BANKA SLOVENIJE

EVROSISTEM

Semi-Annual Overview of Economic and Financial Developments

October 2022

BANKA SLOVENIJE

EVROSISTEM

Title: Semi-Annual Overview of Economic and Financial Developments

Issue: October 2022

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

Based on data available by 14 October 2022.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of 18 October 2022.

ISSN 2820-6533

This publication is also available in Slovene.

Contents

Summary

The Slovenian and euro area economies are cooling amid persistently high inflation, although domestic industrial production and exports continued to rise in August.

- **After a rebound in the first half of the year, the latest data for the euro area suggests that economic activity is cooling.** Following quarterly growth of 0.8% in the second quarter, driven by strong demand for services, the survey indicators in the third quarter point to a deterioration in the economy. Having entered the zone of contraction in August, the PMIs for manufacturing and services declined slightly further in September. The decline in confidence among consumers and firms is driving down the economic sentiment indicator, which hit its lowest value since August 2020. In light of the strong second quarter, the IMF raised its GDP growth forecast for the euro area for this year to 3.1%, but cut its forecast for 2023 to 0.5%. Both forecasts are accompanied by great uncertainty in connection with the disruption to gas supplies and the broader consequences of a longer war in Ukraine.
- **Euro area headline inflation averaged 10.0% in September, and core inflation is also rising.** The latter, which takes account of developments in prices of services and non-energy industrial goods only, rose to 4.8%. At the same time high energy prices are also driving up food prices, which are subject to disruptions to supply in addition to rising production costs. The long-term inflation expectations mostly remain around 2%.
- **In light of the persistence of high inflation in the euro area, the ECB raised its key interest rates by 0.75 percentage points in September.** With other major global central banks reacting in a similar fashion, the money market risk-free interest rates, as well as government bond yields rose further. At the same time, investors' concerns about slowing economic growth contributed to an increased volatility on the financial markets, lower values of higher-risk asset classes, and the appreciation of the US dollar against most major global currencies.
- **Domestic GDP remains elevated, but the economy is cooling on a quarterly basis.** This is evident from turnover in services and, in part, from the amount of construction put in place. Year-on-year growth in the value of card payments and ATM withdrawals in September (adjusted for the HICP deflator) was down significantly on previous months. The situation in manufacturing remains better than might be expected on the basis of survey confidence indicators: output in August was again up on the previous month. The deterioration in the economic sentiment picked up pace in September, as consumer confidence fell to its level of April 2020. The survey demand indicators also declined sharply in manufacturing.
- **Further evidence of the cooling economy comes from the nowcasts for quarterly GDP growth.** They currently average zero for the third quarter. Under the assumption of similar developments in the final quarter, GDP growth would be around 6% this year. These developments are also in line with the Banka Slovenije projections released in June.
- **Registered unemployment is at a record low, and wage growth remains moderate.** The year-on-year rise in the persons in employment slowed over the summer months, but remained above its long-term average, although employment expectations are continuing to slow. With registered unemployment at a record low,

employers are continuing to address their difficulties with shortages of skilled labour by hiring foreign nationals. Year-on-year growth in the average nominal gross wage in the private sector remains moderate. It stood at 6.1% in July.

- **The current account deficit is widening amid high import prices of energy and commodities, while year-on-year growth in nominal foreign trade remains very high.** The current account deficit over the first eight months of the year amounted to EUR 210 million, while the merchandise trade deficit reached EUR 1.6 billion, compared with a surplus of EUR 1 billion during the same period last year. Half of the year-on-year change was driven by the widening deficit in energy trade, under the influence of high prices on the global market. The reversal of merchandise trade with Russia from surplus to deficit was a major factor. This is in line with the broader impact of the deterioration in the terms of trade, which accounted for approximately half of the reversal in the current account balance. The services trade surplus is widening at the same time. Nominal year-on-year growth in foreign trade remains extremely high, amid favourable external competitiveness. Aggregate imports were up 32.3% in year-on-year terms in August, while exports were up 30.7%. The export outlook for 2023 is worsening: the latest forecast for weighted GDP growth in the trading partners is just 0.9%.
- **The financial position of the Slovenian economy shifted significantly in the second quarter: the 12-month financial flows with the rest of the world entered a net debtor position for the first time since 2012.** This was attributable to an increased flow of liabilities to the rest of the world, particularly in the form of equity, and a smaller flow of net household saving in the rest of the world, which goes along with the decline in excess household saving following the significant increase during the pandemic. Conversely, the government sector is further reducing its net debtor position, thereby mitigating the Slovenian economy's net debtor position against the rest of the world. A similar picture of the saving-investment gap is presented by the financial account of the balance of payments, which recorded a deficit after ten years, although this has not yet been reflected in a deterioration in Slovenia's net negative international investment position.
- **Similarly to the euro area overall, inflation in Slovenia remains at high levels and is increasingly broad-based.** The narrowest core inflation indicator, which excludes energy and food prices, was up 6.6% in year-on-year terms in September, as 58% of the relevant goods and services saw year-on-year price rises of more than 5%. Headline inflation stood at 10.6% in September, and was held down in that month by government measures to support households, which are mainly targeting to reduce energy prices for heating. Energy prices were nevertheless up more than a quarter in year-on-year terms. Food prices are also rising consistently, as food production costs rise, with the uncertain situation further exacerbated by the extremely dry weather conditions this summer in Europe. Inflationary factors remain pronounced: import prices continue to rise, while domestic producer prices are also being driven up by rising input costs.
- **The general government deficit over the 12 months to June narrowed to 3.0% of GDP thanks to the growing economy and a decline in spending on emergency measures.** The general government debt stood at 73.5% of GDP at the end of June. According to the government's draft budget plan, the deficit is forecast to temporarily widen to 5.0% of GDP next year, driven by measures to mitigate high energy prices.

1 Economic Situation in the International Environment

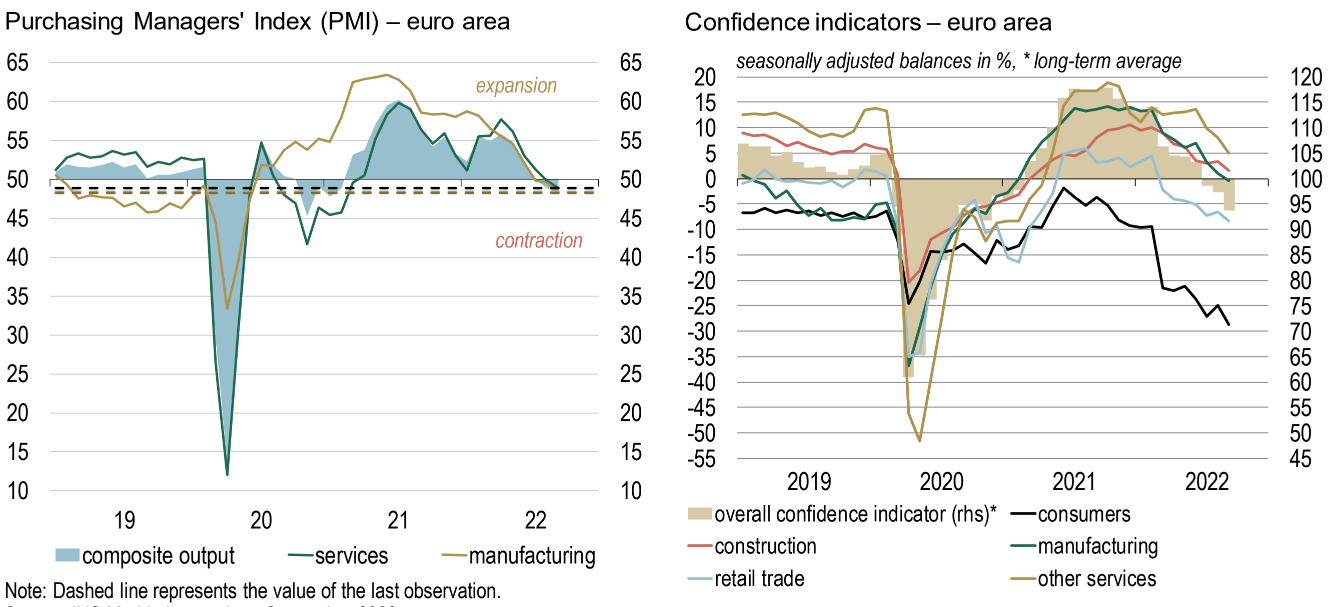
After a strong first half of the year, the euro area economy is showing signs of slowing in the third quarter: the available indicators for manufacturing and services are weakening consistently amid strong inflationary pressures.

Economic activity in the euro area in the second quarter was up 0.8% on the previous quarter, more than had been forecast, and the highest GDP growth rate of the last three quarters. The main factor was the increase of 1.3% in household consumption, which was driven by the lifting of pandemic containment measures and a strong summer season in the tourism sector, particularly in the southern countries. Government consumption and gross fixed capital formation also increased, by 0.6% and 0.9% respectively, while net trade made a negative contribution as imports increased by 1.8% and exports by 1.3%. Euro area GDP was up 4.1% in year-on-year terms.

The composite PMI averaged 49 points over the third quarter, and signifies a decline in euro area GDP over the quarter. The decline in economic activity in manufacturing and services deepened slightly further in September, as a result of high inflation and the increased uncertainty (see Figure 1.1).

Amid the rising cost of living, which is reducing purchasing power, demand is continuing to cool, which is being reflected in a sharp decline in new orders, but also an improvement in the situation in supply chains. While the disruptions to supply chains have been limiting manufacturing output for a long time now, there are growing numbers of energy-intensive firms in particular who are planning to limit output because of high energy prices.[1] The decline in confidence among consumers and firms is driving down the economic sentiment indicator, which hit its lowest value since August 2020 (see Figure 1.1).

Figure 1.1: **Survey indicators of economic developments in the euro area**



Note: Dashed line represents the value of the last observation.
Source: IHS Markit. Latest data: September 2022.

Source: Eurostat. Latest data: September 2022.

[1] Source: IHS Markit.

In its October World Economic Outlook the IMF raised its economic growth forecast for the euro area for this year by 0.5 percentage points relative to July to 3.1%, thanks to improved economic performance in the second quarter. It is also forecasting growth of just 0.5% next year, emphasising the increased risk of a contraction in GDP over the winter in multiple European countries, particularly those heavily dependent on Russian energy. The Eurosystem is forecasting slightly higher economic growth of 0.9% for next year under its baseline scenario.

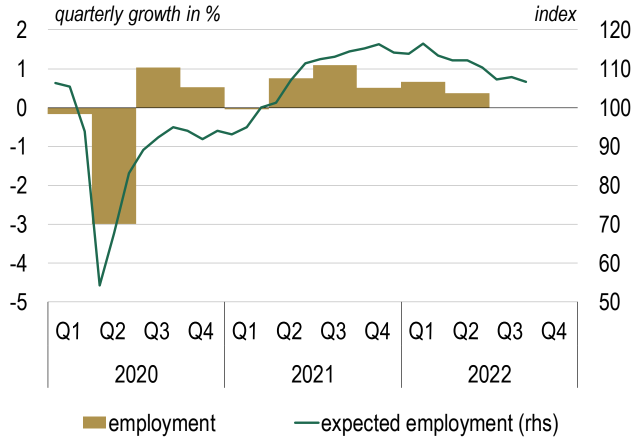
The euro area labour market remains in robust shape, although the negative signals in the economy have now been reflected in a decline in employment expectations.

Employment in the euro area reached a record high in the second quarter. Its year-on-year rate of growth remained high at 2.7%, albeit down almost 0.5 percentage points on the first quarter. The seasonally adjusted unemployment rate stood at 6.6% in August, unchanged from the previous month. Amid record high employment and the low unemployment rate, there remained a large labour shortage in September, broadly based across economic sectors, but largest in services. In July more than a third of firms were reporting that labour shortages were limiting their work processes. Despite the current robustness of the labour market, the uncertainty and the cooling euro area economy are already being reflected in a decline in employment expectations. The short-term indicators of employment expectations remained positive in September, but lower than in previous months (see Figure 1.2).

Wage growth as measured by the year-on-year change in compensation per employee stood at 4.7% in the second quarter, up 0.3 percentage points on the previous quarter. The robust labour market and the persistence of high inflation are giving rise to pressure for further wage growth, which is currently being outpaced by inflation.

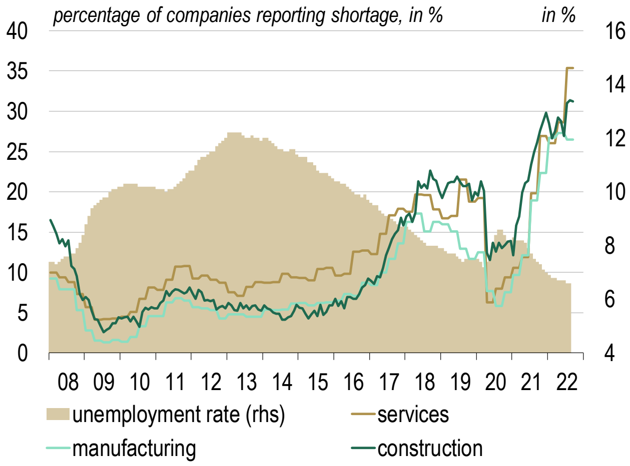
Figure 1.2: **Labour market situation in the euro area**

Employment and expected employment in the euro area



Note: Data is seasonally adjusted. For the expected employment indicator value 100 represents the long-term average.
Source: Eurostat, Banka Slovenije calculations. Latest data: employment – Q2 2022, expected employment – September 2022.

Shortage of workers and unemployment rate in the euro area



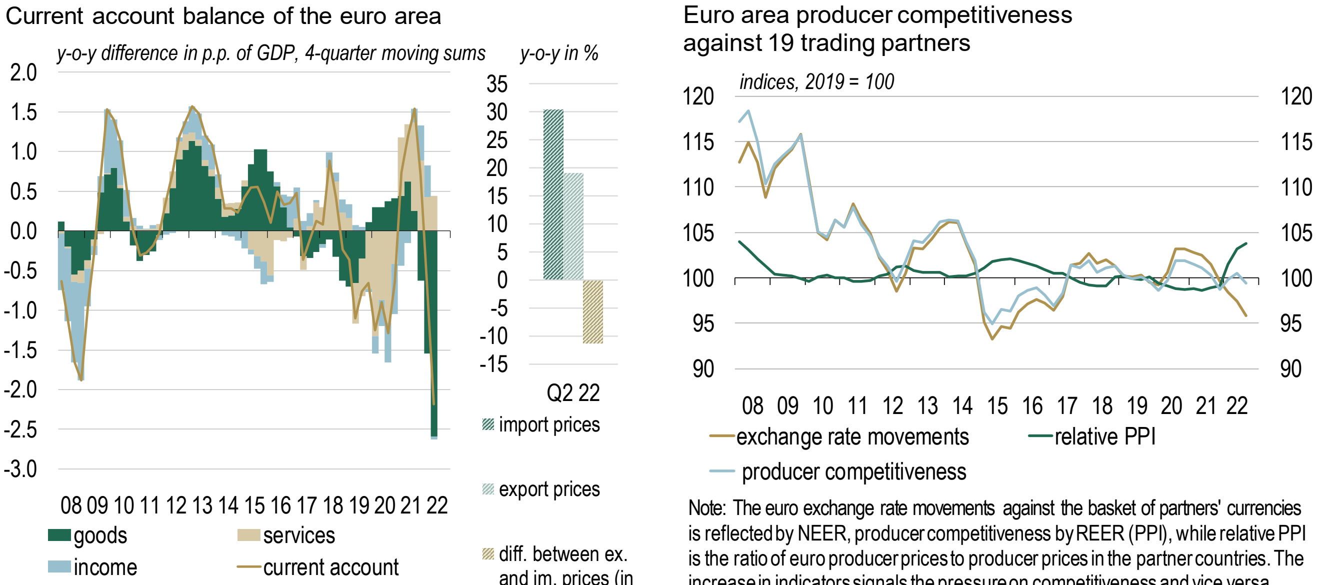
Note: Data is seasonally adjusted.
Source: Eurostat. Latest data: shortage of workers – September 2022, unemployment rate – August 2022.

High energy prices mean that the current account surplus in the euro area is narrowing sharply, despite the favourable developments in external competitiveness indicators.

The euro area's 12-month current account surplus amounted to EUR 75 billion or 0.6% of GDP in the second quarter, 2.2 percentage points narrower in year-on-year terms (see Figure 1.3), and the lowest figure since the second quarter of 2012. With real growth in imports outpacing exports, and in the wake of a significant deterioration in the terms of trade, primarily as a result of high energy prices, the merchandise trade surplus has fallen to its lowest level of the last decade. It was down 2.6 percentage points of GDP in year-on-year terms, by far its largest decline of all time (see Figure 1.3). The deficit in income had no impact on the overall position, but the decline in the position was slightly curtailed by the strengthening services trade surplus, which is approaching its peak of four years ago.

The external competitiveness of the euro area economy remains at levels that are favourable over the long term.[2] Cost competitiveness, for which data is available to the first quarter, is better than a year earlier, which alongside the euro's depreciation against a basket of currencies is also attributable to the favourable developments in euro area ULCs in relation to ULCs in trading partners. The price competitiveness indicator also remains lower (better) in year-on-year terms in the third quarter, albeit only as a result of the weaker euro, which is making euro area goods cheaper on foreign markets, while developments in euro area inflation relative to final prices in competitors were unfavourable. Developments in producer prices are even worse, on account of the high growth in import prices of commodities and materials, which is raising cost pressures in production. The attainment of a level of the indicator that is favourable in year-on-year terms and over the long term is again in this case solely attributable to the depreciation in the euro (see Figure 1.3).

Figure 1.3: **Current account and producer competitiveness in the euro area**



Source: ECB SDW, Eurostat, Banka Slovenije calculations.

Note: The euro exchange rate movements against the basket of partners' currencies is reflected by NEER, producer competitiveness by REER (PPI), while relative PPI is the ratio of euro producer prices to producer prices in the partner countries. The increase in indicators signals the pressure on competitiveness and vice versa.
Source: ECB, Banka Slovenije calculations.

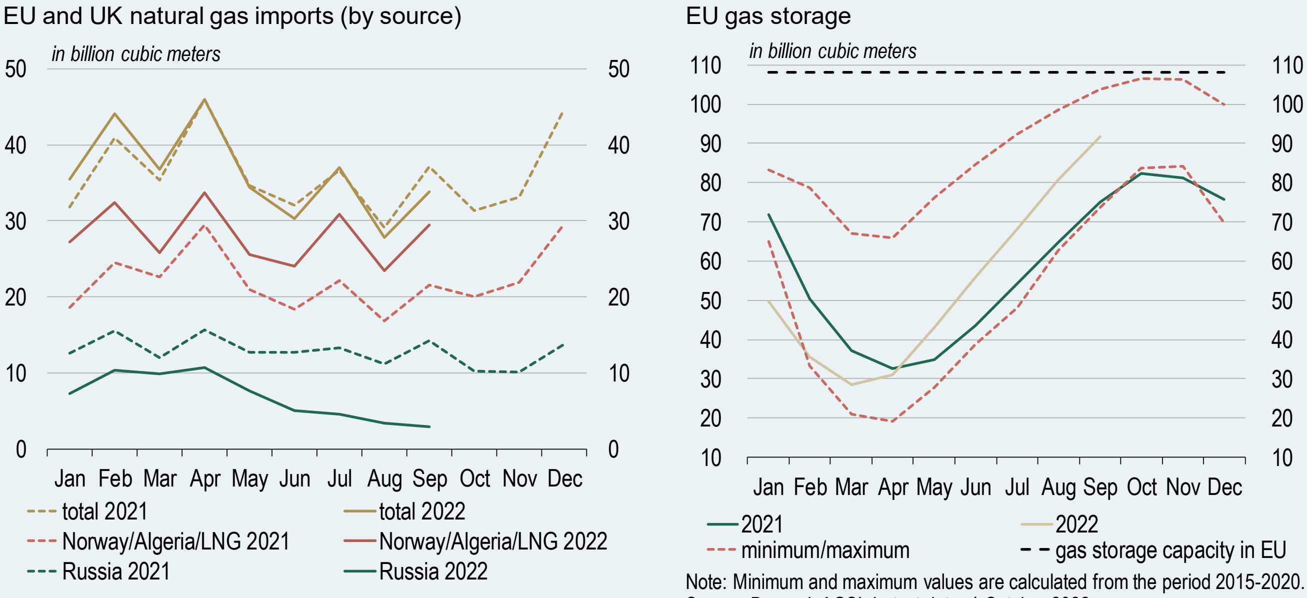
[2] Price, cost and producer competitiveness; price competitiveness is indicated by the REER (HICP), cost competitiveness by the REER (ULC), and producer competitiveness by the REER (PPI).

The significant reduction in Russian gas supplies to energy-dependent Europe is putting pressure on the whole economy, for which reason the EU is taking measures to minimise disruption to gas supplies at least over the coming winter.

Since Russia's attack on Ukraine, problems with gas supplies have mounted in Europe. The EU has tried to weaken Russia's capacity to fund its war in Ukraine by agreeing a ban on imports of Russian oil, and Russia has responded by sharply reducing the supply of natural gas to Europe. Supplies of Russian natural gas, which are currently flowing through Ukraine and Turkey alone, had fallen to less than 3 billion cubic metres by September of this year, compared with approximately 14.3 billion cubic metres in September of last year (see Figure 1.1.1). The chances of increasing gas supplies over the short term have been further reduced by the sabotage of Nord Stream. Meanwhile Russia is increasing its exports to other markets, in particular China, where imports of Russian gas over the first seven months of the year were up 61% on the previous year.

Gas accounts for 21.5% of primary energy consumption in the EU, and is the main source of energy for households, while demand for gas in industry has been falling in recent years.[3] The reduced supply of natural gas from Russia will be partly replaced by imports of LNG from the US, Qatar, Azerbaijan, Egypt and Israel. The EU is endeavouring to increase regasification capacity with new terminals in Germany, in the Netherlands and between Estonia and Finland, as the requisite infrastructure is currently not widely geographically distributed. With the aim of minimising disruption to gas supplies during the winter, the Council of the EU adopted a regulation in late June that stipulates that EU underground gas storage must be filled to 80% capacity by 1 November 2022. This target was met by 29 August, and capacity utilisation had reached almost 90% by the first week of October.

Figure 1.1.1: **Imports and storage of natural gas in the EU**



Source: Bruegel. Latest data: 4 October 2022.

Note: Minimum and maximum values are calculated from the period 2015-2020.
Source: Bruegel, AGSI. Latest data: 4 October 2022.

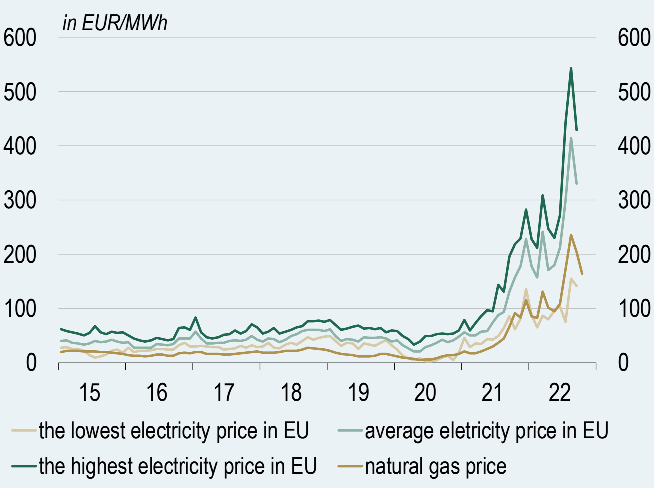
[3] Source: Agency for the Cooperation of Energy Regulators (ACER).

Prices of natural gas and electricity had already begun to rise sharply in the second half of last year, when there was fast growth in demand following the lifting of containment measures. The war in Ukraine and Russia's curbs on supply triggered a further surge in prices of pipeline natural gas driven by market speculation.[4] The high prices of natural gas also drove up electricity prices, as approximately 20% of electricity in the EU is produced from gas (see Figure 1.1.2).[5] The long heat wave over the summer put additional pressure on electricity prices, as production capacity was reduced amid the severe drought. The European Commission has encouraged EU Member States to reduce aggregate demand for electricity by at least 10% this winter.[6] In addition it is seeking ways to ease the rise in energy prices via temporary interventions in the European electricity price-setting system, with separate pricing of electricity produced from sources cheaper than the current high prices of gas.

The high electricity prices particularly expose energy-intensive firms, such as aluminium, zinc and steel plants, and manufacturers of chemicals and paper products, who are being forced to reduce or even shut down production because of excessively high costs.[7] The shortage of natural gas and electricity could also hit the economy hard, with power cuts, unviable production costs, a loss of purchasing power and a long-term decline in the competitiveness of European manufacturers on the global market. Electricity and gas forward prices in the EU were up 150% and 207% respectively in year-on-year terms in September.[8]

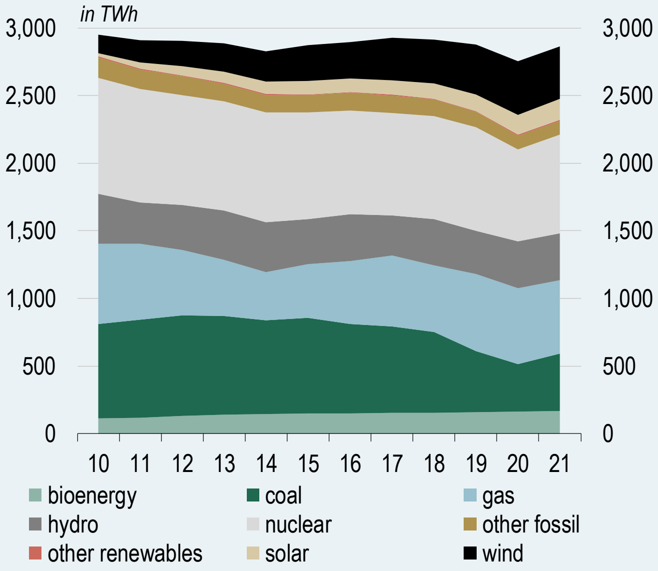
Figure 1.1.2: **Natural gas and electricity prices, and breakdown of electricity production by source**

Natural gas and electricity prices



Note: Natural gas futures for delivery next month on the Dutch TTF exchange. Wholesale day-ahead electricity prices for European countries, the prices generators receive for selling electricity on the spot market.
Source: Bloomberg, Ember. Latest data: September 2022.

EU electricity generation by source



Source: Ember.

[4] Prices on the TFF, the benchmark for the European market, are formulated on the basis of prices of pipeline gas.

[5] Under the European system for setting wholesale electricity prices, the price is determined by the most expensive power plant that on that day is the last needed to meet total demand for electricity in the EU. Thus wholesale electricity prices are usually determined by gas power plants, as gas is the most expensive of all the resources used to produce electricity.

[6] Source: A cold winter, Bruegel, published 20 September 2022.

[7] Energy-intensive manufacturing sectors comprise manufacture of basic metals (C24), manufacture of paper and paper products (C17), manufacture of other non-metallic mineral products (C23) and manufacture of chemicals and chemical products (C20). Source: Energy-intensive industry in Slovenia (umanotera.org). Their total value-added accounted for 3.2% of GDP in Slovenia in 2019, i.e. before the pandemic, while they accounted for 2.8% of total employment. The comparable figures in Germany, France, Italy and Spain are 2.2% and 1.8%.

[8] Electricity and gas forward prices in the US were up 56% and 66% respectively in year-on-year terms in September. Sources: US Energy Information Administration, Bloomberg.

The high inflation in the euro area is being driven primarily by energy prices and food prices, but further upward pressure is also coming from the build-up of costs along supply chains.

Year-on-year inflation in the euro area rose to 10.0% in September, up from 9.1% in August (see Figure 1.4). Its main driver remains high energy prices, which despite a fall in oil prices and the government measures to support households rose in current terms, their year-on-year growth once again exceeding 40%. Food prices are increasingly of concern: amid rising production costs and disruptions to supply (energy, fertilisers, and unfavourable weather conditions), they were up 11.8% in year-on-year terms in September.

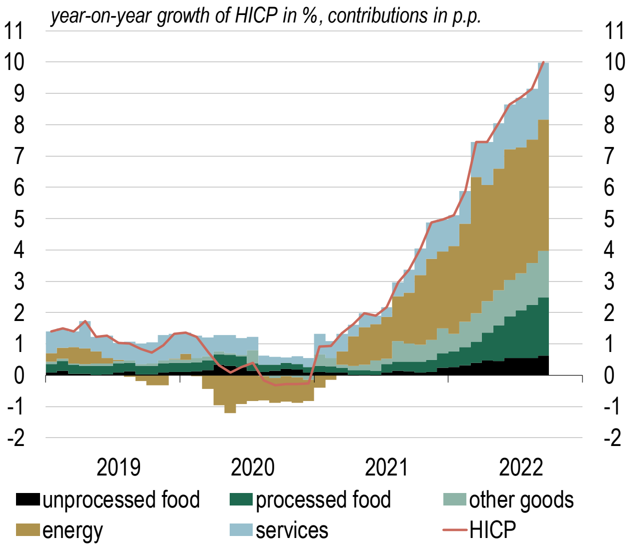
Core inflation excluding energy and food rose to 4.8% in September, an indication of the further spread of inflation across the consumer basket. The contributions by services and non-energy industrial goods are reflecting the indirect impact of rising energy and food prices. Inflation is also being driven by the still-unresolved disruptions to supply chains as, among other factors, the import prices of consumer goods were up 11.2% in year-on-year terms in August.

There remains considerable divergence in the inflation rates across euro area countries, in reflection not only of the differing composition of the consumer basket but also of the pace of emergence from the pandemic and the different government measures (see Figure 1.4). The Baltic countries are still notable for their high inflation, but the Netherlands is catching them up. Inflation in Germany rose by more than 2 percentage points following the expiry of price reductions for fuel and public transport. The gap between Slovenia and the euro area average narrowed to 0.6 percentage points in September, as Slovenia recorded one of the largest falls in inflation relative to August (0.9 percentage points).

The risks associated with ongoing price developments lie on the upside, and come mainly from energy prices, gas in particular. The pressure on import prices and producer prices is continuing to strengthen, with growth well above its long-term average,

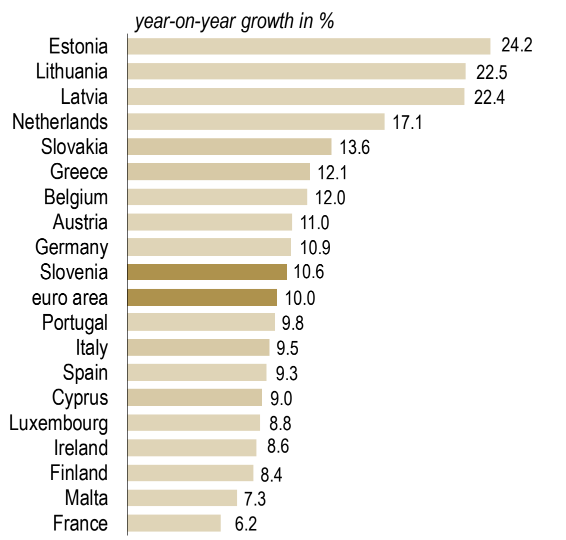
Figure 1.4: **Inflation in the euro area**

Contributions to headline inflation in euro area



Source: Eurostat, Banka Slovenije calculations. Latest data: September 2022.

Inflation among euro area members – September 2022



Source: Eurostat.

partly as a result of the euro's weakening against the US dollar. Inflation will remain elevated for some time yet, but will ease over the medium term as the normalisation of monetary policy takes effect and the current drivers wane. The long-term inflation expectations mostly remain at around 2%.

The general government deficit in the euro area will narrow this year, and the general government debt will decline.

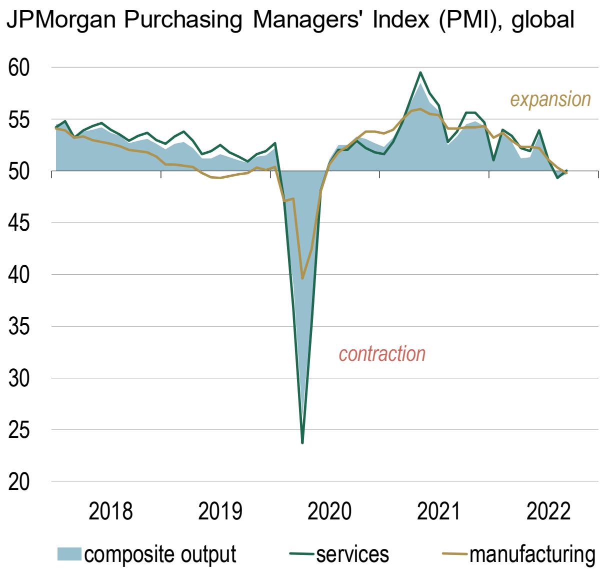
According to the ECB's latest forecasts from September, the general government deficit in the euro area will narrow to 3.8% of GDP this year. For the second consecutive year the narrowing of the deficit is attributable to economic growth and the withdrawal of measures to alleviate the impact of the pandemic, despite the introduction of new measures in connection with high energy prices, and expenditure on refugees and defence. The debt-to-GDP ratio will also decline, mainly on account of the growing economy. It is forecast to reach around 92% by the end of the year.

Growth in global GDP is slowing amid soaring inflation, and the economic outlook for next year is weakening continually.

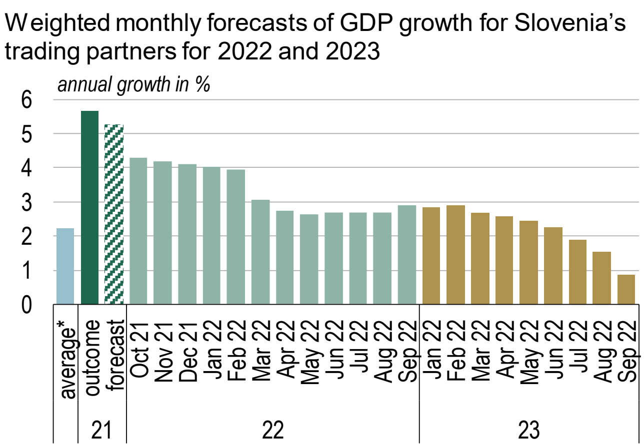
Having fallen to its lowest level of the last 26 months in August, the composite PMI rose to 49.7 points in September (see Figure 1.5). It averaged 50 points over the third quarter, the lowest figure since the outbreak of the pandemic in the second quarter of 2020. The main quarterly decline was in the services indicator, where growth in demand is slowing as the cost of living rises sharply.

Global manufacturing output contracted again in September as high prices reduced new orders. The decline was the largest since 2012 (with the exception of the preceding two and a half years). According to S&P Global, the energy crisis and the slide in global

Figure 1.5: **Global economic situation and strength of foreign demand for Slovenian exports**



Source: Bloomberg. Latest data: September 2022.



Note: All Slovenian trade partners are included: countries with at least 1% of total Slovenian exports of goods and services in the last twelve months (September 2021-August 2022; 21 trading partners with a total share of 85.5%) and all the other countries as a difference of up to 100% . The growth forecasts for 2022 and 2023 are weighted with the share of each country in the total exports of Slovenia, for other countries the global forecasts is used. For 2021 the weighted outcome and the December weighted forecast are shown. * Weighted average of GDP growth, since records began. IMF data is used.
Source: SORS, Consensus, IMF, Banka Slovenije calculations.

currencies against the US dollar means that the inflationary pressures remain strong, particularly in Europe, although the situation in supply chains is improving as demand and output cool.

The rising geopolitical tensions are worsening the economic outlook, particularly for next year. The IMF is forecasting global economic growth to slow from 3.2% this year to 2.7% in 2023 (0.2 percentage points less than its July forecast). The lower forecast is attributable to tightening monetary policy, high energy prices, low consumer confidence and a real decline in household disposable income.

The IMF cut its 2023 forecasts for the majority of countries, most notably the euro area (where the forecast is 0.5%). GDP in Russia is forecast to decline for the second consecutive year (by 2.3%), while growth of 0.3% is forecast for the UK. After slowing to 3.2% in 2022, as a result of the zero-covid policy and the real estate crisis, economic growth in China is forecast to reach 4.4% in 2023 amid government support measures, while GDP growth in India will be higher.

The outlook for Slovenia's export sector is extremely uncertain: the weighted Consensus forecasts for next year halved to 0.9% in September, with Germany (contraction of 0.7%) and the UK (contraction of 0.3%) joining Russia in recession (see Figure 1.5). Amid major shortages of energy, gas in particular, there is a growing likelihood that numerous EU Member States will be in recession in 2023, and that inflation will be higher than currently expected.[9]

[9] The OECD estimates that in the event of a major energy shortage, economic growth in the EU will be 1.3 percentage points lower next year (and global economic growth will be 0.5 percentage points lower), while inflation will be more than 1.5 percentage points higher.

2 Monetary Policy and Financial Markets

Major central banks are continuing to raise their key interest rates due to high inflation.

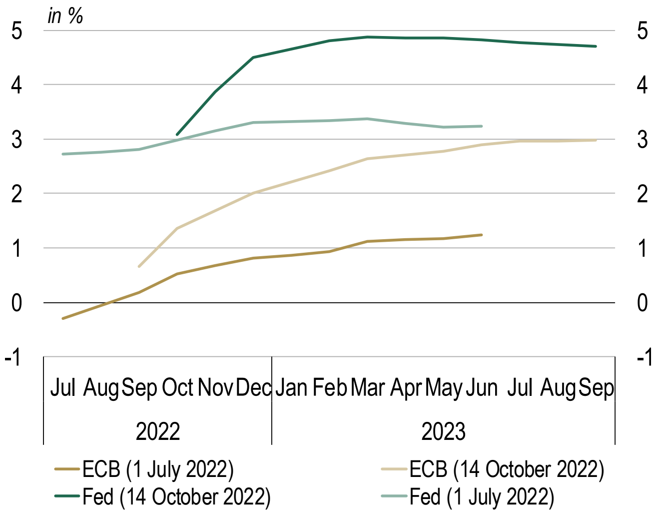
Headline inflation rates remain high in the euro area, the US and most other countries. Numerous major central banks are therefore hiking their key interest rates further. Having raised it by 0.50 percentage points in July, the Governing Council of the ECB lifted the interest rate on the deposit facility by additional 0.75 percentage points in September. At the same time, it announced that it would continue raising its key interest rates with the aim of averting the risk of a sustained rise in inflation expectations. The decisions on the size of the individual hikes will be taken on a meeting-by-meeting basis.

The Fed is also continuing to hike its key interest rate. In September, it raised it by 0.75 percentage points for the third consecutive meeting, taking this year's total amount of hikes to 3.00 percentage points. Central banks in numerous other countries are also continuing to raise their key interest rates. The latest central bank meetings saw interest rate hikes of 1.00 percentage points in Sweden, 0.75 percentage points in Canada and Switzerland, 0.50 percentage points in New Zealand and the UK, and 0.25 percentage points in Australia.

The markets expect central banks to raise their key interest rates further in the future. According to overnight index swaps (OIS), market participants think it is highly likely that the Eurosystem will raise the interest rate on the deposit facility by an additional 2.25 percentage points to 3.00% by September of next year. The OIS levels also suggest that market participants have high expectations for the Fed to raise its key interest rate by an additional 1.75 percentage points to the corridor between 4.75% and 5.00% by March of next year (see Figure 2.1).

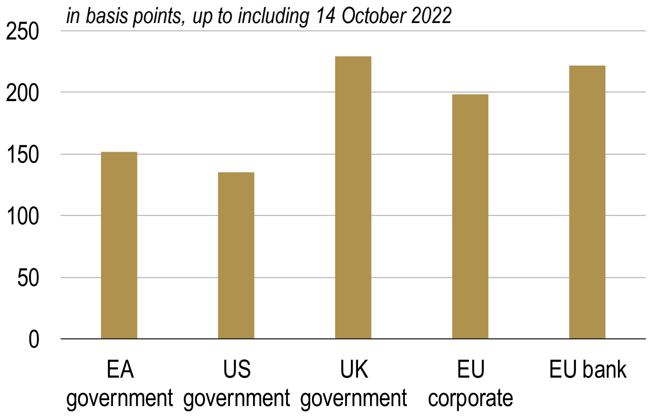
Figure 2.1: **Interest rate benchmarks and bond yields**

ECB's and Fed's expected reference interest rates levels over the next 12 months



Note: Implied from Overnight Index Swaps. ECB and Fed: central banks of the euro area and the USA.
Source: Bloomberg, Banka Slovenije calculations.

Changes in yields of respective 10-year bonds since 1 August 2022



Note: EA government bond yield represents an average of GDP weighted government bond yields of euro area members except CY, EE, LT, LU, LV and MT. EU corporate / bank bond yield represents a Bloomberg index yield constructed with EUR denominated senior unsecured fixed rate bonds issued by Investment Grade European companies / banks.
Source: Bloomberg, Banka Slovenije calculations.

Key interest rates hikes and expectations of the further normalisation of monetary policy by major central banks led to a sharp rise in government bond yields.

Investors' expectations about major central banks continuing to raise their key interest rates amid high inflation led to a sharp rise in government bond yields.

The unexpected announcement of a rather expansionary budget in the UK triggered an additional rise in yields in late September, not only on UK government bonds, but also on other government bonds. Following the announcement of temporary purchases of UK government bonds by the Bank of England, the UK bond market calmed slightly, and government bond yields in the UK and in the euro area fell somewhat in response.

Yields on longer maturity German and US government bonds have risen by 1.30 to 1.50 percentage points since the beginning of August (to around 2.20% and 3.90% respectively), while yields on shorter maturity bonds have risen by 1.50 to 1.60 percentage points (to around 1.80% and 4.40% respectively; see Figure 2.1). In September, yields on 2-year and 10-year US treasuries reached their highest levels since 2007 and 2008 respectively, while yields on 2-year and 10-year German government bonds reached their highest levels since 2008 and 2011 respectively. The volatility on the bond markets calculated from options on US treasuries remains pronounced, and is currently close to the level seen after the outbreak of the pandemic.

The values of higher-risk asset classes decreased due to the uncertainty surrounding the slowdown in the economy. The latter has also driven the US dollar's appreciation against most major global currencies.

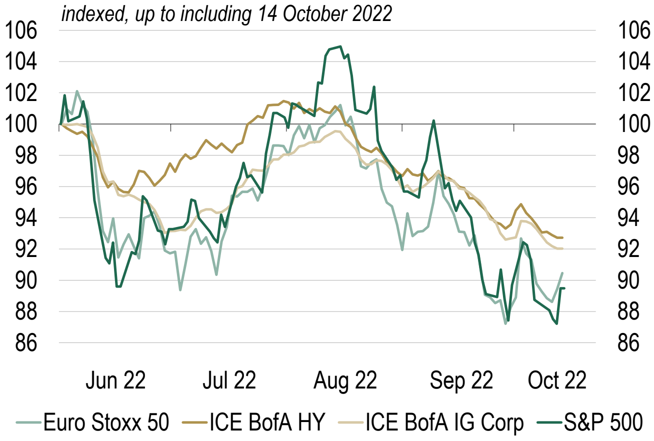
In light of the energy crisis and the resulting high inflation, as well as rising key interest rates, investors have growing concerns about the future economic outlook. This led to a rise in credit risk premiums, followed by a further widening in private-sector bond spreads over government bonds. The spreads of investment-grade corporate and bank bonds in the euro area over the benchmark German government bonds have widened by approximately 1.3 percentage points this year, while those of speculative-grade bonds are up by 3.0 percentage points.

Major global equity indices are now down more than 20% from their peaks in the early part of the year, and close to their lows from this year (see Figure 2.2). The largest losses have been recorded by shares of technology firms, which are traditionally more sensitive to rises in key interest rates. The Nasdaq-100 has lost more than 30% this year from its earlier high. Shares of European and US banks have recorded similar falls from this year's highs as well.

Due to the higher Fed's key interest rate and expectations of further hikes, the US dollar has significantly strengthened against most major global currencies (see Figure 2.2). It has also benefited from its status as a safe haven currency, in a situation of increased concern for the future of the global economy. Another positive factor for the US dollar are high yields on US treasuries, which increase the attractiveness of assets denominated in US dollars. In the last week of September, the US Dollar Index reached its highest level since 2002.

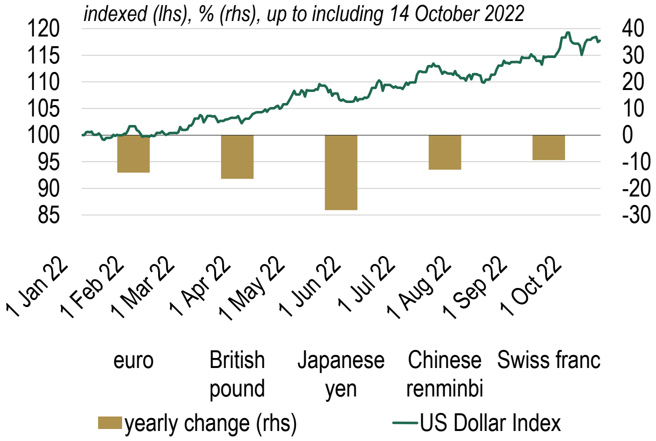
Figure 2.2: **Higher-risk asset classes and US dollar**

Equity markets and bonds with credit premium since 1 June 2022



Note: ICE BofA HY total return index tracks the performance of EUR denominated corporate bonds rated below investment grade.
ICE BofA Euro Corp total return index tracks the performance of EUR denominated investment grade corporate bonds.
Source: Bloomberg, Banka Slovenije calculations.

US Dollar Index and yearly change in value of selected currencies versus the US dollar in 2022



Note: The US Dollar Index indicates the general international value of the US dollar by averaging the exchange rates between the US dollar and major world currencies. The changes in value of the selected currencies versus the US dollar are measured from the beggining of 2022 up to including 14 October 2022.
Source: Bloomberg, Banka Slovenije calculations.

Conversely, the appreciation of the US dollar has recently led to a fall of gold and oil prices. The latter has been further weakened by the uncertainty surrounding the future of the global economy, which pushed oil prices below levels from before the outbreak of the war in Ukraine. A larger fall in oil prices was prevented by the OPEC+ cartel agreement to cut production in the future. European natural gas and electricity prices are also down from their record levels seen in late August. The decrease in electricity prices was mainly a result of expectations that the current stocks of natural gas in Europe might suffice for making it through the winter without major difficulties. European natural gas prices nevertheless remain significantly higher than at the beginning of the year (see also Box 1.1).

3 Domestic Economic Activity Indicators

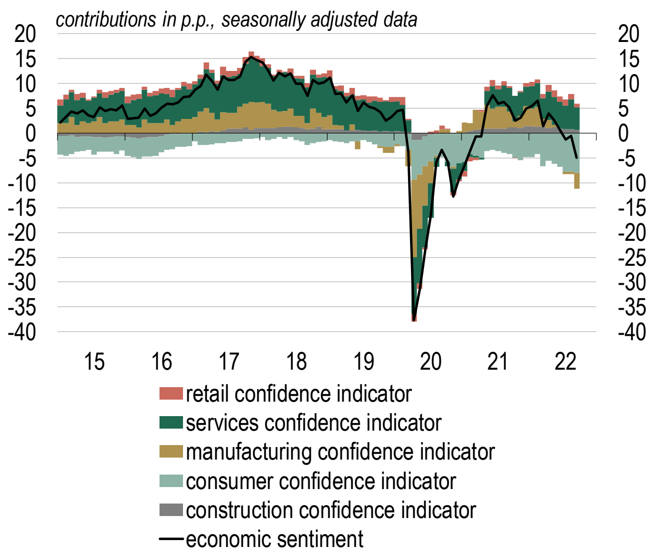
The economic sentiment is worsening because of the decline in confidence among consumers and manufacturing firms, although other sectors remained relatively optimistic in September.

This year's deterioration in the economic sentiment picked up pace in September. A fall in confidence was evident at firms of all types, but there were significant differences between them. Manufacturing firms continue to stand out (see Figure 3.1). The order books indicator in manufacturing reached its lowest value since December 2020, export expectations its lowest value since June 2020, and production expectations its lowest value since May 2020, when the economy was suffering the full impact of the pandemic. In other sectors, demand is mostly slowing according to the survey indicators, but remains relatively solid. Differences of this type are also seen in the share of firms citing insufficient demand as a limiting factor. This is gradually rising in manufacturing, but elsewhere remains lower than at the beginning of the year.

In September, the consumer confidence indicator fell to its level of April 2020, when the most stringent containment measures were in place (see Figure 3.1). With inflation soaring, consumers are downgrading their assessment of their financial position, and becoming more reluctant to make major purchases. They are also assessing the economic situation negatively, and have greater expectation of a rise in unemployment than in the early part of the year.

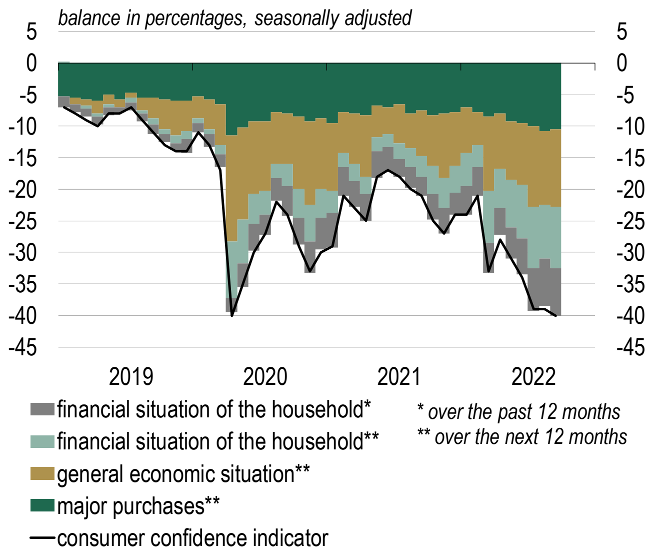
Figure 3.1: **Confidence indicators**

Economic sentiment indicator for Slovenia



Source: SORS, Banka Slovenije calculations.

Decomposition of consumer confidence indicator



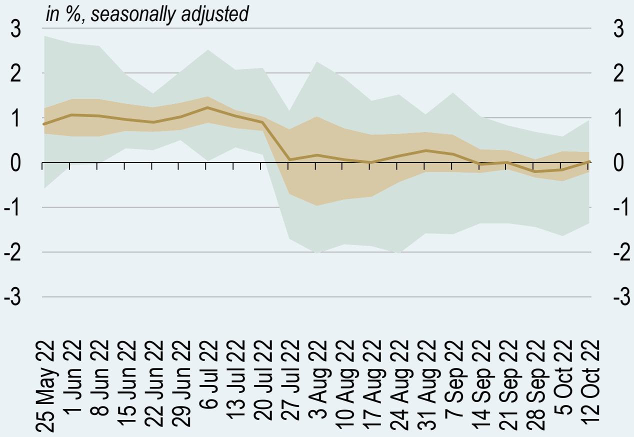
Source: SORS, Banka Slovenije calculations.

Box 3.1: **Technical nowcast for GDP growth**

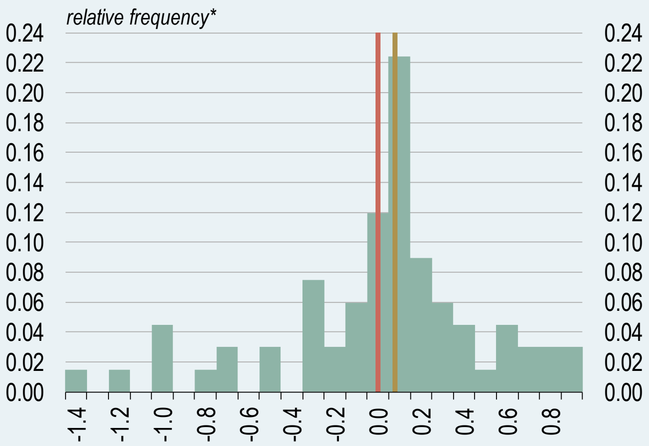
The average nowcast from the set of nowcasting models points to quarterly stagnation in GDP in the third quarter.

The average nowcast for GDP growth in the third quarter of this year calculated on 12 October is 0.0% (see Figure 3.1.1).[10] Prevailing figure reflects the cooling in the survey confidence indicators and certain indicators of economic activity, which is evident from the bar chart distribution of the current nowcast (see Figure 3.1.1). The current dynamics in economic activity are primarily being driven by the monthly developments in construction and services, and the monthly decline in survey indicators. By contrast, the aforementioned cooling is not yet evident in industrial production. Given similar economic developments in the final quarter, GDP this year would amount to around 6.0%, which is within the bounds of Banka Slovenije's June projections.

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



Note: The graph shows model estimates of quarterly GDP growth. The darker interval represents values between the 25th and 75th percentiles of all estimates. Average model estimate of quarterly GDP growth rate is represented by the line.
Date of estimate: 12 October 2022.
Source: Banka Slovenije calculations.



Note: Distribution of model estimates of quarterly GDP growth in Q3 2022. The vertical gold line shows the median and red the average of all estimates.
Date of estimate: 12 October 2022. * Relative frequency represents the share of models that estimate a certain growth in the entire set of models.
Source: Banka Slovenije calculations.

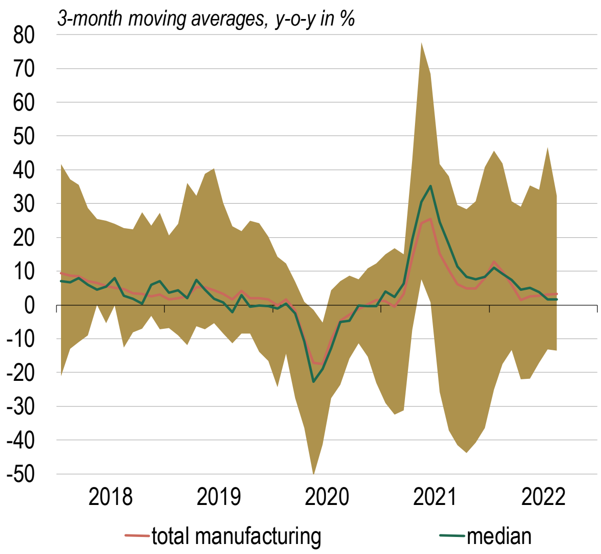
The high-frequency activity indicators suggest a cooling economy, although they are more favourable than the survey confidence indicators, particularly in respect of manufacturing and consumers.

Manufacturing output increased in monthly terms in July and August, raising the year-on-year rate of growth to 8.2%. The aggregate developments remained better than expected given the international situation and the declining confidence indicators. At the same time, they conceal major differences between segments and between categories of technological intensity (see Figure 3.2). The gap between the segment with

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

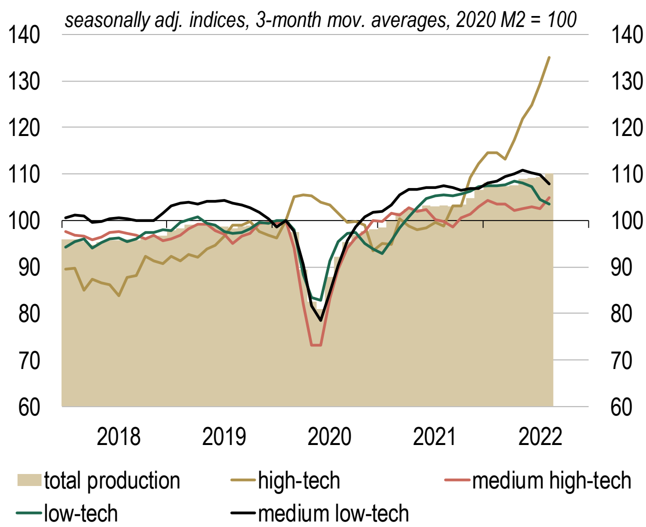
Figure 3.2: **Manufacturing output**

Variability of growth rates in manufacturing production



Source: SORS. Latest data: August 2022.

Production in manufacturing according to technological intensity



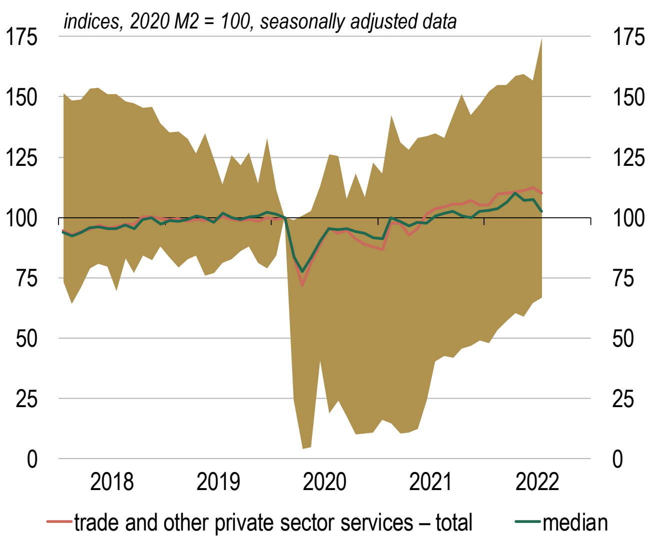
Source: SORS, Banka Slovenije calculations. Latest data: August 2022.

the highest year-on-year growth and the segment with the largest year-on-year decline in output stood at close to 50 percentage points in August, while in terms of technological intensity it is the high-tech firms that are notable for strong growth this year.

After strong growth in the early part of this year, construction is showing signs of a weakening monthly activity. The monthly decline in the index of the aggregate amount of construction put in place averaged 0.4% between March and August. Non-residential buildings was the sole construction segment where growth in activity calculated in this manner remained positive. The year-on-year rate of growth remained very high also in August, at 30.2%. The high volatility in the indices makes analysis of monthly developments in construction difficult.

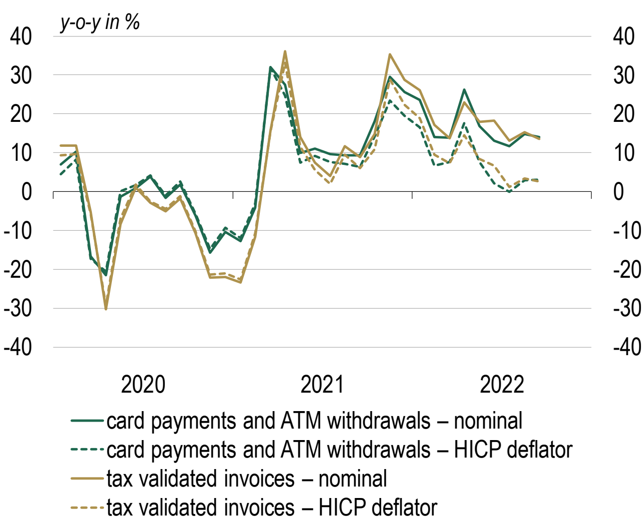
Figure 3.3: **Turnover in private-sector services and high-frequency indicators of consumption**

Variability of volume turnover in private sector services



Source: SORS, Banka Slovenije calculations. Latest data: July 2022.

High-frequency indicators of consumption



Source: SORS, FURS, Bankart, Banka Slovenije calculations.
Latest data: September 2022.

Box 3.2: **Electricity production in Slovenia during the first eight months of 2022**

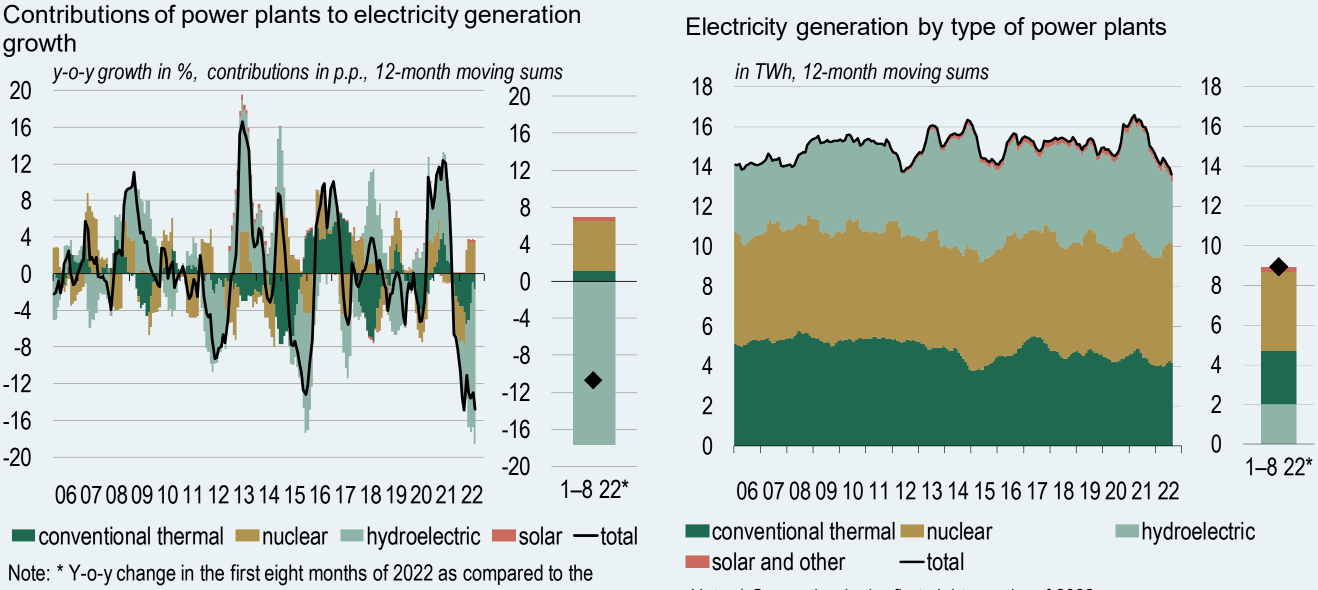
Low water levels in rivers meant that electricity production during the first eight months of this year was significantly below its long-term average.

Power plants in Slovenia produced 8,907.3 GWh of electricity during the first eight months of the year.[11] This is down 9.9% on the average over the same months of the year since 2004, the earliest date for which comparable SORS time series are available. The year-on-year decline in production was 10.8% (see Figure 3.2.1).

The reason for the decline in production was low river levels, and the resulting decline in production at hydro power plants. These produced 2,036.6 GWh of electricity during the first eight months of the year, down 28.7% on its long-term average, and down fully 46.4% in year-on-year terms. They accounted for 22.9% of total production, down 6.0 percentage points on the long-term average for the first eight months of the year.

Increased output at the nuclear power plant and at thermal power plants prevented an even larger decline in overall production. According to SORS figures, the nuclear power plant produced 3,946.9 GWh of electricity during the first eight months of the year, up 15.7% in year-on-year terms,[12] and up 4.9% on its long-term average for the same months. Nuclear accounted for 44.3% of total production, up 6.2 percentage points on its long-term average. Production at thermal power plants was also up in year-on-year terms, by 4.7% at 2,660.4 GWh. Thermal power plants accounted for 29.9% of total production, down 2.0 percentage points on the long-term average.[13]

Figure 3.2.1: **Growth rates and structure of electricity production in Slovenia**



Note: * Y-o-y change in the first eight months of 2022 as compared to the same period in 2021.
Source: SORS, Banka Slovenije calculations. Latest data: August 2022.

Note: * Generation in the first eight months of 2022.
Source: SORS, Banka Slovenije calculations. Latest data: August 2022.

[11] Net production.

[12] It should be noted in the year-on-year comparisons that the calculation takes account of a loss of production caused by a scheduled refit in April 2021.

[13] The share of electricity produced at thermal power plants has been gradually falling for a long time now. According to SORS figures and measured by one-year moving averages, it peaked at 39.3% in June 2008.

Solar production is rising rapidly, but remains marginal in terms of total share. Solar production amounted to 259.6 GWh during the first eight months of the year (see Figure 3.2.1), up 16.1% in year-on-year terms, but accounted for just 2.9% of total production.[14] Wind production is entirely negligible.

Turnover in private-sector services declined slightly in July, while the alternative high-frequency indicators suggest low but positive year-on-year growth in consumption in September. July saw a monthly decline of 2.0% in turnover in private-sector services, which reduced the year-on-year rate of growth to 6.3% over a rising base. The median value of the indices in the 26 sectors included in the composite index has predominantly declined since April. There are large variations; for example, turnover in July was up 74.6% on February 2020, i.e. before the pandemic, in advertising services, but was down 33.2% in travel-related services. After allowing for inflation, the total value of card payments and ATM withdrawals was up 3.1% in year-on-year terms in September, while invoices registered with tax authorities were up 2.6% (see Figure 3.3).

[14] Solar appears in the production statistics in 2011. Annual production amounted to 66.0 GWh at that point.

4 Labour Market

Growth in employment and employment expectations are slowing, but there remain large structural imbalances on the labour market.

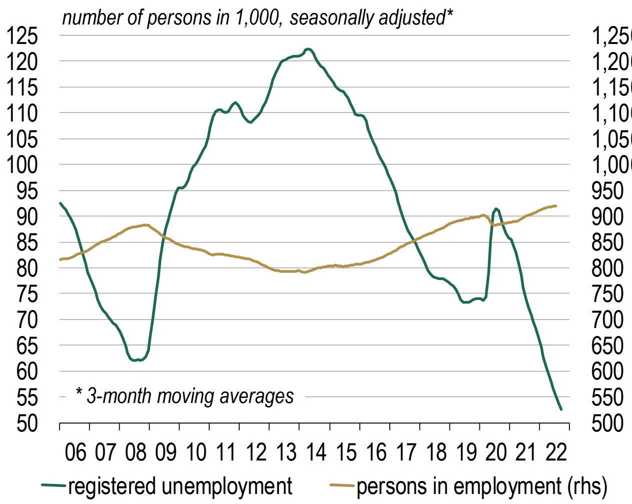
The persons in employment[15] fell in July as a result of seasonal effects, but at 902,097 it nevertheless recorded its second-highest figure to date, while the year-on-year rate of growth remained unchanged from the previous month at 2.4% (see Figure 4.1). The growth was broadly based across sectors, construction again recording the highest rate at 8.2%. The most notable decline relative to June was in education, as a result of the end of the school year. The labour force activity rate and the employment rate in the second quarter were both up just over 1 percentage point on a year earlier, at 76.4% (measured within the 15 to 64 age group) and 73.1% respectively.

Employment expectations are also declining amid elevated risks and the cooling economy. They remained above their long-term average in September according to seasonally adjusted figures, but were down on the beginning of the year in all the sectors covered (see Figure 4.1).

Although employment expectations are slowing, the imbalances between supply and demand on the labour market remain large. This is evidenced in the continuing large labour shortage, the record vacancy rate, and the intensity of the hiring of foreign nationals. Foreign nationals accounted for more than 70% of the year-on-year increase in the persons in employment[15] in July, with further evidence of their extensive hiring coming from the Employment Service's figures for applications received in the area of recruitment of foreign nationals.

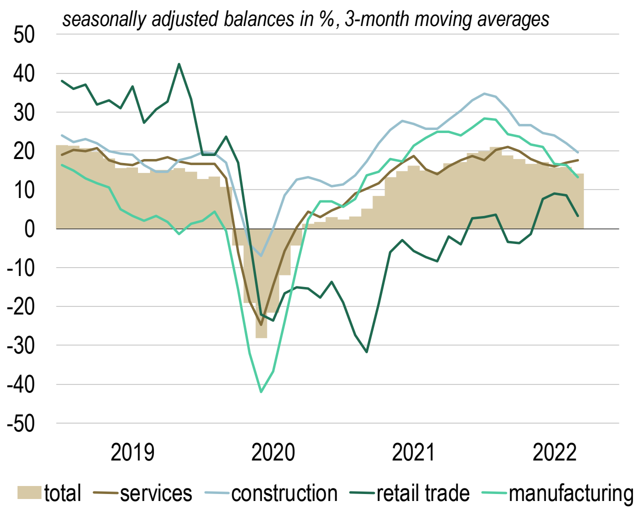
Figure 4.1: **Employment and unemployment**

Persons in employment and unemployed



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

Expected employment in the next three months



Note: Aggregate indicator is calculated using shares in total value added.
Source: SORS, Banka Slovenije calculations. Latest data: September 2022.

[15] Excluding self-employed farmers.

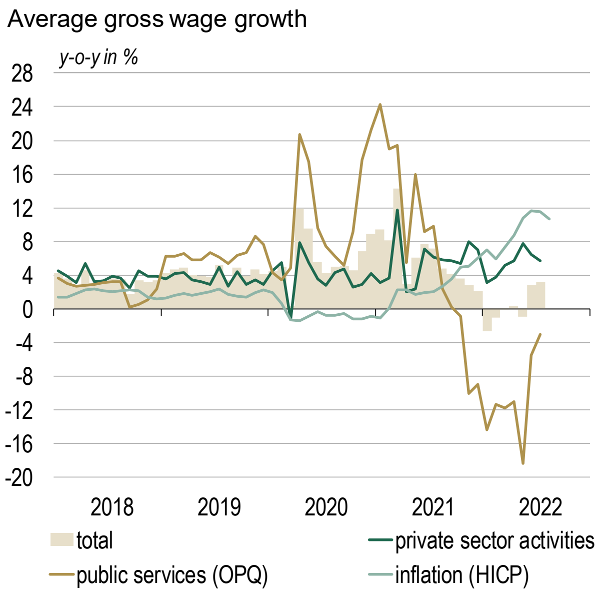
Employers are continuing to demand relatively low-skilled workers, such as elementary occupations in manufacturing and construction, cleaners, servers and domestic helpers. The structure of employment might have an adverse impact on the level of the average wage. Namely, sectors with below-average wages accounted for more than 70% of the aggregate year-on-year rise in the persons in employment over the first seven months of the year.

The number of registered unemployed stood at 52,043 at the end of September, the lowest figure since Slovenia achieved independence, and down 21.3% on a year earlier. The number of people registering as unemployed with the Employment Service during the first nine months of the year was down 4.5% in year-on-year terms, with a particular fall in the number of people newly registering as a result of permanent redundancies and the ending of their temporary employment. The number of deregistrations from the Employment Service was also down on the same period last year, by 14.0%, primarily as a result of a decline in new hires. The latter was primarily attributable to the structure of unemployment, with only around 9,000 unemployed people classed as immediately employable in the assessment of the Employment Service. The registered unemployment rate stood at 5.6% in July, down 1.7 percentage points in year-on-year terms, while the surveyed unemployment rate stood at 4.2%, down 0.1 percentage points in year-on-year terms.

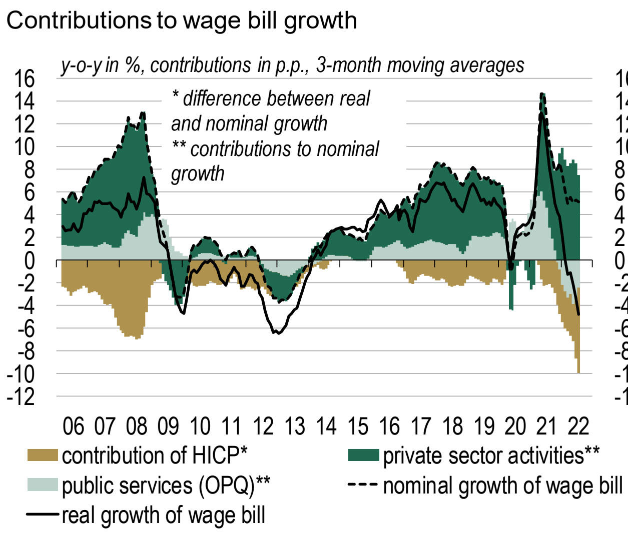
The real year-on-year decline in the private sector wages deepened, and real growth in the private sector wage bill also slid into negative territory in July for the first time this year.

Year-on-year growth in the gross average wage remained close to 3% in July, having mostly been negative during the first five months of the year (see Figure 4.2). The changed dynamics in year-on-year growth in wages are primarily attributable to the normalisation of wages in the public sector following the ending of pandemic-related

Figure 4.2: **Wages and wage bill**



Source: SORS, Banka Slovenije calculations. Latest data: July 2022.



Note: Wage bill is calculated as the product of average gross monthly wages for employees who received pay and the number of employees who received pay. Due to rounding, the sum of the sub-components does not always equal the total growth.
Source: SORS, Banka Slovenije calculations. Latest data: July 2022.

bonuses in the middle of last year. Despite the nominal rise, the real decline[16] in the gross average wage remains around 8%, the largest since 2014, when the data first became available. The real decline in the private sector stood at 5.0%, the largest figure this year. The real decline in the average wage in the public sector slowed by contrast (to 11.7%), as a result of the year-on-year effects of the ending of the vast majority of pandemic-related bonus payments in June of last year dropping out of the calculation. This is expected to continue over the following months.

The gap between the nominal and real wage bills has been widening consistently since March. The wage bill in July was down 5.5% on a year earlier in real terms (see Figure 4.2), as growth in the wage bill in the private sector slid into negative territory for the first time this year (in the amount of 1.9%), which was partly attributable to a slowdown in growth in the average wage and employment. In addition to the high inflation, the public sector is still having a negative impact on real growth in the total wage bill, on account of the aforementioned year-on-year effects of the ending of pandemic-related bonus payments, which are diminishing continually. The wage bill in the public sector was down 11.5% in real terms in July.

[16] As measured by the HICP.

5 Current Account and Competitiveness

Nominal year-on-year growth in foreign trade remains very high, with higher energy prices playing a major role in respect of merchandise, and the recovery in exports of travel services to their pre-pandemic level playing a major role on the service side.

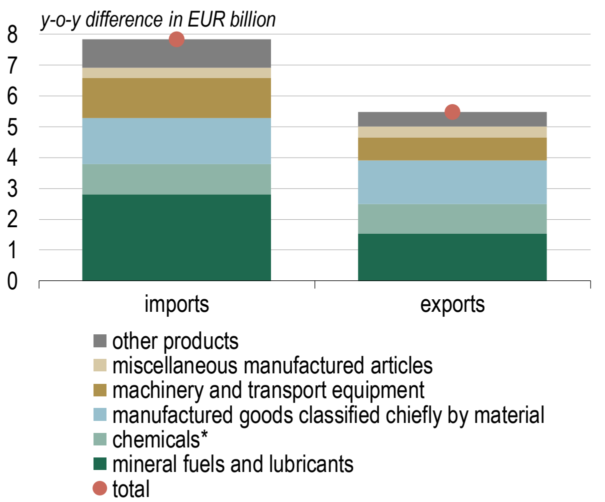
Nominal year-on-year growth in merchandise exports over the first eight months of the year rose to 23.8% according to balance of payments figures. Exports to EU Member States outside the euro area strengthened notably, with Croatia to the fore, although exports to Russia have been rising rapidly in recent months. Re-exports of oil and refined petroleum products and of electricity are prominent, under the influence of higher prices on global energy markets (see Figure 5.1). Aggregate growth in merchandise exports stood at 32.6% in August, the highest figure since May of last year, with most categories recording accelerated growth, most notably road vehicles.

The surge in merchandise imports over the first eight months of the year was even more pronounced, at 36.9% according to balance of payments figures, under the influence of high growth in import prices. Energy imports accounted for just over a third of the increase, and amounted to EUR 4.4 billion, up from EUR 1.6 billion in the same period last year (see Figure 5.1). The main highlight in terms of markets was the rise in imports from Russia. Aggregate year-on-year growth in imports remained around 36.0% in August for the seventh consecutive month.

Nominal services imports over the first eight months of the year were up 26.1% on the same period last year, while exports were up 35.3%. There was a pronounced increase in trade in transport services (by approximately a third) and in travel services, where net exports in the tourism sector were down just 5.2% (EUR 160 million) on their pre-pandemic level (see Figure 5.1). Another category to record high growth was trade in miscellaneous business services. It was a different picture with trade in construction

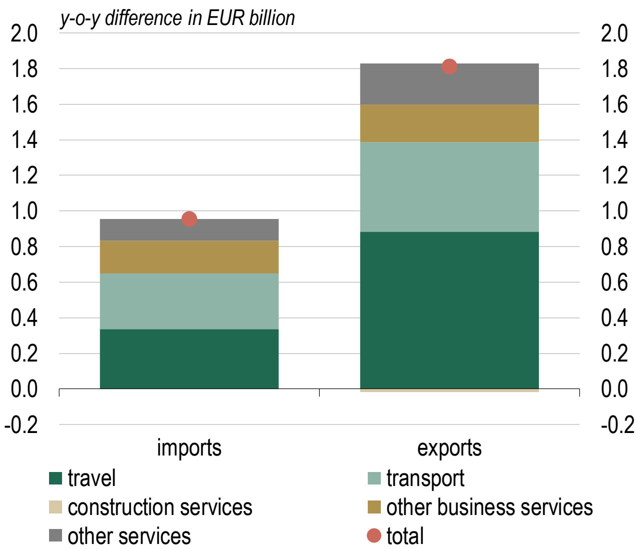
Figure 5.1: **Merchandise trade and services trade**

Merchandise trade* in the first eight months of 2022



Note: * Excluding trade of medicinal and pharmaceutical products with Switzerland and imports of organic chemicals from China and Switzerland.
Source: SORS, Banka Slovenije calculations.

Services trade in the first eight months of 2022



Source: Banka Slovenije.

services, where exports were down on the previous year and imports remained unchanged in year-on-year terms. Year-on-year growth in services trade has slowed slightly in recent months as the low base effect wanes.

Amid unfavourable price factors in merchandise trade, there was a sharp reversal in Slovenia's balance of payments position: the current account was in deficit over the first eight months of the year.

The 12-month current account surplus peaked in January 2021, since which it has been narrowing rapidly. The decline over this period has amounted to EUR 3.5 billion, and the 12-month surplus stood at just EUR 140 million in August of this year (see Figure 5.2).

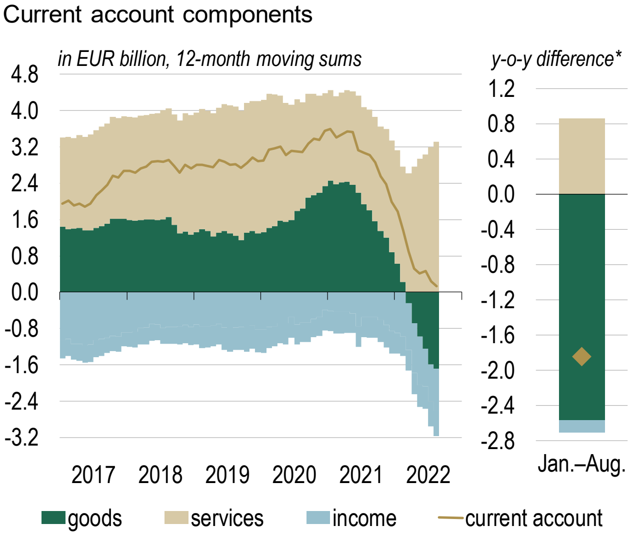
The main reason was a reversal in the merchandise trade balance from a surplus of EUR 2.5 billion to a deficit of EUR 1.7 billion, where just over half of the change was driven by the strength of domestic demand relative to foreign demand, and just under half by the sharp deterioration in the terms of trade. Import prices of merchandise rose by 32.3% over this period as measured by 12-month moving averages, while domestic producer prices on the foreign market rose by 16.3%.

The 12-month deficit in income also increased, from EUR 850 million in January 2021 to EUR 1.5 billion in August of this year. A major factor was the widening of the deficit in income from direct investment in the amount of EUR 290 million. At the same time there was a significant decline in the government sector's surplus in primary income, in the amount of EUR 200 million.

The normalisation of conditions in international tourism saw the 12-month surplus in services trade begin to rise again. It widened by EUR 1.3 billion between January 2021 and August of this year to reach EUR 3.3 billion, approximately 60% of which was attributable to the increased surplus in travel services. This period also saw a sharp reversal in the balance of trade in miscellaneous business services, which is now significantly in surplus (see Figure 5.2).

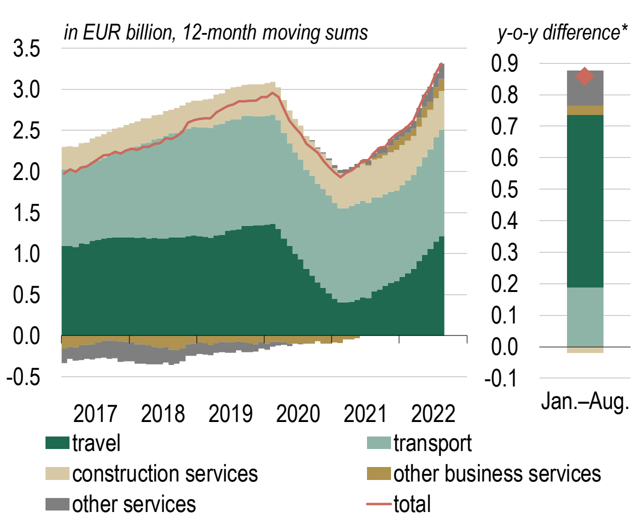
Figure 5.2: **Breakdown of current account and services trade**

Current account components



Note: * Change in EUR million in the first eight months of 2022 compared to the same period last year.
Source: Banka Slovenije. Latest data: August 2022.

Balance of services trade



Note: * Change in EUR million in the first eight months of 2022 compared to the same period last year.
Source: Banka Slovenije. Latest data: August 2022.

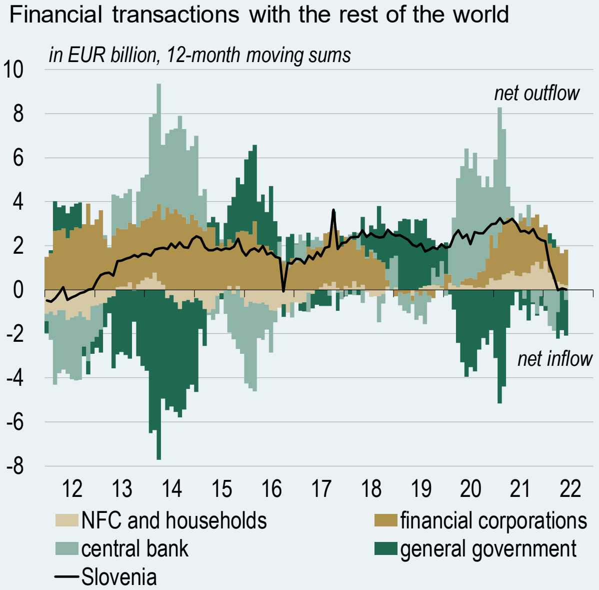
After ten years the financial account has slipped into deficit, although this has not yet been reflected in a deterioration in Slovenia's negative NIIP.

At the half-year mark the financial account was recording a small deficit as measured by the sum of flows over the preceding 12 months (in the amount of EUR 8 million), compared with a surplus of EUR 3.0 billion a year earlier when Slovenia was a net financer of the rest of the world (ROW). The majority of the change in flows was driven by transactions by the government sector and the financial sector, in securities and other assets. The net outflow of capital via securities amounted to EUR 1.1 billion, down significantly on a year earlier, primarily as a result of a significant decline in the repayment of government liabilities. Conversely, other assets recorded a larger net inflow over the preceding 12 months than a year earlier (EUR 1.6 billion), most notably via currency and deposits. Direct investment also continued to record net inflows (around EUR 300 million), broadly unchanged from a year earlier.

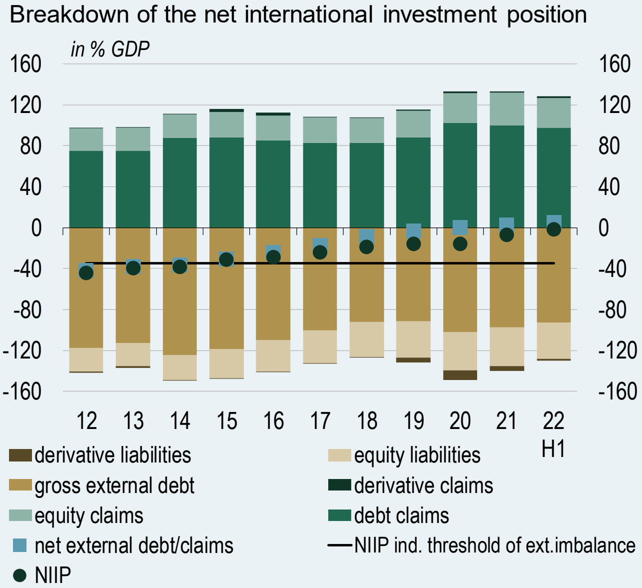
Slovenia's net debtor position has continued to narrow over the last year (by EUR 2.8 billion to less than EUR 900 million or 1.6% of GDP at the mid-year point, the lowest figure of the last 19 years; see Figure 5.1.1). Across the economy only direct investment remained in a negative net financial position, which has deepened over the last year (to EUR 10.9 billion), while securities and other assets were in a creditor position (approximately EUR 7.7 billion in total) and financial derivatives recorded a balanced position. Only the government sector and non-financial corporations continue to hold net financial liabilities to the ROW. Slovenia's negative NIIP is one of the smallest in the EU, while a third of the Member States are net creditors of the ROW.

Slovenia's gross external debt has increased by approximately EUR 7.5 billion or a sixth since the end of 2019, i.e. since the outbreak of the pandemic. It amounted to EUR 51.9 billion or 93.0% of GDP at the half-year mark, which ranks Slovenia as one

Figure 5.1.1: **Financial transactions with the ROW, and decomposition of the NIIP**



Source: Banka Slovenije. Latest data: June 2022.



Source: Banka Slovenije.

of the least-indebted euro area countries. The largest net debtor remains the government sector, which over the last year has slightly reduced its liabilities, to EUR 21.7 billion. Despite its continued borrowing, Slovenia has no net external debt for the second consecutive year. Net external claims from debt instruments increased further over the year to June, to stand at approximately EUR 2.7 billion or 4.8% of GDP. Only the government sector remains a net debtor.

The current account recorded a deficit of EUR 210 million over the first eight months of the year, following a year-on-year change in the balance of EUR 1.9 billion (see Figure 5.2). The merchandise trade deficit reached EUR 1.6 billion, in contrast to the surplus recorded over the same period last year (EUR 1.0 billion). According to the breakdown by categories of goods, just over half of the year-on-year change was attributable to the widening deficit in mineral fuels and lubricants, most notably oil and refined petroleum products, as a result of high prices. In geographical terms the change was largely attributable to the reversal in merchandise trade with Russia from a surplus of EUR 320 million to a deficit of EUR 210 million. The deficit in income widened to EUR 990 million over this period, while the services trade surplus widened to EUR 2.3 billion.

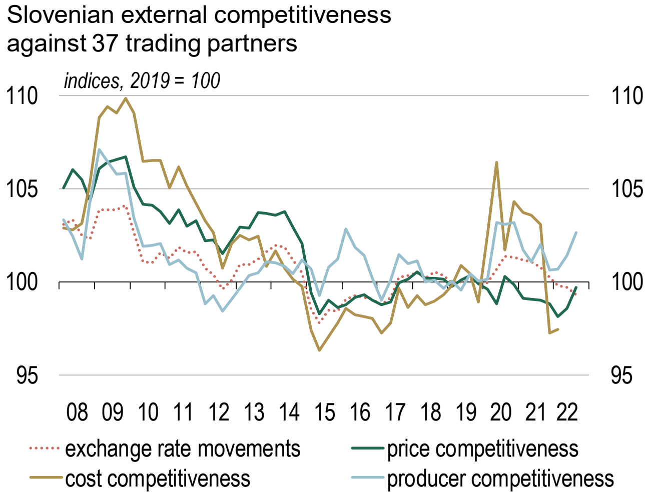
The weak euro is continuing to benefit external competitiveness, while price growth is increasingly worsening it.

The depreciation in the euro again had a favourable impact on the price competitiveness indicator of the Slovenian economy[17] in the third quarter, although the latter was slightly higher (worse) than a year earlier (by 0.7%) on account of growth in final prices outpacing growth in prices in trading partners. There was a jump in prices relative to euro area and non-euro-area partners. The last such deterioration of this magnitude was in 2003. Average price competitiveness over the first three quarters of the year was similar to a year earlier, and for now remains at the level of its long-term average, although this year's developments have been among the worse in the euro area. After one year there is once again a significant rise in the ratio of producer prices to comparable prices in trading partners, which together with price competitiveness is also worsening the producer competitiveness of the economy, which is now slightly less favourable than its long-term average (see Figure 5.3).

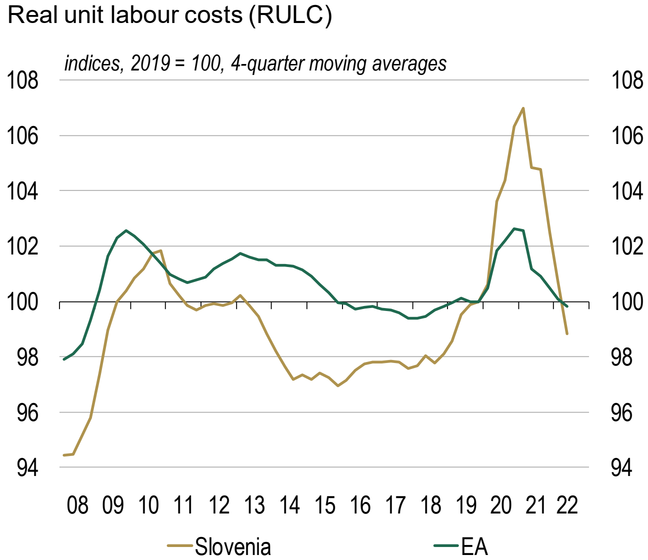
Cost competitiveness, for which data is available up to the first quarter of this year, has seen a significant improvement over the last year, one of the largest in the euro area. According to the latest data, it is better than its pre-pandemic level and its long-term average, and the relationship has improved significantly vis-à-vis trading partners inside and outside the euro area, particularly as a result of more favourable developments in domestic ULCs compared with those in competitors. Given the ongoing slide in the euro and one of the largest falls in real ULCs in the EU in the second quarter (see Figure 5.3), the developments in cost competitiveness are likely to have remained favourable in the second quarter.

[17] For the definition of the competitiveness indicators, see the key to Figure 5.3.

Figure 5.3: **External competitiveness**



Note: The euro exchange rate movements against the basket of partners' currencies is reflected by NHCI, the price competitiveness by RHCI (HICP), producer competitiveness by RHCI (PPI) and the cost competitiveness by RHCI (ULC). The increase in indicators signals the pressure on competitiveness and vice versa.
Source: ECB, Banka Slovenije calculations.



Note: GDP based calculations.
Source: Eurostat, Banka Slovenije calculations.

6 Financial Position of the Economy

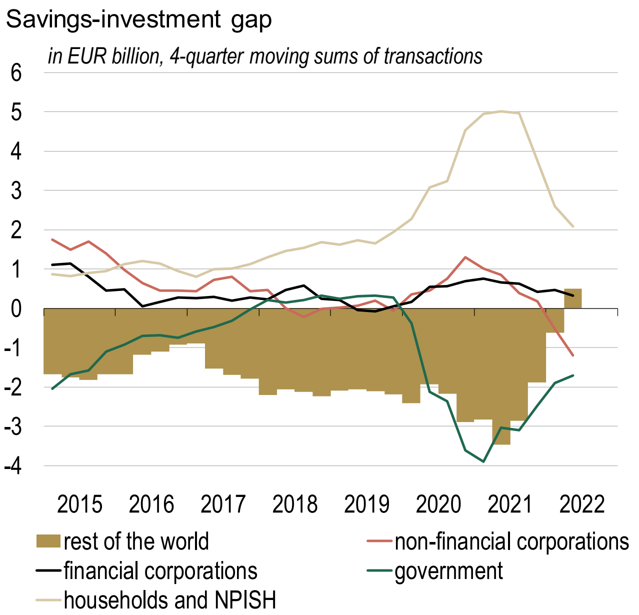
The Slovenian economy's 12-month financial flows with the rest of the world entered a net debtor position in the second quarter of this year for the first time since 2012.

Amid high household consumption, excess household saving is gradually slowing and is approaching its pre-pandemic level. The 12-month flow in net household saving amounted to EUR 2.1 billion at the end of the second quarter according to financial accounts figures, thereby still slightly surpassing its level from before 2020, but was down EUR 2.9 billion from its peak a year ago (see Figure 6.1). Within this figure, net household saving in the rest of the world was down EUR 820 million.

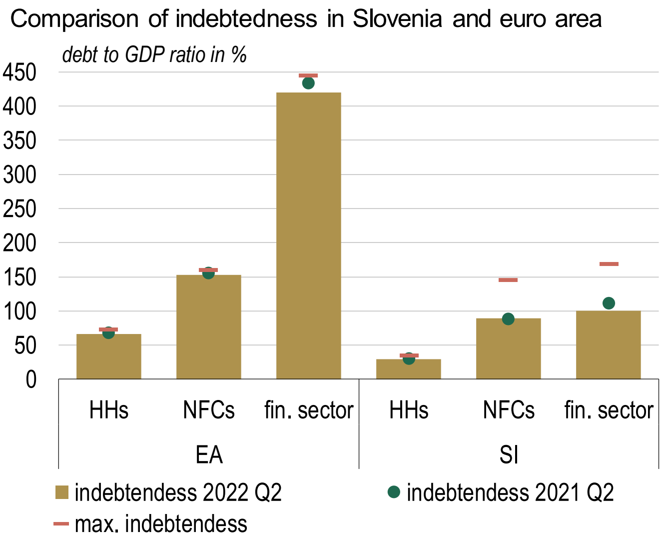
Amid heavy investment, a similar reversal was observed for non-financial corporations, whose net position has moved from creditor to debtor in 2022. The latter amounted to EUR 1.2 billion at the end of the second quarter, as a result of an increase in the flow of liabilities, which was up EUR 1.7 billion compared to December 2021, mostly via loans (EUR 470 million), equity (EUR 520 million) and trade credits (EUR 780 million). Half of the increase in the flow of non-financial corporations' liabilities (EUR 870 million) consisted of liabilities to the rest of the world, primarily in the form of equity and trade credits. While the increase in the flow of the latter was almost fully compensated for by an increase on the asset side, the net flow of liabilities to the rest of the world in the form of equity increased by EUR 500 million.

The government sector is continuing to reduce its net debtor position, which amounted to EUR 1.7 billion at the end of the second quarter, down more than EUR 2 billion from its peak at the beginning of last year. An important factor was the growth in general government revenues, which outpaced growth in expenditure over the first half of this

Figure 6.1: **Net saving and indebtedness in Slovenia and the euro area**



Source: Banka Slovenije.



Note: HHs – sector S.14, NFCs – sector S.11, fin. sector – S.12 excl. S.121. 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, Banka Slovenije calculations.

year. The government sector thereby mitigated the Slovenian economy's net debtor position against the rest of the world, which as measured by flows in transactions over the last four quarters turned positive at the end of the second quarter for the first time in ten years, in the amount of EUR 490 million.

Non-financial corporations' financial liabilities are at a record high, although their share of financing with equity is also significantly above average.

Non-financial corporations have significantly picked up the pace of the increase in their financial assets and liabilities since the beginning of 2021 (see Figure 6.2). On the asset side this has primarily come via increases in equity, which at the end of the second quarter of this year was up EUR 2.1 billion in year-on-year terms, and in trade credits, which were up EUR 3.8 billion. Trade credits and equity are also drivers of the increase on the liability side, where they are joined by the increase of EUR 2.1 billion in the stock of loans (of which EUR 1.1 billion was from Slovenian banks). The latter was distributed roughly equally between long-term loans and short-term loans, an indication that firms raised loans for current operations as well as for financing investment.

The increase in non-financial corporations' financial liabilities since the end of last year has outpaced the increase in assets by more than EUR 3 billion, taking the gap between the stock of their financial liabilities and assets in the second quarter of this year to its highest value to date (EUR 44 billion). At the same time, the share of total liabilities accounted for by equity remains well above its long-term average at 53% (having averaged 42% between 2008 and 2012). The indebtedness of Slovenian non-financial corporations remains low compared with the euro area average (see Figure 6.1).

The growth in household financial assets is slowing.

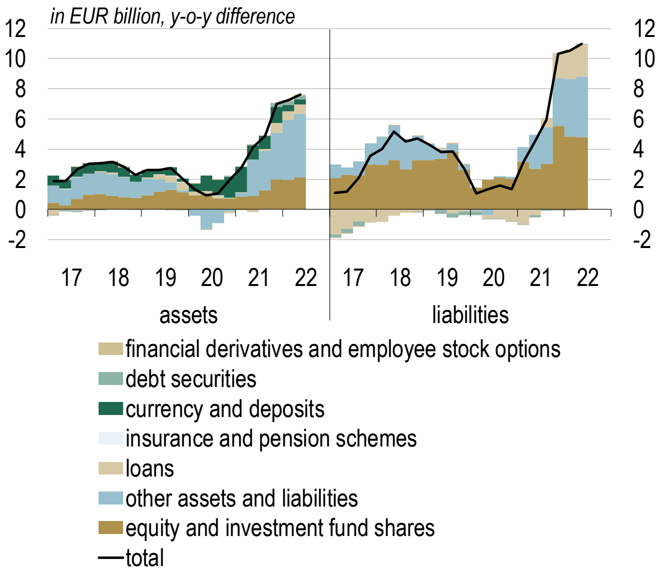
Growth in household financial assets has slowed this year, primarily as a result of a decline in the year-on-year increase in currency and deposits, which at the end of the second quarter was down almost by half compared to a year earlier (see Figure 6.2). Over the same period, there was a notably smaller increase in households' equity holdings, while their holdings of insurance, pension and standardised guarantee schemes declined over the preceding year as a result of revaluations of existing assets. On the liability side, loans continued to account for the majority of the year-on-year increase (EUR 1.1 billion), of which 90% were long-term, primarily intended for financing the purchase of residential real estate.

The main factors in the changes on bank balance sheets over the last year have been a decline in liabilities to the Eurosystem and the continued strengthening of lending activity.

Liabilities to the Eurosystem declined by EUR 1.1 billion over the last year, as a result of the partial repayment of liabilities under the TLTRO-III. The banks' holdings of liquid assets in accounts at the central bank declined by approximately the same amount. This decline was more than compensated for by an increase in assets and liabilities

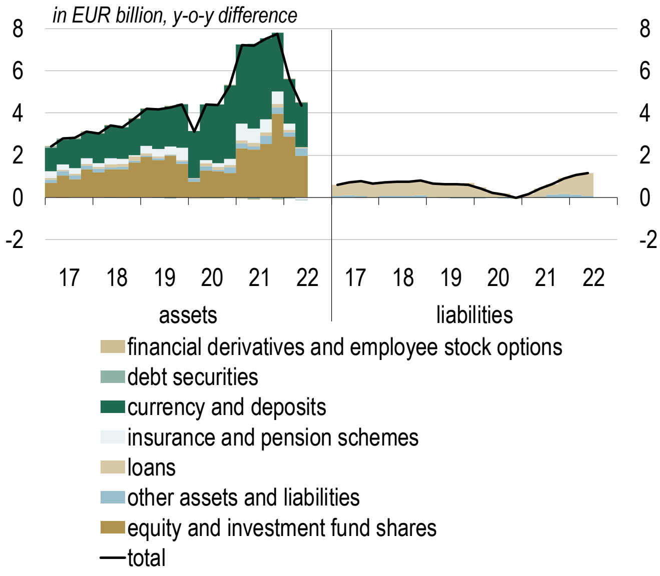
Figure 6.2: **Dynamics in financial assets and liabilities of non-financial corporations and households**

Financial assets and liabilities of NFCs



Source: Banka Slovenije.

Financial assets and liabilities of households



Source: Banka Slovenije.

vis-à-vis the non-banking sector. The banks increased their holdings of loans[18] by EUR 2.6 billion (EUR 1.1 billion in loans to non-financial corporations and EUR 900 million in household loans), the largest increase since 2009. The largest increase on the liability side was in household deposits, at EUR 1.2 billion. The vast majority (84%) of deposits by the non-banking sector are sight deposits, which means that the average maturity and average repricing period on the liability side are significantly shorter than on the asset side, where fixed-rate loans account for a significant share (44% in July of this year).[19] The higher interest rates brought by monetary policy normalisation will thus pass through more quickly into deposits than into loans. The changes in bank performance are analysed in Box 6.1.

[18] Loans in this section are taken from the financial accounts, and are valued under the ESA 2010 methodology, and accordingly their values and/or dynamics may differ from those disclosed in Box 6.1.

[19] Detailed analysis of the situation in the Slovenian banking system can be found in the October 2022 issue of the Financial Stability Review.

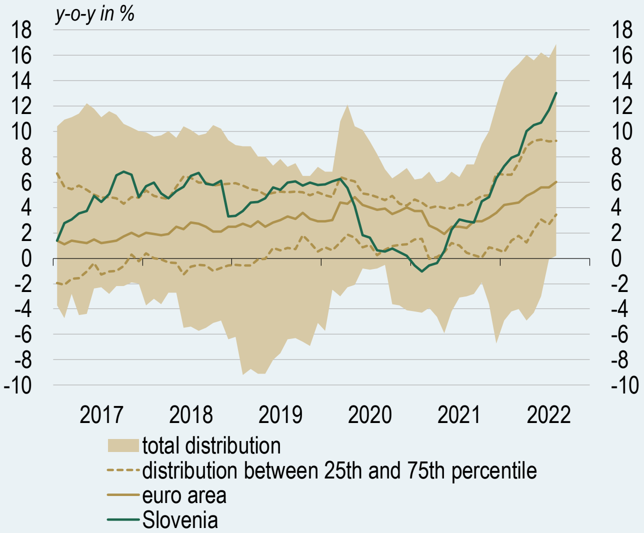
Lending to the non-banking sector strengthened sharply over the first eight months of this year, as the banks recorded a year-on-year increase in income, while pre-tax profit remained comparable to the previous year, primarily on account of the low level of net impairments and provisions.

Amid a large increase in loans to non-financial corporations, lending to the non-banking sector strengthened sharply over the first eight months of the year, the year-on-year rate of growth rising to 13.0% (see Figure 6.1.1). The stock of loans to non-financial corporations increased by EUR 1.3 billion to EUR 10.6 billion, raising the year-on-year rate of growth to 18.4%. Household lending also strengthened (it was up 8.4% in year-on-year terms), primarily via housing loans, while the stock of consumer loans was broadly unchanged over the first eight months of the year. The stock of housing loans increased by EUR 0.6 billion over the same period to EUR 8.0 billion, the year-on-year rate of growth holding close to 12% for the third consecutive month. The stock of consumer loans remained similar to the beginning of the year at EUR 2.5 billion, amid stable inflows of new loans while repayments of loans from the period of above-average growth continued. The year-on-year decline had slowed to 1.4% by August.

Banks in Slovenia are increasing their income: growth in net interest is rising, the year-on-year rate reaching 7.0% in August, while net non-interest income over the first eight months of the year was up 14.0% in year-on-year terms. The net interest margin is rising, and stood at 1.43% in August. The increase in net interest was driven by quantity effects from increased lending, while interest expenses remained virtually unchanged or even declined. Rising interest rates will gradually be reflected in an increase in the banks' (net) interest income via assets on the balance sheet. Year-on-year growth in operating costs remained moderate at 4.2% in August. Given the huge uncertainty, the current international situation, and the cuts in economic growth forecasts,

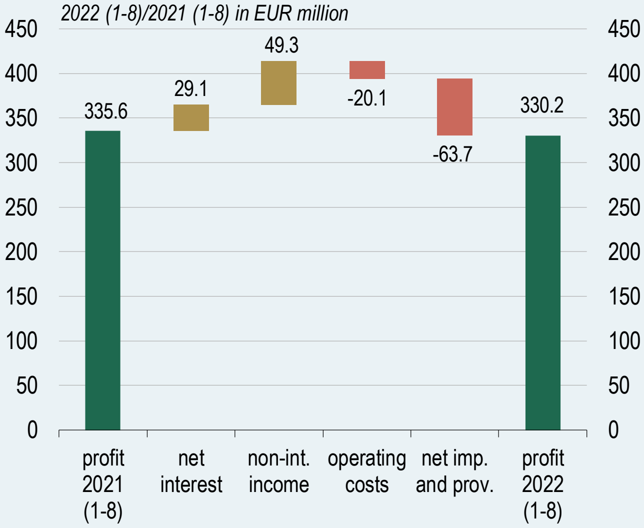
Figure 6.1.1: **Lending activity and pre-tax profit in the Slovenian banking system**

Loans to the non-banking sector



Source: ECB SDW, Banka Slovenije calculations.
Latest data: August 2022.

Contributions of component changes to the increase/decrease in profit before tax



Source: Banka Slovenije.

the net creation of impairments and provisions remained very low (at just 2.1% of the disposal of gross income). Pre-tax profit over the first eight months of the year amounted to EUR 330 million, comparable to the same period last year (down 1.6%), while pre-tax ROE was similarly comparable to last year (at 10.1%).

7 Inflation

High energy and food prices are the main reason that inflation remains above 10%.

Amid numerous external price pressures, inflation has been highly elevated in the course of the last few months. Each month since June a double-digit year-on-year headline inflation was recorded, most recently 10.6% in September (see Figure 7.1). A third of this figure was again attributable to energy prices, which despite decreases in monthly terms as a result of government measures were still up more than a quarter in year-on-year terms.

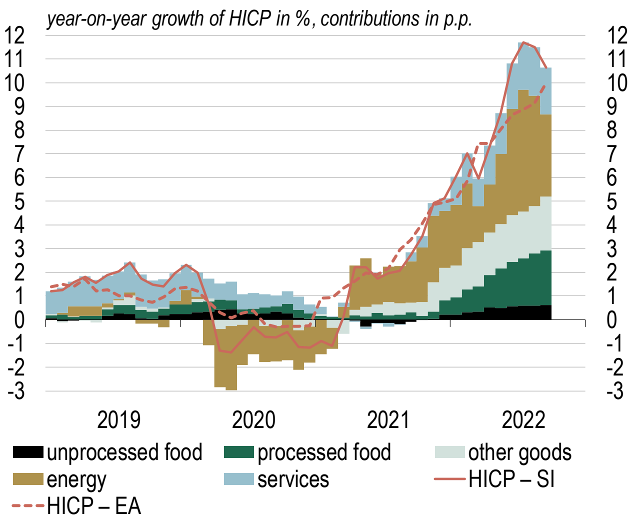
The rise in production costs and the disruptions to supply are increasingly being reflected in year-on-year food price inflation, which was almost negligible in September of last year, but had risen to 12.7% by September of this year. Services price inflation and inflation in prices of non-energy industrial goods are also well above their long-term averages. More than two-thirds of the products in the typical consumer basket were recording year-on-year price rises of at least 5% in September.

Amid the worsening situation in the international environment, high energy price inflation is being mitigated by government measures, mostly in connection with energy for heating. After spiking over the summer months, when energy prices were not subject to government measures, year-on-year energy price inflation slowed by almost 10 percentage points in September (see Figure 7.1).

As a result of the capping of the selling price for electricity and gas, and reductions in numerous levies and in the VAT rate, electricity prices were no longer contributing to year-on-year energy inflation in September, and the contribution by gas prices also declined. It was a similar picture with the contribution by motor fuels, which fell in price in current terms for the second consecutive month in the wake of a fall in oil prices on global markets. The fall in prices was also attributable in part to government regulation

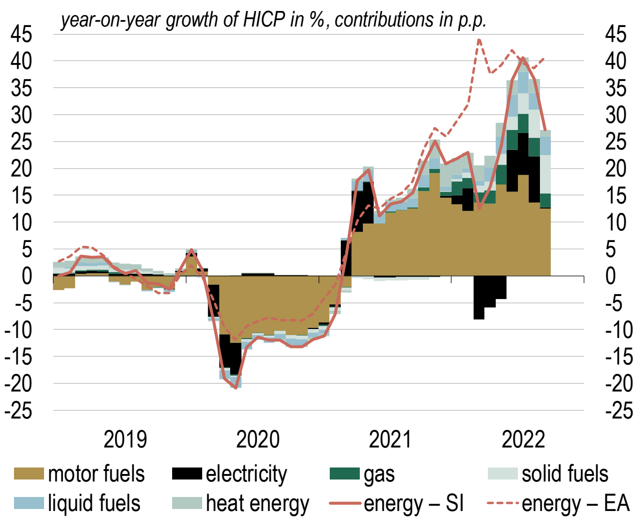
Figure 7.1: **Components of inflation and energy price inflation**

Contributions to headline inflation



Source: SORS, Eurostat, Banka Slovenije calculations.
Latest data: September 2022.

Contributions to energy inflation



Source: SORS, Eurostat, Banka Slovenije calculations.
Latest data: September 2022.

of prices of refined petroleum products[20] and cuts in certain levies.[21] The geopolitical tensions and the persistence of high energy prices on wholesale markets are rising doubts with regard to the sustainability of the measures, particularly in respect of gas suppliers who have already sought government support or have announced that they will discontinue trading.

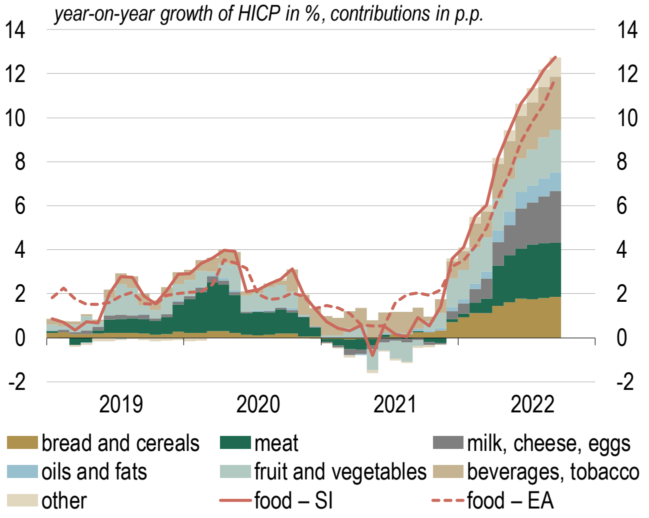
The spillover of energy prices into the non-energy parts of the consumer basket is increasingly evident, particularly for food prices, growth in which has risen sharply since the end of last year. Rising energy prices, which initially were the main factor in food price inflation, were joined by rises in prices of primary food commodities on wholesale markets following the outbreak of the war in Ukraine, and the uncertainty was exacerbated by the extremely dry weather conditions this summer in Europe.

Year-on-year food price inflation stood at 12.7% in September, when the contributions by all subcategories were up on the beginning of the year, most notably meat and dairy products (see Figure 7.2). Prices of beef, poultry, milk and bread were up by around 20% in year-on-year terms in September, prices of butter by 30%, and prices of other edible oils by fully 56%.[22]

The upward pressure on food prices remains elevated. Prices of basic agricultural commodities on global markets[23] have been rising since the beginning of last year, and in September were up almost 70% on their average in 2019 (see Figure 7.2). In the wake

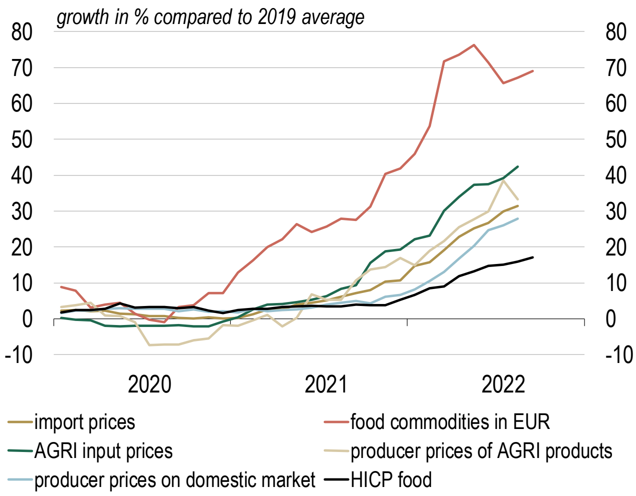
Figure 7.2: **Developments in food prices and food production prices**

Contributions to food inflation



Source: SORS, Eurostat, Banka Slovenije calculations.
Latest data: September 2022.

Price developments in food production



Note: Import prices and producer prices on domestic market include prices of food, beverages and tobacco.
Source: SORS, ECB. Latest data: August and September 2022.

[20] The government adopted the Decree setting prices of certain refined petroleum products, which from 21 June 2022 regulates prices of motor fuels at petrol stations outside the motorway and express road network (95-octane unleaded petrol and diesel) for a period of one year. Prices are formed according to a methodology based on developments in prices of refined petroleum products on the global market, with a cap on margins. The decree has also applied to extra light heating oil as of 13 September 2022.

[21] Payment of the carbon levy for gasoil, petrol, heating oil and natural gas was abolished by decree between 21 June and 2 August. At the same time the decrees also granted exemption from paying the contribution to support high-efficiency combined heat and power and generation from renewables (for the period that the Decree setting prices of certain refined petroleum products is in force) and from paying the energy efficiency contribution (between 21 June and 17 August). The environmental tax for atmospheric carbon emissions has been abolished again as of 13 September.

[22] This ECOICOP category includes all edible oils other than olive oil. This includes rapeseed oil, pumpkin seed oil and sunflower oil, which rose in price sharply after the outbreak of the war in Ukraine. Ukraine was until recently one of the world's largest producers of sunflower oil.

[23] The index is composed of 18 basic food commodities according to their share of imports in Europe.

of a rise in input production costs, most notably fertilisers,[24] producer prices of agricultural produce are also rising, and are being transmitted along food production chains into final prices on the shelves.

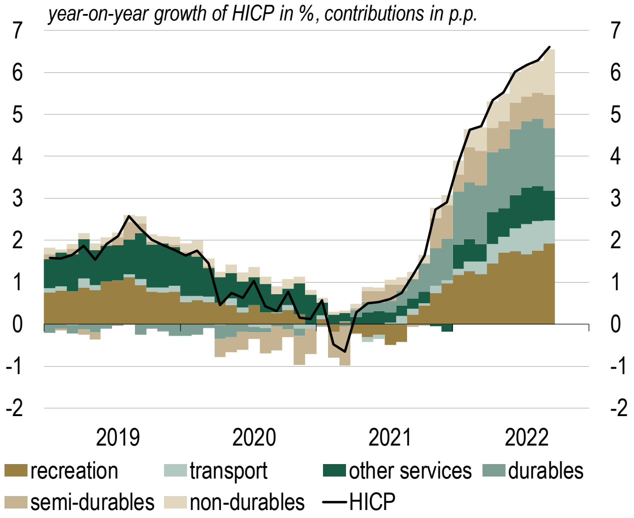
The all-encompassing nature of high inflation is also evidenced in the rise in the narrowest core inflation indicator.

The narrowest core inflation indicator, which excludes energy and food from the price index, was up 6.6% in year-on-year terms in September (see Figure 7.3). Growth in the less volatile components of the HICP is thus continuing to rise, and is markedly outpacing the growth seen in September of last year.[25] Prices of non-energy industrial goods have risen by 7.4% since then, picking up particular pace in September as a result of a larger contribution by semi-durables. Service price inflation is also gradually strengthening: services prices in September were up 5.9% in year-on-year terms, as prices of recreation services[26] rose by almost 10%.

The rise of the core inflation can also be derived from the distribution of year-on-year growth in individual products via increasing share of items surpassing inflation thresholds. While only a tenth of goods and services were recording year-on-year price rises of 5% or more last September, by September of this year the corresponding figure was almost 60% (see Figure 7.3).

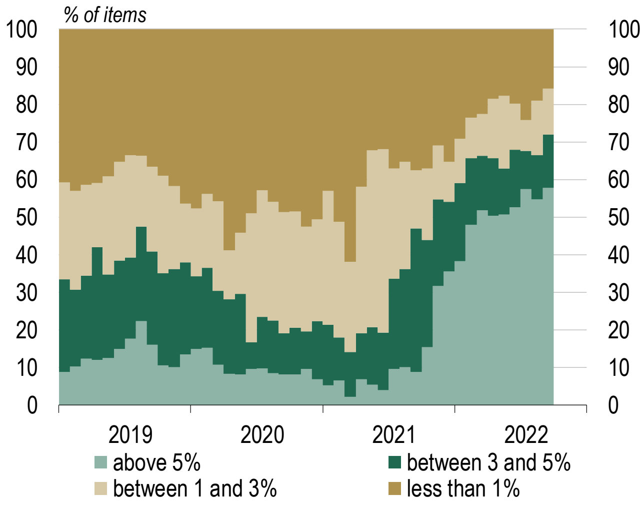
Figure 7.3: **Core inflation**

Contributions to HICP inflation excluding energy and food



Source: SORS, Eurostat, Banka Slovenije calculations.
Latest data: September 2022.

Broad-based core inflation* in Slovenia



Note: * HICP excluding energy and food.
Source: SORS, Eurostat, Banka Slovenije calculations.
Latest data: September 2022.

[24] Natural gas is a key element in the production of synthetic fertilisers. A side product of their production is liquid carbon dioxide, which is used in the food industry in the production of carbonated beverages and beer, and in meat packaging. Major fertiliser plants across Europe are shutting down production on account of excessive costs, thereby also reducing the production of carbon dioxide and increasing price pressures, particularly in brewing and the meat industry.

[25] The inflation indicator that additionally excludes package holidays and clothing and footwear from the narrowest indicator reached 6.6% in September.

[26] The ECOICOP category of recreation combines services encompassing recreation, repairs, personal care and package holidays.

Future price developments will depend on the evolution of numerous inflation factors.

Amid the unstable situation in the international environment, import prices are continuing to rise, and are well above their pre-pandemic level,[27] with food prices recording the sharpest rises in recent months. Another exacerbating factor is the euro exchange rate, which has dipped below parity with the US dollar for the first time in almost 20 years.

The rise in input production costs has profoundly raised domestic producer prices, which in August were up more than a quarter in year-on-year terms. Alongside rising prices of materials and semi-finished goods, firms' uncertainty is being driven above all by high energy prices, for which reason many firms are already waiting expectantly for support measures at national and European level. The disruptions to European energy supplies remain unresolved, at least in the short term.

High inflation is eating into real income and household savings, and will be reflected at least partly in weaker private consumption, which in Slovenia has significantly surpassed its pre-crisis level following the post-pandemic economic recovery. As regards the labour market the growth of wages is falling behind the growth in prices, and the anticipated slowdown in the economy will act to curb future growth in labour costs.

[27] Import prices in August of this year were up 38% compared to the average level in 2019.

8 Fiscal Position

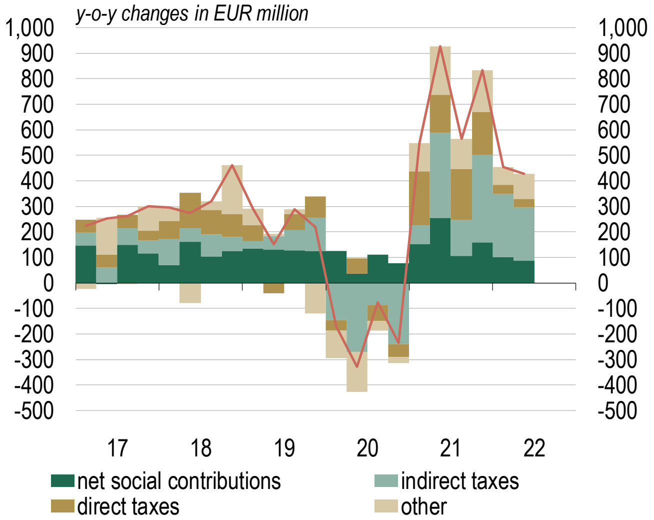
The general government deficit over the preceding 12 months narrowed to 3.0% of GDP in June, as a result of the favourable economic situation and a decline in one-off expenditure, while the ratio of debt to GDP also declined, but the risks to future fiscal developments are rising.

In the strong economy general government revenues in the first half of the year were up 7.9% in year-on-year terms, which is only slightly more than average inflation over this period. The growth was driven by taxes and also by other revenue categories. Of the major tax categories, the largest increase was recorded by indirect taxes, thanks to the high growth in household consumption and inflation. Government measures reduced growth in personal income tax revenues in the first half of the year, with revenues actually down in year-on-year terms in the second quarter. According to SORS estimates, corporate income tax revenues declined slightly in the first half of this year, having risen by around 38% last year according to audited figures. Growth in net social security contributions slowed to 4.3% as the average wage stagnated. The largest increase in other revenues, at just over a fifth, was recorded by revenues from property (see Figure 8.1).

General government expenditure in the first half of the year was up 0.9% in year-on-year terms. A major factor in the relatively low growth was the decline in one-off expenditure (i.e. expenditure related to the pandemic or to high energy prices). The largest decline, of fully two-thirds, was in subsidies, significant support having been provided for the economy last year. Employee compensation was also down significantly, as a result of the decline in pandemic-related bonuses. On the other hand, there was an increase in social security benefits, where expenditure on pensions and sick pay is rising, and which also include support for households for rising energy costs. Government investment is rising for the sixth consecutive year, although its growth is not

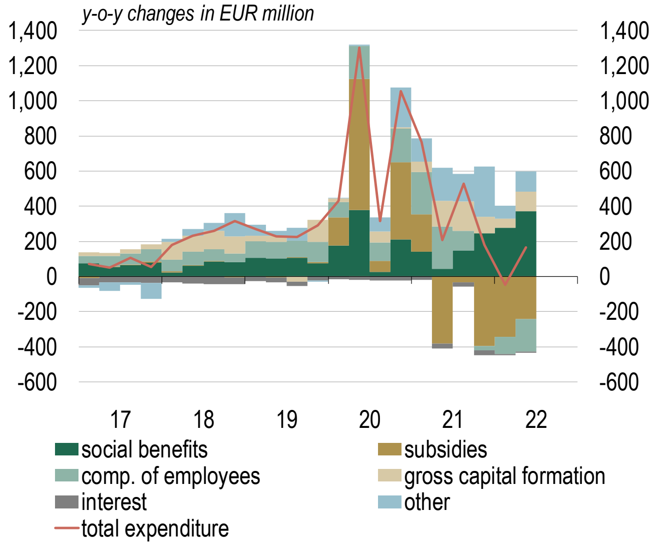
Figure 8.1: **General government revenues and expenditure**

General government revenue



Source: SORS, Banka Slovenije calculations.

General government expenditure



Source: SORS, Banka Slovenije calculations.

reaching the planned levels. Growth in intermediate consumption was higher than inflation at 11.6%. Inflation is also affecting other expenditure categories via adjustments (e.g. social transfers, pensions), albeit with a lag in some of them. Interest is still declining (see Figure 8.1).

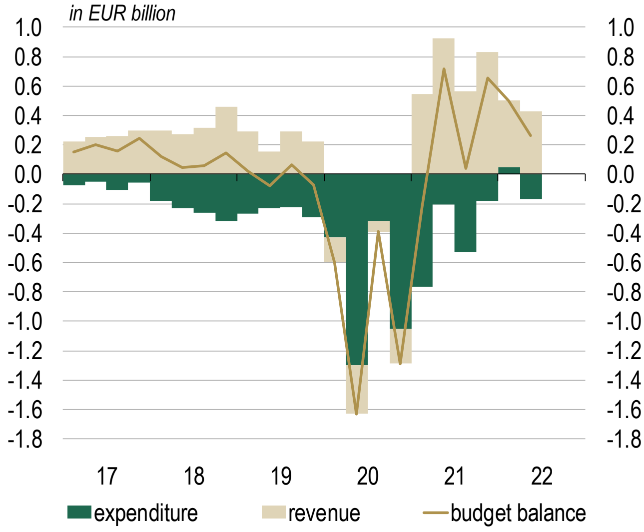
The 12-month general government deficit declined further as growth in revenues outpaced expenditures, to stand at 3.0% of GDP in the second quarter. This was down just over 5 GDP percentage points on its peak during the pandemic, but the balance is still worse than before the pandemic.

The general government debt had increased to EUR 41.1 billion by the end of the second quarter. As a ratio to GDP, it had declined to 73.5%. The government borrowed early in the year while bond yields were still favourably low by issuing two new bonds, thereby covering approximately a third of the borrowing undertaken by September. It subsequently borrowed mainly by reopening existing bonds, and at higher interest rates. The yield on treasury bills turned positive in the middle of the year. Despite a gradual rise in bond yields, the implicit interest rate, which reflects the ratio of total interest payments to debt, remained low in the first half of the year at 1.6% (see Figure 8.2).

According to the draft budget plans, this year's general government deficit is forecast at 3.8% of GDP. It is forecast to widen to 5.0% of GDP next year as a result of potential measures to mitigate the impact of high energy prices, before narrowing to 2.2% of GDP in 2024. The general government debt is forecast to end the year at 71.5% of GDP. The European Commission and the Fiscal Council have warned that at a time of exceptional circumstances the key is adopting targeted temporary measures that do not worsen the structural position of the public finances. Deviations from the European fiscal rules are still allowed this year and next year. At the same time the preparations are underway to make changes to the rules, which will probably relate primarily to the debt reduction provisions. Once the exceptional circumstances have come to an end, the government intends to draw up an exit strategy that does not hinder economic growth.

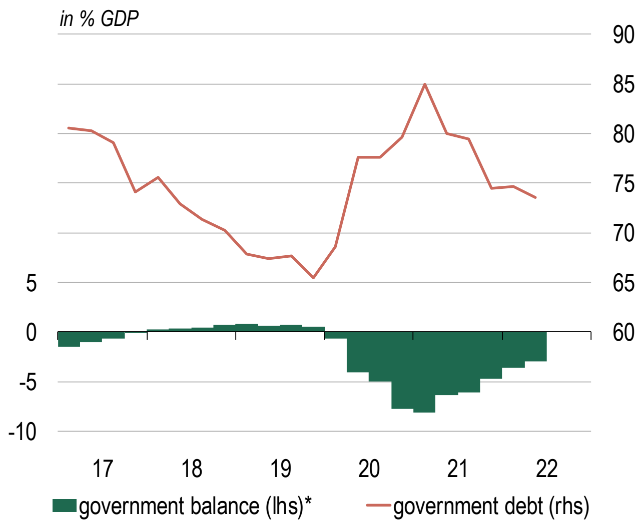
Figure 8.2: **General government position and debt**

Contribution of government revenue and expenditure to y-o-y changes in general government balance



Source: SORS, Banka Slovenije calculations.

General government balance and debt



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

Box 8.1: **Results of mayoral elections from the perspective of investment intensity during the 2015-2018 electoral cycle**

Municipalities where mayors were re-elected in the previous electoral cycle earmarked a greater share of revenues for investment than other municipalities.

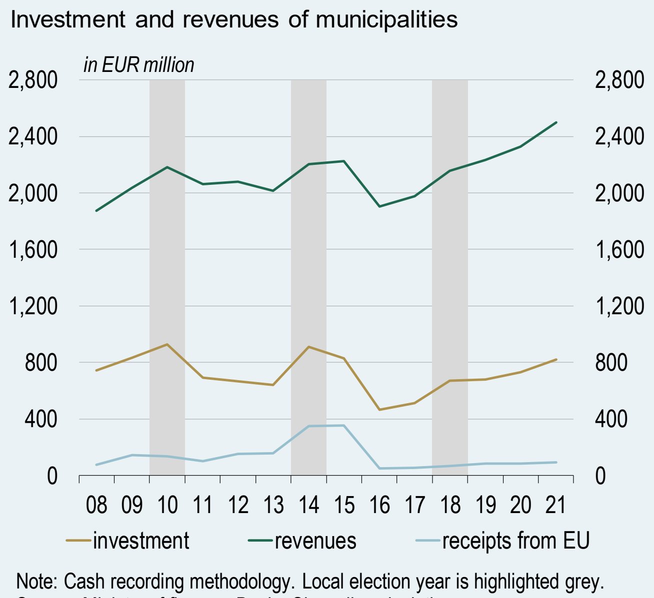
Close to 20% of the government sector's revenues or expenditure go through municipalities, and the budget of the local government subsector is approximately in balance. Because they provide approximately 45% of total government investment, they have a notable impact on the domestic economic situation, particularly during local elections.

This analysis observes municipalities in the previous electoral cycle, i.e. between 2015 and 2018. The municipalities are divided into three groups according to the outcome of the mayoral elections. The first and largest group (accounting for 67% of the municipalities) consists of those where the mayors were re-elected in 2018. The second comprises municipalities where the previous mayor stood in the elections but was not re-elected (17%), while the third comprises those where the mayor did not stand again (15%).

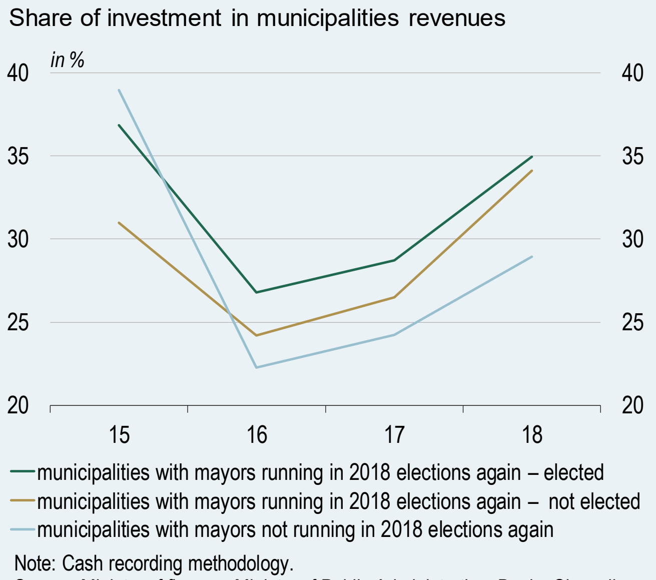
Figure 8.1.1 illustrates investment by municipalities as a share of their revenues, thus relativising the differences in their financial (revenue) strength, as those with higher revenues are able to earmark larger sums for investment if they have the revenue available (after financing mandatory tasks) and decide to do so. The trajectory of municipalities' investment expenditure largely coincides with the available revenues, and is also shaped by the disbursement of EU funds in addition to elections. The previous electoral cycle initially saw a decline in investment, primarily on account of the EU financial framework coming to an end.

The municipalities whose mayors were re-elected earmarked a greater share of revenues for investment than other municipalities over most of the electoral cycle. The municipalities whose mayors stood but were not re-elected began to close the gap vis-a-vie the first group towards the end of the electoral cycle. The municipalities whose mayors did not stand again earmarked a smaller share of revenues for investment after the decline in revenues from the EU.

Figure 8.1.1: **Municipalities revenues and investment**



Note: Cash recording methodology. Local election year is highlighted grey.
Source: Ministry of finance, Banka Slovenije calculations.



Note: Cash recording methodology.
Source: Ministry of finance, Ministry of Public Administration, Banka Slovenije calculations.

The risks to the public finances relate primarily to the macroeconomic situation, the implementation of government investment, the measures to mitigate the impact of high energy prices, and the pandemic. The government is proposing changes to personal income tax that will curb further reductions in revenues from this source next year. A wage agreement has been signed with the public sector trade unions, under which wages will rise by 4.5% in October. Additional negotiations that entail further upward pressure on general government expenditure are still in progress.

9 Statistical Appendix

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

	2020	*2021*	*12 m. 'till Jul.22*	*3 m. 'till Jul.21*	*3 m. 'till Jul.22*	*2022 May.*	*2022 Jun.*	*2022 Jul.*	*2022 Aug.*	*2022 Sep.*
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	-11.7	2.5	3.5	6.3	0.6	2.6	0.5	-1.3	-0.5	-5.0
- confidence indicator in manufacturing	-8.6	8.3	5.4	11.0	0.0	1.0	0.0	-1.0	-1.0	-8.0
					year-on-year growth rates in %					
Industry: - total	-6.4	10.0	5.1	15.1	3.3	3.9	1.9	4.1	4.8	...
- manufacturing	-6.2	11.5	6.8	17.4	6.1	6.8	4.7	6.7	8.6	...
Construction: - total	-0.7	-0.5	10.2	7.5	30.0	30.2	29.8	29.9	30.2	...
- buildings	-7.8	-23.0	15.5	-22.3	95.0	79.4	102.6	103.0	79.2	...
Trade and service activities - total	-9.7	12.2	14.7	12.9	11.1	16.6	10.7	6.3	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	-14.5	8.3	-0.1	-2.7	-1.9	-0.4	-4.9	-0.3	...	...
Retail trade, except of motor vehicles and motorcycles	-5.9	16.2	16.4	11.1	8.3	11.6	6.2	7.3	...	...
Other private sector services	-11.6	12.4	17.0	16.3	14.0	22.0	14.4	6.5	...	...
Labour market					*year-on-year growth rates in %*					
Average gross wage	6.0	6.0	1.5	7.0	1.7	-0.9	2.8	3.2	...	...
- private sector	4.5	5.9	6.1	5.3	6.9	7.6	6.9	6.1	...	...
- public sector	7.9	6.4	-5.1	10.4	-5.9	-12.6	-3.1	-1.3	...	...
Real net wage[1]	7.1	3.0	-4.0	3.5	-6.6	-7.2	-6.1	-6.6	...	...
Registered unemployment rate (in %)	8.7	7.6	6.4	7.4	5.6	5.7	5.5	5.6	...	...
Registered unemployed persons	14.6	-12.6	-24.0	-19.4	-24.4	-25.7	-24.2	-23.1	-22.2	-21.3
Persons in employment	-0.6	1.3	2.6	1.9	2.4	2.6	2.3	2.3	...	...
- private sector	-0.9	1.3	3.2	2.0	3.0	3.3	2.9	2.9	...	...
- public sector	0.1	1.1	1.0	1.4	0.6	0.7	0.6	0.6	...	...
Price Developments					*year-on-year growth rates in %*					
HICP	-0.3	2.0	6.3	2.0	10.4	8.7	10.8	11.7	11.5	10.6
- services	1.8	0.6	3.2	-0.1	5.6	5.1	5.8	6.0	6.1	5.9
- industrial goods excluding energy	-0.5	1.3	4.5	1.5	6.2	5.9	6.3	6.4	6.6	7.4
- food	2.8	0.7	5.2	0.0	10.5	9.4	10.6	11.3	12.2	12.7
- energy	-10.8	11.3	22.8	14.6	33.9	24.3	36.5	40.6	36.6	27.2
Core inflation indicator[2]	0.8	0.9	3.8	0.5	5.9	5.5	6.0	6.2	6.3	6.6
Balance of Payments - Current Account					*in % GDP*					
Current account balance	7.6	3.8	0.4	1.4	-0.7	0.4	-0.7	-1.9	1.5	...
1. Goods	5.0	1.7	-2.8	1.8	-4.5	-4.8	-3.5	-5.2	-3.1	...
2. Services	4.4	4.7	5.7	4.4	6.8	6.2	6.8	7.3	7.8	...
3. Primary income	-0.8	-1.7	-1.5	-4.1	-1.8	-0.4	-2.6	-2.4	-2.2	...
4. Secondary income	-1.0	-0.9	-1.0	-0.8	-1.2	-0.6	-1.4	-1.5	-1.0	...
					nominal year-on-year growth rates in %					
Export of goods and services	-10.0	19.5	24.7	22.1	28.1	32.0	28.8	23.8	30.7	...
Import of goods and services	-11.7	25.4	34.3	30.4	35.2	37.8	37.1	30.7	32.3	...

Public Finances	*2020*	*2021*	*12 m. 'till Aug.22*		*2021 Jan.-Aug.*		*2022 Jan.-Aug.*	
Consolidated general government (GG) balance[3]	*EUR milions*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	18,529	21,383	40.7	13.6	13,750	14.5	15,395	12.0
Tax revenue	16,460	18,786	35.7	12.4	12,185	14.1	13,587	11.5
From EU budget	730	950	2.0	41.0	456	13.3	610	33.8
Other	1,338	1,646	3.1	13.8	1,109	20.3	1,198	7.9
Expenditure	22,071	24,300	42.9	2.6	15,821	11.0	15,781	-0.3
Current expenditure	9,128	10,394	18.1	2.0	6,781	15.5	6,624	-2.3
- wages and other personnel expenditure	4,965	5,751	9.3	-6.2	4,033	20.0	3,570	-11.5
- purchases of goods, services	3,021	3,351	6.2	7.9	2,037	14.0	2,215	8.7
- interest	778	732	1.1	-12.2	564	-7.6	474	-16.0
Current transfers	10,868	11,319	19.6	-1.9	7,768	5.8	7,531	-3.0
- transfers to individuals and households	8,251	9,168	16.1	0.4	6,321	14.6	6,245	-1.2
Capital expenditure, transfers	1,549	1,959	3.9	28.6	881	25.9	1,146	30.2
GG surplus/deficit	-3,542	-2,917	-2.2		-2,071		-386	

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**

	2019	2020	2021	21Q3	21Q4	22Q1	22Q2	2019	2020	2021	21Q3	21Q4	22Q1	22Q2
	Slovenia							*euro area*						
Economic developments	*q-o-q growth rates in %*													
GDP				1.4	5.2	0.7	0.8				2.2	0.5	0.7	0.8
- industry				0.5	1.4	0.5	1.3				0.9	0.2	0.4	0.5
- construction				3.4	1.1	2.3	1.0				-0.3	0.6	2.3	-0.7
- mainly public sector services (OPQ)				0.6	0.8	0.5	0.2				1.3	-0.8	0.9	-0.3
- mainly private sector services (without OPQ)				2.5	3.9	1.4	1.9				2.7	0.4	0.9	0.9
Domestic expenditure				2.3	3.1	2.6	1.4				2.1	1.4	0.0	1.0
- general government				1.0	1.8	-0.4	-1.5				0.1	0.7	0.2	0.6
*- households and NPISH**				5.4	2.1	3.1	1.2				4.4	0.0	0.0	1.3
- gross capital formation				-3.7	0.5	11.4	3.4				-1.2	5.8	-0.1	0.7
- gross fixed capital formation				3.5	1.6	2.7	-1.2				-0.6	3.7	-0.8	0.9
	y-o-y growth rates in %													
GDP	3.5	-4.3	8.2	5.1	10.5	9.6	8.2	1.6	-6.1	5.2	3.7	4.4	5.5	4.1
- industry	6.9	-3.4	9.2	5.8	5.7	4.9	4.1	0.4	-6.2	7.2	4.5	1.8	2.1	1.9
- construction	8.0	-1.9	10.0	10.5	7.2	7.8	7.7	0.9	-5.5	5.5	2.2	0.6	5.7	1.4
- mainly public sector services (OPQ)	0.5	1.3	9.3	3.2	4.8	3.7	1.2	1.0	-2.6	3.5	1.3	2.0	2.0	1.1
- mainly private sector services (without OPQ)	2.3	-5.5	8.3	5.3	10.4	10.3	10.1	1.7	-6.8	5.5	4.3	4.9	6.1	4.9
Domestic expenditure	3.5	-4.7	9.9	9.2	13.5	16.4	9.7	2.4	-5.8	4.1	3.3	4.9	6.3	4.4
- general government	1.8	4.1	5.8	5.4	8.3	4.5	0.7	1.7	1.1	4.2	2.9	2.4	3.0	1.5
- households and NPISH	5.3	-6.9	9.5	5.7	21.2	19.3	12.2	1.4	-7.7	3.7	2.9	6.0	8.5	5.8
- gross capital formation	0.6	-7.1	15.1	24.2	1.1	21.7	12.2	5.7	-7.4	4.9	4.7	4.9	4.6	4.2
- gross fixed capital formation	5.1	-7.9	13.7	11.8	13.2	8.6	6.5	6.9	-6.4	4.1	2.4	2.3	4.4	3.2
- inventories and valuables, contr. to GDP growth in p.p.	-0.8	0.1	0.4	2.1	-2.3	2.9	1.5	-0.2	-0.3	0.2	0.5	0.6	0.2	0.3
Labour market	*q-o-q growth rates in %*													
Employment				0.8	0.7	0.8	0.7				1.1	0.5	0.7	0.4
- mainly private sector (without OPQ)				0.9	0.7	0.9	0.8				1.4	0.6	0.7	0.4
- mainly public services (OPQ)				0.5	0.5	0.4	0.3				0.3	0.4	0.5	0.4
	y-o-y growth rates in %													
Employment	2.5	-0.7	1.3	2.3	2.5	3.2	3.1	1.3	-1.5	1.3	2.4	2.3	3.1	2.7
- mainly private sector (without OPQ)	2.6	-1.3	1.0	2.1	2.5	3.4	3.4	1.3	-2.3	1.0	2.4	2.5	3.5	3.0
- mainly public services (OPQ)	1.8	2.2	2.7	2.9	2.6	2.4	1.8	1.4	0.9	2.2	2.3	1.7	1.8	1.6
Labour costs per employee	5.0	3.4	7.9	7.9	3.2	0.9	2.4	2.1	-0.6	3.9	3.2	3.4	4.4	4.7
- mainly private sector (without OPQ)	4.5	1.5	8.0	7.7	7.3	5.6	6.2	2.1	-1.7	4.8	3.7	4.3	5.2	5.6
- mainly public services (OPQ)	6.6	9.4	7.7	8.2	-8.5	-12.0	-8.2	2.3	2.3	1.7	1.9	1.2	2.7	2.6
Unit labour costs, nominal**	4.0	7.3	1.1	5.0	-4.3	-5.0	-2.5	1.9	4.4	-0.1	1.8	1.3	2.0	3.3
Unit labour costs, real***	1.7	6.0	-1.5	0.7	-7.2	-9.1	-8.0	0.2	2.6	-2.1	-1.1	-1.7	-1.6	-1.0
	in %													
LFS unemployment rate	4.5	5.0	4.7	4.5	4.5	4.3	4.2	7.6	7.9	7.7	7.4	7.1	7.0	6.6
Foreign trade	*q-o-q growth rates in %*													
Real export of goods and services				1.0	6.0	-1.1	1.9				2.3	2.4	1.2	1.3
Real import of goods and services				1.4	5.4	2.2	0.5				2.1	4.7	-0.2	1.8
	y-o-y growth rates in %													
Real export of goods and services	4.5	-8.6	14.5	12.6	13.8	8.0	7.9	2.8	-9.0	10.3	10.3	7.7	8.4	7.2
Real import of goods and services	4.7	-9.6	17.6	19.5	18.1	16.0	9.7	4.8	-8.6	8.1	9.9	9.1	10.3	8.3
Current account balance as % of GDP****	5.9	7.6	3.8	5.7	3.8	1.7	0.8	2.3	1.6	2.3	2.8	2.3	1.6	0.6
External trade balance as contr. to GDP growth in p.p.	0.2	0.0	-0.8	-3.2	-1.9	-5.3	-0.8	-0.7	-0.5	1.4	0.6	-0.3	-0.5	-0.2
Financing	*in % of GDP*													
Banking system's balance sheet	87.8	98.0	94.5	96.7	94.5	92.6	88.5	260.1	295.0	286.2	294.5	286.2	293.8	294.7
Loans to NFCs	19.9	20.2	19.3	19.1	19.3	19.3	19.3	36.0	40.0	37.9	38.1	37.9	37.6	37.6
Loans to households	21.9	22.8	21.6	21.9	21.6	21.3	21.1	49.0	53.0	51.4	51.9	51.4	50.9	50.5
Inflation	*in %*													
HICP	1.7	-0.3	2.0	2.3	4.5	6.3	9.0	1.2	0.3	2.6	2.8	4.6	6.1	8.0
HICP excl. energy, food, alcohol and tobacco	1.9	0.8	0.9	0.8	2.4	4.4	5.6	1.0	0.7	1.5	1.4	2.4	2.7	3.7
Public finance	*in % of GDP*													
Debt of the general government	65.4	79.6	74.5	79.5	74.5	74.7	73.5	83.9	97.0	95.4	97.3	95.4	95.3	...
One year net lending/net borrowing of the general government****	0.6	-7.7	-4.7	-6.1	-4.7	-3.6	-3.0	-0.7	-7.0	-5.1	-6.1	-5.1	-3.9	...
*- interest payment**** *	1.7	1.6	1.2	1.3	1.2	1.2	1.1	1.6	1.5	1.5	1.4	1.5	1.5	...
*- primary balance**** *	2.3	-6.1	-3.4	-4.8	-3.4	-2.4	-1.9	1.0	-5.5	-3.6	-4.7	-3.6	-2.4	...

Note: Original figures are used to calculate the year-on-year rates, and seasonally adjusted figures are used to calculate the current rates of growth.The SORS quarterly national accounts figures have not yet been aligned 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 Boxes, Figures and Tables

Boxes

Figures

Tables