

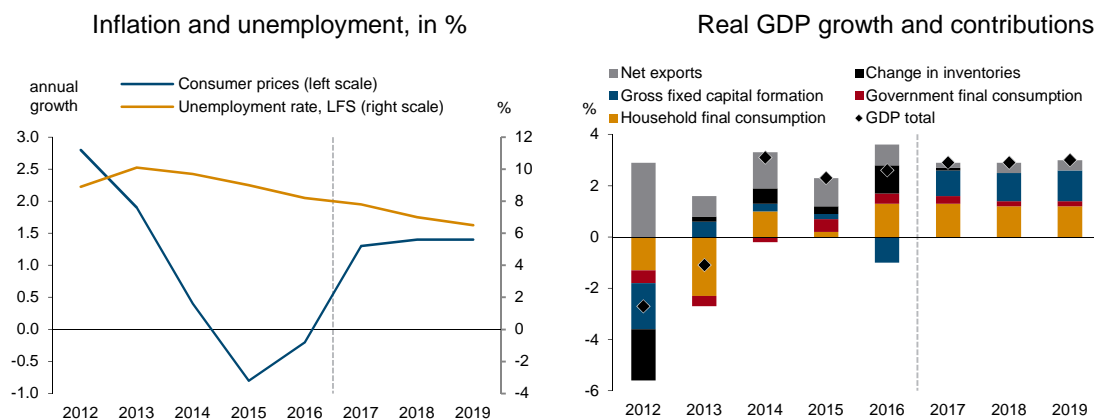


## SLOVENIA: Robust growth expectations

HERMINE VIDOVIĆ

Annual GDP growth will reach about 3% during the 2017-2019 forecast period. Exports, the gradual recovery of investments supported by EU funding and continued consumption growth will remain the main drivers of GDP. Household consumption is expected to be boosted by rising wages and a further recovery of the labour market.

**Figure 52 / Slovenia: Main macroeconomic indicators**



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

### Slovenia's GDP increased by 2.6% in 2016, driven by net exports and household consumption.

Growth of household consumption accelerated in the wake of rising disposable income, due to more rapidly growing wages and an improvement in the labour market. Gross fixed capital formation contracted again after three years of moderate growth; this was mainly due to a drop in public investment following the end of the last EU financing framework's disbursement period in 2015. The decrease in investments has again affected construction, which had already suffered from a strong contraction in the wake of the economic and financial crisis. By contrast, investments in machinery and equipment continued to grow. Industrial production expanded by 6.3% – the highest growth since 2010 – with the strongest output increases reported for manufacturing of computer and optical products, fabricated metal products and other transport equipment.

**The labour market continued to recover, with growing employment and declining unemployment.**

National account data indicate an employment increase of 1.9% in the first three quarters of 2016, which is confirmed by the labour market statistics provided by the statistical office. By contrast, data obtained from the Labour Force Survey indicate a slight decrease in employment, along with rising inactivity and decreasing unemployment. Overall, the employment expectations of employers for the first months of 2017 are positive, indicating further job increases. As with other EU Central and Eastern European countries, Slovenia is facing a labour shortage: according to a recent survey carried out by the public employment service, about a third of Slovene employers are facing difficulties in recruiting qualified staff. Despite relatively strong wage increases in the public sector (3.5%), average real net wages increased only modestly, by about 2% in 2016. Following a very restrictive wage policy pursued since 2009, public sector wage rises were made possible by paying for promotions agreed in 2014 and through the elimination of some austerity measures (partial release of holiday allowances, somewhat higher basic wages from September 2016).

**In external trade, goods exports rose by 3.6% in 2016, as compared to a year earlier, with import growth slightly higher (3.7%), resulting in a slightly higher trade surplus than in 2015.**

The surplus in services trade widened as well, compared to a year earlier, due to rising exports – of travel, transport and construction services in particular – ahead of much lower import growth. The deficit in the primary income balance has been narrowing, partly on account of the smaller net outflow of direct investment. The deficit in secondary income balance has remained almost unchanged. Thus, the current account surplus increased compared with 2015 and amounted to an estimated 7% of GDP. Foreign direct investment inflows in 2016 were EUR 570 million lower than in 2015. Gross foreign debt stood at EUR 43.3 billion in December 2016, which is EUR 1.7 billion less than in December 2015. The state sector is the biggest debtor, accounting for more than half of foreign debt, while the banking sector's share decreased to 10% – compared to 44% in 2008.

**Fiscal consolidation continued in 2016.** The general government deficit narrowed to an estimated 2.2% of GDP and the share of the public debt to GDP decreased to 80.2%. The deficit should decline further in the coming years: according to the two-year budget approved by the government in November 2016, the general government deficit is expected to be 1.6% of GDP in 2017 and 0.7% of GDP in 2018. The budget bills for 2017 and 2018 are in compliance with the fiscal rule adopted in 2015, which sets upper limits for expenditure for several years in advance and which has strict rules on how austerity measures can be lifted. The European Commission, however, considered the budget plans to be too optimistic: on the basis of the draft budgetary plan and its autumn report, the Commission judged Slovenia to be among the countries 'at risk of non-compliance' with their obligations under the Stability and Growth Pact, arguing that 'the projected 0.2% of GDP deterioration in the structural balance in 2017 points to a risk of significant deviation from the required 0.6% of GDP adjustment towards the mid-term objective'. Pensions rose by 1.15% from January 2017 – the first regular pension increase since the onset of the crisis. By contrast, disability, parental and children's allowances and unemployment benefits will not increase for another two years. As regards wages, in December 2016 the Slovene government reached an agreement with the public sector trade unions on the abolition of certain austerity measures in 2017 and 2018, as well as an agreement with Fides, the doctors' union.

**The performance of Slovenia's banking system improved further in the first ten months of 2016,** with pre-tax profits (EUR 362 million) more than double the figure for the same period of 2015. Lending activities are still suppressed: loans to the corporate sector continued to shrink during the first ten

months of the year, while loans to the household sector (both housing and consumer loans) grew moderately. Also household deposits increased, despite low interest rates. Compared with 2008, the share of deposits in the bank balance sheets increased from 44% to 70% in 2016. Non-performing loans have been steadily on the decline, accounting for 6.3% of total loans by the end of October 2016: The biggest declines were recorded by construction companies and the retail and real estate activities. Recently Slovene Minister of Finance Vraničar Erman emphasised that the sale of Nova Ljubljanska Banka is going ahead: the government aims to achieve this by the end of 2017. For months, the Slovene media had been speculating that the government might ask the EU Commission for an extension of the deadline for about three years. The sale/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 for the bank's bailout.

**Economic prospects for the 2017-2019 forecast period look favourable.** wiiw expects GDP to grow at about 3% annually, driven by rising domestic demand and slowing net exports. Investments are expected to expand, supported by EU transfers under the new (2014-2020) financial perspective. Household consumption will also remain an important driver, boosted by rising wages and further improvement in the labour market. 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. Earnings from services will remain at high levels. Given the positive prospects for GDP growth in the next two to three years, it would seem feasible to reduce the budget deficit even further. Thus, public debt is expected to continue its downward path to below 80% of GDP.

Table 23 / Slovenia: Selected economic indicators

	2012	2013	2014	2015	2016 <sup>1)</sup>	2017 Forecast	2018 Forecast	2019
Population, th pers., average	2,057	2,060	2,062	2,064	2,064	2,064	2,064	2,064
Gross domestic product, EUR mn, nom.	36,003	35,917	37,332	38,570	39,500	41,200	43,000	44,900
annual change in % (real)	-2.7	-1.1	3.1	2.3	2.6	2.9	2.9	3.0
GDP/capita (EUR at PPP)	21,800	21,700	22,800	23,900	24,600	.	.	.
Consumption of households, EUR mn, nom.	20,129	19,460	19,827	19,773	20,200	.	.	.
annual change in % (real)	-2.4	-4.1	1.9	0.4	2.5	2.5	2.4	2.4
Gross fixed capital form., EUR mn, nom.	6,934	7,175	7,316	7,525	7,100	.	.	.
annual change in % (real)	-8.8	3.1	1.5	1.0	-5.0	5.0	5.5	6.0
Gross industrial production								
annual change in % (real)	-1.1	-1.0	2.2	5.6	6.3	4.5	4.5	4.0
Gross agricultural production								
annual change in % (real)	-10.7	-1.9	12.5	4.7	-3.8	.	.	.
Construction industry <sup>2)</sup>								
annual change in % (real)	-16.8	-2.6	19.5	-8.1	-17.8	.	.	.
Employed persons, LFS, th, average	924	906	917	917	910	920	930	935
annual change in %	-1.3	-1.9	1.2	0.1	-0.8	1.0	1.0	0.5
Unemployed persons, LFS, th, average	90	102	98	90	81	78	70	65
Unemployment rate, LFS, in %, average	8.9	10.1	9.7	9.0	8.2	7.8	7.0	6.5
Reg. unemployment rate, in %, end of period	13.0	13.5	13.0	12.3	10.8	.	.	.
Average monthly gross wages, EUR <sup>3)</sup>	1,525	1,523	1,540	1,556	1,585	1,600	1,650	1,710
annual change in % (real, gross)	-2.4	-2.0	0.9	1.2	1.9	1.9	1.9	2.0
Average monthly net wages, EUR <sup>3)</sup>	991	997	1,005	1,013	1,030	1,060	1,090	1,120
annual change in % (real, net)	-2.1	-1.2	0.6	0.9	1.8	1.6	1.6	1.4
Consumer prices (HICP), % p.a.	2.8	1.9	0.4	-0.8	-0.2	1.3	1.4	1.4
Producer prices in industry, % p.a.	0.9	0.0	-0.7	-0.3	-1.3	0.5	1.0	1.0
General governm. budget, EU-def., % of GDP								
Revenues	44.5	45.3	45.0	45.1	43.2	43.2	43.0	42.8
Expenditures	48.6	60.3	50.0	47.8	45.4	45.2	44.9	44.3
Net lending (+) / net borrowing (-)	-4.1	-15.0	-5.0	-2.7	-2.2	-2.0	-1.9	-1.5
Public debt, EU-def., % of GDP	53.9	71.0	80.9	83.1	80.2	78.0	77.0	76.5
Stock of loans of non-fin. private sector, % p.a.	-5.2	-16.1	-13.7	-6.4	-4.2	.	.	.
Non-performing loans (NPL), in %, Dec	14.5	13.4	11.9	9.9	6.5	.	.	.
Central bank policy rate, % p.a., end of period <sup>4)</sup>	0.75	0.25	0.05	0.05	0.00	0.0	0.0	0.0
Current account, EUR mn	930	1,732	2,325	1,998	2,719	2,400	2,150	2,000
Current account, % of GDP	2.6	4.8	6.2	5.2	6.9	5.8	5.0	4.5
Exports of goods, BOP, EUR mn	21,256	21,692	22,961	24,039	24,913	25,900	27,100	28,300
annual change in %	1.0	2.1	5.9	4.7	3.6	4.0	4.5	4.5
Imports of goods, BOP, EUR mn	21,337	20,984	21,780	22,541	23,375	24,500	25,800	27,300
annual change in %	-3.1	-1.7	3.8	3.5	3.7	5.0	5.5	6.0
Exports of services, BOP, EUR mn	5,107	5,318	5,558	6,025	6,539	6,900	7,300	7,800
annual change in %	4.1	4.1	4.5	8.4	8.5	6.0	6.0	6.5
Imports of services, BOP, EUR mn	3,596	3,586	3,862	4,006	4,235	4,400	4,600	4,800
annual change in %	2.7	-0.3	7.7	3.7	5.7	4.0	4.5	5.0
FDI liabilities, EUR mn	28	71	739	1,516	943	.	.	.
FDI assets, EUR mn	-439	24	155	278	236	.	.	.
Gross reserves of NB excl. gold, EUR mn	593	580	736	687	593	.	.	.
Gross external debt, EUR mn	42,872	41,866	46,514	44,954	43,259	43,300	44,300	44,900
Gross external debt, % of GDP	119.1	116.6	124.6	116.6	109.5	105.0	103.0	100.0

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.