

In the spotlight

International institutions improved significantly their forecasts for this year's GDP growth in Slovenia's main trading partners, mainly due to higher-than-expected growth in the first quarter of the year. The ECB revised upwards its forecast for the euro area by 0.2 p.p. to the interval between 1.5% and 2.3%. Growth prospects improved particularly for Germany and France. In the second quarter, GDP is not expected to grow as rapidly as in the first, which is suggested by slower growth in the volume of global trade and deterioration in sentiment indicators. Among the main risks to growth are sovereign debt problems in some peripheral European countries, which may jeopardise the financial stability of the total euro area.

At the beginning of the second quarter, the values of short-term indicators of economic trends in Slovenia continued to increase steadily, except in the construction sector, which is still marked by a steep decline. Nominal goods exports continued to pick up and exceeded the average 2008 level in April, while real exports still lagged behind the 2008 level by roughly 3% according to our estimate. Having increased notably in March, the real volume of industrial production in manufacturing fell in April to the level recorded at the end of last year. Production is mainly growing in high-technology industries. Real turnover in retail trade grew further, after a two-month break, but its growth continued to be relatively modest this year, while the increase in nominal turnover in wholesale trade eased after relatively rapid growth at the beginning of the year. Real value of construction put in place dropped appreciably again between February and April, after growing at the end of last year.

The cost competitiveness of the economy continued to improve y-o-y in the first quarter. As in the previous three quarters, cost competitiveness improved due to the y-o-y drop in the exchange rate of the euro and growth in labour productivity, which has been increasing since the beginning of last year following a significant decline in 2009. In addition, the first quarter recorded much lower y-o-y growth in compensation per employee than 2010, given that the minimum wage was raised at the beginning of 2010 and that in 2010, growth in the average private sector wage was strongly affected by changes in employment structure. With wage growth lagging more behind labour productivity growth than on average in the euro area and the EU, Slovenia was among euro area and EU countries with above average improvement in cost competitiveness in the first quarter of this year, after recording much less favourable trends than the euro area and the EU on average since the end of 2008.

Labour market conditions have stabilised during the last months, but remain worse than a year ago. The number of employed persons according to the statistical register and excluding seasonal effects remained practically unchanged in the first four months of this year, but was still 2.2% lower in April than in the same month last year. The unemployment rate was also stable in the first four months. According to the available data, the number of registered unemployed persons dropped further in May (-0.9%, seasonally adjusted), but was still more than 10,000 higher than at the end of May 2010.

The average gross wage per employee declined in April as a result of wage movements in the private sector. April's decline in the average gross wage in the private sector was attributable to fewer working days and March payments for business results in 2010, while the average wage in the public sector increased slightly due to wage growth in health care. Y-o-y growth in the private sector was equal to that in the previous month, when it eased to the level before last year's increase in the minimum wage; the public sector wage has remained more or less unchanged for more than two years.

Consumer prices declined by 0.5% in June; y-o-y inflation totalled 1.3%. Amid the expected, yet unusually large, changes in prices of seasonal goods and services, and declining prices of liquid fuels as a result of lower prices of oil, Slovenia reported deflation in June, which is not typical for this time of the year (recorded only in 2002 and 2006). In

Slovenia, y-o-y inflation in June was thus 0.8 p.p. lower than that in May; in the euro area, it remained at 2.7%. The gap between inflation in Slovenia and inflation in the euro area as a whole is, in addition to different seasonal price changes, still mainly due to the subsidies for primary school meals introduced in September 2010.

The lending activity of domestic banks remained modest in May. Enterprises and NFIs continued to make net repayments of domestic bank loans in May and net repaid EUR 51.7 m in total in the first five months of the year, in contrast to net borrowing in the amount of EUR 324.1 m in the same period of last year. Their liquidity situation has improved somewhat on account of borrowing abroad. The opportunity to borrow abroad is otherwise available only to a small portion of Slovenian enterprises, and these borrowed EUR 136 m in the first four months of the year. Household borrowing strengthened mainly as a result of housing loans, but net flows in the first five months of this year were nearly two-thirds lower y-o-y due to the modest borrowing at the beginning of the year. Banks made net repayments of foreign deposits and loans again in April, the highest since October 2008; they repaid as much as EUR 776.7 m in a net amount in the first four months as a whole, which is otherwise one quarter less than in the same period last year. The quality of banks' assets is deteriorating further: in the first five months of this year, banks created EUR 232.1 m in additional impairments and provisions, a more than one quarter higher figure than in the same period of last year.

The deficit of the general government increased to 10.3% of GDP in the first quarter of 2011 (8.8% of GDP a year earlier), mainly due to the inclusion of the capital injection into the NLB in current transactions. In the first quarter of 2011, the deficit of the general government totalled EUR 879 m. Excluding the equity injection into the NLB in the amount of EUR 243 m, the deficit would amount to EUR 636 m or 7.5% of GDP. Consolidated gross debt of the general government, having totalled EUR 13,704 m at the end of last year (38.1% of GDP), increased to EUR 16,385 m (45.2% of GDP) by the end of the first quarter this year.