

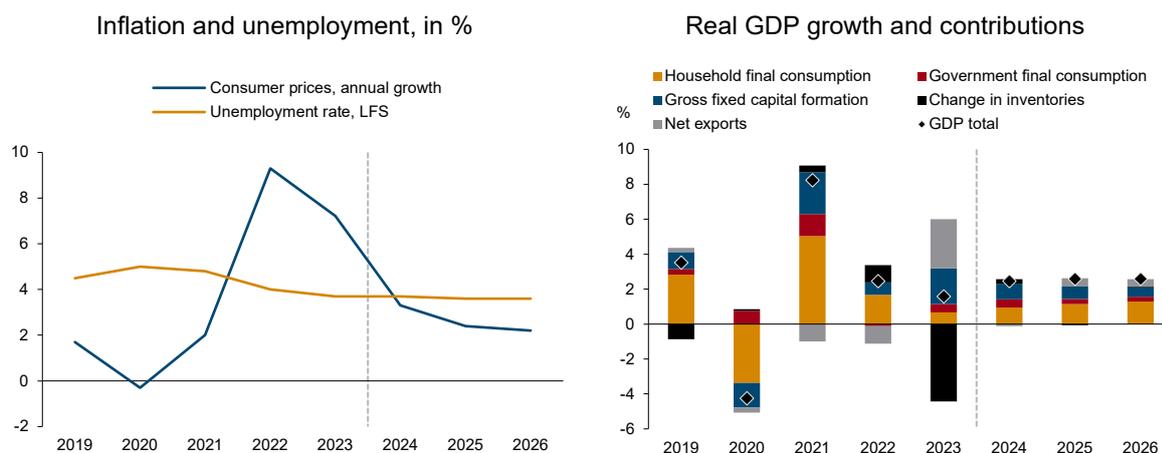


## SLOVENIA: Post-inflation recovery to be hampered by the long-term effects of past crises

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This year will bring higher growth than 2023. Real GDP is expected to grow by 2.5%, thanks to private spending and investment in infrastructure. Exports and industrial production will recover, but will be hampered by sluggish export demand. Inflation will fall to 3.3%. A labour shortage and upward wage pressure are key issues for the labour market. Mid-term growth rates are expected to be lower than pre-pandemic, potentially reflecting the effects of increased energy prices.

**Figure 6.21 / Slovenia: Main macroeconomic indicators**



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

**The Slovenian economy entered 2024 relatively unscathed, despite a tumultuous 2023.** The period starting with the outbreak of the war in Ukraine and ending with the catastrophic floods of August 2023 impacted on the economy's growth performance, leading households to spend less and forcing the government to spend more. Perhaps most critically, this placed a heavy strain on the energy-intensive and export-focused industry, which was forced to cut output by 1.7% in 2023 as export demand shrivelled across Europe and high energy prices damaged its competitiveness. Still, the signs point to (yet another) recovery being under way since Q4 2023: this has seen real GDP grow by 2.2% year on year, mostly through increased private spending. Growth will thus be higher in 2024 than in 2023 (1.6%).

**In 2024, real GDP is expected to grow by 2.5%, fuelled by household spending and investment.** Private spending and consumer confidence have both improved as the inflation rate has fallen and wage increases have given households more scope to loosen the purse-strings, following a lacklustre 2023. Year on year, household consumption is expected to grow by 1.8% in 2024. However, high interest rates

(and high prices) have exerted downward pressure on the demand for housing. The gap will be filled by government spending, which is expected to grow by 2.5%, due primarily to investment in the railways and roads, but also to the reconstruction of riverbeds and riverbanks, and of houses that were damaged in the flooding. Government spending will also rise as a consequence of increased healthcare spending, following changes in the collection of supplementary healthcare insurance from citizens. Companies have also to an extent resumed their investment activity on the basis of reduced inflation and the small recovery in export demand. Investment in fixed capital is expected to increase by 4.8% this year.

**Inflation is projected to fall to 3.3% in 2024, yet still be somewhat higher than the EU average.**

The inflation rate has been declining steadily since peaking in mid-2022, and energy and food prices have ceased to be its main drivers. In 2024, the cost of services and upward wage pressure will contribute to rising prices. Export prices are also expected to continue to recover. Inflation is likely to keep on falling through 2024, although it could see an uptick in the second half of the year as government measures aimed at reducing inflation run out. In 2025, it should finally drop below 3% (2.4%) and hover around the EU average.

**Exports are expected to grow by only 1.6% this year as foreign demand recovers slowly; the long-term loss of competitiveness is a cause for concern.** Exporting sectors are continuing to reel, having been forced to bump up their prices considerably; meanwhile the forecast for the German economy – Slovenia's main export market – continues to worsen. Exports from high-technology industries, especially pharmaceuticals, will contribute most to export growth, as will the trade in services (mainly tourism). Imports, having fallen by 5.1% in 2023, are projected to grow by 1.9 p.p. more than exports. Still, Slovenia will run a high current account surplus, amounting to 5.5% of GDP.

**An increased minimum wage and an upward pressure on wage growth have contributed to a significant rise in nominal wages since 2022, but wage growth will slow in 2024.** Still, wages are expected to grow by 5.8% in nominal terms and by around 2.2% in real terms. Wage growth is likely to slow further in 2025 and 2026. The wave of strikes has thus far mostly been limited to various public-sector employees, all of whom anticipate significant pay rises following the announcement of reforms to the public salary rules and healthcare reform.

**Growth in employment will continue to slow, and there is no sign of the labour shortage easing any time soon.** Employment growth will average 0.9% in 2024 (after 1.2% in 2023). Unemployment will remain at 3.7% in 2024 and will fall to 3.6% in 2025. Demographic decline and a chronic high demand for low-skilled workers will be the key trends in the years to come. The labour shortage is not only affecting construction and manufacturing, but also services, especially hospitality and care work. With the pool of labour in the Western Balkans starting to dry up, it remains to be seen if the government (and public opinion) will allow immigration regulations to be streamlined to the extent that the trend can be reversed.

**Despite the unforeseen circumstances of last year's floods and in spite of anti-inflation measures, public finances seem to be under control.** Last year saw a lower public deficit than expected (3.3% of GDP), due to better-than-anticipated revenue collection. In 2024 and 2025, the public deficit will be affected by greater structural spending (due to an increase in public-sector wages), greater expenditure on healthcare and spending on the reconstruction of damaged infrastructure, but also by lower discretionary spending, with anti-inflation measures running out by Q3 2024. This year will still see a high public deficit of 3.1% of GDP. In 2025, that should drop to 2.4% of GDP.

**The government of Dr Robert Golob experienced a big fall-off in public support in 2023.** The reasons for this include a corruption scandal among the minority coalition partners, a wave of prolonged strikes and an overall sense of underperformance in light of the announced wave of healthcare reforms. Still, and despite the turmoil, the government has managed to reform the national television and radio station, introduce a new system of long-term healthcare for the elderly, eliminate the 'voluntary' supplementary healthcare insurance model and take some small steps toward reforming healthcare. A new system for financing public housing is in development, and housing remains a critical issue for the young and low-earning population. Key decisions on the future of energy supply could hinge on a public referendum on building a new block of the Krško nuclear power plant, expected in autumn 2024.

**Real GDP is expected to grow in 2025 (and 2026) at a rate similar to 2024 (2.6%), raising the question of whether annual GDP growth of below 3% is the new norm.** In 2025, international trade and consumption will make up for decreased government spending after years of discretionary measures to combat the pandemic and inflation, although public funds will continue to be channelled into infrastructure. Despite changed conditions on export markets, we expect export growth to pick up and to exceed 3.5%. However, Slovenia will face lower growth rates than before the pandemic: the relatively successful years between 2014 and 2019 saw average annual growth of 3.5%. This raises the question of how far the permanently higher energy prices, the chronic shortage of lower-skilled workers and the sluggish growth among key export partners will depress Slovenia's growth potential in the medium term.

**Table 6.21 / Slovenia: Selected economic indicators**

	2020	2021	2022	2023 <sup>1)</sup>	2024	2025	2026
					Forecast		
Population, th pers., average	2,102	2,108	2,112	2,120	2,126	2,130	2,134
Gross domestic product, EUR m, nom.	47,045	52,279	57,038	63,090	66,800	70,200	73,600
annual change in % (real)	-4.2	8.2	2.5	1.6	2.5	2.6	2.6
GDP/capita (EUR at PPP)	26,850	29,330	31,880	34,380	.	.	.
Consumption of households, EUR m, nom.	23,293	26,530	30,157	32,765	.	.	.
annual change in % (real)	-6.5	10.2	3.3	1.3	1.8	2.2	2.5
Gross fixed capital form., EUR m, nom.	8,893	10,582	12,330	14,194	.	.	.
annual change in % (real)	-7.2	12.6	3.5	9.5	4.0	3.2	2.4
Gross industrial production							
annual change in % (real)	-5.2	10.1	1.2	-5.5	2.4	3.2	3.0
Gross agricultural production							
annual change in % (real)	4.9	-13.2	-0.9	-0.2	.	.	.
Construction industry							
annual change in % (real)	-0.7	-0.5	22.1	19.2	.	.	.
Employed persons, LFS, th, average <sup>2)</sup>	978.0	971.6	986.1	989.4	1,000	1,010	1,010
annual change in %	-0.5	0.3	1.5	0.3	0.9	0.6	0.4
Unemployed persons, LFS, th, average <sup>2)</sup>	51.2	48.4	41.2	37.5	40	40	40
Unemployment rate, LFS, in %, average <sup>2)</sup>	5.0	4.8	4.0	3.7	3.7	3.6	3.6
Reg. unemployment rate, in %, eop	8.9	6.7	5.4	4.9	.	.	.
Average monthly gross wages, EUR	1,856	1,970	2,024	2,221	2,390	2,520	2,650
annual change in % (real, gross)	5.9	4.1	-5.5	2.1	4.2	3.0	2.8
Average monthly net wages, EUR	1,209	1,270	1,319	1,445	1,510	1,570	1,640
annual change in % (real, net)	6.6	3.1	-4.6	2.0	1.4	1.8	2.2
Consumer prices (HICP), % p.a.	-0.3	2.0	9.3	7.2	3.3	2.4	2.2
Producer prices in industry, % p.a.	-0.3	5.5	19.7	6.0	4.0	2.3	2.1
General governm. budget, EU def., % of GDP							
Revenues	43.7	44.9	44.1	45.1	46.9	47.4	48.5
Expenditures	51.4	49.5	47.2	48.4	50.4	49.4	49.1
Net lending (+) / net borrowing (-)	-7.6	-4.6	-3.0	-3.3	-3.5	-2.0	-0.6
General gov.gross debt, EU def., % of GDP	79.6	74.4	72.3	70.0	68.5	67.2	64.8
Stock of loans of non-fin. private sector, % p.a.	0.0	5.9	10.2	-0.6	.	.	.
Non-performing loans (NPL), in %, eop <sup>3)</sup>	2.6	1.6	1.5	1.4	.	.	.
Central bank policy rate, % p.a., eop <sup>4)</sup>	0.00	0.00	2.50	4.50	.	.	.
Current account, EUR m	3,398	1,732	-578	2,824	3,440	3,150	2,800
Current account, % of GDP	7.2	3.3	-1.0	4.5	5.1	4.5	3.8
Exports of goods, BOP, EUR m	29,622	35,255	42,628	41,317	42,020	42,900	44,870
annual change in %	-7.4	19.0	20.9	-3.1	1.7	2.1	4.6
Imports of goods, BOP, EUR m	27,289	34,373	44,802	40,854	40,730	41,500	43,490
annual change in %	-11.1	26.0	30.3	-8.8	-0.3	1.9	4.8
Exports of services, BOP, EUR m	6,985	8,471	11,133	11,850	12,550	13,430	14,850
annual change in %	-19.3	21.3	31.4	6.4	5.9	7.0	10.6
Imports of services, BOP, EUR m	5,072	6,273	7,651	8,004	8,230	8,810	9,430
annual change in %	-11.8	23.7	22.0	4.6	2.8	7.0	7.0
FDI liabilities, EUR m	446	1,856	2,051	1,056	.	.	.
FDI assets, EUR m	708	1,442	763	536	.	.	.
Gross reserves of CB excl. gold, EUR m	913	1,838	1,962	1,964	.	.	.
Gross external debt, EUR m	48,049	50,923	51,825	57,940	56,900	59,400	61,900
Gross external debt, % of GDP	102.1	97.4	90.9	91.8	85.2	84.6	84.1

Note: Introduction of new index 2021=100 (new weights) for gross industrial production and producer prices in industry.

1) Preliminary and wiiw estimates. - 2) From 2021 new LFS methodology in line with the Integrated European Social Statistics Regulation (IESS). - 3) Loans more than 90 days overdue and those unlikely to be paid. - 4) Official refinancing operation rates for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.