SLOVENIA: Recovery continues

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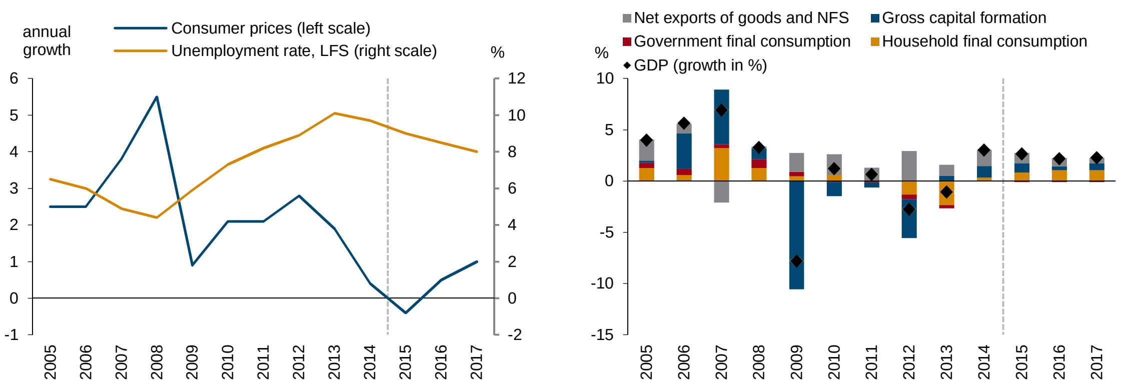
Slovenia's economy has continued down its growth path in 2015. The rebound has been driven by rising external demand and a mild recovery in private consumption. GDP growth in 2016 and 2017 will be moderate on account of lower EU-funded investments at the beginning of the new cycle. Exports and the gradual recovery of household consumption will remain the main engines of growth.

Figure 60 / Slovenia: Main macroeconomic indicators

Inflation and unemployment, in % | Real GDP growth and contributions



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

Having increased by 3% in 2014, Slovenia's GDP continued to grow in the first half of 2015 (by 2.7%) as against the same 2014 period – backed by rising net exports and a remarkable increase in inventories. Household consumption growth gained momentum, while gross fixed capital formation remained stagnant after a temporary recovery in 2014. Government consumption was flat. Construction, which in 2014 had shown signs of recovery from a sharp contraction, fell again in 2015 mainly because of a decline in the construction of infrastructure facilities prevailing in the past two years. Industrial production continued to rise and was up by 4.8% in the first seven months of the year. The highest growth was reported for the manufacture of 'other transport equipment' and car manufacturing, with output rising 30% and 24% respectively. Overall, confidence in the economy in 2015 is the highest since the outbreak of the crisis and is based on greater confidence in the manufacturing sector and among consumers. Despite the notable GDP growth, employment declined in the first half of 2015 (based on Labour Force Survey data), while the unemployment rate fell only slightly, to 9.5%. In July 2015 registered unemployment fell for the first time since 2012, but imbalances remain: more than half of the unemployed are long-term unemployed and the share of those with tertiary education has been steadily on the rise. Wage growth has continued to be moderate, with average monthly gross wages increasing by 1% in real terms during the first half of 2015. Considering fiscal consolidation it is to be expected that wage growth, particularly in the public sector, will remain moderate over the next two years.

In foreign trade, goods exports rose by 5.8% and imports by 3.7% in nominal terms during the first seven months of 2015, resulting in a higher trade surplus (plus EUR 300 million) than in the same period a year earlier. Also the surplus in services trade was higher than in the corresponding 2014 period, due to rising exports (mainly tourism and transport) along with nearly stagnating imports. Overall, the current account closed with a surplus of EUR 1.6 billion, i.e. EUR 220 million more than in the first seven months of 2014.

In the first half of the year the general government deficit was slightly lower than in the same period a year earlier, resulting from increased tax revenues – value added and corporate income taxes – and social insurance contributions, in particular for student work, from the beginning of the year. Expressed as a share in GDP, the general government deficit stood at 3.8% as compared with 4.4% a year earlier. At the end of June public debt amounted to about 81% of GDP. According to the Minister of Finance, the deficit goal of less than 3% of GDP still seems to be within reach in 2015. In the first half of the year, the absorption of EU funds was higher than in 2014, but it is expected to decline significantly in 2016 with the beginning of the new EU financial perspective. As a consequence, the growth-enhancing impact of EU funding prevailing in the past two years will become weaker and increase only gradually in the coming years.

The draft budget proposals for 2016 and 2017 (under discussion) envisage a further reduction of the deficit – in compliance with the EU Stability Pact and the fiscal rule implementation act recently adopted by the Slovenian parliament – to 2.24% and 1.75% of the GDP respectively. Priority is given to healthcare and police (refugee crisis), flood safety, the judiciary, infrastructure and education. Gross wages in the public sector should only rise in accordance with productivity in the private sector as determined in the social pact. The further reduction of budgetary expenditures might, however, result in lower than expected GDP growth taking into account that also withdrawals of EU funds from the new financial perspective (which may fuel economic growth) will start only with some delay. In late September Fitch upgraded Slovenia’s outlook from stable to positive. The key rating drivers are, among other things, the implementation of the above-mentioned fiscal rule act, the expected gradual decline of public debt from 2016 onwards, the improvement of banks’ capacity to resist shocks (non-performing loans are still high, at 11% in July, but declining), improved capital ratios as well as the ability of the current government to agree on key reforms. Already in August Moody’s announced a stable outlook on Slovenia’s banking system for the next 12-18 months by arguing that ongoing GDP growth will be beneficial for the banks’ financial performance. After the restructuring of the country’s largest banks in 2013, Moody’s expects the banking system to return to profitability in 2015 after five loss-making years.

The volume of total loans continued to decrease in 2015, down by 2.5% in July as against December 2014. Lending to households (particularly housing loans) and lending to the government increased this year, while lending to enterprises and non-financial institutions (NFIs) fell by another 5.6%. The increase in housing loans was mainly due to the appreciation of the Swiss franc in January this year, while consumer loans were still on the decline. Corporate deleveraging has been continuing at domestic banks, but at a slower pace than in the past years. By contrast, ‘financially more stable enterprises’ borrow abroad by taking advantage of more favourable interest rates there than on the domestic market.[60]

The privatisation of 15 enterprises, approved by the previous government in 2013, is proceeding slowly. As of September 2015 only five companies – coating manufacturer Helios, laser producer Fotona, Ljubljana airport, the food processing company Zito and Nova Kreditna Banka Maribor – have been sold. The sale of Telekom Slovenija and the chemical-processing company Cinkarna Celje failed.

Based on the available data for the first months of the year, wiiw made an upward revision of its forecast for Slovenia's GDP growth in 2015 given the higher than expected growth of domestic demand. Accordingly, GDP is forecast to grow by 2.7% in 2015, and by slightly above 2% in both 2016 and 2017 as a result of lower disbursements of EU structural funds at the beginning of the new financial perspective. External demand and the gradual recovery of private consumption following an improvement in the labour market and thus increasing disposable income will remain the key drivers of economic growth. The current account will continue to be in surplus in the forecasting period. Government consumption will remain subdued owing to budget consolidation measures.

[60] *Slovenian Economic Mirror*, August-September 2015, p. 18.

Table 25 / Slovenia: Selected economic indicators

	2011	2012	2013	2014 1)	2014 January-June	2015 January-June	2015 Forecast	2016 Forecast	2017 Forecast
Population, th pers., average 2)	2,053	2,057	2,060	2,062	2,061	2,062	2,061	2,061	2,061
Gross domestic product, EUR mn, nom. 3)	36,896	35,988	35,908	37,303	18,253	18,801	38,200	39,200	40,500
annual change in % (real)	0.7	-2.7	-1.1	3.0	2.9	2.7	2.7	2.2	2.3
GDP/capita (EUR at exchange rate) 3)	18,000	17,500	17,400	18,100	.	.	18,500	19,000	19,600
GDP/capita (EUR at PPP) 3)	21,500	21,600	21,700	22,600	.	.	.	.	.
Consumption of households, EUR mn, nom. 3)	20,338	20,117	19,437	19,553	9,498	9,529	.	.	.
annual change in % (real)	0.0	-2.4	-4.2	0.6	1.0	1.1	1.6	2.0	2.0
Gross fixed capital form., EUR mn, nom. 3)	7,451	6,934	7,069	7,324	3,643	3,693	.	.	.
annual change in % (real)	-4.9	-8.8	1.6	3.2	5.3	0.0	0.0	0.0	3.5
Gross industrial production									
annual change in % (real)	1.3	-1.1	-0.9	2.2	1.5	4.6	4.8	4.0	4.5
Gross agricultural production									
annual change in % (real)	0.6	-11.0	-3.3	8.7	.	.	.	.	.
Construction industry 4)									
annual change in % (real)	-24.8	-16.8	-2.5	19.5	38.7	-5.8	.	.	.
Employed persons, LFS, th, average	936	924	906	917	914	911	920	920	930
annual change in %	-3.1	-1.3	-1.9	1.2	2.0	-0.3	0.0	0.5	1.0
Unemployed persons, LFS, th, average	83	90	102	98	101	95	90	90	80
Unemployment rate, LFS, in %, average	8.2	8.9	10.1	9.7	10.1	9.5	9.0	8.5	8.0
Reg. unemployment rate, in %, end of period	12.1	13.0	13.5	13.0	12.8	12.0	12.5	11.5	10.0
Average monthly gross wages, EUR	1,525	1,525	1,523	1,540	1,528	1,536	1,550	1,570	1,610
annual change in % (real, gross)	0.2	-2.4	-2.0	0.9	0.4	1.0	1.0	1.0	1.5
Average monthly net wages, EUR	987	991	997	1,005	999	1,001	1,010	1,020	1,040
annual change in % (real, net)	0.3	-2.1	-1.2	0.6	0.2	0.7	0.7	0.7	1.0
Consumer prices (HICP), % p.a.	2.1	2.8	1.9	0.4	0.7	-0.7	-0.4	0.5	1.0
Producer prices in industry, % p.a.	4.6	0.9	0.0	-0.7	-1.0	0.3	0.5	1.0	1.0
General governm.budget, EU-def., % of GDP									
Revenues	43.5	44.4	45.4	44.9	.	.	44.8	43.4	43.0
Expenditures	49.8	48.1	60.1	49.8	.	.	47.8	46.2	45.5
Net lending (+) / net borrowing (-)	-6.2	-3.7	-14.6	-4.9	.	.	-3.0	-2.8	-2.5
Public debt, EU-def., % of GDP	46.4	53.7	70.8	80.8	.	.	82.0	82.0	81.0
Central bank policy rate, % p.a., end of period 5)	1.00	0.75	0.25	0.05	0.15	0.05	.	.	.
Current account, EUR mn 6)	70	930	2,023	2,607	1,172	1,184	2,500	2,100	1,900
Current account, % of GDP 6)	0.2	2.6	5.6	7.0	6.4	6.3	6.6	5.4	4.7
Exports of goods, BOP, EUR mn 6)	21,042	21,256	21,692	22,989	11,276	11,947	24,300	25,500	26,800
annual change in %	12.9	1.0	2.1	6.0	3.8	6.0	5.5	5.0	5.0
Imports of goods, BOP, EUR mn 6)	22,016	21,337	20,983	21,779	10,696	11,169	22,700	23,800	24,900
annual change in %	13.6	-3.1	-1.7	3.8	2.6	4.4	4.0	5.0	4.5
Exports of services, BOP, EUR mn 6)	4,906	5,107	5,314	5,555	2,559	2,699	5,800	6,100	6,500
annual change in %	5.4	4.1	4.1	4.5	4.6	5.5	5.0	5.0	6.0
Imports of services, BOP, EUR mn 6)	3,500	3,596	3,552	3,819	1,795	1,816	3,800	3,900	4,100
annual change in %	1.6	2.7	-1.2	7.5	15.1	1.2	0.8	2.0	4.0
FDI liabilities (inflow), EUR mn 6)	637	28	71	746	611	425	800	.	.
FDI assets (outflow), EUR mn 6)	-4	-439	24	146	176	161	350	.	.
Gross reserves of NB excl. gold, EUR mn	642	593	580	736	767	786	.	.	.
Gross external debt, EUR mn 6)	41,669	42,872	41,658	46,314	45,784	44,978	44,300	43,500	42,500
Gross external debt, % of GDP 6)	112.9	119.1	116.0	124.2	122.7	117.9	116	111	105
Purchasing power parity EUR/EUR	0.8354	0.8092	0.8051	0.7993	.	.	.	.	.

1) Preliminary. - 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. Forecasts by wiiw.