

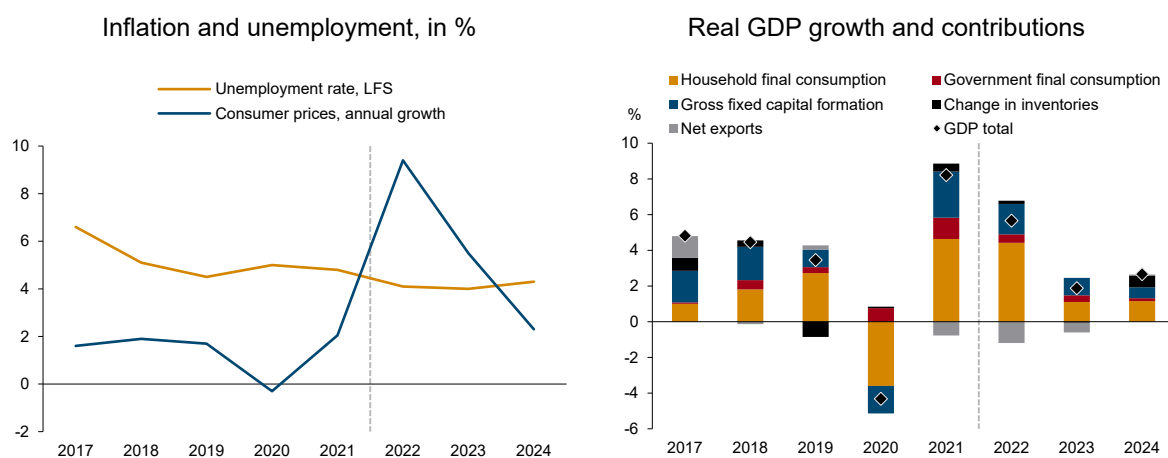


## SLOVENIA: Solid economic performance, with a downturn just around the corner

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In 2022, we estimate that Slovenia's real GDP will have expanded by 5.7%, mostly due to very high growth in the first half of the year. However, next year it will decline to 1.9%, as consumption and investments start to shrink due to inflation, and as manufacturing begins to feel the full extent of the energy crisis. To counter inflation, the government has introduced various support mechanisms and is trying to secure enough gas to last the winter; however, uncertainty over the energy supply and prices has contributed to falling business confidence.

Figure 6.21 / Slovenia: Main macroeconomic indicators



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

**Entering Q4 of 2022, Slovenia's economy is still performing strongly, but there are signs of a coming downturn.** In the first half of 2022, real GDP increased by 8.9% and is forecast to grow by 5.7% for the full year – 1.3 percentage points (pp) better than our previous forecast. The upwards revision is due to resilient exports, strong private spending after the end of the pandemic-enforced period of saving, renewed growth in services (especially tourism), and resilient manufacturing and exports. However, the recent sharp downturn in consumer confidence, which has reached its lowest point since the COVID-19 pandemic began, indicates that the two-year period of high GDP growth is coming to an end. Private spending and investments are likely to contract as winter approaches. Industrial output, forecast to increase by 3.4% in 2022, has also started to fall since June. Manufacturing industries are suffering from the high cost of energy. Uncertainty over the extent of government support and the availability of gas over the winter has also led several exporters to announce cuts in production. The construction industry contributed strongly to growth in the first half of the year, but its activity has also started to cool.

**In 2023, all drivers of growth are forecast to slow down as a consequence of inflation, volatile energy markets and uncertainty over the future external economic outlook.** Growth is forecast to be 1.9% – 0.9 pp less than our previous forecast. Consumer spending will grow by just 2.5%, as households are expected to delay any significant expenditure – at least until winter is over. The manufacturing sector will be adversely affected by the delayed effects of inflation, as price hikes move along the supply chains and begin to affect foreign demand. However, the export markets should begin to recover in Q2 2023. Growth will also be supported by disbursements from the NextGenerationEU recovery funds and government spending, which should grow by 1.8% in 2023.

**The extent of the winter downturn will also depend on the gas reserves.** As elsewhere, the risk of a recession is tied to the possibility of a complete shutdown of Russian gas imports, since Slovenia lacks the infrastructure to build up large natural gas reserves and does not have its own gas terminals. Thus far, the government has relied on securing bilateral solidarity agreements that will provide cover in the event of severe disruption to the gas supply. One such document was signed with Italy in July 2022. Other attempts, such as signing another solidarity pact with Austria have so far failed. However, an agreement with Croatia is still likely to be signed in autumn.

**Inflation has so far exceeded the EU average and the figure for 2022 as a whole is projected to reach 9.6%.** Since the beginning of 2022, the government has announced a series of measures to slow the rise in the price of food and energy, such as cutting the excise duty on energy sources and providing energy vouchers for poorer households. The Bank of Slovenia estimates that such measures reduced inflation by 1.6 pp in the first seven months of 2022. In September, the government imposed a cap on electricity and gas prices for one year for households and small businesses, reduced VAT on the main energy sources and announced its intention of regulating the price of heating oil. Other measures, such as tax cuts and greater social support for lower-income households, were also announced. The total value of these measures will be well in excess of 1% of GDP. In 2023, considering the base scenario, inflation should be 5.5%, with the bulk of the price hikes expected to occur in the first half of the year.

**International trade remained resilient in 2022, but the uncertainty makes exporters anxious about next year.** As in 2021, real imports continued to grow faster than exports in 2022. A current account deficit of EUR 283m was recorded in the first seven months of 2022, but for the full year a current account surplus of 1.5% of GDP is expected. Next year will see a considerable reduction in the growth of foreign trade, with possible cuts to production and disruption to value chains as a result of the high energy prices. Nevertheless, exports are still expected to grow by 4.6% and imports by 5.6%.

**The labour market is continuing to perform better than ever before, but real wage growth is lagging behind inflation.** Unemployment will be 4% on average in 2022 and the high employment figures are expected to carry over into 2023. The shortage of workers has already begun to put a strain on certain sectors, such as services and manufacturing. Increased immigration may help to offset the shortage, but not in the short term. Nominal wages are expected to grow by 4.3% in 2022, and momentum is building to increase wages in both the public and the private sector, as well as pensions. However, real wages will fall by 3.4% this year because of inflation.

**High growth has helped keep a lid on certain worrying trends in the state of the national budget.** Revenue increased by 16.7% year on year in the first eight months of 2022. Although revenue growth has surpassed projections, in part due to the effect of inflated prices, new fiscal burdens have also been

added, due to the need to provide relief from inflation and address pressing issues in the healthcare system. In September, the government announced a planned 20% hike in the wages of public-sector employees, which will place additional strain on the budget. Although the national Fiscal Council has warned against depending on inflation-fuelled revenue to increase spending, rather than reducing debt, Slovenia's long-term budgetary outlook is by no means precarious – although the rising cost of debt does present an element of heightened risk should severely unbalanced budgets continue in the following years. The public deficit is forecast to be 3.8% of GDP in 2022 and 3.7% of GDP in 2023. Public debt will hover at around 72% of GDP, and is expected to fall below 70% by 2023.

**After four months in power, the government led by former electricity company CEO Dr Robert Golob is still enjoying a honeymoon phase.** However, its popularity is slowly starting to wane, as expectations of support for the economy and households grow. The crisis-management style of government – essential if high inflation is to be tackled successfully – has so far prevented serious progress on structural reform. Autumn will bring presidential and municipal elections, and several potential referendums on new laws, demanded by the opposition, which could act as an early vote of confidence in the centre-left coalition.

**Table 6.21 / Slovenia: Selected economic indicators**

	2019	2020	2021 <sup>1)</sup>	2021 January-June	2022	2022 Forecast	2023 Forecast	2024
Population, th pers., average	2,088	2,102	2,108	.	.	2,108	2,115	2,119
Gross domestic product, EUR m, nom.	48,533	47,021	52,208	24,716	28,334	60,300	64,800	68,100
annual change in % (real)	3.5	-4.3	8.2	8.7	8.9	5.7	1.9	2.7
GDP/capita (EUR at PPP)	27,740	26,600	29,210	.	.	.	.	.
Consumption of households, EUR m, nom.	25,022	23,145	26,206	11,539	14,727	.	.	.
annual change in % (real)	5.3	-7.0	9.4	5.3	15.8	8.8	2.2	2.3
Gross fixed capital form., EUR m, nom.	9,496	8,870	10,619	4,975	6,119	.	.	.
annual change in % (real)	5.1	-7.9	13.7	15.0	7.5	8.4	4.8	3.0
Gross industrial production								
annual change in % (real)	3.1	-5.3	10.3	13.5	3.4	3.4	2.3	3.6
Gross agricultural production								
annual change in % (real)	-7.8	5.5	-12.0	.	.	.	.	.
Construction industry								
annual change in % (real)	3.3	-0.7	-0.5	5.8	23.7	.	.	.
Employed persons, LFS, th, average <sup>2)</sup>	982.5	978.0	971.6	953.5	983.5	1,000	1,010	1,020
annual change in %	0.2	-0.5	0.3	-1.4	3.2	2.8	1.2	0.7
Unemployed persons, LFS, th, average <sup>2)</sup>	45.7	51.2	48.4	50.0	43.9	40	40	50
Unemployment rate, LFS, in %, average <sup>2)</sup>	4.5	5.0	4.8	5.1	4.3	4.1	4.0	4.3
Reg. unemployment rate, in %, eop	7.7	8.9	6.7	7.3	5.5	.	.	.
Average monthly gross wages, EUR <sup>3)</sup>	1,754	1,856	1,970	1,981	1,976	2,250	2,450	2,570
annual change in % (real, gross)	2.7	5.9	4.1	7.3	-7.0	4.3	3.1	2.6
Average monthly net wages, EUR <sup>3)</sup>	1,134	1,209	1,270	1,273	1,282	1,340	1,430	1,500
annual change in % (real, net)	2.1	6.6	3.1	5.7	-6.1	-3.4	1.1	2.2
Consumer prices (HICP), % p.a.	1.7	-0.3	2.0	0.7	7.7	9.4	5.5	2.3
Producer prices in industry, % p.a.	0.6	-0.3	5.5	2.4	18.7	8.8	4.5	1.9
General governm. budget, EU def., % of GDP								
Revenues	43.6	43.4	43.8	.	.	46.4	45.1	45.4
Expenditures	43.2	51.2	48.9	.	.	50.2	48.8	47.2
Net lending (+) / net borrowing (-)	0.4	-7.8	-5.2	.	.	-3.8	-3.7	-1.8
General gov. gross debt, EU def., % of GDP	65.4	79.6	74.4	.	.	72.3	71.0	68.5
Stock of loans of non-fin. private sector, % p.a.	3.5	0.0	5.9	1.7	10.4	.	.	.
Non-performing loans (NPL), in %, eop <sup>4)</sup>	2.9	2.6	1.6	1.9	1.6	.	.	.
Central bank policy rate, % p.a., eop <sup>5)</sup>	0.00	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR m	2,884	3,552	1,986	1,328	-181	1,000	820	520
Current account, % of GDP	5.9	7.6	3.8	5.4	-0.6	1.7	1.3	0.8
Exports of goods, BOP, EUR m	31,999	29,622	35,255	17,083	20,951	40,400	45,810	48,790
annual change in %	3.9	-7.4	19.0	19.7	22.6	14.6	13.4	6.5
Imports of goods, BOP, EUR m	30,701	27,289	34,373	16,103	22,074	41,140	46,080	49,400
annual change in %	3.9	-11.1	26.0	22.5	37.1	19.7	12.0	7.2
Exports of services, BOP, EUR m	8,659	6,956	8,447	3,490	4,840	9,840	10,850	11,570
annual change in %	6.6	-19.7	21.4	7.2	38.7	16.5	10.3	6.6
Imports of services, BOP, EUR m	5,751	4,899	5,992	2,457	3,249	7,230	8,570	9,270
annual change in %	4.6	-14.8	22.3	6.6	32.3	20.6	18.6	8.2
FDI liabilities, EUR m	1,919	446	1,795	1,250	1,431	1,510	.	.
FDI assets, EUR m	1,157	708	1,397	497	782	500	.	.
Gross reserves of CB excl. gold, EUR m	767	913	1,838	970	1,965	.	.	.
Gross external debt, EUR m	44,442	47,998	50,818	50,156	51,940	52,800	55,900	58,200
Gross external debt, % of GDP	91.6	102.1	97.3	96.1	86.1	87.5	86.3	85.4

1) Preliminary. - 2) From 2021 the new LFS methodology is applied in line with the Integrated European Social Statistics Regulation (IESS). - 3) Wage increase in 2020 due to COVID emergency relief compensations. - 4) Loans more than 90 days overdue and those unlikely to be paid. - 5) Official refinancing operation rates for euro area (ECB).

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