17. SLOVENIA

Economic growth in Slovenia was already slowing in the second half of 2019, when investment spending started to hit the breaks. As a small open economy, Slovenia is particularly vulnerable to the effects of the COVID-19 pandemic. The economy is projected to shrink significantly in 2020, but the large stimulus package announced by the authorities is expected to partly cushion losses to employment and household incomes and pave the way to a strong rebound in 2021. Public finances are expected to go into significant deficit in 2020, due to the loss of revenues and the sizeable measures to support the economy, and to improve in 2021 together with the recovering economy.

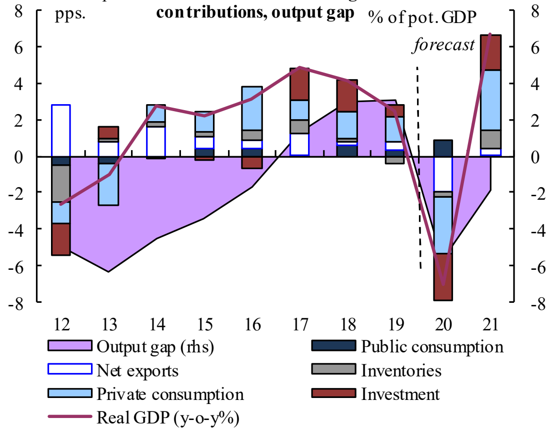
Expected slump in 2020 and recovery in 2021

Slovenia's economy grew by 2.4% in 2019. Although growth was moderating in the second half of the year, Slovenia entered this crisis in a relatively strong position, with the winter forecast projecting GDP to grow at 2.7% this year.

Due to the COVID-19 outbreak, the economy is expected to contract by about 7% in 2020. Supply disruptions and containment measures are expected to produce strong negative effects, especially in the first half of 2020. Falling demand, both at home and abroad, is set to take a heavy toll. Consumers, unable to spend due to restrictions and with uncertain income prospects, are expected to increase their saving significantly. The export of services (particularly transport and tourism) is expected to be exceptionally weak in 2020. Due to lingering uncertainty and supply chain disruptions, new investment decisions in the private sector are likely to be largely postponed towards 2021. The worst affected sectors are expected to be services, particularly trade, transport, food and accommodation and real estate services. Although most factories have remained open during the period of confinement, the manufacturing sector has not been entirely insulated. Export decline is compensated by broadly similar drop in imports and the current account surplus is set to remain unchanged.

As containment measures are lifted, in line with the assumption underlying this forecast, economic activity is expected to rebound. This recovery is set to benefit from the strong policy measures taken to shore up employment and to cushion income falls for the affected households and enterprises during the downturn. All in all, economic activity is to grow by about 6 ¾% in 2021, which means that GDP would not fully recover its 2019 level by the end of 2021.

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



Labour market supported by policy measures

The unprecedented nature of government measures is expected to significantly dampen the impact of the crisis on the labour market. Nevertheless, employment is forecast to fall by about 2 ¾% in 2020, with the unemployment rate increasing to 7.0%. Hand in hand with the recovery, the unemployment rate is forecast to decrease again to around 5% in 2021, remaining higher than before the crisis.

Due to low energy prices and weak demand, inflation is expected to fall to 0.5% in 2020 before rising to 1.2% in 2021.

Pandemic relief measures to significantly impact the general government deficit in 2020

Slovenia's general government surplus decreased from 0.7% of GDP in 2018 to 0.5% of GDP in 2019. In 2020, the general government balance is forecast to deteriorate significantly to a deficit of around 7 ¼% of GDP, due to the projected decline in economic activity and the measures adopted to mitigate the economic and social impact of the COVID-19 pandemic. Those measures include: (i) higher healthcare spending; (ii) wage and social security contribution compensation for temporarily laid-off workers and the self-employed; (iii) pension contribution compensation for workers remaining in the workplace; (iv) one-off payments for vulnerable groups; and (v) crisis bonus for public sector employees performing hazardous or over-time work. The total estimated budgetary impact of the measures amounts to around 4% of GDP.

In 2021, under a no-policy-change assumption, the general government deficit is expected to decrease to around 2% of GDP. This is due to the assumption that the measures adopted to fight the pandemic only have a temporary effect in 2020 and due to the expected recovery of domestic demand and positive projected developments on the labour market. The forecast for public finances is subject to downside risks.

Slovenia's debt-to-GDP ratio continued declining to 66.1% of GDP in 2019, from 70.4% of GDP in 2018. However, the ratio is forecast to increase significantly to around 83 ¾% of GDP in 2020, driven by the high projected deficit and stock-flow adjustment due to tax deferrals and pre-financing for 2021, and to start declining again in 2021.

Table II.17.1:

Main features of country forecast - SLOVENIA

		2018		Annual percentage change						
	bn EUR	**Curr. prices**	**% GDP**	**00-15**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
GDP		45.8	100.0	2.0	3.1	4.8	4.1	**2.4**	**-7.0**	**6.7**
Private Consumption		23.7	51.9	1.6	4.4	2.0	2.8	**2.7**	**-6.1**	**6.3**
Public Consumption		8.4	18.3	1.8	2.5	0.3	3.2	**1.6**	**4.7**	**0.5**
Gross fixed capital formation		8.8	19.2	-0.3	-3.7	10.4	9.1	**3.2**	**-13.0**	**11.7**
of which: equipment		3.8	8.2	1.4	7.4	12.5	10.6	**1.4**	**-19.5**	**21.8**
Exports (goods and services)		38.8	84.8	6.1	6.5	10.5	6.1	**4.4**	**-12.4**	**13.5**
Imports (goods and services)		34.8	76.0	4.6	6.7	10.1	6.6	**4.2**	**-11.4**	**14.8**
GNI (GDP deflator)		45.0	98.4	1.9	3.7	5.6	4.4	**2.8**	**-6.9**	**6.4**
Contribution to GDP growth:	Domestic demand			1.2	2.1	2.9	3.7	**2.3**	**-4.8**	**5.3**
	Inventories			0.0	0.6	0.7	0.2	**-0.4**	**-0.3**	**1.0**
	Net exports			0.9	0.4	1.2	0.2	**0.5**	**-1.9**	**0.3**
Employment				0.3	1.8	3.0	3.2	**2.4**	**-2.7**	**2.0**
Unemployment rate (a)				7.1	8.0	6.6	5.1	**4.5**	**7.0**	**5.1**
Compensation of employees / head				4.9	3.1	3.0	3.9	**4.5**	**1.6**	**1.2**
Unit labour costs whole economy				3.1	1.8	1.2	3.0	**4.5**	**6.3**	**-3.3**
Real unit labour cost				0.0	1.1	-0.4	0.7	**2.0**	**4.0**	**-4.2**
Saving rate of households (b)				13.1	11.5	12.6	13.3	**15.1**	**20.6**	**18.2**
GDP deflator				3.1	0.8	1.6	2.2	**2.4**	**2.1**	**0.9**
Harmonised index of consumer prices				3.6	-0.2	1.6	1.9	**1.7**	**0.5**	**1.2**
Terms of trade goods				-0.4	0.8	-0.6	-0.2	**0.3**	**2.9**	**0.6**
Trade balance (goods) (c)				-2.0	3.8	3.8	2.8	**2.9**	**4.0**	**3.6**
Current-account balance (c)				-1.0	4.9	6.4	6.3	**6.8**	**6.8**	**6.8**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-0.8	4.1	5.6	5.8	**6.5**	**6.4**	**6.4**
General government balance (c)				-4.0	-1.9	0.0	0.7	**0.5**	**-7.2**	**-2.1**
Cyclically-adjusted budget balance (d)				-4.0	-1.2	-0.7	-0.7	**-0.9**	**-4.5**	**-1.2**
Structural budget balance (d)				-	-1.0	-0.6	-0.6	**-0.8**	**-4.4**	**-1.2**
General government gross debt (c)				39.7	78.7	74.1	70.4	**66.1**	**83.7**	**79.9**

(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.