



SUMMARY OF MACROECONOMIC DEVELOPMENTS



AUGUST 2021

Title: Summary of macroeconomic developments
No.: August 2021

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

Summary of macroeconomic developments, August 2021

Despite the major barriers in international trade, and the spread of new Covid-19 variants, the global economy is continuing to grow rapidly. This is indicated by the composite PMI, which despite a slight slide remained above its long-term average in July. Currently, the euro area stands out for the intensity of its economic recovery: after falling in the first quarter, GDP increased by 2.0% in the second quarter, reducing its shortfall on the level seen in the final quarter of 2019 by 1.9 percentage points to 3.0%. This quarterly economic growth was driven first and foremost by household consumption. This is confirmed by retail turnover, which increased significantly immediately after the containment measures were relaxed in May and June. Judging by high-frequency indicators, quarterly GDP growth will remain high in the third quarter, as demand for services, particularly those related to tourism and social contact, has further strengthened as the situation normalises considerably. The euro area was also still seeing growth in manufacturing output over the summer, although it continues to be constrained by disruptions to supply chains and shortages of raw materials. The labour market is strengthening in the expanding economy, but there are already signs of labour shortages. Amid rising production costs and the resulting rise in sales prices, current inflation in the euro area is slightly higher than previously forecast. In July the IMF revised its euro area economic growth forecast for this year upwards by 0.2 percentage points from April to 4.6%, and its forecast for 2022 upwards by 0.5 percentage points to 4.3%, although this forecast is subject to considerable uncertainty on account of the renewed spread of the pandemic.

With ongoing economic policy support, the situation on the financial markets remains very favourable. Together with the significant purchases by the Eurosystem amid the seasonal decline in the supply of bonds, the expectations of a long period of low interest rates brought a sharp fall in market yields on euro area government bonds. They remain low, despite a minor rise towards the end of August. The borrowing costs of private issuers also remain favourable. Numerous share indices in Europe and the US have again hit record highs. Under the influence of the ECB's accommodative monetary policy, the nominal effective exchange rate of the euro is close to its lowest level of the last year. After rising sharply in the first half of the year, gaining almost 50%, oil prices fell on account of concerns over future demand amid the uncertain epidemiological situation, but they remain significantly higher than a year ago.

Economic activity in Slovenia came close to its pre-crisis level in the second quarter. GDP was up 1.9% on the first quarter following the lifting of containment measures, and was up 16.3% in year-on-year terms amid a pronounced base effect. It remained down 0.2% on the pre-crisis peak in the final quarter of 2019. Strengthening private consumption meant that quarterly growth in value-added was predictably strongest in the segments of private-sector services that had previously been hit hardest by the containment measures. The most notable growth was recorded by turnover in accommodation and food service activities. Households once again increased their spending on durables, albeit slightly less markedly than during the first significant relaxation of containment measures in mid-February. The situation in industry improved further (activity has now surpassed its pre-epidemic level), although there are increasingly significant constraints on the output side in connection with disruptions in supply chains and rising input costs. Amid strong demand and a shortage of qualified labour, firms are also undertaking more and more investment. The government sector is also financing investment, which in June was reflected in a rise in activity in infrastructure construction.

The rise in confidence came to an end over the summer, but the economic sentiment indicator remains high. Case numbers are rising again, and with them the chances of the containment measures being tightened, with an adverse impact on the openness of public life and activity, particularly in certain private-sector services. This is most likely already having an impact on consumer confidence: consumers are now slightly more cautious in assessing their future financial situation and their appetite for major purchases. Firms in private-sector services have also become more cautious in their assessments of future demand. The rise in the economic sentiment indicator thus came to an end, but it remains comparable to its level in 2019, and well above its level of last summer. Economic growth is expected to remain high in the third quarter. Despite the base effect easing, year-on-year growth in total card payments, ATM withdrawals and invoices registered with tax authorities remained high at around 10% in July and 6% in August, while growth in freight vehicle mileage on motorways averaged 8%. Further evidence of the favourable economic developments in the third quarter comes also from our short-term technical model estimates, but for the remainder of the year there are still risks of renewed restrictions in parts of the economy because of a deterioration in the epidemic, which could once again put a brake on economic activity.

As services recover, the situation on the labour market is continuing to improve, and is now better than before the crisis according to certain indicators. Despite the expiry of the temporary lay-off scheme, registered unemployment fell further to reach 70,655 by the end of July, down approximately 1,000 on the end of July 2019. Amid the high economic growth, firms notified a record number of vacancies in the second quarter, but a shortage of qualified labour means that they are having increasing difficulties in filling them. Given firms' optimistic assessments of future employment expectations, in the absence of the reimposition of extensive containment measures the situation is likely to remain favourable, which could give rise to stronger wage pressures as labour shortages increase. Year-on-year growth in the average gross wage increased to 7.7% in June. While wage growth in mostly public services slowed to a still-high 9.1% as epidemic-related bonus payments fell, wage growth in the private sector picked up to 7.1% amid a strong recovery in some of the worst-hit service segments (accommodation and food service activities, and arts, entertainment and recreation).

The balance of payments developments reflect the more normal business conditions and rising price pressures in international trade. The 12-month current account surplus remained slightly higher than a year ago at EUR 3.1 billion in June, but down EUR 326 million on its peak in December of last year. The merchandise trade surplus is narrowing, but the services trade surplus is showing its first signs of widening again amid a rise in exports of miscellaneous business services. The strength of foreign demand is being reflected in high merchandise exports, which in the first half of the year were up fully 4.3% in nominal terms on the first half of 2019, i.e. before the pandemic. The largest factor in this increase in geographical terms was exports to euro area markets, Germany in particular, while the largest factor in terms of product category was miscellaneous machinery. The increase in imports over the same time horizon was slightly larger, at 4.8%, primarily in reflection of the strengthening of domestic industrial production, and also private consumption and investment. Another major factor was import prices, which in July were up fully 12.8% in year-on-year terms, and up 9.0% relative to July 2019. The terms of merchandise trade are continuing to worsen, although exporters are succeeding in passing through part of the rise in costs into final product prices. In July, these were up 5.4% in year-on-year terms, and up 4.6% relative to July 2019. By contrast, services trade remains well down on its pre-crisis level, albeit entirely because of the restrictions in international tourism. For example, the number of overnight stays by foreign visitors was up 58% in year-on-year terms in June, but down 74% on June 2019.

With foreign and domestic price pressures strengthening, inflation stood at 2.1% in August. Amid rising global oil prices, energy prices remained the largest factor in inflation as measured by the HICP. They were up 13.8% on August of last year, when prices of motor fuels were held at one euro per litre by low oil prices and excise duty policy. Core inflation components have also been picking up pace ever since the containment measures were relaxed. The problems in supply chains and rising cost pressures associated with rises in commodity prices, import prices and producer prices of industrial goods have driven a rise in prices of non-energy industrial goods in recent months. The broadly based inflation in this category reached 1.8% in August, one of the highest rates since the beginning of 2009. Similarly, service prices have also been rising as the economy opens and private consumption revives, particularly in accommodation and food service activities. This is attributable to higher commodity prices, rising labour costs amid growing labour shortages, the drive to make up for losses as demand strengthens following the long shutdown, and increased demand for services that were unavailable or curtailed while the containment measures were in place. Service price inflation nevertheless remains low (at 0.2% in August), which is attributable to the major change in weighting in the calculation of the inflation index as a result of last year's shifts in consumption patterns. Had the basket of consumer essentials remained unchanged, service price inflation would have reached 1.9% in July, while core inflation would have reached 1.8% and headline inflation 3.1%. Banka Slovenije's assessment is that the negative impact of the change in weighting will begin to abate in September, thereby raising statistically measured inflation. The main risk to future inflation and economic developments remains the possibility of renewed constraints in sections of the economy on account of a deterioration in the epidemic.

The consolidated general government deficit over the first seven months of this year amounted to EUR 1.9 billion, EUR 294 million narrower in year-on-year terms. Because of a base effect and amid the growing economy, general government revenues were up on the same period last year, and also on the previous year. There was a notable increase in revenues from taxes and social security contributions, while non-tax revenues were also driven higher by the payment of a mobile telephony concession. General government expenditure also increased in year-on-year terms, driven by expenditure on measures in connection with the epidemic. These have primarily had an impact on transfers to individuals and households (including the partial refund of uncovered fixed costs and monthly basic income), wages (bonuses for work in dangerous conditions and work with patients suffering from Covid-19) and subsidies (most notably the furlough scheme). Holiday vouchers were, among other measures, available in the summer months after the expiry of certain anti-crisis measures (e.g. the furlough scheme, the partial refund of uncovered fixed costs, the monthly basic income), while the key measures on the labour market are the short-time work scheme and, since July, the reduction in the lowest base for paying social security contributions. Slovenia is running a surplus in its position against the EU budget, which amounted to EUR 86 million over the first seven months of this year. Following the approval by the Council of the EU in July of Slovenia's recovery and resilience plan for EUR 1.8 billion in grants and EUR 0.7 billion in loans, these funds are available to Slovenia alongside the funding from the 2021-2027 multiannual financial framework. The first tenders are scheduled for this year.

Selection of macroeconomic indicators on a monthly basis, Slovenia

	12 m. 'till Jun.19	12 m. 'till Jun.20	12 m. 'till Jun.21	3 m. 'till Jun.20	3 m. 'till Jun.21	2021 Apr.	2021 May	2021 Jun.	2021 Jul.
Economic Activity * data for Aug.21									
	<i>balance of answers in percentage points</i>								
Sentiment indicator	8.7	-5.0	-4.4	-30.5	4.4	-0.5	5.9	7.9	5.6 (6.4*)
- confidence indicator in manufacturing	3.9	-8.4	3.5	-28.0	10.7	9.0	12.0	11.0	10.0 (11.0*)
	<i>year-on-year growth rates in %</i>								
Industry: - total	3.0	-4.2	5.4	-17.4	24.9	35.4	22.1	18.9	...
- manufacturing	3.4	-3.7	6.1	-17.8	27.4	39.3	24.3	20.5	...
Construction: - total	17.2	-5.3	1.2	-13.4	2.0	1.9	-3.9	8.3	...
- buildings	13.9	-11.7	-6.1	-22.8	-8.1	5.1	-14.2	-13.8	...
Trade and service activities - total	6.2	-5.3	0.4	-18.2	19.4	29.0	17.1	13.9	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	6.6	-9.8	2.1	-23.9	20.7	95.4	10.3	-3.9	...
Retail trade, except of motor vehicles and motorcycles	6.1	-2.7	2.6	-8.1	16.4	24.4	12.7	13.5	...
Other private sector services	5.7	-6.5	-1.3	-22.3	21.0	27.0	19.5	17.6	...
	<i>year-on-year growth rates in %</i>								
Labour market									
Average gross wage	3.7	5.2	...	9.0	...	3.0	6.1
- private sector	3.9	4.3	4.8	6.4	3.9	2.0	2.4	7.5	...
- public sector	3.9	6.6	10.4	12.0	9.1	5.6	13.4	8.3	...
Real net wage ¹	1.3	4.5	6.5	11.8	1.7	-1.2	1.1	5.1	...
Registered unemployment rate (in %)	7.9	8.0	8.6	9.2	7.7	8.2	7.7	7.3	...
Registered unemployed persons	-7.3	2.6	7.2	23.9	-16.0	-10.6	-16.9	-20.5	-21.0
Persons in employment	3.0	1.0	-0.5	-1.2	1.4	0.9	1.5	2.0	...
- private sector	3.8	1.2	-1.0	-1.6	1.5	0.7	1.5	2.2	...
- public sector	1.0	0.4	0.6	-0.3	1.4	1.3	1.5	1.5	...
	<i>year-on-year growth rates in %</i>								
Price Developments									
HICP	1.8	1.0	0.0	-1.2	2.1	2.2	2.2	1.7	2.0 (2.1*)
- services	2.8	2.7	0.8	1.9	-0.1	-0.1	-0.2	0.0	-0.2 (0.2*)
- industrial goods excluding energy	-0.3	0.1	-0.3	-1.0	1.1	0.8	1.3	1.2	1.9 (1.8*)
- food	1.3	2.8	1.3	3.3	0.1	0.6	-0.8	0.5	0.1 (0.0*)
- energy	4.7	-4.9	-4.2	-17.8	16.1	17.7	19.7	11.2	13.4 (13.8*)
Core inflation indicator ²	1.4	1.6	0.3	0.6	0.4	0.3	0.5	0.5	0.6 (0.8*)
	<i>in % GDP</i>								
Balance of Payments - Current Account									
Current account balance	6.1	6.5	6.4	6.5	4.4	7.0	2.7	3.6	...
1. Goods	2.9	3.4	4.1	5.2	1.8	3.4	0.0	2.2	...
2. Services	5.9	5.3	4.2	3.6	3.8	3.9	3.1	4.2	...
3. Primary income	-1.6	-1.2	-1.3	-1.1	-1.1	-0.9	-1.0	-1.5	...
4. Secondary income	-1.1	-1.0	-0.6	-1.2	0.0	0.6	0.7	-1.4	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	7.4	-5.7	4.0	-24.8	34.5	51.0	34.9	21.6	...
Import of goods and services	7.7	-6.3	4.6	-25.5	42.7	58.3	41.7	31.5	...
Public Finances	2019	2020	12 m. 'till Jul.21	2020 Jan.-Jul.	2021 Jan.-Jul.	2021 Jan.-Jul.	2021 Jan.-Jul.	2021 Jan.-Jul.	2021 Jan.-Jul.
Consolidated general government (GG) balance ³	EUR milions	% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %
Revenue	19,232	18,529	40.6	7.7	10,404	-4.8	12,026	15.6	
Tax revenue	17,179	16,460	36.0	7.4	9,214	-5.6	10,615	15.2	
From EU budget	731	730	1.6	11.8	375	-5.9	435	16.0	
Other	1,323	1,338	3.0	9.1	815	6.7	976	19.8	
Expenditure	18,969	22,071	47.1	13.1	12,608	15.7	13,937	10.5	
Current expenditure	8,228	9,128	19.9	15.0	5,188	7.7	5,948	14.7	
- wages and other personnel expenditure	4,470	4,965	11.2	15.2	2,971	13.3	3,556	19.7	
- purchases of goods, services	2,728	3,021	6.4	14.7	1,580	4.0	1,758	11.3	
- interest	791	778	1.5	-3.6	542	-5.6	496	-8.5	
Current transfers	8,704	10,868	22.7	12.0	6,514	26.6	6,933	6.4	
- transfers to individuals and households	7,324	8,251	18.3	16.4	4,823	10.9	5,649	17.1	
Capital expenditure, transfers	1,527	1,549	3.4	9.4	590	0.0	710	20.4	
GG surplus/deficit	263	-3,542	-6.5		-2,205		-1,911		

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.

Figure annex: Selected indicators for the international environment and Slovenia







