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Influence of Wage Growth on Inflation in Slovenia

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Summary

The paper analyzes the influence of wage growth on inflation in Slovenia using the theoretical concept of the Phillips curve and the cointegrated VAR as the empirical framework. Results reveal a highly significant equilibrium influence of growth in unit labour cost on inflation. Each permanent increase in growth of unit labour costs results in a roughly 0.7 percentage points higher inflation. The impulse response function also shows that shocks to unit labour cost quickly feed into inflation, with most of the adjustment taking place within a year.