

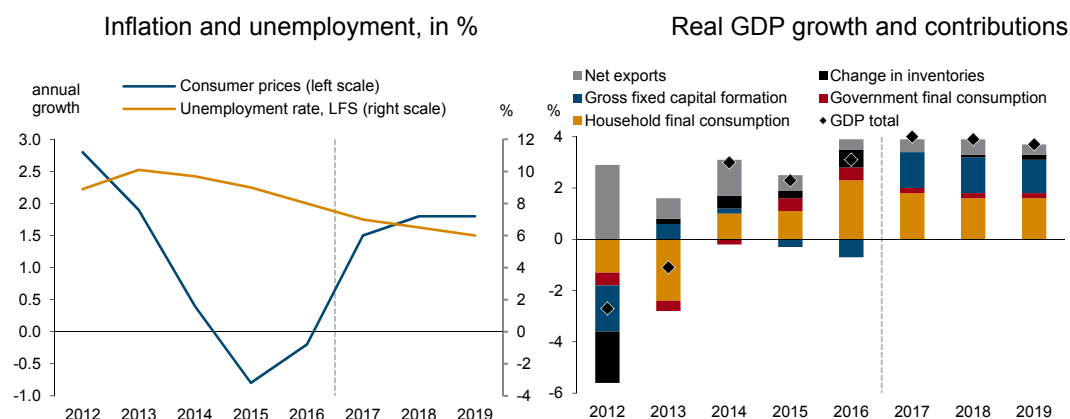


SLOVENIA: Growth far above expectations

HERMINE VIDOVIĆ

Annual GDP growth will reach close to 4% during the period 2017-2019. Exports, the recovery of investments spurred by EU funding and steady consumption growth will remain the main drivers of GDP growth. Household consumption is expected to be boosted by rising disposable income and a further improvement in the labour market. Demographic changes and labour shortages will become one of the major challenges in the future.

Figure 49 / Slovenia: Main macroeconomic indicators



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

Slovenia's GDP increased by 4.7% year on year in the first half of 2017, which was far above wiiw expectations. Private consumption has been the main driver of growth, supported by strong consumer confidence, improvements in the labour market and growing disposable income (increases in both pensions and wages). Also gross fixed capital formation – thanks to EU co-financing – contributed positively to GDP growth. After a strong contraction in 2016, the revival of investment growth translated into an increase of construction activities, particularly in non-residential building. Investments in machinery and equipment continued to grow as well. Industrial production expanded by 6.8%, with the strongest output increases reported for manufacturing of cars, leather, machinery and equipment, furniture, and electrical equipment industries.

High GDP growth translated into a marked improvement in the labour market. Labour Force Survey data indicate an employment increase of 4.2% in the first half of 2017 and a fall of the

unemployment rate to 7.1%, which is, however, still higher than in the pre-crisis period. Employment via personnel leasing and employment of foreigners is increasing again. Similar to other Central and Eastern European EU countries, Slovenia is facing labour shortages and future employment creation will be constrained by the demographic change, including ageing of the population and declining labour force. Average real net wages rose only modestly, by about 0.6% in 2017. Wage increases, particularly in the private sector, will likely follow a moderate growth pattern due to competitiveness reasons as in recent years, while wage growth in the public sector will pick up this year and the next following wage agreements between the government and the public sector trade unions on the abolition of certain austerity measures in 2017 and 2018, as well as an agreement with the doctors' union. In the medium term, labour shortages may cause an upward pressure on wages.

Both trade in goods and services expanded significantly. Goods exports and imports rose by 12.5% and 14% respectively year on year in the first half of 2017. Thus, the trade surplus was somewhat lower than a year earlier. Services trade, too, reported two-digit growth rates, with the surplus widening owing to exports – travel, transport and construction services in particular – rising ahead of lower import growth. The deficit in the primary income balance has been narrowing and the deficit in the secondary income balance has remained almost unchanged. Hence, the current account surplus increased compared with 2016 and amounted to an estimated 6% of GDP. Foreign direct investment inflows in 2017 were only half those recorded in 2016.

Fiscal consolidation continues thanks to strong GDP growth in 2017. The general government deficit narrowed to an estimated 0.7% of GDP in the first half of the year and the share of the public debt to GDP decreased to 79.8%. The deficit reduction was primarily made possible through a marked increase in revenues (6.2%) mainly from taxes, but also from government revenues from profits and dividends of financial corporations. Expenditures rose by 3%, in particular on account of higher compensation of employees, intermediate consumption and social benefits. Also government spending on gross fixed capital formation increased for the first time since 2014. Given the favourable forecast, the deficit should decline further in the coming years. Thus, public debt is expected to continue its downward path to below 80% of GDP.

Slovenian banks' pre-tax profits fell by 10% to EUR 253 million in the first half of the year.

Lending activities to the corporate sector started to increase, thanks to new investment loans rather than to refinancing of existing liabilities. Lending to the household sector strengthened further, both with respect to consumer loans and housing loans. Non-performing loans have been steadily on the decline, accounting for 5% of total loans by the end of June 2017, down from 8% a year earlier. Currently the Slovenian government is negotiating with the European Commission on the further postponement of the privatisation of NLB, aiming to sell the bank at a higher price due to its favourable performance. Already in May the Commission accepted Slovenia's request to sell 50% of NLB by the end of 2017, rather than 75% as originally committed in the restructuring plan agreed upon in 2013. The privatisation of the country's biggest bank formed part of the restructuring plan submitted to the Commission in December 2013, in order to gain approval for state aid used for the bank's bailout.

In September Moody's upgraded Slovenia's government bond ratings from Baa3 to Baa1 and the outlook on the ratings has been changed from stable to positive to stable. The main reasons behind this decision are fiscal consolidation and robust economic growth as well as progress with respect to the banking sector, judiciary (faster court procedures) and the state administration.

Fairly robust economic growth is expected in the forecasting period. wiiw expects GDP to grow close to 4% annually in the period 2017 to 2019, driven by rising domestic demand and exports. Investments are expected to expand, 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 fall during the forecasting period, not least because of the shrinking working-age population. Current account surpluses will persist, but will narrow once domestic demand strengthens and imports accelerate further. Earnings from services exports – travel, transport – will remain high. In the longer run, demographic changes, similar to other EU countries, will become a key challenge.

Table 24 / Slovenia: Selected economic indicators

	2013	2014	2015	2016 ¹⁾	2016 January-June	2017	2017 Forecast	2018 Forecast	2019
Population, th pers., average	2,060	2,062	2,064	2,065	.	.	2,064	2,064	2,064
Gross domestic product, EUR mn, nom.	36,239	37,615	38,837	40,418	19,632	20,918	42,700	45,200	47,700
annual change in % (real)	-1.1	3.0	2.3	3.1	2.8	4.7	4.0	3.9	3.7
GDP/capita (EUR at PPP)	21,900	22,900	24,000	24,400	.	.	.	.	.
Consumption of households, EUR mn, nom.	19,785	20,141	20,437	21,250	10,027	10,647	.	.	.
annual change in % (real)	-4.2	1.9	2.1	4.3	3.1	3.7	3.4	3.0	3.0
Gross fixed capital form., EUR mn, nom.	7,175	7,292	7,322	7,105	3,441	3,868	.	.	.
annual change in % (real)	3.1	1.1	-1.7	-3.6	-6.4	10.2	8.0	8.0	7.5
Gross industrial production									
annual change in % (real)	-1.0	2.2	5.6	7.1	7.6	6.8	6.5	5.0	4.5
Gross agricultural production									
annual change in % (real)	-1.9	12.5	4.7	-2.7	.	.	.	.	.
Construction industry ²⁾									
annual change in % (real)	-2.6	19.5	-8.1	-17.8	-25.6	18.2	.	.	.
Employed persons, LFS, th, average	905.9	916.7	917.4	915.0	906.8	945.2	950	970	990
annual change in %	-1.9	1.2	0.1	-0.3	-0.4	4.2	4.0	2.0	2.0
Unemployed persons, LFS, th, average	101.8	98.1	90.3	79.6	82.3	72.3	72	67	63
Unemployment rate, LFS, in %, average	10.1	9.7	9.0	8.0	8.4	7.1	7.0	6.5	6.0
Reg. unemployment rate, in %, eop	13.5	13.0	12.3	10.8	10.8	9.1	.	.	.
Average monthly gross wages, EUR ³⁾	1,523	1,540	1,556	1,585	1,571	1,601	1,600	1,650	1,700
annual change in % (real, gross)	-2.0	0.9	1.2	1.9	2.4	0.3	0.5	1.5	1.5
Average monthly net wages, EUR ³⁾	997	1,005	1,013	1,030	1,021	1,044	1,050	1,080	1,110
annual change in % (real, net)	-1.2	0.6	0.9	1.8	2.2	0.6	0.6	1.0	1.0
Consumer prices (HICP), % p.a.	1.9	0.4	-0.8	-0.2	-0.6	1.7	1.5	1.8	1.8
Producer prices in industry, % p.a.	0.0	-0.7	-0.3	-1.3	-2.1	2.0	2.0	2.0	1.9
General governm.budget, EU-def., % of GDP									
Revenues	44.8	44.4	44.9	42.9	.	.	43.0	42.9	42.8
Expenditures	59.8	49.7	47.8	44.7	.	.	43.9	43.9	43.3
Net lending (+) / net borrowing (-)	-15.0	-5.3	-2.9	-1.8	.	.	-0.9	-1.0	-0.5
Public debt, EU-def., % of GDP	70.4	80.3	82.6	78.4	.	.	77.0	76.5	76.0
Stock of loans of non-fin.private sector, % p.a.	-16.1	-13.7	-6.4	-4.0	-8.5	1.9	.	.	.
Non-performing loans (NPL), in %, eop	13.4	11.9	9.9	5.5	8.0	5.0	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	0.25	0.05	0.05	0.00	0.00	0.00	0.0	0.0	0.0
Current account, EUR mn	1,594	2,179	1,698	2,108	1,207	1,339	2,560	1,890	1,960
Current account, % of GDP	4.4	5.8	4.4	5.2	6.1	6.4	6.0	4.2	4.1
Exports of goods, BOP, EUR mn	21,692	22,961	24,039	24,991	12,465	14,003	28,100	29,900	31,700
annual change in %	2.1	5.9	4.7	4.0	4.4	12.3	12.5	6.5	6.0
Imports of goods, BOP, EUR mn	20,984	21,780	22,563	23,454	11,531	13,167	26,900	29,100	31,000
annual change in %	-1.7	3.8	3.6	3.9	2.7	14.2	14.5	8.0	6.5
Exports of services, BOP, EUR mn	5,318	5,558	5,866	6,410	2,899	3,264	6,800	7,200	7,600
annual change in %	4.1	4.5	5.5	9.3	8.4	12.6	6.0	5.5	5.5
Imports of services, BOP, EUR mn	3,586	3,862	4,007	4,236	1,906	2,106	4,400	4,600	4,800
annual change in %	-0.3	7.7	3.8	5.7	2.9	10.5	5.0	5.0	5.0
FDI liabilities, EUR mn	71	739	1,560	1,312	910	452	600	.	.
FDI assets, EUR mn	24	155	292	432	235	367	450	.	.
Gross reserves of NB excl. gold, EUR mn	580	736	687	593	649	639	.	.	.
Gross external debt, EUR mn	41,644	47,287	46,627	44,805	46,145	44,528	44,800	46,600	47,700
Gross external debt, % of GDP	114.91	125.71	120.06	110.85	114.17	104.28	105.0	103.0	100.0

1) Preliminary. - 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.