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Summary

Economic growth in Slovenia slowed in the second quarter, and was comparable to the average rate across the euro area. The economic sentiment in August was similar to the end of the second quarter, while headline inflation and core inflation continued to fall.

- **Current economic growth in the euro area stood at 0.3% in the second quarter, unchanged from the previous quarter.** There was variation between individual countries, but overall it was again driven primarily by services, while manufacturing is continuing to contract according to the survey indicators.Uncertainty is continuing to worsen the economic sentiment, and the weak activity is being reflected in the ongoing fall in headline inflation: the euro area average slowed to 2.2% in August. Core inflation meanwhile slowed to 2.8%, and is continuing to reflect the relatively robust service price inflation. The distribution of inflation rates across euro area countries has narrowed over the last year, but remains slightly wider than before the pandemic. According to the IMF's July projections, the euro area economy is forecast to grow by 0.9% this year and by 1.5% next year, while similar forecasts were made by the ECB in June (2024: 0.9%; 2025: 1.4%).
- **Markets are expecting a faster pace of central bank rate cuts amid signs of a slowdown in the global economy.** Based on current interest rate swap rates, investors are pricing in a further cut in the ECB's key interest rate and the Fed's first rate cut in September. Both central banks left their key interest rates unchanged at their most recent monetary policy meetings.
- **After a marked shift by investors into safer assets at the beginning of August, financial markets have calmed down.** While US and German government bond yields have fallen since the end of June, gold prices have risen to record highs. With the exception of the major US technology companies, stock prices in Europe and the US recovered over the rest of August, approaching the record levels seen in early July.
- **Economic growth in Slovenia in the second quarter was comparable to that in the euro area overall.** The year-on-year rate slowed to 0.7% (from 2.1% in the first quarter), with the growth driven primarily by government consumption and household consumption. Household consumption was supported by the fall in inflation and the persistent buoyancy of the labour market, while the high growth in government consumption reflected the increased expenditure on healthcare and on the post-flood reconstruction. Conversely, economic growth was curtailed by a decline in exports driven by the weakness of activity in key trading partners, and by lower construction investment. Construction is no longer contributing to economic growth, but activity in the sector remains strong. Growth in private-sector services strengthened, while value-added in manufacturing is also up this year after last year's challenges. The economic sentiment over the summer remained broadly unchanged from the mid-point of the year, while the nowcasts are predicting quarterly GDP growth of 0.4% in the third quarter based on a relatively limited dataset.
- **The high growth in foreign trade seen at the beginning of the second quarter had slowed by the end of the quarter.** Aggregate exports and imports in June

were down in year-on-year terms, by 6.7% and 2.6% respectively. The sole increase was in services imports, primarily as a result of increases in transport and travel services. Slovenia's export activity has been declining for the last year, with exports to the German market recording one of the most notable falls. Slovenia's main trading partner is facing challenges that for now seem to be increasingly structural, but there is currently no sign of any major adjustments by the export sector or a retargeting of other markets.

- **The labour market remains tight midway through the year, and wage growth in still relatively high.** The number of persons in employment fell slightly in June, but remains close to its record high. Meanwhile the survey data suggests that hiring will continue in the second half of the year. Registered unemployed rose slightly in July in line with seasonal movements, but remains close to its record low. The tightness of the labour market is also evidenced in labour shortages. Growth in employment continues to be driven solely by foreign nationals, who primarily occupy low-paid jobs and make up 15.7% of the persons in employment, almost 9 percentage points more than a decade ago. Year-on-year growth in the average gross wage remains relatively high at 5.2%, albeit down almost a half on a year ago.
- **Inflation continued to fall in August, driven largely by smaller contributions from prices of other goods and energy prices.** Year-on-year inflation as measured by the HICP slowed to 1.1% and thus remains below headline inflation in the euro area. The fall was primarily attributable to the further deepening of the fall in prices of other goods and energy, while service price inflation was also down slightly in July. The accelerating fall in prices of other goods is also being reflected in developments in core inflation: it fell for the sixth consecutive month to reach 2.1% in August. Conversely, food price inflation strengthened again.
- **The deficit of consolidated balance of public finances is narrowing this year amid a favourable dynamic in revenues, and the government is drawing up documents to set out its key fiscal orientation for the future.** The deficit of the consolidated balance of public finances amounted to EUR 480 million over the first seven months of the year, EUR 125 million less than in the same period last year. The improvement reflects the high growth in revenues driven by a labour market situation that remains highly favourable to the public finances, large corporate income tax settlements, and the declining impact of extraordinary measures. Budget documents are being drawn up for the next two years. A medium term fiscal structural plan is also under preparation, in line with the EU's new fiscal rules. The key will be pursuing debt sustainability over the medium term, and maintaining a general government deficit at below 3% of GDP.

1 International Environment

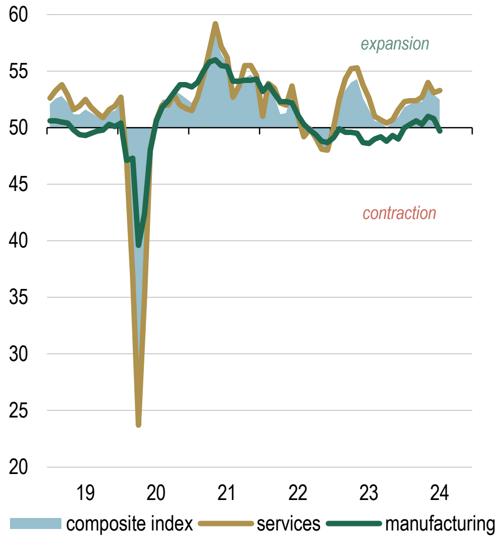
Economic growth in major economies outside the euro area improved in the second quarter compared with the previous quarter. The survey indicators are pointing to moderate growth in the third quarter, based on services.

Quarterly GDP growth in the US stood at 0.7% in the second quarter (up from 0.3% in the first quarter), and was based on strengthened private consumption. By contrast, the July figures showed the labour market cooling, which brought uncertainty, the Fed having announced several days earlier that it would leave its key interest rates unchanged. In the wake of July's favourable inflation figures, when the rate fell below 3% for the first time since 2021 to hit 2.9%, the economic sentiment eased as expectations of a September rate cut strengthened. The Japanese stock market also recovered, having been among the worst hit by the correction: the central bank's restrictive monetary policy, particularly in contrast to that of the US, drove an appreciation in the yen. Thanks to the positive impact on growth in private consumption from wage negotiations,[1] GDP growth in Japan recovered to 0.8% in the second quarter. Amid interest rate cuts and strong performance by services, the UK also saw decent quarterly economic growth for the second consecutive quarter, with a rate of 0.6%. By contrast the Chinese economy recorded its lowest growth of the last year at 0.7%, as activity continues to be depressed by domestic factors related to weak private consumption, relatively high government debt, and difficulties in the real estate sector.

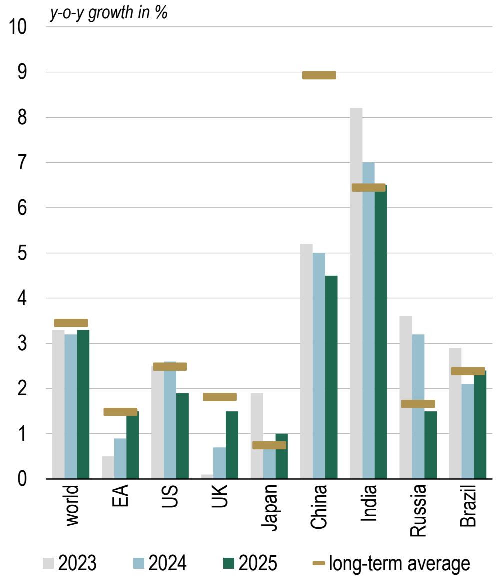
The PMIs for the third quarter point to growth in the global economy being weaker than in the previous quarter (see Figure 1.1, left). While the services PMI strengthened slightly to 53.3 points, the manufacturing PMI slid into the zone of contraction for the first time in seven months. It was hit by diminishing growth in new orders and in output, which also drove a decline in the composite PMI to 52.5 points.

Figure 1.1: **Global economic situation**

JPMorgan Purchasing Managers' Index (PMI) – global



Economic growth projections in major economies



Sources: Bloomberg, IMF, Banka Slovenije calculations; latest data left chart: July 2024
Note: The right chart illustrates the IMF forecasts from July 2024. The long-term average is calculated for the period of 1992 to 2023.

[1] The negotiations had an impact of 5.2 percentage points on wage growth, the largest in more than 30 years.

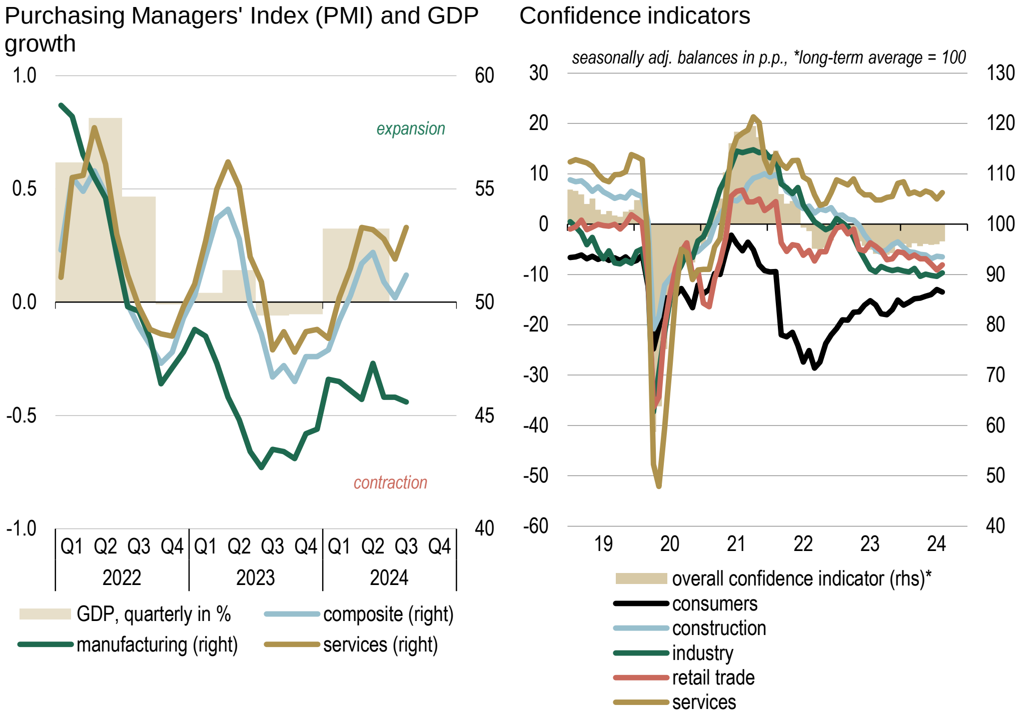
The IMF's July projections are forecasting stable global economic growth of 3.2% this year and 3.3% next year (see Figure 1.1, right). GDP in the euro area is forecast to approach its long-term average (1.5%) in 2025, while growth in the UK is also forecast to strengthen further. Meanwhile growth is expected to slow in the US, India, Russia and China.

In the third quarter, the main driver of economic growth in the euro area will continue to be services: the survey indicators point to a continuing contraction in manufacturing activity.

Euro area GDP grew by 0.3% in the second quarter, the same as in the previous quarter (see Figure 1.2, right). Spain, France and Italy, three of the major economies, saw growth (of 0.8%, 0.3% and 0.2% respectively), while Germany saw a contraction of 0.1% (for more on the German economy, see Section 8.1) According to the monthly indicators for the second quarter, economic growth in the euro area continues to be curtailed by the relative weakness of industrial production, which in June was in the zone of contraction for the third consecutive month. Retail turnover also declined in June, following a decline in services turnover in May. There was more encouraging news in the construction sector, where the amount of construction put in place increased by 1.7% in June following three months of contraction.

According to the PMIs, manufacturing is also not expected to recover in the third quarter (see Figure 1.2, left). The indicator slid to 45.6 points in August, an eight-month low. By contrast, the services PMI and consequently the composite PMI improved (to 53.3 points and 51.2 points respectively), albeit most likely only temporarily, thanks to the Olympics; previously momentum had slowed in services between May and June, while the composite indicator has been at the very margin of the zone of expansion.[2]

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



Sources: Eurostat, Bloomberg, Banka Slovenije calculations; latest data left chart: GDP: Q2 2024; PMIs: August 2024 (flash estimates); right chart: August 2024

[2]For more, see the August Flash Eurozone PMI press release.

The economic sentiment indicator improved slightly to 96.6 points in August, making the average over the third quarter slightly up on that in the second quarter, largely as a result of July's significant improvement in consumer confidence (see Figure 1.2, right). Services confidence remains the highest of all sectors, while the largest deterioration compared with the previous quarter was in retail confidence. The ZEW indicator of economic sentiment fell by 25.8 points to 17.9 points, where zero is the neutral point; the economic outlook for the euro area thus remains positive, despite the decline.

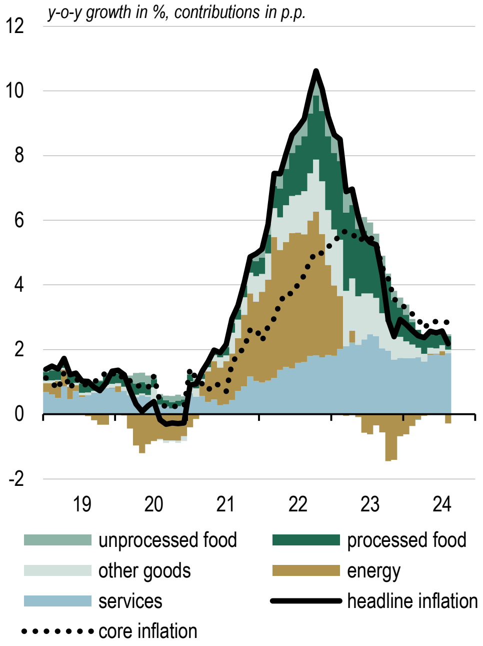
According to the IMF's July projections, GDP growth in the euro area is forecast to reach 0.9% this year, driven by services. This forecast was the same as in the ECB's June projections. The IMF is forecasting GDP to grow by 1.5% next year, 0.1 percentage points more than the ECB forecast. It is expected to be driven by growth in private consumption based on rising wages and an improvement in the financing conditions for investment amid the anticipated cuts in key interest rates before the end of the year.

Headline inflation in the euro area continues to moderate; in August it declined mainly due to the lower contribution of energy prices.

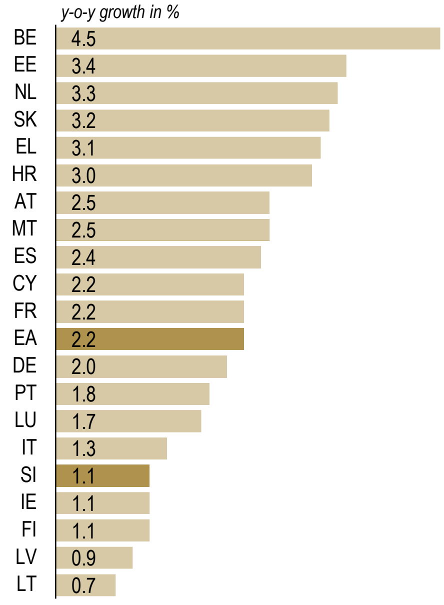
In August, the headline inflation in the euro area, as measured by the HICP, slowed to 2.2% (down from 2.6% in July), the lowest figure of the last three years. Energy prices were the main factor behind the moderation (see Figure 1.3, left). They were down 3.0% in year-on-year terms, compared with a year-on-year rise of 1.2% in July. The change was primarily attributable to price developments in July and August of last year. France and Belgium are notable due to the 7.7 and 11.3 percentage points declines in year-on-year energy price inflation, respectively, mostly as a result of the electricity price developments last summer. These two countries alone account for a significant part of the overall decline in energy prices in the euro area.[3]

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

Contributions to headline HICP inflation



Inflation across the countries



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

[3] France accounts for 20%, and Belgium for 4% of the euro area aggregate.

Year-on-year growth in prices of food, services, and non-energy industrial goods (hereinafter: other goods) has remained broadly unchanged since the spring. The developments in food prices and prices of other goods mostly reflect the relative stability in production chains, with producer prices having undergone no significant change since early 2023.[4] Food price inflation thus stood at 2.4% in August (up from 2.3% in July), following an uptick in both unprocessed and processed food subcomponents. These slight fluctuations in recent months have been attributable to base effects. By contrast, growth in prices of other goods has been below 1% since April of this year, thus approaching its pre-pandemic level. This suggests that the impact of past shocks has mostly dissipated by now. The growth of other goods slowed again in August to 0.4% (down from 0.7% in July), possibly reflecting the decline in activity in manufacturing in particular.

Domestic price factors, particularly rising labour costs, remain elevated, with service price inflation having remained around 4% since November last year, thereby outpacing headline inflation by almost 1.5 percentage points. The gap widened further in August, as service price inflation hit 4.2%, up 0.2 percentage points on July. Core inflation, i.e., inflation excluding energy and food prices, thus declined only slightly compared with July to stand at 2.8%. Note that service price inflation has accounted for more than 90% of core inflation since the spring.

In August, the headline inflation in Slovenia was below that in the euro area for the third consecutive month, in this month by 1.1 percentage points. Given the diminishing role of base effects in the fall in inflation and the expiry of certain energy price measures, the expectation is that the gap will gradually narrow by the end of the year. The gaps between inflation rates in individual euro area countries have been narrowing for some time now (see Box 1.1). Lithuania recorded the lowest rate of 0.7% in August, while Belgium recorded the highest rate of 4.5% (see Figure 1.3, right).

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

Common exogenous price shocks did not give rise to any lasting changes in the differences in inflation rates between euro area countries.

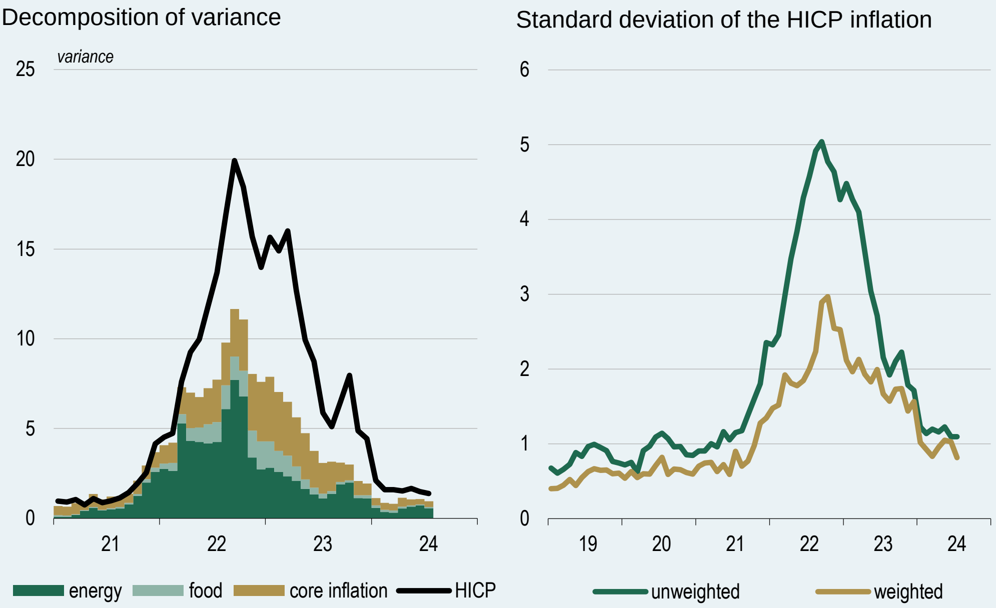
Although in 2021 and 2022 all countries were exposed to common shocks in connection with the disruption to supply chains, the reopening of economies after the pandemic, and large rises in energy and food prices, these were reflected differently in national inflation rates. The inflation differential was primarily caused by differences in the structure of euro area member countries economies and in their policy responses. Initially, countries that have a larger share of energy and food products in their baskets were more exposed. Variance analysis shows that differences between countries were initially caused mainly by the energy price inflation before passing through into food price inflation and core inflation (see Figure 1.1.1, left).[5] The pace of the pass-through of inflation between components is also evident in the initially rising unexplained part, which represents the link between developments in these three subgroups. This had practically dissipated by this year, in line with the narrowing of the overall distribution

[4] Producer prices of food products rose by 0.4% between January 2023 and June 2024, while prices of consumer goods (excluding food) rose by 1.7%.

[5] A detailed itemisation of the differences in inflation between euro area countries was given in Box 1.1 of the April 2023 issue of the Review of macroeconomic developments.

towards its level from early 2021, which is an indication of the significant decline in heterogeneity between countries.

Figure 1.1.1: **Differences in inflation rates between euro area countries**



Sources: Eurostat, Banka Slovenije calculations. Latest data: July 2024
Note: In the left chart the variance in year-on-year growth in the HICP (the line) is explained by the variances in individual subcomponents (the columns), where the residual represents their covariance. In the right chart the ordinary standard deviation is calculated directly from data for the HICP in 20 countries, where the weighting calculation takes account of each country's weight in the euro area aggregate.

A similar picture is presented by the calculation of standard deviations, which indicates that between the end of 2022 and mid-2024 the distribution of inflation rates narrowed at almost the same pace with which it had widened (see Figure 1.1.1, right). It can also be observed that inflation was more pronounced in the smaller countries,[6] as the acceleration in the differences is significantly smaller when the size of countries is considered. Although the heterogeneity between countries has declined significantly, the distribution of inflation is currently slightly wider than before the pandemic. The inflation rates (HICP) recorded by euro area countries have differed by approximately 1 percentage point on average this year, a third of the gap seen in late 2022. This result indicates that for now these shocks have not given rise to large and sustained changes in the distribution of inflation developments.

2 Monetary Policy and Financial Markets

Markets are expecting a faster pace of central bank rate cuts amid signs of a slowdown in the global economy.

The Eurosystem left all three key interest rates unchanged in July. Christine Lagarde, President of the ECB, reiterated that we intend to keep monetary policy at a sufficiently

[6] Inflation exceeded 20% in all three of the Baltic states between July and November 2022.

restrictive level until the inflation target is achieved. The Fed also left its key rate unchanged, with Jerome Powell, Chairman of the Federal Reserve, hinting at the possibility of a rate cut in September, if price developments remain favourable.

A number of other leading central banks cut their interest rates by 0.25 percentage points in response to favourable inflation trends. In August, the UK and New Zealand central banks cut rates for the first time since March 2020 (to 5.00% and 5.25% respectively). The Canadian central bank cut its interest rate for the second consecutive time in July (to 4.50%), while the Swedish central bank cut its rate for the second time this year in August (to 3.50%). By contrast, amid positive domestic wage and price developments, the Japanese central bank is continuing its gradual exit from years of accommodative monetary policy (its policy rate was negative between January 2016 and March 2024). In July it raised its policy rate for the second time this year, by 0.15 percentage points to 0.25%, the highest level since October 2008. It also announced a reduction in its outright purchases of government securities by around JPY 400 billion per quarter, while signalling that further policy rate hikes could follow.

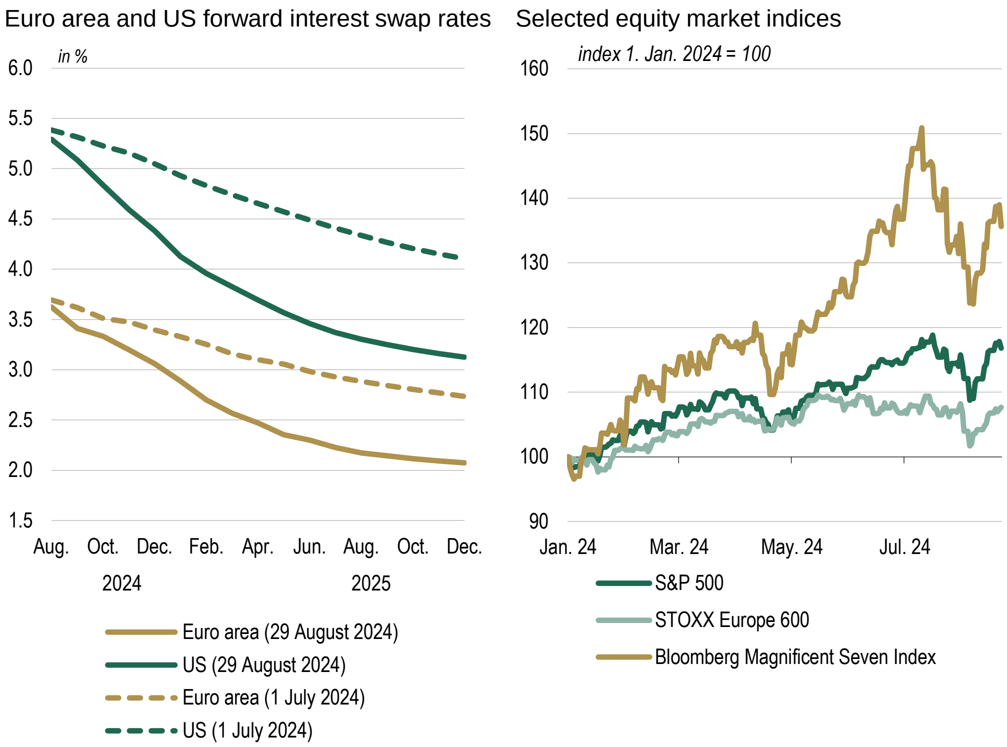
Market expectations regarding the pace of interest rate cuts by the ECB and the Fed have increased since the end of June. The main reason for this was the publication of weaker US economic data, which pointed to a slowdown in the domestic economy. Investors reacted particularly strongly to the weaker July labour market data. According to current interest rate swap rates (OIS), markets expect the next interest rate cut by the ECB (of 0.25 percentage points) in September (previously October), with a total of six cuts expected by the end of 2025, leaving the deposit facility rate at 2.25%. Markets now expect the Fed to start to cutting its policy rate in September (previously November), with a total of nine cuts expected by the end of 2025, leaving the rate in a corridor between 3.00% and 3.25% (see Figure 2.1, left).

After a marked shift by investors into safer assets at the beginning of August, financial markets have calmed down. While US and German government bond yields have fallen since the end of June, the price of gold has risen to a record high.

The main feature of the financial market developments in early August was a marked retreat by investors into safer havens on concerns about global economic activity. As a result, lower-risk asset classes such as US and German government bonds rose in value, while global equity indices and higher-risk bonds fell. Another factor contributing to the increased market volatility was the low level of liquidity typically seen during the summer holiday season. This situation eased later in August, limiting the impact of the flight to safety.

Nevertheless, US Treasury yields have fallen by between 0.55 and 0.85 percentage points since the end of June, while German government bond yields have fallen by between 0.25 and 0.45 percentage points. The decline has mainly been driven by rising expectations of faster interest rate cuts by the ECB and the Fed.

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



Sources: Bloomberg, Banka Slovenije calculations; latest data right chart: 29 August 2024
Note: In the right chart the Magnificent Seven comprise Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

After reaching record highs in mid-July, US stock market indices fell sharply. The main index (S&P 500) fell 8.5% from its peak in July to its low in early August, while the Magnificent Seven index of the largest US technology companies lost 18.1% (see Figure 2.1, right). Meanwhile the VIX, which measures the volatility in US equity markets, reached its highest level since 2020. Another factor in the decline of US and other global equity markets has been the carry trade, whereby investors borrow liquidity in Japanese yen at low interest rates and then invest it in US equities with higher expected returns. With the Bank of Japan's policy rate hike at the end of July and further hikes expected, this trade has become unprofitable. Normalisation over the remainder of the month saw European and US equity markets return to early July levels, with the exception of shares in the largest US technology companies, which are still down 11.7% from their July highs.

Concerns about the continued growth of the US economy, combined with expectations of faster interest rate cuts by the Fed, have led to a decline in the value of the US dollar against most global currencies. Since the end of June, it has depreciated by 3.4% against the euro and 4.3% against a basket of major global currencies. In conjunction with investors' retreat to safer havens in August and growing expectations of faster interest rate cuts, this helped to push gold to a record high (USD 2,500 per ounce).

Since the end of June, the price of Brent crude oil has fallen back to around USD 80 per barrel. The fall was primarily attributable to the pessimism about global oil demand amid signs of a slowdown in the US economy and a further cooling of the Chinese economy. However, the fall in oil prices was limited by the rising geopolitical tensions in the Middle East.

3 Domestic Economic Activity

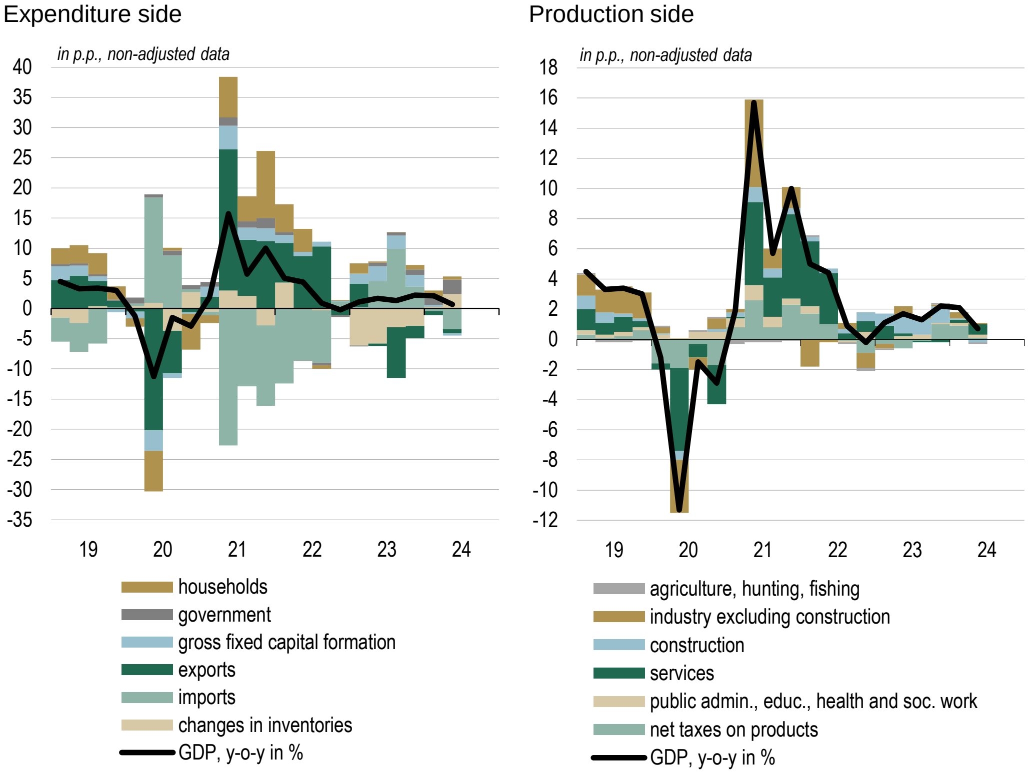
Year-on-year growth in economic activity in Slovenia slowed to a moderate 0.7% in the second quarter. It continued to be driven by government consumption and household consumption, as construction investment and export activity remain weak.

Economic activity in Slovenia was up 0.2% in the second quarter, taking the year-on-year rate of growth to a modest 0.7% (see Figure 3.1, left). Year-on-year GDP growth was thus down significantly on the rate of over 2% in the first quarter, and was comparable to the euro area average. The slowdown was driven by a decline of 1.6% in gross fixed capital formation, which was down in year-on-year terms for the first time since the end of 2020. This was attributable to the decline in construction investment caused by reduced housebuilding and the completion of certain government projects at the end of the previous European multiannual financial framework (for more on construction, see Section 8.2). The year-on-year GDP growth was driven by growth in household consumption that was lower but still robust, at 1.1%, supported by falling inflation and the buoyant labour market. This was reflected in record low unemployment, and real growth of 1% in the net wage bill. The relatively strong domestic demand in the second quarter was primarily driven by high growth in government consumption (12.3%), which in part reflected increased expenditure on healthcare (in connection with this year's reclassification of supplemental health insurance as a compulsory health contribution), and on the post-flood reconstruction. By contrast, net trade reduced economic growth by 4.1 percentage points, as growth in imports strongly outpaced growth in exports. The renewed build-up of inventories, which firms had run down intensively in previous quarters, saw imports increase by 4.4%, while weak activity in key trading partners and the persistent weakness of the price and cost competitiveness of Slovenian exporters saw exports continue to fall in year-on-year terms (by 0.8%).

The robust domestic demand is being reflected in solid growth in private-sector services. Value-added in the sector was up 1.6% in year-on-year terms in the second quarter, despite increasing issues with labour shortages and financial constraints (see Figure 3.1, right). Firms focusing primarily on the domestic market recorded higher growth in turnover, while the contraction in turnover in transportation and storage slowed slightly amid strengthening international merchandise trade and demand for transport services. Following difficulties last year, value-added in manufacturing this year is up 1.1% in year-on-year terms, while the year-on-year decline in industrial production also slowed overall in the second quarter in the wake of an increase in new orders.[7] Firms are nevertheless continuing to report difficulties with low demand, foreign demand in particular, the uncertain economic situation, and labour shortages. After rising over the last three years, value-added in construction declined by 3.7% in the second quarter of this year. Although down over a tenth in year-on-year terms, the amount of construction put in place remains high, and is still up almost a third on its pre-pandemic level. The contraction in construction activity is primarily attributable to a decline in residential construction, although civil engineering work is also down significantly amid weaker government investment.

[7] New orders in manufacturing increased in the second quarter according to the survey data on business tendency, and according to the figures of the Purchasing Association of Slovenia.

Figure 3.1: **Decomposition of year-on-year GDP growth**



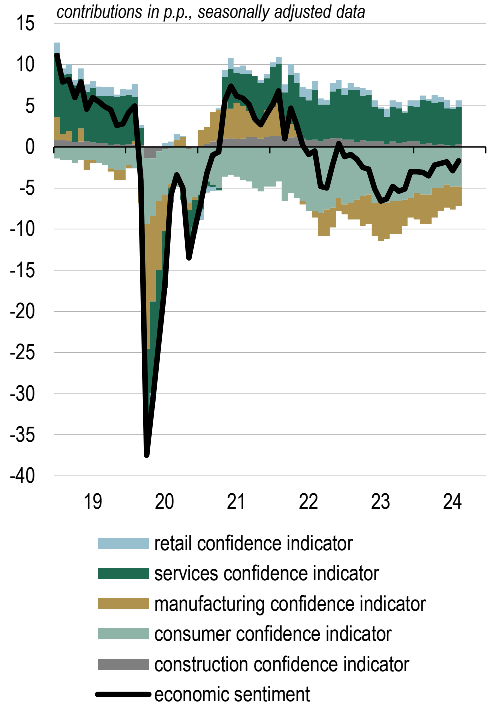
Source: SORS; latest data: Q2 2024

The economic sentiment in the early part of the third quarter improved slightly compared with the first half of the year.

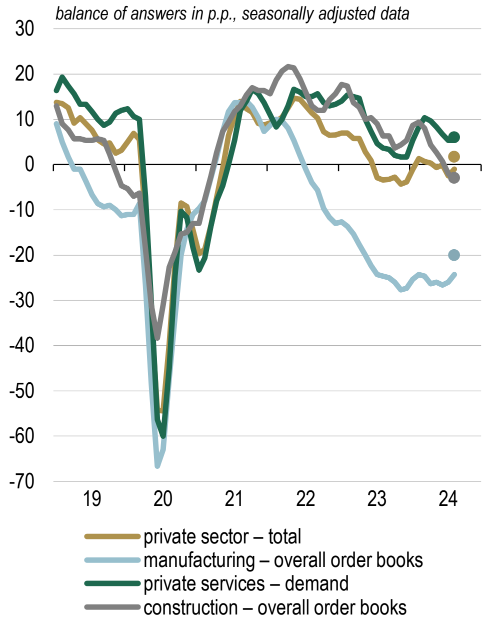
Over the summer months the economic sentiment remained at similar levels to the second quarter (see Figure 3.2, left). Improved assessments of total order books drove a slight improvement in the manufacturing confidence indicator, which otherwise remains negative (see Figure 3.2, right). Manufacturing firms' expectations with regard to exports and employment were also up, while firms in services other than retail were also slightly more optimistic with regard to future demand. Consumers have also seen an improvement in mood in recent months. The consumer confidence indicator has been gradually rising for two years now: in August it was up a tenth in year-on-year terms, with households more favourably assessing their expected financial situation and the suitability of making major purchases. According to the initial data, household consumption will again drive the economy in the third quarter: real year-on-year growth in the total value of card payments and ATM withdrawals averaged almost 6% over the first two months of the quarter, similar to the previous quarter. In line with the decline in activity and the fall in total orders, construction confidence is continuing to gradually decline: its average over the summer months was down slightly on the second quarter.

Figure 3.2: **Economic sentiment and demand**

Economic sentiment indicators



Current demand – survey estimation by companies



Sources: SORS, Banka Slovenije calculations; latest data: August 2024
Note: In the right chart the aggregate indicator is calculated by means of shares in value-added. Three-month moving averages are illustrated, with the exception of the dots, which are the latest figures.

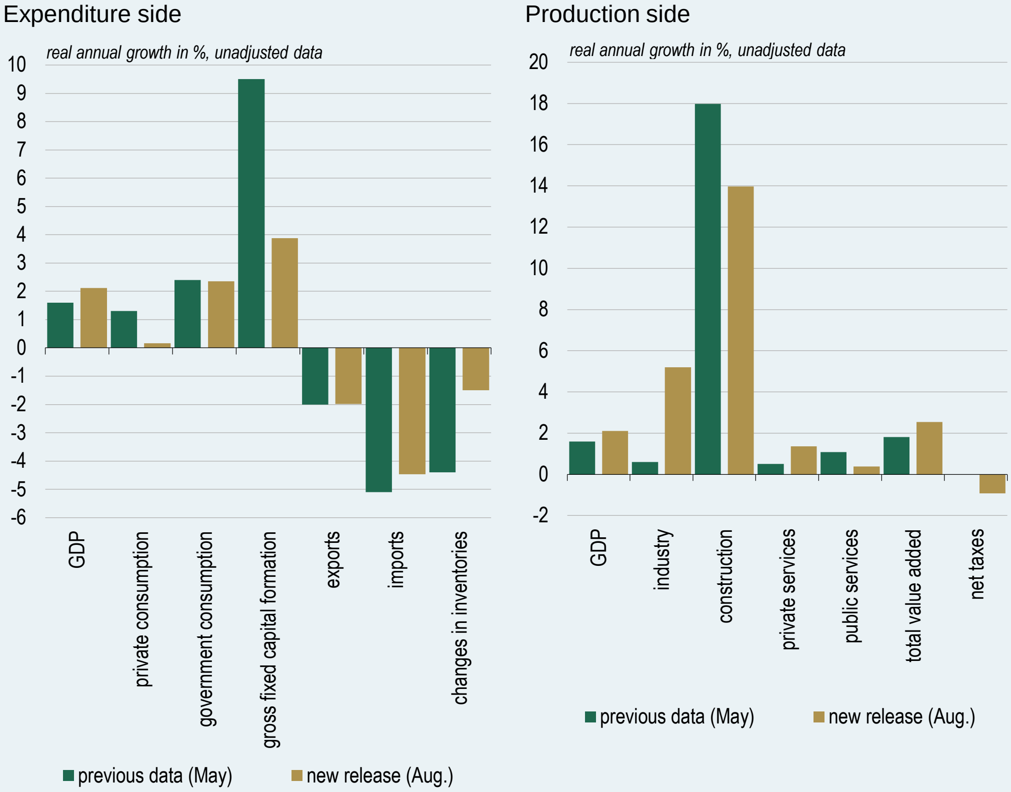
Box 3.1: **Initial annual estimates of national accounts for 2023**

The initial estimate of annual GDP growth in 2023 was 0.5 percentage points higher than the estimates based on quarterly figures.

On 30 August 2024 the SORS published its initial annual estimate of the national accounts for 2023. Compared with the previous estimate based on the quarterly data, last year's GDP growth was revised upwards by 0.5 percentage points to 2.1%. The revision also saw the SORS raise its figure for GDP growth in 2022 by 0.2 percentage points to 2.7%.

On the expenditure side there were pronounced changes in the contribution to GDP growth made by inventories: the negative figure was reduced from 4.4 percentage points to 1.5 percentage points. In line with this change, the estimated decline in imports has also been reduced in size, while there was no change in the pace of last year's decline in exports. According to the initial annual estimate, last year's growth in gross fixed capital formation was also less than half of the previously estimated figure, and now stands at 3.9%, while last year's growth in private consumption has also been revised significantly downwards to just 0.2% (see Figure 3.1.1, left).

Figure 3.1.1: **Changes in growth in real GDP components in 2023**



Source: SORS

On the output side annual growth in value-added was raised from 1.8% to 2.5% once firms' closing accounts have been taken into account. The contributions made by industry and by private-sector services were revised upwards the most. Wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food service activities were notable in the latter. Conversely there were negative revisions to the contributions made by construction and public services (see Figure 3.1.1, right).

The quarterly figures reconciled with the initial annual estimate of the national accounts for 2023 will be released by the SORS on 30 September, and so it is not yet possible to calculate the new carry-over effect from last year. The carry-over effect will be presented in the October issue of this publication.

Box 3.2: **Nowcasts for GDP growth in the third quarter of 2024**

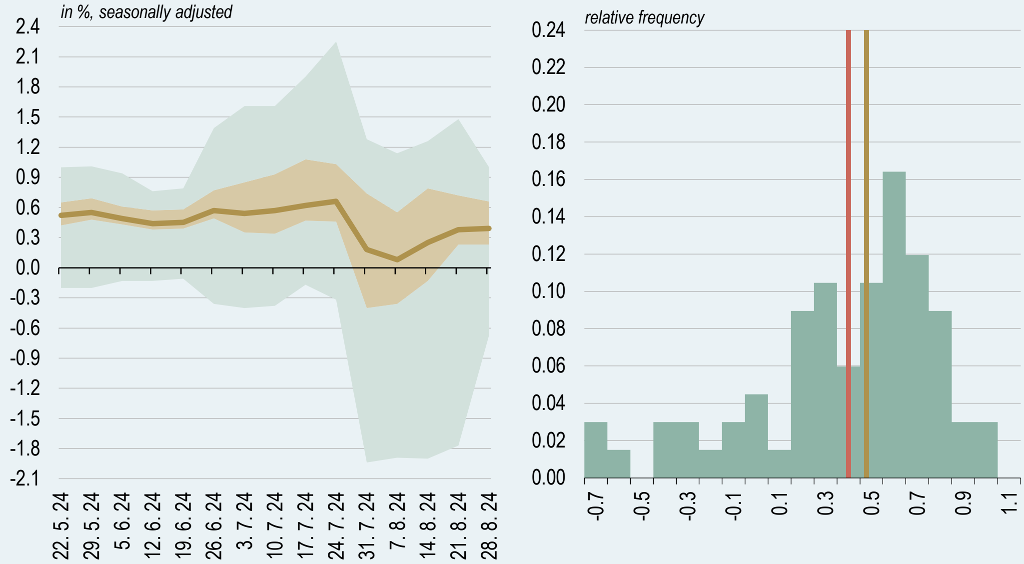
The nowcast, based on a relatively limited dataset, indicate a quarterly growth in the third quarter that is below the long-term average.

The current nowcast for quarterly GDP growth in the third quarter stands at 0.4% (see Figure 3.2.1, left). In addition to the autonomous model dynamics, the estimate also reflects the trends in economic sentiment over the first two months of the third quarter. After a dip in July, the economic sentiment indicator rebounded in August, rising by 1.2 percentage points and staying at a level similar to that in the second quarter. Half of August's increase was driven by improved retail confidence, with the remaining half equally distributed across the construction, manufacturing, services and consumers. Due to the limited dataset for the third quarter, the nowcast for GDP growth carries a degree of uncertainty, which is illustrated in the distribution chart (see Figure 3.2.1, right). The nowcast range, based on the 25th and 75th percentiles, currently spans from 0.2% to 0.7%.

Figure 3.2.1: **Nowcasts for GDP growth**

Model estimates of quarterly GDP growth – 2024 Q3

Histogram of quarterly GDP growth estimates 2024 Q3



Source: Banka Slovenije calculations
Note: The left chart illustrates the nowcasts for quarterly GDP growth. The light gold area represents the interval between the 25th and 75th percentiles, while the light green area represents the interval between the lowest and highest nowcasts. The dark gold 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 dark 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: 28 August 2024

4 Labour Market

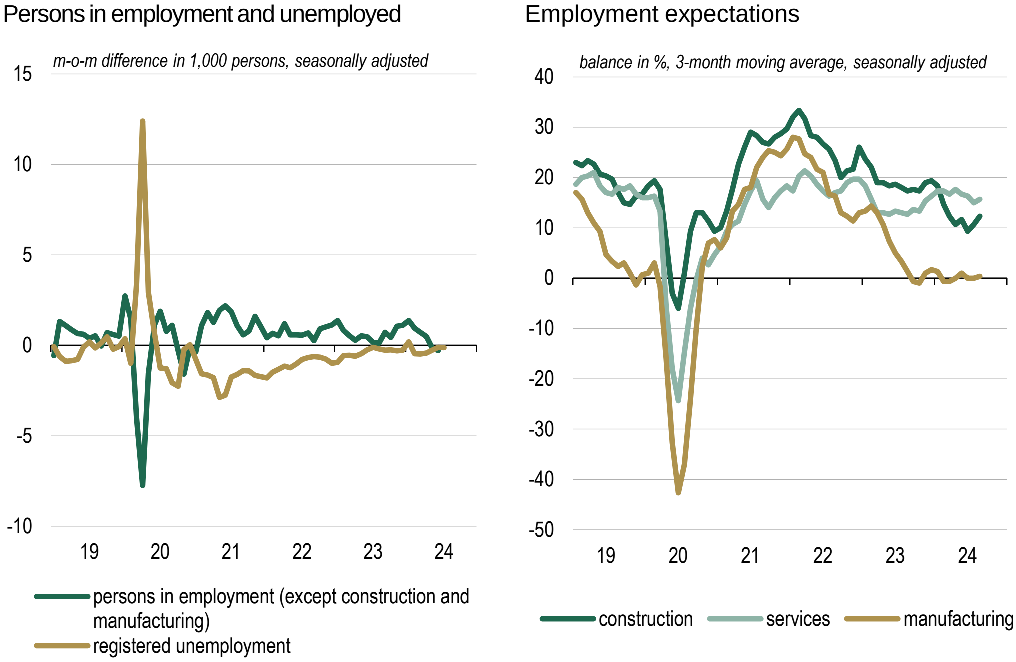
Amid high employment, low unemployment and a large labour shortage, the labour market continues to remain tight.

The number of persons in employment in June was down slightly on May at 946,300 (see Figure 4.1, left), on account of falls in construction and manufacturing, while the situation in services remains relatively robust. Year-on-year growth in the workforce in employment also remains above 1%, although it is largely attributable to methodological changes.[8] Further confirmation comes from the national accounts figures, according to which employment in the second quarter was up 0.3% in year-on-year terms.[9] In light of the survey data, the expectation is that growth in hiring will remain positive over the next three months, but will vary considerably from sector to sector. It is forecast to remain highest in services, while the expectations in manufacturing are in the zone of stagnation (see Figure 4.1, right). Firms are continuing to cite labour shortages as a

[8] For more detailed information about the change in methodology, see Persons in employment, January 2024.

[9] The employment figures according to the national accounts are not subject to the changes in methodology with regard to the workforce in employment.

Figure 4.1: **Labour market activity and expectations**



Sources: SORS, Banka Slovenije calculations; latest data left chart: July 2024 for registered unemployment, or June 2024 for workforce in employment; right chart: August 2024

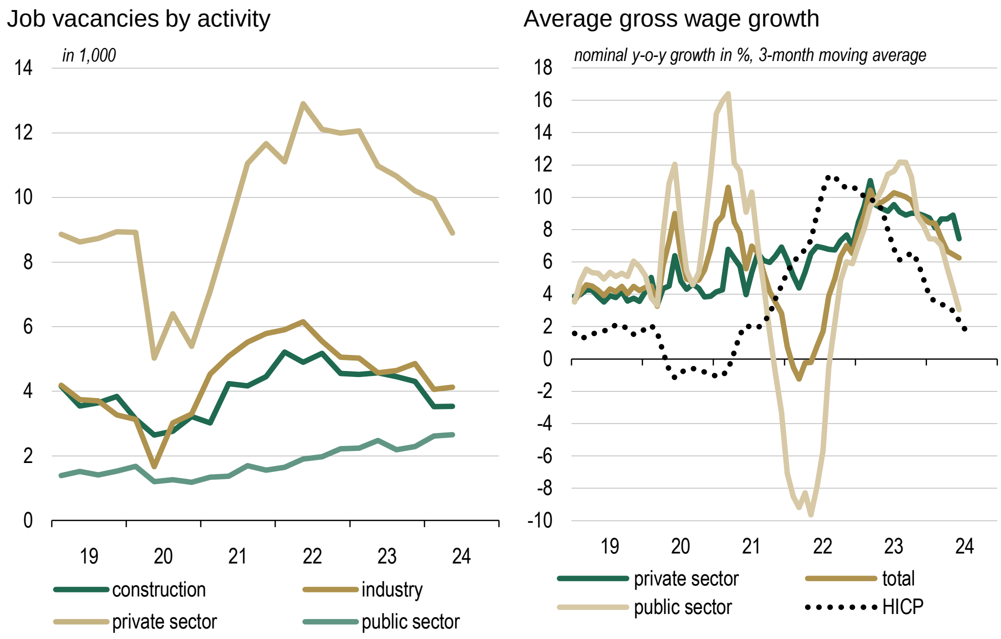
limiting factor. The share of such firms in services and in manufacturing is the highest to date.

The number of registered unemployed rose slightly in July to reach 44,384 (see Figure 4.1, left). The rise is attributable to seasonal developments; the seasonally adjusted figure was the lowest to date. The registered unemployment rate remains at a record low level: it stood at 4.4% in July, down 0.3 percentage points on a year earlier. The surveyed unemployment rate also remains low, and stood at 3.4% in the second quarter. The tightness of the labour market is also reflected in the persistently high number of vacancies. They are currently at their pre-pandemic level in all sectors other than public services, where the figure is even higher, and is likely to rise further given the demand in healthcare and social security (see Figure 4.2, left).

Wage growth has slowed slightly, but still remains above its long-term average.

Year-on-year growth in the average gross wage stood at 5.2% in June, down 0.8 percentage points on the previous month, and down almost a half on the same month last year. Growth in the private sector slowed slightly more sharply to stand at 5.3%, down 2.8 percentage points on May. The largest factor in the lower growth was the decline in manufacturing, where wage growth slowed by 4.5 percentage points to 3.7%. Wage growth in the public sector strengthened by contrast, and at 4.8% approached the rate in the private sector, largely as a result of June's increase in the amount of 80% of last year's inflation. With inflation falling, real wage growth also remains robust at 3.5% even as the nominal growth rate slows.

Figure 4.2: **Vacancies and wages**



Sources: SORS, Banka Slovenije calculations; latest data left chart: Q2 2024; right chart: June 2024, or July 2024 for inflation

Box 4.1: **Foreign nationals in the labour force in Slovenia**

Foreign nationals account for an increasing share of the persons in employment in Slovenia.

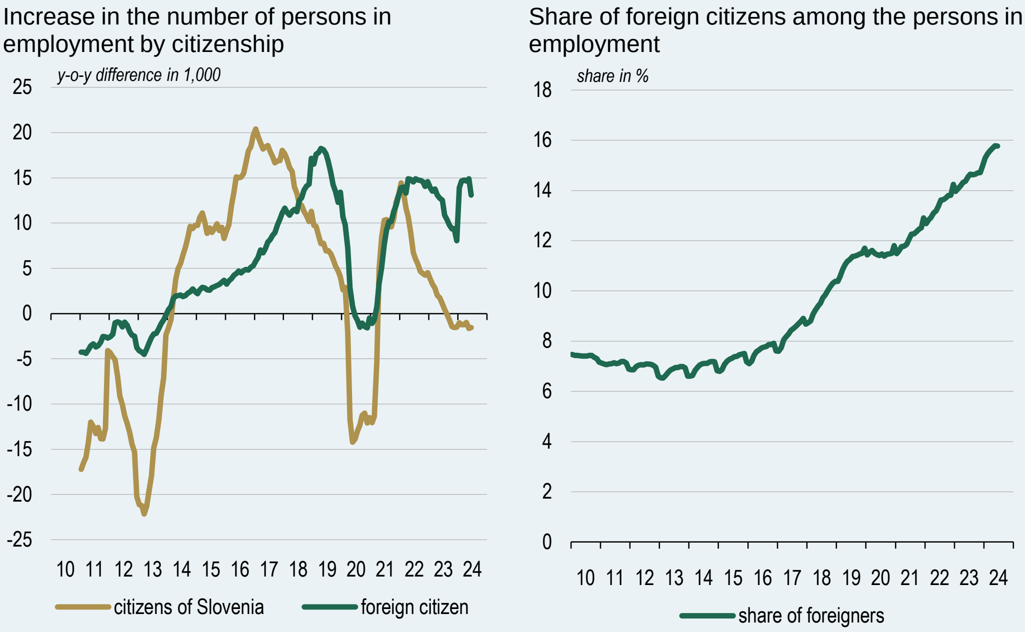
The Slovenian labour market has faced high tightness and a shortage of labour for several years now. The negative demographic trends and sustained fall in the working age population are also a factor.[10] Alongside the birth rate, one of the key factors in ensuring a sufficient labour force is hiring foreign nationals. The year-on-year inflow of foreign nationals increased sharply in 2017 and peaked before the pandemic (see Figure 4.1.1, left). At that time Slovenia was hiring almost 20,000 foreign nationals each year, who accounted for around 11% of the persons in employment. Foreign workers thus became the most important source of new labour for firms even before the pandemic, and the trend continued after the pandemic, with foreign nationals continuing to drive hiring today. According to the latest data, 146,263 foreign nationals are employed in Slovenia, equivalent to 15.7% of the persons in employment. This figure has increased by almost 9 percentage points over the last decade (see Figure 4.1.1, right).

Nationals of the former Yugoslav republics still make up the bulk of foreign nationals working in Slovenia, but the share of those from more distant countries is rising.

The foreign labour force in Slovenia consists primarily of workers from third countries, i.e. countries that are not EU Member States (see Figure 4.1.2, left). More detailed

[10] See Box 4.1 of the July 2024 issue of the Review of macroeconomic developments.

Figure 4.1.1: **Foreign nationals in the labour force in Slovenia**



Source: SORS; latest data: June 2024
Note: The uptick in the inflow of foreign workers in early 2024 is mostly attributable to methodological changes in the persons in employment statistics. Since 1 January 2024 detached workers, who are mostly foreign nationals, have been classed as in active employment.

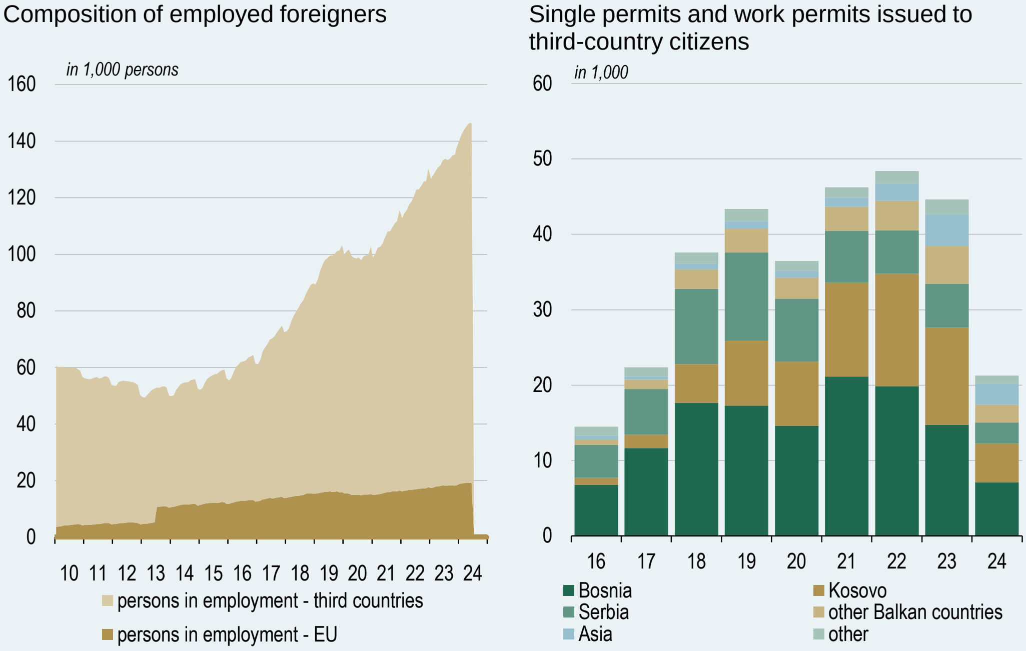
analysis of the combined permits and work permits issued shows that the majority of workers from third countries come from the former Yugoslav republics[11] (see Figure 4.1.2, right). Nationals of Bosnia and Herzegovina are prevalent, having historically constituted the largest source of foreign labour for Slovenian firms: they now account for almost half of foreign employees. The number of workers from Kosovo and Serbia also increased significantly before the pandemic. The number of permits issued to national of Asian countries, most notably Türkiye, India, Bangladesh and Nepal, has been rising in recent years. The share of foreign employees from Asia is slowly increasing, and currently stands at 3.3% of the total.

Foreign nationals are mainly employed in labour-intensive sectors, and primarily occupy low-paid jobs.

A sectoral review of the hiring of foreign nationals shows that they are primarily employed in construction, manufacturing, and traditional marketable services such as accommodation and food service activities, wholesale and retail trade, and transportation (see Figure 4.1.3, left). In all sectors they mainly hold low-paid jobs: the gap between the average gross monthly wage of Slovenian nationals and nationals of third countries stands at EUR 750. The average gross monthly wage of Slovenian nationals stood at EUR 2,300 in October 2023, while that of nationals of third countries stood at EUR 1,550. Construction has the highest share of foreign nationals: they account for approximately half of the employees in the sector. Manufacturing and traditional marketable services also have relatively high shares of almost 20%. The lowest shares of foreign nationals can be found in public services, agriculture, mining and quarrying, and electricity and water supply (see Figure 4.1.3, right).

[11] Foreign nationals from third countries require a combined residence and work permit in order to reside and work in Slovenia. The combined permit is issued by the administrative unit, subject to the approval of the Employment Service. Work permits are issued to nationals of Bosnia and Herzegovina and Serbia on the basis of an international agreement, and also for seasonal work in agriculture for a period of up to 90 days.

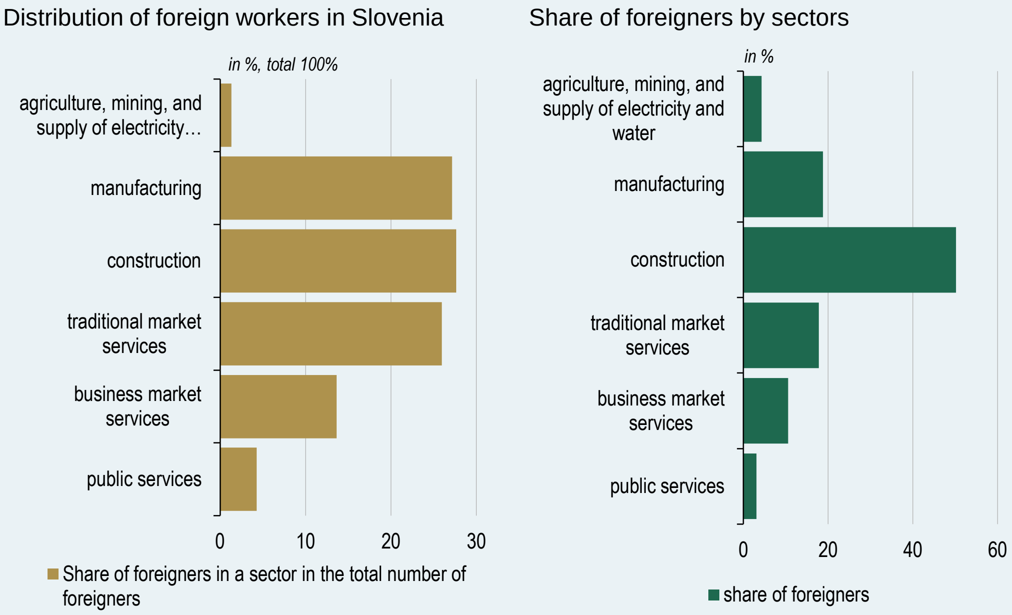
Figure 4.1.2: **Breakdown of foreign labour force and issued permits**



Sources: Employment Services, SORS; latest data: June 2024
Note: The inflow of EU nationals into the labour force in July 2013 was the result of Croatia joining the EU. The data on issued permits for 2024 covers the first half of the year.

The data shows that foreign nationals play a key role in compensating for the labour shortage in Slovenia, particularly in labour-intensive and low-paid sectors. Their presence has increased significantly over recent years, in reflection of the Slovenian economy's need for additional labour.

Figure 4.1.3: **Breakdown of foreign labour force by sector**



Source: SORS; latest data: June 2024

5 Current Account

The high year-on-year growth in foreign trade seen in the early part of the second quarter had slowed by the end of the quarter, with only imports of services recording a slight increase.

The high growth in foreign trade in the early part of the second quarter was merely temporary, and had entirely vanished by the end of the quarter. Exports and imports were both down in year-on-year terms in June, by 6.7% and 2.6% respectively (see Figure 5.1, left). Aggregate exports in the second quarter were down 1.0% in year-on-year terms, while aggregate imports were up 2.4%.

Nominal merchandise exports in June were down 7.4% in year-on-year terms. The decline was evident in almost all product categories. According to the SORS figures, there were significant declines in exports of machinery and transport equipment (9.3%), and manufactured goods classified chiefly by material (8.0%), which together account for more than half of total merchandise exports. Within these exports of road vehicles also recorded their first year-on-year decline of this year (4.0%). Nominal merchandise imports were also down in year-on-year terms in June, by 3.8%. The main factor was a decline of 6.1% in imports of machinery and transport equipment.

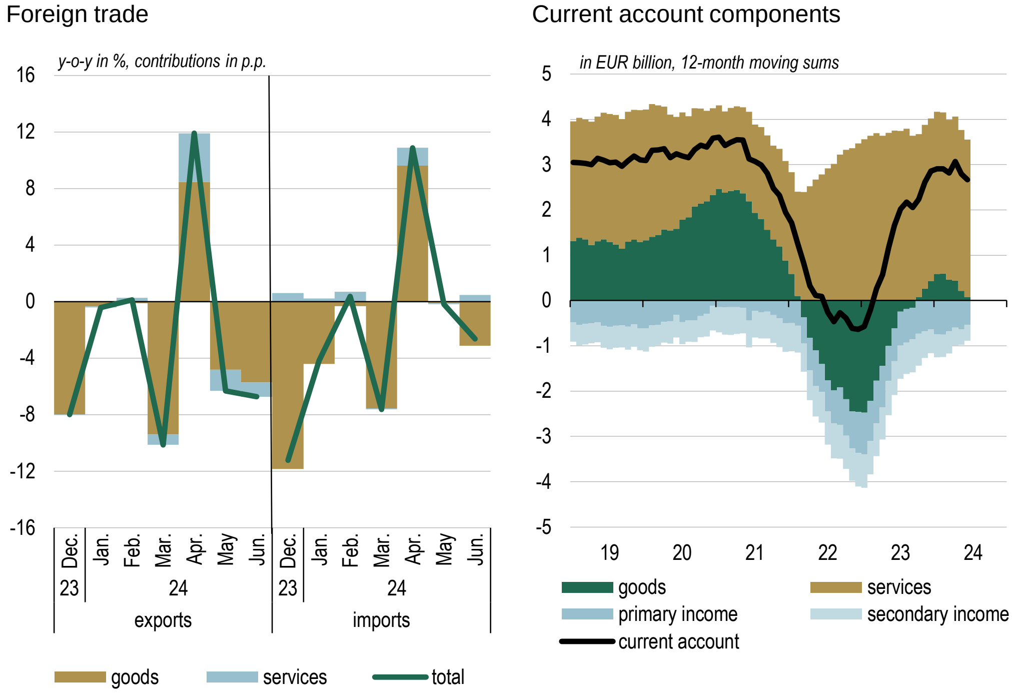
Nominal services exports also declined at the end of the second quarter: in June they were down 4.3% in year-on-year terms. The ongoing weakness in key export markets has seen exports of transport services stagnate in year-on-year terms, while services exports in almost all other segments were down in year-on-year terms.[12] An even larger deterioration was prevented by the year-on-year increases in exports of travel services (4.3%) and maintenance and repair services (24.1%). Services imports were up 2.8% in year-on-year terms at the end of the second quarter, primarily on account of increases of 11.8% in imports of transport services and 3.9% in imports of travel services. Meanwhile the majority of other categories were down or unchanged in year-on-year terms.

The current account surplus over the first half of the year approached EUR 1.6 billion, EUR 190 million less than the same period last year. The year-on-year decline was driven by smaller surpluses in merchandise trade and services trade,[13] while the deficit in incomes narrowed in year-on-year terms. After peaking in April, the 12-month current account surplus had fallen to EUR 2.7 billion by June (see Figure 5.1, right). The surplus is still primarily attributable to the services trade surplus, the merchandise trade surplus having almost entirely vanished.

[12] The largest year-on-year declines in services exports were recorded by telecommunications, computer and information services (17.1%) and other business services (11.6%).

[13] The merchandise trade surplus was down EUR 350 million on a year earlier, while the services trade surplus was down EUR 106 million.

Figure 5.1: **Foreign trade and current account**



Sources: Banka Slovenije, SORS; latest data: June 2024

6 Inflation

The lower inflation in August was mainly due to a fall in prices of other goods.

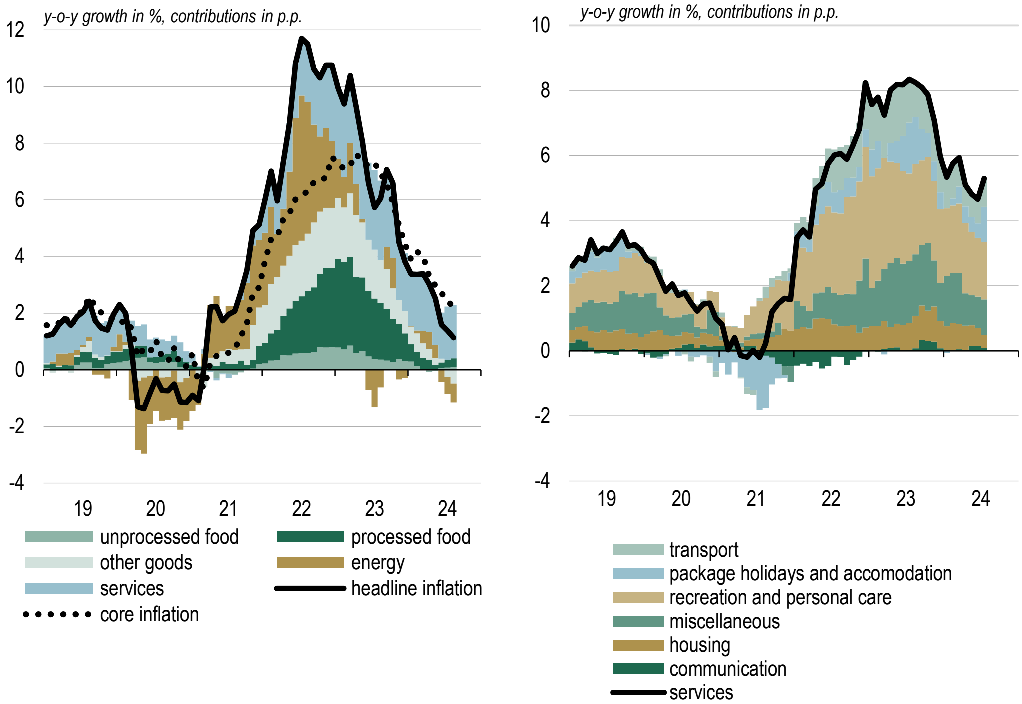
Year-on-year consumer price inflation as measured by the HICP fell to 1.1% in August, down from 1.4% in July (see Figure 6.1, left). The decline in headline inflation was primarily due to the deepening of the year-on-year decreases in prices of other goods and energy. Prices of the latter were down 5.0% in year-on-year terms in August, following a 4.6% year-on-year decline in July. The deeper year-on-year decline was largely attributable to a base effect, as energy prices rose in monthly terms in August (in particular fuel prices). Year-on-year food price inflation strengthened to 1.9%, up 0.3 percentage points from July. The rise was broad-based, with prices of unprocessed food and processed food both growing faster. The increase in growth in prices of processed food to 1.9% (up from 1.7% in July) was primarily attributable to monthly price increases, while the increase in growth in prices of unprocessed food (2.8% in August, up from 2.1% in July) was entirely attributable to a base effect, as the prices declined in current terms.

Core inflation, that is inflation excluding energy and food, slowed for the sixth consecutive month to 2.1% in August, down 0.4 percentage points from July. The decline was primarily attributable to a year-on-year decrease in prices of other goods, which doubled between July and August (from -0.8% to -1.6%). The decline was primarily driven by a monthly decrease in clothing and footwear prices, which was more pronounced this summer than in the same period last year. August's year-on-year change in prices of other goods was the lowest since March 2021. Therefore, the core inflation is being sustained at the current levels solely by strong service price growth (5.2% in August, down from 5.3% in July). The latter is driven by labour cost growth and the demand for services, as indicated by year-on-year growth in value-added in the service sector. Note that compared to June, the core inflation increased by 0.6 percentage points in July. The increase is primarily due to the changes in prices of packaged holidays (see Figure 6.1, right).

Figure 6.1:**Domestic price developments and decomposition of service price inflation**

Contributions to inflation

Contributions to services inflation



Sources: SORS, Eurostat, Banka Slovenije calculations; latest data left chart: August 2024; right chart: July 2024

7 Fiscal Position

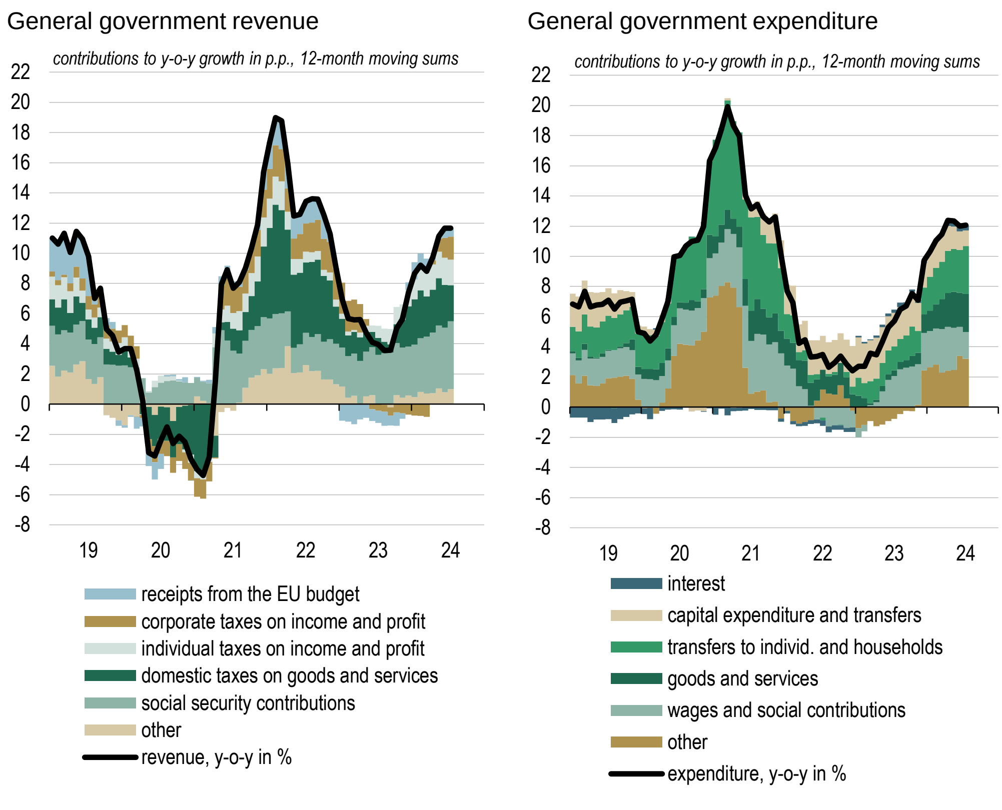
The public finance deficit is narrowing this year amid a favourable labour market situation and a reduction in the size of extraordinary measures.

The deficit of the consolidated balance of public finances amounted to EUR 480 million over the first seven months of the year, EUR 125 million less than in the same period last year. The largest improvements were in the positions of the state budget and the Health Insurance Insitute. The later recorded a surplus of EUR 42 million (compared with a deficit of EUR 14 million over the same period last year), about half of which was attributable to an increased transfer from the state budget. The year-on-year reduction in the size of extraordinary measures was another factor in the improvement in the position. The measures aimed at mitigating the impact of the pandemic and the rise in energy prices are declining in size, but in contrast to last year there are new measures for financing the reconstruction following the floods that hit Slovenia in August of last year.

Consolidated general government revenues over the first seven months of the year were up 10.7% in year-on-year terms. The high growth was a reflection of the continuation of a labour market situation that is highly favourable to the public finances, the transformation of supplementary health insurance into a compulsory health contribution, and large corporate income tax settlements for last year (see Figure 7.1, left). The largest increases in tax revenues were recorded by social security contributions, corporate income tax and personal income tax. The smallest year-on-year increase of the main categories was recorded by taxes on goods and services, at 4.7%. Excise duties on energy products and electricity actually declined. There was also a year-on-year decline in inflows of capital income, which primarily come from the sale of emission allowances, the price of which is down significantly on last year, and in inflows from EU funds. In the wake of a reduction in contributions to the EU budget, the surplus against the EU budget was down slightly on previous year at EUR 107 million.

Growth in general government expenditure was relatively high at 9.4%. The largest absolute increase was in transfers to individuals and households, mostly on account of pensions, which were increased by 8.8% this year (see Figure 7.1, right). Expenditure on goods and services was up 19.7% in year-on-year terms, the high growth reflecting changes in the area of healthcare and the financing of the post-flood reconstruction. Expenditure on wages and social security contributions and interest expenditure are also rising. The most notable decline was in subsidies, as a result of a reduction in the size of the measures to mitigate rising energy prices, while investment expenditure and transfers declined slightly.

Figure 7.1: **Consolidated general government revenues and expenditure**



Sources: Ministry of Finance, Banka Slovenije calculations; latest data: July 2024

The budget documents for 2025 and 2026 and a medium-term fiscal structural plan are under preparation. The government is expected to approve the state budget for the next two years by the end of September. A medium-term fiscal structural plan is also being drafted, and in line with the EU's new fiscal rules will need to pursue a medium-term objective of debt sustainability while keeping the deficit below 3% of GDP.[14] This will limit growth in expenditure, and will pose an additional challenge in the formulation of fiscal policy. The key risks that need to be addressed relate primarily to the overhaul of the wage system in the public sector, where negotiations are not yet complete,[15] a number of reforms that are under preparation (taxation, pensions, healthcare), and the post-flood reconstruction.

[14] For more on the new fiscal consolidation rules, see Economic governance review: Council adopts reform of fiscal rules.

[15] In July of this year the government and the public sector unions signed a document entitled Overhaul of the public sector wage system: overview as at 11 July 2024. This contains a plan for the gradual introduction of a wage system, and an approach and timetable for taking account of inflation when adjusting pay grades.

8 Selected Themes

8.1 Impact of economic developments in Germany on Slovenia's export activity

Germany, Slovenia's main trading partner, is facing a number of challenges that are now being seen as increasingly structural in nature. Manufacturing has been in difficulty since mid-2022, which has been reflected in a stagnating economy, a rise in unemployment and bankruptcies, and a worsening economic outlook. These developments are impacting Slovenia's export activity. This has been declining for the last year, with exports to the German market recording one of the most notable falls. Given the persistent challenges facing Germany, for now there is no sign of any major adjustment on the part of the domestic export sector or a refocusing on other markets.

The structural challenges, which are also going hand-in-hand with the adverse effects of the war in Ukraine, are being reflected in difficulties in Germany's manufacturing sector. These have stalled the post-pandemic economic recovery, and are continuing to curtail current activity.

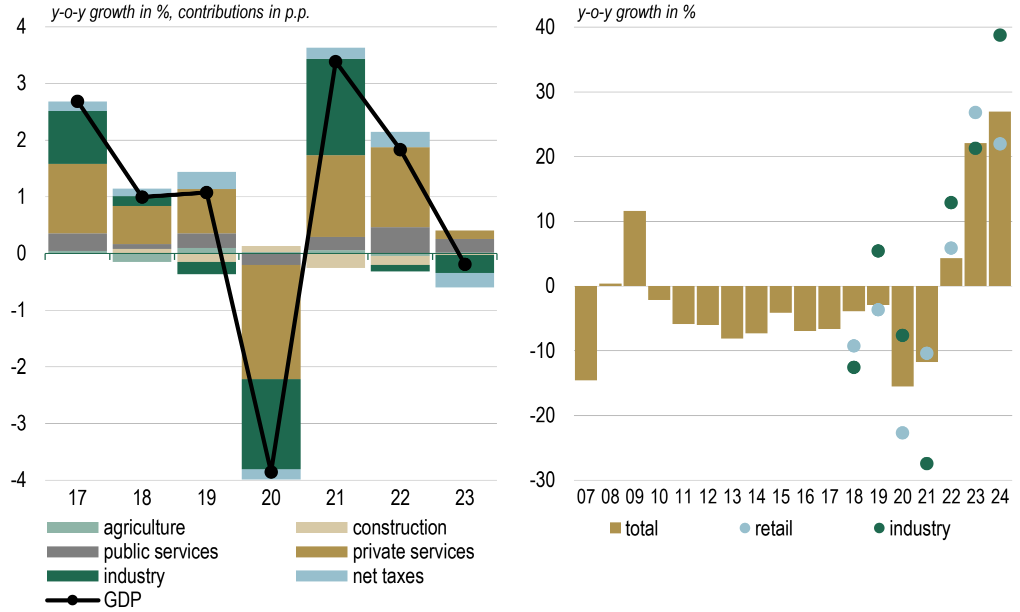
The German economy contracted by 0.2% last year, having grown by 3.2% in 2021 and 1.8% in 2022 (see Figure 8.1.1, left). After growing solidly since 2013, the slowdown began even before the pandemic, as a result of weaker export activity amid tightening protectionist measures in global trade. Economic activity in Germany gathered pace after the pandemic, but the above-average growth seen in 2021 and 2022 was ended by certain challenges, most notably in connection with the war in Ukraine. The EU trade embargo against Russia hit German manufacturing particularly hard, and the sector had to face a sustained rise in energy prices and other commodity prices. The situation in the German economy has also been affected in recent times by worsening financing conditions, and is increasingly facing structural limiting factors such as low productivity growth and an ageing population. The difficult situation has been reflected in a rising number of bankruptcies over the last three years. Last year saw bankruptcies up just over a fifth on the previous year, a larger rise than the uptick seen during the global economic and financial crisis, and the increase was even more pronounced in the first quarter of this year (see Figure 8.1.1, right).

The uncertainty in the economic environment is also being reflected in current developments. Economic activity in Germany contracted by 0.1% in the second quarter of this year (having increased by 0.2% in the first quarter), primarily as a result of a decline in investment in equipment and buildings, and a decline in demand for industrial products and construction work. Private consumption and export also declined, and only government consumption made a positive contribution to economic growth. Unemployment is also rising, and in June reached its highest level since 2022, although the rate of 3.4% remains relatively low (see Figure 8.1.2, left).

Figure 8.1.1: **Economic growth and bankruptcies in Germany**

The structure of GDP growth – production side

Bankruptcies



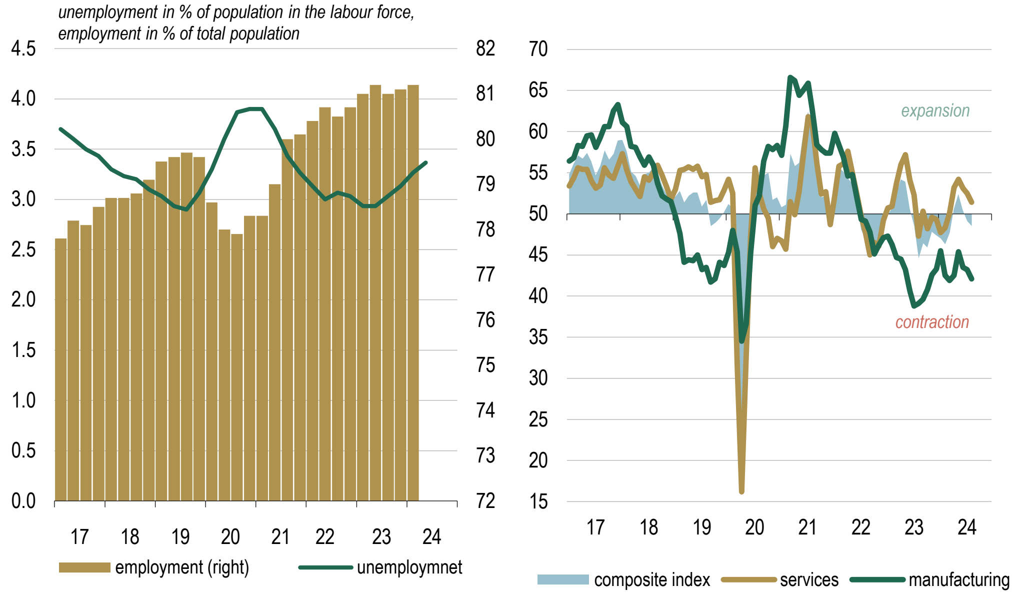
Sources: Eurostat, Statistisches Bundesamt, Banka Slovenije calculations; latest data left chart: 2023; right chart: Q1 2024
Note: The data for 2024 in the right chart is for the first quarter only.

The outlook for the third quarter remains weak. Compared with their averages over the second quarter, all the survey indicators were down in July and August, which once again took the composite PMI into the zone of contraction. The most pronounced deterioration was in the manufacturing indicator, which hit 42.1 points, while the services indicator remains in the zone of expansion, although at 51.4 points it is lower than in the previous four months (see Figure 8.1.2, right). The mood in the German economy also remains subdued, and has been displaying a trend of deterioration since the outbreak of the war in Ukraine. The economic sentiment indicator published by the European Commission stood at 90.5 percentage points in August, and thus remained below last year's average and its long-term average. Confidence is lowest in retail and in industry, which has also seen the largest shortfall on the long-term average this year.

Figure 8.1.2: **Economic developments and unemployment in Germany**

Unemployment and employment

Purchasing Managers' Index (PMI)



Sources: Bloomberg, Eurostat; latest data left chart: Q2 2024 for unemployment, or Q1 2024 for employment; right chart: August 2024 (flash estimate)

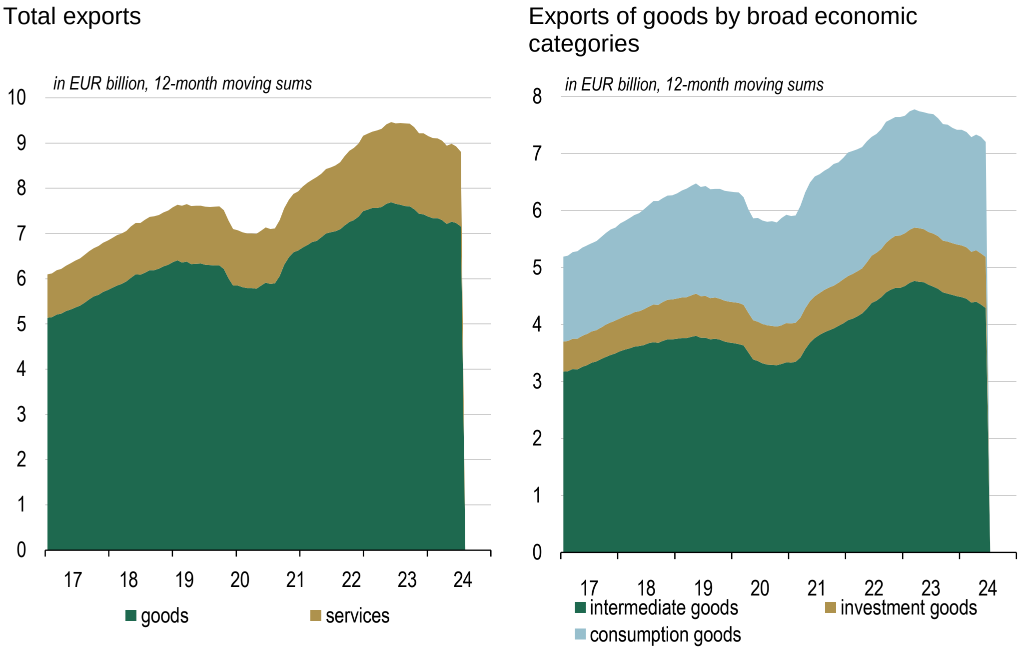
Slovenia's exports of merchandise and services to Germany have been gradually declining since mid-2023.

According to the balance of payments data, exports to Germany, Slovenia's most important trading partner, which accounts for around 17% of its total exports of merchandise and services, have undergone a sustained increase over the last two decades, with the sole declines coming during the global financial crisis and the pandemic. Slovenia's exports to Germany have been falling again since mid-2023. Over the 12 months to June they were down 6.7% in year-on-year terms, the largest contraction since November 2020.

Merchandise accounts for the majority (just over 80%) of Slovenia's aggregate exports to Germany, although the share accounted for by services has gradually increased, and at 19.4% over the 12 months to June of last year stood at its highest figure to date (see Figure 8.1.3, left). Nominal services exports over the preceding 12 months had recorded year-on-year increases of 16.4% in June of last year, and 21.3% in June of the previous year. The trend had reversed by June of this year: nominal services exports over the preceding 12 months were down 9.6% in year-on-year terms, while merchandise exports were down 6.0%.

In the breakdown by broad economic categories, the largest component (around 60%) of merchandise exports to Germany is intermediate goods (see Figure 8.1.3, right), whose share has been gradually declining since May of last year as a result of a stronger decline compared with the other categories. This is indicative of Germany's weakening activity, largely in connection with production chains and manufacturing. Nominal exports of consumer goods over the preceding 12 months in June of this year were down 2.7%, while the corresponding decline for intermediate goods was 8.7%, the largest decline in exports of intermediate goods since the beginning of 2021.

Figure 8.1.3: **Exports to Germany**

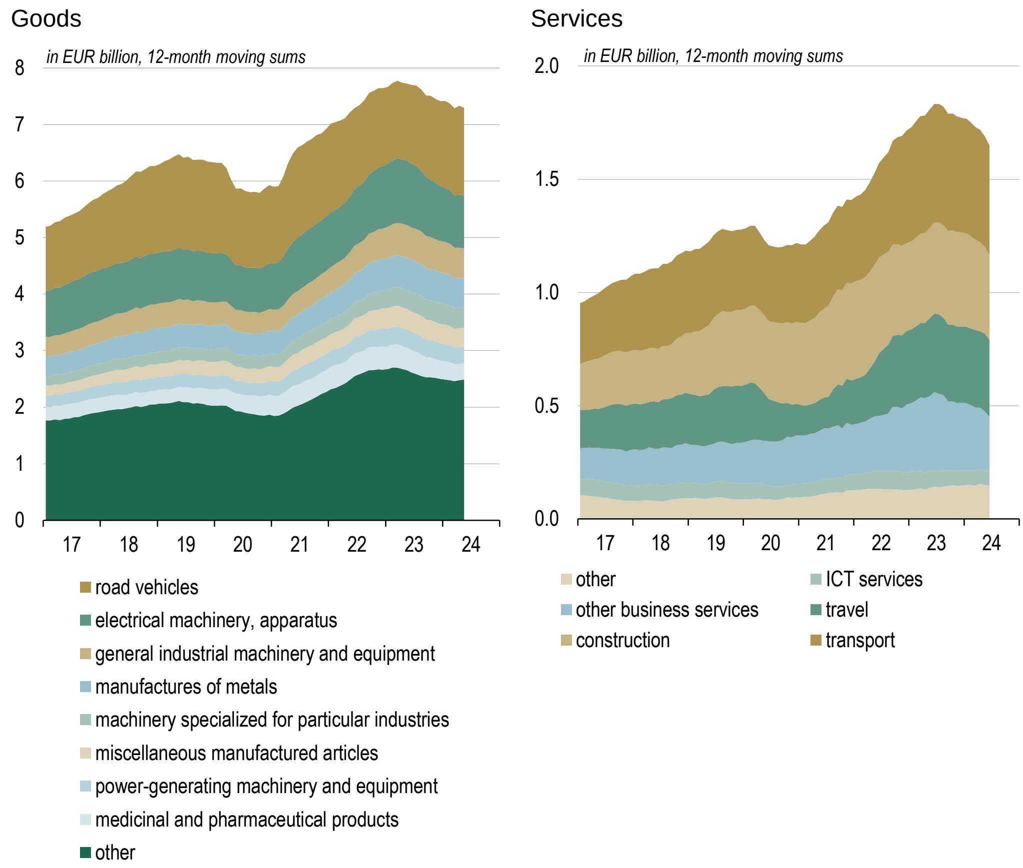


Sources: SORS, Banka Slovenije; latest data: June 2024

The breakdown of merchandise exports to Germany by the main categories according to the SORS figures shows that the 12-month moving sum of exports of road vehicles, which account for more than a fifth of the total, has been increasing since the second half of last year. In June of this year it was up 11% in year-on-year terms. Exports of special machinery, which account for approximately 5% of merchandise exports to Germany, were up 2.5% in year-on-year terms over the 12 months to June. Exports of all the other largest product categories declined, with the largest decline of 19% being recorded by electrical machinery and equipment, which account for more than a tenth of the total. Exports of medical and pharmaceutical products have also been declining sharply since the final quarter of last year (see Figure 8.1.4, left).

The 12-month moving sum of services exports to Germany has also declined significantly from its peak in June of last year, having previously increased since the beginning of 2021. The largest decline was in exports of other business services (the sum over the 12 months to June was down 30.4%), while exports of travel services remain stable, having increased by 36.0% since March 2020 after initially falling during the outbreak of the pandemic (see Figure 8.1.4, right).

Figure 8.1.4: **Exports of merchandise and services to Germany by category**



Sources: SORS, Banka Slovenije; latest data: June 2024
Note: The product and service categories illustrated are those that account for at least 4% of aggregate exports to Germany over the last year.

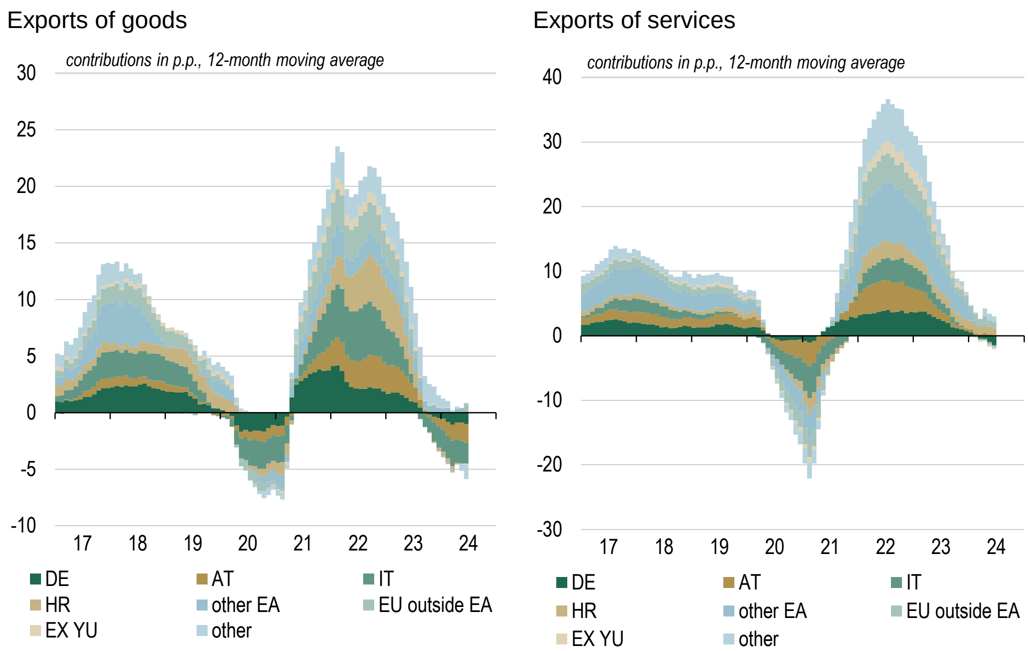
Given the persistent weakness of the economy in Germany and certain other major trading partners inside the euro area, Slovenia has been facing a decline in merchandise exports since the second half of last year.

Slovenia's exports over the 12 months to June were down 4.3% in year-on-year terms, entirely as a result of the decline in merchandise exports (5.7%), while services exports recorded positive growth of 0.8% (see Figure 8.1.5).

Merchandise exports over the 12 months to June were down EUR 2.3 billion, following declines of EUR 0.5 billion in exports to Germany, and approximately EUR 1.5 billion in exports to Italy and Austria, which together account for 87% of the total decline in merchandise exports. The share of merchandise exports accounted for by Germany, which had remained around 20% since the end of 2011, has declined since August 2021 to just under 18%, its level from 2008. The share of merchandise exports accounted for by Austria and Italy has also declined over this period, while there have been corresponding increases in the shares accounted for by Croatia, other smaller euro area trading partners, and markets outside the euro area.

Services exports over the 12 months to June of this year were up around EUR 90 million in year-on-year terms, in the wake of a decline of EUR 175 million in exports to Germany and a total increase of around EUR 200 million in exports to other markets. Germany's share of total services exports has been gradually declining since May 2021, when it peaked at 18.0%. It amounted to 13.8% over the last year, down 1.6 percentage points on a year earlier, thereby recording the largest decline among all the main trading partners. Services exports to Italy had also contracted significantly by mid-2021, while services exports to Croatia and to markets outside the euro area are strengthening.

Figure 8.1.5: **Breakdown of exports of merchandise and services**



Sources: SORS, Banka Slovenije calculations; latest data: June 2024
Note: The former Yugoslav republics (Ex YU) include Bosnia and Herzegovina, Serbia, Montenegro and North Macedonia.

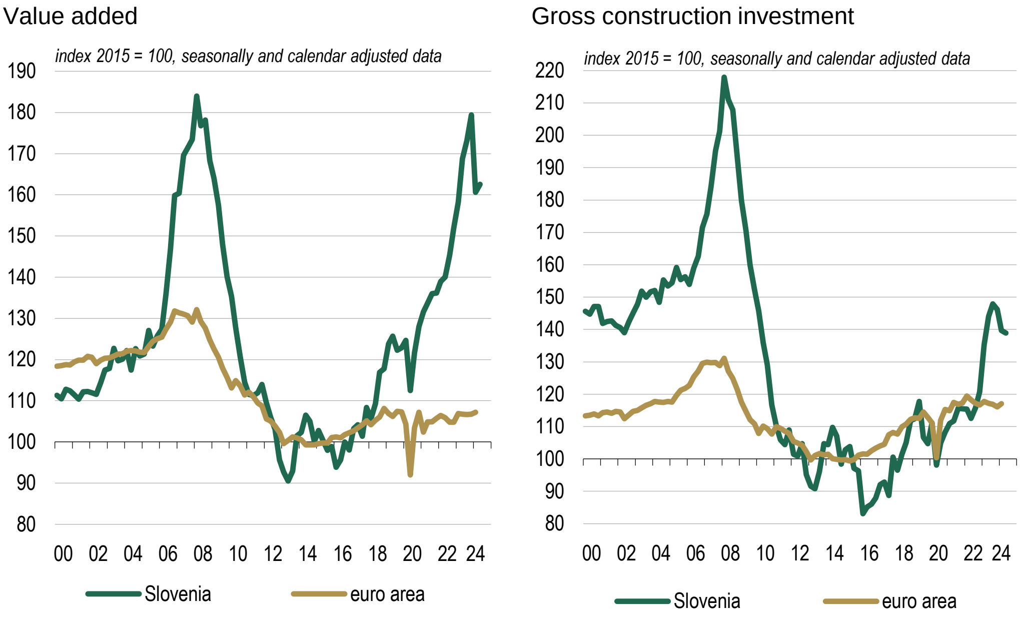
8.2 Situation in the construction sector in Slovenia

Construction activity has declined from last year's very high levels, but the situation in the sector currently remains good from the perspective of construction firms and the longer-term comparisons. The decline in activity is attributable to the completion of several major infrastructure projects, the ending of the most urgent emergency work following last year's floods, the end of the 2014-2020 European financial framework, and the cooling of the real estate market, which is facing high prices and low transaction numbers. Although value-added in construction in the second quarter was down 3.7% in year-on-year terms, it was still up 30.5% on its quarterly average between 2000 and 2023, while activity and investment remain well above the euro area average. Construction firms have grown less optimistic this year, but business conditions remain solid.

The activity indicators point to a reversal in the construction cycle, but remain at high levels when viewed over the long term.

A quarterly decline in value-added in construction in the first quarter of this year brought an end to the extremely strong cycle of growth that began in the third quarter of 2020 (see Figure 8.2.1, left). The quarterly value-added of EUR 811 million recorded before the decline almost reached the record high from the first quarter of 2008, when construction was one of the main drivers of the overheating economy. The ratio of value-added in construction to GDP stood at 6.9%, only 0.5 percentage points short of its record high. The high growth in construction in 2023 partly masked the difficulties in other sectors of the economy and the international environment as it contributed a significant 0.8 percentage points to the overall solid GDP growth of 2.1%.

Figure 8.2.1: **Value-added and investment in construction**



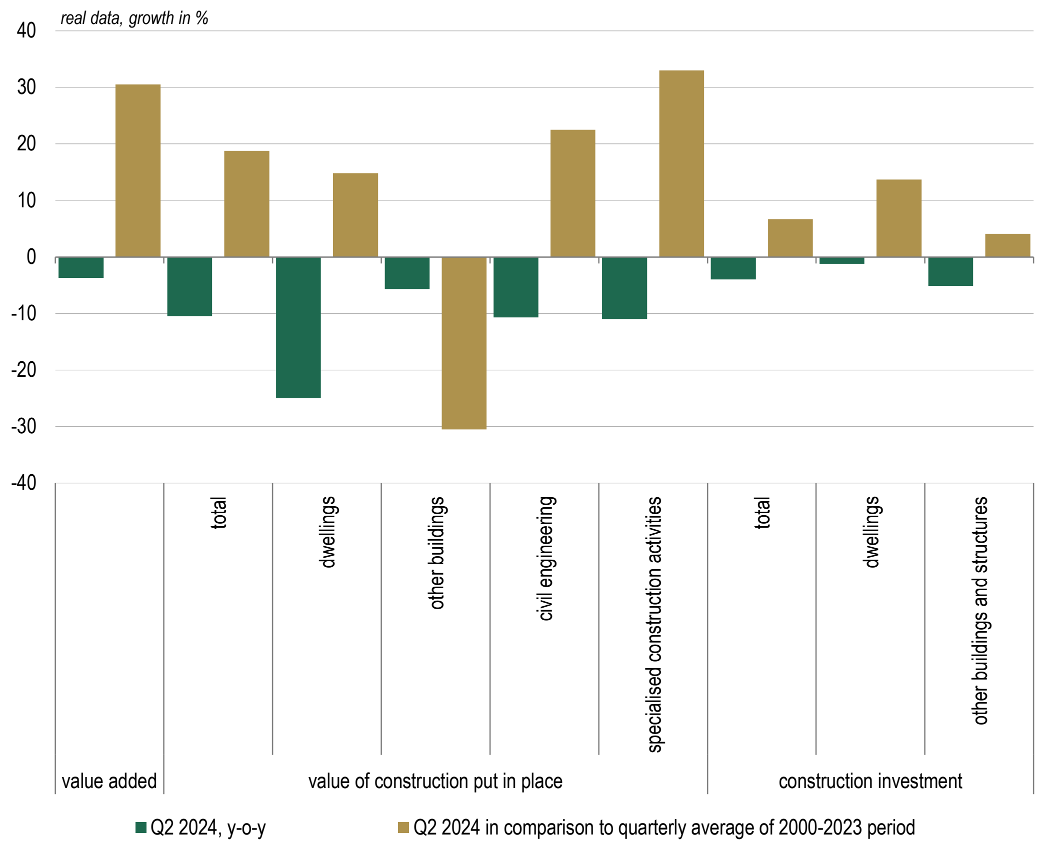
Sources: SORS, Eurostat

There was a pronounced quarterly decline in value-added in construction in the first quarter of this year. It stood at 10.5%, the largest decline since the downward fluctuation during the introduction of VAT in 1999. This reduced the year-on-year rate of growth in value-added, which had averaged 18.0% over the course of last year, to just 1.6%. Value-added recovered slightly in quarterly terms in the second quarter, but was down 3.7% in year-on-year terms. The year-on-year decline in the second quarter was even deeper according to the monthly statistics: the amount of construction put in place in the second quarter was down 10.1%. There were significant declines in all segments of construction, although residential construction was notable for its quarterly contraction.

Construction investment is also declining. Amid the ongoing weakness in quarterly dynamics, it was down 4.0% in year-on-year terms in the second quarter, with residential construction investment declining by 1.2%, and investment in construction of other buildings and structures by 5.1%. Although it is curtailing GDP growth, the reduced intensity of construction investment might be welcome from the perspective of macroeconomic equilibrium, as the maintenance of the rates seen last year, with two quarters seeing growth of more than 25%, could lead to the overheating of parts of the economy and to even higher inflation. The reduced investment is linked to the ending of projects in connection with the European financial framework, the completion of certain major infrastructural construction works, the completion of emergency work following last year's floods, and stagnation in the residential real estate market. Another major factor in the decline in construction indicators was last year's high base, when the construction cycle hit a peak well above the euro area average (see Figure 8.2.1).

Although the current declines are significant, indicators of construction activity and investment in the second quarter remained above their quarterly averages from the period of 2000 to 2023 (see Figure 8.2.2). Value-added was 30.5% higher, while the amount of construction put in place was 18.8% higher, with residential construction

Figure 8.2.2: **Selected indicators of construction activity and demand**



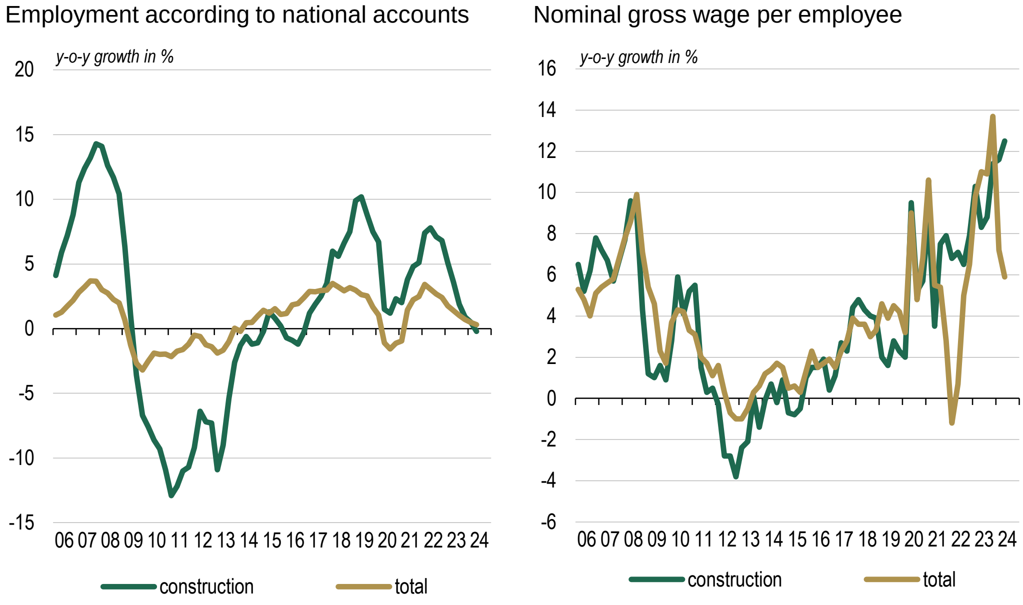
Sources: SORS, Banka Slovenije calculations
Note: The year-on-year comparisons are calculated on the basis of seasonally unadjusted data, while the long-term comparisons are calculated on the basis of seasonally and calendar-adjusted data.

14.8% higher, civil engineering work 22.5% higher and specialised construction work 33.0% higher. Construction of non-residential buildings was alone in seeing below-average activity, with a gap of 30.5%. Construction investment was also higher, by 6.7%, with residential construction 13.7% higher and construction of other buildings and structures 4.1% higher. The ratio of construction investment to GDP stood at 10.7%, at the level of its long-term average. Demand and activity thus remain high.

Labour costs have become the main factor in the rise in aggregate construction costs.

The decline in construction activity is being reflected in hiring at construction firms, but wage growth remains high. Employment in the second quarter was down 0.2% in year-on-year terms according to the national accounts figures, which amid weak quarterly dynamics was also attributable in part to last year's high base. After several years of outpacing, hiring in construction fell below the average level of the economy. By contrast, year-on-year nominal growth in the average gross wage remains above 10%. It reached 12.5% in the second quarter, the highest among all sectors by some margin, and 6.6 percentage points above average wage growth (see Figure 8.2.3). With material costs falling, rising labour costs thus became the main driver of the aggregate rise in construction costs. Aggregate construction costs for new-build housing in the first quarter were up 3.6% in year-on-year terms according to the SORS figures. Labour costs were up 11.9%, while material costs were down 3.2%.

Figure 8.2.3: **Employment and wages in construction**



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

The residential real estate market is marked by low sales and high prices, which are much higher than the costs of construction.

The number of residential properties sold in the first quarter was the lowest figure seen since the third quarter of 2013, when the economy faced a crisis situation and austerity measures. There were 2,057 sales, down 24.4% in year-on-year terms, and the figure has been falling since mid-2021. It was down 29.6% on its average between 2010 and 2023. The number of new-build residential properties sold was 164, down a third in year-on-year terms, and down 15.9% on the average between 2010 and 2023. Further evidence of the weaker residential real estate market comes from the year-on-year increase in the stock of housing loans, which peaked at more than EUR 800 million in mid-2022, but had fallen to EUR 166 million by June of this year. Year-on-year growth in housing loans has strengthened slightly since the end of last year, but remained low at 2.0%.

Despite the fall in the number of transactions, residential real estate prices are continuing to rise. They were up 6.3% in year-on-year terms in the first quarter, and were up fully 97.9% on the bottom in the third quarter of 2014, with prices of new-build properties rising by 83.5%, significantly more than the simultaneous increase in construction costs.[16] Annual gross household disposable income increased by 71.5% over the same period, which drove a significant decline in housing affordability. The future supply of new-build housing is difficult to estimate: amid the current adverse developments, construction activity and investment in this segment are above their long-term averages, while the number of building permits issued is down, although the corresponding floorspace is up.[17] The current price and credit cycle in the residential real estate market is significantly stronger than the euro area average (see Figure 8.2.4), but the housing supply remains significantly lower, at least judging by the ratio of housing investment to GDP.[18]

The survey indicators currently point to the maintenance of a high level of activity and a good financial situation in construction.

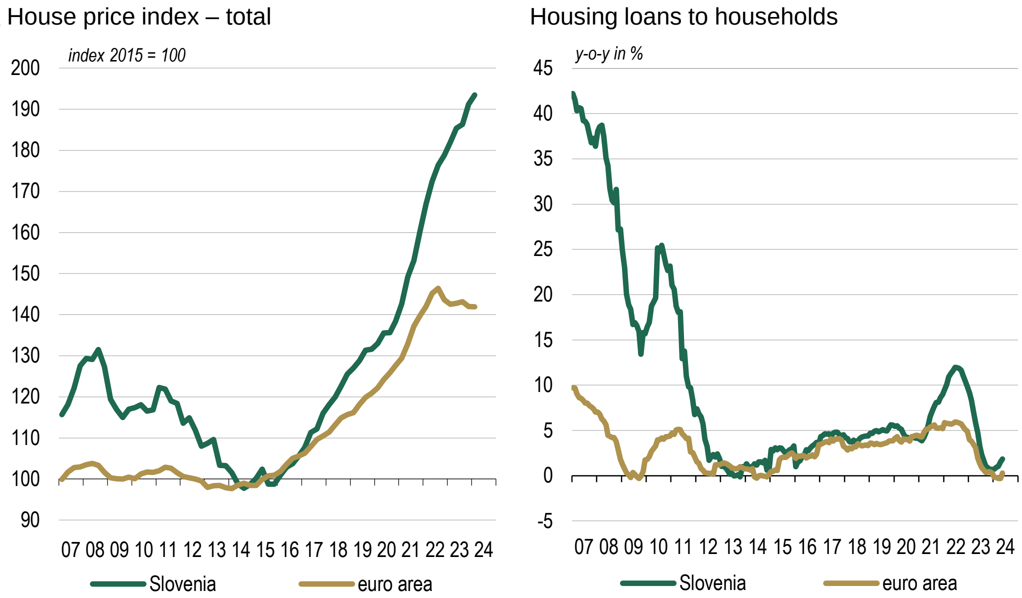
Construction activity also declined according to the survey indicators, which at least until the end of August were not suggesting any deterioration in the sector. The confidence indicator, which displays significant monthly volatility, has been gradually declining since the first quarter of 2022, but remains positive, having ticked upwards in August. It stood at 7.0 percentage points in August, down 6.6 percentage points on last year's average, but significantly higher than the euro area average (see Figure 8.2.5, left). In August construction firms reported a decline in the amount of construction put in place for the fourth consecutive month, and a decline in orders for the second consecutive month. The share of firms facing insufficient demand has increased slightly this year, but remains well below the average between 2005 and 2023 (see Figure 8.2.5, right). The indicator of the operating time ensured by the current backlog stood

[16] Construction costs in residential construction began rising sharply in 2021. In the first quarter of this year they were up 40.1% on their average from 2019, where the rise in material costs was comparable to the rise in labour costs. They were up 54.7% on the third quarter of 2014, 28.8 percentage points less than the simultaneous rise in prices of new-build residential real estate and 43.2 percentage points less than the aggregate rise in residential real estate prices.

[17] The number of building permits issued for residential real estate over the preceding 12 months was down 16.2% in year-on-year terms in July, while the corresponding floorspace was down 20.2%. The number was down 8.0% on its average between 2013 and 2023, while the floorspace figure was up 7.0%.

[18] According to Eurostat data, the ratio of housing investment to GDP in the first quarter of this year stood at 3.0% in Slovenia, compared with 6.0% in the euro area overall. The ratio averaged the same between 2000 and 2023.

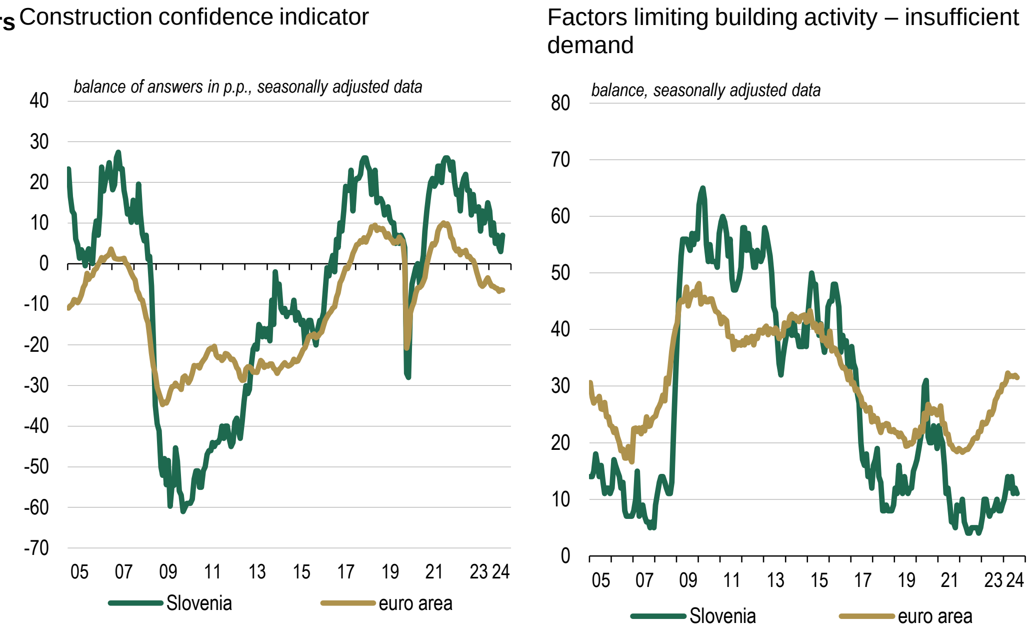
Figure 8.2.4: **Real estate prices and housing loans**



Sources: Eurostat, ECB, Banka Slovenije calculations; latest data left chart: Q1 2024; right chart: June 2024
Note: The right chart illustrates loans by gross amount (statistical definition).

at 7.2 months in August, comparable to its average over the last two years. Construction firms are also planning additional hires, and expect further, albeit slower, growth in prices. In August 18% of construction firms reported that they are not facing any limiting factors, which is the joint record high to date. The shares of firms reporting difficulties because of high labour and material costs were down 4 percentage points and 9 percentage points in year-on-year terms respectively. The financial position in the sector remains good: the share of firms reporting difficulties in obtaining loans and high financial costs is very small, and well below the average between 2005 and 2023. The share of firms facing a shortage of skilled labour was large again in August at 46%, an indication of the maintenance of a high level of demand and activity.

Figure 8.2.5: **Survey indicators**



Sources: SORS, Eurostat; latest data: August 2024

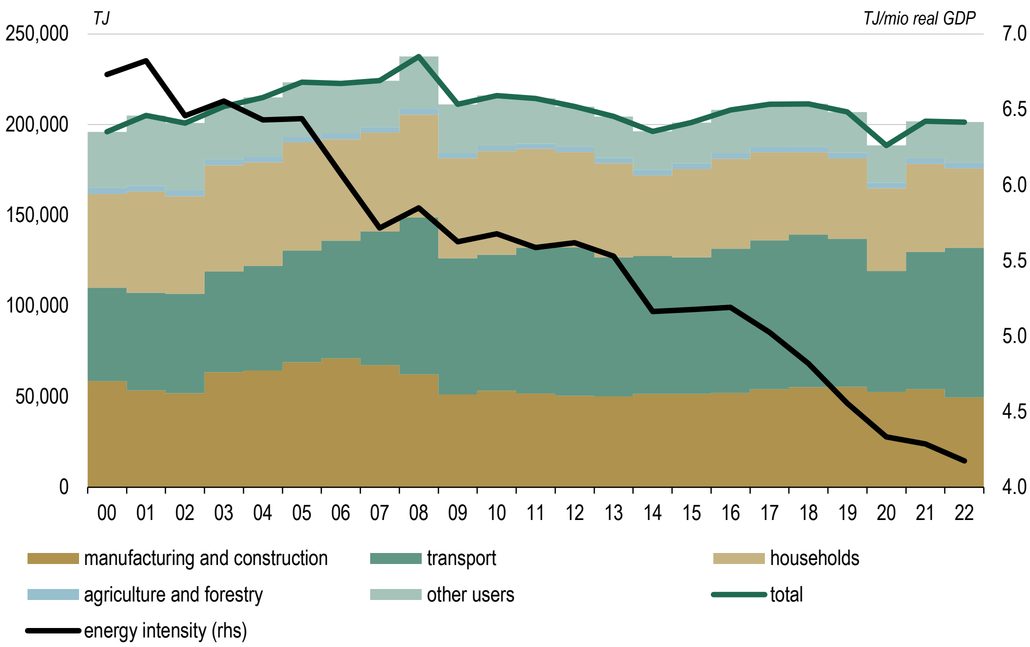
8.3 Final energy consumption and energy intensity in Slovenia

Slovenia has made clear progress in energy efficiency over the last two decades. The amount of final energy required to produce a unit of GDP has declined markedly, with a notable contribution from manufacturing, which has sharply reduced its energy intensity. The progress in reducing total final energy consumption is less evident. Progress is being held back by the increase in transport, which largely relates to Slovenia's geographical advantages, while it is being driven by technological development and, to a lesser extent, by structural changes in the economy. Caution is required when analysing final energy consumption, as it declines most evidently during years of crisis, while falling consumption can also be attributed to difficulties in manufacturing and in international trade.

Energy intensity declined sharply between 2000 and 2022, while the fall in final energy consumption was held back above all by increased transport, which accounts for the largest share of total final energy consumption.

Persistently high energy prices and the transition to a low-carbon society demand improvements in energy efficiency by businesses and households. This has been underway for a long time now, and is to a great extent related to technological progress. To illustrate the situation in 2022 (the latest available data) and the developments since 2000 or 2008, this analysis makes use of data on final energy consumption and the energy intensity indicator. Final energy consumption refers to consumption at final consumers, which excludes the consumption of energy sources to generate electricity and heat (i.e. transformation), while the energy intensity indicator is defined as the ratio of final energy consumption to real GDP or real value-added.[19] A quick look at final energy consumption does not show major progress over the observation period, but the progress is clear in the reduction in energy intensity (see Figure 8.3.1).

Figure 8.3.1: **Final energy consumption and energy intensity**



Sources: SORS, Banka Slovenije calculations
Note: Consumption of fuels for energy transformation is not included. 1 TJ = 277,778 kWh.

[19] The SORS's detailed methodological notes can be found in the Annual energy statistics.

After peaking in 2008, final energy consumption had declined by 15.2% by 2022, but remained 2.7% above its level of 2000. The more visible changes in consumption correlate with major reversals in the business cycle, with the only pronounced falls coming in the crisis years of 2009 and 2020, while energy consumption was further reduced in 2020 by the pandemic containment measures. Other drivers of lower final energy consumption cited by the IMAD in its latest development report include the modernisation of aluminium production, warmer winters, energy efficiency measures for buildings, the use of heat cost allocators, more advanced heating equipment, and the high electricity and gas prices seen during the 2022 energy crisis.[20] These had a major impact on output in energy-intensive manufacturing, which at the end of 2022 was down 19.4% in year-on-year terms.

The structure of final energy consumption has changed significantly over the entire observation period, and consumption in 2022 was down on the initial year of 2000 in all the observed categories other than transport (see Figure 8.3.1). Consumption in transport was up markedly, by 60.5%.[21] This is attributable to Slovenia's transit location, which has gained further importance in EU enlargements, and the resulting strong growth in the transportation and logistics sector and in international trade in transport services, and also to the rise in the number of road vehicles and the increase in international tourism.[22] Transport accounted for 41.1% of final energy consumption in 2022, up 14.8 percentage points on 2000. Manufacturing and construction together reduced their final energy consumption by 15.4% over the same period, thanks to technological improvements in production and, to a lesser extent, to structural changes in manufacturing.[23] Manufacturing and construction together account for 24.5% of final energy consumption, down 5.3 percentage points on the initial figure. Households are the third largest final consumers of energy, accounting for 21.7% of total consumption in 2022, their consumption having declined by 15.5%.[24] Next comes the category of "other users", which include services other than transportation part of transportation and storage activity, which accounts for 11.1% of total consumption, its own consumption having declined by 27.8%.[25] A decline in consumption was also recorded by agriculture and forestry, which accounts for a negligible 1.5% of total consumption.

[20] For more detailed information, see the Development Report 2024.

[21] According to the SORS data, transport in this case covers the energy consumed in all transport activities irrespective of their classification under NACE, and includes household consumption for personal transportation. A territorial principle is applied.

[22] According to the SORS data, the annual tonne-kilometres performed increased from 7.0 billion to 24.3 billion in road transport between 2001 and 2022, and from 2.6 billion to 4.9 billion in rail transport. The number of road vehicles rose by 60.1%. According to Port of Koper figures, maritime throughput increased from 13.1 million tonnes in 2005 to 23.2 million tonnes in 2022. According to balance of payments figures, Slovenia's international trade in transport services increased from EUR 0.9 billion in 2000 to EUR 5.3 billion in 2022, while its trade in travel services increased from EUR 1.6 billion to EUR 4.8 billion.

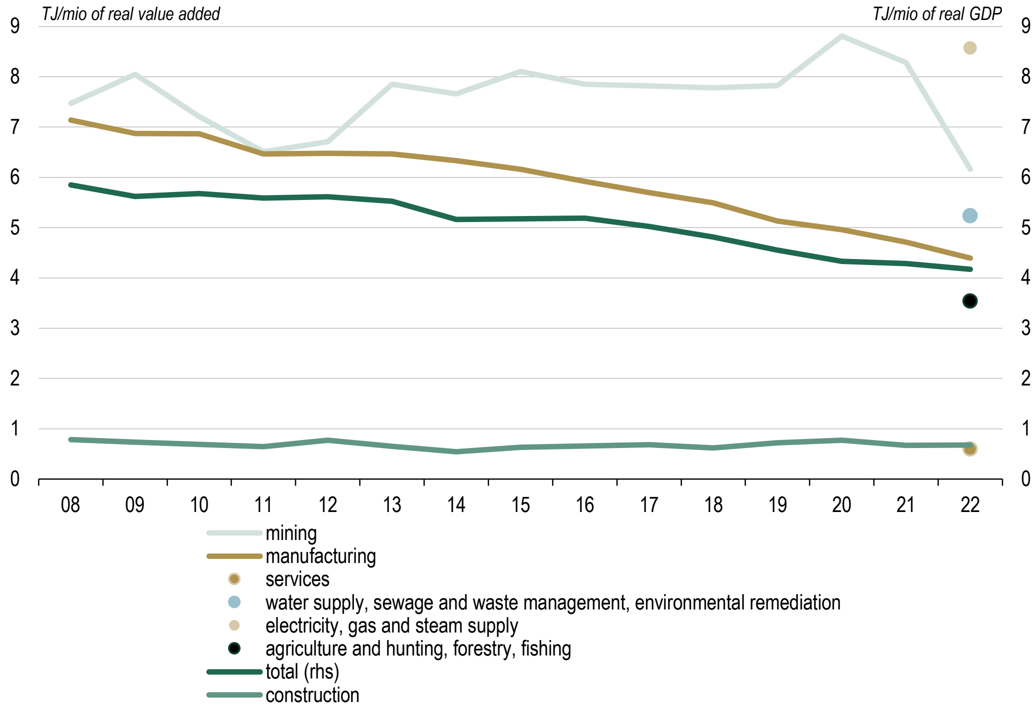
[23] The share of total value-added in manufacturing accounted for by energy-intensive sectors (NACE 17, 20, 23 and 24) amounted to 17.0% in 2000 and 15.0% in 2022. Disclosure of the total coverage of final energy consumption in manufacturing and construction is dependent on the length of the time series.

[24] Final energy consumption in households is declining, despite the rise in population. According to the census, Slovenia's population in 2021 was up 7.4% on 2002.

[25] As of 2022 the category of "other consumers" no longer covers consumption in services. Since then it has been disclosed separately, but for the needs of this analysis it was added to the combined category for that year.

The energy intensity of the economy has declined sharply over the last 20 years, which means that it takes significantly less energy consumption to produce a unit of GDP. If it took between 6.7 TJ and 5.8 TJ of energy to produce a million EUR of GDP between 2000 and 2008, by 2022 it only took 4.2 TJ, an improvement of 38.0% relative to 2000 and 28.6% relative to 2008 (see Figure 8.3.1).[26] Since 2008, when data has been available for a larger number of sectors, the overall trend of improvement has coincided with a reduction in energy intensity in manufacturing. By 2022 energy intensity in manufacturing had declined by 38.5% from 7.1 TJ to 4.4 TJ per million EUR of value-added (see Figure 8.3.2). Energy intensity in construction and its share of total final energy consumption are both low.[27] Conversely, mining and quarrying is significantly more energy-intensive, but accounts for a negligible share of total consumption. The time series for other sectors are considerably shorter. Energy intensity stood at 8.6 TJ per million units of value-added in electricity, gas, steam and air conditioning supply in 2022, 5.2 TJ in water supply, sewerage, waste management and remediation activities, and 0.6 TJ in services other than the transport segment of transportation and storage.[28]

Figure 8.3.2: **Energy intensity by activity**



Sources: SORS, Banka Slovenije calculations
Note: Owing to short time series, the calculations for certain sectors are illustrated solely for the last available year, and are merely informative in nature. Consumption of fuel for energy transformation is not included. 1 TJ = 277,778 kWh.

[26] According to Eurostat data, energy intensity in the EU averaged 2.7 TJ per million of GDP in 2022. Slovenia was ranked in the middle of the Member States according to its calculations. For a more detailed international comparison, see IMAD: Development Report 2024 and Eurostat: Energy statistics - an overview.

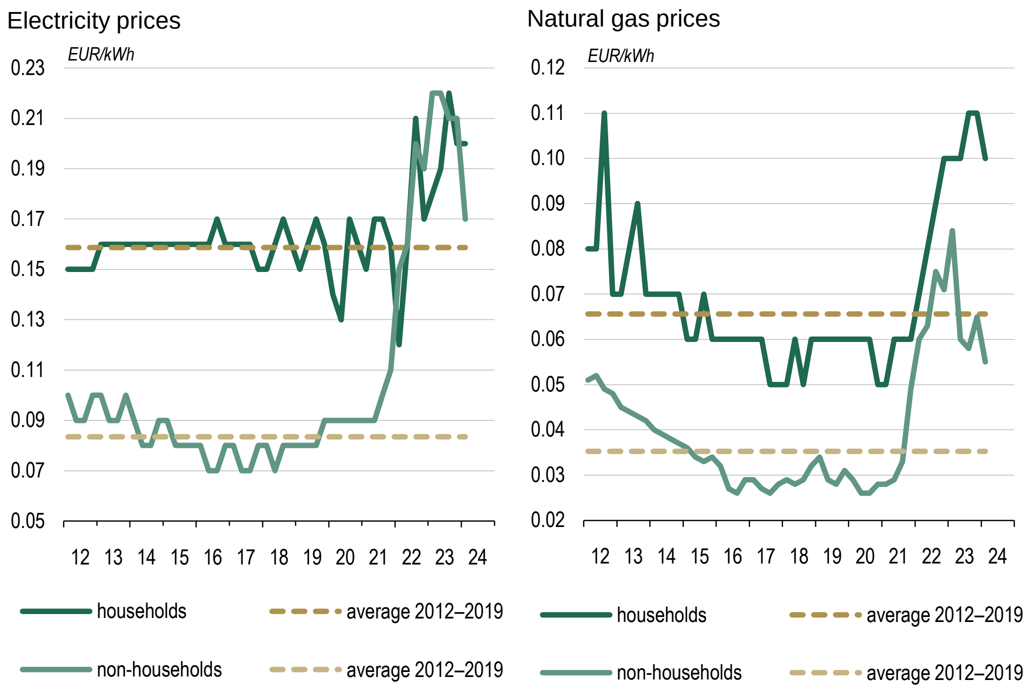
[27] Direct final energy consumption. Construction is a large consumer of products made by energy-intensive industries.

[28] The most energy-intensive service is accommodation and food service activities, with an energy intensity of 2.8 TJ per million units of value-added.

Our assessment is that final energy consumption and energy intensity continued to fall in 2023, while a lack of data makes it is difficult to assess the performance this year.

Last year's likely improvement in both categories was attributable to high energy prices, the slowdown in economic growth, and changes in structure. Amid the decline in merchandise trade, the tonne-kilometres performed in road transport declined by 7.3%, and in the first quarter of this year was down a further 8.1% in year-on-year terms. A significant decline was also seen in rail transport, while throughput at the Port of Koper declined by 4.2% last year and by 1,0% in the first half of this year. Electricity and gas prices mostly continued to rise last year, and while declining in the first quarter of this year they remained well above their average between 2012 and 2019, which is encouraging additional savings measures (see Figure 8.3.3).[29] In a situation of high energy prices and weak foreign demand, manufacturing output declined by 4.5% last year, with energy-intensive sectors recording a decline of 13.7%, including the final termination of aluminium production. The year-on-year decline in manufacturing output slowed in the first half of this year. Under the government's long-term strategy for the energy efficiency overhaul of buildings, the energy renovation of residential and public buildings and buildings used in private-sector services is set to continue.[30] Last year's continuing rises in the number of road vehicles (2.4%) and arrivals by foreign tourists (5.5%) are acting in the opposite direction, with the latter recording a year-on-year increase of 4.5% in the first half of this year.

Figure 8.3.3: **Electricity and gas prices for household and non-household consumers**



Sources: SORS, Banka Slovenije calculations; latest data: Q1 2024

[29] According to SORS data, electricity prices for household consumers in the first quarter of this year were up 26.0% on their average between 2012 and 2019, while those for non-household consumers were up 103.0%. Gas prices were up 60.0% and 54.4% respectively over the same comparison, while prices of 95-octane petrol, diesel and heating oil were up 7.0%, 18.5% and 21.9% respectively. Energy prices over the first seven months of this year were also well above their averages between 2012 and 2019 according to the HICP statistics published by Eurostat.

[30] For more, see the Long-term energy renovation strategy for 2050.

9 Statistical Appendix

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

	2022	2023	12 m. 'till Jun.24	3 m. 'till Jun.23	3 m. 'till Jun.24	2024 Apr.	2024 May.	2024 Jun.	2024 Jul.	2024 Aug.
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	0,6	-3,8	-3,9	-3,4	-2,0	-2,2	-2,0	-1,8	-2,9	-1,7
- confidence indicator in manufacturing	0,0	-8,3	-8,8	-9,3	-7,7	-9,0	-7,0	-7,0	-7,0	-6,0
					year-on-year growth rates in %					
Industry: - total	2,1	-4,9	-4,6	-3,4	-2,8	-0,3	-7,3	-0,5	...	...
- manufacturing	4,8	-3,7	-3,1	-2,4	-0,5	2,2	-4,5	1,1	...	...
Construction: - total	22,2	19,4	4,5	23,1	-10,5	-5,0	-6,3	-19,0	...	...
- buildings	53,4	10,5	-2,8	10,7	-13,3	-4,6	-9,1	-24,1	...	...
Trade and service activities - total	9,8	0,4	1,0	-1,8	1,6	2,9	1,1	0,8	...	...
Wholesale and retail trade and repair of motor vehicl	0,0	11,5	10,8	8,6	7,8	14,6	4,3	4,8	...	...
Retail trade, except of motor vehicles and motorcycl	4,4	-4,6	-1,8	-6,7	0,6	1,3	0,3	0,3	...	...
Other private sector services	12,6	2,6	2,0	-0,4	1,9	4,2	1,6	-0,1	...	...
Labour market					*year-on-year growth rates in %*					
Average gross wage	2,7	9,7	8,2	9,9	6,9	7,4	6,1	7,3	...	...
- private sector	6,3	11,9	10,3	11,0	7,4	8,9	8,1	5,3	...	...
- public sector	-2,6	10,3	7,5	11,0	3,1	2,2	2,2	4,8	...	...
Real net wage[1]	-5,1	4,0	3,6	2,6	1,0	0,9	1,0	1,0	...	...
Registered unemployment rate (in %)	5,8	5,0	4,8	4,8	4,5	4,6	4,4	4,4	...	...
Registered unemployed persons	-23,8	-14,0	-9,0	-15,4	-6,5	-7,0	-6,6	-6,1	-6,1	...
Persons in employment	2,4	1,3	1,1	1,5	1,3	1,4	1,3	1,2	...	...
- private sector	3,0	1,4	1,1	1,8	1,3	1,4	1,4	1,1	...	...
- public sector	0,7	0,9	1,0	0,8	1,3	1,2	1,2	1,3	...	...
Price Developments					*year-on-year growth rates in %*					
HICP	9,3	7,2	4,2	7,9	2,4	3,0	2,5	1,6	1,4	1,1
- services	5,5	7,7	6,4	8,1	4,9	5,1	4,8	4,7	5,3	5,3
- industrial goods excluding energy	6,3	5,4	2,8	6,5	0,8	1,2	0,8	0,4	-0,8	-1,6
- food	10,6	11,8	5,1	13,6	1,0	1,2	0,6	1,2	1,5	1,9
- energy	24,8	2,2	0,5	0,9	1,7	5,0	3,8	-3,4	-4,6	-5,0
Core inflation indicator[2]	5,9	6,7	4,7	7,4	3,0	3,3	3,0	2,7	2,5	2,1
Balance of Payments - Current Account					*in % GDP*					
Current account balance	-1,1	4,5	4,1	6,5	5,3	6,9	4,5	4,4	...	...
1. Goods	-4,3	0,7	0,1	2,9	0,4	0,6	-0,2	0,9	...	...
2. Services	6,1	5,7	5,3	6,0	5,4	5,8	5,0	5,5	...	...
3. Primary income	-1,6	-1,0	-0,8	-1,1	-0,1	-0,2	0,1	-0,3	...	...
4. Secondary income	-1,3	-0,8	-0,5	-1,4	-0,5	0,7	-0,5	-1,8	...	...
					nominal year-on-year growth rates in %					
Export of goods and services	22,5	-0,4	-4,3	0,7	-1,0	11,9	-6,3	-6,7	...	...
Import of goods and services	29,3	-6,1	-5,4	-8,3	2,4	10,9	-0,2	-2,6	...	...

Public Finances	2022	2023	12 m. 'till Jul.24		2023 Jan.-Jul.		2024 Jan.-Jul.	
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	40,5	11,7	13.951	3,3	15.446	10,7
Tax revenue	20.557	21.977	35,9	11,2	12.473	4,8	14.001	12,2
From EU budget	961	1.084	1,6	14,5	514	-10,0	465	-9,5
Other	1.794	1.974	3,0	15,1	963	-6,3	980	1,7
Expenditure	24.886	27.308	43,8	12,1	14.556	5,1	15.926	9,4
Current expenditure	10.283	11.572	19,0	16,6	6.228	6,2	7.066	13,5
- wages and other personnel expenditure	5.481	6.094	9,7	7,7	3.569	12,4	3.804	6,6
- purchases of goods, services	3.557	3.869	6,5	17,9	1.992	2,9	2.385	19,7
- interest	661	711	1,2	12,6	447	9,4	524	17,2
Current transfers	11.261	12.050	19,3	9,8	6.876	3,7	7.463	8,5
- transfers to individuals and households	9.294	9.731	15,6	8,6	5.639	2,2	6.139	8,9
Capital expenditure, transfers	2.612	3.014	4,6	9,6	1.064	12,5	1.043	-2,0
GG surplus/deficit	-1.575	-2.274	-3,3		-605		-480	

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				-0,1	0,8	-0,1	0,2				0,0	0,0	0,3	0,3
- industry				-0,5	0,2	0,7	0,1				-1,0	-0,4	-0,2	...
- construction				2,6	3,6	-10,5	1,2				0,0	0,0	0,5	...
- mainly public sector services (OPQ)				-0,3	2,7	-1,9	0,9				0,2	0,6	0,3	...
- mainly private sector services (without OPQ)				-0,3	-0,1	0,8	0,1				0,0	-0,1	0,3	...
Domestic expenditure				1,1	2,7	0,6	1,1				-0,1	0,1	-0,5	...
- general government				0,9	2,0	2,0	6,8				0,8	0,6	-0,1	...
- households and NPISH [1]				0,7	0,6	0,7	-0,7				0,3	0,2	0,2	...
- gross capital formation				4,0	2,0	3,6	0,2				-1,9	-0,4	-2,7	...
- gross fixed capital formation				0,7	0,0	-1,6	-0,4				0,1	0,7	-1,4	...
							y-o-y growth in %							
GDP	8,4	2,7	2,1	1,3	2,2	2,1	0,7	6,1	3,5	0,4	-0,2	0,0	0,2	...
- industry	7,3	-2,6	5,2	0,6	0,5	1,8	0,6	8,9	0,6	-1,9	-3,2	-3,1	-2,5	...
- construction	7,5	8,3	14,0	18,4	17,3	1,6	-3,7	2,8	0,8	1,0	1,2	1,8	-0,6	...
- mainly public sector services (OPQ)	4,2	1,8	0,4	1,7	1,0	1,4	1,4	3,4	2,1	0,9	0,5	0,9	1,0	...
- mainly private sector services (without OPQ)	10,1	4,7	1,4	1,6	1,5	1,4	0,6	6,5	3,9	0,6	-0,2	0,0	0,1	...
Domestic expenditure	10,3	4,5	-0,2	-0,3	0,7	3,2	5,5	4,8	3,6	0,0	-0,8	0,2	-0,3	...
- general government	6,2	-0,7	2,4	2,4	4,8	7,0	12,3	4,2	1,6	1,0	1,5	1,7	1,5	...
- households and NPISH	10,5	5,3	0,1	0,3	1,2	2,0	1,1	4,5	4,4	0,6	-0,3	0,6	0,8	...
- gross capital formation	13,9	7,4	-2,8	-3,9	-4,2	2,7	10,2	6,5	3,8	-2,1	-3,9	-1,9	-4,7	...
- gross fixed capital formation	12,3	4,2	3,9	9,9	9,1	1,4	-1,6	3,3	2,1	1,0	-0,1	1,1	-1,3	...
- inventories and valuables, contr. to GDP growth in p.p.	0,5	0,8	-1,5	-3,1	-2,9	0,3	2,4	0,7	0,4	-0,7	-0,9	-0,7	-0,8	...
Labour market							*q-o-q growth in %*							
Employment				0,1	0,1	0,1	0,0				0,2	0,3	0,3	0,2
- mainly private sector (without OPQ)				0,1	0,0	0,0	-0,1				0,2	0,2	0,3	...
- mainly public services (OPQ)				0,4	0,4	0,5	0,5				0,4	0,4	0,3	...
							y-o-y growth in %							
Employment	1,3	2,9	1,6	1,0	0,7	0,5	0,3	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	0,9	0,5	0,2	0,0	1,2	2,5	1,4	1,3	1,1	0,8	...
- mainly public services (OPQ)	2,7	2,0	1,5	1,5	1,5	1,7	1,8	2,1	1,6	1,4	1,4	1,5	1,4	...
Labour costs per employee	8,0	5,0	9,5	11,0	10,2	10,7	4,5	4,2	4,4	5,3	5,3	4,7	4,9	...
- mainly private sector (without OPQ)	8,0	7,8	9,5	10,3	10,5	8,5	8,1	5,0	4,7	5,7	5,5	5,3	4,7	...
- mainly public services (OPQ)	7,7	-3,2	9,5	13,1	9,1	18,1	-7,1	2,5	3,8	4,2	4,6	3,3	5,4	...
Unit labour costs, nominal[2]	0,9	5,2	9,0	10,7	8,5	8,9	4,1	-0,5	3,2	6,3	6,9	6,0	5,7	...
Unit labour costs, real[3]	-1,7	-1,2	-1,0	3,4	0,0	3,1	1,3	-2,6	-1,6	0,4	1,0	0,9	2,0	...
							in %							
LFS unemployment rate	4,7	4,0	3,7	3,9	3,4	3,4	...	7,8	6,8	6,6	6,5	6,5	6,8	...
Foreign trade							*q-o-q growth in %*							
Real export of goods and services				-2,4	0,6	2,2	-1,2				-1,3	0,4	1,3	...
Real import of goods and services				-2,7	2,8	4,7	-0,4				-1,6	0,6	-0,3	...
							y-o-y growth in %							
Real export of goods and services	14,5	6,8	-2,0	-8,6	-2,3	-0,8	-0,8	11,3	7,3	-0,6	-3,0	-3,0	-1,3	...
Real import of goods and services	17,8	9,2	-4,5	-10,6	-4,0	0,5	4,4	8,9	8,0	-1,3	-4,3	-2,9	-2,5	...
Current account balance as % of GDP[4]	3,8	-1,1	4,5	3,3	4,5	4,4	4,1	2,3	-0,7	0,0	0,3	0,0	0,0	...
External trade balance as contr. to GDP growth in p.p.	-1,0	-1,5	2,3	1,6	1,5	-1,1	-4,1	1,4	0,0	0,4	0,6	-0,2	0,5	...
Financing							*in % of GDP*							
Banking system's balance sheet	94,9	91,0	85,0	86,3	86,2	84,4	...	281,3	276,2	259,2	268,5	259,2	260,6	...
Loans to NFCs	19,3	20,1	17,6	18,6	17,8	17,0	16,9	37,2	36,8	34,5	35,0	34,5	34,1	...
Loans to households	21,7	21,5	19,9	20,4	20,2	20,0	20,1	50,6	48,6	45,9	46,3	45,9	45,3	...
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	74,7	72,6	68,3	71,8	69,2	70,7	...	94,4	90,4	88,2	89,2	88,2	88,7	...
One year net lending/net borrowing of the general government[4]	-4,6	-3,0	-2,4	-2,8	-2,5	-2,2	...	-5,2	-3,6	-3,6	-3,9	-3,6	-3,5	...
- interest payment [4]	1,3	1,1	1,2	1,2	1,2	1,2	...	1,5	1,7	1,8	1,8	1,8	1,8	...
- primary balance [4]	-3,4	-1,9	-1,2	-1,6	-1,2	-1,0	...	-3,8	-2,0	-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

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11 List of abbreviations

Abbreviations

GDP	Gross domestic product
VAT	Value added tax
ECB	European Central Bank
Fed	US Federal Reserve System
HICP	Harmonised index of consumer prices
IMF	International Monetary Fund
OIS	Overnight index swap
PMI	Purchasing Managers' Index
SORS	Statistical Office of the Republic of Slovenia
S&P 500	Standard and Poor's 500
IMAD	Institute of Macroeconomic Analysis and Development
USD	United States dollar
VIX	Volatility index for US stock markets
ZEW	Centre for European Economic Research
US	United States of America

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, **BA** – Bosnia and Herzegovina, **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** – Turkey