

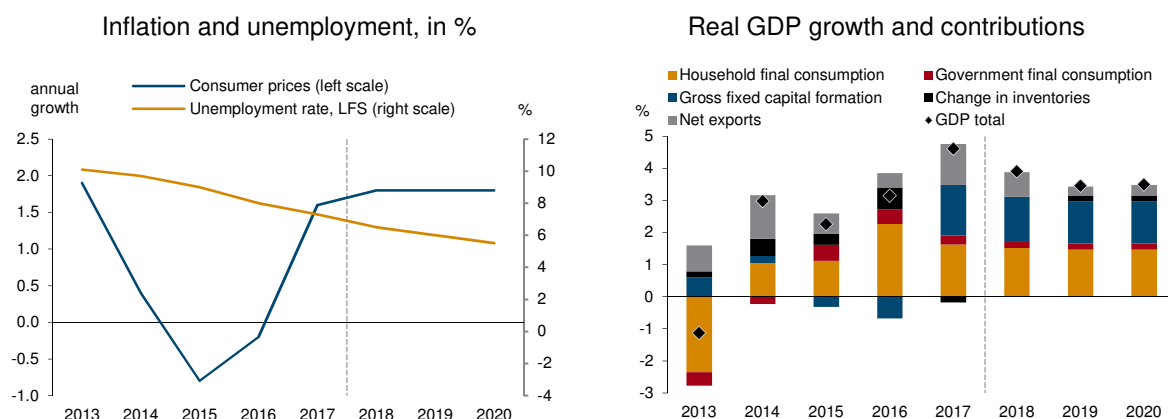


SLOVENIA: Solid growth set to continue

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GDP growth is set to remain high (3.6% p.a.) in the forecasting period, albeit moderating from the peak of 2017. Domestic demand and exports are expected to be the main growth drivers. The general government deficit and public debt ratios will continue declining. Upcoming elections will result again in a broad coalition.

Figure 59 / Slovenia: Main macroeconomic indicators



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

Slovenia's GDP is estimated to have grown by 4.6% in 2017, which was far above earlier expectations. Growth was mainly driven by household consumption, exports and rebounding investments. The rise in investments, coupled with a recovery in the real estate market, has translated into an increase in construction activities (18%), particularly in buildings and, to a lesser extent, in civil engineering. Investments in machinery and equipment continued to grow as well. Industrial production expanded by 7.4%, with the strongest output increases reported for the car-manufacture, leather, machinery and equipment, and electrical equipment industries.

The labour market continued to improve quite significantly. Labour Force Survey data indicate an employment increase of close to 4% in 2017 and a fall in the unemployment rate to 7.3%, which is, however, still higher than in the pre-crisis period. Jobs were created particularly in the low-skill segment, and the employment of foreigners has been on the increase. In the first ten months of 2017, a total of 76,000 foreign workers were registered, mainly from the Western Balkans (Bosnia and Herzegovina, in

particular); they tend to work in construction, manufacturing and transport. Future employment creation will be constrained by demographic change, including population ageing and a declining labour force. Average real net wages rose only modestly in 2017, by 1.5%. In the medium term, the tightening of the labour market and labour shortages may bring upward pressure on wages. After two years of deflation, consumer prices rose by 1.6% in 2017, mainly driven by energy prices.

External trade expanded remarkably in 2017, with goods exports and imports up 13.8% and 14.4%, respectively, closing with a higher surplus than a year earlier. Services trade, too, reported double-digit growth rates, with the surplus widening thanks to exports – travel, transport, construction and technical, trade-related and other business services in particular – rising faster than imports. Tourism reported another record year, with overnight stays increasing by 11%. The deficit in both the primary and the secondary income balance has been narrowing. Hence, the current account surplus increased over 2016 and amounted to an estimated 6.5% of GDP. Foreign direct investment inflows in 2017 were by EUR 390 million lower than in 2016, amounting to EUR 920 million.

Public finances benefited from strong GDP growth in 2017. The general government deficit narrowed to an estimated 0.8% of GDP, and the share of the public debt to GDP decreased to 76%. The deficit reduction was primarily made possible through a marked increase in revenues (6.1%), mainly from taxes (VAT, personal and corporate income taxes). Expenditure rose by 1.7%, especially on investments in maintenance and construction of roads, but also on healthcare, due to the bailout of hospitals and rising wages. Interest payments fell after almost half of the outstanding USD-denominated bonds were bought back. As for 2018, the government envisages a surplus of 0.4% of GDP, which seems feasible, given the favourable growth forecast. Thus, public debt is expected to continue its downward path to about 70% by the end of the forecasting period.

The sale of Nova Ljubljanska Banka (NLB) is becoming a never-ending story. The privatisation of the country's biggest bank formed part of the restructuring plan submitted to the European Commission in December 2013, in order to gain approval for state aid used for the bank's bailout. In May 2017, the Commission accepted Slovenia's request to sell 50% of NLB by the end of 2017 (rather than 75%, as originally agreed upon in 2013) and the remainder by the end of 2018. Slovenia put the sale on hold in June 2017, and in late January 2018 the Commission launched an in-depth investigation to assess whether new measures proposed by the Slovenian authorities regarding the restructuring of NLB (primarily a three-year extension on the sales deadline) provide sufficient compensation for delaying the bank's sale beyond the end of 2017.

In the first 11 months of 2017, Slovenian banks' net profits increased by 15% year on year, to EUR 400 million. Lending activities to the corporate sector started to increase in mid-2017, thanks to new investment loans rather than to refinancing of existing liabilities. Lending to the household sector strengthened further, with respect to both consumer loans and housing loans. Non-performing loans have been steadily on the decline, accounting for 4.6% of total loans in 2017, down from 5.5% a year earlier.

Parliamentary elections are to be held in May or June 2018. Recent opinion polls have shown the former presidential candidate Marjan Šarec (a former comedian) to be in the lead, followed by the Social Democrats and the Slovenian Democratic Party, headed by Janez Janša, a former prime minister. The party of Prime Minister Miro Cerar of the Modern Centre lags far behind, in fourth place. No matter what the outcome of the elections, there will have to be a coalition of several parties again.

After surging in 2017, economic growth is expected to moderate, running at about 3.6% annually in the period 2018 to 2020. Growth will be supported by domestic demand and exports. Household consumption will remain an important driver, boosted by rising employment, wages and bank lending. Investment growth is expected to remain at high levels, fuelled by EU transfers under the current financial perspective. This will also translate into a recovery in construction, hit hard by the financial crisis. The labour market situation is expected to improve further over the forecast horizon, not least because of the shrinking working-age population. Inflation will remain moderate (below 2%) over the forecast horizon. The current account surplus is forecast to narrow, due to a strengthening of domestic demand and accelerating imports. Earnings from services exports – travel and transport – will remain high.

Table 29 / Slovenia: Selected economic indicators

	2013	2014	2015	2016	2017 ¹⁾	2018 Forecast	2019 Forecast	2020
Population, th pers., average	2,060	2,062	2,064	2,065	2,066	2,066	2,066	2,066
Gross domestic product, EUR mn, nom.	36,239	37,615	38,837	40,418	43,000	45,500	47,900	50,500
annual change in % (real)	-1.1	3.0	2.3	3.1	4.6	3.9	3.5	3.5
GDP/capita (EUR at PPP)	21,900	22,700	23,800	24,100	25,300	.	.	.
Consumption of households, EUR mn, nom.	19,785	20,141	20,437	21,250	22,300	.	.	.
annual change in % (real)	-4.2	1.9	2.1	4.3	3.1	2.9	2.8	2.8
Gross fixed capital form., EUR mn, nom.	7,175	7,292	7,322	7,105	7,900	.	.	.
annual change in % (real)	3.1	1.1	-1.7	-3.6	9.0	8.0	7.5	7.5
Gross industrial production								
annual change in % (real)	-1.0	2.2	5.6	7.1	7.4	5.0	4.5	4.5
Gross agricultural production								
annual change in % (real)	-1.9	11.1	3.7	-3.6	-9.8	.	.	.
Construction industry ²⁾								
annual change in % (real)	-2.6	19.5	-8.1	-17.8	17.8	.	.	.
Employed persons, LFS, th, average	906	917	917	915	950	960	980	990
annual change in %	-1.9	1.2	0.1	-0.3	3.8	1.5	2.0	1.5
Unemployed persons, LFS, th, average	102	98	90	80	75	67	63	58
Unemployment rate, LFS, in %, average	10.1	9.7	9.0	8.0	7.3	6.5	6.0	5.5
Reg. unemployment rate, in %, eop	13.5	13.0	12.3	10.8	8.9	.	.	.
Average monthly gross wages, EUR ³⁾	1,523	1,540	1,556	1,585	1,625	1,680	1,740	1,800
annual change in % (real, gross)	-2.0	0.9	1.2	1.9	1.1	1.5	1.5	1.5
Average monthly net wages, EUR ³⁾	997	1,005	1,013	1,030	1,060	1,100	1,140	1,180
annual change in % (real, net)	-1.2	0.6	0.9	1.8	1.5	1.5	1.6	2.0
Consumer prices (HICP), % p.a.	1.9	0.4	-0.8	-0.2	1.6	1.8	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
General government budget, EU-def., % of GDP								
Revenues	44.8	44.3	44.9	43.3	42.8	42.5	42.2	42.0
Expenditures	59.5	49.6	47.7	45.1	43.6	42.5	41.8	42.0
Net lending (+) / net borrowing (-)	-14.7	-5.3	-2.9	-1.9	-0.8	0.0	0.4	0.0
General gov.gross debt, EU def., % of GDP	70.4	80.3	82.6	78.5	76.4	74.0	72.5	70.0
Stock of loans of non-fin.private sector, % p.a.	-16.1	-13.7	-6.4	-4.0	2.7	.	.	.
Non-performing loans (NPL), in %, eop	13.4	11.9	9.9	5.5	4.6	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	0.25	0.05	0.05	0.00	0.00	.	.	.
Current account, EUR mn	1,594	2,179	1,698	2,108	2,813	2,500	2,040	1,840
Current account, % of GDP	4.4	5.8	4.4	5.2	6.5	5.5	4.3	3.6
Exports of goods, BOP, EUR mn	21,692	22,961	24,039	24,991	28,448	31,010	33,180	35,500
annual change in %	2.1	5.9	4.7	4.0	13.8	9.0	7.0	7.0
Imports of goods, BOP, EUR mn	20,984	21,780	22,563	23,454	26,822	29,370	31,870	34,420
annual change in %	-1.7	3.8	3.6	3.9	14.4	9.5	8.5	8.0
Exports of services, BOP, EUR mn	5,318	5,558	5,866	6,410	7,148	7,720	8,300	8,800
annual change in %	4.1	4.5	5.5	9.3	11.5	8.0	7.5	6.0
Imports of services, BOP, EUR mn	3,586	3,862	4,007	4,236	4,584	4,930	5,250	5,570
annual change in %	-0.3	7.7	3.8	5.7	8.2	7.5	6.5	6.0
FDI liabilities, EUR mn	71	739	1,560	1,312	923	.	.	.
FDI assets, EUR mn	24	155	292	432	389	.	.	.
Gross reserves of NB excl. gold, EUR mn	580	736	687	593	632	.	.	.
Gross external debt, EUR mn	41,644	47,287	46,627	44,805	43,456	44,100	45,500	47,500
Gross external debt, % of GDP	114.91	125.71	120.06	110.85	101.06	97.0	95.0	94.0

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.