BANKA SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

SUMMARY OF MACROECONOMIC DEVELOPMENTS

JULY 2015

Summary of macroeconomic developments, July 2015

Economic growth in the euro area strengthened slightly in the first quarter, and the situation on the labour market also improved. The figures available for the second quarter indicate for the moment that growth has remained moderate at best. Consumer confidence declined in the second quarter, while the economic sentiment indicators were stable, although growth in industrial production weakened in April. The latest forecasts for the euro area suggest a continuation of moderate growth, while the expectations for certain major global economies have actually been reduced slightly.

Economic growth in Slovenia strengthened again in the first quarter, significantly outpacing overall growth in the euro area. In line with the increased confidence, the situation is improving in an increasing number of segments of the private sector, which is gradually raising turnover on the domestic market. This relates in particular to transactions within the corporate sector, as domestic final consumption remains relatively weak, and growth is limited to consumer durables, mostly from imports. The recovery in domestic consumption, which is being constrained by the situation on the labour market and restrictive fiscal policy, remains well behind the overall recovery in the euro area. Slovenia's above-average growth is primarily being driven by faster growth in export-oriented industrial production, which is based on a relatively low number of sectors. According to the available figures for activity and confidence, economic growth is expected to slow slightly in the second quarter.

Developments on the labour market remained positive in the first quarter and April, as employment rose and registered unemployment fell. Total employment increased further, which on this occasion was primarily attributable to expansions in wholesale and retail trade and in manufacturing, while employment remained unchanged in the construction sector after five years of decline. Uncertain forms of employment remain prevalent (the proportion that they account for actually increased), and in the future employment is primarily expected to rise on account of work via employment agencies. Firms are mainly forecasting increased employment of manual labourers, which remains likely to lead to merely minimal wage growth, which for the moment remains significantly behind growth in economic activity.

The current account surplus remained high over the first four months of the year, although its structure altered slightly. Last year's very large surplus in merchandise trade narrowed slightly as a result of lower export growth, which alongside the slowdown in car exports was also attributable to the contraction in the Ukrainian and Russian markets. However, exports of services have strengthened sharply this year. The main increase was in exports of travel services, as a result of an improvement in the ratio of the number of overnight stays to the number of arrivals by foreign visitors. After last year's widening the deficit in primary income narrowed slightly, as a result of smaller outflows of dividends and improved terms for government refinancing. The deficit in secondary income remained stable.

The gradual improvement in the macroeconomic situation is bringing an improvement in financing conditions. Saving outstripped investment in all non-government sectors last year, and was significantly larger than government sector's deficit, while the surplus with the rest of the world amounted to 10% of GDP. The corporate sector primarily directed its surplus into debt repayments, while households focused on saving and on increasing bank deposits.

This is an indication of the restoration of confidence in the banks, which last year improved their funding structure, thereby reducing systemic risks. The banks have maintained high credit standards on corporate loans, but access to loans has improved with this year's sharp falls in lending rates.

The government's main objective for this year in the fiscal realm is the sustainable elimination of the excess general government deficit, thereby moving Slovenia to the preventive arm of the Stability and Growth Pact. The general government deficit is forecast to narrow to 2.9% of GDP this year. The available figures for developments in the first half of the year suggest for the moment that the plans are feasible, although precise monitoring and prompt action in the event of deviations will be required. General government revenues according to the ESA 2010 recorded faster year-on-year growth in the first quarter than did expenditure. Expenditure on interest increased again, but significantly less than in previous quarters, while investment was similar to that recorded a year earlier. According to the figures based on cash flows, revenues from taxes and social security contributions during the first five months of the year were up approximately 4% in year-on-year terms. Hedging of currency risk was the sole factor raising the general government debt in the first quarter, which stood at 81.9% of GDP. Attention in the coming months will focus on measures to reduce the general government deficit in 2016. In this year's update to the Stability Programme the government announced the replacement of short-term measures with longer-term or structural measures.

Price developments remain under the influence of low global commodity prices and the constraints of the domestic market. Deflation in the second quarter deepened relative to the first quarter, reaching a new low: year-on-year growth in the harmonised index of consumer prices was down 0.3 percentage points at -0.8%. By contrast, average inflation in the euro area has already re-entered positive territory, albeit at low levels. The gap is largely attributable to domestic demand, which is recovering more slowly in Slovenia, while firms are also not subject to cost pressures. The majority of the core inflation indicators also moved into negative territory in the second quarter in the wake of the significant negative contribution made by energy prices.

Main macroeconomic indicators

	2012	2013	2014	14Q3	14Q4	15Q1	2012	2013	2014	14Q3	14Q4	15Q1
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	-2.6	-1.0	2.6	3.2	2.4	2.9	-0.8	-0.4	0.8	0.8	0.9	1.1
- industry	-2.3	-0.1	4.3	4.8	5.1	5.9	-0.5	-0.5	0.4	0.5	0.2	0.8
- construction	-7.5	-8.8	10.9	10.3	-0.7	-1.7	-5.9	-2.9	-0.7	-1.8	-1.2	-1.3
- mainly public sector services	1.3	-0.5	0.8	0.6	1.2	0.4	0.2	0.0	0.7	0.7	0.5	0.6
- mainly private sector services	-2.9	-0.6	3.6	4.2	3.6	3.3	-0.8	-0.3	0.9	0.9	0.9	1.2
Domestic expenditure	-5.7	-2.1	0.8	1.8	-1.6	2.6	-2.3	-0.7	0.9	0.6	0.8	1.4
- general government	-1.5	-1.1	-0.5	-0.4	1.2	-0.5	-0.1	0.2	0.6	0.7	0.7	1.4
- households and NPISH	-3.0	-3.9	0.3	0.3	-0.8	0.4	-1.3	-0.6	1.0	1.0	1.4	1.8
- gross capital formation	-16.5	2.2	3.6	7.8	-7.0	11.8	-7.1	-2.0	0.8	-0.8	-0.6	0.2
- gross fixed capital formation	-8.9	1.9	4.8	8.1	-0.9	-0.8	-3.7	-2.4	1.2	0.6	0.7	1.0
- inventories and valuables, contr. to GDP growth in pp	-1.8	0.1	-0.3	0.0	-1.2	2.5	-0.8	0.1	-0.1	-0.3	-0.3	-0.1
Labour market												
Employment	-0.8	-1.5	0.7	0.9	0.8	1.0	-0.5	-0.7	0.6	0.7	0.9	0.8
- mainly private sector services	-1.3	-1.7	0.7	1.0	0.9	1.1	-0.6	-0.9	0.5	0.7	0.9	0.9
- mainly public sector services	1.1	-0.6	0.3	0.4	0.3	0.4	-0.1	0.0	0.7	0.7	0.7	0.5
Labour costs per employee	-1.2	1.9	-0.2	1.1	-2.6	0.4	1.6	1.6	1.4	1.4	1.2	1.4
- mainly private sector services	-0.6	2.1	1.2	1.2	0.8	0.3	1.8	1.6	1.5	1.4	1.2	1.4
- mainly public sector services	-3.4	0.9	-4.4	1.9	-4.4	-3.8	0.9	1.7	1.3	1.3	1.1	1.5
Unit labour costs	0.3	0.9	-2.6	-1.6	-4.9	-1.5	1.7	1.2	1.1	1.2	1.3	1.2
- industry	3.3	0.8	-1.1	-1.6	-1.8	-3.7	1.8	1.7	1.8	1.7	2.0	1.4
	in %											
LFS unemployment rate	8.9	10.1	9.8	9.3	9.6	9.8	11.4	11.9	11.6	11.0	11.5	...
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP	2.7	5.6	5.8	6.4	6.7	5.0	1.5	2.2	2.3	2.9	3.3	0.0
External trade balance as contr. to GDP growth in pp	2.9	1.0	1.9	1.5	4.0	0.5	1.4	0.4	0.0	0.2	0.1	-0.2
Real export of goods and services	0.3	2.6	6.3	6.8	8.4	5.4	2.7	2.0	3.8	4.3	4.4	3.7
Real import of goods and services	-3.9	1.4	4.1	5.3	3.3	5.4	-0.7	1.3	4.1	4.0	4.6	4.6
Financing	*in % of GDP*											
Banking system's balance sheet	141.0	128.0	116.8	120.9	116.8	114.7	322.9	298.2	299.5	300.8	299.5	309.8
Loans to NFCs	52.9	44.8	31.5	35.3	31.5	30.0	44.6	42.0	40.2	40.7	40.2	40.1
Loans to households	23.0	22.4	21.5	21.6	21.5	21.3	52.4	51.9	50.7	50.8	50.7	50.6
Inflation	*in %*											
HICP	2.8	1.9	0.4	0.1	0.0	-0.5	2.5	1.3	0.4	0.4	0.2	-0.3
HICP excl. energy, food, alcohol and tobacco	0.7	0.9	0.6	0.4	0.3	0.7	1.5	1.1	0.8	0.8	0.7	0.7
Public finance	*in % of GDP*											
Debt of the general government	53.7	70.3	80.9	77.7	80.9	81.9	89.1	90.9	92.0	92.1	92.0	...
One year net lending/net borrowing of the general government	-4.0	-14.9	-4.9	-12.8	-4.9	-4.6	-3.6	-2.9	-2.4	-2.4	-2.4	...
- interest payment	2.0	2.5	3.3	3.1	3.3	3.3	3.0	2.8	2.6	2.7	2.6	...
- primary deficit	-2.0	-12.4	-1.6	-9.7	-1.6	-1.3	-0.6	-0.1	0.2	0.3	0.2	...
- deficit excl. bank recapitalisations	-3.8	-4.8	-3.9	-4.3	-3.9	-3.7						
- primary deficit excl. bank recapitalisations	-1.8	-2.3	-0.7	-1.2	-0.7	-0.4						

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