In the spotlight

Short-term indicators of economic activity and confidence indicate that GDP growth in the euro area continued in the second quarter but is expected to be lower than in previous quarters. *In manufacturing, activity rose slightly in April; in retail trade and construction it has been stagnant for several months. After deteriorating in the first quarter, the values of confidence indicators did not change significantly in the second quarter and remained close to the highest levels seen in the last few years. Labour market conditions are improving and favourably affect private consumption, which will also remain the main driver of GDP growth this year according to the forecasts by international institutions. Oil and commodity prices are rising, but are still notably lower than in previous years.*

The United Kingdom's referendum decision to leave the EU brings a great deal of uncertainties about the economic and political situation in Europe. *According to international institutions, a protracted process of withdrawal would have negative implications for both the EU and the United Kingdom. The effects on Slovenia's economy would be mostly indirect, through the expected decline in economic growth in Slovenia's main trading partners, which would contribute to lower demand for Slovenia's goods and services.*

At the beginning of the second quarter, most short-term indicators of economic activity in Slovenia increased further. *With favourable movements in cost competitiveness and foreign demand, merchandise exports and manufacturing production continued to expand. After several months of decline, activity also rose in construction but remained low. The improvement in labour market conditions and the strengthening of private consumption contributed to further turnover growth in some segments of trade and in tourism-related services. In most other market services, turnover has not increased in the last months. The economic sentiment indicator also indicates a gradual strengthening of activity in most sectors in the following months.*

The labour market situation remains favourable. *In April the number of employed persons continued to rise. Further growth was recorded for most private sector activities, particularly manufacturing, distributive trades, accommodation and food service activities, and transportation. The prospects for employment growth also remain favourable in most activities. In June the number of registered unemployed declined further, owing to a stronger outflow into employment and a smaller inflow into unemployment. At the end of the month 99,795 persons were registered as unemployed, which is 9.5% less than in the same period of 2015. After a long period of increase, the growth of average gross earnings per employee came to a halt in April, but in the first four months, the private and the public sector nevertheless recorded the largest year-on-year increases in five years.*

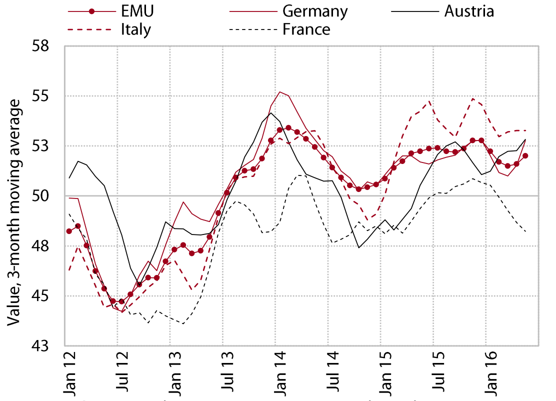
Consumer prices rose year-on-year in June for the first time in one and a half years. *Higher prices were recorded particularly for services; the negative contribution of energy prices was also smaller. Core inflation, which has come closer to the core inflation in the euro area in the last few months, thus strengthened further. Prices of semi-durable goods and, for the first time this year, food were higher year-on-year, while prices of durable goods were lower.*

The competitiveness of the tradable sector improved further in the first quarter, especially in manufacturing, the sector that is most exposed to foreign competition. *The improvement was a consequence of strong productivity growth, which enabled wage growth and a concurrent improvement in the competitive position of the tradable sector. At the level of the entire economy, unit labour costs otherwise stopped falling because of their growth in the non-tradable sector. Owing to a decline in relative consumer prices, the price competitiveness of the economy remained favourable despite the appreciation of the euro.*

The decline in the volume of loans to domestic non-banking sector continues to slow. *The fall in loans to enterprises and NFIs has stabilised in recent months while the volume of household loans is rising. The net deleveraging of enterprises and NFIs abroad has also moderated notably, as they increased the volume of short-term credits. The share of non-performing claims has declined further and stood at 8.0% at the end of April. Among sources of finance, banks continued to repay their foreign liabilities while non-banking sectors increased deposits. The maturity structure of deposits continues to deteriorate, as growth is mainly recorded for overnight deposits.*

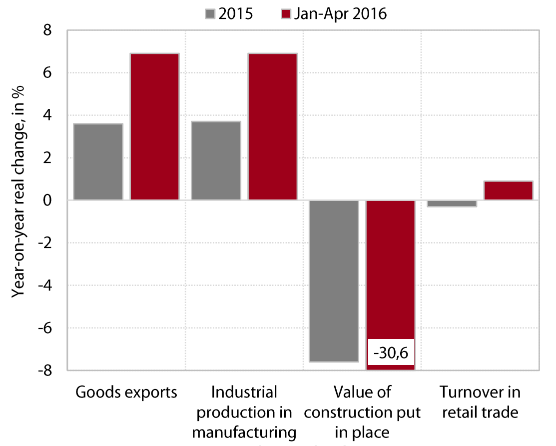
In the first four months the general government deficit on a cash basis was smaller year-on-year. *Revenues otherwise decreased slightly year-on-year, mainly as a result of the lower inflows from the EU budget, while the improvement in the economic situation showed in higher revenues from social contributions, personal income tax and VAT. Expenditures declined even more year-on-year, primarily owing to a decline in investment related to the delay in EU funds absorption at the beginning of the new financial perspective of the EU.*

The PMI indicates growth in manufacturing in most main trading partners.



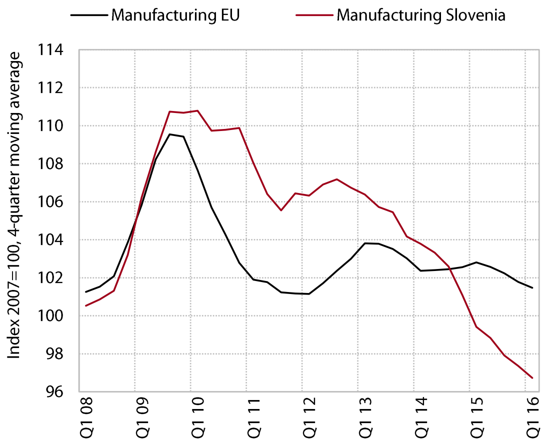
Source: Markit Economics. Note: PMI readings above 50 signal an increase in production, while readings below 50 indicate a decrease.

Exports remain the main driver of GDP growth in Slovenia.



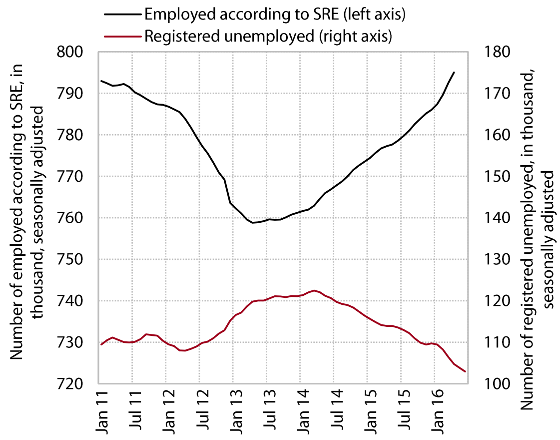
Source: SURS.

Competitiveness in the export-oriented part of the economy improved further.



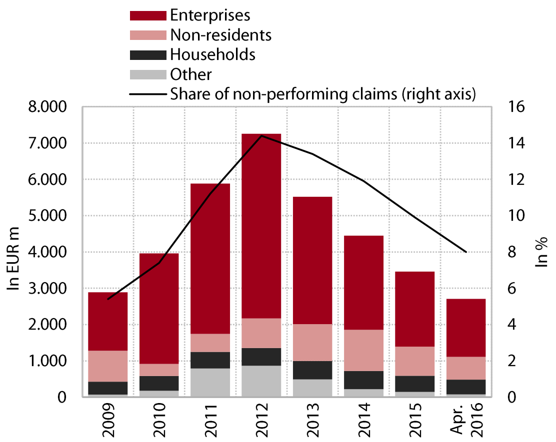
Source: Eurostat; calculations by IMAD.

The economic situation and confidence in further recover continue to have a favourable impact on the labour market.



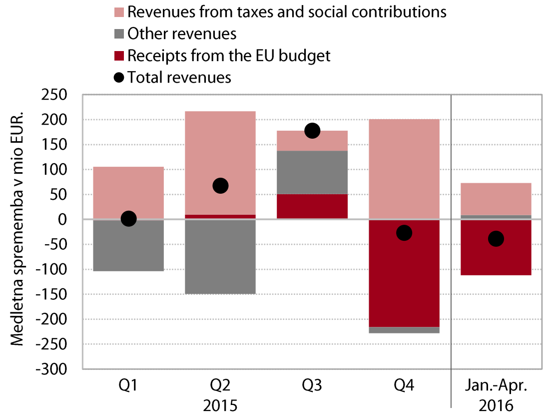
Source: SURS, ESS; calculations by IMAD

The situation in the banking system also improved; the stock and the share of non-performing claims declined further.



Source: BoS.

The main factor in the decline in general government revenue is the year-on-year decrease in inflows from the EU budget.



Source: MF, Bulletin of Government Finance; calculations by IMAD