



Slovenia

Highlights

- **The economy maintained its growth momentum in the first half of 2022, despite rising headwinds.** After an 8.2 per cent recovery in 2021, gross domestic product (GDP) expanded 8.8 per cent year on year in the first half of 2022 as domestic demand remained buoyant.
- **A cap on electricity prices is in place.** The cap was introduced in September 2022 and will last for one year. It comes alongside a reduction in value added tax (VAT) on energy products for the 2022-23 heating season.
- **The government adopted a package of measures to advance digital transformation.** Following the prioritisation of digital use at government level, a set of 65 measures was devised in collaboration with relevant stakeholders in 2021 and 2022.

Key priorities for 2023

- **Long-term care act implementation has been delayed, but needs prioritisation.** Some stakeholders considered the act, approved last year, to be flawed and the new government has decided to amend it and delay its implementation by one year to January 2024. However, the reform is included in the Recovery and Resilience Plan (RRP) and should be pursued without further delay.
- **Green transition should accelerate amid the energy crisis.** The government has taken its first steps on green reforms included in the RRP. However, these reforms remain behind schedule, especially the act on promoting renewables, which prompted the European Commission to send a reasoned opinion on infringement in July 2022.
- **Capital market development needs an impetus.** The European Commission has supported a diagnostic study on capital market development bottlenecks, as banks remain the dominant source of firm financing. This should result in solutions to develop capital markets. The Alternative Investment Funds Forms Act, adopted in July 2022, and a capital market development strategy, are part of the RRP.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	4.5	3.5	-4.3	8.2	6.0
Inflation (average)	1.9	1.7	-0.3	2.0	8.9
Government balance/GDP	0.7	0.6	-7.7	-4.7	-3.7
Current account balance/GDP	6.0	5.9	7.6	3.8	-0.1
Net FDI/GDP [neg. sign = inflows]	-2.0	-1.6	0.3	-1.0	-1.5
External debt/GDP	91.8	90.2	101.6	97.3	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	43.0	42.2	43.4	41.4	n.a.

Macroeconomic developments and policy response

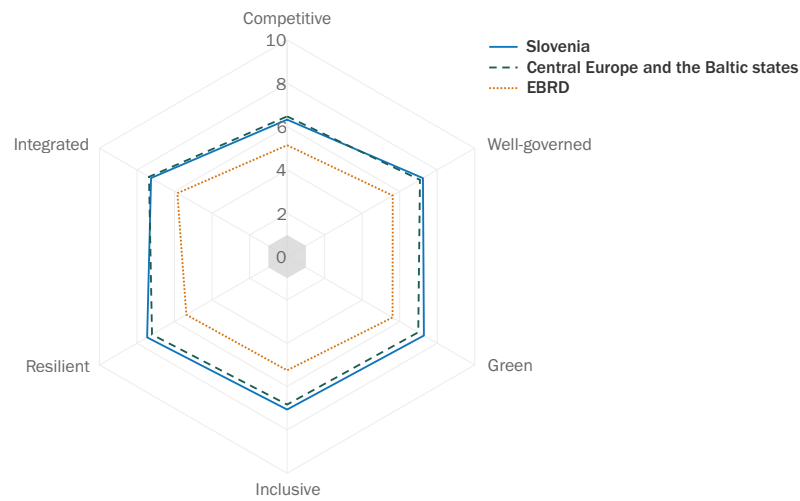
Growth momentum has extended into the first half of 2022, despite rising headwinds. The strong carry-over effect from 2021 contributed to GDP expansion of 0.7 per cent quarter on quarter in the first quarter of 2022, which translated into 9.6 per cent year-on-year growth. GDP further surprised to the upside in the second quarter of 2022, expanding 0.8 per cent quarter on quarter and 8.2 per cent year on year, showing that the war on Ukraine had only limited immediate effect on the Slovenian economy. Domestic demand drove growth, although household consumption growth eased from 19.3 per cent year on year in the first quarter to 12.2 per cent in the second quarter of 2022. Goods exports showed signs of weakness, meanwhile, but services exports compensated, particularly in the second quarter as tourism stepped up. Import growth moderated significantly in the second quarter, most likely due to a normalisation of inventory build-up, leading to a positive contribution by net exports.

Inflation has accelerated notably since April 2022, prompting government measures to alleviate the impact. In August 2022 consumer prices increased 11 per cent year on year, driven by rising food and fuel prices, but eased in September 2022 to 10 per cent. Nevertheless, price pressures seem to be quite broad-based, although services have seen a more moderate increase. After a package of measures, adopted in February 2022, focused on subsidies to vulnerable households and tax cuts on energy products, a one-year cap on electricity prices was introduced in September 2022. This will mitigate potential inflationary pressures from energy prices this winter, but risks leading to higher inflation when it expires in September 2023. Other anti-inflationary measures include a cut in VAT on energy products for the 2022-23 heating season, from 22.0 per cent to 9.5 per cent. Three support mechanisms based on state-aid rules for firms, worth €40 million, were also confirmed and will remain in force until March 2023. Wage growth will have a disinflationary effect, as nominal wages declined 0.9 per cent in the first five months of 2022, driven by the removal of pandemic support for the public sector.

Phase out of pandemic support and strong economic activity improved the fiscal stance, but medium-term gaps remain. In addition to Covid-19 support measures of €4.9 billion (around 10 per cent of GDP) in 2020 and 2021, the government also adopted permanent fiscal loosening measures, including personal income tax cuts and public and minimum wage increases. Nevertheless, the cash-based deficit improved significantly from €1.9 billion in the first half of 2021 to just €128 million in the first half of 2022 as spending on pandemic support was significantly wound down, though investment spending increased 29 per cent year on year. The government aims to increase income tax relief only once, by €500, in 2023, rather than annually, as previously planned.

Growth will moderate as headwinds and downside risks intensify. Given its strong performance in the first half of 2022, GDP growth should reach a robust 6 per cent in 2022, albeit with significant downside risks. This assumes a slowdown in the second half of the year, as higher inflation, the normalisation of fiscal policy and negative real wage growth affect consumer confidence. Other downside risks are possible further energy and commodity price increases, while a potential halt to Russian gas imports would inflict additional damage. Nevertheless, Slovenia is in a better position than some of its peers thanks to its access to liquefied natural gas (LNG) through Croatia and its energy connection to Italy. GDP growth is likely to moderate to 1.8 per cent in 2023 due to this weaker momentum, deterioration in consumer confidence and shallow (or possibly negative) eurozone growth.

CHART Assessment of transition qualities (1-10)



Structural reform developments

Digital transformation efforts have intensified. Following the prioritisation of digitalisation at government level, a series of measures have been adopted in the past year as part of the RRP. The Strategic Council for Digitalisation recommended the adoption of 40 measures in 2021 (the first package of measures) and another 25 measures (the second package of measures) in March 2022 for the digital transformation of Slovenia. Among the measures already implemented are mandatory e-signature in state administration, an eHealth mobile app and a public tender for e-care for the elderly. The Digital Transformation Strategy for Enterprises was also adopted, a reform milestone in the RRP. In February 2022 the government also adopted a comprehensive bill to improve digital literacy, while a training programme to increase civil servants' digital skills should also commence as part of the RRP.

Reform of the national research, development and innovation (RDI) ecosystem has begun. The RRP foresees the establishment of a programme board in 2022 as part of a new governance model for the RDI system, merging the strategic and implementation levels into one unit. Related to this, the government adopted the Act on Scientific Research and Innovation Activity in November 2021. The main goals of the reform are to raise public spending for scientific research to 1 per cent of GDP, increase the quality of research and scientific output, attract international talent and offer more autonomy to research institutions.

The easing of the administrative burden has continued. Following the initiatives of the previous government in making Slovenia a more business-friendly environment in early 2021, the Act on Debureaucratisation was adopted in December 2021 as part of the RRP. The act repealed around 200 laws that were deemed obsolete. In addition, through the Stop Bureaucracy project, which enables the public to report perceived administrative obstacles, 312 out of 408 reported measures had been implemented by March 2022.

Investment promotion procedures were modified to better cover green and capital-intensive investments. Two amendments to the Investment Promotion Act were adopted in December 2021 and April 2022. The modifications expanded the categories of investment that can be covered by state aid, shifting the emphasis from job creation to capital-intensive and green investments. Related to this, the government adopted an amendment to the Public Procurement Act in 2021, which entered into force in January 2022, aimed at clarifying bidder selection and eliminating abnormally low offers that restrict competition. Another bill strengthens innovative public procurement.

Lifelong learning and adult education will be strengthened. At the end of 2021 the government adopted a resolution on the National Adult Education Programme for 2022–30, which aims to raise the share of adults in lifelong learning, improve the level of basic and general skills of adults, and strengthen research and development in the field of adult education.

The Environmental Protection Act introduces new and comprehensive regulation in the area of waste management. The new act, adopted in March 2022, sets out basic rules for waste management, as well as the conditions and criteria for the end-of-waste status and the regulation of the extended producer responsibility system. Moreover, the act introduces provisions for reducing the impact of resource use and for improving overall resource efficiency, in line with the transition to a circular economy. Significant waste and wastewater investments are planned as part of the RRP.