BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments

March 2024

Title: Review of macroeconomic developments

Issue: March 2024

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

Based on data available by 29 February 2024.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of
4 March 2024.

ISSN 2820-4751

This publication is also available in Slovene.

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Summary

In early 2024, the economic situation in Slovenia varied considerably from sector to sector, with the most encouraging mood seen in construction and in services. Headline inflation remained unchanged in February, while core inflation rose.

- **The PMIs for the euro area remained in the zone of moderate contraction in the early part of the year, following the stagnation of economic activity in the previous quarter.** The economic sentiment indicator remains low and below its long-term average. Alongside the uncertainty in the external environment, expectations regarding private consumption also remain weak despite the slowdown in inflation, which stabilised at 2.8% in January. The fall in inflation continues to reflect the easing of price pressures in production chains, while pressures from wage growth remain strong.
- **The markets' expectations of the pace of interest rate cuts by major central banks have diminished slightly.** This is attributable to good economic data in the US and the persistence of inflation above central bank target levels. Yields on government bonds consequently fell in February, while higher credit risk assets rose in value, most notably US tech firms stocks.
- **According to initial estimates by the SORS, economic growth in Slovenia stood at 1.6% last year, the year-on-year rate reaching 2.2% in the final quarter.** Growth in net foreign trade strengthened in particular in the final quarter, owing to a larger decline in imports than in exports, as did growth in gross fixed capital formation, which was also reflected in strong year-on-year growth in construction. This was largely driven by government investment according to initial estimates. Private consumption and government consumption were also making positive contributions to economic growth at the end of the year.
- **The confidence indicators in the domestic economy are giving mixed signals in the early part of this year, with the sentiment continuing to vary from sector to sector.** The encouraging trend of gradual improvement in the economic sentiment seen in the second half of last year came to a halt at the beginning of this year. The least optimistic sentiment among firms can be found in the manufacturing sector, where the adverse developments in foreign trade from the end of last year were joined in January by a further deterioration in short-term assessments of export expectations. By contrast, confidence in services, construction and retail remains in positive territory, while the sentiment among consumers during the first two months of this year was also slightly better than at the end of last year. The nowcasts for quarterly GDP growth in the first quarter are averaging 0.9%, based on a limited set of available indicators.
- **The labour market remains tight.** The persons in employment hit a new high of 941,292 at the end of last year, although the seasonally adjusted monthly increases are decreasing and are lower than a year earlier. The situation varies considerably across sectors. While growth in the number of persons in employment in services remains robust, the number of persons in employment in manufacturing is falling. The number of registered unemployed rose further in January, primarily as a result of seasonal developments. The vacancy rate is also falling gradually. Growth in the average gross wage remained high in December at 8.7%, albeit down on the rate

of 11.5% seen at the beginning of last year, with risks of sustained wage pressures remaining elevated.

- **Domestic inflation stood at 3.4% in February, unchanged from January.** Inflation was held at its previous levels by increased contributions from core inflation and energy price inflation, while food price inflation slowed relative to the previous month. Amid record high employment and rising wage growth, service price inflation also remains elevated, and inflation is again being driven up by energy prices, mainly as a result of rises in fuel prices.
- **The current account moved into surplus last year.** The surplus amounted to EUR 2.8 billion, compared with the deficit of EUR 580 million recorded in 2022. The majority of the improvement was attributable to a reversal in the merchandise trade balance from deficit to surplus, half of which was driven by an improvement in the terms of trade, and half of which was the result of the decline in merchandise imports outpacing that in exports. Amid a decline in imports of transport services, the services trade surplus increased further, and the deficit in income also narrowed after two years of widening.
- **Following last year's increase in the deficit of consolidated public finance budgetary accounts, the available data for January of this year points to more favourable developments.** The consolidated general government deficit amounted to EUR 2.3 billion in 2023, EUR 0.7 billion wider than in the previous year. The main increases on the revenue side were in taxes and social security contributions, whose growth remained high in January of this year, and reflects a labour market situation that is favourable to the public finances. The largest increases on the expenditure side were in wages, transfers to individuals and households, and investment. The developments in public finances remain exposed to various risks, including those relating to wage pressures, numerous reforms that are under preparation, and the post-flood reconstruction.

1 International Environment

Global economic growth slowed significantly in the final quarter of last year, while a modest recovery is expected this year.

Among the major advanced economies, only the US avoided a stagnation or recession in the final quarter of last year. The quarterly GDP growth slowed to 0.8% compared to the previous quarter, but nevertheless surprised on the upside. Its robustness was based mainly on household consumption and the ongoing tightness in the labour market. Growth in China slowed to 1.0% in the final quarter of last year, despite significant fiscal and liquidity support. Chinese economy is marked by a decline in consumption, a relatively sharp rise in government debt, and challenges in the real estate sector. The euro area avoided recession in the final quarter of last year with economic activity remaining unchanged, but the UK and Japan slid into recession. The UK economy contracted by 0.3% amid lower demand for services, a larger decline than had been anticipated, while the slide into recession in Japan was completely unexpected, its 0.1%

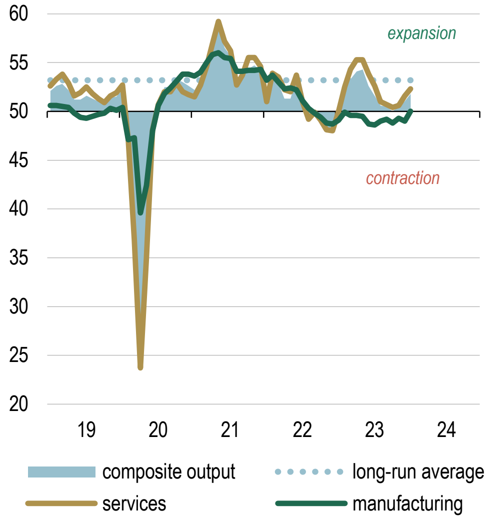
decline in GDP primarily attributable to a further contraction in private consumption, for the third consecutive quarter.

The rise in global PMIs in the early part of this year suggests that the economic outlook is improving slightly, particularly in manufacturing (see Figure 1.1, left). The global manufacturing PMI emerged from the zone of contraction for the first time since August 2022 to stand at 50.0 points in January, although the majority of advanced economies – other than the US, which surprised on the upside – continue to expect a contraction in activity.[1] The global composite PMI stood at 51.8 points, and is indicating modest economic growth for the third consecutive month. The PMIs in China point to modest growth, while those in India are rising sharply.

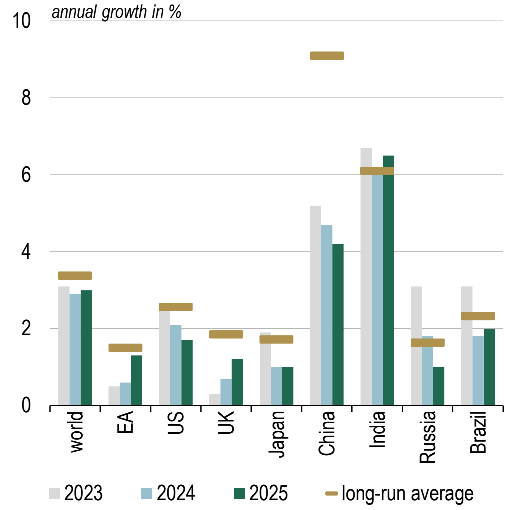
Amid tighter financing conditions, a slowdown in trade, limited global demand, and a risk of major disruptions to supply chains, the outlook for economic activity is moderate. According to the OECD's February projections, global economic growth is forecast to slow from 3.1% last year to 2.9% this year, down 0.2 percentage points on the November projections, before rising to 3.0% in 2025. The forecast is based on considerable variation between economies: while GDP growth in the US and the majority of developing countries is expected to remain relatively solid this year and next year, growth in the euro area, the UK and Japan is forecast to be modest, particularly this year. The economic growth projections for the majority of countries remain below their long-term averages, and display a slowing trend in some economies (see Figure 1.1, right).

Figure 1.1: **Global economic situation and economic growth forecasts**

JPMorgan Purchasing Managers' Index (PMI), global



Economic growth projections in selected economies



Sources: Bloomberg, OECD, IMF. Latest data, left chart: January 2024.
Note: The right chart features the OECD forecasts from February 2024.

[1] The manufacturing PMI in the US surpassed the neutral mark of 50.0 points in January of this year (it stood at 50.7 points in January, 3.5 points higher than forecast, and at 51.5 points in February, 1 point higher than forecast). The rise in January was the largest of all advanced economies (by 2.8 percentage points), and was tracked by an uptick in the euro area (of 2.2 percentage points).

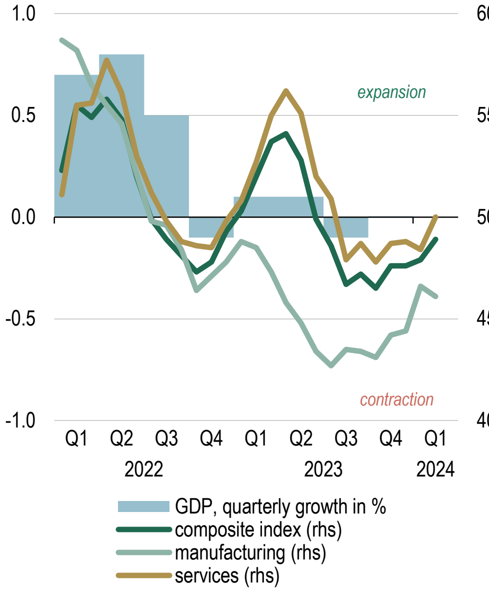
Economic activity in the euro area stagnated in the final quarter of last year, while the PMIs for the early part of this year point to a slight contraction.

Economic activity stagnated in the final quarter of 2023, in the wake of earlier interest rate rises and weak demand[2] (see Figure 1.2, left). Annual GDP growth stood at just 0.5% last year amid weak foreign demand and a decline in household purchasing power (having stood at 3.4% in 2022 amid the post-pandemic recovery). According to the monthly indicators, the stagnation in economic activity in the final quarter was attributable to the ongoing weakness of industrial production, a stagnation in real retail turnover, and a decline in the amount of construction put in place.

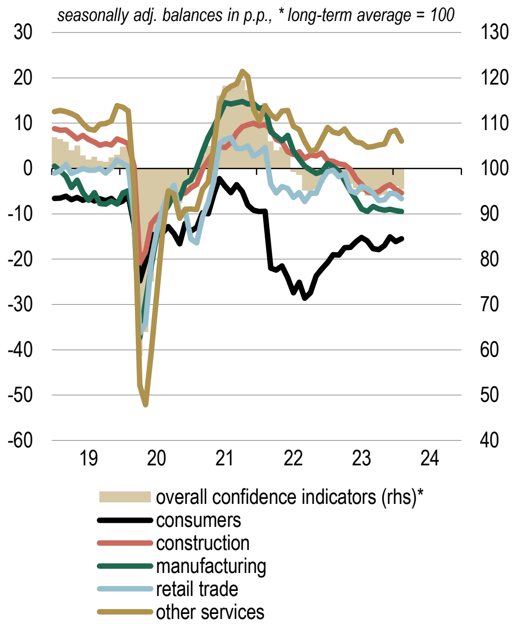
Despite improving, the survey figures from the beginning of this year remain in the zone of contraction (see Figure 1.2, left). The manufacturing PMI increased by 2.5 percentage points over January and February relative to the final quarter of last year, the largest increase among all advanced economies, but is still indicative of a contraction in activity (46.1 points), and remained behind expectations.[3] The services PMI (50.0 points) and composite PMI (48.9 points) conversely exceeded expectations, but the latter nevertheless points to a further slight contraction in the euro area economy. The European Commission's economic sentiment indicator is also down accordingly (95.4 points in February), and has remained below its long-term average since January of last year, as a result of a decline in confidence in most sectors. Expectations with regard to private consumption remain particularly low, while services confidence remains high (see Figure 1.2, right). The ZEW economic sentiment indicator nevertheless points to an economic rebound over the medium term, having exceeded its long-term average since December.

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

Purchasing Managers' Index (PMI) and GDP growth



Confidence indicators



Sources: Bloomberg, Eurostat, Banka Slovenije calculations. Latest data, left chart: GDP – Q4 2023; PMIs – February 2024; right chart: February 2024.

[2] Germany meanwhile failed to avoid recession: with manufacturing subdued and construction activity declining, GDP in the final quarter contracted by 0.3%.

[3] The manufacturing PMI for the euro area was 0.9 points lower than expected, while the figure for Germany was 3.8 points lower than expected.

According to the European Commission's February projections, GDP growth in the euro area is forecast at 0.8% this year (the same as December's expert projections in the Eurosystem), down 0.4 percentage points on the previous projections. The European Commission is forecasting economic growth of 1.5% (the same as December's expert projections in the Eurosystem). With inflation slowing, economic growth is forecast to approach its potential level as of the second half of this year, thanks primarily to a rebound in private consumption (amid a rise in real incomes) and in investment (amid a gradual improvement in the financing conditions). The downside risks to growth in the euro area mainly come from the potential for stubborn inflation, which would extend the period of more restrictive ECB monetary policy. Additional risks relate to geopolitical tensions and potential disruptions to supply chains, and to the resulting price pressures.

Inflation in the euro area is continuing to slow, reflecting further easing of price pressures in production chains. Domestic factors, most notably wage growth, remain elevated.

HICP inflation in the euro area slowed to 2.8% in January, down from 2.9% in December (see Figure 1.3, left). The slowdown was attributable to lower growth in prices of processed food and other goods, which mainly reflect further easing of pressures in production and supply chains. Inflation is thus generally[4] continuing its declining trend after peaking at 10.6% in October 2022.

Energy prices in January were up 1.2% on the previous month, although the developments varied significantly across (major) countries. The differences were particularly evident in electricity and gas prices, owing to the expiry of individual fiscal measures.[5] Energy prices were down 6.1% in year-on-year terms (compared with a figure of 6.7% in December), lowering the headline inflation by 0.6 percentage points. Food inflation slowed to 5.6% (down from 6.1% in December), reflecting further easing of price growth in agricultural and food production chains, but also partly attributable to a base effect in the processed food prices.

Inflation excluding energy and food slowed to 3.3% in January, down from 3.4% in December. The slowdown was primarily attributable to slower growth in prices of non-energy industrial goods, which slowed to 2.0% in January (from 2.5% in December). In monthly terms, prices decelerated by 2.4%, primarily due to winter sales of clothing and footwear. However, the price fall did not deviate significantly neither from the one seen last year nor the past average.[6] Meanwhile, services inflation has continued to stay at the 4.0% in annual terms since November with domestic inflationary pressures remaining elevated amid high wage growth and declining productivity.

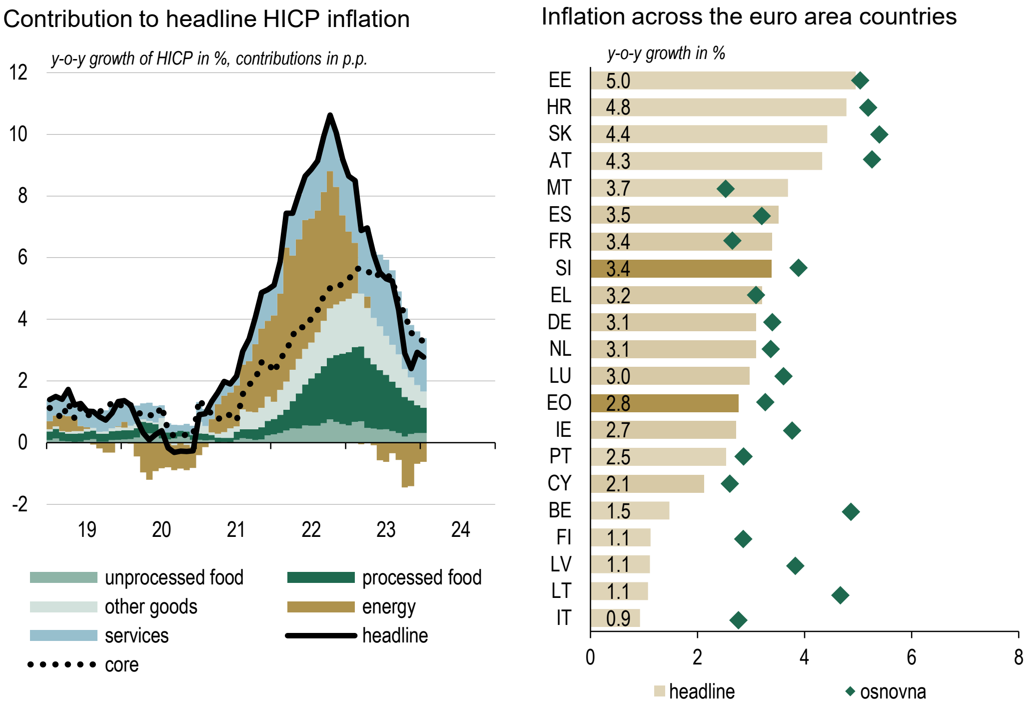
The differences in price developments across euro area countries are diminishing, so is the gap between inflation in Slovenia and in the euro area overall, which narrowed to 0.6 percentage points in January (see Figure 1.3, right), with service inflation recording the widest gap. This is primarily a reflection of the significantly higher growth in compensation per employee and tighter labour market in Slovenia compared with the

[4] Inflation rose to 2.9% in December of last year, up from 2.4% in November, primarily on account of a base effect in energy price inflation in Germany, which was caused by an one-off gas support measures in December 2022. Inflation also strengthened slightly in April of last year, rising to 7.0% from 6.9% in March.

[5] These mostly encompassed the ending of periods of reduced network charges, excise duties and VAT, the expiry of price caps on electricity and gas, and higher carbon levies in Germany.

[6] Prices in the category of other goods fell by 1.9% in January 2023 in monthly terms, compared with an average fall of 3.3% for January between 2009 and 2021. Since the current fall was larger compared to the previous year, the slowdown in year-on-year price growth could also be attributed to a base effect.

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



Sources: ECB, Eurostat, Banka Slovenije calculations. Latest data: January 2024.

euro area average.[7] Although headline inflation in the euro area fell sharply last year, it is expected to decelerate more gradually this year. Energy price inflation will rise as a result of the expiry of numerous fiscal measures and the waning of a base effect, but food and core inflation are forecast to continue slowing. However, the pace of the slowdown will also depend on the wage developments across different countries as well as the developments of firms' profit margins, both continuing to be accompanied by elevated geopolitical risks.

2 Monetary Policy and Financial Markets

With inflation persisting above the central bank targets, the markets have slightly reduced their expectations regarding the onset and pace of cuts in key interest rates.

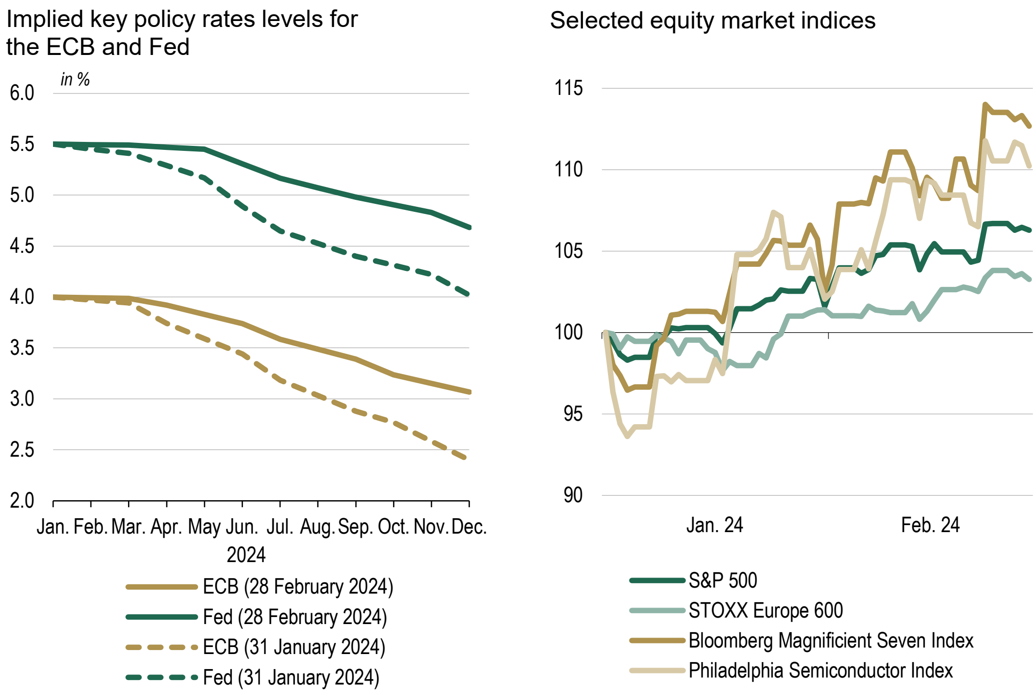
Despite slowing, inflation remains above the target levels of the central banks of the Eurosystem, the US and the UK. Additional concerns surrounding the further fall in inflation are being raised by the stubbornness of core inflation, which remains higher than headline inflation. The Eurosystem left all three key interest rates unchanged in January, and confirmed its previous assessment of the medium-term inflation outlook, i.e. that inflation would gradually fall in 2024. At the press conference, Christine Lagarde, president of the ECB, highlighted the Governing Council's consensus that it is still too early to talk of cutting interest rates. She reiterated that the ECB is continuing to carefully monitor the incoming data, particularly on wage growth in the euro area.

[7] The labour market tightness indicator, which is calculated as the ratio of the vacancy rate to the unemployment rate, stood at 0.7 in Slovenia in the third quarter of 2023, and 0.4 in the euro area overall.

The Fed also left its key interest rate unchanged in January, with Jerome Powell, chair of the Fed, saying at the press conference that more evidence of inflation converging on its target level would be needed for any decision to cut interest rates.

The predominantly good economic data and the persistence of inflation above the central bank target levels have lowered the markets' expectations with regard to the onset and the pace of cuts in key interest rates by central banks. According to current interest rate swap rates (OIS), the markets are expecting the first cut of the ECB's deposit facility rate by June of this year with certainty, while allowing for the possibility that the ECB might begin its cuts in April. The markets have similar expectations with regard to the first interest rate cut by the Fed: certainly in July of this year, with the possibility of cuts beginning in June. The expectations are for almost four cuts of the ECB's deposit facility rate by the end of the year (each of 0.25 percentage points), and for three cuts of the Fed's key rate, compared with the expectations of five to six cuts for both central banks at the end of January (see Figure 2.1, left).

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



Sources: Bloomberg, Banka Slovenije calculations. Latest data, right chart: 28 February 2024.
Note: Calculated from OISs in the left chart. The data for the Fed represents the ceiling of the Fed Funds corridor. In the right chart the Magnificent Seven comprise Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. The Philadelphia semiconductor index covers firms primarily involved in the design, distribution, manufacture, and sale of semiconductors.

The recalibration of the markets' expectations with regard to the monetary policy of the major central banks and the release of economic data that was mostly better than had been anticipated drove an increase in government bond yields.

Following a series of economic data releases that were better than had been anticipated, particularly in the US, government bond yields increased in February. Another factor was the rhetoric of the major central banks, whose representatives are continually warning that the time to start cutting interest rates is not yet so close. Yields on US short-term government bonds have increased by approximately 0.45 percentage points since the end of January, and yields on German government bonds by 0.50 percentage points. There have been similar developments in yields on US long-term government bonds, which have increased by approximately 0.40 percentage points over the same period. Yields on German long-term government bonds have risen by just 0.30 percentage points, as the economic data suggests that the German economy is considerably less resilient than the US economy.

Irrespective of the increase in government bond yields, the mood on equity markets in the US and Europe remains positive. The main European equity index (STOXX Europe 600) has gained 2.1% since the beginning of February, while the main US index (S&P 500) has gained 4.8%. The larger gains in the US are attributable to tech firm shares, in particular those in the semiconductors industry, and the Magnificent Seven, whose share prices have risen by 11.3% over this period (see Figure 2.1, right). After equity market stimulus measures were adopted in February, the mood improved also in China: the Hang Seng, Hong Kong's leading index, rose by around 7%, although it is still approximately 3% down on the end of last year. The spreads on private-sector bonds over the benchmark government bonds fell amid the positive mood on equities markets, as did the spreads on government bonds of the euro area periphery countries.

The price of Brent crude rose slightly in February as a result of geopolitical risks in the Middle East and the efforts by the OPEC+ cartel to cut supply on the market, although the rise was curtailed by the uncertainty surrounding demand for oil, in particular concerns over economic growth in China. The price of natural gas in Europe is still falling, thanks to the milder-than-usual winter and the high storage levels. The recalibration of market expectations with regard to the timing of the reversal in the monetary policy stance at the Fed were reflected in a rise in the US dollar in February. Together with the rise in US Treasury bond yields, this led to a slight fall in the price of gold.

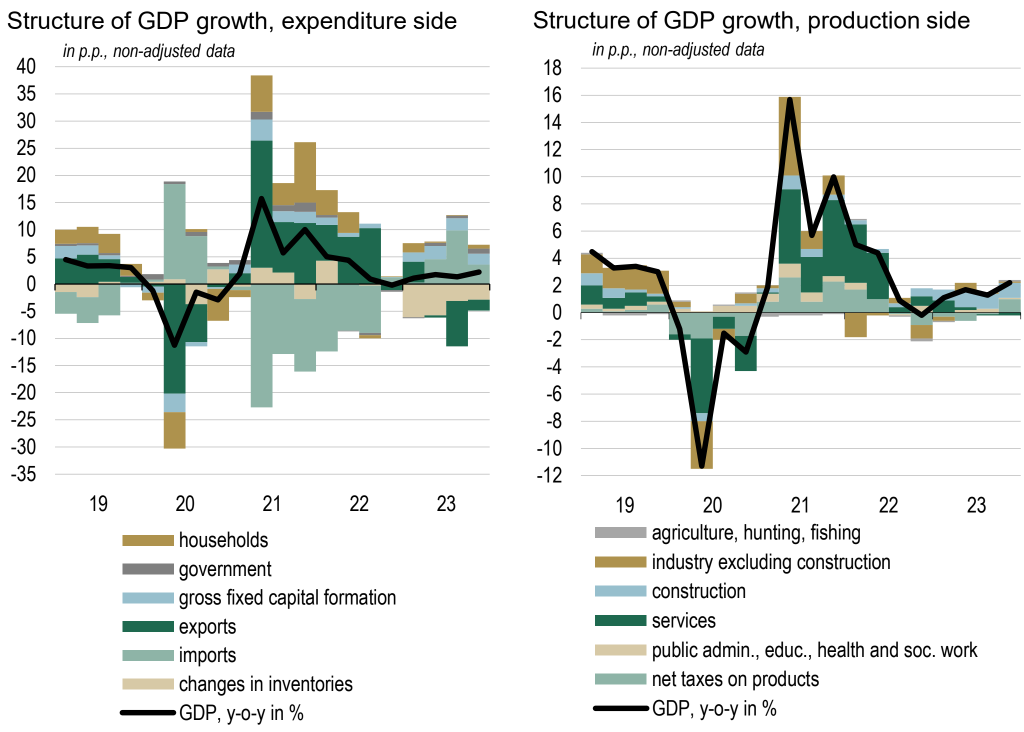
3 Domestic Economic Activity

Economic growth stood at 1.6% last year according to the initial SORS estimates, with the quarterly rate of growth of 1.1% seen in the final quarter in line with Banka Slovenije's previous nowcasts.

Economic growth strengthened in the final quarter of last year, in line with our previous nowcasts based on high-frequency indicators of confidence and activity. Following a stagnation in the third quarter, quarterly economic growth in the final quarter stood at 1.1% according to the initial SORS estimates. It was driven primarily by government consumption and gross fixed capital formation, accompanied with an increase in household consumption. The contraction in inventories also diminished, which is perhaps already indicative of their gradual rebuilding, as firms having run them down intensively in previous quarters.[8] The most pronounced year-on-year increases in the final quarter were recorded by gross fixed capital formation, and by net external trade, the decline in imports having outpaced that in exports. Private consumption and government consumption also acted to raise GDP growth in the final quarter of last year (see Figure 3.1, left).

[8] More detailed analysis of the run-down of inventories and their cyclical position can be found in Box 2.1.4 of the December 2023 issue of the Review of macroeconomic developments and projections.

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



Source: SORS.

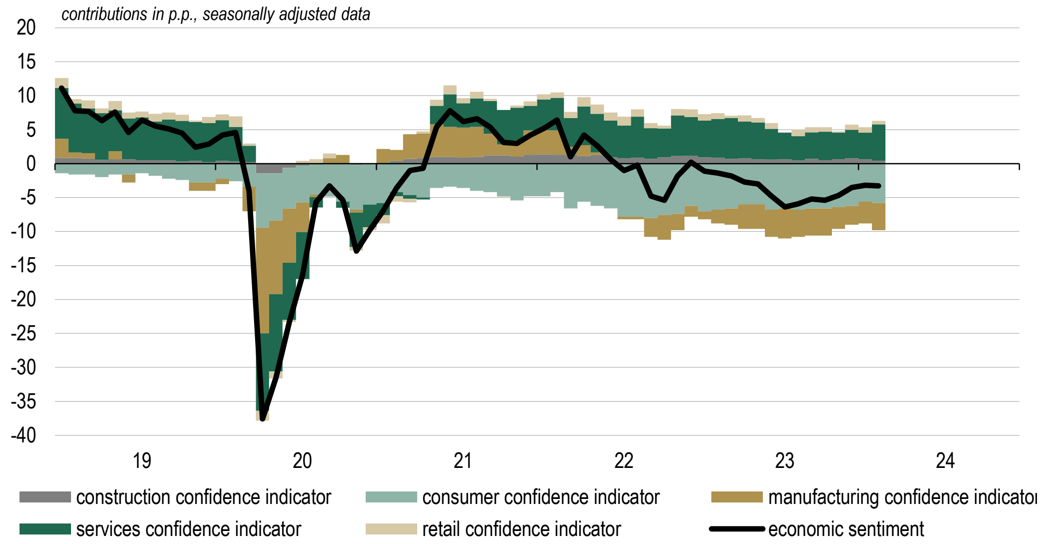
According to the initial estimates, given that more comprehensive data is not yet available, government investment was a major factor in gross fixed capital formation last year. In the decomposition of quarterly GDP growth on the output side, this is mainly evidenced in the positive contribution by construction. In line with the high-frequency activity indicators, there was a slight recovery in industry at the end of the year. Quarterly growth in value-added nevertheless relied considerably on public services, while taxes on products in the final quarter of last year were up on the previous quarter. The year-on-year growth in value-added in the final quarter of last year was also driven in particular by construction, while net taxes on products accounted for approximately half of the year-on-year GDP growth rate of 2.2% (see Figure 3.1, right).

The economic confidence indicators were presenting mixed signals over the first two months of this year, with the sentiment continuing to vary considerably from sector to sector.

Confidence remained at similar levels to the end of last year over the first two months of this year (see Figure 3.2). The trend of gradual improvement seen in the second half of last year came to a halt somewhat. The sentiment among firms remains relatively low in manufacturing in particular, which is continuing to face relatively weak demand, driven primarily by external factors but also by domestic factors. Meanwhile the main factor limiting activity remains the uncertainty in the economic environment, which is curtailing international trade. By contrast, confidence remains in positive territory in services, construction and retail, although the confidence indicators in the last two were down 5 points and 6 points respectively in February.

The sentiment among consumers during the first two months of this year was slightly better than at the end of last year. With price developments easing, their assessments of their current and future financial situation were particularly improved, while the situation on the labour market, which remains relatively robust, presents additional cause

Figure 3.2: **Economic sentiment indicators**



Sources: SORS, Banka Slovenije calculations. Latest data: February 2024.

for optimism in the household sector. Consumers are also upgrading their assessment of the timing of major purchases, which is perhaps already being reflected in the slightly reduced propensity to save, which is otherwise more pronounced during periods of greater economic uncertainty.

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

The average nowcast for quarterly GDP growth in the first quarter of this year is 0.9%.

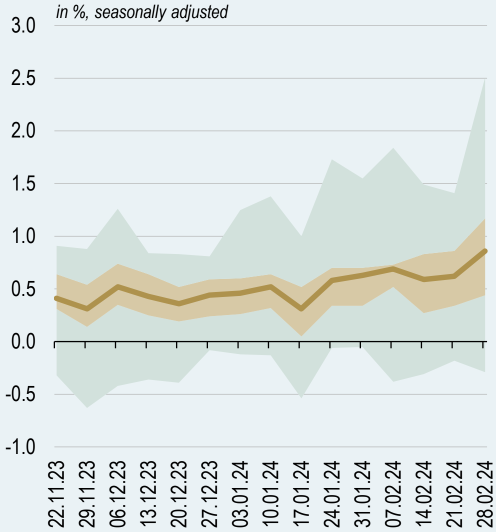
The current average nowcast for quarterly GDP in the first quarter of this year stands at 0.9% (see Figure 3.1.1, left).[9] The estimate reflects the monthly developments in survey indicators in January and February, and the solid realisation of quarterly GDP growth from the end of last year. Given the rather narrow set of monthly data available for the first quarter, the current nowcast remains relatively close to its long-term average, which is also evidenced in the chart showing the distribution of nowcasts (see Figure 3.1.1, right).

The nowcast for quarterly economic growth is primarily attributable to the monthly improvement of 0.3 percentage points in the economic sentiment in January, followed by a decline of 0.1 percentage points in February. The developments in January were mainly driven by the improvement in the contributions of the consumer confidence indicator (of 0.7 percentage points) and confidence in retail trade (of 0.1 percentage points), while other components of the index contributed more negatively. February's decline was driven by all segments other than the confidence in services activities, which improved by 1.5 percentage points.

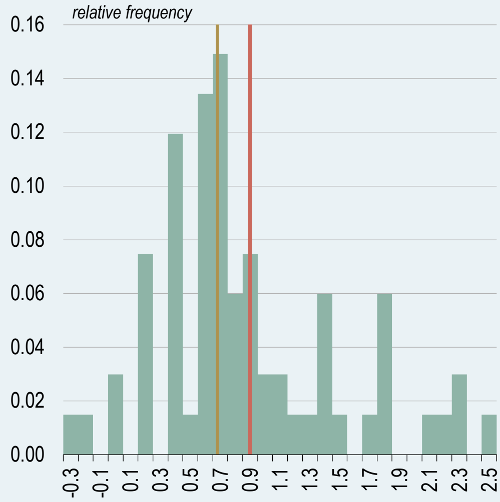
[9] The nowcast is entirely model-based, and does not incorporate any expert assessment of current macroeconomic developments. The set of 67 forecasting models consists of various dynamic factor models, and also PC, (U)MIDAS, (B)VAR, ARDL and bridge models. The changes in quarterly GDP growth forecasts 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 3.1.1: **Nowcasts for GDP growth**

Model estimates of quarterly GDP growth - 2024 Q1



Histogram of quarterly GDP growth estimates 2024 Q1



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

A major adjustment in the quarterly growth nowcast is expected in March with the release of January's data for the key monthly indicators of economic activity (industrial production, construction put in place, and activity in services and retail trade).

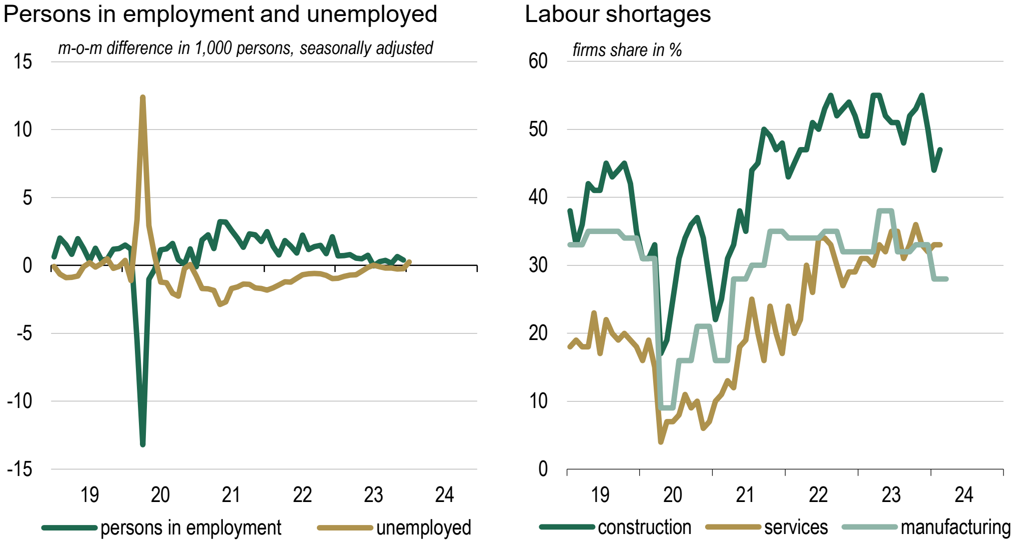
4 Labour Market

With employment at an all-time high and unemployment low, the labour market remains tight, experiencing a significant shortage of domestic workers, although several indicators of cooling persist.

The number of persons in employment reached a new peak of 941,292 in December of the previous year, while the monthly growth rate, as per seasonally adjusted data, slightly improved in the last months of the year, albeit still lower compared to the same period the year before (see Figure 4.1, left). The year-on-year growth in the number of persons in employment was approximately 0.6%, about 1.5 percentage points lower than at the beginning of last year, with lower growth rates across most sectors, notably manufacturing (-1.0%).

The number of vacancies in the final quarter fell again according to the seasonally adjusted SORS figures, as did the vacancy rate, which at 2.6% was down just over 0.5 percentage points on its peak from a year and a half ago. Despite weakened demand, firms are continuing to have difficulties with significant labour shortages, particularly in construction, where half of all firms are having problems in recruiting workers

Figure 4.1: **Selected labour market indicators**



Sources: SORS, Banka Slovenije calculations. Latest data, left chart: registered unemployment – January 2024; number of persons in employment – December 2023; right chart: February 2024; manufacturing – Q1 2024

(see Figure 4.1, right). According to the survey data, the number of persons in employment in services and construction will continue to rise over the coming months, while that in manufacturing is expected to remain unchanged.

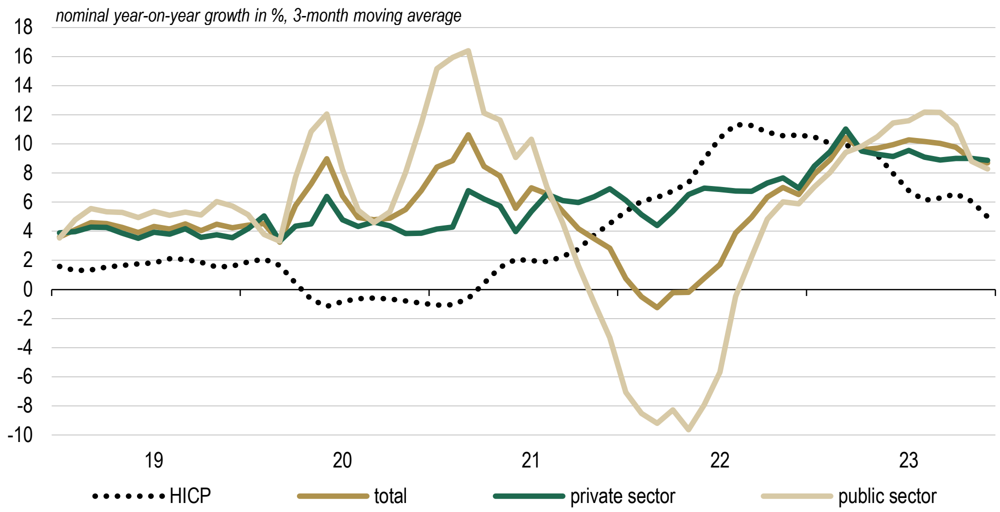
In the wake of a rise in the number of people whose temporary employment was coming to an end at the end of the year, the number of registered unemployed rose to 51,610 in January, up 6.7% on December but down 6.8% on a year earlier. There was a slightly more significant rise in the seasonally adjusted number for the first time in three and a half years, an indication that January's rise was most likely not solely the result of seasonal developments (see Figure 4.1, left).

Despite moderating, nominal wage growth remained elevated at the end of last year.

Year-on-year growth in the average gross wage remained high at 8.7% in December, down almost 3 percentage points on the beginning of the year (see Figure 4.2). Amid falling inflation rates, real growth in the average wage rose significantly, and stood at 4.7% in December, significantly more than its average over the year (2.4%). Having fallen slightly in November, growth in the gross wage in the public sector rose again to reach 10.0%, outpacing growth in the private sector by 2.0 percentage points.

While the labour market remains tight, wage growth is expected to remain relatively high in the first half of this year. A survey by Manpower shows 55.5% of firms to be planning wage rises in the following months, 14 percentage points less than in the first half of last year. Two-thirds of firms who are forecasting wage rises are planning increases of up to 5%, while a third are planning to increase wages by between 6% and 10%.

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



Sources: SORS, Banka Slovenije calculations. Latest data: December 2023.

Box 4.1: **Decomposition of growth in the number of persons in employment**

The labour market recovered quickly after the pandemic. The number of persons in employment had already surpassed its pre-pandemic level by the middle of 2021, as sectors with low value-added hired the most people.

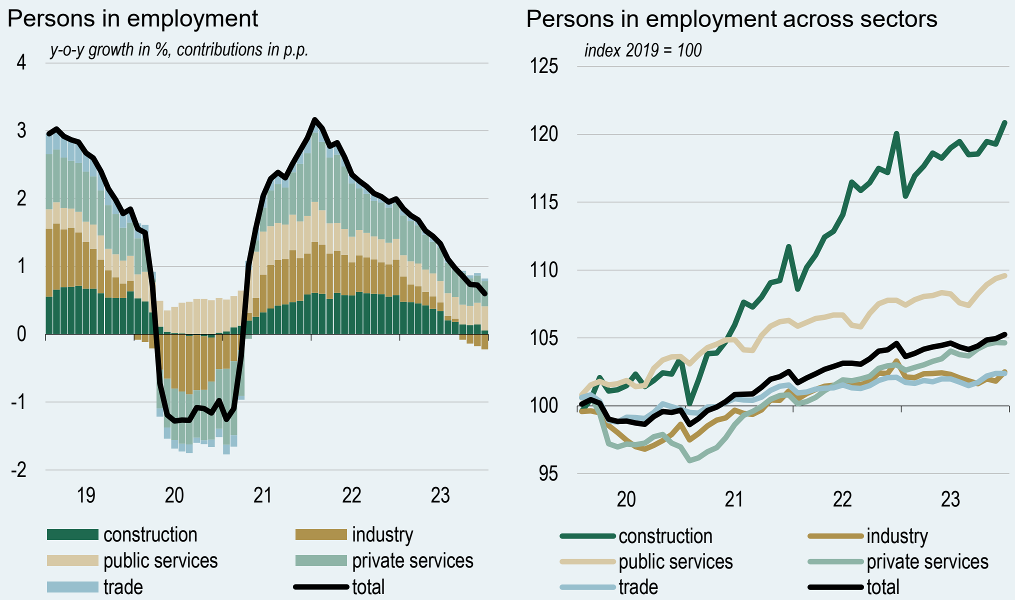
The Slovenian labour market recovered quickly after the pandemic, as is evidenced by the developments in the number of persons in employment. As illustrated in Figure 4.1.1 (right), by the end of 2023 it was already approximately 5% higher than its average over 2019. Despite the high aggregate growth in the number of persons in employment, the rate varied considerably from sector to sector. This box presents a more detailed look at developments in growth in the number of persons in employment during and after the pandemic.

Year-on-year growth in the number of persons in employment was negative in 2020, but the fall was mitigated by the job retention measures (see Figure 4.1.1, right). The number of persons in employment fell in 2020 in all sectors other than public services and construction, which maintained positive growth. The fall was most pronounced in private-sector services, which were most exposed to business shutdowns during lockdown. Growth in the number of persons in employment strengthened sharply during 2021, and it had surpassed its level from 2019 by the mid-point of the year. Growth peaked at 3.0% in early 2022, before beginning to slowly ease off to less than 1% in the second half of 2023.

Since 2020 the highest growth in the number of persons in employment has mainly been in sectors with low productivity.[10] Figure 4.1.1 (right) clearly shows construction and public services recording the highest growth. The number of persons in employment in construction has risen by more than 20% over the last four years. By contrast, there was no comparable increase in industry or retail: the number of persons in employment in each sector was up by approximately 2.0% on 2019.

[10] There is below-average value-added per employee, i.e. labour productivity, in construction, public services, and certain less-complex service activities. Conversely the highest figures are recorded by industry and knowledge-intensive services, such as financial and insurance activities.

Figure 4.1.1: **Decomposition of growth in the number of persons in employment by sectors**

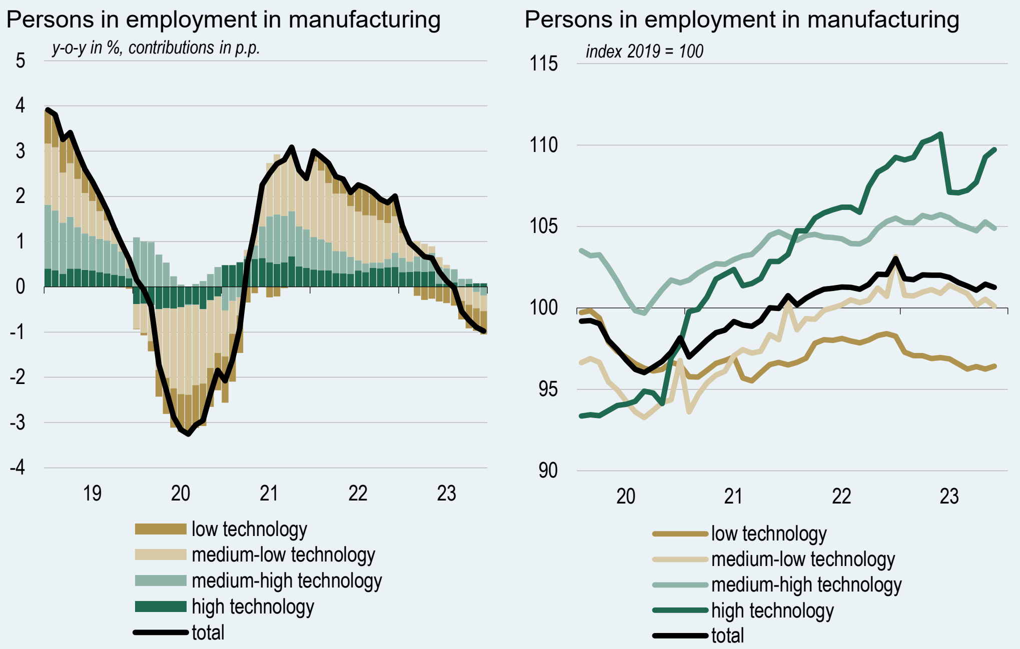


Sources: SORS, Banka Slovenije calculations. Latest data: December 2023.

The number of persons in employment in manufacturing mainly rose in technologically more advanced sectors, but their contribution to aggregate growth is small.

The largest contributions to the rise in the number of persons in employment over the last three years have come from lower productivity sectors. Figure 4.1.2 (left) illustrates the decomposition of the rise in the number of persons in employment in manufacturing according to the level of technological complexity. Firms in sectors of medium-low

Figure 4.1.2: **Decomposition of growth in the number of persons in employment in manufacturing by technological complexity**



Sources: SORS, Banka Slovenije calculations. Latest data: December 2023.
Note: The technological complexity of manufacturing is classified according to the second level of the SKD classification. Sectors 21 and 26 are classified as high technology, sectors 20 and 27 to 30 as medium-high, sectors 19, 22 to 25 and 33 as medium-low, and sectors 10 to 18 and 31 and 32 as low. An explanation of the sector designations can be found in the list of abbreviations on page 31.

technological complexity contributed the most to the rise. There is nevertheless a discernible trend in manufacturing of higher growth in the number of persons in employment in technologically more complex sectors. The number of persons in employment in high technology sectors has increased by 10% over the last four years, compared with a decline of 4% in low-technology sectors (see Figure 4.1.2, right). The negative contribution to last year's aggregate growth in the number of persons in employment by firms in low and medium-low technology sectors is related to the energy crisis, as firms in these sectors are more exposed to rising energy prices.

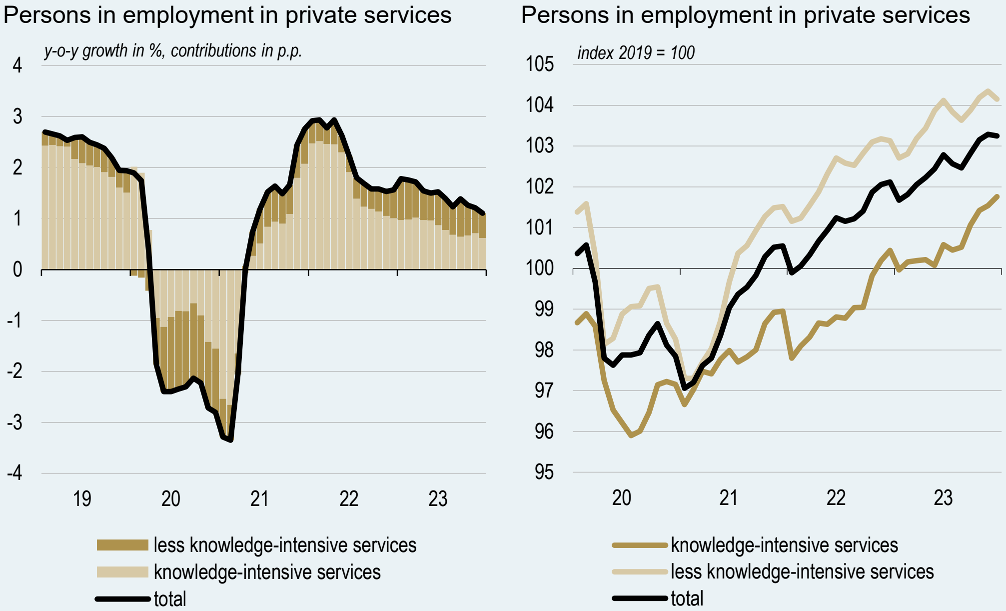
The largest hiring in private-sector services in recent years has been done by less knowledge-intensive sectors.

The largest contributions to the rise in the number of persons in employment in private-sector services came from less knowledge-intensive sectors with lower average value-added. The number of persons in employment in these sectors is up 4.3% on 2019, compared with a rise of just 1.5% in knowledge-intensive services (see Figure 4.1.3). The rise in the number of persons in employment in private-sector services that record above average value-added on aggregate was based primarily on hiring in lower-productivity services, such as accommodation and food service activities.

The breakdown of hiring is also reflected in productivity growth in the Slovenian economy.

The sectoral breakdown of the rise in the number of persons in employment can partly explain the low productivity growth over the last two years. The higher growth in the number of persons in employment in lower-productivity sectors has reduced year-on-

Figure 4.1.3: **Decomposition of growth in the number of persons in employment in private-sector services by knowledge intensity**



Sources: SORS, Banka Slovenije calculations. Latest data: December 2023.
Note: The classification of private-sector services according to knowledge-intensity is made at the second level of the SKD. Knowledge-intensive sectors include sectors 50, 51, 58 to 63, 64 to 66, 69 to 75, 78 and 80, while sectors 45 to 47, 49, 52, 53, 55, 56, 68, 77, 79, 81, 82, 94 to 96 and 97 to 99 are classified as non-knowledge-intensive. An explanation of the sector designations can be found in the list of abbreviations on page 31.

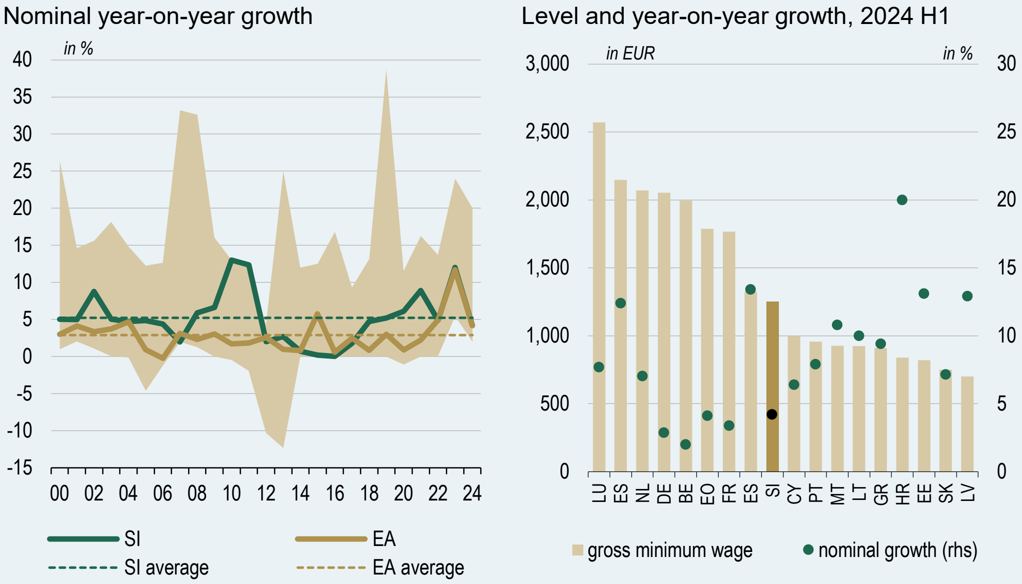
year growth in labour productivity over the last four years by approximately 0.1% on average, which means that value-added in the economy is now approximately 0.6% lower. These trends of the restructuring of employment in the economy have been present for a decade now, having merely continued during and after the pandemic. It should be noted that this is merely the technical impact on productivity from changes in the composition of employees, and does not reflect the full impact of the changes.

Box 4.2: **Minimum wages in euro area countries**

This year's rises in minimum wages are significantly outpacing last year's inflation, following two years in which purchasing power declined in the majority of euro area countries. Slovenian minimum-wage earners have maintained the purchasing power of their earnings over the last three years.

The minimum wage as the minimum payment for full-time work was raised in January of this year in all 17 euro area countries where a minimum wage is regulated by law. According to Eurostat, which releases minimum wage data twice a year, for the first and second halves of the year, this year's rises range from 2% in Belgium to 20% in Croatia, where the median rate of 7.9% was down 1.7 percentage points on the previous year (see Figure 4.2.1, left). The rise in Slovenia was 4.2%. Following the significant fall in inflation, the average year-on-year rise in the minimum wage in the euro area[11] was also less than a year earlier at 4.1% (compared with 13.1% in the first half of last year, the highest figure since 1999), as the two largest euro area countries, Germany and France, recorded some of the smallest rises (see Figure 4.2.1, right).

Figure 4.2.1: **Minimum wage in the euro area**



Sources: Eurostat, Banka Slovenije calculations.
Note: The number of minimum wage recipients (according to a fixed share from 2018 and the annual employment figures) is used to weight each country in the calculation of the minimum wage in the euro area. The left chart includes data for 17 euro area countries (Austria, Italy and Finland do not have a statutory minimum wage), 16 before 2023 (Cyprus is also excluded), 15 before 2015 (Germany is also excluded), and 14 before 2008 (Croatia is also excluded). The data for 2024 refers to the first half of the year.

[11] A lack of data on the number of minimum wage earners each year in each country means that the calculation of the euro area minimum wage is simplified: in the weighting of the minimum wages of the individual euro area countries where a minimum wage is regulated by law in the year in question, the number of minimum wage earners in each country is calculated using the fixed share from 2018 (available at Eurostat) and the actual number of persons in employment in individual years. If the share varies significantly over the years, estimates of the euro area minimum wage and its growth are less reliable in analysis.

After two years of real decline in minimum wages, this year's significant nominal increases have outpaced inflation in all euro area countries, with the aforementioned exceptions of Germany and France, although last year's rise of 22.2% in Germany was the second-largest, and outpaced the cumulative rise in prices over the last three years in that country (see Figure 4.2.2, left).

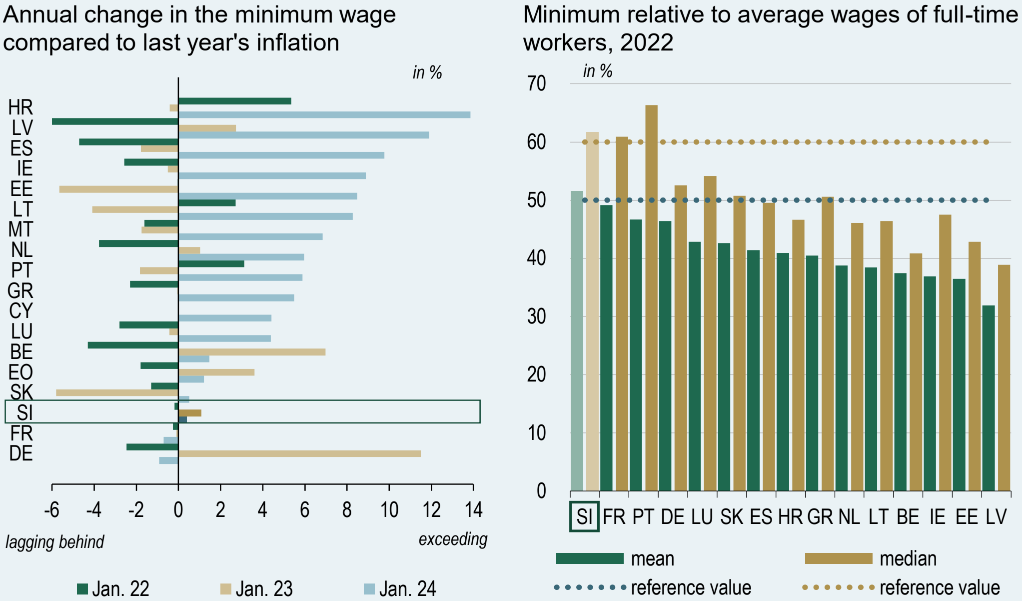
The minimum wage in Slovenia was raised by 4.2% on 1 January of this year to EUR 1,253.90 gross, ranking it in the middle of the euro area countries, just above the median, which stands at around EUR 1,000. This year's rise in the domestic minimum wage was in line with the law, which stipulates that the minimum wage should be raised at least by the year-on-year rate of growth in consumer prices in December of the previous year, which stood at 4.2%.[12]

The rise of 22.4% in the minimum wage in Slovenia over the last three years stands right at the median of the rise in the observed euro area countries, and slightly exceeds the cumulative domestic inflation over this period as measured by the HICP, which was 20.9%. Slovenian minimum wage earners thus maintained the purchasing power of their earnings over the observation period, which is true of all euro area countries other than Slovakia and France (see Figure 4.2.2, left).

The high nominal growth in minimum wages in recent years has not only tracked inflation, but also the European guidelines on adequate minimum wages, which enter into force in November of this year.

According to the illustrated developments in prices and minimum wages across the euro area, the larger nominal rises in minimum wages of the last two years have tracked the high inflation of the previous three years, but not this alone. Part of the increases

Figure 4.2.2: **Real growth in the minimum wage and ratio of minimum wage to median and mean wage**



Sources: Eurostat, OECD, Banka Slovenije calculations.
Note: December's year-on-year inflation rate according to the HICP is used to calculate real growth in the left chart. See the note for Figure 4.2.1 in connection with the capture of euro area countries and the calculation of the minimum wage in the euro area. The two lines in the right chart represent the reference values for the mean and the median. There is no data for Cyprus and Malta.

[12] The base for increasing the minimum wage in Slovenia is year-on-year inflation in December as measured by the CPI, but inflation as measured by the HICP is used in the analysis for all countries, including Slovenia, for the sake of better comparison with other euro area countries. It stood at 3.8% in December of last year.

can also be attributed to the effect of the European guidelines on adequate minimum wages in the EU[13] passed in 2022, the purpose of which is to ensure a dignified standard of living for all workers in the EU, and which must be transposed into Member States' national legislation by 15 November of this year.

It requires Member States to put in place a framework for defining the minimum wage using clear criteria. In assessing the adequacy of minimum wages, they may use a reference value of 60% of the median gross wage or 50% of the mean gross wage and/or a framework reference value used at national level. This dictates a rise in the minimum wage for the majority of Member States, given that only a few countries meet the proposed ratios according to the latest figures, with Slovenia the sole country to have already met both (see Figure 4.2.2, right).

5 Current Account

The foreign trade situation worsened further in December, and firms' expectations regarding exports in the first quarter of this year also deteriorated.

The nominal year-on-year contraction in merchandise trade deepened in December according to the balance of payments figures. Exports were down approximately a tenth and imports were down 17.5%, the largest decline since the outbreak of the pandemic (see Figure 5.1, left). According to SORS data,[14] approximately half of the decline continued to be driven by a decline in trade in mineral fuels and lubricants and in miscellaneous materials, which is partly attributable to the effect of a high base from the previous year. There was also a sharp contraction in trade in machinery and transport equipment, exports of which recorded their largest decline of the last three and a half years. Trade in miscellaneous final products has also been slowing since April of last year. It was down approximately a tenth in year-on-year terms in December. Firms also have low expectations with regard to foreign demand for the first quarter of this year: the indicator's average over the first two months of the year slid to its lowest level since September of last year (see Figure 5.1, left).

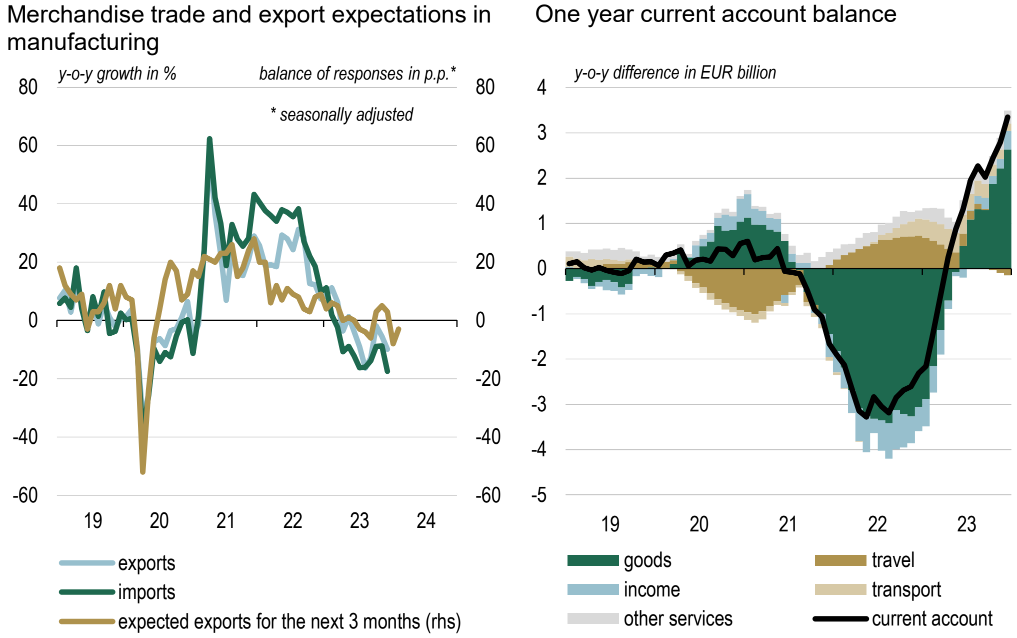
December again saw a nominal decline in services trade, amid a faster contraction in transport services.[15] Exports were down 0.7% in year-on-year terms, driven in part by exports of construction services, whose decline of 10.0% was the largest since September 2019. By contrast, growth in exports of other business services and ICT services remained favourable, and picked up further pace at the end of last year. Services imports were down 4.0% in year-on-year terms in December, 2.8 percentage points more than in November. Imports of other business services declined for the second consecutive month, while imports of ICT services remained up significantly on a year earlier. In contrast to exports, imports of travel services strengthened notably: they were up approximately a tenth in year-on-year terms, significantly more than their average increase in the decade before the pandemic (3.8%).

[13] Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union.

[14] Excluding trade in pharmaceuticals and organic chemicals with Switzerland, and imports of organic chemicals from China and India.

[15] The year-on-year contraction in trade in transport services deepened to 15.7% on the export side and 19.8% on the import side in December, the largest figures since September and October of last year.

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



Sources: Banka Slovenije, SORS. Latest data, left chart: merchandise trade – December 2023, export expectations – February 2024, right chart: December 2023.

The current account moved into surplus in 2023, primarily as a result of the decline in imports of merchandise and transport services, and the favourable terms of trade.

The current account position improved by EUR 3.3 billion last year, to reach a surplus of EUR 2.8 billion (4.4% of GDP). It remained EUR 630 million less than its peak in 2020. Merchandise imports declined by 8.9% in value terms last year, while exports declined by 3.1%, which pushed merchandise trade from a deficit of EUR 2.2 billion to a surplus of EUR 460 million, where approximately half of the improvement (EUR 1.4 billion) was attributable to the favourable terms of trade caused by a fall in import prices. These also drove almost the entire increase of EUR 310 million in the services trade surplus (see Figure 5.1, right). The surplus of trade in transport services strengthened by EUR 170 million, with the (absolute) decline in imports approximately double that in exports. There were also significant increases in exports of construction services, and in the corresponding trade surplus, the latter by EUR 120 million. By contrast, the surplus of trade in travel services narrowed to EUR 1.1 billion, its lowest figure since 2015.[16] The narrower deficit in income brought an improvement of EUR 410 million in the current account position. This was primarily attributable to an increase in interest receipts, a decline in dividend payments to foreign owners, and an increase in compensation receipts from non-life insurance as a result of last year's floods.

[16] Ignoring 2020 and 2021, when the surplus amounted to approximately EUR 0.5 billion.

The surplus in the financial account generated last year saw a renewed net outflow of capital from Slovenia after a year's interruption, primarily as a result of an increase in the Slovenian economy's holdings of financial assets in the rest of the world.

There was a renewed net outflow of capital from Slovenia in 2023, after the financial account had recorded a deficit in the previous year for the first time in ten years. The financial account surplus amounted to EUR 2.6 billion or 4.2% of GDP last year,[17] just over a third larger than its average between 2012 and 2021. The key factor in last year's reversal in the position was the increase in the Slovenian economy's holdings of financial assets in the rest of the world, which was up EUR 3.5 billion on the previous year, while the flow of liabilities to the rest of the world actually declined slightly (by around EUR 1 billion, see Figure 5.1.1, left).

The breakdown of financial transactions across the four main instruments reveals that the total economy saw a net outflow of capital to the rest of the world last year solely via other assets (EUR 3.5 billion; see Figure 5.1.1, left), primarily currency and deposits. Certain items under other assets also recorded net inflows, most notably loans. Last year saw an increase (for the second consecutive year) in net liabilities to the rest of the world on this account, by around EUR 900 million (principally the government sector and other financial intermediaries). In contrast to other assets, and to a significantly smaller extent, there was a net inflow of capital into Slovenia (as usual) via non-residents' direct investments (EUR 540 million) and non-residents' investments in domestic securities (EUR 260 million), government bonds in particular.

The net outflow of capital to the rest of the world went via the central bank, households and non-financial corporations, while the government sector and financial corporations recorded a net inflow into Slovenia.

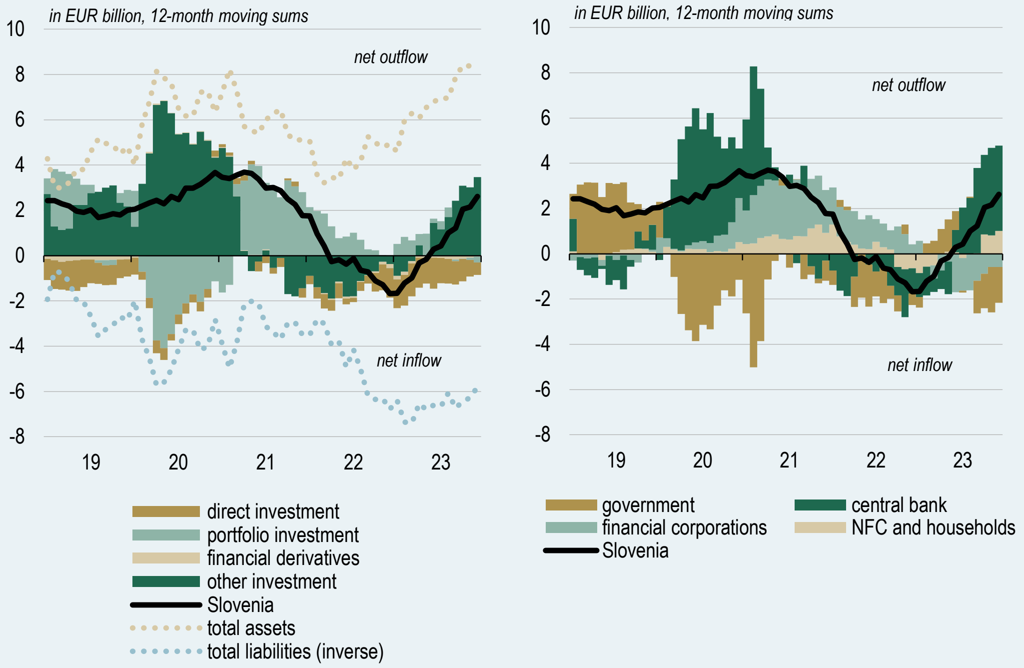
In sectoral terms, the main feature of last year's net outflow of capital was the central bank's financial transactions via currency and deposits as part of the Eurosystem's TARGET transactions (EUR 3.8 billion; see Figure 5.1.1, right). The government sector's net financial flows proceeded in the opposite direction, i.e. from the rest of the world to residents. It increased its net liabilities to foreign portfolio investors by EUR 1.1 billion, and also raised a net total of EUR 350 million in loans in the rest of the world. The aggregate net inflow of capital into the government sector thus reached EUR 1.6 billion last year. Financial corporations also made a mark last year with a net financial inflow from the rest of the world, albeit to a lesser extent (EUR 580 million), primarily as a result of the renewed raising of loans abroad, having repaid almost EUR 14 billion between 2009 and 2021.

[17] The financial account surplus reflects the developments in the current account and the capital account. The former was in surplus in the amount of EUR 2.8 billion, and the latter was in deficit in the amount of EUR 170 million, while there was a negligible statistical error.

Figure 5.1.1: **Financial account**

Financial transactions with the rest of the world by instruments

Financial transactions with the rest of the world by sectors



Source: Banka Slovenije.

Non-financial corporations recorded a net financial outflow of EUR 170 million last year: they are traditional net recipients of capital via direct investments, last year in the amount of EUR 540 million, which was exceeded by their net outflows into foreign securities and other assets in the rest of the world (EUR 360 million of each). Households transferred EUR 340 million of their savings to the rest of the world last year, of which EUR 190 million went into the purchase of non-residents' securities, while the remainder went into direct investments, largely purchases of real estate in our assessment, mostly in Croatia. The largest item in the instrument breakdown for households is currency and deposits, which also includes imports of euro currency.

6 Inflation

After moderating for several months, core inflation strengthened somewhat in February, while headline inflation remained unchanged.

Year-on-year growth in consumer prices as measured by the HICP stood at 3.4% in February, unchanged from January (see Figure 6.1, left). This brought an end to the falling trend, whose continuation was primarily prevented by increased contributions by components of core inflation and energy prices. Energy prices rose by 1.4% in current terms, driven mainly by a rise in fuel prices, and by 0.8% in year-on-year terms (up from 0.1% in January). Energy prices thus accounted for 0.1 percentage points of headline inflation.

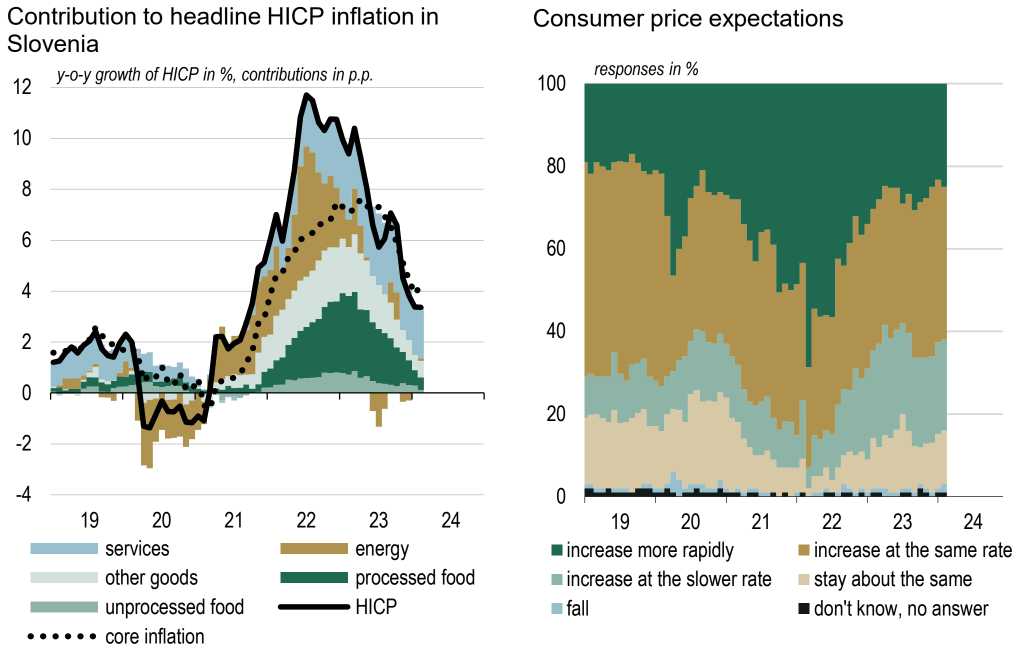
As the effects of past shocks on energy markets and primary commodity markets continued to gradually dissipate, food price inflation moderated further. Having peaked in March 2023 at 17.3%, it declined by 1.1 percentage points compared to January to reach 2.7% in February. The slowdown was primarily attributable to a strong base effect from the record food price inflation in the early part of last year.

Core inflation, i.e., inflation excluding energy and food, strengthened for the first time since August of last year to reach 4.2% in February, up from 3.9% in January (see Figure 6.1, left). The rise was driven primarily by increased contributions from service prices and the prices of non-energy industrial goods. After several months of broad-based slowdown driven by the easing of pressures in production chains, growth in the latter strengthened slightly in February to reach 2.3%. With the labour market remaining tight, which is being reflected in record high employment and strong wage growth, service price inflation also rose in February to reach 5.8%, up 0.5 percentage points from January.

The change in weights for calculating the HICP is also having an impact on this year's inflation rates. Energy price inflation would have been 0.2 percentage points higher in January had the weights remained unchanged, while food price inflation would have been 0.1 percentage points lower. An estimate of the impact for February will be possible after more detailed data is released.

The easing price pressures and the tightening monetary policy have curbed households' expectations of future price rises. After peaking in February 2022 at more than two-thirds, the share of households expecting inflation to rise had declined to a quarter by February of this year, according to SORS survey data. The share of households expecting inflation to slow meanwhile strengthened: it stood at just under a quarter in February, up almost 10 percentage points on its average in 2022 (see Figure 6.1, right).

Figure 6.1:**Domestic price developments and consumer inflation expectations**



Sources: SORS, Eurostat, Banka Slovenije calculations. Latest data: February 2024.
Note: The right chart illustrates the responses to the question on price developments over the next 12 months.

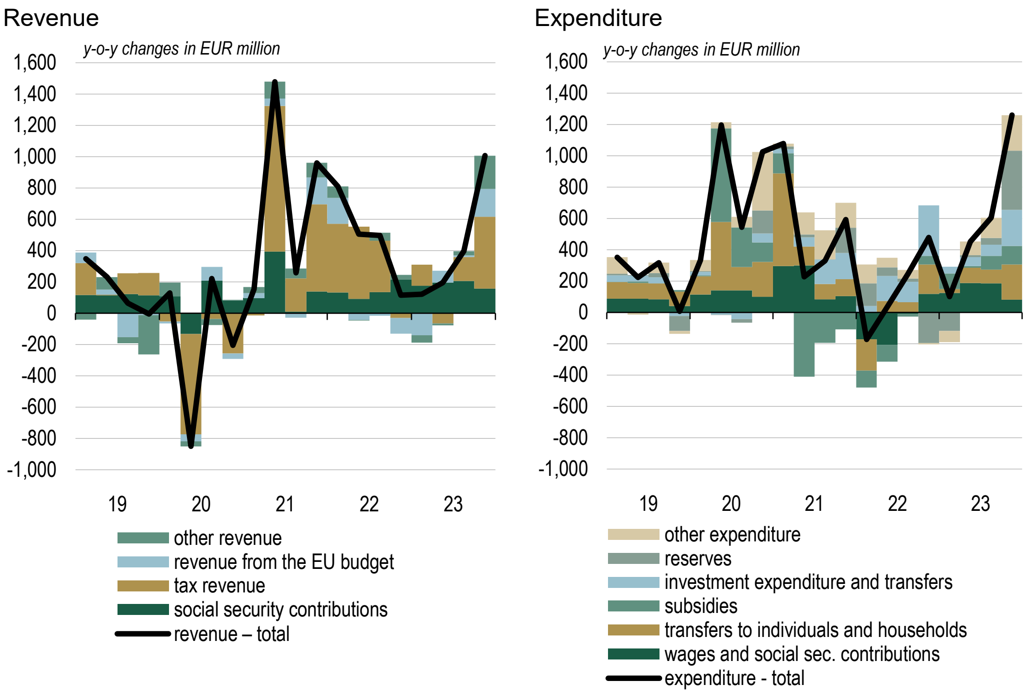
7 Fiscal Position

After last year's increase in the deficit of the consolidated public finance budgetary accounts, the developments in January were more favourable, but they are accompanied by various risks.

The consolidated general government deficit amounted to EUR 2.3 billion or 3.6% of GDP last year, EUR 0.7 billion wider than in 2022. The increase was attributable primarily to the increase in state budget deficit, which was higher also due to a larger transfer to local government and to the Health Insurance Institute of Slovenia (HII), whose position was more favourable than in the previous year.[18]

The year-on-year increase in general government expenditure between the second and final quarters of last year outpaced the increase in revenues by EUR 0.25 billion, following similar increases in expenditures and revenue in the first quarter (see Figure 7.1). Revenues increased by EUR 1.7 billion or 7.4% overall in nominal terms last year, the majority of which was driven by taxes and social security contributions (see Figure 7.1, left). Growth in revenues remained high in January of this year, at 14.4%. Similarly to the final quarter of last year, the largest factors in the increase were social security contributions and VAT. This is, among other things, a reflection of a situation on the labour market that is favourable to the public finances, and also of base effects (e.g. lower VAT on energy in the same period of the previous year). Expenditure last year was up EUR 2.4 billion or 9.8% on the previous year. The largest factors in the

Figure 7.1: **Fiscal developments**



Sources: Ministry of Finance, Banka Slovenije calculations. Latest data: Q4 2023.

[18] The state budget recorded a deficit of EUR 2.3 billion last year, almost EUR 1 billion wider than in the previous year. Local government ended the year with a surplus of EUR 126 million, having recorded a deficit in the previous year. Local government nevertheless received EUR 341 million more from the state budget last year than in the previous year. The largest component in the difference was funding in the amount of EUR 234 million to address the impact of the natural disasters caused by the August floods. The HII saw its deficit narrow by EUR 33 million to EUR 76 million, while its funding from the state budget increased by EUR 54 million.

nominal increase were wages, as a result of increases based on the agreement from October 2022, and transfers to individuals and households, where the majority of the increase was in pensions. There were also increases in investment as the EU financial framework 2014-2020 came to an end, in expenditure on goods and services, and in subsidies, to mitigate the rise in energy prices (see Figure 7.1, right).

The consolidated general government position recorded a surplus of EUR 359 million in January, around EUR 190 million more than in the same month last year. Growth in taxes and social security contributions remained high, while the improvement in the position based on the preliminary figures also resulted from slower growth in expenditure, where the decline in subsidies is a notable factor. The developments in public finances remain exposed to various risks. These include wage pressures, the financing of the post-flood reconstruction, planned reforms (including tax, healthcare and pension reforms), and the uncertain economic situation.

8 Statistical Appendix

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

	2022	2023	12 m. 'till Dec.23	3 m. 'till Dec.22	3 m. 'till Dec.23	2023 Oct.	2023 Nov.	2023 Dec.	2024 Jan.	2024 Feb.
Economic Activity										
						balance of answers in percentage points				
Sentiment indicator	0.6	-3.8	-3.8	-2.3	-4.5	-5.4	-4.7	-3.5	-3.2	-3.3
- confidence indicator in manufacturing	0.0	-8.3	-8.3	-6.3	-8.7	-11.0	-8.0	-7.0	-8.0	-10.0
						year-on-year growth rates in %				
Industry: - total	1.2	-5.3	-5.3	-5.7	-4.6	-1.9	-2.3	-10.2	...	...
- manufacturing	3.9	-4.1	-4.1	-1.8	-4.0	-2.6	-2.0	-8.1	...	...
Construction: - total	22.2	19.2	19.2	35.7	9.7	7.3	12.1	9.8	...	...
- buildings	53.4	10.6	10.6	73.3	-1.6	-10.0	1.1	6.6	...	...
Trade and service activities - total	9.8	-0.3	-0.3	3.7	0.6	-1.5	0.5	2.7	...	...
Wholesale and retail trade and repair of motor vehicl	-0.4	11.0	11.0	5.6	13.9	11.2	13.3	17.6	...	...
Retail trade, except of motor vehicles and motorcycl	7.7	-5.9	-5.9	-1.1	-3.7	-4.1	-3.8	-3.3	...	...
Other private sector services	11.8	1.7	1.7	5.2	1.8	-1.1	2.3	4.0	...	...
Labour market						*year-on-year growth rates in %*				
Average gross wage	2.7	9.7	9.7	6.5	8.7	9.2	8.1	8.7	...	...
- private sector	6.3	9.5	9.5	6.9	8.9	9.4	9.3	8.0	...	...
- public sector	-2.6	10.3	10.3	5.9	8.3	8.9	5.9	10.0	...	...
Real net wage1	-5.1	2.2	2.2	-2.7	3.0	2.1	3.1	3.8	...	...
Registered unemployment rate (in %)	5.8	...	...	5.4	...	4.8	...	...	...	...
Registered unemployed persons	-23.8	-14.0	-14.0	-19.8	-10.1	-10.9	-10.2	-9.1	-6.8	...
Persons in employment	2.4	1.3	1.3	2.0	0.7	0.8	0.8	0.6	...	...
- private sector	3.0	1.4	1.4	2.5	0.7	0.8	0.7	0.5	...	...
- public sector	0.7	0.9	0.9	0.6	0.9	0.9	0.9	1.0	...	...
Price Developments						*year-on-year growth rates in %*				
HICP	9.3	7.2	7.2	10.6	5.0	6.6	4.5	3.8	3.4	3.4
- services	5.5	7.7	7.7	7.1	7.0	7.9	7.1	6.0	5.3	5.8
- industrial goods excluding energy	6.3	5.4	5.4	6.8	3.1	3.7	2.9	2.7	2.2	2.3
- food	10.6	11.8	11.8	15.6	6.8	7.8	7.0	5.6	3.8	2.7
- energy	24.8	2.2	2.2	19.6	1.1	8.0	-2.2	-2.3	0.1	0.8
Core inflation indicator[2]	5.9	6.7	6.7	7.0	5.1	5.9	5.1	4.4	3.9	4.2
Balance of Payments - Current Account						*in % GDP*				
Current account balance	-1.0	4.4	4.4	-2.4	3.6	4.8	3.8	2.1	...	...
1. Goods	-3.8	0.7	0.7	-5.2	-0.2	0.8	-0.6	-0.7	...	...
2. Services	6.1	6.0	6.0	5.9	5.8	6.3	5.4	5.7	...	...
3. Primary income	-2.2	-1.4	-1.4	-2.1	-1.6	-1.3	-1.5	-1.9	...	...
4. Secondary income	-1.1	-1.0	-1.0	-1.0	-0.4	-1.0	0.5	-0.9	...	...
						nominal year-on-year growth rates in %				
Export of goods and services	22.9	-1.2	-1.2	12.2	-4.0	-0.5	-3.9	-7.7	...	...
Import of goods and services	29.0	-6.9	-6.9	15.7	-10.0	-7.1	-7.8	-15.2	...	...

Public Finances	2022	2023	12 m. 'till Jan.24		2023 Jan.-Jan.		2024 Jan.-Jan.	
Consolidated general government (GG) balance[3]	*EUR mio*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	23,311	25,034	39.8	8.8	1,983	-2.6	2,265	14.2
Tax revenue	20,557	21,977	35.0	7.9	1,789	2.9	2,046	14.4
From EU budget	961	1,084	1.8	31.3	83	-56.9	117	39.9
Other	1,794	1,973	3.1	9.2	110	5.8	102	-7.4
Expenditure	24,886	27,325	43.1	10.6	1,815	-4.8	1,906	5.0
Current expenditure	10,283	11,584	18.2	13.2	780	-3.6	804	3.0
- wages and other personnel expenditure	5,481	6,082	9.6	10.6	480	11.7	517	7.5
- purchases of goods, services	3,557	3,894	6.2	10.0	233	2.6	257	10.4
- interest	661	711	1.1	-0.6	48	168.3	24	-50.0
Current transfers	11,261	12,047	19.0	7.9	918	-5.0	972	5.9
- transfers to individuals and households	9,294	9,731	15.4	6.0	739	-4.4	828	12.1
Capital expenditure, transfers	2,612	3,021	4.8	16.2	68	5.4	85	26.0
GG surplus/deficit	-1,575	-2,291	-3.3		168		359	

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

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

	2021	2022	2023	23Q1	23Q2	23Q3	23Q4	2021	2022	2023	23Q1	23Q2	23Q3	23Q4
				Slovenia							*euro area*			
Economic developments							*q-o-q growth in %*							
GDP				0.3	1.1	0.0	1.1				0.1	0.1	-0.1	0.0
- industry				-0.7	1.2	-0.2	0.4				-1.1	-0.4	-1.0	…
- construction				4.2	6.5	2.7	3.6				1.9	-0.8	-0.1	…
- mainly public sector services (OPQ)				-2.3	0.9	-0.3	2.7				0.3	0.1	0.2	…
- mainly private sector services (without OPQ)				1.0	0.9	-0.2	-0.1				0.2	0.0	-0.1	…
Domestic expenditure				-2.0	-1.1	1.1	2.6				-0.6	0.8	-0.1	…
- general government				1.1	0.9	0.6	1.7				-0.5	0.2	0.4	…
- households and NPISH [1]				0.4	0.1	0.6	0.4				0.1	0.0	0.3	…
- gross capital formation				-3.2	-6.6	4.0	1.9				-2.1	2.9	-1.4	…
- gross fixed capital formation				4.3	2.6	1.5	1.1				0.4	-0.1	0.0	…
							y-o-y growth in %							
GDP	8.2	2.5	1.6	1.1	1.7	1.3	2.2	5.9	3.4	…	1.5	0.3	-0.3	…
- industry	8.7	-3.1	…	-1.4	2.4	0.6	0.5	8.7	1.3	…	0.0	-1.6	-3.3	…
- construction	10.4	7.2	…	15.1	21.0	18.4	17.3	2.9	1.1	…	0.8	-0.8	0.1	…
- mainly public sector services (OPQ)	4.1	1.4	…	0.0	1.7	1.7	1.0	3.5	1.9	…	1.8	1.1	0.8	…
- mainly private sector services (without OPQ)	8.3	4.9	…	2.0	2.7	1.6	1.5	6.3	3.8	…	1.8	0.3	-0.4	…
Domestic expenditure	10.1	3.7	-1.2	-2.8	-2.7	-0.3	0.7	4.7	3.5	…	0.8	0.2	-0.7	…
- general government	6.1	-0.5	2.4	-1.0	3.2	2.4	4.8	4.2	1.6	…	-0.3	0.2	0.6	…
- households and NPISH	10.3	3.6	1.3	3.4	0.5	0.3	1.2	4.4	4.2	…	1.6	0.3	-0.6	…
- gross capital formation	13.9	7.9	-9.8	-16.0	-13.9	-3.9	-4.2	6.1	4.0	…	0.1	0.1	-2.1	…
- gross fixed capital formation	12.6	3.5	9.5	7.7	11.2	9.9	9.1	3.5	2.6	…	2.3	0.6	-0.7	…
- inventories and valuables, contr. to GDP growth in p.p.	0.4	1.0	-4.4	-6.1	-5.8	-3.1	-2.9	0.6	0.3	…	-0.5	-0.1	-0.3	…
Labour market							*q-o-q growth in %*							
Employment				0.4	0.1	0.1	0.1				0.5	0.1	0.2	0.3
- mainly private sector (without OPQ)				0.4	0.0	0.1	0.1				0.6	0.1	0.2	…
- mainly public services (OPQ)				0.3	0.4	0.4	0.4				0.3	0.2	0.3	…
							y-o-y growth in %							
Employment	1.3	2.9	1.2	1.8	1.4	1.0	0.7	1.4	2.3	1.4	1.7	1.4	1.3	1.3
- mainly private sector (without OPQ)	1.0	3.1	1.2	1.9	1.4	0.9	0.5	1.2	2.5	…	1.8	1.5	1.4	…
- mainly public services (OPQ)	2.7	2.0	1.4	1.4	1.5	1.5	1.5	2.1	1.6	…	1.2	1.1	1.2	…
Labour costs per employee	8.1	5.0	11.8	12.6	13.5	11.0	10.2	4.2	4.5	…	5.6	5.6	5.3	…
- mainly private sector (without OPQ)	8.1	7.7	…	13.4	13.5	10.3	10.5	4.9	4.8	…	6.1	5.7	5.5	…
- mainly public services (OPQ)	7.7	-3.1	…	10.1	13.5	13.1	9.1	2.3	3.8	…	4.1	5.2	4.6	…
Unit labour costs, nominal[2]	1.1	5.4	11.4	13.3	13.2	10.7	8.5	-0.4	3.4	…	5.7	6.7	6.9	…
Unit labour costs, real[3]	-1.5	-1.0	2.3	1.9	3.7	3.4	0.0	-2.5	-1.2	…	-0.5	0.6	1.1	…
							in %							
LFS unemployment rate	4.7	4.0	…	3.8	3.6	3.9	3.4	7.7	6.8	…	6.8	6.3	6.5	…
Foreign trade							*q-o-q growth in %*							
Real export of goods and services				1.4	-1.1	-2.5	0.5				-0.4	-1.1	-1.2	…
Real import of goods and services				-0.4	-2.6	-3.0	3.0				-1.7	0.0	-1.2	…
							y-o-y growth in %							
Real export of goods and services	14.5	7.2	-2.0	4.0	-0.4	-8.6	-2.3	11.5	7.2	…	3.1	-0.6	-3.5	…
Real import of goods and services	17.8	9.0	-5.1	-0.4	-5.0	-10.6	-4.0	9.2	7.9	…	1.9	-0.7	-4.5	…
Current account balance as % of GDP[4]	3.3	-1.0	4.4	0.2	2.4	3.0	4.4	2.3	-0.7	…	-0.6	-0.3	0.3	…
External trade balance as contr. to GDP growth in p.p.	-1.0	-1.0	2.8	4.1	4.2	1.6	1.5	1.4	0.0	…	0.7	0.1	0.4	…
Financing							*in % of GDP*							
Banking system's balance sheet	94.4	90.8	…	88.0	87.3	86.3	…	282.2	277.9	…	275.6	270.3	270.5	…
Loans to NFCs	19.2	20.0	18.0	19.6	19.1	18.6	18.0	37.4	37.0	…	36.3	35.8	35.2	…
Loans to households	21.6	21.5	20.1	21.0	20.6	20.4	20.1	50.7	48.9	…	48.1	47.3	46.7	…
Inflation							*in %*							
HICP	2.0	9.3	7.2	9.9	7.9	6.3	5.0	2.6	8.4	5.4	8.0	6.2	5.0	2.7
HICP excl. energy, food, alcohol and tobacco	0.9	5.9	6.7	7.2	7.4	6.9	5.1	1.5	4.0	5.0	5.6	5.5	5.1	3.7
Public finance							*in % of GDP*							
Debt of the general government	74.4	72.3	…	71.9	70.4	71.4	…	94.7	90.9	…	90.7	90.3	89.9	…
One year net lending/net borrowing of the general government****	-4.6	-3.0	…	-3.2	-3.2	-3.5	…	-5.2	-3.6	…	-3.7	-3.8	-3.5	…
- interest payment [4]	1.2	1.1	…	1.1	1.2	1.2	…	1.5	1.7	…	1.7	1.7	1.7	…
- primary balance [4]	-3.4	-1.9	…	-2.1	-2.0	-2.3	…	-3.8	-1.9	…	-2.0	-2.1	-1.7	…

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

9 Figures and tables

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10 List of abbreviations

Abbreviations

BoS	Banka Slovenije
EA	Euro area
EC	European Commission
ECB	European Central Bank
Fed	US Federal Reserve System
GDP	Gross domestic product
HICP	Harmonised index of consumer prices
HII	Health Insurance Institute of Slovenia
ICT services	Information, telecommunication and computer services
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight index swap
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Managers' Index
S&P 500	Standard and Poor's 500
SORS	Statistical Office of the Republic of Slovenia
TARGET	Trans-European automated real-time gross settlement express transfer system
UK	United Kingdom
US	United States of America
USD	United States dollar
VAT	Value added tax
ZEW	Centre for European Economic Research

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

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

95 – Repair of computers and personal and household goods, **96** – Other personal service activities; **T**: Activities of households as employers, undifferentiated goods- and services-producing activities of households for own use, **97** – Activities of households as employers of domestic personnel, **98** – Undifferentiated goods- and services-producing activities of private households for own use; **U**: Activities of extraterritorial organisations and bodies, **99** – Activities of extraterritorial organisations and bodies.

Country abbreviations

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