BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments

October 2023

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Title: Review of macroeconomic developments

Issue: October 2023

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

Based on data available by 13 October 2023.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of
19 October 2023.

ISSN 2820-4751

This publication is also available in Slovene.

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Summary

Domestic economic activity is slowing, headline inflation and core inflation remain elevated.

- **Global economic growth is slowing, while in the euro area economic activity has been stagnating for three consecutive quarters.** The short-term indicators for the euro area point a further cooling of the economic activity in the third quarter, with the decline in new orders in manufacturing spilling over into some services. Euro area inflation continues to slow but remains well above the monetary policy target; with headline inflation falling to 4.3% and core inflation to 4.5% in September. According to the International Monetary Fund's latest forecasts, the euro area economy should gradually return to moderate growth next year with the recovery of domestic and foreign demand. The war in the Middle East introduces additional uncertainty into the macroeconomic environment.
- **Increased inflation, which remains above the target levels of central banks, reinforces the expectations of market participants regarding an extended period of high key central bank interest rates levels.** Also contributing to expectations of a protracted period of increased inflation are rising energy prices and the resilience of certain parts of the global economy, particularly the US. As a result, the required yields on longer-term government bonds were up sharply in September, while the value of equity indices was down. Risk aversion increased in the financial markets following the outbreak of war in the Middle East, which resulted in additional growth in energy prices, and a drop in German and US market yields from previously elevated levels.
- **The economic situation in Slovenia remains challenging, particularly in manufacturing.** The output in these activities continued to decline in the summer, with the year-on-year drop deepening further to 10% in August. The construction sector remains in a relatively favourable position and is largely driven by government investment, while private-sector services other than retail are also maintaining activity at last year's level. There is considerable variation in the retail sector: real retail turnover was down by one-fifth in year-on-year terms in August and up by one-tenth in trade and repair of motor vehicles. Tourism also weakened in August, with a significant year-on-year decline in the number of overnight stays by domestic guests, primarily due to severe storms in August. A model estimate based on available data points to a 0.7% contraction in GDP in the third quarter.
- **On a still-tight labour market, the first signs of cooling are being seen in individual sectors, particularly in manufacturing.** According to seasonally adjusted data, the monthly rise in the number of persons in employment and the fall in registered unemployment came to a halt in the third quarter. Year-on-year growth in the number of persons in employment remains robust in services, while stagnation has been noted in the manufacturing sector. Employment expectations indicate a similar trend, as construction and service companies expect employment to continue growing in the months to come. However, there is no such trend evident in the manufacturing sector. At 4.8% in July, the registered unemployment rate remained at historically low levels. In contrast, growth in the average wage remains high and shows no sign of easing, while real wage growth is also strengthening.

- **Year-on-year inflation rose to 7.1% in September, primarily due to a base effect in energy prices.** Government measures adopted last year to mitigate the effects of rising energy prices contributed 1.2 percentage points to this year's inflation in September, and will continue to contribute to year-on-year growth in prices until at least August 2024. The contributions of other price sub-categories are declining. Despite signs of easing, core inflation remains high (at 6.5% in September), and is being driven in particular by the prices of services, where the risk of continued growth derives primarily from high wage growth. The gap between wage growth in Slovenia and the euro area poses the risk of a comparatively longer divergence in inflation, which would lead to a further deterioration in the external competitiveness of the domestic economy. In terms of costs, that competitiveness has further deteriorated this year, but remains relatively favourable in terms of prices compared with other euro area countries.
- **Foreign trade conditions deteriorated during the summer.** The value of exports of goods was down by more than one-tenth in year-on-year terms during the first two months of the third quarter, primarily due to more modest exports to the markets of euro area countries. Year-on-year growth in exports of services was also down, and was hindered in particular by weaker exports of transport services. Despite weak export activity, the current account surplus widened further on account of a sharper fall in imports of goods and services. The terms of trade improved this year until August for the first time in two years under the influence of favourable developments in relative energy and commodity prices, but remain below the average for the period since 2006.
- **The general government deficit rose to EUR 1.1 billion or 3.7% of GDP during the first half of the year, an increase of 0.2 percentage points of GDP in year-on-year terms.** That rise is the result of the increased amount of measures to mitigate the effects of rising energy prices, high growth in government investment, compensation of employees and rising social benefits, while year-on-year growth in economic activity was lower. According to the government's latest estimates, the full-year general government deficit is forecast to reach 4.5% of GDP this year, with a further contribution from the first expenditures linked to the severe weather and floods in August. These are a new challenge for public finances, while the previous two – linked to high energy prices and the epidemic – have not yet disappeared completely. The financing of the flood recovery will take several years, and funding from EU funds is also expected. Despite the year-on-year increase in the deficit, the ratio of debt to GDP is declining, primarily due to growth in nominal GDP. Addressing the current macroeconomic challenges requires the coordination of economic policies to the greatest extent possible, an approach that has produced positive results in the past.

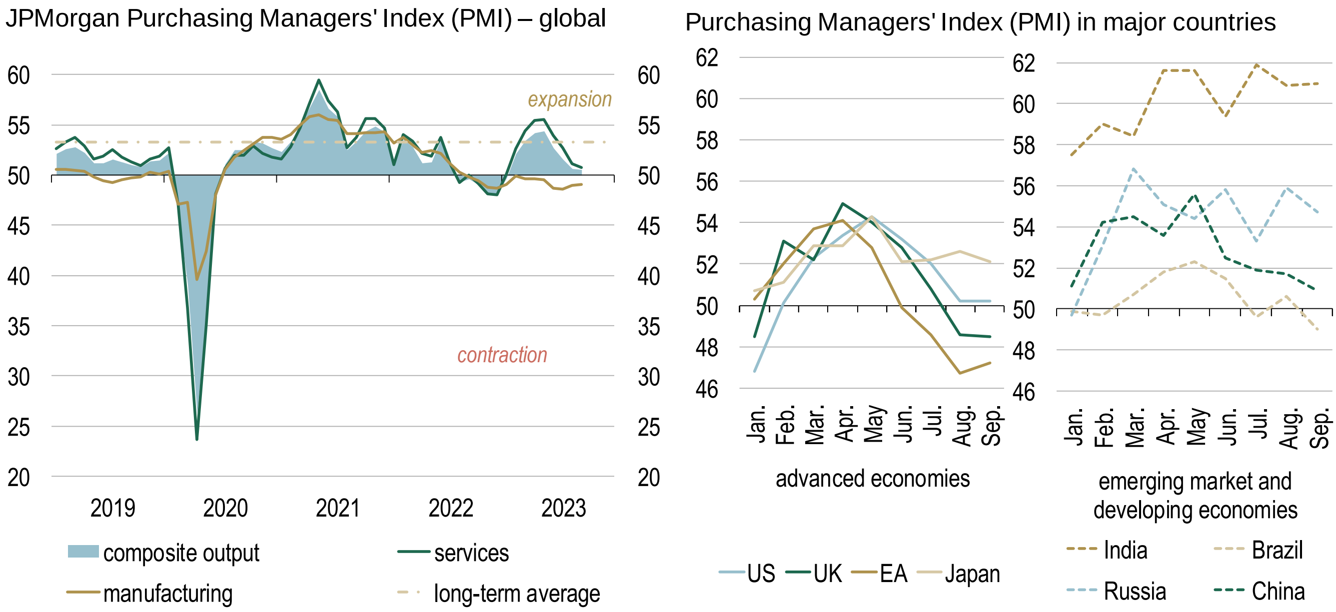
1 International Environment

Global economic growth is slowing.

The short-term indicators from September, like those from August, suggest a (near) stagnation in global economic activity. The decline in new orders – for the first time in eight months – pushed the composite PMI down for the fourth consecutive month, to 50.5 points, the lowest figure since January, and almost three points below the long-term average (see Figure 1.1, left). In services, it slipped to its lowest level in the last eight months, while in manufacturing[1] it remained below the 50 mark, where it has been since June, despite the increase. For India and Russia, at 61.0 and 54.7 points respectively, the aggregate indicator suggests an increase in economic activity, as well as for Japan, while in the US and China it is moving into the zone indicating stagnation (see Figure 1.1, right). In other major economies – especially in the euro area – it remains[2] in the zone of contraction.

Downside risks to future economic developments also increased at the end of the third quarter. Manufacturing firms have been facing a decline in new orders for over a year due to the weakening global trade,[3] and there is a decreasing backlog of orders accumulated during the pandemic. This is indicated by the work-in-progress indicator,[4] which stood below the 50 mark in September for the 15th consecutive month. Higher costs of energy, transport, wages and salaries also pushed up the prices of final products again, suggesting that global inflationary pressures persist, alongside further service price inflation.

Figure 1.1: **Global economic picture**



Source: Bloomberg. Latest data: September 2023.

Source: Bloomberg. Latest data: September 2023.

[1] Manufacturing output indicator.

[2] In the euro area it has been in the zone of contraction since June, and in the UK since August. In Brazil it again fell below 50 mark after one month (see Figure 1.1, right).

[3] This is reflected in the indicator of new export orders, which has been at its lowest level since the global financial crisis (with the exception of the pandemic period).

[4] The work-in-progress indicator shows orders that have not yet been executed.

Global economic growth will remain below its long-term average this year and next year, while inflation will remain above the 2-percent target. According to the IMF's latest forecasts (published on 10 October), global GDP will grow by 3.0% this year, which is in line with the previous projections, and by 2.9% in 2024. Among major world economies with only around 0.5% activity growth in 2023, the euro area and the UK stand out downwards, mainly as a result of the diminishing household purchasing power and due to the rise in energy prices and interest rates over the past year. Elsewhere, growth is set to pick up, mainly in some developing countries. In China, it will be 5.0%, one of the lowest growth rates in 30 years, as the property crisis deepens. In India, it will remain robust at 6.3%, while Russia's GDP will grow by 2.2% after falling last year. Despite the tight monetary policy by the Fed and the projected slowdown in the second half of the year, economic growth in the US will be maintained at 2.1%.

After the near-stagnation of the euro area economic activity in the first half of the year, high-frequency indicators point to a contraction in the coming months.

After economic growth of 0.1% in the first quarter, the euro area economy also grew by only 0.1% in the second quarter, as the original estimate of 0.3% was revised downwards.[5] Judging by the monthly indicators for July and August, the conditions remains challenging, with real turnover in retail and the level of industrial production on average lower than the second quarter average. Particularly in manufacturing and construction, the share of firms limiting production due to insufficient demand is increasing (see Figure 1.2, left). Accordingly, confidence among consumers declined sharply in September, while the decline in confidence in construction and retail was slightly smaller.

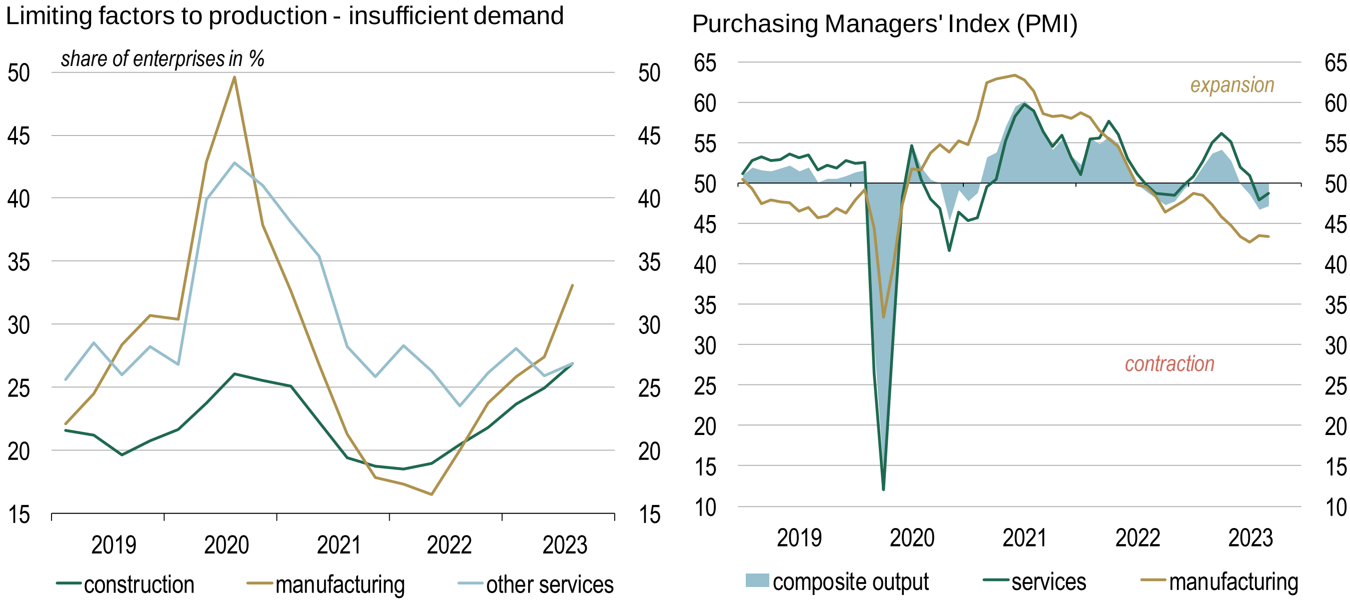
The survey PMIs also indicate a further cooling of economic activity at the end of the third quarter. While further worsening of the economic conditions stopped in September according to the survey data, the manufacturing and services PMIs remained in the contraction territory (see Figure 1.2, right). The composite indicator averaged 47.5 points in the third quarter of this year, indicating a quarterly contraction in euro area GDP. The adverse situation in manufacturing is reflected in a significant decline in orders, reduced employment and a contraction in purchases of input materials and final stocks, indicating that activity will continue to slow over the remainder of the year.

Amid the weakening international trade and the growing effects of less-favourable financing conditions on domestic demand, the IMF downgraded its GDP growth forecasts for the euro area until 2024 in October. It is projected to increase by 0.7% this year and by 1.2% next year, which is compared to the July projections, a downward revision of 0.2 and 0.3 percentage points, respectively. Similar developments in economic activity in the euro area this year and next year are also predicted by the ECB and the OECD.[6]

[5] The modest growth is the result of a recovery in government consumption (by 0.2%, compared to a drop of 0.6% in the previous quarter) and the maintenance of quarterly growth in gross fixed capital formation (0.3%), while household consumption stagnated. The negative contribution of net trade to GDP growth was offset by a positive contribution from changes in inventories.

[6] According to the ECB's September projections, the economic growth is expected to be 0.7% this year, rising to 1.0% next year. The OECD forecasts economic growth of 0.6% and 1.1% for the euro area this year and next year, respectively.

Figure 1.2: **Survey indicators of the economic developments in the euro area**



Source: Eurostat, Banka Slovenije calculations.

Source: Bloomberg. Latest data: September 2023.

Inflation in the euro area slowed to 4.3% in September mainly due to lower contributions of services and energy, both reflecting the effect of last year's high base.

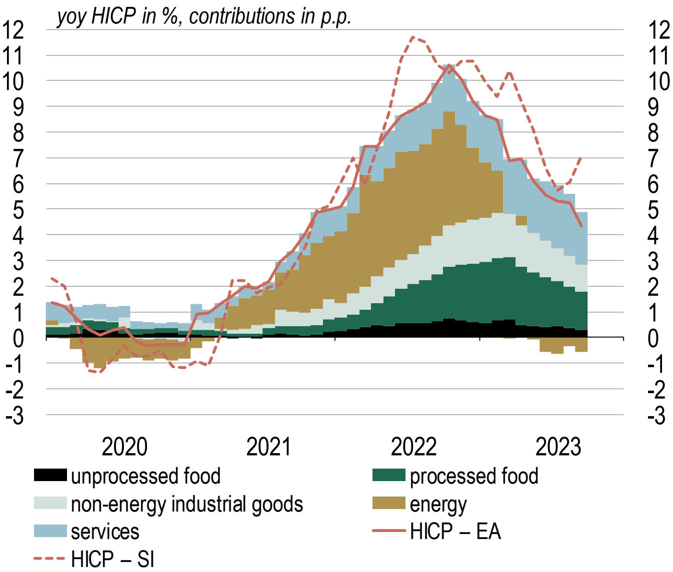
Year-on-year price growth in the euro area, as measured by the HICP, fell to 4.3% in September (see Figure 1.3, left). The 0.9 percentage point decrease was mainly attributable to lower growth in services prices, but also to lower contributions by energy and food. Energy prices were down 4.7% in year-on-year terms, and thus reduced headline inflation by 0.6 percentage points (see Figure 1.3, left). The year-on-year decline is mostly attributable to a high base effect, as gas prices rose sharply last September,[7] while energy prices rose again in current terms. Year-on-year food price inflation remains high at 8.8%, and while its contribution declined by 0.2 percentage points compared to a month earlier, it still represents more than 40% of headline inflation. The decline in September in current terms was mainly attributable to processed food prices, which rose by less than 10% year-on-year for the first time since July 2022, reflecting easing pressures in supply chains.

Core inflation excluding energy and food prices slowed to 4.5% in September, down from 5.3% in August. The main factor in the decrease was lower growth in services prices. The prices of non-energy industrial goods also slowed on the back of the dissipation of pressures from past price shocks, while the momentum is indicative of slowing being a structural trend. However, of all headline inflation components, the contribution of services decreased most relative to August (by 0.4 percentage points) as for the first time since January this year, services prices became cheaper also in current terms. Nevertheless, they remain the largest contributor to headline inflation, accounting for almost half of it. Slower growth comes on the back of two reasons. The first reason is

[7] Year-on-year growth in gas prices in September 2022 was 72.2%, compared to 63.1% in August of the same year.

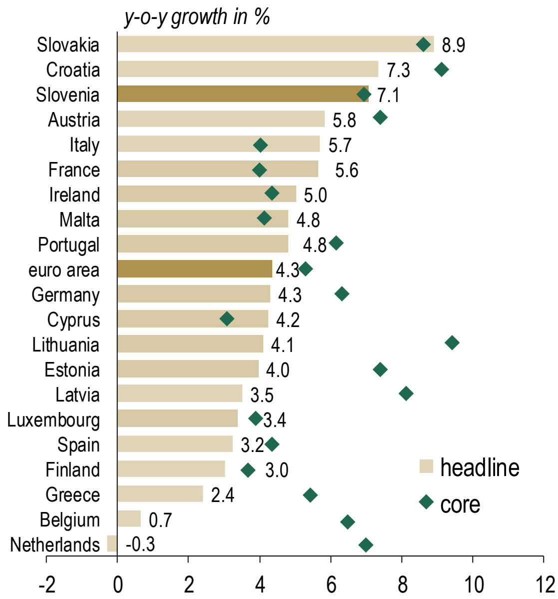
Figure 1.3: **Inflation in the euro area**

Contributions to headline HICP



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

Inflation among the euro area members



Source: Eurostat. Latest data: Sep 2023 for headline, Aug 2023 for core inflation.

of technical nature and can be traced to the effect of last year's high base, as the measure of a reduction of public transport fares to EUR 9 in Germany (relevant for inflation in the euro area) was abolished in September last year. The second reason explaining the lower growth in services prices is related to the restrictive monetary policy, which began to be reflected in a cooling of the service sector,[8] where – as has been the case for a long time in manufacturing – employment has slowed down.

The gap between inflation in Slovenia and inflation in the euro area widened to 2.8 percentage points in September (from 0.8 percentage points in August; see Figure 1.3, right). This increase is mainly attributable to a higher contribution of energy prices to domestic inflation, which, upon the expiry of the reduced environmental contribution at the end of August, stems from more expensive electricity and from the low base effect associated with the introduction of government measures on heating energy products last September.[9]

2 Monetary Policy and Financial Markets

With signs of resilience in a number of economies and in light of the persistent risk of inflationary pressures, the markets are expecting a longer period of elevated central bank key interest rates.

Despite the continuing slowdown in headline and core inflation, price inflation in the euro area, the US, the UK and many other countries remains above their central banks' inflation targets. Energy price inflation on global markets in recent months has also

[8] This is shown by the calculation of the momentum in services.

[9] For more information see section 6.

added to concerns about the pace of the fall in inflation. The Eurosystem raised all three key interest rates by 0.25 percentage points in September, and announced that we have reached levels that would make a substantial contribution to the return of inflation to its target level in a timely manner. The latter will require a longer period of elevated key interest rates, as many other central banks (US, UK, Australia, Canada) are also pointing out. In the US the Fed kept its key interest rates unchanged in September, but allowed for the possibility of additional rises this year due to stronger economic growth in the US than expected and the consequent increased likelihood of a soft landing for the US economy.

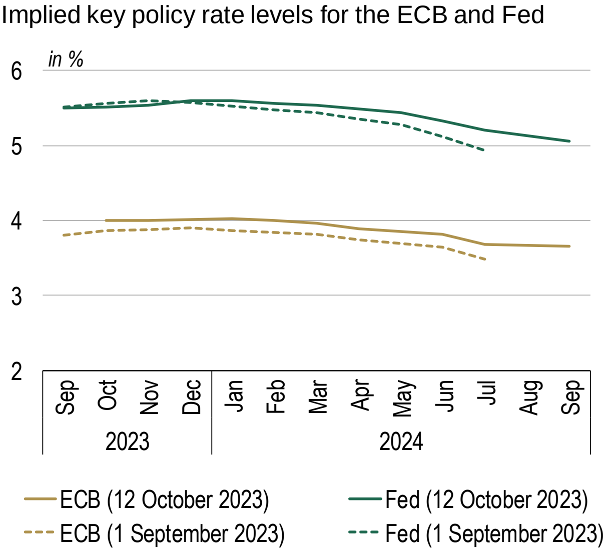
The slowdown in headline inflation is strengthening the markets' expectations that we are close to reaching the terminal key interest rate levels of the leading central banks. At the same time expectations are strengthening that key interest rates will need to remain at elevated levels over a longer timeframe in order to meet central banks' inflation targets. According to the current overnight index swap (OIS) prices, market participants no longer have any great expectations of a further rise in ECB's key interest rates by the end of the year, while a further rise of Fed's key interest rate corridor has not been entirely ruled out. The first cuts of the ECB's deposit facility rate and the Fed funds rate from their current levels (4.00% and 5.25%–5.50% respectively) are anticipated in the second quarter of next year (see Figure 2.1, left).

Investors' strengthening expectations of a longer period of higher central bank key interest rate levels have led to a rise in government bonds yields, especially the longer-term ones, and a fall in equity indices.

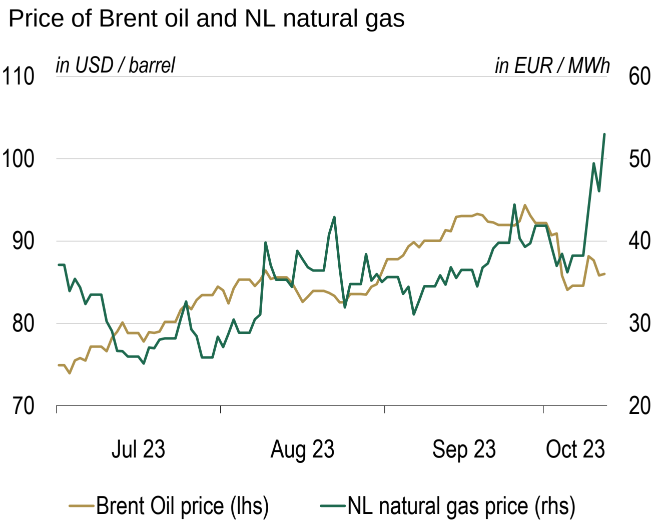
In the expectation of a longer period of elevated central bank key interest rates, yields of longer maturity bonds saw larger increases. German short-term government bond yields have risen by 0.20 percentage points since the beginning of September, while those on long-term bonds have risen by 0.30 percentage points. There were similar movements in US government bond yields. Short-term bond yields were up by 0.20 percentage points and long-term bond yields by 0.60 percentage points. A slightly higher increase in yields on long-term government bonds in the US was also attributable to a more favourable economic outlook for the US economy compared to the European economy. After the outbreak of war in the Middle East, yields on German and US government bonds recorded a slight fall from their previous elevated levels.

Concerns about the impact of the fight against inflation on economic growth are intensifying in global equity markets, driven by rising yields on government bonds and increased borrowing costs for corporations and the public. Despite the still relatively resilient US economy, the leading equity index in the US (S&P 500) fell by around 4% in September, while the main European equity index, the Stoxx Europe 600, recorded only a 1% decline. A further decline in equity indices was limited following a slight fall of government bond yields in October. The rise in yields and the increase in borrowing costs were also reflected in private-sector bond spreads over benchmark government bonds. The spreads on Italian government bonds over the German benchmark widened after months of stability, as the Italian Government announced that the budget deficit for the current and next year will be higher than originally expected.

Figure 2.1: **Expectations of key interest rates at the ECB and the Fed, and the price of Brent crude oil and benchmark gas prices in Europe**



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



Note: Price of Brent oil is the value of the active futures contract price. Price of NL natural gas is the value of the active futures contract price for delivery in the Netherlands.
Source: Bloomberg, Banka Slovenije calculations.

Continued voluntary oil production cuts by the main OPEC+ countries (Saudi Arabia, Russia) and the start of the conflict in the Middle East resulted in a increase of Brent crude oil prices (see Figure 2.1, right). The price of European natural gas also increased, mainly due to production problems in Australia, Israel and Norway, as well as the damaging of the pipeline in the Baltic Sea. The US dollar rose in September in reflection of the relatively resilient US economy and the outlook for potential additional rises in the Fed's key interest rate, and this, together with high levels of government bond yields, caused the value of gold to fall to close to its lowest levels this year (due to the higher opportunity cost of investing in gold, which does not yield interest income). There was a rebound in gold prices after the outbreak of the conflict in Israel.

3 Domestic Economic Activity

Economic sentiment in construction and private service activities maintain solid, while the situation in manufacturing remains challenging.

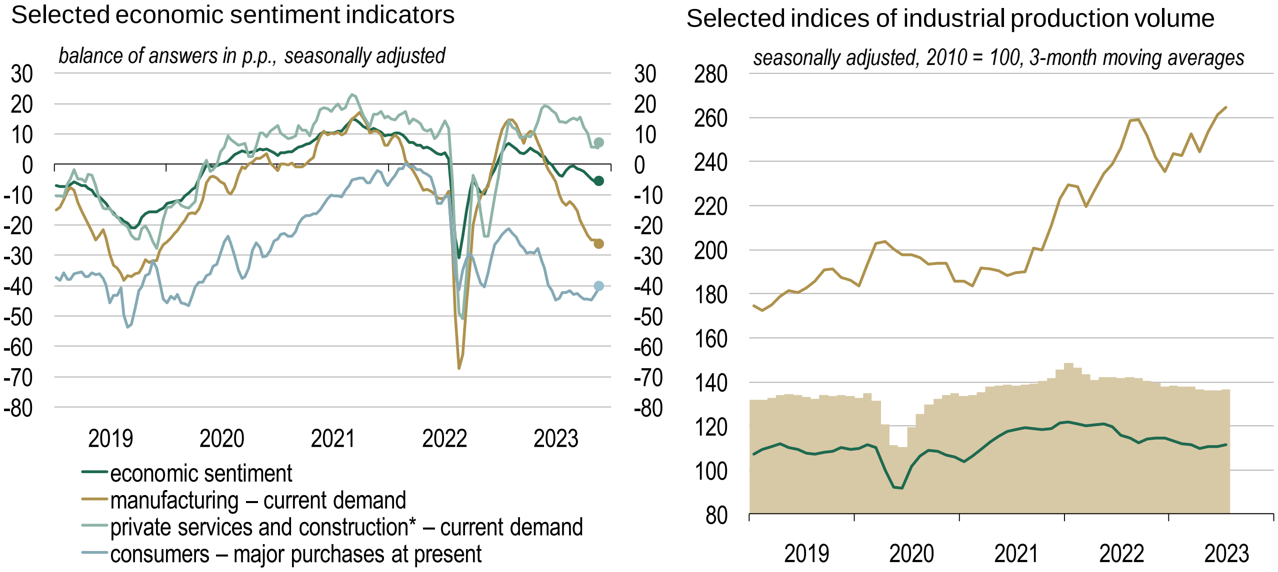
The economic sentiment indicator in Slovenia continues to reflect the challenging situation in manufacturing, where firms were still facing low domestic and foreign demand in September (see Figure 3.1, left). Around a third of firms in this sector reported insufficient demand as a key limiting factor on production next to high uncertainty in the economy. Their capacity utilisation remains high, however, and the companies estimate to have guaranteed production for at least four months, which is close to the long-term average. At the same time, companies continue to face labour shortages.

Demand in private-sector services and construction is slightly lower than last year, but remains stable in the positive territory. Consumer confidence has traditionally been weak, but the major purchases suitability indicator has been improving in recent months. The climate in construction remains relatively favourable, with companies – to their estimates – having almost seven months of work guaranteed. While this is slightly less than in previous months, it remains historically high for now. The rehabilitation of infrastructure damaged by the August floods is also expected to boost demand for construction services.

Industrial production in manufacturing contracted further in the summer months.

Industrial production contracted further over the summer. The year-on-year fall deepened further in August, to 12.3%, while industrial production contracted by around 5% on average over the first eight months of the year (see Figure 3.1, right). On the positive side, at least the production structure is gradually becoming technologically more intensive, with high-tech production up by over 5% year-on-year this year, and technologically less intensive production declining (by around 7%). Considerable variation is thus continuing in manufacturing, with the majority of industries seeing their output contracting. The manufacture of computer, electronic and optical products, the manufacture of other machinery and equipment and of other transport equipment, and the leather industry are the fastest growing sectors this year. By contrast, the largest decline was observed in the chemicals and paper industries. Subdued economic activity in the continuation of the third quarter is also evidenced in freight vehicles' mileage on motorways in Slovenia and in the consumption of electricity, both were in third quarter somewhat lower than a year earlier.

Figure 3.1: **Economic sentiment and output in manufacturing**

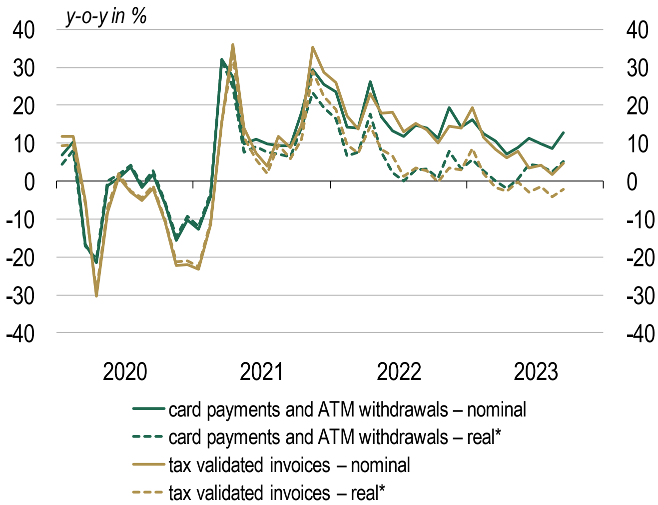


Note: 3-month moving averages with the exception of dots, representing the latest data.* Calculated by taking into account value added shares.
Source: SORS, Banka Slovenije calculations. Latest data: September 2023.

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

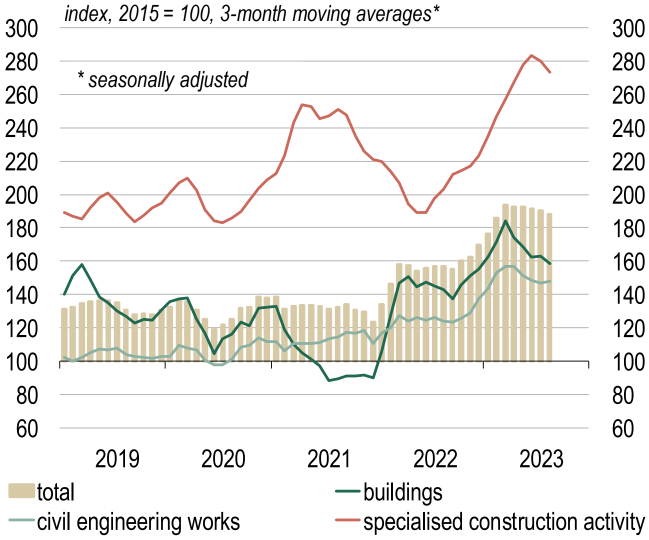
Figure 3.2: **High-frequency indicators of consumption and the amount of construction put in place**

High-frequency indicators of consumption



Note: * Calculations of real values are based on HICP deflator.
Source: SORS, FURS, Bankart, Banka Slovenije calculations.
Latest data: September 2023.

Volume of construction put in place



Source: SORS, Eurostat, Banka Slovenije calculations.
Latest data: August 2023.

Turnover in retail was down in year-on-year terms in August, while other private-sector services' production remained unchanged in July. Care sales increased.

Production in services other than retail remained relatively robust in the early part of the third quarter, at last year's levels (-0.1%), and thus more than 6% higher than in July 2019. Real turnover in retail was down by around a fifth in year-on-year terms in August. In addition, the real value of invoices registered with tax authorities was slightly lower in the third quarter than a year earlier (by 2.6%), while card payments and ATM withdrawals remained higher in real terms than last year (by 3.8%, see Figure 3.2, left). Growth in turnover in the trade and repair of motor vehicles and motorcycles slowed slightly in August, but remained strong at around 10%. Services were further boosted by tourism in July, with the number of arrivals by domestic and foreign travellers up by almost a tenth year-on-year. However, tourism in August was weak. The 5.6% decrease in overnight stays relative to the year before can be primarily attributed to an almost 15% drop in domestic guests, which is most likely mainly related to the severe weather and floods. [10]

Domestic demand is supported by construction, which is driven mainly by government investment.

The amount of construction put in place remained high in August, up by around a fifth year-on-year (see Figure 3.2, right). Specialised construction works continue to show the strongest year-on-year growth, up by a quarter, and growth in the value of work performed in the civil engineering segment has strengthened to more than 20%, while

[10] According to figures from the Slovenian Environment Agency, the amount of precipitation in August was well above the long-term average at the national level. August of this year is ranked the second wettest, with August of 1969 being the first. For more information, see this link Podnebne značilnosti avgusta 2023 (Climate characteristics in August 2023)..

growth in the construction of buildings has remained relatively stable at around 10% for several months. The latter is mainly supported by the construction of non-residential buildings, while residential construction was almost 13% lower in August than a year ago. This construction structure is also a consequence of the major government infrastructure projects at the end of the current financial perspective (see Box 7.1). Government investment will be further boosted in the future by the rehabilitation of infrastructure following the August floods (see Box 7.2).

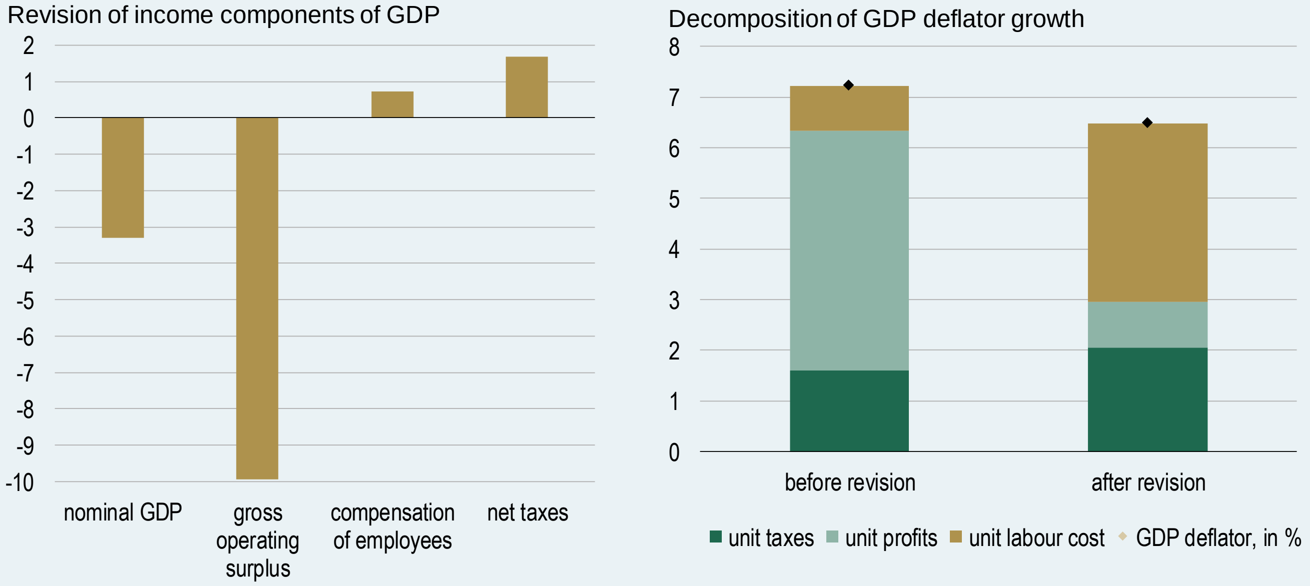
Box 3.1: **Impact of the revision of the national accounts on the decomposition of the GDP deflator growth**

Following the revision of the national accounts the conclusions regarding the main revenue contributors to last year's GDP deflator growth changed significantly.

The first assessment of the national accounts for 2022 based on annual data sources significantly changed the initial conclusions regarding the contribution to last year's GDP deflator growth, which is one of the measures of the price level in the economy. A more detailed explanation of the decomposition of GDP deflator growth according to the income method was published in the April edition of the Review of Macroeconomic Developments,[11] and the conclusions of the analysis changed significantly after the revision of the national accounts.

Last year's GDP deflator growth was revised slightly downwards (from 7.2% to 6.5%) but remains above the euro area average. In terms of the income method, most of the change in the estimate of nominal GDP for 2022 results from the revision of the gross operating surplus, which indicates that the profitability of the firms was not as high as the first estimates of the national accounts suggested.

Figure 3.1.1: **Revision of GDP income components, and comparison of the decomposition of the GDP deflator for 2022**



Note: Compensation of employees has been adjusted for the difference between employment and emloyees. Real GDP is used for unit output conversion.
Sources: SORS, ECB, Eurostat, Banka Slovenije calculations.

[11] They are available at this link.

The significant revision of the gross operating surplus (see Figure 3.1.1, left) resulted in a much smaller contribution by unit profits to last year's growth in the GDP deflator (see Figure 3.1.1, right). Profit margins, which showed a growth of 4.9% upon the publication of the 2022 quarterly data, declined by 0.3% after the data had been revised. The contribution of unit profits to growth in the GDP deflator declined by 3.8 percentage points. Last year's unit profits rose by 3.7% in Slovenia, compared with 5.5% in the euro area overall, which, according to the new data, shows that on average firms in the euro area succeeded in passing on a larger share of cost increases to end customers, which could be an indication of the limited pricing power of Slovenian firms compared with the euro area average.

Following the revision of the national accounts, the contribution of taxes and labour costs per unit of output (the latter as nominal ULC) came to the fore as major factors in the rise in the general level of prices in Slovenia last year. The contribution made by taxes per unit of output increased by 0.5 percentage points due to the audit of the developments of net indirect taxes in the previous year and a disproportionate increase in the share of net taxes in nominal GDP. The increase in the ULC contribution to GDP deflator growth was even higher at 2.6 percentage points (see Figure 3.1.1, right). Growth in ULC in 2021 was relatively low, at 1.1%, but accelerated to 5.4% a year later, thereby exceeding the euro area average by 1.7 percentage points.

Box 3.2: **Nowcasts for GDP growth in the third quarter**

The average nowcast from a collection of nowcasting models indicates a quarterly contraction in GDP during the third quarter.

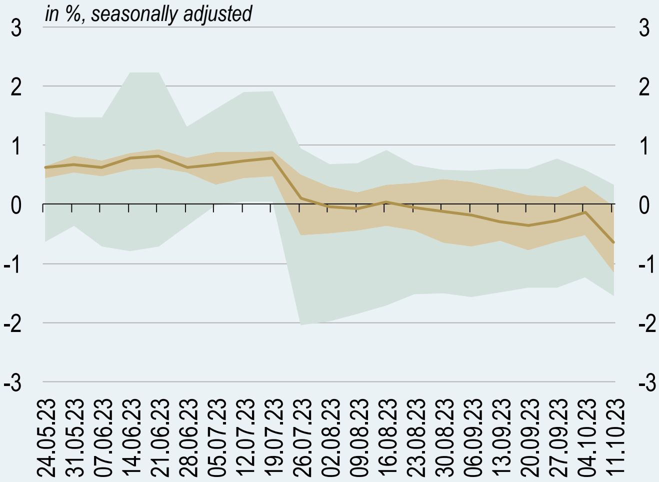
Currently, the average nowcast for third quarter GDP growth stands at -0.7% (see Figure 3.2.1, left).[12] This figure reflects adverse developments in the majority of survey indicators for July, a lower level of construction put in place in the same month, and a decline in the value of industrial production for both July and August. Conversely, economic sentiment showed a slight improvement in August and September, with turnover in services and retail also increasing in July. This information is illustrated in the chart displaying the distribution of nowcasts, which remains relatively broad (see Figure 3.2.1, right).

The assessment of the quarterly economic trend is primarily influenced by four weaker signals observed in the monthly data. In terms of survey data, the economic sentiment indicator decreased by 1.6 percentage points in July, primarily due to reduced confidence in the retail, services, and manufacturing. Economic activity indicators exhibited declines in industrial production (by 8.0%) and construction put in place (by 6.5%) in July. The decline in industrial production was concentrated in the manufacturing sector, while the reduction in construction activity was widespread. Industrial production also dropped in August (by 1.2%), this time due to reduced activity levels in mining and quarrying and manufacturing. On a more positive note, there was a slight improvement in economic sentiment in August and September (by 0.5 and 0.6 percentage points, respectively) and a 0.2% increase in turnover in services and retail in July, driven mainly by wholesale and retail trade and repair of motor vehicles and motorcycles.

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

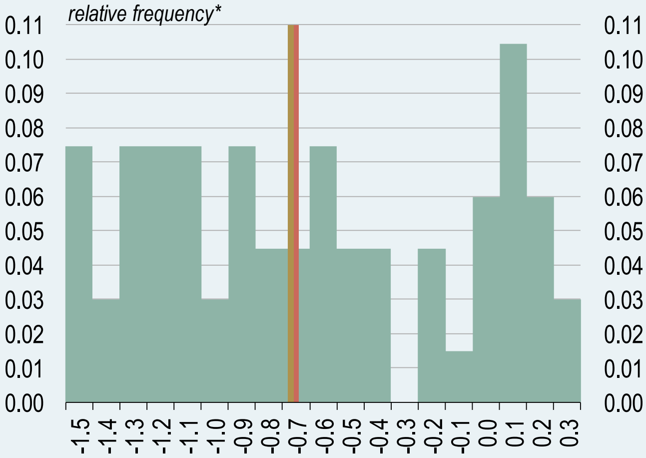
Figure 3.2.1: **Nowcasts for GDP growth**

Model estimates of quarterly GPD growth – Q3 2023



Note: Graph shows model estimates of quarterly GDP growth.The darker interval represents values between the 25th and the 75th percentiles of all estimates. Average model estimate of quarterly GDP growth in Q3 2023 is represented by the line.
Source: Banka Slovenije calculations.

Histogram of quarterly GDP growth estimates – Q3 2023



Note: Distribution of model estimates of quarterly GDP growth in Q3 2023. The vertical gold line shows the median and red the average of all estimates. Date of estimate: 30 August 2023. * Relative frequency represents the share of models that estimate a certain growth in the entire set of models.
Source: Banka Slovenije calculations.

Survey indicators suggest that we can anticipate somewhat more favourable developments in the manufacturing sector in the upcoming months, which have faced challenging operating conditions over the past year. However, for the rest of the economy, which has experienced relatively more favourable activity dynamics so far, developments are becoming increasingly uncertain.

Box 3.3: **Flood exposure assessment of the Slovenian economy**

Based on flood hazard maps, we have developed three scenarios illustrating the flood exposure of the Slovenian economy.

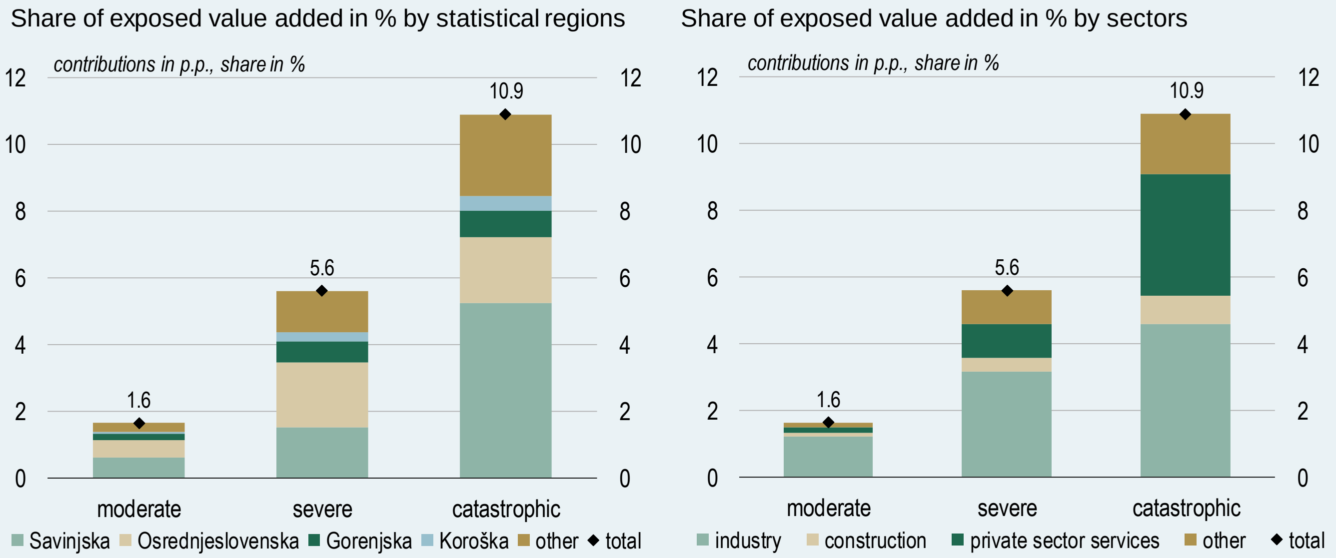
Recent floods have revealed the Slovenian economy's susceptibility to more frequent extreme weather events. By utilising flood hazard maps from the Slovenian Water Agency, we've evaluated the economy's vulnerability to flooding using three different scenarios. In each scenario, we gauge the economy's exposure by considering the percentage of employed individuals and the value added by companies situated in flood-prone regions.

Within the area covered by Integrated Flood Hazard Maps (IFHMs), the mild scenario assumes the occurrence of 10-year floods, the severe scenario anticipates 100-year floods, and the catastrophic scenario considers 500-year floods. Outside the area covered by IFHMs, flood warning maps were used.[13,14] In these areas, the mild scenario assumes the occurrence of rare floods, while the moderate and most severe scenarios

[13] The Rules on the methodology to define flood risk areas and erosion areas connected to floods and classification of plots into risk classes (Official Gazette of the Republic of Slovenia, No. 60/07) specify that the initial flood warning map is to be drawn up on the basis of an analysis of historical and archive data on previous flood events, and on the basis of existing studies, surveys, analyses, and other data. It shall be updated with new information, and if these updates lead to significant changes the map should be renewed at least once every six years.

[14] Flood hazard areas are determined mainly on the basis of a flood warning maps and hydrological, geological, and geomorphological modelling and analysis methods, as well as geodetic data.

Figure 3.3.1: **Share of exposed value added (VA) of Slovenian firms**



Note: The figures show the regional and sectoral decomposition of the exposed value added of Slovenian private companies. This is defined as the ratio between the exposed and total value added of the Slovenian economy.
Source: AJPES, Slovenian Water Agency, Banka Slovenije calculations.

anticipate very rare flood events. The analysis considers only directly exposed businesses with headquarters located in flood-prone areas. It does not consider indirectly exposed businesses, which might experience disruptions in their production processes due to damaged infrastructure and employees' inability to commute to work. Furthermore, the exposure analysis is solely based on the location of a company's headquarters and does not encompass potential adjacent production facilities.

More than a tenth of the economy could be directly affected by the severe scenario. Manufacturing is the most exposed, and the Savinjska region in terms of geography.

The results[15] suggest that the catastrophic flood scenario would directly impact 10.9% of the added value and 11.4% of the jobs in the Slovenian economy. Notably, there is significant variation in the results across statistical regions and sectors. Across all three scenarios, the industry sector is the most exposed, with manufacturing activities making up about two-fifths of the exposed added value in the harshest scenario. Geographically, the analysis highlights the Savinja region as the most vulnerable, as up to 43% of its value added could be put at risk if the catastrophic scenario were to materialise. Additionally, this region accounts for nearly half of the total exposure of the Slovenian economy in this scenario (Figure 3.3.1).

[15] A detailed analysis and description of the employed methodology will be available in the upcoming Short economic and financial analyses by Banka Slovenije.

4 Labour Market

Amid a still tight labour market there are the first signs of cooling, most pronounced in manufacturing.

The number of persons in employment[16] fell to 913,432 in July, a decrease which is not only a reflection of seasonal developments, as it also fell month-on-month according to seasonally adjusted figures (see Figure 4.1, left). Year-on-year growth, while still positive, is slowing. The slowdown in year-on-year growth is most pronounced in manufacturing and construction, while growth in services remains robust (see Figure 4.1, right). Demand for labour expressed as the number of notified vacancies fell in the second quarter according to the SORS seasonally adjusted figures, and is also lower year-on-year, by 11.6%. According to survey data, employment growth is expected to continue in the coming months, especially in services and construction, while no additional hiring is expected in manufacturing.

The fall in registered unemployment is gradually slowing (see Figure 4.1, left). There were 45,999 people registered as unemployed in September, the lowest to date, and down 11.6% in year-on-year terms. The registered unemployment rate stood at 4.8% in July, down 0.8 percentage points in year-on-year terms. Very low values are also observed in the surveyed unemployment rate, which stood at 3.6% in the second quarter, a decrease of 0.6 percentage points compared to the previous year. Unemployment in Slovenia is also low compared to other euro area countries, with only three of them having lower surveyed unemployment rates in the second quarter.[17]

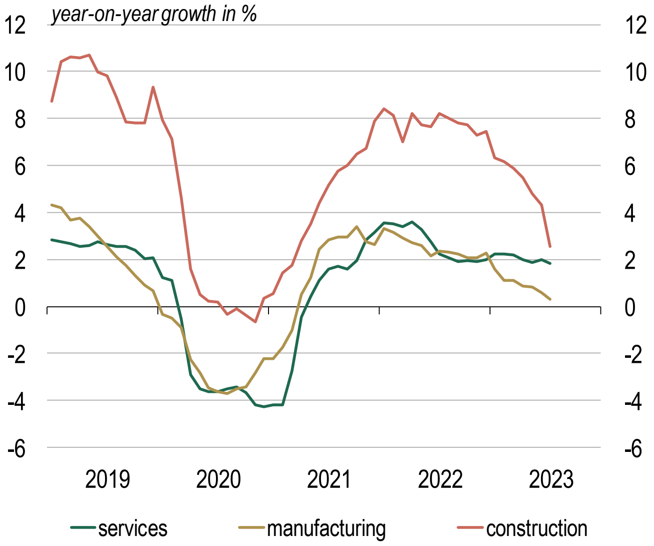
The high tightness of the labour market and the exhausted pool of domestic labour are strengthening the hiring of foreign workers. In July of this year they accounted for 96%

Figure 4.1: **Selected labour market indicators**

Persons in employment and unemployed

Source: SORS, Banka Slovenije deseasonalisation and calculations. Latest data: persons in employment – July 2023, unemployed – September 2023.

Persons in employment in manufacturing, services and construction



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

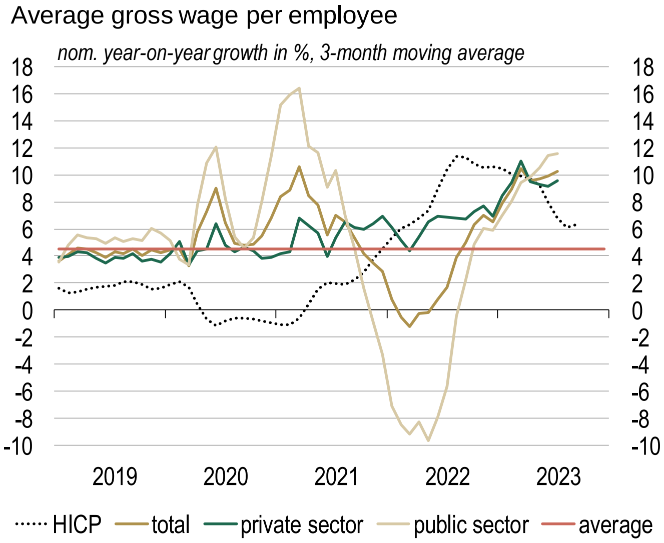
[16] Excluding self-employed farmers.
[17] Malta, Germany and the Netherlands.

of the year-on-year increase in the number of persons in employment,[16] taking their share of the total number of persons in employment to 14.5%, 1 percentage point higher than a year ago. Over the past year, the share of foreigners in employment has increased in all sectors, with the largest increases in construction, manufacturing, and accommodation and food service activities.

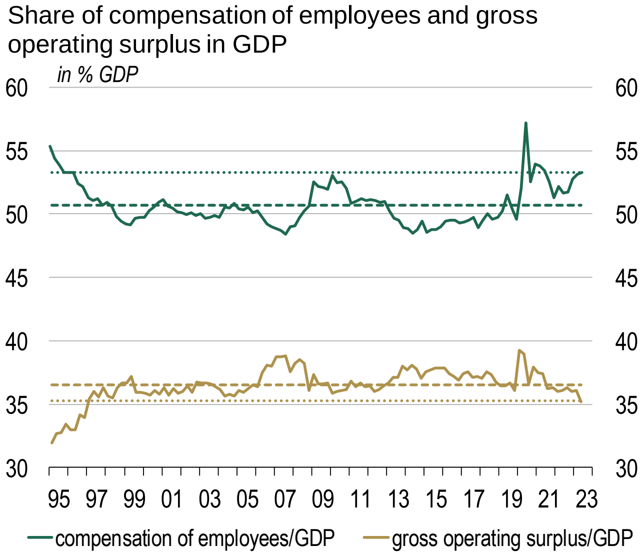
Nominal wage growth remains high, and the real wage growth is strengthening in line with lower inflation.

Nominal year-on-year growth in the average gross wage remained high at 10% in July, well above its long-term average (see Figure 4.2, left) Growth is broadly based across sectors, with the public sector (11.6%) exceeding the private sector (9.0%) for the fourth consecutive month. With the slowdown in prices, real wage growth strengthened, at 4.0% in July, also well above its long-term average. In the context of the low growth in labour productivity, high wage growth is also increasingly being reflected in a larger share of employee compensation in terms of GDP. Excluding the pandemic period, it is now at its highest level since 1996 (see Figure 4.2, right). As hiring and average wage growth continued, the growth in nominal year-on-year growth in the wage bill remained positive, at 10.7% in July.

Figure 4.2: **Average wages and employee compensation**



Note: The average includes the total wage growth from 2001 to July 2023.
Source: SORS, Banka Slovenije calculations. Latest data: average gross salary – July 2023, HICP – September 2023.



Note: Dotted line represents latest data, dashed line represents long term average (1995 – latest data).
Source: SORS, Banka Slovenije calculations. Latest data: Q2 2023.

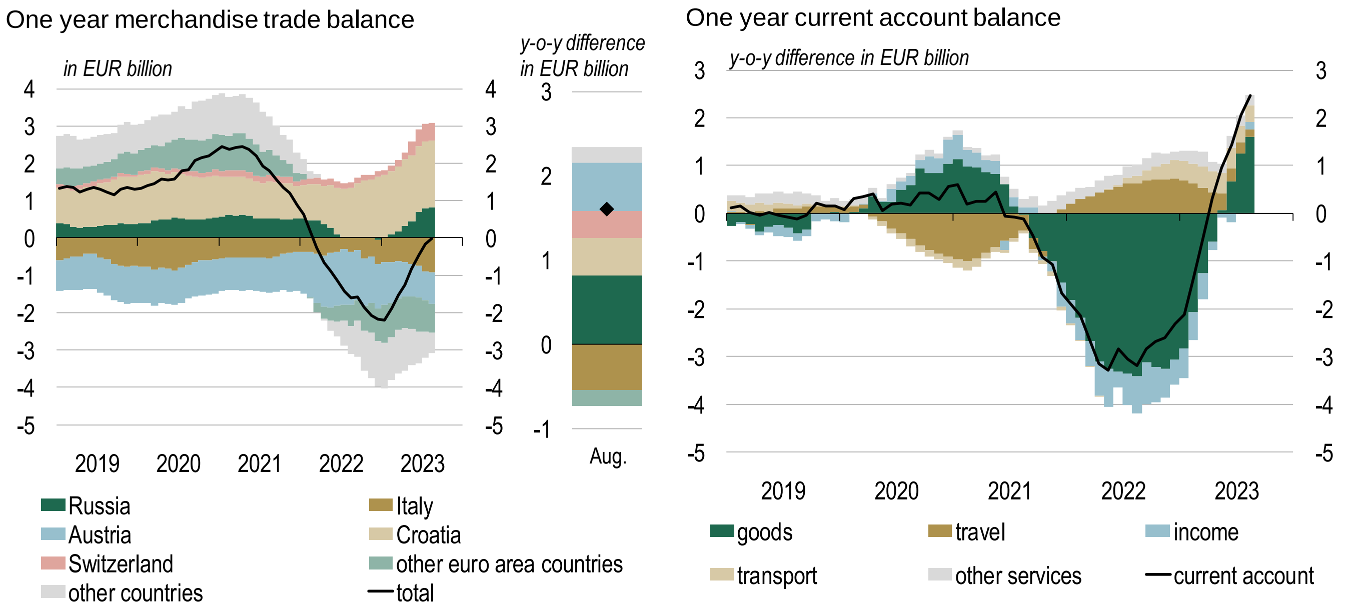
5 Current Account

The situation in international trade continues to deteriorate, as companies have seen a decline in new export orders for a year and a half.

According to the balance of payments figures, nominal merchandise exports in the first two months of the third quarter fell by around one tenth year-on-year, mainly due to a drop in sales on euro area markets, with Italy and Austria standing out. The breakdown by product category (according to SORS[18] data) shows that, in addition to weaker re-exports of refined petroleum products, exports of metals, wood and machinery in particular declined, while stronger exports of road vehicles[19] somewhat mitigated the fall in total exports of goods. The decline in nominal merchandise imports was even greater according to the balance of payments figures. At the beginning of the third quarter it was above 16%, an increase of 5 percentage points relative to the previous quarter, mainly due to lower imports of intermediate goods, partly on account of more moderate energy imports. Imports of capital goods were also much weaker, in line with weaker investment activity by firms.

Nominal year-on-year growth in services trade also slowed sharply, with a stronger deterioration prevented by rising travel services. Growth in services exports slowed to an average of just 1.7% in July and August, mainly due to a fall in exports of transport and miscellaneous business services and slightly lower growth in construction services. By contrast, services imports remained almost unchanged year-on-year. This is primarily on account of the fall in imports of transport services, which deepened to 33.7% in August, which is twice as much as at the bottom of the crisis in 2020 and the third biggest decline ever. This reflects the already mentioned weak export activity of the Slovenian economy.

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



Source: Banka Slovenije. Latest data: August 2023.

Source: Banka Slovenije. Latest data: August 2023.

[18] Excludes trade in medical and pharmaceutical products, and organic chemical products with Switzerland and imports of organic chemical products from China.

[19] Exports of road vehicles fell in August for the first time since January, by 3.3% year-on-year, after having increased by around 15% between February and July.

The current account surplus widened over the summer. Over the 12 months to August, it exceeded EUR 2.1 billion, the highest figure for almost two years. With weaker domestic spending relative to foreign demand, merchandise trade showed an approximately balanced position after a year and a half of deep deficits (see Figure 5.1, left). A major contribution to this came in the form of the growing merchandise trade surplus vis-à-vis Russia[20] and Croatia[21], and smaller trade deficit with Austria,[22] and, among products, in particular the higher surplus in the trade of machinery and transport equipment, despite the lower net trade in road vehicles.[23] At the same time, the trade surplus in pharmaceuticals continued to widen and the trade deficit in metals to narrow. The surpluses in travel services, which stabilised at around EUR 1.2 billion this year, and transport services increased year-on-year, while the deficit in income narrowed (see Figure 5.1, right).

Box 5.1: **Breakdown of terms of merchandise trade by product group**

The terms of merchandise trade improved over the first eight months of the year for the first time in two years, under the influence of favourable developments in relative energy and commodity prices, but remained much less favourable than the long-term average.

After remaining relatively stable between 2014 and 2019, and reaching their best level in 2020 since the global financial crisis, the terms of trade began to deteriorate more rapidly in 2021 than ever before, with import prices rising sharply. They were 12.2% less favourable at the end of 2021 than in December 2020, and 17.3% below the peak of January 2009 (see Figure 5.1.1, left). After the outbreak of war in Ukraine, year-on-year growth in import prices exceeded 30% in the spring of 2022, but at the same time growth in export prices accelerated,[24] so the terms of trade gained almost 4% from their low in March to the end of the year. This year the terms of trade were the most favourable since the summer of 2021, and 5.5% better year-on-year, but still significantly weaker than the 2014–2019 average. This box defines them as the ratio of industrial producer prices on the foreign market to import prices of industrial products, and breaks them[25] down into the contributions by product category (see Figure 5.1.1, right). This is only possible with monthly data, which differ from national accounts statistics.

In the first two years after the coronavirus crisis (especially in the second half of 2021 and in 2022), energy was the main contributor to the deterioration in the terms of trade, as the increase in import prices – with these products accounting for a larger share of imports (than re-exports) – was almost four times higher than the increase in export

[20] The 12-month trade surplus with Russia narrowed sharply after the outbreak of the war in Ukraine, turning into a smaller deficit at the end of 2022. This year the balance was again in surplus, reaching a record EUR 820 million in August. This resulted from the ban on imports of Russian refined petroleum products and the increased exports of medical and pharmaceutical products to Russia.

[21] The 12-month merchandise trade surplus with Croatia has been around EUR 1.8 billion since March, the largest figure to date.

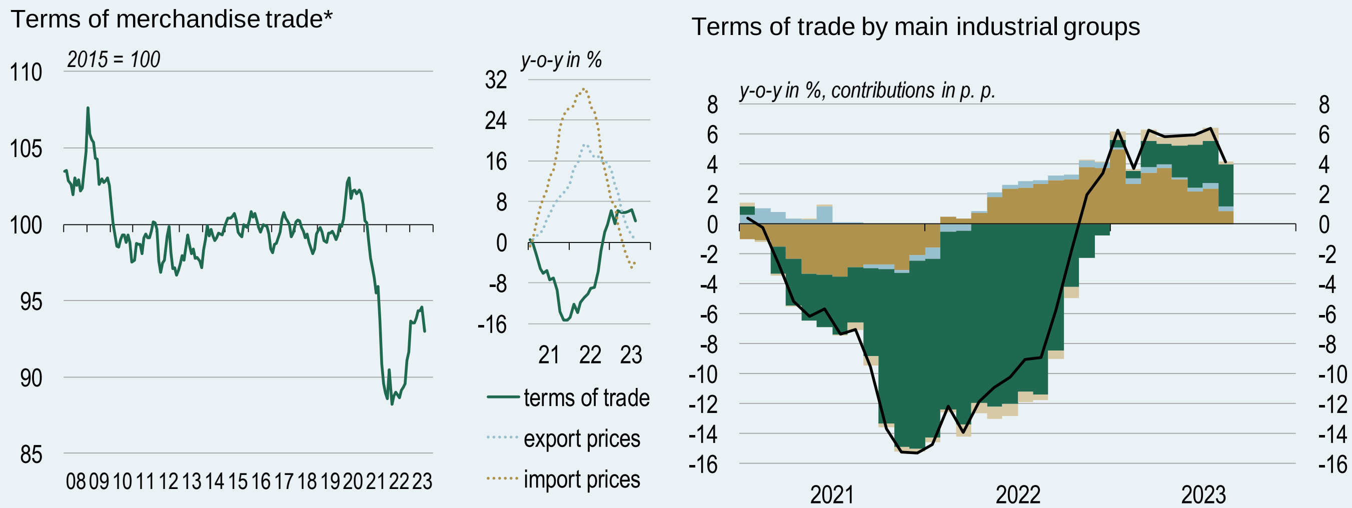
[22] The trade surplus with Switzerland was also much higher year-on-year, remaining at the level of the previous month (EUR 480 million) in August, which is incomparably higher than ever before and driven by the performance of a major pharmaceutical company.

[23] The 12-month surplus in the trade in road vehicles is around EUR 250 million this year, almost EUR 1 billion lower than the peak in June 2021 and the smallest for nearly ten years.

[24] Industrial producer prices on the foreign market.

[25] The year-on-year change in the terms of trade – defined as the ratio of import prices to export prices – can be approximated by the difference between the year-on-year growth in export prices and the year-on-year growth in import prices. The contribution of a particular product to the year-on-year change in the terms of trade is similarly approximated by the difference between that product's contribution to the year-on-year growth in export prices and its contribution to the year-on-year growth in import prices. The calculation is described in detail in the Selected Topic 8.1 of the April 2021 issue of Economic and Financial Developments.

Figure 5.1.1: **Terms of merchandise trade**



Note: * Ratio between industrial producer prices on foreign market and import prices. In the right-hand figure, the y-o-y change in the terms of trade is approximated as the difference between the y-o-y growth in export prices and the y-o-y growth in import prices.
Source: SORS, Banka Slovenije calculations. Latest data: August 2023.

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

prices. Commodity price developments brought a deterioration in the terms of trade by around one-third in 2021, while on average they mitigated the deterioration in 2022, resulting in a weight in exports that was almost one-tenth higher than in imports, with a neutral[26] impact of relative prices (see Figure 5.1.2, left[27]). Consumer goods, which account for about a third of all imports (and a quarter of exports), deteriorated the terms of trade somewhat in both years, while the impact of capital goods was negligible, as their increase in imports was about the same as that of exports. This year's improvement in the terms of trade is in line with developments in global markets, mainly as a result of favourable relative energy and commodity prices, with import prices rising more slowly or falling more sharply than export prices. The contributions made by capital goods and consumer goods were also positive (favourable).

As the developments in energy prices on global markets have a significant impact on the terms of trade due to the high share of imports and the inelasticity of demand, Figure 5.1.2 (right) shows the terms of trade for manufacturing excluding the manufacture of coke and refined petroleum products. These terms started to improve at the beginning of 2022, after having deteriorated in the previous year, but only by just over 2%, due to a fall in the relative prices of some of the more energy-intensive products.[28] The main reason for the improvement is the rising relative prices of the products of the net export industries – i.e. mainly basic metals, paper and electrical equipment – [29] as their share in exports is over a quarter, while their share in imports is slightly lower. Over the first eight months of the year, the terms of trade in manufacturing were almost 4% more favourable than a year earlier. Chemicals and chemical products contributed around a third to this improvement, and electrical equipment a quarter, as the rise in export prices for these products continued to outpace the rise in import prices.

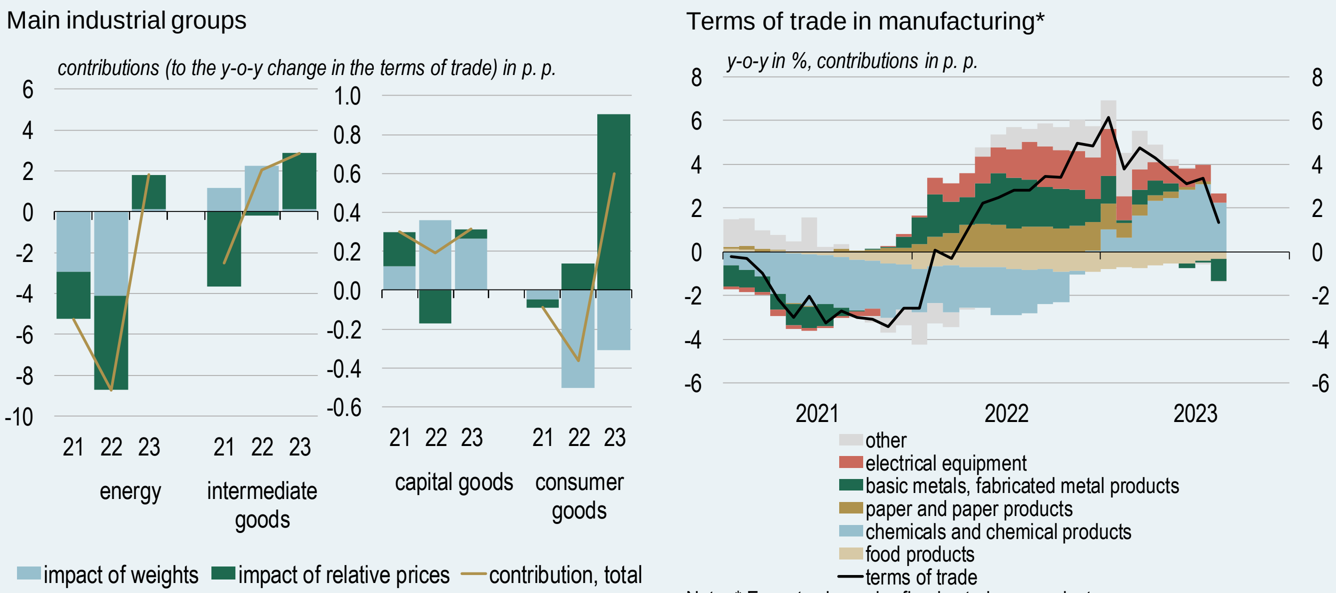
[26] Export commodity prices rose by roughly the same amount as import prices.

[27] Figure 5.1.2 (left) shows the effect of weights and the effect of relative prices on the year-on-year change in the terms of trade by main industrial groups. The impact of relative prices reflects the change in export prices compared to import prices (at average weights), while the impact of weights reflects the ratio of the product's share in exports to its share in imports (with average relative price growth). The calculation is described in Box 11 in Banco de Portugal, Economic Bulletin, May 2018.

[28] Primarily chemicals and chemical products, and basic metals and fabricated metal products.

[29] Including fabricated metal products and products made of paper.

Figure 5.1.2: **Terms of trade in industry and manufacturing**



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

Note: * Except coke and refined petroleum products.
Source: SORS, Banka Slovenije calculations. Latest data: August 2023.

Box 5.2: **Price and cost competitiveness of Slovenia**

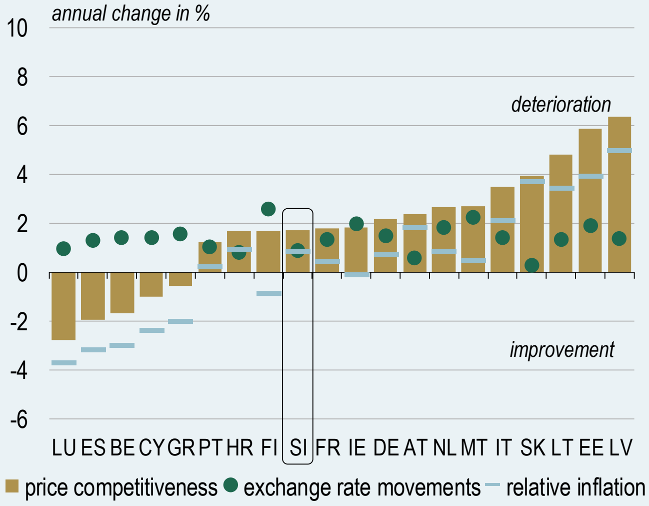
With the appreciation of the euro's effective exchange rate and still relatively higher domestic inflation, the price competitiveness of the Slovenian economy is weakening this year, but remains relatively favourable compared to other euro area Member States and the long-term average.

After relatively favourable trends in 2019–2022, Slovenia's price competitiveness started to deteriorate in the second half of last year, with prices rising relatively faster than in the group of trading partners. This trend persisted also in the first half of this year, when it was reinforced by the appreciation of the euro's effective exchange rate against a basket of 37 trading partner currencies, which increased (deteriorated) the competitiveness indicator by 1.5% year-on-year. Both factors also shaped the developments in the majority of euro area countries (see Figure 5.2.1, left).

At the beginning of the second half of this year, despite the deterioration, the price competitiveness of the domestic economy did not exceed the pre-pandemic levels or the long-term average. This year, in addition to cost competitiveness, production competitiveness – which takes into account exchange rate developments as well as producer prices relative to comparable prices in partner countries – has deteriorated. This indicator was up 7.3% (worse) in year-on-year terms in the first half of the year, primarily as a result of an uptick in growth in relative prices, and it exceeded the 2019 level by almost a tenth (see Figure 5.2.1, right).

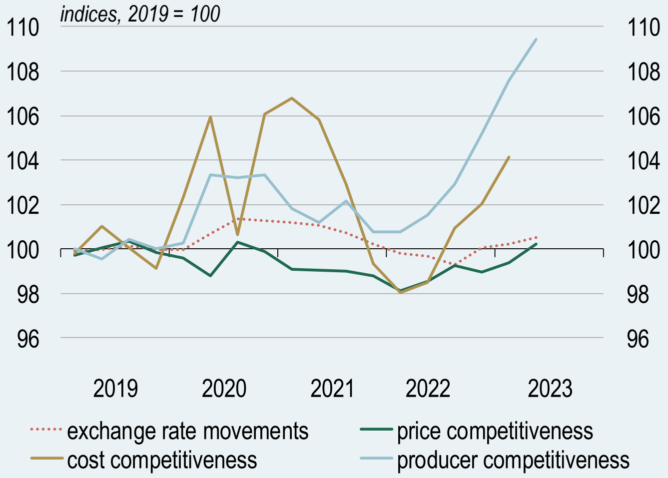
Figure 5.2.1: **External competitiveness indicators vis-à-vis 37 partner countries, with the emphasis on price developments**

Price competitiveness of euro area members in H1 2023



Note: Price competitiveness is reflected by RHCI (HICP), the euro effective exchange rate movements by NHCI, the ratio between the two is relative inflation.
Source: ECB, Banka Slovenije calculation.

Slovenian external competitiveness against 37 trading partners



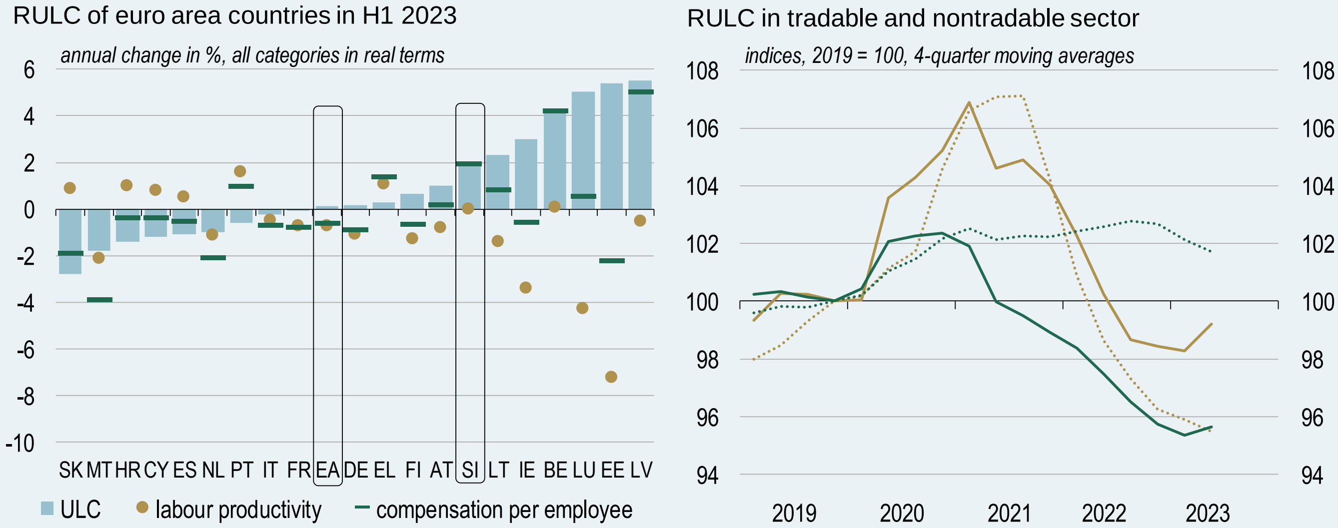
Note: The euro effective exchange rate movements are reflected by NHCI, the price competitiveness by RHCI (HICP), producer competitiveness by RHCI (PPI) and the cost competitiveness by RHCI (ULC). An increase in the indicators points to a deterioration in competitiveness, and vice versa.
Source: ECB, Banka Slovenije calculations.

Slovenia's cost competitiveness in the first half of the year was characterised by an increase in unit labour costs, which was higher than in its partner countries, and thus the movements among the worst in the euro area.

With the appreciation of the effective euro exchange rate and a significant increase in relative unit labour costs (ULC) in the first quarter, the cost competitiveness of the Slovenian economy in relation to 37 trading partners deteriorated significantly year-on-year (by 6.2%), and again exceeded the long-term average (see Figure 5.2.1, right). In the euro area, only the three Baltic countries experienced a major deterioration.

Judging by the growth in real ULC (RULC) in the second quarter (accelerated to 3.1%), adverse developments in cost competitiveness continued throughout the first half of the year. Domestic RULCs were up 1.9% year-on-year in the first half of the year after two years of favourable deceleration, while they were stagnant on average in the euro area. Labour productivity in Slovenia stagnated in real terms and declined slightly in the euro area, but this decline was followed by a fall in real terms in compensation per employee (wages and salaries), which in Slovenia, at 1.9%, reached one of the highest growth rates among the euro area countries (see Figure 5.2.2, left). If domestic wage growth were to outpace euro wage growth for a longer period, this could be reflected in comparatively higher core inflation and, consequently, in a deterioration in price competitiveness.

Figure 5.2.2: **Real unit labour costs**



Note: GDP based calculation. The deflator used to calculate real growth of compensation per employee is the same as that used to calculate real productivity growth, i.e. the GDP deflator, according to the ULC methodology.
Source: ECB, Banka Slovenije calculations.

Note: An increase in the indicators points to a deterioration, and vice versa.
Source: ECB, Banka Slovenije calculations.

This year's developments in domestic RULCs were unfavourable only in the tradable sector[30] (1.5%), i.e. in all groups of activities except industry and, within industry, also manufacturing, which improved due to the decline in real wages. In the non-tradable sector, the improvement (-1.5%) was strongest in financial and insurance activities and in construction, which all increased value added, while the former also reduced wages in real terms. In the euro area, both sectors recorded favourable developments at the end of the second quarter (see Figure 5.2.2, right).

6 Inflation

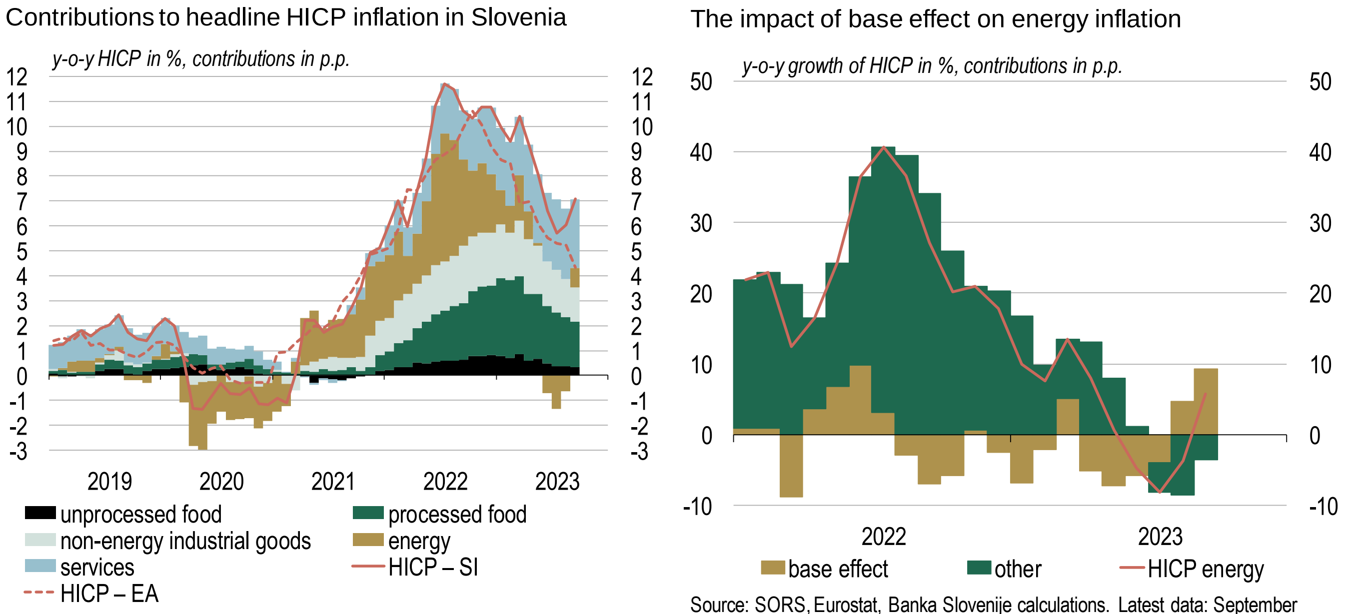
The high year-on-year price increase in September was mainly related to the base effect in energy prices. Despite signs of easing, core inflation remains high, driven mainly by services prices.

Year-on-year inflation as measured by the HICP rose to 7.1% in September, after 6.1% in August. The increase was the result of energy prices (see Figure 6.1, left), which saw a significant year-on-year change in the last month, from -3.7% to 5.8%. This mainly reflects higher electricity prices due to the expiry of the reduced environmental contribution[31] and a base effect related to the government measures to mitigate the impact of high energy prices. Having no such measures introduced last September, energy inflation would have been lower by 9.3 percentage points this September, and

[30] The tradable sector consists of agriculture (A), industry (B to E), trade, accommodation, food services and transportation (G to I), information and communication (J), and professional, scientific and technical activities and administrative and support service activities (M and N). The non-tradable sector consists of all other sectors under the SKD 2008.

[31] As the maximum allowable price of electricity for households remains unchanged, a monthly 9.8% increase in electricity prices in September reflects the expiry of the period in which only a halved contribution for CHP and RES was paid.

Figure 6.1: **Domestic price developments and the dynamics of energy price inflation**



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

Source: SORS, Eurostat, Banka Slovenije calculations. Latest data: September 2023.

headline inflation would have been lower by 1.2 percentage points[32] (see Figure 6.1, right). This base effect will continue to impact the calculation of the year-on-year inflation at least until August 2024.

Food price inflation has been decelerating very gradually. In September it fell to 9.4% on account of base effects and the easing of price pressures in supply chains, i.e. the steady slowdown in the growth of import prices, domestic producer prices and prices of agricultural produce. However, the level and growth of food prices remain high, with food prices now being almost 30% higher compared to the pre-pandemic period.[33]

Inflation excluding energy and food remained high at 6.5% (6.9% in August), reflecting the impact of the pass-through of energy and food price increases to other prices, a still relatively favourable level of domestic demand and a strengthened wage growth, which ended up being the highest among the euro area countries in the second quarter of this year. These effects are mainly visible in services price inflation, which remains markedly broad-based, with more than half of the services basket having risen by more than 8% in annual terms since the beginning of the year (see Figure 6.2, left).[34]

Services price inflation is strongly influenced by wage growth, which represents the main input cost in services, and by food price inflation as food represents an important input cost especially in services related to catering, hotels and accommodation. Therefore, we compared the levels of services prices with the compensation per employee and food prices.[35] The deviation of the calculated ratios from its long-term averages suggests that the increase in compensation per employee and the rise in food prices have not yet been fully passed through to services prices. This poses a risk that high services price inflation will persist. Moreover, the gap between services prices and

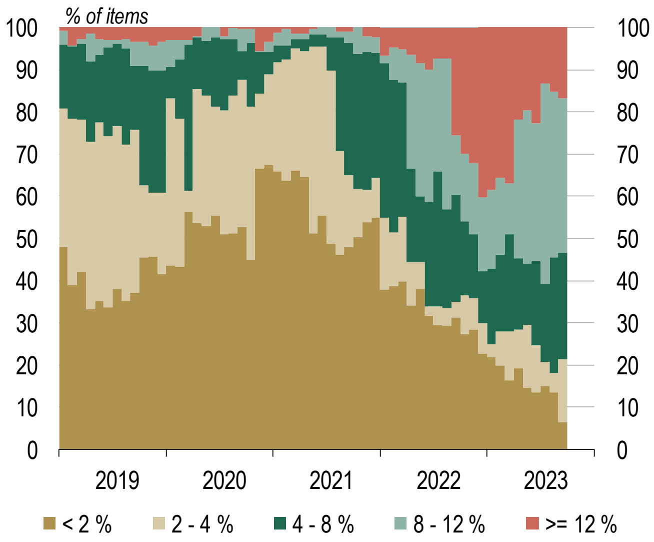
[32] The size of the effect was estimated by comparing the monthly price increase in the current month with the monthly price increase in the same period a year earlier. The methodology for calculating the impact of the base effect was presented in Box 2.3.1 of the June 2023 issue of the Review of macroeconomic developments and projections.

[33] The calculation compares the index of food prices in September 2023 with its average value in 2019.

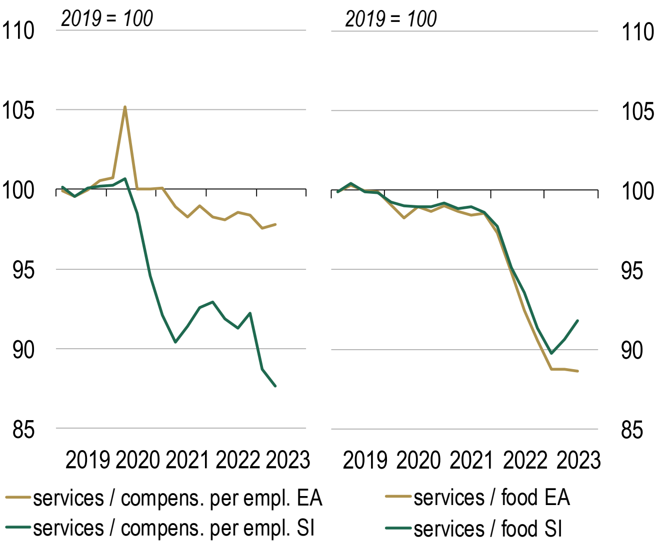
[34] The significant fall in the share of products with year-on-year price increases above 12% in April this year was due to a fall in price increases in restaurants, cafés and dancing establishments. This group accounts for more than a fifth of all services. By September their year-on-year growth slowed down to 8.2%.

[35] The data was seasonally adjusted. The 2019 values do not deviate significantly from the long-term averages calculated for the period 2001–2019.

Figure 6.2: **Broad-based services inflation and the comparison of services price trends with food prices and wages**



Source: SORS, Eurostat, Banka Slovenije calculations. Latest data: September 2023.



Source: SORS, Eurostat, Banka Slovenije calculations. Latest data: Q2 2023 for wages, Q3 2023 for food.

compensation per employee is relatively larger in Slovenia than in the euro area, which, together with higher domestic wage growth, points to an expected further divergence between domestic and euro area core inflation (see Figure 6.2, right), that could further weaken the external competitiveness of the domestic economy (see Box 5.2). As inflation developments are becoming increasingly influenced by domestic factors related to economic activity and wage growth, a complementarity of fiscal policy could help in efforts to reduce inflation in Slovenia.

7 Fiscal Position

The general government deficit in the first half of the year was pushed up by the measures to mitigate the rise in energy prices, as well as by the increase in expenditure on wages, investments and social benefits.

The general government deficit rose to EUR 1.1 billion or 3.7% of GDP during the first half of the year, slightly higher than in the same period last year (3.5% of GDP). It was boosted by year-on-year increases in measures to mitigate energy price rises and by high growth in some expenditure items. Later in the year, it will also be affected by the first costs related to the severe weather and flooding in August. According to the latest government's forecasts, the deficit is expected to reach 4.5% of GDP this year.

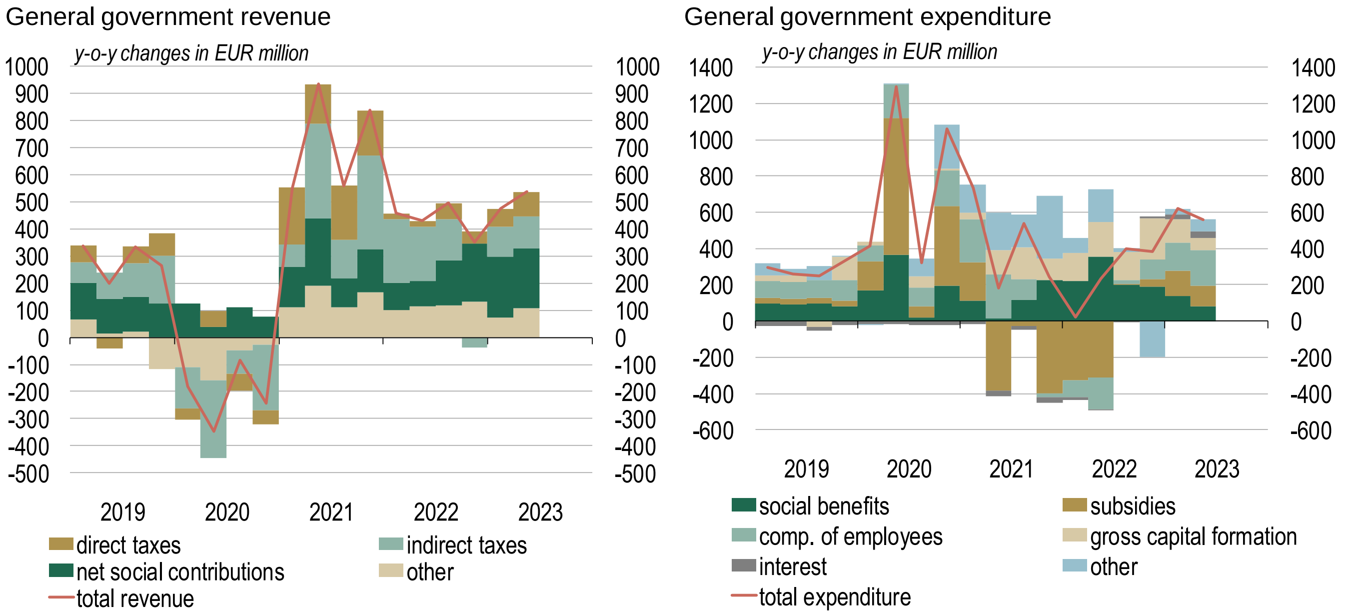
Growth in general government revenue lagged behind the nominal GDP growth between January and June. Social security contributions were again the main contributor to the 8.3% year-on-year increase, reflecting strong wage growth and higher employment in the economy as a whole (see Figure 7.1, left). Growth in taxes on consumption was dampened by the measures to mitigate energy price rises, but these were largely phased out in the second quarter.[36] With further tax cuts, the increase in personal income tax was 6.8%. Corporate income tax revenues were up by 10% year-on-year. The rise in interest rates is not only being reflected in higher interest payments, but also in higher revenue from interest.

General government expenditure, up by 9.0% year-on-year in the first half of the year, is boosted by higher compensation of employees, investment, subsidies and social benefits (see Figure 7.1, right). The highest growth was recorded by subsidies, which is linked to measures to mitigate the rise in energy prices. Investment growth slowed in the second quarter, but government investment in the first half of the year was up by around a fifth year-on-year. The 11% increase in compensation of employees is mainly due to the public sector wage agreement adopted last autumn. Consequently, wages in the public sector rose by 4.5% last October and by a further 4% for most staff this April. Employment in the general government sector also increased by 1%. Social benefits increased as well. This year, pensions in particular are rising, mainly due to adjustments, while the growth of the number of pensioners is also slightly higher.

The available figures for the third quarter suggest a wider cashflow deficit.

According to preliminary daily data from the Ministry of Finance, the state budget balance deteriorated by around EUR 160 million in the third quarter. Aggregate tax, including social security contributions, was up 7.3% year-on-year between July and September. The growth was mainly driven by an almost one-tenth increase in revenue from social security contributions and higher personal income tax, while the already low growth in domestic taxes on goods and services slowed somewhat further. On the ex-

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



Source: SORS, Banka Slovenije calculations.

Source: SORS, Banka Slovenije calculations.

[36] Reduced VAT on energy was in force between September of last year and May of this year, and there were exemptions from the carbon emissions tax in place between 21 June and 1 August 2022, and between 13 September 2022 and 8 May 2023.

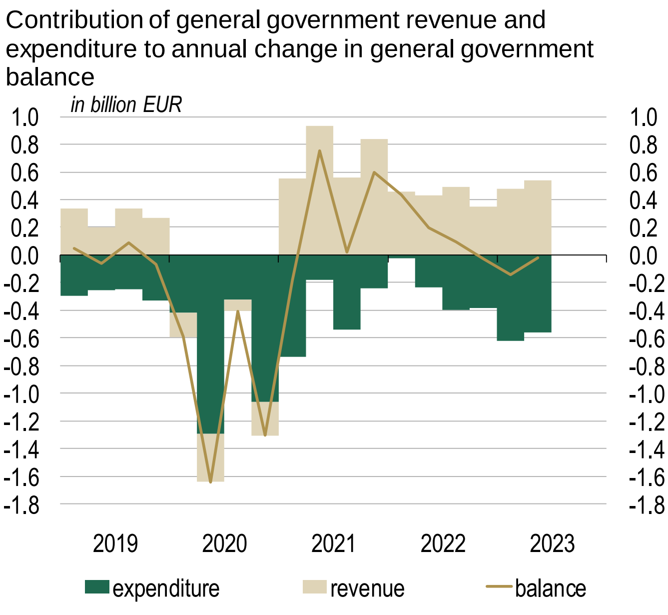
penditure side, wages and subsidies continued to grow in the third quarter. These developments are also being reflected in the consolidated general government deficit, which includes, in addition to the state budget, also the Pension and Disability Insurance Institute, the Health Insurance Institute of Slovenia and municipal budgets, with data available for the first eight months of the year. The consolidated general government position recorded a deficit of 3.3% of GDP over the 12 months to August, compared to 2.8% of GDP at the end of last year.

The general government debt as a ratio to GDP is declining despite a widening deficit in year-on-year terms. A new challenge for public finances are reconstruction expenditures following the severe weather and floods in August.

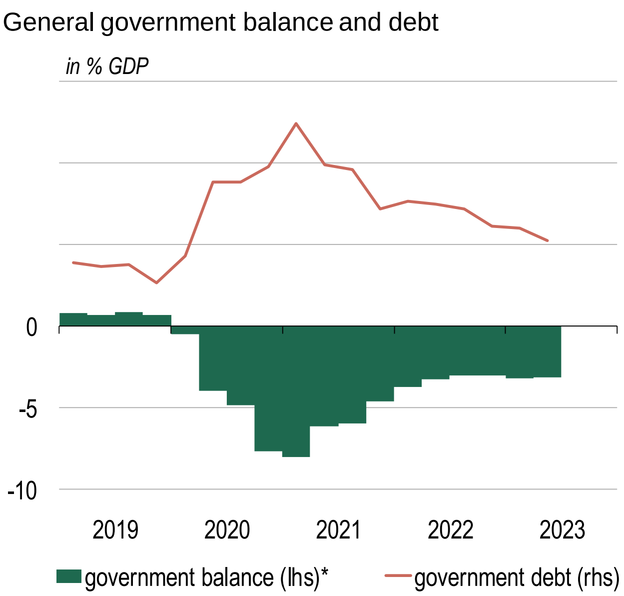
General government debt stood at EUR 42.4 billion or 70.5% of GDP at the end of June. It was up by EUR 1.1 billion relative to the end of the previous year, but its share in GDP fell by almost 2 percentage points due to nominal economic growth (see Figure 7.2, right). The implicit interest rate, calculated as the ratio of interest expenditure to debt, rose slightly to 1.7% (from 1.6% at the end of last year) on the back of restrictive monetary policy. This year's government borrowing via issuance of bonds has been undertaken at higher interest rates than last year.[37] By the end of September, the government borrowed EUR 3.8 billion and repaid EUR 1.8 billion of debt. In its Draft Budgetary Plan for 2024 the government expects debt to be at 69.9% of GDP at the end of this year and a further one percentage point lower as the ratio to GDP next year.

Risks to public finances include the measures to recover from the August floods, pending domestic reforms (public sector wage reform, health reform), the situation in energy

Figure 7.2: **Contributions of revenue and expenditure to the change in the general government position, and general government position and debt according to the ESA methodology**



Source: SORS, Banka Slovenije calculations.



Note: * Sum of the last four quarters.
Source: SORS, Banka Slovenije calculations.

[37] The weighted coupon rate for borrowing via bonds stood at 3.4% at the end of September this year, compared with 1.2% last year.

markets and uncertainties about the necessary duration of the restrictive monetary policy, which is already being reflected in higher government interest expenditure. Risks related to global economic growth are also important. In order to provide the necessary funds for the reconstruction after the floods, the government is proposing a number of measures that will somewhat increase the general government revenues.

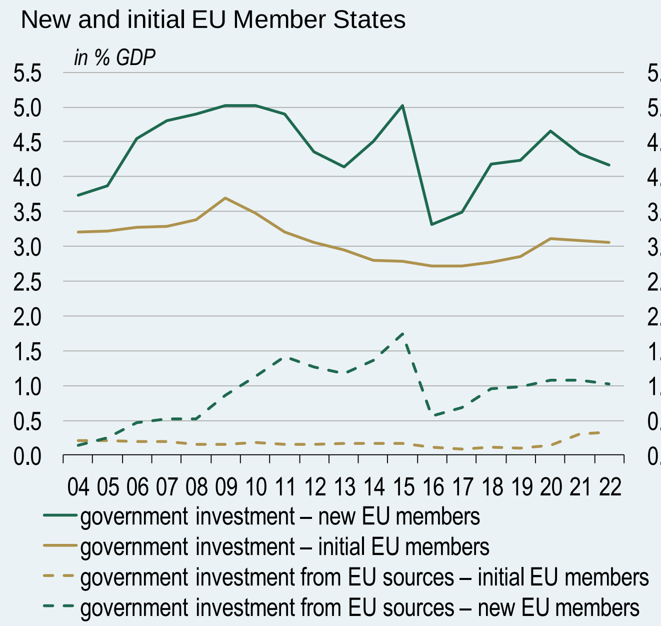
Box 7.1: **Government investment in EU Member States and its financing from the EU's funds**

The EU funding cycle mainly affects government investments in new EU Member States, while these investments, due to their smaller size, have no significant impact on the initial Member States.

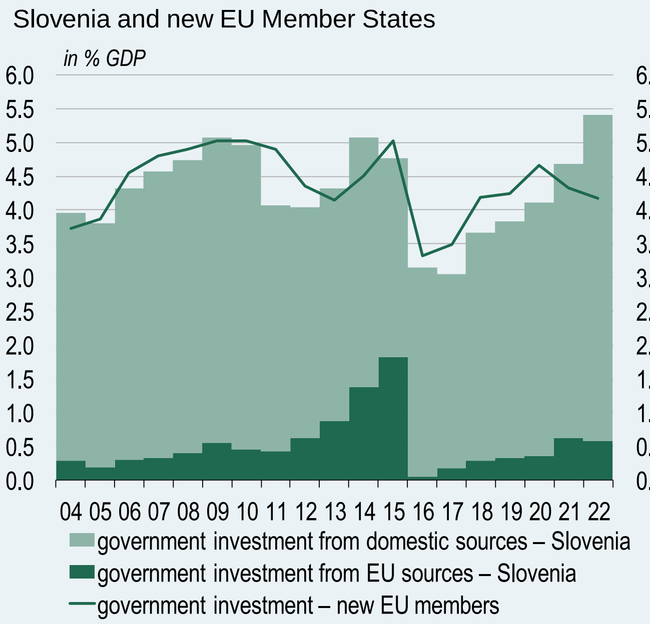
Between 1995 and 2022, total investment in EU Member States averaged 22% of GDP and the government investment share within was 15% (3% of GDP). Both shares of investment in the new Member States that joined the EU in 2004 or later were higher than the average, mostly due to their catching-up process.

EU cohesion funds are deployed to help countries develop and converge across the EU. As a result more resources are allocated to the new Member States, which are less developed, and therefore this has a greater impact on the dynamic of government investment (see Figure 7.1.1, left). Since 2004, the share of EU funding for government investment in the new Member States has been close to 1% of GDP and rising when the EU's financial perspective was closing. The share in the initial Member States was fairly stable at around 0.2% of GDP per year, while the increase from 2021 onwards is due to the start of the absorption of funds from recovery and resilience plans aimed at stimulating economic activity after the pandemic. Government investment utilising domestic sources was also slightly higher in the new Member States (by around 0.4 percentage points of GDP over the last decade), partly due to the mandatory co-financing of investments supported by EU funds.

Figure 7.1.1: **Government investment and its financing from the EU**



Source: ECB, Eurostat, Banka Slovenije calculations.



Source: ECB, Eurostat, Banka Slovenije calculations.

Slovenia received more European cohesion policy funds in the EU financial perspective 2007-2013 (EUR 4.2 billion) than in the financial perspective 2014-2020 (EUR 3.2 billion), which ends this year, while the previous perspective ended in 2015 (see Figure 7.1.1, right). This year, as is usual at the end of the drawing period, such investmen ts are expected to contribute more to the growth of the government investment activity.

In the new financial perspective 2021–2027, Slovenia has EUR 3.2 billion available again, and the absorption of funds will be completed in 2030. At the same time, EU funding under the Recovery and Resilience Facility, including EUR 1.6 billion in grants (of which EUR 0.3 billion has already been drawn) and EUR 1.1 billion in loans, is available until 2026. This funding is expected to have a significant impact on government investment in Slovenia in the coming years.

Box 7.2: **August floods and landslides – a new challenge for public finances**

Reconstruction after the August floods will require significant budgetary resources this year and in the years to come, while the effects of the two previous shocks are still being felt.

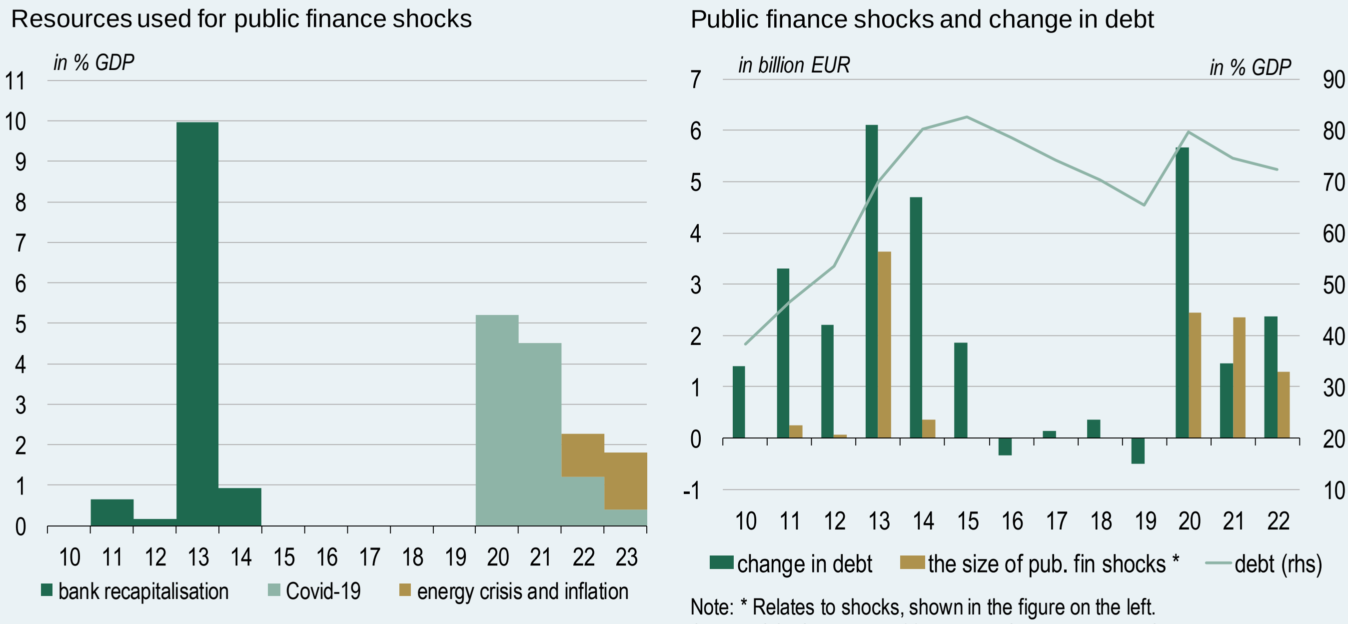
Slovenia was gripped by a catastrophic weather event with floods and landslides in August. The total damage which includes direct damage and reconstruction is estimated at around EUR 10.0 billion, or almost 16% of this year's estimated GDP. A comprehensive assessment of the damage and the funds needed is expected to be contained in the new act on reconstruction, development and measures to provide funds for flood recovery, which is currently being drafted. Currently, EUR 1.6 billion is foreseen by the Ministry of Finance in its Draft Budgetary Plan for 2024 (around 2.5% of the estimated GDP) for disaster recovery in 2023 and 2024. The reconstruction will take several years. It represents a new shock to public finances at a time when the two previous shocks related to rising energy prices and, to a lesser extent, to the COVID-19 pandemic, have not yet fully dissipated (see Figure 7.2.1, left). These two shocks affected all euro area countries, while major weather disasters impacted only some countries alongside Slovenia.

Slovenia has already experienced three major public finance shocks since 2010, two of which have required budgetary funds totalling more than 10% of GDP.[38] The first shock related to the comprehensive recapitalisation of banks, most of which Slovenia carried out in 2013.[39] The second public finance shock was the COVID-19 pandemic, for which the general government allocated EUR 5.8 billion over the period 2020–2023. General government expenditure increased most in 2020 (by over 5% of GDP) and in 2021 (4.5% of GDP). Compared to the period of bank recapitalisation, when Slovenia borrowed at high interest rates, and interest expenditure increased sharply as a result, the impact was smaller due to the period of low interest rates during the pandemic, and Slovenia also received part of the funds from the EU budget. The third shock, the mitigation of energy price inflation, requires fewer funds. Last year's measures are estimated at 1.1% of GDP, while this year the Ministry of Finance estimates that 1.4% of GDP will be spent on this purpose, with the possibility of extending the measures to

[38] This refers to the measures with the impact on budget balance, while measures without impact on the general government position were also taken, e.g. guarantees and other measures to ensure liquidity during the pandemic, which were crucial to sustaining economic activity. The BAMC was established in 2013, and the non-performing claims of banks were transferred to it.

[39] For more, see Box 5.1 April 2014 Macroeconomic Developments and Projections.

Figure 7.2.1: **Public finance shocks by year and developments in general government debt**



Source: Ministry of finance, Banka Slovenije, Banka Slovenije calculations.

Note: * Relates to shocks, shown in the figure on the left.
Source: SORS, Ministry of fin., Banka Slovenije, Banka Slovenije calculations.

2024. The financing of the flood recovery, which is a new shock to public finances, will take several years, and support from EU funds is also expected.

The effects of these developments are also reflected in the stock of government debt (see Figure 7.2.1, right), but despite the shocks the debt expressed as a share of GDP was declining over the past two years as a result of the high nominal economic growth.

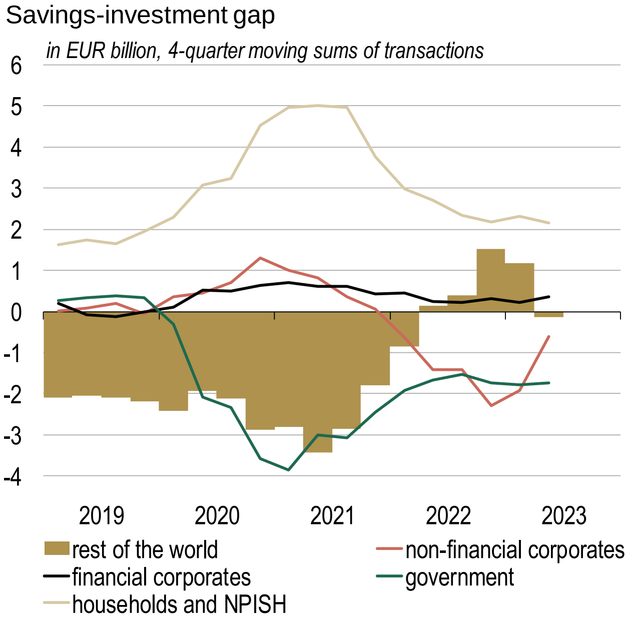
Financial Position of Firms and Households

After a temporary shift to a net debtor position in 2022, the saving-investment gap of the Slovenian economy turned positive again in the second quarter of this year.

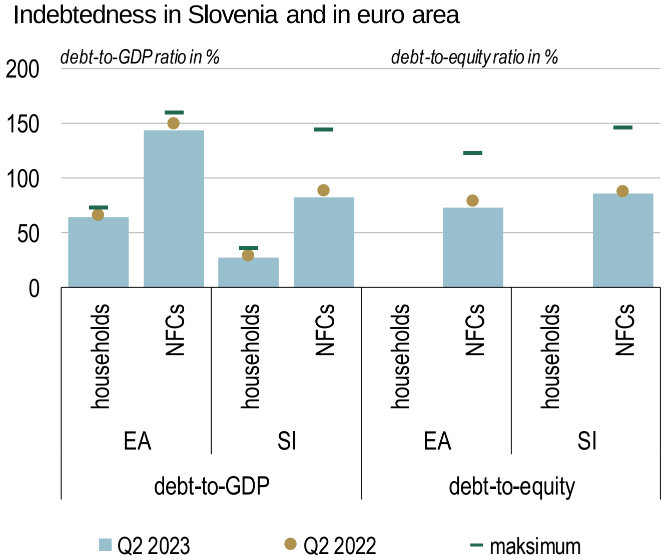
The majority of the reversal to the aggregate net creditor position was attributable to firms, whose net debtor position, as measured by one-year net cashflow from transactions, declined from a peak of EUR 2.3 billion at the end of last year to EUR 610 million in June this year (see Figure 8.1, left). The main contributors were higher net transactions in trade credits (EUR 800 million), debt securities (EUR 610 million), and loans (EUR 500 million). The latter is mainly due to a lower flow of loan borrowings (EUR 470 million), as a result of monetary policy tightening. Of the decrease in non-financial corporations' net debtor position of EUR 1.7 billion in June compared to the end of last year, EUR 440 million was due to a decrease in net liabilities to foreign countries.

Households, government and financial corporations maintained a similar net financial position in the first half of this year as at the end of last year. The flow of excess household saving amounted to EUR 2.1 billion in June, with a significant change in the structure as a result of a decrease in the inflow of both holdings of currency and deposits (by EUR 540 million), and of loan borrowings (by EUR 400 million). A similar reversal was seen in the general government sector, which reduced its 12-month flows of loan borrowings by EUR 940 million between December and June, almost entirely offset by a higher flow of borrowing through debt securities (by EUR 860 million).

Figure 8.1: **Saving-investment gap and indebtedness**



Source: Banka Slovenije. Last observation: Q2 2023.



Note: Debt is calculated as a sum of currency and deposits, debt securities, loans, insurance and pension schemes and other claims and liabilities.
Source: ECB, Eurostat, Banke Slovenije.

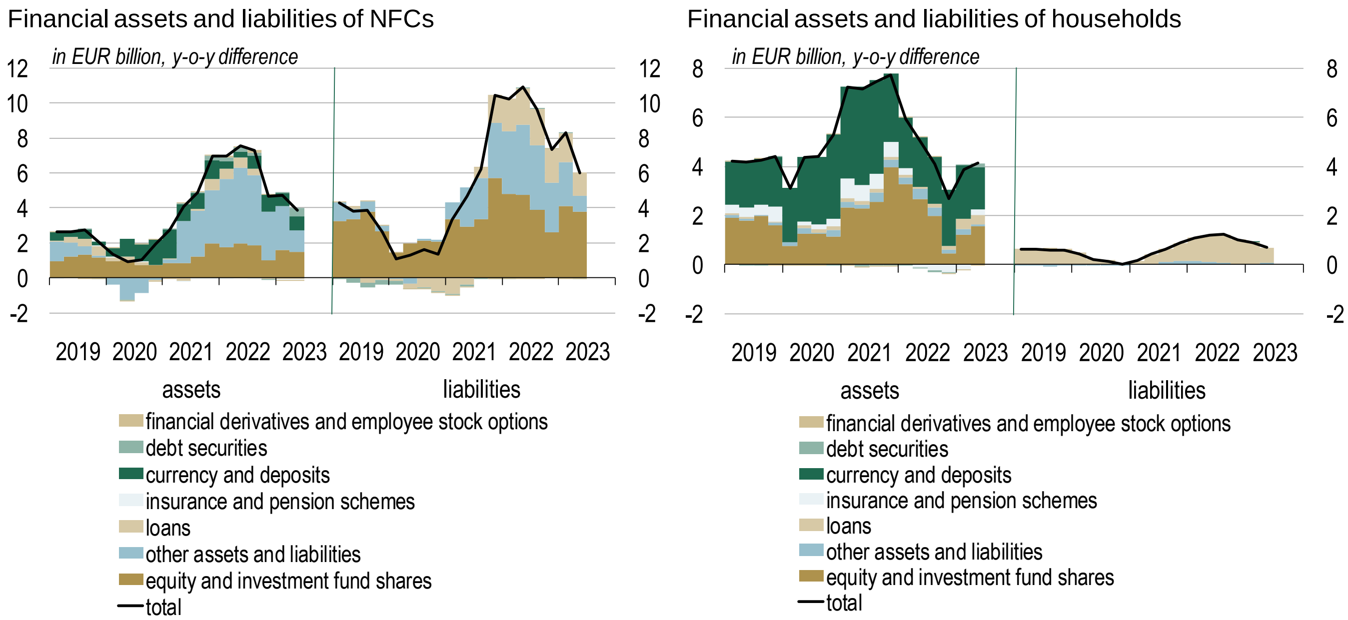
Corporate and household indebtedness remains low. According to the second quarter data, Slovenian firms hold debt of 82.7% of GDP, which is significantly below the euro average (143.2%, see Figure 8.1, right). In terms of the leverage ratio, domestic firms (85.6%) are slightly above euro-area firms (72.7%), but at the same time this is a level of indebtedness that is still well below the peak reached in 2010 (146.7%). The household debt-to-GDP ratio fell by 2 percentage points over the last year and, at 27.1%, it is well below the euro area average (64.0%).

Restrictive monetary policy is already being reflected in a slowdown in corporate and household borrowing.

The pace of increase in the financial assets and liabilities of businesses is slowing. Non-financial corporations' financial assets were EUR 3.8 billion higher in June compared to a year earlier, but the year-on-year increase was smaller than in December, when it stood at EUR 4.7 billion (see Figure 8.2, left). Other receivables, dominated by trade credits, slowed down, while their holdings of equity strengthened, primarily by positive revaluations. Similar conclusions can also be drawn from the changes in non-financial corporations' financial liabilities, which show a decline in the growth of borrowing. This is largely due to the tightening of monetary policy.

The growth in household financial assets accelerated in the first two quarters of this year, driven mainly by equity, as a result of both new investments and positive revaluations stemming from the rise in global stock markets. After several consecutive quarters of disinvestment in insurance, pension and standardised guarantee schemes, the latter returned to growth at the halfway point of the year, with a year-on-year increase of EUR 210 million. The growth of household borrowing slowed, with a year-on-year increase of EUR 620 million in June, well below the EUR 1 billion increase at the end of last year (see Figure 8.2, right). The smaller year-on-year increase is almost entirely due to long-term loans, reflecting the transfer of higher interest rates mainly to mortgage loans.

Figure 8.2: **Changes in financial assets and liabilities of businesses and households**



Source: Banka Slovenije. Last observation: Q2 2023.

Source: Banka Slovenije. Last observation: Q2 2023.

9 Statistical Appendix

Table 9.1: **Key macroeconomic indicators at the monthly level for Slovenia**

	2021	2022	12 m. 'till Jul.23	3 m. 'till Jul.22	3 m. 'till Jul.23	2023 May.	2023 Jun.	2023 Jul.	2023 Aug.	2023 Sep.
Economic Activity										
				balance of answers in percentage points						
Sentiment indicator	2.4	0.6	-2.8	0.7	-4.8	-3.0	-4.9	-6.5	-6.0	-5.4
- confidence indicator in manufacturing	8.3	-0.1	-6.8	0.0	-10.3	-10.0	-10.0	-11.0	-11.0	-10.0
				year-on-year growth rates in %						
Industry: - total	10.2	1.2	-3.6	3.0	-3.8	-2.2	-2.4	-7.0	-12.3	...
- manufacturing	11.8	3.9	-1.1	5.6	-2.8	-1.1	-1.6	-6.1	-12.1	...
Construction: - total	-0.5	22.2	24.5	19.8	21.8	23.8	24.0	17.6	...	...
- buildings	-23.0	53.4	32.6	64.5	13.0	15.9	11.7	11.7	...	...
Trade and service activities - total	12.2	9.8	2.0	10.9	-2.5	-1.1	-4.2	-2.1	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	8.3	-0.4	7.9	-1.9	9.0	5.4	8.9	13.2	...	...
Retail trade, except of motor vehicles and motorcycles	16.3	7.7	-2.3	8.3	-7.9	-7.7	-8.1	-7.9	...	...
Other private sector services	12.4	11.8	3.6	13.9	-1.5	0.4	-4.0	-0.7	...	...
Labour market				*year-on-year growth rates in %*						
Average gross wage	6.0	2.7	8.5	1.7	10.3	11.0	9.9	10.0	...	...
- private sector	5.9	6.3	8.7	6.9	9.5	10.7	8.9	9.0	...	...
- public sector	6.4	-2.6	8.4	-5.9	11.6	11.6	11.6	11.6	...	...
Real net wage[1]	3.0	-5.1	-0.3	-6.6	2.9	2.3	2.7	3.6	...	...
Registered unemployment rate (in %)	7.6	5.8	5.2	5.6	4.8	4.8	4.7	4.8	...	...
Registered unemployed persons	-12.6	-23.8	-18.1	-24.4	-14.3	-15.5	-14.3	-13.0	-12.1	-11.6
Persons in employment	1.3	2.4	1.8	2.4	1.4	1.5	1.4	1.2	...	...
- private sector	1.3	3.0	2.2	3.0	1.6	1.8	1.6	1.3	...	...
- public sector	1.1	0.7	0.7	0.6	0.9	0.9	0.8	0.9	...	...
Price Developments				*year-on-year growth rates in %*						
HICP	2.0	9.3	9.4	10.4	6.8	8.1	6.6	5.7	6.1	7.1
- services	0.6	5.5	7.4	5.6	8.2	8.2	8.2	8.3	8.2	8.1
- industrial goods excluding energy	1.3	6.3	6.7	6.2	6.1	6.4	6.0	5.9	5.2	4.7
- food	0.7	10.6	14.6	10.5	12.6	14.3	12.3	11.2	10.4	9.4
- energy	11.3	24.8	11.3	33.9	-4.3	0.6	-4.7	-8.2	-3.7	5.8
Core inflation indicator[2]	0.9	5.9	7.1	5.9	7.3	7.3	7.2	7.3	6.9	6.5
Balance of Payments - Current Account					*in % GDP*					
Current account balance	3.3	-1.0	3.1	-1.9	6.7	8.7	8.0	3.3	3.0	...
1. Goods	1.7	-3.8	-0.3	-3.5	3.5	4.5	4.6	1.4	-1.6	...
2. Services	4.2	6.1	6.1	6.2	6.4	6.4	7.0	5.6	6.7	...
3. Primary income	-1.4	-2.2	-1.6	-3.2	-1.7	-0.5	-2.2	-2.4	-1.8	...
4. Secondary income	-1.1	-1.1	-1.1	-1.4	-1.5	-1.7	-1.5	-1.3	-0.3	...
				nominal year-on-year growth rates in %						
Export of goods and services	19.4	22.9	9.3	29.8	-1.1	3.8	-0.5	-6.6	-9.4	...
Import of goods and services	25.6	29.0	5.4	35.5	-9.9	-6.6	-9.9	-13.0	-13.9	...

Public Finances	2021	2022	12 m. 'till Aug.23		2022 Jan.-Aug.		2023 Jan.-Aug.	
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	39.0	3.6	15,400	12.0	15,939	3.5
Tax revenue	18,786	20,557	34.8	5.3	13,590	11.5	14,288	5.1
From EU budget	950	961	1.5	-19.7	611	33.8	537	-12.1
Other	1,646	1,794	2.8	-1.6	1,199	8.1	1,114	-7.1
Expenditure	24,300	24,886	42.3	6.5	15,787	-0.2	16,739	6.0
Current expenditure	10,394	10,283	17.7	4.9	6,680	-1.5	7,198	7.7
- wages and other personnel expenditure	5,751	5,481	9.7	11.0	3,617	-10.3	4,058	12.2
- purchases of goods, services	3,351	3,557	6.0	3.9	2,224	9.2	2,344	5.4
- interest	732	661	1.2	11.6	474	-16.0	529	11.6
Current transfers	11,319	11,261	19.0	5.3	7,476	-3.8	7,826	4.7
- transfers to individuals and households	9,168	9,294	15.5	4.1	6,246	-1.2	6,417	2.7
Capital expenditure, transfers	1,959	2,612	4.5	23.0	1,151	30.8	1,281	11.3
GG surplus/deficit	-2,917	-1,575	-3.3		-388		-800	

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

Table 9.2: **Key macroeconomic indicators at the quarterly level for Slovenia and the euro area**

	2020	2021	2022	22Q3	22Q4	23Q1	23Q2	2020	2021	2022	22Q3	22Q4	23Q1	23Q2
				Slovenia							*euro area*			
Economic developments							*q-o-q growth rates in %*							
GDP				-0.5	0.7	0.2	1.1				0.3	-0.1	0.1	0.1
- industry				1.2	-0.6	-0.5	1.5				0.5	-0.2	-1.1	-0.3
- construction				3.6	5.5	3.8	6.1				-1.2	-0.2	2.1	-0.5
- mainly public sector services (OPQ)				-0.3	3.4	-2.2	0.9				0.5	0.3	-0.1	0.1
- mainly private sector services (without OPQ)				-0.2	0.2	0.9	1.1				0.4	-0.1	0.2	0.0
Domestic expenditure				-1.4	2.1	-3.0	-2.3				0.9	-0.6	-0.7	0.6
- general government				0.2	1.2	0.8	0.9				0.0	0.5	-0.6	0.2
*- households and NPISH**				-0.2	-0.2	0.3	-1.0				0.9	-0.7	0.0	0.0
- gross capital formation				-6.9	2.2	-5.8	-7.9				1.9	-1.4	-2.2	2.1
- gross fixed capital formation				2.3	0.4	4.3	2.2				0.9	-0.2	0.3	0.3
							y-o-y growth rates in %							
GDP	-4.2	8.2	2.5	0.9	-0.2	0.8	1.4	-6.1	5.6	3.3	2.4	1.4	1.4	0.1
- industry	-3.2	8.7	-3.1	1.8	-4.1	-2.5	1.8	-6.1	8.6	1.5	1.7	0.5	-0.1	-1.8
- construction	-1.5	10.4	7.2	6.1	11.1	15.1	21.0	-5.0	2.6	1.3	0.2	-1.1	1.0	-0.6
- mainly public sector services (OPQ)	2.4	4.1	1.4	-0.9	3.5	0.1	1.7	-2.8	3.3	1.7	1.1	1.7	1.3	0.5
- mainly private sector services (without OPQ)	-5.5	8.3	4.9	1.5	0.4	1.5	2.3	-6.6	6.0	3.8	2.9	1.7	1.8	0.1
Domestic expenditure	-4.3	10.1	3.7	-0.7	0.1	-3.7	-4.7	-5.7	4.4	3.6	3.2	1.0	0.8	-0.2
- general government	4.2	6.1	-0.5	-2.1	-1.6	-1.0	3.2	1.1	4.1	1.3	0.4	0.5	-0.6	0.0
- households and NPISH	-6.5	10.3	3.6	-1.2	0.2	2.9	-1.5	-7.7	4.1	4.3	2.1	1.1	1.7	0.0
- gross capital formation	-6.3	13.9	7.9	2.2	1.9	-18.4	-17.5	-7.1	5.2	4.4	8.6	1.3	0.2	-0.9
- gross fixed capital formation	-7.2	12.6	3.5	3.8	0.7	7.6	9.8	-6.3	3.4	2.8	4.3	0.2	2.3	0.7
- inventories and valuables, contr. to GDP growth in p.p.	0.1	0.4	1.0	-0.3	0.3	-6.7	-6.4	-0.2	0.4	0.4	1.0	0.2	-0.4	-0.4
Labour market							*q-o-q growth rates in %*							
Employment				0.4	0.4	0.4	0.1				0.3	0.3	0.5	0.2
- mainly private sector (without OPQ)				0.5	0.5	0.4	0.1				0.3	0.3	0.6	0.1
- mainly public services (OPQ)				0.3	0.4	0.3	0.4				0.2	0.3	0.3	0.3
							y-o-y growth rates in %							
Employment	-0.7	1.3	2.9	2.7	2.4	1.8	1.4	-1.4	1.5	2.3	1.9	1.6	1.6	1.3
- mainly private sector (without OPQ)	-1.4	1.0	3.1	2.9	2.6	1.9	1.4	-2.2	1.3	2.6	2.0	1.7	1.8	1.4
- mainly public services (OPQ)	2.2	2.7	2.0	1.7	1.5	1.4	1.5	1.0	2.1	1.6	1.5	1.3	1.2	1.1
Labour costs per employee	3.4	8.1	5.0	6.1	7.4	12.6	13.5	-0.4	3.9	4.3	3.7	4.8	5.5	5.6
- mainly private sector (without OPQ)	1.5	8.1	7.7	7.7	8.0	13.4	13.5	-1.6	4.6	4.7	3.9	4.6	6.1	5.7
- mainly public services (OPQ)	9.4	7.7	-3.1	1.0	5.5	10.1	13.5	2.3	2.2	3.5	3.3	5.5	4.1	5.1
Unit labour costs, nominal**	7.2	1.1	5.4	7.9	10.2	13.7	13.5	4.7	-0.3	3.3	3.2	5.0	5.8	6.8
Unit labour costs, real***	6.0	-1.5	-1.0	-1.0	3.1	2.2	3.8	2.8	-2.3	-1.3	-1.4	-0.6	-0.4	0.6
							in %							
LFS unemployment rate	5.0	4.7	4.0	4.0	3.5	3.8	3.6	7.9	7.7	6.8	6.7	6.7	6.8	6.3
Foreign trade							*q-o-q growth rates in %*							
Real export of goods and services				3.8	-4.8	0.4	-0.4				1.2	-0.3	0.0	-0.7
Real import of goods and services				2.5	-4.0	-2.5	-3.4				2.5	-1.4	-1.3	0.1
							y-o-y growth rates in %							
Real export of goods and services	-8.5	14.5	7.2	12.7	-1.3	2.2	-1.7	-9.0	11.1	7.0	7.9	3.4	3.0	0.1
Real import of goods and services	-9.1	17.8	9.0	11.4	-1.1	-2.8	-8.1	-8.4	8.7	7.9	10.3	2.5	2.1	-0.5
Current account balance as % of GDP****	7.2	3.3	-1.0	-0.4	-1.0	0.3	2.6	1.6	2.3	-0.7	-0.7	-0.7	-0.6	-0.3
External trade balance as contr. to GDP growth in p.p.	-0.3	-1.0	-1.0	1.6	-0.2	4.7	5.8	-0.6	1.4	-0.2	-0.7	0.4	0.5	0.4
Financing							*in % of GDP*							
Banking system's balance sheet	98.0	94.4	90.8	90.8	90.8	88.1	…	293.3	283.5	279.2	297.2	279.2	277.0	…
Loans to NFCs	20.2	19.2	20.0	20.0	20.0	19.6	19.2	39.7	37.5	37.2	37.5	37.2	36.5	36.0
Loans to households	22.8	21.6	21.5	21.5	21.5	21.0	20.6	52.7	51.0	49.2	49.7	49.2	48.4	47.6
Inflation							*in %*							
HICP	-0.3	2.0	9.3	11.3	10.6	9.9	7.9	0.3	2.6	8.4	9.3	10.0	8.0	6.2
HICP excl. energy, food, alcohol and tobacco	0.8	0.9	5.9	6.4	7.0	7.2	7.4	0.7	1.5	4.0	4.4	5.1	5.6	5.5
Public finance							*in % of GDP*							
Debt of the general government	79.6	74.4	72.3	74.4	72.3	72.0	70.5	97.2	95.1	91.3	92.6	91.3	91.2	…
One year net lending/net borrowing of the general government****	-7.6	-4.6	-3.0	-3.0	-3.0	-3.2	-3.1	-7.1	-5.3	-3.6	-3.3	-3.6	-3.7	…
*- interest payment****	1.6	1.2	1.1	1.1	1.1	1.1	1.2	1.5	1.5	1.7	1.6	1.7	1.7	…
*- primary balance****	-6.1	-3.4	-1.9	-1.9	-1.9	-2.0	-2.0	-5.6	-3.9	-1.9	-1.7	-1.9	-2.0	…

Note: Unadjusted 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.
* 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.
Source: SORS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations.

10 Figures and tables

Figures

Tables