

September 2020

# autumn forecast of economic trends 2019 Summary

## Summary

**The COVID-19 pandemic, in combination with strict health protection and containment measures, has represented a significant negative shock for economic activity, which was almost 8% lower year on year in Slovenia in the first half of 2020. It declined most significantly in the second quarter, when GDP was down 13% year on year.** The strict measures to contain the spread of the virus led to a pronounced contraction of economic activity globally and in Slovenia, particularly in the second quarter, due to the shutdown of businesses in non-essential service activities and the hampered activity in industry and other service activities. To alleviate the negative consequences of the epidemic, comprehensive packages of measures have been adopted at the level of countries and by the ECB and the European Commission to help businesses and citizens bridge liquidity problems due to loss of income and to support a rebound of economic activity. The measures continue to be supplemented as necessary, taking into account the epidemiological and economic situation. Although they have not been able to prevent the decline in economic activity, they have had a significant impact on its scale and are essential for a restart of activity.

**Economic activity in the euro area is recovering after a pronounced, almost 9%, decline in the first half of the year (almost 15% in the second quarter) but is still significantly below the pre-epidemic level in most sectors.** The forecast takes into account international institutions' latest forecasts for Slovenia's trading partners (published by 8 September). In their baseline scenarios for containing the spread of the coronavirus, international institutions mainly expect a gradual and uneven recovery across euro area countries, with a faster rebound in those with a larger share of industrial activities. The continued presence of the virus will be reflected in the retention of some containment measures, which will have a larger negative impact on services, particularly tourism, meaning that especially in these activities no rapid return to pre-epidemic levels can be expected. Many indicators of economic activity for the third quarter already indicate a continuation of the recovery after a significant decline in April. However, with high uncertainty due to the worsening epidemiological picture in many trading partners, growth momentum has been weakening in recent weeks, meaning that we can expect further fluctuations in economic activity. The responsiveness of economic policies will remain the key factor in mitigating possible negative consequences, but from an epidemiological point of view, a longer lasting stabilisation of economic conditions is likely to be achieved only with an appropriate medical solution.

**In the Autumn Forecast we predict a 6.7% decline in GDP in 2020; it will be followed by a recovery in the next two years, but economic activity will not reach the pre-epidemic level until 2022.** The forecasts for Slovenia's main trading partners for this year have improved somewhat since June. With the recovery of economic activity and particularly with the agreement at the EU level on the financial package for faster recovery of the EU economy, confidence indicators also improved significantly in the period from May to July. Despite a renewed minor fall in some indicators in August, this will be reflected in a somewhat smaller annual decline in GDP than predicted in the Summer Forecast.<sup>1</sup> This year's GDP decline will be attributable to a fall in value added in many sectors, which will be a consequence of a significant contraction of activity in the first half of the year, especially in the second quarter. Following the containment of the epidemic and the easing of the most stringent protection measures, economic activity has started to recover, but as the virus is still present and some restrictions in Slovenia and trading partners remain in place, the recovery will be gradual and its pace uneven across sectors. This year, value added is set to fall most sharply in accommodation and food service activities, arts, entertainment and recreation activities, personal service activities, and transportation. A slightly smaller, but still significant, fall is also expected in manufacturing and construction. Owing to negative external impacts and containment measures both at home and abroad, we expect a significant decline in exports and imports this year. With high uncertainty affecting investment decisions, investment will also contract substantially, particularly investment in machinery and equipment. Due to limited movement and supply during the lockdown, coupled with increased uncertainty and precautionary saving, private consumption will also drop more strongly, although disposable income will remain similar to that last year due to the

---

<sup>1</sup> [https://www.umar.gov.si/fileadmin/user\\_upload/napovedi/vmesna/poletna\\_2020/slovenska/Poletna\\_napoved\\_2020.pdf](https://www.umar.gov.si/fileadmin/user_upload/napovedi/vmesna/poletna_2020/slovenska/Poletna_napoved_2020.pdf)

government's support measures. Government consumption will strengthen temporarily in the crisis conditions. Assuming that the coronavirus is contained in a way that does not require any new major shutdowns of activity, the gradual recovery is expected to continue in the next two years, albeit at different speeds across activities. We also expect further growth in external trade and an increase in investment, particularly investment in construction, with the support of additional funds from the EU's Recovery and Resilience Facility, as well as, with some delay, investment in machinery and equipment. However, most activities are not expected to reach pre-epidemic levels until 2022.

**After deteriorating in 2020, labour market conditions are expected to stabilise gradually by the end of the forecast period.** The adoption of intervention measures to preserve jobs and their extension have significantly mitigated the deterioration in labour market conditions. This year, the decline in employment and growth in unemployment will therefore be lower than would otherwise be the case given the significant decline in GDP. As a result of the extension of measures in the last week of June, the recovery next year will also be faster than predicted in the Summer Forecast. Assuming a gradual recovery of the economy, labour market conditions will be improving in the course of next year, but the average number of unemployed persons will still be higher than this year due to the expected increase in unemployment in the last quarter of this year.

**Uncertainty and the risks of an even sharper decline in GDP, associated with uncertain epidemiological conditions and a possible reinstatement of more stringent containment measures, remain high. There are, however, also some upside risks to the baseline projections for next year's economic growth.** Slovenia and its main trading partners have witnessed an increase in the number of infections in recent weeks, which individual countries are addressing by stepping up containment measures. A possible uncontrolled spread of the virus and thus the possibility of a new major closure of certain activities represent the greatest risk to the current recovery. The reinstatement of more stringent measures would again severely hamper business operations in service activities and industry. Companies would again face more difficulties in carrying out their activities, the number of bankruptcies would increase, and greater consequences would also be felt on the labour market. If this were to happen this year, the decline in GDP could even be 2 percentage points deeper than predicted, while bankruptcies and increased unemployment would also contribute to slower recovery. However, if the spread of the virus is effectively and permanently contained or a vaccine or a medicine is developed and made widely available soon, activity could recover more rapidly than predicted in the baseline scenario.

**The coronavirus crisis has also brought Slovenia certain new opportunities or risks if it does not take advantage of them.** The shortening of global value chains, i.e. a shift to suppliers in closer geographical proximity, which in fact already started before the epidemic, presents an opportunity for higher economic growth in Slovenia in the medium term, as Slovenia could attract investment from Western Europe, given its well-developed infrastructure, high-quality workforce and EU membership. The extraordinary financial package (the New Generation EU) agreed in July and, over the medium term, the new multiannual financial framework also provide an opportunity to address development challenges. These include, in particular, strengthening support for research and development, innovation and digital transformation to enhance productivity; green transformation with the transition to more sustainable economic development; and systemic adjustments to social protection systems, which are for the most part dictated by demographic trends. In the initial stages of preparations for the absorption of EU funds, which are already underway, the choice of the main objectives will be crucial to avoid excessive fragmentation of funds, which has hampered the efficiency of their use in the past. In subsequent phases, the coordination of these processes will be crucial for successful implementation of the agreed objectives and for effective support for economic recovery.

## Forecast of Slovenia's main macroeconomic aggregates

	2019	Autumn forecast (September 2020)		
		2020	2021	2022
GDP				
GDP, real growth in %	2.4	-6.7	5.1	3.7
GDP, nominal growth in %	4.9	-4.7	6.7	5.8
GDP in EUR billion, current prices	48.0	45.8	48.8	51.6
Exports of goods and services, real growth in %	4.4	-12.5	9.3	6.6
Imports of goods and services, real growth in %	4.2	-12.0	9.6	6.8
External balance of goods and services (contribution to growth in p.p.)	0.5	-1.5	0.5	0.3
Private consumption, real growth in %	2.7	-6.6	4.7	3.0
Government consumption, real growth in %	1.6	3.0	1.0	1.3
Gross fixed capital formation, real growth in %	3.2	-13.0	11.0	8.5
Change in inventories and valuables (contribution to growth in p.p.)	-0.4	0.2	0.0	0.0
EMPLOYMENT, WAGES AND PRODUCTIVITY				
Employment according to the SNA, growth in %	2.4	-1.5	0.3	1.3
Number of registered unemployed, annual average, in '000	74.2	87.9	92.9	83.6
Registered unemployment rate in %	7.7	9.1	9.5	8.5
ILO unemployment rate in %	4.5	5.6	5.4	4.8
Gross wage per employee, nominal growth in %	4.3	3.7*	0.9*	2.7
Labour productivity (GDP per employee), real growth in %	0.1	-5.3	4.8	2.4
BALANCE OF PAYMENTS STATISTICS				
Current account BALANCE, in EUR billion	3.2	2.8	3.1	3.2
- as a % of GDP	6.6	6.1	6.3	6.3
PRICES AND EFFECTIVE EXCHANGE RATE				
Inflation (Dec/Dec), in %	1.8	0.5	1.5	1.8
Inflation (annual average), in %	1.6	0.3	1.6	1.9
Real effective exchange rate deflated by unit labour costs	1.2			
ASSUMPTIONS				
Foreign demand (imports of trading partners), real growth in %	2.6	-10.2	7.8	4.4
GDP in the euro area, real growth in %	1.3	-7.4	5.6	2.5
Brent crude oil price in USD/barrel	64.3	42.4	47.4	49.1
Non-energy commodity prices in USD, growth	-3.6	-1.5	2.0	1.0
USD/EUR exchange rate	1.120	1.138	1.181	1.181

Source: Year 2019 SURS, BoS, ECB, EIA; 2020–2021 forecasts by IMAD. Note: \* The Autumn Forecast takes into account the methodological specifics regarding the reporting of wages (which do not include compensation paid by the government), which affects the movement of wages as shown by statistical data in 2020 and 2021. The forecasts for gross wages in this forecast and our other forecasts or scenarios (except the Summer Forecast) are therefore not directly comparable.

The Autumn Forecast is based on statistical data, information and adopted measures known at the cut-off date of 8 September 2020.