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BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

FEBRUARY 2015

Summary of macroeconomic developments, February 2015

Economic growth in the euro area at the end of 2014 increased slightly, but remained weak, with confidence in the economy below the level of the first half of the year. In addition, with a drop in oil prices the euro area began experiencing moderate deflation. ECB responded with the announcement of massive quantitative easing in January, which resulted in an additional decline in the value of the euro and a reduction of required yields on bonds of the euro area countries. Expected economic growth in most major markets for Slovenian exporters remains low. However, current prospects are still more favourable than the conditions in 2014, with export expectations of firms remaining positive.

In the last quarter of 2014 domestic economic developments were under the influence of rapid export growth and weaker domestic demand. Growth in industrial production in manufacturing, supported by improved cost and technological competitiveness, remained solid, while export demand has been strengthening inside and outside the EU. The growth of public investment continued to slow down, which resulted in a decline of activity in the construction sector, the latter being, due to the lack of private investment, almost entirely dependent on public projects. The monthly activity in many private-sector services declined as well, reflecting weaker domestic demand in the last quarter of 2014. Consequently, the current account surplus over the preceding 12 months widened to 5.8% of GDP, mainly on account of increasing merchandise trade surplus. On the other hand, the primary income deficit continues to increase due to the high interest burden on public debt.

Despite the improvements on the labour market, high unemployment remains one of the main macroeconomic problems, and stability of jobs continues to decrease. The number of registered unemployed increased in January compared to December by almost 5,000 to over 124,000, which is in line with seasonal developments and more than 4% less than a year ago. However, unemployment is still highly structural, while its high level is hindering private consumption recovery and is complicating fiscal consolidation. In December, year-on-year growth of the number of persons employed continued, stemming mainly from hiring agency workers and from temporary jobs, the latter pointing towards diminishing effects of the labour market reform. At zero inflation, the real wage bill rose in December as well. However, the modest recovery in purchasing power measured in this way has not yet been reflected in a corresponding growth in domestic demand, mainly due to the uncertainty on the labour market.

Moderate deflation in January was primarily the result of the fall in oil prices. Prices, as measured by the HICP, decreased on average by 0.7% in year-on-year terms, with contribution made by lower energy prices amounting to 1.2 percentage points. At the same time, the growth of the narrowest core inflation indicator remained unchanged at 0.8%, indicating that weak but positive growth in prices, which are not directly dependent on developments on global commodity markets, continued. In addition to the depreciation of the euro, this reduces the risk of deflation in the wider segment of prices.

Slovenia's fiscal position is improving. Despite a sharp increase in investment, consolidated general government revenue growth exceeded expenditure growth according to the cash flow methodology by 3 percentage points over the first eleven months of last year. According to the European Commission estimates, the deficit on the basis of ESA 2010 methodology remained high at 5.4% of GDP in 2014, mainly due to a number of one-off expenses and rising interest payments. Excluding this expenditure, the primary deficit amounted to only 0.5% of GDP. The deficit in 2015 is expected at 2.9% of GDP and will be solely the result of interest payments. The primary balance is expected to record a small surplus. In the beginning of 2015, general government's financing conditions on the financial markets continue to improve.

Table: Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till Dec.12	12 m. 'till Dec.13	12 m. 'till Dec.14	3 m. 'till Dec.13	3 m. 'till Dec.14	2014 Oct.	2014 Nov.	2014 Dec.	2015 Jan.
Economic Activity	* data for Feb.15								
	<i>balance of answers in percentage points</i>								
Sentiment indicator	-16.9	-13.2	-2.2	-11.3	1.6	2.2	1.0	1.5	2.9 (4.1*)
- Confidence indicator in manufacturing	-11.2	-5.3	2.3	-2.3	3.0	3.0	2.0	4.0	4.0 (5.0*)
	<i>year-on-year growth rates in %</i>								
Industry: - total¹	-0.5	-1.3	1.6	1.4	2.3	3.8	2.7	0.1	...
- Manufacturing	-1.7	-2.0	3.5	1.1	5.1	6.1	4.8	4.4	...
Construction: - total²	-16.8	-2.5	19.4	22.8	-3.3	-1.8	-10.5	4.6	...
- Civil engineering	-17.3	-20.4	3.8	5.1	-4.5	-5.2	-12.4	7.0	...
Trade (volume turnover)									
Total retail trade	-2.2	-3.3	-0.1	-0.8	-1.2	-0.5	-0.4	-2.5	...
Retail trade and repair of motor vehicles	-5.4	4.5	5.6	11.0	6.9	9.6	4.1	7.1	...
Private sector services³	-2.3	-0.3	...	1.2	...	2.3	-0.5
Labour market	<i>year-on-year growth rates in %</i>								
Average gross wage	0.1	-0.1	1.1	0.6	1.2	1.1	1.0	1.4	...
- Private sector	0.5	0.6	1.4	1.4	1.1	1.0	0.5	2.0	...
- Public sector	-0.9	-1.3	1.0	-0.6	1.7	1.7	2.1	1.3	...
Real net wage⁴	-2.2	-1.1	0.6	0.0	1.0	0.8	1.1	1.2	...
Registered unemployment rate (in %)	12.0	13.1	13.1	13.2	12.7	12.6	12.5	13.0	...
Registered unemployed persons	-0.5	8.8	0.2	6.4	-3.1	-2.4	-3.3	-3.7	-4.3
Persons in employment	-1.7	-2.0	0.5	-0.7	1.1	1.1	1.1	1.1	...
- Private sector	-2.4	-2.2	0.8	-0.7	1.5	1.6	1.4	1.4	...
- Public sector	0.2	-1.6	-0.1	-0.8	0.1	-0.2	0.2	0.3	...
Price Developments	<i>year-on-year growth rates in %</i>								
HICP	2.8	1.9	0.4	1.1	0.0	0.1	0.1	-0.1	-0.7
- Services	1.5	2.2	1.8	2.0	1.5	1.3	1.1	2.2	1.7
- Industrial goods excluding energy	-0.2	-0.9	-1.0	-0.5	-1.4	-1.7	-1.4	-1.0	-0.3
- Food	4.7	4.9	0.8	2.4	0.6	0.7	0.8	0.2	0.1
- Energy	9.0	1.8	-1.4	-0.1	-2.0	-0.9	-0.7	-4.3	-8.3
Core inflation indicator⁵	0.7	0.9	0.6	0.8	0.3	0.0	0.0	0.8	0.8
Balance of Payments - Current Account	<i>in % GDP</i>								
Current account balance	2.7	5.6	5.8	5.2	6.8	9.0	3.1	8.1	...
1. Goods	-0.1	2.1	3.6	0.5	4.0	5.9	1.9	4.3	...
2. Services	4.2	4.9	4.6	3.7	4.0	4.0	4.0	4.0	...
3. Primary income	-0.8	-0.7	-1.6	0.0	-1.8	-1.9	-2.6	-1.0	...
4. Secondary income	-0.6	-0.7	-0.7	1.0	0.5	1.0	-0.2	0.9	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	1.6	2.4	6.0	2.7	8.8	8.7	6.4	11.5	...
Import of goods and services	-2.3	-1.6	4.5	3.3	3.3	4.1	3.1	2.6	...
Public Finances	<i>in % GDP</i>								
Consolidated general government (GG) balance⁶	2012	2013	12 m. 'till nov.14	2013 jan.-nov.		2014 jan.-nov.			
	<i>EUR millions</i>		<i>% GDP</i>	<i>y-o-y. %</i>	<i>EUR mio</i>	<i>y-o-y. %</i>	<i>EUR mio</i>	<i>y-o-y. %</i>	
Revenue	14,999	14,728	41.7	6.3	1,201	-7.9	1,316	9.6	
Tax revenue	13,118	12,648	35.3	4.9	1,067	-8.1	1,117	4.7	
From EU budget	845	938	2.9	31.8	50	-27.1	126	151.5	
Other	1,036	1,141	3.4	3.3	84	13.6	73	-13.1	
Expenditure	16,126	16,286	44.9	3.8	1,368	1.1	1,389	1.6	
Current expenditure	6,814	6,838	18.9	4.0	565	6.5	568	0.5	
- Wages and other personnel expenditure	3,728	3,617	9.7	1.3	295	-6.1	293	-0.9	
- Purchases of goods, services	2,373	2,239	5.9	-0.4	183	-12.6	182	-0.6	
- Interest	648	840	2.9	30.1	79	3282.1	84	7.2	
Current transfers	7,687	7,671	20.4	-1.2	629	-5.1	619	-1.6	
- Transfers to individuals and households	6,384	6,343	17.0	0.1	514	0.4	518	0.7	
Capital expenditure, transfers	1,235	1,351	4.6	35.4	155	12.7	173	11.6	
GG surplus/deficit	-1,127	-1,558	-3.2	-19.7	-167	244.3	-73	-56.2	

Sources: SORS, Bank of Slovenia, Ministry of finance, Bank of Slovenia calculations.

Notes: Economic activity data are working day adjusted (with exception of sentiment and confidence indicators data, which are seasonally adjusted). Other data in the table are original.

¹ Volume of industrial production. ² Real value of construction put in place. ³ Nominal turnover in private sector services, excluding trade and financial services. ⁴ CPI deflator. ⁵ Inflation excluding energy, food, alcohol, tobacco. ⁶ Consolidated central government budget, local government budgets and social security funds (pension and disability insurance fund and health insurance fund) in cash accounting principle.