SLOVENIA: Almost back to normal

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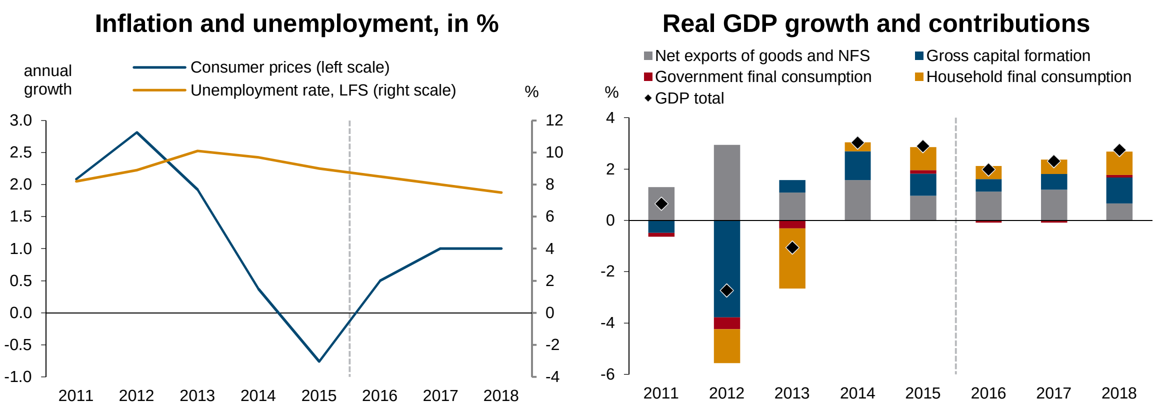
Having increased by 2.9% in 2015, GDP growth in Slovenia will slacken to about 2% in both 2016 and 2017 on account of the drop in the volume of EU-funded investments at the outset of the new financial framework. More solid growth is forecast for 2018. Exports and the gradual recovery of household consumption will remain the main drivers of growth. Government consumption is expected to remain subdued in the wake of budget consolidation measures.

Figure 55 / Slovenia: main macroeconomic indicators



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

Slovenia's GDP continued to grow in 2015 albeit at a slightly slower pace than a year earlier. Growth was driven by rising net exports, and also inventories contributed positively to GDP growth. Household consumption growth gained momentum from quarter to quarter, while government consumption remained stagnant. Gross fixed capital formation grew only moderately. Over the period 2008-2014, gross fixed capital formation as a share of the GDP fell by almost 8 percentage points, to slightly below 20%. This was reflected primarily in the drop in construction activities, which in 2014 had shown signs of temporary recovery from a sharp contraction, but fell again in 2015. Survey results from the manufacturing sector suggest that in 2015 the most stimulating factors to investment were, among others, demand, the availability of financial resources and expected profits while the influence of other factors, such as uncertainties about the economic situation, was limiting.[63]

[63] http://www.stat.si/StatWeb/en/show-news?id=5617&idp=16&headerbar=7

In 2015 industrial production recorded the highest growth rate since 2010, with the most favourable results reported for the manufacture of 'other transport equipment' and car manufacturing, with output rising by 29% and 15%, respectively. The relatively high GDP growth translated into an only marginal rise in employment (based on Labour Force Survey data) and the unemployment rate fell only slightly, to 9.3% in 2015; about one third of the employment increase was due to rising self-employment. Wage growth continued to be moderate, with average monthly gross wages increasing by 1% in real terms.

Growth of external trade decelerated during 2015, with exports and imports up by a mere 4.5% and 2.9%, respectively. As a result, the trade surplus rose by EUR 300 million compared to 2014. Also the surplus in services trade was higher than in 2014, due to rising exports (mainly tourism and transport) along with moderate import growth. By contrast, the net outflow of primary and secondary income was larger than a year earlier. The widening of the deficit in primary income occurred mainly on account of the net outflow of direct investment income, while the rise in the deficit in secondary income can be attributed to the lower inflows of EU subsidies. The FDI inflow was somewhat higher than in 2014, totalling close to EUR 1 billion in 2015. Overall, the current account ended up with a surplus of EUR 2.8 billion, i.e. EUR 200 million more than in 2014.

The consolidated general government deficit is expected to have further tightened to 2.9% of the GDP in 2015, from 5% in 2014. This was largely resulting from increased tax revenues – value added and corporate income taxes – and social insurance contributions due to the improvement on the labour market and a broadening of the contribution base. Expenditures were somewhat lower than in 2014, with the most remarkable declines in spending on investments, interest payments and subsidies. Net receipts from the EU budget were slightly smaller than in 2014 due to lower receipts under the Common Agricultural and Fisheries Policies and from the Structural Funds.

The budgets for 2016 and 2017, approved in November, envisage a further reduction of the deficit – in compliance with the EU Stability Pact and the fiscal rule implementation – to 2.1% and 1.7% of the GDP, respectively. Compared to the draft budget adopted by the government in September, spending for 2016 was raised by an additional EUR 123 million for refugee-related costs. Priority is given to the police and military (refugee crisis), flood safety and the judiciary. The budget foresees the prolongation of temporary measures approved in recent years to keep expenditures under control and enhance revenues, while easing the public sector wage bill. Regarding revenues, the temporary increase in the VAT rate to 22% in 2013 becomes permanent as of 2016. Measures to fight the grey economy, such as the introduction of cash registers, have been adopted. On the expenditure side, measures to control public sector wages have been prolonged, including e.g. the freeze of the holiday bonus and additional pension insurance. Following an agreement between the government and the trade unions, public sector wages will be increased by 3.47% in 2016 and the freeze on promotions will be relaxed. According to the European Commission, the budgetary plan for 2016 is broadly compliant with the requirements under the Stability and Growth Pact, and Slovenia can expect the excessive deficit procedure to end in 2016 provided a correction of the excessive deficit is achieved.[64] The further spending cuts, however, may result in lower than expected GDP growth, taking into account that also withdrawals of EU funds under the new financial framework (which may support economic growth) will start only with some delay.

[64] Eurogroup, Commission Staff Working Document, Analysis of the 2016 Draft Budgetary Plan of Slovenia, Brussels, 17 November 2015.

The volume of total loans continued to decrease, falling by 5.4% between December 2014 and November 2015, mainly due to continued deleveraging of enterprises and NFIs. Lending to households, housing loans in particular, increased slightly, while lending to the government fell by another 5.2%. Corporate deleveraging has been continuing at domestic banks, but at a slower pace than in the past years.

The privatisation of 15 enterprises, approved by the previous government in 2013, is proceeding slowly. As of January 2016 only seven companies – coating manufacturer Helios, laser producer Fotona, Ljubljana airport, the food processing company Zito, Aerodrom Ljubljana, Nova Kreditna Banka Maribor, Airways Tehnika and the tissue maker Paloma – have been sold. The sale of Telekom Slovenija and the chemical-processing company Cinkarna Celje failed. The privatisation of the country's largest bank, Nova Ljubljanska Banka (NLB), and the second largest bank, Abanka, is expected to be finalised by 2017 and 2019, respectively.

GDP growth is expected to slow down slightly, to about 2% in the coming two years, owing to lower disbursements of EU structural funds at the beginning of the new financial framework – but will gain momentum thereafter. Given the improving situation on the labour market coupled with rising disposable income, household consumption together with net exports will remain the key drivers of economic growth. Private investments will only gradually gain momentum due to ongoing deleveraging. Government consumption will remain subdued owing to budget consolidation measures. Supported by continued economic recovery, public debt is expected to decline over the forecasting period to below 80% of the GDP. The current account is likely to remain in surplus. One of the biggest downside risks to growth would be a weakening of external demand.

Table 24 / Slovenia: selected economic indicators

	2011	2012	2013	2014	2015 1)	2016	2017 Forecast	2018
Population, th pers., average	2,053	2,057	2,060	2,062	2,063	2,063	2,063	2,063
Gross domestic product, EUR mn, nom.	36,896	35,988	35,908	37,303	38,543	39,500	40,800	42,400
annual change in % (real)	0.7	-2.7	-1.1	3.0	2.9	2.0	2.3	2.8
GDP/capita (EUR at exchange rate)	18,000	17,500	17,400	18,100	18,700	19,100	19,800	20,600
GDP/capita (EUR at PPP)	21,500	21,500	21,500	22,600	23,900	.	.	.
Consumption of households, EUR mn, nom.	20,338	20,117	19,437	19,553	19,667	.	.	.
annual change in % (real)	0.0	-2.4	-4.2	0.6	1.7	1.0	1.1	1.8
Gross fixed capital form., EUR mn, nom.	7,451	6,934	7,069	7,324	7,469	.	.	.
annual change in % (real)	-4.9	-8.8	1.6	3.2	0.5	0.0	3.0	4.0
Gross industrial production								
annual change in % (real)	1.3	-1.1	-0.9	2.2	5.0	4.0	4.5	4.5
Gross agricultural production								
annual change in % (real)	0.6	-11.0	-2.0	12.8	4.4	.	.	.
Construction industry 2)								
annual change in % (real)	-24.8	-16.8	-2.5	19.5	-7.3	.	.	.
Employed persons, LFS, th, average	936	924	906	917	917	920	930	940
annual change in %	-3.1	-1.3	-1.9	1.2	0.1	0.5	1.0	1.0
Unemployed persons, LFS, th, average	83	90	102	98	90	90	80	80
Unemployment rate, LFS, in %, average	8.2	8.9	10.1	9.7	9.0	8.5	8.0	7.5
Reg. unemployment rate, in %, end of period	12.1	13.0	13.5	13.0	12.3	.	.	.
Average monthly gross wages, EUR 3)	1,525	1,525	1,523	1,540	1,556	1,580	1,620	1,660
annual change in % (real, gross)	0.2	-2.4	-2.0	0.9	1.2	1.0	1.5	1.5
Average monthly net wages, EUR 3)	987	991	997	1,005	1,013	1,030	1,050	1,070
annual change in % (real, net)	0.3	-2.1	-1.2	0.6	0.9	0.7	1.0	1.0
Consumer prices (HICP), % p.a.	2.1	2.8	1.9	0.4	-0.8	0.5	1.0	1.0
Producer prices in industry, % p.a.	4.6	0.9	0.0	-0.7	-0.2	0.5	1.0	1.0
General governm.budget, EU-def., % of GDP								
Revenues	43.4	44.4	45.3	44.8	44.8	44.0	43.5	43.0
Expenditures	50.0	48.6	60.3	49.8	47.7	46.5	45.5	44.9
Net lending (+) / net borrowing (-)	-6.6	-4.1	-15.0	-5.0	-2.9	-2.5	-2.0	-1.9
Public debt, EU-def., % of GDP	46.4	53.7	70.8	80.8	83.5	81.0	80.0	79.0
Central bank policy rate, % p.a., end of period 4)	1.00	0.75	0.25	0.05	0.05	.	.	.
Current account, EUR mn	70	930	2,023	2,607	2,810	2,100	1,900	1,700
Current account, % of GDP	0.2	2.6	5.6	7.0	7.3	5.3	4.7	4.0
Exports of goods, BOP, EUR mn	21,042	21,256	21,692	22,989	24,035	25,000	26,100	27,400
annual change in %	12.9	1.0	2.1	6.0	4.5	4.0	4.5	5.0
Imports of goods, BOP, EUR mn	22,016	21,337	20,983	21,779	22,422	23,200	24,400	25,900
annual change in %	13.6	-3.1	-1.7	3.8	3.0	3.5	5.0	6.0
Exports of services, BOP, EUR mn	4,906	5,107	5,314	5,555	5,966	6,300	6,700	7,100
annual change in %	5.4	4.1	4.1	4.5	7.4	5.0	6.0	6.0
Imports of services, BOP, EUR mn	3,500	3,596	3,552	3,819	3,917	4,000	4,100	4,300
annual change in %	1.6	2.7	-1.2	7.5	2.6	2.5	3.0	4.0
FDI liabilities (inflow), EUR mn	637	28	71	746	937	.	.	.
FDI assets (outflow), EUR mn	-4	-439	24	146	52	.	.	.
Gross reserves of NB excl. gold, EUR mn	642	593	580	736	687	.	.	.
Gross external debt, EUR mn	41,669	42,872	41,658	46,314	44,723	44,200	43,700	42,800
Gross external debt, % of GDP	112.9	119.1	116.0	124.2	116.0	112.0	107.0	101.0
Purchasing power parity EUR/EUR	0.8356	0.8121	0.8117	0.7997	0.7804	.	.	.

1) Preliminary and wiiw estimates. - 2) Enterprises with 20 and more employees and output of some non-construction enterprises. -
3) From 2015 new data sources in public sector. - 4) Official refinancing operation rates for euro area (ECB).

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