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SUMMARY OF MACROECONOMIC DEVELOPMENTS

AUGUST 2018

Summary of macroeconomic developments, August 2018

Escalating trade disputes have brought significant uncertainty to the global economy. Global activity indicators are suggesting a slowdown in growth, although it remains above its average of the last few years. The gradual slowdown in expansion in the euro area is also continuing, as GDP growth moderated again in the second quarter, while the composite PMI also remains down on last year. The economic sentiment indicator in Germany as measured by the Ifo Institute declined again in July, reaching its lowest level since March 2017. The weighted average forecast for this year's economic growth in Slovenia's trading partners is lower than it stood in the first quarter of this year, an indication of the less-pronounced support for domestic economic growth from foreign demand. Turkey's economic difficulties have raised the risks to the stability of certain European banks that are exposed to the country. This was reflected in a slight weakening of the euro in mid-August, although against the US dollar it later recovered towards its average over the last three months of USD 1.16. The price of a barrel of Brent crude has been fluctuating around EUR 64 since May, up 44% on a year earlier.

The monthly figures for economic sentiment and activity indicate more moderate growth in the Slovenian economy in the second and third quarters of this year. The composite economic growth indicator and the model estimate currently suggest that year-on-year GDP growth stands at between 4.0% and 4.5%. Because growth in import demand on euro area markets has slowed, this year's year-on-year growth in Slovenia's industrial production, merchandise exports, and turnover in services related to merchandise trade is also down slightly on the second half of last year. According to available data, at the same time there has not been a significant rise in growth in domestic demand. There is however an indication of stronger growth in investment, government investment in particular, and the maintenance of robust growth in private consumption, albeit not to the extent that would yet result in a deterioration in the external position of the economy. Imports and exports are now rising in relatively balanced fashion, which with the ongoing fall in net interest payments on long-term debt to the rest of the world is providing for a record surplus in the current account. The economic sentiment indicator in July and August was down on the second quarter, but remained encouraging. Firms' estimates of growth in demand were also down, but remained favourable.

Employment growth has been gradually slowing since the beginning of the year, while firms' employment expectations have similarly been declining. The workforce in employment excluding self-employed farmers was up 3.0% in year-on-year terms in June, 0.7 percentage points less than in January. The year-on-year fall in unemployment is also slowing at the same time. In July there were 76,051 people registered as unemployed at the Employment Service, down 10.2% in year-on-year terms. The registered unemployment rate stood at just 7.9% in June. The number of available workers is declining rapidly, which is being reflected in the extremely high values in various indicators of labour shortages. However, real wage growth is not increasing, as the recent increase in nominal wage growth has merely compensated for higher inflation. Real household purchasing power is thus continuing to be strengthened primarily by employment growth. Year-on-year growth in the nominal wage bill over the first six months of the year stood at 7.5%, of which the rise in employment accounted for 3.8 percentage points, inflation for 1.9 percentage points, and real growth in average wages for 1.8 percentage points.

Year-on-year inflation in July was down 0.2 percentage points on June at 2.1%, thereby drawing level with the overall rate in the euro area. The fall largely reflected a slowdown in the previous wave of rises in food prices. The contribution made by tobacco prices also declined, last year's rise in excise duties having dropped out of the calculation. Inflation

continues to be driven primarily by services prices and energy prices, which each contributed 1 percentage point to July's rate. Core inflation also declined slightly, and was below the euro area average in July. In line with the dynamic in private consumption, growth in services prices continues to outpace the overall rate in the euro area, while prices of non-energy industrial goods are continuing to fall, despite strong domestic demand and higher commodity costs.

Over the first half of the year, the surplus in the consolidated general government position increased by EUR 122 million in year-on-year terms to EUR 261 million. Growth in revenues remained relatively high. The main increases were in tax revenues and revenues from the EU budget, while non-tax revenues declined as a result of lower dividend payments. Investment expenditure and transfers also contributed to the increase in expenditure, particularly in the second quarter. They are expected to further strengthen, as the utilisation of EU funds is improving, and local elections are approaching. The relaxation of austerity measures and the employment growth are the reasons for the rise in labour costs, while less money is being earmarked for interest payments. According to the Ministry of Finance's July forecast, the state budget surplus is expected to amount to EUR 227 million this year, which would contribute to the attainment of the target general government surplus of 0.4% of GDP. New borrowing is no longer envisaged for this year, and according to the Stability Programme, the general government debt is expected to fall below 70% of GDP by the end of the year.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till Jun. 16	12 m. 'till Jun. 17	12 m. 'till Jun. 18	3 m. 'till Jun. 17	3 m. 'till Jun. 18	2018 Apr.	2018 May	2018 Jun.	2018 Jul.
Economic Activity	* data for avg. 18								
	balance of answers in percentage points								
Sentiment indicator	4.9	9.0	13.7	11.1	12.7	13.0	12.0	13.0	10.5 (10.5*)
- confidence indicator in manufacturing	5.8	7.6	10.4	8.0	8.0	8.0	8.0	8.0	5.0 (6.0*)
	year-on-year growth rates in %								
Industry: - total	5.7	7.7	8.4	7.5	6.2	6.8	6.2	5.8	...
- manufacturing	6.6	8.4	9.1	8.3	6.7	7.3	6.7	6.2	...
Construction: - total	-17.0	0.4	17.2	17.3	16.4	12.7	30.7	7.9	...
- buildings	-6.9	23.4	20.1	40.0	15.6	13.1	29.3	6.0	...
Trade and service activities - total	5.6	5.9	...	6.8	...	5.7	6.5
Wholesale and retail trade and repair of motor vehicles and motorcycles	15.8	16.3	...	14.3	...	16.3	16.6
Retail trade, except of motor vehicles and motorcycles	1.6	5.3	...	6.2	...	-0.1	3.4
Other private sector services	6.6	5.2	...	5.8	...	7.2	5.7
Labour market	year-on-year growth rates in %								
Average gross wage	1.4	1.8	3.5	2.3	3.6	4.6	3.1	3.2	...
- private sector	1.2	1.9	3.9	2.5	4.2	5.8	3.7	3.1	...
- public sector	1.8	2.2	3.6	2.7	3.5	3.6	2.7	4.2	...
Real net wage ¹	1.8	0.9	2.0	1.0	1.1	2.4	0.6	0.6	...
Registered unemployment rate (in %)	11.8	10.3	8.7	9.4	8.1	8.3	8.1	7.9	...
Registered unemployed persons	-6.8	-11.7	-14.3	-14.3	-12.6	-13.8	-12.5	-11.6	-10.2
Persons in employment	0.8	2.7	3.5	3.6	3.0	3.2	3.0	2.9	...
- private sector	0.7	3.3	4.6	4.7	3.9	4.2	3.9	3.7	...
- public sector	1.0	1.2	0.7	0.7	0.7	0.8	0.7	0.8	...
Price Developments	year-on-year growth rates in %								
HICP	-0.7	1.0	1.6	1.4	2.1	1.9	2.2	2.3	2.1
- services	1.0	1.9	2.0	2.1	2.3	1.8	2.6	2.5	2.6
- industrial goods excluding energy	-0.2	-0.7	-0.7	-0.8	-0.7	-0.7	-0.7	-0.8	-0.7
- food	0.6	1.5	2.7	1.6	3.4	3.6	3.4	3.2	1.8
- energy	-8.0	1.5	4.0	3.7	6.2	4.7	5.7	8.0	8.4
Core inflation indicator ²	0.5	0.8	0.8	0.8	1.0	0.7	1.2	1.0	1.1
Balance of Payments - Current Account	in % GDP								
Current account balance	5.7	5.7	7.7	5.9	9.0	9.4	6.4	11.2	...
1. Goods	4.3	3.3	3.7	3.8	4.3	4.8	2.1	5.9	...
2. Services	5.3	6.0	6.4	6.2	6.8	7.2	6.2	7.1	...
3. Primary income	-3.1	-2.8	-1.8	-3.3	-1.8	-2.0	-1.4	-1.9	...
4. Secondary income	-0.8	-0.8	-0.6	-0.8	-0.3	-0.5	-0.4	0.0	...
	nominal year-on-year growth rates in %								
Export of goods and services	4.7	8.7	12.5	11.9	11.5	14.6	11.0	9.1	...
Import of goods and services	2.8	9.6	12.1	12.0	10.7	14.9	10.2	7.5	...
Public Finances									
Consolidated general government (GG) balance ³	2016	2017	12 m. 'till Jun.	2017 y-o-y, %	2017 Jan.-Jun.	2017 y-o-y, %	2018 Jan.-Jun.	2018 y-o-y, %	
	EUR milions		% GDP		EUR mio		EUR mio		
Revenue	15,842	16,803	38.7	5.0	6,959	7.6	7,413	6.5	
Tax revenue	14,240	15,162	35.1	6.5	6,162	5.7	6,635	7.7	
From EU budget	471	391	1.0	5.1	234	13.2	266	13.8	
Other	1,131	1,250	2.6	-11.3	563	30.5	512	-9.1	
Expenditure	16,497	17,102	39.1	4.8	6,814	0.2	7,205	5.7	
Current expenditure	7,407	7,733	17.5	4.4	3,199	2.0	3,293	3.0	
- wages and other personnel expenditure	3,785	3,938	9.0	4.4	1,657	4.2	1,746	5.4	
- purchases of goods, services	2,371	2,627	6.0	9.5	976	4.9	1,021	4.6	
- interest	1,074	985	2.1	-12.7	513	-2.7	461	-10.2	
Current transfers	7,700	7,913	18.0	3.9	3,197	-1.8	3,378	5.7	
- transfers to individuals and households	6,496	6,665	15.1	2.9	2,755	2.2	2,841	3.1	
Capital expenditure, transfers	962	1,078	2.6	18.4	255	6.8	354	39.2	
GG surplus/deficit	-654	-299	-0.4	-14.3	145	-143.1	208	43.2	

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. Monthly activity indicators for industry, construction and services are shown in real terms.

¹ CPI deflator. ² Inflation excluding energy, food, alcohol, tobacco. ³ Consolidated central government budget, local government budgets and social security funds (pension and disability insurance fund and health insurance fund) in cash accounting principle.