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SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

JULY 2016

Summary of macroeconomic developments, July 2016

Growth in the majority of major global economies was stable during the first quarter, including in the euro area where private consumption is contributing decisively to growth. Forecasts of global economic growth and trade have nevertheless been cut further, but for the moment without impacting the forecast of aggregate growth in Slovenia's trading partners for this year. Following previous cuts, the latter was raised to 1.8% in June, comparable with the forecast from the beginning of the year. That forecast does not, however, take yet account of the potential effects of Brexit, which are expected to be negative for the United Kingdom due to the previously identified slowdown in investment. However, shifts on the financial markets at the end of June and beginning of July have already proven that the initial responses to Brexit were likely exaggerated, and that it is too early for realistic assessments of Brexit's impact on economic activity.

Economic growth in Slovenia remained well above the European average during the first quarter. The only major limiting factor was a decline in construction investment due to a major slowdown in general government infrastructure investment; in the absence of the aforementioned factor, economic growth would have even accelerated. Contributing most to the latter were manufacturing segments, which recorded sharp growth in output relative to the final quarter of last year. We also find that the majority of other economic sectors are also becoming more active on the foreign market, an indication of the increasing export orientation of the economy as a whole. Growth in private consumption was below expectations during the first quarter; growth was down considerably but more than likely only temporarily, as the situation on the labour market continues to improve. Activity and confidence indicators also point to continued solid economic growth in the second quarter.

Growth in employment and wages has strengthened, the number of registered unemployed having fallen below 100,000 in June for the first time since 2010. According to national accounts figures, employment rose by 1.4% during the first quarter, with industry, trade and repair of motor vehicles, transportation and storage, and accommodation and food services contributing most to that growth. Various surveys for the coming months indicate continued growth in employment. The year-on-year decline in the number of registered unemployed exceeded 9% in June. The average year-on-year growth in nominal gross wages during the first four months of the year was the highest in the last four years, while year-on-year growth in the nominal wage bill was the highest of the last six years, which provides the basis for higher growth in private consumption.

Inflation, as measured by the HICP, was positive in June for the first time since 2014. The aforementioned turnaround was rapid; at 0.1% inflation was no longer below the euro area inflation rate. Core inflation reached the euro area level in May and exceeded it in June. The reasons for that reversal are varied: both external and internal cost pressures are gradually emerging, while it is still difficult to assess the impact of domestic consumption, which was quite weak in the first quarter.

The nominal general government deficit is expected to narrow to 2.2% of GDP this year. The narrowing of the deficit during the first quarter was a reflection of growth in revenue, in particular from taxes and contributions, while the decrease in expenditure was the result of a sharp drop in government investment due to a slow start to the drawdown of funds from the new European financial framework. Government debt at the end of the first quarter was up slightly on the end of last year, on account of additional borrowing, to stand at 83.8% of GDP.

Main macroeconomic indicators

	2013	2014	2015	15Q3	15Q4	16Q1	2013	2014	2015	15Q3	15Q4	16Q1
	Slovenia						euro area					
Economic developments	y-o-y growth rates in %											
GDP	-1,1	3,0	2,9	2,6	3,3	2,5	-0,3	0,9	1,7	1,6	1,9	1,6
- industry	-0,1	4,8	5,0	5,3	4,6	5,5	-0,6	0,6	1,9	2,0	2,2	0,9
- construction	-8,7	9,5	-3,3	-6,0	-0,4	-18,3	-3,3	-0,9	0,3	0,3	1,5	0,6
- mainly public sector services	-0,4	1,0	0,3	0,3	0,7	1,3	0,4	0,5	0,9	0,9	0,9	0,9
- mainly private sector services	-0,8	4,4	3,5	3,4	4,1	2,7	-0,3	1,0	1,7	1,6	2,0	1,5
Domestic expenditure	-2,2	1,6	2,1	1,4	3,7	0,6	-0,7	0,9	1,8	1,9	2,4	2,1
- general government	-1,5	-0,1	0,7	0,8	3,0	2,7	0,2	0,8	1,3	1,1	1,7	1,6
- households and NPISH	-4,1	0,7	1,7	2,5	2,6	0,7	-0,6	0,8	1,7	1,9	1,6	1,9
- gross capital formation	2,7	5,7	4,4	-0,6	8,1	-1,5	-1,8	1,4	2,8	2,7	5,7	3,3
- gross fixed capital formation	1,7	3,2	0,5	-2,0	3,4	-8,2	-2,6	1,3	2,9	2,6	4,0	2,3
- inventories and valuables, contr. to GDP growth in pp	0,2	0,5	0,8	0,3	0,8	1,3	0,2	0,0	0,0	0,0	0,3	0,2
Labour market												
Employment	-1,4	0,6	1,4	1,3	1,3	1,4	-0,6	0,6	1,1	1,1	1,2	1,4
- mainly private sector services	-1,6	0,6	1,6	1,5	1,4	1,5	-0,9	0,5	1,1	1,2	1,3	1,5
- mainly public sector services	-0,6	0,4	0,8	0,7	0,8	1,1	0,2	0,8	0,9	1,0	1,0	1,1
Labour costs per employee	0,5	1,1	0,8	0,3	1,5	2,6	1,6	1,3	1,3	1,3	1,2	1,3
- mainly private sector services	1,7	2,1	0,8	0,4	1,2	1,8	1,5	1,3	1,4	1,4	1,2	1,3
- mainly public sector services	-3,2	-2,0	0,8	0,3	0,8	1,9	1,6	1,1	1,1	0,9	1,1	1,4
Unit labour costs	-0,1	-2,0	-0,6	-1,2	-0,7	1,5	1,1	1,0	0,8	1,0	0,7	1,3
- industry	0,8	-1,0	-2,1	-3,0	-0,7	-0,8	1,9	1,3	0,1	0,0	-0,6	1,2
	in %											
LFS unemployment rate	10,1	9,8	9,0	8,6	8,4	8,9	12,0	11,7	10,9	10,3	10,6	...
Foreign trade	y-o-y growth rates in %											
Current account balance as % of GDP	4,8	6,2	5,2	6,5	4,7	7,0	2,2	2,3	0,0	0,0	0,0	0,0
External trade balance as contr. to GDP growth in pp	1,1	1,6	1,0	1,4	-0,1	1,9	0,4	0,0	-0,1	-0,2	-0,4	-0,4
Real export of goods and services	3,1	5,8	5,2	5,0	3,3	5,3	2,1	4,1	5,3	4,8	5,0	2,8
Real import of goods and services	1,7	4,0	4,4	3,7	3,9	3,2	1,3	4,5	6,1	5,7	6,4	4,0
Financing	in % of GDP											
Banking system's balance sheet	128,9	116,7	107,8	109,4	107,8	104,6	297,6	299,3	285,5	291,6	285,5	288,0
Loans to NFCs	45,1	31,5	26,5	27,9	26,5	25,1	42,0	40,2	39,0	39,4	39,0	38,9
Loans to households	22,6	21,5	21,2	21,3	21,2	21,0	51,8	50,7	50,3	50,3	50,3	50,0
Inflation	in %											
HICP	1,9	0,4	-0,8	-0,8	-0,9	-0,9	1,3	0,4	0,0	0,1	0,2	0,0
HICP excl. energy, food, alcohol and tobacco	0,9	0,6	0,3	0,3	0,4	0,3	1,1	0,8	0,8	0,9	1,0	1,0
Public finance	in % of GDP											
Debt of the general government	71,0	81,0	83,2	84,4	83,2	83,8	91,1	92,1	90,7	91,8	90,7	...
One year net lending/net borrowing of the general government	-15,0	-5,0	-2,9	-4,1	-2,9	-2,8	-3,0	-2,6	-2,1	-2,1	-2,1	...
- interest payment	2,6	3,2	3,0	3,1	3,0	3,0	2,8	2,7	2,4	2,5	2,4	...
- primary deficit	-12,5	-1,8	0,0	-1,0	0,0	0,2	-0,2	0,1	0,3	0,4	0,3	...
- deficit excl. bank recapitalisations	-4,9	-4,0	-2,9	-3,2	-2,9	-2,8						
- primary deficit excl. bank recapitalisations	-2,3	-0,9	0,0	-0,1	0,0	0,2						

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