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SUMMARY OF MACROECONOMIC DEVELOPMENTS

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Summary of macroeconomic developments, April 2020

The global economic situation is deteriorating sharply because of the coronavirus pandemic. The PMIs and certain confidence indicators have already reached extremely low levels. For the euro area, they are pointing to a sharp fall in economic activity and a downturn on the labour market as early as the end of the first quarter. The lockdown, contraction of companies' business activities and the major disruption to international trade mean that a further fall can be expected in the second quarter. Compared with the economic shock in 2008 and 2009, on this occasion it is a number of service activities that will be hit particularly hard, given the nature of the measures to curb the spread of the virus, and signs of this are already evident in survey assessments of firms' future demand. Amid the rapid spread of the pandemic and the great uncertainty surrounding its duration, economic forecasts have been cut sharply over the last few weeks, and this year's recession could therefore be even harsher than currently estimated. The decline in GDP could be even larger than in 2009, when the euro area economy contracted by 4.5%. The demand shock and the oil war among the providers has brought a significant fall in oil prices, which was down more than 60% year-on-year on April 9, while other commodity prices have also fallen, which is strengthening deflationary pressures in the international environment.

A sharp global shock of this type requires unprecedented action by central banks and governments to prevent financial, economic and social collapse. Under the measures known to date, the direct and indirect aid through fiscal and monetary policy amounts to approximately EUR 5,000 billion in the EU, and even USD 10,000 billion in the US, the significant share of which is being absorbed by the ECB and the Fed respectively. These measures are of limited use in raising effective demand for goods and services while the pandemic is in progress, but could nevertheless significantly reduce the loss of economic and social potential, thereby easing the transition back to normality after the pandemic ends. The capacity to take action varies greatly from country to country: in the EU the position is particularly difficult for Italy and Spain, who had not yet recovered from the last crisis, and have been hit hardest in this pandemic.

With its extensive anti-crisis measures, the ECB has already demonstrated its willingness and commitment to maintain the stability of the euro area. In response to the coronavirus pandemic, the ECB first announced a temporary envelope of additional net asset purchases of EUR 120 billion until the end of the year with a strong contribution from the private sector purchase programmes. Additionally, it has introduced especially favourable targeted long-term operations to support bank lending to those affected most by the spread of the coronavirus, in particular small and medium-sized enterprises. After the situation has deteriorated, it has released an additional net asset purchases of EUR 750 billion. Given the depth and nature of the shock, the EC and individual countries have also responded sharply to the crisis. In the first phase, Member States more affected by the crisis could be eligible for ESM funding in addition to borrowing in the financial markets. Two additional measures are under preparation: the European Investment Bank (EIB) Guarantee Fund, which will provide *additional liquidity, and an instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). The total value of all three measures is estimated at EUR 540 billion.*

Slovenia is also deep in crisis, although the available survey figures do not yet reflect its full magnitude: the SORS survey was completed on 13 March, i.e. before the adoption of rigorous measures to curb the spread of coronavirus in Slovenia and in most other European countries. The economic sentiment deteriorated sharply in March, although the indicator remained significantly above its low of the previous crisis. Firms were still assessing current demand as relatively favourable in March, although the first more serious signs of the difficulties that they now face were revealed in their assessments of demand expectations. These declined sharply in March, by 20 percentage points in manufacturing and by fully 34 percentage points in services other than trade. In both cases, this was one of the largest monthly decline ever recorded. The first signs of a downturn on the labour market are also appearing. The number of registered unemployed rose in March, while firms' employment expectations indicators declined sharply. Given the nature of the restrictive measures, it is no surprise that the decline was again steepest in services other than trade, where the employment expectations indicator recorded its largest monthly decline since the outbreak of the previous crisis in November 2008. The Bank of Slovenia's current assessment is that this year's fall in economic activity will most likely be larger than in 2009, when GDP declined by 7.5%. Here it should be noted that these estimates take no account of extensive fiscal and monetary policy measures.[1]

Falling electricity prices saw inflation in Slovenia slow by more than the euro area average in March. Inflation as measured by the HICP was down 1.3 percentage points on February at just 0.7%. Average inflation in the euro area also stood at 0.7%, down 0.5 percentage points on February. The larger slowdown in inflation in Slovenia was primarily attributable to falls in electricity prices, which were cut by almost 30% as part of the measures to alleviate the social and economic impact of the novel coronavirus epidemic. The drop in global oil prices saw further falls in fuel prices, although falling oil prices can be expected to have a greater impact on inflation in Slovenia in April. Energy prices reduced headline inflation by 1.1 percentage points in March. The measures to control and alleviate the impact of the epidemic have to date only been reflected in a fall in energy prices. Service price inflation continued to slow in March, but given that the majority of the measures to alleviate the epidemic were adopted after the data was collected, the impact is expected to be greater in April. In light of the anticipated fall in economic activity, private consumption and employment, and the deflationary pressures in the international environment, the Bank of Slovenia's assessment is that Slovenia will see deflation this year.

Slovenia's macroeconomic indicators were in good shape as it entered this year's crisis; both the corporate and financial sector are in a better position. Corporate and household indebtedness is low, and significantly less than the euro area average, while Slovenia's public debt amounted to 66.1% of GDP last year, again significantly below the average figure, nevertheless still much higher than before the outbreak of the previous crisis (22.5%). The negative net international investment position of the country stood at 19.3% of GDP, significantly better than in the previous crisis, and well inside the indicative threshold for external imbalance set at

[1] A detailed analysis of the various scenarios of the crisis due to the consequences of measures to curb coronavirus is available at https://bankaslovenije.blob.core.windows.net/publication-files/display-and-analysis- March-2020.pdf.

35% of GDP by the European Commission. The surveyed unemployment rate is one of the lowest in the euro area. The financial sector is also in a good shape. The banks' capital adequacy and liquidity positions are favourable. Compared to the period before the last crisis, the financing structure has also improved significantly, as banks do not finance themselves on the wholesale market abroad this time, but in addition to capital, almost entirely with primary sources – deposits, among which side-deposits prevail. The majority of these indicators will deteriorate significantly in the crisis, but their current levels provide a solid basis for combatting the crisis.

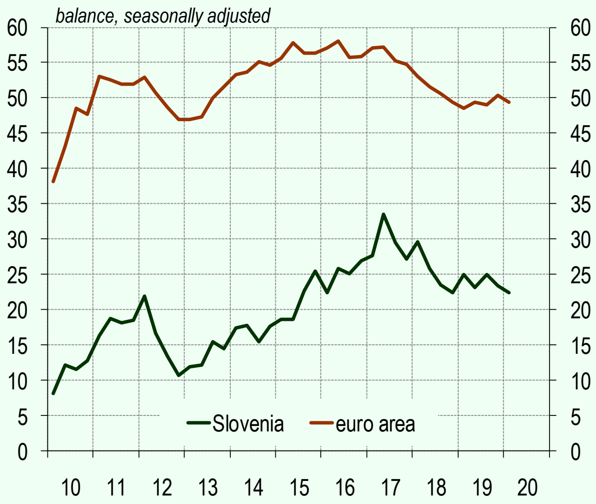
A number of measures have already been adopted in Slovenia, in areas including healthcare, liquidity support for firms, the preservation of economic activity and jobs, and support for vulnerable population groups. The package of measures adopted on 2 April was costed at approximately EUR 3 billion, more than 6% of last year's GDP. The government's borrowing terms remain favourable at the same time. The measures will help the economy recover faster after the pandemic ends, when the time will come – and not only in Slovenia – for serious deliberation about the importance, strength and level of development of the public healthcare system and social security systems, about the vulnerability of key parts of the economy because of their dependence on global supply chains, and on the ways to sustainably reduce the public debt.

Annex: Comparison of selected confidence indicators between Slovenia and euro area

Economic sentiment indicator

Source: Eurostat, survey data.

Factors limiting production in manufacturing – no limits



Source: Eurostat, survey data.

Industrial confidence indicator

Source: Eurostat, survey data.

Industry production expectations for the next three months

Source: Eurostat, survey data.

Construction confidence indicator

Source: Eurostat, survey data.

Factors limiting building activity – insufficient demand

Source: Eurostat, survey data.

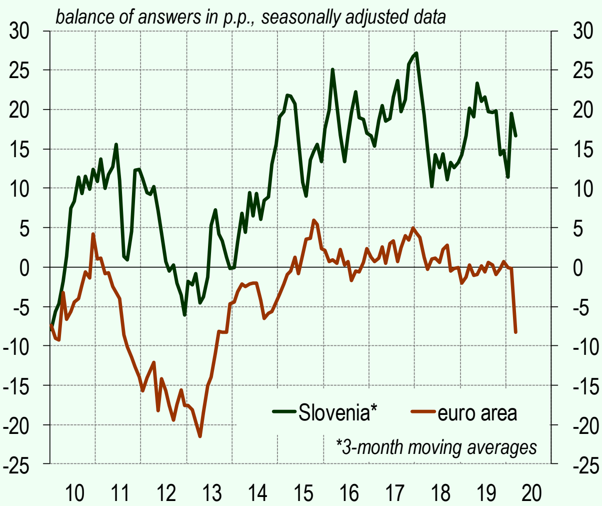
Services confidence indicator

Source: Eurostat, survey data.

Expected demand for services in the next three months

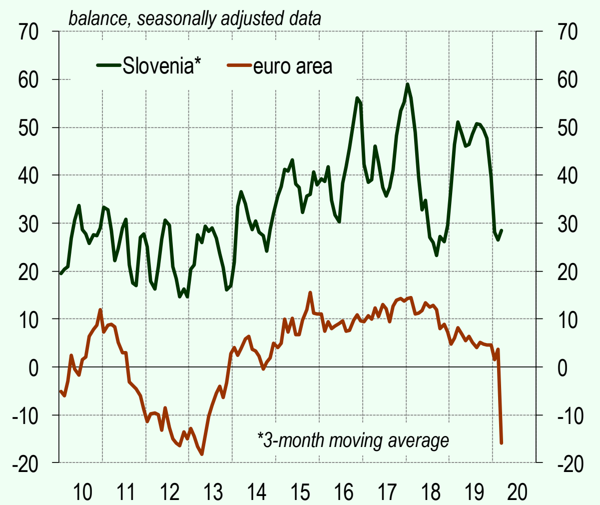
Source: Eurostat, survey data.

Retail confidence indicator



Source: Eurostat, survey data.

Expected business situation in retail in the next three months



Source: Eurostat, survey data.

Consumer confidence indicator

Source: Eurostat, survey data.

General economic situation according to consumers in the next 12 months

Source: Eurostat, survey data.