BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments

July 2023

Title: Review of macroeconomic developments

Issue: July 2023

Issued by:
Banka Slovenije
Slovenska 35, 1505 Ljubljana, Slovenia
www.bsi.si

Based on data available by 14 July 2023.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of
18 July 2023

ISSN 2820-4751

This publication is also available in Slovene.

Contents

Boxes

Summary

The economic picture for Slovenia varies considerably from sector to sector. The available indicators point to a slowdown in activity in the second quarter. Headline inflation is slowing, but core inflation remains high.

- **Signs of a slowdown in economic activity were prevalent in the euro area at the end of the second quarter.** Following encouraging performance in services in the first months of the second quarter, the survey PMIs and economic sentiment indicators deteriorated in June, with activity slowing in both manufacturing and services. June's decline in new orders is indicative of falling demand, which is also being reported by export-oriented firms in Slovenia. According to the ECB's June projections, the euro area economy is forecast to avoid recession this year, with growth of 0.9%, which is then forecast to strengthen to 1.5% next year. Euro area inflation is slowing down (reaching 5.5% in June), but core inflation remains high (5.4%).
- **Given the high core inflation, market participants anticipate further rises of central banks' key interest rates.** This led to an increase in yields on shorter maturity US and German government bonds. Yields on longer-term government bonds have been mostly range-bound, given the economic slowdown in the euro area and China, and the signs of a slowdown in high core inflation in the US. In the higher-risk asset class space, there was a notable rise in the share prices of US tech firms, particularly of those from the field of artificial intelligence.
- **The economic picture in Slovenia varies considerably from sector to sector.** Developments remain relatively favourable in sectors that are primarily dependent on the domestic market. Construction is being driven by major infrastructure projects, while the labour market is giving employees a significant sense of security amid the continuing high vacancy rate, which is supporting household consumption. This is slowing as the effects of pent-up demand following the end of pandemic wane, but remains at significantly higher levels than before the pandemic. Notable evidence that household consumption remained robust came in the second quarter from the rise in car sales, while real turnover in retail and other private-sector services was down in year-on-year terms. The situation in industry remains challenging, with new orders declining. Industrial production was highly volatile in the second quarter: April's sharp decline was followed by a growth correction in May. Given the considerable uncertainty and divergence in the indicators, the current nowcasts indicate a slight decrease in GDP growth for the second quarter compared to the previous quarter.
- **The labour market remains tight, with employment continuing to rise and unemployment continuing to fall.** The number of persons in employment rose again in April, very nearly hitting its record high from last December, while the survey indicators suggest that employment will rise further over the remainder of this year. The record low unemployment and empty pool of domestic labour is driving firms to recruit workers abroad. Foreign workers currently account for just over 86% of the year-on-year rise in employment. In the very tight labour market, and with inflation stubbornly high, nominal year-on-year growth in the average gross wage remains well above its long-term average.

- **After good performance in the first quarter, international trade saw a deterioration at the beginning of the second quarter.** The decline in merchandise trade in value terms, which was particularly pronounced on the import side, is primarily attributable to the negative contribution by trade in energy and metal industry products. A slowdown was also seen in a significant number of other categories of goods, which is increasingly being reflected in trade in transport services, and thus explains the weaker developments in services trade. The current account has moved into surplus this year, which over the first five months of the year amounted to close to EUR 1.5 billion.
- **Inflation remains elevated in Slovenia.** Headline inflation as measured by the HICP is decreasing, although this is primarily being driven by a negative contribution by energy prices. With domestic price factors playing an increasingly important role, core inflation remains high, and at 7.2% in June had already surpassed headline inflation (6.6%). Food price inflation also remains elevated. The nature of the inflation drivers, which in recent months have become increasingly dependent on the domestic economy, is strengthening calls for greater complementarity of economic policies.
- **The general government deficit widened in the first quarter, while the ratio of general government debt to GDP declined slightly further.** The widening deficit was attributable in part to measures to mitigate the rise in energy prices. These are further reducing growth in revenues, and increasing growth in expenditure. From the perspective of the public finances, revenues have remained under the influence of the favourable labour market conditions this year. Alongside energy measures, growth in expenditure is also being driven by expenditure on compensation of employees, while government investment remains at a high level as the European financial perspective comes to a close. The state budget figures according to the cashflow methodology show a widening of the consolidated general government deficit in the second quarter.

1 International Environment

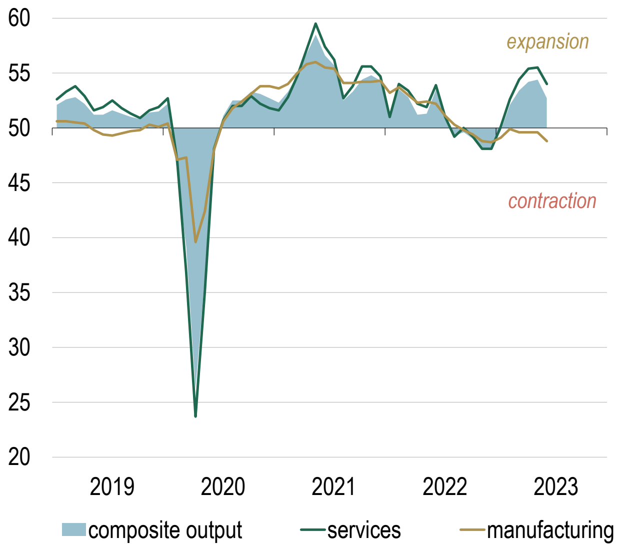
The global economic picture is improving, although there remains a significant gap between growth in services and manufacturing activity.

Despite a decline in June, JPMorgan's composite PMI averaged 53.8 points over the second quarter, up 1.8 points in year-on-year terms and the highest figure of the last year and a half (see Figure 1.1). Growth is still being driven almost entirely by services, where inflation also remains high amid robust demand.

Contrastingly, after four months of growth (driven primarily by the normalisation of the situation in supply chains and the reopening of the Chinese economy following the lifting of containment measures), global industrial output declined slightly in June amid a contraction in new orders. There was also a decline in manufacturing firms' assessments of the situation in the next 12 months, which remain below their long-term average. According to the PMI data, a contraction in manufacturing activity was recorded in June by most of the major economies, most notably the euro area, while growth slowed sharply in China but remained positive.

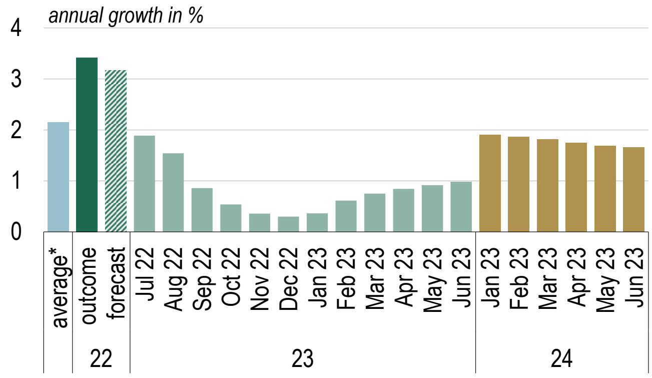
Figure 1.1: **Global economic situation and weighted forecasts for Slovenia's trading partners**

JPMorgan Purchasing Managers' Index (PMI)



Source: Bloomberg. Latest data: June 2023.

Weighted monthly forecasts of GDP growth for Slovenia's trading partners for 2023 and 2024



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 (June 2022-May 2023; 22 trading partners with a total share of 84.8%) and all the other countries as a difference of up to 100%. The growth forecasts for 2023 and 2024 are weighted with the share of each country in the total exports of Slovenia, for other countries the global growth forecast is used. For 2022 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.

Although the economic situation in the first half of the year was better than at the end of the previous year,[1] global GDP growth is projected to slow to 2.7% this year under the influence of soaring inflation and tightening financing conditions, its lowest figure since the global financial crisis (with the exception of 2020). It is forecast to remain similar in 2024 (OECD June economic outlook). All major economies will record slower growth this year, most notably the UK and the euro area. The exceptions are China, where growth is forecast at 5.4%, primarily on account of the lifting of containment measures, and Japan, where it will be slightly higher. The outlook for the export sector in Slovenia remains negative, which is evidenced in the weighted economic growth forecast for Slovenia's trading partners for 2023 and 2024, which in June remained below its long-term average (see Figure 1.1).

The high-frequency indicators point to a stagnation in euro area economic activity in June, following three months of robust growth that had been driven primarily by services.

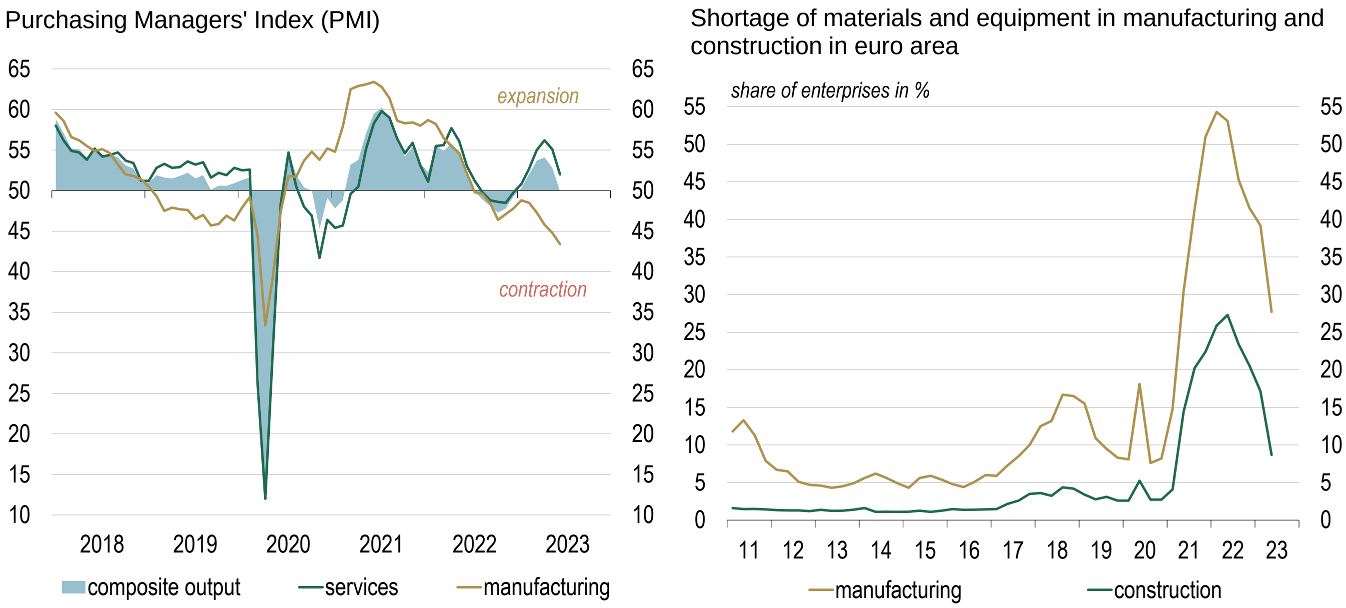
The composite PMI averaged 52.4 points over the second quarter, up 0.4 points on the previous quarter, when euro area GDP contracted by 0.1%.[2, 3] According to the monthly PMIs, economic growth was still encouraging in April and May, but June's decline in the PMI to 49.9 points is indicative of a stagnation in economic activity. The more significant deterioration in the index at the end of the second quarter is attributable to a faster decline in manufacturing and a significant slowdown in growth in services (see Figure 1.2).

[1] The situation in numerous economies improved in the first quarter: GDP in India was up 6.1% in year-on-year terms, 1.6 percentage points more than in the final quarter of last year, and China recorded a similar increase in GDP growth, which reached 4.5%. The rates in the US and Brazil doubled to 1.8% and 4.0% respectively, while the year-on-year contraction in activity in Russia slowed to 1.8%. Conversely year-on-year economic growth slowed in the euro area and the UK, to 1.0% and 0.2% respectively, as a result of rising borrowing costs and stubbornly high inflation.

[2] The ECB's June projections are forecasting quarterly economic growth of 0.3% in the euro area in the second quarter.

[3] The decline in euro area GDP in the first quarter of this year is partly the result of a sharp decline (of 4.6%) in Irish GDP.

Figure 1.2: **Survey indicators of economic developments, and disruption to supply chains in the euro area**



Source: Bloomberg. Latest data: June 2023.

Source: Eurostat, Banka Slovenije calculations. Latest data: Q2 2023.

The latest figures for new orders point to an increased risk of weaker economic activity in the coming months: new orders are declining in manufacturing, while demand for services is also losing its post-pandemic impetus. In light of the weak demand, firms have downgraded their outlook for future output, and they sharply reduced their procurement of input commodities and materials, which is however having a positive impact on (partly) reducing inflationary pressures and shortening supply terms. A shortage of materials remains the prevailing limiting factor in certain sectors (e.g. the German automotive and machinery industry[4]). According to European Commission data, around 28% of firms in the euro area were reporting a shortage of materials in the second quarter, compared with the long-term average of around 7% in the period to 2019 (see Figure 1.2).

The economic sentiment indicator declined further in June to approach its level from the end of last year, when the economy was racked with uncertainty over energy supplies and rising energy prices. Industry, construction, retail and services all saw a decline in confidence, while consumer confidence continued to recover slightly, primarily on account of improved expectations with regard to the general economic outlook and the financial position of households amid the robust labour market.

The medium-term macroeconomic projections for the euro area point to a gradual strengthening in economic growth. In its June projections the ECB is forecasting economic growth of 0.9% this year, 1.5% next year, and 1.6% in 2025. The growth forecasts for this year and next year have been revised downwards by 0.1 percentage points compared with the March projections, while the forecast for 2025 remains unchanged.

[4] Source: Ifo (Ifo shortage indicator shows material scarcity - German Federal Statistical Office (destatis.de)).

Headline inflation is slowing in the euro area, but core inflation remains high. Base effects are playing a significant role in the interpretation of inflation.

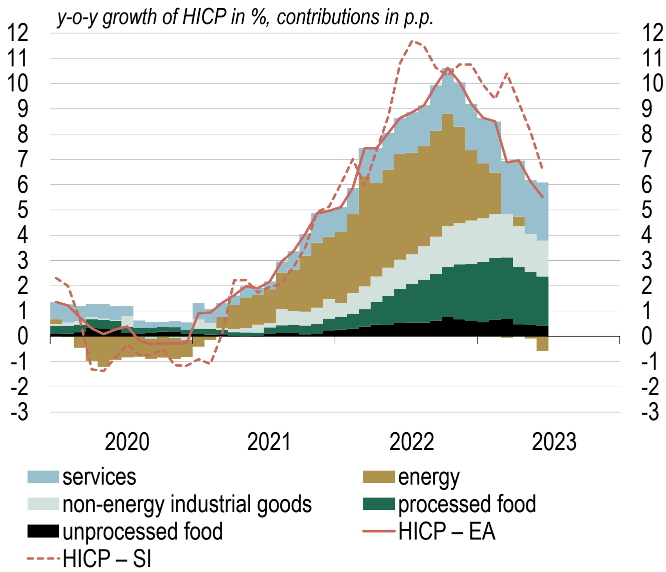
Year-on-year inflation in the euro area as measured by the HICP slowed to 5.5% in June, down from 6.1% in May (see Figure 1.3). The slowdown in headline inflation is attributable to slower growth in all price categories other than services. The largest fall of 5.6% was recorded by energy prices, which slowed headline inflation by 0.5 percentage points. The fall is primarily attributable to a high base effect,[5] but also to a lesser extent to current price falls. Food prices contributed additional 0.2 percentage points to the deceleration of the headline inflation, although their slightly slower growth rate are mainly attributable to base effects and not to current developments, these having outpaced the usual (seasonally adjusted) monthly growth rates.

Core inflation excluding energy and food rose to 5.4%, up from 5.3% in May. There was only a slight slowdown in growth in prices of non-energy industrial goods, an indication that the impact of the past disruptions to supply chains and other price shocks has not yet completely faded away. By contrast, services price inflation is continuing to strengthen: it rose to 5.4% in June, also on account of a base effect in transport services in Germany, which will drop out of the calculation in September.[6]

Amid the expiration of the base effect from significant reduction in electricity prices for households in Slovenia between March and May 2022, the gap between inflation in Slovenia and in the euro area overall narrowed to 1.1 percentage points (see Figure 1.3)[7], with domestic inflation outpacing the euro area average in all non-energy

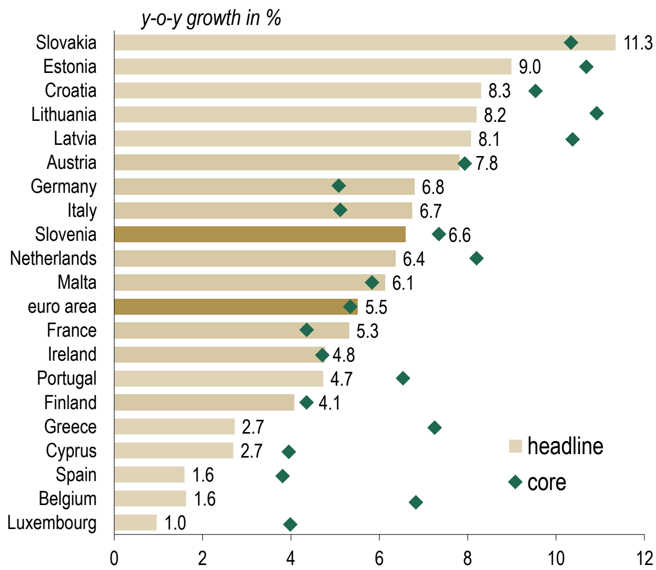
Figure 1.3: **Inflation in the euro area**

Contribution to headline HICP inflation – euro area



Source: ECB, Eurostat, Banka Slovenije calculations. Latest data: June 2023.

Inflation among the euro area members



Source: Eurostat. Latest data: June 2023 for headline, May 2023 for core inflation.

[5] The role of base effects in inflation developments was examined in case of energy prices in Box 4 of the ECB Economic Bulletin (entitled *The role of energy base effects in short-term inflation developments*), which can be found online in ECB Economic Bulletin, Issue 1 / 2017.

[6] The introduction of a 9 EUR monthly ticket for public transport between June and August 2022, together with discounts on fuel prices, reduced services price inflation last year, but will increase it during the same period this year as a result of a low base effect. It is estimated to contribute 0.5 percentage points to the euro area services price inflation.

[7] The statistical office of Netherlands changed its methodology for calculating energy prices, so that from this June onwards it includes existing contracts alongside new contracts. Because global energy prices rose sharply in 2021, and most households had contracts with fixed prices for longer periods, the energy price inflation calculated solely on the basis of new contracts was outpacing actual energy price inflation for households. The change in methodology, which now includes existing contracts, will therefore reduce energy price inflation over the course of one year, before the effect wanes. The impact of the change in methodology on June's headline inflation in the euro area is estimated at approximately 0.15 percentage points.

price categories. In addition, the differences in inflation among the euro area countries are narrowing down, partly because of base effects; nevertheless, they are now increasingly being driven by discrepancies in the core inflation. This is suggesting a growing role of domestic factors in driving headline inflation.

2 Monetary Policy and Financial Markets

Given the high core inflation, market participants anticipate further rises of central banks' key interest rates.

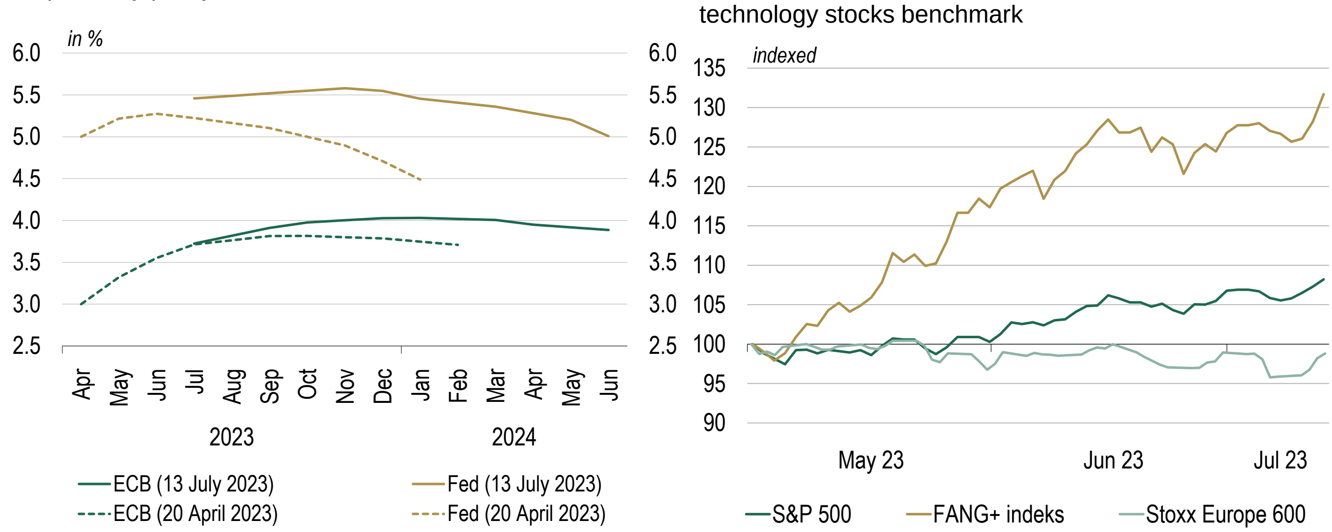
Despite the continuing slowdown in headline inflation, components of core inflation remain stubbornly elevated in the euro area, the UK and numerous other countries, but are showing signs of a slowdown in the US. Certain central banks have therefore continued raising their key interest rates. The Eurosystem raised all three of its key interest rates by 0.25 percentage points in May and June, and has forecast another such rise in July, with subsequent decisions depending on the economic data. After raising its key interest rates in May (by 0.25 percentage points), the Fed left them unchanged in June, but has signalled two further rises this year. The central banks of Australia and Canada are also alternating between rises and holds in key interest rates, while the central banks of the UK and Norway have increased the size of their rises (from 0.25 to 0.50 percentage points).

With the risk of a longer period of high inflation increasing, particularly core inflation, market expectations of the terminal level of leading central banks' key interest rates have also adjusted appropriately. According to the current overnight index swap rate, the markets expect that a rate of at least 4.00% on the ECB's deposit facility will be

Figure 2.1: **Expectations of key ECB and Fed interest rates, and share indices in US and Europe**

Implied key policy rate levels

Main US and European stock market indices and large US technology stocks benchmark



Note: Calculated from Overnight Index Swap (OIS).
Fed data represents the upper bound of the Fed Funds corridor.
Source: Bloomberg, Banke Slovenije calculations.

Note: The FANG+ index consists of ten large US techonology stocks (Apple, Microsoft, Amazon, etc.). Latest data: 13 July 2023.
Source: Bloomberg, Banke Slovenije calculations.

reached in the second half of this year. The terminal level of the Fed's interest rate corridor is expected to reach at least 5.25% to 5.50%, also in the second half of this year (see Figure 2.1).

Investors' strengthening expectations that central banks will lead a restrictive monetary policy for a longer period of time have led to a rise in yields on short-term government bonds.

Since mid-May yields on government bonds have been under the influence of high core inflation and investors' strengthening expectations of a longer period of high key interest rates. This has been reflected in a gradual rise in yields on US and German government bonds of 0.65 percentage points in the aforementioned timeframe. Conversely, changes in yields on longer-term government bonds have been more muted, given the concerns over the cooling economy, particularly that of the euro area and China, and the signs of a further slowdown in core inflation in the US. Yields on US and German government bonds of longer maturities have mostly ranged between 3.35% and 3.85% and between 2.10% and 2.50% respectively since mid-March.

In the higher-risk asset class space the largest gains since the beginning of May have been made by shares of tech firms, particularly of those from the field of artificial intelligence. This encompasses a limited number of US firms with large market capitalisation (the FANG+; see Figure 2.1.), which have accounted for 80% of the rise in the S&P 500 equity index in the US since the beginning of May. By contrast, the main European equity index, the Stoxx Europe 600, fell slightly over the same period. The spreads on private-sector bonds over the benchmark government bonds have fallen since the beginning of May, but are still slightly higher than at the beginning of March, before the markets' scare over the stability of the US banking system.

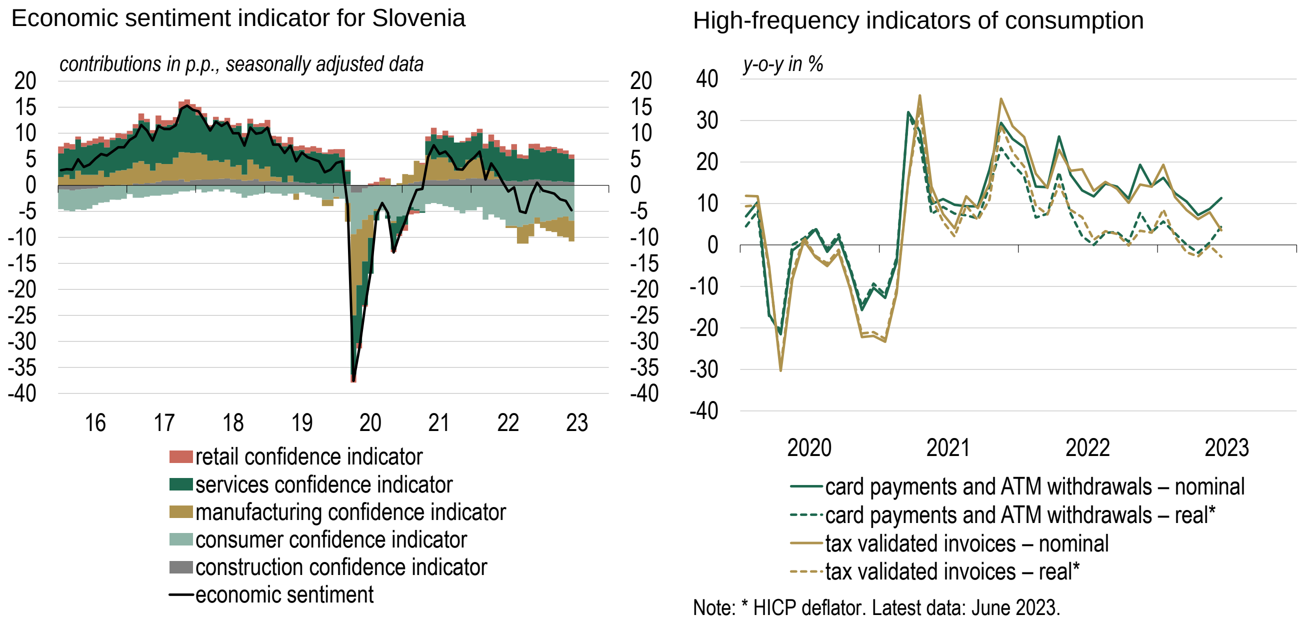
The price of Brent crude rose in July in response to moves by the countries at the heart of the OPEC+ cartel (Saudi Arabia, Russia), which cut production with the aim of maintaining oil prices at their current levels. Another factor was the fall in the value of the US dollar as a result of the continuing slowdown in inflation in the US. Developments in the US banking system drove gold prices up to USD 2,050 per ounce in early May, while since then they have fallen to around USD 1,950 per ounce. This was attributable to the reduced uncertainty surrounding the stability of the US banking system and expectations regarding further rises of the Fed's key interest rates.

3 Domestic Economic Activity

Firms continue to assess demand on the domestic market as relatively favourable, although confidence is declining further in manufacturing.

The economic sentiment indicator has been in negative territory since the beginning of the year, and is gradually declining further. At the end of the second quarter it stood at a similar level to last autumn, when uncertainty was at its highest level since the pandemic (see Figure 3.1). Confidence is down on last year's average level in all sectors

Figure 3.1: **Economic sentiment indicators and high-frequency indicators of consumption on the domestic market**



Source: SORS, Banka Slovenije calculations. Latest data: June 2023.

Note: * HICP deflator. Latest data: June 2023.
Source: SORS, FURS, Bankart, Banka Slovenije calculations.

and among consumers, but remains relatively high in retail, services and construction, i.e. the sectors most dependent on the domestic market, in line with the more cautious but still positive assessments of demand. Consumer confidence remains (traditionally) low.[8] They remain particularly cautious in their assessment of the suitability of major purchases, but continue to be relatively optimistic about their financial situation.

Manufacturing has seen the largest decline in confidence over the last year, despite the improving situation in supply chains, firms having sharply reduced their assessments of current orders and expected orders.[9] Just over a quarter of manufacturing firms were supposedly facing insufficient demand in June, double the level a year earlier, while the assessment of assured production also stood well below last year's average and the long-term average, at four months. Capacity utilisation in the second quarter was also slightly lower than a year earlier (at 84.3%), but still above its long-term average.

Construction activity remains at a high level, while activity in manufacturing, retail and other services was down slightly at the beginning of the second quarter in year-on-year terms.

Real growth in domestic consumption slowed further in the second quarter, but remains at high levels. Real year-on-year growth in card payments and cash withdrawals at ATMs stood at 1.1%, while growth in invoices registered with tax authorities moved into negative territory (–1.9%; see Figure 3.1).[10] The slowdown in consumption is partly

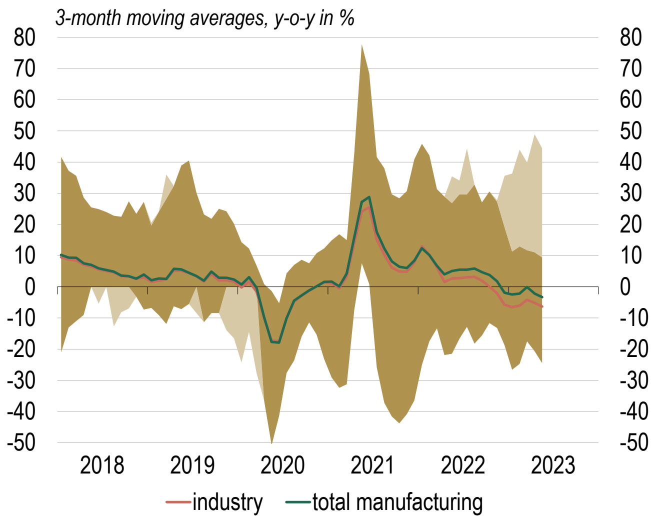
[8] The long-term average of consumer confidence since 1996 stands at –20.8 percentage points in Slovenia, compared with –11.1 percentage points in the euro area overall and –8.6 percentage points in Germany.

[9] The manufacturing order books indicator has been declining unbroken over the last year, and in June reached its lowest level since August 2020. June's manufacturing PMI figures from the Purchasing Association of Slovenia were also unfavourable: the aggregate indicator declined sharply to 38.4 points (the new orders indicator having declined profoundly to 34.4 points). The 50-point mark, which signifies the growth zone, has been surpassed by the aggregate indicator only three times this year, between February and April. The figures are not seasonally adjusted.

[10] The harmonised index of consumer prices (HICP) is used for inflation adjustment.

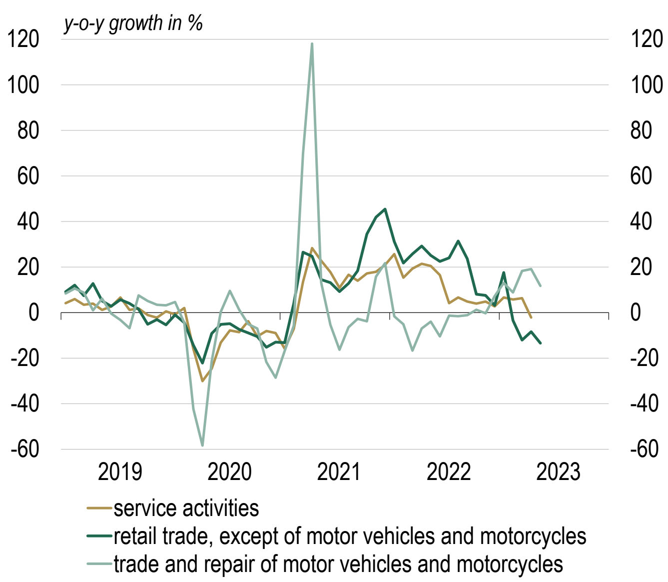
Figure 3.2: **Industrial production and services activity**

Variability of growth rates in manufacturing production



Note: The darker interval shows the growth range excluding manufacture of other transport equipment (C30), while the brighter one adds it.
Source: SORS. Latest data: May 2023.

Volume turnover in trade and services



Source: SORS. Latest data: services – April 2023, trade – May 2023.

attributable to a normalisation as the effects of the rapid post-pandemic recovery wane.[11] After adjusting for inflation, both two high-frequency indicators, card payments and invoices registered with tax authorities, were around 16% and 10% higher respectively in the first half of this year compared with the same period of 2019. A slowdown in household consumption is also indicated by real retail turnover, which in May was down in year-on-year terms for the fourth consecutive month, while car sales remain significantly higher than a year earlier. Turnover in private-sector services was down in year-on-year terms in the early part of the second quarter for the first time since February 2021, but nevertheless remains at historically favourable levels (see Figure 3.2).

Construction activity remains high. The amount of construction put in place over the first five months of the year was up almost a quarter in year-on-year terms on a rising base, with all segments recording relatively similar rates of growth. The survey indicator of time ensured by the current backlog stood at 6.5 months in June, down slightly on the beginning of the year and on last year's average, but the government is planning record investment this year, which is expected to further strengthen the civil engineering segment in particular.

The situation in industry remains challenging. Output remained down in year-on-year terms for the eighth consecutive month in May (by 4.9%), with output in mining, the energy sector and manufacturing all down on a year earlier. The decline in manufacturing stood at 1.8% in May, similar to the average over the first five months of the year (1.9%), although there remains a wide gap between sectors in favour of high-tech firms and to the detriment of low-tech firms (see Figure 3.2). The slowdown in output is also being reflected in this year's real year-on-year decline in merchandise exports and a stagnation in freight vehicle mileage in the second quarter.

[11] Households are also maintaining consumption levels by reducing their saving rate, which at 12.9% in the first quarter remained below its long-term average.

The average nowcast is pointing to a quarterly decline of 0.3% in GDP in the second quarter.

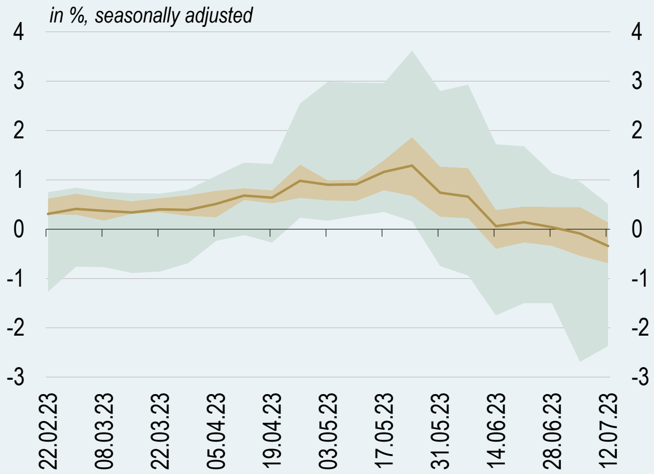
The current nowcast for the second quarter GDP growth stands at –0.3% (see Figure 3.1.1).[12] This figure highlights the adverse developments in the majority of survey indicators over the entire second quarter and the deterioration in economic activity indicators in April. On a positive note, May witnessed a recovery in industrial production, and the labour market remains robust. These trends are reflected in the chart displaying the distribution of nowcasts (see Figure 3.1.1).

In addition to the negative developments in economic sentiment throughout the second quarter, the nowcast for quarterly economic growth is primarily influenced by a significant monthly decline in the three most important economic activity indicators in April. Industrial production saw a drop of 8.7%, mainly due to a decline in activity in manufacturing and in electricity, gas, steam and air conditioning supply. Additionally, the decline of 6.6% in the construction put in place was broad-based, while turnover in services and retail trade experienced a 2.6% decline.

The substantial variation in activity levels between and within different sectors is evident in the wide distribution of the nowcasts. Based on the available information, there is a slightly elevated risk of growth being lower than the current average nowcast. Many models still suggest that economic activity remains at similar levels to the first quarter.

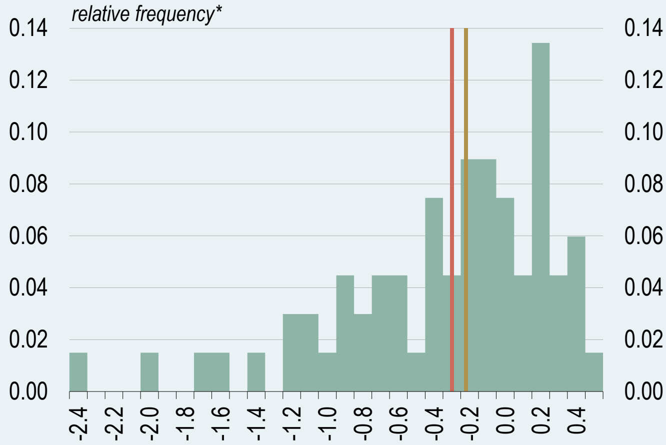
Figure 3.1.1: **Technical nowcast for GDP growth**

Model estimates of quarterly GDP growth – Q2 2023



Note: The graph shows model estimates of quarterly GDP growth. The darker interval represents values between the 25th and 75th percentiles of all estimates. Average model estimate of quarterly GDP growth rate is represented by the line. Date of estimate: 12 July 2023.
Source: Banka Slovenije calculations.

Histogram of quarterly GDP growth rate forecasts – Q2 2023



Note: Distribution of model estimates of quarterly GDP growth in Q2 2023. The vertical gold line shows the median and red the average of all estimates. Date of estimate: 12 July 2023. * Relative frequency represents the share of models that estimate a certain growth in the entire set of models.
Source: Banka Slovenije calculations.

[12] The nowcast is solely model-based, and does not include any expert assessment of current macroeconomic developments. The set of 67 nowcasting models comprises various dynamic factor models, as well as PC, (U)MIDAS, (B)VAR, ARDL and bridge models. Changes in quarterly GDP growth nowcasts primarily result from the release of high-frequency data during the quarter in question, with model parameter re-estimations contributing to a lesser extent to the fluctuations.

4 Labour Market

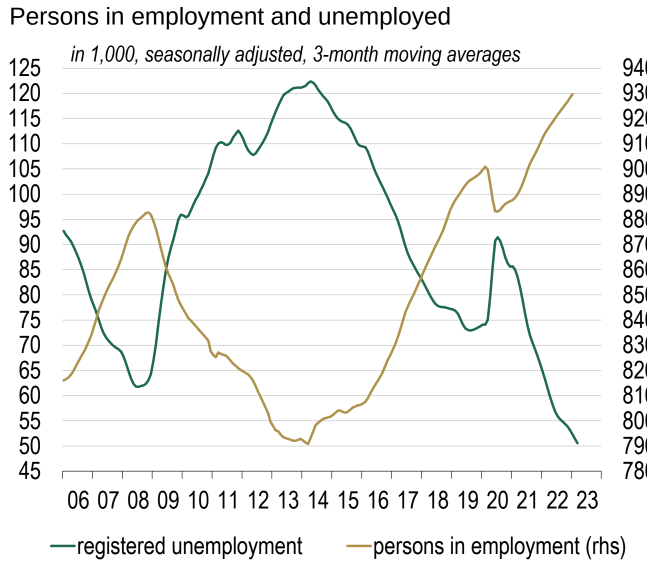
The growth in employment and fall in unemployment continue, keeping the labour market tight.

The workforce in employment[13] increased to 913,334 in April, very close to its peak from December of last year (see Figure 4.1), while the year-on-year increase is high but gradually slowing. It stood at 1.7% in April, the lowest figure since May 2021, but still well above its long-term average. Growth remains broadly based across sectors, and was again highest in construction (5.5%), which accounted for approximately a quarter of the total increase in the number of persons in employment.

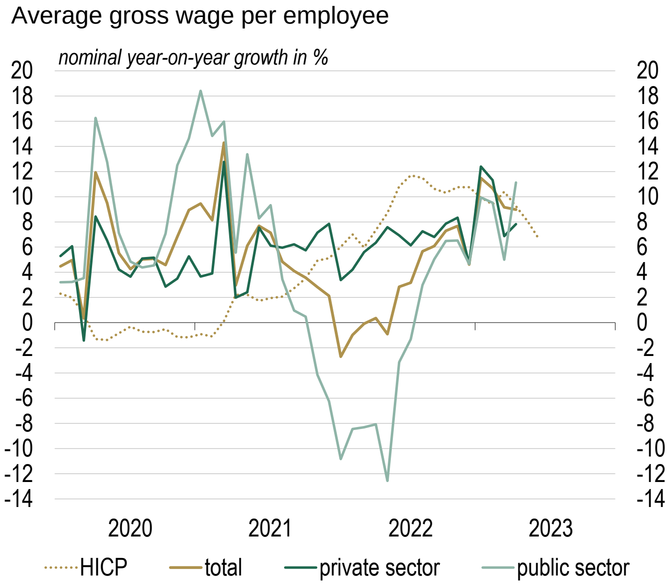
The labour shortages in construction, manufacturing and services all strengthened in the second quarter according to SORS survey data, and remain at record levels in all three sectors. Firms are primarily addressing the shortages on the domestic labour market by hiring foreign workers, who accounted for 86.4% of April's year-on-year increase in the number of persons in employment, fully 28 percentage points more than a year earlier. The SORS survey data and Employment Service data point to further growth in employment in the second half of this year.[14]

Registered unemployment stood at 46,178 in June, reaching a new record low (see Figure 4.1), primarily as a result of seasonal developments.[15] The registered unemployment rate is continuing to fall: it stood at 5.0% in April, down 0.9 percentage points in year-on-year terms. The year-on-year fall in registered unemployment was driven

Figure 4.1: **Selected labour market indicators**



Source: SORS, Banka Slovenije deseasonalisation and calculations.
Latest data: registered unemployment – June 2023, persons in employment – April 2023.



Source: SORS, Banka Slovenije calculations.
Latest data: average gross wage – April 2023, HICP – June 2023.

[13] Excluding self-employed farmers.

[14] According to SORS survey data, firms' employment expectations are gradually slowing this year, while the Employment Service's half-yearly report forecasts hiring in the second half of the year to slightly outpace that in the first half of the year.

[15] See the analysis of the seasonal developments in registered unemployment published in Box 4.1 of the March 2023 issue of the Review of macroeconomic developments.

primarily by new hires among the long-term unemployed. The number of people unemployed for at least one year declined by fully 27.2%, while the number of people unemployed for less than a year remained unchanged.

Amid a tight labour market and persistently high inflation, nominal growth in the average wage remains high.

Nominal year-on-year growth in the average gross wage stood at 9.0% in April, having slowed slightly compared with the beginning of the year, but remains 5.5 percentage points above its long-term average.[16] The high wage growth is attributable to the adjustment in the minimum wage in line with last year's high inflation, and a broader spread of pressures amid the persistent structural imbalances on the labour market. It is broadly based across sectors, although it is higher in the public sector (11.1%) than in the private sector (7.8%) (see Figure 4.1). The continuing hiring means that year-on-year growth in the gross wage bill also remains high: it stood at 10.1% in April in nominal terms. Here again the rate in the public sector (12.2%) was slightly outpacing that in the private sector (8.9%). After an interruption of one month, real year-on-year growth in the gross wage bill rebounded to a positive 0.7%, which is mitigating the adverse effects of inflation on aggregate household purchasing power.

5 Current Account

The current account surplus is strengthening, much of which is attributable to an improvement in the terms of trade.

Amid weak demand at home and in European markets, the picture in international merchandise trade worsened (see Figure 5.1). After a temporary decline of 3.6% in April, merchandise exports increased in nominal terms in May, albeit only by 1.7%,[17] with the real contraction standing at 2.2% thanks to continuing growth in export prices. The nominal decline in merchandise imports was even larger. It already stood at 3.4% in March, and approached 12% in the early part of the second quarter, the highest figure since the third quarter of 2020.[17, 18] Given the fall in energy prices and commodity prices on global markets, and the effect of last year's high base, the contribution by mineral fuels and lubricants and metal products was as expected extremely negative on both the import and export sides, while a decline in trade was evident in a large number of other categories of goods. Strengthening sales of products from the pharmaceutical and car industries prevented a more significant decline on the export side.

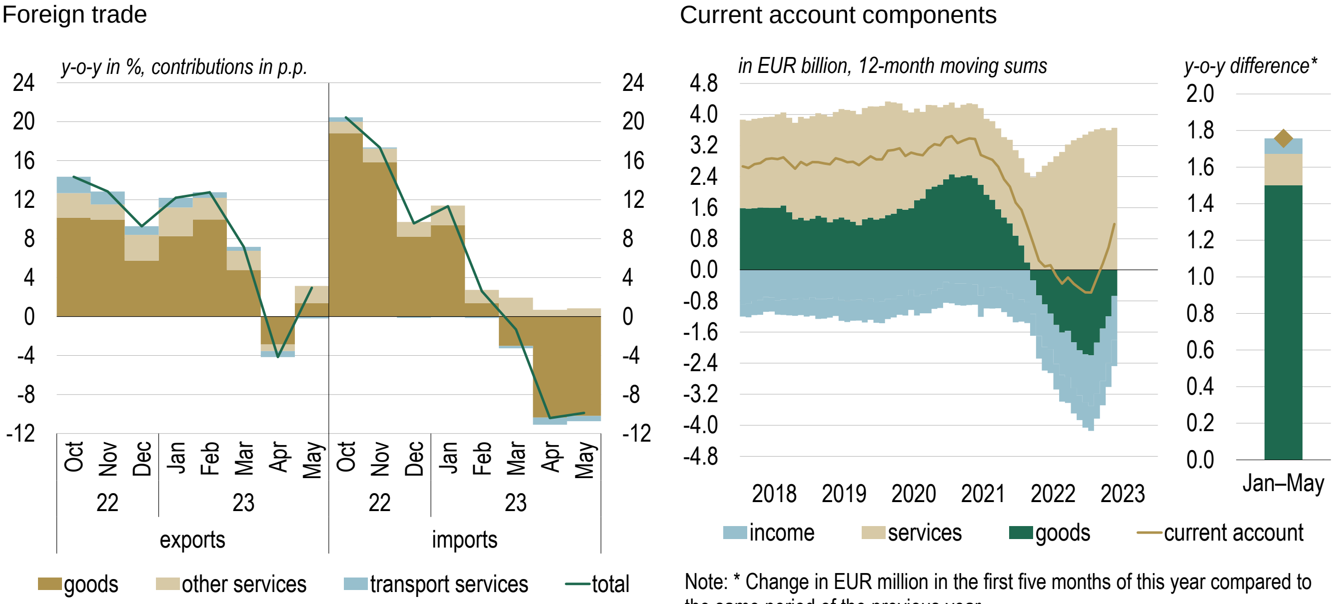
The rapid slowdown in trade in transport services, which closely tracks developments in international trade, led to slower growth in services trade in the early part of the second quarter. Services exports were down 6.3% year-on-year in nominal terms in

[16] The calculation covers the period from 2005 onwards.

[17] Balance of payments figures.

[18] The real decline in merchandise imports was similar, at 11.3%, as a result of negligible or low growth in import prices, which was already negative by May.

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



Source: Banka Slovenije.

Note: * Change in EUR million in the first five months of this year compared to the same period of the previous year.
Source: Banka Slovenije.

April, but this decline was merely temporary: in May they were up 8.3%, significantly less than in the first quarter (16.9%).[19] After stagnating in April, nominal services imports were up 2.4% in year-on-year terms in May, the lowest figure since the beginning of 2021, imports of transport services having declined,[20] and growth in imports of travel services having slowed sharply.[21]

The current account balance, which was in deficit for the majority of 2022, moved into surplus as expected this year, and reached a record EUR 570 million in May. It approached EUR 1.5 billion over the first five months of the year, primarily on account of a reversal in the merchandise trade balance from a deficit of EUR 900 million to a surplus of EUR 600 million, in which the improved terms of trade were a major factor. The services trade surplus also increased, while the deficit in income narrowed slightly. The 12-month current account surplus amounted to EUR 1.2 billion in May, its highest figure for 16 months (see Figure 5.1).

6 Inflation

Amid strengthening domestic factors, core inflation overtook headline inflation, which is decreasing due to energy price inflation in particular.

Year-on-year inflation as measured by the HICP decelerated to 6.6% in June, down from 8.1% in May. The fall is primarily attributable to energy prices, whose contribution

[19] April's decline was primarily attributable to a year-on-year decline in exports of transport services and miscellaneous business services.

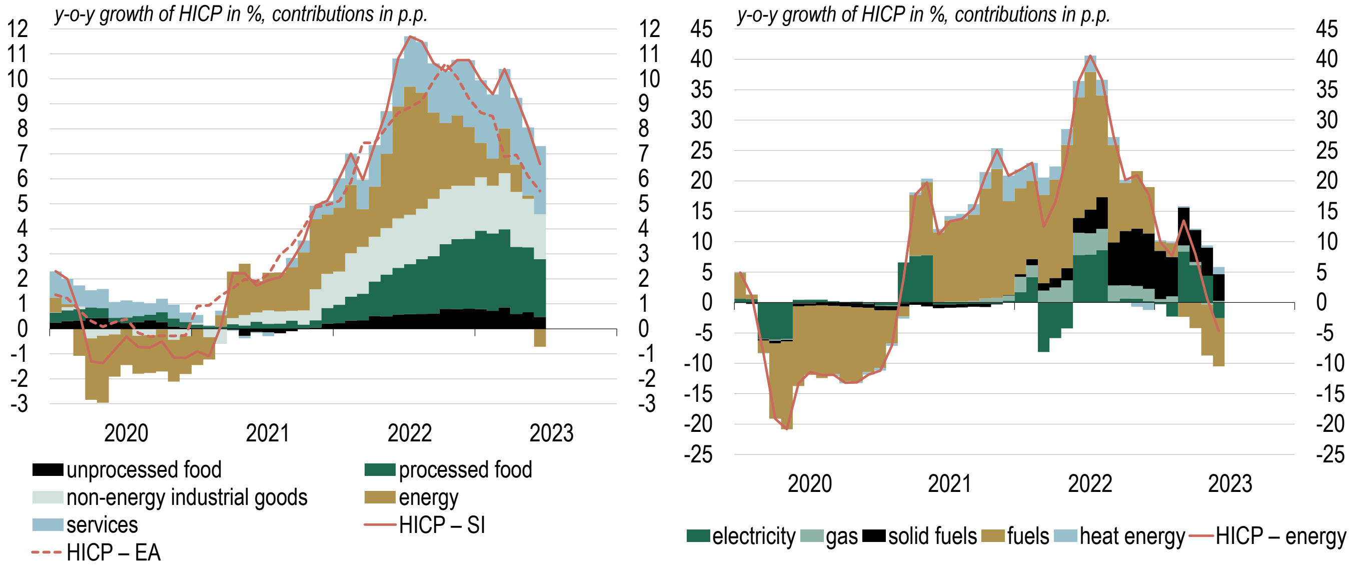
[20] The year-on-year decline stood at 19.0% in April, the largest since October 2009, and at 14.4% in May.

[21] Despite slowing, growth in trade in travel services remained above its long-term average from before the outbreak of the pandemic.

Figure 6.1: **Domestic price developments and contributions to energy price inflation**

Contribution to headline HICP inflation

Contribution to energy inflation



Source: ECB, Eurostat, Banka Slovenije calculations. Latest data: June 2023.

Source: ECB, Eurostat, Banka Slovenije calculations. Latest data: June 2023.

declined significantly this month as a result of a base effect[22] dropping out of the calculation (see Figure 6.1). Although energy prices rose by 4.6% in monthly terms, partly as a result of the return of a higher tax rate on energy for heating, they were down 4.7% in annual terms. This was largely driven by a year-on-year fall in prices of refined petroleum products, which lowered headline inflation by 1.2 percentage points (see Figure 6.1). Food price inflation is also gradually slowing down as the price pressures from energy and other input commodities in production are easing. It moderated to 12.3% in June, owing it to a high base effect too.[23]

Core inflation excluding energy and food reached 7.2% in June, and outpaced headline inflation for the first time since February 2021. It has been exceeding 7% for more than six months now, but with diverging dynamics: the decline in the contribution of non-energy industrial goods prices, following normalisation of the global supply chains, is being more than offset by an increase in the contribution of services prices. Their inflation rate of 8.2 % is an indication that the core inflation is increasingly being driven by domestic price factors, which in addition to the preservation of profit margins also originate in wage growth that is outpacing inflation. Additionally, rising labour costs can also be associated with the high growth in services producer prices as they have been picking up significantly since the second half of 2021. Their annual growth rate stood at 9.0% in the first quarter of this year, the highest figure since measurement began in 2010.

[22] Under the Act on Emergency Measures to Mitigate the Impact of Rising Energy Prices, the government exempted households from paying the contribution for CHP and renewables, and the network charges for the electricity system between 1 February and 30 April. The measures were included in official statistics between March and May 2022, and also had an impact on the calculation of year-on-year inflation between March and May of this year. This can be observed in a substantial increase in the contribution to energy price inflation made by electricity prices over this period, which is also illustrated in Figure 6.1.

[23] The impact of base effects from energy and food prices on inflation in 2023 was presented in Box 2.3.1 of the June 2023 issue of the Review of macroeconomic developments and projections.

7 Fiscal Position

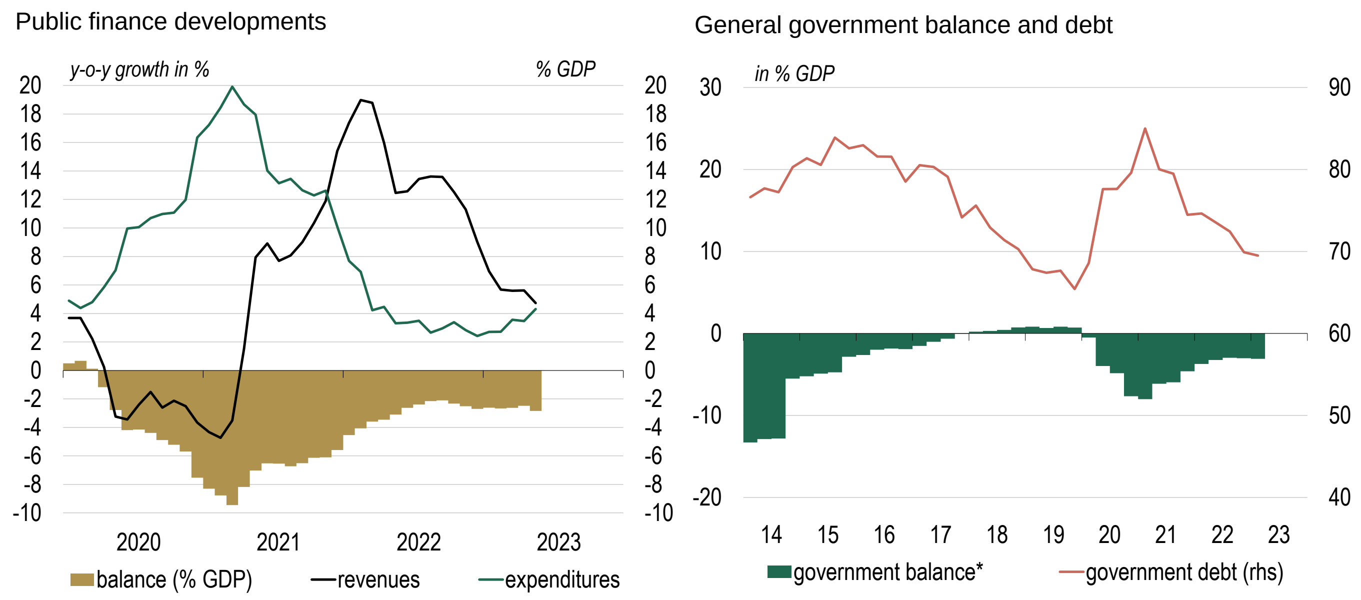
The general government deficit widened slightly in year-on-year terms in the first quarter, while the ratio of debt to GDP declined further as a result of growth in economic activity.

The general government deficit amounted to 3.6% of GDP in the first quarter, slightly more than in the same period last year (3.1% of GDP). The general government debt declined again as a ratio to GDP, reaching 69.5% at the end of the first quarter, although in nominal terms it was up EUR 945 million on the end of last year (see Figure 7.1). Year-on-year growth in general government revenues (8.4%) was higher than last year, primarily on account of high growth in net social security contributions, which reflects the high wage growth. Revenues from personal income tax and corporate income tax also increased more than last year. The strengthened growth in expenditure (9.9%) is primarily a reflection of higher growth in compensation of employees and in subsidies, which include support for firms in mitigating the impact of high energy prices. Growth in investment remains high as the European financial perspective comes to a close.

Current cashflow figures point to a further deepening of the consolidated general government deficit in the second quarter.

The consolidated general government deficit over the 12 months to May amounted to 2.8% of GDP, a similar figure to the end of last year (2.7% of GDP). Growth in general government revenues over the first five months of the year (2.3%) was significantly less

Figure 7.1: **Fiscal position**



Note: 12-month moving sums. Latest data: May 2023.
Source: SORS, Ministry of finance, Banka Slovenije calculations.

Note: * 4-quarter moving sums.
Source: SORS, Banka Slovenije calculations.

than last year (9.0%), albeit primarily on account of a decline in corporate income tax settlements and in measures to mitigate the impact of high energy prices.[24] The latter are the reason that growth in taxes on goods and services is trailing behind growth in nominal household consumption and inflation. The expiry of certain energy measures on the revenue side from May will have a favourable impact on their growth. The main factors in growth in expenditures over the first five months of the year (3.5%) outpacing growth in revenues were wages, investment, and expenditure to mitigate the impact of high energy prices. The state budget figures for the first six months of the year point to a widening of the consolidated general government deficit.

[24] A lower VAT rate on energy products was in force over the first five months of the year, and an exemption from the environmental tax on carbon dioxide emissions was in place until the beginning of May.

8 Statistical Appendix

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

	2021	2022	12 m. 'till Apr.23	3 m. 'till Apr.22	3 m. 'till Apr.23	2023 Feb.	2023 Mar.	2023 Apr.	2023 May	2023 Jun.
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	2.4	0.6	-1.4	3.9	-1.9	-1.3	-1.6	-2.7	-3.0	-4.8
- confidence indicator in manufacturing	8.2	0.0	-4.2	6.0	-6.7	-5.0	-6.0	-9.0	-10.0	-10.0
					year-on-year growth rates in %					
Industry: - total	10.2	1.2	-2.2	1.5	-5.2	-0.9	-4.7	-9.8	-4.9	...
- manufacturing	11.8	3.7	1.1	4.0	-2.2	2.1	-0.9	-7.7	-1.8	...
Construction: - total	-0.5	22.2	24.2	18.0	24.2	17.1	30.2	24.2	24.6	...
- buildings	-23.0	53.4	46.2	44.3	16.7	11.8	29.7	8.1	17.1	...
Trade and service activities - total	12.2	9.8	5.4	14.8	0.8	2.4	2.0	-1.7	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	8.3	-0.4	5.0	-6.9	11.0	9.2	13.4	10.1	...	...
Retail trade, except of motor vehicles and motorcycles	16.2	7.7	1.8	12.2	-6.5	-3.3	-9.0	-6.8	...	...
Other private sector services	12.4	11.9	7.3	19.3	3.9	6.5	5.6	-0.2	...	...
Labour market					*year-on-year growth rates in %*					
Average gross wage	6.0	2.7	6.4	-0.2	9.6	10.7	9.2	9.0	...	...
- private sector	5.9	6.3	8.0	5.4	9.5	11.3	9.4	7.8	...	...
- public sector	6.4	-2.6	3.7	-8.3	9.8	9.5	8.8	11.1	...	...
Real net wage[1]	3.0	-5.1	...	-5.7	...	2.6	-1.3	...	...	...
Registered unemployment rate (in %)	7.6	5.8	5.4	6.3	5.2	5.4	5.1	5.0	...	...
Registered unemployed persons	-12.6	-23.8	-20.6	-26.6	-16.9	-17.6	-16.9	-16.3	-15.5	-14.3
Persons in employment	1.3	2.4	2.0	2.8	1.7	1.8	1.8	1.6	...	...
- private sector	1.3	3.0	2.5	3.6	2.0	2.1	2.1	1.9	...	...
- public sector	1.1	0.7	0.7	1.0	0.9	0.8	0.9	0.9	...	...
Price Developments					*year-on-year growth rates in %*					
HICP	2.0	9.3	10.3	6.8	9.7	9.4	10.4	9.2	8.1	6.6
- services	0.6	5.5	6.7	4.1	7.7	7.8	7.2	8.0	8.2	8.2
- industrial goods excluding energy	1.3	6.3	6.7	5.8	6.9	6.2	7.2	7.2	6.4	6.0
- food	0.7	10.6	14.1	6.6	16.1	16.7	17.3	14.2	14.3	12.3
- energy	11.3	24.8	21.4	17.2	9.6	7.6	13.5	7.9	0.6	-4.7
Core inflation indicator[2]	0.9	5.9	6.7	4.9	7.3	7.1	7.2	7.6	7.3	7.2
Balance of Payments - Current Account					*in % GDP*					
Current account balance	3.3	-1.0	1.0	-3.1	5.0	3.6	5.6	5.7	11.1	...
1. Goods	1.7	-3.7	-2.0	-5.2	1.9	1.1	2.4	2.1	6.6	...
2. Services	4.2	6.0	6.1	5.2	5.2	5.3	5.7	4.8	6.8	...
3. Primary income	-1.4	-2.1	-2.0	-2.0	-1.2	-1.5	-1.9	-0.2	-0.7	...
4. Secondary income	-1.1	-1.1	-1.0	-1.2	-1.0	-1.3	-0.6	-1.0	-1.7	...
					nominal year-on-year growth rates in %					
Export of goods and services	19.4	22.9	17.2	21.9	5.0	12.8	7.2	-4.2	3.0	...
Import of goods and services	25.6	29.0	16.7	35.0	-3.1	2.6	-1.3	-10.4	-9.9	...

Public Finances	2021	2022	12 m. 'till May 23		2022 Jan.-May		2023 Jan.-May	
Consolidated general government (GG) balance[3]	*EUR mio*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	21,383	23,311	39.5	4.7	9,669	12.7	9,893	2.3
Tax revenue	18,786	20,557	35.2	6.3	8,455	12.2	8,851	4.7
From EU budget	950	961	1.5	-18.7	515	37.9	442	-14.2
Other	1,646	1,794	2.8	1.3	699	3.8	599	-14.3
Expenditure	24,300	24,886	42.4	4.3	9,727	-1.2	10,065	3.5
Current expenditure	10,394	10,283	17.6	1.2	4,165	-1.4	4,339	4.2
- wages and other personnel expenditure	5,751	5,481	9.6	4.4	2,169	-11.7	2,392	10.3
- purchases of goods, services	3,351	3,557	6.0	2.8	1,363	9.5	1,374	0.8
- interest	732	661	1.2	5.9	348	-18.5	378	8.7
Current transfers	11,319	11,261	19.1	2.6	4,666	-4.6	4,790	2.6
- transfers to individuals and households	9,168	9,294	15.8	4.1	3,804	-3.9	3,892	2.3
Capital expenditure, transfers	1,959	2,612	4.5	27.2	593	33.6	662	11.7
GG surplus/deficit	-2,917	-1,575	-2.8		-58		-172	

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

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

	2020	2021	2022	22Q2	22Q3	22Q4	23Q1	2020	2021	2022	22Q2	22Q3	22Q4	23Q1
				Slovenia							***euro area***			
Economic developments							***q-o-q growth rates in %***							
GDP				0.7	-1.3	0.7	0.6				0.8	0.4	-0.1	-0.1
- industry				0.5	-1.2	-1.4	1.6				0.6	0.7	0.0	-0.8
- construction				2.0	4.0	3.7	4.3				-0.2	-0.9	-0.5	2.6
- mainly public sector services (OPQ)				0.2	0.1	0.1	-0.2				-0.2	1.1	0.3	0.1
- mainly private sector services (without OPQ)				1.0	-1.1	1.0	0.5				1.0	0.5	-0.3	0.3
Domestic expenditure				-0.2	-3.8	0.0	-0.3				0.8	1.8	-1.2	-0.8
- general government				-3.1	0.1	0.8	0.3				-0.1	0.0	0.8	-1.6
*- households and NPISH**				0.5	0.4	0.2	0.8				0.9	1.3	-1.0	-0.3
- gross capital formation				0.5	-8.8	-5.0	-7.5				1.3	4.5	-3.4	-1.1
- gross fixed capital formation				-0.6	3.8	0.1	3.0				1.0	4.0	-3.5	0.6
							y-o-y growth rates in %							
GDP	-4.3	8.2	5.4	8.6	3.3	0.2	0.7	-6.1	5.3	3.5	4.4	2.5	1.5	1.2
- industry	-3.4	9.2	…	4.2	-0.3	-6.3	-0.7	-6.1	7.2	2.0	2.2	2.5	1.0	0.4
- construction	-1.9	10.0	…	7.7	10.4	15.0	15.2	-5.1	3.6	1.6	2.0	0.5	-0.9	1.0
- mainly public sector services (OPQ)	2.4	3.8	…	2.6	1.5	1.5	-0.4	-2.8	3.5	1.6	1.1	1.3	1.8	1.5
- mainly private sector services (without OPQ)	-5.5	8.3	…	10.0	4.5	1.3	1.4	-6.6	5.6	4.1	5.3	3.1	1.8	1.6
Domestic expenditure	-4.7	9.9	8.0	11.2	3.3	1.2	-4.4	-5.7	4.1	3.8	4.4	3.9	1.0	0.7
- general government	4.1	5.8	0.9	0.8	-0.6	-1.0	-1.9	1.0	4.3	1.4	1.0	0.5	0.7	-1.0
- households and NPISH	-6.9	9.5	8.9	12.9	3.2	2.4	2.2	-7.7	3.7	4.5	6.0	2.5	1.1	1.1
- gross capital formation	-7.1	15.1	12.4	16.7	7.6	0.5	-19.9	-7.2	5.0	4.7	4.0	10.8	1.2	1.5
- gross fixed capital formation	-7.9	13.7	7.8	7.3	8.7	5.9	6.5	-6.2	3.9	3.7	2.9	7.8	0.0	2.4
- inventories and valuables, contr. to GDP growth in p.p.	0.1	0.4	1.1	2.4	-0.2	-1.1	-6.5	-0.3	0.2	0.3	0.3	0.7	0.3	-0.1
Labour market							***q-o-q growth rates in %***							
Employment				0.5	0.2	0.3	0.1				0.4	0.3	0.3	0.6
- mainly private sector (without OPQ)				0.5	0.2	0.3	0.1				0.4	0.4	0.3	0.6
- mainly public services (OPQ)				0.3	0.4	0.3	0.4				0.3	0.2	0.3	0.4
							y-o-y growth rates in %							
Employment	-0.7	1.3	2.4	3.1	2.0	1.6	1.1	-1.4	1.5	2.3	2.7	1.9	1.5	1.6
- mainly private sector (without OPQ)	-1.3	1.0	2.6	3.4	2.1	1.6	1.0	-2.2	1.3	2.6	3.1	2.0	1.6	1.8
- mainly public services (OPQ)	2.2	2.7	1.8	1.8	1.6	1.4	1.5	0.9	2.1	1.5	1.6	1.4	1.3	1.2
Labour costs per employee	3.4	7.9	4.3	3.0	5.5	7.3	11.9	-0.4	3.9	4.3	4.2	3.7	4.8	5.2
- mainly private sector (without OPQ)	1.5	8.0	…	6.7	7.0	7.8	12.5	-1.5	4.6	4.6	5.0	3.8	4.5	5.7
- mainly public services (OPQ)	9.4	7.7	…	-7.8	1.0	5.7	9.9	2.3	2.1	3.6	2.4	3.5	5.5	3.9
Unit labour costs, nominal**	7.3	1.1	1.4	-2.3	4.2	8.7	12.4	4.7	0.0	3.1	2.6	3.1	4.8	5.7
Unit labour costs, real***	6.0	-1.5	-5.5	-7.4	-5.2	-0.5	0.0	2.8	-2.0	-1.4	-1.8	-1.5	-0.9	-0.5
							in %							
LFS unemployment rate	5.0	4.7	4.0	4.2	4.0	3.5	3.8	7.9	7.7	6.8	6.6	6.7	6.7	6.8
Foreign trade							***q-o-q growth rates in %***							
Real export of goods and services				2.8	3.5	-4.5	0.4				1.8	1.2	-0.2	-0.1
Real import of goods and services				0.7	1.6	-4.5	-1.4				1.8	4.1	-2.5	-1.3
							y-o-y growth rates in %							
Real export of goods and services	-8.6	14.5	6.5	9.3	11.9	-2.5	1.9	-9.0	10.7	7.2	8.3	8.1	3.8	3.0
Real import of goods and services	-9.6	17.6	9.8	12.6	12.6	-1.5	-3.8	-8.5	8.4	8.3	8.7	11.7	2.9	2.3
Current account balance as % of GDP****	7.2	3.3	-1.0	0.2	-0.3	-1.0	0.3	1.6	2.3	-0.7	0.6	-0.7	-0.7	-0.6
External trade balance as contr. to GDP growth in p.p.	0.0	-0.8	-2.1	-1.9	0.1	-0.9	5.1	-0.5	1.4	-0.2	0.2	-1.2	0.5	0.5
Financing							***in % of GDP***							
Banking system's balance sheet	98.0	94.5	87.8	88.5	88.3	87.8	85.0	293.3	284.4	279.8	292.5	298.0	279.8	277.7
Loans to NFCs	20.2	19.3	19.4	19.3	19.5	19.4	18.9	39.7	37.7	37.3	37.3	37.6	37.3	36.6
Loans to households	22.8	21.6	20.8	21.1	20.9	20.8	20.3	52.7	51.1	49.3	50.1	49.9	49.3	48.5
Inflation							***in %***							
HICP	-0.3	2.0	9.3	9.0	11.3	10.6	9.9	0.3	2.6	8.4	8.1	9.3	10.0	8.0
HICP excl. energy, food, alcohol and tobacco	0.8	0.9	5.9	5.6	6.4	7.0	7.2	0.7	1.5	4.0	3.7	4.4	5.1	5.6
Public finance							***in % of GDP***							
Debt of the general government	79.6	74.5	69.9	73.5	72.4	69.9	69.5	97.2	95.4	91.5	94.1	92.9	91.5	…
One year net lending/net borrowing of the general government****	-7.7	-4.6	-3.0	-3.2	-3.0	-3.0	-3.1	-7.1	-5.3	-3.6	-3.2	-3.2	-3.6	…
*- interest payment**** *	1.6	1.2	1.1	1.1	1.1	1.1	1.1	1.5	1.5	1.7	1.5	1.6	1.7	…
*- primary balance**** *	-6.1	-3.4	-1.9	-2.1	-1.9	-1.9	-2.0	-5.6	-3.9	-1.9	-1.6	-1.7	-1.9	…

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 figures for Slovenia are calculated as the difference between the seasonally adjusted figures for aggregate final consumption and government final consumption.
** Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity.
*** Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity.
**** 4-quarter moving sums.
Sources: SORS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations.

9 Figures and tables

Figures

Tables