17. SLOVENIA

Slovenia's economy contracted by 5.5% in 2020 but is expected to gradually recover through 2021-2022. Losses in employment were limited thanks to measures taken by the government to support jobs - which provides a strong basis for the recovery. Inflation is expected to remain moderate in 2021 and accelerate somewhat in 2022. Public finances are forecast to remain significantly in deficit.

2020 – challenging, but better than had been expected

Slovenia's economy contracted by 5.5% in 2020, somewhat lower than previously expected. After a strong recovery in the third quarter, the economy contracted again in the fourth quarter when measures to control the pandemic that restricted economic activity were reintroduced. This contraction was relatively contained as industrial production and exports remained robust. All demand components except government consumption were negatively affected by the spread of the pandemic and the lockdown measures. Private consumption fell by 9.7% and investment by 4.1%, with investment in machinery stumbling 11.1%. Imports declined faster than exports, so that the growth contribution from net exports was positive.

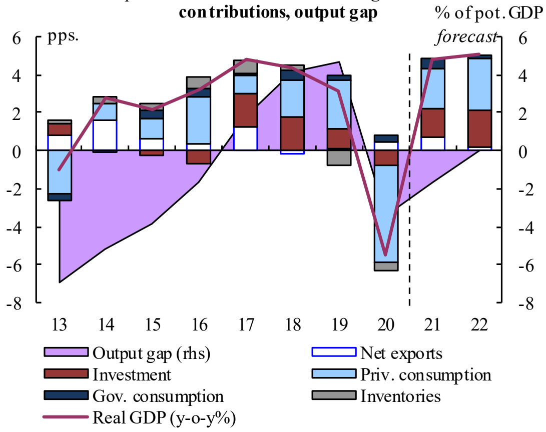
Recovery ahead

After the first quarter still negatively impacted by ongoing restrictions, the recovery is expected to gather pace in the second and third quarter of this year.

Domestic demand is expected to be the main growth driver. Private consumption is forecast to recover, once consumers are able to consume the full range of services again. This will be further supported by employment growth and higher wages. Investment is forecast to grow strongly in both the public and private sector. In addition to the strong demand expected for exports, investment will be supported by the increased impact of RRF funds on Slovenia's economy.

The pick-up in consumption and investment will in turn boost demand for imports in 2021. Although net exports are still forecast to contribute significantly to growth in 2021, their contribution will gradually ebb in 2022. All in all, GDP growth in Slovenia is forecast to reach 4.9% in 2021 and 5.1% in 2022 and the economy is expected to fully return to its pre-crisis output level.

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



Labour market returning to pre-crisis situation

Thanks to the labour-support measures enacted by the government, the negative effects on employment were relatively contained in 2020, with a 1% fall in employment leading to an increase in the unemployment rate from 4.5% to 5%. The number of hours worked dropped by about 3%, as firms cut the working hours of employees, whose income losses were nevertheless largely compensated by a government support.

In 2021, employment is expected to substantially recoup the losses incurred in 2020, although hours worked will adjust more quickly than employment and the recovery in service sectors is likely to be slower. The unemployment rate is projected to remain at 5% in 2021 before falling to 4.8% in 2022. Wages are projected to grow more slowly than before the crisis.

Consumer prices fell by 0.3% in 2020, on the back of lower energy prices and weaker demand. With the recovery taking hold and energy prices rising, HICP inflation is projected to reach 0.8% in 2021 and to accelerate to 1.7% in 2022.

A supportive fiscal stance in 2021 and 2022

In 2021, the general government deficit is forecast to remain high at around 8.5% of GDP (compared to 8.4% in 2020), mainly due to measures adopted to mitigate the economic and social impact of the COVID-19 pandemic and a rise in public investment.

On the revenue side, taxes on production and imports are projected to recover in 2021, growing by some 5% after falling by more than 10% in the previous year. Revenues from taxes on income and wealth and social security contributions will also recover, albeit at a slower pace. Measures to mitigate the impact of the COVID-19 crisis have led to increased expenditure, with a total budgetary impact of around 2.7% of GDP in 2021. These measures include, among others, (i) wage compensations for employees staying at home, (ii) a monthly basic income for self-employed workers and farmers, (iii) wage supplements for special working conditions for public sector employees and (iv) coverage of companies' fixed costs. Most of the COVID-19-related measures are expected to be phased out by the end of 2022. Additionally, a significant increase in public investment is projected in 2021 and 2022, which can be partly attributed to the rollout of the projects to be financed by the RRF. Against the background of a continued recovery in domestic demand and a modest decline in current expenditure, the general government deficit is set to improve to around 4.7% of GDP in 2022.

The debt-to-GDP ratio is expected to remain at an elevated level of 79% in 2021 (80.8% in 2020). In 2021, the strong debt-increasing effect of the high headline balance (8.5%) will be offset by the gradual depletion of the precautionary cash buffers related to the COVID response and a rebound in the nominal GDP. Due to a lower deficit in 2022, the general government debt is set to decline to 76.7% of GDP.

The forecast incorporates in full the fiscal and economic impact of the RRP based on information included in the draft plan adopted by the Government of Slovenia on 28 April 2021. Additional RRF-financed spending, particularly on public investment is expected to be phased in gradually in 2021 and 2022. However, the majority of the RRF-financed projects is expected to be rolled out only between 2023 and 2025.

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	**-5.5**	**4.9**	**5.1**
Private Consumption	25.4	52.4	1.8	1.9	3.6	4.8	**-9.7**	**4.4**	**5.6**
Public Consumption	8.9	18.4	1.7	0.4	3.0	1.7	**1.8**	**2.4**	**1.1**
Gross fixed capital formation	9.5	19.6	-0.7	10.2	9.6	5.8	**-4.1**	**7.2**	**9.5**
of which: equipment	3.9	8.0	1.7	12.4	11.2	1.9	**-11.1**	**7.0**	**11.5**
Exports (goods and services)	40.5	83.7	5.7	11.1	6.3	4.1	**-8.7**	**9.5**	**7.5**
Imports (goods and services)	36.4	75.3	4.5	10.7	7.2	4.4	**-10.2**	**9.8**	**8.3**
GNI (GDP deflator)	47.6	98.4	1.9	5.6	4.6	3.2	**-7.1**	**4.2**	**4.4**
Contribution to GDP growth:	Domestic demand		1.3	2.8	4.2	3.9	**-5.6**	**4.1**	**4.9**
	Inventories		0.0	0.7	0.3	-0.8	**-0.4**	**0.0**	**0.0**
	Net exports		0.8	1.2	-0.1	0.1	**0.4**	**0.8**	**0.2**
Employment			0.3	3.0	3.2	2.5	**-1.0**	**0.9**	**2.0**
Unemployment rate (a)			7.2	6.6	5.1	4.5	**5.0**	**5.0**	**4.8**
Compensation of employees / head			4.5	3.0	3.9	4.9	**2.3**	**2.0**	**1.4**
Unit labour costs whole economy			2.8	1.2	2.7	4.2	**7.2**	**-1.8**	**-1.6**
Real unit labour cost			-0.1	-0.3	0.6	1.9	**5.9**	**-3.0**	**-2.8**
Saving rate of households (b)			13.6	13.1	13.5	13.3	**25.7**	**20.5**	**12.9**
GDP deflator			2.8	1.5	2.2	2.3	**1.3**	**1.2**	**1.3**
Harmonised index of consumer prices			3.0	1.6	1.9	1.7	**-0.3**	**0.8**	**1.7**
Terms of trade goods			-0.1	-0.7	0.0	0.4	**1.2**	**0.5**	**-0.3**
Trade balance (goods) (c)			-1.4	3.8	2.8	2.7	**5.5**	**5.8**	**4.6**
Current-account balance (c)			-0.4	6.4	6.0	5.7	**5.4**	**4.3**	**3.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-0.3	5.5	5.5	5.4	**5.0**	**4.0**	**2.9**
General government balance (c)			-3.9	-0.1	0.7	0.4	**-8.4**	**-8.5**	**-4.7**
Cyclically-adjusted budget balance (d)			-3.9	-0.9	-1.2	-1.8	**-6.8**	**-7.7**	**-4.7**
Structural budget balance (d)			-3.8	-0.8	-1.2	-1.7	**-6.7**	**-7.7**	**-4.7**
General government gross debt (c)			43.0	74.1	70.3	65.6	**80.8**	**79.0**	**76.7**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.