

**BANKA
SLOVENIJE**
BANK OF SLOVENIA
EUROSYSTEM



SUMMARY OF MACROECONOMIC DEVELOPMENTS

FEBRUARY 2018

Summary of macroeconomic developments, February 2018

Forecasts for global economic developments over the medium term are optimistic. In its January forecasts for 2018 and 2019, the IMF expects global GDP growth of close to 4%, the maintenance of solid growth in international trade, and a rise in inflation in advanced economies to around 2%. In January, the weighted forecast of this year's economic growth for Slovenia's main trading partners was also raised. The confidence indicators in the euro area remain significantly above their long-term averages, and the PMI is also pointing to solid growth in economic activity in the early part of this year. In early February, price pressures on international commodities markets eased with the downturn in oil prices, which will reduce the contribution made to domestic inflation by energy prices.

Economic growth in Slovenia remains high. Last November, growth in activity in the manufacturing, retail and construction sectors remained among the highest in the euro area. There was also exceptional growth in merchandise exports. In the third quarter of last year, the slowdown in growth in investment was merely temporary, as the structure of growth in imports and the increase in government investment activity point to higher growth in investment in the final quarter. Further evidence that the conditions for investing are highly favourable comes from SORS survey of manufacturing firms, which are assessing both financing factors and demand factors very positively. In January, the economic sentiment remained extremely high, while the Bank of Slovenia's short-term economic forecasting model suggests that GDP growth will remain high in the first quarter of this year.

Employment growth was high again in November, while year-on-year growth in wages also increased significantly because of increased bonus payments. In November, the workforce in employment in the private sector was up 4% in year-on-year terms, close to the growth rates seen in the final period before the crisis. The number of unemployed is continuing to fall in year-on-year terms, and long-term unemployment also fell. In a situation of strong demand for labour there are already structural changes taking place on the labour market: the number of new hires for permanent employment rose significantly faster last year than the number of new hires for temporary employment. Evidently employers are already competing through an increased supply of more secure forms of employment, although there are no signs yet of major upward pressure on wages. Year-on-year growth in the average gross wage reached 4.1% in November, albeit primarily as a result of high bonus payments as a consequence of good performance and reduced taxation. At the same time, growth in basic wages remained relatively low, at least in relation to the reversal in inflation, at 2.4%. The strong economic cycle has not yet reduced emigration levels. Over the first three quarters of last year, 13,587 people emigrated from Slovenia, just 72 less than the number of immigrants arriving. Therefore, the decline in the availability of labour was mainly slowed by a rise in the labour force participation rate, which had reached 74.5% by the third quarter of last year, up 2 percentage points on its pre-crisis high.

The country's fiscal position improved significantly last year. The consolidated general government deficit amounted to 0.5% of GDP over the first eleven months of the year, down 1.9 percentage points in year-on-year terms. The high growth in revenues was the result of rapid employment growth, increased private consumption and high corporate profits. In November, growth in expenditure was high because of a one-off transfer of funds from the state budget to public healthcare institutes, although the rate over the first eleven months of the year was more than 3 percentage points less than the corresponding rate on the revenue side. The improvement in the fiscal position is primarily the result of developments in the state budget, which recorded a deficit of EUR 332 million last year, EUR 120 million less than the expected

deficit in October's report on the general government deficit and debt. Thus, last year's general government deficit could be even smaller than the government plans, which were predicting a deficit of 0.8% of GDP. Despite the improvement in Slovenia's fiscal position and the favourable macroeconomic forecasts, it is necessary to maintain moderate growth in expenditure to achieve the projected general government surplus over the medium term.

In January, Slovenia's year-on-year inflation as measured by the HICP fell by 0.2 percentage points to 1.7%, primarily as a result of base effects in prices of refined petroleum products, which had slightly reduced euro area inflation already in December. Food price inflation also slowed slightly, again because of base effects. By contrast, there may be signs of a slight strengthening in domestic price factors: growth in services prices increased, while the negative contribution made by prices of non-energy industrial goods was extremely small for the second consecutive month. On this basis, the narrowest indicator of core inflation excluding energy and food prices reached 1.2% in January, outpacing its average of last year. Core inflation in Slovenia thereby outpaced the rate across the euro area for the first time in six months; the latter has remained around 1.0% for the last half-year.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till	12 m. 'till	12 m. 'till	3 m. 'till	3 m. 'till	2017	2017	2017	2018
	Dec. 15	Dec. 16	Dec. 17	Dec. 16	Dec. 17	Oct.	Nov.	Dec.	Jan.
Economic Activity									
	<i>balance of answers in percentage points</i>								
Sentiment indicator	5.2	5.5	12.5	7.8	15.9	15.5	16.1	16.0	16.3
- confidence indicator in manufacturing	5.9	5.4	10.0	6.7	13.0	12.0	14.0	13.0	14.0
	<i>year-on-year growth rates in %</i>								
Industry: - total ¹	5.1	7.8	...	9.3	...	10.2	9.9	...	...
- manufacturing	5.5	9.0	...	10.4	...	10.9	10.8	...	...
Construction: - total ²	-8.1	-17.7	...	-9.2	...	30.8	21.2	...	...
- buildings	-4.0	2.4	...	19.1	...	44.7	28.2	...	...
Trade (volume turnover)									
Total retail trade	0.8	4.0	8.2	10.7	3.3	2.5	5.9	1.7	...
Retail trade and repair of motor vehicles	13.5	22.3	15.9	24.8	18.2	18.9	14.3	21.7	...
Private sector services ³	4.9	4.1	...	4.8	...	10.0	8.3	...	...
	<i>year-on-year growth rates in %</i>								
Average gross wage	0.7	1.8	...	1.9	...	3.4	4.1	...	...
- private sector	0.5	1.7	...	1.8	...	3.9	4.1	...	...
- public sector	1.2	2.3	...	2.3	...	3.1	4.6	...	...
Real net wage ⁴	1.0	1.9	...	1.3	...	2.5	4.7	...	...
Registered unemployment rate (in %)	12.3	11.2	...	10.6	...	8.8	8.7	...	...
Registered unemployed persons	-6.1	-8.5	-14.1	-10.4	-14.7	-14.7	-14.9	-14.6	-15.2
Persons in employment	0.9	1.6	...	2.5	...	3.5	3.6	...	...
- private sector	0.9	1.6	...	2.9	...	4.6	5.0	...	...
- public sector	0.7	1.4	...	1.3	...	0.7	0.2	...	...
	<i>year-on-year growth rates in %</i>								
Price Developments									
HICP	-0.8	-0.2	1.6	0.7	1.5	1.3	1.4	1.9	1.7
- services	0.9	1.6	1.8	1.8	1.7	1.6	1.6	1.7	2.3
- industrial goods excluding energy	-0.6	-0.5	-0.7	-0.6	-0.8	-1.2	-0.9	-0.3	-0.3
- food	0.9	0.5	2.2	1.0	2.8	2.2	3.0	3.2	2.6
- energy	-7.8	-5.2	4.7	-0.5	4.3	3.8	3.5	5.6	3.2
Core inflation indicator ⁵	0.3	0.7	0.7	0.8	0.6	0.4	0.5	0.8	...
	<i>in % GDP</i>								
Balance of Payments - Current Account									
Current account balance	4.4	5.2	6.5	3.3	5.1	10.4	0.8	4.2	...
1. Goods	3.8	3.8	3.8	2.2	3.1	6.4	1.5	1.2	...
2. Services	4.8	5.4	5.9	5.1	5.4	7.2	3.6	5.3	...
3. Primary income	-3.3	-3.2	-2.6	-3.4	-3.1	-3.0	-3.9	-2.3	...
4. Secondary income	-1.0	-0.8	-0.6	-0.5	-0.3	-0.3	-0.4	-0.1	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	4.9	5.0	13.4	5.6	14.4	19.8	13.2	10.0	...
Import of goods and services	3.6	4.2	13.4	7.3	13.3	16.7	14.5	8.8	...
	Public Finances								
	2015	2016	12 m. 'till		2016		2017		
Consolidated general government (GG) balance ⁶			Nov. 17		Jan.-Nov.		Jan.-Nov.		
	EUR milions		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %	
Revenue	15,714	15,842	39.1	6.4	14,341	0.4	15,277	6.5	
Tax revenue	13,746	14,240	35.1	6.1	12,980	3.7	13,810	6.4	
From EU budget	882	481	1.1	4.6	347	-56.5	318	-8.4	
Other	1,085	1,121	2.9	11.6	1,013	4.2	1,149	13.4	
Expenditure	16,956	16,497	39.6	1.6	14,849	-1.6	15,329	3.2	
Current expenditure	7,168	7,407	17.9	3.0	6,734	4.2	6,988	3.8	
- wages and other personnel expenditure	3,610	3,785	9.1	3.9	3,462	5.1	3,601	4.0	
- purchases of goods, services	2,311	2,371	6.1	9.8	2,047	3.4	2,289	11.8	
- interest	1,043	1,074	2.3	-8.4	1,070	3.1	980	-8.3	
Current transfers	7,540	7,700	18.4	2.6	7,024	2.0	7,208	2.6	
- transfers to individuals and households	6,371	6,496	15.5	2.3	5,955	2.0	6,093	2.3	
Capital expenditure, transfers	1,815	962	2.4	-12.1	717	-47.2	786	9.6	
GG surplus/deficit	-1,242	-654	-0.5	-79.1	-509	-36.9	-52	-89.8	

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.