

Release date 15 Jan 2021

## Extension of Official Period of Pandemic and Some Support Measures

### On Slovenia's Economy

- **The government extended the official pandemic** for 2 more months, effective from January 17<sup>th</sup>, 2021. We believe the extension of support measures to be a positive sign. The scheme for covering fixed costs has been extended till the end of March (1<sup>st</sup> quarter 2021) and it is very likely (not official yet) that the scheme for supporting the job market (**temporary lay-offs**) will be extended until April 2021.
- There is a large public debate on whether the **mechanism of identifying recipients of a EUR 200 government check** is fair. Only employees who were working in December and were present all working days and whose last salary was below 2-times minimum wage (November salary which was paid out in December) are eligible for the total amount. As some companies paid out bonuses (these are officially part of the salary) that reduces the number of eligible recipients. We estimate the **reduction of eligible recipients** stands at about 15-20% as these is the usual share of employees receiving bonuses at the end of the year. Our fair belief is that the ministries of finance and labour should only account for a relative portion of the bonuses (1/12) and add it to November's salary. This would increase the number of eligible employees and reduce the bad mood among employees expecting this government money.
- **Suggestions/proposals for the eighth package (known as PKP8)** are already being discussed in the media. The government confirmed these proposals to be addressed in another package, dismissing the end 2020 speculations by some government officials that PKP7 was the last.
- **A scheme for reimbursing the increased wage costs due to hike in minimum wage** is being currently contemplated. It is expected that Minister at Ministry of Labour will officially declare the increase in min. wage for 2021 by end of January at EUR 1.025 (+8.9%). We do expect the government to approve the mechanism of reimbursement of whole or partial increase in the minimum wage that will affect the companies.
- **Current account surplus** in the first 11 months of 2020 stood at EUR 3.2 billion (7.6% of GDP), what was EUR 0.4 billion higher y-o-y. As goods imports fell more than exports, the goods surplus increased for EUR 1.1 billion whereas the services surplus decreased by EUR 0.7 billion, mostly due to reduced inflows from tourism.
- As expected, **exports of goods** held up well, increasing by 0.9% in Nov. 20 (y-o-y), bringing down the reduction in the 11-months period to -8.5%. In addition to that, the **manufacturing production** in Nov. 20 was only 1.1% lower y-o-y, bringing down the reduction to 6.5%. Within the technological breakdown of branches, low tech brands severely disappointed as their y-o-y fall stood at 9.4% (-5.9% in 11 months) implying that the textile and wood industries probably had a bad month. All other 3 types of sectors (medium, high-tech) had a growth y-o-y, or a negligible decline. The **mining industry** had a remarkable month (+16% y-o-y), mainly due to increased excavation of lignite at Premogovnik Velenje, which is used as a source of energy at thermo plant TEŠ. **Nominal sales in industry** declined in the first 11-months by 1 p.p. (-7.5%) more than industrial production, mainly due to lower final input

prices. The **value of stocks in industry** has not much changed (up by 1.7% in 11 months of 2020). In consumer goods industries, it was up by 9.4% whereas it was down by 0.9% in capital goods industries implying that industrial production trends are expected to be especially positive in the latter industries (machinery, car production, steel industry, electrical equipment).

- **Value of construction works** in Nov. 20 was up by 18.4%, far above our optimistic estimate (+1.0%) mostly due to warmer weather and low base effect (Nov. 2019 was seasonally adjusted weak). Though this came as a surprise, as the growth was so strong even after accounting for limitations on offering construction services to households. Growth was present mostly in civil engineering construction (roads, railways).
- Fiscal Council confirmed our estimates on the **general government deficit in 2020**. Undershooting is quite large (EUR 0.7 billion or 1.7% of GDP) and is mostly due to lower estimates on COVID-19 expenditure measures. The latest estimate is a deficit of EUR 3.5 billion (8.1% of GDP). We do not expect any meaningful contribution to deficit from the side of municipalities, public health (ZZZS) or pension fund (ZPIZ). **Government revenue** decreased by 10.5% in 2020/2019 (w-o COVID-19 measures it decreased by 6.9 %) and **expenditure** was up by 26.8% (w-o COVID-19 measures it stood at +6.5%). **All COVID-19 measures** amounted to EUR 2.9 billion (6.7% of GDP) whereas those, that influenced the deficit amounted EUR 2.4 billion (5.5% of GDP). Therefore, only EUR 0.5 billion was the total **amount of granted guarantees, deferrals and loans** (1.7% of GDP), a value lower than in other economies. This was mostly due to lower indebtedness of the Slovenian corporate sector and households as well as high initial liquidity of both sectors, together with banks. This numbers lead us to the conclusion that the Ministry of Finance was quite aggressive when accounting for government expenditure tied to COVID-19 measures (one example is the scheme to support uncovered fixed costs that should amount to EUR 900 m, but will account only for one tenth in reality according to our estimates; [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_2511](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_2511)). In addition, a better outturn suggests that there is ample room to lengthen or add some new measures in 2021.
- **High-frequency indicators** in the last two weeks of December were above expectation (electricity consumption, number of trucks) which was also due to positive calendar effect.

## On EU-27

- According to the first estimates of the Federal Statistical Office (Destatis), the **German real GDP** was 5.0% lower in 2020 than in the previous year. The overall economic downturn was less serious in 2020 than in 2009 (-5.7%) and above the previous estimates of the European Commission (-5.6% in Nov. 2020). Higher number of working days in 2020 cushioned the drop by 0.3 p.p. Value added in manufacturing dropped by 10.4%, trade, transport, accommodation and food services by 6.3%. Only the construction sector weathered the COVID-19 crisis better: its gross value added increased by 1.4 y-o-y (more at: [https://www.destatis.de/EN/Press/2021/01/PE21\\_020\\_811.html](https://www.destatis.de/EN/Press/2021/01/PE21_020_811.html)). Looking at the expenditure method of GDP, the household consumption fell by 6%, on the other hand the government final consumption increased by 3.4%. **Gross fixed capital formation** dropped (only) by 3.5%, which was still the largest decrease since 2008/2009. Within that group, investments in construction were up by 1.5% whereas they dropped by 12.5% in the category of machinery and equipment (a rebound expected). Investments in R&D were down by 1.1%. Exports decreased by 9.9% and imports by 8.6%. The **number of jobs** was down by 1.1% in 2020. Within employment in manufacturing (-2.8% Nov. 20/Nov. 19), fabricated metal products' sector was hurt the most, followed by rubber and plastic products, machinery and

equipment and basic metals, mainly the production of investment goods for the automotive industry. Only the chemical industry increased the headcount (by 1.6%).

- After taking a closer look at German figures we **revised our estimates for Slovenia's GDP in 2020** and are more confident that the actual GDP will decrease closer to -6% (previous estimate: -6.5%), above the current Consensus estimate (-7.0%).
- **November's industrial production figures for EA-19** were impressive. **Industrial production** was down only by 0.6% (seasonally adjusted). The largest uptake was in the capital goods sector (+0.1%), where decreases were high y-o-y. More at: [https://ec.europa.eu/eurostat/documents/portlet\\_file\\_entry/2995521/4-13012021-AP-EN.pdf/6ee4a64a-ce47-c3d4-bbc9-a95c414e7b7c](https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/4-13012021-AP-EN.pdf/6ee4a64a-ce47-c3d4-bbc9-a95c414e7b7c).

## About Other Markets

- Biden unveiled his **economic plan to support the economy nearing his term**. It proposed a total package of USD1,900bn including a bigger household check, expanded unemployment benefits, more spending on health care, more support for small businesses, state and local aid and more money for vaccinations and testing. Given that Biden needs support from at least 10 Republican Senators to get this package confirmed, we expect the final package to be smaller, around USD 1,000 to USD 1,200 billion. Biden may decide to use the budget reconciliation process (requiring only simple majority) but that means he cannot use that for other priorities later. Overall, the expected US government package is set to be supportive for the economy.

## Chart of the Week

Real indices of construction value in Slovenia	Nov. 20/Nov. 19	Jan.-Nov. 20/ Jan.-Nov. 19
Construction	+18.4%	+0.3%
of that: buildings	+2.5%	-3.7%
of that: civil engineering	+26.4%	+2.4%

Source: Statistical Office of RS

Comment: Warm weather and strong uptake in road and railway construction led to high November growth.

## Must Read of the Week

- Updated value of COVID-19 support measures in Excel for 2020 by Fiscal Council (<http://www.fs-rs.si/mesecna-informacija-januar-2021/>); available only in SI, see left of the page

Comment: Numbers confirm our estimates that 50% of measures affecting the deficit were related to retention of employment.

- Economic and financial developments (<https://bankaslovenije.blob.core.windows.net/publication-files/gospodarska-in-financna-gibanja-januar-2021.pdf>); available only in SI, later in EN

Comment: A very comprehensive set of data of Slovenian central bank on most current developments in the EU-27 and Slovenia.

## Forecast of the Week

- Consumer Sentiment, January 2021, Slovenia (21 January 2021): **-2 vs. Dec. 2020**

Comment: We expect some disappointment among consumers to appear mainly due to built-in expectations on limiting the restrictions in January; no major effect on household consumption though expected.

## Things to Keep in Mind for the Upcoming Week

- Employment figures (Nov. 2020), 18 January at Statistical Office of RS
- Consumer Sentiment (Jan. 2020), 21 January at Statistical Office of RS

## Quote of the Week

- “When we advance more confident claims and they fail to come to fruition, this constitutes much more powerful evidence against our hypothesis. We can't really blame anyone for losing faith when this occurs.” (Nate Silver)

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