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EUROSYSTEM



SUMMARY OF MACROECONOMIC DEVELOPMENTS

MAY 2018

Summary of macroeconomic developments, May 2018

The risks to global economic growth have increased. The IFO's assessments of the current position remained favourable, but the expectations are less optimistic. The likelihood of protectionism has increased, and with it the possibility of weaker growth in global trade. GDP growth in the euro area slowed slightly in early 2018, and for now there are no signs of a renewed increase: April's surveyed indicators of confidence and activity remained similar to the figures recorded at the end of the first quarter. According to the European Commission forecasts from early May, GDP growth in the euro area is expected to slow only moderately this year, but the balance of risks is on the downside. The rise in the forecasts for this year's economic growth in Slovenia's main trading partners also came to an end in April. On the other hand, the chance of an adverse impact on exporters' price competitiveness from the strong euro declined, the euro having lost almost 5% of its value against the US dollar in the last month. Growth in euro oil prices increased further because of the depreciation of the euro. These exceeded EUR 65 per barrel in May, which is strengthening imported inflationary pressures.

Economic growth in Slovenia also slowed moderately in the first quarter, but continued to significantly outpace overall growth in the euro area. A strong base effect and the more moderate growth in foreign demand reduced year-on-year growth in industrial production and exports. At the same time, growth on the domestic market was also less intensive than at the end of last year, at least judging by retail turnover and construction activity. The slowdown in growth in construction was primarily attributable to bad weather, as demand for construction work remained strong. The import figures also suggest a continuation of the investment cycle: imports of capital goods increased sharply in the first quarter of this year. Growth in imported components of domestic demand nevertheless did not significantly exceed growth in exports, and the 12-month current account surplus remained very high in March, at 6.4% of estimated GDP.

Year-on-year growth in the workforce in employment in Slovenia has been slowing since the beginning of last year, and the employment growth of 3.5% in March was therefore strongly dependent on the hiring of foreign workers. Just under 16,000 foreign nationals immigrated to Slovenia last year, and foreign nationals accounted for fully 9.1% of the workforce in employment excluding self-employed farmers in March of this year. More than 5,000 work permits for foreign nationals were issued in the first four months of this year, up 78% in year-on-year terms. Of these permits, 82% were issued on the basis of an agreement on the hiring of nationals of Bosnia and Herzegovina. A similar agreement was signed with Serbia in February. The rapid growth in employment is also attributable to the hiring of unemployed persons. The registered unemployment rate fell to 8.6% in March, while unemployment reached 78,555 in April, only just over 15,000 more than its average in 2008. The shortage of workers is thus increasing, which is evidenced by the rising vacancy rate, which in the first quarter of this year reached its highest level since 2008. Despite a shortage of workers, nominal growth in the average gross wage slowed to 2.9% in March, and was thus significantly outpaced by the estimated growth in labour productivity.

The fiscal position is continuing to improve. The consolidated general government deficit over the 12 months to March amounted to 0.2% of GDP, 1 percentage point less than a year earlier. Growth in revenues remains higher than growth in expenditure. Taxes and social security contributions over the first four months of the year were up around 7.5% in year-on-year terms, but there has not yet been any increase in the disbursement of EU funds. Alongside the favourable developments there are also various risks present, including uncertainty surrounding the future level of funding for employees and public investment. In a stability programme compiled under the assumption of no change in policy, the Min-

istry of Finance estimated that the structural fiscal position would deteriorate this year. The latest European Commission forecasts also reached the same conclusion. These findings represent a challenge to the future government, as the process of structurally balancing the public finances is not yet complete.

Inflation sharply outpaced the euro area average in April. Year-on-year inflation as measured by the HICP was up 0.4 percentage points on March, at 1.9%. The ongoing rise in global oil prices contributed to an increase in year-on-year growth in energy prices, while growth in prices of unprocessed food continued to increase across the euro area, albeit significantly more quickly in Slovenia. Prices in these two categories each accounted for 0.6 percentage points of April's inflation, a significant increase in their contributions. Other features of the change in the structure of inflation in April were a decline in the contribution made by services prices and a decline in the negative contribution made by prices of non-energy industrial goods. Of the core inflation indicators, the sole rise was recorded by the broadest, which excludes energy prices alone. Its year-on-year growth rate reached 1.5%, on account of food prices.

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Non-financial corporations' closing accounts confirm last year's economic boom in Slovenia. Total employment at firms increased by almost 5% in 2017, while growth in gross value-added was even higher at 7.4%, which enabled growth in labour productivity. The rise in total productivity was primarily attributable to export-oriented firms¹. Net profit was up more than 15% on 2016 at over EUR 3.7 billion, the highest figure since 2007. However, it was generated in considerably different economic conditions: in contrast to the high growth in borrowing in the period of the overheating economy, firms continued to deleverage overall last year. Corporate indebtedness as measured by the ratio of total debt to total liabilities last year reached its lowest level of the last decade, and export-oriented firms were again less indebted than average. Corporate efficiency has also improved in recent years, as growth in revenues has outpaced growth in expenses.

The proportion of corporate financing accounted for by internal resources increased again last year, as last year's high profits allowed for the continued exploitation of this type of financing. This is beneficial from the perspective of corporate financial stability, as it reduces the need for debt financing, including from the domestic banking system. The banks will thus continue to face income risk, as the strength of growth in interest income from corporate lending remains in question.

¹ Export oriented companies are defined as those that generate at least 15% of total sales revenue through sales on foreign markets.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till Mar.16	12 m. 'till Mar.17	12 m. 'till Mar.18	3 m. 'till Mar.17	3 m. 'till Mar.18	2018 Jan.18	2018 Feb.18	2018 Mar.18	2018 Apr.18
Economic Activity									
	<i>balance of answers in percentage points</i>								
Sentiment indicator	5.0	7.4	13.3	11.1	14.2	16.1	14.5	12.1	13.2
- confidence indicator in manufacturing	5.5	7.1	10.5	10.3	12.3	14.0	13.0	10.0	8.0
	<i>year-on-year growth rates in %</i>								
Industry: - total ¹	5.4	7.6	9.0	6.6	8.3	11.8	7.2	6.4	...
- manufacturing	6.1	8.4	9.8	6.6	9.0	13.3	7.6	6.7	...
Construction: - total ²	-13.7	-9.6	17.5	19.8	18.7	77.2	6.7	-2.0	...
- buildings	-4.2	10.5	25.6	36.8	25.5	65.5	19.7	4.0	...
Trade (volume turnover)									
Total retail trade	0.9	6.8	4.9	12.7	-0.8	-0.4	-1.5	-0.5	...
Retail trade and repair of motor vehicles	16.0	20.3	15.0	15.2	13.5	15.9	14.3	11.0	...
Private sector services ³	4.8	4.9	...	5.9	...	11.1	5.2
	<i>year-on-year growth rates in %</i>								
Average gross wage	1.1	1.6	3.2	1.5	3.6	4.2	3.6	2.9	...
- private sector	1.0	1.6	...	1.7	...	4.8	4.5
- public sector	1.5	2.1	...	1.7	...	4.2	3.0
Real net wage ⁴	1.6	1.1	1.9	0.0	1.7	2.2	1.9	1.4	...
Registered unemployment rate (in %)	12.1	10.8	9.0	10.8	9.0	9.3	9.1	8.6	...
Registered unemployed persons	-6.2	-10.4	-14.7	-12.8	-15.1	-15.2	-15.4	-14.7	-13.8
Persons in employment	0.6	2.2	3.6	3.0	3.7	3.9	3.7	3.5	...
- private sector	0.5	2.5	4.8	3.9	5.0	5.2	5.0	4.7	...
- public sector	0.8	1.4	0.7	1.0	0.6	0.6	0.5	0.6	...
	<i>year-on-year growth rates in %</i>								
Price Developments									
HICP	-0.8	0.6	1.4	2.0	1.5	1.7	1.4	1.5	1.9
- services	0.6	1.8	1.9	1.6	2.1	2.3	1.8	2.2	1.8
- industrial goods excluding energy	-0.5	-0.6	-0.7	-0.6	-0.8	-0.8	-0.5	-1.1	-0.7
- food	0.8	1.1	2.3	2.5	2.7	3.2	2.0	3.1	3.6
- energy	-7.8	-1.3	3.4	8.1	3.0	3.3	3.7	2.2	4.8
Core inflation indicator ⁵	0.2	0.8	0.8	0.7	0.8	0.9	0.8	0.8	0.7
	<i>in % GDP</i>								
Balance of Payments - Current Account									
Current account balance	5.1	4.9	6.4	5.9	6.2	6.4	4.4	7.7	...
1. Goods	4.1	3.4	3.5	3.6	3.3	2.1	2.2	5.6	...
2. Services	4.9	5.5	5.9	5.4	5.4	5.8	4.5	5.9	...
3. Primary income	-3.2	-3.3	-2.4	-2.2	-1.6	-1.1	-0.7	-2.8	...
4. Secondary income	-0.8	-0.7	-0.6	-0.9	-1.1	-0.6	-1.6	-1.0	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	4.4	7.1	12.1	12.9	8.6	11.6	8.4	6.2	...
Import of goods and services	2.8	7.7	11.9	15.7	8.9	12.5	10.6	4.6	...
	Public Finances								
Consolidated general government (GG) balance ⁶	2016	2017	12 m. 'till Mar.18	2017 Jan.-Mar.	2018 Jan.-Mar.				
	<i>EUR milions</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	15,842	16,803	38.5	5.6	3,958	7.4	4,169	5.3	
Tax revenue	14,240	15,162	34.8	6.1	3,581	7.1	3,782	5.6	
From EU budget	471	391	0.9	-13.4	142	-9.1	146	2.8	
Other	1,131	1,250	2.8	6.4	235	26.9	241	2.6	
Expenditure	16,497	17,102	38.7	3.0	4,333	2.6	4,337	0.1	
Current expenditure	7,407	7,733	17.4	2.7	2,064	4.4	2,027	-1.8	
- wages and other personnel expenditure	3,785	3,938	9.0	3.8	955	3.2	979	2.5	
- purchases of goods, services	2,371	2,627	5.9	9.0	564	5.2	553	-1.8	
- interest	1,074	985	2.1	-15.7	518	5.9	463	-10.8	
Current transfers	7,700	7,913	17.9	1.8	2,039	3.3	2,035	-0.2	
- transfers to individuals and households	6,496	6,665	15.2	2.5	1,644	2.5	1,679	2.1	
Capital expenditure, transfers	962	1,078	2.5	13.0	132	0.2	141	7.1	
GG surplus/deficit	-654	-299	-0.2	-81.3	-375	-30.3	-168	-55.1	

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.

Figure annex: basic indicators of business operations of NFCs

