SLOVENIA: Finally a rebound after years of contraction

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Slovenia's economy returned to growth in 2014 after two years of contraction. The rebound has been driven by rising external demand and a revival in investment activities supported by EU funds. GDP growth in 2015 and 2016 will weaken once again on account of lower investments. Exports and the gradual recovery of household consumption will remain the main engines of growth.

After two years of recession, Slovenia's GDP grew by an unexpected 2.5% in 2014 backed by external demand and a rise in gross fixed capital formation (up by 6%). Household consumption increased for the first time since 2010, while government consumption continued to fall for the fourth consecutive year. Rising investment, co-financed by EU funds, translated into a strong increase in construction activities after years of steep decline, particularly in local infrastructure. By contrast, investments in machinery and equipment have further contracted. Industrial production recovered after two years of contraction, with output of manufacturing up by 4.2%. Above-average output increases were reported for car production (12.5%), production of electrical equipment (12%) and production of computers (11%). Employment – particularly in the private services sector – grew in line with economic recovery, increasing by 1.5% based on Labour Force Survey data, and was mainly due to rising temporary employment; the unemployment rate remained almost stagnant at close to 10%. After two years of decline real wages started to grow moderately, but less than labour productivity. In January 2015 the consumer confidence indicator was 8 percentage points above the 2014 average; this was mainly due to a more optimistic outlook for unemployment, the improved economic situation in the country and the improved financial situation of households, and the suitability for savings over the next 12 months.

In external trade, goods exports rose by 6.5% and imports by 4% in 2014, resulting in a significantly higher trade surplus than in 2013. The increase in exports was mainly the result of rising exports to EU countries, particularly to Croatia, Italy, Austria and France. Deliveries to non-EU countries remained stagnant. Car exports and exports of pharmaceutical products grew the most. The surplus in services trade remained almost unchanged compared to 2013. Services imports were high with respect to 'other business services', out of which 'technical, trade-related and other business services' (25.5%) grew the most. The deficit in primary income has more than doubled due to a strong rise in expenditures, in particular higher net outflows of capital income, which could not be offset by rising income from labour (from an increased number of labour migrants abroad). Overall, the current account closed with a surplus of EUR 2.2 billion in 2014, i.e. EUR 160 million more than in 2013.

The inflow of FDI gained momentum in 2014 owing primarily to the sale of state-owned companies, and rose to an estimated EUR 1.1 billion. Slovenia's gross foreign debt amounted to EUR 45 billion by the end of 2014 and was EUR 4.7 billion higher than at the end of 2013. This increase is mainly attributable to government borrowing by selling bonds.

The general government deficit was narrowing in 2014 owing to rising revenues in line with the economic recovery, but also due to one-off revenues (inflow from concession fees for the mobile telephony radio spectrum) and higher inflows from the EU budget. Expenditures rose on interest payments, one-off factors related to banking recapitalisation and the government's approval to repay deposit holders of Ljubljanska Banka. The 2014 general government deficit is estimated at 5.3%, which is somewhat higher than anticipated. The budget revision for 2015, adopted by the Slovenian government in January, still has to be approved by the parliament. The draft document is based on (an optimistic) 2% GDP growth and anticipates a 2.89% general government deficit for 2015, which considers the recommendations of the European Commission and the commitments made in the 2014 Stability Programme. Revenues will be slightly below the originally planned ones due to the non-implementation of the Real Property Tax, while expenditures will be higher owing to rising interest payments and pension transfers. In addition, investment spending should be raised by 30% as compared to a year earlier. Measures, introduced in 2014, to reduce the public sector's wage bill will be prolonged. The revised budget is relying partly (15.5% of expenditures) on the remaining drawings of EU funds from the 2007-2013 financial period.

The privatisation of state-owned enterprises approved by the previous government in 2013 has been subject to controversial debates over the recent months. Both advocates of and opponents to privatisation (economists, academics, and public figures) have launched petitions either to accelerate or to (partly) stop the privatisation process. Both the prime minister – initially very critical of privatisation – and the minister of finance took a very clear position in favour of privatisation in order to maintain Slovenia's credibility abroad. So far out of the 15 enterprises earmarked for privatisation in 2013, only three have been sold. The privatisation process of the biggest companies, Telekom Slovenije and Nova Kreditna Banka Maribor (NKBM), should be completed by March 2015, but sales may be delayed since the bidders have requested additional information about possible legal liabilities of the two companies.

In 2014 further measures were undertaken to stabilise the banking system. The recapitalisation of Abanka, the third largest bank worth EUR 243 million, together with a transfer of non-performing assets (EUR 1.1 billion) to the Slovenian asset management company (BAMC) were completed in October. In December 2014 Banka Celje was recapitalised with EUR 190 million and became a fully state-owned bank; a merger with Abanka is planned for 2016. Overall, liquidity risks have eased, funding costs have decreased and the three major state-owned banks have returned to profit since the beginning of 2014.[1] During the first eleven months of 2014 bank lending fell both to private households and the non-financial corporate sector, in the latter case reflecting the continued deleveraging process; lending to the government has been rising. Loans in Swiss francs amounted to about EUR 750 million in November 2014, the bulk being household loans. Following the lifting of the cap on the Swiss franc in relation to the euro, the Slovenian minister of finance stated that the government would not take any action over loans denominated in Swiss francs.

wiiw has made a slight upward revision (plus 0.2 percentage points) with respect to Slovenia's GDP forecasts for the coming years owing to higher than earlier assumed export growth. Accordingly, GDP will continue to grow during the forecast period 2015-2017 by (only) up to 2%, a somewhat slower pace than in 2014 due to a weakening of investments. Exports and the gradual recovery of household consumption following an improvement in the labour market situation will remain the key drivers of growth. Government consumption will remain subdued because of fiscal consolidation. The continuation of reforms including the privatisation of state-owned enterprises will be crucial to support sustainable growth.

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[1] European Commission (2014), Slovenia – Review of progress on policy measures relevant for the correction of macroeconomic imbalances, Brussels, December, p. 9.

Table 1 / Slovenia: Selected Economic Indicators

	2010	2011	2012	2013	2014 1)	2015	2016 Forecast	2017
Population, th pers., average 2)	2,049	2,053	2,057	2,060	2,061	2,061	2,061	2,061
Gross domestic product, EUR mn, nom. 3)	36,220	36,868	36,006	36,144	37,190	38,010	38,890	40,060
annual change in % (real) 3)	1.2	0.6	-2.6	-1.0	2.5	1.7	1.8	2.0
GDP/capita (EUR at exchange rate)	17,700	18,000	17,500	17,500	18,000	18,400	18,900	19,400
GDP/capita (EUR at PPP)	21,000	21,600	21,800	21,800	22,400	.	.	.
Consumption of households, EUR mn, nom. 3)	19,960	20,299	19,981	19,301	19,530	.	.	.
annual change in % (real) 3)	1.0	0.0	-2.9	-4.0	0.8	0.8	1.0	1.0
Gross fixed capital form., EUR mn, nom. 3)	7,694	7,445	6,927	7,127	7,580	.	.	
annual change in % (real) 3)	-13.7	-4.6	-8.9	1.9	6.0	4.0	4.5	3.5
Gross industrial production								
annual change in % (real)	7.2	1.3	-1.1	-0.9	2.2	2.5	3.0	3.0
Gross agricultural production								
annual change in % (real)	0.1	0.6	-11.0	-3.3	8.8	.	.	.
Construction industry 4)								
annual change in % (real)	-16.9	-24.9	-16.9	-2.4	19.4	.	.	.
Employed persons, LFS, th, average	966	936	924	906	920	930	940	960
annual change in %	-1.5	-3.1	-1.3	-1.9	1.5	1.5	1.5	2.0
Unemployed persons, LFS, th, average	75	83	90	102	102	.	.	
Unemployment rate, LFS, in %, average	7.3	8.2	8.9	10.1	10.0	9.0	8.5	8.0
Unemployment rate, reg., in %, end of period	11.8	12.1	13.0	13.5	13.0	12.5	11.5	10.0
Average monthly gross wages, EUR	1,495	1,525	1,525	1,523	1,540	.	.	.
annual change in % (real, gross)	2.1	0.2	-2.4	-2.0	0.7	.	.	.
Average monthly net wages, EUR	967	987	991	997	1,005	.	.	.
annual change in % (real, net)	2.1	0.3	-2.1	-1.2	0.4	.	.	.
Consumer prices (HICP), % p.a.	2.1	2.1	2.8	1.9	0.4	0.5	0.5	1.0
Producer prices in industry, % p.a.	2.0	4.6	0.9	0.0	-0.7	0.5	1.0	1.0
General governm.budget, EU-def., % of GDP								
Revenues	43.6	43.6	44.4	45.2	45.3	.	.	.
Expenditures	49.2	49.8	48.1	59.7	50.6	.	.	.
Net lending (+) / net borrowing (-)	-5.7	-6.2	-3.7	-14.6	-5.3	-3.5	-3.0	-3.0
Public debt, EU-def., % of GDP	37.9	46.2	53.4	70.4	82.2	83.0	84.0	82.0
Central bank policy rate, % p.a., end of period 5)	1.00	1.00	0.75	0.25	0.05	.	.	.
Current account, EUR mn 6)	-30	83	954	2,026	2,187	2,000	1,900	1,700
Current account, % of GDP	-0.1	0.2	2.6	5.6	5.9	5.3	4.9	4.2
Exports of goods, BOP, EUR mn 6)	18,630	21,042	21,256	21,692	23,100	24,400	25,900	27,700
annual change in %	14.4	12.9	1.0	2.1	6.5	5.5	6.0	7.0
Imports of goods, BOP, EUR mn 6)	19,348	21,979	21,292	20,929	21,770	22,900	24,300	26,000
annual change in %	15.8	13.6	-3.1	-1.7	4.0	5.0	6.0	7.0
Exports of services, BOP, EUR mn 6)	4,655	4,906	5,107	5,308	5,517	5,800	6,100	6,500
annual change in %	5.7	5.4	4.1	3.9	3.9	5.0	5.0	6.0
Imports of services, BOP, EUR mn 6)	3,444	3,500	3,596	3,552	3,809	4,100	4,400	4,700
annual change in %	4.6	1.6	2.7	-1.2	7.2	7.0	7.0	7.0
FDI inflow (liabilities), EUR mn 6)	230	637	28	64	1,117	.	.	.
FDI outflow (assets), EUR mn 6)	138	-4	-439	4	-2	.	.	.
Gross reserves of NB excl. gold, EUR mn	695	642	593	580	736	.	.	.
Gross external debt, EUR mn 6)	40,838	40,292	41,503	40,205	44,399	.	.	.
Gross external debt, % of GDP	112.8	109.3	115.3	111.2	119.4	.	.	.
Purchasing power parity EUR/EUR	0.8412	0.8315	0.8030	0.8056	0.8039	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 according to register-based census 2011. - 3) According to ESA'10. - 4) Enterprises with 20 and more employees and output of some non-construction enterprises. - 5) Official refinancing operation rates for euro area (ECB). - 6) BOP 6th edition.
Source: wiiw Databases incorporating Eurostat and national statistics.