BANKA SLOVENIJE

EVROSISTEM

Review of macroeconomic developments and projections

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In line with the process for drawing up the ESCB projections, the forecasts and external assumptions are based on information and data available by 21 May 2025.

The current economic developments are based on information and data available by 30 May 2025.

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Summary

The contraction in economic activity observed in the first quarter of this year constitutes a significantly weaker starting point for annual GDP growth. It is projected to reach 1.3% in 2025, before gaining momentum and increasing to 2.4% in both 2026 and 2027. In parallel, the disinflationary trend is expected to pause temporarily in 2025, with headline inflation forecast to rise to 2.5%. Thereafter, inflation is projected to gradually converge towards the medium-term target, reaching 2.2% in 2026 and 1.9% in 2027.

The Slovenian economy contracted by 0.8% in the first quarter of this year, driven largely by a sharp increase in uncertainty in global trade. The uncertainty in the external environment is most evidently seen in a decline in gross fixed capital formation and in a stagnation in exports. Conversely, the expected rise in tariffs and the uncertainty in global supply chains prompted a rise in imports, mainly driven by intermediate goods and inventory stocking. Alongside the activity in export-intensive sectors, private consumption growth remained subdued, reflecting persistently low consumer confidence. The developments on the demand side of the economy were mirrored in a broadly based decline in value-added across the production side of the economy. The largest declines in value-added occurred in industry and construction, as well as in certain private-sector services, which up until last year had been among key drivers supporting economic growth. A limited set of indicators for the second quarter is showing a more favourable short-term developments ahead and a renewed growth in GDP.

Economic growth will gradually strengthen over the projection horizon, driven both by domestic factors and a gradual improvement in the external environment. An expected recovery in consumer confidence will enable private consumption growth in 2026 and 2027 to again align more closely with growth in household disposable income. Domestic demand will also be supported by growth in government investment and consumption, which will reflect institutional factors related to the utilisation of EU funds and also implementation of the long-term care act. Under the assumption of a normalisation of the situation in global trade and a reduction in uncertainty in the external environment, our expectation is that private-sector investment will also strengthen. Moreover, the recovery in foreign demand and the strengthening activity in Slovenia's main trading partners will see the contribution to GDP growth by net trade turn positive again by the end of the projection horizon. Despite the anticipated gradual recovery in economic growth, the projections have been revised downward by 0.9 and 0.4 percentage points for 2025 and 2026, reflecting weaker short-term developments and a deteriorated medium-term global outlook.

The weaker economy will see employment fall this year, while employment growth will remain limited over the remainder of the projection horizon. Amid the weaker economic outlook, this year's fall of 0.5% in employment will be driven by reduced demand for labour in the private sector, particularly in manufacturing, construction and certain marketable services. Employment growth will remain sluggish at 0.2% in 2026 and 0.5% in 2027, owing to the waning of the cyclical effects that drove strong growth after the pandemic, and the ongoing tightness of the labour market, which is evident in low unemployment, the relatively high vacancy rate, and the increasingly unfavourable demographic structure of the workforce in employment. Amid low employment growth, the strengthening of the economy will therefore depend strongly on

the expected growth in labour productivity, which is projected to hover around its long-term average at 1.7% in 2025, 2.1% in 2026 and 1.9% in 2027. The projected rise in productivity growth is primarily based on the expectation of greater alignment between employment and economic activity than in the post-pandemic period.

After last year's sharp fall, inflation will temporarily rise again this year, before stabilising at close to 2% towards the end of the projection horizon. In the first months of this year, increase in headline inflation was mainly driven by rising food prices, largely on the account of ongoing increases in food commodity prices. Inflation will strengthen further by the end of the year, as a result of the continued pass-through of rising labour costs into final prices, base effects in year-on-year inflation of other goods, and institutional factors influencing electricity prices. An even sharper rise in inflation this year will be prevented by the lower trending oil prices on global markets and appreciation of the euro, which are lowering import prices. The gradual slowdown in wage growth and the anticipated growth in productivity, together with fading impacts of institutional drivers and base effects, will support the inflation moderation in 2026 and 2027. It is projected to stabilise close to 2% by the end of the projection horizon, when it is also expected to be considerably more balanced in terms of contributions of inflation components. Compared to the December projections, the current inflation projection is 0.3 percentage point higher this year, unchanged in 2026 and 0.2 percentage point lower in 2027.

The baseline projection is accompanied by downside risks for economic growth, while the risks to the inflation projection remain balanced. The main risk is posed by the uncertainty surrounding the ongoing developments in trade policy. While the baseline projection assumes no change in tariffs from the projection cut-off date (21 May), the severe scenario envisages an additional rise in US tariffs on goods from China and the EU, retaliatory measures, and the persistence of heightened uncertainty surrounding economic policy. In the event of the realisation of this scenario, GDP growth would be 0.4 percentage points lower than under the baseline projection this year, 0.8 percentage points lower in 2026 and 0.2 percentage points lower in 2027. At the same time, the negative effects on economic activity under the adverse scenario are expected to dampen inflation over the medium term. On the side of domestic risks, unfavourable structural trends could limit productivity growth, which would lead to economic growth being lower and inflation higher than in the baseline projection. Inflation might also be raised by supply shocks in connection with the risks pertained to global supply chains, and extreme weather events, which have become increasingly frequent in recent years. Conversely an upside risk to economic growth might potentially be posed by additional government spending on defence and infrastructure projects at home and in broader EU context, which would also exert upward pressure on inflation.

Table 1: **Macroeconomic projections for Slovenia, 2025 to 2027**

	2018	2019	2020	2021	2022	2023	2024		Projections 2025		2026		2027	
								Δ	Jun.	Δ	Jun.	Δ	Jun.	Δ
Prices	*annual growth in %*													
HICP	1.9	1.7	–0.3	2.0	9.3	7.2	2.0	*0.0*	**2.5**	*0.3*	**2.2**	*0.0*	**1.9**	*–0.2*
HICP excluding energy and food	1.0	1.9	0.8	0.9	5.9	6.7	2.9	*0.0*	**2.7**	*0.3*	**2.1**	*–0.4*	**1.3**	*–0.5*
HICP energy	6.0	0.8	–10.8	11.3	24.8	2.2	–2.3	*0.2*	**–2.6**	*1.3*	**1.1**	*0.7*	**3.5**	*1.1*
HICP food	2.4	1.6	2.8	0.7	10.6	11.8	1.9	*0.0*	**4.7**	*0.1*	**3.0**	*0.5*	**2.6**	*0.0*
Economic activity	*annual growth in %*													
GDP (real)	4.4	3.5	–4.1	8.4	2.7	2.1	1.6	*0.2*	**1.3**	*–0.9*	**2.4**	*–0.4*	**2.4**	*0.0*
Private consumption	3.4	5.5	–6.1	10.5	5.3	0.1	1.6	*–0.2*	**1.1**	*–1.3*	**1.9**	*–0.4*	**2.4**	*–0.3*
Government consumption	2.3	1.9	4.1	6.2	–0.7	2.4	8.5	*0.0*	**2.9**	*0.5*	**4.1**	*0.0*	**1.2**	*0.1*
Gross fixed capital formation	10.6	4.9	–7.2	12.3	4.2	3.9	–3.7	*–1.9*	**–2.6**	*–4.0*	**3.4**	*0.0*	**1.3**	*0.3*
of which Private sector	7.8	4.2	–9.5	10.3	1.9	4.8	–3.9	*–2.0*	**–3.7**	*–3.9*	**3.6**	*0.1*	**1.9**	*–0.1*
of which Government sector	24.1	8.1	2.2	19.3	11.7	1.2	–3.2	*–1.7*	**0.9**	*–4.4*	**2.7**	*–0.1*	**–0.8**	*1.4*
Exports of goods and services (real)	6.2	4.5	–8.5	14.5	6.8	–2.0	3.2	*0.4*	**0.8**	*–3.4*	**3.9**	*–0.8*	**4.7**	*0.2*
Imports of goods and services (real)	7.1	4.7	–9.1	17.8	9.2	–4.5	3.9	*–0.3*	**1.5**	*–2.7*	**4.4**	*–0.7*	**4.3**	*0.0*
Contributions to real GDP growth	*in percentage points*													
Domestic demand (excluding inventories)	4.1	4.1	–3.8	8.9	3.4	1.3	1.7	*–0.5*	**0.7**	*–1.3*	**2.5**	*–0.2*	**1.7**	*–0.1*
Net exports	–0.1	0.3	–0.3	–1.0	–1.3	1.9	–0.3	*0.6*	**–0.5**	*–0.8*	**–0.2**	*–0.2*	**0.6**	*0.1*
Changes in inventories	0.4	–0.9	0.1	0.5	0.7	–1.4	0.3	*0.2*	**1.0**	*1.0*	**0.0**	*0.0*	**0.0**	*0.0*
Labour market	*annual growth in % (unless stated otherwise)*													
Unemployment growth (% of labour force)	5.1	4.5	5.0	4.7	4.0	3.7	3.7	*0.2*	**3.5**	*0.1*	**3.4**	*0.0*	**3.4**	*0.0*
Total employment	3.2	2.4	–0.7	1.3	2.9	1.6	0.1	*0.0*	**–0.5**	*–0.7*	**0.2**	*–0.4*	**0.5**	*–0.2*
Compensation per employee	4.0	5.2	3.8	8.0	5.0	9.5	6.2	*–1.2*	**5.5**	*0.0*	**4.8**	*–0.2*	**4.2**	*–0.3*
...Productivity	1.2	1.0	–3.4	7.0	–0.2	0.5	1.4	*0.1*	**1.7**	*–0.3*	**2.1**	*0.0*	**1.9**	*0.2*
...Unit labour costs (ULC)	2.8	4.2	7.5	0.9	5.2	9.0	4.7	*–1.3*	**3.7**	*0.3*	**2.6**	*–0.2*	**2.3**	*–0.5*
Balance of payments	*annual growth in % (unless stated otherwise)*													
Current account: in bn EUR	3.0	3.1	3.6	2.0	–0.6	2.9	3.0	*–0.2*	**3.0**	*–0.6*	**3.1**	*–0.6*	**3.8**	*–0.7*
in % GDP	6.5	6.4	7.7	3.8	–1.1	4.5	4.4	*–0.4*	**4.2**	*–0.9*	**4.1**	*–0.9*	**4.8**	*–0.9*
Terms of trade*	–0.1	0.5	0.7	–2.1	–3.1	3.6	1.1	*–0.2*	**0.9**	*0.7*	**0.4**	*0.4*	**0.4**	*0.3*

Sources: SURS, Eurostat, Banka Slovenije projections
Note: * Based on national accounts deflators. Δ: difference between current forecasts and forecasts given in the December 2024 issue of the Review of macroeconomic developments and projections.

1 Current Economic Developments and Assumptions

In the wake of the sharp increase in global uncertainty, the domestic economy contracted in the first quarter. This was driven in particular by a contraction in investment and by net trade, while year-on-year growth in private consumption and government consumption also slowed notably. For the second quarter, a limited set of indicators currently points to renewed GDP growth.

1.1 International situation and external assumptions

Given the constraints on global trade, the indicators for the second quarter point to weaker global economic growth, while the growth projections for this and next year have been revised downwards.

Developments in economic activity in the major advanced economies are varying. GDP in the US fell by 0.1% in the first quarter of this year, having expanded by 0.6% in the previous quarter. Although private consumption and investment increased, businesses and households built up their inventories of goods in the expectation of higher costs following the announcement of tariffs, which drove a significant increase in imports and a strongly negative contribution to growth by net trade. The US thus suffered its first decline in economic activity in the last three years. GDP also contracted in quarterly terms in Japan, by 0.2%. This was again a sharp contrast to the previous quarter, when growth stood at 0.6%. Quarterly GDP in the UK was up 0.7%, an improvement of 0.6 percentage points compared with the previous quarter, and thus reached its highest level of the last three quarters, driven primarily by the service sector. Quarterly GDP in the euro area was also up slightly on the previous quarter, at 0.3%.

The major developing economies all saw quarterly rises in GDP, most notably 1.6% in India, 1.2% in China and 0.2% in Brazil. Economic growth in China was down 0.4 percentage points on the final quarter of last year, and was 0.2 percentage points less than had been expected by the markets. Although the Chinese economy is the focus of the trade conflict with the US, it is still recording relatively robust growth amid significant fiscal and monetary support.

The global composite PMI remained in the zone of expansion in April, but slipped to 50.8 points, its lowest figure of the last 17 months, largely on account of a sharp decline in new export business. The global services PMI also declined to 50.8 points, while manufacturing has again fallen into the zone of contraction with a PMI of 49.8 points. The flash estimates of May's indicator in major global economies mostly point to a continuation of the weak economy. The PMI was slightly below the 50 mark in the euro area, the UK and Japan, but strengthened to 52.1 points in the US on the basis of a slight uptick in both sectors, although the main factor at work in manufacturing was a build-up of inventories.

According to the ECB's June projections, global economic growth excluding the euro area is expected to be slightly lower this year than last year. Having reached 3.6% last year, it is expected to reach 3.1% this year, down 0.3 percentage points on the March projections. The revision largely reflects the direct effects of the new trade measures,

and the indirect effects of these measures via trade links, increased uncertainty and the worsening mood. The projection for 2026 has consequently been revised downwards by 0.3 percentage points compared with March, to 2.9%, while the projection for 2027 remains unchanged at 3.2% (see Table 1.1.1).

Economic growth in the euro area stood at 0.3% in the first quarter, but is projected to be more modest in the second quarter amid the increased uncertainty in global trade.

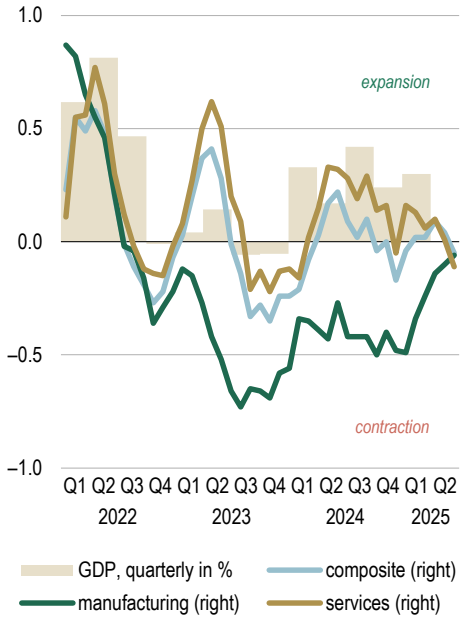
Euro area GDP increased by 0.3% in the first quarter of this year, 0.1 percentage points more than in the final quarter of last year (see Figure 1.1.1, left). The growth was driven by stronger domestic demand, most notably in Germany and Spain. Of the major euro area countries, GDP growth was highest in Spain (0.6%) and Germany (0.4%), followed by Italy (0.3%) and France (0.1%). The largest economic contractions were seen in Slovenia (0.8%) and Portugal (0.5%), while Ireland (3.2%) and Cyprus (1.3%) saw the highest growth. Domestic demand is also being reflected in inflation, service price inflation in particular, which has remained elevated at around 4% for a year and a half now. Headline inflation has nevertheless slowed slightly in recent months (reaching 2.2% in April), driven largely by energy prices.

Despite an encouraging start to the year, the short-term indicators point to slightly weaker economic developments in the second quarter amid rising uncertainty in connection with US trade policy, which is suffocating investment and household consumption. The flash estimate of the composite PMI suggests that after falling in April it will decline further in May, below the 50 mark to 49.5 points, the lowest figure of the last six months (see Figure 1.1.1, left). The decline is primarily attributable to a downturn in new orders, including foreign orders. There was a particularly sharp deterioration in the services PMI, which recorded its largest fall in 16 months to hit 48.9 points. The manufacturing PMI by contrast rose to 49.5 points in May, its highest figure for 33 months, but still in the zone of contraction.

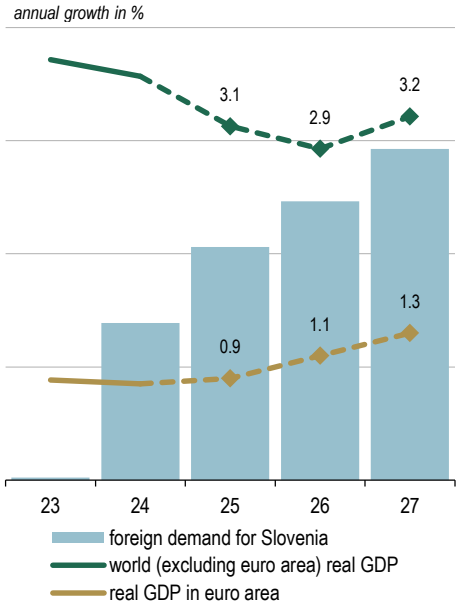
According to the ECB's June projections, euro area GDP is forecast to grow by 0.9% this year, 1.1% in 2026 and 1.3% in 2027 (see Figure 1.1.1, right). Economic growth over the projection horizon is set to be supported by government spending on defence and infrastructure, rising household income, and a gradual decline in uncertainty and a recovery in foreign demand.

Figure 1.1.1: **Economic conditions in the euro area and the international macroeconomic outlook**

Purchasing Managers' Index (PMI) and GDP growth in euro area



Projections of world (excluding euro area) real GDP growth, real GDP growth in euro area and foreign demand for Slovenia



Sources: ECB, Eurostat, Bloomberg, Banka Slovenije calculations. Latest data, left chart: GDP: Q1 2025, PMIs (flash): May 2025.

In the wake of the deterioration in the international outlook, June's assumptions project lower oil prices and a slower recovery in foreign demand for Slovenia compared to the December projections.

The uncertainty and weak activity in the global economy are reflected in the assumptions of the external environment.[1] The projections for growth in foreign demand for Slovenia[2] for this year and next year are 0.6 percentage points and 0.7 percentage points down compared with December. The average over the projection horizon is thus projected to be 2.2 percentage points lower than pre-pandemic average.[3] Another unfavourable change compared with the December projections in terms of export activity is the assumption of an appreciation in the euro of approximately 5.4% against the US dollar on average over the projection horizon, largely as a result of a fall in investor confidence in the US debt and capital markets. The weaker economic outlook is also reflected in the assumption for oil prices. These are projected to average USD 5.8 less over the projection horizon than in the December projections. By contrast the assumption for prices of non-energy industrial goods are higher than in December, primarily due to this year's development in global food prices (see Table 1.1.1).

[1] The assumptions for the international environment are based on information available by the cut-off date of 16 May 2025. The assumptions with regard to foreign demand for Slovenia and the external technical assumptions of medium-term projections that serve as the basis for the Banka Slovenije projections were drawn up as part of the joint preparation of projections by Eurosystem experts. For more on the methodology used, see the latest release of projections online, which are also available in Slovene, on the ECB website.

[2] The divergence in growth in foreign demand for Slovenia and growth in global economic activity excluding the euro area is largely attributable to the slower recovery in Slovenia's main trading partners.

[3] Annual growth in foreign demand for Slovenia averaged 4.7% between 1996 and 2019.

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

		2025		2026		2027	
	2024	Jun	Δ	Jun	Δ	Jun	Δ
Global economic growth excluding euro area, %	3.6	3.1	-0.4	2.9	-0.4	3.2	0.0
Economic growth in euro area, %	0.8	0.9	-0.2	1.1	-0.3	1.3	0.0
Growth in foreign demand for Slovenia, %	1.4	2.1	-0.6	2.5	-0.7	2.9	-0.1
Oil price, USD/barrel	82.0	66.7	-5.1	62.8	-7.3	64.2	-5.0
Oil price, EUR/barrel	75.8	60.2	-7.4	55.8	-10.2	57.0	-8.2
Change in US dollar oil prices, %	-2.1	-18.6	-6.3	-5.8	-3.5	2.2	3.5
EUR/USD exchange rate	1.1	1.1	0.0	1.1	0.0	1.1	0.0
3-month Euribor, %	3.6	2.1	0.0	1.9	-0.1	2.2	0.0
Change in primary commodity prices, %	9.2	6.8	1.0	-0.4	0.0	0.6	2.3

Sources: ECB, Banka Slovenije calculations.

1.2 Domestic economic environment

The economic situation in Slovenia worsened in the first quarter, driven largely by the elevated levels of uncertainty.

The improved confidence and solid performance in certain monthly indicators of private consumption suggested that the economy remained in relatively good shape in the first quarter, but according to national accounts activity declined. GDP was down 0.8% in quarterly terms and 0.7% in year-on-year terms, with the economy being outperformed by the euro area overall for the first time in years. These developments are indicative of unfavourable business conditions in the first quarter after a challenging last year, which is analysed in detail from the perspective of corporate performance in Box 1.2.1.

Elevated levels of uncertainty, higher energy prices compared with partners outside the EU, disruption of international trade links, crisis in European industry and crunch on the housing market are causing investment to dry up. In the first quarter, investment was down in year-on-year terms for the fourth consecutive quarter. The decline stood at 5.1%, taking its contribution to GDP growth to -1.1 percentage points (see Figure 1.2.1, left). Manufacturing firms are still reporting insufficient demand and rather low capacity utilisation, which is curtailing investment in machinery and equipment. The situation in residential construction is even worse, by a significant margin: investment in the first quarter was down 14.3% in year-on-year terms amid weak demand and high prices on the real estate market.

The growth contribution from domestic final consumption was relatively weak in the first quarter. Final consumption was up just 1.0% in year-on-year terms, with growth in private consumption recording its lowest rate since 2023 at 0.4%. Despite further gains in real wage bill, consumer uncertainty remained high according to the SURS surveys: consumers were expecting inflation and unemployment to rise, and the economy to worsen. Growth in government consumption also slowed, albeit mainly for technical reasons, the year-on-year effect of last year's inclusion of supplemental health insurance in compulsory contributions having dropped out of the calculation.

The year-on-year recovery in exports ended in the first quarter, and the contribution to GDP growth by net trade was negative amid a build-up of inventories. In an environment of weak foreign demand, merchandise exports were down in year-on-year terms, although a small increase in services exports meant that aggregate exports were broadly unchanged. Import developments were stronger: firms were increasing their inventories due to high uncertainty, and imports of miscellaneous business services were also elevated. The contribution to growth made by net trade stood at -1.4 percentage points (see Figure 1.2.1, left).

Surveys suggest unfavourable competitive position of manufacturing firms on foreign markets, while the situation in construction and private sector services also deteriorated.

Growth in value-added in manufacturing has long successfully struggled against the adverse international situation, but turned negative in the first quarter, as had previously been signalled by the monthly output index. Value-added was down 2.5% in year-on-year terms, which reduced GDP growth by 0.4 percentage points (see Figure 1.2.1, right). In terms of technological complexity, the increase in activity was recorded only in the high-technology sector, and even there thanks solely to the good performance of pharmaceutical firms.

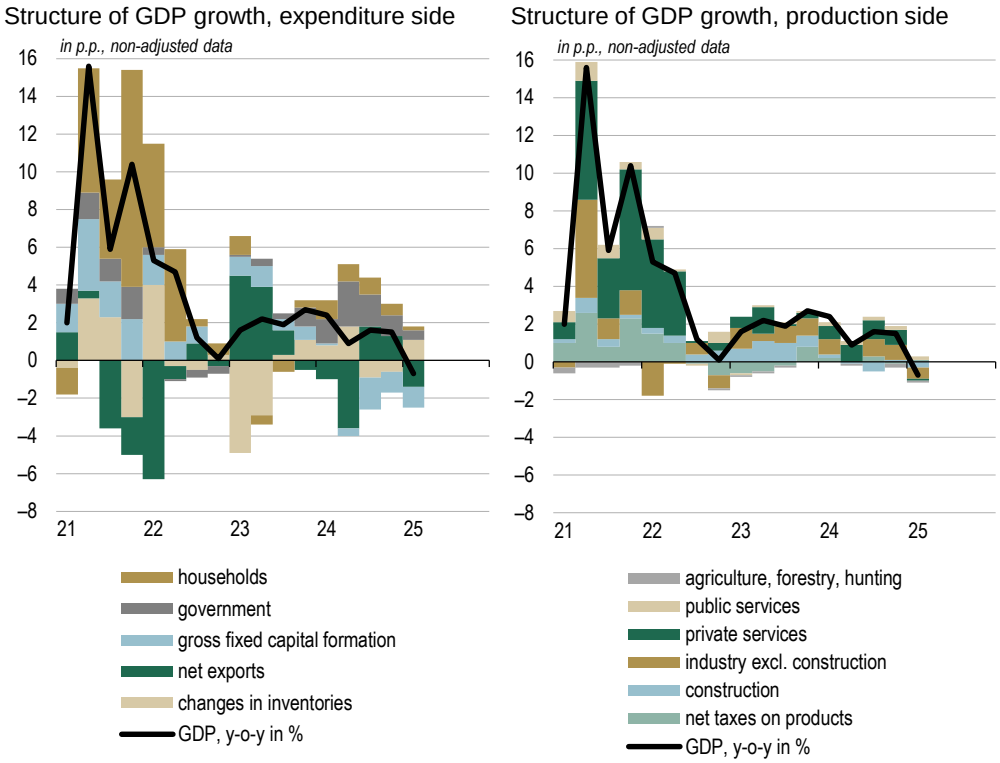
Manufacturing firms have been reporting a deterioration in their competitive position ever since the outbreak of the energy crisis. The survey competitiveness indicator on EU markets stood at -13.0 percentage points in the first quarter, down 9.9 percentage points on its average between 2005 and 2024, while the indicator on markets outside the EU stood at -11.0 percentage points, down 6.6 percentage points on its long-term average.

In the first quarter, construction saw considerable misalignment between its confidence indicators and its real activity indicators. The survey indicator of the amount of construction put in place was up significantly on the final quarter of last year, while similar was true of order books. Value-added by contrast was down 3.9% in quarterly terms, while the index of the amount of construction put in place saw a comparable negative change, mostly because of a decline in activity in civil engineering work. Value-added was down 6.0% in year-on-year terms, which reduced GDP growth by 0.3 percentage points (see Figure 1.2.1, right).

Private sector services saw a halt to the growth in value-added. This was mainly attributable to weak domestic demand, while year-on-year growth in exports was also down on the second half of last year.[4] The deterioration compared with the final quarter of last year was broadly based: year-on-year changes in value-added were comparatively unfavourable in the vast majority of service categories. Aggregate year-on-year growth in value-added was close to stagnation in the first quarter at -0.1%, down from 1.8% in the final quarter of last year. Year-on-year growth in value-added in public services remained relatively solid at 1.4%.

[4] One partial factor in the worse performance was a calendar effect: the Easter holidays came in late March last year, but in the second half of April this year. An indication in this direction comes from real year-on-year growth in the value of card payments and ATM withdrawals, which was very weak in March, but jumped to 7.8% in April. After a fall in March, real year-on-year growth in the total value of invoices registered with tax authorities also turned positive in April, at 2.6%. The HICP deflator is used in both calculations.

Figure 1.2.1: **Changes in domestic economic activity**



Source: SURS. Latest data: Q1 2025

The data for the second quarter points to a slight improvement in the economic sentiment, mostly due to a lesser pessimism among consumers. This supports the current relatively favourable estimate of quarterly GDP growth.

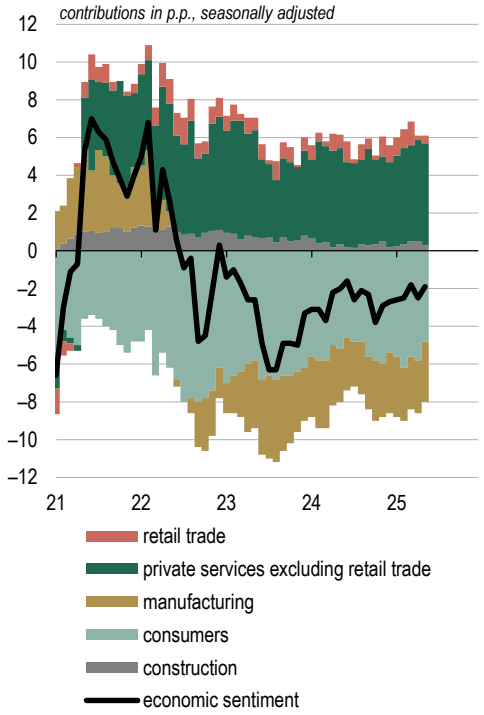
In May, the consumer confidence indicator hit its highest level since last summer, in the wake of less pessimistic assessments of financial and economic situation. This contributed 1.1 percentage points to the overall rise of 0.7 percentage points in the economic sentiment indicator (see Figure 1.2.2, left). At the same time, confidence in private-sector services other than retail remained high, with firms again assessing their current and expected demand positively in May. Retail confidence was down significantly on the first quarter. Retail firms reported weak sales, although this indicator is typically highly volatile.

Manufacturing confidence remains low and stable. The indicator has remained around -8.0 percentage points for almost two years now, and the total order books indicator is also low and stable (see Figure 1.2.2, right). The survey indicator of current output was slightly negative in May for the second consecutive month, worse than in February and March.[5] Construction confidence declined slightly in May, as firms raised their assessment of the amount of construction put in place, but also reported a slight decline in total order books, for the first time since January.

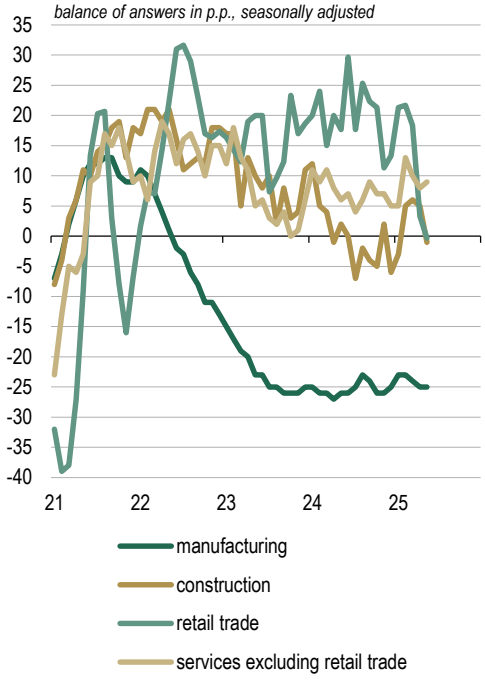
[5] The manufacturing PMI for May presents a more favourable picture: it was above the 50-point mark for the second consecutive month. According to the data of the Purchasing Association of Slovenia, firms reported growth in output, new orders and employment.

Figure 1.2.2: **Selected survey indicators**

Economic sentiment indicators



Current demand



Sources: SURS, Banka Slovenije calculations. Latest data: May 2025
Note: The retail confidence indicator in the right chart is illustrated as a three-month moving average.

Based on a modest set of short-term indicators, the nowcast for quarterly GDP growth in the second quarter currently averages 0.9% (see Figure 1.2.3, left). The forecast is mainly supported by April's rise in retail turnover and May's improvement in the economic sentiment.

The current account surplus in the first quarter narrowed in year-on-year terms, largely as a result of a decline in the merchandise trade surplus.

The current account recorded a surplus of EUR 446 million in the first quarter of this year, down EUR 230 million on the same period last year. With the terms of trade virtually unchanged, the merchandise trade surplus narrowed by EUR 134 million in year-on-year terms (see Figure 1.2.3, right). Nominal merchandise imports were up 2.9% in year-on-year terms, while exports were up 1.5%. In terms of the broad economic categories according to the SURS data,[6] the narrowing of the surplus was primarily attributable to a decline in exports of machinery and equipment (in particular exports of specialised machinery to Germany and road vehicles to France), and increased imports of non-monetary gold. The largest declines in the merchandise surplus in the first quarter were recorded vis-à-vis Germany[7] and Croatia,[8] while the largest increases were vis-à-vis Russia and Switzerland.

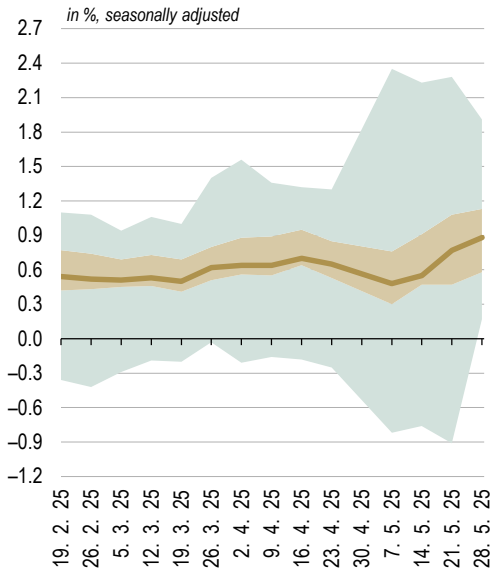
[6] Excludes exports of medical and pharmaceutical products and exports of organic chemical products to Switzerland, and imports of medical and pharmaceutical products from Switzerland and imports of organic chemical products from Switzerland, China and India.

[7] The 12-month merchandise trade balance with Germany moved from a long-standing surplus (since July 2011) into a deficit in November of last year. Merchandise trade with Germany was thus in surplus in the first quarter of last year, but in deficit in the first quarter of this year.

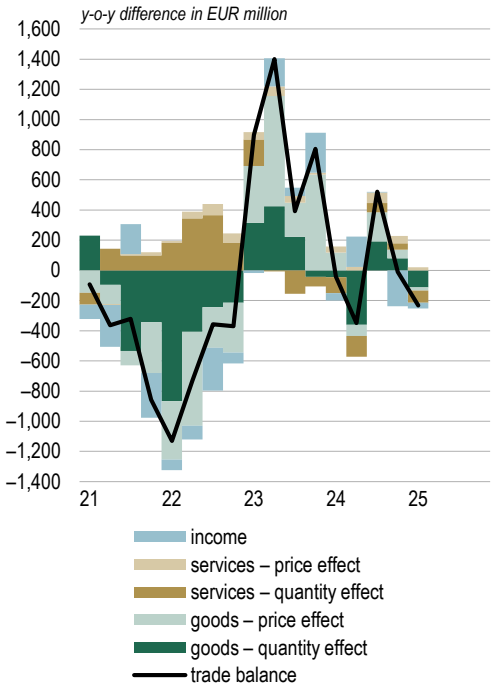
[8] The 12-month merchandise trade balance with Croatia peaked in January at EUR 2.1 billion.

Figure 1.2.3: **Nowcasts for GDP growth and current account**

Model estimates of quarterly GDP growth – Q2 2025



Price and quantity effect on current account balance dynamics



Sources: SURS, Banka Slovenije, Banka Slovenije estimates
Note: The effect of the terms of trade in the right chart is calculated as the difference between nominal and real trade on the basis of balance of payments figures and national accounts price indices.

The services trade surplus also narrowed in year-on-year terms, by EUR 60 million. Nominal services imports in the first quarter were up 10.2% in year-on-year terms, while exports were up 4.8%. The largest factors in the year-on-year narrowing of the surplus were a decline in exports of construction services, and an increase in imports of charges for the use of intellectual property. Transport services remained the most important factor in the services trade surplus of EUR 708 million, accounting for 60% of the total. At the same time the deficit in secondary income widened by EUR 80 million in year-on-year terms (largely as a result of a decline in inflows of other current transfers), while the deficit in primary income narrowed slightly.

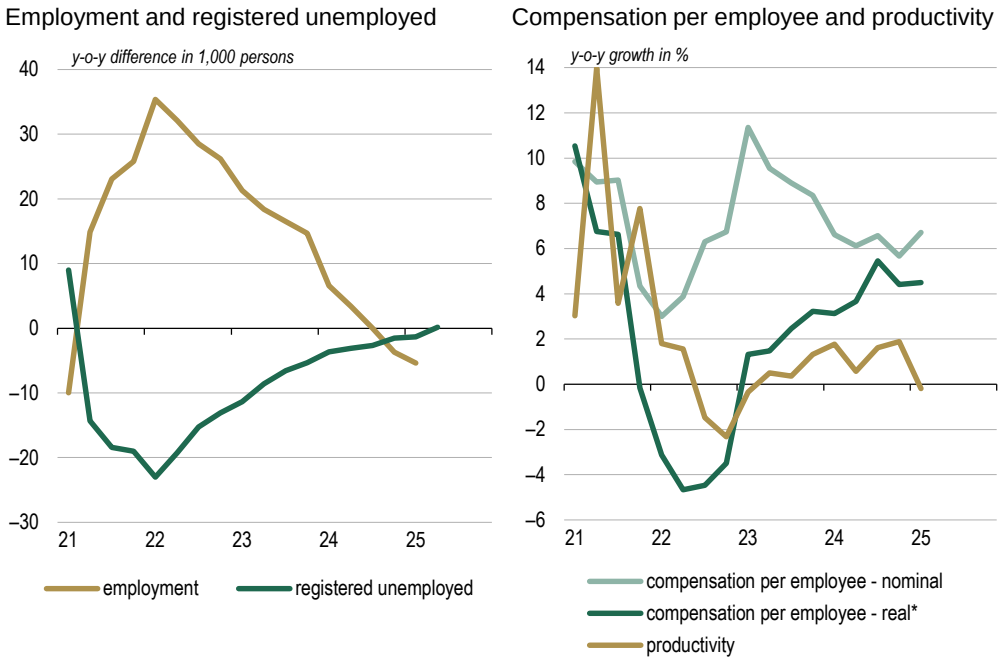
The 12-month current account balance stood at EUR 2.7 billion, down EUR 68 million on a year earlier. The largest factor was the services trade surplus of EUR 3.6 billion.

Demand for labour is slowing, but wage growth is particularly pronounced in the public sector.

The fall in employment continued in the first quarter: it stood at 1,091.5 thousand, down 0.5% on last year, but it nevertheless remains high. It is down 15.3 thousand or 1.4% on its record high in the final quarter of 2023 (see Figure 1.2.4, left). The year-on-year contraction was broadly based across sectors (in the private sector). The largest falls were seen in manufacturing, professional, scientific and technical activities, administrative and support service activities (which includes staffing agencies), and construction. Hiring is continuing in mostly public services. Further evidence of the reduced demand for labour comes from the vacancies data. The number of vacancies in the first quarter was down 9.1% in year-on-year terms, most notably in construction. The vacancy rate nevertheless remains high at 2.3% compared with its long-term average

(1.7%).[9] Registered unemployment in April was down 1.9% on the same month last year. The registered unemployment rate stood at 4.6% in March, close to its level of last year, while the surveyed unemployment rate stood at 4.0% in the first quarter, up 0.6 percentage points on a year earlier.

Figure 1.2.4: **Selected labour market indicators**



Sources: SURS, Employment Service, Banka Slovenije calculations. Latest data, left chart: employment: Q1 2025; registered unemployment: Q2 2025; right chart: Q1 2025
Note: The figure for registered unemployment in the left chart is compiled from the average over the three months of the quarter. Only the April data is available for the second quarter of 2025. * Real growth in compensation per employee in the right chart is calculated using the HICP deflator.

Wage growth as measured by compensation per employee stood at 6.7% in the first quarter, up 0.5 percentage points on last year's figure. The introduction of the new pay system meant that it was particularly pronounced in mostly public services, at 11.2%, while the year-on-year rate in the private sector is slowing and reached 5.4% (see Figure 1.2.4, right). Amid the fall in value-added, real wage growth at 4.5% deviated significantly from the developments in productivity, which was down 0.2% in year-on-year terms.[10]

Despite higher service price growth, headline inflation slowed in May.

Year-on-year inflation as measured by the HICP decelerated to 1.9% in May, down from 2.3% in April (see Figure 1.2.5, left). The moderation was driven by lower contributions from all categories other than service price inflation, whose year-on-year growth rate increased again. The price developments in May thus indicate persistent influence of growing labour costs, but also reflect the uncertain economic conditions, particularly in manufacturing. These are also reflected in energy prices, which were down 6.4% in year-on-year terms in May (compared with 4.4% in April), the larger decline being driven almost entirely by lower prices of refined petroleum products. These declined in

[9] The vacancy rate is the ratio of vacancies to the total number of jobs, i.e. vacant and occupied.
[10] The HICP deflator is used in the calculation of real wage growth, which may therefore deviate from the rates of growth cited in the decomposition of inflation, which uses the GDP deflator.

current terms for the third consecutive month, by more than 4% in May.[11] This was attributable to the fall in oil prices on global markets, which reflects the decline in demand – in the wake of the slowdown in the global economy caused by the uncertainty surrounding the introduction of tariffs – and an increase in output by Opec+ members.

Food price growth also slowed in May, to 4.9% (down from 5.4% in April), driven largely by prices of unprocessed food. The persistently high growth seen over the last 12 months was primarily attributable to current price rises, largely in reflection of the situation on global food commodity markets in the wake of numerous adverse weather events, the rising price of fertilisers, and the rise in livestock disease in Europe. Cost pressures on food prices are continuing to be reflected in robust growth in prices along production chains,[12] with retail firms also increasingly expressing their intention to raise prices.[13] Another indication of the change in circumstances with regard to food prices comes from growth in prices of food excluding beverages and tobacco, which excludes the impact of tax changes such as excise duties on tobacco products and the sweet beverage tax. In April the rate converged fully on overall food price inflation at 5.1% (see Figure 1.2.5, right).[14]

Core inflation excluding energy and food slowed to 2.3% in May, down from 2.5% in April. The slowdown was driven entirely by non-energy industrial goods (hereinafter: other goods), which in May were up 0.1% in year-on-year terms (compared with 1.0% in April). The sharp slowdown in price growth coincides with a decline in activity in manufacturing in connection with insufficient demand and low capacity utilisation, which are being reported by firms, and consequently with a build-up of inventories in the early part of the year before the imposition of tariffs by the US. The easing of cost pressures[15] is additionally being supported by the appreciation in the euro. According to the initial data for May, a major factor in the decline in year-on-year other goods inflation was the untypically large current fall in prices of clothing and footwear.

Service price inflation strengthened by contrast, to 4.2% (up from 3.8% in April), and continued to be driven in particular by catering services, where food prices account for a significant share of input costs. Services in the restaurants and hotels category, the majority of which are accounted for by catering services, were up 5.8% in year-on-year terms in May (compared with 4.8% in April).[16] Labour costs also play a significant role in services prices, and their real year-on-year growth rate strengthened to 3.7% in the first quarter of this year.[17]

[11] In May petrol prices were down 3.9% on the previous month, while diesel prices were down 4.6%. The estimate of a fall of more than 4% in prices of refined petroleum products derives from the expected developments in prices of heating oil.

[12] Year-on-year growth in producer prices of agricultural produce rose to 8.0% in March, while April saw year-on-year rises of 4.4% in import prices and 3.8% in producer prices. Prices of fertilisers in Slovenia, which were broadly unchanged between December 2023 and December 2024, rose by 11.7% between December of last year and March of this year.

[13] Retail comprises Sector G Wholesale and retail trade and repair of motor vehicles and motorcycles (45 and 47, excluding 46 Wholesale trade) according to the Standard Classification of Economic Activities (2008). Detailed information is available in the SURS Methodological Notes. The results are expressed in the form of balances representing the difference between the shares of positive and negative responses to questions about expectations of price rises over the next three months. The indicator is calculated as a three-month moving average of seasonally adjusted balances, and increased from 8 points to 23 points between January and May of this year. The figures for construction, manufacturing and services were mostly unchanged over the same period, and below 10 points.

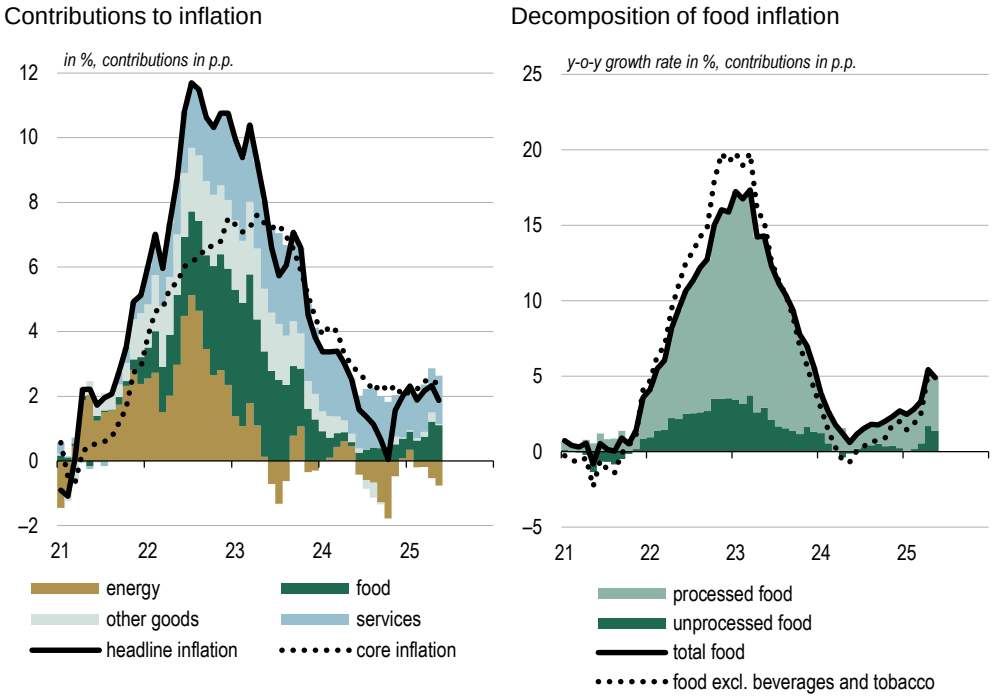
[14] The data for food excluding beverages and tobacco was not yet available at the time of the release of the consumer price index for May, but the expectation is that its year-on-year growth will be in line with food price inflation. In other words, the category of food and non-alcoholic beverages is expected to see a similar slowdown in May to that in food price inflation: the year-on-year rate stood at 5.5% in May, compared with 6.0% in April of last year. The higher rate compared with the category of food excluding beverages and tobacco is attributable to the higher VAT rate applied to sweet beverages (approximately 0.4 percentage points).

[15] Year-on-year growth in import prices of consumer goods excluding food was also negative in April of this year.

[16] Catering services (ECOICOP 11.1) account for 22% of all services, and 76% of services in the restaurants and hotels category (ECOICOP 11). When the data for the consumer price index for May was released, i.e. on 30 May 2025, the breakdown by sub-component and thus the rate of growth in prices of catering services were not yet available. The year-on-year rate of growth strengthened to 5.4% in April.

[17] Real growth in compensation per employee, taking account of the GDP deflator.

Figure 1.2.5: **Domestic price developments and decomposition of food price inflation**



Sources: SURS, Eurostat, Banka Slovenije calculations. Latest data: May 2025; food excluding beverages and tobacco: April 2025

The consolidated general government deficit widened as growth in revenues slowed.

The consolidated general government deficit over the first four months of the year amounted to EUR 288 million, EUR 234 million more than in the same period last year. There was a year-on-year improvement in the local government position, while the ZZZS and the state budget in particular saw deteriorations in their positions.

Consolidated general government revenues over the first four months of the year were up 5.3% in year-on-year terms, the rate of growth halving over this period. The slowdown in year-on-year growth in revenues was primarily a reflection of slower growth in tax revenues than in the same period last year. Corporate income tax revenues were down in year-on-year terms, as a result of smaller settlements for 2024 compared with last year's settlements for 2023, while excise duty revenues were also down. Amid low growth in VAT revenues and larger inflows of carbon tax (which was raised in September of last year), aggregate revenues from taxes on goods and services were up 3.1%. This is in line with the low growth in private consumption in the early part of the year. This year's adjustment in tax bands and allowances has reduced growth in personal income tax revenues. Last year's contribution to growth in revenues made by the transformation of voluntary supplementary health insurance into compulsory health contribution has partly been compensated by the temporary tax on banks assets for the purpose of financing post-flood reconstruction. Revenues from the EU budget were down in year-on-year terms, as a result of slower disbursements.

Consolidated general government expenditure over the first four months of the year was up 7.9% in year-on-year terms. Growth in expenditures on pensions (7.5%) and wages (7.1%) was slightly lower. January's wage payments saw the first step made in raising wages for public-sector employees within the framework of the new wage system. The gradual introduction of the reform to the wage system means that its overall impact is not yet fully evident, and there is also a high base effect in connection with

the payment of leave allowance (March last year, no later than May this year). Interest expenditure increased by more than a fifth. Investment expenditure and transfers increased slightly, while subsidies were close to their level of the previous year.

Box 1.2.1: **Corporate performance in 2024**

Net profit and headcount at corporations in 2024 were down on the previous year.[18]

Corporations last year disclosed net profits of EUR 6.5 billion and EBIT of EUR 7.5 billion, both down 2.6% on the previous year. This was the first decline since the pandemic year of 2020, and only the second since 2013 for net profit or since 2012 for EBIT (see Figure 1.2.1.1, left). A year-on-year decline in net profit was disclosed in more than half of the sectors, and was largest in electricity, gas, steam and air conditioning supply, while the highest growth in net profit was recorded by financial and insurance activities.

Total revenues were down for the second consecutive year (by 1.3%), with the 1.7% decline in net sales revenues attributable to the domestic market (1.5%) and foreign market (2.0%) alike. The latter was driven by a decline in sales revenues on the EU market, in confirmation of our earlier analysis that highlighted the significant impact of weak activity in the main trading partners on past export activity, and, to a lesser extent, changes in the structure of exports to key markets. In terms of market importance, last year's reduced demand for Slovenian products was particularly notable in Germany and Austria, although firms compensated by redirecting exports to other markets.[19]

Total expenses also declined for the second consecutive year (by 1.4%), with operating expenses in the form of costs of merchandise, material and services declining by 3.5%, but labour costs rising for the eleventh consecutive year, by 6.0% on this occasion. With EBIT declining more sharply than net sales revenue, the EBIT margin declined to 5.4%, but remained above its ten-year average (see Figure 1.2.1.2, right).[20]

Last year's headcount (measured on the basis of hours worked) was down 0.8% in year-on-year terms, the first fall since 2020 and only the second since 2013, but it nevertheless remains high (see Figure 1.2.1.1, left). The largest falls were seen in manufacturing, in administrative and support service activities, which includes employment activities, and in construction. In line with the developments in total headcount and total value-added,[21] which was up 3.7% in year-on-year terms, labour productivity at corporations increased by 4.7% last year, close to its average growth over the last ten years (see Figure 1.2.1.1, left).

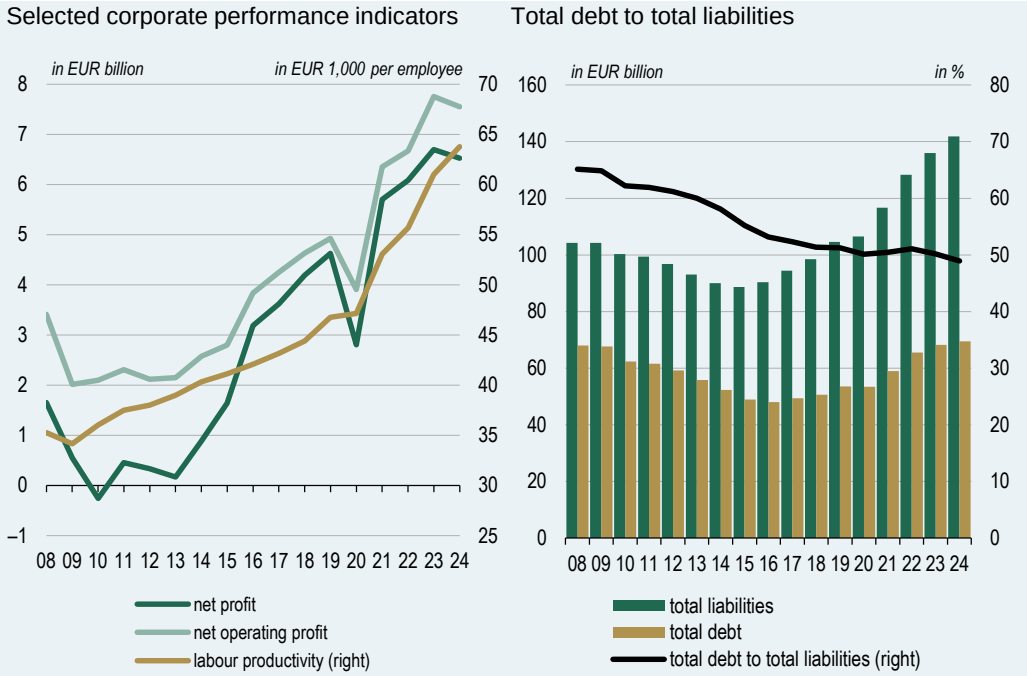
[18] The analysis covers Slovenian firms (all those belonging to the institutional sectors of non-financial corporations, general government, and financial corporations). The analysis was conducted on the basis of unaudited and unconsolidated AJPES data, and excludes all firms that fail to report any values in the year in question (all items in the balance sheet are zero). The year-on-year comparison is made on the basis of data submitted in annual reports for the previous year. The indicators are expressed as nominal values. More detailed analysis will be published in the Research publications section of the Banka Slovenije website.

[19] Detailed analysis is given in Box 5.1 of the October 2024 issue of the Review of macroeconomic developments and Box 5.1 of the March 2025 issue of the Review of macroeconomic developments.

[20] EBIT margin is defined as the ratio of EBIT to net sales revenue.

[21] Value-added is defined as gross operating profit minus costs of merchandise, materials and services and other operating expenses.

Figure 1.2.1.1: **Selected performance indicators and indebtedness**



Sources: AJPES, Banka Slovenije calculations
Note: In the left chart overall net profit is the difference between net profit and loss during the accounting period. Indebtedness in the right chart is defined as the ratio of total debt to total liabilities.

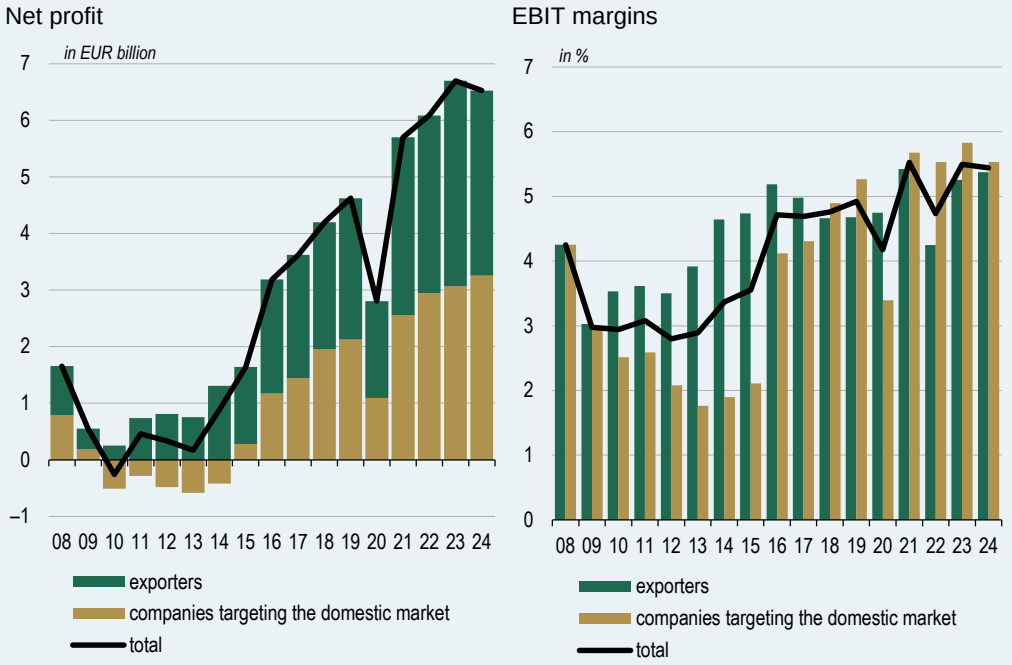
Corporations saw a decline in their debt-to-asset ratio for the second consecutive year, primarily as a result of the ongoing increase in equity.

With growth in equity (6.9%) outpacing growth in total debt (1.8%), indebtedness at firms measured as the ratio of debt to total liabilities declined to 49.0% last year, the lowest figure in the observation period since 2008 (see Figure 1.2.1.1, right).[22] Growth in total debt, which at EUR 69.5 billion last year was higher than before the global financial crisis, has slowed over the last two years. Last year saw a sharp increase of 26.8% in liabilities to undertakings in the group, while liabilities to banks declined by 8.1%. Corporations' total debt declined significantly between 2008 and 2017. The deleveraging from the perspective of banks lasted until 2020, and then resumed last year. Liabilities to banks are down more than a half on 2008. Liabilities to undertakings in the group by contrast have mostly risen over the observation period, and last year were up 187.3% on 2008.[23]

[22] The indebtedness is defined as the ratio of total debt to total liabilities.

[23] Slovenian firms' diminishing dependence on bank financing was also examined in Selected Theme 8.2 of the April 2025 issue of the Review of macroeconomic developments.

Figure 1.2.1.2: **Profit and margins**



Sources: AJPES, Banka Slovenije calculations
Note: In the left chart overall net profit is the difference between net profit and loss during the accounting period. The EBIT margin in the right chart is defined as the ratio of EBIT to net sales revenue.

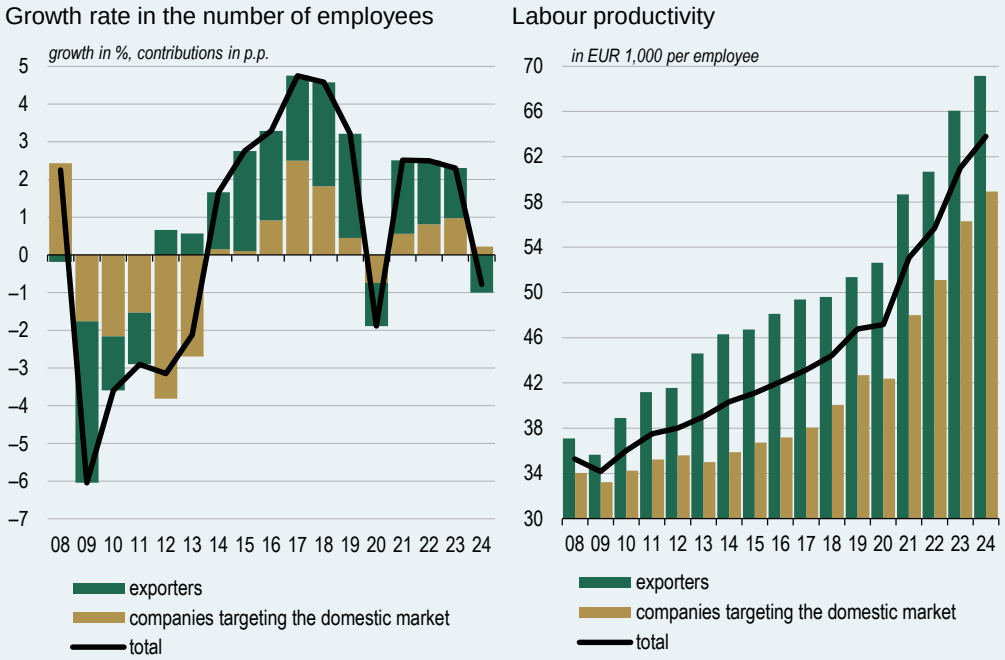
It was export-oriented firms that recorded weaker performance last year.[24]

Firms focusing on the domestic market saw their net profit rise by 6.2% last year to EUR 3.3 billion, while their EBIT margin declined to 5.5% (see Figure 1.2.1.2). The headcount at these firms rose by 0.4%, while their value-added was up 5.1%, which drove an increase of 4.7% in labour productivity (see Figure 1.2.1.3). Their indebtedness declined by 1.8 percentage points to 49.8%.

Export-oriented firms saw their net profit decline by 10.0% last year to EUR 3.3 billion (see Figure 1.2.1.2, left). Their net sales revenue declined on the domestic market and foreign markets alike, with sales on EU markets recording a notable decline. With the decline in net sales revenue outpacing the decline in EBIT, the EBIT margin increased slightly to 5.4% (see Figure 1.2.1.2, right). Following a 2.1% fall in headcount and a rise of 2.5% in value-added, their labour productivity increased by 4.7% to EUR 69,151 per employee, thus remaining well above the average at firms focusing on the domestic market (see Figure 1.2.1.3). Their indebtedness declined slightly to 47.8%.

[24] Export-oriented firms are those who generate more than 85% of their total sales revenues on foreign markets. Last year they accounted for just over a fifth of all firms.

Figure 1.2.1.3: **Growth in headcount and labour productivity**



Sources: AJPES, Banka Slovenije calculations
Note: Headcount in the left chart is measured on the basis of hours worked. Labour productivity in the right chart is defined as the ratio of gross value-added to headcount.

2 Projections

The increased uncertainty in global trade is already being reflected in short-term economic developments, and is having an impact on the medium-term outlook via a deterioration in the assumptions for the external environment. Employment will fall this year, and its growth will remain limited over the remainder of the projection horizon, leaving the expected rise in economic activity heavily dependent on growth in labour productivity. The latter will be also significant for development in inflation, which after rising temporarily this year is projected to gradually slow to its 2% target.

2.1 Economic activity

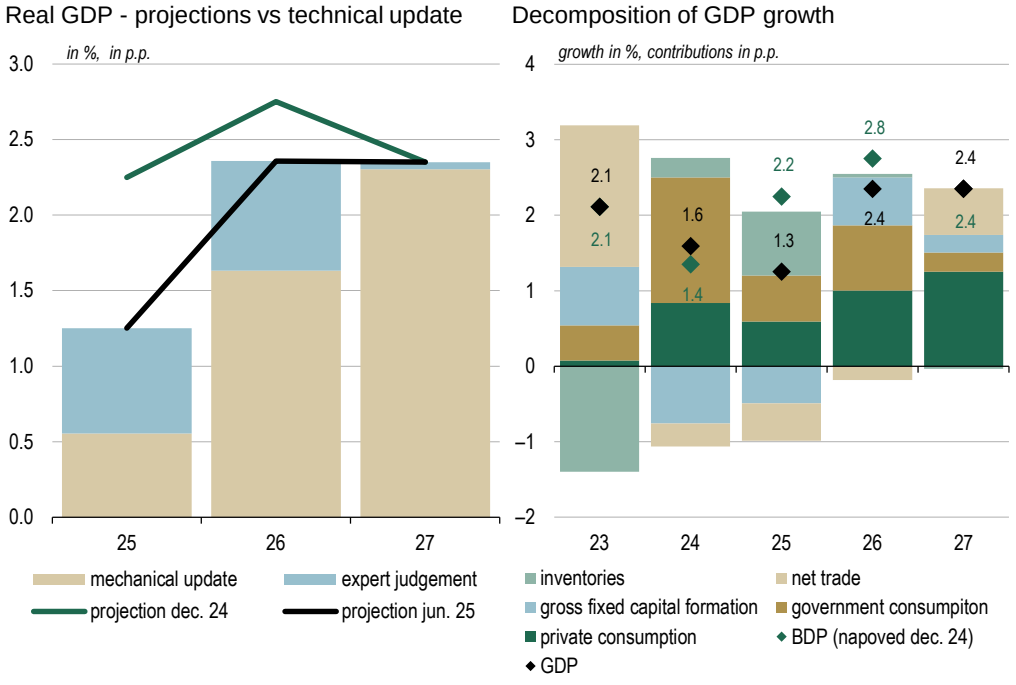
After reaching 1.6% last year, GDP growth is projected to moderate to 1.3% this year. Under the assumption of reduced uncertainty in the international environment and a stabilisation of the situation in global trade, growth will be higher again in 2026 and 2027 at 2.4%.

This year's subdued growth, projected to be the lowest since 2020, reflects the contraction in activity in the first quarter driven by the pronounced trade uncertainty in the wake of the announcement of tariffs by the US. Further evidence of this comes in particular from the sharp decline in private investment, and the rise in imports in connection with the precautionary build-up of inventories. Private consumption also remained subdued in the early part of the year, despite continuing growth in real disposable income.

In addition to the adverse short-term developments, the medium-term outlook surrounding the external environment is also worse than in the December projections. The greatest impact on the economic growth projections comes from the reduced growth in foreign demand, with the appreciation of the euro posing additional headwinds to expected export activity. The technical projection update, which relates to the model evaluation of the impact of data for the first quarter, and the revisions to the assumptions for the external environment relative to the December projections, shows GDP growth of less than 1% this, which in the final projection is balanced by a positive assessment (see Figure 2.1.1, left). This relates largely to the assessment of a temporary decline in activity in the first quarter owing to the uncertainty surrounding tariffs, which according to expectations should be partly compensated in the second half the year by increased quarterly GDP growth, but also to a lesser extent to statistical effects owing to anticipated adjustments of seasonal impact.

After slowing this year, economic growth will strengthen again over the remainder of the projection horizon, standing at 2.4% in 2026 and 2027. The main driver of GDP growth will remain private consumption, while in 2026 overall domestic consumption will also be significantly supported by government. The strengthened growth will also be based on a recovery in investment, private and government, which will be supported by the waning of uncertainty, improved financing conditions, and the utilisation of EU funds. The stabilisation of the situation in global trade and growth in Slovenia's trading partners is expected to also drive a gradual strengthening in export growth, with the contribution to growth by net trade turning positive again by the end of projection horizon (see Figure 2.1.1, right).

Figure 2.1.1: **GDP growth projection**

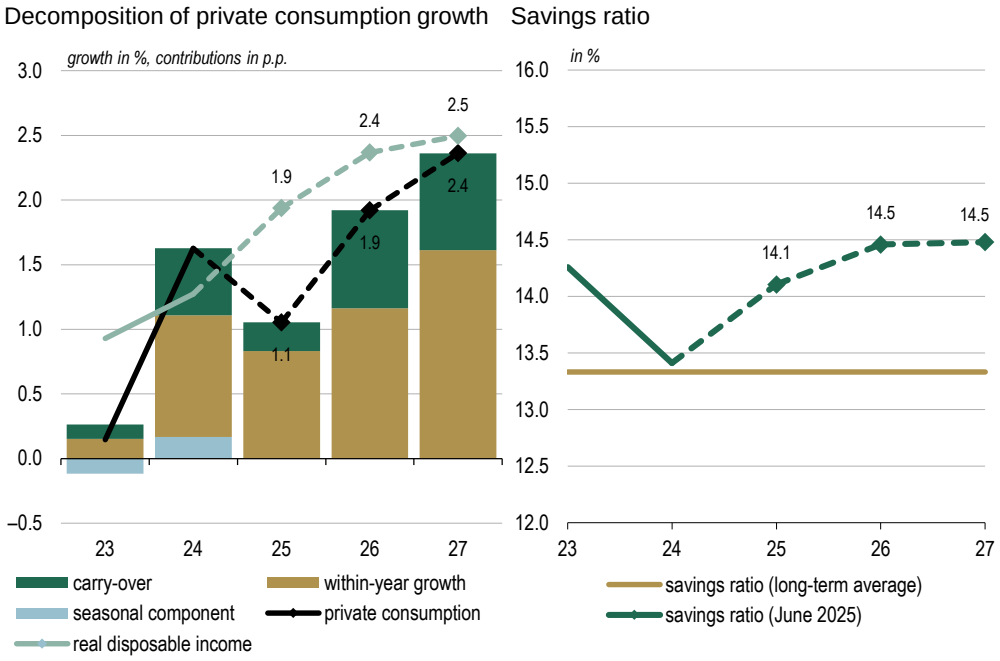


Sources: SURS, Banka Slovenije calculations and forecasts
Note: The gold columns in the left chart represent the technical update of to the December 2024 projection, which is based on the model evaluation of the impact of new data (national accounts figures for the first quarter of 2025), and the effect of revisions in the technical assumptions. The contributions denoted by the light blue columns relate to the expert judgment, which reflects the deviation of the final projection from the model-based technical update.

In the wake of increased consumer pessimism in the early part of the year, growth in private consumption growth will be relatively subdued this year at 1.1%. It will strengthen again to 1.9% in 2026 and 2.4% in 2027.

Consumer confidence remains stubbornly low, and it further deepened at the end of last year and in the early part of this year. According to the SURS data on business trends, it was primarily attributable to the uncertain economic outlook and a downturn in expectations regarding future employment status. This was reflected in private consumption, which has mostly been stagnating in current terms since the second half of 2024, despite the continuing real growth in household disposable income. The initial data for the second quarter shows an improvement in confidence, while the data on card payments also points to growth in private consumption. With real wages continuing to rise and employment gradually recovering, our expectation is that consumer pessimism will gradually wane, which will allow growth in private consumption to be more aligned with growth in disposable income (see Figure 2.1.2, left). The saving rate will nevertheless remain at elevated levels, on account of the precautionary saving and subdued consumption at the end of last year and in the early part of this year. It will average 14.3% between 2025 and 2027, approximately 1 percentage point above its long-term average (see Figure 2.1.2, right).

Figure 2.1.2:
Decomposition of growth in private consumption, and household saving rate



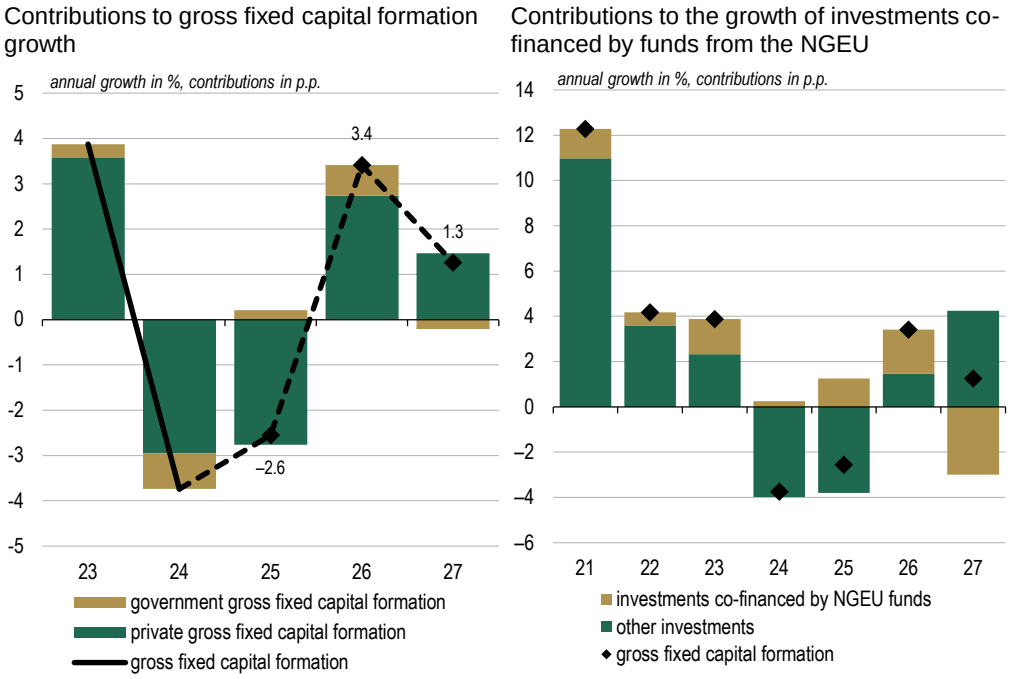
Sources: SURS, Banka Slovenije calculations and forecasts
Note: Real disposable income and the saving rate for 2024 in the left and right charts have been estimated using the Banka Slovenije projection model, as the SURS quarterly data on non-financial sectoral accounts is not available. The annual data for 2024 will be available at the end of September 2025. The long-term average in the right chart is calculated for the period of 1995 to 2019, and stands at 13.3%.

Private investment is expected to decline this year due to significant uncertainty surrounding economic policies and the geopolitical situation in the international environment. A gradual stabilisation of the situation is projected to support renewed growth over the remainder of the projection horizon.

The pronounced negative carry-over effect from 2024, stemming from a significant slowdown in investment activity in the second half of last year, and the significant decline in value-added in industry and construction in the first quarter of this year will be key contributors to the projected 3.7% decline in private investment in 2025. The subdued level of in investment in machinery and equipment by firms in the early part of this year reflects their cautious behaviour amid an unstable international environment, marked by pronounced uncertainty in the economic situation, particularly with regard to trade policies. This caution is also evident in an increase in imports of goods and services, largely driven by firms building up inventories. Despite a projected gradual improvement in economic sentiment in the second half of the year, downside risks to corporate investment activity remain elevated.

The projected 6.6% decline in housing investment in 2025 will be driven by a continued decline in the amount of construction put in place and the deterioration in value-added in construction from 2024. The absence of a recovery in the number of issued building permits and the volume of transactions in the residential real estate market during the first quarter of this year further dampen the outlook for this investment segment. These factors are exacerbating the persistent imbalance between supply and demand in the real estate market, contributing to continued growth in real estate prices.

Figure 2.1.3: **Breakdown of growth in gross fixed capital formation, and estimated impact of funding from the NGEU instrument**



Sources: SURS, Ministry of Finance, RRO, Banka Slovenije calculations and projections.
Note: Rounding errors mean that the sums of the components may differ from the aggregate values.

Private investment is expected to gradually recover in 2026 and 2027. Improved financing conditions will play a more prominent role compared to previous years, alongside the gradual stabilisation of the international environment, reflected in growth in foreign demand for Slovenia. However, toward the end of the projection horizon, the pace of

investment activity will be somewhat constrained by the conclusion of funding from the EU's recovery and resilience facility (NGEU) in 2026 (see Figure 2.1.3, right). Accordingly, private investment growth is projected at 3.6% in 2026 and 1.9% in 2027.

Box 2.1.1: **Impact of uncertainty on investment activity of Slovenian firms**

Of the various measures of uncertainty, the most pronounced adverse impact on the investment activity of Slovenian firms comes from economic policy uncertainty and macroeconomic uncertainty.

Uncertainty plays a significant role in economic decision-making, particularly in the planning of business investment. Increased uncertainty often leads firms to postpone or abandon investment projects, thereby dampening economic activity. However, because uncertainty cannot be measured directly, its precise impact on the economy is difficult to quantify. In recent years the literature has offered several indicators aimed at capturing various sources of global uncertainty.[25] This box estimates the empirical impact of uncertainty on business investment in Slovenia using four such indicators: economic policy uncertainty (EPU; Baker et al., 2016),[26] trade policy uncertainty (TPU; Caldara et al., 2020), geopolitical risk (GPR; Caldara & Iacoviello, 2022), and macroeconomic uncertainty (MU; Jurado et al., 2015). The first three indicators are derived from the frequency of selected keywords in media reports, while macroeconomic uncertainty is measured through the volatility of forecasting errors across a wide range of economic indicators.[27]

A set of Bayesian vector autoregression (BVAR) models is used to estimate the response of business investment in Slovenia to various global uncertainty shocks. Each model consists of two blocks, with block exogeneity applied between them (Cushman & Zha, 1997; Zha, 1999). Under this framework, a causal link flows only from the first block to the second, with no feedback effects in the opposite direction. The first block consists of a global model that includes foreign demand for Slovenia (measured by weighted real imports of goods and services from trading partners), the real price of Brent crude (deflated by global consumer prices) and one of the global uncertainty in-

[25] Cascaldi-Garcia et al. (2023) offer a comprehensive review of the literature on uncertainty measures.

[26] The box makes use of the following literature:
Cushman, D.O. and Zha, T. (1997). Identifying Monetary Policy in a Small Open Economy under Flexible Exchange Rates. *Journal of Monetary Economics, 39*(3), pp. 433-448.
Zha, T. (1999). Block Recursion and Structural Vector Autoregressions. *Journal of Econometrics, 90*(2), pp. 291-316.
Rubio-Ramírez, J.F., Waggoner, D.F. and Zha, T. (2010). Structural Vector Autoregressions: Theory of Identification and Algorithms for Inference. *Review of Economic Studies, 77*(2), pp. 665-696.
Jurado, K., Ludvigson, S.C. and Ng, S. (2015). Measuring Uncertainty. *American Economic Review, 105*(3), pp. 1177-1216.
Baker, S.R., Bloom, N. and Davis, S.J. (2016). Measuring Economic Policy Uncertainty. *Quarterly Journal of Economics, 131*(4), pp. 1593-1636.
Arias, J.E., Rubio-Ramírez, J.F. and Waggoner, D.F. (2018). Inference Based on Structural Vector Autoregressions Identified with Sign and Zero Restrictions: Theory and Applications. *Econometrica, 86*(2), pp. 685-720.
Caldara, D., Iacoviello, M., Molligo, P., Prestipino, A. and Raffo, A. (2020). The Economic Effects of Trade Policy Uncertainty. *Journal of Monetary Economics, 109*, pp. 38-59.
Caldara, D. and Iacoviello, M. (2022). Measuring Geopolitical Risk. *American Economic Review, 112*(4), pp. 1194-1225.
ECB (2022). ECB Bulletin. Issue 5/2022.
Cascaldi-Garcia, D., Sarisoy, C., Londono, J.M., Sun, B., Datta, D.D., Ferreira, T. and Rogers, J. (2023). What Is Certain about Uncertainty?. *Journal of Economic Literature, 61*(2), pp. 624-654.
ECB (2024). ECB Bulletin. Issue 8/2024.
Londono, J.M., Ma, S. and Wilson, B.A. (2025). Costs of Rising Uncertainty. *FEDS Notes April 24, 2025*.

[27] Detailed analysis of the economic policy uncertainty and macroeconomic uncertainty indices for Slovenia can be found in the April 2025 issue of the Review of macroeconomic developments.

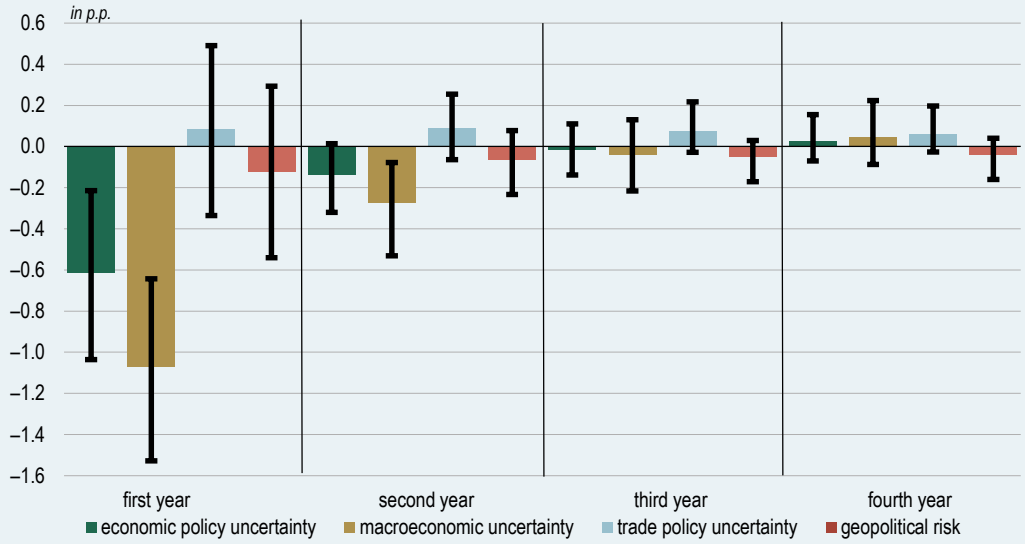
dicators. The second block focuses on Slovenia and incorporates global structural macroeconomic shocks (identified in the first block) as exogenous variables, while treating business investment, the investment deflator and interest rates on loans to non-financial corporations (including short-term and long-term interest rates) as endogenous variables.[28] In both blocks, relationships among endogenous variables are modelled using one lag. Macroeconomic shocks in the global models are identified using sign and zero restrictions, while the Slovenian models rely on sign restrictions only (Rubio-Ramírez et al. 2010; Arias et al., 2018).[29] The global models are estimated using data from the second quarter of 1997 to the final quarter of 2024, while the Slovenian models use data from the third quarter of 2003 to the final quarter of 2024.

The impulse response functions indicate that economic policy uncertainty and macroeconomic uncertainty shocks have a statistically significant negative impact on business investment growth in Slovenia over a one- to two-year horizon (see Figure 2.1.1.1). The strength and persistence of these effects vary due to the conceptual differences in the underlying indicators. Macroeconomic uncertainty typically increases during major economic crisis, when forecasting errors rise, which explains its stronger and longer-lasting impact on business investment. A key limitation of this indicator is its reliance on data that is infrequently updated. By contrast, the economic policy uncertainty reacts more quickly to events, as it is based on media reporting. Nevertheless, it may occasionally capture uncertainty that does not necessarily translate into an economic slowdown. The impacts of the trade policy uncertainty and geopolitical risk shocks are statistically insignificant over the entire four-year period. This is likely because the events captured by these indicators occurred infrequently during the observation period and, when they did, were not clearly correlated with business investment trends in Slovenia. For instance, the rise in trade uncertainty during Donald Trump's first term coincided with a cyclical upswing in business investment in Slovenia.

[28] Foreign demand for Slovenia, the real price of Brent crude, business investment and the investment deflator are expressed as year-on-year growth rates. By contrast, interest rates on loans to non-financial corporations and the global uncertainty indicators are included in levels, with the uncertainty indicators also being standardised. The economic policy uncertainty indicator is additionally detrended using a one-sided Hodrick-Prescott filter.

[29] The global models use the following sign and zero restrictions on impulse response functions in the first period to identify structural shocks: *foreign demand shock*: foreign demand (+), real oil price (+), global uncertainty measure (0); *oil price shock*: foreign demand (-), real oil price (+), global uncertainty measure (0); *global uncertainty shock*: foreign demand (-), global uncertainty measures (+).
In the Slovenian models the sign restrictions on impulse response functions in the first period are defined as: *investment-demand shock*: business investment (+), investment deflator (+), composite interest rate on loans (+); *cost-push shock*: business investment (-), investment deflator (+); *cost-of-credit shock*: business investment (-), investment deflator (-), composite interest rate on loans (+).
All sign restrictions used are standard in the literature. The zero restrictions applied to the global uncertainty indicators – where these are treated as non-responsive to other global shocks in the first period – are consistent with the logic of the Cholesky identification used in Jurado et al. (2015), Baker et al. (2016), Caldara et al. (2020), ECB (2022, 2024), Caldara & Iacoviello (2022), and Londono et al. (2025).

Figure 2.1.1.1: **The impact of various global uncertainty shocks on business investment growth over a four-year horizon**

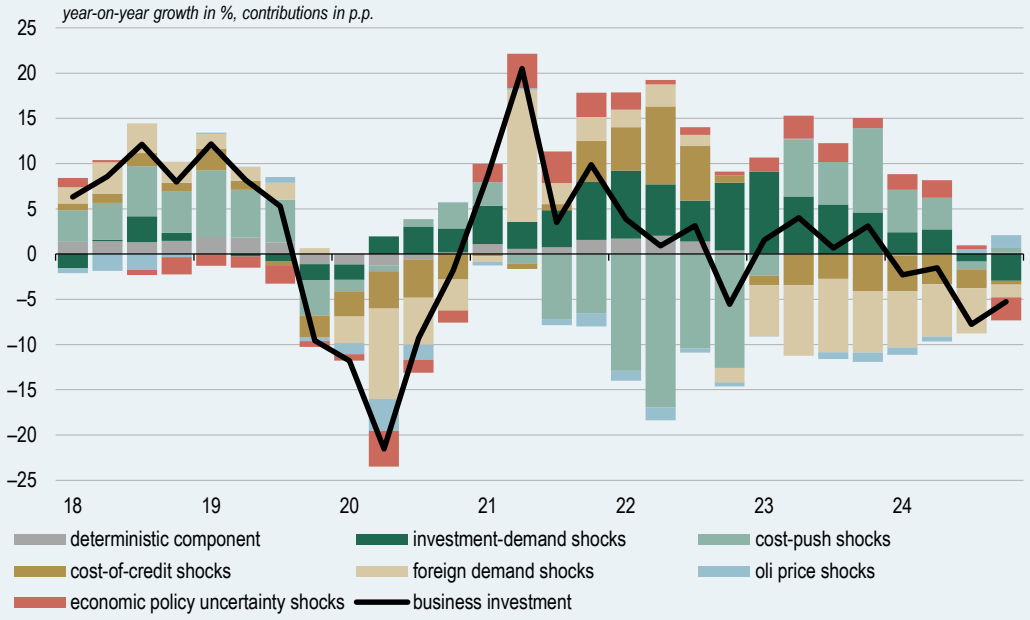


Sources: SURS, ECB, EPU, MU, TPU, GPR, Banka Slovenije estimates.
Note: The responses in business investment are shown for one standard deviation global uncertainty shocks, along with a 68% confidence interval derived from the Bayesian estimation.

The final step involves assessing the contribution of uncertainty shocks to past developments in business investment in Slovenia (see Figure 2.1.1.2). Given their empirically significant impact on investment activity and the availability of data, the decomposition is based on shocks identified from models that include the economic policy uncertainty indicator. Since 2018, four major periods have been identified in which rising uncertainty coincided with a decline in investment activity. The first period corresponds to the negative contributions by uncertainty at the time of the United States–China trade war in 2018, which disrupted global supply chains and trade flows as tariff measures were introduced. The second period is associated with the negative contributions by uncertainty during Covid-19 pandemic, which generated significant uncertainty around fiscal and monetary policies, while also imposing severe constraints on the supply side of the economy. The third period overlaps with the global energy crisis triggered by the war in Ukraine, which led to a sharp increase in energy prices and inflation. During this time, the positive effects of the post-pandemic recovery and the accompanying decline in uncertainty largely faded. The economic impact of the war was primarily reflected in negative contributions from cost-push and oil price shocks. The fourth period coincides with the re-election of Donald Trump as president of the United States, signalling a renewed shift toward protectionist trade policies. The resulting uncertainty surrounding global trade is clearly visible in the negative contribution to investment in the final quarter of last year. This adverse effect is expected to have intensified in the first quarter of this year, although business investment data for that period is not yet available.[30]

[30] More detailed analysis of the impact of uncertainty on the investment activity of Slovenian firms will follow soon in the Research publications section of the Banka Slovenije website.

Figure 2.1.1.2: **The contribution of economic policy uncertainty shocks to business investment growth**



Sources: SURS, ECB, EPU, Banka Slovenije estimates.

The government sector's positive contribution to economic growth will come mainly from consumption, but also to a lesser extent from investment next year.

Growth in government investment will mainly support economic activity in 2026, when disbursements from the NGEU programme come to an end and also under the impact of the elections, while the government contribution is expected to be approximately neutral in 2025 and 2027. In line with the government forecasts, loan disbursements from the NGEU programme are assumed to be lower than under the December projections. The volume of investment over the projection horizon will also be affected by the reconstruction following the floods of 2023, which is making slower progress than originally expected. Defence spending is rising by approximately 0.1% of GDP per year, as envisaged in the 2023 Resolution on the overall long-term programme for the development and equipping of the Slovenian Armed Forces until 2040.[31] There are risks that defence spending will be higher, but also in the form of dual use, which is evident from the new draft resolution from May of this year, which had not been passed by the projections cut off date. Government investment is projected to record real growth of 0.9% this year, and 2.7% in 2026, but is then expected to decline by 0.8% in 2027. This will primarily be attributable to the end of the NGEU programme in the previous year, which will most likely not be fully compensated for by increased disbursement under the current EU financial framework. Government investment will remain high as ratio to GDP, at slightly below 5%.

Government consumption will grow more slowly over the projection horizon than it did last year.[32] Its growth will average 2.7%. The implementation of rights in the area of long-term care will drive the growth this year, and next year in particular. Most notably these include the right to home care, which will be available to beneficiaries as of 1 July

[31] Resolution on the overall long-term programme for the development and equipping of the Slovenian Armed Forces until 2040.

[32] Last year's growth of 8.5% was largely attributable to the one-off effect of the transformation of voluntary supplementary health insurance into compulsory contribution.

2025, and the right to institutional care, which will be in place as of 1 December 2025.[33] The upward revision to growth in government consumption in 2025 reflects the assumption of the inclusion of Šoštanj Power Station in the government sector.[34] Growth in government consumption will also be driven by growth in employment, which is still projected to average approximately 1% annually. Similarly to investment, the end of the NGEU programme (2026) will also have an impact in slowing growth in government consumption at the end of the projection horizon. Nominal growth in government consumption will remain high under the impact of the wage agreement, which began implementation in 2025.

Box 2.1.2: **Projections of general government balance and debt**

Despite widening, the general government deficit will remain below 3% of GDP over the projection horizon. The ratio of general government debt to GDP will be approaching 60% and will be the same as before the pandemic this year.

The general government deficit will remain below 3% of GDP throughout the projection horizon (see Figure 2.1.2.1, left), but will be larger than last year. This year's widening of the deficit to 1.6% of GDP (up from 0.9% of GDP in 2024) is attributable to the introduction of the wage reform and to less favourable cyclical conditions, while other factors include the new winter supplement for pensioners and the assumed inclusion of Šoštanj Power Station in the general government sector.[35, 36] The following years are expected to bring a continuing rise on the ratio of expenditure on wages to public-sector employees to GDP, while in the event of the full enforcement of rights under long-term care, their impact on the fiscal position might also be less favourable than this year. The end of the EU recovery and resilience plan will bring an improvement to the position in 2027. The final withdrawal of measures to mitigate high energy prices is improving the general government position, particularly this year.[37]

[33] In addition, the right to e-care and the right to services to strengthen and maintain independence become available on 1 July, while the right to daily care with a social care provider and a cash benefit becomes available on 1 December. The new rights will be financed from a new long-term care contribution, which is introduced on 1 July 2025. Ensuring the staffing to provide services could be a challenge in the exercise of rights under long-term care.

[34] In accordance with the Temporary Financing of a Swift and Fair Withdrawal from Coal Act (Official Gazette of the Republic of Slovenia, No. 109/24), Šoštanj Power Station is providing heat for district heating in the Šaleška Valley as a public utility until alternative resources can be secured (i.e. between January 2025 and April 2027). The planned government compensation amounts to EUR 164 million this year, EUR 152 million in 2026 and EUR 87 million in 2027. General government revenues are also projected to increase, with dividends from HSE going to the state budget.

[35] The overhaul of the pay system in the public sector is projected to increase compensation of employees most this year. Wages for January 2025 marked the first step in the gradual wage rises, which are planned in six instalments. In January employees thus received 12% of the difference on the newly defined wage grade into which they have been assigned by the reform, but no less than EUR 100, with employees receiving the full difference if that was less than EUR 100. All public-sector employees were assigned to a wage grade at least equivalent to the minimum wage. Under an agreement, this year's leave allowance for public-sector employees exceeds the minimum wage by 5%. The next wage increase under the same conditions as those in January will be made on 1 October 2025. Wages in 2026 and 2027 will be affected by the next steps in the wage rises (ending January 2028), and the adjustment in line with consumer price inflation (by the difference above inflation of 1.8% in the previous year in 2026, and by the difference above inflation of 1.6% in the previous year in 2027). Other factors in this year's growth are the wage increase of 3.36% from June 2024, and the promotions made at the end of last year.

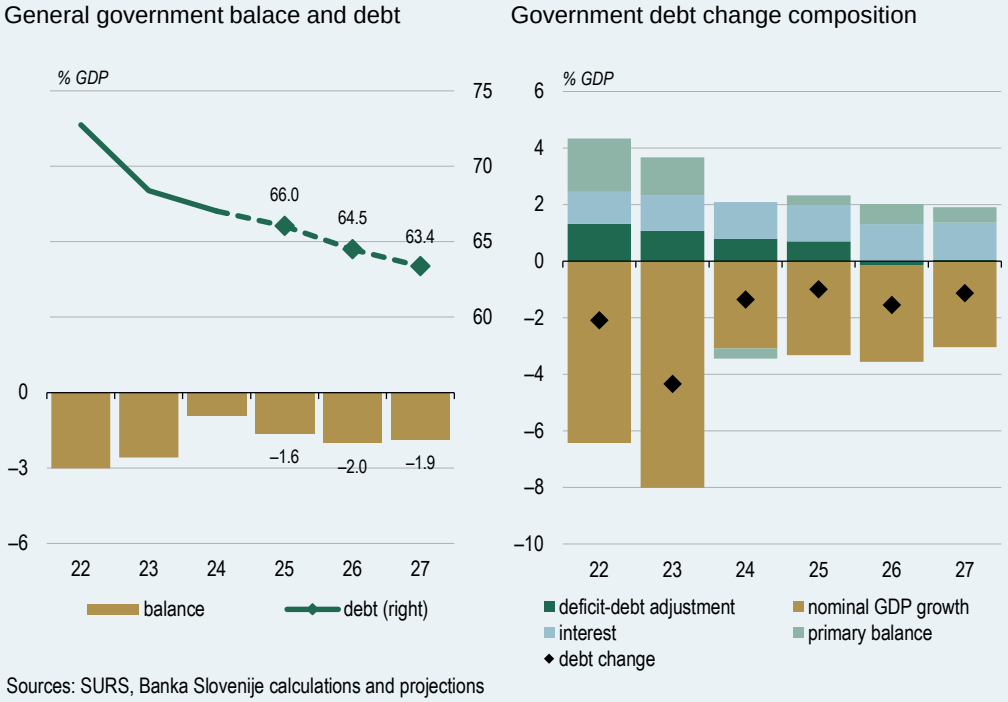
[36] The pension reform, part of which is the winter supplement, was approved by the government on 8 May 2025. The reform proposal was coordinated with the social partners. The greatest impact on expenditure over the projection horizon comes from the winter supplement, which beneficiaries should be entitled to receive for the first time this year, together with their November pension payments. Next year brings improvements in family, widow's and disability pensions, and a change in the formula for adjusting pensions, which over the period to 2030 will take account of wage growth and inflation in equal proportion (currently 60:40). The measures to gradually raise the retirement age set by law, to extend the period for calculating the pension basis and to raise the levying percentages begin to be changed from 2028 on. The reform improves the long-term sustainability of the pension system. The reform forms part of Slovenia's commitments under the NGEU programme. It is yet to be passed by the National Assembly.

[37] The measures to mitigate high energy prices were at 0.2% of GDP last year. Electricity prices for households continued to be regulated this year (between November 2024 and February 2025 price regulation applied to total consumption, hav-

Despite the deterioration in the economic situation, the general government deficit is projected to be smaller over the entire projection horizon than under the December projections. This is attributable to the considerably better outcome in 2024, which was mainly driven by higher revenue from corporate income tax, increased profit distributions by firms and lower expenditure on post-flood reconstruction than was projected in December. In contrast to the previous projections, the proposed pensions reform, the reclassification of Šoštanj Power Station, and the rise in excise duties on alcohol and alcoholic beverages from June 2025 are included. Account is also taken of the annual plan of asset management for 2025.[38] Among the major pressures on the public finances that have not yet been captured by the projections is the announcement of a faster rise in defence spending than the previously envisaged gradual rise to 2% of GDP by 2030, as there is considerable uncertainty in this regard. Our expectation is that government investment will be lower than the government forecasts, and is projected to average just under 5% of GDP over the projection horizon, still a large figure in historical terms. Compared with the previous five years, one-off measures in connection with the reconstruction after floods and with the rise in energy prices have a minor impact on the general government position, which does not differ significantly from the previous projections.

Economic growth will see the ratio of general government debt to GDP decline further, despite a primary deficit (see Figure 2.1.2.1, right). It is projected to stand at 66.0% this year, thus declining to its pre-pandemic level, and is then expected to decline further towards 60% of GDP. The impact of growth in nominal GDP in reducing the ratio of debt to GDP is diminishing, on account of the slowdown in economic growth compared with the post-pandemic period. There is a more significant impact this year from the adjustment in debt coming from the assumed inclusion of Šoštanj Power Station's debt.

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



Sources: SURS, Banka Slovenije calculations and projections

ing covered 90% of consumption for the first ten months of 2024), while households were exempted from paying the contribution for CHP and renewables until June 2025. The fees for electricity suppliers and the loss of the contribution for CHP and renewables are costed at approximately 0.05% of GDP according to the Borzen data.

[38] In it SDH estimates that it will receive EUR 464.1 million of dividends from capital investments owned by the state and managed by SDH and from the ZPIZ's investments. This is less than last year's figure of EUR 487.6 million, but significantly more than in previous years. SDH is forecasting dividends of EUR 442.1 million in 2026. The government approved the annual plan on 15 May 2025.

The projection for this year's general government deficit is lower than the government forecast in the annual progress report. In it the government is forecasting a deficit of 1.9% of GDP for this year, which it made under the assumption of a more favourable economic situation. The European Commission is also forecasting a smaller deficit this year than the government (1.3% of GDP), and is also forecasting growth in investment to be lower than in the government forecasts. The European Commission is the only institution with a downward deviation in this year's debt forecast (65.5% of GDP), while Banka Slovenije's projections are in line with the government's.

The public finance projections are exposed to various risks. Alongside the macroeconomic environment and the changes in global trade relations, the key risk relates to the increase in defence spending and the commitments within the Nato framework, which would be faster than those planned under the 2023 Resolution on the overall long-term programme for the development and equipping of the Slovenian Armed Forces until 2040.[39] Slovenia has requested the activation of a national escape clause from the fiscal rules between 2025 and 2028, which would apply to the annual rise in defence spending up to 1.5% of GDP relative to its level from 2021. Changes in the area of the labour market are also under preparation. They are one of the conditions for the disbursement of funds from the NGEU programme, where 49% of the available funding has so far been utilised, taking into account the proposed reduction in NGEU loans proposed by government in April of this year. Disbursements are being somewhat delayed, although the government has modified the national plan several times, and has adapted it to the ability to meet targets and reforms by August 2026. There are also uncertainties surrounding the pace of post-flood reconstruction, the implementation of the long-term care system, the implementation of investment, and payment of the planned dividends. The general government debt could be lower than projected if prefinancing is utilised.

Given the uncertainties in the international environment, which are being reflected in developments in foreign demand, international trade is expected to see slow growth this year.

Last year a number of adverse factors[40] from previous years gradually waned, which was reflected in a 3.2% rise in exports and a 3.9% rise in imports. Amid the pronounced uncertainty surrounding tariffs, the situation in the export sector again worsened this year. Real growth in exports decreased for 0.3% in the first quarter, which is lower than growth in foreign demand for Slovenia, indicating a loss of market share in foreign markets (see Figure 2.1.4, left).

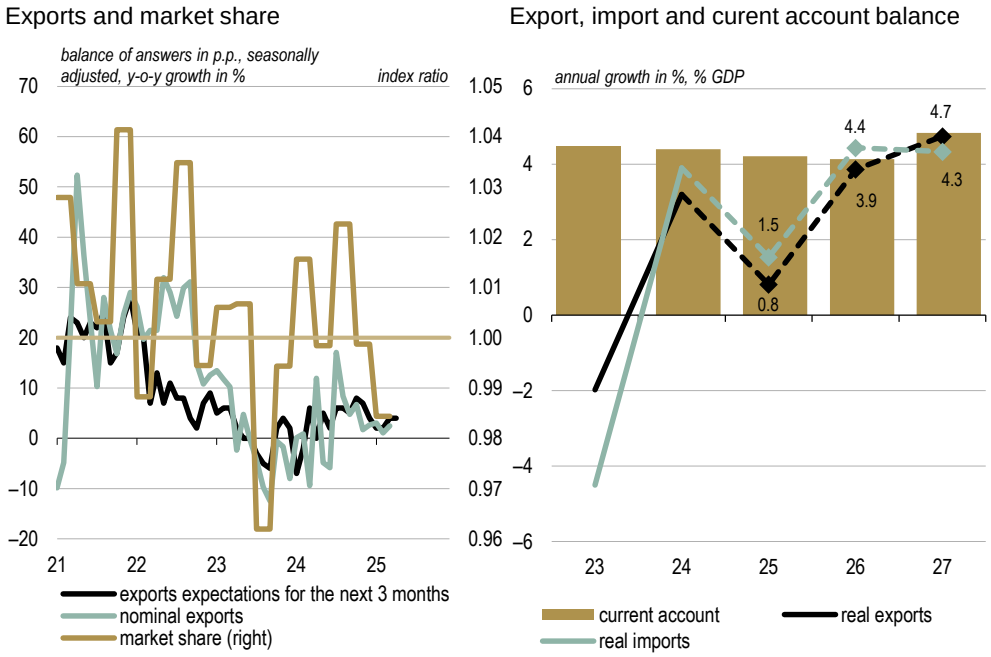
Over the following months we expect that the gradual fading of uncertainty and the anticipated stronger alignment with external demand trends will contribute to an export

[39] The resolution was passed in 2023, and stipulates that Slovenia will meet its target of defence spending of 2.0% of GDP by 2030. Slovenia is one of the countries that spends least on defence according to Nato estimates (see for example NATO - Topic: Defence expenditures and NATO's 2% guideline). Slovenia significantly underperformed its commitment to defence expenditure of 2.0% of GDP last year, spending EUR 905 million or 1.35% of GDP according to government estimates. On 8 May the government got acquainted with the draft new resolution on the overall long-term programme for the development and equipping of the Slovenian Armed Forces until 2040. This is based on the strengthening of broader societal security, the resilience of society as a whole, and Slovenia's defence capacity. A total of 2.0% of GDP is to be earmarked for this purpose this year. Defence spending is then to be raised by 0.2 GDP percentage points each year to reach 3.0% of GDP by 2030. It is then to remain at this level until the end of the development period. The government approved the draft resolution on 29 May 2025, after the projections cut off date. Nato members will decide on the targets regarding the rise in defence spending at their June summit in The Hague.

[40] The energy crisis, disruption to supply chains, and rises in commodity prices. For more, see Box 2.1.2 Impact of competition factors on market shares, and cost sensitivity of exports in the December 2024 issue of the Review of macroeconomic developments and projections.

recovery. This is supported by the expectations of firms, which improved slightly following a decline in the early part of the year (see Figure 2.1.4, left). Export growth will nevertheless stand at just 0.8% this year (see Figure 2.1.4, right), amid the moderate growth in foreign demand and the appreciation of the euro, which will further curtail the export activity of Slovenian firms this year. Amid slower growth in domestic demand components and weaker exports, this year's growth forecast for imports has been revised downwards to 1.5%.

Figure 2.1.4: **International trade and export expectations**



Sources: SURS, Banka Slovenije, ECB, Banka Slovenije calculations and projections.
Note: The evolution of market share in the left chart is expressed as the ratio of the real exports index to the foreign demand index, both with the third quarter of 2020 as the base. If the curve is above unity, exports are growing faster than foreign demand, which means market share is being gained, and vice-versa if the curve is below unity.

Under the assumption of a stabilisation of the situation in the external environment, a recovery in foreign demand and the expected developments in relative export prices, growth in international trade will strengthen next year. Export growth will rise to 3.9% the following year, slightly above its long-term average,[41] before strengthening again to 4.7% in 2027. On the import side the recovery in household consumption and the rise in investment activity will drive higher growth, which is projected to reach 4.4% in 2026 and 4.3% in 2027.

In the wake of these developments the contribution to GDP growth by net trade will be negative in 2025 and 2026, before strengthening as global demand recovers to reach 0.6 percentage points in 2027.

Compared with the December projections, the June economic growth projections for 2025 and 2026 are 0.9 percentage points and 0.4 percentage points lower respectively.

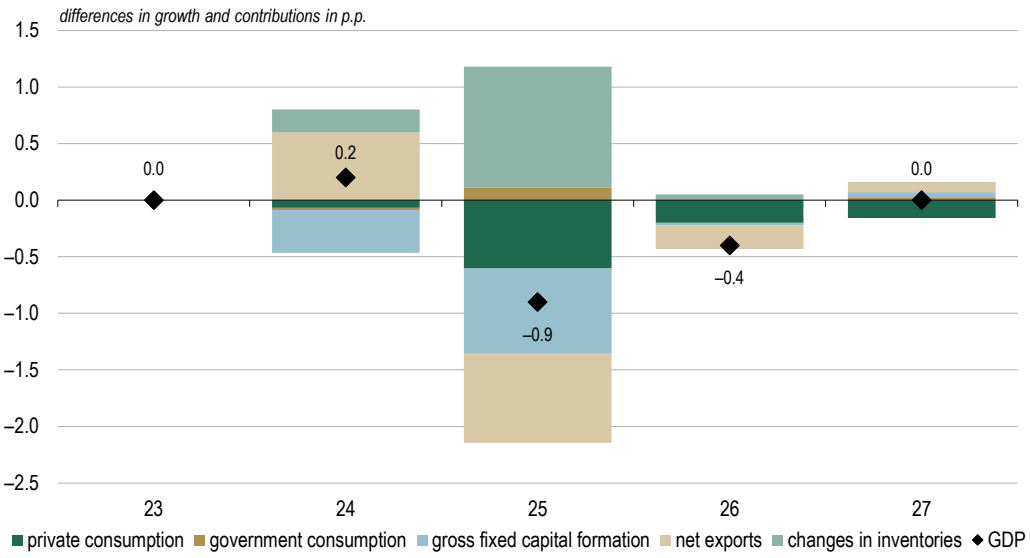
The revised projection for 2025 reflects the realisation of the downside risks regarding the external environment from the December projections. This is being reflected above

[41] Export growth averaged 3.6% between 2009 and 2024.

all in weaker-than-expected export and investment activity on the part of firms, which is reducing the growth projection for this year by approximately 1.5 percentage points (see Figure 2.1.5). Growth in private consumption will also be more subdued this year than previously projected: it is projected to be 1.3 percentage points lower, which accounts for an additional 0.6 percentage points of the downward revision in this year's GDP growth forecast. An even larger revision to the economic growth projection is being prevented by the positive contribution by inventories, which is forecast at approximately 1 percentage point this year, and is primarily attributable to higher imports of intermediate goods amid the uncertain situation in supply chains and the rising costs related to tariffs.

The uncertainty in the external environment is also expected to reduce growth in foreign demand next year, which in conjunction with the appreciation of the euro will lead to export growth in 2026 being lower than projected in the December projections. In line with the revised forecast for employment growth, growth in private consumption in 2026 will also be lower than in the previous projections. The 0.4 percentage points downward revision in GDP growth in 2026 is attributable to revisions to net trade and private consumption, while the adverse impact on gross investment from foreign demand was compensated for by the improved forecast for financing conditions. The economic growth projection for 2027 remains unchanged relative to the December projections.

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



Sources: SURS, Banka Slovenije calculations and forecasts
Note: Revised SURS data is illustrated for 2023 and 2024.

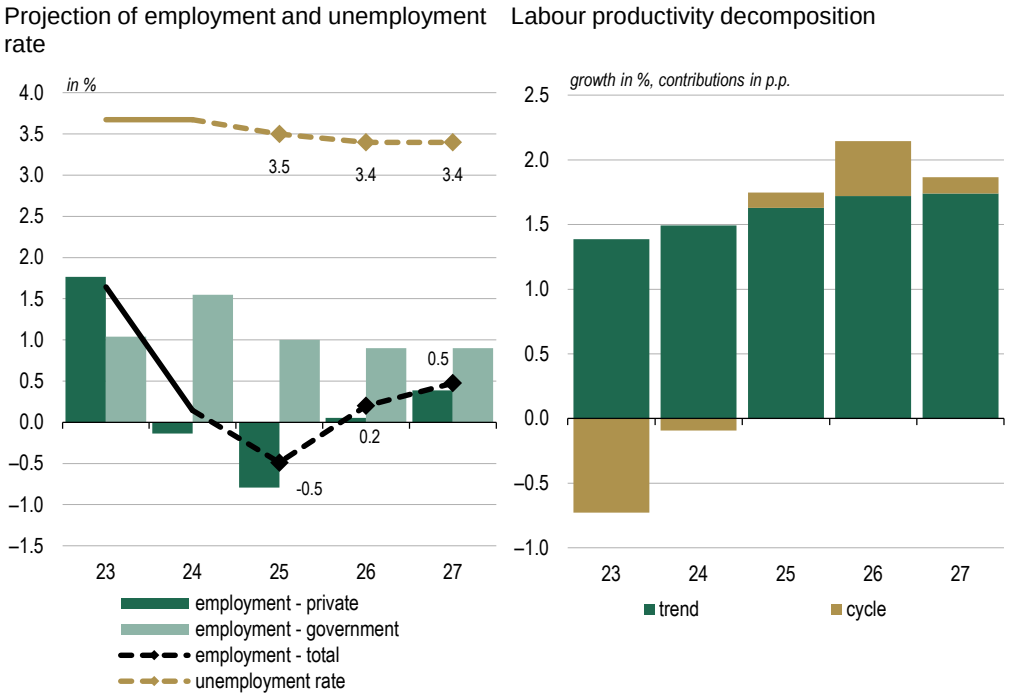
2.2 Labour market

Employment will fall this year, but will gradually recover over the remainder of the projection horizon as economic growth strengthens.

Employment is projected to fall by 0.5% this year, largely on account of a further deterioration in the labour market in the private sector. Employment in the private sector will fall for the second consecutive year, by 0.8% on this occasion. It will remain relatively stable in the government sector by contrast, with growth of 1.0%. In line with the anticipated recovery in economic activity, a gradual improvement in developments on the

labour market is projected for 2026. Employment growth will remain low at 0.2%, before approaching its long-term average (0.6%) towards the end of the projection horizon at 0.5% (see Figure 2.2.1, left). The relatively limited recovery is attributable to the ongoing deterioration in the demographic structure of the workforce in employment, which will also adversely affect the availability of labour in the future. The employment developments will thus be slower than would be expected in light of economic growth, which will be reflected in higher growth in labour productivity exceeding its average of recent years over the projection horizon. Another factor will be the waning of the adverse cyclical effects, labour hoarding in particular, that temporarily reduced productivity after the pandemic (see Figure 2.2.1, right).

Figure 2.2.1: **Labour market forecasts**



Sources: SURS, Banka Slovenije calculations and projections
Note: An HP filter is used in the decomposition of growth in labour productivity.

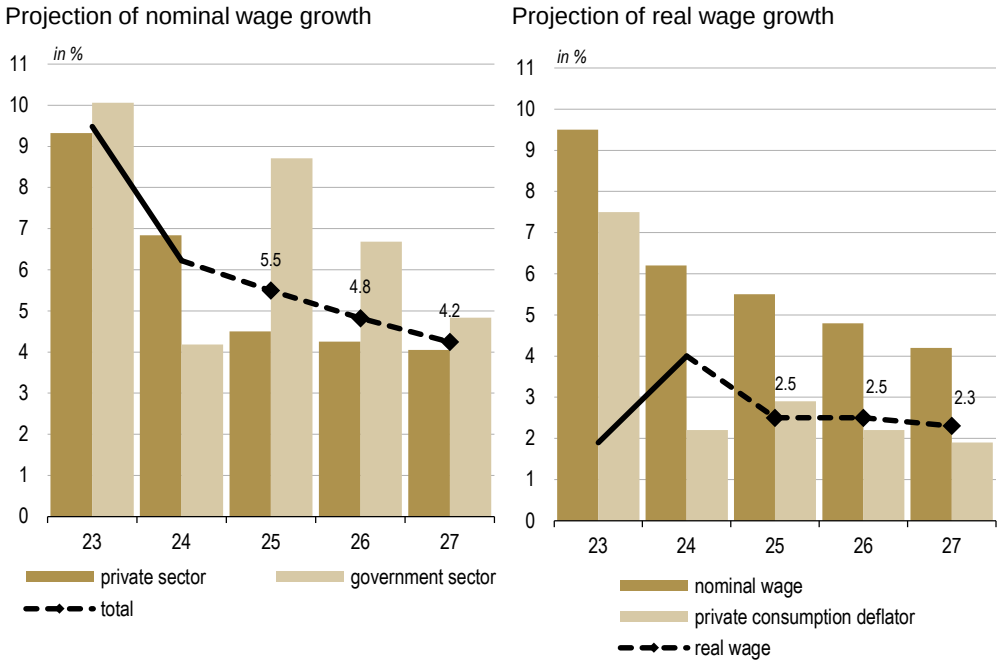
The surveyed unemployment rate will remain at historically low levels over the projection horizon.

The surveyed unemployment rate is projected at 3.5% in 2025. This year's fall in employment will thus have no major impact on the unemployment rate, with the decline in the number of employees mostly attributable to retirements, which are not reflected in the surveyed unemployment statistics. The unemployment rate is projected to fall slightly further by the end of the projection horizon, to 3.4%, in line with the recovery in economic activity. There is nevertheless no expectation of a larger fall in unemployment, as our forecasts suggest that the rise in employment in the future will continue to be driven by the hiring of foreign nationals, which generally does not contribute to a fall in domestic unemployment.

Wage growth will gradually slow, but will remain relatively robust, and will be higher in the government sector than in the private sector. Real wage growth will also remain positive, and will continue strengthening household purchasing power.

Wage growth is projected at 5.5% in 2025, down slightly on last year's rate of 6.2%.[42] Wage growth will be more driven this year by the government sector, where a rate of 8.7% is projected, compared with the more moderate rate of 4.6% in the private sector. This will bring a reversal compared with the developments in previous years, when growth in the private sector outpaced growth in the government sector, which will help to maintain balance between pay in the two sectors. Aggregate wage growth is expected to gradually slow over the remainder of the projection horizon. Despite a more pronounced slowdown in the government sector, wage growth there will remain higher than in the private sector throughout the projection horizon. It will be relatively stable in the private sector at 4.2% in 2026 and 4.0% in 2027, while the projections for the government sector are 6.7% in 2026 and 4.8% in 2027 (see Figure 2.2.2, left). While the high wage growth in the government sector will be attributable to the implementation of the pay reform, growth in the private sector will continue to be driven by the persistent tightness of the labour market and a structural shortage of qualified labour. The maintenance of relatively high wage growth will thus be made possible by the anticipated growth in productivity. Amid the gradual slowdown in inflation, real wage growth will also remain favourable: it will average more than 2.0% over the projection horizon, and will continue to support growth in household purchasing power (see Figure 2.2.2, right).[43]

Figure 2.2.2: **Wages**



Sources: SURS, Banka Slovenije calculations and projections

[42] Wage growth is measured by employee compensation per employee.

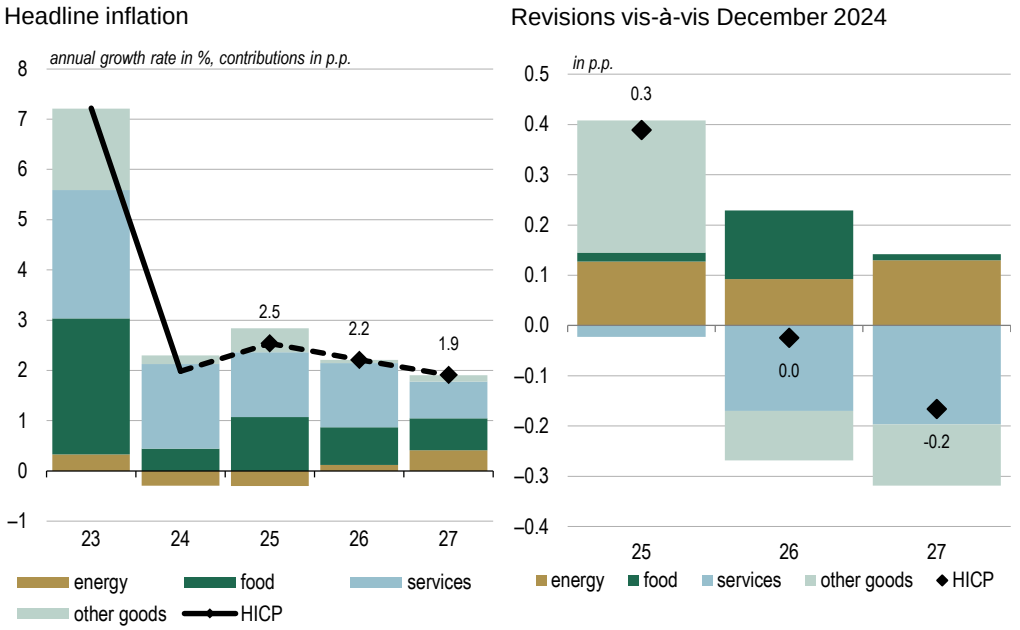
[43] The private consumption deflator is used in the forecasts of real wage growth.

2.3 Inflation

Inflation will temporarily strengthen this year, driven by an increased contribution by food price inflation, the continuing pass-through of higher labour costs, and administrative factors in energy prices.

While headline inflation as measured by the HICP stood at 2.0% last year, it slightly exceeded this level in the early part of 2025. The rise was driven mainly by movements in food prices, which are reflecting the situation on global food commodity markets, and also to a lesser extent by prices of other goods. Energy prices meanwhile prevented a larger increase in headline inflation. Their year-on-year decline was initially attributable to government measures to cap electricity prices, and then to the fall in oil prices on the wholesale markets. Headline inflation is expected to strengthen further over the remainder of the year, mainly as a result of a slowdown in the year-on-year decline in energy prices and higher other goods inflation. In both subcomponents the change in growth will mostly be attributable to a base effect, while certain administrative factors will also have an impact on energy prices. Food prices will record the highest inflation this year, and will thus be the main factor in headline inflation alongside services prices. Headline inflation is accordingly projected at 2.5% this year (see Figure 2.3.1, left), albeit with relatively large differences between the subcomponents (see Table 2.3.1).

Figure 2.3.1:
Decomposition of inflation projection and revision



Sources: SURS, Banka Slovenije calculations and projections.
Note: The revision to the HICP shows rounded values, which means that the sum of the components may differ from the total revision.

The slowdown in inflation over the next two years will be driven by slower growth in prices of food, services and other goods, while energy price growth will gradually strengthen.

Headline inflation will moderate over the next two years to 2.2% in 2026 and then to 1.9% in 2027. Alongside food price inflation, the main factor in 2026 will be service price inflation, driven by the pass-through of higher labour costs into final services prices, while the renewed positive contribution from energy prices will also act to raise inflation. Inflation will decline below 2% in 2027, largely as a result of the slowdown in service price inflation as labour costs growth gradually moderates. A more pronounced decline in headline inflation will be prevented by higher year-on-year energy price inflation as emissions trading begins under the ETS 2. Under the assumption of stable supply chain environment, prices of other goods will make a limited contribution to headline inflation in 2026 and 2027 (see Figure 2.3.1, left).

Headline inflation in Slovenia is projected to be 0.5 percentage points and 0.6 percentage points higher than in the euro area in 2025 and 2026, respectively,[44] on account of higher food price inflation this year, and energy price inflation next year. Domestic headline inflation will be 0.1 percentage points lower than in the euro area in 2027, as a result of lower core inflation in Slovenia.

Table 2.3.1: **Inflation projections**

					2025		2026		2027	
	2021	2022	2023	2024	Jun	Δ	Jun	Δ	Jun	Δ
	annual growth, %									
Consumer prices (HICP)	2.0	9.3	7.2	2.0	**2.5**	0.3	**2.2**	0.0	**1.9**	-0.2
food	0.7	10.6	11.8	1.9	**4.7**	0.1	**3.0**	0.5	**2.6**	0.0
energy	11.3	24.8	2.2	-2.3	**-2.6**	1.3	**1.1**	0.7	**3.5**	1.1
other goods	1.3	6.3	5.4	0.6	**1.6**	1.0	**0.2**	-0.3	**0.4**	-0.4
services	0.6	5.5	7.7	4.8	**3.6**	-0.1	**3.3**	-0.5	**1.9**	-0.6
Core inflation indicators (HICP)										
excluding energy and food	0.9	5.9	6.7	2.9	**2.7**	0.3	**2.1**	-0.4	**1.3**	-0.5
excluding energy and unprocessed food	1.0	6.8	7.8	2.7	**3.1**	0.4	**2.3**	-0.2	**1.6**	-0.3
excluding energy	0.8	7.1	8.0	2.6	**3.2**	0.2	**2.4**	-0.1	**1.7**	-0.3

Sources: SURS, Eurostat, Banka Slovenije projections.
Note: Δ: difference between current projections and projections given in the December 2024 issue of the Review of macroeconomic developments and projections.

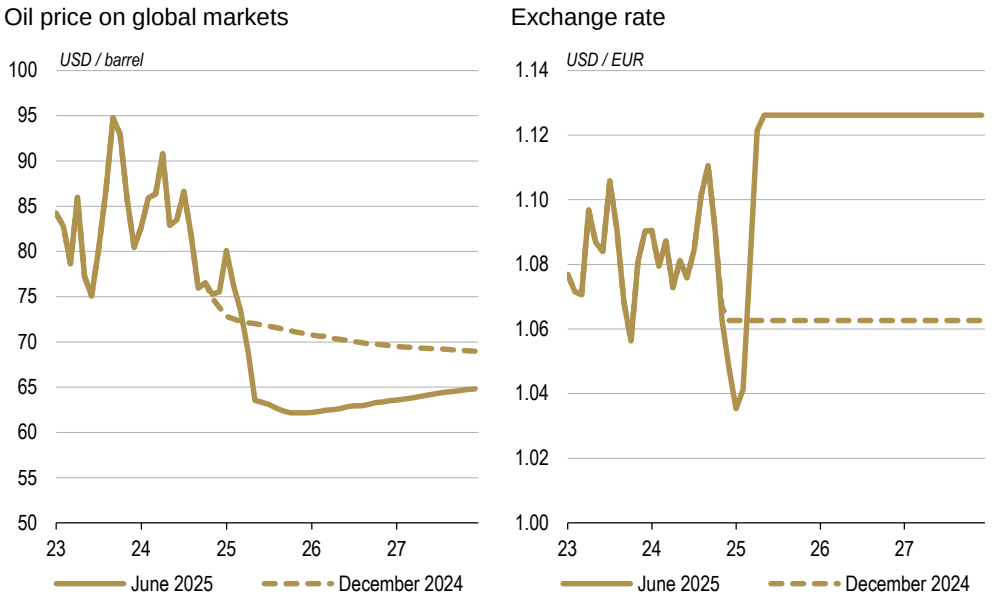
In addition to regulatory measures, energy prices will also be affected by the projected decline in prices on wholesale markets, which is being additionally strengthened by the appreciation of the euro.

While the year-on-year fall in energy prices averaged 2.3% in 2024 amid great volatility, they have continued to fall this year, and will be down 2.6% on an annual basis. The decline will primarily be attributable to a fall in wholesale energy prices, oil in particular

[44] A detailed description of the inflation forecasts in the euro area drawn up by the ECB can be found on this link.

(see Figure 2.3.2, left), which is being deepened by the appreciation the euro (see Figure 2.3.2, right).[45] In addition to motor fuels, the year-on-year decline in energy prices will also be driven by solid fuels, primarily via a base effect, as their prices have mostly declined over the last two years and are expected to stabilise in the future. Year-on-year energy price inflation will thus be relatively volatile over the course of the year, which will to a considerable extent reflect the impact of the government measures on electricity prices. In January and February of this year, the growth was held down by the cap on supplier prices and the cut in the tariff rate for the first network block, while March to September will also see a negative base effect from the introduction of the new approach to billing network charges. An inflationary effect by contrast will come from the resumption of payments of the contribution for CHP and renewables in July of this year,[46] while the final part of the year will see a positive base effect in connection with the cap on supplier prices moving into the high season for billing network charges in November 2024. The energy price inflation projection is also accompanied by the risk of regulatory changes: growth might deviate from the projection if the electricity network charge is adjusted and the cap on the level of motor fuel retailers' profit margins, which expires in June, is lifted.

Figure 2.3.2: **Wholesale oil prices and euro exchange rate assumptions**



Sources: ECB.

Energy prices are projected to increase over the next two years. More precisely, the energy price inflation is projected at 1.1% in 2026 and 3.5% in 2027. The positive growth in 2026 is attributable to a base effect in connection with this year's government measures, although inflation will continue to be curbed by prices of motor fuels, particularly in the first half of the year. The uptick in inflation in 2027 will primarily be attributable to the beginning of emissions trading under the ETS 2, which in our assessment will mainly be reflected in higher prices of motor fuels.

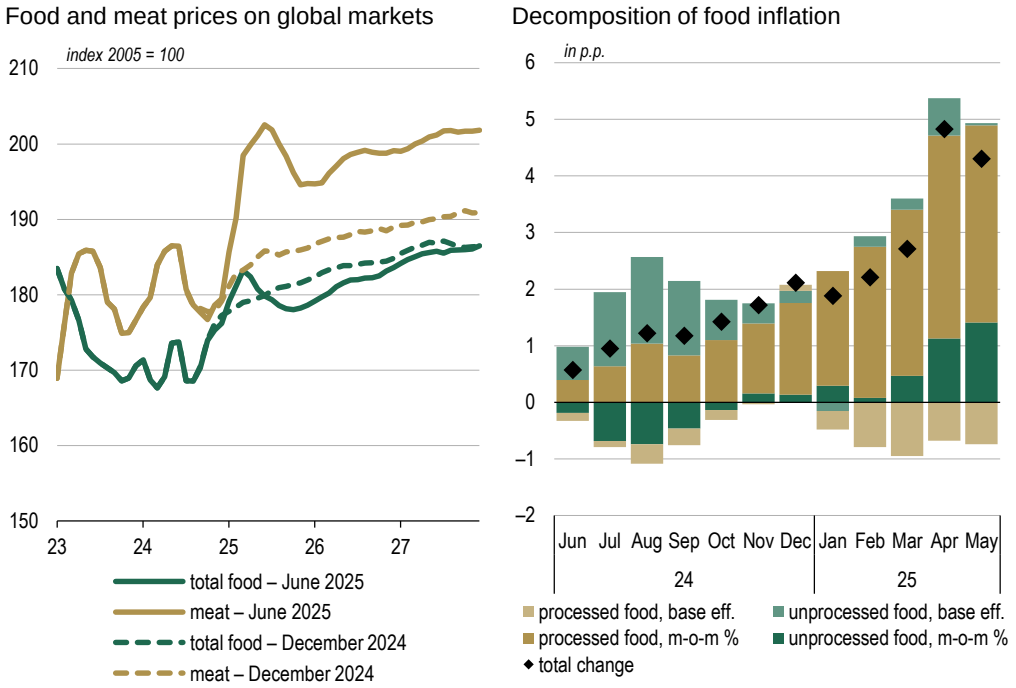
[45] The impact on inflation from the euro's appreciation against the US dollar is analysed in detail in Box 2.3.1.

[46] The exemption from payment of the contribution for CHP and renewables has been in force since 1 November 2023, and is set to expire on 30 June 2025 according to government announcements.

The contribution of food prices to headline inflation will temporarily strengthen as prices of food commodities rise, before gradually diminishing.

Food price inflation slowed to 1.9% last year as the effects of past shocks dissipated, but will strengthen again this year to reach 4.7%. The rise will be attributable primarily to current price increases, which have been present since August of last year and mainly reflect developments on wholesale food commodity markets (see Figure 2.3.3, left), but also in part the pass-through of higher labour costs into final prices and the dissipation of a base effect that was helping to reduce price growth in the previous year. According to our estimates, the rise in the VAT rate on sweet beverages from the beginning of the year is projected to add 0.4 percentage points to annual food price inflation, while an additional 0.2 percentage points is projected to come from the rise in excise duties on tobacco products and alcoholic beverages, which entered into force in June. Year-on-year food price inflation, which stabilised at 4.9% in May, has risen by 4.3 percentage points over the last 12 months (see Figure 2.3.3, right). The expectation for the remainder of the year is that food price inflation will initially slow only modestly and will remain at elevated levels until the beginning of next year, before then moderating faster, as a result of the impact of tax changes dropping out of the calculation, the projected stabilisation of the situation on food commodity markets, and a base effect from the persistence of current price rises this year. Food price inflation is projected at 3.0% in 2026, and 2.6% in 2027. The moderation will be broad-based and will be driven by processed and unprocessed food prices.

Figure 2.3.3: **Food price assumptions and decomposition of food price inflation**



Sources: SURS, ECB, Eurostat, Banka Slovenije calculations.
Note: The right chart illustrates cumulative sums of the change in year-on-year food price inflation from May 2024. The change in year-on-year inflation is illustrated as the difference between current monthly growth and monthly growth in the same month of the previous year. Because this is an approximation, the sums of the contributions may differ from the actual change in year-on-year food price inflation. The base effect is defined as negative monthly growth in the same period last year, and is not adjusted for the long-term average, seasonal effects or the estimated trend.

Core inflation will mainly be driven by services prices, and its moderation will be based on a gradual slowdown in labour cost growth.

Core inflation as measured by the HICP excluding energy and food will decline to 2.7% this year, down from 2.9% last year (see Figure 2.3.4, left). It had accelerated in the first four months of this year, before falling slightly in May to 2.3%. The expectation over the remainder of the year is that it will approach 3%, largely due to slightly faster growth of other goods prices, which mostly derives from base effects. It will then gradually slow to 2.1% in 2026 and 1.3% in 2027.

Core inflation will mainly be driven by services prices throughout the projection horizon. Service price inflation itself will be driven mainly by the pass-through of rising labour costs into final prices, which will be particularly pronounced in public services, and will in part reflect the impact of the wage reform in the public sector. From 4.8% last year, service price inflation will slow to 3.6% this year and 3.3% next year, and then to 1.9% in 2027. Alongside cost factors, the persistence of relatively high service price inflation is also attributable to a recovery in growth in private consumption, which will allow profit margins to be maintained or even to recover slightly this year and next year.

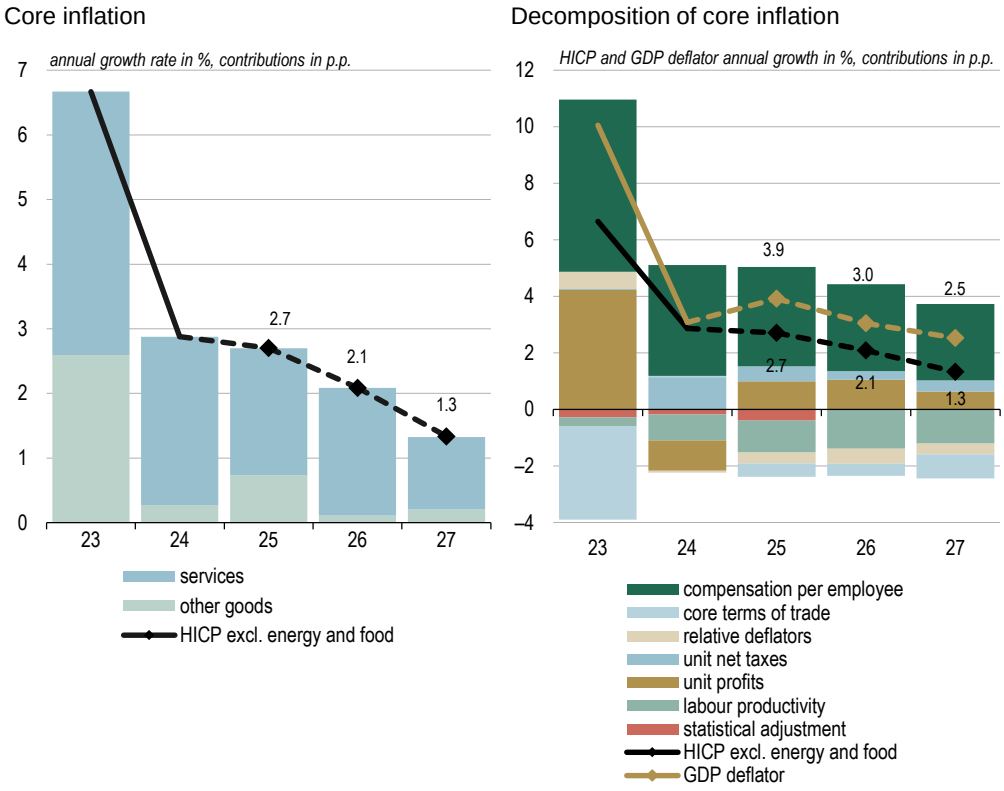
Other goods inflation by contrast will be considerably lower than service price inflation over the projection horizon. From 0.6% last year it will strengthen to 1.6% this year, driven largely by base effects such as the unusually large discounts in prices of clothing and footwear in August of last year. In the wake of the anticipated further stabilisation of production chains and a slowdown in growth in import prices, in part as a result of the appreciation of the euro, other goods inflation will slow further over the next two years to 0.2% and 0.4%. The projections for the 2025 to 2027 horizon are thus broadly in line with the long-term average (0.9% between 2000 and 2019).

Core inflation over the projection horizon will mostly be driven by growth in compensation per employee, which has an impact on service price inflation in particular, the most wage-intensive inflation subcomponent. This will be accompanied by a renewed positive contribution from unit profits (see Figure 2.3.4, right). Conversely core inflation will be curtailed mainly by the recovery in labour productivity growth,[47] but will be lower than the rise in the GDP deflator on account of improved terms of trade, which reflect higher growth in export prices than import prices, and the impact of relative deflators, particularly on account of higher deflators for government consumption than for private consumption. The pass-through of labour costs into consumer prices of services and industrial goods is analysed in two steps. The first step is insight into the pass-through of these costs into domestic prices as measured by the GDP deflator, which is then further adjusted for methodological differences between the deflator and core inflation.[48]

[47] The inflation scenario in the event of lower productivity is presented in Section 3.2.

[48] While the GDP deflator measures changes in prices of all goods and services produced in the domestic economy and sold at home or abroad, core inflation measures growth in prices of services and non-energy industrial goods purchased by consumers in the economy, whether produced at home or abroad. The GDP deflator thus does not include changes in prices of imported goods, while core inflation does not capture changes in prices of exported goods. The methodology of the impact on core inflation from growth in labour costs follows Box 8 in the June 2020 issue of the Macroeconomic Projections for Slovenia.

Figure 2.3.4:
Decomposition of core inflation



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

The increase in the headline inflation projection for this year is mainly attributable to energy and other goods inflation, which outpaced the expectations from December, while the downward revision over the remainder of the projection horizon is attributable to the lower growth projection for compensation per employee and the appreciation of the euro.

The current inflation projection for this year is 0.3 percentage points higher than in December, primarily on account of energy price inflation and other goods inflation, which have mostly surprised on the upside since the December projections were released (see Figure 2.3.1, right). The upward revision to energy price inflation still reflects the pricing of the main suppliers of electricity, gas and heat, and developments in prices on the Slovenian electricity exchange. This more than outweighs the changes in energy prices on global markets, where oil prices in particular have declined (significantly) since December (see Figure 2.3.2, left).

The inflation projection for next year remains unchanged from the December projections. The upward revision to food price inflation, largely in connection with the higher assumption for growth in wholesale prices of meat, and energy, which is attributable to a base effect caused by this year's government measures and regulatory changes in the electricity sector, was offset by the downward revision to components of core inflation. These also account for the 0.2 percentage point downward revision of the inflation projection for 2027. The downward revision in the projection for other goods inflation is primarily attributable to the appreciation of the euro and the weaker economic activity in 2025 and 2026, while the reduction in service price inflation is attributable mainly to revisions to the growth projection for compensation per employee (see Figure 2.3.1, right) and to a lesser extent to the more pronounced seasonal patterns in package holidays evident in the post-pandemic period.

Box 2.3.1: **Impact of the appreciation of the euro on price developments**

The appreciation of the euro is expected to moderate inflation over the projection horizon.

In this box, we analyse the impact of the euro's appreciation against the US dollar on inflation in Slovenia. Given the range of model estimates of exchange rate pass-through into final prices, euro appreciation poses a downside risk to inflation in the current projections.

The euro has appreciated strongly in recent months. Hence, the level of the euro-dollar exchange rate assumed over the projection horizon 2025–2027 is approximately 5.4% higher than in the December projection (Figure 2.3.1.1, left).

The appreciation of the euro creates deflationary pressures both indirectly via lower prices of intermediate goods and directly via lower prices of imported consumer goods. At the same time, exchange rate appreciation reinforces deflationary pressures through expenditure switching, as it increases imports and slows down economic activity due to lower competitiveness of domestic products (Colavecchio and Rubene, 2020).[49]

Two key conclusions have emerged in the literature in connection with exchange rate pass-through. First, pass-through is not complete, as a 1% appreciation of the currency leads to less than a 1% decline in prices. Second, the intensity of the pass-through diminishes along the production chain. This implies that exchange rate changes have a stronger impact on import prices than on final consumer goods prices (Gaggl, 2009). At the same time, exchange rate pass-through is also non-linear, as its magnitude depends on the size of the exchange rate change (Colavecchio and Rubene, 2020).

Exchange rate pass-through into final prices is incomplete, and diminishes along the production chain.

Banka Slovenije's main inflation projection model, which is based on the error-correction method, also considers, among other things, exchange rate movements. Based on the external assumptions[50] considered in the preparation of the June projections, we estimated the impact of the exchange rate change on the level of consumer prices. In the first year after a 1% appreciation of the euro against the dollar, the price level as measured by the HICP declines by 0.03% on average, and by 0.06% after three years (see Table 2.3.1.1, ARCI column). In terms of the subcomponents, the pass-through is most pronounced for energy and other goods prices.

[49] The following literature is referenced in this box:
Colavecchio, R. and Rubene, I. (2020). Non-Linear Exchange Rate Pass-Through to Euro Area Inflation: A Local Projection Approach. ECB Working Paper No. 2362.
Comunale, M. and Kunovac, D. (2017). Exchange Rate Pass-Through in the Euro Area. ECB Working Paper No. 2003.
Damjanović, M. (2023). Slovene Quarterly Macroeconomic Model: Overview and Properties. Banka Slovenije.
Forbes, K., Hjortsoe, I. and Nenova, T. (2017). Shocks versus Structure: Explaining Differences in Exchange Rate Pass-Through Across Countries and Time. External MPC Unit Discussion Paper.
Gaggl, P. (2009). The Role of Exchange Rate Movements for Prices in the Euro Area. Monetary Policy & the Economy, p. 83.
Ortega, E. and Osbat, C. (Eds.) (2020). Exchange Rate Pass-Through in the Euro Area and EU Countries. ECB Occasional Paper No. 241.

[50] The external assumptions are described in detail in Section 1.1.

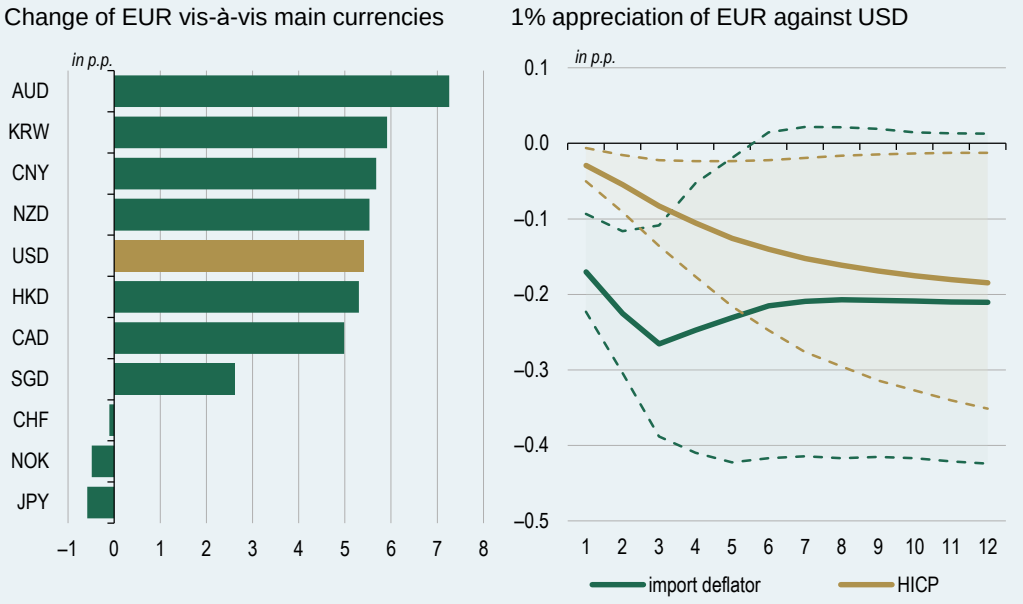
Since the impact of euro appreciation on consumer prices in our inflation projection model is lower than the estimates of pass-through intensity in the euro area (Ortega et al., 2020),[51] we have produced two alternative estimates. Specifically, we compared the exchange rate pass-through with the elasticity of the Banka Slovenije's main projection model (Damjanović, 2023) and a recursively identified[52] VAR model with two lags. The latter includes variables in the following order: oil prices, the euro-dollar exchange rate, the import deflator, real GDP, price level as measured by the HICP, and the short-term interest rate.

The latter enters the model as a percentage, while the other variables enter as log changes. The model is estimated for the period from the fourth quarter of 1996 to the fourth quarter of 2024. The impulse responses show that an unexpected exchange rate appreciation has a more pronounced impact on import prices than on consumer prices (Figure 2.3.1.1.1, right), which is consistent with the existing literature (see footnote 49).

The comparison of estimates of the elasticity of consumer prices to changes in the exchange rate under various models follows Comunale and Kunovac (2017), Forbes et al. (2017) and Ortega et al. (2020). Elasticity was defined quantitatively as the ratio between the cumulative change in the HICP ($IRF_j(\Delta p_t^z)$) and the cumulative impulse response in the exchange rate to an unexpected exchange rate appreciation ($IRF_j(\Delta s_t^z)$):

$$PERR_{j,h}^{z} = \frac{\sum_{t=1}^{h} IRF_j(\Delta p_t^z)}{\sum_{t=1}^{h} IRF_j(\Delta s_t^z)} = \frac{IRF_j(p_t^z)}{IRF_j(s_t^z)}$$

Figure 2.3.1.1: **Change in the euro against major currencies, and the impulse response of the import deflator and the HICP to the unexpected 1% appreciation of the euro against the dollar**



Sources: ECB, SURS, Banka Slovenije calculations
Note: The left chart illustrates the percentage difference between the average assumed exchange rate levels over the projection horizon (2025 to 2027) in current projections versus the December projections. AUD signifies the Australian dollar, KRW the South Korean won, CNY the Chinese yuan, NZD the New Zealand dollar, USD the US dollar, HKD the Hong Kong dollar, CAD the Canadian dollar, SGD the Singapore dollar, CHF the Swiss franc, NOK the Norwegian krone and JPY the Japanese yen. The right chart illustrates the cumulative impulse responses from the estimated structural vector autoregression model, which illustrate the impact of an unexpected 1% appreciation in the euro exchange rate against the US dollar on the level of the import deflator and consumer prices as measured by the HICP over a period of three years. The dashed line represents the 90% confidence interval.

[51] Ortega et al. (2020) present a detailed overview of estimates of the impact of changes in the exchange rate on import prices and consumer prices in the euro area.

[52] The formulation of the identification scheme follows Gaggl (2009).

The impact of the euro appreciation constitutes a downside risk to the inflation projection, as the elasticity of the main inflation projection model is lower than the estimates of comparable models.

The alternative estimates of the impact of exchange rate appreciation on the price level in Slovenia are similar to those in Banka Slovenije's main inflation projection model in the first year after the shock, but more pronounced in the following years. More precisely, the empirical estimates of the structural VAR model suggest a pass-through of 5% after one year, and 13% after three years (see Table 2.3.1.1, SVAR column). Similarly, Banka Slovenije's main macroeconomic model (see Table 2.3.1.1, column SiQM) envisages that 4% of the exchange rate appreciation is passed through to consumer prices after one year and 10% after three years. Given the range of estimates, the pass-through effect to final consumer prices could be underestimated in the current projections, which poses a risk of lower-than-projected inflation over the 2025–2027 period.

Table 2.3.1.1: **Estimates of exchange rate pass-through into final consumer prices**

time after shock	ARCI	SVAR	SiQM
first year	-0.03	-0.05	-0.04
second year	-0.05	-0.11	-0.07
third year	-0.06	-0.13	-0.10

Sources: Banka Slovenije estimates
Note: The table illustrates estimates of the exchange rate pass-through to final prices, calculated as the ratio of the cumulative change in the HICP index to the cumulative change in the exchange rate after an unexpected exchange rate appreciation averaged over the year. The ARCI column illustrates the estimates of Banka Slovenije's main inflation projection model, the SVAR column the estimates of the empirical structural VAR model, and the SiQM column the estimates of Banka Slovenije's main macroeconomic model (Damjanović, 2023).

3 Risks and Uncertainties

Risks to economic growth remain tilted to the downside over the entire projection horizon, whereas risks to inflation are more broadly balanced.

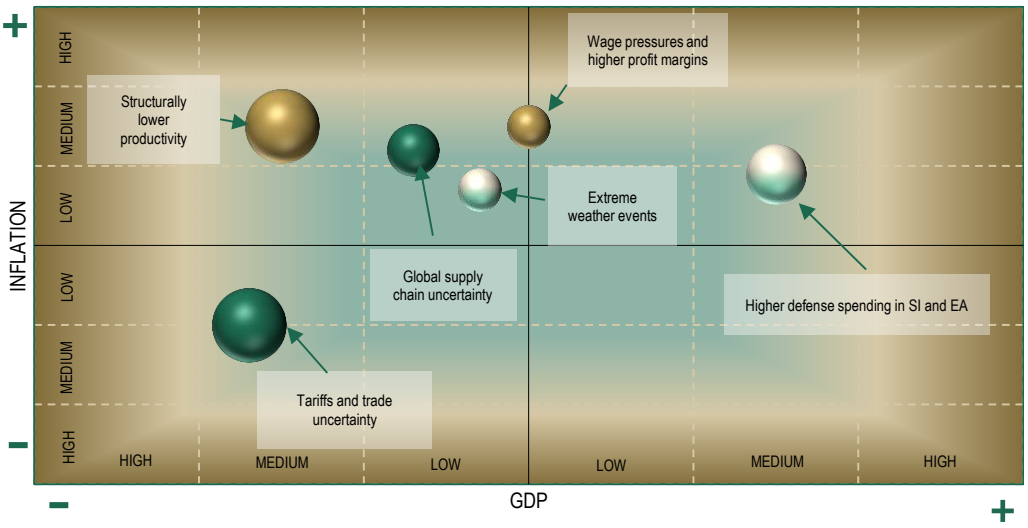
The main risk to economic growth remains the pronounced uncertainty associated with the situation in global trade. This relates primarily to the potential for further rises in tariffs after the end of the 90-day moratorium, which envisages a freeze in the 10% tariffs on US imports of goods from the EU between April and July 2025. The uncertainty surrounding trade policy and the economic outlook is also reflected in increased volatility on the financial markets. In the domestic environment, the risks primarily relate to adverse structural trends, which are increasingly having an impact on cyclical economic developments. Over the projection horizon, this primarily relates to a potential for structurally lower growth in labour productivity. The latter could deviate from its long-term trend on account of sluggish investment growth in the past, and adverse demographic trends. Conversely, GDP growth could exceed the baseline projections in the event of higher government defence spending in Slovenia and at EU level.

The adverse situation in international trade could also drive up import prices and increase backlogs in supply chains, which might temporarily raise inflation in the global environment. In the domestic environment, price and cost pressures might additionally be raised by lower productivity growth and the corresponding rise in unit labour costs, and by limits on the supply side of the economy. On the demand side, inflation might also be raised by increased defence spending in Slovenia and at EU level, which in the context of limited production capacity and a tight labour market would raise prices of intermediate goods and exert pressures on wage growth. A temporary rise in inflation compared with the baseline projection might also be caused by global supply shocks, whose occurrence has increased markedly over the last decade amid increasing geopolitical fragmentation and increasingly frequent weather shocks.

The risks to the inflation forecast for the horizon of 2025 to 2027 nevertheless remain mostly balanced, in that the realisation of major downside risks to economic growth via lower demand would drive a disinflationary effects in the external environment and domestically, particularly in the second half of the projection horizon.

The remainder of this section presents detailed scenario analysis of higher tariffs and trade uncertainty and a scenario of structurally lower growth in labour productivity. Furthermore, in the context of a potential rise in defence spending, Box 3.1 analyses Slovenia's exposure to the spill-over effect in the event of simultaneous rises in government spending in EU Member States.

Figure 3.1: **Risks to forecasts**



Sources: Banka Slovenije estimates
Note: The size of the symbol denotes the likelihood of the realisation of the risk. Green colour denotes risks from the external environment. Gold colour denotes risks from the domestic environment. Factors that are both external and domestic are denoted by a gradient fill.

Box 3.1: **Impact on the Slovenian economy from a simultaneous rise in government consumption in EU Member States**

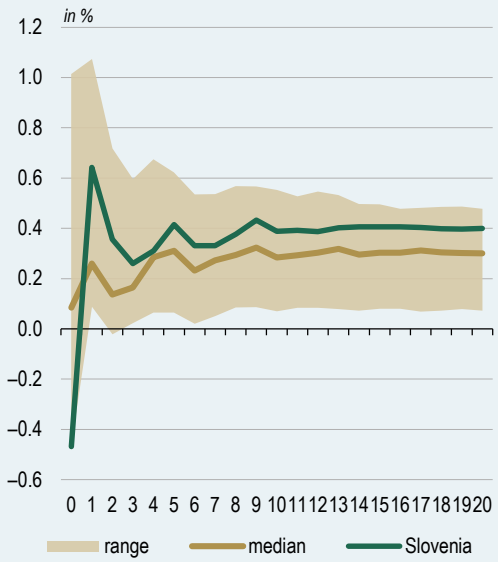
Estimates of the impact of simultaneous fiscal expansions in the EU indicate larger positive effects on Slovenia's GDP compared with the average for European countries.

Recent geopolitical developments have injected uncertainty into international relations, and have increased security concerns across Europe. EU Member States are consequently planning a significant rise in defence spending to improve military capabilities.[53] Because defence spending is financed from the public means, this would lead to an increase in government expenditure in EU Member States. This box examines the likely impact of a coordinated fiscal expansion of this kind on economic growth in Slovenia, and compares the impact with other European countries.

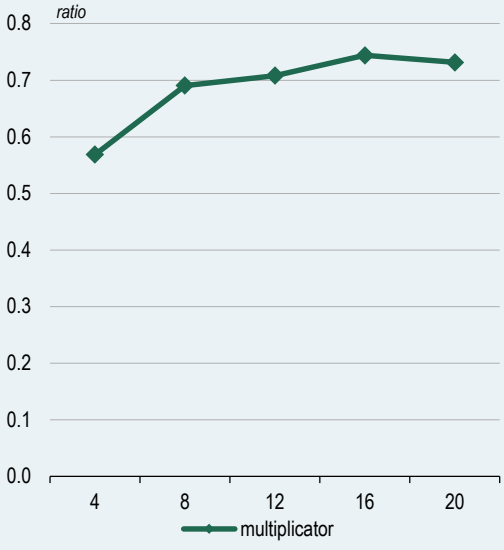
A global vector autoregression (GVAR) model was used to estimate the economic interdependence between European countries, China and the US.[54] It includes four variables for each country (real GDP, inflation, government consumption and imports), and is estimated for the period between the first quarter of 1999 and the final quarter of 2019. The model was used to simulate the impact on Slovenia's real GDP from a simultaneous increase in government consumption of one standard deviation in all EU countries. Generalised impulse responses were used; these provide a general estimate of the impact, without isolating specific structural mechanisms.[55]

Figure 3.1.1: **Impact of government consumption on GDP and fiscal multiplier**

GDP response to EU-wide government spending shock



EU-wide fiscal shock multiplicator for Slovenia



Sources: Eurostat, Banka Slovenije calculations
Note: The model is estimated on the basis of the period of the first quarter of 1999 to the final quarter of 2019. The impulse responses illustrate the cumulative impact on GDP over a period of five years. The multiplier in the right chart illustrates the elasticity of Slovenia's GDP to government consumption in the EU.

[53] See Joint White Paper for European Defence Readiness 2030.

[54] The methodology of the GVAR model is presented in Pesaran, C. (2016). *Theory and Practice of GVAR Modelling.* Journal of Economic Surveys, 30(1), pp. 165-197.

[55] Consequently it cannot be asserted that it is government consumption that leads to the result. The most likely response from GDP in the event of a rise in government consumption can however be concluded.

The analysis shows that real GDP in Slovenia – in response to a one-standard-deviation rise in government consumption in the EU – increases by between 0.2% and 0.5%, depending on the specifications of the model (see Figure 3.1.1, left).[56] For easier interpretation of the results, the fiscal multiplier of government consumption defined as the ratio of the average response in GDP in Slovenia to the weighted increase in government consumption in the EU has also been calculated. The long-term multiplier fluctuates around 0.7, which means that a rise of 1% in government consumption in the EU raises GDP in Slovenia by approximately 0.7% on average (see Figure 3.1.1, right). This response is relatively large compared with the majority of other countries in the model. In our assessment this is most likely related to Slovenia being a small, open economy with strong trade ties to countries in Europe. In Slovenia's case foreign demand is thus particularly responsive to a rise in government consumption, and consequently economic activity in other EU Member States.

Given the great likelihood of simultaneous fiscal stimulus in the EU, it seems that as a small and open economy Slovenia would enjoy a comparatively greater stimulus to GDP growth from measures of this kind than other countries on average. Here it should be noted that the analysis does not distinguish between different types of government expenditure, and does not relate solely to defence spending.

3.1 Impact of higher tariffs and trade uncertainty in the baseline projection and in the severe scenario

The baseline macroeconomic projection is conditioned on the existing effects of protectionist policy and remains surrounded by elevated risks of a further deterioration. The baseline projection assumes that tariffs will remain unchanged relative to the cut-off date over the entire projection horizon. In the case of trade between the US and the EU, this would entail 10% tariffs on imports of goods into the US from the EU, and an absence of retaliatory measures on imports of goods into the EU from the US (see Table 3.1.1).

Table 3.1.1: **Scenario of tariff measures and trade uncertainty**

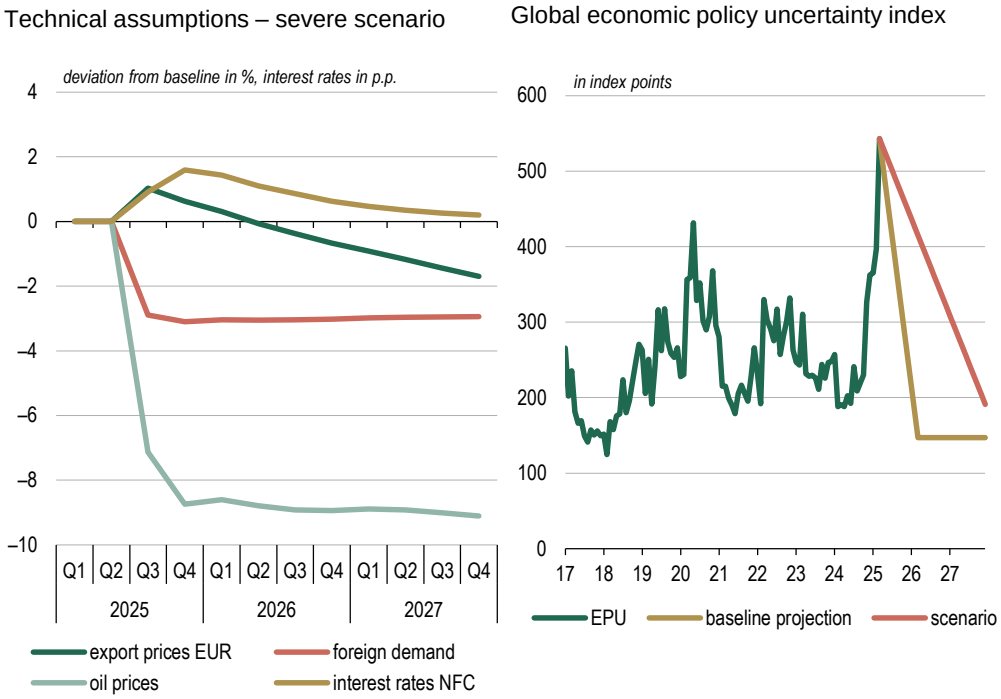
	Core projection	Severe scenario
US-EU tariffs	10% tariffs on EU goods, no retaliatory measures	20% reciprocal US-EU tariffs
US-China tariffs	30% tariff on Chinese goods, 10% tariffs on US goods	145% tariff on Chinese goods, 125% tariff on US goods
US - rest of world tariffs	10% reciprocal tariffs	Tariffs announced on 2 April in force from Q3 2025
Trade uncertainty	EPU falls to average of 2010 to 2018 by Q1 2026	EPU gradually falls to level from 2018
Financial consequences	Technical assumptions	Rise in credit spreads

The existing tariffs in the baseline projection are accompanied by a gradual waning of uncertainty, observed by the global economic policy uncertainty (EPU) indicator, to its long-term average by the end of the first quarter of 2026 (see Figure 3.1.2, right). The severe scenario by contrast assumes 20% reciprocal tariffs on trade between the US and the EU from the third quarter of 2025 inclusive, while tariffs of 145% and 125% are applied to trade in goods between the US and China. Trade policy uncertainty wanes more slowly under the severe scenario, and stabilises at its average level from 2018 at

[56] The analysis tested a model with cointegration of variables, and a model that does not assume cointegration. The results from the model that includes cointegration are illustrated in the figure.

the end of the projection horizon, which reflects a period of tighter trade policy during Donald Trump's first term. Under the severe scenario, the higher tariffs and economic uncertainty are also accompanied by increased financial risks, which relate to a rise in credit spreads and higher interest rates on loans to non-financial corporations (see Figure 3.1.2).

Figure 3.1.2: **Technical assumptions and economic uncertainty indicator under the core projection and the severe scenario**



Sources: ECB, Banka Slovenije calculations, EPU
Note: The left chart illustrates deviations in the levels of the technical assumptions relative to the baseline projection expressed as percentages, and percentage points in the case of interest rates. The right chart illustrates the assumed trajectory of the economic policy uncertainty (EPU) indicator under the baseline projection and the severe scenario.

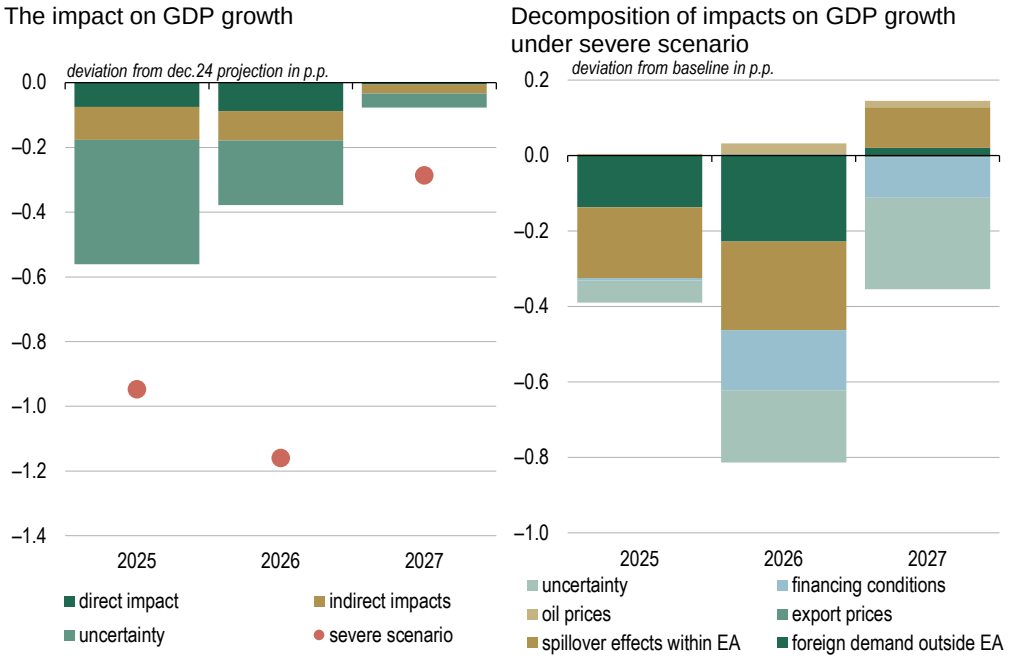
Under the baseline projection, global trade tensions weigh mainly on 2025, primarily through heightened international uncertainty. In a severe scenario, adverse effects would intensify and extend more markedly across the remainder of the forecast horizon, reflecting a sharper decline in foreign demand, prolonged economic uncertainty, and potential financial amplification.

Figure 3.1.3 illustrates the effects of tariffs and the related uncertainty in the international economic environment under the baseline projection and the severe scenario. Compared with the December projections, the deterioration in global trade in 2025 reduces GDP growth by approximately 0.6 percentage points, primarily from the adverse impact of uncertainty on domestic investment activity. Conversely, given the Slovenian economy's relatively small direct exposure to the US, the actual impact of the tariffs remains relatively limited. A slightly larger impact is expected from indirect exposure to tariffs via Slovenia's main trading partners in the euro area, which in 2025 and 2026 reduces the GDP growth forecast by approximately 0.1 percentage points.

Compared with the baseline projection, the further deterioration in global trade envisaged under the severe scenario would additionally lower GDP growth by approximately 0.4 percentage points in 2025, 0.8 percentage points in 2026 and almost 0.4 percentage points in 2027. In 2025, the stronger impact would mainly come from a more pronounced decline in foreign demand and lower economic activity in the main trading

partners, while the impact in 2026 would be deepened by persistent uncertainty in the international environment and less favourable financing conditions amid the rise in credit risk.

Figure 3.1.3: **Impact of tariffs and trade uncertainty on GDP growth**

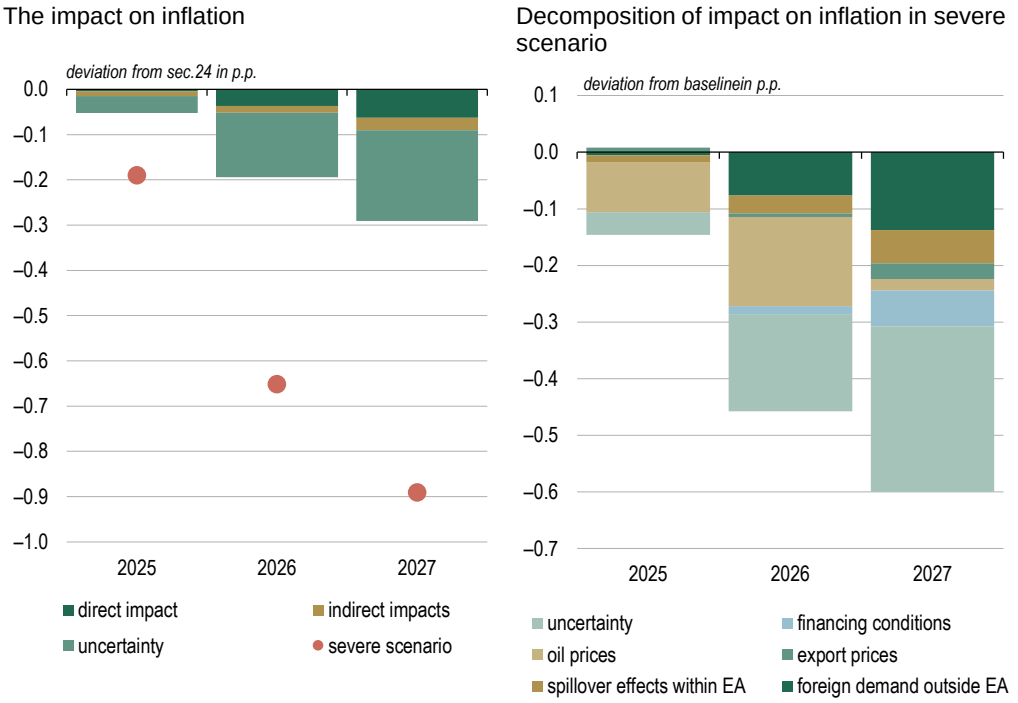


Sources: Banka Slovenije calculations, ECB
Note: The left chart illustrates the impact of tariffs and trade uncertainty in terms of the revision to the GDP growth relative to the December projections. The right chart illustrates the breakdown of the impact of tariffs, the technical assumptions and trade uncertainty under the severe scenario. The impact of lower demand and other technical assumptions is estimated by Banka Slovenije's core macroeconomic model. The impact of the uncertainty is estimated by the satellite model presented in Box 2.1.1.

The adverse situation in global trade is expected to have a broadly disinflationary effect over the medium term.

Under the baseline projection the adverse effects on economic growth from tariffs and trade uncertainty gradually spill over into inflation. The inflation projection is therefore 0.2 percentage points lower in 2026 and 0.3 percentage points lower in 2027 than it would be in the absence of these factors (see Figure 3.1.4). Under the severe scenario the effects are even stronger, and would reduce inflation by an additional 0.6 percentage points by the end of projection horizon compared with the baseline projection. The stronger adverse effects in 2025 and 2026 relate primarily to dampened commodity prices on global markets, while the main factors at the end of the projection horizon are those reducing GDP growth at home and abroad. There are minor inflationary pressures under the severe scenario, which mainly reflect a temporary rise in import prices following the introduction of retaliatory tariffs on US goods, but these are limited from the perspective of the projection horizon and are overwhelmingly temporary in nature. The comparably higher tariffs on US imports of goods from China would be expected to lead to a net negative impact on inflation, as a result of the better terms of trade for European countries and the potential redirection of exports of Chinese goods to European markets. Here it should be emphasised that the scenario does not take account of any bottlenecks in supply chains that might make a significant contribution to inflationary pressures during the period in question.

Figure 3.1.4: **Impact of tariffs and trade uncertainty on inflation**



Sources: Banka Slovenije calculations, ECB
Note: The left chart illustrates the impact of tariffs and trade uncertainty in terms of the revision to inflation relative to the December projections. The right chart illustrates the breakdown of the impact of tariffs, the technical assumptions and trade uncertainty under the severe scenario. The impact is estimated using Banka Slovenije's core macroeconomic model.

3.2 Risk of structurally lower productivity growth

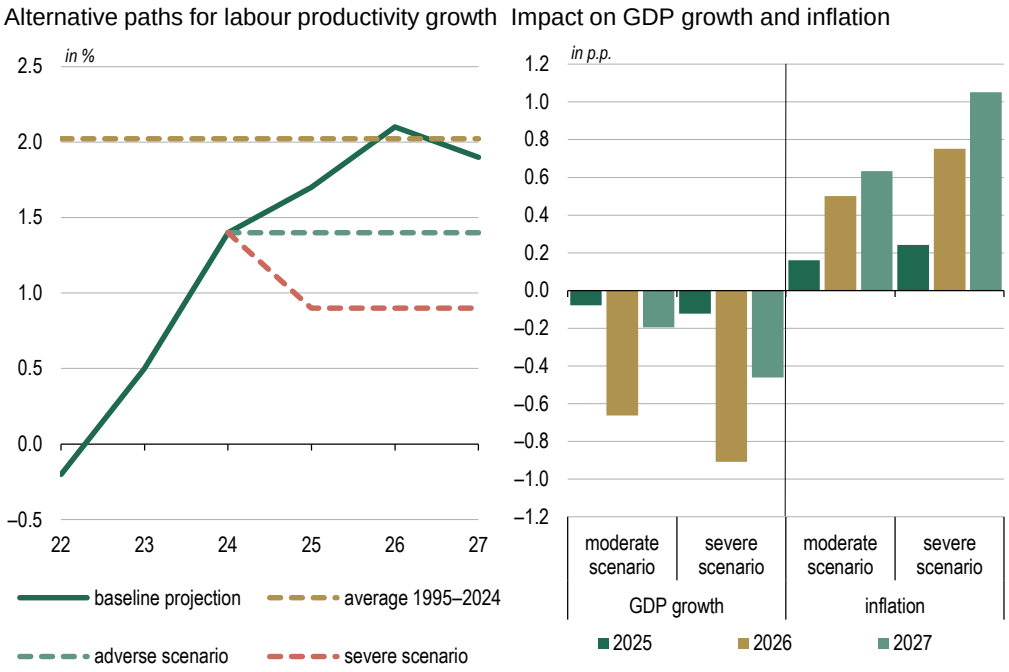
The uncertainty in the economy is being accompanied by signs of cooling on the labour market. This is particularly evident in the private sector, where employment has been falling since the beginning of 2024. In the wake of these developments, total employment would be 0.5% lower this year than under the baseline projection, and would only partly recover in 2026 with growth of 0.2%. From the side of production factors, GDP growth over the projection horizon therefore depends significantly on the anticipated productivity growth. This will stand at 1.7% this year, before strengthening to 2.1% in 2026 and 1.9% in 2027. The increased growth will be driven by cyclical factors related to better utilisation of employees in the work process and greater alignment between the level of employment and economic activity than in the post-pandemic period.[57] The growth in labour productivity forecast over the projection horizon is mainly in line with its long-term average of 2.0% for the period of 1995 to 2024, but at the same time remains on average 0.6 percentage points higher than average growth over the pre-pandemic period (2010 to 2019). It also exceeds the projection for the euro area by approximately 1.3 percentage points. Adverse structural factors, such as low growth in investment and an ageing workforce in employment, pose a risk of lower trend growth in productivity over the projection horizon, and a stalling at levels below the long-term average.

Two alternative scenarios of lower growth in labour productivity than under the baseline projection are examined (see Figure 3.2.1, left). The moderate scenario envisages growth in labour productivity remaining at its level from 2024 of 1.4%, comparable to the average in the decade before the pandemic (2010 to 2019). The severe scenario envisages a decline in growth in labour productivity to below 1%, thus assuming gradual convergence to the average growth in the euro area. The right chart of Figure 3.2.1 illustrates the impact of the alternative productivity growth scenarios on GDP growth

[57] See Box 2.2.1 in the December 2023 issue of the Review of macroeconomic developments and projections, which examines the misalignment between growth in employment and economic activity, and ties it to labour hoarding.

and inflation. Under both scenarios the impact on economic growth in the first year of the projection remains relatively limited, as the model envisage that firms would temporarily compensate for the lower productivity growth through additional hiring. However, the ability to do so gradually diminishes over the remainder of the projection horizon owing to the tightness of the labour market and the pressures on firms' competitiveness. The largest impact on economic growth in the event of the realisation of risks would thus be expected in 2026, when growth would be approximately 0.7 percentage points lower under the moderate scenario, and 0.9 percentage points lower under the severe scenario. The lower economic growth would be accompanied by higher inflation. Compared with the baseline projection, it would be 0.6 percentage points higher at the end of the projection horizon under the moderate scenario, and 1 percentage point higher under the severe scenario. The inflationary pressures would reflect higher unit labour costs and opening of the output gap, which would come from the sharper fall in the economy's production capacity relative to the fall in aggregate demand.

Figure 3.2.1: **Scenario of structurally lower productivity growth**



Source: Banka Slovenije estimates
Note: The left chart illustrates the baseline projection and the alternative trajectories of growth in labour productivity assumed in the scenario. Labour productivity is defined as the ratio of real GDP to employment. The moderate scenario for the 2025 to 2027 horizon assumes an alternative trajectory in line with the average growth in labour productivity in 2024. The severe scenario for the 2025 to 2027 horizon assumes growth in labour productivity of 0.9%. The right chart illustrates the impact on GDP growth and inflation expressed as the difference in percentage points relative to the baseline projection. The impact is evaluated by means of Banka Slovenije's core macroeconomic model.

4 Comparison Between Institutions

Banka Slovenije's projections, which include data on GDP in the first quarter, project GDP growth on average over the 2025-2027 period to be 0.3 percentage point lower than the median of other institutions' projections, while the inflation projection is at the level of the median.

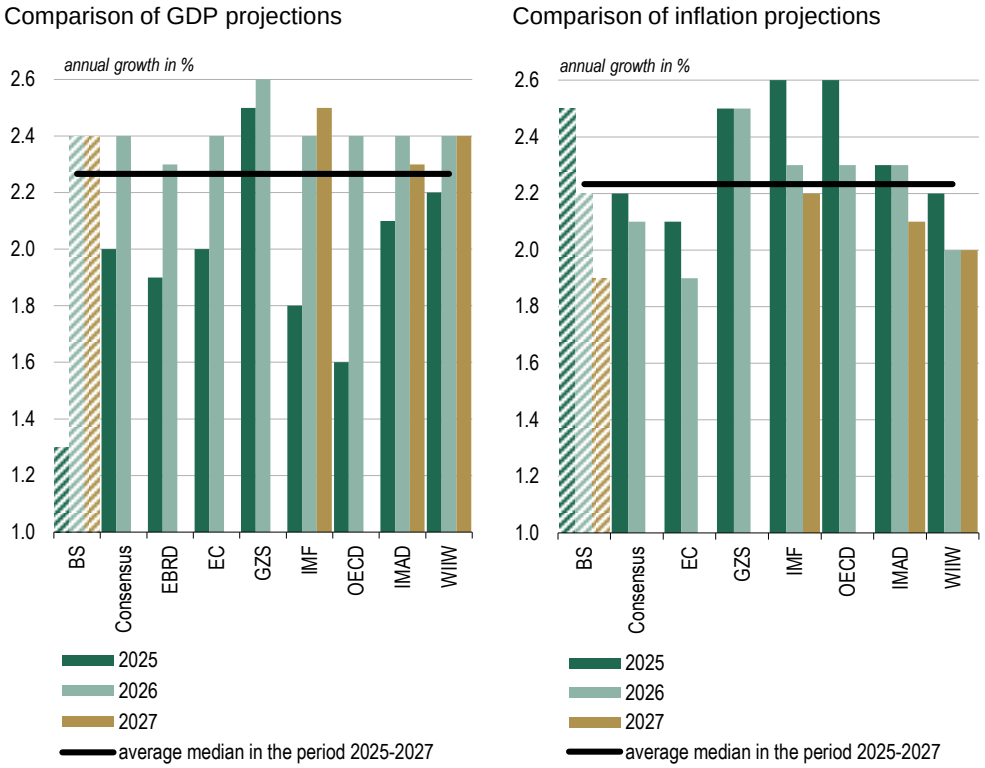
The latest economic growth projections for the 2025 to 2027 horizon show greater divergence in the projections between the institutions (see Figure 4.1, left). Similarly to Banka Slovenije, the institutions who prepared their projections close to the end of the first half of the year, and considered more monthly and quarterly SURS datasets, are expecting a slightly worse outlook, primarily on account of the increased uncertainty surrounding economic policy and the geopolitical situation in the international environment. Amid a gradual stabilisation, all the institutions are expecting economic growth of around 2.5% in the following years. The highest economic growth for 2025 of 2.5% comes from the CCI. It is followed by WIIW, the IMAD, Consensus and the European Commission, who are projecting growth of 2.2%, 2.1% and 2.0%, respectively. The EBRD, the IMF, the OECD and Banka Slovenije are the only institutions projecting growth of less than 2% this year, at 1.9%, 1.8%, 1.6% and 1.3%, respectively. The Banka Slovenije projection is 0.7 percentage points lower than the median of all projections for the current year.

The CCI also has the highest economic growth projection for next year, at 2.6% or 0.2 percentage points more than the median of all projections for that year. It is followed by Banka Slovenije, Consensus, the European Commission, the IMF, the OECD, the IMAD and WIIW, all with projections at the median level of 2.4%. The lowest GDP growth projection of 2.3% comes from the EBRD. Economic growth projections for 2027 are available by four institutions. The Banka Slovenije projection of 2.4% is at the median level of the available projections for that year.

After last year's significant decline in consumer price inflation, all the institutions are projecting inflation in 2025 slightly above the ECB monetary policy target rate (see Figure 4.1, right). It will mainly be driven by services and food prices, while the expiry of certain government measures to regulate energy prices will also make a contribution to inflation. The institutions are expecting a gradual slowdown in inflation towards 2.0% towards the end of the projection horizon. The highest inflation projection for 2025 come from the IMF, the OECD, Banka Slovenije and the CCI, at 2.6% and 2.5%. Banka Slovenije's projection is 0.1 percentage points above the median of all projections for the current year. Next come the projections of 2.3% and 2.2% by the IMAD, Consensus and WIIW, while the lowest consumer price inflation projection of 2.1% comes from the European Commission.

The highest inflation projection for next year of 2.5% comes from the CCI. It is followed by projections of 2.3% from the IMF, the OECD and the IMAD. The lowest consumer price inflation projections for next year are 2.0% from WIIW and 1.9% from the European Commission. The Banka Slovenije projection is 2.2%, 0.1 percentage points below the median of all projections for 2026. Consumer price inflation projections for 2027 are available from four institutions. The highest projection is 2.2% from the IMF, while the lowest is the Banka Slovenije projection of 1.9%.

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



Sources: Projections by Consensus Economics (May), EBRD (May), European Commission (May), CCI (April), IMF (April), OECD (June), IMAD (February), WIIW (April), Banka Slovenije (June)

5 Statistical Appendix

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

	2023	2024	12 m. 'till Mar. 25	3 m. 'till Mar. 24	3 m. 'till Mar. 25	2025 Jan.	2025 Feb.	2025 Mar.	2025 Apr.	2025 May
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	–3.7	–2.7	–2.4	–3.3	–2.3	–2.6	–2.5	–1.8	–2.5	–1.9
- confidence indicator in manufacturing	–8.3	–7.6	–7.3	–8.7	–7.3	–8.0	–7.0	–7.0	–7.0	–8.0
					year-on-year growth rates in %					
Industry: - total	–4.9	–1.2	–0.7	–3.0	–1.0	1.9	–2.8	–1.9	...	...
- manufacturing	–3.7	1.1	0.5	0.1	–2.3	0.5	–4.8	–2.5	...	...
Construction: - total	19.4	–9.4	–10.3	–3.0	–7.4	3.7	–11.6	–11.6	...	...
- buildings	10.5	–12.6	–11.5	–6.9	–1.8	16.5	–8.5	–9.4	...	...
Trade and service activities - total	0.4	1.9	1.4	2.2	0.1	0.8	1.2	–1.4	...	...
Wholesale and retail trade and repair of motor vehicles	11.5	6.7	4.7	11.0	2.9	3.1	3.7	2.2	...	...
Retail trade, except of motor vehicles and motorcycles	–4.6	0.7	1.4	–0.3	2.4	3.9	3.9	–0.3	...	...
Other private sector services	2.5	1.5	0.9	2.0	–0.7	–1.5	–0.2	–0.4	...	...
Labour market					year-on-year growth rates in %					
Average gross wage	9.7	6.2	6.2	7.2	7.1	6.9	6.6	8.0	...	...
- private sector	9.4	7.1	6.4	7.9	5.2	5.0	4.4	6.3	...	...
- public sector	10.3	4.6	5.8	5.9	10.6	10.2	10.6	10.9	...	...
Real net wage[1]	4.0	1.8	2.7	1.3	4.8	4.3	4.7	5.3	...	...
Registered unemployment rate (in %)	5.0	4.6	4.6	5.0	4.9	5.1	4.9	4.6	...	...
Registered unemployed persons	–14.0	–5.6	–4.5	–6.9	–2.6	–2.8	–2.9	–2.2	–1.9	...
Persons in employment	1.3	1.1	0.7	1.4	–0.3	–0.3	–0.3	–0.4	...	...
- private sector	1.4	1.1	0.5	1.5	–0.8	–0.6	–0.8	–0.9	...	...
- public sector	0.9	1.2	1.1	1.1	0.9	0.8	0.9	1.0	...	...
Price developments					year-on-year growth rates in %					
HICP	7.2	2.0	1.7	3.4	2.1	2.3	1.9	2.2	2.3	1.9
- services	7.7	4.8	4.4	5.7	4.0	3.8	3.9	4.2	3.8	4.2
- industrial goods excluding energy	5.4	0.6	0.1	2.1	0.3	0.1	0.2	0.5	1.0	0.1
- food	11.8	1.9	2.0	2.7	2.9	2.5	2.8	3.3	5.4	4.9
- energy	2.2	–2.3	–2.7	1.5	–0.2	2.9	–1.7	–1.6	–4.4	–6.4
Core inflation indicator[2]	6.7	2.9	2.4	4.0	2.3	2.1	2.2	2.5	2.5	2.3
Balance of payments - current account					in % GDP					
Current account balance	4.5	4.4	4.1	4.3	2.8	–0.4	3.1	5.5	...	...
1. Goods	0.7	0.9	0.7	1.0	0.1	–1.1	0.3	1.1	...	...
2. Services	5.6	5.4	5.3	4.9	4.4	3.7	4.3	5.1	...	...
3. Primary income	–1.0	–1.2	–1.1	–0.6	–0.3	–0.3	–0.4	–0.3	...	...
4. Secondary income	–0.8	–0.7	–0.8	–0.9	–1.4	–2.7	–1.2	–0.4	...	...
					nominal year-on-year growth rates in %					
Export of goods and services	–0.4	2.5	3.9	–3.3	2.2	3.0	1.1	2.5	...	...
Import of goods and services	–6.1	2.3	4.2	–3.5	4.0	9.0	–0.1	3.4	...	...

Public Finances	2023	2024	12 m. 'till Apr. 25		2024 Jan.-Apr.		2025 Jan.-Apr.	
Consolidated general government (GG) balance[3]	EUR mio		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %
Revenue	25,035	27,918	42.1	9.6	8,798	10.8	9,261	5.3
Tax revenue	21,977	24,547	37.1	8.8	8,078	14.3	8,534	5.6
From EU budget	1,084	1,040	1.4	4.8	225	–42.7	145	–35.6
Other	1,974	2,331	3.6	21.6	495	3.1	582	17.6
Expenditure	27,308	28,871	43.9	4.9	8,852	10.8	9,549	7.9
Current expenditure	11,572	12,910	19.7	9.8	4,006	14.6	4,361	8.9
- wages and other personnel expenditure	6,094	6,539	9.9	4.8	2,205	15.5	2,362	7.1
- purchases of goods, services	3,869	4,368	6.6	9.2	1,259	19.7	1,341	6.6
- interest	711	793	1.3	13.6	445	19.3	541	21.7
Current transfers	12,050	12,794	19.4	6.0	4,112	7.8	4,409	7.2
- transfers to individuals and households	9,731	10,397	15.7	5.4	3,411	10.0	3,595	5.4
Capital expenditure, transfers	3,014	2,531	3.8	–17.7	538	16.5	552	2.5
GG surplus/deficit	–2,274	–953	–1.8		–54		–288	

Sources: SURS, Banka Slovenije, Ministry of Finance, Banka Slovenije calculations
Note: The figures for economic developments are calendar-adjusted (with the exception of economic sentiment indicators, which are seasonally adjusted). The other figures in the table are unadjusted. The monthly activity indicators in industry, construction and services are given in real terms. Owing to a change in data source, the series for average wages before 2023 were adjusted on the basis of the growth rates in previous series. (1) HICP deflator. (2) Inflation excluding energy, food, alcohol and tobacco. (3) Consolidated position of the state budget, local government budgets, pension and disability insurance subsector and compulsory health insurance subsector, according to the principle of paid realisation.

Table 5.2: **Key macroeconomic indicators at the quarterly level for Slovenia and the euro area**

	2022	2023	2024	24Q2	24Q3	24Q4	25Q1	2022	2023	2024	24Q2	24Q3	24Q4	25Q1
				Slovenia							euro area			
Economic developments							q-o-q growth in %							
GDP				–0.5	0.2	0.3	–0.8				0.2	0.4	0.2	0.3
- industry				–1.2	1.0	0.2	–1.1				–0.1	0.1	–0.2	...
- construction				–2.3	–3.0	4.6	–3.9				–1.0	–0.6	0.2	...
- mainly public sector services (OPQ)				1.1	0.1	3.7	–3.4				0.3	0.7	0.5	...
- mainly private sector services (without OPQ)				–0.6	0.3	–0.4	–0.4				0.1	0.2	0.1	...
Domestic expenditure				1.1	–2.7	2.3	0.1				–0.1	1.4	0.3	...
- general government				7.1	–2.0	–0.8	–1.3				1.1	0.9	0.5	...
- households and NPISH[1]				–1.4	1.4	0.8	0.6				0.0	0.6	0.4	...
- gross capital formation				0.9	–12.8	9.1	4.0				–1.4	4.0	–0.4	...
- gross fixed capital formation				–1.6	–3.4	0.4	–1.0				–2.5	1.8	0.7	...
							y-o-y growth in %							
GDP	2.7	2.1	1.6	0.9	1.6	1.5	–0.7	3.5	0.4	0.9	0.7	1.2	1.2	...
- industry	–2.1	5.1	...	–0.1	3.6	3.4	–2.8	0.5	–1.3	–1.0	–1.0	0.1	–1.2	...
- construction	8.3	14.0	...	–2.3	–7.8	1.3	–6.0	–0.0	1.3	–1.6	–1.5	–1.3	–0.9	...
- mainly public sector services (OPQ)	1.9	0.4	...	1.4	1.6	1.7	1.4	2.9	1.1	1.6	1.5	1.9	1.9	...
- mainly private sector services (without OPQ)	5.0	1.4	...	2.1	1.9	1.8	–0.1	4.1	0.6	0.7	0.7	1.1	0.6	...
Domestic expenditure	4.5	–0.2	2.1	5.1	–0.0	0.1	0.8	3.8	0.1	0.5	–0.5	1.4	1.3	...
- general government	–0.7	2.4	8.5	12.6	9.2	5.7	2.6	1.1	1.4	2.7	2.9	3.1	2.7	...
- households and NPISH	5.3	0.1	1.6	1.7	1.7	1.2	0.4	5.0	0.5	1.1	0.5	1.2	1.5	...
- gross capital formation	7.4	–2.8	–2.4	6.2	–11.5	–7.6	–0.1	3.9	–2.1	–3.0	–6.0	–0.0	–0.6	...
- gross fixed capital formation	4.2	3.9	–3.7	–2.1	–8.1	–5.2	–5.1	2.0	1.7	–1.8	–2.9	–1.0	–1.7	...
- inventories and valuables, contr. to GDP growth in p.p.	0.8	–1.5	0.3	1.8	–0.9	–0.6	1.1	0.5	–0.9	–0.3	–0.7	0.2	0.3	...
Labour market							q-o-q growth in %							
Employment				–0.1	–0.1	–0.1	–0.2				0.1	0.2	0.1	0.3
- mainly private sector (without OPQ)				–0.2	–0.2	–0.2	–0.5				–0.0	0.2	0.1	...
- mainly public services (OPQ)				0.4	0.4	0.3	0.6				0.5	0.4	0.2	...
							y-o-y growth in %							
Employment	2.9	1.6	0.1	0.3	0.0	–0.3	–0.5	2.4	1.4	1.0	0.9	1.0	0.8	0.8
- mainly private sector (without OPQ)	3.1	1.7	–0.2	–0.0	–0.4	–0.7	–1.0	2.7	1.5	0.7	0.6	0.7	0.5	...
- mainly public services (OPQ)	2.0	1.5	1.6	1.8	1.7	1.3	1.7	1.5	1.3	1.7	1.8	1.9	1.6	...
Labour costs per employee	5.0	9.5	6.2	6.1	6.6	5.7	6.7	4.5	5.3	4.5	4.8	4.5	4.1	...
- mainly private sector (without OPQ)	7.8	9.5	...	7.2	7.3	6.0	5.4	5.0	5.5	4.5	4.8	4.4	4.1	...
- mainly public services (OPQ)	–3.2	9.5	...	2.7	4.1	4.6	11.2	3.5	4.8	4.8	5.1	4.7	4.0	...
Unit labour costs, nominal[2]	5.2	9.0	4.7	5.5	4.9	3.7	6.9	3.4	6.4	4.7	5.1	4.2	3.6	...
Unit labour costs, real[3]	–1.2	–1.0	1.6	3.0	1.9	1.2	3.9	–1.6	0.4	1.7	2.1	1.6	1.0	...
							v %							
LFS unemployment rate in %	4.0	3.7	3.7	3.4	4.4	3.5	...	6.8	6.6	6.4	6.3	6.2	6.1	...
Foreign trade							q-o-q growth in %							
Real export of goods and services				–0.7	3.1	–2.1	–0.5				1.5	–1.3	0.0	...
Real import of goods and services				0.7	–1.6	–0.2	2.3				1.1	0.5	0.1	...
							y-o-y growth in %							
Real export of goods and services	6.8	–2.0	3.2	0.1	9.5	3.9	0.1	7.4	–0.8	1.1	2.3	2.1	1.4	...
Real import of goods and services	9.2	–4.5	3.9	4.8	8.0	2.3	1.9	8.4	–1.4	0.3	–0.1	2.3	1.6	...
Current account balance as % of GDP[4]	–1.1	4.5	4.4	3.8	4.5	4.4	4.1	–0.7	0.0	0.0	0.0	0.0	0.0	...
External trade balance as contr. to GDP growth in p.p.	–1.5	2.3	–0.4	–3.6	1.8	1.3	–1.4	–0.2	0.3	0.4	1.2	–0.1	–0.0	...
Financing							in % of GDP							
Banking system's balance sheet	91.0	85.0	...	...	...	...	...	273.2	256.3	...	...	...	...	...
Loans to NFCs	20.1	17.6	16.4	16.8	16.6	16.4	16.6	36.4	34.1	33.1	33.6	33.3	33.1	...
Loans to households	21.5	19.9	20.2	19.9	20.0	20.2	20.3	48.1	45.4	43.9	44.4	44.1	43.9	...
Inflation							in %							
HICP	9.3	7.2	2.0	2.4	1.1	1.2	2.1	8.4	5.4	2.4	2.5	2.2	2.2	2.3
HICP excl. energy, food, alcohol and tobacco	5.9	6.7	2.9	3.0	2.3	2.2	2.3	4.0	5.0	2.8	2.8	2.8	2.7	2.6
Public finance							in % of GDP							
Debt of the general government	72.7	68.4	67.0	69.4	66.7	67.0	...	89.5	87.4	87.5	88.1	88.1	87.5	...
One year net lending/net borrowing of the general government[4]	–3.0	–2.6	–0.9	–1.9	–1.7	–0.9	...	–3.5	–3.5	–3.1	–3.5	–3.3	–3.1	...
- interest payment[4]	1.1	1.2	1.3	1.3	1.3	1.3	...	1.7	1.7	1.9	1.8	1.9	1.9	...
- primary balance[4]	–1.9	–1.3	0.4	–0.6	–0.4	0.4	...	–1.8	–1.8	–1.2	–1.6	–1.4	–1.2	...

Sources: SURS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations

Note: Original figures are used to calculate the year-on-year rates, and seasonally adjusted figures are used to calculate the current rates of growth. The SURS quarterly national accounts figures have not yet been reconciled with the initial annual estimate. (1) The figures for Slovenia are calculated as the difference between the seasonally adjusted figures for aggregate final consumption and government final consumption.

(2) Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity. (3) Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity. (4) 4-quarter moving sums.

6 List of abbreviations

Abbreviations

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
ARCI	Banka Slovenije's main inflation projection model
CHP	Combined heat and power
GDP	Gross domestic product
BoS	Banka Slovenije
VAT	value added tax
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
ECOICOP	European classification of individual consumption by purpose
EC	European Commission
EA	Euro area
EPU	economic policy uncertainty
EU	European Union
EUR	euro
GPR	geopolitical risk
CCI	Chamber of Commerce and Industry of Slovenia
HICP	harmonised index of consumer prices
IMF	International Monetary Fund
IRF	impulse response function
MU	macroeconomic uncertainty
Nato	North Atlantic Treaty Organization
NGEU	NextGeneration EU
OECD	Organisation for Economic Co-operation and Development
Opec+	Organization of the Petroleum Exporting Countries
PERR	price-to-exchange-rate ratio
PMI	purchasing managers' index
SiQM	Banka Slovenije's main macroeconomic model
SDH	Slovenski državni holding (Slovenian Sovereign Holding)
SURS	Statistical Office of the Republic of Slovenia
(S)BVAR	(structural) Bayesian vector autoregression
TPU	trade policy uncertainty
IMAD	Institute of Macroeconomic Analysis and Development
USD	United States dollar
RES	Renewable energy sources
RRO	Recovery and Resilience Office
WIIW	Vienna Institute for International Economic Studies
US	United States of America
ZPIZ	Pension and Disability Insurance Institute
ESS	Employment Service of Slovenia
ZZZS	Health Insurance Institute of Slovenia

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

A: Agriculture, forestry and fishing, **01** – Crop and animal production, hunting and related service activities, **02** – Forestry and logging, **03** – Fishing and aquaculture; **B**: Mining and quarrying, **05** – Mining of coal and lignite, **06** – Extraction of crude petroleum and natural gas, **07** – Mining of metal ores, **08** – Other mining and quarrying, **09** – Mining support service activities; **C**: Manufacturing, **10** – Manufacture of food products, **11** – Manufacture of beverages, **12** – Manufacture of tobacco products, **13** – Manufacture of textiles, **14** – Manufacture of wearing apparel, **15** – Manufacture of leather and related products, **16** – Manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials, **17** – Manufacture of paper and paper products, **18** – Printing and reproduction of recorded media, **19** – Manufacture of coke and refined petroleum products, **20** – Manufacture of chemicals and chemical products, **21** – Manufacture of basic pharmaceutical products and pharmaceutical preparations, **22** – Manufacture of rubber and plastic products, **23** – Manufacture of other non-metallic mineral products, **24** – Manufacture of basic metals, **25** – Manufacture of fabricated metal products, except machinery and equipment, **26** – Manufacture of computer, electronic and optical products, **27** – Manufacture of electrical equipment, **28** – Manufacture of machinery and equipment n.e.c., **29** – Manufacture of motor vehicles, trailers and semi-trailers, **30** – Manufacture of other transport equipment, **31** – Manufacture of furniture, **32** – Other manufacturing, **33** – Repair and installation of machinery and equipment; **D**: Electricity, gas, steam and air conditioning supply, **35** – Electricity, gas, steam and air conditioning supply; **E**: Water supply, sewerage, waste management and remediation activities, **36** – Water collection, treatment and supply, **37** – Sewerage, **38** – Waste collection, treatment and disposal activities, materials recovery; **F**: Construction, **41** – Construction of buildings, **42** – Civil engineering, **43** – Specialised construction activities; **G**: Wholesale and retail trade, repair of motor vehicles and motorcycles, **45** – Wholesale and retail trade and repair of motor vehicles and motorcycles, **46** – Wholesale trade, except of motor vehicles and motorcycles, **47** – Retail trade, except of motor vehicles and motorcycles; **H**: Transportation and storage,**49** – Land transport and transport via pipelines, **50** – Water transport, **51** – Air transport,

52 – Warehousing and support activities for transportation; **I**: Accommodation and food service activities, **55** – Accommodation, **56** – Food and beverage service activities; **J**: Information and communication, **58** – Publishing activities, **59** – Motion picture, video and television programme production, sound recording and music publishing activities, **60** – Programming and broadcasting activities, **61** – Telecommunications, **62** – Information technology service activities, **63** – Information service activities; **K**: Financial and insurance activities, **64** – Financial intermediation, except insurance and pension funding, **65** – Insurance, reinsurance and pension funding, except compulsory social security, **66** – Other financial activities; **L**: Real estate activities, **68** – Real estate activities; **M**: Professional, scientific and technical activities, **69** – Legal and accounting activities, **70** – Activities of head offices, management consultancy activities, **71** – Architectural and engineering activities, technical testing and analysis, **72** – Scientific research and development, **73** – Advertising and market research, **74** – Other professional, scientific and technical activities; **N**: Administrative and support service activities, **77** – Rental and leasing activities, **78** – Employment activities, **79** – Travel agency, tour operator and other reservation service and related activities, **80** – Security and investigative activities, **81** – Services to buildings and landscape activities, **82** – Office administrative, office support and other business support activities; **O**: Public administration and defence, compulsory social security, **84** – Public administration and defence, compulsory social security; **P**: Education, **85** – Education; **Q**: Human health and social work activities, **86** – Human health activities, **87** – Residential care activities, **88** – Social work activities without accommodation; **R**: Arts, entertainment and recreation, **90** – Creative, arts and entertainment activities, **91** – Libraries, archives, museums and other cultural activities, **92** – Gambling and betting activities, **93** – Sports activities and amusement and recreation activities; **S**: Other service activities, **94** – Activities of membership organisations, **95** – Repair of computers and personal and household goods, **96** – Other personal service activities; **T**: Activities of households as employers, undifferentiated goods- and services-producing activities of households for own use, **97** – Activities of households as employers of domestic personnel, **98** – Undifferentiated goods- and services-producing activities of private households for own use; **U**: Activities of extraterritorial organisations and bodies, **99** – Activities of extraterritorial organisations and bodies.

Country abbreviations

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