17. SLOVENIA

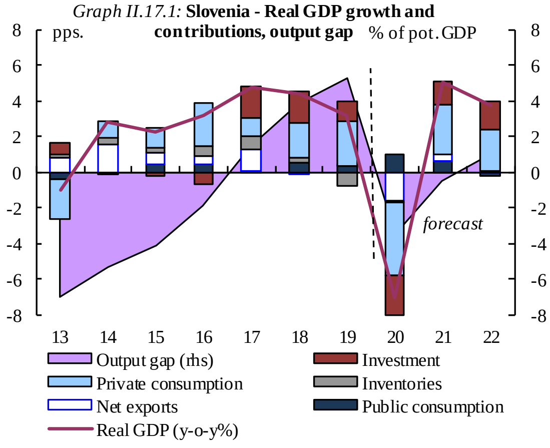
Slovenia's economy contracted by ca 8% in the first half of 2020 compared to the same period in 2019. Losses in employment have been smaller than expected and the measures taken have avoided a surge in bankruptcies. A recovery is forecast in 2021 and the economy is expected to return to its end-2019 level in 2022. Public finances are forecast to be in large deficit in 2020, due to lost revenues and the sizeable measures taken to support the economy, and to improve over 2021 and 2022 together with the recovering economy.

A recovery interrupted

Slovenia's economy contracted by 4.7% q-o-q in the first quarter and by almost 10% in the second quarter, slightly less than the euro area average. All demand components except government consumption were negatively affected by the spread of the pandemic and efforts to control it. The number of foreign visitors has dropped significantly, but the tourism sector was supported by domestic tourists, stimulated by vouchers issued by the government.

In the third quarter, confidence indicators, labour market data, freight traffic and electricity consumption indicate a strong rebound. However, in mid-October strong containment measures were once again imposed, limiting movement and economic activity. Consumer confidence has again weakened quite significantly. Therefore, it is expected that the recovery would be halted in the end of 2020 and beginning of 2021. The severity of restrictions however does not currently point to renewed large contraction comparable to the situation in the beginning of 2020. Overall, the economy is forecast to contract ca 7% in 2020.

Graph II.17.1: **Slovenia - Real GDP growth and contributions, output gap**



A recovery is expected to continue from the second quarter of 2021 and continue into 2022, with the economy growing by 5% and 3¾% respectively and returning to its pre-crisis output level. Private consumption growth is projected to be strong in both years, although the household saving rate is expected to remain elevated in 2021 and slightly above its pre-crisis level even in 2022. Public consumption growth is forecast to be moderate after the high growth expected in 2020. Investment growth is projected to be supported by both large public investments and the recovery of private investment, particularly in machinery and equipment. While imports grow faster than exports, net exports are expected to contribute positively to growth in both 2021 and 2022. Public investment growth presents a positive risk to the forecast, in case new EU resources could be taken into use faster than expected, whereas uncertainties related to the evolution of pandemic constitute a negative risk.

Labour market supported by policy measures

Employment in Slovenia has been shielded from the impact of the large drop in GDP thanks to a number of public policy measures. In the second quarter of 2020, employment was only 1.9% lower than in 2019. However, the number of hours worked dropped by 15.8%, as firms cut the working hours of retained workers, whose income losses were compensated by a government support scheme. Registered unemployment started to decrease in August. In 2020, employment is expected to decline and unemployment rate to grow from 4.5% in 2019 to 5.0%. Job losses have been uneven and particularly large in some service sectors.

In 2021, employment is projected to increase only slightly, as firms first increase the hours worked of retained workers. The unemployment rate is forecast to fall to 4.8%. In 2022, as the recovery unfolds, employment growth is forecast to accelerate and unemployment to fall to 4.4%.

Due to low energy prices and weak demand, inflation is expected to be close to 0% in 2020, before rising to 0.9% in 2021. With the recovery setting in, the rise in consumer prices is expected to strengthen to 1.8% in 2022.

A large fiscal stimulus to support employment in 2020

In 2020, the general government balance is forecast to deteriorate significantly to a deficit of around 8¾% of GDP (from 0.5% in 2019), due to the projected decline in economic activity and measures adopted to mitigate the economic and social impact of the COVID-19 pandemic.

On the revenue side, taxes on production and imports are projected to fall sharply mainly due to a decline in private consumption expenditure. Revenues from taxes on income and wealth and social security contributions are forecast to be less affected, as the effects of the crisis on the labour market and compensation of employees remain subdued. The sharp rise in expenditure is driven by the COVID-19 response measures, with a total budgetary impact 5.2% of GDP in 2020. These measures include among others: (i) wage compensations for employees waiting at home, (ii) exemption from payment of contributions for pension and disability insurance for working employees, and (iii) a monthly basic income for self-employed workers and farmers.

The cost of mitigating the impact of the pandemic will continue to be felt in 2021. Additionally, a significant increase in public investment is projected in 2021 and 2022, which can be partly attributed to the rollout of some of the projects to be financed by the Recovery and Resilience Facility.

Against the background of a modest recovery in domestic demand, the general government deficit is set to decrease to around 6½% of GDP in 2021 and, under a no-policy-change assumption, to ca 5% in 2022. Around 0.2 pps. of the deficit in 2021 and 0.4 pps. in 2022 are expected to be eventually financed by Recovery and Resilience Facility.

Due to a large general government deficit in 2020, a severe drop in GDP and the impact of the pre-financing needed for bond redemptions at the beginning of 2021, the debt-to-GDP ratio is expected to rise from 65.6% in 2019 to approximately 82¼% in 2020. It is then projected to fall to 80¼% in 2021 and 79¾% in 2022.

Table II.17.1:

Main features of country forecast - SLOVENIA

		2019		Annual percentage change						
		bn EUR Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP		48.4	100.0	2.0	4.8	4.4	3.2	**-7.1**	**5.1**	**3.8**
Private Consumption		25.4	52.4	1.8	1.9	3.6	4.8	**-7.8**	**5.4**	**4.5**
Public Consumption		8.9	18.4	1.7	0.4	3.0	1.7	**5.3**	**3.0**	**-1.1**
Gross fixed capital formation		9.5	19.6	-0.7	10.2	9.6	5.8	**-11.5**	**7.1**	**8.5**
of which: equipment		3.9	8.0	1.7	12.4	11.2	1.9	**-16.0**	**7.5**	**13.0**
Exports (goods and services)		40.5	83.7	5.7	11.1	6.3	4.1	**-13.1**	**7.6**	**5.4**
Imports (goods and services)		36.4	75.3	4.5	10.7	7.2	4.4	**-12.4**	**7.9**	**5.9**
GNI (GDP deflator)		47.6	98.4	1.9	5.6	4.6	3.2	**-7.0**	**4.4**	**3.1**
Contribution to GDP growth:	Domestic demand			1.3	2.8	4.2	3.9	**-5.4**	**4.7**	**3.7**
	Inventories			0.0	0.7	0.3	-0.8	**-0.1**	**0.0**	**0.0**
	Net exports			0.8	1.2	-0.1	0.1	**-1.6**	**0.4**	**0.1**
Employment				0.3	3.0	3.2	2.5	**-0.9**	**0.5**	**2.2**
Unemployment rate (a)				7.2	6.6	5.1	4.5	**5.0**	**4.8**	**4.4**
Compensation of employees / head				4.5	3.0	3.9	4.9	**1.4**	**1.8**	**0.9**
Unit labour costs whole economy				2.8	1.2	2.7	4.2	**8.1**	**-2.6**	**-0.6**
Real unit labour cost				-0.1	-0.3	0.6	1.9	**6.0**	**-4.2**	**-1.6**
Saving rate of households (b)				13.6	13.1	13.5	13.3	**22.3**	**17.9**	**13.7**
GDP deflator				2.8	1.5	2.2	2.3	**2.1**	**1.6**	**1.0**
Harmonised index of consumer prices				3.0	1.6	1.9	1.7	**0.0**	**0.9**	**1.8**
Terms of trade goods				-0.1	-0.7	0.0	0.4	**0.9**	**0.2**	**-0.8**
Trade balance (goods) (c)				-1.4	3.8	2.8	2.7	**3.3**	**3.2**	**2.4**
Current-account balance (c)				-0.4	6.4	6.0	5.7	**5.0**	**4.4**	**3.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.3	5.5	5.5	5.4	**4.6**	**4.1**	**2.8**
General government balance (c)				-3.9	-0.1	0.7	0.5	**-8.7**	**-6.4**	**-5.1**
Cyclically-adjusted budget balance (d)				-3.8	-0.8	-1.1	-1.9	**-7.1**	**-6.2**	**-5.6**
Structural budget balance (d)				-3.7	-0.7	-1.0	-1.9	**-6.9**	**-6.2**	**-5.6**
General government gross debt (c)				43.0	74.1	70.3	65.6	**82.2**	**80.2**	**79.8**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.