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Summary of macroeconomic developments, July 2021

Global economic activity is strengthening rapidly, but very unevenly, as the epidemiological situation has improved and amid intensive support from economic policy. *The US is notable among the advanced economies: by the first quarter of this year it had already exceeded its pre-crisis level of GDP. There are also signs of a strong economic recovery in the euro area, with a number of short-term indicators at record high levels. By contrast, the recovery in numerous developing economies remains sluggish, owing to the lack of sufficient control over the epidemic. Financial conditions remain supportive: yields of euro area government bonds have risen slightly, but remain at favourable levels. All major global stock indices also increased. The euro was strengthening against the US dollar from April onwards, before falling in June amid increased expectations of faster key interest rate hike in the US. Oil and commodity prices increased further, and alongside the low basis, the methodological impact of changes in HICP weighting, and certain other administrative measures are the main driver of this year's rise in headline inflation in the euro area, which stood at 1.9% in June. Market inflation expectations have also risen in recent months, but core inflation remains low amid weak service price inflation.*

In the Eurosystem, we have set a new inflation target as part of our monetary policy strategy review: a symmetric target of 2% inflation over the medium term. *Within the Governing Council of the ECB, we have confirmed that the HICP remains an appropriate price measure, and recommended the inclusion of owner-occupied housing over time. Besides using the set of ECB policy rates as the primary monetary policy instrument, we decided to also employ measures that were until now considered as unconventional measures. We also presented Eurosystem action plan for incorporating aspects of climate change into the monetary policy strategy.*

Domestic economic activity is rising fast, the business conditions having largely normalised, while the economy succeeded in preserving the vast majority of production capacity during last year's crisis, thanks to extensive financial support. *Domestic and foreign demand are both strengthening, while the economic sentiment has already returned to its pre-crisis level. Merchandise exports are rising, and certain high-frequency indicators for the end of the second quarter are suggesting that domestic final consumption has surpassed its pre-crisis level. Investment, including construction investment, is expected to strengthen further, as the decline in construction activity in the early months of this year was thought to be merely temporary. At the same time analysis of last year's corporate annual reports from companies, sole traders and cooperatives also confirms the good financial situation in the private sector, while the saving-investment gap indicates large financial surpluses. The recovery will be a more lengthy process in accommodation and food service and administrative and support service activities, and above all in the tourism sector, as certain containment measures that restrict travel remain in force, owing to the risk of the spread of new Covid-19 variants. Given the positive results from the early part of the year, the current situation confirms Banka Slovenije's latest projections, which predict faster economic growth compared to euro area average. Amid strong demand, issues are intensifying on the supply side: firms are already reporting a shortage of qualified workers, and commodities are becoming* *more expensive and harder to obtain. The technological intensity of production, where Slovenia still trails the euro area average, remains a longer-term challenge.*

Situation on the labour market is improving alongside the opening of the economy, and is already comparable to pre-crisis according to several indicators. *Registered unemployment stood at just 71,094 at the end of June, comparable to June 2019, while rising demand for labour saw the job vacancy rate approach its pre-crisis level in the first quarter. Structural imbalances mean that indicators of labour shortages are rising, which could lead in turn to wage pressures. The epidemic has opened up large gaps between the labour market situation in the public sector and the private sector. While the gross wage bill in mostly public services in the first quarter was up 20.9% in year-on-year terms according to the national accounts amid rising employment and bonus payments in connection with the epidemic, it was down 0.9% in the private sector, driven by falling employment and lower earnings of employees included in job retention schemes. These gaps are expected to largely even out when the epidemic ends. Despite the current very positive signals, future developments on the labour market remain uncertain, and will again be heavily dependent on support measures in the event of any resurgence of the epidemic.*

With foreign and domestic price pressures strengthening, domestic inflation as measured by the HICP stood at 1.7% in June. *The reappearance of structural imbalances on the labour market, the high capacity utilisation in manufacturing, the growth in wages and private consumption, and the rising optimism of firms and consumers are creating further conditions for rises in prices on the domestic market. The divergence in consumers' inflation expectations has also diminished. External inflationary factors nevertheless continue to prevail. The largest contribution to headline inflation continues to come from energy prices. Despite the waning of the base effect caused by last year's short-term cut in electricity prices, energy prices were up 11.2% in year-on-year terms in June, driven by higher global oil prices amid recovering global demand from last year's low levels. Despite rises in prices of food commodities and import prices, year-on-year food price inflation remains weak, primarily on account of year-on-year falls in prices of unprocessed food. Services prices were unchanged in year-on-year terms, as demand for certain services remains restricted by health measures. Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco again stood at just 0.5% in June, lagging behind headline inflation more than in the euro area.*

The public finances continue to primarily reflect the fight against the epidemic. *The deficit stood at 8.3% of GDP in the first quarter, as year-on-year growth in general government expenditure outpaced growth in revenues for the sixth consecutive quarter, in reflection of the measures to alleviate the impact of the epidemic. By contrast, the situation on the revenue side improved: there was a significant increase in revenues, driven by rises in wages, private consumption and economic growth. The general government debt had risen to 86.0% of GDP by the end of March 2021. The majority of the additional net borrowing came from bond issuance in January, and loans from the EU's SURE mechanism in February. The general government debt is forecast to have declined by the end of the year, amid the economic growth projections and the maturing of debt. Borrowing terms remain favourable, and treasury bills have continued to be issued at negative interest rates. Amid a sustained improvement in the epidemiological situation, fiscal policy will be redirected towards encouraging economic growth and structural changes via investment. Here the key remains making the best possi-*

ble use of all available EU funding, and ensuring that there is no structural deterioration in the fiscal position, which would make the consolidation of the public finances more difficult.

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Slovenian firms were adversely affected by the epidemic in 2020, but the impact of this crisis was milder than that of a decade ago on account of extensive policy support measures. *Compared to 2019, net profits of firms declined by more than a third, while net operating profits by a fifth underlining the success of government financial aid in mitigating the decrease in net revenues from sales. In particular, the net profits of companies fell sharply, while sole proprietors also felt the adverse impact of the crisis. Business activity deteriorated in most sectors, in particular in arts, entertainment and recreation as well as accommodation and food services activities given the nature of the containment measures.*

Selection of macroeconomic indicators on a monthly basis, Slovenia

	12 m. 'till Apr.19	12 m. 'till Apr.20	12 m. 'till Apr.21	3 m. 'till Apr.20	3 m. 'till Apr.21	2021 Feb.	2021 Mar.	2021 Apr.	2021 May
Economic Activity									* data for Jun.21
				balance of answers in percentage points					
Sentiment indicator	9,6	0,5	-10,0	-12,0	-1,4	-3,0	-0,7	-0,4	5.8 (8.0*)
- confidence indicator in manufacturing	5,4	-4,6	-2,3	-15,0	8,0	5,0	10,0	9,0	12.0 (11.0*)
				year-on-year growth rates in %					
Industry: - total	3,8	-1,4	-0,3	-10,0	13,5	-0,8	11,4	35,2	22,1
- manufacturing	4,2	-0,9	0,1	-9,9	14,9	-0,8	12,5	39,3	24,2
Construction: - total	19,4	-1,2	-0,6	-2,9	0,0	-9,4	2,1	6,5	...
- buildings	17,9	-8,1	-7,0	-15,2	-16,2	-20,6	-28,3	5,8	...
Trade and service activities - total	7,2	-2,5	-4,4	-14,5	13,8	-1,7	17,0	29,2	...
Wholesale and retail trade and repair of motor vehicles anc	9,5	-8,1	-0,1	-34,1	41,7	-3,8	63,8	95,8	...
Retail trade, except of motor vehicles and motorcycles	5,7	-1,7	0,0	-11,4	19,9	6,4	29,2	24,3	...
Other private sector services	6,7	-2,8	-7,3	-15,4	9,4	-6,2	11,2	27,2	...
Labour market				*year-on-year growth rates in %*					
Average gross wage	3,6	4,6	7,0	5,7	8,3	8,1	14,3	3,0	...
- private sector	3,9	4,0	4,8	4,3	6,1	3,9	12,8	2,0	...
- public sector	3,6	5,8	10,2	7,7	11,9	14,8	16,0	5,6	...
Real net wage[1]	1,1	3,1	7,6	6,5	6,6	8,3	12,5	-1,2	...
Registered unemployment rate (in %)	8,0	7,7	8,9	8,3	8,6	9,0	8,5	8,2	...
Registered unemployed persons	-8,3	-2,4	15,3	5,5	2,5	13,6	6,1	-10,6	-16,9
Persons in employment	3,1	1,7	-1,0	0,4	-0,4	-1,4	-0,6	0,9	...
- private sector	3,9	2,1	-1,6	0,6	-0,8	-2,1	-1,1	0,7	...
- public sector	0,9	0,7	0,3	0,1	0,9	0,7	0,8	1,3	...
Price Developments				*year-on-year growth rates in %*					
HICP	1,9	1,5	-0,5	0,4	0,4	-1,1	0,1	2,2	2,2
- services	2,7	2,9	1,1	2,3	0,1	0,0	0,4	-0,1	-0,2
- industrial goods excluding energy	-0,5	0,2	-0,7	-0,1	-0,7	-1,0	-2,0	0,8	1,3
- food	1,6	2,5	1,8	3,7	0,4	0,4	0,3	0,6	-0,8
- energy	5,5	-1,6	-9,2	-8,9	4,0	-7,1	3,9	17,7	19,7
Core inflation indicator[2]	1,3	1,8	0,3	1,2	-0,3	-0,5	-0,6	0,3	0,5
Balance of Payments - Current Account					*in % GDP*				
Current account balance	5,9	6,6	7,1	8,6	7,2	4,3	8,9	8,5	3,6
1. Goods	2,6	3,3	5,0	5,4	4,0	3,7	4,3	4,1	0,9
2. Services	5,8	5,7	4,3	4,3	4,6	3,8	5,1	4,8	3,1
3. Primary income	-1,6	-1,4	-1,3	-0,2	-1,1	-0,8	-1,5	-1,0	-1,1
4. Secondary income	-1,0	-0,9	-0,8	-0,9	-0,3	-2,4	0,9	0,7	0,7
				nominal year-on-year growth rates in %					
Export of goods and services	8,2	-1,6	-3,5	-14,3	19,0	-5,4	21,4	51,0	34,3
Import of goods and services	9,1	-2,8	-4,0	-16,7	22,6	-1,2	22,2	57,4	40,1

Public Finances	2019	2020	12 m. 'till May.21		2020 Jan.-May		2021 Jan.-May	
Consolidated general government (GG) balance[3]	*EUR milions*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	19.232	18.529	42,3	7,9	7.125	-9,2	8.577	20,4
Tax revenue	17.179	16.460	37,5	8,0	6.272	-11,0	7.532	20,1
From EU budget	731	730	1,7	14,9	309	-11,2	374	20,9
Other	1.323	1.338	3,1	3,2	544	21,6	671	23,4
Expenditure	18.969	22.071	49,5	17,9	8.510	11,4	9.843	15,7
Current expenditure	8.228	9.128	20,4	13,7	3.692	7,9	4.225	14,5
- wages and other personnel expenditure	4.470	4.965	11,5	17,0	1.977	10,6	2.461	24,5
- purchases of goods, services	2.728	3.021	6,6	9,5	1.153	10,4	1.238	7,3
- interest	791	778	1,5	-5,7	490	-6,3	427	-12,8
Current transfers	8.704	10.868	24,6	25,4	4.141	15,6	4.889	18,1
- transfers to individuals and households	7.324	8.251	18,8	16,2	3.324	10,9	3.960	19,1
Capital expenditure, transfers	1.527	1.549	3,3	-0,4	421	14,2	444	5,5
GG surplus/deficit	263	-3.542	-7,2		-1.385		-1.267	

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.