Research Q2 2026 Outlook for Slovenia

OTP banka Slovenija

September 2026

Key Upside and Downside Risks

Top 3 upside risks

- Further income tax reduction as indicated in the ZIURS may boost the spending of households and increase the optimism further.
- Lower geopolitical risk in Eastern Europe (some kind of armistice) could improve the consumer sentiment and improve access to reconstruction projects in Ukraine for the commercial (construction, engineering) sector.
- Resolution of Middle East shipping bottlenecks leading to rapid price declines in natural gas, electricity, and fertilizers.

Top 3 downside risks

- Sluggish demand in automotive, chemical, paper and pulp industry and steel parts on the non-EU markets and pressure from price-competitive imports to EU-27 and rising domestic labour costs.
- Rising commodity (aluminium, copper) and energy prices (gasoline, natural gas, electricity) increasing fiscal burdens and squeezing corporate margins.
- Conflicting policy signals between strict fiscal consolidation needs and broad-based tax cut proposals.

Slovenia's GDP: Investment frenzy continues and becomes more broad-based

Quarterly highlights

- Quarterly GDP growth in Q2 2026 exceeded expectations for the second consecutive quarter (the average FocusEconomics estimate stood at +0.6%), with GDP expanding by 1.8% q-o-q. This was above the previous quarter's growth of 1.1%, which was itself revised upwards by 0.4 p.p. Consequently, H1 2026 GDP growth reached 4.1%.
- On an annual basis (y-o-y), the growth profile strengthened to 5.0%, up from 3.2% in the previous quarter. In the latest monthly release by FocusEconomics (last week of August), GDP growth estimates for 2026 were revised upwards by 0.2 p.p. to 2.2%. Further positive revisions in the range of 0.5 to 0.8 p.p. are highly likely, driven by the upward revision for Q1 2026, a strong Q2 2026, and rising optimism among exporters and consumers.
- We have revised our 2026 growth forecast upwards from 2.0% to 2.9%, reflecting the aforementioned drivers, but have reduced the growth estimate for 2027 from 2.3% to 2.1%. Additionally, we anticipate slightly stronger growth in 2028 (2.3%), once the construction boom of 2026 (and the subsequent mild contraction in 2027) has been fully absorbed.

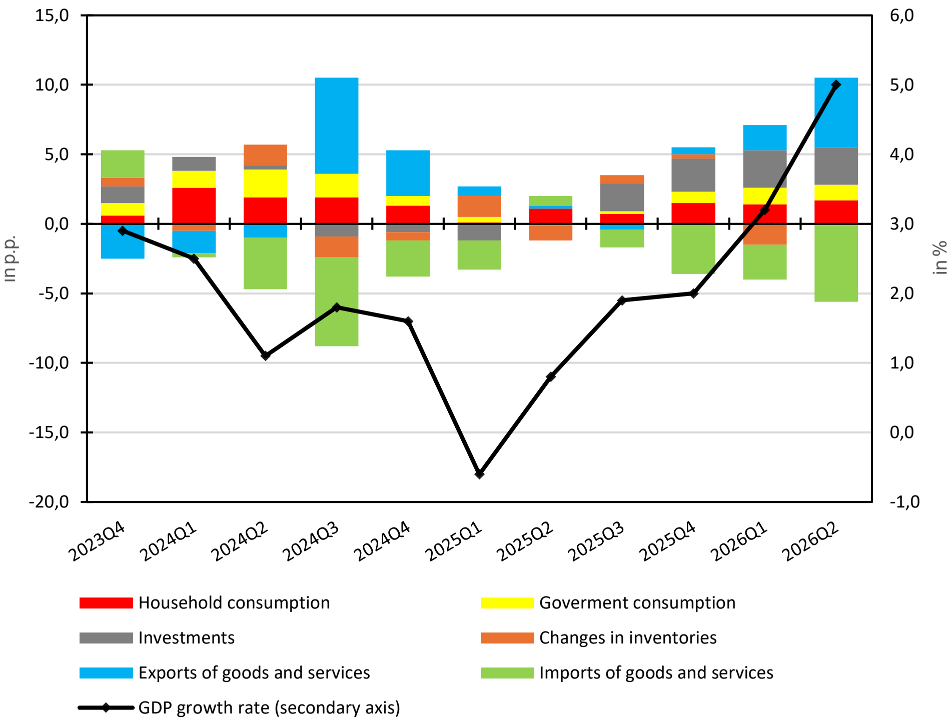
On an annual basis (y-o-y), the growth profile strengthened to 5.0%, up from 3.2% in the previous quarter.

Graph 1: Quarterly GDP, constant prices, y-o-y % change

Source: Statistical Office of RS.

- The expenditure approach revealed robust growth in household consumption, which accelerated to 3.4% y-o-y from 2.8% in the previous quarter, outstripping the 12-month trailing average of 2.6%. This expansion was primarily driven by two expenditure categories: durable goods (+10.1% y-o-y) and services (+3.7% y-o-y). The former was backed by an exceptionally strong quarter for car sales, followed by major household appliances (refrigeration units etc.) and furniture. Furthermore, the effects of strong wage growth persisted into Q2 2026, despite relatively stagnant employment.
- Government consumption grew strongly for the third consecutive quarter, expanding by 5.2% y-o-y in Q2 2026 and lifting 12-month growth to around 4.0%. Increased expenditure on long-term care, higher public sector wages, and greater operational spending associated with newly constructed public facilities all contributed to this rise.

Graph 2: Decomposition of quarterly GDP growth by expenditure aggregates, contributions to y-o-y growth in p.p.



Source: Statistical Office of RS, calculation by OTP banka Slovenia.

The external environment improved in Q2 2026, as exports of goods grew by 6.5% y-o-y, surpassing the 3.1% expansion recorded in Q1 2026 (which was revised upwards by 1.3 p.p.). In addition, exports of services rose by 6.1% y-o-y, partially boosted by a favourable calendar effect. Meanwhile, Q1 2026 service imports were revised upwards from -2.9% to -0.4% y-o-y. However, total imports also surged in Q2 2026 (+7.6% y-o-y), driven by strong demand for both goods (+8.1% y-o-y) and services (+5.5% y-o-y).

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Strong investment growth continued in Q2 2026 (+13.2% y-o-y), matching the pace recorded in Q1 2026. This expansion was predominantly driven by the public sector, tied to the finalisation of projects under the Recovery and Resilience Plan (RRP). Within construction, investment in non-residential buildings - across both the private and public sectors - saw a marked surge, rising by 23.6% y-o-y in Q2 2026 and lifting the 12-month trailing growth rate to 26.5%.

Investment in machinery and equipment expanded most rapidly in manufacturing and business services, maintaining a steady y-o-y growth rate of around 10% over the past three quarters. In Q2 2026, investment in transport equipment surged by 14.7% y-o-y, spurred by corporate purchases of electric vehicles (EVs) alongside a favourable base effect, given the sharp decline in this category up to Q3 2025.

Table 1: Quarterly GDP by expenditure method, constant prices, y-o-y, % change

	Share in GDP, in %, 2025	Q1 2026 y-o-y	Q2 2026 y-o-y
GDP	**100**	**+3.2%**	**+5.0%**
Household consumption	51	+2.8%	+3.4%
Government consumption	21	+5.6%	+5.2%
Investments	20	+13.2%	+13.2%
Exports	80	+2.3%	+6.4%
Imports	75	+3.4%	+7.6%
Inventories	1	-1.5 p.p.	-0.1 p.p.

Source: Statistical Office of RS.

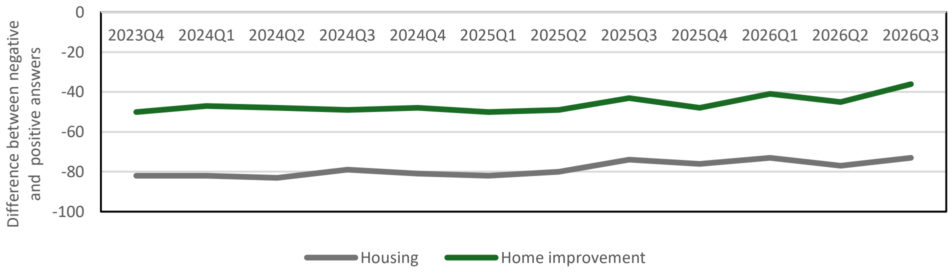
Investment in other machinery and equipment shadowed the rebound in transport equipment, rising by 10.1% y-o-y in Q2 2026 and sustaining strong momentum over the last three quarters. Key drivers included an uptick in export confidence (which, however, remains negative in net terms) and expanding capital expenditure on new manufacturing capacity, particularly within the pharmaceutical sector.

Investments remained the primary driver of growth in Q2 2026 for the fourth consecutive quarter, contributing 2.7 p.p. to the overall 5.0% y-o-y GDP growth - above their average contribution of 2.5 p.p. over the last 12 months. Household consumption added 1.7 p.p. to growth in Q2 2026, its highest contribution since Q1 2024. This volatile growth in household spending was driven by both price developments and targeted incentives, notably the introduction of new affordable vehicle models and generous subsidies for electric vehicles (EVs), which spurred car purchases.

Exports of goods and services provided a substantial positive contribution to growth (5.0 p.p.). However, this was more than offset by higher imports, which subtracted 5.5 p.p. from overall GDP growth due to the high import intensity of both gross fixed capital formation and household consumption. Meanwhile, government consumption contributed 1.1 p.p. to GDP growth, while changes in inventories remained broadly neutral.

Household consumption growth accelerated to +3.4% y-o-y in Q2 2026 - its strongest performance since Q3 2024 - driven principally by expenditure on durable goods (+10.1% y-o-y, dominated by automotive sales) and services (+3.7% y-o-y). Spending on durables was bolstered by improving consumer sentiment, rising real wages, and specific one-off incentives (such as the EV subsidy scheme). Conversely, growth in spending on semi-durable (+0.9% y-o-y) and non-durable goods (+1.3% y-o-y) moderated.

Graph 3: Quarterly consumer sentiment (buying intentions for two large purchases in next 12 months), seasonally adjusted



Source: Statistical Office of RS.

Household consumption growth (+3.4% y-o-y) outpaced the growth in real net wages (+2.8% y-o-y) over the same period. The average pension rose less rapidly (+1.7% in real terms, +4.9% in nominal terms) than average wages, though it was still 1.0 p.p. above the Q1 2026 growth rate due to an extraordinary 1.0% adjustment implemented in March.

Consumer confidence deteriorated from Q1 2026 (-22) to Q2 2026 (-26), dropping by 4 index points to levels last observed in Q3 2025. This decline was predominantly driven by accelerated price growth during the period (prices rose by 0.9% m-o-m between March and May 2026), largely pushed up by higher oil prices. However, sentiment rebounded swiftly in July and August, with the indicator rising to -21 - its highest reading since Q3 2021.

The propensity to purchase residential property dipped slightly in Q2 2026 (-4 index points), before recovering in Q3 2026 back to Q2 levels. Furthermore, the home improvement indicator surpassed that baseline, suggesting an increased likelihood of households undertaking home renovation projects.

General government deficit at 3.5% of GDP in H1 2026; full-year figure expected around 3%

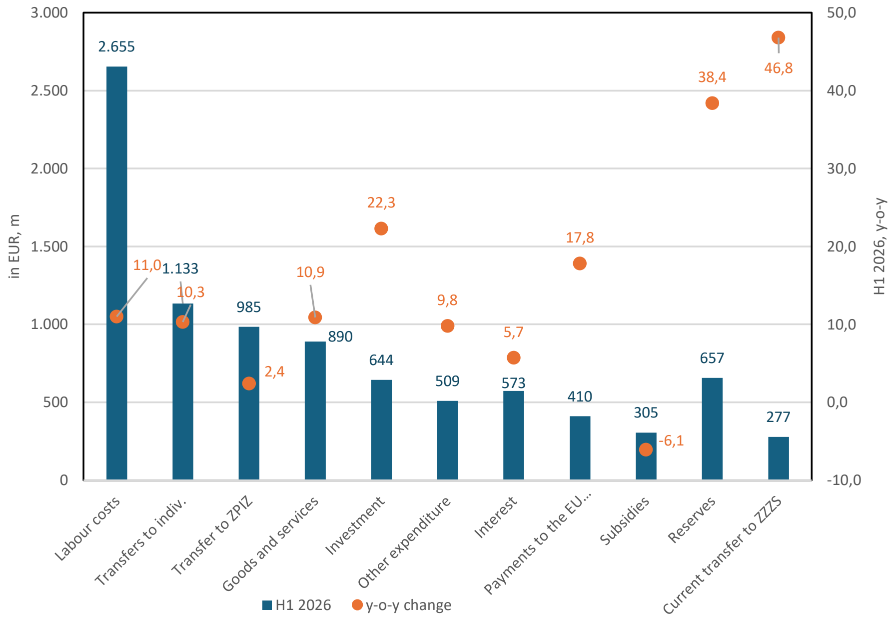
In Q1 2026, the general government deficit stood at 3.5% of GDP (+0.6 p.p. y-o-y), with preliminary Q2 2026 data indicating a similar trajectory. Most projections expect the full-year deficit to hover around 3.0% of GDP. General government revenues (which include state pension and healthcare funds alongside municipal budgets) rose by 8.7% y-o-y in Q1 2026 - 1.0 p.p. faster than in Q1 2025. This growth was largely driven by sustained increases in social security contributions (partly reflecting the implementation of the long-term care contribution) and robust VAT receipts. Expenditure growth moderated slightly but remained high (+9.9% y-o-y) and broad-based, primarily driven by social benefits, compensation of employees, and capital expenditure.

At the end of Q1 2026, general government gross debt stood at 64.8% of GDP, down nearly 5.0 p.p. y-o-y. This reduction was mainly attributed to stock-flow adjustments. Over this period, the single treasury account balance shrank by more than one-tenth (approximately EUR 1.6 billion), followed by a further EUR 0.2 billion decline in Q2 2026. Consequently, net debt remained stable at around 45% of GDP-significantly below gross debt levels. Some credit rating agencies continue to view Slovenia's lower net debt profile as a key sovereign credit strength.

The state budget deficit reached approximately EUR 1.2 billion in H1 2026 - a 50% y-o-y increase from EUR 0.82 billion. This was driven by expenditure growth (+EUR 1.0 billion; +12.3% y-o-y) outstripping revenue growth (+EUR 0.6 billion). The H1 deficit already represents more than half of the full-year budget target (EUR 2.1 billion).

Expenditure growth remained elevated (+12.3% y-o-y) and broad-based. A major portion of this increase stems from allocating dedicated revenues to budget funds, about half of which consist of Recovery and Resilience Facility (RRF) funds. Excluding this item, underlying expenditure growth was still high at 10.0%. Approximately one-third of this 10% underlying increase was driven by public wage increase. Labour expenditure accelerated due to a partial inflation indexation applied to April salaries (paid in May) and a 20% increase in the annual holiday allowance. It will pick up further in July following the payout of the third instalment under the public sector wage reform. Higher social transfers to individuals and households, operational spending on goods and services, transfers to the national health insurance fund (ZZZS), and capital expenditure each added over 1.0 p.p. to total expenditure growth (4.0 p.p. combined).

Graph 4: State budget expenditure, H1 2026 and y-o-y

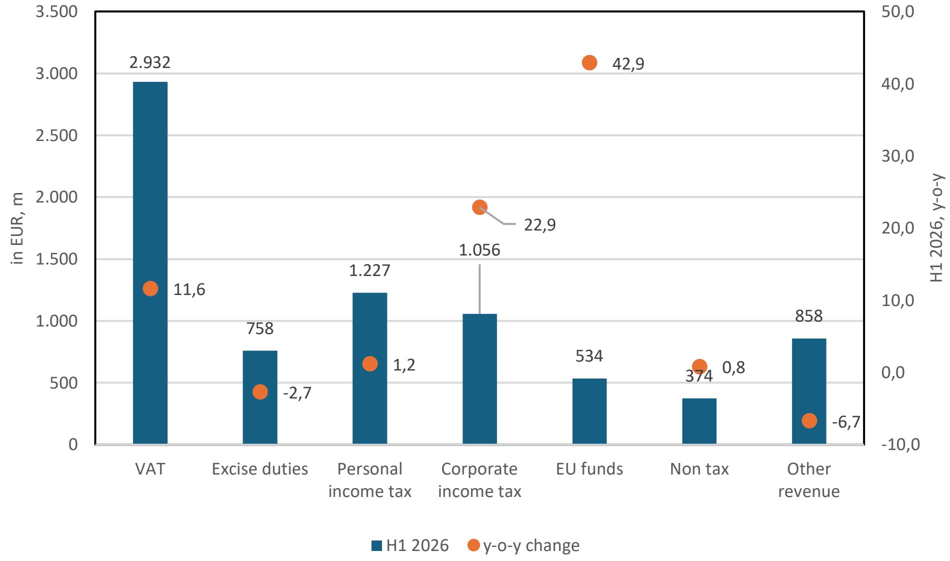


Source: Fiscal Council, calculation by OTP banka Slovenia.

State budget revenue rose by 8.4% y-o-y, significantly outperforming the same period last year. Around half of this growth was driven by higher VAT receipts (+11.6% y-o-y), which have steadily accelerated since H2 2025. This reflects stronger household spending on durable goods and services, which attract the standard 22% VAT rate. Corporate income tax (CIT) revenues also surged (+22.9% y-o-y), supported by near-record final tax settlements in April for the preceding year. Additionally, EU fund receipts expanded sharply (+42.9% y-o-y), driven by accelerated absorption under the RRF scheme, which expires this year.

Spending on durables was bolstered by improving consumer sentiment, rising real wages, and specific one-off incentives (such as the EV subsidy scheme).

Graph 5: State budget revenue, H1 2026 and y-o-y



Source: Fiscal Council, calculation by OTP banka Slovenia.

Sovereign debt issuance conditions have tightened since early February 2026, as geopolitical tensions in the Middle East sparked renewed inflationary pressures. The yield to maturity (YTM) on 10-year Slovenian government bonds climbed 50 b.p. to 3.5% and held at this level through July and August. Spreads over German Bunds widened from around 15 b.p. prior to the Middle East crisis to around 40 b.p. Nevertheless, Slovenia's substantial liquidity buffer-reflected in the margin between gross and net debt-remains a critical risk mitigant. Less favourable bond issuance terms prompted a drawdown of the Treasury account, contributing directly to the drop in gross debt.

The state budget deficit reached approximately EUR 1.2 billion in H1 2026 - a 50% y-o-y increase from EUR 0.82 billion.

Gross and net wage growth remains robust

Average gross wage growth remained strong in Q2 2026 (+7.0% y-o-y), while net wage growth lagged by 1.2 p.p. due to the long-term care contribution implemented in H2 2025. In real terms, average wages rose by 2.6% y-o-y. Excluding December bonuses paid in January 2026, gross wage growth was strongest in other service activities (+11.8% y-o-y), benefiting from a low starting base and the upward adjustment of the minimum wage. Public sector wages rose by 7.4% y-o-y, compared with 7.0% in non-financial corporations and 4.4% in the financial sector (where lower bonus payouts constrained growth).

Across sectors, relative gross wage growth in H1 2026 was generally stronger in lower-paid industries: real estate (+11.1%), other services (+9.5%), and arts, entertainment, and recreation (+8.9%). In Q2 2026, public administration wage growth accelerated to 9.8% y-o-y (from 7.4% in Q1), education to 7.9% (from 6.5%), and healthcare to 7.6% (from 6.5%), reflecting a second public sector pay adjustment. Conversely, administrative and support service activities slowed to 8.0% (from 9.4%). The lowest wage growth in H1 2026 occurred in the energy sector (+3.5%) and financial services (+4.4%), mainly due to reduced bonus pools. In manufacturing and retail/wholesale trade - the two largest employers - wages grew by 7.0% and 7.2% y-o-y in H1 2026, slowing by 0.6 p.p. and 0.4 p.p. respectively compared to Q1.

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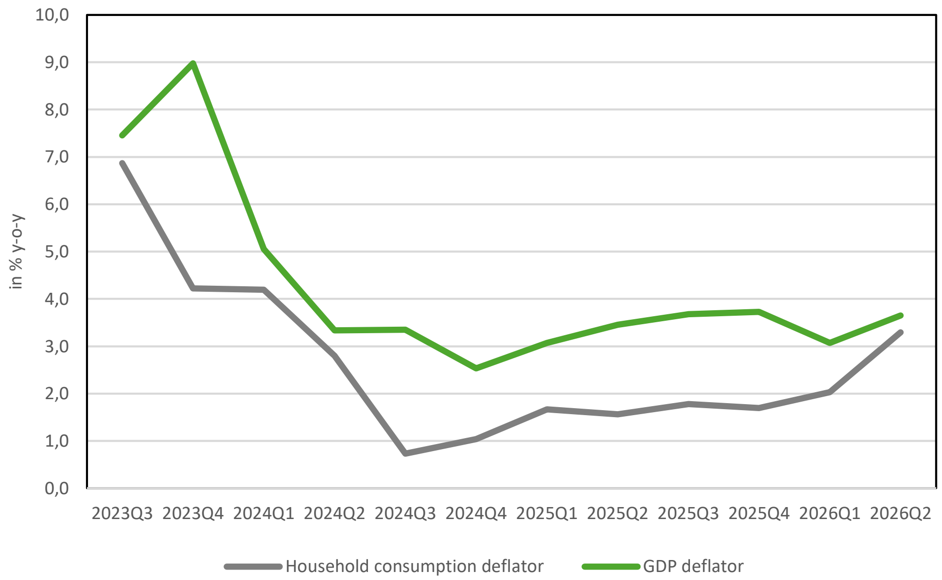
Price growth in the economy again rose much due to the Middle East conflict

Prices in the economy (according to the GDP deflator) grew by 3.7% y-o-y in Q2 2026, at a rate similar since Q2 2025. Also, their growth for the Q1 2026 was revised upwards to 3.1%, from 2.9%. Growth in prices reflected higher energy as well as some prices of non-energy commodities, that rose after the start of the conflict in the Middle East. Nominal GDP rose by 8.7%, which is the highest price growth since Q4 2023 and steadily gathered pace since last 12 months.

Household consumption deflator growth grew in Q2 2026 to 3.3% y-o-y, highest since Q1 2024. To the nominal growth in household consumption in this period (6.7% y-o-y), real (+3.4%) and price effect were very similar (+3.3%).

Graph 6: Price deflator in household consumption and GDP



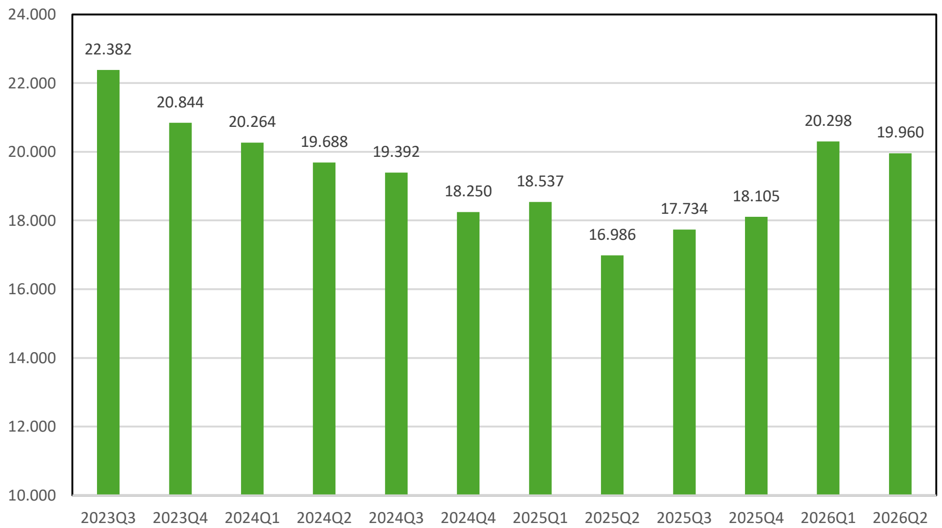
Source: Statistical Office of RS, calculations: OTP banka.

Slower decline in manufacturing jobs; labour market tightness persists

Labour market dynamics remained broadly unchanged in Q2 2026. Net job creation in the public sector (+2.2% y-o-y) moderated slightly from Q1 (+2.4%). In the private sector, employment contracted for the 19th consecutive month, with the pace of decline holding steady throughout H1 2026 (-0.7% y-o-y). Overall, total employment fell by around 900 jobs y-o-y in Q2 2026.

The contraction in manufacturing employment slowed in Q2 2026 (-1.5% y-o-y; -3,200 jobs) compared to Q1 (-1.3% y-o-y; -2,700 jobs). This moderation was driven by smaller job losses in rubber and plastics (-1.7% in Q2 vs -2.7% in Q1), fabricated metal products (-0.8% vs -1.0%), electrical equipment (-3.2% vs -3.9%), motor vehicles (-1.5% vs -2.9%), and machinery repair (-2.8% vs -5.1%). The pharmaceutical sector–representing 7% of manufacturing employment-was the sole industrial subsector to expand headcount (+8.0% y-o-y in Q2 vs +7.3% in Q1).

Graph 7: Number of jobs vacant, seasonally adjusted



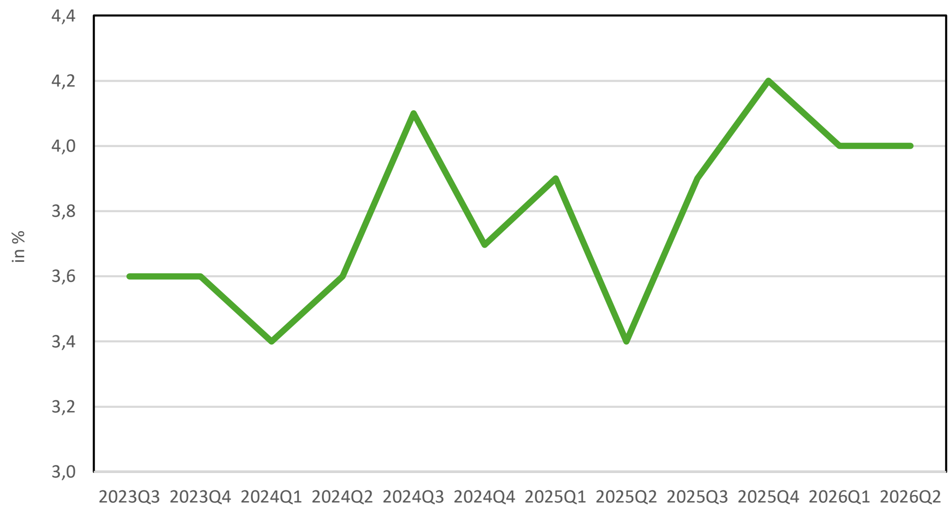
Source: Statistical Office of RS.

In retail and wholesale trade (11.4% of total employment), job losses accelerated from Q1 (-1.3% y-o-y) to Q2 (-1.5%), led by wholesale trade. Retailers engaged in cost optimization to counter rising minimum-wage overheads. Real estate employment dropped by 4.8% y-o-y in Q2 (vs -1.9% in Q1). A 1.8% drop in other services was dominated by a 13.3% plunge in temporary employment agency jobs, signalling manufacturer reluctance to commit to permanent hiring despite recent industrial production gains. Healthcare and social work employment remained strong at +3.6% y-o-y.

The labour market remained structurally tight in Q2 2026, with approximately 20,000 vacant positions. Vacancies rose q-o-q in construction, manufacturing, transport, and real estate (up 744 combined), but fell in public administration, health/social work, accommodation, and professional services (down 1,000 combined). AI technologies have had minimal impact on overall employment thus far, though software developer demand in certain basic IT segments (like coding) has softened.

The quarterly ILO unemployment rate stabilized at around 4.0% in H1 2026, reflecting underlying demographic headwinds.

Graph 8: Unemployment rate (ILO survey), 15-75 years, in %, seasonally adjusted



Source: Statistical Office of RS.

Table 2: Quarterly GDP by production method, constant prices, orig. data, y-o-y % change

	Share in GDP, in %, 2025	Q1 2026 y-o-y	Q2 2026 y-o-y
(A) Agriculture, forestry	1.6	+1.1	+1.8
(BCDE) Mining, manufacturing, electricity and water supply, waste management	22.2	-1.6	+3.4
..of which: manufacturing	18.6	+0.8	+4.3
(F) Construction	6.2	+14.3	+15.9
(GHI) Trade, transportation and storage, accommodation and food service activities	17.1	+2.1	+5.2
(J) ICT	3.9	+8.3	+6.4
(K) Finance	4.6	+6.6	+8.3
(L) Real estate services	6.2	+1.3	+1.5
(MN) Professional, scientific, technical, administrative and support services	8.8	+4.0	+5.4
(OPQ) Public administration, education, human health and social work	15.9	+2.6	+2.2
(RST) Other services	2.1	+2.1	+2.4
Value added, total	88.6	+2.8	+4.8
Net taxes on products	11.4	+6.3	+6.8
GDP	**100.0**	**+3.2**	**+5.0**

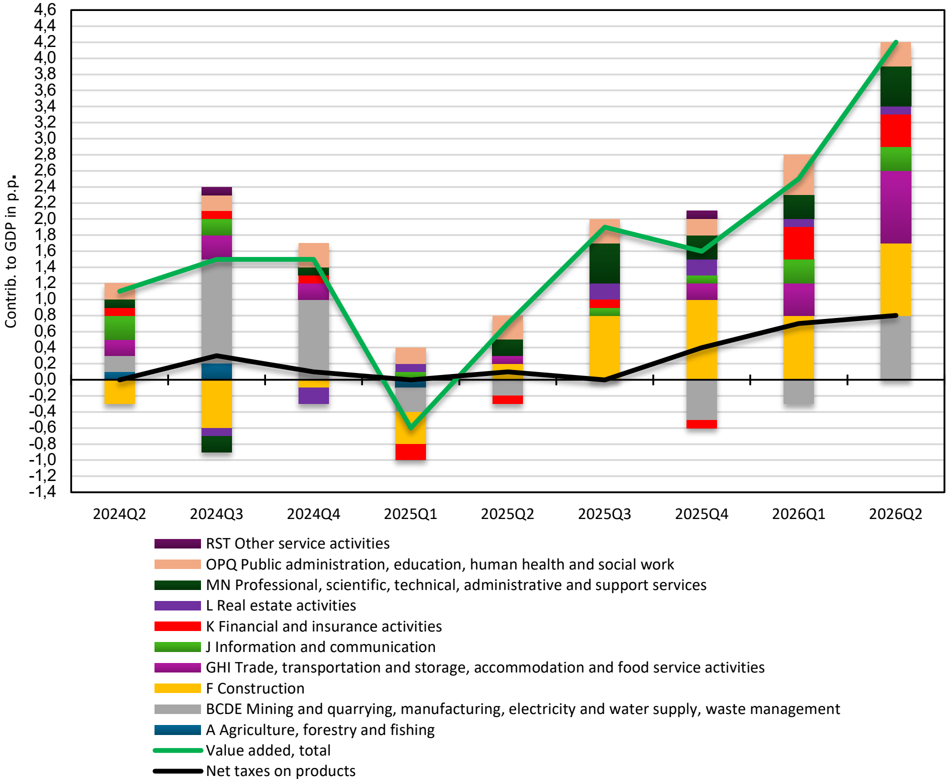
Source: Statistical Office of RS.

Retailers engaged in cost optimization to counter rising minimum-wage overheads.

Turnaround in manufacturing

On the production side of GDP, value added in construction grew strongly for the fourth consecutive quarter (+15.9% y-o-y in Q2 2026), directly contributing 0.9 p.p. (or one-quarter) to overall value-added growth. Professional, scientific, technical, and administrative services - tied closely to construction - saw value added expand by 5.4% y-o-y in Q2 (+4.6% trailing 4-quarter average), contributing 0.5 p.p. Trade, transport, accommodation, and food services contributed 0.9 p.p. to growth (+5.2% y-o-y), its strongest performance since Q3 2024. Financial services (+8.3% y-o-y) and ICT (+6.4% y-o-y) contributed 0.4 p.p. and 0.3 p.p. respectively.

Graph 9: Decomposition of quarterly GDP growth by value added (NACE Rev. 2), contributions to y-o-y growth in p.p.



Source: Statistical Office of RS, calculation by OTP banka Slovenia.

Manufacturing staged a major turnaround as value added grew by 4.3% y-o-y in Q2 2026 - its strongest rate since Q3 2022 - contributing 0.8 p.p. to overall GDP growth. Public-dominated sectors grew by 2.2% y-o-y, while mining and energy contracted slightly. Net taxes rose by 6.8% y-o-y in Q1, reflecting buoyant consumer spending and adding 0.7 p.p. to overall GDP growth.

Mining output fell sharply (-40% in Q1 2026 following a 15% drop in Q1 2025), while energy sector output edged down -0.4% (after an 18.4% drop). This was driven by scheduled maintenance at the Šoštanj Thermal Power Plant (TEŠ) as well as an additional technical failure - which suppressed demand for domestic lignite - and low rainfall reducing hydroelectric output.

Net electricity generation fell 9.0% y-o-y in Q2 2026 (following a 3.9% drop in Q1) and remained weak in July (-9.2%). Hydro generation fell 6.8% over the first seven months, while thermal generation dropped 13.8%. Nuclear output was flat, while solar power output surged by 23%.

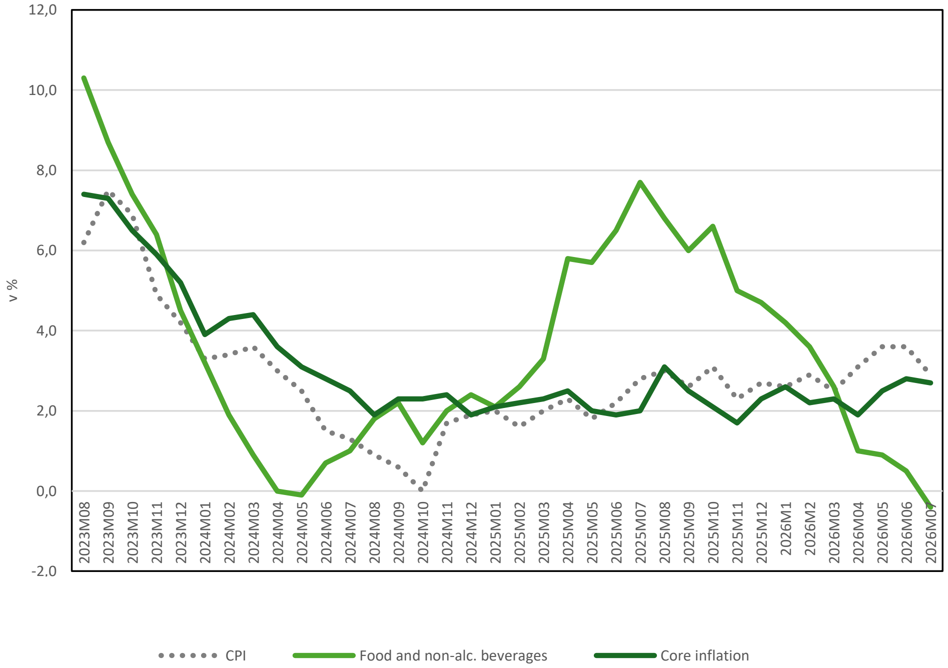
Manufacturing staged a major turnaround as value added grew by 4.3% y-o-y in Q2 2026 - its strongest rate since Q3 2022.

Energy (mostly fuel) prices lifted the prices again

Consumer price inflation (CPI) accelerated to 3.4% y-o-y in Q2 2026 (up from 2.7% across Q4 2025 - Q1 2026), driven by Middle East geopolitical tensions and strong wage growth pushing up service prices in sectors with tight labour market (construction, tourism). Monthly price growth reached 1.1% in May before stabilizing in July and August, pulling annual CPI back down to 3.0%.

Core inflation held steady at 2.4% y-o-y in Q2 2026, though the 3-month rolling average rose to 2.7% by July, indicating underlying price momentum. Public sector wage adjustments effective from July (paid in August) pose additional upside risks to core inflation. Food and non-alcoholic beverage inflation slowed to 0.8% y-o-y in Q2 (from 3.5% in Q1) due to strong base effects. Food prices remained flat from January through July but are expected to rise in early 2027 during annual distributor-retailer contract renegotiations.

Graph 10: CPI, food prices and core inflation, last 12 months, y-o-y



Source: Statistical Office of RS.

Service price inflation reached 4.1% y-o-y in Q2 (vs 3.5% in Q1), driven by the reintroduction of administrative network charges on electricity and higher maintenance costs. Household energy prices (excluding transport fuels) jumped 10.0% y-o-y in Q2 2026.

Over the 12 months to July 2026, Slovenia's HICP rose by 2.9% compared to 2.4% in the Euro Area (EA-21). Goods prices (+0.8 p.p.) and services prices (+0.6 p.p.) both outstripped euro area averages. Unprocessed food prices rose 2.3 p.p. faster than in EA-21, and processed food prices rose 0.7 p.p. faster. Household energy prices surged 9.7 p.p. faster in Slovenia, though transport fuel price growth was 5.5 p.p. lower due to temporary excise duty cuts and environmental levy waivers.

Growth in prices related to housing rose by 2.4 p.p. faster in Slovenia, those related to communication by 0.9 p.p. and those related to recreation and personal care by 1.1 p.p. more. Surprisingly, prices of services related to package holidays and accommodation rose faster in EA-21, by 1.1 p.p.

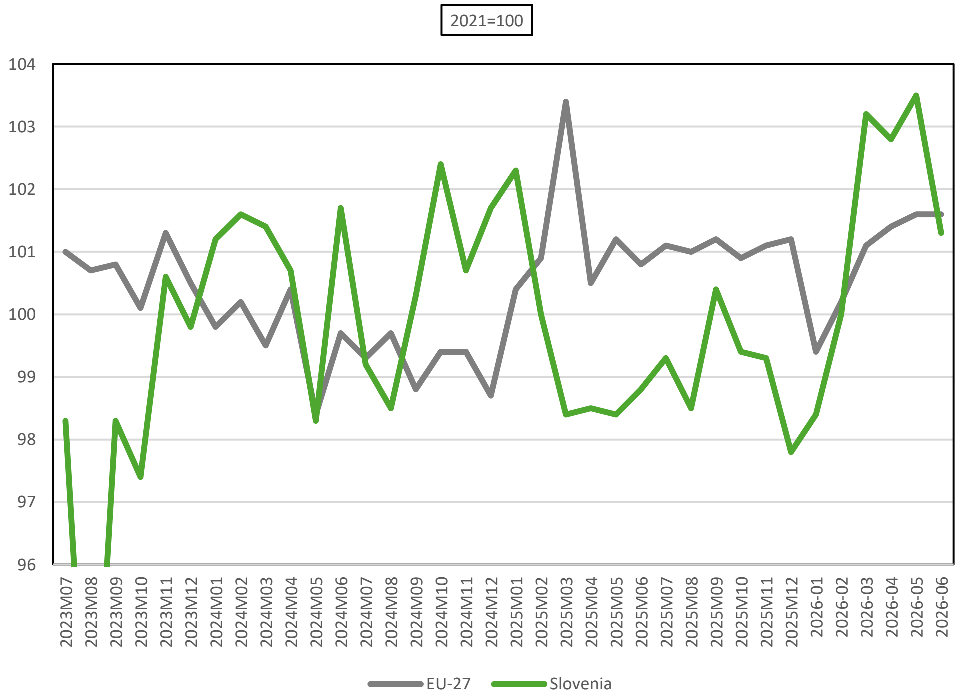
Food prices remained flat from January through July but are expected to rise in early 2027 during annual distributor-retailer contract renegotiations.

Capital goods drive industrial recovery

Industrial production in manufacturing in Slovenia has recovered since the start of the year, up 3.6% YTD through June 2026, significantly outperforming stagnant EU-27 output (+0.4%). Stronger growth (+2.3% y-o-y in H1 2026) was aided by low base effects from 2025. For the last 6 months, data is temporary and therefore, revisions may increase or decrease this growth by around 0.5 p.p. based on past revisions.

Intermediate goods output was stagnant in H1 2026, mirroring the wider EU-27. However, capital goods industries drove overall outperformance, with output expanding by 7.2% y-o-y (+5.0 p.p. above EU-27). In 2025 Slovenia's capital goods industries underperformed EU-27 by 2.2 p.p.

Graph 11: Industrial production in EU-27 and Slovenia, seasonally and calendar-adjusted



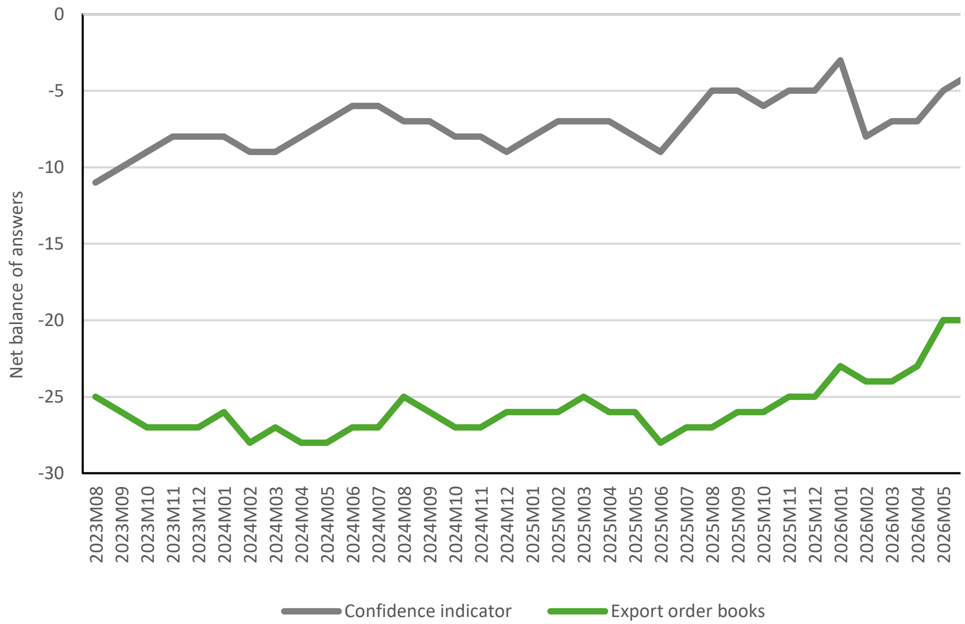
Source: Eurostat.

Consumer durables underperformed for the fourth consecutive quarter, contracting 6.3% y-o-y in H1 2026 (-8.4% in Q2). Non-durable goods production grew 1.7% y-o-y in H1, with a strong Q2 rebound (+4.9% vs -4.3% in the EU-27). At the EU-27 level, it was lower by 4.3% in the H1 2026. A 6 p.p. higher growth in Slovenia is only a reversal of a 4.8 p.p. relative drop in 2025.

By technology intensity, medium-low and high-tech manufacturing grew by 2.9% in H1 2026. High-tech sectors staged a sharp Q2 rebound (+8.6% y-o-y following a 2.8% drop in Q1). Low-tech sectors grew 2.2% in H1 (+3.9% in Q1; +0.5% in Q2), while medium-high manufacturing grew 2.8% in Q2 (vs 1.9% in Q1).

Across individual subsectors, 7 out of 22 manufacturing industries expanded by over 5% in H1 2026: wearing apparel (+22.5%), electronic and optical products (+14.8%), machinery repair and installation (+8.8%), machinery and equipment (+7.2%), other manufacturing (+6.0%), and motor vehicles (+5.5%). Conversely, output contracted in paper (-3.8%), printing (-4.5%), and leather products (-10.8%) due to import competition. Pharmaceutical output (accounting for one-sixth of total manufacturing value added) remained broadly flat relative to H1 2025.

Graph 12: Sentiment in manufacturing and export order books (net balance of companies), seasonally adjusted

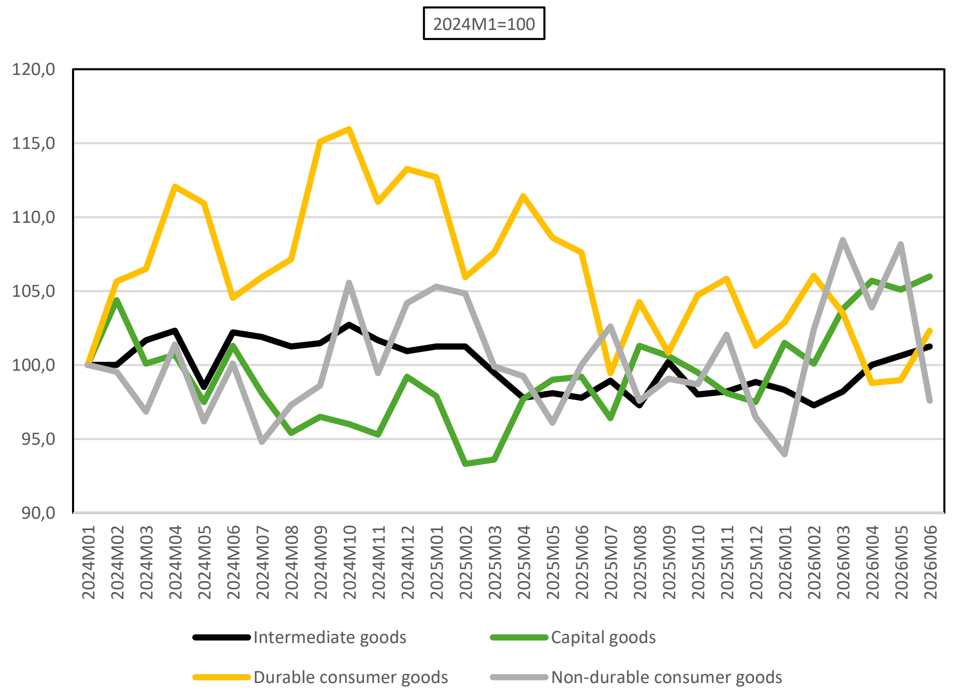


Source: Statistical Office of RS.

Manufacturing confidence improved to -5 index points in Q2 2026 and further to -3 in July/August, supported by gains in production orders (+3), total order books (+5), production expectations (+5), and employment expectations (+3).

Euro Area manufacturing PMIs improved from 50.6 in Q1 to 51.7 in Q2 and 52.4 in July/August, led primarily by Germany. However, elevated natural gas and electricity futures for Q4 2026/Q1 2027 pose downside risks for energy-intensive sectors.

Graph 13: Industrial production by main sector, seasonally and calendar-adjusted



Source: Statistical Office of RS.

Capital goods industries drove overall outperformance, with output expanding by 7.2% y-o-y (+5.0 p.p. above EU-27).

Euro Area manufacturing PMIs improved from 50.6 in Q1 to 51.7 in Q2 and 52.4 in July/August, led primarily by Germany.

Tax reductions may further boost the spending of households

Following stronger-than-expected Q2 2026 GDP performance and upward revisions to Q1, we raised our full-year 2026 GDP growth forecast from 2.0% to 2.9%. Conversely, we have lowered our 2027 forecast from 2.3% to 2.1%. The adjustment for 2027 reflects front-loaded construction activity in 2026 (ahead of RRF expiry and autumn local elections) followed by a temporary lull. Growth is expected to return to its long-term potential of 2.3% in 2028.

The calendar effect is also supportive to the growth in 2026, but the headwinds will be higher oil and energy prices and somehow limited space for additional fiscal policy measures. The current government has not adopted yet measures to rebalance the budget for the current and the next two years, but it is clear that expenditure growth would need to be reduced in the future. However, the new General Assembly passed a bill on 11th of May 2026 (Act on Intervention Measures for the Development of Slovenia - ZIURS) which included several measures aimed at reducing the effective taxation, including a lower value-added tax (VAT) rate on basic food products and certain energy sources. In addition, the bill contains a more favourable treatment of small businesses and so-called lump-sum taxpayers, taxation and social security contributions, as well as healthcare and pensions.

ZIURS has not yet entered into force, and we have not included it into our forward-looking estimates as it is unclear whether the various proposals will be implemented in practice and when. Trade unions have initiated proceedings to call a subsequent legislative referendum. On 27th May 2026, the National Assembly adopted a resolution declaring the referendum inadmissible. The initiators of the referendum challenged that resolution before the Constitutional Court, which has now rendered its decision annulling the National Assembly's resolution. The referendum on ZIURS is therefore now permissible. The collection of signatures in support of the request to call the referendum on ZIURS will now proceed (the 35-day period for collecting signatures began on 1 September 2026).

Short time working scheme was implemented again for the period between 20th of July 2026 and 20th of January 2027. It is expected to protect around 1,900 jobs in 10 sectors which face pressure due to temporary factors, connected largely to the Middle East crisis.

Investments will be the key growth driver in 2026 as our revised estimates (+8.8%; 2.4 p.p. more than in June) includes a double-digit growth rate in construction investments and transportation equipment. A rebound in machinery and equipment investments is also expected to be strong (+8.6%), whereas the intellectual property investments will grow by 3.4%. Investments are expected to contract slightly in 2027 (-0.7%) before recovering to +2.9% in 2028. Residential construction retains strong medium-term upside supported by rising real wages, high household liquidity, low leverage, and anticipated ECB interest rate cuts in 2027. Currently rising Euribor implies also higher mortgage rates, but we expect the disinflation trend in 2027 to lead to reduction in ECB's key rates. However, protracted geopolitical conflict in the Middle East and persistently high energy prices are a risk. Consumer loans are expected to support household consumption.

Table 3: Main forecasts*, y-o-y % change

	Last 5 years	26F	27F	28F
GDP, real	**3.3**	**2.9**	**2.1**	**2.3**
GDP, nominal	8.6	6.6	4.3	4.9
Household consumption, real	4.1	2.7	1.9	2.0
Government consumption, real	3.3	4.7	2.1	1.9
Investments, real	5.2	8.8	-0.7	2.9
Exports, real	4.4	4.2	1.7	2.4
Imports, real	5.8	4.9	1.0	2.2
Inventories, in p.p.	0.0	0.0	0.0	0.0
CPI (average of the year)	4.5	3.1	2.3	2.0
Nb. of employed people, in %	1.1	0.1	0.0	0.0
ILO unemployment rate, in %	4.0	3.9	3.8	3.8
Wages (nominal change, in %)	6.5	7.0	5.0	4.5
Industrial production in manufacturing, in %	2.1	3.5	0.3	1.8
Construction works, constant prices, in %	8.5	11.0	-3.0	2.8
Real estate prices, in %	8.9	5.0	4.5	4.5

* Dynamic factor models. Source: Statistical Office of RS, calculation by OTP banka Slovenia.

Household consumption is expected to rise by 2.7% in 2026 and will be supported by strong wage growth as well as improving consumer sentiment. We did not change our outlook about a stagnant labour market in 2026-2028 as manufacturing will need to adapt to higher wages also by higher investments into automation and AI. Number of jobs in services, especially those tied to ageing population will continue to grow.

Government consumption has been revised up to 4.7% for 2026 (from 2.8%) due to public infrastructure spending and higher wage outlays.

Exports and expected to rebound more strongly in 2026 (+4.2%) compared to our previous estimate (+2.2%) but we reduced the growth a bit for the 2027, from 2.6% to 1.7%. Tied to that we also increased our estimate for industrial production growth in manufacturing to 3.5%.

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