BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments

July 2024

Title: Review of macroeconomic developments

Issue: July 2024

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

Based on data available by 4 July 2024.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of 8 July 2024.

ISSN 2820-4751

This publication is also available in Slovene.

Contents

Boxes

Summary

Amid a gradual improvement in economic sentiment and a more favourable situation in industry, our assessment is that domestic economic activity in the second quarter was stronger than in the euro area overall; meanwhile inflation fell below 2% in June for the first time in three years.

- **The global economy is showing signs of continued moderate growth, while the survey and monthly indicators of economic activity for the euro area do not point to any substantial recovery in the second quarter.** The modest growth that is prospected for the euro area will be held back mainly by manufacturing, which is continuing to face a decline in orders, while the service sector is continuing to strengthen. The economic sentiment in the euro area remains below its long-term average moving into the second half of the year, but economic activity is expected to strengthen slightly over the remainder of the year according to the ZEW indicator. Inflation is slowing: the headline rate in the euro area stood at 2.5% in June, while core inflation was unchanged at 2.9%.
- **The conviction strengthened on the financial markets that the cuts in key central bank interest rates will be gradual.** This was largely attributable to the June monetary policy meetings of the Governing Council of the ECB and the Fed, at which the two central banks raised their inflation forecasts for this year and next year. The Federal Open Market Committee (FOMC) also raised its forecasts with regard to the future developments in the key interest rate at the Fed. The rhetoric of most members of the Governing Council and the FOMC also points to caution in their future decisions, which will remain driven by incoming data. According to the current interest rate swap rates, the markets are expecting a further cut in key interest rates at the ECB in October and the first cut at the Fed in November.
- **After the June's fall in euro area higher-risk asset classes' values, driven by the increased political uncertainty in Europe, the financial markets stabilised.** Yields on US and German government bonds have nevertheless fallen since the end of May, as a result of investors migrating to lower-risk assets, while the majority of euro area higher-risk assets' values have fallen. The euro fell against most major global currencies. By contrast, US equity markets again hit new record highs, with tech firms continuing to lead the way.
- **The latest data for Slovenia shows a strengthening economy in the second quarter.** There was an improvement in the situation in manufacturing, which was evidenced in the stabilisation of confidence and a sharp uptick in output. The conditions remain favourable to further growth in consumption on the domestic market: real household incomes are strengthening, consumer confidence is higher, there was a rise in the number of overnight stays by foreign visitors, and card payments and ATM withdrawals are continuing to rise in real terms. By contrast construction activity has begun to slow significantly: its contribution to GDP was most likely negative. Based on a broad dataset for the second quarter, the average nowcast for quarterly GDP growth currently stands at 1.0%.
- **Amid slightly stronger foreign demand, the situation in merchandise and services trade is improving.** Nominal exports of merchandise and services in the early part of the second quarter were up approximately a tenth in year-on-year

terms, as were imports. The current account surplus remains large, and amounted to more than EUR 3.1 billion over the 12 months to April. Once again the main factor was the services trade surplus, which reached its highest level to date in April. The widening current account surplus is also being driven by the merchandise trade surplus, and by the gradual narrowing of the deficit in primary income.

- **The labour market remains robust.** The persons in employment hit a new high in April, while the survey data points to continuing growth in hiring in the months ahead, particularly in services. Unemployment is continuing to fall in line with the rise in employment. Registered unemployment fell to 43,369 at the end of the first half of the year, the lowest figure to date. The surveyed unemployment rate also remains low at 3.4%, which alongside the relatively high vacancy rate is keeping the labour market very tight. In these circumstances wage growth remains relatively high, despite a discernible trend of decline.
- **Inflation is continuing to slow.** Core inflation remains elevated at 2.7%, driven primarily by stubborn services inflation. This is attributable to stronger domestic factors, in particular the still relatively high wage growth and the solid growth in demand. Headline inflation as measured by the HICP slowed to 1.6% in June, largely as a result of a year-on-year fall in energy prices. The slower growth in prices of non-energy industrial goods also slightly reduced inflation, whereas food inflation strengthened again.
- **The deficit of the consolidated balance of public finances is narrowing, but remains subject to numerous risks in connection with wage negotiations, the post-flood reconstruction and the preparations of reforms.** According to the current data, the general government deficit over the first five months of the year was narrower in year-on-year terms. The improvement was largely attributable to the buoyant labour market and last year's good performance by firms, which drove up tax revenues. Reductions in extraordinary measures also had a beneficial impact. The general government deficit in the first quarter narrowed, to 2.0% of GDP. The ratio of debt to GDP increased to 70.7%, but this was attributable to the pre-financing of liabilities that will fall due by the end of the year. Developments in public finances over the remainder of the year will depend mainly on the outcome of wage negotiations, the ongoing post-flood reconstruction and the progress of planned reforms (taxes, pensions and others).

1 International Environment

In line with the forecasts by international institutions, the survey indicators point to a continuation of modest growth in global economic activity, which is still mainly being driven by services.

The global PMI stood at 52.9 points in June, down slightly on the one-year high of 53.7 points in May, but it is still pointing to a continuation of the moderate growth in the global economy going into the second half of the year (see Figure 1.1, left). This continues to be driven by growth in the service sector, which according to the PMI is slowing slightly amid a slowdown in new orders, while growth in employment is still strengthening. Meanwhile, the situation in global manufacturing is gradually improving, with the PMI at 50.9 points remaining in a territory of weak growth for the fifth consecutive month, whereby June output having increased in the US, China and the UK.

The survey indicators confirm the May projections by the OECD, which is forecasting moderate global economic growth of 3.1% this year. Growth is forecast to strengthen slightly to 3.2% in 2025, but will remain below the 2013–2019 average of 3.4%. The relatively stable growth in economic activity is largely attributable to the successful reduction of inflation, which promises cuts in interest rates in various economies, which will drive domestic demand in parallel with rising incomes.

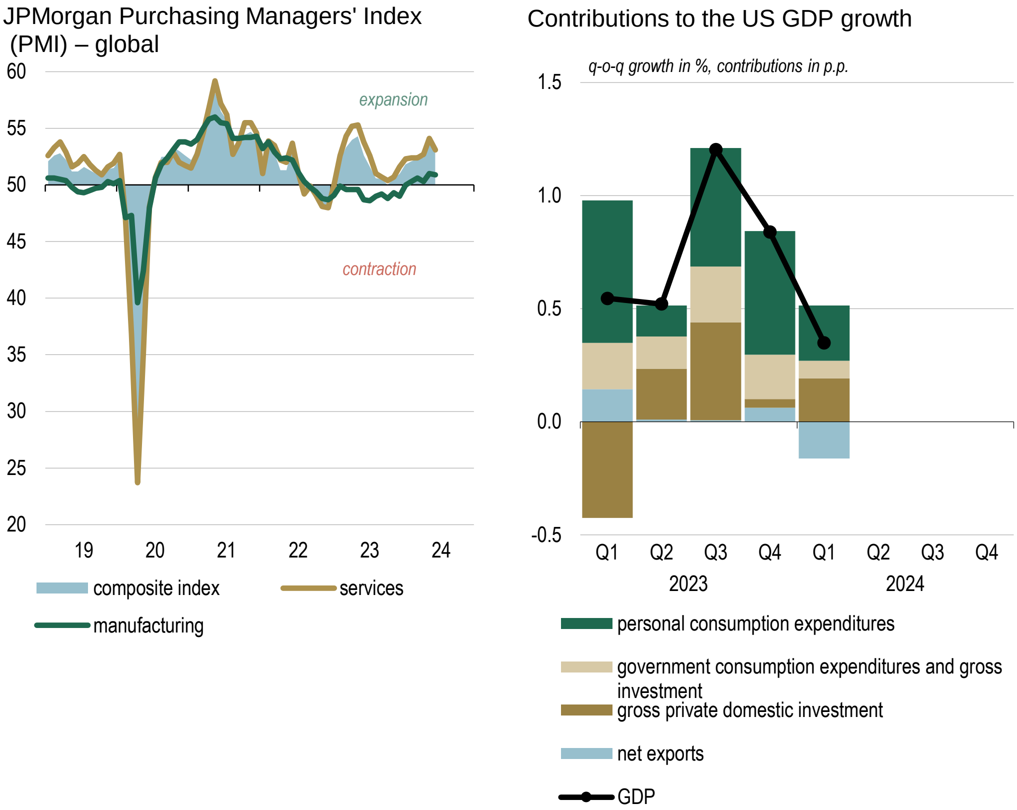
The relatively favourable global economic growth forecast is largely reliant on the performance of the US and China, which despite their ongoing robust growth in activity are also facing certain limiting factors. After the US economy recorded favourable growth of 2.5% last year, driven primarily by private and government consumption, current economic growth of 0.3% in the first quarter of this year was the lowest since the contraction in the first half of 2022 (see Figure 1.1, right). Growth in private consumption slowed in particular, although it still accounts for the majority of the rise in GDP, but according to Consensus's June projections it is forecast to slow slightly further over the remainder of the year as a result of declining disposable household income,[1] a gradual easing in the tightness of the labour market,[2] and the ongoing transmission of the tighter financing conditions into the real sector. The Chinese economy is also facing several limiting factors, although quarterly GDP growth remained stable in the first quarter at 1.6%, supported by government consumption. Growth in industrial production in China slowed in May, and trailed the Consensus projections, while the economy continued to face difficulties in the real estate sector,[3] which is curtailing domestic demand.

[1] Amid still relatively high inflation (May: 3.3%; April: 3.4%) and historically high interest rates (5.25% to 5.50%).

[2] The unemployment rate rose again to reach 4.0% in May, compared with 3.4% in April of last year.

[3] New property prices fell by 0.7% in May, the eleventh consecutive fall and the largest fall since October 2014, while aggregate real estate prices fell by 1.0%, the largest fall since 2011, when the current statistical methodology was introduced.

Figure 1.1: **Global and US economic situation**



Sources: Bloomberg, FRED, Banka Slovenije calculations; latest data left chart: June 2024; right chart: Q1 2024

The survey indicators for the euro area point to a continuation of the moderate growth in economic activity, which will continue to be held back by manufacturing in particular.

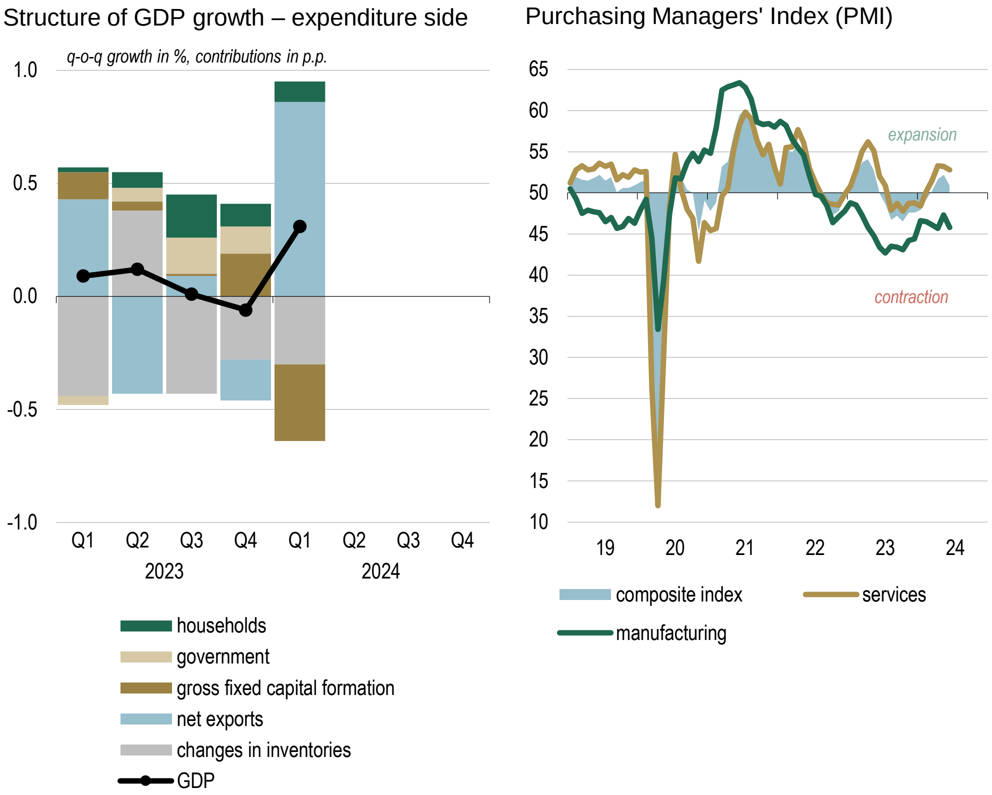
GDP growth in the euro area stood at 0.3% in the first quarter, the highest in the last year. The largest contribution of 0.9 percentage points came from net trade, as exports rose by 1.4% while imports declined by 0.3% (see Figure 1.2, left). Private consumption also rose, and accounted for 0.1 percentage points of the growth. Conversely, the largest negative contributions to growth came from private investment and changes in inventories, each of 0.3 percentage points. On the production side, it is evident that economic growth was based on services, private services in particular. The only negative contribution came from industry, but even this was the smallest in the last year.

Conversely, the monthly indicators are not pointing to any significant recovery in the euro area in the second quarter. The April figures show a decline in output in industry and retail, as well as a second consecutive monthly fall in construction.[4] After three months of growth, output in services also declined in March, by 0.4%.

The moderate economic growth in the euro area, which was signalled at the end of the second quarter by the composite PMI of 50.9 points, remains based on the service sector. Activity in services increased for the fifth consecutive month. By contrast, the manufacturing PMI remains in the zone of contraction at 45.8 points, as the sharper

[4] The amount of construction put in place declined by 0.2% in April, having contracted by 0.5% in March. The largest declines were recorded by Belgium (3.7%), Slovenia (2.7%) and Germany (2.1%). Output in retail and industry also declined, by 0.5% and 0.1% respectively.

Figure 1.2: **Economic developments in the euro area**



Sources: Eurostat, Bloomberg, Banka Slovenije calculations; latest data left chart: Q1 2024; right chart: June 2024

decline in output and faster contraction in new orders point to a continuation of the challenging situation over the coming months (see Figure 1.2, right).[5] May's contraction in manufacturing was the smallest in the last year, judging by the PMI.

According to the European Commission data, the economic sentiment declined to 95.9 percentage points in June, having deteriorated in all sectors other than consumers. The largest decline came in construction, where it hit its lowest value since September 2020, similarly to industry. Consumer confidence remains the weakest figure, as is traditional, while services confidence is the strongest, and the only figure in positive territory. By contrast, the ZEW economic sentiment indicator is continuing to point to an improvement in economic activity over the next six months, with June's figure of 51.3 percentage points being above its long-term average by 30 points.

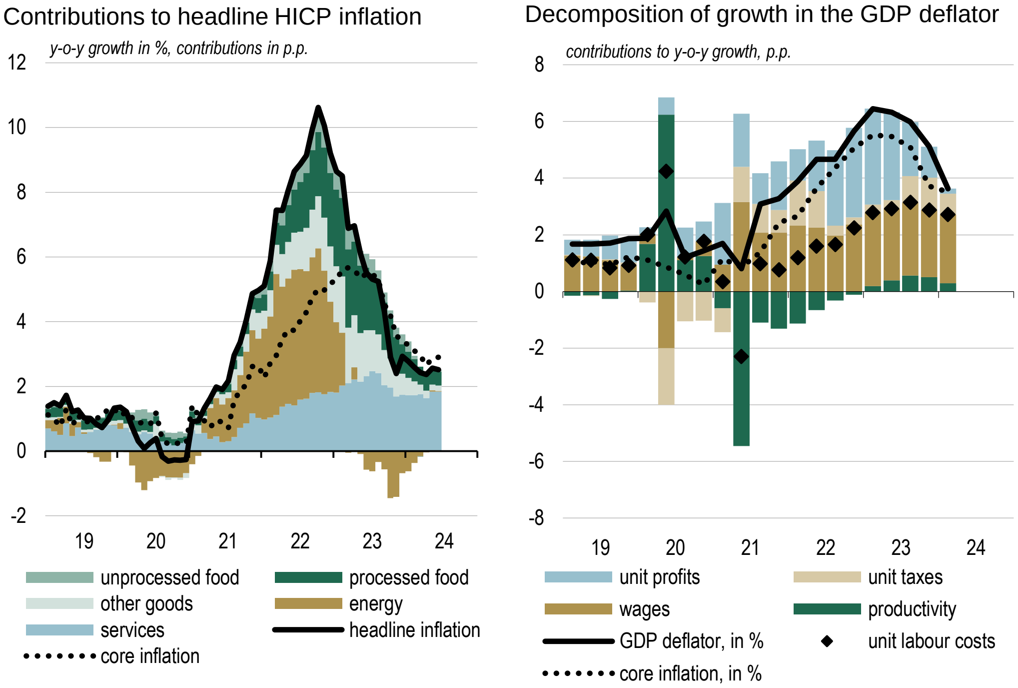
Inflation in the euro area is continuing to gradually fall, with slowdowns in energy inflation and food inflation in June.

Inflation as measured by the HICP stood at 2.5% in the euro area overall in June (see Figure 1.3, left). It was down 0.1 percentage points on May, driven by falls in energy and unprocessed food inflation, while inflation rates in the other price components remained unchanged. Energy prices were down 0.8% in monthly terms, and up 0.2% in annual terms (compared with 0.3% in May). A modest decline in the year-on-year rate was mostly attributable to the monthly price falls. However, headline inflation is expected to be volatile for the remainder of the year, which will mainly be attributable to base effects in energy prices and a rise in global energy prices. Food inflation also fell

[5] Germany's manufacturing PMI declined to 43.5 points in June, thereby trailing the Consensus forecast of 46.6 points. Consequently, the euro area PMI also trailed the Consensus forecast of 47.9 points.

in June, to 2.5% (down from 2.6% in May), mostly as a result of a negative base effect in prices of unprocessed food.

Figure 1.3: **Inflation and domestic price factors in the euro area**



Sources: ECB, Eurostat, Banka Slovenije calculations; latest data left chart: June 2024; right chart: Q1 2024

Core inflation, that is inflation excluding energy and food, remained unchanged compared to May. The annual rate of 2.9% continued to be driven by services prices, which in June were up 4.1% in year-on-year terms. They are primarily reflecting the tightness of the labour market, and the resulting persistently high wage growth, which is expected to remain elevated also in the future amid the adjustment for past inflation and the rises in the minimum wage.[6] Domestic price factors as measured by growth in the GDP deflator are nevertheless easing, which is attributable to the year-on-year slowdown in growth in unit profits and unit labour costs (see Figure 1.3, right).[7] Growth in prices of non-energy industrial goods (hereinafter: other goods) meanwhile remains unchanged at 0.7%, and thus reflects the further waning of the past price shocks on the energy and commodities markets.

At 2.7% in June, core inflation in Slovenia was below the euro area average for the first time since October 2021 (see Figure 1.4, left), although services inflation continued to outpace the euro area overall, mainly reflecting higher growth in domestic labour costs and the tighter labour market.[8] Growth rates in the other price components are lower than in the euro area overall, making the domestic inflation rate of 1.6% almost 1 percentage point lower than the euro area average (see Figure 1.4, right).

[6] The ECB is forecasting growth of 4.8% in compensation per employee this year.

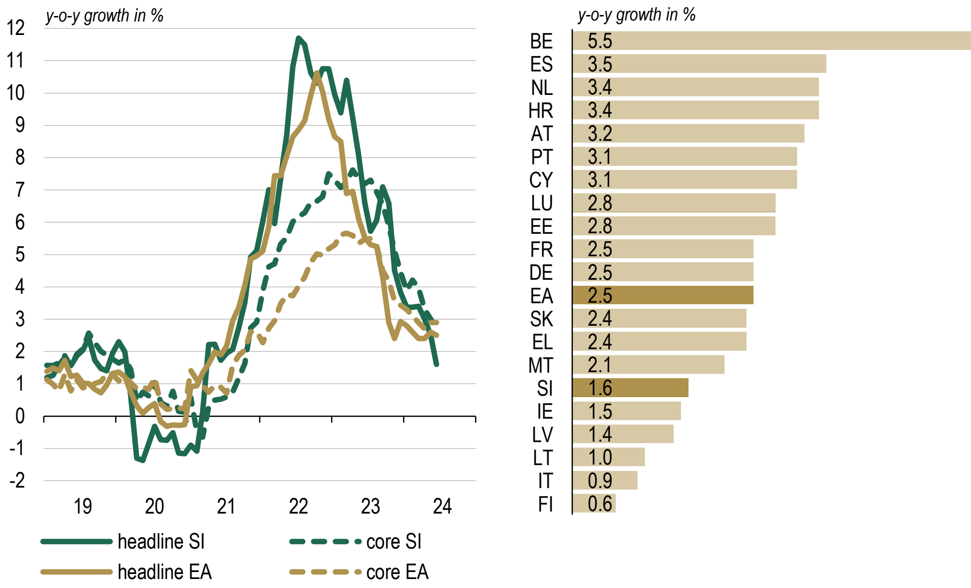
[7] As a result of a lower contribution from labour productivity, not wages.

[8] Nominal growth in the compensation per employee in the first quarter stood at 9.8% in Slovenia, and 4.9% in the euro area overall. The ratio of the seasonally adjusted vacancy rate to the surveyed unemployment rate stood at 0.7 in Slovenia in the first quarter (compared with 0.8 in the same period last year), and 0.4 in the euro area overall.

Figure 1.4: **Comparison of domestic inflation with the euro area**

Comparison with inflation in Slovenia

Inflation across euro area countries



Sources: SORS, Eurostat, Banka Slovenije calculations, latest data: June 2024

2 Monetary Policy and Financial Markets

The Eurosystem lowered all three key interest rates by 0.25 percentage points in June. The conviction strengthened on the financial markets that the cuts in key central bank interest rates will be gradual.

The Eurosystem lowered all three key interest rates by 0.25 percentage points in June. Based on an updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, it was appropriate to moderate the degree of monetary policy restriction. We therefore lowered the key interest rates on the main refinancing operations to 4.25%, on the marginal lending facility to 4.50% and on the deposit facility to 3.75%. Domestic price pressures remain strong as wage growth is elevated, and inflation is likely to stay above its target well into next year. The June Eurosystem staff projections for the euro area inflation have been revised slightly upwards for this year and next year; inflation as measured by the HICP is now forecasted to average 2.5% this year, 2.2% in 2025 and 1.9% in 2026. At the June monetary policy meeting the ECB Governing Council also confirmed that it will reduce holdings of securities under the pandemic emergency purchase programme (PEPP) by EUR 7.5 billion per month on average over the second half of the year.

The Fed left its key interest rate unchanged. Despite more encouraging prints of inflation in the US in May, which point to a gradual fall towards the target levels, the latest forecasts by members of the FOMC on the key interest rates (dot plot) show they anticipate just one cut in the key interest rate of 0.25 percentage points this year (previously three cuts had been expected). By contrast, the Swiss central bank lowered its key interest rate in June for the second time this year, by 0.25 percentage points to

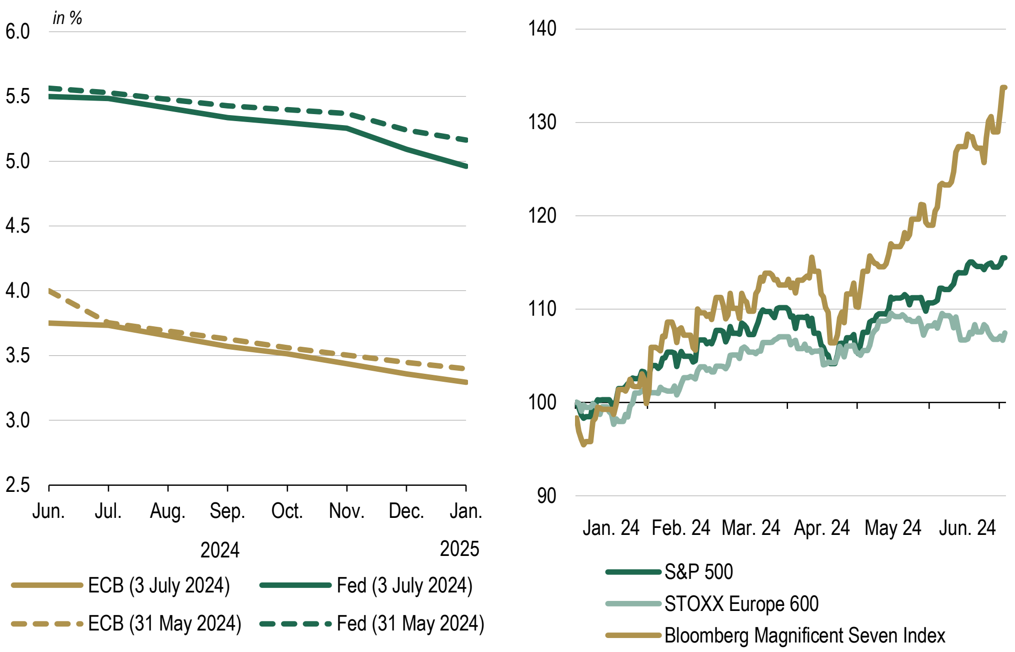
1.25%. The Bank of Canada lowered its rates for the first time in this cycle, by 0.25 percentage points to 4.75%.

The conviction strengthened on the financial markets that the cuts in key central bank interest rates will be gradual. This was largely driven by the June monetary policy meetings of the two major central banks, which both raised their inflation projections for this year and next year. The FOMC also raised its forecasts on the Fed key interest rate. The rhetoric of most members of the ECB Governing Council and of the FOMC also pointed to caution in their future decisions, which will continue to be driven by incoming data. According to the current interest rate swap rates (OIS), the markets are expecting the next cut in the ECB deposit facility rate (of 0.25 percentage points) in October of this year, and three cuts by mid-2025. The market expectations for the Fed are for interest rate cuts to begin in November, with a further cut in January of next year (see Figure 2.1, left).

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

Implied key policy rates levels

Selected equity market indices



Sources: Bloomberg, Banka Slovenije calculations; latest data right chart: 3 July 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.

After the June's fall in euro area higher-risk asset classes' values, driven by the increased political uncertainty in Europe, the financial markets stabilised. US equity indices have hit record highs.

The surprise calling of early parliament elections in France following the European elections drove a rise in political uncertainty in Europe in June. This caused a sharp rise in the spreads on French government bonds over the benchmarks, which was followed to a lesser extent by spreads on government bonds in the euro area periphery and spreads on private-sector bonds. The financial markets stabilised following the first round of the elections. The CAC 40, France's leading equity market index, had lost 4.5% since the end of May. With investors moving to safe haven assets in June, yields on government bonds fell slightly. This was also attributable to some worse-than-expected economic data in the US and the euro area. Yields on US short-term government bonds have fallen by 0.10 percentage points since the end of May, and yields on German government bonds by 0.15 percentage points. There have been similar developments in yields on long-term US and German government bonds, which have fallen by approximately 0.05 percentage points over the same period.

The mood remained positive on US equity markets, given the expectations of the first cut in the Fed's key interest rate, and the rise in earnings per share and profitability of the majority of companies in the first quarter. A number of US equity indices again hit record highs. The leading S&P 500 index has gained 4.4% since the end of May, while share prices of the Magnificent Seven US tech firms have continued to rise strongly, gaining 14.2% over this period (see Figure 2.1, right). By contrast, the mood worsened in China, on account of continuing concerns with regard to the domestic economy, the real estate sector in particular, and speculation that the US might introduce additional access restrictions to the US AI technology. The Hang Seng, Hong Kong's leading equity index, has lost 8.4% from its peak in mid-May.

Concerns over political developments in Europe drove a slight fall in the euro against most major global currencies. It has lost 0.8% against the US dollar since the end of May. There have been no major changes in the price of gold, which still trades just over USD 2,300 per ounce, close to its record high from mid-May (USD 2,400 per ounce).

The price of Brent crude rose to just over USD 88 per barrel. In addition to a decline in US crude oil reserves, the price rise was attributable to the optimism surrounding the recovery of global demand for oil in the second half of the year, as indicated by the latest reports by the international and US energy agencies and by the Opec+ grouping. Opec+ also contributed to the rise in oil prices through its assurance that it could halt its plan to increase pumping from the final quarter of this year, which caused a significant fall in oil prices in early June, or tailor it according to the market situation.

3 Domestic Economic Activity

The latest data suggests an increase in GDP in the second quarter; the conditions are favourable for consumption on the domestic market, manufacturing output is up, while construction activity slowed significantly.

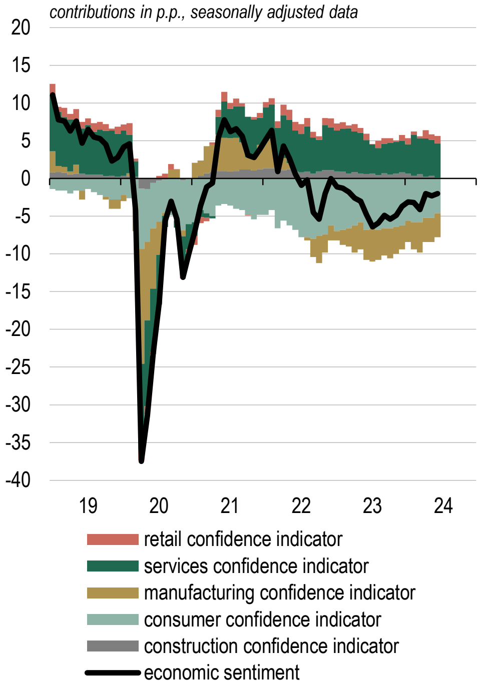
The economic sentiment is gradually improving. Its level in the second quarter was up on the first quarter and on a year earlier (see Figure 3.1, left). Manufacturing confidence remained stable in June and up in year-on-year terms, although firms slightly reduced their assessments of order books compared with May.[9] The situation in the segment of the economy primarily reliant on the domestic market remains favourable: firms in retail and other services remain relatively optimistic, with positive assessments of demand. This is in keeping with the gradual rise in consumer confidence, households assessments of the timing of major purchases having reached its highest level since April 2022

[9] The Purchasing Association of Slovenia also reported low order books in its June release of the PMI.

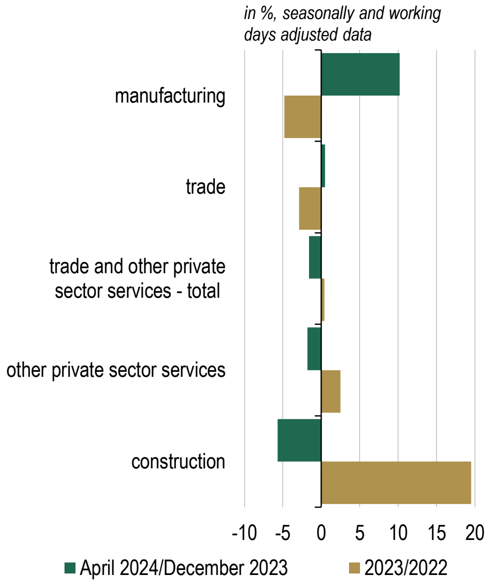
in June. It is a different story in construction, where firms have seen diminishing optimism this year in line with their lower assessments of order books and a decline in the amount of construction put in place.

Figure 3.1: **Economic sentiment and activity in Slovenia**

Economic sentiment indicators



Economic activity according to activity groups



Sources: SORS, Banka Slovenije calculations; latest data left chart: June 2024
Note: The right chart illustrates calculations on the basis of the real indices for a) manufacturing output, b) the amount of construction put in place, and c) turnover in services and retail.

The situation in manufacturing is improving. Monthly growth in output was high in April at 5.7%, leaving it up 10.2% on the level from the end of last year (see Figure 3.1, right). The uptick was favourable in developmental terms, in that it was based on strengthening output in high-tech sectors. It was driven in part by a recovery in foreign demand, and in part by a build-up of inventories of consumer goods. Following last year's decline, aggregate output over the first four months of the year was also up in year-on-year terms, by 0.2%. Energy-intensive sectors continue to see below-average performance, although they strongly mitigated their decline in output.[10]

Private consumption on the domestic market remains solid, and is still being supported by the buoyant labour market; gross household disposable income in the first quarter was up 3.8% year-on-year in real terms.[11] The number of new motor vehicle registrations in the first four months of the year was up 10.1% on the same period last year, while the number of overnight stays by foreign visitors is continuing to rise, and the aggregate real value of card payments and ATM withdrawals is continuing to increase in year-on-year terms. In the first half of the year this was up 6.7% on the same period last year. Turnover in private-sector services over the first four months of the year was also up in year-on-year terms, by a solid 2.8%, although this year's developments are less favourable: the monthly decline of 1.8% in April left it down 1.6% on December of

[10] Energy-intensive sectors of manufacturing encompass the manufacturing of paper and paper products, the manufacturing of chemicals and chemical products, the manufacturing of non-metallic mineral products and the manufacturing of basic metals. The changes to their aggregate output were calculated using the share of total value-added that each sector accounts for. Output in energy-intensive manufacturing sectors declined by 13.7% last year, but by just 1.3% over the first four months of this year, with considerable variation between sectors.

[11] The figures for gross household disposable income, card payments, ATM withdrawals and invoices registered with tax authorities are adjusted using the HICP deflator.

last year (see Figure 3.1, right). Meanwhile the real value of invoices registered with tax authorities in the first half of the year was down 1.2% in year-on-year terms.

Construction activity is no longer contributing to economic growth. It declined again in monthly terms in April, leaving it down 5.7% on the end of last year (see Figure 3.1, right). The slowdown in activity was evident in all construction segments, although residential construction was notable for the 13.1% decline compared with December. The year-on-year decline in aggregate construction activity over the first four months of the year was less pronounced at 3.2%, and the level remained high in long-term comparisons. The slowdown in activity has coincided with a decline in construction investment by the government, and a fall in the number of building permits issued and the corresponding floorspace.[12]

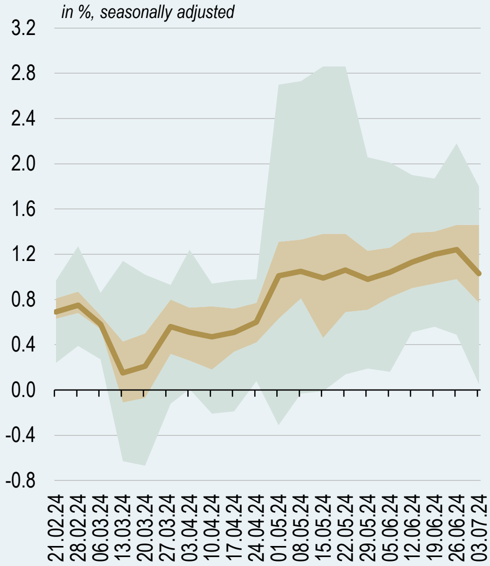
Box 3.1: **Nowcasts for GDP growth in the second quarter**

The average nowcast indicates a favourable quarterly GDP growth of 1.0% in the second quarter.

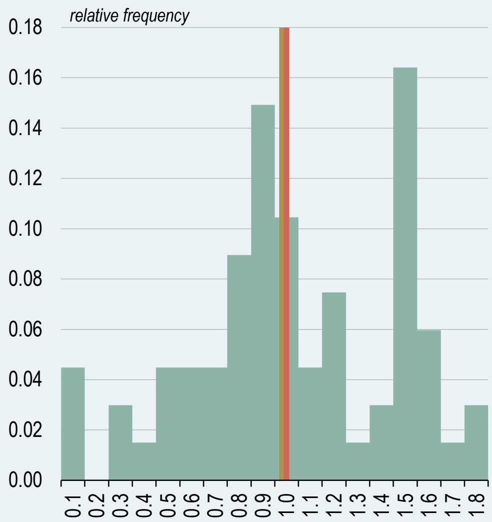
The latest nowcast for quarterly GDP growth for the second quarter stands at 1.0% (see Figure 3.1.1, left). This estimate primarily reflects positive developments in monthly survey indicators and a significant growth in industrial production observed in April. This stood at 6.0%, and was widespread across all major industry segments.

Figure 3.1.1: **Nowcasts for GDP growth**

Model estimates of quarterly GDP growth – 2024 Q2



Histogram of quarterly GDP growth estimates 2024 Q2



Source: Banka Slovenije calculations

Note: The left chart illustrates the nowcasts for quarterly GDP growth. The light gold area represents the interval between the 25th and 75th percentiles, while the green area represents the interval between the lowest and highest nowcasts. The dark gold 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 nowcast. Nowcast date: 3 July 2024.

[12] According to the consolidated public finance data, construction investment by the government, which encompasses the purchase of buildings and premises, new build, adaptations and reconstruction, and maintenance and renovation, over the first four months of the year was down 13.4% in year-on-year terms. The number of building permits issued over the first five months of the year was down 14.6% in year-on-year terms, while the corresponding floorspace was down 21.2%. According to media reports, a strike at administrative units also had an impact on the issuance of building permits.

Economic sentiment saw a notable improvement of 2.1 percentage points in April, driven by all sectors of the economy except construction. Although sentiment dipped slightly in May, it rebounded to April levels by June. April also showed a more encouraging 0.4% increase in monthly sales revenue in services, largely propelled by growth in information and communication, and transport and storage sectors. Conversely, the quarterly growth estimate was tempered by declines in April's amount of construction put in place (-2.7%) and in turnover for retail trade and services (-1.8%), with the latter decline primarily driven by services. May continued to show a minor decrease in retail trade sales revenue (-0.5%). The current diverse dataset of high-frequency indicators is represented in the bar chart displaying the distribution of nowcasts (see Figure 3.1.1, right). As per the 25th to 75th percentile of the distribution, the range currently spans from 0.8% to 1.5%.

Box 3.2: **Financial position of non-financial corporations and households**

Slovenia's aggregate net creditor position reached a new record high in absolute terms in the first quarter of 2024, primarily on account of non-financial corporations' deleveraging.

The saving-investment gap of the Slovenian economy as measured by the 12-monthly flow of transactions in financial accounts amounted to EUR 3.6 billion in the first quarter of this year, the largest figure to date (see Figure 3.2.1, left). As a ratio to GDP it stood at 5.6%, down only on its peak of just over 6% in 2021. Non-financial corporations' saving expressed as financial assets exceeded their investments or financial liabilities by EUR 1.9 billion, primarily as a result of a year-on-year decline of EUR 4.1 billion in the flow of liabilities. The largest factor was a decline in the flow of loans raised at banks. This was negative in the amount of EUR 134 million, down EUR 1.8 billion on a year earlier, which was attributable in part to the tighter financing conditions caused by more restrictive monetary policy. The decline in loans was evident in the majority of economic sectors, most notably construction. In addition to bank loans, non-financial corporations also significantly reduced their inflow of trade credits over the last year, which was down EUR 1.6 billion in year-on-year terms.

Households, the government sector and financial corporations maintained a similar net financial position in the first quarter to their average position over the last two years (see Figure 3.2.1, left). The flow of excess household saving amounted to EUR 2.5 billion in March, while the composition of household financial assets had changed significantly compared with a year earlier. The inflow into currency and deposits was down EUR 840 million, while there were increases in respect of equities (EUR 740 million) and debt securities (EUR 390 million), the last primarily as a result of the issuance of the people's bond in February of this year. The net debtor position of the government sector has diminished slightly over the last two quarters (to EUR 1.3 billion), primarily as a result of a large flow in currency and deposits on the asset side.

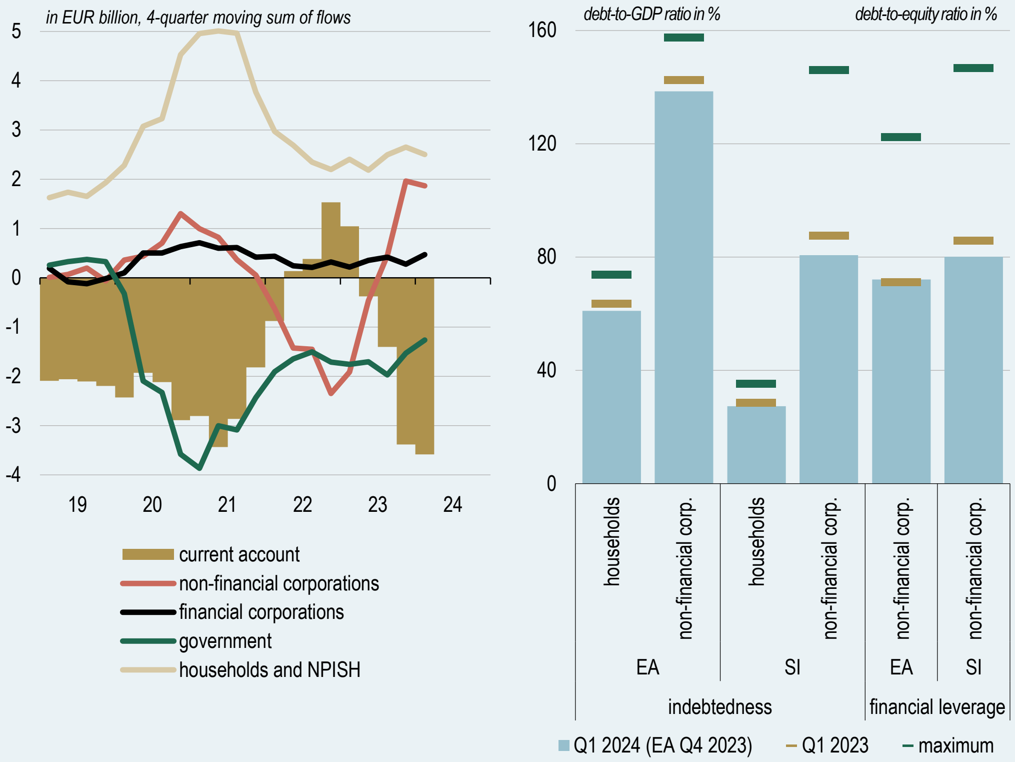
The indebtedness of Slovenian non-financial corporations[13] and households declined slightly further (see Figure 3.2.1, right). According to the data for the first quarter of this

[13] This box presents analysis based on financial accounts figures, for which reason non-financial corporations' indebtedness and leverage differ from those illustrated in Box 3.3., which is based on the AJPES data (the differences are attributable to the differing data capture of the methodologies).

Figure 3.2.1: **Saving-investment gap and indebtedness in Slovenia and the euro area**

Saving-investment gap

Indebtedness and financial leverage in Slovenia and the euro area



Sources: Banka Slovenije, ECB, Eurostat, Banka Slovenije calculations; latest data left chart: Q1 2024
Note: In the right chart the peaks are since 2004 for Slovenia, and since 2000 for the euro area. Debt is the sum of currency and deposits, debt securities, loans, insurance and pension schemes, and other accounts payable.

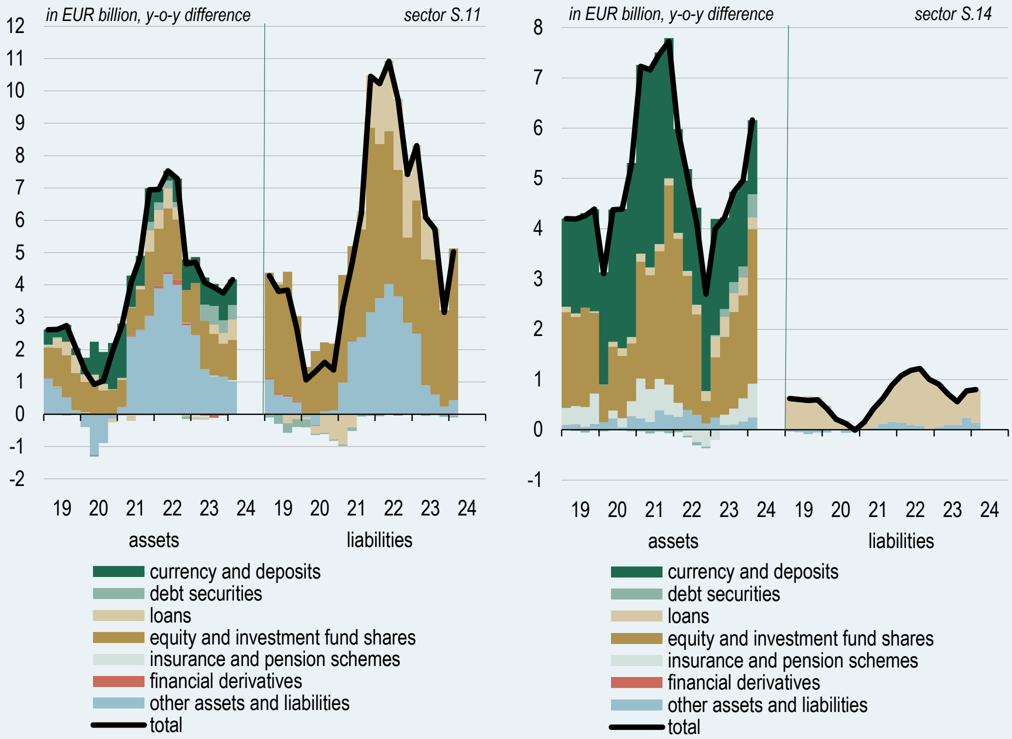
year, Slovenian non-financial corporations held debt equivalent to 80.7% of GDP, significantly below the euro average of 138.5%. The leverage of Slovenian non-financial corporations as measured by the debt-to-equity ratio remains above the euro area average at 80.1% versus 72.1%, although it was down 5 percentage points on a year earlier and down significantly on its peak in 2010 (146.7%). The household debt-to-GDP ratio fell by 1.3 percentage points over the last year and, at 27.4% is well below the euro area average (61.0%).

Corporate lending is declining.

Non-financial corporations' financial assets in March were up EUR 4.2 billion on a year earlier, which is comparable to the year-on-year increases seen last year, but down approximately a half on those seen in 2022 (see Figure 3.2.2, left). The main slowdown compared with 2022 was in other accounts receivable, where trade credits are prevalent, while firms slightly increased their investments in debt securities. The year-on-year increase in non-financial corporations' financial liabilities picked up pace slightly in the early part of this year, driven largely by positive revaluations of existing liabilities in the form of equity. Conversely there was a significant decline in the increase in borrowings by non-financial corporations, via trade credits and bank loans alike, the latter having recorded negative year-on-year increases since the end of last year.

The year-on-year increase in household assets has been strengthening since the end of 2022, and is driven primarily by an increase in holdings of shares (see Figure 3.2.2, right). These were up EUR 3.1 billion in year-on-year terms in March, which was driven

Figure 3.2.2: **Financial assets and liabilities of non-financial corporations and households**



Source: Banka Slovenije; latest data: Q1 2024

by new investments (EUR 850 million) but even more so by revaluations of existing holdings (EUR 2.2 billion) as a result of the positive trends on the financial markets. The increase in holdings of insurance and pension schemes and of debt securities strengthened relative to the previous year, while the increase in currency and deposits slowed, which can be attributed to the relatively low interest rates on deposits compared with the returns on alternative investments. On the liability side households saw a slightly strengthened dynamic in borrowings via loans over the last half a year, which was comparable to the pre-pandemic level.

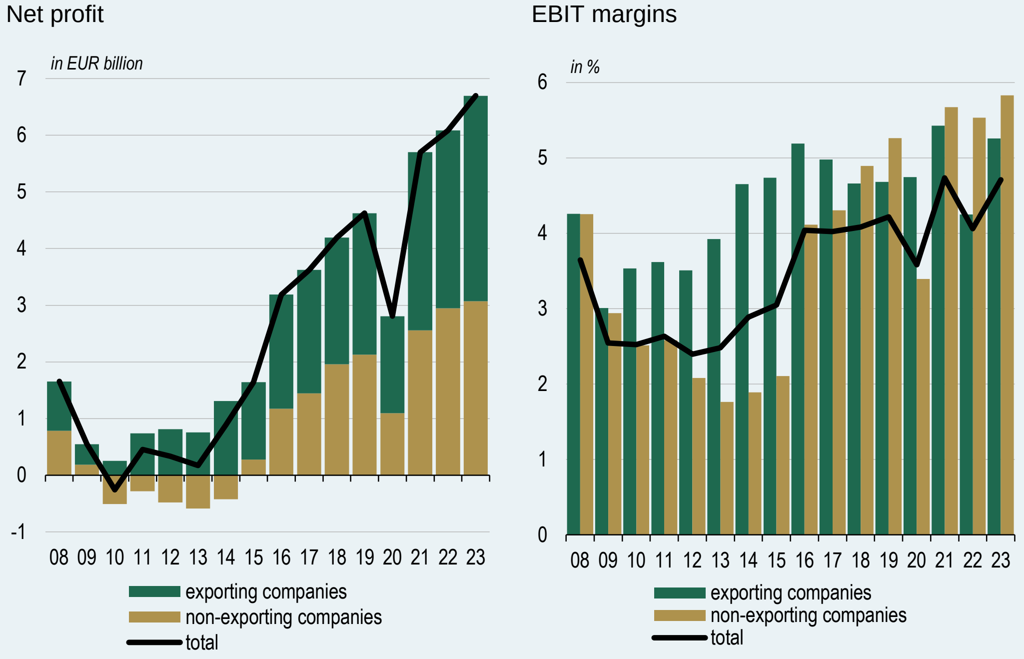
Box 3.3: **Corporate performance in 2023**

Corporate performance improved in 2023.[14]

Corporations' net profit, which with the exception of the pandemic year of 2020 has been rising for the last decade, reached EUR 6.7 billion last year, up 10.1% on the previous year (see Figure 3.3.1, left). EBIT increased by 16.1%, while growth in net sales revenue was significantly lower than in the two previous years at 0.1%, as a result of the decline in revenues on the foreign market. Amid the slowdown in the global economy, revenues were down by almost a tenth on markets outside the EU and by 5.8% on the EU market, while growth in sales revenues on the domestic market slowed to a still-solid 5.9%. Given the high growth in prices, our assessment is that the pronounced slowdown in growth in net sales revenue was attributable to a decline in sales volumes.

[14] The analysis covers Slovenian corporations (all those belonging to the institutional sectors of non-financial corporations, general government, and financial corporations). The analysis was conducted on the basis of unaudited figures, and excludes all firms that fail to report any values in the year in question (all items in the balance sheet are zero), while indicators are expressed in nominal terms.

Figure 3.3.1: **Profit and margins**



Sources: AJPES, Banka Slovenije calculations
Note: In the left chart overall net profit is the difference between net profit and net loss in the accounting period. The EBIT margin in the right chart is defined as the ratio of EBIT to net sales revenue.

The EBIT margin defined as the ratio of EBIT to net sales revenues meanwhile increased by 0.8 percentage points to 5.5% amid a decline in operating expenses (see Figure 3.3.1, right).[15]

Corporations recorded an increase of 2.3% in employment last year (on the basis of hours worked), which thereby exceeded its level from 2019 by 5.5%, thanks primarily to hiring at export-oriented firms. Because the growth in gross value-added was even higher at 12.1%, there was a sharp increase of 9.5% in labour productivity (see Figures 3.3.2 and 3.3.3, left).

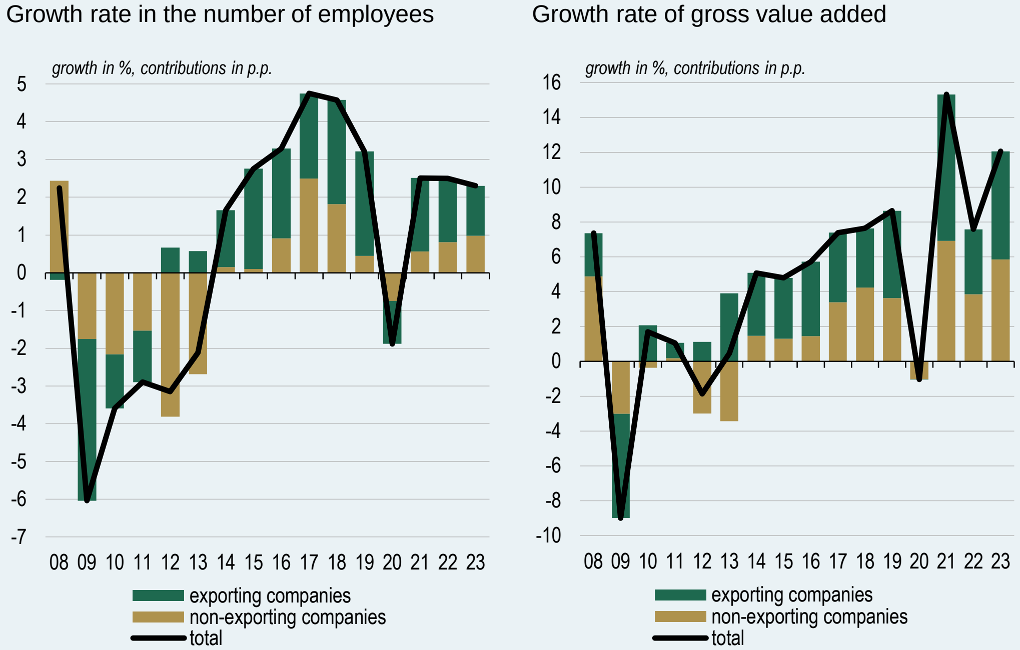
Corporations' indebtedness[16]again declined slightly last year, and at 50.2% was 15 percentage points below its level at the outbreak of the economic and financial crisis in 2008 (see Figure 3.3.3, right), corporations having seen a larger increase in equity last year (7.9%) than in debt (4.1%).[17] This also reduced their leverage as measured by the ratio of total debt to equity to 100.7%.

An improvement in performance was seen by firms focusing on the domestic market and by export-oriented firms.[18]

Export-oriented firms generated EUR 3.6 billion of net profit last year, up 15.6% on the previous year, and saw an increase of 17.6% in EBIT, their operating expenses having declined by more than their revenues. Their EBIT margin thus rose to 5.3%. Labour productivity at these firms strengthened by 8.9%, amid rises of 2.8% in employment, and 11.9% in gross value-added. Their indebtedness declined, as did their leverage to 93%, following increases of 1.8% in total debt and 8.9% in equity.

[15] Costs of goods, materials and services declined, while labour costs again increased by more than a tenth.
[16] Corporate indebtedness is measured as the ratio of total debt to total liabilities.
[17] Although growth in total corporate debt slowed slightly last year, it nevertheless surpassed its record high from 2008. Operating debt and financial debt both increased last year, with bank debt remaining practically unchanged.
[18] These are firms who generate more than 85% of their total revenues on the domestic market.

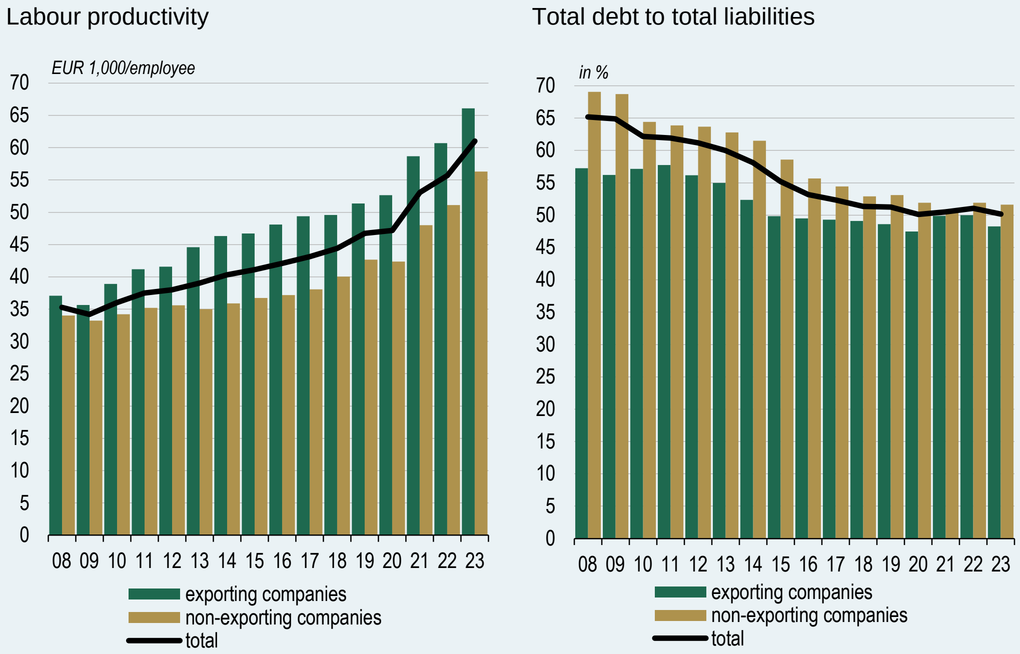
Figure 3.3.2: **Employment and gross value-added**



Sources: AJPES, Banka Slovenije calculations
Note: The left chart takes account of the average number of employees based on working hours in the accounting period. Gross value-added in the right chart is calculated as the difference between gross operating profit and the costs of goods, materials and services and other operating expenses.

Firms focusing on the domestic market increased their net profit by 4.2% last year, to stand at EUR 3.1 billion. Meanwhile EBIT increased by 14.4%, and the EBIT margin reached 5.8%. Amid more modest growth in employment (1.9%) and high growth in gross value-added (12.2%), labour productivity at these firms increased by more than a tenth. There were further increases in total debt (5.9%) and equity (7.1%), while indebtedness and leverage remained similar to the figures in the previous year at 51.6% and 107% respectively.

Figure 3.3.3: **Productivity and indebtedness**



Sources: AJPES, Banka Slovenije calculations
Note: Labour productivity in the left chart is calculated as the ratio of gross value-added to the number of employees (average number of employees based on working hours in the accounting period).

4 Labour Market

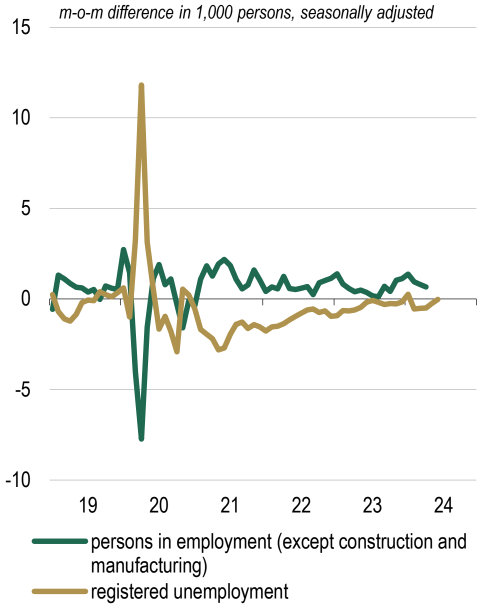
The persons in employment and the number of registered unemployed point to the continuing robustness of the labour market.

The persons in employment hit a new record high of 945,945 in April. The rise was attributable in part to changes in the statistical methodology for the workforce in employment,[19] and in part to the continuing demand for labour. This is evidenced in the rise in the persons in employment in sectors that were not subject to the change in methodology (see Figure 4.1, left). According to the survey data, hiring will continue to increase over the coming months, particularly in services, where the expectations are higher than a year ago. By contrast, employment expectations in manufacturing and construction are down on the same period last year, although they remain positive.

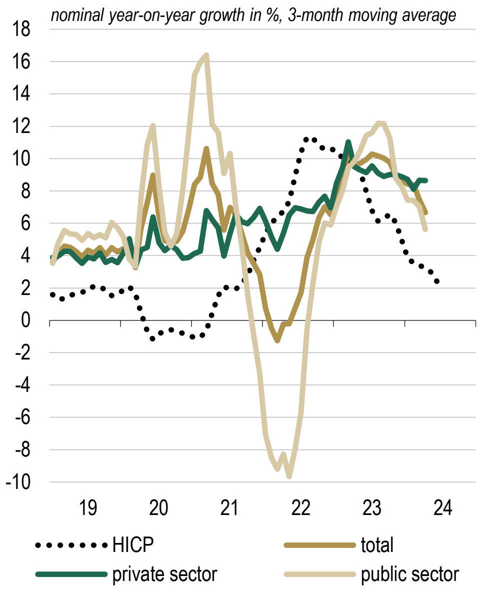
Unemployment is continuing to fall in line with the rise in employment. Registered unemployment stood at 43,369 at the end of June, the lowest figure to date. The surveyed unemployment rate remained unchanged in the first quarter at 3.4%, down 0.4 percentage points in year-on-year terms. The vacancy rate in the first quarter was up slightly at 2.5%, albeit mainly as a result of seasonal movements. Based on the trend reflected by the one-year moving averages, the job vacancy rate has been declining over the past year and is approaching its pre-pandemic level. Amid the low unemployment rate and the still relatively high vacancy rate, the labour market remains very tight. Given the unfavourable demographic outlook and the solid macroeconomic projections, this will remain a feature of the Slovenian labour market (see Box 4.1).

Figure 4.1: **Selected labour market indicators**

Persons in employment and unemployed



Average gross wage per employee



Sources: SORS, Banka Slovenije calculations; latest data left chart: registered unemployment June 2024, persons in employment April 2024; right chart: April 2024
Note: Inflation is measured by the HICP.

[19] For more, see Section 4.1 of the April 2024 issue of the Review of macroeconomic developments.

Wage growth remains elevated.

Growth in the average gross wage per employee remains relatively high, but there is a discernible slowing trend. The year-on-year rate of growth stood 6.5% in April, 3.5 percentage points lower than at the same point last year (see Figure 4.1, right).[20] The growth was mainly driven by wages in the private sector, where the year-on-year rate reached 8.9%, significantly above its long-term average (4.8%). The largest increases relative to April of last year were recorded by wages in construction (15.1%), manufacturing (8.9%) and private-sector services (7.4%). Wage growth was significantly slower in the public sector at 2.2%, largely on account of a base effects. In April last year, there was a 4% wage increase in the public sector, which was agreed upon in October 2022. With inflation slowing, real wage growth remains high, particularly in the private sector (at 6.8% in April).

Box 4.1: **The ageing population and its impact on labour market tightness**

The unfavourable demographic picture will have a growing impact on the Slovenian labour market.

Demographic trends are one of the key components of potential economic growth, as they directly affect the available workforce. Like numerous other European countries, Slovenia is facing the challenges of an ageing population. This box examines the current demographic picture in Slovenia, which will be a significant factor in the labour market and economic growth over the coming years.

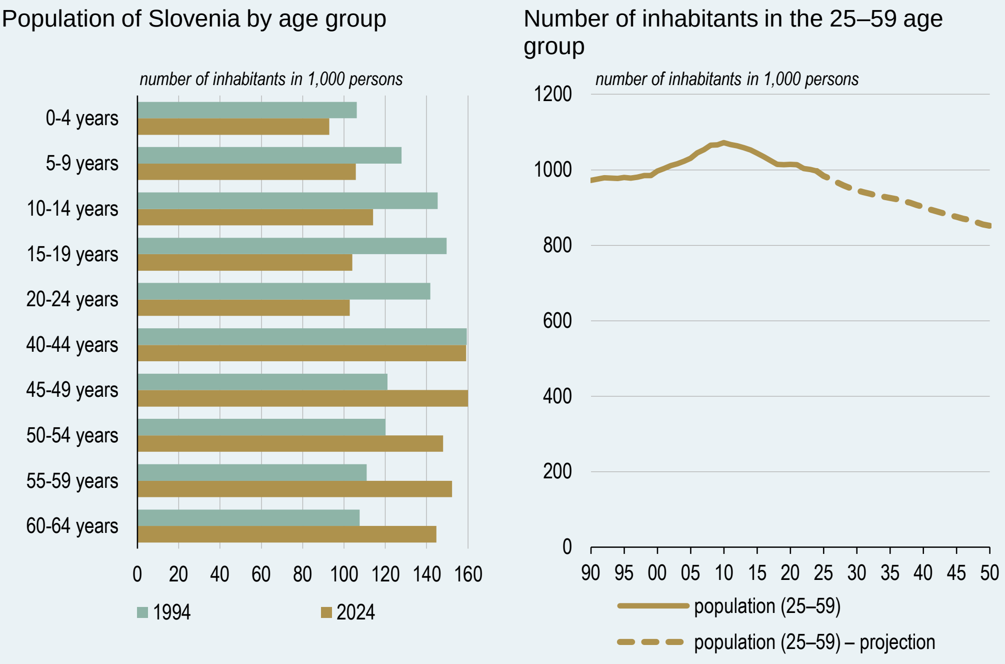
One of the key challenges is the imbalance between the number of young people entering the labour market, and the number of older workers retiring (see Figure 4.1.1, left). The imbalance between these two groups suggests that in the future Slovenia will increasingly face a shortage of people of the most active working age, i.e. aged 25 to 59.

A comparison of the current demographic picture with that from 1994 shows that 30 years ago the young generation entering the labour market in Slovenia represented a relatively large share of the total population (see Figure 4.1.1, left). That time also saw the retirement mainly of the generation born during the Second World War, which was smaller in size. Consequently the number of people of the most active working age rose consistently from the turn of the millennium until 2010. During this period the baby boom generation also began to retire,[21] while the young generations entering the labour market began to shrink substantially. The number of people of the most active working age thus began to fall, and given the demographic outlook this trend is set to continue in the future. Here it should be noted that the EUROPOP scenario drawn up by Eurostat assumes that six thousand foreign nationals will immigrate to Slovenia on average each year (see Figure 4.1.1, right). In the absence of immigration, the decline in the working age population would be even more pronounced.

[20] April brought a change in the data source for wage statistics for employees of legal persons. For more information, see Earnings of persons in paid employment by legal persons, April 2024.

[21] Born after the Second World War.

Figure 4.1.1: **Indicators of the ageing population**



Sources: SORS, EUROPOP23 projections

The decline will also have a significant impact on the Slovenian labour market, which will see an increasingly empty pool of labour under the aforementioned trends, with firms facing even greater labour shortages.

To empirically assess the impact of negative demographic trends on labour market tightness, we analyse data at the municipal level. The use of such granular data allows for a larger statistical sample, which ensures greater robustness and statistical accuracy of the estimates. At the same time the data at municipality level allows for the use of instrumental variables based on predefined demographic structures typical of each municipality. The variable of the change in the working age population does not make use of the actual change in the number of inhabitants, but rather the change that would be expected with regard to the demographic picture of the municipalities in the period before the beginning of the statistical sample. This is used to help determine the causal effects by means of the exogenous differences in the ageing of the population between municipalities, on which the current economic situation has no influence. The model is thus used to estimate the impact of the fall in the working age population on the unemployment rate, which is used as an indicator of labour market tightness. The impact of demographic changes on labour market tightness is modelled by means of the following equation:

$$\Delta unemployment\ rate_i = \beta_1 + \beta_2 \Delta working\ age\ population_i + \epsilon_t \tag{1}$$

where $\Delta unemployment\ rate_i$ measures the difference in the unemployment rate between 2013 and 2023. Registered unemployment in Slovenia peaked in the observed sample in 2013, and hit a record low in 2023.

$\Delta working\ age\ population_i$ measures the decline in the working age population aged 25 to 59 over the 2013 to 2023 period. This does not make use of the actual change in the population, but the change that would be expected with regard to the demographic picture of the municipality in 2012.

The results of the empirical analysis show that during the period of falling unemployment, the adverse demographic picture had a statistically significant impact on the unemployment rate. For each percentage point of the decline in the working age population, there was a reduction in the unemployment rate of 0.27 percentage points (see

Table 4.1.1). This result highlights the importance of demographic trends on labour market tightness in the coming years as well.

Table 4.1.1: **Results of empirical analysis**

Variable	Coefficient	Standard error
Constant	-4.31***	0.45
Working age population	0.27***	0.04

Sources: SORS, Banka Slovenije calculations
Note: The table illustrates the estimated impact of the constant and the exogenous variable on the dependent variable as defined in equation (1). The dependent variable is the change in the unemployment rate between 2013 and 2023, while the exogenous variable is the expected change in the working age population between 2013 and 2023. There are 212 variables, i.e. the number of municipalities in Slovenia. Confidence level: *** (p<0.01).

Tightness will be reflected in hiring difficulties for firms, which could curtail their activity, and also in a smaller contribution to economic growth from employment and labour. In the wake of these developments, in the future productivity growth will play a key role from the perspective of maintaining the potential growth of the Slovenian economy and mitigating pressures on its competitiveness.

5 Current Account

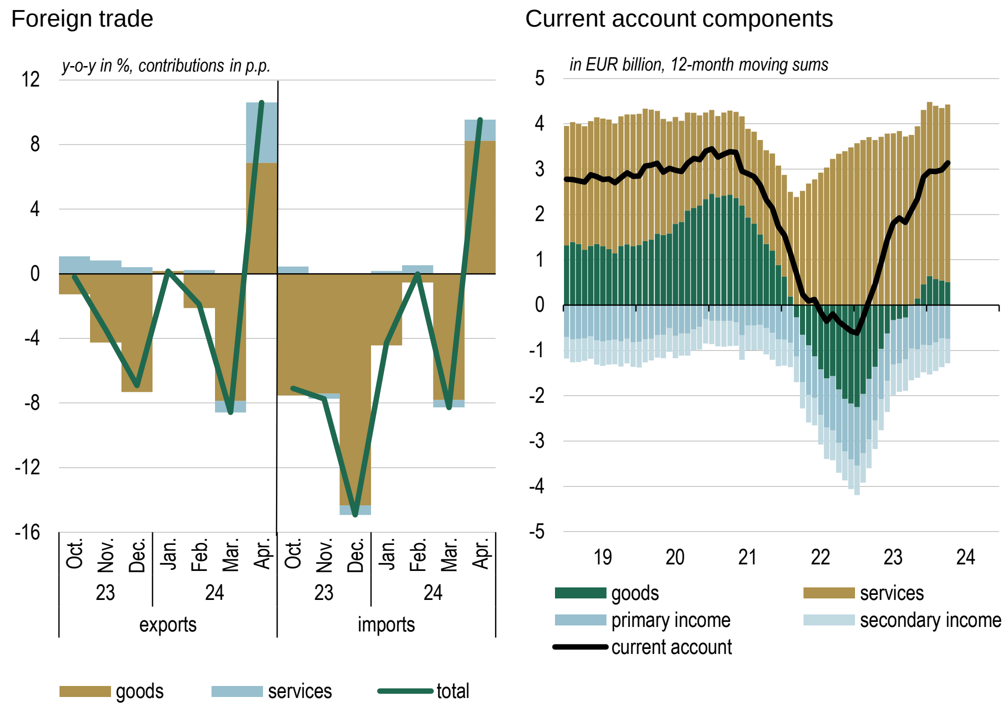
Amid slightly stronger foreign demand, the situation in merchandise and services trade is improving.

The improving situation in the international environment and the rise in consumer confidence are being reflected in international trade. Nominal exports of merchandise and services in April were up 10.6% in year-on-year terms, while imports were up 9.5% which is the largest increase since the beginning of last year (see Figure 5.1, left). Nominal merchandise exports increased by 8.6% over the last year, mostly as a result of 24.0% increase in exports of road vehicles and 20.1% increase in exports of medical and pharmaceutical products.[22] The increase in nominal merchandise imports was even larger, at 9.8%. Almost all product categories experienced growth, with the highest rate of 22.6% being recorded by imports of beverages and tobacco. Imports of machinery and equipment, which accounted for almost a third of total merchandise imports in the last year, also recorded high growth of 10.0%.

The improvement in the situation in Slovenia's most important trading partners is also being reflected in an increase in nominal services exports, which after recording a year-on-year decline of 3.7% in the first quarter were up 18.2% in year-on-year terms in April. The growth was supported by all services except for construction services, whose exports were down 7.4% in year-on-year terms. With domestic demand remaining solid, nominal services imports were also up in year-on-year terms in April, by 8.1%.

[22] Excludes exports to Switzerland.

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



Source: Banka Slovenije; latest data: April 2024

The current account surplus has been very large since the end of last year, and amounted to EUR 3.1 billion over the 12 months to April (see Figure 5.1, right). The main factor was again the services trade surplus, which has been extremely large since March of last year, and hit a new record high of more than EUR 3.9 billion in April. The widening of the current account surplus was also driven by the merchandise trade surplus, which has consistently surpassed EUR 500 million this year and in January recorded its highest figure of the last two years, and by the gradual narrowing of the deficit in primary income.

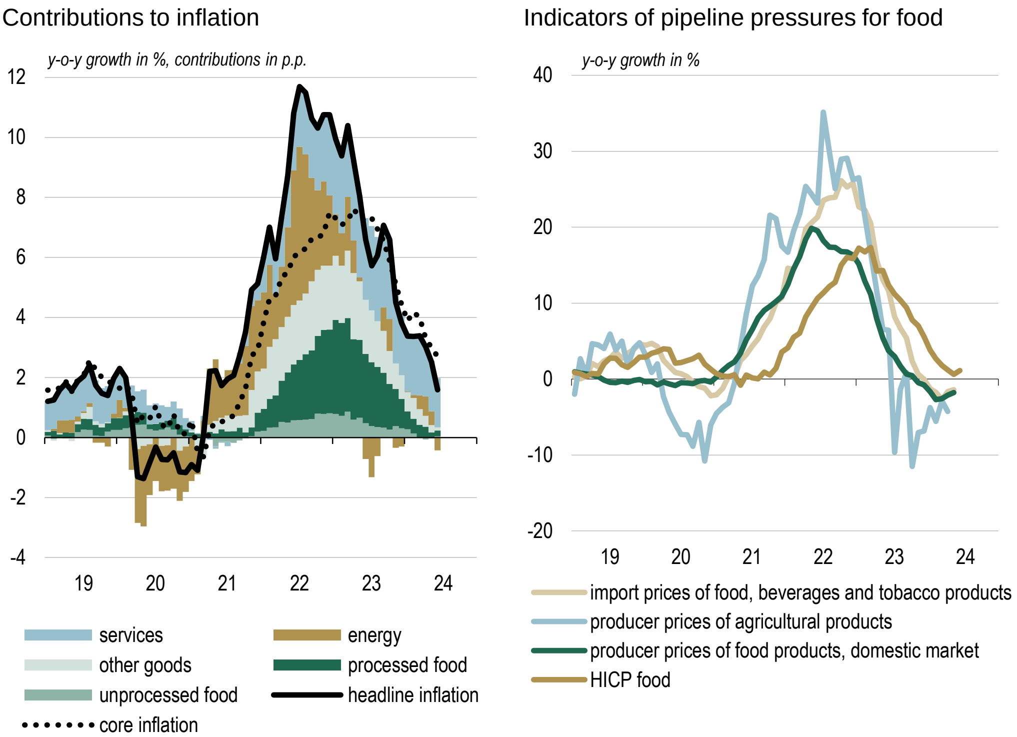
6 Inflation

June's slowdown in inflation was primarily attributable to a fall in energy prices.

Year-on-year inflation as measured by the HICP fell to 1.6% in June, down from 2.5% in May (see Figure 6.1, left). Headline inflation thus reached its lowest rate since June 2021, when it stood at 1.7%. The slowdown was almost entirely attributable to developments in energy prices. They were down 3.4% in year-on-year terms in June, having been up 3.8% in May. Alongside the monthly falls in wholesale energy prices, the change was primarily attributable to a base effect related to the expiry of the reduced tax rate for certain energy items in June of last year.

By contrast, food inflation stood at 1.1% in June, having risen again slightly compared with May, when it stood at 0.6%. The change was approximately equally attributable to higher growth in prices of unprocessed food and processed food. Amid the continued easing of pipeline price pressures in agriculture and food industry (see Figure 6.1, right), the higher growth in prices of unprocessed food (0.9% in June, up from -0.8% in May) was mostly attributable to a base effect, while the higher growth in prices of processed food (1.2% in June, up from 1.0% in May) was mainly reflecting monthly price rises, in particular higher excise duties on tobacco products.[23] Despite June's rise, food inflation has been slowing down since the beginning of last year, and the slowdown is broadly based. More than 75% of the unprocessed food items and almost 55% of the processed food items were up less than 2% in year-on-year terms in May. The situation was reversed in March of last year, when food inflation was at its peak: almost all items of both unprocessed and processed food were recording year-on-year rises of at least 10% (see Figure 6.2).

Figure 6.1:**Domestic price developments and factors in food prices**



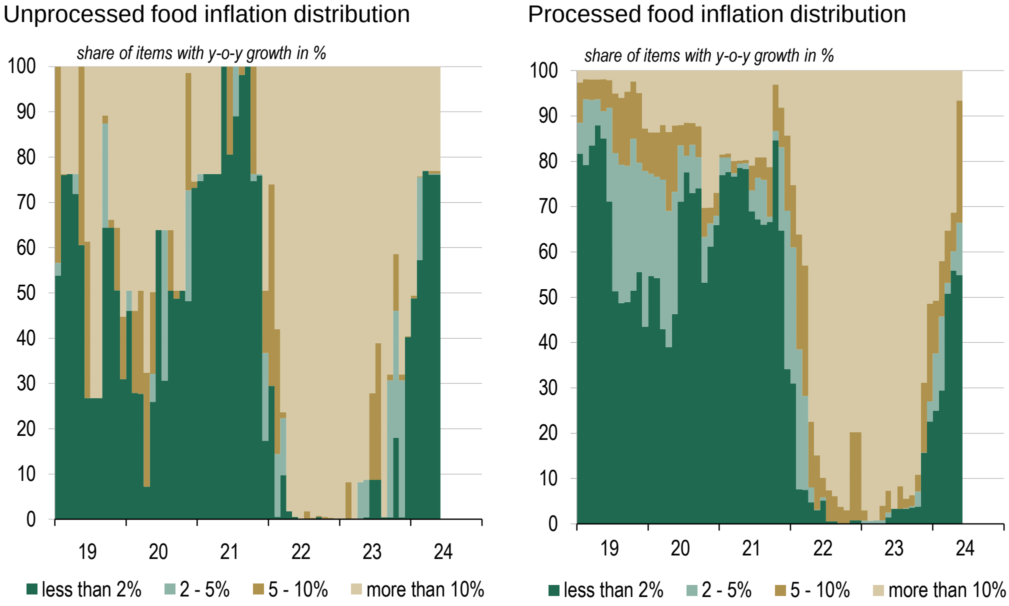
Sources: SORS, Eurostat, Banka Slovenije calculations; latest data left chart: June 2024; right chart: May 2024, or April 2024 for prices of agricultural products

Core inflation, that is inflation excluding energy and food, stood at 2.7% in June, down 0.3 percentage points on May. It nevertheless continues to outpace headline inflation, largely on account of stubborn services inflation. It stood at 4.7% in June (down from 4.8% in May), with hotels and restaurants contributing 1.7 percentage points.[24] The persistently elevated services inflation is attributable to domestic factors, in particular the relatively high wage growth. By contrast, growth in prices of other goods is continuing to slow significantly. The year-on-year rate stood at 0.3% in June (down from 0.8% in May), and accounted for 0.1 percentage points of headline inflation. Hence, it continues its downward facing trend, which began in April of last year, when the rate stood at 7.2%. Growth in prices of other goods has declined every month since then, with the exception of February of this year.

[23] This accounted for 0.3 percentage points of the year-on-year rise in prices of processed food according to our estimates.

[24] Hotel and restaurants prices accounted for 37% of services inflation, but represent just 28% of the services aggregate. For comparison, hotel and restaurant prices accounted for 0.6 percentage points or 38% of headline inflation, but represent only 10% of the total consumer basket.

Figure 6.2:**Easing of food price inflation**



Sources: SORS, Banka Slovenije calculations; latest data: May 2024

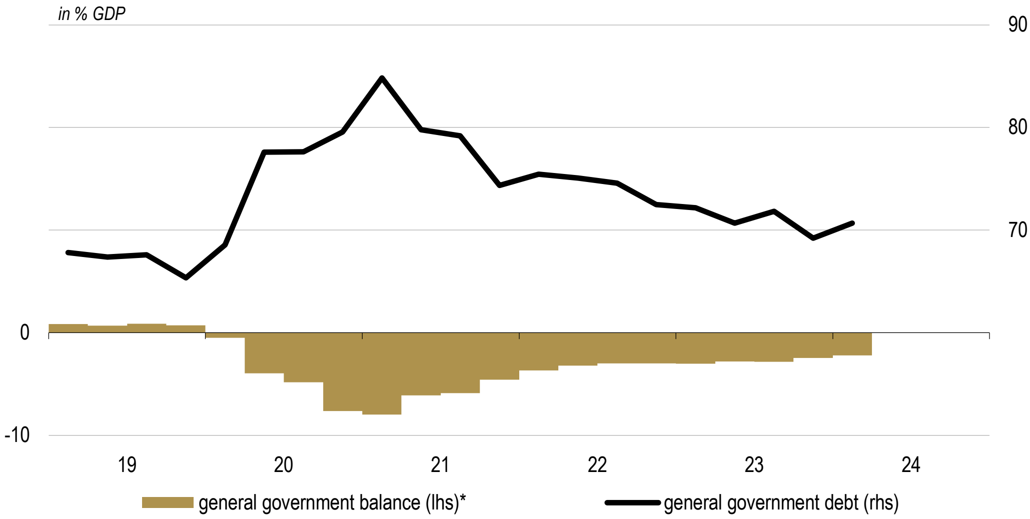
7 Fiscal Position

The general government deficit has been narrowing this year, largely on account of the labour market situation and the reductions in extraordinary measures. The main factor over the following years will be the reforms that are currently under preparation.

According to consolidated public finance figures, this year's general government deficit over the first five months of the year narrowed in year-on-year terms to EUR 78 million, and over the last two months mainly originated in the health fund. Growth in revenues outpaced growth in expenditure, at 11.3% versus 10.2%. The favourable developments in revenues were primarily attributable to a labour market situation that is supportive from the public finances point of view, the conversion of supplemental health insurance into a compulsory contribution, and the large corporate income tax settlements for 2023. The relatively high growth in expenditure was mostly driven by rising labour costs and increases in pension payments. According to the Fiscal Council figures, there was a decline in expenditure in connection with extraordinary measures for mitigating the pandemic and the rise in energy prices, but an increase in measures for post-flood reconstruction, which were absent in the first eight months of last year. The overall effect of all three classes of extraordinary measure was to narrow the deficit over the first five months of this year.

According to accrual figures, the general government deficit in the first quarter narrowed to 2.0% of GDP, compared with last year's annual deficit of 2.5% of GDP (see Figure 7.1). In line with the above findings, the drivers are the same as those described for the current cashflow figures. General government revenues were up EUR 725 million in year-on-year terms, mostly as a result of personal income tax and social security contributions, both driven by the buoyant labour market, while the aforementioned legislative changes in the area of health insurance were another factor in the rise in social security contributions (see Figure 7.2, left). General government expenditure was up EUR 586 million, primarily as a result of increases in labour costs and social security benefits, which include pensions. The decline in subsidies reflects the reduced expenditure on extraordinary measures (see Figure 7.2, right).

Figure 7.1: **General government balance and debt according to ESA methodology**

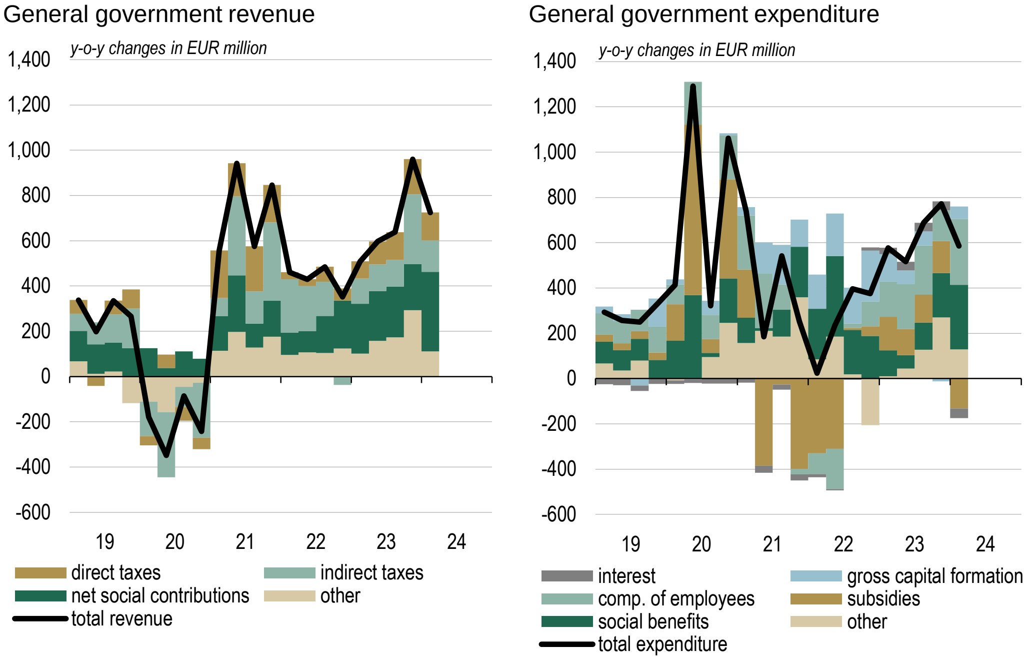


Sources: SORS, Banka Slovenije calculations; latest data: Q1 2024
Note: * General government position is a four-quarter moving sum.

The general government debt amounted to EUR 45.4 billion or 70.7% of GDP at the end of the first quarter of this year, up EUR 1.7 billion in nominal terms on the end of last year, when it was equivalent to 69.2% of GDP. The increase in the first quarter was primarily attributable to the issuance of long-term government bonds, and in addition to the refinancing of maturing debt was also reflected in the pre-financing of the deficit and debt maturing in the current year (the majority of the debt falls due in September).

The risks to the public finances remain high, and mostly relate to wage negotiations, the various reforms under preparation (taxes, pensions, healthcare), and the post-flood reconstruction. In addition, under the new fiscal rules the government must draw up a fiscal plan by the autumn for reducing debt over the years ahead, which will limit growth in expenditure and will pose an additional challenge to fiscal policymaking.

Figure 7.2: **General government revenue and expenditure according to ESA methodology**



Sources: SORS, Banka Slovenije calculations; latest data: Q1 2024

8 Statistical Appendix

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

	2022	2023	12 m. 'till Mar.24	3 m. 'till Mar.23	3 m. 'till Mar.24	2024 Jan.	2024 Feb.	2024 Mar.	2024 Apr.	2024 May.
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	0.6	-3.8	-4.3	-1.4	-3.5	-3.1	-3.2	-4.1	-2.0	-2.3
- confidence indicator in manufacturing	0.1	-8.3	-9.3	-4.7	-8.7	-7.0	-9.0	-10.0	-8.0	-8.0
					year-on-year growth rates in %					
Industry: - total	1.2	-5.6	-5.6	-3.4	-3.1	-3.5	2.6	-7.6	7.4	...
- manufacturing	3.9	-4.5	-5.0	-0.4	-2.2	-1.7	3.0	-7.1	8.2	...
Construction: - total	22.2	19.4	13.3	24.1	-2.5	-4.1	5.6	-7.7	-5.3	...
- buildings	53.4	10.5	3.3	25.9	-5.8	-10.4	6.4	-12.3	-5.4	...
Trade and service activities - total	9.8	0.4	0.1	3.3	2.2	3.4	1.0	2.2	2.1	...
Wholesale and retail trade and repair of motor vehicl	0.0	11.4	11.0	12.7	11.0	14.2	9.4	9.8	14.7	...
Retail trade, except of motor vehicles and motorcycl	4.4	-4.6	-3.7	-4.3	-0.4	-0.7	-1.6	1.0	1.3	...
Other private sector services	12.5	2.5	1.3	7.1	1.9	5.0	0.8	0.3	2.8	...
Labour market					*year-on-year growth rates in %*					
Average gross wage	2.7	9.7	8.9	10.4	7.1	8.1	6.9	6.4	...	...
- private sector	6.3	9.5	8.7	11.0	7.8	8.9	7.4	7.2	...	...
- public sector	-2.6	10.3	9.3	9.4	5.7	6.4	5.9	5.0	...	...
Real net wage[1]	-5.1	2.2	2.2	1.4	1.2	2.1	0.7	0.6	...	...
Registered unemployment rate (in %)	5.8	5.0	4.9	5.4	5.0	5.2	5.0	4.7	...	...
Registered unemployed persons	-23.8	-14.0	-11.2	-17.6	-6.9	-6.8	-6.9	-6.9	-7.0	-6.6
Persons in employment	2.4	1.3	1.2	1.8	1.4	1.3	1.4	1.4	1.4	...
- private sector	3.0	1.4	1.2	2.2	1.5	1.4	1.5	1.5	1.4	...
- public sector	0.7	0.9	0.9	0.8	1.1	1.1	1.0	1.1	1.2	...
Price Developments					*year-on-year growth rates in %*					
HICP	9.3	7.2	5.6	9.9	3.4	3.4	3.4	3.4	3.0	2.5
- services	5.5	7.7	7.2	7.5	5.7	5.3	5.8	5.9	5.1	4.8
- industrial goods excluding energy	6.3	5.4	4.2	6.8	2.1	2.2	2.3	1.8	1.2	0.8
- food	10.6	11.8	8.2	17.1	2.7	3.8	2.7	1.8	1.2	0.6
- energy	24.8	2.2	0.3	10.3	1.5	0.1	0.8	3.5	5.0	3.8
Core inflation indicator[2]	5.9	6.7	5.8	7.2	4.0	3.9	4.2	4.0	3.3	3.0
Balance of Payments - Current Account					*in % GDP*					
Current account balance	-1.0	4.5	4.6	3.8	4.5	5.0	2.7	5.8	7.0	...
1. Goods	-3.8	0.7	0.8	0.2	0.7	2.2	-1.1	1.1	0.5	...
2. Services	6.1	6.1	5.9	5.8	5.1	5.1	4.8	5.5	6.0	...
3. Primary income	-2.2	-1.4	-1.1	-1.2	-0.3	-0.8	0.0	-0.1	-0.3	...
4. Secondary income	-1.1	-1.0	-1.0	-1.0	-1.1	-1.5	-1.0	-0.7	0.8	...
					nominal year-on-year growth rates in %					
Export of goods and services	22.9	-1.1	-4.3	10.5	-3.8	0.2	-1.9	-8.6	10.6	...
Import of goods and services	29.0	-6.9	-8.8	4.2	-4.4	-4.3	0.0	-8.3	9.5	...

Public Finances	2022	2023	12 m. 'till May.24		2023 Jan.-May.		2024 Jan.-May.	
Consolidated general government (GG) balance[3]	*EUR mio*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	23,311	25,035	40.4	11.1	9,895	2.3	11,016	11.3
Tax revenue	20,557	21,977	35.9	10.8	8,851	4.7	10,100	14.1
From EU budget	961	1,084	1.4	4.5	442	-14.2	286	-35.3
Other	1,794	1,974	3.1	18.1	601	-14.0	630	4.8
Expenditure	24,886	27,308	43.7	12.3	10,065	3.5	11,094	10.2
Current expenditure	10,283	11,572	18.9	17.1	4,339	4.2	5,017	15.6
- wages and other personnel expenditure	5,481	6,094	9.9	12.3	2,404	10.9	2,734	13.7
- purchases of goods, services	3,557	3,869	6.4	17.0	1,361	-0.1	1,652	21.4
- interest	661	711	1.2	13.4	378	8.7	452	19.5
Current transfers	11,261	12,050	19.1	8.9	4,790	2.6	5,135	7.2
- transfers to individuals and households	9,294	9,731	15.6	7.6	3,892	2.3	4,258	9.4
Capital expenditure, transfers	2,612	3,014	4.7	14.0	661	11.6	703	6.3
GG surplus/deficit	-1,575	-2,274	-3.4		-170		-78	

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	23Q2	23Q3	23Q4	24Q1	2021	2022	2023	23Q2	23Q3	23Q4	24Q1
				Slovenia							*euro area*			
Economic developments							*q-o-q growth in %*							
GDP				0.9	-0.1	0.9	0.0				0.1	0.0	-0.1	0.3
- industry				1.3	-0.2	0.4	0.8				-0.6	-1.2	-0.6	-0.4
- construction				6.5	2.7	3.6	-10.4				-0.2	-0.1	-0.1	0.6
- mainly public sector services (OPQ)				0.9	-0.3	2.7	-1.9				0.2	0.2	0.7	0.3
- mainly private sector services (without OPQ)				0.9	-0.3	-0.1	0.8				0.1	0.0	-0.2	0.3
Domestic expenditure				-1.1	0.9	2.4	-0.5				0.6	-0.1	0.1	-0.6
- general government				1.1	0.7	1.8	1.2				0.3	0.7	0.6	0.0
- households and NPISH [1]				0.0	0.4	0.1	0.0				0.1	0.4	0.2	0.2
- gross capital formation				-6.6	4.0	2.0	1.9				1.8	-1.7	-0.4	-2.9
- gross fixed capital formation				2.0	0.8	0.2	-1.8				0.2	0.1	0.8	-1.5
							y-o-y growth in %							
GDP	8.2	2.5	1.6	1.7	1.3	2.2	2.1	5.9	3.4	0.5	0.4	-0.1	0.0	0.1
- industry	8.7	-3.1	...	2.4	0.6	0.5	1.8	8.7	1.2	-1.6	-1.1	-3.0	-2.9	-3.1
- construction	10.4	7.2	...	21.0	18.4	17.3	1.6	3.0	1.1	0.5	-0.3	0.6	1.2	-1.0
- mainly public sector services (OPQ)	4.1	1.4	...	1.7	1.7	1.0	1.5	3.5	1.9	1.2	1.0	0.8	1.2	1.1
- mainly private sector services (without OPQ)	8.3	4.9	...	2.7	1.6	1.5	1.4	6.3	3.8	0.5	0.5	-0.2	-0.1	-0.1
Domestic expenditure	10.1	3.7	-1.2	-2.7	-0.3	0.7	1.8	4.7	3.6	0.2	0.2	-0.6	0.3	-0.4
- general government	6.1	-0.5	2.4	3.2	2.4	4.8	5.1	4.2	1.6	0.9	0.7	1.5	1.5	1.5
- households and NPISH	10.3	3.6	1.3	0.5	0.3	1.2	0.9	4.4	4.2	0.5	0.4	-0.3	0.6	0.8
- gross capital formation	13.9	7.9	-9.8	-13.9	-3.9	-4.2	0.9	6.1	4.1	-1.3	-0.7	-3.3	-1.4	-4.7
- gross fixed capital formation	12.6	3.5	9.5	11.2	9.9	9.1	0.6	3.5	2.5	1.2	1.1	0.1	1.2	-1.2
- inventories and valuables, contr. to GDP growth in p.p.	0.4	1.0	-4.4	-5.8	-3.1	-2.9	0.1	0.6	0.4	-0.6	-0.4	-0.8	-0.7	-0.9
Labour market							*q-o-q growth in %*							
Employment				0.1	0.1	0.1	0.2				0.2	0.2	0.3	0.3
- mainly private sector (without OPQ)				0.1	0.1	0.1	0.1				0.1	0.2	0.2	0.3
- mainly public services (OPQ)				0.4	0.4	0.4	0.5				0.3	0.4	0.4	0.3
							y-o-y growth in %							
Employment	1.3	2.9	1.2	1.4	1.0	0.7	0.6	1.4	2.3	1.4	1.5	1.4	1.2	1.0
- mainly private sector (without OPQ)	1.0	3.1	1.2	1.4	0.9	0.5	0.3	1.2	2.5	1.4	1.5	1.3	1.1	0.8
- mainly public services (OPQ)	2.7	2.0	1.4	1.5	1.5	1.5	1.7	2.1	1.6	1.4	1.3	1.5	1.6	1.4
Labour costs per employee	8.1	5.0	11.8	13.5	11.0	10.2	9.8	4.2	4.5	5.2	5.4	5.2	4.7	4.9
- mainly private sector (without OPQ)	8.1	7.7	...	13.5	10.3	10.5	7.6	4.9	4.8	5.6	5.6	5.4	5.2	4.7
- mainly public services (OPQ)	7.7	-3.1	...	13.5	13.1	9.1	17.3	2.3	3.8	4.1	4.9	4.4	3.2	5.4
Unit labour costs, nominal[2]	1.1	5.4	11.4	13.2	10.7	8.5	8.2	-0.4	3.4	6.2	6.6	6.7	5.9	5.8
Unit labour costs, real[3]	-1.5	-1.0	2.3	3.7	3.4	0.0	2.3	-2.5	-1.3	0.2	0.2	0.8	0.7	2.0
							in %							
LFS unemployment rate	4.7	4.0	3.7	3.6	3.9	3.4	3.4	7.8	6.8	6.6	6.4	6.5	6.5	6.8
Foreign trade							*q-o-q growth in %*							
Real export of goods and services				-0.8	-2.3	0.8	2.4				-1.0	-1.3	0.2	1.4
Real import of goods and services				-2.5	-3.0	3.1	3.4				-0.2	-1.6	0.6	-0.3
							y-o-y growth in %							
Real export of goods and services	14.5	7.2	-2.0	-0.4	-8.6	-2.3	-0.6	11.5	7.2	-0.8	-0.1	-3.3	-3.1	-1.5
Real import of goods and services	17.8	9.0	-5.1	-5.0	-10.6	-4.0	-0.9	9.2	7.9	-1.4	-0.4	-4.4	-2.8	-2.4
Current account balance as % of GDP[4]	3.3	-1.0	4.5	2.4	3.0	4.5	4.6	2.3	-0.7	0.0	-0.3	0.3	0.0	0.0
External trade balance as contr. to GDP growth in p.p.	-1.0	-1.0	2.8	4.2	1.6	1.5	0.2	1.4	0.0	0.3	0.2	0.5	-0.3	0.5
Financing							*in % of GDP*							
Banking system's balance sheet	94.4	90.8	...	87.3	86.3	...	...	282.2	277.5	...	269.5	269.6	...	...
Loans to NFCs	19.2	20.0	18.0	19.1	18.6	18.0	...	37.4	37.0	34.7	35.7	35.1	34.7	...
Loans to households	21.6	21.5	20.1	20.6	20.4	20.1	...	50.7	48.9	46.1	47.2	46.5	46.1	...
Inflation							*in %*							
HICP	2.0	9.3	7.2	7.9	6.3	5.0	3.4	2.6	8.4	5.4	6.2	5.0	2.7	2.6
HICP excl. energy, food, alcohol and tobacco	0.9	5.9	6.7	7.4	6.9	5.1	4.0	1.5	4.0	5.0	5.5	5.1	3.7	3.1
Public finance							*in % of GDP*							
Debt of the general government	74.4	72.5	69.2	70.7	71.8	69.2	70.7	94.8	90.8	88.6	90.1	89.6	88.6	...
One year net lending/net borrowing of the general government[4]	-4.6	-3.0	-2.5	-2.8	-2.8	-2.5	-2.2	-5.2	-3.7	-3.6	-4.0	-3.9	-3.6	...
- interest payment [4]	1.2	1.1	1.2	1.2	1.2	1.2	1.2	1.5	1.7	1.7	1.7	1.7	1.7	...
- primary balance [4]	-3.3	-1.9	-1.2	-1.6	-1.6	-1.2	-1.0	-3.8	-2.0	-1.9	-2.3	-2.2	-1.9	...

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

Figures

Tables

10 List of abbreviations

Abbreviations

GDP	Gross domestic product
CAC 40	Leading French share index
ECB	European Central Bank
EA	Euro area
EU	European Union
EUR	euro
EUROPOP	Eurostat population projections
Fed	US Federal Reserve System
FOMC	Federal Open Market Committee
HICP	Harmonised index of consumer prices
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight index swap
Opec+	Organization of the Petroleum Exporting Countries
PEPP	Pandemic Emergency Purchase Programme
PMI	Purchasing Managers' Index
SORS	Statistical Office of the Republic of Slovenia
S&P 500	Standard and Poor's 500
USD	United States dollar
ZEW	Centre for European Economic Research
US	United States of America

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** – Turkey