Slovenia

Highlights

- **Economic growth has decelerated.** Real gross domestic product (GDP) growth in the first half of 2024 was 1.4 per cent year on year, down on the 2.1 per cent in 2023, as investment and exports declined, while inflation has dropped below 1.0 per cent.
- **Post-flood reconstruction is progressing slowly.** Despite additional European Union (EU) funding and the rapid passing of necessary programmes and legislation, only 24 per cent of the earmarked budgetary spending in 2024 was paid out in the first eight months of the year.
- **The green transition is accelerating, driven by solar capacity installations.** Solar capacity has grown strongly since the energy crisis, with installations doubling in 2023 compared with 2022. New incentivising rules introduced in 2024 will further boost renewables.

Key priorities for 2025

- **Ongoing pension reform needs to be completed.** Given the acute problem of the ageing population in Slovenia, pension reform has long been planned as a way to ensure the long-term sustainability of the pension system. Discussions are ongoing with stakeholders concerning the retirement age, contribution period, indexation rules and the second pillar.
- **Public-sector wage reform should be implemented.** An important reform, as part of the Recovery and Resilience Plan (RRP), is the change to public-sector wages due by the end of 2024 and to be implemented in 2025. This reform aims to expand performance bonuses and increase the appeal of public-sector jobs.
- **Complementary investment in the grid is needed to support the surge in solar capacity.** Slovenia has accelerated the pace of installing photovoltaic (PV) panels since 2022, but the small-scale model requires more investment in distribution networks.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-4.1	8.4	2.7	2.1	1.5
Inflation (average)	-0.3	2.0	9.3	7.2	2.8
Government balance/GDP	-7.6	-4.6	-3.0	-2.5	-2.4
Current account balance/GDP	7.7	3.8	-1.1	4.5	3.0
Net FDI/GDP [neg. sign = inflows]	0.6	-0.8	-2.5	-0.9	-0.2
External debt/GDP	102.3	97.7	91.0	90.4	na
Gross reserves/GDP	na	na	na	na	na
Credit to private sector/GDP	43.7	41.6	41.7	37.3	na

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Macroeconomic developments and policy response

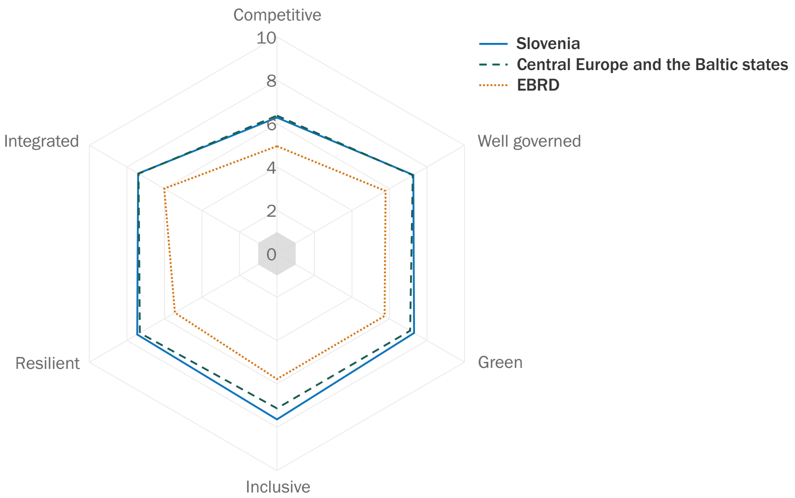
Economic growth was weak in the first half of 2024. After expanding by 2.1 per cent in 2023, the economy entered a phase of even milder growth as real GDP grew by just 1.4 per cent year on year in the first half of 2024. Behind the slowdown were falls in investment, inventories and exports of services. Conversely, government spending accelerated strongly by almost 10 per cent year on year over the same period. The most notable decelerations were in the construction, services and industry sectors. After a 5.8 per cent fall in 2023, industrial production was more volatile in the first half of 2024, but still declined by an average of 3.6 per cent, reflecting weaker foreign demand. The trade in services showed signs of acceleration, however, including on the back of higher tourist inflows.

Inflation dropped below 1.0 per cent. Inflation was still elevated in 2023, averaging 7.2 per cent, largely due to more expensive food, but it had moderated by the end of the year. In 2024, inflation had fallen to 0.9 per cent by August 2024. Deflation was recorded in clothing, utilities and basic services, although prices were still rising by around 6.5 per cent (year on year) in restaurants and accommodation services.

The fiscal position has improved on the back of lower-than-planned spending. The government revised the deficit upwards following the 2023 floods, expecting a GDP deficit of 4.9 per cent in 2023, but given lower-than-planned spending, the deficit was just 2.5 per cent of GDP. In 2024, the government is targeting a deficit of 3.0 per cent of GDP, given a net allocation of 0.6 per cent of GDP to post-flood reconstruction. Still, the deficit was more than 40 per cent lower in the first eight months of 2024 year on year as a result of robust tax revenue growth and the phasing out of inflation mitigation measures. On the spending side, capital expenditures declined by 10 per cent in the same period, while flood relief amounted to €262 million out of the €1.1 billion allocated up to September 2024.

Growth is likely to remain weak in the short term. Considering the dynamics in the first half of 2024, we forecast growth of 1.5 per cent for the entire year, assuming that the quarterly growth path for the rest of the year will improve somewhat. Private consumption could rise slightly as real wage growth drives higher consumer confidence, while investment could accelerate if post-flood reconstruction picks up pace. The evolution of manufacturing and exports remains highly uncertain, translating into a lower trade surplus in 2024 compared with 2023. In 2025, easing conditions in the eurozone and the tight labour market should support higher growth of around 2.6 per cent, close to the economy's estimated potential growth rate.

Assessment of transition qualities (1-10)



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Structural reform developments

Progress on reforms is enabling EU funding. So far, the European Commission (EC) has disbursed two payment requests as part of the Recovery and Resilience Facility. The Slovenian authorities are maintaining a satisfactory pace in implementing the RRF, and the third payment request was submitted in June 2024. To date, 15 of 36 planned reforms have been implemented, with the third request including a proposed ban on the use of fossil fuels to heat new buildings, amendments to pension legislation and new contracts for productivity-enhancing investment projects. The EC has disbursed €841 million, of which €531 million comprises grants and €310 million comprises loans, and €480 million was paid to the final beneficiaries, mostly to public rental housing and railway infrastructure projects, according to the authorities.

A package of tax changes targeting competitiveness has been proposed. Published in August 2024, the package proposes three main changes related to income taxes, aimed at increasing the attractiveness of Slovenia for highly skilled individuals. These include tax incentives for highly qualified staff under 40 years of age returning to Slovenia after two years of work or studying abroad, as well as foreign citizens who had not been Slovenian residents for the two years before starting the job. Both categories would receive a tax benefit of 7 per cent of their gross pay for five years if it is twice as high as the average wage in the country. Another change is a deferral of tax liabilities on stock options, which will benefit start-ups. However, the tax threshold for sole proprietorships will be reduced significantly, which could affect many information technology professionals.

The government approved a new state asset management strategy with some changes to ownership rationale. In July 2024, the parliament approved a new state asset management strategy, updating the previous one from 2015 that defined the ownership strategy of the state. The new document covers 84 state-owned companies and assigns one of three labels to each one: strategic, important and portfolio. It also changes the status of a few key entities. Telekom Slovenije and aluminium producer Talum were upgraded from portfolio to important and strategic, respectively, while gas supplier Geoplin, Nafta Lendava and steel group SIJ were downgraded to portfolio. The strategy also split the state's involvement in the tourism sector by separating real-estate ownership and tourism operations – the first under the Sava group and the second function to Istrabenz Turizem. Proposed downgrades of the postal company and insurer Zavarovalnica Triglav from strategic to important were reversed in the final version, thus limiting the possibility of minority sales for these companies.

The government is progressing with the affordable housing programme. In August 2024 the real-estate assets of the former bad bank, the Bank Assets Management Company, were transferred from the Slovenian State Holding company to the state-owned real estate investment firm DSU (Družba za svetovanje in upravlenje). On the back of managing or selling the properties, DSU will be tasked with building affordable public rental housing, a major government priority. DSU's ownership status, therefore, was changed from important to strategic. The authorities project that 2,500 affordable rental apartments could be built by 2030 out of a total 20,000 flats pledged over the next 10 years, mainly by allocating €100 million per year for the purpose.

The government simplified procedures to accelerate post-flood reconstruction. Following the devastating August 2023 floods, the government revised in December 2023 the August 2023 bill to speed up administrative processes as well as zoning and procurement procedures. In August 2024, after relatively slow progress throughout the year, spatial planning processes and the loan guarantee scheme for homeowners were further amended. Additional EU funding bringing the total to €428 million was announced in September 2024.

New rules aim to further boost solar power capacity. Slovenia has historically lagged regional peers in expanding solar power generation. The energy crisis has nonetheless boosted demand, as capacity increased by 412 MW in 2023 to a total of 1.1 GW, up from 228 MW installed in 2022. In April 2024, the government adopted rules that new large commercial buildings, car parks, public infrastructure and undeveloped building land intended for commercial use will be required to install solar panels. PV panels can now be installed on all buildings.

The government issued its first digital and retail bonds. In July 2024, the government issued €30 million of short-term digital bonds on the private tokenisation Neobonds platform of France's BNP Paribas. The digital bond had a coupon of 3.65 per cent with a maturity of four months. The issue is the first distributed ledger technology bond of an EU country. In addition, the government arranged the first retail bond issuance worth €250 million, designed to increase liquidity on the local capital market and boost citizens' financial literacy and savings options.