BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments and projections

June 2023

BANKA SLOVENIJE

EVROSISTEM

Title: Review of macroeconomic developments and projections

Issue: June 2023

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

In accordance with the procedure for formulating projections
within the ESCB, this publication is based on figures and
information available up to 31 May 2023.

The material was scrutinised at the correspondence session of
the Governing Board of Banka Slovenije on 16 June 2023.

ISSN 2820-4751

This publication is also available in Slovene.

Contents

Summary			**4**
1	**Current economic developments**		**6**
	1.1	International situation and external assumptions	6
	1.2	Domestic economic environment	8
2	**Projections**		**13**
	2.1	Economic activity	13
	2.2	Labour market	19
	2.3	Inflation	23
3	**Risks and uncertainties**		**32**
	3.1	Selected Theme: Model scenarios of selected risks	34
4	**Statistical Appendix**		**37**

Boxes

Box 2.1.1: Projections of general government position and debt	**16**
Box 2.2.1: Challenges of the ageing population for the Slovenian labour market	**22**
Box 2.3.1: Analysis of the base effects on the inflation forecast for 2023	**27**
Box 2.3.2: Effects of global shocks on inflation in Slovenia	**29**
Box 2.3.3: The effect of extreme weather conditions on food prices	**30**

Summary

Following a high level of economic activity in the previous year, the economic growth is projected to moderate over the forecast horizon. Growth of GDP this year is projected at 2.0%, and in 2024 and 2025 at 2.2%. The growth will continue to be supported by domestic spending, which will in turn keep inflation elevated, despite the reduction in external supply pressures. In this year, the inflation is projected to average 7.5%, and is in the coming two years, it expected to gradually decrease to 3.6% and 2.6%. High inflation remains the main challenge for the economy and a key risk to the baseline macroeconomic projection.

The projection of economic growth for this year is importantly shaped by robust activity in the beginning of the year. In the first quarter, economic activity continued to be underpinned by domestic demand, which was on the production side reflected principally in the service sector and construction. In addition, net exports made a positive contribution to GDP growth, mainly in connection with the realisation of past orders and the resulting sharp drop in the contribution of inventories. High employment, further catch-up in wages and general government investment activity will continue to support the growth as the year progresses. In the medium term, the projections are conditioned on Eurosystem assumptions regarding the international macro-financial environment. With the global economy avoiding recession at the beginning of the year, the world demand is assumed to gradually gain momentum over the course of the projection horizon, which will be accompanied by further stabilisation of global supply factors and energy prices. On the other hand, somewhat less encouraging developments in assumptions are from the perspective of exports and investments reflected in the anticipated further tightening of financing conditions and pressures on competitiveness stemming from persistently high inflation and appreciation of the euro.

In the entire projection horizon, 2023–2025, economic activity will continue to be underpinned by private consumption, which is projected to remain at high levels on the back of continued growth in employment and the recovery of real household incomes. In contrast to private consumption, for 2024 we envisage a decline in investment and its limited growth in 2025. The projected dynamics is related to the predicted decline in general government investment as consequence of the expiration of the existing financial perspective and the tightened conditions of financing, which will limit the growth of private investment. Net export growth is expected to contribute positively to the growth in this year, particularly on the basis of fulfilment of past orders and exports of services. With the strengthening of global demand we expect to see a gradual increase in new orders, and along with it accelerated growth of merchandise exports in 2024 and 2025.

Tightness in the labour market will remain high and will limit the growth of employment in the coming years. Nevertheless, the better than expected economic activity at the beginning of the year and hiring expectations point to positive, albeit attenuated, employment growth throughout the forecast horizon. This year employment growth is projected to reach 0.8% and then ease to 0.5% and 0.4%. Corollary, the survey unemployment rate is projected to decrease to 3.7% at the end of the forecast horizon. The tightness of the labour market, accompanied by high inflation, is also reflected in the forecast of nominal growth of compensation per employee, which for this year stands at 9.6%, and in 2024 and 2025 at 6.0% and 5.1% respectively.

Robust private consumption in tandem with wage growth is intensifying inflationary pressure originating in the domestic economic environment. Despite the dissipating effect of energy price growth, headline inflation is projected to remain elevated at 7.5% in this year, and will in significant part reflect the dynamics of core inflation, i.e. the growth of prices excluding energy and food. We anticipate a more visible easing of inflation starting in the second half of the year, on the basis of phasing-in of base effects, further stabilisation of supply factors and the gradual transmission of monetary policy measures into aggregate demand. Nevertheless, inflation will stand at 3.6% in 2024 and 2.6% in 2025, thereby exceeding the two percent inflation target in the entire horizon.

The baseline macroeconomic forecast is accompanied by risks that are closely connected to the key drivers of inflation and geopolitical conditions. The slower dissipation of supply pressures and the intensifying growth in wages alongside high profit margins could lead to higher-for-longer inflation spell. At the same time, bolstered domestic inflation factors could widen the divergence in inflation trends relative to the trading partners. On the real side of the economy this could be reflected in weaker growth through pressures on the competitiveness of the export sector and a stronger contractionary response of economic policies.

Table 1: **Macroeconomic projections for Slovenia, 2023–2025**

								Projections					
	2017	2018	2019	2020	2021	2022		**2023**		**2024**		**2025**	
							Δ	**June**	Δ	**June**	Δ	**June**	Δ
Prices	*annual average % changes*												
HICP	1.6	1.9	1.7	-0.3	2.0	9.3	0.0	**7.5**	0.7	**3.6**	-0.6	**2.6**	0.3
HICP excluding energy and food	0.7	1.0	1.9	0.8	0.9	5.9	0.1	**7.0**	1.7	**3.8**	0.8	**3.5**	0.8
HICP energy	4.7	6.0	0.8	-10.8	11.3	24.8	-0.4	**0.7**	-7.8	**-0.2**	-11.0	**-3.3**	-2.3
Economic activity (real)	*y-o-y growth rates in %*												
GDP	4.8	4.5	3.5	-4.3	8.2	5.4	0.4	**2.0**	1.2	**2.2**	-0.2	**2.2**	-0.1
Private consumption	1.9	3.5	5.3	-6.9	9.5	8.9	0.6	**2.3**	1.8	**1.5**	-0.2	**1.7**	0.1
Government consumption	0.4	2.9	1.8	4.1	5.8	0.9	0.2	**0.9**	-0.3	**2.6**	0.0	**2.1**	0.0
Gross fixed capital formation	10.2	10.2	5.1	-7.9	13.7	7.8	-2.2	**5.8**	4.5	**-0.2**	-0.2	**1.8**	-2.0
Private gross fixed capital formation	12.2	7.4	4.4	-10.1	12.0	6.8	-0.7	**3.2**	3.6	**2.4**	-1.7	**2.2**	-0.7
Government gross fixed capital formation	0.9	23.9	8.0	1.3	19.9	11.3	-7.5	**14.4**	7.5	**-8.1**	4.1	**0.3**	-6.5
Exports (goods and services)	11.1	6.2	4.5	-8.6	14.5	6.5	-1.7	**1.4**	-1.8	**4.4**	-0.6	**4.4**	-0.2
Imports (goods and services)	10.7	7.1	4.7	-9.6	17.6	9.8	-1.2	**0.6**	-2.8	**3.6**	-0.5	**4.2**	-0.3
Contributions to real GDP growth	*in percentage points*												
Domestic demand (excluding inventories)	2.9	4.2	4.1	-4.5	8.6	6.4	-0.1	**2.6**	1.8	**1.2**	-0.2	**1.7**	-0.3
Net exports	1.2	-0.2	0.2	0.1	-1.0	-2.1	-0.4	**0.7**	0.7	**0.9**	-0.1	**0.5**	0.1
Changes in inventories	0.7	0.4	-0.8	0.1	0.5	1.1	0.9	**-1.3**	-1.3	**0.0**	0.0	**0.0**	0.0
Labour market	*y-o-y growth rates in % (unless stated otherwise)*												
Survey unemployment rate (in %)	6.6	5.1	4.5	5.0	4.7	4.0	-0.3	**3.8**	-0.5	**3.7**	-0.4	**3.7**	-0.2
Total employment	2.9	3.2	2.5	-0.7	1.3	2.4	0.0	**0.8**	0.4	**0.5**	-0.3	**0.4**	-0.3
Compensation per employee	3.0	3.9	5.0	3.4	7.9	4.3	0.0	**9.6**	3.2	**6.0**	1.1	**5.1**	1.1
...Productivity	1.9	1.2	1.0	-3.7	6.8	2.9	0.4	**1.1**	0.7	**1.6**	0.0	**1.7**	0.0
...Unit labour costs (ULC)	1.2	2.7	3.9	7.3	1.1	1.4	-0.3	**8.4**	2.4	**4.3**	1.1	**3.3**	1.0
Balance of payments	*y-o-y growth rates in % (unless stated otherwise)*												
Current account: in bn EUR	2.7	2.7	2.9	3.6	2.0	-0.2	-0.4	**0.4**	0.0	**1.0**	0.0	**1.4**	0.2
in % GDP	6.2	6.0	5.9	7.6	3.8	-0.4	-0.7	**0.7**	0.0	**1.5**	0.0	**1.9**	0.3
Terms of trade*	-0.6	-0.1	0.5	0.7	-2.1	-3.0	-0.7	**0.3**	-0.3	**0.1**	0.2	**0.2**	0.2

Note: * Based on deflators of national accounts. Δ: revisions with respect to December 2022 projections.
Sources: Banka Slovenije projections, Eurostat, SORS.

1 Current economic developments

Favourable economic growth in the first quarter was driven by domestic spending, underpinned by high employment and general government investment. GDP growth was also spurred by foreign trade, through exports of services, and on the merchandise trade side through the fulfilment of previous orders. On the other hand, with the easing of global economic activity and growth in trading partners, the growth of new export orders has weakened, and this has been accompanied by a decline in confidence in manufacturing.

1.1 International situation and external assumptions

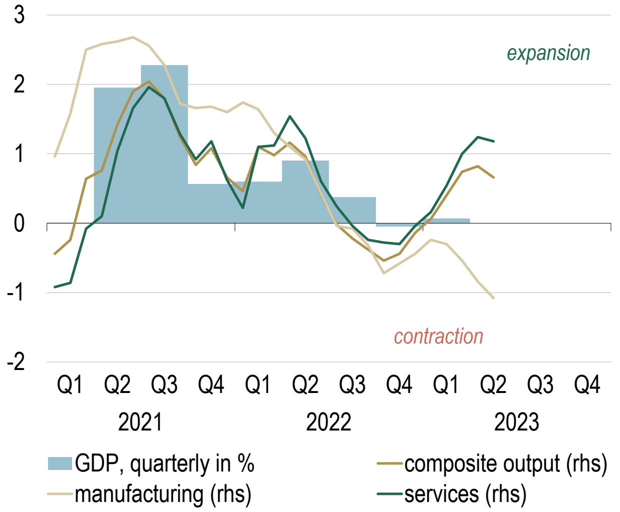
Under the influence of high inflation and tightening financing conditions, economic activity in the euro area has slowed down, with a potential recovery expected from the middle of the year.

According to the initial estimate by Eurostat, the GDP of the euro area remained approximately unchanged in the first quarter of this year, following a period of stagnation at the end of last year, with stronger exports compensating for weak domestic demand. (Figure 1.1.1). Among the larger countries, Italy, Spain, and France experienced growth, while Germany slipped into a recession. The year-on-year GDP growth, which has been declining since the second quarter of last year, stood at 1.3%, which is below the average for the period 2014–2019. Despite the moderation in economic activity, the labour market conditions in the euro area remain robust, with record low unemployment rates.

According to the PMI indicators, demand for goods continues to rapidly cool down, and the growth of GDP is now driven only by services. Input costs in these sectors are

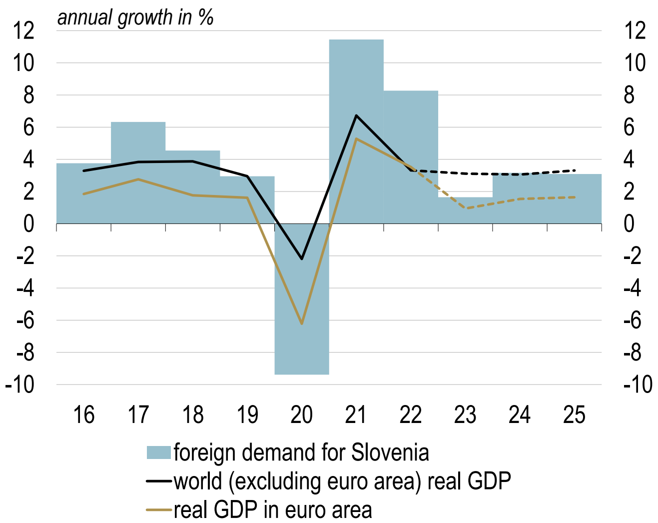
Figure 1.1.1: **Economic conditions in the euro area and the international macroeconomic outlook**

Purchasing Managers' Index (PMI) and GDP growth



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

Projections of world (excluding euro area) real GDP growth, real GDP growth in euro area and foreign demand for Slovenia



Source: ECB.

further strengthening, primarily due to wage growth, but companies are able to pass them on to consumer prices more easily, given the still robust demand. High inflation is increasingly sustained by the growth of prices excluding energy and food, which reached 5.3% in May. The headline inflation for the euro area decreased to 6.1% in May, from 7.0% in April, with the easing effects being significantly influenced by base effects, particularly in energy and food.

Following stagnation in the first quarter of the year, the economic activity of the euro area is expected to gain momentum from the middle of 2023 due to the strengthening external demand, driven by further stabilisation of bottlenecks in global supply chains, and a robust labour market that will support the growth of disposable income. In the medium term, the faster rebound will be hampered primarily by the gradual strengthening of the transmission of the effects of restrictive monetary policy to the real economy and the withdrawal of fiscal support to the economy. Taking these factors into account, the ECB's projection for economic growth in the euro area is 0.9% for this year, and 1.5% and 1.6% for the next two years. (Figure 1.1.1).

This year global economic activity will be subdued but is expected to gradually strengthen during the remained of the projection period, although remaining below the long-term average.

This year we anticipate a moderation in global economic growth despite the enhanced activity in the first quarter, stemming from the rebound in demand following the opening of the Chinese economy and the resilient labour market in the USA. The prospects for the first half of the year are particularly constrained by ongoing geopolitical tensions. Additionally, alongside restrictive monetary policies in the majority of advanced economies, the financing conditions are becoming more stringent, which will significantly impact global economic trends in the remainder of the projection period. Based on these factors, global GDP growth is projected to reach 3.1% this year and the next, and 3.3% in 2025, remaining below the long-term average of 3.8%.

Compared to December's international environment assumptions, the current figures indicate tightening financing conditions, a faster normalisation of conditions in commodity markets, and an appreciation of the euro.

This year's growth in foreign demand for Slovenia will be considerably lower than in the previous two years,[1] which worsens the conditions for the export-oriented sectors. However, as the international environment gradually stabilises in the remainder of the projection period, a recovery in foreign demand is expected. Despite ongoing uncertainties in commodity markets, oil and other primary commodity prices are expected to decline more significantly this year than in the December projection, mainly due to the moderation of global economic growth and record high energy inventories. Similar trends, although less pronounced, are expected to continue in the remainder of the projection period (Table 1.1.1).

[1] The assumptions for the international environment are based on information available by the cut-off date of 26 May 2023. The assumptions with regard to foreign demand for Slovenia and the external technical assumptions of medium-term projections that serve as the basis for the Banka Slovenije projections were drawn up as part of the joint preparation of projections by Eurosystem experts. For more on the methodology used, see the latest release of ECB projections, which are also available in Slovene (link).

Economic activity will also be influenced by exchange rate developments and higher interest rates, reflecting less favourable financing conditions. The euro has strengthened significantly against the US dollar since the end of last year, and is expected to stabilise at the level of around 1.1 dollars per euro during the projection period (Table 1.1.1).

Table 1.1.1: **Assumptions for the international environment**

	2017	2018	2019	2020	2021	2022	Assumptions		
							2023	**2024**	**2025**
World (excluding euro area) real GDP growth (in %)	3.8	3.9	3.0	-2.2	6.7	3.3	3.1	3.1	3.3
Real GDP growth in euro area (in %)	2.8	1.8	1.6	-6.2	5.3	3.5	0.9	1.5	1.6
Foreign demand for Slovenia (growth in %)	6.3	4.6	3.0	-9.4	11.5	8.1	2.1	3.2	3.1
Oil price (in USD/barrel)	54.6	71.0	64.9	41.5	71.1	103.7	78.0	72.6	70.4
Oil price (in EUR/barrel)	48.3	60.1	57.9	36.3	60.1	98.4	72.0	66.9	64.8
Oil price (in USD/barrel, growth in %)	24.0	30.1	-8.7	-36.0	71.3	45.8	-24.7	-7.0	-3.1
Exchange rate (EUR/USD)	1.1	1.2	1.1	1.1	1.2	1.1	1.1	1.1	1.1
3-month Euribor (in %)	-0.3	-0.3	-0.4	-0.4	-0.5	0.3	3.4	3.4	2.9
Non-energy commodity prices (growth in %)	9.4	5.1	-6.4	3.4	42.1	6.6	-11.5	-2.0	1.3

Source: ECB, Banka Slovenije calculations.

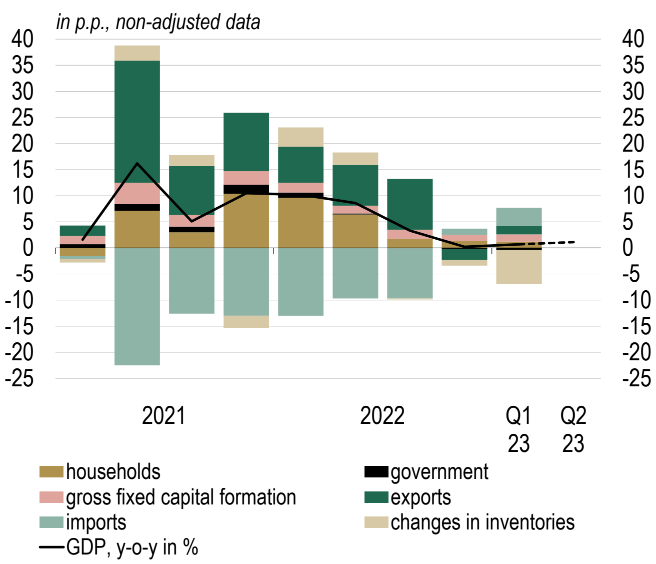
1.2 Domestic economic environment

In the first quarter economic growth was underpinned by domestic spending and a foreign trade surplus.

In the first quarter of this year, GDP showed year-on-year growth relative to the previous quarter gaining some momentum (0.7%). It continued to be bolstered significantly by domestic spending, mainly by households – encouraged by high employment and

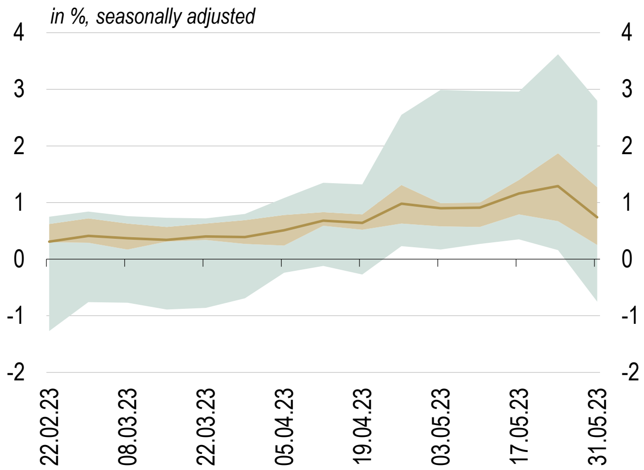
Figure 1.2.1: **Breakdown of domestic economic growth and model estimates for the current quarter**

Structure of GDP growth, expenditure side



Source: SORS; data for Q2 2023 is Banka Slovenije's estimate.

Model estimates of quarterly GDP growth – Q2 2023



Note: Graph shows model estimates of quarterly GDP growth. The darker interval represents values between the 25th and the 75th percentiles of all estimates. Average model estimate of quarterly GDP growth is represented by the line. Date of estimate: 31 May 2023.
Source: Banka Slovenije calculations.

wage growth – and by fixed capital formation. At the same time economic growth was spurred significantly by net exports, while general government spending and a record decline in stocks held it back (Figure 1.2.1).

Business activity continued to be boosted principally by construction and private services, although the contribution of the latter slackened further. In manufacturing, value added remained almost unchanged year-on-year, while the production volume in high-technology sectors increased, but declined in low and medium-technology demanding sectors, which are the most energy-intensive.

For the second quarter data indicate that household consumption will remain an important factor for maintaining growth. Consumers are a little better disposed than at the end of last year, mainly regarding the outlook for their financial situation and the economic state of the country, while labour market trends remain highly encouraging. On the other hand, as in the first quarter a slightly less favourable picture is painted by certain high-frequency indicators of consumption (payments and ATM withdrawals), growth of which year-on-year has been declining since January, and in real terms was even negative in recent months.[2]

Since the beginning of the year the economic sentiment has been gradually cooling – mainly due to the sudden deterioration in confidence in manufacturing – and in May it dropped below the average for the final quarter of last year, when uncertainty was the highest after the pandemic. In contrast to this, confidence in services and in retail trade and construction remains at long-term favourable levels. The average of technical modelling estimates indicates a 0.7 percent quarterly growth in GDP in the second quarter, though only a meagre set of data is currently available for this period (Figure 1.2.1).

At the beginning of the year the high tightness of the labour market and inflation pushed nominal growth of wages to the highest level of the last 20 years.

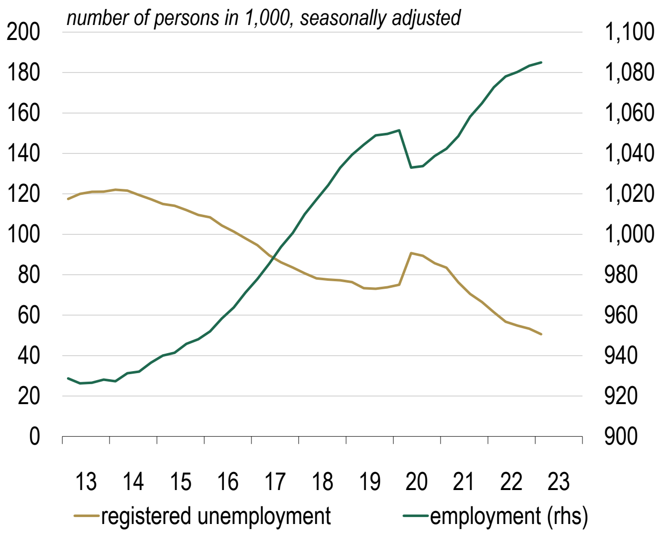
In the first quarter the employment level reached 1.08 million persons, which is 3,600 fewer persons than the record number from the final quarter of last year, while excluding the seasonal trends shows a new historical peak (Figure 1.2.2). Year-on-year employment growth stood at 1.1 percent, which is 0.4 percentage points lower than in the previous quarter. Registered unemployment is continuing to fall, hitting a new low in April of 48,598 persons. In the first quarter the surveyed unemployment rate stood at 3.8 percent, or 0.5 percentage points lower than in the same period last year.

Year-on-year nominal growth of compensation of employees amounted to 13.5% in the first quarter, which is the highest growth rate in over two decades (Figure 1.2.2). With a steep increase in the minimum wage (12%) and tight labour market, the year-on-year growth of compensation per employee also gained momentum, standing at 11.9%, the highest since the second quarter of 2001. Growth stood at 12.5% in the private sector, and 9.9% in the public sector.

[2] Values of tax-approved accounts and card payments and withdrawals at cash machines. For deflation the harmonised index of consumer prices (HICP) is used.

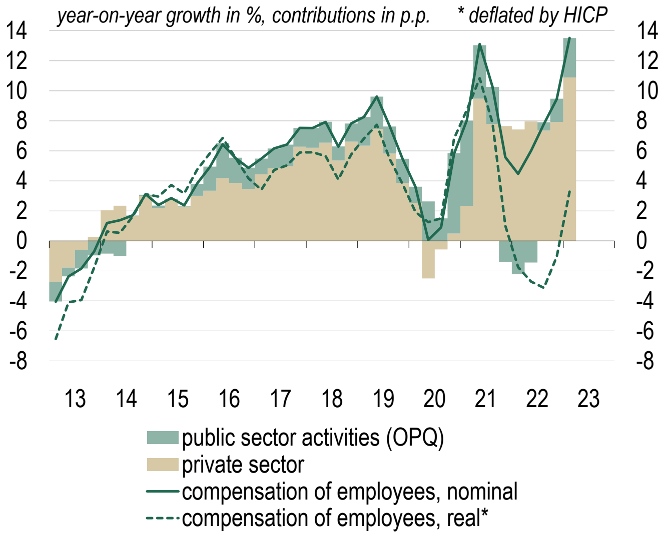
Figure 1.2.2: **Selected labour market indicators**

Employment and unemployed



Source: SORS – national accounts, ESS, Banka Slovenije calculations and seasonal adjustment. Latest data: Q1 2023.

Compensation of employees



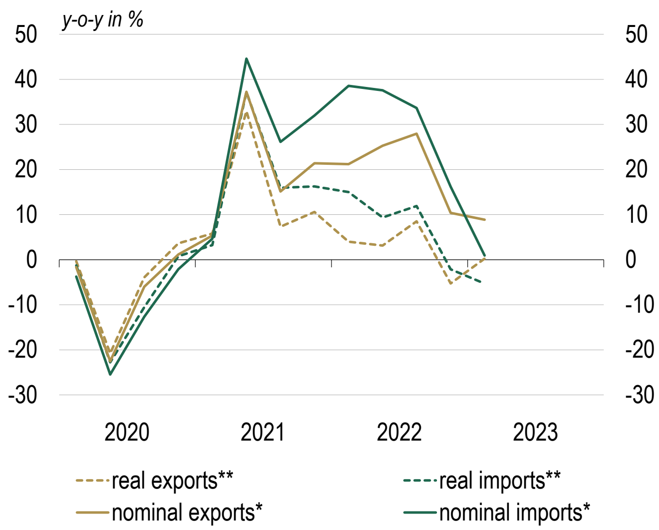
Source: SORS – national accounts, Eurostat, Banka Slovenije calculations. Latest data: Q1 2023.

With improvement in terms of trade and a cooling of domestic demand, in the first quarter the current account once again shifted to a surplus that was the highest in the past two years.

The turnaround in the current account balance was mainly a consequence of the change in merchandise trade balance from deficit to surplus. In addition to a smaller quantity of imports, this was spurred by an improvement in the terms of trade (Figure 1.2.3). The current account balance showed a surplus of EUR 780 million in the

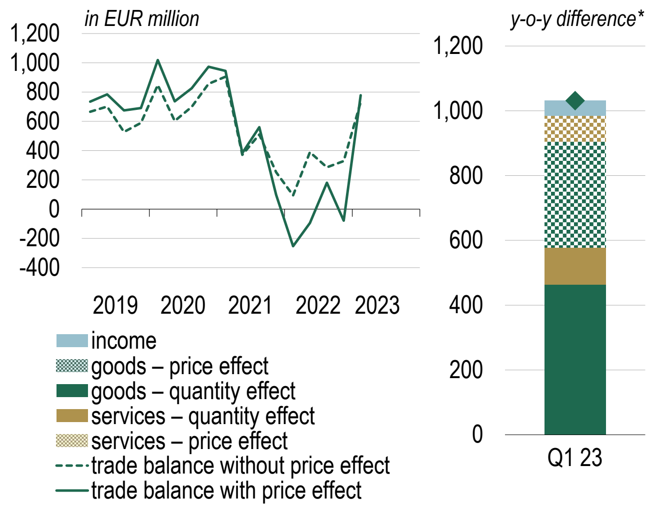
Figure 1.2.3: **Merchandise trade and current account balance**

Merchandise trade



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

Current account components



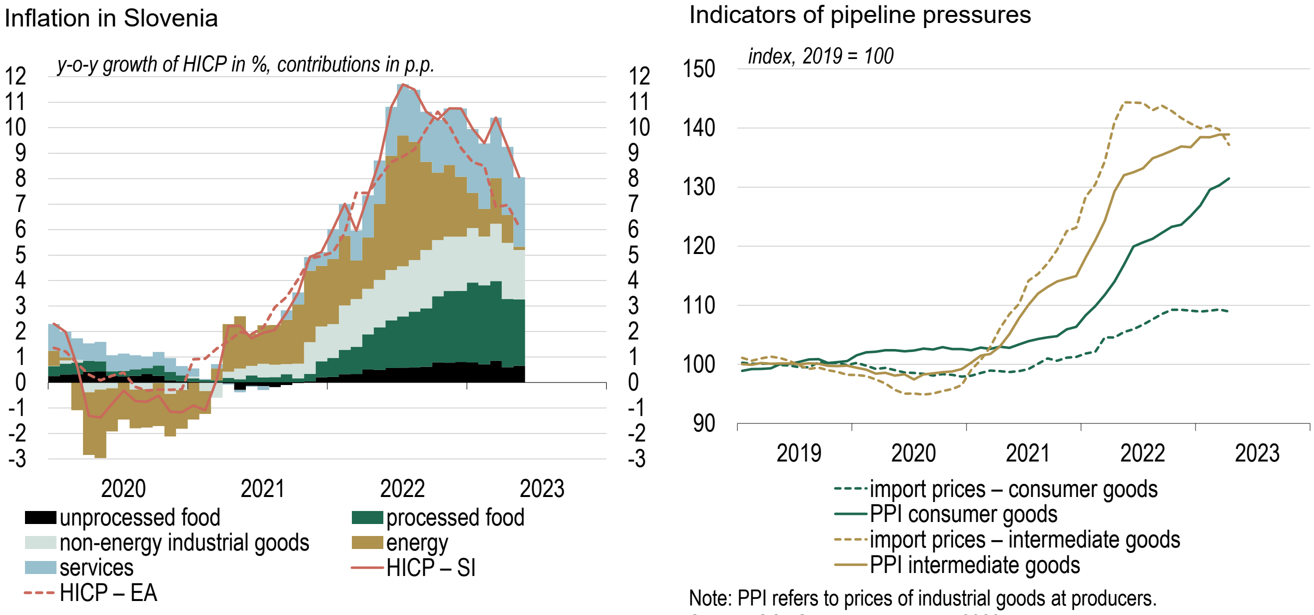
Note: The terms of trade effect is calculated as the difference between nominal and real trade, based on balance of payments data and price indices from national accounts.
* Change in EUR million in the first quarter of 2023 compared to the same period last year.
Source: SORS, Banka Slovenije, Banka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

first quarter, which is the highest since the first quarter of 2021, when it started deteriorating rapidly. In the same period last year the deficit amounted to EUR 250 million. At the same time the surplus in services trade was EUR 200 million greater in year-on-year terms, mainly due to the continued growth in exports of transport and construction services at the same time as a decline in their imports. The reduction in the deficit in factor income amounted to only EUR 50 million. The 12-month current account surplus stood at EUR 780 million in March, unchanged in year-on-year terms.

Despite energy prices no longer contributing to the HICP inflation, its high rate reflects mainly the growth in food and services prices, which are being considerably driven by the growth in wages.

Year-on-year headline inflation, as measured by the HICP, decelerated to 8.1% in May, from 9.2% in April (Figure 1.2.4). The drop is mainly attributed to the decline in energy inflation, which slowed down to only 0.7%.[3] In monthly terms, the energy inflation stood at 0.7% too, but with diverging developments in their subcomponents. For example, fuels prices continue to decline while heat energy prices increased, following the expiry of government measures.[4] Meanwhile, food inflation has again accelerated as it has hit 14.3% in annual terms and 1.3% in monthly terms. Its high rate indicates that the increased input costs have not yet been fully passed through onto the consumer prices, what can be seen in stronger growth rates of both unprocessed and processed food.

Figure 1.2.4: **Domestic inflation and indicators of pipeline pressures**



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

Note: PPI refers to prices of industrial goods at producers.
Source: SORS. Latest data: April 2023.

[3] The calculation of year-on-year growth was influenced by the low base effect due to the validity of government measures regarding the prices of electricity in May last year. Under the Act on Emergency Measures to Mitigate the Impact of Rising Energy Prices, between 1 February and 30 April last year the Slovenian Government adopted measures to exempt household consumers from paying the network fee for the electricity grid and the contribution for combined heat and power (CHP) and renewables. However, these measures affected official statistics with a one-month delay, which is between March and May 2022. Consequently, they also influenced the calculation of year-on-year price growth between March and May 2023. We estimate that without these measures headline inflation in May this year would have been around 1.5 percentage points lower than that measured.

[4] The Decree on the formation of prices of heat from district heating was valid between 1 January and 30 April 2023. During this period, the level of the tariff item for the variable part of the heat price was limited to EUR 98.70 per MWh, and the distributors were not allowed to change their pricelists compared to the January tariffs. This meant that in May 2023 Komunala Velenje and Energetika Maribor announced new pricelists, what made heat energy price index rise by 8.6%.

Core inflation, measured as the growth of prices excluding energy and food, remained at the very high level of 7.3% also in May. An important factor in its development is the strengthened wage growth, which on the one hand is increasing companies' input costs but on the other hand is maintaining demand level, thereby enabling companies to pass their higher costs to consumers. This can be seen most prominently in services, which in May were 8.2% up in annual terms, an extra 0.2 percentage points more than in April. The growth of non-energy industrial goods prices fell to 6.3%, but the easing of growth rates in import and producer prices of intermediate goods has not yet been reflected in the rates of non-food consumer goods (Figure 1.2.4).

In the first four months of the year the fiscal balance was improved year-on-year, since with high economic growth and inflation the growth in earnings remained higher than the growth of expenditure.

The deficit in the consolidated public finance balance sheet in the first four months amounted to EUR 45 million and was lower year-on-year. Growth in earnings has eased off and by April stood at 3.7%, and with high wage growth and continued growth in employment this was brought about mainly by contributions for social security. Another significant contributing factor was taxes tied to consumption, while there was less revenue from the EU budget than last year, despite the April payout of the first instalment of funds under the recovery and resilience plan, since this was less than the pre-financing funds received last year. Up to April, expenditure showed a 2.3 percent year-on-year growth, mainly in consequence of the sizable reduction in pandemic expenses, while at the same time there were more expenses for mitigating the increased energy prices than last year. The high growth in wages and investments is continuing.

2 Projections

In the forecast period, 2023-2025, GDP growth is projected to moderate, but to remain relatively favourable. Private consumption, underpinned by growth in employment and wages, will remain a significant factor of growth. At the same time, robust domestic demand will maintain the heightened inflation, which will become increasingly driven by domestic factors.

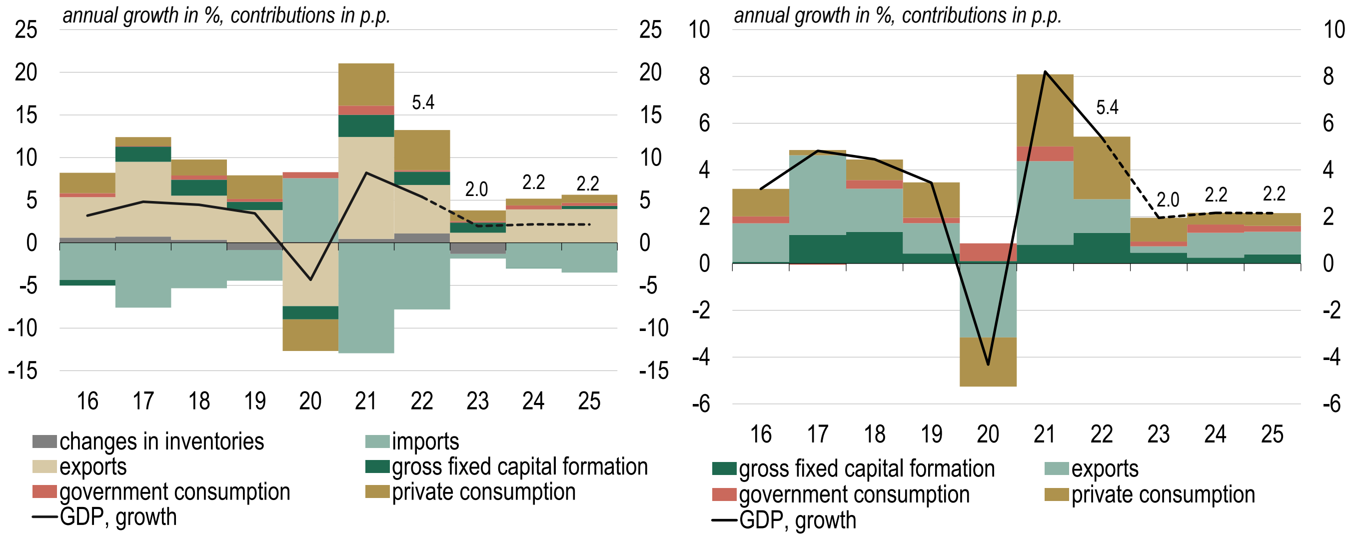
2.1 Economic activity

Following the strong rebound in economic activity in the previous two years, GDP growth is projected to moderate in the forecast horizon and remain surrounded by risks predominantly associated with persistently high inflation and geopolitical conditions.

According to projections, this year GDP is expected to grow by 2.0%, and in 2024 and 2025 by 2.2% (Figure 2.1.1). The projection for this year is based on favourable economic trends in the first quarter and the gradual recovery of global demand in the second half of the year. With the successful diversification of energy supply, consumption rationing by industrial users and favourable weather conditions, economic activity in the fourth quarter of last year and first quarter of this year remained resilient to the challenges associated with the uncertain gas supply. This meant that GDP growth exceeded our December projections, which is also improving the outlook for the rest of the year. In the first quarter of the year, growth was supported by private consumption, investments and exports. Export activity was primarily related to backlog of past orders and services exports.

Figure 2.1.1: **Decomposition of GDP growth**

Contributions to real GDP growth | Contributions to real GDP growth (alternative method)



Note: Due to rounding, sums of components may differ from aggregate values.
Source: SORS, Banka Slovenije projections.

Note: Due to rounding, sums of components may differ from agregate values.
Source: SORS, Banka Slovenije projections.

With the gradual recovery of global demand we anticipate a pick-up in merchandise trade, which will contribute to maintaining GDP growth in the second half of this year and first half of the coming year, despite the predicted slackening of domestic – especially investment – demand. In 2025, growth in domestic demand will gain renewed momentum through the recovery of real household earnings and investments. For 2025, we are therefore projecting in terms of GDP components a balanced 2.2 percent economic growth, close to its long-term potential.

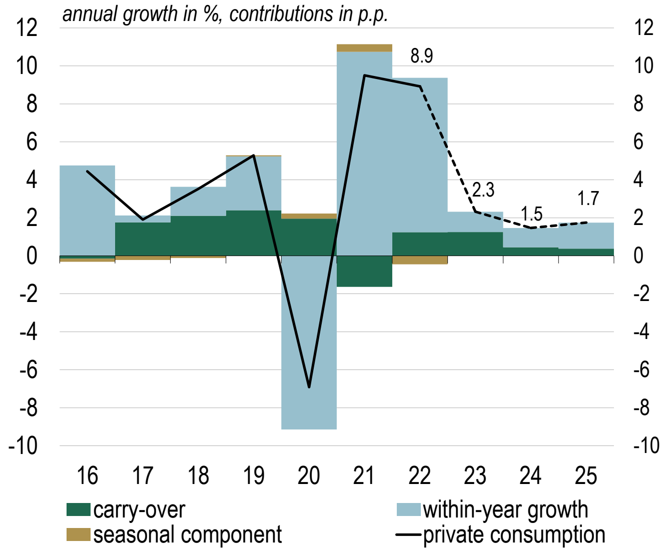
Private consumption growth will moderate this year amid persistent inflationary pressures, but will remain robust throughout the projection horizon, supported by high employment and wage growth.

In the past two years, the high growth of private consumption has been driven by the robust labour market, the large size of excess savings and the effects of the reopening of the economy. After last year's approximately 9 percent increase, the private consumption growth is estimated to moderate to 2.3% this year, before easing further to 1.5% and 1.7% in 2024 and 2025, respectively (Figure 2.1.2). The current growth projection for this year stands 1.8 percentage points higher than December's projection. Short-term contributions to upward revision originate from improved consumer sentiment and broad-based wage growth in the first quarter of this year, alongside the more favourable growth in the fourth quarter of 2022 and first quarter of this year.

The increase of private consumption throughout the projection horizon will continue to stem from the high employment and wage growth, but will remain attenuated compared to the post-epidemic recovery. In addition to persistently high inflation, higher growth of

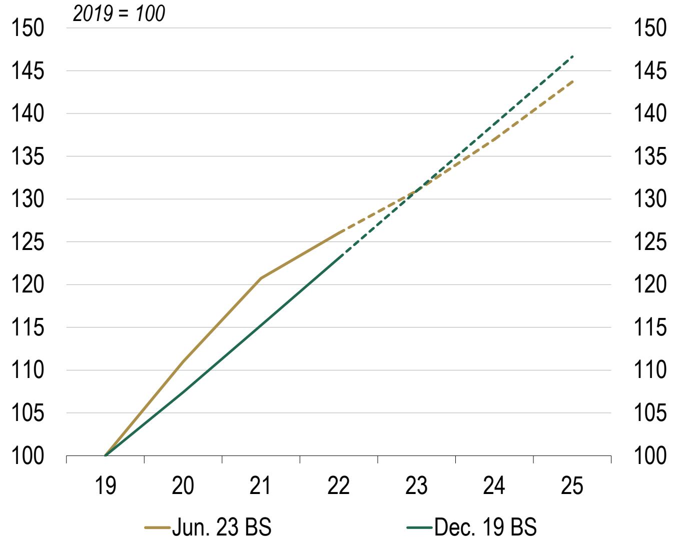
Figure 2.1.2: **Decomposition of the private consumption growth and the dynamics of the excess savings**[5]

Contributions to private consumption growth



Source: SORS, Banka Slovenije calculations and projections.

Accumulated households savings



Source: SORS, Banka Slovenije calculations and projections.

[5] The "Dec. 19 BS" scenario for 2019–2022 displays the level of savings according to the projection from December 2019. For the period 2023–2025, the extrapolated level is based on the historical average saving rate. In the "Jun. 23 BS" scenario, the actual level of savings is taken into account until 2022, while for the remaining years the current Banka Slovenije projections are considered. The difference between the presented curves represents the estimated value of surplus savings in a given year.

private consumption will be constrained by tighter financing conditions and the dissipation of the excess savings that households accumulated during the pandemic and then channelled into consumption upon reopening of economy.

The saving rate, which reached a record level in 2020, started to decline with the reopening of the economy and rising inflationary pressures. According to our projections, it will reach its lowest level since 1995 this year. At the same time, the consumers are expected to use up the accumulated excess savings in 2023 (Figure 2.1.2).[6] As inflation pressures ease and real income grows throughout the projection horizon, we anticipate the savings rate to normalize and approach its long-term average. This is in turned reflected in the contained projected growth of private consumption.

In the projection period, the growth of private investments will remain below the long-term average and will reflect the change in the assumptions related to the growth of foreign demand and financing conditions.

This year private investments will grow by 3.2% and will be primarily driven by high activity in the first quarter of this year, while dynamics in the rest of the year is expected to subside, both related to residential investments and investments in machinery and equipment. The investment activity of companies will be affected, in particular, by the external environment and financing conditions. The growth of foreign demand significantly slowed down in the first quarter, in line with the relatively unfavourable macrofinancial conditions.[7] The high investment activity at the beginning of the year thus predominantly reflected the fulfilment of past orders.

From the second half of this year, the growth of foreign demand will gradually recover, but the growth of private investment will be constrained by less favourable financing conditions. Additionally, investment activity will also be limited due to weak growth in residential investments, influenced by historically low household savings rates and a slowdown in the market for new constructions, reflected in the index of building permits for residential properties. With 2.4% in 2024 and 2.2% in 2025, the projected growth of private investments in the medium-term remains below the averages from the periods 1996–2022 and 2015–2022, which were recorded at 2.9% and 4.9% (Figure 2.1.3).

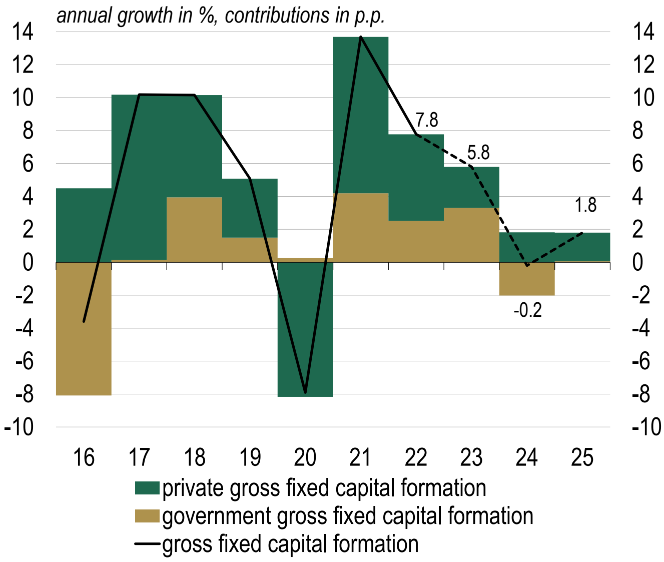
Robust domestic demand developments in this year rest importantly on general government investment. For the coming year the government investment growth is expected to turn negative, but the adverse impact on economic activity will be mitigated by strengthened general government consumption.

This year due to the conclusion of the European Financial Perspective 2014–2020, general government investment will contribute more than half of the growth to overall investments (Figure 2.1.3). With low initial drawing under the new financial perspective in 2024, their contribution is expected to turn negative. With gradually strengthening drawing both from the new perspective and the recovery and resilience plan (NGEU), the growth is projected to start gradually recovering in 2025. Nevertheless, in the entire

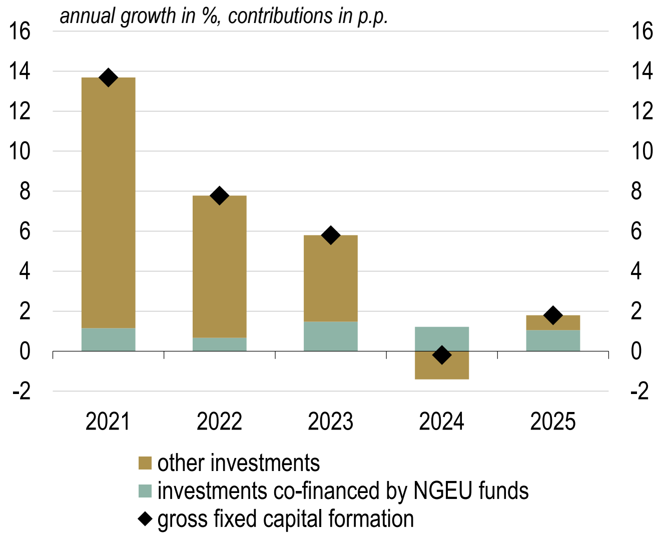
[6] Surplus savings are defined as the difference between the actual level of saving and the historical average saving rate.

[7] Compared with the growth of global economic activity, the more pronounced easing of the foreign demand dynamic for Slovenia is mainly a consequence of less favourable trends in foreign trade with the leading trading partners.

Figure 2.1.3: **Breakdown of growth in gross fixed capital formation, and estimated impact of the NGEU instrument**



Source: SORS, Banka Slovenije projections.



Source: SORS, MF, SVRK, Banka Slovenije estimations and projections.

projection horizon, nominal general government investment will remain at historically high levels of over 5% of GDP in part due to active financing from domestic sources.

With the lowering of expenditure to mitigate the consequences of the epidemic, final general government consumption this year will grow similarly to last year, and with the establishing of the system of long-term care in the next two years it will again accelerate. The growth of general government consumption in the period 2023–2025 is expected to average 1.9%, which is similar to our previous projections. Despite the relatively low growth in real terms, this year the nominal growth of general government consumption will be high, mainly due higher expenditures related to wages in public sector, which will stand around a tenth higher after having fallen last year. This year's growth in compensation for employees has been spurred by the last year's agreement between the government and public sector unions, the rise in the minimum wage, civil service promotions and the further growth in the number of employees. In the coming two years, wage growth will depend on on-going negotiations, whereas in the projections we assume similar trends to those in the private sector.

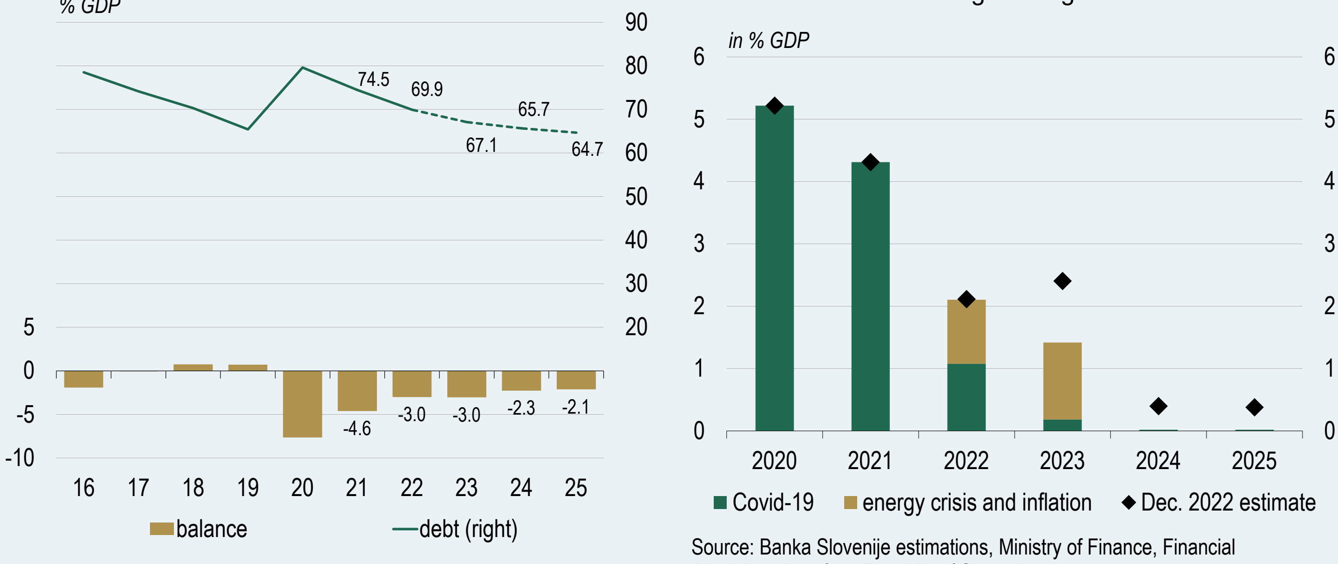
Box 2.1.1: **Projections of general government balance and debt**

The general government deficit should fall below 3% of GDP in the coming two years with the cessation of support measures to mitigate the high prices of energy. The debt to GDP ratio will also decline. The cyclical conditions are still favourable and can be seen in the high tax bases tied to the labour market and household consumption, while we anticipate slower growth of tax bases and thereby government revenue in the coming two years. Within general government expenditure, in addition to subsidies there are stronger investments and compensation of employees this year, but in 2024 and 2025 their trend will slow down the overall growth of expenditure. The debt to GDP ratio will be reduced due to the nominal growth of GDP, despite the unfavourable effect of higher interest payments as a consequence of the tightening of monetary policy (Figure 2.1.1.1).

Figure 2.1.1.1: **General government balance and debt, and measures to mitigate the consequences of the epidemic, the energy crisis and inflation**

General government balance and debt

The impact of the measures to mittigate Covid-19, energy crisis and inflation on the general government balance



Source: SORS, Banka Slovenije projections.

Source: Banka Slovenije estimations, Ministry of Finance, Financial Administration of the Republic of Slovenia.

This year public finance trends are still being affected by temporary measures to mitigate the high prices of energy. Last year they accounted for around 1.0% of GDP, and this year they should be a little higher (1.2% of GDP), but due to the fall in energy prices on global markets this is still less than in the December projections (Figure 2.1.1.1).[8] This is also the main reason why the new projected balance for this year is more favourable than in the December projections, when we estimated the deficit at 3.9% of GDP. There are also positive contributions from the high nominal GDP growth and higher excise duties on fuels. No energy measures are envisaged for 2024 and 2025.

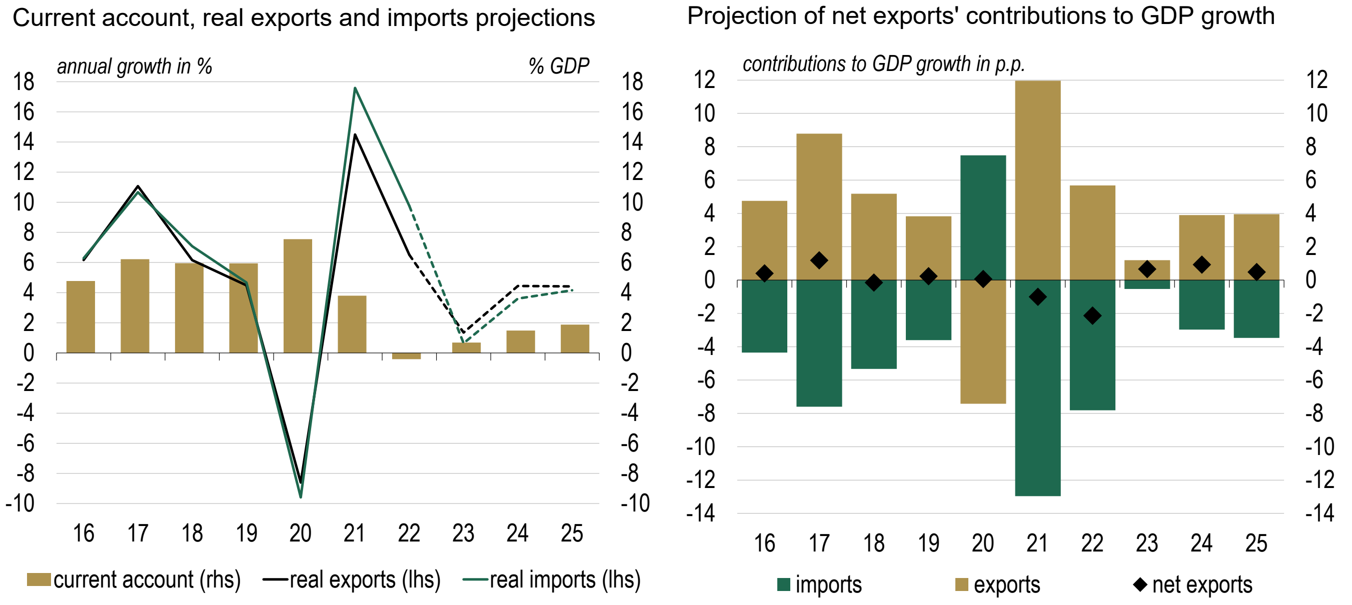
Aside from all the risks that accompany the formulation of the latest macroeconomic forecasts, the projections of public finance trends are additionally exposed to uncertainties associated with negotiations regarding the public sector wage system, extended or additional measures to mitigate the high energy prices, investment trends and the effect of planned reforms. The general government debt could be reduced by the utilisation of pre-financing.

Over the projection horizon, the contribution of net export activity to GDP growth will again turn positive, after being negative in past two years.

Under the influence of the international economic environment and persistent geopolitical uncertainty, this year the growth of international demand is cooling. The altered patterns of private consumption are contributing to this. In the post-pandemic period, this is reflected in greater demand for services, which in international trade account for a smaller share than merchandise trade. In line with the slower growth of foreign demand, the export activity of Slovenian companies this year will show just 1.4% growth.

[8] This year the measures are predominantly subsidies that include assistance to companies due to the high prices of electricity and gas and the compensation to suppliers due to the damage caused by price regulation. A smaller portion of the assistance relates to reducing the taxation of energy products and to social transfers. These are in fact sets of measures that last year were approximately equal to the subsidies.

Figure 2.1.4: **Imports, exports and current account balance**



Source: SORS, Banka Slovenije projections.

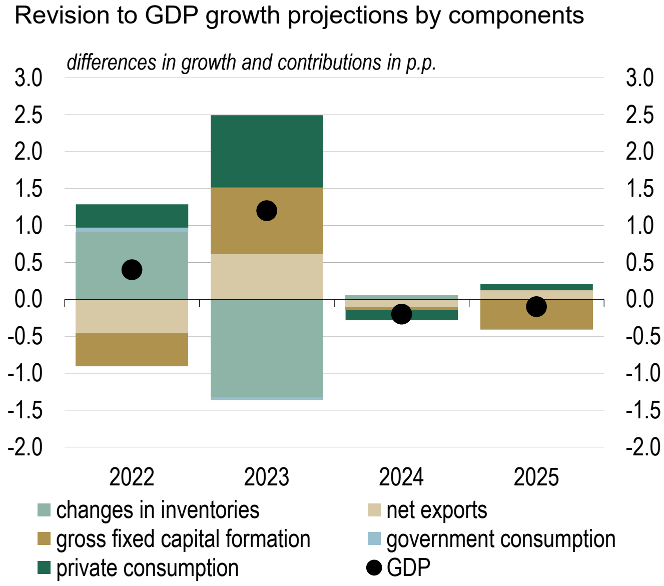
Source: SORS, Banka Slovenije projections.

With a simultaneously more moderate growth of domestic consumption and higher fulfilment of past orders, on the basis of reduced inventories, the growth in imports will be slightly lower at 0.6%. Consequently, the contribution of net foreign trade to GDP growth will again be positive and will amount to just under a percentage point. With the anticipated stabilisation of conditions in the external environment and recovery in the growth of foreign demand, the growth of international merchandise trade in the coming year will gain momentum, but growth in exports of 4.4% will remain below the long-term average. Given such developments, the current account balance – partly in consequence of the improved terms of trade – will this year show a smaller surplus, which up to the end of the projection horizon will strengthen towards 2.0% of GDP (Figure 2.1.4).

Compared to the December projections, we envisage higher economic growth in 2023, but negative revisions in the subsequent two years.

The latest forecast of GDP growth for 2023 stands 1.2 percentage points higher than that of December (Figure 2.1.5). The adjustment is a result of favourable economic activity at the end of last year, which exceeded the previous expectations, and thereby improves the projection for this year based on the higher carry-over effect. Economic growth also remained solid and above expectations in the first quarter of this year, both in terms of domestic consumption and of net exports. These trends are additionally contributing to a positive revision of the within-year growth, which in turn reflects improved projections of household private consumption, investment and the positive contribution of foreign trade. In the remainder of the forecast horizon, GDP growth compared with the December projection will be 0.2% and 0.1% lower respectively, where the revision relate to slightly less favourable assumptions regarding the financing conditions and external demand.

Figure 2.1.5: **Revisions to GDP growth forecast**



Note: For 2022 the difference to the December BS projection is shown.
Source: SORS, Banka Slovenije projections.

2.2 Labour market

In the projection horizon, the growth of employment will remain positive but increasingly limited by high labour market tightness.

Moderated economic activity in the forecast period will be reflected in reduced demand for workers, while employment growth will additionally be limited by a shrinking pool of available workers. This trend is noticeable in both the domestic labour market and countries that currently provide the largest numbers of foreign workers.[9] Employment growth will thus in the projection horizon remain positive, but contained below one percent due to limiting factors. This year to the employment growth is projected at 0.8%, next year at 0.5% and in 2025 at 0.4% (Figure 2.2.1).

Slowing growth of employment is also backed up by the survey data of expected employment, which this year for all available activities are lower than in the same period last year, while at the same time remaining above the long-term average. According to survey data, the employment growth should remain highest in construction sector. In the projection horizon, tightness in the labour market will remain high. This will incentivise companies to optimise and automate their processes, which will be evident in the projection horizon in the relatively rapid deceleration of employment growth vis-a-vis economic activity (Figure 2.2.1). Tightness in the labour market is also contingent on demographic trends. Box 2.2.1 presents a detailed analysis current EUROPOP2023 projections and sums up the challenges of the ageing population for the Slovenian labour market.

[9] A detailed analysis of the tightness of the Slovenian labour market will soon be published on the Banka Slovenije website in the Discussion Papers.

The projected employment growth for this year was revised upwards relative to the December projection. The adjustment reflects the higher projected GDP growth and the growth of employment at the beginning of the year, which exceeded the December expectations. With higher anticipated growth in employment this year, and along with it greater tightness in the labour market, employment growth for 2024 and 2025 was revised downwards.

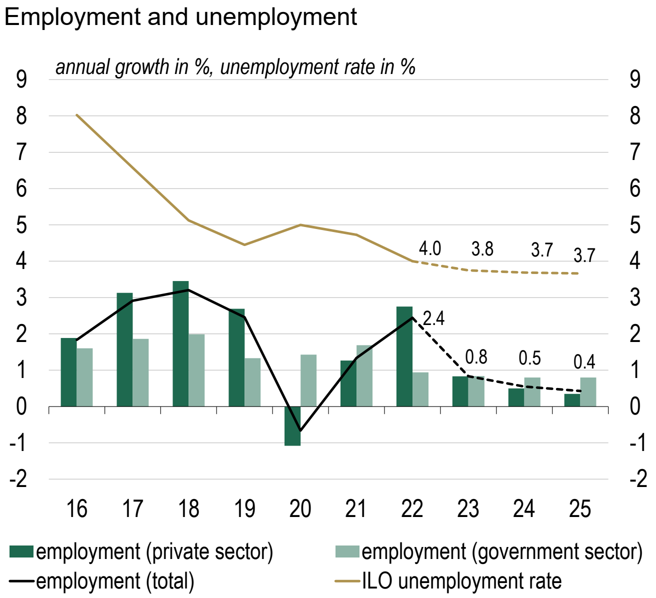
In the projection horizon, the survey unemployment rate will reach a historically low level.

In line with the growth in employment, the projection horizon will see continued reduction in unemployment, although this will be limited by its structure, in which difficult-to-employ persons predominate. According to the Employment Service assessment, in May, of the 47,000 unemployed persons only around 8,000 were still employable. The growth in employment will therefore for the most part still derive from the recruitment of foreign citizens during the projection horizon. On the other hand, in the projection horizon, unemployment will still fall, in part because of the transition of unemployed persons to retirement. The average for the first five months showed that 13.0% of unemployed persons were older than 60. The survey unemployment rate, according to our projections, will fall this year by 0.2 percentage points to 3.8%, and in 2024 and 2025 it will further decrease to 3.7% (Figure 2.2.1).

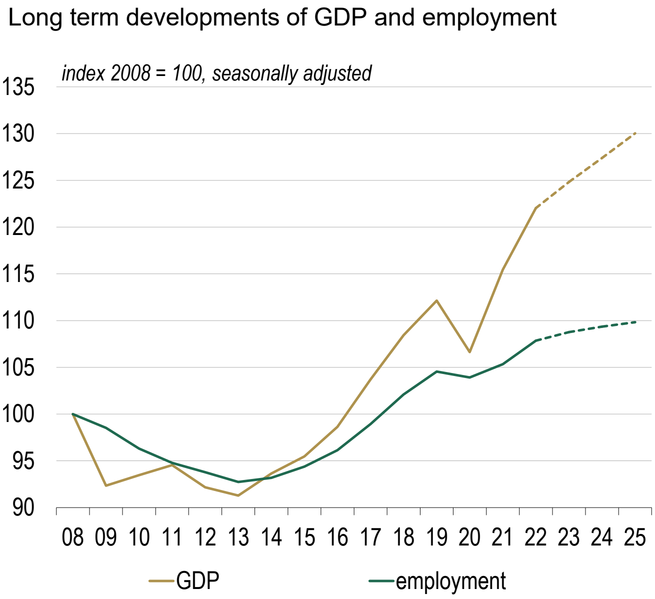
Wage growth will exceed inflation over the entire projection horizon.

This year, due to the considerable tightness of the labour market, the adjustment of the minimum wage with inflation and collective bargaining, wage growth at 9.6% will be the

Figure 2.2.1: **Employment and unemployment**



Source: SORS, Banka Slovenije projections and calculations.



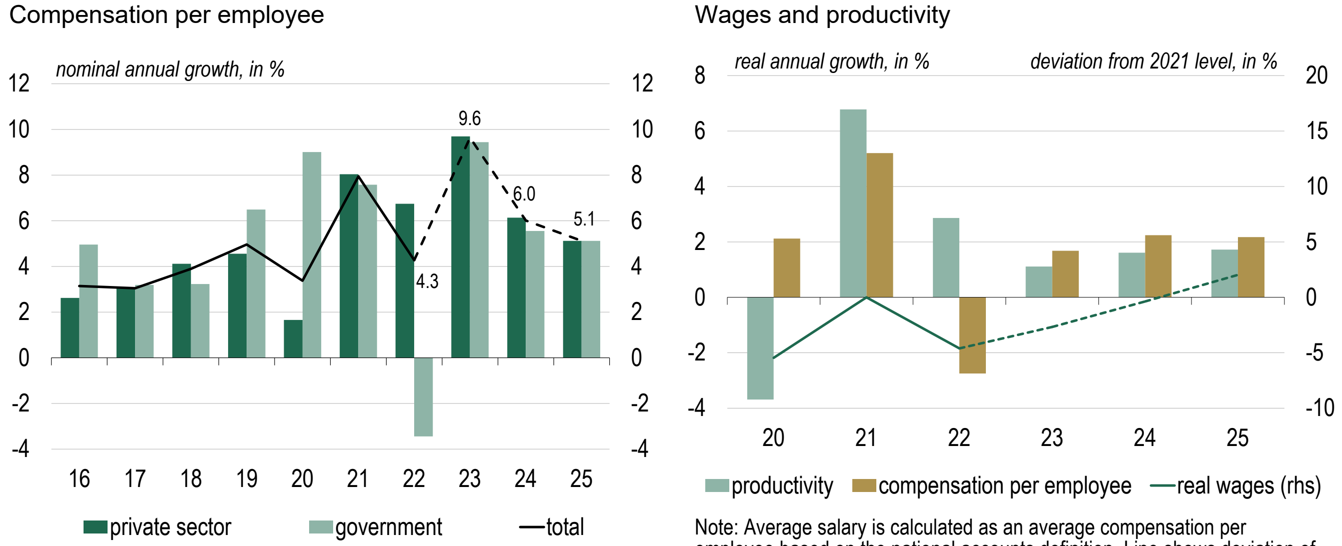
Source: SORS, Banka Slovenije calculations and projections.

highest in the last two decades (Figure 2.2.2).[10] The minimum wage increased by 12.0% in January, the most since 2001. The rise in the minimum wage will also affect the increase in annual leave allowance, which must be paid out to employees by 1 July at least in the amount of the minimum wage.[11] In the remainder of the projection horizon, wage growth will ease off, but will remain above inflation. It will amount to 6.0% in 2024 and 5.1% in 2025 (Figure 2.2.2). The share of employee compensation in GDP will rise amid high wage growth and further growth in employment, and at the end of the projection horizon approach the long-term average.

In the projection horizon, real growth in wages will compensate for the lag behind real growth in productivity that took place in the previous two years (Figure 2.2.2). The significant divergence between productivity growth in 2022 was a result of the strong economic recovery after the abandoning of restrictive measures and the simultaneous drop in wages on the lapsing of exceptional payments during the pandemic. Contrary to this, during the projection horizon, real wage growth will exceed productivity growth. Based on these developments, cumulative real growth in wages and productivity in the 2020–2025 period will remain aligned at around 10.5%. With the projected growth in wages, the loss of earnings from last year, will also be compensated. At the end of the projection horizon, the level of wages from 2021 will be exceeded for the first time in real terms.[12]

Compared with the December projections, wage growth was adjusted upwards in the entire projection horizon both in the private and general government sectors. The revised projection is a result of the realisation in the first quarter, which was higher than envisaged in the December projections. Here the steep rise in the minimum wage was not reflected just in the increase in the wages of the lowest-paid workers, but were more broadly based which corroborates an environment of high labour market tightness were

Figure 2.2.2: **Wage growth**



Note: Average salary is calculated as an average compensation per employee based on the national accounts definition.
Source: SORS, Banka Slovenije calculations and projections.

Note: Average salary is calculated as an average compensation per employee based on the national accounts definition. Line shows deviation of real wages from their 2021 level. Real wages are calculated as nominal wages deflated by HICP.
Source: SORS, Banka Slovenije calculations and projections.

[10] The wage growth forecast relates to average compensation per employee based on the national accounts definition.

[11] Under the Minimum Wage Act, the minimum wage is adjusted at least once a year with regard to consumer price inflation, wage developments, the state of the economy and employment developments, where the data used for the adjustment is the year-on-year growth in consumer prices in December of the previous year. The adjustment is based on the CPI, which differs slightly from the HICP, which is otherwise used for forecasting at Banka Slovenije. The January increase in the minimum wage was in line with the December projection.

[12] The level of real wages is calculated as the ratio of nominal compensation per employee to the HICP.

more broadly based. Also contributing to the upwards revision is the improved projection of economic growth and employment for this year, which will intensify the structural imbalances relative to the December projections.

Box 2.2.1: **Challenges of the ageing population for the Slovenian labour market**

The employment-to-population ratio for older persons in Slovenia remains below the average for the euro area.

The employment rate in Slovenia, which is calculated as the share of the population aged 15 to 64 capable of working and who are actively working, stood at 73.0% in the final quarter of last year, 3.3 percentage points above the euro area average (Figure 2.2.1.1). On the other hand in the 50 to 64 age group it stood at 66.4%, 2.6 percentage points below the euro area average.

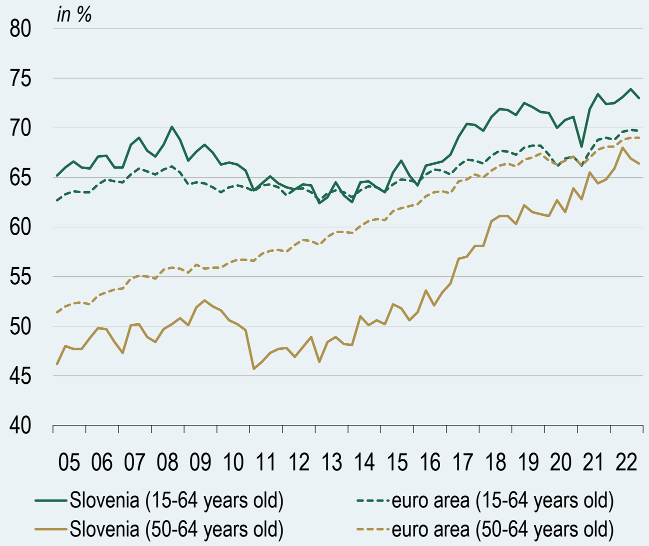
Thus despite the increase in the recent period, the employment rate for older persons remained below the average for the euro area (Figure 2.2.1.1). It remains very low especially among persons over 55. According to the latest data, in the 55 to 64 age group it stands at 55.2%, in the 60 to 64 age group it is at 32.8%, which is 7.8 and 17.1 percentage points less than the average for the euro area respectively.

Population projections for Slovenia point to a considerable reduction in the active population.

Encouraging older people to be in active employment is becoming increasingly important, both in terms of the significant tightness of the labour market and the medium-term demographic trends. In line with the relatively low employment rates among older

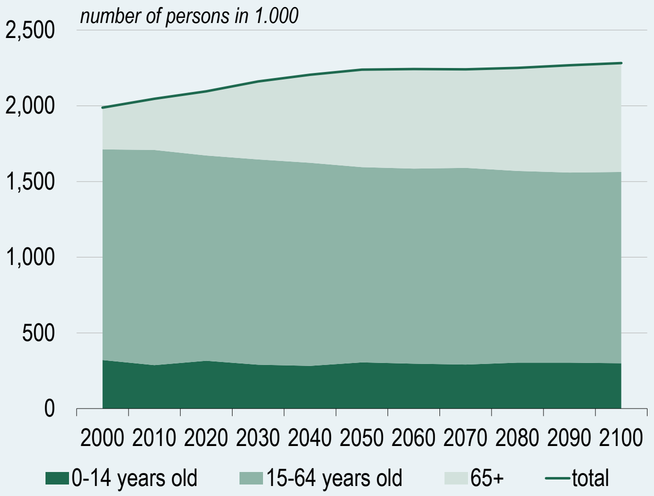
Figure 2.2.1.1: **Employment-to-population ratio relative to age and population projections**

Total employment rate by age



Source: Eurostat, Banka Slovenije calculations. Latest data: Q4 2022.

Population by age groups (with projections)



Note: Graph is based on population forecasts in EUROPOP2023, which assumes higher migrations.
Source: Eurostat, Banka Slovenije calculations.

age groups, Slovenia has one of the lowest averages among OECD countries for the age of labour market exit. In addition, approximately a fifth of people enter retirement from unemployment.[13] In view of the EUROPOP2023 population projections, taking into account higher migrations, from this year to 2030 Slovenia's population in the 15 to 64 age group should increase by just under a percentage point, while the population below the age of 14 should fall by 8.7%. At the same time the number of people over 65 should increase by 13.3% (Figure 2.2.1.1). The trend of a population decline in the 15 to 64 age group should be more noticeable in later decades (Figure 2.2.1.1).

The reduction in the population aged 15 to 64 will have a major impact on the Slovenian labour market, since it will offer the availability of fewer and fewer active workers, and those available will be older. In addition to encouraging work among older age groups, there will therefore be a growing need to provide support for training them and making them familiar with new technologies, especially from the aspect of anticipated changes due to digitalisation and the green transition.[14,15]

2.3 Inflation

This year's 7.5 percent inflation rate will reflect mainly the growth in prices of the non-energy items and services of the consumer basket.

Year-on-year inflation rate, as measured by the HICP, is gradually declining in 2023, especially due to the falling contribution of the energy prices. In May, headline inflation reached 8.1%, 1.2 percentage points lower than in April, and is forecast to continue declining until the end of the year, so that it will average 7.5% in 2023 (Figure 2.3.1). It will be driven almost entirely by the non-energy items and services of the consumer basket, especially food and services prices, as a result of a delayed pass-through of higher energy and commodity costs to consumer prices and a stronger wage growth. With supply chain disruptions fading and slower growth of global demand, the contribution of non-energy industrial goods will somewhat diminish compared to the last year, while the contribution of the energy inflation is going to be negligible, given strong base effect and negative annual rates of fuels prices.

In the coming two years, due to the strengthening of domestic factors, inflation will be driven mainly by the growth in services prices.

With the anticipated slower growth in domestic demand, stabilisation of global energy markets and ongoing improvement of supply bottlenecks, inflation will also ease off in the coming two years, standing at 3.6% and 2.6%, respectively (Figure 2.3.1). The coming year will see reductions principally in the contributions of non-energy industrial goods and food prices, particularly due to the base effects and a closing gap between supply and demand,

[13] OECD (2022). OECD Reviews of Pension Systems: Slovenia. Accessible on the website: OECD Reviews of Pension Systems: Slovenia

[14] OECD (2020). Labour market institutions for an ageing labour force in Slovenia. OECD Economics Department Working Papers, Paper No. 1648. Available online at: OECD Working Paper No. 1648.

[15] European Commission (2022). A closer look at labour shortages across the EU. Published in: Technical Paper 059. Available online at: European Business Cycle Indicators - A closer look at labour shortages across the EU.

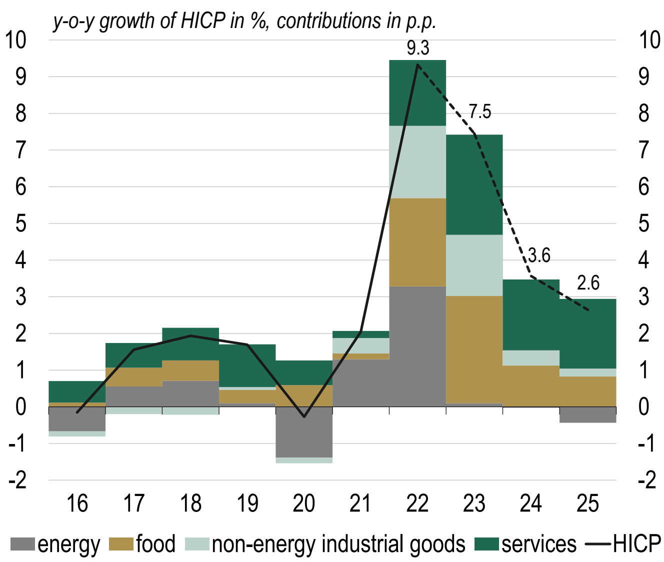
which has marked the post-pandemic period.[16] While the price growth last year and to a lesser extent this year has been mostly driven by the global inflationary factors, they are expected to be replaced by domestic inflationary pressures going forward, especially related to the wage growth.[17] With wage raises already implemented and wage demands stepping up, this will drive in particular the growth of services prices. Among domestic factors, profit margins are also playing an important role. They have gained a significant momentum following a decline in labour costs (in real terms) and higher productivity last year. Together with projected decline in domestic demand in the coming year, we anticipate profit margins diminishing throughout the projection horizon and in this way partly mitigating the extent of higher labour costs being passed onto the consumer prices.

Core inflation will remain high since the effect of an easing of supply factors will remain limited and will be reflected mainly in the prices of non-energy industrial goods.

The dynamics of core inflation has been subject to delayed pass-through of past energy and food price increases and the strengthening of domestic inflationary pressures. Thus, annual rate of inflation excluding energy and food prices has been exceeding 7% for the sixth consecutive month, reaching 7.3% in May. It is forecast to moderate only slightly until the end of the year, so that it will average 7.0% this year (Figure 2.3.1) while surpassing the growth of headline inflation in the second half of the year. As the impact of past energy shocks is expected to fade away and supply disruptions continue to ease, domestic cost pressures are becoming the main driver of the core inflation developments. In addition to the growth in wages, these pressures relate to a considerable extent to food price inflation, via its effect on service inflation, while at the same time the higher growth in services prices is increasing companies' operating costs and

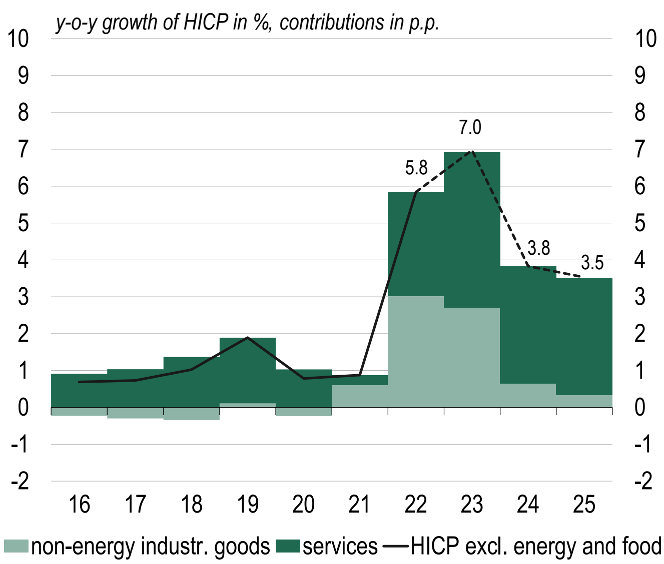
Figure 2.3.1: **Headline and core inflation**

Projection of contributions to inflation by components



Source: SORS, Eurostat, Banka Slovenije projections.

Projection of contributions to core inflation by components



Source: SORS, Eurostat, Banka Slovenije projections.

[16] The impact of base effects on this year's inflation is presented in box 2.3.1.
[17] The contributions of past global shocks on inflation are presented in detail in box 2.3.2.

thereby adding pressures to the growth of retail prices. Due to the foreseen stabilisation of supply factors and strong growth in wages in the coming two years, core inflation will be mainly driven by the growth in services prices while the growth rate of non-energy industrial goods prices will slow down considerably. Therefore, core inflation is forecast to decelerate in 2024 and 2025 to 3.8% and 3.5%, respectively.

Table 2.3.1: **Inflation forecasts**

						2022		**2023**		**2024**		**2025**	
	2017	2018	2019	2020	2021		Δ	**Jun.**	Δ	**Jun.**	Δ	**Jun.**	Δ
	average y-o-y growth in %												
Consumer prices (HICP)	1.6	1.9	1.7	-0.3	2.0	9.3	0.0	**7.5**	0.7	**3.6**	-0.6	**2.6**	0.3
food	2.2	2.4	1.6	2.8	0.7	10.6	0.1	**12.6**	2.6	**4.9**	0.8	**3.6**	0.5
energy	4.7	6.0	0.8	-10.8	11.3	24.8	-0.4	**0.7**	-7.8	**-0.2**	-11.0	**-3.3**	-2.3
non-energy industrial goods	-0.7	-0.8	0.3	-0.5	1.3	6.3	0.1	**5.7**	1.5	**1.4**	0.3	**0.7**	0.1
services	1.8	2.4	3.1	1.8	0.6	5.5	0.1	**8.0**	1.6	**5.7**	1.0	**5.6**	0.9
Core inflation indicators (HICP)													
excluding energy and food	0.7	1.0	1.9	0.8	0.9	5.9	0.1	**7.0**	1.7	**3.8**	0.8	**3.5**	0.8
excluding energy and unprocessed food	0.9	1.1	1.8	1.0	1.0	6.8	0.1	**8.2**	1.9	**4.0**	0.8	**3.4**	0.7
excluding energy	1.1	1.4	1.8	1.3	0.8	7.1	0.1	**8.5**	2.0	**4.2**	0.9	**3.6**	0.8

Note: Δ: revisions with respect to December 2022 projections.
Source: SORS, Eurostat, Banka Slovenije projections.

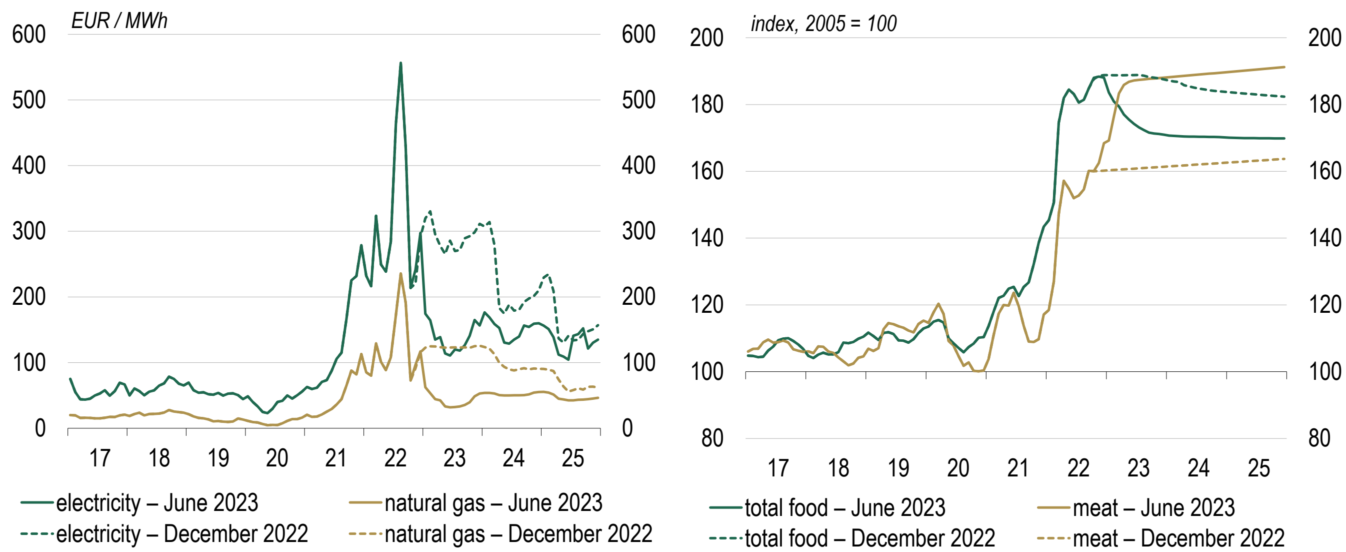
The growth in energy prices will slow down considerably in light of stabilisation of the global commodity prices and significant impacts of base effects.

Post-pandemic recovery in demand, followed by numerous supply shocks linked to the war in Ukraine, made energy prices grow strongly last year. On average, they rose by

Figure 2.3.2: **Assumptions for energy and food prices**

Wholesale electricity and gas prices

Wholesale total food and meet prices



Source: ECB.

Source: ECB.

24.8% in 2022. However, the growth in energy prices substantially decreased this year with the annual rate falling to just 0.7% in May. Besides base effects and government measures on electricity and gas prices, it also reflects receding crude oil prices and consequently declining fuel prices. Following these developments, the growth in energy prices is expected to further slowdown in the remainder of the year.[18] As electricity and gas prices for households will no longer be capped as of January 2024, we assume a transition period towards wholesale prices, such that within five months after the relaxation of the government measures household prices will reflect dynamics of the electricity and gas futures prices. Since the assumptions regarding futures contracts have been revised down notably compared with December 2022 (Figure 2.3.2), projection of energy inflation has also been revised downwards. This year it will stand at 0.7% and then at –0.2% in 2024 and –3.3% in 2025.

While global energy and food market prices are stabilising, a greater moderation of food prices is being held back by domestic cost pressures and delayed pass-through of past input costs.

Following the shock on the global food commodity markets after the outbreak of the war in Ukraine, wholesale food prices have somewhat moderated in the last few months. As demand for energy products is declining, oil and natural gas prices are continuing their downward trend, bringing down prices of fertilisers and some of the primary food commodities. Receding growth rates at the beginning of the pricing chain are only gradually passing through onto retail prices as food price inflation is remaining very high also in May, standing at 14.3%. As the year progresses it will gradually ease off, partly in relation to the impact of base effects (Box 2.3.1, Figure 2.3.1.1), with projection of average annual food price inflation for this year standing at 12.6%. The upward revision relative to the December projections is a result of higher assumption for meat prices, which affects in particular the forecast of unprocessed food, but also higher projection of wage growth, which is reflected in the forecast of processed food. Downward revisions in energy prices along with the fall in the overall index of global agricultural prices (Figure 2.3.2) partially counterbalance the abovementioned upward revisions in food prices. In addition, a further risk to the food prices projections in the coming months relates to the adverse weather conditions, with some parts of Europe already facing water shortages.[19] However, food price inflation will ease over the remainder of the projection horizon as the input price pressures gradually abate, declining to 4.9% in 2024 and 3.6% in 2025.

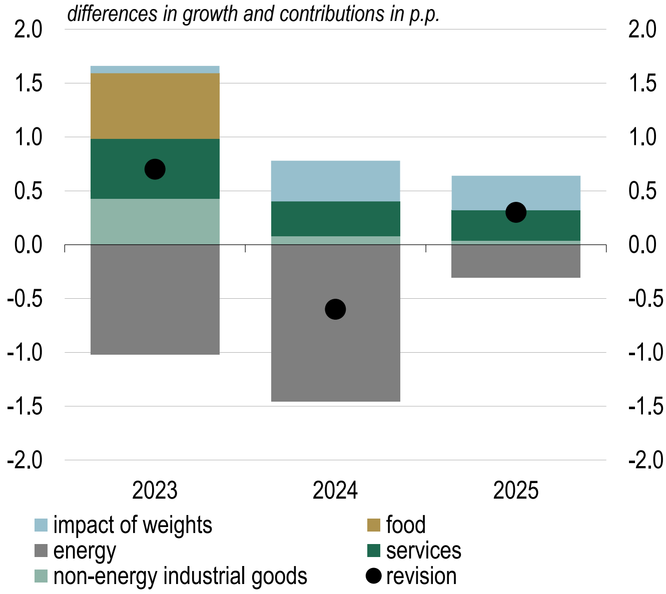
Revisions to headline inflation mainly reflect higher projections for wage growth, which are partly offset by lower assumptions for wholesale energy prices.

Compared with the December projections, headline inflation for 2023 has been revised upwards by 0.7 percentage points (Figure 2.3.3). With higher projections of wage growth, the upward revision mainly reflects higher projections for services and food prices, especially for the processed food. Non-energy industrial goods prices have also been revised upwards, since the receding growth rates of import prices for energy and

[18] The impact of government measures on electricity and gas prices on inflation has decreased compared to the December's projections, following their moderations on global energy markets. Given current assumptions for the electricity and gas price futures, we estimate government measures to reduce the energy inflation by 5.4 percentage points this year while their impact on headline inflation would amount to 0.7 percentage points.

[19] An analysis of the effect of extreme weather conditions on prices of unprocessed food is presented in Box 2.3.3.

Figure 2.3.3: **Revised inflation projections**



Note: Contributions to revision of subcomponents exclude the impact of weights.
Source: SORS, Banka Slovenije projections.

intermediate goods have not yet been fully passed on along the production chain. Nevertheless, the upward revisions are partly offset by the lower projections for energy prices. In addition to the prolonged government measures on electricity and gas prices, they also reflect lower assumptions for oil prices and the appreciation of the euro against the US dollar, thus downward revision for fuel prices. Moreover, assumptions for global electricity and gas prices have been revised downwards too, which in total is brining down headline inflation projection in 2024 by 0.6 percentage points.

Revisions compared to the December 2022 have also been affected by the change in HICP weights in January 2023. Among them, the weight for services has increased whereas the weight for the energy category did not change, but only for their subcomponents (higher weight for fuels, lower weight for electricity). Such changes are contributing to an upward revision of 0.3 percentage points in 2025, since downward revision in energy prices, mainly reflecting the impact of base effects, offsets stronger growth of services prices.

Box 2.3.1: **Analysis of the base effects on the inflation forecast for 2023**

Base effects will play an important role in contributing to a gradual decline in inflation, following historically high increases in energy and food prices last year.

Year-on-year inflation (π_t) is calculated as the percentage change in the HICP between the current month, t, and the same month of the previous year, t–*12*. We can derive an approximate inflation rate using a natural logarithm in the following way:

$$\pi_t = [log(p_t) - log(p_{t-12})] \times 100$$

Therefore, the change in the year-on-year inflation rates between two consecutive months can be written as:

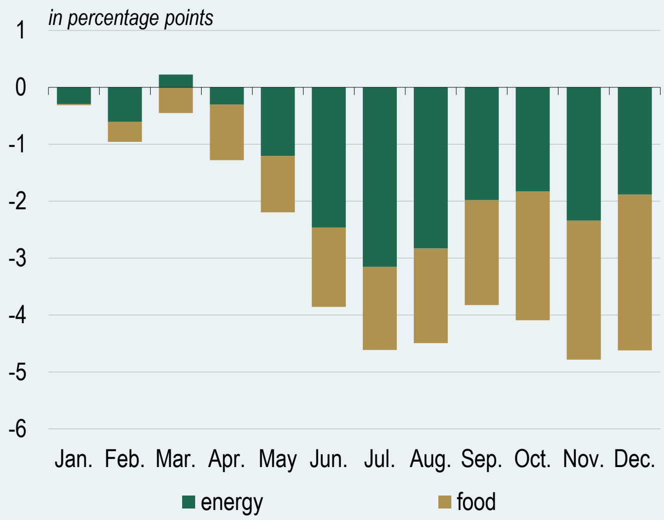
$$\pi_t - \pi_{t-1} = [(log(p_t) - log(p_{t-1})) - (log(p_{t-12}) - log(p_{t-13}))] \times 100$$ [20]

This equation shows that the difference in the year-on-year inflation rate between to successive months reflects both the effect of current price changes and the changes in prices in the same period of the previous year. It also shows that an increase in the price index between the months *t–13* and *t–12* will negatively affect the year-on-year inflation between the months *t–1* and *t*. Therefore, a contribution of the monthly inflation rate in the previous year (i.e. $log(p_{t-12})$ - $log(p_{t-13})$) to the current change in year-on-year inflation can be defined as a base effect.[21]

Base effects related to the pronounced growth in energy and food prices in 2022 will contribute negatively to this year's inflation. The greatest contribution of the base effects from energy prices can be expected between June and August 2023 because of their very high growth rates in the same period last year. Indeed, back then most of the government measures to mitigate the impact of high energy prices on households were not yet in place. In the second half of this year, base effects from food prices will prevail, since food prices have markedly accelerated in the second half of the previous year.

Figure 2.3.1.1 shows cumulative contributions of the base effects to the easing of this year's inflation, relative to December 2022 inflation. With regard to year-on-year inflation in December 2022, when it stood at 10.8%, base effects related to the growth of energy and food prices in the current year will cumulatively lower inflation by 4.6 percentage points. In other words, that amounts a reduction in annual inflation rate at the end of this year stemming from a high base in the previous year.

Figure 2.3.1.1: **Impact of base effects on HICP inflation in 2023**



Note: this figure shows cummulative contributions of base effects to the annual inflation rate. Base effects are estimated based on deviations of the last year's monthly rates from the long-term averages (2005–2021).
Source: Eurostat, Banka Slovenije calculations and projections.

[20] The label *log* denotes a natural logarithm.

[21] ECB (2005). Base effects and their impact on HICP inflation in early 2005. ECB Monthly Bulletin, January 2005. Available online at: ECB Monthly Bulletin, January 2005.

Box 2.3.2: **Effects of global shocks on inflation in Slovenia**

The sequence of global shocks that resulted from the outbreak of pandemic and Russian military aggression is still having a delayed effect on inflation in Slovenia, but will gradually abate in the forecast period.

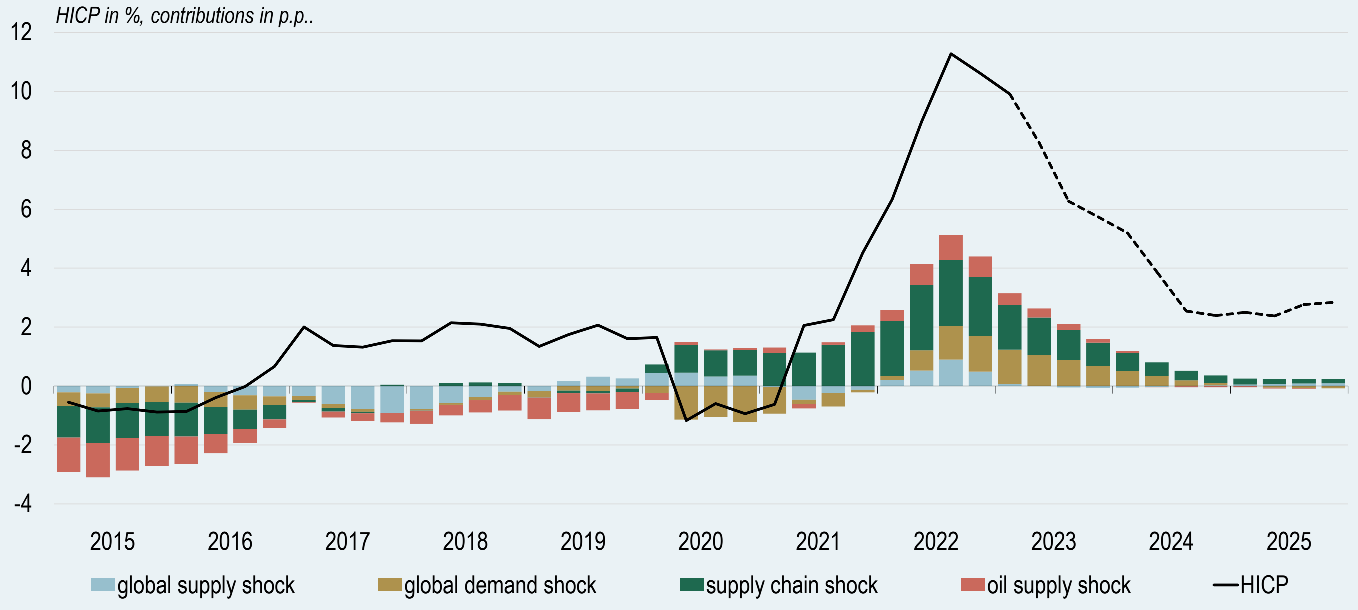
Supply chain disruptions linked to the restrictive measures during the pandemic were already driving up inflation in 2020 and 2021. However, price pressures were partly mitigated by demand-side restrictions during the shutdown of economies. With the recovery of demand after the pandemic and the relaxing of restrictions in 2022, followed by additional shocks in commodity markets caused by the Russian military aggression in Ukraine, inflation in Slovenia reached historically high levels. At this point, it is important to analyse persistence of these effects on future price developments.

The contributions of the ongoing global shocks to price trends in Slovenia are estimated using the identified VAR model.[22] The results show that global shocks account for approximately 40% of inflation in Slovenia in 2022, especially the shock in supply chains and the global demand shock. This ratio is estimated to decline to 30% in 2023 and to completely fade away by 2025.

The direct contribution of the oil supply shock to headline inflation in 2022 amounted to 0.7 percentage points. Part of the effect of higher oil prices is also reflected in the contribution of strong global demand, which has supported the pass-through of oil prices onto the consumer goods and services prices. Since supply bottlenecks eased off in the first quarter of this year, their greater contribution to headline inflation stems mainly from the accumulated effects of past shocks.

The shaded part of Figure 2.3.2.1 relates to the modelled trend of headline inflation in Slovenia, which is affected only by past global shocks. Analysis shows that the global shocks are still contributing 2.3 percentage points to this year's inflation, but in 2024

Figure 2.3.2.1: **Decomposition of inflation**



Source: SORS, Banka Slovenije calculations.

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

this will fall to 0.4 percentage points while their contribution in 2025 will be negligible. With the contribution of global shocks diminishing, the unexplained part of inflation rate points to a strengthening contribution of domestic inflation factors.

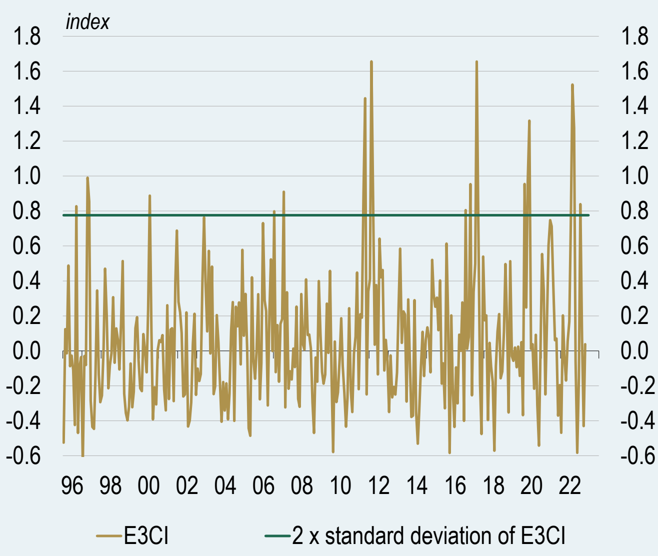
Box 2.3.3: **The effect of extreme weather conditions on food prices**

The increasing frequency and extent of extreme weather conditions are notably affecting agricultural production and food prices, pointing to the importance of accounting these factors in inflation projections.

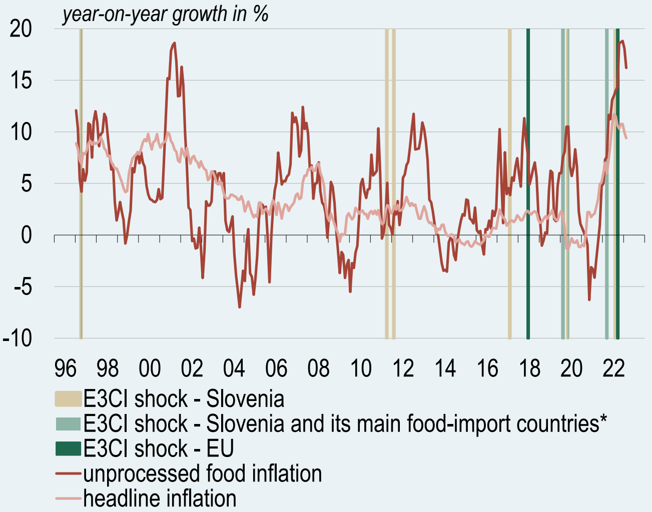
In its 2021 strategy review, ECB recognised the increasingly large effect of climate change and the associated policies on the economy. Climate risks in general can be divided into physical and transitional. The latter involve indirect risks that stem from changes in climate policies and green technology innovations while the former relate to weather and climate conditions that directly affect the economy. As the frequency and scale of extreme weather conditions associated with climate change are increasing (Figure 2.3.3.1 and Table 2.3.3.1), their impact on price trends is increasing too. The transmission mechanism principally works via food prices, which can increase due to the negative impact of a weather shock on agricultural production. Based on econometric analysis, we investigate empirical link between extreme weather conditions and unprocessed food prices in Slovenia.

We chose the E3CI[23] index (Figure 2.3.3.1) as a measure of the extreme weather conditions. The index covers five unfavourable weather phenomena: high and low temperatures, drought, heavy precipitation and strong winds. E3CI shocks, i.e. extreme

Figure 2.3.3.1: **E3CI weather indicator and inflation**



Source: IFAB, Banka Slovenije calculations. Latest data: April 2023.



Note: * The most relevant food-import countries for SI (AT, DE, IT, HU and HR) are considered as their respective weahter conditions can have an impact on Slovenian unprocessed food inflation.
Source: SORS, IFAB, Banka Slovenije calculations. Latest data: January 2023.

[23] European Extreme Events Climate Index, developed by the IFAB (International Foundation Big Data and Artificial Intelligence for Human Development).

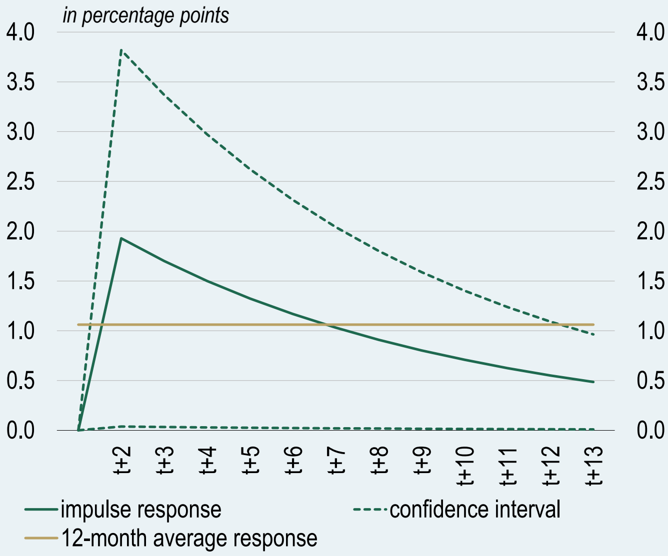
weather events,[24] are presented in Figure 2.3.3.1, which shows that since 2011 such unfavourable weather events have become increasingly more frequent.

For example, the left-hand graph in Figure 2.3.3.1 shows that 8 out of 12 cases of the E3CI index exceeding two standard deviations of the distributions (since 1996) have occurred after 2011. In addition, the right-hand graph shows that prices of unprocessed food are affected by both extreme events in Slovenia but also extreme events in countries from which Slovenia imports the largest quantities of food commodities and unprocessed food. The graph also shows that extreme weather events are followed by an increase in prices of unprocessed food with a delay of one to three months.

The analysis demonstrates that a standardised shock in the indicator of extreme weather conditions leads to a 1.9 percentage point higher growth of unprocessed food prices.

To analyse the effect of extreme weather events on food prices we used a smooth transition autoregressive model (STAR model[25]), which formally evaluates a threshold at which weather phenomena are defined as extreme. In our case, this threshold is estimated at the value of 0.46 of the E3CI index. The results indicate (Table 2.3.3.1) that extreme weather conditions significantly contribute to the inflation of unprocessed food with a lag of two months. At that point, there is also the greatest effect of such unfavourable weather phenomena since a shock of 1 percentage point in the E3CI index results in a 1.9 percentage point higher growth of unprocessed food prices (Figure 2.3.3.2). The effect of the shock is persistent and in a 12-month period on average contributes to around 1 percentage point higher annual rates of the unprocessed food.

Figure 2.3.3.2: **Impulse response of unprocessed food inflation to a shock in the E3CI weather indicator**



Note: Depicted is the impulse response in nonlinear part with a 90% confidence interval. Time unit is one month.
Source: SORS, IFAB and ECB, Banka Slovenije calculations.

[24] If the E3CI index value is exceeding 1, we consider it as a shock.
[25] Smooth Transition Autoregressive model.

Table 2.3.3.1: **STAR model estimate**

Dependent variable	Time-varying independent variable		Time-invariant independent variables			Threshold
	Linear part	Nonlinear part				
Unp. food inflation$_t$	E3CI$_{t-2}$	E3CI$_{t-2}$	Constant	Unp. food inflation$_{t-1}$	Farm gate$_{t-1}$	E3CI$_t$
	-0.29	1.93*	0.26	0.88***	0.04***	0.46

Note: Coefficients are in percentage points. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.
Source: SORS, IFAB and ECB, Banka Slovenije calculations.

3 Risks and uncertainties

In the forecast period, the economic environment will be accompanied by challenges relating principally to a persistently high inflation environment and uncertainties in the international macroeconomic and financial environment.

The key risk accompanying the macroeconomic projections is price trends. High inflation impacts confidence in the economy and reduces household purchasing power and the investment potential of companies. Furthermore, continuing upward deviation of Slovenian inflation from the international average could impact economic activity through the loss in export competitiveness. An additional negative risk to the projection of economic growth is the financial risks, which in an environment of high interest rates, could strengthen on the basis of higher debt servicing costs, more expensive borrowing and a higher rate at which existing investments are discounted. These factors were already emerging at the beginning of the year in the increased stress in the US and Swiss banking systems. The increasing frequency of such events could, in the forecast period propagate to domestic economy through increased uncertainties in the global financial system, spill-overs of non-performing assets and additional tightening of financing conditions and lending terms. There are also uncertainties remaining around the geopolitical situation, where further intensifications could notably impact the assumptions for the external environment on which the projection is based. Further sanctions against Russian economy and complete stoppage of remaining gas flows from Russia could also raise uncertainty about the security of energy supply during this year's winter period. Finally, in the labour market, the shortage of adequate workers remains a significant challenge and potential limiting factor to the medium-term employment growth.

In contrast to the highlighted negative risks, the baseline forecast could be positively affected by the accelerated stabilisation of global supply pressures and stronger growth of the world economy. This could affect the economic environment positively through the more rapid fall of inflation and stronger growth of global demand in the face of strengthened activity in global production chains. A brighter outlook regarding global demand could likewise be maintained by the high employment and stronger private consumption in the advanced trading partners. Economic activity could also be higher due to the "learning effects" that economies exhibited in recent years in the face of various shocks and policy challenges. During the pandemic and energy crisis these effects contributed to realised activity consistently exceeding previous projections, and were evident in the trend divergence between hard and survey data of economic activity.

Table 3.1: **Risks to GDP growth**

Positive risks	Negative risks
Learning effects.	High inflation, widening of inflation divergence and impact on competitiveness.
Intensive easing of supply pressures.	Increased financial uncertainties due to the sudden raising of interest rates.
More rapid recovery of global demand with the favourable growth in China and high employment in the USA.	Geopolitical risks and the reliability of gas supply.
	High labour market tightness and deficit of adequate personnel.

Despite the positive revisions, risks to the projected inflation remain balanced on the upwards.

Prominent among the domestic inflation factors is the rising level of wage pressures, which could more than offset decreasing costs from energy prices and intermediate goods. On the other hand, a reduction in profit margins could mitigate the pass-through of wage growth to end prices envisaged in the latest projections. Additionally, inflation could be lower than projected in the baseline in case of a more rapid easing of domestic demand in the event of the negative risks to the economic environment playing out. In terms of global factors, the risks to baseline projection are closely tied to the uncertainties relating to the assumptions regarding wholesale energy prices, food commodities, the exchange rate and further normalisation of the situation in supply chains. The deterioration of geopolitical situation and fragmentation of international trade currents could lead to renewed supply limitations and increased prices of primary raw materials. Higher projected growth in food prices could also be brought about by extreme weather conditions, which last summer affected food production in Slovenia and are this year appearing to be significant in certain parts of Europe. In contrast to this, weaker growth of global demand could lead to a more rapid drop in prices of energy and other raw materials and thereby to lower import prices.

Table 3.2: **Inflation risks**

Positive risks	Negative risks
Increasing wage pressures and a strengthening of other domestic inflation factors.	Accelerated resolving of difficulties in supply chains and normalisation of energy prices.
Geopolitical fragmentation and the consequent impact on energy markets and supply chains.	Mitigation of passing on higher labour costs, at the expense of profit margins.
Extreme weather events.	

3.1 Selected Theme: Model scenarios of selected risks

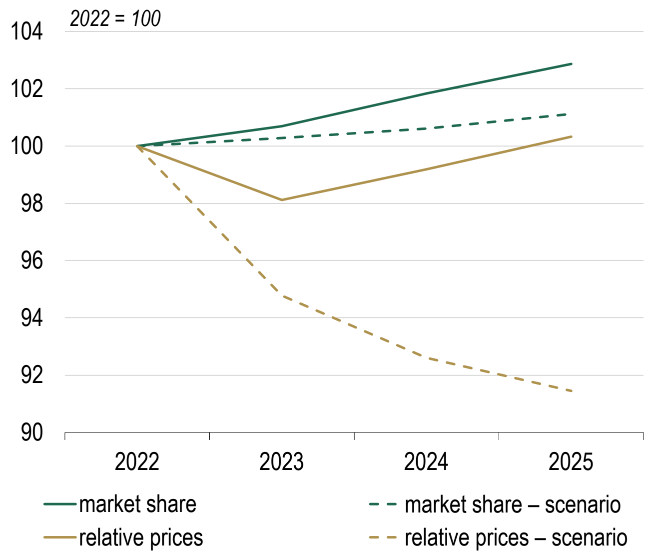
In the Selected Theme we devote attention to the model evaluation of the main macroeconomic risk scenarios. In the risk scenarios, model simulations point on average to a 0.8 percentage points slower annual growth of GDP compared with the baseline projection.

The high and persistent inflation represents a key challenge to the domestic macroeconomic environment. Despite the dissipating contribution of energy price growth, inflation remains high and is increasingly stemming from domestic inflationary pressures. In contrast to the global supply shocks, which were for the most part common across relevant trading partners, the growing domestic factors are increasing the risks of greater divergence of inflation among euro area countries. This could bolster the risks for economic growth via unfavourable pressures on export competitiveness of the Slovenian economy.

Figure 3.1.1 shows the loss of price competitiveness relative to the baseline forecast of growth of real exports and GDP in the case of a scenario with a greater inflation spread between Slovenia and the euro area. Compared with the baseline forecast, in which these inflation spreads are only partly passed on to relative export prices, in the risk scenario we assume the pass-through to be complete. The inflation spread and consequent shock to export prices in an individual year of the projection is defined as the difference in the projected inflation in Slovenia and the lowest projected inflation in an individual member state of the euro area.[26] The transmission channels for the pass-through of domestic end prices to export prices are in the scenario related to adjustment of wages to past inflation and higher operating costs associated with the growth in the prices of services and other goods.

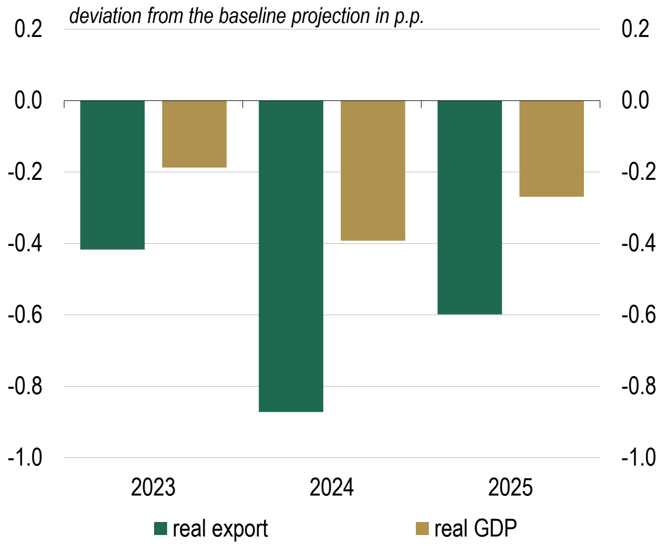
Figure 3.1.1: **Impact of the loss of export competitiveness on exports and GDP**

Relative prices and market shares



Source: Eurostat, Banka Slovenije calculations and projections.

Impact on GDP and export growth



Source: Eurostat, Banka Slovenije calculations and projections.

[26] The projections for individual euro area Member States derive from the Eurosystem June forecasts.

The impact of the pass-through of inflation spreads to relative export prices on the macroeconomic environment is evaluated quantitatively in the scenario using Banka Slovenije main macroeconomic model.[27] Based on model simulation, the loss of export competitiveness stemming from inflation spreads could on average over the forecast horizon contribute to around 0.7 percentage points lower real growth of exports compared with the baseline forecast. This would in turn lead to the 0.35 percentage points lower real growth of GDP over the forecast horizon.

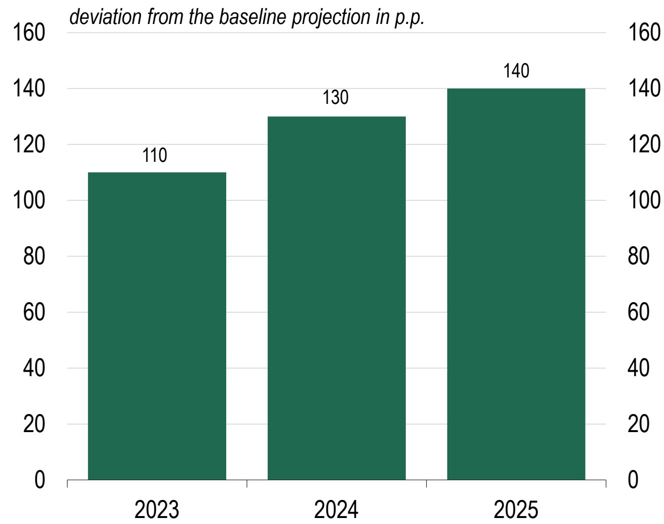
The persistent high inflation could warrant a longer lasting and more restrictive monetary policy. The further tightening of financing conditions would amplify financial uncertainties and the risk for the economic environment.

The environment of high interest rates is increasing financial risks and thereby the probability of enhanced passing on of more stringent financial conditions to the real economy. The transmission channels of a deteriorating macroeconomic environment through financial amplification usually relate to the higher cost of external financing, lower profitability, a deterioration of the quality of credit portfolios and the outflow of liquidity based on a flight-to-quality. The enhanced passing on of tightened financial conditions to the real economy in a period of heightened financial uncertainties is addressed in empirical literature on the basis of vulnerable growth or ‘macro at risk’ models.

The purpose of the aforementioned models is to identify the enhanced statistical link between the financial conditions and the lower quantiles of GDP growth distribution. The effect of heightened financial risk in an environment of tightened financing conditions is evaluated in the context of the latest projections on the basis of a quantile regression, incorporating GDP growth as a dependent variable and measure of financial conditions as an independent variable. In the regression, the financial conditions are observed on the basis of the projected spreads between yields of 10-year Slovenian

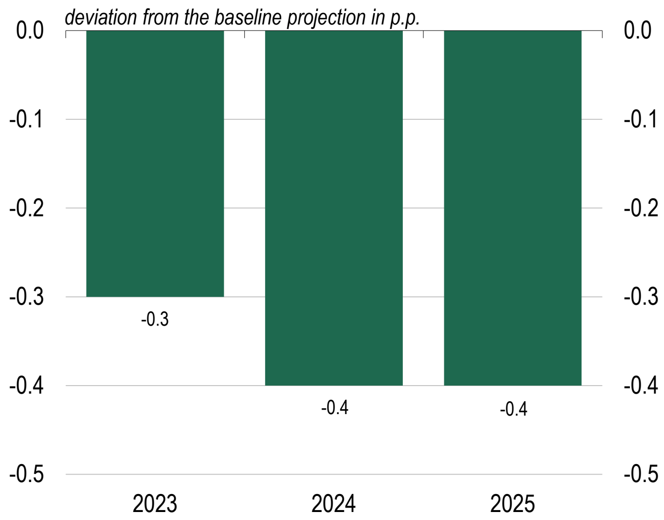
Figure 3.1.2: **Growth risks due to heightened financial uncertainties**

The spread between the Slovenian and German long-term bond yields



Source: ECB, Banka Slovenije calculations.

Impact of enhanced transmission of financial risks on GDP growth



Source: ECB, Banka Slovenije projections.

[27] Milan Damjanović, Slovene Quarterly Macroeconomic Model: Overview and Properties, 2023. Banka Slovenije Working Papers.

and German bonds. The increased spreads of government bond yields has in the past provide a viable leading indicator of high financial stress. Taking into account the enhanced link between GDP growth and financial conditions observed in the 25th percentile of the conditional distribution of the GDP growth, the average annual growth of GDP in the scenario of heightened financial risk would be around 0.4 percentage points lower than in the baseline forecast (Figure 3.1.2).

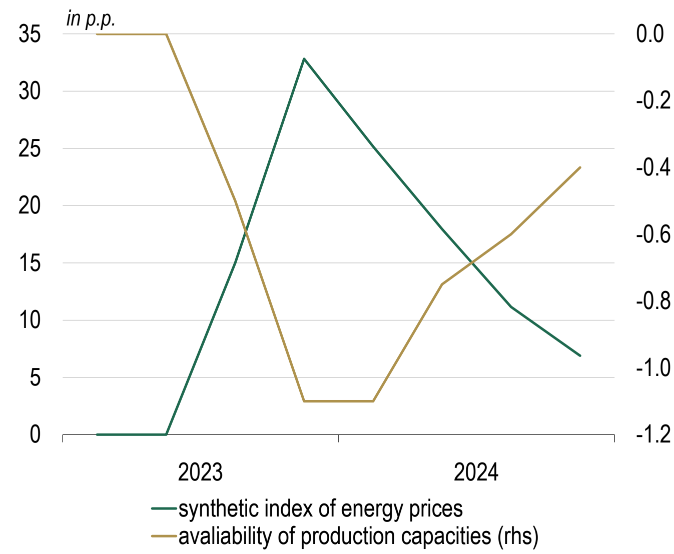
The uncertainties surrounding the supply of gas remain a significant risk for the macroeconomic environment. In the coming winter the security of gas supply will depend in particular on the rationalisation of use, weather conditions and the possibility of filling up stocks with the existing flows of gas into Europe.

According to European Commission data, natural gas from Russia between January and November 2022 still accounted for just under a quarter of all gas imports into EU countries.[28] Additional escalation of the war in Ukraine and the introduction of possible new sanctions against Russia could lead to a complete embargo on remaining gas imports from Russia. In conditions of a harsher winter, inadequate diversification of gas sources, uncoordinated use of infrastructure at the EU level and inadequate rationalisation of consumption in the preceding period, could result in a shortage of gas in the following winter.

Figure 3.1.3 shows an evaluation of the scenario that assumes a complete termination of Russian gas supplies to the EU from the third quarter of 2023 onwards. In this scenario, the drop in gas supplies is reflected in roughly 30% higher energy prices in the final quarter of this year and in a 1% decline in production capacity.[29] According to model simulations this would result roughly 0.2 percentage points lower economic growth in years 2023 and 2024, while inflation would be 0.3 and 0.6 percentage points higher in the respective years.

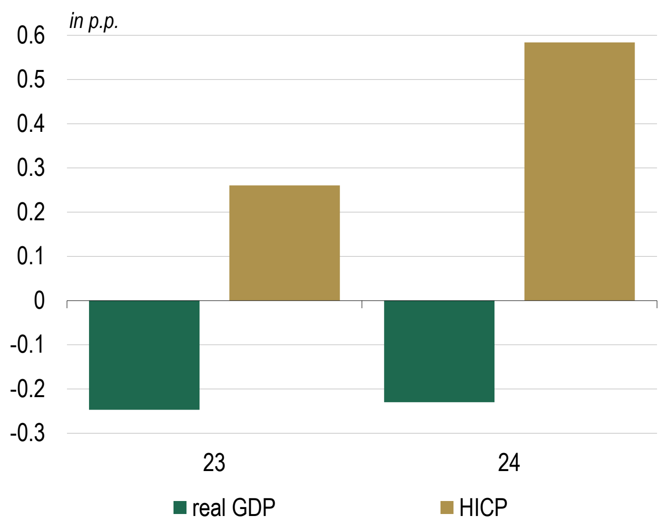
Figure 3.1.3: **Uncertainties over natural gas supply**

Assumptions of the scenario of insufficient gas supply



Source: ECB, Banka Slovenije calculations.

Impact of insufficient gas supply on real GDP growth and inflation



Source: ECB, Banka Slovenije calculations.

[28] The trend of imports of Russian gas is shown in the link.

[29] In the modelling of the scenario, the decline in production capacity is mapped into a decline in potential output relative to the core projection via an approach based on evaluating the impact of the reduction in energy supplies on potential output, which is described in detail on page 24 of the June 2022 issue of the Macroeconomic Projections.

4 Statistical Appendix

Table 4.1: **Key macroeconomic indicators at the monthly level for Slovenia**

	2021	2022	12 m. 'till Mar.23	3 m. 'till Mar.22	3 m. 'till Mar.23	2023 Jan.	2023 Feb.	2023 Mar.	2023 Apr.	2023 May
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	2.4	0.6	-0.8	4.3	-1.3	-1.0	-1.2	-1.6	-2.7	-2.9
- confidence indicator in manufacturing	8.3	0.0	-3.1	7.7	-4.7	-3.0	-5.0	-6.0	-9.0	-9.0
					year-on-year growth rates in %					
Industry: - total	10.2	1.3	-1.5	6.4	-4.6	-6.7	-1.2	-5.5	...	...
- manufacturing	11.8	3.8	1.9	6.8	-0.5	-1.2	1.8	-1.8	...	...
Construction: - total	-0.5	22.2	22.9	20.0	23.5	24.9	17.0	28.3	...	...
- buildings	-23.0	53.4	48.9	36.0	25.6	41.9	11.8	27.6	...	...
Trade and service activities - total	12.2	9.8	7.1	15.3	3.5	5.9	2.7	2.1	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	8.3	-0.4	4.1	-6.4	11.9	12.5	9.2	13.7	...	...
Retail trade, except of motor vehicles and motorcycles	16.2	7.7	3.6	14.7	-2.9	5.2	-3.3	-9.0	...	...
Other private sector services	12.4	11.8	9.3	18.7	7.1	8.5	7.0	5.9	...	...
Labour market					*year-on-year growth rates in %*					
Average gross wage	6.0	2.7	5.6	-1.2	10.4	11.5	10.7	9.2	...	...
- private sector	5.9	6.3	7.9	4.4	11.0	12.4	11.3	9.4	...	...
- public sector	6.4	-2.6	2.0	-9.2	9.4	9.9	9.5	8.8	...	...
Real net wage[1]	3.0	-5.1	-3.0	-6.7	1.4	2.9	2.6	-1.3	...	...
Registered unemployment rate (in %)	7.6	5.8	5.5	6.6	5.4	5.6	5.4	5.1	...	...
Registered unemployed persons	-12.6	-23.8	-21.5	-26.3	-17.6	-18.4	-17.6	-16.9	-16.3	...
Persons in employment	1.3	2.4	2.1	3.0	1.8	1.9	1.8	1.8	...	...
- private sector	1.3	3.0	2.7	3.6	2.2	2.3	2.1	2.1	...	...
- public sector	1.1	0.7	0.6	1.2	0.8	0.8	0.8	0.9	...	...
Price Developments					*year-on-year growth rates in %*					
HICP	2.0	9.3	10.2	6.3	9.9	9.9	9.4	10.4	9.2	8.1
- services	0.6	5.5	6.5	3.6	7.5	7.6	7.8	7.2	8.0	8.2
- industrial goods excluding energy	1.3	6.3	6.6	5.4	6.8	6.9	6.2	7.2	7.2	6.3
- food	0.7	10.6	13.6	5.2	17.1	17.2	16.7	17.3	14.2	14.3
- energy	11.3	24.8	22.3	19.0	10.3	9.9	7.6	13.5	7.9	0.7
Core inflation indicator[2]	0.9	5.9	6.5	4.4	7.2	7.3	7.1	7.2	7.6	7.3
Balance of Payments - Current Account					*in % GDP*					
Current account balance	3.8	-0.4	1.3	-1.9	5.5	3.9	4.8	7.8	...	...
1. Goods	1.7	-3.9	-2.6	-4.1	1.7	-0.5	1.8	3.7	...	...
2. Services	4.7	6.1	6.4	4.5	5.6	5.4	5.3	6.1	...	...
3. Primary income	-1.7	-1.7	-1.6	-1.2	-1.1	-0.3	-1.3	-1.6	...	...
4. Secondary income	-0.9	-0.9	-0.8	-1.0	-0.7	-0.8	-1.0	-0.4	...	...
					nominal year-on-year growth rates in %					
Export of goods and services	19.5	22.8	19.3	23.2	10.0	12.0	12.4	6.5	...	...
Import of goods and services	25.4	29.8	20.4	38.2	1.9	10.8	1.3	-4.2	...	...

Public Finances	2021	2022	12 m. 'till Apr.23		2022 Jan.-Apr.		2023 Jan.-Apr.	
Consolidated general government (GG) balance[3]	*EUR mio*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	21,383	23,311	39.7	5.6	7,658	14.3	7,941	3.7
Tax revenue	18,786	20,557	35.3	7.7	6,663	11.4	7,069	6.1
From EU budget	950	961	1.5	-20.5	469	52.1	392	-16.5
Other	1,646	1,794	2.9	-0.8	525	28.4	480	-8.6
Expenditure	24,300	24,886	42.2	3.5	7,803	-0.9	7,986	2.3
Current expenditure	10,394	10,283	17.5	-0.6	3,409	1.2	3,496	2.6
- wages and other personnel expenditure	5,751	5,481	9.5	1.3	1,730	-9.0	1,898	9.7
- purchases of goods, services	3,351	3,557	5.9	1.4	1,089	13.4	1,061	-2.6
- interest	732	661	1.2	5.5	345	-18.6	373	8.2
Current transfers	11,319	11,261	19.1	1.6	3,756	-4.5	3,813	1.5
- transfers to individuals and households	9,168	9,294	15.7	3.7	3,060	-5.2	3,102	1.4
Capital expenditure, transfers	1,959	2,612	4.5	32.6	398	17.9	463	16.2
GG surplus/deficit	-2,917	-1,575	-2.5		-145		-45	

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

Table 4.2: **Key macroeconomic indicators at the quarterly level for Slovenia and the euro area**

	2020	2021	2022	22Q2	22Q3	22Q4	23Q1	2020	2021	2022	22Q2	22Q3	22Q4	23Q1
				Slovenia							***euro area***			
Economic developments							***q-o-q growth rates in %***							
GDP				0.7	-1.3	0.7	0.6				0.9	0.4	0.0	0.1
- industry				0.5	-1.2	-1.4	1.6				0.5	0.9	0.0	…
- construction				2.0	4.0	3.7	4.3				-0.7	-1.1	-0.5	…
- mainly public sector services (OPQ)				0.2	0.1	0.1	-0.2				-0.2	1.5	-0.2	…
- mainly private sector services (without OPQ)				1.0	-1.1	1.0	0.5				1.0	0.6	-0.3	…
Domestic expenditure				-0.2	-3.8	0.0	-0.3				0.9	1.6	-1.0	…
- general government				-3.1	0.1	0.8	0.3				0.1	-0.1	0.8	…
*- households and NPISH**				0.5	0.4	0.2	0.8				1.1	0.9	-0.9	…
- gross capital formation				0.5	-8.8	-5.0	-7.5				1.5	4.7	-3.0	…
- gross fixed capital formation				-0.6	3.8	0.1	3.0				0.9	4.0	-3.5	…
							y-o-y growth rates in %							
GDP	-4.3	8.2	5.4	8.6	3.3	0.2	0.7	-6.1	5.4	3.5	4.4	2.5	1.5	…
- industry	-3.4	9.2	…	4.2	-0.3	-6.3	-0.7	-6.4	7.2	2.0	2.2	2.4	1.1	…
- construction	-1.9	10.0	…	7.7	10.4	15.0	15.2	-5.7	5.0	1.6	1.9	0.4	-1.1	…
- mainly public sector services (OPQ)	2.4	3.8	…	2.6	1.5	1.5	-0.4	-2.7	3.5	1.6	1.2	1.3	1.8	…
- mainly private sector services (without OPQ)	-5.5	8.3	…	10.0	4.5	1.3	1.4	-6.7	5.6	4.1	5.3	3.1	1.8	…
Domestic expenditure	-4.7	9.9	8.0	11.2	3.3	1.2	-4.4	-5.8	4.2	3.8	4.5	3.7	1.0	…
- general government	4.1	5.8	0.9	0.8	-0.6	-1.0	-1.9	1.0	4.3	1.4	1.1	0.5	0.8	…
- households and NPISH	-6.9	9.5	8.9	12.9	3.2	2.4	2.2	-7.7	3.7	4.3	6.1	2.2	0.9	…
- gross capital formation	-7.1	15.1	12.4	16.7	7.6	0.5	-19.9	-7.4	5.3	5.0	4.6	10.6	1.4	…
- gross fixed capital formation	-7.9	13.7	7.8	7.3	8.7	5.9	6.5	-6.2	3.9	3.7	2.9	7.8	0.0	…
- inventories and valuables, contr. to GDP growth in p.p.	0.1	0.4	1.1	2.4	-0.2	-1.1	-6.5	-0.3	0.3	0.3	0.4	0.7	0.3	…
Labour market							***q-o-q growth rates in %***							
Employment				0.5	0.2	0.3	0.1				0.4	0.3	0.3	0.6
- mainly private sector (without OPQ)				0.5	0.2	0.3	0.1				0.4	0.3	0.3	…
- mainly public services (OPQ)				0.3	0.4	0.3	0.4				0.3	0.2	0.3	…
							y-o-y growth rates in %							
Employment	-0.7	1.3	2.4	3.1	2.0	1.6	1.1	-1.5	1.4	2.3	2.7	1.8	1.5	1.7
- mainly private sector (without OPQ)	-1.3	1.0	2.6	3.4	2.1	1.6	1.0	-2.3	1.2	2.5	3.1	1.9	1.6	…
- mainly public services (OPQ)	2.2	2.7	1.8	1.8	1.6	1.4	1.5	0.9	2.0	1.5	1.6	1.4	1.2	…
Labour costs per employee	3.4	7.9	4.3	3.0	5.5	7.3	11.9	-0.2	3.9	4.5	4.5	3.9	5.1	…
- mainly private sector (without OPQ)	1.5	8.0	…	6.7	7.0	7.8	12.5	-1.3	4.6	4.8	5.3	4.1	4.8	…
- mainly public services (OPQ)	9.4	7.7	…	-7.8	1.0	5.7	9.9	2.3	2.0	3.7	2.5	3.5	5.7	…
Unit labour costs, nominal**	7.3	1.1	1.4	-2.3	4.2	8.7	12.4	4.8	-0.2	3.3	2.8	3.2	5.0	…
Unit labour costs, real***	6.0	-1.5	-5.5	-7.4	-5.2	-0.5	0.0	2.9	-2.2	-1.4	-1.6	-1.4	-0.7	…
							in %							
LFS unemployment rate	5.0	4.7	4.0	4.2	4.0	3.5	…	7.9	7.7	6.8	6.6	6.7	6.7	…
Foreign trade							***q-o-q growth rates in %***							
Real export of goods and services				2.8	3.5	-4.5	0.4				1.8	1.7	0.0	…
Real import of goods and services				0.7	1.6	-4.5	-1.4				1.9	4.2	-1.9	…
							y-o-y growth rates in %							
Real export of goods and services	-8.6	14.5	6.5	9.3	11.9	-2.5	1.9	-9.0	10.7	7.0	7.7	8.0	4.1	…
Real import of goods and services	-9.6	17.6	9.8	12.6	12.6	-1.5	-3.8	-8.5	8.4	8.0	8.3	11.2	3.0	…
Current account balance as % of GDP****	7.6	3.8	-0.4	0.6	-0.1	-0.4	1.3	1.6	2.3	-0.7	0.6	-0.7	-0.7	…
External trade balance as contr. to GDP growth in p.p.	0.0	-0.8	-2.1	-1.9	0.1	-0.9	5.1	-0.5	1.3	-0.2	0.1	-1.0	0.6	…
Financing							***in % of GDP***							
Banking system's balance sheet	98.0	94.5	87.8	88.5	88.3	87.8	85.0	293.5	284.5	279.8	292.5	298.0	279.8	…
Loans to NFCs	20.2	19.3	19.4	19.3	19.5	19.4	18.9	39.8	37.7	37.3	37.3	37.6	37.3	…
Loans to households	22.8	21.6	20.8	21.1	20.9	20.8	20.3	52.8	51.1	49.3	50.1	49.9	49.3	…
Inflation							***in %***							
HICP	-0.3	2.0	9.3	9.0	11.3	10.6	9.9	0.3	2.6	8.4	8.1	9.3	10.0	8.0
HICP excl. energy, food, alcohol and tobacco	0.8	0.9	5.9	5.6	6.4	7.0	7.2	0.7	1.5	4.0	3.7	4.4	5.1	5.6
Public finance							***in % of GDP***							
Debt of the general government	79.6	74.5	69.9	73.5	72.4	69.9	…	97.2	95.5	91.5	94.2	92.9	91.5	…
One year net lending/net borrowing of the general government****	-7.7	-4.6	-3.0	-3.2	-3.0	-3.0	…	-7.1	-5.3	-3.6	-3.2	-3.2	-3.6	…
*- interest payment**** *	1.6	1.2	1.1	1.1	1.1	1.1	…	1.5	1.5	1.7	1.5	1.6	1.7	…
*- primary balance**** *	-6.1	-3.4	-1.9	-2.1	-1.9	-1.9	…	-5.6	-3.9	-1.9	-1.6	-1.7	-1.9	…

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 figures for Slovenia are calculated as the difference between the seasonally adjusted figures for aggregate final consumption and government final consumption.
** Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity.
*** Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity.
**** 4-quarter moving sums.
Source: SORS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations.