

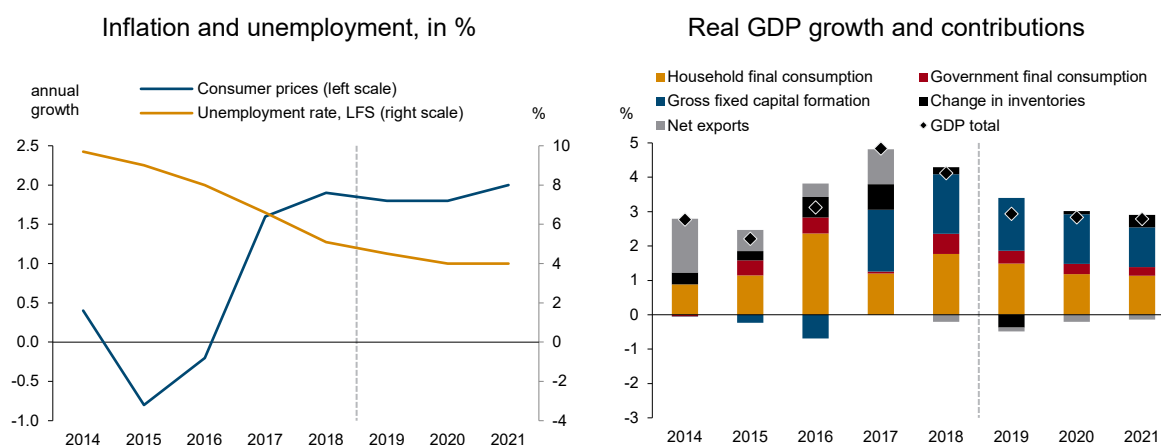


SLOVENIA: Domestic resilience amid external weakness

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After a strong increase in 2018, economic activity slowed in the course of 2019 due to weakening foreign demand. However, thanks to a continued rise in consumption and investments, GDP growth will end up at a fairly robust 2.9% for the year as a whole, with unemployment reaching record lows. In the coming years we expect GDP growth to remain subdued, driven mostly by domestic demand. Banking privatisation has been finally completed after a long lasting process.

Figure 5.21 / Slovenia: Main macroeconomic indicators



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

Slovenia's GDP growth slowed from 3.3% in the first quarter of 2019 to 2.5% in the second quarter of the year. Growth in the first half of the year (2.9%) was mainly driven by rising domestic demand: private consumption growth supported by rising employment, wages and increasing household loans remained strong and gross fixed capital formation, still benefiting from the inflow of EU funding, expanded by 8.3%. Investment growth was particularly felt in rising construction activities in both civil engineering (15%) and buildings (12%), but was almost negligible with respect to machinery and equipment. However, changes in inventories contributed negatively to GDP growth, as did the contribution of net exports.

Construction, which was one of the hardest hit sectors by the economic crisis, has not yet returned to the levels prior to the crisis, despite two digit growth rates in the past three years. Both the turnover and the number of employees are below pre-crisis levels, while the number of construction companies reached the pre-crisis figures, with small enterprises of up to 10 workers

dominating. In contrast, there were around half as many medium-sized and large companies as in 2008. Industrial output grew by 4.5% in the first half of the year, with high growth rates recorded for the manufacture of leather and wood products, while car production – after steady increases in the past couple of years – was shrinking.

In September, the economic sentiment indicator decreased at an annual level, which was mainly due to declining confidence indicators in services, manufacturing, construction and among consumers. The confidence indicator in retail trade had contributed positively to the overall indicator.

The labour market situation remained favourable, with the unemployment rate narrowing to the pre-crisis level (4.5%) and employment growth moderating to 1.1%. Average real gross wages increased by 2.7% compared with the first half of 2018. Wage rises resulted from new wage agreements in the public sector in late 2018 and an increase in minimum wages, and as a consequence of rising labour shortages in sectors such as tourism, administrative and support services, manufacturing and trade and often those with a high share of minimum wage recipients. So far labour shortages have partly been offset by the recruitment of foreign workers, especially from Bosnia and Herzegovina, Croatia and Serbia. Among other measures, employers try to fill the gaps by overtime work, recruiting through temping agencies or encouraging pensioners to return to work.

Rising imports ahead of exports are reflected in a lowering of the external trade surplus. Goods exports – pharmaceuticals in particular - grew by 10% in the first seven months of 2019 and imports expanded by 12% resulting in a narrowing of the foreign trade surplus compared with the same period of 2018. The surplus in services trade was higher than a year earlier due to exports – of construction services in particular – rising faster than imports. The deficit in the primary income narrowed, but increased in the secondary income balance due to higher payments into the EU budget as compared to the first half of 2018. Hence, the current account closed with a slightly lower surplus in the first six months of 2019 than a year ago and is expected to end up with a surplus of close to 5% of the GDP in 2019. The net FDI inflow was almost double the amount than in the first half 2018, mainly due to major acquisitions in the insurance and non-financial activity sectors. Recent data provided by the Statistical Office of Slovenia show that foreign affiliates represented 5.6% of all enterprises in Slovenia in 2017 and these generated 27% of value added, employed 26% of all workers and generated 39% of R&D expenditures. In July 2019, gross external debt amounted to EUR 44.3 billion, which is EUR 1.9 billion more than a year ago. The largest increase was recorded by the central bank (EUR 1.3 billion) and the general government sector (EUR 0.7 billion) while other sectors reduced their indebtedness by EUR 0.5 billion.

Fiscal consolidation continued in 2019. During the first half of 2019 the consolidated general government balance closed with a 0.3% surplus of the GDP, which was slightly lower than a year ago and the public debt amounted to 67.7% of the GDP. Also, for the whole year we expect a (small) budget surplus. Following the downward revision of the GDP forecast for 2019-2021 by the country's main economic institute IMAD, the government adopted the draft budgets by cutting expenditures for the next two years. The budget has yet to be approved by the parliament.

Growth of the household sector lending remained higher than corporate lending, at 6.6% versus 3.9% in July year on year; growth in housing loans was at 5.3%. Non-performing loans continued to decline accounting for 4.1% by the end of July, with most of the decline coming from the corporate sector. But the ratio of the non-performing exposure (NPE) was still above average in the corporate sector (6%), with sectors such as real estate, construction and wholesale and retail trade reporting NPE ratios of up to 13.5%. In June the privatisation process of Nova Ljubljanska Banka – starting in November 2018 - was finally completed, with the sale of the remaining 10% minus 1 Share of the Republic of Slovenia's stake in Nova Ljubljanska banka.. Thus, the government's stake in the bank decreased to 25% plus one share, the level agreed in exchange for the European Commission's approval of state aid to the banks in 2013 and 2014. Also in June, the country's third largest bank, state-owned Abanka, was sold to the second largest bank Nova KBM (NKBM). The new conglomerate holds a market share of 22.5%, only slightly smaller than the NLB's share of 23%. Overall, the banking sector profitability improved in the first seven months of 2019, up about one fifth as compared to the same period in 2018. This was mainly due to a strong increase in non-interest income, growth in net-interest income and a net release in of impairments and provisions.

Given the available data for the year, wiiw has revised the GDP growth forecast for 2019 downwards to 2.9% from 3.2% earlier due to a weakening of foreign demand. Beyond 2019 we expect GDP growth to remain subdued, driven primarily by private consumption and continued investments supported by EU funding. The contribution of net exports will remain negative due to the expected economic slowdown in Slovenia's main trading partners. Given the tight labour market situation, wages will continue to rise strongly in the next few years.

Table 5.21 / Slovenia: Selected economic indicators

	2015	2016	2017	2018 ¹⁾	2018 January-June	2019	2019 Forecast	2020 Forecast	2021
Population, th pers., average	2,064	2,065	2,066	2,074	2,065	2,067	2,070	2,070	2,070
Gross domestic product, EUR mn, nom.	38,853	40,367	42,987	45,755	22,072	23,293	47,900	50,100	52,500
annual change in % (real)	2.2	3.1	4.8	4.1	4.0	2.9	2.9	2.8	2.8
GDP/capita (EUR at PPP)	23,800	24,200	25,500	26,900	.	.	.	.	.
Consumption of households, EUR mn, nom.	20,640	21,416	22,278	23,542	11,178	11,719	.	.	.
annual change in % (real)	2.1	4.5	2.3	3.4	3.6	2.9	2.9	2.3	2.2
Gross fixed capital form., EUR mn, nom.	7,248	7,019	7,875	8,799	4,132	4,597	.	.	.
annual change in % (real)	-1.2	-3.7	10.4	9.4	9.5	8.3	8.0	7.5	6.0
Gross industrial production									
annual change in % (real)	5.6	7.1	7.7	4.9	6.7	3.7	4.0	3.0	3.0
Gross agricultural production									
annual change in % (real)	6.4	-3.2	-9.7	18.0	.	.	.	.	.
Construction industry									
annual change in % (real)	-8.2	-17.7	17.7	19.7	17.7	14.3	.	.	.
Employed persons, LFS, th, average	917.4	915.0	959.1	980.6	974.0	984.5	990	1,000	1,010
annual change in %	0.1	-0.3	4.8	2.2	3.0	1.1	1.0	1.0	1.0
Unemployed persons, LFS, th, average	90.3	79.6	67.4	52.8	57.4	46.5	47	42	42
Unemployment rate, LFS, in %, average	9.0	8.0	6.6	5.1	5.6	4.5	4.5	4.0	4.0
Reg. unemployment rate, in %, eop	12.3	10.8	9.0	8.1	7.9	7.3	.	.	.
Average monthly gross wages, EUR	1,556	1,584	1,626	1,682	1,658	1,729	1,750	1,820	1,870
annual change in % (real, gross)	1.2	1.9	1.3	1.7	2.0	2.7	2.5	2.0	1.0
Average monthly net wages, EUR	1,013	1,030	1,062	1,093	1,076	1,115	1,130	1,170	1,220
annual change in % (real, net)	0.9	1.8	1.7	1.2	1.5	2.1	2.0	2.0	2.0
Consumer prices (HICP), % p.a.	-0.8	-0.2	1.6	1.9	1.8	1.5	1.8	1.8	2.0
Producer prices in industry, % p.a.	-0.2	-1.4	2.2	2.1	2.2	1.0	2.0	2.0	2.0
General governm. budget, EU-def., % of GDP									
Revenues	44.9	43.4	43.2	43.3	.	.	42.2	42.0	41.5
Expenditures	47.7	45.3	43.2	42.5	.	.	42.2	41.8	41.5
Net lending (+) / net borrowing (-)	-2.8	-1.9	0.0	0.7	.	.	0.0	0.2	0.0
General gov. gross debt, EU def., % of GDP	82.6	78.7	74.1	70.4	.	.	66.0	63.0	61.0
Stock of loans of non-fin. private sector, % p.a.	-6.4	-3.9	1.9	3.0	1.8	4.2	.	.	.
Non-performing loans (NPL), in %, eop ²⁾	9.9	5.5	8.4	5.6	6.9	4.3	.	.	.
Central bank policy rate, % p.a., eop ³⁾	0.05	0.00	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR mn	1,482	1,942	2,635	2,593	1,392	1,298	2,310	2,320	2,330
Current account, % of GDP	3.8	4.8	6.1	5.7	6.3	5.6	4.8	4.6	4.4
Exports of goods, BOP, EUR mn	24,039	24,991	28,478	31,134	15,470	16,976	33,940	36,490	38,680
annual change in %	4.7	4.0	14.0	9.3	10.5	9.7	9.0	7.5	6.0
Imports of goods, BOP, EUR mn	22,563	23,454	26,899	30,005	14,715	16,410	33,310	35,970	38,310
annual change in %	3.6	3.9	14.7	11.5	11.3	11.5	11.0	8.0	6.5
Exports of services, BOP, EUR mn	5,940	6,501	7,288	7,963	3,568	3,883	8,600	9,200	9,800
annual change in %	4.2	9.4	12.1	9.3	8.4	8.8	8.0	7.0	6.5
Imports of services, BOP, EUR mn	4,306	4,575	5,048	5,285	2,395	2,512	5,570	5,850	6,140
annual change in %	1.4	6.3	10.3	4.7	6.7	4.9	5.4	5.0	5.0
FDI liabilities, EUR mn	1,560	1,298	1,065	1,295	500	890	1,600	.	.
FDI assets, EUR mn	292	434	570	362	250	331	400	.	.
Gross reserves of NB excl. gold, EUR mn	687	593	632	702	605	780	.	.	.
Gross external debt, EUR mn	46,148	44,293	43,191	42,100	42,857	43,693	43,600	44,100	44,100
Gross external debt, % of GDP	118.8	109.7	100.5	92.0	93.7	91.2	91.0	88.0	84.0

1) Preliminary. - 2) From 2017 loans more than 90 days overdue plus those unlikely to pay, loans more than 90 days overdue before. - 3) Official refinancing operation rates for euro area (ECB).

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