

Review of macroeconomic developments

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Summary

The US's introduction of new tariffs has increased economic uncertainty. Industrial production in Slovenia is weakening, while there are also signs of a slowdown in consumption on the domestic market. Inflation remains close to 2%.

The euro area saw weak growth in the first quarter, which continued to be driven by services, according to the latest survey data. Despite a slight improvement in the composite PMI, the economic situation remained difficult and uncertain in March, particularly in connection with trade policy, which is also being reflected in a further decline in the economic sentiment. According to the ECB's March projections, economic growth is forecast to strengthen slightly over the projection horizon, with the downside risks mainly related to geopolitical developments and rising tensions in international trade. Inflation in the euro area slowed slightly further in March. Headline inflation stood at 2.2%, while inflation excluding energy and food prices stood at 2.4%.

The ECB continued to loosen monetary policy in March, while most other major central banks held their policy rates steady after a series of earlier cuts. In March, the Eurosystem carried out its sixth reduction since the easing cycle began in June last year, lowering the deposit facility rate by 25 basis points to 2.50 %. Since the beginning of March, market expectations for the path of policy rates at both the ECB and the Fed have shifted toward quicker and larger cuts. According to current overnight index swap (OIS) rates, investors now expect roughly 75 basis points of additional easing at the ECB and the Fed this year.

Financial markets have experienced pronounced volatility since the start of March, driven by the escalating trade war and frequent shifts in US trade policy. Major US and European equity indices have declined as investors sought safer assets, sending gold to record highs. Amid growing expectations of faster and deeper interest rate cuts, yields on short-dated US and German government bonds have fallen slightly.

The domestic economy faces uncertainty, with considerable variation between sectors. The economic sentiment improved slightly in the first quarter, in the wake of relatively favourable assessments of final consumption by firms and strengthening construction activity as captured by survey. The year-on-year figures for construction work were also relatively favourable in January, and pointed to increased activity in almost all construction segments. The situation is worsening in manufacturing, where output over the first two months of the year was down in year-on-year terms. Export-oriented firms are continuing to face weak foreign demand according to the survey indicators. Real consumption indicators are also pointing to a slowdown. The value of card payments in the first quarter was up around 3% in year-on-year terms, the lowest increase in almost two years, while the value of invoices registered with tax authorities was down more than 1%. Albeit amid a wide range of forecasts, the nowcast is pointing to favourable economic growth in the first quarter for now, although there is considerable uncertainty surrounding the remainder of the year because of the imposition of various tariffs.

The labour market remains tight despite signs of a slowdown, which are primarily being seen in the private sector. The workforce in employment in January was down 0.3% in year-on-year terms. The decline was driven by employment in the private sector, most notably in manufacturing and at staffing agencies, while the workforce in employment in the public sector increased. Registered unemployment stood at 45,851 in

March, down in year-on-year terms, taking the registered unemployment rate to 5.1% according to the latest data, an indication of the persistent tightness of the labour market amid positive expectations with regard to future hiring. Together with the implementation of a new wage system in the public sector, this is maintaining growth in the average wage at close to 7%.

Inflation rose slightly in March, driven by non-energy components of the consumer basket. Headline inflation, as measured by the HICP, reached 2.2%, up from 1.9% in February. Food inflation strengthened again, reflecting global market conditions and rising prices along production chains. Energy prices remained down in year-on-year terms, despite a monthly rise in electricity prices. Core inflation picked up to 2.5% (from 2.2% in February), with services inflation in particular remaining elevated, amid persistently strong growth in labour costs. In contrast, the growth rate of prices for other goods remained relatively subdued and in line with its long-term average.

The general government deficit and debt both declined as a ratio to GDP last year, but the uncertainty surrounding the public finances remains elevated. The general government deficit amounted to 0.9% of GDP last year. The decline was primarily attributable to the abolition of measures to mitigate high energy prices. The general government debt stood at 67.0% of GDP at the end of the year, up only slightly from its level in 2019. According to the consolidated general government data, the position deteriorated over the first two months of this year, in part as a result of a worsening position vis-à-vis the EU budget. Public finance developments remain subject to numerous risks: external risks posed by geopolitical (increased defence spending) and trade changes (tariffs), and domestic risks in connection with the preparation and implementation of various reforms (pensions, healthcare, long-term social care), increased interest expenditure, and the ongoing post-flood reconstruction. The general government deficit is set to rise to 1.9% of GDP this year according to government forecasts.

In light of the announcement of new tariffs by the US administration, this issue of the publication provides a detailed look at trading links and financial flows between Slovenia and the US. Although direct trade between the two economies is relatively small, the indirect effects of the imposition of tariffs might be more pronounced, given that Slovenia is a small, open economy. In addition to exposure via its main trading partners, higher tariffs will also affect the domestic economy in particular via increased trade uncertainty. For this reason we illustrate two measures that indicate that uncertainty has increased significantly in recent times. The December projections drew up the first estimates of the impact of reciprocal tariffs on the Slovenian economy, and in the June projections they will be updated to reflect the latest information. In light of the European Commission's new plan for the future of defence in the EU, this issue also examines the features of firms included in Slovenia's defence cluster, as there is an expectation that the coming years will see their role in the economy strengthen.

Growth in the global economy remained weak in the first quarter according to the survey data, with the announced tariffs and the increased uncertainty posing the main risk going forward.

The global composite PMI strengthened slightly to 52.1 points in March, having declined to 51.5 points in February (see Figure 1.1). The indicator's average value over the first quarter was nevertheless at its lowest level since the first quarter of 2023. Growth in activity in services and in manufacturing continued to diverge in March. While the services indicator rose from 51.7 points in February to 52.7 points in March, the manufacturing indicator slid from 50.6 points to 50.3 points.

In early April, the new US administration announced the imposition of so-called reciprocal tariffs on merchandise imports to the US,¹ which are likely to drive a sharp rise in effective tariff rates following final enforcement.² Following retaliatory measures by China, the US raised its tariffs on imports of Chinese goods to 125%, taking the effective rate to 145% alongside the 20% rate previously announced. China's tariffs on merchandise imports from the US now stand at 84%. The US imposed a 90-day freeze on the rise in reciprocal tariffs for other countries, to which a 10% tariff on imports into the US therefore applies. This does not apply to imports of cars, aluminium and steel, to which the 25% rates announced in February and March will continue to apply, irrespective of the origin of the imports. The EU has deferred the imposition of countermeasures to US tariffs on imports of steel and aluminium for 90 days.

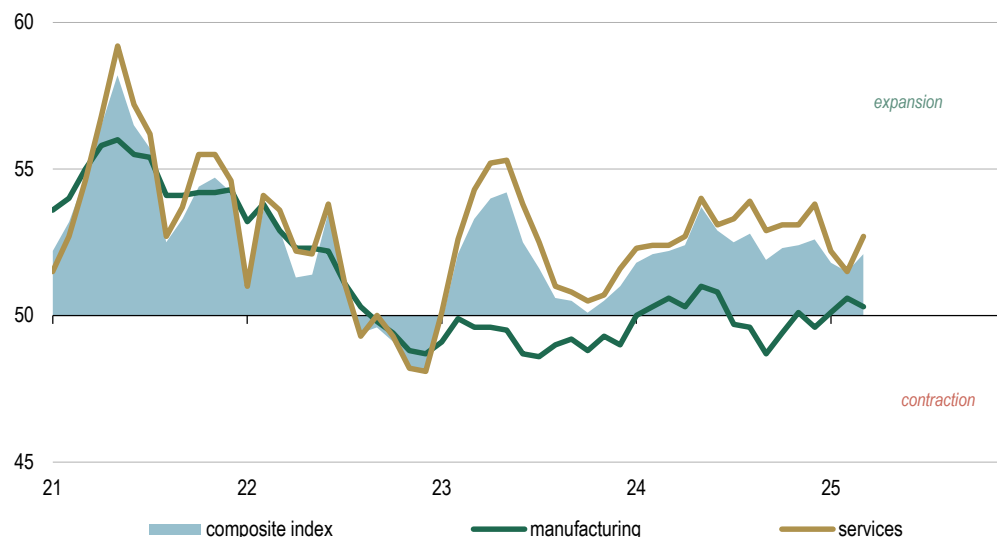
The recently announced tariffs on merchandise imports to the US and the potential retaliatory measures could hit the already weak growth in global manufacturing activity, while the increased uncertainty accompanying the announcement of tariffs and retaliatory measures could threaten growth in activity in other sectors. Another indication of the wider impact of tariffs comes from the PMI for Canada, which was the subject of the announcement of additional tariffs by the new US administration even before the announcement of the new reciprocal tariffs on other trading partners. In March, Canada's composite PMI fell to its lowest level since June 2020. In addition to the decline in the manufacturing indicator, driven in particular by a fall in the narrower new orders indicator, there was also a decline in the services indicator, which is indicative of the impact of tariff-related uncertainty on consumption.

There is not yet any sign of a major direct impact on the PMIs for other economies from the so-called reciprocal tariffs, as these were only announced after the final collection of the data for the indicators released in March. Of the advanced economies, it was the US that continued to record the strongest composite PMI in March (53.5 points), followed by the UK and the euro area (51.5 and 50.9 points respectively), while Japan slid into the zone of contraction (48.9 points). Meanwhile, India saw the highest composite PMI of the emerging economies (close to 60 points), while moderate growth was indicated for China and Brazil (with 51.8 and 52.6 points respectively), and a moderate contraction for Russia (49.1 points).

¹ No new reciprocal tariffs have been announced for now on imports of drugs and pharmaceutical products, energy, wood and copper.

² At the time of publication the basic tariff rate on imports to the US stood at 10%, while the overall tariff rate would then vary between US trading partners and would depend on the merchandise trade deficit. Of the US's most important trading partners, the overall tariff rate would thus stand at 20% on merchandise imports from the EU, 24% on merchandise imports from Japan and 34% on merchandise imports from China. The figure for China should also be added to the existing 20% tariff rate announced in March.

Figure 1.1: JPMorgan PMIs for the global economy



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

The survey indicators for the euro area point to a continuation of weak economic growth in the first quarter. The outlook is accompanied by considerable uncertainty stemming from geopolitical developments and changes in economic policy.

Economic activity in the euro area increased by 0.2% in the final quarter of last year, driven primarily by domestic demand. Alongside household consumption, which accounted for 0.2 percentage points, gross fixed capital formation and government spending each contributed 0.1 percentage points to GDP growth, while the contribution by the change in inventories was negative in the amount of 0.2 percentage points. On the output side, services remained the main factor of growth, while activity in industry was down slightly in year-on-year terms, which was consistent with the monthly indicators of economic activity at the end of the year.

The composite PMI averaged 50.4 points over the first quarter, which was indicative of a continuation of weak economic growth. The composite PMI hit 50.9 points in March (up 0.7 points), amid an improvement in the services and manufacturing indicators (see Figure 1.2, left). While the manufacturing PMI remains in the zone of contraction at 48.6 points (up 1.0 points), the output component moved into the zone of expansion for the first time in two years. The recovery in manufacturing was most pronounced in Germany and France, which might only be temporary, and – in the wake of the smallest decline in new foreign orders since April 2022 – at least partly attributable to the early ordering of products from the US before the imposition of tariffs. According to the services PMI, growth in activity strengthened moderately after slowing for two months, although new orders fell slightly for the second consecutive month.

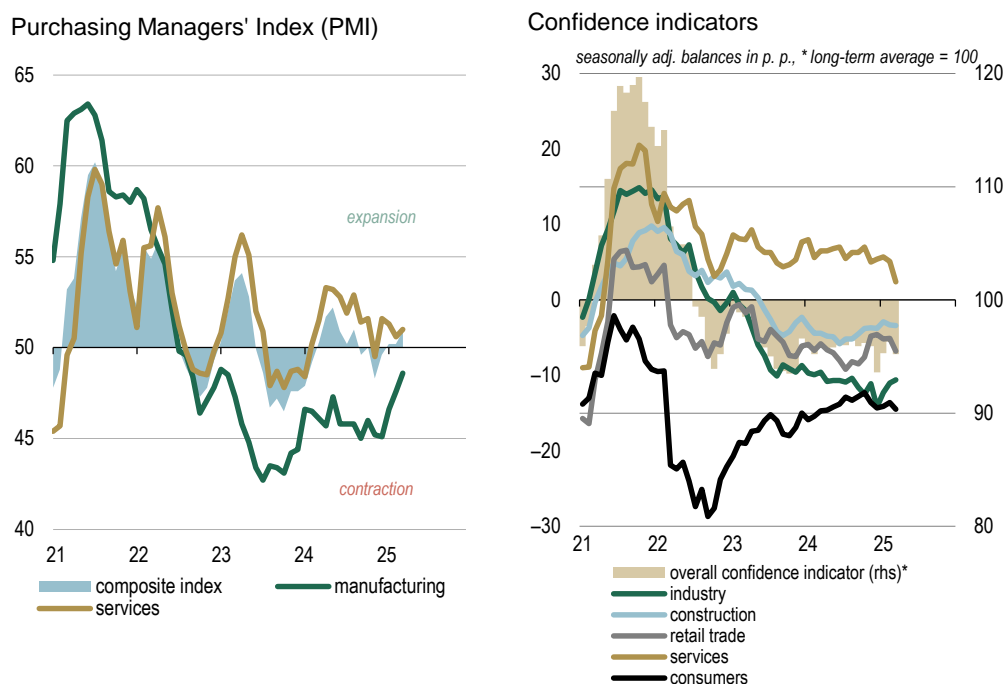
Stronger hiring in the service sector coincided with a decline in lay-offs in manufacturing. This has been reflected in a continued decline in the unemployment rate in the euro area, which hit a new record low of 6.1% in February. The survey data suggests that hiring will slow over the next three months: in March the employment expectations indicator hit its lowest level in four years.

Despite the improvement in the majority of the PMIs, the economic situation remains uncertain, which is also reflected in a decline in the European Commission's economic

sentiment indicators in all sectors other than industry (see Figure 1.2, right). The slight improvement in the outlook for the latter was at least partly attributable to the extensive fiscal reforms announced in Germany in connection with defence and infrastructure.

According to the ECB's March projections, the euro area economy will expand by 0.9% this year, before growth strengthens to 1.2% and 1.3% over the next two years. Compared with the Eurosystem projections from last December, the economic growth forecasts for this year and next year have been revised downwards by 0.2 percentage points, while the forecast for 2027 remains unchanged. The weaker outlook is mainly attributable to the persistent uncertainty surrounding geopolitical developments and trade policy, and the challenges in the area of competitiveness.

Figure 1.2: Indicators of economic developments in the euro area



Sources: Eurostat, Bloomberg, Banka Slovenije calculations. Latest data: March 2025

The slowdown in euro area inflation was primarily driven by services prices, as cost pressures eased.

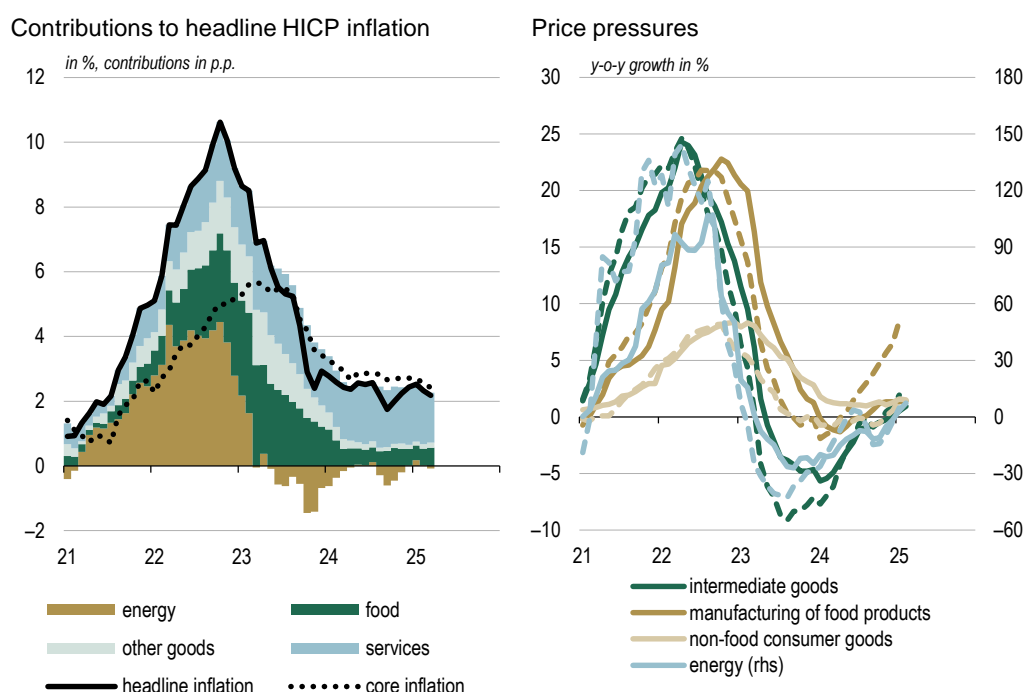
Euro area headline inflation, as measured by the HICP, is continuing to slow. It fell to 2.2% in March, down from 2.3% in February (see Figure 1.3, left). The slowdown was mainly attributable to developments in services and energy prices, while the contribution from food prices strengthened slightly. This year's rising food inflation, which reached 2.9% in March,³ is being driven by unprocessed food prices, and mostly reflects base effects caused by last year's price volatility, as well as relatively large month-on-month increases amid adverse weather conditions. As a result, cost pressures from commodity markets are being passed through to rising import and producer prices (see Figure 1.3, right). Growth in processed food prices has remained stable at 2.6% since the beginning of the year, even when excluding tobacco prices. Energy prices were down 0.7% year-on-year, and 1.2% in month-on-month, primarily due to lower fuel prices, supported by the euro's appreciation against the US dollar.

³ Euro area food inflation stood at 2.3% in January of this year, before strengthening to 2.6% in February.

Core inflation, i.e. inflation excluding energy and food prices, slowed to 2.4% in March (down from 2.6% in February), entirely as a result of a smaller contribution from services prices. Services inflation slowed to 3.4% (down from 3.7% in February), reflecting an ongoing decline in real labour costs growth, as well as developments in profit margins, which continue to ease domestic price pressures. According to the ECB indicators,⁴ labour market conditions eased in the first quarter, despite the solid growth in services activity. By contrast, price pressures in manufacturing have been modest for some time (see Figure 1.3, right). Amid weaker demand, this is being reflected in the growth of prices for non-energy industrial goods (hereinafter: other goods), which remained unchanged from February at 0.6% and is in line with its pre-pandemic level.

In March, domestic headline and core inflation were almost matching their corresponding rates in the euro area. Inflation differentials across euro area countries have remained relatively small and stable since the beginning of last year.⁵ The lowest inflation rate of 0.9% was recorded in France, while the highest rate of 4.3% was observed in Estonia, Slovakia and Croatia, driven primarily by elevated services inflation.⁶

Figure 1.3: Inflation in the euro area and price pressures



Sources: Eurostat, Banka Slovenije calculations. Latest data, left chart: March 2025; right chart: import prices: January 2025; producer prices: February 2025

Note: In the right chart, the dashed lines represent year-on-year growth in import prices, while the non-dashed lines represent growth in producer prices for domestic market.

⁴ This is data on wage developments collected on behalf of collective agreements within the framework of the [ECB wage tracker](#).

⁵ Between January 2024 and March 2025 inflation rates across euro area countries differed by on average 1.2 percentage points. By contrast, the average gap between 2022 and 2023 stood at 3.2 percentage points.

⁶ In March, services inflation stood at 8.3% in Slovakia and at 7.6% in Croatia. The latest figure available for Estonia is for February (8.6%).

In March, the Eurosystem lowered the deposit facility rate by 25 basis points to 2.50 %, whereas the Federal Reserve kept its policy rate unchanged.

In March, the Eurosystem cut all three of its key interest rates for the sixth time since the cycle of monetary policy easing began in June of last year, by 25 basis points. This reduced the interest rates on the deposit facility to 2.50%, on main refinancing operations to 2.65% and on the marginal lending facility to 2.90%. The decision to cut rates was based on an updated assessment of the inflation outlook, the developments in core inflation, and the intensity of monetary policy transmission. The disinflation process is proceeding in line with expectations, with the majority of indicators currently suggesting that inflation will stabilize sustainably at a level around the Governing Council's 2% target rate.

At its March meeting, and amid increased inflation risks, the Fed left its key interest rate unchanged in the corridor between 4.25% and 4.50%. Significant uncertainty still surrounds the economic impact of US trade policy, so any decision to ease policy will require additional data. The Fed estimates that higher tariffs should affect inflation only temporarily; meanwhile, recession risk in the United States is rising, though it remains relatively low. Key interest rates were also left unchanged by the central banks in the UK (4.50%), Sweden (2.25%) and Japan (0.50%), while the central banks of Switzerland and Canada cut their key interest rates by 25 basis points (to 0.25% and 2.75% respectively).

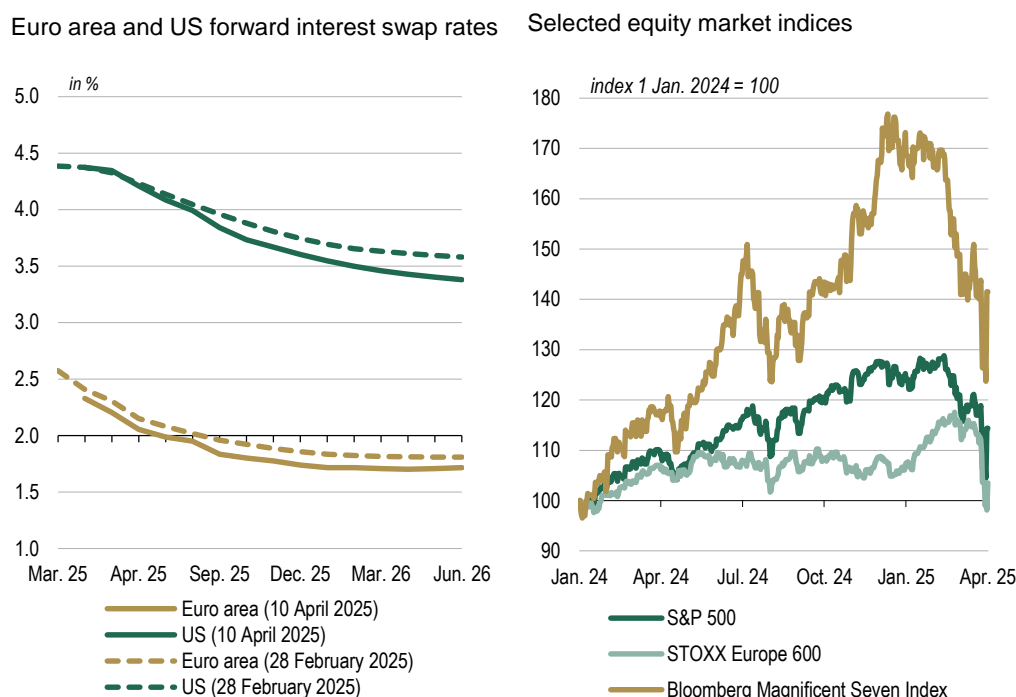
Since early March, market expectations for the path of ECB and Fed policy rates have shifted toward faster and larger cuts. The change reflects increasing concerns that US trade policy could have a lasting impact on both the US and European economies. Overnight index swap (OIS) prices now imply three additional 25-basis-point reductions by the ECB this year, which would lower the deposit facility rate to 1.75 % (see Figure 2.1, left). Markets likewise anticipate three Fed cuts in 2025, bringing the federal funds target range down to 3.50 %–3.75 %.

Since the start of March, major global equity indices have declined as investors shifted into safer assets, pushing gold to record highs. Meanwhile, yields on U.S. and German government bonds have moved in opposite directions.

Amid growing expectations that the Fed and the ECB will deliver faster and deeper rate cuts this year, yields on short-dated U.S. Treasuries have fallen by 10 basis points since early March, while equivalent German yields have slipped by 12 basis points. The move reflects mounting concern about the trade war's negative impact on US and European growth and the accompanying prospect of additional monetary easing. By contrast, yields on US long-term government bonds have risen by 12 basis points since the early March as investors retreat from these bonds amid the volatile US trade policy. This was driven by early-April announcements of extensive US tariffs on their trading partners, and a subsequent 90-day deferral of said tariffs (apart from China) above the 10% minimum rate. Yields on German long-term government bonds have risen by 28 basis points since the beginning of March, driven primarily by the announcement of

increases in defense and infrastructure spending in Germany. The spreads between yields on euro area bonds with higher credit risk and the German benchmark government bonds have widened during this period as the appetite for safer asset classes has strengthened.

Figure 2.1: OIS curves and developments in stock market indices



Sources: Bloomberg, Banka Slovenije calculations. Latest data, right chart: 10 April 2025

Note: In the right chart the Magnificent Seven comprise Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

Amid heightened uncertainty over US trade policy, major US and European equity benchmarks have retreated in recent weeks. The largest decrease came in early April, following the announcement of tariffs by the US administration. The leading European index (STOXX Europe 600) reached a record high in early March following the announcement of an increase in defense and infrastructure spending by Germany, but has since fallen by 11.4% amid an escalating trade war. Similarly, the leading US index (S&P 500) has lost 8.4% since the beginning of March, while the Magnificent Seven index, consisting of leading US tech firms (see Figure 2.1, right), has fallen 9.6%. In Hong Kong, the Hang Seng index reached a record high in the second half of March, as a result of investor optimism surrounding the technological advances made by Chinese firms, but it now stands 16.1% below that peak.

Following Germany's announcement of higher defense and infrastructure spending—and amid mounting concern that the escalating trade war could weigh on the U.S. economy—the euro strengthened sharply against the U.S. dollar in early March. Since the start of March, the euro has appreciated 6.0 % versus the dollar, while the dollar index has fallen 4.5 % against a basket of major currencies. Brent crude is down 11.5 % over the same period as fears of weaker global demand weigh on oil prices. Gold, benefiting from the flight to safety, has climbed 9.1 % and now trades just below its early-April record (USD 3,167 per ounce).

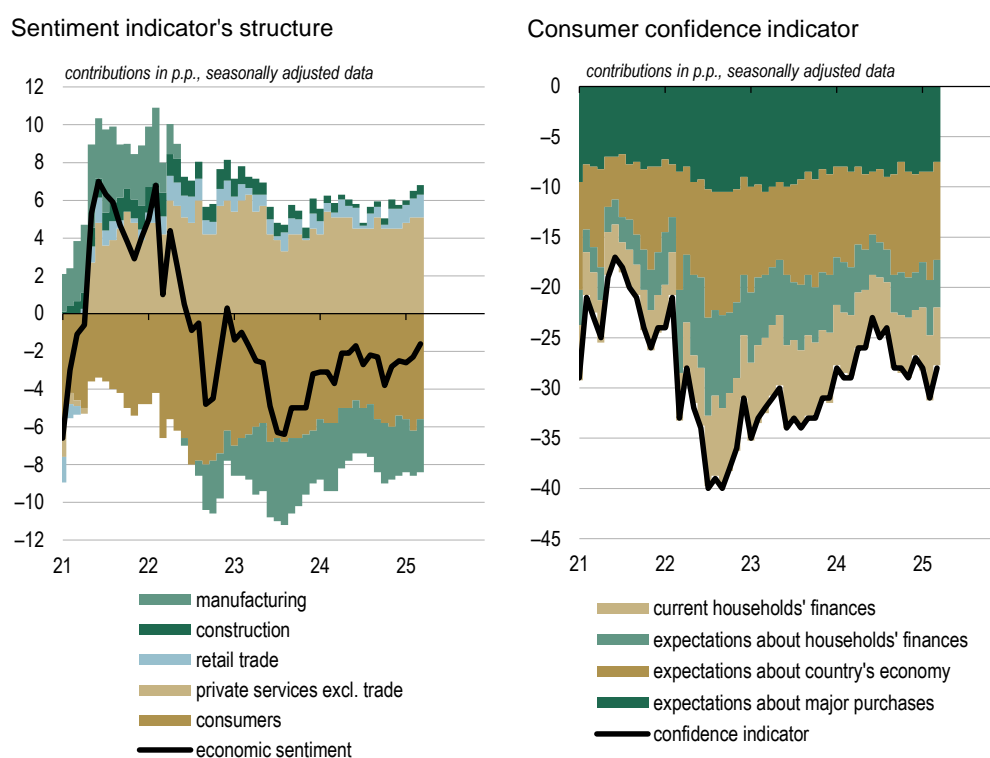
The economic climate improved a little in the first quarter of this year, as confidence rose in private-sector services and construction.

The economic sentiment indicator stood at -1.6 percentage points in March, up 1.0 percentage points on January (see Figure 3.1, left). An improvement in confidence in the first quarter was evident in retail, where firms' March assessments of current and expected demand were optimistic. There was also a notable improvement in construction, with the order books and activity indicators rising. The survey assessments of solid performance in the domestic market in the first quarter are confirmed by the confidence indicator in other private-sector services, which remained relatively high and stable for now.

In contrast to firms in retail and other private-sector services, consumers remain relatively pessimistic. The consumer confidence indicator remains at low levels, amid monthly fluctuations (see Figure 3.1, right). Expectations of a renewed rise in inflation have strengthened in recent months, while there are also concerns with regard to the future economic situation and a rise in unemployment. Conversely there is a positive assessment of their current financial situation, which in March was 5.0 percentage points higher than its average between 2010 and 2024.

Confidence among manufacturing firms remains low, without any significant changes at monthly level. Survey assessments of current output are close to stagnation, while the indicator of expected output in the first quarter was down on the final quarter of last year, and the assessment of current demand was only insignificantly higher. Assessments of export expectations rose to a lesser degree in March, but only back to their level from December.

Figure 3.1: **Confidence indicators**



The available activity indicators for the first quarter point to a slowdown in consumption on the domestic market, and weaker manufacturing output, but also to a solid construction output in January.

The indicators of consumption on the domestic market available for the first quarter are less favourable than the survey results. Aggregate year-on-year growth in turnover (real income) in private-sector services stood at just 0.3% in January, with the increase largely being driven by relatively strong sales in retail (see Figure 3.2, left). Aggregate turnover in other private-sector services was down 1.6%, with a decline of 16.2% recorded by real estate activities, which confirms the crunch in the housing market.

According to the real year-on-year changes in the aggregate value of card payments and ATM withdrawals and in the aggregate value of invoices registered with tax authorities, consumption slowed significantly in the first quarter. Year-on-year growth in the first stood at 3%, the lowest figure since the second quarter of 2023, while the second was down more than 1%, the first fall since the second quarter of last year (see Figure 3.2, right).⁷

In addition to the survey data, further indication of the difficult situation in manufacturing comes from the output indices. Output in February was down 1.6% on last December, while output over the first two months of this year was down 0.7% in year-on-year terms (see Figure 3.2, left). In terms of technological complexity, high-tech manufacturing was alone in seeing a year-on-year increase in output over the first two months of the year, in the amount of 5.0%. With output declining sharply in the manufacture of computer, electronic and optical equipment, and to an even greater extent in the manufacture of other transport equipment, the growth in this segment was thought to be based solely on the pharmaceutical industry.⁸

There remain major differences between individual segments of manufacturing. Output over the first two months of the year was down in year-on-year terms in nine segments, and up in 12, with the changes ranging from -38.9% to 5.4%. The varying developments inside manufacturing are analysed in detail in Selected Theme 8.1.

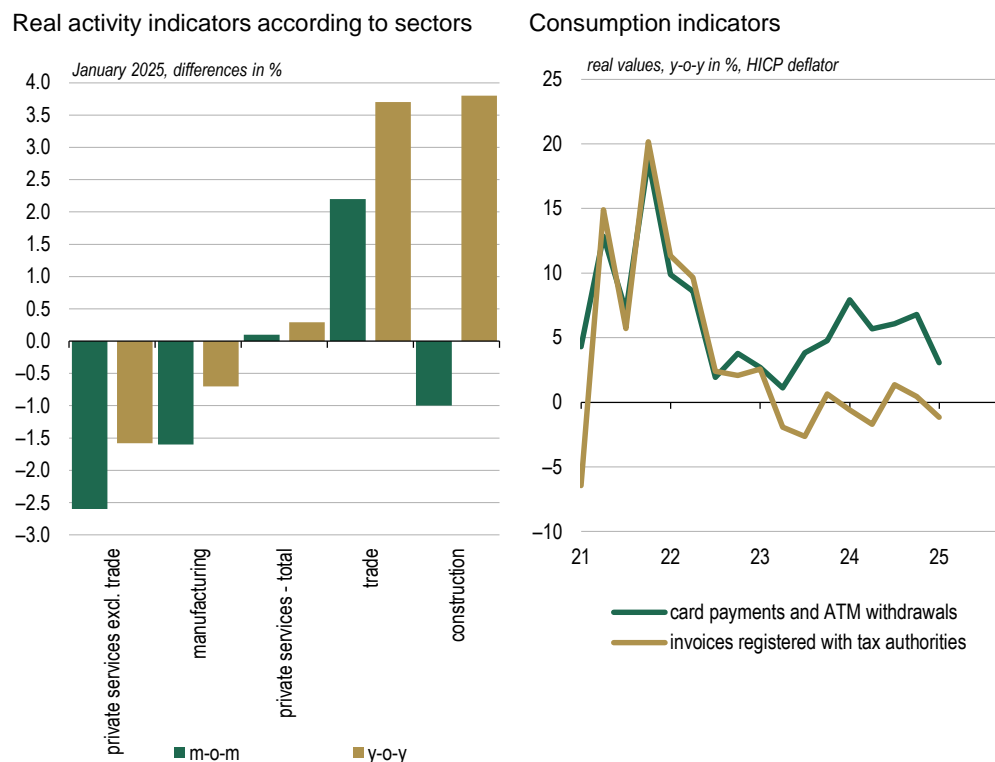
Despite weak monthly dynamics, construction activity in January recorded its first year-on-year increase since February of last year, while the breakdown of activity points to a general improvement in the situation in the sector. The aggregate amount of construction put in place was up 3.8% in year-on-year terms (see Figure 3.2, left), with strong increases in almost all segments, including residential construction. The only sluggish performance was in civil engineering work, where the initial figures from this year for government construction investment are perhaps already suggesting a reversal. Potential demand for the construction of buildings also strengthened somewhat in January and February: the number of issued building permits and corresponding floor-space were up slightly on a year earlier.

The situation in the housing market remains difficult, particularly on the supply side. Year-on-year growth in prices stood at 8.5% in the final quarter of last year, the highest figure since the first quarter of 2023, but the number of transactions again fell. Residential construction costs continued to grow, but the rate of 3.9% was considerably outpaced by growth in prices.

⁷ HICP deflator.

⁸ For reasons of data confidentiality, the SURS does not publish a monthly index of output in the manufacture of basic pharmaceutical products and pharmaceutical preparations.

Figure 3.2: **Economic activity indicators**



Sources: SURS, Bankart, FARS, Banka Slovenije calculations. Latest data, right chart: Q1 2025

Note: In the left chart, the monthly change in manufacturing is illustrated as the difference in output between December 2024 and February 2025, while the year-on-year change is cumulative for January and February 2025. The monthly changes are calculated from seasonally and calendar-adjusted data, while the year-on-year changes are based on unadjusted data.

The high-frequency indicators point to a significant increase in uncertainty also in the domestic economy following the imposition of tariffs by the new US administration.

Conventional data that could measure the impact of the US's new trade policy is not yet available. The non-standard data points to an increase in uncertainty in Slovenia, which is examined in detail in Box 3.2. The first economic sentiment data following the rise in tensions in international trade will be available at the end of April, and will also be captured by the nowcasts at that time.

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

The average nowcast for quarterly GDP growth in the first quarter of this year stands at 0.9%.

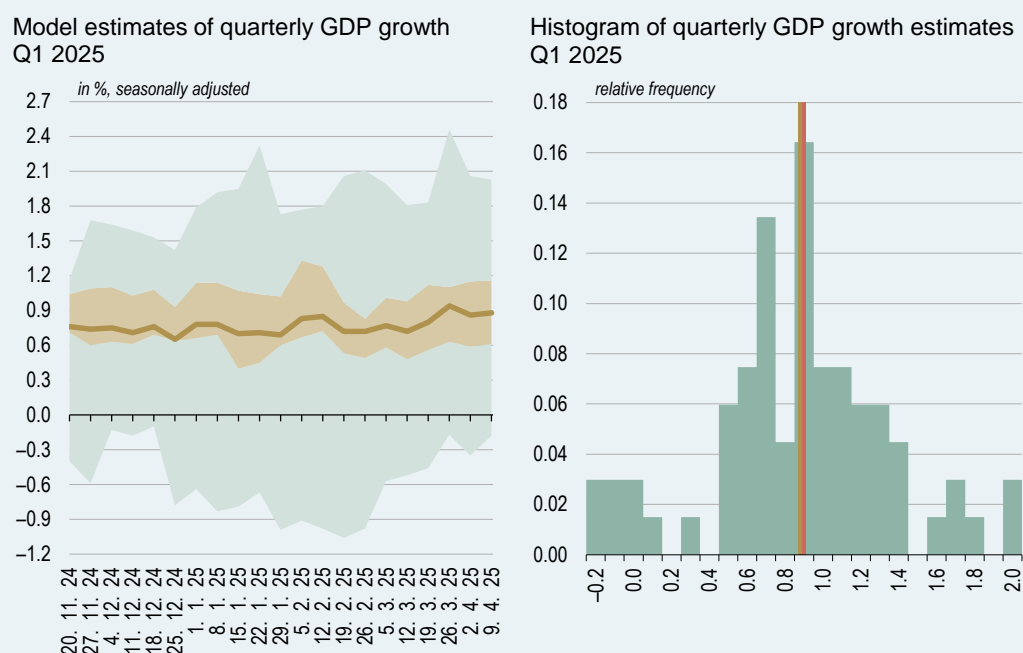
The current nowcast for quarterly GDP growth for the first quarter stands at 0.9% (see Figure 3.1.1, left). The figure reflects the favourable current developments in survey indicators in February and March, following the less encouraging data seen in January. The economic sentiment at the end of the first quarter was up 1.0 percentage points on the beginning of the quarter. This was attributable to improvements in confidence in

services (by 0.3 percentage points), retail and construction (each by 0.2 percentage points). The mood remained unchanged in manufacturing and among consumers.

The main indicators of economic activity are currently available for January only. Industrial production strengthened by 1.6% in monthly terms, largely as a result of rises in activity in electricity, gas, steam and air conditioning supply and in manufacturing. Sales volumes in services and in retail increased by 0.1%, with activity in retail picking up by 2.2%. Conversely there was a 1.0% monthly decline in the amount of construction put in place, as a result of a decline in activity in civil engineering work and in specialised construction activities.

The current dataset of high-frequency indicators is also reflected in the chart showing the distribution of nowcasts (see Figure 3.1.1, right). The range based on the 25th and 75th percentiles of the distribution currently lies between 0.6% and 1.2%.

Figure 3.1.1: **Nowcast for economic growth**



Source: 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 black line represents the average nowcast for GDP growth in the first quarter of 2025. The right chart illustrates the distribution of the nowcasts for quarterly GDP growth in the first 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 forecast. Nowcast date: 9 April 2025

The situation in global trade, the pandemic, and the conflicts in Ukraine and the Middle East are just some of the factors that have driven the sharp increase in economic uncertainty in recent years. Calculated for Slovenia for the first time, the two best-established measures of uncertainty, the EPU index and the Jurado index, confirm this to be the case for the domestic economy too.

Uncertainty plays an important role in the decisions of businesses and households, as it affects investment, hiring, consumption, and saving. Although the effects of the uncertainty on individual economic decisions are theoretically well-supported in partial equilibrium models,⁹ their impact on aggregate economic activity remains less clear. The majority of empirical studies nevertheless find that increased uncertainty has a negative impact on economic activity.¹⁰ Because uncertainty is not directly measurable, proxies are used in analyses, with the economic policy uncertainty (EPU) index and the macroeconomic uncertainty index (Jurado) being among the most established measures. The EPU index is based on analysis of media reports (frequency of words related to uncertainty), while the Jurado index measures uncertainty as the average volatility of forecasting errors in a broad set of economic time series.¹¹

Given the increased global economic uncertainty in connection with geopolitical tensions and changes in economic policy, an important question is what the level of uncertainty is in Slovenia. As a small, open economy, Slovenia is profoundly exposed to global economic and geopolitical factors. To this end we drew up the two aforementioned measures of uncertainty for the domestic economy, slightly adapting the EPU index methodology to measure general economic uncertainty and not just the uncertainty of economic policy.¹² Their dynamics confirm that uncertainty in Slovenia is strongly correlated with global economic and geopolitical developments.

The Jurado index for the Slovenian economy shows the highest levels of uncertainty during the global financial crisis (2008 and 2009), during the pandemic (2020) and at the outbreak of the war in Ukraine (2022; see Figure 3.2.1). The EPU index shows the highest levels of uncertainty during the euro area debt crisis (2011), during the pandemic (2020) and at the outbreak of the war in Ukraine (2022). At the end of last year and the beginning of this year, the EPU index again rose significantly, which coincided with the trade policy announcements of the new US administration. The uncertainty associated with the US administration's measures has not yet been flagged by the Jurado index. This difference is partly attributable to the different methodologies of the two indices: the EPU index is more volatile and sensitive to new developments, while the Jurado index is significantly more persistent and rarely fluctuates. Furthermore only data up to November is available for the latter, which means that it has not captured recent developments.

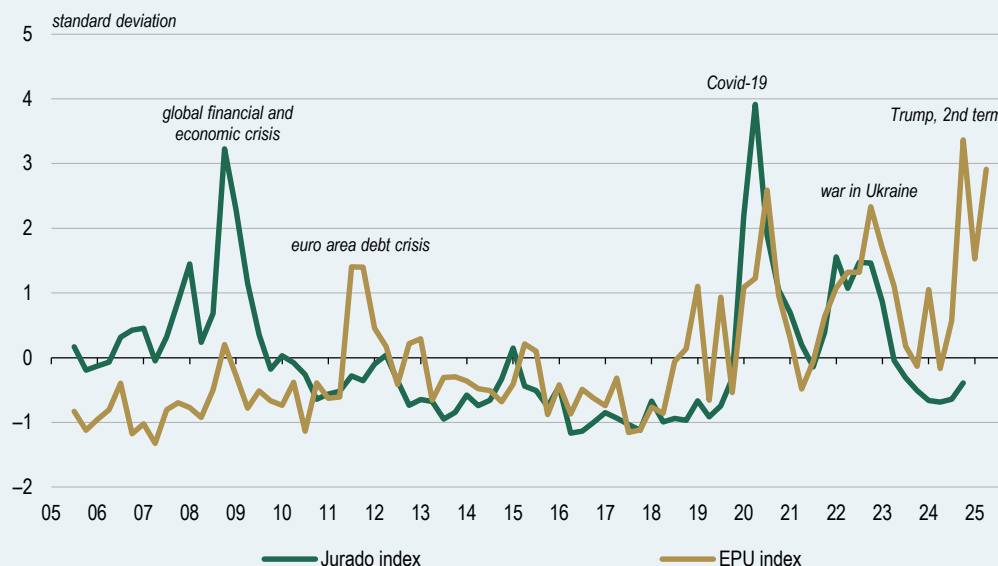
⁹ See for example Bernanke B. (1983). Irreversibility, Uncertainty, and Cyclical Investment, Quarterly Journal of Economics 98 (1) pp. 85-106.

¹⁰ Bloom, N. (2014). *Fluctuations in Uncertainty*, Journal of Economic Perspectives 28 (2): pp. 153-176.

¹¹ Jurado, K., Ludvigson, S. and Ng, S. (2015). *Measuring Uncertainty*, American Economic Review 105 (3): pp. 1177-1216.

¹² A detailed description of the indices and further analysis will follow shortly under the [research publications section of the Banka Slovenije website](#).

Figure 3.2.1: Measures of uncertainty for Slovenia



Sources: ECB, Eurostat, Banka Slovenije calculations and estimates. Latest data: Jurado index: November 2024; EPU index: Q2 2025

Note: The Jurado index is based on a set of 72 time series specific to Slovenia. The EPU index is based on news stories from 24ur.com, an online media service, in the economics and business section that contain the word "uncertain".

The significant increase in uncertainty in recent years is also confirmed by the SURS data on limiting factors to production, where economic uncertainty is one of the key limitations in manufacturing.¹³ Given the empirical findings concerning the negative impact of uncertainty on economic activity, it can be concluded that uncertainty has also curtailed economic growth in Slovenia in recent times. More detailed analysis of the impact of uncertainty on economic activity, including in connection with tariffs and the trade war, will be examined in the upcoming June issue of the publication.

Box 3.3: Features of firms in Slovenia's defence cluster

The firms included in Slovenia's defence cluster come from a variety of sectors, most notably manufacturing. On average they are more productive, and highly export-oriented, with some also exhibiting a higher investment rate. However, as they account for just 1% of total value-added, their multiplier effect on the economy is limited.

In March the European Commission unveiled its plan for the future of defence in EU Member States (Readiness 2030).¹⁴ The priorities that it highlights include an increase in defence spending, and the creation of a new financial instrument that will make loans available to Member States for defence purposes. In the context of the potential impact on the economy,¹⁵ this box examines the features of firms involved in the Slovenian defence industry, as the expectation is that over the coming years they will be significantly exposed to the aforementioned financial incentives and additional demand in connection with the realisation of defence policy objectives. The analysis is based on

¹³ [Business trends in manufacturing](#).

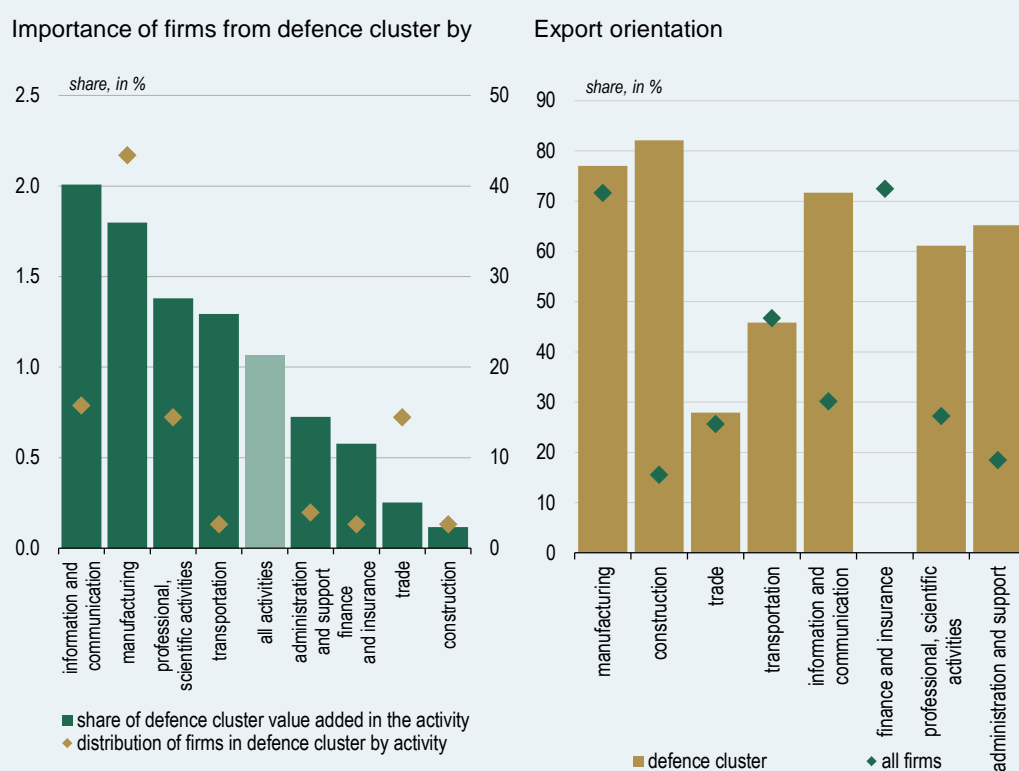
¹⁴ [White Paper for European Defence and the ReArm Europe plan](#).

¹⁵ Multipliers in the defence industry are usually less than unity, as proceeds from [Defence financing and spending under the Economic Governance framework](#). More detailed analysis of the impact on the Slovenian economy will be given in our June projections.

firms included in Slovenia's defence cluster,¹⁶ which is assessed as constituting a representative sample of firms in the defence industry. The features of these firms are analysed on the basis of AJPES data for the period of 2019 to 2023.

Of the 76 firms currently included in the cluster, most are small (47%) and medium-size (28%) enterprises. The firms come from various sectors: manufacturing accounts for the largest share (43%), with the largest component of these being firms engaged in the manufacture of fabricated metal products (see Figure 3.3.1, left). Together the firms in the defence cluster employed a little less than 1% of the total workforce in corporations in 2023, and accounted for just over 1% of total value-added. In terms of individual sectors, the largest contributions to value-added came from firms in information and communication (ICT) and manufacturing (see Figure 3.3.1, left). Despite the small size of the cluster, value-added per employee at these firms has been 26% higher than the average for all firms over the last five years. The firms in the cluster also outperformed the average for all firms in nearly all sectors.

Figure 3.3.1: Value-added and export orientation of firms in the defence cluster



Sources: AJPES, Banka Slovenije calculations

Note: Export orientation is defined as the ratio of a firm's exports to its total revenues.

The observed firms are highly export-oriented, with fully 70% of them exporting. The ratio of exports to total revenues at these firms stands at 71%, significantly higher than the average for all firms (43%; see Figure 3.3.1, right). Empirical analysis confirms that the firms in the defence cluster are more likely to be exporters (by 23 percentage points) than firms outside the cluster.¹⁷ The analysis also shows that, in firms in the defence cluster, value-added responds twice as much to an increase in exports as in other

¹⁶ Slovenia's defence cluster is an independent economic interest association whose members provide products and services in the area of defence, protection and security.

¹⁷ A logit model with a dependent binary variable for exports, an independent binary variable that captures inclusion in the cluster, and two control variables (value-added per employee, and number of employees) expressed as logarithms, is used.

firms.¹⁸ Given the anticipated increase in defence spending, firms in the Slovenian defence industry also show high responsiveness to increased foreign demand and a capacity for further development.

Firms engaged in ICT and in financial and insurance activities stand out in the defence cluster for having higher-than-average margins. The former are also less indebted, while the latter invest more than average in their sector.

The ratio of investment in tangible assets to net sales revenues at firms in the defence cluster is higher than at other firms, although there is great variation between individual sectors. The financial and insurance activities sector in particular is notable for its higher investment ratio.

The observed firms in the cluster have been slightly more indebted on average over the last five years,¹⁹ although firms in ICT are an outlier whose indebtedness is significantly lower than the average of all firms. ROE²⁰ in the cluster exceeds the average of all firms by 2.3 percentage points, which means that these firms are more effective in generating profit from equity.

Operating margins, defined as the ratio of net operating profit to net sales, at firms in the cluster over the last five years were comparable to the average of all firms. Firms in the ICT and financial and insurance activities were notable as operating margins among firms in the cluster were significantly higher than sectoral average.

In the context of the future defence plan for EU Member States, which also signals a rise in defence spending in Slovenia, the Slovenian defence industry might be an increasingly important factor in economic growth in the future. Given the past adaptability of domestic firms, it is highly likely that they will be able to exploit new business opportunities by adapting to the needs of the defence industry, thereby strengthening their role in the economy.

4 Labour Market

The number of persons in employment in January was down in year-on-year terms for the second consecutive month.

After a sharp decline in December,²¹ the number of persons in employment stood at 936,483 in January, down 0.3% on a year earlier. The number of persons in employment was down in the private sector (by 0.9%), but up in the public sector (by 1.9%;

¹⁸ The relationship with fixed effects between value-added and exports is estimated, having regard for number of employees and year effects – in the first case under the assumption that firms are included in the cluster, and in the second that they are not. All variables are in logarithms. The results show that a 1% increase in exports increases value-added at firms in the cluster by 0.24%, compared with an impact of 0.11% at other firms.

¹⁹ Indebtedness is expressed as the ratio of total debt to total liabilities.

²⁰ Calculated as the ratio of net profit or loss to average equity.

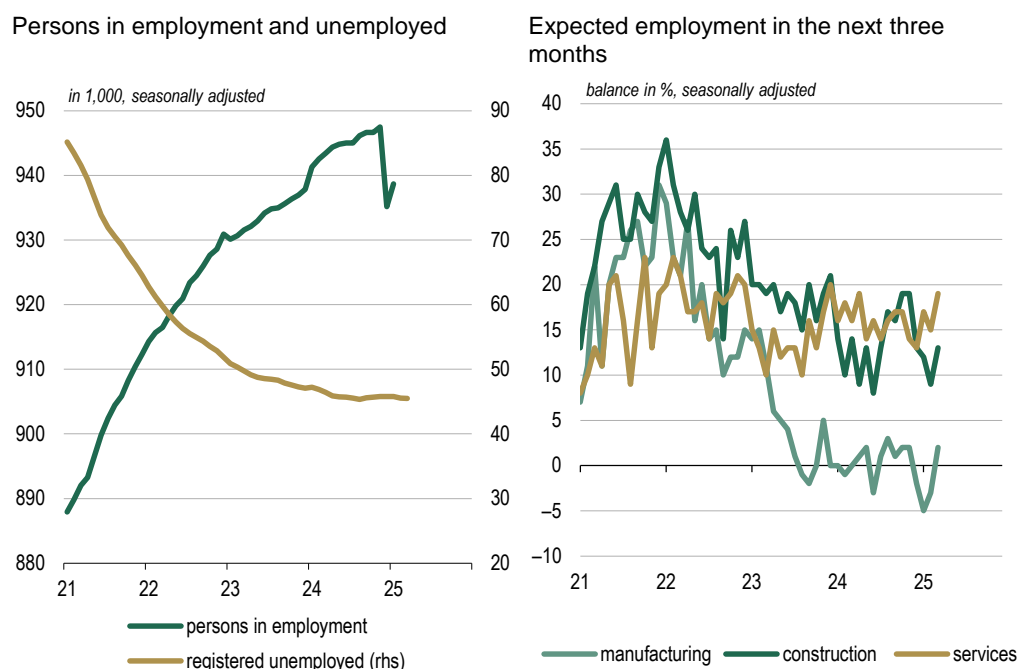
²¹ Our assessment is that the fall was primarily attributable to retirements and the expiry of temporary employment contracts. For more, see the [March 2025 issue of the Review of macroeconomic developments](#).

see Figure 4.1, left).²² The largest year-on-year falls in absolute terms were in manufacturing, and in administrative and support service activities. The latter saw a particularly sharp fall in employment activities, which include staffing agencies. For the first time since December 2020, there were also fewer persons in employment in construction year-on-year.

The survey data for employment expectations improved in March. After three consecutive months in negative territory according to the seasonally adjusted data, employment expectations in manufacturing turned positive again in March (see Figure 4.1, right). They also improved in services and construction, where they remain above their long-term averages. Labour shortages also remain above their long-term averages despite the slowdown in hiring, with firms continuing to address them by hiring foreign nationals. The contribution to the change in the number of persons in employment made by foreign nationals thus remained positive in January. More than three-quarters of foreign nationals in the number of persons in employment come from the countries of the western Balkans, most notably Bosnia and Herzegovina, while the largest rises over the last year were in the numbers coming from Nepal, the Philippines and Bangladesh (see Figure 4.2, left). Employers continue to have demand for low-skilled jobs in particular.

The year-on-year fall in registered unemployment is continuing: it stood at 45,851 in March, down 2.2% on the same month last year (see Figure 4.1, left). Inflows into and outflows from unemployment over the first three months of this year were both down in year-on-year terms. The decline in the former was primarily driven by the expiry of temporary employment contracts, while the decline in the latter was driven by new hires. The registered unemployment rate stood at 5.1% in January, down 0.1 percentage points in year-on-year terms.

Figure 4.1: **Selected labour market indicators**



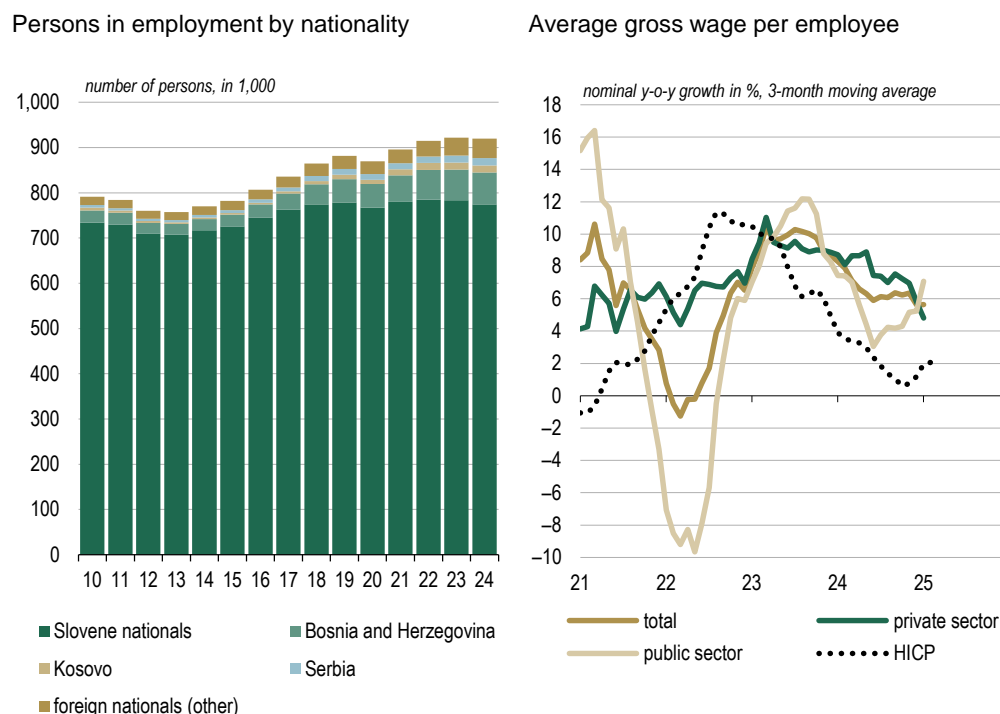
Sources: SURS, Employment Service, Banka Slovenije calculations. Latest data, left chart: registered unemployment: March 2025; persons in employment: January 2025; right chart: March 2025

²² In the public sector the year-on-year increase was highest in human health and social work activities (3.0%), while the increases in education and in public administration, defence and compulsory social security stood at 1.6% and 0.7% respectively.

The introduction of a new wage system meant that year-on-year growth in the average gross wage in January was twice as high in the public sector than in the private sector.

The average gross wage per employee in January was up 6.9% in year-on-year terms, 0.6 percentage points more than last year's average rate. A major factor in this wage growth was the introduction of a new wage system in the public sector: year-on-year growth in the average gross wage in the public sector stood at 10.2%, 5.6 percentage points higher than last year's average rate (see Figure 4.2, right). Year-on-year growth in the private sector was significantly lower by contrast at 5.0%, and was down on last year's average rate (by 2.1 percentage points). In January the minimum wage was adjusted to EUR 1,277.72 in line with last year's inflation, up 1.9% on last year. Real year-on-year growth in the average gross wage stood at 4.4% in January, comparable to last year's average.

Figure 4.2: **Persons in employment by nationality and average wages**



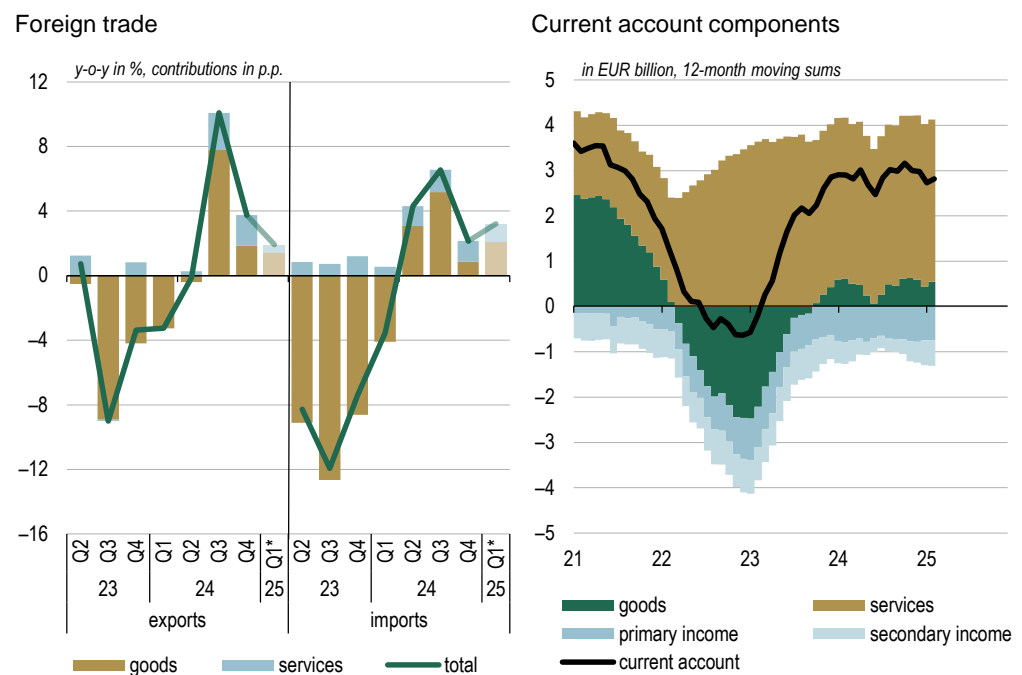
Sources: SURS, Banka Slovenije calculations. Latest data, right chart: January 2025; HICP: March 2025
 Note: The data in the left chart is for the persons in employment excluding self-employed farmers. The stock is as at the final day of the year.

Despite the uncertainties in the international environment, foreign trade continued to record moderate year-on-year growth over the first two months of the year.

According to the balance of payments figures, exports of merchandise and services over the first two months of the year were up approximately 2% in year-on-year terms, similar to the rate at the end of last year. Meanwhile growth in imports of merchandise and services strengthened from 2.6% to 3.2% (see Figure 5.1, left).

Nominal merchandise exports over the first two months of the year were up 1.8% in year-on-year terms, driven by the ongoing strength of energy exports, which were up 13.5%. Exports of machinery and equipment by contrast contracted for the fourth consecutive month (by 8.2%). Exports of road vehicles were down almost 12%, the largest fall since June 2022. Driven by energy exports in particular, exports to Austria increased (by 6.5%), while exports to France fell by almost 15% as a result of a decline in exports of road vehicles. Exports to Italy were also down (by 4.8%), exports to Germany stagnated (up 0.8%), and exports to Croatia increased by approximately 4%.

Figure 5.1: Foreign trade and current account



Source: Banka Slovenije. Latest data: February 2025

Note: * In the left chart the figure for the first quarter is an average for January and February.

Year-on-year growth in nominal merchandise imports over the first two months of the year remained at its level from the final quarter of last year, at 2.4%. Imports of almost all categories of merchandise declined, most notably chemical products (down 5.7%)²³ and machinery and equipment (down 3.3%). Owing to a decline in imports of road vehicles and energy, and the high base from last year, there was a decline in imports from France (of 15.3%), while imports from Italy also declined slightly (by 1.7%). Conversely,

²³ Excludes imports of medical and pharmaceutical products from Switzerland, and imports of organic chemical products from Switzerland, China and India.

imports from Croatia and Austria increased by just over 20% and 7% respectively, primarily due to energy imports, while a rise in road vehicles imports contributed to a 10% increase in imports from Germany.

The good performance in services trade seen in the second half of last year slowed over the first two months of this year. Nominal services exports were up 2.5% in year-on-year terms, driven by a rise of 9.6% in exports of transport services, while exports of construction services have undergone a continual decline since March of last year (they were down 23.1% over the first two months of this year). Services exports to France are up 20% in year-on-year terms this year, driven primarily by transport services, while services exports to the four other main trading partners (Germany, Austria, Italy and Croatia) declined.

Year-on-year growth in services imports picked up to 8.0% in the early part of this year, driven mainly by transport services, which rose by 16.6% year-on-year. Imports of construction services by contrast resumed their sharp year-on-year decline (of 22.9%), after temporarily improving at the end of last year. Services imports from Italy (mainly travel services) were up 7.5%, while imports from Croatia, Austria and France remained almost unchanged from the same period last year. Meanwhile, services imports from Germany declined by 6.5% (driven by construction and miscellaneous business services).

The 12-month current account surplus declined slightly to EUR 2.8 billion, approximately EUR 350 million lower than its one-year peak in October of last year (see Figure 5.1, right). The services trade surplus remained high at EUR 3.6 billion, while the merchandise trade surplus declined slightly to EUR 550 million. The decrease in the current account surplus was also driven by an increased deficit in income. This was primarily due to a EUR 240 million larger deficit in secondary income, as a result of various current general government transfers, while the deficit in primary income remains relatively unchanged.

Box 5.1: Slovenia's exposure to the US from the perspective of international trade

The imposition of new tariffs by the US will affect global trade flows, and also the Slovenian economy, particularly in light of its openness and strong integration into global value chains.

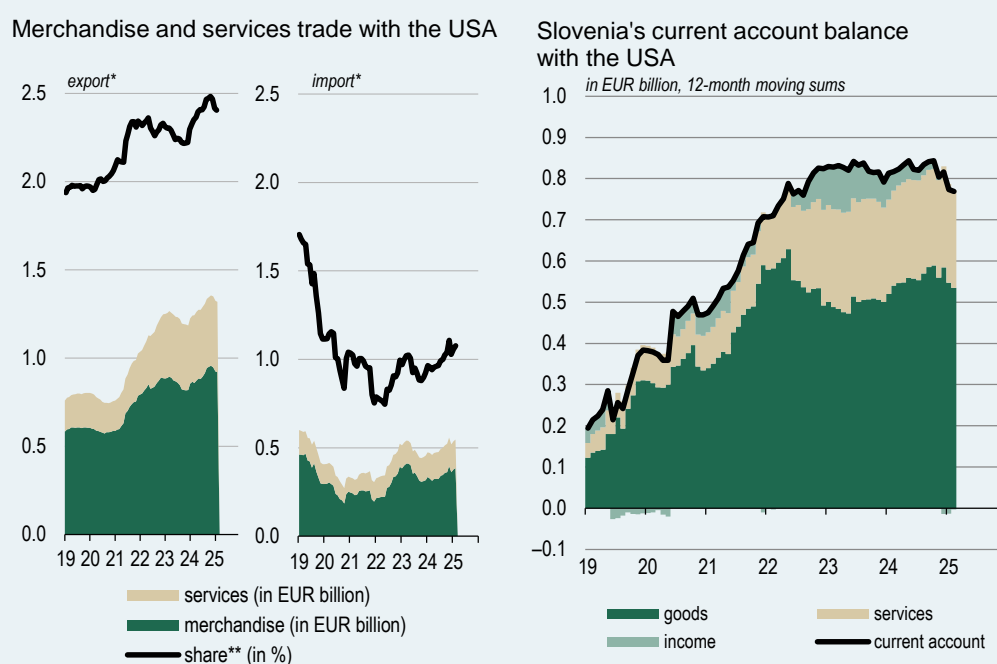
The US imposed multiple new tariffs in March and April of this year. Of those that entered into force in March, the most difficult to bear for EU Member States are the tariffs on imports of steel and aluminium, while April saw the imposition of tariffs on cars and car parts. These were followed by reciprocal tariffs, the rises in which were frozen for 90 days. A 10% tariff rate currently applies to the majority of countries, alongside the tariffs on steel, aluminium and cars. Although direct trade between Slovenia and the US is relatively small, the indirect impact of the imposition of US tariffs could be considerably greater via European markets and global value chains. Slovenia is a small and extremely open economy, which means that increased protectionism could have a

substantial impact on it.²⁴ This box for that reason analyses Slovenia's exposure to the US from the perspective of international trade, with indirect flows also being taken into account.

The direct impact of US tariffs on the Slovenian economy will be minor from a trade perspective.

According to balance of payments figures, the US accounted for 2.4% of Slovenia's aggregate exports in February, 2.2% of its merchandise exports and 3.2% of its services exports, calculated as 12-month moving averages (see Figure 5.1.1, left). Exports of merchandise and services to the US have increased by 6.2% in value terms over the last year, and by around 65% over the last five years.²⁵ According to the SURS data and the Combined Nomenclature, the largest value merchandise exports to the US in 2024 were nuclear reactors, boilers, machinery and mechanical appliances (EUR 190 million), electrical machinery and equipment, sound recorders and reproducers, and television image and sound recorders and reproducers (EUR 100 million), optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus (EUR 80 million), and iron and steel (EUR 80 million).²⁶

Figure 5.1.1: Foreign trade with the US



Source: Banka Slovenije. Latest data: February 2025

Notes: Left chart: * 12-month moving averages; ** US share of Slovenia's imports and exports of merchandise and services.

Of the product categories that in our assessment will be hit most by the tariffs on imports of steel and aluminium and on cars and car parts, the largest share in 2024

²⁴ One indicator of the openness of an economy is the trade intensity ratio, calculated as the ratio of imports plus exports to GDP, which in Slovenia has exceeded 100% for more than two decades now. It stood at 165.0% in the final quarter of last year, compared with 95.7% in the euro area overall.

²⁵ For comparison, Slovenia's total exports of merchandise and services over the 12 months to February were up 2.7% in year-on-year terms, and up 34% over the last five years.

²⁶ The US recorded its largest shares of Slovenia's total exports in each category for works of art, collectors' pieces and antiques (33.8%), aircraft, spacecraft and parts thereof (23.8%) and toys, games and sports requisites, parts and accessories thereof (17.2%).

according to the Combined Nomenclature was recorded by iron and steel (the US accounted for 5.9% of Slovenia's total exports in this category).²⁷ This was followed by aluminium and articles thereof (1.9%) and vehicles other than railway or tramway rolling stock, and parts and accessories thereof (1.2%).

Conversely, according to balance of payments figures, the US accounted for 1.1% of Slovenia's aggregate imports in February, 0.9% of its merchandise imports and 1.8% of its services imports, calculated as 12-month moving averages. Imports of merchandise and services from the US were up 16.1% in value terms over the last year, and up approximately 34% over the last five years.²⁸ According to the SURS data and the Combined Nomenclature, the largest value merchandise imports from the US in 2024 were organic chemicals (EUR 860 million).²⁹

Slovenia's 12-month current account position against the US is continually in surplus, and stood at EUR 843 million in November of last year, one of the largest figures to date (see Figure 5.1.1, right).

Once indirect trade flows are taken into account, Slovenia's exposure to the US almost doubles, but remains relatively small.

According to the latest OECD data, the US accounted for 3.7% of Slovenia's total exports in 2020, but after taking account of indirect flows³⁰ via other countries Slovenia's exposure increased by 2.8 percentage points to 6.5% (see Figure 5.1.2, left). The US share of Slovenia's exports after taking account of indirect flows is highest in the manufacture of basic pharmaceutical products and pharmaceutical preparations (20.2% of total exports in the sector).

Of the sectors that in our assessment will be most exposed to the imposition of US tariffs on steel and aluminium, and on cars and car parts, the US share of Slovenia's exports after taking account of indirect flows was largest in the manufacture of other transport equipment (7.7% of the sector's total exports), the manufacturing of basic metals (7.4%), the manufacture of fabricated metal products except machinery and equipment (5.8%) and the manufacture of motor vehicles, trailers and semi-trailers (3.5%).³¹

²⁷ Our assessment is that tariffs will have the largest impact on international trade in the following products according to the Combined Nomenclature: iron and steel (72), articles of iron and steel (73), aluminium and articles thereof (76), and vehicles other than railway or tramway rolling stock, and parts and accessories thereof (87).

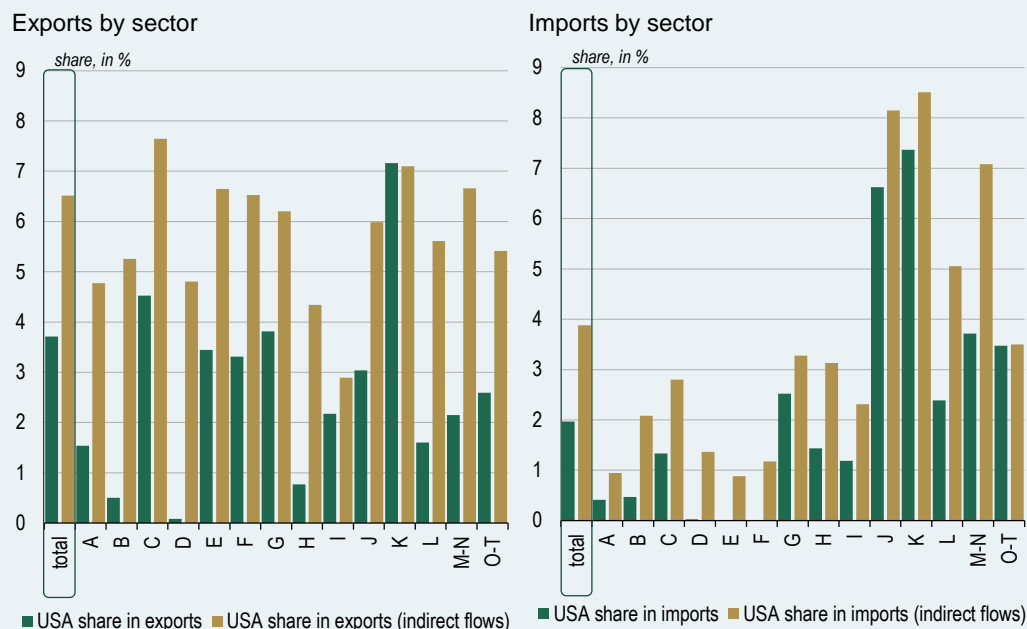
²⁸ Slovenia's aggregate imports of merchandise and services increased by 3.0% in year-on-year terms, and by 39.0% over the last five years.

²⁹ The US's largest shares of Slovenia's total imports in each category were recorded in works of art, collectors' pieces and antiques (18.9%), aircraft, spacecraft and parts thereof (11.1%) and explosives, pyrotechnic products, matches, pyrophoric alloys and certain combustible preparations (9.1%).

³⁰ In estimating the indirect impact of the imposition of US tariffs on Slovenia's foreign trade we take account of the OECD data (TiVA database), where the differing methodologies can give rise to differences relative to national accounts statistics or balance of payments figures. This analysis uses data from the most recent year available, i.e. 2020, when the US's share of Slovenia's total exports was slightly above its 10-year average, while its share of total imports was slightly below.

³¹ In our assessment manufacturing will be hit hardest by the tariffs, in particular the manufacture of basic metals (C24), the manufacture of fabricated metal products except machinery and equipment (C25), the manufacture of motor vehicles, trailers and semi-trailers (C29) and the manufacture of other transport equipment (C30).

Figure 5.1.2: Slovenia's trade with the US including indirect flows



Sources: OECD, Banka Slovenije calculations

Note: Data relates to 2020. The sector labels are explained in the list of abbreviations at the end of the publication. In the left chart the USA share in exports (indirect flows) captures the value added that is exported both directly, through exports of final goods or services, and indirectly via exports of intermediates that reach foreign final consumers through other countries. The measure reflects how domestic sectors are connected to consumers in other countries, even where no direct trade relationship exists. The indicator illustrates the full impact of final demand in foreign markets to domestic output. It can be interpreted as exports of value added. In the right chart the USA share in imports (indirect flows) reveals the amount of foreign value added present in final goods or services purchased by domestic final consumers. It can show how sectors abroad are connected to consumers at home, even where no direct trade relationship exists. It can be interpreted as imports of value-added.

According to the OECD data, the US accounted for 2.0% of Slovenia's total imports in 2020, but after taking account of indirect flows via other countries Slovenia's exposure increased by 1.9 percentage points to 3.9% (see Figure 5.1.2, right). The sector where the US share of Slovenia's imports after taking account of indirect flows was largest was the manufacture of other transport equipment (17.7% of the sector's total imports).

If the multiplier effect of greater exposure from the perspective of indirect flows as follows from the OECD data for 2020 were mapped to the initial balance of payments data from February of this year, Slovenia's exposure to the US would increase by 1.8 percentage points to 4.2% on the export side, and by 1.1 percentage points to 2.2% on the import side.

Approximately 15 thousand jobs in Slovenia depend on trade with the US.

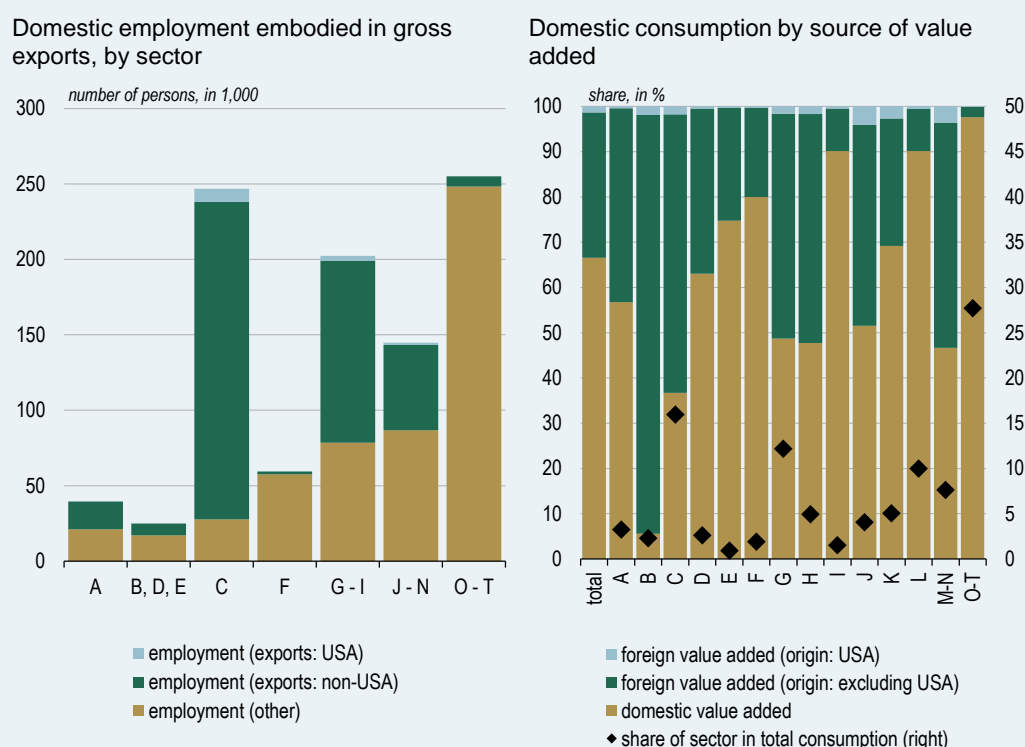
Based on analysis of direct and indirect trade flows between Slovenia and the US, it could be concluded that the Slovenian economy's exposure from the imposition of new tariffs by the US is relatively small, but this might be neglectful of the broader perspective. Integration into international trade with the US varies widely across sectors, and in certain subcategories is indicative of a high level of integration of specific parts of the economy. The analysis also confirmed the importance of total international trade for the Slovenian economy, in particular from the perspective of the indicator of the openness of the economy.

The OECD data also contains an estimate of employment involved in a particular country's exports, and with it the possibility of analysing how much the workforce in a country depends on its inclusion in international trade. In Slovenia the share of employment involved in total exports stood at 43.4% in 2020, where the share of employment involved in exports to the US stood at 1.4%, equivalent to approximately 15 thousand people (see Figure 5.1.3, left). For comparison, the share of employment involved in total exports stood at 25.9% in the euro area overall in 2020, 17.5 percentage points less than in Slovenia.

The content of US value-added in domestic consumption is highest in the manufacture of other transport equipment.

The content of foreign value-added in Slovenian consumption is also high. According to the OECD data, it stood at 33.4% in 2020 (see Figure 5.1.3, right), 20 percentage points more than in the euro area overall, where it stood at 13.4%.³² The content of consumption in Slovenia originating in US value-added was low in respect of total consumption (1.3%), but was highest in the manufacture of other transport equipment at 11.3%. Given the openness and small size of the Slovenian economy, indirect effects also need to be taken into account alongside the direct adverse impact of the tariffs on exports to the US (where Slovenian exporters would be less competitive in the US market because of higher prices).

Figure 5.1.3: Dependence on international trade of employment and domestic consumption



Sources: OECD, Banka Slovenije calculations

Note: Data relates to 2020. The sector labels are explained in the list of abbreviations at the end of the publication. In the left chart employment (exports: USA) refers to employment embodied in gross exports to the USA, employment (exports: non-USA) refers to employment embodied in gross exports to other countries, employment (other) refers to employment not included in exports.

³² Domestic consumption includes consumption by households and non-profit institutions serving households (NPISHs), and government consumption. The origin of value-added of domestic consumption is broken down by country and industry of origin.

The Slovenian economy is strongly integrated into global value chains, for which reason the higher tariffs during likely retaliatory measures will act to reduce demand for Slovenian products.

As part of the December projections we drew up an alternative scenario that envisaged the reciprocal imposition of tariffs in the amount of 10% on merchandise trade between the US and the EU. The scenario confirms that despite the small direct exposure, higher tariffs will have a significant adverse impact on economic activity in Slovenia, particularly via increased trade uncertainty in the global environment and lower export activity in Slovenia's main trading partners in the EU.³³ By contrast, the projected impact on inflation is less singular in direction, as the expectation is that higher import prices will partly be mitigated by the effects of reduced demand domestically and abroad, and the potential increased supply of goods owing to third-country producers redirecting from the US to the EU.³⁴ In the June projections we will update the assessment of the impact on the Slovenian economy on the basis of the latest tariff data. Rises in tariffs will most likely be followed by retaliatory measures by other countries, which will increase protectionist tendencies and reduce the level of international trade.

Box 5.2: Financial account including vis-à-vis the US

The surplus generated last year in the financial account of the balance of payments saw Slovenian residents, financial corporations in particular, increase their net holdings of foreign securities.

Slovenia once again recorded a surplus in the financial account of the balance of payments last year, similarly to the last 12 years with the exception of 2022. The surplus is indicative of a net flow of capital from the domestic economy to the rest of the world, which last year amounted to EUR 2.5 billion or 3.7% of GDP.³⁵ As a ratio to GDP it was 0.6 percentage points less than the average between 2012 and 2023,³⁶ but in absolute terms it was up on the previous year and was the highest figure since 2020.

A look at financial transactions with the rest of the world across the four principal instruments shows that at the level of the total economy a net outflow of capital was only recorded via domestic residents' holdings of foreign securities (EUR 3.5 billion; see Figure 5.2.1, left), mostly debt securities. The net inflow of capital into Slovenia via other instruments, i.e. mainly non-residents' direct investments and their holdings of other assets, was significantly smaller by contrast. It amounted to close to EUR 1.4 billion. Certain items of other assets also saw a net outflow of capital to the rest of the world, most notably loans. Slovenian residents last year repaid EUR 1.3 billion of net external liabilities via this item (primarily financial corporations, but also non-financial corporations and the general government to a lesser extent).

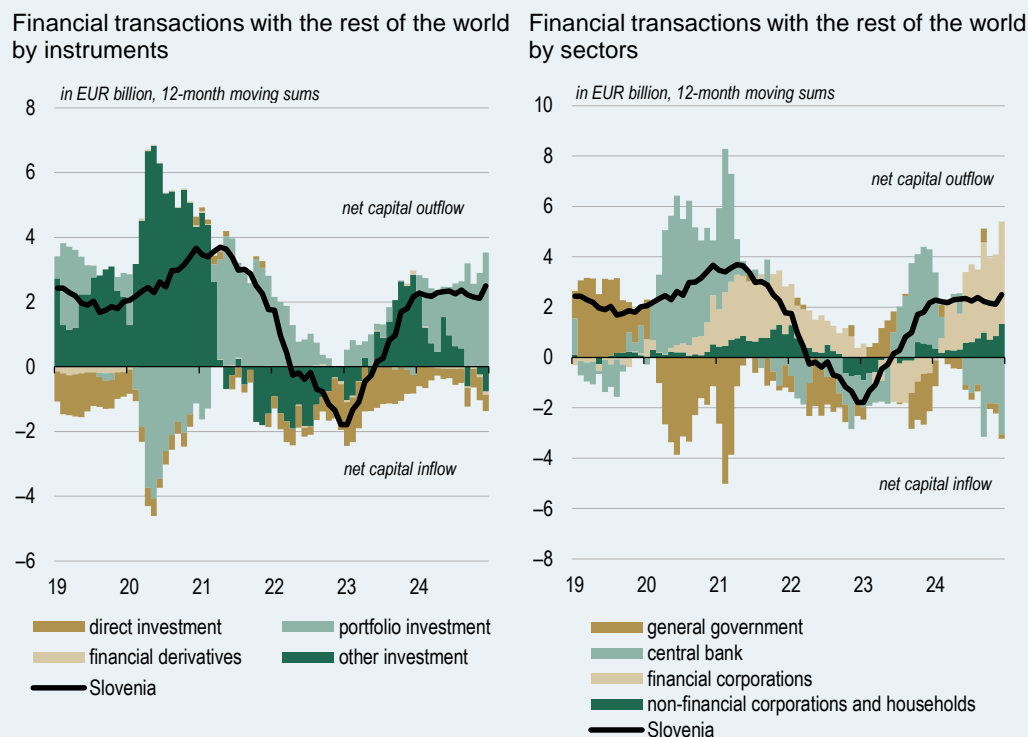
³³ Detailed analysis can be found in Section 3.3. of the [December 2024 issue of the Review of macroeconomic developments and projections](#).

³⁴ The imposition of higher tariffs by the US is likely to have an adverse impact on economic growth of its trading partners, while the impact on price developments might be inflationary or disinflationary. For more, see [Unpredictable Tariffs by the US: Implications for the euro area and its monetary policy](#).

³⁵ The financial account surplus reflects the developments in the current account and the capital account. The former was in surplus in the amount of EUR 3.0 billion, and the latter was in deficit in the amount of EUR 94 million, while there was a statistical error of EUR 388 million.

³⁶ Excluding 2022, when the Slovenian economy recorded a financial account deficit, i.e. a net inflow of capital from the rest of the world.

Figure 5.2.1: **Financial account**



Source: Banka Slovenije

In terms of institutional sector, the main factor in last year's net flow of capital to the rest of the world was financial transactions by financial corporations (see Figure 5.2.1, right), in particular via securities. Banks stood out in this respect, making net investments of EUR 2.3 billion, primarily in foreign bonds. Non-financial corporations also recorded a net outflow of capital to the rest of the world in the amount of approximately EUR 600 million. This was mainly done via an increase of net holdings of currency and deposits in accounts abroad, the repayment of foreign loans, and new trade credits in the total amount of approximately EUR 1.1 billion. This more than compensated for the net financial inflow in the amount of EUR 530 million in the form of FDI.

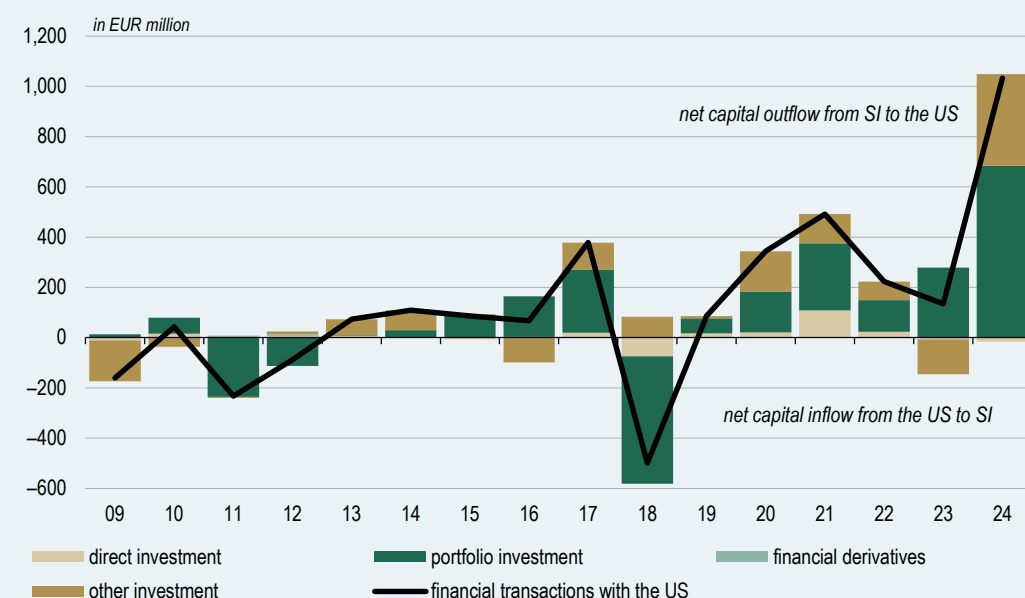
Households transferred approximately EUR 270 million of their savings to the rest of the world last year via purchases of non-residents' securities, and just over EUR 130 million via direct investments, largely purchases of real estate in our assessment, mostly in Croatia. The largest net outflow item in the instrument breakdown for households is currency and deposits (around EUR 330 million), which also includes imports of euro currency.

By contrast the central bank recorded a net inflow of capital last year (EUR 3.0 billion), primarily via currency and deposits under Eurosystem TARGET operations. A net inflow of capital was also recorded by the general government sector, as its net issuance of bonds to non-residents in the amount of EUR 680 million slightly exceeded its net investment in currency and deposits in accounts abroad (EUR 460 million), while it also made net loan repayments of around EUR 200 million to entities in the rest of the world.

The financial account figures show that between Slovenia and the US capital has migrated from domestic residents to US residents over the last six years. Last year's net outflow was the largest to date.

Since 2019, and otherwise over the majority of the last 16 years for which data on Slovenia's financial flows with individual countries has been available, there has been a net flow of capital from Slovenia to the US (see Figure 5.2.2). Net flows between the two economies are modest, having exceeded 1% of GDP on only two occasions, most recently last year. The majority of capital usually moves from domestic residents to US residents via net investments in the latter's securities, and to a much lesser extent via other assets,³⁷ which include currency and deposits in accounts in the US, loans, trade credits and insurance, and also via direct investments in certain years.

Figure 5.2.2: **Slovenia's financial transactions with the US**



Source: Banka Slovenije
Note: Other assets include reserve holdings.

Box 5.3: Slovenia's international investment position and external debt, including vis-à-vis the US

In terms of its international investment position, Slovenia was a net creditor to the rest of the world last year for the second consecutive year, in the amount of EUR 5.5 billion or 8.2% of GDP.

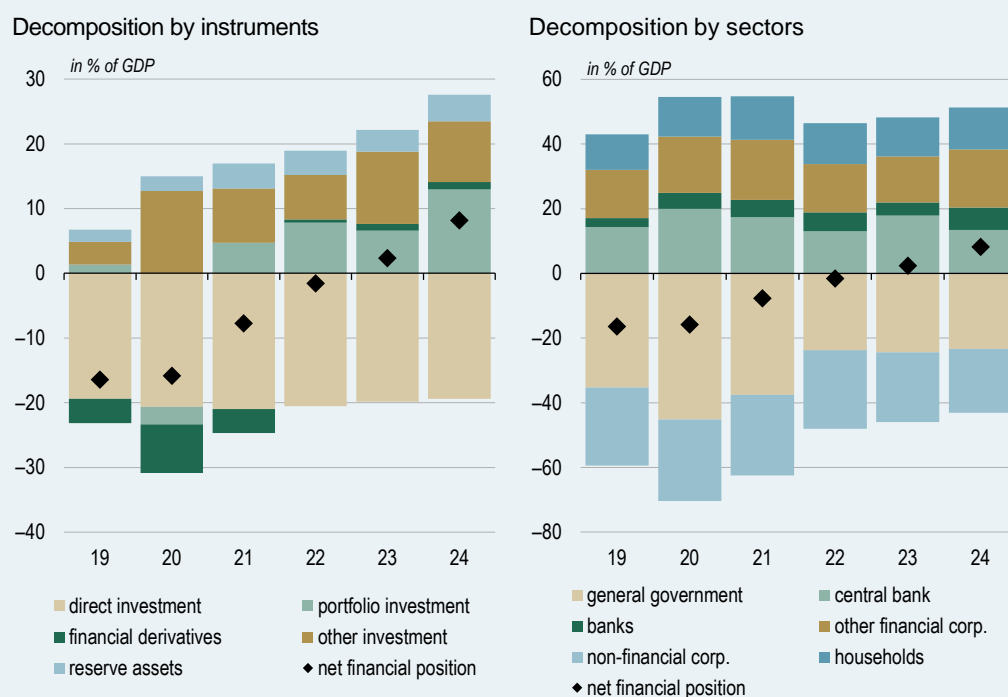
Slovenia's net financial position against the rest of the world strengthened further into positive territory last year (by EUR 4.0 billion), its net negative international investment position having previously declined over the preceding decade, through a surplus of domestic saving over investment (see Figure 5.3.1, left). Last year the increase in Slovenian residents' outward financial investments (by EUR 7.5 billion) was again larger

³⁷ The country disclosures also include reserve holdings under other assets.

than the increase in non-residents' inward investments in Slovenia, which constitute external liabilities (by EUR 3.5 billion). The year-on-year improvement in Slovenia's net external position was mainly attributable to financial transactions, but also in part to price and exchange rate changes. Alongside Slovenia, half of the euro area countries also disclosed a net creditor financial position against the rest of the world last year.

The breakdown by instrument reveals that the largest increase in the net international investment position was in holdings of securities, in the amount of EUR 4.5 billion, most notably bonds. The changes in the net stock of other instruments were considerably smaller. At the level of the total economy, only the net financial position against the rest of the world in direct investments remains negative, and remained close to its level of the previous year at EUR 13.0 billion. All other instruments have disclosed a net creditor position over the last three years, most notably securities and other investments.

Figure 5.3.1: **Net international investment position**



Source: Banka Slovenije

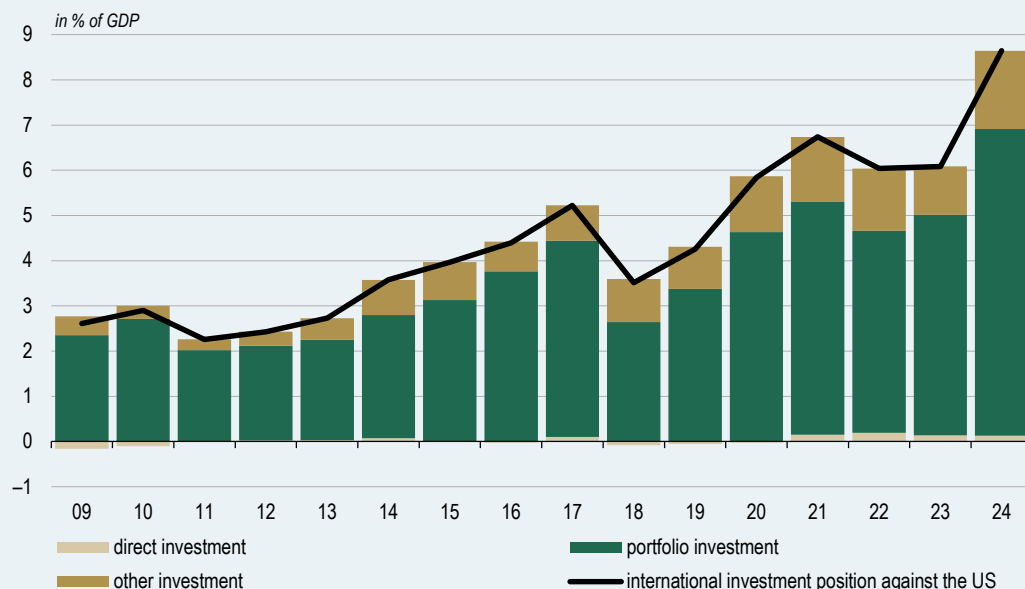
The net international investment position remained negative solely in respect of non-financial corporations and the general government sector (see Figure 5.3.1, right). The latter's net financial liabilities to non-residents remained close to its level of the previous year at EUR 15.6 billion, while non-financial corporations saw a slight easing of their net debtor position. Despite the negative position in respect of non-financial corporations, the private sector's aggregate net financial claims against the rest of the world doubled last year, via an increase in the net assets of financial corporations and households, and exceeded EUR 12 billion at the end of the year.

The net international investment position against the US has been positive in all years, which means that Slovenia is a net creditor of the US economy.

Slovenia's net external position against the US has been gradually increasing since 2009, when the data was first made available. The stock of Slovenian residents' net

assets in the US stood at EUR 5.8 billion or 8.6% of GDP at the end of last year (see Figure 5.3.2). The stock of securities in particular has been continually strengthening, and accounts for approximately 80% of the total portfolio of domestic residents' net assets in the US. The remainder consists of other assets,³⁸ which include currency and deposits in US accounts, loans, trade credits and insurance, and also to a lesser extent direct investments in US firms and real estate.

Figure 5.3.2: **Net international investment position against the US**



Source: Banka Slovenije

Note: Other assets include reserve holdings.

Slovenia's external borrowing is increasing, but last year it was nevertheless a net creditor of the rest of the world for the fourth consecutive year.

Over the last six years, i.e. since 2018, when it resumed its increase, Slovenia's gross external debt has risen by just over 40%, but it has gradually and continually declined as a ratio to GDP, with the exception of the pandemic period of 2020 and 2021. It amounted to EUR 59.3 billion at the end of last year, or 88.5% of GDP. It increased by EUR 1.5 billion last year, but the relatively solid economic growth meant that it actually declined as a ratio to GDP (see Figure 5.3.3, left).

Last year the absolute increase in gross external debt was driven mainly by the general government sector and the central bank, but also to a small extent by banks. The ratio of general government debt to GDP declined to 35.2%, the lowest figure of the last 12 years (see Figure 5.3.3, left). The total debt of households, non-financial corporations and various financial institutions continued to decline as ratio to GDP. The central bank by contrast saw a slight increase in its debt to 18.1% of GDP, while the banks' debt remained close to its level of the previous year.

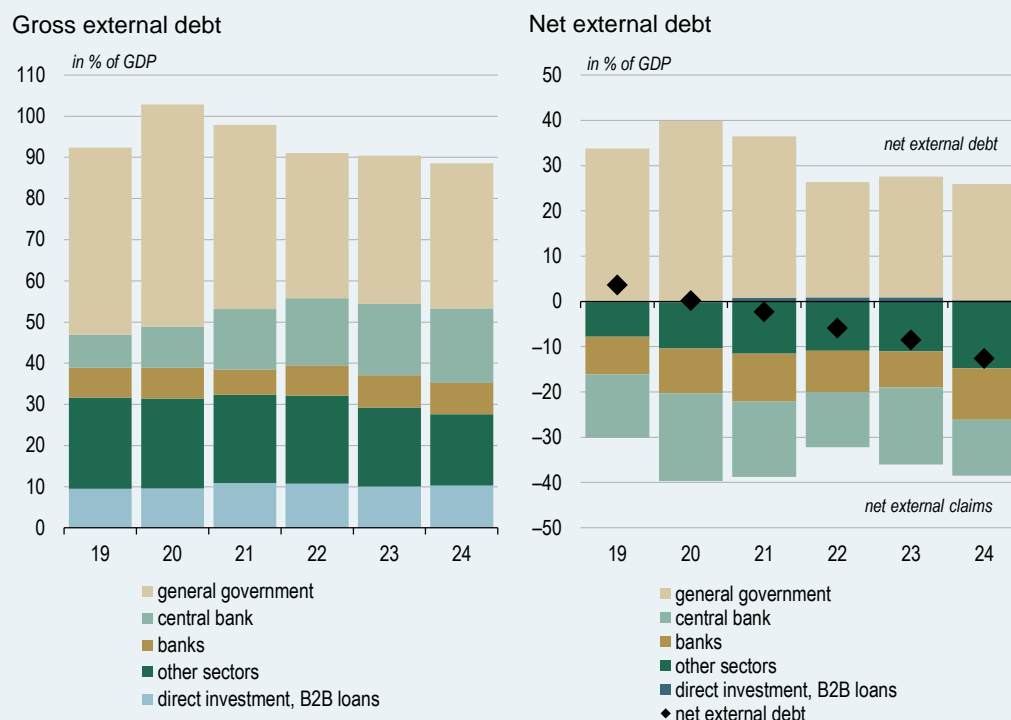
Despite Slovenia's continued borrowing in the rest of the world, last year it was a net creditor of the rest of the world for the fourth consecutive year. This was attributable to the increase in external debt claims outpacing that in debt liabilities. Slovenian residents' gross external claims under debt instruments increased to EUR 67.7 billion or 101.1% of GDP last year. Net external claims under debt instruments thereby increased

³⁸ The country disclosures also include reserve holdings under other assets.

to EUR 8.4 billion or 12.6% of GDP (see Figure 5.3.3, right). Only the general government sector continued to record a net external debt, which amounted to 25.7% of GDP, down 1 percentage point. The private sector by contrast significantly strengthened its net creditor position against the rest of the world (25.9% of GDP).

In terms of the level of the gross external debt (as a ratio to GDP), Slovenia is one of the least-indebted euro area countries, while nine countries, including Slovenia, have no net external debt.

Figure 5.3.3: **External debt**



6 Inflation

March's uptick in inflation was driven primarily by non-energy components of the consumer basket.

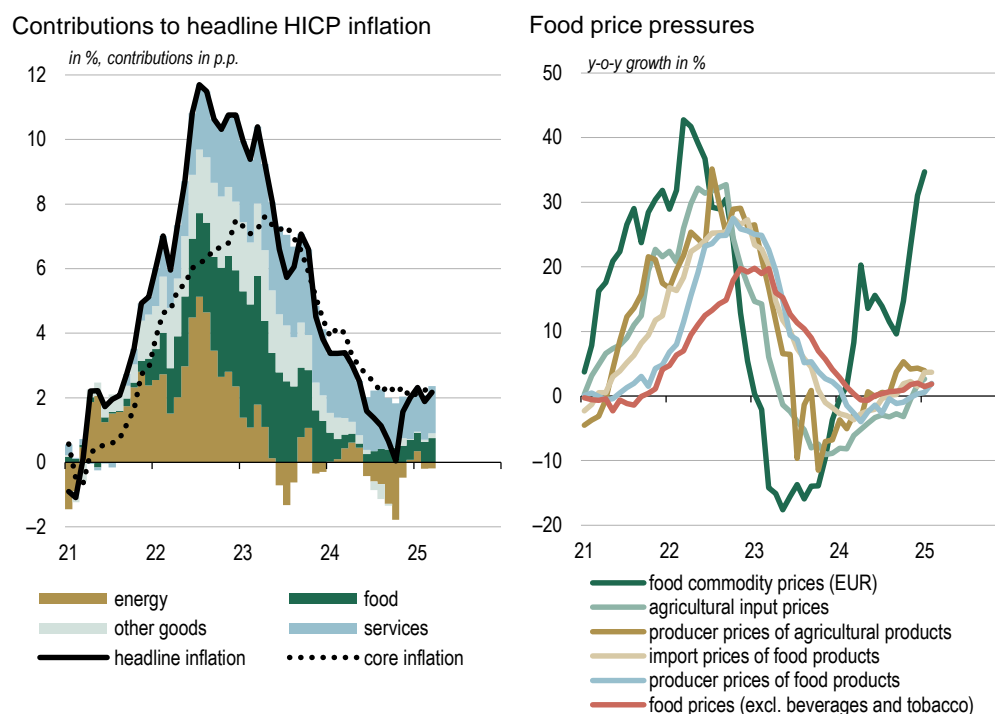
Headline inflation, as measured by the HICP, strengthened to 2.2% in March, up from 1.9% in February (see Figure 6.1, left). The increase was driven almost evenly by rising prices of food, non-energy industrial goods (hereinafter: other goods) and services. Food inflation³⁹ rose to 3.3% year-on-year (up from 2.8% in February) amid growth in food commodity prices on global markets having strengthened to 34.7% in January –

³⁹ Food includes categories 01 and 02 under the ECOICOP classification, i.e. food, beverages and tobacco.

only slightly below its previous peak in March 2022.⁴⁰ Such developments likely stem from numerous factors, particularly adverse weather conditions and geopolitical uncertainty. Notable increases were recorded in cocoa and coffee prices; however, pressures on global markets are, for now, only partially being passed through along production chains to consumer prices (see Figure 6.1, right). Since January, 0.4 percentage points of food inflation have been attributed to the increase in the tax on sugar-sweetened beverages, although this effect will fade out by next January.

Energy prices in March were down 1.6% year-on-year (compared to 1.7% in February). However, this small change in the annual growth rate masks significant differences in monthly trends across energy subcomponents. The rise of 16.5% in electricity prices – largely due to the expiry of government regulation on retailer prices and network charges for the highest-priced consumption block – was nearly offset by a 1.5% month-on-month decline in fuel prices. This decline reflects expectations of increased production by OPEC+ countries and concerns about weakening demand following the introduction of new tariffs in the US.

Figure 6.1: Inflation in Slovenia and factors in food prices



Sources: SURS, Eurostat, ECB. Latest data, left chart: March 2025, right chart: food commodity, agricultural input and producer prices: January 2025; import and producer prices of food products: February 2025; food: March 2025

Core inflation has relatively aligned with headline inflation trends this year, despite persistent gap between services and other goods inflation.

Core inflation, i.e. inflation excluding energy and food prices, rose to 2.5% in March, up from 2.2% in February. Services inflation stood at 4.2% (up from 3.9% in February), with medical services⁴¹ prices rising by 5.2% month-on-month (see Figure 6.2, left).

⁴⁰ In January 2025, food commodity prices on global markets were double their level from 2019.

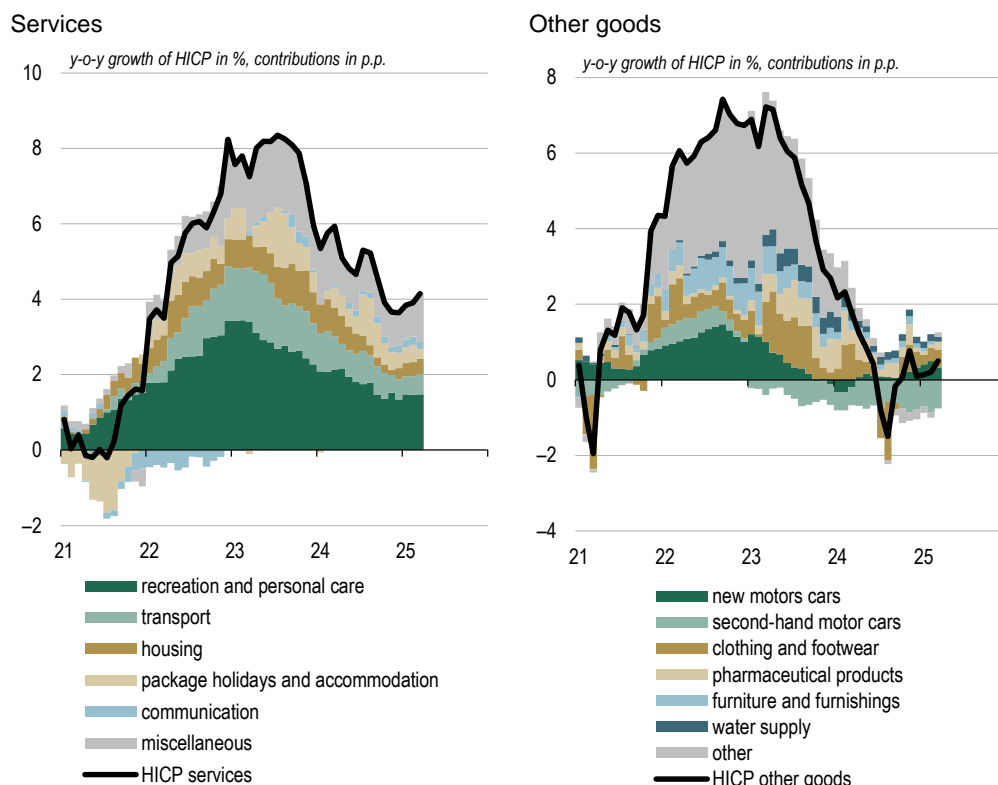
⁴¹ Medical services, i.e. out-patient and hospital services, account for 35% of the miscellaneous category, and 8% of total services. Their year-on-year growth rate increased to 8.0%.

High services inflation is also being driven by catering services,⁴² which were up 5.4% year-on-year.

Cost pressures remained elevated, with real growth in compensation per employee exceeding 3% also towards the end of last year. However, services producer prices are no longer declining year-on-year, and firms are no longer expecting changes regarding demand and selling prices. These developments are not yet reflecting weaker consumption, as suggested by available indicators for domestic market turnover, or a moderate decline in capacity utilisation in the first quarter of this year.

Nevertheless, this could be reflected in the inflation for other goods, which remains relatively subdued, although it picked up to 0.5% in March (from 0.2% in February). The increase was attributable to month-on-month price rises in clothing and footwear amid the changeover to spring and summer collections. Unlike last year, however, these increases were more in line with the long-term average.⁴³ Among other subcategories, low inflation for other goods is largely driven by developments in prices of second-hand cars, while prices of items such as new cars and furniture are continuing to rise moderately (see Figure 6.2, right).

Figure 6.2: **Decomposition of core inflation**



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

⁴² Catering services account for 71% of the recreation and personal care category, and 22% of all services.

⁴³ Growth in prices of clothing and footwear in March averaged 9.9% between 2009 and 2022, compared with 7.9% last year and 8.7% this year. The base effect in this category accounts for approximately a third of the increase in year-on-year growth in prices of other goods.

The general government position reached a primary surplus last year as extraordinary measures were downsized, while the ratio of debt to GDP declined, largely as a result of GDP growth.

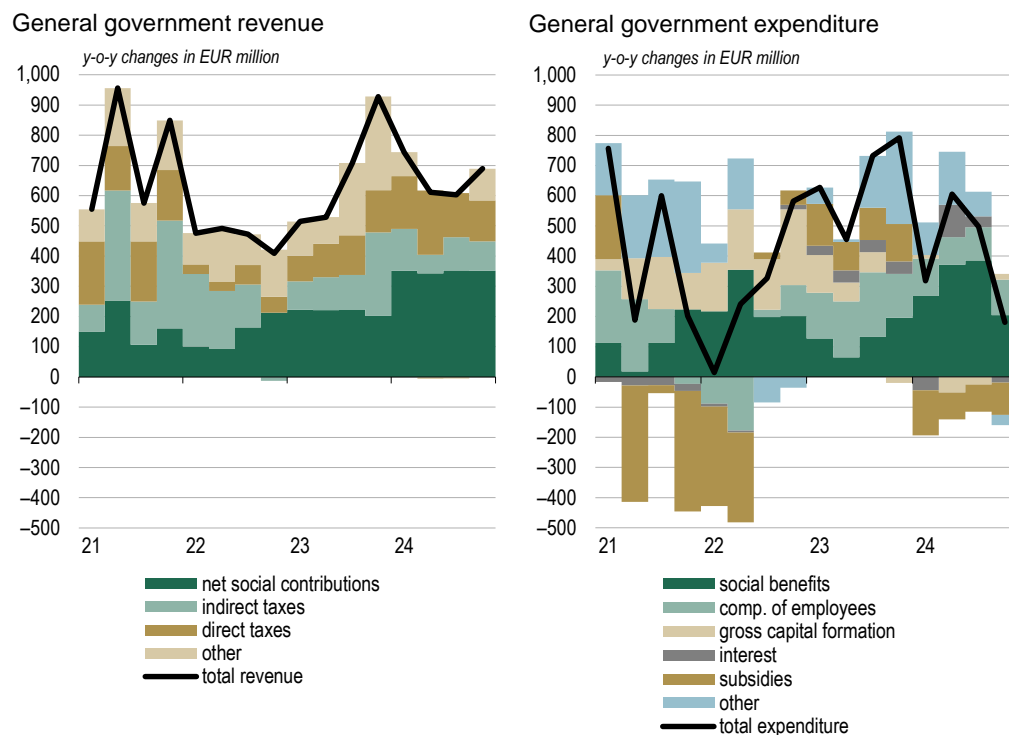
The general government deficit narrowed by EUR 1.0 billion last year to stand at 0.9% of GDP. It was 1.7 GDP percentage points smaller than in the previous year, and has narrowed significantly compared to the release of the October government projections (by 2.9%). The main improvement was in the central government position. The social security funds were in surplus in the amount of 0.2% of GDP, while local government recorded a deficit of 0.4% of GDP.⁴⁴ Amid an increase in interest expenditure, which reached 1.3% of GDP, a primary surplus was achieved for the first time since 2019, in the amount of 0.4% of GDP. The government plans are forecasting a rise in the general government deficit to 1.9% of GDP this year.

General government revenues increased by 9.4%, double the rate of GDP growth. There was notably high growth of 13.7% in social security contributions, driven by a labour market situation that was favourable to the public finances and the change of voluntary health insurance into compulsory health contribution, which accounts for almost half of the increase in social security contributions. Together with the lack of change in the income tax brackets, the situation on the labour market was also a factor in the high growth of approximately 10% in personal income tax revenues. Revenues from indirect taxes, which include VAT and excise duties, grew more modestly, but nevertheless increased by more than household consumption. This is attributable to the rise in excise duties on motor fuels and tobacco, a rise in environmental levies in the form of carbon tax, and a base effect in connection with the temporary taxation of energy at a lower rate between September 2022 and May 2023. Corporate income tax revenues were also up approximately a fifth on the previous year according to the SURS estimates, as a result of a temporary rise in the tax rate of 3 percentage points for a period of five years. The rise in interest rates was reflected in growth in interest income (see Figure 7.1, left).

The increase in general government expenditure was smaller than that in revenues, at 5.4%. The main factors in the nominal growth were social benefits, most notably pensions after an 8.8% pension increase and a rise in the number of pensioners, and wages. The expiry of the measures to mitigate the energy crisis was reflected in a decline in subsidies of more than a third. Government investment also declined after the previous EU financial framework ended. Interest payments rose again last year, as a result of an increase in debt and a rise in borrowing costs (see Figure 7.1, right).

⁴⁴ Under the standard classification of institutional sectors, government sector units are classed as central government (e.g. state budget, public funds and institutes), regional government (no units in Slovenia that would fall under this classification), local government (e.g. the municipalities), and social security funds (e.g. ZPIZ, ZZZS).

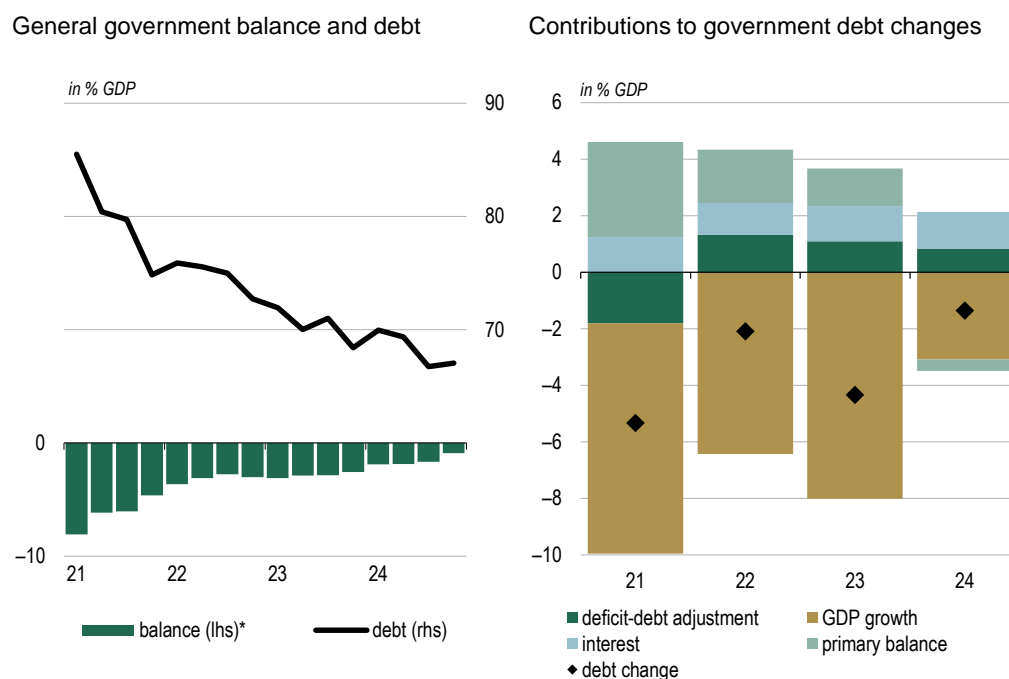
Figure 7.1: General government revenues and expenditure according to ESA methodology



Sources: SURS, Banka Slovenije calculations. Latest data: Q4 2024

The general government debt increased by EUR 1.2 billion in absolute terms last year to reach EUR 44.9 billion by year-end, or 67.0% of GDP (see Figure 7.2, left). Its ongoing decline as a ratio to GDP was primarily attributable to the increase in GDP, and to a lesser extent to the primary surplus (see Figure 7.2, right). The implicit interest rate on the debt rose to 2.0% last year (up from 1.9% in the previous year).⁴⁵

Figure 7.2: Change in general government position and debt according to ESA methodology



Sources: SURS, Banka Slovenije calculations. Latest data: left chart, Q4 2024

Note: * 4-quarter moving sums.

⁴⁵ The implicit interest rate is calculated as the ratio of interest expenditure to average debt at the end of the current and the previous year.

The weighted coupon rate of government borrowing via bonds in the first quarter of this year (3.25%) was up slightly on last year (3.01%), while the yield on borrowing via treasury bills fell. The government's largest borrowing came via the issuance of 30-year bonds, while a second people's bond was issued in March with a nominal value of EUR 250 million, i.e. similar to the first issuance in February of last year.

The deterioration in the consolidated general government position over the first two months of this year was partly attributable to less favourable flows with the EU budget.

The consolidated general government deficit over the first two months of the year amounted to EUR 17 million, compared with a surplus of EUR 220 million in the same period last year. Almost half of the deterioration can be ascribed to the deterioration in the position vis-à-vis the EU budget, largely as a result of a decline in revenues. The state budget data for March shows a year-on-year narrowing in the deficit, despite a significant rise in interest payments. Last year civil servants unusually received their annual leave allowance in March, while the available data for this year indicates that subsidies and investment expenditure were also down in March of this year.

There remains great uncertainty in the fiscal area. The post-flood reconstruction is still in progress, but the measures to mitigate high energy prices are ending. The change in the geopolitical situation means that a rise in defence spending is necessary.^{46, 47} Slovenia is one of the countries that spends the least on defence. Under the current plans it is likely to meet NATO target of 2% of GDP by 2030, but the expectation is that NATO will raise this target level. A new Fiscal Rule Act was passed in March, which adjusts the domestic fiscal rules to the changes at EU level. This transposed the caps on the budget deficit (3% of GDP) and on general government debt (60% of GDP) that cannot be exceeded over the medium term into the national legislative framework. The procedures that the government has to follow in the event of deviating from the rules have also been modified. There has been progress in structural reforms as social partners approved the pension reform in early April, and parliament passed a new healthcare law.

⁴⁶ The EU is proposing a significant increase in defence spending over the coming years, with estimates of being able to activate up to EUR 800 billion over four years through a variety of measures. The rise in defence spending is to be facilitated by the introduction of a temporary (four-year) national escape clause from the fiscal rules, which according to the EU recommendation could amount to 1.5% of GDP each year, and the use of a new EU instrument to finance defence through favourable loans in the amount of EUR 150 billion. Source: [Defence financing and spending under the Economic Governance framework](#)

⁴⁷ Definitions of defence spending are not uniform. Under the NATO approach military expenditure is monitored on cash basis, whereas the accrual principle is applied in ESA government expenditure methodology, with expenditure recorded when arms are supplied. Under the classification of general government expenditure by function (COFOG, which is following ESA recording methodology), Slovenia earmarked 1.2% of GDP for defence in 2023, of which approximately half was spent on employee compensation, and a quarter on investment. The share earmarked for investment was significantly lower in previous years, at around 10%.

8.1 Differences in activity between sectors of Slovenian manufacturing

The overall position of Slovenian manufacturing is relatively favourable compared with the euro area overall, and given the difficult circumstances of recent years. A detailed look at activity across individual sectors reveals that a number of them have faced declining output for some time now, while others are achieving high growth. An increase in activity is particularly evident in high-technology sectors, predominantly the pharmaceutical industry.⁴⁸ Value-added in high-technology sectors in 2023 was up more than 130% on 2008, compared with an increase of just 14.5% in other sectors combined. This predominance continued last year. Other manufacturing and the repair and installation of machinery and equipment are also recording high growth. Over the long term there has been a decline in output in low-technology sectors, including leather and related products, wearing apparel, paper and paper products, textiles, and wood and wood products. Output is also continuing to decline in the manufacturing of motor vehicles.

In difficult circumstances the overall performance of Slovenian manufacturing was evidently superior to that of the euro area and the EU.

Value-added rose by 2.8% last year in Slovenian manufacturing according to seasonally and calendar-adjusted data, but was down 1.7% in the euro area overall and 1.1% across the EU. Compared with 2019, i.e. before the pandemic, value-added in Slovenian manufacturing was up 7.2%, 4.5 percentage points and 3.5 percentage points more respectively than in the euro area and EU overall.

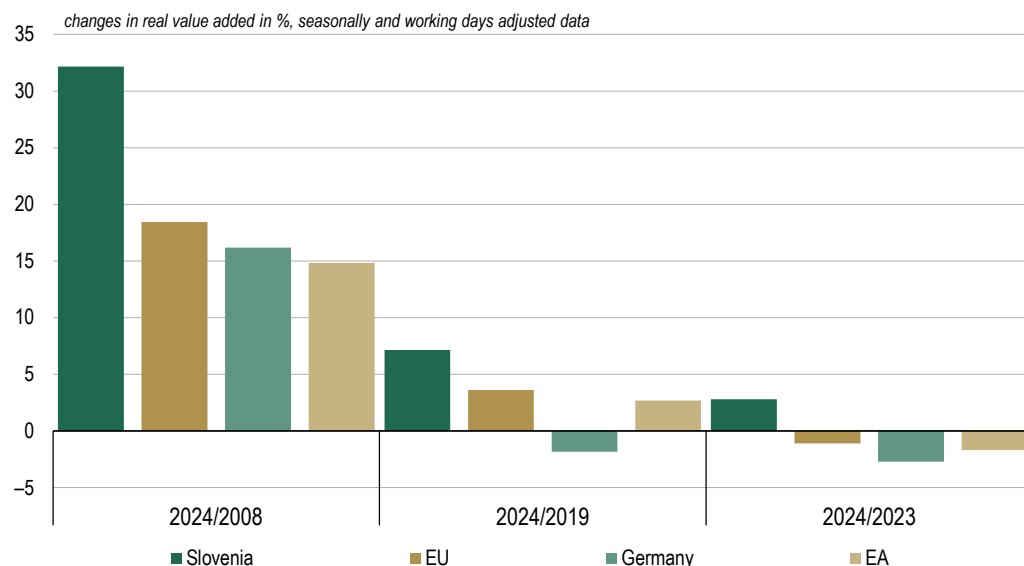
Slovenia also has the advantage over the long term: value-added in 2024 was up 32.2% on 2008, i.e. before the global economic recession, 17.3 percentage points and 13.7 percentage points more respectively than in the euro area and the EU overall (see Figure 8.1.1). Despite this, the situation varies significantly across individual domestic manufacturing sectors with evident structural changes.

⁴⁸ High-technology sectors include the manufacture of basic pharmaceutical products and pharmaceutical preparations, the manufacture of computer, electronic and optical products, and parts of the manufacture of other transport equipment. Medium-high technology sectors include the manufacture of chemicals and chemical products, parts of the manufacture of fabricated metal products except machinery and equipment, the manufacture of machinery and equipment n.e.c., the manufacture of motor vehicles, trailers and semi-trailers, parts of the manufacture of other transport equipment, and parts of other manufacturing.

Medium-low technology sectors include parts of printing and reproduction of recorded media, the manufacture of coke and refined petroleum products, the manufacture of rubber and plastic products, the manufacture of other non-metallic mineral products, the manufacture of basic metals, parts of the manufacture of fabricated metal products except machinery and equipment, parts of the manufacture of other transport equipment, and the repair and installation of machinery and equipment.

Low-technology sectors include the manufacture of food products, the manufacture of beverages, the manufacture of textiles, the manufacture of wearing apparel, the manufacture of leather and related products, the manufacture of wood and wood products, the manufacture of paper and paper products, parts of printing and reproduction of recorded media, the manufacture of furniture, and parts of other manufacturing.

Figure 8.1.1: International comparison of manufacturing activity



Sources: SURS, Eurostat, Banka Slovenije calculations

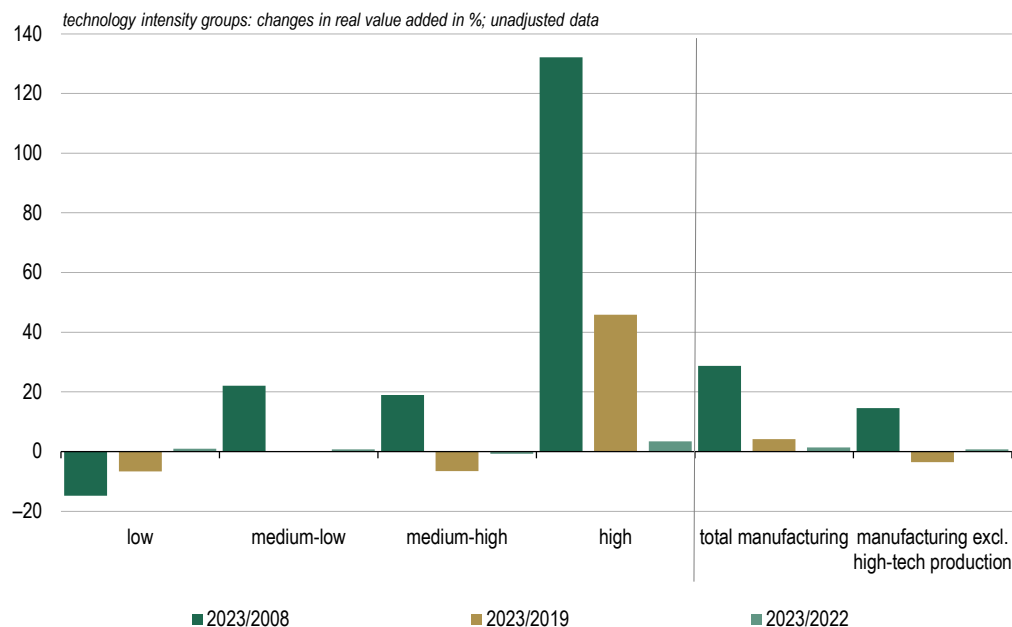
Value-added is concentrated in high-technology sectors.

In 2023, the most recent year for which data on value-added is available for individual sectors, aggregate value-added in manufacturing rose by 1.3%. That year was marked by an energy crisis and huge uncertainty in international trade. Growth in value-added is roughly estimated at 3.4% in high-technology sectors, compared with just 0.8% in the remaining sectors of manufacturing (see Figure 8.1.2). According to the monthly indices, the situation remained similar last year: aggregate output in manufacturing increased by 1.2%, while output in high-technology sectors was up 2.4%.

High-technology sectors were the key factor in the increase in value-added in manufacturing compared with 2019. Aggregate value-added in 2023 was up 4.2% on the aforementioned year. It increased by 45.8% in high-technology sectors, but declined by 3.5% in the remaining manufacturing sectors. Value-added remained unchanged in medium-low technology sectors, whereas the decline exceeded 6.5% in medium-high and low-technology sectors (see Figure 8.1.2).

The rise of high-technology sectors has been long, and is the main reason that Slovenia outperforms average growth in value-added in the euro area and the EU. Aggregate value-added in manufacturing in 2023 was up 28.7% on 2008. It was up 132.1% in high-technology sectors, 19.0% in medium-high technology sectors, and 22.1% in medium-low technology sectors, but declined by 14.8% in low-technology sectors (see Figure 8.1.2). Excluding high-technology sectors, the increase in value-added in manufacturing would be 14.5%, roughly within the bounds of average growth in the euro area.

Figure 8.1.2: Value-added in manufacturing by technological intensity



Sources: SURS, Banka Slovenije calculations

Note: See footnote 48 for the classification of sectors according to technological intensity.

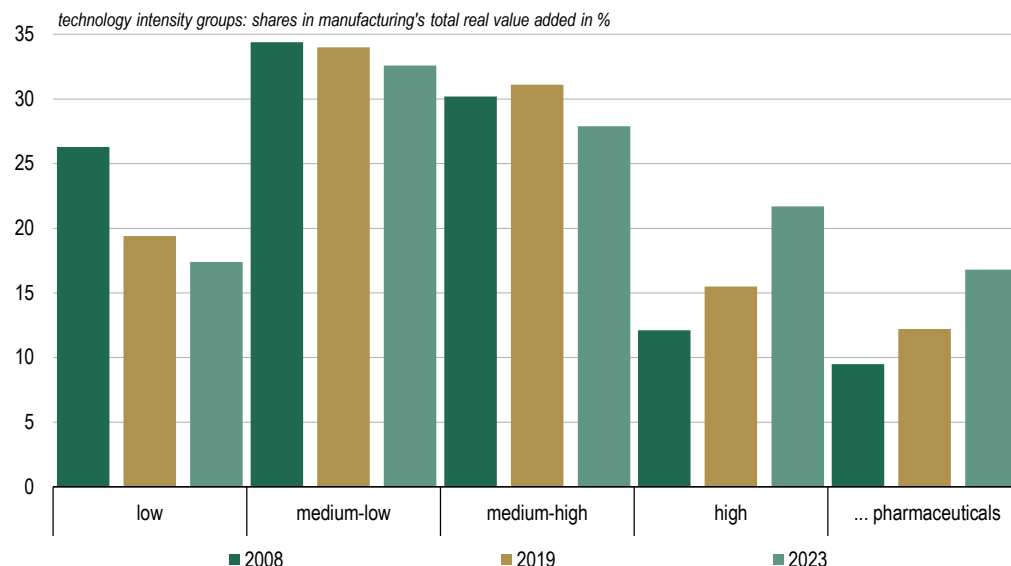
The share of aggregate real value-added in manufacturing accounted for by high-technology sectors is increasing rapidly.

The share of aggregate real value-added in manufacturing accounted for by high-technology sectors was roughly estimated at 21.7% in 2023, up 6.2 percentage points on 2019 and 9.6 percentage points on 2008. According to the latest data, the manufacture of basic pharmaceutical products and pharmaceutical preparations is to the fore, accounting for 16.8%, but the manufacture of computer, electronic and optical equipment has also grown in importance, its share rising to 4.8%. A declining share by contrast is most evident in low-technology sectors (see Figure 8.1.3).⁴⁹

⁴⁹ Owing to major differences between deflators, particularly during the recent period of high inflation, the breakdown of value-added is calculated from real value-added by technological intensity or by individual sector, as this better reflects the actual changes in the structure of manufacturing. It is also more in line with the contributions to real GDP growth made by individual categories and sectors. In this case the summing is not entirely accurate.

The nominal breakdown of value-added by technological intensity differs considerably from the real breakdown. High-technology sectors accounted for 16.4% of aggregate value-added in manufacturing in 2023, medium-high technology sectors for 30.8%, medium-low technology sectors for 34.1% and low-technology sectors for 18.7%. The nominal structural changes in technological intensity over the period between 2008 and 2023 were relatively small.

Figure 8.1.3:
**Technological breakdown
of value-added**



Sources: SURS, Banka Slovenije calculations

Note: See footnote 48 for the classification of sectors according to technological intensity. Owing to major differences between deflators, particularly during the recent period of high inflation, the breakdown of value-added illustrated is calculated from real value-added by technological intensity or by individual sector, as this better reflects the actual changes in the structure of manufacturing. It is also more in line with the contributions to real GDP growth made by individual categories and sectors. In this case the summing is not entirely accurate.

The situation varies sharply between sectors: there are large differences between them in growth in value-added, while the differences in growth in output continued last year.

Comparing value-added in manufacturing in 2023 with that in 2008, eleven sectors have seen an increase over this period, and eleven have seen a decline.⁵⁰ Even greater differences between sectors are discernible in the percentage changes, which range from -70.4% to 148.8% (see Figure 8.1.4). Manufacturing sectors can be arbitrarily divided into three groups in the long-term comparison: those with high growth, those close to stagnation, and those with a large decline. There are major differences even inside these groups.

The increase in value-added in the sectors with high growth ranges from 17.8% to 148.8%. The sectors with growth of more than 100% include other manufacturing, the manufacture of basic pharmaceutical products and pharmaceutical preparations, the repair and installation of machinery and equipment, and the manufacture of computer, electronic and optical products. The share of aggregate real value-added in manufacturing that they account for increased by 12.9 percentage points over the observation period to stand at 28.9%. Their aggregate value-added increased by 132.3%, and without their contribution the increase in value-added in manufacturing would be 19.8 percentage points lower at 8.9%.

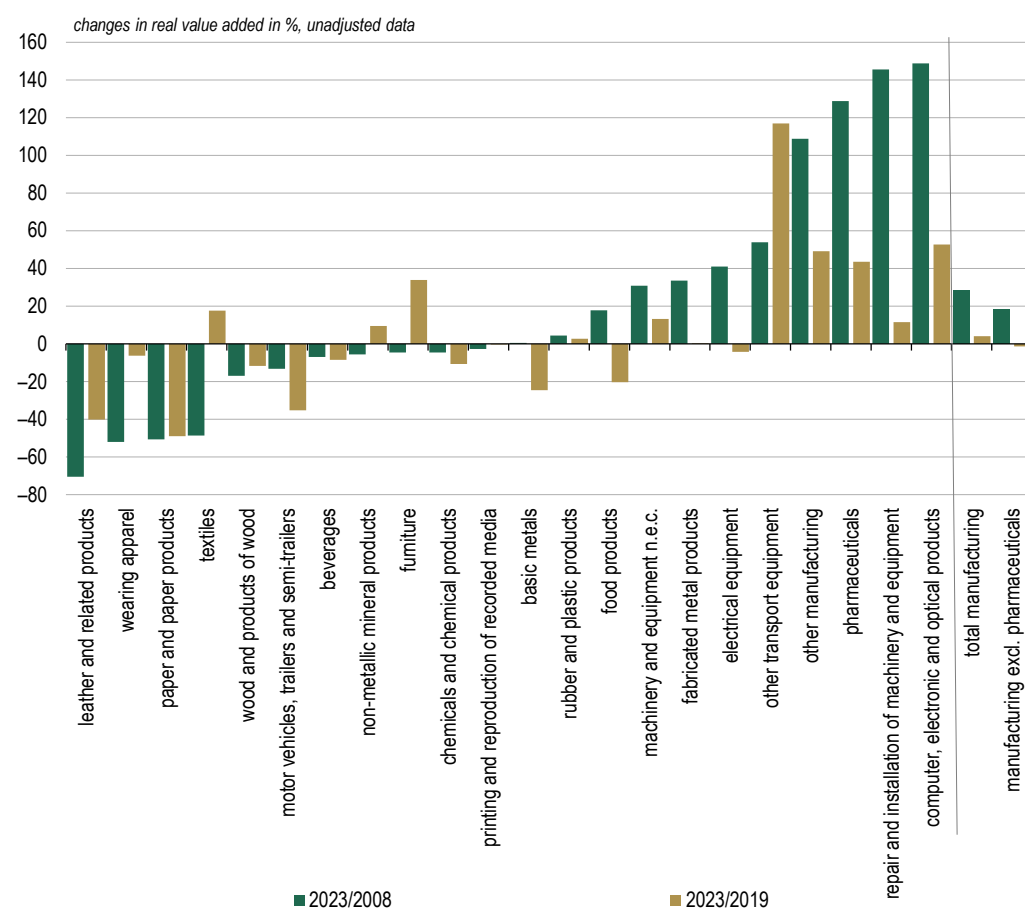
The change in value-added between 2008 and 2023 in the group of sectors arbitrarily classed as close to stagnation ranges from -6.9% to 4.5%. They include the manufacture of beverages, non-metallic mineral products, furniture, chemicals and chemical products, basic metals, and rubber and plastic products, and printing.

⁵⁰ The manufacture of coke and refined petroleum products is excluded, given its extremely small and volatile value-added.

The change in value-added in the sectors with a large decline ranges from -70.4% to -13.1%. These sectors include the manufacture of leather and related products, wearing apparel, paper and paper products, textiles, motor vehicles, trailers and semi-trailers, and wood and wood products. The share of aggregate real value-added in manufacturing that they account for declined by 10.0 percentage points over the observation period to stand at 10.9%. Their aggregate value-added declined by 28.4%, and without their contribution the increase in value-added in manufacturing would be 13.7 percentage points higher at 42.4%. With the exception of the manufacture of motor vehicles, they are low-technology sectors.

Recent years have seen the pandemic, the energy crisis and a sharp downturn in international relations, but performance has nevertheless varied hugely across different sectors. The change in value-added between 2019 and 2023 ranges from -48.9% to 116.9% (see Figure 8.1.4). The largest declines came in the manufacture of paper and paper products, leather and related products, motor vehicles, trailers and semi-trailers, basic metals, food products, wood and wood products, and chemicals and chemical products. Conversely, there were large increases in value-added in the manufacture of textiles, furniture, basic pharmaceutical products and pharmaceutical preparations, computer, electronic and optical products, and other transport equipment, and other manufacturing.

Figure 8.1.4: Value-added by manufacturing sector

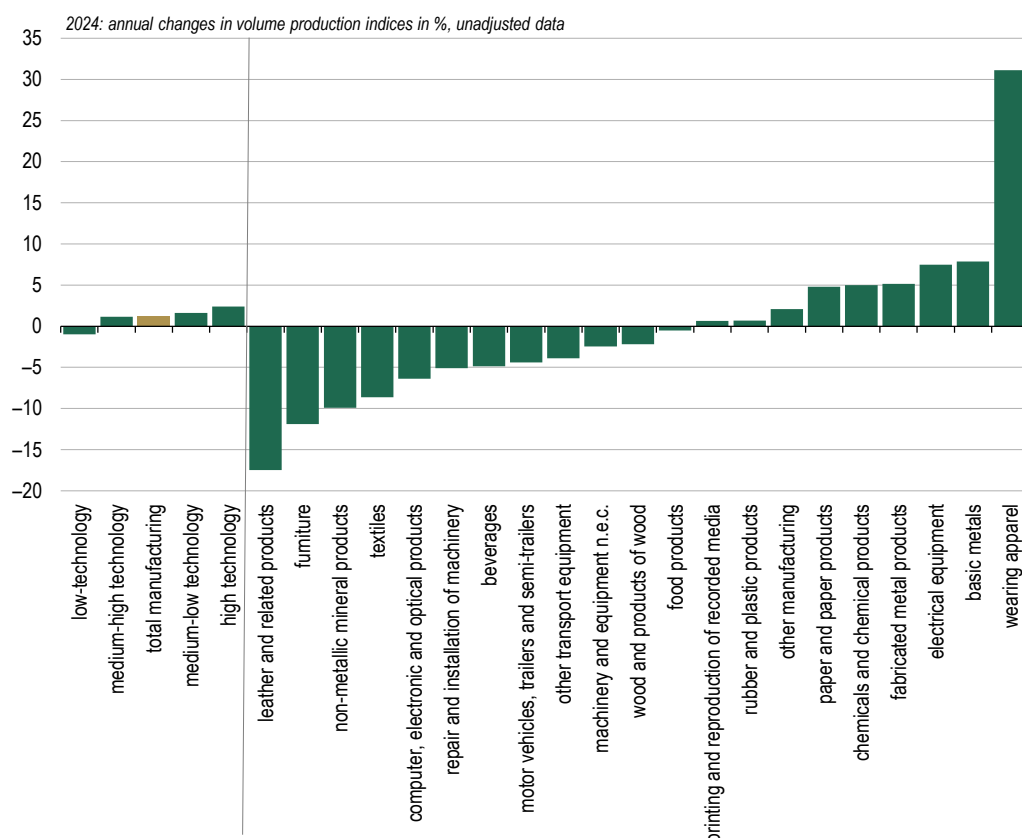


Sources: SURS, Banka Slovenije calculations

The monthly indices for last year show an increase in output in nine of the 21 sectors for which data is available, with the annual changes ranging from -17.5% to 31.1% (see

Figure 8.1.5).⁵¹ There is no standard sample. Compared with the changes in value-added between 2019 and 2023, activity continued to decline in the manufacture of food products, wood and wood products, motor vehicles, trailers and semi-trailers, beverages, and leather and related products. The decline came to an end in the manufacture of wearing apparel, basic metals, electrical equipment, chemicals and chemical products, and paper and paper products. A downward reversal was seen in the manufacture of machinery and equipment n.e.c., other transport equipment, computer, electronic and optical products, textiles, non-metallic mineral products and furniture, and in the repair and installation of machinery and equipment.⁵²

Figure 8.1.5: Changes in output across manufacturing sectors



Sources: SURS, Banka Slovenije calculations

8.2 Impact of financial structure on monetary policy transmission: comparison between Slovenia and the euro area

Financial structure, which encompasses the composition of the financing of non-financial corporations and households, such as debt and equity, can play an important role in monetary policy's impact on economic activity and inflation. Differences in financial structure lead to different responsiveness of the economy to changes in interest rates,

⁵¹ For reasons of data confidentiality, the SURS does not publish a monthly index of output for the pharmaceutical industry. Judging by the export figures, it again saw an increase in output last year.

⁵² After declining by 2.2% in 2022 and 13.7% in 2023, aggregate output in energy-intensive manufacturing sectors began to rise last year from a low base. It increased by 1.1%, comparable to the overall rate for manufacturing. Output increased by 7.9% in the manufacture of basic products, 5.0% in the manufacture of chemicals and chemical products, and 4.8% in the manufacture of paper and paper products. It declined by 2.2% in the manufacture of wood and wood products, and by 9.9% in the manufacture of non-metallic mineral products. Despite the recovery, their aggregate output measured by 12-month moving averages in December of last year was down 16.9% on its post-pandemic peak. The smallest shortfall was seen in the manufacture of basic metals, where output was down 6.2%, but in other sectors the shortfall exceeded 20%. Aggregate output in manufacturing was down 3.9% on its post-pandemic peak. See also [Luka Žakelj: Situation in energy intensive manufacturing sectors in Slovenia](#).

and the general effectiveness of monetary policy. This selected theme examines the role of financial structure in monetary policy transmission, with a focus on the differences between the euro area and Slovenia. By comparing patterns of financing in the euro area and Slovenia over the last 20 years, analysis explores how the structural differences affect the transmission of monetary policy and its potential economic consequences. The results show that during the last cycle of tightening in 2022 and 2023, monetary policy had a smaller impact on GDP and inflation via the saving and lending channels than in the cycle of 2005 to 2008, and that the impact in Slovenia was even weaker owing to the larger decline in loan financing.

Non-financial corporations, particularly in Slovenia, are less and less dependent on bank financing.

One of the key changes in the financial structure of non-financial corporations (NFCs) over the last decade is the diminishing dependence on loan financing, a trend that is particularly pronounced in Slovenia (see Figure 8.2.1). In the euro area equity traditionally played an important role in the financing of NFCs even before the global financial and economic crisis. In Slovenia by contrast, the shift towards equity financing (as opposed to debt) mainly took place after the crisis. This shift reflects the broader structural change in the financing of Slovenian NFCs, characterized by reduced dependence on debt financing, bank loans in particular. In comparison the euro area displayed a more stable financial structure, with a trend of increase in aggregate financial liabilities, whether debt or equity.⁵³

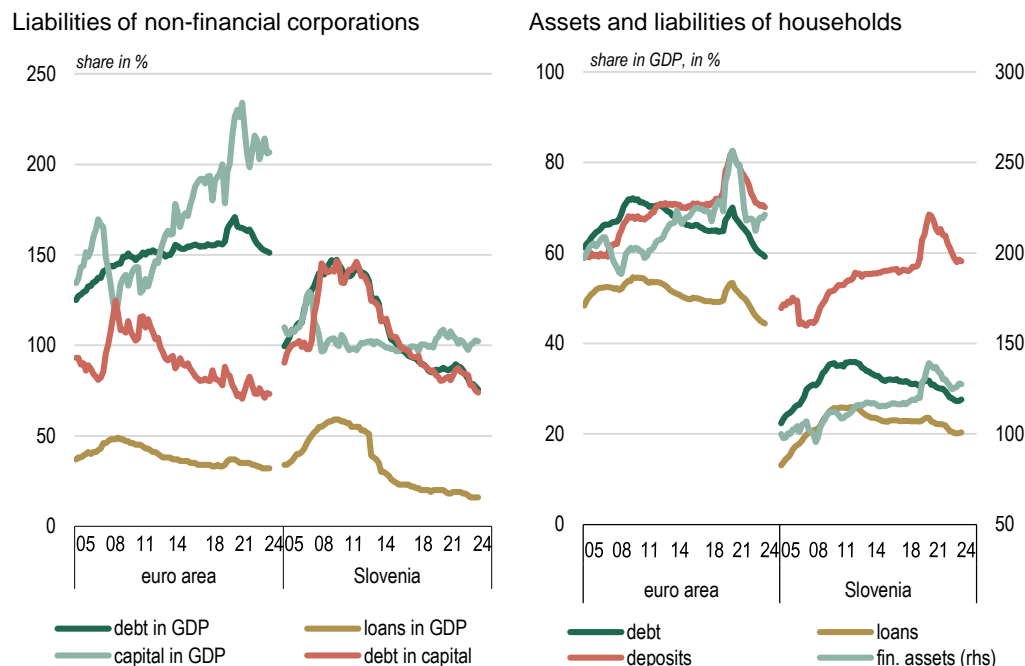
Households in Slovenia are less indebted than those in the euro area, but hold a lower share of financial assets, including deposits.

The differences in the household sector reflect the varying patterns of saving and investing, and the more conservative approach to borrowing taken by Slovenian households.⁵⁴ While the ratio of household loans to GDP has been declining in recent years in Slovenia and in the euro area, the decline was less pronounced in Slovenia, where household borrowing remains relatively stable despite the general economic changes (see Figure 8.2.1, right).

⁵³ The sharp increase in equity financing is a reflection of new issuance of equities, and also of upward revaluations amid positive trends on the capital market.

⁵⁴ Although household deposits as a ratio to GDP are higher in the euro area than in Slovenia, the picture is reversed when the ratio of deposits to aggregate financial assets is examined. This proceeds from the greater diversification of the financial asset portfolio at households in the euro area, who invest more heavily in other instruments alongside deposits, such as shares and investment funds. Slovenian households by contrast hold a higher share of their wealth outside of deposits in non-financial assets such as real estate.

Figure 8.2.1: **Selected indicators of financial assets and liabilities of non-financial corporations and households**



Sources: ECB, QSA, financial accounts. Latest data: Q3 2024

Note: Debt is the sum of debt securities, loans, trade credits and other forms of debt financing.

The impact of financial structure on the effectiveness of monetary policy is assessed by means of local projections.

Following the approach taken by Jordà (2005),⁵⁵ the impulse responses of GDP and inflation (HICP) to a monetary shock are estimated using the following model:

$$y_{i,t+h} - y_{i,t-1} = \alpha_i^h + \sum_{j=0}^3 \beta_{j+1}^h MP_{t-j} + \theta^h MP_{t-j} z_{i,t} + \sum_{j=1}^3 \phi_j^h \Delta y_{i,t-j} + \sum_{j=1}^3 \gamma_j^h x_{i,t-j} + u_{t+h}$$

where the left-hand side of the equation represents log-difference of the dependent variable of interest, which is either GDP or the HICP index across EA countries. MP represents the monetary policy shock, while the interaction term MP^*z captures the heterogeneity in monetary policy transmission conditional on the value of the financial structure indicator (z).⁵⁶ The marginal effect of monetary policy is given as the sum of the coefficient β and the product θ^*z , and shows how the monetary policy shock affects GDP and inflation (HICP) depending on the value of the financial structure indicator. The sample covers the period from the final quarter of 2003 to the third quarter of 2024, and includes all euro area countries other than Croatia and Estonia.⁵⁷ A number of financial structure indicators were tested in assessments, but the presentation of the results focuses on two key categories on the side of financial assets and liabilities: household deposits and loans to non-financial corporations.⁵⁸

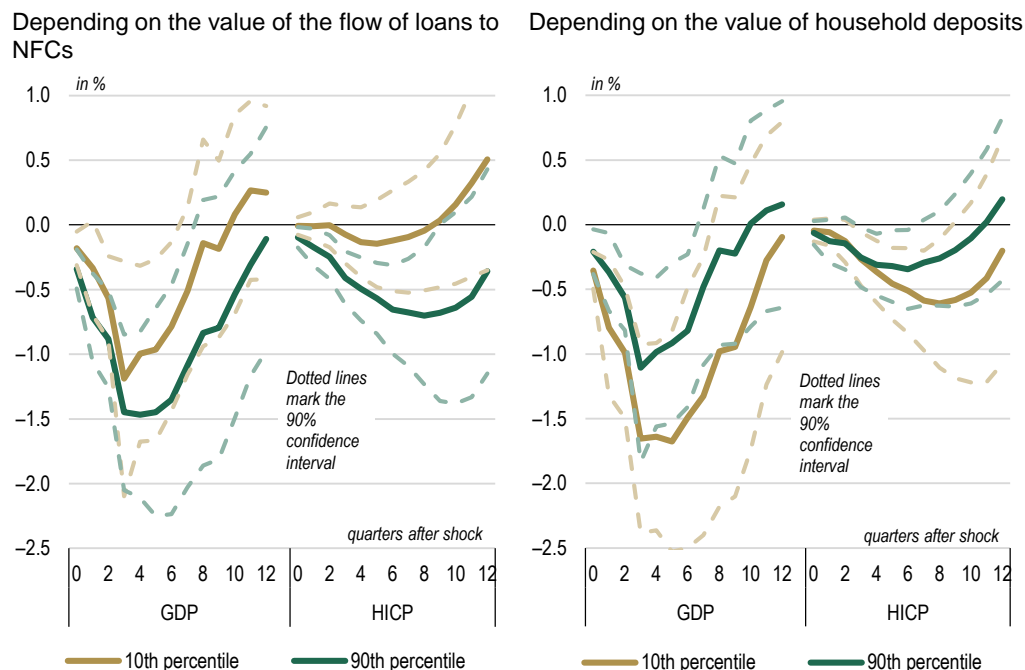
⁵⁵ Jordà, Ò. (2005). Estimation and Inference of Impulse Responses by Local Projections. *American Economic review*, 95(1).

⁵⁶ The monetary shocks are taken from the following study: Jarociński, M., and Karadi, P. (2020). Deconstructing Monetary Policy Surprises —The Role of Information Shocks. *American Economic Journal: Macroeconomics*, 12(2), pp. 1-43.

⁵⁷ A lack of data means that Croatia and Estonia are not included in the analysis. In addition to what is described above, the model also includes fixed effects of countries and a dummy variable for the pandemic period. The change in unemployment rate and the yield on 10-year government bonds are included as control variables (x). All control variables are included with three lags.

⁵⁸ The two indicators are expressed as a ratio to GDP, where loans to NFCs are measured as the annual flow in loans. A number of other financial structure indicators were tested. Similar, albeit less pronounced, results were found for loan stock (for NFCs and for households alike), and in the ratio of equity to GDP.

Figure 8.2.2: **Impulse responses to monetary policy shock**



Sources: ECB, QSA, financial accounts, Banka Slovenije estimates

Note: The chart illustrates the response of GDP and inflation (HICP) to a contraction shock in monetary policy in the amount of one standard deviation. The response is illustrated for the value of the flow of loans (as a ratio to GDP) at the 10th and 90th percentiles.

The monetary policy shock has a stronger impact on GDP and inflation when lending to non-financial corporations is high.

In line with expectations, a restrictive monetary policy shock leads to a negative response in GDP and inflation, where the size of the response depends on the level of financial indicators. The contraction effect is stronger when the flow of loans to NFCs expressed as a ratio to GDP is larger, which shows that economies with higher credit activity are more sensitive to changes in interest rates (see Figure 8.2.2, left). Conversely a higher level of household deposits causes a weaker response in GDP and inflation to monetary policy tightening (see Figure 8.2.2, right), which reflects the slower and smaller transmission of changes in key interest rates into bank deposit rates compared with other forms of financing such as interbank lending and issued debt securities. This channel of monetary policy transmission was significantly impaired during the recent tightening cycle, when the high stock of deposits and the simultaneously high liquidity meant that banks had little need to compete for deposits. Furthermore, the impact was additionally blurred by the long period of negative interest rates, which constitutes a significant proportion of the observed sample, during which banks did not charge negative interest rates on household deposits.

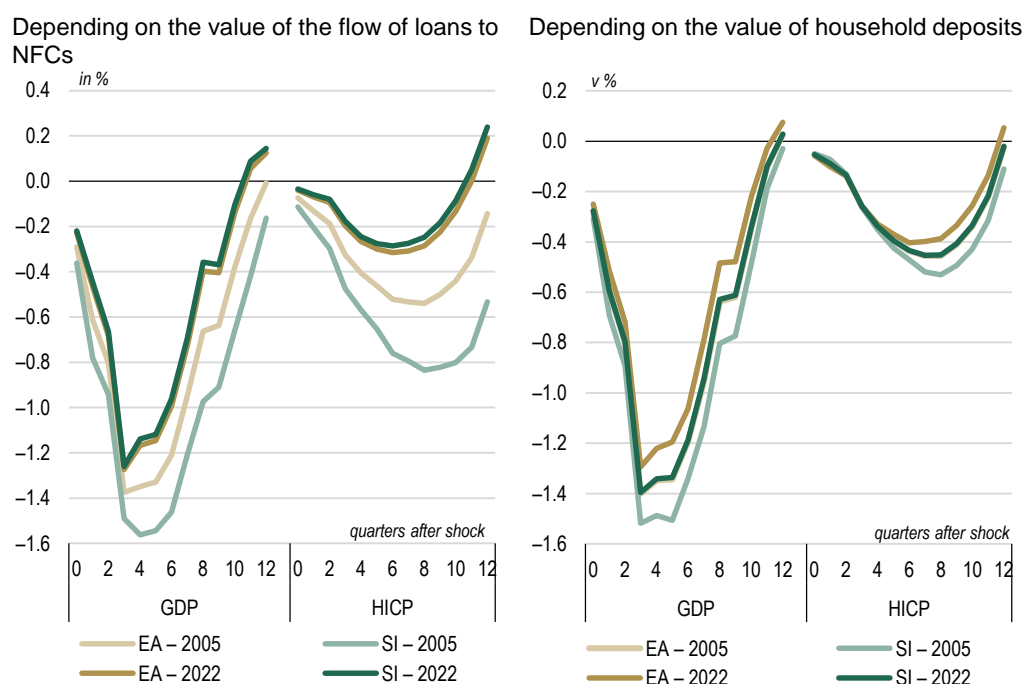
During the last cycle of tightening in 2022 and 2023, monetary policy had a smaller impact on GDP and inflation via the saving and lending channels than in the cycle of 2005 to 2008, where the impact in Slovenia was even weaker owing to the lower level of lending.

Based on the estimated impulse responses, the effectiveness of monetary policy in Slovenia and in the euro area is compared over the last two periods of tightening,

namely between 2005 and 2008, and the most recent cycle in 2022 and 2023. For the purposes of this analysis, average values of two structural indicators are calculated, namely the loan flows to NFCs and household deposits as shares of GDP, for both Slovenia and the euro area. These values are used to estimate the impulse responses in order to assess how the transmission of monetary policy is differentiated between the two economies and over time.

An important limitation of the comparison described is that until 2007 Slovenia ran its own monetary policy, for which reason monetary shocks in the euro area were perhaps not reflected in full in the monetary policy stance in Slovenia. The analysis is nevertheless relevant, as even before joining the euro Slovenia was adjusting its monetary policy to that of the euro area, while the focus on financial structure allows for an assessment of how the credit dynamics in loans to NFCs and household deposits affected monetary policy transmission, irrespective of the origin of the shock.

Figure 8.2.3: Comparison of the response in GDP and inflation in Slovenia and the euro area over the last two monetary cycles



Sources: ECB, QSA, financial accounts, Banka Slovenije estimates

Note: The chart illustrates the response of GDP and inflation (HICP) to a contraction shock in monetary policy in the amount of one standard deviation. The response is illustrated for the average value of the flow of loans to NFCs (left) and the value of household deposits (right) in the period between 2005 and 2008, and from the second quarter of 2022 onwards.

As stated earlier, GDP and inflation respond more strongly to monetary policy shocks when loan flows are higher and household deposits are lower. In the period of 2005 to 2008 loan flows were significantly higher than after 2022: they amounted to 4.5% of GDP in the euro area, and 8.5% of GDP in Slovenia. In the period after 2022 these flows had declined to 1% of GDP in the euro area and almost zero in Slovenia. Consequently the monetary policy tightening had a stronger contraction effect in the period of 2005 to 2008 than in the most recent tightening cycle, with a more pronounced response in GDP and inflation to the monetary policy shock (see Figure 8.2.3), and the response was even more pronounced in Slovenia.⁵⁹ Household deposits measured as a share of GDP increased between the two cycles, from 60% to 72% in the euro area

⁵⁹ The comparison presented refers to a comparison between the periods of 2005 to 2008 and the second quarter of 2022 onwards, which might be highly specific windows for calculating loan flows. The result is nevertheless robust even when a longer window for calculating average values is taken (e.g. before and after 2010), as the trend of low credit growth has been present in Slovenia ever since the global financial and economic crisis.

and from 47% to 61% in Slovenia, which is indicative of the impaired effectiveness of monetary policy in the most recent cycle via the savings channel too. Due to these changes in financial structure, the transmission of monetary policy effects to economic conditions through the lending and savings channels has weakened in both the euro area and, to an even greater extent, in Slovenia.

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

	2023	2024	12 m. 'till Jan. 25	3 m. 'till Jan. 24	3 m. 'till Jan. 25	2024 Nov.	2024 Dec.	2025 Jan.	2025 Feb.	2025 Mar.
Economic Activity										
				balance of answers in percentage points						
Sentiment indicator	-3.8	-2.7	-2.6	-3.8	-2.6	-2.8	-2.5	-2.6	-2.3	-1.6
- confidence indicator in manufacturing	-8.3	-7.6	-7.5	-7.7	-7.3	-7.0	-8.0	-7.0	-6.0	-7.0
				year-on-year growth rates in %						
Industry: - total	-4.9	-1.2	-0.7	-3.8	0.3	-1.9	1.1	2.1	-2.4	...
- manufacturing	-3.7	1.1	1.2	-1.9	0.7	-0.1	1.6	0.7	-3.8	...
Construction: - total	19.4	-9.4	-8.9	7.0	-1.0	-2.7	-2.3	3.8	...	...
- buildings	10.5	-12.6	-10.6	-1.1	-1.8	-11.3	-7.4	19.1	...	...
Trade and service activities - total	0.4	1.9	1.7	3.1	0.9	1.1	0.8	0.7	...	...
Wholesale and retail trade and repair of motor vehicle	11.5	6.7	5.9	14.8	0.3	0.3	-2.2	3.2	...	...
Retail trade, except of motor vehicles and motorcycle	-4.6	0.7	1.1	-1.7	0.8	0.4	-1.5	4.1	...	...
Other private sector services	2.5	1.5	0.9	5.1	0.1	0.2	1.4	-1.7	...	...
Labour market				year-on-year growth rates in %						
Average gross wage	9.7	6.2	6.1	8.3	5.5	6.2	3.9	6.9	...	...
- private sector	9.4	7.1	6.7	8.7	4.7	6.1	3.4	5.0	...	...
- public sector	10.3	4.6	4.9	7.4	7.0	6.2	4.8	10.2	...	...
Real net wage ¹	2.2	1.8	2.0	3.0	2.2	2.3	0.5	4.3	...	...
Registered unemployment rate (in %)	5.0	4.6	4.6	5.0	4.8	4.6	4.8	5.1	...	...
Registered unemployed persons	-14.0	-5.6	-5.2	-8.7	-2.9	-3.1	-2.7	-2.8	-2.9	-2.2
Persons in employment	1.3	1.1	1.0	0.9	0.2	1.1	-0.3	-0.3	...	...
- private sector	1.4	1.1	0.9	0.9	-0.1	1.0	-0.5	-0.6	...	...
- public sector	0.9	1.2	1.1	1.0	0.8	1.3	0.4	0.8	...	...
Price Developments				year-on-year growth rates in %						
HICP	7.2	2.0	1.9	3.9	2.0	1.6	2.0	2.3	1.9	2.2
- services	7.7	4.8	4.7	6.1	3.7	3.7	3.6	3.8	3.9	4.2
- industrial goods excluding energy	5.4	0.6	0.4	2.6	0.3	0.8	0.1	0.1	0.2	0.5
- food	11.8	1.9	1.8	5.4	2.5	2.3	2.7	2.5	2.8	3.3
- energy	2.2	-2.3	-2.1	-1.5	-0.1	-3.6	0.7	2.9	-1.7	-1.6
Core inflation indicator ²	6.7	2.9	2.7	4.5	2.2	2.3	2.0	2.1	2.2	2.5
Balance of Payments - Current Account				in % GDP						
Current account balance	4.5	4.4	4.0	3.5	0.8	1.7	0.6	-0.1	4.0	...
1. Goods	0.7	0.9	0.6	-0.2	-1.2	-0.7	-2.3	-0.6	1.3	...
2. Services	5.6	5.4	5.3	4.7	4.4	4.1	5.5	3.6	4.3	...
3. Primary income	-1.0	-1.1	-1.1	-1.2	-1.2	-0.7	-2.6	-0.3	-0.4	...
4. Secondary income	-0.8	-0.7	-0.8	0.1	-1.2	-1.0	-0.1	-2.7	-1.2	...
				nominal year-on-year growth rates in %						
Export of goods and services	-0.4	2.5	2.7	-3.2	2.4	1.7	2.7	3.0	0.8	...
Import of goods and services	-6.1	2.3	3.2	-7.1	4.1	1.7	2.6	8.4	-1.6	...
Public Finances	2023	2024	12 m. 'till Feb. 25	2024 Jan.-Feb.		2025 Jan.-Feb.				
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	27,916	41.4	10.7	4,203	10.6	4,449	5.8		
Tax revenue	21,977	24,546	36.6	11.0	3,859	12.7	4,180	8.3		
From EU budget	1,084	1,040	1.4	-8.9	116	-21.3	34	-70.3		
Other	1,974	2,330	3.4	18.3	228	-0.2	234	2.4		
Expenditure	27,308	28,868	43.2	6.3	3,983	8.3	4,466	12.1		
Current expenditure	11,572	12,907	19.3	12.0	1,693	8.1	1,889	11.5		
- wages and other personnel expenditure	6,094	6,539	9.8	7.6	1,039	8.3	1,144	10.2		
- purchases of goods, services	3,869	4,368	6.5	11.7	572	17.5	622	8.7		
- interest	711	793	1.2	15.5	55	-22.2	65	18.4		
Current transfers	12,050	12,794	19.2	6.9	1,958	7.5	2,188	11.7		
- transfers to individuals and households	9,731	10,397	15.5	6.3	1,658	9.8	1,765	6.4		
Capital expenditure, transfers	3,014	2,532	3.8	-16.6	237	35.5	269	13.8		
GG surplus/deficit	-2,274	-953	-1.7		220		-17			

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	24Q1	24Q2	24Q3	24Q4	2022	2023	2024	24Q1	24Q2	24Q3	24Q4
	Slovenia							euro area						
Economic developments														
	<i>q-o-q growth in %</i>													
GDP				-0.0	0.1	0.4	0.6				0.3	0.2	0.4	0.2
- industry				0.8	-0.2	1.7	0.6				-1.6	-0.1	0.1	-0.2
- construction				-1.1	-1.5	-2.0	5.9				0.1	-1.0	-0.6	0.2
- mainly public sector services (OPQ)				-3.1	1.1	0.1	3.7				0.3	0.4	0.7	0.6
- mainly private sector services (without OPQ)				1.6	-0.3	0.6	-0.1				0.1	0.1	0.2	0.1
Domestic expenditure				-0.8	1.2	-2.6	2.4				-0.3	-0.1	1.4	0.3
- general government				1.2	7.1	-3.0	0.7				0.3	1.1	0.9	0.4
- households and NPISH ¹				0.6	-1.3	2.1	0.5				0.5	0.0	0.6	0.4
- gross capital formation				-3.5	0.8	-12.8	9.0				-3.0	-1.5	4.0	-0.4
- gross fixed capital formation				-0.9	-1.5	-3.4	0.5				-2.0	-2.5	1.8	0.6
	<i>y-o-y growth in %</i>													
GDP	2.7	2.1	1.6	2.4	0.9	1.6	1.5	3.5	0.4	0.9	0.2	0.7	1.3	1.2
- industry	-2.1	5.1	2.6	3.9	-0.1	3.6	3.4	0.5	-1.3	-1.0	-1.8	-1.0	0.2	-1.3
- construction	8.3	14.0	-1.4	4.3	-2.3	-7.8	1.3	0.1	1.3	-1.5	-2.7	-1.5	-1.3	-0.9
- mainly public sector services (OPQ)	1.9	0.4	1.6	1.5	1.4	1.6	1.7	2.9	1.1	1.6	0.9	1.5	1.9	1.9
- mainly private sector services (without OPQ)	5.0	1.4	1.8	1.5	2.1	1.9	1.8	4.1	0.6	0.7	0.3	0.7	1.1	0.6
Domestic expenditure	4.5	-0.2	2.1	3.5	5.1	-0.0	0.1	3.8	0.1	0.5	-0.3	-0.6	1.4	1.3
- general government	-0.7	2.4	8.5	6.5	12.6	9.2	5.7	1.1	1.4	2.8	2.1	3.0	3.2	2.8
- households and NPISH	5.3	0.1	1.6	2.0	1.7	1.7	1.2	5.0	0.5	1.0	1.0	0.5	1.2	1.5
- gross capital formation	7.4	-2.8	-2.4	4.2	6.2	-11.5	-7.6	4.0	-2.1	-3.1	-5.4	-6.2	-0.1	-0.7
- gross fixed capital formation	4.2	3.9	-3.7	0.6	-2.1	-8.1	-5.2	2.0	1.7	-1.9	-1.8	-2.9	-1.0	-1.8
- inventories and valuables, contr. to GDP growth in p.p.	0.8	-1.5	0.3	0.8	1.8	-0.9	-0.6	0.5	-0.9	-0.3	-0.9	-0.8	0.2	0.3
Labour market														
	<i>q-o-q growth in %</i>													
Employment				-0.1	-0.1	-0.1	-0.1				0.3	0.1	0.2	0.1
- mainly private sector (without OPQ)				-0.3	-0.1	-0.2	-0.2				0.2	-0.0	0.2	0.1
- mainly public services (OPQ)				0.4	0.3	0.4	0.2				0.5	0.5	0.4	0.2
	<i>y-o-y growth in %</i>													
Employment	2.9	1.6	0.1	0.6	0.3	0.0	-0.3	2.4	1.4	1.0	1.1	0.9	1.0	0.7
- mainly private sector (without OPQ)	3.1	1.7	-0.2	0.3	-0.0	-0.4	-0.7	2.7	1.5	0.7	1.0	0.6	0.7	0.5
- mainly public services (OPQ)	2.0	1.5	1.6	1.8	1.8	1.7	1.3	1.5	1.3	1.7	1.7	1.8	1.9	1.5
Labour costs per employee	5.0	9.5	6.2	6.6	6.1	6.6	5.7	4.5	5.4	4.5	4.8	4.8	4.5	4.1
- mainly private sector (without OPQ)	7.8	9.5	6.8	7.0	7.2	7.3	6.0	5.0	5.6	4.4	4.6	4.7	4.3	4.1
- mainly public services (OPQ)	-3.2	9.5	4.2	5.3	2.7	4.1	4.6	3.5	4.8	4.8	5.3	5.0	4.7	4.1
Unit labour costs, nominal ²	5.2	9.0	4.7	4.8	5.5	4.9	3.7	3.4	6.4	4.6	5.8	5.1	4.2	3.6
Unit labour costs, real ³	-1.2	-1.0	1.6	0.2	3.0	1.9	1.2	-1.6	0.4	1.7	2.1	2.1	1.5	1.0
LFS unemployment rate in %	4.0	3.7	3.7	3.4	3.4	4.4	3.5	6.8	6.6	6.4	6.8	6.3	6.2	6.1
Foreign trade														
	<i>q-o-q growth in %</i>													
Real export of goods and services				2.9	-0.7	3.1	-2.0				1.1	1.5	-1.4	-0.1
Real import of goods and services				2.5	0.7	-1.6	-0.2				-0.2	1.0	0.5	-0.1
	<i>y-o-y growth in %</i>													
Real export of goods and services	6.8	-2.0	3.2	-0.4	0.1	9.5	3.9	7.3	-0.8	1.0	-1.4	2.2	2.0	1.2
Real import of goods and services	9.2	-4.5	3.9	0.8	4.8	8.0	2.3	8.3	-1.4	0.2	-2.6	-0.2	2.2	1.3
Current account balance as % of GDP ⁴	-1.1	4.5	4.4	4.3	3.8	4.5	4.4	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in p.p.	-1.5	2.3	-0.4	-1.0	-3.6	1.8	1.3	-0.2	0.3	0.4	0.5	1.2	-0.1	-0.0
Financing														
	<i>in % of GDP</i>													
Banking system's balance sheet	91.0	85.0	...	83.4	...	...	...	273.2	256.3	...	257.8	...	...	...
Loans to NFCs	20.1	17.6	16.4	16.8	16.8	16.6	16.4	36.4	34.1	33.1	33.7	33.6	33.3	33.1
Loans to households	21.5	19.9	20.2	19.8	19.9	20.0	20.2	48.1	45.4	43.9	44.8	44.4	44.1	43.9
Inflation														
	<i>in %</i>													
HICP	9.3	7.2	2.0	3.4	2.4	1.1	1.2	8.4	5.4	2.4	2.6	2.5	2.2	2.2
HICP excl. energy, food, alcohol and tobacco	5.9	6.7	2.9	4.0	3.0	2.3	2.2	4.0	5.0	2.8	3.1	2.8	2.8	2.7
Public finance														
	<i>v % BDP</i>													
Debt of the general government	72.7	68.4	67.0	70.0	69.4	66.7	67.0	89.5	87.4	...	87.8	88.1	88.1	...
One year net lending/net borrowing of the general government ⁴	-3.0	-2.6	-0.9	-1.9	-1.8	-1.7	-0.9	-3.5	-3.6	...	-3.6	-3.5	-3.2	...
- interest payment ⁴	1.1	1.2	1.3	1.2	1.3	1.3	1.3	1.7	1.7	...	1.8	1.8	1.9	...
- primary balance ⁴	-1.9	-1.3	0.4	-0.7	-0.5	-0.3	0.4	-1.8	-1.8	...	-1.8	-1.6	-1.4	...

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.

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
VAT	Value added tax
ECB	European Central Bank
ECOICOP	European classification of individual consumption by purpose
EA	Euro area
EPU	Economic Policy Uncertainty
ESA	European System of Accounts
EU	European Union
EUR	euro
Fed	US Federal Reserve System
FOMC	Federal Open Market Committee
FARS	Financial Administration of the Republic of Slovenia
HICP	Harmonised index of consumer prices
ICT	Information and communication sector
NATO	North Atlantic Treaty Organization
NFCs	Non-financial corporations
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight index swap
Opec+	Organization of the Petroleum Exporting Countries
PMI	Purchasing managers' index
ROE	Return on equity
SDH	Slovenski državni holding (Slovenian Sovereign Holding)
SURS	Statistical Office of the Republic of Slovenia
S&P 500	Standard and Poor's 500
STOXX	
Europe 600	Main European share index
TARGET	Trans-European automated real-time gross settlement express transfer system
ULCs	Unit labour costs
USD	United States dollar
ZEW	Centre for European Economic Research
US	United States of America
ZPIZ	Pension and Disability Insurance Institute
ESS	Employment Service of Slovenia
ZZZS	Health Insurance Institute of Slovenia

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