

BANKA

SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

APRIL 2016

Summary of macroeconomic developments, April 2016

According to the latest estimates by international institutions and the Bank of Slovenia, the situation in the international environment this year will only be slightly better than last year, when global economic growth recorded its lowest rate since 2009. The forecasts for this year's global economic growth are being reduced, primarily as a result of the cooling of the Chinese economy and low commodity prices. The latest weighted estimates based on the Consensus forecasts also suggest that growth will be relatively low overall in Slovenia's trading partners. In both cases the rate is nevertheless expected to be slightly higher than last year. However there are numerous risks in the international environment, from a further slowdown in growth in emerging economies to increased geopolitical tensions.

Although confidence in the Slovenian economy declined slightly in the early part of this year, the available data indicates a continuation of solid economic growth, at least for the moment, with a positive contribution from industry and numerous service sectors. This has maintained the out-performance of average euro area growth, out-performance also being supported by favourable changes in sources of growth in 2015. Household consumption strengthened compared with 2014 as a result of growth in employment and the positive impact of falling energy prices on purchasing power. Growth in investment declined significantly last year, albeit only as a result of weaker government investment in construction at the end of the European financial framework. At the same time there was most likely a reversal in the corporate sector, as investment in production capacity strengthened last year, alongside investment in transport equipment. This was likely attributable in part to better access to financing, which according to a Bank of Slovenia survey is no longer one of the major limiting factors in performance.

Developments on the labour market remain positive. After rising by 1.4% in 2015, employment continued to grow in January, while corporate surveys suggest growth has continued in the first half of this year. The number of registered unemployed is continuing to fall, although not among long-term unemployed, which is becoming an increasingly significant structural issue. Nominal growth in gross wages slowed to 0.7% last year, as a result of increased employment of low-income workers and wage adjustments to deflation. After several years of private-sector wage growth outpacing wage growth in the public sector, there was a reversal, which was attributable to the relaxation of promotions in the public sector. The average wage in the private sector was unchanged in year-on-year terms in January, while the average wage in the public sector was up 4%. Higher overall growth in wages could have a positive impact on this year's growth in private consumption.

The current account surplus over the preceding 12 months stood at 7.3% of GDP at the end of last year, and approached 8% of GDP in January of this year as the merchandise trade surplus widened. This was largely attributable to a decline in merchandise imports, as export growth slowed, albeit temporarily, in light of the rapid growth in February. The gap between the nominal rates of growth in merchandise imports and exports narrowed last year, and would have narrowed even more without the extremely negative impact of the fall in oil prices on the value of imports. Last year's widening of the merchandise trade surplus was largely the result of an improvement in the terms of trade. In addition, growth in exports of services strengthened significantly last year, in numerous segments, which contributed to a significant widening in the surplus of trade in services. The deficit in income widened, largely as a result of estimated reinvested earnings and a smaller inflow of EU funds.

New shock in oil prices in the early part of the year was the main reason that headline inflation remains negative. It averaged -0.9% over the first quarter, while all the core inflation indicators also remained low. External cost pressures remain absent, and neither the ECB measures nor factors from the domestic environment are yet exerting notable upward pressure on prices. Purchasing power and household purchases are increasing slowly, although without notable impact on inflation for the moment.

The general government deficit stood at 2.2% of GDP last year according to ESA 2010 methodology, significantly less than planned in the Stability Programme of April 2015. EU rules stipulate that Slovenia has to improve its structural position by 0.6% of GDP this year, which will probably require greater fiscal effort than that envisaged in current general government budgets. This could have an adverse impact on growth in domestic demand, which this year will already feel the impact of a sharp reduction in government investment owing to the changeover to funding from the new European financial framework. The deficit according to cash flow methodology narrowed in the first quarter of this year, primarily as a result of a large decline in expenditure.

Main macroeconomic indicators

	2013	2014	2015	15Q2	15Q3	15Q4	2013	2014	2015	15Q2	15Q3	15Q4
	Slovenia						euro area					
Economic developments	y-o-y growth rates in %											
GDP	-1.1	3.0	2.9	2.7	2.6	3.3	-0.3	0.9	1.6	1.7	1.7	1.8
- industry	-0.1	4.8	5.0	4.5	5.3	4.6	-0.6	0.6	1.8	1.9	2.1	1.8
- construction	-8.7	9.5	-3.3	-5.3	-6.0	-0.4	-3.3	-0.9	0.3	0.1	0.3	1.7
- mainly public sector services	-0.4	1.0	0.3	0.0	0.3	0.7	0.4	0.5	0.8	0.7	0.7	0.8
- mainly private sector services	-0.8	4.4	3.5	3.0	3.4	4.1	-0.3	1.0	1.7	1.7	1.6	2.0
Domestic expenditure	-2.2	1.6	2.1	0.9	1.4	3.7	-0.7	0.9	1.8	1.4	1.9	2.4
- general government	-1.5	-0.1	0.7	0.2	0.8	3.0	0.2	0.8	1.3	1.2	1.1	1.8
- households and NPISH	-4.1	0.7	1.7	1.2	2.5	2.6	-0.6	0.8	1.7	1.6	1.9	1.5
- gross capital formation	2.7	5.7	4.4	0.8	-0.6	8.1	-1.8	1.4	2.7	1.2	2.9	5.5
- gross fixed capital formation	1.7	3.2	0.5	-0.6	-2.0	3.4	-2.6	1.3	2.7	2.7	2.6	3.5
- inventories and valuables, contr. to GDP growth in pp	0.2	0.5	0.8	0.3	0.3	0.8	0.2	0.0	0.0	-0.3	0.1	0.3
Labour market												
Employment	-1.4	0.6	1.4	1.6	1.3	1.3	-0.7	0.6	1.0	0.9	1.1	1.2
- mainly private sector services	-1.6	0.6	1.6	1.8	1.5	1.4	-1.0	0.5	1.1	1.0	1.1	1.2
- mainly public sector services	-0.6	0.4	0.8	0.7	0.7	0.8	0.2	0.7	0.8	0.6	0.9	1.0
Labour costs per employee	0.5	1.1	0.8	0.9	0.3	1.5	1.6	1.3	1.3	1.4	1.3	1.1
- mainly private sector services	1.7	2.1	0.8	1.1	0.4	1.2	1.5	1.4	1.3	1.5	1.4	1.2
- mainly public sector services	-3.2	-2.0	0.8	0.3	0.3	0.8	1.6	1.0	1.1	1.2	0.9	1.1
Unit labour costs	-0.1	-2.0	-0.6	0.1	-1.2	-0.7	1.1	1.0	0.7	0.8	0.9	0.6
- industry	0.8	-1.0	-2.1	-0.8	-3.0	-0.7	2.0	1.4	0.1	0.2	-0.2	0.2
	in %											
LFS unemployment rate	10.1	9.8	9.0	9.2	8.6	8.4	12.0	11.7	10.9	10.9	10.3	10.6
Foreign trade	y-o-y growth rates in %											
Current account balance as % of GDP	5.6	7.0	7.3	7.1	7.6	7.3	2.2	2.3	0.0	1.5	0.8	0.0
External trade balance as contr. to GDP growth in pp	1.1	1.6	1.0	1.9	1.4	-0.1	0.4	0.0	-0.1	0.3	-0.2	-0.4
Real export of goods and services	3.1	5.8	5.2	6.2	5.0	3.3	2.1	4.1	5.0	6.1	4.7	3.9
Real import of goods and services	1.7	4.0	4.4	4.1	3.7	3.9	1.3	4.5	5.7	6.0	5.5	5.4
Financing	in % of GDP											
Banking system's balance sheet	128.9	116.7	107.8	110.7	109.4	107.8	297.6	299.3	285.7	295.1	291.7	285.7
Loans to NFCs	45.1	31.5	26.5	29.1	27.9	26.5	42.0	40.2	39.1	39.7	39.4	39.1
Loans to households	22.6	21.5	21.2	21.3	21.3	21.2	51.8	50.7	50.3	50.4	50.3	50.3
Inflation	in %											
HICP	1.9	0.4	-0.8	-0.8	-0.8	-0.9	1.3	0.4	0.0	0.2	0.1	0.2
HICP excl. energy, food, alcohol and tobacco	0.9	0.6	0.3	-0.2	0.3	0.4	1.1	0.8	0.8	0.8	0.9	1.0
Public finance	in % of GDP											
Debt of the general government	70.8	80.8	83.0	80.8	84.2	83.0	91.1	92.1	...	92.3	91.6	...
One year net lending/net borrowing of the general government	-15.0	-4.9	-2.2	-4.3	-3.8	-2.2	-3.0	-2.6	...	-2.4	-2.1	...
- interest payment	2.6	3.2	3.0	3.1	3.1	3.0	2.8	2.7	...	2.5	2.5	...
- primary deficit	-12.5	-1.7	0.8	-1.2	-0.8	0.8	-0.2	0.1	...	0.1	0.3	...
- deficit excl. bank recapitalisations	-4.9	-3.9	-2.2	-3.4	-2.9	-2.2						
- primary deficit excl. bank recapitalisations	-2.3	-0.7	0.8	-0.2	0.2	0.8						

Source: SORS, Eurostat, Bank of Slovenia, ECB, Ministry of Finance.