BANKA SLOVENIJE

EVROSISTEM

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In line with the process for drawing up the ESCB projections, the projections and external assumptions are based on information and data available by 27 May 2026. The current economic developments are based on information and data available by 5 June 2026.

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Summary

Following subdued GDP growth in 2025, a faster economic recovery this year is being held back by heightened geopolitical uncertainty and increased inflationary pressures. According to the projections, GDP growth will reach 1.9% in 2026, before rising to 2.2% in both 2027 and 2028. The uncertain outlook this year will be accompanied by elevated inflation of 3.6%, which is expected to gradually decline towards 2.3% and 2.0% in 2027 and 2028 respectively, in line with the anticipated easing of energy prices and domestic cost pressures.

GDP growth was encouraging at the start of the year, however, uncertainty related to the situation in the Middle East is worsening the short-term outlook. In the first quarter, economic activity increased by 0.7% quarter-on-quarter and by 3.0% year-on-year, meaning that growth in Slovenia significantly outpaced the euro area average. Particularly encouraging was the broad-based growth in value added, which, in addition to activities linked to domestic consumption, also reflected a strengthening of manufacturing and goods exports. The positive developments at the beginning of the year have, since April, been exposed to a marked increase in uncertainty, rising energy prices, and weaker economic prospects in our main EU trading partners. In addition to the expected impact on investment and export activity, the first indicators for the second quarter also point to a moderation in private consumption amid lower consumer confidence. This will contribute to a temporary slowdown in economic growth in the coming quarters.

This year, economic growth will be driven mainly by domestic demand. As international environment stabilise, growth will gradually strengthen and become more balanced in the coming years. Despite renewed inflationary pressures, household purchasing power will remain supported by strong wage growth, linked to the adjustment of the minimum wage, public sector wage reform, and a still-tight labour market. Private consumption growth will therefore remain robust but will initially lag behind the growth of real disposable income due to increased precautionary saving amid weaker consumer confidence. Government consumption will also make a significant contribution to growth this year, particularly as a result of the implementation of the Long-Term Care Act and rising public sector employment. In contrast, gross fixed capital formation will decline in the first two years. This year, investment by enterprises will fall due to high uncertainty, increased cost pressures, and low capacity utilisation, while next year, investment in the government sector will decrease as the EU Recovery and Resilience Facility programme draws to a close. As the external environment improves, exports and investment will gradually strengthen, however, an even faster recovery will continue to be constrained by unfavourable terms of trade and rising labour costs. Against this backdrop, GDP growth is projected at 1.9% this year and 2.2% in both 2027 and 2028.

Employment growth was still relatively favourable at the start of the year, but uncertainty about the economic outlook and labour market tightness are weighing on the medium-term outlook. In the first quarter, employment increased again, but mainly as a result of further growth in government sector, which will remain an important driver of growth over the projection horizon, while employment growth in the

private sector is expected to be considerably more modest. Total employment is projected to increase by 0.4% this year and by 0.2% in both 2027 and 2028. The unemployment rate will remain low in the coming years, averaging 3.9%, which will maintain a significant labour shortage. This is confirmed by both survey indicators and the high number of job vacancies. Tight labour market conditions will continue to support relatively strong wage growth. Wages are projected to increase by 7.2% this year, mainly due to the increase in the minimum wage, and will outpace labour productivity growth, further adding to cost pressures. In the following two years, wage growth will gradually moderate to 4.8% and 4.4% respectively.

Inflation will accelerate again this year, driven by both external factors and persistent domestic cost pressures. The situation in the Middle East has already been reflected in price developments in Slovenia in April and May, when inflation increased by more than one percentage point compared with the beginning of the year. Higher prices of energy and intermediate goods in international supply chains will keep inflation elevated for the remainder of the year. Domestic factors will also contribute, including strong growth in labour costs, construction activity stimulated by public investment, and still robust private consumption. Accordingly, inflation in Slovenia is expected to stand at 3.6% this year. In 2027 and 2028, it will gradually approach the 2% price stability target as it reaches 2.3% and 2.0% respectively, although developments across price groups will remain quite diverse. While energy prices are expected to decline, reflecting futures prices for oil and strong base effects, the growth of services prices will remain above three percent. This will be due to the lagged adjustment to past cost pressures and further strengthening of domestic demand, which will allow for the upward adjustment of final prices.

Both the domestic and external macroeconomic environment are subject to heightened risks, which could result in lower economic growth and higher inflation than projected. The baseline scenario in next quarters assumes a calming of military tensions in the Middle East. In contrast, a prolonged period of tensions would, through higher energy and commodity prices, supply chain disruptions, weaker global demand, increased uncertainty, and financial stress, translate into lower investment and a further deterioration in the export sector. At the same time, supply shocks could trigger broader and non-linear inflationary pressures, which would be further amplified domestically by wage growth outpacing productivity. Fiscal risks are also becoming increasingly important. With strong expenditure growth last year and this year, the government deficit is projected to approach the reference value of 3% of GDP in 2026 and to exceed it in coming years. This will interrupt the decline in the debt-to-GDP ratio and further reduce the fiscal space to respond to potential shocks in an environment of heightened geopolitical risks. Additional measures without appropriate funding could further worsen the fiscal position, tighten financing conditions, increase the need for consolidation, and limit the countercyclical role of fiscal policy.

The main messages contained in this publication are supported by topical analytical boxes, while the risk of a prolonged conflict in the Middle East is addressed in an alternative scenario. At present, the war is primarily reflected in higher energy prices, with the projections also taking into account, based on our empirical estimates, the gradual pass-through of these prices to other price categories. The impact on the real economy has so far been mainly limited to increased uncertainty, which is holding back corporate investment. The analytical box in this publication also confirms its negative effect on private consumption, particularly of durable goods. This year, inflationary pressures on purchasing power will be mitigated by strong wage

growth, supported by an above-average adjustment of the minimum wage, which, together with spillover effects into higher wage brackets, is estimated to contribute to an approximately two percentage point higher growth in the average wage. As wage growth outpaces productivity growth, pressures on competitiveness will increase, which, according to model estimates incorporated in the projection, will slow the recovery of export growth by around 0.8 percentage points per year. The baseline scenario assumes a gradual easing of the conflict in the Middle East, however, should it persist for longer, the alternative scenario projects that average GDP growth in the period 2026–2028 would be 0.6 percentage points lower than in the baseline, while inflation would be approximately one percentage point higher. The mitigation of these effects would be hampered by limited fiscal space, as the box on public finance developments shows that the deficit will already exceed 3% of GDP in the baseline scenario.

Table 1: **Macroeconomic projections for Slovenia, 2026 to 2028**

									Projections					
	2019	2020	2021	2022	2023	2024	2025	Δ	2026 Jun.	Δ	2027 Jun.	Δ	2028 Jun.	Δ
Prices	*annual growth in %*													
HICP	1.7	–0.3	2.0	9.3	7.2	2.0	2.5	*0.0*	**3.6**	*1.3*	**2.3**	*0.1*	**2.0**	*0.0*
HICP excluding energy and food	1.9	0.8	0.8	5.9	6.7	2.8	2.4	*0.1*	**2.8**	*0.7*	**2.6**	*0.3*	**2.2**	*0.3*
HICP energy	0.8	–10.8	11.3	24.8	2.2	–2.3	–1.6	*0.0*	**11.1**	*9.5*	**–2.6**	*–2.6*	**–2.1**	*–2.4*
HICP food	1.6	2.7	1.0	10.6	11.8	2.0	4.9	*–0.2*	**1.9**	*–1.3*	**4.0**	*1.0*	**3.3**	*0.5*
Economic activity	*annual growth in %*													
GDP (real)	3.5	–4.1	8.4	2.7	2.4	1.7	1.1	*0.1*	**1.9**	*–0.3*	**2.2**	*–0.2*	**2.2**	*0.1*
Private consumption	5.5	–6.1	11.3	3.9	–0.0	3.8	1.7	*0.2*	**2.4**	*–0.6*	**2.8**	*0.3*	**2.3**	*0.0*
Government consumption	1.9	4.1	6.2	–0.6	2.1	7.3	1.6	*0.0*	**3.8**	*0.0*	**2.1**	*0.3*	**1.6**	*0.1*
Gross fixed capital formation	4.9	–7.2	11.9	4.7	5.5	–0.3	4.1	*2.9*	**–0.2**	*–3.1*	**–1.2**	*–1.6*	**2.7**	*–0.1*
...of which Private sector	4.2	–9.5	9.9	2.6	5.3	0.9	1.5	*1.8*	**–0.4**	*–3.3*	**1.6**	*–0.9*	**3.0**	*0.0*
...of which Government sector	8.1	2.2	19.3	11.7	6.2	–3.6	12.2	*6.1*	**0.5**	*–2.2*	**–9.2**	*–3.3*	**1.9**	*–0.1*
Exports of goods and services (real)	4.5	–8.5	14.1	7.4	–1.9	2.3	0.3	*0.1*	**1.5**	*–1.6*	**3.3**	*–1.6*	**3.5**	*–1.2*
Imports of goods and services (real)	4.7	–9.1	17.8	9.3	–4.5	4.3	2.1	*1.0*	**2.8**	*–1.5*	**2.9**	*–1.6*	**3.6**	*–1.3*
Contributions to real GDP growth	*in percentage points*													
...Domestic demand (excluding inventories)	4.1	–3.8	9.2	2.8	1.5	3.3	2.1	*0.7*	**2.0**	*–0.9*	**1.7**	*–0.1*	**2.1**	*0.0*
...Net exports	0.3	–0.3	–1.3	–0.8	2.0	–1.3	–1.4	*–0.7*	**–0.9**	*–0.2*	**0.4**	*–0.2*	**0.1**	*0.0*
...Changes in inventories	–0.9	0.1	0.5	0.8	–1.5	–0.2	0.3	*–0.1*	**0.9**	*0.9*	**0.0**	*0.0*	**0.0**	*0.0*
Labour market	*annual growth in % (unless stated otherwise)*													
Unemployment growth (% of labour force)	4.5	5.0	4.7	4.0	3.7	3.7	3.9	*0.2*	**4.0**	*0.4*	**3.8**	*0.3*	**3.8**	*0.3*
Total employment	2.4	–0.7	1.3	2.9	1.5	0.5	–0.4	*0.1*	**0.4**	*0.2*	**0.2**	*–0.3*	**0.2**	*–0.3*
Compensation per employee	5.2	3.8	8.0	4.9	9.6	6.2	7.9	*–0.1*	**7.2**	*2.1*	**4.8**	*0.4*	**4.4**	*0.2*
...Productivity	1.0	–3.4	7.0	–0.2	0.9	1.3	1.5	*0.0*	**1.6**	*–0.4*	**2.0**	*0.1*	**2.0**	*0.4*
…Unit labour costs (ULC)	4.2	7.5	0.9	5.2	8.7	4.9	6.3	*–0.1*	**5.5**	*2.4*	**2.8**	*0.3*	**2.4**	*–0.2*
Balance of payments	*annual growth in % (unless stated otherwise)*													
Current account: in bn EUR	3.1	3.4	1.8	–0.5	3.0	3.1	2.5	*–0.7*	**2.6**	*–0.4*	**3.1**	*–0.5*	**3.3**	*–0.9*
in % GDP	6.4	7.3	3.5	–0.9	4.8	4.5	3.5	*–0.9*	**3.6**	*–0.5*	**4.0**	*–0.6*	**4.1**	*–1.0*
Terms of trade*	0.5	0.7	–2.1	–3.1	3.6	1.4	0.9	*–0.2*	**–0.5**	*–1.3*	**0.2**	*0.0*	**0.2**	*0.0*

Sources: SURS, Eurostat, Banka Slovenije projections.
Note: * Based on national accounts deflators. Δ: difference between current projections and projections given in the December 2025 issue of the Review of Macroeconomic Developments and Projections.

1 Current Economic Developments and Assumptions

In the first quarter, domestic economic growth was encouraging. The domestic environment continued to underpin the expansion of final consumption and investment. At the same time, goods exports rebounded in line with increased manufacturing output. In view of the considerable uncertainty surrounding estimates and the volatility of short-term indicators, we anticipate that economic growth will temporarily ease in the second quarter, reflecting heightened geopolitical tensions, cost pressures and a weaker international environment.

1.1 International situation and external assumptions

While the effects of the war in the Middle East are already reflected in certain economic indicators and represent a risk to global economic activity, economic activity strengthened in the first quarter.

Economic activity in major economies increased in the first quarter, primarily due to favourable developments in the first two months of the year, while the effects of the war in the Middle East were only partially captured in the March data. In the United States, current economic growth rose to 0.4% following a weaker previous quarter, with the main contributions coming from investments related to artificial intelligence and private consumption. However, private consumption is already moderating somewhat amid heightened uncertainty and renewed inflationary pressures. Following the reopening of the federal government, public consumption also contributed to growth, whereas net trade acted as a drag, mainly due to faster growth in imports. In Japan, the economy expanded by 0.5%, with growth being broad-based and exceeding market expectations. In the United Kingdom, current growth stood at 0.6%, supported primarily by investments as well as household and government consumption. The Chinese economy strengthened by 1.3%, despite persistently weak domestic consumption, mainly associated with the crisis in the real estate sector.

The war in the Middle East, together with higher energy costs and increased uncertainty, is dampening global economic activity in the second quarter. After a marked decline in March, the composite PMI indicator rose slightly in April and remained at 51.8 index points in May, but continues to stay below last year's average. Activity in the services sector strengthened somewhat following the deterioration in March, mainly due to favourable developments in business and financial services. Conversely, activity in consumer-oriented services declined again, which is linked to elevated uncertainty and higher energy prices. Activity in manufacturing continues to increase, while the gap persists between relatively favourable current production indicators and weaker business expectations. The resilience of production may partly reflect early ordering in anticipation of longer delivery times and higher prices, whereas weaker expectations indicate deteriorating prospects due to geopolitical uncertainty. The index of pressures in global supply chains (GSCPI) also points to increased risks in production chains, having risen in April to its highest level since July 2022.

According to the ECB's June projections, global economic growth excluding the euro area is expected to slow somewhat this year as a result of the war in the Middle East. Compared with the March projections, it has been revised to 3.0% (Figure 1.1.1, left). In the coming years, it is projected to gradually strengthen again, reaching 3.2% in 2027 and 3.3% in 2028.

For the euro area, survey indicators suggest a continued contraction of economic activity in the second quarter.

Economic activity in the euro area declined by 0.2% quarter-on-quarter in the first quarter, however, this contraction largely reflects a sharp downturn in the Irish economy, which, according to revised data, contracted by 12.1%[1] (Figure 1.1.1, right). Excluding Ireland, euro area economic growth stood at 0.2%. Growth was supported by net trade (0.3 percentage points) and both government and private consumption (each contributing 0.1 percentage points), while gross fixed capital formation acted as a drag (–0.1 percentage points). By sector, most of the growth originated from services and industry. Among the larger euro area economies, Spain again recorded the highest growth (0.6%), mainly supported by domestic demand. Growth in Germany and Italy was more moderate, at 0.3%, while the French economy contracted (–0.1%) due to a decline in private consumption and investment.

Current survey indicators show that the effects of the war in the Middle East and the associated high energy prices are already being reflected in economic activity. The composite PMI indicator fell further into contraction territory in May, reaching 48.5 index points. This primarily reflects a contraction in services, which is the result of higher household costs due to more expensive energy and a decline in confidence. In manufacturing, activity continued to increase, albeit to a lesser extent than in April. The moderation in growth is mainly related to weaker demand and a reduction in new orders, indicating a gradual fading of the effects of early ordering prompted by expectations of higher prices and supply disruptions. Risks in manufacturing therefore remain linked to cost pressures, extended delivery times for input materials, and disruptions in global logistics flows.

This is similarly indicated by the ZEW and European Commission economic sentiment indicators. Both deteriorated sharply in April and improved slightly in May but remained well below the levels recorded prior to the onset of the current war. Compared with the period following the outbreak of the war in Ukraine in 2022, the current deterioration in overall sentiment is less pronounced. Nevertheless, the sharp decline in consumer confidence and the somewhat less pronounced deterioration in confidence in the services sector – from already lower initial levels – point to weaker consumer demand. This could, compared with the previous energy crisis, limit the pass-through of the current shock to inflation.

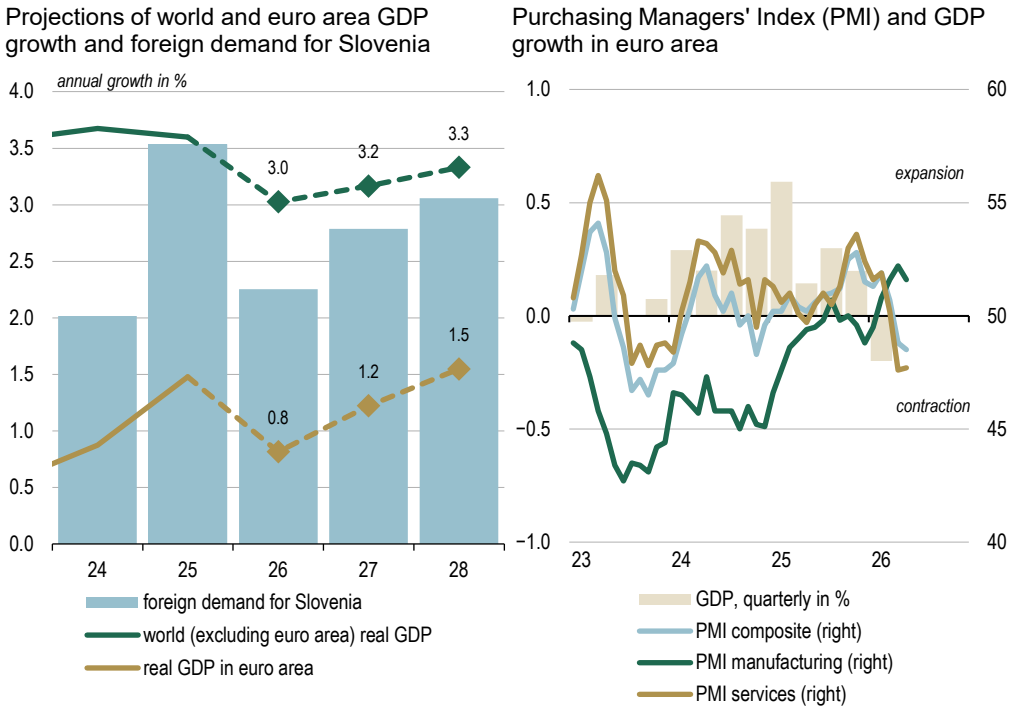
Headline inflation in the euro area has increased for the third consecutive month since the onset of the conflict in the Middle East, reaching 3.2% in May. While food inflation moderated to 2.0%, the year-on-year growth in energy prices has remained above 10% for the second month in a row and rose to 10.9% in May, reflecting a positive base effect amid ongoing price declines. The increase in headline inflation was primarily attributable to higher services inflation (3.5%), which stemmed from both ongoing price

[1] The quarterly decline in GDP in Ireland was largely attributable to developments in sectors dominated by multinational enterprises. Developments in the domestic economy were more favourable, as indicated by the modified domestic demand (MDD) indicator, which increased by 0.6% in the first quarter.

increases and a positive base effect.[2] The acceleration of core inflation to 2.5% was further supported by higher year-on-year growth in non-energy industrial goods (hereinafter: other goods) prices, which stood at 0.9%.

Core inflation momentum[3] continued to strengthen in May, with elevated cost-push inflationary pressures also reflected in higher expected input and output prices, short-term inflation expectations, and developments in import prices.[4] Nevertheless, a broader set of indicators – including measures of core inflation, inflation of energy-sensitive products, inflation shock momentum, and inflation of products sensitive to monetary policy – up to and including April, do not yet point to medium-term inflationary pressures comparable to those observed at the onset of the war in Ukraine.[5] Several factors suggest potentially slower transmission of the energy price shock than after the start of the war in Ukraine, such as a weaker initial level of inflationary pressures at the outbreak of the shock, a less accommodative stance of economic policies, and relatively smaller supply chain disruptions.[6]

Figure 1.1.1: **Macroeconomic outlook in the international environment and economic conditions in the euro area**



Sources: ECB, Bloomberg, Eurostat, Banka Slovenije calculations. Latest data in the right chart: GDP – first quarter of 2026, PMI – May 2026.

According to the ECB experts' June projections, economic growth in the euro area is expected to slow to 0.8% this year as a result of the consequences of the war in the

[2] In May 2025, month-on-month services price growth was low, following an above-average increase in April. This was due to the later timing of Easter, and the associated price rises in travel-related services items (air transport, package holidays, and accommodation).

[3] The inflation momentum indicator is calculated as the annualised rate of growth in the seasonally adjusted services price index by comparing the average level of prices in the last three months with that from the preceding three months.

[4] Elevated cost-push inflationary pressures are evident in the latest PMI input and selling price indicators, the European Commission's indicators of selling price expectations and one-year consumer inflation expectations, one-year market-based inflation expectations, and Eurostat's import prices.

[5] Core inflation indicators include measures that exclude volatile components (e.g. inflation excluding energy and food), outliers (e.g. the weighted median), and transitory movements (e.g. the PCCI). Inflation in energy-sensitive products covers only the price developments of those core inflation products for which energy represents an above-average cost relative to the services or other goods aggregates. Inflation shock momentum measures the difference between the shares of products in the HICP basket that, according to their own autoregressive process, have persistently surprised to the upside or downside over the past three months. Inflation in products sensitive to monetary policy comprises the 40% of core inflation products with the largest cumulative response to a monetary policy shock, as measured by local projections.

[6] For a more extensive comparison of the nature of the energy price shock and the circumstances surrounding it in the last two crises, see A tale of two energy crises - initial conditions matter.

Middle East. This will be mainly driven by lower household purchasing power due to higher energy prices, as well as slower growth in investment and international trade amid increased uncertainty. Growth is then projected to gradually strengthen to 1.2% in 2027 and 1.5% in 2028. Compared with the December projections, which did not yet take into account the effects of the war, this represents a downward revision of 0.4 and 0.2 percentage points for 2026 and 2027, respectively, while the projection for 2028 has been revised upwards by 0.1 percentage points. Headline inflation is expected to rise to 3.0% this year, mainly due to higher energy prices. As the energy shock is expected to subside, inflation is projected to gradually moderate to 2.3% in 2027 and 2.0% in 2028. Relative to the December projections, inflation for 2026 and 2027 has been revised upwards by 1.1 and 0.5 percentage points, respectively, while the projection for 2028 remains unchanged.

The June assumptions for the international environment foresee higher prices of energy and primary commodities, weaker global economic growth, lower growth in foreign demand for Slovenia, and tighter financing conditions.

In the main assumptions for the external environment,[7] the war in the Middle East is reflected primarily through higher prices of energy and commodities. The average oil price is expected to reach EUR 82.5 per barrel this year, which is one third higher than last year, and is projected to gradually decline in the coming years. The increase in energy prices, together with heightened pressures in supply chains, is also resulting in higher prices of primary commodities. Amid increased uncertainty and a slowdown in global economic activity, the growth of foreign demand for Slovenia is expected to moderate somewhat this year, before recovering in the following years, although remaining below the long-term average.[8] Compared with the December assumptions, tighter financing conditions are also foreseen, along with a slight appreciation of the euro against the US dollar (Table 1.1.1).

Table 1.1.1 : **Assumptions for the international environment**

							Assumptions		
	2020	2021	2022	2023	2024	2025	**2026**	**2027**	**2028**
Global economic growth excluding euro area, %	–1.9	7.0	3.6	3.6	3.7	3.6	3.0	3.2	3.3
Economic growth in euro area, %	–6.1	6.4	3.7	0.5	0.9	1.5	0.8	1.2	1.5
Growth in foreign demand for Slovenia, %	–9.0	11.5	8.8	–0.4	2.0	3.5	2.3	2.8	3.1
Oil price, USD/barrel	42.0	70.8	102.3	83.6	81.2	69.1	96.9	82.2	77.1
Oil price, EUR/barrel	36.8	59.9	97.2	77.3	75.1	61.2	82.9	70.4	66.0
Change in US dollar oil prices, %	–34.7	68.6	44.5	–18.3	–2.9	–14.9	40.1	–15.1	–6.2
EUR/USD exchange rate	1.1	1.2	1.1	1.1	1.1	1.1	1.2	1.2	1.2
3-month Euribor, %	–0.4	–0.5	0.3	3.4	3.6	2.2	2.4	2.8	2.7
Change in primary commodity prices, %	2.3	41.9	6.3	–12.3	9.2	5.8	3.0	0.8	–1.9

Sources: ECB, Banka Slovenije calculations.

[7] The assumptions regarding the international environment are based on information available up to the cut-off date of 21 May 2026. The assumptions for foreign demand for Slovenia and the external technical assumptions underlying the medium-term projections, on which Banka Slovenije's projections are based, are prepared within the Eurosystem staff projection process. Further information on the methodology applied is available in the ECB's latest projection release.

[8] Between 2007 and 2025 the average annual growth of foreign demand for Slovenia was 3.0%.

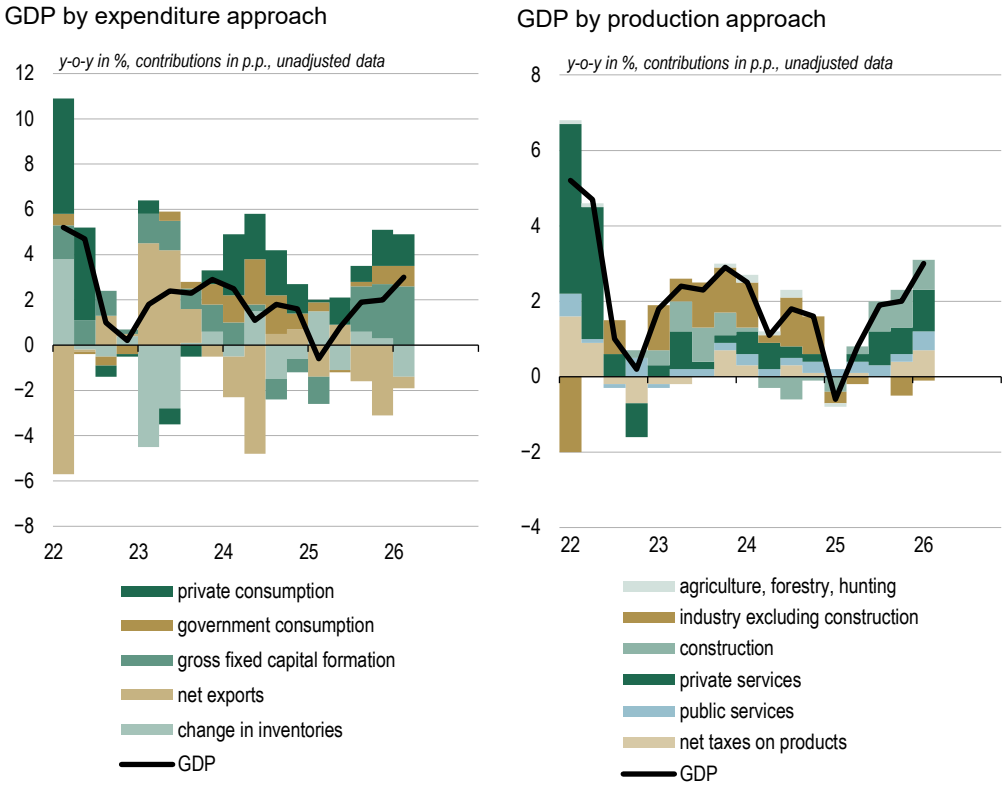
1.2 Domestic economic environment

Domestic economic growth strengthened year-on-year in the first quarter, further supported by investment and final consumption in the domestic market, while the negative contribution of external trade diminished as exports increased.

In the first quarter, economic activity continued to increase, rising by 0.7% compared with the previous quarter, while year-on-year growth accelerated to 3.0%, thus significantly exceeding the euro area average. Against the backdrop of last year's low base, this was largely attributable to a less negative contribution from net trade with foreign countries, which amounted to –0.5 percentage points (Figure 1.2.1, left). Notably, goods exports strengthened despite further deterioration in the international environment in March, which may also reflect advance orders in the face of uncertainty regarding supply chains in the coming months.

Private consumption remained a stable driver of growth, supported by the increase in the minimum wage and the introduction of the mandatory winter allowance. It was broad-based and strengthened both on a current and annual basis, contributing 1.4 percentage points to year-on-year GDP growth. With rising employment in the general government sector and higher expenditure on healthcare and long-term care, government consumption also increased, contributing an additional 0.9 percentage points to economic growth.

Figure 1.2.1: **Domestic economic growth**



Source: SURS. Latest data: first quarter of 2026.

Year-on-year growth in gross fixed capital formation accelerated further, reaching 12.6% and contributing 2.6 percentage points to GDP growth. Growth was driven primarily by continued strengthening of investment in equipment and machinery, as well as government investment projects supported by EU funds. Due to the negative contribution of changes in inventories, the total contribution of gross investment to GDP growth was lower, at 1.2 percentage points.

Value added growth was driven mainly by private services and construction, with some signs of recovery in manufacturing.

Total value added was 2.6% higher year-on-year in the first quarter. Private services contributed the most to growth, at 1.1 percentage points (Figure 1.2.1, right), with the largest contributions coming from services with higher value-added per employee, such as information, financial, and professional and technical services. Monthly indicators also point to strong growth in accommodation and food service activities. Conditions in trade and transport were less favourable, as monthly data indicate year-on-year stagnation in retail trade turnover despite a March spike in fuel sales, and a decline in activity in transport and storage. This was partly related to increased fuel purchases at petrol stations ahead of the announced rise in liquid fuel prices, which was already reflected in a monthly decline in revenues in this segment in April. Value added in public services increased by 2.5% year-on-year amid higher government consumption, contributing 0.5 percentage points to GDP growth.

Among individual activities, construction contributed the most to GDP growth (0.8 percentage points), with value added increasing by 15.0% year-on-year from a low base, mainly due to an increase in the value of specialised construction put in place. On a quarterly basis, value added declined, indicating a moderation of activity following strong growth at the end of last year.

With the strengthening of goods exports, conditions also improved at the beginning of the year in manufacturing, where value added increased by 1.4% after last year's decline. Monthly data on industrial production indicate that growth was concentrated in sectors with lower technological intensity, while production in more technologically advanced sectors declined (Figure 1.2.2, left). In other industrial activities, particularly energy, activity contracted sharply, so that the overall contribution of industry to GDP growth was slightly negative (–0.1 percentage points).

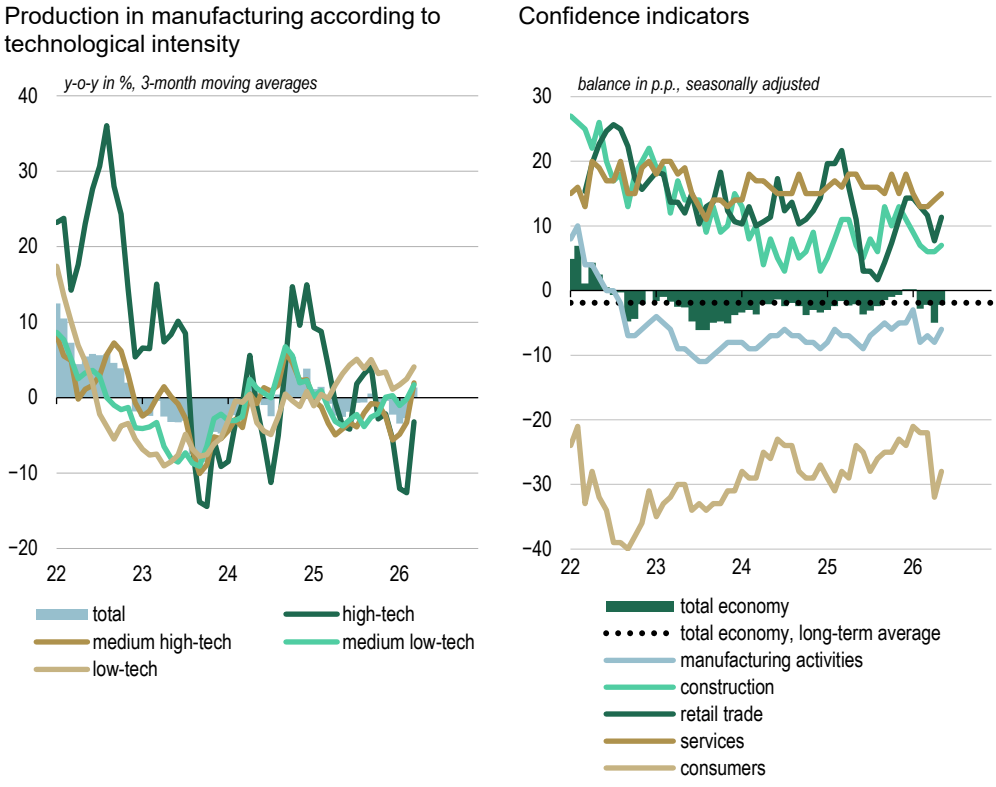
Further deterioration in the international environment in the second quarter is reflected mainly as a price shock, while its impact on economic activity remains limited, despite increased monthly volatility in survey indicators.

Economic sentiment, after worsening in April, returned in May to its long-term average (Figure 1.2.2, right). Consumer confidence improved slightly, though it remained below the level of the first quarter and last year's average. The confidence indicator also increased across all activities, in trade and other services even above the level of the first quarter. In manufacturing, sentiment improved, although capacity utilisation remained persistently lower than in the five-year period before the pandemic, and the volume of

new orders was smaller. In construction, the main development was a reduction in perceived uncertainty, while among consumers and in most activities, heightened expectations regarding future price increases persist.

Available high-frequency indicators for the second quarter suggest somewhat more cautious household consumption amid increased survey-based uncertainty regarding financial conditions, while signals from certain domestically oriented activities are more favourable. The real value of confirmed tax receipts in the first two months of the second quarter was 1.6% lower year-on-year, while the value of card payments was 1.7% higher, though growth was slower than in the first quarter. In April, real sales of motor vehicles increased by 4.5% year-on-year, and retail trade turnover by 2.1%.[9] In accommodation and food service activities, data on tourist overnight stays in the first two months of the second quarter also indicate continued growth, with the number of overnight stays up 7.0% year-on-year. Prospects in construction also remain favourable, as the total floor area covered by building permits for buildings increased significantly up to April this year.

Figure 1.2.2:
Manufacturing activity and confidence indicators



Sources: SURS, Banka Slovenije calculations. Latest data left: March 2026; right: May 2026.
Note: In the left chart, year-on-year growth rates are based on three-month moving averages of production indicators. In the right chart, the long-term average for economic sentiment is calculated for the period 2010–2025. Due to volatility, retail trade data are presented as three-month moving averages.

The current average of model-based estimates for quarterly GDP growth in the second quarter stands at 0.3% (Figure 1.2.3, left). The estimate is below the long-term average of quarterly growth and is accompanied by pronounced uncertainty. This arises from the limited set of soft indicators, which fluctuated significantly in the first two months of the second quarter. Following a sharp decline in the economic sentiment in April, a rebound was observed in May. In addition to the highlighted uncertainty of survey-based indicators for the second quarter, the estimate is also strongly influenced by the

[9] In retail trade, real revenues from sales of motor fuels continued to increase strongly, with year-on-year growth of 12.3%.

March volume of sales in trade and services, which to a significant extent reflects one-off effects of increased fuel purchases at petrol stations prior to the announced rise in fuel prices.

Real exports and imports of goods increased year-on-year in the first quarter, despite a deterioration in the terms of trade for goods, while trade in services contracted.

The current account surplus amounted to 2.3% of GDP in the first quarter, which is 0.4 percentage points less than a year earlier. The main factor behind the decline was a larger deficit in trade in goods, which widened as a result of import volumes growing faster than export volumes, coupled with a slight deterioration in the terms of trade (Figure 1.2.3, right). Survey indicators of the competitive position on EU and non-EU markets remain unfavourable, indicating a further decline in the competitiveness of enterprises (see Box 2.1.4 for more details).

Despite weaker external trade flows in January, heightened geopolitical tensions have not yet been significantly reflected in goods trade data for the first quarter. Nominal exports of goods were up 1.4% year-on-year (real growth of 0.7%), while imports increased by 1.9% (real growth of 1.5%), mainly due to stronger flows in March. This might partly indicate an early increase in trade volumes in response to uncertainty regarding the resilience of supply chains in the coming months amid geopolitical tensions.[10]

Approximately two-thirds of the growth in goods exports was attributable to exports to EU countries. The growth was geographically dispersed, as nominal exports increased to all major trading partners except Germany and Austria.[11] The largest contribution to export growth outside the EU came from higher exports to Russia, primarily of medical and pharmaceutical products, which rose by 29% year-on-year. Medical and pharmaceutical products account for a significant share of goods exports (15%), with total exports in this category up by a tenth year-on-year in the first quarter. Exports of road vehicles also increased (by 4.8%),[12] as did exports of industrial and electrical machinery (by 3.0%).

The largest contribution to overall goods imports growth came from a 10.9% increase in imports from non-EU countries, while imports from EU countries declined by 0.5%, mainly due to lower imports of oil and oil products from Italy. The main drivers of import growth were a 8.7% increase in imports of machinery and transport equipment, with the most pronounced growth seen in road vehicles from Spain (57%) and electrical machinery and equipment from China (48%).[13] The increase in imports from China may partly be linked to stockpiling ahead of the possible introduction of new EU restrictions

[10] In April as well, nominal exports were up 4.8% year-on-year, while imports increased by 15.7%. Exports of oil products rose by 92%, and imports by 166% (both mainly with non-EU countries). Excluding oil and oil products, in April exports would be 1.7% higher and imports 6.6% higher year-on-year (SURS, Exports and imports excluding operations involving processing).

[11] In the first quarter, exports of goods increased to Croatia (2.8%), Italy (1.3%), France (6.1%), Poland (3.8%), and Hungary (9.4%).

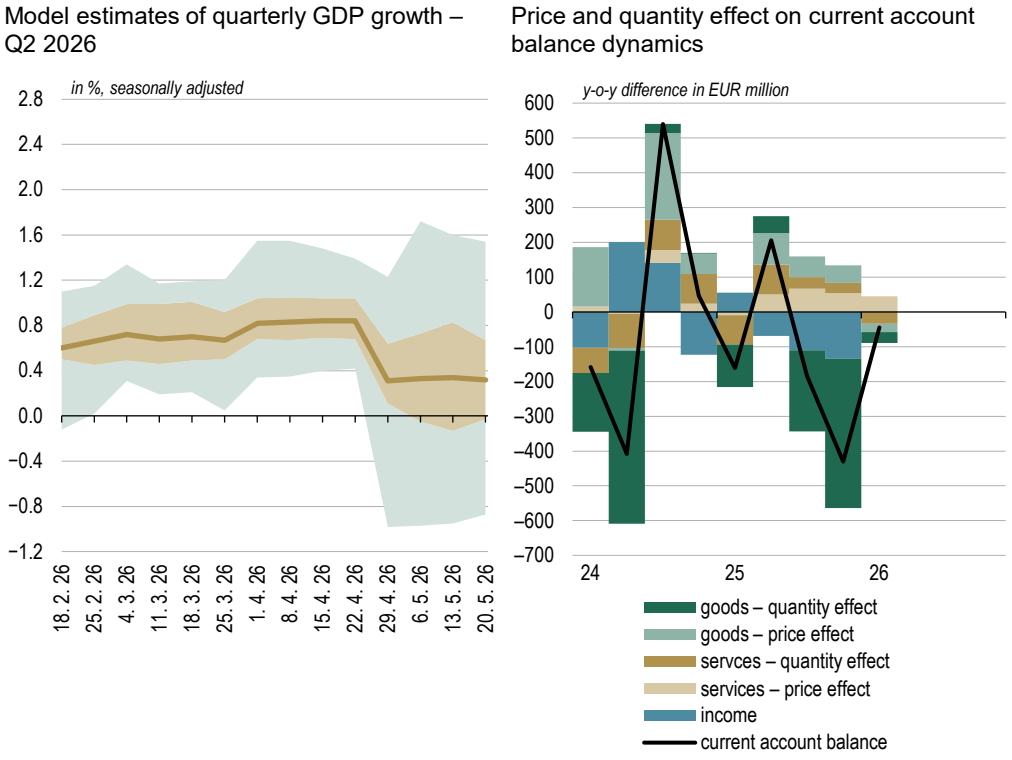
[12] Exports of road vehicles to the United Kingdom almost doubled, while exports to Serbia were up by 47% and to France by 14%.

[13] Imports of goods from China increased by 27.9% year-on-year, with imports of machinery and transport equipment up by 31.4%. At the EU level, imports of goods from China rose by 2.5% year-on-year, with imports of machinery and transport equipment up by 10.7%.

aimed at enhancing supply chain resilience, reducing risks associated with supply concentration, and strengthening economic security.[14]

Nominal exports of services were up 2.8% year-on-year in the first quarter, while imports increased by 3.3%. Despite these favourable trends, real exports of services declined by 2.9% and imports by 1.3%, mainly due to a pronounced price effect. The main contributors to the growth in nominal exports of services were insurance services and travel, which increased by 5.2% year-on-year. Daily data for the first two months of the second quarter indicate a further increase in travel exports, as the number of overnight stays by foreign tourists was 8.6% higher year-on-year.[15] Transport continues to account for the largest share of service exports, representing almost one-third, and remained virtually unchanged year-on-year (0.9%). On the import side, travel imports increased by 8.6%, while imports of transport services declined by 2.7%, with maritime freight transport down by one-fifth.[16] The surplus in trade in services remained similar to a year earlier, with transport services continuing to be the most important source, generating almost two-thirds of the surplus.

Figure 1.2.3: **GDP nowcasts and current account developments**



Sources: SURS, Banka Slovenije, Banka Slovenije estimates.
Notes: 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 nowcasts. The gold line represents the average nowcast for GDP growth in Q2 2026. Nowcast date: 20 May 2026. In the right chart, the effect of terms of trade is calculated as the difference between nominal and real trade, based on balance of payments data and national accounts price indices.

[14] The EU is planning to extend import quotas and safeguard duties to entire industrial sectors, such as chemicals, metals, and clean technologies. It is also considering the introduction of supply chain diversification requirements, which would limit the purchase of key components from a single supplier to 30–40%, with the remainder to be sourced from multiple suppliers in different countries. This could increase the cost of final products (Finance, 2026, Global Banking & Finance Review, 2026). In addition, as of 1 July 2026, the exemption from customs duties for parcels under EUR 150 will be abolished, prompting Chinese companies to increase the number of warehouses and distribution centres within the EU (Svet EU, Carra Globe, 2026, Ecommerce News, 2026).

[15] SURS, tourism daily.

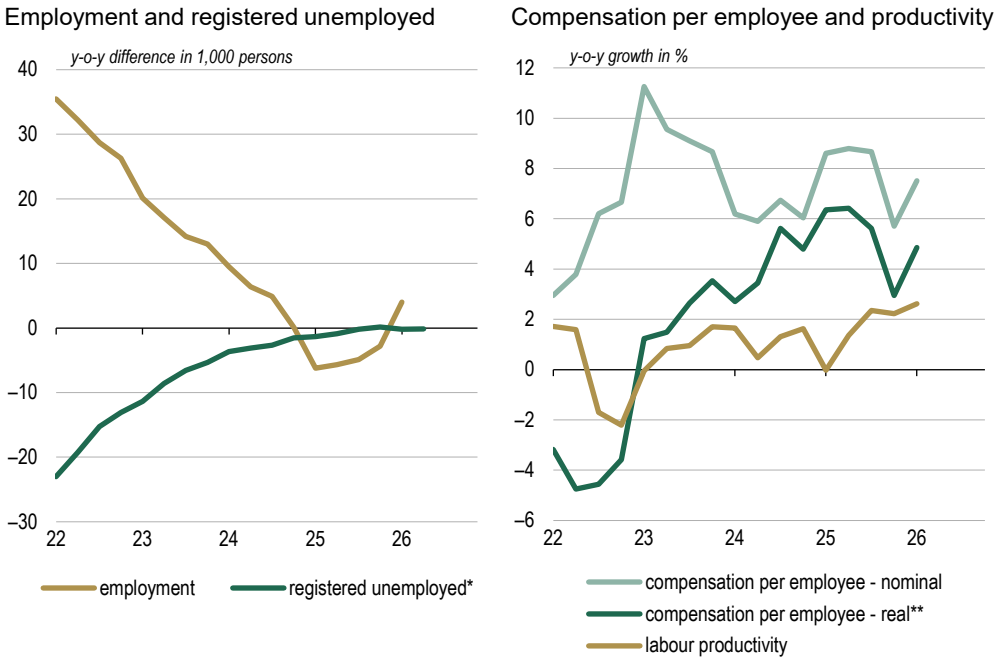
[16] Imports of maritime freight transport already declined in January and February (by 19.7% and 28.3%, respectively), i.e. before the closure of the Strait of Hormuz in March.

The primary income balance also recorded a surplus in the first quarter, similar to last year. It amounted to EUR 13 million, which was EUR 19.2 million lower year-on-year. This was mainly due to lower interest income received by the government, alongside an increase in interest expenditure. The deficit in secondary income narrowed by EUR 21 million, primarily as a result of higher net non-life insurance premiums.

The labour market remains robust, while real wage growth exceeds productivity growth.

Following last year's contraction, employment increased by 0.4% year-on-year in the first quarter of this year (Figure 1.2.4, left). By activity, the largest contributions to growth came from predominantly public services and from professional, scientific, technical and other business activities, while the sharpest declines were recorded in manufacturing and in the combined trade, transportation, accommodation and food services activity. Seasonally adjusted data on expected employment indicate that labour demand moderated in the spring months and was only half a percentage point above the long-term average. It remained highest in construction. Nevertheless, the labour market remains tight, as reflected in persistently high labour shortages and low registered unemployment. In May, registered unemployment was 0.3% lower year-on-year, amounting to 43,060 persons, which is less than one thousand persons above the historical minimum recorded in June last year. The unemployment rates did not change significantly year-on-year; the registered unemployment rate stood at 4.6% in March, while the survey unemployment rate was 4.1% in the first quarter.

Figure 1.2.4: **Labour market indicators**



Sources: SURS, ZRSZ, Banka Slovenije calculations. Latest data: left – first quarter of 2026 for employment, second quarter of 2026* for registered unemployed; right – first quarter of 2026.
Note: * The data for registered unemployed are calculated as the average of the three months in the quarter. For the second quarter of 2026, data are available for April and May. ** Real growth in compensation of employees per employee is calculated using the HICP deflator.

Wage growth, measured by compensation of employees per employee, was 7.5% year-on-year in the first quarter (Figure 1.2.4, right). Despite a substantial 16% increase in

the minimum wage, which is analysed in detail in Box 2.2.1, wage growth was more than one percentage point lower than a year ago, due to the fading base effect from the public sector wage increase in January last year. In the private sector, wage growth stood at 7.5%, while in predominantly public services it was 7.3%. Despite the highest year-on-year productivity growth in the past four years (2.6%), which, given last year's low base, is mainly attributable to the year-on-year increase in GDP, productivity still lagged behind real wage growth (4.9%) in the first quarter.

Inflation has accelerated primarily due to higher energy prices; services inflation, however, continues to remain elevated.

The annual growth rate of consumer prices, as measured by the HICP, increased again in May, reaching 3.8%. This was 0.4 percentage points higher than in April and 1.4 percentage points higher than in March (Figure 1.2.5, left). The acceleration over the past two months has been driven primarily by fuels, reflecting higher crude oil prices on global markets due to the outbreak of war in the Middle East. Motor and liquid fuels prices rose by 20.3% month-on-month in April; in May, however, amid significant volatility in wholesale prices, they declined by 2.0%.[17] However, these rates have been partly impacted by government measures related to excise duties and the CO_2 contribution.[18] Total energy prices also declined slightly in May, by 1.4% month-on-month, while their high annual growth rate at 17.1% (15.6% in April) was supported not only by recent price increases but also by base effects. The latter stemmed mainly from fuel prices, which had been declining in the same period last year.[19]

Food prices have remained relatively stable so far, despite higher fuel prices. Their annual growth rate increased only slightly in May, to 2.0%, with monthly increases in both processed and unprocessed food not deviating from typical seasonal patterns for May. Fertiliser prices on global markets, which had surged following the energy shock, eased significantly by the end of May, mitigating the pass-through of higher energy prices to consumer prices.[20] Nevertheless, changed conditions in the global economy have already been reflected along production chains, where increased price pressures are evident in higher prices of agricultural inputs, particularly nitrogen fertilisers, as well as in higher import prices of energy and intermediate goods.[21]

Alongside the acceleration in energy prices, core inflation, measured as the growth of prices excluding energy and food, has also strengthened. In May, it rose back to 2.3% (1.9% in April), returning to the levels of the first quarter. The decline in April was mainly attributable to the prices of other goods, particularly clothing and footwear.[22] Nevertheless, core inflation continues to be driven primarily by services prices, which were up 3.9% year-on-year in May. Indeed, services inflation has been hovering around these

[17] The estimate is based on data from the Weekly Oil Bulletin and the first release of the consumer price index for May 2026 by the Statistical Office of the Republic of Slovenia. It combines price indices for petrol, diesel, and liquid fuels.

[18] Headline inflation would have been higher by 0.1 percentage points in March 2026 had these measures not been implemented. The impact in April 2026 amounts to 0.9 percentage points, and in May 2026 to 0.8 percentage points. The CO_2 contribution has already reversed to the pre-war levels on 2 June 2026, therefore implying a positive base effect on headline inflation between March and May 2027. This accounts for roughly half the size of the measures. The distribution of the remaining part of the positive base effect, stemming from the excise duties, will depend on the timing of reversal to the levels before 10 March 2026.

[19] Such developments were mainly attributable to anticipated lower demand following announcements of tariff introductions by the US administration, alongside increased production by OPEC+ member states.

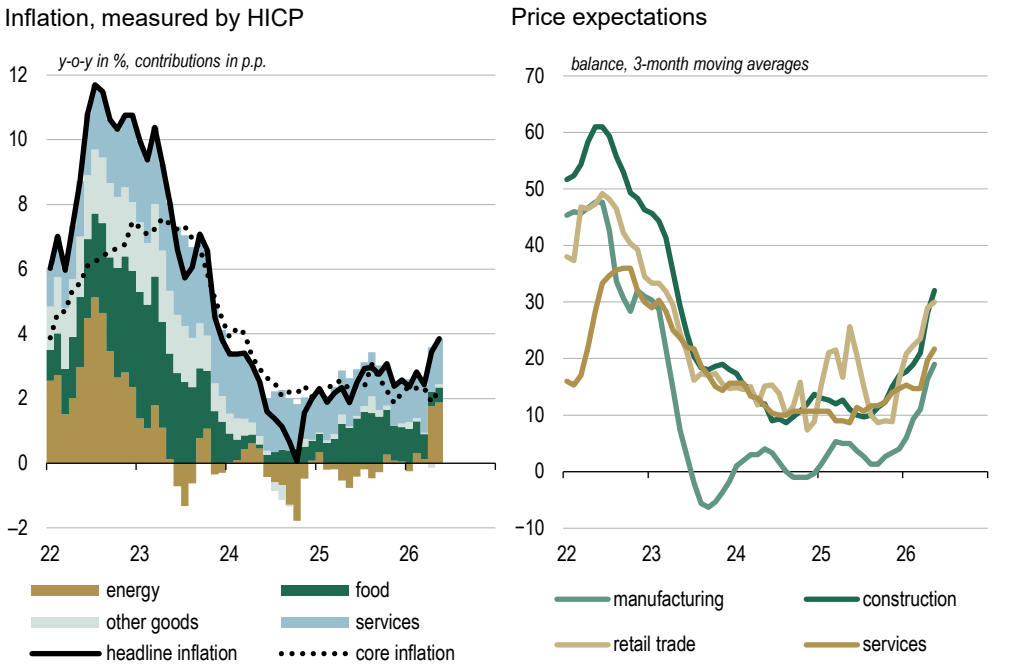
[20] Global nitrogen fertiliser prices, after rising by around 60%, had fallen back to roughly their February levels by the end of May (Trading Economics).

[21] In March, nitrogen fertiliser prices for producers increased by 24.3% month-on-month.

[22] The annual growth rate of prices for other goods declined from 0.1% in March to –0.5% in April. Most of this change, amounting to 0.4 percentage points, can be explained by clothing and footwear prices, which typically follow seasonal patterns and may occasionally exhibit shifts in these patterns. In May, the annual growth rate of prices for other goods returned to its early-year level, standing at 0.3%.

levels since late 2024, supported by robust domestic demand and strong growth in labour costs. A further persistence of services inflation is indicated by inflation momentum, which has increased by more than one percentage points over the past four months, while the annual growth rate remained relatively unchanged. Survey indicators also point to the somewhat accumulated price pressures, as they show a notable increase in the share of firms expecting a faster rise in their selling prices in the coming months (Figure 1.2.5, right). Expectations of further price increases could be driven by still robust domestic demand, the delayed pass-through of labour cost growth to final prices, and the gradual transmission of higher energy prices to other price categories.

Figure 1.2.5: **Domestic price developments and business tendency**



Sources: SURS, Eurostat, ECB, Banka Slovenije calculations. Latest data: May 2026.
Note: Due to high volatility, retail trade data in the right chart is presented as 6-month moving averages. Selling expectations refer to the period of the next three months.

The growth of expenditure of the consolidated general government budgetary accounts outpaced that of revenue, resulting in an increase in the deficit.

The deficit of the consolidated general government balance amounted to EUR 397 million in the first four months, which is EUR 111 million more than in the same period last year. Over the twelve-month period to April, it reached 2.6% of GDP, slightly higher than at the end of 2025 (2.5% of GDP). Most of the deficit originated from the state budget, where it amounted to EUR 420 million in the first four months. According to preliminary data up to and including May, the state budget deficit increased further, reaching EUR 890 million (compared with EUR 561 million in the same period last year).

Consolidated general government revenue was 11.4% higher year-on-year up to April. The main contributors to this growth were social security contributions, reflecting labour market conditions that are favourable for public finances and the introduction of the long-term care contribution in July 2025. Among tax revenues, the most pronounced growth was recorded in corporate income tax, due to the settlement of tax liabilities for

the previous year in April. Revenue from domestic taxes on goods and services also increased, supported by growth in private consumption. Notably, value added tax revenue rose strongly, and excise duty receipts were also higher year-on-year in April. A significant contribution to overall revenue growth came from EU budget funds, which were EUR 172 million higher, mainly due to inflows from the EU Recovery and Resilience Facility (NGEU); these amounted to EUR 175 million this year, compared with none in the same period last year. In April, the tax on total assets of banks and savings banks, introduced to finance post-flood reconstruction, was also paid.

Consolidated general government expenditure increased even more rapidly than revenue, rising by 12.2%. The main driver of this growth was a significant increase in wages, which was 11.7% higher year-on-year. This reflects the gradual implementation of the wage reform, the increase in the minimum wage, growth in employment, and promotions. The impact of this year's 0.9% wage indexation to inflation will be reflected in the May data, following the payment of April wages. Transfers to individuals and households also increased. Expenditure on pensions was 6.0% higher year-on-year, mainly due to the regular 4.2% pension indexation and an increase in the number of pensioners, while unemployment benefits also rose substantially.[23] Investment expenditure and transfers were 19.4% higher year-on-year, indicating stronger government investment activity. There was also a notable increase in current payments to other institutions performing public services that are not indirect budget users, as well as in allocations to reserves.

2 Projections

After the temporary slowdown in economic growth, associated with the effects of the war in the Middle East, GDP growth will gradually strengthen from the end of 2026 over the projection horizon and stabilise above two percent in 2027 and 2028. A stronger recovery will be constrained by deteriorating external competitiveness, primarily as a result of robust growth in labour costs, despite a somewhat less tight labour market and modest employment growth. The domestic economy will thus face a combination of external and domestic cost pressures, which will again contribute to higher inflation this year and subsequently hinder its faster moderation in the ensuing period.

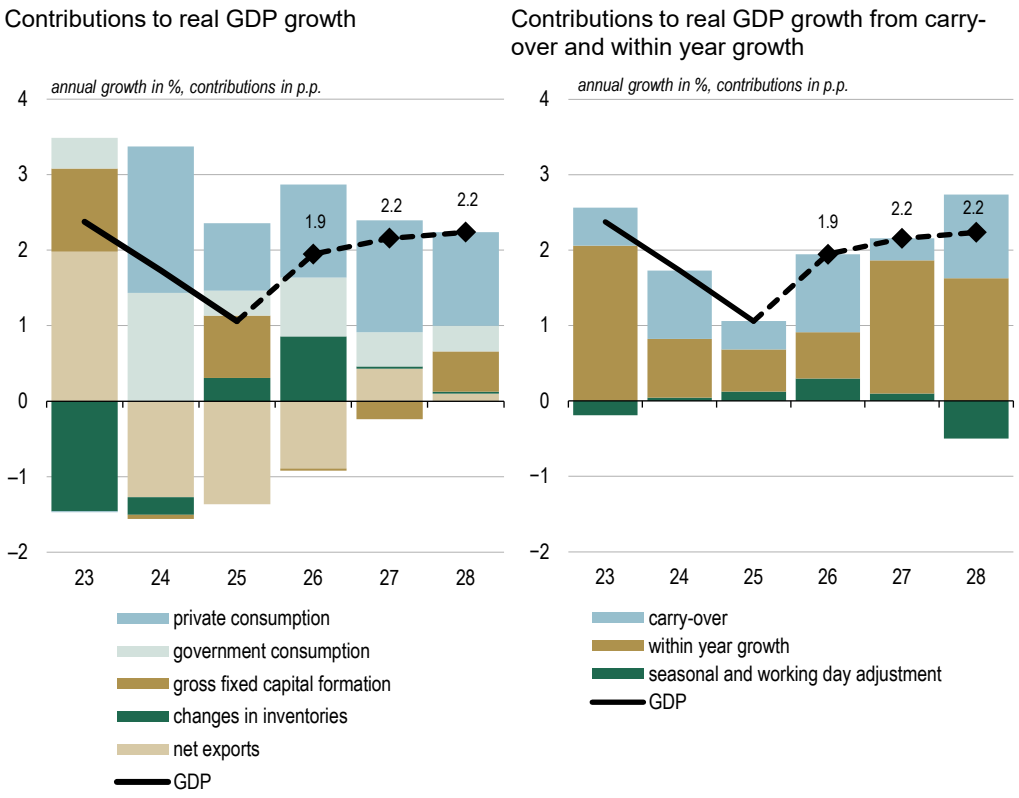
2.1 Economic activity

GDP growth will amount to 1.9% this year, with the encouraging start to the year and the carry-over of economic activity from the previous year mitigating the effects of the situation in the Middle East. With the stabilisation of the international environment, growth will strengthen to 2.2% in 2027 and 2028.

[23] In addition to the regular 4.2% indexation of pensions in February, with retroactive effect for January, an extraordinary 1% pension indexation was paid in May, with retroactive effect from March onwards. The increase in expenditure on unemployment benefits is the result of legislative changes. As of 1 January 2026, the minimum amount of unemployment benefit is set at 70% of the gross minimum wage (EUR 1,037.32 gross), while the maximum amount is set at 130% of the minimum wage (EUR 1,926.44 gross); previously, the maximum amount was limited to EUR 892 gross. In the first four months, unemployment benefit payments were 27.3% higher year-on-year.

In the short term, economic developments will be shaped by events in the Middle East. Although, according to available indicators for the second quarter, these effects are primarily manifesting as a price shock and to a lesser extent as a shock to the real economy, the projections assume that economic growth will temporarily moderate in the second and third quarters of this year. This will be mainly driven by uncertainty, which, together with higher input costs, will dampen activity also in our trading partners. Against this backdrop, net trade with foreign countries will make a negative contribution to economic activity this year, while investment will largely stagnate. Growth will thus be sustained by domestic consumption. On the government side, this will be mainly linked to the implementation of the Long-Term Care Act and the increase in employment in the government sector. Real wage growth, supported by a relatively robust labour market, will at the same time mitigate the impact of the energy shock on household purchasing power, which will also underpin the growth of private consumption. With the anticipated stabilisation of international conditions, activity in the export sector of the economy will gradually recover in 2027 and 2028, resulting in more balanced and higher GDP growth (Figure 2.1.1).

Figure 2.1.1: **Drivers and decomposition of GDP growth**



Sources: SURS, Banka Slovenije calculations and projections.

Amid heightened uncertainty and weaker consumer confidence, the growth of private consumption will lag behind the growth of disposable income this year; nevertheless, at 2.4%, it will remain relatively robust. Over the remainder of the projection horizon, developments in both components are expected to become more closely aligned, with private consumption growth rising slightly to 2.6%.

Favourable developments in private consumption dynamics at the beginning of the year masked divergences in underlying factors. While household income – supported by the

lagged effect of the mandatory winter bonus and a pronounced increase in the minimum wage – continued to underpin spending, consumer confidence deteriorated slightly in February and March. Uncertainty and the energy shock further significantly deepened the decline in confidence in April and May. Together with higher inflation and pressures on disposable income, these factors are expected to constrain private consumption over the remainder of the year, during which its growth is projected to moderate. The impact on purchasing power will be more pronounced among households with lower incomes and a higher propensity to consume, as they are disproportionately affected by the increase in the prices of essential goods and services.[24]

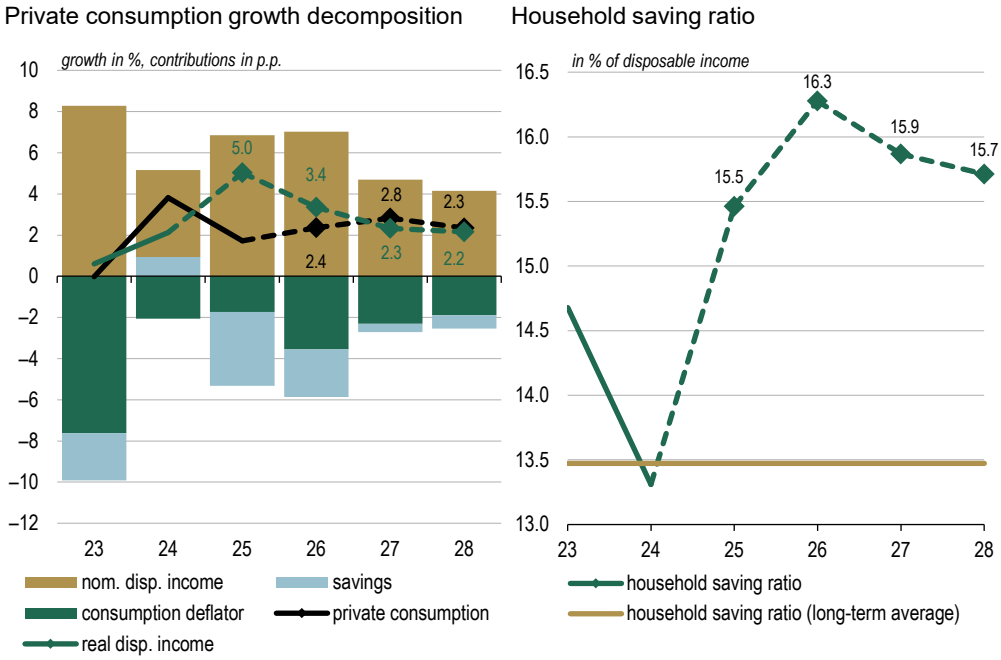
Wage growth will continue to mitigate inflationary pressures, however, due to weaker confidence and precautionary saving, the growth in real disposable income will only partially translate into higher private consumption. In an environment of heightened uncertainty, households are expected to postpone major purchases and demand for durable goods in particular, as confirmed by our empirical estimates in Box 2.1.1. Consequently, private consumption growth is projected to reach 2.4% this year, which is 0.7 percentage points lower than the December projection. Despite tighter financing conditions,[25] consumer confidence is expected to improve over the remainder of the projection horizon, assuming a gradual easing of uncertainty. Together with further real income growth, this will accelerate private consumption growth to 2.8% next year. In 2028, private consumption growth is projected to moderate to 2.3%, in line with developments in real disposable income (Figure 2.1.2, left).

The household saving ratio is estimated to have increased to 15.5% last year, and, amid subdued growth in private consumption and continued robust growth in real disposable income, it is expected to rise further to 16.3% this year, which is 2.8 percentage points above the long-term average. This primarily reflects precautionary saving and the postponement of major purchases due to heightened uncertainty and, consequently, weaker consumer confidence. Despite the strengthening of private consumption from next year onwards, the household saving ratio will remain relatively high, as confidence is expected to recover only gradually with the easing of uncertainty, and a portion of income will continue to be allocated to saving or investment. On average over the period 2027–2028, the saving ratio is projected to stand at 15.8%, which is 2.3 percentage points above the long-term average (Figure 2.1.2, right).

[24] An overview of the structure of consumption and inflation by household income quintile is presented in Box 6.1 of the publication Review of Macroeconomic Developments, January 2024, Banka Slovenije.

[25] The impact of loan supply shocks on private consumption in Slovenia is presented in greater detail in Box 3.3 of the publication Review of Macroeconomic Developments, March 2026, Banka Slovenije.

Figure 2.1.2: **Private consumption growth decomposition and the household saving ratio**



Sources: SURS, Banka Slovenije calculations and projections.
Note: Data on disposable income and savings are available only up to 2024. In the right chart, the long-term average is calculated for the period 1995–2025, excluding the Covid-19 period (2020–2021), and amounts to 13.5%.

Government consumption will support economic growth primarily this year, while government investment, after making a significant contribution last year, is not expected to provide further stimulus over the projection period.

Government consumption is projected to increase more strongly this year due to the implementation of long-term care and rising employment. Growth is expected to reach 2.5% on average over the projection period. With the introduction of institutional long-term care rights in December 2025 and the gradual expansion of home-based long-term care, introduced in July last year, expenditure on long-term care will increase further this year, contributing to higher government consumption. At the same time, employment growth in the general government sector continues, having strengthened further in the first quarter. In the remainder of the projection period, real growth in government consumption is expected to moderate. Nominal growth in government consumption will be high this year and next, reflecting not only expenditure on long-term care but, to an even greater extent, strong growth in compensation of employees, linked to the wage reform, further employment growth and other factors.[26] Towards the end of the projection period, as the effects of the introduction of long-term care fade and the NGEU programme concludes in 2026, growth in government consumption will slow.

General government investment is expected to have a broadly neutral impact on economic growth over the projection period, as the effects of the conclusion of the NGEU programme gradually fade. Although investment will increase further this year, its contribution to economic activity will be only slightly positive due to the high base from previous year. However, the investment-to-GDP ratio will remain close to last year's

[26] The wage reform adopted at the end of 2024 envisages salary increases in six stages. Two of these were implemented last year, with further increases scheduled for June and December this year, followed by additional increases in July 2027 and January 2028. Compensation of employees is projected to increase most significantly this year within the projection period, reflecting not only the effects of the wage reform but also the increase in the minimum wage, employment growth, and the April indexation to past inflation of 0.9%. The upward revision of wage growth over the projection period is primarily the result of this year's substantial increase in the minimum wage and higher inflation than previously estimated (wages will be indexed to inflation above 1.6% growth in 2027 and above 1.0% growth in 2028).

record level, at around 5.5%. Investment growth this year will be supported by the completion of NGEU-funded projects and the usual effect of increased investment activity ahead of elections, particularly local elections. In 2027, the contribution of government investment to GDP growth will turn negative, as the effects of the NGEU programme and the pre-election period will have largely dissipated. Investment is expected to pick up again and contribute to GDP growth in 2028, supported by the anticipated accelerated absorption of funds from the EU financial perspective. Throughout the projection period, government investment will also be supported by higher defence spending, while the volume of post-flood reconstruction following the August 2023 floods will gradually decline. Real growth in government investment is projected at 0.5% this year, followed by a decline of 9.2% in 2027, and a renewed increase of 1.9% in 2028. Government investment will remain relatively high throughout the period, averaging around 5% of GDP.

Due to challenging conditions in the main export markets and heightened uncertainty, private investment is expected to decline this year, thereafter, it will recover only gradually, as cost pressures persist and financing conditions remain tight.

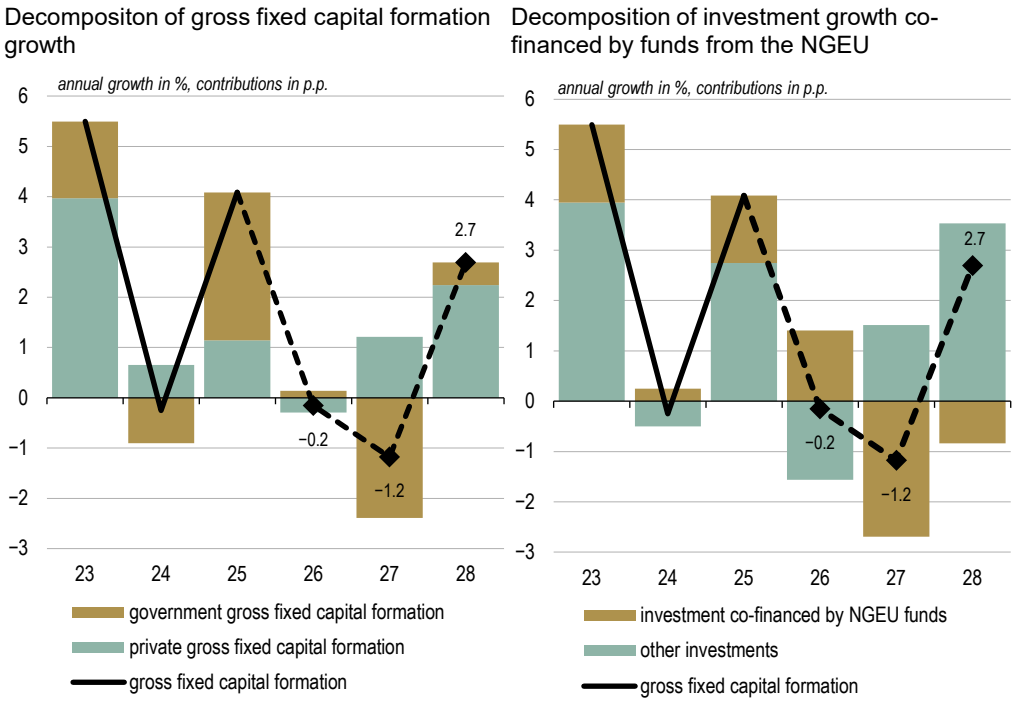
Following relatively robust investment activity by firms in the first quarter, the escalation of geopolitical tensions in the Middle East has once again increased uncertainty in the external environment. With more cautious expectations for the remainder of the year and a significantly negative carry-over effect from 2025, business investment is projected to fall by 1.1% this year, which will be the main contributor to the overall decline in private investment of 0.4% (Figure 2.1.3, left). The slowdown in business investment growth in the second half of the year is also confirmed by weakened survey-based confidence indicators in manufacturing in the initial months of the second quarter. Firms report lower expectations regarding production and new orders, as well as persistently lower capacity utilisation compared to the pre-pandemic period. Among the main limiting factors, they cite uncertain economic conditions, a shortage of skilled labour, and insufficient foreign demand. As a considerable share of firms report plans to invest less than last year, risks to lower-than-projected growth remain present.

Private residential investment will increase by 3.6% this year, driven by a more pronounced revival in the housing construction cycle that began at the start of the year and a favourable carry-over effect from 2025. The strengthening of residential construction is reflected in more favourable monthly data on the value of construction put in place, a higher number of building permits issued for residential buildings, and relatively stable survey-based indicators in the construction sector, despite uncertain conditions in the external environment. Accelerated housing construction will not, however, suffice to eliminate the existing imbalance between supply and demand, consequently, the growth of residential property prices will remain elevated. Demand for residential real estate continues to be supported by growth in households' real income and investment motives.

In 2027 and 2028, the growth of private investment will strengthen, albeit at a slower pace than projected in December. An important role in this will be played by mounting pressures on the cost competitiveness of firms, stemming from the pass-through of higher energy prices along the cost chain and elevated labour costs. Owing to uncertainty, heightened inflationary pressures, and the expected tightening of monetary policy, financing conditions for firms and households will also be less favourable compared

with previous years. In the final two years of the projection horizon, investment activity will be further constrained by the phasing-out of NGEU funding (Figure 2.1.3, right). Taking these factors into account, private investment growth in 2027 and 2028 will amount to 1.6% and 3.0%, respectively. Cumulatively, over the entire projection period, it will lag behind GDP growth, which poses a risk of further structural deceleration in productivity growth.

Figure 2.1.3:
Decomposition of gross fixed capital formation growth and the contribution of the NGEU programme



Sources: SURS, Ministry of Finance, RRO, Banka Slovenije calculations and projections.

Conditions in the export sector remain challenging, and as a result, the contribution of net trade with the rest of the world to economic growth is expected to be broadly neutral over the projection period.

The export sector faces numerous challenges and heightened risks arising from weak economic activity and a further deterioration in the economic climate among key export partners,[27] persistent uncertainty in international trade, and domestic cost pressures on competitiveness. This is reflected in the export intensity of enterprises, measured by the share of net sales revenue from foreign markets in total revenue, which deteriorated significantly at the end of last year. In the first quarter of this year, it improved somewhat but remained lower than a year earlier (Figure 2.1.4, left).

Some optimism was also observed at the beginning of this year in indicators of export orders and foreign demand, although both continued to point to a weak international environment. With the conflict in the Middle East, uncertainty has increased again, and the expected recovery in the growth of foreign demand has been postponed to next year. At the same time, firms continue to report increased pressure from competitive imports, particularly from China. Since 2023, this pressure has gradually intensified,

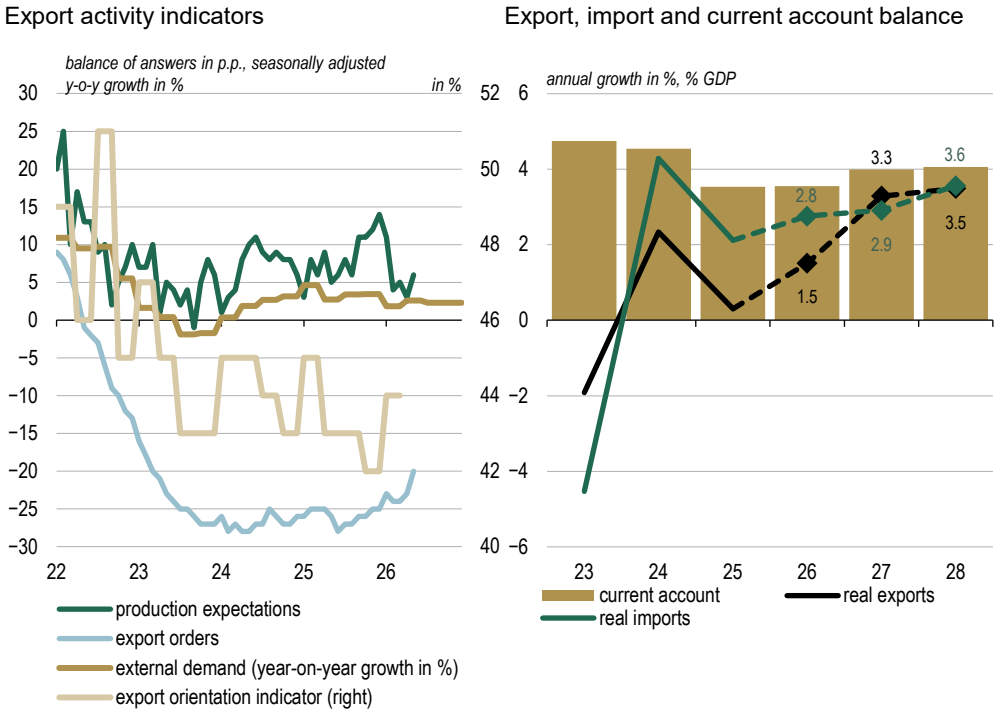
[27] A weighted average of the economic sentiment indicator in Germany, Italy, Austria, France and Croatia, using the previous year's goods exports as weights.

both in the EU market and in third markets, and is increasingly affecting the competitiveness in the EU's traditional export sectors.[28]

In these conditions, export growth in 2026 will reach 1.5% (Figure 2.1.4, right), which is 1.6 percentage points lower than the December projection and below the projected growth in foreign demand. Similarly, the import growth projection has been revised downwards by 1.5 percentage points to 2.8%, reflecting weaker domestic consumption than expected, a lower volume of investment, and a relative decline based on the import content of exports. The contribution of net trade with the rest of the world to GDP growth will thus be negative this year (–0.9 percentage points).

With the gradual stabilisation of conditions in the international environment and in line with projected movements in foreign demand, export growth is expected to accelerate to 3.3% in 2027 and to strengthen further to 3.5% in 2028. Nevertheless, the pace of market share gains over the projection period will be slower than the long-term average, as cost pressures on competitiveness will continue to restrain a stronger expansion of exports (the impact of deteriorating competitiveness on exports is examined in more detail in Box 2.1.5). With the strengthening of domestic demand and export activity, import growth will also increase, reaching 2.9% in 2027 and 3.6% in 2028 according to projections. With such developments, the net contribution of trade with the rest of the world will become positive again from 2027 onwards but will remain relatively modest.

Figure 2.1.4: **International trade**



Sources: ECB, SURS, Banka Slovenije projections.
Notes: In the left chart, the export orientation indicator is calculated from income statement data as the ratio of net sales revenues on foreign markets (AOP115 + AOP118) to total net sales revenues (AOP110). Latest data: May 2026, or the first quarter of 2026 for the export orientation indicator.

[28] More on changes in competitive pressures from China in Box 5.1 in the Review of Macroeconomic Developments, April 2026, Banka Slovenije.

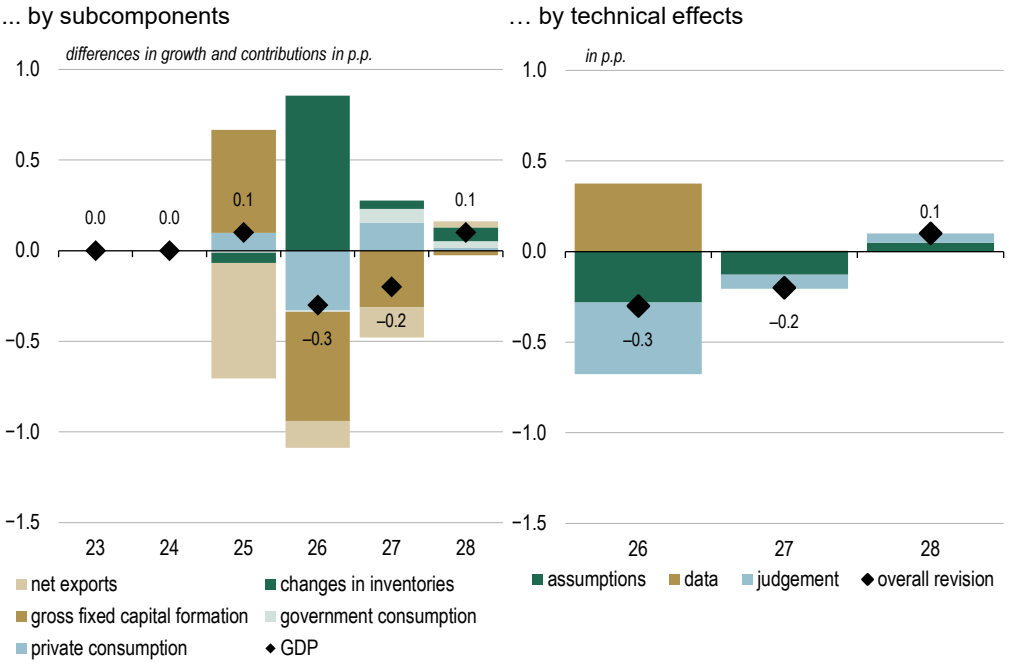
Compared with December, the June projection for economic growth is lower by 0.3 percentage points in 2026 and by 0.2 percentage points in 2027, while in 2028 it is higher by 0.1 percentage points.

The downward revision of GDP growth for 2026 primarily reflects increased geopolitical uncertainty due to the situation in the Middle East, which is intensifying inflationary pressures and deteriorating the external environment. Compared with the December projections, these factors, together with heightened cost pressures and low capacity utilisation, are reflected mainly in a negative contribution from net exports and a decline in private investment. Following stronger growth last year and a somewhat more constrained fiscal space compared with December, lower growth in government investment is also expected this year. At the same time, a somewhat more subdued growth in private consumption is anticipated, given weaker household confidence and greater precautionary savings. Uncertain conditions regarding energy costs and supply reliability are also reflected in a changed contribution from changes in inventories (Figure 2.1.5, left).

With an improvement in the external environment, a recovery in export and business investment growth is expected in 2027, however, the growth of both components will be more modest than projected in December. As a result, the expected GDP growth is 0.2 percentage points lower than the previous projection. This is mainly due to less favourable terms of trade, including exchange rate appreciation, mounting pressures on cost competitiveness, and tighter financing conditions. The negative revision of investment and export growth will be partly offset by somewhat higher growth in private consumption, which will be stronger than in December due to an expected improvement in confidence and the unwinding of excess savings from this year. At the same time, it is expected that, from next year onwards, private consumption growth will be more in line with the growth of disposable income, which, given the projected wage developments, is somewhat higher over the projection horizon than in December. The economic growth projection for 2028 remains relatively unchanged compared with December, and its structure is largely preserved.

From a technical perspective, the revision, despite relatively robust current high frequency indicators, is mainly the result of a revision of external environment assumptions and an additional expert judgement, which is negative for the projected growth. This relates in particular to the second and third quarters of this year, when current economic growth is expected to be considerably lower than short-term model estimates. These are currently based on a limited set of soft indicators for April and May, which show significant volatility in the economic sentiment and turnover, resulting in high uncertainty in model estimates (Figure 1.2.3, left). The impact of changed assumptions and the effect of a lower carry-over from this year are also reflected in the revision of the 2027 projection (Figure 2.1.5, right).

Figure 2.1.5: **Revision to economic growth projections**



Sources: SURS, ECB, Banka Slovenije calculations and projections.
Note: For the period 2023–2025, the revision of SURS data is shown.

Box 2.1.1: **Impact of uncertainty on private consumption**

Uncertainty can have a significant impact on households' consumption decisions through increased precautionary saving and the postponement of spending, particularly on larger and less frequent purchases.[29]

This channel is particularly important in the current circumstances, as, despite a strong increase in real disposable income at the end of last year and the beginning of this year, consumption has remained moderate, reflected in a higher household savings ratio.[30] Against this background, the box provides a quantitative assessment of the impact of uncertainty on private consumption and its main components in Slovenia.

The literature offers several empirical approaches to measuring uncertainty.[31] For household consumption, the uncertainty perceived by households is particularly important, especially when it originates from the domestic macroeconomic environment.[32] The analysis therefore employs a survey-based uncertainty indicator for Slovenia, as

[29] Both transmission channels examined in the box – the precautionary saving motive (Kimball, 1990; Carroll, 1997) and the real options effect, which is particularly pronounced in high-value purchases (Bernanke, 1983; Dixit and Pindyck, 1994) – are highlighted in the empirical literature as the main mechanisms through which uncertainty affects private consumption.

[30] Real disposable income is projected to increase by 5.0% in 2025, while real private consumption is expected to rise by only 1.7%. This year, real disposable income growth is projected to moderate to 3.4%, which remains high by historical standards, while private consumption is expected to increase by 2.4%. The household savings ratio is projected to rise to 15.5% in 2025 and to increase further to 16.3% this year, remaining above the pre-pandemic long-term average of 13.3%. Similar developments have been observed in the euro area, where the household savings ratio has persistently exceeded the pre-pandemic average since 2022.

[31] A review of uncertainty measures and their macroeconomic effects is available in Bloom (2014); model-based measures of macroeconomic uncertainty, based on the conditional volatility of forecast errors, are provided in Jurado, Ludvigson and Ng (2015); the news-based Economic Policy Uncertainty Index is available in Baker, Bloom in Davis (2016); and survey-based measures of uncertainty and disagreement are discussed in Bachmann, Elstner and Sims (2013) and Lahiri and Sheng (2010).

[32] The relevance of uncertainty as perceived by households is confirmed by Coibion et al. (2024), who show that household spending responses are driven by perceived macroeconomic uncertainty and not merely by first-moment expectations.

described in Gabrovšek (2026),[33] as such indicators capture the uncertainty embedded in the expectations of households and firms and are thus especially useful for analysing consumer behaviour. This approach is based on the dispersion of their responses regarding the expected state of the economy in the coming months. Greater dispersion and divergence in responses indicate higher uncertainty about the macroeconomic environment in Slovenia.

The impact of uncertainty shocks is estimated using a block-exogenous BVAR model on quarterly data for the period 2003–2025. The models are estimated separately for total private consumption and its main components: durable goods, non-durable goods, and services. Each specification includes a domestic and an external block; the domestic block comprises the uncertainty indicator, year-on-year growth in real disposable income, year-on-year growth in the relevant consumption variable, and inflation (HICP), while the external block includes the ECB shadow interest rate (Krippner, 2013) and year-on-year growth in foreign demand for Slovenia.[34] The variables included in the domestic block capture the fundamental determinants of private consumption, whereas the external block contains control variables related to financing conditions and the state of the international macroeconomic environment. Following Cushman and Zha (1997), block-exogenous restrictions are imposed to prevent domestic variables from affecting external variables. The uncertainty shock is identified recursively using a Cholesky decomposition, with the uncertainty indicator ordered first in the domestic block.[35] This allows the uncertainty shock to have an immediate effect on income, consumption, and inflation, while uncertainty itself responds to innovations in these variables with a lag. Due to pronounced volatility in consumption during the Covid-19 period, the results are evaluated using two alternative treatments: stochastic volatility and Covid-19 dummy variables.[36]

The results indicate that uncertainty is an important determinant of private consumption in Slovenia, with the effects varying across the different components.

The results are robust across specifications and indicate that private consumption declines in response to perceived uncertainty shocks. Following a one standard deviation uncertainty shock, which gradually dissipates over a two-year horizon, year-on-year growth in real private consumption gradually weakens. The largest negative response is observed after around one year, when real private consumption growth is estimated to be approximately 0.5 percentage points lower than in the absence of the shock (Figure 2.1.1.1). The effect then weakens in line with the dissipation of the shock, but the estimated response remains significant over part of the horizon, as the credible interval does not include zero. Aggregate results mask the uneven impact of uncertainty across the individual components of consumption. The most pronounced response is observed in durable goods, where the largest decline amounts to approximately 1.1 percentage points. Consumption of these goods falls sharply and persistently after the shock, which is consistent with the real options mechanism, according to which house-

[33] Gabrovšek (2026), Uncertainty indicators for the Slovenian economy, Banka Slovenije.

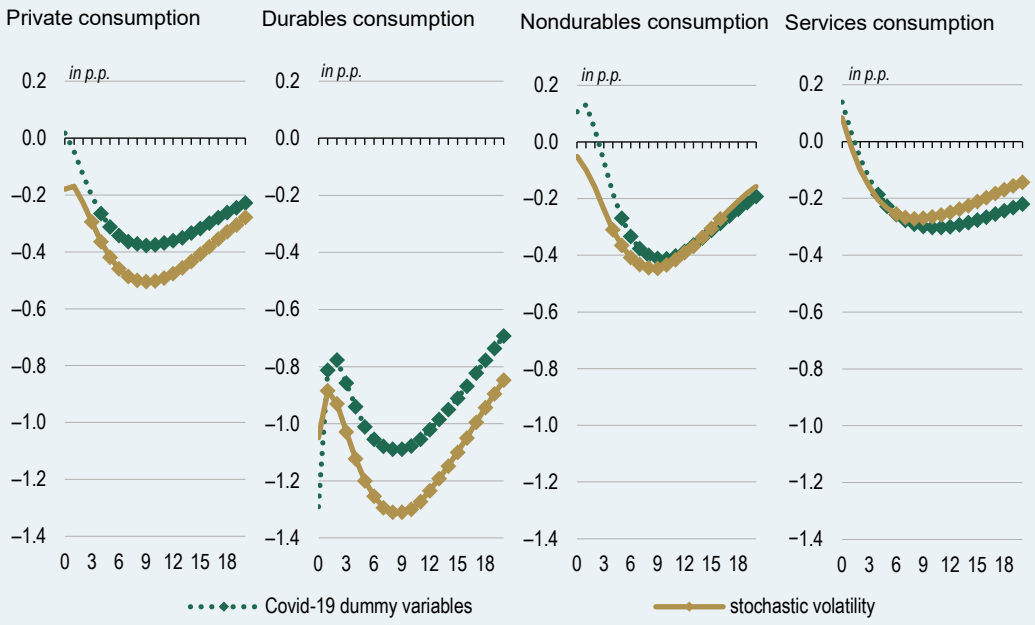
[34] The lag length is selected on the basis of the Schwarz or Bayesian information criterion (SC/BIC).

[35] Bloom (2009) and Jurado, Ludvigson and Ng (2015).

[36] The specification with stochastic volatility allows the variances of shocks to change over time, in line with the VAR-SV literature (Primiceri, 2005). The alternative specification includes impulse dummy variables for Covid-19, which capture the exceptional declines and peaks in consumption during the pandemic period and take into account the specific characteristics of individual components of private consumption during the Covid-19 pandemic.

holds are more likely to postpone larger and less frequent purchases in times of heightened uncertainty. Consumption of non-durable goods and services also declines, but more gradually and to a lesser extent, as these expenditures largely comprise essential goods and services or items with lower demand elasticity. This suggests that perceived uncertainty affects not only discretionary high-value purchases, but also broader household spending, in line with the latest findings of the ECB Consumer Expectations Survey.[37]

Figure 2.1.1.1: **Response of private consumption and its components to an uncertainty shock**



Sources: Banka Slovenije estimates.
Note: The chart shows the median response of year-on-year growth in aggregate real private consumption and its components to a survey-based uncertainty shock of one standard deviation. Diamonds indicate horizons for which the 68% credible interval, defined by the 16th and 84th percentiles of the posterior distribution, does not include zero.

These findings help explain why private consumption may remain subdued despite favourable developments in real household income. Elevated uncertainty may weigh on consumer confidence, leading households to increase precautionary savings and defer spending until conditions become more predictable. This effect is particularly pronounced for larger discretionary purchases such as durable goods. The results are incorporated into the baseline projection, which foresees private consumption growth lagging behind real disposable income growth this year, against the background of heightened uncertainty related to the conflict in the Middle East. Persistently elevated, or further increasing, uncertainty constitutes a downside risk to the outlook for consumption over the medium term. Under such a scenario, private consumption could continue to fall short of expected real income growth next year, resulting in a lower level of consumption than currently envisaged in the baseline projection, which is underpinned by real income gains. Conversely, a faster dissipation of uncertainty in the macroeconomic environment would reduce precautionary saving incentives, support consumer confidence and contribute to a swifter and more balanced recovery in household spending.

[37] See Coibion et al. (2024).

Box 2.1.2: **Projections for the general government balance and debt**

The general government deficit is projected to exceed 3% of GDP next year, reflecting the continued implementation of the wage reform, the introduction of long-term care, and adopted energy-related measures. General government debt is expected to remain around 65% of GDP over the projection period.

The general government deficit is projected to increase over the projection period and is expected to exceed 3% of GDP next year (Figure 2.1.2.1, left). The main drivers of the rising deficit throughout the projection period are the continued implementation of the wage reform,[38] the gradual introduction of long-term care entitlements, and less favourable cyclical conditions. The deficit will be further increased by energy-related measures adopted by the government in response to the conflict in the Middle East and high oil prices, with an estimated impact of around 0.2% of GDP annually.[39] Interest expenditure is also expected to rise, reaching 1.5% of GDP in 2028, compared with 1.3% of GDP last year.

Compared with the December projections, a higher general government deficit is expected throughout the projection period. The starting position is less favourable, as last year's deficit was higher than anticipated, partly due to significantly stronger growth in government investment. Wages or compensation of employees are also rising more rapidly than previously estimated, reflecting this year's substantial increase in the minimum wage and upwardly revised inflation expectations, which affect public sector wage indexation. The projection also incorporates defence expenditure, in line with the estimates from the Annual Progress Report.[40] Despite a projected temporary decline in government investment next year due to the conclusion of the NGEU programme, its share in GDP will remain relatively high.

The general government debt-to-GDP ratio is expected to stabilise at around 65%, with the decline in debt coming to a halt at the end of the projection period due to rising primary deficits and higher interest expenditure, which will no longer be fully offset by economic growth (Figure 2.1.2.1, right). Further debt reduction would be possible if the currently high government liquidity reserves were utilised.

Our estimate of the general government deficit for this year, at 2.9% of GDP, is lower than the government's estimate in the Annual Progress Report 2026, where it was assessed at 3.4% of GDP, but was expected to be reduced to 2.9% of GDP through consolidation measures planned by the previous government. The European Commission projects a somewhat more favourable trajectory than the government, with a deficit of 3.3% of GDP this year and 3.5% of GDP next year. Our estimates are closer to those

[38] Throughout the projection period, wages and employment in the general government sector are expected to grow more rapidly than in the private sector. In the first year of the wage reform, the share of compensation of employees in the general government sector in GDP increased by 1.1 percentage points, reflecting not only the effects of the reform but also the introduction of the winter bonus, employment growth, promotions, and other factors. It is estimated that this share will increase by almost a further percentage point of GDP over the projection period, driven by the continued implementation of the wage reform, further employment growth, increases in the minimum wage, indexation to inflation, promotions, and, in 2026, the long-term care contribution introduced last year.

[39] The adopted measures include reductions in excise duties on petrol, diesel and heating oil, as well as a temporary reduction in the environmental levy for air pollution caused by carbon dioxide emissions from fuels. Excise duties on diesel (EUR 0.33 per litre) and heating oil (EUR 0.07875 per litre) are at the minimum permitted level, while the excise duty on petrol is higher (EUR 0.42625 per litre compared with the minimum permitted EUR 0.359 per litre). In the projections, it is assumed that excise duties will remain at these levels throughout the projection period. The environmental levy on fuels was temporarily suspended between 24 March and 11 May 2026, and reduced to EUR 25.9 per tonne of emissions between 12 May and 1 June 2026.

[40] Annual Progress Report 2026 was submitted by the government to the European Commission at the end of April 2026.

of the Fiscal Council, which also expects the 3% of GDP reference value to be exceeded from next year onwards and a deficit of around 3.5% of GDP in the following year. Estimates of general government debt are broadly aligned across institutions and hover around 65% of GDP, with all projections indicating an increase towards the end of the projection period.

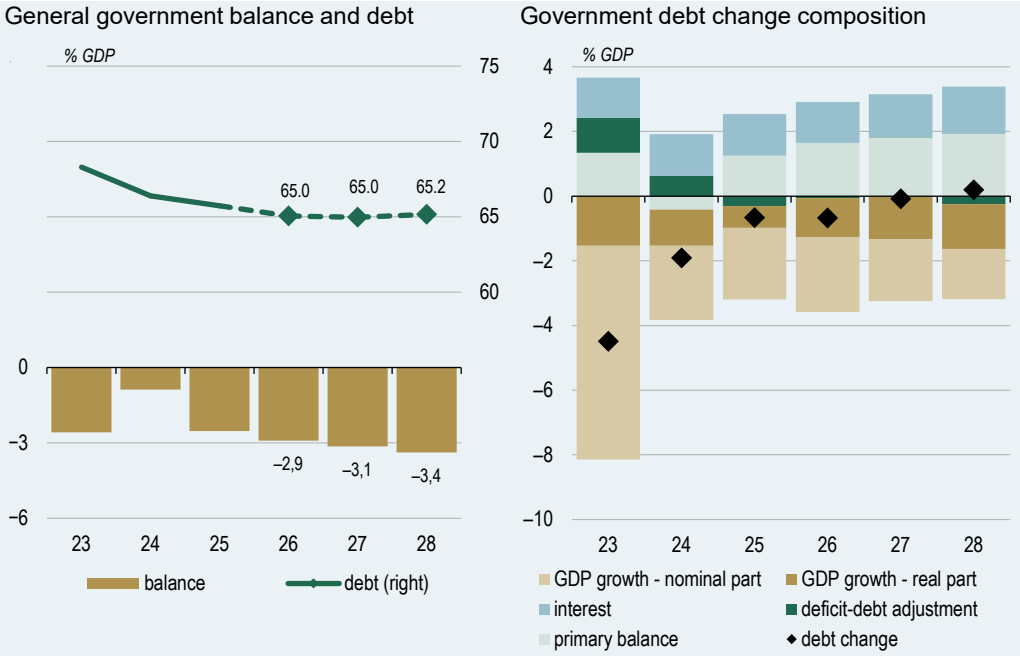
Risks to the sustainability of public finances have increased. New risks arise from the potential implementation of measures under the Intervention Act to Promote the Development of Slovenia and from the conflict in the Middle East, alongside the need to ensure compliance with EU fiscal rules.

The projected increase in the deficit above the 3% of GDP reference value heightens the need for fiscal consolidation, both to ensure compliance with fiscal rules and to create fiscal space to address a range of risks that have intensified since the December projections. Among domestic risk factors, the potential implementation of measures under the Intervention Act to Promote the Development of Slovenia stands out. These are primarily aimed at tax relief, which would reduce government revenue and increase the deficit, with no offsetting measures currently envisaged. On the external side, energy-related measures linked to the conflict in the Middle East and additional pressures to increase defence expenditure are key risks. For these measures, a national escape clause from fiscal rules applies until 2028.[41] This year, risks associated with local elections remain present, as these typically lead to higher investment expenditure. Reconstruction following the 2023 floods is also ongoing. Although dedicated funds are being collected in a special fund for this purpose, the increased tax levies will expire in 2028, while reconstruction and related expenditure may continue for a longer period. Additional uncertainty is posed by the implementation of the long-term care system, where delays are occurring, particularly in the provision of home-based care. For the NGEU programme, the absorption of funds is expected to be fully completed by the time the instrument concludes.[42] An increase in the deficit and a greater deviation from the 3% of GDP reference value could also result in tighter financing conditions on financial markets, with interest expenditure already accounting for about half of the deficit. In the longer term, risks related to population ageing and the associated pressures on public finances persist.

[41] Under the national escape clause, it is permitted in the period 2025–2028 for the net expenditure indicator to exceed the level required by the approved Medium-Term Fiscal-Structural Plan by up to 1.5% of GDP annually, provided that this excess is the result of higher defence expenditure. This indicator is key for monitoring compliance with fiscal rules. Further information on the escape clause is available at the link National Escape Clause for National Expenditure, while details regarding the possible inclusion of energy-related measures in the national escape clause can be found in the European Commission's communication within the Spring Package of recommendations to Member States.

[42] In line with the fifth amendment to the NGEU programme, approved in April, the planned absorption of loans amounts to EUR 469 million, while the absorption of grants totals EUR 1,613 million; both figures remain unchanged in the government's proposal for the sixth amendment. The utilisation of NGEU funds, together with the sixth payment request (EUR 41 million net), which was submitted to the European Commission at the end of March, would reach 87% upon approval of the request. The application for the disbursement of the remaining funds must be submitted to the European Commission by the end of September, while the milestones and targets must be completed by the end of August this year.

Figure 2.1.2.1: **General government balance and debt and breakdown of changes in government debt**



Sources: SURS, Banka Slovenije calculations and projections.

Box 2.1.3: **Firms' profits and the response of business investment to combined cost-push shocks**

Business investment in Slovenia is to a significant extent dependent on internal sources of financing. In an environment of elevated cost pressures, corporate profitability can be an important factor either supporting or constraining investment activity.

A previous analysis by Banka Slovenije[43] showed that, compared with the euro area average, Slovenian firms allocate a relatively large share of profits to investment. Such investment behaviour may reflect a combination of factors, for example, the relatively stronger reliance of Slovenian firms on own funds and the greater cyclical nature of business investment, which is conditioned by current and expected profitability. In this context, a prolonged period of slower profit growth represents a significant constraint on investment, as it reduces the volume of resources available for capital accumulation. This aspect is particularly relevant in the current circumstances, as Slovenian firms are facing increased uncertainty in the international environment, high energy costs related to the conflict in the Middle East, and rising labour costs. While the effects of uncertainty have already been addressed in previous analysis by Banka Slovenije,[44] the remaining cost-push shocks have the potential to significantly reduce corporate profit margins and thus the amount of retained earnings available for investment financing.

[43] An overview of business investment by Slovenian firms in international comparison is presented in Box 3.2 of the publication Review of Macroeconomic Developments, March 2026, Banka Slovenije.

[44] The analysis of the impact of uncertainty on the investment activity of Slovenian firms is presented in Box 2.1.1 of the publication Review of Macroeconomic Developments and Projections, June 2025, Banka Slovenije.

Against this background, the analysis in this box focuses on whether the profit regime affects the medium-term response of business investment in Slovenia to the simultaneous occurrence of two selected cost-push shocks: an oil supply news shock[45] and a minimum wage shock, defined as the deviation of the statutory change in the minimum wage from the growth of nominal productivity. The empirical framework is based on local projections, with the responses of business investment estimated separately for periods of relatively high and low profit growth.[46] The profit environment is defined by deviations of year-on-year profit growth from the sample median.[47] In addition to the analysis of the effects of individual cost-push shocks, the specification used also allows for the assessment of possible non-linear effects arising from the simultaneous occurrence of both shocks.

For each period h, the following equation is estimated:

$$y_{t+h} = \alpha_h + \beta_h^H o_t \pi_{t-1}^H + \beta_h^L o_t \pi_{t-1}^L + \gamma_h^H mw_t \pi_{t-1}^H + \gamma_h^L mw_t \pi_{t-1}^L + \delta_h^H o_t mw_t \pi_{t-1}^H + \delta_h^L o_t mw_t \pi_{t-1}^L + \theta_h X_{t-1} + \varepsilon_{t+h}$$

Here, y_{t+h} denotes the year-on-year growth of business investment in period $t+h$, o_t the standardised oil supply news shock, and mw_t the standardised minimum wage shock. The variables π_{t-1}^H in π_{t-1}^L represent the high and low profit growth regimes, respectively. The vector X_{t-1} includes lagged control variables, namely oil supply news shocks, minimum wage shocks, business investment, real GDP, the investment deflator, the composite interest rate on loans to non-financial corporations, foreign demand for Slovenian exports, and financial market uncertainty measured by the VIX index. The total effects of both cost-push shocks for each profit growth regime are calculated as the sum of the relevant β, γ, and δ coefficients.[48]

The first set of results focuses exclusively on the oil supply news shock. The estimates indicate that its impact on business investment is significantly dependent on profit growth in the economy. In periods of high profit growth, the response of investment is more resilient. The estimated average short-term response remains limited, while negative effects become statistically significant only at a later stage and persist for a relatively short period (Figure 2.1.3.1, left). This suggests that higher profits strengthen firms' ability to use internal sources of financing and enable them to absorb temporary increases in production costs without an immediate and pronounced reduction in investment expenditure. Conversely, in periods of low profit growth, business investment declines immediately following the shock and remains statistically significantly below the baseline for five quarters (Figure 2.1.3.1, right). Such a response is mainly the result of weaker internal financial buffers and tighter financing constraints.

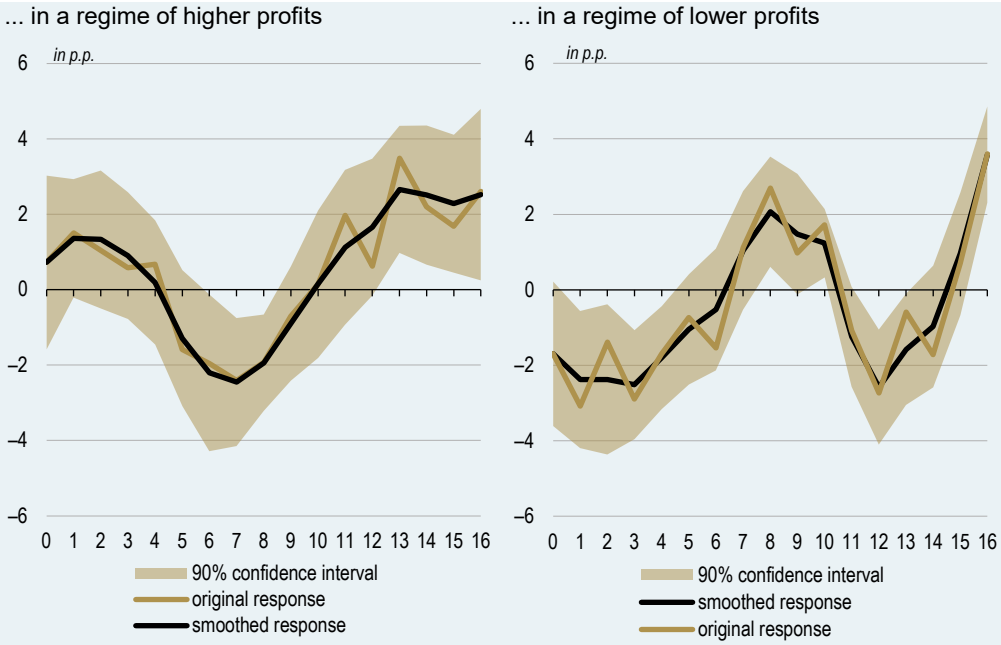
[45] The shock refers to unexpected information on changes in oil supply, as defined by Känzig, D. R. (2021). The Macroeconomic Effects of Oil Supply News: Evidence from OPEC Announcements. American Economic Review, 111(4), 1092-1125. The use of this specific shock in the analysis is important for distinguishing changes in oil prices resulting from lower oil supply from shocks related to unexpectedly higher oil demand.

[46] The approach is based on Gonçalves, S., Herrera, A. M., Kilian, L., & Pesavento, E. (2024). State-Dependent Local Projections. Journal of Econometrics, 244(2), 105702. and Lin, H. Y., Hsiao, Y. H., & Yen, Y. M. (2025). State-Dependent Local Projections–The Dynamic Effects of Regime Transitions. Econometric Reviews, 44(6), 745-769.

[47] The approximation of profits for non-financial corporations (sector S.11) is based on data from non-financial sector accounts. It is defined as gross operating surplus together with mixed income, less consumption of fixed capital. To obtain real values, it is deflated by the investment deflator.

[48] The composite standard errors are calculated using the delta method based on the estimated HAC covariance matrix of the coefficients (Newey & West, 1987; Oehlert, 1992). For easier interpretation of the impulse response functions, the estimated profiles are smoothed using the HAC-precision-weighted second-difference penalized least-squares smoother (Eilers & Marx, 1996; Eilers, 2003). Linear constraints are imposed to preserve both the initial responses and the average responses within blocks of four quarters. The smoothing parameter is selected using the generalised cross-validation (GCV) procedure (Craven & Wahba, 1978; Golub et al., 1979).

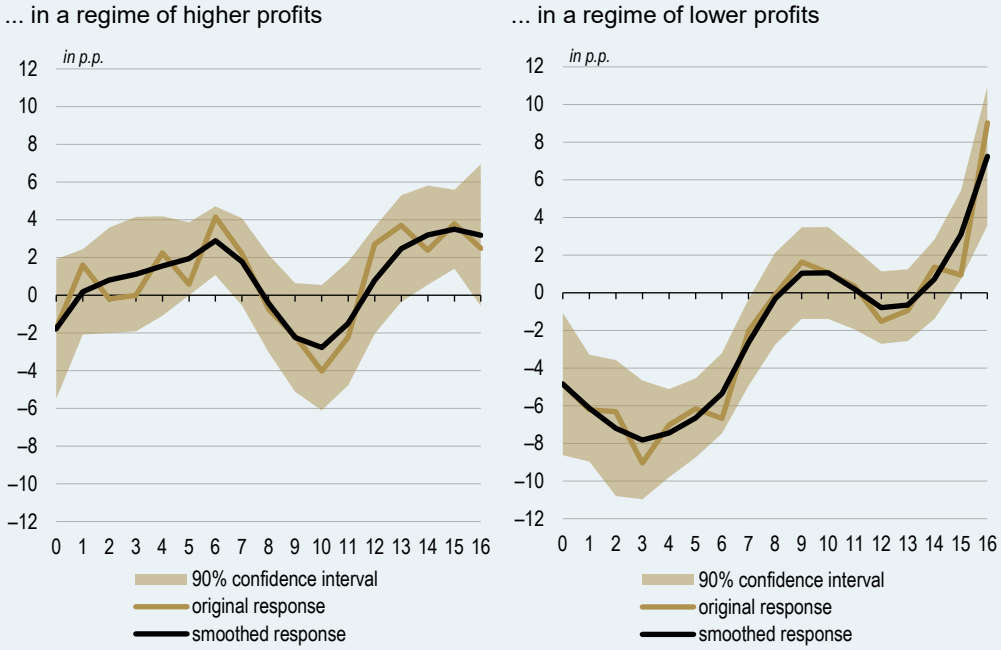
Figure 2.1.3.1: **The response of business investment to oil supply news shocks in different profit regimes**



Sources: SURS, ECB SDW, FRED, Diego Känzig's website.
Note: The response to a one standard deviation shock is shown in quarters.

The role of profits becomes even more pronounced when oil supply news shocks coincide with adverse labour cost shocks. Although in the high profit growth regime the negative average impact on investment is amplified, developments largely remain in line with those observed for isolated oil supply news shocks. Operating in a high profit growth environment thus reduces companies' sensitivity to combined cost-push shocks, as higher retained earnings and a more favourable balance sheet position enable more effective smoothing of investment activity over time and easier distribution of negative effects over the medium-term (Figure 2.1.3.2, left).

Figure 2.1.3.2: **The response of business investment to combined cost-push shocks in different profit regimes**



Sources: SURS, ECB SDW, FRED, Diego Känzig's website.
Note: The response to one standard deviation shocks is shown in quarters.

By contrast, combined cost-push shocks in the low profit growth regime further reduce firm profit margins, which additionally limits internal resources available for investment financing and leads to a more pronounced short-term contraction in investment. Compared with the response to isolated oil supply news shocks, the response to combined cost-push shocks is also more persistent, remaining statistically significant for seven quarters after the shock (Figure 2.1.3.2, right).

Box 2.1.4: **The effect of cost competitiveness changes on goods exports**

Rising operating costs are increasing risks to Slovenia's export competitiveness.

In a small and open economy such as Slovenia, changes in cost conditions can exert a significant impact on competitiveness and export performance. This issue is particularly pertinent in the context of increased labour cost pressures, which in Slovenia have been further intensified by the introduction of a mandatory winter holiday allowance and a 16% rise in the minimum wage. Insufficient productivity growth may further undermine cost competitiveness. The aim of this analysis is to evaluate recent trends in key competitiveness indicators and to estimate the extent to which rising labour costs could influence the export performance of the Slovenian economy.

Developments in competitiveness indicators and survey data for Slovenia indicate an intensification of price and cost pressures at the beginning of 2026.

In the first four months of this year, Slovenia's price competitiveness indicator relative to euro area partners remained at the previous year's level, while it deteriorated by 1.1% year-on-year relative to a group of 37 trading partners.[49] Developments among CEE countries were less favourable.[50] Slovenia's production competitiveness indicator, reflecting higher relative producer prices, deteriorated by 0.7% against euro area partners and by 2.4% against the broader group of 37 partners during this period. Among CEE countries, only Lithuania recorded a less favourable position.

ECB cost competitiveness indicators for 2026 are not yet available. However, preliminary data for Slovenia indicate that unit labour costs (ULC) continued to increase in the first quarter, albeit at a slower pace than the average for last year. The cost competitiveness indicator deteriorated in 2025 due to higher relative labour costs by 2.3% compared to euro area partners and by 3.7% compared to the group of 37 partners. This was one of the largest deteriorations in the euro area. In the first quarter of this year, nominal ULC in Slovenia rose by 4.8% year-on-year, while real ULC increased by 1.9%, with relatively high wage growth (compensation of employees per employee) of 7.5% being partly offset by favourable labour productivity growth of 5.5%.

[49] The group of 37 trading partners comprises the euro area member states and 17 partners outside the euro area. The latter includes six EU member states outside the euro area (Czechia, Denmark, Hungary, Poland, Romania and Sweden) and eleven other countries (Australia, Canada, China, Hong Kong, Japan, Norway, Singapore, South Korea, Switzerland, the United Kingdom, and the United States).

[50] The CEE euro area member states include Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovakia and Slovenia.

Cost competitiveness is expected to deteriorate further this year, as unit labour cost growth will remain elevated due to the 16% increase in the minimum wage – analysed in more detail in Box 2.2.1 – the continued public sector wage reform, and last year's introduction of the mandatory winter holiday allowance. Aggregate data may, however, conceal considerable differences between companies and sectors. This is also highlighted by the results of the Chamber of Commerce and Industry of Slovenia (CCIS) survey, according to which 85% of surveyed companies recorded more than 6% growth in labour costs per employee over the past year, and more than half reported growth of over 10%. Companies most frequently cited the increase in the minimum wage as the main driver of labour cost growth, which, according to the vast majority, is expected to have significant implications for profitability and order volumes. The CCIS survey also indicates that the ability to pass higher costs on to selling prices is becoming increasingly limited, as further price increases could further weaken companies' competitive position. This increases the likelihood that companies will mitigate cost pressures by reducing margins, limiting investments, streamlining operations and by weaker employment growth or layoffs.

Model estimates predict a 1.5% reduction in goods exports due to the projected deterioration in cost competitiveness.

In addition to reviewing developments in competitiveness indicators, this box also assesses the impact of changes in cost competitiveness on exports of goods. The estimate is based on an export equation modelled after the core macroeconomic model of Banka Slovenije – SiQM, in which, instead of the ratio of domestic export prices to competitors' export prices, a measure of cost competitiveness is used. The model is estimated on quarterly data for the period 2005–2025.[51] Using the ordinary least squares (OLS) method, we first estimate the long-run relationship between real exports of goods, foreign demand, and relative unit labour costs (ULC), then incorporate the deviation from this long-run relationship into the short-run equation as an error correction term.

In the long-run equation, the following relationship is estimated:

$$xtr_t^* = a_1 + a_2 T + wdr_t + a_3(ULC_t^{SI} - ULC_t^{EA}),$$

while short-run dynamics are estimated using the equation:

$$\Delta xtr_t = b_1(xtr_{t-1} - xtr_t^*) + b_2 \Delta wdr_t + e_t,$$

where xtr_t denotes real exports of goods, wdr_t is foreign demand, and $ULC_t^{SI} - ULC_t^{EA}$ is the measure of Slovenia's cost competitiveness relative to the euro area.[52] A higher value of this variable indicates a deterioration in cost competitiveness. The estimated results show that a 1% deterioration in cost competitiveness is, in the long run, associated with a 0.8% decline in real exports of goods.[53]

[51] For more on the SiQM model, see M. Damjanović (2023), Slovene Quarterly Macroeconomic Model: Overview and properties. Banka Slovenije.

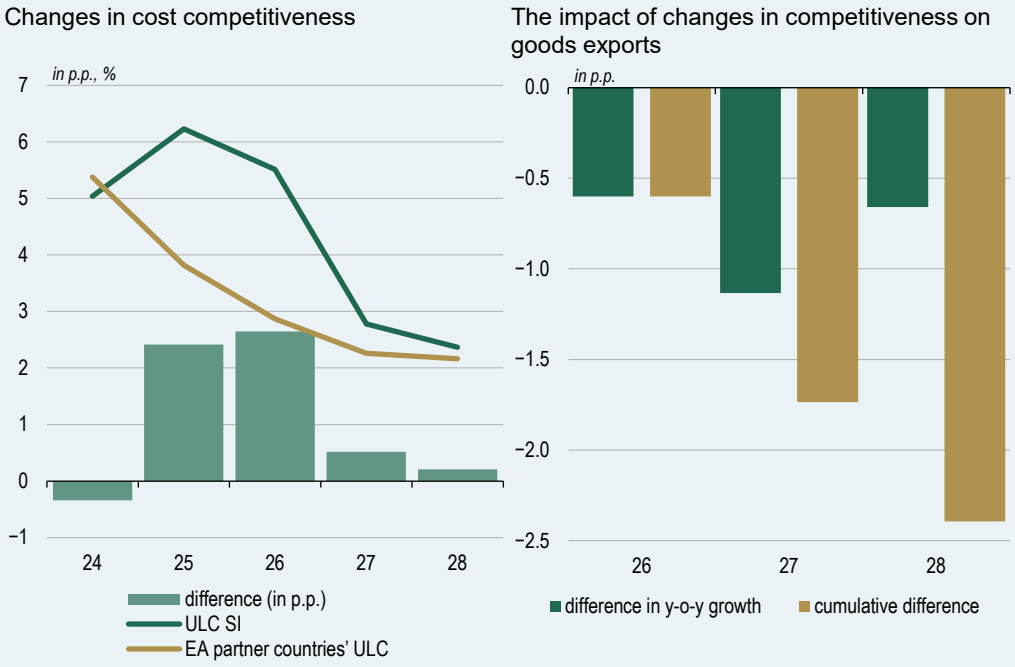
[52] Cost competitiveness against euro area competitors is calculated following the methodology of the European Commission indicator, using the same source for the weights in the calculation; for 2027 and 2028, the values for 2026 are used. In the model estimation, real exports of goods (from national accounts) and domestic ULC are sourced from SURS, foreign demand is sourced from the ECB, and ULC for other countries are sourced from other euro area national central banks. In the projection period, all data otherwise obtained from SURS are replaced by Banka Slovenije projections, while for variables where other sources are used in estimation, these sources are also retained in the projection period.

[53] The estimate is consistent with the results of Markič (2020), who finds an elasticity of 0.84% for Slovenia, while Bobeica et al. (2016) estimate a lower elasticity of 0.33% for Slovenian exports outside the euro area for a sample up to 2013. Internationally, Keil (2022) estimates a range of such elasticities between 0.3% and 1.8% for eleven-euro area countries.

Considering the estimated elasticity, the impact of the projected deterioration in cost competitiveness is assessed by comparing two simulation scenarios. In the baseline simulation, the expected path of cost competitiveness is derived from the unit labour cost growth projections of Banka Slovenije and other national central banks of the euro area; in the alternative simulation, cost competitiveness remains unchanged at the level of the last quarter of 2025 throughout the projection period. For all other explanatory variables, the same projection values or external assumptions are used in both simulations. The difference between the simulations therefore reflects the estimated contribution of the projected changes in cost competitiveness to the dynamics of exports of goods.

In the projection period, the largest deterioration in cost competitiveness relative to euro area countries is expected in 2026 (Figure 4.2.1, left). Nevertheless, due to gradual adjustment in the model approach, the largest difference between the simulations of year-on-year growth in exports is observed only in 2027 (Figure 4.2.1, right). On average over the projection period, the expected deterioration in competitiveness contributes to a 0.8 percentage point lower projected export growth, which by the end of the period translates into an approximately 2.4% lower volume of exports compared with the simulation assuming unchanged competitiveness relative to the last quarter of 2025. On average, slower growth in exports of goods would therefore, according to our estimate, imply almost 0.3 percentage points lower contribution of external trade to annual GDP growth.

Figure 2.1.4.1: **Impact of projected changes in cost competitiveness**



Sources: SURS, ECB, European Commission, Banka Slovenije estimates, EA national central bank projections.
Note: In the right chart, the differences between the year-on-year growth rates of real exports of goods are shown for the simulation that incorporates the projected path of cost competitiveness and the simulation with unchanged cost competitiveness. The cumulative values of the differences over the projection period are also shown.

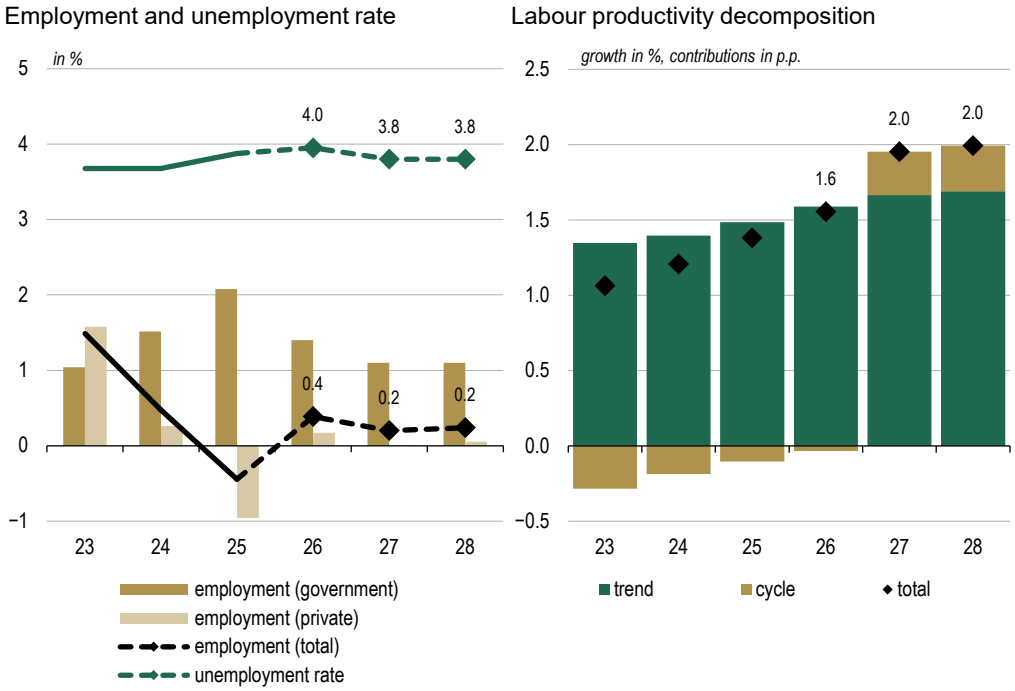
The estimated elasticities thus depend on the ability of firms to absorb cost pressures through productivity growth or margin reduction.

2.2 Labour market

Employment growth will be modest over the projection horizon. It will be sustained primarily by employment in the government sector.

Following last year's decline, employment is expected to increase by 0.4% this year (Figure 2.2.1, left). The projection for the current year is 0.2 percentage points higher than in December. The main contributor to the revised estimate is the continued growth of employment in the government sector, which is projected to reach 1.4%, while in the private sector it will remain modest at 0.2%. The labour market thus continues to exhibit a divergence between developments in government and private sector employment, a trend that is expected to persist throughout the projection period. Employment growth remains primarily constrained by labour shortages linked to unfavourable demographic trends, while in the private sector it is also significantly affected by weaker demand for labour, especially in manufacturing. Given the ongoing structural constraints in the labour market, we assume relatively favourable productivity growth over the projection horizon. However, due to slower economic growth and higher employment, productivity this year will be somewhat lower than anticipated in December, but is expected to recover towards the end of the projection period and stabilise at 2.0% (Figure 2.2.1, right). This will mainly reflect cyclical factors associated with the expected strengthening of economic activity and exports.

Figure 2.2.1: **Labour market projections**



Sources: SURS, Banka Slovenije calculations and projections.

The unemployment rate will remain at low levels over the projection horizon.

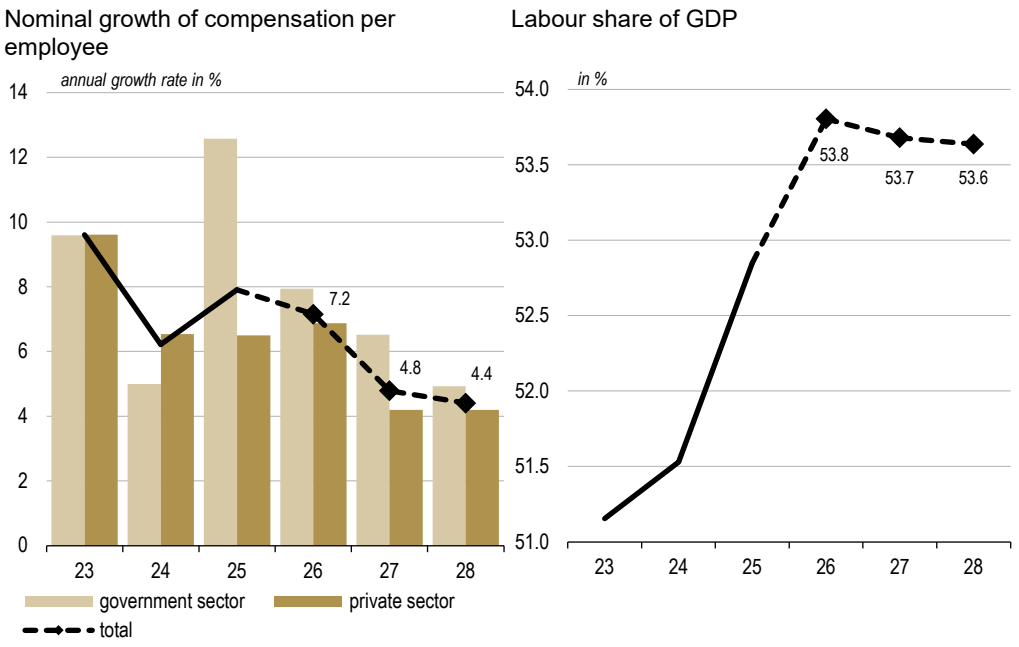
The survey-based unemployment rate will stand at 4.0% this year, which is slightly higher than in previous years (Figure 2.2.1, left). Over the remainder of the projection

period, it is expected to gradually decline towards 3.8% in 2028. The historically low level is also confirmed by registered unemployment, which in recent years has hovered around 45,000 persons. This reflects the persistent shortage of labour and the deepening of structural imbalances in the Slovenian labour market, resulting from the fact that more employees are retiring than there are young people entering the labour force.[54]

Wage growth will remain elevated this year, primarily due to the increase in the minimum wage, but is expected to stabilise at more sustainable levels over the projection horizon

Wage growth, as measured by compensation of employees per employee, will remain relatively high this year, reaching 7.2% (Figure 2.2.2, left). This is 2.1 percentage points above the December projection, mainly due to the higher increase in the minimum wage, which rose by 16% this year, significantly exceeding previous expectations. In addition to the direct effect, this increase is also partially transmitted to overall wage growth through spillover effects (Box 2.2.1). The continued implementation of the public sector wage reform will also contribute to strong growth, resulting in wage growth in the government sector outpacing that in the private sector throughout the projection period. In the government sector, wage growth will reach 7.9% this year and will gradually moderate over the remainder of the projection horizon. In the private sector, it will amount to 6.9% this year and then stabilise at around 4.2%, a level more consistent with long-term sustainable labour cost developments as defined by productivity growth. With the persistent divergence between real wage growth and productivity, the share of compensation of employees in GDP will increase again this year, approaching 54.0%, the highest level to date (Figure 2.2.2, right).

Figure 2.2.2: **Wages and labour share of GDP**



Sources: SURS, Banka Slovenije calculations and projections.

[54] See box 4.1, Review of Macroeconomic Developments, April 2026, Banka Slovenije

Box 2.2.1: **The impact of the minimum wage on average wage growth**

The increase in the minimum wage affects average wage growth primarily through direct effects, while spillover effects across wage brackets are limited.

The statutory minimum wage increase in Slovenia, which at 16.0% in January 2026 was the second highest in the past two decades, has once again raised the question of the role of the administratively set wage floor in shaping aggregate wage dynamics. Following a prolonged period of relatively strong growth, the minimum wage was raised even more significantly in January this year, with the ratio between the minimum and average wage already among the highest in EU countries with a statutory minimum wage.[55] Between 2006 and 2025, the minimum wage increased significantly faster than the average wage, resulting in the ratio of the minimum wage to the average wage exceeding 50%.[56] Accordingly, the share of minimum wage recipients has also increased, and according to the latest available data, it is among the highest in the EU. This indicates relatively strong wage compression and a high concentration of employees in the lower part of the wage distribution. Given such a structure, changes in the minimum wage have a significant impact on overall wage developments.

Microeconomic analysis of the spillover effects of the minimum wage on other wages in Slovenia is available in Perko in Rogan (2025).[57] Based on individual administrative data for the private sector for the period 2009–2019 and using a distributional regression approach, the authors find that the effects of minimum wage increases were not limited to minimum wage recipients, but also extended to the wages of employees earning above the minimum wage. The estimated effects were statistically significant for wages that exceeded the minimum wage by up to approximately 20%.

The analysis in this box complements the aforementioned findings with a macroeconomic, or aggregate, approach. The local projections method is used to estimate the dynamic response of the seasonally adjusted average gross wage in the private sector to an increase in the monthly growth rate of the statutory minimum wage. The specification includes lags of the average gross wage in the private sector,[58] domestic and euro area inflation, industrial production, the unemployment rate, and a linear trend. The estimation period covers the time from February 2005 to December 2025.

The results indicate a positive relationship between increases in the minimum wage and average wage growth in the private sector. As shown in Figure 2.2.1.1, left, a 1% increase in the minimum wage is estimated to result in a response of the average gross wage in the private sector of around 0.1 percentage point in the first quarter. The response is largest in the second quarter, reaching approximately 0.13 percentage point, and then declines in the third and fourth quarters to just below 0.1 percentage point. The estimates are positive across all horizons presented; however, their magnitude should be interpreted with caution due to relatively wide confidence intervals. If the estimated responses are mechanically applied to the most recent minimum wage increase of around 16%, they suggest a contribution to private sector base wage growth

[55] See Perko in Rogan (2025).

[56] See box 4.2 in Review of Macroeconomic Developments, April 2026, Banka Slovenije.

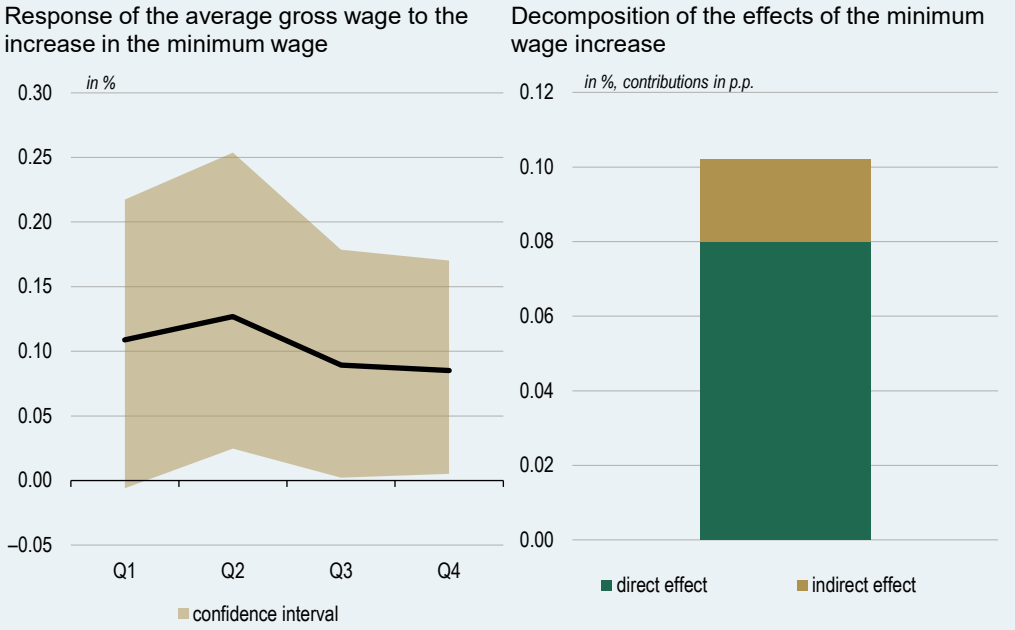
[57] See Perko in Rogan (2025). Minimalna plača - kdo jo prejema, kdo izplačuje in kako vpliva na ostale plače. Urad Republike Slovenije za makroekonomske analize in razvoj.

[58] For wage statistics, we use the figure for gross wages for regular payments, which is the sum of basic wages, performance-related pay, allowances, and compensations borne by the employer.

in the range of 1.4 to 2.0 percentage points, with the highest effect in the second quarter. The estimated effects are thus broadly consistent in magnitude with the upwardly revised wage growth projection for 2026, which is 2.1 percentage points higher than in the December projections.[59]

When interpreting the results, it is important to distinguish the direct mechanical effect on the average wage from any additional spillover effects on wages above the minimum wage. If approximately 15% of employees in the private sector receive a base wage at the minimum wage level, according to the latest available data from October 2025, and the ratio between the minimum and average wage is around 50%, a 1% increase in the minimum wage would directly raise the average base wage by about 0.08 percentage point (Figure 2.2.1.1, right).[60] The estimated aggregate responses are therefore somewhat higher than the mechanical effect, particularly in the second quarter, which is consistent with the possibility of spillover effects into higher wage brackets. The small difference between the estimated total effect and the direct effect on the average wage thus indicates relatively limited spillover effects.

Figure 2.2.1.1: **The impact of the minimum wage on average gross wage growth in the private sector**



Sources: Eurostat, Banka Slovenije calculations.
Note: In the right chart, the breakdown of the impact of a 1.0% increase in the minimum wage on annual average gross wage growth in the private sector is shown, distinguishing between the indirect and direct effects. The shaded area represents the range of responses within the 95% confidence interval.

2.3 Inflation

Headline inflation is expected to accelerate to 3.6% in 2026, mainly due to a stronger growth in energy prices and a strengthening of core inflation.

Headline inflation, as measured by the HICP, reached 2.5% last year and remained close to this level in the first quarter of this year, before starting to accelerate. The main

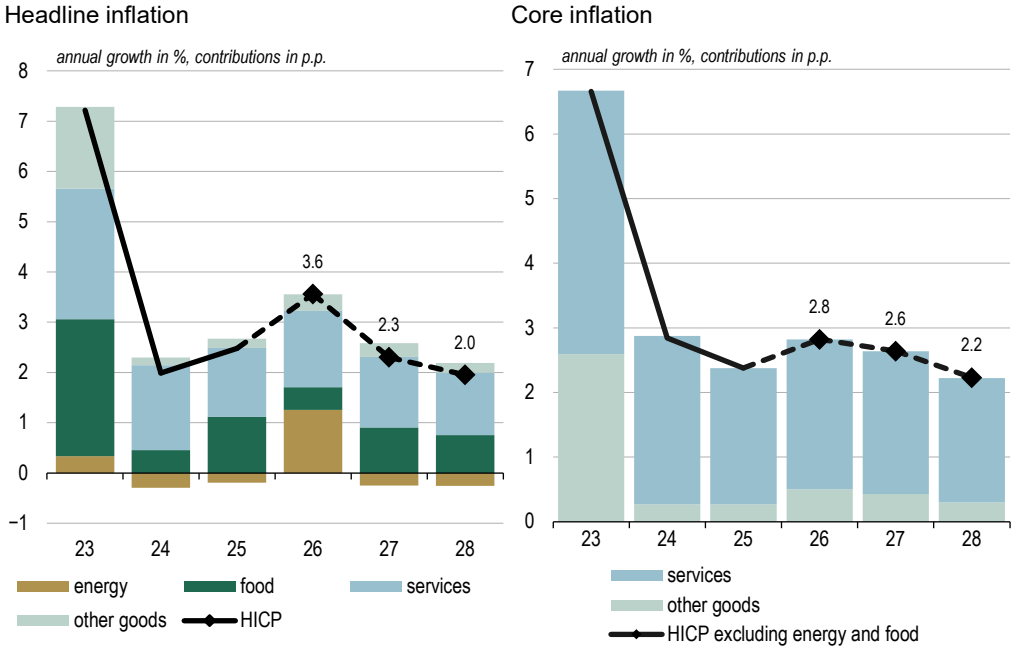
[59] It is important to note that the minimum wage also affects the winter and summer bonuses, which are included in our wage growth projection, whereas the model presented focuses solely on the impact on gross wages.

[60] The direct effect on employees whose wages fall between the old and the newly set minimum wage is disregarded, which means that the estimate of the direct effect may be somewhat underestimated.

driver of the strengthening were higher wholesale energy prices following the outbreak of war in the Middle East, with government measures on motor fuels partly mitigating the impact on retail prices. Going forward, the annual growth rate of energy prices is expected to remain elevated, however, the contribution of motor fuels is expected to be partly offset by higher contribution from electricity prices. In addition to energy prices, both core inflation components (other goods and services) will support higher headline inflation this year, while food inflation will be more subdued, mainly due to base effects stemming from last year's strong increase. Headline inflation is thus projected to stand at 3.6% in 2026 (Figure 2.3.1, left).

Over the remainder of the projection horizon, inflation is expected to gradually moderate, decelerating to 2.3% in 2027 before reaching 2.0% in 2028. The slowdown will primarily reflect the anticipated decline in oil prices as conditions in the Middle East stabilise, as well as somewhat lower core inflation. Nevertheless, a faster convergence of inflation towards the monetary policy target will be held back by services inflation, which will remain elevated due to the continued pass-through of high labour costs into consumer prices. Additionally, the indirect effects of higher energy prices on non-energy components of inflation (Box 2.3.1) will also prevent a more rapid easing of headline inflation, particularly those on food inflation. By contrast, the growth of prices for other goods is expected to remain subdued throughout the projection period.

Figure 2.3.1:
Decomposition of headline and core inflation



Sources: SURS, Banka Slovenije calculations and projections.

As regards to the euro area average, headline inflation in Slovenia is expected to exceed it by 0.6 percentage points this year, before converging in 2027 and 2028. Core inflation is projected to remain above the euro area average throughout the projection horizon, with food inflation also exceeding it in 2027 and 2028. By contrast, energy price growth will exceed the euro area average this year but is expected to fall short of it over the next two years.[61]

[61] See ECB macroeconomic projections, June 2026 for more detail on euro area inflation projection.

Table 2.3.1: **Inflation projections**

	2023	2024	2025	2026 Jun.	2026 Δ	2027 Jun.	2027 Δ	2028 Jun.	2028 Δ
	annual % change, revisions in p.p.								
Consumer prices (HICP)	7.2	2.0	2.5	**3.6**	1.3	**2.3**	0.1	**2.0**	0.0
food	11.8	2.0	4.9	**1.9**	–1.3	**4.0**	1.0	**3.3**	0.5
energy	2.2	–2.3	–1.7	**11.1**	9.5	**–2.6**	–2.6	**–2.1**	–2.4
non-energy industrial goods	5.4	0.6	0.6	**1.1**	0.4	**1.0**	0.4	**0.7**	0.4
services	7.7	4.8	3.8	**4.2**	1.1	**3.9**	0.5	**3.4**	0.4
Core inflation indicators (HICP)									
excluding energy	6.7	2.9	2.4	**2.8**	0.6	**2.6**	0.3	**2.2**	0.3
excluding energy and unprocessed food	7.8	2.7	2.9	**2.5**	0.2	**2.8**	0.4	**2.4**	0.3
excluding energy and food	8.0	2.6	3.0	**2.6**	0.2	**3.0**	0.5	**2.5**	0.3

Sources: SURS, Eurostat, Banka Slovenije projections.
Note: Δ – difference between current projections and projections in the Review of macroeconomic developments and projections, December 2025, Banka Slovenije.

Energy price developments will depend on the effects of the war in the Middle East on global energy markets.

This year, energy prices will be the main driver of heightened headline inflation, following declines in the previous two years. According to our projections, their annual growth rate is expected to reach 11.1% this year as a result of the outbreak of war in the Middle East, contributing 1.3 percentage points to headline inflation. Government measures to reduce levies on fuel prices have partly mitigated this effect, lowering energy inflation by 5.1 percentage points and headline inflation by 0.6 percentage points.

Energy price developments will also be affected by electricity prices and related changes in network charge billing. This year, electricity price growth will be supported by the gradual transition to the new tariff rate system under the 50-70-90 model for the most expensive time block. This model provides a 30% reduction for the most expensive time block during the high season of 2026/27, i.e. between November 2026 and February 2027, following a 50% reduction between November 2025 and February 2026. Additional upward effects are expected following the expiry of the 50% reduction in the CHP and renewables contribution during the high season of 2025/26 and from the updated pricelist for network charge tariff rates as of March this year. Over the remainder of the projection horizon, energy prices are expected to decline as conditions in the Middle East are expected to gradually normalise. According to our projections, energy prices will be 2.6% and 2.1% lower year-on-year in 2027 and 2028, respectively, however, they will remain above their pre-war levels.

Food inflation is projected to decelerate to 1.9% this year, down from 4.9% last year. This decline is mainly attributable to base effects stemming from last year's continued monthly increases, particularly in the first half of the year. By subcomponent, the slowdown will primarily reflect lower growth in processed food prices, while the growth of unprocessed food prices will also be somewhat lower than last year. Further easing of inflationary pressures is expected to be gradual, reflecting the ongoing pass-through of higher energy and fertiliser costs along the production and supply chain. Moreover, food price developments over the projection horizon will also be influenced by trends in wholesale food commodity prices and labour cost growth. Accordingly, food inflation is projected at 4.0% and 3.3% year-on-year in 2027 and 2028, respectively.

Core inflation is expected to remain predominantly driven by services inflation, supported by persistently strong labour cost growth.

In 2026, core inflation, measured as HICP inflation excluding energy and food prices, is projected to increase to 2.8%, up from 2.4% in the previous year. The increase will be broad-based, with higher growth in both services prices and prices of other goods contributing to a similar extent. Core inflation is expected to remain above the monetary policy target also over the remainder of the projection horizon: it is projected at 2.6% in 2027, before moderating to 2.2% in 2028 (Figure 2.3.1, right).

Core inflation will remain driven primarily by services prices throughout the entire projection horizon. Services inflation is expected to remain elevated, following an increase of 3.8% in the previous year. This largely reflects the pass-through of higher labour costs to final prices, particularly in publicly provided and regulated services, as well as indirect effects from higher energy prices, notably in transport and tourism-related services. Accordingly, services inflation is expected to reach 4.2% in 2026, before moderating to 3.9% and 3.4% in 2027 and 2028, respectively. The gradual easing will be partly supported by a moderation in unit labour cost growth, reflecting slower wage growth as well as recovery in productivity growth.

The growth of prices for other goods is projected to strengthen to 1.1% this year, up from 0.6% last year. On the supply side, this reflects higher input costs resulting from the energy shock, while on the demand side the expected recovery in private consumption and investment activity will support higher price growth, particularly for durable goods. Accordingly, the growth of prices for other goods is projected to average 0.8% in the following two years.

A decomposition of core inflation by production factors suggests that inflationary pressures over the projection horizon will be driven primarily by labour costs, supported by a substantial increase in the minimum wage implemented in January this year.[62] In 2027 and 2028, growth in unit profits, reflecting the anticipated recovery in economic activity, will also contribute. However, gradual moderation of core inflation will be supported by a recovery in labour productivity. Meanwhile, a relatively strong growth in GDP deflator is expected to persist, largely owing to developments in the government consumption deflator, reflecting robust wage growth in the public sector (Figure 2.3.2, left).

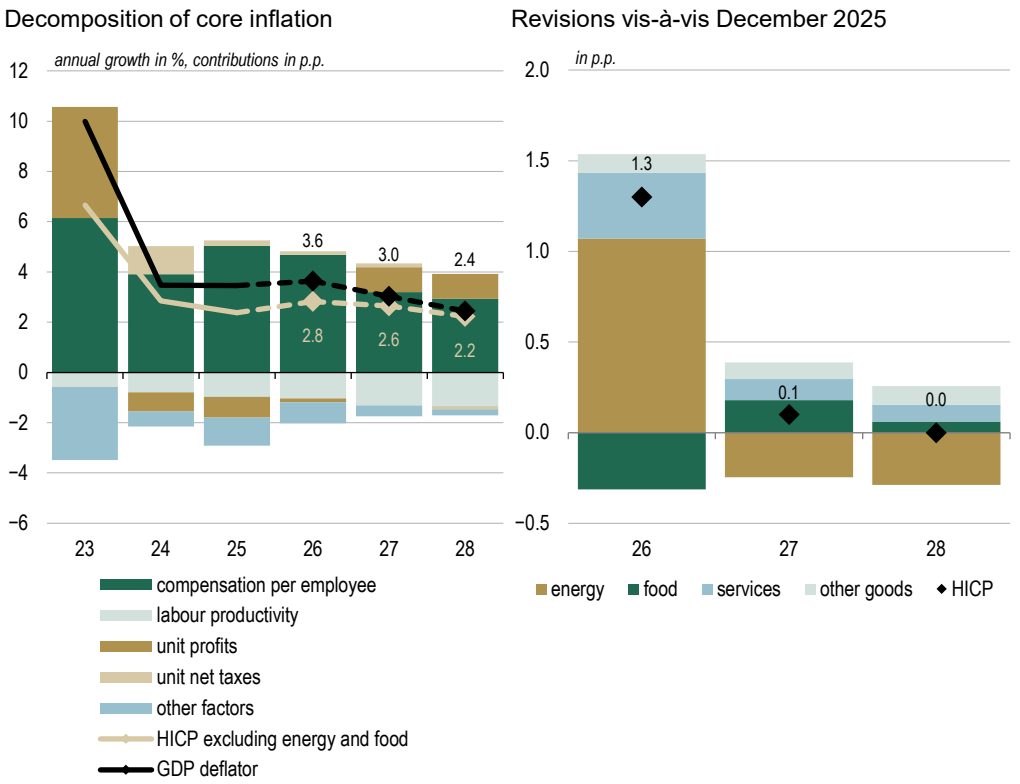
Compared with the December projection, headline inflation is now expected to be higher in 2026 and 2027, while the projection for 2028 remains unchanged.

Headline inflation this year is expected to be 1.3 percentage points higher than in the December projection. The revision mainly reflects higher energy inflation, driven by developments in crude oil prices and, to a lesser extent, wholesale gas and electricity prices following the outbreak of conflict in the Middle East. The upward revision to headline inflation also reflects a higher projection for core inflation, which is linked to stronger labour cost growth, notably due to the unexpectedly large increase in the minimum wage at the beginning of the year and weaker productivity growth compared with previous projections. At the same time, a strong increase in headline inflation this year is partly offset by a downward revision to food inflation, reflecting price growths in the first part of the year, which were below the December projection. Over the remainder

[62] According to our estimates, headline inflation in 2026 will be, on average, 0.5 percentage points higher as a result of the increase in the minimum wage in January.

of the projection horizon, energy inflation is expected to be lower than in the December projection, owing to base effects stemming from the strong upward revision this year, while prices of non-energy components of the consumer basket are expected to grow more strongly. This primarily reflects indirect effects of higher wholesale energy prices and the pass-through of higher labour costs growth into final prices (Figure 2.3.2, right and Box 2.3.1).

Figure 2.3.2: **Decomposition of core inflation and revision of headline inflation**



Sources: SURS, Banka Slovenije calculations and projections.
Note: The analysis in the left chart uses seasonally and calendar-adjusted data from the national accounts.

Box 2.3.1: **Direct and indirect effects of a supply-side oil shock on domestic inflation**

Indirect effects of supply-side oil shocks are significant, as an initial and temporary increase in energy prices may translate into more persistent domestic inflationary pressures.

An increase in oil prices initially has a mechanical impact on headline inflation through fuel and other energy prices. Subsequently, it may be transmitted to other components of the consumer basket through higher production costs, transport costs, food prices and wage pressures. This distinction is important for assessing inflation dynamics, as direct effects typically dissipate once energy price growth normalises, whereas indirect effects can keep inflation elevated for longer. Our estimates point to precisely such a pattern. The direct contribution of a supply-side oil shock to headline inflation largely

fades after around one and a half years, while inflation remains elevated for longer owing to the transmission of the shock to non-energy components.

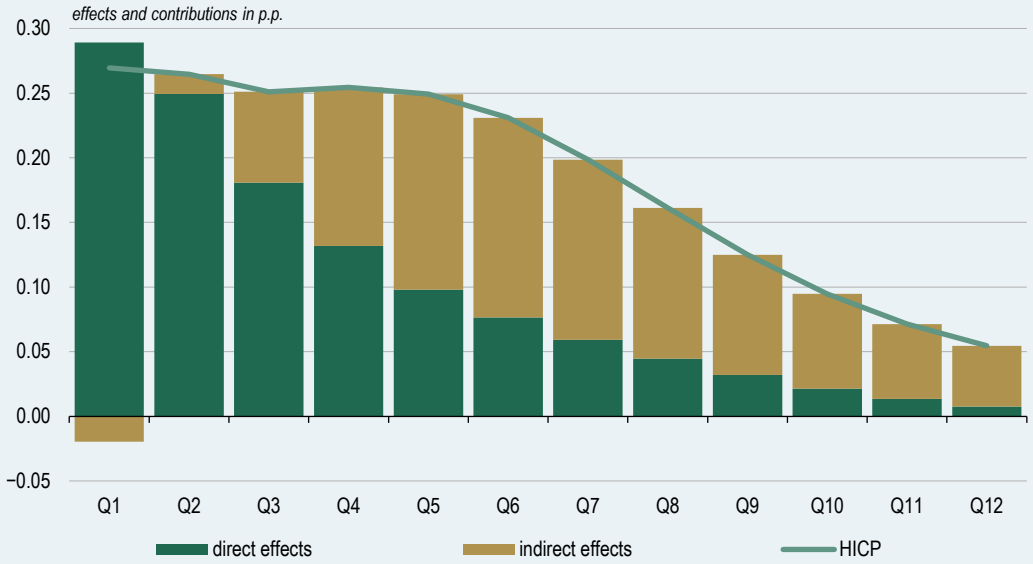
In our assessment, we apply a shock to expected oil supply, in line with evidence showing that the inflationary and macroeconomic effects of oil price movements depend on the source of the shock. This approach allows us to focus on the supply-side, cost-driven transmission channel. The energy price pass-through literature shows that the effects on inflation are not limited to the direct impact through energy prices, but may also materialise indirectly through food, goods and services prices.[63]

The empirical approach is designed to assess the domestic transmission of an externally identified supply-side oil shock. In the model, the shock is treated as an exogenous factor affecting international oil price developments, while fuel inflation, energy inflation, HICP inflation excluding energy, and GDP growth are modelled jointly as domestic endogenous variables. Including fuel inflation among the endogenous variables captures the first stage of the pass-through from the external oil shock to domestic consumer prices. The model then estimates how this initial price impulse is transmitted to broader energy inflation, non-energy inflation, and economic activity. This framework allows us to distinguish between the direct effect through the energy component and the indirect effect through the remainder of the consumer basket.

The estimates indicate that the inflationary effect of a shock to expected oil supply gradually shifts from the direct energy channel to indirect non-energy channels. The direct contribution of energy components to headline inflation is strongest on impact, following an unexpected 10% increase in oil prices, and amounts to around 0.3 percentage points. It then gradually declines and largely dissipates after about one and a half years (Figure 2.3.1.1). By contrast, the indirect effect through non-energy inflation builds up more gradually, surpasses the direct effect after around one year, and remains positive throughout the three-year projection horizon. As a result, the overall impact of the shock on inflation declines only slowly, from around 0.3 percentage points on impact to approximately 0.05 percentage points after three years. Cumulatively over the three-year period, direct effects increase the overall price level by about 0.3%, while indirect effects contribute an additional 0.25%. To better understand the sources of this more persistent indirect effect, we also estimate an extended specification in which HICP inflation excluding energy is replaced by its main components. The estimates suggest that the indirect transmission occurs primarily through food and services prices. The food price channel is consistent with higher energy prices raising the costs of agricultural production, fertilisers, processing and transport. The services channel likely reflects fuel-related activities, such as transport and tourism, as well as the gradual adjustment of labour and other input costs to higher energy prices.

[63] The identification of the shock to expected oil supply (oil supply news shock) is described in greater detail in Känzig, D. R. (2021). "The Macroeconomic Effects of Oil Supply News: Evidence from OPEC Announcements." American Economic Review, 111(4), 1092–1125.

Figure 2.3.1.1:
Decomposition of the impact of a 10% supply-side oil shock on inflation



Source: Banka Slovenije estimates.
Note: The estimates are based on a VAR model in which fuel inflation, energy inflation, HICP inflation excluding energy, and GDP growth are included as endogenous variables. The exogenous part of the model comprises the Känzig shock to expected oil supply, foreign demand growth, and a global sentiment indicator. All domestic variables are expressed as year-on-year growth rates. The supply-side oil news shock in the crude oil market is normalised to reflect a 10% price increase in the global market.

The estimated indirect effects may be conservative, as the linear model captures average historical transmission and does not account for the extent to which responses depend on prevailing economic conditions. During periods of high and persistent inflation, firms and households may pay closer attention to price developments, prices may be adjusted more frequently, and wages may respond more strongly to past inflation.[64] This is consistent with evidence that inflation expectations affect the behaviour of households and firms, that the frequency of price increases rises in a high-inflation environment, and that the pass-through of supply-side energy shocks to consumer prices can become stronger.[65] Large and persistent energy shocks could therefore lead to a faster and stronger pass-through to food prices, services and other non-energy components than suggested by average historical estimates. In the adverse scenario of the projection (Section 3.1), the amplified effect of prolonged elevated energy prices is captured through a dynamic elasticity calibrated to a response one standard deviation above the median estimate from the model presented in this box.

3 Risks and Uncertainties

Risks to economic growth are predominantly tilted to the downside over the projection horizon, while risks to inflation remain skewed to the upside.

Among external risks, the potential persistence or escalation of the conflict in the Middle East stands out most prominently. This could be reflected in higher energy prices and

[64] See Gabrovšek, Pavlič. Media attention on inflation. Banka Slovenije, 2026.

[65] Weber, M., D'Acunto, F., Gorodnichenko, Y. and Coibion, O. (2022). "The Subjective Inflation Expectations of Households and Firms." Journal of Economic Perspectives, 36(3), 157–184. Nakamura, E., & Steinsson, J. (2008). Five facts about prices: A reevaluation of menu cost models. The Quarterly Journal of Economics, 123(4), 1415-1464. De Santis, R. A., & Tornese, T. (2025). Energy supply shocks' nonlinearities on output and prices. European Economic Review, 176, 105037.

their increasingly pronounced pass-through to headline inflation, disruptions in supply chains, and heightened macroeconomic and financial uncertainty. These factors would reduce the purchasing power of households and affect their decisions regarding major purchases. At the same time, less favourable conditions in the international environment and increased uncertainty would further restrain corporate investment and international trade. The macroeconomic effects of such a scenario are presented in more detail in Section 3.1. In addition to geopolitical tensions, renewed uncertainty regarding trade policies could also affect the export sector of the economy during the projection period. The trade agreement between the United States and the EU remains conditional on official ratification by the European Parliament, while its implementation is subject to suspension clauses in the event of non-compliance with agreed tariff rates or territorial threats to EU Member States. The introduction of suspension clauses was a direct response by the European Parliament to the US's announced threat of higher tariffs and the territorial appropriation of Greenland in January this year.[66] In addition to geopolitical uncertainty, macroeconomic projections have been prepared in a period of increased volatility and high valuations in global financial markets. Sudden revaluations of financial or real assets could affect the domestic macroeconomic environment through increased uncertainty in the financial system, the deterioration of balance sheets and corporate access to finance, and a decline in household wealth. The latter channel is the focus of Box 3.1.1, where our baseline analysis indicates a relatively limited direct exposure of Slovenian households to asset revaluations and a limited impact on consumption.

In addition to external risks, the impact of domestic structural factors on economic growth and inflation could also intensify during the projection period. These factors primarily stem from pressures on labour productivity growth, adverse demographic trends, and the resulting contraction of the available labour force. This is reflected in the strong growth of unit labour costs, which will, over the projection period – particularly this year – contribute to a more pronounced deterioration in the cost competitiveness of the economy compared with other EU countries. The decline in competitiveness will already be limiting investment and export growth during the projection period, as discussed in more detail in Boxes 2.1.3 and 2.1.4. Cost pressures could be further exacerbated by slower labour productivity growth, also as a consequence of previously weak investment activity, and by a stronger pass-through of inflation into nominal wage growth. This could occur in the event of prolonged elevated inflation, especially if geopolitical risks materialise and energy prices increase further. The indirect effects of higher energy prices and their pass-through to other price categories are analysed in Box 2.3.1.

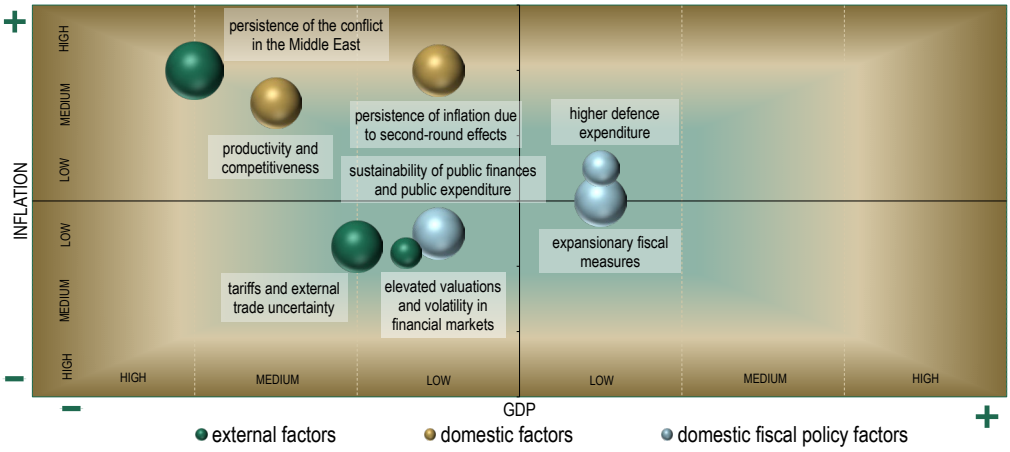
The materialisation of the risks described could require more decisive action by the state or fiscal policy to mitigate macroeconomic consequences. However, following the rapid increase in the deficit last year and with the expected breach of the reference threshold of 3% of GDP during the projection period, fiscal space is diminishing.[67] The projections do not take into account the impact of the Act on Emergency Measures for the Development of Slovenia, adopted in May, as its implementation remains uncertain due to the possibility of a referendum if its admissibility is confirmed by the Constitutional Court. The measures contained in the Act, aimed at increasing disposable income, could stimulate economic growth during the projection period. This could be fur-

[66] For further details on the implementation conditions of the trade agreement and the introduced opt-out clauses, see European Parliament: EU-US tariffs: tensions, trade deal and what could change.

[67] According to estimates by the Fiscal Council of the Republic of Slovenia and the European Commission, the Act on Intervention Measures for the Development of Slovenia could raise the general government deficit by around one percentage point of GDP; see: Economic forecast for Slovenia - European Commission and Assessment of the draft 2026 Annual Progress Report

ther supported by a faster increase in defence expenditure, associated with more consistent fulfilment of NATO commitments and geopolitical circumstances. However, such measures would also place additional strain on public finances and increase the deviation of the deficit above the reference threshold of 3% of GDP. This could raise the financing costs for the state and other entities in the economy, intensify pressures to adjust public expenditure, and reduce the capacity to respond to potential new shocks. Consequently, the medium-term effects on economic growth could be negative. The impact on inflation remains more uncertain, as the disinflationary effects of weaker economic activity could be offset by new price shocks, to which the state would find it more difficult to respond due to reduced fiscal space.

Figure 3.1: **Risks to projections**



Source: Banka Slovenije estimates.
Note: The size of the symbol denotes the likelihood of the realisation of the risk.

3.1 Alternative projection scenario

An escalation of the war in the Middle East would dampen economic activity and intensify price growth over the projection horizon.

The outlook for economic activity in Slovenia is highly contingent on the evolution of the conflict in the Middle East. The baseline projection assumes a gradual easing of tensions and the restoration of maritime traffic through the Strait of Hormuz, which is expected to stabilise conditions in wholesale commodity markets.

The effects of a potential persistence or escalation of geopolitical tensions on the Slovenian economy are assessed in the alternative projection scenario. This scenario envisages several transmission channels through which a longer lasting and more severe shock would spill over into the Slovenian economy. These are summarised in Table 3.1.1. The first channel relates to higher wholesale commodity prices, particularly oil. The alternative scenario is based on the 95th percentile of the distribution of market expectations for oil price developments, which, from the third quarter of this year onwards, assumes a price level that is approximately 60% higher than in the baseline projection. In the event of such a price increase, we also assume a more pronounced pass-through of cost pressures to other price categories. The impact on headline inflation is estimated based on the upper, one standard deviation confidence interval of model responses, as evaluated in Box 2.3.1.

A protracted conflict and unstable energy markets would also result in prolonged uncertainty in the global environment, as measured by the volatility index (VIX) on financial markets, which would rise by 14 index points and remain above the baseline projection until mid-2027. This, together with higher production costs, would affect international trade, the volume of which would be almost 2% lower than in the baseline scenario. Increased macroeconomic and financial risk would also translate into tighter financing conditions. In the alternative scenario, the assumed lending rates for corporates and households are approximately 10 basis points higher.

Table 3.1.1: **Description of the transmission mechanisms in the alternative scenario**

transmission mechanism	description of the mechanism	Average deviation from the baseline projection over the projection horizon
commodities	Persistence of the blockade of the Strait of Hormuz and escalating military tensions would keep energy and other commodity prices elevated. The assumption for energy prices follows the 95th percentile of market expectations. Higher global energy prices in euro terms would also be supported by the depreciation of the exchange rate.	oil price: +62,7 % price of non-oil commodities: +67,7 % nominal effective exchange rate: +0,6 % euro exchange rate against the U.S. Dollar: +0,4 %
higher pass-through of higher energy prices to other prices	Faster growth of input costs leads to a compression of profit margins, forcing firms to adjust their selling prices more frequently. A more pronounced loss of purchasing power, amid a tight labour market, results in more intense wage indexation.	On average over the projection horizon, a 1.5-fold multiplier of the usual response of headline inflation to higher energy prices is applied. The multiplier is based on the one-standard-deviation confidence interval around the median response, as estimated in Box 2.3.1.
international trade	A deterioration in economic activity among Slovenia's main trading partners, underpinned by increased global uncertainty, higher input costs and constraints in the supply of commodities.	level of foreign demand for Slovenia: –2 %
financing conditions	Tighter financing conditions follow higher global uncertainty through an increase in risk premia.	financing costs for NFCs: +10,8 b. p. spread on corporate bond yields: +34,7 %
domestic factors	Higher uncertainty and weaker prospects in the global environment slow domestic economic activity through the postponement of investment.	volatility index on financial markets (VIX): +3.9 index points on average over the projection horizon
production constraints	The level of potential output declines, as higher wholesale oil prices reduce the availability of energy inputs, thereby intensifying inflationary pressures through reduced productive capacity and a diminished supply of goods.	level of potential output at the end of the projection horizon: –1,5 %

Sources: ECB, Banka Slovenije calculations.

In addition to weaker foreign demand and tighter financial conditions, higher uncertainty would also directly affect domestic demand through the postponement of investment. The direct effect of uncertainty on private investment is estimated using a satellite model.[68] Furthermore, the alternative scenario, in addition to the price effects of the

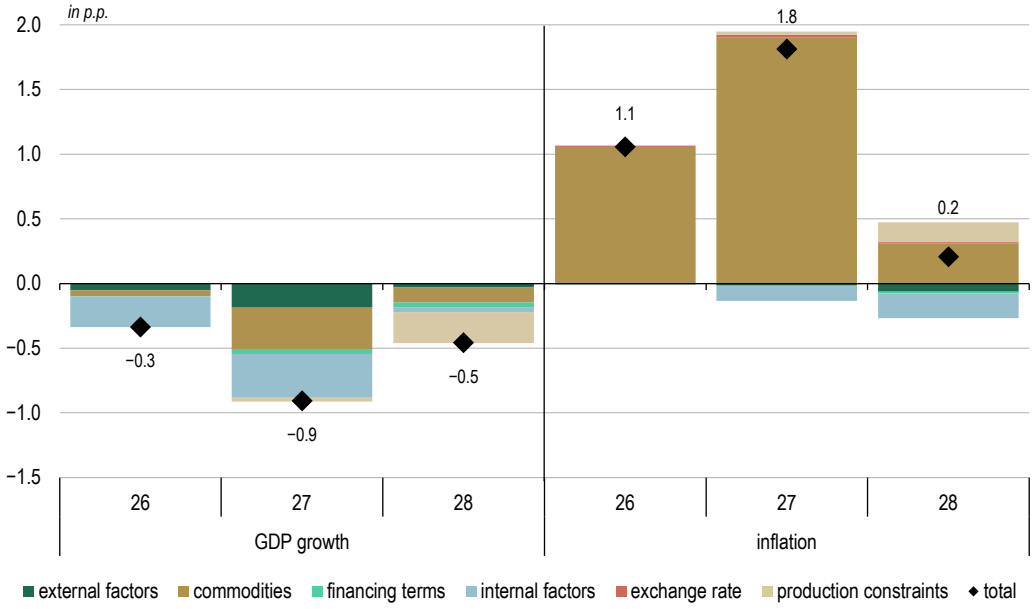
[68] The satellite model is based on a recursively identified vector autoregression that includes quarterly investment growth, quarterly growth in global demand for Slovenia, and the financial uncertainty index – VIX. The set of variables reflects the assumption that higher financial market uncertainty affects economic activity in Slovenia primarily through private investment growth, while controlling for the impact of uncertainty on the external environment and foreign demand. Using a conditional forecast, following the approach of Waggoner and Zha (1999), we constructed an alternative path for the VIX index and, on this basis, estimated the effect of increased uncertainty on corporate investment activity and thus on the domestic economic environment.

commodity shock, also considers the impact on the productive capacity of the economy.[69]

Should the alternative scenario materialise, the average annual growth of economic activity over the projection horizon would be 0.4 percentage points lower, while headline inflation would be 1.0 percentage point higher. The impact would be most pronounced in 2027 before gradually fading in 2028 (Figure 3.1.1).

The scenario envisages a broad-based slowdown in economic activity. All factors would contribute to this, in particular lower domestic demand amid heightened uncertainty in financial markets and a cooling of external demand. In 2027, growth would be further dampened by price pressures linked to higher wholesale prices of energy and food, with overall GDP growth being 0.9 percentage points lower than in the baseline projection. Over the projection horizon, economic activity would also be increasingly affected by reduced productive capacity due to persistently higher prices and lower availability of energy inputs in production. At the same time, the higher inflation throughout the projection horizon would mainly stem from the pass-through of higher wholesale prices of energy and food into final prices, and, towards the end of the horizon, also from production constraints. At the same time, a more pronounced increase in price growth would be prevented by the disinflationary effects of cooling domestic and foreign demand. By contrast, the impact of tighter financial conditions and the depreciation of the euro exchange rate is, in our assessment, limited (Figure 3.1.1).

Figure 3.1.1: **Scenario of further escalation of the war in the Middle East**



Source: Banka Slovenije calculations.

[69] The reduction in productive capacity is assessed based on a modified production function in Banka Slovenije's core macroeconomic model – SiQM. The adjustment, instead of the standard Cobb-Douglas production function with labour and capital as the only factors of production, assumes oil as an additional input in an adjusted functional form with constant elasticities of substitution between energy and non-energy production inputs. In such a model structure, higher energy prices reduce the availability of energy inputs and thus potential output.

Box 3.1.1: **The impact of asset price developments on private consumption: a distributional perspective for Slovenia and the euro area**

Asset prices can affect private consumption through household wealth effects, although the strength of these effects differs across asset classes and depends on the wealth distribution of asset holders.

The current macroeconomic environment is characterised by persistent inflationary pressures, elevated geopolitical and trade-related uncertainty, increased volatility in financial markets, and the risk of further tightening in financing conditions. In such circumstances, asset price developments are significant, as they directly affect the value of household wealth and can influence consumption through wealth effects, creditworthiness, and confidence. Although consumption is generally more sensitive to changes in income than changes in wealth, pronounced changes in housing and equity prices can have a substantial impact on domestic demand. The intensity of these effects depends, among other factors, on the type of asset generating the increase in wealth and the position of asset holders within the wealth distribution.[70]

In this context, the box assesses how changes in household wealth resulting from asset price developments may affect private consumption in Slovenia and the euro area, focusing on two questions. First, what is the implicit reduction in net wealth across the wealth distribution in the event of a hypothetical decline in residential property and equity prices? Second, what is the direct effect on total private consumption – excluding broader general equilibrium channels – resulting from these deflated changes in wealth, both by wealth distribution and at the aggregate level?[71]

Differences in the composition and liquidity of assets across the wealth distribution translate into heterogenous effects of asset price shocks across households.

Data on the wealth distribution of both economies – Slovenia and the euro area – show that households in the bottom 90% of the wealth distribution hold the majority of their assets in residential property, while non-housing financial assets are mostly in the form of deposits, and exposure to equities and other non-deposit financial assets is limited, particularly in Slovenia. By contrast, households at the top of the distribution have more diversified portfolios, including business assets, equities, and other financial assets, making them more sensitive to changes in equity prices on financial markets.[72]

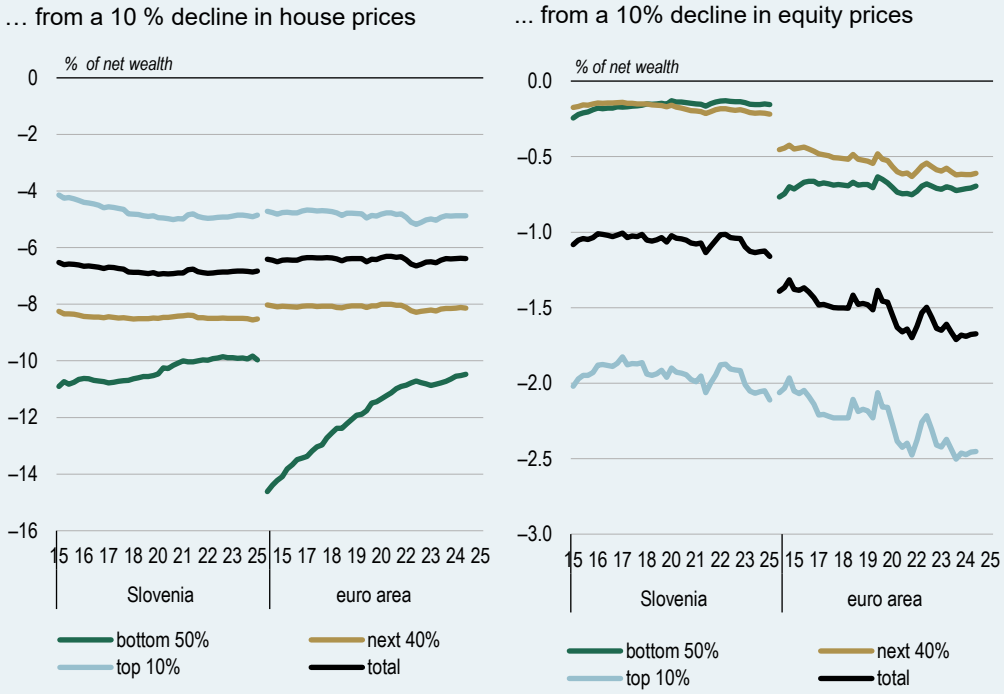
[70] For the wealth effect channel, see Modigliani and Brumberg (1954) and Ando and Modigliani (1963). For evidence on heterogeneous wealth effects by asset type and wealth position, see Case, Quigley and Shiller (2005), Slacalek (2009), Carroll, Slacalek and Tokuoka (2014) and Kaplan, Moll and Violante (2018).

[71] To answer the first question, the analysis combines Distributional Wealth Accounts (Distributional Wealth Accounts, DWA) and Quarterly Sector Accounts (QSA). To address the second question, the analysis combines real changes in net wealth resulting from hypothetical asset price shocks with marginal propensities to consume specific to wealth groups and asset types. See Introducing the Distributional Wealth Accounts for euro area households, ECB Economic Bulletin, Issue 5/2024.

[72] See Experimental statistical data on the distribution of household wealth, available on the Financial Accounts, Banka Slovenije.

These portfolio differences are reflected in varying sensitivities to asset price changes across the wealth distribution. A simple financial leverage multiplier[73] shows that a hypothetical 10% decline in residential property prices would currently reduce the net wealth of the bottom 50% of households by almost 10% in both Slovenia and the euro area, compared with approximately 4–5% for the top decile (Figure 3.1.1.1, left). Conversely, a 10% decline in equity prices – including both direct and indirect exposures to equity instruments via investment funds and pension schemes – would mainly affect the top decile, whose net wealth would decrease by around 2.5% in the euro area and about 2% in Slovenia (Figure 3.1.1.1, right). The effect on the bottom 90% of households would be considerably smaller, approximately 0.6% in the euro area and virtually negligible in Slovenia, due to limited direct and indirect exposure to equities.

Figure 3.1.1.1: **Net wealth changes across the wealth distribution from a 10% decline in asset prices**



Sources: ECB, Eurostat, SURS, Banka Slovenije calculations.
Note: The sensitivity of wealth to a 10% decline in residential property and equity prices is calculated based on the shares of residential property and equity instruments in net wealth. Equity instruments include both direct and indirect exposures, including listed shares, financial business assets, and exposures via investment funds and pension schemes. Indirect exposures are estimated using aggregate portfolio structure statistics. The latest data refer to the first quarter of 2025.

The estimated direct effect of hypothetical asset-price-induced wealth losses on consumption is negative but moderate at the aggregate level, with heterogeneous effects across the wealth distribution.

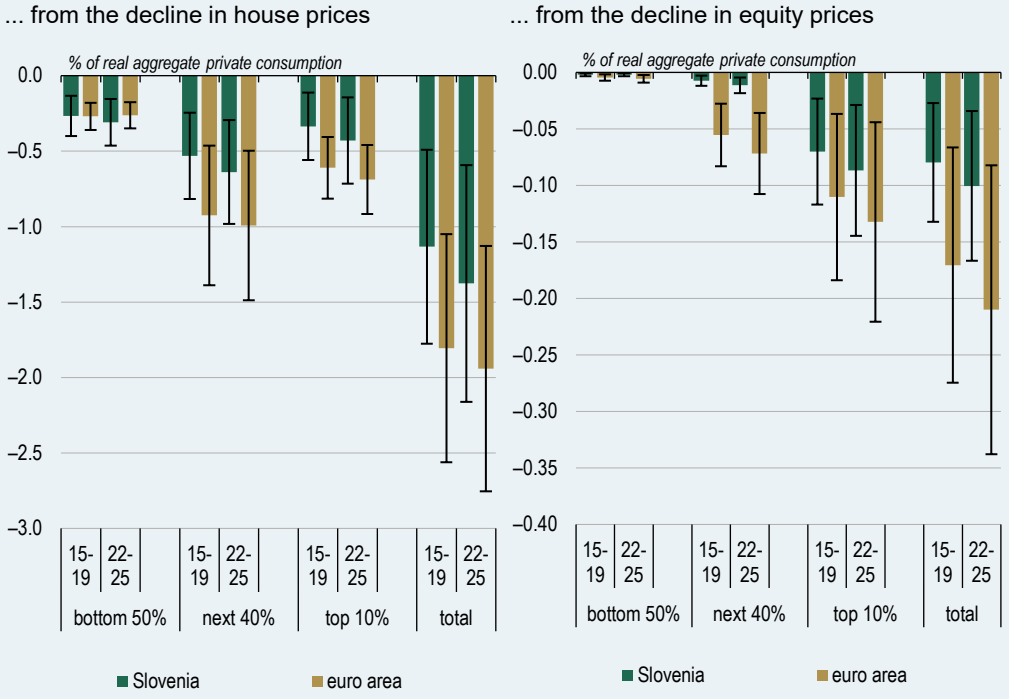
In line with the empirical literature, marginal propensities to consume (MPC) decline with wealth and are higher for housing wealth than for equity wealth.[74] A higher MPC

[73] The multiplier estimates the mechanical effect of a hypothetical increase or decrease in asset prices on household net wealth and the evolution of this effect over time, without taking into account indirect channels such as portfolio rebalancing. See Introducing the Distributional Wealth Accounts for euro area households, ECB Economic Bulletin, Issue 5/2024.

[74] Real wealth increases are calculated by deflating the nominal increase in net wealth resulting from the asset price shock using the household final consumption deflator. The calibration of MPC is based on Arrondel, Lamarche and Savignac (2015), Fagereng, Holm and Natvik (2021), Garbinti et al. (2024), Kaplan and Violante (2014), Slacalek, Tristani and Violante (2020) and Muellbauer (2008). For housing equity withdrawal see Muellbauer (2008) and Aron et al. (2012). The Slovenian marginal propensities to consume are calibrated at the lower end of the range for the euro area, reflecting limited participation in equity investments outside the top decile, limited housing equity withdrawal, and a high share of homeowners without mortgage debt. The annual MPC ranges used, in cents per EUR 1 increase in wealth, are as follows: bottom 50% – housing wealth 1–2 cents for the euro area and 0.5–1.5 cents for Slovenia, with equity holdings negligible in both cases; middle 40% – housing wealth 0.5–1.5 cents for the euro area and 0.3–1 cent for Slovenia, and equity wealth

for housing wealth does not necessarily reflect greater direct liquidity of this asset, but rather the fact that housing wealth is more widely distributed among households with higher MPC, whereas equity is typically more concentrated among wealthier households with lower MPC. A 10% decline in residential property prices would reduce aggregate private consumption by approximately 1.4% in Slovenia and about 2% in the euro area (Figure 3.1.1.2, left), with the effects remaining largely stable over time. In both economies, the response is the largest in the middle of the distribution, where high shares of housing wealth coincide with still significant MPC.[75] The overall effect is smaller in Slovenia than in the euro area, as the value of housing wealth relative to consumption is lower, and the transmission of property price changes to consumption via the credit channel or the collateral channel is weaker. This is the case despite a higher home ownership rate (74.2% compared with 64.7% in the euro area),[76] as the aggregate effect depends not only on the ownership rate, but also on the value of wealth relative to current consumption, its distribution among households with different MPC, and the use of wealth as collateral for borrowing. In Slovenia, this channel is weaker mainly due to the relatively limited prevalence of mortgage financing, the high share of owners without mortgage debt, and stricter credit standards, which means that changes in property prices are transmitted less strongly to current consumption.

Figure 3.1.1.2: **Direct consumption impulse from net wealth changes following a 10% decline in asset prices**



Sources: Eurostat, SURS, Banka Slovenije calculations.
Note: The direct consumption effect is calculated using marginal propensities to consume (MPC) specific to wealth groups and asset types, applied to real reductions in net wealth resulting from a 10% decline in residential property or equity prices. The range reflects MPC values based on empirical literature; columns indicate the median response within this range. The total aggregate response represents the sum of individual group responses. Responses are calculated as averages for selected periods. The results reflect partial equilibrium estimates and do not include secondary effects via income, credit, or portfolio restructuring.

0.5–1.5 cents for the euro area and 0.2–0.8 cents for Slovenia; top 10% – housing wealth 0.5–1 cent for the euro area and 0.2–1 cent for Slovenia, and equity wealth 0.1–0.5 cents in both cases. The estimates should be interpreted as approximate first-round effects in partial equilibrium.

[75] The role of low financial leverage in weakening the collateral and housing equity withdrawal channels is discussed in Carroll, Slacalek and Tokuoka (2014) and Muellbauer (2008).

[76] Based on Eurostat EU-SILC data on the housing status of the population, i.e. the share of the population living in owner-occupied dwellings, the home ownership rate in Slovenia has declined from a peak of 84.5% in 2006 to 74.2% in 2025; in the euro area, it has fallen from a peak of 71.9% in 2009 to 64.7% in 2025. This decline is particularly pronounced among younger cohorts and is mainly related to reduced housing affordability, higher house prices relative to income, and increased income uncertainty from employment.

The direct consumption impulse from a decline in equity prices is considerably smaller, although it has increased over time, particularly in the euro area (Figure 3.1.1.2, right). A 10% decline in equity prices would reduce aggregate private consumption by approximately 0.1% in Slovenia and by just over 0.2% in the euro area. In the euro area, the effect is small compared with the impact of a decline in residential property prices and is almost entirely concentrated in the top decile, although it is also partially evident in the middle of the wealth distribution. In Slovenia, the effect remains small even among the wealthiest households and is negligible for others. This reflects the limited role of equities in household portfolios, although their importance for the top decile has increased over time.

These findings are important for the macroeconomic outlook as well as for monetary and macroprudential policy, as they show that developments in residential property prices have broader implications for household balance sheets and consumption than comparable movements in financial asset prices.[77] This asymmetry is particularly pronounced in Slovenia, where residential property dominates household portfolios even at the upper end of the distribution. Nevertheless, the estimates should be interpreted as accounting-based direct partial equilibrium effects rather than comprehensive macroeconomic effects, as they do not take into account portfolio rebalancing, income feedback effects, or broader general equilibrium channels, which may amplify consumption responses.

4 Comparison Across Institutions

Compared with the median of projections from selected international institutions, Banka Slovenije expects, on average, GDP growth to be 0.1 percentage point lower in the period 2026–2028, while the projected consumer price growth is on average 0.1 percentage point higher than the median.

The latest available projections of economic growth for the period 2026–2028 indicate similar expectations among international institutions regarding developments in economic activity (Figure 4.1, left). For the current year, institutions expect somewhat less favourable economic prospects compared with previous projections, mainly due to heightened geopolitical uncertainty related to the situation in the Middle East. With the gradual stabilisation of the international environment in the coming years, most institutions, with the exception of the GZS and WIIW, expect economic activity to grow by around 2.2%, which is slightly below the estimated growth rate of the Slovenian economy's production potential. The highest economic growth in 2026 is projected by Consensus, EBRD, GZS, IMF and UMAR, all with projections of 2.0%. Banka Slovenije's projection, which, like those of the EC and the OECD, stands at 1.9%, is 0.1 percentage point below the median of all projections for the current year. The lowest economic growth is projected by WIIW, at 1.7%.

For 2027, WIIW expects the highest growth in economic activity, at 2.4%, which is 0.2 percentage point above the median of all projections for the year in question. This is

[77] The significance of the residential property market for macroprudential stability is already incorporated in the financial stability assessment prepared by Banka Slovenije.

followed by the EC, Banka Slovenije, EBRD, OECD, Consensus and IMF, with projections of 2.3%, 2.2% and 2.1%, respectively. Banka Slovenije' projection is equal to the median of all projections, which stands at 2.2%. The lowest GDP growth is projected by UMAR and GZS, at 2.0% and 1.8%, respectively.

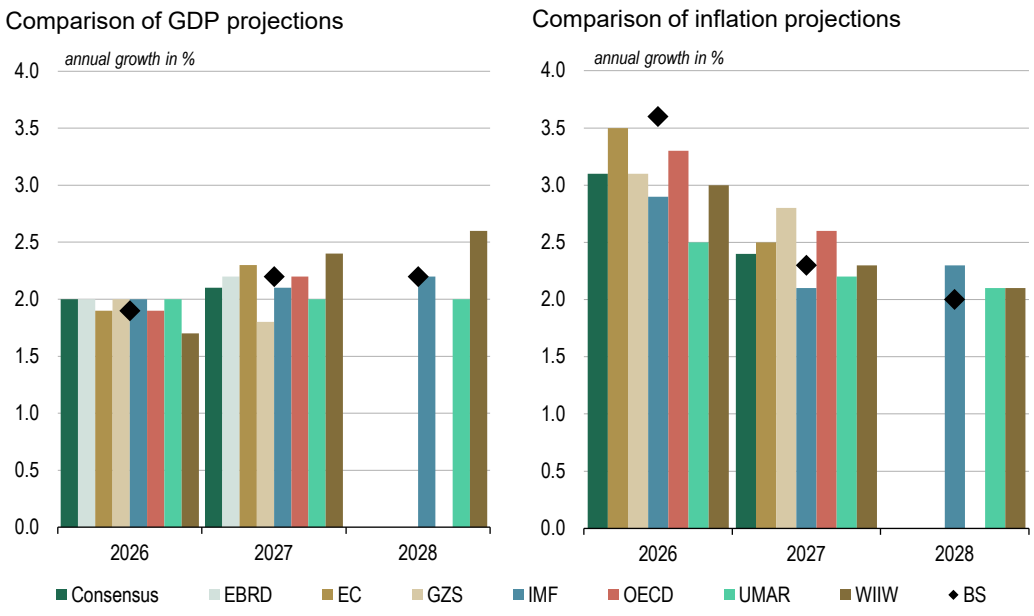
For 2028, economic growth projections are available for four institutions. Banka Slovenije's projection, at 2.2%, is equal to the median of all projections for the year in question.

Most institutions, with the exception of UMAR, expect a more pronounced acceleration of inflation in 2026 (Figure 4.1, right). This will be driven mainly by higher energy prices, particularly oil, the effects of which will be partially transmitted to other components of inflation in the coming years. As a result, the median rate of consumer price growth will remain somewhat above the monetary policy target. The highest inflation in the current year is projected by Banka Slovenije, at 3.6%, which is 0.5 percentage point above the median of all projections. This is followed by the EC, OECD, Consensus and GZS, with projections of 3.5%, 3.3% and 3.1%, respectively, while the lowest consumer price growth is expected by WIIW, IMF and UMAR, at 3.0%, 2.9% and 2.5%, respectively.

For 2027, the highest inflation is projected by GZS, OECD and the EC, at 2.8%, 2.6% and 2.5%, respectively. This is followed by Consensus, Banka Slovenije, WIIW and UMAR, with projections of 2.4%, 2.3% and 2.2%. Banka Slovenije's projection is equal to the median of all projections for the year in question, which stands at 2.3%. The lowest consumer price growth is projected by the IMF, at 2.1%.

For 2028, inflation projections are also available for four institutions. The highest inflation is expected by the IMF (2.3%), and the lowest by Banka Slovenije (2.0%), which is 0.1 percentage point below the median of all projections for the year in question.

Figure 4.1: **Comparison of GDP and inflation projections across institutions**



Sources: Projections by Consensus Economics (May), EBRD (June), EK (May), GZS (April), IMF (April), OECD (June), UMAR (February), WIIW (April), Banka Slovenije (June).

5 Statistical Appendix

Table 5.1: **Key macroeconomic indicators at the monthly level for Slovenia**

	2024	2025	12 mths to Mar. 26	3 mths to Mar. 25	3 mths to Mar. 26	2026 Jan.	2026 Feb.	2026 Mar.	2026 Apr.	2026 May
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	–2.7	–2.0	–1.8	–2.3	–1.6	0.2	–2.8	–2.2	–5.0	–2.2
- confidence indicator in manufacturing	–7.8	–6.6	–6.3	–7.0	–6.0	–3.0	–8.0	–7.0	–8.0	–6.0
					year-on-year growth rates in %					
Industry: - total	–1.2	–1.9	–2.2	–0.6	–1.9	–7.4	–3.6	6.0	0.4	...
- manufacturing	0.9	–1.4	–0.9	–1.2	0.7	–7.1	0.5	8.7	1.2	...
Construction: - total	–9.4	10.1	16.7	–8.9	20.7	8.2	22.5	29.6	...	...
- buildings	–12.6	9.1	14.2	–4.2	15.7	3.4	17.0	26.8	...	...
Trade and service activities - total	1.9	1.6	2.7	–0.4	4.2	1.5	4.0	7.4	...	...
Wholesale and retail trade and repair of motor ve	6.7	5.3	6.0	1.6	4.5	–3.2	5.8	11.8	...	...
Retail trade, except of motor vehicles and motorc	0.7	1.0	0.5	2.0	0.1	–1.5	–3.5	5.9	...	...
Other private sector services	1.4	1.8	3.4	–1.2	5.6	2.9	6.6	6.9	...	...
Labour market					year-on-year growth rates in %					
Average gross wage	6.2	5.9	5.9	7.1	7.1	6.7	7.2	7.3	...	...
- private sector	7.1	3.9	4.5	5.2	7.4	7.2	7.8	7.4	...	...
- public sector	4.6	9.4	8.2	10.6	6.1	5.5	5.9	6.8	...	...
Real net wage[1]	1.8	2.6	2.2	4.8	3.2	3.0	3.0	3.7	...	...
Registered unemployment rate (in %)	4.6	4.6	4.6	4.9	4.9	5.0	4.9	4.6	...	...
Registered unemployed persons	–5.6	–1.2	–0.7	–2.6	–0.4	–0.7	–0.4	–0.2	–0.4	–0.3
Persons in employment	1.1	–0.3	–0.2	–0.3	–0.0	–0.0	–0.0	–0.0	...	...
- private sector	1.1	–0.8	–0.8	–0.8	–0.7	–0.7	–0.7	–0.7	...	...
- public sector	1.2	1.1	1.4	0.9	1.8	1.9	1.8	1.7	...	...
Price Developments					year-on-year growth rates in %					
HICP	2.0	2.5	2.6	2.1	2.5	2.4	2.8	2.4	3.4	3.8
- services	4.8	3.8	3.8	4.0	3.9	3.7	3.9	4.1	3.8	3.9
- industrial goods excluding energy	0.5	0.6	0.6	0.4	0.4	0.8	0.3	0.1	–0.5	0.3
- food	2.0	4.9	5.2	2.7	4.1	4.6	4.3	3.3	1.9	2.0
- energy	–2.3	–1.6	–1.5	–0.2	0.6	–2.1	2.8	1.1	15.6	17.1
Core inflation indicator[2]	2.8	2.4	2.4	2.3	2.3	2.4	2.3	2.3	1.9	2.3
Balance of Payments - Current Account					in % GDP					
Current account balance	4.5	3.5	3.4	2.7	2.3	2.9	2.2	1.7	...	...
1. Goods	0.6	–0.2	–0.3	–0.0	–0.3	0.0	1.2	–2.1	...	...
2. Services	5.5	5.6	5.5	4.3	4.0	3.8	3.4	4.8	...	...
3. Primary income	–1.1	–0.6	–0.6	0.2	0.1	1.0	–0.5	–0.2	...	...
4. Secondary income	–0.5	–1.3	–1.2	–1.7	–1.5	–1.9	–1.9	–0.7	...	...
					nominal year-on-year growth rates in %					
Export of goods and services	2.1	2.0	1.6	3.2	1.7	–2.8	1.5	5.8	...	...
Import of goods and services	2.5	2.8	2.0	5.3	2.2	–3.4	1.2	7.9	...	...

Public finances	2024	2025	12 mths to Apr. 26		2025 Jan.-Apr.		2026 Jan.-Apr.	
Consolidated general government balance[3]	EUR m		% GDP	y-o-y, %	EUR m	y-o-y, %	EUR m	y-o-y, %
Revenue	27,918	29,659	42.6	8.2	9,263	5.3	10,315	11.4
Tax revenue	24,547	25,964	37.2	7.3	8,534	5.6	9,407	10.2
From EU budget	1,040	1,248	2.0	48.0	145	–35.6	317	118.8
Other	2,331	2,447	3.4	1.4	584	17.9	591	1.2
Expenditure	28,871	31,433	45.2	10.2	9,549	7.9	10,712	12.2
Current expenditure	12,910	14,139	20.5	11.2	4,361	8.9	4,975	14.1
- wages and other personnel expenditure	6,539	7,473	10.7	15.7	2,363	7.2	2,641	11.7
- purchases of goods, services	4,368	4,596	6.6	6.5	1,340	6.4	1,483	10.7
- interest	793	836	1.2	-2.3	541	21.7	574	6.1
Current transfers	12,794	13,765	19.6	8.2	4,409	7.2	4,813	9.1
- transfers to individuals and households	10,397	11,056	15.7	6.9	3,595	5.4	3,849	7.1
Capital expenditure, transfers	2,531	2,809	4.0	14.6	551	2.4	658	19.4
General government surplus/deficit	–953	–1,774	–2.6		–286		–397	

Sources: SURS, Banka Slovenije, Ministry of Finance, Banka Slovenije calculations.
Notes: The data in the table are unadjusted, except for the sentiment indicators, where the data are seasonally and working-day adjusted. 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 based on 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 5.2: **Key macroeconomic indicators at the quarterly level for Slovenia and the euro area**

	2023	2024	2025	25Q2	25Q3	25Q4	26Q1	2023	2024	2025	25Q2	25Q3	25Q4	26Q1
				Slovenia							euro area			
Economic developments							q-o-q growth in %							
GDP				1.0	1.0	0.4	0.7				0.1	0.3	0.2	–0.2
- industry				0.1	–0.0	–0.5	0.6				0.2	–0.1	–0.2	–2.5
- construction				5.6	5.0	3.7	–1.2				0.1	0.2	0.2	–0.5
- mainly public sector services (OPQ)				1.6	0.1	3.8	–3.0				0.0	0.4	0.2	0.2
- mainly private sector services (without OPQ)				0.8	1.3	–0.5	1.1				0.2	0.3	0.1	–0.4
Domestic expenditure				0.4	1.4	2.7	–0.7				0.4	0.6	0.6	0.1
- general government				1.8	0.8	1.2	0.2				0.4	0.7	0.6	0.5
- households and NPISH[1]				0.3	0.2	1.0	0.8				0.3	0.2	0.4	0.2
- gross capital formation				–1.9	3.3	10.7	–5.8				0.9	1.4	1.0	–0.7
- gross fixed capital formation				3.2	4.9	2.7	1.5				–1.4	1.2	0.8	–0.3
							y-o-y growth in %							
GDP	2.4	1.7	1.1	0.8	1.9	2.0	3.0	0.5	1.0	1.4	1.4	1.4	1.4	0.3
- industry	6.5	3.8	...	–0.7	–0.0	–2.1	–0.6	–1.6	–0.2	2.3	2.4	2.9	1.6	–2.7
- construction	11.8	–3.7	...	3.9	13.3	16.5	15.0	1.8	–1.3	0.6	–0.0	1.0	2.0	–0.3
- mainly public sector services (OPQ)	0.8	1.8	...	1.9	2.2	1.7	2.5	1.1	1.8	1.1	1.0	1.1	1.0	0.8
- mainly private sector services (without OPQ)	1.1	1.2	...	0.9	2.1	2.1	2.5	0.6	0.8	1.4	1.4	1.6	1.6	0.2
Domestic expenditure	–0.0	3.3	2.6	–0.1	3.8	5.4	3.7	0.1	0.7	2.0	2.4	1.8	2.0	1.7
- general government	2.1	7.3	1.6	–0.7	1.2	3.8	3.9	1.5	2.3	1.4	1.2	1.4	1.6	2.3
- households and NPISH	–0.0	3.8	1.7	2.3	1.3	3.0	2.8	0.5	1.3	1.4	1.7	1.2	1.5	1.2
- gross capital formation	–1.6	–1.3	5.5	–4.7	13.1	13.2	5.6	–2.2	–2.4	4.0	5.6	3.5	3.7	2.0
- gross fixed capital formation	5.5	–0.3	4.1	–0.1	10.0	11.9	12.6	2.6	–2.4	3.0	3.2	3.1	3.6	0.1
- inventories and valuables, contr. to GDP growth in p.p.	–1.6	–0.2	0.3	–1.1	0.6	0.3	–1.4	–1.1	–0.0	0.2	0.5	0.1	0.0	0.4
Labour market							q-o-q growth in %							
Employment				–0.0	0.1	0.1	0.2				0.1	0.2	0.2	0.1
- mainly private sector (without OPQ)				–0.2	–0.0	–0.1	0.1				0.1	0.1	0.1	0.0
- mainly public services (OPQ)				0.6	0.5	0.5	0.6				0.2	0.3	0.2	0.2
							y-o-y growth in %							
Employment	1.5	0.5	–0.4	–0.5	–0.4	–0.3	0.4	1.5	1.0	0.8	0.8	0.7	0.7	0.5
- mainly private sector (without OPQ)	1.5	0.1	–1.0	–1.1	–1.0	–0.8	–0.1	1.6	0.8	0.6	0.6	0.5	0.6	0.4
- mainly public services (OPQ)	1.6	2.0	1.9	1.9	1.9	2.1	2.3	1.3	1.5	1.3	1.4	1.2	1.1	0.9
Labour costs per employee	9.6	6.2	7.9	8.8	8.7	5.7	7.5	5.4	4.5	3.9	4.0	4.0	3.7	3.5
- mainly private sector (without OPQ)	9.6	6.5	...	7.4	7.9	3.0	7.5	5.6	4.4	3.7	4.0	3.9	3.3	3.5
- mainly public services (OPQ)	9.5	5.1	...	13.1	10.9	14.6	7.3	4.9	4.8	4.2	4.1	4.2	4.6	3.5
Unit labour costs, nominal[2]	8.7	4.9	6.3	7.3	6.2	3.4	4.8	6.5	4.5	3.2	3.4	3.3	3.0	3.7
Unit labour costs, real[3]	–1.2	1.4	2.8	3.8	2.5	–0.3	1.9	0.3	1.5	0.7	0.9	0.8	0.4	1.3
LFS unemployment rate in %	3.7	3.7	3.9	3.2	4.2	4.1	4.1	6.6	6.4	6.4	6.3	6.3	6.2	...
Foreign trade							q-o-q growth in %							
Real export of goods and services				–0.6	1.0	–0.3	0.6				–0.7	0.7	–0.6	–0.2
Real import of goods and services				–2.2	1.0	2.5	0.3				–0.2	1.4	0.3	0.5
							y-o-y growth in %							
Real export of goods and services	–1.9	2.3	0.3	0.3	–0.4	0.5	0.7	–1.2	0.6	2.1	0.4	2.9	2.4	–1.0
Real import of goods and services	–4.5	4.3	2.1	–0.9	1.7	4.8	1.5	–2.0	–0.0	3.5	2.4	3.8	3.9	1.8
Current account balance as % GDP[4]	4.8	4.5	3.5	4.5	4.2	3.5	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in p.p.	2.4	–1.3	–1.3	0.9	–1.6	–3.1	–0.5	0.4	0.3	–0.5	–0.9	–0.3	–0.6	–1.3
Financing							in % GDP							
Banking system's balance sheet	84.9	82.9	84.3	84.3	83.5	84.3	84.3	253.3	251.1	249.3	251.7	249.9	249.3	255.0
Loans to NFCs	17.5	16.3	16.4	16.4	16.4	16.4	16.7	33.7	32.7	32.2	32.5	32.3	32.2	32.3
Loans to households	19.9	20.1	20.7	20.4	20.6	20.7	20.7	44.9	43.3	42.7	42.9	42.9	42.7	42.8
Inflation							in %							
HICP	7.2	2.0	2.5	2.2	2.9	2.7	2.5	5.5	2.4	2.1	2.0	2.1	2.1	2.0
HICP excl. energy, food, alcohol and tobacco	6.7	2.8	2.4	2.4	2.7	2.1	2.3	5.0	2.8	2.4	2.4	2.3	2.4	2.3
Public finance							in % GDP							
General government debt	68.3	66.4	65.7	69.5	67.7	65.7	...	86.5	86.6	87.4	87.6	88.0	87.4	...
General government balance[4]	–2.6	–0.9	–2.5	–1.7	–1.5	–2.5	...	3.9	4.7	5.0	4.9	4.9	5.0	...
- interest payment[4]	1.2	1.3	1.3	1.3	1.3	1.3	...	1.7	1.9	1.9	1.9	1.9	1.9	...
- primary balance[4]	–1.3	0.4	–1.3	–0.5	–0.3	–1.3	...	5.6	6.5	6.9	6.8	6.8	6.9	...

Sources: SURS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations.
Notes: Unadjusted figures are used to calculate the year-on-year rates, and seasonally adjusted figures are used to calculate the current rates of growth. (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.

6 List of Abbreviations

Abbreviations

BS	Banka Slovenije
BVAR	Bayesian vector autoregression model
CCIS	the Chamber of Commerce and Industry of Slovenia (GZS in Slovene)
CEE	Central and Eastern European euro area member states
CHP+RES	combined heat and power and renewable energy sources
EA	euro area
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECOICOP	European Classification of Individual Consumption by Purpose
EU	European Union
EUR	euro
Fed	Federal Reserve System
FRED	Federal Reserve Economic Data
GDP	gross domestic product
GSCPI	Global Supply Chain Pressure Index
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
MDD	modified domestic demand indicator
MPC	marginal propensity to consume
NGEU	NextGenerationEU
OECD	Organisation for Economic Co-operation and Development
OLS	ordinary least squares
OPEC+	Organization of the Petroleum Exporting Countries and allied oil-producing countries
PMI	Purchasing Managers' Index
RS	Republic of Slovenija
SiQM	Banka Slovenije macroeconomic model
SURS	Statistical Office of the Republic of Slovenia (SORS)
ULC	unit labour costs
UMAR	Institute of Macroeconomic Analysis and Development (IMAD)
URSOO	Recovery and Resilience Office of the Republic of Slovenia
US	United States
USD	United States Dollar
VAR	vector autoregression
VIX	Volatility Index
WIIW	Vienna Institute for International Economic Studies (ger. Wiener Institut für Internationale Wirtschaftsvergleiche)
ZEW	Leibniz Centre for European Economic Research (ger. Zentrum für Europäische Wirtschasftsforschung)
ZRSZ	Employment Service of Slovenia

Abbreviations from the standard classification of economic activities (SKD 2025)

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 of other materials, **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, maintenance 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, recovery and disposal activities, **39** – Remediation activities and other waste management service activities, **F** – Construction, **41** – Construction of residential and non-residential buildings, **42** – Civil engineering, **43** – Specialised construction activities **G** – Wholesale and retail trade, **46** – Wholesale trade, **47** – Retail trade, **H** – Transportation and storage, **49** – Land transport and transport via pipelines, **50** – Water transport, **51** – Air transport, **52** – Warehousing, storage and support activities for transportation, **53** – Postal and courier

activities, **I** – Accommodation and food service activities, **55** – Accommodation, **56** – Food and beverage service activities, **J** – Publishing, broadcasting, and content production and distribution activities, **58** – Publishing activities, **59** – Motion picture, video and television programme production, sound recording and music publishing activities, **60** – Programming, broadcasting, news agency and other content distribution activities, **K** – Telecommunication, computer programming, consulting, computing infrastructure and other information service activities, **61** – Telecommunication, **62** – Computer programming, consultancy and related activities, **63** – Computing infrastructure, data processing, hosting and other information service activities, **L** – Financial and insurance activities, **64** – Financial service activities, except insurance and pension funding, **65** – Insurance, reinsurance and pension funding, except compulsory social security, **66** – Activities auxiliary to financial services and insurance activities, **M** – Real estate activities, **68** – Real estate activities, **N** – Professional, scientific and technical activities, **69** – Legal and accounting activities, **70** – Activities of head offices and management consultancy, **71** – Architectural and engineering activities; technical testing and analysis, **72** – Scientific research and development, **73** – Activities of advertising, market research and public relations, **74** – Other professional, scientific and technical activities, **75** – Veterinary activities, **O** – 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** – Investigation and security activities, **81** – Services to buildings and landscape activities, **82** – Office administrative, office support and other business support activities, **P** – Public administration and defence; compulsory social security, **84** – Public administration and defence; compulsory social security, **Q** – Education, **85** – Education, **R** – Human health and social work activities, **86** – Human health activities, **87** – Residential care activities, **88** – Social work activities without accommodation, **S** – Arts, sports and recreation, **90** – Arts creation and performing arts activities, **91** – Libraries, archives, museums and other cultural activities, **92** – Gambling and betting activities, **93** – Sports activities and amusement and recreation activities, **T** – Other service activities, **94** – Activities of membership organisations, **95** – Repair and maintenance of computers, personal and household goods, and motor vehicles and motorcycles, **96** – Personal service activities, **U** – Activities of households as employers and 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, **V** – 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** – Türkiye