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Summary of macroeconomic developments, April 2021

The outlook for global economic growth is improving, despite the major uncertainty in connection with the pandemic. *Differences between economies are widening, as they face contrasting initial positions before the anticipated recovery and differing speeds of vaccination rollout. The euro area is not in the best position in either respect: its recovery is dragging, and it is also facing a vaccine shortage and large economic gaps between different countries. The outlook nevertheless improved in March, before the new tightening of containment measures. Economic confidence returned to its pre-epidemic level: the composite PMI moved into the expansion zone for the first time since September of last year thanks to the favourable situation in manufacturing, while firms also saw an improvement in their employment expectations. The IMF raised its global economic growth forecast for this year to 6.0%, primarily on account of the additional fiscal stimulus measures, most notably in the US. Economic growth in the euro area[1] is forecast at 4.4%, 2.0 percentage points less than in the US, widening the GDP gap further after last year's sharper decline. The euro has fallen slightly against the US dollar since the beginning of the year, hitting USD 1.19 on 8 April. Further evidence of the improvement in the global economy comes from the year-on-year rises in oil prices and other commodity prices, which in turn are strengthening certain inflation expectations.*

Euro area countries find themselves in different starting positions before the anticipated recovery. *This great heterogeneity is already evident in figures for last year's decline in GDP, which ranged from 10.8% in Spain to 0.8% in Lithuania. The southern countries were hit particularly hard by the pandemic. There are also great differences in the labour market, driven by the varying levels of impact and the differences in the measures put in place. The fall in employment ranged from 4.2% in Spain to 0.1% in Belgium, while two countries actually recorded a rise in employment. There was also extensive variation in the unemployment rate and in wage dynamics. Inflation is another area of divergence: the rate in March ranged from 2.4% in Luxembourg to -2.0% in Greece. Inflation across the euro area strengthened in the first quarter of this year, reaching 1.3% in March, although this does not necessarily entail a sustainable reversal in price developments, as it is largely attributable to tax changes, the low base, and statistical effects deriving from this year's profound changes in HICP weights. Should this situation persist, particularly in the event of an uneven recovery in euro area countries, it would present an additional challenge to the pursuit of common economic policy.*

All sectors of the domestic economy not being adversely affected by the containment measures are recovering. *Evidence that firms are significantly adapting to the difficult situation comes from the decline in the share of badly hit sectors. Sectors that were suffering a decline in value-added in the final quarter of last year, when the epidemic was at its peak, accounted for 31% of GDP, 45 percentage points less than in the second quarter. Signs of solid, albeit uneven, economic growth had also appeared by the first quarter of this year. Industrial production is strengthening as foreign demand rises, while construction is recovering in parallel with investment. There is also great potential for growth in private consumption: household savings are high, and the situation on the labour market remains stable at least on aggregate, which has reflected in a sharp*

[1] The IMF's economic growth forecast for Slovenia for 2021 is 3.7%.

increase in total card payments after February's partial lifting of the containment measures. The renewed tightening of containment measures in the first half of April brought the recovery in certain service sectors to a temporary end, or further delayed the recovery in those sectors yet to see one. The outlook for the second quarter of this year is nevertheless good, at least judging by March's survey figures for demand expectations. It should be noted that the survey was conducted in the first half of the month.

Non-financial corporations, households and banks entered the crisis in good financial shape, with a marked change in their behaviour over the last year. *The financial accounts reveal that the dynamics in the net financial position of domestic institutional sectors noticeably changed since the outbreak of the Covid-19 epidemic. At the end of 2020, the aggregate savings exceeded aggregate investment by EUR 2.1 EUR billion, which is not significantly different from a year ago, albeit with a significantly changed structure. As a result of the introduction of the emergency measures and the corresponding additional borrowing, the largest reversal came in the government sector, where a two-year trend of net savings came to an end. Last year, the government sector sharply deepened its negative net financial position, with a deficit of almost EUR 4 billion. On the other hand, with the outbreak of the epidemic other sectors strengthened their savings further relative to their investment, especially the non-financial corporations and above all the household sector, which reached its record high net saving-investment gap (EUR 3.8 billion). The excess savings by households and non-financial corporations primarily flowed in the form of deposits to banks, which in turn continued to place the money with the central bank. The year-on-year increase in the banks' financial assets and liabilities last year underwent its most pronounced surge of the last ten years.*

With the partial lifting of the containment measures in February, the situation in the labour market also began to improve, although the uncertainty surrounding the future evolution of the epidemic remains great. *Registered unemployment stood at 81,616 in early April, up by just 4,132 relative to the beginning of the epidemic. The number of vacancies rose, as did firms' employment expectations. There nevertheless remains uncertainty as the epidemic persists, which means that support from emergency measures will remain the key to preventing a downturn. These have successfully limited the impact of the epidemic so far; most notably the furlough scheme has prevented a much sharper fall in employment.*

While aggregate labour market indicators remain solid, there has been a notable widening of the differences between various groups of workers, which, however would be even more pronounced without the government job support measures. *The nature of the containment measures led to a sharp fall in employment in trade and in accommodation and food service activities, particularly in the second wave of the epidemic; the year-on-year fall in accommodation and food service activities stood at 15.0% in January of this year, in contrast to the rise in employment of 5.0% in human health and social work activities amid the increased demand for staff. There are also pronounced differences in wage growth. Growth in the average gross wage in mostly public services is strongly outpacing growth in the private sector, amid high payments in connection with the epidemic. The average wage in human health and social work activities was up 41.9% in year-on-year terms in January, while in the private sector activities it was up 3.2% following a rise in the minimum wage. The crisis affected vulnerable groups of workers particularly hard, largely in connection with precarious work; last year's largest rises in the surveyed unemployment rate were recorded among the young, the lower-*

skilled and women. Although the support measures succeeded in preventing a more significant decline in purchasing power by having largely stabilised employment, the income position of more vulnerable groups nevertheless deteriorated. Nevertheless, it should be noted that the differences on the labour market would have been even wider in the absence of the support measures, as they have mostly helped to preserve jobs in low-paid positions.

Amid strengthening foreign and domestic inflationary pressures, Slovenia emerged from deflation in March, yet price developments remain weak. *Year-on-year inflation as measured by the HICP rose to 0.1%, up 1.2 percentage points on the previous month. As expected, rising energy prices were the key factor, which already indicates the impact on domestic inflation stemming from the strengthened growth in commodity prices on global markets. Meanwhile domestic firms are expecting a rise in selling prices, and capacity utilisation is rising in sectors not subject to containment measures. Amid high wage growth, particularly in public services, growth in unit labour costs remains among the highest in the euro area. The divergence in consumers' inflation expectations also began to diminish, as consumers are now expecting higher inflation. By contrast, food price inflation has been slowing since November, hitting a two-year low in March, while service price inflation remains low amid the containment measures. Prices of non-energy industrial goods fell significantly in March mainly due to the run-down of inventories. Thus, the year-on-year growth in the narrowest core inflation indicator was negative for the second consecutive month, standing at -0.6%. The inflation metrics will be negatively affected this year by the changes in the weights in the HICP index, and a strong positive base effect in energy prices. In light of the current epidemiological picture, future price developments remain uncertain.*

As expected, the epidemic resulted in a large general government deficit and debt last year. *The deficit reached 8.4% of GDP. General government revenues were down 4.6%, most notably as a result of a fall in indirect taxes driven by the shock in private consumption, and a fall in direct taxes driven by corporate income tax. The position was further hit by a rise of 14.8% in expenditure; according to current estimates, the measures to alleviate the epidemic were among the largest in the euro area as a share of GDP. As a result of the large deficit, the contracting economy, and debt pre-financing, the general government debt had reached 80.8% of GDP by the end of last year, up approximately 15 percentage points on a year earlier, but staying still significantly below the euro area average debt level. Borrowing remained heavy in the first quarter of this year, amid the favourable terms driven by monetary policy measures and decent sovereign credit ratings. The support measures will again be extensive this year, but their ongoing impact on the fiscal position will depend on the success in controlling the epidemic and the pace of the reboot in the worst-hit sectors. Despite the crisis, it is essential for the long-term sustainability of the public finances that the government does not worsen its structural fiscal position, and makes maximum use of available EU funding to support the recovery and economic restructuring, while gradually withdrawing the support measures in line with economic recovery.*

Government borrowing brought a sharp rise in the gross external debt last year, but the net external financial position of the total economy remained stable. *The crisis increased the gross external debt by EUR 4.4 billion to EUR 48.2 billion, or 104.1% of GDP. The increase was driven primarily by government borrowing; in contrast to the position before the outbreak of the previous crisis, the government sector accounts for approximately half of the total gross external debt. The private sector's gross external debt increased only* *slightly last year, as the government again assumed the majority of the financial burden of the crisis on this occasion. The trend of decline in the net external debt nevertheless continued: it amounted to just EUR 83 million or 0.2% of GDP last year, as a result of an increase in external claims in the form of debt. Amid a record current account surplus, the net external position of the total economy remained stable at -16.3% of GDP, significantly less than the indicative threshold of external imbalance of -35% of GDP set by the European Commission. That there was not a more pronounced deterioration was attributable primarily to residents' increased investment in holdings of currency and deposits in the rest of the world, and to a lesser extent to FDI, which because of the crisis was significantly below the average of previous years. Direct investment remains the main driver of the negative net external position of the economy. Slovenia is one of the less-indebted EU Member States in terms of gross and net external debt, and the overall net external financial position.*

Selection of macroeconomic indicators on a monthly basis, Slovenia

	12 m. 'till Jan.19	12 m. 'till Jan.20	12 m. 'till Jan.21	3 m. 'till Jan.20	3 m. 'till Jan.21	2020 Nov.	2020 Dec.	2021 Jan.	2021 Feb.
Economic Activity									* data for mar.21
				balance of answers in percentage points					
Sentiment indicator	10.7	5.4	-12.7	3.4	-9.6	-12.8	-9.2	-6.7	-3.3 (-1.1*)
- confidence indicator in manufacturing	7.6	-0.3	-8.1	-2.0	1.7	-1.0	1.0	5.0	5.0 (10.0*)
				year-on-year growth rates in %					
Industry: - total	4.5	2.3	-5.8	-0.2	-0.1	-0.7	-0.8	1.3	...
- manufacturing	4.9	2.9	-5.7	0.9	0.1	-1.1	-0.4	1.8	...
Construction: - total	16.5	3.7	-0.7	0.1	8.1	17.3	-0.8	4.2	...
- buildings	17.9	-0.9	-5.9	-1.6	8.3	15.5	-7.3	18.2	...
Trade and service activities - total	7.2	2.5	-10.5	0.0	-11.2	-9.6	-12.0	-11.8	...
Wholesale and retail trade and repair of motor vehicles anc	11.5	2.5	-16.1	3.3	-22.2	-21.4	-27.6	-17.7	...
Retail trade, except of motor vehicles and motorcycles	3.5	3.0	-6.9	-0.8	-12.9	-13.8	-11.8	-13.3	...
Other private sector services	7.3	2.0	-12.5	0.0	-11.5	-9.5	-12.4	-12.6	...
Labour market				*year-on-year growth rates in %*					
Average gross wage	3.4	4.3	6.4	4.4	8.4	6.8	8.9	9.4	...
- private sector	4.0	4.0	4.4	4.1	4.1	3.5	5.3	3.7	...
- public sector	3.1	5.2	9.2	5.1	15.1	12.5	14.6	18.4	...
Real net wage[1]	1.0	2.0	7.6	2.6	9.2	8.8	9.5	9.2	...
Registered unemployment rate (in %)	8.2	7.6	8.8	7.8	9.0	8.6	8.9	9.4	...
Registered unemployed persons	-10.6	-5.3	16.3	-4.2	15.6	16.2	15.9	14.6	13.6
Persons in employment	3.2	2.3	-0.9	1.6	-1.3	-1.3	-1.1	-1.5	...
- private sector	4.1	2.9	-1.2	2.0	-2.0	-2.0	-1.8	-2.2	...
- public sector	0.8	0.9	0.1	0.6	0.4	0.4	0.6	0.2	...
Price Developments				*year-on-year growth rates in %*					
HICP	1.9	1.8	-0.5	1.9	-1.1	-1.1	-1.2	-0.9	-1.1 (0.1*)
- services	2.4	3.1	1.6	3.1	1.1	1.5	1.0	0.8	0.0 (0.4*)
- industrial goods excluding energy	-0.7	0.3	-0.5	0.1	-0.7	-1.6	-1.0	0.4	-1.0 (-2.0*)
- food	2.2	1.8	2.6	2.7	1.3	2.0	1.3	0.7	0.4 (0.3*)
- energy	5.8	1.2	-12.1	1.2	-12.1	-13.2	-11.9	-11.2	-7.1 (3.9*)
Core inflation indicator[2]	1.1	1.9	0.7	1.8	0.3	0.2	0.1	0.6	-0.5 (-0.7*)
Balance of Payments - Current Account					*in % GDP*				
Current account balance	6.0	5.5	7.2	4.2	6.2	6.7	4.7	7.3	...
1. Goods	2.9	2.8	5.7	1.7	4.9	5.5	2.2	7.1	...
2. Services	5.7	5.7	4.1	5.2	3.3	3.3	3.9	2.5	...
3. Primary income	-1.6	-1.9	-1.5	-1.7	-0.6	-0.9	-0.4	-0.5	...
4. Secondary income	-1.0	-1.2	-1.1	-1.0	-1.4	-1.3	-1.1	-1.9	...
				nominal year-on-year growth rates in %					
Export of goods and services	8.4	3.9	-10.9	1.0	-4.0	-3.8	1.6	-9.6	...
Import of goods and services	9.1	3.8	-13.2	0.5	-6.0	-4.0	-1.9	-12.4	...

Public Finances	2019	2020	12 m. 'till Feb.21		2020 Jan.-Feb.		2021 Jan.-Feb.	
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	18,531	39.8	-4.7	3,162	7.2	3,159	-0.1
Tax revenue	17,179	16,460	35.1	-5.7	2,940	5.4	2,818	-4.2
From EU budget	731	730	1.7	1.2	56	131.0	97	73.7
Other	1,323	1,341	3.0	4.9	166	22.1	244	47.0
Expenditure	18,969	22,073	48.6	18.5	3,221	4.8	3,792	17.7
Current expenditure	8,228	9,129	19.8	10.8	1,425	6.6	1,508	5.8
- wages and other personnel expenditure	4,470	4,966	11.0	12.1	789	12.2	933	18.3
- purchases of goods, services	2,728	3,021	6.5	8.1	440	15.5	432	-1.9
- interest	791	778	1.5	-2.5	175	-26.5	107	-38.5
Current transfers	8,704	10,864	24.3	28.8	1,541	5.6	1,996	29.5
- transfers to individuals and households	7,324	8,251	18.5	16.5	1,267	7.0	1,647	30.0
Capital expenditure, transfers	1,527	1,554	3.3	0.6	129	12.8	126	-2.5
GG surplus/deficit	263	-3,542	-8.8		-59		-633	

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.