Summary for non-specialists
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Macroeconomic Imbalances – Slovenia 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific "in-depth reviews" should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

SLOVENIA is *experiencing excessive macroeconomic imbalances*. *Urgent policy action is needed to halt the rapid build-up of these imbalances and to manage their unwinding.* Until now, the levels of private and public debt are below the alert thresholds of the scoreboard and also net external debt is relatively contained. However, in a context of accelerating negative economic trends, the risk to financial sector stability stemming from corporate indebtedness and deleveraging is substantial, including through interlinkages with the level of sovereign debt. These risks are compounded by limited adjustment capacity in labour and capital markets and by an economic structure dominated by state-ownership. Periods of policy uncertainty and legal obstacles to reforms have prevented Slovenia from addressing its imbalances adequately and enhancing its adjustment capacity, thus increasing its vulnerability at a time of heightened sovereign funding stress.

More specifically, Slovenia continues to struggle with the legacy of its previous boom. Companies are still unsustainably over-indebted, leading to further rises in non-performing loans. While the size of the Slovenian banking sector is relatively small and less than half of the euro area average, the main banks are thinly capitalised in view of the continuing deterioration of their credit portfolios and their dependence on the state for capital is a major threat to the economy. At the same time, the state is itself subject to funding pressures. Necessary deleveraging is underway, but the process is hampered by labour and capital market frictions and severely depressed output levels. Corporate reliance on bank finance and the complex nexus of state ownership limit adjustment and distort resource

allocation. Past cost competitiveness losses have not been reversed and current minimum wage policies risk triggering further losses in the future when the labour market starts to recover. Lack of adjustment, poor cost-competitiveness and state-ownership combine to deter private and foreign direct investment. Export market shares have been lost and export performance is substantially weaker than in peer countries. These challenges require urgent action in the areas of the financial sector, state-owned enterprises and microeconomic reforms in order to prevent a situation in which severe imbalances would steeply increase towards unsustainable levels.

Recurrent episodes of sovereign funding pressure underscore the need to pursue fiscal consolidation in tandem with structural reforms. Sustainable improvements in financial stability and macroeconomic outcomes require a coherent strategy including public finances.