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EVROSISTEM

Review of macroeconomic developments

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Summary

The Slovenian economy outperformed the euro area overall last year, while the initial data points to a continuation of solid trends in the early part of this year, despite the uncertain situation. Inflation remains close to its price stability target rate.

The survey indicators point to a continuation of weak economic growth in the euro area in the early part of this year. Despite slowing, activity in the service sector remained in the zone of expansion in February, while manufacturing continued to contract, albeit at its slowest pace in last nine months. Accordingly the economic sentiment rose slightly. Headline inflation in the euro area rose slightly to 2.5% in January, while core inflation remained unchanged at 2.7%. This year's economic growth in the euro area is forecast at 1.0% by the IMF's January projections, and at 1.1% by the ECB's December projections.

Most of the major global central banks other than the Fed are moving ahead with the easing of monetary policy. In January the Eurosystem made its fifth cut since the cycle of monetary policy relaxation began in June of last year, reducing the interest rate on the deposit facility by 0.25 percentage points to 2.75%. The markets' expectations with regard to the pace and size of the cuts in the ECB's key interest rates have not changed significantly since the beginning of January, while the expectations with regard to the Fed have strengthened slightly. According to current interest rate swap rates, investors are expecting total further cuts in key interest rates of 0.75 percentage points at the ECB and 0.50 percentage points at the Fed this year.

Since the beginning of January, the financial markets have mainly been conditioned by the uncertainty surrounding the future economic policy and tariff policy of the new administration in the US. Yields on US government bonds fell, while the main US and European share indices reached record highs despite the uncertainty. Likewise, the price of gold also reached a record high.

Last year the Slovenian economy outperformed the euro area overall, and its performance looks to have remained solid in the early part of this year. The conditions for private consumption improved last year, and domestic final consumption continues to be strengthened by the government sector. Investment saw a sharp downturn, given the great uncertainty, the high energy costs, and the decline in the government's role in investment. Merchandise exports and value-added in manufacturing recorded positive year-on-year growth in the second half of the year, and the situation in construction also improved at the end of the year. Quarterly GDP growth reached 0.6% in the final quarter, taking the year-on-year rate to 1.5%. The available data for the first quarter of this year shows solid growth on the domestic market, but a continuation of the difficult situation for exporters, with the nowcasts pointing to quarterly GDP growth of 0.7%.

The situation on the labour market is slightly weaker compared with previous months. The number of persons in employment fell significantly in December as a result of people retiring and the expiration of fixed-term contracts, but remains relatively high. The contraction in employment was particularly evident in manufacturing, while the situation in services remains favourable. The number of job vacancies continues to decline and is approaching pre-pandemic levels. As expected, the number of registered unemployed increased in January but remains low at 50,148. Wage growth slowed in December, with public sector wages—after a prolonged period—rising faster than in the private sector. These trends are expected to continue, as a public sector wage reform took effect in January. With inflation easing, real wages continue to strengthen, boosting household purchasing power.

The favourable developments in international trade seen in the previous quarter continued in the final part of last year, albeit at a slightly slower dynamic. Services trade strengthened in particular in the final quarter according to the balance of payments figures, with imports and exports each seeing growth of around 8%. Growth in merchandise trade slowed slightly, but remained positive. The terms of trade improved slightly further, albeit less than in the third quarter. The 12-month current account surplus remained high at the end of the year at EUR 3.3 billion, largely on account of the services trade surplus.

Headline inflation slowed in February, after rising slightly at the end of last year following its gradual decline over the last two years. As measured by the HICP it stood at 1.9%, down 0.4 percentage points on January. The slowdown was primarily attributable to lower year-on-year growth in energy prices, partly linked to lower electricity prices following the implementation of the law to cap high network charges. Year-on-year food inflation strengthened by contrast in February, as did growth in prices of other goods, and services inflation. Hence, the increase in core inflation to 2.2% was broad-based. Despite gradually slowing, services inflation continues to be driven by wage developments, and thus remains the most important driver of headline inflation.

The surplus of the consolidated general government budgetary accounts in January was down almost a half in year-on-year terms. Tax revenues continued to record high growth, while revenues from the EU budget were lower. January's growth in expenditures was mainly driven by subsidies and investment expenditure. Expenditure on wages was up 7.3% in year-on-year terms, although it has not yet reflected the first wage rises under the new wage system. The public finance developments remain exposed to numerous risks, including the international situation, the progress in the post-flood reconstruction, and the reforms currently under preparation.

***

In this publication we analyse the impact of wage developments on the competitive position of the economy. Previous years saw above-average wage growth, driven in particular by a tight labour market and adjustments for past inflation. Our finding is that wage growth, in a context of low productivity, played a significant role in the rise in unit labour costs, but its impact on external competitiveness remained limited, as the deterioration in our main competitors in export markets was even more pronounced. This year, wage developments will also be influenced by the realignment of wage levels in the public and private sectors. At the same time, we assess that the realised and expected higher wage growth in the public sector, following the implementation of the wage reform, does not for now pose a significant risk of spillover effects into the private sector. We nevertheless emphasise the necessity of productivity-enhancing measures to support low inflation, to ensure external competitiveness and to maintain the sustainability of the public finances in the context of the new fiscal rules.

1 International Environment

Global economic growth will be moderate this year, with the risks mostly on the downside.

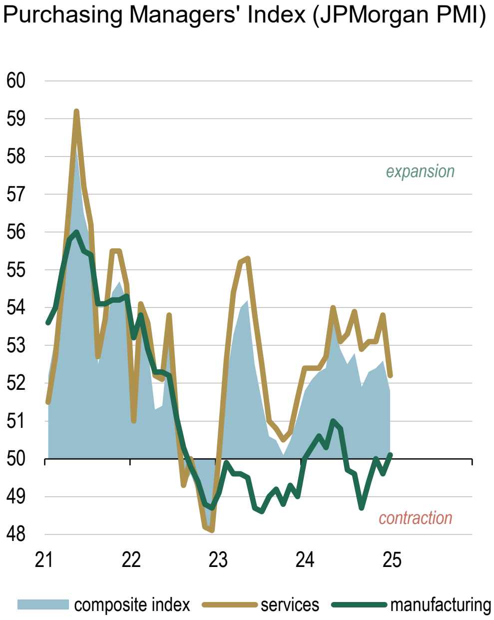
Of the major global economies, it was Japan that saw the highest GDP growth in the final quarter of last year, with a rate of 0.7%. The growth was driven by private investment, by international trade, and also by household consumption amid rising wages. Economic activity in the US also strengthened, by 0.6% in quarterly terms, the lowest rate of the last three quarters. US GDP growth continues to be driven mainly by private consumption. The UK and the euro area saw comparatively modest quarterly GDP growth of 0.1% each. By contrast, China saw its highest GDP growth of the last two years, at 1.6%. It was supported by the fiscal and liquidity measures in place since last September.

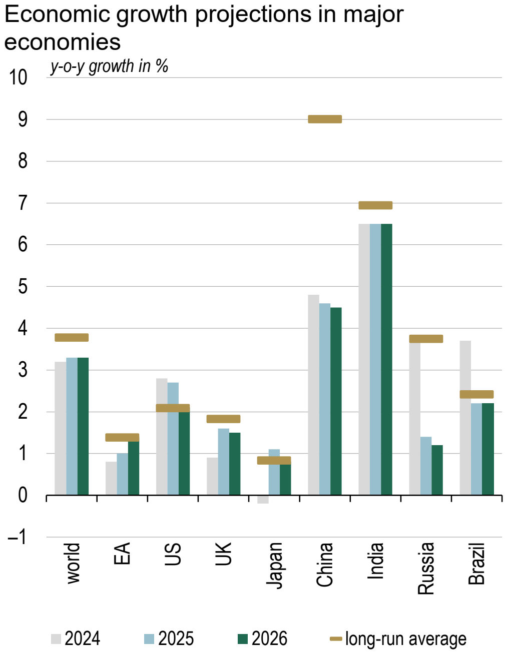
The global PMIs in the early part of this year point to a recovery in manufacturing and a slowdown in growth in services (see Figure 1.1, left). The global manufacturing PMI avoided the zone of contraction in January at 50.1 points, while the services PMI declined slightly to 52.2 points. The global composite PMI remains in the zone of moderate expansion at 51.8 points. The manufacturing PMIs remain in the zone of contraction in the major advanced economies, with the exception of the US. The composite PMI is thus being maintained in the zone of moderate economic growth everywhere by services. The PMIs in China are pointing to moderate growth, and those in India are continuing to strengthen sharply, while the PMIs in Brazil point to a moderate contraction, largely because of difficulties in the service sector.

According to institutional projections released in January by the IMF, after hitting 3.2% last year, global economic growth is forecast to continue and to rise slightly this year and next year. It is forecast at 3.3% for this year, up 0.1 percentage points on the previous projections, but still below its long-term average of 3.7%[1] (see Figure 1.1, right). The major advanced economies are forecast to have approached their long-term average growth rates by 2026, with growth strengthening in the euro area, the UK and Japan, and slowing slightly in the US. GDP growth in China and Russia is forecast to be below the long-term averages, while India and Brazil are forecast to see stable growth at close to the long-term average. Given the increased uncertainties, the medium-term risks to growth lie on the downside in the majority of economies, but on the upside in the US, where protectionist measures could also give rise to inflationary pressures.

[1] The long-term average is calculated over the period of 2000 to 2019.

Figure 1.1: **Global economic situation**





Sources: Bloomberg, IMF, Banka Slovenije calculations. Latest data, left chart: January 2025
Note: The right chart features the IMF's January estimate for 2024, and the forecasts for 2025 and 2026. The long-term average is calculated over the period of 2000 to 2019.

Economic growth in the euro area was modest in the final quarter of last year, and the PMIs point to growth remaining modest in the early part of this year.

The euro area economy expanded by 0.1% in the final quarter of last year, compared with 0.4% in the previous quarter (see Figure 1.2, left). According to the monthly indicators of activity, the quarterly growth was based on services and construction, while industrial production contracted. Among the major euro area economies, the largest quarterly increases in GDP were recorded in Spain and the Netherlands, at 0.8% and 0.4% respectively, while GDP remained unchanged in Italy, and contracted by 0.2% in Germany and 0.1% in France.

In line with the low economic growth, there was also a slowdown in quarterly growth in employment, which stood at 0.1% in the final quarter, down from 0.2% in the third quarter. The main factor in the weak employment growth in the euro area was the adverse situation in manufacturing. After a long period of decline, the unemployment rate rose slightly in December to 6.3%, but remains very low from a long-term perspective.

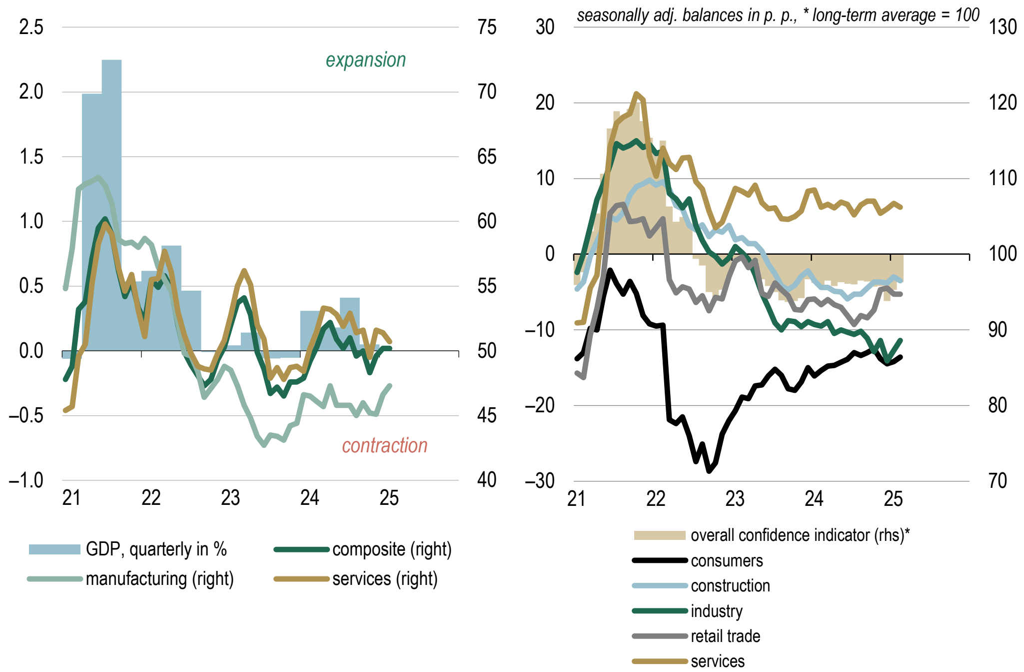
The survey data in the first quarter of this year is slightly more encouraging than in the final quarter of last year (see Figure 1.2, left), largely on account of the manufacturing PMI, which at 46.6 points and 47.3 points during the first two months of the year was showing its smallest contractions of the last nine months. Despite slowing, services activity remained in the zone of expansion, with the PMI standing at 50.7 points in February. The composite PMI stood at 50.2 points at the beginning of the year, and continued to point to moderate growth in economic activity in the euro area. Accordingly the European Commission's economic sentiment indicator was also up slightly. It rose to 95.3 percentage points in January and 96.3 percentage points in February, up from 93.8 percentage points in December, largely as a result of the improved mood in industry, but also to a slight extent on account of consumers (see Figure 1.2, right). The mood in industry nevertheless remains down on its long-term average, while the mood in construction is furthest above its long-term average. Meanwhile the mood in other sectors is broadly similar to the long-term average. The ZEW economic sentiment index also rose in February, to 24.2 points (up from 18 points in January), although this was a slight surprise on the downside with regard to the Consensus expectations. The index nevertheless indicates that slightly more euro area investors and analysts are feeling optimistic with regard to the medium-term economic situation.[2]

According to the IMF's latest projections from January, euro area GDP growth is forecast at 1.0% this year (compared with the forecast of 1.1% from December by the Eurosystem experts), down 0.2 percentage points on the previous projections. Growth is forecast to strengthen slightly relative to 2024, but less than previously forecast, mainly as a result of uncertainty related to geopolitical tensions, and the ongoing weakness of manufacturing. The IMF is forecasting economic growth of 1.4% for the euro area in 2026, the same as the Eurosystem forecast from December.

Figure 1.2: **Economic developments in the euro area**

Purchasing Managers' Index (PMI) and GDP growth

Confidence indicators



Sources: Eurostat, Bloomberg, Banka Slovenije calculations. Latest data, left chart: GDP: Q4 2024; PMIs: February 2025 (flash estimate); right chart: February 2025

In light of the challenges of low productivity growth and weakened competitiveness at EU level, the European Commission has drawn up a competitiveness compass.

In the 2025 Annual Single Market and Competitiveness Report the European Commission highlights that produtivity in the EU is persistently lagging behind the US.[3] EU labour productivity (per capita GDP in PPP per hour worked) stands at 77.8% of the US level in 2023. Low productivity growth is one of the challenges that the EU faces in

[2] Close to 60% of the surveyed analysts in February were expecting no change in economic activity in the euro area over the next six months, more than 30% were expecting an improvement, and almost 10% were expecting a deterioration.

[3] European Commission: 2025 Annual Single Market and Competitiveness Report.

the area of competitiveness. Competitiveness has been identified as one of the main areas where action by the EU is needed. The external competitiveness of Slovenia and other EU Member States is examined below in Box 5.1.

The European Commission unveiled its competitiveness compass in February, which sets out the approach and a selection of key measures to increase the EU's competitiveness.[4] The compass highlights three transformational imperatives to boost competitiveness (closing the innovation gap, a joint roadmap for decarbonisation and competitiveness, reducing excessive dependencies and increasing security), and five horizontal enablers (simplification with the aim of reducing regulatory and administrative burdens, lowering barriers to the Single Market, financing competitiveness, promoting skills and creating quality jobs, better coordinating policies at EU and national level).

The competitiveness compass provides the framework for the European Commission's work in the area of competitiveness over the next five years. Some of the measures from the compass will be unveiled quickly. The European Commission has thus already presented the clean industrial deal (the joint roadmap for decarbonisation and competitiveness), a core component of which is the affordable energy action plan, and certain measures to improve the regulatory environment and reduce administrative barriers for firms.

Headline inflation in the euro area strengthened in January for the fourth consecutive month, again driven largely by higher energy inflation.

Headline inflation as measured by the HICP stood at 2.5% in January, up 0.1 percentage points on December of last year. This was the fourth consecutive monthly rise, leaving the rate 0.8 percentage points higher than in September, when it had reached its lowest level since April 2021. With core inflation unchanged and food inflation slowing, the rise in headline inflation was solely attributable to the increase in energy inflation. The annual growth rate of energy prices stood at 1.8% in January, up from 0.1% in December. The rise was primarily attributable to month-on-month price increases, in particular for motor fuels and electricity, reflecting wholesale markets trends. By contrast, year-on-year food inflation stood at 2.3% in January, having slowed by 0.3 percentage points from December despite monthly price rises. The change was due to lower annual growth rates for both unprocessed and processed food, as respective rates of 1.4% and 2.6% were down 0.2 percentage points and 0.3 percentage points on December (see Figure 1.3, left).

Inflation excluding energy and food stood at 2.7% in January, unchanged from December. It continues to be primarily driven by services inflation, which stood at 3.9% in January. Services inflation has been fluctuating around 4% since November 2023, driven largely by domestic factors reflecting pass-through of higher labour costs to final prices. By contrast, year-on-year growth in prices of other goods remained stable at 0.5% in January, unchanged from December and in line with its long-term pre-pandemic average, indicating that the impact of past shocks has now waned almost entirely.[5]

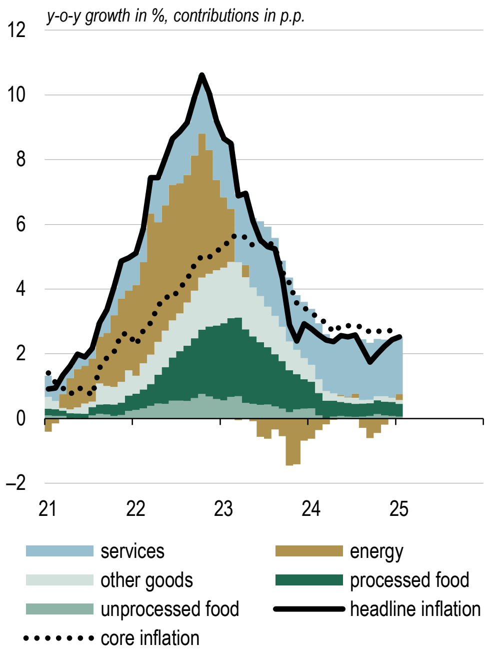
Amid the declining trend of headline inflation since the end of 2022, the gap between inflation rates of euro area members has also been narrowing. While the difference

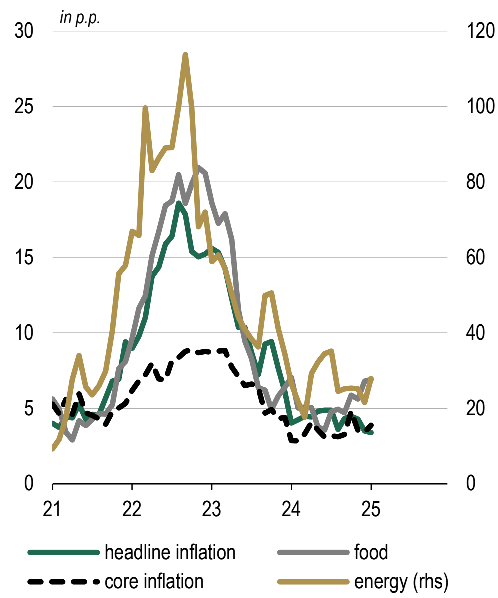
[4] European Commission: A Competitiveness Compass for the EU.

[5] Year-on-year growth in prices of other goods in the euro area averaged 0.5% between 2005 and 2019.

between the highest (Estonia with 25.2%) and lowest (France with 6.6%) inflation rates stood at 18.6 percentage points in August 2022, it had narrowed to 3.4 percentage points by January of this year, slightly above its pre-pandemic level. Despite easing conditions in wholesale markets, significant differences in energy inflation remain: the gap averaged 24 percentage points over the final quarter of last year. This partly reflects the varying approaches of countries in mitigating the impact of high energy prices on households. Food inflation has also contributed to the diverse headline inflation rates in recent years. Having approached its pre-pandemic level last year, the food inflation gap has widened again in recent months. By contrast, core inflation divergence was less pronounced in previous years, and by the final quarter of last year, the average gap had returned to its pre-pandemic level of 3.9 percentage points (see Figure 1.3, right).

Figure 1.3: **Inflation in the euro area and the range of inflation rates across countries**





Sources: Eurostat, Banka Slovenije calculations. Latest data: January 2025
Note: The right chart illustrates the gap between the highest and lowest year-on-year inflation rates across euro area members.

2 Monetary Policy and Financial Markets

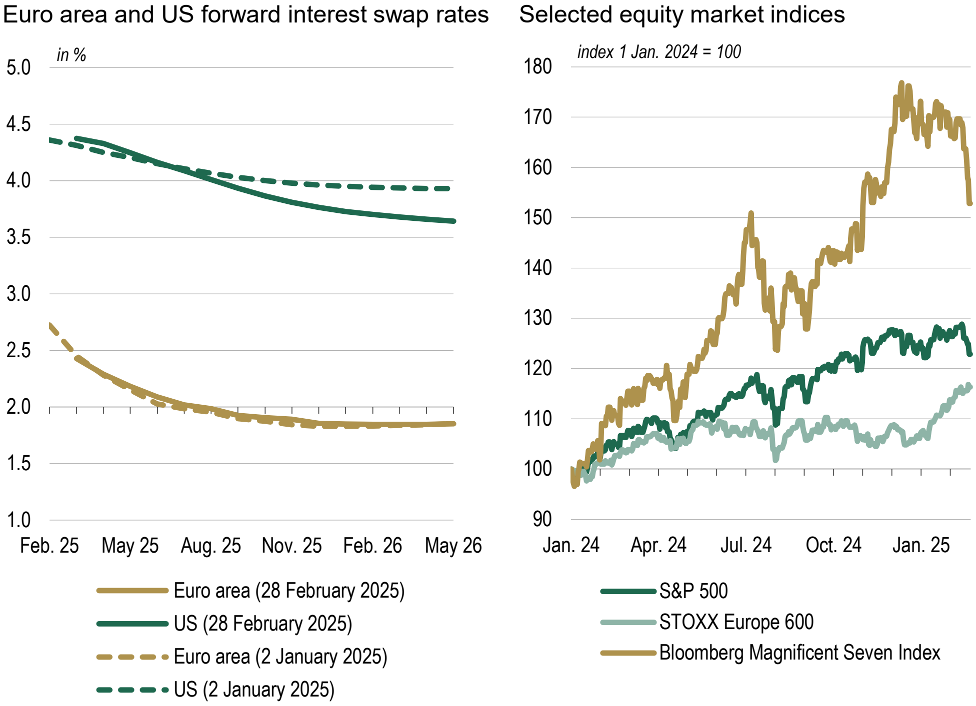
The Eurosystem cut the interest rate on the deposit facility by 0.25 percentage points in January to 2.75%, while the Fed left its key interest rate unchanged.

In January, the Eurosystem lowered all three of its key interest rates by 0.25 percentage points—the fifth reduction since the monetary policy easing cycle began in June of last year. This reduced the interest rates on the deposit facility to 2.75%, on main refinancing operations to 2.90% and on the marginal lending facility to 3.15%. The decision to cut rates was based on an updated assessment of the inflation outlook, developments in core inflation, and the strength of monetary policy transmission. The ongoing process of reducing inflation remains in line with expectations, and most measures suggest that inflation will sustainably stabilize around the Governing Council's 2% target rate.

Amid heightened inflation risks, the Federal Reserve left its key interest rate unchanged in the corridor of 4.25% to 4.50% at its January meeting. At the press conference, Fed Chair Jerome Powell stated that any decision to lower interest rates would require additional data and details concerning the economic policy of the new US administration. By contrast, cuts of 0.25 percentage points in their key interest rates were made in January by the central banks in the UK (to 4.50%), Sweden (to 2.25%) and Canada (to 3.00%), while the Japanese central bank raised its key interest rate by 0.25 percentage points to 0.50%, in light of the upward trend of prices in Japan.

Expectations for the pace and scale of interest rate cuts at the ECB have remained largely unchanged since early January. By contrast, expectations for the Federal Reserve have increased slightly, driven by weaker-than-anticipated U.S. GDP growth in the final quarter of last year and a contraction in services in January. According to current overnight index swap (OIS) rates, markets are pricing in three additional 0.25 percentage point cuts to the ECB's key interest rates this year, bringing the deposit facility rate down to 2.00% (see Figure 2.1, left). Meanwhile, market forecasts indicate two rate cuts by the Fed in 2025, which would place its key interest rate in a corridor between 3.75% and 4.00%.

Figure 2.1: **OIS curves and developments in stock market indices**



Sources: Bloomberg, Banka Slovenije calculations. Latest data, right chart: 28 February 2025
Note: In the right chart the Magnificent Seven comprise Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla.

Yields on US government bonds have fallen since January, while the main US and European share indices have risen to record levels, as has the price of gold.

Under the influence of heightened expectations regarding the pace and magnitude of interest rate cuts at the Fed, US government bond yields have declined since early January. Weak economic indicators, particularly in services, were a major factor. Yields also dropped as investors sought safer assets amid increased concerns that US tariff policy could hamper economic growth. Short-term yields on US government bonds have fallen by 0.21 percentage points since the beginning of January, while long-term yields have decreased by 0.33 percentage points. Similarly, yields on short-term German government bonds have fallen by 0.09 percentage points over the same period, while yields on long-term bonds are broadly unchanged. Market yields on euro area bonds with higher credit risk mostly decreased during this period, supported by generally positive corporate earnings reports.

The main US and European equity indices reached record highs in the second half of February. Europe's leading equity benchmark (STOXX Europe 600) has gained 9.1% since the beginning of January, while the leading US index (S&P 500) is 4.6% below its recent high in response to weak economic data. Meanwhile, the Magnificent Seven index—which tracks seven largest US technology firms—has declined by 11.7% from its December 2024 record high (see Figure 2.1, right). In Hong Kong, the Hang Seng technology-focused share index has risen by 16.2% since early January, driven by investor optimism surrounding the technological advances of Chinese firms. Encouraging earnings reports from Chinese tech companies and the launch of the DeepSeek AI model also supported these gains.

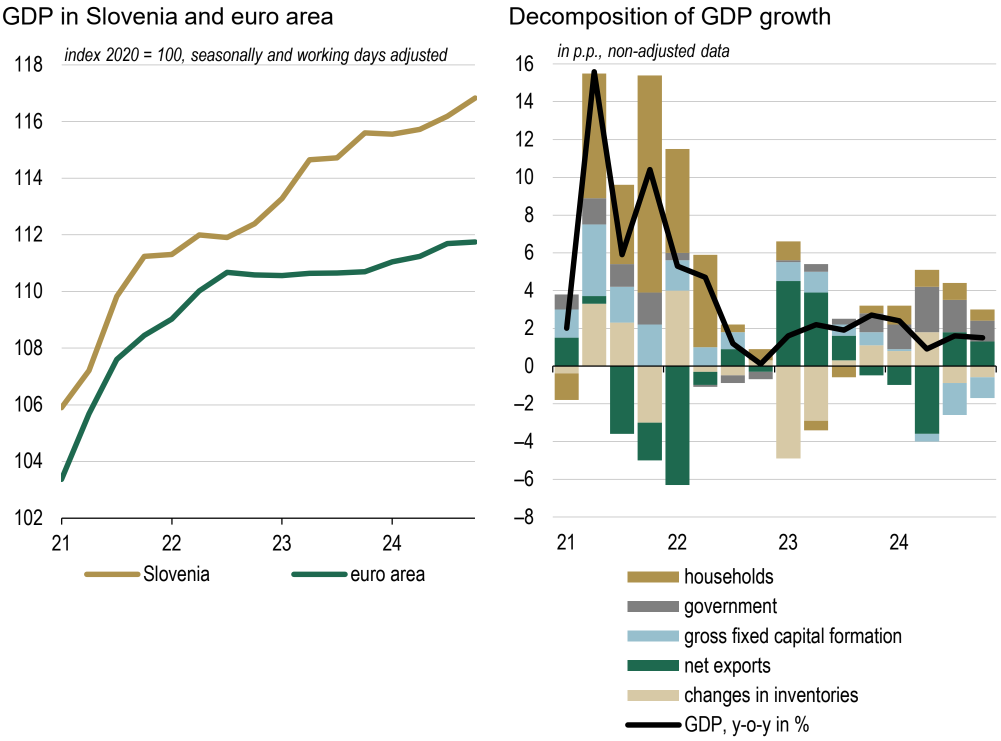
The US dollar has declined against most major global currencies since early January, losing 0.4% against the euro and 1.8% against a broader currency basket. Together with the uncertainty surrounding future global economic growth, the weaker US dollar drove a fall in the price of Brent crude, which is 3.3% lower than at the beginning of January. The price of gold rose by 7.6% over the same period, as investors moved into safe havens, though it currently remains below its record high reached in the second half of February (USD 2,956 per ounce).

3 Domestic Economic Activity

At the end of last year, the economic situation in Slovenia was better than that in the euro area overall; the large contribution to GDP growth by net exports was a highlight, but investment developments remained weak.

Economic growth was low last year, but the situation improved over the course of the year, as is evident from the strengthening quarterly dynamics. According to the SURS's initial estimates, GDP rose by 1.6% last year, 0.5 percentage points less than in 2023, but still a better performance than the euro area average. From stagnation in the first quarter, quarterly growth in the domestic economy had strengthened to 0.6% by the end of the year, leaving GDP up 1.5% in year-on-year terms in the final quarter. Both rates outperformed the euro area averages at the end of the year (see Figure 3.1, left).

Figure 3.1: **Economic growth**



Sources: Eurostat, SURS. Latest data: Q4 2024

The expenditure breakdown of GDP reveals the significant role played by the government in the maintenance of economic growth last year, the renewed growth in household consumption, and the sharp downturn in the investment cycle (see Figure 3.1, right). After peaking in the second quarter, year-on-year growth in final government consumption slowed but still stood at 5.7% in the final quarter, and its contribution to GDP growth amounted to 1.1 percentage points. A large part of last year's growth in government consumption was attributable to the reclassification of supplemental health insurance as a compulsory health contribution, while increased employment in the government sector and the increase in expenditure on the post-flood reconstruction were also factors.

The fall in inflation and the rise in real growth in the net wage bill drove renewed growth in private consumption last year. The year-on-year rate stood at 1.2% in the final quarter, up 0.4 percentage points on a year earlier. In a situation of major international uncertainty, high energy costs and a reduced role for the government, last year was very challenging for firms in terms of investment. There was a sharp downturn in the cycle, and investment in the final quarter was down 5.2% in year-on-year terms. The decline was evident in all types of investment, but was particularly unfavourable in investment in machinery and equipment, where it reached 7.1%.

There was an upturn in year-on-year developments in exports, which strengthened in the second half of last year. Exports of merchandise and services in the final quarter were up 3.9% in year-on-year terms, although their nominal structure according to the SITC is not indicative of a large scale improvement in the situation in the merchandise segment.[6] A large part of the growth was driven by the excellent performance of the pharmaceutical industry, which succeeded in increasing its nominal exports by 37.7% in year-on-year terms, while exports of electricity were also high. Growth in services exports was more broadly based according to the balance of payments figures, with increases in the vast majority of categories. Because growth in aggregate imports was curtailed by weak domestic investment and the run-down of inventories, the contribution made to GDP growth by net trade was positive at the end of the year. It amounted to 1.3 percentage points (see Figure 3.1, right).

The favourable growth in aggregate value-added in manufacturing hides major differences between sectors. An upturn was evident in construction by the end of the year, although residential construction remained in crisis.

Despite the difficulties in the European economy, by the end of the year domestic industrial firms were once again seeing increases in value-added, by 0.8% in quarterly terms and 3.4% in year-on-year terms. The growth was even higher in the manufacturing sector, where the year-on-year rate of 4.2% was up 3.3 percentage points on a year earlier. However, the relatively high aggregate growth – as in merchandise exports – hides major differences between sectors. Only half of the sectors recorded a year-on-year increase in output in the final quarter of last year, with the year-on-year changes ranging from –37.0% to 31.4%. The technological breakdown illustrates the pharmaceutical industry's prevailing contribution to aggregate growth in output.

Value-added in construction recovered in the final quarter of last year. After one year of quarterly declines, the quarterly rate of growth was high at 5.9%, while the amount of construction put in place revealed the strengthening activity in all segments of construction other than residential construction. A reversal in the year-on-year position was also achieved: growth in value-added had turned positive by the end of the year, following two quarters of negativity. It stood at 1.3%. Meanwhile the housing market remains in crisis, with no signs of strengthening supply. Housing investment in the final quarter of last year was down 13.7% in year-on-year terms, while the number of new building permits and the corresponding housing floorspace continued to show a similar year-on-year decline in January.[7]

The situation in private-sector services remained favourable amid solid domestic private consumption and increased foreign demand and the financial sector continued to perform well. Quarterly growth in their value-added held at 0.4% at the end of the year, while the year-on-year rate reached 1.8%. The year-on-year comparisons were positive in all categories of services, with financial and insurance activities recording the highest growth in value-added (5.3%). The sole exception was the small decline in value-added in real estate activities, which could be related to the low number of transactions in the housing market. Economic growth was also strengthened by public services, where year-on-year growth in value-added stood at 1.7% in the final quarter.

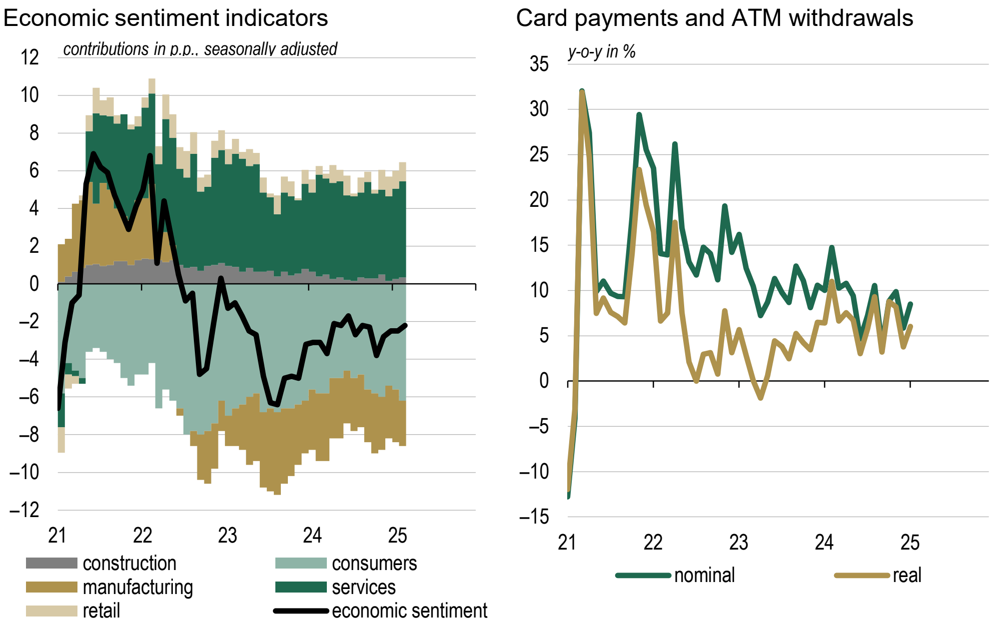
[6] According to the SITC (standard international trade classification) classification, nominal exports in the final quarter of last year were up in year-on-year terms or unchanged in 35 categories of goods, and down in 32 categories.

[7] The number of new building permits and the corresponding housing floorspace are measured as 12-month moving sums.

The solid economic climate in the early part of this year is being driven by rising demand on the domestic market, while the situation in the international environment remains unfavourable.

Confidence rose slightly in all sectors in February (see Figure 3.2, left). Retail and other private-sector services remained to the fore, with positive assessments of demand. These were in line with January's year-on-year increase in the real value of card payments and ATM withdrawals (see Figure 3.2, right), invoices registered with tax authorities,[8] and retail turnover. An upturn was evident in construction, where firms saw a sharp rise in their assessments of activity and order books in February. The manufacturing confidence indicator in February was up slightly on January, but the situation remains difficult; firms are not predicting an increase in the relatively low level of capacity utilisation in the first quarter of this year, and continue to cite insufficient foreign demand and high economic uncertainty as limiting factors.[9] In contrast to business, consumer confidence declined again, with consumers becoming more pessimistic in their assessments of their own financial situation and the domestic economy over the next 12 months.

Figure 3.2: **Sentiment and consumption indicators**



Sources: Bankart, SURS, Banka Slovenije calculations. Latest data, left chart: February 2025; right chart: January 2025
Note: The HICP deflator is used to calculate real growth rates in the right chart.

[8] The HICP deflator is applied to card payments, ATM withdrawals and invoices registered with tax authorities.

[9] Capacity utilisation was estimated at 80.7% in the first quarter, down 0.2 percentage points on the previous quarter and down 1 percentage point on its average between 1996 and 2024. Some 38% of firms were facing insufficient foreign demand, up 5.0 percentage points on the final quarter of last year and up 6.5 percentage points on the average between 1996 and 2024. High economic uncertainty was reported by 38% of firms, unchanged from the end of last year and 16.5 percentage points more than the average between 1996 and 2024.

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

The average nowcast for quarterly GDP growth in the first quarter of this year is 0.7%.

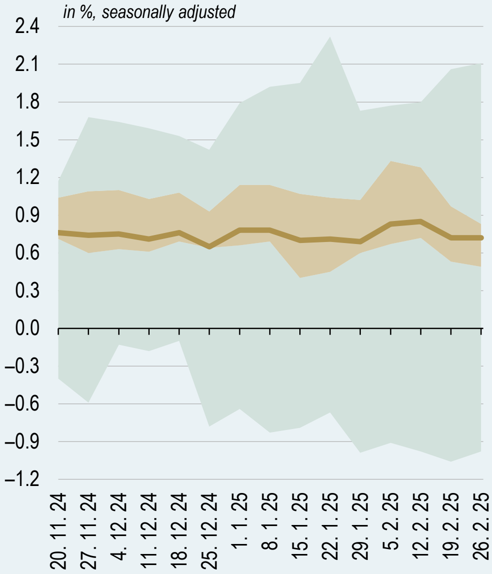
The current nowcast for quarterly GDP growth in the first quarter stands at 0.7% (see Figure 3.1.1, left). This nowcast reflects the stable economic climate in January compared with the previous month, a slight improvement in February, and the solid realisation of GDP growth in the final quarter of last year. February's improvement in economic sentiment was driven by increased confidence in manufacturing, services, and construction (by 0.5, 0.2, and 0.1 percentage points, respectively), while consumer confidence had a negative impact of –0.6 percentage points. The retail confidence indicator had no effect.

A significant adjustment in the quarterly growth nowcast is expected in March with the release of January's data for key monthly indicators of economic activity, including industrial production, the amount of construction put in place, and activity in services and retail.

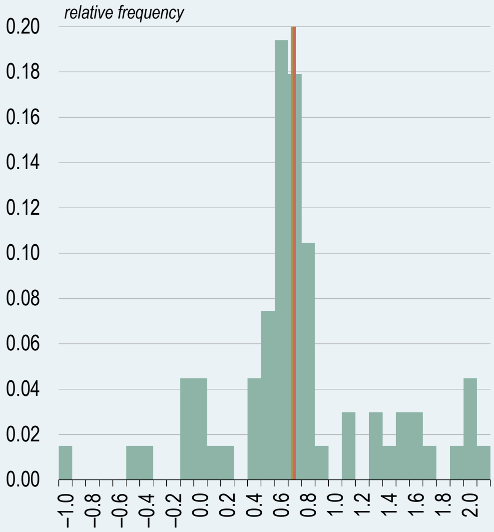
The limited dataset of high-frequency indicators is also reflected in the chart showing the distribution of nowcasts (see Figure 3.1.1, right). The range, based on the 25th and 75th percentiles of the distribution, currently lies between 0.5% and 0.8%.

Figure 3.1.1: **Nowcasts for GDP growth**

Model estimates of quarterly GDP growth Q1 2025



Histogram of quarterly GDP growth estimates Q1 2025



Source: Banka Slovenije calculations

Note: The left chart illustrates the nowcasts for quarterly GDP growth. The gold area represents the interval between the 25th and 75th percentiles, while the green area represents the interval between the lowest and highest nowcasts. The line represents the average nowcast for GDP growth in the first quarter of 2025. The right chart illustrates the distribution of the nowcasts for quarterly GDP growth in the first quarter of 2025. The vertical gold line represents the median, and the red line the mean. The relative frequency represents the share of the total set of models yielding a particular growth nowcast. Nowcast date: 26 February 2025

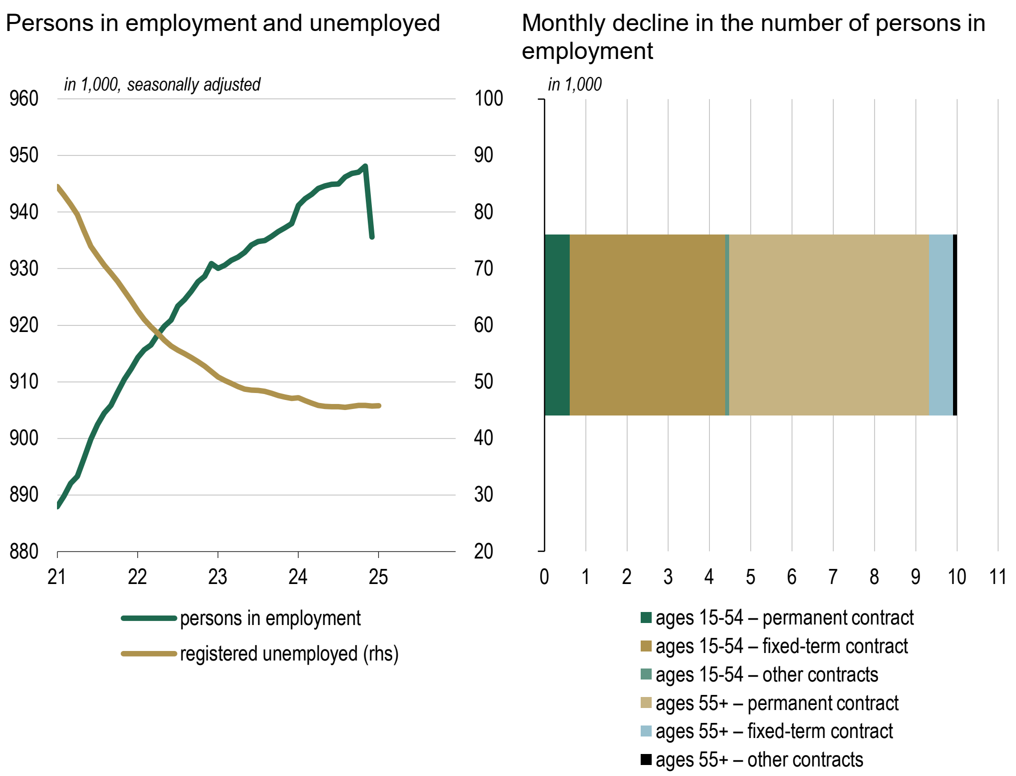
4 Labour Market

The situation on the labour market is slightly weaker compared with previous months. Employment fell in 2024, and the number of vacancies is also continuing to fall.

The number of persons in employment fell by 10,005 to 938,439 in December (see Figure 4.1, left). This decline was largely driven by a high number of retirements at the end of the year, likely due to more favourable retirement conditions in 2024 compared to 2025. Another key factor was the expiry of fixed-term contracts, particularly among foreign workers (see Figure 4.1, right). As a result, employment trends have aligned more closely with national accounts data, which show employment declining in all quarters of 2024, albeit from a high level. The contraction in employment was mainly due to deteriorating conditions in manufacturing and construction. Survey indicators for the first two months of 2025 suggest a slight improvement in the labour market in the months ahead, with negative expectations largely confined to manufacturing.

The number of vacancies continued to fall in the final quarter according to the seasonally adjusted data, with industry and retail seeing the most pronounced declines (see Figure 4.2, left). Despite the decline in demand for labour, firms are still facing labour shortages. This is particularly acute in services, where the share of firms citing a shortage of labour remains close to its record level.

Figure 4.1: **Selected labour market indicators**



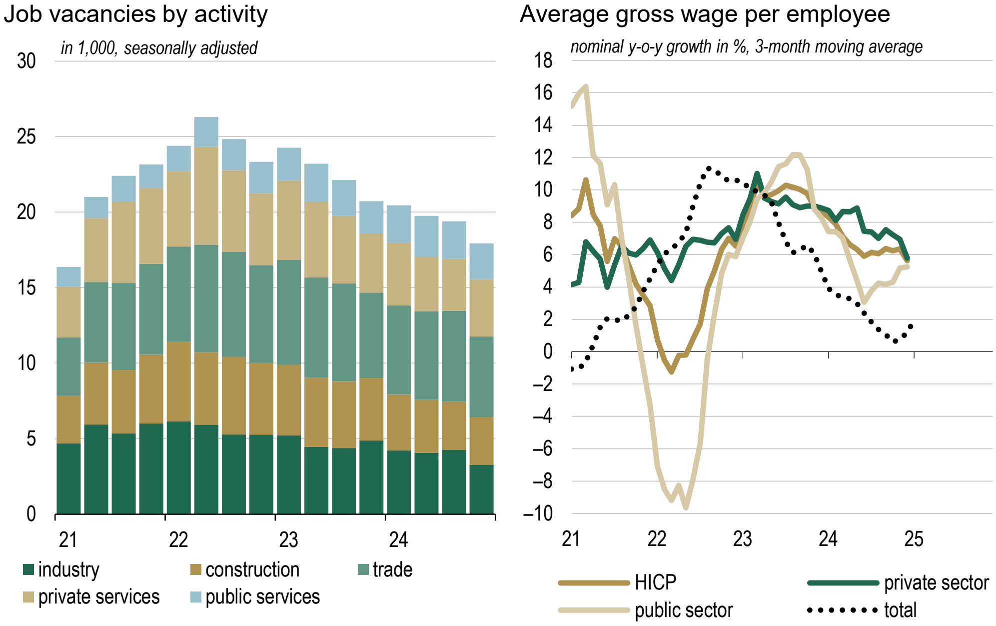
Sources: SURS, Employment Service, Banka Slovenije calculations. Latest data, left chart: registered unemployment: January 2025; persons in employment: December 2024; right chart: December 2024
Note: In the right chart the labels permanent, fixed-term and other refer to the type of employment contract.

The number of registered unemployed rose in January, in line with expectations, as a result of temporary employment positions coming to an end. Registered unemployment stood at 50,148 at the end of the month, up 6.6% on the previous month but down 2.8% on January of last year. After rising to 4.4% in the third quarter of last year, by the end of the year the surveyed unemployment rate had fallen again, to 3.5%.[10] The persistence of low registered unemployment despite the increasingly unfavourable situation on the labour market is an indication that firms are mainly reducing their workforces via retirement, which is not reflected in the unemployment statistics.

Growth in the average gross wage slowed significantly at the end of last year.

The year-on-year growth of the average gross wage stood at 3.9% in December, significantly below the annual average of 6.2%. December wage growth is strongly influenced by deferred and extraordinary payments, and the lower growth was mainly due to a smaller volume of such payments compared to the more favourable economic conditions in 2023. For the first time in a prolonged period, gross wage growth in the public sector outpaced that in the private sector—reaching 4.8% in the public sector and 3.4% in the private sector (see Figure 4.2, right). With lower nominal wage growth and slightly higher inflation at the end of the year, real wage growth slowed but remained positive at 1.9%.

Figure 4.2: **Vacancies and wage developments**



Sources: SURS, Banka Slovenije calculations. Latest data, left chart: Q4 2024; right chart: December 2024, inflation: January 2025

[10] Our assessment is that the temporary rise in the surveyed unemployment rate was most likely attributable to noise in the data, which is based on sampling.

Box 4.1: **Comparison of employment and wages in the public and private sectors**

The average wage in the public sector has been higher than the average wage in the private sector for the last 30 years, which is largely explained by the breakdown of the respective workforces according to occupation and age.

In light of the agreed wage rises in the public sector, this box presents a comparison of past developments in employment and wages in the public and private sectors.[11] Understanding the differences and overall trends in wage developments between the two sectors is important, given the potential spillover and intensification of wage pressures in the economy as a whole.

The average wage in the public sector as measured by compensation of employees per employee has always been higher than that in the private sector over the last 30 years, with the exception of four quarters in the last two years, including the final quarter of last year (see Figure 4.1.1, left). Before the introduction of the standardised wage system in August 2008, wages in the public sector were set at the level of the individual sector, and year-on-year wage growth was lower on average than in the private sector. Following the reform wage growth in the public sector surged, thanks to payments to eliminate wage disparities, and this period coincided with the economic crisis, which curtailed wage growth in the private sector. This resulted in a major divergence in wage growth between the two sectors. Over the following years austerity measures – introduced gradually from mid-2012 – reduced wages in the public sector, but a major divergence in growth arose again in late 2020, as a result of the payment of pandemic-related bonuses in the public sector. The private sector has seen stronger wage growth over the last three years.

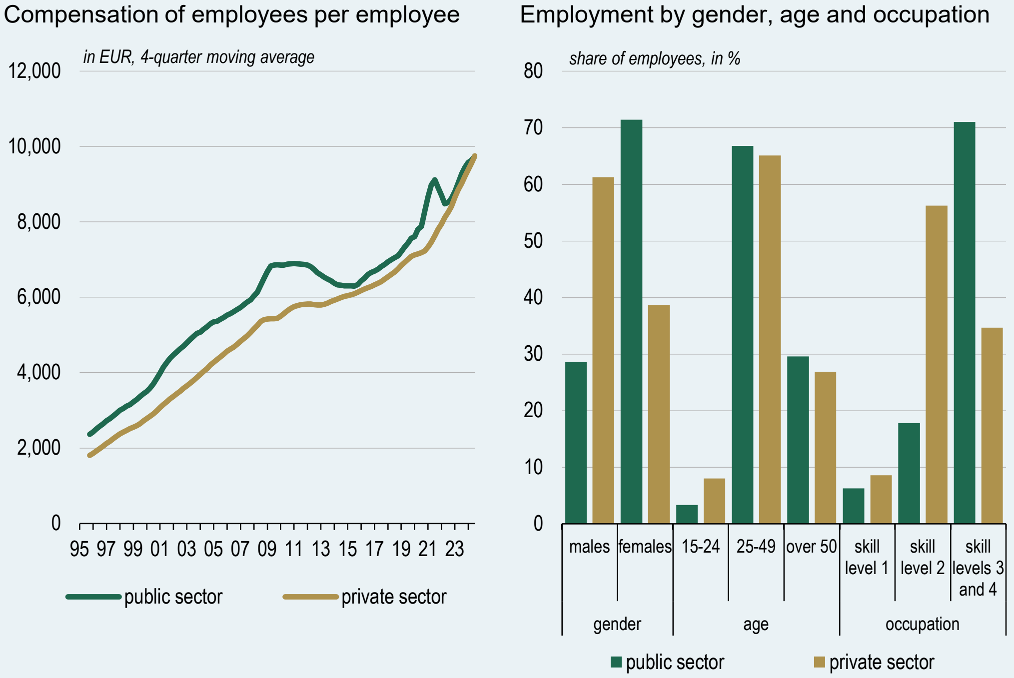
According to theory and empirical literature, the main factors affecting differences in wages between the two sectors are age, gender, and breakdown by occupation or qualifications.[12] Younger workers are paid less on average in the same jobs, as age is strongly correlated with experience, while older workers receive higher bonuses for past work. Gender is also a factor in the level of the average wage, which favours men.[13] Another significant factor is the level of qualifications that employees have, which is reflected in their knowledge and skills, and can be measured via educational qualifications and by occupational structure. Employees with higher educational qualifications and in occupations that demand more advanced qualifications with a higher level of required knowledge should receive higher wages. Other factors can also affect wage level, such as the type of contract, geographical factors, conditions on the labour market, and the cost of living.

[11] For the sake of improved data accessibility and longer time series, the public sector is defined as public sector activities encompassing Sectors O (public administration and defence, compulsory social security), P (education) and Q (human health and social work activities).

[12] Chiripanhura, B. (2019). Public and private sector earnings: 2019. Available online at: Public and private sector earnings - Office for National Statistics; Giordano R. (2011). The public sector pay gap in a selection of euro area countries. Available online at: The public sector pay gap in a selection of euro area countries.

[13] In the Slovenian data this is evident from the Structure of Earnings Survey. Detailed information is available on the SURS website: Average gross wage per employee (based on the Structure of Earnings Survey).

Figure 4.1.1: **Wage levels and factors affecting average wages**



Sources: SURS, Eurostat, Banka Slovenije calculations. Latest data, left chart: Q4 2024
Note: In the right chart the shares in the breakdown by occupation in each sector sum to less than 100% because military occupations and unclassified answers have been excluded from the analysis. The shares are calculated as an average over the period from the first quarter of 2008 to the third quarter of 2024.

Analysis of the structure of employment largely explains the reasons for the higher level of the average wage in the public sector (see Figure 4.1.1, right). The age distribution shows that between 2008 and 2024 jobs were occupied by older workers, while in terms of occupation there was a greater prevalence of those with higher knowledge requirements, as also evidenced by the qualifications breakdown.[14] In contrast, a higher proportion of women are employed in the public sector, suggesting that the average wage level is the result of several factors that reduce the impact of gender on pay in the sector.

To make a more objective comparison of wages between the two sectors, the wage premium should also be taken into account. This compares comparable occupations in both sectors, and also takes account of differences in the breakdown of employees. The analysis to date of the wage premium for Slovenia shows the wage premium for the public sector to be positive in occupations with a lower skill level requirement, and negative in occupations with a higher skill level requirement. In other words this means that wages in jobs with lower skill level requirements in the public sector are higher by comparison than those in the private sector, while conversely more complex work that requires higher qualifications is better-paid in the private sector.[15]

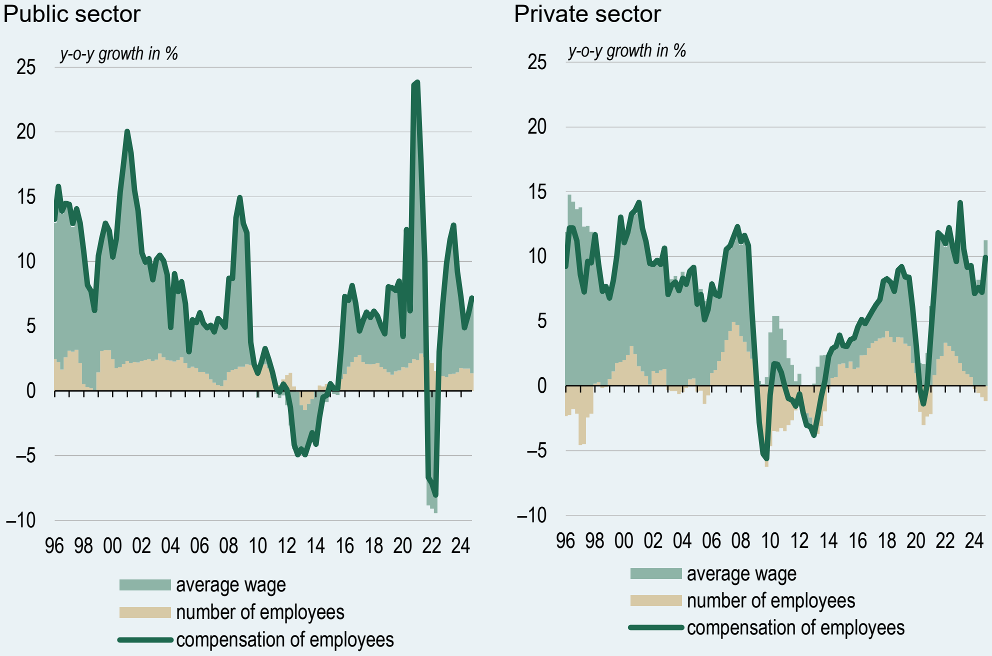
Additional insight into wage developments in both sectors is given by the decomposition of year-on-year growth in compensation per employee, namely into contributions by the number of employees and by the average wage (see Figure 4.1.2). In the public

[14] Occupations at the first skill level are defined as elementary occupations for which primary education is required. Those at the second skill level generally require the completion of secondary education, and include groups of occupations that require an ability to read and understand information and considerable manual skills. Skill levels three and four encompass occupations that require tertiary education and envisage the performance of complex technical and practical tasks in a specialised field. Because armed forces occupations are placed in different groups with regard to skill level, and there was insufficient data about them, they have been omitted from the analysis. Detailed information is available in the SURS Methodological Notes (2011).

[15] Perko, M. (2024). Razlike v plačah med javnim in zasebnim sektorjem ter plačna premija. Kratke analize. Available online at: Differences in wages between the public and private sectors, and the wage premium, IMAD (2018). Plače in plačna politika. Ekonomski izzivi 2018. Available online at: Economic Challenges 2018; Roter, M., Lindič, M. and Vodopivec, M. (2017). Wage differential between public and private sector in Slovenia. Banka Slovenije Discussion Papers. Available online at: Wage differential between public and private sector in Slovenia.

sector the number of employees rose over the majority of the observation period, and thereby made a positive contribution to year-on-year growth in compensation of employees. The exception was the period when the austerity measures were in force. By contrast, developments in the number of employees in the private sector are much more reflective of the economic cycle. This data shows the greater job security in the public sector, which might be one of the reasons for the negative wage premium for occupations with higher skill level requirements.

Figure 4.1.2:
Decomposition of year-on-year growth in compensation per employee



Sources: SURS, Banka Slovenije calculations. Latest data: Q4 2024
Note: The average wage is calculated as compensation of employees per employee according to the national accounts figures.

Empirical analysis shows the predicted rise in wages in the public sector to be in line with the long-term growth dynamics, as wages in the public sector are currently below the long-term equilibrium position relative to wages in the private sector.

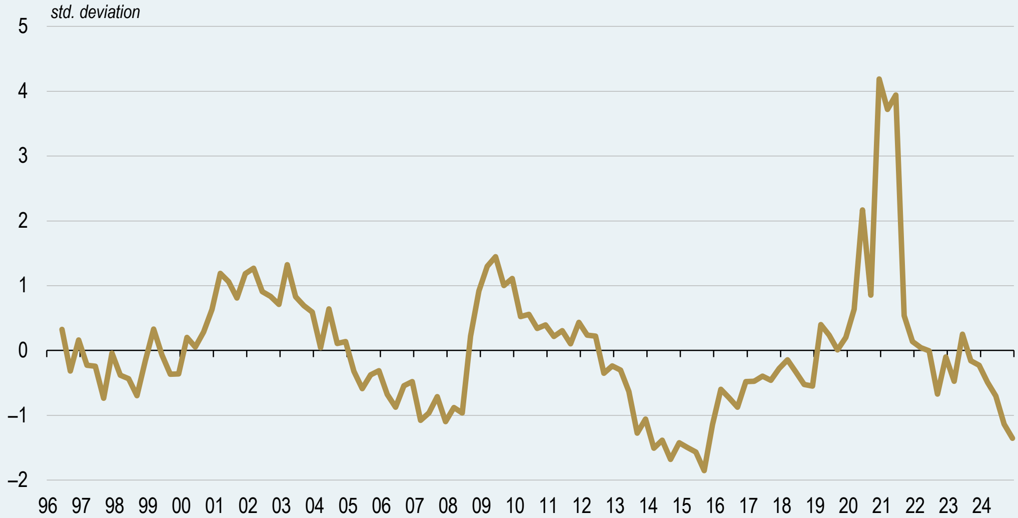
To assess potential spillover effects of the agreed public sector wage growth on private sector wages, we estimated the long-term equilibrium between wages in both sectors using an empirical model. Specifically, we applied a linear model estimated with the Fully Modified Ordinary Least Squares method, where the logarithm of public sector wages is the dependent variable and the logarithm of private sector wages is the explanatory variable. The specification includes a constant and a trend as deterministic components. The results confirm that the two series are statistically cointegrated,[16] providing empirical evidence of a stable long-term relationship between public and private sector wages. This implies that any deviation in wages in one sector will, over time, converge toward the long-term equilibrium described by the estimated model.

To determine whether current public sector wages are above or below their long-term equilibrium relative to private sector wages, we analysed the residuals of the estimated model. The results indicate that public sector wages are currently below the estimated

[16] An Engle-Granger cointegration test was used.

long-term equilibrium (see Figure 4.1.3). This suggests that the ongoing wage reform can be interpreted as a catch-up mechanism rather than a structural shift away from historical wage-setting dynamics. These findings align with previous observations (see Figure 4.1.1, left), which show that private sector wage growth has been faster in recent periods. Consequently, the likelihood of strong spillover effects on private sector wages remains relatively limited for now. This conclusion is also relevant in the context of price growth factors, as discussed in Box 6.1.

Figure 4.1.3: **Standardised residuals of the model**



Sources: SURS, Banka Slovenije estimates and calculations. Latest data: Q4 2024
Note: If the model residuals are greater than zero, this means that wages in the public sector are higher than the estimated long-term equilibrium with the private sector. If the model residuals are less than zero, wages in the public sector are lower than the estimated long-term equilibrium.

5 Current Account

The favourable developments in services trade seen in the previous quarter continued in the final quarter of last year, while growth in merchandise trade slowed slightly but remained positive.

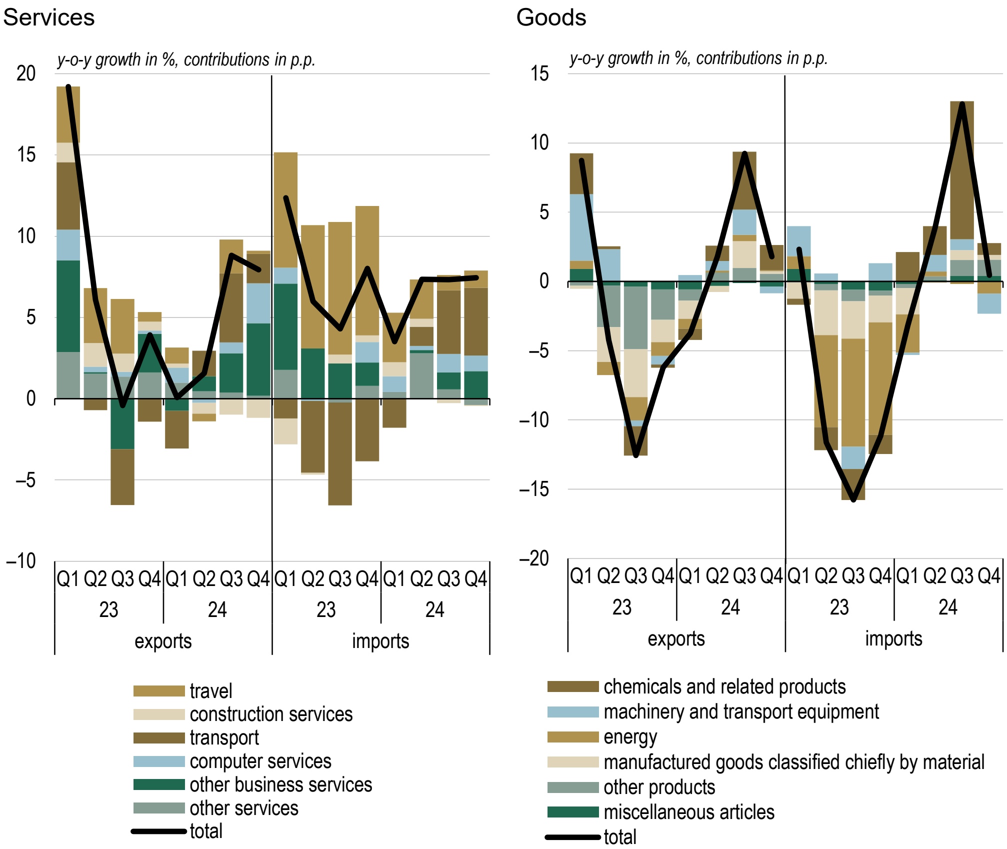
According to the balance of payments figures, after performing poorly in the first half of the year with nominal declines of 1.6% in exports and 0.3% growth in imports, firms recorded export growth of 7.0% and import growth of 4.2% in the second half of the year, which promises a good outlook for this year.[17] Manufacturing firms' expectations with regard to foreign demand over the next three months declined slightly, but remained better than in the early part of last year.

After very good performance in the third quarter of last year, when they recorded growth of 10.1%, in part because of a low base effect from the previous year, nominal exports

[17] Aggregate nominal exports and imports recorded growth of 2.6% and 2.2% respectively last year, after declining in 2023. Merchandise exports and imports increased by 1.9% and 1.3% respectively, while services exports and imports increased by 4.9% and 6.6% respectively.

were up 4.0% in year-on-year terms in the final quarter. This was largely attributable to the 7.9% growth in services exports, driven primarily by increased exports of miscellaneous business services[18] and telecommunications services[19] (see Figure 5.1, left). There was a pronounced decline in exports of construction services, the largest since the final quarter of 2013. In the geographical breakdown the largest increases in exports in terms of value were recorded by Switzerland and Austria, primarily exports of miscellaneous business services in both cases. Services exports were also strong in December, recording year-on-year growth of 9.8%.

Figure 5.1: **Foreign trade**



Sources: Banka Slovenije, SURS, Banka Slovenije calculations
Note: Chemical products excluding exports of medical and pharmaceutical products to Switzerland, and imports of medical and pharmaceutical products from Switzerland and of organic chemical products from Switzerland, China and India.

After growing strongly in the third quarter of last year, merchandise exports slowed slightly in the final quarter, recording growth of 2.8%, where the weak growth in export activity of 0.4% in December was also a factor in the slightly weaker performance (see Figure 5.1, right). Growth in exports of chemical products[20] remains favourable: in year-on-year terms they were up 12.4% in December, and 10.9% in the final quarter overall. Growth in merchandise exports was supported by almost all other product categories, albeit with minor contributions, with the exception of machinery and transport equipment, and miscellaneous fabricated products. The largest year-on-year increases in value terms in December and in the final quarter overall were recorded by exports to Switzerland and Russia, [21] while the largest decline was in exports to Austria.

[18] Miscellaneous business services accounted for 4.4 percentage points of the growth in services exports, most notably technical services, services related to trade and other business services.

[19] Telecommunications services accounted for 2.5 percentage points of the growth.

[20] Since the second half of last year, namely exports of chemical products excluding medical and pharmaceutical products, and organic chemical products to Switzerland.

[21] Exports of medical and pharmaceutical products.

Given the numerous challenges facing export-oriented firms, it is evident that in recent years they have at least slightly refocused on other export markets, which together with their cost competitiveness is examined in Box 5.1.

Aggregate nominal imports in the final quarter of last year were up 1.8% in year-on-year terms, with services again prominent, recording growth of 7.4% (see Figure 5.1, left). The strengthening of services imports was particularly notable in December, when they recorded their highest growth since October 2023 at 11.6%. The largest factor in the growth in the final quarter was transport services,[22] while miscellaneous business services were the largest factor in December, with the highest demand coming for business and management consulting. The largest nominal increases in services imports in the final quarter were recorded by the Netherlands (miscellaneous business services) and Luxembourg (transport services).

Year-on-year growth in merchandise imports slowed to 0.6% in the final quarter, in part as a result of weak domestic investment. The largest factors were the negative contributions by imports of machinery and equipment[23] and of energy.[24] In the geographical breakdown the largest decline was in imports from Italy (energy), while there were increases in imports of products from Germany (machinery and transport equipment) and China (chemical products).

The 12-month current account surplus reached its highest figure since May 2021 at the end of last year, in which the largest factor was still the services trade surplus.

The 12-month current account surplus amounted to around EUR 3.3 billion in the final quarter of last year, its highest level since May 2021. The largest factor was the services trade surplus of EUR 3.6 billion. Merchandise trade recorded a surplus of almost EUR 700 million, the largest 12-month surplus since the end of 2021. The income balance is continuing to reduce the current account surplus: it recorded a deficit of EUR 1 billion in December, still 12.3% less than a year earlier. The deficit in primary income was smaller than at the end of 2023, largely as a result of higher net capital income (in particular from non-financial corporations' equity), while the smaller net labour income increased. The deficit in secondary income was mainly reduced by various current transfers.

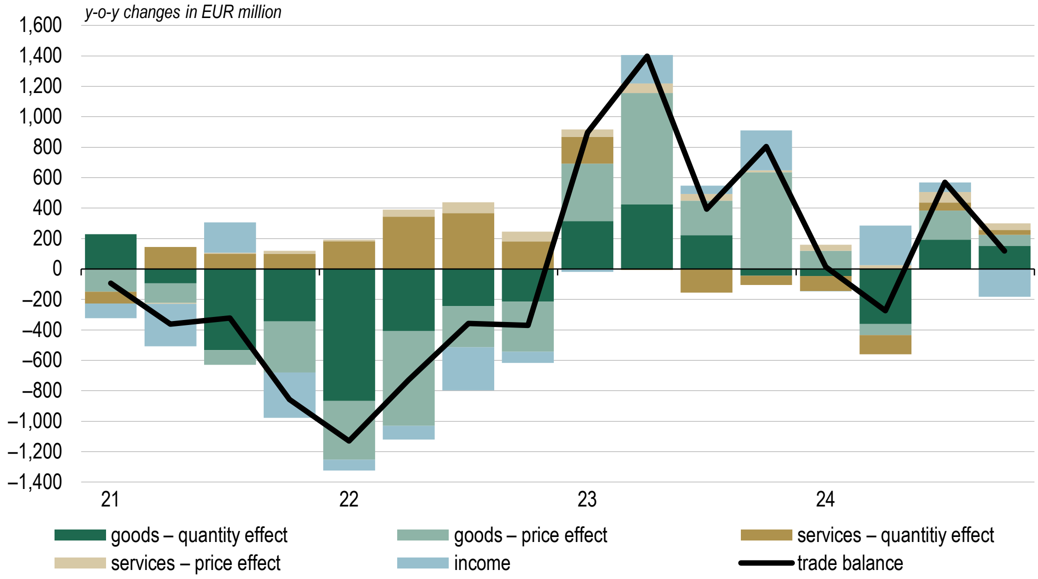
The terms of trade improved again in the final quarter, albeit less markedly than in the third quarter (see Figure 5.2). The improvement was attributable to favourable price developments in services trade and merchandise trade alike. Export prices of services rose by more in year-on-year terms (3.4%) than import prices (2.8%). Meanwhile import prices of merchandise fell by more in year-on-year terms (1.2%) than export prices (0.8%). The terms of trade in the second half of last year improved by 1.2% in year-on-year terms, largely as a result of slightly more favourable effects in merchandise trade.

[22] Transport accounted for 4.2 percentage points of the growth in services imports in the final quarter.

[23] The contribution made by imports of machinery and equipment in December stood at –4.4 percentage points, the largest negative figure since May 2020, while the contribution in the final quarter overall was negative in the amount of 1.6 percentage points.

[24] The contribution by energy imports in the final quarter was negative in the amount of 0.8 percentage points.

Figure 5.2: **Price and quantity effects in current account developments**



Sources: SURS, Banka Slovenije calculations

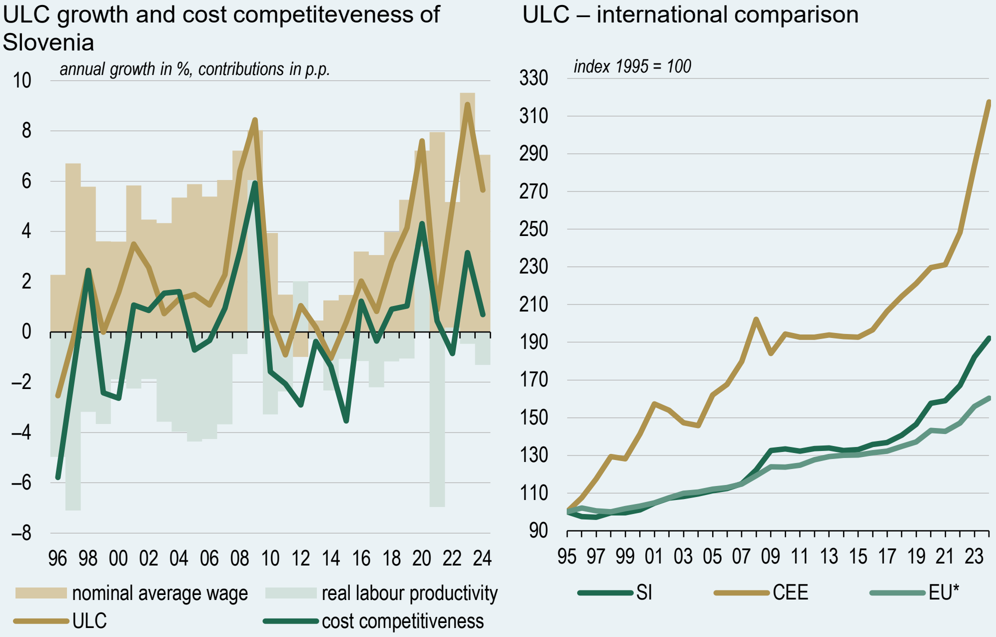
Box 5.1: **Slovenia's cost competitiveness and export efficiency**

Unit labour costs have risen over the last 30 years. The deterioration in the Slovenian economy's cost competitiveness has been particularly notable over the last five years.

The stronger wage growth that followed the period of high inflation was accompanied over the last two years by sluggish growth in labour productivity, which drove up unit labour costs (ULCs). The higher costs have been partly passed through into final prices by firms during this period. The Slovenian economy has consequently seen deteriorations in cost and price competitiveness. To maintain competitiveness it is vital that wage developments are kept within the bounds of a broader strategy that includes investment in education and training, the promotion of innovation, and increases in labour productivity. This box examines wage developments, competitiveness and the export activity of the Slovenian economy over the last 30 years.

Domestic ULCs have mostly risen over this period, as wage growth has outpaced productivity growth (see Figure 5.1.1, left). In the years before the global financial and economic crisis and the subsequent economic recovery (2014 to 2019), the lag in productivity was smaller, and ULCs grew at an average of 1.6% per year, while over the last five years, since the outbreak of the pandemic, wage growth has markedly outpaced growth in labour productivity, by an average of 5.7 percentage points per year, the rate at which ULCs have risen.

Figure 5.1.1: **ULCs and cost competitiveness**



Sources: Eurostat, ECB, Banka Slovenije calculations
Note: The data for 2024 is the average over the first three quarters of the year. In the left chart cost competitiveness reflects the RHCI (ULCs), where a rise in the indicator entails a deterioration. The average wage is calculated as compensation of employees per employee. The developments in productivity are illustrated inversely. In the right chart EU* signifies all EU Member States other than Slovenia and the CEE countries.

The high growth in ULCs has been accompanied by a deterioration in cost competitiveness,[25] particularly in recent years (see Figure 5.1.1, left). The ULCs indicator, which in addition to exchange rate developments also takes account of the relationship between domestic ULCs and ULCs in foreign partners, has risen (deteriorated) by 8.1% over the last five years, or an average of 1.5% per year.[26] Amid neutral exchange rate developments, a larger deterioration was prevented by the simultaneous rise in ULCs in trading partners.

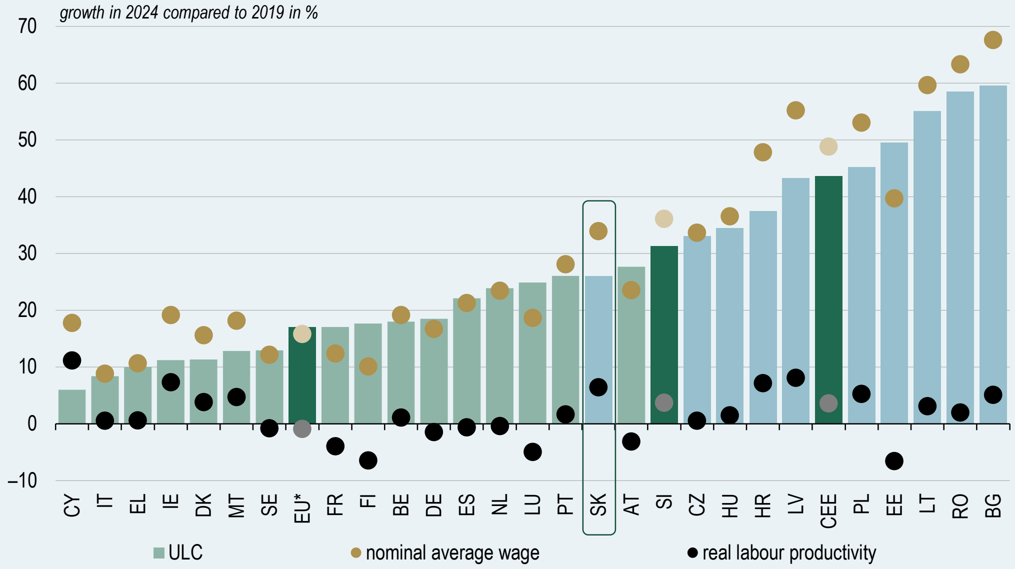
An uptick in growth in ULCs in the period following the outbreak of the pandemic can also be seen in CEE countries and other EU Member States[27] (see Figure 5.1.1, right). Growth in the latter stood at 17.0% amid a 1% decline in labour productivity and a rise of almost 16% in the average wage (see Figure 5.1.2). Although the developments in domestic ULCs were similar to developments in the grouping of other EU Member States in the past, over the last five years they have been less favourable, having risen by almost a third amid stronger wage growth. This had a limited impact on the external competitiveness of the Slovenian economy, as ULCs in CEE countries, who are Slovenia's most direct competitors in foreign markets, rose by even more (by 43.6%). All countries in this grouping with the exception of Slovakia saw a larger deterioration. The high growth in ULCs was attributable to strong growth in the average wage, which almost doubled in the environment of weak productivity growth after the pandemic.

[25] The impact of ULCs on the export efficiency of Slovenian firms was examined in separate analysis in December, based on the use of AJPES corporate data for the period of 2010 to 2023. The findings show that a 1% rise in ULCs at the average Slovenian export-oriented manufacturing firm reduces exports by between 0.1% and 0.4%. Detailed analysis can be found in 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.

[26] This box uses the RHCI (ULCs) against 37 trading partners as the indicator of cost competitiveness.

[27] The CEE countries are Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia. The EU countries comprise all EU Member States except Slovenia and the CEE countries.

Figure 5.1.2: **Growth in ULCs in EU Member States over the last five years**



Sources: Eurostat, Banka Slovenije calculations
Note: *EU comprises all EU Member States except Slovenia and the CEE countries. The change between 2019 and the end of the third quarter of 2024 is illustrated. The average wage is calculated as compensation of employees per employee.

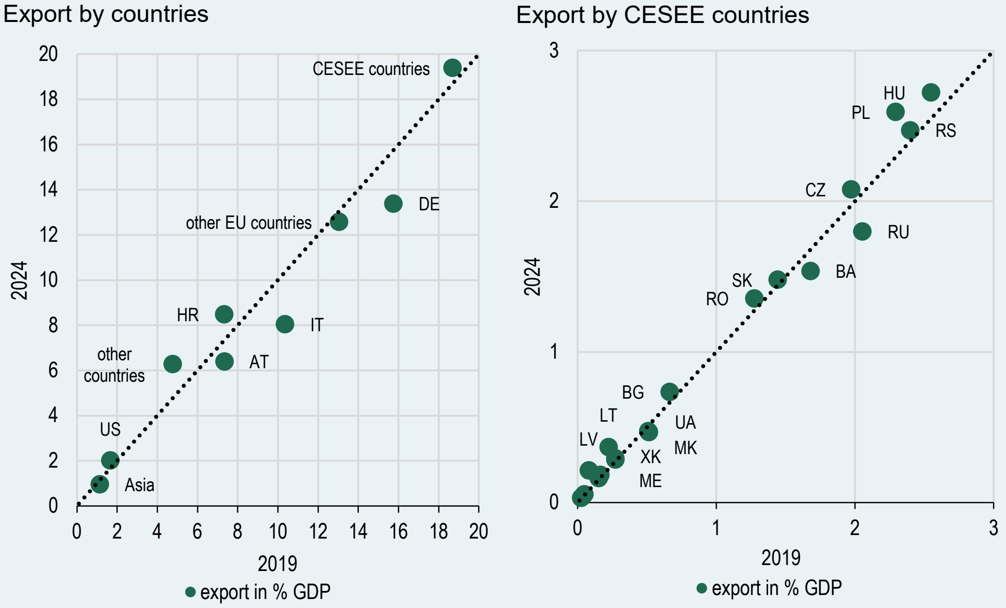
Export activity is gradually improving, despite the challenges: the negative impact of the deterioration in competitiveness partly waned last year, and firms are compensating for weaker demand from the main EU trading partners by strengthening their exports to other markets, most notably Switzerland and the CESEE countries.

The current account surplus remains at a high level: last year it was 5.8% larger than in 2019. Despite the deterioration in external competitiveness, Slovenia's export activity has also strengthened by 13.1% in real terms over the last five years according to the national accounts figures (see Figure 5.1.4, left), with growth in services exports (23.3%) strongly outpacing growth in merchandise exports (10.4%). Given the numerous challenges faced by Slovenian exporters and the main trading partners inside the EU, recently it has been possible to see signs of a change in the geographical breakdown of Slovenia's foreign trade (see Figure 5.1.3, left).

Germany remains Slovenia's largest trading partner[28] according to the balance of payments figures, as it was five years ago, but exports to that market have declined from 15.8% to the equivalent of 13.6% of GDP. Exports to the next two largest trading partners from five years ago, Italy and Austria, have also fallen, to the equivalent of 8.2% and 6.5% of GDP (down 2.2 percentage points and 0.9 percentage points respectively). Exports to Croatia have increased, and in the interim it has overtaken Italy to become Slovenia's second largest trading partner, responsible for exports in the amount of 8.6% of GDP. Slovenia is also exporting more to the CESEE countries than it did five years ago, with Poland and Hungary recording the largest increases (see Figure 5.1.3, right), and to other countries, most notably Switzerland.

[28] For more, see the September 2024 issue of the Review of macroeconomic developments (Selected Theme 8.1 Impact of economic developments in Germany on Slovenia's export activity) and the October 2024 issue of the Review of macroeconomic developments (Box 5.1 Changes in growth and structure of exports to key markets).

Figure 5.1.3: **Geographical breakdown of exports relative to 2019**



Source: Banka Slovenije
Note: In the left chart the EU countries comprise Belgium, Cyprus, Spain, Finland, France, Ireland, Denmark, Luxembourg, the Netherlands, Portugal, Sweden, Greece and Malta, the CESEE countries comprise Bulgaria, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Romania, Bosnia and Herzegovina, Belarus, North Macedonia, Serbia, Russia, Armenia, Azerbaijan, Ukraine, Kosovo, Moldova, Montenegro and Georgia, the grouping of Asian countries comprises China, Japan and India, and the other countries comprise Brazil, Switzerland, the UK, Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan, Turkey and Uzbekistan. The country abbreviations are explained in the list of abbreviations at the end of the document.

Slovenia's total exports expressed as a ratio to GDP were down 2.5 percentage points compared with 2019. Exports to the traditional trading partners[29] and Asia were down 6.2 GDP percentage points, while exports to other markets[30] were up 3.7 GDP percentage points. There was a nominal increase relative to 2019 in exports to all country groupings, with exports to the traditional trading partners and Asia rising by approximately 20%, and exports to other markets by 64.2%. Had exports to other markets not strengthened, the ratio of exports to GDP would be 11.3 percentage points less than in 2019, under the assumption that growth in exports to these markets would have been the same as growth in exports to the traditional trading partners and Asia. Nominal growth in exports over the same period would be 14.1 percentage points lower under the same assumption.

Slovenia's exports grew faster over the first three quarters of 2024 than those in the majority of EU countries,[31] and in the third quarter Slovenia recorded the third-highest year-on-year growth in exports of any EU Member State, which reflects the adjustments in trade flows and the strengthening cooperation with different trading partners.

Despite the deterioration in competitiveness, the market shares of Slovenian merchandise exports, which initially declined after the outbreak of the pandemic – amid a rise in commodity prices on global markets and a deterioration in the competitive position of Slovenian exporters – have been rising again since 2023 (see Figure 5.1.4, right). According to the latest data, Slovenia's market share of merchandise exports to the EU market reached its pre-pandemic level at 0.49% last year, while on the global market its share stood at 0.19% over the first three quarters of the year, close to its peak from

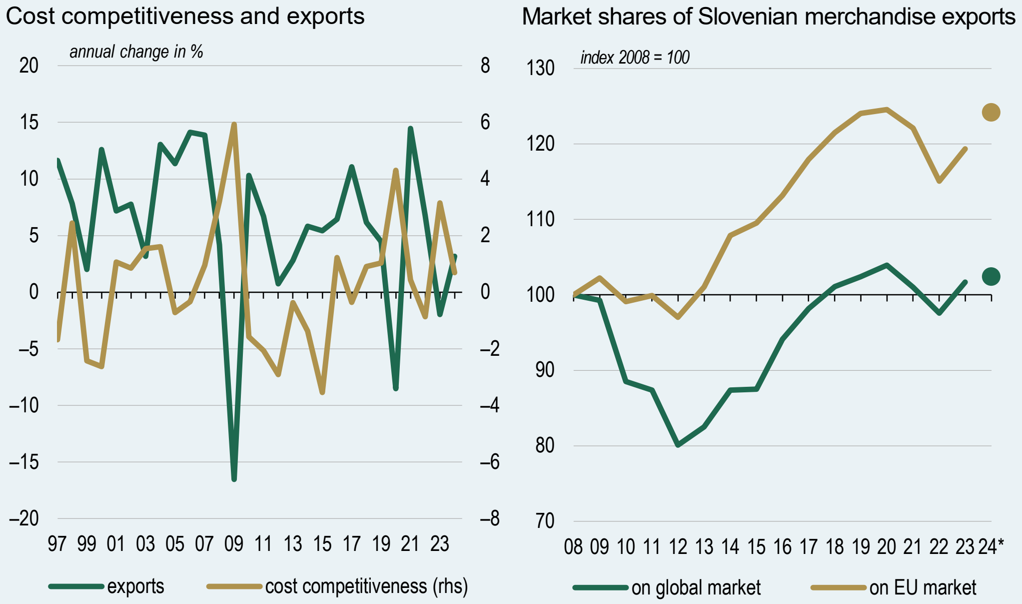
[29] Germany, Italy, Austria and other EU countries (excluding Croatia and the CESEE countries).

[30] Other markets include the CESEE countries, Croatia, the US and the grouping of other countries explained under Figure 5.1.3.

[31] Slovenia was one of the ten EU countries with the highest year-on-year growth in exports over the first three quarters of 2024.

2020. According to empirical analysis using Bayesian vector autoregression,[32] the impact on growth from the deterioration in competitiveness mostly waned last year, although it continued to be curtailed in particular by non-price and non-cost factors. Last year's more pronounced deterioration in these was related to the long-term economic struggles in key trading partners and the rising uncertainty in the international environment.

Figure 5.1.4: **Changes in competitiveness, exports and market shares**



Sources: SURS, ECB, WTO, Eurostat, Banka Slovenije calculations
Note: In the left chart the data on cost competitiveness for 2024 covers the first three quarters of the year. A rise in the cost competitiveness indicator entails a deterioration. In the right chart the market share of Slovenia's merchandise exports on the global market is calculated as the ratio of Slovenia's exports to global exports. Slovenia's merchandise exports exclude exports of pharmaceutical products to Switzerland that had previously been imported and therefore have no effect on the competitiveness position of the economy and its activity. The market share of Slovenia's merchandise exports on the EU market is calculated as the ratio of Slovenia's exports to the EU to the EU's total imports. * The data for 2024 is provisional, and in the case of the share of global trade covers the first three quarters of the year only.

6 Inflation

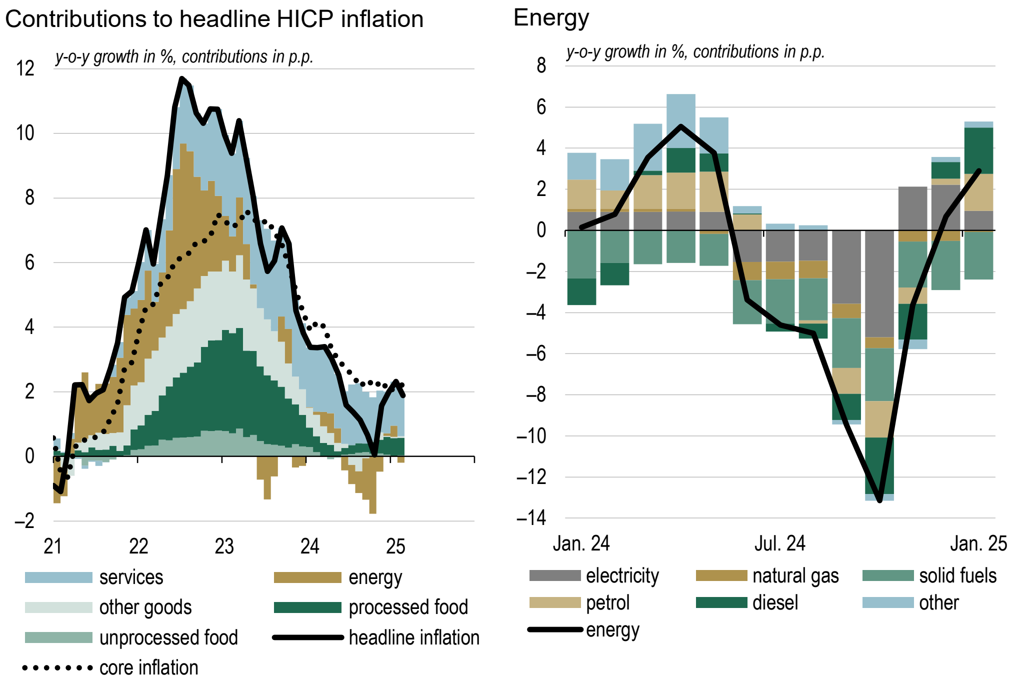
February's slowdown in inflation was mainly attributable to developments in energy prices. Core inflation remains above 2%, driven by wage growth, which is however slowing. The slight uptick in inflation after October was attributable to volatility and temporary effects in energy prices.

Year-on-year consumer price inflation as measured by the HICP fell to 1.9% in February, down from 2.3% in January (see Figure 6.1, left). The slowdown was mainly attributable to developments in energy prices. While they rose by 2.9% year-on-year in January, they declined by 1.7% in February. This change, which was attributable to both base effects and monthly price falls, reduced headline inflation by 0.5 percentage

[32] Detailed analysis can be found in 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.

points. Indeed, the year-on-year growth in energy subcomponents has been highly volatile in recent months. More precisely, after energy prices had fallen by 13.1% year-on-year in October, they rebounded over the following months, driven mainly by motor fuels and electricity prices (see Figure 6.1, right). In February, energy inflation slowed as electricity prices declined, following an emergency law mitigating the impact of high network charges for households.[33] The law reduced tariff rates for the first time block in January and February. Since the law took effect in February, it only had an impact on inflation in that month.

Figure 6.1: **Inflation and decomposition of energy inflation**



Sources: SURS, Eurostat, Banka Slovenije calculations. Latest data, left chart: February 2025; right chart: January 2025

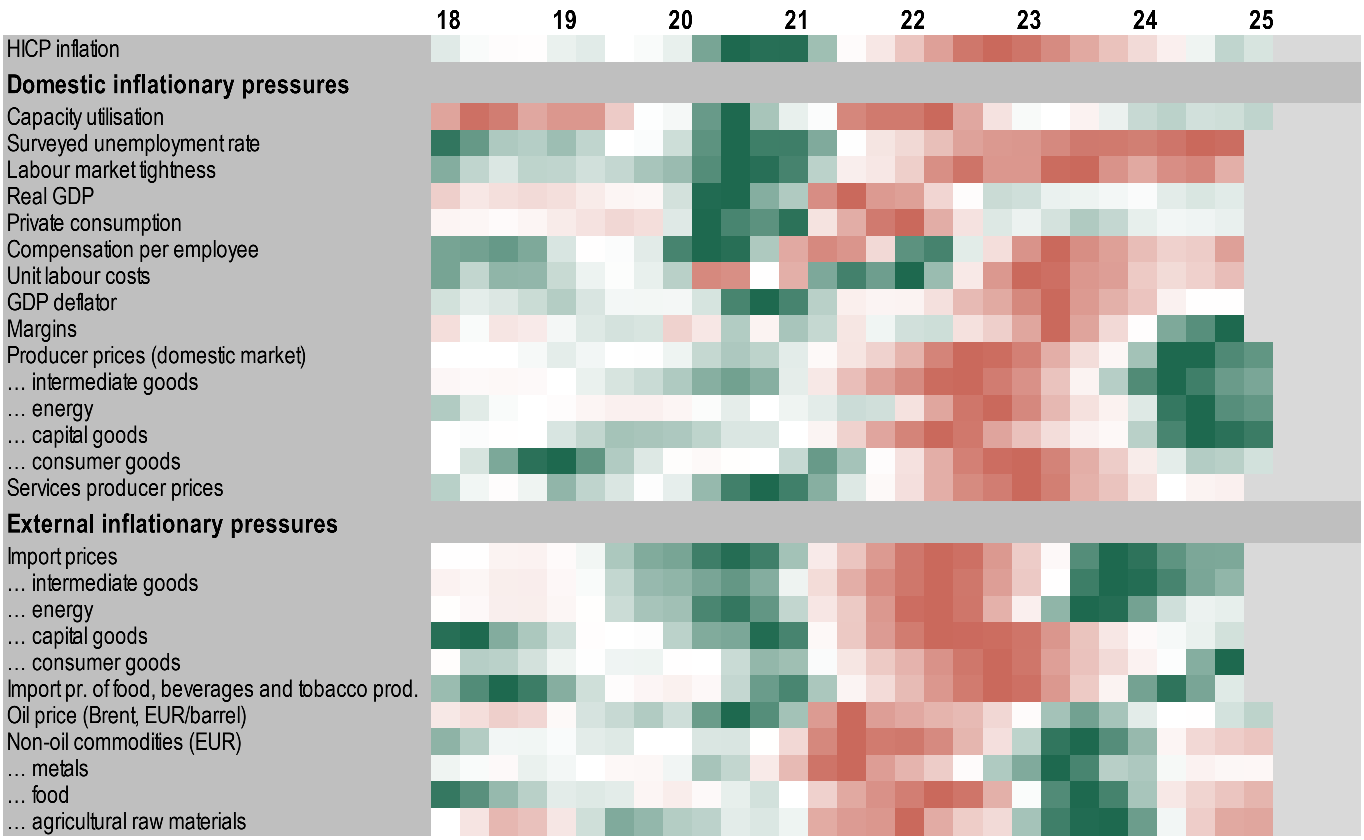
Food inflation strengthened to 2.8% in February (up from 2.5% in January), its highest rate since last February, driven by monthly price increases. Unprocessed food prices grew 0.7% year-on-year (up from 0.1% in January), while processed food eased to 3.1% (from 3.2%). At a more detailed level, food inflation has recently been largely driven by prices of cocoa products and chocolate, following wholesale market trends, and to a lesser extent by rising prices of bakery, cereal and meat products. On the supply side, price pressures in the food production chain have also partly driven recent food inflation; in particular higher prices of food commodities and non-food agricultural produce (see Figure 6.2).

Inflation excluding energy and food rose to 2.2% in February year-on-year, up from 2.1% in January. Services inflation increased by 0.1 percentage points to 3.9%, driven by monthly price rises and primarily influenced by domestic factors related to rising labour costs (see Figure 6.2). According to Banka Slovenije's December projections, labour costs growth in 2025 will primarily stem from wage increases in the public sector, likely affecting prices in services of a public nature (Box 6.1). Year-on-year price growth for other goods remained low in February at 0.2%, despite rising by 0.1 percentage points from January. This indicates that the effects of past price shocks have largely

[33] The text of the law can be found on this link.

waned,[34] reflecting the low growth in import prices and producer prices for the domestic market (see Figure 6.2).

Figure 6.2: **Inflationary pressures**



Sources: SURS, Employment Service, Eurostat, ECB, Banka Slovenije calculations
Note: The monthly figures are expressed as six-month moving averages, while the quarterly figures are two-quarter moving averages. The figures represent year-on-year growth rates, with the exception of capacity utilisation and the unemployment rate, which are expressed in percentages. The labour market tightness indicator is also an exception, and is calculated as the ratio of the number of vacancies to the number of registered unemployed. The data is standardised with regard to the complete time series as of 1995. The colour scale denotes the direction and size of the deviation in an individual time series from its long-term average (measured in standard deviations), where red signifies a positive deviation (inflationary pressure on prices) and green a negative (absence of pressure on prices), while the size is signified by the shade (a darker shade means a larger deviation). The colour scale is reversed for the unemployment rate.

Box 6.1: **Impact of wage developments on services inflation**

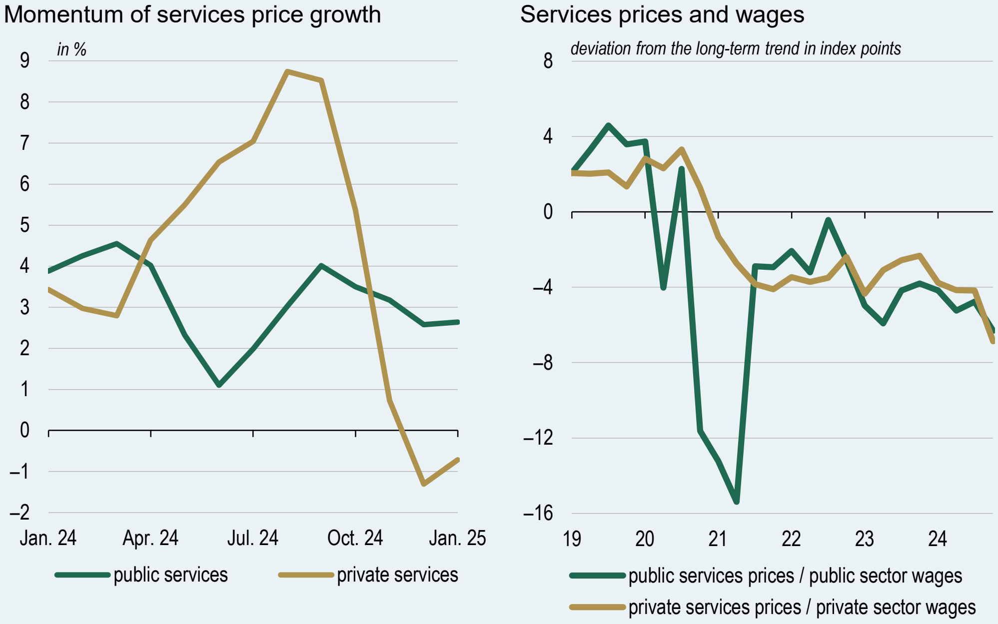
Cost factors are playing a growing role in driving services inflation.

A faster decline in headline inflation as measured by the HICP is mainly being held back by developments in services prices. On average, their growth accounted for 86% of headline inflation between February 2024 and February 2025. Amid cooling domestic demand, services inflation is increasingly driven by cost factors. The impact of labour costs is particularly notable: services prices respond most strongly to them, given the high labour intensity of services. Following the high inflation in previous years, which was driven by the post-pandemic economic recovery, the disruptions to supply chains

[34] Factors in price growth of other goods in Slovenia are described in detail in Box 1.2.1 of the December 2024 issue of the Review of macroeconomic developments.

and the outbreak of the war in Ukraine, labour costs have risen sharply to alleviate the decline in household purchasing power. Annual growth in compensation per employee averaged 6.7% between 2020 and 2024, 3.1 percentage points higher than its pre-pandemic level.[35]

Figure 6.1.1: **Services inflation momentum and relationship between services prices and labour costs**



Sources: SURS, Banka Slovenije calculations. Latest data, left chart: January 2025; right chart: Q4 2024
Note: In the left chart, the inflation momentum indicator is calculated as the annualised rate of growth in the seasonally adjusted services price index by comparing the level of prices in the last three months with those from the preceding three months. In the right chart, the long-term trend is estimated over the period between 2005 and 2024.

Labour costs growth will remain elevated this year and over the following years, which, according to our December projections[36], will continue to drive high services inflation. Another factor is the recently adopted wage reform in the public sector: empirical estimates show that labour costs are most quickly passed into prices of services of a public nature, i.e. public services.[37] These include health and cultural services, schooling, and services related to housing and social protection.

Until January, year-on-year price growth in public services lagged behind that in private services for ten consecutive months, partly reflecting last year's higher wage growth in the private sector. Private-sector services inflation, at 4.1%, outpaced that in the public sector by 0.9 percentage points, but the price pressures in private services appear to be gradually easing according to the inflation momentum[38] indicator. Conversely, price pressures in public services have increased slightly, maintaining momentum near 3% (see Figure 6.1.1, left). This may reflect the renewed strengthening of labour costs growth due to the wage reform.

[35] Annual growth in compensation per employee in Slovenia averaged 3.6% between 2004 and 2019.

[36] Review of macroeconomic developments and projections, December 2024.

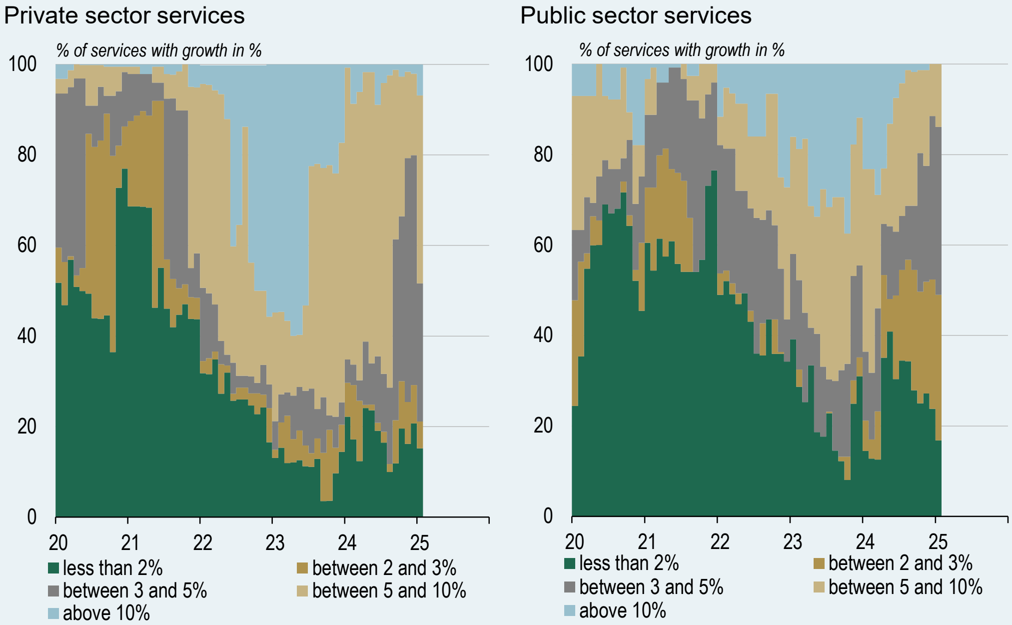
[37] Estimates from Banka Slovenije's main model for inflation projections show that wages increases are most quickly reflected in the category of miscellaneous services, which mainly includes services of a public nature. More than three-quarters of an unexpected rise in labour costs is passed through into final prices within the first year, while after five years this share rises to 83% (Review of macroeconomic developments, April 2024).

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

Achieving long-term equilibrium between services prices and labour costs would require services inflation to remain elevated.

The easing of price pressures in private services is also shown in Figure 6.1.2 (left). It shows that earlier high year-on-year price growth was broad-based: in the first quarter of 2023, over half of private services saw rates exceeding 10%, whereas by the final quarter of last year, nearly three-quarters had rates below 5%. This indicates that year-on-year price growth in private services is gradually slowing, although it remains above the inflation target. In the past, the share of public services with the highest inflation rates was lower than in private services, but the price pressures in this subcategory have recently strengthened. This is evident from the increase in the share of components with year-on-year inflation rates above 2% (see Figure 6.1.2, right).

Figure 6.1.2: **Breadth of services inflation**



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

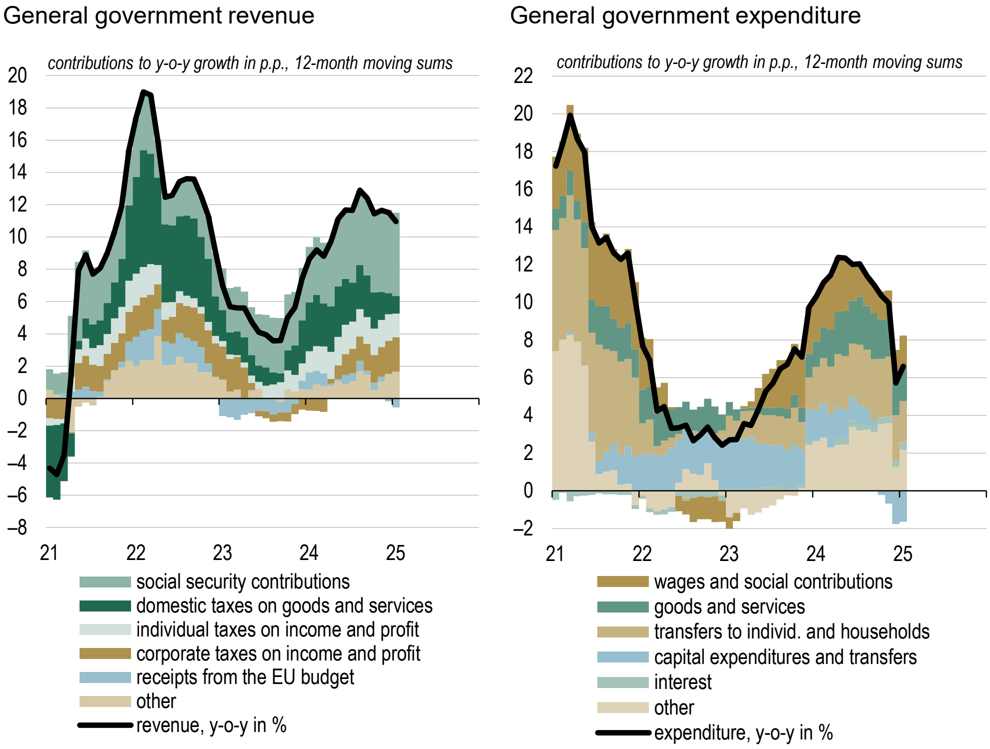
The ratio between the level of prices of public services and wages in public sector activities, and the equivalent ratio for private services and private sector activities, reflect labour costs growth outpacing services inflation since the pandemic (see Figure 6.1.1, right). The recently adopted public sector wage reform is likely to slightly reduce the ratio of public services prices to labour costs even further. Assuming a gradual convergence to its long-term equilibrium, price growth of public services may remain above the inflation target also in the future due to the pass-through of higher labour costs into final prices. Labour costs and services inflation would consequently remain significant drivers of domestic inflation. This is in line with our December projections, which expect services inflation to average 3.3% from 2025 to 2027, thereby outpacing headline inflation by 1.1 percentage points on average.

7 Fiscal Position

Last year's narrowing of the consolidated general government deficit was supported by the sound economy, and in particular by a downsizing of extraordinary measures.

Driven by the narrowing of the state budget deficit, the consolidated general government deficit narrowed by more than a half last year to stand at EUR 953 million or 1.4% of GDP. The state budget deficit accounted for the majority of this as usual, while local government also ran a deficit.[39] The ZZZS ended the year with a surplus of EUR 79 million, having recorded a deficit of a similar size in the previous year. The ZPIZ ran a balanced budget, as it generally does, where the transfer from the state budget was just over EUR 300 million larger than in 2023, as a result of last year's large pension increase of 8.8%.

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



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

The high growth of 11.5% in consolidated general government revenues is a reflection of the favourable economic situation, particularly in the labour market, and the permanent legislative changes of the transformation of supplementary health insurance into a compulsory health contribution, which led to high but temporary growth of 14% in social security contributions (see Figure 7.1, left). Personal income tax revenues recorded slightly lower growth, amid a lack of alignment in the income tax bands. On account of the settlements for the previous year, the favourable economic situation, and a five-year rise in the tax rate, corporate income tax revenues were up more than a

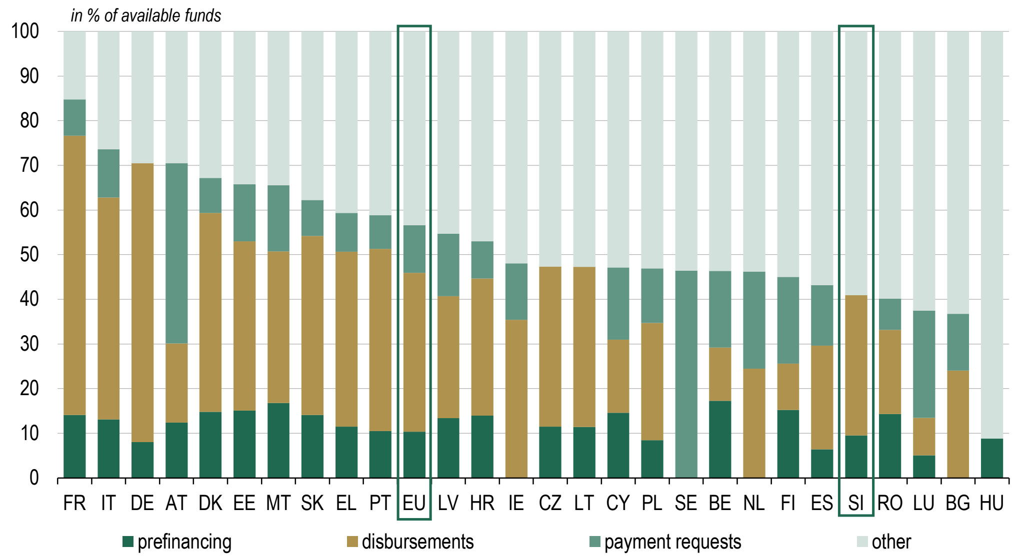
[39] This was the largest to date, at EUR 236 million, and was partly attributable to the reconstruction following the floods in 2023, where the reconstruction was largely carried out in 2024. Local government received EUR 234 million from the state budget in 2023 to rectify the impact of natural disasters (primarily floods), and recorded a surplus of EUR 129 million in this context.

third. Growth in taxes on goods and services was significantly more modest at 4.3%, as VAT revenues, which reflect domestic consumption, rose by 3.7%, and excise duties were up just a fraction on the previous year.

Consolidated general government expenditure rose by 5.7% last year. The rise was mainly driven by higher payments of pensions, wages and contributions to employees, and increased material costs, the latter partly on account of the post-flood reconstruction and the transformation of health insurance (see Figure 7.1, right). Conversely the ending of the previous European financial framework brought a decline in investment, where the government had otherwise been expecting growth even last autumn, and in subsidies, on account of the ending of support measures to mitigate high energy costs.

The state budget recorded a surplus of approximately EUR 400 million last year against the EU budget, similar to the previous year. In its drawdown of funding from the recovery and resilience facility Slovenia is behind the average of EU Member States, and is also slow in its drawdown of funding from the new financial framework, which is common at the very beginning of the financial framework. EU Member States overall have drawn down approximately half of their available funding from the recovery and resilience facility, while Slovenia has drawn down 41% (see Figure 7.2).

Figure 7.2: **Implementation of recovery and resilience plans in EU Member States**



Sources: European Commission (Recovery and Resilience Scoreboard), Banka Slovenije calculations
Note: Countries are ranked in terms of the ratio of funding that they received (prefinancing and payments) and applications for funding to total available funding.

January's surplus in the consolidated general government position was narrower in year-on-year terms, but growth in tax revenues remained high.

Similarly to last year, the consolidated general government position recorded a surplus in January of this year, in the amount of EUR 196 million, down EUR 166 million on last year. Year-on-year growth in general government revenues slowed compared with the final quarter of last year, despite the maintenance of high growth in tax revenues. The majority of the growth in tax revenues was driven by social security contributions. With higher tax rates, corporate income tax revenues increased by approximately a third. Growth in revenues from taxes on goods and services strengthened slightly compared with the final quarter of last year, while growth in personal income tax revenues slowed. Revenues from the EU budget declined in particular. January's high growth in expenditure was partly attributable to a year-on-year rise in subsidies driven by earlier payments in agriculture, while investment expenditure also rose considerably. Expenditure on wages in January was up 7.3% in year-on-year terms, although it has not yet reflected the first wage rises under the new wage system; these were made when the January wage payments were made in February. The wage reforms will be implemented in several steps, and the total wage bill will thus increase gradually (see Box 7.1).

Box 7.1: **Wage reform in the public sector**

Almost a quarter of government expenditure goes on payments to employees.

Compensation of employees is the second-largest category of general government expenditure, behind social transfers. Viewed long-term, it accounts for more than 24% of general government expenditure, equivalent to 11.6% of GDP (see Figure 7.1.1, left). Over the years the share has varied significantly, as it is largely determined by wage agreements between the government and the public sector trade unions (see Box 4.1) and developments in employment (see Figure 7.1.1, right). According to our estimates from the December projections, last year it was slightly below its long-term average as a ratio to GDP.

Overhauling the wage system will raise compensation of employees, most notably this year, and will also change the ratios between wages within the public sector and, in our estimation, in relation to the private sector.

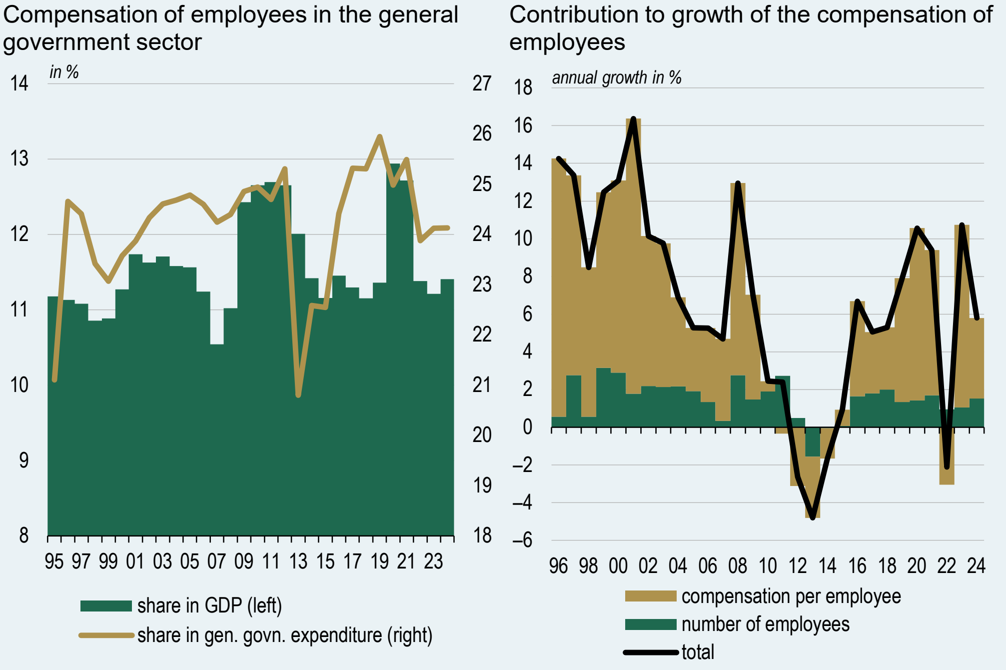
A new wage system entered into force at the beginning of this year, the first extensive reform of the wage system since 2008. The key challenges in overhauling the wage system included the rising number of pay grades below the minimum wage, existing wage disparities, the issue of pay equalisation, and difficulties in recruitment.

Base wages for employees will gradually rise, in six steps, ending in January 2028.[40] The range between wage grades in the new pay scale is 3% (hitherto 4%). The ratio of the highest wage to the lowest wage is rising to 7:1 (4.9:1 at the end of 2024). Employees may not be assigned to a wage grade where their pay would be below minimum wage.[41] The years of 2026 to 2028 are also scheduled to see the (partial) adjustment of wage grades in the pay scale in April, if consumer price inflation exceeds 1.8%, 1.6% or 1.0% respectively in the previous year, with the shortfall to actual inflation being made up. As of 2029 the adjustment of wage grades in the pay scale is expected to amount to 80% of consumer price inflation, unless agreed otherwise.

[40] The first wage rise came in February of this year, with the payment of the wage for January 2025. Employees whose wage increase is less than EUR 100 under the reforms were entitled to the full increase in the first tranche (they were thought to make up around 6% of the total), while others received EUR 100 more or 12% of the difference in the total increase. Wages will rise this year with the payment for October, by 12% of the difference, but by no less than EUR 100 (where the employees are entitled to rises). The next rises are scheduled for 1 June 2026, 1 December 2026, 1 July 2027 and 1 January 2028. Parliamentary deputies, government functionaries and members of the national council will gain the right to pay increases when their new term of office begins.

[41] In November 2024 there were approximately 26,000 public servants assigned to wage grades below the minimum wage, which stood at EUR 1,253.90 last year, rising to EUR 1,277.72 this year. The lowest gross base wage in the public sector stands at EUR 1,291.52 this year.

Figure 7.1.1:
Compensation of employees in the general government sector



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

Changes are also envisaged in the area of promotions, where public servants will earn faster promotions in the early part of their careers. Public servants who have special knowledge or skills, or who are taking up positions where there are labour shortages may be assigned to a wage grade ten grades ahead of their initial wage grade. Safeguards are also defined. Higher assignments are allowed for no more than 10% of employees, of whom no more than 30% may be new recruits. Qualifications requirements may also be waived under certain conditions. Changes are also envisaged in performance assessment, although they have not yet been agreed.

The wage reforms have been costed at around EUR 1.4 billion by the Ministry of Public Administration. This estimate does not encompass all elements of the rise in total compensation of employees, in part because of the rise in the number of employees. Last June's wage increase of 3.36% and last year's promotions of public servants, which have not been included in the costing, will also have an impact on this year's wage growth. Our expectation is therefore that wage growth will be highest this year. The December projections forecast it at 8.7%, although there is a degree of uncertainty given the number of changes being made by the reforms. The average wage in the government sector will continue rising over the following years according to our forecasts, and will outpace wages in the private sector between 2025 and 2027. The ratio of compensation of employees in the government sector to GDP is forecast to increase further in 2026 and 2027, when it could exceed 12%, partly as a result of the anticipated further rise in employment.

The forecast growth in compensation of employees could entail a challenge in meeting the target for growth in net general government expenditure in line with the EU's new economic governance framework. Under the new rules it is necessary to ensure that growth in general government expenditure does not exceed specific values, having regard for discretionary revenue measures.[42]

[42] Slovenia's Medium-Term Fiscal-Structural Plan for 2025 to 2028 sets a target of 4.5% average annual growth in net expenditure. This excludes interest expenditure, discretionary revenue measures, expenditure on EU programmes fully matched by revenue from EU funds, national expenditure for co-financing EU programmes, cyclical elements of unemployment benefit expenditure, and other temporary measures.

8 Statistical Appendix

Table 8.1: **Key macroeconomic indicators at the monthly level for Slovenia**

	2023	2024	12 m. 'till Dec. 24	3 m. 'till Dec. 23	3 m. 'till Dec. 24	2024 Oct.	2024 Nov.	2024 Dec.	2025 Jan.	2025 Feb.
Economic Activity										
					balance of answers in percentage points					
Sentiment indicator	–3.7	–2.7	–2.7	–4.4	–3.0	–3.8	–2.8	–2.5	–2.5	–2.2
- confidence indicator in manufacturing	–8.3	–7.7	–7.7	–8.0	–7.3	–8.0	–7.0	–7.0	–7.0	–6.0
					year-on-year growth rates in %					
Industry: - total	–4.9	–1.2	–1.2	–4.1	1.0	3.2	–1.9	1.9	...	...
- manufacturing	–3.7	1.2	1.2	–3.7	2.7	5.5	–0.1	2.7	...	...
Construction: - total	19.4	–9.0	–9.0	10.1	–5.3	–14.2	–2.7	2.6	...	...
- buildings	10.5	–12.3	–12.3	–1.7	–11.5	–17.7	–11.3	–4.5	...	...
Trade and service activities - total	0.4	1.8	1.8	1.7	0.9	1.4	1.1	0.3	...	...
Wholesale and retail trade and repair of motor vehicles and motorcycles	11.6	6.7	6.7	13.7	1.9	8.1	0.3	–2.6	...	...
Retail trade, except of motor vehicles and motorcycles	–4.6	0.7	0.7	–1.8	–0.3	0.4	0.4	–1.7	...	...
Other private sector services	2.5	1.4	1.4	3.2	0.7	1.0	0.2	0.8	...	...
Labour market					**year-on-year growth rates in %**					
Average gross wage	9.7	6.2	6.2	8.7	5.6	6.8	6.2	3.9	...	...
- private sector	11.9	7.0	7.0	15.7	5.8	7.9	6.1	3.4	...	...
- public sector	10.3	4.1	4.1	9.7	4.7	4.7	6.2	4.8	...	...
Real net wage[1]	4.0	1.8	1.8	8.2	2.3	4.2	2.3	0.5	...	...
Registered unemployment rate (in %)	5.0	...	...	4.8	...	4.6	...	...	...	...
Registered unemployed persons	–14.0	–5.6	–5.6	–10.1	–3.2	–3.7	–3.1	–2.7	–2.8	...
Persons in employment	1.3	1.1	1.1	0.7	0.6	1.1	1.1	–0.3	...	...
- private sector	1.4	1.1	1.1	0.7	0.5	1.0	1.0	–0.5	...	...
- public sector	0.9	1.2	1.2	0.9	1.0	1.2	1.3	0.4	...	...
Price Developments					**year-on-year growth rates in %**					
HICP	7.2	2.0	2.0	5.0	1.2	0.0	1.6	2.0	2.3	1.9
- services	7.7	4.8	4.8	7.0	3.7	3.9	3.7	3.6	3.8	3.9
- industrial goods excluding energy	5.4	0.6	0.6	3.1	0.3	0.1	0.8	0.1	0.1	0.2
- food	11.8	1.9	1.9	6.8	2.3	2.0	2.3	2.7	2.5	2.8
- energy	2.2	–2.3	–2.3	1.1	–5.6	–13.1	–3.6	0.7	2.9	–1.7
Core inflation indicator[2]	6.7	2.9	2.9	5.1	2.2	2.1	2.3	2.0	2.1	2.2
Balance of Payments - Current Account					**in % GDP**					
Current account balance	4.5	4.9	4.9	3.4	3.8	7.5	2.2	1.4	...	...
1. Goods	0.7	1.0	1.0	–0.7	0.6	3.5	–0.3	–1.5	...	...
2. Services	5.6	5.4	5.4	4.9	4.9	5.8	4.1	4.9	...	...
3. Primary income	–1.0	–0.8	–0.8	–1.2	–1.1	–0.8	–0.8	–1.8	...	...
4. Secondary income	–0.8	–0.7	–0.7	0.3	–0.7	–1.0	–0.8	–0.2	...	...
					nominal year-on-year growth rates in %					
Export of goods and services	–0.4	2.6	2.6	–3.4	4.0	7.3	1.7	2.9	...	...
Import of goods and services	–6.1	2.2	2.2	–7.4	1.8	1.8	1.2	2.6	...	...

Public Finances	2023	2024	12 m. 'till Jan. 25		2024 Jan.-Jan.		2025 Jan.-Jan.	
Consolidated general government (GG) balance[3]	EUR mio		% GDP	y-o-y, %	EUR mio	y-o-y, %	EUR mio	y-o-y, %
Revenue	25,035	27,916	41.3	11.0	2,217	11.8	2,339	5.5
Tax revenue	21,977	24,547	36.5	11.6	1,997	11.6	2,216	11.0
From EU budget	1,084	1,040	1.4	–12.6	102	22.1	26	–74.6
Other	1,974	2,330	3.4	16.6	118	6.6	97	–17.5
Expenditure	27,308	28,869	43.0	6.6	1,855	2.3	2,143	15.5
Current expenditure	11,572	12,907	19.2	12.2	802	2.9	899	12.1
- wages and other personnel expenditure	6,094	6,529	9.7	7.2	515	7.0	552	7.3
- purchases of goods, services	3,869	4,378	6.5	13.2	257	11.3	286	11.4
- interest	711	793	1.2	15.8	24	–50.0	26	8.5
Current transfers	12,050	12,794	19.0	7.2	924	0.6	1,052	14.0
- transfers to individuals and households	9,731	10,397	15.3	6.1	828	12.1	847	2.3
Capital expenditure, transfers	3,014	2,532	3.8	–14.8	86	26.4	136	59.0
GG surplus/deficit	–2,274	–953	–1.6		361		196	

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. (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 8.2: **Key macroeconomic indicators at the quarterly level for Slovenia and the euro area**

	2022	2023	2024	24Q1	24Q2	24Q3	24Q4	2022	2023	2024	24Q1	24Q2	24Q3	24Q4
				Slovenia							*euro area*			
Economic developments								*q-o-q growth in %*						
GDP				–0.0	0.1	0.4	0.6				0.3	0.2	0.4	0.1
- industry				0.8	–0.2	1.7	0.6				–0.7	–0.2	0.4	...
- construction				–1.1	–1.5	–2.0	5.9				0.1	–1.0	–0.5	...
- mainly public sector services (OPQ)				–3.1	1.1	0.1	3.7				0.2	0.3	0.5	...
- mainly private sector services (without OPQ)				1.6	–0.3	0.6	–0.1				0.2	0.1	0.3	...
Domestic expenditure				–0.8	1.2	–2.6	2.4				–0.4	–0.1	1.3	...
- general government				1.2	7.1	–3.0	0.7				0.1	1.1	0.6	...
- households and NPISH[1]				0.6	–1.3	2.1	0.5				0.3	0.0	0.7	...
- gross capital formation				–3.5	0.8	–12.8	9.0				–2.4	–1.6	3.8	...
- gross fixed capital formation				–0.9	–1.5	–3.4	0.5				–2.3	–2.4	2.0	...
								y-o-y growth in %						
GDP	2.7	2.1	1.6	2.4	0.9	1.6	1.5	3.5	0.4	...	0.2	0.7	1.2	...
- industry	–2.1	5.1	...	3.9	–0.1	3.6	3.4	0.7	–1.5	...	–2.4	–1.4	0.1	...
- construction	8.3	14.0	...	4.3	–2.3	–7.8	1.3	0.0	1.3	...	–2.4	–1.5	–1.2	...
- mainly public sector services (OPQ)	1.9	0.4	...	1.5	1.4	1.6	1.7	2.9	1.0	...	1.0	1.5	1.7	...
- mainly private sector services (without OPQ)	5.0	1.4	...	1.5	2.1	1.9	1.8	4.1	0.6	...	0.2	0.6	1.1	...
Domestic expenditure	4.5	–0.2	2.1	3.5	5.1	–0.0	0.1	3.8	0.1	...	–0.4	–0.6	1.3	...
- general government	–0.7	2.4	8.5	6.5	12.6	9.2	5.7	1.1	1.5	...	1.9	2.7	2.7	...
- households and NPISH	5.3	0.1	1.6	2.0	1.7	1.7	1.2	4.9	0.6	...	1.0	0.4	1.1	...
- gross capital formation	7.4	–2.8	–2.4	4.2	6.2	–11.5	–7.6	4.1	–2.4	...	–5.4	–6.1	0.1	...
- gross fixed capital formation	4.2	3.9	–3.7	0.6	–2.1	–8.1	–5.2	2.0	1.6	...	–1.8	–2.8	–0.8	...
- inventories and valuables, contr. to GDP growth in p.p.	0.8	–1.5	0.3	0.8	1.8	–0.9	–0.6	0.5	–0.9	...	–0.9	–0.8	0.2	...
Labour market								*q-o-q growth in %*						
Employment				–0.1	–0.1	–0.1	–0.1				0.3	0.1	0.2	0.1
- mainly private sector (without OPQ)				–0.3	–0.1	–0.2	–0.2				0.2	0.0	0.1	...
- mainly public services (OPQ)				0.4	0.3	0.4	0.2				0.4	0.5	0.4	...
								y-o-y growth in %						
Employment	2.9	1.6	0.1	0.6	0.3	0.0	–0.3	2.4	1.4	0.9	1.1	0.9	1.0	0.6
- mainly private sector (without OPQ)	3.1	1.7	–0.2	0.3	–0.0	–0.4	–0.7	2.7	1.4	...	1.0	0.7	0.8	...
- mainly public services (OPQ)	2.0	1.5	1.6	1.8	1.8	1.7	1.3	1.5	1.4	...	1.5	1.6	1.6	...
Labour costs per employee	5.0	9.5	...	6.9	7.0	7.2	...	4.5	5.4	...	4.9	4.8	4.4	...
- mainly private sector (without OPQ)	7.8	9.5	...	7.3	8.2	8.2	...	5.0	5.6	...	4.6	4.7	4.3	...
- mainly public services (OPQ)	–3.2	9.5	...	5.4	3.1	4.1	...	3.5	4.7	...	5.5	5.0	4.6	...
Unit labour costs, nominal[2]	5.2	9.0	...	5.0	6.4	5.5	...	3.4	6.5	...	5.8	5.1	4.1	...
Unit labour costs, real[3]	–1.2	–1.0	...	0.4	3.8	2.5	...	–1.6	0.5	...	2.2	2.0	1.4	...
LFS unemployment rate in %	4.0	3.7	...	3.4	3.4	4.4	...	6.8	6.6	...	6.8	6.3	6.2	...
Foreign trade								*q-o-q growth in %*						
Real export of goods and services				2.9	–0.7	3.1	–2.0				1.1	1.5	–1.5	...
Real import of goods and services				2.5	0.7	–1.6	–0.2				–0.3	1.1	0.2	...
								y-o-y growth in %						
Real export of goods and services	6.8	–2.0	3.2	–0.4	0.1	9.5	3.9	7.3	–0.7	...	–1.5	2.3	2.0	...
Real import of goods and services	9.2	–4.5	3.9	0.8	4.8	8.0	2.3	8.4	–1.3	...	–2.6	–0.2	2.0	...
Current account balance as % of GDP[4]	–1.1	4.5	4.9	4.4	4.0	4.8	4.9	–0.7	0.0	...	0.0	0.0	0.0	...
External trade balance as contr. to GDP growth in p.p.	–1.5	2.3	–0.4	–1.0	–3.6	1.8	1.3	–0.2	0.3	...	0.5	1.3	0.0	...
Financing								*in % of GDP*						
Banking system's balance sheet	91.0	85.0	...	83.4	...	...	...	273.2	256.4	...	257.9	...	...	...
Loans to NFCs	20.1	17.6	...	16.8	16.7	...	...	36.4	34.1	...	33.8	33.6	...	...
Loans to households	21.5	19.9	...	19.8	19.9	...	...	48.1	45.4	...	44.8	44.4	...	...
Inflation								*in %*						
HICP	9.3	7.2	2.0	3.4	2.4	1.1	1.2	8.4	5.4	2.4	2.6	2.5	2.2	2.2
HICP excl. energy, food, alcohol and tobacco	5.9	6.7	2.9	4.0	3.0	2.3	2.2	4.0	5.0	2.8	3.1	2.8	2.8	2.7
Public finance								*in % of GDP*						
Debt of the general government	72.7	68.4	...	70.0	69.4	66.7	...	89.5	87.4	...	87.9	88.2	88.2	...
One year net lending/net borrowing of the general government[4]	–3.0	–2.6	...	–2.0	–2.0	–1.8	...	–3.5	–3.6	...	–3.6	–3.5	–3.2	...
- interest payment[4]	1.1	1.2	...	1.2	1.3	1.3	...	1.7	1.7	...	1.8	1.8	1.9	...
- primary balance[4]	–1.9	–1.3	...	–0.9	–0.7	–0.4	...	–1.8	–1.8	...	–1.8	–1.6	–1.4	...

Sources: SURS, Eurostat, Banka Slovenije, ECB, Ministry of Finance, Banka Slovenije calculations
Note: Original figures are used to calculate the year-on-year rates, and seasonally adjusted figures are used to calculate the current rates of growth. The SURS quarterly national accounts figures have not yet been reconciled with the initial annual estimate. (1) The figures for Slovenia are calculated as the difference between the seasonally adjusted figures for aggregate final consumption and government final consumption. (2) Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity. (3) Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity. (4) 4-quarter moving sums.

9 List of abbreviations

Abbreviations

AJPES	Agency of the Republic of Slovenia for Public Legal Records and Related Services
GDP	Gross domestic product
BoS	Banka Slovenije
CEE	Central and Eastern Europe
CESEE	Central, Eastern and South-Eastern Europe
VAT	Value added tax
ECB	European Central Bank
EA	Euro area
EU	European Union
EUR	euro
Fed	US Federal Reserve System
FMOLS	Fully modified ordinary least squares
HICP	Harmonised index of consumer prices
IMF	International Monetary Fund
OIS	Overnight index swap
PMI	Purchasing managers' index
RHCI	Real harmonised competitiveness indicator
SURS	Statistical Office of the Republic of Slovenia
S&P 500	Standard and Poor's 500
STOXX Europe 600	Main European share index
SITC	Standard International Trade Classification
ULCs	Unit labour costs
IMAD	Institute of Macroeconomic Analysis and Development
ZEW	Centre for European Economic Research
US	United States of America
ZPIZ	Pension and Disability Insurance Institute of Slovenia
ZZZS	Health Insurance Institute of Slovenia
WTO	World Trade Organisation

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, **BA** – Bosnia and Herzegovina, **CY** – Cyprus, **CZ** – Czechia, **ME** – Montenegro, **DK** – Denmark, **EE** – Estonia, **FI** – Finland, **FR** – France, **EL** – Greece, **HR** – Croatia, **IE** – Ireland, **IS** – Iceland, **IT** – Italy, **XK** – Kosovo**,** **LV** – Latvia, **LT** – Lithuania, **LU** – Luxembourg, **HU** – Hungary, **MT** – Malta, **DE** – Germany, **NL** – Netherlands, **PL** – Poland, **PT** – Portugal, **RO** – Romania, **RU** – Russia, **MK** – North Macedonia, **SK** – Slovakia, **SI** – Slovenia, **RS** – Serbia, **ES** – Spain, **SE** – Sweden, **TR** – Turkey, **UA** – Ukraine, **UK** – United Kingdom