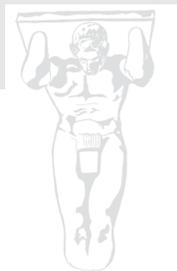


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EUROSYSTEM



SUMMARY OF MACROECONOMIC DEVELOPMENTS

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Summary of macroeconomic developments, September 2020

The renewed spread of the virus and the rising political and geopolitical tensions mean that the signalled recovery of the global economy is fraught with risks. The situation in the global economy has improved, as indicated by the composite PMI, which in July approached the values seen before the Covid-19 epidemic. The outlook for a recovery in the euro area was particularly good in the summer months, as electricity consumption in August rapidly approached last year's levels and confidence indicators improved further. PMI for the euro area remained comparable to last year's level in August at 51.6 points, after hitting its highest value of the last two years in July, at 54.9 points. The reason for the decline was the renewed tightening of containment measures, which had an adverse impact on services in particular. Stronger signs of recovery are also being seen in the US, where the year-on-year fall in the WEI has sharply diminished in the last month, while the PMI also improved significantly, reaching its highest level since the beginning of 2019 in August (54.7 points). Amid highly expansionary fiscal and monetary policy, the ongoing economic recovery will depend primarily on the course of the epidemic and its impact on the confidence of consumers and firms.

The economic forecasts for 2020 have stabilised. Consensus has not cut its forecasts for the majority of Slovenia's most important trading partners since July; the weighted forecast for this year's decline in GDP in the trading partners has stabilised at 6.8%. The outlook for growth in foreign demand for Slovenian products and services has thus stabilised now, although it remains profoundly negative. As expected, the epidemic caused the largest decline in GDP to date in numerous economies in the second quarter. Despite its temporary containment, and the extensive anti-crisis measures, economic activity in the euro area was down 12.1% in quarterly terms and 15.0% in year-on-year terms, 9.3 percentage points more than at the height of the crisis in 2009. The euro has approached USD 1.2 in the last month, its highest level since May 2018. This was attributable in part to the more successful containment of the virus in Europe, and to the agreement reached in July to set up an EU recovery fund worth EUR 750 billion.¹ The price of Brent crude has been around USD 44 per barrel over the last month, down fully 25% in year-on-year terms. The year-on-year fall in energy prices remains the prevailing deflationary factor in the international environment.

As expected, the decline in economic activity in Slovenia in the second quarter was worse than at the height of the crisis in 2009. Following another large quarterly decline, GDP in the second quarter was down 13.0% in year-on-year terms, 3.1 percentage points more than in the second quarter of 2009, but slightly less than the euro area average. Given the nature of the containment measures, the sharpest decline in value-added came, as expected, in certain private-sector services, most notably tourism and transport, while retail turnover began a rapid recovery as soon as the measures were lifted. Private consumption declined sharply again in the second quarter, by 16.6% in year-on-year terms, driven primarily by the strict lockdown measures in April, which denied consumers access to a wide range of services. There was also a sharp shock in manufa-

¹ The euro exchange rate against the US dollar could be additionally strengthened by an expansionary push in the Fed's monetary policy. On 27 August, it signalled a change in its long-term monetary policy objectives and strategy. A major development was the move to an average inflation target of 2%. This means that after a period of inflation being below 2% the Fed will target inflation of more than 2% for a specific period.

cturing, but since May it has been showing signs of recovery in the form of high monthly growth in output. The reverse dynamic was evident in construction, where the decline in value-added was among the lowest in the second quarter, but with an additional decline in activity in June. This was attributable to a lack of infrastructure investment and investment in production and sales capacity. The aggregate decline in capital expenditure stood at 16.7% in year-on-year terms.

The available data points to a significant recovery over the summer months, but the deteriorating epidemiological situation means that uncertainty is rising again. The initial indicators for the third quarter are encouraging, as the year-on-year decline in electricity consumption diminished sharply, while tax revenues, the Purchasing Association of Slovenia's PMI, the economic sentiment and the demand expectations from the SORS survey all rose. The financial situation at firms also remains solid for now. According to AJPES figures, the number and average value of firms' outstanding liabilities have continued to fall in year-on-year terms since the normalisation of business in May, while the number of bankruptcies have remained low. Firms also reported no major difficulties with financing in the SORS survey in August. The ongoing recovery will take place in a backdrop of great uncertainty, and will depend on the epidemiological picture and on the severity of governments' response to any major deterioration. Given the uncertainty, firms will continue to delay investment, while households will stick with their precautionary saving. Amid liquidity support from the government, this is already being reflected in deposits in the domestic banking system, which are hitting record levels, despite the zero interest rates on sight deposits.

Employment remained unchanged in monthly terms in June, thanks largely to the emergency measures that are still in place, and to the economic recovery. The average workforce in employment excluding self-employed farmers in the second quarter was nevertheless down 1.4% in year-on-year terms, driven by manufacturing, employment activities, and food and beverage services.² The lifting of the containment measures and the recovery in private consumption halted the sharp fall in employment in the food and beverage services sector, but the workforce in employment in manufacturing continued to fall: by June it was down fully 3.4% in year-on-year terms. The relative stability on the labour market has continued in the early part of the third quarter: the number of registered unemployed was unchanged in July at 89,400. The stabilisation of unemployment after April, when growth hit its highest rate since the outbreak of the epidemic, was attributable to lower inflows into unemployment and a rise in the number of new hires. According to the current figures, the surveyed unemployment rate in the second quarter was up just 1 percentage point in year-on-year terms at 5.2%. However, the rise in unemployment during the epidemic has revealed major intergenerational inequality on the labour market: unemployment rose more sharply among the young than among older generations.

By August, only manufacturing firms were still expecting employment to fall further, while overall expectations were already positive across the private sector. Given the uneven recovery in different sectors, employment developments will remain highly dependent on the continuation of the emergency measures, which in previous months successfully stabilised employment, which therefore does not fully reflect the fall in GDP. Similarly, current wage developments are more a reflection of the effects of the emergency measures than of the actual situation on the labour market. The ending of epidemic-related bonus payments and the per-

² Employment in the second quarter was down 2.0% in year-on-year terms according to the national accounts figures. The number of hours worked was down 13.3%, in line with the fall in GDP.

sistent methodological effects of the emergency measures saw the average gross wage fall by 4.2% in monthly terms in June. The year-on-year rate of growth thus slowed significantly to 5.5% in June, down from the highs of 11.9% in April and 9.5% in May.³

Impact of the containment measures is being reflected in the depth and structure of the decline in foreign trade. Nominal merchandise trade in the second quarter was down a quarter in year-on-year terms, while trade in services was down more than 30%. Given the nature of the containment measures, the situation in the service sector was worse than at the height of the crisis in 2009. Disruptions to supply chains and a shock in car sales meant that firms in the automotive industry were among the hardest-hit in the merchandise trade sector, although there were signs of a rapid recovery in exports in June, which was also seen in most other merchandise sectors. The year-on-year fall in total nominal merchandise exports stood at 9.6% in June, fully 25.7 percentage points less than in April. The recovery after the measures were lifted was significantly slower overall in trade in services, where of the major sectors the worst shock was suffered by transport and tourism. In tourism in particular, the recovery was very weak even in June: exports of travel services were still down 76.8% in year-on-year terms. This was also the main reason for the 27.3% fall in total services exports in June. The year-on-year decline in exports in the tourism sector was close to EUR 700 million in the first half of the year, while the surplus of trade in travel services was down EUR 350 million. The 12-month current account surplus was nevertheless still over EUR 3 billion in June, as the situation on global markets for energy and commodities meant that merchandise import prices fell more sharply than export prices, which contributed to the increase in merchandise trade surplus.

Prices as measured by the HICP were down in year-on-year terms for the fifth consecutive month in August, primarily as a result of falling energy prices. They contributed 1.5 percentage points to the overall deflation rate of 0.7% in August. The fall in energy prices, which during the Covid-19 outbreak was driven primarily by electricity prices and plummeting global oil prices, has in recent months also been attributable to excise duty policy. The government has adjusted excise duties since 7 April to hold prices of refined petroleum products at one euro per litre, which since June has entailed cuts in excise duties as oil prices have recovered on global markets. Excise duty policy is being reflected in a non-negligible impact on year-on-year growth in consumer prices, which would have been 0.2 percentage points higher in July had excise duties on refined petroleum products remained unchanged. In addition to energy prices, which were down 11.9% in year-on-year terms, prices of non-energy industrial goods were down by 1% in August. Food prices and services prices are continuing to make positive contributions to headline inflation. After picking up during the epidemic, food price inflation slowed in parallel with the fall in global prices of food commodities, while service price inflation, which had slowed further during the epidemic, remained relatively stable in August at 1.5%, and is not yet reflecting the depth of the decline in private consumption. Banka Slovenije expects price developments to remain weak over the remainder of the year. The main deflation risk is the potential for a sharper deterioration in the epidemiological situation.

³ According to national accounts figures, compensation per employee in the second quarter was down 1.9% in year-on-year terms. The large discrepancy between the monthly figures and the national accounts figures is the result of methodological differences in the recording of the wage compensation and social security contributions that are being covered by the state budget on the basis of the emergency measures.

The consolidated general government position over the first seven months of the year was a deficit of approximately EUR 2.2 billion, compared with a small surplus over the same period last year. The deterioration primarily came in the second quarter, when the average monthly position was around EUR 680 million worse in year-on-year terms. This was the result of the economic slowdown, which was reflected in a significant year-on-year decline in revenues, and the measures in connection with Covid-19, which brought a significant rise in general government expenditure, most notably in subsidies. Developments in the public finances improved in July. Revenues were up in year-on-year terms, while the increase in expenditure was significantly less than in the preceding quarter. Certain measures in connection with Covid-19 are still available to claimants, but not in the scale seen during the worst months of the crisis. Certain labour market measures remain in place (the furlough scheme and subsidised short-time work), as does support for domestic demand (holiday vouchers). This year's rebalanced state budget is forecasting a deficit of EUR 4.2 billion, or 9.3% of GDP.

Selection of macroeconomic indicators on a monthly basis

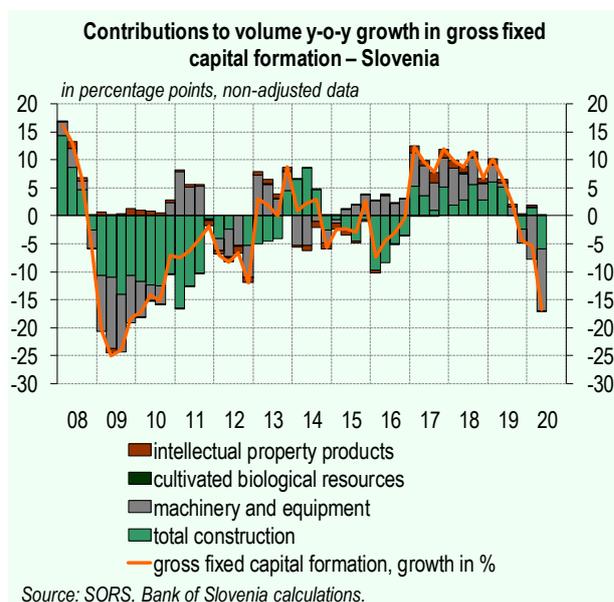
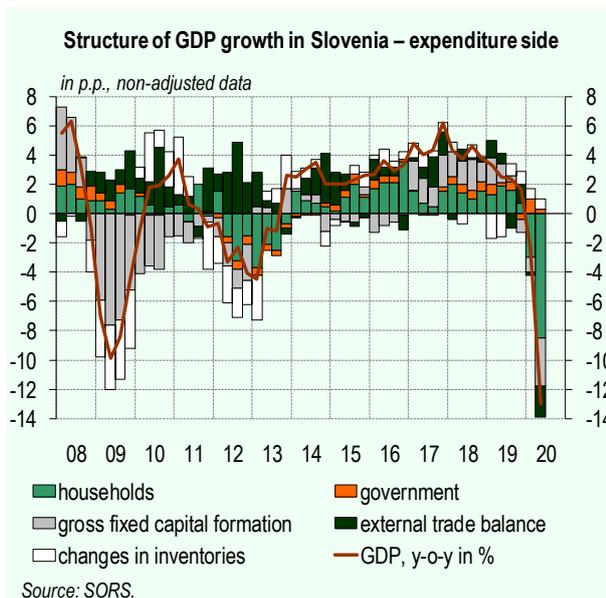
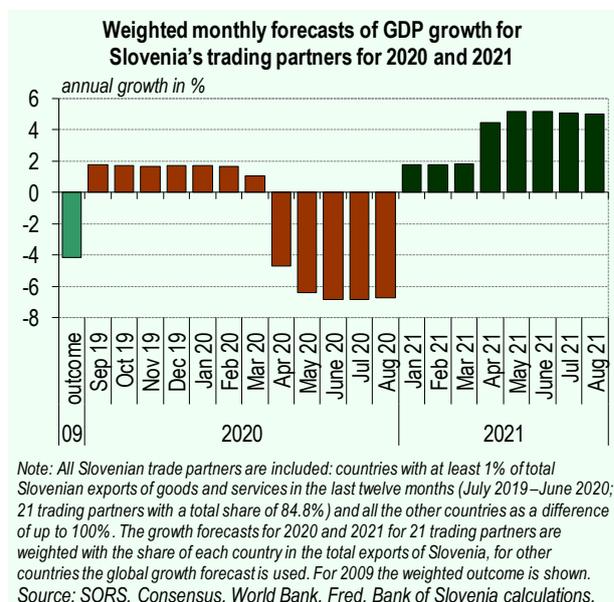
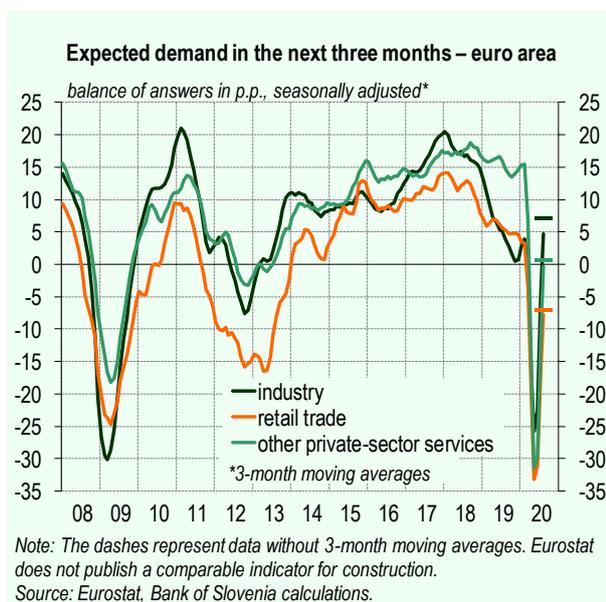
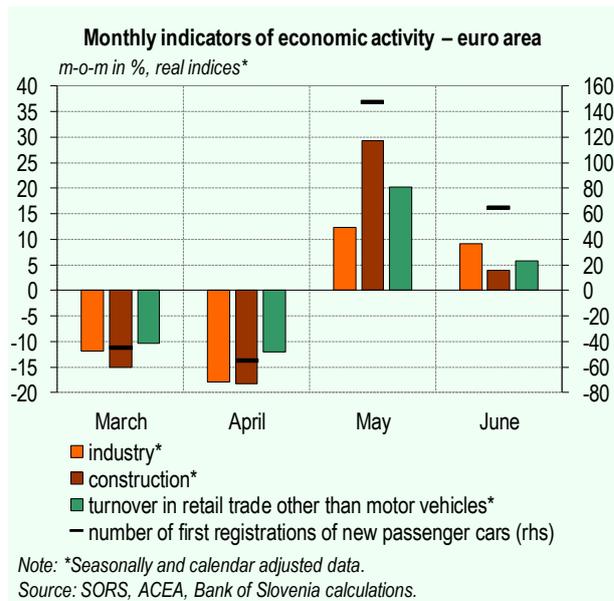
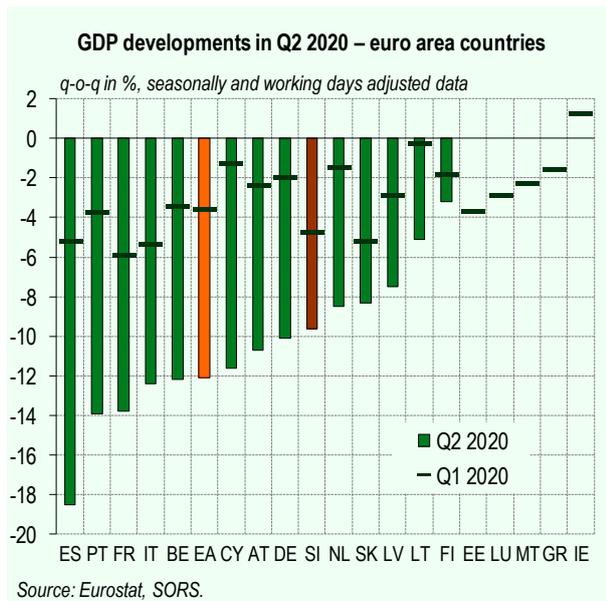
	12 m. 'till Jun.18	12 m. 'till Jun.19	12 m. 'till Jun.20	3 m. 'till Jun.19	3 m. 'till Jun.20	2020 Apr.	2020 May	2020 Jun.	2020 Jul.
Economic Activity									<i>* data for Aug.20</i>
	balance of answers in percentage points								
Sentiment indicator	13.6	9.3	-5.4	6.9	-31.8	-39.2	-32.6	-23.6	-17.9 (-6.6*)
- confidence indicator in manufacturing	10.4	4.2	-8.4	0.3	-28.7	-39.0	-27.0	-20.0	-12.0 (-1.0*)
	year-on-year growth rates in %								
Industry: - total	8.9	3.0	-4.2	3.2	-17.4	-24.2	-16.2	-12.0	...
- manufacturing	9.5	3.4	-3.7	3.4	-17.8	-25.4	-16.4	-11.9	...
Construction: - total	17.4	18.1	-4.9	8.6	-12.0	-6.9	-13.3	-15.3	...
- buildings	20.3	12.9	-5.6	5.9	-15.2	-15.2	-17.5	-12.8	...
Trade and service activities - total	7.1	6.2	-5.2	3.5	-18.2	-27.2	-17.2	-10.6	...
Wholesale and retail trade and repair of motor vehicles anc	14.8	6.5	-9.9	0.9	-24.0	-54.8	-17.3	-0.4	...
Retail trade, except of motor vehicles and motorcycles	2.7	6.1	-2.7	6.2	-8.0	-20.2	-3.0	-0.8	...
Other private sector services	7.2	5.6	-6.5	2.2	-22.5	-29.1	-23.2	-15.7	...
	year-on-year growth rates in %								
Average gross wage	3.5	3.7	5.2	3.9	9.0	11.9	9.5	5.5	...
- private sector	3.9	3.9	4.3	3.5	6.4	8.4	6.5	4.2	...
- public sector	3.6	3.9	6.6	4.9	12.0	16.3	12.8	7.1	...
Real net wage ¹	1.8	1.3	4.5	1.5	11.8	15.1	13.3	7.0	...
Registered unemployment rate (in %)	8.7	7.9	8.0	7.5	9.2	9.1	9.3	9.2	...
Registered unemployed persons	-14.3	-7.3	2.6	-5.9	23.9	19.9	25.6	26.3	24.4
Persons in employment	3.5	3.0	1.0	2.7	-1.2	-0.9	-1.4	-1.4	...
- private sector	4.6	3.8	1.2	3.3	-1.6	-1.1	-1.7	-1.9	...
- public sector	0.7	1.0	0.4	1.0	-0.3	-0.1	-0.5	-0.3	...
	year-on-year growth rates in %								
Price Developments									
HICP	1.6	1.8	1.0	1.7	-1.2	-1.3	-1.4	-0.8	-0.3 (-0.7*)
- services	2.0	2.8	2.7	3.2	1.9	1.8	2.1	1.7	1.8 (1.5*)
- industrial goods excluding energy	-0.8	-0.3	0.1	-0.1	-1.0	-1.3	-1.0	-0.8	0.1 (-1.0*)
- food	2.7	1.3	2.8	1.1	3.3	4.0	3.9	2.1	2.2 (2.4*)
- energy	4.1	4.7	-4.9	2.8	-17.8	-19.1	-20.8	-13.3	-11.4 (-11.9*)
Core inflation indicator ²	0.8	1.4	1.6	1.8	0.6	0.5	0.7	0.6	1.0 (0.4*)
	in % GDP								
Balance of Payments - Current Account									
Current account balance	6.6	6.1	6.5	7.0	5.5	5.4	2.7	8.3	...
1. Goods	3.6	2.9	3.4	3.6	5.1	4.2	3.0	7.9	...
2. Services	5.4	6.1	5.7	6.2	3.6	3.8	2.9	4.1	...
3. Primary income	-1.7	-1.8	-1.4	-1.9	-2.0	-1.6	-1.8	-2.5	...
4. Secondary income	-0.7	-1.1	-1.1	-0.8	-1.2	-1.1	-1.5	-1.2	...
	nominal year-on-year growth rates in %								
Export of goods and services	12.0	7.3	-6.2	6.2	-26.1	-36.1	-28.5	-13.3	...
Import of goods and services	11.7	7.4	-6.8	5.8	-26.7	-38.0	-26.6	-14.5	...
Public Finances	2018	2019	12 m. 'till		2019		2020		
Consolidated general government (GG) balance ³			Jul.20	y-o-y, %	Jan.-Jul.	y-o-y, %	Jan.-Jul.	y-o-y, %	
	EUR milions								
Revenue	18,594	19,232	40.5	-2.4	10,924	5.6	10,401	-4.8	
Tax revenue	16,225	17,179	36.0	-0.6	9,762	5.5	9,214	-5.6	
From EU budget	796	731	1.5	-21.3	398	34.5	375	-5.9	
Other	1,572	1,323	3.0	-10.9	764	-4.3	813	6.3	
Expenditure	18,068	18,969	44.8	10.1	10,897	7.1	12,609	15.7	
Current expenditure	7,966	8,228	18.6	4.9	4,818	5.1	5,188	7.7	
- wages and other personnel expenditure	4,168	4,470	10.4	10.1	2,623	8.7	2,970	13.2	
- purchases of goods, services	2,634	2,728	6.0	2.7	1,519	5.7	1,581	4.1	
- interest	868	791	1.6	-3.8	574	-12.1	542	-5.6	
Current transfers	8,237	8,704	21.8	17.9	5,145	6.3	6,516	26.6	
- transfers to individuals and households	6,926	7,324	16.9	8.5	4,347	6.5	4,823	11.0	
Capital expenditure, transfers	1,432	1,527	3.3	0.4	590	17.9	590	0.0	
GG surplus/deficit	526	263	-4.3		28		-2,208		

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.

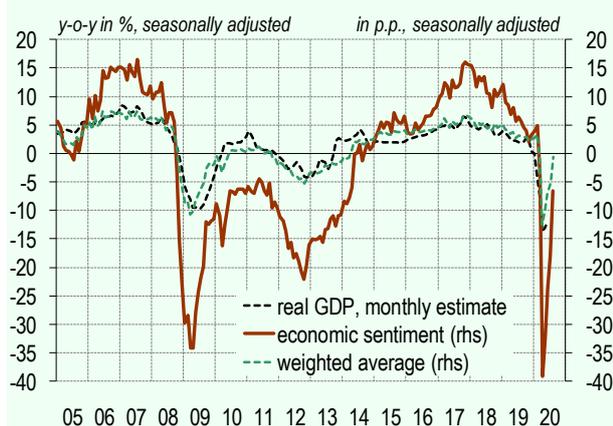
¹ HICP deflator. ² Inflation excluding energy, food, alcohol, tobacco. ³ Consolidated central government budget, local government budgets and social security funds (pension and disability insurance fund and health insurance fund) in cash accounting principle.

Sources: SORS, Bank of Slovenia, Ministry of finance, Bank of Slovenia calculations.

Figure annex: Selected indicators for the international environment and Slovenia



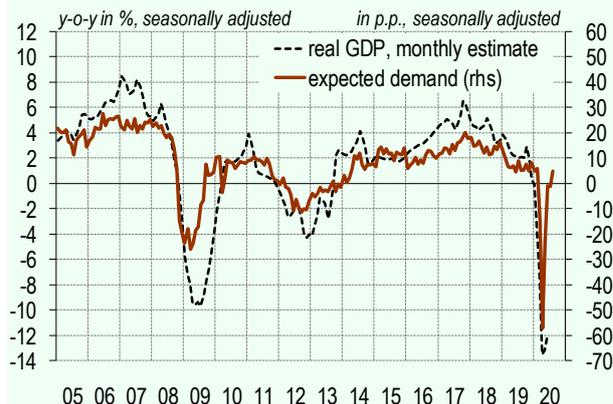
Economic sentiment indicator and GDP – Slovenia



Note: Green dashed line represents the weighted average of confidence indicators in retail trade, industry and services. The weights are the same as SORS' weights for compiling the economic sentiment indicator, calculated at a value of 100.

Source: SORS, Bank of Slovenia's estimations and calculations.

Expected demand and GDP – Slovenia



Note: Expected demand is the weighted average of expected demand in manufacturing and services, expected construction orders, expected retail sales, and major consumer purchases over the next twelve months. The weights are the same as SORS' weights for compiling the economic sentiment indicator.

Source: SORS, Bank of Slovenia's estimations and calculations.

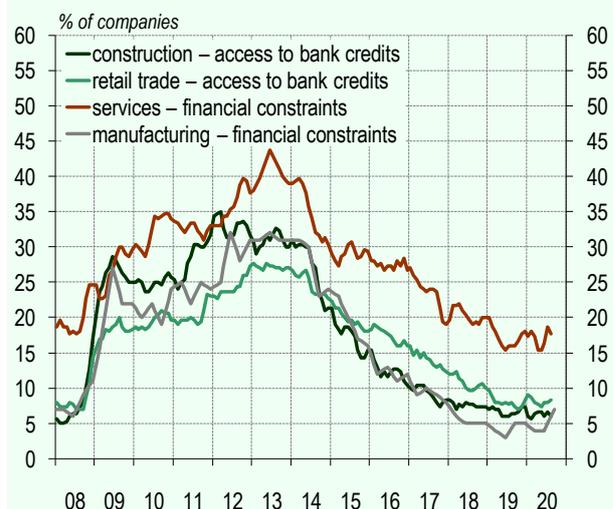
Number of enterprises with overdue liabilities continuously more than 5 days – Slovenia



Note: The data for April and May are not directly comparable with the data for other periods due to establishment of ZIUZEOP.

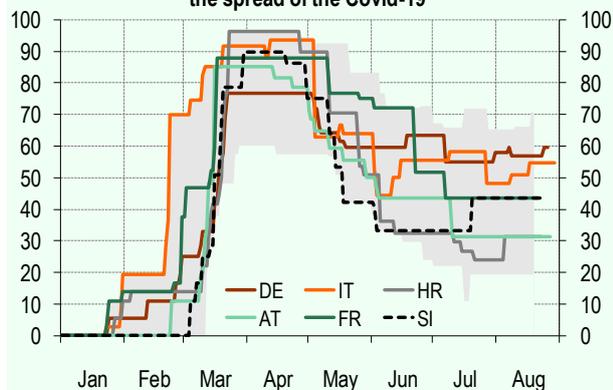
Source: AJPES.

Limiting factors to production – financing, Slovenia



Source: SORS.

Stringency of the measures taken by selected countries against the spread of the Covid-19*

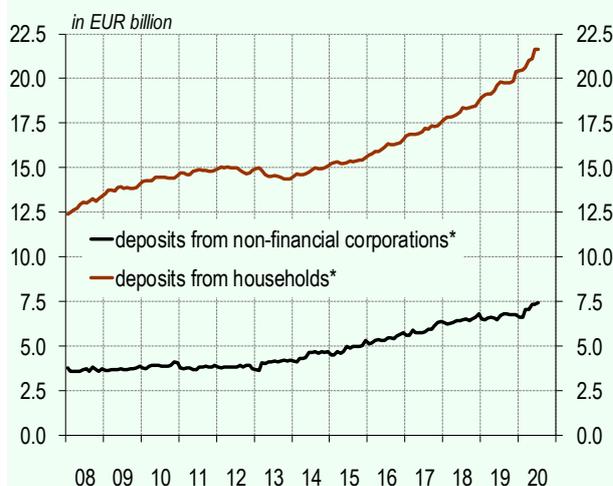


Note: *Stringency index includes: closings of schools, closings of workplaces, cancelling public events, limits on private gatherings, closing of public transport, stay at home requirements, restrictions on internal movement, restrictions on international travel, presence of public info campaigns.

Grey area shows the range between the lowest and highest stringency of the measures among euro area countries.

Source: Oxford COVID-19 Government Response Tracker.

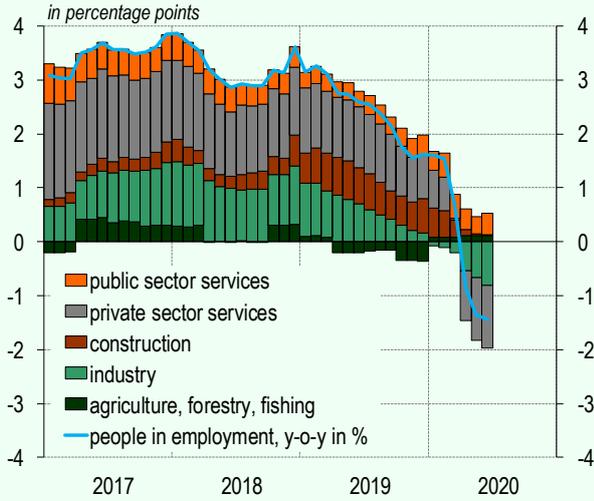
Deposits in the Slovenian banking system



Note: *Measured at amortized cost.

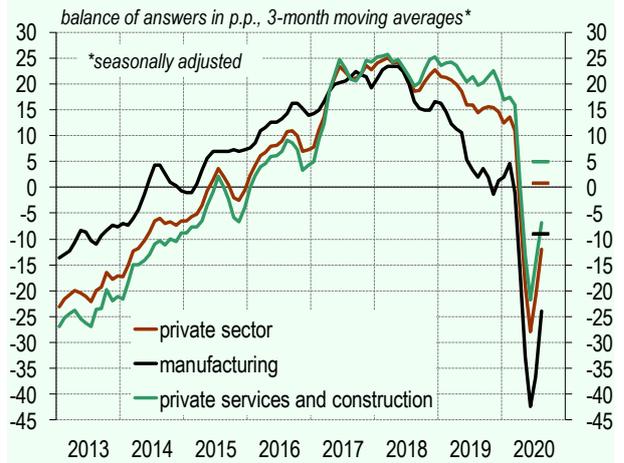
Source: Bank of Slovenia.

Contributions to y-o-y growth in the number of people in employment – Slovenia



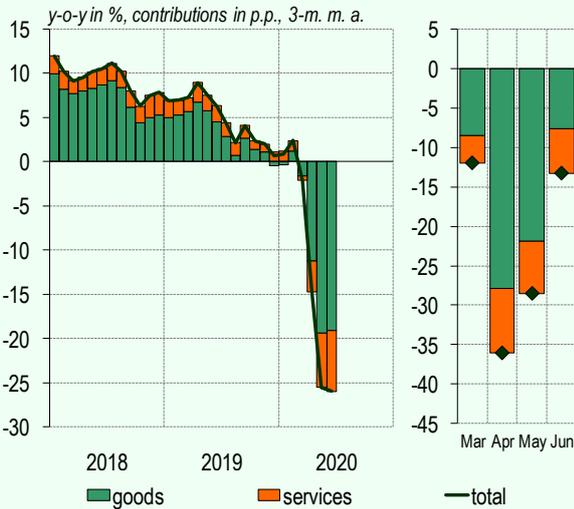
Source: SORS, Bank of Slovenia calculations.

Expected employment in the next three months – Slovenia



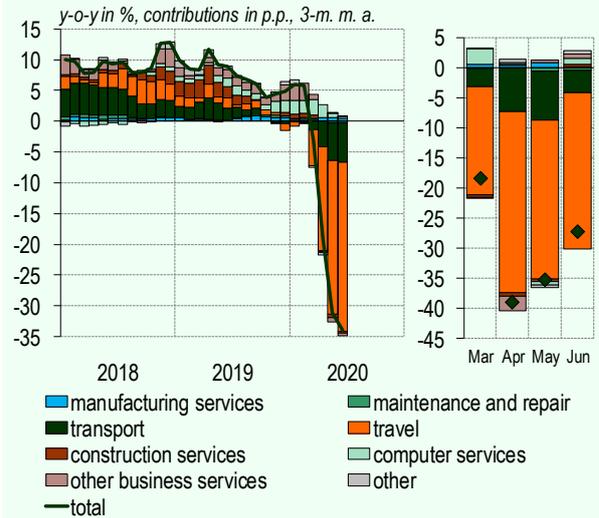
Note: The aggregate measures are calculated by taking into account value added shares. The dashes represent data without 3-month moving averages. Source: SORS, Bank of Slovenia calculations.

Goods and services exports – Slovenia



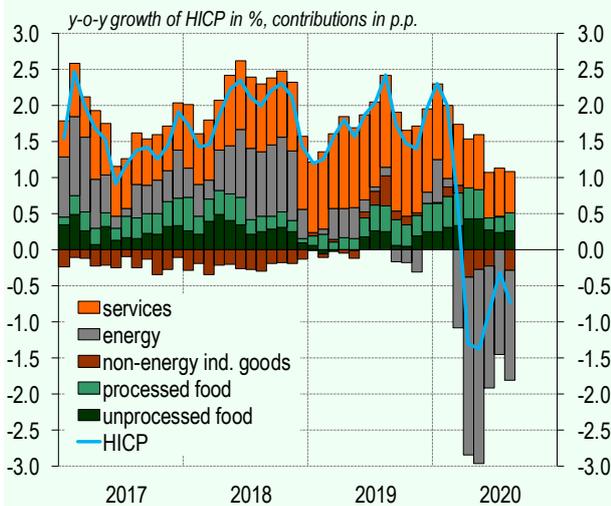
Source: Bank of Slovenia.

Services exports – Slovenia



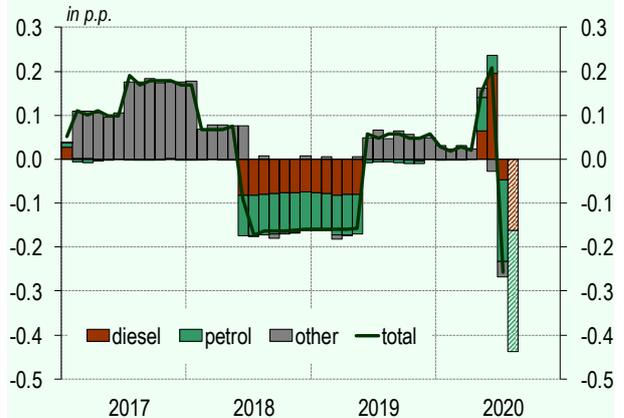
Source: Bank of Slovenia.

Contributions to headline HICP inflation – Slovenia



Source: Eurostat, Bank of Slovenia calculations.

Total impact of changes in indirect taxes on year-on-year growth of consumer prices



Note: The impact is calculated as the difference between the year-on-year growth of the HICP and the year-on-year growth of the HICP at constant tax rates. Source: Eurostat, Ministry of Economic Development and Technology, Bank of Slovenia calculations.