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EVROSISTEM

Review of macroeconomic developments

September 2025

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Contents

Summary

Economic growth in Slovenia resumed in the second quarter, driven by stronger private consumption, while conditions in the export-oriented sector remain challenging. Inflation accelerated during the summer months, mainly due to rising food and energy prices.

The strengthening of economic activity in the euro area slowed in the second quarter. Quarterly GDP growth stood at only 0.1%, following growth of 0.6% at the beginning of the year. According to the monthly indicators, there was a fall in industrial production amid a decline in precautionary ordering from the US before the imposition of additional tariffs, while household consumption remained relatively robust despite the increased uncertainty. Survey indicators point to weak growth in activity also in the first two months of the third quarter, both in manufacturing and in services. According to the IMF's July projections, the euro area economy is forecast to grow by 1.0% this year, and by 1.2% next year, which are similar figures to the ECB's June projections (2025: 0.9%; 2026: 1.1%). Headline inflation remained unchanged at 2.0% in July, while core inflation stood at 2.3% for the third consecutive month.

The ECB and the Fed left their interest rates unchanged in July, amid the increased uncertainty surrounding the impact on inflation and economic activity from rising US tariffs. According to current interest rate swaps, the markets are expecting further cuts of 0.50 percentage points this year in the key rate at the Fed, but no further cuts in ECB interest rates over the remainder of the year.

Developments on the international financial markets have been relatively stable since the beginning of July, despite the ongoing harshness and volatility in US trade policy, and weaker data from the US labour market. Yields on US short-term government bonds were driven down by the markets' strengthening expectations of faster cuts in interest rates at the Fed, while yields on German government bonds rose as the likelihood of additional loosening of ECB monetary policy diminished. The leading share indices rose over this period amid the partial easing of trade tensions, the rise being additionally supported by the mostly encouraging results released by listed companies.

In the domestic economy, GDP growth in the second quarter offset the decline recorded at the beginning of the year. There were increases in components of domestic demand, while the export sector continued to face difficulties in the shape of weak foreign demand and increased geopolitical uncertainty. Quarterly economic growth reached 0.7%, which was also the year-on-year rate of growth. The current data points to a continuation of this growth, with the economic sentiment strengthening slightly over the summer months. The indicators of private consumption available for July were also encouraging. The nowcast models are forecasting quarterly growth of 0.4% in the third quarter.

Employment has remained down in year-on-year terms since the end of last year, as a result of developments in the private sector. The decline in labour demand is confirmed by the decreasing number of job vacancies. The labour market nevertheless remains relatively tight: unemployment is at a historically low level, while labour short-

ages are still above their long-term averages. Growth in the average gross wage remains high (a year-on-year rate of 7.4% in June), largely on account of the wage reform in the public sector.

Foreign trade slowed in the second quarter. Merchandise exports were down in year-on-year terms (by 1.0%), while growth in merchandise imports and in services trade was more subdued than in the early part of the year. The six-month current account surplus narrowed in year-on-year terms, largely as a result of a reversal in the merchandise trade position from surplus to deficit.

Inflation rose over the summer, reaching 3.0% in August. The increase was driven mainly by energy and food prices. Higher energy inflation primarily reflects rising motor fuels prices and the reversal of the environmental levy on electricity. However, food inflation accelerated following global market developments as well as constraints in meat production, which were passed along the food supply chains to consumers. Core inflation strengthened to 2.9% in August, almost entirely due to a base effect in prices of non-energy industrial goods. Services inflation remained robust, supported by continued growth in real labour costs.

The consolidated general government deficit widened amid slower growth in revenues and the initial implementation of the new wage reform. It amounted to EUR 1,081 million over the first seven months of the year, EUR 603 million more than in the previous year. Growth in general government revenues slowed, largely on account of lower corporate income tax settlements and changes in the healthcare contributions last year, but also on account of revenues from the EU budget. The growth in general government expenditure is being driven by wages, while government investment remains lower than planned, despite an increase. The government is drawing up its key budget documents for the next two years. Their main objective will be maintaining the medium-term sustainability of the general government debt, and holding the general government deficit below 3% of GDP. The most notable pressures on the public finances come from the need for a rise in defence spending, demographic developments, and the ongoing post-flood reconstruction.

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This issue of the publication provides an in-depth analysis of the longer-term challenges of the Slovenian economy, focusing on investment and labour productivity. Our findings show that the structure of economic growth has changed markedly over the past three decades: prior to the global financial and economic crisis, growth was primarily driven by productivity gains, while in the post-crisis period it has relied mainly on employment growth. The trend decline in labour productivity growth raises concerns regarding the long-term sustainability of economic growth.

Investment is a key driver of productivity growth, which in turn depends also on the industrial intensity of the economy, innovation dynamics, and the adoption of new technologies. Data indicate that investment activity in Slovenia remains weak. In corporate spending on machinery and equipment the positive gap vis-à-vis the EU has narrowed significantly, while investment in construction—particularly in residential housing—and in intellectual property products lags behind the EU average, hampering faster economic convergence towards more advanced Member States. Government investment, on the other hand, exceeds the EU average but is strongly tied to EU funding and the domestic election cycle.

In addition to modest investment activity, several other structural challenges are weighing on productivity and potential GDP growth, most notably the changing structure of

the economy and adverse demographic trends associated with labour market tightness. The rise in sickness absenteeism is also a source of concern. Persistent uncertainty, loss of competitiveness, low demand and weak capacity utilisation further undermine firms' investment incentives. This is confirmed by microdata analysis, which shows that corporate investment is highly procyclical, reflecting uncertainty and sensitivity to transitory fluctuations in revenues, with small and export-oriented firms being particularly vulnerable.

1 International Environment

Economic growth in the majority of the leading global economies exceeded expectations, despite the increased uncertainty in the second quarter. The data for July suggests that developments have remained relatively favourable, but also points to a deterioration in the economic sentiment.

After a rise in tensions in global trade caused by April's announcement of reciprocal tariffs by the US administration, and the subsequent escalation of trade disputes, uncertainty eased somewhat over the summer. The US administration has already reached trade agreements with the EU,[1] the UK, Japan and South Korea. Conversely the outcome of negotiations between the US and certain key global economies, including China, India and Brazil, remains uncertain.

The U.S. economy grew by 0.7% in the second quarter on a quarter-on-quarter basis, representing a stronger-than-expected recovery from the 0.1% contraction recorded in the first quarter. The growth was primarily attributable to a decline of 30.3% in imports, following an increase of 37.9% in the first quarter, which was driven by the build-up of inventories of imported goods before the enforcement of the new tariff rates. The US labour market deteriorated slightly, despite the good economic data. New hires (excluding farming) amounted to 73 thousand in July, significantly below expectations. The Bureau of Labor Statistics also revised its figures for May and June downwards. The aggregate revisions show that there were 258 thousand fewer new hires in those months than originally announced, which suggests that the labour market is cooling slightly more quickly. Considering the Fed's dual mandate, the probability of key interest rate cuts is strengthening despite persistently high overall and core inflation in the U.S.

Despite considerable uncertainty in the second quarter, linked to geopolitical and trade conflicts, quarterly economic growth in other major world economies, with the exception of the euro area, also exceeded expectations. GDP growth in China slowed slightly to 1.1% in the second quarter, but nevertheless outperformed the previous estimates. This reflects the positive effects of a range of support measures, including interest rate cuts and increased liquidity assistance to support the economy affected by U.S. import tariffs. Economic growth in the UK stood at 0.3% in the second quarter, having slowed from the rate of 0.7% seen in the first quarter, albeit by less than expected. The slowdown partly reflects the increase in the economic activity in February and March, i.e. before April's changes in real estate taxes and the announcement of new US tariffs. Quarterly growth in Japan stood 0.3% in the second quarter, thereby exceeding market expectations.[2]

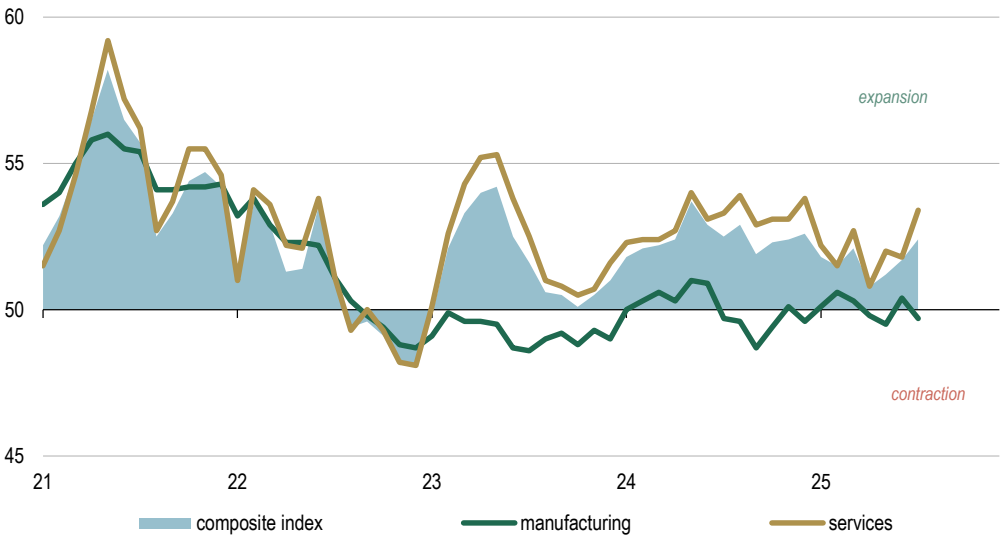
The PMI data suggests that global economic growth picked up further pace in July. The composite PMI reached its highest value of the year in July at 52.4 points. In contrast the sectoral PMI data shows an increasingly wide gap between manufacturing and services. While activity in services increased at its fastest pace since December of last year, global industrial production declined for the second time in the last three months.

[1] The agreement sets a cap of 15% on the tariff rate for the majority of EU merchandise exports to the US. The cap of 15% applies to almost all EU exports that had previously been subject to reciprocal tariffs, and also conditionally to cars and car parts, which are currently subject to a tariff rate of up to 25%. The details of the agreement can be found in the EU-US Joint Statement of 21 August 2025.

[2] The Consensus forecasts for quarterly GDP growth in the second quarter were 0.9% for China, 0.1% for the UK and Japan, and 0.6% for the US.

The data also shows a deterioration in the business sentiment: the indicator for future activity approached its lowest levels since the end of the pandemic for services and manufacturing alike.

Figure 1.1: **JPMorgan PMIs for the global economy**



Sources: Bloomberg, Banka Slovenije calculations. Latest data: July 2025

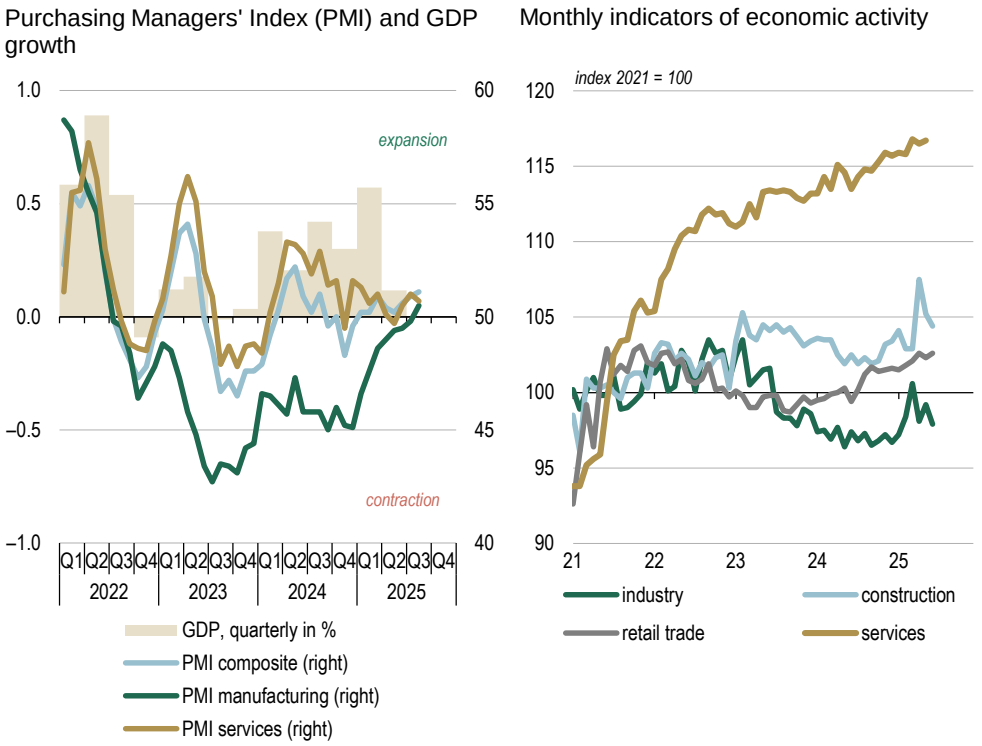
Following the subdued economic growth in the euro area in the second quarter, weak growth is also expected in the third quarter, both in manufacturing and services.

Quarterly economic growth in the euro area stood at 0.1% in the second quarter, which is significantly lower than in the previous quarter, when it exceeded expectations with 0,6% (see Figure 1.2, left). Across major economies, GDP declined in Germany and Italy (by 0.1%), while growth strengthened in France (to 0.3%) and Spain (to 0.7%). The monthly indicators of economic activity for the second quarter point to a decline in industrial production, which had been a driver of growth in the early part of the year. With the effect of precautionary ordering of goods from the US before the imposition of tariffs fading, industrial production in the euro area declined by 0.3% in quarterly terms in the second quarter. Despite the uncertainty in connection with US trade policy, household consumption remained relatively robust according to the monthly indicators of retail turnover and services turnover (see Figure 1.2, right).

The survey data for the third quarter points to a continuation of weak growth in the euro area economy. According to the flash estimates, the composite PMI rose to 51.1 points in August, up from 50.9 points in the previous month (see Figure 1.2, left). The services PMI remains in positive territory (at 50.7 points, compared with 51.0 points in the previous month), while the manufacturing PMI strengthened unexpectedly (from 49.8 points to 50.5 points). This puts manufacturing in the zone of expansion for the first time in more than three years. Although the euro area economy remains relatively resilient for now, firms are cautious about future prospects, which was reflected in the economic sentiment indicator for August, which declined slightly amid a slight deterioration in confidence in all sectors and among consumers.

According to the IMF's July projections, GDP growth in the euro area is forecast at 1.0% this year, up 0.2 percentage points on the previous projections. The upward revision was primarily attributable to a pronounced increase in Irish pharmaceutical exports to the US in the first quarter. The forecast for 2026 remains unchanged at 1.2%. Similar developments in economic activity are also expected by the ECB, whose June projections are forecasting growth of 0.9% this year and 1.1% next year.

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



Sources: Eurostat, Bloomberg, Banka Slovenije calculations. Latest data, left chart: GDP: Q2 2025; PMIs (flash estimates): August 2025; right chart: July 2025, except for services (June 2025)
Note: The right chart illustrates real indices for retail turnover excluding motor vehicles, industrial production, the amount of construction put in place, and services excluding financial activities (seasonally adjusted).

In July, euro area inflation stood at its target rate for a second consecutive month.

Euro area headline inflation, as measured by the HICP, remained at 2.0% in July, unchanged from the previous month. Energy prices, which have been lower year on year since March, continued to dampen overall inflation. In July, they were down 2.4% year on year, compared with a 2.6% decline in June. By contrast, food prices continued to rise. Annual food inflation reached 3.3% in July, up 0.2 percentage points from June. The increase was mainly driven by the unprocessed food prices, which were up 5.4%, 0.8 percentage points more than in June. Meat and fresh vegetables prices were rising most notably. However, processed food prices rose more moderately, at 2.7% year on year (see Figure 1.3, left).

Inflation excluding energy and food stood at 2.3% in July, unchanged for the third consecutive month. Services inflation eased slightly to 3.2%, from 3.3% in June, while inflation of non-energy industrial goods strengthened to 0.8%, up from 0.5% in June, mainly reflecting higher year-on-year growth semi-durables prices (see Figure 1.3, left).

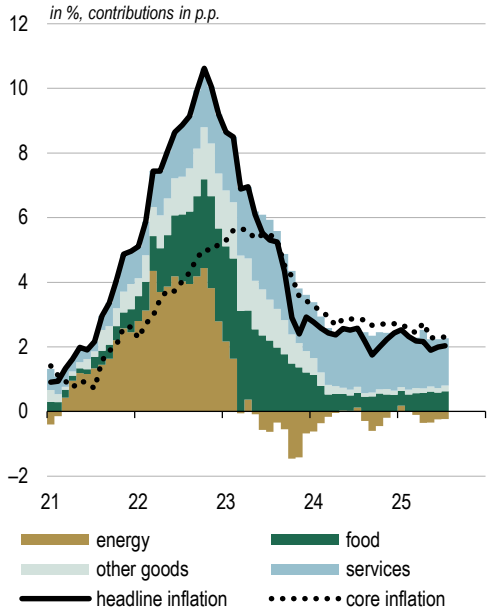
Inflation in Slovenia has been exceeding the euro area average, driven mainly by food prices.

While inflation in Slovenia was matching the euro area overall in May, the gap opened up over the summer. By July, inflation in Slovenia was 0.9 percentage points higher than the euro area average, reflecting stronger food price growth, which reached 7.1% – 3.8 percentage points higher than the euro area average (see Figure 1.3, right).

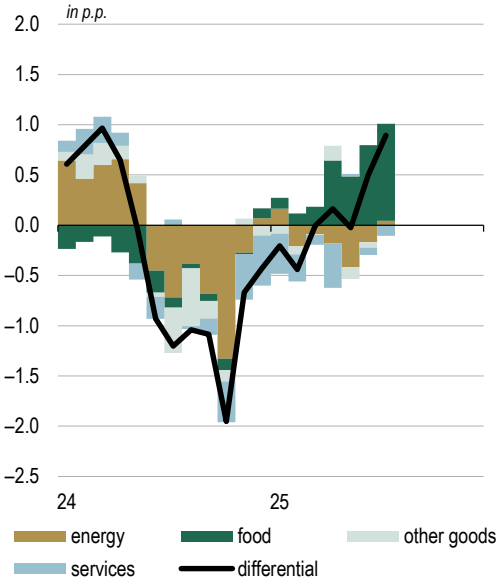
The dispersion of inflation rates across euro area countries has also increased in recent months. From January to May, the gap between the highest and lowest national rates was relatively stable, averaging 3.7 percentage points. Over the summer, however, it widened to 5.5 percentage points in July, largely due to differences between Estonia, with the highest inflation, and Cyprus, with the lowest.

Figure 1.3: **Euro area inflation and its difference to inflation in Slovenia**

Inflation, measured by HICP



Inflation gap between Slovenia and euro area



Sources: SURS, Eurostat. Latest data: July 2025

Box 1.1: **Productivity and the Savings and Investments Union**

The aim of the Savings and Investments Union is to create better financial opportunities for EU citizens, and to strengthen the capacities of the financial system.[3]

In March 2025 the European Commission adopted a strategy for creating a Savings and Investment Union (hereinafter: SIU) with the aim of fostering economic competitiveness in the EU and the wealth of its citizens.

[3] The sources for this box are: European Commission: A Strategy to Foster Citizens' Wealth and Economic Competitiveness in the EU, March 2025, and ECB: Capital markets union: a deep dive, May 2025.

The initiative augments the framework of action plans for creating the capital markets union, and is working in parallel to develop the banking union. By expanding opportunities for EU citizens to access capital markets, making improvements to financing for firms, and fostering wealth creation for citizens, economic growth and competitiveness in the EU, it also aims to channel savings into productive investments. It will make it easier for EU citizens to create wealth, while the opportunities for greater financial security during retirement will be improved. European firms will find it easier to attract private capital, which will improve the conditions for growth, innovation and job creation. At the same time the EU will find it easier to meet its strategic objectives in the areas of the green and digital transitions, innovation, and defence, which is estimated to require annual investment of between EUR 750 billion and EUR 800 billion by 2030 according to the Draghi report on EU competitiveness. By developing and linking European capital markets, the SIU can help to meet these investment targets.

The creation of the SIU would mainly help productivity via the more efficient distribution of capital, economies of scale and additional investment, and better connections between capital markets in the EU. This would meet the conditions for activating (private) financing that is cheaper, diversified, cross-border and easier to access. The SIU strategy encompasses measures in four areas: 1) encouraging retail participation in capital markets and developing the supplementary pension sector; 2) investing in the capital market; 3) reducing the fragmentation of capital markets; and 4) supervision.

The strategy envisages various measures for larger and more efficient capital flows, which relate to: 1) savings and investment accounts and products, 2) financial literacy, 3) retail investors' access to the right financial products that allow them to participate in funding the EU's priorities, 4) promoting securitisation and investment in shares by institutional investors, 5) removing differences in national tax procedures, 6) simplifying rules and reducing the burden for listing on the exchange, 7) establishing a channel for reporting on barriers to links between financial markets,[4] 8) reviewing the rules on central securities depositories, financial collateral and settlement, and on trading market structure, with the aim of further removing barriers to cross-border activity, and 9) strengthening supervisory harmonization tools, making it more effective in achieving supervisory convergence of European capital markets.

An important aspect of increasing productivity is financing innovative SMEs, which is thought to require most of the funding estimated in the Draghi report. Bank financing can be unsuitable or too expensive for firms of this kind, as they face higher risks and have fewer material assets to use as collateral. In consequence fast-growing European firms of this kind often seek venture capital outside the EU.

To make it easier to channel financial assets to innovative firms, the SIU proposes that the European Commission should support the European Investment Fund, which is already active in the venture capital market, in the establishment of the European Tech Champions Initiative (ETCI) 2.0. This should upgrade the existing initiative, which focuses on investing financial resources in major venture capital funds that finance the growth of European tech champions. As part of the implementation of the strategy, the European Commission will review and update the EuVECA Regulation. The aim of any changes to the aforementioned regulation is to make the EuVECA[5] brand even more suited to attracting additional capital.

The European Commission will publish its review of progress in the implementation of the strategy in the second quarter of 2027.

[4] Mailbox set up in April 2025: FISMA-SIU-barriers-reporting@ec.europa.eu

[5] This is a designation of European venture capital funds that allows operators to establish and market their funds in the EU.

2 Monetary Policy and Financial Markets

The Eurosystem left the deposit facility rate unchanged at 2.00% in July. The Fed also kept its key interest rate unchanged at its July meeting, maintaining the target range at 4.25% to 4.50%.

After seven consecutive interest rate cuts, the Eurosystem left all three key interest rates unchanged in July. The rates on the deposit facility, main refinancing operations and the marginal lending facility remain at 2.00%, 2.15% and 2.40%, respectively. According to Eurosystem experts, domestic price pressures are easing, wage growth has slowed, and inflation is fluctuating around its 2% medium-term target. The European economy has so far proven generally resilient in a difficult business environment, partly reflecting the impact of past interest rate cuts.

At its July meeting, the Fed left its key interest rate unchanged, maintaining the target range at 4.25% to 4.50%, in light of increased uncertainty surrounding the impact of US trade policy on domestic inflation, the labour market, and economic activity. Key interest rates were also left unchanged in Japan (0.50%), Canada (2.75%) and Sweden (2.00%), while the central banks of Australia and the UK cut their rates by 0.25 percentage points (to 3.60% and 4.00% respectively).

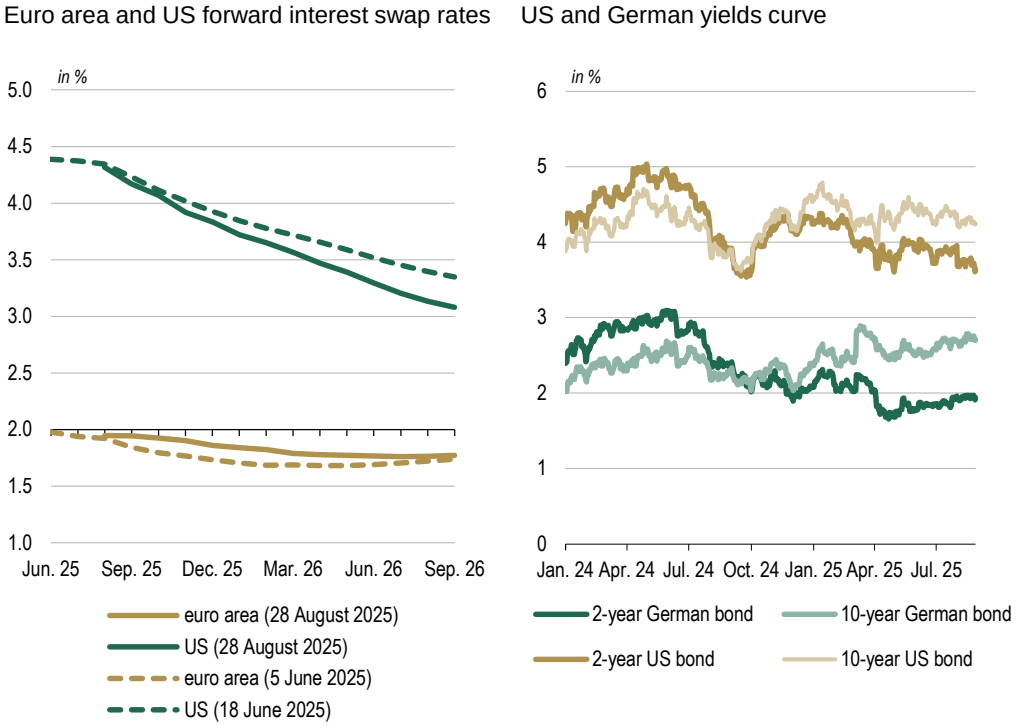
Market expectations of faster interest rate cuts by the Fed have strengthened since its July meeting. They were fuelled by weaker US labour market data and July's decline in inflation, which eased investors' concerns that tariffs might trigger a sustained rise in US inflation. Meanwhile, since the ECB's June meeting, markets have lowered their expectations for additional monetary policy easing by the ECB, particularly in light of the July meeting's message that the scope for further cuts is limited and following the signing of the trade agreement between the US and the EU. This agreement has reduced the uncertainty surrounding the trade policy and helped improve investor sentiment towards the European economy. According to current overnight index swap (OIS) rates, markets now largely do not anticipate any further cuts in the ECB's key interest rates by the end of the year, whereas in early June they were still expecting one more cut of 0.25 percentage points (see Figure 2.1, left). Markets are also expecting two cuts by the Fed in 2025, which would bring the key interest rate down to a target range of 3.75% to 4.00%.

Yields on short-term US government bonds have declined since the beginning of July, while yields on German government bonds and major global equity indices have increased.

Driven by the markets' strengthened expectations that the Fed might make a larger cut in its key interest rate this year, yields on US short-term government bonds have declined by 0.09 percentage points since the beginning of July, while yields on long-term bonds have remained close to their early-July levels. Over the same period, yields on short- and long-term German government bonds rose by 0.07 percentage points and 0.10 percentage points, respectively, amid the reduced likelihood of further monetary policy easing by the ECB this year. The increase was further supported by investors shifting into higher-risk assets following the US administration's signing of a trade

agreement with the EU and other partners, and its decision to defer the imposition of higher tariffs on Chinese imports for 90 days. Spreads between euro area bond yields with higher credit risk and German benchmarks narrowed during this period, reflecting the increased appetite for higher-risk assets.

Figure 2.1: **Interest rate swap rate curves and government bond yields**



Sources: Bloomberg, Banka Slovenije calculations. Latest data, right chart: 28 August 2025

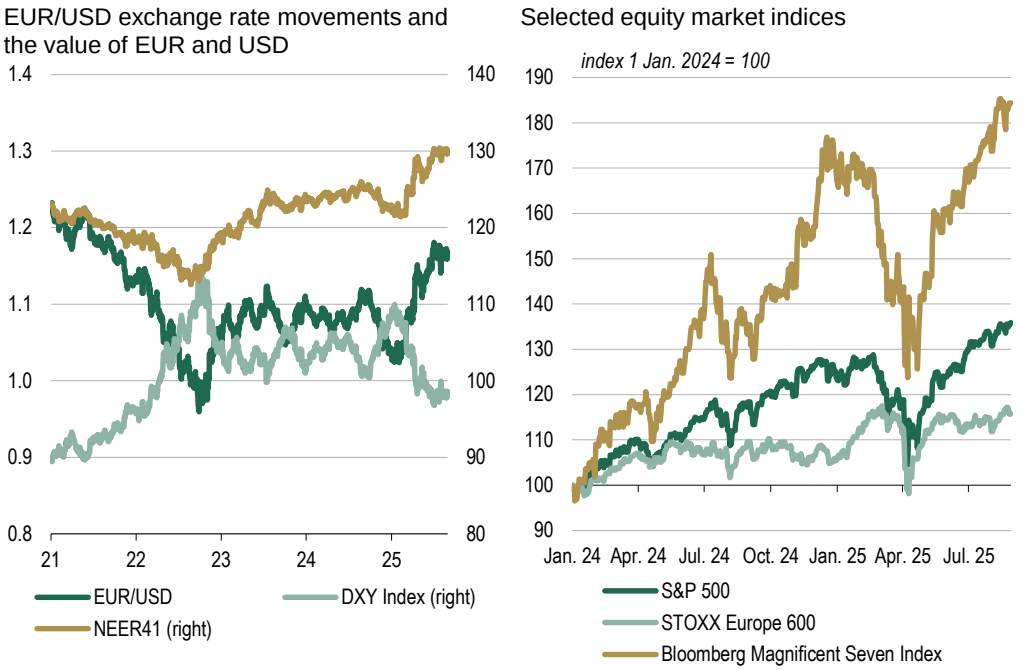
In the wake of a partial easing of trade tensions, leading global equity indices have risen since the beginning of July. The increase was also supported by mostly encouraging results for the first half of the year released by listed firms, particularly in the tech sector. The leading European index (STOXX Europe 600) has gained 2.4% over this period. Similar gains were recorded by the leading US equity index (S&P 500), which rose 4.5%, and the Magnificent Seven index (an index of the seven largest US tech firms; see Figure 2.2, right), which surged 9.1% from the beginning of July. The two equity indices reached record highs in August. Hong Kong's tech-focused Hang Seng index advanced by 3.9% over the same period, amid investor optimism following encouraging corporate results in the region and the withdrawal of US restrictions of chip exports to China.

The price of Brent crude rose sharply in late July following US threats to impose additional tariffs on countries importing Russian oil. It later declined after OPEC+ announced that the group would increase production in September and now stands close to its early-July level. Over the same period, gold has gained 2.9%, supported by strengthened expectations that the Fed will implement faster interest rate cuts.

The euro has strengthened this year, particularly against the US dollar. The US dollar has lost 9.8% against a basket of major trading partners' currencies since the beginning of the year (see Figure 2.2, left). In light of the volatile shifts in US economic and trade policy, a number of market analysts have highlighted the risk that such reversals could prompt global investors to reallocate their assets, potentially undermining the US dollar's long-term role and status. Nevertheless, available data do not indicate a strategic

sell-off of the US dollar or a significant reduction in exposure to US financial assets. The euro has benefited in this environment, largely due to greater political stability. It has appreciated 12.7% against the US dollar since the beginning of the year, and 5.8% against a basket of major trading partners' currencies (see Figure 2.2, left). The euro's role in the international financial system remains stable, with the share of foreign investment held in euros remaining close to 20%.[6] By contrast, the share of global foreign exchange reserves accounted for by the US dollar has declined over the past 20 years from between 70% and 80% to around 60%, albeit primarily on account of other currencies (pound sterling, Canadian dollar, Japanese yen and others), which market participants attribute to the gradual diversification of global reserves.

Figure 2.2: **Changes in euro, US dollar and share indices**



Sources: Bloomberg, Banka Slovenije calculations. Latest data, right chart: 28 August 2025
Note: In the left chart DXY measures the US dollar against a basket of six currencies (EUR, JPY, GBP, CAD, SEK, CHF) in terms of trade flows. The euro has the highest weight of 57%. NEER41 denotes the nominal effective exchange rate of the euro against 41 trading partners. EUR/USD denotes the value of the euro against the US dollar. A higher value indicates a stronger euro. In the right chart the Magnificent Seven comprise Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

3 Domestic Economic Activity

Domestic economic activity in the second quarter was driven by strengthening private consumption and a build-up of inventories, while export developments worsened once again.

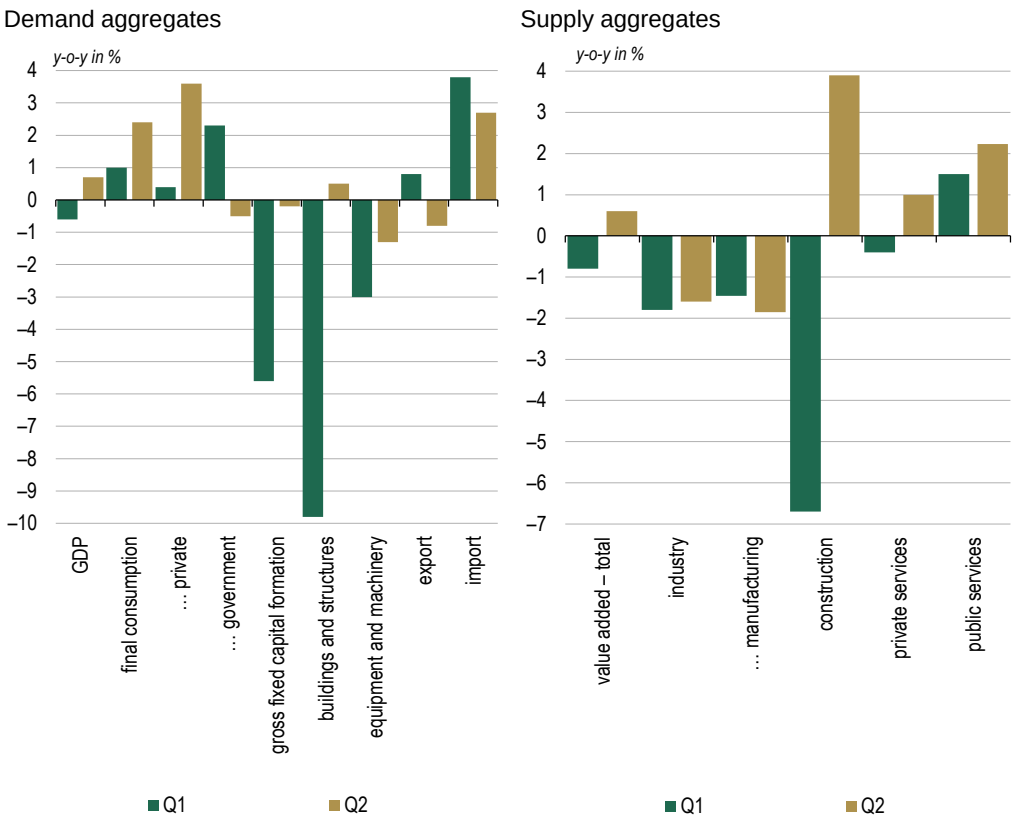
Domestic final consumption rose significantly in the second quarter. Its year-on-year growth rate strengthened by 1.4 percentage points to 2.4% compared with the previous quarter (see Figure 3.1, left). It was driven by a rise in private consumption, which was

[6] According to The international role of the euro, which was published by the ECB on 11 June 2025.

broadly based, although growth was highest in the services segment. Conditions for private consumption remained favourable, reflecting a continuation of the relatively strong growth in the real wage bill. Government final consumption expenditure was down just a fraction in year-on-year terms, on account of the very high base in connection with the reconstruction following the floods in August 2023. In fact, employment and healthcare spending continued to rise.

Domestic demand continues to be held back by weak gross fixed capital formation, which nevertheless recovered slightly in quarterly terms, thereby reducing the year-on-year decline to just 0.2% (see Figure 3.1, left). Developments varied within individual types of investment in the second quarter. Construction investment was up in year-on-year terms for the first time since the first quarter of last year. This was attributable to the completion of non-residential construction projects, while residential construction investment continued to decline sharply, despite high prices and a shortage of supply on the real estate market. There was also variation in the dynamics in investment in machinery and equipment: purchases of transport equipment remained down in year-on-year terms, while investment in other machinery and equipment recorded weak growth that was nevertheless encouraging given the situation in the international environment.

Figure 3.1: **Economic growth factors in the first half of the year**



Sources: SURS, Banka Slovenije calculations

The relatively robust domestic consumption and the ongoing tensions in the geopolitical situation were reflected in foreign trade developments. Imports in the second quarter were up 2.7% in year-on-year terms, while exports were down 0.8% (see Figure 3.1, left), which meant that the contribution to GDP growth by net trade remained strongly negative. Alongside the rise in domestic final consumption, the increase in imports was also driven by a build-up of inventories, which can be attributed at least in part to the

uncertainty largely related to volatile US trade policy.[7] Growth in services imports and exports was relatively weak.

Conditions for manufacturing remained difficult, with growth in aggregate value-added reflecting the recovery in construction and a slight increase in demand for services.

Manufacturing firms continue to face difficult business conditions. The year-on-year decline in their value-added deepened to 1.9% in the second quarter (see Figure 3.1, right), which coincided with worsening export performance and low survey assessments of current demand. The industries hit hardest by the decline in exports were the manufacture of motor vehicles, furniture, paper, metals and rubber, while the weak foreign demand was also reflected in the construction materials industry. Of the 21 industries for which monthly output indices are available, 12 suffered a year-on-year decline in activity in the second quarter. Among the more important industries, the decline was particularly pronounced in the manufacture of motor vehicles, where it stood at 13.6%. Value-added in the energy sector in the second quarter was unchanged in year-on-year terms, reducing the aggregate decline in industrial value-added by 0.3 percentage points to 1.6%.[8]

After falling sharply at the beginning of the year, value-added in construction rebounded significantly in the second quarter. Its quarterly growth rate exceeded 5%, raising the year-on-year change from –6.7% in the first quarter to 3.9% in the second quarter (see Figure 3.1, right). Monthly indices of the value of construction put in place show a year-on-year increase in activity in all construction segments other than civil engineering, where growth can be expected over the remainder of the year due to a low base and extensive works on the road network. However, a sustained recovery in construction is uncertain: the number of building permits issued in the second quarter and, even more evidently, the corresponding floor space were down in year-on-year terms, on an already low base.

Value-added growth in private-sector services was weak in the second quarter. The year-on-year rate reached 1%, an improvement on the previous quarter, which was marked by a small decline. Year-on-year developments in value-added were positive in all categories of services other than financial and insurance activities. This has coincided with a slight increase in domestic demand, while the contribution made by foreign demand has been significantly weaker since 2022, which is reflected in the rather low real growth in services exports. Growth in value-added also strengthened in public services (to 2.2%), in line with the increase in employment (see Figure 3.1, right).

The positive economic developments are thought to have continued in the third quarter.

There was a slight improvement in the economic sentiment in August (see Figure 3.2, left). Manufacturing confidence was slightly higher than in the previous months, albeit

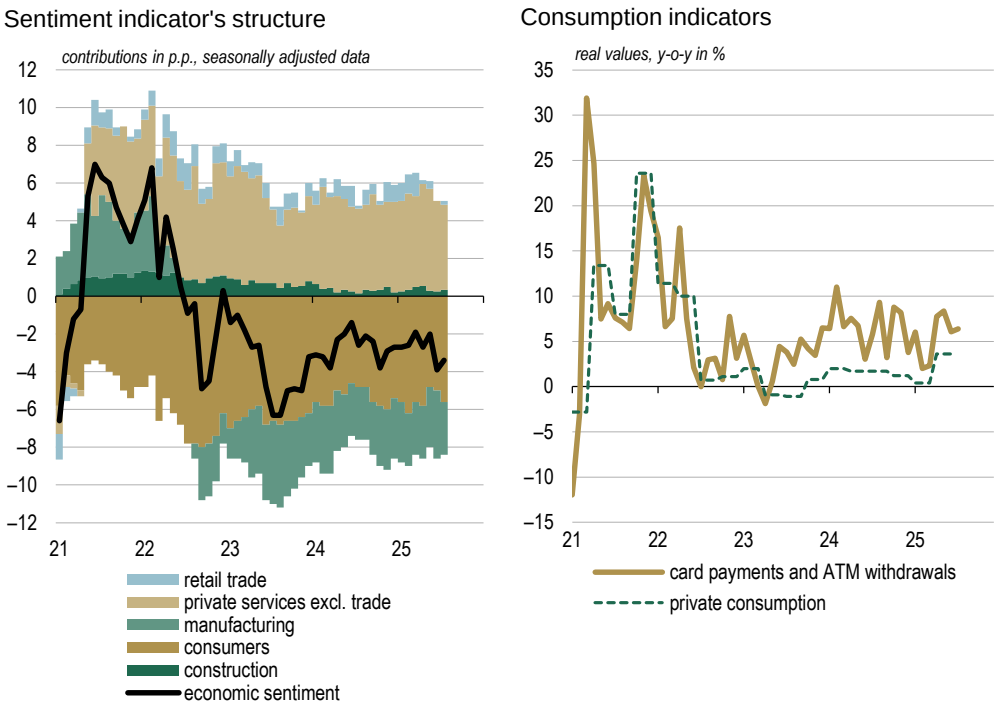
[7] Changes in inventories accounted for 2.1 percentage points of year-on-year GDP growth in the first quarter, and 1.7 percentage points in the second quarter. The net trade deficit by contrast reduced GDP growth by 2.3 percentage points in the first quarter and 2.7 percentage points in the second quarter.

[8] Value-added in the energy sector has fluctuated sharply in recent years, which makes analysis difficult. For example, the difference between the year-on-year change in the third quarter of 2023 and that in the second quarter of 2024 is almost 50 percentage points.

significantly below its long-term average, and the survey indicators of export order books and total order books also remained below their long-term averages. The construction confidence indicator remained in positive territory, albeit down on the very beginning of the second quarter. Construction firms once again reported an increase in the amount of construction put in place, but no rise in new orders. Retail confidence has been rather low since April. This has coincided with negative survey assessments of turnover, which is failing to reflect the developments in private consumption. Other private-sector services by contrast remained optimistic, with assessments of demand expectations remaining particularly encouraging. Consumer confidence again remained slightly down in year-on-year terms in August, as a result of increased concerns surrounding the future economic situation, their own financial situation, inflation and unemployment.

Year-on-year growth in the aggregate real value of card payments and ATM withdrawals was encouraging in July at 6.4% (see Figure 3.2, right). Other encouraging figures were the continuing growth in turnover in trade in motor vehicles and the record number of arrivals by foreign tourists. Real growth in the total value of invoices registered with tax authorities was slightly less favourable: it stood at just 0.5% in July.[9]

Figure 3.2: **Selected monthly economic indicators**



Sources: FURS, Bankart, Banka Slovenije calculations. Latest data, left chart: August 2025; right chart: July 2025
Note: In the right chart the HICP deflator is used to calculate the real value of card payments and ATM withdrawals.

[9] HICP deflator.

Box 3.1: **Nowcasts for GDP growth in the third quarter of 2025**

The average nowcast for quarterly GDP growth in the third quarter stands at 0.4%, based on a relatively limited data set.

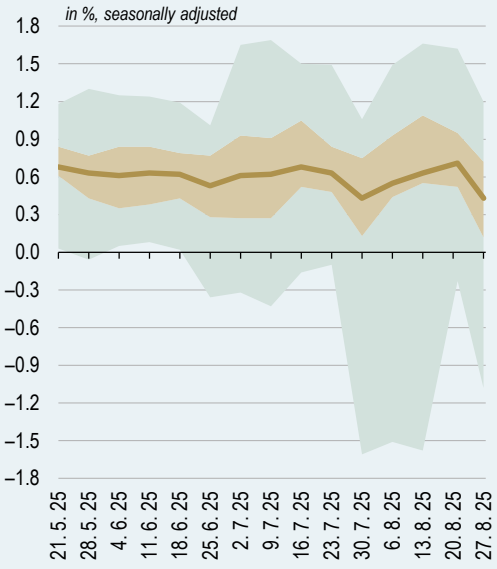
The current nowcast for quarterly GDP growth in the third quarter is 0.4% (see Figure 3.1.1, left). In addition to the autonomous model dynamics and the favourable quarterly growth recorded in the second quarter, the nowcast also reflects the recent improvement in the economic sentiment during the first two months of the third quarter. In both months, the main drivers of this improvement were the manufacturing confidence indicators. By contrast, confidence in services, retail, and construction remained broadly unchanged compared with the previous quarter, while consumer confidence declined slightly.

A more significant adjustment to the quarterly growth nowcast is expected in September, following the release of July data for key monthly indicators of economic activity, including industrial production, the value of construction put in place, and developments in services and retail sectors.

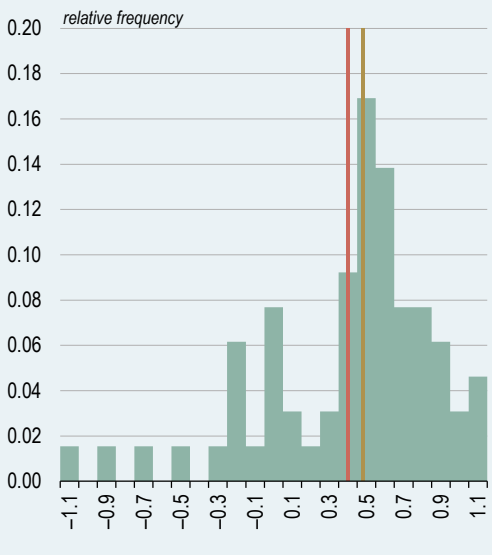
The limited set of high-frequency indicators available for the third quarter contributes to the high level of uncertainty surrounding the current nowcast. The nowcast distribution chart (see Figure 3.1.1, right), which shows the range between the 25th and 75th percentiles, currently spans from –1.1% to 1.1%.

Figure 3.1.1: **Nowcast for economic growth**

Model estimates of quarterly GDP growth – Q3 2025



Histogram of quarterly GDP growth estimates – Q3 2025



Sources: SURS, Banka Slovenije calculations
Note: The left chart illustrates the nowcasts for quarterly GDP growth. The gold area represents the interval between the 25th and 75th percentiles, while the green area represents the interval between the lowest and highest forecasts. The gold line represents the average nowcast for GDP growth in the third quarter of 2025. The right chart illustrates the distribution of the nowcasts for quarterly GDP growth in the third quarter of 2025. The vertical gold line represents the median, and the red line the mean. The relative frequency represents the share of the total set of models yielding a particular growth nowcast. Nowcast date: 27 August 2025.

Box 3.2: **Initial annual estimate of national accounts for 2024**

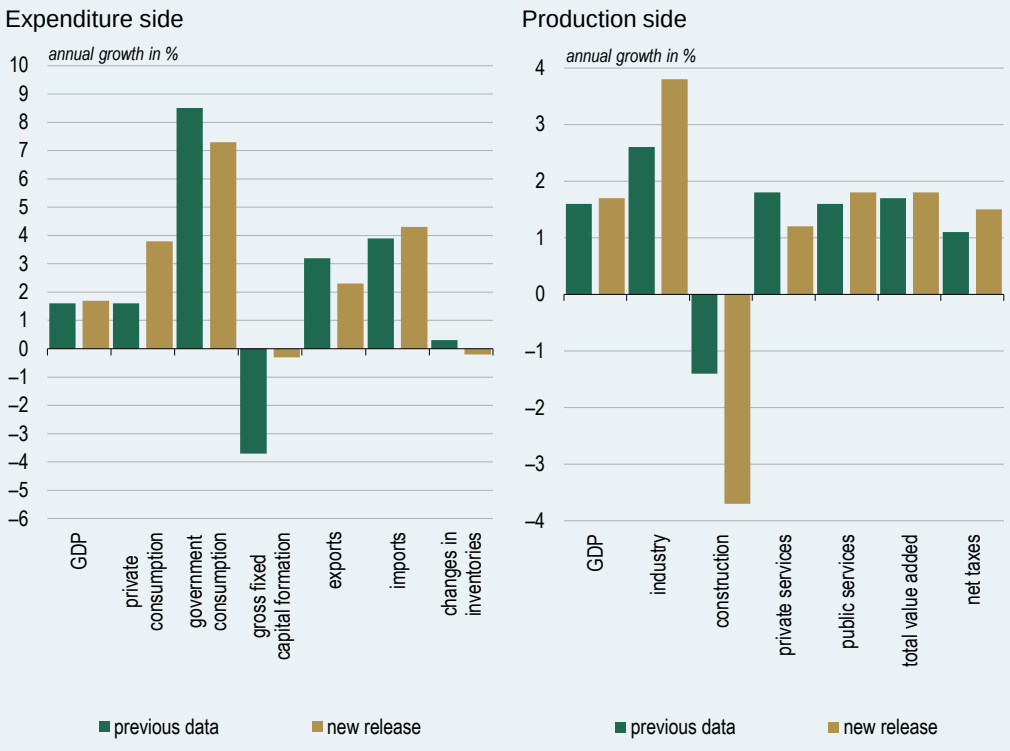
The initial estimate of annual GDP growth in 2024 was 0.1 percentage points higher than the estimates based on quarterly figures.

On 29 August 2025 the SURS published its initial annual estimate of the national accounts for 2024. Compared with the previous estimate based on the quarterly data, last year's GDP growth was revised upwards by 0.1 percentage points to 1.7%. The revision also saw the SURS raise its figure for GDP growth in 2023 by 0.3 percentage points to 2.4%.

The most notable changes to last year's figures on the expenditure side were in private consumption, whose growth was revised upwards by 2.2 percentage points to 3.8%. The decline in gross fixed capital formation was also reduced sharply, from 3.7% to 0.3%. In line with this revision, growth in imports was revised upwards by 0.4 percentage points to 4.3%. Growth in exports is lower than suggested by the quarterly figures, at 2.3%. A change was also made to inventories, which reduced last year's GDP growth by 0.2 percentage points (see Figure 3.2.1, left).

On the production side last year's growth in value-added was raised from 1.7% to 1.8% once firms' closing accounts have been taken into account. The new figures show a more favourable situation in industry, and a sharper decline in value-added in construction. Value-added growth in private services was lowered to 1.2%, while in public services it was raised to 1.8% (see Figure 3.2.1, right).

Figure 3.2.1: **Changes in growth in real GDP components in 2024**



Source: SURS

The quarterly figures reconciled with the initial annual estimate of the national accounts for 2024 will be released by the SURS on 30 September, and so it is not yet possible to calculate the new carry-over effect from last year. It will be presented in the October issue of this publication.

Box 3.3: **Structure of economic growth and related challenges**

The structure of economic growth in Slovenia has changed significantly over the past three decades. Today, the economy is characterised by a tight labour market, relatively subdued private investment growth, and weak gains in labour productivity.

GDP is the most widely used measure of economic activity. This box explains GDP growth through the theoretical concept of the production function, which decomposes economic activity into the contributions of the production factors: labour, capital, and total factor productivity. The latter is generally understood as technological progress or advances in technology.[10]

The decomposition of average per capita GDP growth shows that the structure of economic growth in Slovenia has changed significantly over the past three decades.[11] Broadly, two distinct periods can be identified, each characterised by different growth drivers (see Figure 3.3.1). The first period (1996 to 2008), marked by favourable economic trends and gradual convergence with more advanced European economies, lasted until the outbreak of the global financial crisis and subsequently the sovereign debt crisis. During this phase, economic growth was driven primarily by total factor productivity, with smaller contributions from capital and labour growth. By contrast, the second period (2013 to 2024) has been characterised by a much smaller contribution from total factor productivity and investment activity, with economic growth relying largely on employment growth.

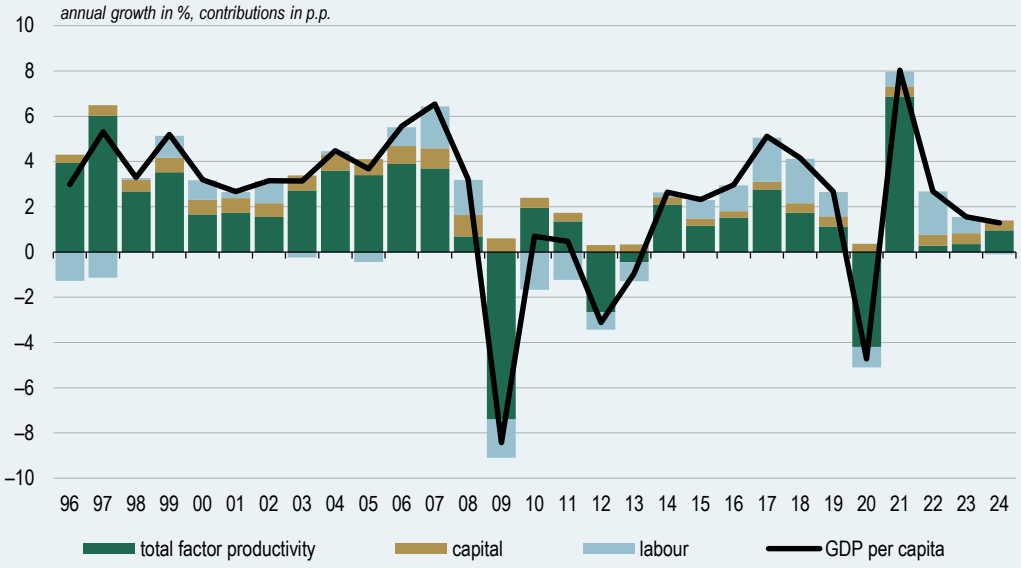
Given the structure of GDP growth over the past decade, he tight labour market is likely to pose a considerable challenge to the Slovenian economy in the future, particularly amid unfavourable demographic trends.[12] A key response will be the restructuring of the economy, in which investment will play a critical role, both directly by boosting labour productivity and indirectly by strengthening total factor productivity. Another major challenge is the sluggish business investment activity observed over the past decade (for a more detailed analysis of investment trends, see Boxes 3.5, 3.6, and 7.1. Business investment policies became cautious following the crisis period of 2008–2013, resulting in a significant slowdown in investment growth. The current economic structure is also accompanied by low labour productivity growth (see Figure 3.3.2), which slows the convergence toward average real labour productivity in the euro area. A more detailed empirical analysis of the factors driving labour productivity growth is provided in Box 3.4.

[10] Detailed analysis and methodological notes are given in:J. Radovan and R. Zorko: Challenges facing the Slovenian economy in terms of the structure of GDP growth and technological complexity, Short economic and financial analyses, Banka Slovenije, August 2025.

[11] The national accounts figures, which are provided by the SURS, are available from 1995.

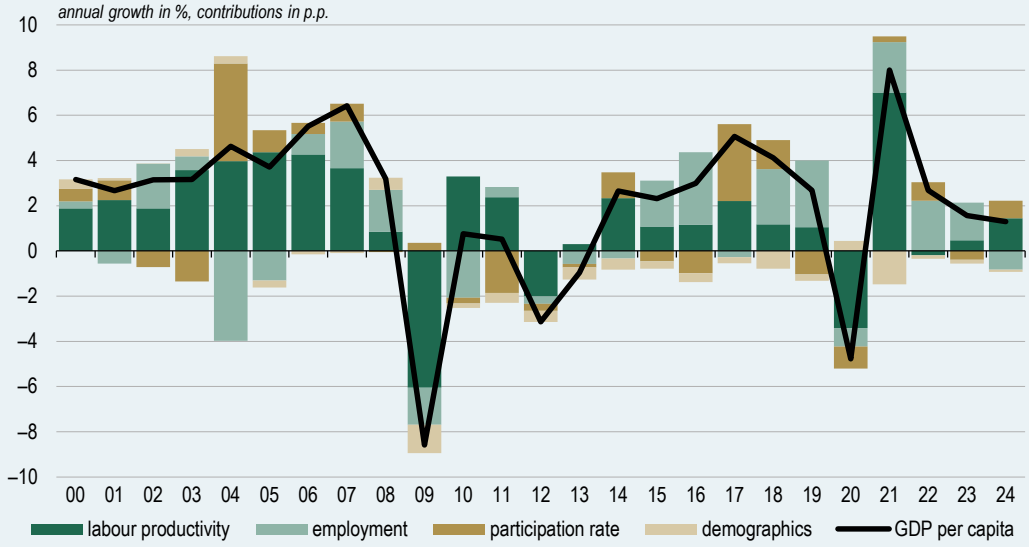
[12] Detailed analysis of the tightness of the labour market is given in M. Lindič: Analysis of the tightness of the Slovenian labour market, Discussion Papers, Banka Slovenije, June 2023.

Figure 3.3.1: **Decomposition of growth in GDP per capita**



Sources: SURS, Eurostat, Banka Slovenije calculations

Figure 3.3.2: **Alternative decomposition of growth in GDP per capita**



Sources: SURS, Eurostat, Europop, Banka Slovenije calculations
Note: The labour force participation rate is defined as the ratio of the active population (persons in employment plus unemployed people actively seeking work) to the working age population.

Box 3.4: **Drivers of labour productivity growth**

Developments in labour productivity growth depend on cyclical factors related to capital deepening, and long-term trends related to the industrial intensity of the economy, growth in innovation, and the adoption of new technologies.

Labour productivity growth in Slovenia has displayed a trend decline, calling into question the sustainability and viability of domestic growth potential. While labour productivity growth had averaged 3.2% before the global financial crisis, it halved after the crisis,

and declined further after the pandemic, reaching 1.5%. The aim of this box is to contribute to an understanding of the factors behind the labour productivity growth, and their expected influence in the future.

The starting point for examining factors in labour productivity growth is provided by the standard neoclassical output function, according to which output per unit of labour (henceforth referred to as labour productivity) is determined as the product of capital intensity and total factor productivity, or the efficiency of the utilisation of production factors:

$$\underbrace{\frac{Y}{L}}_{\substack{labour\\productivity}} = \underbrace{\left(\frac{K}{L}\right)^{\alpha}}_{\substack{capital\\intensity}} \underbrace{A}_{\substack{total\ factor\\productivity}}$$

The decomposition of labour productivity growth in Slovenia on the basis of the above equation shows that its trend decline has been driven by a slowdown in capital deepening, and by a more volatile and less robust contribution of the total factor productivity.[13] This kind of mechanical decomposition, however, is based on categories that are not directly observable, and it therefore does not offer detailed insight into individual factors of labour productivity growth. With the aim of providing up-to-date monitoring of the productivity of the Slovenian economy, this box seeks to establish an empirical link between developments in productivity growth and selected cyclical and structural indicators relating to the deepening of the capital and technological intensity of the production process.

Based on the literature, it can be assumed that the deepening of capital intensity is closely correlated with cyclical factors defining investment growth and user cost of capital, e.g. relative prices of intermediate goods and borrowing costs. Conversely, growth in total factor productivity is to a greater extent defined by factors facilitating growth in innovation and the adoption of new technologies in the production process, e.g. the functioning of institutions, the breakdown of the labour force in terms of qualifications and age, the openness of the economy, the sectoral allocation of production factors, and digitalisation.[14] Here it can be assumed that the correlation between labour productivity growth and cyclical factors related to capital deepening is two-way – e. g. the expectation is that investment growth raises but is also conditioned by growth in labour productivity. On contrary, the correlation with long-term structural factors is to a greater extent one-way – e. g. the age structure of the labour force has an impact on productivity growth, while productivity alone does not affect developments in demographic factors.

Accordingly, this box empirically analyses factors behind labour productivity growth by means of a Bayesian vector autoregression model with exogenous variables, i.e. a BVARX model:

$$Y_t = \sum_{j=1}^{p} A^j Y_{t-j} + BX_t + u_t$$

where the vector of endogenous variables in the given order consists of year-on-year growth in aggregate investment, year-on-year growth in labour productivity, year-on-year growth in the investment deflator, and the interest rate on loans to non-financial

[13] See for example Figure 2 in IMAD, Productivity Report 2023, or Figure 2 in J. Radovan and R. Zorko: Challenges facing the Slovenian economy in terms of the structure of GDP growth and technological complexity, Short economic and financial analyses, Banka Slovenije, August 2025.

[14] See for example Dieppe, 2021, Global Productivity: Trends, Drivers, and Policies; and Denis et al., 2004, An analysis of EU and US productivity developments.

corporations. The vector of exogenous variables consists of a constant, the indicator of the openness of the economy defined as the ratio of aggregate real foreign trade to real GDP, the labour force ageing indicator, expressed as the share of the persons in employment accounted for by those aged 50 and over, and the indicator of the industrial intensity of the economy defined as the share of aggregate value-added accounted for by industry.[15]

The choice of factors examined by the model is supported by the empirical literature (see note 14). This relate investment growth with better technical intensity of labour, and operating costs with the ability to effectively the plan and optimise production and investment activity. Among the long-term factors, the trade openness indicator is correlated with the transfer of knowledge and incentives for innovation, the demographic breakdown of the labour force with the ability to introduce innovations into the production process, and industrial intensity with the efficiency of the sectoral allocation of labour, where it is assumed that sectors in industry on average display higher rates of productivity growth on average than other sectors.

The model has been estimated on the basis of the period between the first quarter of 2003 and the first quarter of 2025, with two lags in the endogenous variables.[16]

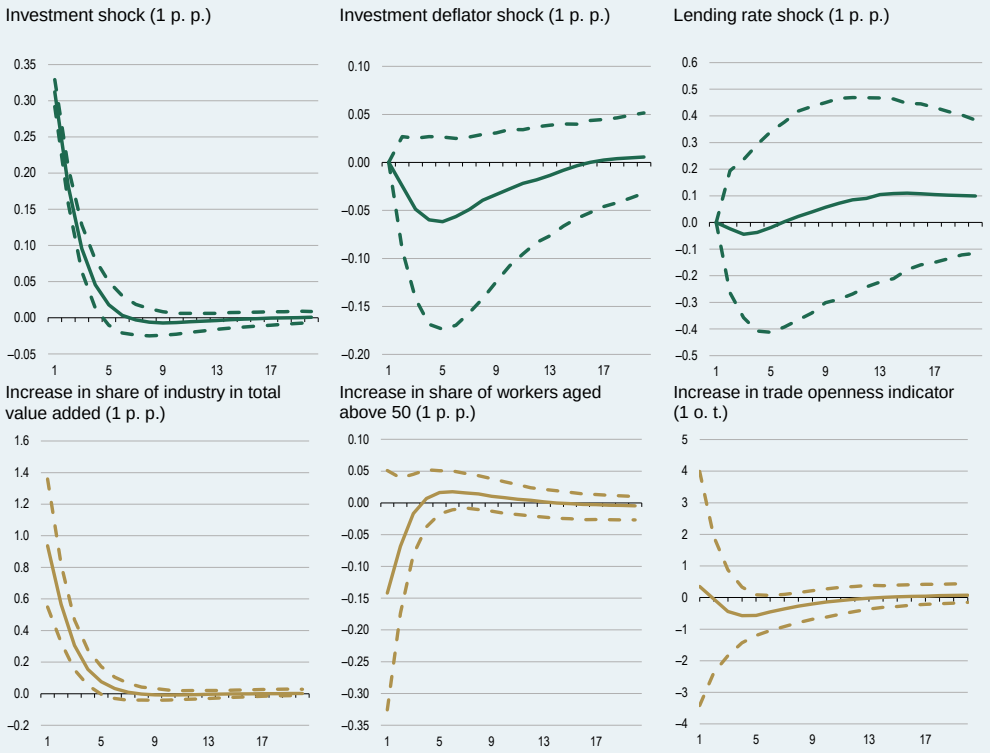
The empirical estimates confirm the strong relation between the exogenous investment shocks and labour productivity growth. Among the long-term exogenous variables, the most notable impact on labour productivity growth comes from the industrial intensity of the economy.

Figure 3.4.1 illustrates the impulse responses of labour productivity growth to structural shocks – associated with endogenous variables and identified by means of a recursive method – and the responses to changes in long-term exogenous variables. The impulse responses confirm that labour productivity growth is empirically dependent most markedly on investment growth. The pass-through of unexpectedly higher investment growth into productivity growth is approximately 30%, where the impact persists for approximately one year after the initial shock. In line with the results found in the literature, there is also an intuitive negative median response in labour productivity growth to an unexpected shock to investment deflator, indicating unexpected rise in intermediate prices and user cost of capital. Conversely, the estimated empirical impact of an unexpected rise in financing costs is profoundly uncertain, and is impossible to interpret. Of the long-term exogenous variables, the most pronounced impact on labour productivity growth comes from the industrial intensity of economic activity, where a rise of 1 percentage point in the share of aggregate value-added accounted for by industry corresponds to an average rise of 0.5 percentage points in productivity growth in the first year of response. An ageing labour force by contrast is indicative of a decline in labour productivity, where the estimated empirical relation remains quite uncertain according to the posterior distribution of the responses. It is also impossible to confirm an empirical connection between the trade openness of the economy and productivity growth on the basis of the model in question.

[15] The empirical model is expressed in year-on-year rates of growth in light of the huge volatility in individual quarterly series included in the model, and the easier illustration of the main findings of the analysis, particularly the impulse responses. The model has also been estimated on the basis of current rates of growth and annualised quarterly growth, with the results and the main findings being preserved in qualitative terms.

[16] Under alternative variants models have been estimated by means of four and five lags, and samples covering the periods of Q1 2003 to Q1 2025, Q1 2011 to Q1 2025 and Q1 1997 to Q4 2019, where the results and findings remaining qualitatively unchanged. For the sake of robustness, the model has also been estimated on the basis of current and annualised quarterly rates of growth.

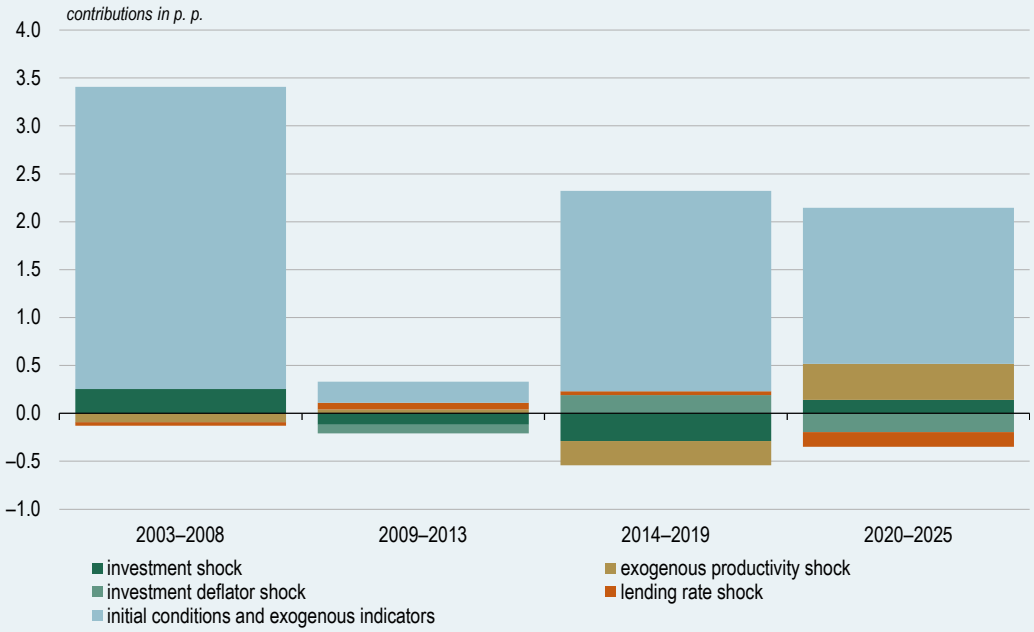
Figure 3.4.1:
Responsiveness of labour productivity growth to selected structural shocks and exogenous indicators



Sources: SURS, Banka Slovenije, Banka Slovenije calculations
Note: The green curves illustrate the median response of labour productivity growth to unexpected rises in investment growth, the investment deflator, and interest rates on loans. The gold curves illustrate the response of labour productivity growth to rises in exogenous variables. The dashed lines represent the 16th and 84th percentiles of the response distribution.

Given the identified structural shocks and the estimated impact of the exogenous variables, it is also possible to examine the impact of individual factors in past periods by means of the historical decomposition of the labour productivity growth illustrated in Figure 3.4.2. According to the estimates and the sample in question, the stochastic component related to the identified structural shocks had a relatively limited impact on developments in labour productivity growth compared with the deterministic component related to exogenous variables and the initial conditions. There is nevertheless a discernible shift from the positive contribution of the shock in investment growth in the period before the global financial crisis to the negative contribution after it. The contribution made by investment turned positive again in the period after the pandemic, particularly in 2022 and 2023, but was more than outweighed by the negative cost shocks to capital deepening, which related to higher prices of capital goods and to higher borrowing costs. In addition to the aforementioned adverse cyclical factors, recently the reduced contribution by exogenous variables has also prevented higher productivity growth. To a significant extent this relates to the trend decline in the share of value-added accounted for by industry, i.e. deindustrialisation, and redirection to sectors with relatively lower productivity growth, such as services and construction. The reasons for lower productivity growth in these sectors are related both to measurement issues and substance, and relate to the different required labour intensity and possibility of introducing technologies and automation to the work process.

Figure 3.4.2: **Model decomposition of labour productivity growth**



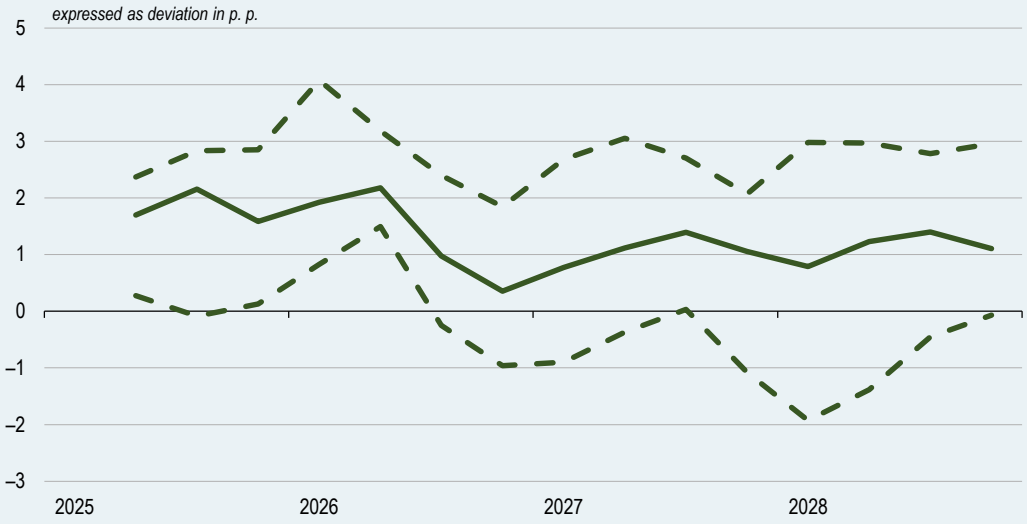
Sources: SURS, Banka Slovenije, Banka Slovenije calculations
Note: The bars illustrate the average cumulative contributions by identified structural shocks in investment growth, labour productivity growth, growth in the investment deflator, and interest rates on loans to non-financial corporations, and the contribution made to labour productivity growth by exogenous variables.

A sustained increase of 1 percentage point in labour productivity growth requires a rise of 1.3 percentage points in investment growth relative to the unconditional model forecast.

The estimated empirical model also allows for analysis of forecasts of factors conditional on different paths of productivity growth.[17] This allows to analyse the rise in investment growth needed to achieve the desired sustained labour productivity growth. Figure 3.4.3 illustrates the difference between the forecast of investment growth, consistent with a 1 percentage point increase in labour productivity growth, relative to its unconditional path. Based on the model, a persistent 1 percentage point increase in productivity growth requires an increase investment growth by approximately 1.3 percentage points on average over a period of three years. Translated to the post-pandemic period, i.e. 2020 to 2025, according to this estimates, the investment growth would need to average 2.3% instead of 1.6% to sustain labour productivity growth at its long-term average of 2.0% instead of 1.4%.

[17] The method is based on the calculation of model residuals, which allow for a solution of the vector autoregression system in line with the outlined path of the individual endogenous variable (see Conditional Forecasts in Dynamic Multivariate Models (Waggoner and Zha, 1991)).

Figure 3.4.3: **Conditional forecast of investment growth consistent with sustained increase of 1 percentage point in labour productivity growth**



Source: Banka Slovenije calculations
Note: The figure illustrates the difference between the conditional and unconditional model forecast of investment growth in line with a rise of 1 percentage point in labour productivity growth relative to the unconditional forecast. The dashed lines represent the 16th and 84th percentiles of the forecast distribution.

Box 3.5: **Long-term overview of investment developments**

The pace of investment in Slovenia is too slow to achieve more substantial economic convergence with the EU average.

Slovenia has been facing relatively weak investment activity since 2009. These developments are a reflection of the series of crises that followed the bursting of the investment bubble in late 2008 after the overheating of the economy. The global economic and financial crisis, the euro area debt crisis, the difficulties of the domestic banking system and the long-term deleveraging of the public sector and the private sector, the pandemic crisis, and most recently the energy and geopolitical crisis have caused a long-term deterioration in the environment for investing, and no sign of a stronger and sustained recovery in investment at the level of the economy was evident either via the ownership changes in the economy in favour of foreign investors[18] or via the utilisation of EU funds. In recent years, investing in Slovenia has also been hit by weak economic growth in the EU and the difficulties in German industry.[19]

Gross fixed capital formation in Slovenia increased by 77.4% between the first quarter of 1996 and the first quarter of 2025, merely just over 7 percentage points more than the EU average. In comparison, there was a notably stronger increase in investment in machinery and equipment, which was related in part to higher importance of industry and expansion of the logistics sector, while there was a large shortfall in construction investment and investment in intellectual property products (see Figure 3.5.1).[20]

[18] The ratio of FDI to GDP stood at 22.8% in 2008, and 34.4% in 2024.

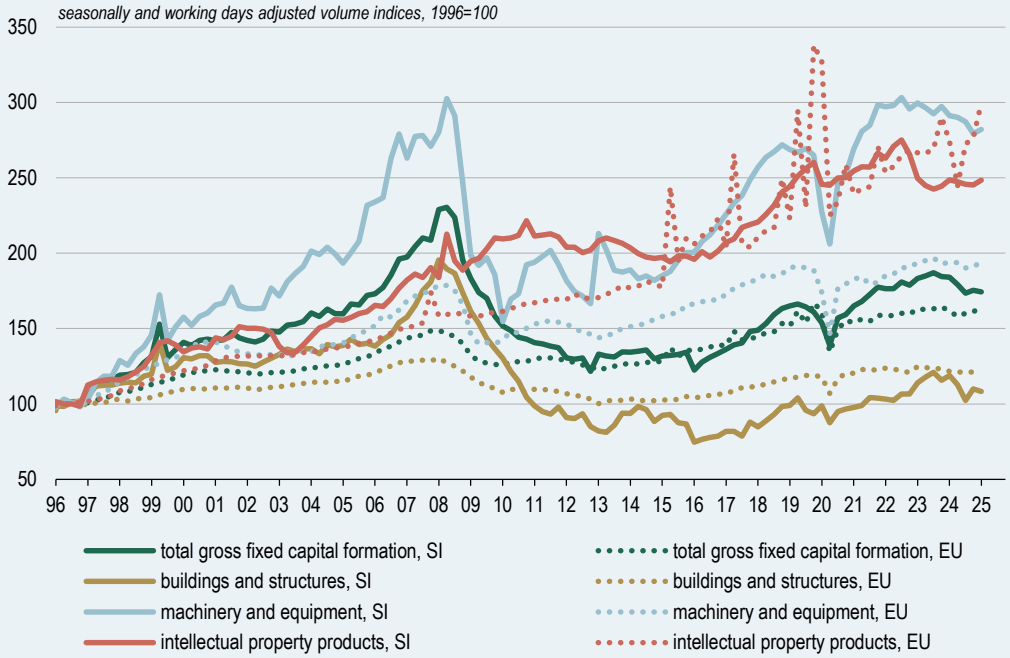
[19] See for example Luka Žakelj: The deindustrialisation of Germany? in the Research publications section of the Banka Slovenije website.

[20] Investment in cultivated biological resources is not illustrated, given the extremely small share of gross fixed capital formation that it accounts for.

Viewed across the entire observation period, the stronger aggregate investment compared with the EU average is attributable to development before 2007. Gross fixed capital formation increased by 80.5% between the first quarter of 1996 and the second quarter of 2006[21] in Slovenia, but by half of this in the EU overall. Outperformance of the EU average was evident in all three main investment categories, and was strongest in investment in machinery and equipment (see Figure 3.5.1).

Following the bursting of the investment bubble in 2008, the conditions for investing in Slovenia underwent a sustained deterioration, and the pace of investment began to fall behind the EU average. Gross fixed capital formation in the first quarter of this year was down 1.8% on the second quarter of 2006 in Slovenia, while in the EU overall it was up 20.2%. The decline is attributable to a fall in construction investment, although shortfalls in growth are also evident in machinery and equipment, and even more evidently in intellectual property products. In recent times, investment has stalled since the end of 2023. Investment in the first quarter of this year was down 6.8% on the third quarter of 2023, compared with an increase of 1% in the EU overall (see Figure 3.5.1).[22]

Figure 3.5.1: **Long-term overview of investment developments**



Sources: SURS, Eurostat, Banka Slovenije calculations. Latest data: Q1 2025

In terms of the ratio of investment to GDP, Slovenia has been below the EU average for approximately 14 years, with a particularly notable shortfall in residential construction.

Investment measured as a ratio to GDP has not evidently recovered in Slovenia since the turmoil of late 2008. This figure has averaged 19.7% over the last 14 years, 1.2 percentage points less than in the EU overall, even though an economy undergoing catch-

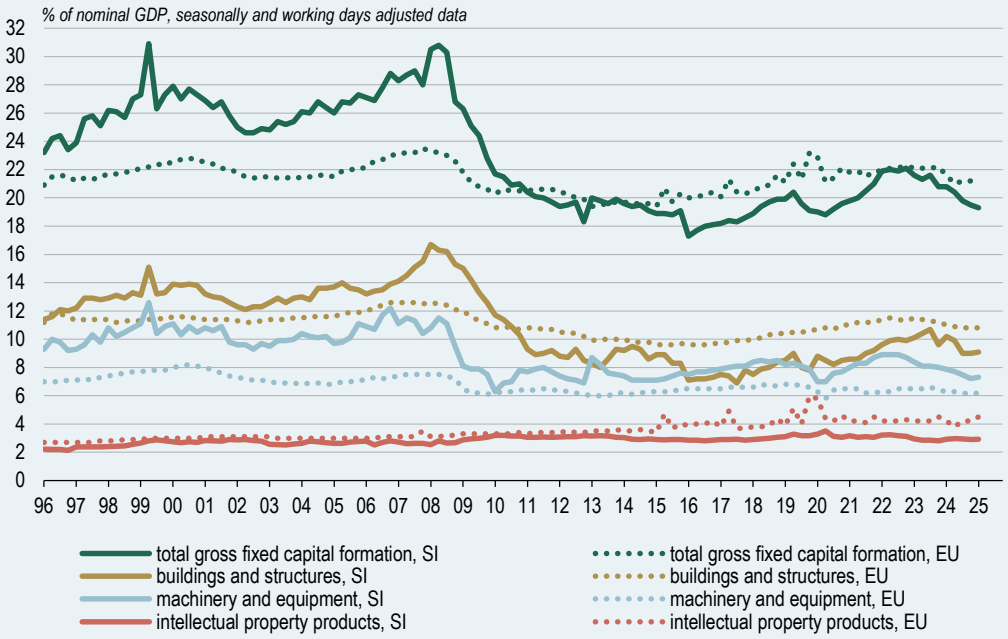
[21] Long-term analysis of investment developments in Slovenia is hindered by the overheating of the economy in the period roughly between the third quarter of 2006 and the second quarter of 2008. During that period investment increased by around 30%, but its structure in the form of debt financing via bank borrowing in the rest of the world was unsustainable. For the purpose of making a substantively more suitable comparison, the second quarter of 2006 was arbitrarily chosen rather than the second quarter of 2008, after which the investment bubble burst.

[22] The analysis covers data up to 19 August 2025. See Section 3 for an illustration of investment developments in Slovenia in the second quarter of this year.

up should typically be outperforming the more advanced average. The shortfall is mostly the result of the lower figure for construction investment, where the shortfall in residential construction is of particular concern. As a ratio to GDP, it has been behind the EU average for the entire period, but the shortfall has widened even further over the last 14 years.[23] The figure for investment in intellectual property products is also lower, and the shortfall on the EU average is gradually widening. Only in investment in machinery and equipment has Slovenia continued to outperform the EU average (see Figure 3.5.2).

The ratio of gross fixed capital formation to GDP in the first quarter of this year stood at 19.3% in Slovenia, down 2.3 percentage points on the EU average. The ratio of construction investment to GDP stood at 9.1%, 1.7 percentage points behind the EU average, where the shortfall is entirely attributable to the less intensive housing investment, whose ratio to GDP of 2.5% was 2.8 percentage points less than the EU average. The shortfall in the figure for investment in intellectual property products (2.9%) stood at 1.6 percentage points. Investment in machinery and equipment amounted to 7.3% of GDP, 1.1. percentage points more than the EU average, although this outperformance was significantly larger in the period before the overheating, at almost 3 percentage points (see Figure 3.5.2).

Figure 3.5.2: **Investment intensity**



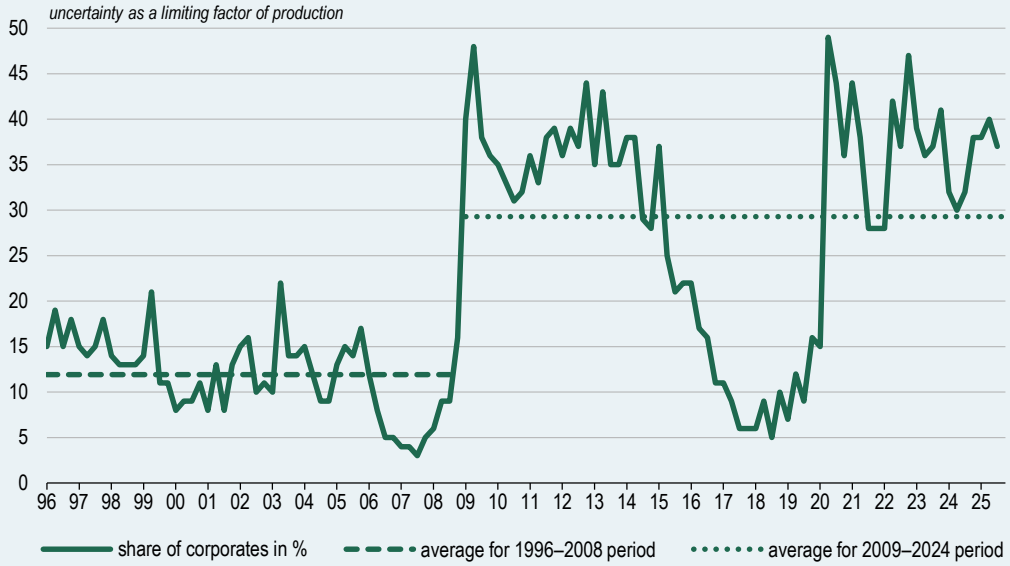
Sources: SURS, Eurostat, Banka Slovenije calculations. Latest data: Q1 2025

The huge uncertainty, the loss of competitiveness, weak demand, and low capacity utilisation are not generating an economic environment suitable for stronger investment.

The changes in the economic environment since 2008 are best described by the survey indicator of uncertainty in the economy, which the SURS publishes for manufacturing. The difference between the two observation periods is evident. The share of manufacturing firms citing uncertainty as one of their limiting factors stood at 37% in the third quarter of this year, 25.1 percentage points higher than its average between 1996 and 2008, and 7.7 percentage points higher than its average between 2009 and 2024 (see Figure 3.5.3).

[23] The ratio of housing investment to GDP averaged 2.4% over the last 14 years in Slovenia, and 5.2% in the EU overall, and thus it is no surprise that a shortage of supply on the domestic housing market is a major issue.

Figure 3.5.3: **Uncertainty in Slovenian manufacturing**



Sources: SURS, Banka Slovenije calculations. Latest data: Q3 2025

Manufacturing itself is in a difficult position, with firms in Slovenia and firms in the EU overall reporting a sharp loss of competitiveness since 2021, weak demand, and low capacity utilisation in consequence. According to Eurostat data, the indicator of current manufacturing demand in Slovenia stood at –25.1 percentage points in July, down 13.8 percentage points on its average between 1996 and 2024, while that in the EU overall stood at –27.0 percentage points, down 14.4 percentage points on its average (see Figure 3.5.4). Despite these difficulties, the share of manufacturing firms citing financial constraints remains very low for now, and in Slovenia is actually below its long-term average.

The situation is better in other sectors of the economy. The share of construction firms reporting issues with low demand is below its average of 2004 to 2024 in Slovenia, and is roughly the same as its average in the EU overall. It is a similar situation in retail. The share of other service firms reporting issues with demand is also close to its average of 2004 to 2024. As it is in manufacturing, there is still no sign of significant financial obstacles in the other sectors of the economy, at least according to the survey indicators.

Figure 3.5.4: **Survey assessments of current demand in manufacturing**

Sources: Eurostat, Banka Slovenije calculations. Latest data: July 2025

Box 3.6: **Investment response of firms to a temporary revenue shock**

A temporary revenue shock that raises current sales at firms by 10% is on average associated with a 5.4% increase in investment, reflecting the relatively high procyclicality of investment and its sensitivity to contemporaneous revenue changes.

Slow productivity growth is a key limiting factor for economic growth in Slovenia and in the EU overall. One of the main reasons for the decline in productivity growth is the uneven and extremely procyclical pattern of investment, which in particular prevents more intensive and less volatile (continual) investment.

Slovenia lies behind the EU average in terms of the ratio of investment to GDP, with a particularly pronounced gap in the business investment segment according to Eurostat data. This gap averaged 1.2 percentage points between 2013 and 2023.[24] The OECD data also rank Slovenia among the countries with the largest investment shortfall relative to the level before the global economic and financial crisis as measured by its percentage deviation from the trend (for more on the long-term overview of investment development, see Box 3.5).[25]

This box focuses on analyzing the procyclicality of corporate investment and its sensitivity to a temporary revenue inflow. The sample was divided into various subgroups to examine the response of firms according to their characteristics. The analysis is based on the assumption that firms whose investment is more sensitive to a temporary revenue inflow are more exposed to binding financial constraints that prevent long-term financing (for more on corporate financing, see Box 3.7).

Using the balance sheets of firms from the AJPES database, for the period of 1995 to 2024[26] the elasticity of investment to revenue shocks (θ)[27] was estimated. The key precept was that firms without financial constraints are less likely to adjust their investment plans to temporary revenue shocks, as their plans are usually longer-term in nature. Conversely firms with financial constraints are more likely to adjust their investment plans to temporary revenue shocks, as their limited access to debt financing and capital markets prevents long-term planning.[28] The sensitivity of corporate investment to temporary revenue shocks (i.e. the elasticity of investment to revenue shocks) is thus also an indicator of the financial constraints that firms face.

The elasticity of investment to revenue shocks (θ) is calculated as:

$$\theta = \frac{\mathrm{Cov}(\Delta \log \mathrm{I}_{i,t}, \Delta \log \mathrm{y}_{i,t+1})}{\mathrm{Cov}(\Delta \log \mathrm{y}_{i,t}, \Delta \log \mathrm{y}_{i,t+1})},$$

where $\Delta \log y_{i,t}$ is the indicator of temporary revenue shocks, and denotes the rate of growth in residuals of the revenues of firm *i* in year *t*. Residuals of revenues are obtained from a linear regression controlling for firm employment, a one-year lag of leverage,[29] and annual and sectoral fixed effects. $\Delta \log I_{i,t}$ denotes the growth rate of

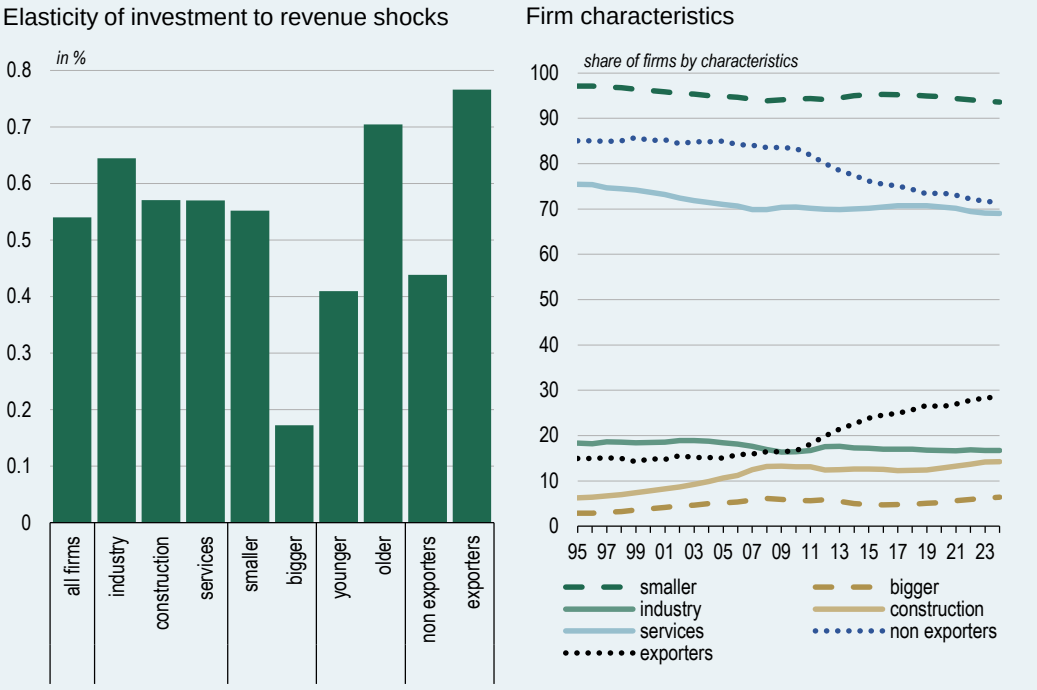
[24] Data is only available up to 2023. Eurostat, 2025: Investment by institutional sectors, Business Investment.
[25] Financial Times (2025). Weak business investment threatens global growth, warns OECD.
[26] Firms with less than one employee and holding companies are excluded.
[27] The same assessment methodology as IMF (2025) was used.
[28] For more, see Box 1.1: Productivity and the Savings and Investments Union.
[29] Leverage is calculated as the ratio of total debt to total assets.

investment for firm[30] *i* in year *t*. For the final calculation of firms' marginal propensity to invest (MPI), the elasticity is multiplied by the ratio of investment to sales revenue.

In our sample of firms the coefficient of the pass-through of temporary shocks into investment is 0.54 implying that a temporary shock that raises current sales by 1% is, on average, associated with a 0.54% increase in investment. The IMF (2025) finds that an unexpected 1% increase in sales increases investment by 0.2% at European listed firms, but just 0.13% at US firms, indicating that the procyclicality of corporate investment in Slovenia and its sensitivity to temporary changes in revenues are relatively high.

The results across firms in Slovenia with different characteristics show that the sensitivity of corporate investment to revenue shocks varies (see Figure 3.6.1, left). Higher sensitivity is observed among export-oriented firms, whose share of the total population of firms increased after 2010 (see Figure 3.6.1, right), and among firms with a longer presence on the market. Elasticity is also higher for smaller firms,[31] which constitute the majority of firms in Slovenia. There is slightly higher sensitivity for firms in industrial sectors.

Figure 3.6.1:
Responsiveness of investment and attributes of firms



Sources: AJPES (1995 to 2024), Banka Slovenije calculations. Latest data, right chart: 2024
Note: Industry comprises Sectors B to E under the SKD 2008, construction is Sector F, and services comprise Sectors G to S. The abbreviations of the sectors are explained in the list of abbreviations at the end of this publication.

[30] Investment is calculated according to the following formula: tangible assets in the current year tangible assets in the previous year, plus depreciation, plus revaluatory operating expenses associated with intangible fixed assets and tangible fixed assets.

[31] Enterprise size class is defined with regard to the asset thresholds set out by the ZGD-1.

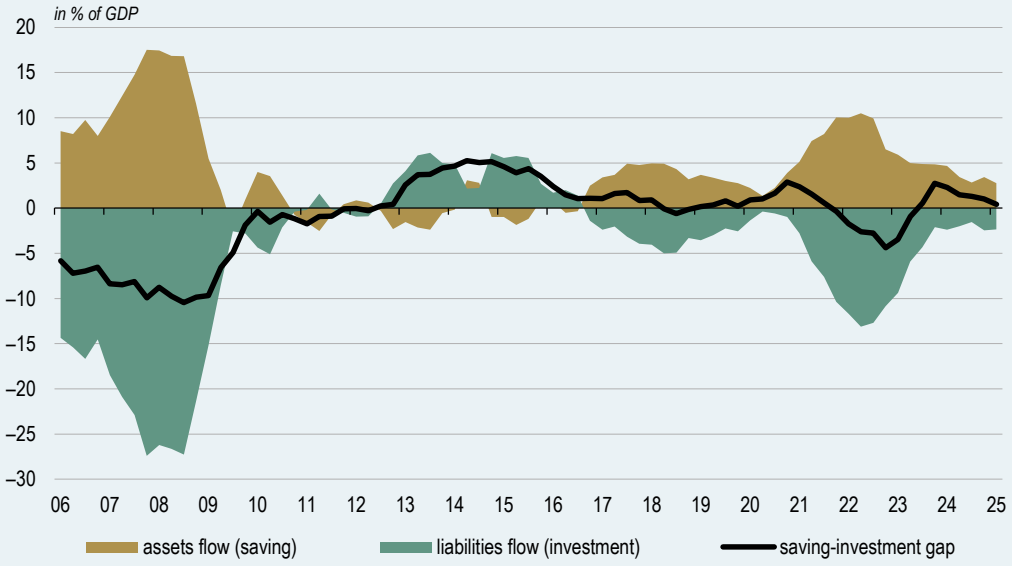
Box 3.7: **Financial position of non-financial corporations**

Over the last two decades non-financial corporations have significantly adjusted their decisions about investing and saving to the macroeconomic situation in the economy.

The aggregate surplus in saving over investment at non-financial corporations as measured by the one-year flow in transactions in financial accounts largely reflects the macroeconomic environment of the period or subperiod in question. Financial accounts data is available from 2005, during which time net saving has mostly been positive at non-financial corporations. A negative gap, when the flow in liabilities exceeds the flow in assets, is mainly evident in the period of high economic growth (partial overheating) in 2006 and 2007, and continues until the outbreak of the global financial and economic crisis in 2008 and even for its first year. At that time firms were borrowing at a huge scale, and increasing their liabilities to owners. The strengthening of financial assets at firms was also at historic levels, albeit less pronounced. The negative net financial position of non-financial corporations consequently exceeded 10% of GDP in 2008. The outbreak of the crisis brought a reversal: the following decade saw a period of deleveraging, and firms were more cautious also in making investments. Net saving/investment no longer exceeded 5% of GDP, amid slight fluctuations over the years.

Aggregate saving at non-financial corporations exceeded their investment (financial liabilities) by 0.7% of GDP in the first quarter of this year (see Figure 3.7.1). The flow in liabilities has undergone a more notable increase over the last year. The largest factor in this increase was trade credits received, but the one-year flow in loans also strengthened more noticeably, which can also be linked to the normalisation of monetary policy and the resulting easing of the financing conditions.

Figure 3.7.1: **Saving-investment gap at non-financial corporations**

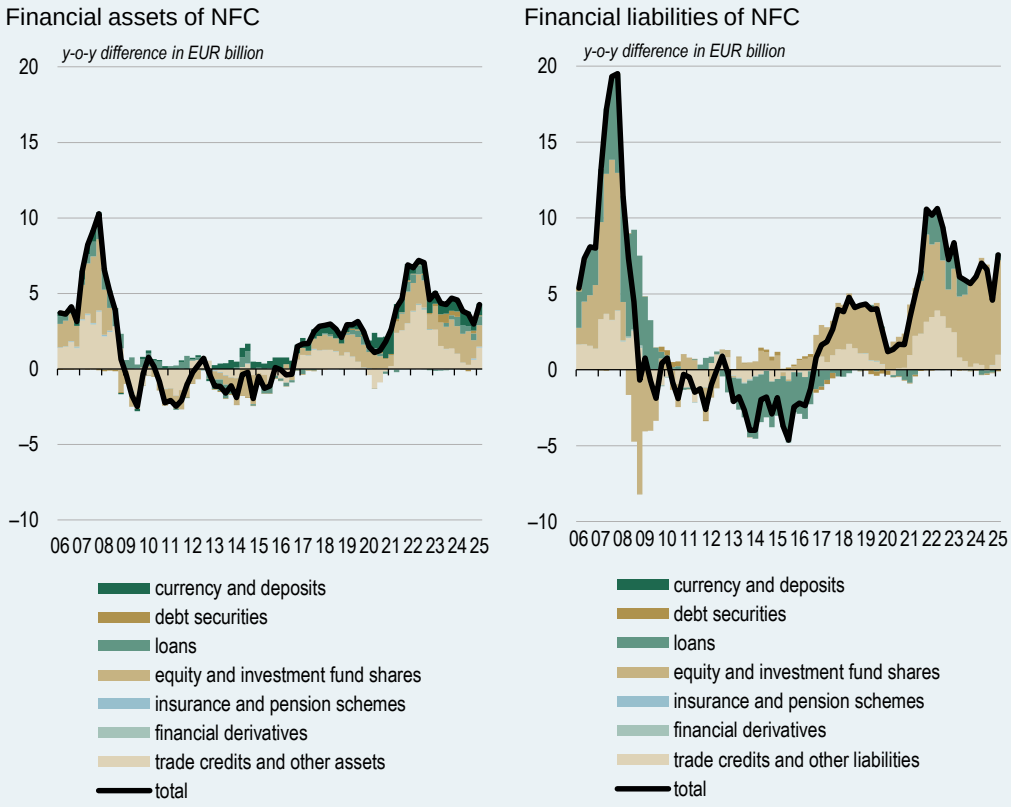


Source: Banka Slovenije. Latest data: Q1 2025
Note: Non-financial corporations' liabilities are illustrated inversely.

Credit growth did not recover entirely after the period of corporate deleveraging. The structure of the liability side of the balance sheet has changed slightly in recent years, with equity becoming more important.

In the period between 2005 and the global financial crisis in 2008 there was a notably sharp increase in non-financial corporations' financial assets, and an even larger increase in their liabilities. Non-financial corporations mainly financed their investments by raising equity and by borrowing via loans and trade credits (see Figure 3.7.2). This was followed by a decade of deleveraging in the corporate sector, particularly vis-à-vis banks. Since 2016 non-financial corporations have again been strengthening their total liabilities in year-on-year terms, particularly via equity and trade credits, while bank lending has not entirely recovered, in part because of the restrictiveness of monetary policy in recent times (see Figure 3.7.2, right). On the financial asset side, i.e. corporate saving, the year-on-year increases were significantly smaller on aggregate through this period, with the dynamics being dictated by the same factors as for liabilities: high growth initially and an overheating economy, then the global crisis and euro area debt crisis, and then the recovery in corporate saving from 2017 was somewhat interrupted also by the pandemic and the energy crisis.

Figure 3.7.2: **Dynamics in flows in corporate financial assets and liabilities**

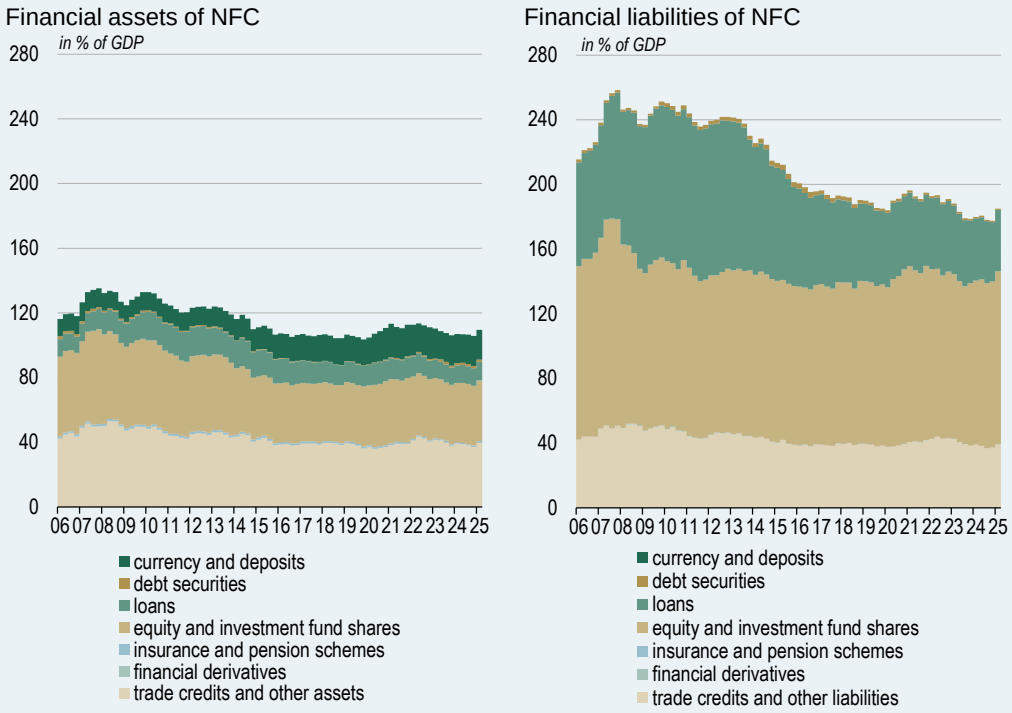


Source: Banka Slovenije. Latest data: Q1 2025

Non-financial corporations' saving-investment gap as a ratio to GDP is at a record low level.

The year-on-year increase in non-financial corporations' financial liabilities exceeded the increase in financial assets for most of the observation period (see Figure 3.7.2), by approximately EUR 1.6 billion on average in each quarter of the last seven years. This increased the gap between the stock of non-financial corporations' financial liabilities and their financial assets in absolute terms throughout the period, with it reaching a record level by the beginning of this year (EUR 50.7 billion; see Figure 3.7.4). The majority of financial assets over the entire observation period consisted of equity and trade credits, each with around 35% of the total, followed by currency and deposits, and loans granted, with approximately 17% and 11% respectively (see Figure 3.7.3, left). Equity is prevalent in the breakdown of non-financial corporations' financial liabilities, accounting for more than a half, followed by trade credits and loans, with the share accounted for by the latter declining markedly over the observation period (it had almost halved from its peak in 2008; see Figure 3.7.3, right).

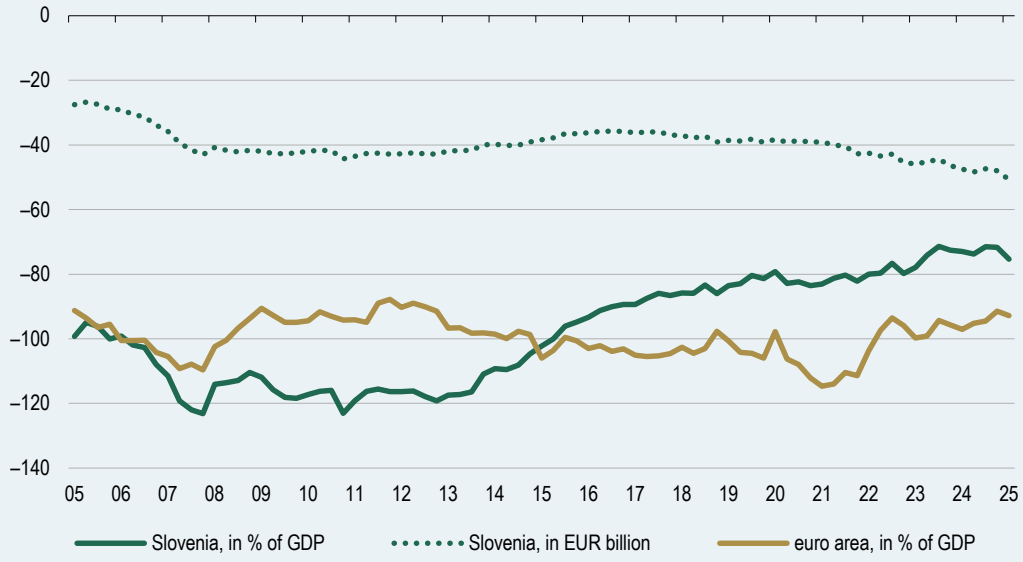
Figure 3.7.3: **Stock of non-financial corporations' financial assets and liabilities**



Source: Banka Slovenije. Latest data: Q1 2025

The gap between non-financial corporations' financial assets and liabilities expressed as a ratio to GDP has been gradually declining from its peak of 123% at the end of 2007, and had fallen to 75.4% by the beginning of this year (see Figure 3.7.4). It thereby remains at a historically low level, despite a slight increase this year. The gap is larger in the euro area overall at 92.9% of GDP, down 22 percentage points on the peak reached in the early part of 2021.

Figure 3.7.4: **Gap between stock of financial assets and liabilities at non-financial corporations**

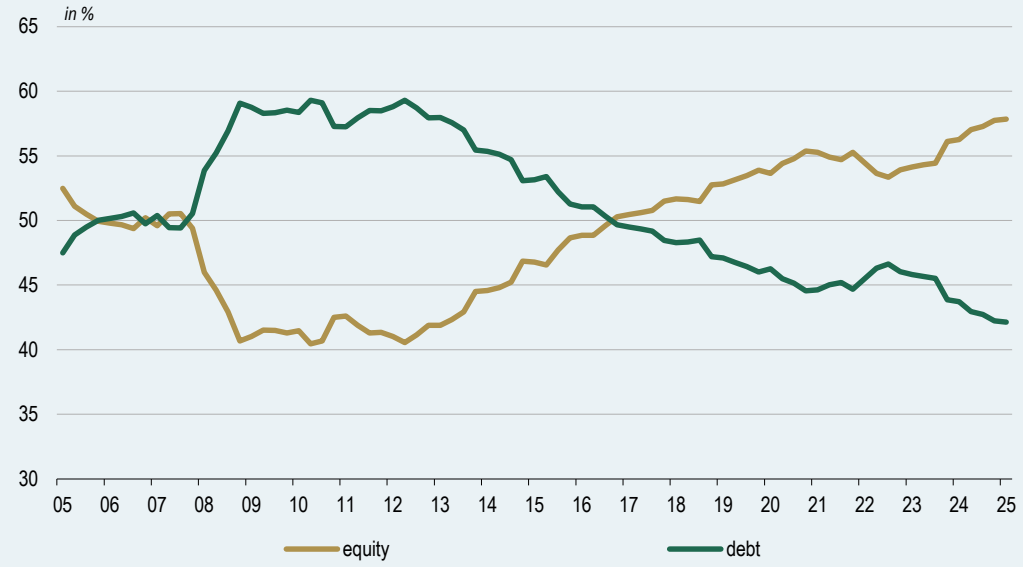


Source: Banka Slovenije. Latest data: Q1 2025

The share of non-financial corporations' financial liabilities accounted for by debt has been gradually diminishing since 2012, as has corporate indebtedness as measured by the debt-to-GDP ratio. This too is significantly lower than the euro area average.

The breakdown of non-financial corporations' financial liabilities shows that before the global economic and financial crisis, i.e. until 2008, the shares accounted for by equity and debt[32] were completely balanced at around 50% each (see Figure 3.7.5). The outbreak of the crisis brought a sharp increase in debt on the liability side of the balance sheet – in part because of the downward revaluation of equity – but this share began to decline after 2010, reaching 42.1% by the first quarter of this year. The share of total liabilities accounted for by equity by contrast gradually increased, and currently stands at 57.8%, its highest figure to date.

Figure 3.7.5: **Non-financial corporations' liabilities as equity and debt**

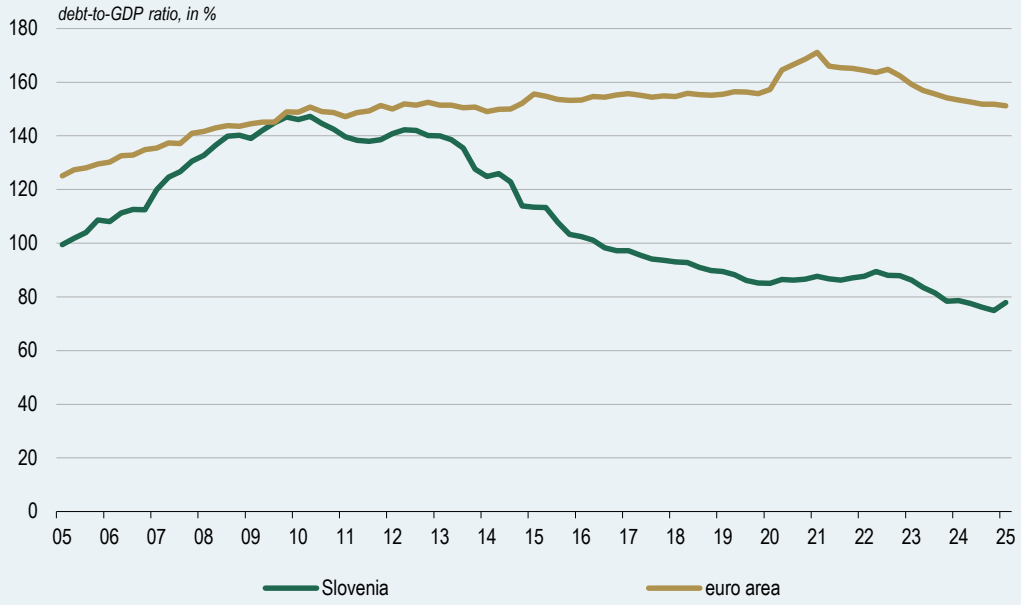


Source: Banka Slovenije. Latest data: Q1 2025
Note: Debt is the sum of currency and deposits, debt securities, loans, insurance and pension schemes, and other accounts payable.

[32] Debt is defined as the sum of currency and deposits, debt securities, loans, insurance and pension schemes, and other accounts payable.

Slovenian non-financial corporations held debt in the amount of 78.0% of GDP at the end of the first quarter of this year (see Figure 3.7.6), significantly below the euro area average (151.2%), and one of the lowest figures of any euro area country. The figure for Slovenian non-financial corporations has been declining since the global economic crisis, and now stands 69 percentage points down on its peak from mid-2010. The data therefore shows the financial situation at non-financial corporations to be relatively stable at the aggregate level, and as outlined in Boxes 3.5 and 3.6 it does not constitute a significant limiting factor in their investment activity.

Figure 3.7.6: **Corporate indebtedness in Slovenia and the euro area**



Source: Banka Slovenije. Latest data: Q1 2025
Note: Debt is the sum of currency and deposits, debt securities, loans, insurance and pension schemes, and other accounts payable.

4 Labour Market

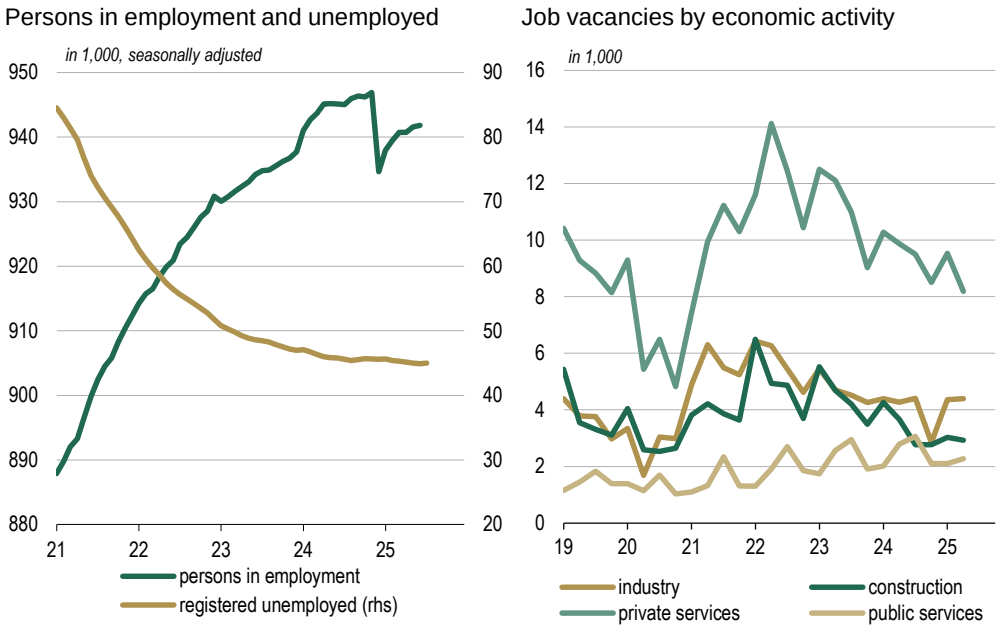
Employment continues to decrease, with unemployment remaining historically low.

The number of persons in employment has been down in year-on-year terms since the end of last year, and reflects the cooling economy, particularly in manufacturing. The aggregate year-on-year decline stood at 0.4% in June (see Figure 4.1, left), and was largest in manufacturing, in administrative and support service activities, which includes staffing agencies, in construction, and in wholesale and retail trade. Employment growth in mostly public services remains positive by contrast. Similar developments are evident in the national accounts figures, according to which employment in the second quarter was down 0.4% in year-on-year terms.

The decline in demand for labour is also being reflected in the number of notified job vacancies, which stood at approximately 17,800 in the second quarter of this year according to the SURS survey data, down 13.7% on a year earlier (see Figure 4.1, right).

The number has been falling in year-on-year terms for just over two years now, with the largest declines in the second quarter being recorded by construction and by transportation and storage. The survey data on expected employment generally indicates a positive outlook, although the trends differ across indicators. The Employment Service's data shows employers' outlook for employment to be better than in the first half of the year, while the SURS and Manpower surveys show a deterioration in the outlook over the same comparison, although they nevertheless remain positive.

Figure 4.1: **Persons in employment, unemployment and vacancies**



Sources: SURS, Employment Service, Banka Slovenije calculations. Latest data, left chart: registered unemployment: July 2025; persons in employment: June 2025; latest data, right chart: Q2 2025

The labour market remains relatively tight. This is evidenced by the low level of unemployment, and the survey data for labour shortages. The number of registered unemployed stood at 43,799 at the end of July, down 1.3% on a year earlier (see Figure 4.1, left). Unemployment rates also remain low: the registered unemployment rate stood at 4.3% in June, while the ILO surveyed unemployment rate stood at 3.2% in the second quarter. The Employment Service's employment preview shows that 46.5% of employers faced a shortage of qualified candidates for hiring in the first half of the year, the lowest figure of the last four years (see Figure 4.2, left), bur still above its long-term average. Employers are mostly attributing their difficulties in finding labour to shortages of personnel on the labour market, and more than half of them expect the difficulties to persist over the next five years, with the bleakest expectations being seen in healthcare and social care. Further evidence of the labour shortages and the difficulties in recruitment comes from the surveys by the SURS and by Manpower.

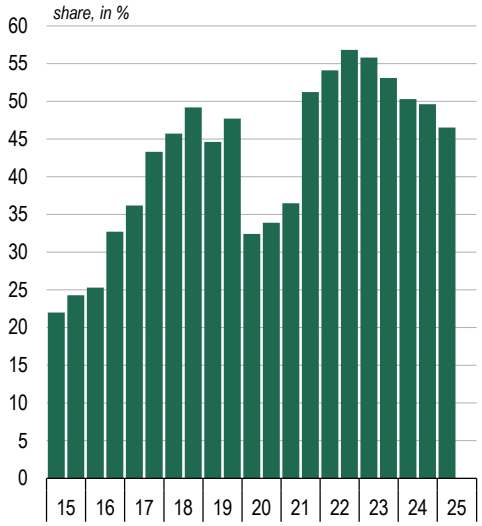
Growth in the average gross wage remains high in the public sector.

Year-on-year growth in the average gross wage stood at 7.4% in June, approximately 1 percentage point higher than last year's average (see Figure 4.2, right). Driven by the wage system reform, the public sector continues to exhibit strong growth of 9.4%. Growth was more moderate in the private sector at 6.0%, in line with the long-term

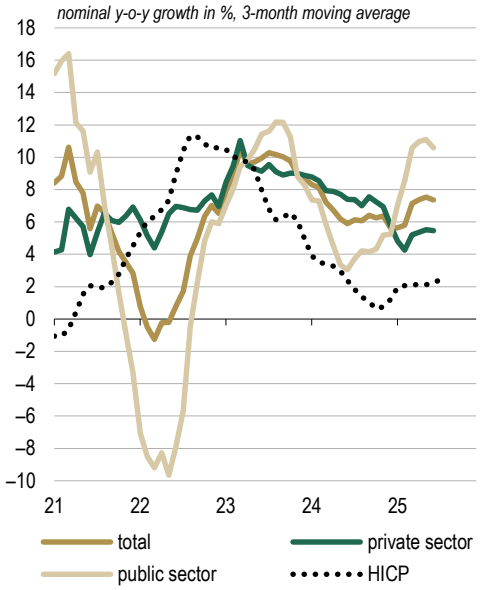
dynamics in wage growth in the two sectors.[33] Amid high wage growth in the public sector, real growth in the average gross wage also remains robust: it stood at 4.7% in June, up 0.5 percentage points on last year. The Manpower survey shows the outlook for wage rises in the second half of the year to be at its weakest level in the last four years. Just under three-quarters of the surveyed employers have no plans to make changes to wages, and any rise would be conditioned mainly by the aim of retaining employees and ensuring competitiveness in new hires.

Figure 4.2: **Labour shortages and average wages**

Percentage of employers reporting a shortage of qualified workers



Average gross wage per employee



Sources: SURS, Employment Service, Banka Slovenije calculations. Latest data, left chart: H1 2025; latest data, right chart: June 2025; HICP: July 2025

Box 4.1: **Sick Leave and labour productivity**

Slovenia has seen a marked rise in sick leave in recent years, which might be having an impact on productivity growth and thus on economic activity. A simple simulation shows that labour productivity and economic growth would have been significantly higher between 2019 and 2024 had the absenteeism rate been maintained at its long-term average.

Labour productivity growth in Slovenia has slowed significantly in recent years (for more on factors in labour productivity growth, see Box 3.4). Labour productivity increased at an annual rate of just 1.0% approximately between 2019 and 2024, compared with 1.6% between 2013 and 2018, and just over 3% before the global economic and financial crisis. While structural factors such as an ageing population, a decline in capital intensity, and regulatory barriers are usually cited as causes, the pronounced rise in sick leave is a less-discussed but increasingly significant factor.[34]

[33] See Box 4.1 of the March 2025 issue of the Review of macroeconomic developments.

[34] See Institute of Macroeconomic Analysis and Development (2025). Quality of life in Slovenia: Development Report 2025, or Draghi, M. (2024). The future of European competitiveness: A competitiveness strategy for Europe.

NIJZ data show that both the frequency of sickness absence and the total number of days lost have risen sharply since 2015, with 2024 recording the highest levels in two decades. Absences have become shorter but more frequent, meaning employees take sick leave multiple times but for briefer periods. As a result, the number of days lost per employee in 2024 was about 50% higher than a decade earlier (see Figure 4.1.1, left). The increase is broad-based across sectors and age groups, with the highest rates observed in public services and industry.

Figure 4.1.1: **Trends in absence due to sickness and impact on labour productivity**

Sources: NIJZ, SURS, Banka Slovenije calculations. Latest data: 2024

To estimate the macroeconomic impact, we employ a simple accounting simulation that compares actual productivity with a counterfactual scenario in which sickness absence rates remained at their 2000–2018 averages. The method assumes that each additional working day contributes the same average amount of value added as an existing one. This assumption is plausible in sectors with homogenous tasks and limited scope for work reorganisation, but it may overstate losses where firms can reallocate tasks effectively, or understate them where absences disrupt collective work or require costly substitutes. The exercise therefore does not evaluate whether the effect of absence is positive or negative; it merely quantifies the potential magnitude of the impact under these assumptions.

The calculations show that average labour productivity growth between the years of 2019 and 2024 would have been approximately 0.2 percentage points higher, which over six years would entail a 1.5% rise in productivity (see Figure 4.1.1, right). Annual GDP growth would also be 0.2 percentage points higher under the alternative scenario, averaging 2.5%, compared with the actual figure of 2.3% based on the official data. The findings are merely indicative, and show what the potential impact might be under the chosen assumptions. A number of empirical studies confirm that absences generally reduce productivity, where the size of the impact depends on the sector, firm size and type of work.[35]

[35] See for example Grinza, E. and Rycx, F. (2020). The impact of sickness absenteeism on productivity: New evidence from Belgian matched panel data. Industrial Relations: A Journal of Economy and Society, 59(1), 150-194.

Given the ageing workforce and limited labour supply, sickness absence could become a significant drag on productivity growth and potential output. Policymakers should therefore monitor its drivers and consider measures that improve health, working conditions, and the effective use of the existing labour force.

5 Current Account

Year-on-year growth in international trade slowed in the second quarter. Services trade and merchandise imports were still increasing, albeit considerably more slowly than in the early part of the year, while merchandise exports declined.

According to the balance of payments figures, nominal growth in international trade slowed in the second quarter of this year: exports of merchandise and services were broadly unchanged in year-on-year terms (growth of 0.3%), while imports of merchandise and services recorded growth of 2.4%, down almost 4 percentage points on the previous quarter (see Figure 5.1, left).

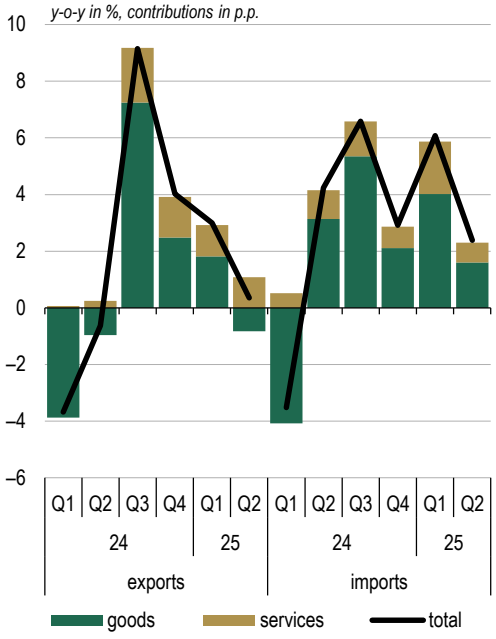
Nominal merchandise exports in the second quarter were down in year-on-year terms (by 1.0%). A major factor in the decline was energy products, exports of which were down 15.2% in year-on-year terms. An even larger decline was prevented mainly by a rise in exports of medical and pharmaceutical products to Poland and Russia. As in the previous quarter, exports to France were down significantly (by 17.1%), most notably car exports.

Nominal merchandise imports were up 1.9% in year-on-year terms. There was a notable increase of 11.0% in imports of various machinery and equipment, the highest figure since the second half of 2022. Higher growth in imports was prevented by a significant decline in energy imports (of 24.0%). Despite a slight improvement in the terms of merchandise trade – in the wake of a fall (of 1.0%) in import prices and no change in export prices – the merchandise trade position in the second quarter recorded a deficit of EUR 316 million. This was EUR 310 million more than in the same period last year, and the largest since the end of 2022 (see Figure 5.1, right).

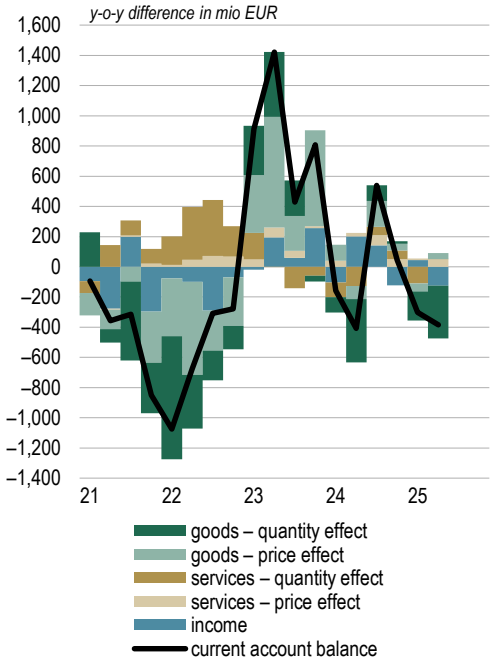
Nominal services imports and exports continued to record relatively high growth of more than 5% in the second quarter, although the rate was more moderate than in the early part of the year. Exports of telecommunications services and other business services continued to record growth (of 9.3% and 9.9% respectively). Exports of construction services have by contrast been declining since the second quarter of last year (and were down 13.6%).

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

Foreign trade



Price and quantity effect on current account balance dynamics



Sources: Banka Slovenije, SURS, Banka Slovenije calculations

The largest factors in the growth in services imports were travel services, telecommunications services and other business services. The largest increases in services exports in value terms were recorded by Switzerland and Luxembourg (other business services, and also transport services in the case of Luxembourg), while the largest increase in services imports was recorded by Croatia (travel services). The services trade surplus amounted to EUR 923 million, up EUR 51 million on the previous year. This was partly driven in part by an improvement in the terms of services trade, as export prices grew by 3.8% while import prices rose by 3.0%.

The deficit in primary income amounted to EUR 157 million in the second quarter, EUR 12 million less than last year. The year-on-year deterioration of EUR 137 million in the deficit in secondary income was mostly attributable to a wider deficit in income from current international transactions with EU institutions (excluding the ECB).

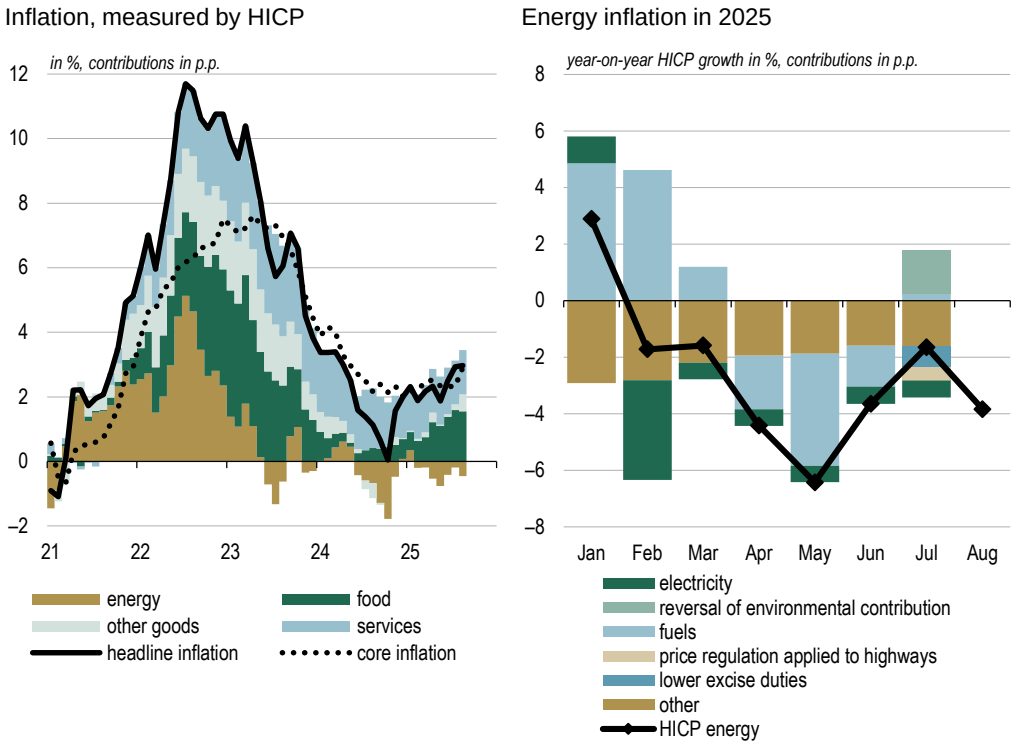
The current account surplus has more than halved over the last year: it amounted to EUR 0.6 billion over the first half of this year, and EUR 1.3 billion in the same period last year. The majority of the year-on-year change was due to the reversal in the merchandise trade balance, which turned into deficit in the first half of this year, but the deficit in secondary income also widened. The 12-month current account surplus is also gradually declining, and stood at EUR 2.4 billion in June.

6 Inflation

Inflation strengthened over the summer primarily due to energy and food prices.

Year-on-year inflation as measured by the HICP rose to 3.0% in August, up from 2.9% in July. This was the third consecutive month of rising inflation (see Figure 6.1, left). Since May, rising inflation was driven roughly equally by all components other than services. June's rise in energy inflation was mainly attributable to a base effect in fuels, while July's rise was primarily related to the reversal of the environmental levy in electricity prices.[36] Fuels prices in July were also up on the previous month, although their rise was partly offset by a cut in excise duties on diesel and liquid fuels and by expanding regulated prices for petrol and diesel to motorway selling points too (see Figure 6.1, right).[37] Energy prices nevertheless remain down year on year, by 3.8% in August, following a monthly decline in fuel prices[38], driven by the appreciation of the euro and the renewed increase in pumping by OPEC+ countries.

Figure 6.1: **Headline and energy inflation**



Sources: SURS, Banka Slovenije calculations. Latest data, left chart: August 2025; latest data, right chart: July 2025; HICP energy: August 2025

[36] The resumption of payments of the contribution for CHP and renewables accounted for 0.2 percentage points of the 2.9% headline inflation rate in July, according to our estimates. As regards energy prices, they were down 1.6% in July year on year, with resumption of the levy accounting 1.5 percentage points of the inflation rise.

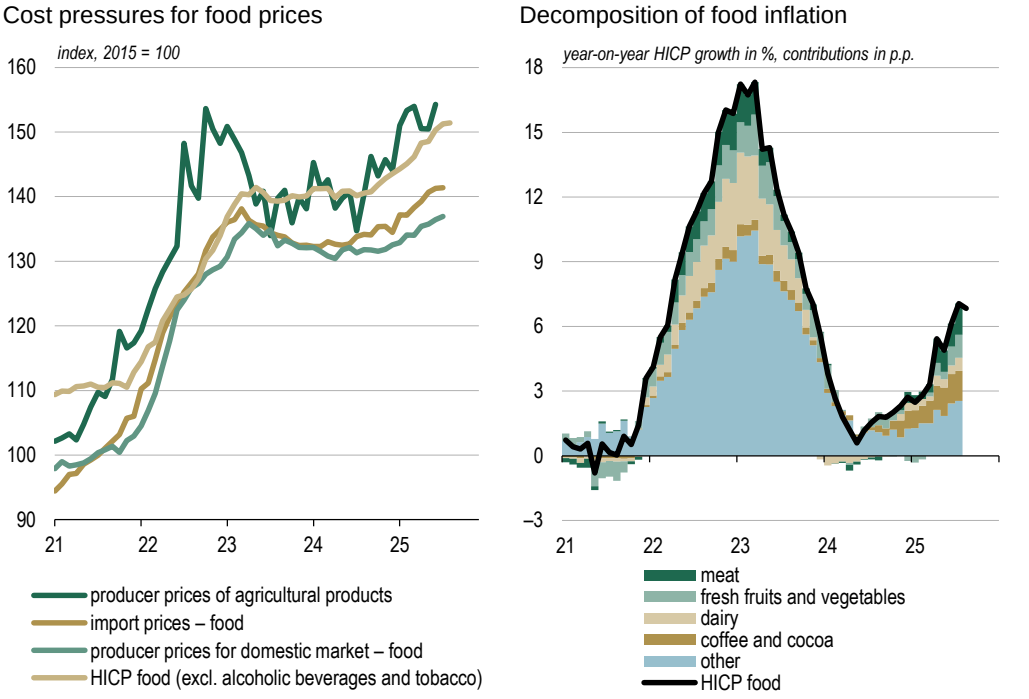
[37] On 1 July 2025, the government cut excise duties on diesel to EUR 0.43250 per litre and on heating gasoil to EUR 0.16700 per litre. Even earlier, as of 17 June 2025, the regulation of the pricing of refined petroleum products expanded so that it applies also to the motorway selling points, which were previously excluded. According to our estimates, lower excise duties reduced annual energy inflation in July by 0.7 percentage points, while regulated fuels prices on motorways contributed additional 0.5 percentage points. Consequently, we estimate government measures to lower the overall inflation rate in July by 0.1 percentage points.

[38] According to the European Commission's Weekly Oil Bulletin.

While energy cost pressures remain relatively subdued, food price pressures are strengthening. In addition to higher cocoa and coffee prices, global beef prices have risen sharply, feeding through to domestic meat prices along the food supply chains. Higher incidence of bluetongue disease, reported by livestock farmers, poses an additional risk of further price increases. Rising agricultural input costs, fertilisers in particular, pushed producer prices for agricultural products up by 10.0% year on year in June, driven mainly by prices of animal products. Growth in prices of imported agricultural products and producer prices for domestic market are also accelerating: in July, they were up 5.2% and 3.3% year on year, respectively (see Figure 6.2, left).

Food inflation remained elevated in August at 7.7%, or 6.8% including alcoholic beverages and tobacco products (see Figure 6.2, right). In line with global price developments, recent months have seen notable rises in prices of meat, coffee and chocolate,[39] while prices of fruit and vegetables have fallen by less than usual.[40] This raised unprocessed food inflation to 10.9% in August, while processed food inflation rose to 5.6%. Rises in excise duties on tobacco and certain alcoholic beverages[41] are accounting for 0.1 percentage points of the processed food inflation as of June of this year, increasing the aggregate impact of tax measures on annual processed food inflation to 0.6 percentage points.[42]

Figure 6.2: **Food inflation**



Sources: SURS, Eurostat, Banka Slovenije calculations. Latest data, left chart: July 2025; producer prices of agricultural produce: June 2025; HICP food excluding alcoholic beverages and tobacco products: August 2025; latest data, right chart: July 2025; HICP food: August 2025

[39] Coffee prices were up 33.3% year on year in July, while chocolate prices were up 21.7%.

[40] Prices of fresh or chilled fruit in June of this year were up 8.3% on the previous month, but were down 6.7% on their average June level between 2005 and 2024. Prices of fresh or chilled vegetables in July of this year were down 1.4% on the previous month, and down 6.9% on their average July level between 2005 and 2024.

[41] As described in the decrees setting excise duties on tobacco products and on alcohol and alcoholic beverages.

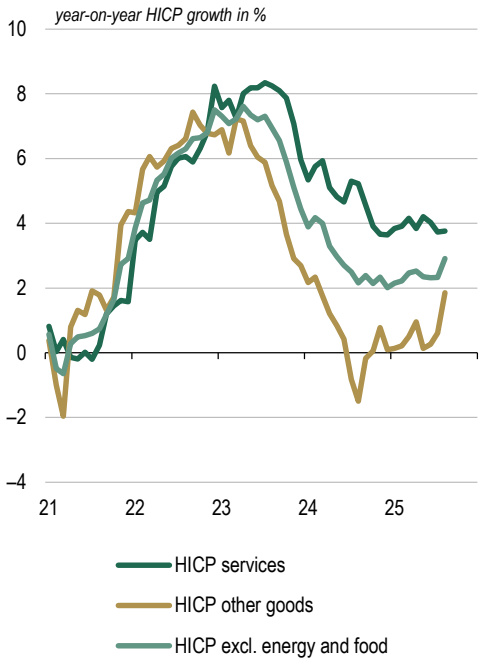
[42] The aggregate impact also includes a rise in the tax rate on sugar-sweetened beverages from 9.5% to 22% in January of this year.

Inflation excluding energy and food prices remains relatively stable, despite divergent developments across subcomponents.

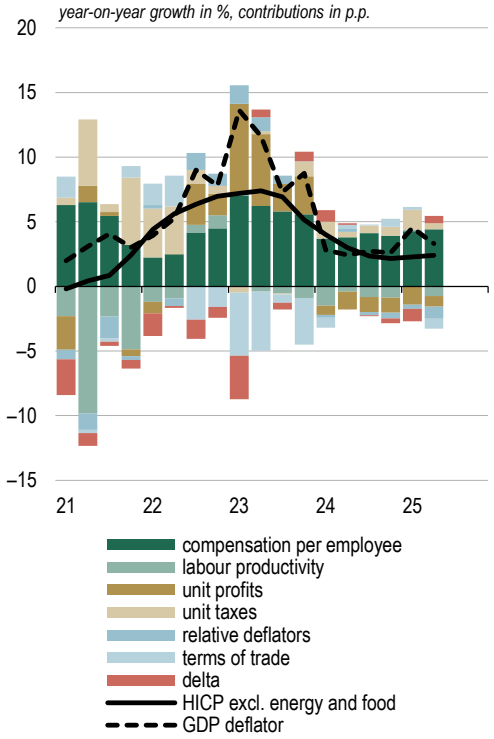
Core inflation, i.e. inflation excluding energy and food prices, rose to 2.9% in August, having stood at 2.3% since May of this year (see Figure 6.3, left). The increase was driven almost entirely by prices of non-energy industrial goods (hereinafter: other goods), which were up 1.8% year on year in August, from 0.6% in July. This mainly reflected a one-off base effect caused by the unusually sharp decline in clothing and footwear prices in August of last year. Nevertheless, underlying cost pressures remain subdued. The manufacturing sector continues to face challenging conditions, particularly uncertain international environment reflected in weak external demand.

Figure 6.3: **Core inflation**

Core inflation and its subcomponents



Decomposition of core inflation



Sources: SURS, Eurostat, Banka Slovenije calculations. Latest data, left chart: August 2025; latest data, right chart: Q2 2025.
Note: Owing to the approximation of growth using logarithms, the sums of the contributions may deviate from the observed core inflation rate. The analysis uses seasonally and calendar-adjusted national accounts data. The methodology was presented in Box 8 of the June 2020 issue of the Macroeconomic Projections for Slovenia.

Services inflation remained robust at 3.7%, broadly unchanged since October last year. It continues to be supported by relatively strong wage growth,[43] underpinning private consumption growth. Indeed, services recorded the strongest private consumption growth across sectors in the second quarter of the year. Moreover, persistent services inflation is also reflected in firms' short-term expectations for selling prices and in rising producer prices of services. However, a relatively stable aggregate figure conceals heterogeneous developments across subcategories. Growth in prices of restaurants and hotels, which account for 30% of all services, rose from 4.4% in March to 6.4% in August. These dynamics likely reflect both high food inflation as well as wage pressures stemming from labour shortages, which are passed through to consumer prices given

[43] Real growth in compensation per employee calculated using the GDP deflator stood at 3.5% in the second quarter, while real growth in ULCs stood at 2.3%.

the sector's high labour intensity.[44] Labour costs growth thus remained the main driver of core inflation in the second quarter, while productivity gains had a moderating effect, alongside the widening gap between import and export price growth (see Figure 6.3, right).

7 Fiscal Position

The consolidated general government deficit widened as growth in revenues slowed and the wages reform began its implementation.

The consolidated general government deficit over the first seven months of the year amounted to EUR 1,081 million. It was EUR 603 million wider in year-on-year terms. The main increases were in the deficits in the state budget and at the ZZZS, the latter in the wake of a smaller transfer from the state budget. The state budget deficit increased despite a reduction in the size of the extraordinary one-off measures.[45]

Consolidated general government revenues over the first seven months of the year were up 5.1% in year-on-year terms. The rate of growth was considerably slower compared with last year. The key factors were the adverse impact of corporate income tax settlements (a high base from 2024), and the temporary impact of last year's change of supplemental health insurance contribution into a compulsory contribution (see Figure 7.1, left). Growth in social security contributions nevertheless remained solid (at 7.2%) amid robust wage growth and only a slight fall in employment, and accounted for more than half of the nominal increase in revenues from taxes and contributions.[46] Growth in personal income tax revenues slowed to 5.6% in the wake of adjustments of tax bands and allowances. By contrast, aggregate revenues have increased this year as a result of the first payments of the temporary (five-year) tax on total assets of banks (for 2024), which is a source of funding for the National Reconstruction Fund. Growth in revenues from taxes on goods and services was relatively solid at 4.2%. Revenues from excise duties were down slightly in year-on-year terms, while revenues from environmental levies for carbon dioxide emissions increased, as did the associated load. Revenues from EU funding were down.

Consolidated general government expenditure in the first seven months of the year was up 8.8% in year-on-year terms (see Figure 7.1, right). The largest factor was expenditure on wages and contributions for public-sector employees, which was up 12.4%, in

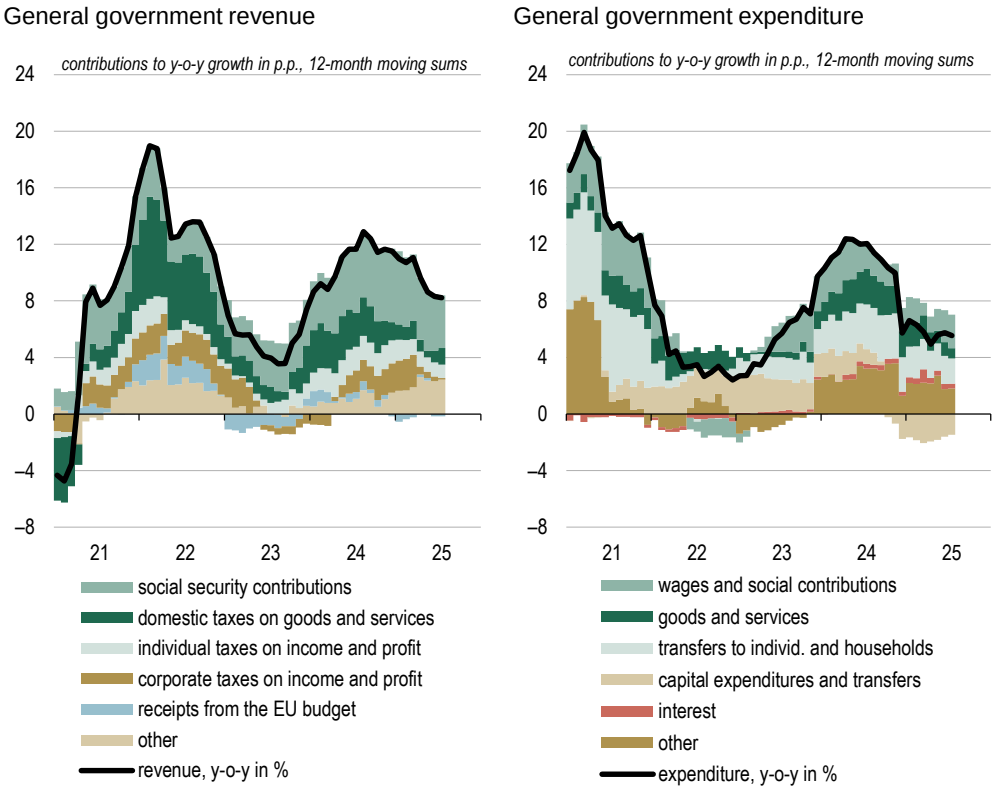
[44] Despite easing, the vacancy rate in accommodation and food service activities, together with that in construction, was much higher than in other sectors. It stood at 4.1% in the second quarter, compared with the overall rate of 2.1% in all sectors. Year-on-year wage growth stood at 5.6% in the first half of the year in accommodation and food service activities, and 5.5% in the private sector overall.

[45] Financing of the post-flood reconstruction and measures related to energy prices and, to a lesser extent, to Covid-19 added EUR 292 million to the state budget deficit over the first seven months of last year according to the Fiscal Council data, but just EUR 21 million this year, with the post-flood reconstruction being financed this year by the National Reconstruction Fund. This recorded inflows of EUR 228 million over the first seven months of the year, and withdrawals of EUR 103 million. The overall surplus at the budget funds stood at EUR 1,655 million at the end of July of this year according to Ministry of Finance data, up EUR 90 million on the end of last year. The largest balance (EUR 656 million) was recorded by the National Reconstruction Fund.

[46] The second half of this year has seen the initial payments of the new compulsory contribution for long-term social care, which was first levied on July's wage payments and pensions. Employees and employers pay 1% of the gross wages, pensioners pay 1% of their net pension, and self-employed people and farmers with a registered business activity pay 2% of their wages. For more, see: Contribution for long-term social care | GOV.SI

consequence of the implementation of the wages reform at the beginning of the year, a rise in wages in June of last year, and promotions at the end of last year. There were also increases in interest payments, and in transfers to the budget funds.[47] The scaling-back of extraordinary one-off measures reduced growth in expenditure on goods and services and in subsidy payments. Transfers to individuals and households, which account for more than a third of total expenditure, were up 5.6%. The largest factor in this was pensions, whose growth of 7.3% was attributable to the regular pension increase and a rise in the number of beneficiaries. Investment expenditure and transfers were also up in year-on-year terms.

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



Sources: Ministry of Finance, Banka Slovenije calculations. Latest data: July 2025

Budget documents for 2026 and 2027 are under preparation, and are scheduled to be approved by the government by the end of September. The medium-term objective of general government debt sustainability and general government deficit below 3% of GDP remain key determinants of fiscal policy. Given the uncertain international situation, it will be crucial to ensure a stable situation in the public finances. This improved after the pandemic, but structural challenges remain. The most notable of the numerous pressures on the public finances come from the need for a rise in defence spending,[48] demographic developments, the green transition, and the ongoing post-flood reconstruction. A number of reforms (pensions, healthcare, long-term social care) are in the process of being adopted or implemented, and will have an impact on public finance developments and the long-term sustainability of social welfare systems.

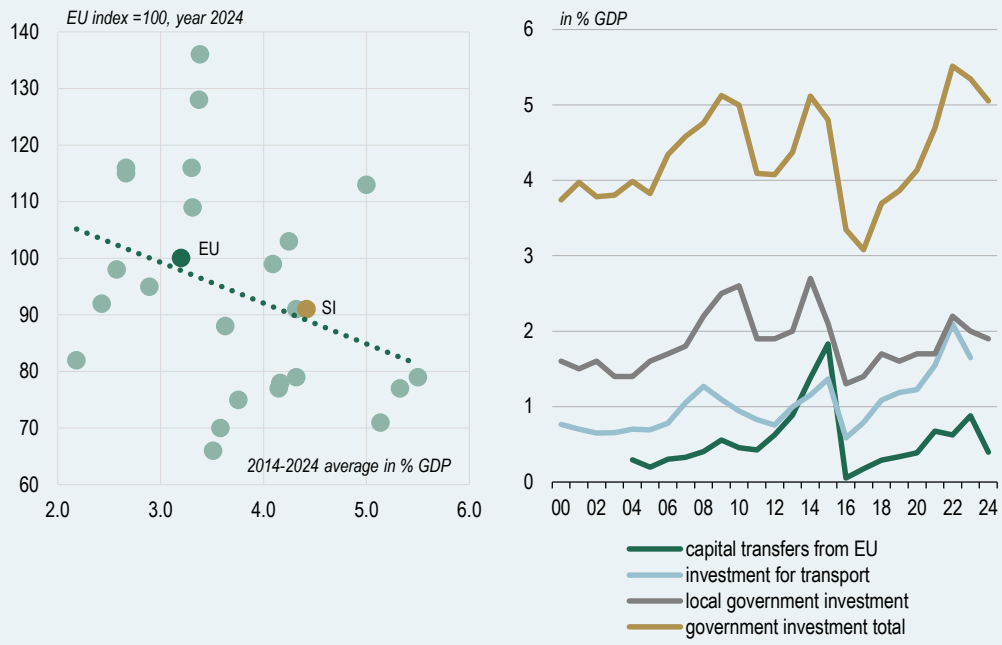
[47] A budget fund is a special account within the budget that is used for the separate monitoring of revenues and expenditures for a specific purpose, namely that for which the fund was established. There are 11 such budget funds in Slovenia. Currently the largest holdings of available assets are at the National Reconstruction Fund and the Climate Fund.

[48] For more on government investment (including in defence), see Box 7.1.

The ratio of government investment to GDP in Slovenia has been higher than the European average over the last decade, and also higher than in countries that are still catching up with average development level in the EU.

Government investment in Slovenia averaged 4.4% of GDP over the last ten years, significantly above the EU average (3.2% of GDP), and also above investment in countries that are still catching up with average development level in the EU.[49] Countries with higher purchasing power generally invest less, given the level of development that they have already reached (see Figure 7.1.1, left).[50] Developments in government investment in Slovenia are largely conditioned by the cycle of funding from the EU, by local elections, and by major government infrastructure projects (see Figure 7.1.1, right).[51] The electoral cycles and the utilisation of EU funding do not always act countercyclically on economic growth, and this is typical also for other countries.

Figure 7.1.1: **Relationship between economic development and government investment by EU Member States, and government investment in Slovenia**



Sources: Eurostat, ECB, SURS, Banka Slovenije calculations
Note: The left chart excludes Ireland (per capita GDP: 211 index points; investment: 2.1% of GDP) and Luxembourg (per capita GDP: 242 index points; investment: 4.2% of GDP).

[49] The countries in the EU whose average per capita GDP at PPP had not yet reached the average of the EU in 2024, and that had a higher level of government investment than Slovenia (4.4% of GDP) over the preceding decade were Estonia (5.5% of GDP), Hungary (5.3% of GDP) and Latvia (5.1% of GDP). Among the more advanced economies, only Sweden has invested more (5.0% of GDP).

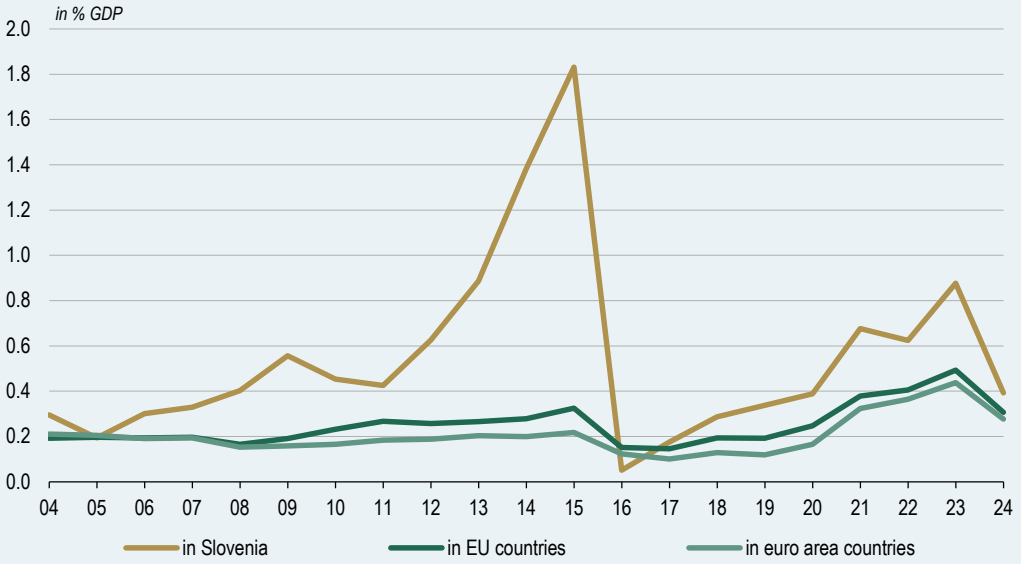
[50] For more on the structure of economic growth in connection with investment, see Radovan and Zorko (2025): Challenges facing the Slovenian economy in terms of the structure of GDP growth and technological complexity.

[51] We also wrote about the link between investment and European co-financing in the October 2023 issue of the Review of macroeconomic developments.

Developments in government investment largely follow the cycle of disbursements of EU funding, which in recent years has also included the funding for post-pandemic recovery.

EU financial resources account for a minor part of government investment – averaging close to 9% since 2016 together with funding from the national recovery and resilience plan (RRP) – but they nevertheless have a significant impact on its trajectory. In general the utilisation of EU funding for the purposes of investment in the government sector gradually rises as the end of the financial framework approaches, and falls at the beginning of the next framework. The cycle was usually slightly more pronounced in Slovenia than at the EU average, which is also the case for other newer EU Member States. The gap was wider during the 2007 to 2013 financial framework than during the 2014 to 2020 framework, as Slovenia had more funding available at that time. As a result of the launch of the EU recovery and resilience facility, whose primary aim was rebooting the economy after the pandemic, utilisation of EU funding increased after 2021, but the programme will end in 2026 (see Figure 7.1.2).

Figure 7.1.2: **Capital transfers from the EU to the government sector**

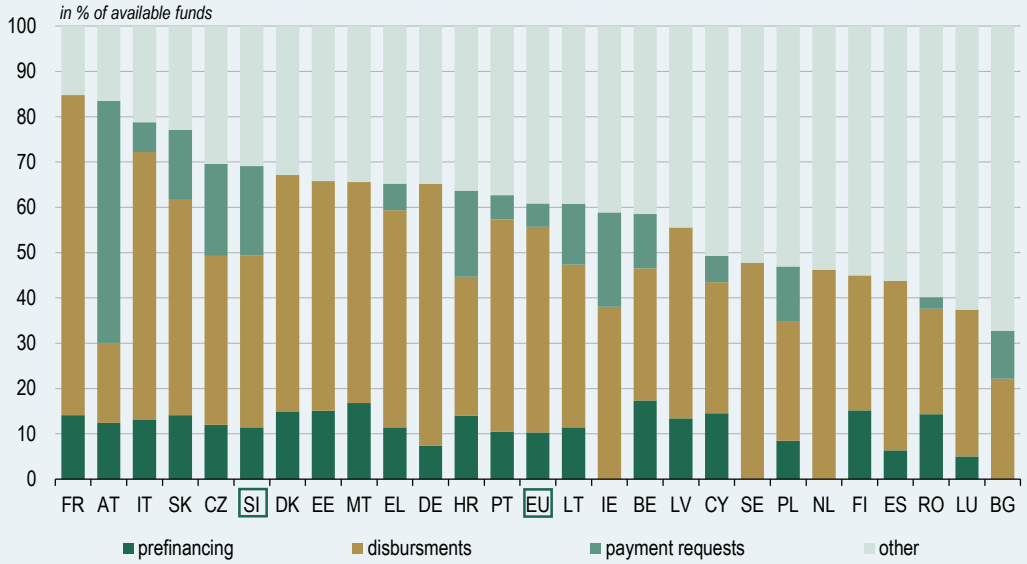


Source: ECB

According to the latest data, Slovenia outperforms the EU average in its utilisation of RRP funding, having regard for the applications submitted (see Figure 7.1.3).[52] Slovenia had utilised 49% of its available funding by the end of 2024. In light of the applications submitted, the expectation is that close to 70% of the funding will have been utilised by autumn of this year.

[52] The latest update to Slovenia's RRP is taken into account. This was proposed for the sake of timely completion of projects, and was confirmed by the Council of the EU in June 2025. The amount of loans was reduced from EUR 1.07 billion to EUR 613 million, while the amount of grants remained at EUR 1.61 billion.

Figure 7.1.3: **RRP disbursments**



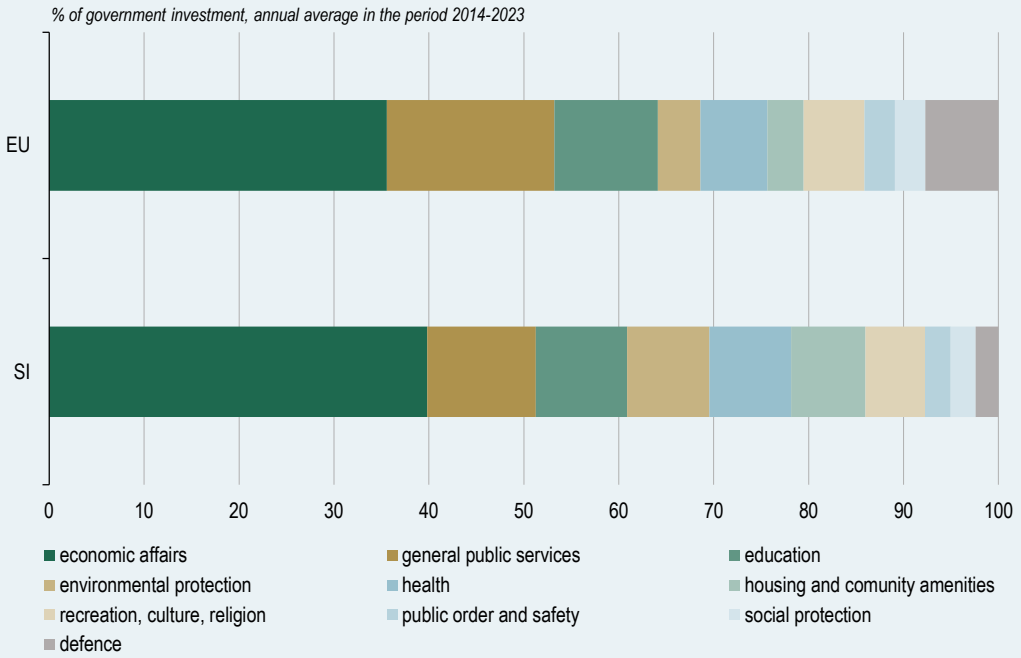
Source: European Commission. Latest data: August 2025
Note: The country abbreviations are explained in the list of abbreviations at the end of the publication.

The largest component of government investment in Slovenia is earmarked for transport, while the smallest is for defence.

According to the functions of government (COFOG), the largest share of government investment over the last ten years has gone to economic affairs, which includes transport (e.g. roads, railways).[53] Around 40% of all government investment was earmarked for this area on average each year (EU: 36%). The next two most important areas in Slovenia and in the EU were general public services (11% in Slovenia and 18% in the EU), and education (10% in Slovenia and 11% in the EU). The largest share of investment in general public services went on research (e.g. at government agencies and institutes), while the largest share in education went to primary and secondary schools, which have the largest number of users. Defence ranks fourth in the EU in terms of the size of investment expenditure, while in Slovenia since 2010, i.e. after the economic and financial crisis and the banking crisis, which were then followed by other shocks (pandemic, energy crisis, floods), it has slid from fifth place to tenth and last place (see Figure 7.1.4). Environmental protection and health are also important categories in Slovenia. The top five categories account for almost 80% of all government investment. Alongside economic affairs, Slovenia earmarks a larger share of government investment than the EU average for environmental protection, housing and community amenities, and health, and less than the EU average for general public services and for defence, as stated earlier. The shares earmarked for other areas are similar.

[53] For more information about COFOG, see the methodological note on government expenditure by function, the overview of the classification or the United Nations paper. Data is available up to 2023 inclusive

Figure 7.1.4: **Government investment by function**



Sources: Eurostat, SURS, Banka Slovenije calculations

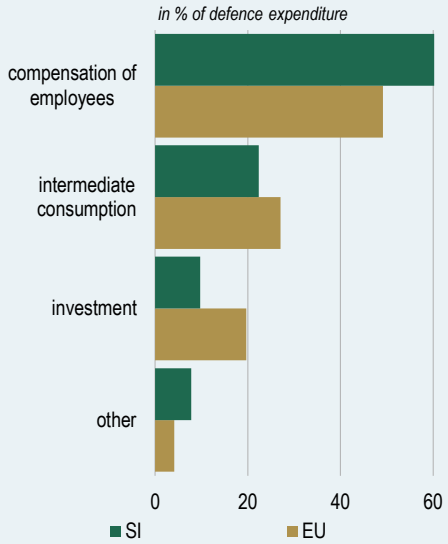
Some EU Member States have begun to increase their defence spending since the outbreak of the war in Ukraine, with labour costs making up the largest component everywhere.

Slovenia has earmarked an average of 1% of GDP for defence each year over the last decade, compared with 1.2% of GDP in the EU overall. The largest component in this spending was employee compensation (around 60% in Slovenia, 49% in the EU), followed by expenditure on intermediate consumption (22% in Slovenia, 27% in the EU) and investment (10% in Slovenia, 20% in the EU) (see Figure 7.1.5, left). The ratio of defence spending to GDP began to rise in the EU with the outbreak of the war in Ukraine in 2022, most notably in the Baltic states and other countries close to Russia, while this year major investment has also been announced by Germany and France of the larger countries. Defence spending in Slovenia amounted to 1.2% of GDP between 2021 and 2023, and recorded nominal growth of 20% in 2023, significantly above its ten-year average (9%). According to NATO methodology and the latest data, defence spending in many countries has not yet reached the alliance's previous target level set in 2014, which was 2% of GDP (see Figure 7.1.5, right).[54] The new target adopted in June of this year of 5% of GDP by 2035 (of which at least 3.5% of GDP is for fundamental defence purposes, and up to 1.5% of GDP is for dual use) will therefore be more challenging for some, including Slovenia.

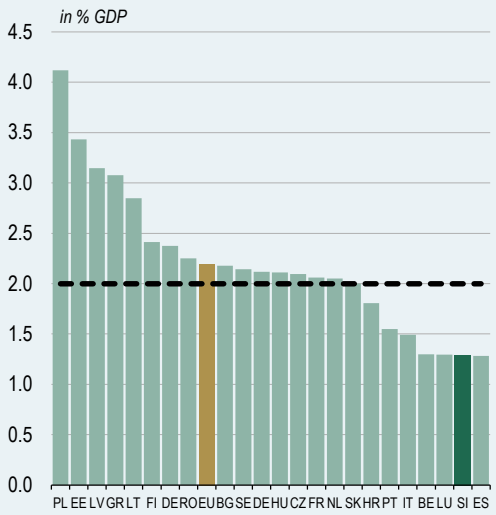
[54] Owing to differences in the methodology of recording defence spending between NATO and COFOG (used in this box), estimates of defence spending differ slightly. The differences arise mainly on account of spending being captured under the principle of paid realisation (cash) according to the NATO methodology, while the COFOG methodology records spending when the goods are received (accrual). The data in Figure 7.1.5, right is taken from NATO's latest release from June 2024.

Figure 7.1.5: **Defence spending**

Structure of defence expenditure in the period 2013–2023



Defence expenditure in EU countries NATO member states, year 2024



Sources: Eurostat, NATO, Banka Slovenije calculations
Note: Defence spending is disclosed according to the ESA methodology in the left chart, and according to NATO methodology in the right chart. The NATO target of 2% was adopted in 2014, and is denoted in the figure by the dashed line. The country abbreviations are explained in the list of abbreviations at the end of the publication.

In light of the need for higher defence spending, temporary deviations from the fiscal rules were allowed, including for Slovenia.

The European Commission published a white paper on defence and its ReArm Europe plan in March of this year. They will ease the pressure on the public finances faced by governments as a result of the need to raise defence spending.[55] In line with the proposals under the aforementioned plan, a number of EU Member States including Slovenia have requested a deviation from the fiscal rules, and the Council of the EU has approved the requests.[56] The allowed deviation from the fiscal constraints under the medium-term fiscal-structural plan with regard to raising net government expenditure is up to 1.5% of GDP for annual defence spending during the 2025 to 2028 period, where 2021 is the base year. The rise in defence spending in Slovenia will proceed in line with the adopted resolution, which means that it should reach 2% of GDP this year, and 3% of GDP by 2030. At least 20% of defence spending must be earmarked for investment, and at least 2% for research and development.[57]

[55] The EU's ReArm Europe plan is set to facilitate an increase of up to EUR 800 billion in defence spending over the period to 2028. It envisages the possibility of activating national escape clauses for the purpose of increasing defence spending (up to EUR 650 billion), and the introduction of financing of this spending via favourable long-term loans (the Security Action for Europe or SAFE instrument; up to EUR 150 billion), and recommends the use of cohesion funding for this purpose, EIB loans, and incentives to activate private capital. More about the white paper on defence and the ReArm Europe plan can be found at Commission unveils the White Paper for European Defence and the ReArm Europe Plan/Readiness 2030.

[56] In July of this year the Council of EU approved deviations from the fiscal rules for 15 EU Member States: Belgium, Bulgaria, Croatia, Czechia, Denmark, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Slovakia and Slovenia. Council activates flexibility in EU fiscal rules for 15 member states to increase defence spending - Consilium

[57] The Resolution on the overall long-term programme for the development and equipping of the Slovenian Armed Forces until 2040 was published in the Official Gazette of the Republic of Slovenia (No. 43/25). Uradni list content | Uradni list

8 Selected Theme

8.1 Differences in foreign trade statistics

Major discrepancies between the statistics of foreign trade, the balance of payments and the national accounts have been evident since 2018, due to differences in their methodologies.

Data on merchandise imports and exports, i.e. merchandise trade, appears in statistics on three occasions: in SURS publications in the area of foreign trade and national accounts, and in Banka Slovenije publications in the area of the balance of payments. Owing to differences in methodology and data capture between the individual statistics, differences arise in the disclosed values. Banka Slovenije's balance of payments data is an input in the national accounts statistics, for which reason clear differences are maintained solely between the SURS foreign trade statistics and the balance of payments statistics.

The foreign trade statistics provided by the SURS include data on merchandise imported from other countries and exported to other countries by Slovenia. Here the main criterion is the crossing of the national border. The data is collated via the Intrastat (trade between EU Member States) and Extrastat (trade with non-EU countries) systems. The first is based on direct reporting by firms, and the second on customs declarations (administrative sources).

In the national accounts data on merchandise trade appears mainly in the calculation of GDP according to the expenditure method, as imports and exports of merchandise and services. The ESA (European System of Accounts) 2010 methodology is used.

Data on merchandise trade in the balance of payments, which is provided by Banka Slovenije, is prepared in accordance with the sixth edition of the Balance of Payments Manual (BPM6), which is methodologically aligned with the European System of Accounts. Merchandise trade data is thus fully aligned in the balance of payments and the national accounts. Differences may arise solely on account of differences in revision policy and time discrepancies. There are several methodological differences between the disclosures of merchandise trade in the balance of payments and in foreign trade, but the main ones (see Figure 8.1.1) are as follows:

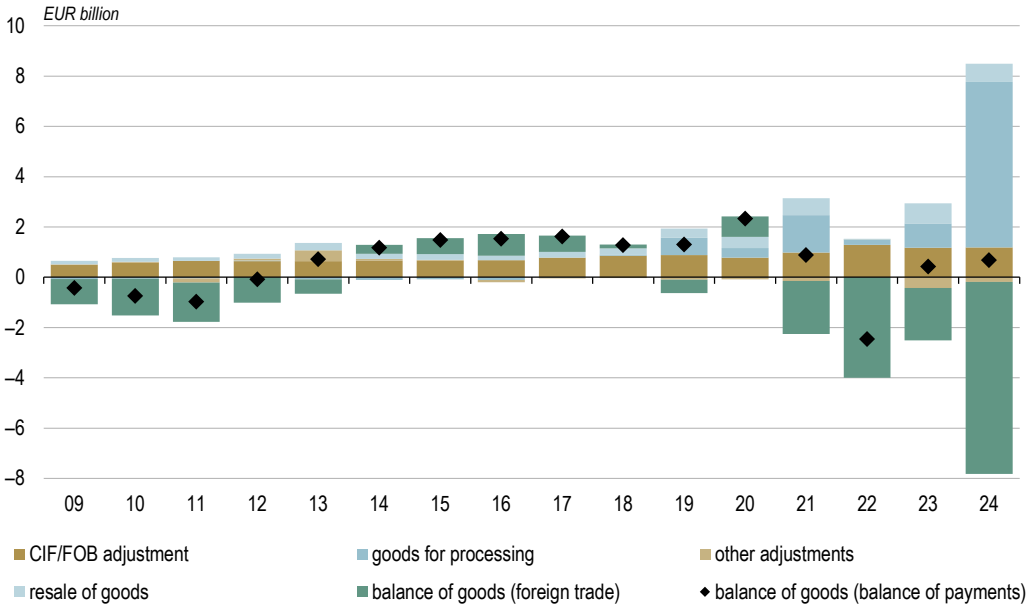
- merchandise trade in the balance of payments is based on a change of ownership between two economic entities;
- in foreign trade exports are disclosed FOB, and imports are disclosed CIF,[58] while both are disclosed FOB in the balance of payments;
- merchandise trade in the balance of payments does not include operations involving processing, because that is part of services trade;[59]

[58] FOB and CIF are Incoterms parities at which goods are valued. FOB means free on board, while CIF means cost, insurance and freight. The parity definitions are given (in Slovene) in https://www.izvoznookno.si/mednarodno-poslovanje/incoterms/.

[59] Operations involving processing of goods owned by other persons covers processing, assembly, labelling, packaging, wrapping and similar services, and is conducted by firms who are not the owner of the goods undergoing processing. Processing is therefore conducted by a person who is not the owner of the goods, but who receives a payment from the owner of the goods for the work performed.

- balance of payments data include purchases and sales of goods of residents of Slovenia in third countries (without crossing of the Slovenian border) and forwarding of goods,[60] which foreign trade does not capture;
- balance of payments data also include other goods not captured in foreign trade statistics, such as purchases of fuel by Slovenian road haulage operators abroad and by foreign road haulage operators in Slovenia, and online purchases of goods by individuals.

Figure 8.1.1:
Decomposition of differences between merchandise trade in the balance of payments and foreign trade statistics



Source: Banka Slovenije

Divergences between statistics have increased over the years. The deviation is greatest in exports of pharmaceutical products and imports of organic chemicals.

According to foreign trade statistics, merchandise exports in 2024 were up 99.6% on 2018, while imports were up 125.6%. The growth was considerably more moderate according to the national accounts[61] and the balance of payments data: exports were up 40.4%, and imports were up 43.3% or 44.0%.

The divergence caused by the different data capture methodologies is particularly pronounced in imports and exports of chemical products. The opening of a major logistics centre for pharmaceutical products in late 2018 led to a noticeable increase in Slovenia's imports and exports of chemical products, which has had a significant impact on the rise in crossings of the national border by these products. This is evidenced in particular in the foreign trade statistics, as these also include inward and outward processing. According to these statistics chemical products accounted for almost a third of total merchandise imports and exports between 2018 and 2024,[62] while according to balance of payments data they accounted for an average of 14% of total merchandise

[60] Net values are taken into account in merchandise exports in the balance of payments.

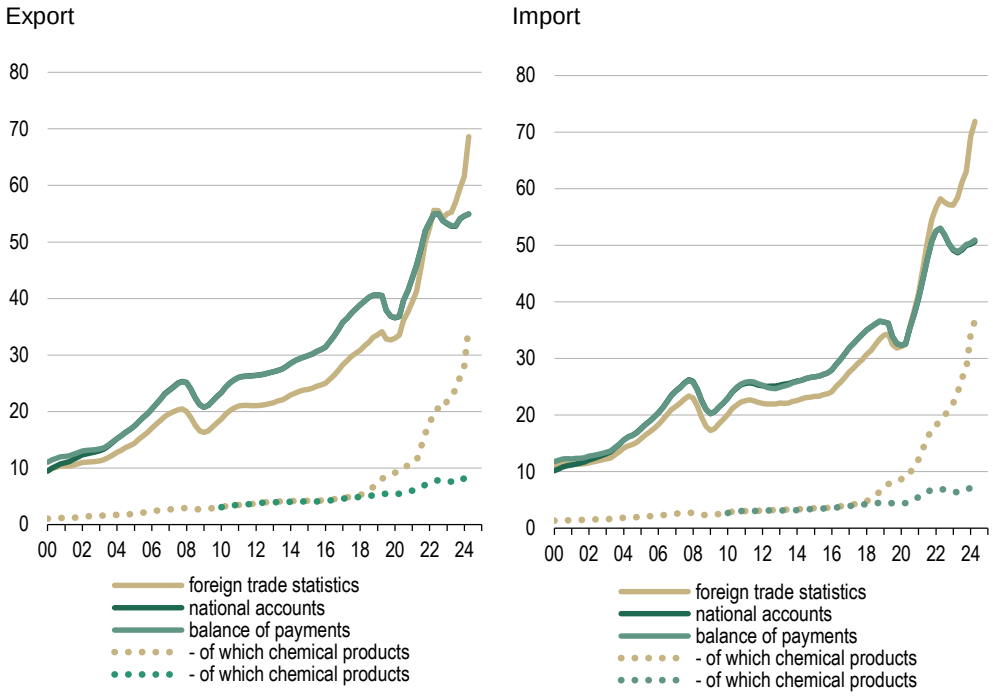
[61] The comparison is given in current prices using original (unadjusted) data.

[62] Pharmaceutical products accounted for more than 80% of category of chemical products on the export side between 2018 and 2024 according to the foreign trade statistics, and 40.6% on the import side, while organic chemicals accounted for 40.4% on the import side.

imports and exports over this period.[63] A comparison of the absolute amounts shows that imports and exports of chemical products according to the foreign trade statistics were up EUR 22.8 billion and EUR 29.6 billion respectively over the observation period (see Figure 8.1.2). The rises according to the balance of payments data were significantly smaller, at EUR 2.8 billion for imports and EUR 3.3 billion for exports.

Divergences in the statistics for chemical products have also strengthened over the years. Last year the difference between imports according to the foreign trade statistics and according to the balance of payments data had reached EUR 27.2 billion, while the difference in the export figures was EUR 19.9 billion. Already in the first quarter of this year, the difference between the import figures amounted to EUR 7.7 billion, while the difference in the export figures was EUR 11.0 billion. The largest divergences are seen in imports of organic chemicals and exports of pharmaceutical products.[64]

Figure 8.1.2: **Foreign trade according to different methodologies**



Sources: SURS, Banka Slovenije. Latest data: Q1 2025

According to foreign trade statistics, Slovenia's largest trading partner for chemical products is Switzerland. However, according to the balance of payments data, most of these products are exported to Russia and imported from Germany.

Significant divergences also arise in the geographical breakdown of merchandise trade. According to the SURS foreign trade statistics, Slovenia's largest merchandise

[63] The largest component in imports and exports in the category of chemical products between 2018 and 2024 according to the balance of payments statistics was pharmaceutical products, accounting for 35.2% and 60.5% of the total respectively.

[64] The difference between the figure according to the foreign trade statistics and the figure according to the balance of payments data amounted to EUR 20.0 billion for imports of organic chemicals in 2024, and to EUR 19.8 billion for exports of pharmaceutical products.

exports last year were to Switzerland (33.6% of the total),[65] almost all of which consisted of chemical products, which accounted for 97.6% of total merchandise exports. Switzerland is Slovenia's most important export market for chemical products according to the aforementioned data source, accounting for 72% of these exports.[66]

By contrast, according to balance of payments data, Slovenia's largest merchandise exports last year were to Germany[67] (17.4% of total merchandise exports), and Switzerland was only in 12th place with a share of 2.3%.[68] According to this source, the largest exports of chemical products were to Russia (11.3% of the total), primarily medical and pharmaceutical products (see Figure 8.1.3, left).

Similar divergences arise on the import side. According to the SURS foreign trade statistics, Slovenia's largest trade last year was with Switzerland,[69,70] which accounted for 23.3% of its total merchandise imports. Almost all of this (98.9%) consisted of chemical products, in which the most important components were organic chemicals and medical products (55% and 45% of all chemical products from Switzerland respectively).

By contrast the balance of payments data shows that Germany[71] was Slovenia's largest import partner last year (with 17.7% of total merchandise imports), while Switzerland was ranked fifth with a share of 5.2%. According to this source, the largest imports of chemical products also came from Germany, which accounted for 19.8% of the total (see Figure 8.1.3, right).

In geographical terms the largest divergences between the compared statistics arise in trading with Switzerland. The mismatch between the foreign trade statistics and the balance of payments data arises from the large share of operations involving processing, where goods physically cross the border (and are therefore captured in foreign trade statistics) but do not change ownership (and are therefore excluded from balance of payments data). Usually the value added of operations involving processing is lower, as the firm generates value added only from the processing services provided (employee compensation, energy costs, margin). These transactions can contribute to employment, but jobs of this kind are usually labour-intensive and less productive.

[65] It was followed by Germany with 11.9%, and Croatia with 7.7%.

[66] Medical and pharmaceutical products accounted for 99.3% of exports of chemical products to Switzerland in 2024.

[67] It was followed by Croatia with 11.5% and Italy with 10.4%.

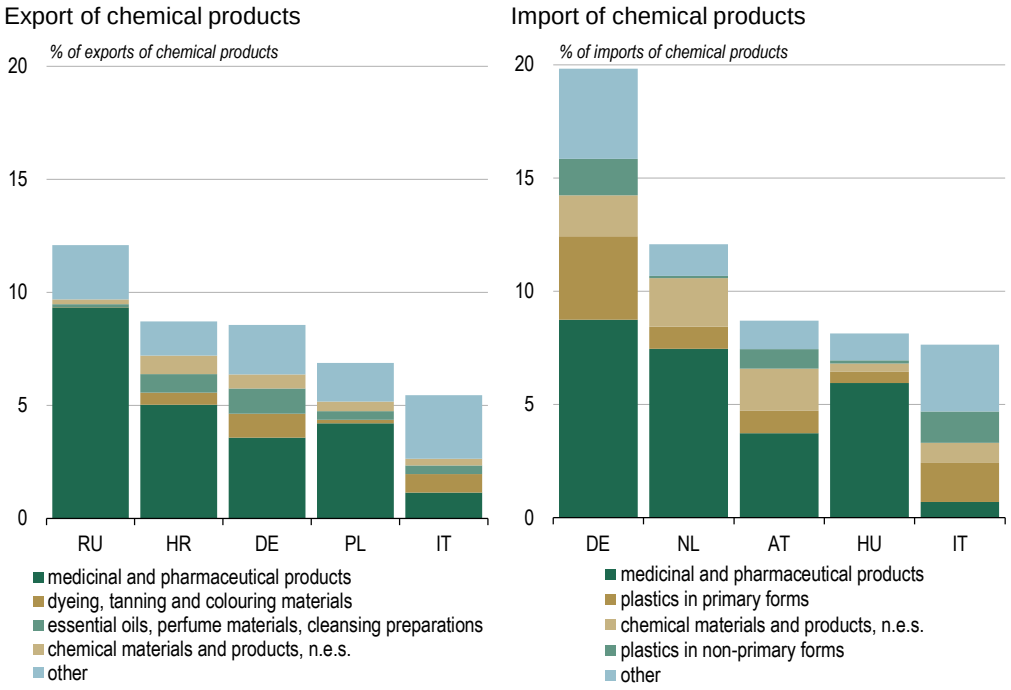
[68] Merchandise exports to Switzerland primarily consisted of chemical products, although the share was slightly smaller (43.2%) and the total value significantly smaller than according to the foreign trade statistics.

[69] It was followed by imports from Germany (10.6%) and China (10.1%).

[70] Imports of chemical products (more precisely, organic chemicals) from China began to increase significantly since the second half of 2021, and from India since the second half of 2023, both of which have become increasingly important trading partners for Slovenia in this segment (according to foreign trade statistics).

[71] According to the balance of payments data it was followed by imports from Italy (13.5%) and Austria (9.8%).

Figure 8.1.3: **Foreign trade in chemical products in 2024**



Source: Banka Slovenije
Note: The country abbreviations are explained in the list of abbreviations at the end of the publication.

The divergences between different external trade statistics reflect differences in methodology and the treatment of transactions, which is important to consider when interpreting patterns and developments.

The foreign trade statistics and the balance of payments data serve different purposes, and meet different needs on the part of users. The foreign trade statistics are the most suitable source of information when there is a need for detailed data on international merchandise trade. They disclose data broken down by product, sector and destination, which allows for analysis of which sectors (or products) are responsible for the largest exports, and for investigation of the breakdown of imports and exports by product. Data on quantities is provided in addition to the value of the trade. If this data is linked to corporate accounting data such as value-added and number of employees, it is for example possible to calculate the share of exports per employee, to examine the impact of exports on employment and productivity, and to carry out numerous other kinds of analysis.

When the user does not need information about international transactions for merchandise only, but also for services, the balance of payments is a suitable information source. It measures cash flows in imports and exports, but not physical quantities, and detailed data broken down by product and by destination is not published for merchandise.

The balance of payments data are better suited for monitoring economic activity, in that it is methodologically aligned with the national accounts statistics. These allow for the monitoring of developments in GDP, for which reason the balance of payments data is also used in analysis of the external balance and sustainability. They are primarily a resource for monitoring the current account, analysing the impact of actual imports and exports on economic activity, assessing the ratio between export revenues and import expenditures, etc.

9 Statistical Appendix

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

	2023	2024	12 m. 'till Jun. 25	3 m. 'till Jun. 24	3 m. 'till Jun. 25	2025 Apr.	2025 May	2025 Jun.	2025 Jul.	2025 Aug.
Economic Activity					balance of answers in percentage points					
Sentiment indicator	–3.8	–2.7	–2.7	–1.9	–2.8	–2.7	–2.0	–3.8	–3.3	–2.5
- confidence indicator in manufacturing	–8.3	–7.8	–7.6	–7.3	–8.0	–7.0	–8.0	–9.0	–7.0	–6.0
					year-on-year growth rates in %					
Industry: - total	–4.9	–1.2	–0.5	–3.2	–3.0	–4.4	–0.2	–4.3	...	...
- manufacturing	–3.7	1.1	0.3	–0.7	–2.1	–3.7	–0.2	–2.3	...	...
Construction: - total	19.4	–9.4	–7.3	–10.9	3.5	–2.5	3.7	9.3	...	...
- buildings	10.5	–12.6	–6.6	–13.5	10.5	2.3	15.9	12.8	...	...
Trade and service activities - total	0.4	1.9	1.2	1.8	1.0	0.0	0.8	2.1	...	...
Wholesale and retail trade and repair of motor vehicles	11.5	6.7	4.5	7.9	6.8	2.6	8.2	9.7	...	...
Retail trade, except of motor vehicles and motorcycles	–4.6	0.7	1.7	0.8	2.1	1.9	2.0	2.5	...	...
Other private sector services	2.5	1.5	0.3	2.1	–0.3	–2.6	–0.3	1.9	...	...
Labour market					year-on-year growth rates in %					
Average gross wage	9.7	6.2	6.6	5.9	7.3	7.6	7.1	7.4	...	...
- private sector	9.4	7.1	5.9	7.4	5.5	5.4	4.9	6.0	...	...
- public sector	10.3	4.6	7.6	3.1	10.6	11.4	11.0	9.4	...	...
Real net wage[1]	4.0	1.8	3.7	1.0	5.0	5.2	5.1	4.6	...	...
Registered unemployment rate (in %)	5.0	4.6	4.6	4.5	4.4	4.5	4.4	4.3	...	...
Registered unemployed persons	–14.0	–5.6	–3.4	–6.5	–2.1	–1.9	–2.0	–2.2	–1.3	...
Persons in employment	1.3	1.1	0.2	1.3	–0.4	–0.4	–0.5	–0.4	...	...
- private sector	1.4	1.1	–0.0	1.3	–0.9	–0.9	–1.0	–0.9	...	...
- public sector	0.9	1.2	1.0	1.3	1.0	0.9	1.0	1.0	...	...
Price Developments					year-on-year growth rates in %					
HICP	7.2	2.0	1.7	2.4	2.2	2.3	1.9	2.5	2.9	3.0
- services	7.7	4.8	4.2	4.9	4.0	3.8	4.2	4.0	3.7	3.8
- industrial goods excluding energy	5.4	0.6	0.1	0.8	0.4	1.0	0.1	0.3	0.6	1.8
- food	11.8	1.9	3.1	1.0	5.5	5.4	4.9	6.1	7.1	6.8
- energy	2.2	–2.3	–4.3	1.7	–4.8	–4.4	–6.4	–3.6	–1.6	–3.8
Core inflation indicator[2]	6.7	2.9	2.3	3.0	2.4	2.5	2.3	2.3	2.3	2.9
Balance of Payments - Current Account					in % GDP					
Current account balance	4.8	4.6	3.5	4.0	1.7	5.6	1.9	–2.5	...	...
1. Goods	0.9	0.6	–0.2	–0.0	–1.9	1.2	–2.2	–4.5	...	...
2. Services	5.7	5.6	5.4	5.2	5.4	5.7	5.1	5.4	...	...
3. Primary income	–1.1	–1.1	–0.8	–1.0	–0.9	–0.5	–0.3	–2.0	...	...
4. Secondary income	–0.7	–0.5	–0.9	–0.2	–1.0	–0.8	–0.6	–1.5	...	...
					nominal year-on-year growth rates in %					
Export of goods and services	–0.3	2.1	4.1	–0.6	0.3	0.3	–0.6	1.3	...	...
Import of goods and services	–6.2	2.5	4.4	4.2	2.4	–1.0	1.5	6.8	...	...

Public Finances	**2023**	**2024**	**12 m. 'till Jul. 25**		**2024 Jan.–Jul.**		**2025 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	25,035	27,918	42.5	8.2	15,446	10.7	16,240	5.1
Tax revenue	21,977	24,547	37.5	7.8	14,001	12.2	14,793	5.7
From EU budget	1,084	1,040	1.4	–4.3	450	–12.4	386	–14.3
Other	1,974	2,331	3.5	19.6	995	3.2	1,061	6.7
Expenditure	27,308	28,871	44.8	5.5	15,925	9.4	17,321	8.8
Current expenditure	11,572	12,910	20.3	10.6	7,065	13.4	7,885	11.6
- wages and other personnel expenditure	6,094	6,539	10.4	10.7	3,808	6.7	4,279	12.4
- purchases of goods, services	3,869	4,368	6.6	4.9	2,379	19.4	2,474	4.0
- interest	711	793	1.3	12.4	524	17.2	617	17.6
Current transfers	12,050	12,794	19.7	5.1	7,462	8.5	7,949	6.5
- transfers to individuals and households	9,731	10,397	15.9	5.0	6,138	8.9	6,484	5.6
Capital expenditure, transfers	3,014	2,531	3.8	–14.1	1,043	–1.9	1,083	3.9
GG surplus/deficit	–2,274	–953	–2.3		–479		–1,081	

Sources: SURS, 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. Owing to a change in data source, the series for average wages before 2023 were adjusted on the basis of the growth rates in previous series. (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**

	2022	2023	2024	24Q3	24Q4	25Q1	25Q2	2022	2023	2024	24Q3	24Q4	25Q1	25Q2
				Slovenia							*euro area*			
Economic developments							*q-o-q growth in %*							
GDP				0.3	0.4	–0.7	0.7				0.4	0.3	0.6	0.1
- industry				0.7	–0.0	–1.0	0.3				0.2	0.1	2.0	...
- construction				–2.6	5.2	–3.7	5.1				–0.4	0.6	0.7	...
- mainly public sector services (OPQ)				0.1	3.7	–3.3	1.8				0.7	0.4	0.1	...
- mainly private sector services (without OPQ)				0.4	–0.3	–0.3	0.5				0.2	0.3	0.8	...
Domestic expenditure				–2.5	2.6	0.9	2.5				1.4	0.2	0.4	...
- general government				–1.4	–0.5	–1.0	2.0				0.7	0.5	–0.1	...
- households and NPISH[1]				1.3	1.0	0.9	0.4				0.6	0.4	0.3	...
- gross capital formation				–12.6	9.3	8.3	3.9				4.4	–0.5	1.4	...
- gross fixed capital formation				–3.2	1.0	–0.6	1.9				1.6	0.5	2.7	...
							y-o-y growth in %							
GDP	2.7	2.4	1.7	1.6	1.5	–0.6	0.7	3.5	0.6	0.9	1.3	1.3	1.3	...
- industry	–1.0	6.5	3.8	3.6	3.4	–1.8	–1.6	–0.1	–0.9	–0.4	0.7	–0.9	2.2	...
- construction	1.5	11.8	–3.7	–7.8	1.3	–6.7	3.9	–0.3	1.9	–1.1	–0.9	–0.5	–0.2	...
- mainly public sector services (OPQ)	1.7	0.8	1.8	1.6	1.7	1.5	2.2	2.9	1.2	1.6	1.9	1.9	1.5	...
- mainly private sector services (without OPQ)	5.2	1.1	1.2	1.9	1.8	–0.4	1.0	4.0	0.8	0.8	1.2	0.8	1.1	...
Domestic expenditure	3.9	–0.0	3.3	–0.0	0.1	1.7	3.6	3.8	0.2	0.5	1.4	1.4	1.8	...
- general government	–0.6	2.1	7.3	9.2	5.7	2.3	–0.5	1.1	1.5	2.5	3.0	2.4	1.9	...
- households and NPISH	3.9	–0.0	3.8	1.7	1.2	0.4	3.6	5.0	0.5	1.1	1.3	1.6	1.1	...
- gross capital formation	8.1	–1.6	–1.3	–11.5	–7.6	4.2	7.5	3.8	–1.8	–2.8	0.1	0.0	3.5	...
- gross fixed capital formation	4.7	5.5	–0.3	–8.1	–5.2	–5.6	–0.2	1.9	2.0	–1.8	–1.0	–1.7	2.3	...
- inventories and valuables, contr. to GDP growth in p.p.	0.8	–1.6	–0.2	–0.9	–0.6	2.1	1.7	0.5	–0.9	–0.2	0.2	0.4	0.3	...
Labour market							*q-o-q growth in %*							
Employment				–0.1	–0.1	–0.2	–0.0				0.2	0.1	0.2	0.1
- mainly private sector (without OPQ)				–0.2	–0.2	–0.4	–0.2				0.2	0.1	0.2	...
- mainly public services (OPQ)				0.4	0.3	0.6	0.6				0.4	0.2	0.3	...
							y-o-y growth in %							
Employment	2.9	1.5	0.5	0.0	–0.3	–0.5	–0.4	2.3	1.4	1.0	1.0	0.7	0.7	0.7
- mainly private sector (without OPQ)	3.1	1.5	0.1	–0.4	–0.7	–1.0	–1.0	2.6	1.5	0.8	0.8	0.5	0.5	...
- mainly public services (OPQ)	2.0	1.6	2.0	1.7	1.3	1.7	2.1	1.5	1.3	1.7	1.9	1.5	1.4	...
Labour costs per employee	4.9	9.6	6.2	6.6	5.7	6.9	6.9	4.6	5.3	4.6	4.6	4.1	3.7	...
- mainly private sector (without OPQ)	7.7	9.6	6.5	7.3	6.0	5.6	5.5	5.0	5.5	4.5	4.5	4.1	3.7	...
- mainly public services (OPQ)	–3.3	9.5	5.1	4.1	4.6	11.1	11.4	3.5	4.8	4.8	4.9	4.0	3.8	...
Unit labour costs, nominal[2]	5.2	8.7	4.9	4.9	3.7	7.0	5.7	3.4	6.2	4.7	4.3	3.5	3.1	...
Unit labour costs, real[3]	–1.2	–1.2	1.4	1.9	1.2	4.0	2.3	–1.7	0.4	1.6	1.6	0.9	0.8	...
LFS unemployment rate in %	4.0	3.7	3.7	4.4	3.5	4.0	3.2	6.8	6.6	6.4	6.2	6.1	6.6	...
Foreign trade							*q-o-q growth in %*							
Real export of goods and services				3.0	–2.2	–0.0	–1.5				–1.5	–0.1	2.2	...
Real import of goods and services				–1.5	–0.2	4.1	0.4				0.4	–0.3	2.0	...
							y-o-y growth in %							
Real export of goods and services	7.4	–1.9	2.3	9.5	3.9	0.8	–0.8	7.4	–0.9	0.8	1.8	0.8	2.2	...
Real import of goods and services	9.3	–4.5	4.3	8.0	2.3	3.8	2.7	8.4	–1.7	–0.1	2.1	1.1	3.4	...
Current account balance as % of GDP[4]	–0.9	4.8	4.5	4.5	4.6	4.1	3.5	–0.7	0.0	0.0	0.0	0.0	0.0	...
External trade balance as contr. to GDP growth in p.p.	–1.0	2.4	–1.3	1.8	1.3	–2.3	–2.7	–0.2	0.4	0.5	–0.1	–0.1	–0.4	...
Financing							*in % of GDP*							
Banking system's balance sheet	91.0	84.9	82.9	83.7	83.4	84.3	84.9	273.0	256.2	254.1	253.1	254.1	254.2	...
Loans to NFCs	20.1	17.5	16.3	16.6	16.4	16.6	16.5	36.4	34.1	33.0	33.3	33.0	32.9	...
Loans to households	21.5	19.9	20.1	20.1	20.2	20.3	20.5	48.1	45.4	43.8	44.1	43.8	43.6	...
Inflation							*in %*							
HICP	9.3	7.2	2.0	1.1	1.2	2.1	2.2	8.4	5.4	2.4	2.2	2.2	2.3	2.0
HICP excl. energy, food, alcohol and tobacco	5.9	6.7	2.9	2.3	2.2	2.3	2.4	4.0	5.0	2.8	2.8	2.7	2.6	2.4
Public finance							*in % of GDP*							
Debt of the general government	72.8	68.3	66.6	66.7	67.0	69.9	...	89.5	87.3	87.4	88.0	87.4	88.0	...
One year net lending/net borrowing of the general government[4]	–3.0	–2.6	–0.9	–1.7	–0.9	–1.6	...	–3.5	–3.5	–3.1	–3.2	–3.1	–3.0	...
- interest payment[4]	1.1	1.2	1.3	1.3	1.3	1.4	...	1.7	1.7	1.9	1.9	1.9	1.9	...
- primary balance[4]	–1.9	–1.3	0.4	–0.4	0.4	–0.2	...	–1.8	–1.8	–1.2	–1.3	–1.2	–1.1	...

Sources: SURS, 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 SURS 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 List of abbreviations

Abbreviations

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
GDP	Gross domestic product
BoS	Banka Slovenije
COFOG	Classification of the Functions of Government
ECB	European Central Bank
ECOICOP	European classification of individual consumption by purpose
EA	Euro area
ESA	European System of Accounts
EU	European Union
EUR	euro
Fed	US Federal Reserve System
FURS	Financial Administration of the Rupublic of Slovenia (slo. Finančni urad Republike Slovenije)
HICP	Harmonised index of consumer prices
NATO	North Atlantic Treaty Organization
NFCs	Non-financial corporations
NIJZ	Health Insurance Institute of Slovenia (slo. Nacionalni inštitut za javno zdravje)
RRP	Recovery and Resilience Plan
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight index swap
Opec+	Organization of the Petroleum Exporting Countries
RES	Renewable energy sources
PMI	Purchasing managers' index
ROE	Return on equity
SDH	Slovenian Sovereign Holding (slo. Slovenski državni holding)
CHP	Combined heat and power
SURS	Statistical Office of the Republic of Slovenia (slo. Statistični urad Republike Slovenije)
S&P 500	Standard and Poor's 500
STOXX Europe 600	Main European share index
USD	United States dollar
US	United States of America
ZRSZ	Employment Service of Slovenia (slo. Zavod Republike Slovenije za zaposlovanje)

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

A: Agriculture, forestry and fishing, **01** – Crop and animal production, hunting and related service activities, **02** – Forestry and logging, **03** – Fishing and aquaculture; **B**: Mining and quarrying, **05** – Mining of coal and lignite, **06** – Extraction of crude petroleum and natural gas, **07** – Mining of metal ores, **08** – Other mining and quarrying, **09** – Mining support service activities; **C**: Manufacturing, **10** – Manufacture of food products, **11** – Manufacture of beverages, **12** – Manufacture of tobacco products, **13** – Manufacture of textiles, **14** – Manufacture of wearing apparel, **15** – Manufacture of leather and related products, **16** – Manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials, **17** – Manufacture of paper and paper products, **18** – Printing and reproduction of recorded media, **19** – Manufacture of coke and refined petroleum products, **20** – Manufacture of chemicals and chemical products, **21** – Manufacture of basic pharmaceutical products and pharmaceutical preparations, **22** – Manufacture of rubber and plastic products, **23** – Manufacture of other non-metallic mineral products, **24** – Manufacture of basic metals, **25** – Manufacture of fabricated metal products, except machinery and equipment, **26** – Manufacture of computer, electronic and optical products, **27** – Manufacture of electrical equipment, **28** – Manufacture of machinery and equipment n.e.c., **29** – Manufacture of motor vehicles, trailers and semi-trailers, **30** – Manufacture of other transport equipment, **31** – Manufacture of furniture, **32** – Other manufacturing, **33** – Repair and installation of machinery and equipment; **D**: Electricity, gas, steam and air conditioning supply, **35** – Electricity, gas, steam and air conditioning supply; **E**: Water supply, sewerage, waste management and remediation activities, **36** – Water collection, treatment and supply, **37** – Sewerage, **38** – Waste collection, treatment and disposal activities, materials recovery; **F**: Construction, **41** – Construction of buildings, **42** – Civil engineering, **43** – Specialised construction activities; **G**: Wholesale and retail trade, repair of motor vehicles and motorcycles, **45** – Wholesale and retail trade and repair of motor vehicles and motorcycles, **46** – Wholesale trade, except of motor vehicles and motorcycles, **47** – Retail trade, except of motor vehicles and motorcycles; **H**: Transportation and storage, **49** – Land transport and transport via pipelines, **50** – Water transport, **51** – Air transport, **52** – Warehousing and support activities for transportation; **I**: Accommodation and food service activities, **55** – Accommodation, **56** – Food and beverage service activities; **J**: Information and communication, **58** – Publishing activities, **59** – Motion picture, video and television programme production, sound recording and music publishing activities, **60** – Programming and broadcasting activities, **61** – Telecommunications, **62** – Information technology service activities, **63** – Information service activities; **K**: Financial and insurance activities, **64** – Financial intermediation, except insurance and pension funding, **65** – Insurance, reinsurance and pension funding, except compulsory social security, **66** – Other financial activities; **L**: Real

estate activities, **68** – Real estate activities; **M**: Professional, scientific and technical activities, **69** – Legal and accounting activities, **70** – Activities of head offices, management consultancy activities, **71** – Architectural and engineering activities, technical testing and analysis, **72** – Scientific research and development, **73** – Advertising and market research, **74** – Other professional, scientific and technical activities; **N**: Administrative and support service activities, **77** – Rental and leasing activities, **78** – Employment activities, **79** – Travel agency, tour operator and other reservation service and related activities, **80** – Security and investigative activities, **81** – Services to buildings and landscape activities, **82** – Office administrative, office support and other business support activities; **O**: Public administration and defence, compulsory social security, **84** – Public administration and defence, compulsory social security; **P**: Education, **85** – Education; **Q**: Human health and social work activities, **86** – Human health activities, **87** – Residential care activities, **88** – Social work activities without accommodation; **R**: Arts, entertainment and recreation, **90** – Creative, arts and entertainment activities, **91** – Libraries, archives, museums and other cultural activities, **92** – Gambling and betting activities, **93** – Sports activities and amusement and recreation activities; **S**: Other service activities, **94** – Activities of membership organisations, **95** – Repair of computers and personal and household goods, **96** – Other personal service activities; **T**: Activities of households as employers, undifferentiated goods- and services-producing activities of households for own use, **97** – Activities of households as employers of domestic personnel, **98** – Undifferentiated goods- and services-producing activities of private households for own use; **U**: Activities of extraterritorial organisations and bodies, **99** – Activities of extraterritorial organisations and bodies.

Country abbreviations

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