BANKA SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

SUMMARY OF MACROECONOMIC DEVELOPMENTS

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Summary of macroeconomic developments, February 2017

Global economic activity has been encouraging in the early part of this year, notwithstanding the increased political uncertainty. In this year's assessments of global risks, the World Economic Forum also gave no emphasis to those from the economy. The European Commission was of a similar mind in its latest economic growth forecasts, having judged European economies to be relatively robust in the face of global economic, political and security challenges, which in 2016 did not constrain the forecast economic growth. It is also forecasting a two-year period of positive economic growth for all EU Member States for the first time in just under a decade, with Slovenia forecast to achieve growth of 3%, 1.3 percentage points above the euro area average.

The economic sentiment in Slovenia improved further in January. At the same time firms in all sectors are expecting strong growth in demand in the first quarter of this year. The relatively high economic growth seen at the end of last year, which at least according to the monthly indicators was marked by a further increase in private consumption, is therefore expected to continue. Retail turnover in the final quarter of last year was up 10% in year-on-year terms, while growth in turnover in accommodation and food service activities was even higher. Investment in residential and commercial real estate is also most likely strengthening, at least according to the high growth in activity in this segment of construction. In addition to the domestic market, foreign demand is continuing to grow. Growth in exports remained solid towards the end of the year, while the engines of growth in demand were widely diversified in geographical terms. Growth in industrial production also remained diversified across a number of sectors, and at 10.3% in December was more than 8 percentage points up on the euro area average.

Economic growth has been profoundly labour-intensive since the emergence from the crisis, which has resulted in low labour productivity, which given the necessity of maintaining external competitiveness has constrained the convergence of income on the euro area average. Employment growth sharply exceeded expectations last year. The workforce in employment excluding self-employed farmers was up more than 3% in year-on-year terms in December. Unemployment is continuing to fall rapidly at the same time. The figure was down just over 12% in year-on-year terms in January of this year. Registered unemployment nevertheless still stood at more than 100,000, which for the moment is still curbing wage growth in the private sector. Year-on-year growth in nominal gross wages in the private sector stood at 1.7% last year, which does not differ significantly from nominal growth in labour productivity in the total economy, and for the moment is not reducing cost competitiveness. Productivity growth since the emergence from the crisis is nevertheless significantly lower than before 2008. Persistently low growth in productivity could constrain economic growth in the future, if falling unemployment brings a rise in wage growth and a decline in employment growth. To achieve high levels of economic growth over the longer term, there need to be improvements in its structure. The issue of low productivity growth is also seen across the euro area, albeit from a more advanced economic standing.

The consolidated general government deficit declined significantly over the first eleven months of the year. It amounted to EUR 510 million, almost EUR 300 million narrower in year-on-year terms. The reduction in the deficit was largely achieved via growth in tax revenue, which was driven by the favourable economic situation, particularly in the labour market. Austerity measures in public-sector labour costs have gradually been relaxed since the end of 2015, while pensions and certain social transfers have also been increased slightly. Government investment is also expected to make a positive contribution to GDP growth this year. In light of the current good economic situation and the latest forecasts by *the European Commission, growth in tax revenue could be higher than expected in the current state budget, which should not be allowed to justify a further increase in expenditure, but should instead be directed into a faster improvement in the general government position. The European Commission is estimating that the Slovenian economy may begin overheating as early as 2017, which would increase the structural government deficit. Nevertheless, numerous macroeconomic indicators offer no evidence of overheating as yet. Core inflation, wage growth in the private sector and the share of investment in GDP remain low, while growth in bank loans to the private sector is weak. At the same time, the current account surplus remains large, despite growth in private consumption and investment. It stood at 6.8% of GDP in 2016.*

January's rebound in inflation to 1.5% was primarily the result of the year-on-year rise in oil prices, while domestic inflation factors remain relatively weak for the moment. Although year-on-year inflation as measured by the HICP reached its highest level of the last three years in January, it remained below the euro area average of 1.8%. Had oil prices remained unchanged in year-on-year terms in January, inflation in Slovenia would have been just under 1 percentage point lower. The contribution to headline inflation made by food prices increased, primarily as a result of the high growth in prices of unprocessed food. The contribution made by services prices declined, while the fall in prices of non-energy industrial goods intensified. Core inflation thus remains weak, and is actually below its level of the middle of last year. Core inflation excluding energy prices stood at 0.7% in January, unchanged from December, and 0.3 percentage points less than the euro area average.

Selection of main macroeconomic indicators on a monthly basis

	12 m. 'till Dec.14	*12 m. 'till Dec.15*	*12 m. 'till Dec.16*	*3 m. 'till Dec.15*	*3 m. 'till Dec.16*	*2016 Oct.*	*2016 Nov.*	*2016 Dec.*	*2017 Jan.*
Economic Activity									
				balance of answers in percentage points					
Sentiment indicator	-2.2	5.2	5.5	5.8	7.9	7.1	8.1	8.5	10.0
- confidence indicator in manufacturing	2.1	6.1	5.5	6.7	6.7	6.0	7.0	7.0	9.0
				year-on-year growth rates in %					
Industry: - total[1]	1.7	5.1	6.6	3.6	8.0	6.6	7.4	10.2	...
- manufacturing	3.7	5.5	8.0	3.6	9.3	7.4	8.9	12.0	...
Construction: - total[2]	19.5	-8.1	-17.7	-8.3	-9.3	-15.2	-15.1	9.1	...
- civil engineering	3.8	-4.0	2.3	-4.2	18.9	8.6	14.3	37.0	...
Trade (volume turnover)									
Total retail trade	-0.3	0.8	3.8	0.9	10.0	9.6	10.2	10.1	...
Retail trade and repair of motor vehicles	5.7	13.5	22.7	12.4	26.7	24.0	24.0	32.5	...
Private sector services[3]	3.5	4.9	...	7.1	...	5.0	3.2	...	...
Labour market				*year-on-year growth rates in %*					
Average gross wage	1.4	0.7	1.8	1.3	1.9	1.5	0.5	3.7	...
- private sector	...	0.5	1.7	1.2	1.8	0.6	0.5	4.2	...
- public sector	...	1.2	2.3	1.7	2.3	3.1	0.5	3.2	...
Real net wage[4]	0.6	1.0	2.1	2.0	1.4	1.0	-0.2	3.2	...
Registered unemployment rate (in %)	13.1	12.3	11.2	11.9	10.6	10.5	10.4	10.8	...
Registered unemployed persons	0.2	-6.1	-8.5	-6.5	-10.4	-9.5	-9.8	-11.9	-12.2
Persons in employment	0.5	0.9	1.6	0.5	2.5	2.3	2.4	2.6	...
- private sector	0.8	0.9	1.6	0.2	2.9	2.4	3.1	3.3	...
- public sector	-0.1	0.7	1.4	1.2	1.3	2.1	0.8	0.9	...
Price Developments				*year-on-year growth rates in %*					
HICP	0.4	-0.8	-0.2	-0.9	0.7	0.7	0.7	0.6	1.5
- services	1.8	0.9	1.6	1.0	1.8	2.0	1.6	1.7	1.4
- industrial goods excluding energy	-1.0	-0.6	-0.5	-0.4	-0.6	-0.3	-0.5	-1.0	-1.4
- food	0.8	1.0	0.5	0.8	1.0	1.2	0.7	1.1	2.0
- energy	-1.4	-7.8	-5.2	-9.1	-0.5	-1.8	0.2	0.2	6.9
Core inflation indicator[5]	0.6	0.3	0.7	0.4	0.8	1.0	0.7	0.6	...
Balance of Payments - Current Account					*in % GDP*				
Current account balance	6.2	5.2	6.8	4.7	5.4	8.5	3.8	4.0	...
1. Goods	3.2	3.9	3.9	3.5	2.5	4.0	1.5	1.9	...
2. Services	4.5	5.2	5.8	5.0	5.4	6.7	4.8	4.8	...
3. Primary income	-0.3	-2.5	-1.6	-2.6	-1.5	-1.4	-1.5	-1.6	...
4. Secondary income	-1.1	-1.4	-1.2	-1.3	-1.0	-0.9	-1.0	-1.0	...
				nominal year-on-year growth rates in %					
Export of goods and services	5.6	5.4	4.6	4.0	5.1	2.0	6.7	6.8	...
Import of goods and services	4.4	3.5	4.0	2.4	6.2	2.3	12.6	3.9	...

Public Finances

Consolidated general government (GG) balance[6]	*2014*	*2015*	12 m. 'till Nov.16		2015 jan.-Nov.		2016 jan.-Nov.	
	EUR milions		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	15,494	15,714	39.7	-0.6	14,290	2.6	14,339	0.3
Tax revenue	13,193	13,746	35.8	3.4	12,520	4.5	12,980	3.7
From EU budget	1,040	882	1.1	-58.1	798	-1.1	347	-56.5
Other	1,261	1,085	2.8	3.0	972	-14.8	1,012	4.1
Expenditure	16,755	16,956	42.1	0.0	15,097	-0.3	14,850	-1.6
Current expenditure	7,043	7,168	18.8	5.4	6,465	0.2	6,734	4.2
- wages and other personnel expenditure	3,610	3,610	9.5	4.7	3,295	-0.1	3,458	5.0
- purchases of goods, services	2,233	2,311	6.0	6.7	1,979	0.0	2,051	3.6
- interest	1,097	1,043	2.7	3.2	1,038	-5.1	1,070	3.1
Current transfers	7,592	7,540	19.4	1.9	6,883	-0.7	7,024	2.0
- transfers to individuals and households	6,335	6,371	16.4	2.0	5,840	0.4	5,955	2.0
Capital expenditure, transfers	1,717	1,815	3.0	-30.4	1,359	-2.3	717	-47.2
GG surplus/deficit	-1,261	-1,242	-2.4	11.9	-806	-34.0	-510	-36.7

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.