BANKA SLOVENIJE

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EUROSYSTEM

SUMMARY OF MACROECONOMIC DEVELOPMENTS

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Summary of macroeconomic developments, March 2020

Economic growth in the euro area will be strongly influenced by coronavirus this year. By the final quarter of last year, it had already fallen to 1.0%, the lowest figure of the last six years. Judging by the slight improvement in surveyed indicators, the outlook for the first quarter of this year was still slightly better in February. However, in the same month there had already been a sharp deterioration in the global economy, as the PMI declined by more than 6 points to reach its lowest level since May 2009. This was mainly attributable to the severe contraction of activity in China, and major consequences for other economies are expected in March. International institutions' views on this year's economic growth with regard to the – most probably short-term – impact of coronavirus offer a wide range of estimates. For example, the OECD is forecasting economic growth of 2.4% worldwide and 0.8% in the euro area, down 0.5 percentage points and 0.3 percentage points respectively on its previous forecasts, while the ECB is also forecasting economic growth of 0.8% for the euro area this year. But if the virus were to become more widespread, the OECD estimates that global economic growth might only reach 1.5%, which is looking an increasing likely scenario. As Opec and Russia failed to reach an agreement to reduce production, US dollar prices of Brent crude fell further, and in early March they were down even up to 50% in year-on-year terms. The shock on the oil market coincided with renewed falls in global stock market indices. Alongside oil, prices of other commodities also fell, both sharply reducing inflationary pressssures in the international environment. This will also temporarily reduce inflation in the euro area, where domestic demand will also be hit by the containment measures.

Economic growth in Slovenia remained above the average rate in the euro area last year, although it slowed further at the end of the year. GDP was up 2.4% on 2018, just 0.2 percentage points less than the Bank of Slovenia's most recent forecast. As expected, the largest contribution to growth came from private consumption, as public transfers and the situation on the labour market allowed for a further rise in household purchasing power. Private-sector investment was significantly weaker, in reflection of the increased uncertainty and the weaker economic developments in the international environment. The contribution made to GDP growth by net trade was significant, at 0.5 percentage points, but was mostly the result of a sharp decline in import growth. Year-on-year GDP growth stood at just 1.7% at the end of the year. There was a deterioration in the situation in manufacturing and services tied to foreign demand, as real exports declined by 0.6% relative to the third quarter. At the same time value-added in construction was again down in year-on-year terms, in the absence of major private-sector projects and given the anticipated slowdown in government investment.

In Slovenia, similarly to the euro area, the surveyed economic indicators pointed to a rebound in economic growth until mid-February, which came to an abrupt halt with the outbreak of coronavirus. The economic sentiment was still improving by the time that the SORS's February survey was completed, and firms raised their assessments of demand, at least on aggregate, while January's figures for retail turnover were also relatively encouraging. By contrast, February's decline in consumer confidence was most likely already attributable in part to the uncertainty in connection with coronavirus, and March is expected to bring a sharp decline in the *surveyed indicators for firms in transport, tourism, and certain manufacturing segments. Because Slovenia is now taking urgent measures to curb the epidemic, numerous firms dependent on the domestic market will also face a fall in demand. Judging by the experience of 2015 and 2016, the new refugee crisis will also reduce consumer confidence.*

The slowing economy is reducing employment growth and wage growth in the private sector slowed at the end of the year. Year-on-year growth in the workforce in employment excluding self-employed farmers was still solid in the final quarter of last year, but the figure of 2.1% was the lowest since the beginning of 2016. Employment growth is slowing in the majority of sectors, while of the main sectors the sharpest slowdowns are being seen in manufacturing and in transportation and storage. Employment growth will continue to slow this year, more sharply than previously expected. The number of vacancies has been gradually falling for the last year and a half, and firms are continuing to reduce their assessments of employment expectations. The fall in unemployment is continuing to slow, but the surveyed unemployment rate of 4.0% in the final quarter of last year was the lowest since the figures began. At the end of 2019, wage growth in the private sector slowed slightly, most likely as a result of a sharp increase in payments of annual leave allowance following the tax break on such payments, in addition to weaker economic developments. With wage growth in public services increasing at the end of the year, year-on-year growth in the real wage bill remained solid in the final quarter, at 4.7%. At the same time, the conditions for private consumption also remained favourable due to real growth of 3.5% in public transfers to households. In addition, this January saw an increase in the minimum wage.

According to current figures, the current account surplus recorded a new record high last year. It amounted to almost EUR 3.2 billion, or 6.6% of GDP. The main factor in the record surplus was the greater surplus in trade in goods and services. Growth in exports of goods and services recorded its lowest figure since 2013, but import growth was even lower. The slowdown was primarily attributable to growth in merchandise imports, largely on account of weaker investment. Growth in merchandise exports also slowed sharply, primarily as a result of a deterioration on the markets of the euro area. Italy and Germany were notable in this respect, with weaker exports to the two countries caused in part by problems in their car industries. In line with the situation in the international environment, last year saw a sharp slowdown in growth in exports of transport and travel services, and the rate was well into negative territory by the final quarter. The deficit in primary income narrowed as a result of a smaller deficit in reinvested earnings, while the deficit in secondary income widened, albeit mainly as a result of larger payments into the EU budget. International trade remained relatively weak in January, with exports still slightly stronger than imports.

Year-on-year growth in consumer prices as measured by the HICP remained above last year's average in February, at 2%. The rise in inflation has largely been driven by energy prices, year-on-year growth in which reached almost 5% in January as a result of a positive base effect, although the rate slowed to just 1.1% in February amid the current downturn in global oil prices and the accompanying fall in prices of motor fuels and liquid fuels. Year-on-year growth in food prices increased at the same time, taking their contribution to headline inflation to 0.7 percentage points in February. Prices of meat and meat products have since December been a pronounced factor in the rise in food price inflation, as African swine fever brought a sharp rise in global pork prices. As growth in labour costs remain relatively high, domestic inflationary pressures have helped *hold core inflation close to last year's average, at 1.8%. Growth in service prices has slowed slightly since September of last year, and stood at 2.7% in February. The slowdown was attributable to slower growth in prices of market services, while growth in prices of public services remained high in the wake of a renewed increase in wage growth in the public sector.*

According to provisional figures, the consolidated general government surplus amounted to EUR 264 million or 0.6% of GDP last year. There was a favourable dynamic in tax revenues last year, and they continued to grow in January of this year. Consolidated general government expenditure was high in January. The increase in growth relative to last year was the result of certain Health Insurance Institute payments being moved from last December to this year in order to meet the ceiling on allowed spending by the HII. The coronavirus outbreak means that the economy is expected to be in worse shape this year than was thought at the time that the budget plans were drawn up; the general government surplus had been forecast to increase to 0.9% of GDP. The expected short-term decline in economic activity will depress growth in general government revenues, while the emergency measures and less favourable conditions on the labour market mean that expenditure will be higher than planned. For example, one emergency measure proposed so far is a partial refund of wage compensation, for which EUR 51.5 million has been earmarked.

Main macroeconomic indicators

	12 m. 'till Dec.17	12 m. 'till Dec.18	12 m. 'till Dec.19	3 m. 'till Dec.18	3 m. 'till Dec.19	2019 Oct.	2019 Nov.	2019 Dec.	2020 Jan.
Economic Activity									** data for Feb.20*
				balance of answers in percentage points					
Sentiment indicator	12.5	11.9	6.4	10.8	3.1	4.1	2.3	3.0	4.0 (5.1*)
- confidence indicator in manufacturing	9.9	8.1	0.3	7.7	-2.0	-1.0	-3.0	-2.0	-1.0 (1.0*)
				year-on-year growth rates in %					
Industry: - total	8.4	5.0	3.0	0.9	1.8	2.7	1.5	1.0	...
- manufacturing	9.0	5.4	3.4	1.1	2.5	3.8	2.2	1.3	...
Construction: - total	17.7	19.8	3.3	14.9	-3.8	-3.2	-8.7	2.9	...
- buildings	27.6	16.8	3.5	2.4	3.0	-4.2	2.9	12.9	...
Trade and service activities - total	6.7	7.4	2.8	7.4	-0.4	-0.6	-1.1	0.4	...
Wholesale and retail trade and repair of motor vehicles	14.1	12.1	2.8	3.7	3.4	3.6	1.2	5.7	...
Retail trade, except of motor vehicles and motorcycles	5.7	3.1	3.5	7.4	-1.8	-2.8	-0.7	-1.7	...
Other private sector services	6.1	7.6	2.2	6.6	-0.5	-0.6	-1.3	0.4	...
Labour market				*year-on-year growth rates in %*					
Average gross wage	2.7	3.4	4.3	3.3	4.2	3.9	4.7	4.1	...
- private sector	2.8	4.0	3.9	4.1	3.6	3.5	3.4	3.8	...
- public sector	2.9	3.0	5.4	2.5	5.7	4.9	7.3	4.9	...
Real net wage[1]	1.5	1.0	2.0	1.0	2.3	1.8	2.7	2.5	...
Registered unemployment rate (in %)	9.5	8.3	7.7	8.0	7.5	7.4	7.4	7.7	...
Registered unemployed persons	-14.1	-11.5	-5.5	-7.8	-4.7	-5.0	-4.9	-4.1	-3.6
Persons in employment	3.5	3.2	2.5	3.3	1.6	1.8	1.6	1.6	...
- private sector	4.5	4.2	3.0	4.1	2.0	2.1	1.9	2.0	...
- public sector	0.8	0.8	1.0	1.3	0.7	0.7	0.6	0.7	...
Price Developments				*year-on-year growth rates in %*					
HICP	1.6	1.9	1.7	2.0	1.6	1.5	1.4	2.0	2.3 (2.0*)
- services	1.8	2.4	3.1	2.6	3.2	3.2	3.3	3.1	2.8 (2.7*)
- industrial goods excluding energy	-0.7	-0.8	0.3	-0.6	0.2	0.4	0.1	0.0	0.1 (0.6*)
- food	2.2	2.4	1.6	1.6	2.2	1.5	2.2	2.9	2.9 (3.3*)
- energy	4.7	6.0	0.8	6.9	-0.9	-1.5	-2.5	1.2	4.9 (1.1*)
Core inflation indicator[2]	0.7	1.0	1.9	1.2	1.9	2.0	1.9	1.8	1.6 (1.8*)
Balance of Payments - Current Account**					*in % GDP*				
Current account balance	6.3	6.1	6.6	4.5	6.9	9.7	7.9	3.1	...
1. Goods	3.8	2.8	2.8	1.0	2.3	4.6	3.5	-1.2	...
2. Services	5.3	5.9	6.3	6.0	6.2	7.6	5.8	5.2	...
3. Primary income	-2.1	-1.8	-1.4	-1.9	-1.1	-1.4	-1.0	-0.7	...
4. Secondary income	-0.7	-0.9	-1.1	-0.6	-0.5	-1.2	-0.3	-0.1	...
				nominal year-on-year growth rates in %					
Export of goods and services	13.3	8.8	4.4	8.0	0.4	1.1	-1.0	1.2	...
Import of goods and services	13.5	9.5	3.9	8.9	-1.9	-3.6	-2.9	1.3	...

Public Finances	2018	2019	12 m. 'till Jan.20		2019 Jan.-Jan.		2020 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	18,594	19,231	40.2	3.7	1,547	5.6	1,678	8.5
Tax revenue	16,225	17,178	35.9	5.9	1,474	7.1	1,582	7.3
From EU budget	796	731	1.6	-3.9	10	-62.7	28	172.8
Other	1,572	1,322	2.8	-15.7	64	2.6	69	8.2
Expenditure	18,068	18,967	39.7	4.9	1,572	11.3	1,724	9.6
Current expenditure	7,966	8,227	17.3	4.2	689	5.7	800	16.1
- wages and other personnel expenditure	4,168	4,465	9.4	8.0	342	6.4	402	17.7
- purchases of goods, services	2,634	2,733	5.8	4.6	195	10.6	237	21.5
- interest	868	791	1.7	-7.7	145	-1.4	153	5.4
Current transfers	8,237	8,703	18.1	4.8	766	12.1	782	2.0
- transfers to individuals and households	6,926	7,323	15.3	6.0	577	4.6	624	8.1
Capital expenditure, transfers	1,432	1,527	3.2	6.6	51	32.7	65	25.4
GG surplus/deficit	526	264	0.5		-25		-45	

Sources: SORS, Bank of Slovenia, Ministry of finance, Bank of Slovenia calculations.
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.
*** Preliminary estimates.*