

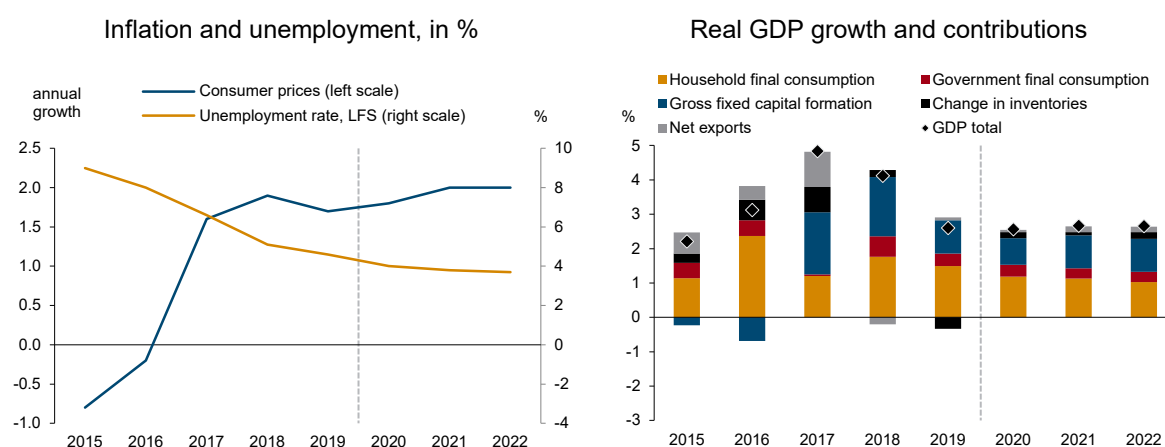


## SLOVENIA: Decelerating growth amid political instability

HERMINE VIDOVIĆ

GDP growth will remain unchanged at 2.6% in 2020, due to sluggish external demand, but will increase slightly thereafter. Domestic consumption will remain the main driver of growth, but could be dampened by the recently adopted consumer loans restrictions. Downside risks arise from changes in global conditions and adverse demographics.

**Figure 6.21 / Slovenia: Main macroeconomic indicators**



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**The Slovenian economy weakened in the second half of 2019, and the real GDP growth rate is estimated at 2.6%, slightly below our previous forecast.** This is mainly due to a slowdown in the last quarter of the year, as signalled by decelerating growth of industrial production, as well as of exports. Domestic demand was the largest contributor to growth, with rising household consumption (3.5% – thanks to increasing disposable income from wages and social transfers) and government consumption up by almost 2% against a year earlier. The growth in gross fixed capital formation moderated in the course of the year to 6%. Construction output fell for several months, but strengthened towards the end of the year, particularly in the construction of non-residential buildings. Yet, output growth of only 3% was achieved, compared to almost 20% a year earlier. Changes in inventories contributed negatively to the GDP expansion. After a solid start, industrial output growth slowed in the second half of the year, to stand at 3% for the full year; the highest growth rates were reported for the manufacturing of wood and wood products, while car production – one of the biggest exporters – stagnated.

**Labour market conditions continued to improve, but at a slower pace than a year earlier.** Labour Force Survey data indicate an employment increase of 0.4% and a fall in the unemployment rate to 4.6%, close to the pre-crisis level. To combat labour shortages, Slovenian firms have relied on foreign workers: they account for about 10% of total employment, the majority coming from Bosnia and Herzegovina, Serbia, Croatia, Kosovo and North Macedonia; they are primarily employed in

construction, manufacturing, and transport and storage. Only recently, the Slovenian Business Club (SBC) proposed measures to prevent the emigration of young educated people (between 2014 and 2018, about 11,000 young people left the country). Among other things, it suggests tax relief (e.g. untaxed performance-related bonuses and other opportunities to reduce the taxable income of top experts) and tax incentives for companies (e.g. on the construction of workforce housing). Average real gross wages rose by 2.7%, increasing faster in the public sector (3.8%) than in the private (2.3%), thanks to the 'agreement on salaries and other payments of labour costs in the public sector' reached between the government and public-sector trade unions. Wages in the private sector grew most in administrative and support service activities, accommodation and trade. Part of the increase was also due to an increase in the minimum wage. Consumer price inflation averaged 1.7% for 2019, mainly due to rising food prices.

**Growth of both exports and imports was significantly lower than a year earlier.** Goods exports and imports in 2019 rose by 2.8% and 2.2%, respectively, with the trade surplus higher than a year earlier. In terms of exports, deliveries of machinery and transport equipment to Germany declined most (this also impacted on industrial production, which experienced inadequate demand). In services, the trade surplus also widened, as exports – transport and construction services, in particular – rose ahead of lower import growth. The primary income deficit narrowed compared to a year previously, while the secondary income shortfall increased modestly. The current account surplus reached another record of an estimated EUR 3.2 billion, or 6.5% of GDP. Foreign direct investment inflows were slightly lower than a year earlier, amounting to EUR 1.2 billion in 2019.

**The general government budget surplus narrowed in 2019 to 0.2% of GDP, compared to 0.8% in 2018.** This was mainly a result of lower revenues (there were no one-off revenues such as in the previous year, with the dividend payments related to Nova Ljubljanska Banka and the delayed EU payments from the 2007-2013 multi-year budget), but lower tax revenues also played a part. Expenditure, by contrast, increased, due to rises in wages and additional employment in the public sector, as well as higher social transfers. At the beginning of January 2020, the Republic of Slovenia successfully refinanced a bond maturing on 27 January 2020 by issuing a new EUR 1.5 billion 10-year bond, thus continuing with its debt refinancing and reduction of interest payments.

In November 2019, the steady increase in consumer lending (in excess of 10%) prompted the Bank of Slovenia to impose restrictions on consumer loans, in order to curb excessive credit growth and protect borrowers from becoming over-indebted (thereby changing a former recommendation into a binding instrument). Accordingly, commercial banks, savings banks and branches of foreign banks will be required to place caps on (i) the maturity of consumer loans (seven years maximum) and (ii) the ratio of annual debt servicing costs to the borrower's net income (DSTI) (which may no longer exceed 67%). The latter applies also to housing loans. Since the announcement of these measures, the central bank has come under steady pressure – not only from the banking association, but also from politicians, who argue that the lending restrictions will affect an estimated 300,000 individuals (pensioners and low-wage earners, in particular). Initial results published by the banking association show that the number of consumer loans dropped by around 40% between October and December, and the number of housing loans fell by around 60%.

On 27 January 2020, Slovenia's Prime Minister Marjan Sarec resigned and called for early elections, because his minority government was unable to push through crucial reforms. Mr Sarec headed a five-party coalition, which together had held 43 of the 90 seats in parliament since August 2018, and which was supported by the Left Party up to November 2019. Only one month later, the right wing politician Janez Jansa, leader of the largest party in the Slovenian parliament, managed to form a new government with the centre-left Modern Centre party, the conservative New Slovenia and DeSUS, the pensioner's party. The decision of the Modern Centre Party to join the coalition with Janez Jansa is particularly controversial, as it has prompted the former Foreign Minister and party founder Miro Cerar to leave the party to protest against this move.

**The outlook remains subdued. wiiw expects GDP to grow at 2.6% in 2020 and 2.7% in 2021 and 2022, backed by domestic demand, while the contribution of net exports will turn negative.**

Private consumption will remain an important driver, boosted by a continued improvement in the labour market and rising wages; but it may be dampened by the credit restrictions imposed in late 2019.

Investment is expected to grow further, particularly with respect to construction, as activities strengthened again towards the end of 2019. Alongside rising employment, unemployment is expected to continue its downward path, not least because of the shrinking working-age population. The current account will remain in positive territory, but is expected to decline along with lower trade surpluses.

Downside risks arise mainly from outside the country: an economic slowdown in Slovenia's major trading partners – Germany and Italy, in particular – could dampen exports. But adverse demographics will also pose challenges in the future.

**Table 6.21 / Slovenia: Selected economic indicators**

	2015	2016	2017	2018	2019 <sup>1)</sup>	2020	2021 Forecast	2022
Population, th pers., average	2,064	2,065	2,066	2,074	2,080	2,090	2,090	2,100
Gross domestic product, EUR mn, nom.	38,853	40,367	42,987	45,755	47,700	49,800	52,100	54,600
annual change in % (real)	2.2	3.1	4.8	4.1	2.6	2.6	2.7	2.7
GDP/capita (EUR at PPP)	23,800	24,200	25,500	26,900	27,900	.	.	.
Consumption of households, EUR mn, nom.	20,640	21,416	22,278	23,542	24,600	.	.	.
annual change in % (real)	2.1	4.5	2.3	3.4	2.9	2.3	2.2	2.0
Gross fixed capital form., EUR mn, nom.	7,248	7,019	7,875	8,799	9,400	.	.	.
annual change in % (real)	-1.2	-3.7	10.4	9.4	5.0	4.0	5.0	5.0
Gross industrial production								
annual change in % (real)	5.6	7.1	7.7	4.9	3.3	2.5	2.5	3.0
Gross agricultural production								
annual change in % (real)	6.4	-3.2	-9.5	26.9	-7.2	.	.	.
Construction industry								
annual change in % (real)	-8.2	-17.7	17.7	19.7	3.3	.	.	.
Employed persons, LFS, th, average	917.4	915.0	959.1	980.6	990.0	1,000	1,010	1,020
annual change in %	0.1	-0.3	4.8	2.2	1.0	1.0	0.5	0.5
Unemployed persons, LFS, th, average	90.3	79.6	67.4	52.8	48.0	42	40	39
Unemployment rate, LFS, in %, average	9.0	8.0	6.6	5.1	4.6	4.0	3.8	3.7
Reg. unemployment rate, in %, eop	12.3	10.8	9.0	8.1	7.7	.	.	.
Average monthly gross wages, EUR	1,556	1,584	1,626	1,682	1,754	1,830	1,910	1,990
annual change in % (real, gross)	1.2	1.9	1.3	1.7	2.7	2.5	2.5	2.0
Average monthly net wages, EUR	1,013	1,030	1,062	1,093	1,134	1,180	1,230	1,280
annual change in % (real, net)	0.9	1.8	1.7	1.2	2.1	2.0	2.0	1.9
Consumer prices (HICP), % p.a.	-0.8	-0.2	1.6	1.9	1.7	1.8	2.0	2.0
Producer prices in industry, % p.a.	-0.2	-1.4	2.2	2.1	0.6	1.5	1.8	1.8
General government budget, EU-def., % of GDP								
Revenues	45.9	44.3	44.0	44.3	44.0	43.9	43.7	43.5
Expenditures	48.7	46.2	44.1	43.5	43.8	43.6	43.5	43.5
Net lending (+) / net borrowing (-)	-2.8	-1.9	0.0	0.8	0.2	0.3	0.2	0.0
General gov. gross debt, EU def., % of GDP	82.6	78.7	74.1	70.4	68.0	64.8	62.0	61.5
Stock of loans of non-fin. private sector, % p.a.	-6.4	-3.9	1.9	3.0	3.5	.	.	.
Non-performing loans (NPL), in %, eop <sup>2)</sup>	9.9	5.5	8.4	5.6	3.4	.	.	.
Central bank policy rate, % p.a., eop <sup>3)</sup>	0.05	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR mn	1,482	1,942	2,635	2,593	3,159	2,930	2,980	3,060
Current account, % of GDP	3.8	4.8	6.1	5.7	6.6	5.9	5.7	5.6
Exports of goods, BOP, EUR mn	24,039	24,991	28,478	31,134	32,002	33,440	35,110	36,870
annual change in %	4.7	4.0	14.0	9.3	2.8	4.5	5.0	5.0
Imports of goods, BOP, EUR mn	22,563	23,454	26,899	30,005	30,669	32,140	33,910	35,780
annual change in %	3.6	3.9	14.7	11.5	2.2	4.8	5.5	5.5
Exports of services, BOP, EUR mn	5,940	6,501	7,288	7,963	8,526	9,040	9,630	10,280
annual change in %	4.2	9.4	12.1	9.3	7.1	6.0	6.5	6.8
Imports of services, BOP, EUR mn	4,306	4,575	5,048	5,285	5,510	5,760	6,050	6,410
annual change in %	1.4	6.3	10.3	4.7	4.3	4.5	5.0	6.0
FDI liabilities, EUR mn	1,560	1,298	1,065	1,295	1,231	1,300	.	.
FDI assets, EUR mn	292	434	570	362	540	400	.	.
Gross reserves of NB excl. gold, EUR mn	687	593	632	702	767	.	.	.
Gross external debt, EUR mn	46,148	44,293	43,191	42,100	45,100	45,300	45,800	46,100
Gross external debt, % of GDP	118.8	109.7	100.5	92.0	94.5	91.0	88.0	84.5

1) Preliminary and wiiw estimates. - 2) Loans more than 90 days overdue, and from 2017 also including loans unlikely to be paid. - 3) Official refinancing operation rates for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.