SLOVENIA

Economic growth, which moderated in 2018, is projected to slow significantly in 2019 and 2020, as capacity limits become an increasing constraint on output and as investment growth eases towards more sustainable levels. Export-market gains will decelerate as higher wages take their toll on the competitiveness of exporters.

The fiscal policy stance is projected to remain expansionary in 2019 and turn neutral in 2020. The budget surplus, after widening to 0.6% of GDP in 2018, will narrow in 2019 as a result of the discretionary easing and slower economic growth. However, as monetary conditions in the euro area will remain accommodative, a larger surplus is needed to contain inflationary pressures and to ensure continued debt reduction.

The economic recovery has been strong

The economy’s strong performance continued in 2018, as investment remained buoyant, supported by EU structural funds, the need to expand capacity and the ongoing recovery in housing construction. Growth in public consumption has been firm, reflecting the roll-back of previous austerity measures. Private consumption growth has been more lacklustre, but with high levels of consumer confidence and strong earnings increases it is set to resume. Exporters have gained market share.

The labour market is tightening. Employment increased by nearly 2% in 2018 and more people joined the labour force, including immigrants. The unemployment rate fell to a decade-low of 5.5% in mid-2018. Another sign of tightening is that 40% of manufacturing are reporting labour shortages. On the other hand, wage growth has been modest, reaching 3.6% in early autumn 2018, and consumer price inflation has softened to below 2%, while core inflation has remained flat at around 1%.

Fiscal restraint and structural reforms would make growth more sustainable

Monetary conditions remain favourable with the expected continuation of the accommodative euro area monetary policy and with long-term interest rates fluctuating

---

1. Percentage of manufacturing firms pointing to labour shortages as a factor limiting production.

StatLink  | [http://dx.doi.org/10.1787/888933877221](http://dx.doi.org/10.1787/888933877221)
around 1%. Fiscal policy has been expansionary, driven by large public investment that benefits from EU structural funds and the roll-back of previous austerity measures, such as the freeze on public sector wages. Nonetheless, the strong economic expansion will result in small public budget surpluses over the projection period. A restrictive fiscal policy would be warranted to counter potential overheating and make room for higher ageing-related spending in the future.

The economic recovery could be strengthened through structural reforms. Stronger privatisation efforts would free up and improve the allocation of resources, particularly if combined with measures to strengthen competition, including more resources to the competition authorities and simplified judicial procedures in competition cases. Pension reform could help bolster the low activity rate of older workers.

Growth will slow

Economic growth is projected to slow in the coming two years as demand will progressively be met through higher imports due to domestic capacity constraints. Private consumption and housing will be bolstered by higher employment and wages. Business investment will continue to expand production capacity and secure continued productivity growth, albeit at a reduced pace. Yet, high wage increases in the tight labour market will reduce export competitiveness and market share gains. The strong labour market will
widen the differential between real wage increases and productivity growth and push inflation above 3% in the second half of 2020. Higher-than-expected productivity increases from investments would contain the deterioration in external competitiveness. In contrast, faster and stronger labour market overheating than anticipated could lead to a marked deterioration in external competitiveness and investor confidence. If the United Kingdom left the EU without an agreement, Slovenia’s exports and business confidence would suffer.