

Macroeconomic Imbalances

Slovenia 2014

On 13 November 2013, the European Commission presented its third Alert Mechanism Report (AMR) 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, presented on 5 March 2014, the Commission will conclude 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 2014 in-depth reviews (for Belgium, Bulgaria, Germany, Denmark, Ireland, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, Netherlands, Slovenia, Sweden, Finland and the United Kingdom) were published on 5 March 2014 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

Slovenia continues to experience *excessive macroeconomic imbalances which require specific monitoring and continuing strong policy action*. Imbalances have been unwinding over the last year, thanks to macroeconomic adjustment and decisive policy action by Slovenia. Yet the magnitude of the necessary correction means that substantial risks are still present. The Commission will continue the specific monitoring of the policies recommended by the Council to Slovenia in the context of the European Semester, and will regularly report to the Council and the Euro Group.

More specifically, the risk stemming from an economic structure characterized by weak corporate governance, high level of state involvement in the economy, losses in cost competitiveness, the corporate debt overhang, the increase in government debt warrant very close attention. While considerable progress has been made in repairing the banks' balance sheets, determined action with respect to the full implementation of a comprehensive banking sector strategy, including restructuring, privatisation and enhanced supervision is still required.

Slovenia continues to struggle with the legacy of its previous boom, with corporates remaining unsustainably over-indebted. The transfer of non-performing loans (NPLs) to the Bank Asset Management Company (BAMC) has improved the banks' balance sheets but NPLs remain elevated relative to pre-crisis levels and still need to be durably restructured based on the recently amended insolvency framework. As domestic demand, and especially investment, contracted significantly, the current account has corrected sharply, turning into a large surplus, but cost competitiveness losses have not been recouped and reforms so far have not fully addressed the labour market flexibility and competitiveness challenge. Weak corporate governance, particularly but not only in state-owned

enterprises, reduces the overall efficiency of the economy through possible inefficient allocation of resources. Significant withdrawal of the state from the corporate and financial sector, combined with a comprehensive strategy for the management of core assets and divestment of non-core assets, could improve the adjustment capacity of the economy. Finally, the substantial increase in government debt in recent years, albeit from a relatively low level, creates new challenges. While the headline fiscal deficit is expected to be above the targets due to the significant expenditures related to bank recapitalisation in 2013 and 2014, the deficit is also projected to exceed the target in 2015 under a no-policy-change scenario. The structural adjustment likewise falls slightly short of what would be needed. Taken together, these shortcomings and challenges weigh on the near term macroeconomic performance. The recent fall in sovereign bond yields relieves some pressure but the pace of implementation of the programme of structural reform needs to accelerate.