17. SLOVENIA

Slovenia's economy expanded briskly in 2021, especially in the final quarter of the year. Benefitting from the strong carry over from 2021, growth is expected to continue in 2022-23 at 3.7% and 3.1% respectively, despite the increasing uncertainty arising from Russia's war of aggression against Ukraine, lower exports, price increases and supply chain difficulties. Public finances are forecast to improve with deficit decreasing from 5.2% in 2021 to 3.4% by 2023, although high current expenditure is projected to hinder a stronger improvement in public finances.

Robust recovery in 2021

GDP grew by 8.1% in 2021, significantly faster than the euro area average growth. Notably, Slovenia recorded the strongest growth in the EU in the final quarter of 2021, providing a very strong carry-over effect for growth in 2022. Growth was mostly driven by private consumption but also by investment, particularly in machinery and equipment. Imports grew significantly faster than exports, leading to a negative contribution of net exports to growth. Employment fully recovered the losses during 2020.

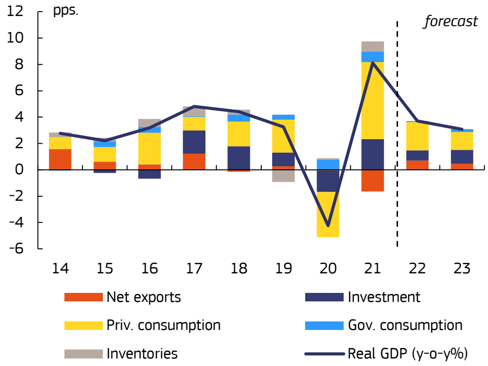
Continued growth over 2022 and 2023

According to high-frequency indicators, Slovenia's economy continued to grow in the first quarter of 2022. GDP is expected to continue expanding, by some 3.7% and 3.1% in 2022-23 respectively despite the negative effects arising from price increases, supply bottlenecks and the fall of confidence in light of Russia's war of aggression against Ukraine. Despite the erosion of real incomes driven by inflation, private consumption is projected to expand on the back of continued employment growth, higher disposable income, the recently adopted tax reform and the utilisation of accumulated savings. As pandemic-related fiscal measures expire, public consumption growth is forecast to moderate in 2022 after registering high growth over the 2020–21 period.

Price and demand pressures and increased uncertainty are expected to have strong negative effects on private investment. This will be somewhat offset by a strong public investment thanks to the utilisation of significant residual structural funds and RRF-financed investments. With a lower projected import volume growth, net exports are expected to have positive effects on growth over the 2022-23 period and the current account surplus is projected to narrow significantly in 2022 due to the worsening terms of trade.

Risks are tilted to the downside, as the uncertainty remains very high. Given Slovenia's high share of exports, growth could be hampered by lower demand in its markets. In the context of high uncertainty and inflation, consumers might be inclined to increase precautionary savings leading to lower consumption along with the decrease in employment.

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



Labour market holding up

Employment grew by 1.4% in 2021. By February 2022, unemployment had reached 4.1% and the number of registered unemployed continued to fall while the number of job openings continued to increase. It is projected that unemployment will remain unchanged at 4.8% compared to 2021, implying that monthly rates will increase somewhat through the year as uncertainty and high input prices are likely to force employers to limit new hiring.

Although this was softened by the cap of fuel prices implemented by the government in March, inflation accelerated in the first quarter of 2022 to 6.3%. It is expected that the inflation will average 6.1% for 2022 and drop to 3.3% in 2023.

Public finances to improve slowly despite high current expenditure

The general government deficit declined to 5.2% of GDP in 2021, mainly due to the rebound in economic activity and the expiration of most of the measures adopted to mitigate the economic and social impact of the COVID-19 pandemic.

In 2022, the deficit is projected to decrease to 4.3% of GDP. On the revenue side, indirect taxes are projected to increase by 8.8% in 2022 due to the increase in private consumption. Current taxes on income and wealth are forecast to decrease by 1.7% as a result of the permanent tax cuts adopted by the government without compensating measures. Revenues from social security contributions are expected to keep growing on the back of the increases in nominal wages in the private sector.

On the expenditure side, even if most of the measures to mitigate the impact of the pandemic are phased out this year, nominal current expenditure in 2022 is projected to increase by 0.5%. This is partly due to the newly adopted measures in response to the high energy prices and the expenditure to support refugees fleeing Ukraine. Despite past under-execution compared to the budget, public investment is still expected to grow strongly in 2022 at a similar pace compared to 2021.

In 2023, the general government deficit is expected to decline to 3.4% of GDP. However, this projection is subject to a number of risks: higher current expenditure and the prolongation of a number of temporary measures as uncertainty heightens; costs of indirect measures to shield household and firms being eventually borne by the budget (e.g., price cap on fuel prices and temporary suspension of network charges); additional wage pressures following negative real public sector wages in 2022.

The debt-to-GDP ratio is expected to be mainly driven by the changes in the headline deficit and the denominator effect from higher nominal GDP. Thus, the debt-to-GDP ratio is projected to decrease from 74.7% in 2020 to 72.6% in 2023.

Table II.17.1:

Main features of country forecast - SLOVENIA

	2021		Annual percentage change						
	bn EUR Curr. prices	**% GDP**	**02-17**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
GDP	52.0	100.0	2.1	4.4	3.3	-4.2	**8.1**	**3.7**	**3.1**
Private Consumption	27.3	52.5	1.8	3.6	4.8	-6.6	**11.6**	**4.1**	**2.5**
Public Consumption	10.5	20.2	1.5	3.0	2.0	4.2	**3.9**	**0.4**	**1.1**
Gross fixed capital formation	10.5	20.2	-0.2	9.7	5.5	-8.2	**12.3**	**3.8**	**5.0**
Exports (goods and services)	43.5	83.5	6.0	6.2	4.5	-8.7	**13.2**	**4.9**	**6.0**
Imports (goods and services)	40.7	78.2	5.0	7.1	4.7	-9.6	**17.4**	**4.3**	**5.7**
GNI (GDP deflator)	52.0	99.9	2.0	4.8	3.2	-3.5	**8.8**	**4.1**	**3.3**
Contribution to GDP growth: Domestic demand			1.3	4.2	3.9	-4.3	**9.0**	**3.0**	**2.6**
Inventories			0.1	0.4	-0.9	0.1	**0.8**	**0.0**	**0.0**
Net exports			0.8	-0.1	0.3	-0.1	**-1.6**	**0.7**	**0.5**
Employment			0.5	3.2	2.5	-0.6	**1.4**	**0.9**	**1.5**
Unemployment rate (a)			7.2	5.1	4.4	5.0	**4.8**	**4.8**	**4.6**
Compensation of employees / head			4.0	3.9	5.0	3.5	**5.4**	**3.6**	**5.5**
Unit labour costs whole economy			2.3	2.7	4.2	7.4	**-1.1**	**0.8**	**3.9**
Saving rate of households (b)			13.5	13.7	13.7	22.6	**15.9**	**9.2**	**9.4**
GDP deflator			2.4	2.1	2.2	1.2	**2.6**	**3.3**	**3.7**
Harmonised index of consumer prices			2.6	1.9	1.7	-0.3	**2.0**	**6.1**	**3.3**
Terms of trade goods			-0.2	-0.1	0.4	0.8	**-2.6**	**-2.2**	**0.5**
Trade balance (goods) (c)			-0.9	2.8	2.7	5.0	**0.8**	**-0.7**	**-0.3**
Current-account balance (c)			0.1	6.1	6.1	7.6	**4.4**	**1.7**	**2.6**
General government balance (c)			-3.6	0.7	0.4	-7.8	**-5.2**	**-4.3**	**-3.4**
Structural budget balance (d)			-3.3	-0.6	-1.1	-6.2	**-6.1**	**-5.5**	**-4.5**
General government gross debt (c)			46.0	70.3	65.6	79.8	**74.7**	**74.1**	**72.7**

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