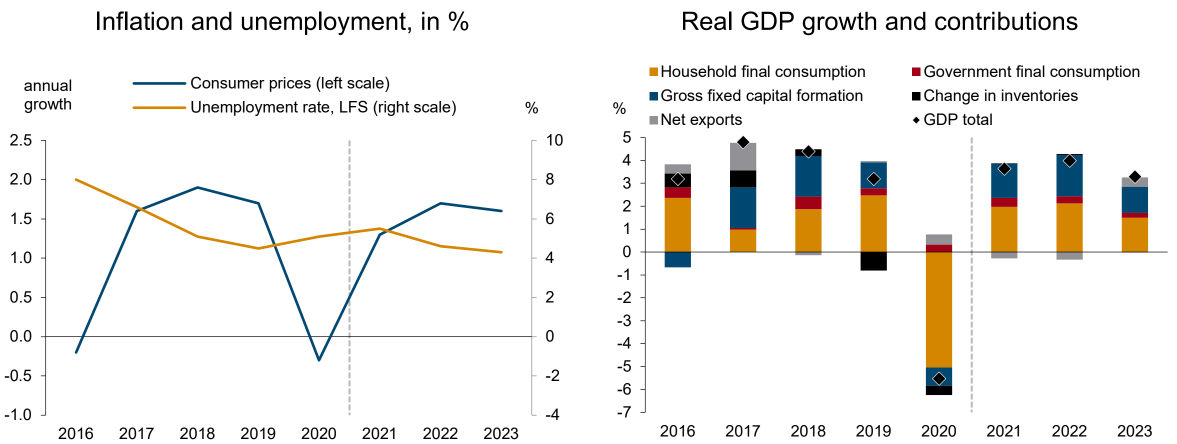
SLOVENIA: Economic resilience in light of a disastrous second wave

NIKO KORPAR

The economy remained robust during the strong second wave of the pandemic, which got under way in October. Exports, manufacturing and construction covered the losses in services and retail incurred by a prolonged lockdown. Government support measures continue to shield domestic firms and the labour market from shocks. In 2021 the ongoing pandemic will dampen the recovery and restrict the projected growth rate to 3.6%, underpinned by a strong current-account surplus and European recovery funds.

Figure 4.21 / Slovenia: Main macroeconomic indicators



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

The second wave of the coronavirus in the fourth quarter of 2020 proved to be far worse than the first one from a health standpoint, but it did less damage to the economy than expected. Slovenian GDP thus fell by 5.5% in full-year 2020, 1.2 percentage points less than had been forecast by wiiw. Strong foreign demand and manufacturing kept the economy afloat as exports returned to their pre-crisis levels by the end of 2020, while the construction sector grew by 18.1% in November 2020 compared with the same month in 2019. The second lockdown again impacted private consumption, hitting retail trade (down by about 12%), and services. The labour market has shown resilience. Although the number of unemployed rose by 4.8% in January 2021 from the December 2020 level, the increase did not deviate from annual seasonal trends. This can be attributed to extended government schemes, but perhaps also to a structural adaption, as the workplace-preserving measures include less than half of the labour force included in April in May of 2020.

In the second wave, Slovenia became one of the worst-hit European countries, having previously had one of the best records in handling the pandemic. A total of 150 people died as a result of COVID-19 between the beginning of the pandemic and 1 October 2020. But from then until 20 March 2021, the pandemic took 3,820 lives. After closing bars and restaurants in October, the government soon introduced much stricter lockdown measures. Schools were closed from the end of October until mid-February; non-essential shops were also closed for almost three months; movement was restricted to within municipalities; and a curfew (ongoing) has been imposed. However, the incidence of infections barely responded to the lockdown. Although the government was quick to blame private gatherings for the high incidence of cases, large numbers of people were infected in workplaces as many employers proved to be unenthusiastic about teleworking, and also were not fully compensated for losses resulting from having quarantined workers. The vaccination programme began in January 2021, with about 11% of the population having received their first dose by late March. At around the same time, infection rates began climbing again and another 11-day lockdown was announced for the beginning of April.

The government continued its loose fiscal policy and addressed the second wave with another four recovery packages, amounting to EUR 2.22bn, or 4.5% of annual GDP. These mostly extended various support schemes introduced during the first half of 2020, such as furloughs, basic income for the self-employed and tourist vouchers. The total value of government support packages introduced in 2020 amounted to about EUR 9.5bn. However, according to Slovenia's Fiscal Council, the total fiscal impact of these measures was only about EUR 2.9bn. A major reason for this discrepancy is the underuse of the scheme for liquidity loans guaranteed by the state. Nevertheless, support measures cushioned the fall of GDP by about 3 percentage points and will continue to aid the economy in 2021.

Slovenian firms have entered 2021 in remarkably good shape – except for the hospitality sector. According to a survey by the Slovenian Chamber of Commerce and Industry, 85% of firms ended 2020 with a positive EBITDA. The total number of bankruptcies in 2020 was lower than in previous years. Data on non-performing loans showed only a slight overall uptick (0.1 percentage points) for the previous year, but a 10% rise within the hospitality sector. Loan deferrals are a major reason for the generally good condition of companies.

In light of the prolonged second wave, and the possibility of a third, we have downgraded our GDP growth forecast for 2021 from 4.3% to 3.6%. The expected recovery will be delayed by at least a quarter. Growth in 2021 will be led by the export sector and a cautious rise in private investment, especially through the expansion of construction of housing and large infrastructure projects, such as the Koper-Divača railway. Growth in household consumption, expected to reach 4.1%, will depend on the activation of domestic savings, which grew by about 10% in the first half of 2020. The key risk factors for the recovery remain the possibility of further waves of infections and declines in demand in the EU's economic core. The use of the recovery funds provided by the EU, which is expected to start in the latter half of 2021, is not likely to play a major role in the recovery in 2021. The effectiveness of the EUR 5.2bn made available through the Recovery and Resilience Facility will depend on how it is allocated. The draft investment plan, submitted to the Commission, raised concerns over the government's understanding of the purpose of the funds, as too little was allocated to projects supporting the green transformation. With a projected growth rate of 4% in 2022, Slovenian GDP should return to pre-crisis levels next year.

Massive fiscal expansion increased the budget deficit, but by somewhat less than was expected (to 8.4% of GDP). Besides the above-mentioned underutilisation of certain support schemes, the difference is also a consequence of an overall lower level of realisation of planned projects and use of EU funds, an issue that could translate into 2021, when the deficit will be around 5.2% of GDP. Fiscal policy is expected to remain proactive in 2021. Support measures will be removed only gradually, not least because parliamentary elections are due in 2022.

Large increases in average monthly gross earnings put additional pressure on the budget in 2020. Salaries in the public sector increased by 7.8%, owing to payments of pandemic-related allowances and previously scheduled wage rises. Salaries in the private sector increased by 4.4%, mostly as a result of relief compensation. This situation should not be repeated in 2021, although payments of emergency bonuses and other add-ons will be extended as the pandemic continues.

Although imports will grow more strongly than exports, a current-account surplus exceeding 6% is expected for a second consecutive year. The recovery in 2020 was slower in exporting sectors utilising a low or medium level of technology (such as machinery and equipment), and fastest in high-tech sectors, such as pharmaceuticals. Tourism will continue to benefit from the national voucher scheme, but the 2021 season is shaping up to be worse than expected, owing to the prolonged pandemic.

Inflation in 2021 will only slightly exceed the expected EU average. In 2020 prices in Slovenia fell by 0.3%, in large part because of deflationary energy prices; any early inflationary pressure was relieved by the drop in consumption during the second lockdown period. In 2021 higher energy prices and economic recovery will raise the price level by 1.3%, while in 2022 the cost of services will begin to rise again and inflation will reach 1.7%.

Unemployment should not be a major issue in 2021, owing to the continuation of government measures. Despite some uncertainty over the situation once the unprecedented government support is removed, significant jumps in unemployment (which will hover around 5.5%) are not expected. Nevertheless, another slow tourist season could have an adverse impact on the mainly young population employed in various service industries, and some closures of businesses – currently postponed as a result of government support – could push up the unemployment figures.

In a rare occurrence, Slovenian politics became a topic of discussion in the European press. The prime minister, Janez Janša, who has not hidden his affinity to governments in Hungary and Poland, made the headlines with incendiary tweets and sharp responses to accusations that his government is limiting the freedom of the press in Slovenia. Although he survived an attempt by the opposition to install a new government, his support in parliament has declined to the point of losing parliamentary majority. His position now depends on the smallest of the three coalition partners, the Modern Centre Party (SMC), itself shaken by internal strife. Growing disappointment with the government's handling of the pandemic and its authoritarian tendencies could yet contribute to political instability before the beginning of Slovenia's presidency of the Council of the EU in the latter half of 2021, but it appears more likely that economic interests will prevail and that the government coalition will hold until the elections in 2022.

Table 4.21 / Slovenia: Selected economic indicators

	2017	2018	2019	2020 [1]	2021	2022	2023
						Forecast	
Population, th pers., average	2,066	2,074	2,088	2,110	2,115	2,120	2,125
Gross domestic product, EUR m, nom.	43,009	45,863	48,393	46,297	48,600	51,400	53,900
annual change in % (real)	4.8	4.4	3.2	-5.5	3.6	4.0	3.3
GDP/capita (EUR at PPP)	25,080	26,410	27,660	26,130	.	.	.
Consumption of households, EUR m, nom.	22,223	23,484	24,937	22,345	.	.	.
annual change in % (real)	1.8	3.6	4.8	-9.8	4.1	4.4	3.1
Gross fixed capital form., EUR m, nom.	7,877	8,822	9,503	9,207	.	.	.
annual change in % (real)	10.2	9.6	5.8	-4.1	7.4	9.0	5.8
Gross industrial production							
annual change in % (real)	7.7	5.1	3.1	-5.1	6.0	3.6	3.4
Gross agricultural production							
annual change in % (real)	-9.5	28.5	-7.8	5.2	.	.	.
Construction industry							
annual change in % (real)	17.7	19.7	3.3	0.3	.	.	.
Employed persons, LFS, th, average	959.1	980.6	982.6	970.0	970	980	990
annual change in %	4.8	2.2	0.2	-1.3	-0.3	1.4	0.9
Unemployed persons, LFS, th, average	67.4	52.8	45.7	52.0	56	47	44
Unemployment rate, LFS, in %, average	6.6	5.1	4.5	5.1	5.5	4.6	4.3
Reg. unemployment rate, in %, eop	9.0	8.1	7.7	8.9	.	.	.
Average monthly gross wages, EUR [2]	1,627	1,682	1,754	1,856	1,910	1,980	2,050
annual change in % (real, gross)	1.3	1.7	2.7	5.9	1.4	1.8	2.0
Average monthly net wages, EUR [2]	1,062	1,093	1,134	1,209	1,220	1,250	1,290
annual change in % (real, net)	1.7	1.2	2.1	6.6	-0.1	0.9	1.2
Consumer prices (HICP), % p.a.	1.6	1.9	1.7	-0.3	1.3	1.7	1.6
Producer prices in industry, % p.a.	2.2	2.1	0.6	-0.3	0.8	1.0	1.2
General governm.budget, EU-def., % of GDP							
Revenues	44.0	44.3	43.8	43.1	43.2	43.8	44.2
Expenditures	44.1	43.5	43.3	50.1	48.4	47.1	45.0
Net lending (+) / net borrowing (-)	-0.1	0.7	0.5	-7.0	-5.2	-3.3	-0.8
General gov.gross debt, EU def., % of GDP	74.1	70.3	65.6	83.0	85.3	85.1	84.8
Stock of loans of non-fin.private sector, % p.a.	1.9	3.0	3.5	0.0	.	.	.
Non-performing loans (NPL), in %, eop [3]	8.4	5.6	2.9	2.6	.	.	.
Central bank policy rate, % p.a., eop [4]	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR m	2,674	2,680	2,723	3,366	3,030	2,980	2,930
Current account, % of GDP	6.2	5.8	5.6	7.3	6.2	5.8	5.4
Exports of goods, BOP, EUR m	28,372	30,817	32,013	29,627	31,760	34,170	36,700
annual change in %	14.0	8.6	3.9	-7.5	7.2	7.6	7.4
Imports of goods, BOP, EUR m	26,756	29,535	30,682	27,098	29,830	32,600	34,950
annual change in %	14.5	10.4	3.9	-11.7	10.1	9.3	7.2
Exports of services, BOP, EUR m	7,394	8,104	8,548	6,853	7,680	8,680	9,410
annual change in %	13.5	9.6	5.5	-19.8	12.0	13.0	8.4
Imports of services, BOP, EUR m	5,140	5,478	5,762	4,827	5,300	6,250	7,130
annual change in %	12.3	6.6	5.2	-16.2	9.8	18.0	14.0
FDI liabilities, EUR m	1,065	1,307	1,521	680	.	.	.
FDI assets, EUR m	570	373	773	692	.	.	.
Gross reserves of CB excl. gold, EUR m	632	702	767	913	.	.	.
Gross external debt, EUR m	43,231	42,148	43,796	48,252	50,100	50,900	52,300
Gross external debt, % of GDP	100.5	91.9	90.5	104.2	103.0	99.0	97.0

1) Preliminary and wiiw estimates. - 2) Wage increase in 2020 due to COVID emergency relief compensations. - 3) Loans more than 90 days overdue and those unlikely to be paid. - 4) Official refinancing operation rates for euro area (ECB).

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