BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments

January 2024

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Summary

The Slovenian economy saw an improvement in both mood and performance at the end of last year, while inflation remains above the monetary policy target, despite slowing.

- **Heading into the new year the PMIs in the euro area remained at similar levels of contraction as in previous months, continuing to reflect weak foreign demand.** Despite a gradual improvement in the majority of sectors in recent months, the economic sentiment indicator remains relatively low. A base effect meant that the slowdown in headline inflation in the euro area briefly ended as expected in December, when it rose to 2.9%. Meanwhile core inflation continues to moderate, but remains elevated at 3.4%. In line with the weak economic activity in the second half of last year, in its January report on global economic prospects the World Bank lowered its economic growth forecasts for the euro area to 0.6% for this year and 1.7% for next year, which is broadly in line with the December projections by Eurosystem experts (0.8% for 2024 and 1.5% for 2025).
- **The favourable trend of slowing inflation, which nevertheless remains above the targets set by major central banks, led to a sharp increase in market participants' expectations of the pace of interest rate cuts.** This drove a sharp fall in yields on government bonds in the final two months of last year, while higher-risk asset classes rose in value. There was a partial upward correction in market yields in January, primarily on account of increased bond issuance at the beginning of the year.
- **The latest survey data for Slovenia mostly indicates that the economic situation has gradually improved in recent months, but remains worse than a year ago.** Consumer confidence remains in the negative zone with a trend of improvement, and the economy is also showing some signs of a gradual recovery. There was a slight improvement in assessments of demand in services and retail at the beginning of the year, while construction firms are also reporting a relatively stable business environment for now. The situation continues to remain most challenging for manufacturing firms, whose performance is mainly being curtailed by weak demand and the uncertain economic situation.
- **The initial monthly indicators of domestic activity for the final quarter of last year show relatively favourable developments, which has also been reflected in the encouraging model estimates of quarterly GDP growth.** Industrial production strengthened by almost 4% in November. Sales volumes in services and retail remain at the levels of previous months, while the level of turnover in the motor vehicle trade continues to show relatively encouraging signs. Performance in tourism and construction was also relatively good at the end of the year. This has been reflected in the latest model estimate of quarterly GDP growth, which points to growth of around 1% in the final quarter.
- **The Slovenian labour market remains tight, amid the continuing rise in employment and fall in unemployment.** The number of persons in employment rose again in November to reach a new record high. The continuing rise in employment was driven by positive developments in services and construction, while manufacturing recorded a year-on-year decline in the number of persons in employment.

According to survey indicators, employment will continue to rise over the following months in services and in construction, but is expected to remain broadly unchanged in manufacturing. In the very tight labour market, reflected in a shortage of skilled labour, year-on-year wage growth remains high, but lower than at the beginning of last year.

- **Alongside base effects and the easing of price pressures in production chains, the slowdown in domestic inflation at the end of the year was also driven by current falls in energy prices.** Headline inflation as measured by the HICP slowed to 3.8% in December. Alongside reduced contributions by the non-energy segments of the basket, the slowdown was also attributable to current falls in energy prices, supported by cuts in excise duties and in margins on motor fuels. Food price inflation is slowing, mainly as a result of the tailing-off of the shocks in price chains and a base effect. Core inflation is also falling, and stood at 4.4% in December, but is still outpacing headline inflation, primarily on account of high service price inflation, which is being driven by growth in labour costs.
- **Developments in foreign trade remained weak towards the end of the year, on account of geopolitical tensions and the situation in European industry.** The nominal year-on-year decline in merchandise exports deepened to 7.2% in November, but was still smaller than in the previous quarter. The decline in exports was primarily attributable to reduced demand in the euro area. Amid the ongoing contraction in imports of intermediate goods, the nominal year-on-year decline in merchandise imports also increased, to 11.3%, with imports of transport services recording an even larger decline (of approximately 20%). There was a different picture in most other segments of services trade, where developments were more encouraging. The 12-month current account surplus reached EUR 2.3 billion in November, its highest level of the last two years.
- **The fiscal data according to cashflow methodology points to an increase in the deficit last year compared to the previous year.** The consolidated public finance deficit amounted to EUR 1.1 billion over the first eleven months of last year, up by around EUR 330 million in year-on-year terms. The highest growth on the revenue side was recorded by social security contributions, personal income tax, and taxes on goods and services, in reflection of the favourable situation on the labour market as far as public finances are concerned, and the high inflation. The slightly higher growth in expenditure was driven by subsidies, wages and investment. The widening of the deficit was also attributable to a higher amount of the support measures to mitigate the rise in energy prices and the post-flood reconstruction.

1 International Environment

Global economic growth remains muted, primarily on account of weak activity in the larger European economies.

Global economic growth slowed significantly in the third quarter of last year, compared with its relatively robust level in the previous quarter. The largest decline amongst the advanced economies was recorded in Japan, where economic activity was down 0.7% in quarterly terms, while the UK and the euro area recorded mild contractions of 0.1%. By contrast, quarterly GDP growth in the US strengthened to 1.2%, the highest figure since the final quarter of 2021, driven by persistently robust private consumption, investment (non-housing in particular), and government consumption. Accommodative monetary policy saw the Chinese economy expand by 1.5%,[1] although it remained outpaced by the robust 1.7% growth recorded by India.

The global manufacturing PMI declined slightly in December to 49.0 points (see Figure 1.1, left), with manufacturers continuing to reduce output amid persistently weak global demand. The largest decline in the indicator relative to November came in the US, where the decline of 1.5 points was 0.3 points more than had been expected by analysts,[2] although the lowest figure continued to be recorded in the euro area (44.4 points). The global composite PMI remains in the zone of expansion, and rose to 51.0 points in December, driven solely by services.[3] It remains below its long-term average, and suggests that global economic growth will remain moderate in the final quarter of last year.

The economic outlook remains weak. The principal risks are the geopolitical tensions in the Middle East and the war in Ukraine, which in the event of escalation could lead to volatility in commodity and energy markets, and disruption to supply chains. Other risks include tight financing conditions, the slowdown of growth in the Chinese economy towards the end of the year, and severe weather events. According to the World Bank's January projections, global economic growth is projected to slow to 2.4% this year, before strengthening again to 2.7% next year. The forecast for 2025 has been revised downwards by 0.3 percentage points compared with the June projections.[4] The December projections from the Eurosystem experts meanwhile forecast seven euro area countries to end 2023 with negative economic growth, including Germany and Austria. A recession in these two economies, which account for more than a quarter of Slovenia's exports, is a downside risk to growth in demand for Slovenian exports. The GDP growth projections for the majority of Slovenia's trading partners remain weak for this year, but a recovery is anticipated the following year, with growth approaching its long-term average (see Figure 1.1, right[5]).

[1] Growth slowed slightly to 1.0% in the final quarter of 2023, amid the troubles in the real estate sector, which is still hindering a wider economic recovery in China.

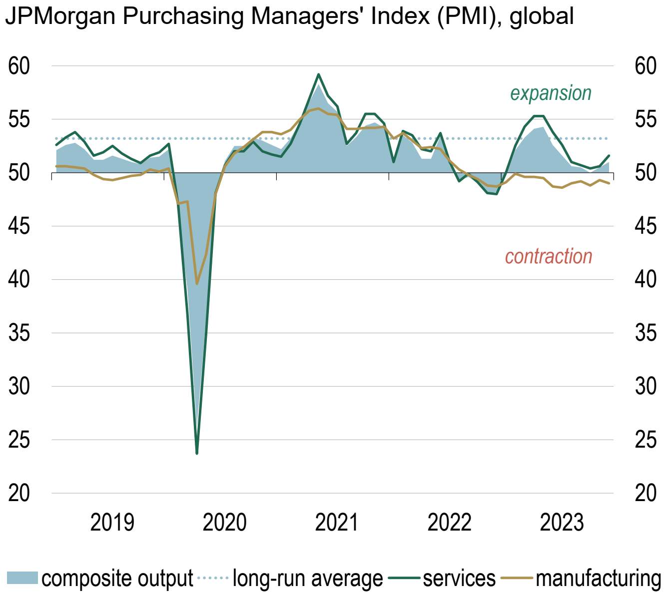
[2] Source: Trading Economics: survey data showing the average forecast from a representative group of economists.

[3] The composite PMIs for the euro area, the UK, China and, in particular, India surprised on the upside in December of last year, thanks to services.

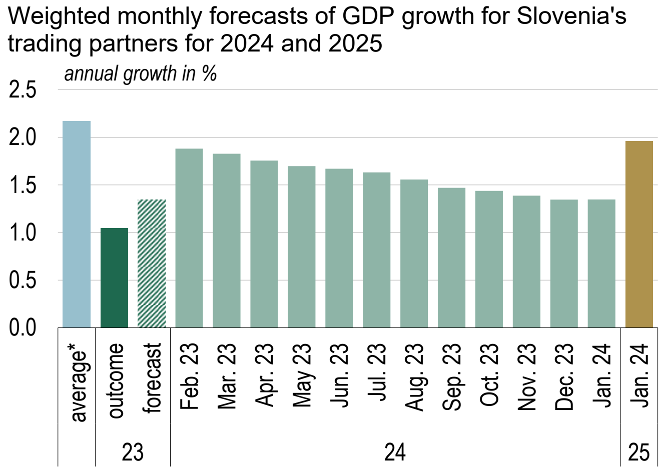
[4] The growth forecasts for advanced economies remain more moderate at 1.2% for 2024 and 1.6% for 2025, while the respective forecasts for developing countries are 3.9% and 4.0%.

[5] Includes all of Slovenia's trading partners: countries accounting for at least 1% of Slovenia's total exports of goods and services over the last 12 months (22 trading partners with a total share of 84.3% between November 2022 and October 2023), and all other countries making up the difference to 100%.

Figure 1.1: **Global economic situation and strength of foreign demand for Slovenian exports**



Source: Bloomberg. Latest data: December 2023.



Note: The growth forecasts for 2024 and 2025 are weighted with the share of each country in the total exports of Slovenia, for other countries the global growth forecast is used. For 2023 the weighted outcome (estimate for Q4) and the December weighted forecast are shown. * Weighted average of GDP growth, since records began. IMF data is used.
Source: SORS, Consensus, IMF, Banka Slovenije calculations.

In the final quarter of last year, signs of a contraction in economic activity prevailed in the euro area, despite the improvement in sentiment, while the medium-term outlook is gradually improving only slightly.

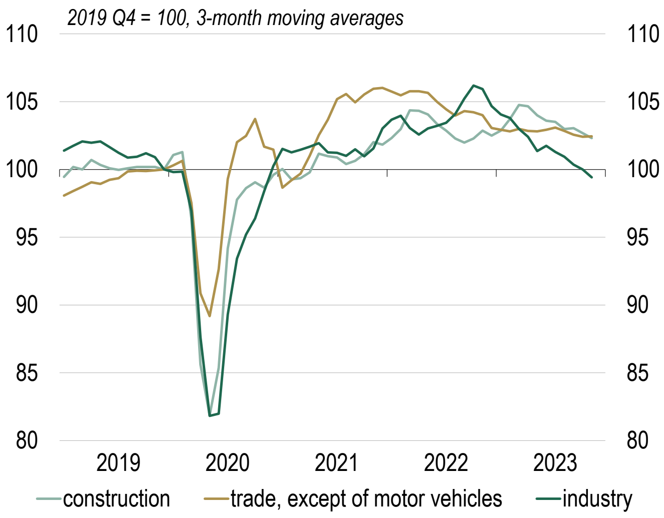
Current developments as measured by the monthly indicators of economic activity remained subdued in the first two months of the final quarter of last year. Amid persistently weak demand and tight financing conditions, industrial production and construction output both declined in October and November, as many construction projects stalled owing to cuts in investment[6] (see Figure 1.2, left). Real turnover in the retail sector stagnated over the same period.

In line with the monthly indicators of economic activity, the most recent survey figures remain in the zone of moderate contraction. The broadly stable monthly values of the sectoral indicators since August have kept the average value of the composite indicator at similar levels, slightly above 47 points. Excessive optimism about the short-term outlook is still lacking for the time being, although confidence indicators mostly improved at the turn of the year. Moreover, the situation in manufacturing remains rather challenging with weaker price competitiveness and a decline in export orders (see Figure 1.2, right). The overall economic sentiment indicator published by the European Commission, points to a similar trend, reaching 96.4 percentage points, the highest level in the last seven months, but remains below its long-term average. By contrast, the ZEW economic sentiment indicator has been close to its long-term average for two consecutive months, i.e. December and January, reflecting the survey respondents' rising expectations of interest rate cuts over the next six months and thus an improvement in economic conditions in the medium term.

[6] High construction costs and expensive financing are dampening activity in the German construction sector in particular, which is reflected in low confidence and a sharp decline in the number of building permits issued for residential buildings over the past year.

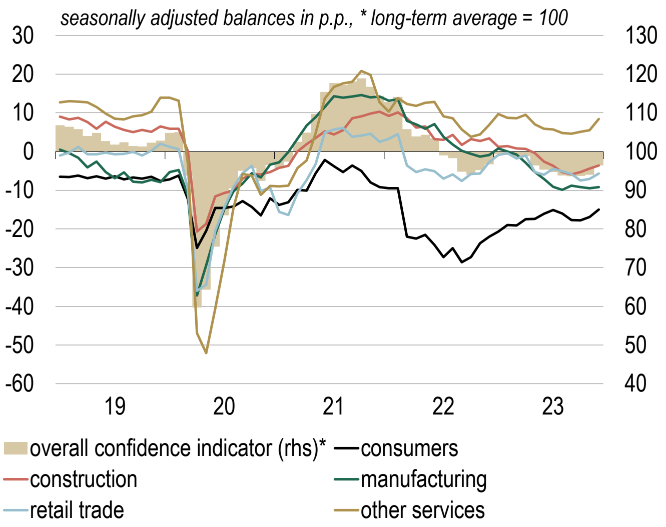
Figure 1.2: **Indicators of economic developments in the euro area**

Monthly indicators of economic developments



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

Confidence indicators



Latest data: December 2023, except for consumers, where the preliminary estimate for January 2024 show a decrease to –16.1.
Source: Eurostat.

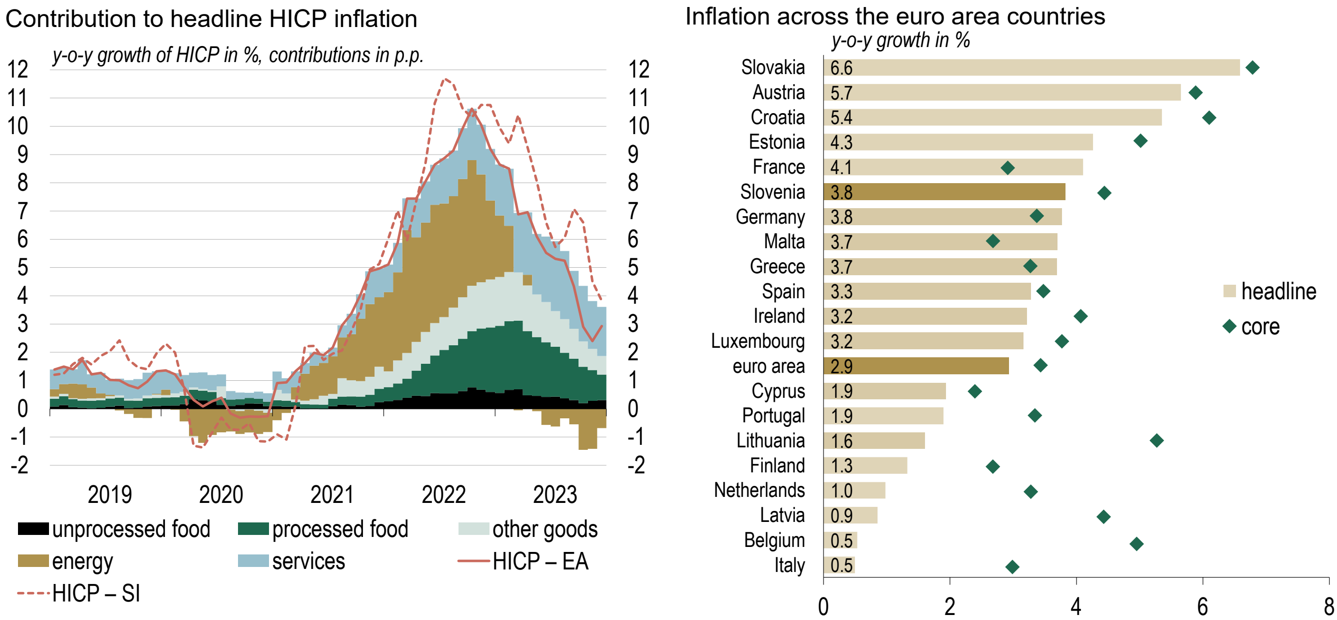
After resilient growth in the service sector in the first half of last year, economic activity moderated in the second half of the year slightly more than expected due to tighter financing conditions, a decline in competitiveness and heightened uncertainty. According to the latest projections from the World Bank in January and the ECB in December, euro area GDP is forecast to have grown by around 0.5% last year. Given the ongoing weakness of the economy, the World Bank lowered its economic growth forecast for this year by 0.6 percentage points to 0.7% (compared with the ECB forecast of 0.8%), expecting that the easing of inflationary pressures will raise real wages and increase household disposable income. Growth is expected to strengthen to 1.6% in 2025 (ECB: 1.5%) due to the recovery in business investment, supported by funds from the NextGenerationEU programme, and the fading of the negative effects of tighter financing conditions. Given the current geopolitical tensions, the risks to the economic outlook remain elevated and tilted to the downside.

Headline inflation in the euro area rose as expected in December as a result of an increased contribution from energy prices, while core inflation continued to moderate.

Year-on-year inflation in the euro area as measured by the HICP stood at 2.9% in December, up from 2.4% in November. The rise was driven primarily by energy prices, whose contribution was 0.7 percentage points larger than in November. This was primarily attributable to a base effect reflecting the fall in energy prices in Germany in December 2022 caused by one-off government support for households in paying heating bills.[7] Conversely, the headline inflation in the euro area was slowed by the continuing fall in food price inflation. The latter moderated to 6.1% in December, reducing the contribution to headline inflation by food prices to 1.2 percentage points, compared with 3.1 percentage points in the first quarter of 2023. The largest factor in the decline was

[7] Year-on-year headline inflation in Germany rose to 3.8% in December, up from 2.3% in November. Because Germany accounts for more than a quarter of the euro area aggregate, this rise explains the majority of the change in euro area inflation on this occasion.

Figure 1.3: **Inflation in the euro area**



Source: Eurostat, Banka Slovenije calculations. Latest data: December 2023.

Source: Eurostat. Latest data: December 2023.

the broadly based slowdown in growth in prices of processed food, driven by falling energy prices and food commodity prices (see Figure 1.3, left).

Core inflation, which excludes energy and food prices, is continuing to moderate. It stood at 3.4% in December, down 0.2 percentage points from November, primarily as a result of lower year-on-year growth in prices of non-energy industrial goods (2.5%). This reflects the trend of easing price pressures in production chains, which is being driven by the favourable situation on the supply side and by cooling demand, in part due to monetary policy measures. The risk of a slower moderation is mainly posed by developments in the Middle East, which are currently evidenced primarily by higher shipping costs. Further escalation of geopolitical tensions could trigger a renewed rise in energy prices and undermine the stability of global supply chains.

Having gradually slowed over the latter part of the year, service price inflation contrastingly remained at 4.0% in December, unchanged from November. Amid weaker demand, the persistence of high service price inflation mainly reflects the impact of rising labour costs (see Figure 1.3, left).

The rise in euro area inflation reduced the gap between inflation in Slovenia and inflation in the euro area to 0.9 percentage points in December (compared with 2.1 percentage points in November; see Figure 1.3, right). With the exception of other goods, all price subcategories contributed to the narrowing of the gap, most notably energy prices. The current and projected developments in energy prices in the euro area and in Slovenia are being conditioned by the institutional aspects of government measures. In addition to the aforementioned factors that affected energy price inflation in the euro area, the narrowing of the gap in December was also attributable to a decline in domestic energy price inflation.

Box 1.1: **Inflation in the euro area and in the US in 2022 and 2023**

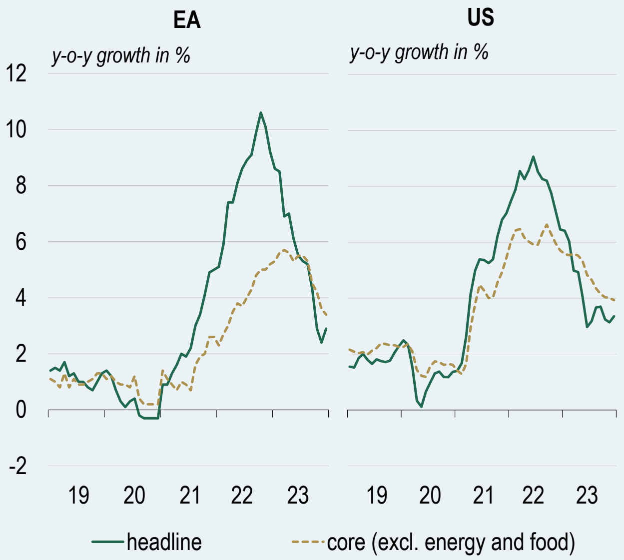
Inflation trends in the euro area and in the US are displaying considerable structural differences, despite similar dynamics of decline.

Following the sharp uptick in 2022, inflation in the euro area and in the US has slowed significantly. According to the latest data it stood at 2.9% in the euro area in December of last year, and 3.4% in the US, having slowed by 7.7 percentage points and 5.7 percentage points from their peaks in 2022 (10.6% in the euro area, 9.1% in the US).[8] The slowdown in consumer price inflation in both economies was most evident in energy prices and food prices, as a result of which headline inflation in the euro area and the US slowed more rapidly than core inflation, which does not include the aforementioned prices (see Figure 1.1.1, left). According to the latest data, core inflation stood at 3.4% in the euro area and 3.9% in the US in December, outpacing headline inflation in both economies.

Despite such similarities in inflation developments, there remain considerable differences between the two economies in the structure of inflation. One of the differences relates to the fact that the rise in inflation in 2022 was much more broad-based in the US than in the euro area. As illustrated by Figure 1.1.1. (left), the rises in headline and core inflation in 2022 were significantly more synchronous in the US than in the euro area. Consequently the average gap between headline and core inflation in 2022 was significantly smaller in the US (1.9 percentage points) than in the euro area (4.4 percentage points). The main factors in this difference, which are analysed in detail below, were differences in the pace of the post-pandemic economic recovery, the differing exposure to external energy shocks, and differences in wage developments.

Figure 1.1.1: **Comparison of inflation and GDP growth in the euro area and the US**

Inflation



Source: ECB, FRED, Banka Slovenije calculations.
Latest data: December 2023.

GDP and private consumption (real)

Source: OECD, Banka Slovenije calculations.
Latest data: 2023 Q3.

[8] Inflation is measured by the national consumer price indices: the HICP in the euro area, and the CPI in the US.

The faster recovery in demand, in particular private consumption, is one of the main reasons that the increase in core inflationary pressures was initially sharper in the US than in the euro area.

In the final quarter of 2021 real GDP was up 4.3% on its pre-pandemic level in the US, compared with just 1.0% in the euro area (see Figure 1.1.1, right).[9] There are several reasons for the faster recovery in the US, the most important of which are differences in the stringency of the pandemic containment measures and in the size and structure of fiscal support, which in the US was to a greater extent based on direct transfers to households. Consequently the economic recovery in the US was driven much more by private consumption than that in the euro area, which amid curtailed supply was another factor in the broader base of inflationary pressures.[10] While private consumption was up fully 6.4% in real terms on its pre-pandemic level in the US by the end of 2021, in the euro area it was still down 1.1%. On account of structural differences in the labour market, and less government support for job preservation measures during the lockdown, the stronger recovery in economic activity in the US was also reflected in a tighter labour market and faster wage growth, which generated additional pressures on core inflation.

In contrast to the US, inflation in the euro area was to a greater extent driven by external cost pressures.

As a net importer of energy and commodities, the euro area faced a significant deterioration in terms of trade in 2021 and 2022, when global commodity prices rose sharply (see Figure 1.1.2, left).[11] This effect was further amplified after the outbreak of the war in Ukraine, when natural gas prices in Europe skyrocketed (see Figure 1.1.2, left) and spilled over into the European electricity market. In contrast to these developments, the US was in a much better position: its status as a net exporter of energy meant that its terms of trade improved. Furthermore, the increases in natural gas prices observed in the US were marginal relative to Europe, as it did not rely on imports from Russia. All of these factors meant that inflation in the euro area was much more driven by supply-side cost pressures than inflation in the US. The latest data show that despite last year’s considerable return to normality on the European energy market, the US economy remains in a more competitive position. Natural gas prices in Europe are still almost four times higher than prices in the US.

The differences in wage developments, which in 2021 and 2022 had been a factor in core inflation in the US outpacing that in the euro area, now point to a more favourable inflation outlook in the US.

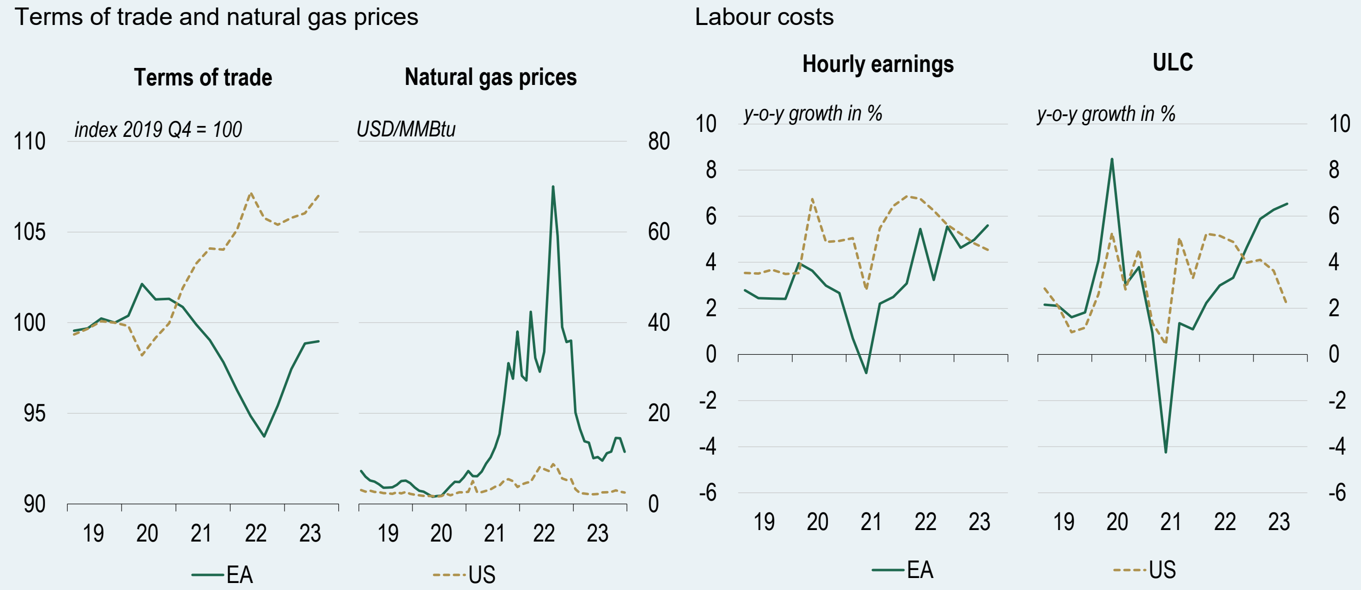
The US saw significantly stronger wage growth than the euro area in 2021 and 2022, which is evidenced in growth in hourly earnings and unit labour costs (see Figure 1.1.2, right). Since the beginning of 2022 wage pressures in the US have begun to gradually

[9] For a comparison of the economic situation in the euro area and the US in 2019 and 2020, see Box 1.1. in the April 2021 issue of Economic and Financial Developments.

[10] The post-pandemic growth in the US was mainly based on private consumption and gross investment, while in the euro area it was mainly based on government consumption and exports. A significant factor in the stronger growth in private consumption in the US was that households in the US largely spent their pandemic savings, while households in the euro area did not do so, their saving rate having remained elevated.

[11] Terms of trade are calculated as the ratio of export prices to import prices.

Figure 1.1.2: **Comparison of cost factors in the euro area and the US**



Source: OECD, World Bank, Banka Slovenije calculations. Latest data: terms of trade – 2023 Q3, natural gas prices – December 2023.

Notes: Average hourly earnings relate to the private sector only.
Source: OECD, Banka Slovenije calculations. Latest data: 2023 Q3.

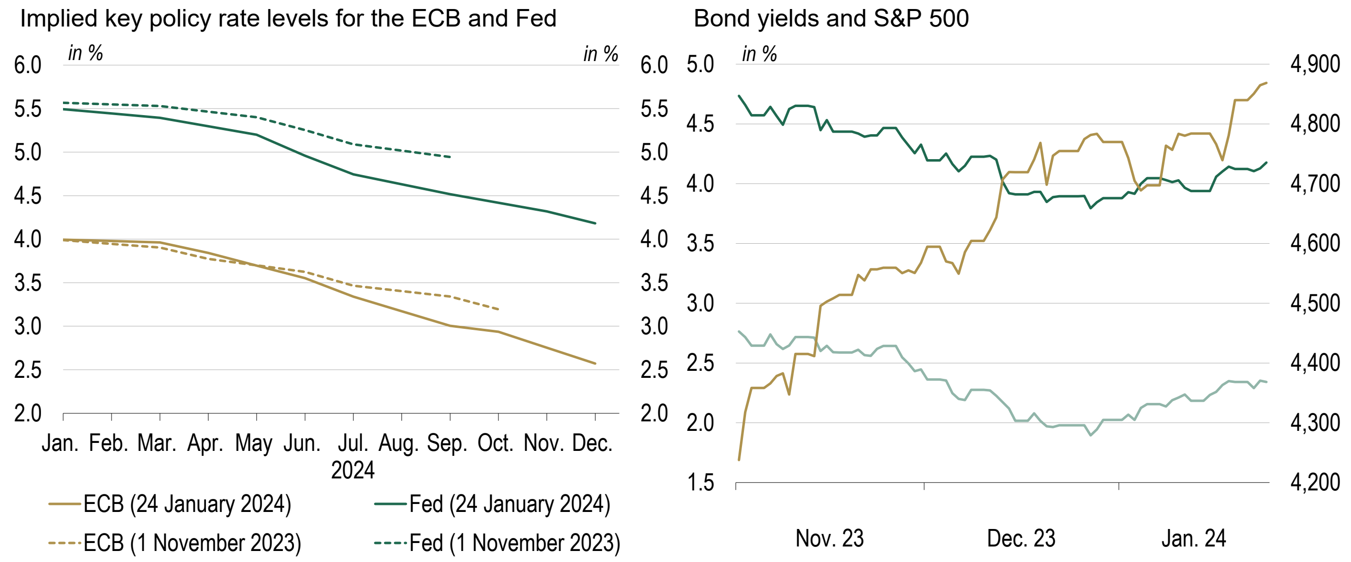
ease, while those in the euro area have continued to increase. The situation consequently reversed last year, and the euro area is now facing stronger wage growth than the US. At the same time the latest data for the euro area do not yet indicate a clear reversal in wage growth, in contrast to the US. While these differences still reflect to an important extent differences in real wage adjustment, which are also driven by structural differences in the labour market, a more protracted persistence of elevated labour cost growth in the euro area could pose a risk of a slower moderation of inflation in the future.

2 Monetary Policy and Financial Markets

Amid a trend of decline in inflation and in the uncertainty surrounding the global economic picture, market participants are expecting several cuts in key interest rates by major central banks this year.

Despite its ongoing fall, inflation remain above the target rate set by the central banks of the Eurosystem, the US and the UK. Additional concerns surrounding the pace of the fall in inflation are also being raised by the resilience of core inflation, which is persisting at higher levels than headline inflation. The Eurosystem left all three key interest rates unchanged in December, and on the basis of its projections assessed that inflation would gradually fall in 2024. There was no discussion of interest rate cuts at the meeting, and numerous representatives of the Governing Council of the ECB have warned that there will be no reversal in monetary policy for a while. The Fed also left its key interest rate unchanged in December, but the signalling by members of the FOMC suggests that three cuts of 0.25 percentage points each can be expected in 2024.

Figure 2.1:**Expectations of key interest rates at the ECB and the Fed, and bond yields and S&P 500**



Note: Calculated from Overnight Index Swaps. Fed data represent the upper bound of the Fed Funds corridor.
Source: Bloomberg, Banka Slovenije calculations.

Source: Bloomberg, Banka Slovenije calculations. Latest data: 24 January 2024.

The favourable trend of falling headline inflation is strengthening market participants' expectations that we are approaching a reversal in monetary policy by the major central banks, and the first cuts in key interest rates. According to current interest rate swap rates (OIS), the markets are expecting the first cut in the ECB's deposit facility rate by June of this year with certainty, while allowing for the possibility that the ECB might begin its cuts in April. The markets have similar expectations regarding the first interest rate cuts by the Fed: certainly in May of this year, with the possibility of the first cut in March. Five to six cuts (each of 0.25 percentage points) in the ECB's deposit facility rate and the Fed's key interest rate are priced in by the end of the year (see Figure 2.1, left).

The beginning of this year saw a correction on the bond markets after the sharp falls in yields in the final two months of last year amid the strengthening of investors' expectations of a faster fall in inflation and a reversal in the monetary policy stance.

Amid continuing signs of a fall in inflation, and the release of certain economic data showing a cooling global economy, there was a sharp fall in government bond yields over the final two months of last year. Yields on US treasury bills fell by 0.84 percentage points over this period (taking the overall fall in 2023 to 0.18 percentage points), while yields on longer-term US government bonds fell by 1.05 percentage points (to end the year unchanged, despite changes in yields over the course of the year). Yields on short-term and long-term German government bonds moved similarly over the final two months of the year (the former fell by 0.62 percentage points, taking the overall fall in 2023 to 0.35 percentage points, while the latter fell by 0.78 percentage points taking the overall fall in 2023 to 0.54 percentage points). The larger fall in US government bond yields was primarily attributable to the unexpected deterioration in US economic data. Following the sharp falls, January brought a minor correction in yields on US and German government bonds, which have risen by approximately 0.30 percentage points since the beginning of the year under the influence of profit-taking and inflation, which is still above the central bank target rates. The latter has also brought more hawkish rhetoric from central bank representatives.

Amid the sharp fall in yields on government bonds and the expectations of cuts in key interest rates, there was a rise in global stock market indices in the final two months of last year (see Figure 2.1, right). The leading European stock market index (Stoxx Europe 600) gained almost 10%, and has remained virtually unchanged this year. By contrast, the leading US stock market index (S&P 500), which gained almost 14% over the final two months of last year, rose further by approximately 2% in January, driven by rising tech share prices. The spreads on private-sector bonds over the benchmark government bonds fell amid the positive mood on equities markets, as did the spreads on government bonds in the euro area periphery.

The uncertainty surrounding the global economic picture has had a negative impact on the price of Brent crude since November. Oil prices have been moving in a relatively narrow range in January, with the geopolitical tensions in the Middle East curbing any further fall in prices. The aforementioned risks did not have a major impact on the price of natural gas in Europe: with weather milder than the seasonal norm, stocks of natural gas in Europe are still very high. Conversely the geopolitical risks and the fall in market returns in the US since November have driven a rise in the price of gold (reduced opportunity cost of investing in gold, which does not generate interest income). The US dollar fell in line with the deterioration in the economic picture in the US, with the fall being curtailed in January in parallel with the correction on the bond markets.

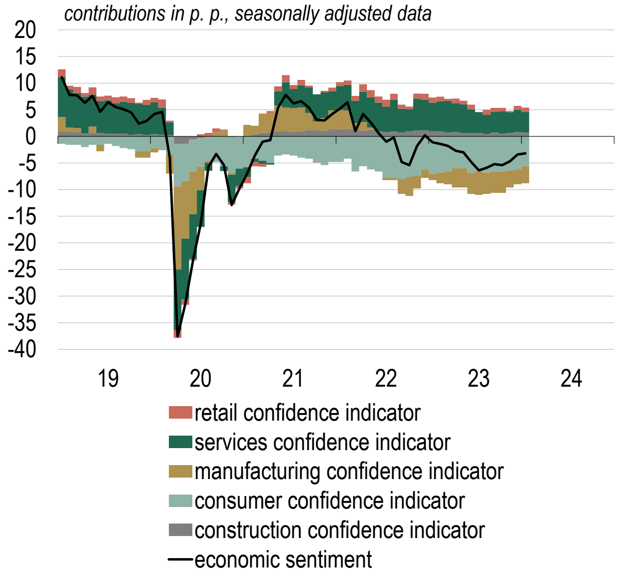
3 Domestic Economic Activity

According to the economic sentiment indicator, the economic situation was gradually improving heading into the new year, but remains uncertain and mostly worse than a year ago.

Consumer confidence remains in the negative zone at the turn of the year, but is improving (in January it was up 8 percentage points on a year earlier; see Figure 3.1, left). Performance in manufacturing continues to be significantly curtailed by uncertainty in the economy and the tight labour market (see Figure 3.1, right). Export orders and current demand (domestic and foreign) also remain weak, which resulted in the manufacturing confidence indicator remaining in the negative zone in January. While demand in retail has been recovering in recent months and is above last year’s average, it has remained at relatively modest but still positive levels in services. At the same time, capacity utilisation in services is high and employment expectations have remained above last year’s average in recent months. Construction firms are also reporting a relatively stable business environment.

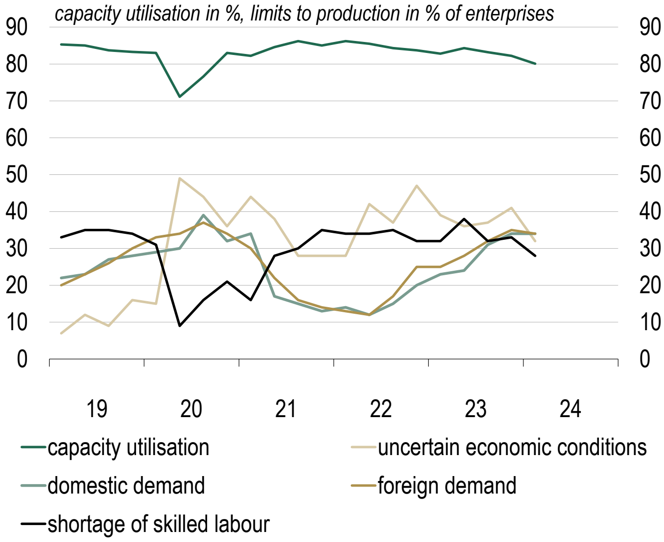
Figure 3.1: **Economic sentiment**

Economic sentiment indicator



Source: SORS, Banka Slovenije calculations. Latest data: January 2024.

Business tendency in manufacturing – capacity utilisation and limits to production



Source: SORS. Latest data: January 2024.

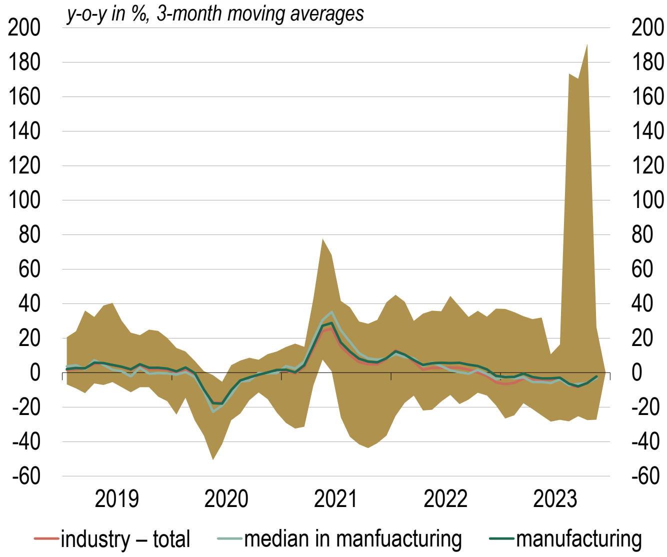
November's industrial production figures reflect the slight improvement in developments towards the end of the year.

The industrial production figures for November are indicative of a gradual recovery towards the end of the year (see Figure 3.2, left). It was up 3.7% on October, and by 4.7% in manufacturing alone, although it remains down in year-on-year terms. The year-on-year contraction in aggregate manufacturing output is slowing, but there remains considerable variation between individual segments. The highest year-on-year growth was recorded by the manufacture of other transport equipment, the manufacture of machinery and equipment n.e.c. and the manufacture of food products. Conversely, the largest year-on-year decline in the first two months of the final quarter was again recorded in the energy-intensive segments of the manufacture of wood and wood products, the manufacture of chemicals and chemical products, and the paper industry.

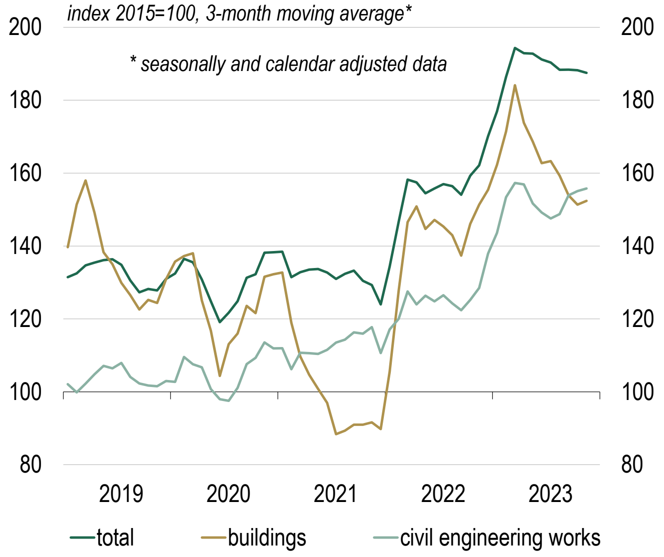
The tourism sector saw good performance at the end of the year, and trade in motor vehicles was still performing well, while sales volumes in services declined slightly in October.

Total sales volumes in services and retail remained at its previous levels in the early part of the final quarter of last year. Compared to September, sales in retail were up (by 1.4%), but down slightly in other services (by 1.3%). According to the available figures, real turnover in retail also increased towards the end of the year, but remained down by a tenth in year-on-year terms. The picture remains favourable in trade in motor vehicles: turnover in November was up around a sixth in year-on-year terms. The tourism sector also recorded solid results at the end of the year.

Figure 3.2: **Activity indicators in manufacturing and construction**



Source: SORS. Latest data: November 2023.



Source: SORS, Eurostat, Banka Slovenije calculations. Latest data: Nov. 2023.

Last year, construction was significantly driven by government infrastructure projects, while residential construction slowed slightly amid rising construction costs.

The amount of construction put in place also remained at relatively high levels towards the end of the year. In November it was up 11.6% in year-on-year terms, with notable growth in specialist construction and civil engineering work, driven largely by government infrastructure projects (see Figure 3.2, right).

Residential construction, which nevertheless remains at relatively favourable levels, was down approximately a quarter in year-on-year terms towards the end of the year. Our assessment is that the slowdown was partly related to the rise in construction costs and the less favourable financing conditions. Construction costs (material and labour costs) over the first nine months of the year were up more than 8% in year-on-year terms.

Box 3.1: **Nowcasts for GDP growth in the final quarter of 2023**

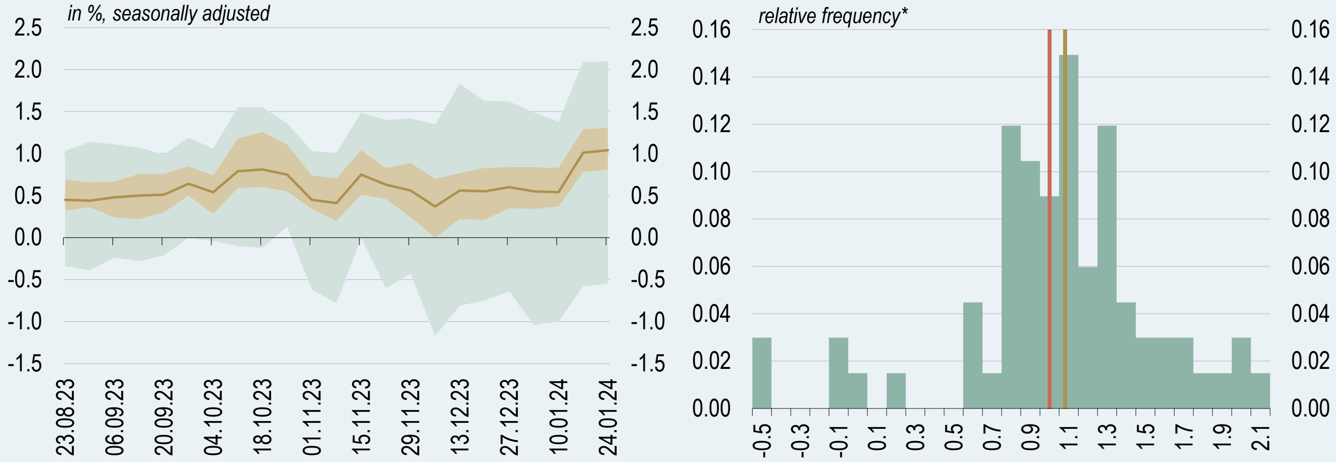
The average nowcast for quarterly GDP growth in the final quarter of last year is 1.0%.

The current average nowcast for quarterly GDP in the final quarter of last year stands at 1.0% (see Figure 3.1.1, left). The nowcast reflects the more favourable monthly developments in the majority of survey indicators in November and December, the substantial uptick in growth in industrial production in November, and the slight increase in the amount of construction put in place in the same month. By contrast, the economic sentiment at the beginning of the final quarter was still slightly subdued, and October

Figure 3.1.1: **Nowcasts for GDP growth**

Model estimates of quarterly GPD growth – 2023 Q4

Histogram of quarterly GDP growth estimates – 2023 Q4



Note: The graph shows model estimates of quarterly GDP growth. The golden interval represents values between the 25th and 75th percentiles of all estimates, while the green interval denotes the range between the lowest and highest estimates. Average model estimate of quarterly GDP growth in 2023 Q4 is represented by the line.
Source: Banka Slovenije calculations.

Note: Distribution of model estimates of quarterly GDP growth in 2023 Q4. The vertical gold line shows the median and red the average of all estimates. Date of estimate: 24 January 2024. * Relative frequency represents the share of models that estimate a certain growth in the entire set of models.
Source: Banka Slovenije calculations.

saw declines in the amount of construction put in place and in turnover in retail and services. The more encouraging signs of economic growth seen in recent releases are reflected in the chart showing the distribution of nowcasts, where the darker interval of nowcasts is entirely in positive territory (see Figure 3.1.1, right).

The current nowcasts for quarterly economic growth are mainly a reflection of four positive monthly data releases. The economic sentiment indicator rose by 0.7 percentage points in November and 1.3 percentage points in December. The increase was driven by the overall improvement in confidence in all four components of the indicator other than services, whose contribution remained unchanged. Of the indicators of economic activity, November saw a rise in industrial production (by 3.7%) and in the amount of construction put in place (by 0.1%). In the first case the improvement was driven by manufacturing in particular, while the increase in construction was based on work on buildings and civil engineering work. By contrast, the previous month had seen these two segments of construction largely drive a decline in the amount of construction put in place (of 5.9%). Slightly weaker results for October also came in the form of turnover in retail and services (down 0.1%), which was mainly driven by a decline in monthly activity in accommodation and food service activities and in administrative and support service activities.

According to the survey indicators, more favourable developments could be anticipated by the end of last year in all segments of the economy, with the exception of services, where the situation remains more uncertain.

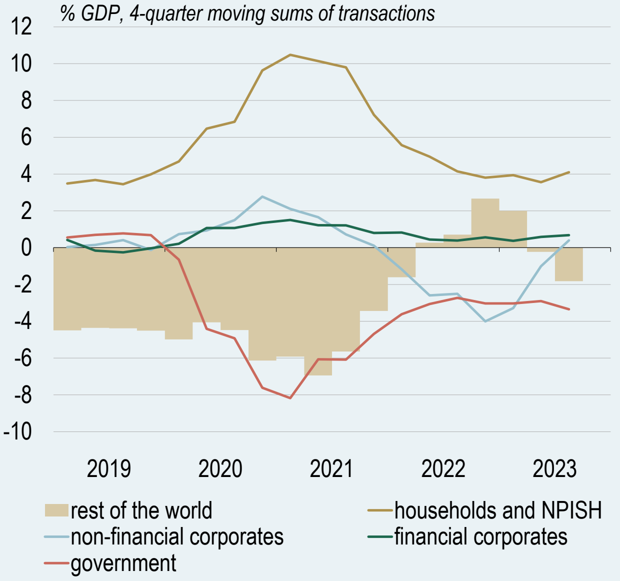
Slovenia's net creditor position in the third quarter of last year came very close to its pre-pandemic levels in each sector, with the exception of the government sector, where the position remains negative.

The saving-investment gap in the Slovenian economy widened in the third quarter, according to financial accounts figures. As measured by net financial transactions flow over 12 months, it amounted to EUR 1.1 billion or 1.8% of GDP (see Figure 3.2.1, left). The largest contribution to the increase in net surplus saving again came from non-financial corporations, who since the end of 2022 have gradually reduced their net debtor position, moving into a net creditor position by September of last year. Non-financial corporations' saving exceeded their financial investment by around EUR 240 million, primarily as a result of net transactions in currency and deposits and in debt securities in the total amount of EUR 1.1 billion. By contrast, monetary policy tightening led to a further decline in the 12-month flow in non-financial corporations' borrowings via loans, which were down more than a half in year-on-year terms at EUR 970 million. The decline in non-financial corporations' trade credits raised was even larger: at EUR 360 million, they were merely just over a tenth of those a year earlier.

Households, the government sector and financial corporations have seen their net financial position remain relatively unchanged over the last year, with households continuing to record the largest net surplus in saving at EUR 2.5 billion (see Figure 3.2.1, left). Households saw significant declines in their financial flows into shares and equity on the asset side, and in flows of borrowings via loans on the liability side (each of almost EUR 600 million). Financial corporations' net position remains approximately balanced, while the government sector's is in negative territory, which deepened slightly in the third quarter to EUR 2.1 billion, due to increased flows in borrowing via debt securities and loans.

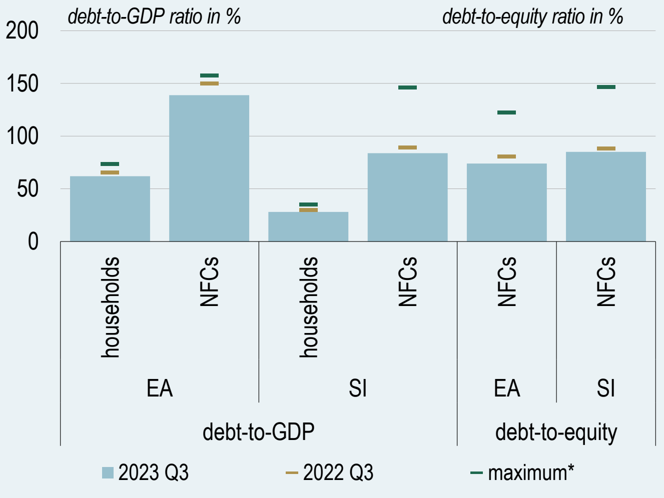
Figure 3.2.1: **Saving-investment gap and indebtedness**

Saving-investment gap



Source: Banka Slovenije. Latest data: 2023 Q3.

Debt and leverage in Slovenia and euro area



Note: * Maximum for SI is calculated for the period from 2004 on, for the EA it is calculated from 2000 on. Debt is calculated as a sum of currency and deposits, debt securities, loans, insurance and pension schemes and other claims and liabilities.
Source: ECB, Eurostat, Banka Slovenije calculations.

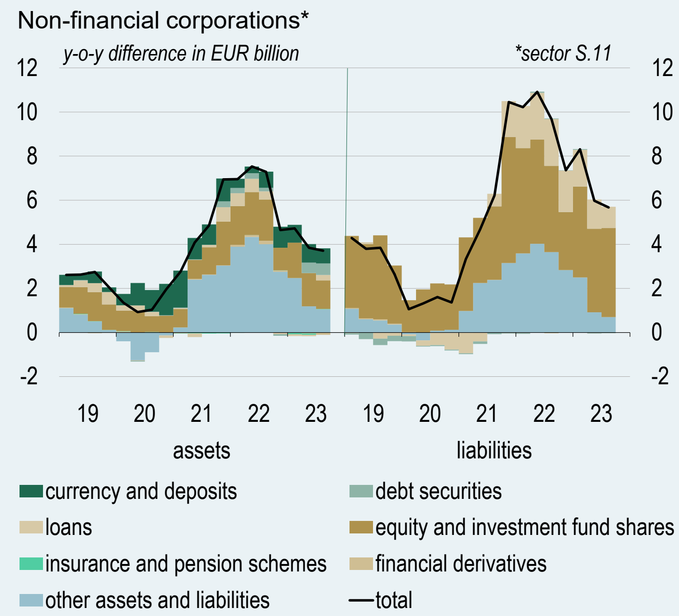
Non-financial corporations' debt amounted to 83.8% of GDP in the third quarter of last year, less than a year earlier and significantly less than the euro area average (138.9%; see Figure 3.2.1, right). In terms of the leverage ratio, domestic non-financial corporations (85.1%) are slightly above non-financial corporations in the euro area overall (73.9%), but well below the peak hit in 2010 (146.7%). The ratio of household debt to GDP has also declined slightly over the last year, and at 28.0% was well below the euro area average (61.9%).

Over the past year, restrictive monetary policy has led to a sharp slowdown in corporate and household borrowing via loans.

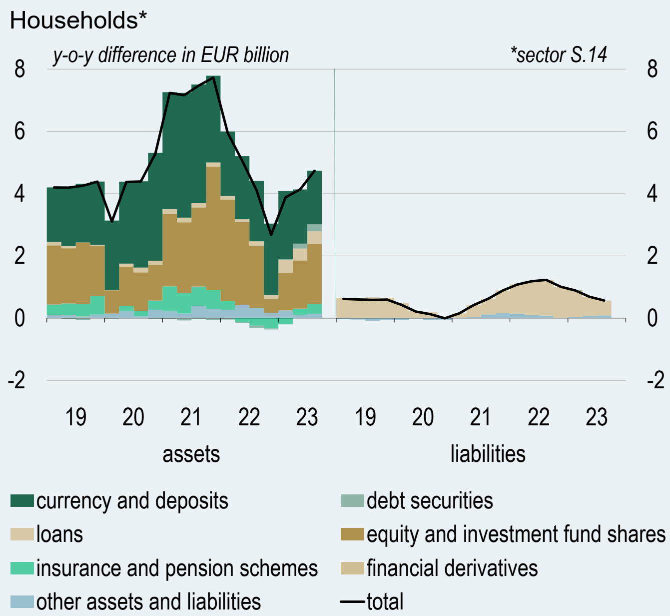
The pace of the increase in non-financial corporations' financial assets and liabilities is slowing. The year-on-year increase in non-financial corporations' holdings of financial assets stood at EUR 3.7 billion at the end of the third quarter of last year, down a half on a year earlier (see Figure 3.2.2, left). There was a notable slowdown in intra-sectoral trade credits, and also to a lesser extent in investment in equity. Similarly, the decline of more than 40% in the year-on-year increase in non-financial corporations' financial liabilities was also marked by a decline in the increase in trade credits raised. The monetary policy tightening meant that the year-on-year increase in loans raised was also down more than a half.

The year-on-year increase in household financial assets again strengthened over the course of the last year. It stood at EUR 4.8 billion in the third quarter, up approximately EUR 720 million on a year earlier, thereby approaching its pre-pandemic levels (see Figure 3.2.2, right). The year-on-year increases in insurance, pension and standardised guarantee schemes and in (government) debt securities strengthened in particular compared with the previous year. Meanwhile the increase in household liabilities slowed continually, in part because of monetary policy measures and rising interest rates. The year-on-year increase in households' loans raised in the third quarter was

Figure 3.2.2: **Financial assets and liabilities**



Source: Banka Slovenije. Latest data: 2023 Q3.



Source: Banka Slovenije. Latest data: 2023 Q3.

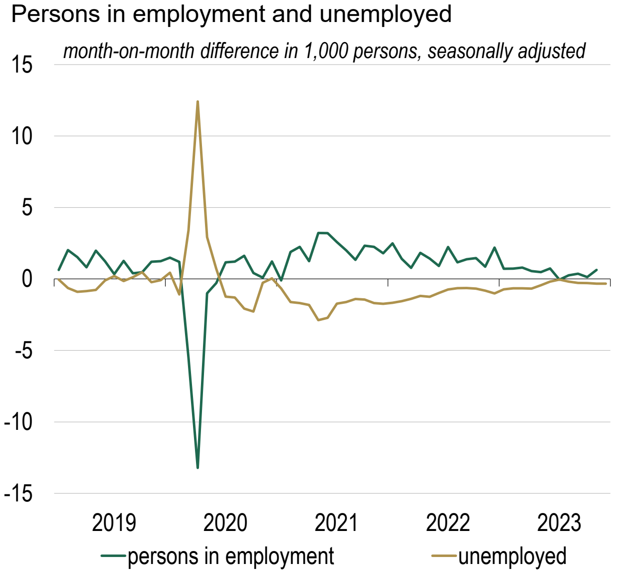
down more than a half. The stock was up EUR 480 million in year-on-year terms, significantly less than a year earlier (EUR 1.1 billion), but comparable to the pre-pandemic increases. The smaller year-on-year increase was almost entirely attributable to long-term loans.

4 Labour Market

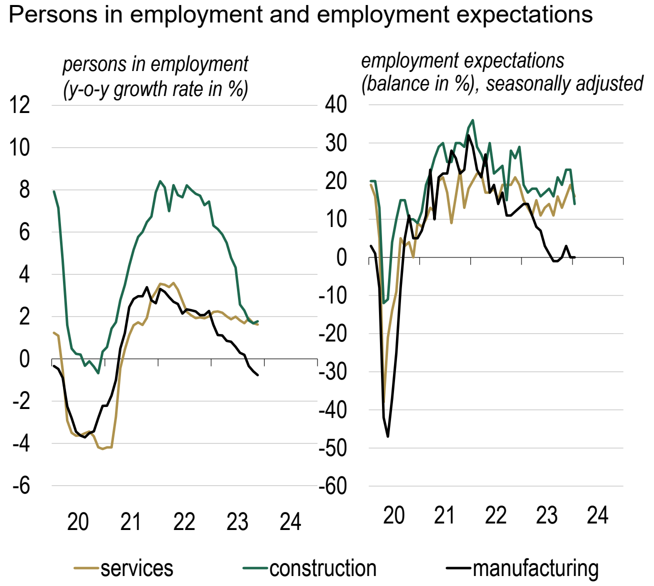
Amid the continuing rise in employment and fall in unemployment, the labour market remains very tight.

The number of persons in employment[12] reached a new record high of 918,839 in November of last year. The number of persons in employment reached a new high in November last year at 918,839, while year-on-year growth, at 0.9%, remained at the level of October and 1.2 percentage points lower than at the beginning of the year (Figure 4.1, left). Growth in services and construction remained unchanged at 1.7% in November, while growth in manufacturing remained negative for the third consecutive month, the decline deepening to 0.8% (see Figure 4.1, right). According to survey data on future employment expectations, employment growth in construction and services will continue, while the outlook in manufacturing is for stagnation (see Figure 4.1, right). With further hiring planned at the aggregate level, many firms are continuing to face labour shortages. According to Employment Service figures, 55.8% of employers faced this issue in the second half of last year,[13] which they mainly resolved by hiring foreign workers. The year-on-year increase in the workforce in employment has been driven solely by foreign labour since August of last year.

Figure 4.1: **Selected labour market indicators**



Source: SORS, Banka Slovenije deseasonalisation and calculations.
Latest data: persons in employment – Nov. 2023, unemployed – Dec. 2023.



Source: SORS, Banka Slovenije deseasonalisation and calculations.
Latest data: persons in employment – Nov. 2023, employment exp. – Jan. 2024.

[12] Excluding self-employed farmers.

[13] See Employment Service of Slovenia (2023): Expert basis for 2024. Ljubljana: Employment Service of Slovenia.

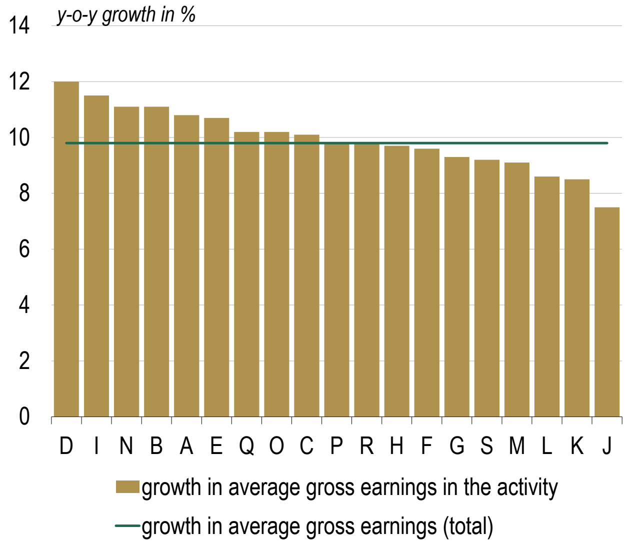
Registered unemployment amounted to 48,353 in December of last year, up slightly on the previous month. The increase is mainly attributable to seasonal developments: the number of unemployed fell again according to seasonally adjusted figures, hitting a record low (see Figure 4.1, left). The registered unemployment rate remained unchanged at 4.8% in November, down 0.5 percentage points on a year earlier.

Average wage growth remains high in the very tight labour market.

Year-on-year growth in the average gross wage remained high at 8.1% in November, albeit down on the previous month and down 3.3 percentage points on the beginning of the year. Firms usually make various extraordinary year-end payments with their November wages, and these were up 5.9% on the previous year, although the share of recipients declined by 0.5 percentage points. Last year's high wage growth was mostly attributable to past inflation and the record tightness of the labour market (see Box 4.1). Growth was broadly based across sectors (see Figure 4.2, left), but was higher in the private sector (9.3%) than in the public sector (5.9%), where the year-on-year impact of the public sector wage agreement reached in October 2022 has dropped out of the calculation. With inflation easing, real wage growth remains positive; at 3.5% in November it significantly outpaced its long-term average[14] (1.2%; see Figure 4.2, right). The ongoing rise in employment means the nominal year-on-year growth in the gross wage bill also remains high, and it stood at 8.9% in November of last year.

Figure 4.2: **Average gross wage per employee**

Growth in average gross earnings across activities in first eleven months of 2023



Source: SORS, Banka Slovenije calculations.

Average gross wage per employee

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

[14] Covers the period from 1996 onwards.

Box 4.1: **Decomposition of growth in compensation per employee in the private sector**

The above-average wage growth seen in the post-pandemic period is attributable to the tightness of the labour market and to high inflation.

The rapid post-pandemic recovery of the economy was accompanied by relatively high wage growth[15] in the private sector. The year-on-year rate has averaged 9.1% over the last three years, significantly above its long-term average[16] (6.1%). This box attempts to explain the drivers of past and current wage growth.

The breakdown of wage growth, obtained by estimating a wage Phillips curve and calculating the contribution of individual factors to growth, is shown in Figure 4.1.1 (left). The model's explanatory variables include the first lag of the dependent variable (wage growth), real growth in labour productivity, the first lag of inflation, labour market tightness, and the first lag of the deviation in wages from the long-term equilibrium. The long-term equilibrium of wages is a function of labour productivity and price levels.

The model used can be described by two equations. The first represents long-term developments in wages, productivity and price levels, while the second models short-term wage developments. The long-term equation is:

$$\log(w_t) = \gamma_1 + \gamma_2 \log(g_t) + \gamma_3 \log(\pi_t) + \epsilon_t \qquad (1)$$

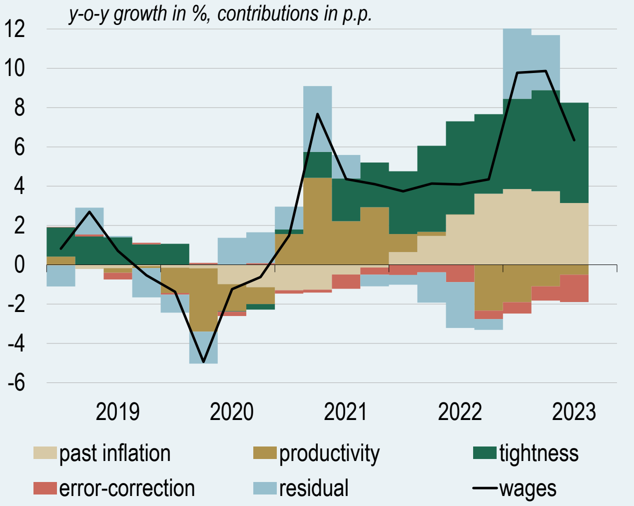
where w_t is compensation per employee in the private sector, g_t is labour productivity, π_t is the price level as measured by the consumer price index and ϵ_t is the model residual, which represents the deviation in wages from the long-term equilibrium. The short-term equation is:

$$\Delta w_t = \beta_1 + \beta_2 \Delta w_{t-1} + \beta_3 \Delta\pi_{t-1} + \beta_3 v/u_t + \beta_4 \Delta g_t + \beta_5 \epsilon_{t-1} + \varepsilon_t \qquad (2)$$

where v/u_t is labour market tightness as measured by the ratio of vacancies to registered unemployment and ε_t is the model residual.

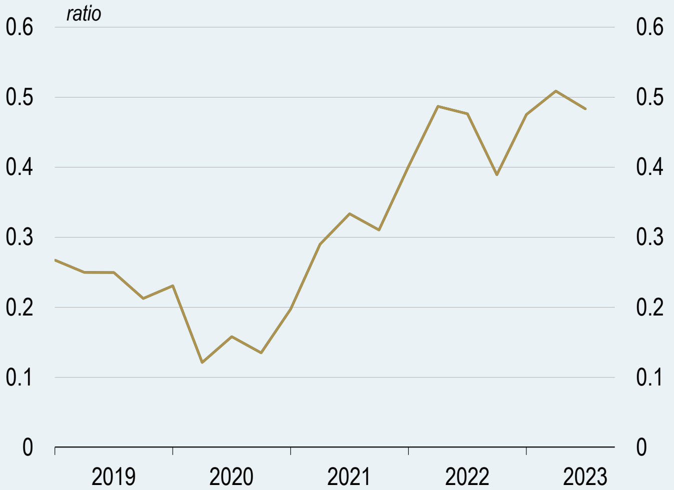
Figure 4.1.1: **Decomposition of wage growth and labour market tightness**

Compensation per employee growth in private sector



Note: Model is estimated on data between 2009 Q2 and 2023 Q3. Growth rate presents deviation from the model average.
Source: SORS, Banka Slovenije calculations.

Labour market tightness



Note: Labour market tightness indicator is measured as the ratio between vacant posts and registered unemployed.
Source: SORS, Banka Slovenije calculations.

[15] In this box wages refers to employee compensation per employee.
[16] Covers the period from 1996 onwards.

Wage growth in 2020 was extremely limited, particularly in the first half of the year. The largest factors in the below-average growth were low labour productivity and the residual (the unexplained part of the decomposition). The former relates to the outbreak of the pandemic and the resulting lockdown, while the residual encompasses, among other things, the statistical effects of job retention schemes and short-time work, which artificially reduced wage growth. There was a gradual strengthening of wage growth in 2021, driven primarily by higher economic activity and the rapid recovery of the labour market, which became very tight (see Figure 4.1.1, right). Wage growth was also profoundly affected by base effects related to the job retention schemes put in place in 2020, which is reflected in the high positive contribution of the residual. The tightness of the labour market increased further in 2022, and became the main factor in high wage growth, which in the second half of the year also began to be driven by rising inflation. This trend was maintained in 2023, when labour market tightness and past inflation remained the main factors in above-average wage growth. There was also a strong positive contribution by the residual, which might partly reflect the impact of the rise in the minimum wage, and also the non-linearity of the dynamics in wages and prices. Last year's high wage growth was slightly mitigated by low growth in labour productivity and long-term equilibrium forces.

5 Current Account

The situation for Slovenian exporters remained difficult towards the end of 2023, which has been reflected in a further contraction in imports of intermediate goods and a decline in trade in transport services.

Deepening geopolitical tensions, a contraction in industrial production in Europe and a decline in competitiveness meant that the adverse developments in foreign trade continued towards the end of last year. According to balance of payments figures, the nominal year-on-year decline in merchandise exports deepened in November, but at 7.2% it was smaller than in the previous quarter (see Figure 5.1, left). A notable factor according to SORS figures[17] was exports of machinery and transport equipment, which recorded their largest year-on-year decline since July 2021, although most product categories saw a deterioration in performance. The euro area market is continuing to record the largest decline in turnover, particularly Italy, mostly in connection with a decline in energy re-exports. Amid easing price pressures, pharmaceutical exports to Russia also declined in value. The continuing contraction in imports of intermediate goods also saw the nominal year-on-year decline in merchandise imports deepen in November for the first time since July, to 11.3% (see Figure 5.1, left). An even more pronounced decline was prevented by an increase in imports of consumer goods.

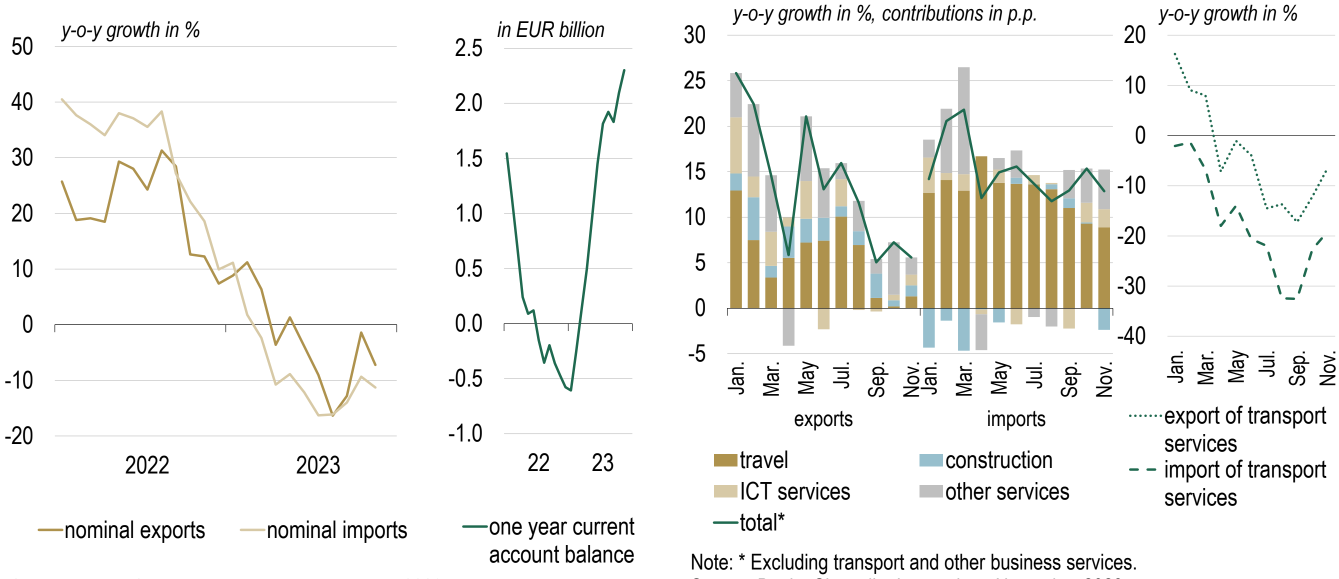
The year-on-year contraction in trade in transport services diminished towards the end of the year in line with developments in merchandise trade, but still amounted to almost 20% on the import side (see Figure 5.1, right). Developments in other segments of services trade were favourable: excluding transport services and miscellaneous business services, imports were up by 12.9% in year-on-year terms and exports up by 5.6%. There is notable ongoing growth in imports of travel services, at more than 20%

[17] Excludes trade in medical and pharmaceutical products and organic chemical products with Switzerland, and imports of organic chemical products from China.

Figure 5.1: **Components of the current account**

Merchandise trade and current account balance

Services trade in 2023



Source: Banka Slovenije. Latest data: November 2023.

Note: * Excluding transport and other business services.
Source: Banka Slovenije. Latest data: November 2023.

in November, while the main increases on the export side were recorded by construction services, ICT services and goods processing services, primarily in connection with re-exports in the pharmaceutical industry.

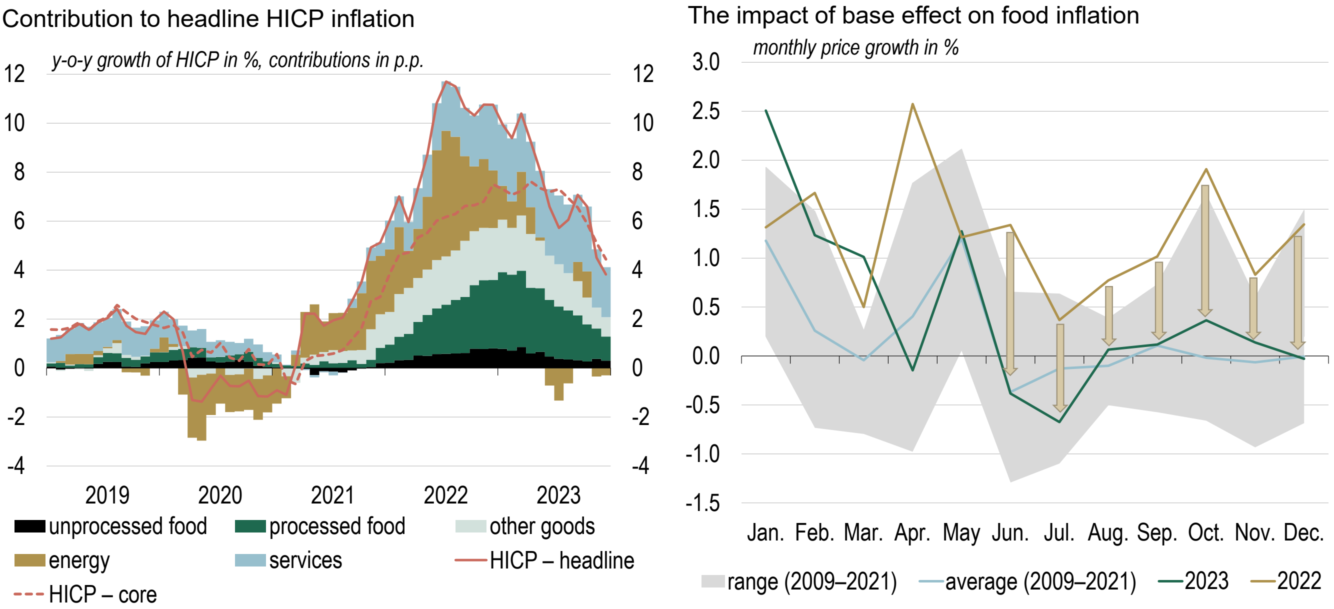
The current account surplus over the first eleven months of 2023 amounted to more than EUR 2.6 billion, following a year-on-year improvement in the position of EUR 2.9 billion, the largest to date. Amid improved terms of trade, the merchandise trade surplus amounted to EUR 590 million, following nominal declines of 8.4% in merchandise imports and 2.7% in merchandise exports. The large trade surplus with Russia was a major factor in this. The services trade surplus approached EUR 3.5 billion, while the deficit in income narrowed to EUR 1.4 billion as a result of an increase in interest receipts. The 12-month current account surplus reached EUR 2.3 billion in November, its highest level of the last two years (see Figure 5.1, left).

6 Inflation

The slowdown in the annual inflation rate at the end of the year was driven primarily by receding growth rates of the non-energy goods and services. High growth of labour costs is holding back an even faster slowdown of the price growth rates, in particular for the core inflation.

The annual rate of inflation as measured by the HICP fell to 3.8% in December, down from 4.5% in November. The decline was a result of slower growth rates of all main subcategories (see Figure 6.1, left). Among them, the rate for energy prices decelerated the least, as its year-on-year price growth remained almost unchanged relative to November. Energy prices fell by 3.9% in monthly terms, driven primarily by lower fuel

Figure 6.1: **Domestic price developments and base effects in food prices**



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

Source: SORS, Eurostat, Banka Slovenije calculations.

prices, which decelerated also because of reduced excise duties and margins on motor fuels.[18] Without this measure, headline inflation in December would have been by about 0.4 percentage points higher according to our estimates.

Food inflation is continuing to slow, however its annual growth rates remain high. It fell to 5.6% in December, or 4.5% excluding alcoholic beverages and tobacco. The slowdown in the second half of the year is attributable to the waning of the impact of past price shocks in energy and primary commodities prices. Indeed, the level of the food price index has mostly been unchanged since May 2023. Moreover, the year-on-year price growth is also receding on account of base effects since the monthly growth rates in the second half of the 2022 have been significantly higher compared the rates in the same period of the 2023 (see Figure 6.1, right).

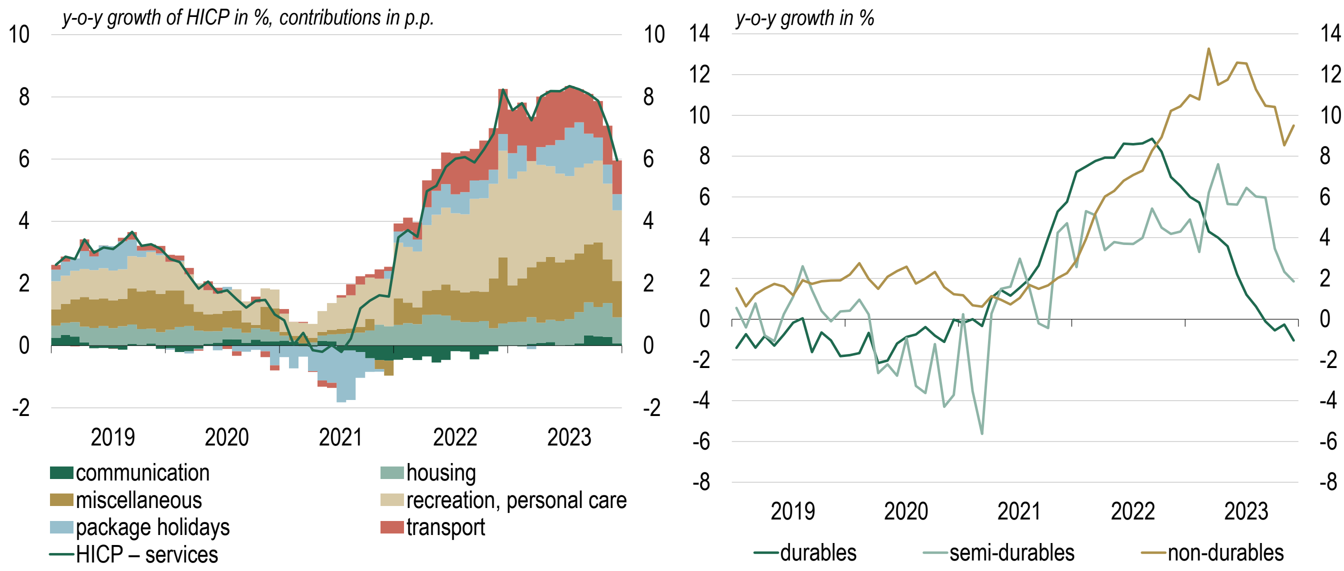
Inflation excluding energy and food slowed to 4.4% in December, down from 5.1% in November. A greater slowdown was mainly prevented by persistently high services inflation, which nevertheless decelerated by more than one percentage point compared to November, standing at 6.0% in December, the lowest figure since September 2022. The largest declines were observed in the contributions by the price categories housing, communication and miscellaneous (see Figure 6.2, left), following the year-on-year slowdown of prices of related to health and dwellings. However, in monthly terms services prices remained almost unchanged (down 0.1%), compared with a rise of 1.0% in December 2022. Therefore, a relatively larger decline in the year-on-year growth could be partly explained by the base effects. Services inflation is also one of the main drivers of discrepancies between domestic and euro area headline inflation. The gap is widened by the differences in unit labour costs, which continue to outpace the euro area average amid low labour productivity and high wage growth in Slovenia.[19]

[18] On 30 November 2023, the government amended the Decree on setting prices for certain petroleum products, which stipulated that between 5 December 2023 and 29 February 2024 retailers margin would be reduced by three cents to 6.83 cents for a litre of diesel and 6.84 cents for a litre of petrol. It also amended the Decree on excise duties on energy products and electricity, which cut the excise duties on petrol and diesel by three cents per litre.

[19] Annual growth rate of unit labour costs stood at 10.6% in nominal terms and at 2.9% in real terms in the third quarter of last year. In euro area, the figures were 6.9% and 1.1%. The gap is even more evident when observing the index since Slovenia is exceeding the level from 2007 by almost 12%, compared with 2% in the euro area overall.

Figure 6.2: **Decomposition of service price inflation and growth in prices of other goods with regard to durability**

Contribution to services inflation | Inflation of non-energy industrial goods per durability



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

Source: SORS. Latest data: December 2023.

In contrast to services prices, growth in prices of non-energy industrial goods has been slowing already for some time now. The rate stood at 2.7% at the end of the year, down from 2.9% in November, following easing of the price pressures in production chains and hence receding growth in producer prices on the domestic market, particularly in energy and commodities prices. The December's reading is the lowest figure in the last two years. In terms of subcomponents, the annual growth rates of durable goods (new and second-hand motor cars, furniture) started to decline already in late 2022 while the rates for semi- and non-durables started to decline in the last couple of months (see Figure 6.2, right), reflecting the overall easing of the pipeline pressures.

Box 6.1: **Structure of consumption and inflation according to household income bracket**

High inflation has led all households to adjust their consumption patterns, notwithstanding their income group.

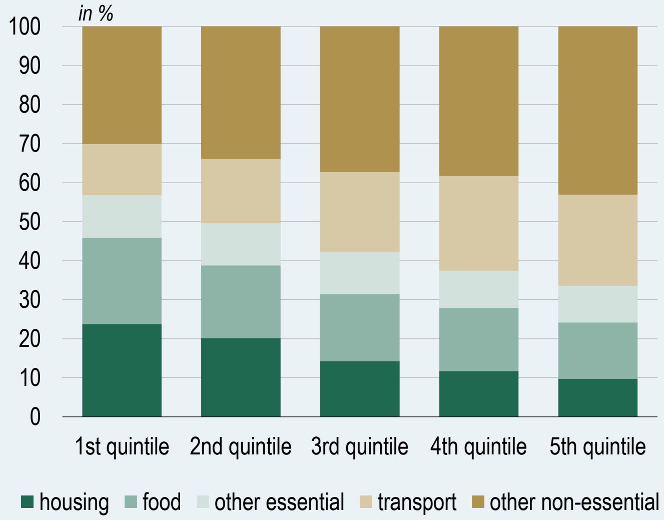
Data on Household Budget Survey for 2022 were published at the end of last year. The SORS collects and publishes them every four years, with the aim of providing detailed insight into personal consumption of the households.[20] The data also includes the structure of consumption by income quintile, thus providing an insight into the different patterns of consumption across the population. The distribution of consumption shows that food and housing account for almost half of the spending of the lowest income quintile households, compared with a quarter for the highest income quintile households (see Figure 6.1.1, left).[21] Conversely, households with the highest income allocate two-

[20] The methodology for collecting and publishing the data from this survey is presented in the SORS methodology.

[21] Some categories have been combined for the sake of simplicity. The housing category includes rentals for housing, maintenance and repair of the dwelling, water supply and miscellaneous services relating to the dwelling, electricity, gas and other fuels excluding motor fuels. Spending related to the purchase or renovation of flats or houses is not included. The category of other essentials includes health, education and communication, while the category of other non-essentials includes alcoholic beverages and tobacco, clothing and footwear, furnishings and household equipment, recreation and culture, hotels and restaurants, and miscellaneous goods and services. The transport category includes purchases and services related to means of transport, where car purchases account for approximately 30% of the category while fuels, maintenance, repairs and other services related to personal vehicles account for almost 60%.

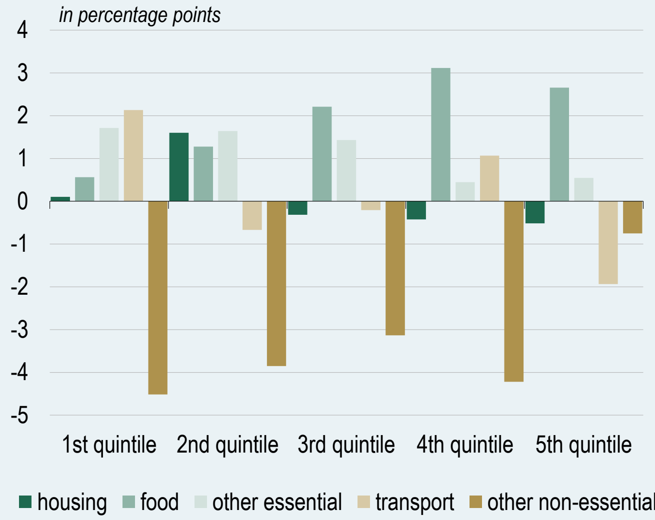
Figure 6.1.1: **Structure of consumption according to household income bracket and change since 2018**

Decomposition of household consumption by income quintile



Source: Household Budget Survey, 2022 – SORS, Banka Slovenije calculations.

Changes in the structure of household consumption between 2018 and 2022 surveys by income quintile



Source: Household Budget Survey, 2022 – SORS, Banka Slovenije calculations.

thirds (66%) of their consumption for other non-essentials and transport expenses, which includes car purchases, while the figure for the households with the lowest income is significantly lower, at just over two-fifths (43%).

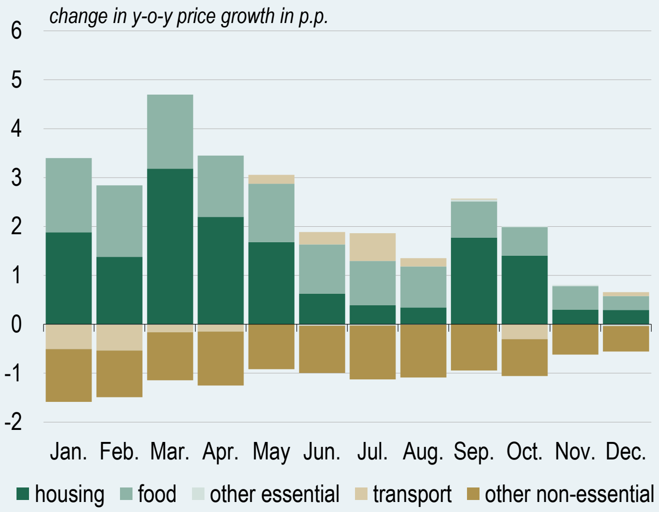
The economic situation changed significantly between the two surveys conducted in 2018 and 2022, and this had had an impact on households, particularly via the change of consumer price inflation. Indeed, inflation as measured by the HICP stood at 1.9% in 2018 while it rose to 9.3% in 2022. A change in economic environment has also been reflected in the structure of consumption across all household income quintiles, including those with the highest income. The share of households expenditure on food and non-alcoholic beverages was on average 2 percentage points higher than in 2018 (at 18%), with households in the top two income quintiles recording the largest increases (see Figure 6.1.1, right). Households mostly mitigated the increase in the share of spending on food and other essentials by reducing their consumption of non-essential consumer goods. The most notable reductions came in the category recreation and culture as its share of spending declined by on average 2.5 percentage points, with households with the lowest income recording the largest reductions and households with the highest income the smallest. The pandemic was certainly another driver of the change in consumption patterns since the lockdown periods limited spending in hospitality sector in particular, which is considered as non-essential expenses.

Last year as well it was more vulnerable households in terms of their income who experienced higher inflation.

Based on the results from the household budget survey, which are indicating changes in the consumption patterns, we estimated inflation over the past year as experienced by households across different income quintiles. Here the weighting in the calculation corresponds to the shares of the consumer basket that households allocate for consumption of different categories.

Figure 6.1.2: **Decomposition of differences in inflation between income quintiles and energy price inflation**

Decomposition of differences in inflation between the lowest and the highest lowest income quintile in 2023



Source: Household Budget Survey, 2022 – SORS, Eurostat, Banka Slovenije calculations.

Energy inflation in 2023

Source: SORS, Eurostat.

We find that the differences between households were narrowing over the course of 2023, in line with declining headline inflation. In the first half of the year, households with the lowest income experienced on average 2.0 percentage points higher inflation compared to the households with the highest income. However, the gap between the two income groups narrowed to 0.7 percentage points in the second half of the year (see Figure 6.1.2, left). Given the aforementioned structure of spending, food and housing expenses contributed to the widening of the gap all year around, while non-essential consumer goods have been narrowing it. Since housing expenses include electricity, gas and heating, it can be observed that the gap between the lowest and highest income brackets was wider in the months when the growth rates of energy prices, in particular electricity prices, were higher (see Figure 6.1.2, right).

It is a similar case with the transport category, where the differences between the two income groups are attributable to developments in fuel prices.[22] We can observe that the lowest year-on-year growth in fuel prices was in June and July last year, which led households with the lowest income experiencing a smaller fall in prices of the transport category compared to households within the highest income quintile, as transport represents a relatively smaller share of their consumer basket. Consequently, inflation was higher at that time for households within the lowest income quintile than for those within the highest income quintile, which is reflected in the transport category's positive contribution to the gap in headline inflation. It was the opposite case in January, February and October, when positive year-on-year growth in fuel prices led households with the lowest income experienced lower inflation than those with the highest income. This is reflected in the transport category's negative contribution to the gap in headline inflation.

The results show that it was the most vulnerable households in terms of income that were the most exposed to rising prices in 2022 and 2023.[23] Although the differences between households in terms of inflation that they experience were gradually narrowing over the course of 2023, it is advisable for the household support measures to be as targeted as possible, taking into account differing impact of rising prices on households with low, medium or high income.

[22] Fuels account for almost 38% of the items and services of the transport category according to the European Classification of Individual Consumption according to Purpose (ECOICOP).

[23] See Box 6.1 of the January 2023 issue of the Review of macroeconomic developments.

Box 6.2: **Monitoring of price developments in the basket of basic foodstuffs**

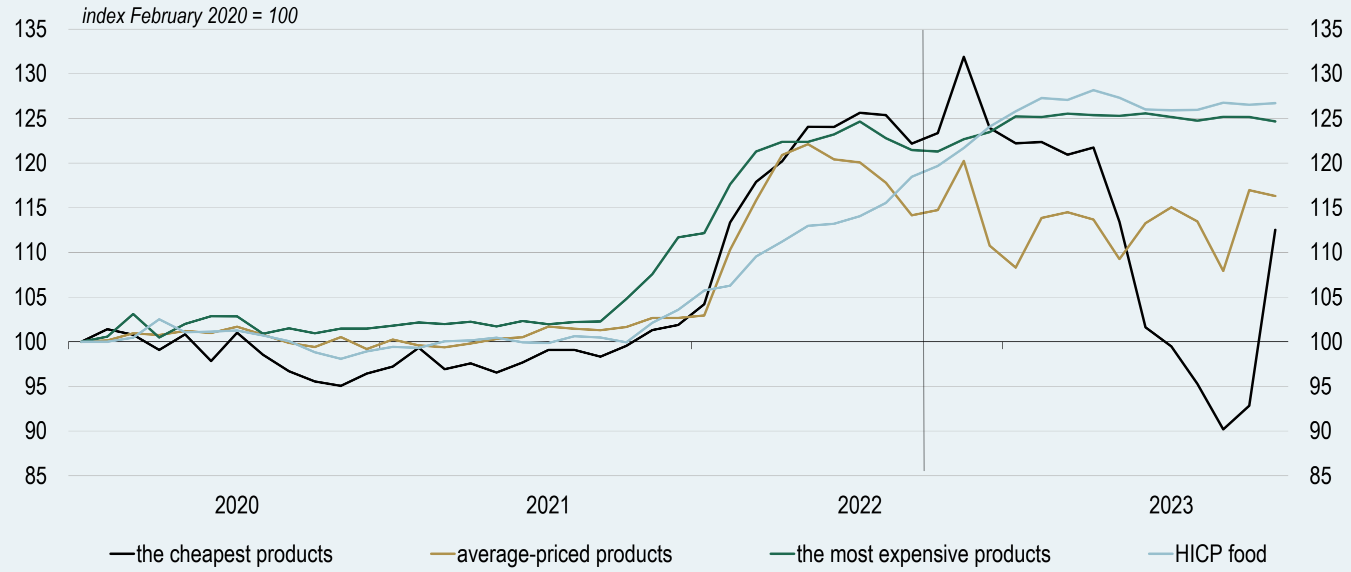
The price of the basket of the cheapest 15 basic food items can provide additional information for consumers, but it does not reflect the comprehensive movement of food prices.

In September 2022 the government launched a project to monitor retail prices of a basket of 15 basic foodstuffs, covering the cheapest undiscounted products at six major retail chains operating in Slovenia.[24] The price of this basket can represent an additional source of information for consumer decisions, as food accounts for a significant portion of the spending of the average Slovenian household.[25] However, any changes in this price do not reflect the entirety of developments in food prices in Slovenia.

This box examines the developments in prices of a basket of products in three different price categories of the same 15 basic foodstuffs, as monitored by the government, albeit using a different methodology, over the period of February 2020 and December 2023 on the basis of online shopping data from two major retailers in Slovenia. It takes account solely of prices of products that are available for purchase in selected online shops, and allows for baskets to be combined, i.e. it is not necessary to purchase all 15 products at the same online shop.[26]

The price of the basket of the cheapest products averaged EUR 34 in February 2020, and EUR 38 in December 2023. The price peaked at approximately EUR 45 in December 2022. The results show that the basket of products fell in price significantly last year, with an increase only evident towards the end of the year, in part owing to rises in the prices of the cheapest available meat products.

Figure 6.2.1: **Developments in the price of the basket of 15 selected basic foodstuffs**



Note: The vertical line indicates the launch of the government project to monitor prices.
Source: Online shops of two selected retailers, SORS, Banka Slovenije calculations. Latest data: December 2023.

[24] For more on this project, which was suspended in January 2024, see the Government of the Republic of Slovenia website.

[25] More information can be found in the October 2021 issue of Banka Slovenije's Economic and Financial Developments, in the selected theme entitled *Consumer price inflation across income categories, and income inequality*.

[26] The analysis is based on a methodology that differs from that used in the government project, and the results may therefore differ too. For more on the data and methodology of the analysis, see Pezdir, M. and Zorko, R.: Analysis of developments in food prices on the basis of daily online prices, Discussion Papers, Banka Slovenije, May 2023 (in Slovene).

When the price of the basket including the cheapest products fell last year, particularly in the second half of the year, this was not markedly evident in the other two baskets. The prices of the most expensive basket of the 15 basic foodstuffs and the basket of averagely priced products last year remained broadly unchanged from the end of 2022. Only prices in the basket of the cheapest products fell significantly last year, which shows that price monitoring of this kind does not necessarily reflect the actual developments in food prices, but can merely provide help for consumers in their purchasing decisions (comparisons between retailers). The official food price index (excluding beverages and tobacco) calculated by the SORS shows that last year food prices remained slightly above their levels from the end of 2022.

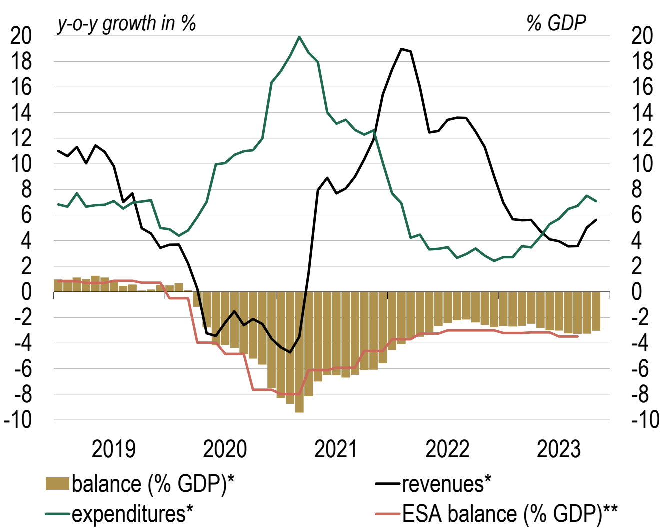
7 Fiscal Position

The consolidated public finance deficit widened last year, driven in part by the higher amount of the temporary support measures, while certain other expenditure also recorded high growth.

The consolidated public finance deficit amounted to EUR 1.1 billion over the first eleven months of the year, an increase of around EUR 330 million compared with the same period of the previous year (see Figure 7.1, left). The rise of 6.1% in revenues was driven by taxes and social security contributions. The highest growth was recorded by social security contributions, personal income tax, and taxes on goods and services, in reflection of the favourable situation on the labour market as far as public finances are concerned, and the high inflation. Excise duties recorded the highest growth in taxes on goods and services, on account of rises in excise duties on fuels and on tobacco,

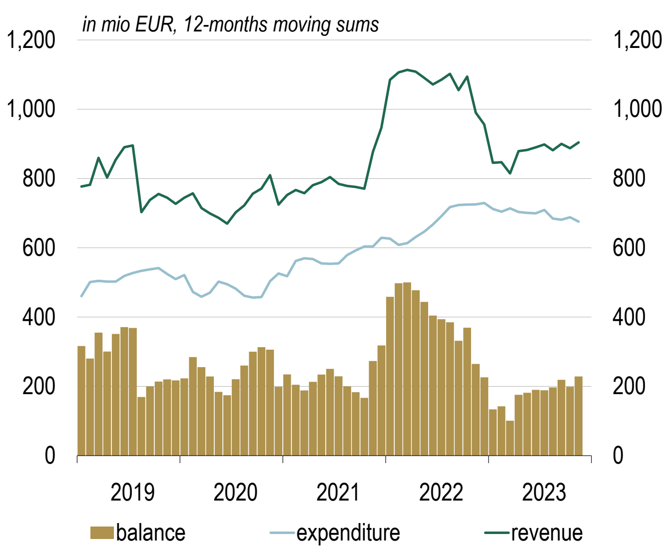
Figure 7.1: **Public finance developments according to cashflow methodology, and flows with the EU budget**

Public finance developments



Note: * Consolidated public finance accounts, 12-month sums. ** Sum 4-quarters.
Source: SORS, Ministry of finance, Banka Slovenije calculations.
Latest data: November 2023, except of ESA balance: 2023 Q3.

Flows with EU budget



Source: Ministry of finance, Banka Slovenije calculations.
Latest data: November 2023.

and payments of deferred tax liabilities. The rise in interest rates also drove a significant increase in revenues from interest.

Expenditure was up 7.4%, with the largest increases being recorded by subsidies, wages and investment. The increase in subsidies is largely a reflection of the measures to mitigate the rise in energy prices, while the increase in wage expenditure was attributable to adjustments on the basis of the agreement between the government and the public sector trade unions reached in October 2022. Growth in investment expenditure also remained high last year, as the previous 2014-2020 financial framework came to an end.

According to preliminary figures, last year the state budget recorded a deficit of EUR 2.3 billion or 3.7% of estimated GDP. As expected, this was less than had been planned by the revised budget, but more than in the previous year. The widening of the deficit was also attributable to the higher amount of the support measures to mitigate the rise in energy prices and the post-flood reconstruction.

Slovenia continues to run a surplus in its flows with the EU budget. The 12-month surplus in November of last year was down slightly on a year earlier (see Figure 7.1, right). In December Slovenia received EUR 100 million of prepayments from the EU Solidarity Fund and EUR 536 million on the basis of a second request for funding from the European recovery and resilience facility, thus obtaining approximately a third of its available funding.

8 Statistical Appendix

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

	2021	2022	12 m. 'till Oct.23	3 m. 'till Oct.22	3 m. 'till Oct.23	2023 Sep.	2023 Oct.	2023 Nov.	2023 Dec.	2024 Jan.
Economic Activity										
	balance of answers in percentage points									
Sentiment indicator	2.5	0.6	-3.3	-3.5	-5.5	-5.2	-5.4	-4.7	-3.4	-3.2
- confidence indicator in manufacturing	8.3	-0.2	-7.8	-5.7	-10.0	-10.0	-10.0	-8.0	-7.0	-8.0
	year-on-year growth rates in %									
Industry: - total	10.2	1.2	-5.0	0.1	-5.9	-5.5	0.0	-0.8	...	...
- manufacturing	11.8	3.9	-3.5	3.9	-6.0	-5.6	-0.6	-0.4	...	...
Construction: - total	-0.5	22.2	23.0	22.0	17.7	28.5	7.3	11.6	...	...
- buildings	-23.0	53.4	18.3	61.0	3.0	11.9	-10.0	1.9	...	...
Trade and service activities - total	12.2	9.8	0.1	5.7	-2.1	-1.9	-0.8	...	...	...
Wholesale and retail trade and repair of motor vehicles	8.3	-0.4	9.4	3.4	9.8	10.2	11.1	...	...	...
Retail trade, except of motor vehicles and motorcycles	16.3	7.7	-5.3	4.5	-7.7	-9.6	-4.1	...	...	...
Other private sector services	12.4	11.8	2.1	6.0	-0.2	0.9	-0.2	...	...	...
Labour market	*year-on-year growth rates in %*									
Average gross wage	6.0	2.7	9.4	6.3	9.8	9.5	9.2	8.1	...	...
- private sector	5.9	6.3	9.1	7.3	9.0	8.4	9.4	9.3	...	...
- public sector	6.4	-2.6	9.9	4.8	11.2	11.5	8.9	5.9	...	...
Real net wage1	3.0	-5.1	1.2	-3.1	2.6	1.9	2.1	3.1	...	...
Registered unemployment rate (in %)	7.6	5.8	5.0	5.4	4.8	4.7	4.8	...	...	...
Registered unemployed persons	-12.6	-23.8	-15.7	-21.3	-11.5	-11.6	-10.9	-10.2	-9.1	...
Persons in employment	1.3	2.4	1.5	2.1	0.9	0.9	0.8	0.8	...	...
- private sector	1.3	3.0	1.7	2.7	0.9	0.9	0.8	0.7	...	...
- public sector	1.1	0.7	0.8	0.5	0.9	1.0	0.9	0.9	...	...
Price Developments	*year-on-year growth rates in %*									
HICP	2.0	9.3	8.3	10.8	6.6	7.1	6.6	4.5	3.8	...
- services	0.6	5.5	7.9	6.1	8.1	8.1	7.9	7.1	6.0	...
- industrial goods excluding energy	1.3	6.3	6.1	7.0	4.5	4.7	3.7	2.9	2.7	...
- food	0.7	10.6	13.4	13.3	9.2	9.4	7.8	7.0	5.6	...
- energy	11.3	24.8	5.5	27.9	3.2	5.8	8.0	-2.2	-2.3	...
Core inflation indicator[2]	0.9	5.9	7.1	6.5	6.5	6.6	5.9	5.1	4.4	...
Balance of Payments - Current Account	*in % GDP*									
Current account balance	3.3	-1.0	3.4	2.3	3.7	5.3	4.9	3.2	...	...
1. Goods	1.7	-3.8	0.1	-2.7	-0.2	2.0	1.3	0.0	...	...
2. Services	4.2	6.1	5.9	7.5	6.3	6.1	5.8	5.5	...	...
3. Primary income	-1.4	-2.2	-1.5	-1.7	-1.4	-1.2	-1.3	-1.4	...	...
4. Secondary income	-1.1	-1.1	-1.1	-0.8	-1.0	-1.6	-1.0	-0.8	...	...
	nominal year-on-year growth rates in %									
Export of goods and services	19.4	22.9	1.4	24.7	-8.0	-12.3	-0.5	-5.1	...	...
Import of goods and services	25.6	29.0	-3.1	26.8	-10.7	-12.0	-7.3	-9.8	...	...

Public Finances Consolidated general government (GG) balance[3]	2021	2022	12 m. 'till Nov.23		2022 Jan.-Nov.		2023 Jan.-Nov.	
	EUR mio		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %
Revenue	21,383	23,311	39.2	5.6	21,201	9.9	22,495	6.1
Tax revenue	18,786	20,557	34.7	6.1	18,749	10.1	19,957	6.4
From EU budget	950	961	1.5	-8.2	816	5.4	766	-6.1
Other	1,646	1,794	3.1	7.5	1,637	9.8	1,772	8.2
Expenditure	24,300	24,886	42.3	7.1	21,950	2.1	23,576	7.4
Current expenditure	10,394	10,283	17.6	6.0	9,176	0.6	9,963	8.6
- wages and other personnel expenditure	5,751	5,481	9.6	11.8	4,961	-6.4	5,529	11.4
- purchases of goods, services	3,351	3,557	6.1	6.0	3,082	9.3	3,356	8.9
- interest	732	661	1.1	6.8	648	-9.8	694	6.9
Current transfers	11,319	11,261	18.9	6.4	10,193	-1.5	10,818	6.1
- transfers to individuals and households	9,168	9,294	15.3	3.8	8,513	0.8	8,805	3.4
Capital expenditure, transfers	1,959	2,612	4.6	19.0	1,928	31.5	2,195	13.9
GG surplus/deficit	-2,917	-1,575	-3.0		-749		-1,081	

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

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

	2020	2021	2022	22Q4	23Q1	23Q2	23Q3	2020	2021	2022	22Q4	23Q1	23Q2	23Q3
				Slovenia							*euro area*			
Economic developments								*q-o-q growth in %*						
GDP				0.6	0.2	1.0	-0.2				-0.1	0.1	0.1	-0.1
- industry				-0.8	-0.5	1.4	0.2				-0.3	-1.1	-0.4	-1.0
- construction				5.5	3.8	6.1	2.3				-0.2	1.9	-0.8	-0.1
- mainly public sector services (OPQ)				3.4	-2.2	0.9	-0.5				0.3	0.3	0.1	0.2
- mainly private sector services (without OPQ)				0.1	0.9	1.0	-0.1				-0.2	0.2	0.0	-0.1
Domestic expenditure				2.2	-2.6	-1.3	0.4				-0.5	-0.6	0.8	-0.1
- general government				1.0	0.8	0.9	0.3				0.5	-0.5	0.2	0.4
*- households and NPISH**				-0.1	0.3	-0.2	0.1				-0.8	0.1	0.0	0.3
- gross capital formation				2.3	-4.2	-6.8	2.9				-0.8	-2.1	2.9	-1.4
- gross fixed capital formation				0.3	4.3	2.6	0.8				-0.4	0.4	-0.1	0.0
								y-o-y growth in %						
GDP	-4.2	8.2	2.5	-0.2	1.0	1.6	1.1	-6.1	5.9	3.4	1.5	1.5	0.3	-0.3
- industry	-3.2	8.7	-3.1	-4.1	-2.0	2.0	1.2	-6.0	8.7	1.3	0.5	0.0	-1.6	-3.3
- construction	-1.5	10.4	7.2	11.1	15.1	21.0	18.4	-5.3	2.9	1.1	-1.4	0.8	-0.8	0.1
- mainly public sector services (OPQ)	2.4	4.1	1.4	3.5	0.1	1.8	1.6	-2.9	3.5	1.9	2.0	1.8	1.1	0.8
- mainly private sector services (without OPQ)	-5.5	8.3	4.9	0.4	1.7	2.6	1.6	-6.6	6.3	3.8	1.7	1.8	0.3	-0.4
Domestic expenditure	-4.3	10.1	3.7	0.1	-3.2	-3.0	-1.4	-5.7	4.7	3.5	0.9	0.8	0.2	-0.7
- general government	4.2	6.1	-0.5	-1.6	-0.8	3.4	2.8	1.0	4.2	1.6	0.6	-0.3	0.2	0.6
- households and NPISH	-6.5	10.3	3.6	0.2	3.1	0.3	-0.8	-7.7	4.4	4.2	1.1	1.6	0.3	-0.6
- gross capital formation	-6.3	13.9	7.9	1.9	-16.9	-14.9	-6.1	-7.1	6.1	4.0	0.8	0.1	0.1	-2.1
- gross fixed capital formation	-7.2	12.6	3.5	0.7	7.7	11.2	8.3	-5.9	3.5	2.6	0.2	2.3	0.6	-0.7
- inventories and valuables, contr. to GDP growth in p.p.	0.1	0.4	1.0	0.3	-6.3	-6.1	-3.2	-0.3	0.6	0.3	0.1	-0.5	-0.1	-0.3
Labour market								*q-o-q growth in %*						
Employment				0.4	0.4	0.1	0.1				0.4	0.5	0.1	0.2
- mainly private sector (without OPQ)				0.4	0.4	0.1	0.1				0.4	0.6	0.1	0.2
- mainly public services (OPQ)				0.4	0.3	0.4	0.4				0.3	0.3	0.2	0.3
								y-o-y growth in %						
Employment	-0.7	1.3	2.9	2.4	1.8	1.4	1.0	-1.4	1.4	2.3	1.5	1.7	1.4	1.3
- mainly private sector (without OPQ)	-1.4	1.0	3.1	2.6	1.9	1.4	0.9	-2.2	1.2	2.5	1.6	1.8	1.5	1.4
- mainly public services (OPQ)	2.2	2.7	2.0	1.5	1.4	1.5	1.5	1.0	2.1	1.6	1.3	1.2	1.1	1.2
Labour costs per employee	3.4	8.1	5.0	7.4	12.6	13.5	10.7	-0.3	4.2	4.5	5.0	5.6	5.6	5.3
- mainly private sector (without OPQ)	1.5	8.1	7.7	8.0	13.4	13.5	10.0	-1.3	4.9	4.8	4.7	6.1	5.7	5.5
- mainly public services (OPQ)	9.4	7.7	-3.1	5.5	10.1	13.5	13.0	2.0	2.3	3.8	5.8	4.1	5.2	4.6
Unit labour costs, nominal**	7.2	1.1	5.4	10.2	13.5	13.3	10.6	4.7	-0.4	3.4	5.0	5.7	6.7	6.9
Unit labour costs, real***	6.0	-1.5	-1.0	3.1	2.0	3.8	2.9	2.8	-2.5	-1.2	-0.6	-0.5	0.6	1.1
								in %						
LFS unemployment rate	5.0	4.7	4.0	3.5	3.8	3.6	3.9	7.9	7.7	6.8	6.7	6.8	6.3	6.5
Foreign trade								*q-o-q growth in %*						
Real export of goods and services				-5.8	0.4	-1.0	-2.4				-0.3	-0.4	-1.1	-1.2
Real import of goods and services				-4.0	-2.0	-2.3	-3.5				-1.1	-1.7	0.0	-1.2
								y-o-y growth in %						
Real export of goods and services	-8.5	14.5	7.2	-1.3	2.5	-1.3	-9.2	-9.1	11.5	7.2	3.8	3.1	-0.6	-3.5
Real import of goods and services	-9.1	17.8	9.0	-1.1	-2.1	-6.2	-12.1	-8.5	9.2	7.9	2.7	1.9	-0.7	-4.5
Current account balance as % of GDP****	7.2	3.3	-1.0	-1.0	0.2	2.4	3.0	1.6	2.3	-0.7	-0.7	-0.6	-0.3	0.3
External trade balance as contr. to GDP growth in p.p.	-0.3	-1.0	-1.0	-0.2	4.3	4.4	2.4	-0.6	1.4	0.0	0.6	0.7	0.1	0.4
Financing								*in % of GDP*						
Banking system's balance sheet	98.0	94.4	90.8	90.8	88.0	87.3	86.3	293.3	282.2	277.9	277.9	275.6	270.3	270.5
Loans to NFCs	20.2	19.2	20.0	20.0	19.6	19.2	18.6	39.7	37.4	37.0	37.0	36.3	35.8	35.2
Loans to households	22.8	21.6	21.5	21.5	21.0	20.6	20.4	52.7	50.7	48.9	48.9	48.1	47.3	46.7
Inflation								*in %*						
HICP	-0.3	2.0	9.3	10.6	9.9	7.9	6.3	0.3	2.6	8.4	10.0	8.0	6.2	5.0
HICP excl. energy, food, alcohol and tobacco	0.8	0.9	5.9	7.0	7.2	7.4	6.9	0.7	1.5	4.0	5.1	5.6	5.5	5.1
Public finance								*in % of GDP*						
Debt of the general government	79.6	74.4	72.3	72.3	72.0	70.4	71.4	97.2	94.7	90.9	90.9	90.7	90.3	...
One year net lending/net borrowing of the general government****	-7.6	-4.6	-3.0	-3.0	-3.2	-3.2	-3.5	-7.1	-5.2	-3.6	-3.6	-3.7	-3.8	...
*- interest payment**** *	1.6	1.2	1.1	1.1	1.1	1.2	1.2	1.5	1.5	1.7	1.7	1.7	1.7	...
*- primary balance**** *	-6.1	-3.4	-1.9	-1.9	-2.1	-2.0	-2.3	-5.5	-3.8	-1.9	-1.9	-2.0	-2.1	...

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

9 Figures and tables

Figures

Tables

10 List of abbreviations

Abbreviations

BoS	Banka Slovenije
CCI	Chamber of Commerce and Industry of Slovenia
CHP	Combined heat and power
EA	Euro area
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
Fed	US Federal Reserve System
FOMC	Federal Open Market Committee
FRED	Federal Reserve Economic Data,
GDP	Gross domestic product
HICP	Harmonised index of consumer prices
IMAD	Institute of Macroeconomic Analysis and Development
IMF	International Monetary Fund
NGEU	NextGenerationEU recovery and resilience plan
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight index swap
PMI	Purchasing Managers' Index
RES	Renewable energy sources
S&P 500	Standard and Poor's 500
SHI	Supplemental health insurance
SORS	Statistical Office of the Republic of Slovenia
ULCs	Unit labour costs
US	United States of America
USD	United States dollar
VAT	Value added tax
wiiw	Vienna Institute for International Economic Studies
WTO	World Trade Organisation
ZDO	Long-Term Care Act
ZEW	Centre for European Economic Research

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

A: Agriculture, forestry and fishing; B: Mining and quarrying; C: Manufacturing; D: Electricity, gas, steam and air conditioning supply; E: Water supply, sewerage, waste management and remediation activities; F: Construction; G: Wholesale and retail trade, repair of motor vehicles and motorcycles; H: Transportation and storage;I: Accommodation and food service activities; J: Information and communication; K: Financial and insurance activities; L: Real estate activities; M: Professional, scientific and technical activities; N: Administrative and support service activities; O: Public administration and defence, compulsory social security P: Education; Q: Human health and social work activities; R: Arts, entertainment and recreation; S: Other service activities; T: Activities of households as employers, undifferentiated goods- and services-producing activities of households for own use; U: Activities of extraterritorial organisations and bodies.