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Summary of macroeconomic developments, January 2021

It is increasingly evident that economic activity in different countries is being shaped by their approaches to dealing with the epidemic and the success of these approaches. *Although the global economic situation improved significantly at the end of last year, and the availability of a vaccine against Covid-19 lifted the mood in the real sector and, significantly more so, on the financial markets, there were pronounced differences between economies. For example, the PMI points to an expansion in economic activity in China, India, Brazil, the US and, to a lesser extent, even the UK. In the latter two cases, this is despite the introduction of more stringent containment measures on account of the renewed spread in the epidemic. It is a different case in the majority of continental Europe, where a profound recession has again taken hold in services as the epidemiological picture worsens. There was an uptick in some of the short-term indicators in the euro area in December, but no significant improvement is expected at the beginning of this year, as the epidemic is not yet under control. The renewed rise in case numbers could also worsen the mood on the financial markets. According to the December projections drawn up under the aegis of the ECB, GDP in the euro area is forecast to increase by just 3.9% this year, and is not forecast to regain its pre-crisis level until mid-2022. The monetary policy stance has therefore been made even more countercyclical. US dollar prices of oil and other commodities rose significantly at the end of the year, but their pass-through into euro area inflation will be limited by the sharp appreciation of the euro. The euro area was actually facing deflation again in December: prices were down 0.3% in year-on-year terms.*

The domestic epidemiological situation in the final quarter was among the worst in the euro area, and required the long-lasting tightening of containment measures, which triggered a sharp decline in economic activity. *In contrast to the first wave, when manufacturing was also under severe pressure, this time it was mainly services that were hit. Domestic private consumption declined sharply, and sectors reliant on foreign visitors suffered an event harder shock. The situation in construction and industry was significantly better. Construction activity actually declined slightly in October, but a larger decline towards the end of the year would be surprising considering the survey indicators. The signals from the manufacturing sector were even better. Output in October was down just 1.2% in year-on-year terms, while the PMI was strongly positive in the final quarter of last year, in line with the German indicator, and capacity utilisation had already regained its level from a year earlier. Therefore, the shock in economic activity was not as large as in the first wave. Further evidence of this comes from the economic sentiment indicator, which remained higher than in the spring, although the poor health picture means that the situation in the Slovenian economy cannot be expected to improve quickly. As the fight against the epidemic goes on, the national accounts figures for the third quarter show that economic policy can effectively protect a large amount of economic potential, thus allowing for a faster recovery when the health crisis is resolved.*

The situation on the domestic labour market remained better than the euro area average, although it is deteriorating in response to the new wave of the epidemic. *Registered unemployment has undergone a sustained increase since November, and on 6 January was just 1,600 less than its peak during the first wave. The number of unemployed in December was up 15.9% in year-on-year terms. An even worse situation is being prevented by the support measures: almost a tenth of all employees were on furlough in December. Despite the new crisis shock, vacancies remain significantly higher than in the spring, and firms are more optimistic than the euro area average in* *their assessments of future employment. The outlook for this year is nevertheless uncertain, and developments on the labour market are primarily dependent on the continuation of the support measures and on the successful management of the health crisis. Wage growth remained high in October, at almost 5%. Growth in real unit labour costs is now well above the euro area average, which in the longer term could harm the competitiveness of the economy. However, a more credible assessment of the actual effects needs to wait until after the end of the epidemic and the withdrawal of the support measures, which are having a profound impact on the measurement of labour costs.*

The beginning of the second wave of the epidemic did not have an adverse impact on Slovenia's export sector, with the exception of tourism. *According to balance of payments figures, merchandise exports in October were down only 2.6% in year-on-year terms, as sales on euro area markets recovered and exports to Asia actually increased strongly. The initial estimates for November are also encouraging. At the same time manufacturing firms remained relatively optimistic at the end of last year in their short-term export expectations. Imports too were yet to respond to the new wave of the epidemic by November. Imports of consumer goods in October were actually up in year-on-year terms, while the decline in imports of capital goods relative to the previous year was small. The year-on-year fall in imports diminished further in November, according to initial estimates. This is slightly surprising given the new shock in domestic demand, and might be indicative of stockpiling, as seen in the spring. The worsening epidemic in Europe additionally hit tourism. The new shock in tourism and travel industry saw total imports and exports of services decline by 16.0% and 18.6% in year-on-year terms respectively in October, despite growth in most other segments of services trade. The current account surplus continued to strengthen, in reflection of the weakness of domestic demand compared with foreign demand, and an improvement in the terms of trade.*

The epidemic has profoundly altered the financial position of the institutional sectors. *The government sector saw a sharp reversal over the first three quarters of last year, as the additional borrowing required by the emergency measures brought an end to the two-year trend of net saving. Non-financial corporations responded to the economic shock with their usual crisis behaviour, and increased their saving while postponing investment, although they were already net savers before the new crisis on account of the increasing uncertainty in the international environment. The saving-investment gap in the total economy continued to be driven by households, who have been saving at even greater rate (including forced saving) since the outbreak of the epidemics. The excess saving by the private non-financial sector primarily flowed in the form of deposits to banks, which in turn continued to place the money with the central bank. The financial accounts are also shedding further light on the seriousness of the situation, as the banking system ended its additional financial support for the real economy in the third quarter of last year. The year-on-year increase in lending came to a complete halt.*

The crisis caused by the epidemic led to deflation last year, driven largely by the external environment, although domestic inflation factors were also getting continually weaker*. Year-on-year inflation as measured by the HICP averaged -0.3% last year, down 2 percentage points on the previous year. Energy prices were responsible for 1.4 percentage points of the decline, driven primarily by falling global oil prices. There was also a significant overall decline in import prices. Inflation in the euro area averaged 0.3% over the year, but has been negative since August. Similarly to the first wave, deflation in Slovenia deepened at the end of the year as the containment measures were re-tightened, and the weakness of domestic price pressures became increasingly evident. December saw deflation of 1.2%, while core inflation stood at just 0.1%. It should be reiterated that there were also sharp falls in service prices and prices of non-energy industrial goods over the course of the year. The renewed rise in* *unemployment, the huge uncertainty among consumers, the low income levels and the renewed shock to private consumption further weakened domestic price factors at the end of the year, as a result of which core inflation is likely to remain low for some time even after the containment measures are lifted. Assessments of price developments at the end of last year were not entirely reliable, as price measurement has again been made difficult by the reimposition of stringent containment measures in the second wave of the epidemic. Comparing the HICP and the CPI has also been made more difficult: methodological differences meant that there was considerable discrepancy between the two inflation measures last year. This demands caution in the interpretation of the differences in the inflation analyses and forecasts by various institutions. In light of the current epidemiological picture, future price developments remain uncertain.*

The extensive anti-crisis measures have significantly worsened the fiscal position, although debt levels remained lower than in the euro area overall. *Consolidation will be very gradual. The general government deficit over the first nine months of last year stood at 7.7% of GDP, primarily on account of the shock in the second quarter. The decline in revenues was driven by corporate income tax and taxes on consumption, as the epidemic had a profound impact on corporate performance and on private consumption. The impact of the epidemic was even more evident in the 12.9% rise in expenditure, where the main factor was the measures on the labour market. According to the government's October estimates, the year-end deficit is forecast at 8.6% of GDP, and will remain high this year at 6.6% of GDP, as various support measures remain in place, albeit in smaller scale than last year amid the anticipated waning of the epidemic. The general government debt stood at 78.5% of GDP at the end of September. Amid additional borrowing, largely via the issuance of 30-year bonds in October, it is forecast to have exceeded 80% of GDP by the end of last year, and only then to gradually decline. Nevertheless, it will remain significantly lower than the euro area average. The terms of borrowing have further improved, thanks to extensive monetary policy support; 10-year government bonds were issued at negative yield for the first time in January of this year. Once the epidemiological situation has eased, it will be vital to withdraw the fiscal measures gradually, to prevent adverse shocks during the economic recovery.*

The economic recovery after the epidemic needs to be increasingly based on sustainable growth and progress in society, which relates in part to environmental sustainability. *This will gradually lead to structural changes in the economy and in manufacturing processes. Slovenia has shown progress over a longer time horizon in a variety of environmental indicators, such as emissions, and resource and energy productivity, but it is yet to reach the European average in these measures. Adapting to climate change needs to be sharply accelerated to reach the target of carbon neutrality by the middle of this century. For this purpose, funding will also be available from the EU's Recovery and Resilience Facility.*

Selection of macroeconomic indicators on a monthly basis – Slovenia

	12 m. 'till Oct.18	12 m. 'till Oct.19	12 m. 'till Oct.20	3 m. 'till Oct.19	3 m. 'till Oct.20	2020 Aug.	2020 Sep.	2020 Oct.	2020 Nov.
Economic Activity									* data for Dec.20
				balance of answers in percentage points					
Sentiment indicator	12.8	7.7	-10.0	4.8	-5.8	-6.4	-4.2	-6.9	-14.1 (-10.2*)
- confidence indicator in manufacturing	9.2	1.9	-9.0	-1.0	0.3	-1.0	1.0	1.0	-1.0 (1.0*)
				year-on-year growth rates in %					
Industry: - total	7.0	2.7	-5.9	1.9	-2.2	-2.0	-3.3	-1.3	-0.8
- manufacturing	7.5	3.2	-5.7	2.7	-2.2	-1.7	-3.4	-1.4	-1.1
Construction: - total	21.8	6.4	-2.5	-6.0	3.8	4.3	7.9	-0.3	...
- buildings	21.6	2.2	-2.6	-5.6	-0.9	-8.0	5.1	0.1	...
Trade and service activities - total	7.8	4.0	-7.6	1.1	-5.6	-5.6	-4.1	-7.0	...
Wholesale and retail trade and repair of motor vehicles	14.2	2.7	-9.9	0.9	-3.1	1.4	-2.9	-6.6	...
Retail trade, except of motor vehicles and motorcycles	2.7	5.0	-3.9	0.5	-2.8	-0.3	-3.6	-4.4	...
Other private sector services	8.3	3.2	-9.5	0.6	-7.4	-8.5	-4.5	-9.2	...
Labour market				*year-on-year growth rates in %*					
Average gross wage	3.5	4.1	4.6	4.0	4.9	5.0	5.1	4.6	...
- private sector	4.1	3.9	4.4	3.6	4.4	5.1	5.2	2.9	...
- public sector	3.2	4.8	6.6	5.1	5.3	4.4	4.5	7.1	...
Real net wage[1]	1.4	1.8	6.0	1.5	6.3	6.5	6.6	5.8	...
Registered unemployment rate (in %)	8.4	7.7	8.5	7.4	8.8	9.1	8.6	8.6	...
Registered unemployed persons	-12.6	-6.0	11.1	-5.4	19.6	23.2	20.0	15.5	16.2
Persons in employment	3.3	2.8	-0.1	2.1	-1.2	-1.2	-1.1	-1.2	...
- private sector	4.3	3.4	-0.2	2.5	-1.7	-1.6	-1.6	-1.8	...
- public sector	0.6	1.1	0.2	0.9	0.3	-0.1	0.5	0.5	...
Price Developments				*year-on-year growth rates in %*					
HICP	1.9	1.7	0.2	1.9	-0.7	-0.7	-0.7	-0.5	-1.1
- services	2.3	3.0	2.1	3.4	1.4	1.5	1.2	1.4	1.5
- industrial goods excluding energy	-0.8	0.2	-0.3	0.8	-0.6	-0.9	-0.9	-0.1	-1.6
- food	2.7	1.4	2.9	2.1	2.7	2.4	2.7	3.1	2.0
- energy	5.8	1.9	-8.9	-0.6	-12.4	-11.9	-11.9	-13.2	-13.2
Core inflation indicator[2]	0.9	1.8	1.1	2.3	0.5	0.4	0.3	0.8	0.2
Balance of Payments - Current Account					*in % GDP*				
Current account balance	5.7	5.6	6.8	6.6	8.1	3.3	9.4	11.8	7.5
1. Goods	2.9	2.8	4.9	2.2	5.8	2.4	7.2	7.8	6.6
2. Services	5.5	5.7	4.7	6.7	4.9	3.8	5.0	6.1	3.0
3. Primary income	-1.7	-1.7	-1.8	-1.3	-1.9	-2.3	-2.0	-1.6	-0.9
4. Secondary income	-0.9	-1.2	-0.9	-1.0	-0.6	-0.6	-0.8	-0.5	-1.2
				nominal year-on-year growth rates in %					
Export of goods and services	9.7	5.3	-9.8	2.1	-9.1	-14.3	-8.0	-5.9	-4.2
Import of goods and services	11.1	5.0	-11.9	1.8	-12.1	-13.0	-15.2	-8.1	-5.4

Public Finances	2018	2019	12 m. 'till Nov.20		2019 Jan.-Nov.		2020 Jan.-Nov.	
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	40.4	-2.5	17,417	3.5	16,886	-3.0
Tax revenue	16,225	17,179	35.8	-3.1	15,657	5.9	15,043	-3.9
From EU budget	796	731	1.8	8.8	539	-8.1	623	15.5
Other	1,572	1,323	2.9	-1.0	1,220	-16.2	1,220	0.0
Expenditure	18,068	18,969	46.2	12.0	17,070	6.4	19,482	14.1
Current expenditure	7,966	8,228	19.1	5.9	7,472	5.1	8,060	7.9
- wages and other personnel expenditure	4,168	4,470	10.6	9.5	4,095	8.1	4,527	10.6
- purchases of goods, services	2,634	2,728	6.2	4.0	2,424	5.3	2,562	5.7
- interest	868	791	1.7	-0.6	778	-9.8	765	-1.7
Current transfers	8,237	8,704	22.9	21.5	7,948	6.4	9,828	23.7
- transfers to individuals and households	6,926	7,324	17.6	11.7	6,719	5.9	7,551	12.4
Capital expenditure, transfers	1,432	1,527	3.2	-3.5	1,163	9.2	1,114	-4.3
GG surplus/deficit	526	263	-5.8		346		-2,596	

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.