BANKA SLOVENIJE

EVROSISTEM

# Review of macroeconomic developments

March 2023

Title: Review of macroeconomic developments

Issue: March 2023

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

The figures and text herein may only be used or published if the source is cited.

Based on data available by 3 March 2023.

The material was discussed at the meeting of the Governing Board of Banka Slovenije of 7 March 2023.

© Banka Slovenije

ISSN 2820-4751

This publication is also available in Slovene.

## Contents



## Boxes

# Summary

***The economic outlook improved in the early part of this year, in Slovenia mainly due to persistence of domestic demand and record employment, but domestic core inflation also remains high.***

- **The survey economic indicators for the euro area are favourable for the first quarter of this year.** Year-on-year GDP growth stood at 1.9% in the final quarter of last year, while the quarterly growth rate was 0.1%. The figures for January and February are more promising: the composite PMI moved into the zone of expansion, while the economic sentiment indicator remained above its average over the final quarter of last year. Because last year's economic developments were better than expected, in February the European Commission raised its GDP growth forecast for this year to 0.9% (compared with the ECB forecast of 0.5% from last December). Inflation in the euro area slowed to 8.5% in February according to initial estimates, driven by a fall in energy prices. By contrast, food price inflation and core inflation are continuing to strengthen, the latter hitting 5.6% in February. The European Commission lowered its average inflation forecast for this year from 6.1% to 5.6% (compared with the ECB forecast of 6.3% from last December).
- **Given the persistence of high core inflation, major central banks have continued to raise their key interest rates, whilst market expectations of further hikes in the euro area and the US increased between mid-January and early March.** This led to an increase in government bond yields in Germany and the US, while higher-risk asset classes have mostly continued to increase in value due to the unexpectedly robust economy, supported by the mild winter in Europe and the opening up of the Chinese economy. However, this increase was limited by the growing concerns about the longer period of higher interest rates.
- **The economic situation in Slovenia remains favourable.** Amid continuing growth in value-added in services and construction, and a simultaneous increase in household consumption and investment, year-on-year GDP growth remained positive in the final quarter of last year, at 0.2%. The favourable situation on the domestic market most probably continued in January and February: the survey confidence indicators in sectors primarily dependent on the domestic market remained high, while total card payments and ATM withdrawals also continued to rise in real year-on-year terms. Manufacturing is in a worse position, with firms again assessing current demand as weak following a significant fall in value-added in the final quarter of last year. Quarterly GDP growth reached 0.8% in the final quarter of last year, which in addition to favourable data for January and February has improved this year's economic outlook.
- **Employment is at a record high, while the year-on-year increase in the workforce in employment is above its long-term average.** At the same time, the available pool of labour on the domestic labour market is continuing to diminish, and firms are therefore increasing their hiring of foreign workers. Seasonally adjusted unemployment hit a new low in February, and the trend of decline could continue over the coming months according to our assessments. The labour market remains tight, despite certain signs of a slowdown in demand for workers and in expectations for new hires. Growth in the average gross wage slowed to 2.8% last year as

a result of base effects in the public sector. In the private sector, it remained similar to last year at 6.2%. The risk of rising wage pressures remains high.

- **The current account was in deficit last year, in the wake of high growth in import prices and strong domestic demand.** The deficit amounted to EUR 450 million, compared with the surplus of EUR 2.0 billion recorded in 2021. More than half of the change in the position (EUR 1.3 billion) came from the deterioration in the terms of trade amid high growth in energy and other commodity prices, while the remainder was primarily attributable to the volumetric increase in merchandise imports outpacing that in exports. Conversely there was a large surplus of trade in services. With price pressures easing and foreign demand weakening, nominal growth in merchandise trade slowed in the final quarter of last year, to year-on-year rates of 16.0% on the import side and 9.8% on the export side. Year-on-year growth in trade in certain services also slowed.
- **Despite reduction, domestic inflation remained high at 9.4% in February, a slowdown being driven primarily by a fall in energy prices, while core inflation remained above 7.0%.** Energy price inflation slowed to 7.7% due to price caps on electricity and gas and reduction in fuel prices, but is still driving up prices of non-energy items of the consumer basket via rising costs. The largest contribution to inflation of 3.8 percentage points came from food prices, where certain basic food products recorded notable price rises. Core inflation excluding energy and food stood at 7.1%, services price inflation having risen to 7.8%.
- **The general government deficit amounted to 2.7% of GDP over the 12 months to January of this year.** The most notable development in the public finances in recent months has been the slowdown in year-on-year growth in revenues. Growth in tax revenues remained low in the early part of the year, in reflection of the more moderate growth in household consumption and a reduction in certain taxes. Aggregate revenues were actually down in year-on-year terms, Slovenia having received funds under the recovery and resilience plan in January of last year, but not this year. Expenditure was also down in year-on-year terms in January, partly because of a decline in expenditure to mitigate the pandemic. Expenditure to mitigate the impact of the rise in energy prices was still low in the early part of the year, and had a lesser impact on the public finances than measures on the revenue side, but its impact can be expected to increase over the coming months. A further increase in government investment is planned for this year, amid increased disbursement of funds from the EU budget as the current financial framework ends, and the disbursement of funds under the recovery and resilience plan.

# 1 International Environment

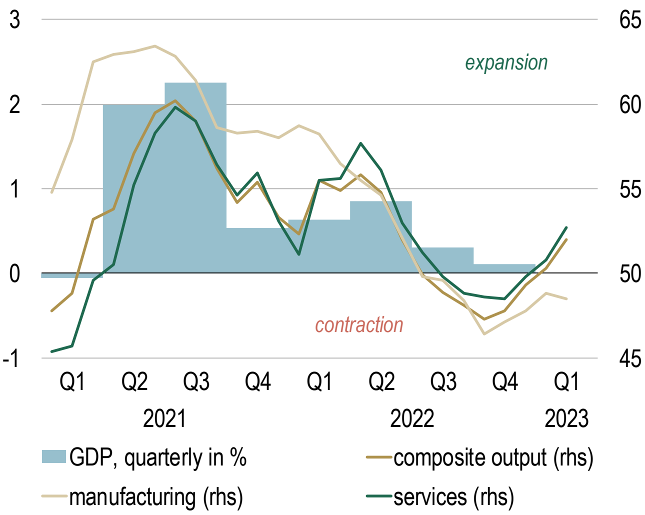
***After a slowdown at the end of last year, which is primarily attributable to weaker private consumption, the figures available for the early part of the year suggest a strengthening of economic activity in the euro area.***

Under the impact of high inflation and uncertainty, the euro area economy slowed in the second half of last year (see Figure 1.1). It recorded quarterly growth of 0.1% in the final quarter of last year, the lowest figure since the beginning of 2021. Judging by the monthly activity indicators, household consumption was particularly weak: real turnover in retail excluding motor vehicles was down 1.1% in quarterly terms, while industrial production was down 0.2% in quarterly terms after a year of increase. Meanwhile construction activity stagnated after two quarters of contraction. Year-on-year GDP growth slowed by 0.4 percentage points in the final quarter of last year to 1.9%, comparable to its average over the last period of expansion (2014 to 2019).

The survey indicators suggest strengthening growth in the first two months of this year. The composite PMI passed the 50 mark in January, and jumped 1.7 points to reach 52.0 points in February, the highest figure since June of last year (see Figure 1.1). The recovery in demand brought a sharp improvement in the situation in services, while the manufacturing output indicator rose to its highest figure in nine months (50.1 points).[1] The improvement in confidence in the euro area economy came to an end in February. The economic sentiment indicator reached 99.7 percentage points, down almost 15 percentage points in year-on-year terms, but up 4.4 percentage points on the final quarter of last year.

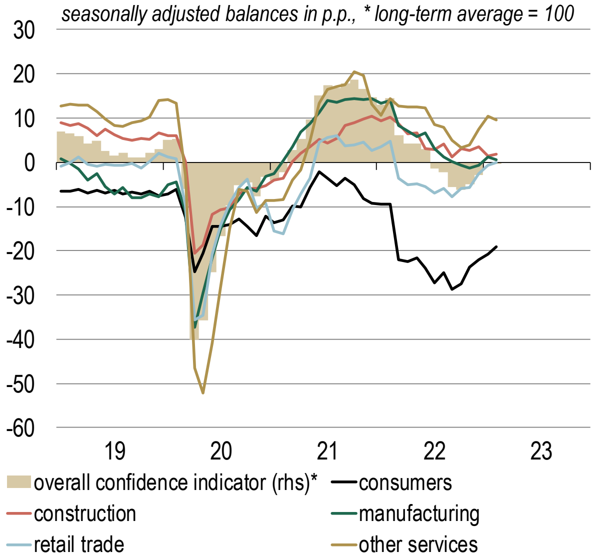
Figure 1.1: **Indicators of economic developments in the euro area**

Purchasing Managers' Index (PMI) and GDP growth




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

Confidence indicators




Source: Eurostat. Latest data: February 2023.

[1] Figure 1.1 illustrates the aggregate manufacturing PMI, which according to S&P Global remained below the 50 mark in February as a result of a run-down of inventories of materials and a decline in the supply terms sub-indicator, which is indicative of diminishing disruption to supply chains, but also of falling demand. Further indications of falling demand come from the new orders indicator, which in February stood below the 50 mark for the tenth consecutive month.

According to the European Commission's February forecasts, euro area economic growth is expected to slow from 3.5% last year to 0.9% this year. Compared with the November forecasts, this year's economic growth forecast is 0.6 percentage points higher, primarily on account of the more favourable developments last year (the ECB forecast from last December was 0.5%).

***Inflation in the non-energy segment of the consumer basket is continuing to strengthen, and the fall in headline inflation in the euro area, which nevertheless remains high, was attributable to a fall in energy price inflation.***

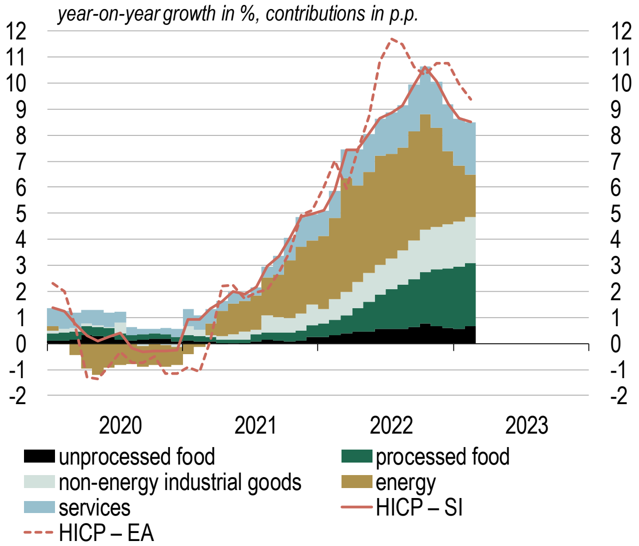
Year-on-year inflation as measured by the HICP fell to 8.5% in the euro area overall, down from 8.6% in January (see Figure 1.2). The slowdown was attributable to a decline in the contribution by energy prices, which still account for a fifth of headline inflation. Year-on-year energy price inflation slowed to 13.7% in February, as a result of current price falls, most notably in electricity and gas prices, and partly as a result of a high base effect.

Although year-on-year headline inflation in the euro area slowed for the fourth consecutive month, food price inflation and core inflation are still rising. This is indicative of a delayed impact from the rise in input costs (energy, commodities), the disruptions to supply chains, and pent-up demand from the pandemic, which is being reflected in higher final prices of products and services. Food price inflation rose to 15.0% in February, with both processed food and unprocessed food recording further price rises. Core inflation excluding energy and food strengthened to 5.6% in February, which alongside the indirect impact of higher energy and food costs also reflects less-intensive seasonal sales in individual product categories.

The range of inflation rates across countries remains wide, and is mainly attributable to differences in energy price inflation (see Figure 1.2). Although energy price inflation in Slovenia is significantly lower than the euro area rate (by 6.0 percentage points in

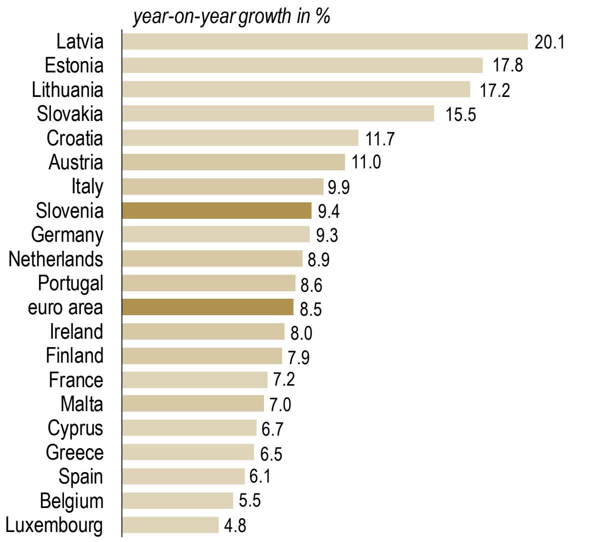
Figure 1.2: **Inflation in the euro area**

Contributions to headline inflation




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

Inflation among the euro area members – February 2023




Source: Eurostat.

February), the domestic headline inflation outpaced the euro area average by 0.9 percentage points owing to higher inflation in the non-energy segment of the consumer basket. Croatia joining the euro area will have practically no impact on measured average inflation in 2023 given its small[2] contribution to the aggregate.

Falling energy prices saw the European Commission lower its forecast for inflation in the euro area this year to 5.6% (compared with the ECB forecast from last December of 6.3%). The risks to inflation developments primarily relate to developments on global energy markets, and the pace of opening in China, and over the medium term primarily relate to domestic factors in connection with wage agreements already reached and the escalation of wage pressures throughout the year.

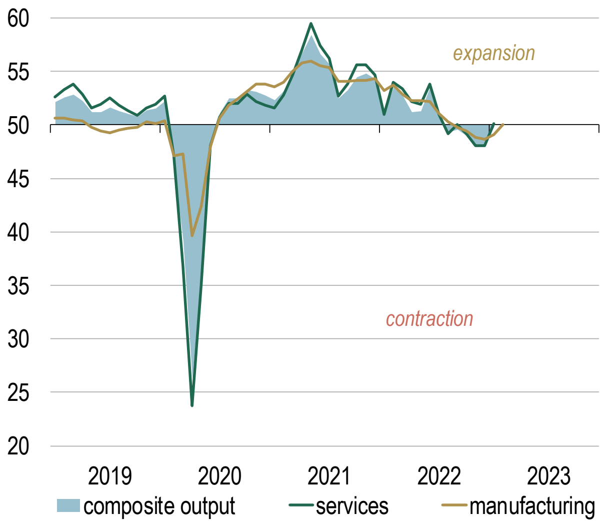
***China's gradual reopening following the lifting of containment measures is supporting recovery in global economic activity.***

After rising to 49.8 points in January, the composite PMI for the global economy was close to the point of neither expansion nor contraction, and then the resumption of growth was indicated in February, primarily as a result of the lifting of containment measures in China (see Figure 1.3). The flash estimates of the PMIs for February show encouraging results for the four largest advanced economies (US, euro area, Japan, UK), with the service sector in particular recording growth in activity. After six months of decline, manufacturing output also increased slightly. According to S&P Global, the recovery in manufacturing remains uncertain at the global level, as demand remains weak, which is already being reflected in the reduction of inventories of finished products and a decline in purchases of commodities and materials.

According to the IMF's January forecasts, global economic growth is expected to slow from 3.4% last year to 2.9% this year, before rising to 3.1% next year. Compared with

Figure 1.3: **Global economic situation and GDP growth forecasts**

JPMorgan Purchasing Managers' Index (PMI) – global




Source: Bloomberg.
Latest data: January 2023, except for manufacturing – February 2023.

Weighted monthly forecasts of GDP growth for Slovenia's major trading partners for 2023 and 2024


Note: All Slovenian trade partners are included: countries with at least 1% of total Slovenian exports of goods and services in the last twelve months (December 2021-November 2022; 21 trading partners with a total share of 85.1% ) and all the other countries as a difference of up to 100% . The growth forecasts for 2023 and 2024 are weighted with the share of each country in the total exports of Slovenia, for other countries the global growth forecast is used. For 2022 the weighted outcome and the December weighted forecast are shown. * Weighted average of GDP growth, since records began. IMF data is used.
Source: SORS, Consensus, IMF, Banka Slovenije calculations.

[2] The weights of euro area countries are derived from the national accounts figures for final household consumption. Croatia's weight is 0.8%, compared with 0.5% for Slovenia and 75% for a total of Germany, France, Italy and Spain.

the October forecasts, last year's estimate and this year's GDP growth forecast are 0.2 percentage points higher, but still below the average between 2000 and 2019 of 3.8%. The relatively low growth forecast is a reflection of rising central bank interest rates, particularly in advanced economies, and the adverse impact of the war in Ukraine. Following the lifting of containment measures in China, and the anticipated increase in global demand, this year's outlook for the Slovenian export sector also improved slightly according to Consensus's February forecasts, but the growth forecast remains below its long-term average (see Figure 1.3).

Quarterly GDP growth in the final quarter of last year remained more resilient than expected in many countries. In contrast to the forecast of a 0.8% contraction, the Chinese economy stagnated in the final quarter of last year, in reflection of the sudden removal of stringent containment measures following the protests in December. The UK economy also stagnated, thereby avoiding a technical recession, having contracted by 0.2% in the previous quarter. Despite rising inflation, the situation in the Japanese economy improved: after declining by 0.3% in the third quarter, GDP grew by 0.2% in the final quarter. Quarterly growth in the US slowed to 0.7% amid slightly weaker domestic demand.

# 2 Monetary Policy and Financial Markets

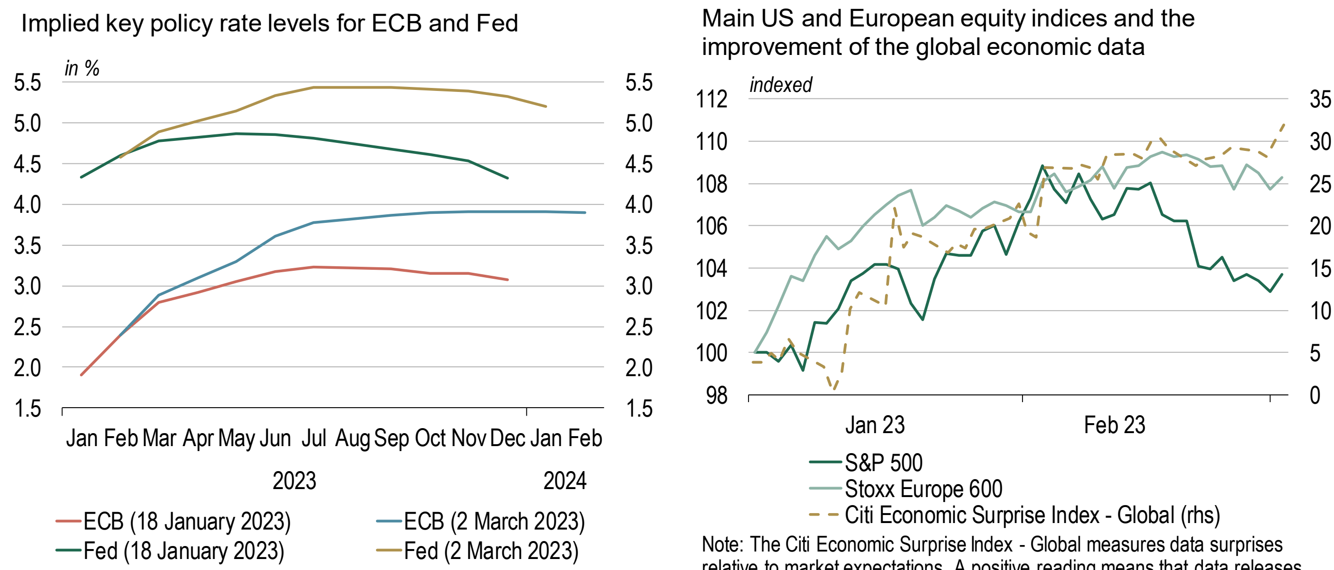
***With core inflation still high, major central banks are continuing to hike interest rates.***

Inflation remains high in the euro area, the US and most other countries, although the US in particular, and lately Europe too, are showing signs that the peak has already been reached as headline inflation rates are slowing, driven largely by a sharp fall in energy prices. Conversely, core inflation components remain at persistently high levels. In light of this, and the better-than-expected economic picture, major central banks are continuing to raise their key interest rates. The Eurosystem raised all three key interest rates by 0.50 percentage points in February and announced that it intends to raise them by the same amount at its March meeting, while stating that further monetary policy moves would depend on new economic forecasts.

The Fed also continued to raise its key interest rate, although slowing inflation meant that February's hike (0.25 percentage points) was smaller than December's (0.50 percentage points). The central banks of the UK, Canada, Australia and Sweden have also continued to raise interest rates.

Given the elevated inflation in the Eurosystem and the more robust economic activity than previously expected, market participants are expecting the ECB deposit facility rate to hit a significantly higher terminal level compared to what was expected in January. According to the current overnight index swap rate, the markets have very high expectations that a terminal rate of 4.00% will be reached in the second half of this year, compared with January's expectations of a rise to 3.25%. In light of the surprisingly good macroeconomic conditions in the US, market expectations of the terminal level of the Fed's key interest rate corridor have also risen: it is expected to reach at least 5.25% to 5.50% by the third quarter of this year (a rise in the corridor to 4.75% to 5.00% was expected in January; see Figure 2.1).

Figure 2.1: **Expectations of key ECB and Fed interest rates, and main share indices in US and Europe**




Note: Calculated from Overnight Index Swap (OIS).
Source: Bloomberg, Banke Slovenije calculations.

Note: The Citi Economic Surprise Index - Global measures data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected.
Source: Bloomberg, Banka Slovenije calculations. Latest data: 2 March 2023.

***The rising expectations of further key central bank interest rate hikes led to an increase in global bond yields between mid-January and early March, while higher-risk asset classes mostly increased in value due to the unexpectedly robust economy.***

Under the influence of investors' strengthening expectations that the rise in key interest rates is not yet close to ending in the Eurosystem and the US (also due to a number of hawkish statements made by the representatives of the ECB and the Fed), yields of shorter and longer maturity government bonds have increased by 0.75 percentage points since mid-January in Germany and by 0.70 to 0.80 percentage points in the US.

Higher-risk asset classes have mostly risen in value since mid-January, primarily as a result of better than expected releases of economic data, but also due to the opening up of the Chinese economy and the continuation of the mild winter in Europe. Further increases in the value of higher-risk asset classes were limited in the second half of February by the strengthened expectations of a longer period of higher interest rates. Stoxx Europe 600, Europe's main equity index, and the S&P 500 in the US have increased by 2.1% since mid-January (taking this year's gains to 8.3% and 3.7% respectively; see Figure 2.1). The positive mood among investors was also reflected in a further fall in the spreads of private-sector bonds over their respective benchmark government bonds.

European natural gas benchmark prices have fallen to their lowest mark in the last 18 months due to the mild winter in Europe. Similarly, prices of Brent crude oil are at their lowest levels since the beginning of 2022, having fluctuated within a relatively narrow range since December (USD 78 to USD 88 per barrel). The encouraging economic figures in the US and the increased expectations regarding the terminal level of the Fed's key interest rate led to a rise of the US dollar against most major global currencies, which, combined with the increase in global bond yields, resulted in a decrease of the price of gold (in US dollars) by 5.3% since mid-January.

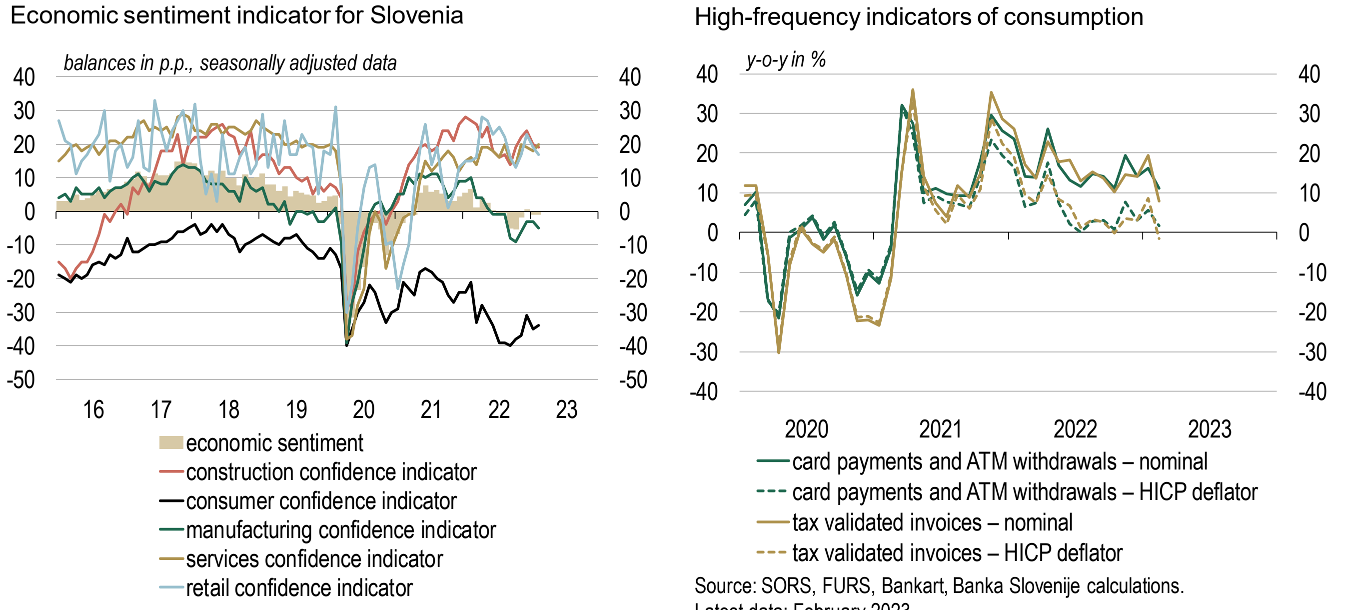
# 3 Domestic Economy

***Confidence in the sectors primarily dependent on the domestic market remained high in the early part of this year, although the economic sentiment indicator declined slightly in February for the second consecutive month, primarily as a result of a decline in manufacturing confidence.***

The economic sentiment indicator was down slightly in February for the second consecutive month. Confidence in the economy nevertheless remained above its average over the final quarter of last year, albeit significantly worse than a year ago. The main reason for the slight deterioration in the economic sentiment in February was a decline in confidence in manufacturing (see Figure 3.1), where firms lowered their assessments of current order books. At the same time, manufacturing firms assessed their capacity utilisation for the first quarter of this year at 82.8%, which is down 3.4 percentage points in year-on-year terms and the lowest figure since the first quarter of 2021. In the early part of this year, 25% of manufacturing firms were facing insufficient foreign demand, double the figure from a year ago.[3]

Confidence remained high in sectors largely dependent on the domestic market. Construction confidence has fallen since December, but remained high, in line with the assessments of order books, activity, and guaranteed work. The survey indicators also suggest that the situation in retail and other private-sector services remained solid, with firms still considerably optimistic in their assessments of demand. Capacity utilisation in other private-sector services remained higher than a year ago. These assessments remain at odds with the low consumer confidence: in February, consumers rated the

Figure 3.1: **Economic sentiment and high-frequency consumption indicators**




Source: SORS, Banka Slovenije calculations.

Source: SORS, FURS, Bankart, Banka Slovenije calculations.
Latest data: February 2023.

[3] February's figures for the manufacturing PMI from the Purchasing Association of Slovenia were more encouraging: it reached 51.1 points, crossing into the zone of expansion above the 50 mark for the first time in eight months. The firms covered by the survey reported increased production activity, renewed growth in new orders, renewed hiring, and a fall in purchase prices. The time series are not seasonally adjusted.

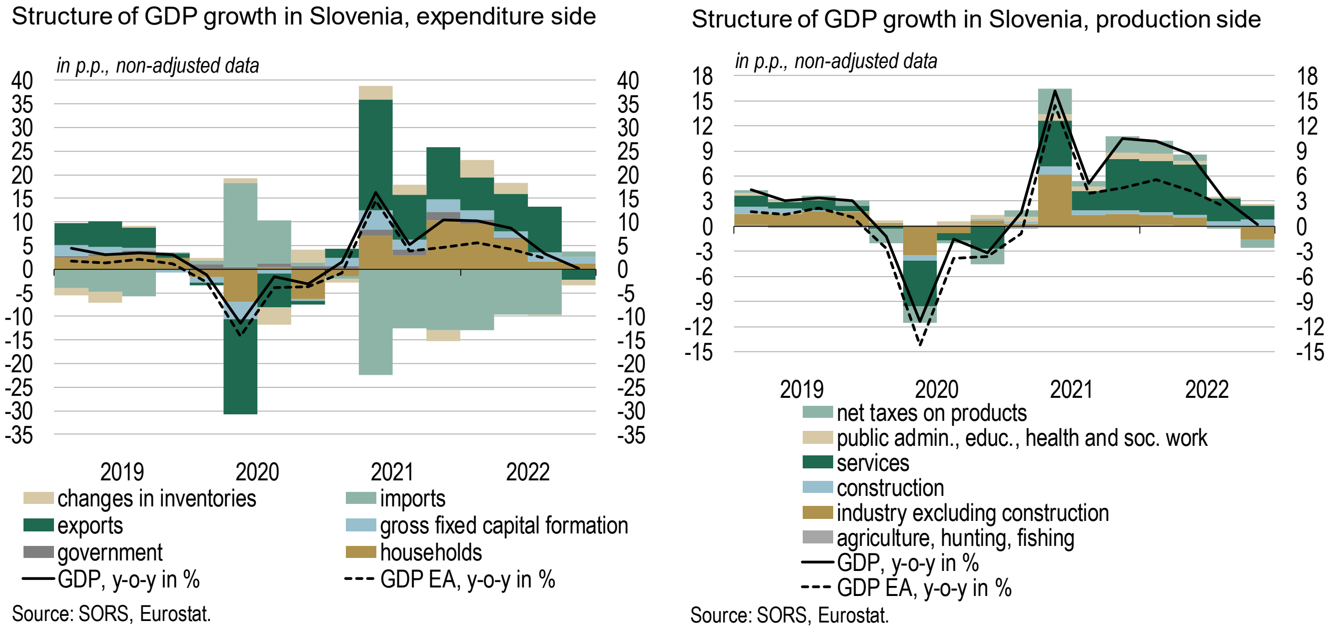
conditions for major purchases as some of the worst in recent years, and were similar in their assessments of their households' financial situation.

The high-frequency consumption indicators also suggest that the situation remained favourable on the domestic market in the first two months of this year. On average, aggregate card payments and ATM withdrawals in January and February were up 3.6% year-on-year in real terms, while invoices registered with tax authorities were up by the same amount (see Figure 3.1).[4] Other evidence of the continuing growth in domestic demand comes from January's figures for real turnover in retail trade. The figures for freight vehicles' mileage on domestic motorways were less encouraging, having stagnated in year-on-year terms since the final quarter of last year, when there was a real decline in merchandise imports and exports.

***The economy continued to record year-on-year growth in the final quarter of last year, as value-added in services and construction increased.***

At the end of the year, GDP was up 0.2% in year-on-year terms, as last year's slowdown in the economy continued, with all the main components of aggregate demand seeing a slowdown (see Figure 3.2).[5] Growth in household consumption slowed to 2.6%, a solid increase amid a strong base effect and high inflation. It can be attributed to the extremely high level of employment, the government measures to mitigate the rise in energy prices, and a decline in the saving rate. Growth in gross fixed capital formation was even higher at 5.9%, with accelerating construction investment coinciding with the election year and the ending of the European financial framework. In the wake of the uncertainty in the international environment, weaker foreign demand, and more costly borrowing, year-on-year growth in investment in machinery and equipment was barely positive, at 0.1%. This is also attributable to a decline in capacity utilisation

Figure 3.2: **Components of year-on-year GDP growth on expenditure and production sides**




Source: SORS, Eurostat.

Source: SORS, Eurostat.

[4] HICP deflator.

[5] The quarterly dynamics in GDP growth are examined in Boxes 3.1 and 3.2.

in manufacturing. Further evidence of weaknesses in the international environment comes from the real decline in exports, and the negative contribution made to GDP growth by net trade.

The structure of demand was reflected in the wide range of growth in value-added in different sectors. There was a notable deterioration in the situation in industry, where the year-on-year decline in value-added in the final quarter of last year stood at 6.3%. Approximately two-thirds of the decline came from manufacturing, which is mostly dependent on foreign demand, while approximately a third came from the energy sector, in the wake of the temporary disconnection of Šoštanj power station and the regular maintenance work at Krško nuclear power plant. By contrast, growth in value-added in construction picked up further pace to 15.0%, and accounted for 0.8 percentage points of the GDP growth (see Figure 3.2). In line with domestic demand and the continuing growth in foreign demand for services, the situation in private-sector services remained relatively favourable, with growth in value-added reaching a still-high 3.8% at the end of the year.[6]

Box 3.1: **Impact of data revisions on GDP growth projection**

***Revisions to past GDP growth rates that accompanied a robust reading of the GDP growth data in the fourth quarter of 2022, increased the estimate of economic growth for last year by 0.7 percentage points.***

Each release of quarterly national accounts data is accompanied by revisions to the data for previous quarters, affecting the GDP forecast and growth factors. The revisions are usually the result of the reconciliation of the original data and seasonal adjustment. The left chart in Figure 3.1.1 illustrates the changes in seasonally adjusted quarterly GDP growth rates between the first quarter of 2021 and the third quarter of 2022 that occurred with the national accounts release for the final quarter of last year. Revisions of the past quarterly GDP growth rates had a positive impact on last year's GDP growth, increasing it by 0.7 percentage points from 4.8% to 5.5% compared with the figures prior to the release of national accounts data for the last quarter of 2022.[7]

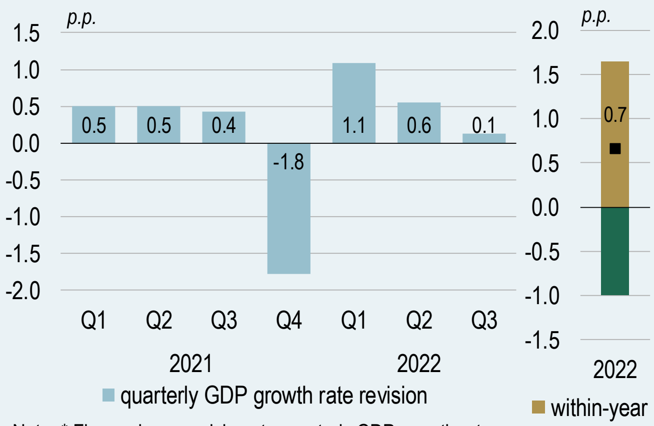
For the purposes of monitoring the economic cycle in greater detail, the factors affecting annual GDP growth can be divided into a carry-over effect from the previous year, and the effect of growth during the current year. A detailed examination reveals that the revisions to the data for 2021 reduced the carry-over effect in 2022 by 1 percentage point to 4.5 percentage points, while the changes in the first three quarters of 2022 raised the contribution of the within-year growth effect by 1.7 percentage points to 1.0 percentage point.

The impact of the data revisions on economic growth can also be illustrated by comparing the initial and revised average GDP levels in 2021 and 2022, as shown in the right graph in Figure 3.1.1. Revisions to quarterly rates following the release of national accounts data for the final quarter of 2022 have increased average GDP in 2021 and

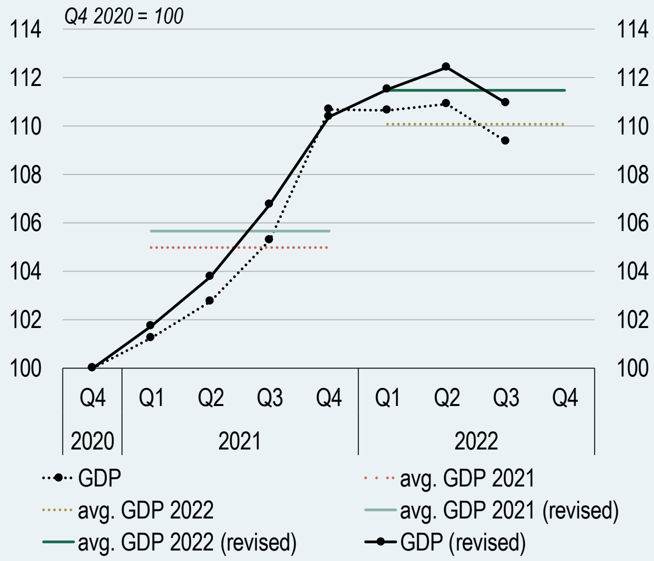
[6] According to non-adjusted figures, last year's annual real GDP growth stood at 5.4%. The main contributions to the high growth came from services and construction. Despite the difficulties at the end of the year, growth in value-added in industry remained positive at 0.4%. The structure of the growth in value-added was reflected in international trade flows, where growth in imports at 9.8% outpaced growth in exports by 3.3 percentage points. The build-up of inventories was a factor in import growth in the first half of the year, and raised annual economic growth by 1.2 percentage points in 2022.

[7] The calculations are based on seasonally and calendar-adjusted data, according to which GDP growth last year was 5.7%. According to the original figures, it was 5.4%.

Figure 3.1.1: **Impact of data revisions on GDP growth forecast in 2022**




Note: * Figure shows revisions to quarterly GDP growth rates published in national accounts data for the fourth quarter of 2022 compared to data published in the third quarter. Zero growth was assumed for the fourth quarter of 2022, as the original data for this quarter were not yet available.
Source: SORS, Banka Slovenije calculations.




Source: SORS, Banka Slovenije calculations.

2022. Quarterly GDP growth for the last quarter of 2022 is assumed to be zero as the subject of examination remains only the impact of revision to previous GDP growth rates, in the period between first quarter of 2021 and third quarter of 2022.[8] The difference of 0.7 percentage points in average GDP growth between the two cases reflects the overall impact of the data revision on the 2022 GDP growth forecast.

The data revisions also affected the contribution of the carry-over effect to GDP growth in 2023. The upward revisions to growth in the second and third quarters of 2022 increased the carry-over effect for this year's GDP growth by 0.2 percentage points. Given the quarterly GDP growth of 0.8% in the final quarter of last year, the total carry-over effect is now 0.2 percentage points.

Box 3.2: **Nowcasts for GDP growth in the first quarter of this year**

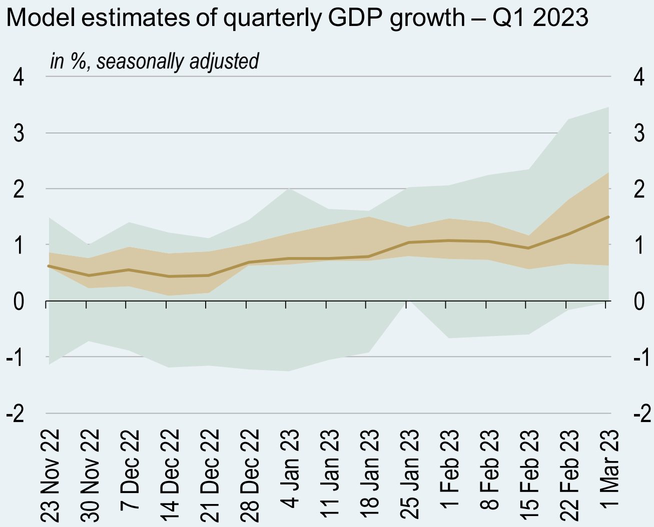
***The average nowcast for quarterly GDP growth in the first quarter of this year is currently at 1.5%; the figure is provisional, and is currently based on a very narrow dataset.***

The average nowcast for quarterly GDP growth in the first quarter of this year currently stands at 1.5% (see Figure 3.2.1).[9] It reflects the developments in the January and February survey indicators, the solid realisation of quarterly GDP growth from the end of last year, and the figures from turnover in retail trade, which rose by 4.1% in January after four months of decline.

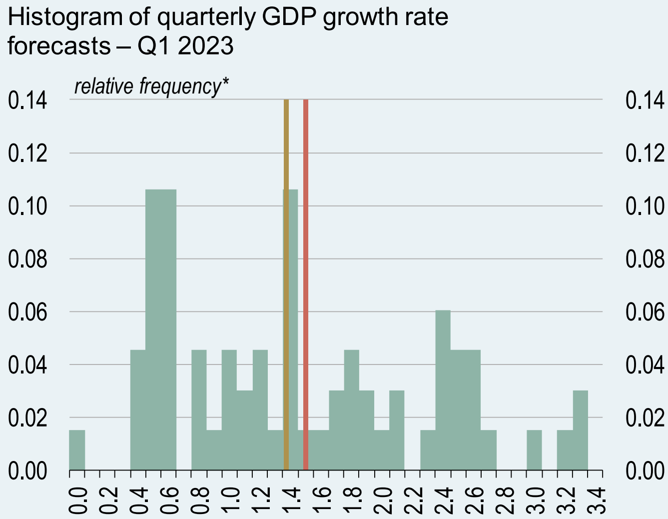
[8] The assumption of zero growth for the last quarter of 2022 aims to illustrate the level of GDP achieved based on past data alone (Q1 2021 to Q3 2022).

[9] The nowcast for quarterly GDP growth is entirely model-based, and neither incorporates any expert assessment of current macroeconomic developments, nor reflects Banka Slovenije's official forecasts. The set of 67 forecasting models consists of various dynamic factor models, and also PC, (U)MIDAS, (B)VAR, ARDL and bridge models. The changes in quarterly GDP growth forecasts over the forecast quarter are mostly related to releases of high-frequency data, while fluctuations are to a lesser extent also caused by re-estimation of the model parameters.

Figure 3.2.1: **Technical nowcast for GDP growth**




Note: The graph shows model estimates of quarterly GDP growth. The darker interval represents values between the 25th and 75th percentiles of all estimates. Average model estimate of quarterly GDP growth rate is represented by the line. Date of estimate: 1 March 2023.
Source: Banka Slovenije calculations.




Note: Distribution of model estimates of quarterly GDP growth in Q1 2023. The vertical gold line shows the median and red the average of all estimates. Date of estimate: 1 March 2023. * Relative frequency represents the share of models that estimate a certain growth in the entire set of models.
Source: Banka Slovenije calculations.

Given the very limited dataset for the first quarter, the current nowcast for quarterly growth is uncertain, which is indicated in the extremely generalised distribution of the model estimates illustrated in Figure 3.2.1. The range between the 25th and 75th percentiles of the distribution of all quarterly GDP growth model estimates is currently ranging between 0.6% to 2.3%.

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

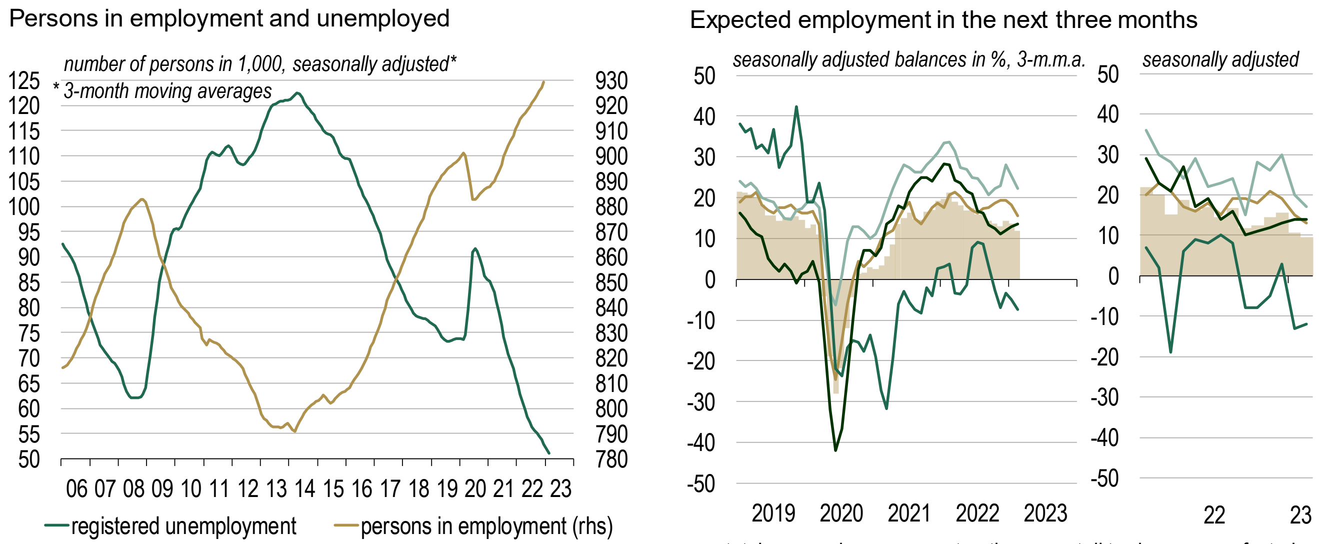
# 4 Labour Market

***Labour market indicators are hitting new records, both in employment and in the fall in unemployment, but demand for labour and employment expectations are slowing.***

The workforce in employment[10] hit a new high of 915,157 in December of last year, although its year-on-year rate of growth was slower than at the beginning of the year at 2.1%, but still well above its long-term average (see Figure 4.1). The growth remains broadly based across sectors, with construction recording a notable rate of 7.4%. Demand for labour expressed as the number of notified job vacancies slowed slightly in the final quarter of last year according to the SORS seasonally adjusted figures, but remained high, and above its level of a year ago. Hiring is expected to continue over the coming months, but the expectations in the first two months of this year are down significantly in year-on-year terms in all activities (see Figure 4.1).

[10] Excluding self-employed farmers.

Figure 4.1: **Labour market situation and employment expectations**




Source: SORS, Banka Slovenije deseasonalisation and calculations. Latest data: registered unemployment – February 2023, persons in employment – December 2022.

Note: Aggregate indicator is calculated using shares in total value added. Source: SORS, Banka Slovenije calculations. Latest data: February 2023.

The pool of available labour on the domestic labour market is continuing to diminish. There were 53,404 people registered as unemployed in February, down 17.6% in year-on-year terms, and very close to the low reached last autumn. The seasonally adjusted figure has reached a new record low (see Figure 4.1), and this trend might continue over the coming months (Box 4.1). The unemployment rates also remain at record lows: the registered unemployment rate stood at 5.4% in December, down 1.3 percentage points in year-on-year terms, while the surveyed unemployment rate fell below 4% for the first time in the final quarter of last year, and was down 1 percentage point in year-on-year terms at 3.5%.

The labour market remains tight,[11] and firms are addressing this by intensively hiring foreign workers. Since last September, they have accounted for more than three-quarters of the year-on-year increase in the workforce in employment,[10] and their share of the workforce in employment exceeded 14% in December. At the end of last year firms were reporting greater shortage of (qualified) workers than at the beginning of the year, and the trend has continued over the first two months of this year.

***The rise in the aggregate average gross wage halved last year due to the public sector base effects, but remained similar to the previous year in the private sector.***

The rise in nominal year-on-year growth in the average gross wage came to an end in December of last year, but the rate of 4.6% nevertheless remains above its long-term average[12] and last year's average (2.8%). It began rising in the middle of the year, driven by base effects in the public sector,[13] and also by strengthening wage growth in

[11] Analysis of the tightness of the labour market in Slovenia and the euro area can be found in the January 2023 issue of the Review of macroeconomic developments.

[12] Data from 2007 to 2022.

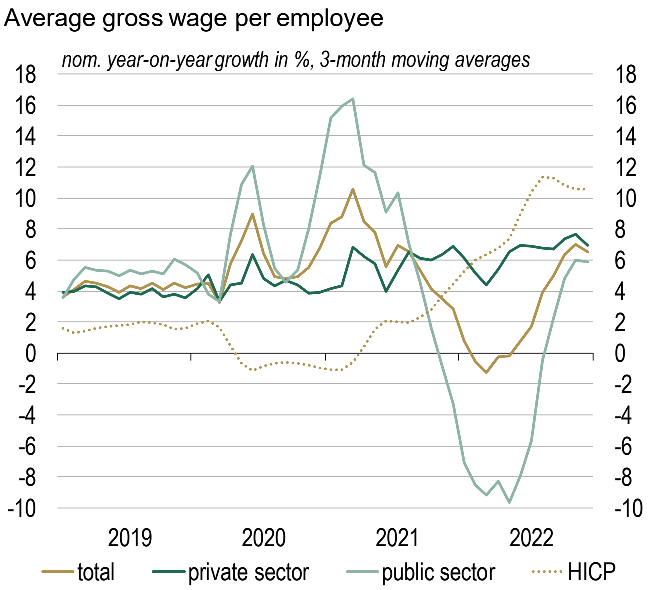
[13] The majority of pandemic wage bonuses in the public sector were abolished in July 2021.

the private sector (see Figure 4.2). After a long period of divergence, the rates equalised at the end of the year at 4.7%. While the average gross wage over the year was down on the previous year in the public sector (by 2.5%), it was up in the private sector (by 6.2%). The developments in industry and in private-sector services were very similar.

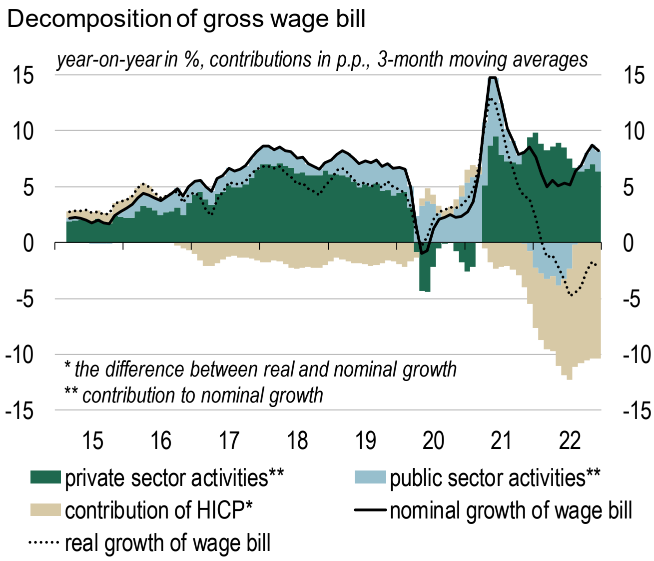
Given the very tight labour market and the likely significant further fall in unemployment (Box 4.1), the rise in the minimum wage (Box 4.2), and persistently high inflation, the risk of strengthening wage pressures shows no sign of abating. A survey by Manpower shows that two-thirds of Slovenian firms are planning to raise wages in the first half of this year.[14] The ECB also expects wage growth in euro area to be very high over the next few quarters, before slowing under the influence of significantly lower economic growth and the uncertainty surrounding the economic outlook.[15]

Nominal year-on-year growth in the gross wage bill strengthened last year in line with the dynamics in the average wage, while growth in the number of wage recipients slowed over the course of the year. On average over the year more than half of the increase in the aggregate gross wage bill (6.3%) came from the slight strengthening in employment growth relative to the previous year. Because growth in the average wage was less than half of that in the previous year, the increase in the wage bill was significantly smaller than in the previous year, when its increase of 9.5% outpaced inflation by 7.3 percentage points. Last year by contrast nominal wage bill growth failed to keep pace with inflation, and was 2.7 percentage points lower (see Figure 4.2). The gross wage bill has also been down year-on-year in real terms in the private sector since July, although it held its value in real terms on average over the year (1.7%).

Figure 4.2: **Average wage and wage bill**




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




Note: The wage bill is calculated as the product of the gross average wage per employee and the number of wage earners.
Source: SORS, Banka Slovenije calculations. Latest data: December 2022.

[14] The largest share of Slovenian firms (35%) in the survey are forecasting wage rises of between 6% and 10%. Meanwhile 31% of employers are forecasting wage rises of up to 5%, and 29% of employers say that they will raise fringe benefits and bonuses (source: Manpower survey).

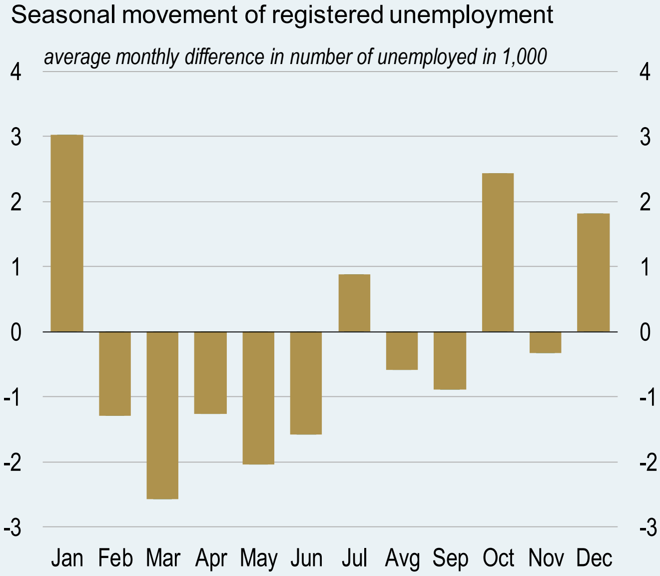
[15] ECB (2023). Economic Bulletin.

Box 4.1: **Seasonal developments in registered unemployment**

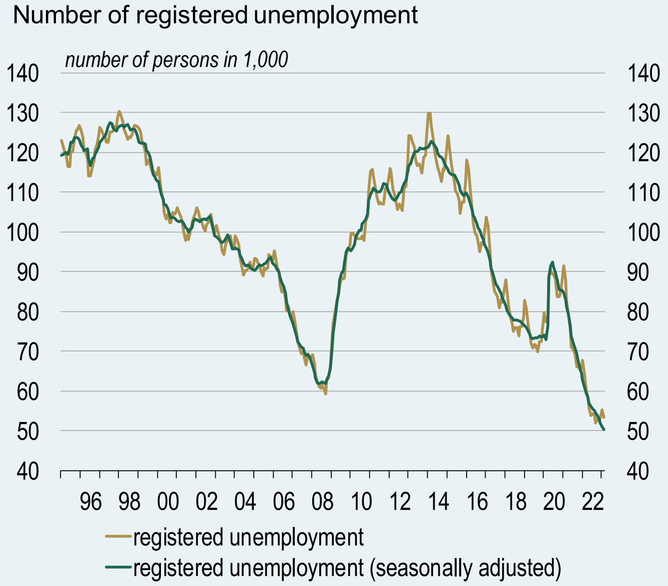
***Registered unemployment is at a record low in Slovenia, and the usual seasonal developments suggest a further fall in the first half of this year.***

The seasonally adjusted registered unemployment count in Slovenia stood at 50,327 in February, down 17.6% in year-on-year terms, and 48.5% less than its long-term average. Despite the record low, the usual seasonal developments over each month point to the possibility of a further fall in unemployment in the first half of this year (see Figure 4.1.1). The SORS survey data for employment expectations at firms also remained positive in February. Both figures suggest that the labour market remains very tight,[16] that firms face difficulties in hiring, and that the likelihood of escalating wage pressures is strengthening.

Figure 4.1.1: **Seasonal developments in registered unemployment**




Source: SORS, Banka Slovenije deseasonalisation and calculations.
Time period: February 1996-February 2023.




Source: SORS, Banka Slovenije deseasonalisation and calculations.
Latest data: February 2022.

Box 4.2: **Minimum wage rises in euro area countries**

***Amid high inflation, this year's rises in the minimum wage in euro area countries are significantly larger than their long-term averages.***

The nominal year-on-year rise in the minimum wage in the euro area overall was around 11%, the highest figure since its creation in 1999.[17] The minimum wage (the

[16] Analysis of the labour market tightness was published in Box 4.1 of the January 2023 issue of the Review of macroeconomic developments.

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

lowest pay for full-time work) was raised in year-on-year terms as of 1 January in Slovenia and all other 15 countries where it is statutory regulated.[18] In Slovenia it rose by 12.0% to EUR 1,203.36 gross, which ranks it in the middle third of euro area countries (see Figure 4.2.1).

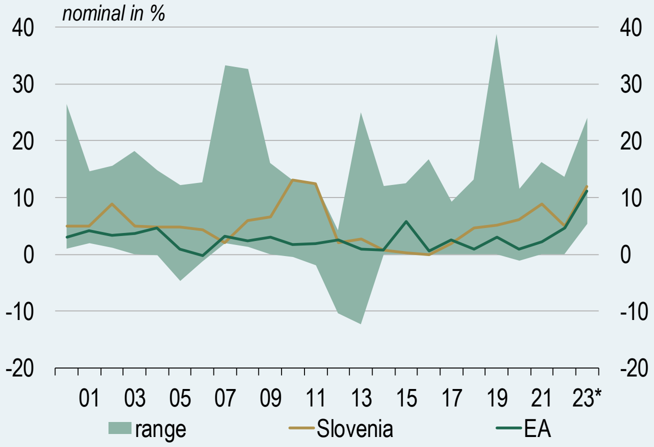
This year's rise in the minimum wage in the euro area is approximately 2.4 times last year's, and more than four times higher than the long-term average. The median rise in the minimum wage of 11.4% is more than three times higher than last year's figure. The differences between countries are great: the largest rises were recorded by Germany and Latvia (22.2% and 24.0% respectively), while the smallest was in Malta (5.4%) (see Figure 4.2.1).

High inflation is the main reason for the record rise in minimum wages in the euro area, but not the only one. According to Eurofound, some countries were following a legally binding criterion to update the minimum wage, and others were focused on its medium-term convergence on a benchmark value, while Portugal stated explicitly that it is treating the inflation as temporary, for which reason it is not endeavouring to permanently raise the minimum wage for now.

According to current data, this year's nominal rise in the minimum wage outpaced last year's inflation in approximately half of the countries, including in Slovenia by 1.2 percentage points. The largest real rise in purchasing power was seen by minimum wage earners in Germany and Belgium, while the largest loss was suffered by recipients in Slovakia and Estonia (see Figure 4.2.1).[19]

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

Minimum wage annual growth




Note: Data included for 16 EA members (AT, IT and FI do not have a statutory minimum wage and CY only introduced it this year), or 15 before 2015 (additionally excluding DE) and 14 before 2008 (not yet including HR). The calculation of the EA minimum wage is weighted by the number of earners (using the 2018 fixed share and the annual number of employees).* H1 2023.
Source: Eurostat, Eurofound, Banka Slovenije calculations.

Minimum wage and inflation


Note: For coverage of members and calculation of the EA minimum wage, see the footnote on the left Figure 4.2.1. The minimum wage level next to the country abbreviation refers to H1 2023.
Source: Eurostat, Eurofound, Banka Slovenije calculations.

[18] In the euro area only Austria, Finland and Italy have no statutory minimum wage, while Cyprus introduced it this year, for which reason it is also not included in the analysis.

[19] The base for increasing the minimum wage in Slovenia is year-on-year inflation in December as measured by the CPI, but inflation as measured by the HICP is used in the analysis for the sake of better comparison with other euro area countries. Domestic inflation as measured by the CPI stood at 10.3% in December, while inflation as measured by the HICP stood at 10.8%.

# 5 Current Account

***Nominal year-on-year growth in merchandise trade slowed in the final quarter of last year amid easing price pressures in international trade, weaker demand on European markets, and lower growth in domestic demand.***

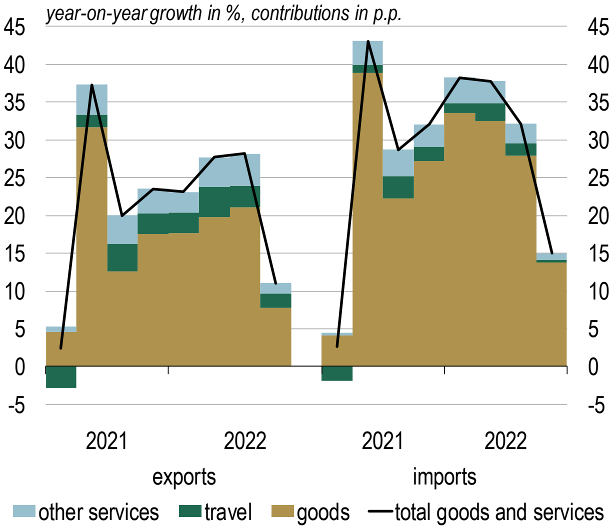
Nominal year-on-year growth in merchandise exports slowed at the end of last year (see Figure 5.1), as had been previously suggested by the SORS survey indicators for manufacturing firms. It stood at 9.8% in the final quarter of last year according to balance of payments figures, having averaged 24.8% between March 2021 and September of last year. There was a notable fall in sales to Italy, and growth in exports to Germany and Croatia, while growth in energy exports was lower, and exports from the metals industry and car industry were down in year-on-year terms. By contrast, exports of pharmaceutical products (excluding Switzerland) remained to the fore in terms of growth, having begun to increase sharply in the third quarter of last year.

As imported inflationary pressures eased, nominal year-on-year growth in merchandise imports again slowed in the final quarter of last year, to 16.0%, the slowdown driven primarily by imports of energy, machinery and transport equipment. Year-on-year growth in merchandise trade additionally slowed over the quarter, but remained higher on the import side.

Nominal year-on-year growth in services trade also slowed sharply in late 2022 (see Figure 5.1), with tourism the main factor of growth. Growth in services exports halved to 16.0% in the final quarter of last year, primarily as a result of a smaller year-on-year increase in exports of transport services, and a fall in exports of miscellaneous business services. By contrast exports of travel services continued to grow, as they have done since April 2021, and growth in exports of insurance services increased. Growth in exports of construction services also turned positive again after two quarters.

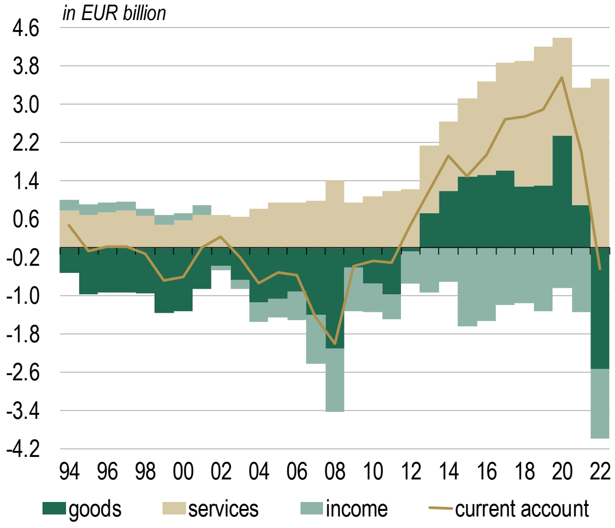
Figure 5.1: **International trade and current account balance**

Goods and services trade




Source: Banka Slovenije.

Current account components




Source: Banka Slovenije.

Nominal year-on-year growth in services imports stood at 8.1% in the final quarter of last year, down 15.7 percentage points on the third quarter. The slowdown was primarily attributable to a year-on-year stagnation in imports of transport services, and weaker growth in imports of travel services.

***The current account moved into deficit last year, as a result of high nominal growth in merchandise imports, although the deterioration in the position was mitigated by services exports, travel services in particular.***

The rapid deterioration in the current account position continued last year. It moved from a surplus of EUR 2.0 billion or 3.8% of GDP in 2021 to a deficit of EUR 450 million or 0.8% of GDP (see Figure 5.1). The reversal, the most pronounced to date, reflects the deterioration in the terms of trade, import prices having risen significantly more than export prices, but it also reflects the structure of economic growth, in which domestic demand was dominant (see Box 5.1).

Last year's current account deficit was attributable primarily to the significant nominal increase in merchandise imports, and partly to a small increase in the deficit in factor income. Merchandise imports increased by 30.6% in nominal terms last year, and exports by 20.1%, which resulted in the merchandise trade balance deteriorating by EUR 3.4 billion and moving into a deficit of EUR 2.5 billion.[20] Last year's deterioration in the income balance was much less significant, the deficit widening by just EUR 90 million to slightly over EUR 1.4 billion. The largest factor in the widening deficit was the decline in the government sector's primary income surplus (see Box 5.2).

The deterioration in the current account was mitigated last year by strong services exports, which were up 30.3% in nominal terms. As expected with the normalisation of the situation in the tourism sector, the largest factor in this growth was exports of travel services, but exports of transport services increased sharply again, and exports of insurance and business services also continued to strengthen. The increase in services imports was slightly less pronounced, at 24.7%. The services trade surplus thus increased last year by EUR 1.1 billion to EUR 3.5 billion (see Figure 5.1). Travel services accounted for EUR 680 million of the increase, and transport services for EUR 370 million, having recorded its largest surplus to date of EUR 1.5 billion.

Box 5.1: **Impact of the terms of trade on the current account position**

***The terms of trade deteriorated sharply in 2022 amid high energy and commodity prices, and accounted for more than half of the reversal in the current account position from surplus to deficit.***

The terms of trade deteriorated last year for the second consecutive year (see Figure 5.1.1). This was attributable to the adverse price developments in merchandise trade: the high energy and commodity prices on global markets meant that the rise in

[20] The majority of the deterioration in the position comes from the widening deficit in trade in mineral fuels and lubricants, primarily oil and refined petroleum products, while in geographical terms the largest factors were the reversal in merchandise trade with Russia from a surplus of EUR 525 million to a deficit of EUR 65 million, and the widening of the deficit in merchandise trade with Italy, the Netherlands, China and Hungary in the total amount of EUR 1.5 billion.

import prices (20.7%) significantly outpaced the rise in export prices (17.3%), although both figures were record highs.

It was the opposite case in services trade, where growth in export prices outpaced growth in import prices, which saw an improvement in the terms of services trade. The overall terms of trade, where the prevailing influence is developments in merchandise prices on account of its large share of trade, deteriorated by 3.0%, the largest since 2010.

Merchandise trade and its terms were profoundly affected by the rise in energy and commodity prices last year. Nominal merchandise imports strengthened by 30.6% in 2022, with the sharp increase in imports of mineral fuels and lubricants accounting for just under half of the growth (see Figure 5.1.1). They approached EUR 8 billion last year, approximately double the previous peak in value terms in 2012.

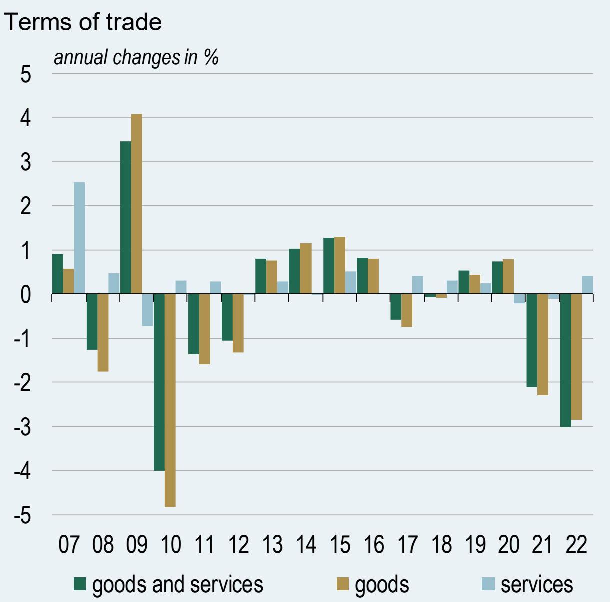
The impact of mineral fuels and lubricants on growth in exports via re-exports of energy products was smaller, as they account for a significantly smaller share of exports than imports. It stood at 7.4 percentage points, also the largest figure to date. Excluding trade in mineral fuels and lubricants, nominal growth in merchandise trade slowed to 18.4% on the import side and 13.4% on the export side last year.

The current account surplus of EUR 2.0 billion in 2021 became a deficit of EUR 450 million in 2022. Of the deterioration of EUR 2.4 billion in the position, the unfavourable terms of trade accounted for EUR 1.3 billion, the largest figure to date.

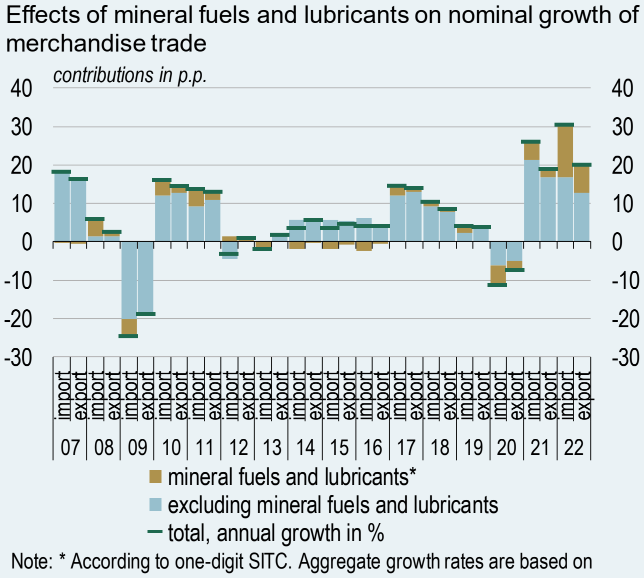
The surplus in aggregate merchandise and services trade narrowed by EUR 2.3 billion last year (to EUR 990 million). Approximately two-thirds (EUR 1.6 billion) was attributable to adverse price developments in merchandise trade, although the fall was mitigated (by EUR 290 million) by the improved terms of services trade.

Had price developments been neutral, the larger volume of merchandise imports relative to exports means that the aggregate trade surplus would nevertheless have been around EUR 1 billion smaller, but the current account would have remained in surplus to the tune of EUR 920 million (see Figure 5.1.2).

Figure 5.1.1: **Terms of trade and impact of energy prices on nominal merchandise trade**



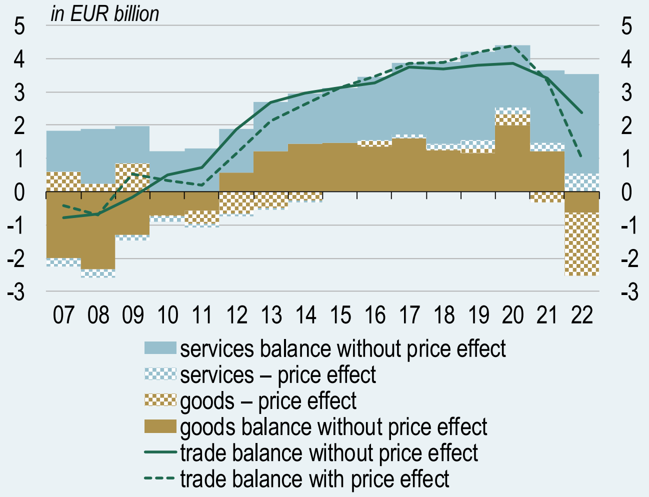

Source: SORS, Banka Slovenije calculations.




Note: * According to one-digit SITC. Aggregate growth rates are based on export and import data from the balance of payments.
Source: Banka Slovenije, SORS, Banka Slovenije calculations.

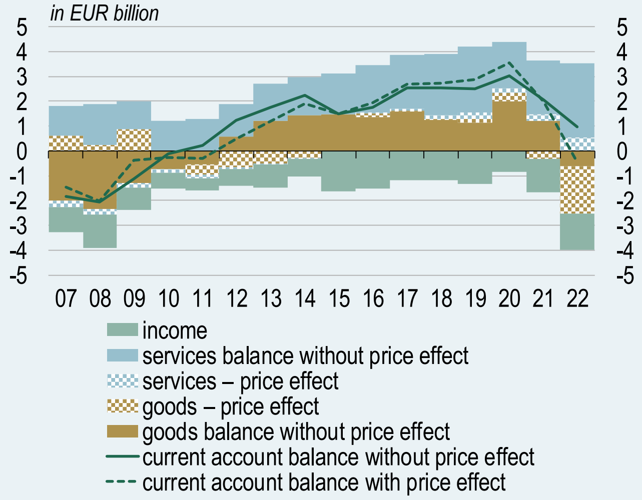
Figure 5.1.2: **Impact of the terms of trade on the trade balance and the overall current account position**

Terms of trade effects on trade balance




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.
Source: Banka Slovenije, SORS, Banka Slovenije calculations.

Terms of trade effects on current account balance




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.
Source: Banka Slovenije, SORS, Banka Slovenije calculations.

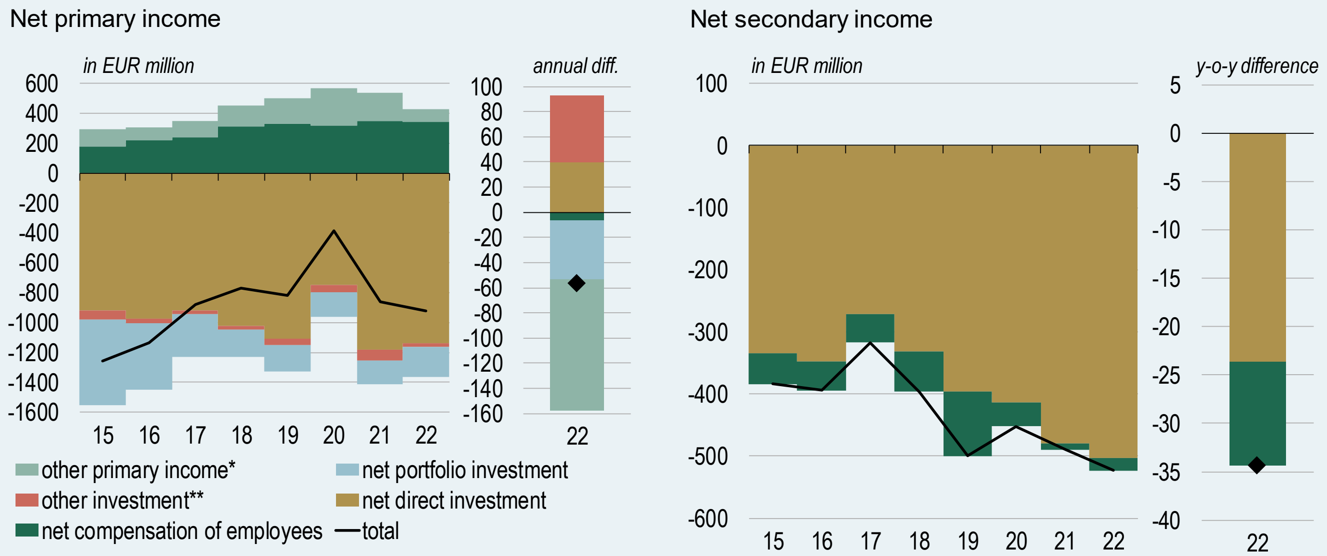
Box 5.2: **Net income position of the current account**

***The deficit in net income of the current account is widening again.***

Last year the deficit in net income exceeded EUR 1.4 billion, of which approximately two-thirds was in primary income, and approximately one-third in secondary income. It was still down EUR 0.2 billion on its peak from 2015, which was the result of an increase in the deficit in income on direct investment and in income on debt securities after the recovery and resolution of the banking system. At the same time, it was EUR 0.6 billion larger than the deficit in the crisis year of 2020, as in the booming economy the deficit in income on direct investment slightly exceeded its pre-pandemic levels, and there was also a notable increase in the deficit in income on portfolio investments, where foreign investments of this type in the domestic banking system play a visible role.

The deficit in primary income exceeded EUR 0.9 billion last year, up only a little (EUR 60 million) on 2021 (see Figure 5.2.1). The main driver of the increase was a decline in the surplus in parts of government sector's primary income from EUR 225 million to EUR 85 million, following a significant increase in the deficit in taxes on products, primarily because of increased payments into the EU budget from customs duties amid last year's sharp increase in imports. There was also a decline in the surplus in subsidies because of cuts in certain EU subsidies for private firms and sole traders. At the same time, the deficit in income on direct investment was slightly smaller, dividend payments to foreign owners having declined relative to 2021 according to current figures. By contrast, the deficit in income on securities holdings increased slightly. Rising debt interest rates have not yet had a significant impact on the position,

Figure 5.2.1: **Primary and secondary income in the current account**




Note: * Other primary income is dominated by taxes on production and on imports. ** Other investment is dominated by loans interest income.
Source: Banka Slovenije.

Source: Banka Slovenije.

given the current interest rate and ownership structure of the public debt.[21] The surplus in labour income again exceeded EUR 0.3 billion last year according to current figures, as amid the continuing rise in the hiring of foreign workers there was also a further increase in domestic workers leaving to work abroad, particularly in Austria.

The deficit in secondary income exceeded EUR 0.5 billion last year. The reason for the increase is the widening of the deficit in the government sector's secondary income, where the deficit in social benefits has been increasing over the long term, and payments into the EU budget from VAT and gross national income are rising. The deficit in other sectors' secondary income is small, and thus has no significant impact on the overall current account position (see Figure 5.2.1).

[21] The deficit in income on debt securities holdings peaked in 2015, at more than EUR 0.6 billion, amid high bond yields and a need for heavy government borrowing on foreign financial markets in the wake of the recovery and resolution of the banking system in 2013 and 2014. Last year it amounted to EUR 0.1 billion. The decline is attributable to the ECB's strongly accommodative monetary policy, including quantitative easing, which since 2015 has consistently increased the share of government bonds held domestically. The national macroeconomic position has also improved over this period, and with it the sovereign debt ratings. Government borrowing was therefore at highly favourable terms, as indicated by the implicit interest rate on government debt, which stood at 1.5% in the third quarter of last year. The yield on the 10-year government bonds issued in January of this year was 3.625%.

# 6 Inflation

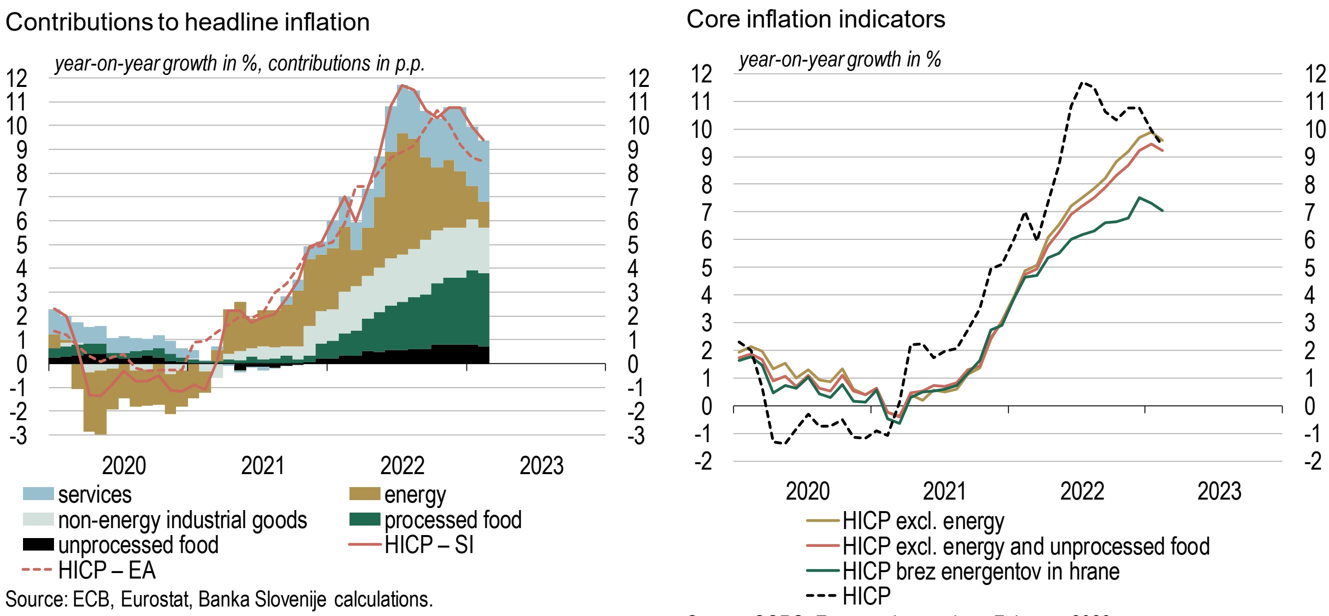
***With falling energy prices driving headline inflation down, food price inflation and core inflation remain high.***

Consumer price inflation as measured by the HICP fell to 9.4% in February, down from 9.9% in January (see Figure 6.1). The decline was primarily attributable to a fall in energy price inflation, which slowed to 7.7%[22] owing to capped electricity and gas prices as well as declining fuel prices. Therefore, its contribution to headline inflation dropped to just 1.1 percentage points, what is 4 percentage points less than its peak in July of last year.

However, inflation remains high in the other segments of the consumer price basket. Food prices excluding alcohol and tobacco were up 18.8%, slightly less than in January, as the contribution by unprocessed food declined. Nonetheless, there were pronounced rises in the prices of certain basic food products, such as sugar (more than 50%) and milk (more than 30%). Food production costs remain high, despite moderating energy prices. Prices of agricultural inputs such as feedingstuffs, fertilizers and machinery rose by 26.0% last year, and producer prices were up 24.2%.

Core inflation excluding energy and food remains above 7% for the third consecutive month (see Figure 6.1). It slowed to 7.1% in February, as the contribution by non-energy industrial goods declined. Services price inflation meanwhile rose to 7.8%. Given solid domestic demand, the risk of a future rise in prices comes primarily from antici-

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




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

Source: SORS, Eurostat. Latest data: February 2023.

[22] The change in weights in January of this year saw a reduction in the share of electricity in the energy category, and an increase in the share of fuels. Given their actual developments, this meant that inflation would have stood at 10.5% in January with no change in weights, instead of 9.9%. The impact of the change in weights on energy price inflation in February can only be calculated based on final data for February, which will be released on 7 March 2023.

pated wage growth given current negotiations in the public sector and the general tightness of the labour market, and the pass-through of higher energy and food prices into prices of transport and catering services.[23]

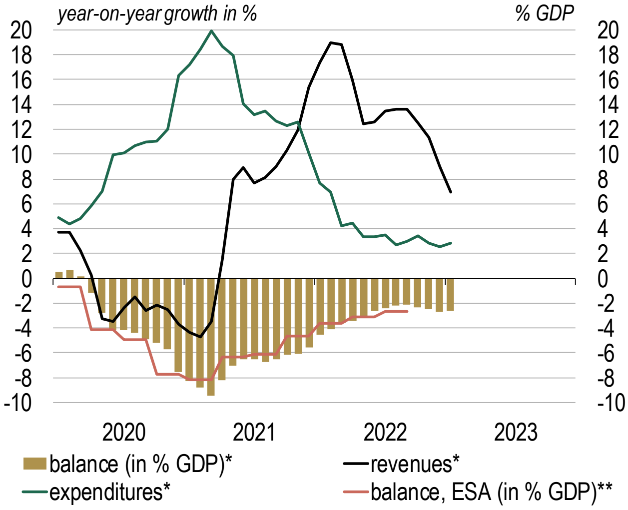
# 7 Fiscal Position

***The consolidated general government deficit over the 12 months to January amounted to 2.7% of GDP, having remained at its level from the end of last year, albeit after both revenues and expenditure declined in January. Increased disbursement of funds from the EU budget is planned this year.***

The consolidated general government position in January was a surplus of EUR 169 million, slightly larger than in January of last year. The 12-month deficit amounted to EUR 1.6 billion or 2.7% of estimated GDP in the early part of this year, the same as at the end of last year (see Figure 7.1). Year-on-year growth in tax revenues remained low in January (2.9%), in reflection of the more moderate growth in household consumption and cuts in certain taxes (e.g. personal income tax, VAT, excise duties on energy products, carbon emissions tax). Total revenues in January were down on last year (by 2.6%), as a result of a decline in revenues from the EU budget, Slovenia having received EUR 117.8 million under its recovery and resilience plan last January. Expenditure was also down in year-on-year terms (by 4.9%), partly as a result of a decline in pandemic-related expenditure (e.g. last January's solidarity bonus for pensioners, and holiday voucher payments), and lower transfer to budgetary funds.[24] More expenditure was earmarked for wages, pensions and interest. The daily state

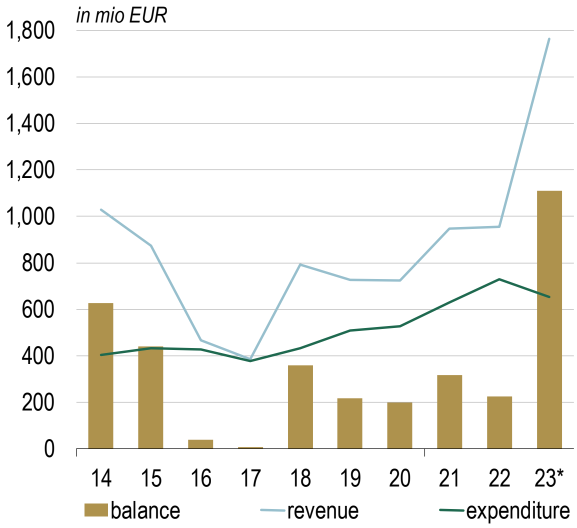
Figure 7.1: **Fiscal position**

Public finance developments




Notes: * National methodology, 12-month sum. ** Sum of four quarters.
Source: SORS, Ministry of Finance, Banka Slovenije calculations.
Latest data: January 2023, except of ESA balance – Q3 2022.

Transactions with the EU budget




Note: * Amendments to the Budget of the Republic of Slovenia for 2023.
Source: Ministry of finance.

[23] Catering services account for 23% of aggregate services, and services related to transport for 15%.

[24] The transfer of funding under the recovery and resilience plan into a special budget fund is recorded under expenditure in a reserve account.

budget figures show that the position over the first two months of this year, despite February's year-on-year deterioration, was EUR 14 million better than in the same period last year.

Last year Slovenia again recorded a surplus vis-à-vis the EU budget, in the amount of EUR 227 million. The largest component of the revenues came from the structural funds and the common agricultural and fisheries policy, but it also received prepayments for the implementation of the recovery and resilience plan. By the end of this January, 85% of the available funding under the 2014 to 2020 financial framework had been paid. The state budget is forecasting high growth this year in revenues from the EU budget, on account of the ending of the previous financial framework and the implementation of the recovery and resilience plan, which is usually overoptimistic in its planning (see Figure 7.1). Government investment is also expected to continue strengthening in consequence.

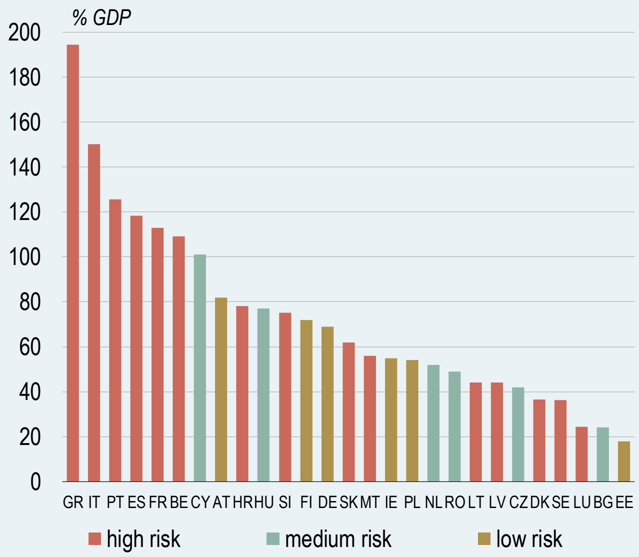
Box 7.1: **Debt sustainability and economic governance in the EU**

***The European Commission is drawing up changes to the fiscal rules that will give greater emphasis to debt sustainability.***

According to the orientations of the EU's economic governance framework reform, which are still being coordinated, debt sustainability analysis would become a key starting point for fiscal policy conduction. EU Member States whose debt exceeds the limit of 60% of GDP and who are assessed as being at medium or high debt sustainability risk would have to follow a four-to-seven year fiscal-structural plan of debt reduction. At the same time the deficit will have to be kept below the 3% of GDP limit.[25]

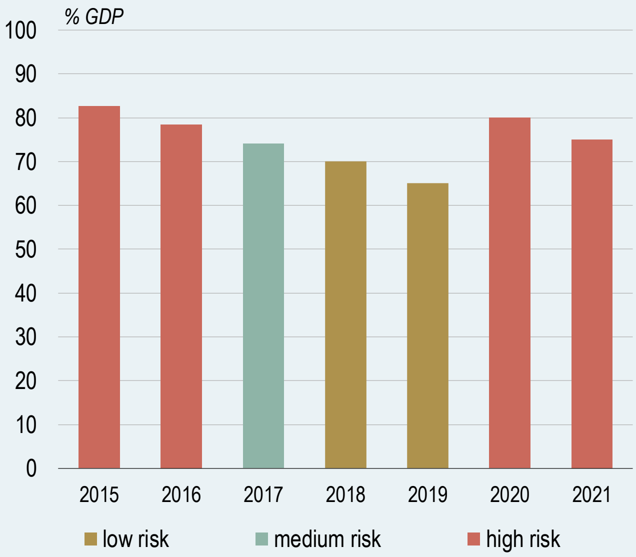
Figure 7.1.1: **Debt sustainability according to European Commission methodology**

Debt sustainability and debt in 2021




Source: European Commission, Eurostat.

Debt sustainability and debt of Slovenia from 2015 till 2021




Source: European Commission, Eurostat.

[25] A draft can be found at com_2022_583_1_en.pdf (europa.eu), while a definition of the expenditure benchmark is given in Vade Mecum on the Stability and Growth Pact – 2019 Edition (europa.eu).

Debt sustainability is usually interpreted as a country’s ability to repay its debt. The European Commission’s debt sustainability analysis captures and aggregates the forecasts of the baseline scenario for debt developments over the next ten years, multiple additional scenarios for various risks, and stochastic analysis that measures the distribution of the debt forecast over a large number of changes in input data. Countries are classified on the basis of the results as being at low, medium or high risk in terms of debt sustainability.[26] The assessments are subject to great uncertainty, on account of the input assumptions, unexpected shocks, the long 10-year forecasting horizon, etc.

Slovenia is at high debt sustainability risk according to the latest assessment (see Figure 7.1.1). The main reason is that under the baseline scenario and three (of the four) standardised additional scenarios, its debt gradually rises over the next ten years, primarily on account of the ageing population and the assumed large structural deficit. There are nine other countries at high risk (BE, GR, ES, FR, HR, IT, MT, PT, SK), and six at medium risk (BG, CZ, CY, HU, NL, RO).[27]

[26] Available online at Assessing Public Debt Sustainability in EU Member States: A Guide (europa.eu).
[27] Available online at Fiscal Sustainability Report 2021 (europa.eu).

# 8 Statistical Appendix

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

| | 2021 | 2022 | 12 m. 'till Dec.22 | 3 m. 'till Dec.21 | 3 m. 'till Dec.22 | 2022 Oct. | 2022 Nov. | 2022 Dec. | 2023 Jan. | 2023 Feb. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Economic Activity** | | | | | | | | | | |
| | | | | | *balance of answers in percentage points* | | | | | |
| Sentiment indicator | 2.4 | 0.6 | 0.6 | 3.6 | -2.1 | -5.3 | -1.8 | 0.7 | -0.9 | -1.1 |
| *- confidence indicator in manufacturing* | 8.2 | -0.1 | -0.1 | 6.3 | -6.0 | -9.0 | -6.0 | -3.0 | -3.0 | -5.0 |
| | | | | | *year-on-year growth rates in %* | | | | | |
| Industry: - total | 10.2 | 1.7 | 1.7 | 7.9 | -4.7 | -4.0 | -3.0 | -7.3 | ... | ... |
| *- manufacturing* | 11.8 | 4.1 | 4.1 | 8.4 | -0.8 | 0.8 | 0.8 | -4.2 | ... | ... |
| Construction: - total | -0.5 | 33.9 | 33.9 | -11.0 | 56.9 | 56.6 | 45.3 | 74.5 | ... | ... |
| *- buildings* | -23.0 | 83.8 | 83.8 | -32.2 | 128.3 | 147.8 | 108.8 | 131.8 | ... | ... |
| Trade and service activities - total | 12.2 | 9.7 | 9.7 | 18.6 | 3.4 | 4.2 | 3.4 | 2.6 | ... | ... |
| Wholesale and retail trade and repair of motor vehicles and motorcycles | 8.2 | -0.4 | -0.4 | 11.2 | 5.5 | 4.3 | 4.9 | 7.6 | ... | ... |
| Retail trade, except of motor vehicles and motorcycles | 16.3 | 7.7 | 7.7 | 30.8 | -1.0 | -2.4 | 1.9 | -2.4 | ... | ... |
| Other private sector services | 12.4 | 11.7 | 11.7 | 18.7 | 4.6 | 5.8 | 3.8 | 4.2 | ... | ... |
| **Labour market** | | | | | *year-on-year growth rates in %* | | | | | |
| Average gross wage | 6.0 | 2.7 | 2.7 | 2.8 | 6.5 | 7.3 | 7.7 | 4.6 | ... | ... |
| *- private sector* | 5.9 | 6.3 | 6.3 | 7.0 | 6.9 | 7.9 | 8.3 | 4.7 | ... | ... |
| *- public sector* | 6.4 | -2.6 | -2.6 | -3.5 | 5.9 | 6.5 | 6.5 | 4.7 | ... | ... |
| Real net wage[1] | 3.0 | -5.1 | -5.1 | -1.9 | -2.7 | -2.0 | -2.1 | -4.1 | ... | ... |
| Registered unemployment rate (in %) | 7.6 | 5.8 | 5.8 | 6.7 | 5.4 | 5.4 | 5.3 | 5.4 | ... | ... |
| Registered unemployed persons | -12.6 | -23.8 | -23.8 | -22.4 | -19.8 | -20.5 | -19.6 | -19.4 | -18.4 | ... |
| Persons in employment | 1.3 | 2.4 | 2.4 | 2.6 | 2.0 | 2.0 | 1.9 | 2.0 | ... | ... |
| *- private sector* | 1.3 | 3.0 | 3.0 | 3.2 | 2.5 | 2.6 | 2.5 | 2.5 | ... | ... |
| *- public sector* | 1.1 | 0.7 | 0.7 | 1.2 | 0.6 | 0.5 | 0.5 | 0.7 | ... | ... |
| **Price Developments** | | | | | *year-on-year growth rates in %* | | | | | |
| HICP | 2.0 | 9.3 | 9.3 | 4.5 | 10.6 | 10.3 | 10.8 | 10.8 | 9.9 | 9.4 |
| *- services* | 0.6 | 5.5 | 5.5 | 1.5 | 7.1 | 6.3 | 6.8 | 8.2 | 7.6 | 7.8 |
| *- industrial goods excluding energy* | 1.3 | 6.3 | 6.3 | 3.3 | 6.8 | 7.0 | 6.8 | 6.7 | 6.9 | 6.2 |
| *- food* | 0.7 | 10.6 | 10.6 | 1.8 | 15.6 | 15.0 | 16.0 | 15.9 | 17.2 | 16.7 |
| *- energy* | 11.3 | 24.8 | 24.8 | 22.2 | 19.6 | 20.1 | 20.9 | 17.8 | 9.9 | 7.7 |
| Core inflation indicator[2] | 0.9 | 5.9 | 5.9 | 2.4 | 7.0 | 6.6 | 6.8 | 7.5 | 7.3 | 7.1 |
| **Balance of Payments - Current Account** | | | | | *in % GDP* | | | | | |
| Current account balance | 3.8 | -0.8 | -0.8 | 0.7 | -0.9 | -0.5 | 0.0 | -2.2 | ... | ... |
| 1. Goods | 1.7 | -4.3 | -4.3 | -1.1 | -5.4 | -5.4 | -4.2 | -6.5 | ... | ... |
| 2. Services | 4.7 | 6.0 | 6.0 | 4.9 | 6.4 | 6.9 | 5.6 | 6.6 | ... | ... |
| 3. Primary income | -1.7 | -1.6 | -1.6 | -2.2 | -1.1 | -1.4 | -0.5 | -1.4 | ... | ... |
| 4. Secondary income | -0.9 | -0.9 | -0.9 | -0.9 | -0.8 | -0.6 | -0.8 | -0.9 | ... | ... |
| | | | | | *nominal year-on-year growth rates in %* | | | | | |
| Export of goods and services | 19.5 | 22.1 | 22.1 | 23.3 | 11.0 | 13.2 | 11.6 | 8.3 | ... | ... |
| Import of goods and services | 25.4 | 29.7 | 29.7 | 32.0 | 14.8 | 20.6 | 17.3 | 7.1 | ... | ... |

| **Public Finances** | 2021 | 2022 | 12 m. 'till Jan.23 | | 2022 Jan.-Jan. | | 2023 Jan.-Jan. | |
|---|---|---|---|---|---|---|---|---|
| Consolidated general government (GG) balance[3] | *EUR milions* | | *% GDP* | *y-o-y, %* | *EUR mio* | *y-o-y, %* | *EUR mio* | *y-o-y, %* |
| Revenue | 21,383 | 23,311 | 39.6 | 7.0 | 2,036 | 21.6 | 1,982 | -2.6 |
| Tax revenue | 18,786 | 20,556 | 35.1 | 8.3 | 1,738 | 16.5 | 1,789 | 2.9 |
| From EU budget | 950 | 961 | 1.4 | -21.9 | 194 | 250.8 | 83 | -56.9 |
| Other | 1,646 | 1,794 | 3.1 | 10.9 | 104 | -18.3 | 110 | 5.4 |
| Expenditure | 24,300 | 24,913 | 42.3 | 2.8 | 1,907 | -7.8 | 1,814 | -4.9 |
| Current expenditure | 10,394 | 10,284 | 17.5 | -1.6 | 810 | 2.6 | 776 | -4.2 |
| *- wages and other personnel expenditure* | 5,751 | 5,493 | 9.4 | -2.5 | 431 | -13.9 | 476 | 10.4 |
| *- purchases of goods, services* | 3,351 | 3,545 | 6.0 | 5.1 | 226 | 14.9 | 234 | 3.3 |
| *- interest* | 732 | 661 | 1.2 | 3.6 | 18 | -78.4 | 48 | 168.3 |
| Current transfers | 11,319 | 11,283 | 19.1 | 1.0 | 966 | -16.5 | 921 | -4.7 |
| *- transfers to individuals and households* | 9,168 | 9,319 | 15.8 | 3.5 | 773 | -20.5 | 739 | -4.4 |
| Capital expenditure, transfers | 1,959 | 2,616 | 4.5 | 32.9 | 64 | 23.4 | 68 | 5.3 |
| GG surplus/deficit | -2,917 | -1,601 | -2.7 | | 129 | | 169 | |

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

| | 2020 | 2021 | 2022 | 22Q1 | 22Q2 | 22Q3 | 22Q4 | 2020 | 2021 | 2022 | 22Q1 | 22Q2 | 22Q3 | 22Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *Slovenia* | | | | | | | *euro area* | | | |
| **Economic developments** | | | | | | | *q-o-q growth rates in %* | | | | | | | |
| GDP | | | | 1.0 | 0.8 | -1.3 | 0.8 | | | | 0.6 | 0.9 | 0.3 | 0.1 |
| *- industry* | | | | -0.8 | 0.3 | -1.4 | -1.6 | | | | 0.5 | 0.6 | 0.7 | … |
| *- construction* | | | | 2.8 | 1.6 | 3.6 | 3.2 | | | | 2.3 | -0.7 | -1.7 | … |
| *- mainly public sector services (OPQ)* | | | | 0.5 | 0.4 | 0.3 | 0.4 | | | | 0.9 | -0.3 | 1.4 | … |
| *- mainly private sector services (without OPQ)* | | | | 1.3 | 1.1 | -1.1 | 1.1 | | | | 0.9 | 1.0 | 0.5 | … |
| Domestic expenditure | | | | 5.2 | 0.4 | -5.0 | 1.0 | | | | -0.4 | 1.0 | 1.4 | … |
| *- general government* | | | | 0.9 | -3.0 | 0.2 | 0.9 | | | | 0.1 | -0.1 | 0.2 | … |
| *- households and NPISH** | | | | 1.5 | 0.4 | 0.4 | 0.1 | | | | 0.0 | 1.1 | 0.8 | … |
| *- gross capital formation* | | | | 11.9 | 2.5 | -7.7 | -4.1 | | | | -1.8 | 1.9 | 4.0 | … |
| *- gross fixed capital formation* | | | | 3.3 | -0.9 | 3.6 | -0.1 | | | | -0.7 | 1.0 | 3.6 | … |
| | | | | | | | *y-o-y growth rates in %* | | | | | | | |
| GDP | -4.3 | 8.2 | 5.4 | 10.2 | 8.6 | 3.3 | 0.2 | -6.1 | 5.3 | … | 5.6 | 4.3 | 2.4 | … |
| *- industry* | -3.4 | 9.2 | … | 5.0 | 4.2 | -0.3 | -6.3 | -6.4 | 7.0 | … | 2.3 | 2.0 | 2.3 | … |
| *- construction* | -1.9 | 10.0 | … | 7.8 | 7.7 | 10.4 | 15.0 | -5.7 | 5.3 | … | 5.6 | 1.1 | -0.3 | … |
| *- mainly public sector services (OPQ)* | 2.4 | 3.8 | … | 5.0 | 2.6 | 1.5 | 1.5 | -2.8 | 3.5 | … | 2.0 | 1.1 | 1.1 | … |
| *- mainly private sector services (without OPQ)* | -5.5 | 8.3 | … | 10.8 | 10.0 | 4.5 | 1.3 | -6.7 | 5.6 | … | 6.3 | 5.1 | 2.9 | … |
| Domestic expenditure | -4.7 | 9.9 | 8.0 | 17.9 | 11.2 | 3.3 | 1.2 | -5.8 | 4.2 | … | 6.1 | 4.5 | 3.4 | … |
| *- general government* | 4.1 | 5.8 | 0.9 | 4.8 | 0.8 | -0.6 | -1.0 | 1.0 | 4.3 | … | 3.1 | 0.9 | 0.5 | … |
| *- households and NPISH* | -6.9 | 9.5 | 8.9 | 20.0 | 12.9 | 3.2 | 2.4 | -7.7 | 3.8 | … | 8.6 | 5.8 | 1.9 | … |
| *- gross capital formation* | -7.1 | 15.1 | 12.4 | 26.3 | 16.7 | 7.6 | 0.5 | -7.4 | 5.0 | … | 3.5 | 4.9 | 10.0 | … |
| *- gross fixed capital formation* | -7.9 | 13.7 | 7.8 | 9.4 | 7.3 | 8.7 | 5.9 | -6.2 | 3.6 | … | 4.3 | 2.7 | 7.3 | … |
| *- inventories and valuables, contr. to GDP growth in p.p.* | 0.1 | 0.4 | 1.1 | 3.7 | 2.4 | -0.2 | -1.1 | -0.3 | 0.3 | … | -0.1 | 0.5 | 0.6 | … |
| **Labour market** | | | | | | | *q-o-q growth rates in %* | | | | | | | |
| Employment | | | | 0.7 | 0.5 | 0.3 | 0.4 | | | | 0.5 | 0.3 | 0.3 | 0.4 |
| *- mainly private sector (without OPQ)* | | | | 0.8 | 0.6 | 0.3 | 0.4 | | | | 0.6 | 0.4 | 0.3 | … |
| *- mainly public services (OPQ)* | | | | 0.4 | 0.3 | 0.3 | 0.3 | | | | 0.4 | 0.3 | 0.3 | … |
| | | | | | | | *y-o-y growth rates in %* | | | | | | | |
| Employment | -0.7 | 1.3 | 2.4 | 3.2 | 3.1 | 2.0 | 1.6 | -1.5 | 1.4 | 2.2 | 3.0 | 2.6 | 1.8 | 1.5 |
| *- mainly private sector (without OPQ)* | -1.3 | 1.0 | 2.6 | 3.4 | 3.4 | 2.1 | 1.6 | -2.3 | 1.2 | … | 3.5 | 3.0 | 1.9 | … |
| *- mainly public services (OPQ)* | 2.2 | 2.7 | 1.8 | 2.4 | 1.8 | 1.6 | 1.4 | 1.0 | 2.1 | … | 1.7 | 1.5 | 1.4 | … |
| Labour costs per employee | 3.4 | 7.9 | 4.3 | 1.3 | 3.0 | 5.5 | 7.3 | -0.2 | 3.8 | … | 4.5 | 4.6 | 4.0 | … |
| *- mainly private sector (without OPQ)* | 1.5 | 8.0 | … | 6.1 | 6.7 | 7.0 | 7.8 | -1.3 | 4.6 | … | 5.2 | 5.3 | 4.1 | … |
| *- mainly public services (OPQ)* | 9.4 | 7.7 | … | -11.7 | -7.8 | 1.0 | 5.7 | 2.3 | 1.9 | … | 2.8 | 2.8 | 3.6 | … |
| Unit labour costs, nominal** | 7.3 | 1.1 | 1.4 | -5.2 | -2.3 | 4.2 | 8.7 | 4.8 | -0.1 | … | 1.9 | 3.0 | 3.4 | … |
| Unit labour costs, real*** | 6.0 | -1.5 | -5.5 | -8.9 | -7.4 | -5.2 | -0.5 | 2.9 | -2.1 | … | -1.5 | -1.3 | -1.2 | … |
| | | | | | | | *in %* | | | | | | | |
| LFS unemployment rate | 5.0 | 4.7 | 4.0 | 4.3 | 4.2 | 4.0 | 3.5 | 7.9 | 7.7 | … | 7.0 | 6.6 | 6.6 | … |
| **Foreign trade** | | | | | | | *q-o-q growth rates in %* | | | | | | | |
| Real export of goods and services | | | | -1.8 | 2.8 | 3.6 | -4.5 | | | | 1.5 | 1.8 | 1.7 | … |
| Real import of goods and services | | | | 2.3 | 1.3 | 2.0 | -4.1 | | | | -0.7 | 2.2 | 4.2 | … |
| | | | | | | | *y-o-y growth rates in %* | | | | | | | |
| Real export of goods and services | -8.6 | 14.5 | 6.5 | 8.2 | 9.3 | 11.9 | -2.5 | -8.9 | 10.5 | … | 8.3 | 7.5 | 7.6 | … |
| Real import of goods and services | -9.6 | 17.6 | 9.8 | 17.2 | 12.6 | 12.6 | -1.5 | -8.5 | 8.3 | … | 9.6 | 8.2 | 10.5 | … |
| Current account balance as % of GDP**** | 7.6 | 3.8 | -0.8 | 1.5 | 0.4 | -0.4 | -0.8 | 1.6 | 2.3 | … | 1.6 | 0.6 | -0.7 | … |
| External trade balance as contr. to GDP growth in p.p. | 0.0 | -0.8 | -2.1 | -6.1 | -1.9 | 0.1 | -0.9 | -0.5 | 1.3 | … | -0.3 | 0.0 | -0.9 | … |
| **Financing** | | | | | | | *in % of GDP* | | | | | | | |
| Banking system's balance sheet | 98.0 | 94.5 | … | 92.6 | 88.5 | 88.3 | … | 294.8 | 285.9 | … | 293.5 | 294.3 | 300.0 | … |
| Loans to NFCs | 20.2 | 19.3 | 19.4 | 19.3 | 19.3 | 19.5 | 19.4 | 40.0 | 37.9 | … | 37.6 | 37.6 | 37.9 | … |
| Loans to households | 22.8 | 21.6 | 20.8 | 21.3 | 21.1 | 20.9 | 20.8 | 53.0 | 51.4 | … | 50.8 | 50.4 | 50.2 | … |
| **Inflation** | | | | | | | *in %* | | | | | | | |
| HICP | -0.3 | 2.0 | 9.3 | 6.3 | 9.0 | 11.3 | 10.6 | 0.3 | 2.6 | 8.4 | 6.1 | 8.0 | 9.3 | 10.0 |
| HICP excl. energy, food, alcohol and tobacco | 0.8 | 0.9 | 5.9 | 4.4 | 5.6 | 6.4 | 7.0 | 0.7 | 1.5 | 3.9 | 2.7 | 3.7 | 4.4 | 5.1 |
| **Public finance** | | | | | | | *in % of GDP* | | | | | | | |
| Debt of the general government | 79.6 | 74.5 | … | 74.6 | 73.5 | 72.4 | … | 97.0 | 95.4 | … | 95.2 | 94.2 | 93.0 | … |
| One year net lending/net borrowing of the general government**** | -7.7 | -4.7 | … | -3.6 | -3.1 | -2.7 | … | -7.0 | -5.1 | … | -4.0 | -2.8 | -2.6 | … |
| *- interest payment**** * | 1.6 | 1.2 | … | 1.2 | 1.1 | 1.1 | … | 1.5 | 1.5 | … | 1.5 | 1.5 | 1.6 | … |
| *- primary balance**** * | -6.1 | -3.4 | … | -2.4 | -2.0 | -1.6 | … | -5.5 | -3.7 | … | -2.5 | -1.3 | -1.0 | … |

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.

# 9 Figures and Tables

**Figures**



**Tables**