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## A gradual reduction in restrictiveness measures

### On Slovenia's Economy

- We estimate that the **new package of support measures (PKP8)** will be officially implemented in the first week of February. The government latest version ([https://www.dz-rs.si/wps/portal/Home/deloDZ/zakonodaja/izbranZakonAkt?uid=D61FE15180D48C8FC125866900340125&db=pre\\_zak&mandat=VIII&tip=doc](https://www.dz-rs.si/wps/portal/Home/deloDZ/zakonodaja/izbranZakonAkt?uid=D61FE15180D48C8FC125866900340125&db=pre_zak&mandat=VIII&tip=doc)) was sent to the parliament where it may be subject to some minor amendments. It effectively addresses **extension of scheme for supporting the employment** (until April and even 100% reimbursement of labour costs for companies that are not allowed to operate due to imposed restrictions). The other important piece of legislation is the **subsidy paid out to employer for each employee** whose wage has increased due to the increase in minimum wage of 8.9% (now at EUR 1,025). The reimbursement (a lump sum of EUR 50) will be paid out for the first half of the year and represents at least 50% of the increased labour costs of an individual employee (labour costs ceteris paribus increased by about EUR 98). This measure does come with limitations as companies which will take use of it will not be able to pay out profits, purchase its shares neither pay-out x-o measures to management in year 2021 or for the year 2021 (in case pay-out is made in the next year). This will reduce the number of potential employers which will take advantage of this measure. We estimate that labour costs of about 65,000 employees (10% of private sector) could be effectively reduced. Due to significant pressure from the public, the **mechanism of identifying recipients of a EUR 200 government check** will be changed, effectively increasing the number of recipients by additional 15,000 to 20,000. The threshold of 2-times of minimum wage in November 2020 will not consider the x-o payment of annual bonuses (officially they are paid of wages) that excluded quite some employees as these is the usual month when bonuses are paid out.
- **Restrictiveness index has been reduced since 23<sup>rd</sup> of January 2021** as number of infected persons and hospitalized people due to COVID-19 is gradually falling. There was also strong push from the side of parents taking care of their children at home while working. Government is taking the regional principle by considering relaxations in restrictiveness. Kindergartens (these were never closed but parents were discouraged to bring children) and schools (1-3<sup>rd</sup> grade) are opened in 9 (out of 12) regions since 26<sup>th</sup> of January. In two of those regions, schools will be again closed since 1<sup>st</sup> of February due to higher number of infections (they were open for 4 days) and classes are again to be held on-line. For children (1<sup>st</sup>-3<sup>rd</sup> grade of grammar school) whose parents work in critical sectors in 5 regions which are on blacklist (high number of infections), schools are expected to provide care for them. We see this as a positive sign for providing additional flexibility to working people.
- Children's stores, automotive services and farmer's mobile stores are opened as well as libraries, museums and galleries in 7 regions (osrednjeslovenska, podravska, gorenjska, koroška, primorsko-notranjska, pomurska in savinjska). The limitation put in place (30 sq meter for a client) remain in place. In these regions, ski lifts are operating. In food stores, people are again able to purchase socks and down wear which we see as some minor flexibility for people which are not able to order these goods on-line.

- End of January is a period when an **x-o amount of social transfers will be paid out** (child-care and family benefits, students support, 2.5% higher old-age pensions) and we expect this will bring boost the spending in the first half of February or later, after restrictions will be relaxed.
- In January 2021, the **sentiment indicator** increased by 2.2 p. p. compared to December 2020. The monthly increase was influenced by all confidence indicators, except one (retail trade). The **manufacturing confidence** indicator was 4 percentage points higher than in December 2020. Compared to January 2020, it was higher by 6 p. p., and by 5 p. p. above the long-term average. Among the components of the manufacturing confidence indicator, all three indicators improved: expected production, order books and stocks of finished products.
- The **capacity utilization in manufacturing (1<sup>st</sup> quarter)** was at 82.2%, 0.8 p. p. lower than in October 2020. All quarterly indicators deteriorated, except the competitive position on the EU markets indicator, which improved by 3 p. p. Other assessments of the competitive position deteriorated, namely the assessment of the competitive position on the non-EU markets by 4 p. p. and on the domestic market by 2 p. p. Uncertain economic conditions are still the main factor limiting production (stated by 44% of enterprises), followed by insufficient domestic and foreign demand (34% and 30% of enterprises, respectively). 21% of enterprises stated that business is limited by the COVID-19.
- The January **construction confidence indicator** was 2 p. p. higher than in December 2020 and 4 p. p. lower than in January 2020 but 14 p. p. above the long-term average. Due to increase in total orders, the confidence indicator was higher. The following indicators also grew: employment, expected orders, and (slightly) current and expected prices. Most construction enterprises stated bad weather conditions as the main limiting factor in their activities (stated by 40% of enterprises or 21 p. p. more than in the previous quarter). This was followed by strong competition in own sector (26% or 6 p.p. fewer), the COVID-19 (25% or 10 p. p. more) and insufficient demand (23% or the same as in the previous quarter). Based on that we expect a gradual take-off in construction (adjusted by the season). A unexpected warm weather bodes well for high growth in constructions works performed outside.

## On EU-27

- The European Commission has decided to **prolong the State aid Temporary Framework adopted until end of 2021**. The Commission has also decided to expand the scope by increasing the ceilings set out in it and by allowing the conversion of certain repayable instruments into direct grants until the end of next year. We see this step as very important in extending and forming new support measures of individual EU countries. Early acceptance also brings some positive guidance to affected companies and a relief for their creditors. More at: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_261](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_261).
- The **German economy avoided a double-dip** and grew by 0.1% q-o-q in the final quarter of 2020, from +8.5% q-o-q in 3Q. Y-o-y the growth was of course negative (-2.9%). For the whole of 2020, the German economy shrank by 5.0%, or 5.3% when adjusted for calendar effects. It's the worst performance since the financial crisis in 2009 but still much better than feared at the start of the Covid19-crisis. The **Austrian economy** contracted by 7.3 % y-o-y in 2020 (flash estimate by Austrian Institute of Economic Research), mainly due to accounted losses in the service sector in the fourth quarter. Based on Germany and Austrian reading, we are confident that **Slovenia's last quarter GDP** (due to be **released on 26<sup>th</sup> of February**) is going to held up similarly well.

- The 2<sup>nd</sup> lockdown is clearly not having the same effect as the first one did for the EA-19. Companies are not drawing emergency liquidity lines as they did during the first wave. While **lending to non-financial corporations** increased in December to 7% year-on-year, it came nowhere close to the volumes seen in spring 2020. **Lending to households** remained stable at 3.1% y-o-y. Households increased deposits at a faster pace, which is probably related to lockdowns across the eurozone.

### About Other Markets

- The **Russians December retail trade** drop of 3.6% y-o-y is a disappointment relative to Reuters consensus of -2.5%. **Consumer sentiment index** slid to its lowest level since mid-2016 (Figure 1). **Consumption of services** also did not show material improvement, falling by 12.5% y-o-y, close to rates seen since September. While services might have been restrained by COVID-19 restrictions, **retail trade** shouldn't have suffered given that there were no material restrictions for shopping. The real disposable income drop narrowed much (1.7% y-o-y in 4q 2020) compared to 3q 2020 (-5.7%)

### Chart of the Week

Monthly changes in the value of confidence indicators, Slovenia, January 2021	Jan. 21/Dec. 20 (vs previous month)	Jan. 21/Jan. 20 (year on year)
<b>Economic sentiment indicator</b>	<b>+2.2</b>	<b>-11.1</b>
Manufacturing	+4.0	+6.0
Services	+4.0	-26.0
Construction	+2.0	-4.0
Consumer sentiment	+1.0	-18.0
Retail Trade	-15.0	-41.0

Source: Statistical Office of RS

Comment: Improvement in services came as unexpected. We do not put much emphasize on the retail trade sentiment as the survey has a very low correlation with actual trends in the sector (far more pessimistic than one would expect).

### Must Read of the Week

- McKinsey video on “COVID-19 vaccines are here. What does that mean for your organisation”  
(<https://www.linkedin.com/video/live/urn:li:ugcPost:6760209200934129665/>)

Comment: a very concise and comprehensive template on when to accept the vaccines are being deployed across the world.

- OECD Science, Technology and Innovation Outlook 2021  
([https://www.keepeek.com//Digital-Asset-Management/oecd/science-and-technology/oecd-science-technology-and-innovation-outlook-2021\\_75f79015-en#page3](https://www.keepeek.com//Digital-Asset-Management/oecd/science-and-technology/oecd-science-technology-and-innovation-outlook-2021_75f79015-en#page3))

Comment: R&D in times of pandemic; a very comprehensive document with several sweet spots as reported R&D expense across major blue-chips, several useful links etc. It is interesting to note how cooperation across world science increased when looking for solutions to fight the pandemic.

## Forecast of the Week

- Slovenian CPI, January 2021 (y-o-y): **+0,0 vs. Jan. 2020**

Comment: higher crude oil prices in last month are expected to influence the final prices, services inflation to edge up, lower inflation in food

## Things to Keep in Mind for the Upcoming Week

- Preliminary Flash Estimate GDP – EU-27 and EA-19 (4q 2020), 2 February at Eurostat
- Flash Estimate inflation –EA-19 (Jan. 2020), 3 February at Eurostat
- Slovenian CPI and HICP (Jan. 2021), 5 February at Statistical Office of RS
- Number of deaths and births in Slovenia (Dec. 2021), 5 February at Statistical Office of RS

## Quote of the Week

- “The old rule of forecasting was to make as many forecasts as possible and publicise the ones you got right. The new rule is to forecast so far in the future, no one will know you got it wrong.” (Ruchir Sharma)

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