BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments

September 2023

Title: Review of macroeconomic developments

Issue: September 2023

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

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Based on data available by 31 August 2023.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of
5 September 2023.

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ISSN 2820-3011

This publication is also available in Slovene.

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Summary

After economic growth in Slovenia accelerated in the second quarter, the available indicators for the third quarter are providing mixed signals. Headline inflation and core inflation in particular remain elevated.

- **In the euro area, the available information for the third quarter suggest a moderation in economic activity.** GDP increased by 0.3% in the second quarter, driven predominantly by services, as industrial production and construction activity declined by 1.0%. The composite PMI additionally deteriorated in the first two months of the third quarter. The situation in manufacturing remained difficult amid the weakening of global trade and decline in demand for services. Headline inflation and core inflation remained elevated in August at 5.3%, the former having remained unchanged from the previous month and the latter having fallen slightly.
- **Given the high core inflation, the financial markets are anticipating a longer period of elevated central bank key interest rates.** Consequently, yields on government bonds in the US and Germany remain elevated, while values of higher-risk asset classes such as equity indices and private-sector bonds have fallen. Further rises in government bond yields are being constrained by the concerns surrounding global economic growth. The greater resilience of the US economy compared with others was reflected in a rise of the US dollar in August.
- **After economic activity in Slovenia accelerated in the second quarter, the narrow set of available data for the third quarter give mixed signals of macroeconomic developments. The consequences of the severe weather and floods will also have an impact on the economy.** Economic growth in the second quarter (quarterly and year-on-year rates of 1.4%) was driven primarily by a foreign trade surplus, while the domestic demand was supported by a gross fixed capital formation. This triggered construction. In addition, manufacturing recorded unexpectedly high growth in value-added compared to earlier signals. Current signals for the third quarter are mixed. A fair few indicators suggest that developments have remained relatively favourable: car sales in July remained up significantly in year-on-year terms, there was a strong start to the main holiday season, and card payments continued to rise in real terms over the summer months. However, indications of a slowdown come from invoices registered with tax authorities, freight vehicle mileage on motorways, and real turnover in retail, which were all down in year-on-year terms. Activity is also being curtailed in specific sectors by the aftermath of the severe weather and floods, but repair and renovation work will support growth in investment and consumption. Based on a few available information, the nowcasts point to quarterly stagnation in GDP in the third quarter.
- **The labour market remains tight, and wage growth remains high.** Employment was continuing to rise and unemployment was continuing to fall going into the second half of the year. The workforce in employment hit a new high in June, and labour shortages remain at record levels. The average gross wage over the first half of the year was up 10.2% year-on-year in nominal terms, with the growth broadly based across sectors. The slowdown in inflation is strengthening its real growth, which stood at 3.1% in June. With employment growth continuing in June, nominal growth in the gross wage bill also remained high at 10.8%.

- **Amid a decline in merchandise imports and an improvement in the terms of trade, the current account surplus has widened significantly this year.** Merchandise exports in the second quarter remained at a similar level to the same period last year, but imports were down around a tenth amid declining domestic demand. The improvement in the terms of trade was responsible for approximately half of the change in the merchandise trade balance. It also accounted for almost entire year-on-year increase in the services trade surplus. The narrowing deficit in income from direct investments also significantly reduced the aggregate deficit in primary income. All of this has been reflected in a large current account surplus, which amounted to EUR 1.9 billion in the first half of this year. However, in 2022, almost all euro area countries saw a deterioration in their balance of payments position, primarily as a result of rising prices and the heavy dependency on energy imports.
- **Domestic inflation remains elevated, particularly core inflation excluding energy and food.** After declining over the year, headline inflation, measured by the HICP, rose to 6.1% in August. This was attributable to persistently high core inflation and an increase in the contribution by energy prices. Core inflation remains at 7%, primarily on account of strong services price inflation driven by an upward trend in wage growth.
- **The general government deficit over the first seven months of the year was wider in year-on-year terms, and significant funding will be required in the future to deal with the aftermath of the major floods.** The consolidated general government deficit over the first seven months of the year widened to EUR 607 million. The low growth in revenues was attributable to a decline in corporate income tax settlements, the measures to mitigate the energy crisis, legislative changes, and reduced inflows from the EU budget. Alongside the energy measures, other major factors driving up expenditure were the significant rises in expenditure on wages and investment as the European financial framework is ending. The floods have necessitated the adoption of a revised state budget and numerous intervention measures, whose financial consequences will also be reflected in the government's accounts.

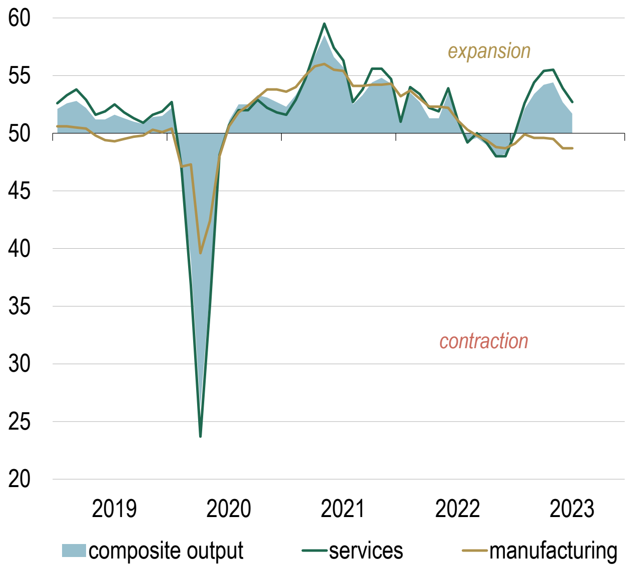
1 International Environment

The available high-frequency indicators for the third quarter suggest a slowdown in global economic growth.

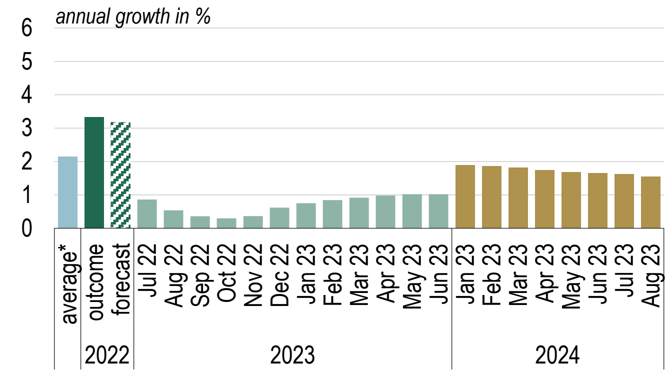
Current developments as measured by quarterly economic growth remained more robust than expected in the second quarter. Among the major advanced economies, it was Japan that recorded the highest quarterly economic growth of 1.5%, while growth in the UK remained modest at 0.2%, which was nevertheless higher than had been expected.[1] The US GDP increased by 0.6%, which also exceeded the forecast and growth from the previous quarter (by 0.2 and 0.1 percentage points respectively). In

[1] Source: Trading Economics: survey data showing the average forecast from a representative group of economists.

Figure 1.1: **Global economic situation and strength of foreign demand for Slovenian exports**



Source: Bloomberg. Latest data: July 2023.



Note: All Slovenian trade partners are included: countries with at least 1% of total Slovenian exports of goods and services in the last twelve months (July 2022-June 2023; 22 trading partners with a total share of 84.7%) and all the other countries as a difference of up to 100%. The growth forecasts for 2023 and 2024 are weighted with the share of each country in the total exports of Slovenia, for other countries the global growth forecast is used. For 2022 the weighted outcome and the December weighted forecast are shown. * Weighted average of GDP growth, since records began. IMF data is used.
Source: SORS, Consensus, IMF, Banka Slovenije calculations.

contrast, economic growth in China slowed significantly, from 2.2% in the first quarter to 0.8%.

Following the initial signs of moderation in global economic growth in June, the composite PMI fell from 52.7 to 51.7 points in July (see Figure 1.1). In a weak demand environment, the second consecutive decline in manufacturing output was accompanied by a slowdown in growth in services activity, which had driven global economic growth in the first half of the year. Amid the slowing growth in new orders, which is declining faster than output, the level of activity is being maintained by completing orders accumulated during the pandemic. The July short-term indicators and the flash estimates of the August PMIs[2] point to a continuation of challenging economic conditions, which is already partially reflected in lower employment growth. The weak environment moderates inflationary pressures, but global inflation remains elevated.[3]

According to the IMF's July forecasts, global economic growth is expected to slow to 3.0% this year and next year, the figure for this year having been revised upwards by 0.2 percentage points compared to the April forecasts, while the forecast for next year remains unchanged. The economic growth forecasts for the majority of Slovenia's trading partners remain below their long-term averages, and with them also the outlook for growth in foreign demand for Slovenian products and services, particularly in light of the anticipated contraction in output in German manufacturing (see Figure 1.1).

[2] The flash estimates of national PMIs for August point to a significant contraction in activity in the euro area (the composite PMI stands at 47.0 points) and in the UK (47.9 points), and near stagnation in the US (50.4 points), with services seeing a particular slowdown in growth amid the effect of rising interest rates. In contrast, Japan is recording rising economic growth, mainly in services, having left its key interest rates unchanged.

[3] According to the IMF's July forecasts, headline inflation is expected to slow from 8.7% to 6.8% this year, and then to reach 5.2% next year.

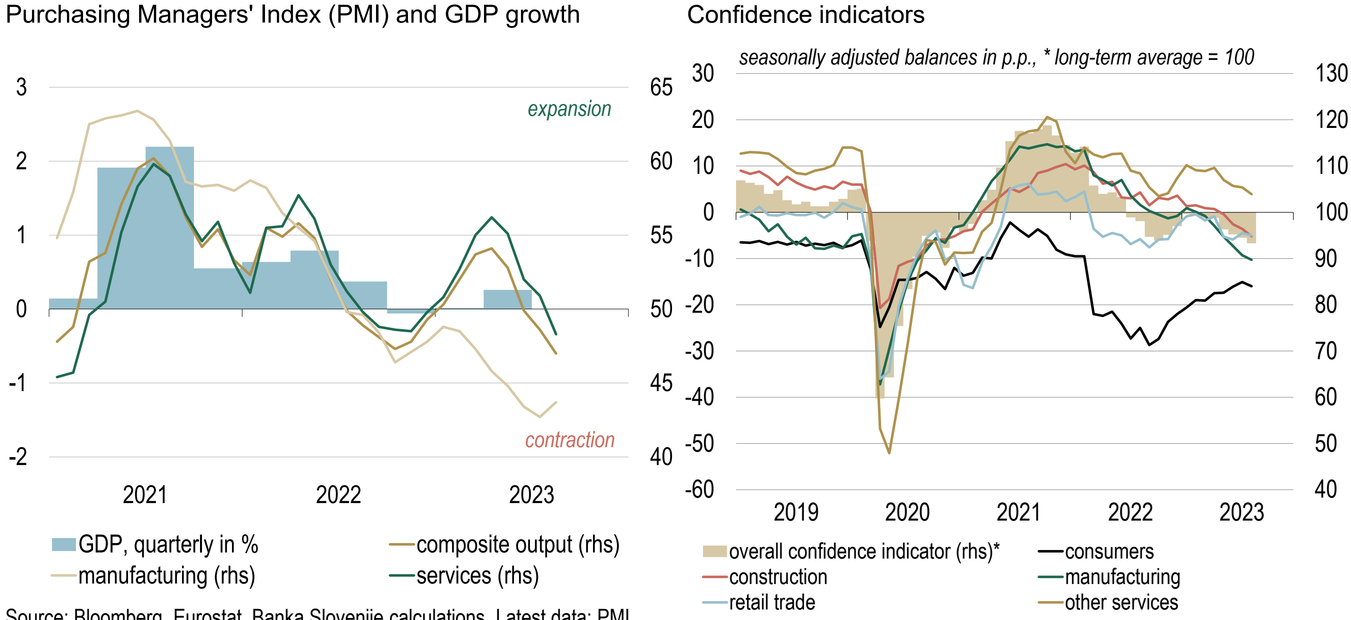
The economic picture in the euro area deteriorated in the early part of the third quarter, with demand for services also suffering a sharp decline alongside the ongoing contraction in industrial production.

After two quarters of stagnation,[4] economic activity in the euro area strengthened by 0.3% in the second quarter. Our assessment is that growth continues to be driven by leisure activities, the situation in industry and construction having deteriorated according to the monthly indicators. The amount of construction put in place contracted by 1.1%, and its year-on-year rate of growth also slowed sharply. Having been in decline since the final quarter of last year, industrial production is now also down in year-on-year terms (for the first time since the third quarter of 2020). Year-on-year GDP growth almost halved compared with the previous quarter to stand at 0.6%, the lowest (positive) figure of the last decade.

According to the short-term indicators, the situation might worsen in the third quarter. The aggregate PMI stood at 47 points in August, the lowest figure since April 2013,[5] thus remaining in the zone of contraction for the third consecutive month (see Figure 1.2). The situation in manufacturing remains very difficult: new orders have been declining rapidly for some time now. August also saw the second consecutive monthly decline in demand for services (the largest decline since May 2013[5]), which drove the PMI below the 50 mark (for the first time since December 2022; see Figure 1.2).

The beginning of the third quarter also saw a decline in the confidence indicators in various sectors, most notably in manufacturing and construction (see Figure 1.2). Consumer confidence also declined in August. Even though developments in employment remain favourable and the unemployment rate remains low, households' assessments of the economic outlook and their future financial situation worsened. The latter is also

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



Source: Bloomberg, Eurostat, Banka Slovenije calculations. Latest data: PMI indicators – August 2023.

Source: Eurostat. Latest data: August 2023.

[4] Euro area GDP declined by 0.1% in the final quarter of last year, and was unchanged in the first quarter of this year.
[5] Excluding 2020.

related to the uncertainty surrounding future developments on the labour market: according to the PMIs, employment growth came to a complete halt in August after two and a half years. Employment declined for the third consecutive month in manufacturing, while growth in services slowed sharply.

In July the IMF released its new economic growth forecasts for the euro area. They were virtually unchanged from April at under 1% for this year, and 1.5% for next year. The major euro area countries that saw their GDP growth forecasts for this year raised significantly were Spain and Italy (to 2.5% and 1.1% respectively), while the forecast for Germany was cut to -0.3%, in response to the adverse developments in the first quarter and low manufacturing activity.

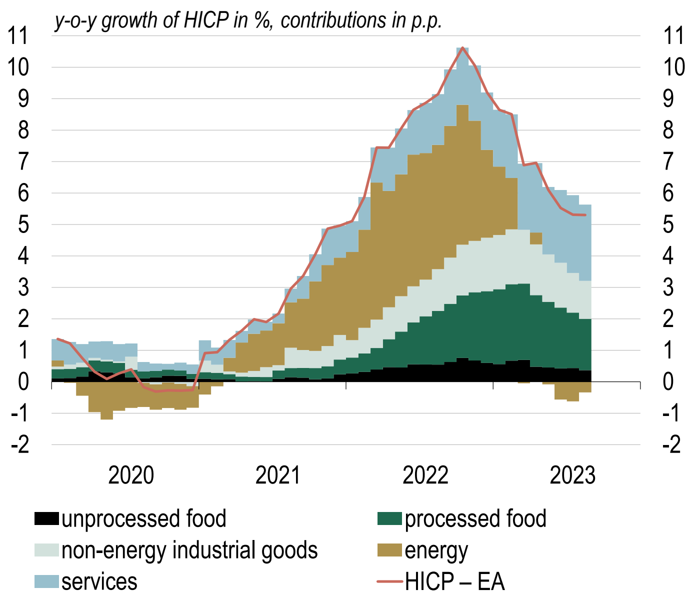
Euro area inflation remained unchanged in August at 5.3%. A more intense fall in headline inflation was limited by persistently high core inflation and current rises in energy prices.

Year-on-year inflation as measured by the HICP stood at 5.3% in August, unchanged from July (see Figure 1.3). The contributions of food prices and prices of non-energy industrial goods declined in particular. Energy prices were down 3.3% in year-on-year terms, thus reducing headline inflation by 0.3 percentage points (see Figure 1.3). The year-on-year decline is mostly attributable to a high base effect, while in current terms, a rise in energy prices of 3.2% was recorded in August for the first timesince January this year.

Year-on-year food price inflation remains high at almost 10%, but is gradually declining, primarily as a result of lower current growth in prices of unprocessed food. The slowdown in food price inflation is also attributable to a high base effect. Food prices accounted for 2.0 percentage points of headline inflation in August, 0.2 percentage points less than in the previous month.

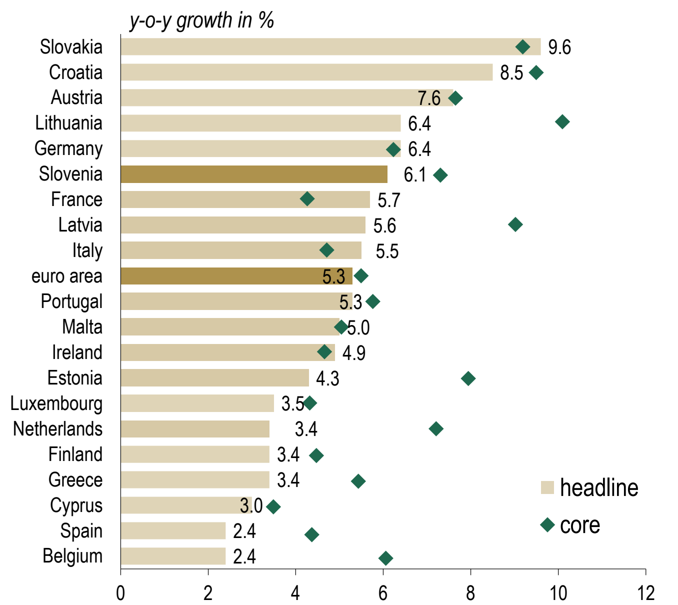
Figure 1.3: **Inflation in the euro area**

Contribution to headline HICP inflation



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

Inflation across the euro area countries



Source: Eurostat. Latest data: August 2023 for headline, July 2023 for core inflation.

Core inflation excluding energy and food prices slowed to 5.3% in August, down from 5.5% in July. Services price inflation and growth in prices of non-energy industrial goods also slowed. The latter slowed to 4.8% in year-on-year terms, but remained relatively high in reflection of the deferred impact of past disruption to supply chains and other price shocks in output. Services price inflation also slowed slightly, but remains high at 5.5%. Its contribution to headline inflation is the largest of all.

The gap between inflation in Slovenia and inflation in the euro area widened to 0.8 percentage points in August (compared with 0.4 percentage points in July; see Figure 1.3). The gap in core inflation is wider: the rate in Slovenia is outpacing that in the euro area by 1.7 percentage points. This is indicative of the increasing importance of domestic factors in explaining inflation.

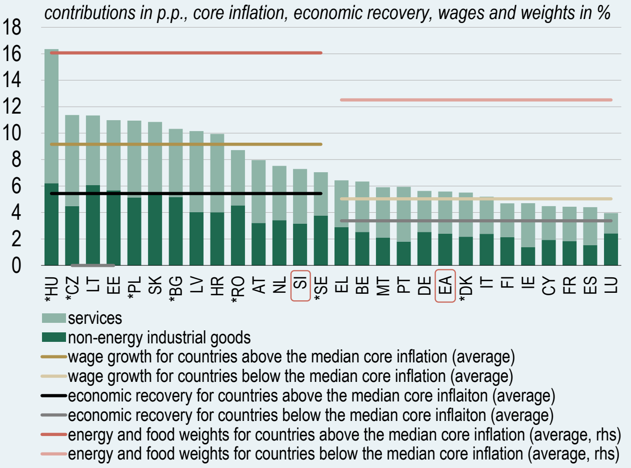
Box 1.1: **Differences in core inflation across EU Member States**

Core inflation is an increasing factor in headline inflation, and varies greatly across EU Member States, driven by the pace of the recovery, the pass-through of past growth in energy and food prices, and wage growth.

The differences in core inflation across EU Member States began to widen significantly over the course of last year, with the widest divergence being reached in January of this year (see Figure 1.1.1). At that point the highest core inflation rate in the EU was 16.4% in Hungary, while the lowest was 3.9% in Ireland. Alongside Hungary, average year-on-year core inflation of more than 10% has also been recorded in Czechia, Lithuania, Estonia, Poland, Slovakia, Bulgaria and Latvia (see Figure 1.1.1), half of which are not part of the euro area. Slovenia is also among the countries of which core inflation exceed the EU median of 7.1%: core inflation in Slovenia averaged 7.3% over the first seven months of this year.

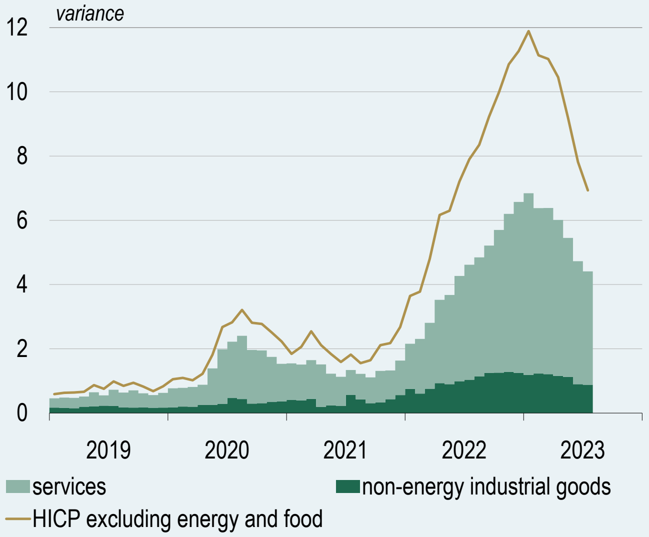
Figure 1.1.1: **Contributions to and differences in core inflation in EU Member States**

Contributions to core inflation across EU countries



Note: Countries with * are not in the euro area. Ireland is excluded from the GDP aggregate. Data: January to July 2023 (average), Q1 2023 for wages, 2023 for weights (as they reflect consumption patterns from 2022), Q1 2022–Q2 2023 for economic activity (average). Economic recovery calculation takes the difference of seasonally adjusted real GDP to its Q4 2019 value.
Source: Eurostat, Banka Slovenije calculations.

Decomposition of differences in core inflation across EU countries



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

The persistent differences in core inflation developments in the EU largely reflect the delayed pass-through of factors that accelerated headline inflation in late 2021 and early 2022. On the demand side these relate to the differing rates of post-pandemic economic recovery, while on the cost side they pertain to the pass-through of past growth in energy and food prices into current core inflation developments. Figure 1.1.1 illustrates that countries with higher core inflation have on average also recorded a faster post-pandemic recovery in demand. They additionally have higher shares of energy and food on average in the consumer basket. Their economies were thus more exposed to the original external cost shock that drove up inflation in 2022, while at the same time, they were experiencing relatively stronger economic growth. Consequently, the rise in headline inflation in these countries led to a stronger indirect pass-through into other price categories. Such effects were last year mainly seen in the pass-through of higher input costs related to energy and food, while this year they are primarily observed through wage growth, which is partly reflecting the increases in line with last year's inflation. The increasing influence of wage developments can also be deducted from the analysis of the variance in core inflation, which in the EU is increasingly being driven by the differences in services price inflation (see Figure 1.1.1). Services are the most wage-sensitive inflation component in the consumer basket.

2 Monetary Policy and Financial Markets

In early September, the financial markets were anticipating a longer period of elevated central bank interest rates amid high core inflation.

Despite the continuing slowdown in headline inflation, components of core inflation remain stubbornly elevated in the euro area, the UK and numerous other countries, but are showing the first signs of a slowdown in the US. Many central banks have therefore continued raising their key interest rates. The Eurosystem raised all three key interest rates by 0.25 percentage points in July, with the deposit facility rate reaching 3.75%, and announced that it would continue to follow a data-dependent approach in its future decisions. Having left its key interest rates unchanged in June, the Fed also raised them by 0.25 percentage points in July to the corridor of 5.25% to 5.50%. The same was done by the central banks of the UK and Norway, while the central banks of Australia and Canada left their key interest rates unchanged. Numerous representatives of the aforementioned central banks have reiterated in their public statements that the period of elevated central bank key interest rates is likely to last for some time.

The slowdown in headline inflation is strengthening the markets' expectations that we are close to reaching the terminal key interest rate levels of the leading central banks, while the risk of a longer period of high core inflation is reflected in the expectations that key interest rates will remain elevated for longer. According to the current overnight index swap (OIS) prices, market participants have high expectations of a further rise in the interest rate on the ECB's deposit facility this year, while a further rise in the Fed's key interest rate is no longer expected. Conversely, the first cuts in the deposit facility rate at the ECB and the Fed funds rate are anticipated in the second quarter of next year (see Figure 2.1).

Investors' strengthening expectations of a longer period of restrictive monetary policy resulted in lower values of equity indices, while government bond yields continued to trade at elevated levels.

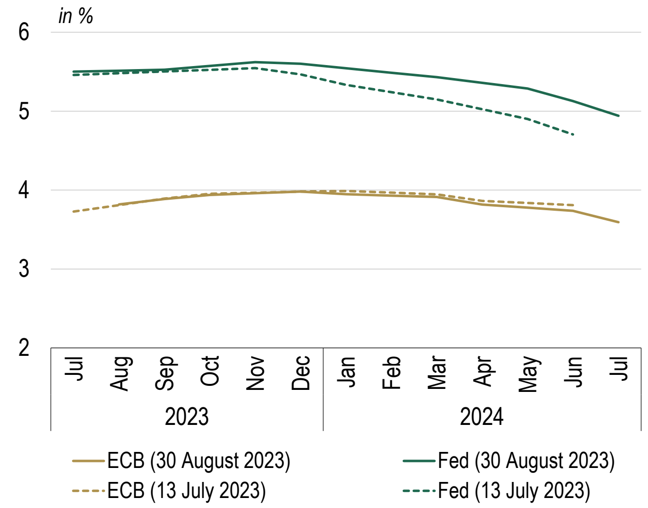
Yields on short-term German government bonds have not changed significantly since the beginning of August (at around 3.0%), while those on long-term bonds have ranged from 2.45% to 2.70% amid slight volatility. Investors were weighing between the strengthening expectations of a longer period of elevated key interest rates in light of the high core inflation, and the concerns surrounding slowing economic growth in China and Europe. Yields on short-term US government bonds remained at similarly high levels (around 4.85%), while yields on long-term bonds rose (by 0.10 percentage points) as the economic data is indicating that the US economy is still relatively robust.

The expectations of a longer period of high key interest rates, which are likely to have an adverse impact on economic growth, were reflected in August's fall of almost 2% in the leading equity indices in the US (S&P 500) and Europe (Stoxx Europe 600). The negative mood was also attributable to concerns over slowing global economic growth and to profit-taking on US equity markets following the strong gains in previous months. The spreads on private-sector bonds over the benchmark government bonds, which had been falling since March, rose slightly in August.

The US dollar rose in August supported by the relatively robust state of the US economy compared with the rest of the world, and the outlook for a longer period of restrictive monetary policy at the Fed. Gold prices have been moving oppositely to the developments in the US dollar and US government bond yields (the higher opportunity cost of investing in gold, which does not yield interest income; see Figure 2.1). The price of Brent crude was broadly unchanged in August, as investors weighed between reductions in pumping by the main OPEC+ countries (Saudi Arabia, Russia) and concerns over economic growth in China.

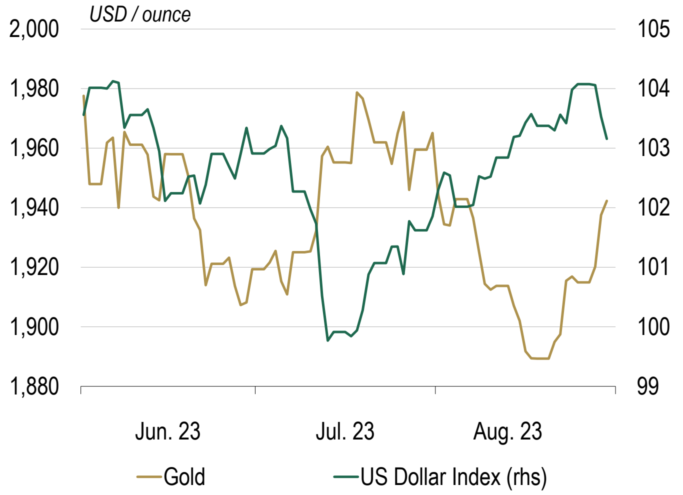
Figure 2.1: **Expectations of key interest rates at the ECB and the Fed, and US dollar and gold prices**

Implied key policy rate levels for the ECB and Fed



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

Price of gold and US Dollar Index



Note: The US Dollar Index indicates the general value of the USD by averaging the exchange rates between the USD and major world currencies.
Source: Bloomberg, Banka Slovenije calculations.

3 Domestic Economic Activity

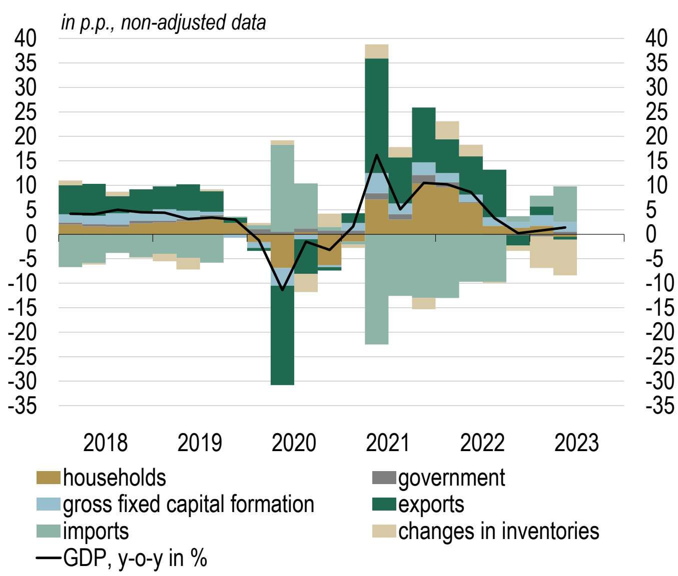
GDP growth picked up pace in the second quarter. It was primarily driven by the foreign trade surplus and construction investment.

Economic growth in the second quarter rose to 1.4% in quarterly terms and 1.6% in year-on-year terms, according to seasonally and calendar-adjusted figures. Both figures outpaced the euro area averages, by 1.1 percentage points and 1.0 percentage points respectively.

The aggregate contribution to year-on-year GDP growth by domestic demand factors was strongly negative,[6] but there were rises in gross fixed capital formation (9.3%), which drove construction in particular, and government consumption (2.5%). Household consumption declined slightly (by 1.1%), as the effects of the spending of excess savings and the post-pandemic opening of the economy waned.[7] The latter had been evident since the second half of last year in stronger growth in private-sector services, while their value-added stagnated in year-on-year terms in the second quarter of this year (see Figure 3.1). Amid declining household consumption and the largest decline in inventories to date, imports were down more than 8%, while the fall in exports was significantly smaller (at 0.7%). This gap is reflected in the large contribution to growth made by net foreign trade (6.7 percentage points; see Figure 3.1).

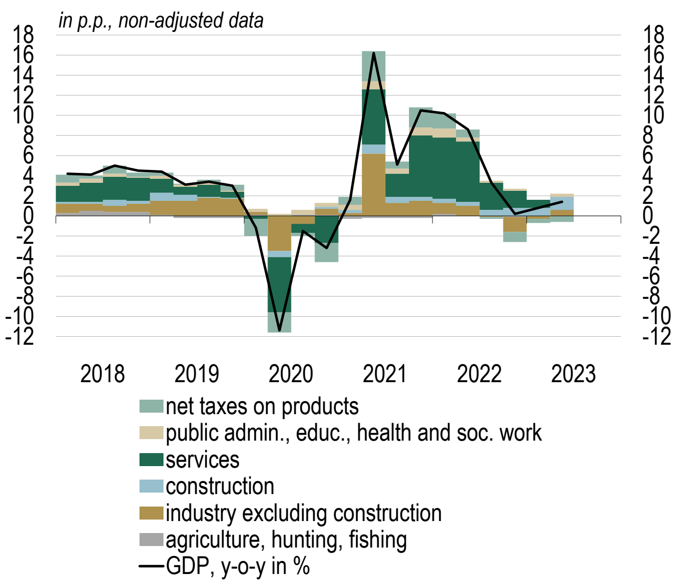
Figure 3.1: **Decomposition of year-on-year GDP growth**

Structure of GDP growth in Slovenia, expenditure side



Source: SORS.

Structure of GDP growth in Slovenia – production side



Source: SORS.

[6] According to unadjusted figures.

[7] Over the summer the two high-frequency indicators of consumption, namely card payments and ATM withdrawals, and invoices registered with tax authorities, adjusted for inflation, were still higher than in the same period of 2019, by 14.3% and 0.3% respectively.

The economic sentiment improved slightly in August, but remains in the negative zone. Confidence is highest in services that focus primarily on the domestic economy.

The economic sentiment indicator remains in the negative zone, but improved slightly in August for the first time this year with a rise in retail confidence, and also a slight improvement in manufacturing confidence. The latter, like consumer confidence, remains well below its long-term average and last year’s average. Manufacturing firms recorded a slight improvement in their assessment of current demand, and the assessment of assured production also improved slightly over both summer months, while expectations of future demand and employment deteriorated (see Figure 3.2).[8] Confidence in construction, retail and other services remains relatively good, albeit down on a year earlier in all cases. In August, consumers slightly downgraded their assessments of their future financial situation and saving, most likely because of the recent severe weather and floods, but raised their assessment of the timing of major purchases.

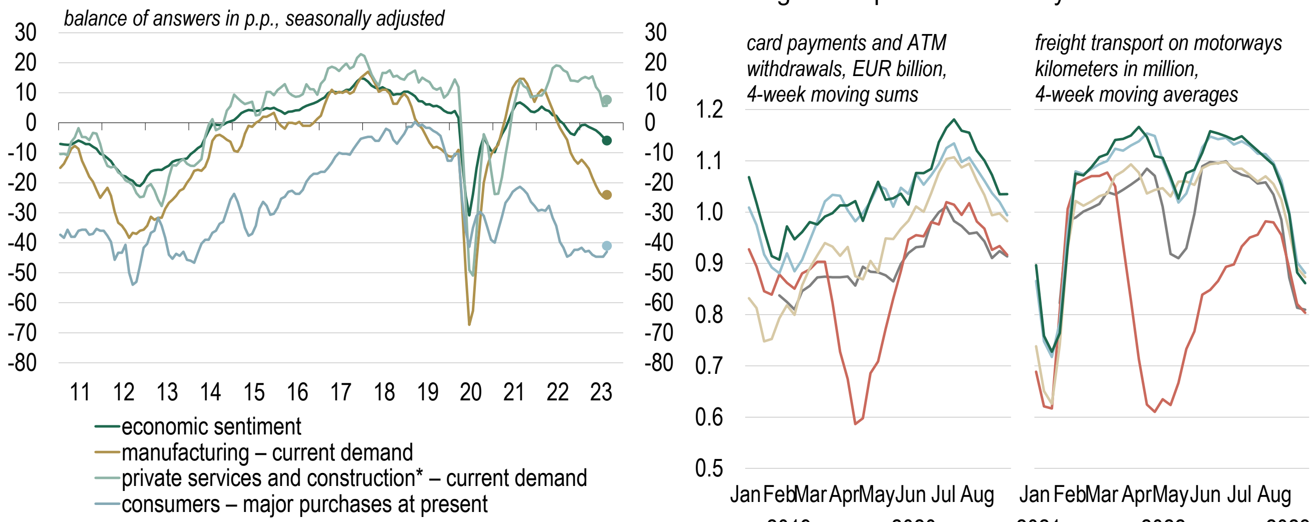
The few indicators of economic activity that are available for the third quarter do not present a uniform picture, and the summer’s severe weather has further increased the uncertainty surrounding future developments.

Only a very limited set of economic activity indicators is available for the third quarter. Real retail turnover remained down in year-on-year terms in July, although car sales continued to significantly outpace those a year earlier. According to arrivals and overnight stays by tourists, there was a strong start to the main holiday season: both figures

Figure 3.2: **Economic sentiment and high-frequency indicators of consumption and transport**

Selected economic sentoment indicators

Real value of card payments and ATM withdrawals and freight transport on motorways



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

Source: Bankart, DARS, Banka Slovenije calculations.
Latest data: 27 August 2023.

[8] Other indications of difficulties in manufacturing come from the share of firms facing insufficient demand, which at 31.5% in the third quarter was almost double its figure of a year earlier, and the Purchasing Association of Slovenia’s PMI, which since February, when it was still in the growth zone, has been falling sharply, reaching 25.2 points in August according to unadjusted data, its lowest figure since April 2020.

in July were up approximately a tenth in year-on-year terms, and up around 15% on the pre-pandemic figures from July 2019. Card payments and ATM withdrawals in both summer months also remained up year-on-year in real terms, while tax validated invoices were down on a year earlier. Freight vehicle mileage on domestic motorways was also down in year-on-year terms (see Figure 3.2).

The severe weather and floods that hit large parts of Slovenia in the summer have increased the uncertainty surrounding economic developments over the remainder of the year. The production shutdowns at numerous firms and the damage to household property, which will require repair and renovation, will have numerous impacts on the economy, but not necessarily in the same direction. Detailed assessment of the effects will only be possible over the coming months, after the damage has been evaluated and measures have been put in place to address it (see Box 3.3).

Box 3.1: **Initial annual estimates of national accounts for 2022**

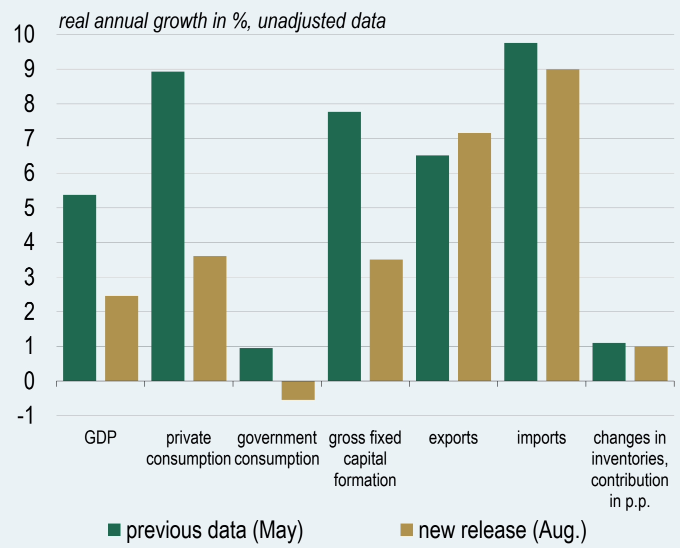
The initial estimate for the annual GDP growth in 2022 came in 2.9 percentage points lower than the estimates based on quarterly data.

On August 31st, the SORS released its first annual estimate of the national accounts for 2022. In comparison to the provisional estimate derived from quarterly data, the GDP growth figure for the previous year was revised downwards by 2.9 percentage points, now standing at 2.5%. Meanwhile, the GDP growth figure for 2021 remains unchanged at 8.2%.

The only increase on the expenditure side was observed in the annual growth of exports, while growth in all other components decelerated. The most significant changes were witnessed in the growth of private consumption and gross fixed capital formation.

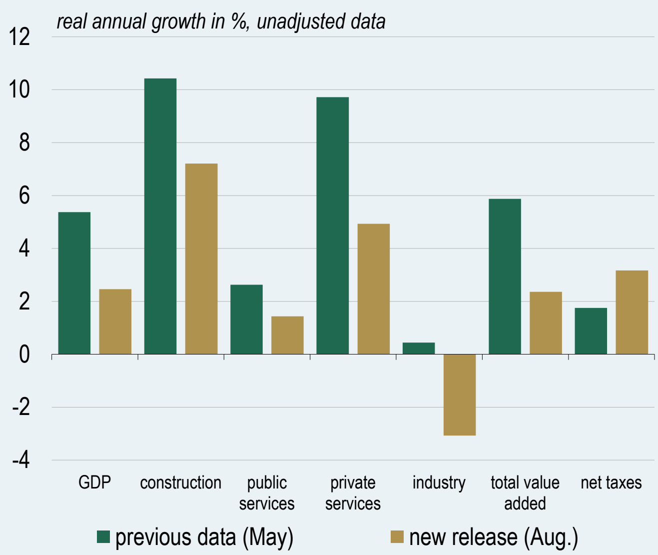
Figure 3.1.1: **Initial annual estimates of national accounts for 2022**

Changes in growth of GDP components in 2022, expenditure side



Source: SORS.

Changes in growth of GDP components in 2022, production side



Source: SORS.

Conversely, changes in growth of imports and government consumption were less pronounced, although according to the new estimates, the latter actually declined last year instead of increasing (see Figure 3.1.1).

On the production side, the annual growth in value-added plummeted from 5.9% to 2.4%, once firms' closing accounts were factored in. The most substantial reductions occurred in the contributions made by industry, particularly manufacturing, and private-sector services. Notably, activities such as wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, as well as accommodation and food service, registered significant decreases. Additionally, there were minor downward revisions in the contributions by public services and construction.

Furthermore, there was a revision in the estimate of employment growth for the previous year, which was adjusted upwards by 0.5 percentage points, now standing at 2.9%. Employment is now estimated to have averaged 1.082 million last year, marking the highest figure in the entire historical time series of Slovenia's national accounts. The primary drivers behind this increase were rising employment in the agriculture sector and in administrative and support service activities.

The quarterly figures that align with the initial annual estimate of the national accounts for 2022 will be released by SORS on 29 September 2023. Consequently, it is currently not feasible to calculate the new carry-over effect from the previous year.

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

The average nowcast from the set of nowcasting models suggests that the GDP will likely stagnate in the third quarter.

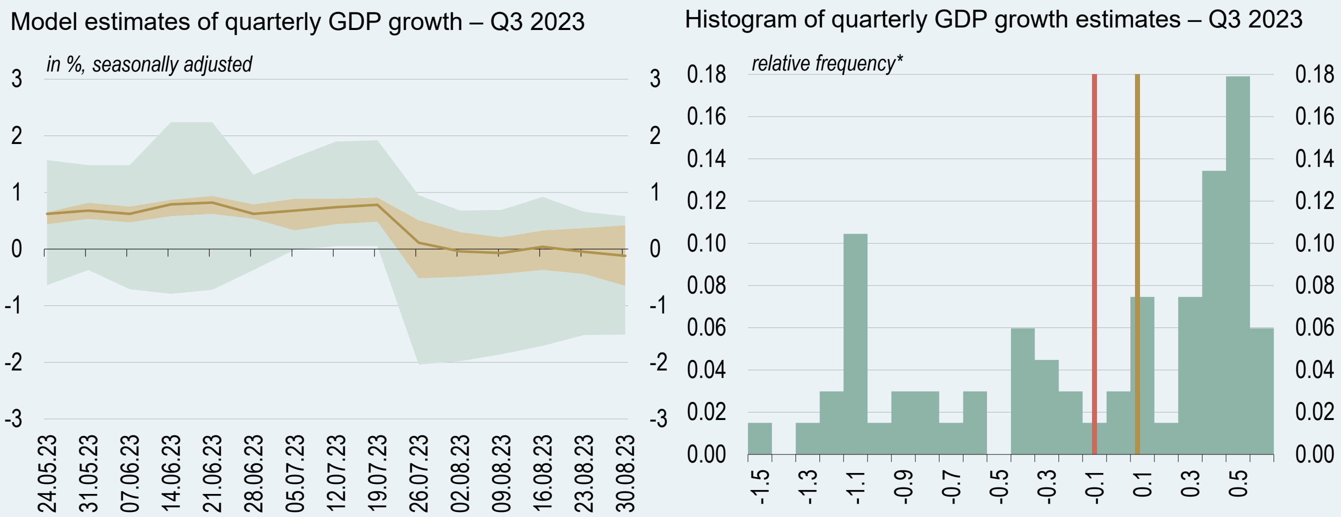
The average nowcast for quarterly GDP growth in the third quarter currently stands at –0.1% (see Figure 3.2.1).[9] Alongside the autonomous model dynamics, this nowcast is primarily based on the developments in survey indicators in the first two months of the third quarter, which were predominantly negative, as well as the decline in turnover in retail trade in July. This information is reflected in the chart showing the distribution of nowcasts (see Figure 3.2.1).

The most influential factor contributing to this nowcast is the significant decline in the economic sentiment indicator for July, which dropped by 1.6 percentage points. This decrease was mainly attributed to declines in the confidence in retail trade (0.8 percentage points) as well as the confidence in the services activities and manufacturing (0.6 and 0.5 percentage points, respectively). In July, turnover in retail trade also decreased for the fourth consecutive month, by 0.6%. Specifically, turnover declined in retail with automotive fuel (by 2.0%) and non-food products (by 0.6%), while retail turnover for food products increased by 0.8%. There are slightly more positive signals from August data, with a 0.6 percentage point increase in the economic sentiment indicator. This improvement can be largely attributed to increased confidence in the retail trade (0.9 percentage points) and manufacturing (0.3 percentage points). However, the other components of the economic sentiment indicator recorded negative monthly changes.

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

It's important to note that the available dataset for the current period is relatively limited. Major revisions in the GDP growth nowcasts for the third quarter are anticipated in September when initial data for key economic activity indicators become available.

Figure 3.2.1: **Nowcasts for GDP growth**



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

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

Box 3.3: **Impact of extreme weather events on macroeconomic activity in Slovenia**

The economic impact of the recent extreme weather events in Slovenia will depend on the speed at which affected production processes are reinstated and the forthcoming investments related to renovation.

Recent extreme weather events that affected Slovenia during the summer months will influence current economic trends and have long-term consequences. Natural disasters can result in economic damage through both direct effects, which include a decline in production and service activities due to damaged public infrastructure and production capacities, and indirect effects, such as increased uncertainty and a decrease in the confidence of consumers and investors. Nevertheless, empirical evidence suggests that the overall impact of natural disasters on GDP over the long term is not necessarily negative. Recovery efforts, coupled with financial aid inflows, have a positive impact on investment and consumption.

According to the literature, economic recovery after a natural catastrophe can follow several different scenarios.[10] The most optimistic envisages a rapid recovery and a rise in GDP above its pre-crisis level, driven by renovation programs that stimulate demand. On the other hand, the most pessimistic scenario assumes no recovery, with GDP remaining below its pre-crisis trend, as repairs trigger a shift of productive and more profitable investments towards the restoration of destroyed non-financial capital. The transition between these scenarios is in the literature associated with the type of affected

[10] Hsiang and Jina (2014).

capital, the structure and significance of individual sectors within the entire economy, and insurance penetration (i.e., the share of insurance premiums in GDP), reflecting the importance of the insurance industry in the affected country.

These findings are supported by the experiences of countries that have undergone similar events. The consequences of the floods that struck Germany in July 2021 appeared manageable from a macroeconomic perspective, as indicated by the initial estimates of the German Bundesbank.[11] Similar findings were associated with the floods in Germany in 2002 and 2013. GDP growth was not impacted during the flood year but increased in the subsequent years. The faster growth was partly attributed to the positive economic effects of infrastructure and non-financial capital reconstruction (IWH, 2021).[12] Additional evidence of the relatively limited impact of floods on overall economic activity comes from the analysis of floods in Japan. This research suggests that GDP growth is slightly lower in the year of the flood. According to empirical findings, damage amounting to 0.2% of GDP reduces GDP growth by 0.04 percentage points in the flood year, while its effects become statistically insignificant afterwards (Ashizawa et al., 2022).[13]

The affected firms make up a relatively small portion of the entire Slovenian economy and domestic production chains.

The impact of floods on Slovenian economic activity due to production losses will be limited, as the most affected firms represent approximately 1.0% of the total value added in the Slovenian economy. This thesis is further supported by a stress scenario that uses domestic input-output tables to estimate the impact of production loss on GDP growth in 2023. The scenario assumes a complete three-month shutdown of production processes at the most affected firms, with no possibility of substituting their products with those of competition. If this scenario were to materialise, it would reduce this year's GDP growth by 0.5 percentage points. However, considering that some of the affected firms have already initiated procedures to (partially) restart their production, this estimate represents an upper bound of the impact on GDP growth. Furthermore, the simulation only considers the impact of production loss and does not include government measures aimed at supporting the economy and mitigating the impact of extreme weather events, nor does it consider the increase in investment activity that is likely to follow. Such assessments will only be possible once damages are evaluated, and mitigation measures are implemented.

[11] Monthly Report August 2021 (bundesbank.de)

[12] Konjunktur aktuell: Produktionsengpässe verzögern Erholung – IWH - Leibniz-Institut für Wirtschaftsforschung Halle (iwh-halle.de)

[13] How Do Floods Affect the Economy? An Empirical Analysis using Japanese Flood Data (boj.or.jp)

4 Labour Market

With employment at a record high and unemployment at a record low, wage growth remains high and the labour market remains tight.

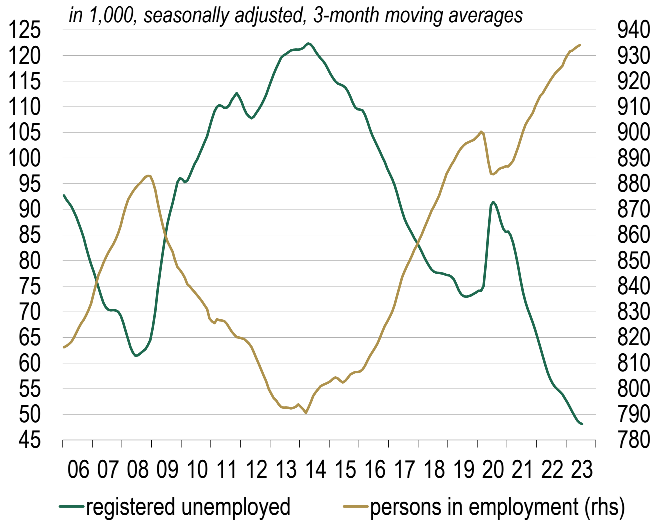
The workforce in employment[14] continued to rise in May and June, reaching a new high of 915,802 (see Figure 4.1). The year-on-year increase has continued to slow, but remains above its long-term average. The growth is broadly based across sectors, with construction and information and communication recording notably high figures. The labour shortage remains at a record high level according to the SORS survey data. Hiring is expected to continue over the coming months, particularly in construction and services, while the expectations in manufacturing have declined sharply to reach their lowest levels since the pandemic year of 2020.

Seasonal developments meant that the fall in unemployment came to an end in July, but at 47,287 it remained close to its record low recorded the previous month. The registered and survey unemployment rates are continuing to fall: the former stood at 4.7% in June, while the latter stood at 3.6% in the second quarter.

Year-on-year growth in the average gross wage stood at 9.9% in June. After growth in the private sector outpaced growth in the public sector in the early part of the year, in recent months the trend has reversed. Wage growth stood at 11.6% in the public sector in June, and 8.9% in the private sector. All sectors saw a high rate in the first half of the year, with growth in industry and construction[15] (11.0%) outpacing that in private-sector services (9.7%). With inflation slowing, real growth in the average gross wage is

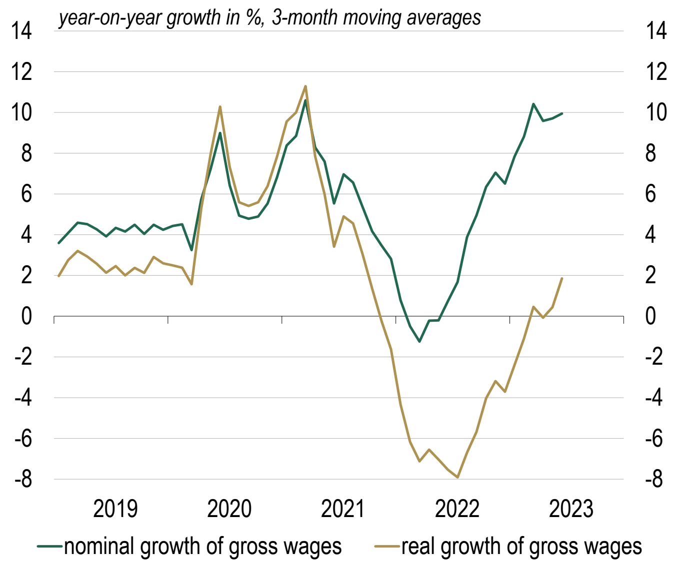
Figure 4.1: **Selected labour market indicators**

Persons in employment and unemployed



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

Average gross wage per employee



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

[14] Excluding self-employed farmers.

[15] Industry and construction consists of industry (Sectors B to E) and construction (F). Private-sector services consist of wholesale and retail trade, accommodation and food service activities, and transportation and storage (G to I), information and communication (J), financial and insurance activities, professional, scientific and technical activities, and administrative

strengthening, and stood at 3.1% in June, similar to its pre-pandemic level (see Figure 4.1). The continuing rise in employment also means that year-on-year growth in the gross wage bill remains high. The nominal rate stood at 10.8% in June, with similar rates recorded by the private sector (9.8%) and the public sector (12.5%).

5 Current Account

Amid a decline in merchandise imports and favourable terms of trade, the current account surplus has widened significantly this year.

Nominal merchandise exports in the second quarter were unchanged in year-on-year terms according to the balance of payments figures, a fall having been prevented mainly by rising exports to Switzerland. The impact of export prices, which were only slightly higher in year-on-year terms, was insignificant in this (see Figure 5.1). Merchandise imports were down 11.5% year-on-year in nominal terms, and 9.3% in real terms, import prices having fallen by 3.3% (for the first time since 2020).[16] The merchandise trade surplus in the second quarter reached a record EUR 750 million, compared with a deficit of EUR 520 million a year earlier. Similarly to the first quarter, the improved terms of trade accounted for approximately half of the improvement in the balance, i.e. EUR 630 million, the largest figure to date (see Figure 5.1).

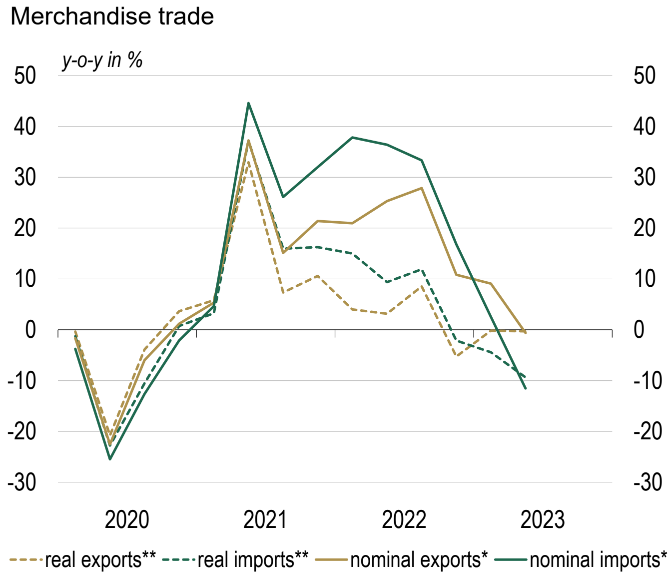
Nominal services imports are slowing significantly more sharply than exports, and the services trade surplus is still widening. In the second quarter there was a notable decline of 18.4% in imports of transport services, which increased the trade surplus in the wake of a smaller decline in exports. There were also notable rises in exports of and the surplus in construction services, the latter reaching a record EUR 150 million, up over a third on last year. It was a different matter in business services, where imports increased sharply, the balance slipping into deficit. Nominal growth in services trade slowed sharply in the second quarter (to 0.5% on the import side and 3.3% on the export side), while the real contraction stood at 2.4%.[16] The services trade surplus amounted to EUR 990 million, up EUR 80 million in year-on-year terms, almost entirely as a result of an improvement in the terms of trade.

The deficit in primary income amounted to EUR 170 million in the second quarter, EUR 280 million less than last year. The improvement in the balance was almost entirely attributable to the narrowing deficit in income on direct investments. The narrowing of the deficit in secondary income was significantly smaller (at EUR 40 million).

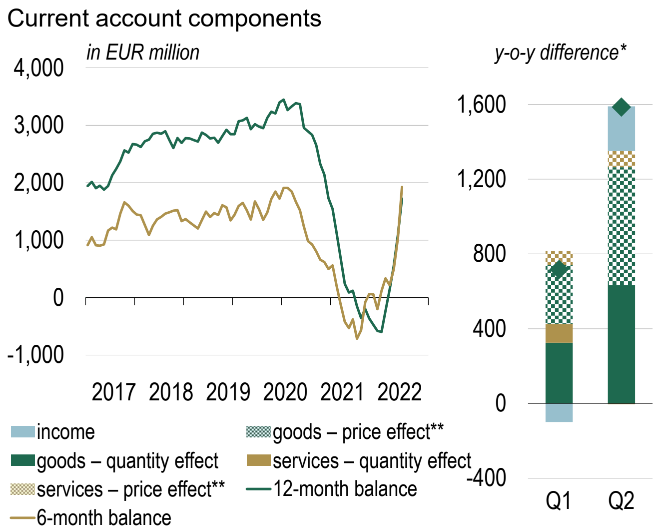
and support service activities (K, M and N), real estate activities (L), and arts, entertainment and recreation and other service activities (R and S).

[16] Balance of payments figures (nominal values) or national accounts figures (real values).

Figure 5.1: **Merchandise trade and impact of the terms of trade on the current account position**



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



Note: The terms of trade effect is calculated as the difference between nominal and real trade, based on balance of payments data and price indices from national accounts.
* Change in EUR million in the first and second quarter of 2023 compared to the same period last year.
Source: SORS, Banka Slovenije, Banka Slovenije calculations.

The current account surplus amounted to EUR 1.9 billion in the first half of the year, a new record, compared with a deficit of EUR 380 million in the same period last year. The largest factor in the year-on-year change in the balance, the largest to date at EUR 2.3 billion, was the reversal in the merchandise trade balance, which moved into surplus this year. Half of the improvement (EUR 950 million) was driven by the improved terms of trade. The services trade surplus was also slightly larger (EUR 260 million), while the deficit in income narrowed by EUR 140 million (see Figure 5.1). The 12-month current account surplus reached EUR 1.7 billion in June, approximately half of its peak from January 2021.

Box 5.1: **Balance of payments developments in euro area countries**

Almost all euro area countries saw a deterioration in their balance of payments position last year, primarily as a result of rising prices and the heavy dependency on energy imports.

Fourteen euro area countries recorded a current account deficit last year, double the number in 2021, with Lithuania, Finland, Belgium, France, Croatia and Italy all moving into deficit alongside Slovenia, whose deficit of 1.0% of GDP was the smallest in the euro area (see Figure 5.1.1). The largest deficits continued to be recorded by Greece and Cyprus, whose deficit of more than 9% of GDP was primarily attributable to a large merchandise trade deficit. Conversely the largest current account surpluses, albeit significantly smaller than in the previous year, continued to be recorded by the Netherlands and Germany, with Austria and Spain also running surpluses.[17]

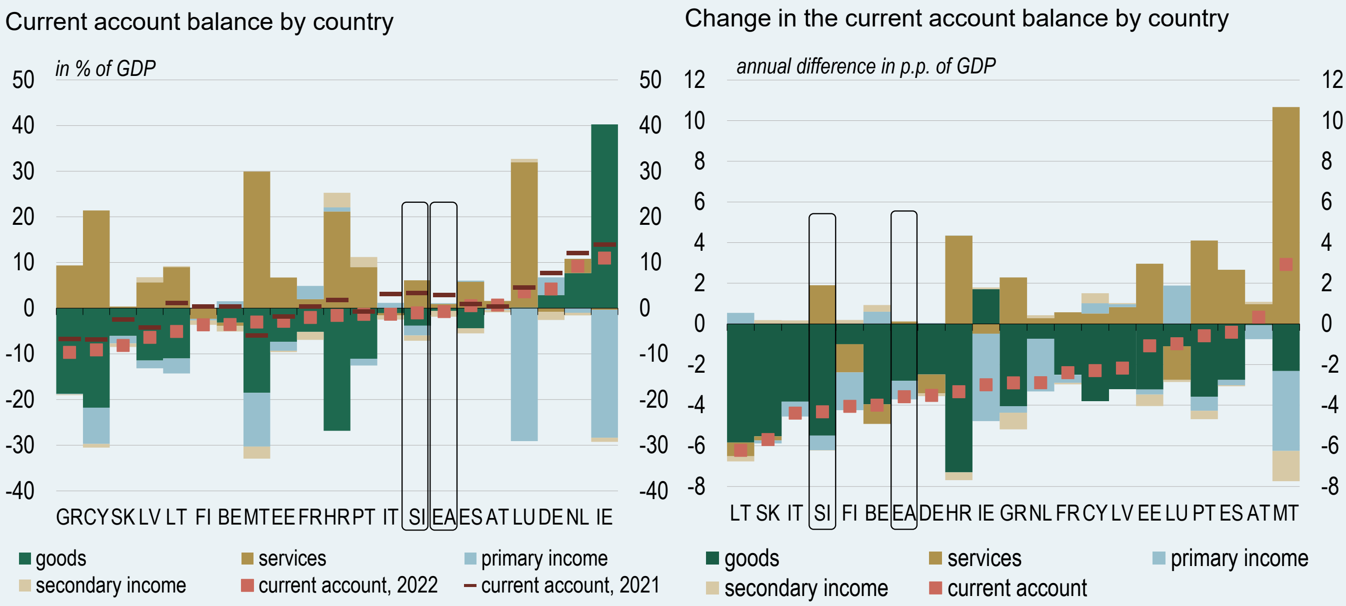
[17] Owing to the large deviations from the euro area average, particularly in terms of the size of the deficit in primary income and the merchandise trade surplus (Ireland) or services trade surplus (Luxembourg, Malta), the aforementioned three countries were excluded from the analysis.

Almost all euro area countries saw their current account position deteriorate last year, most notably Lithuania, which suffered a reversal from a surplus of 1.1% of GDP to a deficit of 5.1% of GDP, and Slovakia, where the deficit deepened to 8.2% of GDP. Slovenia's deterioration of 4.3 GDP percentage points, 0.7 percentage points more than the euro area average, ranked it in fourth place in terms of this measure. Only Austria saw an improvement in its position last year, primarily on account of a widening services trade surplus.

The main factor in last year's deterioration in the balance of payments in the majority of the euro area was a deterioration in the merchandise trade balance, which was mostly attributable to a rise in the value of imports of mineral fuels and lubricants in the wake of rising energy prices on global markets.[18] Croatia, Lithuania and Slovakia were notable for their increases in energy imports and in the merchandise trade deficit, and were followed by Slovenia, whose surplus of 1.7% swung into a deficit of 3.8% of GDP. Other countries also recorded declines: the average decline in the euro area was 2.8 GDP percentage points, with Austria recording the smallest deterioration of 0.1 GDP percentage points. Only the Netherlands and Germany recorded a merchandise trade surplus last year (in the amount of 7.7% and 2.9% of GDP respectively), while Belgium, Italy and Finland slid into deficit (see Figure 5.1.1).

In roughly two-thirds of the euro area countries, particularly those with a heavy dependence on international tourism, the deterioration in the balance of payments was mitigated by a widening services trade surplus. The most notable were Croatia, Portugal, Spain and Greece, whose surpluses widened by between 4.3 (Croatia) and 2.3 (Greece) GDP percentage points as a result of an increase in exports of travel services. They were followed by Slovenia, which saw an improvement of 1.9 GDP percentage points, while the average surplus in the euro area remained at its level of 2021 (0.9% of GDP). Five countries saw a deterioration in the services trade balance, most

Figure 5.1.1: **Euro area current accounts in 2022**



Source: ECB, Eurostat, Banka Slovenije calculations.

Source: ECB, Eurostat, Banka Slovenije calculations.

[18] All the countries saw a deterioration in their merchandise trade balance; according to the foreign trade figures, which differ from the balance of payments figures (see Box 4.1 of the October 2018 issue of Economic and Financial Developments), this was driven primarily by a widening deficit in fuels and lubricants. The sole exceptions were Estonia, where the main driver was a wider deficit in machinery and transport equipment, and the Netherlands, where the deterioration was mainly driven by trade in various final products moving from surplus to deficit.

notably Finland, where the deficit hit its worst level of the last decade (2.3% of GDP), Belgium, and Germany, whose previous surplus swung into a deficit of approximately 0.8% of GDP. Alongside the aforementioned countries, a deficit was also recorded by Italy, where it remained similar to the previous year at 0.5% of GDP.

The changes in the income balances were less pronounced, and ranged between –2.4 and 1.0 GDP percentage points. The largest deteriorations were seen in the Netherlands and Finland, while Cyprus and Belgium recorded the largest improvements. The primary income balance deteriorated in approximately two-thirds of the countries, while almost half saw a deterioration in the secondary income balance.

The balance of payments position in the majority of euro area countries was better in the first quarter of this year, thanks primarily to an improvement in the merchandise trade balance. The exceptions were Cyprus and Belgium, where the 12-month current account deficit deepened by 4.1 and 0.3 GDP percentage points respectively compared with 2022, and the Netherlands, where the surplus declined by 0.4 GDP percentage points. Greece, Lithuania and Slovakia were notable for their narrowing deficits, while Spain saw a notable increase in its surplus, having also improved its position relative to 2021 alongside Austria and Portugal. Slovenia was the only euro area country to see a reversal in its position, from a deficit to a small surplus.

6 Inflation

Inflation remains elevated, particularly core inflation excluding energy and food.

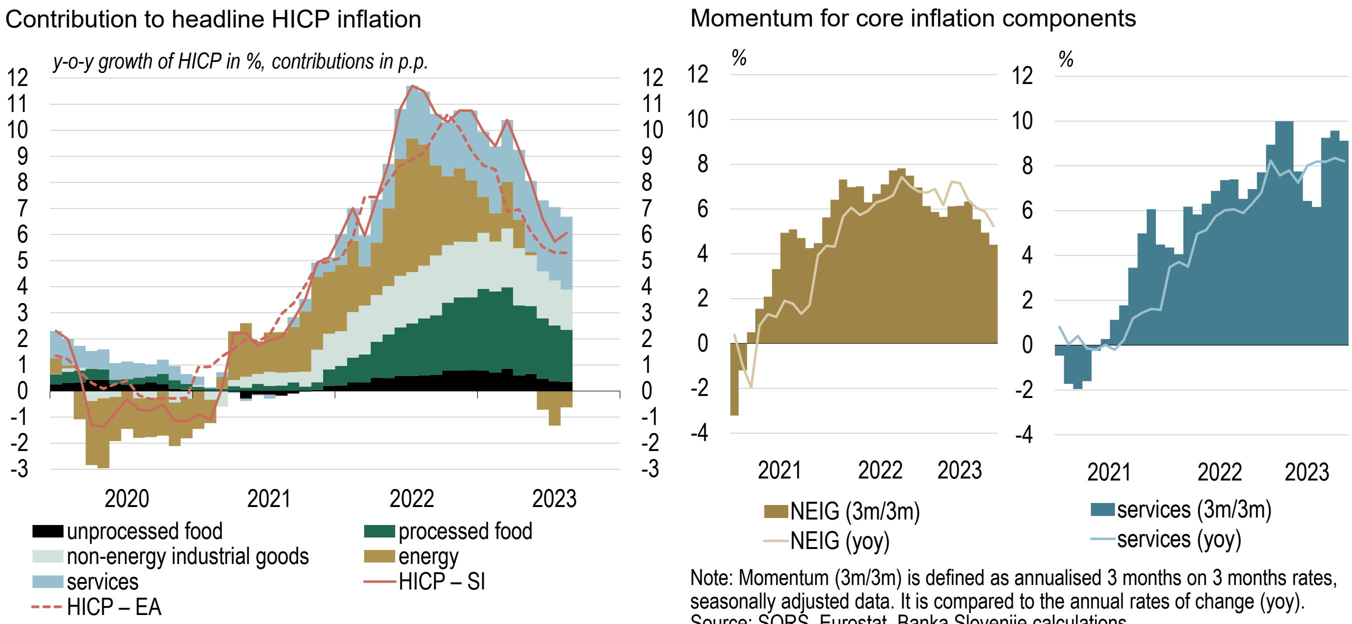
Year-on-year inflation as measured by the HICP rose from 5.7% to 6.1% in August (see Figure 6.1), therefore ending the trend of gradual slowingover the previous four months, which came on mainly as a result of a decline in the contribution of energy prices. This, however, ended in August: their contribution to headline inflation was 0.7 percentage points larger than July.[19] Energy prices nevertheless remained down in year-on-year terms in August (by 3.8%).

Food price inflation remains high, although it has been slowing since March. Food prices were up 10.3% in year-on-year terms in August. The slowdown in inflation, particularly in processed food, is mostly attributable to a base effect as a consequence of last year's price rises. Amid easing cost pressures in the beginning of food production chains (i.e. in prices on global markets, import prices and producer prices), the decline in aggregate food price inflation is also attributable to lower unprocessed food price contributions, which were down in current terms for the third consecutive month.

Core inflation excluding energy and food slowed to 7.0% in August. High services price inflation remains a major factor in core inflation: it stood at 8.2% in August, and was driven in particular by strengthened wage growth, the delayed pass-through of other input costs, and the still relatively robust level of domestic demand. In contrast to services prices, growth in prices of non-energy industrial goods is slowing faster, from

[19] The contribution was less negative in August than in July.

Figure 6.1: **Domestic price developments and core inflation dynamics**



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

Note: Momentum (3m/3m) is defined as annualised 3 months on 3 months rates, seasonally adjusted data. It is compared to the annual rates of change (yoy).
Source: SORS, Eurostat, Banka Slovenije calculations.
Latest data: August 2023.

5.9% in July to 5.2% in August. These developments are being reflected in the calculation of inflation momentum,[20] which indicates that core inflation is being maintained at high levels by services price inflation (see Figure 6.1).

Although headline inflation has mostly been falling this year, there is an expectation that, as in August, this trend will largely not be seen over the coming months. One factor is energy price inflation, in particular because of a base effect from the introduction of numerous measures in September of last year, while the aftermath of the severe weather and floods brings risks in connection with food prices and prices of non-energy industrial goods. Persistently high wage growth is another risk from the perspective of costs.

7 Fiscal Position

The consolidated general government deficit is widening in year-on-year terms, as a result of the measures to mitigate the energy crisis and growth in expenditure on wages and investment.

The consolidated general government deficit over the first seven months of the year widened to EUR 607 million, compared with EUR 347 million over the same period last year. The low growth in revenues (3.3%) is attributable to a decline in corporate income tax settlements, measures to mitigate the energy crisis,[21] legislative changes (personal

[20] Momentum is calculated as the annualised rate of growth in the seasonally adjusted HICP, where the HICP over the last three months is compared with its level over the preceding three months. Inflation momentum thus represents a sort of middle path between year-on-year and monthly rates, and is helpful in the analysis of short-term inflation trends. The latter is important in the identification of reversals in year-on-year inflation. Source: Underlying inflation (europa.eu).

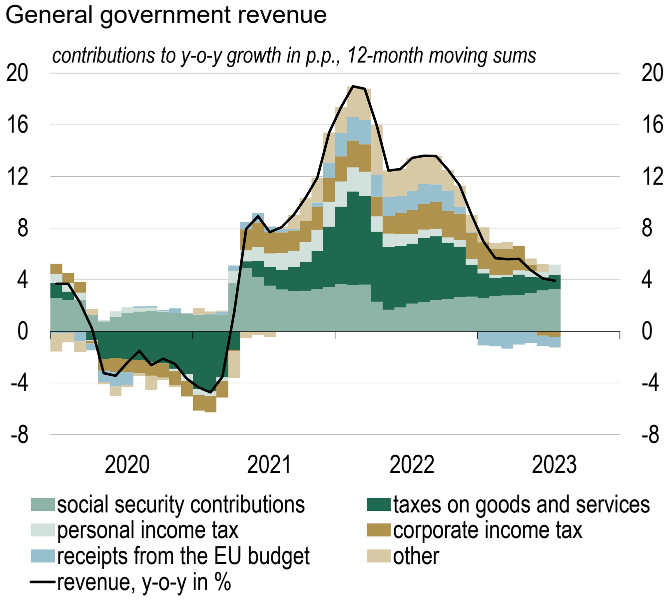
[21] Reduced VAT on energy was in place between September of last year and May of this year, and there were exemptions from the carbon emissions tax in place between 21 June and 1 August 2022, and between 13 September 2022 and 8 May 2023.

income tax), and also to a decline in revenues from the EU budget (see Figure 7.1). From the perspective of the public finances favourable labour market situation maintains solid growth in social security contributions, while rate rises (on energy and tobacco) and payments of deferred instalments are driving a significant increase in excise duties. Tax revenues over the first seven months of the year were up 4.8% in year-on-year terms, with growth strengthening to 7.7% in July after the energy measures expired. Expenditure was up 5.1% in year-on-year terms. The main year-on-year increases were in expenditure on wages and investment, and in interest expenditure. There was an increase in extraordinary expenditure to mitigate high energy prices, but its aggregate with pandemic-related expenditure was down. The 12-month consolidated general government deficit amounted to 3.1% of GDP in July, up slightly on the end of the previous year.

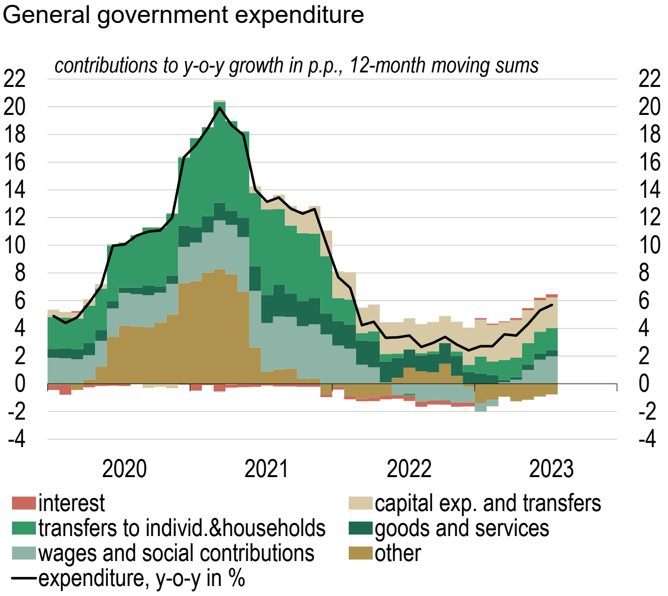
Significant funding will be needed to address the aftermath of the floods.

Following the major floods in early August, a number of intervention measures and a revised state budget for this year were adopted. The latter envisages a budget reserve of EUR 220 million for the first measures, and the budget deficit was widened by the same amount. A further EUR 300 million in the lending and repayments account was also earmarked for addressing the aftermath of the floods under the revised state budget. The financial consequences of the floods can be expected to be reflected to an even greater extent in the state budgets over the following years. Reconstruction Fund for Slovenia will be established to finance reconstruction. In light of the new circumstances, the government has proposed to the public sector trade unions that the elimination of wage disparities and the introduction of a new wage system be deferred from 2024 to 2025.

Figure 7.1: **Consolidated general government revenues and expenditure**



Source: Ministry of finance, Banka Slovenije calculations.
Latest data: July 2023.



Source: Ministry of finance, Banka Slovenije calculations.
Latest data: July 2023.

8 Statistical Appendix

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

	2021	2022	12 m. 'till Jun.23	3 m. 'till Jun.22	3 m. 'till Jun.23	2023 Apr.	2023 May	2023 Jun.	2023 Jul.	2023 Aug.
Economic Activity										
	balance of answers in percentage points									
Sentiment indicator	2.5	0.6	-2.3	2.4	-3.6	-2.8	-3.0	-4.9	-6.5	-5.9
- confidence indicator in manufacturing	8.2	0.0	-5.9	1.7	-9.7	-9.0	-10.0	-10.0	-11.0	-10.0
	year-on-year growth rates in %									
Industry: - total	10.2	1.2	-3.0	2.8	-4.1	-8.2	-2.2	-2.3	...	...
- manufacturing	11.8	3.9	-0.3	5.8	-3.2	-7.5	-1.1	-1.3	...	...
Construction: - total	-0.5	22.2	24.7	17.7	24.4	24.2	24.0	24.9	...	...
- buildings	-23.0	53.4	36.9	52.6	12.3	8.1	16.4	12.2	...	...
Trade and service activities - total	12.2	9.7	2.7	15.3	-2.3	-1.2	-1.1	-4.4	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	8.3	-0.4	6.8	-2.3	7.9	9.7	5.4	8.8	...	...
Retail trade, except of motor vehicles and motorcycles	16.3	7.7	-1.0	11.3	-7.6	-7.1	-7.7	-7.9	...	...
Other private sector services	12.4	11.8	4.1	19.9	-1.1	1.0	0.3	-4.4	...	...
Labour market	*year-on-year growth rates in %*									
Average gross wage	6.0	2.7	8.0	0.7	9.9	9.0	11.0	9.9	...	...
- private sector	5.9	6.3	8.5	7.0	9.1	7.8	10.7	8.9	...	...
- public sector	6.4	-2.6	7.2	-8.1	11.4	11.1	11.6	11.6	...	...
Real net wage[1]	3.0	-5.1	-1.1	-6.1	1.5	-0.5	2.3	2.7	...	...
Registered unemployment rate (in %)	7.6	5.8	5.3	5.7	4.8	5.0	4.8	4.7	...	...
Registered unemployed persons	-12.6	-23.8	-18.9	-25.6	-15.4	-16.3	-15.5	-14.3	-13.0	...
Persons in employment	1.3	2.4	1.9	2.6	1.5	1.6	1.5	1.4	...	...
- private sector	1.3	3.0	2.3	3.2	1.8	1.9	1.8	1.6	...	...
- public sector	1.1	0.7	0.7	0.7	0.8	0.9	0.9	0.8	...	...
Price Developments	*year-on-year growth rates in %*									
HICP	2.0	9.3	9.9	9.0	7.9	9.2	8.1	6.6	5.7	6.1
- services	0.6	5.5	7.2	5.3	8.1	8.0	8.2	8.2	8.3	8.2
- industrial goods excluding energy	1.3	6.3	6.7	6.0	6.5	7.2	6.4	6.0	5.9	5.2
- food	0.7	10.6	14.6	9.4	13.6	14.2	14.3	12.3	11.2	10.3
- energy	11.3	24.8	15.6	25.8	0.9	7.9	0.6	-4.7	-8.2	-3.8
Core inflation indicator[2]	0.9	5.9	7.0	5.6	7.4	7.6	7.3	7.2	7.3	7.0
Balance of Payments - Current Account	*in % GDP*									
Current account balance	3.3	-1.0	2.9	-1.5	8.8	5.6	9.8	10.8	...	...
1. Goods	1.7	-3.7	-0.5	-3.4	4.8	2.0	5.2	7.2	...	...
2. Services	4.2	6.0	6.3	6.0	6.4	4.9	7.0	7.3	...	...
3. Primary income	-1.4	-2.1	-1.8	-3.0	-1.1	-0.3	-0.7	-2.3	...	...
4. Secondary income	-1.1	-1.1	-1.1	-1.2	-1.4	-1.0	-1.7	-1.4	...	...
	nominal year-on-year growth rates in %									
Export of goods and services	19.4	22.9	12.1	28.9	0.2	-3.9	3.7	0.4	...	...
Import of goods and services	25.6	29.0	8.7	36.1	-9.9	-10.1	-7.8	-11.6	...	...

Public Finances Consolidated general government (GG) balance[3]	2021	2022	12 m. 'till Jul 23		2022 Jan.-Jul.		2023 Jan.-Jul.	
	EUR mio		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	21,383	23,311	39.9	3.9	13,501	12.3	13,947	3.3
Tax revenue	18,786	20,557	35.4	5.2	11,902	12.1	12,470	4.8
From EU budget	950	961	1.5	-16.9	571	31.4	514	-10.0
Other	1,646	1,794	2.9	1.7	1,028	5.4	962	-6.4
Expenditure	24,300	24,886	42.9	5.7	13,849	-0.6	14,553	5.1
Current expenditure	10,394	10,283	17.9	3.2	5,866	-1.4	6,226	6.1
- wages and other personnel expenditure	5,751	5,481	9.8	8.9	3,174	-10.5	3,550	11.8
- purchases of goods, services	3,351	3,557	6.1	3.2	1,936	9.5	2,009	3.8
- interest	732	661	1.2	8.5	409	-17.5	447	9.4
Current transfers	11,319	11,261	19.3	4.5	6,629	-4.4	6,875	3.7
- transfers to individuals and households	9,168	9,294	15.8	4.2	5,515	-2.4	5,638	2.2
Capital expenditure, transfers	1,959	2,612	4.6	24.5	945	33.2	1,064	12.6
GG surplus/deficit	-2,917	-1,575	-3.1		-347		-607	

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

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

	2020	2021	2022	22Q3	22Q4	23Q1	23Q2	2020	2021	2022	22Q3	22Q4	23Q1	23Q2
	Slovenia							*euro area*						
Economic developments	*q-o-q growth rates in %*													
GDP				-1.3	0.8	0.7	1.4				0.4	-0.1	0.0	0.3
- industry				-0.8	-1.1	1.7	2.1				0.6	0.0	-0.2	...
- construction				4.4	4.2	4.9	5.7				-1.0	-0.4	2.4	...
- mainly public sector services (OPQ)				0.2	0.3	0.1	0.6				1.1	0.3	0.0	...
- mainly private sector services (without OPQ)				-1.0	1.1	0.8	1.8				0.6	-0.3	0.4	...
Domestic expenditure				-4.0	-0.1	0.4	-1.6				1.1	-0.6	-0.8	...
- general government				0.2	0.9	0.2	1.2				0.0	0.6	-1.6	...
*- households and NPISH**				0.0	-0.1	0.8	-1.3				1.3	-1.0	-0.3	...
- gross capital formation				-9.4	-5.1	-5.3	-1.9				1.7	-1.0	-1.0	...
- gross fixed capital formation				3.7	0.3	5.1	0.1				1.0	-0.6	0.6	...
	y-o-y growth rates in %													
GDP	-4.2	8.2	2.5	3.3	0.2	0.8	1.4	-6.0	5.5	3.4	2.4	1.4	1.3	...
- industry	-3.2	8.7	-3.1	-0.3	-6.3	-1.2	2.4	-6.2	7.5	1.7	1.9	0.5	0.6	...
- construction	-1.5	10.4	7.2	10.4	15.0	15.2	22.2	-5.2	3.8	1.5	0.4	-1.0	1.0	...
- mainly public sector services (OPQ)	2.4	4.1	1.4	1.5	1.5	-0.1	1.8	-2.8	3.5	1.6	1.2	1.8	1.4	...
- mainly private sector services (without OPQ)	-5.5	8.3	4.9	4.5	1.3	1.7	2.5	-6.6	5.7	3.9	3.0	1.7	1.8	...
Domestic expenditure	-4.3	10.1	3.7	3.3	1.2	-3.1	-5.4	-5.7	4.2	3.6	3.3	0.9	0.8	...
- general government	4.2	6.1	-0.5	-0.6	-1.0	-2.1	2.5	1.0	4.3	1.4	0.6	0.7	-1.2	...
- households and NPISH	-6.5	10.3	3.6	3.2	2.4	3.1	-0.9	-7.7	3.8	4.5	2.5	1.1	1.2	...
- gross capital formation	-6.3	13.9	7.9	7.6	0.5	-16.8	-20.1	-7.2	5.1	3.9	8.0	0.7	1.7	...
- gross fixed capital formation	-7.2	12.6	3.5	8.7	5.9	10.2	9.3	-6.2	3.8	2.9	4.4	0.1	2.3	...
- inventories and valuables, contr. to GDP growth in p.p.	0.1	0.4	1.0	-0.2	-1.1	-6.5	-7.3	-0.3	0.3	0.3	0.8	0.2	-0.1	...
Labour market	*q-o-q growth rates in %*													
Employment				0.2	0.3	0.2	0.4				0.3	0.3	0.5	0.2
- mainly private sector (without OPQ)				0.2	0.3	0.2	0.4				0.3	0.3	0.6	...
- mainly public services (OPQ)				0.4	0.3	0.4	0.4				0.2	0.3	0.4	...
	y-o-y growth rates in %													
Employment	-0.7	1.3	2.9	2.0	1.6	1.1	1.2	-1.4	1.4	2.3	1.9	1.6	1.6	1.5
- mainly private sector (without OPQ)	-1.4	1.0	3.1	2.1	1.6	1.0	1.1	-2.2	1.3	2.6	2.0	1.6	1.7	...
- mainly public services (OPQ)	2.2	2.7	2.0	1.6	1.4	1.5	1.6	1.0	2.0	1.5	1.5	1.3	1.2	...
Labour costs per employee	3.4	8.1	5.0	5.5	7.3	12.6	13.5	-0.4	3.9	4.3	3.7	4.8	5.4	...
- mainly private sector (without OPQ)	1.5	8.1	7.7	7.0	7.8	13.4	13.6	-1.5	4.6	4.6	3.8	4.5	6.0	...
- mainly public services (OPQ)	9.4	7.7	-3.1	1.0	5.7	10.0	13.5	2.3	2.1	3.5	3.4	5.5	3.9	...
Unit labour costs, nominal**	7.2	1.1	5.4	4.2	8.7	13.0	13.3	4.6	-0.2	3.2	3.1	4.9	5.7	...
Unit labour costs, real***	6.0	-1.5	-1.0	-5.2	-0.5	0.8	3.1	2.7	-2.2	-1.5	-1.5	-0.8	-0.5	...
	in %													
LFS unemployment rate	5.0	4.7	4.0	4.0	3.5	3.8	3.6	7.9	7.7	6.8	6.7	6.7	6.8	...
Foreign trade	*q-o-q growth rates in %*													
Real export of goods and services				3.5	-4.5	0.4	0.9				1.1	-0.3	0.2	...
Real import of goods and services				1.2	-4.7	-0.9	-3.0				2.6	-1.5	-1.2	...
	y-o-y growth rates in %													
Real export of goods and services	-8.5	14.5	7.2	11.9	-2.5	2.0	-0.7	-9.0	11.1	7.1	8.0	3.6	3.0	...
Real import of goods and services	-9.1	17.8	9.0	12.6	-1.5	-2.5	-8.3	-8.5	8.7	8.1	10.6	2.6	2.1	...
Current account balance as % of GDP****	7.2	3.3	-1.0	-0.3	-1.0	0.2	2.8	1.6	2.3	-0.7	-0.7	-0.7	-0.6	...
External trade balance as contr. to GDP growth in p.p.	-0.3	-1.0	-1.0	0.1	-0.9	4.0	6.7	-0.5	1.4	-0.2	-0.8	0.5	0.5	...
Financing	*in % of GDP*													
Banking system's balance sheet	98.0	94.4	90.8	88.3	87.8	85.0	...	293.3	283.9	279.3	297.4	279.3	277.1	...
Loans to NFCs	20.2	19.2	20.0	19.5	19.4	18.9	18.5	39.7	37.6	37.2	37.5	37.2	36.5	...
Loans to households	22.8	21.6	21.5	20.9	20.8	20.3	19.8	52.7	51.0	49.2	49.8	49.2	48.4	...
Inflation	*in %*													
HICP	-0.3	2.0	9.3	11.3	10.6	9.9	7.9	0.3	2.6	8.4	9.3	10.0	8.0	6.2
HICP excl. energy, food, alcohol and tobacco	0.8	0.9	5.9	6.4	7.0	7.2	7.4	0.7	1.5	4.0	4.4	5.1	5.6	5.5
Public finance	*in % of GDP*													
Debt of the general government	79.6	74.4	72.3	72.4	69.9	69.5	...	97.1	95.3	91.4	92.7	91.4	91.2	...
One year net lending/net borrowing of the gen. government****	-7.6	-4.6	-3.1	-3.0	-3.0	-3.1	...	-7.1	-5.3	-3.6	-3.3	-3.6	-3.7	...
*- interest payment**** *	1.6	1.2	1.1	1.1	1.1	1.1	...	1.5	1.5	1.7	1.6	1.7	1.7	...
*- primary balance**** *	-6.0	-3.4	-2.0	-1.9	-1.9	-2.0	...	-5.6	-3.9	-2.0	-1.7	-2.0	-2.0	...

Note: Unadjusted figures are used to calculate the year-on-year rates, and seasonally adjusted figures are used to calculate the current rates of growth. The SORS quarterly national accounts figures have not yet been reconciled with the initial annual estimate.
* The figures for Slovenia are calculated as the difference between the seasonally adjusted figures for aggregate final consumption and government final consumption.
** Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity.
*** Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity.
**** 4-quarter moving sums.
Sources: SORS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations.

9 Figures and tables

Figures

Tables