In the spotlight

International institutions expect the economic situation in the euro area to deteriorate further by the end of the year. They are also significantly reducing the forecasts for economic growth in 2012. The current indicators of economic activity in the euro area otherwise do not show any major slowdown yet, but the indicators of expectations have been worsening for several months; according to the most recent Consensus and OECD forecasts, economic growth in the euro area is set to ease noticeably in 2012 (0.6% and 0.3%, respectively). The deterioration of prospects is significantly influenced by uncertainty on financial, particularly government bond, markets. The lending conditions in the euro area tightened strongly in the third quarter, which is reflected in increased loan spreads. As the public finance conditions deteriorate, most countries lack credible measures for their improvement, which is also reflected in credit rating downgrades. This year, the three main rating agencies significantly downgraded the credit ratings of euro area countries with the greatest public finance difficulties. The credit rating agency Standard & Poor’s also reduced the credit rating of Slovenia by one level in October, following the downgrades by Fitch and Moody’s in September.

The values of short-term indicators of economic activity in Slovenia indicate further growth in exports and an ongoing decline in construction activity. In recent months, the situation has also deteriorated in manufacturing. The situation in the construction sector remains tight, as activity declined once again in August and was already nearly 60% lower than on average in 2008. In manufacturing, the situation has also deteriorated in recent months, with production remaining at a similar level as in autumn 2010, after the stagnation in August. Turnover in wholesale and retail trade and services is stagnating, which indicates that domestic demand remains subdued. As the public finance conditions deteriorate, most countries lack credible measures for their improvement, which is also reflected in credit rating downgrades. This year, the three main rating agencies significantly downgraded the credit ratings of euro area countries with the greatest public finance difficulties. The credit rating agency Standard & Poor’s also reduced the credit rating of Slovenia by one level in October, following the downgrades by Fitch and Moody’s in September.

The slight deterioration of labour market conditions continued in August and September; the growth of the average gross wage increased in August but remains modest. The number of employed persons declined somewhat in August for the third successive month, being down 2.0% from August 2010. Registered unemployment recorded stronger growth in September (1.3%, seasonally adjusted). At the end of the month, unemployment was up 9.3% from the same time last year. Among the persons who registered as unemployed, the number of those who registered anew after a pause (particularly due to the termination of contracts for formal education programmes under the active employment policy) stood out the most. The total gross wage grew further in August (0.3%, seasonally adjusted), as a result of wage rises in the private sector. The greatest contribution to growth came from manufacturing, where wage movements were significantly impacted by extraordinary payments in the pharmaceutical industry. In the public sector, the average gross wage declined slightly for the third month in a row.

Amid relatively high monthly price growth (0.7%), y-o-y inflation rose to 2.7% in October. The greatest contribution to the monthly growth stemmed from prices of clothing and footwear, which increased more than usual in this time of the year for the second month in a row. The stronger seasonal fluctuations are also related to the methodology of capturing seasonal goods and services at the level of the EU, which underwent changes at the beginning of the year. Prices of other consumer goods groups continue to move according to expectations and are, amid relatively stable prices of energy, mainly due to modest growth in economic activity.

Net repayments of non-banking sector loans and the creation of provisions and impairments by domestic banks strengthened in September, while the lending activity of banks in the euro area increased. Slovenian enterprises, NFIs and households recorded net repayments of loans in September, while the volume of government debt remained almost unchanged. In the first nine months of 2011, the volume of domestic non-banking sector loans with domestic banks shrunk by EUR 265.1 m (in the same period of last year, it increased by EUR 1 bn). The volume of non-performing claims reached as much as 4.9% of all bank claims by the end of August (EUR 2.4 bn). In addition to activities related to construction and management takeovers, the faster deterioration of the quality of banks’ assets was also due to certain manufacturing industries. In September, banks increased the creation of impairments and provisions, which amounted to EUR 609.6 m in the first nine months (an increase of more than one third relative to the same period last year). In contrast, the
borrowing of non-banking sectors in the euro area increased in September, but was still somewhat lower y-o-y in the nine months as a whole.

According to the consolidated balance of the MF, general government revenue amounted to EUR 8.5 bn and general government expenditure to EUR 9.6 bn in the first seven months of this year. The deficit thus totalled EUR 1.1 bn. General government revenue was down 2.2% in the first seven months of 2011 compared with the same period of the pre-crisis year 2008, while general government expenditure was up by as much as 16.1%. In the first seven months, expenditures on interest payments and transfers to individuals and households increased the most, while investment expenditure shrank by more than one tenth. Among revenues, in addition to refunds from the EU budget, revenue from taxes on income and profit expanded most notably after last year's decline. A further tightening of the public finance situation is also indicated by September's data on payments of taxes and social security contributions, which dropped y-o-y for the third month in a row.