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**Review of
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developments and
projections**

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Summary

The outlook for economic activity in Slovenia is improving, with inflation gradually converging to the price stability objective.

This year's economic growth of 2.5% will mainly be driven by domestic demand, while in 2025 and 2026 it is expected to be more balanced and additionally supported by strengthening of export activity. Following last year's subdued GDP growth of 1.6%, the short-term trends point to stronger economic growth this year. Year-on-year GDP growth surpassed 2% in the first quarter, reflecting high employment, growth in real incomes, and a gradual improvement in the economic sentiment. Besides the favourable factors related to private consumption, domestic demand this year will be further reinforced by government expenditure, among others including funding related to the post-flood reconstruction. Strong domestic demand, combined with a positive contribution from inventories, will lead to increased imports, resulting in a negative contribution of net trade to GDP growth this year. Over the remainder of the projection horizon, economic growth is expected to strengthen further and gradually approach its long-term average as export demand recovers and financing conditions ease. The GDP growth is projected to stand at 2.5% in 2024, 2.6% in 2025 and increase to 2.8% in 2026.

Given the improved economic outlook, employment will continue to rise, while unemployment will remain at record low levels. Growth in the persons in employment strengthened in the first quarter, and unemployment fell further. Despite record high employment, the survey expectations of hiring remain positive, and suggest that the labour market will remain tight, which will maintain high wage growth over the projection horizon. Amid a shortage of available labour, growth in employment will continue to be outpaced by economic growth, which will strengthen productivity growth and partly mitigate rising unit labour costs. The employment growth is expected to increase by 0.6% in all years of the projection horizon, while wage growth is projected at 7.6% this year, before slowing to 5.5% in 2025 and 4.0% in 2026.

With domestic price pressures persisting, the moderation of inflation will continue gradually and intermittently. Following last year's sharp fall, inflation has remained close to 3% over the first five months of this year. The slower pace of inflation moderation was attributable to the waning disinflationary effects of supply-side improvements and persistently strong domestic price pressures. Of these, the most notable is the high wage growth, which drives up labour costs and sustains demand at a high level. Given the anticipated persistence of these factors, core inflation is projected to average more than 3.0% over the period of 2024 to 2026. The slowdown in headline inflation over the projection horizon will also be temporarily curtailed by the expiry of government measures to mitigate high energy prices. Inflation is projected to stand at 2.4% this year, before rising temporarily to 3.0% in 2025, and falling to 2.3% in 2026.

The macroeconomic projections are accompanied by risks, which are tilted towards upside for inflation and are more balanced for economic growth. After stagnating in the past two years, the anticipated strengthening of economic growth, coupled with slowing employment growth and falling inflation, implies an expected strengthening of productivity within the projection horizon. Conversely, a structurally lower growth in productivity compared with the pre-pandemic period and its slower recovery could lead to lower economic growth, intensified unit labour costs, and higher inflation. Similar

stagflationary effects could arise from the potential renewal of supply-side shocks, fuelled by persistent uncertainties in the geopolitical environment. On the other hand, a risk of higher economic growth, and also inflation, is posed by still abundant excess household savings, which might translate to higher growth in private consumption and housing investment over the projection horizon.

Table 1: **Macroeconomic projections for Slovenia, 2024 to 2026**

	2017	2018	2019	2020	2021	2022	2023	Projections							
								2024	2025	2026	Δ	Jun.	Δ	Jun.	Δ
Prices	<i>annual average % changes</i>														
HICP	1.6	1.9	1.7	-0.3	2.0	9.3	0.0	7.2	0.0	2.4	-0.6	3.0	-0.1	2.3	0.2
HICP excluding energy and food	0.7	1.0	1.9	0.8	0.9	5.9	0.0	6.7	0.1	3.5	-0.4	3.6	0.1	2.9	0.2
HICP energy	4.7	6.0	0.8	-10.8	11.3	24.8	0.0	2.2	-0.1	-2.5	0.7	-2.3	-3.0	-1.1	0.2
HICP food	2.2	2.4	1.6	2.8	0.7	10.6	0.0	11.8	0.0	2.1	-1.8	3.9	0.3	2.4	0.2
Economic activity	<i>y-o-y growth rates in % (unless stated otherwise)</i>														
GDP (real)	4.8	4.5	3.5	-4.2	8.2	2.5	0.0	1.6	0.3	2.5	0.3	2.6	0.3	2.8	0.3
Private consumption	1.9	3.5	5.5	-6.5	10.3	3.6	0.0	1.3	0.8	1.9	0.5	2.6	0.5	1.9	0.3
Government consumption	0.4	2.9	1.8	4.2	6.1	-0.5	0.0	2.4	0.9	7.2	0.0	2.8	-0.1	4.3	0.0
Gross fixed capital formation	10.2	10.2	5.0	-7.2	12.6	3.5	0.0	9.5	0.8	3.0	2.8	3.7	0.6	3.0	0.9
of which Private sector	12.2	7.4	4.3	-9.4	10.8	1.4	0.0	11.2	3.9	2.0	-0.4	3.8	0.1	3.9	0.6
of which Government sector	0.9	23.8	8.1	2.2	19.3	10.8	0.1	4.0	-9.4	6.6	12.9	3.4	2.3	0.0	2.0
Exports (goods and services)	11.1	6.2	4.5	-8.5	14.5	7.2	0.0	-2.0	0.5	2.9	1.1	4.4	0.3	4.4	0.4
Imports (goods and services)	10.7	7.1	4.7	-9.1	17.8	9.0	0.0	-5.1	1.1	5.1	1.3	5.1	0.7	4.6	0.6
Contributions to real GDP growth	<i>in GDP percentage points</i>														
Domestic demand (excluding inventories)	2.9	4.2	4.2	-4.2	8.9	2.5	0.0	3.0	0.7	3.0	0.9	2.7	0.4	2.5	0.4
Net exports	1.2	-0.2	0.2	-0.3	-1.2	-1.0	0.0	2.5	-0.5	-1.5	-0.1	-0.2	-0.2	0.2	-0.1
Changes in inventories	0.7	0.4	-0.9	0.1	0.4	1.0	0.0	-4.1	-0.1	1.0	-0.5	0.0	0.0	0.0	0.0
Labour market	<i>y-o-y growth rates in % (unless stated otherwise)</i>														
Unemployment growth (% of labour force)	6.6	5.1	4.5	5.0	4.7	4.0	0.0	3.7	0.0	3.5	0.0	3.5	0.0	3.4	0.0
Total employment	2.9	3.2	2.4	-0.7	1.3	2.9	0.0	1.2	0.0	0.6	0.1	0.6	0.1	0.6	0.1
Compensation per employee	3.0	3.9	5.0	3.4	8.1	5.0	0.0	11.8	0.3	7.6	1.4	5.5	0.0	4.0	0.1
...Productivity	1.9	1.2	1.1	-3.6	6.8	-0.4	0.0	0.4	0.3	1.9	0.2	2.0	0.2	2.2	0.3
...Unit labour costs (ULC)	1.2	2.7	3.9	7.2	1.1	5.4	0.0	11.4	-0.1	5.7	1.2	3.4	-0.2	1.8	-0.2
Balance of payments	<i>y-o-y growth rates in % (unless stated otherwise)</i>														
Current account: in bn EUR	2.7	2.7	2.8	3.4	1.7	-0.6	0.0	2.8	-0.4	2.5	-0.1	2.3	-0.3	2.4	-0.5
in % GDP	6.2	5.9	5.9	7.2	3.3	-1.0	0.0	4.5	-0.6	3.7	-0.2	3.3	-0.4	3.2	-0.7
Terms of trade*	-0.6	-0.1	0.5	0.7	-2.1	-3.1	0.0	2.7	-0.2	1.4	1.0	-0.1	-0.1	-0.1	-0.2

Sources: SORS, Eurostat, Banka Slovenije projections

Note: * Based on national accounts deflators. Δ: difference between current projections and projections given in the [December 2023 issue of the Review of macroeconomic developments and projections](#).

1 Current Economic Developments and Assumptions

Domestic economic activity remained solid in the early part of this year, with a relatively favourable position in the majority of sectors, while the nowcasts for the second quarter point to further strengthening. Activity continues to be supported by high employment, growth in real incomes, and a gradual improvement in the economic sentiment. The inflation developments also remain encouraging: it is continuing to fall, despite persistently strong domestic price pressures.

1.1 International situation and external assumptions

Global economic growth remains stable, but will remain below its long-term average until the end of the projection horizon.

Global economic activity remained stable in the early part of this year. After contracting at the end of last year, GDP in the euro area and the UK recovered in the first quarter of this year, while GDP growth in the US strengthened further. The UK saw the highest quarterly economic growth of 0.6%, followed by the US with 0.4%, with household consumption being the main driver in both economies. Household consumption also drove economic growth in China, which strengthened to 1.6% at the quarterly level, as developments in industrial production were also encouraging. By contrast, the Japanese economy contracted (by 0.5%) as private consumption fell.

The global PMIs point to continuing stable economic growth in the second quarter. The composite PMI hit 52.4 points in April, its highest level in ten months, amid a rise in new orders.¹ The services PMI remained higher than the manufacturing PMI, at 52.7 points versus 50.3 points. According to the initial data for May, the largest monthly improvement in the composite PMI seen in the major advanced economies was recorded by the US, where the figure of 54.4 points was the highest since April 2022, and was driven by a sharp rise in the services indicator. In the developing economies there was a notable improvement in Brazil's manufacturing PMI in April, with only India continuing to record a higher figure.

According to the ECB's June projections, global economic growth excluding the euro area is projected at 3.3% this year and next year, and 3.2% in 2026. The growth projections remains lower than the average over the last decade, with growth continuing to be curtailed over the cycle by the deferred effects of past restrictive monetary policy, and also by the anticipated slowdown in employment growth as the labour market gradually cools. Economies are also facing longer-lasting structural issues, such as low productivity growth and rising geopolitical fragmentation.

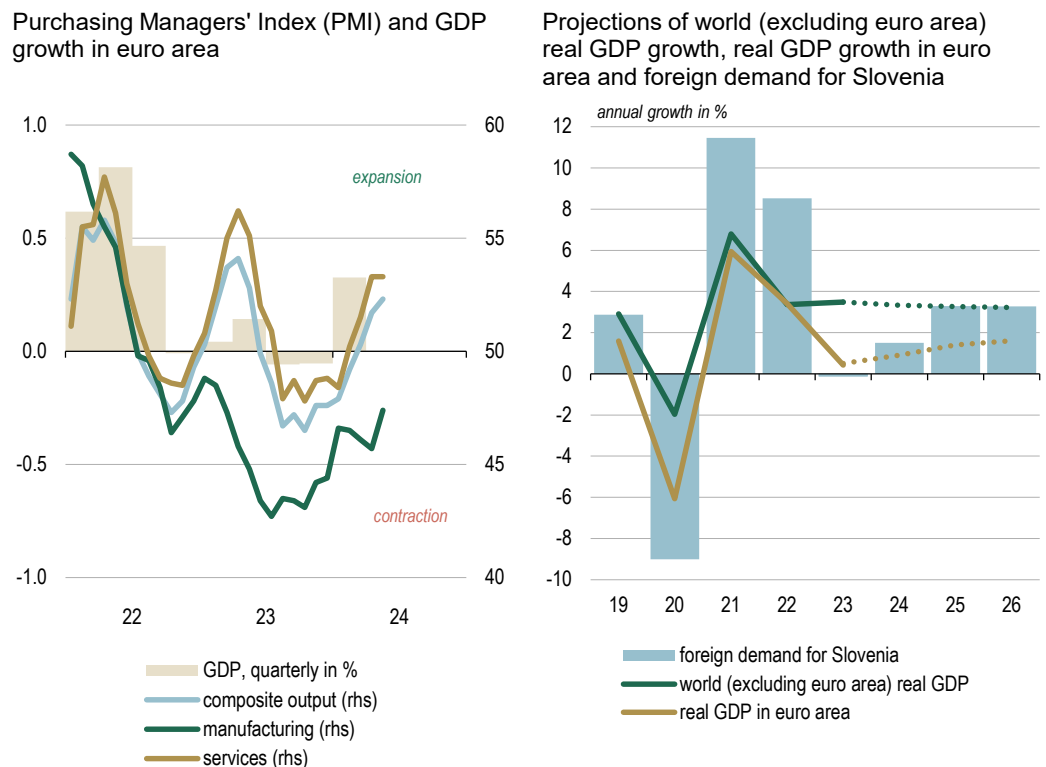
¹ New export orders strengthened for the first time since February 2022.

Euro area GDP recovered in the first quarter, driven primarily by activity in the service sector; it is projected to strengthen over the remainder of the year as real household incomes rise.

After two consecutive contractions in the second half of last year, economic activity in the euro area strengthened by 0.3% in the first quarter of this year (see Figure 1.1.1, left). The GDP growth was primarily based on a recovery in exports and strengthening services, tourism in particular, while industrial production again performed poorly.² Most of the major euro area economies saw higher growth than in the previous quarter, with Spain again recording the highest rate (0.7%), followed by Italy (0.3%), with France and Germany recording growth of 0.2%. Estonia (where activity was down 0.4%) remained in recession, while the highest quarterly growth was recorded by Cyprus (1.2%) and Ireland (1.1%).

The flash estimates of the PMIs for May show euro area economic growth continuing to be driven by services, which stood in the zone of growth for the fourth consecutive month. By contrast, manufacturing output contracted again in May, albeit by the smallest amount of the last 14 months. The composite PMI thus rose to 52.3 points, the services PMI remained at 53.3 points, and the manufacturing PMI rose to 47.4 points (see Figure 1.1.1, left). Amid signs of recovery in economic activity, inflation has continued to fall, with the exception of May, when it stood at 2.6%, up 0.2 percentage points on April. This was primarily attributable to service price inflation, which is falling much more slowly than other components. Service price inflation stood at 4.1% in May, as a

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



Sources: ECB, Eurostat, Bloomberg, Banka Slovenije calculations. Latest data, left chart: GDP: Q1 2024, PMIs (flash): May 2024

² The three-monthly moving average of the monthly indicators for the euro area shows a contraction of 0.5% in industrial production in March, while growth in services stood at 0.7% in February. The three-monthly moving averages for March show growth of 0.4% in the amount of construction put in place and 0.2% in retail turnover.

result of which core inflation continues to outpace headline inflation at 2.9%. The gaps between different countries are narrowing, and the gap between Slovenia and the euro area overall has completely vanished.

The ECB's June projections are expecting euro area economic growth of 0.9% this year, higher than in the December projections, with the rise in private consumption the main driver. Real household incomes are projected to continue being driven up by wage growth, lower inflation, the robust labour market, and an ever-improving economic sentiment. Euro area GDP growth is projected at 1.4% next year, and 1.6% in 2026 (see Figure 1.1.1, right).

June's assumptions for the international environment point to a recovery in foreign demand for Slovenia, a fall in borrowing costs, and higher oil prices compared with December.

Given the improvement in economic activity in its largest trading partners, which is driven by a rise in contributions from net trade and private consumption, the foreign demand growth³ of Slovenia is expected to strengthen again.⁴ Amid the anticipated gradual stabilisation of the international situation and improvements in financing conditions, foreign demand growth is expected to increase over the remainder of the projection horizon but will remain below its pre-pandemic average.⁵ Developments in oil prices will also have an impact. Despite a decline in global demand, oil prices are expected to stagnate this year due to supply-side factors (voluntary pumping cuts by Opec+ countries and geopolitical tensions in the Middle East) before moderating in the remainder of the projection horizon. Compared to the December projections, the wholesale oil price assumption is higher for 2024 but similar at the end of the projection horizon (see Table 1.1.1).

Throughout the projection horizon, the projected short-term interest rates will decline in line with the easing of price pressures. By the end of 2026, they are expected to be slightly lower than projected in December. The euro exchange rate against the US dollar will hold steady over the projection horizon at approximately USD 1.10 to the euro, similar to the level assumed in December projections (see Table 1.1.1).

³ The assumptions for the international environment are based on information available by the cut-off date of May 22, 2024. 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 projections online, which are also available in Slovene, on the [ECB website](#).

⁴ In 2024, the foreign demand growth for Slovenia will be lower than the growth in global economic activity. This is primarily due to the slower recovery of economic activity in Slovenia's main trading partners.

⁵ Annual growth in foreign demand for Slovenia averaged 4.8% between 1996 and 2019.

Table 1.1.1: Assumptions for the international environment

	2019	2020	2021	2022	2023	Assumptions		
						2024	2025	2026
World (excluding euro area) real GDP growth (in %)	2.9	-2.0	6.8	3.4	3.5	3.3	3.3	3.2
Real GDP growth in euro area (in %)	1.6	-6.2	5.9	3.5	0.6	0.9	1.4	1.6
Foreign demand for Slovenia (growth in %)	2.9	-9.0	11.5	8.5	-0.1	1.5	3.4	3.3
Oil price (in USD/barrel)	64.9	41.5	71.1	103.7	83.7	83.8	78.0	74.5
Oil price (in EUR/barrel)	57.9	36.3	60.1	98.4	77.5	77.7	72.4	69.2
Oil price (in USD/barrel, growth in %)	-8.7	-36.0	71.3	45.8	-19.2	0.0	-6.9	-4.5
Exchange rate (EUR/USD)	1.1	1.1	1.2	1.1	1.1	1.1	1.1	1.1
3-month Euribor (in %)	-0.4	-0.4	-0.5	0.3	3.4	3.6	2.8	2.5
Non-energy commodity prices (growth in %)	-6.4	3.4	42.1	6.6	-12.5	11.4	3.9	0.9

Sources: ECB, Banka Slovenije calculations

1.2 Domestic economic environment

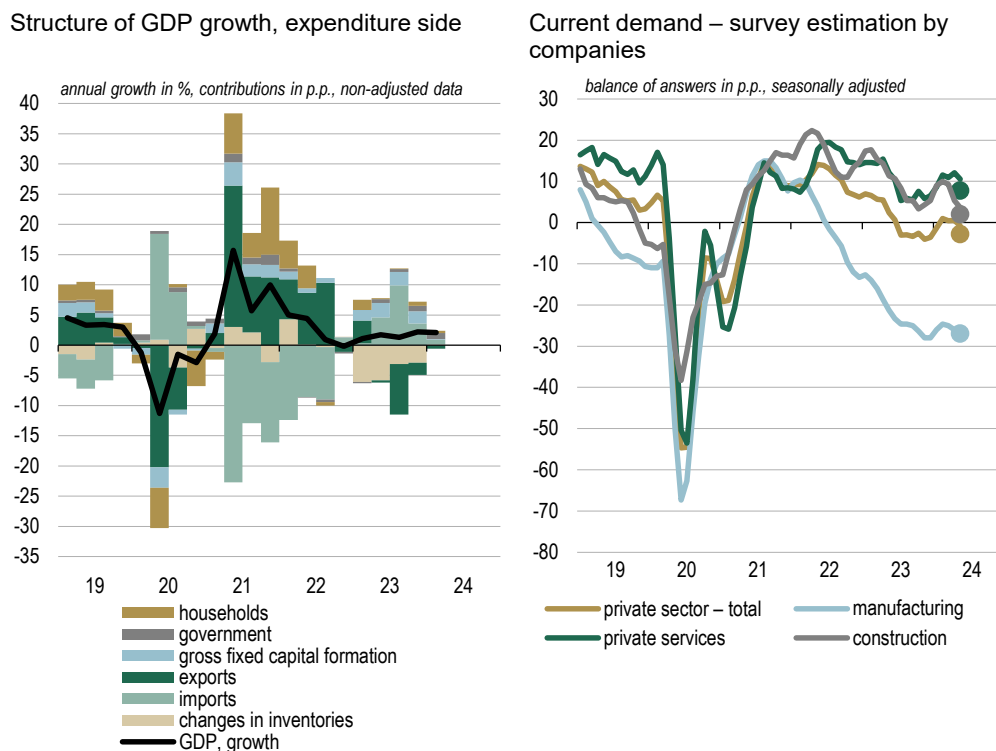
The economic situation in Slovenia remains solid, with government consumption and household purchasing power strengthening in year-on-year terms, while the decline in exports eased.

GDP in the first quarter was unchanged from the previous quarter, but the year-on-year rate of growth once again surpassed 2% according to unadjusted figures, and also surpassed the euro area average. Almost half of the growth came from the increase in government consumption driven by the conversion of supplemental health insurance into a compulsory contribution and the reconstruction following last year's floods (see Figure 1.2.1, left). Private consumption also remains strong, supported by a renewed rise in car purchases. Private consumption and household confidence are continuing to be strengthened by the buoyant labour market, which is being reflected in real year-on-year growth of 2.6% in the net wage bill.⁶ The investment picture is more mixed. Investment excluding inventories in the first quarter was up 0.6% in year-on-year terms, albeit mostly driven by construction investment. Investment in machinery and equipment was down in year-on-year terms for the sixth consecutive quarter, which is tied to weak export demand, the adverse geopolitical situation, cost issues in European industry and higher interest rates. Net trade again made a positive contribution to GDP growth in the first quarter. The year-on-year decline in real exports was again smaller than that on the import side, and was significantly smaller than in the second half of last year.

The economic situation in the first quarter was relatively favourable in the vast majority of sectors. After a challenging time in 2022 and 2023, firms in industry succeeded in increasing value-added by 1.8% in year-on-year terms, although they are still facing weak demand according to the SORS survey data (see Figure 1.2.1, right). The situation also improved relative to the second half of last year in aggregate private-sector services, where year-on-year growth in value-added was low but positive. Demand for services remained variable, with some being driven by robust domestic private consumption and international tourism, while services linked to international merchandise trade (transport services in particular) conversely continued to face weak demand. The previously strong growth in construction activity slowed sharply, following a quarterly

⁶ HICP deflator.

Figure 1.2.1: **Economic growth and demand in Slovenia**



Sources: SORS, Banka Slovenije calculations. Latest data, left chart: Q1 2024; right chart: May 2024

Note: In the right chart the aggregate indicators of current demand for the private sector and private-sector services were calculated by means of shares in value-added. Three-month moving averages are illustrated, with the exception of the dots, which are the latest figures.

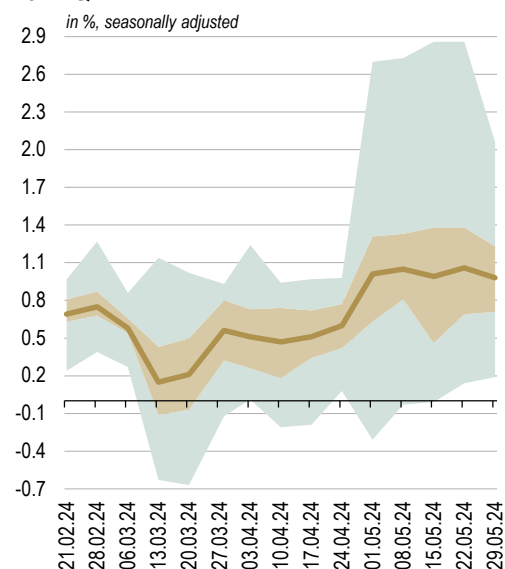
decline and a pronounced slowdown in year-on-year growth in value-added to 1.6%. Besides base effect, the fall in the number of building permits issued for buildings, which has been underway for two years now, is also indicative of a more modest growth in construction.

The available short-term indicators point to a strengthening of economic activity in the second quarter. The economic sentiment indicator in May remained above its average of the first quarter. Manufacturing confidence remained stable, with firms raising their assessment of production expectations for the third consecutive month, while the decline in the current demand indicator came to an end (see Figure 1.2.1, right). According to the SORS survey figures, the situation also remained stable in services excluding retail, while the outlook improved, the demand expectations indicator having reached its highest level since August 2022.⁷ The situation remains favourable for growth in private consumption: in May consumers assessed the financial situation in their households as better than a year earlier. Further evidence of this comes from the year-on-year rates of growth in the real value of card payments and ATM withdrawals⁶ and in real retail turnover excluding fuels, which stood at 7.5% and 3.1% respectively in April according to unadjusted figures. According to the survey data, construction activity is thought to have slowed further: firms lowered their assessments of order books in April and May (see Figure 1.2.1, right). In line with the aforementioned set of short-term indicators, the nowcast for quarterly GDP growth in the second quarter currently averages 1.0% (see Figure 1.2.2, left).

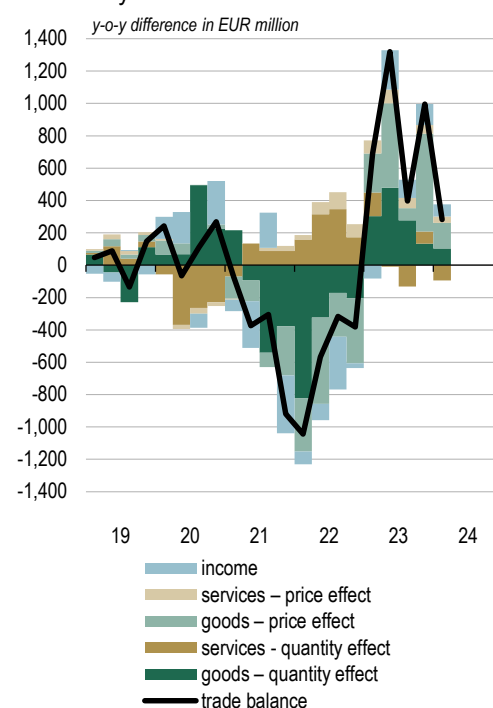
⁷ The retail confidence indicators were not included in the analysis, given their large monthly volatility.

Figure 1.2.2: **Nowcasts for GDP growth and current account**

Model estimates of quarterly GDP growth – 2024 Q2



Price and quantity effect on current account balance dynamics



Sources: SORS, Banka Slovenije, Banka Slovenije calculations

Note: The left chart illustrates the nowcasts for quarterly GDP growth. The gold area represents the interval between the 25th and 75th percentiles, while the green area represents the interval between the lowest and highest projections. The black line represents the average nowcast for GDP growth in the second quarter of 2024. Nowcast date: 29 May 2024.

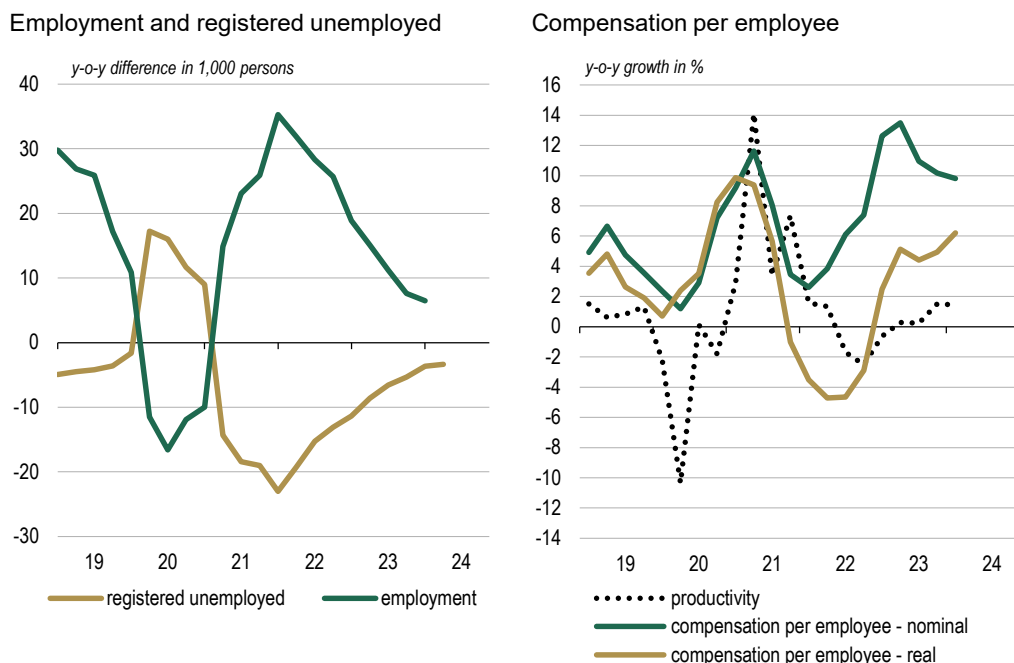
The current account surplus widened further in the first quarter, primarily as a result of an improvement in the terms of trade and a volume increase in merchandise exports.

The current account recorded a surplus of EUR 830 million in the first quarter of this year, which is EUR 280 million higher than the same period last year. The merchandise trade surplus increased by EUR 260 million in year-on-year terms, primarily as a result of the improved terms of trade as import prices have fallen more strongly than export prices (see Figure 1.2.2, right). The breakdown of the SORS data by product categories shows the improvement to have been driven by a decline in imports of energy and materials, and an increase in exports of machinery and transport equipment. The deficit in secondary income was also EUR 70 million narrower than the same period last year. By contrast, the services trade surplus narrowed by EUR 55 million in year-on-year terms, driven by a decline in exports of transport services and miscellaneous business services. Amid falling prices, nominal merchandise trade and services trade both declined by approximately 4% in year-on-year terms.

The rise in employment and fall in unemployment are continuing, while wage growth remains high.

Employment hit 1,094,400 in the first quarter of this year, up 0.6% on the same period last year. Amid the ongoing rise in employment, registered unemployment is continuing to fall, and reached a new low of 45,219 in April (see Figure 1.2.3, left). The year-on-

Figure 1.2.3: **Selected labour market indicators**



Sources: SORS, Employment Service, Banka Slovenije calculations. Latest data, left chart: employment: Q1 2024; registered unemployment: Q2 2024;* right chart: Q1 2024

Note: * The figure for registered unemployment is compiled from an average over the three months of the quarter. Only the April data is available for the second quarter of 2024. Real growth in compensation per employee is calculated by means of the HICP deflator.

year rise in employment is mainly being driven by services, while employment in manufacturing was actually down in year-on-year terms for the second consecutive quarter. The construction sector is also experiencing a slowdown in employment growth, with year-over-year growth in the first quarter of only 0.5%, a 4.6 percentage point decline from the same period last year. According to the survey data, employment will continue rising over the coming months, with services expected to see the largest rises. The unemployment rate remained high at 2.5% in the first quarter, but well below the highs reached in 2022.

While the labour market remains tight, nominal growth in compensation per employee remains very high, and stood at 9.8% in the first quarter (see Figure 1.2.3, right). Note that the high rate of growth was primarily attributable to the payment of annual leave allowance in the public sector in March, in contrast to last year's payment in June, which had an impact on year-on-year wage growth. Growth in compensation per employee in the private sector stood at 7.6% in the first quarter. With inflation falling, real growth in compensation per employee at 6.2% remains well above its long-term average (1.8%).

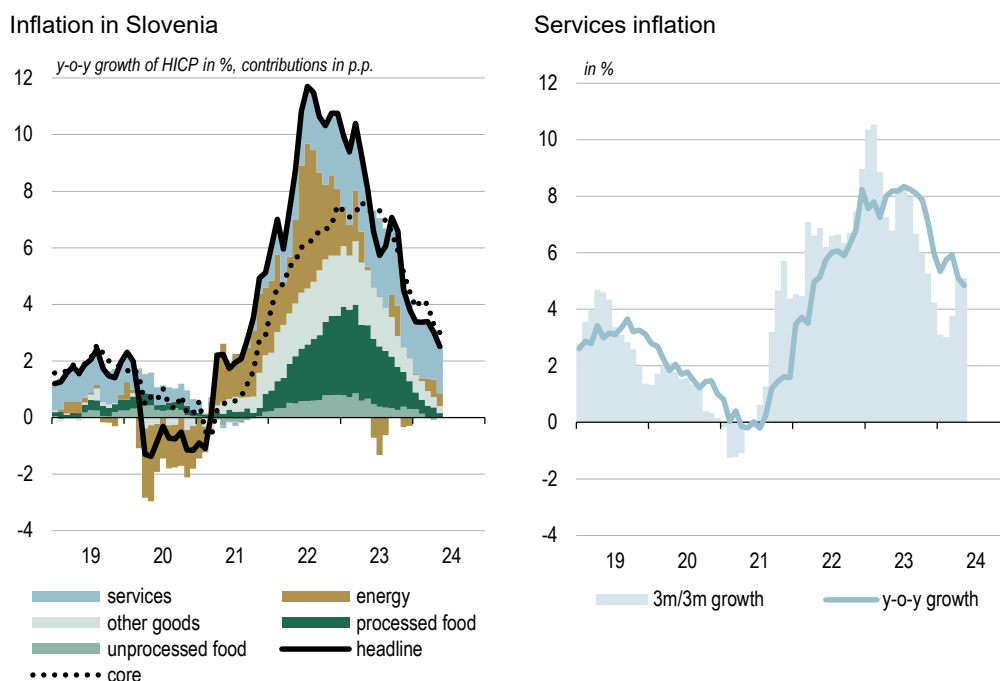
Inflation is continuing to decline, despite strengthened domestic price factors and persistently high services price inflation.

Year-on-year growth in consumer prices as measured by the HICP decreased to 2.5% in May, down from 3.0% in April (see Figure 1.2.4, left). The fall was largely driven by energy inflation, which slowed to 3.7% (down from 5.0% in April), primarily as a result of month-on-month declines in prices of gas and some fuels, and a base effect in heat energy prices. Food inflation has also contributed to the lowering of inflation: the year-on-year rate slowed to 0.6% (down from 1.2% in April), driven entirely by a base effect in processed food. Indeed, the annual food inflation has been slowing down since January of last year, as a result of monthly price falls following easing of price pressures

on global food commodity markets, alongside base effects (see Figure 1.2.5). Food inflation excluding alcohol and tobacco is slowing even more notably: prices excluding these two categories were down 0.4% in year-on-year terms.

Core inflation, that is inflation excluding energy and food, slowed to 3.0% in May, down from 3.3% in April. The decline was mostly driven by prices of non-energy industrial goods (other goods) as their year-on-year growth declined further to 0.8% (down from 1.2% in April), indicating the normalisation of the production chains and a slowdown of growth in producer prices. By contrast, services inflation continues to outpace the core inflation, and stood at 4.8% in May (down from 5.1% in April), with prices of hotels and restaurants recording growth of 6.8%.⁸ This reflects robust domestic price pressures, most notably via growth in labour costs, which is continuing to significantly outpace the productivity growth. Short-term trends in services inflation, which have strengthened over the last three months (see Figure 1.2.4, right), also point to only moderate slow-down in the coming months, and the persistence of domestic price pressures (see Figure 1.2.5).

Figure 1.2.4: Domestic price developments

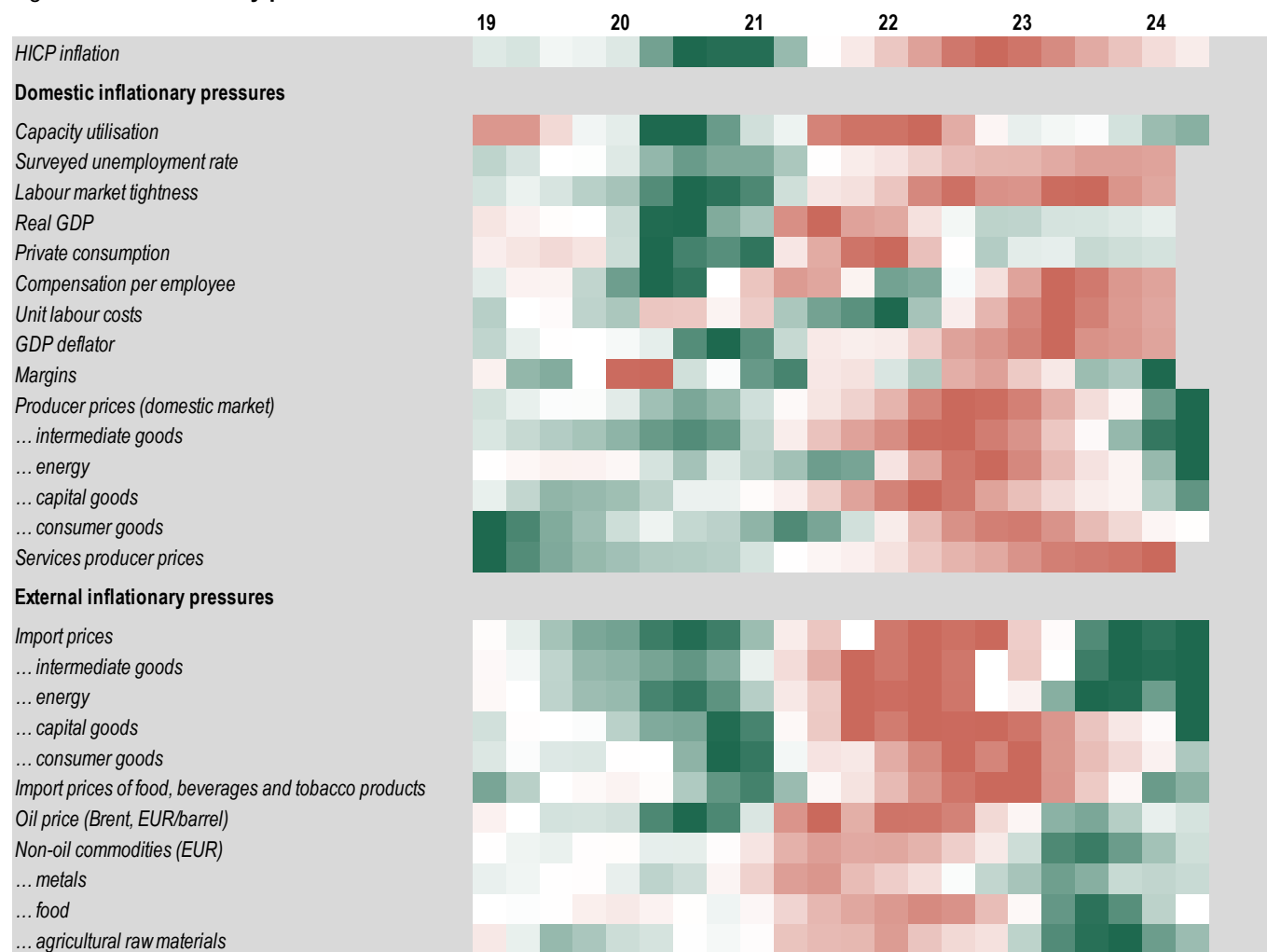


Sources: SORS, Eurostat, Banka Slovenije calculations. Latest data: May 2024

Note: The 3m/3m figure illustrates momentum, which is calculated as the annualised rate of growth in the seasonally adjusted HICP by comparing the level of prices in the last three months with those from the preceding three months.

⁸ These account for 31% of all services.

Figure 1.2.5: Inflationary pressures



Sources: SORS, Employment Service, Eurostat, ECB, Banka Slovenije calculations

Note: The monthly figures are expressed as six-month moving averages, while the quarterly figures are two-quarter moving averages. The figures represent year-on-year growth rates, with the exception of capacity utilisation and the unemployment rate, which are expressed in percentages. The labour market tightness indicator is also an exception, and is calculated as the ratio of the vacancy rate to the registered unemployment rate. The data is standardised with regard to the complete time series as of 1995. The colour scale denotes the direction and size of the deviation in an individual time series from its long-term average (measured in standard deviations), where red signifies a positive deviation and green a negative, while the size is signified by the shade (a darker shade means a larger deviation). The colour scale is reversed in the cases of the unemployment rate and labour market tightness. The data for the second quarter of this year only covers the data for April, except for the HICP, which covers April and May.

The general government position over the first four months of the year remained broadly unchanged from the same period last year, as the high growth in revenues continued.

The general government deficit over the first four months of the year amounted to EUR 55 million, according to the consolidated figures. It was EUR 10 million wider in year-on-year terms, but growth in revenues was also higher than last year at 10.8%. This is attributable to the labour market situation, which is driving high growth in personal income tax and social security contributions (14.8% overall). The latter are also rising because of the conversion of supplemental health insurance into a compulsory health insurance contribution. Growth in corporate income tax revenues was particularly pronounced in April, on account of the settlements for the previous financial year, in reflection of last year's good corporate performance. Growth in revenues from taxes on consumption has slowed slightly compared with last year, but remains favourable at 8.0%.

The high growth of 10.9% in expenditure over the first four months of the year was driven in particular by pensions and wages. Expenditure on wages was up 16.1%, primarily as a result of the payment of annual leave allowance, which in the public sector was made in March this year, in contrast to June last year. Pension expenditure increased as a result of the above-average statutory adjustments, while the number of pensioners also rose. Another major factor in the aggregate growth in expenditure was expenditure tied to government consumption. Growth in investment expenditure remained similar to last year, while expenditure on subsidies was down in year-on-year terms as payments to mitigate the energy crisis shrank. Expenditure on reconstruction following last year's floods amounted to EUR 114 million over the first four months of the year, according to the Fiscal Council data. Slovenia recorded a net surplus against the EU budget.

2 Projections

After slowing last year, economic growth is projected to strengthen over the projection horizon, amid favourable domestic demand factors and a gradual recovery in global trade. The labour market will remain tight, which will drive high wage growth. Inflation will therefore fall gradually and unevenly, with a faster convergence on the price stability target being prevented by temporarily high growth in food prices and services prices, and by the expiry of the government measures to mitigate high energy prices.

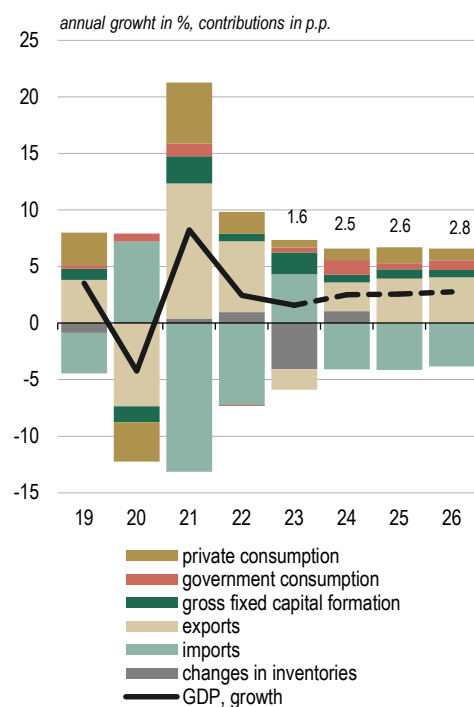
2.1 Economic activity

GDP growth will gradually strengthen over the projection horizon. It is projected at 2.5% this year, 2.6% in 2025 and 2.8% in 2026. The positive outlook is supported by the short-term developments in the domestic environment and the medium-term assumptions about the external environment and financing conditions.

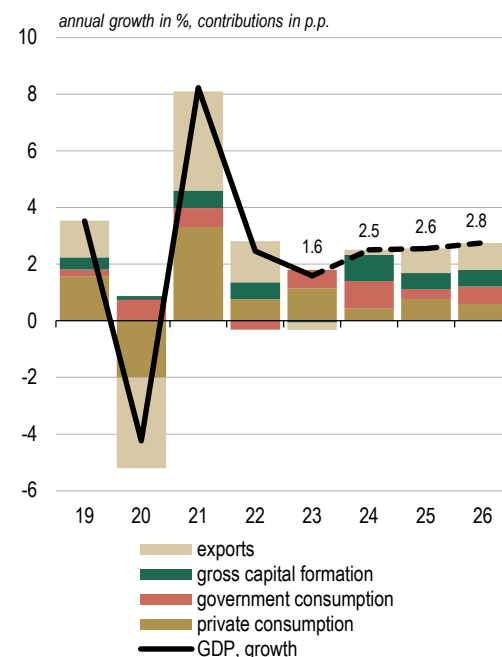
Following last year's slowdown in GDP growth, the short-term developments point to a strengthening economic activity and an improved basis for growth this year. The robust economic activity at the onset of this year reflects an improvement in consumer confidence, which is expected to strengthen further amid continuing real growth in incomes and employment over the remainder of the year, which will drive growth in private consumption. Domestic demand will additionally be supported by government consumption and investment, reflecting post-flood aid and reconstruction, and higher expenditure on healthcare and long-term care. Domestic demand will in conjunction with the positive contribution of inventories strengthen imports, which will be reflected in negative net trade contribution to GDP growth this year. With the gradual recovery in global demand, and the improvement in the terms of trade and the financing conditions, export growth is expected to gradually strengthen, contributing to a more balanced economic growth in 2025 and 2026. The GDP growth projections for 2024 and 2025 stand at 2.5% and 2.6% respectively, while growth is expected to approach its long-term average by the end of the projection horizon with a rate of 2.8% in 2026 (see Figure 2.1.1).

Figure 2.1.1: **Decomposition of GDP growth**

Contributions to real GDP growth



Contributions to real GDP growth (alternative method)



Sources: SORS, Banka Slovenije calculations and projections.

Note: Owing to rounding, components may not sum to their aggregate values. An alternative method for calculating contributions to GDP growth takes account of the import intensity of individual components of economic activity.

Private consumption will remain a significant factor in economic growth over the projection horizon. It will be supported by the robust labour market and the strengthening of household purchasing power, while being curtailed in technical sense by changes to supplemental health insurance and long-term care.

According to the revised quarterly national accounts figures, growth in private consumption stood at 1.3% last year, 0.8 percentage points higher than projected in the previous projections. The favourable developments from the end of last year have continued this year, which is being reflected in an improved confidence of consumers. Based on the better starting point, and the anticipated further strengthening of consumer sentiment, growth in private consumption is expected to grow 1.9% this year, 0.6 percentage points higher than projected in the December projections.

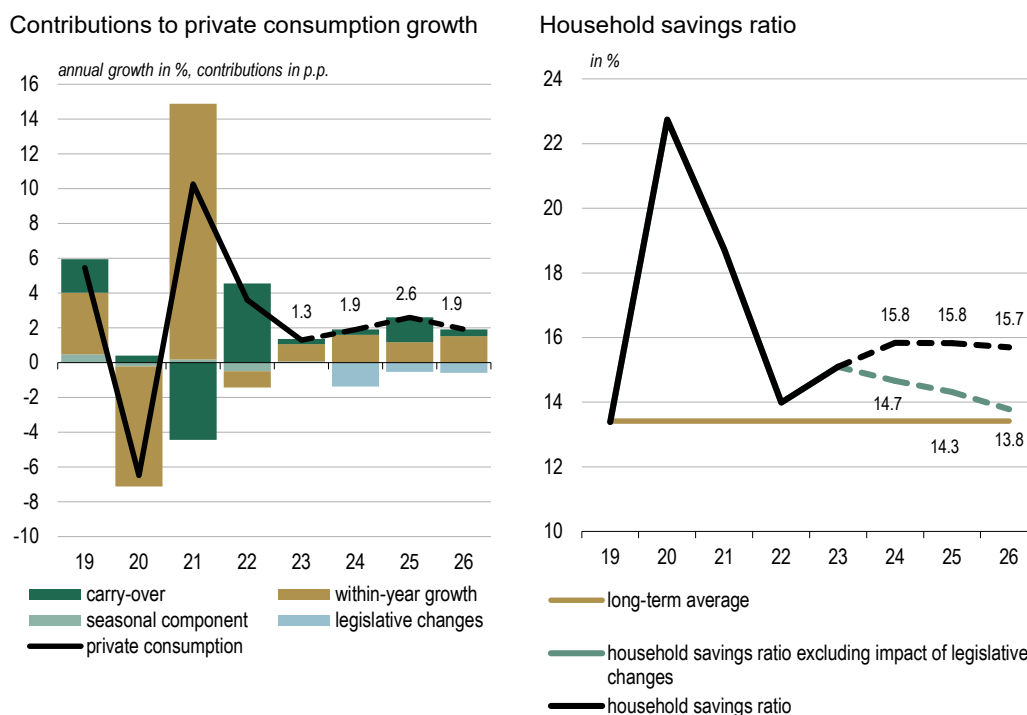
Growth in private consumption will remain favourable over the remainder of the projection horizon, primarily on account of the robust labour market and the anticipated high wage growth, which will further support growth in household purchasing power as inflation falls. Considering these developments, growth in private consumption is projected to stand at 2.6% in 2025, and 1.9% in 2026. Similarly to the December projections, even higher growth projections for household consumption are in technical terms preventing legislative changes related to the abolition of supplemental health insurance and its conversion into compulsory insurance, and the gradual phasing-in of the new law on long-term care (the ZDO). The negative impact of these legislative changes on

growth in private consumption is estimated to average approximately 0.8 percentage points between 2024 and 2026 (see Figure 2.1.2, left).⁹

The negative impact on growth in consumption from the legislative changes is also reflected in the projected household saving rate. It is expected to average 15.8% over the projection horizon, 2.4 percentage points above its long-term trend (see Figure 2.1.2, right). Excluding the effects of the legislative changes, the household saving rate would gradually decline and by the end of 2026 approach its long-term average (13.4% between 1995 and 2019). This entails the gradual normalisation of the consumption/saving behaviour of households in line with the anticipated gradual decline in uncertainty and the rise in consumer confidence.

Alongside favourable labour market conditions and anticipated real income growth, the positive outlook for private consumption is additionally supported by the favourable net financial position of households and the availability of the excess savings built up since the pandemic. Although the latter remain a potential risk for higher consumption growth, the breakdown of these savings across different wealth brackets and asset classes, as detailed in Box 2.1.1, nevertheless suggests a limited impact on consumption within the projection horizon.

Figure 2.1.2: **Decomposition of growth in private consumption, and household saving rate**



Sources: SORS, Banka Slovenije calculations and projections.

Note: The contributions labelled "SHI and ZDO" illustrate the impact on growth in private consumption from the conversion of supplemental health insurance into a compulsory contribution, and the gradual enforcement of the ZDO. The long-term average (13.4%) is calculated over the period of 1995 to 2019.

⁹ From an economic growth perspective, the negative contribution to private consumption will have no impact, as it will be compensated for in full by the increase in government consumption.

Current developments indicate a slowdown in private investment growth this year. However, for the rest of the projection period, investment dynamics is expected to pick up again, driven by lower borrowing costs, increased foreign demand, and NGEU funding.

The weak investment activity in the latter part of last year and early this year has resulted in a low base for this year's private investment growth, which is projected to reach 2.0%. This growth is primarily driven by an anticipated improvement in corporate investment activity in the second half of the year (see Figure 2.1.3, left). Key factors supporting this year's investment in machinery and equipment include the recovery in manufacturing activity and the gradual increase in firms' export and production expectations. The main uncertainty in the projections remains related to the expected developments in inventories. After three quarters of significant reductions to support past performance, firms began rebuilding inventories at the start of this year. A more pronounced increase in inventories over the coming quarters might cause a temporary deferral of investment spending by firms. Another factor contributing to slower growth in private investment this year is a sharp decline in housing investment. This is evidenced by a decline in value-added in construction in the early part of the year, a drop in the number of building permits issued for residential buildings, and fewer transactions in the real estate market. The annual growth in housing investment of 5.6% is thus based primarily on a carry-over effect from 2023 when growth reached 18.1% and remained high throughout the year. The factors behind the past high growth in housing investment are analysed in detail in Box 2.1.2.

Private investment growth is expected to strengthen again from 2025, supported by anticipated declines in borrowing costs and increased foreign demand and orders amid the recovery of key trading partners. Additionally, investments financed through the EU's Recovery and Resilience Facility (NGEU; see Figure 2.1.3, right) will play a significant role in this growth. Consequently, private investment is projected to grow by 3.8% in 2025 and 3.9% in 2026.

Box 2.1.1: Composition and wealth distribution of households' excess savings

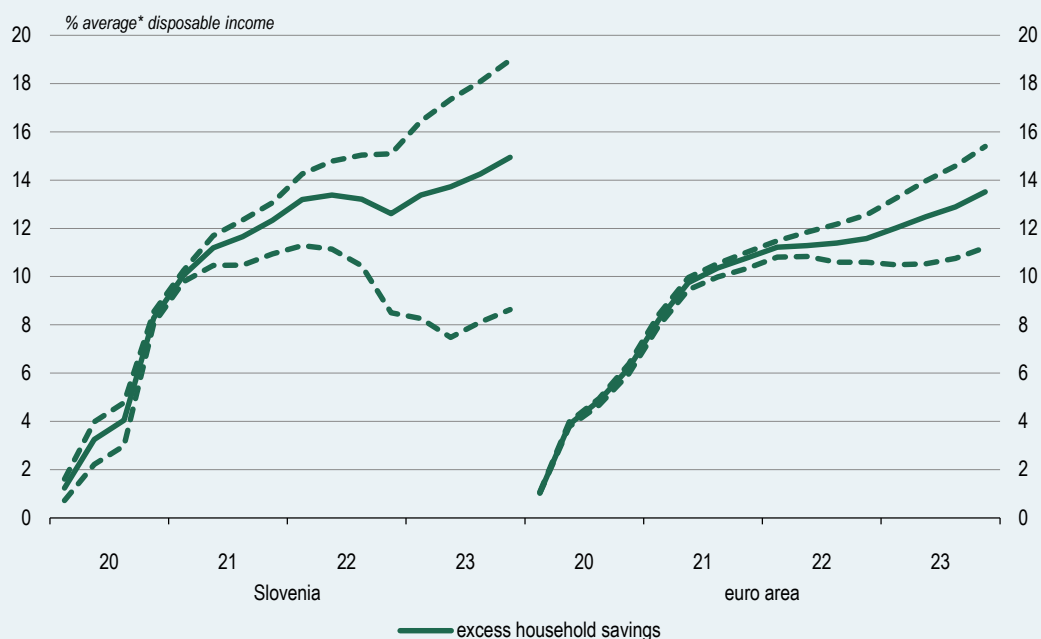
Households in Slovenia have significant excess savings at their disposal, but their composition and distribution across wealth brackets point to a limited impact on consumption over the projection horizon.

Since the onset of the pandemic, households in Slovenia and the euro area accumulated a large stock of savings, significantly above the levels implied by a pre-pandemic trend (see Figure 2.1.1.1).¹⁰ By the end of 2023 the excess household savings, i.e. the amount above the pre-pandemic trend, had reached approximately EUR 5 billion in Slovenia (approximately 15% of average annual disposable income¹¹), and had sur-

¹⁰ The factors affecting household saving are examined in the [December 2020 issue of the Macroeconomic Projections for Slovenia](#), in Box 1: Household saving rate: drivers and projections.

¹¹ The stock of excess savings is calculated as the cumulative total of the change in the actual flow of gross savings relative to the pre-pandemic trend, where several different approaches are available for estimating the trend (see Abdelrahman & Oliveira (2023) in FRBSF Economic Letter, Aladangady et al. (2022) in FEDS Notes, Battistini et al. (2023) in the ECB Economic Bulletin, and Soyres et al. (2023) in FEDS Notes). Depending on the definition/method used in estimating the trend, the stock of excess savings in the final quarter of 2023 (as a ratio to average annual disposable income) stood at

Figure 2.1.1.1: **Estimated stock of excess savings**



Sources: Eurostat, Banka Slovenije estimates and calculations

Note: The stock of excess savings reflects the cumulative total of the difference between the actual flow and the unmeasurable trend in household savings as of the first quarter of 2020. The range of estimates of excess savings (illustrated by the dashed lines) reflects the various definitions of the estimated trend. The average disposable income relates to the average annual disposable income over the period of 2020 to 2023.

passed EUR 1 trillion in the euro area (approximately 14% of average annual disposable income).¹² The excess savings might additionally drive growth in private consumption over the projection horizon, but the potential for higher-than-projected consumption mostly depends on the composition (i.e. the distribution across various forms of financial and non-financial assets) and the wealth distribution (i.e. the distribution across different household wealth brackets) of the excess savings.

Household savings can refer to various liquid financial assets, e.g. deposits, shares and bonds, and non-financial assets, such as housing wealth. In general the greater the liquidity of the assets, the greater is the potential of the savings to be translated into increased consumption over the short to medium term. In addition to a direct impact, excess savings can also affect consumption indirectly via an improvement in the net financial position of households on the basis of repayment of existing loans and/or a reduction in the need for borrowing.

To shed light on the approximate allocation of household excess savings across the different asset classes, we compute a decomposition of households' excess net wealth, by combining data from financial accounts (i.e. currency and deposits, other financial assets and loans) and national accounts (i.e. residential investment).¹³ In line with the estimated developments in the stock of excess savings, the net wealth of households in Slovenia and in the euro area overall has improved significantly since the pandemic, which is reflected in the large excess net wealth since the outbreak of the pandemic (see Figure 2.1.1.2, left). While net wealth has undergone a sustained increase since the pandemic, the composition of the excess wealth of households in Slovenia and in the euro area has changed. At the start of the pandemic excess wealth in Slovenia and

between 8.6% and 19.0% in Slovenia, and between 11.2% and 15.4% in the euro area overall. The estimates of excess savings presented in this analysis are subject to additional uncertainty deriving from revisions to the SORS data.

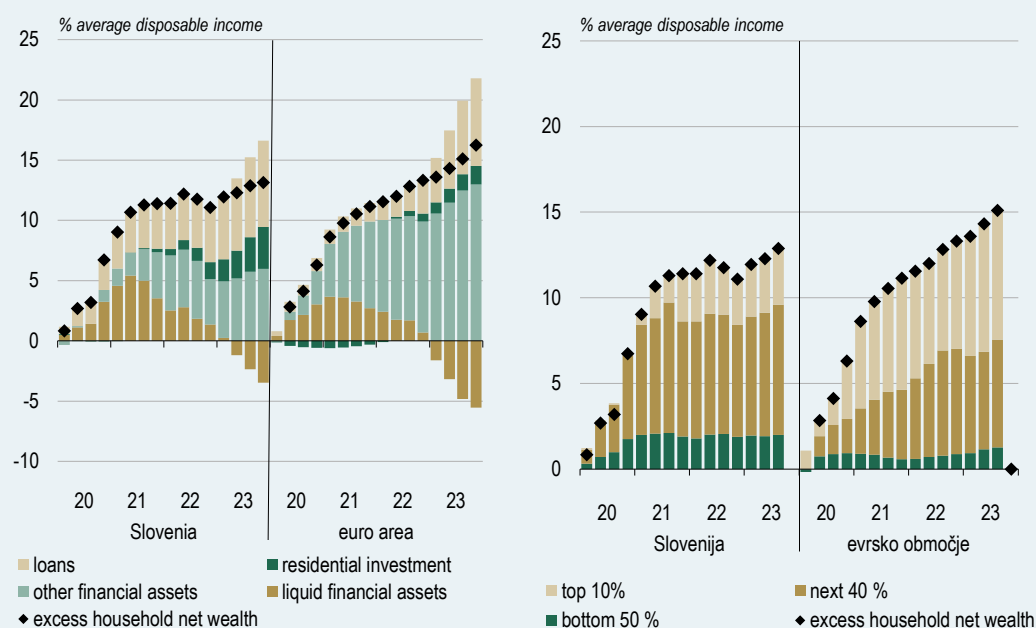
¹² Average calculated over the period of 2020 to 2023.

¹³ The methodology is similar to Battistini and Gareis (2023) for the euro area, Colabella et al. (2023) for Italy, and Alves and Martinez-Carrascal (2023) for Spain. However, in contrast to these three methodologies for excess savings, we do not equate them to net household wealth, as these two concepts differ.

in the euro area was primarily evident in excess bank deposits, reflecting the confluence of hindered consumption from enacted pandemic-related containment measures and supportive fiscal policy aimed at preserving household income. Following the re-opening of economies and the withdrawal of the containment measures, there was a gradual shift in the composition of excess net wealth away from liquid assets towards paying down household debt,¹⁴ increasing holdings of less liquid financial assets, and growth in housing wealth. At the end of 2023 the composition of excess wealth in the euro area overall was dominated by other less liquid financial assets (such as shares and mutual funds, insurance and pension funds, and bonds), while the excess wealth of Slovenian households was mostly retained in a sharp reduction in indebtedness and in housing wealth. This estimated structure of excess wealth indicates that the majority of households' excess wealth flowed into less liquid assets, for which reason the potential for higher-than-projected private consumption remains limited.

In addition to composition across asset classes, an important dimension to consider from the perspective of consumption potential is the distribution of excess savings among the wealth classes of households. This is significant because of the generally lower marginal propensity to consume at wealthier households compared with less wealthy households. To estimate this distribution of excess savings, we augment the estimated households' excess net wealth with the new (experimental) data from the Distributional Wealth Accounts.¹⁵ Put more precisely, we multiply the estimated excess

Figure 2.1.1.2: Estimated composition and distribution of excess net wealth



Sources: SORS, Eurostat, ECB, Banka Slovenije estimates and calculations

Note: The individual classes of wealth in the left chart represent the cumulative value of the deviation from the trend estimated for the period of 2015 to 2019. The values of financial assets are derived from the financial accounts, while housing wealth is derived from the national accounts. Liquid financial assets refer to currency and deposits. Loans are illustrated with the opposite sign, as the flow of loans is less than the trend, which entails lower indebtedness and consequently a higher stock of net wealth. The distribution of excess savings across households (classified according to the concept of net wealth) in the right chart has been obtained by multiplying the share of the adjusted excess net wealth (excluding non-financial corporate wealth) in the individual household group (calculated as the actual trend of decline estimated for the period of 2015 to 2019) by the total excess net wealth in the left chart.

¹⁴ The reduction in borrowing by households relates to the smaller amount of household liabilities from bank loans compared with the pre-pandemic trend, which is consequently reflected in the excess net wealth of households.

¹⁵ The data on the distribution of household wealth (see [Distributional Wealth Accounts – DWA | ECB data portal \(europa.eu\)](#)) are part of the experimental statistics linking the household finance and consumption survey (HFCS) with quarterly sectoral accounts (QSA).

net wealth, illustrated in Figure 2.1.1.2 (left), with the share of the estimated excess adjusted net wealth in the portfolio of each household group.¹⁶

Since the outbreak of the pandemic, the majority of excess net wealth in Slovenia and in the euro area overall has been built up by the wealthiest households (see Figure 2.1.1.2, right).¹⁷ Nevertheless, the distribution in Slovenia is more equal than that in the euro area overall. In the third quarter of 2023, to which the latest data for distributional wealth accounts relates, the top 10% wealthiest households in Slovenia held approximately 26% of the estimated excess net wealth, while the equivalent figure in the euro area overall is almost 50%. Conversely the bottom 50% of households in Slovenia held 15% of the estimated excess net wealth, compared with just 8% in the euro area overall. These results are in line with the available inequality indicators, such as the Gini coefficient, according to which Slovenia has one of the lowest levels of wealth inequality among euro area countries.¹⁸

Similarly to the structure of savings, the distribution of excess net wealth across wealth brackets indicates the limited potential for excess savings to yield higher-than-projected consumption, as they are mostly concentrated at the wealthiest households with a lower marginal propensity to consume.

Box 2.1.2: Impact of expected growth in real estate prices on residential investment

Despite tightening financing conditions, private residential investment has remained robust over the past two years, driven primarily by expected growth in real estate prices.

Despite the sharp increase in interest rates over the past two years, investment activity in Slovenia has remained relatively robust. A detailed breakdown highlights distinct trends between residential investment and other private investments. The latter have shown a notable slowdown, typical under restrictive monetary policy that leads to higher interest rates on loans. Conversely, housing investment has sustained high growth and, coupled with government investment, has bolstered construction activity in Slovenia. According to sectoral value-added breakdown, the construction sector most notably contributed to real GDP growth last year.¹⁹

Despite the high growth in residential investment, the market supply continues to adjust slowly, maintaining excess demand and thereby driving relatively high price growth in real estate. Our assessment suggests that this price growth may have been a key factor supporting housing investment over the past two years, as it sustained expected returns despite less favourable financing conditions. Empirical estimates of the impact of financing conditions and expected real estate price growth on residential investment growth are computed in this box using the following equation:

¹⁶ Similar methodology is used in Battistini et al. (2023). But Battistini et al. (2023) base the distribution on the shares of individual asset classes in the total portfolio of the particular household group, while we focus solely on the excess part. This distinction is highly significant, as the distribution of excess net wealth is not necessarily the same as the distribution of total net wealth. In the treatment of net wealth we have eliminated the component of non-financial corporate wealth to maintain compliance with the concept of net wealth defined in Figure 2.1.1.2 (left). The results including the component of non-financial corporate wealth are quantitatively similar to those presented in this box.

¹⁷ In the statistics on distributional wealth accounts (DWA), net wealth is defined as adjusted net wealth, which refers to the difference between assets (financial and non-financial) and liabilities (loans).

¹⁸ See [Gini index - Slovenia | Data \(worldbank.org\)](https://data.worldbank.org/SD/SH.UV.CV).

¹⁹ A more detailed description of past macroeconomic developments in construction can be found in the upcoming [Short economic and financial analyses](#) on the Banka Slovenije website.

$$\Delta IHR_t = \alpha + \beta_1 \Delta IHR_{t-1} + \beta_2 LR_t + \beta_3 \Delta RPPI_t^E + e_t$$

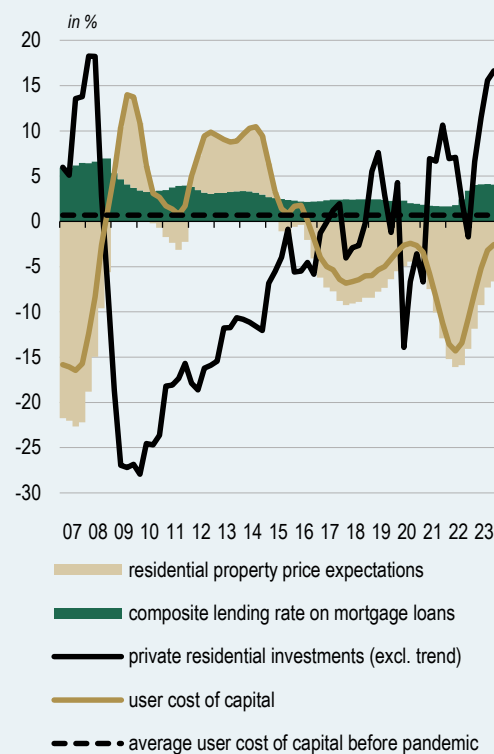
where ΔIHR is year-on-year growth in residential investment, LR is the composite mortgage interest rate, and $\Delta RPPI^E$ is the expected growth in real estate prices derived from a moving average of the three preceding year-on-year growth rates. All the data used is quarterly, and is illustrated in Figure 2.1.2.1 (left).

Consistent with economic theory, there is a negative correlation between residential investment and the user cost of capital. Figure 2.1.2.1 depicts the difference between the composite mortgage interest rate and expected real estate price growth, which is interpreted as the user cost of capital (UCC) associated with residential investment.²⁰ Notably, starting from 2015, rapid increases in real estate prices led to a sustained decrease in the user cost of capital, a trend that persisted during the recent period of rising interest rates.

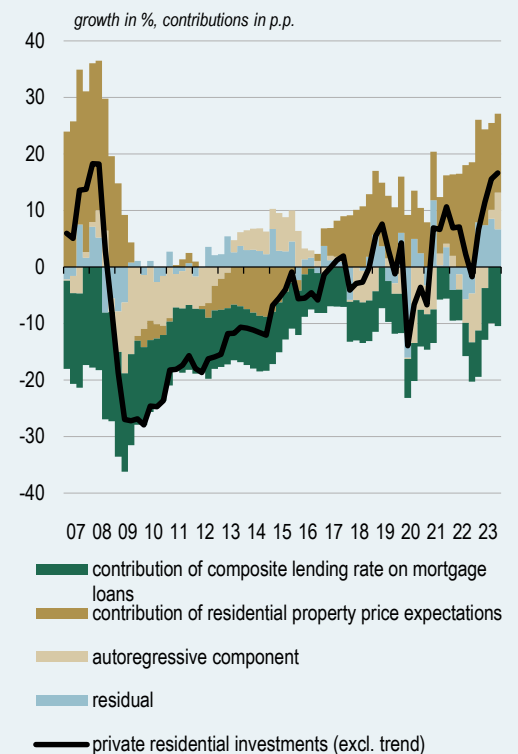
Between 2021 and 2023, elevated interest rates dampened investment activity. However, the expected growth in real estate prices played a crucial role, outweighing the negative effects of worsening financing conditions. Figure 2.1.2.1 (right) provides a detailed breakdown of how previous developments in residential investment were influenced by the composite mortgage interest rate and expected real estate price growth. Throughout the aforementioned period, the impact of interest rates turned increasingly negative due to tighter monetary policy, thereby reducing investment. Conversely, the expected growth in real estate prices made a more significant positive contribution, which counterbalanced the adverse effects of deteriorating financing conditions. Despite substantial tightening in monetary policy, the user cost of capital remained below the pre-pandemic level.

Figure 2.1.2.1: Data used in the analysis and decomposition of year-on-year growth in residential investment

Dynamics of user cost of capital and residential investments



Decomposition of residential investments



Sources: SORS, ECB, Banka Slovenije estimates

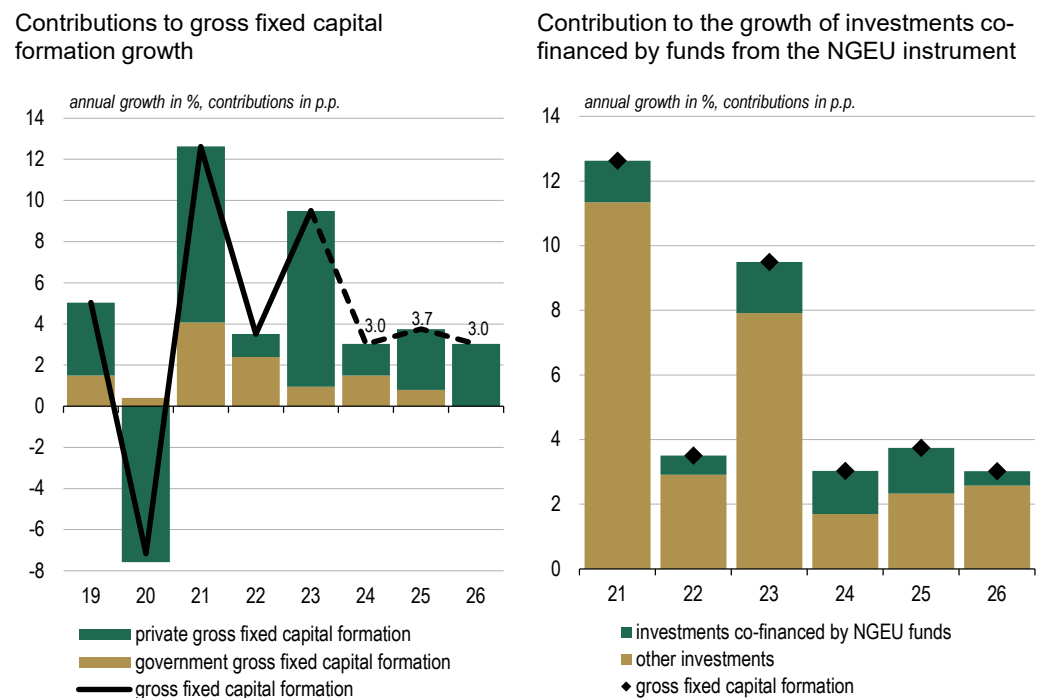
²⁰ The user cost of capital refers to the costs associated with using or acquiring a unit of residential capital over a specific period. Simply put, it is calculated as the ratio of the interest rate on loans for residential investment to the growth of residential real estate prices.

Government investment and consumption will drive a high level of domestic demand over the entire projection horizon.

Growth in government investment will support economic activity in the early part of the projection horizon in particular, where the post-flood reconstruction is a significant factor. Investment financed by the EU will also make a positive contribution throughout the projection horizon, although it will be slightly lower this year on account of the ending of the previous European financial framework. The ratio of government investment to GDP will be at record high levels, averaging around 5.4%, albeit with a neutral impact on economic growth at the end of the projection horizon. Government investment is projected to increase by 6.6% this year and by 3.4% next year, before remaining unchanged in 2026 (see Figure 2.1.3, left).

Growth in government consumption will be high over the projection horizon, averaging 4.8%, and remains at the level of the previous projections. The projection primarily reflects this year's conversion of supplemental health insurance into a compulsory health contribution, and the gradual enforcement of changes in the area of long-term social care. From the perspective of economic growth, the effects of the aforementioned legislative changes will largely compensate for the decline in private consumption. Expenditure on reconstruction following last year's floods is also having an impact on government consumption. Another factor in the nominal growth in government consumption will be growth in employee compensation in the government sector driven by the agreed wage increases and the ongoing rise in employment, at similar average rates to those seen in the last two years, and the gradual implementation of agreements to overhaul the wage system and eliminate wage disparities, which is projected to take effect in 2025. Negotiations between the government and the public sector unions are still underway, for which reason the timetable and size of the wage increases remain uncertain.

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



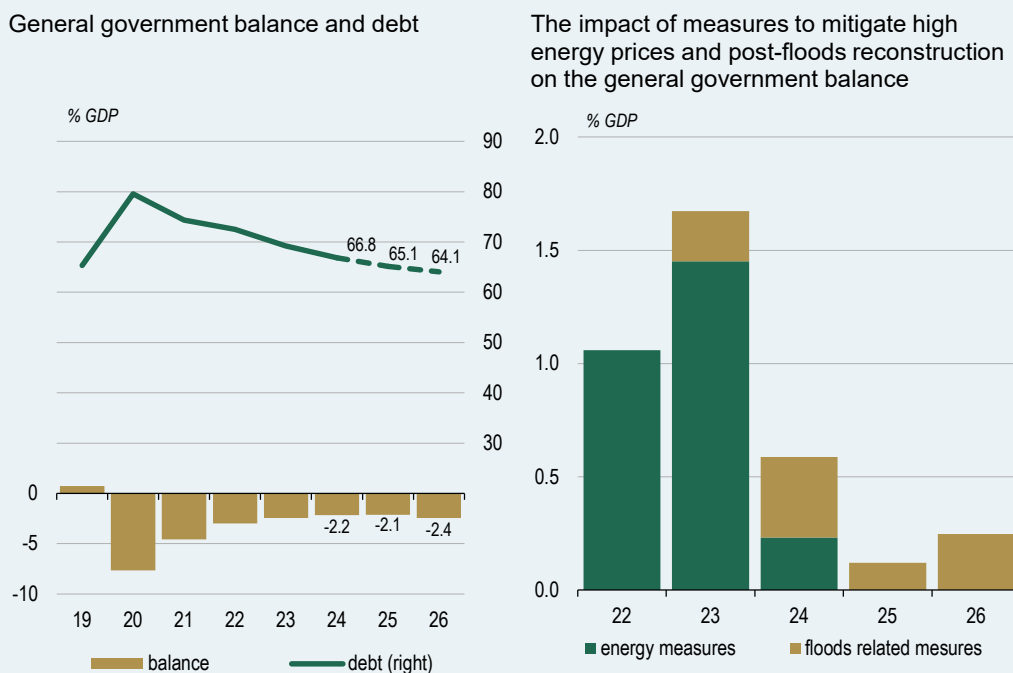
Sources: SORS, Ministry of Finance, URSOO, Banka Slovenije estimates and forecasts
 Note: Owing to rounding, components may not sum to their aggregate values.

The general government deficit will remain below 3% of GDP between 2024 and 2026, while the ratio of government debt to GDP at the end of the projection horizon will be below its pre-pandemic level, primarily on account of the continuing high nominal growth in GDP and the expiry of the energy measures.

The general government deficit, which was smaller than expected last year on account of investment that was lower than our projections and down even further on the government projections, will remain below 3% of GDP over the projection horizon (see Figure 2.1.3.1, left). The main factor in this year's narrowing will be a decline in the size of the measures to mitigate high energy prices. Alongside the buoyant labour market, the solid growth in revenues is also attributable to an increase in social security contributions as a result of the conversion of supplemental health insurance into a compulsory contribution, and the enforcement of the contribution for long-term social care in mid-2025. Legislative changes in the field of healthcare and long-term social care are also driving up government consumption, particularly via social transfers in kind. Another major component of government expenditure is employee compensation, which according to our projections might record slightly higher growth next year in particular, when the implementation of the new wage agreement is scheduled to begin. The negotiations have not yet been completed, for which reason uncertainty in connection with wages remains high amid wage pressures from numerous groups of government sector employees.

The post-flood reconstruction will also have an impact on public finance developments over the projection horizon. According to current estimates it is projected to widen the

Figure 2.1.3.1: General government deficit and debt, and measures to mitigate high energy prices and for post-flood reconstruction



Sources: SORS, Ministry of Finance, Banka Slovenije estimates and projections.

general government deficit by 0.2% of GDP on average each year, and will continue doing so even after the end of the projection horizon.²¹ Meanwhile the measures to mitigate high energy prices are being withdrawn as the situation on the energy markets eases (see Figure 2.1.3.1, right). Government investment as a ratio to GDP is projected to remain around its highest level to date on average over the projection horizon, namely 5.4%, thanks to the need to finance the post-flood reconstruction and also the implementation of the recovery and resilience plan within the framework of EU funding. The disbursement of EU funds from the 2021-2027 financial framework will be lower than last year in the initial part of the projection horizon in particular, because of the previous financial framework having ended last year.²²

The ratio of debt to GDP will be reduced further by growth in nominal GDP, despite persistent primary deficits and the persistently high interest rates (see Figure 2.1.3.1, left). By 2025 the ratio of debt to GDP might be below its pre-pandemic level.

The public finance projections are exposed to risks, which have not altered significantly since the previous projections. They primarily relate to the progress of the post-flood reconstruction, negotiations on wages in the public sector, the implementation of investment, and the impact of planned and approved reforms (pensions, healthcare, tax, long-term care). By autumn the government needs to draw up a fiscal structural plan, setting out its future fiscal policy in line with the EU's new fiscal rules. The general government debt could be reduced by the utilisation of pre-financing.

After declining last year, international trade will recover again in line with the strengthening of domestic and foreign demand.

The cooling domestic economy, the stagnation in foreign demand and the deterioration in export competitiveness drove a decline in foreign trade last year. As these effects wane, foreign trade is expected to expand again this year. The recovery is evidenced in the current growth of 2.4% in exports in the first quarter, and the improvement in firms' export expectations (see Figure 2.1.4, left). Annual export growth is projected to reach 2.9%, supported by the gradual recovery in activity in the main EU trading partners and improved terms of trade. Net trade will nevertheless make a negative contribution to GDP growth this year (in the amount of 1.5 percentage points), with import growth of 5.1% outpacing export growth. In addition to the strong domestic demand and lower import prices, it will also reflect the positive effects of developments in inventories (see Figure 2.1.4, right).

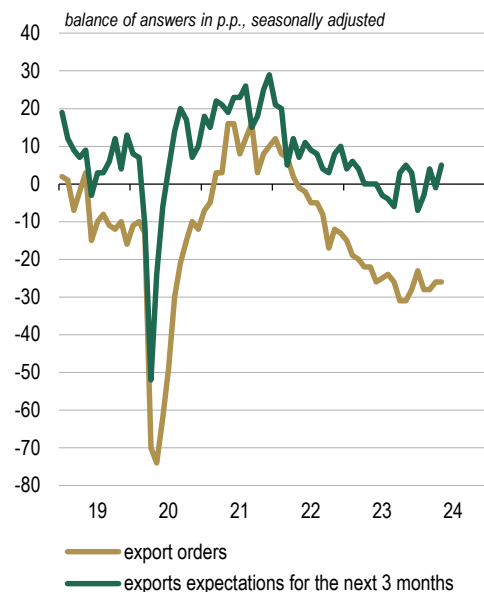
Export growth will strengthen further in 2025 and 2026, and will gradually overtake import growth, thereby eliminating the negative contribution of net trade to economic growth by the end of the projection horizon, while the current account surplus will stabilise at over 3% of GDP. The higher export growth will be driven by the continued strengthening of foreign demand, and by the improved competitiveness of domestic exporters as wage growth and inflation slow. The dependence of Slovenian exports on

²¹ The estimated impact of the post-flood reconstruction on the general government position takes account of the planned funding of reconstruction, such as the five-year tax on banks' total assets, the five-year rise of 3 percentage points in the corporate income tax rate (to 22%), and the use of funds from the EU Solidarity Fund, and estimated expenditure for this purpose on the other side. There remains considerable uncertainty surrounding the estimates, and the resulting impact on the deficit.

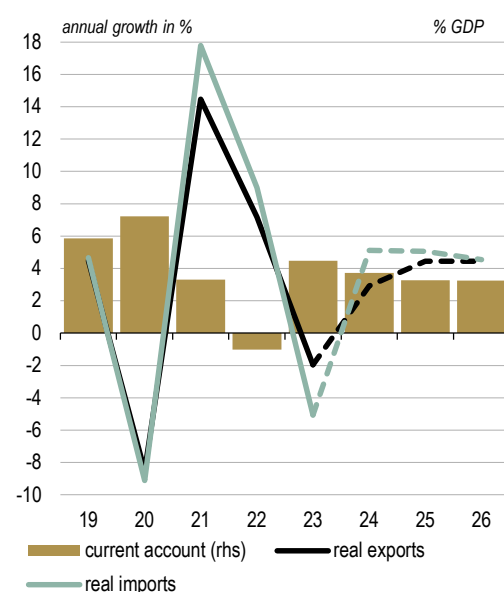
²² The Stability Programme plans a significantly higher level of government investment as a ratio to GDP than ever seen before. Government investment is forecast to reach 6.5% of GDP this year, approximately 1 percentage point higher than the previous record high, before gradually falling as a ratio to GDP over the following years. The Banka Slovenije projections assume that government investment will be undertaken at a level closer to its record high as a ratio to GDP. This is a key factor in the lower forecast for the general government deficit in 2024 and 2025, and is also the main factor in the difference relative to the European Commission forecasts.

Figure 2.1.4: **International trade and export expectations**

Export orders and export expectations in manufacturing



Export, import and current account balance



Sources: SORS, Banka Slovenije projections. Latest data, left chart: May 2024

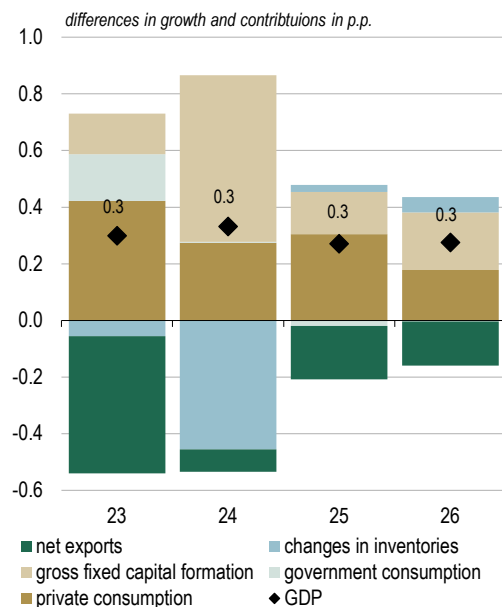
developments in foreign demand and relative export prices is analysed in detail in Box 2.1.4.

The June projections expect economic growth to be 0.3 percentage points higher than the December projections for each year of the projection horizon from 2024 to 2026.

The higher economic growth projection for 2024 is primarily attributed to a robust starting point, marked by stronger-than-expected growth in 2023. Positive trends from the end of last year continued into the early part of this year, enhancing the growth outlook. Changes in external and financial technical assumptions had a negligible impact on this revision.

The increased growth projections for 2025 and 2026, compared to the December estimates, are mainly driven by higher wage growth expectations, lower inflation projections, and adjustments in fiscal projections. Consequently, the most significant contributions to the revised economic growth projections come from higher private consumption and increased government investment (see Figure 2.1.5). This latter factor reflects the rescheduling of planned but unexecuted projects from 2023 into the current projection horizon.

Figure 2.1.5: **Revision to economic growth forecasts**



Sources: SORS, Banka Slovenije forecasts

Box 2.1.4: **Empirical analysis of developments in the market shares of the Slovenian economy**

Two significant aspects of the developments in real exports since the pandemic have been a slower increase in market shares and a heightened sensitivity to changes in relative export prices.

Since the onset of the pandemic, Slovenia's export sector has faced significant challenges due to disruptions in supply chains, sustained increases in commodity prices, rising labour costs, and persistent geopolitical uncertainty. Amid these structural and cyclical factors, real export activity contracted by 2.0% last year. This box provides empirical analysis of how real exports are affected by changes in foreign demand and relative export prices. The chosen analytical approach allows for simultaneous consideration of both non-price and price competitiveness in real export activity. Changes over time in the sensitivity of export growth to foreign demand and relative export prices are estimated using a state-space model.

$$\Delta XTR_t = \alpha_{1,t} \Delta WDR_t + \alpha_{2,t} \Delta RXP_t + e_t$$

$$\alpha_{1,t} = \rho_1 \alpha_{1,t-1} + \varepsilon_{1,t}$$

$$\alpha_{2,t} = \rho_2 \alpha_{2,t-1} + \varepsilon_{2,t}$$

In the equation, ΔXTR represents year-on-year growth in real exports, ΔWDR denotes year-on-year growth in real foreign demand, while ΔRXP reflects year-on-year growth in relative export prices, expressed as the difference between the export deflator and competitors' export prices.²³ The model presented allows for the estimation of time-

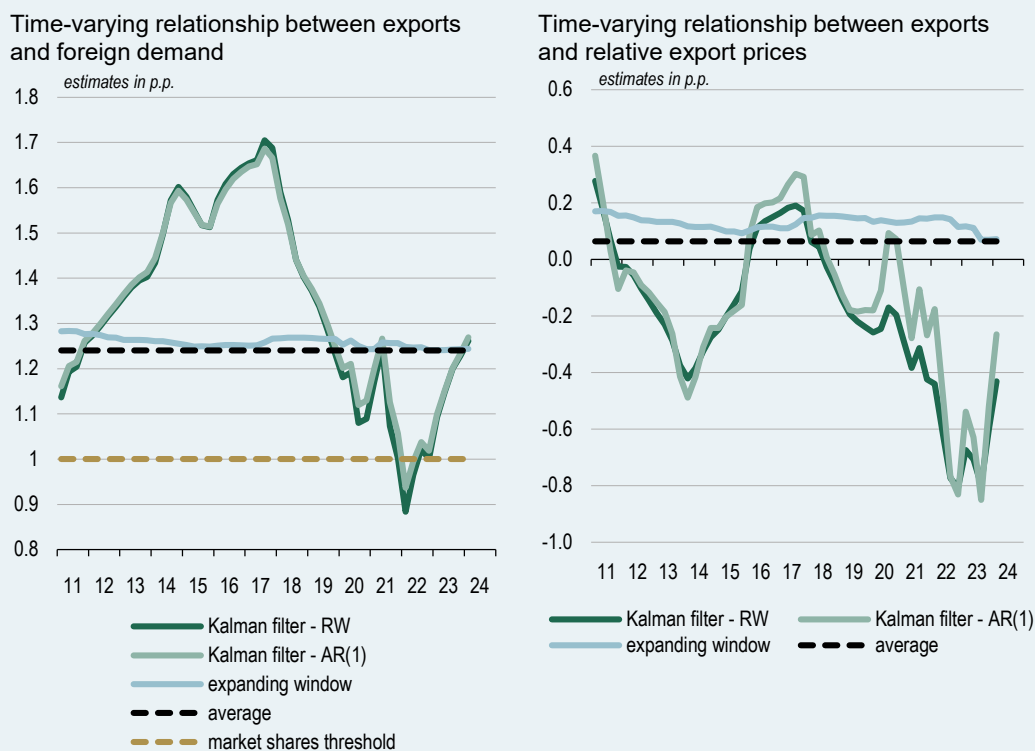
²³ Foreign demand and export prices of competitors to Slovenia were drawn up within the framework of the joint Eurosystem projections during the forecasting process as technical assumptions for the external environment, and are available at: [MPD | ECB Data Portal \(europa.eu\)](https://www.ecb.europa.eu/press/pr/2023/09/230901_en).

varying parameters, where the regression coefficients are treated as unobserved random variables. A value of $\alpha_{1,t}$ greater than one in a particular period indicates a gain in market share, whereas a value less than one represents a loss of market share. The absolute magnitude of $\alpha_{2,t}$ indicates the sensitivity of export activity in a particular period to changes in relative export prices.

The intensity of market share gains began to decline after 2018, following a sharp strengthening post the global financial crisis (see Figure 2.1.4.1, left). At the onset of the pandemic, Slovenian exporters experienced a slight decline in market shares, with a gradual recovery afterward, albeit slightly below the historical average intensity of gains. Additionally, post-pandemic, Slovenian exporters faced increased sensitivity to changes in relative export prices (see Figure 2.1.4.1, right). The deterioration in terms of trade negatively impacted export growth more significantly during this period than before the pandemic.²⁴

In the first quarter of this year, growth in real exports aligned with the average gain in market share, while sensitivity to pressures from price competitiveness remained elevated compared to its historical average.

Figure 2.1.4.1: Evolution over time of sensitivity of growth in real exports to changes in foreign demand and relative export prices



Sources: SORS, ECB, Banka Slovenije estimates

²⁴ Developments in price competitiveness after the pandemic are analysed in Box 5.1.1 in the [April 2024 issue of the Review of macroeconomic developments](#).

2.2 Labour market

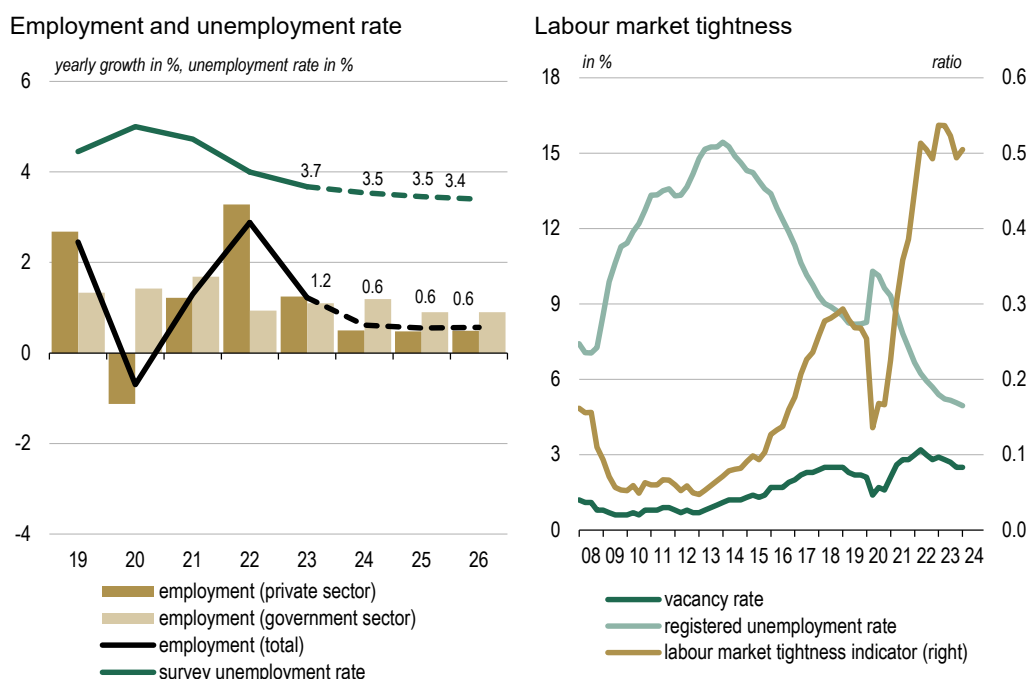
In projection horizon, employment growth will continue, but at 0.6%, it will be lower than in the last three years.

Employment growth is expected to reach 0.6% this year (figure 2.2.1, left). This projection is supported by current developments, and by survey estimates of employment expectations, which remain in the positive territory. Additionally, the employment preview published by the Employment Service of Slovenia is still indicating favourable employment growth in the second half of the year.²⁵ The improving economy, where activity will be higher this year than last year and will strengthen further over the projection horizon, is driving the rise in employment. Higher employment growth will be limited by the very tight labour market (see Figure 2.2.1, right). This is attributable to the increased hiring in labour-intensive sectors, precautionary labour hoarding after the pandemic, and adverse structural demographic trends.²⁶

The EUROPOP 2023 demographic projections indicate that the number of people aged between 20 and 64 will fall by an average of 6,921 in each year of the projection horizon. These trends are strongly curtailing the pool of available labour, which firms are compensating for mainly by hiring foreign nationals. Without the influx of foreign workers, the fall in the active population would be even more pronounced, at 12,189 per year.

Given the aforementioned limits on the supply of labour, and the persistently robust GDP growth, our expectation is that employment growth will remain positive over the projection horizon, but weaker than in previous years. It is forecast to hold at 0.6% in

Figure 2.2.1: Labour market indicators



Sources: SORS, Banka Slovenije calculations and forecasts. Latest data, right chart: Q1 2024

Note: The labour market tightness indicator is calculated as the ratio of the vacancy rate to the registered unemployment rate.

²⁵ See [Employment Service of Slovenia \(2024\): Employment Preview 2024/I](#). Ljubljana: Employment Service of Slovenia.

²⁶ See Box 4.1 of the [March 2024 issue of the Review of macroeconomic developments](#).

2025 and 2026. Growth in the government sector will outpace growth in the private sector throughout the projection horizon, primarily on account of demand for workers in healthcare and long-term social care.

The surveyed unemployment rate will fall slightly further over the projection horizon, before stabilising at a record low level of 3.4% in 2026.

The unemployment rate hit a new record low of 3.7% in 2023. In line with the ongoing employment growth, our expectation is that the trend of decline in unemployment will continue over the projection horizon. The unemployment rate is forecast to fall to 3.5% this year, where it will remain in 2025. It will reach 3.4% by the end of the projection horizon.

Given the employment growth and economic activity, the fall in unemployment will be limited, which can mainly be attributed to the depleted domestic labour pool. Firms will mainly meet their need for additional labour by hiring foreign nationals, and will also try to improve the efficiency of work processes, which in the projections is reflected in the anticipated recovery in labour productivity.

Wage growth will remain high. It is forecast to reach 7.6% this year, before slowing to 5.5% in 2025 and 4.0% in 2026. High unit labour costs will be slightly mitigated by growth in labour productivity.

Wage growth will slow slightly this year, having hit a record high last year. It will nevertheless average 7.6% this year, still well above its long-term average of 5.9% (see Figure 2.2.2, left). Last year's high wage growth was primarily attributable to the adjustment with past inflation, and the very tight labour market.²⁷ The latter will also be a factor in this year's relatively high wage growth.

Amid a modest increase in labour productivity, last year's high wage growth drove a sharp increase in unit labour costs (see Figure 2.2.2, right). Labour productivity has stagnated over the last two years, for at least two reasons. First, firms have hoarded labour,²⁸ which reduced labour productivity, second our analysis also revealed the presence of negative automation shocks, which is also leading to a deterioration in productivity (see Box 2.2.1). The aforementioned factors are forecast to wane over the projection horizon, with productivity growth recovering. This will slightly ease the wage pressures on firms over the projection horizon (see Figure 2.2.2, right).

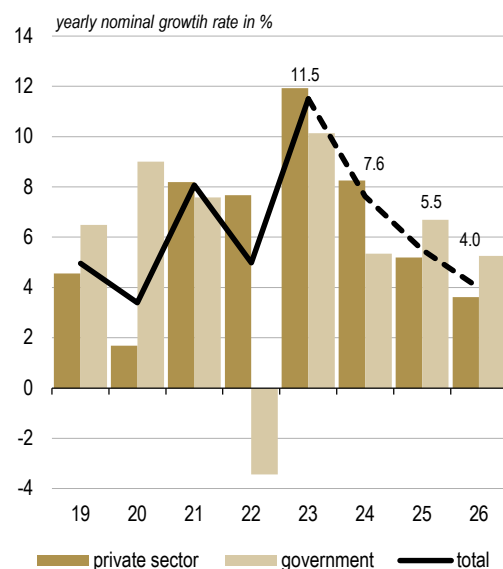
Wage growth is forecast to slow further to 5.5% in 2025, and then to 4.0% by the end of projection horizon. The wage growth forecast for 2024 has been revised upwards from the December projections, primarily on account of current developments, while the forecast for 2025 remains unchanged and the forecast for 2026 is 0.1 percentage points higher.

²⁷ See Box 4.1 of the [January 2024 issue of the Review of macroeconomic developments](#).

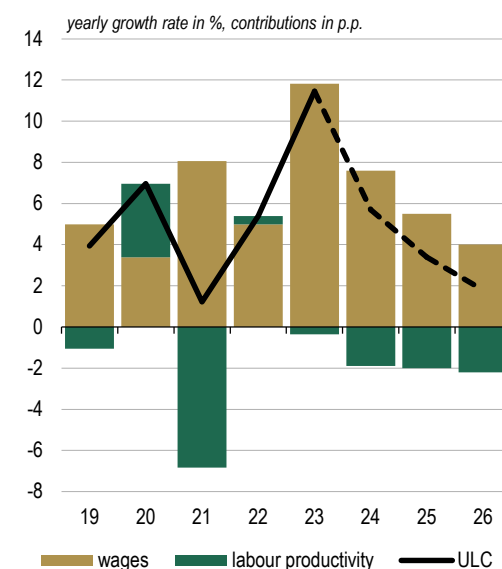
²⁸ See Box 2.2.1 in the [December 2023 issue of the Review of macroeconomic developments and projections](#), where we identify signs of labour hoarding in the post-pandemic period, driven by the difficulty of finding qualified people. These patterns of behaviour on the part of firms are most often associated with the cost of recruiting and onboarding new employees, and the retention of skills inside firms for the upswing in the economic cycle.

Figure 2.2.2: **Wages and unit labour costs**

Compensation per employee



Decomposition of unit labour costs (ULC)



Sources: SORS, Banka Slovenije calculations and forecasts

Note: Unit labour costs (ULCs) are calculated as the ratio of compensation per employee to labour productivity as measured by real GDP per employee. Labour productivity is illustrated inversely.

Box 2.2.1: Factors in excess employment growth

Since 2016 employment growth has been higher than would be expected based on Okun's law.

Employment growth since 2016 has namely been higher than would be expected with regard to the developments in economic activity, where the empirical relationship is defined by Okun's law. The positive deviations from the forecasts based on Okun's law can be ascribed to various structural shocks that have affected the labour market. Economic theory generally assumes that GDP and employment are positively correlated, which means that an increase in GDP leads to a rise in employment, and vice-versa. However, certain types of shock, such as an automation shock, can cause this relationship to break down. An automation shock is a structural shock where employment and GDP simultaneously move in opposite directions. A positive automation shock reflects technological progress, which leads to increased capital intensity at the expense of labour, while a negative automation shock leads to labour accounting for a greater share of output compared with capital. Conversely a technological shock based on higher labour productivity drives a simultaneous increase in economic activity and employment. Other factors affecting employment growth include supply and demand shocks on the labour market, which lead to unexpected rises in output and/or the availability of qualified workers.

Table 2.2.1.1: **Sign restrictions in the SVAR model**

	Demand shock	Technological shock	Labour market supply shock	Automation shock
real GDP	+	+	+	+
employment	+	+	+	-
GDP deflator	+	-	-	
private-sector wages		+	-	

Our model estimates suggest automation is the primary factor behind employment growth exceeding Okun's law forecasts.

The aforementioned structural shocks affecting the labour market in this analysis are identified by means of a structural vector autoregression (SVAR) model. The identification is based on a sign restrictions method, which on the basis of economic theory assumes the direction of the response to individual shocks by variables included in the model (see Table 2.2.1.1). In the second step the identified shocks are used to explain the deviation in employment growth from economic growth, i.e. the Okun's law residuals. The estimates show that of the identified shocks, the largest correlation with Okun's law residuals is displayed by automation shocks (see Table 2.2.1.2).^{29,30} This is unsurprising given our identification assumptions, as the positive residuals represent a situation when employment growth is higher than would be expected from the pace of economic growth. Negative automation shocks increase employment growth and reduce GDP growth, and therefore it is expected that they are negatively correlated with Okun's law residuals. As is evident from Figure 2.2.1.1, negative automation shocks have had a significant impact on employment since 2016.

Table 2.2.1.2: **Correlations between ARDL model residuals and SVAR model structural shocks**

	Demand shock	Technological shock	Labour market supply shock	Automation shock
Correlation coefficient	0.46	0.24	0.19	-0.84

Note: P-values: * (p<0.10), ** (p<0.05), *** (p<0.01).

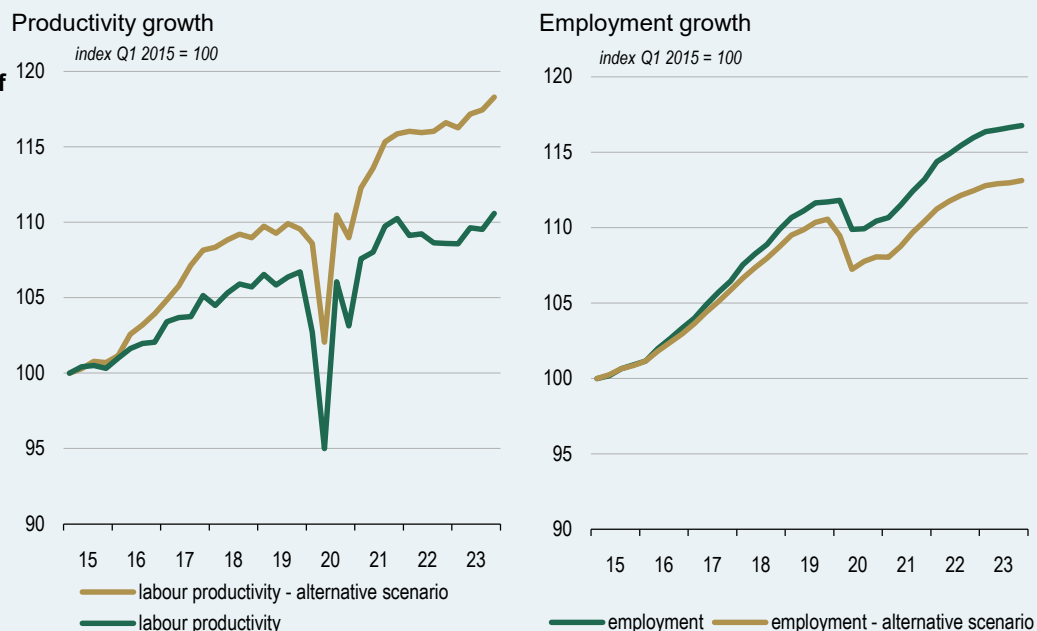
In the absence of the past negative automation shocks, employment in Slovenia would be lower and labour productivity would be higher.

To evaluate the impact of the automation shocks on the labour market in Slovenia, we composed an alternative scenario of employment growth and productivity growth over the period of 2015 to 2023, under the assumption of the absence of these shocks (see Figure 2.2.1.1). Under the scenario without automation shocks, employment would be 3.2% lower, while labour productivity would be 7.0% higher. These findings are indicative of the significant influence of negative automation shocks in explaining the positive deviations from the historical correlations between employment and GDP, as forecast by the Okun's law model.

²⁹ This analysis uses an ARDL model to model Okun's law. The model contains three variables, where the dependent variable is employment growth, and the explanatory variables are lagged employment growth and GDP growth.

³⁰ The methodological approach to explaining deviations from Okun's law on the basis of identified shocks mostly follows [Foroni and Furlanetto \(2022\)](#).

Figure 2.2.1.1: **Alternative scenario of employment and productivity in the absence of automation shocks**



Sources: SORS, Banka Slovenije calculations

2.3 Inflation

This year's inflation rate of 2.4% will mainly be driven by services prices. The largest declines compared with last year will be in the contributions by food and other goods prices.

After peaking in July 2022, when year-on-year headline inflation as measured by the HICP reached almost 12%, the rate will continue to decelerate this year. According to our latest projections, headline inflation is expected to average 2.4% this year, down 4.8 percentage points on last year (see Figure 2.3.1, left). The slowdown will be broadly based, with headline inflation being lowered by all its components, most notably food and other goods prices. Their contributions will be 2.2 percentage points and 1.2 percentage points lower than last year. The year-on-year price growth rate is expected to moderate further up until September, before rising again. This will be attributable to a base effect related to the government measures to mitigate high energy prices (exemption of contribution on renewables and reduced retailing margins on motor fuels) that were introduced in late 2023.³¹

The persistence of elevated services inflation and strengthened contribution by food prices will prevent a faster convergence to the inflation target over the projection horizon. Inflation will temporarily accelerate to 3.0% in 2025, before falling to 2.3% in 2026.

After standing at 2.4% this year, headline inflation is expected to first strengthen to 3.0% in 2025, before slowing to 2.3% in 2026, nearly approaching its 2% target rate (see Figure 2.3.1, left). With the effects of past shocks related to commodity markets and production chains waning, inflation developments will primarily be driven by domestic factors over the projection horizon, most notably growth in labour costs. Their

³¹ The role of base effects in reducing inflation last year and this year is examined in Box 2.3.1.

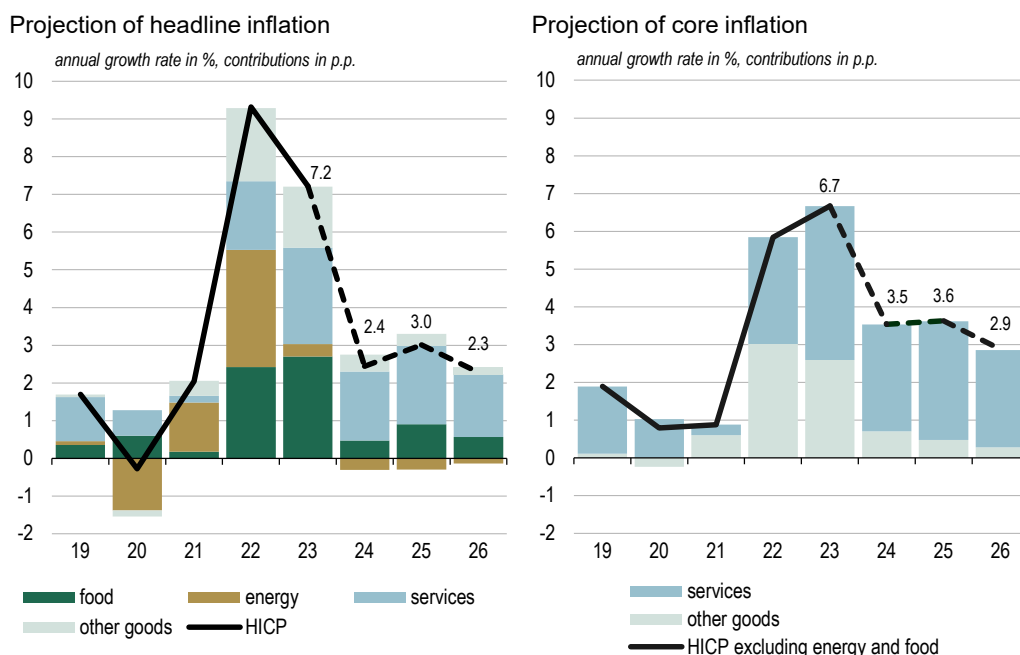
pass-through into consumer prices will be most noticeable in services prices. This is reflected in their large contribution since they will account for more than two-thirds of headline inflation in the following two years.

In addition to services prices, the volatility of food inflation will be another major factor in explaining inflation developments over the projection horizon. Next year, food inflation is expected to temporarily strengthen, reflecting pass-through of labour costs into food prices, anticipated rise in wholesale prices of food commodities (see Figure 2.3.2, right) and abating impact of base effects that were driving down food inflation this year. The slowdown in headline inflation over the projection horizon will also be temporarily curtailed by the expiry of the government measures to mitigate high energy prices. Without this reversal, inflation would be 0.2 percentage points lower in 2025. The contribution by food prices is projected to decline again in 2026, so does the contribution by energy prices, slowing inflation down to 2.3%.

The disinflation process is assuming firms to somewhat mitigate the pass-through of rising labour costs into final prices by reducing their profit margins this year, aiming at retaining their market position. Domestic price factors are expected to gradually ease over the next two years, amid lower wage growth and improved labour productivity. Core inflation, which largely reflects domestic price factors, will nevertheless outpace headline inflation by an average of 0.8 percentage points between 2024 and 2026 (see Figure 2.3.1, right).

According to the latest projections, inflation in Slovenia is projected to be 0.1 percentage points inferior to the euro area overall this year, before overtaking it again over the remainder of the projection horizon. It will be 0.8 percentage points higher in 2025, and 0.4 percentage points higher in 2026. Given the persistence of domestic price factors and the differences in the economic cycle (a much tighter labour market and higher growth in labour costs), core inflation in Slovenia will also outpace the euro area overall throughout the projection horizon. The gap will be 0.8 percentage points this year, and is projected to average 1.1 percentage points between 2025 and 2026.

Figure 2.3.1: **Headline and core inflation**



Sources: SORS, Eurostat, Banka Slovenije projections

Energy prices will decline throughout the projection horizon, despite the ending of electricity price regulation and the reversal of contribution on renewables.

Having stood at 5.0% in April, year-on-year energy inflation slowed to 3.7% in May, primarily as a result of lower prices of gas and certain fuels. With regulated electricity prices, energy inflation will be subject to base effects alongside the assumed developments on the wholesale markets for the remainder of the year (see Figure 2.3.2, left). The base effects are the consequence of low month-on-month growth rates in the final months of 2023, reflecting introduction of energy inflation compensation measures. These factors imply that year-on-year energy price growth will continue to moderate until October before strengthening again in the final two months of the year. In addition to the aforementioned factors, electricity prices will also impact energy inflation in 2025 and 2026, with the presumed expiration of energy price regulation, the adjustment to market conditions, and the reintroduction of the renewables levy.³² The contribution of electricity prices to energy price inflation will rise from –0.4 percentage points in 2024 to 0.9 percentage points in 2025. Nevertheless, energy prices are projected to decline throughout the entire projection horizon, which is in line with the assumptions about developments in the wholesale energy markets. More precisely, the annual rate of energy prices will be –2.5% this year, before declining further by 2.3% and 1.1% in 2025 and 2026, respectively.

Table 2.3.1: Inflation forecasts

	2018	2019	2020	2021	2022	2023	2024	2025	2026				
						Δ	Jun.	Δ	Jun.	Δ	Jun.	Δ	
	average y-o-y growth in %												
Consumer prices (HICP)	1.9	1.7	–0.3	2.0	9.3	7.2	0.0	2.4	–0.6	3.0	–0.1	2.3	0.2
food	2.4	1.6	2.8	0.7	10.6	11.8	0.0	2.1	–1.8	3.9	0.3	2.4	0.2
energy	6.0	0.8	–10.8	11.3	24.8	2.2	–0.1	–2.5	0.7	–2.3	–3.0	–1.1	0.2
non-energy industrial goods	–0.8	0.3	–0.5	1.3	6.3	5.4	0.1	1.5	0.0	1.0	–0.3	0.6	0.0
services	2.4	3.1	1.8	0.6	5.5	7.7	–0.1	5.2	–0.7	5.6	0.5	4.4	0.2
Core inflation indicators (HICP)													
excluding energy	1.0	1.9	0.8	0.9	5.9	6.7	0.1	3.5	–0.4	3.6	0.1	2.9	0.2
excluding energy and unprocessed food	1.1	1.8	1.0	1.0	6.8	7.8	0.0	3.3	–0.5	3.6	0.2	2.8	0.2
excluding energy and food	1.4	1.8	1.3	0.8	7.1	8.0	0.0	3.1	–0.8	3.7	0.2	2.7	0.1

Food inflation will rise again next year, primarily on account of the pass-through of higher labour costs into final prices, and the anticipated rise in wholesale prices of food commodities.

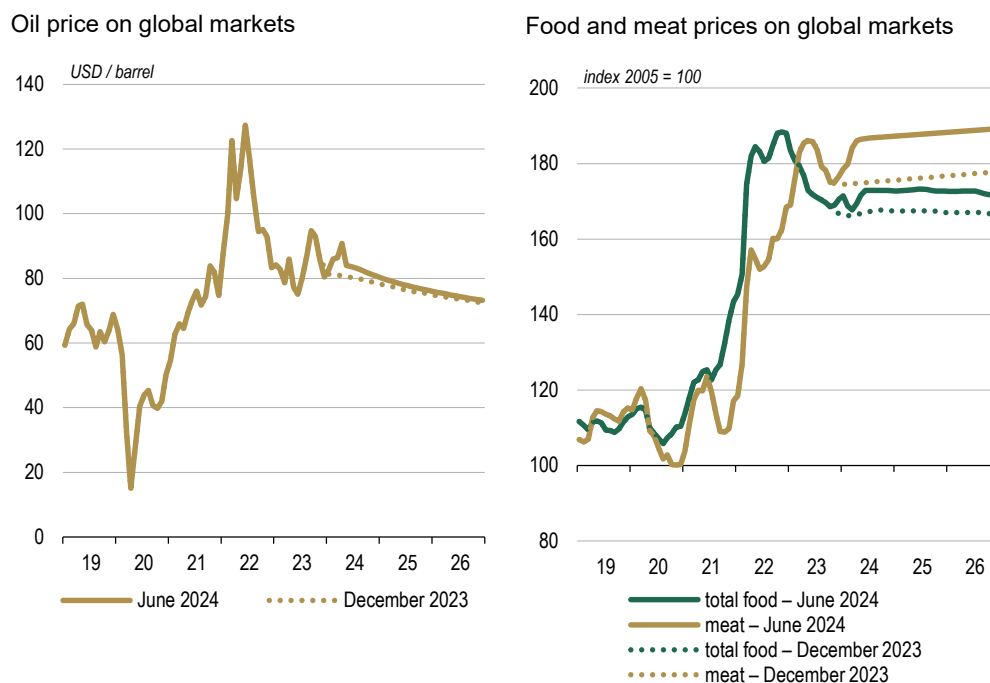
With the gradual dissipation of the pressures on food commodity markets caused by the outbreak of war in Ukraine, food inflation began to moderate. It averaged 11.8% last year, although the high average rate conceals a substantial decline over the course of the year, which continued also in the first months of 2024.³³ This is partly attributable to a base effect from the high month-on-month growth rates in early 2023, which are driving lower year-on-year inflation rates this year. As the base effects dissipate, higher labour costs pass through into final prices, and the wholesale food and energy prices

³² The government issued the Decree amending the Decree on the method of determining and charging the contribution for providing support to the high-efficiency generation of electricity through cogeneration and from renewable energy sources on 17 November 2023. Following these amendments, households are exempted from paying the aforementioned levy between November 2023 and December 2024.

³³ Year-on-year food inflation stood at 17.2% in January of last year and 5.6% in December.

rise in line with the assumptions³⁴ (see Figure 2.3.2), food inflation will begin rising again over the remainder of the year before peaking early in 2025. Therefore, food inflation is projected at 2.1% this year, 3.9% in 2025, and 2.4% in 2026. Despite the anticipated moderation, food prices will be almost 40% above pre-pandemic levels at the end of the projection horizon. The food price projection also includes this June's increase in excise duties on tobacco products, which is estimated to contribute 0.1 percentage points to the food inflation in 2024 and in 2025.

Figure 2.3.2: Evolution of inflation assumptions



Source: ECB

Core inflation is expected to outpace headline inflation throughout the entire projection horizon, owing to services inflation projection.

Core inflation decelerated to 3.0% in May, but it was still outpacing headline inflation by 0.5 percentage points. With declining contribution by prices of other goods, core inflation is mainly being elevated by robust services inflation. The growth in services prices has averaged more than 5% over the last 12 months, and will remain elevated also throughout the projection horizon amid the anticipated growth in employment and labour costs. Alternative measures of core inflation, which are examined in Box 2.3.2, show some further evidence of the strengthening domestic factors. Hence, services inflation is expected to reach 5.2% this year, and then to strengthen to 5.6% in 2025 amid the delayed effect of growth in labour costs, before stabilising at a still-high 4.4% in 2026.

In contrast to services, growth in prices of other goods has declined significantly. May's rate of 0.8% was its lowest figure since April 2021. The slowdown is primarily attributable to the normalisation of the production chains and easing of pipeline pressures, reflected in declining growth of producer prices, these having risen sharply during the excess demand and the supply-side shocks after the pandemic. Amid stable conditions

³⁴ The assumptions for developments in food and energy prices are based on the prices of futures contracts on the wholesale markets.

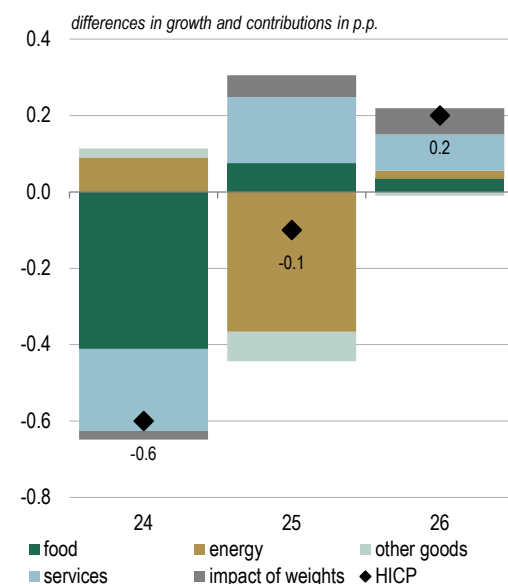
in production chains and declining growth in import prices, growth in prices of other goods is projected to remain low over the projection horizon, albeit higher than between 2010 and 2019, when its average rate was negative. It is expected to average 1.5% this year, 1.0% in 2025 and 0.6% in 2026.

With services inflation persisting at high rates, core inflation will remain elevated and will be outpacing headline inflation also at the end of the projection horizon. It is expected to stand at 3.5% this year, before strengthening to 3.6% next year and slowing to 2.9% in 2026 (see Figure 2.3.1, right).

With food and services inflation surprising on the downside in the first months of this year, headline inflation in 2024 has been revised downwards compared to December's projections. By contrast, it has been revised upwards for 2026, reflecting upward revisions of wage growth.

The headline inflation for 2024 is 0.6 percentage points lower than in the December projections (see Figure 2.3.3). The revision is primarily attributable to the lower growth rates of food and services prices. Conversely, energy prices contributed positively to the revision, in particular due to month-on-month rises in fuels prices and an upward revision of the global oil price assumption (see Figure 2.3.2, left). The energy inflation in 2025 is expected 3.0 percentage points down on the December projections. This is in line with developments in the growth of wholesale crude oil prices and the lower levels of wholesale electricity prices.³⁵ An even larger downward revision in the headline inflation projection is prevented by upward revised services and food price inflation, which are mainly reflecting upward revisions of wage growth. Revised services inflation is resulting into revisions of the core inflation projection. It expected 0.4 percentage points down on the December figure, mainly due to services inflation surprising on the downside, while the forecasts for 2025 and 2026 are up 0.1 and 0.2 percentage points, respectively, reflecting pass-through of upward revised wage growth projection.

Figure 2.3.3: **Revision to inflation forecasts**



Sources: SORS, Banka Slovenije forecasts

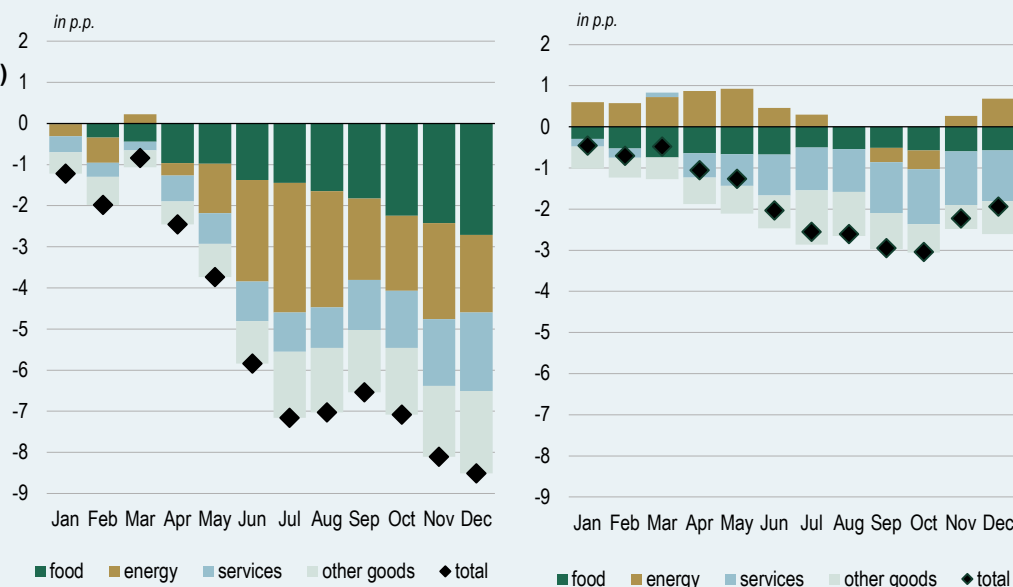
³⁵ The assumed growth in oil prices on the wholesale markets is higher than in the December projections for this year, but lower for 2025 and 2026.

This year, base effects will contribute significantly less to the decreasing of inflation compared to last year. They will primarily originate from services prices while last year they were mostly resulting from energy and food prices.

Inflation is typically measured on an annual basis as a change in consumer prices between the current month and the same month of the previous year. In line with this definition, the change in the year-on-year inflation rate between two consecutive months reflects monthly price changes of the observed month and the same month of the previous year.³⁶ For example, a three-month cap on electricity prices results in an immediate price drop but also in a lower year-on-year price growth for a period of three months. However, 12 months later, we can expect three months of an elevated year-on-year inflation solely on account of lower price level in the previous year. This situation describes a positive contribution of base effects to the inflation.

Base effects have been reducing inflation last year. Having stood at 10.8% in December 2022, the year-on-year growth rate had slowed to 3.8% by December 2023, with base effects contributing 8.5 percentage points to the decline (see Figure 2.3.1.1, left), while the contribution of monthly price rises in the same period was positive. The contribution of base effects by energy and food prices was the largest, reflecting their sharp rises in 2022. Base effects in energy prices were reducing inflation up until June 2023 (the most negative contribution) and later somewhat lessened, in particular in September, reflecting the introduction of government measures to mitigate the impact of high energy prices in September 2022.³⁷ Base effects in food prices strengthened in the second half of 2023, food prices having undergone price surges mostly in the second

Figure 2.3.1.1: Role and structure of base effects in lowering inflation in 2023 (left) and 2024 (right)



Sources: Eurostat, Banka Slovenije calculations and forecasts

Note: Figures show cumulative 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 to 2021).

³⁶ The decomposition of year-on-year inflation into base effects and monthly developments is presented in Box 2.3.1 in the [June 2023 issue of the Review of macroeconomic developments and projections](#).

³⁷ The package of measures encompasses a cut in the tax rate on heating products to 9.5%, which was in force until May 2023.

half of 2022. At the same time, negative base effects from services and other goods prices were gradually following those from energy and food prices throughout the year.

Base effects will be reducing inflation also this year, albeit to a significantly lesser extent than last year. They will contribute 1.9 percentage points to the fall in inflation between December 2023 and December 2024 (see Figure 2.3.1.1, right), according to our estimates. This is primarily attributable to the negative contributions from the base effects in services prices. Base effects in food and other goods will also contribute to a lesser extent to lowering inflation, while base effects in energy prices will be mostly increasing the inflation, in particular between January and May of this year on account of the aforementioned government measures, which were in force up until May 2023. There will also be a positive base effect in November and December of this year related to the exemption of the CHP and renewables levies for electricity, and the reduced margins and excise duties on fuels, which reduced energy prices in the same period last year.

Box 2.3.2: Alternative measures of core inflation and its momentum

Developments in alternative measures of core inflation indicate that following last year's sustained decline, all domestic price pressures have slightly strengthened again this year and are slowing the inflation moderation.

With the dissipation of past external inflationary pressures, inflation is now based primarily on domestic factors. This is reflected in the slow decline in core inflation, which at 3.0% in May was 0.5 percentage points higher than headline inflation. Core inflation remains elevated, mainly due to persistent service price inflation, reflecting rising labour costs and robust domestic demand. A further fall in headline inflation over the projection horizon will thus depend primarily on the abatement of these domestic factors. In addition to core inflation as measured by the HICP, excluding energy and food, this box displays two alternative measures by which we analyse the dissipation of domestic factors and the robustness of the slowdown in headline inflation.

The first measure is based on the methodology used by the ECB for calculating an alternative core inflation measure known as supercore inflation.³⁸ This measure only includes core inflation components that are sensitive to the business cycle. The process of selecting the series included in an alternative index has been divided into three steps. First, three different estimates of their correlation with the unemployment rate were drawn up for each component of core inflation ($\pi_{i,t}$). In the context of the Phillips curve, this represents an approximation for the state of the business cycle and domestic inflation factors related to the labour market. Data on quarterly inflation to the end of 2023 is used to estimate the model specifications, which differ in terms of the number of unemployment rate lags. The general model for estimating the sensitivity of a core inflation component to developments in unemployment can be given as:

$$\pi_{i,t} = \beta_0 + \beta_1 \pi_{i,t-1} + \sum_{j=m}^n \alpha_j u_{t-j} + \epsilon_{i,t}$$

where π_i refers to the quarterly growth in component i of the HICP excluding energy and food, u_{t-j} is the j^{th} lag in the unemployment rate, and β_0 and β_1 are constants and

³⁸ For more information about the methodology used, see [Ehrmann et al. \(2018\)](#).

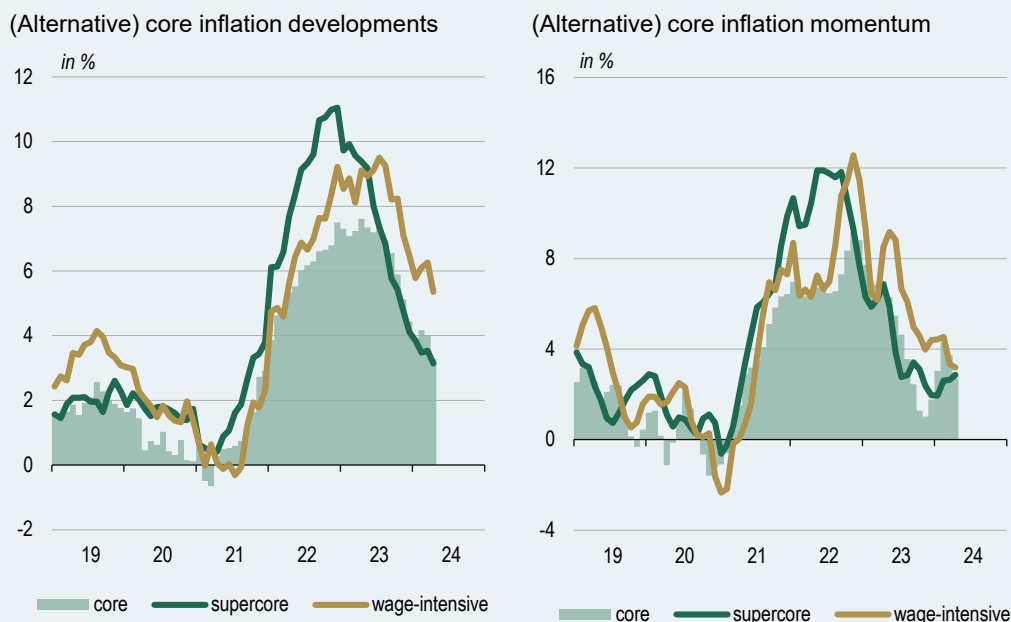
autoregression coefficients, while α reflects the dependence of the observed growth in prices on developments in unemployment.³⁹

The second step uses an expanding window regression to generate 30 one-year forecasts for each core inflation component and estimate the average forecasting errors using an RMSE method. This is compared with the average forecasting error of the naive forecast estimated using an AR(1) model. The final step is the formulation of the supercore inflation index. This only includes series where taking account of the state of the business cycle improves the accuracy of the forecast based on the naive model.⁴⁰

The second alternative measure of core inflation reflects the aspect of domestic price pressures by including components of service price inflation that are most wage-sensitive (including education, food, and health services).⁴¹ The formulation process consists of two steps. First, the prices of individual service activities that are part of the HICP were linked with the list of NACE (SKD) activities, and the share of labour costs in the final value of output in the particular activity was estimated on the basis of domestic input-output tables.⁴² On this basis, only components in the upper half of wage intensity were included in the final index of wage-intensive inflation.

Figure 2.3.2.1 (left) illustrates the evolution of various core inflation measures. It is evident that it is supercore inflation that most quickly reflects domestic price pressures. This captures the core inflation components that are most sensitive to the state of the domestic business cycle. During the post-pandemic economic recovery, its strengthening was evidenced in a sharp fall in unemployment and an increase in labour market tightness. This was followed, with a lag, by growth in labour costs and thus in the prices of the services that are the most wage-sensitive.

Figure 2.3.2.1: **Alternative measures of core inflation and its momentum**



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

³⁹ The analysis covers three different specifications. The first specification includes the first lag ($m=1, n=1$), the second the second lag ($m=2, n=2$), and the third both ($m=1, n=2$).

⁴⁰ Core inflation components are sorted according to the relative improvement in predictive power. The supercore inflation index includes only the upper quartile of those for which the inclusion of a measure of the state of the business cycle brings the largest improvement in predictive power.

⁴¹ The methodology is based on Fröhling et al. (2022), which formulates import-intensive inflation using input-output tables.

⁴² The data in the domestic input-output tables is based on SORS data for 2020.

The sharp decline in supercore inflation, which stood at 3.1% in April of this year and has been lower than core inflation since July 2023, indicates a gradual easing of domestic price pressures as a result of last year's slowdown in economic growth. Conversely, wage-intensive inflation remains elevated, having stood at 5.4% in April of this year, outpacing core inflation and supercore inflation by 2.1 percentage points and 2.2 percentage points, respectively.

Because changes in inflation developments are reflected in annual rates with a lag and the monthly rates are typically highly volatile, the persistence of inflation is also monitored by the analysis of inflation momentum developments. This compares the average level of prices in the last three months with the average level in the preceding three months. The change is then annualised to allow easier comparison with annual inflation. Therefore, inflation momentum reveals changes in inflation trends faster than annual rates and is less sensitive to the effects of temporary shocks than monthly rates.

The developments in inflation momentum for all three measures of core inflation confirm the sustained easing of domestic price pressures from the second half of last year, from the perspective of economic activity (supercore inflation), and from the perspective of the most wage-sensitive services prices (see Figure 2.3.2.1, right). The pace of the decline in core inflation indicators slowed in the early months of this year, on account of improvements in economic indicators and persistently high growth in wages and labour costs. This is currently reflected in a reversal of the inflation momentum of the supercore inflation rate. In this context, a gradual strengthening of the momentum in wage-intensive inflation, which has followed the momentum in narrower core inflation over the past two years, can also be expected. This maintains the risk of persistently high core inflation this year.

3 Risks and Uncertainties

The main risks to the projections are posed by the structural challenges of the domestic economy, and the persistent uncertainty in the external environment.

One of the key aspects of the macroeconomic projections on this occasion is the anticipated strengthening of productivity in the economy, following its stagnation over the two previous years. From the production factors perspective, the projected productivity growth is expected to compensate for slower employment growth amid the persistent tightness on the labour market. The expected strengthening of labour productivity growth will also play an important role in mitigating growth in labour costs and maintaining the competitiveness of the economy. Lower-than-expected productivity growth could in turn lead to more sluggish economic growth accompanied by higher inflation. Structurally lower and below-average productivity growth might occur as a result of the Slovenian economy's past investment gap relative to the euro area,⁴³ lower utilisation and inefficient allocation of employees after the pandemic, and potential new macroeconomic shocks.

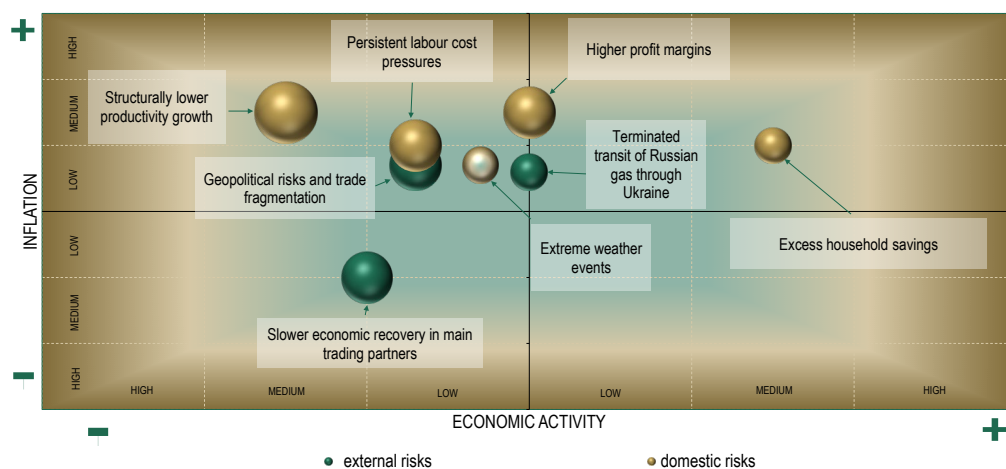
⁴³ Since 2010 the ratio of investment in machinery and equipment to GDP in Slovenia has been on average 2.4 percentage points lower than in the euro area overall.

An additional risk from the domestic environment, alongside the potentially lower-than-expected productivity growth, is the intensification of wage pressures. Wage growth might be higher than projected on account of the persistent tightness of the labour market and the uncertainty surrounding wage negotiations in the public sector. The pass-through of high wage growth into final prices is expected to be mitigated in part by profit margins, which will according to projections remain unchanged over the forecast horizon. Amid stronger domestic demand, margins might strengthen more quickly, which would be reflected in higher inflation. Faster growth in domestic demand over the projection horizon might be driven by households' large holdings of excess savings, which could drive up private consumption and housing investment. The assessment in Box 2.1.1 is that the composition and distribution of these excess savings make the likelihood of this risk being realised rather limited.

From the perspective of the external environment, a risk to GDP growth in Slovenia is posed by the potentially lower-than-assumed growth in export demand. Growth in the external demand might be lower than expected should activity in the main trading partners remain weak, which could occur in the event of intensifying pressures on the competitiveness of the euro area, fragmentation in global trade, and rising geopolitical uncertainty. From the geopolitical perspective, one risk of particular significance to Slovenia is the termination of supplies of Russian gas via Ukrainian territory, which the authorities there have announced for 2025. Although the Slovenian economy's direct exposure to Russian gas has been practically eliminated since 2022, its indirect exposure via gas imports from Austria increased to more than two-thirds of its total gas imports in the first quarter of this year. Despite the high exposure, our assessment is that in the event of the realisation of this risk the impact on the Slovenian economy would be solely in price terms, as technical solutions allow for the redirection of gas imports to other partners inside the EU.

Inflation might also be raised over the projection horizon by extreme weather events, whose frequency has increased in the last two decades.⁴⁴ The risk is posed by extreme weather events at home and abroad alike, as the Slovenian economy's exposure to climate and nature-related risks is relatively high, owing to its strong integration into global production chains.⁴⁵ A schematic overview of the domestic and external risks is provided in Figure 3.1.

Figure 3.1: Risks to forecasts



Source: Banka Slovenije calculations

Note: The size of the symbol denotes the likelihood of the realisation of the risk.

⁴⁴ See Box 2.3.3 of the [June 2023 issue of the Review of macroeconomic developments and projections](#).

⁴⁵ Cegljar et al., (2024), [Exposure of Slovenian economy and banking system to environmental degradation](#), Bančni Vestnik, May 2024.

4 Comparison Between Institutions

The economic growth forecasts available from Banka Slovenije and other institutions cover a range from 2.0% to 3.2% for this year, 2.2% to 2.7% for next year, and 2.6% to 2.8% for 2026.

After a substantial slowdown in economic activity in 2023, the latest forecasts for the period of 2024 to 2026 show a gradual stabilisation of the situation in the domestic and international environments, and convergence of growth in the long-term potential output of the Slovenian economy. The highest economic growth forecast for 2024 of 3.2% comes from the CCI, followed by Banka Slovenije, Consensus and wiiw with 2.5%, while the lowest forecast of 2.0% was given by the IMF. Banka Slovenije's forecast is 0.1 percentage points higher than the median of all forecasts for the current year (see Figure 4.1, left).

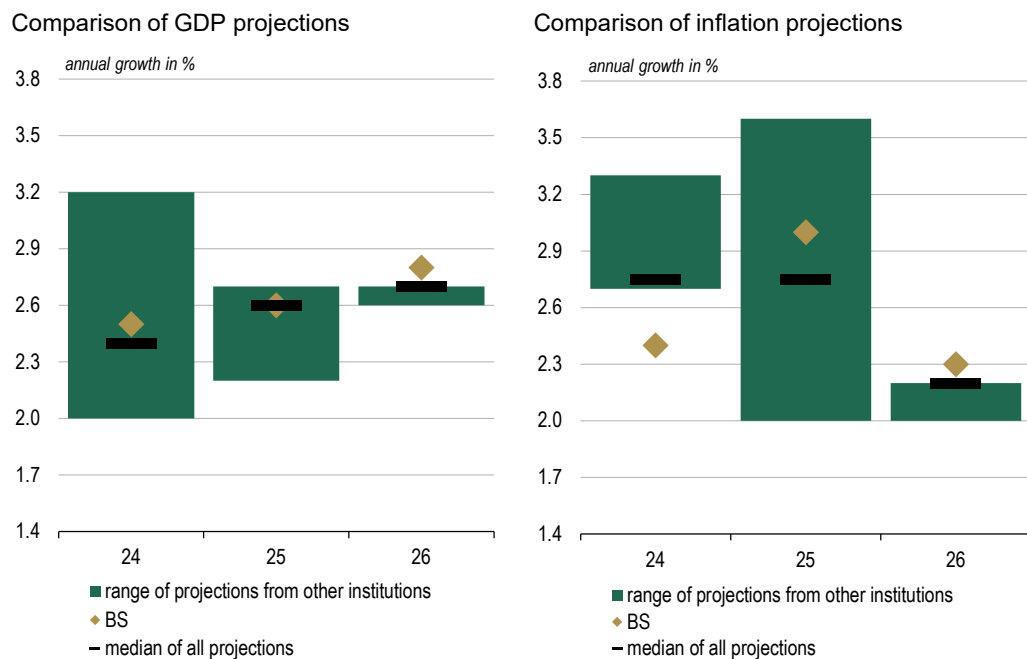
The highest domestic economic growth forecast for next year is 2.7% by the OECD, which is 0.1 percentage points higher than the median of all forecasts for that year. It is followed by Banka Slovenije, the EBRD, the European Commission and wiiw, all with a forecast of 2.6%. The lowest economic growth forecast comes from the CCI, with 2.2%. Economic growth forecasts for 2026 are available from three institutions: Banka Slovenije's is highest at 2.8%, while the IMF is forecasting growth of 2.7% and the IMAD growth of 2.6%.

The inflation forecasts available from Banka Slovenije and other institutions range from 2.4% to 3.3% for this year, 2.0% to 3.6% for next year, and 2.0% to 2.3% for 2026.

Amid strengthened domestic price pressures and the expiry of the government measures to mitigate high energy prices, inflation will remain slightly elevated this year and next year. All the institutions are predicting consumer price inflation to be broadly in line with the monetary policy target towards the end of the projection horizon. The highest inflation forecasts for Slovenia of 3.3% in 2024 come from the OECD and wiiw. They are followed by Consensus and the European Commission (2.9% and 2.8% respectively), while Banka Slovenije's forecast is the lowest at 2.4%, 0.4 percentage points below the median of all forecasts for the current year (see Figure 4.1, right).

The highest consumer price inflation forecast for next year comes from the CCI, at 3.6%. It is followed by the OECD and the IMAD (3.5% and 3.4% respectively), while the lowest forecasts of 2.4% come from the European Commission and wiiw. Banka Slovenije's forecast of 3.0% is 0.2 percentage points higher than the median of all forecasts for the year in question. Consumer price inflation forecasts for 2026 are also available from just three institutions: the highest comes from Banka Slovenije (2.3%), while the lowest comes from the IMF (2.0%).

Figure 4.1: Comparison of GDP and inflation forecasts between institutions



Sources: Consensus Economics (May projections), European Commission (May projections), IMF (April projections), OECD (May projections), CCI (May projections), IMAD (February projections), wiw (April projections), Banka Slovenije (June projections)

5 Statistical Appendix

Table 5.1: Key macroeconomic indicators at the monthly level for Slovenia

	2022	2023	12 m. 'till Mar.24	3 m. 'till Mar.23	3 m. 'till Mar.24	2024 Jan.	2024 Feb.	2024 Mar.	2024 Apr.	2024 May.
Economic Activity										
	<i>balance of answers in percentage points</i>									
Sentiment indicator	0.6	-3.8	-4.3	-1.4	-3.5	-3.1	-3.2	-4.1	-2.0	-2.3
- confidence indicator in manufacturing	0.1	-8.3	-9.3	-4.7	-8.7	-7.0	-9.0	-10.0	-8.0	-8.0
	<i>year-on-year growth rates in %</i>									
Industry: - total	1.2	-5.6	-5.5	-3.4	-2.9	-3.5	2.5	-6.9	...	...
- manufacturing	3.9	-4.5	-4.9	-0.4	-1.8	-1.6	2.9	-6.1	...	...
Construction: - total	22.2	19.4	13.2	24.1	-2.8	-4.0	5.7	-8.6	...	...
- buildings	53.4	10.5	3.0	25.9	-6.9	-10.4	6.4	-15.3	...	...
Trade and service activities - total	9.8	0.4	...	3.3	...	3.5	1.3	...	...	...
Wholesale and retail trade and repair of motor vehicles	0.0	11.4	...	12.7	...	14.3	9.7	...	...	...
Retail trade, except of motor vehicles and motorcycles	4.4	-4.6	...	-4.3	...	-0.6	-1.1	...	...	...
Other private sector services	12.5	2.5	...	7.1	...	4.8	1.1	...	...	...
	<i>year-on-year growth rates in %</i>									
Labour market										
Average gross wage	2.7	9.7	8.9	10.4	7.1	8.1	6.9	6.4	...	...
- private sector	6.3	9.5	8.7	11.0	7.8	8.9	7.4	7.2	...	...
- public sector	-2.6	10.3	9.3	9.4	5.7	6.4	5.9	5.0	...	...
Real net wage ¹	-5.1	2.2	2.2	1.4	1.2	2.1	0.7	0.6	...	...
Registered unemployment rate (in %)	5.8	5.0	...	5.4	...	5.2	5.0	...	...	...
Registered unemployed persons	-23.8	-14.0	-11.2	-17.6	-6.9	-6.8	-6.9	-6.9	-7.0	...
Persons in employment	2.4	1.3	1.2	1.8	1.4	1.3	1.4	1.4	...	...
- private sector	3.0	1.4	1.2	2.2	1.5	1.4	1.5	1.5	...	...
- public sector	0.7	0.9	0.9	0.8	1.1	1.1	1.0	1.1	...	...
	<i>year-on-year growth rates in %</i>									
Price Developments										
HICP	9.3	7.2	5.6	9.9	3.4	3.4	3.4	3.4	3.0	2.5
- services	5.5	7.7	7.2	7.5	5.7	5.3	5.8	5.9	5.1	4.9
- industrial goods excluding energy	6.3	5.4	4.2	6.8	2.1	2.2	2.3	1.8	1.2	0.8
- food	10.6	11.8	8.2	17.1	2.7	3.8	2.7	1.8	1.2	0.6
- energy	24.8	2.2	0.3	10.3	1.5	0.1	0.8	3.5	5.0	3.7
Core inflation indicator ²	5.9	6.7	5.8	7.2	4.0	3.9	4.2	4.0	3.3	3.0
	<i>in % GDP</i>									
Balance of Payments - Current Account										
Current account balance	-1.0	4.5	4.8	3.8	5.3	5.5	3.0	7.4	...	...
1. Goods	-3.8	0.7	1.1	0.2	1.9	2.2	0.0	3.4	...	...
2. Services	6.1	6.1	5.9	5.8	5.0	5.0	4.6	5.4	...	...
3. Primary income	-2.2	-1.4	-1.4	-1.2	-1.1	-1.6	-0.8	-1.0	...	...
4. Secondary income	-1.1	-1.0	-0.8	-1.0	-0.5	-0.1	-0.8	-0.4	...	...
	<i>nominal year-on-year growth rates in %</i>									
Export of goods and services	22.9	-1.1	-4.2	10.5	-3.3	-0.6	-0.9	-7.7	...	...
Import of goods and services	29.0	-6.9	-9.0	4.2	-5.2	-5.0	-0.1	-9.9	...	...
	Public Finances									
	2022	2023	12 m. 'till Apr.24	2023 Jan.-Apr.		2024 Jan.-Apr.				
Consolidated general government (GG) balance ³	<i>EUR mio</i>	<i>% GDP</i>	<i>y-o-y, %</i>	<i>EUR mio</i>	<i>y-o-y, %</i>	<i>EUR mio</i>	<i>y-o-y, %</i>			
Revenue	23,311	25,035	40.2	9.7	7,942	3.7	8,798	10.8		
Tax revenue	20,557	21,977	35.7	9.7	7,069	6.1	8,078	14.3		
From EU budget	961	1,084	1.4	5.3	393	-16.4	240	-38.9		
Other	1,794	1,974	3.1	12.9	481	-8.5	480	0.0		
Expenditure	24,886	27,308	43.7	12.4	7,986	2.3	8,853	10.9		
Current expenditure	10,283	11,572	18.7	16.5	3,497	2.6	4,007	14.6		
- wages and other personnel expenditure	5,481	6,094	9.9	12.9	1,908	10.3	2,201	15.4		
- purchases of goods, services	3,557	3,869	6.3	16.0	1,051	-3.5	1,263	20.1		
- interest	661	711	1.2	13.5	373	8.2	445	19.3		
Current transfers	11,261	12,050	19.2	9.1	3,813	1.5	4,112	7.8		
- transfers to individuals and households	9,294	9,731	15.6	7.5	3,102	1.4	3,412	10.0		
Capital expenditure, transfers	2,612	3,014	4.8	15.5	462	16.0	538	16.4		
GG surplus/deficit	-1,575	-2,274	-3.5		-44		-55			

Sources: SORS, Banka Slovenije, Ministry of Finance, Banka Slovenije calculations

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

Table 5.2: Key macroeconomic indicators at the quarterly level for Slovenia and the euro area

	2021	2022	2023	23Q2	23Q3	23Q4	24Q1	2021	2022	2023	23Q2	23Q3	23Q4	24Q1
	Slovenia							euro area						
Economic developments								q-o-q growth in %						
GDP				0.9	-0.1	0.9	0.0				0.1	-0.1	-0.1	0.3
- industry				1.3	-0.2	0.4	0.8				-0.2	-1.0	-0.4	...
- construction				6.5	2.7	3.6	-10.4				-0.6	-0.1	-0.1	...
- mainly public sector services (OPQ)				0.9	-0.3	2.7	-1.9				0.1	0.1	0.6	...
- mainly private sector services (without OPQ)				0.9	-0.3	-0.1	0.8				0.1	-0.1	-0.2	...
Domestic expenditure				-1.1	0.9	2.4	-0.5				0.8	-0.1	0.3	...
- general government				1.1	0.7	1.8	1.2				0.3	0.7	0.5	...
- households and NPISH ¹				0.0	0.4	0.1	0.0				0.1	0.3	0.1	...
- gross capital formation				-6.6	4.0	2.0	1.9				2.6	-1.8	0.6	...
- gross fixed capital formation				2.0	0.8	0.2	-1.8				0.2	0.0	1.0	...
								y-o-y growth in %						
GDP	8.2	2.5	1.6	1.7	1.3	2.2	2.1	5.9	3.4	0.4	0.4	-0.2	0.0	...
- industry	8.7	-3.1	...	2.4	0.6	0.5	1.8	8.7	1.2	-1.7	-1.2	-2.9	-3.1	...
- construction	10.4	7.2	...	21.0	18.4	17.3	1.6	3.0	1.1	0.6	-0.3	0.5	1.2	...
- mainly public sector services (OPQ)	4.1	1.4	...	1.7	1.7	1.0	1.5	3.5	1.9	1.1	1.0	0.7	1.0	...
- mainly private sector services (without OPQ)	8.3	4.9	...	2.7	1.6	1.5	1.4	6.3	3.8	0.5	0.5	-0.3	-0.1	...
Domestic expenditure	10.1	3.7	-1.2	-2.7	-0.3	0.7	1.8	4.7	3.6	0.2	0.3	-0.6	0.3	...
- general government	6.1	-0.5	2.4	3.2	2.4	4.8	5.1	4.2	1.6	0.8	0.5	1.3	1.3	...
- households and NPISH	10.3	3.6	1.3	0.5	0.3	1.2	0.9	4.4	4.2	0.5	0.4	-0.4	0.5	...
- gross capital formation	13.9	7.9	-9.8	-13.9	-3.9	-4.2	0.9	6.1	4.1	-0.9	-0.3	-2.9	-0.9	...
- gross fixed capital formation	12.6	3.5	9.5	11.2	9.9	9.1	0.6	3.5	2.5	1.2	1.2	0.0	1.1	...
- inventories and valuables, contr. to GDP growth in p.p.	0.4	1.0	-4.4	-5.8	-3.1	-2.9	0.1	0.6	0.4	-0.5	-0.3	-0.7	-0.5	...
								q-o-q growth in %						
Employment				0.1	0.1	0.1	0.2				0.1	0.2	0.3	0.3
- mainly private sector (without OPQ)				0.1	0.1	0.1	0.1				0.1	0.2	0.2	...
- mainly public services (OPQ)				0.4	0.4	0.4	0.5				0.3	0.4	0.4	...
								y-o-y growth in %						
Employment	1.3	2.9	1.2	1.4	1.0	0.7	0.6	1.4	2.3	1.4	1.4	1.4	1.2	1.0
- mainly private sector (without OPQ)	1.0	3.1	1.2	1.4	0.9	0.5	0.3	1.2	2.5	1.4	1.5	1.3	1.1	...
- mainly public services (OPQ)	2.7	2.0	1.4	1.5	1.5	1.5	1.7	2.1	1.6	1.4	1.3	1.5	1.5	...
Labour costs per employee	8.1	5.0	11.8	13.5	11.0	10.2	9.8	4.2	4.5	5.2	5.4	5.1	4.6	...
- mainly private sector (without OPQ)	8.1	7.7	...	13.5	10.3	10.5	7.6	4.9	4.8	5.6	5.6	5.4	5.2	...
- mainly public services (OPQ)	7.7	-3.1	...	13.5	13.1	9.1	17.3	2.3	3.8	4.1	4.9	4.4	3.3	...
Unit labour costs, nominal ²	1.1	5.4	11.4	13.2	10.7	8.5	8.2	-0.4	3.4	6.2	6.5	6.8	6.0	...
Unit labour costs, real ³	-1.5	-1.0	2.3	3.7	3.4	0.0	2.3	-2.5	-1.3	0.2	0.2	0.8	0.7	...
								in %						
LFS unemployment rate	4.7	4.0	3.7	3.6	3.9	3.4	...	7.8	6.8	6.6	6.4	6.5	6.5	...
								q-o-q growth in %						
Real export of goods and services				-0.8	-2.3	0.8	2.4				-1.1	-1.2	0.0	...
Real import of goods and services				-2.5	-3.0	3.1	3.4				-0.1	-1.4	0.6	...
								y-o-y growth in %						
Real export of goods and services	14.5	7.2	-2.0	-0.4	-8.6	-2.3	-0.6	11.5	7.2	-1.1	-0.5	-3.6	-3.3	...
Real import of goods and services	17.8	9.0	-5.1	-5.0	-10.6	-4.0	-0.9	9.2	7.9	-1.6	-0.7	-4.6	-2.9	...
Current account balance as % of GDP ⁴	3.3	-1.0	4.5	2.4	3.0	4.5	4.8	2.3	-0.7	0.0	-0.3	0.3	0.0	...
External trade balance as contr. to GDP growth in p.p.	-1.0	-1.0	2.8	4.2	1.6	1.5	0.2	1.4	0.0	0.2	0.1	0.5	-0.3	...
								in % of GDP						
Banking system's balance sheet	94.4	90.8	...	87.3	86.3	...	...	282.2	277.5	...	269.6	269.6	...	...
Loans to NFCs	19.2	20.0	18.0	19.1	18.6	18.0	...	37.4	37.0	34.7	35.7	35.1	34.7	...
Loans to households	21.6	21.5	20.1	20.6	20.4	20.1	...	50.7	48.9	46.1	47.2	46.5	46.1	...
								in %						
HICP	2.0	9.3	7.2	7.9	6.3	5.0	3.4	2.6	8.4	5.4	6.2	5.0	2.7	2.6
HICP excl. energy, food, alcohol and tobacco	0.9	5.9	6.7	7.4	6.9	5.1	4.0	1.5	4.0	5.0	5.5	5.1	3.7	3.1
								in % of GDP						
Debt of the general government	74.4	72.5	69.2	70.7	71.8	69.2	...	94.8	90.8	88.6	90.1	89.6	88.6	...
One year net lending/net borrowing of the general government ⁴	-4.6	-3.0	-2.5	-2.8	-2.8	-2.5	...	-5.2	-3.7	-3.6	-4.0	-3.9	-3.6	...
- interest payment ⁴	1.2	1.1	1.2	1.2	1.2	1.2	...	1.5	1.7	1.7	1.7	1.7	1.7	...
- primary balance ⁴	-3.3	-1.9	-1.2	-1.6	-1.6	-1.2	...	-3.8	-2.0	-1.9	-2.3	-2.2	-1.9	...

Sources: SORS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations

Note: Original figures are used to calculate the year-on-year rates, and seasonally adjusted figures are used to calculate the current rates of growth.¹ The figures for Slovenia are calculated as the difference between the seasonally adjusted figures for aggregate final consumption and government final consumption. ² Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity. ³ Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity. ⁴ Four-quarter moving sum.

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7 List of abbreviations

Abbreviations

BoS	Banka Slovenije
CCI	Chamber of Commerce and Industry of Slovenia
CHP	Combined heat and power
EA	Euro area
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ESS	Employment Service of Slovenia
GDP	Gross domestic product
HICP	Harmonised index of consumer prices
IMAD	Institute of Macroeconomic Analysis and Development
IMF	International Monetary Fund
NGEU	NextGenerationEU recovery and resilience plan
OECD	Organisation for Economic Co-operation and Development
Opec+	Organisation of the Petroleum Exporting Countries plus 10 other major oil producers
PMI	Purchasing Managers' Index
RES	Renewable energy sources
SHI	Supplemental health insurance
SORS	Statistical Office of the Republic of Slovenia
URSOO	Recovery and Resilience Office
wiiw	Vienna Institute for International Economic Studies
ZDO	Long-Term Care Act

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

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

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

Country abbreviations

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