SLOVENIA

Economic activity is projected to gather pace in 2017 and 2018. Private consumption will accelerate on the back of employment gains and faster real wage growth. Investment will pick up as renewed EU structural funds bolster infrastructure investments, firms react to capacity constraints, and housing construction responds to higher property prices. Inflation is set to increase as economic slack disappears during 2018.

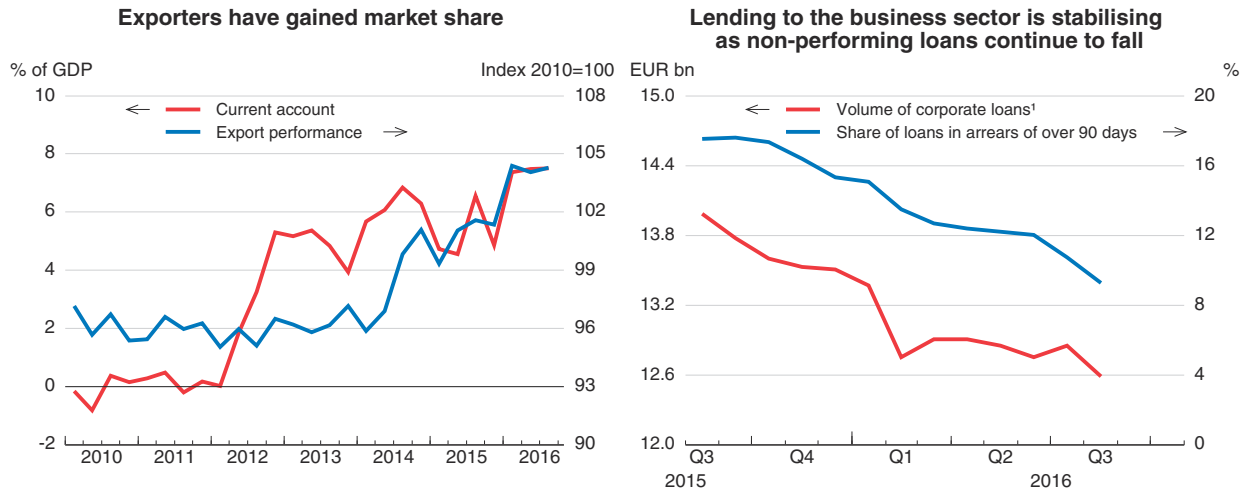
As the labour market tightens, there will be greater need for reforms to get the long-term unemployed back to work and improve labour force mobility to enhance the inclusiveness of economic growth. As economic slack is disappearing, fiscal tightening may be needed to prevent inflationary pressures. The sale of state-owned enterprises would promote competition and help to maintain the gains made in international competitiveness.

Fiscal space has narrowed as public debt is estimated to rise to 85% of GDP by the end of 2016 and interest payments have increased to almost 3% of GDP. The structure of fiscal policy could be more supportive on the supply side by moving the tax burden from labour towards property and shifting some spending on the unemployed in favour of training rather than passive income support.

Domestic demand is becoming the driver of growth

The economy has continued to grow at robust rates in 2016. Private consumption has accelerated with rising incomes and buoyant consumer sentiment. Government consumption has been growing since 2015, following several years of austerity. However, investment has contracted due to the slower disbursement of EU structural funds, although corporate deleveraging has largely tapered off. Since exporters have made substantial gains in market share and the terms of trade have continued to improve, the

Slovenia



1. Volume of loans measured as classified claims. These are financial assets measured as amortised cost and contingencies and commitments including also off-balance sheet items.

Source: Bank of Slovenia; OECD Economic Outlook 100 database.

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Slovenia: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	35.9	3.1	2.3	2.0	2.4	2.3
Private consumption	19.8	2.0	0.5	2.1	2.1	2.1
Government consumption	7.1	-1.2	2.5	2.0	1.3	0.7
Gross fixed capital formation	7.2	1.4	1.0	-4.0	4.0	4.0
Final domestic demand	34.0	1.2	1.0	0.7	2.3	2.2
Stockbuilding[1]	- 0.1	0.6	0.4	0.8	0.0	0.0
Total domestic demand	33.9	1.8	1.4	1.6	2.3	2.2
Exports of goods and services	27.0	5.7	5.6	6.3	4.3	4.2
Imports of goods and services	25.0	4.2	4.6	6.1	4.3	4.4
Net exports[1]	2.0	1.4	1.1	0.8	0.4	0.3
Memorandum items						
GDP deflator	_	0.8	1.0	0.8	1.1	1.5
Harmonised index of consumer prices	_	0.4	-0.8	-0.2	0.8	1.2
Private consumption deflator	_	0.0	-0.7	-0.5	0.5	1.2
Unemployment rate	_	9.7	9.0	7.8	7.1	6.9
General government financial balance[2]	_	-5.0	-2.7	-2.4	-1.6	-0.9
General government gross debt[2]	_	97.2	97.7	99.4	100.1	100.0
General government debt, Maastricht definition[2]	_	80.9	83.1	84.8	85.5	85.4
Current account balance[2]	_	6.2	5.2	7.5	7.7	8.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 100 database.

StatLink http://dx.doi.org/10.1787/888933439198

current account surplus has improved to record levels of nearly 8% of GDP, consistent with the dearth of investment.

Unemployment has continued to fall, even though this has been accompanied by a shrinking labour force. Labour shortages have begun to appear in some occupations, despite the positive effects of the 2013 pension reform on the effective retirement age. Wages have increased moderately, particularly in the public sector. Inflation has hovered around zero after a prolonged period of moderate deflation.

Macroeconomic policies are broadly neutral

The fiscal stance will be broadly neutral in 2017 and in 2018. This may not suffice to stabilise the economy as slack disappears. The structural deficit will remain above the 1% of GDP stipulated in the EU's fiscal rules. Ratings agencies have upgraded government debt and interest rates have fallen, which will help reverse the sharp increase in the debt-to-GDP ratio and interest payments. Monetary conditions have improved as both bank lending rates and long-term interest rates have declined, which, combined with an ebbing of bank deleveraging, leaves firms with better access to financing.

Recent structural reforms have enhanced potential growth and its inclusiveness, with the pension reform having had clear labour supply benefits. Nevertheless, one of the most rapidly ageing populations in Europe has already begun to take its toll on the labour force.

Further reforms will be necessary to ensure fiscal sustainability in the longer term. Lowering the tax wedge could enhance the incentives for older workers to work, while greater investment in lifelong learning could increase their employability.

Economic slack is projected to disappear by 2018

Economic growth is projected to remain faster than the euro area average and sufficient to eliminate all slack by 2018. Domestic demand will become the main driver of the expansion. Private consumption will accelerate on the back of higher incomes as wages increase in a tightening labour market. Investment will accelerate in 2017 as a new disbursement of EU structural funds bolsters infrastructure investments and firms exploit easier lending conditions to invest in response to capacity constraints. Exporters will continue to gain market shares as they benefit from past gains in competitiveness. However, falling unemployment will put upward pressure on wages and unit labour costs.

If the easier lending conditions have a more positive effect on investment, growth would pick up more rapidly than foreseen. A faster-than-projected recovery in export markets would bolster exports. Tighter-than-expected labour market bottlenecks could erode the recent gains in competitiveness. Renewed international financial turbulence could hurt lending conditions, which would have a negative impact on investment in Slovenia.