

spring forecast of economic trends 2020

Ljubljana, March 2020

Summary

The spring forecast was made at the time when the coronavirus was spreading in many countries and when the first cases of infection were confirmed in Slovenia; the economic impact of the virus is currently difficult to predict due to uncertainty about the spread and how it will be tackled. The situation is changing from day to day. In addition to the uncertainty and unpredictability of (the size) of the outbreak and the duration of the epidemic, it is also not yet known how it will be addressed at individual stages by the economy and various economic policies, including at the EU level. Due to many unknowns, the central scenario of the forecast assumes that the coronavirus spread in China and in European countries will peak in the first half of this year before gradually stabilising in the second half of the year. Similarly restrictive assumptions were also adopted by the EC and the OECD in their latest forecasts that served as the basis for our assumptions regarding economic growth in main trading partners. Economic growth in the euro area is thus projected to slow this year (from 1.2% to 0.8%) and then recover in the next two (to 1.2% and 1.3% respectively).

In the event of a gradual containment and control of the coronavirus spread in the second half of the year, economic growth will ease to 1.5% this year before rising somewhat in the next two (to 2.2%). The slowdown in real GDP growth for the third consecutive year in 2020 will largely be a consequence of lower economic growth in trading partners and increased uncertainty. Both will, at least partly, reflect the coronavirus spread and, in particular, the containment measures. Assuming that the virus spread is contained and stemmed both at home and abroad, export and import growth will be about halved this year while (business) investment will be somewhat lower than last year amid many uncertainties. Under the assumption that the situation gradually stabilises in the second half of this year, economic growth will be slightly higher in 2021 and 2022 than this year. Owing to stronger growth in foreign demand, we expect a gradual rebound in export and import growth next year while investment will increase again as uncertainty declines. In 2020–2022 private and government consumption will further contribute to GDP growth. The contribution of household consumption, however, is expected to decline as growth in employment and wages and, in turn, growth in disposable household income will slow compared to last year. The contribution of net exports to GDP growth will gradually fall and turn neutral at the end of the forecast period. The current account surplus will remain high (just over 6%).

Employment growth will be easing in the 2020–2022 period under the baseline scenario; wage growth will also be somewhat lower than last year. The slowdown in employment growth will reflect lower growth in economic activity than in previous years and, increasingly, the decline in the domestic population aged 20 to 64 years. Assuming that the situation in Europe and at home stabilises in the second half of this year, employment growth will remain high. Labour shortages will be partly alleviated by a positive net migration flow and further growth in the labour market activity rate. The number of unemployed persons, which was already close the pre-crisis bottom last year, will continue to drop, albeit more and more slowly. The growth of the average wage will be somewhat lower in 2020–2022 than last year as a consequence of lower growth in economic activity. It will be supported not only by limited labour supply, but also legislative changes in the area of the minimum wage and the implementation of agreements with public sector trade unions.

Inflation in 2020 will remain similar to that in the last two years (1.7%) before rising somewhat in 2021–2022. Prices of services and food will continue to grow. The contribution of the still modest growth of non-energy goods prices to inflation will be gradually rising. Given that energy prices will be somewhat lower than in 2019 this year (according to market expectations at the time of the forecast), the further strengthening of core inflation will not yet be reflected in significantly higher headline inflation this year. Headline inflation is expected to increase moderately only next year (to 2.2%) when no negative contribution from energy prices is expected.

If the coronavirus epidemic in Slovenia and other EU countries continues for a longer time and the situation does not stabilise in the second half of this year, economic growth this year and in 2021 will be lower than forecast; additionally, growth may also decline if some of the other risks materialise. The downside risks to economic growth include at least the following: (i) possible new US protectionist measures, which could (among other things) be aimed at raising tariffs on car and car part imports to the US, (ii) an increase in Chinese imports from the US on account of lower imports from other trading partners, (iii) a significant increase in trade barriers between the EU and UK as of 2021, when the transition period during which economic cooperation will remain unchanged comes to an end, and (iv) climate change and related environmental measures, which could affect growth in individual activities in the short term.

We are closely monitoring the economic situation in Slovenia and globally and will update the forecast as necessary.

Forecast of Slovenia's main macroeconomic aggregates

	2019	Spring forecast (March 2020)		
		2020	2021	2022
GROSS DOMESTIC PRODUCT				
GDP, real growth in %	2.4	1.5	2.2	2.2
GDP, nominal growth in %	4.9	3.7	4.3	4.2
GDP in EUR billion, current prices	48.0	49.8	51.9	54.1
Exports of goods and services, real growth in %	4.4	2.4	4.2	4.1
Imports of goods and services, real growth in %	4.2	2.3	4.3	4.6
<i>External balance of goods and services (contrib. to growth in pps)</i>	0.5	0.3	0.3	0.0
Private consumption, real growth in %	2.7	2.0	1.7	1.7
Government consumption, real growth in %	1.6	1.6	1.3	1.2
Gross fixed capital formation, real growth in %	3.2	-1.0	4.0	6.0
<i>Change in inventories and valuables (contribution to growth in pps)</i>	-0.4	0.0	0.0	0.0
EMPLOYMENT, WAGES AND PRODUCTIVITY				
Employment according to the SNA, growth in %	2.4	1.1	0.7	0.5
Number of registered unemployed, annual average, in '000	74.2	72.0	70.1	67.4
Registered unemployment rate in %	7.7	7.4	7.1	6.8
ILO unemployment rate in %	4.5	4.2	4.0	3.8
Gross wages per employee, nominal growth in %	4.3	3.8	3.7	4.0
Gross wages per employee, real growth in %	2.7	2.1	1.5	1.9
- private sector	2.2	2.3	1.3	1.9
- public sector	3.7	1.9	1.7	1.9
Labour productivity (GDP per employee), real growth in %	0.1	0.4	1.5	1.7
BALANCE OF PAYMENTS STATISTICS				
Current account balance in EUR billion	3.2	3.4	3.5	3.4
- as a % of GDP	6.6	6.8	6.8	6.3
PRICES AND EFFECTIVE EXCHANGE RATE				
Inflation (Dec/Dec) in %	1.9	2.0	2.2	2.0
Inflation (annual average) in %	1.6	1.7	2.2	2.0
Real effective exchange rate deflated by unit labour costs	1.2	1.2	0.1	0.3
ASSUMPTIONS				
Foreign demand (imports of trading partners), real growth in %	2.6	2.1	3.0	3.1
GDP in the euro area, real growth in %	1.2	0.8	1.2	1.3
Brent crude oil price in USD/barrel	64.3	55.8	55.0	55.1
Non-energy commodity prices in USD, growth	-3.6	3.2	2.5	2.4
USD/EUR exchange rate	1.120	1.098	1.097	1.097

Source: For 2019 SURS, BoS, ECB and EIA; for 2020–2022 IMAD forecasts.

The Spring Forecast is based on statistical data, information and adopted measures known at the cut-off date of 5 March 2020.