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Summary

This year's initial activity indicators point to a continuation of relatively solid developments. Amid the tight labour market, wage growth remains high, and the fall in inflation came to a temporary halt.

- **Economic activity in the euro area is likely to stagnate again in the first quarter, judging by the PMI survey data.** The indicators point to weak growth in services, but a continuing moderate contraction in manufacturing. The subdued mood in the economy is also being reflected in low consumer confidence. The ECB's latest projections are forecasting merely weak growth in euro area GDP for the first half of the year, which is expected to strengthen later in the year as real household incomes rise and inflation falls further. Inflation declined to 2.6% in February, largely as a result of slower growth in food prices and prices of other goods. However, services inflation remained elevated. Unemployment remains low, and employment is at a record high.
- **The markets' expectations of the pace of interest rate cuts by major central banks were broadly unchanged in March.** Inflation is still above the target levels set by central banks, also the economic data in the US remains prevailingly good. March consequently saw limited changes in German and US government bond yields, while the values of higher-risk asset classes continued to rise, most notably the prices of US tech firm shares. The markets are expecting the first cut of the ECB's deposit facility rate by June of this year. They have similar expectations with regard to the first interest rate cut by the Fed: certainly by July of this year, with the possibility of cuts beginning by June.
- **The sentiment in the Slovenian economy in the first quarter of this year was better than at the end of last year.** Consumers in particular were more optimistic, while confidence remains in positive territory in sectors focusing primarily on the domestic market. Further evidence of this comes from the real value of total card payments and ATM withdrawals, which shows favourable developments in consumption over the first two months of the year. Car sales are also up significantly in year-on-year terms, while performance in the tourism sector was at similar levels to last year. By contrast, manufacturing firms are still displaying considerable uncertainty in the face of weak demand. This is also being reflected in the ongoing year-on-year decline in industrial production, while construction activity is also slowing from its previous high levels. The nowcasts for quarterly GDP growth in the first quarter are averaging 0.9%, based on a limited set of available indicators.
- **The labour market remained robust, with a low unemployment rate and high wage growth.** The persons in employment was down slightly on December, but hit a new record high according to seasonally adjusted figures. The survey data suggests that hiring is set to continue in the future, particularly in services and construction. The major labour shortage is evidenced in the low figure for registered unemployment, while the tight labour market is also being reflected in high wage growth, which remained at 8.1% in the early part of this year. Real wage growth thus remains persistently high amid slowing inflation.

- **The main factor in inflation remaining unchanged was a rise in energy prices.** Year-on-year inflation as measured by the HICP remains at 3.4% in March, unchanged since January. This was mainly a result of monthly rises in energy prices, fuels in particular, while lower growth in food prices and prices of non-energy industrial goods is continuing to reduce the headline inflation. The ongoing high services inflation is reflecting domestic price pressures, namely strong wage growth accompanied by indications of strengthening demand. Core inflation stood at 4.0% and thus continued to outpace the headline inflation.
- **The 12-month current account surplus approached EUR 3 billion in January, with merchandise trade recording its largest surplus of the last two years, and services trade its largest surplus to date.** Developments remained positive in the majority of services trade segments in January. Excluding transport services and miscellaneous business services, services trade was up around 10% year-on-year in nominal terms. Different situation was observed in merchandise trade, where the year-on-year decline in exports slowed, albeit primarily as a result of increased exports by the car industry. The year-on-year decline in merchandise imports also diminished, to reach its smallest level since March of last year.
- **The consolidated general government deficit recorded favourable results over the first two months of the year as there was an improvement in the position compared with the previous year, thanks to continuing growth in tax revenues.** The general government deficit narrowed to 2.5% of GDP last year, despite the support measures following the major floods in August and the ongoing mitigation of high energy prices. The ratio of debt to GDP declined further to 69.2%. The fiscal developments remain subject to numerous risks, whether general risks affecting economic growth, or specific risks in connection in particular with current wage negotiations, the preparation of various reforms, and the ongoing post-flood reconstruction.

1 International Environment

The survey indicators at the beginning of the year were pointing to a slight improvement in global economic developments.

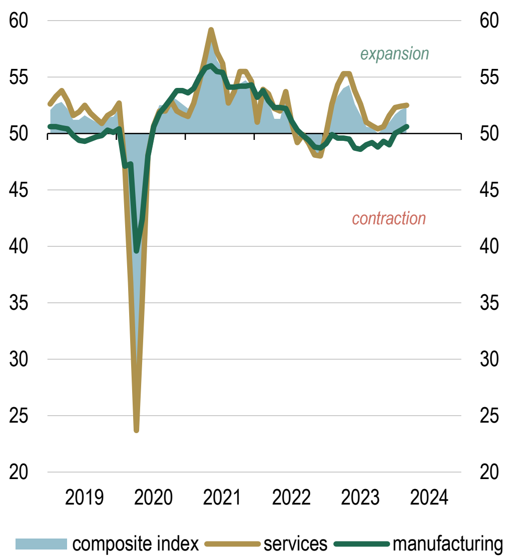
Among the major advanced economies, the US and Japan saw higher economic growth than in the previous year. The US economy grew by 2.5% last year, the increase compared with the figure of 1.9% in 2022 primarily being driven by robust private consumption, aided by the tight labour market and the relatively limited impact on the economy from the restrictive monetary policy. The Japanese economy strengthened by 1.9% last year, 0.9 percentage points more than in the previous year, with growth driven primarily by investment and foreign trade. By contrast, economic growth in the euro area and the UK slowed significantly amid the persistence of relatively high inflation and borrowing costs: it stood at 0.4% in the former, down 3.0 percentage points on the previous year, and 0.1% in the latter, down 4.2 percentage points on the previous year.

The global PMIs are continuing to rise, amid the expectation of an improvement in the economy (see Figure 1.1, left). Following a fourth consecutive monthly increase, the composite PMI hit 52.1 points in February, its highest mark of the last eight months, amid increased output in manufacturing and services, and higher growth in new orders. Figure 1.1 right illustrates the composite PMIs for major economies, and shows developments in the first quarter of this year to be more favourable than in the previous quarter for the majority of economies other than Russia. The largest upticks in optimism at the turn of the year were observed in Brazil and India, where the indicators point to the most pronounced improvement in the economic outlook.

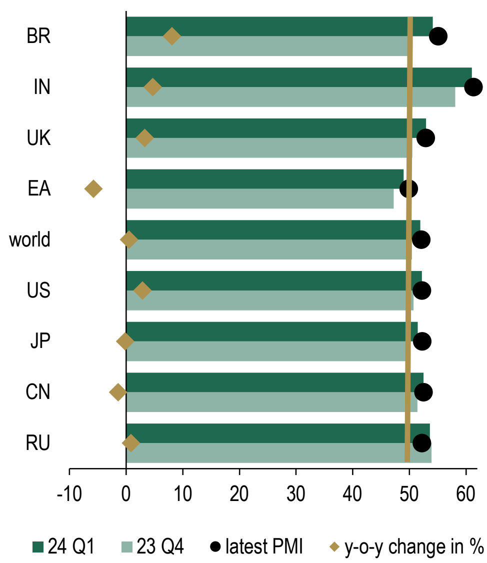
Consensus's March forecasts for Japan, the UK and Germany were revised downwards from February, while the forecast for the US was revised upwards. This year's growth in US economy is nevertheless projected to slow slightly compared with last year, to 2.2%. Japan is forecast to see growth of 0.6%, and the continuing expectations of moderate inflation amid elevated wage growth have led to a historic turning point, with key interest rates rising there for the first time since 2007. Euro area GDP is forecast to strengthen by 0.6% this year according to the ECB's March projections, with higher growth mostly curtailed by weak manufacturing. Consensus's lowest growth forecasts for the most advanced economies are 0.1% for Germany, and a slightly higher rate of 0.2% for the UK.

Figure 1.1: **Global economic situation**

JPMorgan Purchasing Managers' Index (PMI) – global



Composite index PMI in major economies



Sources: Bloomberg, Banka Slovenije calculations; latest data left chart: February 2024; right chart: March 2024 (February 2024 for global, Brazil, China and Russia, where the calculation for the first quarter for the aforementioned economies covers data to February)
Note: The right chart ranks the data from highest to lowest quarterly changes, while the year-on-year change refers to the first quarter of 2024 relative to the same period last year.

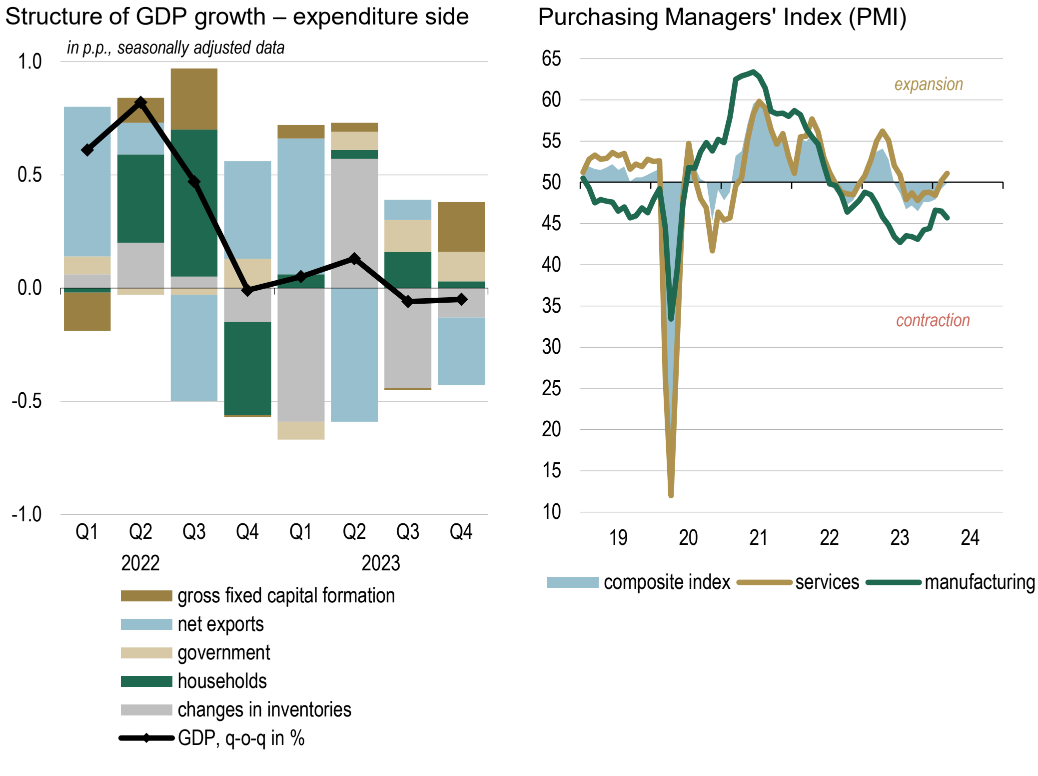
The survey indicators for the euro area point to a further stagnation in the first quarter of this year.

Economic activity in the euro area stagnated in the final quarter of last year amid persistently high inflation, the impact of previous interest rate rises, and weak foreign demand (see Figure 1.2, left). Positive contributions of 0.2 percentage points by gross fixed capital formation and 0.1 percentage points by government consumption were largely neutralised by the negative contribution of 0.3 percentage points by net trade. Exports stagnated in quarterly terms, while imports were up 0.6%. GDP growth was also reduced by changes in inventories, while growth in private consumption was negligible. Within the euro area, quarterly GDP growth was the highest in Croatia (1.3%), followed by Slovenia (1.1%), while Ireland recorded the largest decline of 3.4%. Five euro area countries saw negative quarterly GDP growth in the final quarter of 2023, including the largest economy, Germany, where economic activity declined by 0.3%.[1]

Further evidence of the struggles of the euro area at the turn of the year, particularly in manufacturing, comes from the monthly indicators of economic activity for January, according to which industrial production contracted by 3.2% compared with December, while slightly more encouraging signs were presented by the monthly increases of 0.5% in the production of construction and 0.1% in real turnover in retail. Additional indications of the continuing economic stagnation in the first quarter amid the simultaneous easing of price pressures come from the survey data for March (see Figure 1.2, right). The composite PMI hit its highest level in nine months at 49.9 points, while the services PMI reached 51.1 points, pointing to moderate growth in the service sector. By contrast, the manufacturing PMI hit its lowest figure in three months at 45.7 points, and points to a further contraction in activity in manufacturing, particularly in Germany, where the manufacturing PMI hit its lowest level since October of last year at 41.6 points. The subdued economic mood, particularly in manufacturing and private consumption, is also being reflected in the European Commission's economic sentiment indicator, which remained low in March at 96.3 points, below its long-term average. Unemployment remains low, and employment is at a record high.

According to the ECB's latest projections from March, GDP growth in the euro area is forecast to remain weak over the short term as the less favourable financing conditions

Figure 1.2: **Indicators of economic developments in the euro area**



Sources: Eurostat, Bloomberg, Banka Slovenije calculations; latest data left chart: Q4 2023; right chart: March 2024

[1] Five euro area countries ended the final quarter with negative quarterly GDP growth: Ireland (-3.4%), Finland (-0,7%), Estonia (-0.7%), Germany (-0.3%) and Lithuania (-0.1%).

pass through into activity levels, and in the wake of previous losses in price competitiveness and low confidence on the part of firms and consumers. Having stood at 0.4% last year, growth is forecast to strengthen this year to average 0.6%, driven primarily by increased private consumption as inflation gradually eases and real incomes rise. Growth will also be driven by a recovery in foreign demand as a result of an improvement in the terms of trade. As these factors strengthen further, GDP growth in the euro area is forecast to reach 1.5% in 2025 and 1.6% in 2026.

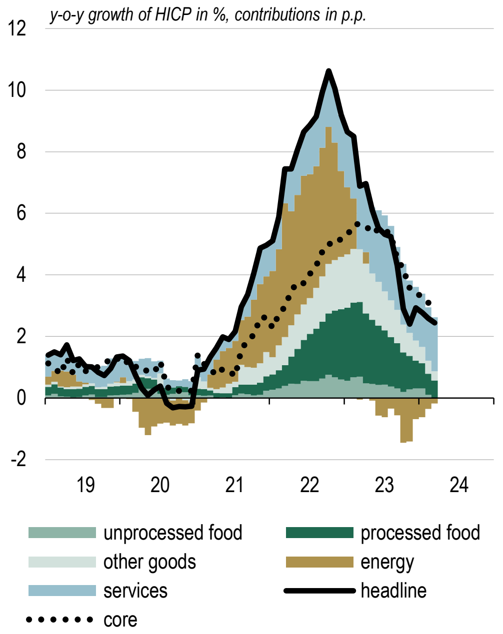
Inflation in the euro area slowed to 2.6% in February, mainly because of lower growth in prices of food and other goods.

Euro area headline inflation as measured by the HICP slowed to 2.6% in February (see Figure 1.3, left), down from 2.8% in January. The slowdown was mainly driven by lower growth in prices of non-energy industrial goods (other goods) as well as prices of food, which slowed to 3.9% in February (from 5.6% in January). The decline in food inflation was attributable to a base effect, which reflects the above-average monthly growth rate in February last year, and to declining prices of unprocessed food, especially for fresh vegetables. By contrast, energy prices were 3.7% down in annual terms, which is 2.4 percentage points less than the fall in January. The slowdown was attributable to monthly price rises,[2] most notably for fuels, but also to a positive base effect.

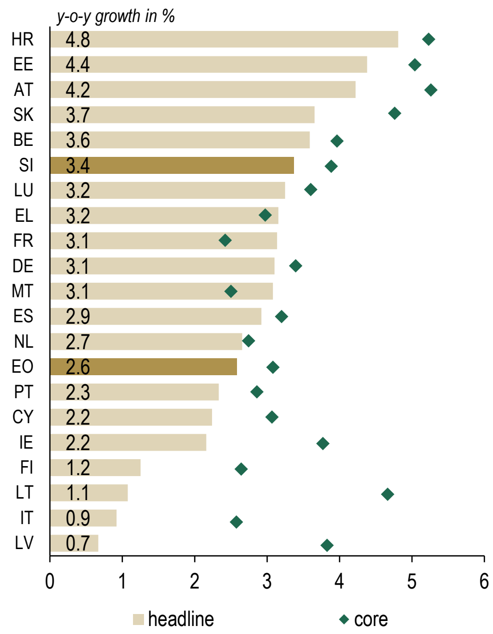
Inflation excluding energy and food stood at 3.1% in February, down 0.2 percentage points on January. The slowdown was driven by lower growth in prices of other goods, which stood at 1.6% in February (down from 2.0% in January), while services inflation remains elevated. Price dynamics of other goods mainly reflect further easing of pipeline pressures in production chains. Monthly growth rate in February was significantly

Figure 1.3: **Inflation in the euro area**

Contributions to headline HICP inflation



Inflation across the euro area countries



Sources: ECB, Eurostat, Banka Slovenije calculations; latest data: February 2024

[2] Energy prices in the euro area rose by 1.5% in monthly terms in February, with fuels, which account for almost half of the aggregate, rising in price by 3.2%.

lower than in the two previous years, when it stood above its historical average. However, services inflation has remained unchanged since November at 4.0%. It is reflecting still elevated domestic inflationary pressures, mainly related to wage growth.

The gap between inflation in Slovenia and the euro area overall slightly widened. Having stood at 0.6 percentage points in January, the narrowest gap since July 2023, it widened to 0.8 percentage points in February as domestic inflation remained unchanged while the Eurozone rate decelerated. Services inflation in Slovenia continues to outpace the euro area overall figure by almost 2 percentage points. The gap is reflecting higher labour costs per employee compared with the euro area average, indicating tighter labour market.[3]

2 Monetary Policy and Financial Markets

The markets' expectations regarding the onset and pace of the cuts in key interest rates were broadly unchanged in March, as inflation persisted above central bank targets.

Despite slowing, inflation remains above the target levels of the central banks of the Eurosystem, the US and the UK. Concerns on the slower pace of the fall in inflation are being raised also by the stubbornness of core inflation, which remains higher than headline inflation. The Eurosystem left all three key interest rates unchanged in March. In the latest ECB staff projections, inflation has been revised down, in particular for 2024, which mainly reflects a lower contribution from energy prices. Staff now projects inflation to average 2.3% in 2024, 2.0% in 2025, and 1.9% in 2026. Although most measures of underlying inflation have eased further, domestic price pressures remain high, in part owing to strong growth in wages. At a press conference Christine Lagarde, president of the ECB, confirmed that the Governing Council had not discussed cutting interest rates, but did begin conversations on the dialling back of the restrictive monetary policy stance.

The Fed also left its key interest rate unchanged in March. Despite the upward revision to this year's core inflation forecast in the US, the March dot plot suggests that three cuts of 0.25 percentage points continue to be expected in 2024. Conversely, the Swiss central bank was the first major central bank to cut its key interest rate, by 0.25 percentage points to 1.5%, while the Bank of Japan raised its key interest rate for the first time since February 2007 (to the corridor between zero and 0.1%), thus becoming the last major central bank to end its negative interest rate policy.

March saw no significant change to the markets' expectations regarding the onset and pace of the cuts in key interest rates by the ECB and the Fed. According to current interest rate swap rates (OIS), the markets are expecting the first cut in the ECB's deposit facility rate by June of this year with certainty. The markets have similar expectations regarding the first interest rate cut by the Fed: certainly by July of this year, with the possibility of cuts beginning in June. Three to four cuts (each of 0.25 percentage

[3] Box 6.1 examines the impact of the pass-through of wage growth into services inflation.

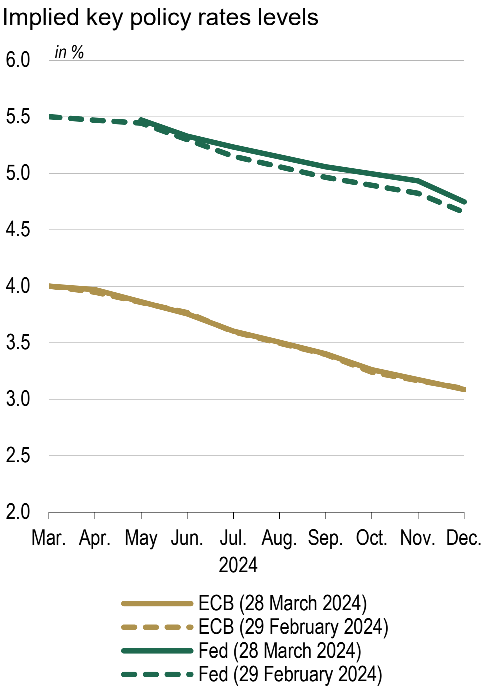
points) in the ECB deposit facility rate and three cuts in the Fed's key interest rate are priced in by the end of the year (see Figure 2.1, left).

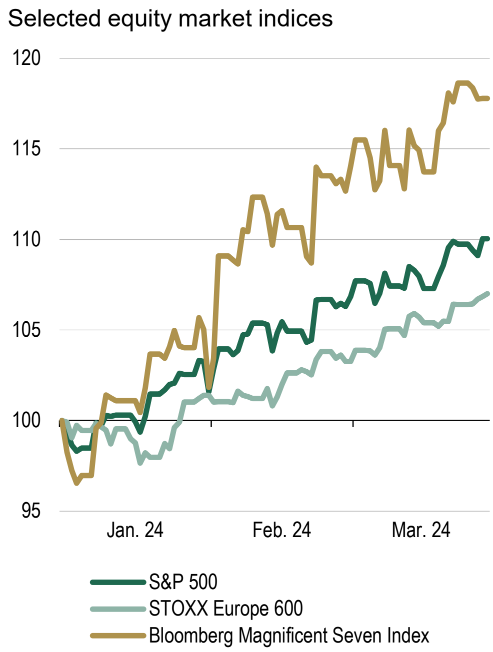
Higher-risk asset classes' values are continuing to rise, given the expectations of the dialling back of the restrictive stance of central banks this year.

The mood on the equity markets in Europe and the US remains positive, thanks to the expectations of several cuts in interest rates by the ECB and the Fed this year. The main European equity index (STOXX Europe 600) rose by 3.6% in March, while the main US index (S&P 500) gained 3.0%. The equity prices of the Magnificent Seven US tech firms have continued to rise strongly: they have gained 3.3% in the last month (see Figure 2.1, right). The spreads on private-sector bonds over the benchmark government bonds fell amid the positive mood on equities markets, as did the spreads on government bonds of the euro area periphery countries.

Contrastingly, lower-risk asset classes such as German and US government bonds saw limited price changes in March. This was attributable above all to stable expectations regarding the pace of interest rate cuts this year by the ECB and the Fed, and the continuing robust economic data, particularly in the US. Yields on US government bonds remained practically unchanged, while yields on German government bonds fell slightly as certain economic figures indicative of a cooling German economy were released.

Figure 2.1: **Expectations of key interest rates at the ECB and the Fed, and share indices**





Sources: Bloomberg, Banka Slovenije calculations; latest data, right chart: 28 March 2024
Note: Calculated from OISs in the left chart. The data for the Fed represents the ceiling of the Fed Funds corridor. In the right chart the Magnificent Seven comprise Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

With stable expectations regarding the pace of this year's cuts in key interest rates at the ECB and the Fed, the US dollar was broadly unchanged against the euro in March. The rise in the price of Brent crude (to just over USD 86 per barrel) was driven above all by the ongoing geopolitical tensions in the Middle East, the announcement of a decline in reserves of crude oil in the US, and a report by the International Energy Agency forecasting that oil markets would hit a supply deficit this year. The rise in the price was curbed by the uncertainty surrounding the demand for oil, particularly in light of the concerns over the economic growth in China. The prospects of cuts in the Fed's key interest rate this year drove the price of gold to a record high: it passed the USD 2,200 per ounce mark in March.

Box 2.1: **Changes to the operational framework for implementing monetary policy**

The Governing Council of the ECB decided on changes to the operational framework for implementing monetary policy to ensure that it remains appropriate as the Eurosystem balance sheet normalises.

On 13 March, the Governing Council approved the changes to the operational framework for implementing monetary policy,[4] the purpose of which is to steer short-term money market rates closely in line with the Governing Council's monetary policy decisions. The modified framework sets out the approach to providing central bank liquidity in the period ahead, as the amount of excess liquidity in the banking system gradually declines. It will nevertheless remain significant over the coming years.

The key features of the new framework are as follows. First, the Governing Council will continue to steer the monetary policy stance through the deposit facility rate, with tolerance for some volatility in money-market interest rates, as long as it does not blur the signal about the intended monetary policy stance. Second, main refinancing operations will play a central role in meeting the banks' liquidity needs. Liquidity will be provided through a broad palette of instruments, including, at a later stage, structural longer-term credit operations and a structural portfolio of securities. Third, main refinancing operations and three-month longer-term refinancing operations will continue to be conducted through fixed-rate tender procedures with full allotment. A broad eligible collateral framework will be maintained for these operations. Fourth, the spread between the rate on main refinancing operations and the deposit facility rate will be reduced to 0.15 percentage points as of 18 September 2024, which will encourage participation in main refinancing operations, while also leaving room for a greater role for the money market in funding banks amid declining excess liquidity.

3 Domestic Economic Activity

The economic sentiment in Slovenia in March was again more favourable than in the final quarter of last year.

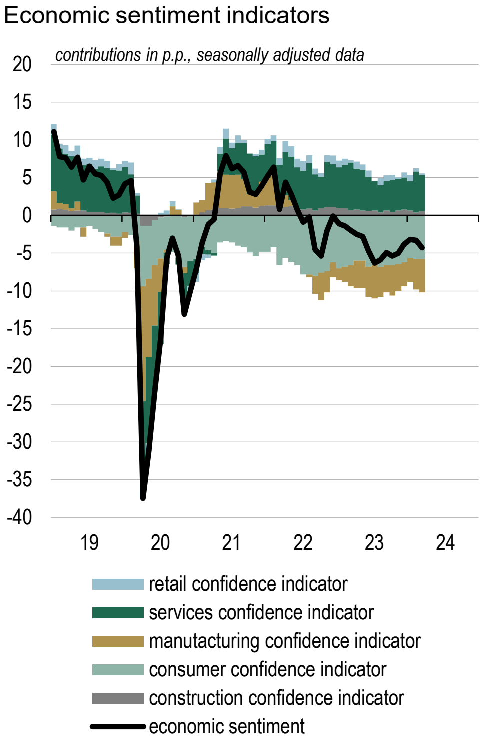
The sentiment in the economy was better on average in the first quarter of this year than at the end of last year, although it worsened slightly in February and March

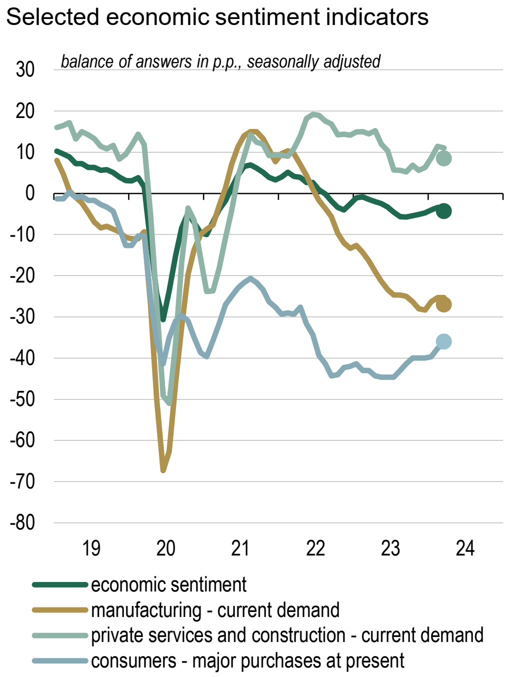
[4] Changes to the operational framework for implementing monetary policy (bsi.si)

(see Figure 3.1, left). Consumers in particular have been more optimistic in recent months, with improved assessments of their own financial situation and their willingness to make major purchases amid slowing inflation, rising purchasing power and a robust labour market (see Figure 3.1, right). The consumer confidence indicator remains in its traditional negative territory, but significantly less so than a year earlier.

By contrast, confidence in retail and construction is weakening slightly, but remains in positive territory. Confidence is also strongly positive in private-sector services, where it is again strengthening this year and has now surpassed its level from the end of last year and also its long-term average. Firms in all three sectors primarily reliant on the domestic market have continued to give favourable assessments of the strength of demand in the first quarter, while their expectations for the coming months are also relatively encouraging.

Figure 3.1: **Economic sentiment**





Sources: SORS, Banka Slovenije calculations; latest data: March 2024
Note: The right chart illustrates three-month moving averages, with the exception of the dots, which denote the latest figure. The indicator for private-sector services and construction is calculated using shares of value-added.

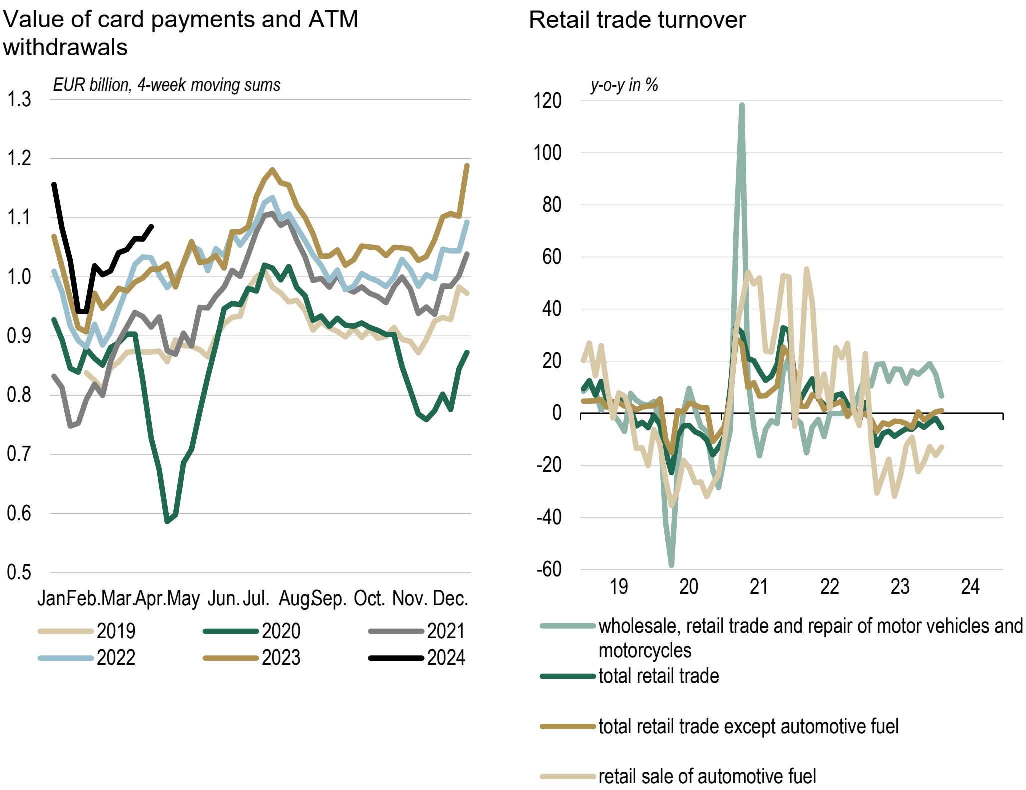
Manufacturing confidence has been deteriorating again since the beginning of the year. The March figure was lowest since mid-2020 (see Figure 3.1, left). The poor figures were mainly attributable to uncertainty in the economic environment, and very low demand,[5] domestic and foreign alike. Export orders also remain very weak, but firms saw a slight improvement in March in their assessments of demand expectations, which nevertheless failed to outweigh the other deteriorations; the aggregate manufacturing confidence indicator slid further in March.

[5] The manufacturing order books indicator has been negative without interruption for the last 22 months, and in March was only slightly better than the November figure, its lowest value in almost four years. The seasonally unadjusted manufacturing PMI data published by the Purchasing Association of Slovenia for the same period was also unfavourable: the aggregate indicator exceeded the 50-point mark that separates contraction from growth only three times between mid-2022 and March of this year, namely between February and April last year. It averaged 44.7 points over the first quarter of this year, with a trend of decline.

This year's initial activity indicators suggest that developments remain relatively solid.

Private consumption on the domestic market remained high over the first two months of the year. Evidence of this comes from the high level of and real year-on-year growth in the value of card payments and ATM withdrawals (8.7%; see Figure 3.2, left), while growth in invoices registered with tax authorities was also positive, albeit more modest. According to turnover figures in real terms, car sales also remained up significantly in year-on-year terms (10.7%) despite signs of slowing, while retail turnover has consistently declined over the last year, including by 5.6% in February (see Figure 3.2, right), largely as a result of lower sales of motor fuels. Developments in tourism also slowed slightly in the early part of the year, with the number of overnight stays during the first two months of the year remained unchanged in year-on-year terms.

Figure 3.2: **Card payments and retail turnover**



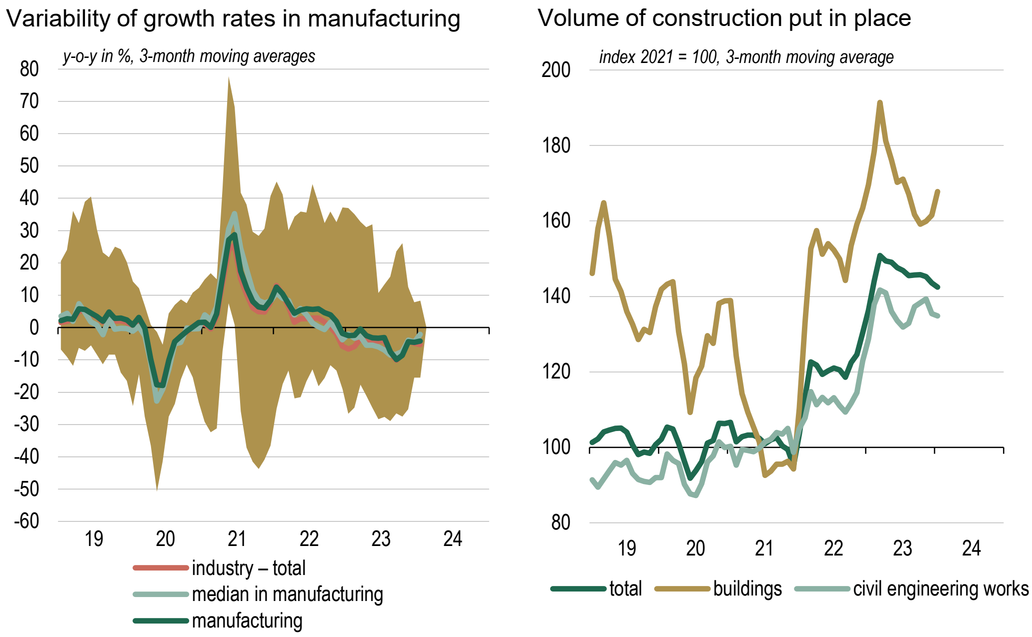
Sources: SORS, FARS, Bankart, Banka Slovenije calculations; latest data: February 2024
Note: In the left chart Bankart covers more than 80% of all card payments, and more than 90% of ATMs in the country. Data in the right chart is seasonally and calendar-adjusted.

Manufacturing output rose in January, but remained down in year-on-year terms. Construction activity is also declining from its previous high levels.

January's monthly rise of 7.0% in industrial production almost fully compensated for December's fall of 8.0%. Similar volatility was also evident in manufacturing output, which rose by 2.9% in January after falling in December. The developments were slightly more favourable in high-tech than in low-tech sectors. Despite the current improvements in the early part of the year, aggregate industrial production remained down by 3.4% year-on-year. Manufacturing saw its smallest year-on-year decline of the last seven months (1.9%), although there remains considerable variation from sector to sector. Output in the manufacture of textiles was down just over 15% on a year earlier, while output in the manufacture of other transport equipment was up almost a tenth (see Figure 3.3, left).

Construction activity has continued to slow in current terms this year, but its level remains high (see Figure 3.3, right). After two years of strong year-on-year growth, the amount of construction put in place in January was down approximately 7% in year-on-year terms. The largest decline of more than 30% was recorded by residential construction, while non-residential construction and specialised construction activities continued to strengthen, albeit at a slower pace than a year earlier. March's survey indicator of the number of months of secured production in construction and the number of building permits issued in the first two months of the year were also down in year-on-year terms, the latter by a tenth on average.

Figure 3.3: **Activity in manufacturing and construction**



Sources: SORS, Banka Slovenije calculations; latest data: January 2024
Note: Data in the right chart is seasonally and calendar-adjusted.

Box 3.1: **Nowcasts for GDP growth in the first quarter of 2024**

The average nowcast for quarterly GDP growth in the first quarter of this year is relatively favourable.

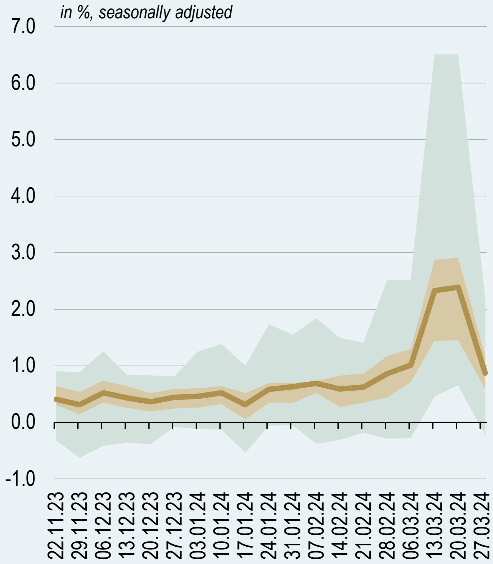
The current nowcast for quarterly GDP growth for the first quarter stands at 0.9% (see Figure 3.1.1, left).[6] The estimate mainly reflects January's improvement of

[6] The nowcast is entirely model-based, and does not incorporate any expert assessment of current macroeconomic developments. The set of 67 forecasting models consists of various dynamic factor models, and also PC, (U)MIDAS, (B)VAR, ARDL and bridge models. The changes in quarterly GDP growth forecasts over the forecast quarter are mostly related to releases of high-frequency data, while fluctuations are to a lesser extent also caused by re-estimation of the model parameters.

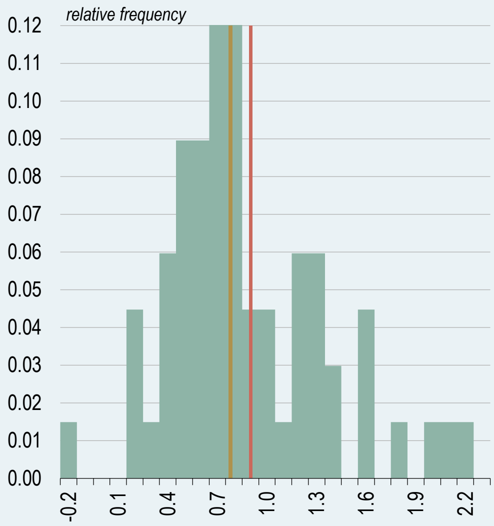
0.3 percentage points in the economic sentiment, and the simultaneous strengthening of industrial production. The latter recorded monthly growth of 7.0%, where the greatest impact on the nowcast came from the increase of almost 3% in manufacturing. By contrast, the nowcast was held down by January's decline of 5.1% in the amount of construction put in place. The decline in construction activity was largely attributable to monthly declines in specialised construction activities (6.4%) and civil engineering work (3.9%). An additional curb on the nowcast for the first quarter came from the decline in real turnover in retail trade, which in February was down for the third consecutive month, by 0.9%. The mixed signals from the indicators of economic sentiment and activity currently available are reflected in the bar chart distribution of the current nowcasts (see Figure 3.1.1, right). The range based on the 75th percentile of the distribution currently lies between 0.6% and 1.2%.

Figure 3.1.1: **Nowcasts for GDP growth**

Model estimates of quarterly GDP growth – 2024 Q1



Histogram of quarterly GDP growth estimates 2024 Q1



Source: Banka Slovenije calculations

Note: The left chart illustrates the nowcasts for quarterly GDP growth. The light gold area represents the interval between the 25th and 75th percentiles, while the green area represents the interval between the lowest and highest nowcasts. The dark gold line represents the average nowcast for GDP growth in the first quarter of 2024. The right chart illustrates the distribution of the nowcasts for quarterly GDP growth in the first quarter of 2024. The vertical gold line represents the median, and the red line the mean. The relative frequency represents the share of the total set of models yielding a particular growth nowcast. Nowcast date: 28 March 2024

4 Labour Market

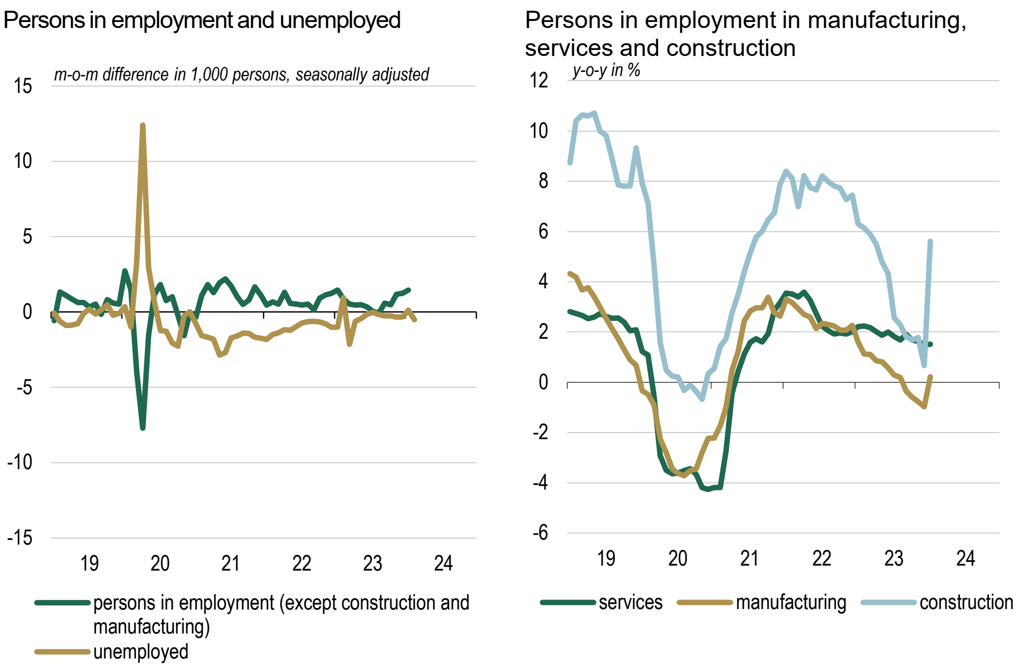
The monthly increase in the persons in employment has strengthened over recent months.

The persons in employment stood at 938,963 in January, down on the end of last year as a result of seasonal effects, but the seasonally adjusted figure reached a new record high. After the year-on-year growth gradually slowed down last year and dropped to 0.6% in December, the data for January shows a 1.3% growth. The uptick was largely attributable to changes in the methodology of recording. Since January 1st, detached workers are also counted among the employed, which has a positive impact on the number of employed persons, particularly in the construction sector (see Figure 4.1, right).[7] The monthly increase in the persons in employment excluding construction and manufacturing has nevertheless increased over recent months, an indication that January's increase was not solely attributable to methodological changes (see Figure 4.1, left).[8]

According to survey data, hiring is expected to continue in the months ahead. Expectations are highest in services, while manufacturing expects to see stagnation. Firms are meanwhile continuing to report major labour shortages, particularly in construction, where just under half of all firms believe that a shortage of qualified workers is limiting their performance. Firms are addressing the problems by hiring foreign nationals. The share of foreign workers in construction has increased by more than 10 percentage points over the last five years and now stands at 49.3%.

There were 49,716 people registered as unemployed in February, down 6.9% in year-on-year terms. After rising modestly in January, the seasonally adjusted figure fell again to hit a new record low (see Figure 4.1, left). The decrease in the number of registered unemployed over the past year is attributed to a smaller number of long-term unemployed (unemployed for over a year). Their number decreased by 15.5% compared to the previous year, while the number of unemployed for up to one year increased by 0.3%.

Figure 4.1: **Selected labour market indicators**



Sources: SORS, Banka Slovenije calculations; latest data, left chart: registered unemployment: February 2024; workforce in employment: January 2024; right chart: January 2024

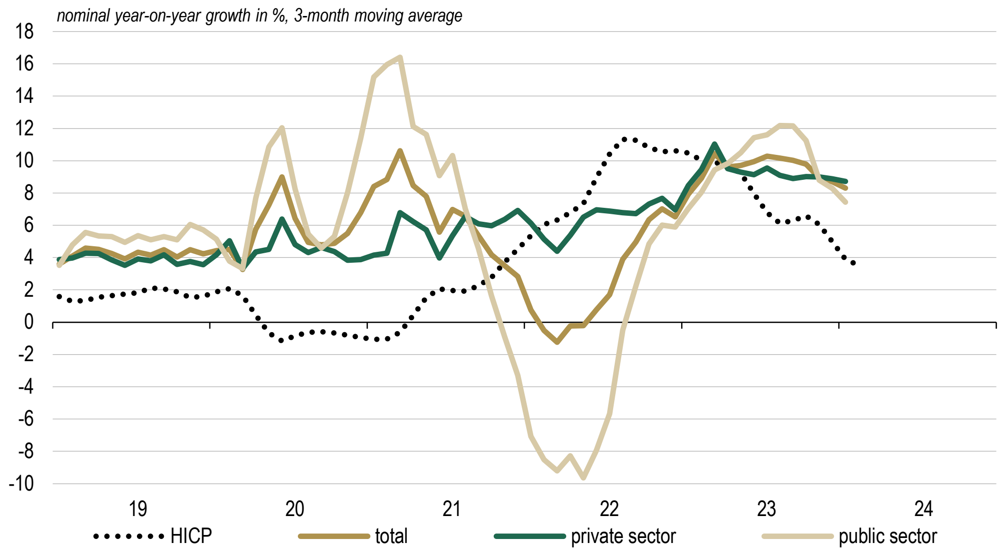
[7] Detached workers are those assigned to work or training abroad. For more detailed information about the change in methodology, see Persons in employment, January 2024.

[8] Construction and manufacturing are the sectors most exposed to changes in methodology.

Amid the tight labour market, wage growth has remained high in the early part of this year.

The average gross wage in January was up 8.1% in year-on-year terms, the rate thus remaining high in the early part of this year, despite slowing. At 6.4% growth in the public sector was significantly lower than the rate in the private sector (8.9%). Within the private sector, growth was most pronounced in industry and construction (10.2%), and slightly lower in private-sector services (7.9%). In the wake of the ongoing fall in inflation and a significant year-on-year decline in the rise in the minimum wage, it is increasingly evident that the tightness of the labour market is the key factor in the high wage growth. Real wage growth also remained very high in January at 4.5%.

Figure 4.2: **Average gross wage per employee**



Sources: SORS, Banka Slovenije calculations; latest data: January 2024

5 Current Account

The foreign trade situation remains uncertain, which is being reflected in a further contraction in merchandise trade, while most segments of services trade are continuing to expand.

In January merchandise exports decreased only 0.8% year-on-year in nominal terms, significantly less than in the final quarter of last year, when the decline stood at 5.3%.[9] The reduction in the decline was mostly driven by increased exports of road vehicles, which were 28.2% higher compared to their level of previous year. After six months of decline, exports of other services and transport equipment[10] were unchanged in year-

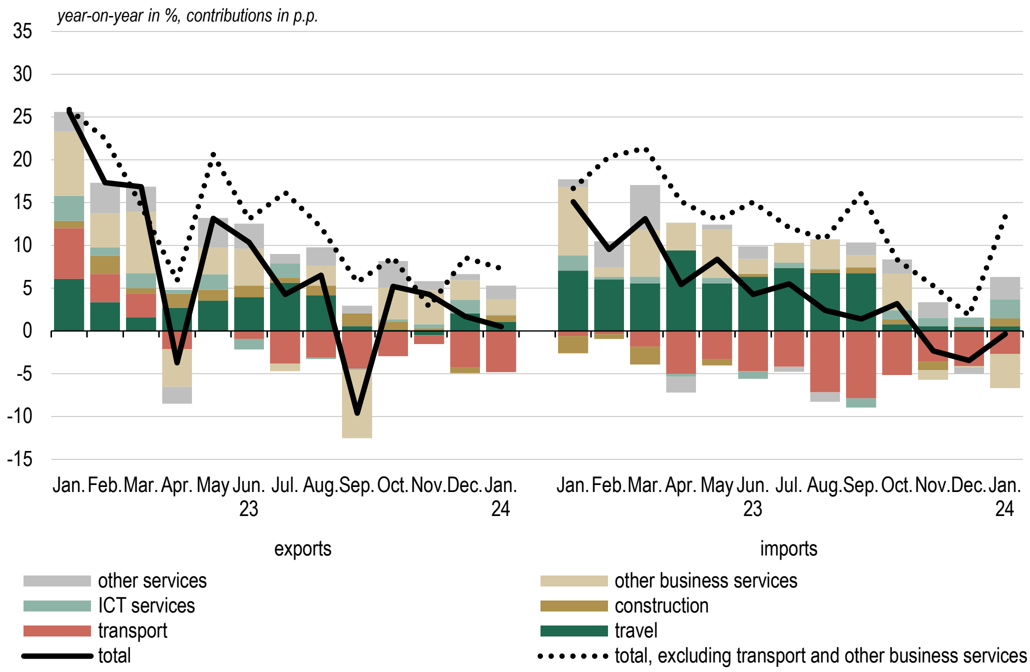
[9] Balance of payments figures.

[10] Excluding exports of road vehicles.

on-year terms. The year-on-year nominal decline in merchandise imports was also approximately half of that observed in the final quarter of last year, at 5.8%, which is the lowest figure since March of last year. The majority of the decline was still being driven by falling energy imports, but imports of numerous other merchandise categories also remained down in year-on-year terms.

The favourable developments in the majority of services trade segments seen at the end of last year continued in January. Nominal year-on-year growth in services exports stood at 7.3%, excluding transport services[11] and miscellaneous business services (see Figure 5.1). The growth was driven in particular by travel services, and to a lesser extent by construction services, exports of which were up just over a tenth in year-on-year terms. Year-on-year growth in services imports excluding transport services[12] and miscellaneous business services[13] picked up even more pace to hit 13.4%, the highest figure since September of last year (see Figure 5.1). Imports of construction services were up a third in year-on-year terms, while imports of ICT services were up approximately a quarter. By contrast, year-on-year growth in imports of travel services had slowed sharply even at the end of last year, and remained relatively low in January at 2.8%. Aggregate services trade in January remained at its level of a year earlier.

Figure 5.1: **Services trade**



Source: Banka Slovenije; latest data: January 2024

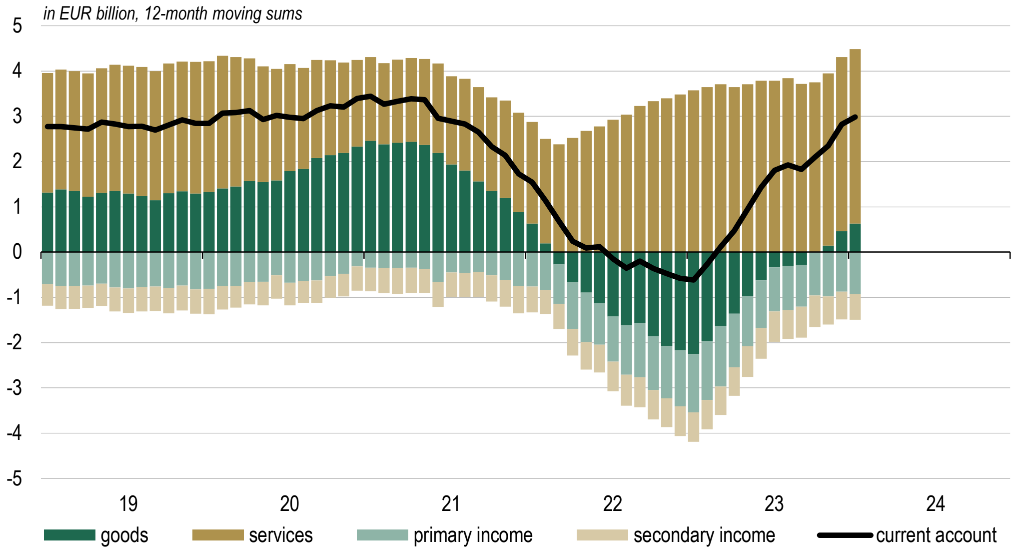
The current account surplus is continuing to strengthen. The 12-month surplus approached EUR 3 billion in January, only EUR 0.5 billion less than its peak from three years ago (see Figure 5.2). The merchandise trade surplus reached its highest level of the last two years (EUR 630 million), while the services trade surplus hit a new record high (EUR 3.9 billion). A narrowing deficit in income was also a factor in the increase in the current account surplus. It amounted to EUR 1.5 billion, EUR 470 million less than in March of last year, when deficit was the deepest to date.

[11] The year-on-year decline in exports of transport services remained at close to 14% in January, the largest figure since September of last year.

[12] The year-on-year decline in imports of transport services diminished to 10.8% in January, the lowest figure since March of last year.

[13] Imports of miscellaneous business services declined in March for the third consecutive month, by 14.4%, the largest figure since April 2019.

Figure 5.2: **Current account**



Source: Banka Slovenije; latest data: January 2024

Box 5.1: **Price and cost competitiveness**

The price competitiveness of the Slovenian economy deteriorated slightly last year, but remained close to its long-term average. Developments were even worse in half of the euro area countries, while in the other half they were better.

Slovenia's price competitiveness measured against 37 trading partners deteriorated last year. It had gradually improved over the previous four years, driven approximately equally by the depreciation in the effective exchange rate of the euro and by domestic final prices (HICP) being outpaced by growth in prices in the trading partners. Adverse exchange rate developments accounted for a third of last year's deterioration in the price competitiveness indicator, which ended the year up 2.4% on a year earlier, while relatively higher domestic inflation accounted for two-thirds (see Figure 5.1.1, left). By the end of the year the indicator had surpassed its pre-pandemic level and also its long-term average.[14] Half of the euro area countries saw an even more pronounced deterioration in price competitiveness than Slovenia last year, while developments in the other half were more favourable.

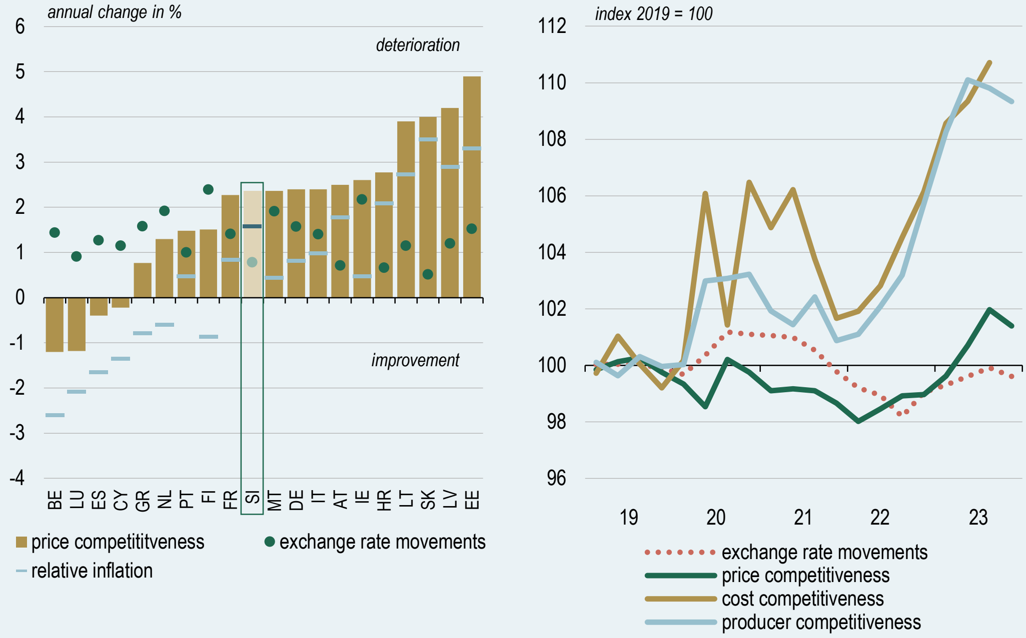
Having also deteriorated for the three previous years (see Figure 5.1.1, right), the developments in production competitiveness (which, in addition to exchange rate developments, takes account of the ratio of producer prices to comparable prices in trading partners) were significantly worse than those in price competitiveness last year. It was 6.2% worse on average last year than in 2022, primarily on account of an uptick in the price ratio. Production competitiveness was also down almost a tenth compared with 2019, and down 7.0% on its long-term average.

[14] The long-term average in this box relates to the period since 1995.

Figure 5.1.1: **External competitiveness indicators vis-à-vis 37 partner countries, with the emphasis on price developments**

Price competitiveness of euro area members, 2023

External competitiveness of Slovenia



Sources: ECB, Banka Slovenije calculations

Note: In the left chart the RHCI (HICP) reflects price competitiveness, while the NHCI reflects exchange rate developments vis-à-vis a basket of currencies of trading partners, and the ratio between the two signifies relative inflation. In the right chart the NHCI reflects the exchange rate developments vis-à-vis a basket of currencies of trading partners, while the RHCI (HICP) reflects price competitiveness, RHCI (PPI) reflects production competitiveness, and the RHCI (ULCs) reflects cost competitiveness. A rise in the indicators means a deterioration in competitiveness, and vice-versa.

Developments in the cost competitiveness of the Slovenian economy were among the worst in the euro area last year, thanks in particular to the high growth in unit labour costs.

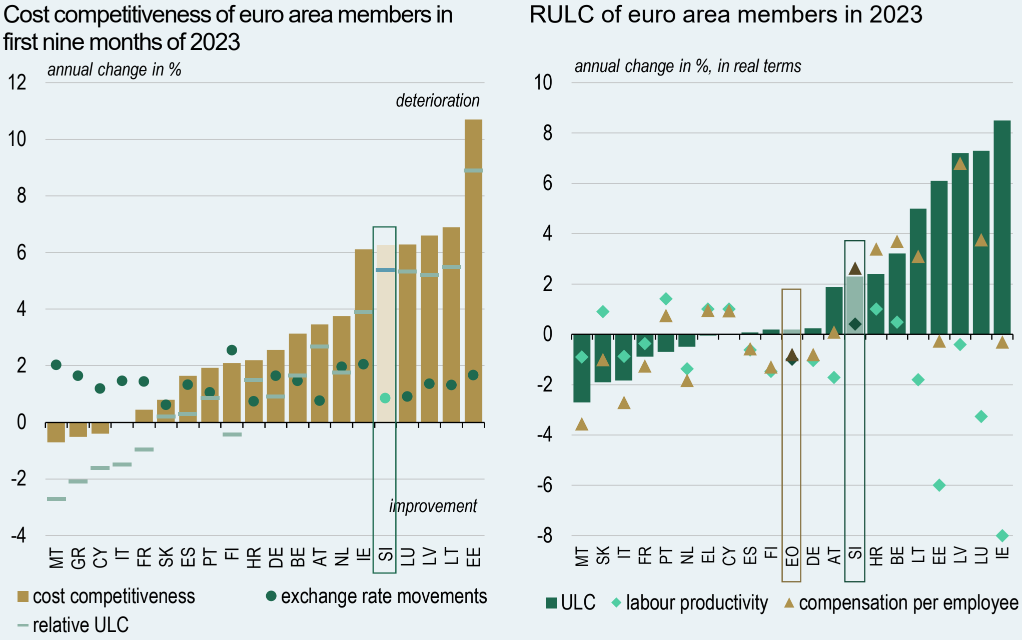
The cost competitiveness of the Slovenian economy vis-à-vis 37 trading partners deteriorated by 6.3% over the first three quarters of last year (see Figure 5.1.2, left). The deterioration was driven for the most part by growth in domestic unit labour costs (ULCs) outpacing the average rate across the partner countries (5.4 percentage points), and to a lesser extent by the appreciation in the effective exchange rate of the euro (0.8 percentage points). The deterioration was one of the largest in the euro area; only the three Baltic states recorded larger deteriorations. In contrast to price competitiveness, the developments in domestic cost competitiveness had been less favourable in previous years, particularly in 2020 and 2021, when production competitiveness also deteriorated, the indicator last year exceeding its pre-pandemic level (from 2019) by a tenth, and its long-term average by approximately 8% (see Figure 5.1.1, right). Only Lithuania and Estonia recorded more pronounced deteriorations over the two comparison periods.

The stagnation in domestic real unit labour costs (RULCs) in the final quarter of last year, which was one of the best results in the euro area, is indicative of a slowdown in the adverse developments in cost competitiveness at the end of the year, and was also attributable to the appreciation of just 0.6% in the effective exchange rate of the euro, one of the most moderate in all euro area countries.

Last year's increase in domestic real unit labour costs outpaced the euro area overall in both the private and public sector. The trend in the former has been worse for five years now, and is moving Slovenia away from the euro area average.

RULCs in Slovenia rose by 2.3% on average last year, primarily as a result of real wage growth (2.6%),[15] while labour productivity remained virtually unchanged. RULCs stagnated in the euro area overall: there was a decline in real wages amid a 1.0% decline in productivity. Real wages declined in the majority of euro area countries; only five recorded a larger rise than in Slovenia (see Figure 5.1.2, right). Only Croatia and Latvia recorded higher nominal wage growth than Slovenia.

Figure 5.1.2: **Cost competitiveness vis-à-vis 37 trading partners and real ULCs**



Sources: ECB, Eurostat, Banka Slovenije calculations
Note: In the left chart the RHCI (ULCs) reflects cost competitiveness, the NHCI reflects the exchange rate developments in the euro vis-à-vis a basket of currencies of trading partners, while the ratio between them reflects relative ULCs. The calculation in the right chart is based on GDP. Under the methodology for measuring ULCs, the deflator used to compute real growth in compensation per employee is the same as that used to compute real growth in productivity, i.e. the GDP deflator.

Domestic RULCs saw unfavourable developments in private and public sector activities (see Figure 5.1.3, left).[16] The 3.3% increase in the latter was driven primarily by real wage growth, and also in part by a slight decline in labour productivity. RULCs in the private sector activities rose by just under 1% last year, as real wage growth outpaced the productivity growth of 0.6%. With productivity unchanged, the 0.7% rise in industry[17] was driven solely by wage growth, while the 2.7% rise in RULCs in private-sector services was driven by real wage growth and by a decline in labour productivity (for more on the pass-through of wage growth in the private and public services into final prices, see Box 6.1).

Developments in RULCs in both sectors were more favourable in the euro area overall (see Figure 5.1.3, left). They declined by 0.2% in the private sector activities amid a contraction in real productivity and an even larger decline in wages, while the modest

[15] In this box wages are defined as employee compensation per employee.
[16] The public sector consists of the sectors of public administration (O), education (P) and human health and social work activities (Q), while the private sector consists of all other sectors under the SKD 2008 classification.
[17] Sectors B to E under the SKD 2008 classification, i.e. mining, manufacturing, energy and water supply.

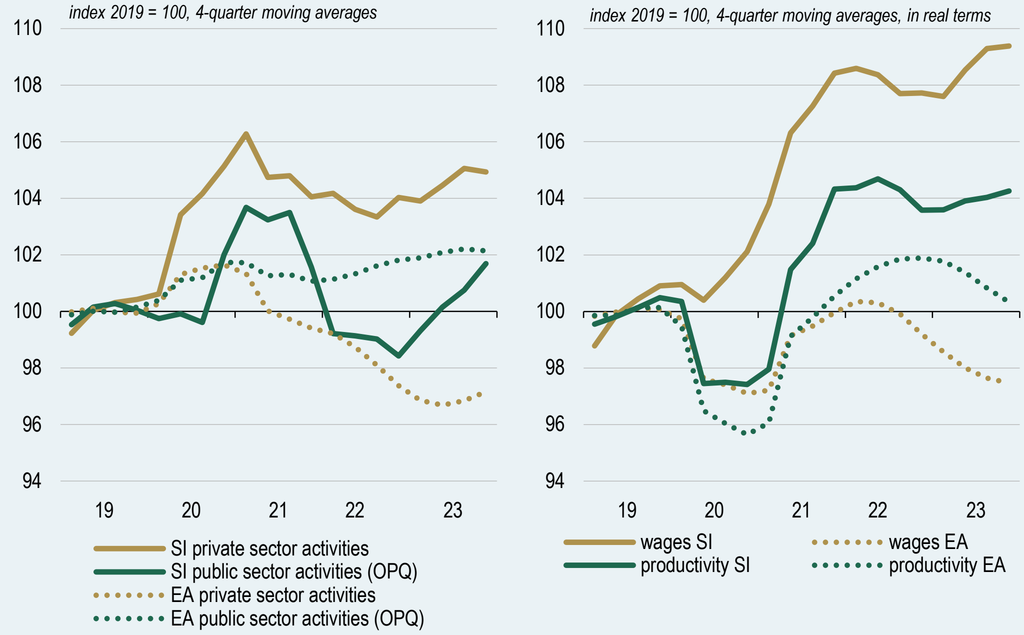
increase of 0.3% in public services was also the result of a decline in both components, productivity recording the slightly more pronounced decline.

Irrespective of last year's larger deterioration in domestic RULCs in the public sector activities, the level in the private sector surpassed its pre-pandemic level by significantly more, the developments having been less favourable in the previous years, particularly at the outbreak of the pandemic and amid the resulting fall in value-added, which was not tracked by a commensurate contraction in employment and wages. The trend in the private sector also stands out from the euro area average: domestic RULCs were up almost 5% on 2019, while RULCs in the euro area overall were down around 3%. Amid slightly higher growth in domestic labour productivity, the majority of the gap comes from developments in real wages, which were up almost a tenth in Slovenia, but were down approximately 3% in the euro area overall (see Figure 5.1.3, right).

Figure 5.1.3: **Sectoral breakdown of real ULCs**

RULC in private and public sector activities

Wages and productivity in private sector actitivities



Sources: Eurostat, Banka Slovenije calculations
Note: A rise in the indicators in the left chart shows pressure on competitiveness, and vice-versa. Wages in the right chart are defined as compensation of employees per employee.

Box 5.2: **Net financial position and external debt**

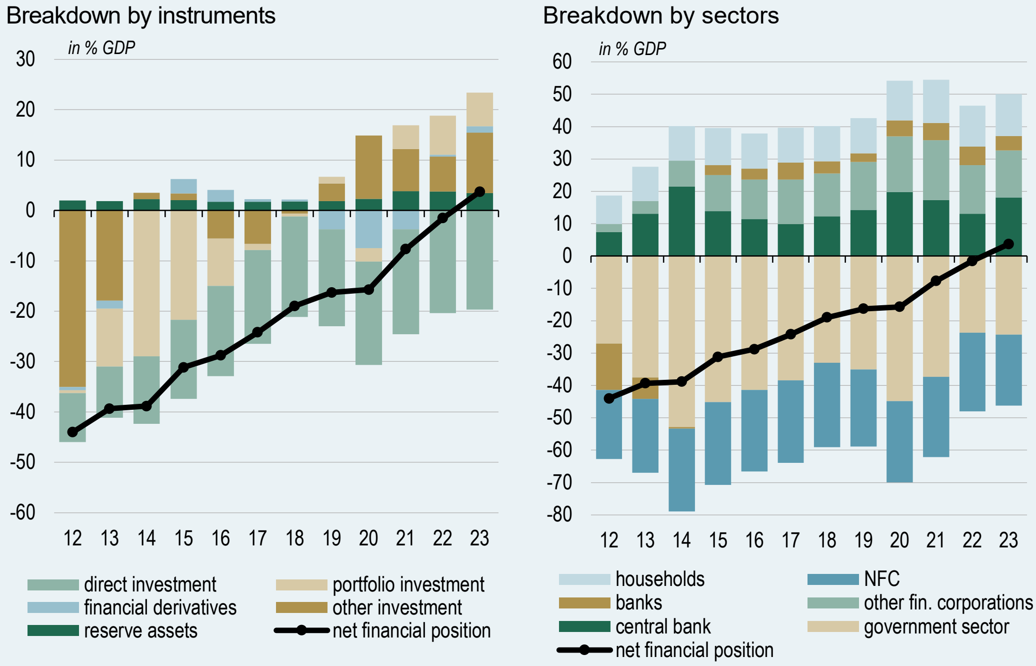
After two decades, Slovenia once again became a net creditor of the rest of the world last year, in the amount of EUR 2.3 billion or 3.7% of GDP.

Slovenia's net financial position against the rest of the world moved into positive territory last year. A surplus in domestic saving over investment had seen it gradually reduce its negative net financial position against the rest of the world over the preceding decade, which was deepest in 2012 at EUR 16 billion or 44.0% of GDP (see Figure 5.2.1, left). Last year the increase in residents' outward investments (EUR 11.0 billion) again outpaced the increase in Slovenia's external liabilities, i.e. non-residents' inward investments (by EUR 7.7 billion). The year-on-year improvement in the net external position was mostly attributable to transactions and price changes, although it was slightly curtailed by exchange rate changes in particular. Just under half of the euro area countries disclosed a net creditor position via-a-vis the rest of the world last year alongside Slovenia.

The breakdown by instrument reveals that the largest increase in the net international investment position was in other assets, in the amount of EUR 3.6 billion, primarily in holdings of currency and deposits by the central bank. There were no major changes in other instruments. Only the net financial position in direct investments remains negative at the level of the total economy: at EUR 12.4 billion or 19.7% of GDP last year it remained close to its level of the previous year. By contrast, all other instruments have disclosed a net creditor position vis-à-vis the rest of the world over the last two years, most notably securities and other assets, in the amount of EUR 4.2 billion and EUR 7.6 billion respectively (see Figure 5.2.1, left)

Non-financial corporations and the government sector remain net financial debtors to the rest of the world (see Figure 5.2.1, right). The latter slightly increased its net financial liabilities to non-residents to EUR 15.3 billion last year via new borrowing, while non-financial corporations' net debtor position remained practically unchanged at EUR 13.9 billion. The private sector's net claims against the rest of the world strengthened last year, on the part of households and other financial corporations, to stand above EUR 6.2 billion at the end of the year.

Figure 5.2.1: **International investment position**



Source: Banka Slovenije

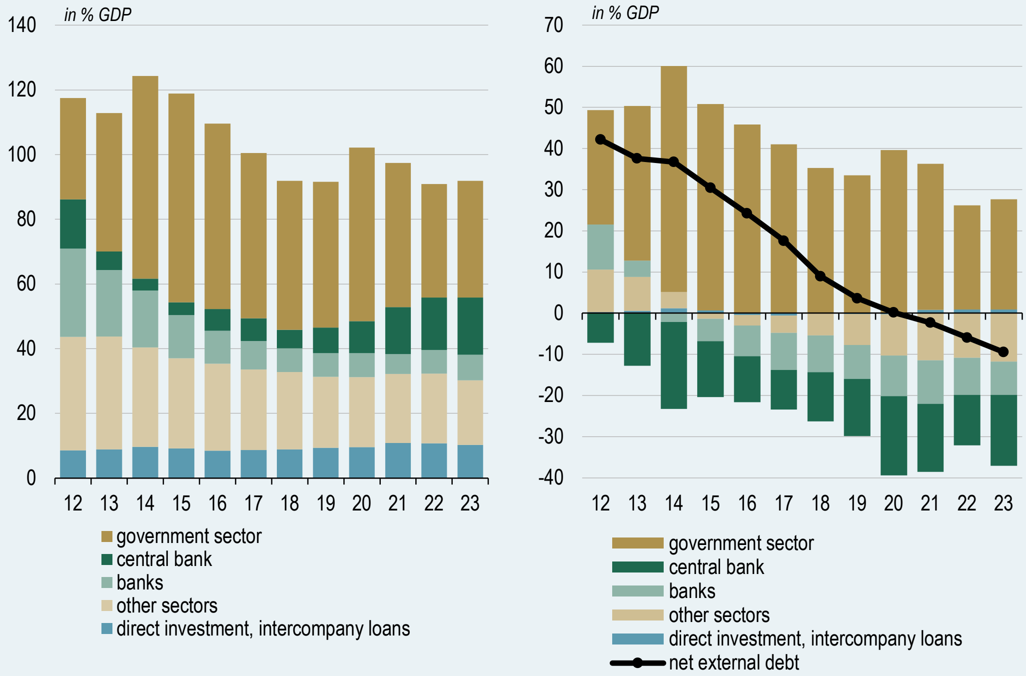
Despite the increase in borrowing in the rest of the world, last year Slovenia ended the year with zero net external debt for the third consecutive year.

Since five years ago, when it began increasing again, Slovenia's gross external debt has risen by more than a third. It amounted to EUR 57.9 billion or 91.8% of GDP at the

Figure 5.2.2: **Gross and net external debt**

Gross external debt

Net external debt



Source: Banka Slovenije
Note: Other sectors consist of households, non-financial corporations and various financial institutions.

end of last year, EUR 15.8 billion higher than in 2018. It increased by EUR 6.1 billion last year, but the solid real economic growth meant that it rose merely by just under 1 percentage point as a ratio to GDP (see Figure 5.2.2, left). In terms of maturity the most pronounced increase was in long-term debt, while in terms of guarantee it was public debt and debt with public guarantee that recorded the largest increase, although private unguaranteed debt also increased slightly.

All institutional sectors increased their external debt last year. The government sector's external debt increased by EUR 2.8 billion to EUR 22.7 billion, but at 36.1% its ratio to GDP remains one of the lowest figures of the last decade (see Figure 5.2.2, left). The banking sector's gross external debt is also significantly less than in previous years: at EUR 5 billion it is merely just over a quarter of its record high from 2008. The total debt of households, non-financial corporations and other financial institutions has been maintained at over EUR 12 billion over the last two years, although its ratio to GDP declined slightly last year. Conversely the central bank's debt increased, and ended the year at just over EUR 11 billion or 17.6% of GDP.

Despite the ongoing increase in residents' borrowing in the rest of the world, last year Slovenia ended the year with zero net external debt for the third consecutive year. This is attributable to growth in external debt claims over the last nine years outpacing liabilities, the latter having actually declined between 2015 and 2018. Gross external debt claims increased by EUR 8.7 billion last year to reach EUR 63.9 billion or 101.3% of GDP. Having amounted to EUR 3.4 billion or 5.9% of GDP at the end of 2022, net external claims in debt instruments increased to EUR 6.0 billion or 9.4% of GDP last year (see Figure 5.2.2, right). The government sector alone remains a net debtor to the rest of the world, having increased its net debtor position by 1.5 percentage points to 26.8% of GDP. By contrast, the private sector slightly strengthened its net creditor position against the rest of the world in debt instruments (to EUR 12.0 billion), leaving the ratio to GDP at the same level as the previous year.

Slovenia ranks as one of the less indebted countries in the euro area in terms of gross external debt. Just under half of the euro area countries hold net external debt claims alongside Slovenia, while the others maintain a net external debt.

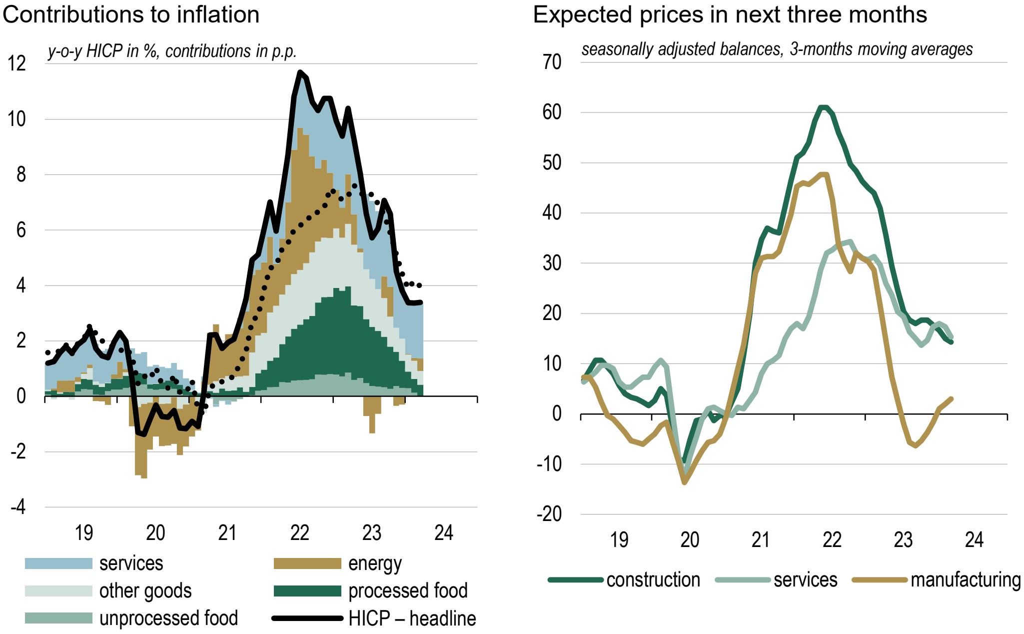
6 Inflation

Inflation remained unchanged in March due to higher contribution of energy prices.

Headline inflation, as measured by the HICP, stood at 3.4% year-on-year also in March, unchanged since January 2024 (see Figure 6.1, left). Compared to February, March's figure shows higher contribution by energy prices while the contributions by food prices and non-energy industrial goods (other goods) have continued to decline. Energy prices rose by 2.1% in monthly terms, taking the year-on-year rise to 3.6%, 2.8 percentage points more than in February. In the absence of a base effect, the increase was primarily attributable to monthly increases in fuel prices.

Food inflation continued to ease, falling to 1.8% in March, which is the lowest figure since December 2021. This reflects waning effects of past price shocks in the energy and food commodity markets which has translated into a slowdown in inflation along production chains, from agricultural input to producers prices. Moreover, high base effects can also explain part of the slowdown in food inflation. Year-on-year growth in prices of processed food slowed to 2.3%, while prices of unprocessed food were unchanged at the annual level, reflecting fall in prices of fresh vegetables related to mild winter conditions in southern Europe.

Figure 6.1: **Domestic price developments and firms' price expectations**

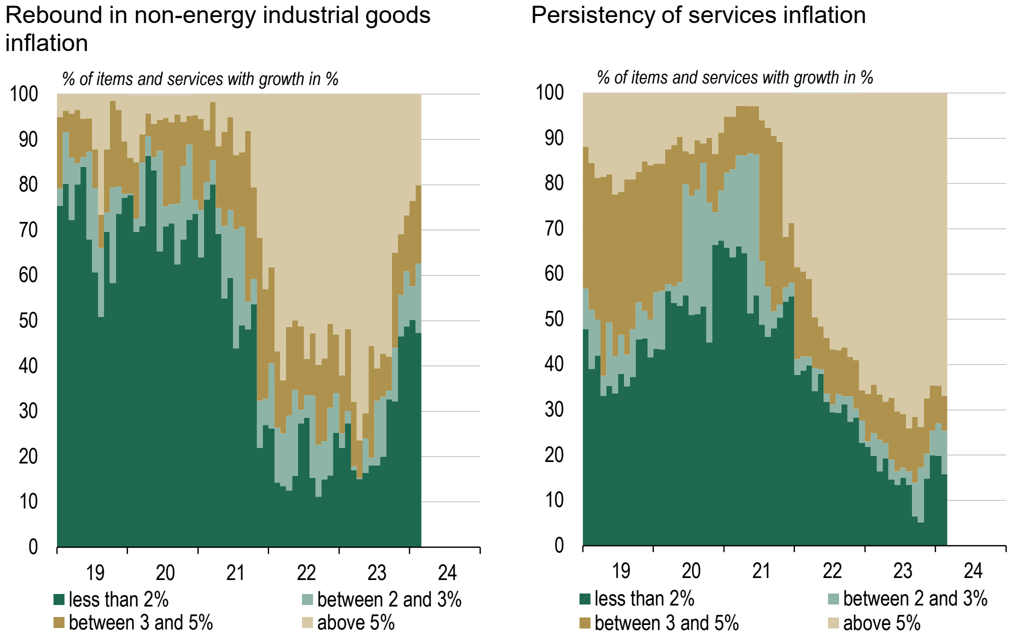


Sources: SORS, Eurostat, Banka Slovenije calculations; latest data: March 2024

Inflation excluding energy and food slowed to 4.0% in March, down from 4.2% in February. The continuation of high services inflation (5.9% in March, up from 5.8% in February) is primarily being reflected in persistently high year-on-year growth rates in the categories of recreation and culture, and hotels and restaurants. At the same time, domestic factors remain being elevated and hence significantly impact services inflation. The labour market tightness is driving wage growth, which poses a risk of more persistent services inflation.[18] At the same time, the data available for the first quarter of this year points to a strengthened demand for services. The impact of domestic inflation factors is also being reflected in the firms' expectations as the services sector is expecting a relatively stronger further rise in selling prices compared to the manufacturing (see Figure 6.1, right).

The year-on-year growth rate in other goods prices slowed to 1.7% (down from 2.3% in February) as price pressures in production chains continued to ease. It accounted for just 0.8 percentage points of the core inflation rate in March. The slowdown started within the durable items, but has now passed on to prices of semi-durable and nondurable items. The differences in the growth rates across the subcategories have remained at around 10 percentage points since the middle of last year. In February, prices of durables were down 2.3% in year-on-year terms while prices of semi-durables were up 3.8%, and prices of nondurables were up 7.5%.[19] The share of items with inflation rate higher than 5% decreased to a fifth, down significantly on last year. Contrastingly, there has been no such recovery in services prices: more than three-fifths of the services basket is seeing inflation of more than 5% (see Figure 6.2).

Figure 6.2: **Core inflation dynamics**



Sources: Eurostat, Banka Slovenije calculations; latest data: February 2024

[18] Box 4.1 of the January 2024 issue of the Review of macroeconomic developments examines the impact of tight labour market on wage growth. Additionally, Box 6.1 of this publication examines the pass-through of wage growth into services prices.

[19] Prices of pharmaceutical products accounted for 3.4 percentage points of the 7.5% aggregate growth in prices of nondurables. They were up 24% on their average in 2021.

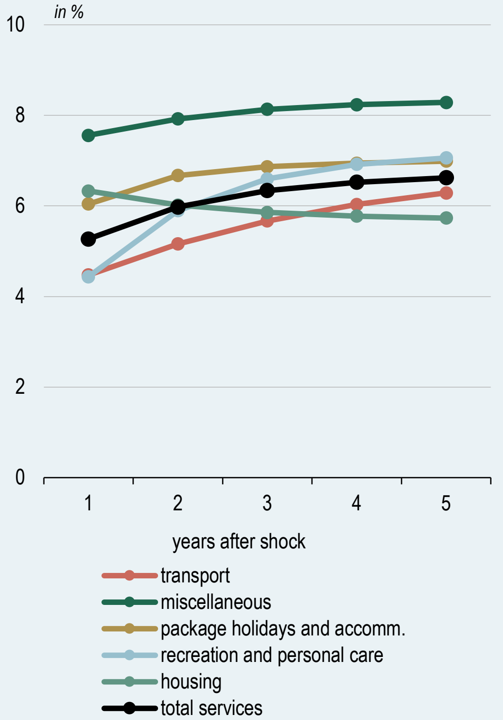
Services inflation will remain elevated this year as a result of the pass-through of higher wages into final prices. Services that are mostly public in nature, including healthcare and education, exhibit strongest responsiveness to wage increases.

With the moderation of global energy and commodity prices, the inflation dynamics has become predominantly driven by domestic factors. This is evidenced in high services inflation, which stood at 5.9% in March and contributed almost 60% to the headline inflation. Compared to the other components of inflation, services are more sensitive to labour market developments. In this box, we explain why services price inflation could remain elevated in 2024, thus slowing down the disinflation process.

The first part of the analysis uses Banka Slovenije's main inflation projection model to estimate the response of the main categories of services to a 10% permanent increase in wages (see Figure 6.1.1, left). The results show that the pass-through of higher wages into final services prices is strongest in the first year after the shock, with an increase of 5.3% over that period, while approximately two-thirds of the rise in wages passes through into final services prices over the course of five years. The aggregate response conceals heterogeneity between subcomponents of services prices. The weakest response to the wage shock in the first year comes from services related to recreation and personal care, and transportation, where the 10% rise in wages leads to a rise of 4.5% in prices during the first year. The pass-through into final prices gradually increases over the following years, reaching just over 60% of the wage rise after

Figure 6.1.1: **Impact of higher wages on services prices and a ratio of services prices to wages**

The response of the HICP Services sub-components to a permanent 10% wage increase shock



Services prices and wages

Sources: SORS, Banka Slovenije calculations. Latest data on the right chart: Q4 2023.
Note: The impact of higher wages on prices in communication activities is not illustrated, as the response is negligible.

five years. Conversely, the response is the strongest for miscellaneous services. They primarily consist of services that are public by nature, including healthcare and education. In this group, more than three-quarters of the rise in labour costs passes through to final prices in the first year after the shock and 83% by the end of the fifth year.

The ratio of prices of public (market) services to wages in the public (private) sector confirms the empirical findings and shows a faster and stronger response in prices of public services (see Figure 6.1.1, right). The ratio of prices of public services to wages in the public sector declined substantially in 2021, which was largely related to the payment of pandemic-related bonuses. This was followed in 2022 by a correction in services prices, which almost entirely compensated for the previous year's decline in the ratio. The renewed wage growth in the public sector again reduced the ratio slightly in 2023. Conversely, the slower pass-through of higher labour costs in the private sector into final prices of market services is reflected in the continued decline in the ratio between them, as growth in the final services prices persistently fell short of past wage increases.

The estimated empirical elasticity and the declining ratio of services prices to wages in private- and public-sector services point to a continuation of high service price inflation in 2024 on the basis of the anticipated adjustment to past rises in labour costs. Services inflation is thus expected to remain a major factor in headline inflation, and will curtail the pace of its reduction this year and next year.

7 Fiscal Position

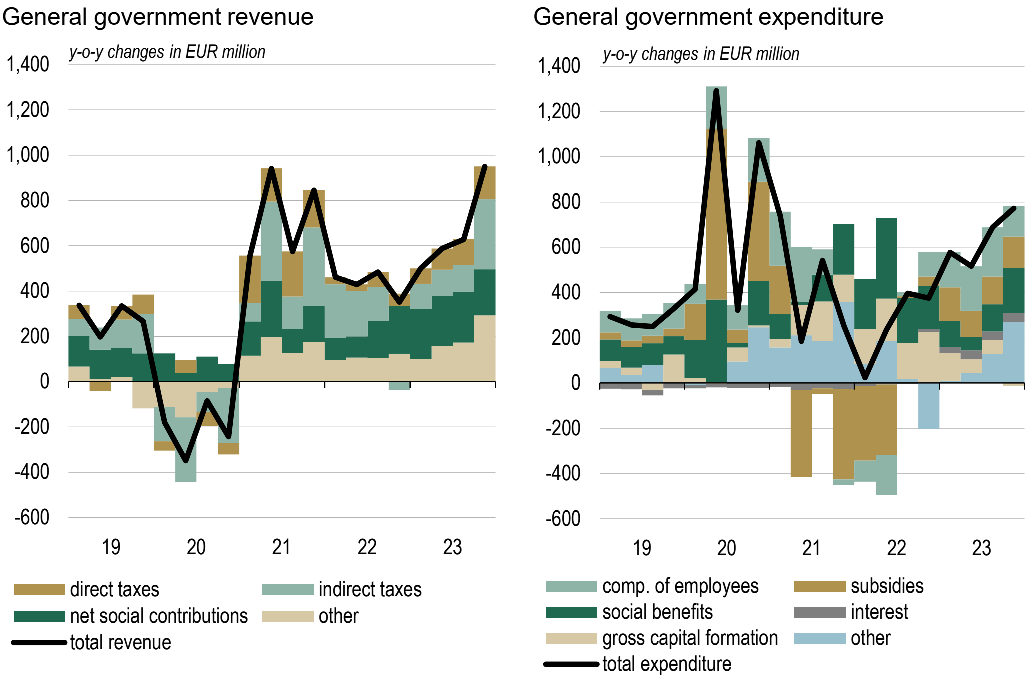
The general government deficit narrowed to 2.5% of GDP last year while support measures were maintained, and the debt as a ratio to GDP also declined.

The general government deficit amounted to 2.5% of GDP last year, having narrowed compared with the previous year (3.0% of GDP). The central government deficit widened slightly to 2.7% of GDP (from 2.6% of GDP in the previous year), while the social security funds and local government saw improvements in their respective positions to balanced and surplus respectively.

General government revenues tracked the rise in nominal GDP by growing 10.6%, an increase on the rate seen in the previous year. Indirect taxes including VAT and excise duties grew faster than the tax base. Personal income tax and social security contributions saw increased growth as a result of the favourable labour market situation, despite legal changes in the area of personal income tax. Growth in corporate income tax stood at 9.3%, also higher than in the previous year. The rise in interest rates brought a sharp increase in interest income (see Figure 7.1, left).

At 9.5%, growth in general government expenditure was slower than the rate on the revenue side. The largest factor in the nominal increase was wages, driven by agreed wage increases. Subsidies and intermediate consumption also made a significant contribution, under the influence of the support measures to mitigate high energy prices and to address the floods. Investment continued to grow as the EU financial framework

Figure 7.1: **General government revenues and expenditure according to ESA methodology**

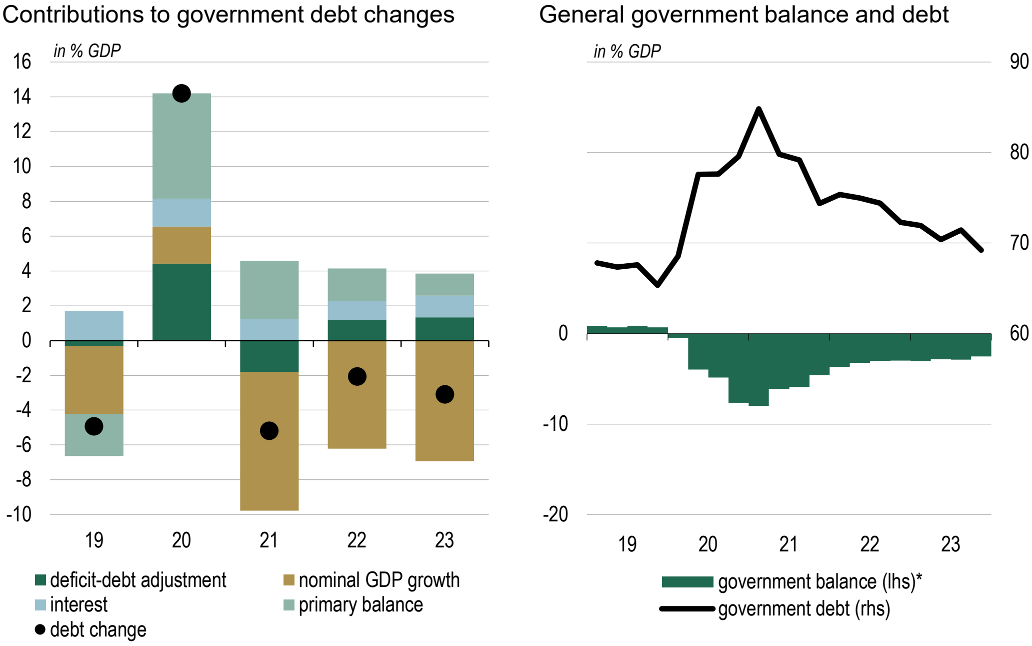


Sources: SORS, Banka Slovenije calculations; latest data: Q4 2023

came to an end, while interest payments also increased, as a result of past rises in borrowing costs (see Figure 7.1, right).

After increasing in nominal terms, the general government debt amounted to EUR 43.7 billion or 69.2% of GDP at the end of the year. Its ongoing decline as a ratio to GDP is attributable to nominal economic growth (see Figure 7.2, left). Monetary policy tightening brought a slight increase in the implicit interest rate calculated as the ratio of interest expenditure to debt to 1.8%. Government borrowing in the first quarter of this year was undertaken at similar interest rates to last year. The government's largest borrowing was via ten-year bonds (issuance of EUR 2 billion with a coupon rate of 3.0%). A bond for citizens was also issued for the first time, which made a positive

Figure 7.2: **Contributions to change in debt, and general government deficit and debt according to ESA methodology**



Sources: SORS, Banka Slovenije calculations; latest data: right chart: Q4 2023
Note: In the right chart * denotes four-quarter moving sum.

contribution to expanding the potential forms of saving available to households, who have traditionally focused on deposits at banks.

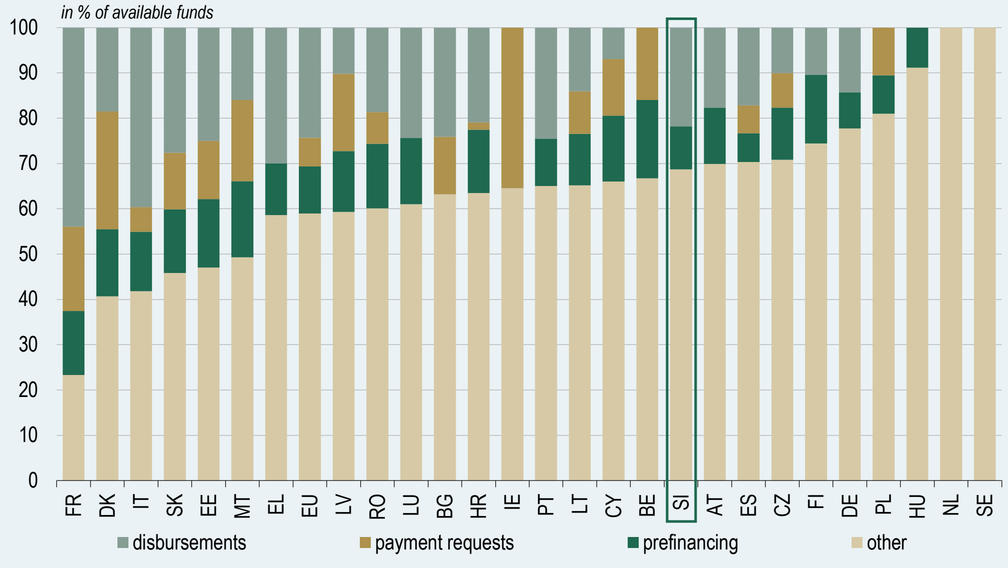
The consolidated government position over the first two months of the year is showing favourable results. The position is improving compared with the previous year, largely as a result of the ongoing rise in tax revenues. The risks to public finances remain high this year, and relate primarily to wage negotiations, the post-flood reconstruction, the planned reforms in several areas, most notably taxation, pensions and healthcare, and the uncertain economic situation, which is subject to major geopolitical tensions.

Box 7.1: **Implementation of recovery and resilience plans in EU Member States**

EU Member States including Slovenia have to date received approximately a third of their RRF funding. To be able to use all the funding, it is necessary to speed up the drawdown in the second half of the implementation period.

EU Member States had received around EUR 225 billion in RRF funding by the end of March of this year, just over a third of the available sources (see Figure 7.1.1). The largest recipient with more than EUR 100 billion is Italy, followed by Spain with EUR 38 billion, France with EUR 23 billion, and Greece with EUR 15 billion. Member states vary considerably in their level of drawdown performance. Italy and France have already disbursed more than half of their available funding, the former having significantly more funding available (see Figure 7.1.2). The Netherlands and Sweden have not yet received RRF funding, and have not yet submitted any payment request.

Figure 7.1.1: **RRF disbursements in EU Member States**

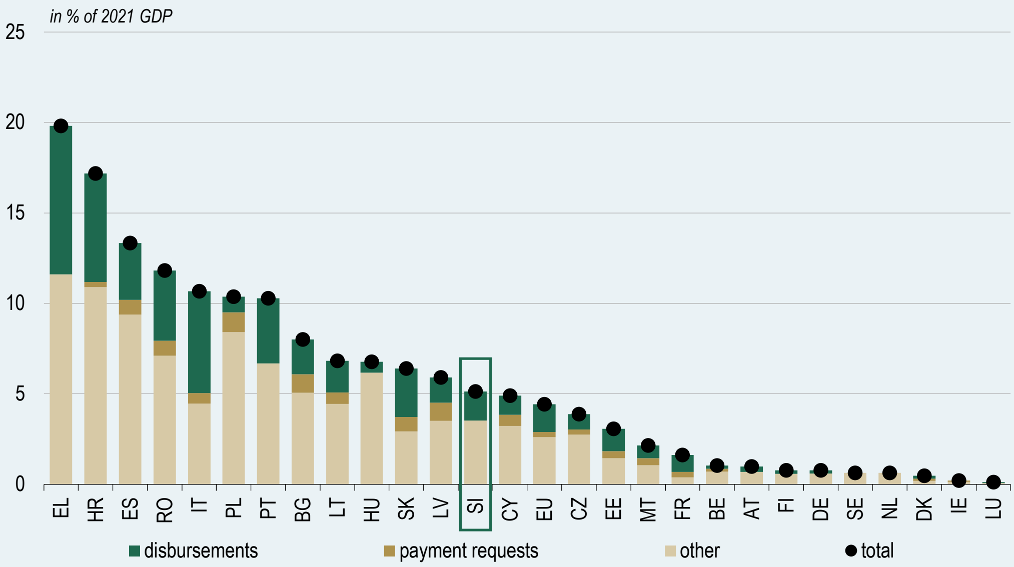


Sources: European Commission (Recovery & Resilience Scoreboard), Banka Slovenije calculations
Note: Countries are ranked in terms of the ratio of disbursements (prefinancing and payments) and requests for payments to total available funding.

Slovenia has to date received close to a third of its RRF funding, slightly less than the EU average.[20] Many countries have already submitted new requests, and a positive assessment would take the total disbursement at EU level above 40%. The majority of Member States need to draw down a larger proportion of their available funding over the remainder of the period. The reforms and investments need to be completed by the end of August 2026, and the payments must be made by the end of 2026.

The RRF funding is having a positive impact on economic activity in the EU. Estimates made by the European Commission's QUEST model indicate that implementation of the NextGenerationEU (NGEU), the largest component of which is the RRF funding, could raise real GDP by up to a total of 1.4% relative to the no-NGEU scenario at the end of implementation in 2026.[21] The estimated impact on Slovenia is slightly higher: implementation could raise real GDP levels by up to 1.9% at the end of implementation.

Figure 7.1.2: **Available RRF funding in EU Member States**



Sources: European Commission (Recovery & Resilience Scoreboard), Banka Slovenije calculations
Note: Countries are ranked in terms of the ratio of their total available funding to GDP.

[20] Within the envelope of the RRF, which also includes REPowerEU, Slovenia has EUR 1.61 billion of grants and EUR 1.07 billion of loans at its disposal. It has received EUR 841 million to date, of which EUR 255 million was prefinancing, EUR 276 million was grants and EUR 310 million was loans. Like in the EU overall, grants account for almost two-thirds of the funding received, and loans for a third. According to official estimates by the European Commission, Slovenia has reached 56 milestones and targets to date out of a total of 205.

[21] European Commission (2024): Mid-term Evaluation of the Recovery and Resilience Facility, Strengthening our Union through ambitious reforms & investments, Institutional Paper 269. The analysis explicitly takes no account of reforms. According to estimates made by the NiGEM model, GDP in the EU was 0.4% higher in 2022 on account of disbursements under the RRF.

8 Statistical Appendix

Table 8.1: Key macroeconomic indicators at the monthly level for Slovenia

	2022	2023	12 m. 'till Jan.24	3 m. 'till Jan.23	3 m. 'till Jan.24	2023 Nov.	2023 Dec.	2024 Jan.	2024 Feb.	2024 Mar.
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	0.6	-3.8	-4.0	-1.1	-4.0	-5.0	-3.8	-3.2	-3.3	-4.3
- confidence indicator in manufacturing	0.0	-8.4	-8.8	-5.3	-8.3	-9.0	-8.0	-8.0	-10.0	-11.0
					year-on-year growth in %					
Industry: - total	1.2	-5.6	-5.3	-6.7	-5.3	-2.2	-11.0	-3.3	...	...
- manufacturing	3.9	-4.5	-4.6	-2.5	-4.2	-2.1	-9.3	-1.9	...	...
Construction: - total	22.2	19.4	17.3	31.4	6.3	13.0	9.0	-6.9	...	...
- buildings	53.4	10.5	7.4	55.4	-0.4	1.1	5.9	-8.7	...	...
Trade and service activities - total	9.8	-0.3	...	4.1	...	0.5	2.7	...	...	...
Wholesale and retail trade and repair of motor vehicl	-0.4	11.0	...	8.1	...	13.3	17.6	...	...	...
Retail trade, except of motor vehicles and motorcycl	7.7	-5.9	...	1.2	...	-3.8	-3.3	...	...	...
Other private sector services	11.8	1.7	...	5.7	...	2.3	4.0	...	...	...
Labour market					*year-on-year growth in %*					
Average gross wage	2.7	9.7	9.5	7.8	8.3	8.1	8.7	8.1	...	...
- private sector	6.3	9.5	9.2	8.4	8.7	9.3	8.0	8.9	...	...
- public sector	-2.6	10.3	10.0	7.0	7.4	5.9	10.0	6.4	...	...
Real net wage1	-5.1	2.2	2.2	-1.1	3.0	3.1	3.8	2.1	...	...
Registered unemployment rate (in %)	5.8	5.0	...	5.5	...	4.8	4.9	...	...	...
Registered unemployed persons	-23.8	-14.0	-13.0	-19.1	-8.7	-10.2	-9.1	-6.8	-6.9	...
Persons in employment	2.4	1.3	1.2	2.0	0.9	0.8	0.6	1.3	...	...
- private sector	3.0	1.4	1.3	2.4	0.9	0.7	0.5	1.4	...	...
- public sector	0.7	0.9	0.9	0.7	1.0	0.9	1.0	1.1	...	...
Price Developments					*year-on-year growth in %*					
HICP	9.3	7.2	6.7	10.5	3.9	4.5	3.8	3.4	3.4	3.4
- services	5.5	7.7	7.5	7.5	6.1	7.1	6.0	5.3	5.8	5.9
- industrial goods excluding energy	6.3	5.4	5.0	6.8	2.6	2.9	2.7	2.2	2.3	1.7
- food	10.6	11.8	10.7	16.4	5.4	7.0	5.6	3.8	2.7	1.8
- energy	24.8	2.2	1.5	16.2	-1.5	-2.2	-2.3	0.1	0.8	3.6
Core inflation indicator[2]	5.9	6.7	6.4	7.2	4.5	5.1	4.4	3.9	4.2	4.0
Balance of Payments - Current Account					*in % GDP*					
Current account balance	-1.0	4.5	4.7	-1.7	4.1	4.1	2.6	5.7	...	...
1. Goods	-3.8	0.7	1.0	-4.2	0.2	-0.6	-0.7	2.0	...	...
2. Services	6.1	6.1	6.1	5.6	5.7	5.8	6.0	5.4	...	...
3. Primary income	-2.2	-1.4	-1.5	-2.0	-1.7	-1.5	-1.9	-1.5	...	...
4. Secondary income	-1.1	-1.0	-0.9	-1.1	-0.1	0.5	-0.8	-0.1	...	...
					nominal year-on-year growth in %					
Export of goods and services	22.9	-1.1	-1.9	11.3	-3.7	-3.4	-6.9	-0.5	...	...
Import of goods and services	29.0	-6.9	-8.0	12.9	-9.4	-7.7	-14.9	-5.0	...	...

Public Finances	2022	2023	12 m. 'till Feb.24		2023 Jan.-Feb.		2024 Jan.-Feb.	
Consolidated general government (GG) balance[3]	EUR mio		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %
Revenue	23,311	25,034	39.8	9.2	3,800	-0.5	4,203	10.6
Tax revenue	20,557	21,977	35.0	8.1	3,424	5.1	3,859	12.7
From EU budget	961	1,084	1.7	25.2	147	-42.5	130	-11.2
Other	1,794	1,973	3.1	14.0	229	-25.2	213	-6.8
Expenditure	24,886	27,311	43.2	11.1	3,679	-0.6	3,985	8.3
Current expenditure	10,283	11,570	18.3	13.6	1,566	0.7	1,695	8.2
- wages and other personnel expenditure	5,481	6,094	9.6	10.7	959	11.1	1,037	8.2
- purchases of goods, services	3,557	3,867	6.2	11.3	487	-0.7	575	18.1
- interest	661	711	1.1	0.7	70	69.9	55	-22.2
Current transfers	11,261	12,048	19.0	8.4	1,821	-1.2	1,958	7.5
- transfers to individuals and households	9,294	9,731	15.4	6.4	1,510	-0.8	1,659	9.8
Capital expenditure, transfers	2,612	3,021	4.8	17.3	175	10.4	237	35.4
GG surplus/deficit	-1,575	-2,277	-3.4		121		218	

Sources: SORS, Banka Slovenije, Ministry of Finance, Banka Slovenije calculations
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 unadjusted. 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.

Table 8.2: Key macroeconomic indicators at the quarterly level for Slovenia and the euro area

	2021	2022	2023	23Q1	23Q2	23Q3	23Q4	2021	2022	2023	23Q1	23Q2	23Q3	23Q4
					Slovenia						*euro area*			
Economic developments							*q-o-q growth in %*							
GDP				0.3	1.1	0.0	1.1				0.0	0.1	-0.1	0.0
- industry				-0.7	1.2	-0.2	0.4				-1.5	-0.2	-1.0	-0.4
- construction				4.2	6.5	2.7	3.6				1.9	-0.5	0.0	-0.2
- mainly public sector services (OPQ)				-2.3	0.9	-0.3	2.7				0.3	0.1	0.1	0.6
- mainly private sector services (without OPQ)				1.0	0.9	-0.2	-0.1				0.1	0.1	-0.1	-0.2
Domestic expenditure				-2.0	-1.1	1.1	2.6				-0.6	0.7	-0.2	0.3
- general government				1.1	0.9	0.6	1.7				-0.4	0.4	0.6	0.6
- households and NPISH [1]				0.4	0.1	0.6	0.4				0.1	0.1	0.3	0.1
- gross capital formation				-3.2	-6.6	4.0	1.9				-2.2	2.6	-1.8	0.4
- gross fixed capital formation				4.3	2.6	1.5	1.1				0.3	0.2	0.0	1.0
							y-o-y growth in %							
GDP	8.2	2.5	1.6	1.1	1.7	1.3	2.2	5.9	3.4	0.4	1.6	0.4	-0.2	0.0
- industry	8.7	-3.1	…	-1.4	2.4	0.6	0.5	8.8	1.2	-1.9	0.3	-1.3	-3.0	-3.3
- construction	10.4	7.2	…	15.1	21.0	18.4	17.3	2.9	1.1	0.6	1.0	-0.3	0.6	1.1
- mainly public sector services (OPQ)	4.1	1.4	…	0.0	1.7	1.7	1.0	3.5	1.9	1.1	1.7	1.0	0.7	1.1
- mainly private sector services (without OPQ)	8.3	4.9	…	2.0	2.7	1.6	1.5	6.3	3.8	0.5	2.0	0.5	-0.3	-0.2
Domestic expenditure	10.1	3.7	-1.2	-2.8	-2.7	-0.3	0.7	4.7	3.6	0.2	0.9	0.3	-0.6	0.1
- general government	6.1	-0.5	2.4	-1.0	3.2	2.4	4.8	4.2	1.6	0.7	-0.1	0.5	1.2	1.3
- households and NPISH	10.3	3.6	1.3	3.4	0.5	0.3	1.2	4.4	4.2	0.5	1.5	0.4	-0.4	0.5
- gross capital formation	13.9	7.9	-9.8	-16.0	-13.9	-3.9	-4.2	6.1	4.1	-1.1	0.4	-0.1	-2.7	-1.7
- gross fixed capital formation	12.6	3.5	9.5	7.7	11.2	9.9	9.1	3.5	2.5	1.1	2.6	1.1	-0.1	0.9
- inventories and valuables, contr. to GDP growth in p.p.	0.4	1.0	-4.4	-6.1	-5.8	-3.1	-2.9	0.6	0.4	-0.5	-0.5	-0.3	-0.6	-0.6
Labour market							*q-o-q growth in %*							
Employment				0.4	0.1	0.1	0.1				0.6	0.1	0.2	0.3
- mainly private sector (without OPQ)				0.4	0.0	0.1	0.1				0.6	0.1	0.2	0.2
- mainly public services (OPQ)				0.3	0.4	0.4	0.4				0.4	0.3	0.4	0.4
							y-o-y growth in %							
Employment	1.3	2.9	1.2	1.8	1.4	1.0	0.7	1.4	2.3	1.4	1.7	1.4	1.4	1.2
- mainly private sector (without OPQ)	1.0	3.1	1.2	1.9	1.4	0.9	0.5	1.2	2.5	1.4	1.8	1.5	1.3	1.1
- mainly public services (OPQ)	2.7	2.0	1.4	1.4	1.5	1.5	1.5	2.1	1.6	1.4	1.4	1.3	1.4	1.5
Labour costs per employee	8.1	5.0	11.8	12.6	13.5	11.0	10.2	4.2	4.5	5.1	5.5	5.4	5.1	4.5
- mainly private sector (without OPQ)	8.1	7.7	…	13.4	13.5	10.3	10.5	4.9	4.8	5.5	6.1	5.6	5.4	5.1
- mainly public services (OPQ)	7.7	-3.1	…	10.1	13.5	13.1	9.1	2.3	3.8	4.0	3.9	4.9	4.4	3.0
Unit labour costs, nominal[2]	1.1	5.4	11.4	13.3	13.2	10.7	8.5	-0.4	3.4	6.2	5.6	6.5	6.8	5.8
Unit labour costs, real[3]	-1.5	-1.0	2.3	1.9	3.7	3.4	0.0	-2.5	-1.3	0.2	-0.9	0.2	0.9	0.5
							in %							
LFS unemployment rate	4.7	4.0	3.7	3.8	3.6	3.9	3.4	7.7	6.8	6.5	6.8	6.3	6.5	6.5
Foreign trade							*q-o-q growth in %*							
Real export of goods and services				1.4	-1.1	-2.5	0.5				-0.5	-1.1	-1.2	0.0
Real import of goods and services				-0.4	-2.6	-3.0	3.0				-1.6	-0.1	-1.4	0.6
							y-o-y growth in %							
Real export of goods and services	14.5	7.2	-2.0	4.0	-0.4	-8.6	-2.3	11.5	7.2	-1.1	3.2	-0.5	-3.6	-3.1
Real import of goods and services	17.8	9.0	-5.1	-0.4	-5.0	-10.6	-4.0	9.2	7.9	-1.6	2.0	-0.7	-4.6	-3.0
Current account balance as % of GDP[4]	3.3	-1.0	4.5	0.2	2.4	3.0	4.5	2.3	-0.7	0.0	-0.6	-0.3	0.3	0.0
External trade balance as contr. to GDP growth in p.p.	-1.0	-1.0	2.8	4.1	4.2	1.6	1.5	1.4	0.0	0.3	0.7	0.1	0.5	-0.2
Financing							*in % of GDP*							
Banking system's balance sheet	94.4	90.8	…	88.0	87.3	86.3	…	282.2	277.6	…	275.0	269.6	269.7	…
Loans to NFCs	19.2	20.0	18.0	19.6	19.1	18.6	18.0	37.4	37.0	34.7	36.2	35.7	35.1	34.7
Loans to households	21.6	21.5	20.1	21.0	20.6	20.4	20.1	50.7	48.9	46.1	48.0	47.2	46.5	46.1
Inflation							*in %*							
HICP	2.0	9.3	7.2	9.9	7.9	6.3	5.0	2.6	8.4	5.4	8.0	6.2	5.0	2.7
HICP excl. energy, food, alcohol and tobacco	0.9	5.9	6.7	7.2	7.4	6.9	5.1	1.5	4.0	5.0	5.6	5.5	5.1	3.7
Public finance							*in % of GDP*							
Debt of the general government	74.4	72.3	69.2	71.9	70.4	71.4	69.2	94.7	90.8	…	90.5	90.1	89.6	…
One year net lending/net borrowing of the general government****	-4.6	-3.0	-2.5	-3.0	-2.8	-2.9	-2.5	-5.2	-3.6	…	-3.7	-3.8	-3.4	…
- interest payment [4]	1.2	1.1	1.2	1.1	1.2	1.2	1.2	1.5	1.7	…	1.7	1.7	1.7	…
- primary balance [4]	-3.3	-1.9	-1.3	-1.9	-1.7	-1.7	-1.3	-3.8	-1.9	…	-2.0	-2.1	-1.7	…

Sources: SORS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations

Note: Original figures are used to calculate the year-on-year rates, and seasonally adjusted figures are used to calculate the current rates of growth. The SORS quarterly national accounts figures have not yet been reconciled with the initial annual estimate. [1] The figures for Slovenia are calculated as the difference between the seasonally adjusted figures for aggregate final consumption and government final consumption. [2] Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity. [3] Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity. [4] 4-quarter moving sums.

9 Figures and tables

Figures

Tables

10 List of abbreviations

Abbreviations

BoS	Banka Slovenije
EA	Euro area
EC	European Commission
ECB	European Central Bank
EU	European Union
FARS	Financial Administration of the Republic of Slovenia
Fed	US Federal Reserve System
GDP	Gross domestic product
HICP	Harmonised index of consumer prices
HII	Health Insurance Institute of Slovenia
ICT services	Information, computer and telecommunication services
IMF	International Monetary Fund
NGEU	NextGenerationEU
NHCI	Nominal harmonised competitiveness indicator
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight index swap
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
RHCI	Real harmonised competitiveness indicator
RRF	Recovery and Resilience Facility
RULCs	Real unit labour costs
S&P 500	Standard and Poor's 500
SORS	Statistical Office of the Republic of Slovenia
TARGET	Trans-European automated real-time gross settlement express transfer system
ULCs	Unit labour costs
USD	United States dollar
VAT	Value added tax
ZEW	Centre for European Economic Research

Abbreviations from the standard classification of economic activities (SKD 2008)

A: Agriculture, forestry and fishing, **01** – Crop and animal production, hunting and related service activities, **02** – Forestry and logging, **03** – Fishing and aquaculture; **B**: Mining and quarrying, **05** – Mining of coal and lignite, **06** – Extraction of crude petroleum and natural gas, **07** – Mining of metal ores, **08** – Other mining and quarrying, **09** – Mining support service activities; **C**: Manufacturing, **10** – Manufacture of food products, **11** – Manufacture of beverages, **12** – Manufacture of tobacco products, **13** – Manufacture of textiles, **14** – Manufacture of wearing apparel, **15** – Manufacture of leather and related products, **16** – Manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials, **17** – Manufacture of paper and paper products, **18** – Printing and reproduction of recorded media, **19** – Manufacture of coke and refined petroleum products, **20** – Manufacture of chemicals and chemical products, **21** – Manufacture of basic pharmaceutical products and pharmaceutical preparations, **22** – Manufacture of rubber and plastic products, **23** – Manufacture of other non-metallic mineral products, **24** – Manufacture of basic metals, **25** – Manufacture of fabricated metal products, except machinery and equipment, **26** – Manufacture of computer, electronic and optical products, **27** – Manufacture of electrical equipment, **28** – Manufacture of machinery and equipment n.e.c., **29** – Manufacture of motor vehicles, trailers and semi-trailers, **30** – Manufacture of other transport equipment, **31** – Manufacture of furniture, **32** – Other manufacturing, **33** – Repair and installation of machinery and equipment; **D**: Electricity, gas, steam and air conditioning supply, **35** – Electricity, gas, steam and air conditioning supply; **E**: Water supply, sewerage, waste management and remediation activities, **36** – Water collection, treatment and supply, **37** – Sewerage, **38** – Waste collection, treatment and disposal activities, materials recovery; **F**: Construction, **41** – Construction of buildings, **42** – Civil engineering, **43** – Specialised construction activities; **G**: Wholesale and retail trade, repair of motor vehicles and motorcycles, **45** – Wholesale and retail trade and repair of motor vehicles and motorcycles, **46** – Wholesale trade, except of motor vehicles and motorcycles, **47** – Retail trade, except of motor vehicles and motorcycles; **H**: Transportation and storage, **49** – Land transport and transport via pipelines, **50** – Water transport, **51** – Air transport, **52** – Warehousing and support activities for transportation; **I**: Accommodation and food service activities, **55** – Accommodation, **56** – Food and beverage service activities; **J**: Information and communication, **58** – Publishing activities, **59** – Motion picture, video and television programme production, sound recording and music publishing activities, **60** – Programming and broadcasting activities, **61** – Telecommunications, **62** – Information technology service activities, **63** – Information service activities; **K**: Financial and insurance activities, **64** – Financial intermediation, except insurance and pension funding, **65** – Insurance, reinsurance and pension funding, except compulsory social security, **66** – Other financial activities; **L**: Real estate activities, **68** – Real estate activities; **M**: Professional, scientific and technical activities, **69** – Legal and accounting activities, **70** – Activities of head offices, management consultancy activities, **71** – Architectural and engineering activities, technical testing and analysis, **72** – Scientific research and development, **73** – Advertising and market research, **74** – Other professional, scientific and technical activities; **N**: Administrative and support service activities, **77** – Rental and leasing activities, **78** – Employment activities, **79** – Travel agency, tour operator and other reservation service and related activities, **80** – Security and investigative activities, **81** – Services to buildings and landscape activities, **82** – Office administrative, office support and other business support activities; **O**: Public administration and defence, compulsory social security, **84** – Public administration and defence, compulsory social security; **P**: Education, **85** – Education; **Q**: Human health and social work activities, **86** – Human health activities, **87** – Residential care activities, **88** – Social work activities without accommodation; **R**: Arts, entertainment and recreation, **90** – Creative, arts and entertainment activities, **91** – Libraries, archives, museums and other cultural activities, **92** – Gambling and betting activities, **93** – Sports activities and amusement and recreation activities; **S**: Other service activities, **94** – Activities of membership organisations, **95** – Repair of computers and personal and household goods, **96** – Other personal service activities; **T**: Activities of households as employers, undifferentiated goods- and services-producing activities of households for own use, **97** – Activities of households as employers of domestic personnel, **98** – Undifferentiated goods- and services-producing activities of private households for own use; **U**: Activities of extraterritorial organisations and bodies, **99** – Activities of extraterritorial organisations and bodies.

Country abbreviations

AT – Austria, **BE** – Belgium, **BG** – Bulgaria, **CN** – China, **CY** – Cyprus, **CZ** – Czechia, **ME** – Montenegro, **DK** – Denmark, **EE** – Estonia, **FI** – Finland, **FR** – France, **EL** – Greece, **HR** – Croatia, **IE** – Ireland, **IN** – India, **IS** – Iceland, **IT** – Italy, **JP** – Japan, **LV** – Latvia, **LT** – Lithuania, **LU** – Luxembourg, **HU** – Hungary, **MT** – Malta, **DE** – Germany, **NL** – Netherlands, **UK** – United Kingdom, **US** – United States of America, **PL** – Poland, **PT** – Portugal, **RO** – Romania, **RU** – Russia, **MK** – North Macedonia, **SK** – Slovakia, **SI** – Slovenia, **RS** – Serbia, **ES** – Spain, **SE** – Sweden, **TR** – Türkiye