



Slovenia

Highlights

- **Economic growth has slowed considerably.** Gross domestic product (GDP) growth in the first half of 2023 was only 1.1 per cent year on year following growth of 2.5 per cent in 2022, with private consumption weakening amid falling real wages.
- **Slovenia was hit by flash floods in August 2023, causing significant damage.** On 4-5 August 2023 Slovenia experienced its most catastrophic natural disaster since independence, with reconstruction costs estimated at €6.7 billion (1.1 per cent of GDP). The government has already revised the 2023 budget to include some relief measures and will access €265 million of additional European Union (EU) funds.
- **The government formally requested a revision of the Recovery and Resilience Plan (RRP).** In July 2023 Slovenia submitted a revision of its national RRP to include two reforms and four investments under the REPowerEU initiative and to reschedule some milestones. A loan top-up of up to €750 million was requested, following the floods, to foster climate resilience and green infrastructure.

Key priorities for 2024

- **RRP implementation needs to be re-energised.** The government formally requested the second payment from the Recovery and Resilience Facility (RRF) in September 2023, initially scheduled for December 2022, while the revised plan was approved by the European Commission in October 2023.
- **Long-term care and healthcare system reforms need to be finalised.** The government's priority to ensure a sustainable long-term care system for Slovenia's ageing population has yet to translate into the adoption and implementation of all necessary legislative changes.
- **A more balanced budget will be needed to allocate flood relief funds while ensuring some consolidation.** As the fiscal deficit will reach a projected 4.9 per cent of GDP in 2023, some consolidation will be needed next year. With most flood relief costs pushed into 2024, it will be a challenge to achieve both aims.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	3.5	-4.2	8.2	2.5	1.5
Inflation (average)	1.6	-0.1	1.9	8.8	7.4
Government balance/GDP	0.7	-7.6	-4.6	-3.1	-4.9
Current account balance/GDP	5.9	7.2	3.3	-1.0	4.4
Net FDI/GDP [neg. sign = inflows]	-1.6	0.6	-0.8	-2.3	n.a.
External debt/GDP	90.1	101.6	97.2	90.9	n.a.
Gross reserves/GDP	n.a.	n.a.	n.a.	n.a.	n.a.
Credit to private sector/GDP	42.2	43.4	41.4	40.2	n.a.

Macroeconomic developments and policy response

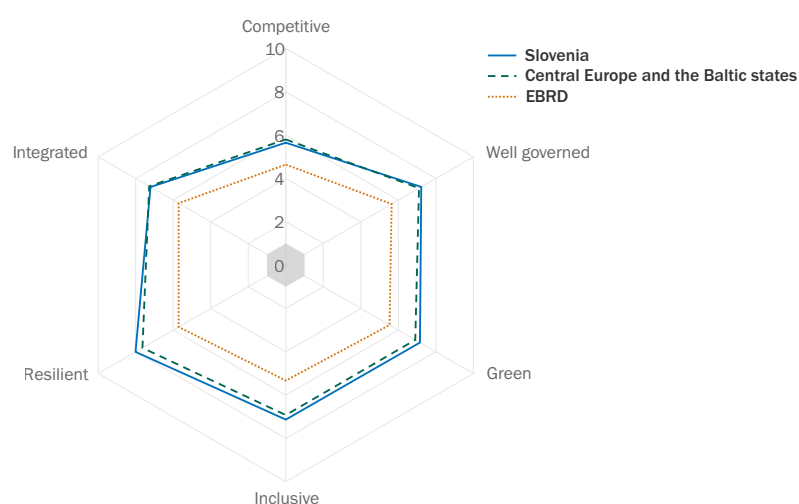
GDP growth decelerated in the first half of 2023. After expanding 2.5 per cent in 2022, the economy entered a phase of milder growth, with GDP growing only 1.1 per cent year on year in the first half of 2023. Behind the slowdown were a fall in private consumption, weaker exports and a continued decline in industrial output (since September 2022). Nevertheless, a sharp fall in imports resulted in a strong increase in the trade surplus in 2023. Investment was also robust, expanding almost 10 per cent year on year in the first two quarters of 2023.

Inflation will be stickier following the reversal of cost-of-living crisis measures from last year. Inflation inched up to 7.4 per cent in September 2023, higher than the 6.1 per cent recorded in July, mainly due to the expiry of energy price caps. Despite relatively strong nominal wage growth of 10.4 per cent in the first quarter of 2023, private consumption remains depressed, with retail sales recording annual declines since March 2023. The labour market remains very tight, with employment at record levels in 2022. This could contribute to some recovery in consumption, but carries risks of stickier inflation.

The fiscal position has worsened in 2023. Flash floods in early August 2023 forced the government to revise its 2023 budget to a projected deficit of 4.9 per cent of GDP, even though most relief costs will be budgeted in 2024. In the first three quarters of 2023, the central government deficit more than doubled compared with the same period in 2022. The government also approved certain financial support measures for affected municipalities. Flood-affected businesses will be provided with subsidies, loan deferrals and tax waivers, and hiring foreign workers will be made easier. To finance the reconstruction, at an estimated cost of €6.7 billion, the government introduced a 0.3 per cent tax for citizens, a 0.8 per cent levy for firms and a 0.2 per cent tax on banks' total assets. The levies will apply for the next five years. The budget deficit for 2024 is targeted at 3.8 per cent of GDP.

Short-term growth will remain subdued. We forecast GDP growth of 1.5 per cent in 2023, with significant downside risks stemming from weaker growth in the first half of the year, the decline in trade and depressed private consumption. On the upside, investment could accelerate as flood reconstruction starts and EU funds are disbursed. In 2024 we expect growth of 2.3 per cent, closer to the economy's potential, as falling inflation improves confidence.

Assessment of transition qualities (1-10)



Structural reform developments

The European Commission disbursed the first RRF payment in April 2023 amid mounting delays. The implementation of the RRP is ongoing, albeit behind schedule, with the second request planned for autumn 2023, later than the originally envisaged December 2022. Among the reforms that delayed the first payment request are legislation on promoting renewables, the reform of long-term care and the operationalisation of cloud infrastructure. The government is proposing to reschedule the latter two reforms in the amended RRP. In the second payment request (for the third instalment, as the first request covers two tranches), the main unfulfilled reforms as of June 2023 included operationalising a public transport company for passenger traffic and selecting a contractor for the construction of an infection clinic in Maribor.

The authorities submitted the REPowerEU chapter and requested amendments to the RRP. The chapter covers two reforms – shorter permitting procedures for renewables and promoting sustainable mobility – and four associated investments. Slovenia is entitled to €116 million from this initiative. When the government submitted its official request in July 2023, it also requested a decrease in loans due to the removal of some flood protection measures. After the floods in August, the authorities requested additional loans for a total of €1.3 billion from the RRF to address three main areas: (1) reducing the risk of floods and other climate-related disasters; (2) the sustainable renovation of buildings; and (3) increasing the capacity of railways. The European Commission's final decision on the top-up should be made by the end of 2023.

Measures are being taken to ensure energy security and accelerate the green transition. Following the energy crisis of 2022, the authorities are prioritising gas interconnectors with Croatia and Hungary to improve regional connectivity and supply routes. In January 2023 a comprehensive new law on the promotion of renewables entered into force, essentially transposing EU Directive 2018/2001 on promoting the use of renewable energy and Directive 2012/27/EC on energy efficiency improvements. Among the greatest challenges for the green transition is the need for major investments in grid capacity to absorb renewables.

Investments in railway infrastructure continue. In recent years the government has prioritised investments in railway infrastructure as a more sustainable form of transport. These investments include buying 20 rolling stock and modernising part of the Ljubljana-Divača railway line, for which a contract worth €204 million was signed in September 2023 and which should be completed by 2025. Total rail investments in 2023 may amount to €470 million. Improved connections with Croatia and Serbia are also being considered. The key reform in the sector to date has been legislation to establish an operator of integrated public passenger transport to cover rail, bus and other transportation modes.

Healthcare reform suffers a setback. Wider reform of the healthcare system was put on hold due to a bill focusing on health-system digitalisation and data consolidation. After government approval in June 2023, the bill was rejected by parliament on data protection grounds. The authorities then withdrew the bill in order to address its shortcomings and should propose an amended law some time in autumn 2023.

Nova Ljubljanska Banka (NLB) issues a large green bond. The largest bank in the country, NLB, issued a four-year inaugural green bond worth €500 million to finance sustainable projects in Slovenia and the Western Balkans. The issuance was deemed a success as oversubscription translated into a rather low 7.1 per cent coupon with an option for early redemption.