IMAD

COVID-19 scenario

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Summary

The COVID-19 pandemic, in combination with strict health protection and containment measures, represents a significant negative shock for economic activity in Slovenia, other European countries and globally. The prospects for economic growth in main trading partners have deteriorated strongly since the release of IMAD's Spring Forecast 2020. They are also accompanied by very high uncertainty. The most recent estimates are that the world economy has already entered a recession, which will be at least as serious as in 2009, and that the recovery will critically depend on the further spread and duration of the pandemic and the extent of economic policy intervention. The emergency protection measures adopted in Slovenia and other countries thus far have led to a shutdown of non-essential service activities and hampered activity in industry and other service activities. To alleviate the negative consequences for businesses and households, the government adopted a range of measures. Important measures to limit the negative impacts have also been (and will be) taken by the ECB and the European Commission. While the measures will not prevent this year's decline in real GDP, they can – depending on the speed of the further spread and the duration of the epidemic – significantly influence its depth, mitigate the consequences and crucially contribute to economic recovery when the epidemic is over.

For the needs of the preparation of the Framework for Drawing up Budgets of the General Government Sector pursuant Article 6 of the Fiscal Rule Act (ZFisP) and the Stability programme 2020, IMAD has prepared the Covid-19 Scenario, April 2020. The scenario has been made in times of high uncertainty and rapidly changing conditions and may change in only a few weeks if the situation tightens. The COVID-19 scenario made in the last week of March predicts that GDP will decline by around 8% in 2020, before recovering (only) partially in 2021. The scenario assumes that the strict containment measures introduced in March will remain in force until mid-year and takes into account the adopted economic policy measures. Assuming that the strict measures are lifted, the situation would gradually stabilise and the economy could begin to recover gradually in the second half of the year. The decline in GDP in 2020 will arise from a fall in value added in a number of activities, given the significant contraction in activity over the duration of protection measures. This year value added is expected to decline the most in transportation, hotels and restaurants and personal services. A sharp fall is also expected for the manufacturing sector. Owing to the negative impacts from the international environment and foreign and domestic containment measures, coupled with high uncertainty, we can expect a significant decline in exports, imports and investment this year. Private consumption is also set to be lower than last year (although a larger fall in disposable income is likely to be prevented by government support measures), while government consumption will strengthen temporarily in crisis conditions. Under these assumptions, we could see a gradual recovery of value added in most activities and a partial resumption of external trade in 2021, as well as, with a lag, in investment, but growths will not substitute this year's declines. Labour market conditions will stabilise only gradually following this year's deterioration.

As the spread of the coronavirus epidemic and the time of its containment are a great unknown, high uncertainty remains and there is a risk that the period of severely paralysed economic activity will last longer than assumed and that the decline in GDP will be larger and more permanent. The beginning of the economic recovery will crucially depend on the speed of the introduction and the scope and the content of economic policy measures at home and abroad. However, epidemiologists point out that

after a temporary slowdown the pandemic may return in several waves. A more permanent stabilisation of economic conditions can thus be expected only after the development and general introduction of an appropriate vaccine.

IMAD is monitoring the situation and measures for alleviating the economic impact of the coronavirus epidemic in Slovenia and main trading partners. We will provide a full and comprehensive update of the forecast after the expiry of the protection measures, as stipulated in Article 11 of the Act Determining Intervention Measures in Public Finance adopted on 20 March 2020.

Forecast of Slovenia's main macroeconomic aggregates

		COVID-19 scenario (April 2020)	
	2019	2020	2021
GDP			
GDP, real growth in %	2.4	**-8.1**	**3.5**
GDP, nominal growth in %	4.9	**-5.0**	**5.1**
GDP in EUR billion, current prices	48.0	**45.6**	**47.8**
Exports of goods and services, real growth in %	4.4	**-19.4**	**10.0**
Imports of goods and services, real growth in %	4.2	**-19.4**	**7.8**
External balance of goods and services (contribution to growth in pps)	*0.5*	***-1.8***	***2.2***
Private consumption, real growth in %	2.7	**-3.1**	**-0.4**
Government consumption, real growth in %	1.6	**3.0**	**1.0**
Gross fixed capital formation, real growth in %	3.2	**-18.5**	**7.0**
Change in inventories and valuables (contribution to growth in pps)	*-0.4*	***-1.7***	***0.0***
EMPLOYMENT AND WAGES			
Employment according to the SNA, growth in %	2.4	**-1.9**	**0.5**
Number of registered unemployed, annual average, in '000	74.2	**87.5**	**86.8**
Registered unemployment rate in %	7.7	**9.1**	**9.0**
ILO unemployment rate in %	4.5	**5.4**	**5.1**
Gross wages per employee, nominal growth in %	4.3	**0.6**	**0.2**
Gross wages per employee, real growth in %	3.7	**-0.1**	**-2.4**
PRICES			
Inflation (Dec/Dec) in %	1.9	**1.1**	**2.6**
Inflation (annual average) in %	1.6	**0.7**	**2.7**
ASSUMPTIONS			
Foreign demand (imports of trading partners), real growth in %	2.6	**-12.6**	**5.5**
GDP in the euro area, real growth in %	1.2	**-5.0**	**2.4**
Brent crude oil price in USD/barrel	64.3	**38.2**	**40.9**
Non-energy commodity prices in USD, growth	-3.6	**-15.0**	**10.0**
USD/EUR exchange rate	1.120	**1.107**	**1.108**

Source: Year 2019 SURS, BoS, ECB, EIA, years 2020–2021 IMAD scenario and assumptions.

The scenario was made on the basis of statistical data, information and adopted measures known at the cut-off date of 29 March 2020.

COVID-19 scenario

1 A considerable deterioration in the international environment after the release of the Spring forecast

The COVID-19 pandemic, which started in China and spread to Italy and other EU countries (including Slovenia) in March, in combination with strict containment measures, represents a significant negative shock for economic activity in the euro area. IMAD's Spring Forecast of Economic Trends 2020 published on 12 March 2020 was prepared in the first week of March. Owing to the rapid spread of the epidemic and strict containment measures, health and economic conditions in many European countries, including Slovenia, have changed significantly since the Spring Forecast was released. At the beginning of March, the impacts of disrupted supply chains on manufacturing activity and particularly a global decline in tourist travel and hampered or interrupted transport routes were still at the forefront from the aspect of the consequences for economic activity. However, in March the outbreak of the epidemic in the neighbouring Italy and its spread to other European countries required urgent and comprehensive measures to protect the health and people in Slovenia and many other EU Member States. These measures are already having (and will continue to have) an additional adverse impact on euro area economies. The recent sharp falls in global stock markets have additionally reduced consumer and business confidence in the economy. The price of oil has also plunged. The containment measures, uncertainty and fear are affecting the supply side of the economy. At the same time, they also have considerable negative consequences for demand, particularly in sectors such as tourism, transport, recreational and cultural services and some manufacturing activities.

The prospects for economic growth in Slovenia's main trading partners deteriorated strongly in the second half of March; they are also accompanied by very high uncertainty. Since the extent of the coronavirus spread and the related containment and economic policy measures are not yet known, the negative consequences of COVID-19 for the economy are difficult to assess. All institutions are pointing out that we cannot talk about forecasts at this moment, but rather about possible scenarios of economic developments this year and next, which rely on assumptions about the duration of the epidemic and the spillover of negative effects to various sectors of the economy. While the forecasts for trading partners published by March (see Table 1) still assumed the spread of the virus to be limited mainly to China and to be contained by the end of the first quarter, more recent forecasts also take into account the virus spread in Europe.

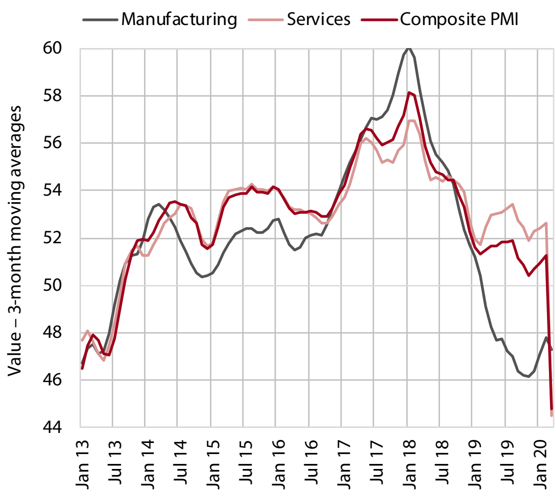
The scenarios published after the release of IMAD's Spring Forecast, which were taken into account in the COVID-19 scenario, April 2020, also include (some) stringent containment measures and predict stronger negative impacts on economic activity. Because of a further worsening of the situation, the scenarios of various institutions, which only a week or two ago appeared to be the most pessimistic, are already too optimistic, and there is increasing talk of GDP falling as sharply as in 2009. In the most pessimistic scenario of its forecast released on March 12, the ECB predicted a 0.6% decline in euro area GDP for this year. Only one week after the release, it stated a 5% GDP decline as the most likely scenario for the euro area. On March 26, a similar decline in euro area GDP this year (5.9%) was also projected by the Economist Intelligence Unit (EIU). A few days earlier, the German Ifo Institute released projections on the impact of the coronavirus and containment measures on the German economy, according to which GDP growth in Germany could be 7.2 to 20.6 percentage points lower this year (depending on the duration of the restrictions on the movement of people and business operations). A deep decline in economic activity is also indicated by the March values of the Purchasing Managers' Index (PMI) for Germany, France and the entire euro area, which were the lowest since the beginning of measurement in 1998.[1] The OECD has recently assessed that for each month of containment, there will be a loss of around 2 percentage points in annual GDP growth. The negative impact can however be even more pronounced. The OECD estimates that the restrictions will remain in force for several months and no longer expects a V-shaped recovery, but a slow and gradual exit from the crisis. At the end of March,[2] the governing body of the IMF also announced that it was clear that we had entered a recession that would be as bad or even worse than in 2009. The IMF still believes that there may be a sizeable rebound in economic activity in 2021, but this is highly dependent on economic policy measures. These should be aimed at preventing a wave of bankruptcies and layoffs, which would undermine the recovery. However, epidemiologists point out that after a temporary slowdown, the pandemic could return in several waves. In this case, a stronger recovery of the economies could be expected only after the introduction of an appropriate vaccine, as emphasised by the Vienna Institute for International Studies (WIIW) at the presentation of its latest economic forecast for CESEE countries.

In preparing the COVID-19 scenario, April 2020, we took into account the latest forecasts and scenarios by international institutions, which project a deep

[1] The decline in the PMI value for the euro area in March was mainly due to a significant deterioration in service activities (the sharpest decline since the beginning of measurement). The decline in manufacturing was somewhat less drastic (the largest since 2008).

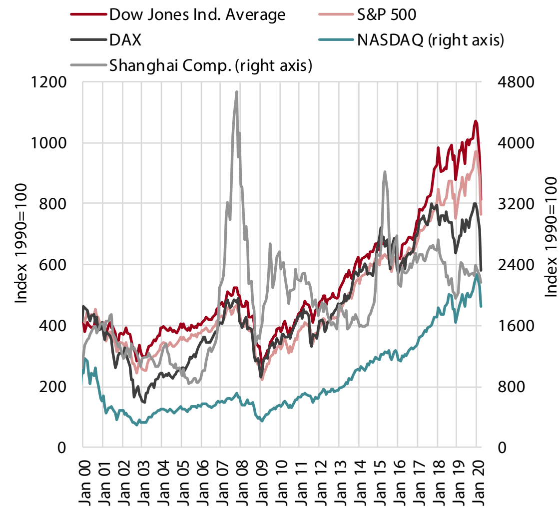
[2] As pointed out by the International Monetary Fund Director Kristalina Georgieva on March 27 following a conference call with the governing body of the IMF (IMFC)(https://www.imf.org/en/News/Articles/2020/03/27/sp032720-opening-remarks-at-press-briefing-following-imfc-conference-call).

Figure 1: The Purchasing Managers' Index (PMI) for the euro area



Source: Markit. Note: PMI values greater than 50 indicate expansion while values less than 50 denote contraction.

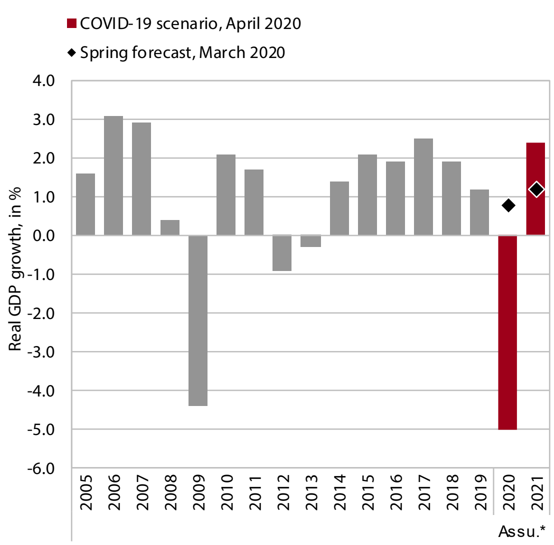
Figure 2: The movement of main stock exchange indices



Source: Yahoo Finance; IMAD calculations.

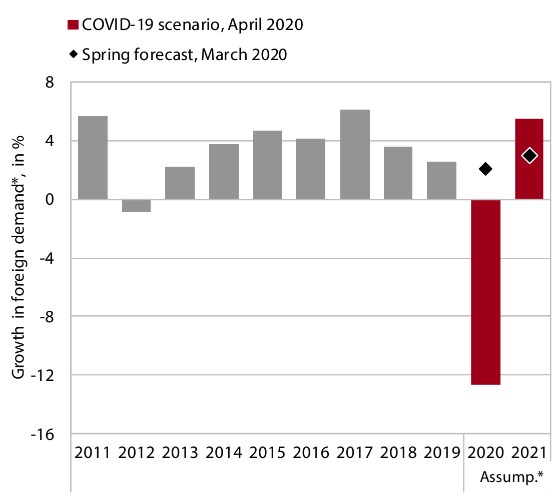
decline in GDP this year and a partial recovery in 2021. The baseline scenario assumes a gradual stabilisation of the situation in the second half of this year in most countries and a very gradual resumption of economic activity, which will not yet return to the levels projected before the outbreak of the epidemic. We took into account the most recent economic forecasts and information from the Economist Intelligence Unit, Ifo, the OECD and the IMF. We project a 5% decline in real GDP in the euro area for this year, which is a larger decline than in 2009 (–4.4%), and 2.4% growth for next year. Trading partners' demand for Slovenian exports is expected to decline by 12.6% in 2020 and increase by 5.5% in 2021. These assumptions are surrounded by great uncertainty and strong negative risks, which may materialise in the event of a longer-lasting epidemic and a further tightening of containment measures.

Figure 3: Real GDP growth in the euro area



Source: Eurostat; * IMAD assumption.

Figure 4: Growth in foreign demand for Slovenian exports



Source: SURS, * IMAD assumption.
Note: * Real imports of trading partners weighted by Slovenia's share of exports to these countries.

Table 1: The forecasts of real GDP growth for main trading partners until 29 March 2020

	2019	2020													
		IMF 9. 1. 2020	Consensus 10. 2. 2020	EC 13. 2. 2020	OECD 2. 3. 2020	Consensus 8. 3. 2020*	IMAD 12. 3. 2020	ECB 12. 3. 2020	EC 13. 3. 2020	Government of France 19. 3. 2020	Ifo 19. 3. 2020	EUI 26. 3. 2020	WIFO 26. 3. 2020	IHS 26. 3. 2020	IMAD 1.4. 2020
EU-27	1.5	1.6	1.2	1.4		0.9	1.0		-1.1						-4.8
Euro area	1.2	1.3	0.9	1.2	0.8	0.6	0.8	0.8	-1.3		-1.6	-5.9			-5.0
Germany	0.6	1.1	0.9	1.1	0.3	0.5	0.7				-1.5	-6.8			
Italy	0.3	0.5	0.3	0.3	0.0	-0.8	0.0					-7.0			
Austria	1.6		1.2	1.3		1.0	1.1						-2.5	-2.0	
France	1.3	1.3	1.1	1.1	0.9	0.8	0.9			-1.0					
Croatia	3.0		2.5	2.6		1.0	2.3					-5.0			
Russia	1.3	1.9	1.8		1.7	1.0	1.2				-0.2	-2.0			

	2021								
	IMF 9. 1. 2020	Consensus 10. 2. 2020	EC 13. 2. 2020	OECD 2. 3. 2020	Consensus 8. 3. 2020*	IMAD 12. 3. 2020	ECB 12. 3. 2020	Ifo 19. 3. 2020	IMAD 1.4. 2020
EU-27	1.6	1.4	1.4		1.4	1.4			2.5
Euro area	1.4	1.2	1.2	1.2	1.3	1.2	1.3	3.7	2.4
Germany	1.4	1.1	1.1	0.9	1.2	1.0		3.7	
Italy	0.7	0.6	0.6	0.5	0.8	0.5			
Austria		1.4	1.3		1.4	1.3			
France	1.3	1.2	1)..2	1.4	1.2	1.3			
Croatia					2.1	2.3			
Russia	2.0			1.3	1.8	1.3		1.1	

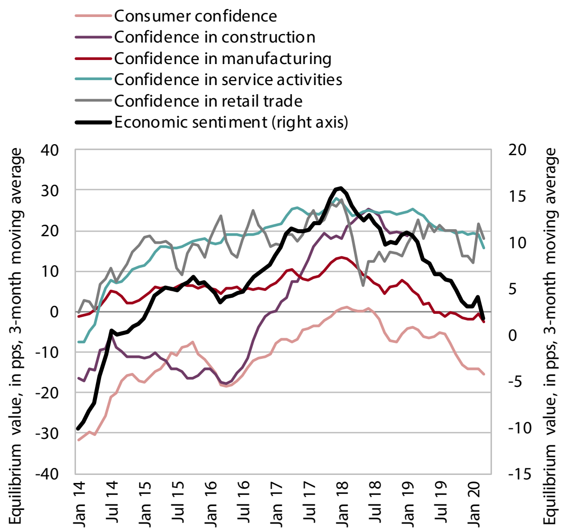
Source: Consensus Economics, ECB, European Commission (EC), EIU (Economist Intelligence Unit), Ifo Institute, IMF, Government (Ministry of the Economy and Finance) of France, OECD, WIFO (Österreichisches Institut für Wirtschaftsforschung), IHS (Institut für Höhere Studien), IMAD estimate.
Note: The table takes into account the forecasts from the institutions' baseline scenarios.
* The Consensus Economics forecasts for Croatia and Russia were released on 16 March 2020.

2 Changed economic conditions and extensive measures for mitigating the consequences of the pandemic

The release of IMAD's Spring Forecast of Economic Trends 2020, which predicts a slowdown in economic growth for this year and next, was followed by a declaration of an epidemic in Slovenia, its further spread and introduction of stringent containment measures. The Spring Forecast was made in the first week of March, when the first cases of infection were confirmed in Slovenia. Based on the then known facts and assumptions, we projected 1.5% economic growth for this year, while pointing to high uncertainty and a strong probability of lower realisation should the situation in connection with the spread of the coronavirus epidemic in Europe worsen. Owing to a rising number of infections in the country, the government declared an epidemic on March 12, the day when the Spring forecast was released.[3] To contain the virus spread, the government suspended public passenger transport temporarily in the middle of March, closed the majority of educational institutions and banned the sale of retail non-food (i.e. non-essential) products and the provision of non-essential services. A few days later measures aimed at preventing social contacts were complemented by a temporary prohibition of public gathering of more than five persons in public places and a temporary closure of a range of public institutions. Non-essential movement outside the municipality was also prohibited at the end of March. Additional containment measures may also be introduced if necessary.

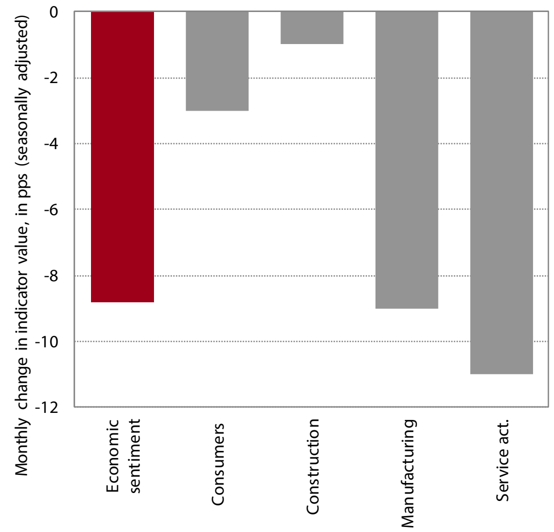
[3] See: https://www.gov.si/teme/koronavirus/koronavirus-ukrepi-za-zajezitev-sirjenja.

Figure 5: Business and consumer confidence in the economy



Source: SURS; calculations by IMAD.

Figure 6: Monthly changes in confidence indicator values, March 2020



Source: SURS.

The impacts of the restrictions to stem the epidemic spread and of other factors are already reflected in a steep decline in economic sentiment in March. In March[4] confidence indicators fell in all sectors of the Slovenian economy, particularly manufacturing (mostly due to lower production expectations), trade and service activities. The confidence indicator in construction was (only) slightly lower than in February. Confidence also deteriorated somewhat among consumers.

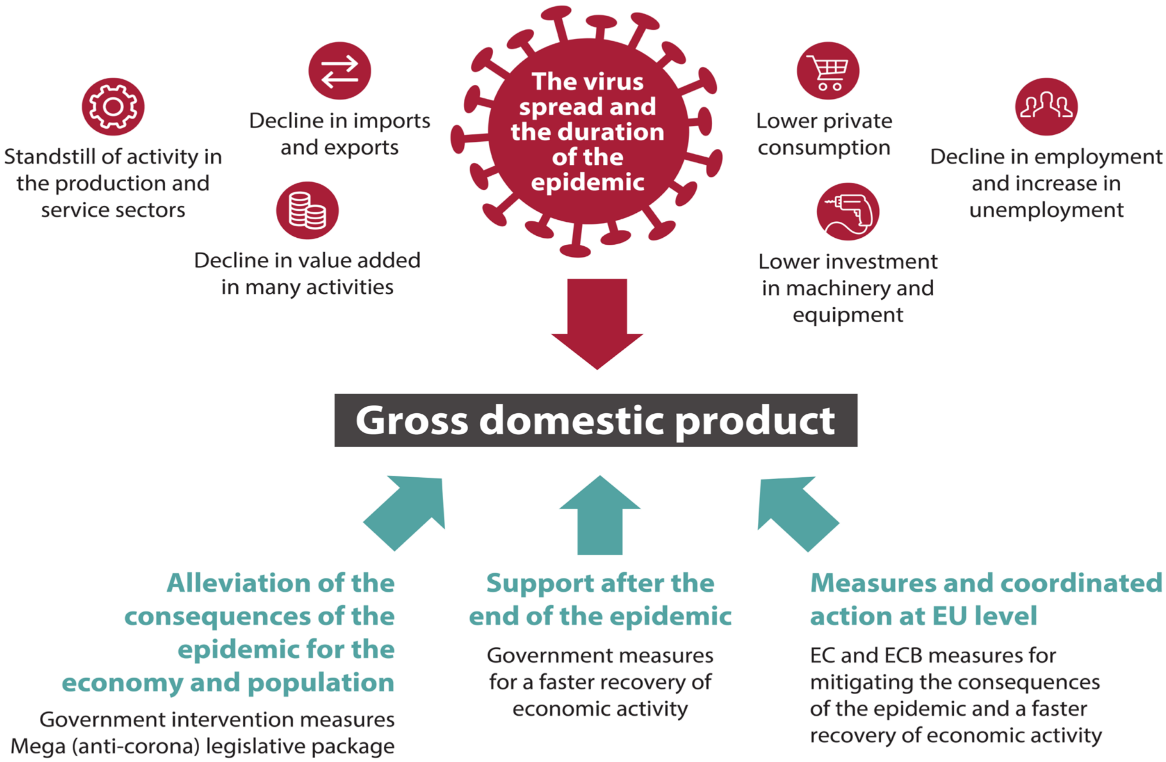
As the restrictions represent a strong negative shock for the economy and households, the government has adopted (and is preparing) a range of mitigation measures. On March 20 the National Assembly adopted several intervention laws[5] to deal with the crisis situation, which the government estimates at almost one billion euros. The main (temporary) measures include subsidising wage compensation for workers waiting for work at home, a postponement of the payment of social security contributions for the self-employed, a postponement of the payment of income tax due on the basis of annual income tax assessment, a simplification of the procedure for reducing advance payments of income tax and a one-year deferral of the payment of loan agreement liabilities for the affected borrowers. At the same time, it lowered electricity prices for households and small businesses and, together with SID bank and the Slovenian Enterprise Fund, introduced additional credit lines to ensure liquidity. The two institutions are also adjusting some existing lines. At the end of March, the government also adopted a comprehensive legislative package (referred to as the anti-corona package),[6] which provides 3 billion in support of the economy and the population (new measures and partial substitution or adaptation of measures from previous intervention laws). The main measures, which will remain in force until 31 May this year (with the possibility of extension), will be implemented in the form of reimbursement of the entire wage compensation for workers waiting at home, exemption from the payment of social security contributions for employees and the self-employed and farmers affected by the epidemic, extraordinary government transfers to various population groups (basic income for the affected self-employed and farmers, one-off crisis allowance for pensioners, students, recipients of social transfers, etc.), broadening of the scope of unemployment benefit beneficiaries, non-payment of public services that are not being provided and a freeze on the payment of income tax advances for businesses and sole proprietors. The government also announced a new package of measures and formulation of measures to help restart the production–investment cycle after the end of the crisis situation, which should include instruments to provide liquidity for companies. Should the situation not stabilise by the end of May, these measures could be extended or

[4] Data were collected between 1 and 13 March 2020, i.e. mostly before the declaration of the epidemic and social distancing measures.

[5] These include the following: (i) Act on the Intervention Measure of Deferred Payment of Borrowers' Liabilities; (ii) Act Determining Intervention Measures in Public Finance; (iii) Act on Intervention Measures in the Field of Wages and Contributions; (iv) Act Determining Intervention Measures in the Area of Agriculture, Forestry and Food; and (v) Act Determining Temporary Intervention Measures relating to Judicial, Administrative and Other Public Law Matters to Manage the Spread of the SARS-CoV-2 (COVID-19) Infectious Disease. The timeline of the adopted measures to contain the virus spread and mitigate its consequences is available at: https://www.iusinfo.si/medijsko-sredisce/dnevne-novice/260113.

[6] The proposal for an act on the intervention measures to mitigate the consequences of the communicable disease SARS-CoV-2 (COVID-19) epidemic for citizens and the economy (available at: https://www.gov.si/assets/vlada/Seja-vlade-SZJ/2020/03-2020/tc_1.pdf).

Figure 7: Great uncertainty about the scope and duration of the coronavirus spread and related measures in Slovenia and other countries



followed by new measures for containing the virus spread, which could lead to the adoption of new economic and social policy measures.

Important steps to mitigate the negative consequences have also been taken by the ECB and the European Commission. To mitigate the consequences of the coronavirus pandemic, Slovenia and other EU countries will also be able to use resources from EU cohesion policy funds (redirected from the structural and investment funds), which should be spent to help the health sector, small and medium-sized enterprises and the labour market. In order to enable an appropriate response to the extraordinary situation, the European Commission is also adapting EU rules on Member States' multiannual financial frameworks and state aid. Fiscal policies and the provision of liquidity to the economy and citizens through commercial banks will be strongly supported by the monetary policy of the ECB, by a comprehensive programme of securities purchases that will be conducted until the end of 2020 (for now in the amount of 7.3% of euro area GDP) and an increase in the volume of loans to commercial banks at exceptionally low interest rates.[7] The Slovenian government, the European Commission and the ECB emphasise their flexibility as regards the measures, and will reinforce them if necessary.

[7] See: https://www.ecb.europa.eu/press/blog/date/2020/html/ecb.blog200319~11f421e25e.en.html

3 COVID-19 scenario

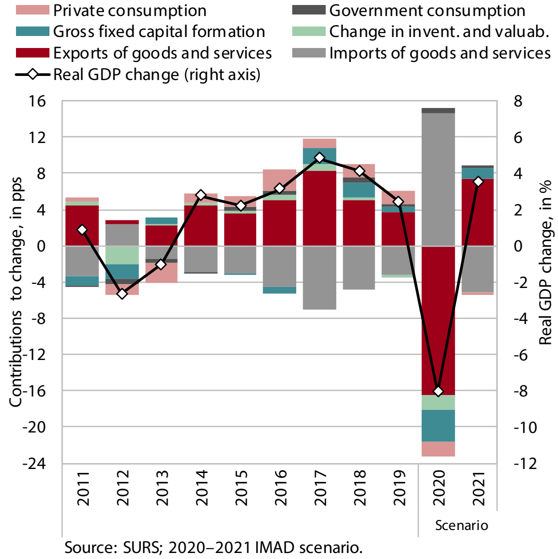
While economic policy measures will not prevent this year's decline in real GDP, they can – depending on the speed of the spread and the duration of the epidemic – significantly influence its depth and crucially contribute to economic recovery next year. The depth of this year's GDP decline is crucially dependent on the speed of the coronavirus spread, the duration of the epidemic and economic policy actions at the national and EU levels. The further spread of the epidemic and its duration are still an unknown according to the prevailing opinion among epidemiologists. In the COVID-19 scenario, we assume the spread of the epidemic to slow by the third quarter, which could lead to a gradual recovery of economic activity in the second half of the year. This will crucially depend on the adopted and possible new measures for mitigating the consequences of the epidemic (anti-corona package). However, a much worse scenario is also possible, with more pronounced socio-economic consequences. A more lasting stabilisation of economic conditions is unlikely to be achieved before the development and widespread use of a vaccine.

Assuming that the current aggravated situation and the severe disruption of production and service sector activities last a little more than two months, we expect a GDP decline of around 8% in 2020 and a partial recovery in 2021. The scenario assumes that the stringent containment measures (first paragraph, Section 1) will remain in force until the end of May, which means a more than two-month shutdown of non-essential service activities and a significant fall in a large part of industry. Economic activity will decline by around one quarter during this period, then start to recover gradually after the assumed removal of strict measures in June. Under this scenario, real GDP would be 8.1% lower this year than in 2019. With a gradual recovery, which would begin in the second half of this year, GDP would increase by 3.5% in 2021 and remain lower than before the outbreak of the epidemic in 2019.

This year's decline in GDP will arise from a fall in value added in a number of activities as a result of a significant contraction of activity over the duration of protection measures. This year value added is set to decline the most in transportation, hotels and restaurants and personal services. A sharp fall is also expected for the manufacturing sector. In the most exposed sectors, significant revenue losses can be expected during the period of strict measures and possibly a decline in value added of up to 70% (or more). In industry, trade, transport and some business services, value added will be at least halved as a result of a decline in orders and the disruption of trade routes and supply chains during this period. In some sectors the decline will probably be less pronounced (for example, the energy sector), while in some others activity is even expected to increase as a result of the current situation (certain telecommunications services). Once the measures are removed, value added is expected to recover gradually in most activities.

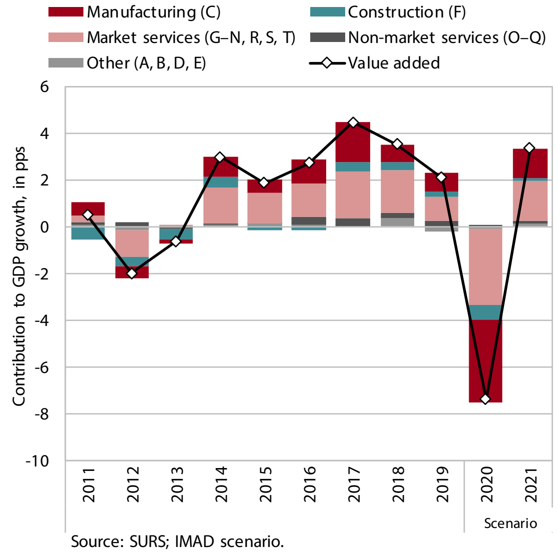
We can expect a significant decline in exports and investment, which could recover (only) partly next year under the assumed scenario; private consumption will also be lower than last year. All GDP components will decline this year, except government consumption, which will strengthen temporarily under the impact of the crisis situation. According to the presented scenario, private consumption will be lower than last year particularly due to self-isolation, social distancing measures and increased uncertainty. The fall in private consumption will to some extent also be due to a slight decline in disposable income, which will however be considerably mitigated by government measures for alleviating the consequences of the coronavirus (second paragraph, Section 2). Investment will strongly respond to the drop in production in the first half of this year. It will also be dampened by high uncertainty. Given the aggravated situation in the international environment and transport problems, enterprises from the tradable sector will significantly reduce investment in machinery and equipment. Imports and exports will be severely affected particularly due to a fall in global trade and international trade barriers. Trade in most services will see a strong decline (which is likely to be the most pronounced in the segment of travel). Exports of goods will also drop noticeably. In 2021, imports and exports could recover partly according to this scenario, which is related to the assumed resumption of activity in trading partners, growth in global trade and a gradual recovery of the domestic economy. If the situation stabilises in the second half of this year, investment will also increase gradually with a certain lag, but growth will not compensate for this year's decline. Private consumption, which is less affected, is not expected to increase next year, as no significant improvement in labour market conditions is expected yet, while growth in government consumption is set to be more moderate.

Figure 8: Contributions of expenditure components to GDP growth



Source: SURS; 2020–2021 IMAD scenario.

Figure 9: Contributions of growth in value added to GDP growth by activity



Source: SURS; IMAD scenario.

Despite the intervention measures, this year the coronavirus situation will also affect the labour market (a fall in employment of around 2% and a rise in unemployment of almost a fifth), but it could recover partially next year should the situation stabilise. Assuming that the strict containment measures will be largely abolished in Slovenia in June and that the situation will stabilise gradually in the second half of the year, companies will try to retain as many workers as possible with the support of job retention measures. In some segments, however, employment is expected to decline. According to this scenario, the number of employed persons will fall by 1.9% this year, while the number of registered unemployed will increase by around a fifth. We estimate that the lifting of containment measures in the second half of this year will first lead to an increase in the number of working hours per employee, while the number of employed persons will start increasing very gradually only next year.

According to the COVID-19 scenario, April 2020, the average wage in the private sector will decline by slightly more than 3% this year and remain close to this year's level in 2021; the average public sector wage will rise noticeably this year on account of the crisis bonuses for the most burdened employees and the already adopted agreements and laws. At the beginning of the year, the private sector still recorded solid wage growth particularly due to the increase in the minimum wage and the exemption of all remaining wage supplements from the minimum wage,[8] while the average wage from March to including May will be noticeably lower due to workers waiting for work at home. From June onwards, when these workers are expected to start returning to work, the average wage in the private sector will start to rise, but will be significantly lower this year on average than in 2019. The average public sector wage will increase noticeably this year, reflecting the agreed rises (which are still in force) and a temporary introduction of additional pay for workers with extra workload due to the crisis situation (especially health care workers).

Inflation will be somewhat lower this year on average than in 2019, mainly due to lower energy prices, while next year it will rise as the economy gradually recovers. In the first two months of this year, inflation rose to around 2% under the influence of stronger growth in (unprocessed) food prices. In 2020 as a whole it is likely to decline (also compared to last year), mainly due to lower expected prices of oil products[9] and electricity. In other groups we mainly expect moderate price rises this year; somewhat faster growth could be observed in prices of communications services, health and housing services and food. Assuming that the health situation stabilises and the economy begins to recover in the second half of the year, inflation could be somewhat higher again next year.

As the spread of the coronavirus epidemic and its containment are a great unknown at this time, uncertainty remains high and there is a risk that the period of severely paralysed economic activity will last longer than assumed and that the decline in GDP will be larger and more permanent; the beginning of the recovery will also crucially depend on the speed of the introduction, the scope and the content of economic policy measures at home and abroad. If the strict containment measures, which are significantly hampering business operations in service activities and industry, are extended or tightened, the negative impacts will be more profound and far-reaching. In this case, companies would no longer be able to carry out their activities and the number of bankruptcies would increase. This would also have greater consequences for the labour market. We could even see a double-digit fall in GDP this year. Bankruptcies and higher unemployment would also be reflected in weaker recovery. In the event of a deeper decline and a later and slower recovery, GDP could fall by 15% (or more) this year and remain only at this level next year. The key role will be played by economic policy measures, which can cushion the negative effects of a negative shock and provide crucial support for the recovery of the economy. An absolute priority is measures to support the functioning of the health system and to provide all necessary protective equipment and devices. From an economic point of view, it is first necessary to take immediate action to alleviate the consequences of the spreading epidemic in order to help businesses and the population to bridge liquidity problems due to income losses and to ensure the highest possible job protection, while later on measures to boost the economy will be required. However, for an effective exit from the crisis, it is necessary to use the period of the epidemic to the greatest possible extent for addressing developmental changes (e.g., for training, education, research and development, acceleration of digitisation, etc.).

IMAD is monitoring the situation and measures for alleviating the economic impact of the coronavirus epidemic in Slovenia and main trading partners. A full and comprehensive update of the forecast will also be provided after the expiry of the protection measures, as stipulated in Article 11 of the Act Determining Intervention Measures in Public Finance adopted on 20 March 2020.

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[8] The Act Amending the Minimum Wage Act (ZMinP) adopted in December 2018 set the level of the minimum wage for the next period. The minimum wage was raised to 886.63 euros as of 1 January 2019 and to 940.58 euros as of 1 January 2020 and all remaining supplements were exempted from the minimum wage (ZMinP).We assess that the increase in the minimum wage and the exemption of supplements could contribute around 1 pp to growth in the average gross wage in 2020.

[9] The assumption about the average oil price (see introductory table) is based on the average futures prices and the USD/EUR exchange rates between 5 and 23 March 2020. The assumption for non-energy commodity prices is based on the ECB's data and estimates available up to 23 March 2020.

COVID-19 scenario