In the spotlight

Economic activity in Slovenia continues to strengthen as a result of exports and household consumption. *Foreign demand and the improving competitive position of Slovenian companies on foreign markets continue to strengthen exports, which remain among the main drivers of economic growth. Export-related manufacturing production exceeded pre-crisis levels in the middle of the year. The situation is also improving in most service activities, particularly tourism-related segments. There has been a stronger rebound in private consumption amid a significant improvement in labour market conditions and increased consumer optimism, which is also reflected in the increase in some prices. Private investment continues to strengthen, while public investment is lower than a year ago owing to a standstill in the absorption of EU funds upon the transition to the new financial perspective. Despite recording considerably higher GDP growth than the euro area average in the last few years, Slovenia remains among the group of countries with their GDP lagging the most behind pre-crisis levels.*

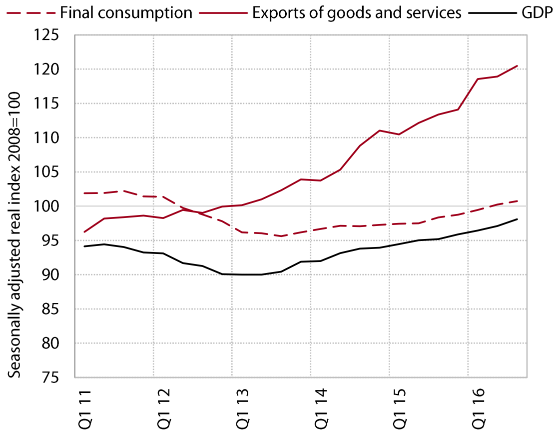
The labour market is recovering faster than last year. *Reflecting broad-based growth in economic activity, the number of employed persons increased more in the first nine months of this year than in the same period last year. The number of unemployed persons is also falling, with this figure one-tenth lower year on year at the end of November. The growth of average gross earnings in the public and private sectors is also higher than last year; in the public sector, this was owing to the partial relaxation of austerity measures and, in the private sector, this was a result of the rebound in economic activity.*

After almost two years of decline, consumer prices have been higher year on year in the last six months. *The inflation is largely the result of a declining negative contribution of energy prices; service prices continue to grow amid a further recovery in private consumption; food prices also remain higher than a year earlier.*

The volume of loans to domestic non-banking sectors continues to contract year on year. *We estimate that this is attributable not only to the banks' caution in lending but also weaker corporate demand for bank loans on the domestic market, with businesses currently having sufficient own resources and other more favourable sources of finance. Banks are financing households to a greater extent than enterprises, as households are considered less risky clients because of their lower levels of indebtedness and the favourable labour market conditions. Interest rates for household loans do not deviate significantly from the EMU average (in contrast to those for corporate loans, which are higher). The structural composition of sources of funding for banks is changing in favour of non-banking sector deposits; it is mainly overnight deposits that are rising, which is deteriorating the maturity structure for sources of finance.*

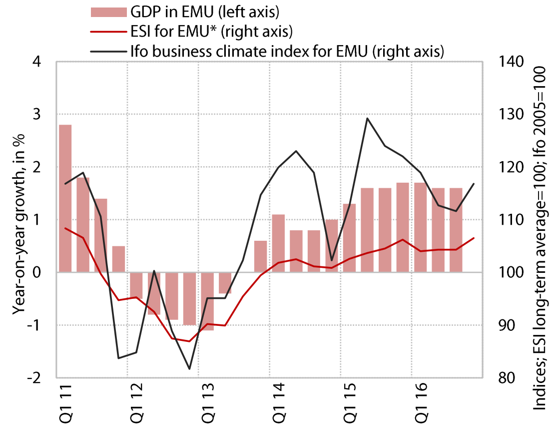
The general government deficit on a cash basis dropped almost by half year on year in the first nine months. *Revenue was up primarily as a result of the favourable labour market developments, while expenditure was down largely owing to the lower investment upon the transition to the implementation of the new EU financial perspective. Other categories of expenditure are rising, particularly expenditure related to the partial easing of austerity measures and expenditure on goods and services.*

Exports remain the main driver behind the stronger economic activity in Slovenia; final consumption is also rising.



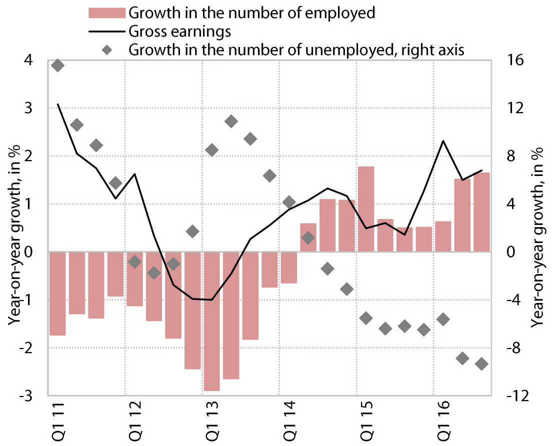
Source: SURS; calculations by IMAD.

Economic growth in the euro area is moderate and expected to remain at this level at the end of the year.



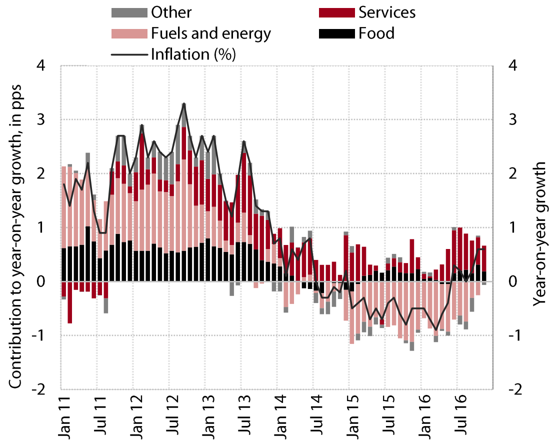
Source: Eurostat, EC, Ifo. Note: *The figure for Q4 2016 is the average for October and November.

The improvements to labour market conditions are picking up pace this year.



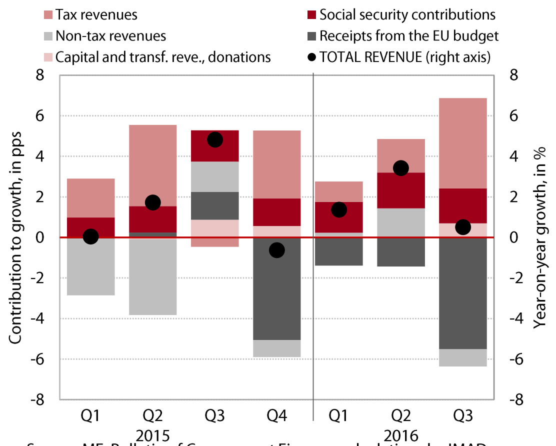
Source: SURS, ESS.

After almost two years of deflation, consumer prices for the last six months have been higher year on year.



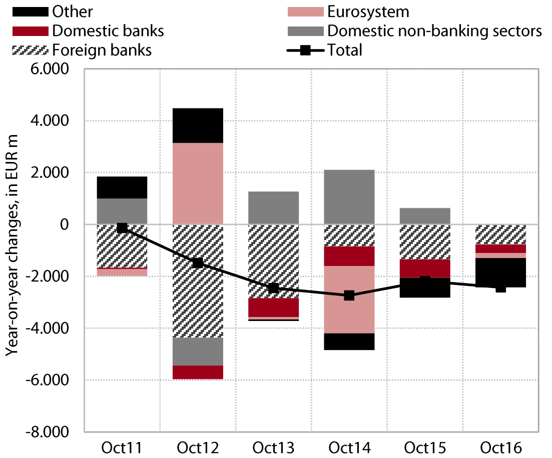
Source: SURS; calculations by IMAD.

General government revenue increases primarily owing to the favourable labour market conditions, which is reflected in the further deficit reduction.



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

The structure of bank sources of finance is changing in favour of non-banking sector deposits; their maturities are shortening.



Source: BoS; calculations by IMAD.