	2.8	2.7	2.2	1.8
- industrial goods excluding energy	-0.8	-0.5	0.3	0.1	0.4	0.1	0.5	0.4	-1.3
- food	2.3	1.9	2.3	0.6	3.3	2.9	3.4	3.6	4.0
- energy	3.4	5.6	0.3	1.4	-0.9	4.9	1.1	-8.4	-19.1
Core inflation indicator[2]	0.8	1.2	1.9	1.6	1.6	1.6	1.8	1.4	0.5
Balance of Payments - Current Account					*in % GDP*				
Current account balance	6.3	5.9	7.0	6.0	7.8	6.8	9.4	7.1	...
1. Goods	3.6	2.9	3.1	3.7	5.0	3.5	6.5	4.8	...
2. Services	5.3	6.0	6.2	5.2	4.9	5.5	5.4	3.8	...
3. Primary income	-1.8	-1.9	-1.4	-1.1	-0.9	0.1	-1.3	-1.4	...
4. Secondary income	-0.8	-1.0	-0.9	-1.9	-1.2	-2.3	-1.2	-0.1	...
				nominal year-on-year growth rates in %					
Export of goods and services	12.3	8.3	2.2	7.0	-2.1	1.9	3.7	-11.0	...
Import of goods and services	12.0	8.6	1.4	6.2	-4.2	1.0	-0.6	-12.0	...

Public Finances	2018	2019	12 m. 'till Mar.20		2019 Jan.-Mar.		2020 Jan.-Mar.	
Consolidated general government (GG) balance[3]	EUR milions		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %
Revenue	18,594	19,232	39.8	2.2	4,519	8.3	4,644	2.8
Tax revenue	16,225	17,179	35.4	4.1	4,103	8.5	4,158	1.3
From EU budget	796	731	1.5	-16.7	212	45.0	200	-5.8
Other	1,572	1,323	2.9	-8.3	204	-16.1	287	41.1
Expenditure	18,068	18,969	39.7	4.8	4,690	8.1	5,021	7.1
Current expenditure	7,966	8,228	17.4	5.1	2,116	4.3	2,356	11.4
- wages and other personnel expenditure	4,168	4,470	9.4	7.7	1,069	9.1	1,182	10.6
- purchases of goods, services	2,634	2,728	5.8	4.9	601	8.8	686	14.2
- interest	868	791	1.7	2.3	404	-12.6	441	9.1
Current transfers	8,237	8,704	18.1	5.2	2,188	7.5	2,309	5.5
- transfers to individuals and households	6,926	7,324	15.3	5.8	1,785	6.3	1,902	6.6
Capital expenditure, transfers	1,432	1,527	3.2	5.2	181	28.5	202	11.7
GG surplus/deficit	526	263	0.1		-171		-377	

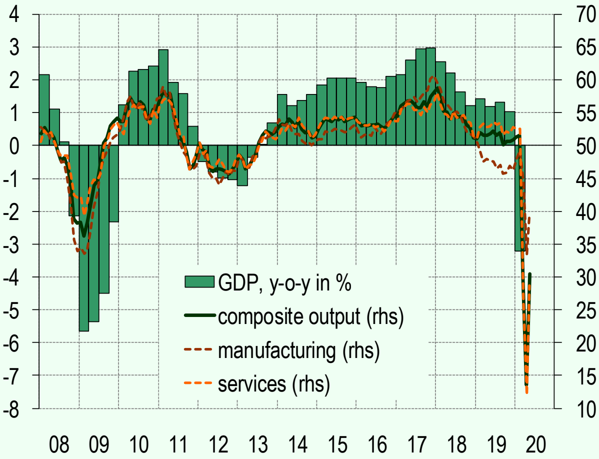
Notes: Economic activity data are working day adjusted (with exception of sentiment and confidence indicators data, which are seasonally adjusted). Other data in the table are original. Monthly activity indicators for industry, construction and services are shown in real terms.

[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, Bank of Slovenia, Ministry of finance, Bank of Slovenia calculations.

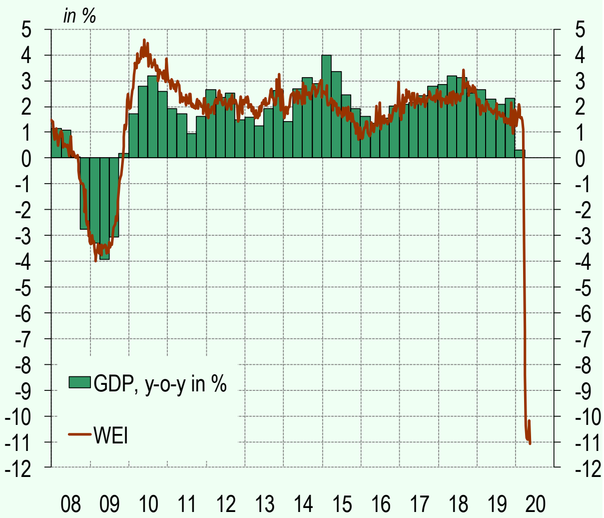
Figure annex: Selected high-frequency indicators of economic activity

Purchasing Managers' Index (PMI) and GDP growth in the euro area



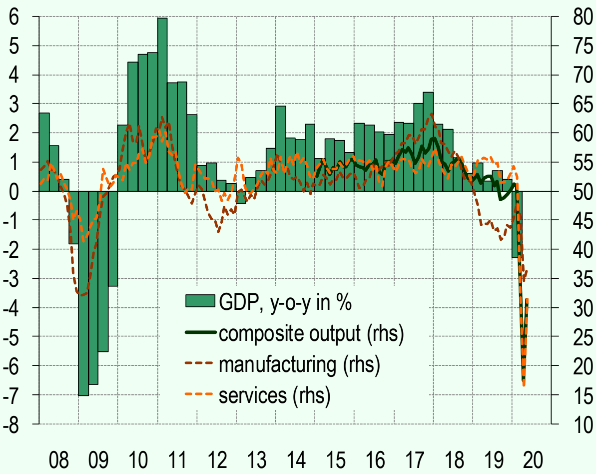
Note: Index PMI above 50 indicates an increase in activity and below 50 a decrease in activity.
Source: IHS Markit, Eurostat, Bank of Slovenia calculations.

Weekly Economic Index (WEI) and GDP growth in the US



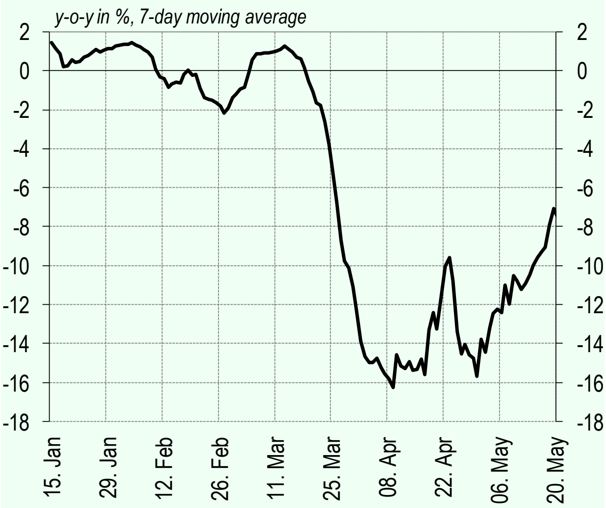
Source: Fred.

Purchasing Managers' Index (PMI) and GDP growth in Germany



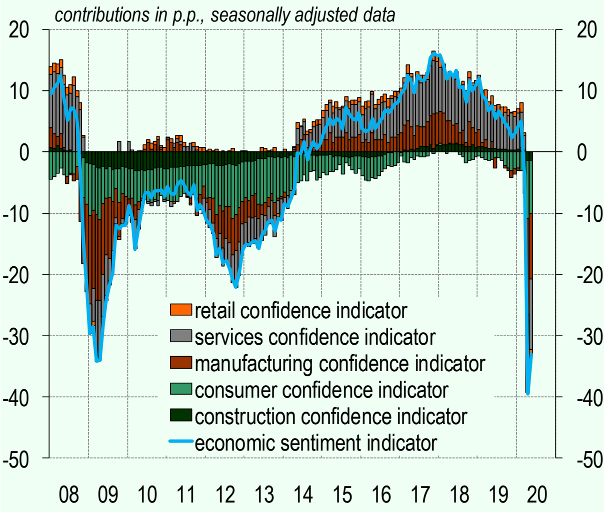
Note: Index PMI above 50 indicates an increase in activity and below 50 a decrease in activity.
Source: IHS Markit, Eurostat, Bank of Slovenia calculations.

Daily truck toll mileage – Germany



Source: Destatis, Bank of Slovenia calculations.

Economic sentiment indicator for Slovenia

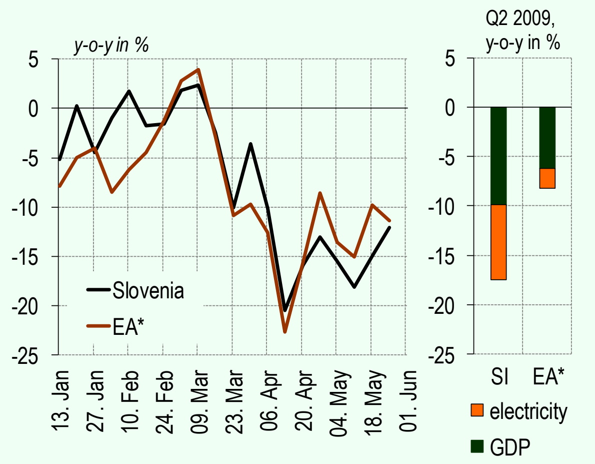


Source: SORS, Bank of Slovenia calculations.

Expected demand in the next three months – Slovenia

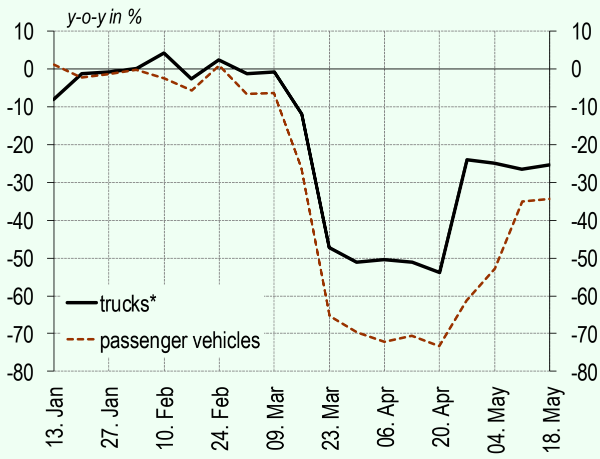
Note: The aggregate measures are calculated by taking into account value added shares.
Source: SORS, Bank of Slovenia calculations.

Electricity consumption – Slovenia and euro area***



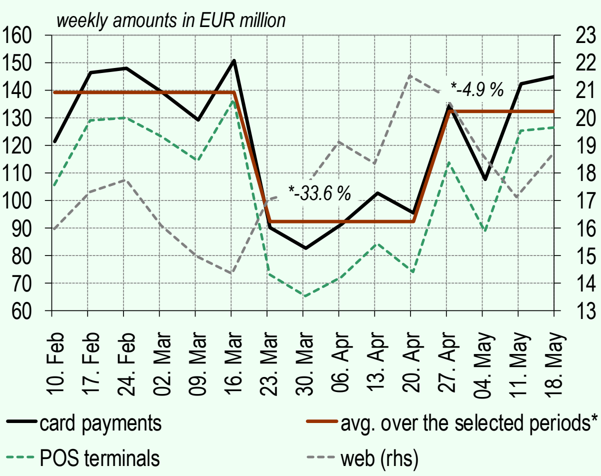
*Note: *Germany, France, Italy and Spain; Q2 2009 – the largest year-on-year fall in GDP in the previous crisis. ** Data are not corrected for temperatures.*
Source: ENTSO-E, SORS, Bank of Slovenia calculations.

Motorway traffic – selected measuring stations – Slovenia



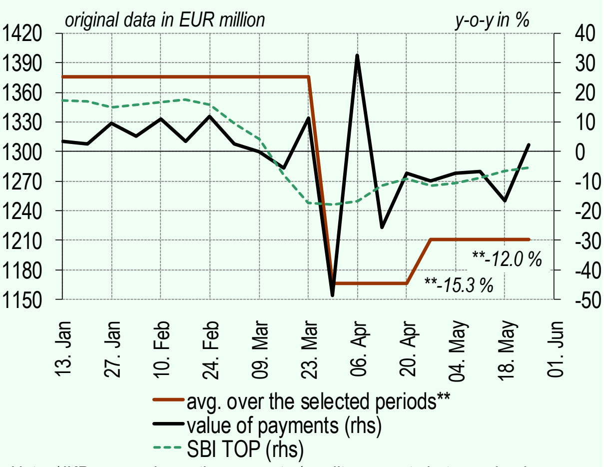
*Note: *Vans, vans with trailer, lorries, lorries with trailer, medium trucks, heavy trucks, oversized load vehicles.*
Source: DARS, Bank of Slovenia calculations.

Total value of card payments – Slovenia



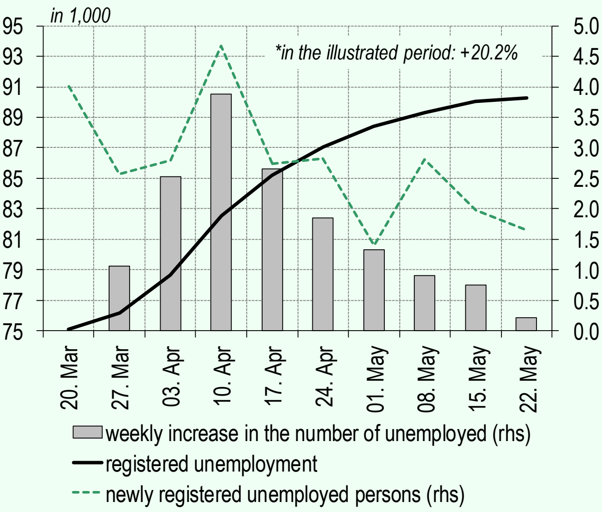
Note: Drop in the period from 27. April to 4. May is at least partly due to the holidays.
Source: Bankart, ISP Bank.

IKP* payment system – Slovenia



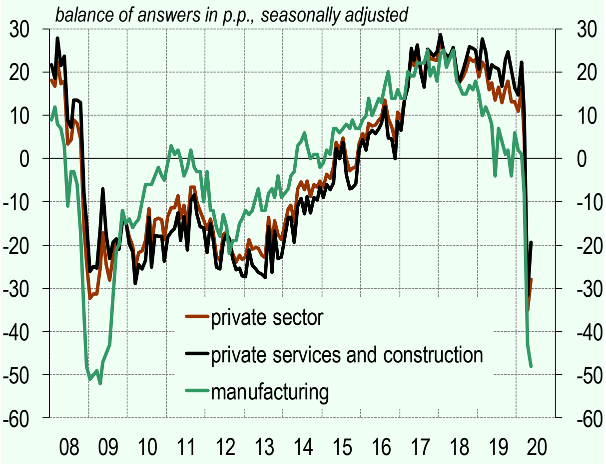
*Note: *IKP covers domestic payments (credit payments between banks within the country) under EUR 50,000, without card payments, Bank of Slovenia is included.*
Source: Bank of Slovenia.

Registered unemployment by weeks – Slovenia*



Source: Employment service of Slovenia, Bank of Slovenia calculations.

Expected employment in the next three months – Slovenia



Note: The aggregate measures are calculated by taking into account value added shares.
Source: SORS, Bank of Slovenia calculations.