Spring Forecast of Economic Trends 2024

Summary

Economic growth will pick up this year (2.4%), albeit somewhat more modestly than we had forecast in the autumn (2.8%). Economic activity will benefit from continued investment growth, easing of inflationary pressure and a recovery in foreign demand, although this will be somewhat weaker than expected in the autumn. We expect a recovery in goods exports after last year's decline and slightly higher growth in value added in manufacturing, while growth in services exports will be driven mainly by growth in tourism-related services. Growth in the export sector will be curbed by a further deterioration in competitiveness as a result of increased domestic cost pressure, particularly in terms of labour costs. We expect investment to continue to grow (4.2%), driven by continued strong government investment activity, which is also linked to the recovery from floods and the implementation of the Recovery and Resilience Plan, strong growth in housing investment and a resumption of growth in investment in equipment and machinery as exports recover. Private consumption is expected to rise by 1.6% as real income and employment increase. Private consumption growth will be supported by high employment levels, sustained wage growth, lower price pressures and increasing consumer optimism. The relatively modest acceleration in growth compared to last year is largely methodological and related to the abolition of supplementary health insurance and its transformation into a compulsory healthcare contribution. However, this change will boost the growth of government consumption, which will rise to 6.8% this year.

In the next two years, GDP growth is expected to be slightly higher (2.5% in 2025 and 2.6% in 2026). Higher growth in exports (3.2% in 2025 and 4.2% in 2026) and related activities will follow higher growth in foreign demand. Exports of high-technology industries (pharmaceuticals, ICT equipment) in particular are expected to increase and their contribution to value-added growth in manufacturing will strengthen. Structural changes in the European industry will lead to more modest growth in the Slovenian automotive industry, i.e. in the manufacture of motor vehicles and some related activities. Private investments in equipment and machinery will recover with higher exports. The investment activity of the general government sector will continue to be high, but we expect somewhat lower growth in housing investments. Growth in private consumption will accelerate to around 2% in the wake of further real income growth and expected slightly lower saving rate, which will nevertheless remain higher than before the epidemic. Higher spending on non-essential goods and services (furniture, electronics, tourism, etc.) will contribute to turnover growth in trade and accommodation and food service activities, and in creative, arts, entertainment, personal and sports activities. After growth in government consumption will be temporarily high in 2024, it will be moderate again in 2025 (around 2%), mainly due to further growth in employment and healthcare expenditure, and the gradual implementation of a long-term care system. In 2026, the full implementation of the *Long-Term Care Act* will lead to a slight rebound in government consumption growth.

Increase in employment and the decline in unemployment will weaken further this year; employment growth will also be hampered in the coming years by the labour shortage in connection with demographic

developments. Despite the higher projected economic growth, employment growth will average 0.7% (1.2% last year) this year and the average number of registered unemployed will be similar to last year. Employment will not increase significantly in the next two years, and the labour shortage will be somewhat alleviated by certain measures to facilitate the attraction and recruitment of foreign workers, which should be further strengthened. As last year, employment growth will mainly come from the recruitment of foreigners.

The average gross wage will rise by 6.9% in nominal terms this year (by 4.1% in real terms); real growth will gradually weaken towards the end of the forecast horizon. Wage growth in the private sector will remain relatively high this year (7.5% in nominal terms). This will be due to the continued labour market pressures in the face of labour shortages and increased pressures to maintain the purchasing power, and the January increase in the minimum wage (by 4.2%). In the public sector, wage growth (5.8% in nominal terms), which will be significantly lower than last year, will be affected by the partial adjustment of wages for inflation in the middle of the year. Overall, wage growth will weaken over the next two years. This reflects the easing of price pressures and companies' efforts to improve their cost competitiveness, which has weakened considerably in recent years. The forecast of gross wage growth is subject to considerable risks, particularly in connection with the possible persistence of inflation, increased labour market pressure due to supply bottlenecks and the implementation of the wage system reform in the public sector.

Inflation is expected to gradually decline for most of this year before rising again towards the end of the year and the beginning of next year due to the base effect and the expiry of measures to curb high energy prices; we estimate that it will approach 2% in 2026. For 2024, we expect a further slowdown in the growth of service prices, which will remain relatively high amid continued consumption growth. The growth of food prices will also continue to slow. The rise in non-energy industrial goods prices will be moderate. Assuming that energy prices on the global market will be relatively stable, the year-on-year growth in energy prices in the consumer price index will fluctuate considerably due to the expiry of the temporary measures to mitigate the consequences of rising energy prices. Larger effects are expected in 2025 in particular, when the reintroduction of RES and CHP contributions is taken into account. The measure to regulate electricity prices will expire at the end of 2024, but given the stabilisation of the situation on the energy market, it is unlikely to contribute to inflation. Taking into account the expiry of the above-mentioned measures, average inflation is therefore expected to fall to 2.7% this year and rise to 3.4% in 2025, although price increases for most groups of goods and services will slow down. Inflation is expected to fall to 2.2% in 2026.

The realisation of the Spring Forecast is subject to a number of uncertainties due to the geopolitical and economic situation in the international economic environment, which may affect the pace of the expected recovery and the moderation of inflation in Slovenia's trading partners. The domestic economic environment is also subject to uncertainties related to the impact of deteriorating competitiveness on the export-oriented sector of the economy, the country's capacity to sustain high levels of investment in the coming years and the incomplete planning of certain reform measures; there are, however, also some upside risks to

the baseline scenario. Geopolitical uncertainties could slow the economic recovery in Slovenia’s main trading partners more than projected in the baseline scenario this year. In particular, an escalation of the situation in the Middle East and in Ukraine could lead to renewed supply shocks, which would also have a negative impact on the export-oriented part of the Slovenian economy. In addition, the latter could also be affected by possible increased cost pressures, which would worsen its already weakened competitiveness. Uncertainties and risks in the euro area and in Slovenia are also related to the possible persistence of inflation, which could further constrain household purchasing power and lead to a stronger tightening of monetary policy or persistence of elevated interest rates, with negative effects on economic activity and financial stability. The broader economic consequences of last year’s floods also remain uncertain, particularly with regard to the pace of reconstruction after the floods due to limited administrative and personnel capacities, including in the construction sector. There are, however, also some upside risks to economic growth. These arise in particular from a possible faster decline in inflation, more successful attraction of workforce and more efficient absorption of EU funds in conjunction with reform measures.

Slovenia’s main macroeconomic aggregates

	2023	Spring forecast (February 2024)		
		2024	2025	2026
GDP				
GDP, real growth in %	1.6	**2.4**	**2.5**	**2.6**
GDP, nominal growth in %	10.6	**5.9**	**6.1**	**5.2**
GDP in EUR billion, current prices	63.1	**66.8**	**70.9**	**74.6**
Exports of goods and services, real growth in %	-2.0	**1.5**	**3.2**	**4.2**
Imports of goods and services, real growth in %	-5.1	**3.7**	**4.0**	**4.2**
External balance of goods and services (contribution to growth in p.p.)	2.8	**-1.6**	**-0.4**	**0.1**
Private consumption, real growth in %	1.3	**1.6**	**2.0**	**1.9**
Government consumption, real growth in %	2.4	**6.8**	**1.9**	**3.8**
Gross fixed capital formation, real growth in %	9.5	**4.2**	**4.0**	**3.5**
Change in inventories and valuables (contribution to growth in p.p.)	-4.4	**1.0**	**0.5**	**0.0**
EMPLOYMENT, WAGES AND PRODUCTIVITY				
Employment according to the National Accounts Statistics, growth in %	1.2	**0.7**	**0.6**	**0.5**
Number of registered unemployed, annual average in ‘000	48.7	**47.7**	**47.2**	**46.5**
Registered unemployment rate in %	5.0	**4.8**	**4.8**	**4.7**
ILO unemployment rate in %	3.8*	**3.8**	**3.8**	**3.7**
Gross wages per employee, nominal growth in %	9.7	**6.9**	**5.7**	**4.6**
Gross wages per employee, real growth in %	2.1	**4.1**	**2.2**	**2.3**
- private sector	1.8	**4.6**	**2.0**	**2.4**
- public sector	2.7	**3.0**	**2.7**	**2.0**
Labour productivity (GDP per employee), real growth in %	0.4	**1.7**	**1.8**	**2.2**
BALANCE OF PAYMENTS STATISTICS				
Current account BALANCE, in EUR billion	2.8	**1.5**	**1.2**	**1.1**
- as a % of GDP	4.4	**2.3**	**1.6**	**1.5**
PRICES AND EFFECTIVE EXCHANGE RATE				
Inflation (Dec/Dec), in %	4.2	**3.1**	**3.1**	**2.1**
Inflation (annual average), in %	7.4	**2.7**	**3.4**	**2.2**
Real effective exchange rate deflated by unit labour costs	5.7*	**1.3**	**1.6**	**0.1**
ASSUMPTIONS				
Foreign demand (imports of trading partners), real growth in %	-0.9	**1.8**	**3.0**	**3.1**
GDP in the euro area, real growth in %	0.5	**0.7**	**1.4**	**1.5**
Oil price (Brent crude, USD/barrel)	82.5	**79.7**	**75.8**	**73.0**
Non-energy commodity prices in USD, growth	-10.7	**-2.0**	**1.0**	**0.5**
USD/EUR exchange rate	1.082	**1.088**	**1.088**	**1.088**

Source: For 2023 SURS (2024), BoS (2024), ECB (2024a), EIA (2024), Eurostat (2024); for 2024−2026 forecasts by IMAD.

Note: *IMAD estimate (Q4 2023 figure was not available at the time the forecast was finalised).

The Spring Forecast of Economic Trends is based on statistical data, information and adopted measures known at the cut-off date of 15. February 2024.