

In the spotlight

GDP growth in the euro area continued at the beginning of the year; the European Commission (EC) expects that GDP growth will remain similar to last year in 2016 and 2017. According to Eurostat's preliminary flash estimate, GDP in the euro area was up by 0.6% (seasonally adjusted) in the first quarter of 2016 and by 1.6% compared with the first quarter of the previous year. In its latest forecast, the EC did not change significantly its expectations about GDP growth in the euro area, projecting GDP to increase by 1.6% this year and by 1.8% in 2017. Growth will continue to be driven by domestic demand. The risks to the forecast remain significant. They are related to the possibility of slower growth of the global economy and trade.

Activity increased further in most sectors in Slovenia at the beginning of the year. Merchandise exports and manufacturing production increased the most, under the impact of positive developments abroad. The improvement in labour market conditions and the strengthening of private consumption contributed to further growth in the trade sector and tourism-related services. Turnover also rose in most other market services. Activity in construction dropped to the lowest level since the beginning of 2013. Growth prospects remain favourable for most sectors, as most confidence indicators increased slightly at the beginning of the second quarter.

The labour market situation continues to improve. Reflecting the strengthening of activity, the number of employed rose further in February in most activities of the private sector. 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. With a slightly larger outflow into employment and a smaller inflow into unemployment, the number of registered unemployed declined further in April. At the end of the month, 105,453 people were registered as unemployed, which is 8.2% less than one year earlier.

Owing to good business performance, average gross earnings per employee in the private sector rose significantly in the last four months; in the general government sector they maintained their high level of December. This was attributable to promotions and increased overtime and extraordinary payments at the end of last year. Earnings also rose in public corporations, where they fluctuate significantly from month to month.

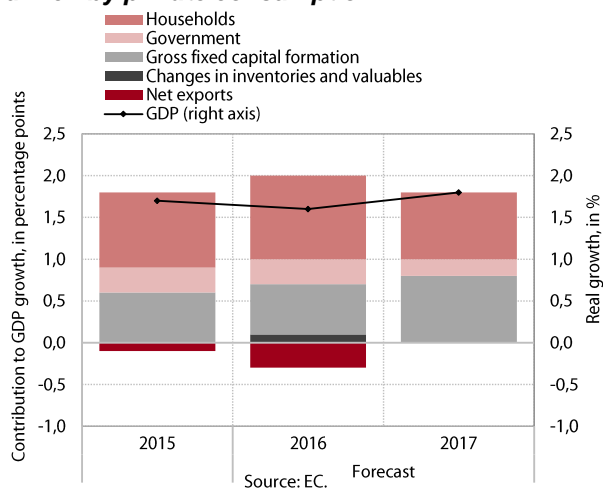
Consumer prices remained lower year-on-year in April. The decline was still largely due to lower oil and other energy prices. In the absence of cost pressures, prices of durable goods also remained down year-on-year. Food prices were similar to those in the same period of last year. Price growth in services and semi-durable goods strengthened slightly, but remained modest.

Export competitiveness improved further. Last year's improvement in cost competitiveness was related to the decline in the exchange rate of the euro and relative unit labour costs. Slovenia offset the loss in cost competitiveness relative to the euro area from the first year of the crisis. The bulk of improvement stemmed from the tradable sector, notably manufacturing. The improvement in price competitiveness in the first quarter was due to a further decline in relative prices.

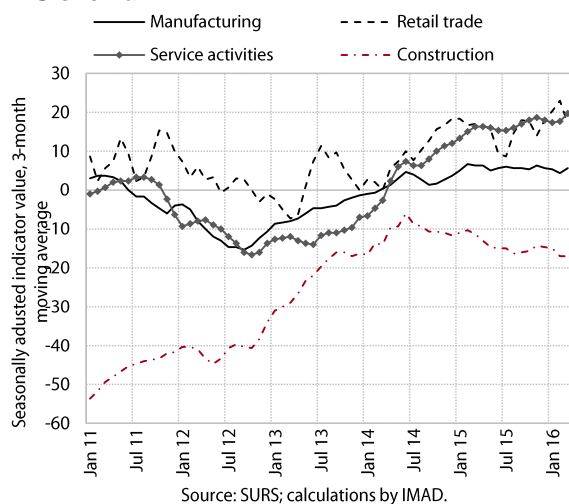
The volume of domestic non-banking sector loans continued to fall in the first quarter; the maturity structure of deposits deteriorated further. The decline in the volume of loans deepened slightly in the last 12 months, mainly as a consequence of the liquidation of two smaller banks. Corporate and NFI deleveraging abroad rose slightly in the last few months owing to higher net repayments of long-term loans. The decline in banks' foreign liabilities was larger than in the same period last year, with foreign deposits and bonds also decreasing alongside loan repayments. Lower government deposits and small inflows of household deposits slowed the growth of domestic non-banking sector deposits. In particular overnight deposits rose more visibly.

The general government deficit on a cash basis in the first two months was half lower than one year before owing to higher revenue and lower expenditure. The higher general government revenue was attributable not only to higher inflows of social contributions and funds from the EU budget (related to the previous financial perspective), but also to higher tax revenues, but their growth was mainly a consequence of discrepancies in recording their flows in certain months. General government expenditure was down primarily due to the beginning of the implementation of the new financial perspective of the EU (lower expenditure on investment and subsidies and lower payments into the EU budget).

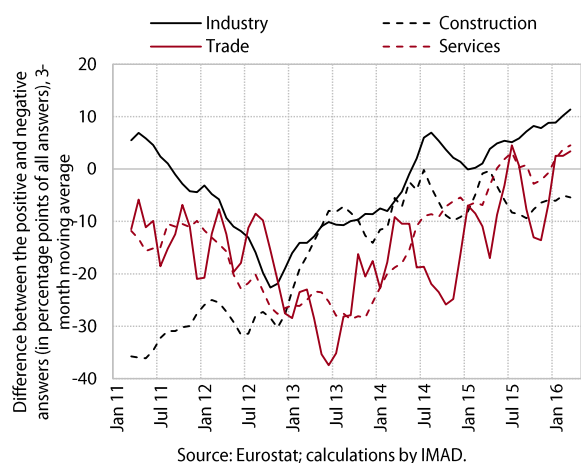
According to the EC's forecast, this year's GDP growth in the euro area will also be mainly driven by private consumption.



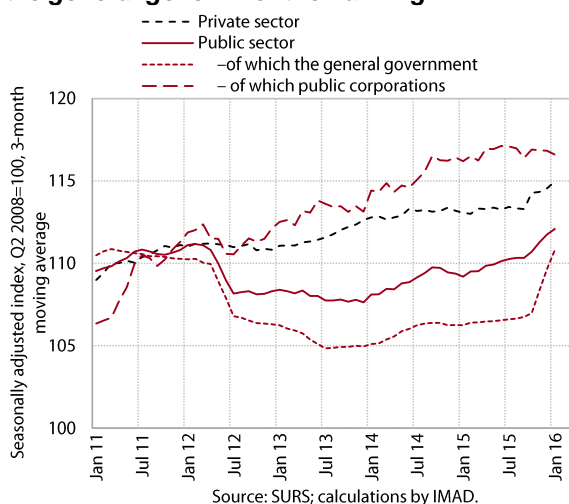
Growth prospects at the beginning of the second quarter are favourable for most activities in Slovenia.



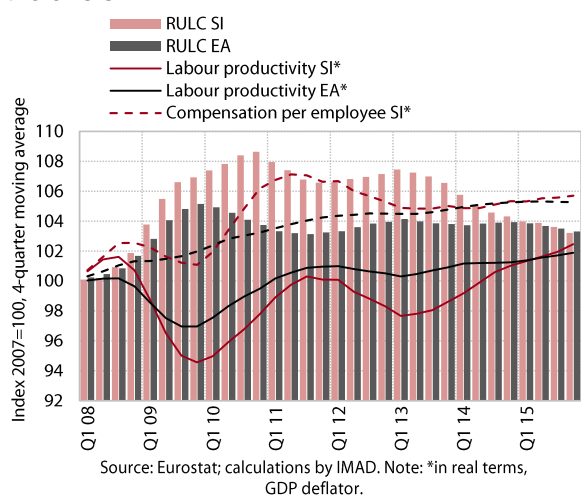
The prospects for employment growth also remain favourable for most sectors in Slovenia.



Earnings in the private sector rose notably in the last four months due to good business performance in the previous year; earnings in the general government remain high.



Slovenia offset the loss in cost competitiveness relative to the euro area from the first years of the crisis.



The lower general government deficit was mainly impacted by the transition to the new financial perspective of the EU.

