

**BANKA**  

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**SLOVENIJE**

**BANK OF SLOVENIA**  
**EUROSYSTEM**

**SUMMARY**  
**OF MACROECONOMIC**  
**DEVELOPMENTS**

**JANUARY 2017**



## Summary of macroeconomic developments, January 2017

*The outlook for growth in Slovenia's exports in 2017 is favourable. The forecasts for global economic growth remain solid, with improved growth in individual advanced economies and stabilisation in certain major developing countries. Moderate economic growth of around 1.5% is also expected for the euro area in 2017. The latest weighted estimates based on the Consensus forecasts even suggest that aggregate growth in Slovenia's main trading partners will be slightly higher than previously anticipated. The estimate of growth in foreign demand according to the Bank of Slovenia methodology is also favourable, and provides a sound basis for the anticipated stable growth in turnover in Slovenia's export sector. Despite the positive outlook, numerous downside risks remain in the international environment, from changes in the political environment in certain advanced economies, increased social inequality, and mutual sanctions between the EU and Russia, to geopolitical tensions in the Middle East.*

*Economic growth in Slovenia remains among the highest in the euro area, thanks mainly to the competitiveness of the export sector. Over the last decade this has proven itself capable of increasing market shares even in markets where demand is weak, and accounted for more than 40% of the 2.7% growth in GDP in the third quarter of 2016. Its contribution to growth across the euro area overall was insignificant. Domestic final consumption is also strengthening, with a positive impact on growth in value-added in private-sector services. Households are making a significant contribution to growth in final consumption: their consumption is becoming increasingly balanced in the wake of growth in employment and wages and an increase in consumer loans, consumption of non-durables having begun to grow. Investment in particular remains weak compared with the euro area overall, although the outlook is improving, as corporate investment activity strengthens, which is already being reflected in a decline in corporate financial surpluses. Government investment is also expected to increase in 2017 as the disbursement of EU funds improves. The level of optimism in the economy measured by survey at the end of 2016 was comparable to the level before the outbreak of the crisis at the end of 2008.*

*The situation on the labour market improved further in the autumn months of 2016, although structural imbalances are also becoming increasingly evident. Employment growth exceeded 2% in the third quarter, primarily as a result of faster growth in employment in private-sector services. Unemployment in November was down 9.8% in year-on-year terms. Employment is also expected to increase in the first half of 2017 according to a number of surveys, although the structural imbalances on the labour market are also increasing: approximately a third of employers are already facing shortages in qualified staff. The rising number of unemployed people aged over 60 is also indicative of structural imbalances. Year-on-year growth in the wage bill has strengthened slightly since August; the increase in growth is primarily evident in the government sector, owing to the withdrawal of austerity measures.*

*The current account surplus approached 7% of GDP in October, despite growth in domestic demand. This was attributable to rapid growth in exports of various types of services, weaker growth in residents' expenditure on travel in the rest of the world, and a narrower deficit in income from equity and from investments in securities. The merchandise trade surplus began narrowing slowly after May, as nominal growth in imports began outpacing growth in exports, primarily as a result of the rapid growth in imports of consumer goods that has accompanied the increase in private consumption.*

*Although the fiscal position is improving, diligence is required in controlling growth in general government expenditure. The general government deficit over the first three quarters of 2016 was estimated at 1.4% of GDP, while the target for*

*the whole year is 2.2% of GDP. Despite the slowdown in the disbursement of funding from EU funds, there was a moderate increase in revenues, as increases in household consumption, employment and corporate earnings brought a rise in tax revenues. Fiscal cash registers also had a beneficial impact. The decline in general government expenditure on account of a sharp reduction in investment was also related to the decline in the disbursement of EU funds. The main contrasting fiscal development was the relatively high growth in employee compensation as a result of the gradual relaxation of austerity measures, which will continue in 2017 and 2018. Recent months have also seen a sharp increase in pressure from various interest groups to raise general government expenditure, which could make it harder to meet fiscal targets should the economic situation be worse than current expectations suggest.*

*Deflation diminished through 2016. Prices as measured by the HICP fell by 0.2% overall, compared with 0.8% in the previous year. Price developments in the early part of the year were primarily subject to January's oil price shock, although the core inflation indicators also remained low at the same time, despite growth in the wage bill and private consumption. A favourable holiday season then pushed growth in services prices in the middle of the year, which brought a significant rise in headline inflation and core inflation. Towards the end of the year growth in services prices slowed slightly, while energy prices stabilised as a result of a base effect and growth in oil prices. Headline inflation stood at 0.6% in December.*

## Main macroeconomic indicators

	2013	2014	2015	16Q1	16Q2	16Q3	2013	2014	2015	16Q1	16Q2	16Q3
	<b>Slovenia</b>						<b>euro area</b>					
<b>Economic developments</b>	<b>y-o-y growth rates in %</b>											
GDP	-1.1	3.1	2.3	2.3	2.8	2.7	-0.3	1.2	2.0	1.7	2.3	1.5
- industry	-0.1	4.5	1.5	4.7	6.8	5.7	-0.7	2.3	4.1	1.2	2.9	0.8
- construction	-8.7	9.2	-1.3	-18.2	-13.2	-9.6	-3.6	-1.1	-0.2	1.2	2.4	2.0
- mainly public sector services	-1.1	0.1	1.0	1.6	1.8	2.1	0.2	0.5	1.0	1.1	1.3	1.2
- mainly private sector services	-0.7	4.7	2.5	2.4	3.3	2.5	-0.2	1.3	2.1	1.5	2.4	1.5
Domestic expenditure	-2.0	1.8	1.4	1.4	2.7	1.8	-0.6	1.2	1.8	2.1	2.6	1.6
- general government	-2.1	-1.2	2.4	3.3	2.0	1.6	0.3	0.6	1.4	2.1	2.0	2.1
- households and NPISH	-4.0	2.0	0.5	1.6	3.4	2.8	-0.6	0.8	1.8	2.1	2.1	1.6
- gross capital formation	4.3	4.3	2.8	-1.0	1.7	-0.4	-1.7	3.1	2.4	2.3	4.8	1.2
- gross fixed capital formation	3.2	1.4	1.0	-7.7	-3.4	-3.6	-2.5	1.4	3.2	2.2	4.8	2.1
- inventories and valuables, contr. to GDP growth in pp	0.2	0.6	0.4	1.3	1.0	0.6	0.2	0.3	-0.1	0.0	0.0	-0.2
<b>Labour market</b>												
Employment	-1.1	0.4	1.1	1.6	2.0	2.1	-0.6	0.6	1.0	1.4	1.3	1.2
- mainly private sector services	-1.2	0.5	1.2	1.6	2.0	2.1	-0.9	0.4	1.0	1.5	1.4	1.2
- mainly public sector services	-0.6	0.4	0.8	1.5	2.1	2.4	0.3	1.0	0.9	1.0	1.1	1.0
Labour costs per employee	0.5	1.3	1.4	2.6	3.2	1.6	1.5	1.3	1.3	1.3	1.2	1.2
- mainly private sector services	1.6	2.3	1.5	1.8	2.0	0.7	1.5	1.4	1.3	1.3	1.1	1.1
- mainly public sector services	-3.2	-2.0	1.2	2.3	4.0	5.0	1.5	1.1	1.1	1.3	1.3	1.6
Unit labour costs	0.1	-2.0	0.3	1.9	2.1	1.2	1.0	0.7	0.4	1.2	0.3	1.0
- industry	0.8	-0.8	1.1	0.2	-1.6	-1.3	2.0	-0.7	-2.2	1.0	-1.1	1.0
	<b>in %</b>											
LFS unemployment rate	10.1	9.8	9.0	8.9	7.8	7.3	12.0	11.7	10.9	10.7	10.0	...
<b>Foreign trade</b>	<b>y-o-y growth rates in %</b>											
Current account balance as % of GDP	4.8	6.2	5.2	6.2	6.6	7.4	2.2	2.3	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in pp	0.8	1.4	1.1	1.1	0.4	1.1	0.4	0.0	0.3	-0.4	-0.2	0.0
Real export of goods and services	3.1	5.7	5.6	6.0	7.7	5.4	2.1	4.5	6.5	2.3	3.7	2.0
Real import of goods and services	2.1	4.2	4.6	5.2	8.2	4.5	1.4	4.9	6.4	3.4	4.6	2.2
<b>Financing</b>	<b>in % of GDP</b>											
Banking system's balance sheet	128.8	116.6	107.7	104.5	101.9	100.0	297.6	298.1	283.4	286.1	288.3	283.2
Loans to NFCs	45.1	31.5	26.5	25.1	24.1	23.1	42.0	40.2	38.9	38.8	38.6	38.2
Loans to households	22.6	21.4	21.2	21.0	21.1	21.1	51.8	50.6	50.1	49.8	49.7	49.6
<b>Inflation</b>	<b>in %</b>											
HICP	1.9	0.4	-0.8	-0.9	-0.4	0.0	1.3	0.4	0.0	0.0	-0.1	0.3
HICP excl. energy, food, alcohol and tobacco	0.9	0.6	0.3	0.3	0.9	0.8	1.1	0.8	0.8	1.0	0.8	0.8
<b>Public finance</b>	<b>in % of GDP</b>											
Debt of the general government	71.0	80.9	83.1	83.6	82.4	82.6	91.3	92.0	90.4	91.3	91.2	...
One year net lending/net borrowing of the general government	-15.0	-5.0	-2.7	-2.5	-1.7	-1.5	-3.0	-2.6	-2.1	-1.9	-1.8	...
- interest payment	2.6	3.2	2.9	2.9	3.0	3.0	2.8	2.7	2.4	2.3	2.3	...
- primary balance	-12.5	-1.9	0.3	0.4	1.3	1.5	-0.2	0.1	0.3	0.4	0.5	...
- balance excl. bank recapitalisations	-4.9	-4.1	-2.7	-2.5	-1.7	-1.5						
- primary balance excl. bank recapitalisations	-2.3	-0.9	0.3	0.4	1.3	1.5						

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