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SUMMARY OF MACROECONOMIC DEVELOPMENTS

JANUARY 2020

Summary of macroeconomic developments, January 2020

At the end of last year, global economic conditions seemed to have improved, while there are signs of easing tensions in global trade. Assessment of the situation in the euro area is less reliable at present: the PMI and confidence indicators in the final quarter of last year were down on the third quarter on average, but picked up slightly at the end of the year. Growth in wages and employment remains solid, particularly compared with the indicators of economic activity, which supports this year's GDP growth and its structure expectations given in the ECB's December projections. Economic activity will be supported by accommodative monetary policy from the central banks of the euro area. Weaker euro will continue to take some pressure off euro area exporters. However, there is little possibility of more decisive countercyclical fiscal policy across the euro area, as the fiscal space is very limited under current fiscal rules, particularly in light of the need for further consolidation in certain large euro area countries.

According to the latest monthly activity and confidence indicators, the economic situation in Slovenia was not particularly encouraging in the final quarter of last year. Industrial activity remained more robust than the euro area average, although year-on-year growth in activity was barely above 1% in November, and for the most part was based merely on increased output in the automotive and pharmaceutical industries. The weak growth in foreign demand is increasingly being reflected in real turnover in private-sector services, which in October was actually down on a year earlier. There was a noteworthy decline of almost 5% in turnover in transportation and storage, albeit partly on account of the bankruptcy of the domestic airline. At the same time, activity in construction remained weak, as local government's investment cycle had ended. The economic sentiment declined again in the final quarter of last year, but there may be signs of a possible stabilisation in foreign demand. This is suggested by a survey among manufacturing firms, conducted by the SORS, and the latest forecasts for this year's economic growth in Slovenia's trading partners.

As in the euro area, the situation also remains favourable in the Slovenian labour market, given the slowdown in the international environment and in the domestic economic activity, but structural imbalances are becoming increasingly evident. Employment growth is still declining, but remains high relative to GDP growth. The fall in unemployment is slowing, partly because of its structure, as well as the weakening economy. A rise in the number of older and long-term unemployed people means that structure is worse than it was a decade ago, which is reducing the possibility for further falls in the unemployment rate. Labour costs are continuing to rise. Over the first ten months of last year, nominal growth in the average gross wage averaged 4.3%, up almost 1 percentage point in year-on-year terms. Because labour productivity is stagnating at the same time, cost pressures are growing more quickly than the euro area average, which is being reflected in higher core inflation and a weakened dynamic in certain competitiveness indicators. On the other hand, growth in private consumption is also higher for this reason.

The current account surplus widened last year, despite the tensions in international trade and robust domestic private consumption. It exceeded EUR 3.0 billion over the 12 months to November, the highest figure to date according to the current balance of payments data. The main reason was the ongoing increase in the surplus of trade in services, despite a sharp slowdown in exports in the second half of the year. The merchandise trade surplus also widened slightly. The declining growth in foreign demand saw growth in merchandise exports slow sharply – exports in November were actually down in year-on-year terms – but weak investment and low growth in industrial production brought an even sharper slowdown in growth in imports of capital goods and intermediate goods.

In 2019, inflation was notably higher than the euro area average. As measured by the HICP it averaged 1.7% over the year, close to its level over the last three years, and 0.5 percentage points above the euro area average. Its structure changed significantly as domestic inflationary pressures strengthened, while external pressures weakened considerably in line with developments in oil prices. Inflation was thus mainly driven by domestic components. Rising wage growth led to an increase in unit labour costs, and also strengthened domestic private consumption, which was a major factor in higher service price inflation. After falling for a long period, prices of non-energy industrial goods rose slightly, although competition is limiting the rate of growth. Growth in the narrowest core inflation indicator reached 1.9%, 0.9 percentage points above the euro area average. Given the strength of domestic inflationary pressures, the level and the structure of inflation do not deviate significantly from other comparable euro area countries.

Despite the weaker economy, the general government position remains in surplus. Growth in revenues over the first three quarters of last year remained relatively high, at 5.9%. This was partly attributable to the still-buoyant labour market, and higher capital income, while the tax break on annual leave allowance had a negative impact on revenues. Growth in expenditure was slightly lower than growth in revenues, and was driven primarily by social security benefits, employee compensation and, in the first half of the year, relatively high government investment. The interest burden declined for the fourth consecutive year. According to the Ministry of Finance's estimates, the general government surplus in 2019 is expected to have remained at the level of the previous year, namely 0.8% of GDP. This January, government issued a 10-year bond at EUR 1.5 billion with 0.275% coupon rate, the lowest rate so far. Issuing conditions were favourable also from the international perspective taking into account comparable countries. Nevertheless, planning and conducting of fiscal policy remains challenging as available data for last year's fourth quarter show some weakening of domestic economic conditions, while uncertainties in the international environment remain elevated.

Main macroeconomic indicators

	2016	2017	2018	19Q1	19Q2	19Q3	2016	2017	2018	19Q1	19Q2	19Q3
	Slovenia						euro area					
Economic developments	y-o-y growth rates in %											
GDP	3.1	4.8	4.1	3.3	2.5	2.3	1.9	2.5	1.9	1.3	1.1	1.5
- industry	4.7	7.7	3.6	2.5	3.4	3.5	2.9	3.4	1.8	-0.4	-1.5	-0.4
- construction	-3.4	8.3	8.0	14.9	7.5	-2.3	1.9	2.4	3.4	5.0	2.9	3.7
- mainly public sector services	2.3	2.1	1.6	1.7	1.5	1.8	1.6	1.6	1.0	0.9	1.1	1.2
- mainly private sector services	3.3	5.8	4.5	3.7	2.8	2.5	1.9	2.8	2.2	1.3	1.1	1.5
Domestic expenditure	3.0	4.2	4.7	2.3	2.1	3.8	2.4	2.2	1.6	1.4	2.5	1.5
- general government	2.5	0.3	3.2	3.9	1.0	1.8	1.9	1.3	1.1	1.3	1.4	1.8
- households and NPISH	4.4	2.3	3.4	2.4	3.7	4.3	2.0	1.7	1.4	0.8	1.3	1.6
- gross capital formation	-0.5	13.8	9.6	0.7	-0.7	4.4	4.0	4.3	2.5	3.1	6.5	0.9
- gross fixed capital formation	-3.7	10.4	9.4	10.0	6.9	1.2	4.0	3.5	2.3	4.1	8.5	3.7
- inventories and valuables, contr. to GDP growth in pp	0.6	0.7	0.2	-1.7	-1.5	0.7	0.0	0.2	0.0	-0.2	-0.4	-0.6
Labour market												
Employment	1.8	3.0	3.2	2.9	2.6	2.3	1.3	1.6	1.5	1.4	1.2	0.9
- mainly private sector services	1.7	3.1	3.4	3.1	2.8	2.4	1.3	1.8	1.6	1.4	1.1	0.9
- mainly public sector services	2.1	2.5	2.1	1.6	1.5	1.7	1.3	1.1	1.3	1.3	1.4	1.2
Labour costs per employee	3.1	3.0	3.9	4.3	5.7	4.5	1.3	1.7	2.2	2.3	2.2	2.5
- mainly private sector services	2.5	3.0	4.1	3.8	5.4	4.1	1.3	1.7	2.3	2.3	2.1	2.4
- mainly public sector services	5.2	3.1	3.5	4.1	4.9	5.7	1.4	1.8	2.0	2.1	2.5	2.6
Unit labour costs, nominal*	1.8	1.2	3.0	3.9	5.9	4.5	0.7	0.7	1.8	2.4	2.3	1.9
Unit labour costs, real**	1.0	-0.3	0.8	1.5	3.0	1.9	-0.1	-0.2	0.5	0.8	0.6	0.3
	in %											
LFS unemployment rate	8.0	6.6	5.1	4.8	4.2	4.8	10.0	9.1	8.2	8.1	7.5	7.3
Foreign trade	y-o-y growth rates in %											
Current account balance as % of GDP***	4.8	6.1	5.7	5.5	5.8	5.7	3.3	3.1	3.1	3.0	2.7	2.9
External trade balance as contr. to GDP growth in pp	0.4	1.0	-0.2	1.2	0.5	-1.2	-0.4	0.5	0.4	-0.1	-1.3	0.1
Real export of goods and services	6.5	10.8	6.6	4.9	5.0	4.5	2.9	5.5	3.3	2.7	1.8	2.7
Real import of goods and services	6.7	10.7	7.7	3.9	4.9	6.7	4.1	5.0	2.7	3.2	5.1	2.8
Financing	in % of GDP											
Banking system's balance sheet	99.3	94.0	88.6	88.8	88.9	88.3	275.9	260.8	256.8	265.6	268.7	273.0
Loans to NFCs	22.5	21.8	20.6	20.5	20.2	20.3	37.8	36.9	36.5	36.4	36.6	36.5
Loans to households	21.1	21.5	21.8	21.7	21.8	21.9	49.5	49.4	49.1	49.0	49.1	49.2
Inflation	in %											
HICP	-0.2	1.6	1.9	1.3	1.7	2.1	0.2	1.5	1.8	1.4	1.4	1.0
HICP excl. energy, food, alcohol and tobacco	0.7	0.7	1.0	1.6	1.8	2.3	0.8	1.0	1.0	1.0	1.1	0.9
Public finance	in % of GDP											
Debt of the general government	78.7	74.1	70.4	68.1	67.7	68.1	90.0	87.8	85.9	86.5	86.4	...
One year net lending/net borrowing of the general government***	-1.9	0.0	0.8	0.6	0.6	0.9	-1.4	-0.9	-0.5	-0.6	-0.7	...
- interest payment****	3.0	2.5	2.0	1.9	1.8	1.7	2.1	1.9	1.8	1.8	1.8	...
- primary balance***	1.1	2.5	2.8	2.5	2.4	2.6	0.7	1.0	1.3	1.2	1.0	...

Notes: Data is not seasonally and working days adjusted.

* Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity.

** Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity.

*** 4-quarter moving sum.

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