

**BANKA
SLOVENIJE**
BANK OF SLOVENIA
EUROSYSTEM



SUMMARY OF MACROECONOMIC DEVELOPMENTS

MARCH 2019

Summary of macroeconomic developments, March 2019

According to the latest IMF forecasts, global economic growth is expected to slow slightly this year, primarily because of rising uncertainty in international trade. This was the main factor in last year's slowdown in the euro area, where year-on-year growth stood at just 1.2% in the final quarter. It was also weak in the early part of this year: the economic sentiment indicator and the manufacturing PMI continued to decline in February. The latter has for the first time since June 2013 fallen below 50, which indicates the boundary between increasing and decreasing activity. The European Commission sharply reduced its forecast for this year's economic growth in the euro area by 0.6 percentage points to just 1.3%. It is forecasting weaker growth in Germany, France and Italy, among others. Growth is expected to strengthen to 1.6% in 2020 because of reduced uncertainty in the international environment, while domestic growth factors related to the labour market, financing conditions and fiscal policy are expected to remain encouraging. The exchange rate has remained just below USD 1.15 to the euro over the last four months, with only minor fluctuations. After falling sharply at the end of last year, the price of Brent crude rose again in the early part of this year; in February, the price in euros was up in year-on-year terms.

Economic growth in Slovenia slowed slightly in the final quarter of last year. GDP was up by 0.8% in quarterly terms, and by 4.1% in year-on-year terms. Both rates continued to significantly outpace the euro area average. Private-sector services continued to make a significant contribution to growth, partly because of ongoing rapid growth in their exports, and partly as a result of the strengthening private consumption being driven by the situation on the labour market. The contribution to GDP growth made by construction declined after the local elections, as growth in investments in construction has become less pronounced. The deterioration in international trade brought a slight decline in growth in value-added in industry, while growth in investment in equipment and machinery decreased further. Despite the rise in growth in merchandise imports as a result of the increase in private consumption, the near-zero growth in imports of services meant that growth in total exports outpaced growth in total imports, and the contribution of net trade thus remained positive. Despite a narrower merchandise trade surplus, last year's current account surplus reached a new high. It stood at 7.4% of GDP, which is 0.2 percentage points higher compared to 2017, as growth in exports of services remained high and interest expenditure on public debt continued to decline. GDP rose by 4.5% last year, although to a large extent due to high carry-over as quarterly growth rates within the year slowed down in comparison to 2017. Despite declining, the economic sentiment remained relatively high in February, although the outlook is deteriorating for the export sector at least, and manufacturing firms have significantly reduced their assessments of short-term growth in demand.

Employment growth remained high until the end of last year, despite the slowdown in economic growth. The workforce in employment in the final quarter of last year was up 28,000 or 2.8% in year-on-year terms. The survey unemployment rate fell to 4.4%. Growth in labour productivity stood at 1.5% last year, down 0.4 percentage points on the previous year, suggesting a continuation of the labour-extensive growth seen since the beginning of the current economic cycle. Wage pressures were mitigated by the structure of employment, which was affected by employment of non-residents and employment in activities with below-average wages. The average gross wage rose by 3.4% last year, just 0.7 percentage points more than in the previous year. Wage growth was increasing in 2017, but was already beginning to slow last year. Wage developments have not yet weakened the cost competitiveness of the economy, at least for now, as they remain in their aggregate relatively aligned with productivity growth. Maintaining this relation also in times of lower economic growth is key for preserving the level of competitiveness.

Year-on-year inflation as measured by the HICP remained low in February, at 1.3%, the third consecutive month in which it has been outpaced by the euro area average, which stood at 1.5%. The slowdown from the much higher levels seen for most of last year was mainly attributable to a fall in prices of refined petroleum products in December and January. Energy prices accounted for 0.7 percentage points of last year's headline inflation, but made a contribution of practically zero in the first two months of this year. There was also a significant decline in the contribution of food prices in both main sub-categories. By contrast, prices of non-energy industrial goods moved into positive growth in the early part of this year, at a level comparable to the euro area average, after falling for almost five years. The situation in the domestic environment continues to be reflected in the strengthened growth in services prices seen since the middle of last year, the rate reaching 2.9% in February, 1.6 percentage points higher than the euro area average. All the core inflation indicators therefore rose in the early part of the year, the narrowest to 1.6%, even as headline inflation fell. Average core inflation in the euro area remains stable, at levels between 1.0% and 1.2%.

Last year, the public finance were influenced by the high growth in tax revenues, one-off factors and a further decline in interest payments on public debt. According to provisional figures under the cash flow methodology, the consolidated general government surplus amounted to EUR 526 million or 1.1% of GDP last year. Growth in expenditure was higher than in 2017, primarily on account of investment prompted by the local elections, but remained significantly outpaced by growth in revenues. The one-off factors relate primarily to payments of temporarily withheld funds from the EU budget from the previous financial framework, and to profit distributions by NLB, which was still under majority state ownership until December of last year. The reduced interest payments brought by the ECB's monetary policy stimulus and Slovenia's stable position in the financial markets was again a factor in the large surplus. Growth in tax revenues remained high in the early part of this year, while year-on-year growth in expenditure also increased, primarily because of earlier payments of agricultural subsidies. The government estimates last year's general government surplus at 0.8% of GDP according to the ESA 2010 methodology. This year is expected to be more demanding from the point of view of public finances. The Fiscal Council and the European Commission have pointed out the possibility of a significant deviation in the government budget plans from fiscal rules, despite the planned public finance surplus and the further reduction of the country's debt as a share of GDP.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till Dec.16	12 m. 'till Dec.17	12 m. 'till Dec.18	3 m. 'till Dec.17	3 m. 'till Dec.18	2018 Oct.	2018 Nov.	2018 Dec.	2019 Jan.
Economic Activity	* data for Feb.19								
	balance of answers in percentage points								
Sentiment indicator	5.5	12.5	11.9	15.8	10.8	11.5	10.0	11.0	12.3 (9.2*)
- confidence indicator in manufacturing	5.5	9.9	8.2	13.0	7.7	10.0	7.0	6.0	7.0 (2.0*)
	year-on-year growth rates in %								
Industry: - total	7.8	8.3	4.6	10.9	0.8	3.3	1.8	-3.1	...
- manufacturing	8.9	8.9	5.0	11.9	1.1	3.7	2.0	-2.9	...
Construction: - total	-17.7	17.7	19.9	26.0	15.3	18.5	19.5	5.8	...
- buildings	2.4	27.6	17.0	30.7	3.0	7.0	6.4	-5.5	...
Trade and service activities - total	6.0	6.7	7.1	8.3	7.2	10.1	7.3	4.6	...
Wholesale and retail trade and repair of motor vehicles and	18.9	14.1	12.1	14.8	3.8	5.1	4.9	1.1	...
Retail trade, except of motor vehicles and motorcycles	3.2	5.6	3.1	4.1	7.6	8.8	6.0	7.8	...
Other private sector services	6.3	5.9	7.1	8.7	6.2	10.1	6.7	2.2	...
Labour market	year-on-year growth rates in %								
Average gross wage	1.8	2.7	3.4	3.9	3.3	3.4	3.2	3.4	...
- private sector	1.7	2.8	4.0	4.3	4.1	4.7	4.2	3.4	...
- public sector	2.3	2.9	3.0	3.9	2.5	1.9	1.7	4.0	...
Real net wage ¹	1.8	1.5	1.0	3.3	1.0	0.6	0.9	1.5	...
Registered unemployment rate (in %)	11.2	9.5	8.3	8.9	8.0	7.9	7.9	8.1	...
Registered unemployed persons	-8.5	-14.1	-11.5	-14.7	-7.8	-8.1	-7.7	-7.7	-5.8
Persons in employment	1.6	3.5	3.2	3.7	3.3	3.2	3.1	3.6	...
- private sector	1.6	4.5	4.2	5.0	4.1	4.0	3.8	4.5	...
- public sector	1.4	0.8	0.8	0.4	1.3	1.0	1.4	1.4	...
Price Developments	year-on-year growth rates in %								
HICP	-0.2	1.6	1.9	1.5	2.0	2.3	2.1	1.4	1.2 (1.3*)
- services	1.6	1.8	2.4	1.7	2.6	2.5	2.6	2.7	2.6 (2.9*)
- industrial goods excluding energy	-0.5	-0.7	-0.8	-0.9	-0.6	-0.6	-0.7	-0.5	0.2 (-0.1*)
- food	0.5	2.2	2.4	2.8	1.6	2.3	1.8	0.6	0.9 (0.7*)
- energy	-5.2	4.7	6.0	4.3	6.9	8.9	8.2	3.5	0.0 (0.6*)
Core inflation indicator ²	0.7	0.7	1.0	0.6	1.2	1.1	1.2	1.4	1.6 (1.6*)
Balance of Payments - Current Account	in % GDP								
Current account balance	5.5	7.2	7.4	5.9	6.2	7.7	7.1	3.7	...
1. Goods	3.8	3.6	2.7	2.7	0.9	1.1	3.0	-1.6	...
2. Services	5.6	6.3	6.9	5.6	7.0	8.5	6.6	5.8	...
3. Primary income	-3.0	-2.2	-1.5	-2.0	-1.3	-1.3	-1.8	-0.7	...
4. Secondary income	-0.9	-0.6	-0.7	-0.4	-0.4	-0.5	-0.6	0.1	...
	nominal year-on-year growth rates in %								
Export of goods and services	5.0	13.5	9.6	14.7	9.2	11.4	12.2	3.5	...
Import of goods and services	4.2	13.6	10.6	14.1	10.3	18.4	6.8	5.6	...
Public Finances									
Consolidated general government (GG) balance ³	2016	2017	12 m. 'till		2018		2019		
			Dec.18	y-o-y, %	Jan.-Dec.	y-o-y, %	Jan.-Jan.	y-o-y, %	
	EUR milions								
Revenue	15,842	16,803	40.5	10.6	18,593	10.6	1,547	5.6	
Tax revenue	14,240	15,162	35.3	7.0	16,225	7.0	1,474	7.1	
From EU budget	471	391	1.7	103.5	796	103.5	14	-48.5	
Other	1,131	1,250	3.4	25.8	1,572	25.8	60	-3.7	
Expenditure	16,497	17,102	39.4	5.6	18,067	5.6	1,573	11.4	
Current expenditure	7,407	7,733	17.4	3.0	7,967	3.0	689	5.8	
- wages and other personnel expenditure	3,785	3,938	9.0	5.5	4,153	5.5	342	6.4	
- purchases of goods, services	2,371	2,627	5.8	0.8	2,649	0.8	195	10.6	
- interest	1,074	985	1.9	-11.9	868	-11.9	145	-1.4	
Current transfers	7,700	7,913	17.9	4.1	8,235	4.1	766	12.2	
- transfers to individuals and households	6,496	6,665	15.1	3.9	6,925	3.9	577	4.6	
Capital expenditure, transfers	962	1,078	3.1	32.8	1,431	32.8	52	33.2	
GG surplus/deficit	-654	-299	1.1		526		-25		

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 HICP 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.