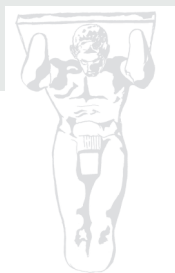


**BANKA  
SLOVENIJE**  
BANK OF SLOVENIA  
EUROSYSTEM



# **SUMMARY OF MACROECONOMIC DEVELOPMENTS**

**MAY 2019**



## Summary of macroeconomic developments, May 2019

*Economic growth in the euro area is weak but relatively stable, as domestic demand remains solid amid rising uncertainty in global trade. According to provisional figures, quarter-on-quarter GDP growth in the first quarter of this year increased to 0.4% with the year-on-year rate at 1.2%. Construction activity and growth in turnover in services strengthened, while the year-on-year decline in industrial production slowed significantly compared with the end of last year. The surveyed confidence indicators suggest that the structure of growth will be similar in the second quarter. The composite PMI has been relatively stable for several months now. Economic growth is expected to be driven by services, while the indicators in the European Commission survey suggest that construction will also remain a factor. The euro has continued to slide against the US dollar: the exchange rate had fallen to USD 1.11 by 23 May, down 4.9% in year-on-year terms. This is improving the price competitiveness of euro area exports, but is also making imports of commodities more expensive. Euro oil prices have risen by more than 30% since the beginning of the year, at which level, however, they are not above last year's average, which limits their impact on inflation.*

*The Slovenian economy again recorded high growth in the first quarter of this year, despite weaker export developments in March. Due to the strong acceleration in January, growth in industrial production and in merchandise exports strengthened in the quarter. Manufacturing firms' survey assessments of weaker foreign demand only began to show in activity statistics in March, when year-on-year growth in merchandise exports slowed to 3.7% and growth in industrial production to 2.9%. The situation in the services sector remained favourable: growth in turnover was again high, partly on account of solid growth in exports of services, and partly on account of increasing domestic final consumption, reflected also in rising VAT revenues. The renewed increase in government investment is reflected in accelerating construction activity. Despite the uncertainties in the international environment and increased domestic consumption, nominal growth in exports in the first quarter of this year was slightly higher than that of imports, and the 12-month current account surplus remained high at 7.1% of GDP. According to confidence indicators, the outlook for the second quarter of this year varies significantly between sectors. Assessments of growth of demand in manufacturing are low, and the sector's assessment of uncertainty in the economy also increased, while the situation in services and construction is expected to remain significantly better.*

*The ongoing rapid employment growth and the increased wage growth are strengthening consumer purchasing power. The year-on-year increase in the workforce in employment excluding self-employed farmers was 3.1% in March, exceeding 10% in construction. Despite the high employment growth, the number of vacancies is still increasing, and the vacancy rate rose to 2.6%, equalling its highest figure to date. Employment growth is nevertheless expected to slow in the months ahead, with the SORS survey showing that firms are mostly signalling a gradual decline in the need for new workers, most of all manufacturing firms in line with the weaker growth in foreign demand. Unemployment has fallen to under 74,000 persons in April, down 5.8% on last year, and the registered unemployment rate declined to 7.9% in March. Nominal year-on-year growth of average gross wage increased to 4.9% in March. It was highest in financial and insurance activities, at more than 12%, on account of very high seasonal bonus payments. In the wake of higher wage growth, nominal year-on-year growth in the wage bill strengthened again, reaching 8.2% in March. The situation on the labour market is therefore conducive to increasing private consumption and rising core inflation.*

*Inflation rose again in April, as domestic inflation factors keep strengthening. It reached 1.8%, up 0.2 percentage points on March. The increase in wage growth and stronger domestic demand are being reflected in core inflation: the indicator*

excluding food and energy prices reached 1.9% in April, its highest figure since 2009. Prices of services' growth accelerated to 3.4%. The rise in prices of public services outpaced that in market services, as their providers are able to exploit their dominant positions in the market in the current situation. Growth in prices of non-energy industrial goods remains close to zero for the fourth consecutive month, while growth in energy and food prices is down significantly on last year. Headline inflation in the euro area rose temporarily in April, to 1.7%, owing to the irregular Easter season. The narrowest core inflation indicator stood at 1.3%, less than in Slovenia in line with the weaker economic developments. Slovenian headline inflation is nevertheless not deviating significantly from its average in euro area trading partners and is for the time being not damaging Slovenian exporters' price competitiveness.

The government is forecasting a general government surplus for this year, while the consolidated general government balance shows growth in revenues outpacing that in expenditure. The deficit recorded in the first quarter was similar to last year's and is attributable to the seasonal increase in contributions to the EU budget and payments of agricultural subsidies. In the Stability Programme the government is planning a gradual increase in the general government surplus, which is forecast to reach 0.9% of GDP this year. The general government debt is expected to gradually decline, and should fall below the benchmark of 60% of GDP by the end of 2021. The key challenge in fiscal policy remains taking action to ensure the long-term sustainability of public finances, including reforms in connection with the ageing population.

\* \* \*

Corporate performance improved again in 2018.<sup>1</sup> According to corporate annual reports, employment increased by 4.4%, but growth in gross value-added was even higher at 7.6%, showing an increase in labour productivity. The increase in aggregate productivity was primarily attributable to firms that generate the majority of their revenues on the domestic market.<sup>2</sup> Net profits amounted to EUR 4.2 billion, up 16% on 2017, and the highest figure to date. Corporate indebtedness as measured by the ratio of total debt to total equity and liabilities declined again last year, approaching its level of 1999. Export-oriented firms continued to record the lowest debt levels.<sup>3</sup> Non-exporting firms are improving their efficiency in recent years, while export-oriented firms have seen their efficiency decline as growth in revenues was outpaced by growth in expenses.<sup>4</sup> These developments reflect the strengthening of domestic factors of economic growth in recent years and last year's deterioration in the international environment.

The proportion of corporate financing accounted for by internal resources increased again last year, and record profits are allowing this channel of financing to continue. This is beneficial from the perspective of corporate financial stability as it provides for a further improvement in the ratio of equity to debt financing, while additionally reducing the need for bank financing. This is however maintaining banks' income risk, as corporate demand for loans can be expected to remain weak.

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<sup>1</sup> Based on unaudited figures.

<sup>2</sup> The increase in productivity was primarily attributable to non-exporting firms in wholesale and retail trade, the energy sector, transportation and storage, and construction (weighted by value-added).

<sup>3</sup> Export-oriented firms are defined as firms that generate at least 15% of their total revenues on foreign markets.

<sup>4</sup> Among export-oriented firms, the main deterioration in overall efficiency was recorded by manufacturing firms, primarily as a result of slower growth in net sales revenue on the EU market (weighted by the ratio of revenue to total revenue).

## Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till Mar. 17	12 m. 'till Mar. 18	12 m. 'till Mar. 19	3 m. 'till Mar. 18	3 m. 'till Mar. 19	2019 Jan.	2019 Feb.	2019 Mar.	2019 Apr.
<b>Economic Activity</b>									
	* data for maj. 19								
	<i>balance of answers in percentage points</i>								
Sentiment indicator	7.3	13.3	10.8	14.0	10.0	12.1	8.9	8.9	6.8 (7.8*)
- confidence indicator in manufacturing	6.9	10.3	6.1	12.0	4.0	7.0	2.0	3.0	0.0 (3.0*)
	<i>year-on-year growth rates in %</i>								
Industry: - total	7.5	9.0	3.9	8.7	4.3	6.2	4.1	2.9	...
- manufacturing	8.3	9.8	4.3	9.5	4.7	6.1	4.7	3.5	...
Construction: - total	-9.6	17.5	20.5	18.6	22.8	2.9	39.0	28.2	...
- buildings	10.5	25.6	15.6	25.5	18.2	-4.0	44.9	19.1	...
Trade and service activities - total	5.5	6.9	...	5.8	...	6.7	9.7	...	...
Wholesale and retail trade and repair of motor vehicles anc	17.5	13.8	...	12.8	...	7.1	10.4	...	...
Retail trade, except of motor vehicles and motorcycles	4.2	4.0	...	-0.4	...	6.9	10.2	...	...
Other private sector services	5.1	6.4	...	5.6	...	5.9	8.3	...	...
	<i>year-on-year growth rates in %</i>								
<b>Labour market</b>									
Average gross wage	1.6	3.2	3.6	3.6	4.6	4.2	4.7	4.9	...
- private sector	1.6	3.5	4.1	4.1	4.3	4.1	4.5	4.3	...
- public sector	2.1	3.3	3.5	3.5	5.6	4.9	5.4	6.3	...
Real net wage <sup>1</sup>	1.1	1.9	1.2	1.6	2.5	2.3	2.6	2.5	...
Registered unemployment rate (in %)	10.8	9.0	8.1	9.0	8.3	8.6	8.4	7.9	...
Registered unemployed persons	-10.4	-14.7	-9.0	-15.1	-5.8	-5.8	-5.8	-5.8	-5.8
Persons in employment	2.2	3.6	3.1	3.7	3.2	3.1	3.3	3.1	...
- private sector	2.5	4.8	3.9	5.0	4.0	3.9	4.1	3.8	...
- public sector	1.4	0.7	0.9	0.6	1.1	1.1	1.1	1.2	...
	<i>year-on-year growth rates in %</i>								
<b>Price Developments</b>									
HICP	0.6	1.4	1.9	1.5	1.3	1.2	1.3	1.6	1.8
- services	1.8	1.9	2.6	2.2	2.8	2.6	2.9	2.8	3.4
- industrial goods excluding energy	-0.6	-0.8	-0.5	-0.9	0.1	0.2	-0.2	0.2	-0.2
- food	1.1	2.3	1.9	2.7	0.6	0.9	0.7	0.3	0.7
- energy	-1.3	3.4	5.6	3.1	1.4	0.0	0.6	3.7	3.5
Core inflation indicator <sup>2</sup>	0.8	0.8	1.2	0.8	1.6	1.6	1.6	1.6	1.9
	<i>in % GDP</i>								
<b>Balance of Payments - Current Account</b>									
Current account balance	5.6	6.8	7.1	6.4	6.8	8.7	5.0	6.7	...
1. Goods	3.5	3.5	2.7	3.1	3.7	3.5	4.4	3.4	...
2. Services	5.8	6.2	6.9	5.8	6.1	6.5	5.5	6.4	...
3. Primary income	-2.9	-2.2	-1.6	-1.3	-1.2	0.5	-2.1	-1.9	...
4. Secondary income	-0.8	-0.7	-0.9	-1.2	-1.9	-1.8	-2.8	-1.1	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	7.2	12.5	9.6	9.2	9.1	10.8	13.3	4.1	...
Import of goods and services	7.6	12.5	10.2	10.8	8.2	9.0	9.8	6.2	...
<b>Public Finances</b>									
	2017	2018	12 m. 'till Mar. 19	2018 Jan.-Mar.	2019 Jan.-Mar.				
Consolidated general government (GG) balance <sup>3</sup>	<i>EUR millions</i>		<i>% GDP</i>	<i>y-o-y, %</i>	<i>EUR mio</i>	<i>y-o-y, %</i>	<i>EUR mio</i>	<i>y-o-y, %</i>	
Revenue	16,803	18,594	40.7	11.3	4,171	5.4	4,518	8.3	
Tax revenue	15,162	16,225	35.6	7.7	3,782	5.6	4,103	8.5	
From EU budget	391	796	1.9	119.1	146	2.8	216	47.7	
Other	1,250	1,572	3.3	21.5	243	3.3	198	-18.2	
Expenditure	17,102	18,068	39.6	7.7	4,337	0.1	4,689	8.1	
Current expenditure	7,733	7,966	17.3	4.7	2,028	-1.8	2,116	4.4	
- wages and other personnel expenditure	3,938	4,168	9.1	7.4	981	2.7	1,068	8.9	
- purchases of goods, services	2,627	2,634	5.8	2.6	552	-2.1	602	9.1	
- interest	985	868	1.7	-12.9	463	-10.8	404	-12.6	
Current transfers	7,913	8,237	18.0	6.1	2,034	-0.2	2,188	7.5	
- transfers to individuals and households	6,665	6,926	15.1	5.0	1,678	2.1	1,785	6.3	
Capital expenditure, transfers	1,078	1,432	3.2	35.3	141	7.0	180	27.6	
GG surplus/deficit	-299	526	1.1		-166	-55.6	-171		

Sources: SORS, Bank of Slovenia, Ministry of finance, Bank of Slovenia calculations.

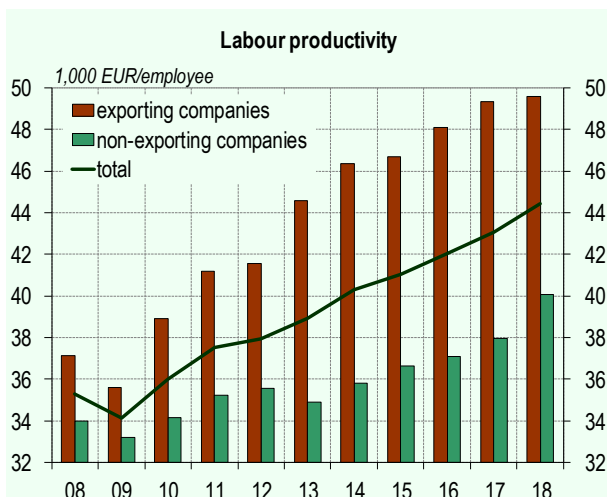
Notes: Economic activity data are working day adjusted (with exception of sentiment and confidence indicators data, which are seasonally adjusted). Other data in the table are original. Monthly activity indicators for industry, construction and services are shown in real terms.

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

## Figure annex: basic indicators of business operations of NFCs

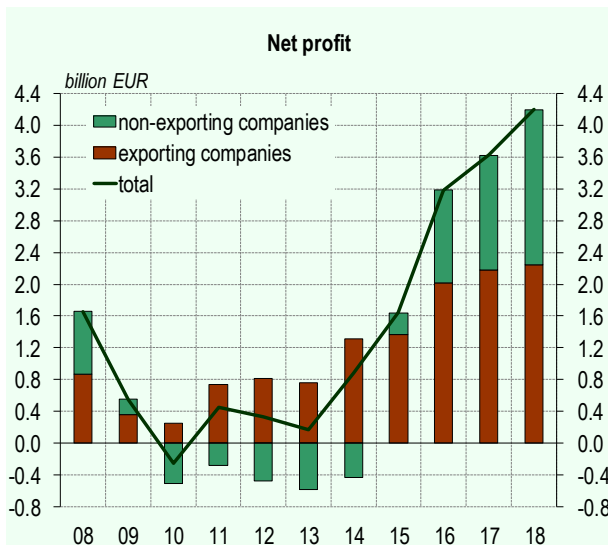


Source: AJPES, Bank of Slovenia calculations.



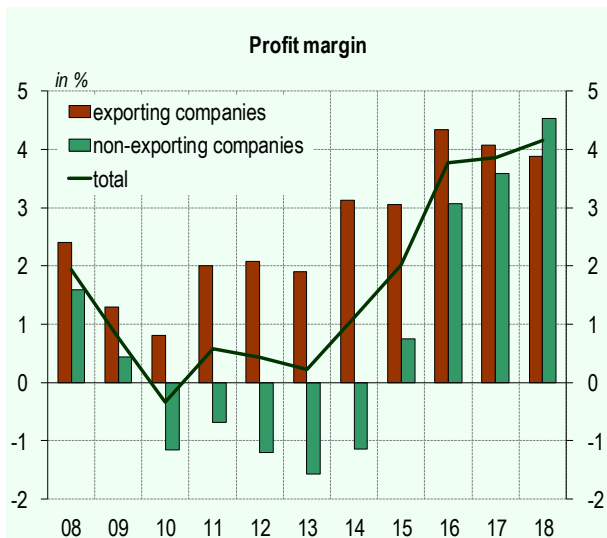
Note: Labour productivity is calculated as gross value added divided by the number of employees (average number of employees based on working hours in the accounting period).

Source: AJPES, Bank of Slovenia calculations.



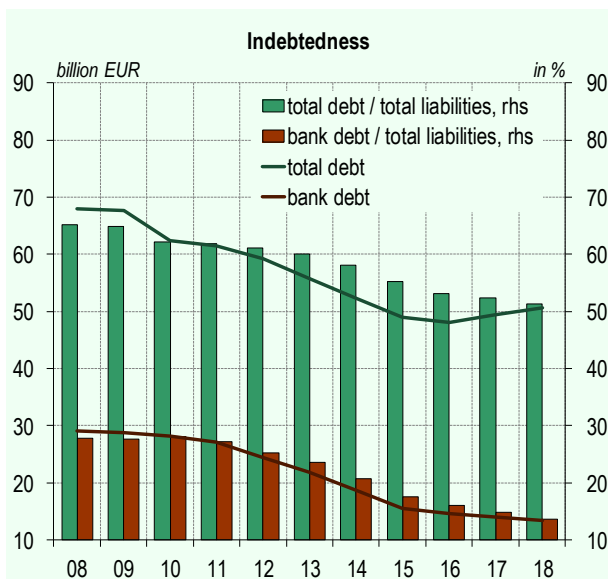
Note: Net profit is calculated as net profit or loss for the accounting period.

Source: AJPES, Bank of Slovenia calculations.

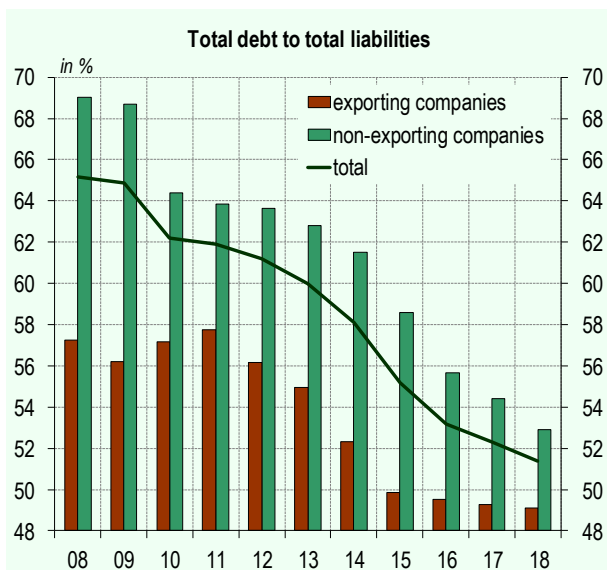


Note: Profit margin ratio is calculated as net profits (losses) divided by sales.

Source: AJPES, Bank of Slovenia calculations.



Source: AJPES, Bank of Slovenia calculations.



Source: AJPES, Bank of Slovenia calculations.