

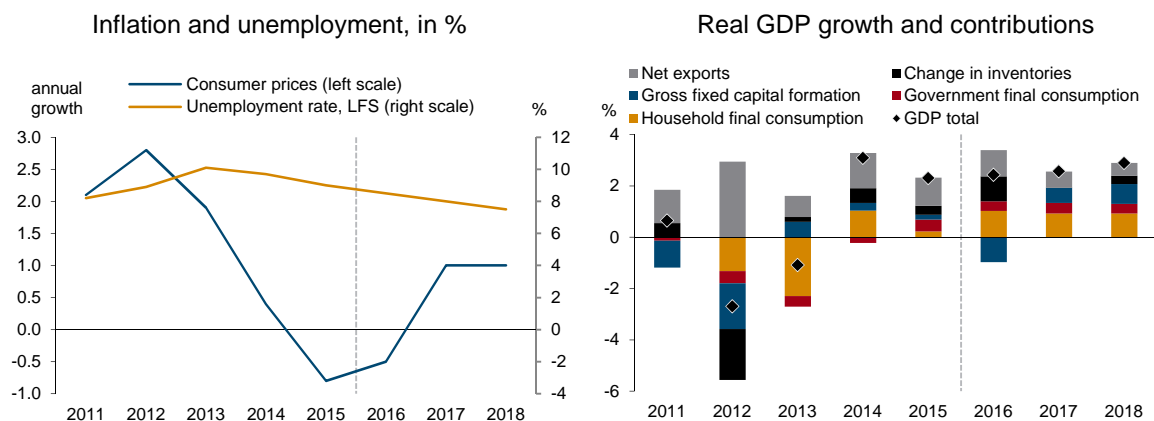


## SLOVENIA: Waiting for new EU investment cycle

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In 2016 external demand has been the key driver of Slovenia's GDP growth; it is expected to reach 2.4%. GDP growth will gain momentum throughout the forecast period given the openings offered by the new cycle of EU-funded investments. Exports and the gradual recovery of household consumption on account of better labour market conditions will remain the main drivers of growth.

Figure 42 / Slovenia: Main macroeconomic indicators



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

Slovenia's GDP was up 2.5% in the first half of 2016, backed by net exports and rising inventories. Growth of household consumption accelerated in the wake of rising disposable income due to faster growing wages and rising social benefits and transfers, while gross fixed capital formation contracted again after three years of moderate growth. The latter was mainly due to a drop in public investment following the ending of the EU funding period 2007-2013. The decrease in investments was particularly felt in construction, which reported a continued decline (25%) in the first half of 2016; conversely, investments in machinery and equipment continued to grow. Industrial production grew by 6% in the first half of the year, with the highest output increases reported for manufacturing of computer and optical products, fabricated metal products and other transport equipment. By contrast, car production – one of Slovenia's major industrial branches – contracted slightly.

Data on the labour market performance are contradictory: while Labour Force Survey data report a slight decrease both in employment and unemployment along with rising inactivity, national account data indicate an employment increase by 1.8% in the first half of 2016. Jobs were mainly generated in manufacturing. Overall, employment expectation indicators are positive with construction being the only exception. Growth in average real net wages was the strongest since 2009 – but still modest – both in the private and in the public sector. Following a very restrictive wage policy since 2009, public sector wage rises were made possible through payments of promotions agreed in 2014 and the elimination of some austerity measures (partial release of holiday allowances, somewhat higher basic wages starting from September 2016).

In external trade, goods exports went up 3.3% during the first seven months of 2016, ahead of import growth, resulting in a trade surplus that was EUR 230 million higher than in the same period of 2015. Also the surplus in services trade was higher than a year earlier, due to rising exports – of transport, travel and construction services in particular – ahead of import growth. The deficit in the primary income balance has been narrowing on account of the smaller net outflow of direct investment income and a larger inflow of agricultural subsidies from the EU budget. Thus, the current account closed with a surplus of EUR 1.8 billion, a large improvement (by EUR 640 million) year on year. The FDI inflow in the first seven months of 2016 was at the same level as in the same period a year earlier. Gross foreign debt stood at EUR 44.7 billion or 114% of the GDP in June 2016, which is EUR 700 million or 4 percentage points less than in June 2015. More than half of foreign debt was accounted for by the state sector.

Fiscal consolidation has continued in 2016: during the first half of the year the general government deficit decreased further owing to higher than expected revenues (particularly from taxes) along with spending cuts, e.g. in the fields of capital expenditures (acquisition of capital assets) and capital transfers (transfers to institutions outside the government) as well as lower payments into the EU budget. By contrast, transfers to individuals and households increased remarkably due to a partial removal of austerity measures. In mid-2016, public debt as a share of the GDP amounted to 83%. Fiscal consolidation, the completion of the state support package to the banking sector as well as the approval of expenditure ceilings and deficit targets by parliament for the 2017-2019 period as part of the new fiscal rules have also been reflected by recent ratings: Fitch has upgraded Slovenia's Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) from 'BBB+' to 'A-' with a stable outlook. Already in June Standard & Poor's upgraded Slovenia's rating to A (outlook stable).

The performance of Slovenia's banking system has further improved in the first half of 2016, with profits more than double as compared to the first half of 2015. However, lending activities are still suppressed: loans to the corporate sector continued to shrink in the first half of the year, while loans to the household sector grew only moderately. Interest rates of domestic banks remained above the euro-area average, despite having dropped considerably. Non-performing loans have been steadily on the decline, accounting for 7.3% of total loans by the end of July 2016 (minus 4 pp as against July 2015), owing partly to a transfer of overdue loans to the bad bank (Bank Asset Management Company). The privatisation of state-owned enterprises approved by the Slovenian parliament in 2013 is proceeding slowly. As of October 2016, only 8 companies out of 15 have been sold. Preparations for an initial public offering (IPO) of Nova Ljubljanska Banka (NLB) are in line with the predetermined strategy, aiming to complete the sale by the end of 2017.

Based on available economic data, wiiw has slightly raised its summer 2016 GDP growth forecast to 2.4%. In 2017 and 2018, GDP growth is likely to accelerate to 2.6% and 2.9%, respectively. Foreign demand will remain the major driver of growth, but also domestic demand is expected to gradually increase in the wake of the expansion of investments fuelled by EU transfers under the new (2014-2020) financial perspective as well as rising household consumption. The latter should be spurred by a continued improvement in the labour market along with rising employment and wages. Unemployment is expected to fall during the forecasting period, not least because of the shrinking working-age population. Current account surpluses are expected to persist but will narrow once domestic demand strengthens. Public debt is expected to decline over the forecasting period to below 80% of GDP.

**Table 25 / Slovenia: Selected Economic Indicators**

	2012	2013	2014	2015 <sup>1)</sup>	2015 January-June	2016	2016 2017 Forecast	2018
Population, th pers., average	2,057	2,060	2,062	2,064	2,062	2,064	2,063	2,063
Gross domestic product, EUR mn, nom.	36,003	35,917	37,332	38,570	18,809	19,510	39,300	40,700
annual change in % (real)	-2.7	-1.1	3.1	2.3	2.3	2.5	2.4	2.6
GDP/capita (EUR at exchange rate)	17,500	17,400	18,100	18,700	.	.	19,000	19,700
GDP/capita (EUR at PPP)	21,600	21,500	22,600	23,700	.	.	.	.
Consumption of households, EUR mn, nom.	20,129	19,460	19,827	19,773	9,538	9,629	.	.
annual change in % (real)	-2.4	-4.1	1.9	0.4	-0.1	1.9	2.0	1.8
Gross fixed capital form., EUR mn, nom.	6,934	7,175	7,316	7,525	3,726	3,534	.	.
annual change in % (real)	-8.8	3.1	1.5	1.0	-0.5	-5.6	-5.0	3.0
Gross industrial production								
annual change in % (real)	-1.1	-1.0	2.2	5.6	5.9	6.3	5.5	4.5
Gross agricultural production								
annual change in % (real)	-11.0	-2.0	12.8	4.4	.	.	.	.
Construction industry <sup>2)</sup>								
annual change in % (real)	-16.8	-2.6	19.5	-8.1	-5.2	-25.1	.	.
Employed persons, LFS, th, average	924	906	917	917	911	907	910	920
annual change in %	-1.3	-1.9	1.2	0.1	-0.3	-0.4	-0.4	1.0
Unemployed persons, LFS, th, average	90	102	98	90	95	82	85	80
Unemployment rate, LFS, in %, average	8.9	10.1	9.7	9.0	9.5	8.4	8.5	8.0
Reg. unemployment rate, in %, end of period	13.0	13.5	13.0	12.3	12.0	10.8	.	.
Average monthly gross wages, EUR <sup>3)</sup>	1,525	1,523	1,540	1,556	1,541	1,571	1,580	1,600
annual change in % (real, gross)	-2.4	-2.0	0.9	1.2	1.0	0.7	1.8	1.5
Average monthly net wages, EUR <sup>3)</sup>	991	997	1,005	1,013	1,005	1,021	1,030	1,060
annual change in % (real, net)	-2.1	-1.2	0.6	0.9	0.7	2.2	2.0	1.5
Consumer prices (HICP), % p.a.	2.8	1.9	0.4	-0.8	-0.7	-0.6	-0.5	1.0
Producer prices in industry, % p.a.	0.9	0.0	-0.7	-0.3	0.4	-2.1	-2.0	0.5
General government budget, EU-def., % of GDP								
Revenues	44.4	45.2	44.9	45.1	.	.	43.2	43.2
Expenditures	48.5	60.3	49.9	48.0	.	.	45.7	45.2
Net lending (+) / net borrowing (-)	-4.1	-15.0	-5.0	-2.9	.	.	-2.5	-2.0
Public debt, EU-def., % of GDP	53.9	71.0	80.9	83.1	.	.	80.2	78.0
Central bank policy rate, % p.a., end of period <sup>4)</sup>	0.75	0.25	0.05	0.05	0.05	0.00	.	.
Current account, EUR mn	930	1,732	2,325	1,998	897	1,555	2,750	2,450
Current account, % of GDP	2.6	4.8	6.2	5.2	4.8	8.0	7.0	6.0
Exports of goods, BOP, EUR mn	21,256	21,692	22,961	24,039	11,944	12,474	25,000	26,000
annual change in %	1.0	2.1	5.9	4.7	6.1	4.4	4.0	4.0
Imports of goods, BOP, EUR mn	21,337	20,984	21,780	22,541	11,214	11,482	23,000	24,000
annual change in %	-3.1	-1.7	3.8	3.5	4.8	2.4	2.0	4.5
Exports of services, BOP, EUR mn	5,107	5,318	5,558	6,025	2,771	2,931	6,300	6,700
annual change in %	4.1	4.1	4.5	8.4	8.2	5.8	5.0	6.0
Imports of services, BOP, EUR mn	3,596	3,586	3,862	4,006	1,853	1,875	4,100	4,200
annual change in %	2.7	-0.3	7.7	3.7	2.0	1.1	1.5	3.0
FDI liabilities (inflow), EUR mn	28	71	739	1,516	787	746	1,500	.
FDI assets (outflow), EUR mn	-439	24	155	278	394	161	200	.
Gross reserves of NB excl. gold, EUR mn	593	580	736	687	786	649	.	.
Gross external debt, EUR mn	42,872	41,866	46,514	44,954	45,466	44,738	44,000	43,500
Gross external debt, % of GDP	119.1	116.6	124.6	116.6	117.9	113.8	112.0	107.0
Purchasing power parity EUR/EUR	0.8121	0.8117	0.7997	0.7874	.	.	.	.

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.