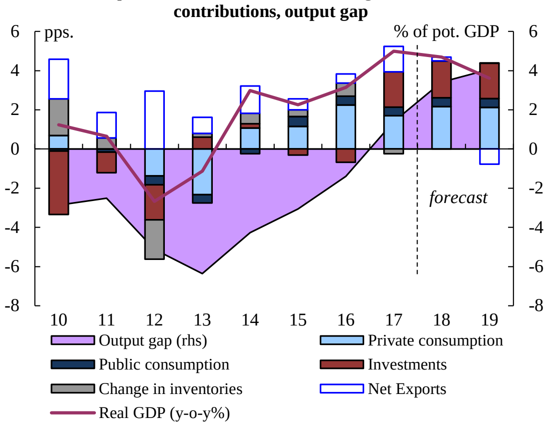
# 24. SLOVENIA
## Continued growth momentum

*Economic growth reached 5.0% in 2017 and is expected to remain robust in 2018 and 2019. In 2018, both domestic and foreign demand are forecast to contribute positively, while growth is set to become more domestically driven in 2019. Investment in machinery and equipment is expected to be strong, creating conditions to meet growing domestic and international demand amid a tightening labour market. Public finances are projected to improve, as a result of the favourable macroeconomic outlook.*

### Solid growth in 2017

In 2017, Slovenia's real GDP grew by 5.0%, making its economy one of the fastest growing in the euro area. Domestic demand continued to expand helped by 10.3% increase in investment. Yet while investment grew in the private sector, public investment was lower than in 2016. Private consumption increased by 3.2%, supported by growing disposable income. However, growth in private as well as public consumption was lower in 2017 than in 2016. Exports grew by 10.6%, outpacing import growth, which stood at 10.1%. Growth accelerated through the year, reaching 6.2% y-o-y in the last quarter. This results in a sizeable carry-over to 2018.

*Graph II.24.1:* **Slovenia - Real GDP growth and contributions, output gap**




### Strong growth expectations for 2018 and 2019

High frequency indicators show no signs of weakening growth in the first quarter of the year, and the factors that have previously supported growth are still present. Real GDP growth is forecast to reach 4.7% in 2018 and 3.6% in 2019. Growth composition is expected to shift more towards domestic demand, with a negative contribution from net exports in 2019. Private consumption is expected to be supported by growing employment, wages and bank lending. Investment growth is projected to remain strong in the private sector and to pick up in the public sector. Driven by strong demand, capacity utilisation is high and the labour market is tightening, creating the need for investment in additional production capacity. Businesses are able to invest thanks to their strong balance sheets and improved lending conditions. While investment in 2017 was mainly driven by machinery and equipment, construction is expected to strengthen going forward. Furthermore, the uptake of EU funds related projects is forecast to improve in 2018 and 2019.

Until now, unit labour costs have remained stable but are forecast to increase going forward, helping to explain the lower projected increase in export market shares. With market shares and exports markets growing, Slovenia's exports are forecast to further expand. Imports are forecast to grow faster than exports due to the strengthening domestic demand. Slovenia's current account surplus reached 6.7% of GDP in 2017 and is projected to decline in 2018 and 2019.

Risks to the growth outlook are seen as balanced and mostly domestic in nature. On the upside, better access to credit could further support investment, particularly in residential properties. On the downside, labour shortages could prove to be a stronger limiting factor to the growth outlook.

### Labour market tightens

In 2017, employment grew by 2.8% and the unemployment rate decreased from 8.0% to 6.6%. Employment is forecast to grow by 2.3% in 2018 and 1.5% in 2019, as labour shortages increase amid a tightening labour market. Foreign workers and a rising participation rate should help to alleviate labour supply constraints to some extent. The unemployment rate is projected to fall to 5.4% in 2019, which would be below its long-term average and close to the levels reached in 2007-2008. Under these conditions, wage pressures are set to rise. Compensation per employee is forecast to grow by 3.9% in 2018 and by 4.8% in 2019 – slightly faster than projected productivity growth.

HICP inflation was 1.6% in 2017 and stood at 1.5% in the first quarter of 2018. Inflation is projected to accelerate over 2018 and 2019, driven by energy prices and the expected growth in wages. Overall, consumer prices are projected to rise by 1.9% in 2018 and 2.0% in 2019.

## General government balance improves

In 2017, the general government finances were in balance, a marked improvement from the 1.9% deficit of 2016. The improvement was driven by stronger-than-expected revenues and lower public investment.

In 2018, the general government is expected to reach a surplus of 0.5% of GDP. Tax revenues and social contributions continue to grow in line with the improving economic situation while interest expenditure is forecast to fall. However, public investment is projected to rebound and both compensation of employees as well as pensions are expected to continue rising.

Under a no-policy-change assumption, the general government balance is expected to reach a surplus of 0.4% of GDP in 2019.

In structural terms, Slovenia's fiscal position improved by about ½ pps. in 2017 but, given the rapidly widening output gap, it is expected to worsen by a similar amount in both 2018 and 2019, reaching about −1 ½%. This is due to the previously implemented temporary consolidation measures expiring and no new structural measures to improve public finances having been taken.

The debt-to-GDP ratio has decreased by 9 pps. between 2015 and 2017, reaching 73.6%. By the end of 2019, the ratio is projected to fall to 65.1% thanks to high GDP growth and primary surplus.

The main downside risks to public finances over the forecast horizon stem from additional upward pressure on public wages and pensions. On the upward side, the good cyclical conditions may boost revenues more than expected.

*Table II.24.1*

**Main features of country forecast - SLOVENIA**

| | 2016 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | bn EUR | Curr. prices | % GDP | 98-13 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| GDP | | 40.4 | 100.0 | 2.2 | 3.0 | 2.3 | 3.1 | **5.0** | **4.7** | **3.6** |
| Private Consumption | | 21.6 | 53.4 | 1.8 | 1.9 | 2.1 | 4.2 | **3.2** | **4.1** | **4.1** |
| Public Consumption | | 7.6 | 18.7 | 2.0 | -1.2 | 2.7 | 2.5 | **2.3** | **2.5** | **2.5** |
| Gross fixed capital formation | | 7.1 | 17.6 | 1.1 | 1.1 | -1.6 | -3.6 | **10.3** | **10.1** | **9.3** |
| of which: equipment | | 3.0 | 7.4 | 3.6 | -8.5 | 3.8 | 7.5 | **9.7** | **11.0** | **9.0** |
| Exports (goods and services) | | 31.4 | 77.7 | 6.0 | 5.7 | 5.0 | 6.4 | **10.6** | **8.1** | **6.5** |
| Imports (goods and services) | | 27.7 | 68.5 | 5.1 | 4.1 | 4.7 | 6.6 | **10.1** | **8.9** | **8.4** |
| GNI (GDP deflator) | | 39.3 | 97.2 | 2.2 | 3.4 | 0.1 | 3.4 | **5.6** | **4.8** | **3.7** |
| Contribution to GDP growth: | Domestic demand | | | 1.8 | 1.1 | 1.4 | 2.0 | **3.9** | **4.5** | **4.4** |
| | Inventories | | | 0.0 | 0.5 | 0.3 | 0.7 | **-0.2** | **0.0** | **0.0** |
| | Net exports | | | 0.5 | 1.4 | 0.6 | 0.5 | **1.3** | **0.2** | **-0.8** |
| Employment | | | | 0.3 | 0.4 | 1.2 | 1.9 | **2.8** | **2.3** | **1.5** |
| Unemployment rate (a) | | | | 6.8 | 9.7 | 9.0 | 8.0 | **6.6** | **5.6** | **5.4** |
| Compensation of employees / head | | | | 5.8 | 1.3 | 1.4 | 2.8 | **2.8** | **3.9** | **4.8** |
| Unit labour costs whole economy | | | | 3.8 | -1.2 | 0.4 | 1.6 | **0.6** | **1.5** | **2.7** |
| Real unit labour cost | | | | -0.1 | -2.0 | -0.6 | 0.7 | **-1.4** | **-1.0** | **0.0** |
| Saving rate of households (b) | | | | 13.4 | 12.5 | 12.7 | 12.8 | **12.2** | **11.3** | **10.7** |
| GDP deflator | | | | 3.9 | 0.8 | 1.0 | 0.9 | **2.0** | **2.6** | **2.7** |
| Harmonised index of consumer prices | | | | 4.5 | 0.4 | -0.8 | -0.2 | **1.6** | **1.9** | **2.0** |
| Terms of trade goods | | | | -0.4 | 1.1 | 1.3 | 0.8 | **-0.6** | **0.6** | **0.1** |
| Trade balance (goods) (c) | | | | -3.1 | 2.9 | 3.8 | 3.8 | **3.8** | **3.4** | **2.0** |
| Current-account balance (c) | | | | -1.8 | 5.8 | 4.5 | 5.3 | **6.7** | **6.6** | **5.2** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -1.6 | 6.0 | 5.6 | 4.5 | **6.1** | **7.1** | **6.1** |
| General government balance (c) | | | | -3.8 | -5.5 | -2.9 | -1.9 | **0.0** | **0.5** | **0.4** |
| Cyclically-adjusted budget balance (d) | | | | -3.8 | -3.5 | -1.4 | -1.3 | **-0.6** | **-1.1** | **-1.6** |
| Structural budget balance (d) | | | | - | -2.1 | -1.3 | -1.1 | **-0.6** | **-1.1** | **-1.5** |
| General government gross debt (c) | | | | 32.5 | 80.3 | 82.6 | 78.6 | **73.6** | **69.3** | **65.1** |

(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.