autumn forecast of economic trends 2024

Summary

Economic growth is expected to slow this year (to 1.5%) and thus be lower than expected in the spring (2.4%). According to the first annual estimate by SURS, GDP grew by 2.1% last year, which is 0.5 p.p. higher than the first estimate based on quarterly data. The composition of growth has also changed, and with it also the basis for the preparation of the forecast. Year-on-year GDP growth in the first half of the year was 1.4%, characterised by a decline in investment, a significant increase in inventories, moderate growth in private consumption and strong growth in government consumption. Amid robust growth in domestic consumption (including inventories), imports rose sharply while exports declined year-on-year, leading to a large negative contribution of the external trade balance to GDP growth. Economic growth forecast for 2024 (1.5%) was revised downwards by 0.9 p.p. from the Spring Forecast. We expect export growth to be lower than projected in the Spring Forecast due to weaker growth in foreign demand. Amid cost pressures from rising unit labour costs, export growth is expected to be lower than growth in foreign demand also this year. Given the weak activity growth in Slovenia's main trading partners, we expect modest quarter-on-quarter growth in goods exports and value added in manufacturing in the second half of the year. Contrary to expectations in the spring, investment growth is now expected to stagnate this year. Government investment, one of the highest in the EU as a share of GDP, will be slightly higher this year than last and is expected to increase in the second half of the year, while private construction investment is expected to stagnate, as the data on building permits issued do not suggest a recovery. With activity in the export sector expected to grow, moderate growth in investment in machinery and equipment is anticipated this year. After a stagnation last year, growth of private consumption will increase this year. It is supported by high employment, continued real growth of wages and real disposable income, lower inflation, and increased consumer optimism. In the first half of the year, households spent more on purchases of cars, tourist services abroad and food, and less on non-food products and overnight stays in Slovenia. Both private and government consumption growth this year will be methodologically influenced by the abolition of supplementary health insurance and the introduction of a compulsory health contribution. This change results in relatively lower growth in private consumption and higher growth in government consumption, while the overall impact on GDP remains neutral. Government consumption growth will be somewhat higher this year than expected in the spring, driven by stronger-than-anticipated outturn in the first half of the year, partly as a result of the post-flood reconstruction, which led to a relatively stronger increase in expenditure on goods and services than on government investment during this period. Amid strong growth in domestic consumption, including inventories, import growth is expected to significantly outpace export growth, resulting in a negative external trade balance.

GDP growth is expected to strengthen over the next two years (to 2.4% in 2025 and 2.5% in 2026). With slightly higher growth in foreign demand, growth in exports and value added in manufacturing is also expected to improve. In the export sector, an investment in the production of a new passenger car and the start of production in a new pharmaceutical plant in 2026 are expected to have a positive impact. Trade in services is also expected to increase. An

improvement in economic conditions in Slovenia's main trading partners will have a positive impact on investment decisions in manufacturing. Based on the data on building permits issued, we expect construction activity to increase. Growth in the construction sector will also be supported by the government's strong investment activity, including flood defence construction, flood recovery efforts, and investments under the Recovery and Resilience Plan (RRP). Amid higher real growth of income, private consumption growth is expected to strengthen over the next two years, driven by sustained wage growth and lower inflation, thus strengthening consumer purchasing power. In our forecast, we assume that the propensity to save will decrease over the next two years, gradually approaching the long-term average. Growth in government consumption will moderate in 2025 (1.7%) and the full implementation of the *Long-Term Care Act* (ZDOsk, 2023) will lead to a slight strengthening of growth in government consumption in 2026 (4.1%).

Employment is at a record high, while unemployment is at a historic low; employment growth and the decline in unemployment are expected to continue; the high level of employment and severe labour shortages will dampen employment growth over the next two years. In the first half of the year, year-on-year employment growth and the decline in the number of registered unemployed moderated. At the same time, employment is at an all-time high and unemployment is at an all-time low. Employment growth is expected to remain weak in the second half of the year, with this year's increase (0.5%) being lower than last year's (1.6%). The number of registered unemployed will fall from 48.7 thousand on average last year to just under 46 thousand this year. Despite the projected higher economic growth, employment will not increase significantly over the next two years due to the already high levels and constraints on the labour supply side, although the tight situation will be eased slightly by certain measures to facilitate the attraction and recruitment of foreign workers. The number of unemployed will fall to 44.6 thousand on average in 2025 and 44.1 on average in 2026.

Nominal growth in the aggregate average gross wage will remain strong this year (6.2%), with a slight upturn next year due to the expected implementation of the public sector wage system reform. Growth in the public sector will be lower this year (4.4%) than last year (10.3%), followed by an increase next year (to 7.1%) when the wage reform is due to come into force in January. Wage growth in the private sector will remain strong this year (7.1%), and is expected to be similar in the next two years (6% on average). This will keep up the pressure on the cost-competitiveness of Slovenian companies, which had already deteriorated considerably last year, which is why we do not expect even higher wage increases. The forecast for gross wage growth is subject to significant risks. In the public sector, risks arise from certain elements of the wage reform that have not yet been finalized. In the private sector, risks are linked to increased upward pressure on wages due to labour shortages and the potential demonstration effect of wage increases in the public sector.

Inflation has fallen significantly this year and will be much lower on average (2.1%) than expected in the spring (2.7%). It is expected to remain low until November before rising again towards the end of the year and the beginning of next year due to the low base effect and the expiry of measures to curb high energy prices. The forecast assumes that the situation on energy markets will remain stable. However, year-on-year growth in energy prices will be very volatile due to the expiration of temporary measures to mitigate rising energy prices. Larger effects are expected in 2025 in particular, when the reintroduction of RES and CHP contribution is taken into account. Food price inflation is expected to increase somewhat over the course of the year, though it will remain subdued. Growth of services prices will continue to be one of the main drivers of inflation, mainly in relation to the continued wage growth. The rise in non-energy industrial goods prices is expected to remain moderate. Average inflation will therefore fall from 7.4% last year to 2.1% this year, before rising again to 3.3% in 2025, mainly due to the expiry of measures to mitigate rising energy prices. While growth of prices will weaken in most product groups, it will remain elevated in services. In 2026, inflation is expected to approach 2%.

The realisation of the Autumn forecast is subject to uncertainties related to the geopolitical and international economic situation, which may affect the pace of expected recovery and inflation moderation in Slovenia's trading partners. The domestic environment is also subject to uncertainties, which are related to the impact of deteriorating competitiveness on the export-oriented sector of the economy and especially the country's capacities to implement high levels of investment in the coming years and the lack of clarity on some reform measures; there are, however, also some upside risks to the baseline scenario. Increasing pressures on the competitiveness of the euro area, escalation of trade conflicts between the EU and EU's main trading partners, and rising geopolitical uncertainties may result in economic growth among Slovenia's trading partners being lower than envisaged in the baseline scenario. Uncertainties and risks in the euro area and in Slovenia are also related to the possible persistence of inflation, which could lead to persistently high interest rates, with negative effects on economic activity and financial stability. Uncertainties regarding the realisation of economic growth projections in the domestic environment are related to the impact of deteriorating competitiveness on the export-oriented sector of the economy, the country's capacity to implement high levels of government investment activity, the pace of implementation of the flood recovery, the absorption of EU funds and the planned reforms which are important for the absorption of funds from the Recovery and Resilience Fund. There are, however, also some upside risks to economic growth. These arise mainly from a possible more successful attraction of work force and from the positive effects of a comprehensive absorption of EU funds together with reform measures.

Slovenia's main macroeconomic aggregates

	2023	Autumn forecast (September 2024)		
		2024	2025	2026
GDP				
GDP, real growth in %	2.1	**1.5**	**2.4**	**2.5**
GDP, nominal growth in %	12.4	**4.5**	**6.1**	**5.5**
GDP in EUR billion, current prices	64.0	**66.8**	**70.9**	**74.8**
Exports of goods and services, real growth in %	-2.0	**0.9**	**2.7**	**3.7**
Imports of goods and services, real growth in %	-4.5	**3.5**	**3.0**	**4.1**
External balance of goods and services (contribution to growth in p.p.)	2.3	**-1.9**	**-0.1**	**-0.1**
Private consumption, real growth in %	0.1	**1.6**	**2.5**	**2.4**
Government consumption, real growth in %	2.4	**8.5**	**1.7**	**4.1**
Gross fixed capital formation, real growth in %	3.9	**0.0**	**3.5**	**3.5**
Change in inventories and valuables (contribution to growth in p.p.)	-1.5	**0.8**	**0.0**	**-0.1**
EMPLOYMENT, WAGES AND PRODUCTIVITY				
Employment according to the National Accounts Statistics, growth in %	1.6	**0.5**	**0.6**	**0.5**
Number of registered unemployed, annual average in '000	48.7	**45.7**	**44.6**	**44.1**
Registered unemployment rate in %	5.0	**4.6**	**4.5**	**4.4**
ILO unemployment rate in %	3.7	**3.7**	**3.7**	**3.6**
Gross wages per employee, nominal growth in %	9.7	**6.2**	**6.6**	**5.5**
Gross wages per employee, real growth in %	2.1	**4.0**	**3.2**	**3.1**
– private sector	1.9	**4.9**	**2.9**	**3.2**
– public sector	2.7	**2.3**	**3.7**	**2.9**
Labour productivity (GDP per employee), real growth in %	0.5	**1.0**	**1.8**	**2.1**
BALANCE OF PAYMENTS STATISTICS				
Current account BALANCE, in EUR billion	2.9	**1.8**	**1.6**	**1.6**
- as a % of GDP	4.5	**2.8**	**2.3**	**2.1**
PRICES AND EFFECTIVE EXCHANGE RATE				
Inflation (Dec/Dec), in %	4.2	**2.3**	**3.3**	**2.2**
Inflation (annual average), in %	7.4	**2.1**	**3.3**	**2.3**
Real effective exchange rate deflated by unit labour costs	3.3*	**2.6**	**2.5**	**1.6**
ASSUMPTIONS				
Foreign demand (imports of trading partners), real growth in %	-0.9	**1.4**	**3.0**	**3.1**
GDP in the euro area, real growth in %	0.4	**0.8**	**1.3**	**1.5**
Oil price (Brent crude, USD/barrel)	82.5	**81.9**	**75.7**	**73.0**
Non-energy commodity prices in USD, growth	-10.7	**7.0**	**1.5**	**0.5**
USD/EUR exchange rate	1.082	**1.086**	**1.091**	**1.091**

Source: For 2023 SURS (2024), BoS (2024), ECB (2024a), EIA (2024), Eurostat (2024); for 2024−2026 forecasts by IMAD.
Notes: * Data for 2023 is IMAD estimate, which for Slovenia's nominal unit labour costs (NULC) takes into account the first annual GDP estimates for 2023 (published by SURS on 30 August 2024), which were not yet included in the ECB data at the time of the publication.

The Autumn Forecast of Economic Trends is based on statistical data, information and adopted measures known at the cut-off date of 6 September 2024.