BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments

October 2024

Title: Review of macroeconomic developments

Issue: October 2024

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

Includes data available by 4 October 2024.

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

ISSN 2820-4751

This publication is also available in Slovene.

Contents

Boxes

Summary

The latest indicators point to a continuation of subdued economic growth in the domestic economy in the third quarter, driven mainly by services. Headline inflation is continuing to fall, while core inflation rose slightly in September.

- **The available indicators for the euro area show a temporary moderate contraction in economic activity in the third quarter.** Growth in services slowed, while manufacturing activity continued its decline. The economic sentiment is also declining. According to the ECB's September projections, euro area GDP is forecast to grow by 0.8% this year, before growth strengthens to 1.3% in the following year amid a gradual rise in real household income and the strengthening of foreign demand. Headline inflation slowed to 1.8% in September, its lowest rate of the last three years, while core inflation also slowed, but remained elevated at 2.7%.
- **Most of the world's major central banks are moving ahead with the relaxation of monetary policy restriction.** The ECB lowered the deposit facility rate by 0.25 percentage points to 3.50% in September, while the Fed cut its key rate by 0.50 percentage points to a range of 4.75% to 5.00%. Based on current interest rate swap pricing, investors expect further rate cuts of 0.50 percentage points at the ECB and between 0.50 and 0.75 percentage points at the Fed by the end of the year.
- **Financial market developments in September were mainly driven by expectations of faster interest rate cuts by the Fed.** Yields on US and German government bonds fell, major US and European stock indices and gold prices reached new highs, while the US dollar weakened.
- **According to the available data and model estimates, the domestic economy enjoyed modest growth in the third quarter.** It was thought to have been driven primarily by stronger performance in services. The situation in the service sector remains favourable, which is reflected in the positive assessments of demand, supported by the continuing real growth in the wage bill and strengthening tourism. Manufacturing output is undergoing considerable monthly fluctuation, but despite major variation across individual segments, its total over the first seven months of the year remained comparable to last year. With construction firms again reporting weaker orders in September, construction activity is continuing to decline, albeit from a relatively high level. The improvement in economic sentiment has also stalled in recent months, so the nowcasting models with data available predict quarterly GDP growth of 0.2% in the third quarter, similar to the previous quarter.
- **International trade recorded high growth of 11.6% in the early part of the third quarter, driven primarily by increased trade in chemical products.** The 12-month current account surplus has again surpassed EUR 3 billion, where the key factor was the services trade surplus, although this year has also seen an improvement in the terms of trade. Despite a decline in volume, Slovenia's market share of global merchandise exports is increasing this year, although the breakdown by products points to structural challenges, particularly in connection with trade and production chains in the European car industry.

- **The labour market remains close to its record highs, despite a slight fall in the persons in employment and a rise in registered unemployment.** Firms are mostly expecting to continue hiring, but are still facing major challenges in finding qualified labour. Wage growth remains high, particularly in the private sector, which is further increasing the cost pressures on firms, especially in light of the low productivity growth. The challenges associated with labour shortages and high growth in labour costs remain more pronounced in Slovenia than in the euro area.
- **Inflation is continuing to fall, but services inflation remains elevated.** Headline inflation as measured by the HICP slowed to 0.7% in September, down from 1.1% in August. Energy prices were the main driver of the slowdown: their year-on-year fall deepened further amid monthly price falls and a negative base effect. Amid relatively weak domestic and foreign demand, and stagnating prices in production chains, food inflation remains low, while prices of other goods were down in year-on-year terms, albeit by less than over the summer. Core inflation consequently strengthened to 2.4% (up from 2.2% in August). Services inflation remains elevated, and the persistently high growth in labour costs, firms' expectations of further rises in selling prices and the short-term trends do not point to any slowdown over the coming months.
- **The general government deficit is narrowing this year.** The deficit over the preceding 12 months narrowed to 2.0% of GDP in June, and the current developments according to the cashflow methodology are also favourable. The improvement was driven by a labour market situation that is beneficial to the public finances, the reduction in extraordinary measures, and weaker-than-planned government investment. Under the EU's new fiscal rules, the medium-term fiscal-structural plan for the 2025 to 2028 period is undergoing the adoption process. The key will be pursuing the medium-term sustainability of debt, which amounted to 69.9% of GDP at the end of the second quarter, and maintaining the general government deficit below 3% of GDP. The main risks to the public finances are posed by the reforms under preparation, and by the realisation of investment.

1 International Environment

The survey indicators for the third quarter point to moderate growth in the global economy, driven by services, and persistent differences between individual economies.

The global PMIs for September were down slightly on August (see Figure 1.1, left). At 48.8 points, the manufacturing PMI moved deeper into the zone of contraction, where it has been for three consecutive months now. The services PMI remains in the zone of expansion at 52.9 points, albeit at its weakest level of the last five months. The trend of divergence between the two sectors is thus continuing, and the composite indicator remains in the zone of expansion at 52.0 points.

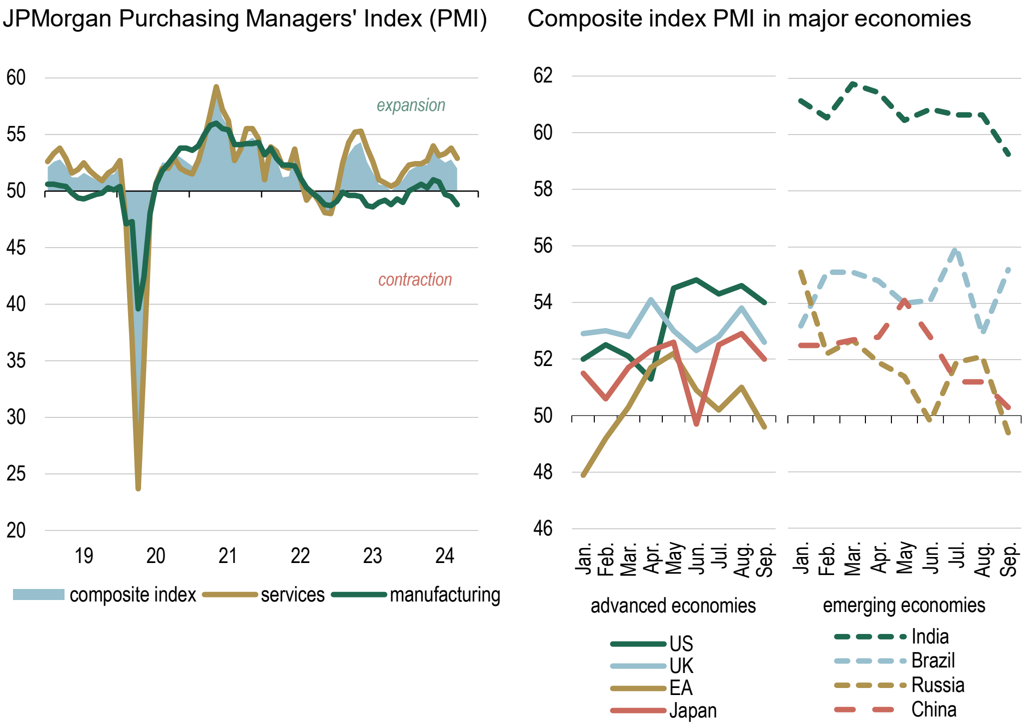
There is still much variation between the advanced economies (see Figure 1.1, right). The PMIs in the UK and Japan were stable at around 52 points, while the PMI in the US has been holding above 54 points for some time now. The composite PMI in the US was driven up solely by services, particularly in healthcare and the financial sector, while manufacturing has been in the zone of contraction since July.[1] The composite PMI in the euro area slid into the zone of contraction in September in the wake of a slowdown in services.

Among the developing countries, India was notable for the high level of its composite PMI. After a one-month interruption, the composite PMI also picked up again in Brazil, driven by industry and, even more so, by services, which are expanding rapidly. By contrast growth in Russia was driven over the first eight months of the year by industry in particular, but in September the industry PMI slid into moderate contraction, taking the composite PMI with it. The composite PMI in China hit its lowest level since October of last year. It was driven down by manufacturing, which in the wake of a decline in new orders found itself in the zone of contraction for the first time in almost two years, and by services, which also declined significantly in September.

The OECD's September projections are forecasting stable global economic growth of 3.2% this year and next year (compared with the ECB's forecast of 3.4% in both years for the world excluding the euro area). Growth will be driven by the ongoing fall in inflation, and the resulting rise in real incomes. Demand is also forecast to be driven up by monetary policy easing by central banks in most of the major global economies. There are nevertheless risks of lower economic growth and higher inflation, with geopolitical and trade uncertainties particularly pronounced.

[1] Among the advanced economies, the manufacturing PMI is only in the zone of expansion in the UK, where it has been since May.

Figure 1.1: **Global economic situation**



Source: Bloomberg; latest data left chart: September 2024; right chart: September 2024

Amid slower growth in services and a further contraction in manufacturing, the survey indicators for the third quarter point to a moderate contraction in the euro area economy.

Amid the sustained weakness of consumption and investment, current developments as measured by the monthly indicators of economic activity mostly remained sluggish in the early part of the third quarter (see Figure 1.2, left). Following a contraction in the second quarter, the amount of construction put in place was unchanged in July, while retail turnover also remained broadly unchanged. Industrial production continued to decline, and has been below its pre-pandemic level in all months of this year.[2] In the first half of the year the euro area economy was primarily driven by services, where activity has remained most robust since the pandemic.

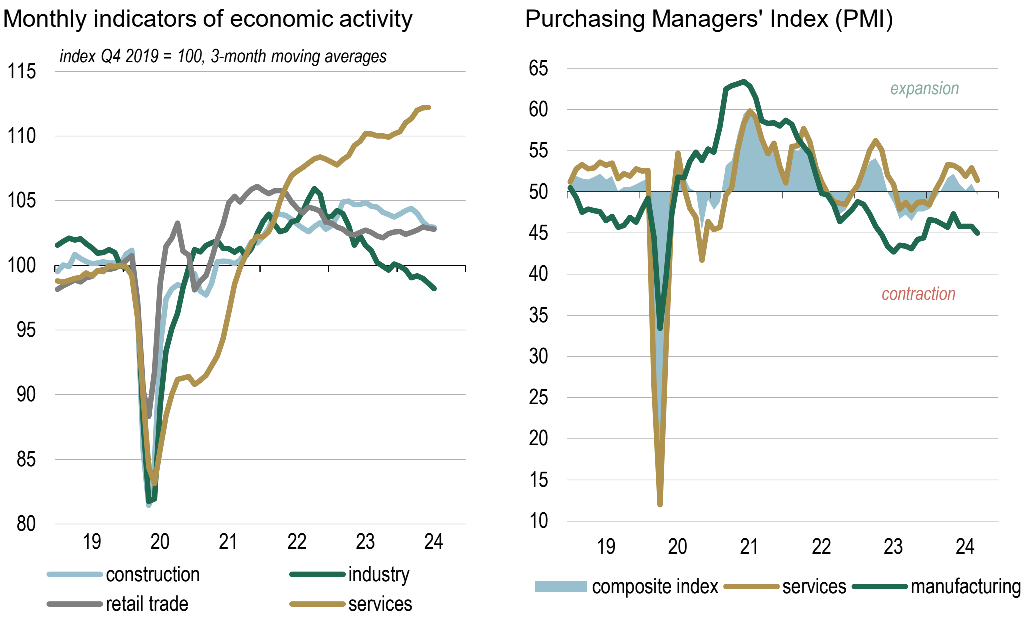
Growth in services slowed in September according to the PMI, which slipped to 51.4 points, thus resuming its trend from before August of a sustained decline from May (see Figure 1.2, right).[3] The manufacturing PMI continued to decline, and in September was down almost a full point on August. The composite PMI for the euro area consequently slid into the zone of contraction for the first time in half a year, at 49.6 points. The greatest cause for concern is the sustained decline in new orders, which in September was more pronounced than at any time since January of this year. All three indicators for the third quarter were down on the previous quarter.[4]

[2] Compared with the final quarter of 2019.

[3] August's uptick was related to the Olympics in France; having hit 55 points in August, the services PMI in France slid into the zone of contraction in September.

[4] The manufacturing indicator by 0.7 points, the services indicator by 1.0 points, and the composite indicator by 1.3 points.

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



Sources: Eurostat, Bloomberg, Banka Slovenije calculations; latest data left chart: July 2024; service: June 2024; right chart: September 2024
Note: The left chart illustrates real indices for retail turnover excluding motor vehicles, industrial production, the amount of construction put in place, and services excluding financial activities, all calendar-adjusted.

A similar picture is painted by the European Commission's economic sentiment indicator, which fell to 96.2 points in September. The ZEW's economic sentiment indicator has also declined markedly for three consecutive months now. From more than 50 points in June, it had slipped to less than 10 points by September, which suggests that fewer and fewer investors and analysts in the euro area are optimistic about the medium-term economic outlook.

According to the ECB's September projections, growth in the euro area economy is forecast to remain weak this year amid low consumer confidence, at 0.8%. It is then forecast to strengthen to 1.3% next year, amid a rise in household income, a resilient labour market, stronger foreign demand and a slight easing of the financing conditions. The forecast for 2026 is 1.5%.

Headline inflation in the euro area continued to decline in September, mainly due to a reduced contribution from energy prices.

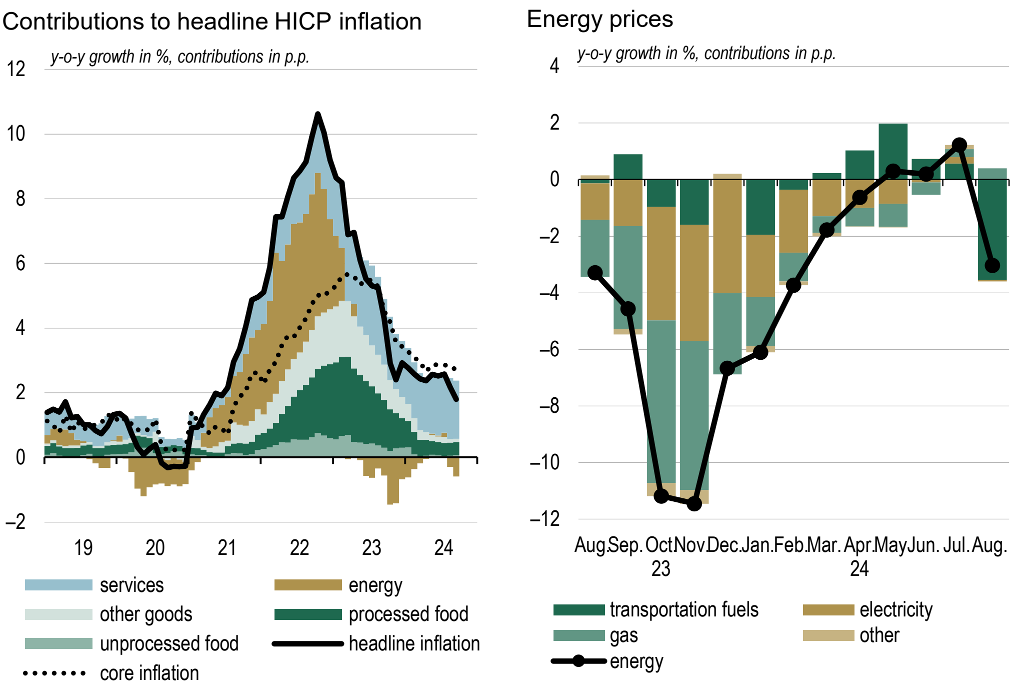
Euro area headline inflation, as measured by the HICP, slowed to 1.8% in September, its lowest level of the last three years (see Figure 1.3, left). The decline from August's rate of 2.2% was mainly driven by falling energy prices, and, to a lesser extent, a smaller contribution of services prices. Large negative annual growth rates of energy prices (–6.0% in September, –3.0% in August) are attributable to monthly price declines and a negative base effect. In August, the annual growth rate of energy prices mainly dropped due to reduced contribution from transportation fuels prices (see Figure 1.3, right), what holds also in September, based on oil price developments data.[5] Food inflation remained stable at 2.4%, unchanged from August. It has not changed significantly in the past few months, reflecting stable conditions in food production chains and diminishing effects of past price shocks on commodities markets.

[5] Weekly Oil Bulletin.

Core inflation, that is inflation excluding energy and food prices, stood at 2.7% in September, down 0.1 percentage points on August. It has remained relatively unchanged since this spring, and has been outpacing headline inflation for more than a year now. September's slowdown was attributable in particular to a marginal decline in services inflation, which eased to 4.0% from 4.1% in August. Services inflation thus remains elevated, reflecting domestic factors mainly related to labour market developments. This trend is also evident in the growth of the GDP deflator, which, as of this year, has been primarily driven by the growth in labour costs. Meanwhile, the year-on-year decline in profits suggests that they are no longer contributing to domestic price pressures (see Box 6.1). By contrast, growth in prices of non-energy industrial goods (hereinafter: other goods) remains low at 0.4%. Despite weak domestic demand and reduced activity, particularly in manufacturing, it is comparable to its long-term average.[6]

In September, inflation in Slovenia remained below the euro area average for the fifth consecutive month, with a gap of 1.1 percentage points, primarily due to energy prices. Energy contributed 0.7 percentage points more to headline inflation in the euro area than in Slovenia. Inflation rate divergence among euro area countries also slightly increased, as the gap between the highest and lowest inflation rate widened to 4.3 percentage points. Belgium recorded the highest rate at 4.5%, while Ireland had the lowest at 0.2%.

Figure 1.3: **Inflation in the euro area and decomposition of year-on-year energy price inflation**



Sources: ECB, Eurostat, Banka Slovenije calculations; latest data left chart: September 2024; right chart: August 2024

[6] Year-on-year growth in prices of other goods in the euro area averaged 0.5% between 2010 and 2019.

2 Monetary Policy and Financial Markets

Most of the world's major central banks are moving ahead with the relaxation of monetary policy restriction. The ECB cut its deposit facility rate by 0.25 percentage points to 3.50% in September.

All three key ECB interest rates were lowered in September. Based on the Governing Council's updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission, we judged that the time was right to take another step in moderating the degree of monetary policy restriction. The deposit facility rate was reduced by 0.25 percentage point to 3.50%, while, as part of the changes to the operational framework for monetary policy implementation published on 13 March, we also reduced the spread between the main refinancing operations rate (3.65%) and the deposit facility rate to 0.15 percentage point. The spread between the marginal lending facility rate (3.90%) and the main refinancing operations rate remained unchanged at 0.25 percentage point.

In September, the Fed lowered its federal funds interest rate by 0.50 percentage points to a range of 4.75% to 5.00%. This was its first rate cut since March 2020. Confidence that inflation will converge to 2% on a sustained basis has increased, while the risks to achieving the employment and inflation objectives are roughly balanced. According to the dot plot of FOMC members' projections for the federal funds rate, they expect a total of 0.50 percentage point of additional rate cuts this year and another 1 percentage point next year. The central banks of Canada (to 4.25%), Sweden (to 3.25%) and Switzerland (to 1.00%) also cut rates by 0.25 percentage points in September. The Chinese central bank also responded to growing concerns about a slowdown in the domestic economy by announcing a package of measures to support the economy, the housing market and the stock market. The Bank of Japan left its key monetary policy rate unchanged in September, after raising it in July for the second time in the last 17 years (to 0.25%).

Market expectations regarding the pace of the interest rate cuts by the ECB and the Fed increased slightly in September, as economic indicators weakened slightly. Current interest rate swap (OIS) prices suggest that the ECB will cut rates twice more this year (by 0.25 percentage points each) and seven times by the end of 2025, bringing the deposit facility rate to 1.75%. Markets expect the Fed to cut by 0.50 to 0.75 percentage points at its last two meetings this year. The expectation is for at least seven cuts (of 0.25 percentage point each) to the 3.00-3.25 percent range by the end of 2025 (see Figure 2.1, left), which is 0.25 percentage point more than FOMC members expect.

US and German government bond yields fell in September, major US and European stock indices and the gold prices reached new highs, while the US dollar weakened.

Yields on short-term German government bonds fell by 0.32 percentage point in September, while those on long-term bonds fell by 0.18 percentage point. Markets in the US showed a similar trend, with yields on short-term government bonds falling by

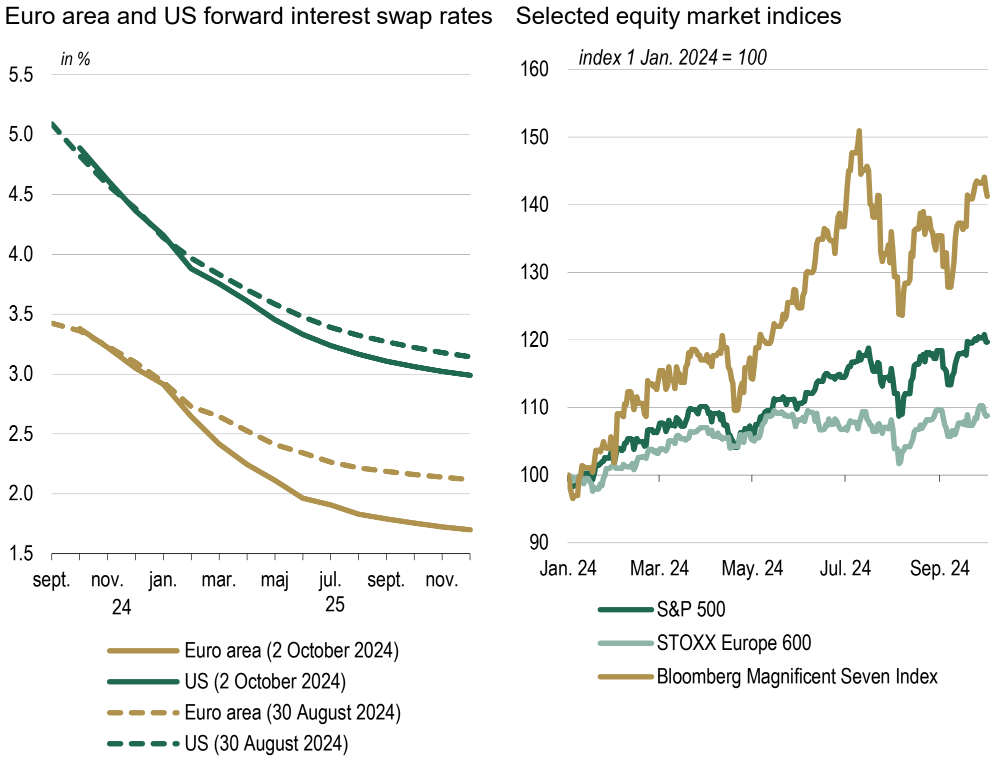
0.28 percentage point and those on long-term bonds by 0.12 percentage point. Prices of euro area bonds with higher credit risk diverged in September: some were boosted by rising expectations of interest rate cuts by the ECB, while others eased on concerns about economic growth in the euro area.

Increased expectations of a faster monetary easing by the Fed and the ECB had a favourable impact on European and US equity markets in September. The main US stock index (S&P 500) reached another record high, while the Magnificent 7 index (the seven largest US technology companies) rose by 6.4% (see Figure 2.1, right). Investors were more cautious on European companies, but the main European index (STOXX Europe 600) still reached a record high towards the end of the month. The announcement of a major stimulus package by the Chinese central bank led to a sharp rise in Chinese stock indices. The Hong Kong's main stock index (Hang Seng) rose 17.5% in September.

The US dollar weakened against most of the world's currencies on expectations of faster Fed rate cuts. It lost 0.8% against the euro and 0.9% against a basket of major global currencies in September. Together with rising geopolitical tensions in the Middle East and increasing expectations of faster interest rate cuts by major central banks, this helped to push gold to a record high (above USD 2,650 per ounce).

In the first half of September, the price of Brent crude oil fell below the USD 70 per barrel mark for the first time since December 2000, under the influence of pessimism about global oil demand. By the end of the month, it had recovered to USD 72 per barrel under the influence of the Fed's interest rate cut, the geopolitical tensions in the Middle East, and the aforementioned announcement of measures by the Chinese central bank.

Figure 2.1: **OIS curves and developments in stock market indices**



Sources: Bloomberg, Banka Slovenije calculations; latest data right chart: 2 October 2024
Note: In the right chart the Magnificent Seven comprise Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

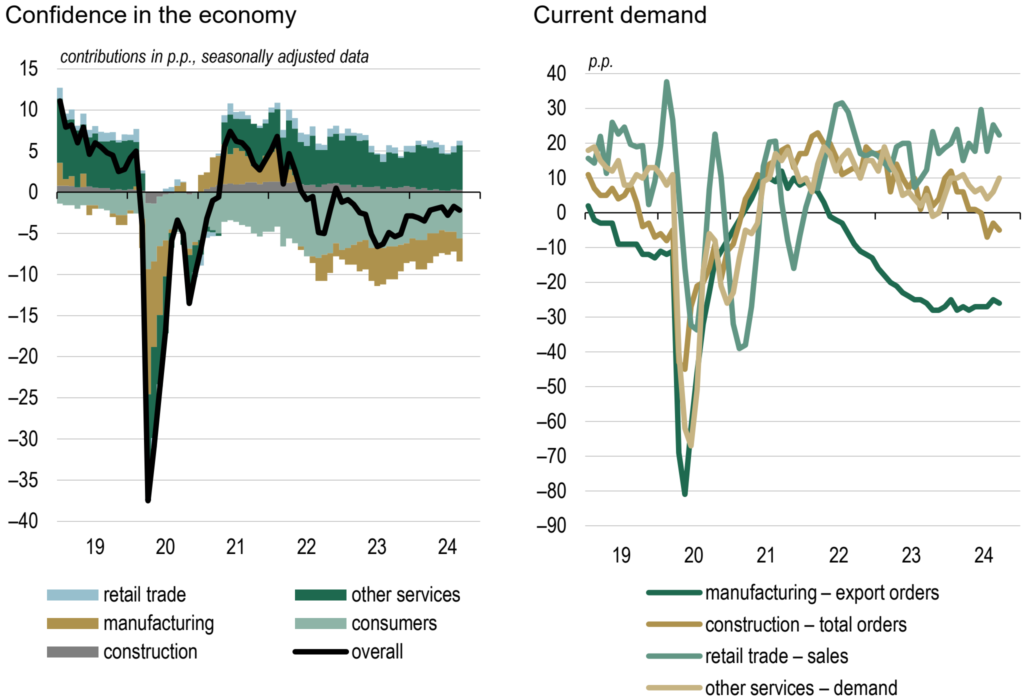
Domestic Economic Activity

The survey indicators for the third quarter point to modest economic growth, driven by increased activity in private-sector services.

The improvement in the economic sentiment indicator came to a stop in recent months (see Figure 3.1, left). It was down slightly on August, but up 2.7 percentage points in year-on-year terms. Compared with September of last year, confidence was up in manufacturing and services, and among consumers, but down in retail and construction. Manufacturing firms continued to face weak demand in September, but their assessments of export and overall order books have remained relatively stable in recent months, and currently do not point to additional deterioration in the situation (see Figure 3.1, right). The survey indicator of output presents a similar picture.

In sectors largely dependent on the domestic market, firms in services and retail again assessed demand as strong, but construction reported weaker order books for the third consecutive month (see Figure 3.1, right). Labour shortages were again the most notable limiting factor in the economy in September, with only a small share of firms reporting financial difficulties.

Figure 3.1: **Survey indicators of confidence and demand**



Sources: SORS, Banka Slovenije calculations; latest data September 2024
Note: The retail confidence indicator in the right chart is illustrated as a three-month moving average.

The monthly activity indicators point to relatively favourable economic developments in July, but activity over the first seven months of the year was up in year-on-year terms only in private-sector services.

After falling last year, aggregate activity in manufacturing remained at the same levels over the first seven months of this year. Output over the first seven months of the year was down just 0.2% in year-on-year terms (see Figure 3.2, left). This is in line with the nominal decline in merchandise exports. The situation in Slovenia is better than that in the euro area overall, where the decline in output exceeded 4.0%. Amid continuing weak demand and less-pronounced price pressures, producer prices in manufacturing have begun to stagnate in year-on-year terms. Demand for labour also began to decline with a lag.

The aggregate developments nevertheless conceal significant disparities between segments: the gap in the year-on-year change in output over the first seven months of the year between the segment with the highest growth (wearing apparel) and the segment with the largest decline (non-metallic mineral products) was more than 50 percentage points. In terms of technological complexity, the main decline in output was in the high-tech sector, at 3.5%, with the other categories recording smaller changes. The monthly fluctuations in aggregate activity are considerable. For example, output in June was up 2.9% on the previous month but down 9.0% in year-on-year terms, while in July it was down 2.1% on the previous month but up 8.4% in year-on-year terms.[7]

According to the monthly data, private-sector services have been the main factor in this year's economic activity remaining above last year's level. Monthly growth in turnover in private-sector services stood at 2.3% in July, with growth seen in the majority of segments. The year-on-year rate of growth stood at 7.1%, with growth in wholesale and retail trade and repair of motor vehicles and motorcycles hitting 11.1%. Aggregate turnover in private-sector services over the first seven months of the year was up 2.3% in year-on-year terms (see Figure 3.2, left). The favourable conditions on the domestic services market continue to be attributable to the real growth in the wage bill and the strengthening of international tourism, while the market for road vehicles is also significantly more buoyant compared with the general situation in Europe.[8] The ongoing year-on-year rise in the real value of card payments and ATM withdrawals suggests that growth in consumption on the domestic market continued in the third quarter (see Figure 3.2, right). Consumers also assessed their financial situation in the third quarter more positively than a year earlier.

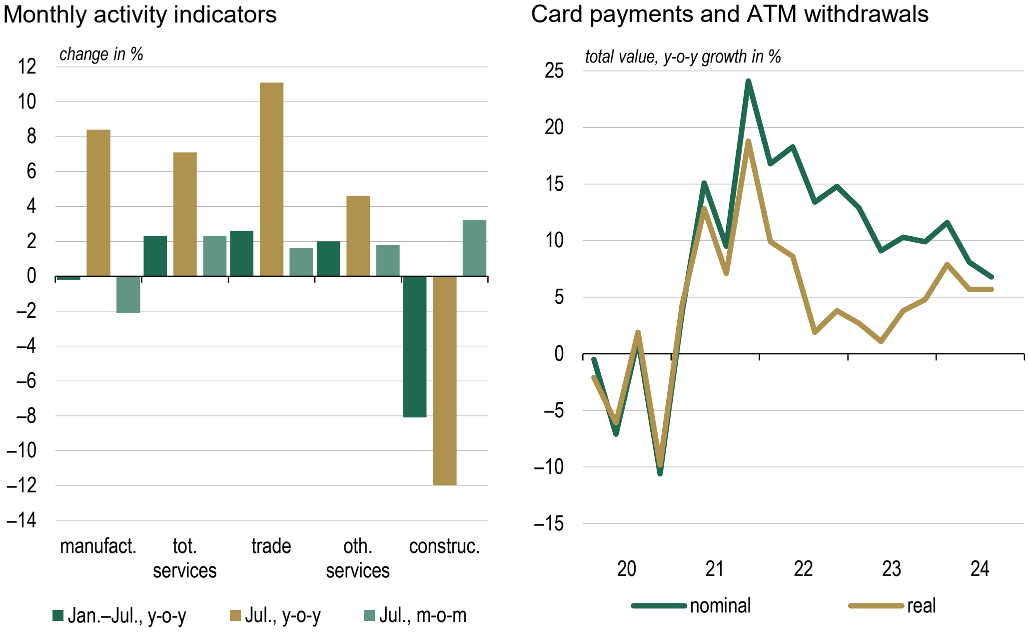
Construction activity over the first seven months of the year was down 8.1% in year-on-year terms (see Figure 3.2, left).[9] The decline was evident in all construction segments, most notably in residential construction, where the amount of construction put in place was down a fifth. The decline compared with December was most evident in civil engineering, at 20.3%, where government investment and the associated firms play a key role. The decline was attributable to the completion of major projects in 2023, the ending of the previous European financial framework, and the completion of major emergency work following last year's floods.

[7] An even stronger base effect is expected in August: there was a pronounced decline in August of last year, in the amount of 7.3% in monthly terms and 15.7% in year-on-year terms.

[8] The real wage bill (HICP deflator) in July was up 7.0% in year-on-year terms, the number of overnight stays by foreign guests in July and August was up 8.3%, and the number of first-time registrations of road vehicles in July was up 17.6%.

[9] The year-on-year decline in construction activity over the first seven months of this year averaged 1.2% across the euro area according to calendar-adjusted data, from a significantly lower base last year. The concentrated use of European funds, the election cycles and the small size of the economy mean that major fluctuations in construction activity are typical in Slovenia, which makes a direct comparison with the euro area average more difficult.

Figure 3.2: **Activity indicators**



Sources: SORS, Bankart, Eurostat, Banka Slovenije calculations; latest data right chart: Q3 2024
Note: The monthly rates of growth in the left chart are calculated on the basis of seasonally and calendar-adjusted data, while the year-on-year rates are calculated on the basis of unadjusted data. The HICP deflator is used to calculate real growth rates in the right chart.

There continues to be considerable monthly volatility in construction activity. After declining by 10.3% in monthly terms in June, the amount of construction put in place increased by 3.2% in July, slowing the year-on-year decline from 20.3% to 12.0%. Civil engineering was alone in seeing an ongoing monthly decline in July, while residential construction recorded the strongest growth. The housing market nevertheless remains disfunctional: prices in the second quarter were up again in year-on-year terms, by 6.7%, while the number of sales fell by 19.7%. Growth in residential real estate prices is continuing to outpace growth in construction costs.[10] Despite the high prices, the number of building permits issued and the corresponding floor area were down sharply in year-on-year terms in June and July.

Box 3.1: **Nowcasts for GDP growth in the third quarter of 2024**

The nowcast for the third quarter indicates quarterly growth similar to that of the previous quarter.

Currently, the GDP growth nowcast for the third quarter is 0.2% (see Figure 3.1.1, left). This estimate reflects slightly less favourable developments in the survey indicators. Economic sentiment declined by 0.2 percentage points compared to the second quarter, driven mainly by reduced confidence in retail (down 0.4 percentage points), among consumers (down 0.2 percentage points), and in services (down 0.1 percentage points). Manufacturing was the only sector to show an improvement in confidence, increasing by 0.4 percentage points.

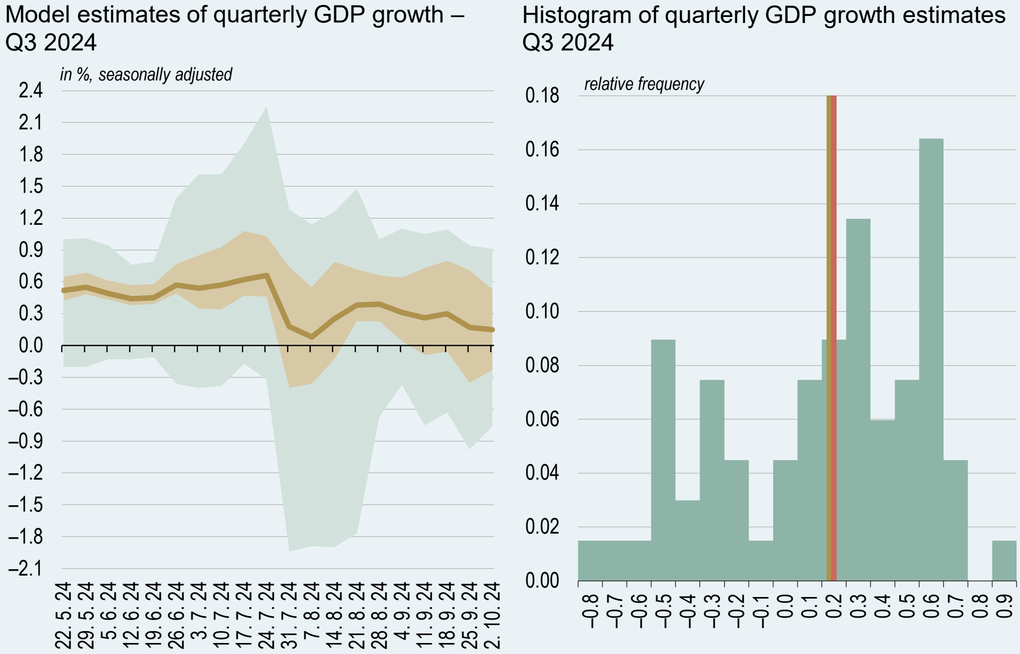
The major indicators of economic activity are currently available only for July. Industrial production decreased by 1.7% compared to the previous month, largely due to declines in mining and quarrying (down 10.1%) and manufacturing (down 2.0%). In contrast, construction activity and sales volumes in retail trade and services increased by 3.2%

[10] More detailed analysis of the residential real estate market is given in Selected Theme 8.2 in the September 2024 issue of the Review of macroeconomic developments.

and 2.3%, respectively. The growth in construction activity was driven by higher output in building construction (up 4.7%) and specialized construction activities (up 2.1%). The expansion in sales was broad-based across sectors.

The varied dataset of high-frequency indicators is reflected in the distribution of nowcasts (see Figure 3.1.1, right). The range, based on the 25th and 75th percentiles of the distribution, currently spans from –0.2% to 0.5%.

Figure 3.1.1: **Nowcasts for GDP growth**



Source: Banka Slovenije calculations
Note: The left chart illustrates the nowcasts for quarterly GDP growth. The gold area represents the interval between the 25th and 75th percentiles, while the green area represents the interval between the lowest and highest forecasts. The line represents the average nowcast for GDP growth in the third quarter of 2024. The right chart illustrates the distribution of the nowcasts for quarterly GDP growth in the third quarter of 2024. The vertical gold line represents the median, and the red line the mean. The relative frequency represents the share of the total set of models yielding a particular growth nowcast. Nowcast date: 2 October 2024

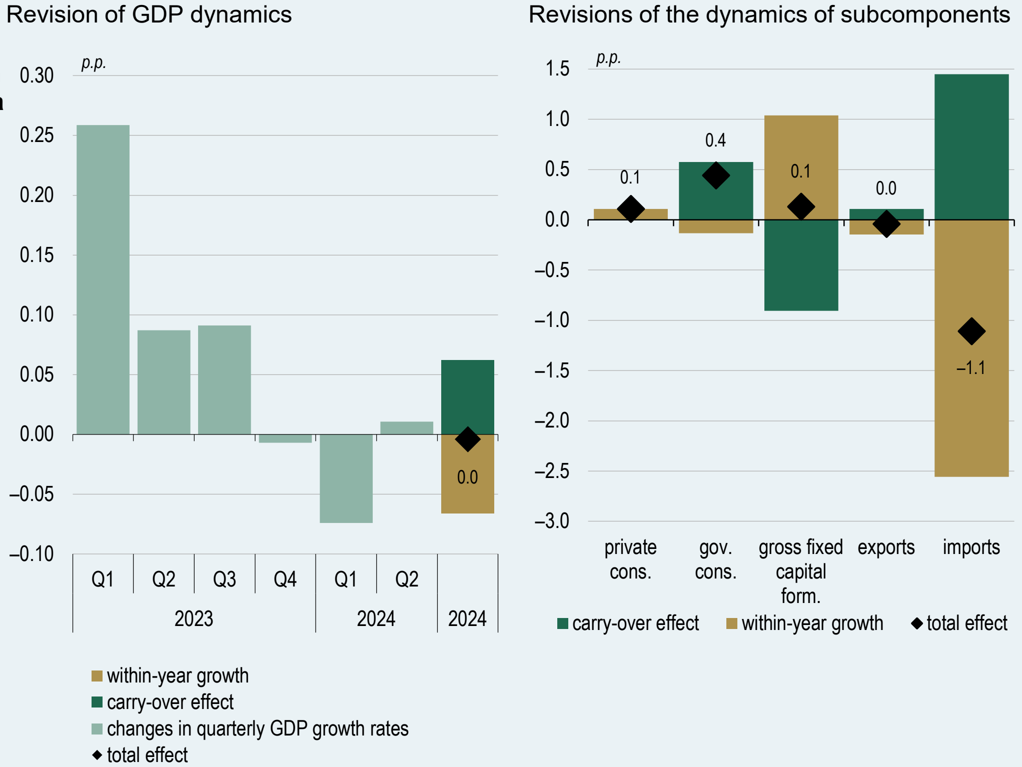
Box 3.2: **Impact on GDP growth in 2024 from the revision to last year's data**

The reconciliation of the quarterly GDP data with annual figures indicates a mostly neutral effect on this year's economic growth.

Following the release of revised annual GDP data and its sub-components for 2023, along with the comprehensive regular adjustment for previous years, SORS has also updated the quarterly data for these aggregates[11] (see Figure 3.2.1, left). These revisions led to only minor changes in both the carry-over effect from the previous year and the contribution of within-year growth. The carry-over effect from last year's GDP growth increased by 0.1 percentage points to 0.9 percentage points. However, revisions to the quarterly growth rates for the first two quarters of this year reduced the contribution of within-year growth by 0.1 percentage points; bringing it to –0.1 percentage points. As a result, the overall impact on 2024 GDP from these revisions remains neutral.

[11] Details of the revision to the annual data, which was released by the SORS on 30 August 2024 can be found in Box 3.1 of the September 2024 issue of the Review of macroeconomic developments. The SORS also released the quarterly data reconciliation on 30 September 2024.

Figure 3.2.1: **Impact on growth in GDP and its main sub-components in 2024 from the revision to last year's data**



Sources: SORS, Banka Slovenije calculations

Among the key GDP sub-components, the revisions had a more significant impact on imports of goods and services as well as government consumption. Imports saw a 1.1 percentage point decline, mainly due to a reduced contribution of the within-year growth, partially offset by a slight increase in the carry-over effect. Conversely, the 0.4 percentage point increase in government consumption growth was primarily driven by a more favourable carry-over effect. The revisions also had a somewhat more pronounced effect on gross fixed capital formation, where there was a shift towards a larger contribution from growth within the year and a reduction in the carry-over effect, though the overall impact remained negligible.

4 Labour Market

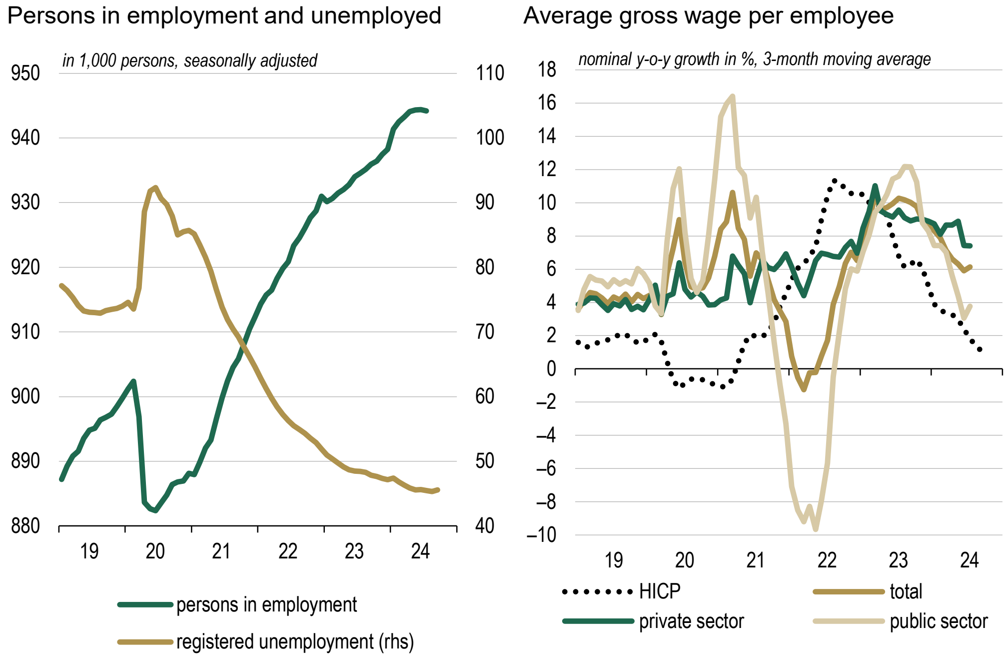
The trend of increase in the persons in employment came to an end over the summer months, but the labour market remains historically tight.

The persons in employment fell to 943,273 in July. It continues to decline across all sectors (see Figure 4.1, left), although firms everywhere expressed positive expectations in September with regard to future hiring, with manufacturing recording the lowest expectations.[12] According to their assessments they continued to face labour shortages, and are mainly addressing their staffing pressures by hiring foreign nationals. The share of foreigners among the persons in employment increased by 0.5 percentage points to 15.8% in the first seven months of the year.

[12] Manpower's H2 2024 Salary and Employment Trends survey also shows positive expectations with regard to hiring in the second half of the year, although the forecast is less optimistic than in the same period last year.

After rising for two months, registered unemployment fell slightly in September to 43,847. The fall in unemployment was mainly attributable to seasonal developments; according to the seasonally adjusted figures it rose after a long period without an increase (see Figure 4.1, left). The registered unemployment rate rose by 0.1 percentage points to 4.5% in July, largely as a result of the fall in the persons in employment. The majority of the fall in the total number of registered unemployed over the last year was attributable to a fall in unemployment among the over-50 age group.

Figure 4.1: **Labour market activity and wage growth**



Sources: SORS, ESS, Banka Slovenije calculations; latest data left chart: registered unemployment: September 2024; persons in employment: July 2024; right chart: July 2024; inflation: September 2024

Wage growth remains relatively high, particularly in the private sector.

After slowing for two months, growth in the average gross wage strengthened again in July to reach 7.2%. It was mainly driven by the private sector, where the year-on-year rise of 8.8% was more than 3 percentage points higher than in June.[13] According to Manpower's Salary and Employment Trends survey, over two-thirds of firms are forecasting wage rises in the second half of the year, slightly less than in the first half of the year, but more than in the same period last year, which is indicative of the continuing wage pressures in the labour market. Wage growth in the public sector remains below that in the private sector this year. It stood at 4.3% in July (see Figure 4.1, right). At 5.8%, real wage growth remained high, particularly in light of the relatively limited growth in labour productivity (see Box 4.1).

[13] The large difference in growth between June and July is attributable to a base effect. A greater share of extraordinary payments were made in June of last year compared with June of this year, which drove a decline in growth in the average gross wage during that month. The base effect was not present in July, which saw relatively high wage growth resume.

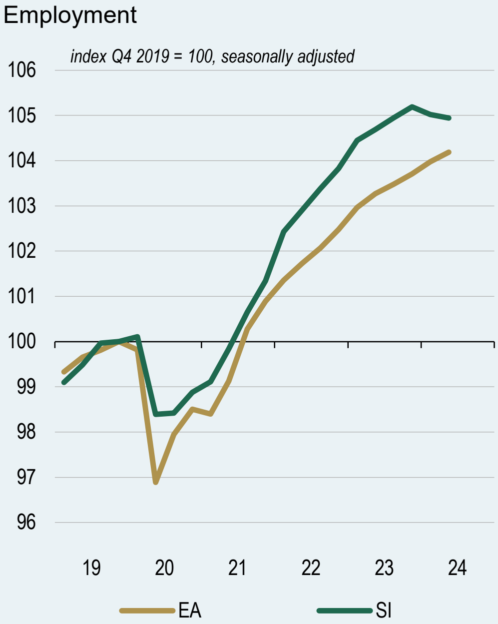
Box 4.1: **Comparison of labour market developments in Slovenia and the euro area**

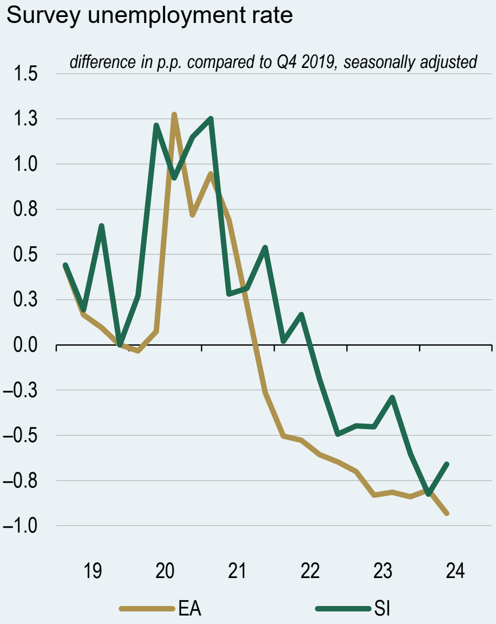
The labour markets in Slovenia and in the euro area overall have recovered quickly since the pandemic, but the challenges related to labour shortages and high growth in labour costs are more pronounced in Slovenia than in the euro area.

Since the pandemic the labour market has been the focus of much attention from economic policymakers, mainly on account of its surprising resilience. Employment in Slovenia and in the euro area overall recovered quickly after the pandemic, and the labour market remained robust even as geopolitical tensions worsened and interest rates rose. This box examines the key indicators of the domestic and euro area labour markets over recent years.

The relatively low decline in employment at the outbreak of the pandemic and its rapid recovery in Slovenia and in the euro area overall can to a great extent be attributed to job retention measures, such as the furlough scheme, which made it easier for firms to retain employees. Employment in Slovenia is now almost 5% up on its pre-pandemic level, with the majority of the increase coming before the end of 2022. Employment in the euro area recovered slightly more slowly, but also returned quickly to its pre-pandemic level (see Figure 4.1.1, left). By contrast the fall in the unemployment rate was faster in the euro area overall than in Slovenia, partly because the unemployment rate in Slovenia was extremely low even before the pandemic. This meant that domestic firms mostly filled their new jobs during the economic recovery by hiring labour from abroad. According to the latest data, the unemployment rates in Slovenia and in the euro area overall are approximately 1 percentage point lower than before the pandemic (see Figure 4.1.1, right).

Figure 4.1.1: **Employment and unemployment**

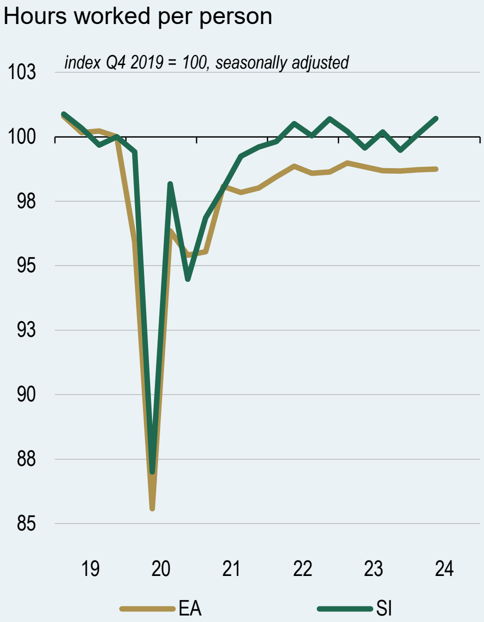




Sources: Eurostat, Banka Slovenije calculations; latest data Q2 2024

The indicators of the number of hours worked and labour productivity for Slovenia and the euro area overall reveal a slight divergence in the trends. The number of hours worked per employee in Slovenia quickly returned to its pre-pandemic level, and has been relatively stable over the recent period. By contrast, the number of hours worked per employee in the euro area overall remains below its pre-pandemic level (see Figure 4.1.2, left). Conversely real productivity per hour worked has been rising for the last year and a half in Slovenia, and is now 2.3% higher than its pre-pandemic level, while in the euro area overall it is up just 1.0%, having gradually declined over the recent period (see Figure 4.1.2, right).

Figure 4.1.2: **Hours and labour productivity**



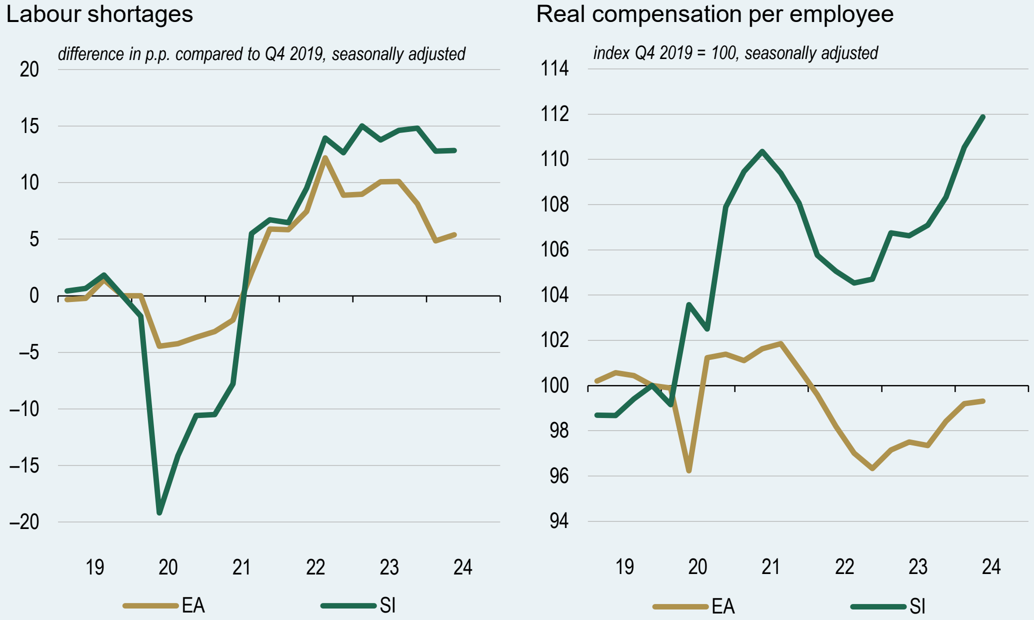
Sources: Eurostat, Banka Slovenije calculations; latest data Q2 2024

The shortage of workers in Slovenia and the euro area increased significantly after the pandemic, peaking in 2022. This increase was mainly due to high demand for workers, whose supply was already quite limited before the pandemic, especially in manufacturing and construction. In the euro area, the shortage of workers has somewhat eased after 2022 but still exceeds the levels reached at the end of 2019 (Figure 4.1.3, left). Conversely, the shortage of labour in Slovenia is not easing and remains at record levels.

The mismatch between labour demand and supply is also one of the reasons for the high growth of real wages in Slovenia. According to the latest data, real wages are more than 10% higher than before the pandemic. Their trend in recent years has been different from that in the euro area, where real wages have not yet reached pre-pandemic levels (Figure 4.1.3, right).

The labour market developments in Slovenia and the euro area overall reflect the faster recovery in domestic employment, but also the greater challenges related to labour shortages and wage growth, which is strongly outpacing productivity growth. This poses a risk of further upward pressure on labour costs and on inflation, and thus remains a major challenge, and risk for the growth of the Slovenian economy.

Figure 4.1.3: **Labour shortage and real wages**



Sources: Eurostat, Banka Slovenije calculations; latest data Q2 2024
Note: The labour shortage in the left chart is calculated as the weighted average of labour shortages in various sectors; value-added in the individual sector is used for weighting purposes. The HICP deflator was used to calculate real employee compensation in the right chart, which is why the illustration can differ from that in Selected Theme 8.1, where the GDP deflator is used.

5 Current Account

Year-on-year growth in Slovenia's international trade stood at a strong 11.6% in the early part of the third quarter, driven by increased imports and exports of chemical products.

According to the balance of payments figures, international trade recorded high year-on-year growth in July, similarly to the early part of the second quarter: merchandise and services exports were up 15.0%, while imports were up 7.8%.

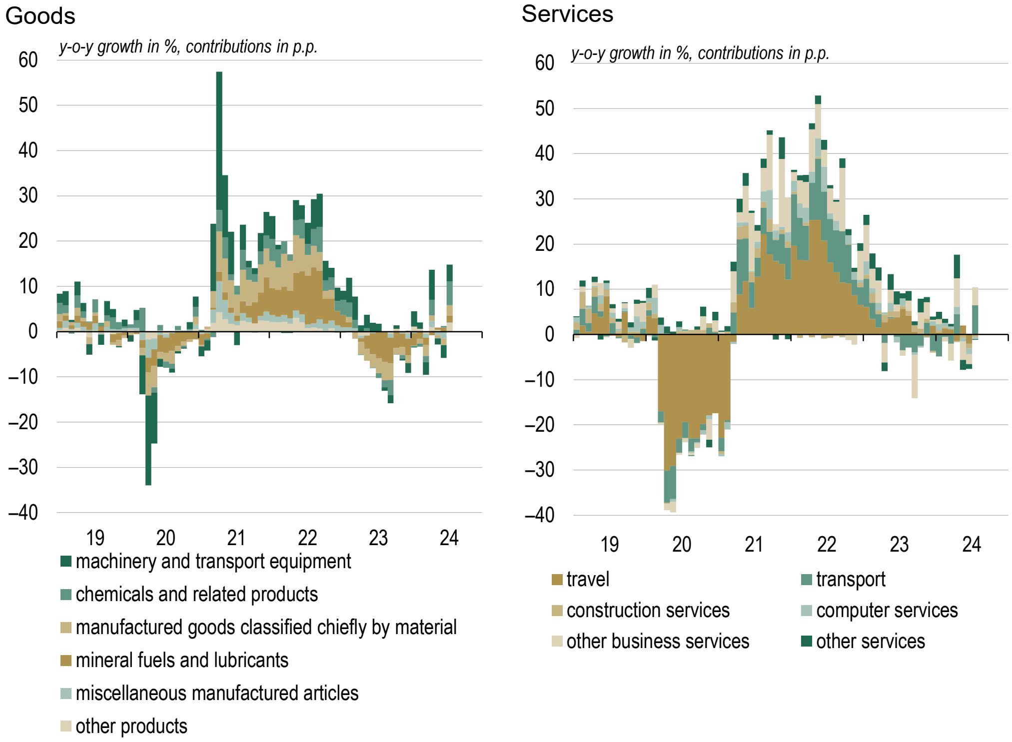
Nominal merchandise exports were up 17.0% in year-on-year terms, driven primarily by a 31.1% increase in exports of chemical products[14] according to the SORS data (see Figure 5.1, left). Another significant driver of the growth was exports of machinery and transport equipment, electrical machinery and equipment in particular, which recorded growth of 18.3%. In geographical terms the growth was primarily attributable to increased exports to Croatia, but exports to Russia also increased as exports of medical and pharmaceutical products rose to their highest level since the beginning of last year. Nominal merchandise imports in July were up 9.4% in year-on-year terms, and like exports were driven above all by chemical products, imports of which were up 31.7%.[15] The rise was mainly attributable to imports of organic chemical products, particularly from the US, which were 3.5 times larger than a year earlier.

Nominal services exports in July were up 9.3% in year-on-year terms, while growth in imports was significantly more modest at 1.7% (see Figure 5.1, right). Exports of transport services and other business services continued to increase in year-on-year

[14] Exports of medical and pharmaceutical products were notable for their growth of 37.2%, excluding exports to Switzerland.
[15] Excludes imports of chemical products from Switzerland, China and India.

terms, each by approximately 27%. By contrast exports of construction services were down in year-on-year terms for the fifth consecutive month (by 8.8%), in reflection of the decline in construction activity in certain key markets, most notably Germany, and to a lesser extent Austria. The moderate growth in services imports was primarily driven by imports of transport services (up 14.6%) and telecommunications services (up 12.3%). After a rapid post-pandemic recovery, imports and exports of travel services in July remained comparable to last year's record levels. Imports in most other service categories declined in year-on-year terms, while exports remained at the level of the previous year.

Figure 5.1: **Breakdown of growth in exports of merchandise and services**



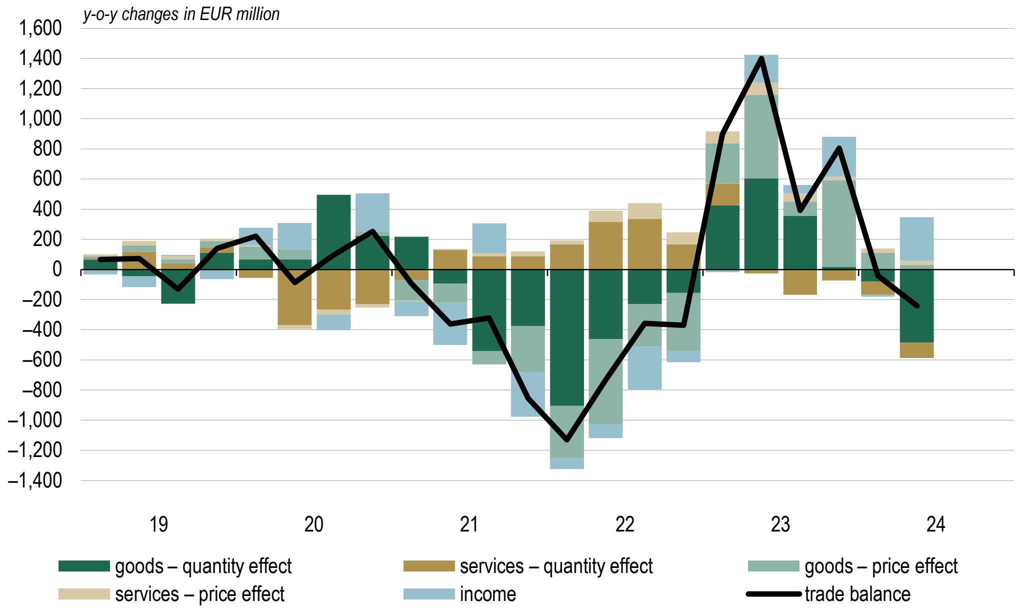
Sources: SORS, Banka Slovenije calculations; latest data July 2024
Note: Exports of chemical products do not include exports of medical and pharmaceutical products or exports of organic chemical products to Switzerland.

Nominal merchandise exports over the first seven months of this year remained at a similar level to last year (down 0.3%), while exports of services were up 1.2%. Meanwhile merchandise imports were up by 0.4% over the same period, while services imports were up 2.7%.

After narrowing late in the second quarter, the current account surplus over the preceding 12 months again exceeded EUR 3 billion in July. The main factor was the services trade surplus of EUR 3.5 billion. Merchandise trade recorded a surplus of just EUR 260 million, an improvement compared with a year earlier, when the position was actually negative. The current account surplus is continuing to be reduced by the income balance, which in July recorded its smallest 12-month deficit since May 2021.

The terms of trade continued to improve slightly in the second quarter as price pressures eased (see Figure 5.2). This was attributable to favourable price developments in merchandise trade, where the year-on-year fall in import prices (–2.4%) outpaced that in export prices (–1.1%). Similarly, the year-on-year rise in import prices in services (1.4%) was outpaced by that in export prices of services (2.7%). External price pressures have eased significantly over the last two quarters, which has also been reflected in inflation developments (see Box 6.1). The terms of trade in the first half of this year improved by 1.6% in year-on-year terms, largely as a result of slightly more favourable effects in merchandise trade.

Figure 5.2: **Price and quantity effects in current account developments**



Sources: SORS, Banka Slovenije, Banka Slovenije calculations; latest data Q2 2024
Note: Merchandise exports do not include exports of medical and pharmaceutical products or exports of organic chemical products to Switzerland.

Box 5.1: **Changes in growth and structure of exports to key markets**

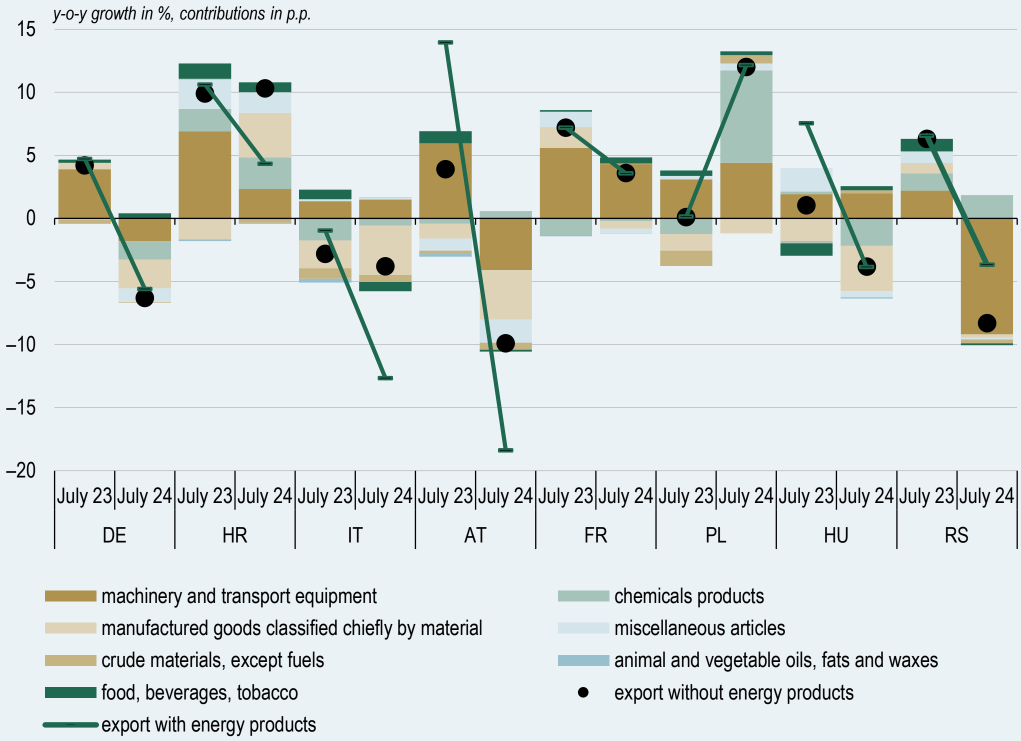
Slovenian firms are facing weak foreign demand. This is being reflected in broader pressures on competitiveness across the entire euro area. The breakdown of the growth in exports reveals the structural challenges in trade and production chains related to the car industry.

Exporters in the euro area have recently faced a number of challenges, such as high energy prices, slow productivity growth and changes in demand, which are making them less and less competitive and reducing their global market share. These changes are also being felt by Slovenian exporters, given their integration into global supply chains.

Slovenia's merchandise exports have been falling since October of last year, and over the 12 months to July were down 3.4%, the lowest decline since November of last year. Slovenia's largest exports in value terms are to Germany, with an annual total of almost EUR 7.3 billion (17% of total merchandise exports), of which approximately 60% is intermediate goods. The German economy has recently been hit in particular by weak demand in manufacturing, which is also being felt by Slovenian firms, particularly in the car industry. Merchandise exports to Germany over the preceding 12 months were down 5.6% in July, while exports of intermediate goods were down 7.5%.

Merchandise exports to a number of other major trading partners have also declined,[16] most notably those to Italy (down 12.7%) and Austria (down 18.4%). Merchandise exports to these countries over the 12 months to July amounted to approximately EUR 4.5 billion and EUR 2.8 billion respectively, more than 70% of which was intermediate goods in each case. The export breakdown reveals that a significant share of the decline in the 12-monthly exports to these two trading partners was attributable to a decline in energy exports. Because Slovenia's energy exports are mostly re-exports, they have been excluded from the disclosures in this analysis. Excluding energy exports, the declines in exports to the two aforementioned countries are significantly smaller, at 3.8% for Italy, and 9.9% for Austria (see Figure 5.1.1).

Figure 5.1.1: **Breakdown of growth in 12-monthly merchandise exports to the most important trading partners**



Sources: SORS, Banka Slovenije calculations; latest data July 2024
Note: Illustrates exports over the 12 months to July 2023 and July 2024.

Excluding energy exports, the largest 12-monthly declines in merchandise exports were again recorded by Austria, Germany, Serbia and Hungary, where the decline in exports to all of these markets was attributable to exports of machinery and metal products related to the car industry.

The decline in merchandise exports to Germany and Austria is broadly based. Mostly it is attributable to a decline in exports of electrical machinery and equipment, including electrical components and batteries for use in the car industry, while exports of special machinery for specific industries are also a factor in the case of Austria. There is also a significant decline in exports of metal products to both countries (and to Hungary), i.e. iron and steel products used in the manufacture of various automotive components. The main decline in the case of Serbia was in exports of road vehicles.

Exports to other major markets remain stable for now, albeit down slightly on a year earlier. The exception is Poland, where exports are up significantly according to the latest figures, driven by increased exports of chemical products. Exports to Italy, which were declining even last year, are down slightly further on a year earlier, primarily on

[16] The most important trading partners by export share are: Germany (17.4%), Croatia (11.3%), Italy (10.8%), Austria (6.8%), France (4.7%), Poland (3.5%), Hungary (3.3%) and Serbia (3.1%).

account of manufactured goods classified chiefly by material. Exports to France are rising, albeit more slowly than last year, with exports of road vehicles recording a significant increase in value terms, and exports of special machinery declining. Merchandise exports to Croatia, Slovenia's second most important trading partner, amounted to EUR 4.6 billion, thus maintaining their level of a year earlier (excluding energy exports), despite a decline in the contribution by exports of machinery and equipment.

The European car industry is also important to Slovenia's export sector, but has recently faced a number of changes, some of which are structural in nature. For firms included in its supply chains, the key is adapting promptly to these changes, and diversifying their markets and merchandise, while there is also a growing need to develop products with higher value-added, and thus a higher positioning in supply chains.[17]

6 Inflation

Inflation is continuing to decline, although services inflation remains elevated.

In September, headline inflation, as measured by the HICP, slowed to 0.7%, down from 1.1% in August (see Figure 6.1, left). It has mainly decelerated due to energy prices, whose contribution shrank by 0.6 percentage points, following year-on-year decline deepening from 5.0% in August to 9.5% in September. This was primarily attributable to monthly price declines, most notably on solid fuels and motor fuels, and a negative base effect in electricity prices, related to the resumption of full payment of the environmental levy in September last year. As of January this year, electricity prices remain unchanged.

Amid somewhat weak domestic and foreign demand, and stagnating prices in production chains, prices of other goods declined year-on-year for the third consecutive month. September's year-on-year negative rate (–0.2%) was smaller than in July and August, when negative growth rates were largely driven by more pronounced seasonal clothing sales compared to last year. However, as the autumn and winter collections arrived in September, the price gap with last year narrowed significantly. Food inflation also remained low at 1.8%, unchanged from August. Excluding alcohol and tobacco, it rose to 0.9%, but has stayed below 1% since this March.

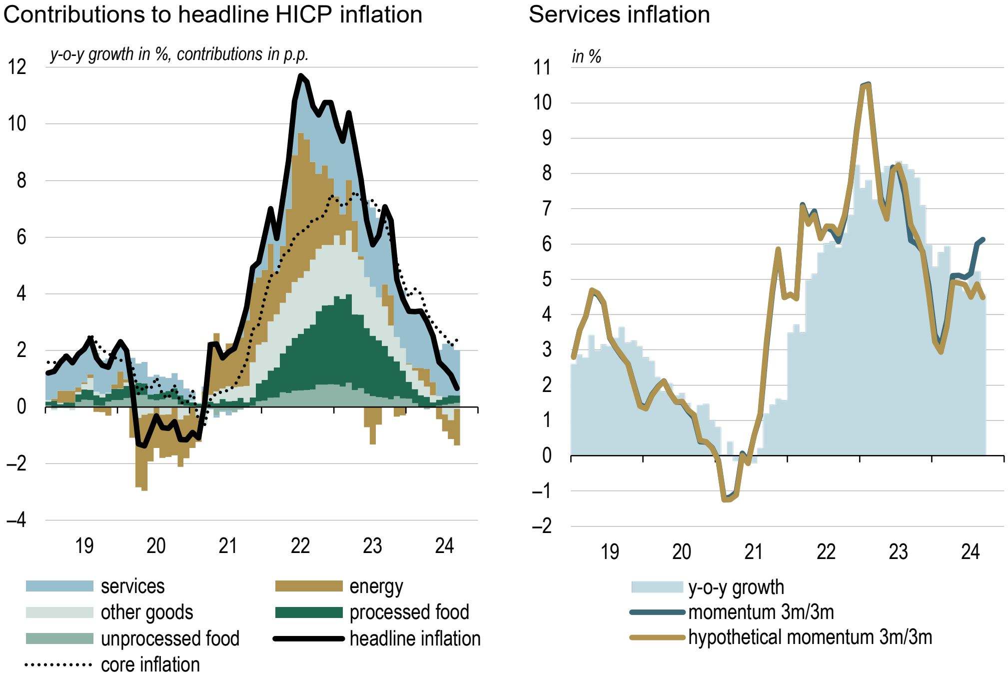
Less negative contribution by prices of other goods strengthened inflation excluding energy and food to 2.4% in September (up from 2.2% in August), while services inflation remains elevated despite a slight decline. Services inflation slowed to 4.6% in September, down from 5.2% in August, largely due to a slowdown of hotels and restaurants prices. As the most wage-sensitive component of inflation, services price growth primarily reflects labour costs growth.[18] Amid a slight slowdown in labour productivity growth, labour costs were the main driver of domestic cost pressures also in the second quarter of this year, as shown by the decomposition of the GDP deflator (see Box 6.1). Nevertheless, firms in the services sector are expecting further increases in selling prices, though at a somewhat reduced pace, amid still tight borrowing conditions. Moreover, the wage agreement with the public sector unions is increasing the chance of price

[17] For more, see Lindič, M. (2022). Global Value Chain Integration in CESEE and Euro Area Economies.

[18] According to the main forecasting model of Banka Slovenije, a permanent 10% rise in wages would result in a 5.3% rise of services prices within the first year following the wage increase. By the end of a five-year period, approximately two-thirds of the wage increase would be reflected in final services prices. For more information, see Box 6.1 of the April 2024 issue of the Review of macroeconomic developments.

raises in public services in the year ahead. Although year-on-year services inflation slowed in September, the short-term developments do not yet indicate easing, and do not suggest a further slowdown in the coming months (see Figure 6.1, right).[19]

Figure 6.1:**Domestic price developments**



Sources: SORS, Eurostat, Banka Slovenije calculations; latest data September 2024
Note: The 3m/3m figure in the right chart illustrates momentum, which is calculated as the annualised growth rate of seasonally adjusted HICP by comparing the level of prices in the last three months with those from the preceding three months. Similarly, the hypothetical momentum illustrates the calculation using the hypothetical services price index, where the monthly growth rate for July was replaced by the estimated growth rate without methodological changes in the weighting of package holidays. Because this change involved reallocation of weights within the year, a reverse weighting effect is expected by the end of the year, leading to a gradual narrowing of the momentum and hypothetical momentum.

Box 6.1: **Decomposition of growth in the GDP deflator**

While the growth of the GDP deflator is slowing, the domestic price pressures continue to be driven primarily by labour market developments.

Since the pandemic, core inflation has increasingly been sustained at high levels by domestic price factors, alongside the initial shocks on commodity and energy markets, and the supply chains disruptions. This has also been reflected in the GDP deflator. This is a measure of the general level of prices[20] in the economy, which is obtained by comparing the nominal and real values of GDP, and can be decomposed into contributions by unit labour costs, unit profits, and unit taxes.

$$nominal\ GDP = GDP\ deflator \times real\ GDP = W + \pi + T,$$

where W is employee compensation, π is gross operating surplus and mixed income, and T is net taxes. Dividing this equation by real GDP yields:

[19] The short-term trends are analysed by the computation of momentum. See the note under Figure 6.1.

[20] The GDP deflator represents an alternative measure of inflation, which cannot be equated to headline inflation as measured by the HICP. The latter exclusively measures changes in retail prices of consumer products (April 2023 issue of the Review of macroeconomic developments).

$$GDP\ deflator\ = \frac{(W+\pi+T)}{real\ GDP} = ULC + UGOS + UTAX.$$

where ULC, $UGOS$ and $UTAX$ are labour costs, profits and net taxes, all per unit of output.[21]

Following the first quarter of 2023, when it stood at 13.5%, year-on-year growth in the GDP deflator began to slow, and had fallen to 2.1% by the second quarter of this year (see Figure 6.1.1, left). The slowdown was driven in particular by unit profits, which accounted for just over half of the growth in the GDP deflator in the first quarter of last year, but whose contribution gradually declined over the course of the year as the economy slowed, turning negative this year. The decline in unit profits lowered growth in the GDP deflator by an average of 2.1 percentage points over the first two quarters of this year, which mitigated the pass-through of high labour costs into final prices.

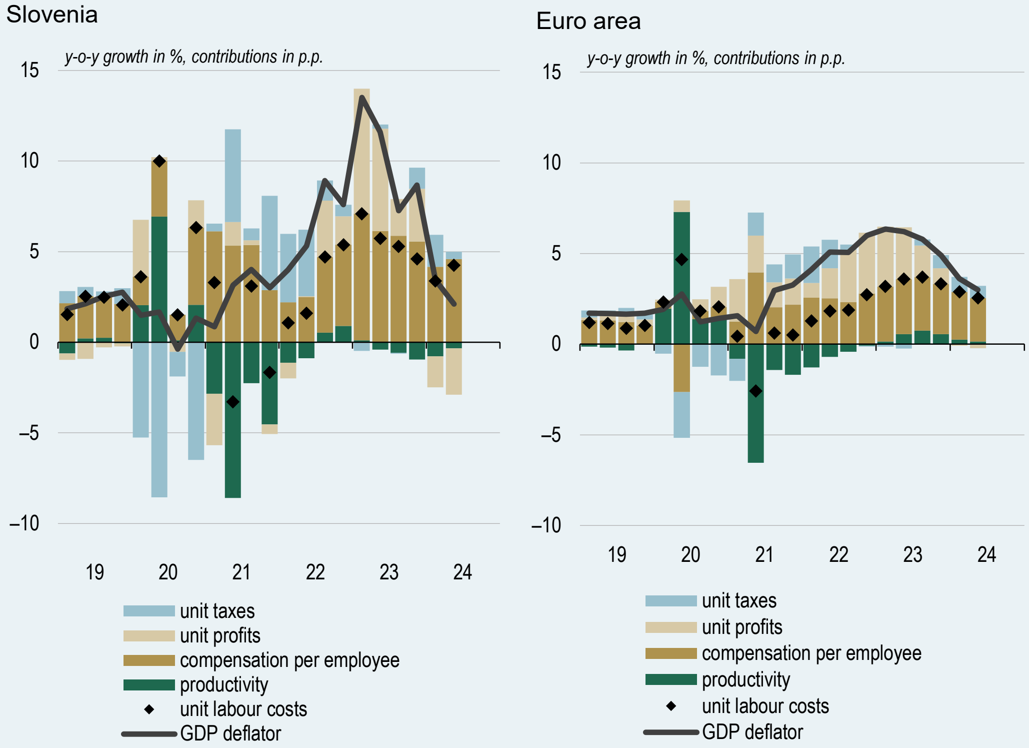
A more pronounced slowdown in growth in the GDP deflator is continuing to be prevented by the relatively strong contribution by unit labour costs (ULCs), which is attributable to the low productivity growth amid high growth in employee compensation. This partly reflects the persistent tightness of the labour market (see Box 4.1). The contribution by growth in ULCs stood at 7.0 percentage points in the first quarter of last year, the highest figure since the pandemic, but had fallen to 4.6 percentage points by the second quarter of this year. Growth in ULCs thus remains the main factor in growth in the GDP deflator. The high growth in ULCs was also the largest factor in the divergence in growth between the GDP deflators in Slovenia and the euro area over the previous two years. In the first quarter of 2023, when the gap was widest, year-on-year growth in the GDP deflator in Slovenia outpaced that in the GDP deflator in the euro area by 7.2 percentage points. At that time, the contribution by ULCs was 3.9 percentage points larger in Slovenia than in the euro area.

This year year-on-year growth in the domestic GDP deflator has been outpaced by that in the euro area for the first time in two years, primarily on account of a faster decline in the contribution by unit profits.

Growth in the GDP deflator is also slowing in the euro area (see Figure 6.1.1, right). The year-on-year rate of growth slowed to 3.0% in the second quarter of this year, 3.4 percentage points less than its peak in the first quarter of last year. Like in Slovenia, the slowdown in growth in the GDP deflator in the euro area is primarily attributable to a decline in the contribution by unit profits, which this year has acted to reduce year-on-year growth in the GDP deflator, thereby mitigating the pass-through of labour costs into final prices.

[21] Because gross operating surplus and mixed income also includes the earnings of the self-employed, this component was estimated and added to total employee compensation. Here the assumption was that the average earnings of a self-employed person are the same as the average earnings of an employee (Bank of Lithuania, 2015).

Figure 6.1.1: **Decomposition of GDP deflator by income method**



Sources: SORS, Eurostat; latest data Q2 2024

7 Fiscal Position

The general government deficit narrowed over the first half of the year, largely on account of the labour market situation and the reductions in extraordinary measures.

The general government deficit over the first half of the year amounted to EUR 613 million or 1.9% of GDP, EUR 332 million or slightly more than 1 GDP percentage point less than in the same period last year. The deficit over the preceding 12 months has also narrowed compared to the end of last year: it stood at 2.0% of GDP at the end of June. The realisation in the first half of the year and the current developments up to the end of the third quarter are in line with the projection that the deficit will be held below the reference value of 3% of GDP, a general government deficit of 2.6% of GDP having been recorded last year according to revised figures.[22]

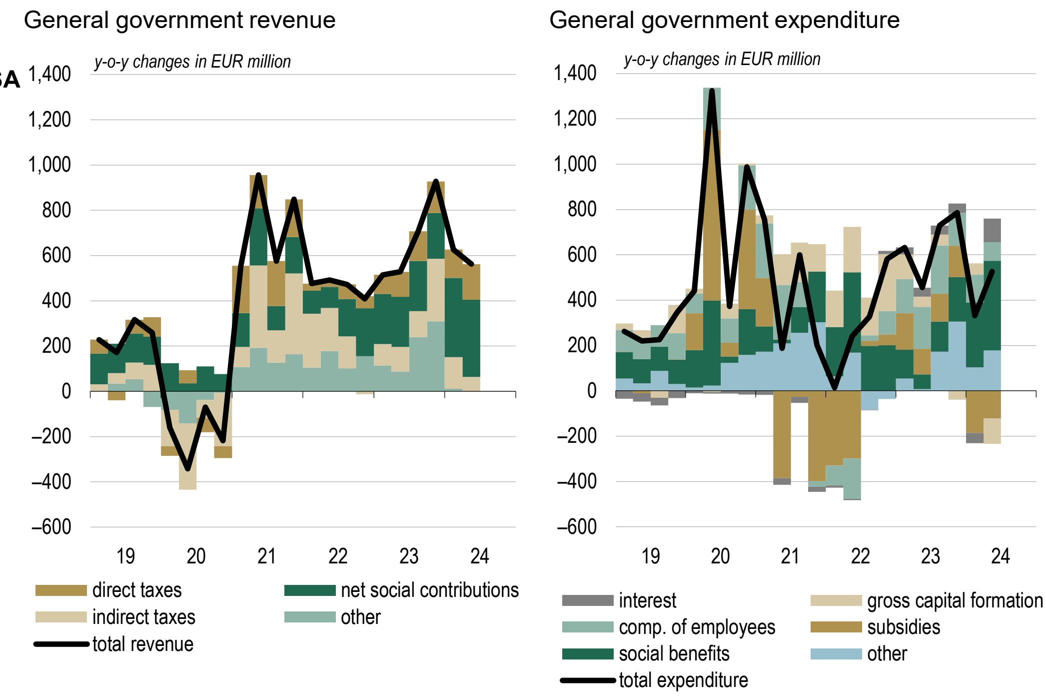
General government revenues in the first half of the year were up 8.9% or almost EUR 1.2 billion in year-on-year terms (see Figure 7.1, left). The largest factor was a rise of almost 14% in social security contributions, thanks to the buoyant labour market and changes in healthcare (conversion of supplementary insurance into a compulsory health contribution). Growth in personal income tax was similarly high, thanks to solid growth in wages and in employment. According to SORS estimates, there were also increases in the first half of the year in revenues from taxes on corporate income and

[22] In late September the SORS released its revised statistics for the main aggregates of the general government sector since 1995 (for more, see Main aggregates of the general government sector (October EDP reporting), 2020-2023). In addition to the routine annual revisions, on this occasion there was a benchmark revision over the longer term made in all EU Member States. The general government deficit in 2023 was 0.1 GDP percentage points larger according to the revised data.

profits (6.3%) and taxes on production and imports (5.2%). Growth in the latter slowed in the second quarter in line with the slowdown in private consumption and inflation, with growth in VAT revenues particularly low within this category.

General government expenditure in the first half of the year was up EUR 857 million or 6.0% in year-on-year terms. The majority of the growth was driven by social benefits, which were up 12.2% (see Figure 7.1, right). There are several reasons for the relatively high growth, including this year's regular pension increase of 8.8%, a simultaneous rise in the number of pensioners, and changes in the area of healthcare, which have been reflected in a significant increase in social transfers in kind. Other significant factors in the growth were intermediate consumption (illustrated under the category of "other" in the right chart of Figure 7.1), in which expenditure linked to the floods played a role alongside the changes in healthcare, and compensation of employees, growth in which has virtually halved this year compared with last year. Interest expenditure is up, in line with the post-pandemic normalisation of interest rates. There was a decline in subsidies, in reflection of the reduced size of the measures to mitigate high energy prices, and in government investment, although the government is nevertheless anticipating growth of around 18% this year.[23]

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



Sources: SORS, Banka Slovenije calculations; latest data Q2 2024

The available data for the third quarter suggests a year-on-year narrowing of the deficit according to the cashflow methodology.

According to provisional daily data from the Ministry of Finance, the state budget deficit narrowed further by approximately EUR 235 million in the third quarter. Aggregate tax between July and September, including social security contributions, was up 9.9% in year-on-year terms. The increase continued to be driven mainly by social security contributions, with the trends from the first half of the year mostly continuing in other taxes.

[23] Recalculated on the basis of data taken from the draft medium-term national fiscal-structural plan 2025-2028.

One exception was the slowdown in growth in taxes on goods and services. The main developments in state budget expenditure in the third quarter were significant declines in investment expenditure and transfers, and in subsidies. The main increases were in expenditure on wages, transfers to individuals and households, and reserves. The aforementioned developments have also been reflected in the consolidated general government deficit,[24] which amounted to 2.8% of GDP over the 12 months to August, compared with 3.6% of GDP at the end of last year.

The ratio of general government debt to GDP increased in the middle of the year, but is forecast to decline again by the end of the year according to the Ministry of Finance.

Following the SORS revision, the general government debt amounted to EUR 43.7 billion or 68.4% of GDP at the end of last year. It had increased to EUR 45.5 billion or 69.6% of GDP by the end of the second quarter of this year (see Figure 7.2, left). Government borrowing over the first nine months of the year amounted to approximately EUR 4.0 billion, while debt repayments amounted to EUR 2.7 billion. The weighted coupon rate of the issued bonds was 3.0%, less than that of last year's issuance, which reflects the easing of monetary policy. The government's largest borrowing was in the form of a 10-year bond (EUR 2.75 billion). The treasury has expanded its set of borrowing instruments this year. January saw the first issuance of a people's bond, July brought the issuance of a DLT bond, and August saw the issuance of samurai bonds denominated in Japanese yen.

The fiscal-structural plan for the period of 2025 to 2028 (scheduled to be adopted in October) is forecasting a general government deficit of 2.9% of GDP this year, with a general government debt of 67.5% of GDP at year-end. The plan sets out a path for reducing the debt to 61.2% of GDP by the end of 2028. The deficit will be maintained below 3% of GDP at the same time, and is forecast to narrow to 1.2% of GDP in 2028 (see Figure 7.2, right). The main indicator for monitoring fiscal policy's compliance with the fiscal rules will be growth in net expenditure,[25] which the plan sets at 4.5% on an annual basis.

The risks to the public finances mainly relate to planned reforms and to the realisation of investment.

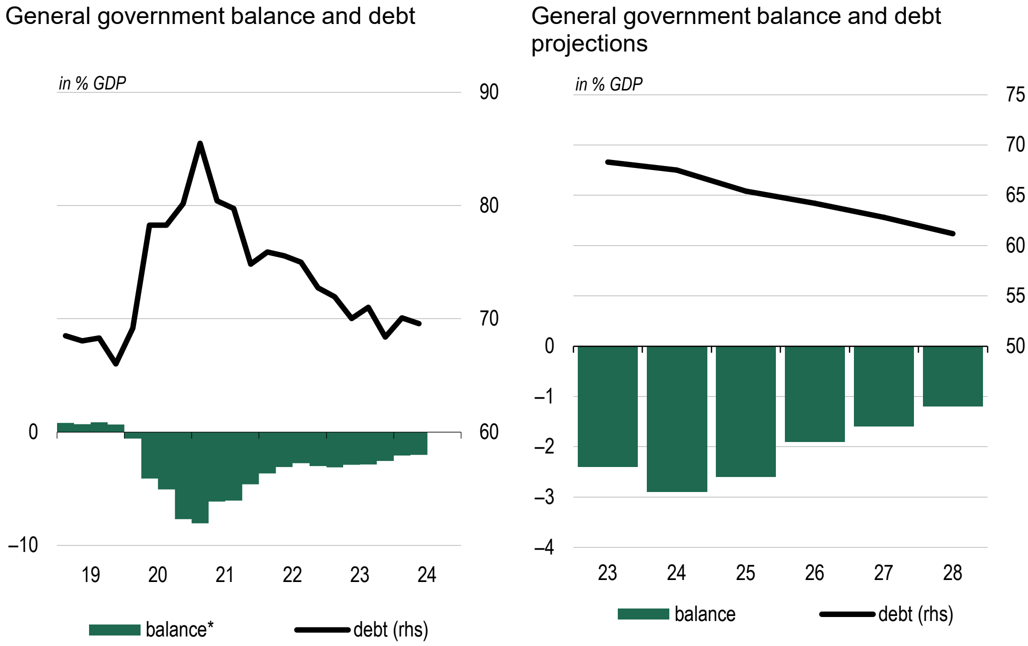
The key risks to the public finances mainly relate to the implementation of various reforms under preparation, in particular regarding pensions and healthcare. The realisation of planned investment remains uncertain, including investment related to the reconstruction following last year's floods. In September the European Commission approved a third tranche of EUR 258 million from the Recovery and Resilience Facility, which means that Slovenia will have drawn down approximately 40% of the funding available until the end of 2026. The drawdown of this funding is running behind schedule owing to delays in passing reforms. However, an important milestone was achieved

[24] Includes the Health Insurance Institute, the Pension and Disability Insurance Institute and local government alongside the state budget. The consolidated general government deficit over the first eight months of the year amounted to EUR 379 million, compared with EUR 798 million over the same period last year.

[25] Net expenditure refers to government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes fully matched with revenue from EU funds, national co-financing of programmes funded by the EU, cyclical part of unemployment benefit expenditure, one-off and other temporary measures.

in negotiations with trade unions with regard to public sector wage reform, which is expected to enter into force in 2025. In addition to the wage reform, personal income tax brackets and allowances are to be adjusted for wage growth next year. Both will reduce the fiscal policy space.

Figure 7.2: **General government balance and debt according to ESA methodology**



Sources: SORS, Banka Slovenije calculations, Ministry of Finance (National medium-term fiscal-structural plan 2025-2028, draft); latest data left chart: Q2 2024
Note: * 4-quarter moving sum

8 Selected Themes

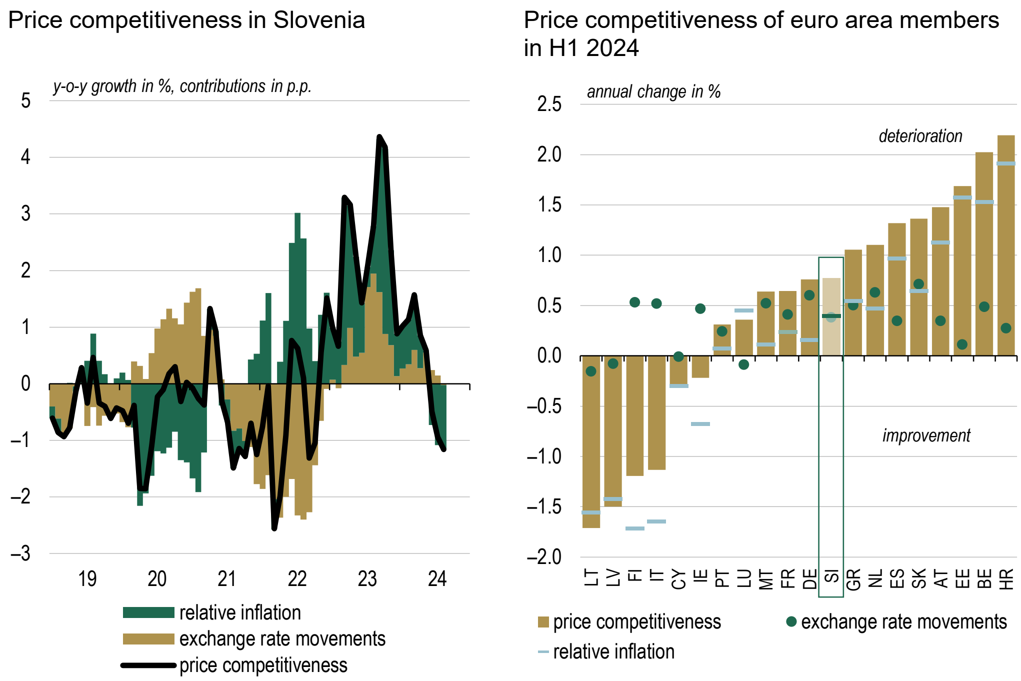
8.1 External competitiveness of the Slovenian economy in the first half of 2024

The competitiveness indicators for the Slovenian economy paint a mixed picture. While the deterioration in price competitiveness came to a halt this year in line with the narrowing inflation gap between Slovenia and its trading partners, cost competitiveness continued to deteriorate on account of faster-rising ULCs in the early part of the year. The competitive position of Slovenian exporters was thus significantly less favourable than before the pandemic, and the deterioration was one of the largest in the euro area. These developments have had limited impact on the external position of the economy for now, given that the market shares of Slovenia's merchandise exporters have again been rising since the beginning of last year, and the current account surplus remains large. The latter is particularly favourable in view of this year's breakdown of year-on-year economic growth, which is primarily being driven by domestic final consumption.

The deterioration in the price competitiveness of the Slovenian economy halted in the first half of the year, but the position of exporters remains less favourable than a year earlier. After a pronounced deterioration in the last two years, producer competitiveness is only gradually improving this year.

The deterioration in price competitiveness slowed slightly in the first half of the year, in line with the narrowing of the inflation gap between Slovenia and its trading partners. The price competitiveness indicator was just 0.8% higher (worse) than a year earlier. Half of the deterioration was attributable to the appreciation of the euro's effective exchange rate against a basket of 37 trading partner currencies, while half was attributable to growth in domestic prices outpacing growth in prices in competitors (see Figure 8.1.1, left). A larger deterioration was recorded in eight euro area countries, while developments were more favourable in particular for exporters in Lithuania, Latvia, Italy and Finland, primarily on account of a fall in relative prices (see Figure 8.1.1, right).

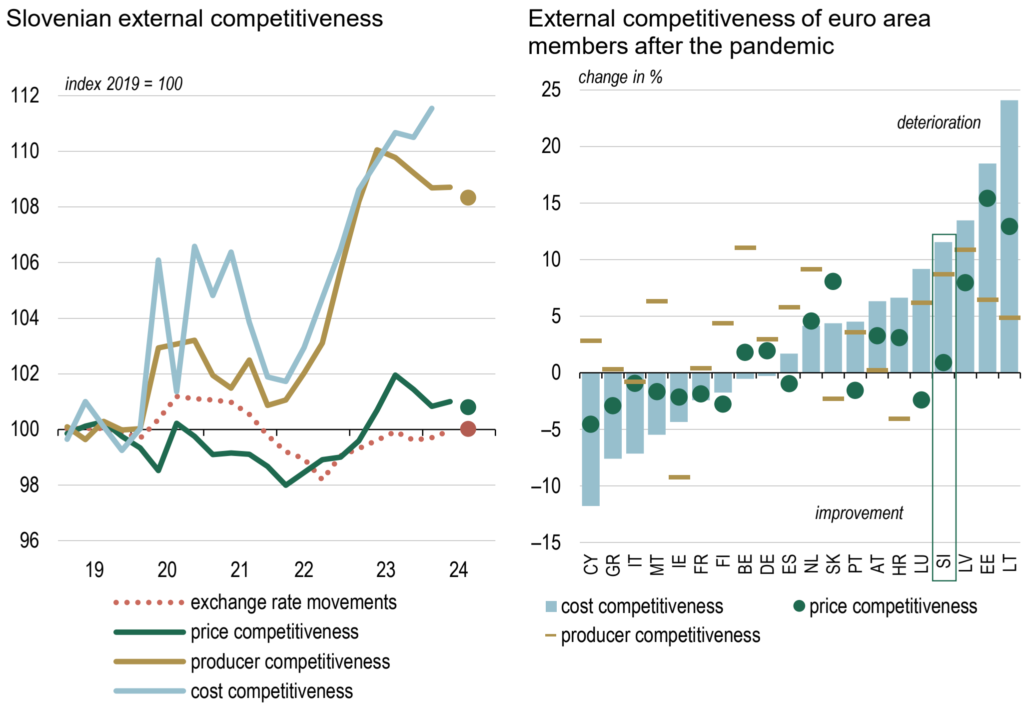
Figure 8.1.1: **Price competitiveness against 37 trading partners**



Sources: ECB, Banka Slovenije calculations; latest data left chart: August 2024
Note: The RHCI (HICP) reflects price competitiveness, while the NHCI reflects exchange rate developments vis-à-vis a basket of currencies of trading partners, and the ratio between the two signifies relative inflation.

Slovenia's price competitiveness indicator has been slowly improving since its peak of deterioration in the autumn months of last year, but remains at the level of the first half of the year, and is thus higher (worse) than its pre-pandemic level and its long-term average. Over the summer months it was down (better) by 1 percentage point in year-on-year terms given the high base of last year, the position of exporters having improved against euro area partners, and against non-euro area partners.[26] Producer competitiveness, which in addition to exchange rate developments also takes account of producer prices relative to comparable prices in partner countries, is also improving. Amid a fall in the relative costs of domestic production, the year-on-year decline in the indicator averaged 0.7% over the first eight months of the year, which is a negligible improvement compared with the deterioration over the two previous years (see Figure 8.1.2, left).

Figure 8.1.2: **Indicators of external competitiveness against 37 partners**



Sources: ECB, Banka Slovenije calculations
Note: The NHCI reflects the exchange rate developments vis-à-vis a basket of currencies of trading partners, while the RHCI (HICP) reflects price competitiveness, the RHCI (PPI) reflects producer competitiveness, and the RHCI (ULCs) reflects cost competitiveness. A rise in the indicators means a deterioration in competitiveness, and vice-versa. The dots for the second quarter of 2024 in the left chart represent the average of July and August. In the right chart the change in the indicator in the first half of this year is illustrated for price competitiveness and producer competitiveness, while the change in the first quarter of this year is illustrated for cost competitiveness, relative to 2019.

Amid continuing growth in unit labour costs, the adverse developments in cost competitiveness continued in the early part of this year. The deterioration in the position since 2019 in Slovenia is one of the largest in the euro area.

The cost competitiveness of the Slovenian economy has deteriorated sharply over the last two years; in the first quarter of this year the indicator was up (worse) by 2.7% in year-on-year terms. Given the increasing tightness of the labour market, this continues to be attributable primarily to growth in unit labour costs (ULCs) outpacing the 37 partner countries, while the impact of the adverse exchange rate developments was less pronounced. A sharper deterioration was seen in seven euro area countries, with a

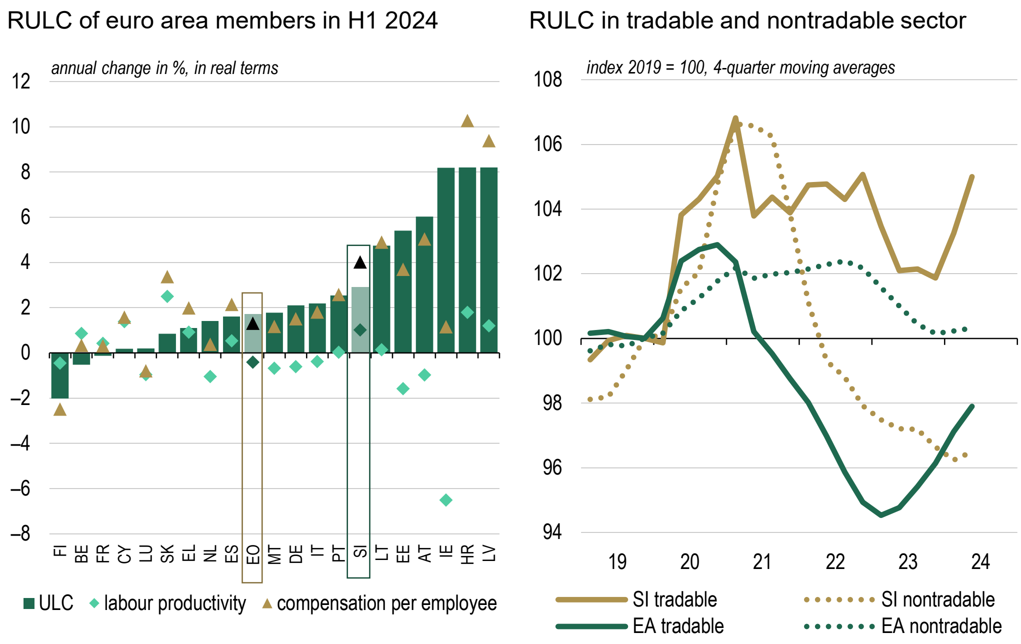
[26] According to the latest survey data, manufacturing firms are reporting similarly with regard to a slight improvement in the competitive position in EU markets and in markets outside the EU.

more pronounced rise in relative ULCs. With the indicator at a record high, the competitive position of Slovenian exporters from a cost perspective in the first quarter was 11.5% worse than before the pandemic (2019), and almost a tenth worse than its long-term average, one of the largest deteriorations in the euro area (see Figure 8.1.2, right).

Similarly real ULCs (RULCs) in the first half of this year were up 2.9% on a year earlier (see Figure 8.1.3, left).[27] The rise was driven by a real increase of 4.0% in employee compensation (wages),[28] while a sharper rise in RULCs was prevented by the real growth of 1% in labour productivity. In the euro area overall, labour productivity even decreased, but with a more modest real wage growth, the RULC growth remained lower than the domestic one (at 1.7%).[29]

Developments in domestic RULCs were only adverse in the tradable sector (6.1%), most notably in industry, where an increase of 9.4% was driven by a pronounced real increase in wages, while the smallest deterioration in cost pressures was recorded in the information and communication sector.[30] In the non-tradable sector cost pressures eased in all segments other than public services and construction. In the latter, RULC were up 8.4% in year-on-year terms in the first half of the year, which was attributable to a decline in value-added in addition to high wage growth. The euro area overall saw adverse developments in the tradable and non-tradable sectors alike (see Figure 8.1.3, right).

Figure 8.1.3: **Real ULCs**



Sources: Eurostat, SORS, Banka Slovenije calculations; latest data right chart: Q2 2024
Note: The left chart uses a calculation based on GDP. Under the methodology for measuring ULCs, the deflator used to compute real growth in compensation per employee is the same as that used to compute real growth in productivity, i.e. the GDP deflator. The right chart uses a calculation based on value-added. A rise in the indicators means a deterioration in competitiveness, and vice-versa.

[27] The analysis of developments in RULCs in Slovenia uses SORS data, which was revised at the end of September. The ECB's cost competitiveness indicator, in which ULCs are an input for the calculation, is meanwhile based on unrevised data, and over the last three years has reflected less favourable developments than the revised RULCs. According to the new revised data, the latter were up 6.2% on their pre-pandemic level in the first half of this year; growth was double this according to the previous data.

[28] The GDP deflator was used to calculate real employee compensation, which is why the illustration can differ from that in Box 4.1, where the HICP deflator is used.

[29] Analysis of these effects can be found in Box 6.1.

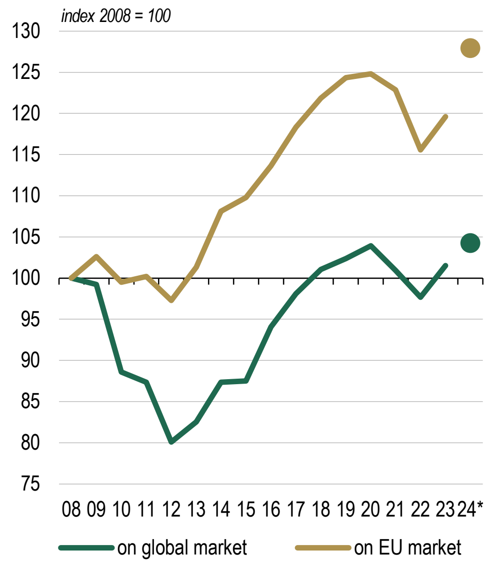
[30] The tradable sector consists of agriculture (A), industry (B to E), trade, accommodation, food services and transportation (G to I), information and communication (J), and professional, scientific and technical activities and administrative and support service activities (M and N). The non-tradable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

Despite the deterioration in competitiveness, the market shares of Slovenia's merchandise exports are increasing again, and the technological complexity of merchandise exports is improving.

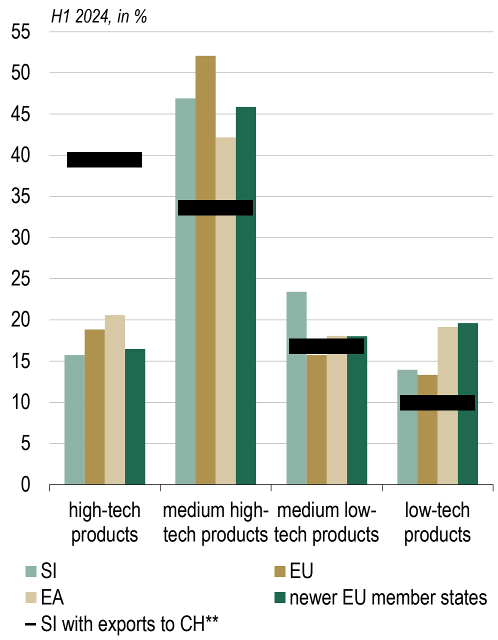
After Slovenia's market shares of merchandise exports declined in 2021 and 2022 amid the deterioration in price and cost competitiveness, they have been rising again since the beginning of last year. According to the WTO, Slovenia's export share of the global market reached 0.19% in the first quarter of this year, thereby returning to its pre-pandemic level (see Figure 8.1.4, left).[31] The rise in the market share of merchandise exports to the EU in the first half of the year was even more pronounced. It stood at 0.5%, the highest figure of the last three years, and up just over a tenth on its low in 2022. The main factor in the rise over the last year was the year-on-year decline in merchandise imports by the EU, which outpaced the decline in domestic exports. More than half of the euro area countries have seen a rise in their market share of the EU market over the last two years.

Figure 8.1.4: **Market shares and technological complexity breakdown of Slovenia's merchandise exports**

Market share of Slovenian merchandise exports



Comparison of the merchandise exports' structure by technological intensity



Sources: WTO, Eurostat, SORS, Banka Slovenije calculations
Note: In the left chart the market share of Slovenia's merchandise exports on the global market is calculated as the ratio of Slovenia's exports to global exports. Slovenia's merchandise exports exclude exports of pharmaceutical products to Switzerland that had previously been imported and therefore have no effect on the competitiveness position of the economy and its activity. The market share of Slovenia's merchandise exports on the EU market is calculated as the ratio of Slovenia's exports to the EU to the EU's total imports. * The figures for 2024 are provisional: the figure for the first quarter is used for the share of the global market, while the average over the first half of the year is used for the share of the EU market. In the right chart ** denotes Slovenia's exports including exports of pharmaceutical products to Switzerland.

The technological complexity of Slovenia's merchandise exports is gradually improving (see Figure 8.1.4, right). This is evidenced in particular by a decline in the share of total exports accounted for by low-tech products, which averaged 13.9% in the first half of the year, down 1.7 percentage points on a year earlier, and 2.6 percentage points on

[31] The market share of Slovenia's merchandise exports on the global market is calculated as the ratio of Slovenia's exports to global exports. Slovenia's merchandise exports exclude exports of pharmaceutical products to Switzerland that had previously been imported and therefore have no effect on the competitiveness position of the economy and its activity. The market share of Slovenia's merchandise exports on the EU market is calculated as the ratio of Slovenia's exports to the EU to the EU's total imports. The figures for 2024 are provisional.

2019. At the same time the share of high-tech products rose to 15.7%, up 1.1 percentage points in year-on-year terms. The year-on-year improvement in the breakdown was attributable to the decline in exports of low-tech products (17.2%) outpacing the decline in exports of high-tech products (0.2%). Despite rising, the share of high-tech exports in Slovenia remains lower than the euro area and EU averages, although the gap is narrowing. In the euro area and the EU average the share of low-tech exports was up slightly on its pre-pandemic level, while the share of high-tech exports was down.

9 Statistical Appendix

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

	2022	2023	12 m. 'till Jul. 24	3 m. 'till Jul. 23	3 m. 'till Jul. 24	2024 May.	2024 Jun.	2024 Jul.	2024 Aug.	2024 Sep.
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	0.6	–3.8	–3.6	–4.8	–2.2	–2.0	–1.8	–2.8	–1.7	–2.2
- confidence indicator in manufacturing	0.0	–8.3	–8.3	–10.3	–7.0	–7.0	–7.0	–7.0	–6.0	–7.0
					year-on-year growth rates in %					
Industry: - total	2.0	–4.9	–4.1	–4.3	–2.8	–7.5	–0.9	0.3	...	...
- manufacturing	4.8	–3.7	–2.5	–3.4	–1.0	–4.6	0.8	1.2	...	...
Construction: - total	22.2	19.4	1.8	21.5	–13.1	–6.5	–20.3	–12.0	...	...
- buildings	53.4	10.5	–4.9	12.4	–16.1	–9.3	–24.1	–14.0	...	...
Trade and service activities - total	9.9	0.4	1.5	–1.8	2.1	1.1	1.5	3.6	...	...
Wholesale and retail trade and repair of motor vehicl	0.0	11.5	10.3	9.7	5.5	4.3	5.0	7.2	...	...
Retail trade, except of motor vehicles and motorcycl	4.4	–4.6	–1.1	–6.3	1.3	0.3	0.4	3.1	...	...
Other private sector services	12.6	2.6	2.1	–0.5	1.5	1.6	0.9	1.9	...	...
Labour market					*year-on-year growth rates in %*					
Average gross wage	2.7	9.7	8.0	10.3	7.1	6.1	7.3	8.1	...	...
- private sector	6.3	11.9	10.2	11.3	7.4	8.1	5.3	8.8	...	...
- public sector	–2.6	10.3	6.9	11.2	3.8	2.2	4.8	4.3	...	...
Real net wage[1]	–5.1	4.0	3.5	4.0	1.7	1.0	1.0	3.3	...	...
Registered unemployment rate (in %)	5.8	5.0	...	4.8	...	4.4	4.4	...	...	...
Registered unemployed persons	–23.8	–14.0	–8.4	–14.3	–6.3	–6.6	–6.1	–6.1	–6.2	...
Persons in employment	2.4	1.3	1.1	1.4	1.2	1.3	1.2	1.1	...	...
- private sector	3.0	1.4	1.1	1.6	1.2	1.4	1.1	1.0	...	...
- public sector	0.7	0.9	1.1	0.9	1.3	1.2	1.3	1.4	...	...
Price Developments					*year-on-year growth rates in %*					
HICP	9.3	7.2	3.9	6.8	1.8	2.5	1.6	1.4	1.1	0.7
- services	5.5	7.7	6.2	8.2	4.9	4.8	4.7	5.3	5.2	4.6
- industrial goods excluding energy	6.3	5.4	2.2	6.1	0.1	0.8	0.4	–0.8	–1.5	–0.2
- food	10.6	11.8	4.3	12.6	1.1	0.6	1.2	1.5	1.8	1.8
- energy	24.8	2.2	0.8	–4.3	–1.5	3.8	–3.4	–4.6	–5.0	–9.5
Core inflation indicator[2]	5.9	6.7	4.3	7.3	2.7	3.0	2.7	2.5	2.2	2.4
Balance of Payments - Current Account					*in % GDP*					
Current account balance	–1.1	4.5	4.6	6.4	6.0	4.3	3.5	10.3	...	...
1. Goods	–4.3	0.7	0.4	3.1	2.1	–0.6	0.6	6.1	...	...
2. Services	6.1	5.7	5.4	6.3	5.5	5.2	4.9	6.5	...	...
3. Primary income	–1.6	–1.0	–0.7	–1.5	–0.5	0.2	–0.3	–1.4	...	...
4. Secondary income	–1.3	–0.8	–0.5	–1.5	–1.1	–0.5	–1.8	–0.9	...	...
					nominal year-on-year growth rates in %					
Export of goods and services	22.5	–0.4	–2.8	–0.0	0.4	–5.8	–6.7	15.0	...	...
Import of goods and services	29.3	–6.1	–3.5	–9.5	2.2	0.7	–1.5	7.8	...	...

Public Finances	2022	2023	12 m. 'till Aug. 24		2023 Jan.-Aug.		2024 Jan.-Aug.	
Consolidated general government (GG) balance[3]	*EUR mio*		*% GDP*	*y-o-y, %*	*EUR mio*	*y-o-y, %*	*EUR mio*	*y-o-y, %*
Revenue	23,311	25,035	41.2	12.9	15,939	3.5	17,831	11.9
Tax revenue	20,557	21,977	36.3	11.8	14,288	5.1	16,068	12.5
From EU budget	961	1,084	1.6	17.2	537	–12.0	494	–8.1
Other	1,794	1,974	3.3	24.6	1,114	–7.1	1,270	14.0
Expenditure	24,886	27,308	44.0	11.4	16,737	6.0	18,210	8.8
Current expenditure	10,283	11,572	19.1	15.5	7,196	7.7	8,102	12.6
- wages and other personnel expenditure	5,481	6,094	9.7	6.9	4,079	12.8	4,337	6.3
- purchases of goods, services	3,557	3,869	6.5	16.4	2,321	4.4	2,706	16.6
- interest	661	711	1.2	9.1	529	11.6	599	13.3
Current transfers	11,261	12,050	19.4	9.4	7,826	4.7	8,476	8.3
- transfers to individuals and households	9,294	9,731	15.8	9.0	6,417	2.7	7,002	9.1
Capital expenditure, transfers	2,612	3,014	4.5	8.0	1,281	11.2	1,228	–4.1
GG surplus/deficit	–1,575	–2,274	–2.8		–798		–379	

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

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

	2021	2022	2023	23Q3	23Q4	24Q1	24Q2	2021	2022	2023	23Q3	23Q4	24Q1	24Q2
				Slovenia							*euro area*			
Economic developments							*q-o-q growth in %*							
GDP				0.0	0.8	–0.2	0.2				0.0	0.1	0.3	0.2
- industry				0.8	0.4	0.3	–0.3				–1.0	0.2	–0.6	–0.1
- construction				0.9	–1.1	–2.3	–1.0				–0.3	0.2	0.4	–1.0
- mainly public sector services (OPQ)				–0.1	3.7	–3.1	1.1				0.4	0.6	0.1	0.4
- mainly private sector services (without OPQ)				–0.2	–0.2	1.2	–0.2				–0.1	0.3	0.3	0.1
Domestic expenditure				1.1	3.3	–1.0	1.0				–0.1	0.1	–0.5	–0.3
- general government				0.4	3.0	1.2	7.6				0.7	0.7	0.1	0.6
- households and NPISH [1]				0.6	0.4	1.0	–0.7				0.3	0.0	0.3	–0.1
- gross capital formation				3.4	5.2	–4.5	0.1				–1.7	–0.2	–3.3	–2.0
- gross fixed capital formation				–0.5	0.0	–0.2	–1.0				–0.0	1.0	–1.8	–2.2
							y-o-y growth in %							
GDP	8.4	2.7	2.1	1.9	2.7	2.1	0.7	6.2	3.3	0.4	–0.2	0.0	0.3	0.8
- industry	7.3	–2.6	5.2	3.9	4.1	3.2	–0.5	8.3	0.4	–1.6	–3.2	–2.4	–2.3	–1.2
- construction	7.5	8.3	14.0	15.7	8.9	1.6	–3.7	3.5	–1.4	1.1	1.0	2.1	–1.2	–0.4
- mainly public sector services (OPQ)	4.2	1.8	0.4	0.9	0.6	1.4	1.4	3.4	2.7	1.0	0.6	1.0	1.1	1.4
- mainly private sector services (without OPQ)	10.1	4.7	1.4	2.6	2.4	2.2	0.6	6.7	3.8	0.6	–0.3	0.4	0.3	0.8
Domestic expenditure	10.3	4.5	–0.2	0.6	3.2	3.1	4.4	5.0	3.5	0.2	–0.6	0.3	–0.3	–0.7
- general government	6.2	–0.7	2.4	1.5	5.1	6.4	12.7	4.3	1.1	1.2	1.8	2.0	1.6	2.1
- households and NPISH	10.5	5.3	0.1	–1.1	0.7	1.9	1.3	4.7	4.9	0.7	–0.2	0.7	1.0	0.5
- gross capital formation	13.9	7.4	–2.8	3.8	8.0	3.0	4.1	6.5	2.7	–1.8	–3.6	–2.2	–5.1	–6.0
- gross fixed capital formation	12.3	4.2	3.9	2.6	3.2	0.9	–1.7	3.5	1.9	0.9	–0.4	1.0	–1.7	–2.8
- inventories and valuables, contr. to GDP growth in p.p.	0.5	0.8	-1.5	0.3	1.1	0.5	1.3	0.6	0.2	–0.6	–0.8	–0.8	–0.8	–0.7
Labour market							*q-o-q growth in %*							
Employment				0.3	0.2	–0.2	–0.1				0.2	0.2	0.3	0.2
- mainly private sector (without OPQ)				0.2	0.2	–0.3	–0.2				0.1	0.1	0.2	0.1
- mainly public services (OPQ)				0.4	0.4	0.4	0.4				0.4	0.4	0.3	0.5
							y-o-y growth in %							
Employment	1.3	2.9	1.6	1.5	1.3	0.5	0.2	1.4	2.2	1.4	1.4	1.2	1.0	0.8
- mainly private sector (without OPQ)	1.0	3.1	1.7	1.5	1.3	0.2	–0.1	1.2	2.5	1.4	1.4	1.1	0.9	0.6
- mainly public services (OPQ)	2.7	2.0	1.5	1.6	1.7	1.8	1.8	2.1	1.6	1.4	1.4	1.5	1.5	1.6
Labour costs per employee	8.0	5.0	9.5	8.9	8.3	7.3	7.4	4.3	4.6	5.3	5.3	4.8	4.9	4.4
- mainly private sector (without OPQ)	8.0	7.8	9.5	8.2	8.5	7.8	8.6	5.0	4.9	5.6	5.5	5.2	4.6	4.5
- mainly public services (OPQ)	7.7	–3.2	9.5	11.3	7.7	5.5	3.3	2.5	3.8	4.5	4.7	3.8	5.5	4.0
Unit labour costs, nominal[2]	0.9	5.2	9.0	8.5	6.9	5.7	6.8	–0.6	3.5	6.4	6.9	6.1	5.7	4.5
Unit labour costs, real[3]	–1.7	–1.2	–1.0	1.1	–1.4	1.4	4.6	–2.6	–1.5	0.5	1.2	1.1	2.0	1.4
							in %							
LFS unemployment rate	4.7	4.0	3.7	3.9	3.4	3.4	3.4	7.8	6.8	6.6	6.5	6.5	6.8	6.3
Foreign trade							*q-o-q growth in %*							
Real export of goods and services				–2.5	0.8	2.0	–1.1				–1.2	0.3	1.1	1.4
Real import of goods and services				–3.5	4.9	2.2	–0.4				–1.5	0.5	–0.6	0.5
							y-o-y growth in %							
Real export of goods and services	14.5	6.8	–2.0	–9.0	–2.3	–0.8	–0.8	11.4	7.3	–0.5	–2.8	–3.1	–1.5	1.9
Real import of goods and services	17.8	9.2	–4.5	–10.7	–1.8	0.4	3.1	8.9	8.1	–0.9	–3.6	–2.8	–2.8	–0.9
Current account balance as % of GDP[4]	3.8	–1.1	4.5	3.3	4.5	4.3	3.9	2.3	–0.7	0.0	0.3	0.0	0.0	0.0
External trade balance as contr. to GDP growth in p.p.	–1.0	–1.5	2.3	1.3	–0.5	–1.0	–3.1	1.4	–0.1	0.2	0.3	–0.2	0.6	1.4
Financing							*in % of GDP*							
Banking system's balance sheet	94.9	91.0	85.0	85.2	85.0	83.5	…	279.9	274.6	258.0	267.2	258.0	259.5	…
Loans to NFCs	19.3	20.1	17.6	18.4	17.6	16.8	16.8	37.1	36.6	34.3	34.8	34.3	34.0	33.8
Loans to households	21.7	21.5	19.9	20.1	19.9	19.8	20.0	50.3	48.4	45.7	46.1	45.7	45.1	44.7
Inflation							*in %*							
HICP	2.0	9.3	7.2	6.3	5.0	3.4	2.4	2.6	8.4	5.4	5.0	2.7	2.6	2.5
HICP excl. energy, food, alcohol and tobacco	0.9	5.9	6.7	6.9	5.1	4.0	3.0	1.5	4.0	5.0	5.1	3.7	3.1	2.8
Public finance							*in % of GDP*							
Debt of the general government	74.8	72.7	68.4	71.0	68.4	70.1	69.6	94.0	89.9	87.8	88.8	87.8	88.3	…
One year net lending/net borrowing of the general government[4]	–4.6	–3.0	–2.6	–2.9	–2.6	–2.1	–2.0	–5.2	–3.6	–3.6	–3.9	–3.6	–3.5	…
- interest payment [4]	1.2	1.1	1.2	1.2	1.2	1.2	1.3	1.4	1.7	1.7	1.8	1.7	1.8	…
- primary balance [4]	–3.4	–1.9	–1.3	–1.7	–1.3	–0.9	–0.7	–3.8	–1.9	–1.8	–2.1	–1.8	–1.7	…

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

Note: Original figures are used to calculate the year-on-year rates, and seasonally adjusted figures are used to calculate the current rates of growth. The SORS quarterly national accounts figures have not yet been reconciled with the initial annual estimate. [1] The figures for Slovenia are calculated as the difference between the seasonally adjusted figures for aggregate final consumption and government final consumption. [2] Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity. [3] Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity. [4] 4-quarter moving sums.

10 Figures and tables

Figures

Tables

11 List of abbreviations

Abbreviations

GDP	Gross domestic product
VAT	Value added tax
ECB	European Central Bank
EA	Euro area
ESA	European System of Accounts
EU	European Union
EUR	euro
Fed	US Federal Reserve System
FOMC	Federal Open Market Committee
HICP	Harmonised index of consumer prices
NHCI	Nominal harmonised competitiveness indicator
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight index swap
PMI	Purchasing Managers' Index
PPI	Producer price indices
RHCI	Real harmonised competitiveness indicator
RULCs	Real unit labour costs
STOXX-Europe 600	Main European share index
SORS	Statistical Office of the Republic of Slovenia
S&P 500	Standard and Poor's 500
ULCs	Unit labour costs
USD	United States dollar
ZEW	Centre for European Economic Research
US	United States of America
UK	United Kingdom
ESS	Employment Service of Slovenia
WTO	World Trade Organisation

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

A: Agriculture, forestry and fishing, **01** – Crop and animal production, hunting and related service activities, **02** – Forestry and logging, **03** – Fishing and aquaculture; **B**: Mining and quarrying, **05** – Mining of coal and lignite, **06** – Extraction of crude petroleum and natural gas, **07** – Mining of metal ores, **08** – Other mining and quarrying, **09** – Mining support service activities; **C**: Manufacturing, **10** – Manufacture of food products, **11** – Manufacture of beverages, **12** – Manufacture of tobacco products, **13** – Manufacture of textiles, **14** – Manufacture of wearing apparel, **15** – Manufacture of leather and related products, **16** – Manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials, **17** – Manufacture of paper and paper products, **18** – Printing and reproduction of recorded media, **19** – Manufacture of coke and refined petroleum products, **20** – Manufacture of chemicals and chemical products, **21** – Manufacture of basic pharmaceutical products and pharmaceutical preparations, **22** – Manufacture of rubber and plastic products, **23** – Manufacture of other non-metallic mineral products, **24** – Manufacture of basic metals, **25** – Manufacture of fabricated metal products, except machinery and equipment, **26** – Manufacture of computer, electronic and optical products, **27** – Manufacture of electrical equipment, **28** – Manufacture of machinery and equipment n.e.c., **29** – Manufacture of motor vehicles, trailers and semi-trailers, **30** – Manufacture of other transport equipment, **31** – Manufacture of furniture, **32** – Other manufacturing, **33** – Repair and installation of machinery and equipment; **D**: Electricity, gas, steam and air conditioning supply, **35** – Electricity, gas, steam and air conditioning supply; **E**: Water supply, sewerage, waste management and remediation activities, **36** – Water collection, treatment and supply, **37** – Sewerage, **38** – Waste collection, treatment and disposal activities, materials recovery; **F**: Construction, **41** – Construction of buildings, **42** – Civil engineering, **43** – Specialised construction activities; **G**: Wholesale and retail trade, repair of motor vehicles and motorcycles, **45** – Wholesale and retail trade and repair of motor vehicles and motorcycles, **46** – Wholesale trade, except of motor vehicles and motorcycles, **47** – Retail trade, except of motor vehicles and motorcycles; **H**: Transportation and storage, **49** – Land transport and transport via pipelines, **50** – Water transport, **51** – Air transport, **52** – Warehousing and support activities for transportation; **I**: Accommodation and food service activities, **55** – Accommodation, **56** – Food and beverage service activities; **J**: Information and communication, **58** – Publishing activities, **59** – Motion picture, video and television programme production, sound recording and music publishing activities, **60** – Programming and broadcasting activities, **61** – Telecommunications, **62** – Information technology service activities, **63** – Information service activities; **K**: Financial and insurance activities, **64** – Financial intermediation, except insurance and pension funding, **65** – Insurance, reinsurance and pension funding, except compulsory social security, **66** – Other financial activities; **L**: Real estate activities, **68** – Real estate activities; **M**: Professional, scientific and technical activities, **69** – Legal and accounting activities, **70** – Activities of head offices, management consultancy activities, **71** – Architectural and engineering activities, technical testing and analysis, **72** – Scientific research and development, **73** – Advertising and market research, **74** – Other professional, scientific and technical activities; **N**: Administrative and support service activities, **77** – Rental and leasing activities, **78** – Employment activities, **79** – Travel agency, tour operator and other reservation service and related activities, **80** – Security and investigative activities, **81** – Services to buildings and landscape activities, **82** – Office administrative, office support and other business support activities; **O**: Public administration and defence, compulsory social security, **84** – Public administration and defence, compulsory social security; **P**: Education, **85** – Education; **Q**: Human health and social work activities, **86** – Human health activities, **87** – Residential care activities, **88** – Social work activities without accommodation; **R**: Arts, entertainment and recreation, **90** – Creative, arts and entertainment activities, **91** – Libraries, archives, museums and other cultural activities, **92** – Gambling and betting activities, **93** – Sports activities and amusement and recreation activities; **S**: Other service activities, **94** – Activities of membership organisations, **95** – Repair of computers and personal and household goods, **96** – Other personal service activities; **T**: Activities of households as employers, undifferentiated goods- and services-producing activities of households for own use, **97** – Activities of households as employers of domestic personnel, **98** – Undifferentiated goods- and services-producing activities of private households for own use; **U**: Activities of extraterritorial organisations and bodies, **99** – Activities of extraterritorial organisations and bodies.

Country abbreviations

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