

BANKA

SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

FEBRUARY 2016

Summary of macroeconomic developments, February 2016

The structure of global economic growth shifted towards the advanced western economies in 2015, as the contribution made by the BRICs declined. Despite the slowdown, growth remains high in China, but is indicative of problems in the changeover to an economic model based more on private consumption. Global economic growth was sustained more than before by the advanced economies, primarily the US. The moderate recovery continued in the euro area, primarily as a result of increased private consumption on the basis of an improvement in the situation on the labour market, and also on the basis of the impact of falling oil prices on disposable income. Global growth nevertheless slowed last year, and the outlook for this year also deteriorated. In the European Commission's February forecasts there were no significant changes to the growth forecasts for euro area GDP and exports, but the risk from the external environment is judged to have increased significantly.

In Slovenia almost all categories of services continued to record growth in activity at the end of the year, while the signals from other sectors were mixed. Industrial production increased by 4.5% over the year, but declined in quarterly terms in the final quarter; similar developments were recorded in the euro area. Quarterly contraction in construction came to an end towards the end of the year, primarily as a result of an increase in the construction of residential buildings. Last year's slight strengthening in household consumption was mostly based on car purchases and expenditure on tourism, while turnover in the retail sector (excluding cars) recorded barely positive growth. After stagnation on a relatively high level in the second half of 2015, the economic sentiment deteriorated slightly in January and February.

The current account surplus narrowed in December as a result of the postponement of the seasonal inflow of funds from the EU budget at the end of the previous financial framework. Growth in the merchandise trade surplus slowed in the second half of the year as a result of the slowdown in export growth and December's leap in imports, while the surplus of trade in services continued to widen, towards the end of the year primarily as a result of growth in exports of transport services and a decline in imports of construction services. The current account surplus widened from 7.0% in 2014 to 7.3% of GDP in 2015, while the trade surplus widened from 7.9% to 9.5% of GDP.

The favourable developments on the labour market have not yet come to an end. There was a seasonal rise in the number of registered unemployed in January, but the year-on-year fall remained at around 5%. Growth in (non-farm) employment remained relatively strong until December. The number of vacancies in the final quarter of last year was up almost 7% on the third quarter, although uncertain forms of employment remain prevalent. November's wage developments were under influence of year-on-year increase in bonus payments in connection with solid private-sector profitability, while in December growth in wages was supported by the agreed advancement in the public sector.

In contrast to the rise in year-on-year inflation to 0.4% in the euro area, the rate in Slovenia fell again in January to -0.8%. This remains primarily attributable to the fall in energy prices, although all the main core inflation components also made contributions in January, most notably food prices. Global prices of food and other commodities are continuing to fall, while domestic consumption remains restrained. After another wave of falling oil prices at the turn of the year, 2016 inflation projections for Slovenia will be decreased.

According to the European Commission's estimates from February of this year, the general government deficit according to ESA 2010 methodology narrowed to 2.9% of GDP in 2015, while the general government debt stood at 83.5% of GDP at the end of the year. The narrowing of the deficit was attributable to the more favourable economic situation and correspondingly higher growth in revenues, to consolidation measures, and to the absence of major one-off effects (e.g. bank

recapitalisations). The deficit is expected to narrow further this year. Certain consolidation measures were extended (e.g. in the area of social transfers) or made permanent (e.g. VAT rates), but by contrast expenditure on civil servants' wages will rise this year, pensions were increased by 0.7% in January, and certain other social transfers were also raised. The government sector's financing conditions on the financial markets remain favourable, and February saw the first issue of treasury bills with a negative interest rate.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till	12 m. 'till	12 m. 'till	3 m. 'till	3 m. 'till	2015	2015	2015	2016
	Dec.13	Dec.14	Dec.15	Dec.14	Dec.15	Oct.	Nov.	Dec.	Jan.
Economic Activity									
	<i>* data for Feb.16</i>								
	<i>balance of answers in percentage points</i>								
Sentiment indicator	-13.3	-2.3	5.2	1.3	5.9	5.8	5.4	6.4	3.9 (1.8*)
- confidence indicator in manufacturing	-5.2	2.1	5.8	2.7	6.3	6.0	6.0	7.0	4.0 (5.0*)
	<i>year-on-year growth rates in %</i>								
Industry: - total ¹	-1.1	1.7	4.5	2.3	3.1	3.2	4.1	1.8	...
- manufacturing	-2.1	3.7	4.8	5.1	3.0	3.7	4.2	0.8	...
Construction: - total ²	-2.5	19.5	-7.3	-3.3	-5.1	-11.6	5.7	-9.3	...
- civil engineering	-20.4	3.8	-2.9	-4.5	0.1	-7.0	2.6	5.8	...
Trade (volume turnover)									
Total retail trade	-3.3	-0.3	0.7	-1.2	0.6	0.6	1.2	0.2	...
Retail trade and repair of motor vehicles	5.1	5.6	13.8	7.7	13.8	10.6	15.3	15.6	...
Private sector services ³	0.0	2.5	...	0.9	...	4.6	10.0
	<i>year-on-year growth rates in %</i>								
Average gross wage	-0.1	1.1	0.7	1.2	1.5	-0.2	2.8	1.6	...
- private sector	0.6	1.4	2.8	1.1	10.2	-0.1	3.0	27.8	...
- public sector	-1.3	1.0	-0.6	1.7	-5.2	-0.2	2.9	-18.3	...
Real net wage ⁴	-1.1	0.6	1.0	1.0	2.0	0.5	3.2	1.9	...
Registered unemployment rate (in %)	13.1	13.1	12.3	12.7	11.9	11.7	11.7	12.3	...
Registered unemployed persons	8.8	0.2	-6.1	-3.1	-6.5	-7.3	-6.9	-5.3	-4.9
Persons in employment	-2.0	0.5	0.9	1.1	0.5	0.5	0.6	0.5	...
- private sector	-2.2	0.8	1.3	1.5	0.6	0.9	0.5	0.4	...
- public sector	-1.6	-0.1	-0.3	0.1	0.3	-0.5	0.7	0.6	...
	<i>year-on-year growth rates in %</i>								
Price Developments									
HICP	1.9	0.4	-0.8	0.0	-0.9	-1.1	-0.9	-0.6	-0.8
- services	2.2	1.8	0.9	1.5	1.0	0.6	1.5	0.9	0.7
- industrial goods excluding energy	-0.9	-1.0	-0.6	-1.4	-0.4	-0.5	-0.6	-0.2	-0.3
- food	4.9	0.8	1.0	0.6	0.8	0.8	0.7	1.1	0.0
- energy	1.8	-1.4	-7.8	-2.0	-9.1	-9.6	-9.9	-7.9	-6.4
Core inflation indicator ⁵	0.9	0.6	0.3	0.3	0.4	0.1	0.6	0.4	...
	<i>in % GDP</i>								
Balance of Payments - Current Account									
Current account balance	5.6	7.0	7.3	7.8	6.5	9.0	7.7	2.8	...
1. Goods	2.0	3.2	4.2	3.4	3.6	5.5	5.3	0.0	...
2. Services	4.9	4.7	5.3	4.2	5.1	5.6	4.8	4.8	...
3. Primary income	-0.5	-0.2	-0.9	-0.4	-1.2	-1.4	-1.5	-0.6	...
4. Secondary income	-0.8	-0.7	-1.3	0.5	-1.0	-0.6	-0.9	-1.5	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	2.4	5.7	5.1	8.5	3.2	1.0	6.4	2.3	...
Import of goods and services	-1.6	4.3	2.9	3.7	1.6	-1.1	0.1	6.2	...
	<i>Public Finances</i>								
	2013	2014	12 m. 'till	2014		2015			
Consolidated general government (GG) balance ⁶			nov.15	jan.-nov.	jan.-nov.	jan.-nov.			
	<i>EUR millions</i>		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %	
Revenue	14,728	15,494	41.3	2.1	13,925	6.1	14,290	2.6	
Tax revenue	12,648	13,193	35.8	4.3	11,977	4.6	12,520	4.5	
From EU budget	938	1,040	2.7	-5.9	807	24.2	798	-1.1	
Other	1,141	1,261	2.8	-13.4	1,141	11.6	972	-14.9	
Expenditure	16,286	16,755	43.5	-0.2	15,147	3.1	15,097	-0.3	
Current expenditure	6,838	7,043	18.4	0.3	6,452	3.1	6,465	0.2	
- wages and other personnel expenditure	3,617	3,610	9.4	-0.1	3,299	0.1	3,303	0.1	
- purchases of goods, services	2,239	2,233	5.8	0.7	1,979	-1.4	1,971	-0.4	
- interest	840	1,097	2.7	-5.0	1,094	30.6	1,038	-5.1	
Current transfers	7,671	7,592	19.6	-0.7	6,934	-1.1	6,883	-0.7	
- transfers to individuals and households	6,343	6,335	16.6	0.4	5,814	-0.1	5,840	0.4	
Capital expenditure, transfers	1,351	1,717	4.4	-1.6	1,391	35.0	1,359	-2.3	
GG surplus/deficit	-1,558	-1,261	-2.2	-30.1	-1,222	-22.2	-807	-34.0	

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.