

In the spotlight

At the beginning of the year, short-term indicators of economic activity in the euro area continued to improve; the values of confidence indicators remained relatively high despite deterioration. The value of the Economic Sentiment Indicator (ESI) declined in the first quarter in most of Slovenia's main trading partners owing to uncertainty about economic growth in the international environment, but was at one of the highest levels in the last few years. The confidence indicator PMI has also deteriorated slightly at the beginning of the year, but still indicates growth in manufacturing production. As other international institutions, the ECB also revised downwards its forecasts for economic growth in the euro area for 2016 and 2017 in March, mainly owing to lower growth in exports.

Most short-term indicators of economic activity in Slovenia improved further at the beginning of the year. Foreign demand contributed to further growth in merchandise exports; manufacturing production also rose notably. Turnover continues to rise in most market services. The improvement in the labour market situation and the strengthening of private consumption translated into further growth in some segments of trade and in tourism-related services. Activity in construction remained low and the prospects for growth are subdued. Confidence indicators for other sectors indicate a continuation of the gradual recovery of activity in 2016.

At the beginning of the year labour market conditions improved further. The number of employed persons rose again in January. With the strengthening of economic activity, employment is rising in most private sector activities. It was up year-on-year particularly in manufacturing (where most of the workers hired by employment agencies were placed), and in trade, transportation and accommodation and food service activities. Since mid-2015, employment growth has also increased slightly in public services, where it was up year-on-year particularly in the health sector. With a slightly larger outflow into employment, the number of registered unemployed dropped further in the first quarter. At the end of March, 110,226 persons were registered as unemployed, which is 6.7% less than in March 2015.

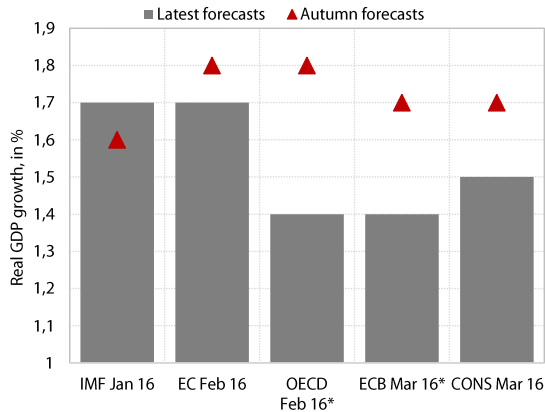
Following a notable increase at the end of last year, average gross earnings per employee rose slightly again in January. After last year's modest growth, private sector earnings increased moderately again; earnings in the general government maintained the high level reached at the end of the year, owing to public servants' promotion raises and higher overtime and extraordinary payments related to the increased inflows of refugees and migrants.

In March consumer prices remained down year-on-year. The decline was still largely due to lower oil and other energy prices. Despite the protracted period of falling or low prices of oil, we estimate that there has not been any significant pass-through of lower oil prices to other prices or contractual relationships yet. The lower prices of durable goods and modest growth in prices of semi-durable goods, services and food are mainly attributable to internal adjustment processes and the absence of further food market shocks.

At the beginning of the year, the volume of domestic non-banking sectors' loans declined further; the net repayments of corporate and bank foreign liabilities were lower. Loan volume decreased by EUR 1.7 billion in the last 12 months; not taking into account the liquidation of two smaller banks, the deleveraging of non-banking sectors would remain similar to that one year before (EUR 1.3 billion), according to our estimate. Enterprises and NFIs continued to deleverage abroad in January, while the net repayments of banks eased. The growth of domestic non-banking sectors' deposits has moderated notably owing to declining government deposits and smaller inflows of household deposits, while the growth of corporate deposits is rising.

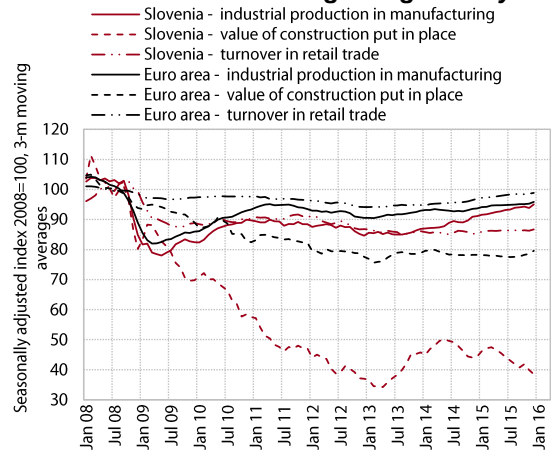
With increased inflows of EU funds and lower general government expenditure, January recorded a general government surplus on a cash basis. The year-on-year growth of general government revenue was almost entirely underpinned by the increased receipts from the EU budget related to the previous financial perspective. Social contributions paid were also higher, while tax revenues were lower as the payment of a part of excise duties was postponed to the following month. General government expenditure was significantly lower year-on-year under the impact of the beginning of the implementation of the new financial perspective of the EU. This holds true particularly for payments of subsidies and investment expenditure.

In recent months international institutions have been less optimistic regarding euro area economic growth owing to higher uncertainty in the international environment.



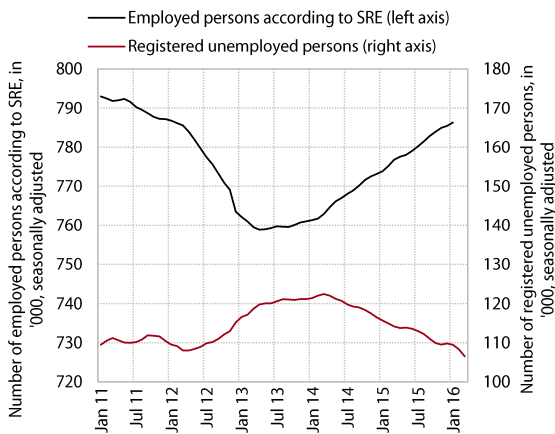
Source: IMF, EC, OECD, ECB, Consensus Forecasts. Note: *working-day adjusted.

Most short-term indicators of economic activity in the euro area and Slovenia increased further at the beginning of the year.



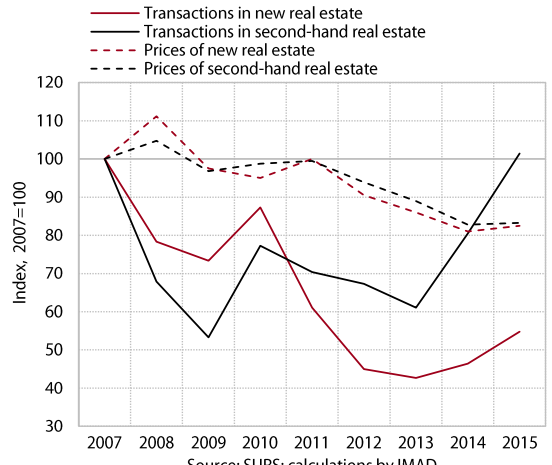
Source: Eurostat, SURS; calculations by IMAD.

The strengthening of activity in most sectors contributed to a further improvement in labour market conditions.



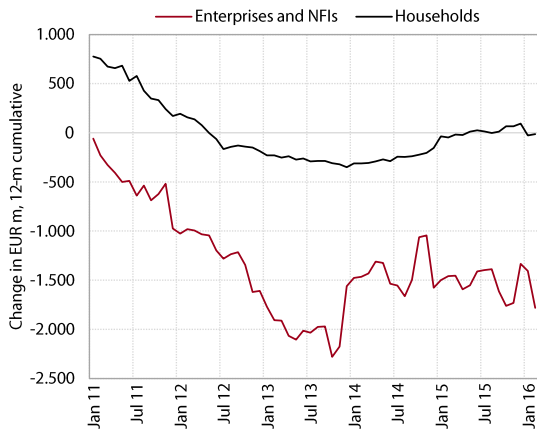
Source: SURS, ESS; calculations by IMAD.

The rebound in the housing market continued in 2015.



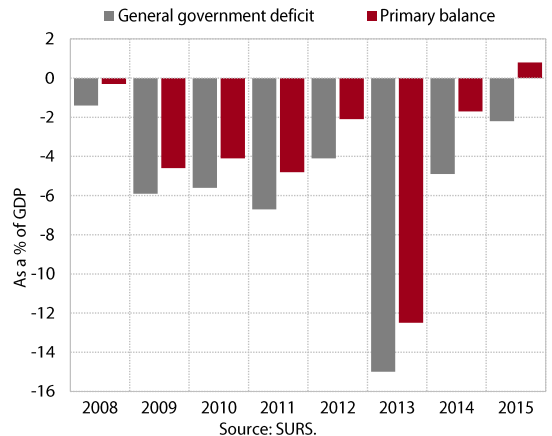
Source: SURS; calculations by IMAD.

In February the decline in the volume of domestic non-banking sectors' loans accelerated significantly owing to the liquidation of two smaller banks.



Source: BoS; calculations by IMAD.

In 2015 the general government deficit (on an accrual basis) fell below 3% for the first time since the onset of the crisis.



Source: SURS.