

In the spotlight

In the first quarter, economic growth in the euro area strengthened to 0.6% (seasonally adjusted) and GDP was up 1.7% year-on-year. The main driver of GDP growth was domestic demand, particularly private consumption and investment. For the second quarter, confidence indicators (ESI, PMI, Ifo) indicate a moderation of GDP growth in the euro area. Similar to other international institutions, the OECD did not significantly revise its expectations about economic growth in the euro area for 2016 (1.6%) and 2017 (1.7%) in its latest forecast.

GDP growth in Slovenia continued in the first quarter owing to a notable strengthening of exports. GDP was 0.5% higher than in the previous quarter (seasonally adjusted) and 2.5% higher than in the same period of 2015. The main factor of the increase remained growth in exports, which exceeded the expectations, boosted by rising foreign demand amid the still favourable competitiveness position of the tradable sector. This was also reflected in the growth of value added in manufacturing and some market services. The recovery of domestic consumption eased slightly owing to a fall in construction investment. Developments in other segments of domestic consumption were more favourable, as private investment and private consumption on the domestic market increased again.

The labour market situation continues to improve. In the first quarter the number of employed persons rose slightly again. Further growth was recorded for most private sector activities, notably distributive trades, transportation, accommodation and food service activities, and manufacturing. The number of registered unemployed declined significantly again in May amid a stronger outflow into employment and a smaller inflow into unemployment. A total of 102,289 people were registered as unemployed at the end of the month, a 9.0% lower figure than one year earlier.

The year-on-year wage growth in the first quarter was the highest in five years. In the last two quarters, average gross earnings in the private sector rose significantly (seasonally adjusted) particularly owing to good business performance. In the public sector, they maintained the level reached at the end of the year as a result of December's promotions in the general government.

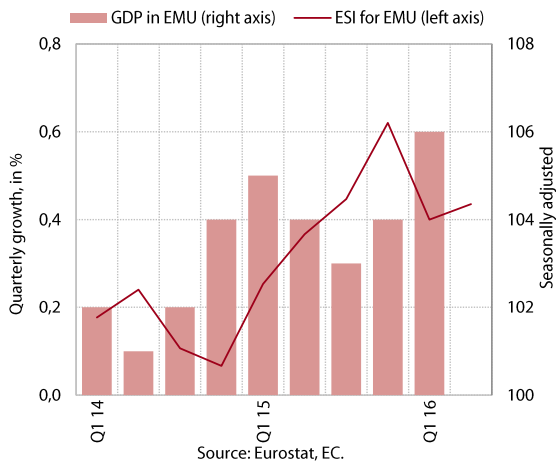
In May consumer prices remained down year-on-year. The decline was still mainly due to lower oil prices and – in the absence of cost pressures – lower prices of durables. Prices of other goods were similar to one year earlier, while services prices continued to rise.

The decline in domestic nonbanking sector loans is slowing amid the increased borrowing of the corporate sector abroad; the quality of banks' assets is improving. The decline in corporate and NFI loans is easing gradually, while the volume of household loans rises. Corporate and NFI net deleveraging abroad moderated considerably in March, for the most part owing to stronger short-term borrowing. The share of non-performing claims continued to decline, totalling 8.2% at the end of March. As overnight deposits increased the most, the maturity structure of deposits deteriorated further.

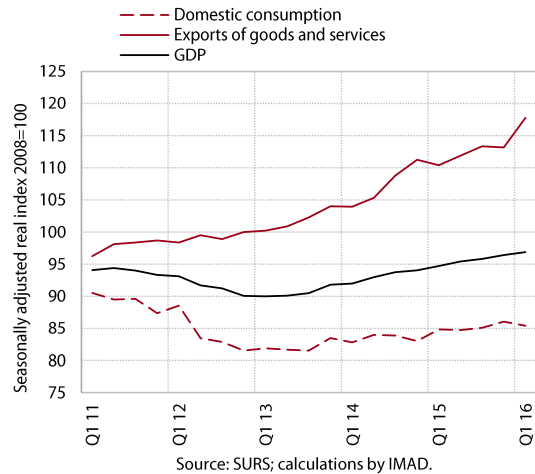
In the first quarter the general government deficit on a cash basis was significantly lower than in the same period of 2015. Amid further GDP growth and a higher total amount of wages, revenue was slightly higher year-on-year despite the lower inflows from the EU budget. Expenditure was down, primarily as a result of the beginning of the implementation of the new financial perspective of the EU and hence lower expenditure on investment and lower payments into the EU budget.

In 2015 company performance improved significantly for the second consecutive year, and the indebtedness and over-indebtedness of the corporate sector declined further. The total net profit reached EUR 1.6 billion last year, a figure that lagged only behind the exceptionally high figures seen before the crisis in 2006 and 2007. The improvement was again due to both main components of the business result: the net operating profit rose further while the financial loss declined sharply. Company performance was favourably affected particularly by the rising revenues from exports and the lower cost pressures related to the low prices of commodities. Furthermore, corporate sector has recorded intense deleveraging since 2011. At first it arose from the winding up of over-indebted companies, while since 2013 it has been primarily due to an actual reduction in surviving companies' debts. The analysis shows that the ability of companies to repay their debts improved significantly in the last three years.

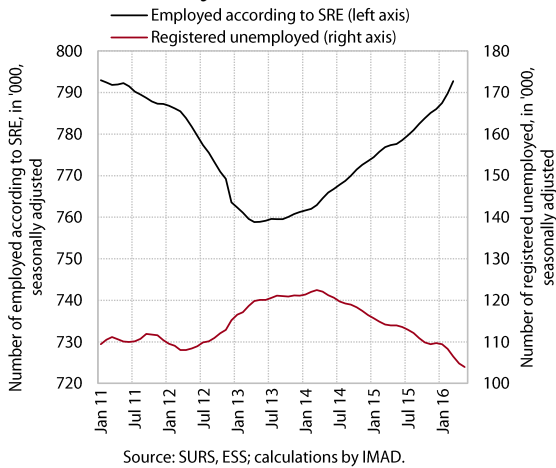
In the first quarter GDP growth in the euro area strengthened further and exceeded the expectations.



Exports remain the main driver of economic growth in Slovenia.



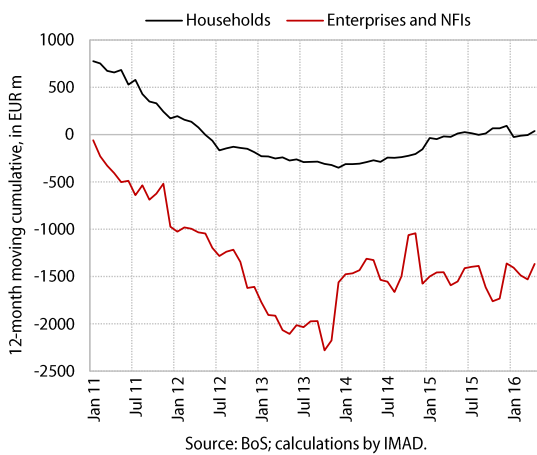
The labour market situation continues to improve amid a further strengthening of economic activity in most sectors.



Year-on-year wage growth in the first quarter was the highest in five years.



The decline in the volume of loans to domestic nonbanking sectors is gradually slowing.



As the receipts from the EU budget declined year-on-year, growth in general government revenue was modest.

