BANKA SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

SUMMARY OF MACROECONOMIC DEVELOPMENTS

APRIL 2017

Summary of macroeconomic developments, April 2017

The economic outlook in the international environment from the beginning of this year has provided the basis for continuing rapid growth in Slovenia's export sector. According to the latest forecasts by international institutions, global growth this year is expected to be higher than last year. At the same time the economic sentiment in the euro area in the first quarter of this year was high, irrespective of the uncertainty in the international environment. The latest assessment based on the Consensus forecasts also suggest that aggregate growth in Slovenia's main trading partners will be slightly higher in 2017 and 2018. The monetary policies of the ECB and the Fed became even more divergent in March, the Fed having raised its key interest rate again, while the ECB continued to pursue non-standard measures. The euro remained relatively stable against the US dollar in March, while oil prices fell. The year-on-year decline in the euro is making it easier for domestic exporters to penetrate foreign markets, while the stop in the rises of oil prices in March slowed the deterioration in the terms of trade.

The Slovenian economy recorded one of the highest economic growth rates in the euro area last year without support from government investment. The export sector expanded the volume of exports by close to 6% for the third consecutive year, while growth in value-added in industry was significantly higher than the euro area average. In line with the strengthening of the domestic market and growth in exports, value-added in services also increased significantly. Construction was the sole drag on economic activity, as a result of the large decline in government investment caused by the uneven disbursement of EU funds. By contrast, corporate investment in machinery and equipment strengthened significantly, which is vital for increasing the country's economic potential, and the new cycle of corporate investment is already being reflected in a narrower saving-investment gap in the corporate sector. Growth in domestic final consumption was also higher than across the euro area, as employment out-performed expectations and the government relaxed austerity measures, while consumer loans also began to grow. Import growth began to outpace export growth as a result, and the contribution made to GDP growth by net trade turned negative at the end of the year. The economy has continued to flourish in the early part of this year: the economic sentiment is high, while the labour market and consequently domestic demand are strengthening further, and there was a sharp increase in exports in January.

Employment growth has remained rapid, while on the labour market an increasingly evident role is being played by foreign workers, who for the moment are merely compensating for the net emigration of residents. The workforce in employment excluding farmers was up 3.4% in year-on-year terms in January, while various surveys suggest that growth will continue in the first half of this year. Economic growth remains extensive, and is continuing to be primarily driven by employment, while growth in labour productivity is extremely low: it stood at just 0.6% last year. The background to this pattern remains high unemployment, which for the moment is still ensuring an adequate supply of labour. At the same time employment of foreign workers is strengthening sharply; they accounted for almost a quarter of overall growth in employment last year, thereby resuming the pattern seen in the period of overheating before the crisis, but now with simultaneous net emigration. Accordingly the number of registered unemployed is falling sharply: in the first quarter it was down more than 12% on average in year-on-year terms. Should these trends persist, the excess supply of labour could be exhausted over the medium term, and continuing economic growth would depend on the economy's ability to change over to an intensive, productivity-driven model of growth. This would also require a change in economic policy in the direction of the differentiation and selection of business entities according to quality.

The beginning of the year was extremely favourable for the export sector. Nominal year-on-year growth in exports of goods and services exceeded 14% in January. The increase in demand for goods was driven primarily by the euro area, but also by Russia, where exports have risen rapidly in recent months in the wake of a year-on-year rise in the rouble. The vast majority of categories of export products and services recorded higher growth. The rise in imports was even stronger, while their structure is indicative of further growth in private-sector investment and consumption. Although growth in domestic demand and import prices is gradually narrowing the goods trade surplus, the current account surplus remains high as a result of the increasing surplus of trade in services and the narrowing deficit in capital income. It amounted to 6.9% of GDP over the 12 months to January.

Last year's improvement in Slovenia's fiscal position outperformed the plans of the Ministry of Finance, and a further reduction of the deficit is also expected this year. Slovenia reduced its general government deficit to 1.5% of GDP in 2016 according to current data, having expected a deficit of 2.2% of GDP. This year's deficit should be smaller than planned in the current budget, as additional improvements in the economic situation are expected, which will raise government tax revenues. At the same time the pace of disbursement of money from EU funds is expected to increase, which means that government investment should no longer act as a brake on economic growth. However, expenditure will also increase, but the key is that growth in expenditure remains within the bounds of the current budget.

Although domestic price pressures are also strengthening, the leap in inflation in the first quarter of this year was primarily the result of external factors. Inflation as measured by the HICP averaged 2.0% in the first quarter of the year, outpacing the euro area average by 0.4 percentage points, primarily because the basket of goods and services for Slovenian households contains an above-average proportion of motor fuels, which are under the direct influence of movements in oil prices on global markets. There was a particular sharp rise in inflation in February, when it reached 2.5%. Both in Slovenia and across the euro area large rise was the result of base effects from the beginning of last year, and new rises in energy prices caused by rises in global oil prices. The rise in inflation was also largely attributable to a rise in prices of unprocessed food, which reflected a supply shock in the market for fresh food caused by bad weather in southern Europe. The relatively high growth in domestic demand and the increase in unit labour costs in the wake of stalled productivity growth are not yet having a stronger impact on price developments: growth in the narrowest core inflation indicator stood at just 0.7% in the first quarter.

Main macroeconomic indicators

	2014	2015	2016	16Q2	16Q3	16Q4	2014	2015	2016	16Q2	16Q3	16Q4
			Slovenia						*euro area*			
Economic developments						*y-o-y growth rates in %*						
GDP	3.1	2.3	2.5	2.7	2.5	2.6	1.2	2.0	1.7	2.3	1.7	1.3
- industry	4.5	1.5	5.6	6.8	5.7	4.8	2.4	4.3	1.4	2.8	0.7	1.0
- construction	9.2	-1.3	-12.3	-13.2	-9.2	-9.2	-1.1	-0.1	1.8	2.5	2.2	1.3
- mainly public sector services	0.1	1.0	2.3	1.8	2.1	3.5	0.5	1.0	1.1	1.2	1.3	0.9
- mainly private sector services	4.7	2.5	2.6	3.1	2.7	2.5	1.3	2.1	1.8	2.4	1.7	1.4
Domestic expenditure	1.8	1.4	2.4	2.8	1.7	3.7	1.2	1.9	2.0	2.6	1.7	1.3
- general government	-1.2	2.4	2.6	2.0	1.7	2.8	0.6	1.3	1.8	2.1	1.6	1.6
- households and NPISH	2.0	0.5	2.8	3.5	2.1	4.0	0.8	1.8	2.0	2.2	1.7	1.8
- gross capital formation	4.3	2.8	1.0	1.6	0.5	3.8	3.2	2.5	2.1	4.5	1.9	-0.3
- gross fixed capital formation	1.4	1.0	-3.1	-3.5	-2.5	0.9	1.5	3.2	2.6	5.1	2.1	1.0
- inventories and valuables, contr. to GDP growth in pp	0.6	0.4	0.8	1.0	0.6	0.5	0.3	-0.1	-0.1	-0.1	0.0	-0.3
Labour market												
Employment	0.4	1.1	2.0	2.0	2.1	2.4	0.6	1.0	1.3	1.4	1.2	1.1
- mainly private sector services	0.5	1.2	2.0	2.0	2.1	2.3	0.4	1.0	1.3	1.4	1.2	1.2
- mainly public sector services	0.4	0.8	2.2	2.1	2.4	2.7	1.0	1.0	1.2	1.3	1.2	1.0
Labour costs per employee	1.3	1.4	2.2	3.2	1.6	1.5	1.3	1.3	1.2	1.2	1.3	1.2
- mainly private sector services	2.3	1.5	1.4	2.0	0.7	1.0	1.4	1.3	1.2	1.2	1.2	1.1
- mainly public sector services	-2.0	1.2	5.0	4.0	5.0	5.0	1.1	1.1	1.3	1.2	1.5	1.3
Unit labour costs	-2.0	0.3	1.7	2.3	1.1	1.2	0.7	0.4	0.9	0.4	0.9	1.0
- industry	-0.8	1.1	-0.7	-1.6	-1.3	0.0	-0.7	-2.3	0.2	-1.3	0.9	0.4
						in %						
LFS unemployment rate	9.8	9.0	8.0	7.8	7.3	8.1	11.7	10.9	10.0	10.0	9.6	9.8
Foreign trade						*y-o-y growth rates in %*						
Current account balance as % of GDP	6.2	5.2	6.8	6.5	6.7	6.8	2.3	0.0	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in pp	1.4	1.1	0.3	0.2	0.9	-0.8	0.0	0.2	-0.1	-0.3	0.1	0.0
Real export of goods and services	5.7	5.6	5.9	7.6	5.6	4.6	4.4	6.5	2.9	3.9	2.2	3.1
Real import of goods and services	4.2	4.6	6.2	8.4	5.0	6.3	4.9	6.5	3.5	5.0	2.4	3.3
Financing						*in % of GDP*						
Banking system's balance sheet	116.6	107.7	100.8	102.0	100.3	100.8	298.1	283.3	277.7	288.2	283.1	277.7
Loans to NFCs	31.5	26.5	22.8	24.2	23.1	22.8	40.2	38.8	38.0	38.6	38.2	38.0
Loans to households	21.4	21.2	21.4	21.1	21.1	21.4	50.6	50.1	49.7	49.7	49.6	49.7
Inflation						*in %*						
HICP	0.4	-0.8	-0.2	-0.4	0.0	0.7	0.4	0.0	0.2	-0.1	0.3	0.7
HICP excl. energy, food, alcohol and tobacco	0.7	0.3	0.7	0.9	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.8
Public finance						*in % of GDP*						
Debt of the general government	80.9	83.1	79.7	82.5	82.8	79.7	92.0	90.3	...	91.2	90.1	...
One year net lending/net borrowing of the general government	-5.3	-2.7	-1.5	-1.6	-1.5	-1.5	-2.6	-2.1	...	-1.8	-1.7	...
- interest payment	3.2	2.9	3.0	3.0	3.0	3.0	2.7	2.4	...	2.3	2.2	...
balancedeficit	-2.1	0.3	1.4	1.3	1.5	1.4	0.1	0.3	...	0.5	0.5	...
- balance excl. bank recapitalisations	-4.3	-2.7	-1.5	-1.6	-1.5	-1.5						
- primary balance excl. bank recapitalisations	-1.2	0.3	1.4	1.3	1.5	1.4						

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