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Summary

The available monthly indicators point to encouraging economic growth in the first quarter of this year, although core inflation is continuing to strengthen amid high level of domestic consumption.

- **The favourable PMI survey indicators, particularly in services, indicate a strengthening of quarterly economic growth in the euro area at the start of this year.** After the situation had worsened in the final quarter of last year, the uncertainty in connection with energy supply and the risk of recession declined, along with improved current economic developments. After a reversal at the end of last year, March's PMIs point to a further strengthening of growth amid a favourable situation in services, while activity in manufacturing also increased, but to a lesser extent. The economic sentiment indicator remained above its average of the final quarter of last year, despite a slight slippage of some sub-indicators. According to the IMF's forecasts published in April, economic growth in the euro area is expected to be less than 1% this year, before rising to 1.4% next year.
- **Core inflation is continuing to rise in the euro area.** Headline inflation in the euro area fell to 6.9% as a result of a decline in energy inflation on account of a high base effect caused by the rise in prices in March 2022, although food inflation and core inflation are continuing to strengthen. A great variation in inflation across euro area countries persists and can be increasingly linked to heterogeneity in core inflation. Core inflation in the euro area overall rose to 5.7% in March.
- **Central banks have continued to raise their key interest rates due to the persistently high core inflation.** The growing concerns regarding the stability of the banking systems in the US and Switzerland in early March caused a sharp decline in market expectations of further rises in key interest rates in the Eurosystem and the US. This drove down yields on German and US government bonds, and caused a fall in the values of higher-risk asset classes. Concerns over the stability of the banking sector eased towards the end of March and market participants refocused their attention back to the high core inflation. This led to a renewed rise in market expectations of further interest rate hikes, and consequently to a rise in yields on German and US government bonds.
- **Economic growth in Slovenia in the first quarter continued to be driven by activity on the domestic market.** Construction activity approached its levels from the beginning of the 2006 to 2008 period, and the government is planning its largest investments to date this year. According to the confidence indicators, demand in services other than retail remained strong, and car sales strengthened as the situation in supply chains normalised. By contrast, turnover in other segments of retail declined; soaring food price inflation saw a notable decline in turnover in food products, which was down 5.1% in year-on-year terms in February. Consumption on the domestic market is thought to have eased in March: real growth in card payments and ATM withdrawals stood at just 0.1%. The economic sentiment also declined gradually in the first quarter, most notably the very low order books indicator in manufacturing, amid weak real merchandise exports. Output in manufacturing in the first two months of the year was up a fraction in year-on-year terms, which was largely attributable to pharmaceutical firms, while output in energy-intensive sectors continued to decline amid the high electricity and gas prices. Given the positivity

currently prevailing in the monthly impulses, the nowcast is for quarterly GDP growth of 1.0% in the first quarter.

- **The labour market remains very tight, while the rise in the minimum wage has significantly strengthened growth in the wage bill.** Year-on-year growth in the number of persons in employment is gradually slowing, but remains above its long-term average, and employment expectations are also easing. In the wake of a further fall in registered unemployment, which reached a new low of 50,327 in March, there remains a large shortage of workers on the domestic labour market, which is driving a further increase in the hiring of foreign nationals, who now account for more than 80% of the year-on-year increase in employment. According to the qualifications profile of the positions being sought, new hires are primarily going into work with low value-added. The large rise in the minimum wage drove pronounced year-on-year growth in the average gross wage in January, which in parallel with the continuing rise in employment was reflected in growth in the gross wage bill increasing to 13.4%, the highest figure since May 2021. At the same time, surveys reveal that employees have high expectations for this year's wage growth.
- **With import price pressures easing and domestic demand slowing, the current account was in surplus in February.** Merchandise exports were up 10.2% in nominal terms over the first two months of this year, but were down 2.2% in real terms after allowing for export prices. Merchandise imports were up 5.9% year-on-year in nominal terms, but were down 1.7% in real terms after allowing for import prices. The price developments in merchandise trade are becoming favourable, with growth in export prices easing more slowly than growth in import prices. Given the signalled improvement in the terms of trade, the real decline in merchandise imports, the continuing rapid growth in services exports and the stable deficit in income, the current account position over the preceding 12 months moved into a small surplus in the early part of this year.
- **Domestic inflation remains high and broadly based.** It rose sharply to 10.4% in March, which was primarily due to a base effect from the reductions in electricity prices between March and May of last year. Without these price reductions inflation would have stood at 8.7% in March according to our estimates, and they will continue to have an impact on measured inflation for the next two months, which corresponds to the period that the exemption from network charges was in place last year. Food inflation and core inflation are continuing to strengthen. Food prices excluding alcohol and tobacco were up 19.4% in year-on-year terms, the highest rate in the last 20 years, while core inflation rose to 7.2%. There are many drivers for the continuation of the high inflation trend. On one hand numerous input costs for firms remain high, and the cyclical position of the economy is allowing for their continuing pass-through into inflation. Conversely, the situation in the majority of global supply chains has entirely normalised now, and last year's growth in unit profits indicates that many firms have already raised their margins, thereby creating potential space to absorb costs. The ECB is responding to high inflation with decisive rises in interest rates, and by withdrawing the final non-standard monetary policy measures.
- **Amid the retention of measures to mitigate the energy crisis, and the further strengthening of government investment, the general government deficit is forecast to be wider than last year, but the debt is forecast to decline.** The fiscal position improved last year as a result of the high nominal economic growth, while the year-on-year downsizing of the measures to alleviate the pandemic outstripped the newly introduced measures to mitigate the energy crisis. The general

government deficit is forecast to reach 4.1% of GDP this year. The cash flow figures show the general government deficit over the first two months of this year remaining unchanged from the end of last year, while the state budget underwent a year-on-year deterioration in March as a result of payments of subsidies to mitigate the energy crisis. The general government debt is slowly diminishing towards its pre-pandemic level. In addition to macroeconomic and geopolitical developments, fiscal risks also come from wage negotiations and other reforms announced by the government, given that their financial impact is not yet known.

1 International Environment

The main driver of the improving economic situation in the euro area is the ongoing growth in services activity, with economic sentiment remaining above its level from the end of last year.

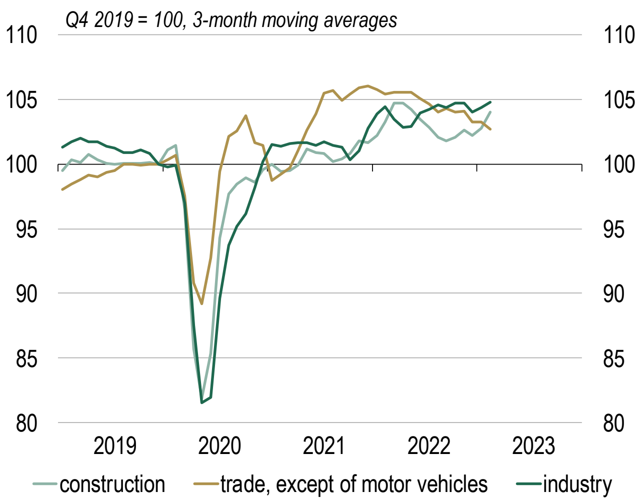
The composite PMI averaged 52.0 points over the first quarter of the year, an indication of quarterly growth in euro area GDP following a marginal contraction at the end of last year (see Figure 1.1). According to this indicator, it is the service sector that is the main driver of growth for the third consecutive month. In manufacturing, new orders are continuing to decline, implying that current production is being maintained by backlogs. Consequently, despite the easing of cost pressures in recent months, the manufacturing output index, as measured by the PMI, remains only a fraction above the 50 mark, which is indicative of stagnation. The economic sentiment indicator remained relatively stable in March and close to its long-term average, despite the recent difficulties in the American and Swiss banking systems.

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

Purchasing Managers' Index (PMI)

Source: Bloomberg. Latest data: March 2023.

Monthly indicators of economic developments



Note: Real index of retail sales excluding motor vehicles, real index of industrial production and real index of construction output, seasonally adjusted data.
Source: Eurostat, Banka Slovenije calculations. Latest data: February 2023.

With persistently heightened inflation, consumption related to retail trade remained weak in the first quarter of this year, judging by the monthly indicators in January and February (see Figure 1.1). Real turnover in retail trade (excluding motor vehicles and fuels) was in February down by 0.8% in monthly terms and 3.1% in year-on-year terms, moreover the indicator has been gradually declining since January 2021 with the exception of individual months that saw a temporary improvement. Conversely, industrial production increased by 1.5% in monthly terms in February, marking the second consecutive month of growth, on the back of shorter delivery times and the completion of old orders, thereby slightly exceeding its level from last June. The amount of construction work increased by 2.3% in monthly terms, but activity remains significantly below its most recent peak in March last year.

According to the IMF's spring forecasts, economic growth in the euro area is expected to slow from last year's 3.5% to 0.8% this year, before rising to 1.4% next year. Compared to January's World Economic Outlook, the latest forecast for this year's GDP growth is 0.1 percentage point higher, while the forecast for 2024 has been revised down by 0.2 percentage points. According to the ECB's March projections, this year will see GDP growth of 1.0%, an upward revision of 0.5 percentage points compared to the December outlook on account of a carry-over effect resulting from positive surprises in the second half of 2022 and improved short-term outlook. The Eurosystem forecast for next year was revised downwards by 0.3 percentage points to 1.6%, as tightening of financing conditions and the recent appreciation of the euro outweigh the positive effects of lower inflation on income and confidence.

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

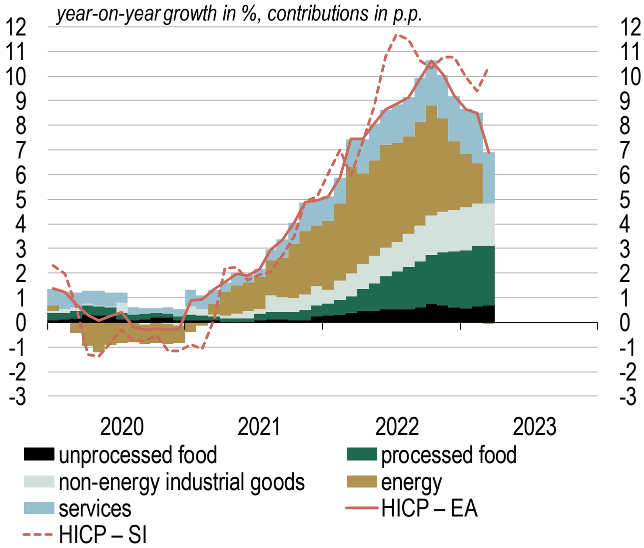
Year-on-year inflation as measured by the HICP fell to 6.9% in the euro area overall, down from 8.5% in February (see Figure 1.2). The fall was attributable to a decline in the contribution of energy prices, the growth of which measured -0.9% in year-on-year terms on the back of individual price falls, the euro appreciation against the US dollar and, above all, a high base effect from a significant rise in prices in March of last year.

Growth in prices of other subcomponents strengthened. Food prices were up 15.4% in year-on-year terms in March on account of strengthened growth in prices of processed food and, after several months of decline, unprocessed food. This was attributable to the delayed impact of the pass-through of higher energy prices into final prices, and also to the season, as the production of fresh vegetables during the winter is more energy-intensive, and was thus even more expensive than a year ago.

Core inflation excluding energy and food strengthened to 5.7% in March, driven primarily by services inflation, which exceeded 5.0%. This was largely attributable to the higher energy costs seen in the last year, and the continuing high level of demand. Growth in prices of non-energy industrial goods remains elevated at 6.6% amid higher production costs and the persistently high year-on-year growth in producer prices, although it is to a lesser extent being mitigated by a high base effect, monthly growth having been higher than usual in March of last year.

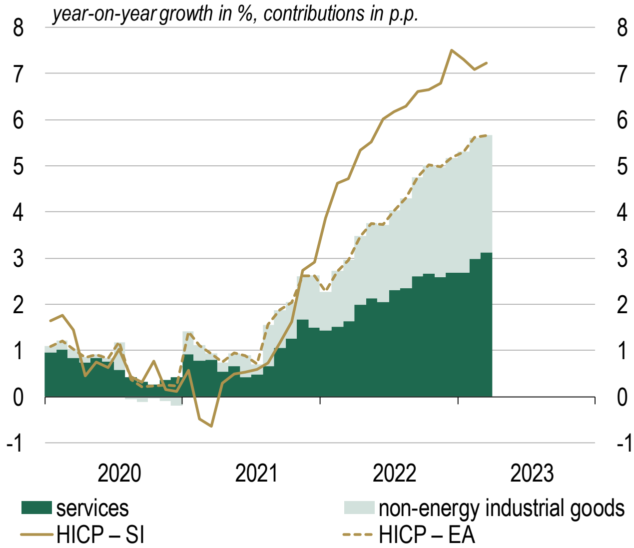
Figure 1.2: **Inflation in the euro area**

Contributions to headline inflation



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

Contributions to core inflation



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

Box 1.1: **Breakdown of differences in inflation between euro area countries**

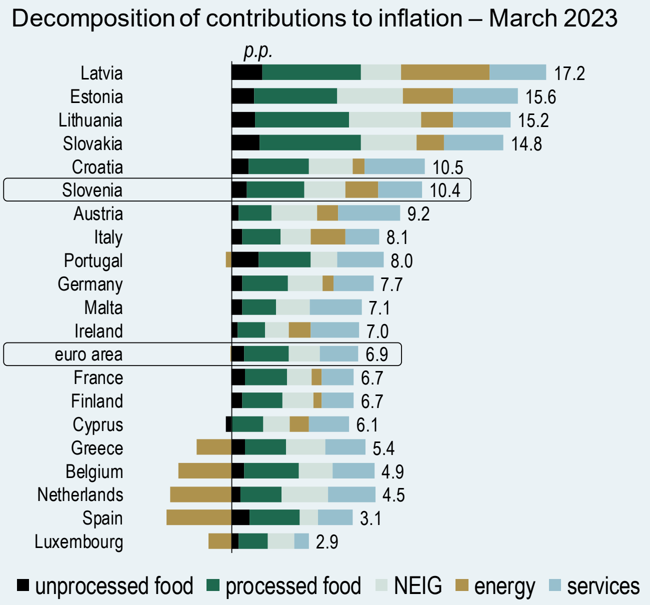
The differences in inflation between euro area countries first originated in differences in energy inflation, but now increasingly reflect the pass-through of higher energy and food prices into core inflation components.

The range of inflation rates across the euro area countries remains wide (see Figure 1.1.1). Headline inflation in Slovenia outpaced the rate in the euro area overall by 3.5 percentage points, with all domestic subcomponents recording rates above the euro area average. The divergence in the Slovenian rates from the euro area average was largest for energy prices, which in March was attributable to a low base effect in the calculation of domestic energy inflation. Domestic core inflation was also higher, outpacing the euro area average by 1.5 percentage points.

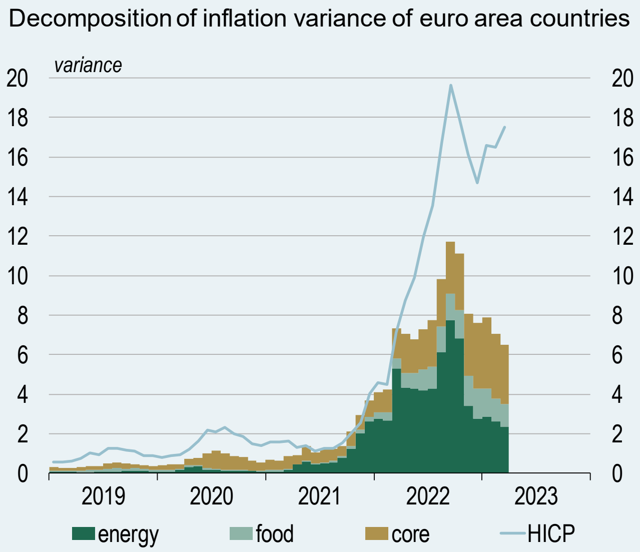
The current divergence in headline inflation between euro area countries is primarily attributable to earlier differences in energy inflation (see Figure 1.1.1). This is confirmed by the variance decomposition[1] of inflation across euro area countries (see Figure 1.1.1): the divergence began to increase in October 2021 as a result of growing differences in energy inflation. It peaked in September of last year before beginning to gradually diminish. Higher energy prices have increasingly passed through, albeit at different paces, into core inflation components, which have also been affected by the pass-through of rising and diverging year-on-year food inflation rates. The differences in core inflation between euro area countries have thus also widened sharply. The current variation in headline inflation is thus attributable primarily to the pass-through of energy prices and food prices into core inflation components, and to the divergence in core inflation.

[1] The decomposition is made at constant weights that reflect the usual average weights of euro area countries between 2019 and 2023.

Figure 1.1.1: **Decomposition of contributions to and variance in euro area inflation rates**



Source: ECB, Banka Slovenije calculations.



Note: Variance of countries' HICP (line) is decomposed into variance of their subaggregates (bars) while the remainder represents their covariances.
Source: Eurostat, Banka Slovenije calculations. Latest data: March 2023.

The renewed growth in demand for services in the early part of this year saw an improvement in the global economic situation, but the downside risks remain, given the decline in new orders in manufacturing.

After slowing in the second half of last year, global economic activity strengthened in the first quarter of this year. This is evidenced by the JPMorgan composite PMI, which hit 53.4 points in March, up 0.6 points in year-on-year terms, and the highest figure of the last nine months (see Figure 1.3). The improvement was driven by increased demand for services, where growth in activity has picked up to its highest rate since the end of 2021.

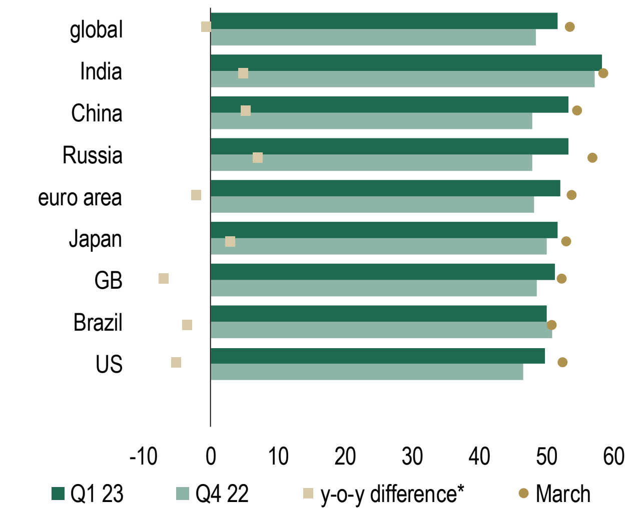
It is a different situation in manufacturing, where demand is continuing to cool, which is being reflected in a decline in new orders. According to the PMI, March saw positive monthly growth in output for the second consecutive month, although it was relatively low, and in the wake of the normalisation of supply terms was primarily attributable to the completion of orders from the last two years, when supply was strongly curtailed by a shortage of raw materials and semi-finished products, and by the containment measures. Cost pressures eased as energy prices fell and disruptions were rectified on the supply side, and the monthly increase in input costs was the lowest since July 2020.

Thanks primarily to the improved situation in services, the composite PMI rose in the first quarter of this year in all major economies other than Brazil, where it reached its lowest value in almost two years at 50.1 points. According to the PMI figures, growth in activity was highest in developing countries, namely India, China and Russia, while the figure in the US remained below the 50-mark for the third consecutive quarter (see Figure 1.3).

According to the IMF's core scenario, global GDP is forecast to slow from 3.4% last year to 2.8% this year under the influence of monetary policy tightening by central banks, before reaching 3.0% in 2024, 0.7 percentage points below its average over the decade before the outbreak of the pandemic. The majority of countries are forecast to see lower economic growth this year than last year. The exceptions include China and

Figure 1.3: **Global economic situation**

Source: Bloomberg. Latest data: March 2023.



Note: * Change in Q1 23 compared to Q1 22.
Source: Bloomberg, Banka Slovenije calculations.

Japan, where growth is forecast at 5.2% and 1.3% respectively, and Russia, where the economy is forecast to expand by 0.7% after contracting by 2.1% last year. The highest growth is forecast for India, at almost 6%, while GDP in the UK is close to stagnation. Under the severe scenario, which *inter alia* envisages a further deterioration in lending conditions, global GDP growth is forecast at 2.5% this year, the lowest figure since 2001 (with the exceptions of 2009 and 2020), and 2.8% next year.

2 Monetary Policy and Financial Markets

With core inflation still high, central banks have continued to raise their key interest rates.

Despite a slowdown in headline inflation, core inflation components remain high in the euro area, the US and most other countries. Central banks have therefore continued raising their key interest rates. In line with predictions, all three euro area key interest rates were raised by 0.50 percentage points in March, while the importance of the data-dependent approach to future policy decisions was reiterated. The Fed (0.25 percentage points) and central banks of the UK, Switzerland, Norway and New Zealand also continued hiking their key interest rates. On the other hand, the central banks of Australia and Canada left key interest rates unchanged.

Concerns over the stability of the global banking system rose to prominence in the first half of March due to the difficulties in the US and Swiss banking systems. The increased uncertainty could lead to tighter bank lending conditions, which could strengthen the restrictive effect of monetary policy. Expectations regarding the terminal level of the key interest rates of the Fed and the ECB consequently declined significantly in mid-

March. The measures put in place by the US authorities (guarantees for uninsured deposits at the three failed banks, easier access to liquidity at the Fed) and the reassurances by representatives of the ECB and the Fed that the banking system remains robust have resulted in a considerable easing of concerns surrounding the stability of the banking system in recent weeks. As concerns have eased, market participants' attention has returned to the high core inflation, which has led to a renewed rise in the expectations of further interest rate hikes by the Fed and, in particular, the ECB. According to the current overnight index swap rate, the markets expect that a rate of at least 3.75% on the ECB's deposit facility will be reached in the second half of this year. Conversely, the markets expect the terminal level of the Fed's interest rate corridor to be reached next month, in the corridor between 5.00% and 5.25% (see Figure 2.1).

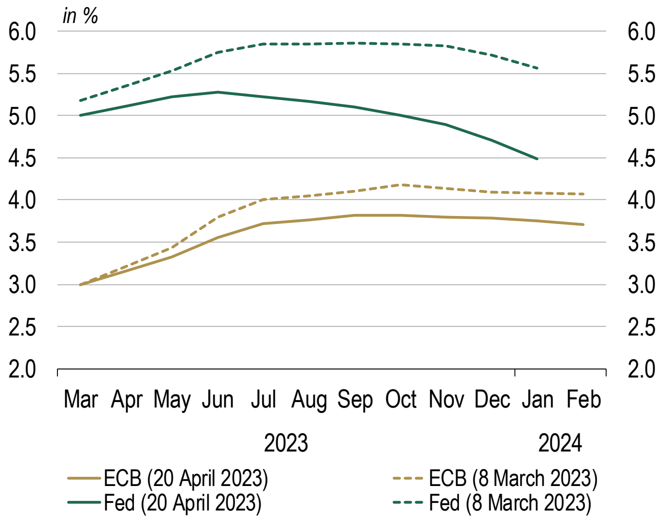
The return of investors' attention to the high core inflation has led to a rise in government bond yields in recent weeks, while the easing of concerns over banks in the US and Switzerland has led to an increase in the value of higher-risk asset classes.

The stress present on financial markets in connection with concerns regarding the stability of the global banking system led to a sharp fall in yields on US (a maximum drawdown of 0.75 to 1.30 percentage points) and German (0.75 to 1.00 percentage points) government bonds in mid-March. After investors' concerns regarding the stability of the US and Swiss banking systems alleviated, they returned their attention to the elevated core inflation, which led to a renewed rise in bond yields in late March and April. Despite the recent increases, yields on US and German government bonds are still lower than before the emergence of the difficulties in the banking system.

Higher-risk asset classes, most notably bank shares and bonds, suffered major losses in mid-March as a result of the concerns over the stability of the banking system. The

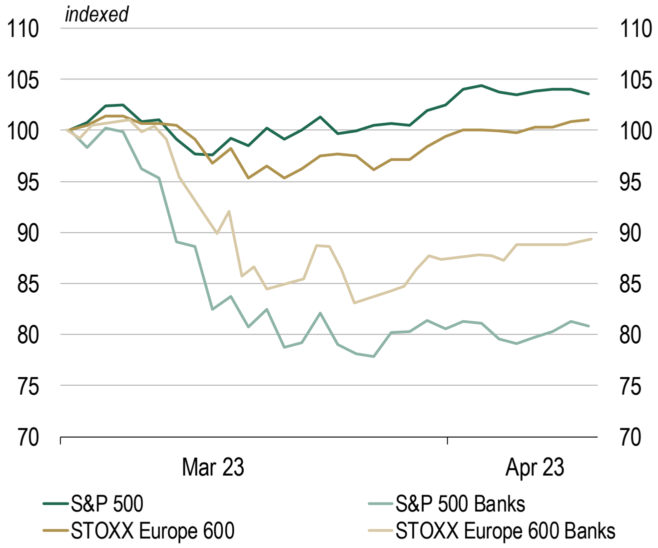
Figure 2.1: **Expectations of key ECB and Fed interest rates, and share indices in US and Europe**

Implied key policy rate levels for ECB and Fed



Note: Calculated from Overnight Index Swap (OIS).
Fed data represents the upper bound of the Fed Funds corridor.
Source: Bloomberg, Banke Slovenije calculations.

US and European main and bank stock market indices since March



Source: Bloomberg, Banka Slovenije calculations. Latest data: 20 April 2023.

mood improved in late March and April, and equity indices in Europe and the US regained the values seen before the emergence of the difficulties at US and Swiss banks, while bank share prices remain subdued. The spreads on private-sector bonds, in particular bank bonds, over the benchmark government bonds narrowed in April, but remain at slightly higher levels than at the beginning of March.

The price of Brent crude oil, which had fluctuated within a relatively narrow range since December of last year (USD 78 to USD 88 per barrel), fell in March as a result of investors' concerns over the impact of the difficulties in the banking system on the global economy. It then rose in April as a result of the decision by OPEC+ to decrease their production until the end of the year, and currently trades within the aforementioned range again. The reduced expectations of further monetary policy tightening by the Fed led to a rise in gold prices and a strengthening of the euro against the US dollar.

3 Domestic Economy

The economic sentiment is slowly declining, but firms continue to assess the situation on the domestic market as relatively favourable.

The economic sentiment indicator also declined in March, but remained above its average from the final quarter of last year. The decline in confidence relative to February was most pronounced in retail trade, where high volatility is typical. Confidence declined again in the sectors of manufacturing and, from a very high level, construction, but improved in private-sector services other than retail and among consumers. The indicator for private-sector services reached its highest level since 2019, but consumer confidence remains significantly below its long-term average.

According to business surveys, demand remained favourable in March, mostly in activities related to the domestic market, but was thought to have weakened again in manufacturing. In private-sector services other than retail, which accounts for the largest share of value-added of all the sectors illustrated in Figure 3.1, firms are continuing to assess demand very positively, and the indicator in March was above last year's average. Retail firms were more cautious in their assessments of turnover than last year, but remained in the positive zone, while assessments of total orders in construction were similar in March. The indicator of total orders in manufacturing declined in March for the second consecutive month, reaching its lowest value since September 2020.

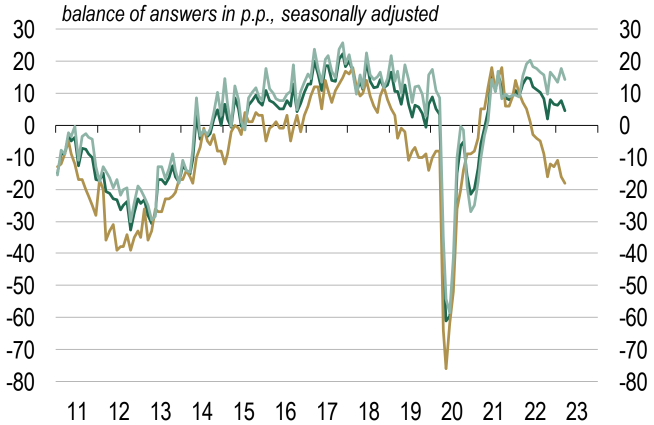
In the wake of last year's high gross operating surplus, firms again identified no difficulties with financing in the first quarter of this year.

Even though interest rates are rising as monetary policy is tightened, firms did not assess difficulties with financing as one of the main limiting factors in March (see Figure 3.1).[2] According to the SORS survey, the share of firms with difficulties of this kind has increased only slightly in all sectors since the beginning of interest rate hikes last

[2] Similar findings for last year were presented in the Survey of access to finance of enterprises, which was published by Banka Slovenije in February of this year.

Figure 3.1: **Selected economic sentiment indicators**

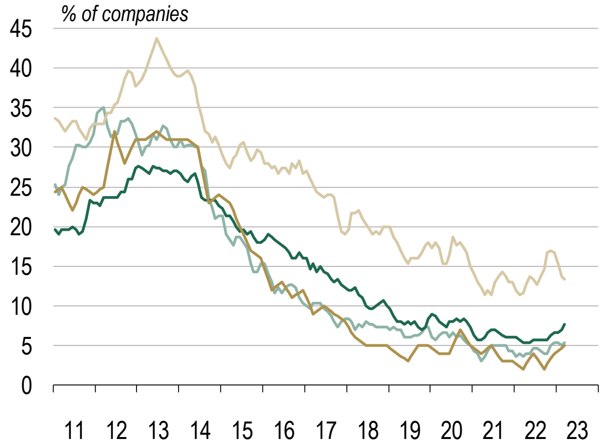
Current demand – survey estimation by companies



private sector – total
manufacturing
private services and construction

Note: The aggregate measures are calculated by taking into account value added shares.
Source: SORS, Banka Slovenije calculations. Latest data: March 2023.

Limiting factors – financing



construction – access to bank credits
retail trade – access to bank credits
services – financial constraints
manufacturing – financial constraints

Source: SORS. Latest data: March 2023.

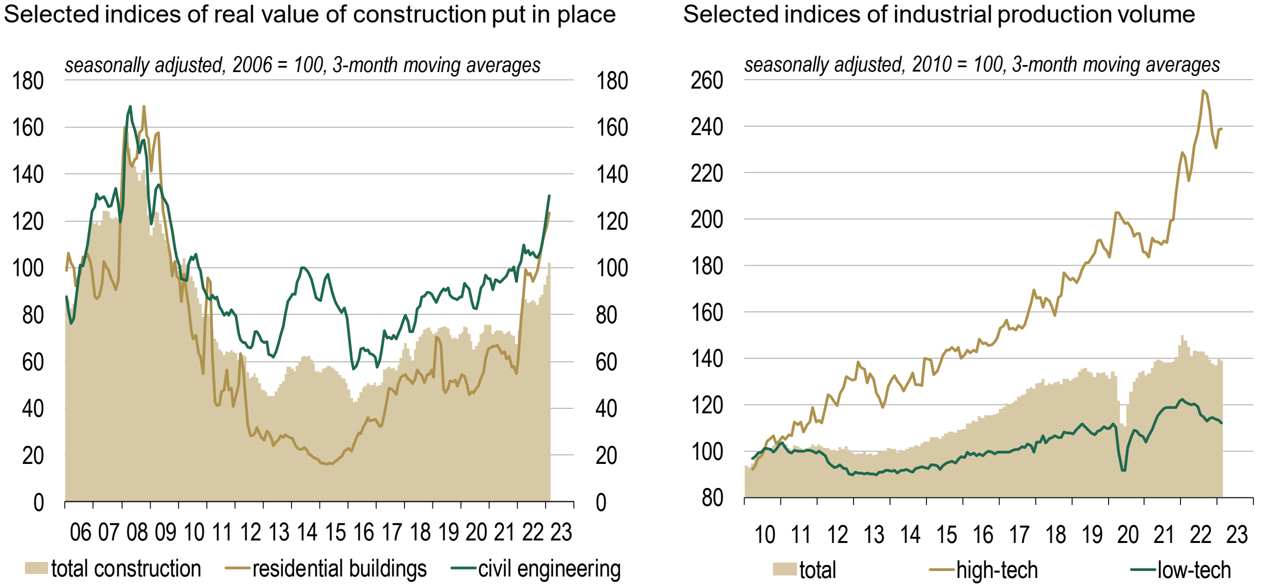
year, and for now remains very small compared with its long-term average. This has coincided with good performance, as confirmed by last year's gross operating surplus, which exceeded EUR 11.9 billion, up 22.7% on 2021. Corporate deposits in the banking system also remained significantly larger in year-on-year terms in February at EUR 9.2 billion, while the number of bankruptcies initiated also remained very low in the early part of this year.

The high-frequency activity indicators show economic growth being increasingly driven by construction alongside certain services, while the situation in industry remains challenging.

Year-on-year growth in consumption on the domestic market as measured by the real value of card payments and ATM withdrawals was relatively high at close to 3% on average over the first quarter, but is showing signs of cooling, as it stood at just 0.1% in March. The real retail turnover figures show a significant year-on-year increase in car sales over the first two months of this year, in connection with improvements in the supply of new cars, while turnover in retail other than motor vehicles and fuels was down in February for the third consecutive month. Amid high food prices, there was a significant decline of more than 5% in turnover in food products.

Construction activity is continuing to increase, reaching a level comparable to that seen in the early part of the sector's period of overheating between 2006 and 2008 (see Figure 3.2). The amount of construction put in place over the first two months of this year was up 21.1% in year-on-year terms over a rising base, with the residential buildings segment again recording the highest growth. The survey indicator of months of assured work reached 7.9 months in March, the second highest figure to date. At the same time the government is planning record investment this year, which should in particular drive a further increase in civil engineering work.

Figure 3.2: **Real value of construction put in place and industrial production volume**



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

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

Industrial production remained down in year-on-year terms, by 3.2% over the first two months of the year. This was attributable to a decline in output in the energy sector, which has been ongoing since 2018 according to the monthly figures. Growth in manufacturing activity was also weak at just 0.4%, with great variation across different sectors. The manufacture of paper and paper products saw a year-on-year decline of 19.1% in its output over the first two months of the year, while output in the manufacture of other transport equipment was up 31.8%. The changes in industry remain positive from the perspective of technological complexity, with high-tech manufacturing, where pharmaceuticals are prevalent, at a very high level (see Figure 3.2).

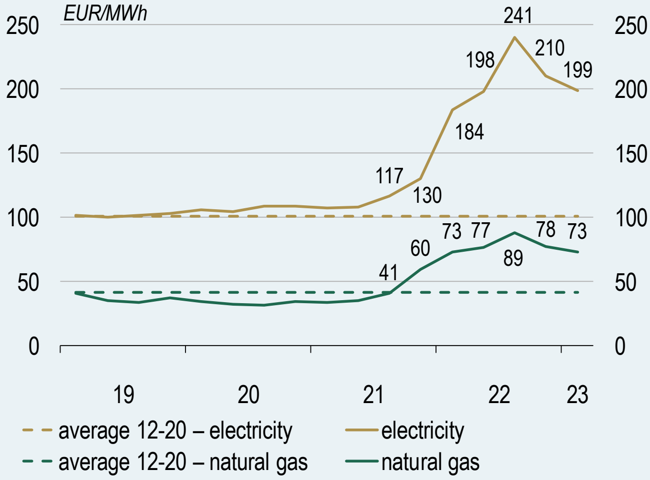
Box 3.1: **Situation in energy-intensive manufacturing segments in Slovenia**

High electricity and gas prices mean that energy-intensive manufacturing segments are facing a major decline in output, and their economic importance in Slovenia is greater than in the euro area overall.

Manufacturing accounted for more than a quarter of Slovenia's total final energy consumption in 2021. Electricity and natural gas account for 41% and 40% respectively of the total energy consumption in manufacturing, and they have both seen pronounced price rises since the second half of 2021. Since peaking in the third quarter of last year, prices of both energy products for non-household consumers have begun to fall, but in the first quarter of this year remained well above their averages between 2012 and 2020: electricity prices were 96% higher at an estimated EUR 199 per MWh, while gas prices were 75% higher at an estimated EUR 73 per MWh (see Figure 3.1.1). This is significantly raising production costs, particularly in energy-intensive manufacturing segments.

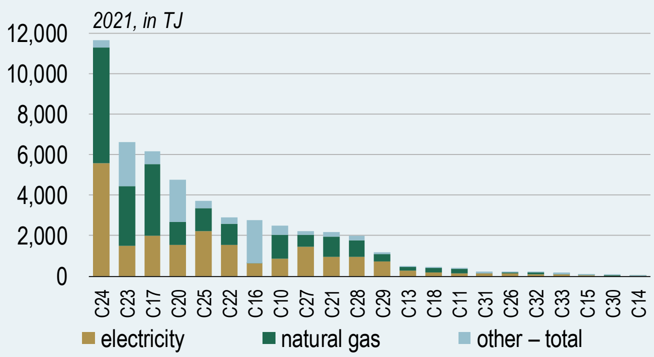
Figure 3.1.1: **Electricity and gas prices, and energy consumption in manufacturing**

Final electricity and natural gas prices for non-household consumers



Note: Average prices for Q1 2023 are estimated based on wholesale price changes.
Source: SORS, Banka Slovenije calculations.

Energy consumption in manufacturing



Note: TJ – terajoule. C24 mfr. metals, C23 mfr. non-metallic mineral prod., C17 mfr. paper and paper prod., C20 mfr. chemicals, chemical prod., C25 mfr. fabricated metal prod., exc. machinery and equip., C22 mfr. rubber, plastic prod., C16 mfr. wood, wood prod. and similar, exc. furniture., C10 mfr. food prod, C27 mfr. of electrical equip., C21 mfr. of basic pharma. prod. and pharma. preparations, C28 mfr. machinery and equip., C29 mfr. of motor veh., trailers and semi-trail., C13 mfr. textiles, C18 printing and reprod. of recorded media, C11 mfr. beverages, C31 mfr. furniture, C26 mfr. computer, electronic and optical prod., C32 other mfr., C33 repair and installation of machinery and equip., C15 mfr. leather and related prod., C30 mfr. other transp. equip., C14 mfr. wearing apparel.
Source: SORS, Banka Slovenije calculations.

Energy consumption varies greatly in different manufacturing segments, according to differences in production processes and their different sizes. The manufacturing of metals, other non-metallic mineral products, paper and paper products, and chemicals and chemical products are notable for their total consumption (see Figure 3.1.1). To identify the most energy-intensive segments, energy consumption is compared with value-added to yield a figure for terajoules per million of nominal value-added.[3] According to this indicator, all of the aforementioned segments were above the average for manufacturing in 2021, alongside the manufacture of wood and products of wood and cork, except furniture (see Figure 3.1.2). Last year's rise in electricity prices for energy-intensive consumption brackets was significantly larger than in less energy-intensive segments. It was a similar situation with natural gas prices, albeit with smaller differences between the consumption brackets (see Figure 3.1.2).

The uncertainty in the international environment and the continual rise in production costs saw the situation in manufacturing worsen last year, and energy-intensive segments suffered a sharp fall in output at the end of the year. The year-on-year decline in output in the final quarter of last year was small in aggregate manufacturing at just 1.1%, but in energy-intensive segments it ranged from 8.0% in the manufacture of non-metallic mineral products to 18.8% in the manufacture of paper and paper products (see Figure 3.1.2). The year-on-year decline in output in these segments continued in January and February, and falls were again seen in Germany and elsewhere in the euro area.

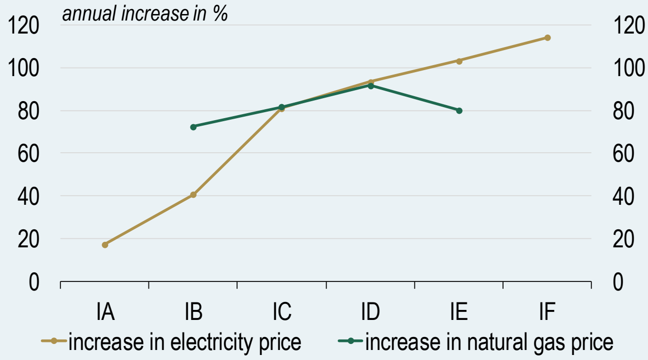
The direct importance of the energy-intensive segments to GDP and employment is relatively small, but their products are key to the functioning of other parts of the economy. The five most energy-intensive segments of manufacturing accounted for 3.5% of GDP and 3.6% of total employment in 2021. Given industry's greater importance to the Slovenian economy, both figures are above the respective euro area averages of 2.4% and 2.1% according to the 2019 data.[4] Because energy-intensive products are

[3] 1 TJ = 277,778 kWh. Electricity consumption in the average household was 4,423 kWh in 2021 (source: SORS).

[4] Given the shortage of data, the data for Germany, France, Italy and Spain is used as an approximation to the euro area average.

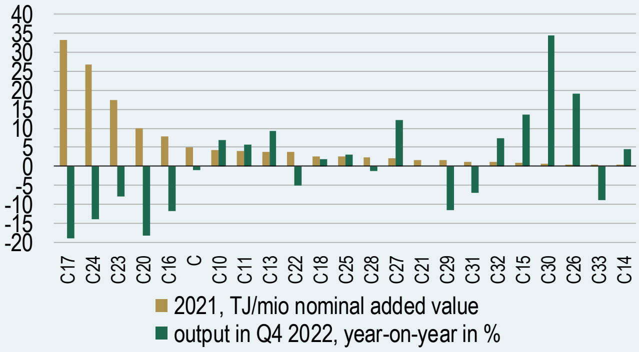
Figure 3.1.2: **Rise in electricity and gas prices by consumption bracket, and energy intensity and output in manufacturing**

Electricity and natural gas price growth in 2022 by consumer group



Note: The non-household consumer groups for electricity are defined by the following intervals: IA (<20 MWh); IB (20 to <500 MWh); IC (500 to <2,000 MWh); ID (2,000 to <20,000 MWh); IE (20,000 to <70,000 MWh); IF (70,000 to <=150,000 MWh)
The non-household consumer groups for natural gas are defined by the following intervals: IB (<1,000 GJ); IC (1,000 to <10,000 GJ); ID (10,000 to <100,000 GJ); IE (100,000 to <1,000,000 GJ).
Source: SORS, Banka Slovenije calculations.

Energy intensity and output in manufacturing



Note: TJ – terajoule. C17 mfr. paper and paper prod., C24 mfr. metals, C23 mfr. non-metallic mineral prod., C20 mfr. chemicals, chemical prod., C16 mfr. wood, wood prod. and similar, exc. furniture, C manufacturing, C10 mfr. food prod., C11 mfr. beverages, C13 mfr. textiles, C22 mfr. rubber, plastic prod., C18 printing and reprod. of recorded media, C25 mfr. fabricated metal prod., exc. machinery and equip., C28 mfr. machinery and equip., C27 mfr. of electrical equip., C21 mfr. of basic pharma. prod. and pharma. preparations, C29 mfr. of motor veh., trailers and semi-trail., C31 mfr. furniture, C32 other mfr., C15 mfr. leather and related prod., C30 mfr. other transp. equip., C26 mfr. computer, electronic and optical prod., C33 repair and installation of machinery and equip., C14 mfr. wearing apparel.
Source: SORS, Banka Slovenije calculations.

inputs in various types of investment, production and final consumption, their broader importance to the functioning of the economy is more significant. A sustained decline in output of this type would increase the need for imports, largely from Asia in light of the current structure of global industry, where China accounts for almost 30% of global manufacturing output.

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

The average nowcast for quarterly GDP growth in the first quarter of this year is 1.0%.

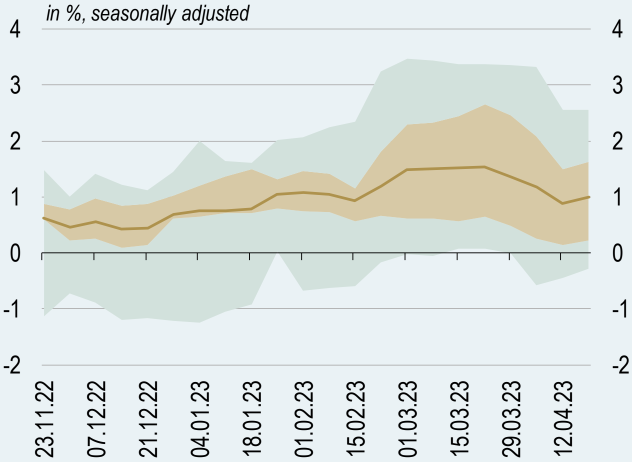
The current nowcast for quarterly GDP growth in the first quarter stands at 1.0% (see Figure 3.2.1).[5] It reflects the solid performance of economic activity indicators in January, the mixed information about activity in industry and construction for February, and the negative dynamics in survey indicators in the first quarter of this year with the exception of confidence in services other than retail and consumer confidence. The aforementioned set of signals is reflected in the chart showing the distribution of nowcasts (see Figure 3.2.1).

The favourable nowcast for quarterly economic growth is primarily attributable to January's monthly increases in industrial production and the amount of construction put in place (of 2.6% and 9.1% respectively), and in turnover in services and retail (2.0%). Another positive factor in the current dynamics in the nowcast is February's increase in the amount of construction put in place (1.0%), while the main negative factor is February's monthly decline in industrial production (3.6%).

[5] The nowcast is entirely model-based, and does not incorporate any expert assessment of current macroeconomic developments. The set of 67 forecasting models consists of various dynamic factor models, and also PC, (U)MIDAS, (B)VAR, ARDL and bridge models. The changes in quarterly GDP growth forecasts over the forecast quarter are mostly related to releases of high-frequency data, while fluctuations are to a lesser extent also caused by re-estimation of the model parameters.

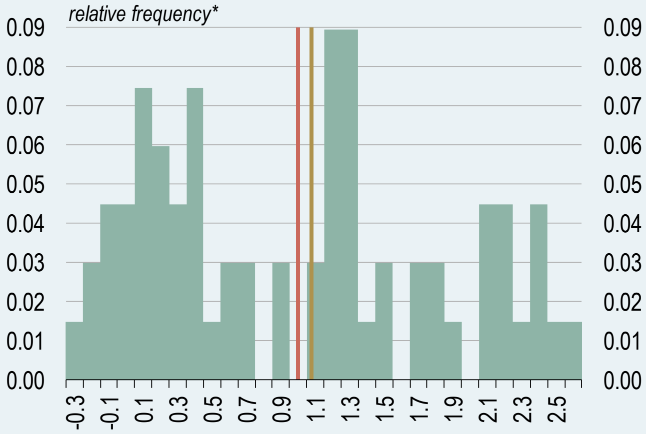
Figure 3.2.1: **Technical nowcast for GDP growth**

Model estimates of quarterly GDP growth – Q1 2023



Note: The graph shows model estimates of quarterly GDP growth. The darker interval represents values between the 25th and 75th percentiles of all estimates. Average model estimate of quarterly GDP growth rate is represented by the line. Date of estimate: 19 April 2023.
Source: Banka Slovenije calculations.

Histogram of quarterly GDP growth rate forecasts – Q1 2023



Note: Distribution of model estimates of quarterly GDP growth in Q1 2023. The vertical gold line shows the median and red the average of all estimates. Date of estimate: 19 April 2023. * Relative frequency represents the share of models that estimate a certain growth in the entire set of models.
Source: Banka Slovenije calculations.

Despite the current favourable nowcast, and the information available on developments in the aforementioned indicators, there are downside risks in connection with quarterly GDP growth, primarily with regard to the dynamics of survey indicators in construction and retail. Nevertheless, both indicators remained in the positive zone in March.

4 Labour Market

With employment high and unemployment at a record low, the domestic labour market remains tight and there is a large shortage of workers.

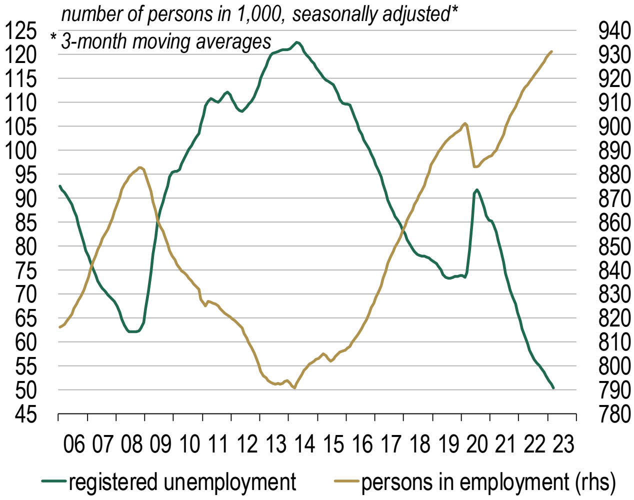
The number of persons in employment[6] stood at 909,251 in February, down on the end of last year as a result of seasonal effects. Nevertheless, the seasonally adjusted figure reached a new record high (see Figure 4.1). The year-on-year rate of growth is continuing to slow, reaching 1.9% in February, but still well above its long-term average. The growth is broadly based across sectors, and highest in construction (6.1%), which also made the largest contribution to the aggregate increase in employment.

The activity rate and the employment rate also remain high, at 75.6% and 73.0% in the final quarter of last year (for the 15 to 64 age group). According to SORS survey data, employment expectations for the next three months remain positive, albeit lower than a year ago in the majority of the sectors surveyed (see Figure 4.1). Firms are continuing to report major shortages of workers, most notably in construction, where more than half of firms judge that a lack of qualified workers is limiting their performance (see Figure 4.1).

[6] Excluding self-employed farmers.

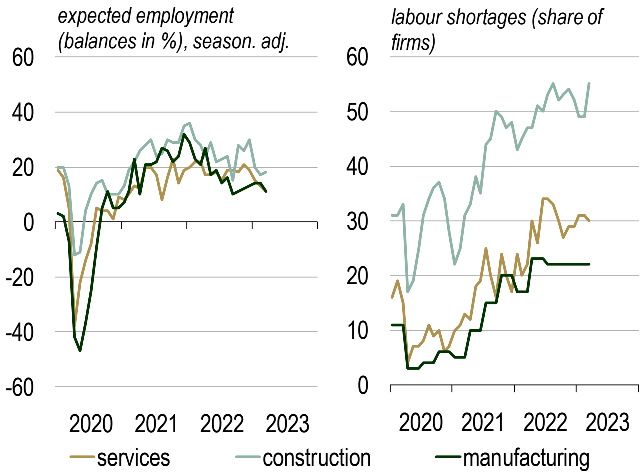
Figure 4.1: **Employment and unemployment, and selected labour market survey indicators**

Persons in employment and unemployed



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

Expected employment and labour shortages



Note: The shortage of workers in construction reflects a shortage of skilled workers, while the shortage of workers in manufacturing and services reflects a general shortage of workers.
Source: SORS, Banka Slovenije calculations. Latest data: March 2023.

Registered unemployment reached a new record low of 50,327 in March, down 16.9% in year-on-year terms (see Figure 4.1). A total of 16,952 persons registered as unemployed with the Employment Service in the first quarter, approximately the same as in the same period last year, while 19,806 deregistered, down 11.7% on the same period last year. The main year-on-year decline in the deregistrations was again in new hires, which is further evidence that the availability of workers on the domestic labour market continues to diminish.

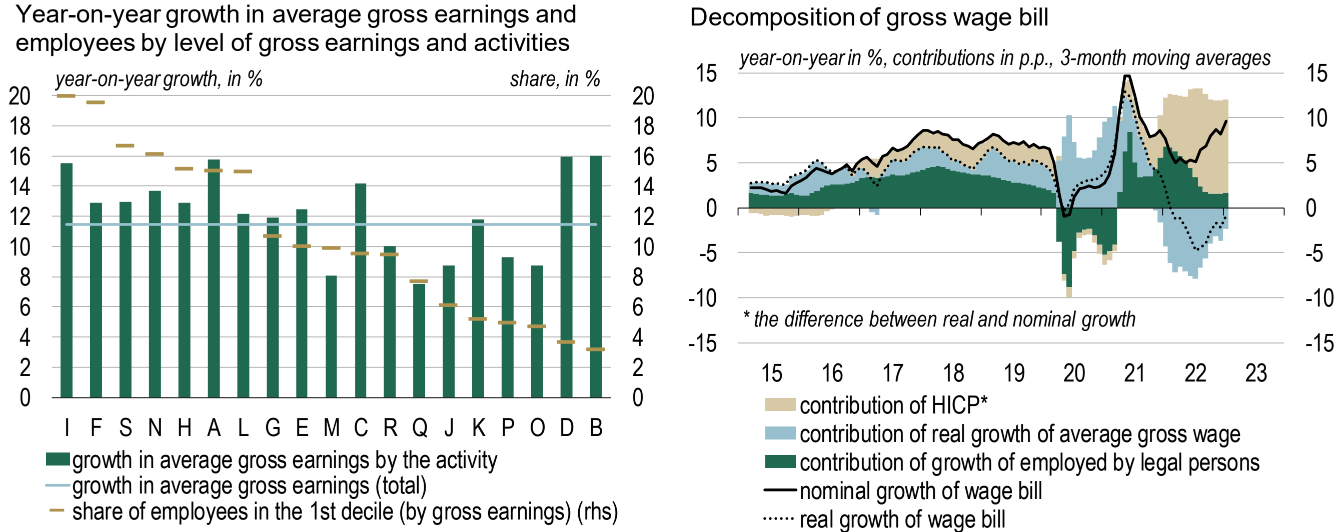
Foreign nationals continue to be the main contributors to the year-on-year growth in the number of persons in employment,[6] with their contribution rising to 80.6% in February. In March the greatest demand from employers again came for low-skilled occupations, namely elementary occupations in construction and manufacturing, and cleaners, servers and domestic helpers. The registered unemployment rate stood at 5.4% in February, down 1.2 percentage points in year-on-year terms.

The large rise in the minimum wage was reflected in sharp year-on-year growth in the average gross wage in January.

The average gross wage in January was up 11.5% in year-on-year terms, the largest rise since March 2021, while the real rate of growth also strengthened for the first time since October 2021, reaching 1.4%. High growth was seen in all sectors (see Figure 4.2), while growth in the private sector (12.4%) outpaced growth in the public sector (9.9%). The majority of sectors with above-average year-on-year growth in the average gross wage had an above-average share of low-income employees (see Figure 4.2), an indication that the high wage growth is most likely the result of January's 12.0% rise in the minimum wage.[7] Collective bargaining was another likely factor in the rise in the average wage: several agreements were reached at the end of last year and in the early part of this year. In conjunction with the tight labour market, this is maintaining the

[7] Detailed analysis of minimum wages is given in Box 4.2 of the March 2023 issue of the Review of macroeconomic developments.

Figure 4.2: **Gross wage per employee and wage bill**



Note: The year-on-year growth in average gross earnings refers to January 2023, the data for employees in the 1st decile by level of gross earnings are for 2021, except for activities A and B, which are for 2020.
Source: SORS, Banka Slovenije calculations.

Note: The wage bill is calculated as the product of the gross average wage per employee and the number of wage earners. Due to rounding, the sum of the sub-components does not always equal the total growth.
Source: SORS, Banka Slovenije calculations. Latest data: January 2023.

risk of a sustained rise in wages. Further evidence of this comes from surveys by Mojedelo.com and Universum Global, which show employees expecting higher wages this year: employees with high qualifications expect a rise of 10%, while employees with lower qualifications expect a rise of 9%.

As a result of the high growth in the average gross wage and the continuing favourable developments in employment, year-on-year growth in the gross total wage bill also surged in January to reach 13.4%, its highest figure since May 2021 (see Figure 4.2). Growth stood at 14.6% in the private sector, and 11.2% in the public sector. After one year in negative territory as a result of being outpaced by inflation, real growth in the total wage bill turned positive again in the amount of 3.1%.

5 Current Account

Nominal year-on-year growth in merchandise exports only remained high in January and February on account of price effects. Estimated current export demand declined, and imports were also weak.

Nominal year-on-year growth in merchandise exports averaged 10.2% over the first two months of this year according to balance of payments figures, approximately the same as in the final quarter of last year (see Figure 5.1). Exports of medical and pharmaceutical products, and of various machinery and equipment continued to strengthen rapidly, while the contribution made by energy products, refined petroleum products in particular, declined. Real merchandise exports, as measured with regard to growth in producer prices on the foreign market, which has been slowing since the middle of last year, were unchanged in year-on-year terms in February, following four months of decline. The current outlook for Slovenia's export sector is weak: assessments of export demand in the first quarter are very low, and comparable to the averages during the period of the euro area debt crisis (with the exception of 2020). Further evidence of the weaker developments in international merchandise trade comes from the volume of freight traffic on domestic motorways (see Figure 5.1).

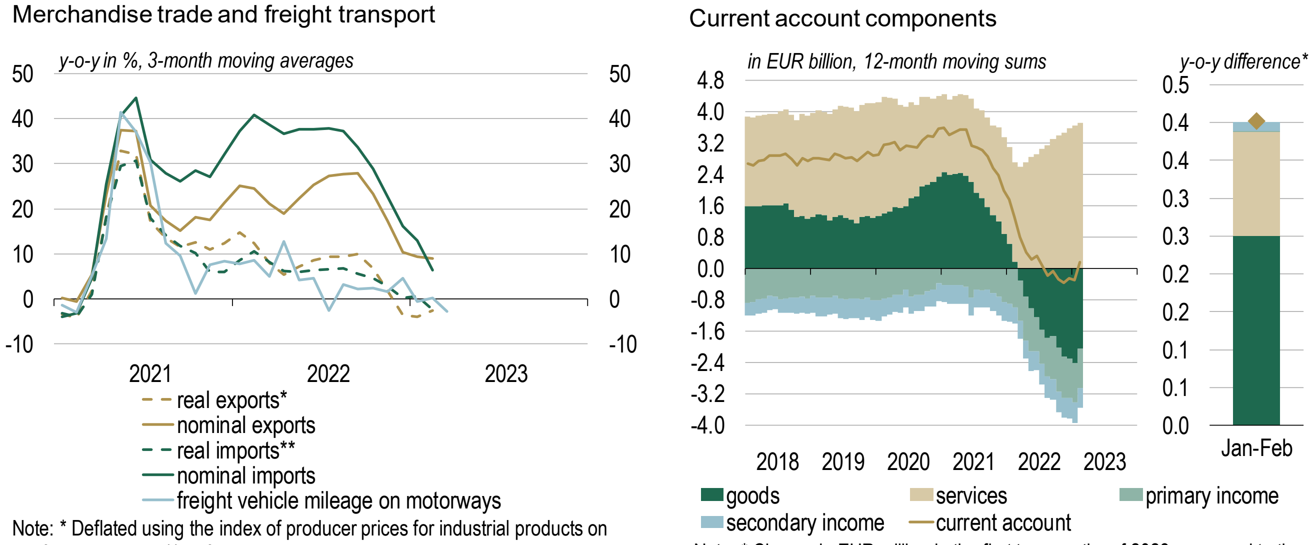
After slowing at the end of last year, and rebounding upwards in January, largely as a result of increased imports of consumer goods, nominal merchandise imports were unchanged in year-on-year terms in February, the previous very high contribution by energy imports having waned. Imports of oil and refined petroleum products were down 7.0% in year-on-year terms, in line with the fall in oil prices on the global market. Imports of various machinery, materials and chemical products were weaker, and a cooldown was also seen in most other categories of goods. Real merchandise imports (after allowing for import prices) in February were down in year-on-year terms (see Figure 5.1). Growth in import prices stood at 7.5% in February, down 22.7 percentage points on the peak rate seen in May 2022.

Nominal year-on-year growth in services trade over the first two months of this year remained similar to the final quarter of last year. In line with the situation in international trade, trade in transport services is continuing to cool: imports were down almost 5%. At the same time there was an uptick in trade in miscellaneous business services, while growth in exports of travel services slowed to 25.3% and growth in imports strengthened to 34.8%. Nominal services imports were up 8.7% on the same period last year, while exports were up 17.0%.

The current account moved into a small surplus as growth in import prices slowed and domestic demand cooled.

Having been in deficit since last August, the 12-month current account position moved into a small surplus in February, in the amount of EUR 154 million. Amid the further strengthening of the services trade surplus, which surpassed EUR 3.7 billion, this was also attributable to a narrowing of the merchandise trade deficit towards EUR 2.0 billion (see Figure 5.1). The narrowing has coincided with year-on-year growth in export prices

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



Note: * Deflated using the index of producer prices for industrial products on the foreign market. ** Deflated using the import price index.
Source: SORS, DARS, Banka Slovenije. Latest data: February 2023, except freight transport: March 2023.

Note: * Change in EUR million in the first two months of 2023 compared to the same period last year.
Source: Banka Slovenije. Latest data: February 2023.

outpacing import prices since November, which is indicative of improving terms of trade. In terms of the structure of nominal merchandise imports, it was investment that recorded the sharpest slowdown in domestic demand components. The 12-month deficit in income remained stable at around EUR 1.5 billion.

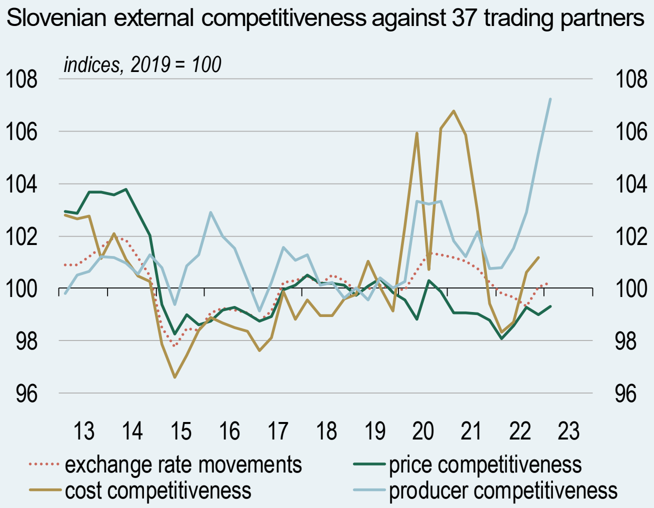
Box 5.1: **External competitiveness**

In the wake of the depreciation in the euro's effective exchange rate, the competitiveness of the Slovenian economy improved moderately last year, but developments began to weaken in the second half of the year.[8]

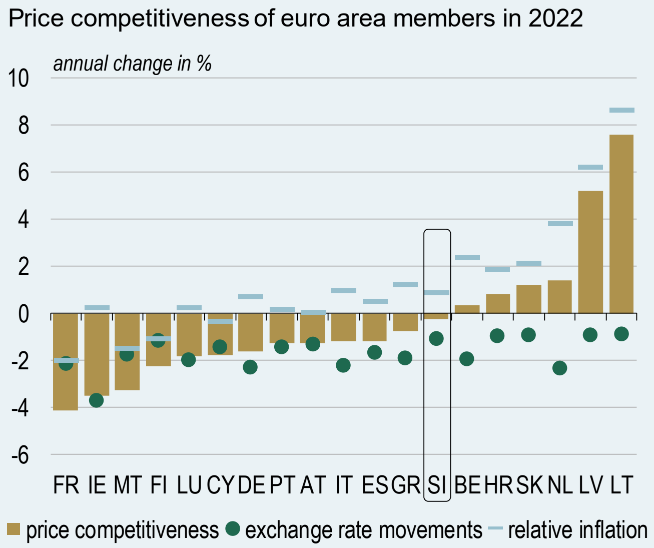
The favourable developments in price competitiveness seen over the previous three years continued last year, as the euro's decline (of 1.1%) against a basket of 37 currencies in partner countries cancelled out the effect of higher domestic prices (by 0.8%) compared with the group of partner countries. The price competitiveness indicator in 2022 thus declined (improved) by 0.3% relative to the previous year. The developments were only favourable in the first half of the year, and began to worsen in the second half of the year. Thanks to a greater impact from the depreciation in the euro's effective exchange rate and lower domestic inflation, developments in the majority of euro area countries in the year overall were even more favourable than in Slovenia (see Figure 5.1.1).

The price competitiveness indicator in the first quarter of this year remained higher (worse) in year-on-year terms, as the relationship between domestic final prices and final prices in partner countries remained worse (by 0.8%) and the euro's effective exchange rate moved into year-on-year appreciation (by 0.4%), but better than its pre-pandemic level and its long-term average. The deterioration in production competitiveness, which in addition to exchange rate developments also takes account of producer

Figure 5.1.1: **External competitiveness indicators vis-à-vis 37 partner countries, with emphasis on price developments**



Note: The euro effective exchange rate movements are reflected by NHCI, the price competitiveness by RHCI (HICP), producer competitiveness by RHCI (PPI) and the cost competitiveness by RHCI (ULC). An increase in the indicators points to a deterioration in competitiveness, and vice versa.
Source: ECB, Banka Slovenije calculations.



Note: Price competitiveness is reflected by RHCI (HICP), the euro effective exchange rate movements by NHCI, the ratio between the two is relative inflation.
Source: ECB, Banka Slovenije calculation.

[8] For the definition of the competitiveness indicators, see the key to Figure 5.1.1.

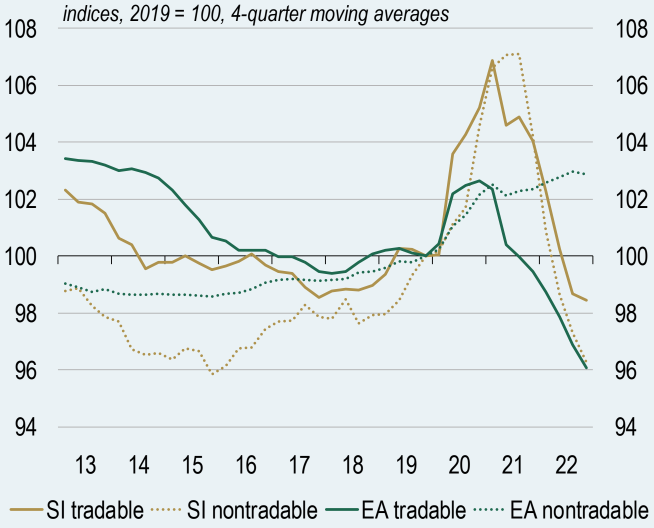
prices relative to comparable prices in partner countries, strengthened at the same time. The indicator was up 6.4% in year-on-year terms, primarily as a result of an uptick in growth in relative prices (6.0%; see Figure 5.1.1).

Last year's overall developments in cost competitiveness were among the most favourable in the euro area, although they worsened slightly at the end of the year.

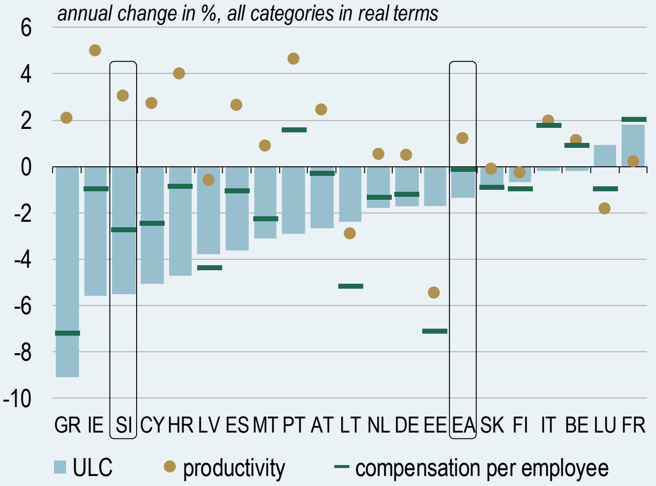
As a result of a significant fall in relative unit labour costs (ULCs) over the first three quarters of the year, the cost competitiveness of the Slovenian economy saw an improvement last year (of 3.8%), which was one of the largest in the euro area. According to the latest data, its current level does not deviate from the long-term average, despite a deterioration in the final quarter (see Figure 5.1.1).

Real ULCs (RULCs) declined for the second consecutive year, by 5.5%, 4.1 percentage points more than in the euro area overall. Labour productivity rose in real terms in Slovenia and in most other euro area countries, while compensation per employee declined (see Figure 5.1.2). The developments in domestic RULCs were favourable in the tradable (down 5.3%) and non-tradable (down 7.5%) sectors alike.[9] In the tradable sector it was the traditional market services (sectors G, H and I) that were prominent, while in the non-tradable sector it was construction and real estate activities that were prominent alongside public services; all recorded a real decline in wages, while construction also saw a cyclical strengthening of productivity. The year-on-year improvement slowed over the course of the year in both sectors. In the euro area overall only the tradable sector recorded favourable developments last year (see Figure 5.1.2).

Figure 5.1.2: **Real unit labour costs**



Note: An increase in the indicators points to a deterioration in competitiveness, and vice versa.
Source: ECB, Banka Slovenije calculations.



Note: GDP based calculation. The deflator used to calculate real growth of compensation per employee is the same as that used to calculate real productivity growth, i.e. the GDP deflator, according to the ULC methodology.
Source: ECB, Banka Slovenije calculations.

[9] The tradable sector consists of agriculture (A), industry (B to E), trade, accommodation, food service and transportation (G to I), information and communication (J) and professional, scientific and technical activities and administrative and support service activities (M and N). The non-tradable sector consists of all other sectors under the SKD 2008.

6 Inflation

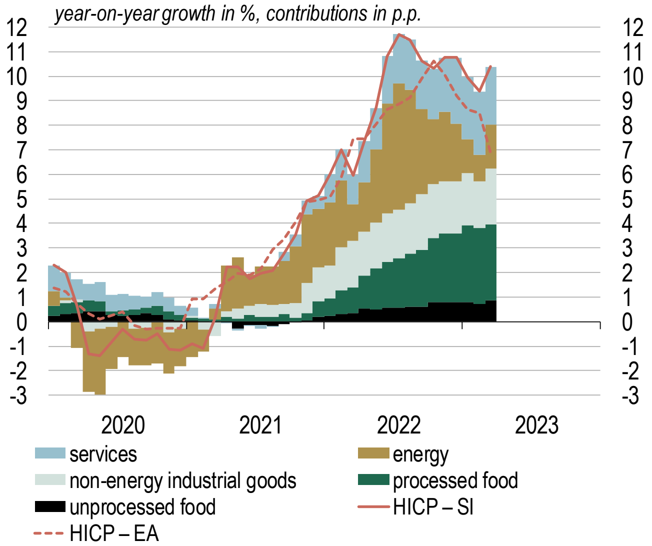
As a result of a base effect caused by last year's government measures to reduce electricity prices for three months, inflation rose to 10.4% in March, while food price inflation and core inflation both picked up pace.

Year-on-year inflation as measured by the HICP rose to 10.4% in March, up from 9.4% in February (see Figure 6.1). The rise had been expected as it was attributable to a base effect related to government measures in connection with energy prices, in particular the exemption from electricity network charges between March and May of last year. Our estimate is that measured inflation would have stood at 8.7% in March in the absence of these measures. Energy inflation rose from 7.6% to 13.5% as a consequence of a base effect, although energy prices were down 0.6% in current terms. Despite a slowdown in energy inflation, driven primarily by falling fuel prices, food inflation is continuing to rise, reaching 19.4% in year-on-year terms,[10] which was the highest rate in the last 20 years. In addition to high import prices and prices of produce,[11] it primarily reflects higher energy costs.

Core inflation excluding energy and food stood at 7.2% in March, thus surpassing 7% for the fourth consecutive month. It is driven to a roughly equal extent by services and non-energy industrial goods, with year-on-year growth in the prices of the latter rising to 7.2% from 6.2% in February. Amid a rise in producer prices of non-food goods, the latter was also notably driven by rise in prices of clothing as discounted sales ended

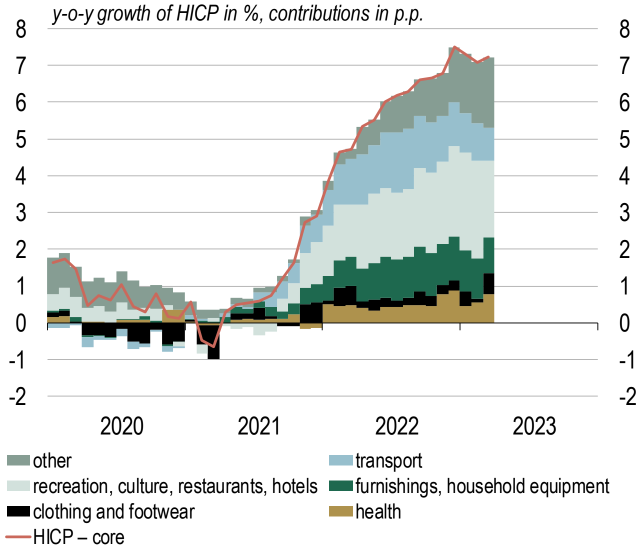
Figure 6.1: **Breakdown of headline inflation and core inflation**

Contributions to headline inflation



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

Contributions to core inflation



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

[10] Growth in prices of food products that are part of the essential food basket was actually slightly higher, at 22.6%. It is calculated from the price indices for flour (ECOICOP 01112), bread (01113), pork (01122), poultry (01124), milk (01141), yoghurt (01144), cheese (01145), fruit (01161), potatoes (01174), oil (01154) and sugar (01181).

[11] Growth in prices of food imports stood at 22.3% in February, the tenth consecutive month in which the rate has exceeded the 20% mark. Growth in prices of agricultural produce has not fallen below 17% since October 2021. It stood at 19.5% in February of this year.

and delays occurred in seasonal patterns, and by a rise in the prices of pharmaceutical products. The latter has coincided with a decline in imports and disruptions to supply.[12] Meanwhile services inflation slowed to 7.2%, primarily as a result of the contribution in prices of package holidays and accommodation dropping out.[13] Inflation in other subcategories of services mostly picked up pace, which given the still-high levels of private consumption was most likely a reflection of the continuing pass-through of higher costs of energy, commodities and labour into final prices.

Box 6.1: **Cost pressures on prices of processed food and non-energy industrial goods**

Processed food and non-energy industrial goods together make up more than 40% of Slovenia's consumer basket.

Processed food and non-energy industrial goods (subsequently referred to as "goods") are components of the HICP, where the cost pressures along the price chain have a key impact on the dynamics in retail prices in the current situation.[14] These two components account for 43.2% of the total consumer basket in the HICP structure for Slovenia, with processed food accounting for 75.5% of the aggregate food index.

The analysis focuses solely on the aforementioned components of the HICP, and not the others, as the formation of retail energy prices is still majorly affected by government measures, while services inflation will in the future depend more on the dynamics in wage growth and domestic consumption than on global cost pressures.

After peaking last year, cost pressures have eased significantly in the price chains for processed food and goods in recent months, which should be indicative of a future fall in inflation.

The cost pressures on prices of unprocessed food and goods rose sharply in 2021 and 2022 as a result of a complex interplay of factors. These notably include a strong but uneven recovery in the global economy, the disruption to supply chains amid sustained bottlenecks and high transport costs, and high energy and commodity inflation. This caused record high cost pressures along the entire price chain of processed food and goods not only in Slovenia, but also across the euro area.

In recent months there has been a discernible easing of cost pressures in both categories, particularly judging by the significant slowdown in year-on-year growth in the factors usually taken into account in analysis of this type (the left charts in Figures 6.1.1 and 6.1.2). In the price chain for processed food, year-on-year growth in global prices of food commodities has declined by more than 50 percentage points over the last year, while growth in Slovenian purchase prices of agricultural produce has slowed by approximately 20 percentage points. The price chain for goods has seen a sharp decline in growth in certain key cost factors, where the most pronounced slowdown over the

[12] Pharmaceutical products were up 9.2% in monthly terms, and 13.7% in year-on-year terms. This has coincided with a sharp decline in imports of medical and pharmaceutical products, and with data from the Agency for Medicinal Products and Medical Devices showing growing shortages of drugs.

[13] Given their seasonal nature, the current fall in prices in this subcategory was expected, but the contribution dropping out of the year-on-year comparison was also attributable to the disruption to seasonal patterns in March of last year.

[14] This box analyses non-wage cost pressures alone.

last year was in growth in import prices and producer prices for semi-finished products, while growth in producer prices for energy products also slowed to a lesser extent.

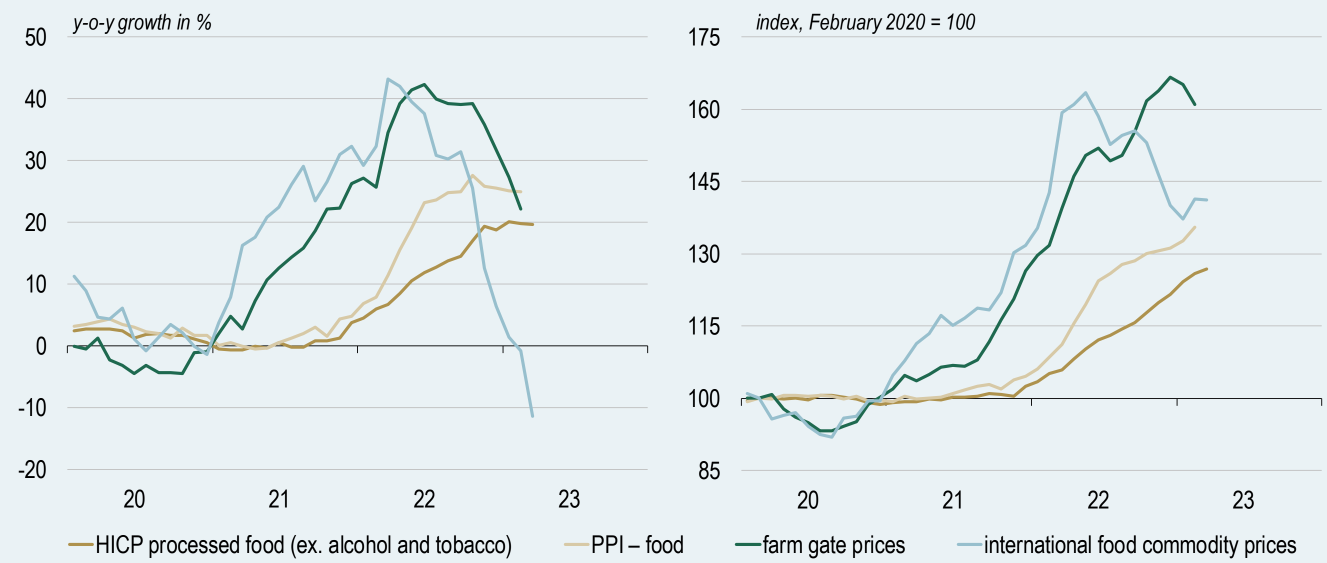
Despite these favourable cost dynamics in the earlier phases of the price chains for processed food and goods, there is not yet any significant sign of a slowdown in the later phases of either. Year-on-year growth in producer prices of food began to slow slightly at the end of 2022, but year-on-year growth in final prices of processed food (excluding alcohol and tobacco) in March of this year was still close to its recent high. After slowing for several months, year-on-year growth in final prices of goods strengthened significantly again in March, and a similar strengthened dynamic is being evidenced in growth in producer prices of non-food consumer goods.

Year-on-year rates of growth in cost pressure indicators are declining, although the levels of these indicators remain historically high, which suggests the possibility of the continuing pass-through of higher costs into final prices.

As illustrated in the right charts in Figures 6.1.1 and 6.1.2, the sharp slowdown in year-on-year growth in certain cost factors has only been reflected to a limited extent in the indices illustrating cumulative changes since the beginning of 2020. Despite the significant narrowing of the gap between the year-on-year rates of growth in cost factors and final prices of processed food and goods, there remains a significant difference between the levels of the cumulative indices.

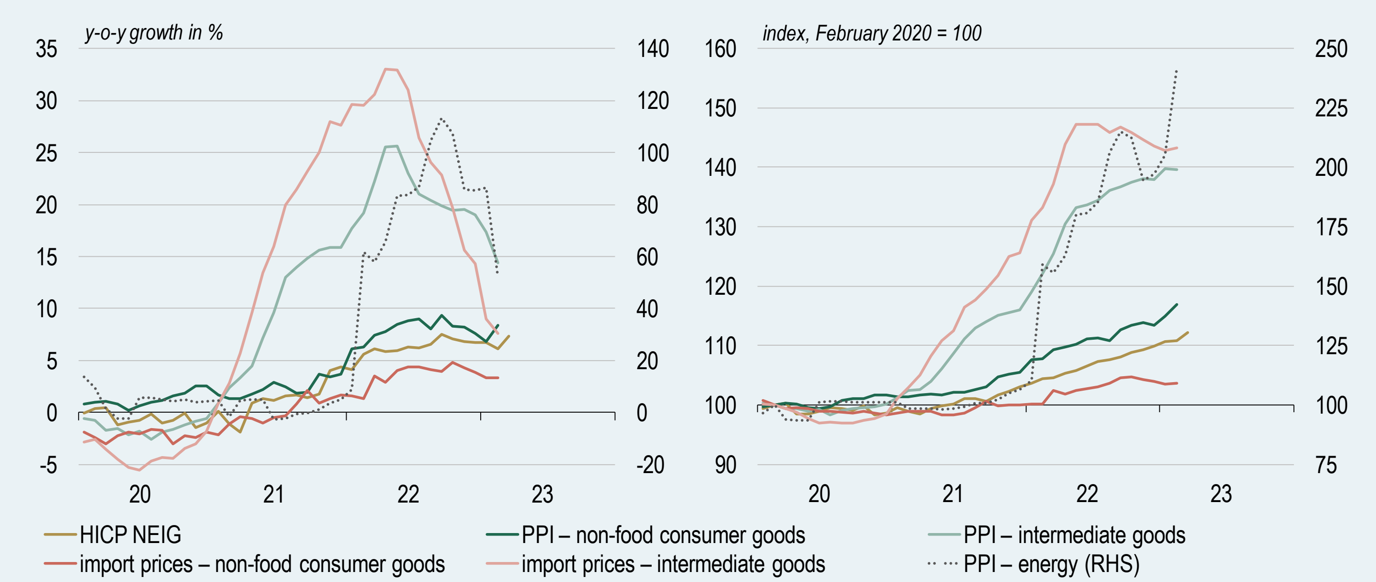
In the price chain for processed food, cumulative growth in purchase prices of agricultural produce is approximately 35 percentage points higher than the figure for final prices of processed food. In the price chain for goods, the difference between cumulative growth in import prices and producer prices for semi-finished products on one hand and final prices of goods on the other is approximately 30 percentage points. The gap also remains significant in the final phase of price chains: cumulative growth in final

Figure 6.1.1: **Cost pressures along the price chain for food**



Note: Producer price index (PPI) refers to domestic sales.
Source: Eurostat, ECB, Banka Slovenije calculations. Latest data: HICP and international food commodity prices – March 2023, other – February 2023.

Figure 6.1.2: **Cost pressures along the price chain for non-energy industrial goods**



Note: Producer price index (PPI) refers to domestic sales. HICP NEIG is seasonally adjusted.
Source: Eurostat, ECB, Banka Slovenije calculations. Latest data: HICP – March 2023, other – February 2023.

consumer prices for processed food and goods is still well below cumulative growth in producer prices (for food and for consumer goods other than food).

These gaps between the cumulative increases in cost factors and final consumer prices of processed food and non-energy industrial goods since the beginning of 2020 show that there is still potential for further rises in consumer prices. The slowdown in cost pressures in recent months nevertheless suggests an improved outlook for a future fall in inflation, although the potential pass-through of past cost pressures into final consumer prices continues to pose the risk of the fall in inflation being slower. Conversely, the situation in the majority of global supply chains has now fully normalised, while at the same time last year's growth in unit profits (see selected theme) indicates that many firms have already raised margins, which in the future might lead to a smaller response in consumer prices to the already-realised rise in input costs, thereby helping to curb inflation.

7 Fiscal Position

Amid the retention of measures to mitigate the energy crisis, and high growth in government investment, the government is forecasting that this year's deficit will be larger than last year's, while the ratio of debt to GDP is forecast to further decline.

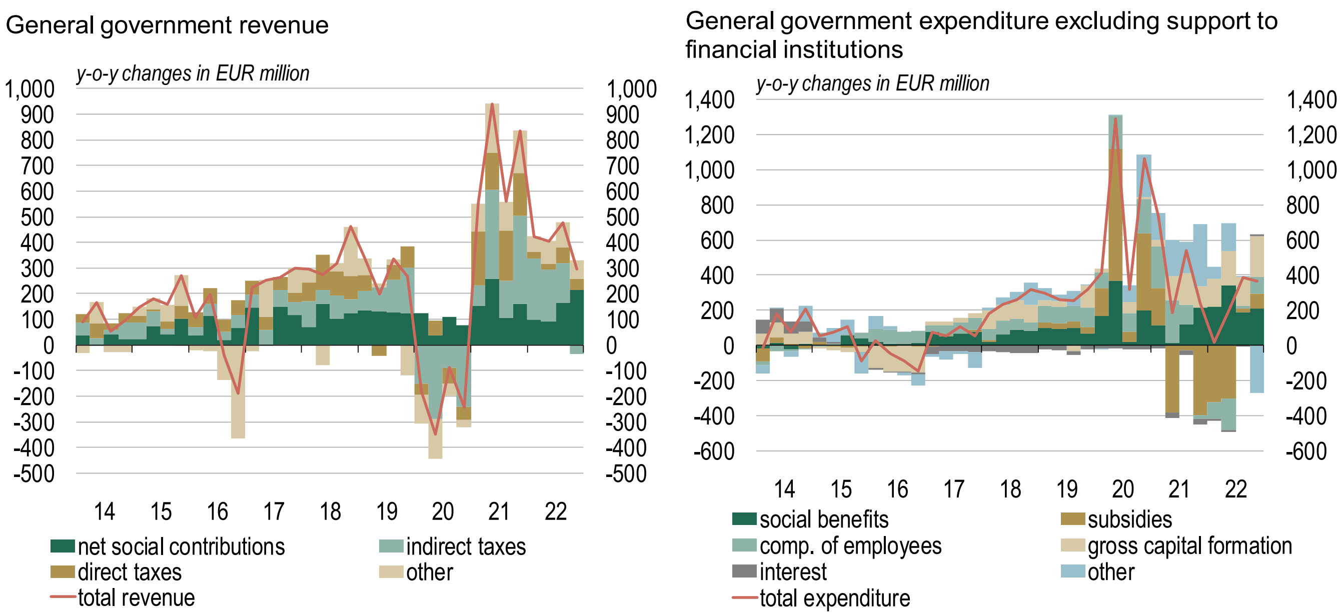
The general government deficit narrowed to 3.0% of GDP last year. The key factors in the improvement in the position were the continuation of solid economic growth, and the downsizing of the measures to alleviate the impact of the pandemic, which outpaced the introduction of new measures to mitigate the energy crisis.

General government revenues expressed as a ratio to GDP declined significantly last year as growth in general government revenues stood at 6.8%, which is less than the nominal growth in economic activity, and down by half compared to the previous year. It was mainly indirect taxes, including VAT and excise duties, as well as personal income tax that grew more slowly than the tax base. The reason for growth of former being slower than the tax base was partly coming from the measures to mitigate the energy crisis (cuts in excise duties on electricity and motor fuels, in carbon taxes, and in VAT on energy products), while main factor for smaller growth in personal income tax was legislative changes, including rises in the general allowance. Growth in corporate income tax was also low, at just 3.1%. Growth in net social security contributions was more stable and also considerably more in line with the developments in employment and wages (see Figure 7.1).

General government expenditure expressed as a ratio to GDP declined even more than revenues ratio last year. This was attributable to the decline in the total size of the measures to alleviate the impact of the pandemic and to mitigate the energy crisis compared with the previous year. The withdrawal of support measures was reflected in particular in a decline in subsidies and employment compensation (see Figure 7.1). The latter had been up 6.2% in year-on-year terms in the final quarter of last year, as a result of the autumn agreement with the trade unions, which included a wage rise of 4.5% in October, higher annual leave allowance for 2022, and increases in the work meal allowance. Last year was notable for high growth in government investment in connection with the electoral cycle, the availability of EU funds, and domestic infrastructure projects. Interest payments declined slightly over the course of the whole year, but in the final quarter were up in year-on-year terms.

The general government debt stood at EUR 41,244 million or 69.9% of GDP at the end of last year. It was up EUR 2.4 billion on the end of the previous year, but the high nominal economic growth meant that its ratio to GDP nevertheless declined (see Figure 7.2). The implicit interest rate, calculated as the ratio of interest expenditure to debt,

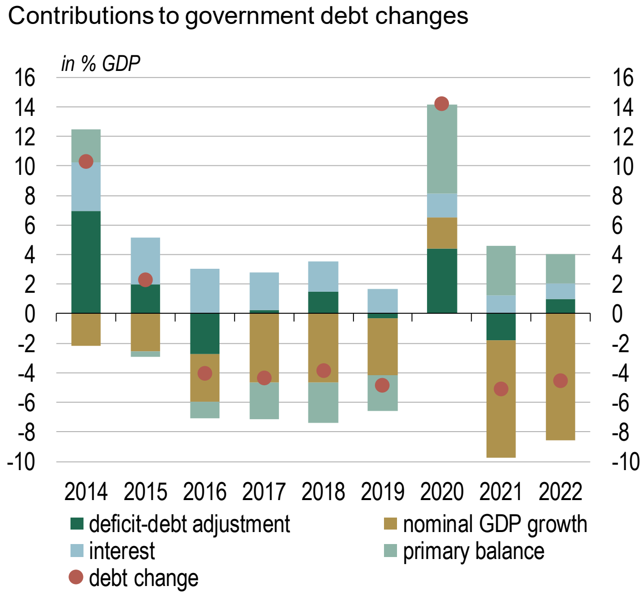
Figure 7.1: **General government revenues and expenditure according to ESA methodology**



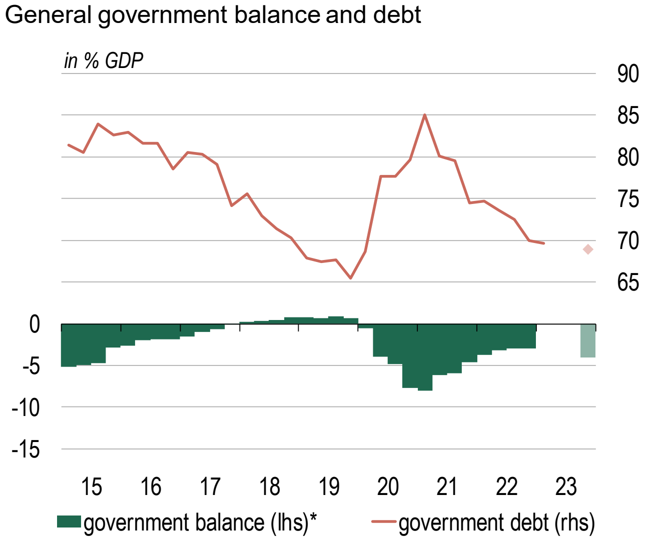
Source: SORS, Banka Slovenije calculations.

Source: SORS, Banka Slovenije calculations.

Figure 7.2: **Contributions to change in debt, and general government deficit and debt according to ESA methodology**



Source: SORS, Banka Slovenije calculations.



Note: 2023 refers to government's forecast. * 4-quarter moving sums.
Source: Reporting of general government deficit and debt levels, SORS, Banka Slovenije calculations.

hit a record low of 1.6%. It will gradually rise in the future as a result of tightening monetary policy, which is also being indicated by this year's government borrowing, which in the first quarter of this year was undertaken at higher interest rates than last year.[15] The government borrowed EUR 2.1 billion in the first quarter, while repaying EUR 1.3 billion of debt. The government's deficit and debt report is forecasting the debt-to-GDP ratio to decline to 68.9% by the end of this year, even as the deficit widens to 4.1% of GDP.

The main risks to the public finances currently come from the uncertain geopolitical situation, which is affecting energy markets and thus means that there is potential for further measures to mitigate price rises, and from monetary policy tightening, which is raising interest rates on government borrowing. The government is also preparing a number of reforms in health, pensions, long-term social care, the public sector wage system, tax legislation and elsewhere, whose financial effects are not yet known. The main factor that might have a positive impact on the public finances is economic growth that is higher than currently expected.

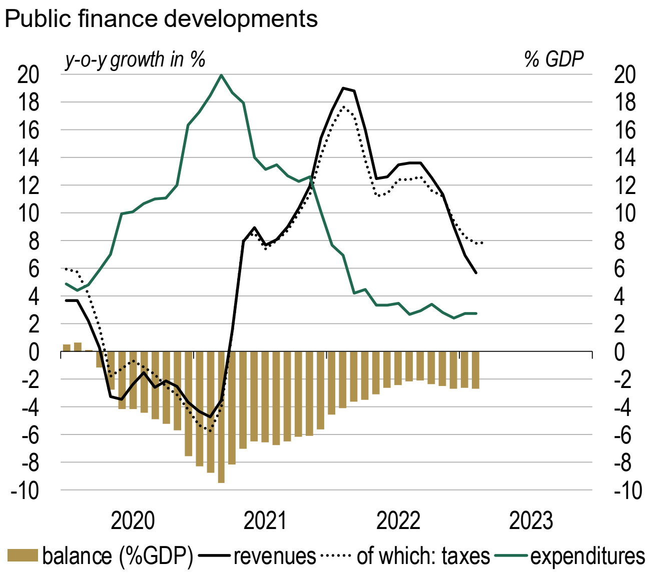
Current developments indicate that the general government deficit over the first two months of the year remained at its level from the end of last year.

The 12-month general government deficit according to the cash flow methodology stood at 2.7% of GDP in February, similar to its level of the two previous months (see Figure 7.3). According to the daily state budget data, March saw a year-on-year increase in the deficit, in reflection of the high subsidy payments during the month.[16] Tax revenues in the first quarter were up 6.4% in year-on-year terms. The largest increase, of just over a fifth, was recorded by corporate income tax revenues. Amid the continuing

[15] The weighted coupon rate for borrowing via bonds stood at 3.2% in the first quarter of this year, compared with a figure of 1.2% last year.

[16] Subsidies were paid to businesses under the Act Determining Aid to the Economy to Mitigate the Consequences of the Energy Crisis, in relation to this year's energy costs. The payments amounted to EUR 79 million during the month. Payments over the entire period of eligibility are forecast to amount to EUR 395 million.

Figure 7.3: **Public finance developments according to cash flow methodology**



Note: National methodology, 12-months sums. Latest data: February 2023.
Source: Ministry of finance, Banka Slovenije calculations.

growth in employment and wages, social security contributions were up 8.6%, while personal income tax revenues were down slightly in year-on-year terms as a result of legislative changes. The 6.6% increase in taxes on goods and services was attributable to March's high growth in revenues from VAT and excise duties, the previous few months having seen low or negative growth. Revenues from EU funds were down on last year (in the early part of last year Slovenia received funding under its recovery and resilience plan), as were non-tax revenues.

Box 7.1: **Implementation of the Recovery and Resilience Facility in Slovenia and other EU Member States**

Slovenia's and other EU Member States utilisation of funding under recovery and resilience plans is running behind schedule.

EU Member States have funding available under the Recovery and Resilience Facility until the end of 2026.[17] The facility consists of grants and loans. While the governments have generally requested the maximum amount of grants, only seven countries have requested loans to date (see Figure 7.1.1). Slovenia has EUR 1.49 billion of grants available as well as EUR 705 million of loans confirmed.[18] Countries can request or increase request of loans until August 2023.

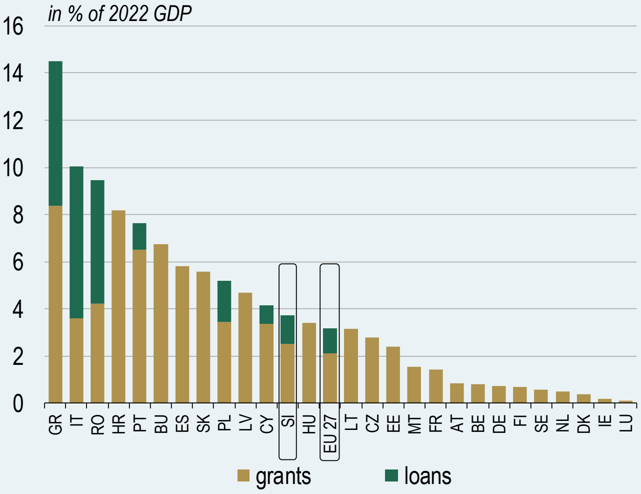
Slovenia's utilisation of funding under its recovery and resilience plan is running behind schedule, and several other EU Member States are also seeing implementation delays. Slovenia received confirmation for EUR 231 million pre-financing in September 2021, and submitted a request for the first grant instalment in October 2022 in the amount of

[17] These represent the heart of the NextGenerationEU temporary instrument. For more, see the October 2021 issue of Economic and Financial Developments, pages 72 to 75.

[18] The government is drawing up an updated recovery and resilience plan, which will address the decline of EUR 286 million in available grants (to a final allocation of EUR 1.49 billion), and will include REPowerEU plan measures (Slovenia is entitled to EUR 117 million from the stability reserves of the emissions trading scheme, and EUR 5 million from the Brexit Adjustment Reserve), the purpose of which is to reduce dependence on Russian energy and to speed up the green transition. Measures that take the longest to implement and those deemed least feasible are expected to be culled from the plan. Slovenia can request additional loans (up to EUR 3.2 billion).

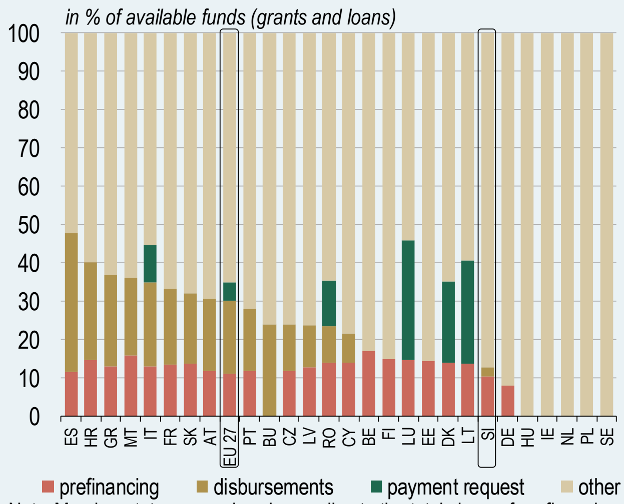
Figure 7.1.1: **Availability and utilisation of funding under the Recovery and Resilience Facility in EU Member States**

Grants and loans in national recovery and resilience plans in EU member states



Note: For grants, the final allocation of funds, and for loans, the amount requested, is taken into account.
Source: European Commission, Eurostat, Banka Slovenije calculations.

Use of available funds



Note: Member states are ordered according to the total share of prefinancing and disbursements (grants and loans) in available funds.
Source: Recovery&Resiliance Scoreboard by the European Commission, Banka Slovenije calculations.

around EUR 50 million, which was paid in April 2023. According to the original plan, Slovenia was to submit its second and third requests by the end of 2022, but it has fallen behind meeting payment conditions relating to milestones and targets. Despite the delays, it is expected to utilise all of the available funding in timely fashion, i.e. by the end of 2026.

There are various reasons for the slow utilisation of funds. Countries have been hit in recent years by the energy crisis, high inflation, disruptions in access to materials and equipment, and labour shortages. Countries are also facing limitations in administrative capabilities, and political obstacles, such as making the necessary structural reforms.[19] Slovenia's implementation of the plan is being hindered also by the slow process of building permits, and the lengthy planning and public procurement procedures.

8 Selected Theme

Breakdown of GDP deflator growth, and developments in unit labour costs and unit profits across sectors

The GDP deflator is a measure of the general level of prices in the economy, and last year it rose more sharply in Slovenia than in the euro area overall.

From the macroeconomic perspective, the general level of prices in the economy is measured in the national accounts by means of the GDP deflator, which is decomposed into unit labour costs, unit profits and unit taxes. Together with inflation, which measures changes in retail prices, it began to rise more sharply in the second half of

[19] These factors are cited by Ettore Dorrucci and Maximilian Freier in The opportunity Europe should not waste.

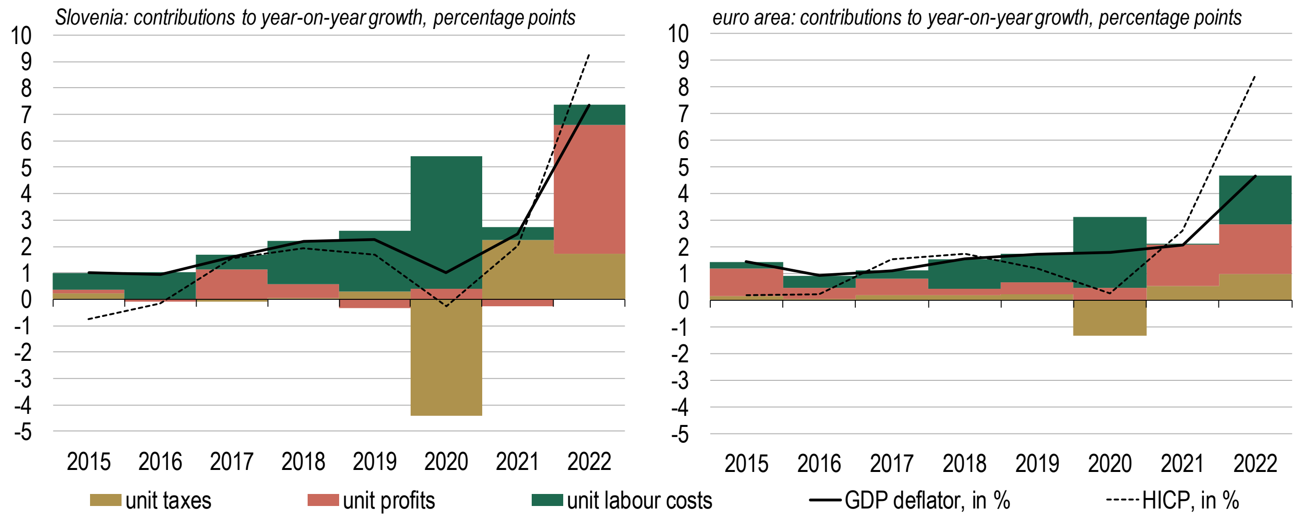
2021, before markedly picking up pace last year to reach 7.2%, 2.5 percentage points higher than the euro area average.

Last year's growth in the GDP deflator in Slovenia was driven primarily by an increase in unit profits.

Growth in unit profits was pronounced last year, and accounted for two-thirds of the increase in the GDP deflator (see Figure 8.1).[20] The sharp uptick could be attributed to firms' ability to raise prices, and thus to maintain or even increase their margins in an environment of strong cost pressures and a high level of domestic consumption. In a macroeconomic situation of this kind, by increasing their margins firms are trying to make up for the losses of previous years and to build up reserves, given the high level of uncertainty. Corporate profits were already at a record level in 2021 according to the closing accounts, and last year's gross operating surplus, which has been released, was up 22.7% on the previous year. Last year's unit profits were up 20.1% on the previous year in Slovenia, compared with 5.6% in the euro area overall, an indication of the high share of increased production costs, which firms have succeeded in passing on to customers.

Unit profits in 2020 and 2021 were highly contingent on taxes paid and subsidies received. Their positive contribution to growth in the GDP deflator in the crisis year of 2020 was attributable to a fall in taxes paid and a sharp increase in subsidies, which increased unit gross operating surplus, while the negative contribution in 2021 was attributable to an increase in tax payments amid high growth in value-added and a decline in subsidies.

Figure 8.1: **Decomposition of growth in the GDP deflator in Slovenia and the euro area**



Note: Profits are calculated as the difference between gross operating surplus and employee compensation, taxes as the difference between nominal GDP and gross operating surplus plus employee compensation, and labour costs are compensation of employees. Compensation of employees has been adjusted in all calculations for the difference between employment and employees. Real GDP is used for the restatement per unit output. Seasonally and calendar adjusted data.
Sources: SORS, ECB, Eurostat, Banka Slovenije calculations.

[20] For the euro area, a similar decomposition was illustrated by Oscar Arce, Elke Hahn and Gerrit Koester (March 2023): How tit-for-tat inflation can make everyone poorer (europa.eu).

Last year's contribution to growth in the GDP deflator by unit labour costs was significantly smaller than in the euro area overall.

Nominal ULCs were not a major factor in the rise in the general level of prices in Slovenia over the two previous years. ULCs rose significantly in 2020, as government measures to preserve jobs and purchasing power drove up the wage bill even as GDP declined. Growth was much slower in 2021, at 0.8%. ULCs increased by 1.2% in Slovenia in 2022, and by 3.2% in the euro area overall. Their contribution to growth in the GDP deflator stood at 1.8 percentage points in the euro area, higher than the figure of just 0.8 percentage points in Slovenia (see Figure 8.1).

Extensive fiscal measures have had a profound impact on the breakdown of growth in the GDP deflator over the last three years, and they were a major factor in the differences in growth in the GDP deflator between Slovenia and the euro area overall.

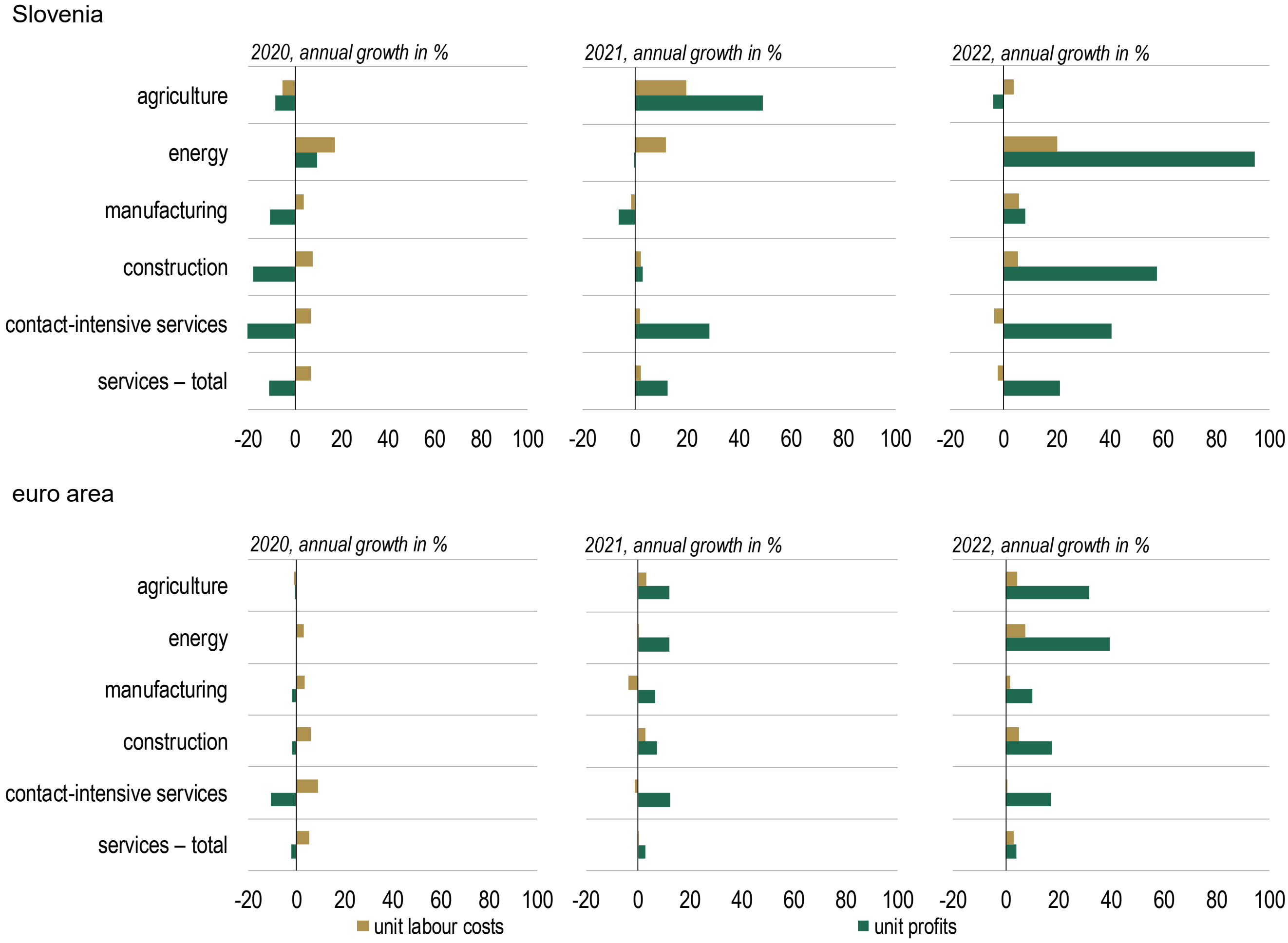
Net unit taxes (taxes paid less subsidies received) played a very prominent role in growth in the GDP deflator over the turbulent period of 2020 to 2022 (see Figure 8.1). The volatility and the magnitude of the contribution were related to the decline in taxes paid during the crisis of 2020, the government measures to reduce the burden of various levies, and annual differences in the subsidies to support the private sector. Differences in the intensity of government support are also a major factor in the differences between the contributions to growth in the GDP deflator made by unit taxes between Slovenia and the euro area overall, and they also had a major impact on the differences in the contributions made by unit profits. Subsidies in Slovenia were highest in 2020, while those in the euro area peaked a year later.

The sectors of energy and construction were to the fore when it came to unit profits last year.

Amid the high growth in energy prices, the energy sector was notable for last year's increase of 94.5% in its unit profits excluding the net effect of other taxes and subsidies on production following the stagnation in 2021. This even outpaced the very high average growth in the euro area (see Figure 8.2).[21] The energy sector in Slovenia also recorded the highest growth in ULCs last year, significantly outpacing the euro area average. The second highest figure, also well above the euro area average, was last year's growth in unit profits in construction, where activity is reaching the level seen at the beginning of the period of overheating construction between 2006 and 2008. Amid strong demand, construction firms have significantly raised their margins, despite rising input costs, at least according to the narrow indicator used here. Growth in unit profits in services also strongly outpaced the euro area average, most notably in contact-intensive services, where demand is also being driven up by the recovery in tourism. ULCs in aggregate services declined, in contrast to the other sectors illustrated and in

[21] Further indication that prices played a decisive role in the energy sector (a simplified term for Sectors B, D and E) comes from the differences between nominal and real growth in value-added. Value-added increased by 34.2% in nominal terms in Slovenia last year, but declined by 11.2% in real terms. The corresponding performance in the euro area was an increase of 25.1% and a decline of 7.3%.

Figure 8.2: **Growth in unit labour costs and estimated unit profits by sector, 2020 to 2022**



Note: Profits are calculated as the difference between nominal value-added and compensation of employees, adjusted for the difference between employment and employees, while unit profits are defined as the ratio of nominal profits to real value-added. Unit labour costs are the ratio of nominal compensation per employee to real productivity (itself the ratio of real value-added to employment). Contact-intensive services include wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and storage, accommodation and food service activities, arts, entertainment and recreation, and other service activities. The time series are seasonally and calendar adjusted.
Sources: ECB, Eurostat, Banka Slovenije calculations.

contrast to the euro area average. There were also notable developments in manufacturing, where unit profits were again outpaced by the euro area average, while ULCs outpaced the euro area average. Production costs in manufacturing rose sharply last year, while the share of energy-intensive industries in Slovenia is greater than in the euro area overall (see Box 3.1).

9 Statistical Appendix

Table 9.1: **Key macroeconomic indicators at the monthly level for Slovenia**

	2021	2022	12 m. 'till Jan.23	3 m. 'till Jan.22	3 m. 'till Jan.23	2022 Nov.	2022 Dec.	2023 Jan.	2023 Feb.	2023 Mar.
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	2.5	0.6	0.1	4.3	-0.7	-1.8	0.7	-0.9	-1.1	-1.4
- confidence indicator in manufacturing	8.2	-0.1	-1.1	8.0	-4.0	-6.0	-3.0	-3.0	-5.0	-6.0
					year-on-year growth rates in %					
Industry: - total	10.2	1.3	-0.4	13.0	-6.4	-2.9	-10.5	-6.0	-0.2	...
- manufacturing	11.8	3.7	2.7	12.3	-2.4	0.9	-7.7	-0.7	1.6	...
Construction: - total	-0.5	22.2	22.8	-5.7	31.6	26.2	45.7	25.5	17.5	...
- buildings	-23.0	53.4	56.5	-23.2	56.3	58.7	66.2	44.6	18.1	...
Trade and service activities - total	12.2	9.8	8.7	20.5	4.2	3.4	3.5	5.8	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	8.3	-0.4	0.4	14.3	8.0	5.0	7.6	12.4	...	...
Retail trade, except of motor vehicles and motorcycles	16.2	7.7	6.4	32.6	1.3	1.9	-2.5	5.4	...	...
Other private sector services	12.4	11.8	10.9	19.8	5.8	4.1	5.6	8.2	...	...
Labour market					*year-on-year growth rates in %*					
Average gross wage	6.0	2.7	3.9	0.8	7.8	7.7	4.6	11.5	...	...
- private sector	5.9	6.3	7.0	6.2	8.4	8.3	4.7	12.4	...	...
- public sector	6.4	-2.6	-0.9	-7.1	7.0	6.5	4.7	9.9	...	...
Real net wage[1]	3.0	-5.1	-4.1	-4.5	-1.1	-2.1	-4.1	2.9	...	...
Registered unemployment rate (in %)	7.6	5.8	5.7	6.8	5.5	5.3	5.4	5.6	5.4	...
Registered unemployed persons	-12.6	-23.8	-23.1	-24.2	-19.1	-19.6	-19.4	-18.4	-17.6	-16.9
Persons in employment	1.3	2.4	2.3	2.9	2.0	1.9	2.0	1.9	1.8	...
- private sector	1.3	3.0	2.9	3.5	2.4	2.5	2.5	2.3	2.1	...
- public sector	1.1	0.7	0.7	1.3	0.7	0.5	0.7	0.8	0.8	...
Price Developments					*year-on-year growth rates in %*					
HICP	2.0	9.3	9.6	5.4	10.5	10.8	10.8	9.9	9.4	10.4
- services	0.6	5.5	5.8	2.2	7.5	6.8	8.2	7.6	7.8	7.2
- industrial goods excluding energy	1.3	6.3	6.5	4.2	6.8	6.8	6.7	6.9	6.2	7.2
- food	0.7	10.6	11.7	3.0	16.4	16.0	15.9	17.2	16.7	17.3
- energy	11.3	24.8	23.7	22.6	16.2	20.9	17.8	9.9	7.6	13.5
Core inflation indicator[2]	0.9	5.9	6.1	3.2	7.2	6.8	7.5	7.3	7.1	7.2
Balance of Payments - Current Account					*in % GDP*					
Current account balance	3.8	-0.4	-0.5	0.1	0.0	0.3	-1.8	1.6	4.7	...
1. Goods	1.7	-3.9	-4.1	-1.7	-4.2	-3.9	-6.2	-2.5	1.7	...
2. Services	4.7	6.1	6.2	4.5	6.0	5.8	6.9	5.3	5.4	...
3. Primary income	-1.7	-1.7	-1.7	-1.7	-0.9	-0.7	-1.6	-0.4	-1.3	...
4. Secondary income	-0.9	-0.9	-0.9	-1.0	-0.8	-0.8	-0.9	-0.8	-1.0	...
					nominal year-on-year growth rates in %					
Export of goods and services	19.5	22.8	21.5	27.0	10.8	12.3	9.2	10.9	11.8	...
Import of goods and services	25.4	29.8	27.6	36.5	12.3	17.4	7.3	12.4	0.8	...

Public Finances	2021	2022	12 m. 'till Feb.23		2022 Jan.-Feb.		2023 Jan.-Feb.	
Consolidated general government (GG) balance[3]	*mio EUR*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	21,383	23,311	39.5	5.7	3,818	20.9	3,800	-0.5
Tax revenue	18,786	20,557	35.1	7.8	3,257	15.6	3,424	5.1
From EU budget	950	961	1.4	-23.1	255	163.3	147	-42.5
Other	1,646	1,794	2.9	0.5	306	25.5	229	-25.3
Expenditure	24,300	24,889	42.2	2.7	3,700	-2.4	3,680	-0.5
Current expenditure	10,394	10,284	17.5	-1.4	1,556	3.1	1,567	0.7
- wages and other personnel expenditure	5,751	5,482	9.4	-1.9	863	-7.3	953	10.5
- purchases of goods, services	3,351	3,557	6.0	4.5	490	12.9	493	0.6
- interest	732	661	1.2	3.6	41	-61.4	70	70.0
Current transfers	11,319	11,259	19.0	0.6	1,844	-7.5	1,821	-1.2
- transfers to individuals and households	9,168	9,295	15.7	2.6	1,523	-7.6	1,510	-0.8
Capital expenditure, transfers	1,959	2,616	4.5	32.2	158	25.5	175	10.5
GG surplus/deficit	-2,917	-1,577	-2.7		119		120	

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

Table 9.2: **Key macroeconomic indicators at the quarterly level for Slovenia and the euro area**

	2020	2021	2022	22Q1	22Q2	22Q3	22Q4	2020	2021	2022	22Q1	22Q2	22Q3	22Q4
				Slovenia							*euro area*			
Economic developments							*q-o-q growth rates in %*							
GDP				1.0	0.8	-1.3	0.8				0.6	0.9	0.4	-0.1
- industry				-0.8	0.3	-1.4	-1.6				0.7	0.6	0.9	0.0
- construction				2.8	1.6	3.6	3.2				2.0	-0.7	-1.2	-0.5
- mainly public sector services (OPQ)				0.5	0.4	0.3	0.4				0.8	-0.2	1.5	-0.2
- mainly private sector services (without OPQ)				1.3	1.1	-1.1	1.1				0.9	1.0	0.6	-0.3
Domestic expenditure				5.2	0.4	-5.0	1.0				-0.3	1.0	1.6	-1.0
- general government				0.9	-3.0	0.2	0.9				0.1	0.1	-0.1	0.8
*- households and NPISH**				1.5	0.4	0.4	0.1				0.1	1.1	0.9	-0.9
- gross capital formation				11.9	2.5	-7.7	-4.1				-1.8	1.6	4.6	-2.9
- gross fixed capital formation				3.3	-0.9	3.6	-0.1				-0.7	0.9	4.0	-3.6
							y-o-y growth rates in %							
GDP	-4.3	8.2	5.4	10.2	8.6	3.3	0.2	-6.1	5.3	3.5	5.6	4.4	2.5	1.5
- industry	-3.4	9.2	0.4	5.0	4.2	-0.3	-6.3	-6.4	7.2	2.0	2.4	2.2	2.4	1.1
- construction	-1.9	10.0	10.4	7.8	7.7	10.4	15.0	-5.7	4.9	1.6	5.6	1.9	0.4	-1.1
- mainly public sector services (OPQ)	2.4	3.8	2.6	5.0	2.6	1.5	1.5	-2.8	3.5	1.6	2.1	1.2	1.2	1.8
- mainly private sector services (without OPQ)	-5.5	8.3	9.7	10.8	10.0	4.5	1.3	-6.7	5.6	4.1	6.3	5.3	3.1	1.8
Domestic expenditure	-4.7	9.9	8.0	17.9	11.2	3.3	1.2	-5.8	4.2	3.8	6.2	4.5	3.7	1.0
- general government	4.1	5.8	0.9	4.8	0.8	-0.6	-1.0	1.0	4.3	1.3	3.2	1.1	0.5	0.7
- households and NPISH	-6.9	9.5	8.9	20.0	12.9	3.2	2.4	-7.7	3.7	4.3	8.7	6.1	2.2	0.9
- gross capital formation	-7.1	15.1	12.4	26.3	16.7	7.6	0.5	-7.4	5.3	4.9	3.6	4.5	10.7	1.4
- gross fixed capital formation	-7.9	13.7	7.8	9.4	7.3	8.7	5.9	-6.2	3.8	3.7	4.6	2.9	7.8	-0.1
- inventories and valuables, contr. to GDP growth in p.p.	0.1	0.4	1.1	3.7	2.4	-0.2	-1.1	-0.3	0.3	0.3	-0.1	0.4	0.7	0.3
Labour market							*q-o-q growth rates in %*							
Employment				0.7	0.5	0.3	0.4				0.6	0.4	0.3	0.3
- mainly private sector (without OPQ)				0.8	0.6	0.3	0.4				0.6	0.4	0.3	0.3
- mainly public services (OPQ)				0.4	0.3	0.3	0.3				0.5	0.3	0.2	0.3
							y-o-y growth rates in %							
Employment	-0.7	1.3	2.4	3.2	3.1	2.0	1.6	-1.5	1.4	2.3	3.1	2.7	1.8	1.5
- mainly private sector (without OPQ)	-1.3	1.0	2.6	3.4	3.4	2.1	1.6	-2.3	1.2	2.5	3.5	3.1	1.9	1.6
- mainly public services (OPQ)	2.2	2.7	1.8	2.4	1.8	1.6	1.4	1.0	2.1	1.5	1.8	1.6	1.5	1.3
Labour costs per employee	3.4	7.9	4.3	1.3	3.0	5.5	7.3	-0.2	3.8	4.5	4.4	4.5	3.9	5.0
- mainly private sector (without OPQ)	1.5	8.0	…	6.1	6.7	7.0	7.8	-1.3	4.6	4.8	5.2	5.3	4.0	4.8
- mainly public services (OPQ)	9.4	7.7	…	-11.7	-7.8	1.0	5.7	2.3	1.9	3.6	2.7	2.5	3.5	5.7
Unit labour costs, nominal**	7.3	1.1	1.4	-5.2	-2.3	4.2	8.7	4.7	-0.2	3.2	1.9	2.8	3.2	5.0
Unit labour costs, real***	6.0	-1.5	-5.5	-8.9	-7.4	-5.2	-0.5	2.9	-2.2	-1.3	-1.7	-1.6	-1.4	-0.7
							in %							
LFS unemployment rate	5.0	4.7	4.0	4.3	4.2	4.0	3.5	7.9	7.7	6.7	7.0	6.6	6.6	6.7
Foreign trade							*q-o-q growth rates in %*							
Real export of goods and services				-1.8	2.8	3.6	-4.5				1.4	1.7	1.7	0.0
Real import of goods and services				2.3	1.3	2.0	-4.1				-0.6	1.9	4.2	-1.9
							y-o-y growth rates in %							
Real export of goods and services	-8.6	14.5	6.5	8.2	9.3	11.9	-2.5	-8.9	10.6	6.9	8.3	7.6	7.9	4.0
Real import of goods and services	-9.6	17.6	9.8	17.2	12.6	12.6	-1.5	-8.5	8.4	7.9	9.8	8.2	11.1	2.9
Current account balance as % of GDP****	7.6	3.8	-0.4	1.5	0.6	-0.1	-0.4	1.6	2.3	-0.7	1.6	0.6	-0.7	-0.7
External trade balance as contr. to GDP growth in p.p.	0.0	-0.8	-2.1	-6.1	-1.9	0.1	-0.9	-0.5	1.3	-0.2	-0.3	0.0	-1.1	0.6
Financing							*in % of GDP*							
Banking system's balance sheet	98.0	94.5	87.9	92.6	88.5	88.3	87.9	294.8	285.8	281.2	293.2	293.9	299.5	281.2
Loans to NFCs	20.2	19.3	19.4	19.3	19.3	19.5	19.4	39.9	37.9	37.5	37.6	37.5	37.8	37.5
Loans to households	22.8	21.6	20.8	21.3	21.1	20.9	20.8	53.0	51.4	49.5	50.8	50.3	50.1	49.5
Inflation							*in %*							
HICP	-0.3	2.0	9.3	6.3	9.0	11.3	10.6	0.3	2.6	8.4	6.1	8.0	9.3	10.0
HICP excl. energy, food, alcohol and tobacco	0.8	0.9	5.9	4.4	5.6	6.4	7.0	0.7	1.5	3.9	2.7	3.7	4.4	5.1
Public finance							*in % of GDP*							
Debt of the general government	79.6	74.5	69.9	74.6	73.5	72.4	69.9	97.0	95.3	…	95.1	94.1	92.8	…
One year net lending/net borrowing of the general government****	-7.7	-4.6	-3.0	-3.7	-3.2	-3.0	-3.0	-7.0	-5.1	…	-4.0	-2.8	-2.6	…
*- interest payment*** **	1.6	1.2	1.1	1.2	1.1	1.1	1.1	1.5	1.5	…	1.5	1.5	1.6	…
*- primary balance*** **	-6.1	-3.4	-1.9	-2.5	-2.1	-1.9	-1.9	-5.5	-3.7	…	-2.5	-1.3	-1.0	…

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

10 Figures and Tables

Figures

Tables