

**BANKA
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BANK OF SLOVENIA
EUROSYSTEM



SUMMARY OF MACROECONOMIC DEVELOPMENTS

NOVEMBER 2017

Summary of macroeconomic developments, November 2017

The global economy is gradually strengthening. The IMF's October forecasts predict growth of 3.6% this year and 3.7% in 2018. Among other economies, the IMF is forecasting higher growth in the euro area, Russia, Japan and China, while faster growth is not expected in the US or the UK. In its November forecasts the European Commission states that this year the euro area could record its highest growth of the decade, at 2.2%. However, the rate could be even higher, as GDP growth strengthened to 2.5% in the third quarter, and the economic sentiment remains high as the end of the year approaches. US dollar oil prices have risen significantly in recent months, which has increased the contribution made to euro area inflation by energy prices, despite this year's appreciation of the euro. The euro stood at around USD 1.18 in the autumn months, up just over 10% on the beginning of the year. This year's appreciation is partly attributable to the increased confidence in growth in the euro area.

Economic growth remains high in Slovenia, with accelerated export growth in the third quarter. Year-on-year nominal growth in merchandise exports strengthened to more than 15%, while growth in exports of services remained above 10%. There is strong economic activity in numerous segments of manufacturing, which is also evident from the diversified growth in sales revenues on foreign markets. Year-on-year growth in private consumption, at least on the basis of retail turnover, remains high, but growth in imports of capital goods slowed, so growth in import demand in the third quarter was outpaced by export growth. This was reflected in a new increase in the 12-month current account surplus, which reached 6.3% of GDP in September, up just under 1 percentage point on a year earlier. The Slovenian economy is thus maintaining a large surplus despite growth in domestic demand, by means of which it is a net financier of the rest of the world in the form of repayments of securities and loans, and investments in foreign securities.

As structural imbalances on the labour market increase, there are first signs of faster wage growth. The workforce in employment excluding self-employed farmers was up 3.2% in year-on-year terms in September. The increase was based on a fall in the number of unemployed, as more than 70% of the deregistrations in the first ten months of the year were for reason of employment or self-employment. Employment of foreign nationals is continuing to increase rapidly. Demand for workers is still strengthening: the number of vacancies in the third quarter was up 40% in year-on-year terms, while according to the SURS October survey firms are expecting employment growth to remain high. Because the surplus supply of labour is diminishing rapidly, more and more firms are facing a shortage of workers. Therefore, wage growth is also slowly increasing in the private sector, although growth in labour costs in the economy remains below estimated productivity growth for the moment.

Public finance developments remain favourable. According to government forecasts, the general government deficit will narrow from 1.9% of GDP last year to 0.8% of GDP this year, before moving into surplus next year. The improvement is primarily the result of favourable cyclical developments and a decline in interest expenses as a result of low interest rates and debt restructuring. A gradual but slightly slower improvement in the general government position is also being expected by the European Commission, which also finds that there is a risk of the government budget plans for 2018 failing to comply with the rules of the Stability and Growth Pact. Next year's main challenges in public finances remain controlling the pressures to raise expenditure, the faster disbursement of EU funds, and the implementation of structural reforms to ensure the sustainability of the public finances in the long term, such as pension, healthcare and long-term care reform.

Year-on-year headline inflation remains low, despite the buoyant domestic economic climate and higher inflation expectations. It fell by 0.1 percentage points in October to 1.3%. The fall in prices of non-energy industrial goods deepened, which is largely the result of an unusual seasonal dynamic in prices of clothing and footwear, while year-on-year growth in services prices declined further. This has been reflected in core inflation, which has persisted around 1% for the third consecutive year. Inflation continues to be raised primarily by the pass-through of growth in import prices into final consumer prices, particularly prices of energy and unprocessed food, which is also raising consumers' inflation expectations.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till sep. 15	12 m. 'till sep. 16	12 m. 'till sep. 17	3 m. 'till sep. 16	3 m. 'till sep. 17	2017 jul.	2017 avg.	2017 sep.	2017 okt.
Economic Activity									
	* data for nov. 17								
	balance of answers in percentage points								
Sentiment indicator	4.0	5.0	10.4	6.1	11.7	11.5	11.4	12.3	15.5 (*16.1)
- confidence indicator in manufacturing	5.1	5.5	8.4	5.0	8.7	8.0	8.0	10.0	12.0 (*14.0)
	year-on-year growth rates in %								
Industry: - total ¹	4.8	6.4	7.5	7.9	7.5	5.9	8.2	8.6	...
- manufacturing	5.9	7.3	8.2	9.0	8.3	6.3	8.6	10.0	...
Construction: - total ²	-6.8	-17.2	6.8	-12.7	8.3	10.5	7.6	7.0	...
- civil engineering	-4.1	-3.7	24.3	5.7	9.4	13.6	3.4	11.0	...
Trade (volume turnover)									
Total retail trade	0.3	1.5	10.1	3.2	8.0	9.6	7.4	7.0	...
Retail trade and repair of motor vehicles	12.3	19.2	17.1	20.5	13.0	10.1	18.2	11.6	...
Private sector services ³	3.5	4.7	...	3.8	...	10.0	5.5
	Labour market								
	year-on-year growth rates in %								
Average gross wage	0.7	1.7	2.1	1.7	2.8	2.8	2.7	3.0	...
- private sector	0.5	1.5	...	1.5	...	3.2	2.7
- public sector	1.4	2.2	...	2.3	...	2.8	3.1
Real net wage ⁴	0.9	2.0	0.9	1.5	1.5	1.9	1.6	1.7	...
Registered unemployment rate (in %)	12.5	11.5	9.9	10.6	8.9	9.1	9.0	8.7	...
Registered unemployed persons	-5.3	-7.5	-13.0	-9.3	-14.6	-14.6	-14.4	-14.9	-14.7
Persons in employment	1.0	1.1	3.2	1.6	3.5	3.6	3.6	3.5	...
- private sector	1.2	1.0	4.0	1.6	4.5	4.6	4.6	4.4	...
- public sector	0.4	1.4	1.0	1.7	1.1	1.0	1.0	1.2	...
	Price Developments								
	year-on-year growth rates in %								
HICP	-0.5	-0.5	1.3	0.0	1.3	1.2	1.4	1.4	1.3
- services	1.0	1.4	1.8	2.1	1.8	1.8	1.8	1.7	1.6
- industrial goods excluding energy	-0.8	-0.5	-0.6	-0.9	-0.5	-0.3	-0.9	-0.4	-1.2
- food	0.8	0.5	1.8	0.7	2.1	2.0	1.9	2.2	2.2
- energy	-6.0	-7.3	3.4	-4.9	2.6	0.8	3.8	3.2	3.8
Core inflation indicator ⁵	0.2	0.6	0.8	0.8	0.8	0.9	0.7	0.8	0.4
	Balance of Payments - Current Account								
	in % GDP								
Current account balance	4.8	5.5	6.3	5.4	8.3	7.1	5.4	12.4	...
1. Goods	3.8	4.1	3.8	3.6	4.8	4.8	1.3	8.4	...
2. Services	4.6	5.3	5.9	6.3	6.9	6.2	7.5	7.1	...
3. Primary income	-2.8	-3.2	-2.7	-3.6	-2.9	-3.0	-2.9	-2.8	...
4. Secondary income	-0.8	-0.8	-0.7	-0.9	-0.5	-0.9	-0.4	-0.2	...
	nominal year-on-year growth rates in %								
Export of goods and services	6.0	4.6	11.3	4.2	14.4	13.6	16.9	13.0	...
Import of goods and services	3.9	3.0	11.7	3.9	12.6	11.8	15.1	11.2	...
	Public Finances								
	2015	2016	12 m. 'till avg.17		2016 jan.-avg.		2017 jan.-avg.		
Consolidated general government (GG) balance ⁶	EUR millions		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %	
Revenue	15,714	15,842	39.2	4.5	10,347	1.0	11,032	6.6	
Tax revenue	13,746	14,240	35.2	5.5	9,333	3.5	9,931	6.4	
From EU budget	882	481	1.0	-31.6	301	-44.6	259	-14.1	
Other	1,085	1,121	3.0	12.2	712	4.2	842	18.2	
Expenditure	16,956	16,497	39.7	-0.3	10,793	-1.4	11,057	2.4	
Current expenditure	7,168	7,407	17.9	2.4	4,898	4.1	5,032	2.7	
- wages and other personnel expenditure	3,610	3,785	9.2	4.6	2,519	4.5	2,624	4.1	
- purchases of goods, services	2,311	2,371	5.8	4.1	1,476	3.0	1,556	5.4	
- interest	1,043	1,074	2.5	-1.4	786	4.6	774	-1.5	
Current transfers	7,540	7,700	18.5	2.7	5,189	1.5	5,309	2.3	
- transfers to individuals and households	6,371	6,496	15.6	2.2	4,387	1.9	4,485	2.2	
Capital expenditure, transfers	1,815	962	2.4	-30.7	434	-46.9	464	7.0	
GG surplus/deficit	-1,242	-654	-0.6	-76.4	-446	-36.0	-25	-94.3	

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.