

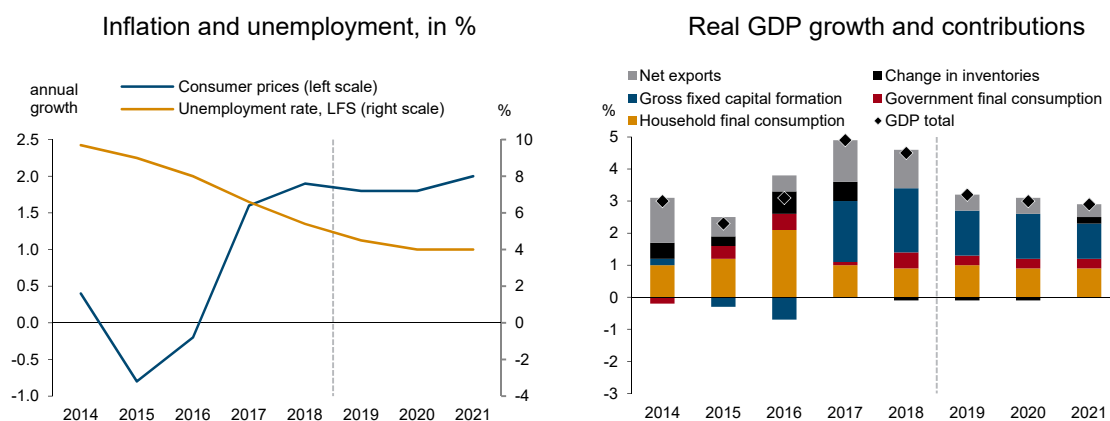


SLOVENIA: Solid growth

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After another successful year, GDP growth is expected to moderate to 3% or even less between 2019 and 2021. Investments spurred by EU funding and consumption backed by rising wages will continue to be important drivers of economic activity. The contribution of net exports is likely to turn negative in the forecast period given a weakening of external demand. In the medium term the shrinking of the working-age population and increasing labour shortages may become growth-limiting factors.

Figure 6.21 / Slovenia: Main macroeconomic indicators



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

Slovenia's GDP increased by an estimated 4.5% in 2018 driven by domestic demand and net exports. Private consumption grew at a surprisingly low rate (1.7%), whereas government consumption was up by almost 3% against a year earlier. Thanks to EU co-financing also gross fixed capital formation gained momentum, 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. Both changes in inventories and net exports contributed positively to the GDP expansion. After a solid start, industrial output growth slowed down in the second half of the year, increasing by 4.5%, with the highest growth rates reported for the manufacturing of textiles, computers and optical equipment and car production.

Labour market conditions continued to strengthen in 2018. Labour Force Survey data indicate an employment increase of 2.5% and a fall in the unemployment rate to 5.4%, narrowing to the pre-crisis level. Slovenian companies are increasingly facing labour shortages in sectors with below-average wages, becoming a limiting factor for production. So far, Slovenian firms have relied at least partially on

the admission of foreign workers to address the problem of labour shortage. In 2018, foreign workers accounted for about 10% of total employment, the majority coming from Bosnia and Herzegovina, Serbia, Croatia, Kosovo and Macedonia, and were primarily employed in construction, manufacturing and transport and storage. Average real gross wages rose only moderately in 2018, by 1.6%, which is partly due to the fact that the employment of low-wage earners has risen the most, thus having a low impact on average wage growth. Wage growth in 2019 will be impacted by wage increases for public sector employees agreed between the government and public sector trade unions in late 2018.

Consumer price inflation averaged 1.9% in 2018 and was mainly driven by external factors.

Inflation was mainly impacted by energy prices, which however eased off towards the end of the year. It is expected that over the forecast horizon, higher wage increases will lead to rising services prices. Real estate prices have been rising since the end of 2014 and recorded their highest growth after the crisis in 2018. In the third quarter of 2018 Slovenia recorded the highest annual increase in housing prices (15.1%) among EU countries. Available data do currently not indicate an overheating of the housing market: prices have reached only their pre-crisis level and the ratio of real estate prices to income stood at its long-term average. In Slovenia only about 10% of households have a mortgage compared to 19% in the euro area, and about a third of the recent real estate transactions was carried out without bank financing.³³

External trade growth was weaker than a year earlier, but still at high levels. Goods exports and imports rose by 9% and 11% respectively in 2018 with the trade surplus by EUR 330 million lower than a year earlier. By contrast, in services trade the surplus widened owing to exports – transport, travel in particular – rising ahead of lower import growth. The primary income deficit narrowed compared to a year earlier, while the secondary income shortfall increased modestly. The current account surplus reached an all-time high of EUR 3.4 billion or 7.4% of GDP. Foreign direct investment inflows were higher than a year earlier, amounting to EUR 1.3 billion in 2018.

The general government budget closed again with a surplus in 2018 (0.8% of GDP) compared to an almost balanced budget in 2017. This was made possible through an increase in total tax revenues and social contributions, higher inflows from the EU budget as well as dividends from Nova Ljubljanska Banka including retained profits from previous years. On the expenditures side, spending grew at a much lower rate than revenues. Also the continuing decline of interest payments contributed significantly to the improvement of the fiscal stance.

The Slovenian government eventually sold 65% of Nova Ljubljanska Banka (NLB) in a public offering in November 2018. Currently the state holds a 35% share, the EBRD 6.3% and Brandes Investment Partners 7.6%. Details about other buyers were not reported by the NLB. The privatisation of the country's biggest bank was part of the restructuring plan agreed with the European Commission in 2013 when the state aid contribution was approved. Another 10% will be sold in 2019 and by the end of the year the Slovenian government will reduce its share in the bank to 25% plus one share. Also Abanka, the country's third largest bank, is expected to be privatised in 2019.

³³ IMF Country Report No. 19/58, February 2019, p. 12.

Lending activities of banks strengthened in 2018, mainly due to increasing household loans.

Within household loans (+6%), consumer loans grew by 11% and housing loans by around 5%, while loans to enterprises and non-financial institutions decreased by 1.4%. After reaching a peak of 14.5% in 2012, the share of non-performing loans (NPLs) in total loans fell substantially, to 2.5% in 2018. But, NPLs of small and medium-sized enterprises remained at two-digit levels. In the last months of 2018 bank deleveraging abroad came to a halt. Between 2008 and November 2018 banks reduced their exposure from EUR 18 billion to EUR 1.6 billion.

The outlook remains favourable. wiiw expects GDP to grow at around 3% annually in the 2019-2021 period backed by domestic demand, while the contribution of net exports will turn negative.

Fuelled by EU transfers, investments are expected to remain high. Private consumption will also remain an important driver, boosted by a continued improvement in the labour market, rising wages due to increasing labour shortages and continued credit growth. Labour market conditions will improve further, but at a slower pace than in recent years. Along with rising employment, unemployment is expected to continue its downward path, not least because of the shrinking working-age population. The strengthening of domestic demand will lead to rising imports and consequently result in lower trade surpluses. The services trade surplus, by contrast, may remain stable. Thus, the current account will remain in positive territory, but is expected to decline along with lower trade surpluses. Downside risks come mainly from outside: an economic slowdown in Slovenia's major trading partners, e.g. Italy, could dampen exports.

Table 6.21 / Slovenia: Selected economic indicators

	2014	2015	2016	2017	2018 ¹⁾	2019	2020	2021
						Forecast		
Population, th pers., average	2,062	2,064	2,065	2,066	2,070	2,070	2,070	2,070
Gross domestic product, EUR mn, nom.	37,603	38,863	40,357	43,000	45,800	48,100	50,400	52,900
annual change in % (real)	3.0	2.3	3.1	4.9	4.5	3.2	3.0	2.9
GDP/capita (EUR at PPP)	22,700	23,800	24,100	25,500	27,000	.	.	.
Consumption of households, EUR mn, nom.	20,137	20,482	21,187	21,963	22,800	.	.	.
annual change in % (real)	1.9	2.3	4.0	1.9	1.7	2.0	1.8	1.8
Gross fixed capital form., EUR mn, nom.	7,287	7,313	7,082	7,962	9,000	.	.	.
annual change in % (real)	1.0	-1.6	-3.7	10.7	11.0	7.5	7.5	6.0
Gross industrial production								
annual change in % (real)	2.3	5.6	7.1	7.7	4.5	5.5	5.0	4.5
Gross agricultural production								
annual change in % (real)	11.1	6.4	-3.2	-9.7	17.5	.	.	.
Construction industry								
annual change in % (real)	19.5	-8.2	-17.7	17.7	19.8	.	.	.
Employed persons, LFS, th, average	916.7	917.4	915.0	959.1	983.0	1,000	1,020	1,030
annual change in %	1.2	0.1	-0.3	4.8	2.5	2.0	1.5	1.0
Unemployed persons, LFS, th, average	98.1	90.3	79.6	67.4	56.0	47	43	43
Unemployment rate, LFS, in %, average	9.7	9.0	8.0	6.6	5.4	4.5	4.0	4.0
Reg. unemployment rate, in %, eop	13.0	12.3	10.8	9.0	8.1	.	.	.
Average monthly gross wages, EUR ²⁾	1,540	1,556	1,584	1,626	1,682	1,750	1,820	1,870
annual change in % (real, gross)	0.9	1.2	1.9	1.3	1.7	2.0	2.0	1.0
Average monthly net wages, EUR ²⁾	1,005	1,013	1,030	1,062	1,093	1,130	1,170	1,220
annual change in % (real, net)	0.6	0.9	1.8	1.7	1.2	2.0	2.0	2.0
Consumer prices (HICP), % p.a.	0.4	-0.8	-0.2	1.6	1.9	1.8	1.8	2.0
Producer prices in industry, % p.a.	-0.7	-0.2	-1.4	2.2	2.1	2.0	2.0	2.0
General government budget, EU-def., % of GDP								
Revenues	44.4	44.9	43.4	43.2	42.9	42.2	42.0	41.5
Expenditures	49.9	47.7	45.3	43.2	42.1	41.8	41.8	41.5
Net lending (+) / net borrowing (-)	-5.5	-2.8	-1.9	0.1	0.8	0.4	0.2	0.0
General gov.gross debt, EU def., % of GDP	80.4	82.6	78.7	74.1	70.2	66.0	63.0	61.0
Stock of loans of non-fin.private sector, % p.a.	-13.4	-6.4	-3.9	1.9	3.0	.	.	.
Non-performing loans (NPL), in %, eop	11.9	9.9	5.5	3.7	2.5	.	.	.
Central bank policy rate, % p.a., eop ³⁾	0.05	0.05	0.00	0.00	0.00	.	.	.
Current account, EUR mn	2,179	1,760	2,224	3,077	3,375	3,260	3,100	3,130
Current account, % of GDP	5.8	4.5	5.5	7.2	7.4	6.8	6.2	5.9
Exports of goods, BOP, EUR mn	22,961	24,039	24,991	28,462	31,151	33,640	35,990	38,330
annual change in %	5.9	4.7	4.0	13.9	9.4	8.0	7.0	6.5
Imports of goods, BOP, EUR mn	21,780	22,563	23,454	26,901	29,927	32,620	35,390	38,220
annual change in %	3.8	3.6	3.9	14.7	11.2	9.0	8.5	8.0
Exports of services, BOP, EUR mn	5,558	5,936	6,487	7,275	8,016	8,620	9,220	9,870
annual change in %	4.5	6.8	9.3	12.1	10.2	7.5	7.0	7.0
Imports of services, BOP, EUR mn	3,862	4,007	4,236	4,556	4,867	5,180	5,520	5,850
annual change in %	7.7	3.8	5.7	7.6	6.8	6.5	6.5	6.0
FDI liabilities, EUR mn	739	1,560	1,298	966	1,282	.	.	.
FDI assets, EUR mn	155	292	434	551	150	.	.	.
Gross reserves of NB excl. gold, EUR mn	736	687	593	632	702	.	.	.
Gross external debt, EUR mn	47,287	46,627	44,810	43,813	42,567	42,300	42,800	43,400
Gross external debt, % of GDP	125.8	120.0	111.0	101.9	92.9	88.0	85.0	82.0

1) Preliminary and wiiw estimates. - 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.