

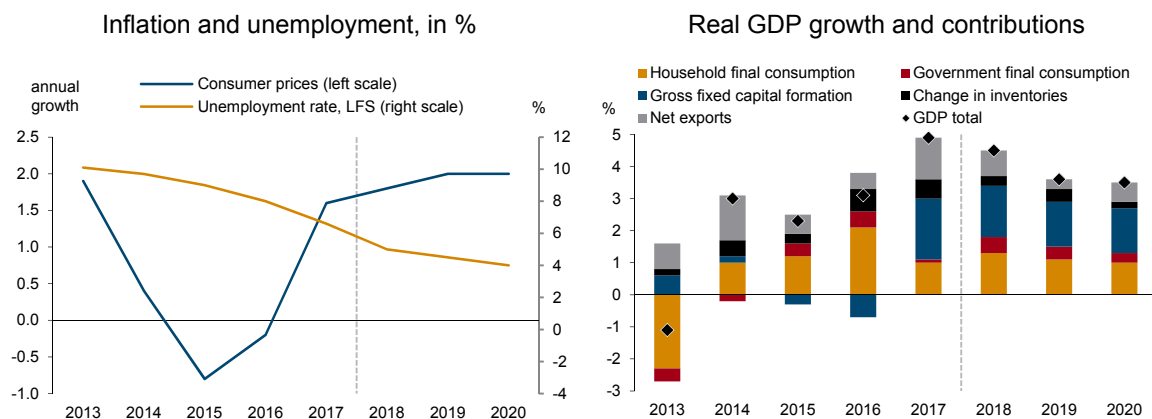


## SLOVENIA: Another successful year

HERMINE VIDOVIC

GDP growth is expected to reach 4.5% in 2018, but will slow due to lower export growth in the forecast period. Domestic demand, investments fuelled by EU funding and steady consumption growth will remain the main drivers of GDP growth. The shrinking of the working-age population and increasing labour shortages will put an upward pressure on wages.

Figure 55 / Slovenia: Main macroeconomic indicators



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

**Slovenia's GDP increased by 4.2% year on year in the first half of 2018 driven by strong domestic demand.** Private consumption growth has been formidable, supported by further improvements in labour market conditions and rising household loans. Thanks to EU co-financing also gross fixed capital formation remained on its growth path, translating into a further increase in construction activities, non-residential building in particular. Noticeable investment growth was also reported in machinery and equipment, especially in transport equipment. Changes in inventories as well as net exports contributed positively to the GDP expansion. Industrial output grew by close to 6% in the first half of the year, with the highest growth rates reported for the manufacturing of computers and optical equipment and car production.

**Labour Force Survey data indicate an employment increase of 3% in the first half of 2018 and a fall of the unemployment rate to 5.6%**, the lowest rate since 2008, when it amounted to only 4.4%. Average real net wages rose only moderately, by 1.5% in the first six months of the year. Taking into

account that the working-age population will decline and labour shortages will become more severe, an upward wage pressure can be expected in the coming years. The July 2018 business tendency survey among manufacturing, retail trade and construction companies reported that the share of enterprises listing shortages of skilled labour as a factor limiting production was 38%, the highest listed so far. This is also confirmed by the evolution of job vacancy rates, increasing from 2.3% in the second quarter of 2017 to 2.6% in the same period of 2018. Wage increases in the public sector are to be expected due to the relaxation of the remaining austerity measures introduced during the financial crisis.

**External trade expansion was less dynamic than a year earlier, but still at high levels.** Goods exports and imports rose by about 12% each, year on year, in the first seven months of 2018 with the trade surplus somewhat higher than a year earlier. In services trade the surplus widened even faster owing to exports – transport, travel in particular – rising ahead of lower import growth. The deficits both in the primary income and in the secondary income balance have been narrowing as compared to the first seven months of 2017. Hence, the current account surplus increased compared with 2017 and amounted to an estimated 8% of GDP on the back of deleveraging and strong private savings. Foreign direct investment inflows were higher than a year earlier, amounting to EUR 730 million in the first seven months of 2018.

**The general government budget closed with a surplus in the first half of 2018 (1% of GDP) compared to a small deficit in 2017 and is likely to remain in positive territory in the year as whole.** The turnaround was mainly made possible through a marked increase in total tax revenues and social contributions, while on the expenditure side fewer funds are earmarked for interest payments. Thus, the expectation of the Ministry of Finance ending up 2018 with a 0.4% surplus of the general government as a share of GDP, and a fall of public debt to below 70% seems to be feasible. As regards 2019, the new government has announced to adjust the budget to the commitments set out in the coalition agreement, but has also emphasised its commitment to fiscal sustainability and fiscal rule of a balanced budget.

**In August the European Commission approved a new Slovenian commitment package for Nova Ljubljanska Banka (NLB).** Accordingly Slovenia commits itself to sell a first tranche of at least 50% plus one share by the end of 2018 and the Slovenian government will reduce its share in the bank to 25% plus one share by the end of 2019. If Slovenia does not respect the deadlines, a divestiture trustee will be appointed to take over the sales process in order to prevent further delays in the restructuring process. The sale of NLB was a crucial element which allowed the Commission to approve a EUR 2.3 billion in state aid to the bank in 2013.

**Following the early parliamentary elections in June a new government came into office in mid-September, consisting of five parties, ranging from centre to left.** The coalition is headed by Marjan Šarec, leader of the same name list (LMS) and is formed by the Social Democrats (SD), the party of the previous prime minister Miro Cerar (SMC), the pensioners' party (DeSUS), and the party of Alenka Bratušek, also a former prime minister. Since the coalition does not have a majority in the parliament it has to rely on the support of the Left. Considering the large number of parties and the expectations of the respective electorate it is questionable whether the government will be in a position to implement the necessary reforms e.g. regarding the health sector and the pension system. One of the first tasks of the new government – appointing a new governor of the Bank of Slovenia – failed, since the parliament rejected Primož Dolenc, the vice governor and candidate suggested by President Pahor.

Already in April Slovenia lost its vote on the European Central Bank's governing council, when former governor Boštjan Jazbec resigned.

**Fairly solid economic growth is expected in the period up to 2020.** wiiw expects GDP to grow at 3.5% annually backed by domestic demand and, to a lower extent, by net exports. Investments are expected to remain high, co-funded by EU transfers under the current (2014-2020) financial perspective. Household consumption will also remain an important driver, boosted by rising wages and pensions in particular. Unemployment is expected to continue its downward path, not least because of the shrinking working-age population. Given the weak stance of the new government coalition, political uncertainties remain. Similar to other EU countries, ageing of the population and a shrinking workforce coupled with rising labour shortages will become major future challenges.

**Table 30 / Slovenia: Selected economic indicators**

	2014	2015	2016	2017 <sup>1)</sup>	2017 January-June	2018	2018 Forecast	2019 Forecast	2020
Population, th pers., average	2,062	2,064	2,065	2,066	2,065	2,067	2,066	2,066	2,066
Gross domestic product, EUR mn, nom.	37,603	38,863	40,357	43,000	20,804	22,206	45,800	48,400	51,100
annual change in % (real)	3.0	2.3	3.1	4.9	4.5	4.2	4.5	3.6	3.5
GDP/capita (EUR at PPP)	22,700	23,800	24,100	25,200	.	.	.	.	.
Consumption of households, EUR mn, nom.	20,137	20,482	21,187	21,963	10,357	10,833	.	.	.
annual change in % (real)	1.9	2.3	4.0	1.9	1.4	2.2	2.5	2.2	2.0
Gross fixed capital form., EUR mn, nom.	7,287	7,313	7,082	7,962	3,868	4,298	.	.	.
annual change in % (real)	1.0	-1.6	-3.7	10.7	11.8	9.1	8.5	7.5	7.5
Gross industrial production									
annual change in % (real)	2.3	5.6	7.1	7.7	6.6	6.5	6.5	5.5	5.0
Gross agricultural production									
annual change in % (real)	11.1	6.3	-2.9	-9.4	.	.	.	.	.
Construction industry									
annual change in % (real)	19.5	-8.2	-17.7	17.7	18.3	17.3	.	.	.
Employed persons, LFS, th, average	916.7	917.4	915.0	959.1	945.2	974.0	980	1,000	1,020
annual change in %	1.2	0.1	-0.3	4.8	4.2	3.0	2.5	2.0	1.5
Unemployed persons, LFS, th, average	98.1	90.3	79.6	67.4	72.3	57.4	52	47	43
Unemployment rate, LFS, in %, average	9.7	9.0	8.0	6.6	7.1	5.6	5.0	4.5	4.0
Reg. unemployment rate, in %, eop	13.0	12.3	10.8	9.0	9.1	7.9	.	.	.
Average monthly gross wages, EUR <sup>2)</sup>	1,540	1,556	1,584	1,626	1,601	1,658	1,690	1,760	1,830
annual change in % (real, gross)	0.9	1.2	1.9	1.3	0.3	2.0	2.0	2.0	2.0
Average monthly net wages, EUR <sup>2)</sup>	1,005	1,013	1,030	1,062	1,044	1,076	1,100	1,140	1,190
annual change in % (real, net)	0.6	0.9	1.8	1.7	0.6	1.5	1.5	2.0	2.0
Consumer prices (HICP), % p.a.	0.4	-0.8	-0.2	1.6	1.7	1.8	1.8	2.0	2.0
Producer prices in industry, % p.a.	-0.7	-0.2	-1.4	2.2	2.0	2.2	2.0	2.0	2.0
General governm.budget, EU-def., % of GDP									
Revenues	44.4	44.9	43.4	43.4	.	.	42.5	42.2	42.0
Expenditures	49.9	47.7	45.3	43.4	.	.	42.1	41.8	42.0
Net lending (+) / net borrowing (-)	-5.5	-2.9	-1.9	0.0	.	.	0.4	0.4	0.0
General gov.gross debt, EU def., % of GDP	80.4	82.6	78.7	74.1	.	.	70.0	68.0	65.0
Stock of loans of non-fin.private sector, % p.a.	-13.4	-6.4	-3.9	1.9	2.0	1.8	.	.	.
Non-performing loans (NPL), in %, eop	11.9	9.9	5.5	3.6	5.0	2.9	.	.	.
Central bank policy rate, % p.a., eop <sup>3)</sup>	0.05	0.05	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR mn	2,179	1,760	2,224	3,077	1,417	1,674	3,330	2,920	2,620
Current account, % of GDP	5.8	4.5	5.5	7.2	6.8	7.5	7.3	6.0	5.1
Exports of goods, BOP, EUR mn	22,961	24,039	24,991	28,462	14,000	15,477	31,310	33,810	36,350
annual change in %	5.9	4.7	4.0	13.9	12.3	10.6	10.0	8.0	7.5
Imports of goods, BOP, EUR mn	21,780	22,563	23,454	26,901	13,217	14,692	29,590	32,250	34,990
annual change in %	3.8	3.6	3.9	14.7	14.6	11.2	10.0	9.0	8.5
Exports of services, BOP, EUR mn	5,558	5,936	6,487	7,275	3,318	3,612	7,890	8,480	8,990
annual change in %	4.5	6.8	9.3	12.1	12.9	8.8	8.5	7.5	6.0
Imports of services, BOP, EUR mn	3,862	4,007	4,236	4,556	2,031	2,215	4,880	5,200	5,510
annual change in %	7.7	3.8	5.7	7.6	6.6	9.1	7.0	6.5	6.0
FDI liabilities, EUR mn	739	1,560	1,298	966	543	438	800	.	.
FDI assets, EUR mn	155	292	434	551	440	153	350	.	.
Gross reserves of NB excl. gold, EUR mn	736	687	593	632	639	605	.	.	.
Gross external debt, EUR mn	47,287	46,627	44,810	43,813	44,570	43,535	43,500	45,000	47,000
Gross external debt, % of GDP	125.75	119.98	111.03	101.89	103.7	95.1	95.0	93.0	92.0

1) Preliminary. - 2) From 2015 new data sources in public sector. - 3) Official refinancing operation rates for euro area (ECB).

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