

BANKA

SLOVENIJE

BANK OF SLOVENIA
EUROSYSTEM

SUMMARY
OF MACROECONOMIC
DEVELOPMENTS

AUGUST 2017

Summary of macroeconomic developments, May 2017

The economic situation in the international environment is favourable. The strengthening of global economic growth continues as projected with expected geographical changes in the growth structure. In the most recent revision of global economic outlook, published in July 2017, the IMF has revised downward its growth forecast for the US due to its less expansionary fiscal policy than originally expected. Forecasts for Japan and the euro area have been revised upwards. The economic growth of the euro area has strengthened to 2.2% during the second quarter of this year. Growth forecasts for 2017 for specific European countries have been also revised upwards. This includes France, Germany, Italy and Spain, where growth was higher than expected during the first quarter of this year and strengthened even further during the second quarter.

Economic growth in Slovenia remains high. Corporate confidence is high in all sectors, while consumers remain optimistic. Activity is rising rapidly in both the domestic and export sectors due to the strengthening of final consumption and investment, but also due to growth in foreign demand. The growth rate in industrial production, construction put in place, and turnover in private-sector services remains notably above the euro area average. The construction sector stands out this year in terms of growth due to strengthening in investment in civil engineering works, and in non-residential and residential buildings. The housing market is fuelled by a sound support from the banking system and is recording a sharp growth, with the number of transactions (according to SORS) exceeding the pre-crisis level from 2007 for more than a year, while prices have already risen by close to 10% from their lows recorded in 2014. Nevertheless, they remain significantly below the pre-crisis peak. Government investment has also started to gradually increase, although there has not yet been any notable disbursement of EU funds from the new financial perspective. Nevertheless, domestic output continues to outstrip domestic consumption significantly, which is reflected in a high surplus in merchandise trade and trade in services, which continues to exceed 9% of GDP.

Employment growth remains high, despite a growing shortage of qualified workers. The workforce in employment excluding self-employed farmers was up 3.3% in year-on-year terms in June, with growth present in the majority of sectors. Employment via staffing agencies is strengthening again, while the employment of foreigners is also rising, which coincides with the rapid growth in construction activity. Although an increasing number of corporates continue to mention problems with hiring qualified workers, they are planning a significant amount of hiring in the coming months. The number of registered unemployed fell to 84,674 in July, a decrease of nearly 15% in year-on-year terms. The harmonised unemployment rate fell to 7.1%, which is two percentage points below the overall rate for the euro area. Although structural unemployment remains high, the number of long-term unemployed is also declining, which in addition to the positive climate could also be the result of the implementation of active policies on the labour market. Year-on-year growth in the average nominal and real gross wage reached 2.4% and 1.5% respectively. Wage growth thus lags behind productivity growth this year, and does not yet reflect pressures due to the decline in the surplus supply of labour.

The state budget deficit is narrowing faster than previously planned. According to estimates of the Ministry of Finance, the deficit will amount to EUR 279 million this year, which is significantly less than the estimated deficit of EUR 681 million planned in the budget adopted last year. The deficit amounted to EUR 107 million over the first seven months of this year, a narrowing of EUR 496 million in year-on-year terms. The rapid reduction is the result of the improved economic situation, which in turn is driving up tax revenues and driving down budget transfers to the social security fund. Non-tax

revenues are also up on the previous year, primarily due to higher-than-planned dividend payments. The expected further strengthening of economic activity represents a good starting point for the continued improvement in public finances. Crucial in this regard will be maintaining expenditure at the planned level.

Inflation currently remains low, despite very positive domestic economic climate. It rose from 0.9% to 1.2% in July, but remains below the euro area average. Year-on-year growth in prices of unprocessed food increased as a result of a rise in meat and vegetable prices. At the same time, the fall in prices of non-energy industrial goods slowed, primarily due to the less pronounced effects of sales of clothing and footwear, which is likely the result of the deregulation of seasonal sales. Consequently, core inflation also rose slightly, although it remains low given the growth in components of domestic demand. The revised methodology for calculating the prices of refined petroleum products as of July has not yet been reflected in energy prices. The lower contribution of energy prices to inflation in July is a reflection of the waning base effect and low oil prices on the global market.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till jun.15	12 m. 'till jun.16	12 m. 'till jun.17	3 m. 'till jun.16	3 m. 'till jun.17	2017 apr.	2017 maj.	2017 jun.	2017 jul.
Economic Activity									* data for avg.17
	<i>balance of answers in percentage points</i>								
Sentiment indicator	2.7	4.9	9.0	4.5	11.2	11.7	9.5	12.3	11,4 (11,3*)
- confidence indicator in manufacturing	4.3	5.7	7.6	6.0	8.0	9.0	6.0	9.0	8,0 (8,0*)
	<i>year-on-year growth rates in %</i>								
Industry: - total ¹	4.2	5.7	7.9	6.6	7.7	7.6	8.8	6.7	...
- manufacturing	5.6	6.6	8.6	7.9	8.4	8.0	9.5	7.6	...
Construction: - total ²	1.5	-17.0	0.5	-21.4	17.5	26.8	5.7	21.2	...
- civil engineering	-0.4	-6.9	23.1	-11.6	38.4	53.7	33.8	30.3	...
Trade (volume turnover)									
Total retail trade	0.7	0.8	9.1	1.5	9.5	9.6	8.7	10.2	...
Retail trade and repair of motor vehicles	12.1	17.5	18.8	21.0	15.9	18.4	14.2	15.2	...
Private sector services ³	3.8	4.9	6.0	3.3	9.0	8.8	11.0	7.2	...
	<i>year-on-year growth rates in %</i>								
Average gross wage	1.0	1.4	1.8	1.5	2.3	1.3	3.4	2.4	...
- private sector	...	1.2	1.9	1.4	2.5	0.8	3.8	3.0	...
- public sector	...	1.8	2.2	2.0	2.7	2.6	3.3	2.1	...
Real net wage ⁴	1.1	1.8	0.9	1.8	1.0	-0.2	1.9	1.7	...
Registered unemployment rate (in %)	12.7	11.8	10.3	11.1	9.4	9.8	9.4	9.1	...
Registered unemployed persons	-4.2	-6.8	-11.7	-8.9	-14.3	-13.6	-14.3	-15.0	-14.6
Persons in employment	1.1	0.8	2.7	1.5	3.6	3.5	3.6	3.7	...
- private sector	1.5	0.7	3.3	1.5	4.7	4.7	4.7	4.7	...
- public sector	0.3	1.0	1.2	1.5	0.7	0.5	0.7	1.1	...
	<i>year-on-year growth rates in %</i>								
HICP	-0.3	-0.7	1.0	-0.4	1.4	1.7	1.5	0.9	1.2
- services	1.3	1.0	1.9	1.8	2.1	2.6	1.9	1.8	1.8
- industrial goods excluding energy	-1.1	-0.2	-0.7	-0.2	-0.8	-0.8	-0.8	-0.9	-0.3
- food	0.6	0.6	1.5	0.1	1.6	1.3	2.3	1.3	2.0
- energy	-4.4	-8.0	1.5	-7.2	3.7	5.4	4.3	1.4	0.8
Core inflation indicator ⁵	0.3	0.5	0.8	0.9	0.8	1.1	0.7	0.7	0.9
	<i>in % GDP</i>								
Balance of Payments - Current Account									
Current account balance	5.0	5.6	5.5	5.2	7.2	8.0	5.0	8.5	...
1. Goods	3.5	4.3	3.6	4.4	4.5	4.8	2.6	6.2	...
2. Services	4.7	5.2	5.6	5.2	5.8	6.6	5.1	5.7	...
3. Primary income	-2.4	-3.2	-3.0	-3.9	-2.4	-2.5	-2.2	-2.5	...
4. Secondary income	-0.8	-0.8	-0.8	-0.5	-0.7	-0.8	-0.5	-0.8	...
	<i>nominal year-on-year growth rates in %</i>								
Export of goods and services	6.5	4.6	8.6	6.0	11.9	7.3	14.8	13.5	...
Import of goods and services	4.5	2.8	9.6	4.2	11.7	5.2	17.1	12.8	...
	<i>Public Finances</i>								
	2015	2016	12 m. 'till apr.17	2016 jan.-apr.	2017 jan.-apr.				
Consolidated general government (GG) balance ⁶			% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %	
Revenue	15,714	15,842	40.2	3.9	6,430	2.5	6,992	8.2	
Tax revenue	13,746	14,240	35.9	5.5	5,806	4.4	6,186	6.4	
From EU budget	882	481	1.2	-37.1	292	-18.2	340	18.4	
Other	1,085	1,121	3.0	12.5	333	-6.5	466	29.6	
Expenditure	16,956	16,497	40.9	-1.3	6,790	-1.9	7,223	-1.6	
Current expenditure	7,168	7,407	18.4	4.2	3,145	1.8	3,299	1.3	
- wages and other personnel expenditure	3,610	3,785	9.4	5.8	1,530	2.0	1,597	3.7	
- purchases of goods, services	2,311	2,371	5.9	2.6	901	6.3	1,049	1.4	
- interest	1,043	1,074	2.7	4.0	665	-0.5	594	0.3	
Current transfers	7,540	7,700	19.1	2.1	3,238	2.2	3,317	2.0	
- transfers to individuals and households	6,371	6,496	16.1	2.0	2,682	2.1	2,732	2.0	
Capital expenditure, transfers	1,815	962	2.4	-41.9	217	-48.8	424	-32.8	
GG surplus/deficit	-1,242	-654	-0.7	-74.0	-360	-44.6	-231	-73.8	

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.