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SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

JULY 2017

Summary of macroeconomic developments, July 2017

The economic situation in the international environment is improving. Global economic growth forecasts were again strengthened slightly at the end of the second quarter, while the survey indicators of confidence and activity indicate rising economic growth in the euro area. The latest weighted estimates based on the Consensus forecasts suggest that aggregate growth in Slovenia's main trading partners will be slightly higher in 2017 and 2018, which is improving the already favourable outlook for growth in Slovenian exports. Price pressures on global energy and commodities markets have eased at the same time, which could neutralise the expected inflationary impact of the domestic economic expansion. The appreciation of the euro is also helping to reduce import price pressures.

The restoration of faster convergence with the more advanced euro area countries is becoming increasingly evident. Economic growth in Slovenia in the first quarter of this year was very high at 5.3%, significantly higher than the average across the euro area. However, it remains balanced, at least for now, as activity in the export sector has increased sharply alongside the rapid growth in domestic final consumption and investment. As a result, the contribution made to GDP growth by net trade was strongly positive, in the amount of 0.8 percentage points, while the trade surplus remained wide throughout the first five months of the year. The high growth continued in the second quarter, and the outlook for the third quarter is also favourable for the moment: according to surveys at least, corporate activity and revenues are increasing in all sectors, with construction firms anticipating the largest pick-up. The growth is also attributable to the cessation of the corporate deleveraging process, as firms are gradually increasing debt financing via domestic banks. Banks are also encouraging private consumption and housing investment via significant growth in household loans.

The surplus supply of labour is rapidly diminishing. Growth in employment is still strengthening, and the proportion of permanent employment increased, while at the same time firms are increasingly facing a serious shortage of qualified workers. The number of registered unemployed in June was down fully 15% in year-on-year terms. However, for the moment the decline in the surplus supply of labour is not causing wage pressures, as nominal wage growth remains low, while real wage growth was actually negative over the first four months of this year. In the first quarter, wage growth was significantly outpaced by productivity growth, which further improved the cost competitiveness of the economy.

The high economic growth is creating the conditions for balanced public finances, as growth in general government revenues is outpacing growth in expenditure. The consolidated general government deficit amounted to just EUR 85 million over the first four months of the year, EUR 360 million narrower in year-on-year terms. The Ministry of Finance is forecasting a reduction in the budget deficit to 0.8% of GDP this year, 1 percentage point less than last year, while the general government debt is forecast to decline to 77% of GDP. Despite the improvement in the fiscal position, the risks remain significant, and are partly related to the upward pressure on expenditure from various interest groups, which has been strengthened by the favourable economic situation, while an electoral season is also approaching. Despite the pressures, it is recommended that the government take advantage of the favourable economic situation to introduce structural reforms in the area of healthcare, pensions and long-term care, and to gradually balance the structural fiscal position. Over the long term this would strengthen the ability to act countercyclically in the event of any renewed deterioration in the economic situation.

The easing of price pressures on global energy and commodities markets pushed inflation below 1% in June. June's euro price of a barrel of Brent crude was down 20% on February, while the contribution made to inflation in Slovenia by energy prices declined from 1.1 percentage points to 0.2 percentage points, partly as a result of a waning base effect. Growth in services prices remained practically unchanged compared with the second half of last year, while prices of non-energy industrial goods are continuing to fall. Core inflation thus remains below 1%, as the pass-through of high economic growth into price growth remains surprisingly weak.

Main macroeconomic indicators

	2014	2015	2016	16Q3	16Q4	17Q1	2014	2015	2016	16Q3	16Q4	17Q1
	Slovenia						euro area					
Economic developments	y-o-y growth rates in %											
GDP	3.1	2.3	2.5	2.5	2.6	5.3	1.2	2.0	1.8	1.7	1.5	2.5
- industry	4.5	1.5	5.6	5.7	4.8	7.0	2.5	4.1	1.6	0.8	1.3	3.6
- construction	9.2	-1.3	-12.3	-9.2	-9.2	13.0	-1.2	0.1	1.7	1.9	0.8	3.0
- mainly public sector services	0.1	1.0	2.3	2.1	3.5	2.6	0.5	0.9	1.2	1.4	1.2	1.5
- mainly private sector services	4.7	2.5	2.6	2.7	2.5	6.2	1.4	2.1	1.8	1.6	1.4	2.7
Domestic expenditure	1.8	1.4	2.4	1.7	3.7	5.0	1.3	1.9	2.2	1.8	2.2	2.5
- general government	-1.2	2.4	2.6	1.7	2.8	1.7	0.7	1.3	1.8	1.7	1.4	1.3
- households and NPISH	2.0	0.5	2.8	2.1	4.0	4.0	0.8	1.8	2.1	1.9	1.9	1.7
- gross capital formation	4.3	2.8	1.0	0.5	3.8	10.5	3.5	2.8	3.0	1.6	4.0	5.8
- gross fixed capital formation	1.4	1.0	-3.1	-2.5	0.9	12.0	1.6	3.2	3.7	2.1	5.2	4.0
- inventories and valuables, contr. to GDP growth in pp	0.6	0.4	0.8	0.6	0.5	-0.1	0.4	-0.1	-0.1	-0.1	-0.3	0.4
Labour market												
Employment	0.4	1.1	2.0	2.1	2.4	2.6	0.5	1.0	1.4	1.3	1.4	1.5
- mainly private sector services	0.5	1.2	2.0	2.1	2.3	2.6	0.4	1.0	1.4	1.4	1.4	1.5
- mainly public sector services	0.4	0.8	2.2	2.4	2.7	2.6	1.0	0.9	1.2	1.3	1.2	1.2
Labour costs per employee	1.3	1.4	2.2	1.6	1.5	1.6	1.4	1.2	1.2	1.3	1.3	1.4
- mainly private sector services	2.3	1.5	1.4	0.7	1.0	1.8	1.5	1.3	1.2	1.2	1.2	1.4
- mainly public sector services	-2.0	1.2	5.0	5.0	5.0	4.0	1.1	1.2	1.4	1.5	1.6	1.4
Unit labour costs	-2.0	0.3	1.7	1.1	1.2	-1.2	0.7	0.3	1.0	1.0	1.3	0.3
- industry	-0.8	1.1	-0.7	-1.3	0.0	-1.8	-0.8	-2.3	0.1	0.9	0.6	-1.2
	v %											
LFS unemployment rate	9.8	9.0	8.0	7.3	8.1	7.8	11.7	10.9	10.0	9.6	9.8	9.9
Foreign trade	y-o-y growth rates in %											
Current account balance as % of GDP	6.2	5.2	6.8	7.1	5.2	6.7	2.3	0.0	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in pp	1.4	1.1	0.3	0.9	-0.8	0.8	0.0	0.2	-0.3	-0.1	-0.7	0.2
Real export of goods and services	5.7	5.6	5.9	5.6	4.6	8.7	4.4	6.2	3.0	2.4	3.1	6.0
Real import of goods and services	4.2	4.6	6.2	5.0	6.3	8.8	4.9	6.3	4.1	2.8	5.1	6.2
Financing	in % of GDP											
Banking system's balance sheet	116.6	107.7	100.8	100.3	100.8	100.5	297.8	283.0	277.4	282.9	277.4	279.1
Loans to NFCs	31.5	26.5	22.9	23.1	22.9	23.2	40.2	38.9	38.1	38.3	38.1	38.0
Loans to households	21.4	21.2	21.4	21.1	21.4	21.5	50.5	50.0	49.7	49.6	49.7	49.5
Inflation	in %											
HICP	0.4	-0.8	-0.2	0.0	0.7	2.0	0.4	0.0	0.2	0.3	0.7	1.8
HICP excl. energy, food, alcohol and tobacco	0.6	0.3	0.7	0.8	0.8	0.7	0.8	0.8	0.9	0.8	0.8	0.8
Public finance	in % of GDP											
Debt of the general government	80.9	83.1	79.7	82.8	79.7	81.4	92.0	90.3	89.2	90.0	89.2	...
One year net lending/net borrowing of the general government	-5.4	-2.9	-1.8	-1.7	-1.8	-1.4	-2.6	-2.1	-1.5	-1.8	-1.5	...
- interest payment	3.2	2.9	3.0	3.0	3.0	3.0	2.7	2.4	2.2	2.2	2.2	...
- primary deficit	-2.2	0.0	1.1	1.3	1.1	1.6	0.1	0.3	0.7	0.5	0.7	...
- deficit excl. bank recapitalisations	-4.4	-2.9	-1.8	-1.7	-1.8	-1.4						
- primary deficit excl. bank recapitalisations	-1.3	0.0	1.1	1.3	1.1	1.6						

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