SLOVENIA: Weathering the storm better than expected, but will it last?

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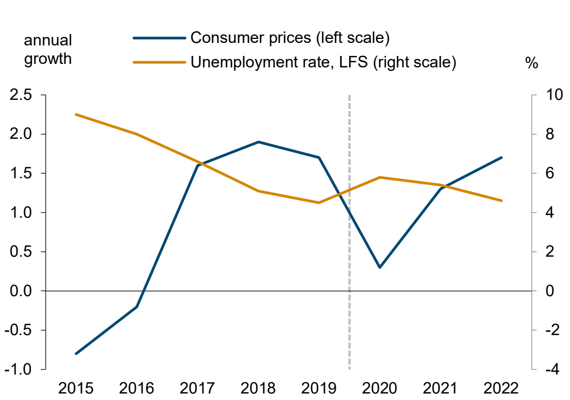
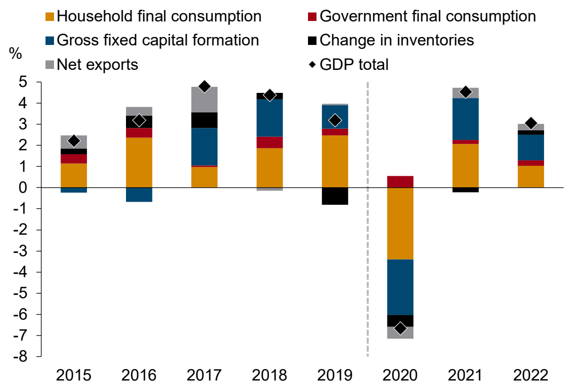
Although Slovenia's economy was hit hard by the pandemic and will decline by 6.7% in 2020, this is a significant revision upwards from the previous forecast. A combination of fiscal measures, improving domestic and foreign demand, and stable corporate and bank finances give grounds for cautious optimism for recovery, which will be gradual and uneven. However, much will depend on the global epidemiological situation in the coming months, as well as on the strength of export demand from Slovenia's major trading partners.

Figure 4.21 / Slovenia: Main macroeconomic indicators





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

Before the COVID-19 outbreak, Slovenia's small but open economy was already going through a slowdown, and the country was in the middle of a power transfer between governments. After the relatively stringent lockdown measures (deemed by the Oxford COVID-19 Government Response Tracker to be on a par with Austria's) were put in place, the economy ground to a halt.

Thanks to a cooperative population and receding infection rates, Slovenia was the first European country to declare an end to the first wave of the pandemic (in mid-May) and to reopen its borders. Signs of economic recovery soon followed, with better-than-expected results in private spending and export demand. However, the epidemiological situation worsened gradually over the summer, and a second wave of infections struck in September. Restrictions were being reimposed since July, and by mid-October, Slovenia entered another partial lockdown. At the time of writing, most businesses apart from bars and restaurants were still open.

The second quarter of 2020 marked a low point in indicators across the board. Sluggish growth of 2.5% in the first quarter of 2020 (albeit containing positive signs, such as increased FDI inflows) was followed by a 13% fall in GDP in the second quarter, so that GDP dropped by 7.9% in the first half year. Private spending fell sharply, as did investments and trade. Consumer confidence collapsed to levels not seen since the 1990s. Government spending was the sole category that saw an uptick – of 3%; it will account for 21% of national GDP in 2020. This rise in government consumption is mainly due to the fiscal stimulus packages and will be temporary. The services sector and manufacturing were hit especially hard, although the construction sector has remained surprisingly buoyant.

In 2020, Slovenian GDP will contract by 6.7%, the largest fall since 2009. However, this marks an improvement of 2.8 percentage points over wiiw's spring Forecast Report. The reasons for this are the speed with which the first wave of the epidemic was overcome, the strength of the government's fiscal measures and improving demand. For example, while tourism collapsed to practically zero in April, by August it had recovered to about 75% (incoming tourists) of the previous year's results, in part thanks to the new emergency national tourist voucher scheme.

Imports of both goods and services fell more sharply than did exports during the second quarter of the year. Exports slowed particularly in tourism and in manufactured products. The export-oriented automotive industry, dependent on the situation in Germany (and France), has seen a large contraction in business. Export prices dropped, but very low fuel prices had a stronger deflationary effect on import prices. Slovenia's current account surplus thus rose to record levels in the second quarter of 2020.

Government measures, especially the furlough scheme and subsidised short-time working arrangements have cushioned the fall in employment. In 2020, the number of the unemployed will increase by 15,000 compared to 2019, leading to a 5.8% unemployment rate, which is less dramatic than originally anticipated. Unsurprisingly, young people working in the services industry were most likely to lose their jobs in the second quarter of 2020. The labour market started to improve over the summer, as both services and the manufacturing industry took on new workers. The much-publicised threatened layoff of over 830 workers at the white-goods manufacturer Gorenje, owned by the Chinese company Hisense, did not materialise, thanks to a renewed surge in demand for products. In the first half of 2020, wages rose steadily – partly as a result of agreements and policies made pre-pandemic and partly because of additional benefits and rewards paid out to workers in the public sector. However, wages are expected to decline by 0.5% in 2021.

Five stimulus packages were introduced in the period May-September, totalling 16% of national GDP. The first (worth EUR 1 billion) included wage subsidies for furlough, credits, guarantees and financial support for companies; the second (EUR 3 billion) brought selective tax exemptions, additional wage subsidies (especially for small companies and the self-employed), social contributions for pensioners and other at-risk groups, and a loan guarantee scheme for companies. The third package (EUR 2 billion) amended the previous packages and introduced new guarantee options; and the fourth (EUR 1 billion) introduced tourist vouchers worth EUR 200, which were given to each citizen to spend on accommodation, as well as a scheme to subsidise short-time working and new liquidity loans. The fifth package (EUR 420 million) was implemented in October and focuses mainly on the health sector and on preparing the employers to more easily administer quarantined workers. It also extends the subsidised furlough option and other support schemes until the end of the year. In addition, a moratorium on bank credits was also introduced. A priority list of infrastructure projects that are to be speeded up was also published. While the amount of help given to the economy has been substantial, according to the national Fiscal Council only about EUR 1.5 billion of the full amount of EUR 7.42 billion will have a direct fiscal impact, while the rest represents various repayable options, not all of which have been extensively used by companies.

In order to finance the EUR 7.42 billion recovery packages, and faced with the fall in revenue, the government has announced a budget deficit of 9.3% of GDP. After several rounds of borrowing in the form of bond issues, the public debt will rise to about 82%, a level not seen since 2015. External debt will jump to 108% of GDP.

Politically, 2020 is a year of change. The current prime minister and political mainstay, Janez Janša, was able to form a government after the centre-left administration of Marjan Šarec collapsed in January when the smaller coalition parties turned their backs on him. Relations within the coalition will be a key factor of political stability, and a limited restructuring of the government could get under way in late 2020, after a hot summer of internal conflict among the coalition partners. Weekly protests have been taking place in major cities since May, following allegations of corruption. The government seems stable for the time being, but the looming presidency of the European Council in the second half of 2021, a reinvigorated opposition, and a new wave of economic and political issues could provide ample opportunity for a tumultuous winter and spring.

Another development to keep an eye on is the upcoming founding of the National Demographic Fund. A long time in coming, this new overarching state fund will pool all state assets to support the pension system in a total amount of about EUR 8 billion, which is currently held by several public institutions, and will aim to help with Slovenia's issues of financing care for the elderly in light of an ageing population.

Recovery in 2021 is likely to be strong, with a growth rate of 4.6%, though there are some downside risks. Slovenia has weathered the storm better than expected, but the worsening of the situation during the winter could imply a mild form of a W-shaped recovery. Although another full lockdown is unlikely, Slovenia's limited hospital beds have already forced the government to again declare a state of public epidemic. Private spending will rise only cautiously. Nevertheless, new investment, government spending and improved imports and exports (due to grow by about 8%), will drive growth in the next year. Much is expected of the EUR 2.1 billion grants allocated by the EU Recovery Fund, as well as of the greater-than-expected share of the Cohesion Funds and other (mostly repayable) sources from the European 2021-2027 budget.

In 2022, once the pandemic is finally overcome, the economy will resume growing at a modest 3%. While there are grounds for cautious optimism about Slovenia's resilience and ability to bounce back, the key question in coming years is whether the government and corporate leaders can repeat the success story of 2017-2018, when the country enjoyed one of the highest growth rates in the EU. It remains to be seen whether government measures and plans to improve the economy's competitiveness can steer Slovenia onto a path of faster convergence, or if the current crisis will further hamper the process.

Table 4.21 / Slovenia: Selected economic indicators

	2017	2018	2019 1)	2020 1Q	2020 2Q	2020 1-2Q	2020	2021 Forecast	2022
Population, th pers., average	2,066	2,074	2,088	.	.	.	2,090	2,100	2,110
Gross domestic product, EUR mn, nom.	43,009	45,863	48,393	11,270	10,828	22,097	45,300	48,000	50,300
annual change in % (real)	4.8	4.4	3.2	-2.4	-13.1	-7.9	-6.7	4.5	3.0
GDP/capita (EUR at PPP)	25,070	26,440	27,440	.	.	.	.	.	.
Consumption of households, EUR mn, nom.	22,223	23,484	24,937	5,377	5,165	10,542	.	.	.
annual change in % (real)	1.8	3.6	4.8	-6.3	-17.4	-12.0	-6.6	4.0	2.0
Gross fixed capital form., EUR mn, nom.	7,877	8,822	9,503	2,138	2,078	4,216	.	.	.
annual change in % (real)	10.2	9.6	5.8	-5.4	-16.5	-11.2	-13.4	10.1	6.2
Gross industrial production									
annual change in % (real)	7.7	5.1	3.3	-1.4	-17.4	-9.4	-6.0	6.0	3.4
Gross agricultural production									
annual change in % (real)	-9.5	26.9	-6.2	.	.	.	.	.	.
Construction industry									
annual change in % (real)	17.7	19.7	3.3	3.3	-12.2	-5.7	.	.	.
Employed persons, LFS, th, average	959.1	980.6	982.6	982	967.8	975.0	970	970	980
annual change in %	4.8	2.2	0.2	0.4	-2.3	-1.0	-1.6	0.3	1.4
Unemployed persons, LFS, th, average	67.4	52.8	45.7	47	52.5	49.7	60	55	47
Unemployment rate, LFS, in %, average	6.6	5.1	4.5	4.6	5.2	4.9	5.8	5.4	4.6
Reg. unemployment rate, in %, eop	9.0	8.1	7.7	8.0	9.2	9.2	.	.	.
Average monthly gross wages, EUR 2)	1,627	1,682	1,754	1,788	1,881	1,834	1,820	1,830	1,880
annual change in % (real, gross) 2)	1.3	1.7	2.7	1.7	10.0	5.8	3.4	-0.5	0.8
Average monthly net wages, EUR 2)	1,062	1,093	1,134	1,163	1,229	1,196	1,160	1,170	1,200
annual change in % (real, net) 2)	1.7	1.2	2.1	2.5	11.5	7.0	2.3	-0.1	0.5
Consumer prices (HICP), % p.a.	1.6	1.9	1.7	1.6	-1.2	0.2	0.3	1.3	1.7
Producer prices in industry, % p.a.	2.2	2.1	0.6	-0.1	-0.6	-0.3	-0.1	0.8	1.0
General governm.budget, EU-def., % of GDP									
Revenues	44.0	44.2	43.9	.	.	.	40.0	42.9	43.5
Expenditures	44.1	43.5	43.3	.	.	.	45.1	44.1	43.5
Net lending (+) / net borrowing (-)	0.0	0.7	0.5	.	.	.	-5.1	-1.2	0.0
General gov.gross debt, EU def., % of GDP	74.1	70.3	65.6	.	.	.	82.3	81.7	80.9
Stock of loans of non-fin.private sector, % p.a.	1.9	3.0	3.5	4.5	0.9	0.9	.	.	.
Non-performing loans (NPL), in %, eop 3)	8.4	5.6	2.9	2.8	2.6	2.6	.	.	.
Central bank policy rate, % p.a., eop 4)	0.00	0.00	0.00	0.00	0.00	0.00	.	.	.
Current account, EUR mn	2,674	2,680	2,723	862.9	653	1,516	2,610	2,860	3,230
Current account, % of GDP	6.2	5.8	5.6	7.7	6.0	6.9	5.8	6.0	6.4
Exports of goods, BOP, EUR mn	28,372	30,817	32,013	7,843.0	6,415	14,258	27,560	30,150	31,990
annual change in %	14.0	8.6	3.9	-1.8	-22.7	-12.4	-13.9	9.4	6.1
Imports of goods, BOP, EUR mn	26,756	29,535	30,682	7,266.7	5,822	13,089	25,800	28,510	30,960
annual change in %	14.5	10.4	3.9	-4.0	-25.9	-15.2	-15.9	10.5	8.6
Exports of services, BOP, EUR mn	7,394	8,104	8,548	1,777.9	1,450	3,228	7,110	7,820	8,870
annual change in %	13.5	9.6	5.5	-0.9	-30.9	-17.0	-16.8	10.0	13.4
Imports of services, BOP, EUR mn	5,140	5,478	5,762	1,226.3	1,041	2,267	4,810	5,190	5,610
annual change in %	12.3	6.6	5.2	-2.7	-26.0	-15.0	-16.6	8.0	8.0
FDI liabilities, EUR mn	1,065	1,307	1,521	204.7	327	532	800	.	.
FDI assets, EUR mn	570	373	773	13.5	188	202	320	.	.
Gross reserves of NB excl. gold, EUR mn	632	702	767	833	859	859	.	.	.
Gross external debt, EUR mn	43,231	42,148	43,796	45,866	48,143	48,143	48,900	49,400	48,800
Gross external debt, % of GDP	100.5	91.9	90.5	101.3	106.3	106.3	108.0	103.0	97.0

1) Preliminary. - 2) Wage increase in 2Q 2020 due to COVID emergency relief compensations. - 3) Loans more than 90 days overdue and those unlikely to be paid. - 4) Official refinancing operation rates for euro area (ECB).

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