

## **In the spotlight**

**The EC and IMF predict a continuation of economic growth in Slovenia's main trading partners in 2016, but point to increased risks particularly with regard to developments in emerging economies.** The available indicators of economic activity and confidence in the euro area indicate a continuation of modest GDP growth in the last quarter of 2015. In 2016, the EC and IMF expect economic growth in Slovenia's main trading partners to remain similar to last year. It will continue to rely particularly on the recovery in private consumption, which is expected to reflect the improvement in labour market conditions and significantly lower prices of oil. The latter also have a positive impact on profits, which, together with better access to funding, improves the prospects for growth in investment. However, the forecasts for growth in global trade and, consequently, exports are lower, given the deteriorating situation in emerging economies. According to both institutions, the main risk to the forecasts is an even greater slowdown of economic activity in these countries and related increased uncertainty on financial markets.

**Most short-term indicators of economic activity in Slovenia remained at the achieved levels towards the end of 2015.** In the first eleven months of 2015, real merchandise exports and production volume in manufacturing were around 5% higher year-on-year. As in the previous year, they strengthened under the impact of positive developments abroad and the improvement in competitiveness of Slovenia's economy in the last few years. They also have a positive impact on turnover in services, which increases gradually, also on account of higher private consumption related to the steady recovery on the labour market. Activity in construction remains very low, although it swung upwards at the end of the year owing to increased government investment. Confidence in the economy otherwise deteriorated at the beginning 2016, but remains high and indicates a continuation of the gradual recovery of economic activity.

**Towards the end of the year, the number of employed persons continued to grow; in December and January, the decline in the number of registered unemployed came to a halt.** Employment growth reflected the strengthening in manufacturing and market services, consistent with higher activity in these sectors. Having declined since April 2014, registered unemployment rose at the end of 2015 and remained at roughly the same level at the beginning of 2016, the main reason being a larger inflow into the unemployment register due to the termination of fixed-term contracts. The number of registered unemployed was nevertheless 4.9% lower than one year earlier.

**The growth of average gross earnings strengthened towards the end of last year.** November's stronger growth in the private sector was a consequence of the highest extraordinary payments in seven years. In the eleven months to November, growth otherwise remained significantly lower than in the same period of 2014, which is attributable to the absence of price pressures and the rising share of low-wage earners amid companies' efforts to maintain competitiveness. In the public sector, earnings increased further in the first eleven months of 2015, on account of the payments of suspended promotion raises in 2014 and further growth in public corporations.

**In the second half of 2015, Slovenia's price and cost competitiveness increased further.** The improvement was mainly due to the decline in the nominal effective exchange rate and, in part, relative prices and unit labour costs. Last year, too, the decline in unit labour costs mainly stemmed from the tradable sector, particularly manufacturing, where the level of real unit labour costs was already lower than before the crisis.

**Consumer prices were still down year-on-year in January and the movements of import prices and industrial producer prices indicate a continuation of similar movements in the months ahead.** Amid declining oil prices, deflation is still mainly due to lower prices of energy and durable goods, amid modest price growth in other product groups. The continuation of year-on-year declines in import prices and industrial producer prices at the end of 2015 indicates the absence of price pressures.

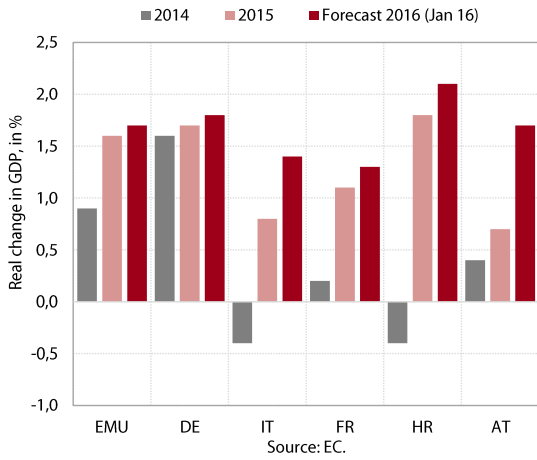
**The surplus of the current account of the balance of payments continues to widen; in the twelve months to November 2015, it accounted for 7.7% of estimated GDP.** Last year's increase was again mainly due to the higher surplus in merchandise trade, which, in addition to favourable export movements, also reflects better terms of trade. The surplus in services trade widened too, particularly as a result of the surplus in trade in travel and construction services. In contrast, the deficits in primary and secondary income were much higher than one year before. The surplus of the current account of the balance of payments reflected the total net financial outflows in the amount of EUR 3.1 bn attributable to the net outflows in portfolio investment and other investment, as direct investment recorded a net inflow.

**The decline in the volume of domestic non-banking sectors' loans slowed last year; corporate and bank net repayments of foreign liabilities decreased.** As a result of rising household loans and a smaller decline in corporate and NFI loans (excluding the transfer of claims to the BAMC), last year's total decline of EUR 1.1 bn was less pronounced than that in the previous year. In the second half of 2015, corporate and NFI net repayments abroad stabilised, while banks' net repayments slowed. As a result of the outflow of government and NFI deposits and a smaller inflow of household deposits, last year the total growth of domestic non-banking

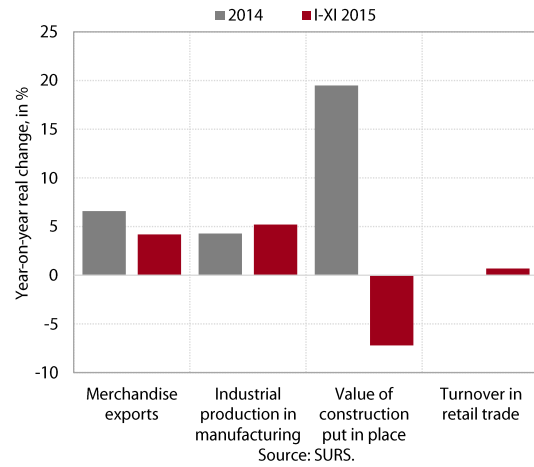
sectors' deposits decreased by more than half despite the larger increase in deposits by enterprises, which we estimate can also be a consequence of their low investment activity.

**The general government deficit on a cash basis, which was down year-on-year in the first eleven months of 2015, is estimated to have widened by the end of the year according to the released data on December's state budget outturn.** This is a consequence of the pronounced growth of expenditures on investment and goods and services. In 2015, the state budget deficit (which accounts for the bulk of the general government deficit) was higher than in 2014, but lower than envisaged in the revised budget. Revenue rose, amid further recovery in economic activity and measures taken by the government, but less so than expenditure, although expenditure growth also moderated in 2015.

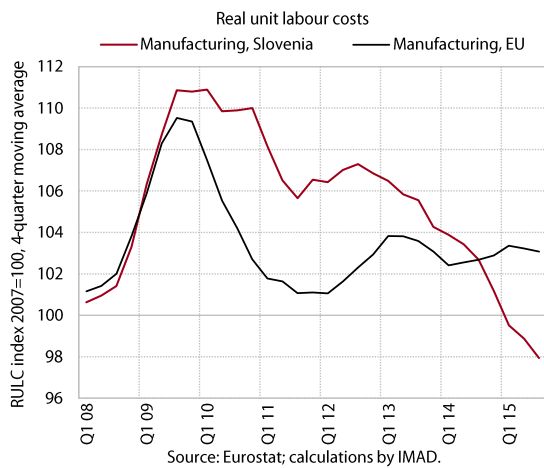
**Economic growth in main trading partners expected to remain around last year's level in 2016**



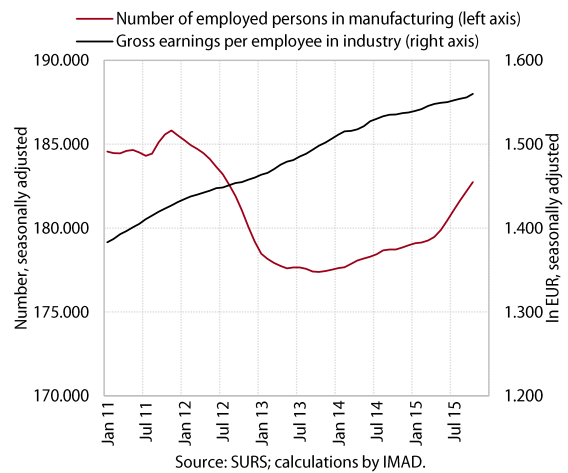
**The recovery of economic activity in Slovenia at the end of 2015 was still based on exports of manufactured goods ...**



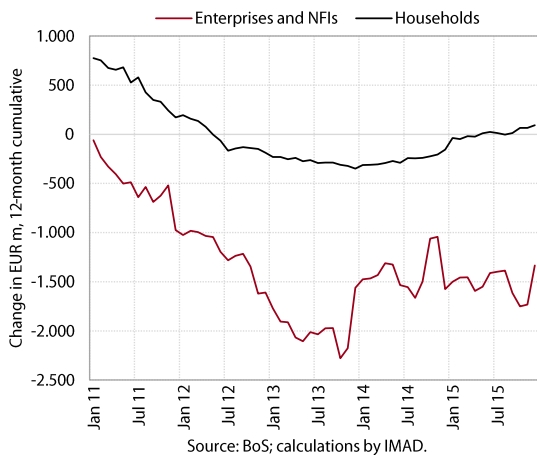
**... with further improvement in the cost competitiveness of manufacturing**



**Movements in the export-oriented part of the economy remain the main factor in the recovery of employment and earnings.**



**The decline in loan volume slowed last year owing to growth in household loans and a smaller fall in corporate and NFI loans.**



**The state budget deficit, up on the previous year in 2015, indicates that the general government deficit will also increase at the end of 2015.**

