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Summary

The economic situation in Slovenia remains significantly better than in the euro area overall, although the downside risks for the remainder of the year are high, with disruptions to supply chains continuing and inflationary pressures rising

- **GDP growth in the euro area remained low in the first quarter, and the outlook for the coming months is uncertain given the rising prices and the persistent disruptions to supply.** The rate stood at 0.3% for the second consecutive quarter, as the containment measures were still curtailing households in their spending opportunities. Following the lifting of the containment measures the PMI rose at the beginning of the second quarter, an indication of rising economic growth despite the strong inflationary pressures and disruptions to supply chains, which are curtailing activity in manufacturing. The ongoing sharp rise in energy prices pushed inflation in the euro area to 8.1% in May.
- **The financial markets saw increased uncertainty because of the high inflation, and concerns over the slowdown of global economic growth.** The anticipated changes to monetary policy are driving a rise in government bond yields, while asset classes with higher credit risk such as shares and private-sector bonds are losing value as investors shift to safe-haven assets.
- **The domestic economy remains in significantly better shape than the euro area overall.** GDP in the first quarter was up 0.8% on the previous quarter. The components of domestic demand remained the main drivers, where we emphasise the rise in quarterly growth in investment in machinery and equipment. Corporate performance remained robust, despite the downturn in international relations, and quarterly growth in value-added in manufacturing remained positive despite the disruption to supply chains and labour shortages. The high economic growth is also bringing an improvement in the public finances.
- **The impact on the real sector from the international tensions is relatively limited for now; the majority of the shock has been reflected in energy and commodity prices.** The economic sentiment deteriorated slightly in May, but firms are not currently experiencing any increased difficulties from a lack of demand, which is confirmed by the continuing year-on-year rise in the value of card payments and invoices registered with tax authorities. The risks for now come from the nominal developments, with domestic inflation being driven upwards by rising import prices. Manufacturing firms are highlighting a sharp increase in uncertainty in the economy, which might trigger delays to investment. There is also great uncertainty surrounding the future strength of foreign demand: forecasts of this year's GDP growth in the euro area have been gradually revised downwards ever since March.
- **Employment is still rising, despite labour shortages.** Many employers are having difficulties in hiring qualified workers amid strong demand for labour, record-high employment and record-low unemployment. Employment is nevertheless continuing to rise, which is raising the wage bill in the private sector alongside the

rise in nominal wages. The year-on-year developments in wages in the public sector remain very much under the influence of the ending of the majority of crisis bonuses in June of last year.

- **Growth in foreign trade remains high, particularly on the import side, as the current account was in deficit over the first quarter of this year.** The export sector is continuing to see a sharp year-on-year increase in sales, with a particularly sharp rise in tourism following the lifting of the stringent containment measures. Due to high growth in import prices and in the components of domestic demand, developments on the import side are even stronger, which moved the quarterly current account into deficit in the early part of the year for the first time in ten years.
- **High inflation, which reached 8.7% in May, is a reflection of developments in all price categories.** Energy price inflation is still the stand-out, but food prices and prices of non-energy industrial goods are also rising fast, and service price inflation passed 5.0% in May. The rise in inflation and the deterioration in geopolitical relations keep inflation expectations of consumers and firms highly elevated. With the unemployment rate at a record low, demand for labour strong, and labour costs growing relatively fast, this is increasing the possibility of a wage-inflation spiral.
- **The economy entered the new turbulent period in good financial shape.** Analysis of the closing accounts of corporations, sole traders and cooperatives shows that corporate sector's net profits exceeded EUR 6.1 billion last year, up just over a fifth on 2019. At the same time, their indebtedness as measured by the ratio of total debt to liabilities remained low, at 50.3%. Labour productivity reached EUR 51,900 per employee, up fully 13.7% on its pre-pandemic level.

1 Economic Situation in the International Environment

The PMI points to the strengthening of quarterly economic growth in the euro area in the second quarter, but future developments also depend on sanctions, including the potential cut-off of Russian gas supply

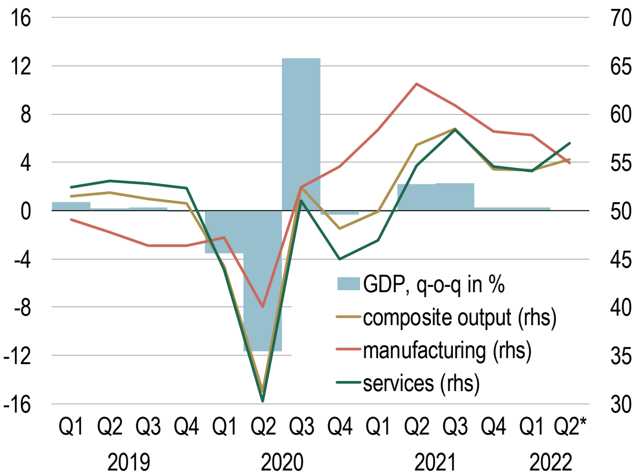
GDP quarterly growth rate in the euro area in the first quarter stood at 0.3% for the second consecutive quarter (see Figure 1.1), with final household consumption still being curtailed by the containment measures. This is evidenced by the quarterly decline in real retail turnover, excluding motor vehicles and motorcycles, which was less pronounced than a year earlier (see Figure 1.1). Despite declining in March, industrial production was up just under 1% on the previous quarter. There was a notable uptick in construction activity, in quarterly terms and year-on-year terms, despite the declining availability of materials and labour. Year-on-year economic growth stood at 5.1%, albeit from the low base caused by last year's containment measures.

Judging by the PMI, economic activity in the euro area has strengthened overall in the last two months. The further relaxation of containment measures facilitated a large rise in domestic demand, which was reflected in faster growth in private-sector services (see Figure 1.1). It was a different story in industry, where growth in manufacturing output was at its lowest level since the outbreak of the pandemic in the second quarter of 2020 as a result of the deteriorating situation in Germany caused by the disruptions to supply chains and weaker (foreign) demand.

The economic outlook is uncertain, given the continuing disruptions to supply chains and the strengthening price pressures. More uncertainty comes from the potential consequences of the war in Ukraine and the impact of the sanctions.

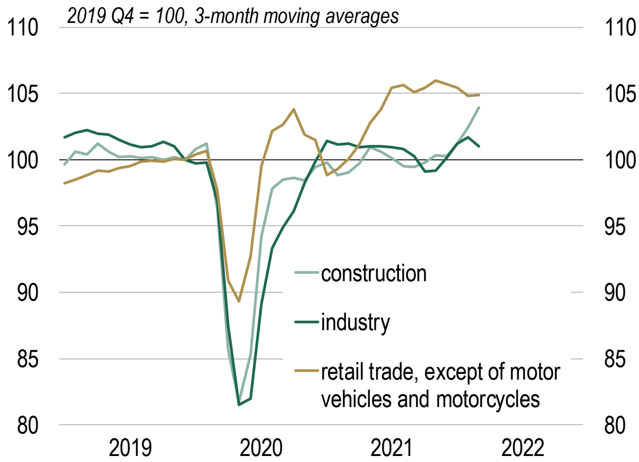
Figure 1.1: **Economic developments in the euro area**

Purchasing Managers' Index (PMI) and GDP growth in the euro area



Note: Index PMI above 50 indicates an increase in activity and below 50 a decrease in activity. *Average April–May.
Source: IHS Markit, Eurostat, Banka Slovenije calculations.

Monthly indicators of economic activity



Note: Real volume index of turnover in retail trade, except of motor vehicles and motorcycles, real index of industrial production and real volume index of construction put in place, seasonally adjusted data.
Source: Eurostat, Banka Slovenije calculations. Latest data: March 2022.

The European Commission released its latest economic growth forecasts for the euro area on 16 May, revising the February forecasts for 2022 and 2023 down to 2.7% and 2.3% respectively. The forecasts highlight that the majority of this year's growth comes from a strong carry-over effect from 2021 (1.9 percentage points), while the estimated growth within the year has been revised downwards by 1.3 percentage points to 0.8%. They also assess that the economy would take a significant hit from the cut-off of gas supplies from Russia: GDP growth would be roughly 0.2% this year, while inflation would pass 9.0%.

Euro area inflation continues to strengthen and spread across the consumer basket, while the risks of persistent high inflation remain high

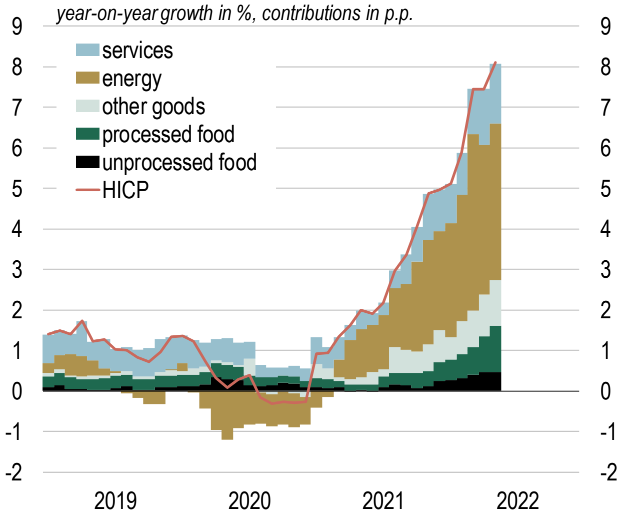
Annual inflation as measured by the HICP rose again in May to average 8.1% across the euro area (see Figure 1.2). With no let-up in the war between Russia and Ukraine, energy prices were up 2.0% on the previous month and 39.2% in year-on-year terms, despite government measures to support households, and were again the main driver of euro area inflation. Together with the supply disruptions caused by individual resurgences of the pandemic, particularly in Asia, they are raising the input costs to supply chains and putting upward pressure on prices of other goods in consumer basket. Other inflation factors can be found in the sharp rise in demand following the lifting of the most-stringent containment measures, and in the labour market.

Year-on-year food price inflation stood at 7.5% in May, the highest figure since measurement began. In addition to rising fertiliser prices and transport costs, production costs are also being driven up by wholesale prices of basic food commodities, which have remained elevated amid the ongoing geopolitical tensions. Core inflation excluding energy, food, alcohol and tobacco meanwhile rose to 3.8% in May. Via rises in producer prices, the high commodity prices are being reflected in prices of non-energy industrial goods, which were up 4.2% in May, while service price inflation is also rising (and stands at 3.5%).

There remain wide gaps in inflation between individual countries in the euro area. Among them, Malta recorded the lowest inflation rate of 5.6%[1] in May, while the highest rate of 20.1% was recorded by Estonia (see Figure 1.2).[2] Inflation rose in most euro area countries, with many resorting to measures to reduce taxation and to one-off cash support in the effort to mitigate the rise in energy prices. Inflation in Slovenia stood at 8.7% in May, 0.6 percentage points above the euro area average.

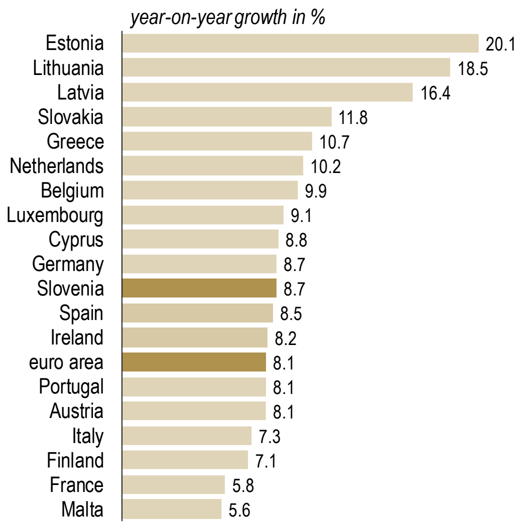
Figure 1.2: **Inflation in the euro area**

Contributions to inflation – euro area



Source: ECB, Eurostat, Banka Slovenije calculations. Latest data: May 2022.

Inflation among euro area members



Source: Eurostat. Latest data: May 2022.

Global economic growth is continuing to slow under the influence of the heightened geopolitical tensions and the more-stringent containment measures in China, which have caused additional disruption to supply chains and have strengthened inflationary pressures

The JPMorgan composite PMI declined in April for the second consecutive month, reaching its lowest level since June 2020 (51.0 points, see Figure 1.3), albeit primarily

[1] Malta's lower inflation was attributable to an energy price freeze, which was decided on by the government at the end of last year after long-term contracts with their key suppliers ended.

[2] Inflation in the Baltic states is being driven by a combination of different factors, including high wage growth, and has been among the highest in the euro area for some time now. The trade sanctions against Russia and Belarus have further weakened their economic position, given their high import dependence.

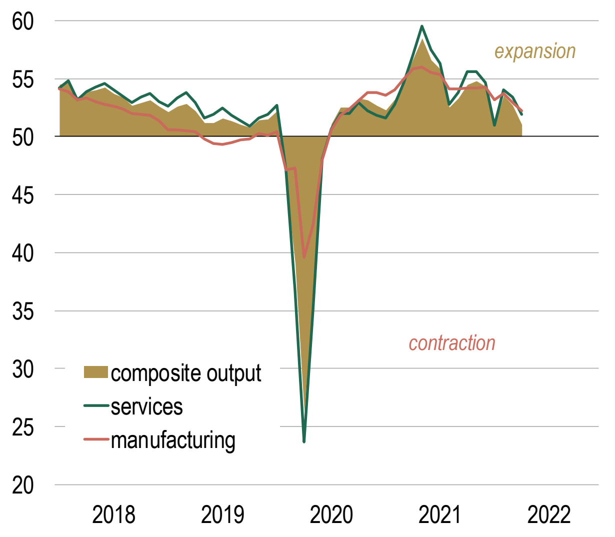
as a result of the contraction in economic activity in China and Russia. The situation in global industry deteriorated significantly: the Global Manufacturing Output Index slid below the 50-mark in April, but excluding the two aforementioned countries, it would have remained close to the level seen in March (53.1 points), despite the increased disruption to supply chains and rising cost pressures. Growth in services activity was also lower, but comparable to the pre-crisis level from 2019. Major world economies where the composite PMI remained in the zone of expansion in April amid less-stringent containment measures included the US, the euro area, the UK, India and Brazil.

The economic outlook deteriorated, as a result of the lockdown of certain economic centres in China and the war in Ukraine. In its latest spring forecasts the European Commission cut its global economic growth forecast to 3.2% for this year, but left its forecast for next year unchanged at 3.5%. This year's projection is down 1.3 percentage points on last year's, on account of the war in Ukraine and the resulting painful sanctions. The IMF's April global economic growth forecasts were also revised downwards to 3.6% for this year and next year. The outlook for growth in foreign demand for Slovenian products and services has also deteriorated: the weighted economic growth forecasts for Slovenia's trading partners for 2022 and 2023 have dipped below 3.0% in recent months, although they remain above the long-term average for now (see Figure 1.3).

Economic activity in many countries was still being impacted by containment measures in the first quarter of this year. Despite the shutdown of parts of the economy, GDP in China increased by 1.3% during the first quarter, comparable with the rate seen in the final quarter of last year, with private consumption driving the majority of the growth. The outlook for the second quarter is less favourable: further growth will depend mainly on the zero Covid policy. Quarterly GDP growth was down slightly in the UK, where it surpassed its pre-pandemic level in the first quarter. A Covid-19 resurgence meant that Japan saw a quarterly decline in activity (of 0.2%), while GDP in the US declined by 0.4%, primarily as a result of a fall in exports even while domestic demand remained strong.

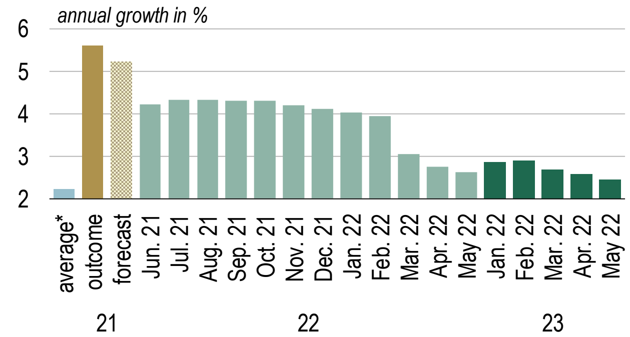
Figure 1.3: **Global economic situation and weighted forecasts for Slovenia's trading partners**

JPMorgan Purchasing Managers' Index (PMI), global



Source: Bloomberg. Latest data: April 2022.

Weighted monthly forecasts of GDP growth for Slovenia's major trading partners for 2022 and 2023



Note: All Slovenian trade partners are included: countries with at least 1% of total Slovenian exports of goods and services in the last twelve months (April 2021-March 2022; 21 trading partners with a total share of 85.7%) and all the other countries as a difference of up to 100%. The growth forecasts for 2022 and 2023 are weighted with the share of each country in the total exports of Slovenia, for other countries the global growth forecast is used. For 2021 the weighted outcome and the December weighted forecast are shown. *Weighted average of GDP growth, since records began. IMF data is used.
Source: SORS, Consensus, IMF, Banka Slovenije calculations.

2 Monetary Policy and Financial Markets

With inflationary pressures still strong, a number of global central banks have already raised their key interest rates

Inflation expectations remain high. The ongoing war in Ukraine and the additional sanctions against Russia are keeping energy prices at high levels, while the market for agricultural products remains in turmoil. By contrast, metals prices have mostly eased from the record heights seen in early March. Alongside the war in Ukraine, expectations of further price rises were spurred by stringent containment measures in China, and the related ongoing disruption to global supply chains.

Central banks are responding to the outlook of sustained high inflation by normalising their monetary policy. The Fed and the Bank of England have raised their key interest rates by 0.75 percentage points since the beginning of the year. A decrease of monetary stimulus has also been signalled by the Eurosystem.

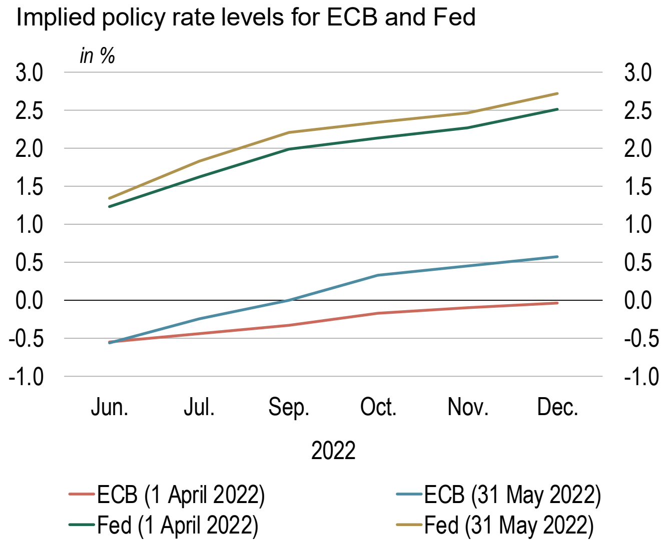
The markets have recently seen their expectations with regard to the pace of interest rate hikes strengthen sharply. Overnight index swaps (OIS) indicate that four hikes of 0.25 percentage points in the interest rate on the ECB's deposit facility (to 0.50%) have been priced in by the end of the year, the first coming in July. The expectations of further action by the Fed are even more pronounced: seven hikes of 0.25 percent-age points (to the corridor between 2.50% and 2.75%) by the end of the year have been priced in, with expectations of hikes of 0.50 percentage points in June and July (see Figure 2.1).

Together with the continuing war in Ukraine and the imposition of stringent containment measures in China, the high inflation is causing uncertainty on the financial markets, and concerns over a slowdown in global economic growth

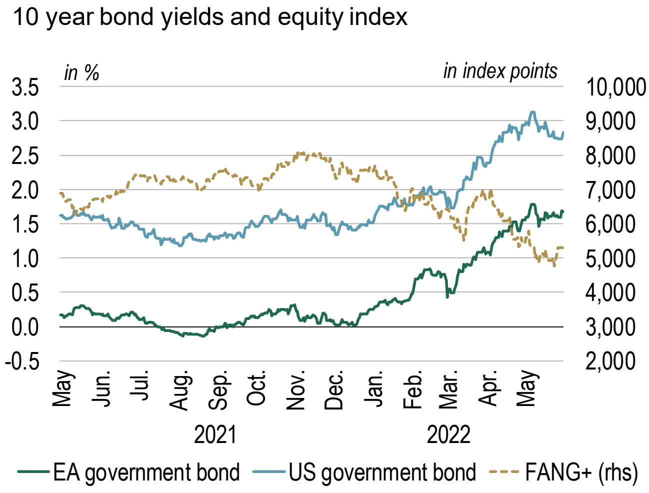
In light of the announcement of fast interest rate hikes by central banks, euro area and US government bond yields have risen sharply (see Figure 2.1). In early May, investors were seeking a yield of more than 1% on 10-year German government bonds for the first time since September 2014, while the yield on 10-year US treasuries passed the 3.00% mark for the first time since November 2018.

Given the withdrawal of monetary stimulus and the concerns over the slowing global economy, investors are taking up less credit risk and shifting into safer asset classes, returns on which are now significantly higher than at the beginning of the year. This is being reflected in an increase in the spreads of private-sector bonds over government bonds, which are now wider than those seen at the outbreak of the war in Ukraine. Safe-haven currencies have appreciated, most notably the US dollar, which reached its highest value against a basket of major global currencies since 2002 amid the faster withdrawal of accommodative monetary policy by the Fed compared with other global central banks.

Figure 2.1: **Implied policy rate levels, and bond yields and equity prices**



Note: Calculated from Overnight Index Swaps (OIS). ECB as European Central Bank, Fed as Federal Reserve System.
Source: Bloomberg, Banka Slovenije calculations.



Note: EA government bond yield represents an average of GDP weighted government bond yields of euro area members except CY, EE, LT, LU, LV and MT. FANG+ represents an equity index of US technology companies Facebook, Apple, Amazon, Netflix and Alphabet's Google.
Source: Bloomberg, Banka Slovenije calculations. Latest data: 31 May 2022.

By contrast, equity prices are falling, most notably those of US tech firms, which have already lost more than 30% of their value since the beginning of the year (FANG+ index). Also the price of gold has mostly been falling since mid-April, partly on account of the strong US dollar, but primarily on account of the large increase in US treasuries yields (which raises the opportunity cost of holding gold, as it offers no interest income).

3 Domestic Economic Activity Indicators

Economic growth in Slovenia again significantly outpaced the euro area average in the first quarter, and domestic demand was again much stronger than exports

After picking up sharply at the end of last year, quarterly GDP growth slowed to 0.8% in the first quarter of this year, 0.5 percentage points more than the euro area average. Despite a slightly smaller base effect, the year-on-year rate still stood at close to 10.0%, thanks to a significant carry-over from last year, in the amount of 8.7 percentage points. GDP was up 7.3% on the final quarter of 2019 (see Figure 3.1).

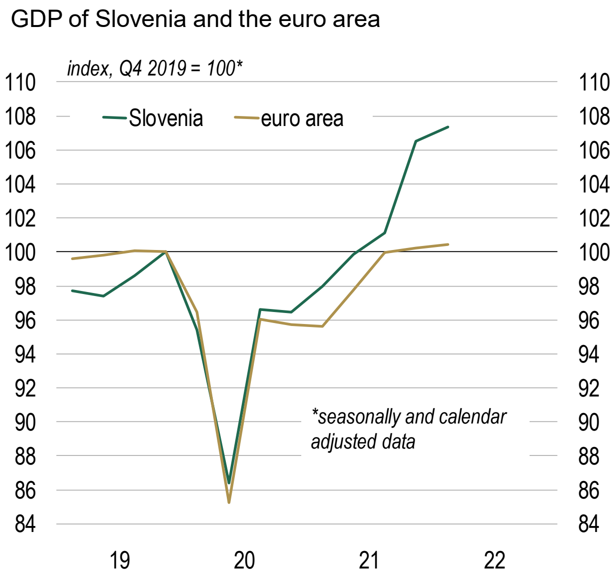
Final household consumption remained robust, and was up 1.6% on the previous quarter. The lifting of the containment measures further strengthened demand for recreation services, while contrastingly the disruptions to supply chains brought a sharp quarterly decline in purchases of durables, most notably cars, household appliances, and computer and telecommunications equipment. Household consumption was up fully a fifth in year-on-year terms, which contributed 10.4 percentage points to GDP growth (see Figure 3.1).

Growth in investment picked up in the first quarter, despite the increased uncertainty caused by the downturn in international relations. From a developmental perspective, the increase in investment in machinery and equipment was important, particularly after the weak quarterly growth in the second half of last year. Construction investment also strengthened, particularly non-residential construction. Aggregate investment was up 12.7% in year-on-year terms, and accounted for 2.6 percentage points of GDP growth (see Figure 3.1).

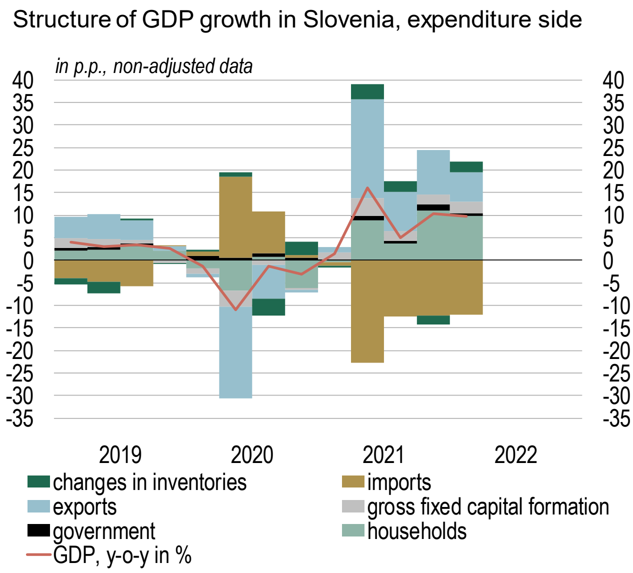
Quarterly growth in value-added remained broadly based, while the year-on-year rate remained high at 9.3%. Aggregate value-added in private-sector services in the first quarter was down slightly on the previous quarter, albeit primarily as a result of a pronounced decline in financial and insurance services, where value-added was down fully 28.8% on the previous quarter following high growth at the end of last year. After weak growth last year, construction activity picked up strongly, and growth in value-added became more in keeping with the high optimism shown by construction firms. Despite the difficulties in the international environment, quarterly growth in value-added in manufacturing remained positive, although there are wide differences be-tween various branches, certain segments of the car industry being hit hardest.

Amid the troubled international environment and strong domestic demand, year-on-year growth in exports was again outpaced by growth in imports. Aggregate imports in the first quarter were up 15.7% in year-on-year terms, while exports were up 7.7%. Exports contributed 6.6 percentage points to GDP growth, but imports reduced it by 12.1 percentage points (see Figure 3.1). The contribution by net trade was thus negative for the fourth consecutive quarter.

Figure 3.1: **Strength and structure of economic growth in Slovenia**



Source: SORS, Eurostat.



Source: SORS.

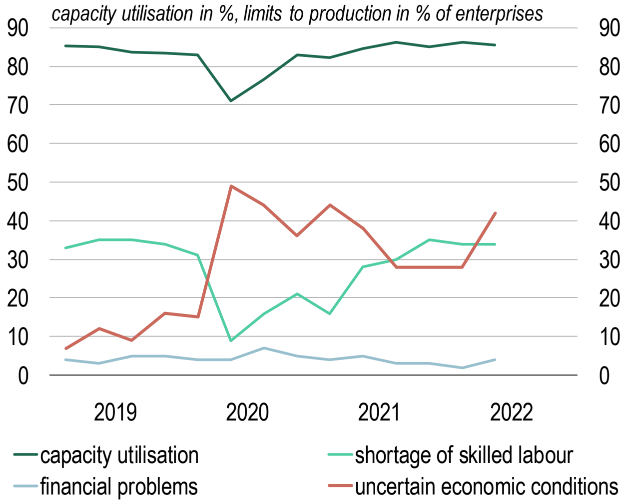
The impact of the war in Ukraine and the resulting harsh sanctions on real economy is relatively limited for now

The economic sentiment deteriorated slightly in May, but the indicator remains higher than in March, when the main factor was the response of firms and consumers to the outbreak of the war in Ukraine (see Table 9.1). According to the SORS data, manufacturing firms experienced a decline in confidence, having sharply raised their assessment of the uncertainty of the economic situation (see Figure 3.2). A decline in confidence was also evident among consumers, whose assessment of the economic situation and their financial position over the next 12 months worsened. By contrast, sectors primarily dependent on the domestic market remain optimistic, and firms in all categories, including manufacturing, are currently not seeing any increased limitations on business as a result of a lack of demand (see Figure 3.2), or any financial difficulties.

The domestic economic activity remains strong in the second quarter of this year. The total value of card payments and ATM withdrawals was up approximately a fifth in year-on-year terms between the beginning of April and 22 May, while invoices registered with tax authorities showed a similar increase in value. Both suggest that domestic demand aggregates are continuing to record high growth. At the same time, freight vehicles' mileage on motorways in Slovenia was up merely around 1%, which might be an indication of a significant slowdown in growth in foreign demand and an escalation of the disruption to supply chains.

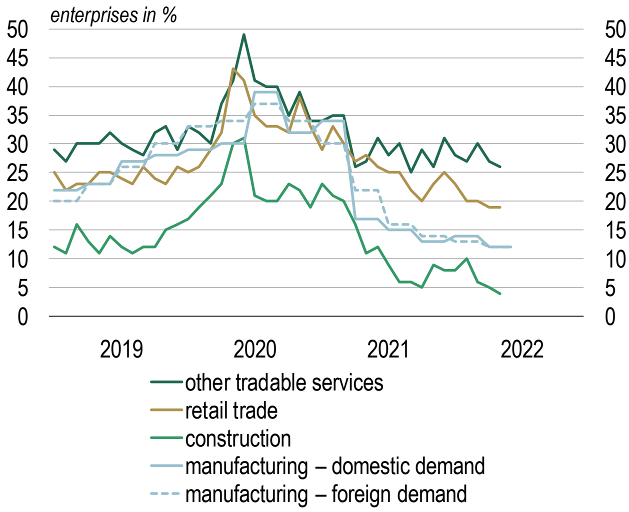
Figure 3.2: **Selected performance indicators for the corporate sector**

Business tendency in manufacturing – capacity utilisation and limits to production



Source: SORS.

Limiting factors – insufficient demand



Note: Quarterly data for manufacturing.
Source: SORS, Banka Slovenije calculations. Latest data: May 2022.

4 Labour Market Situation

Employment is still rising, despite labour shortages, while the year-on-year rise in the total nominal wage bill in March stood at 5.6%, slightly less than the inflation rate

The year-on-year increase in the workforce in employment[3] remained high in March at 2.9%, and broadly based, with accommodation and food service activities and construction again recording the largest rises. Registered unemployment remains one of the factors in the rise in employment: it fell to 58,081 in April, its lowest figure since 1990, and down 26.7% in year-on-year terms (see Figure 4.1). The Employment Service's assessment is that registered unemployment will continue to fall over the coming months, but the fall will be limited by structural unemployment, where there is a notable increase in the share of the long-term unemployed, and the share of older workers, who are more vulnerable and difficult to employ.

Demand for labour remains strong. According to seasonally adjusted SORS figures, there were 24,609 vacancies in the first quarter of this year, again the largest figure to date, and the majority of sectors saw an increase in demand. The vacancy rate also increased, reaching a new record level of 3.0%. It was highest in construction, where fully 45% of firms faced a shortage of qualified workers in the first quarter. The share of firms facing labour shortages was also higher in the early part of the year than in the same period last year in manufacturing and services. The seasonally adjusted SORS figures point to a further rise in employment, with expectations highest in construction and manufacturing.

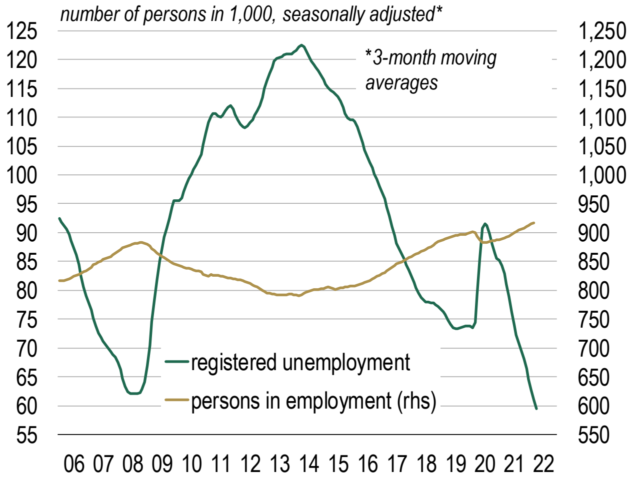
Amid growing imbalances between supply and demand in the domestic labour market, the hiring of foreign nationals is strengthening. They accounted for more than half of the year-on-year increase in the workforce in employment[3] in March, and for 12.9% of the total number. The sectors with the highest numbers of foreign workers are construction, and transportation and storage, where they account for 45.2% and 31.5% of total employment, respectively.

The rises in employment and in average gross wages in the private sector drove a year-on-year increase of 5.6% in the aggregate nominal wage bill in March. Nominal year-on-year growth in the average gross wage in the private sector stood at 5.1% in March, less than the inflation rate, but nominal year-on-year growth in the total wage bill remained high at 12.5%. Wage developments in mostly public services remained very much under the influence of the year-on-year effect caused by the ending of pandemic-related bonus payments, which meant that the nominal average gross wage in mostly public services was down 11.8% in year-on-year terms in March, while the wage bill was down 10.2% (see Figure 4.1). Analysis of wage developments re-mains difficult because of the statistical effects of the job preservation measures during the pandemic.

[3] Excluding self-employed farmers.

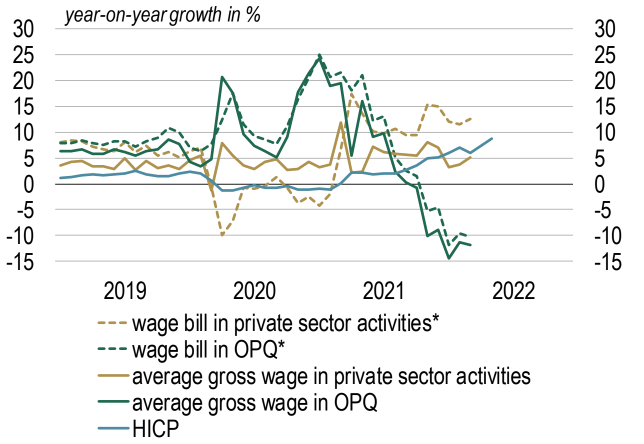
Figure 4.1: **Labour market developments**

Persons in employment and unemployed



Source: SORS, Banka Slovenije deseasonalisation and calculations. Latest data: registered unemployment – April 2022, persons in employment – March 2022.

Wage bill and average monthly gross wage per employee in private and public sector



Notes: *Wage bill is calculated as the product of average gross monthly wages for employees who received pay and the number of employees who received pay. Source: SORS, Banka Slovenije calculations. Latest data: wages – March 2022, HICP – May 2022.

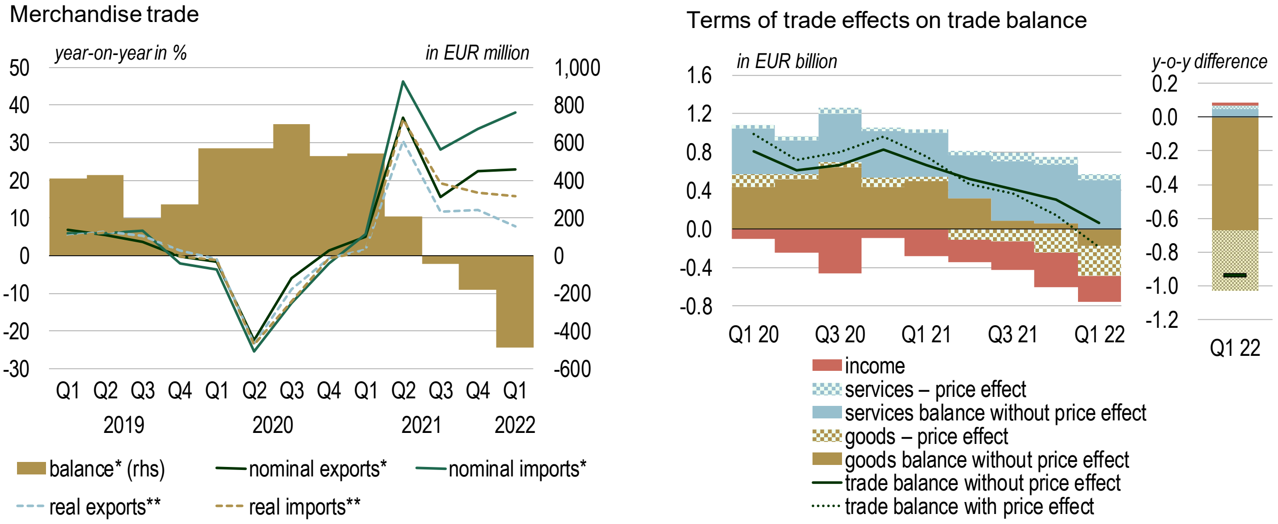
5 Current Account

The current account was in deficit over the first quarter, with approximately 40% of the annual deterioration coming from adverse price developments in merchandise trade

Growth in international merchandise trade remains high, under the influence of rising prices of industrial goods (see Figure 5.1). According to balance of payments figures, year-on-year growth in nominal merchandise exports in the first quarter remained at the same level as in the previous quarter (22.9%), while year-on-year growth on the import side rose to 37.9%, primarily as a result of an increase in imports of capital goods and intermediate goods. The year-on-year dynamics slowed slightly over the quarter, but remained high even in March, with imports still well to the fore. Much of this was attributable to the increased year-on-year growth in prices of imported industrial goods, which reached 29.3% in March, while year-on-year growth in export prices stood at 15.4%.

Services trade is also growing fast, driven above all by tourism amid the relaxation of stringent containment measures. Following a sharp increase in imports of travel services, nominal services imports in the first quarter were up 36.2% in year-on-year terms, 8.9 percentage points more than the increase in the final quarter of last year. Year-on-year growth in services exports meanwhile remained practically unchanged at 29.3%. The structure did change however: the relatively high growth in exports of miscellaneous business services slowed markedly, while growth in exports of transport services strengthened further, in line with the situation in international trade. The rise in exports of travel services was even more pronounced, in parallel with a sharp increase in the number of arrivals and overnight stays by foreign guests. Nevertheless, exports of travel services were still down approximately a tenth on the first quarter of 2020.

Figure 5.1: **Merchandise trade and current account balance**



note: *Balance of payments data, **national accounts data.
Source: SORS, Banka Slovenije.

Note: Terms of trade effects are calculated from export and import price indices based on national accounts.
Source: SORS, Banka Slovenije.

Over the first quarter of this year, the current account was in deficit for the first time in ten years. The deficit amounted to EUR 190 million, compared with a quarterly sur-plus of EUR 755 million one year earlier. Two-fifths (EUR 360 million) of the change in the balance was attributable to a deterioration in the terms of trade (see Figure 5.1). Even under neutral price developments, the deterioration would have amounted to EUR 600 million, primarily on account of the larger volume of (real) merchandise imports compared with exports, but the current account would have remained in surplus in the small amount of EUR 65 million. The merchandise trade deficit over the first quarter thus deepened to EUR 490 million (see Figure 5.1), while the services trade surplus widened in year-on-year terms, primarily as a result of a wider surplus in travel services. The deficit in income had little impact on the overall balance. The 12-month current account surplus amounted to EUR 790 million in March, down more than EUR 2.4 billion in year-on-year terms.

Box 5.1: **Market shares and technological intensity of Slovenia's merchandise exports**

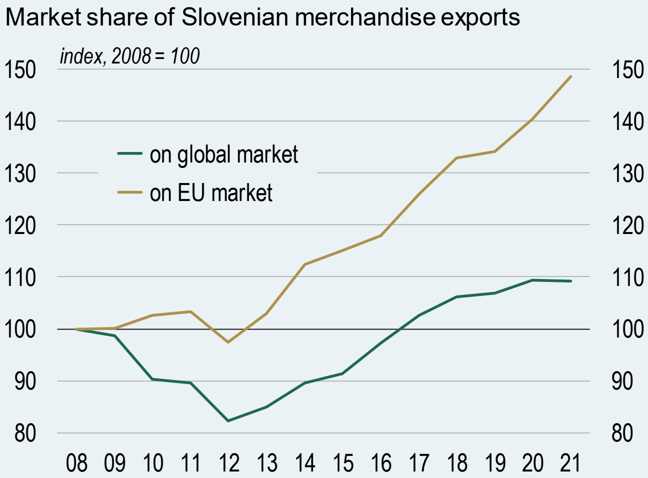
The Slovenian economy retained its market share of merchandise exports on the global market, and the share of low-tech products declined[4]

According to WTO figures, Slovenia accounted for 0.23% of global merchandise exports last year, similar to the previous year. After rising for eight years, Slovenia's market share of global exports thus remained unchanged, while most other euro area countries saw a decline in their shares. Similarly to most other euro area countries, Slovenia's market share of merchandise exports increased in the EU market last year, by 5.8% to 0.58%[5] (see Figure 5.1.1).

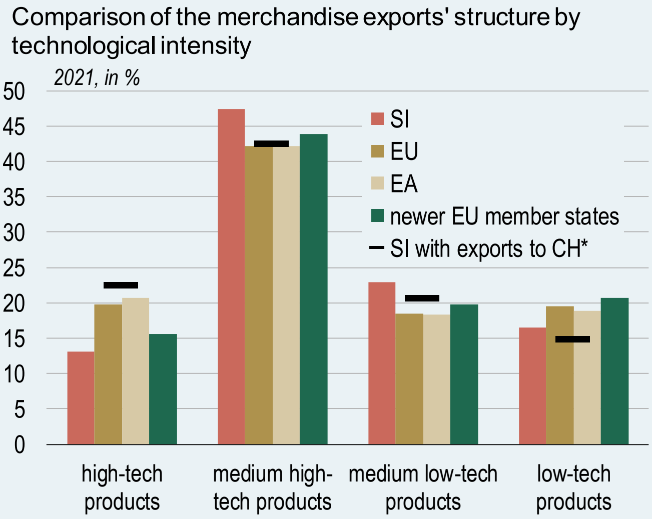
[4] Both sets of statistics exclude exports of pharmaceutical products to Switzerland, which would otherwise make the developments considerably more favourable. Exports of the aforementioned products to Switzerland are likely to have been previously imported, and therefore do not affect the competitive position of the economy or its activity.

[5] According to Eurostat figures; according to WTO figures, the share was 0.2 percentage points higher, but last year's growth was 1.5 percentage points slower.

Figure 5.1.1: **Market shares and technological intensity breakdown of Slovenia's merchandise exports**



Note: The market share of Slovenian merchandise exports is calculated as the ratio of Slovenian exports to world or EU exports. Slovenian merchandise exports exclude exports of pharmaceutical products to Switzerland, which were previously imported and therefore do not affect the competitive position of the economy and its activity.
Source: WTO, Eurostat, Banka Slovenije calculations.



Note: *Including exports of pharmaceutical products to Switzerland, which were previously imported and therefore do not affect the competitive position of the economy and its activity.
Source: Eurostat, Banka Slovenije calculations.

With all categories of products recording nominal growth, the technological intensity breakdown of merchandise exports changed slightly. Similarly to the period after the global economic and financial crisis, there was a notable increase in the share of medium-low tech exports, which rose by 2.1 percentage points last year, the other categories seeing their shares decline accordingly. The largest decline of 1.3 percentage points was recorded by high tech products. Despite high growth over the last decade, the share of total merchandise exports accounted for by high tech products still trails the euro area average, and also the average of the newer EU Member States[6] (by 7.6 percentage points and 2.5 percentage points respectively, see Figure 5.1.1), although the share accounted for by low tech products is also smaller.

6 Inflation

High domestic inflation is present in a growing proportion of goods, and is being driven by foreign and domestic factors

Consumer prices as measured by the HICP were up 8.7% in year-on-year terms in May (see Figure 6.1). The high inflation is being driven by all price categories, although energy price inflation remains the largest factor. Despite a period of exemption from certain charges for electricity[7] and the reintroduction of price regulation for motor fuels[8]

[6] The countries that joined the EU on or after 1 May 2004 (Slovenia, Slovakia, Poland, Malta, Hungary, Lithuania, Latvia, Estonia, Czechia, Cyprus, Romania, Bulgaria and Croatia).

[7] To address rising energy prices, as part of its emergency measures the government halved excise duties on electricity and excise duties on heating energy products (heating oil and natural gas) for the period of 1 February to 30 April 2022. It also cut excise duties on motor fuels (petrol by 5%, and diesel by 15%). Under the Act on Emergency Measures to Mitigate the Impact of Rising Energy Prices, it then put measures in place over the same period to exempt household consumers from paying the contribution for CHP and renewables, and to make further cuts to the network charges for the electricity system. The measure regarding excise duties has been extended to 31 July 2022.

[8] Between 15 March and 30 April 2022 the government set maximum selling prices of EUR 1.541 for a litre of diesel, and EUR 1.503 for a litre of 95-octane petrol. The price was regulated again on 10 May for a period of three months: the new maximum selling prices are EUR 1.668 for a litre of diesel and EUR 1.560 for a litre of petrol.

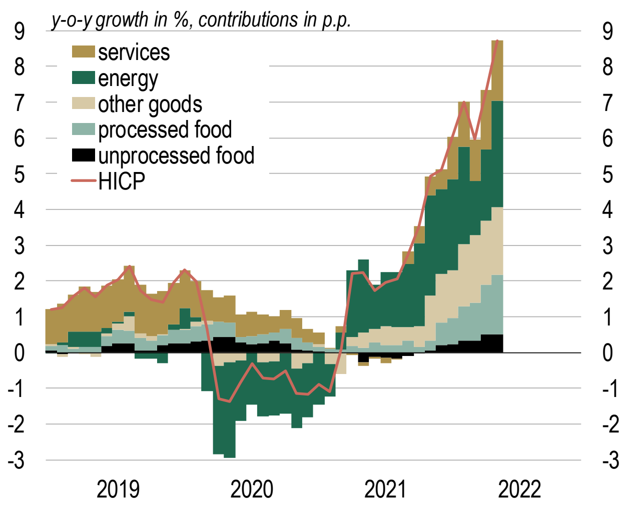
energy prices were up 7.9% in monthly terms, and accounted for 3.0 percentage points of year-on-year headline inflation. Together with the rising costs of production and transport, their pass-through onto food prices, both processed and unprocessed, is increasingly evident. Food prices were up 9.4% in year-on-year terms, the highest figure since 2008. Domestic factors were evident alongside foreign factors, and are most obviously being reflected in the pronounced domestic consumption, which is well above the pre-pandemic level.

Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco reached 5.6% in May. The contributions by non-energy industrial goods and services are increasingly equalising. Prices of non-energy industrial goods, which are under pressure from rising input costs in production as import prices of energy and commodities rise and supply chains experience disruptions, were up 6.0% in year-on-year terms in May, industrial producer prices on the domestic market having recorded growth of 23.4% in April. Services prices are also rising, amid the relaxation of the majority of the containment measures: they were up 5.1% in year-on-year terms.

The rise in inflation in previous months and the deterioration in geopolitical relations are being reflected in high inflation expectations on the part of consumers and firms (see Figure 6.1). With the labour market facing a record-low unemployment rate, demand for labour remaining strong and labour costs growing relatively fast, this is increasing the possibility of a wage-price spiral emergence.

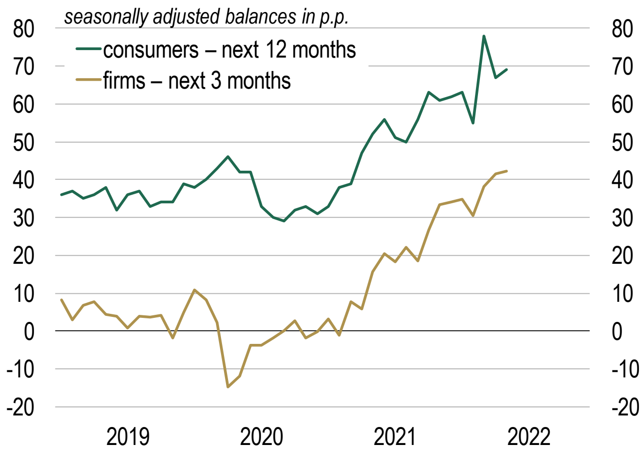
Figure 6.1: **Domestic price developments and inflation expectations**

Contributions to inflation



Source: ECB, Eurostat, Banka Slovenije calculations. Latest data: May 2022.

Price expectations



Note: The indicator of firms' price expectations is computed as a weighted average of indicators in manufacturing, construction, retail trade (3-mma) and services proportional to individual sector's share in their total value added.
Source: SORS, Banka Slovenije calculations. Latest data: May 2022.

7 Slovenia's Fiscal Position

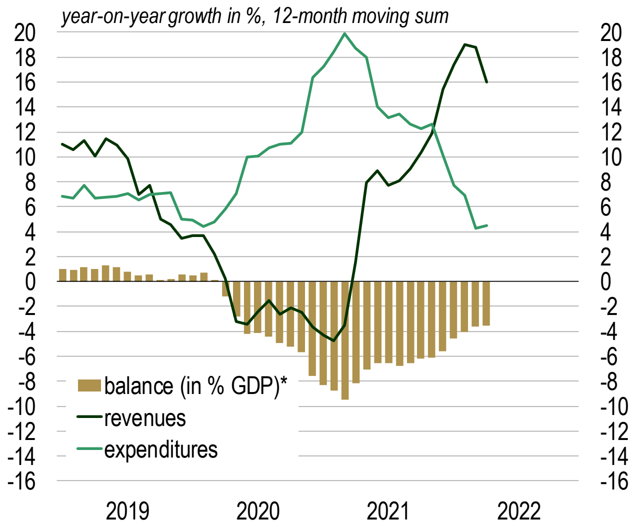
The public finances continued to improve in the first quarter; the Stability Programme prepared under no change in policy assumption and the European Commission are also forecasting the deficit to narrow

The consolidated general government position has improved significantly this year (see Figure 7.1). The deficit over the first four months of the year amounted to EUR 148 million (0.3% of GDP), compared with EUR 1.2 billion over the same period last year (2.5% of GDP). The improvement is primarily attributable to the significant reduction in expenditure to mitigate the impact of the pandemic, and to the growing economy, which is yielding high tax revenues, despite the introduction of certain temporary measures because of rising energy prices. Prefinancing for projects under the recovery and resilience plan is also raising revenues from the EU budget.

April's update to the Stability Programme, which because of the elections was drawn up under the assumption of no change in policy, forecast a general government deficit of 4.1% of GDP for this year and general government debt of 73.3% of GDP at the end of the year, both down just over 1 GDP percentage point on last year. The European Commission's spring forecasts were similar (4.3% of GDP and 74.1% of GDP respectively; see Figure 7.1). The European Commission proposed an extension of the suspension of fiscal rules into next year, in light of the downside risks to economic growth in the EU caused by the war in Ukraine, rising energy prices and the disruption to supply chains.

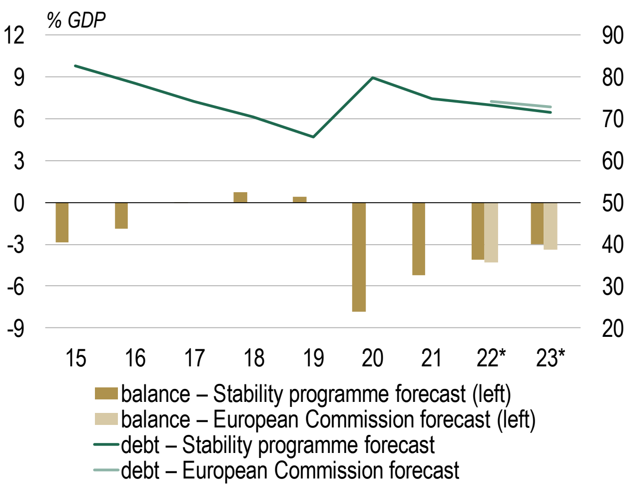
Figure 7.1: **Slovenia's current and projected general government position**

Public finances



Note: *Sum of public finance balance, last 12 months.
Source: Ministry of finance, Banka Slovenije calculations. Latest data: April 2022.

General government balance and debt, realization and forecast



Note: *Forecast.
Source: Eurostat, Stability programme (April 2022), European Commission (May 2022).

8 In Focus: Corporate Performance in 2021

Corporate performance in 2021 was better than ever before according to the majority of indicators; companies are notable for their improved performance, as well as arts, entertainment and recreation, and accommodation and food service activities

Corporate performance improved markedly in 2021 amid robust foreign and domestic demand. Net profit doubled to a record EUR 6.1 billion, up 22.6% or EUR 1.1 billion on 2019 (see Figure 8.1).

The main improvement in performance was recorded by companies, which account for more than half of all firms and generate the majority of value-added. They disclosed net profit of EUR 5.7 billion last year, the highest figure to date. Net operating profit was up approximately 30.0% or EUR 1.4 billion on its pre-pandemic level (at EUR 6.4 billion; see Table 8.1), as net sales revenue increased by 15.0%, primarily as a result of improved performance on foreign markets, particularly outside the EU. Cooperatives generated net profit of EUR 4.3 million, still down more than 13.0% on its peak in 2008.

Sole traders' aggregate net income amounted to EUR 433 million, coming very close to its level of 2008, and was up 14.1% on 2019 (see Figure 8.1). Last year's increase in sole traders' net operating income compared with the pre-pandemic period was significantly smaller at 9.8%, and was primarily attributable to extensive government support measures. Together with other subsidies they amounted to close to EUR 200 million last year for the second consecutive year. Sole traders' net sales revenue last year was still down 2.1% on its pre-crisis level.

The situation on the labour market improved in the strong economy. Employment as measured by hours worked increased by 2.1%, coming close to its pre-pandemic level. It fell at sole traders for the second consecutive year, but increased by 2.5% at companies. Corporate value-added amounted to EUR 29.4 billion last year, up 13.5% or EUR 3.5 billion on its pre-crisis level. The largest increase (15.3%) was seen at companies. They recorded high growth in labour productivity, which last year exceeded EUR 53,000 per employee (see Figure 8.1).[9]

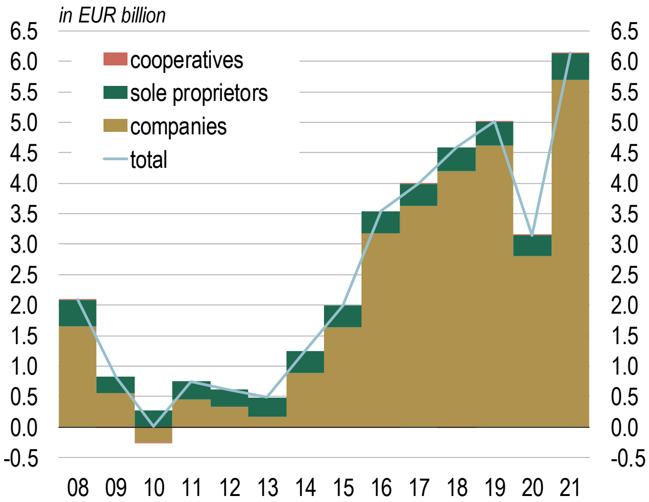
Corporate indebtedness[10] increased last year for the first time since 2008 (by 0.5 percentage points to 50.3%; see Figure 8.2), but remained below its level of 2019, which was one of the lowest figures of the last 20 years. Having remained practically unchanged in 2020, companies' total debt increased by 10.4% or EUR 5.5 billion last year and approached its level of 2012, when it exceeded EUR 59 billion. Current trade payables were responsible for the majority of the increase (see Figure 8.2). Compared with 2008, when it accounted for approximately two-thirds of total liabilities, it was still down more than a tenth. Companies' total equity ended last year up 8.7% on the previous year, primarily as a result of the large net profit during the financial year. The increase in debt at sole traders and cooperatives was less pronounced. Cooperatives nevertheless saw their indebtedness rise sharply last year, their equity having almost halved.

[9] Labour productivity at companies excluding subsidies increased by approximately 15% last year to around EUR 51,000 per employee, almost 12% more than in 2019.

[10] Corporate indebtedness is measured by the ratio of total debt to total liabilities.

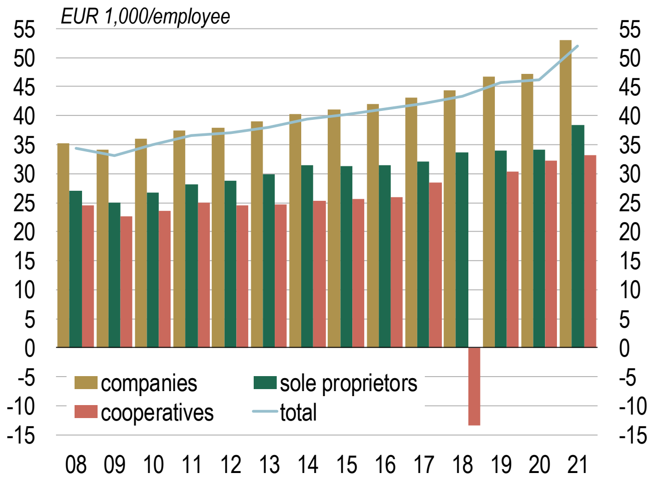
Figure 8.1: **Net profit and labour productivity**

Net profit



Note: Net profit is calculated as net profit or loss for the accounting period.
Source: AJPES, Banka Slovenije calculations.

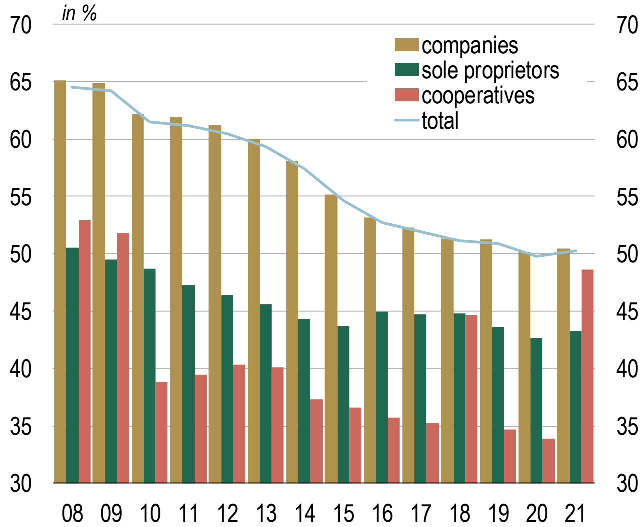
Labour productivity



Note: Labour productivity is calculated as value added divided by the number of employees (average number of employees based on working hours in the accounting period).
Source: AJPES, Banka Slovenije calculations.

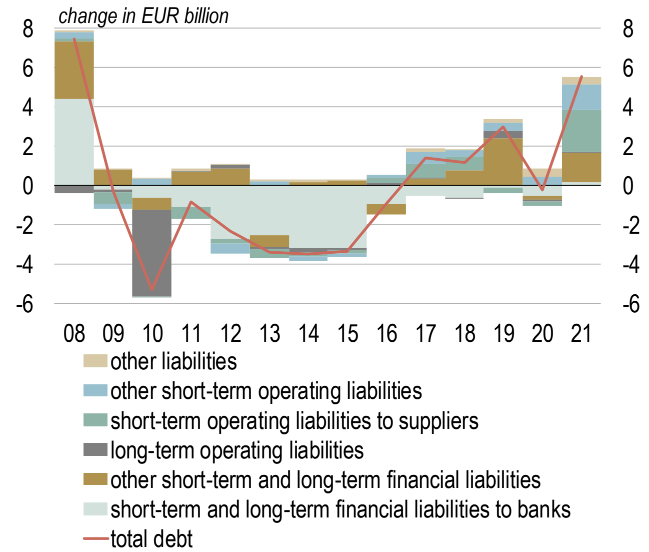
Figure 8.2: **Corporate indebtedness and companies' total debt**

Corporate indebtedness



Note: Total debt to total liabilities.
Source: AJPES, Banka Slovenije calculations.

Total debt of companies



Source: AJPES, Banka Slovenije calculations.

Performance improved in all sectors,[11] but the greatest improvement came in the sectors of arts, entertainment and recreation and accommodation and food service activities following the relaxation of the containment measures (see Table 8.2). Having recorded a loss in 2020 (in the amount of EUR 79 million), they generated net profits of EUR 93 million last year, still down just over a tenth on 2019.[12] Net operating profit was

[11] The exception was mining and quarrying, which recorded a net loss of EUR 22 million last year, the majority of which was attributable to Premogovnik Velenje, while net profit in the sector of public administration and defence was down 26.1%.

[12] Performance in electricity, gas, steam and air conditioning supply improved significantly last year. The sector had recorded a net loss in 2020, the majority of which was attributable to Termoelektrarna Šoštanj and Holding Slovenske el-ektrarne, but generated a net profit of EUR 222 million last year, the largest figure to date. Following the rise in energy prices, net operating profit amounted to EUR 339 million.

down significantly more on its pre-crisis level (by 18.3%), despite extensive financial support from the government.[13] Labour productivity also improved, particularly in accommodation and food service activities; in the wake of a modest increase in the number of employees, which was still 6.5% down on 2019, value-added in-creased by more than a third and surpassed its pre-crisis level by just over 1%.[14]

In the wake of a rise in domestic final consumption, retail firms also recorded high net profits: they were up approximately two-thirds on 2019 at a record EUR 1.4 billion. Their labour productivity also improved sharply: value-added was up more than 20% over the same period, with the number of employees remaining approximately unchanged.

The rise in labour productivity at manufacturing firms was slightly smaller, but still amounted to 14.0%; despite issues with the supply of raw materials, they generated net profits of EUR 2.1 billion last year, up just under a third on 2019 and the largest figure to date. Alongside construction, mining and quarrying, and electricity, gas, steam and air conditioning supply, the sector also recorded the largest increase in total debt as a result of a rise in current trade payables, which in turn meant that indebtedness rose for the first time since 2010, but remained below its pre-pandemic level at 46.8%.

Table 8.1: **Selected corporate performance indicators in 2021**

	shares			amounts				change			
	compan.	**sole propr.**	**cooperat.**	**total**	**compan.**	**sole propr.**	**cooperat.**	**total**	**compan.**	**sole propr.**	**cooper.**
		in %			*in EUR million (unless stated)*				*in %*		
number of firms	57.8	41.9	0.3	119,538	69,076	50,054	408	0.1	1.4	-1.5	-0.7
number of employees	92.3	7.2	0.5	565,816	522,492	40,538	2,786	2.1	2.5	-3.4	0.9
value added	94.4	5.3	0.3	29,368.1	27,722.0	1,553.5	92.6	14.9	15.3	8.6	4.2
labour productivity*				51.9	53.1	38.3	33.2	12.6	12.5	12.4	3.2
net sales revenue	95.1	4.2	0.6	120,923.9	115,048.0	5,092.1	783.8	22.5	23.0	13.4	7.3
subsidies	83.7	15.6	0.6	1,254.1	1,050.3	195.9	7.9	-19.8	-22.4	-2.3	-8.6
net profit	92.9	7.1	0.1	6,138.2	5,700.6	433.3	4.3	95.2	103.2	28.9	123.4
net operating profit	93.7	6.2	0.1	6,778.6	6,354.2	420.8	3.6	60.1	62.7	29.6	17.6
					in %				*in p.p.*		
indebtedness				50.3	50.5	43.3	48.7	0.5	0.4	0.6	14.8

Note: * Labour productivity is defined as value-added (EUR 1,000) per employee.
Source. AJPES, Banka Slovenije calculations.

[13] These sectors saw some of the largest government support and other subsidies; they were up approximately 40.0% or EUR 63 million on 2020 at EUR 230 million. Subsidies also increased relative to the previous year in human health and social work activities, and in agriculture.

[14] Last year's value-added excluding subsidies was still down approximately a fifth on its pre-pandemic level in accommodation and food service activities, and by just over a third in arts, entertainment and recreation.

Table 8.2: **Selected corporate performance indicators by activities**

	net profit			number of employees			labour productivity**			indebtedness		
	2019	2020	2021	2019	2020	2021	2019	2020	2021	2019	2020	2021
	*growth in %**		*EUR million*	*growth in %**		*in 1,000*	*growth in %**			*change in p.p.**		*in %*
total	**22.6**	**95.2**	**6,138.2**	**-0.1**	**2.1**	**566**	**13.7**	**12.6**	**51.9**	**-0.6**	**0.5**	**50.3**
mining and quarrying	-274.0	3,106.7	-22.1	-8.3	-1.8	2	-9.0	-11.3	50.7	1.2	9.3	70.8
administrative and support service activities	12.8	301.5	85.9	-8.1	-0.7	30	12.2	11.1	29.7	0.4	0.6	57.5
arts, entertainment and recreation	-36.2	254.7	14.4	-15.2	-6.8	3	-5.2	23.0	46.1	-1.9	-2.3	56.7
accommodation and food service activities	-6.2	212.2	78.5	-6.5	1.3	27	8.3	34.9	31.3	3.2	0.9	56.7
electricity, gas, steam and air conditioning	30.6	157.9	222.4	2.5	0.5	7	34.5	28.7	160.7	5.3	4.4	42.9
agriculture, forestry and fishing	39.0	135.0	38.4	-11.4	-4.1	4	19.8	19.7	49.3	-2.8	-1.4	47.2
wholesale and retail trade	64.6	100.8	1,391.0	1.0	1.2	99	19.4	18.2	55.6	-1.8	0.0	56.6
real estate activities	-1.8	97.1	166.0	-3.6	-0.7	6	6.5	15.5	99.3	-0.5	0.4	55.9
transportation and storage	-9.2	69.4	396.0	-1.9	-0.7	47	4.4	10.4	54.3	-3.2	-1.4	43.2
professional, scientific and technical activities	-2.6	69.3	534.3	6.2	3.2	37	4.2	11.4	53.2	-2.5	-2.0	47.1
water supply, sewerage and waste manag.	100.6	65.3	62.8	2.2	1.1	9	19.8	11.7	46.4	2.2	1.4	51.6
human health and social work activities	71.7	63.0	76.5	11.2	4.8	7	21.3	16.6	54.9	-1.6	-1.0	48.9
information and communication	92.0	56.5	320.9	6.8	1.8	23	10.1	8.1	76.0	-1.4	-0.1	51.6
financial and insurance activities	-10.7	51.7	427.1	-6.1	3.6	3	54.1	29.5	101.3	-3.8	-1.5	50.5
manufacturing	28.1	44.7	2,052.0	-1.1	3.0	197	13.9	9.3	52.6	0.0	1.5	46.8
education	29.3	43.2	14.0	-5.4	0.7	2	19.2	18.8	40.5	-2.6	-0.7	52.0
construction	1.4	15.4	253.6	6.7	6.3	60	9.0	6.3	34.7	0.7	1.4	60.3
other service activities	-5.4	14.3	27.9	-13.5	-6.3	4	10.6	10.9	32.6	0.8	0.4	50.6
public administration and defence	-51.7	-26.1	0.5	-54.9	-54.4	0	20.2	22.5	36.8	7.2	9.4	76.9

Note: * Growth (in %) or change (in p. p.) relative to 2019 or 2020. ** Labour productivity is defined as value-added (EUR 1,000) per employee. Activities of households (Sector T) are not illustrated.
Source: AJPES, Banka Slovenije calculations.

9 Statistical Appendix

Table 9.1: **Selection of key macroeconomic indicators at monthly level for Slovenia**

	2020	2021	12 m. 'till Mar.22	3 m. 'till Mar.21	3 m. 'till Mar.22	2022 Jan.	2022 Feb.	2022 Mar.	2022 Apr.	2022 May.
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	-11.7	2.4	4.5	-3.5	4.6	5.6	6.7	1.6	4.3	2.9
- confidence indicator in manufacturing	-8.4	8.0	8.3	6.3	7.7	9.0	10.0	4.0	4.0	2.0
					year-on-year growth rates in %					
Industry: - total	-6.4	9.9	9.8	3.4	3.5	9.1	-1.1	2.8	...	...
- manufacturing	-6.2	11.5	11.4	4.4	4.6	6.4	2.2	5.3	...	...
Construction: - total	-0.7	-0.5	3.6	-0.5	19.3	15.1	32.5	12.3	...	...
- buildings	-7.8	-23.0	-12.6	-20.7	33.4	5.0	59.2	38.0	...	...
Trade and service activities - total	-9.6	12.2	15.9	0.4	15.5	21.7	12.8	13.0	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	-14.5	8.3	4.3	9.0	-6.3	1.4	-4.8	-12.6	...	...
Retail trade, except of motor vehicles and motorcycles	-5.9	16.3	18.1	7.0	14.9	27.2	9.4	10.9	...	...
Other private sector services	-11.6	12.4	17.9	-3.4	19.0	23.1	14.6	19.6	...	...
Labour market					*year-on-year growth rates in %*					
Average gross wage	6.0	6.0	3.0	10.6	-1.2	-2.7	-1.0	-0.1	...	...
- private sector	4.5	5.9	5.4	6.7	4.4	3.4	4.2	5.6	...	...
- public sector	7.9	6.4	0.0	16.4	-9.2	-10.8	-8.4	-8.3	...	...
Real net wage[1]	7.1	3.0	-1.1	10.0	-6.7	-8.1	-7.5	-4.5	...	...
Registered unemployment rate (in %)	8.7	7.6	7.0	9.0	6.6	6.9	6.6	6.2	...	...
Registered unemployed persons	14.6	-12.6	-21.4	11.5	-26.3	-25.9	-26.4	-26.7	-26.7	...
Persons in employment	-0.6	1.3	2.3	-1.1	3.0	3.1	3.0	2.7	...	...
- private sector	-0.9	1.3	2.7	-1.8	3.6	3.8	3.7	3.4	...	...
- public sector	0.1	1.1	1.3	0.6	1.2	1.4	1.2	0.9	...	...
Price Developments					*year-on-year growth rates in %*					
HICP	-0.3	2.0	3.8	-0.6	6.3	6.0	7.0	6.0	7.4	8.7
- services	1.8	0.6	1.3	0.4	3.6	3.5	3.7	3.5	5.0	5.1
- industrial goods excluding energy	-0.5	1.3	2.9	-0.9	5.4	4.3	5.7	6.1	5.7	6.0
- food	2.8	0.7	1.9	0.5	5.2	4.1	5.5	6.0	8.2	9.4
- energy	-10.8	11.3	17.9	-5.1	19.0	21.9	23.0	12.4	16.5	24.2
Core inflation indicator[2]	0.8	0.9	2.0	-0.2	4.4	3.9	4.6	4.7	5.3	5.5
Balance of Payments - Current Account					*in % GDP*					
Current account balance	7.4	3.3	1.5	6.5	-1.4	2.7	-4.8	-2.2	...	...
1. Goods	5.0	1.0	-1.0	4.6	-3.7	-0.3	-5.8	-5.0	...	...
2. Services	4.3	4.6	4.6	4.3	4.3	3.7	3.8	5.4	...	...
3. Primary income	-0.9	-1.3	-1.3	-0.9	-1.0	0.3	-1.6	-1.6	...	...
4. Secondary income	-1.0	-1.0	-0.9	-1.6	-1.0	-1.0	-1.2	-0.9	...	...
					nominal year-on-year growth rates in %					
Export of goods and services	-10.1	19.2	25.0	2.1	24.0	28.3	22.3	22.0	...	...
Import of goods and services	-11.7	26.3	35.6	2.9	37.7	41.7	37.6	34.9	...	...

Public Finances	2020	2021	12 m. 'till Apr.22		2021 Jan.-Apr.		2022 Jan.-Apr.	
Consolidated general government (GG) balance[3]	*EUR milions*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	18,529	21,383	41.6	16.0	6,699	12.3	7,656	14.3
Tax revenue	16,460	18,786	36.3	13.8	5,981	12.2	6,663	11.4
From EU budget	730	950	2.1	41.2	309	22.1	468	51.8
Other	1,338	1,646	3.3	29.0	409	7.5	525	28.3
Expenditure	22,071	24,300	45.2	4.5	7,875	16.6	7,804	-0.9
Current expenditure	9,128	10,394	19.4	10.1	3,367	10.6	3,382	0.4
- wages and other personnel expenditure	4,965	5,751	10.4	4.8	1,902	21.6	1,707	-10.3
- purchases of goods, services	3,021	3,351	6.5	14.2	961	2.5	1,086	13.0
- interest	778	732	1.2	-8.7	423	-12.9	345	-18.6
Current transfers	10,868	11,319	20.8	-3.7	3,932	23.0	3,784	-3.8
- transfers to individuals and households	8,251	9,168	16.8	1.9	3,228	22.0	3,060	-5.2
Capital expenditure, transfers	1,549	1,959	3.8	28.7	338	6.3	399	17.9
GG surplus/deficit	-3,542	-2,917	-3.5		-1,177		-148	

Note: The figures for economic developments are calendar-adjusted (with the exception of economic sentiment indicators, which are seasonally adjusted). The other figures in the table are original. The monthly activity indicators in industry, construction and services are given in real terms.
[1] HICP deflator. [2] Inflation excluding energy, food, alcohol and tobacco. [3] Consolidated position of the state budget, local government budgets, pension and disability insurance subsector and compulsory health insurance subsector, according to the principle of paid realisation.
Sources: SORS, Banka Slovenije, Ministry of Finance, Banka Slovenije calculations.