



Weekly Briefing

Slovenia political briefing:
Overview of Slovenian economy in 2019
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Overview of Slovenian economy in 2019

Summary

With still a decent economic growth of slightly below 3%, accompanied by significantly low unemployment rates and growing household income, the Slovenian economy went through a successful year. Despite all these, some issues remain: lowering consumer confidence, stagnation in destination economies for Slovenian exports, unclear strategies for the tax reform, and an enduring problem of managing state owned companies.

Overview

According to the report by IMAD (The Institute of Macroeconomic Analysis and Development of the Republic of Slovenia) for the first three quarters of 2019, the year showed a slightly slowed down growth, but some other factors proved still more favourable. The year-on-year growth of GDP in the first three quarters of 2019 was 2.7%, while the IMAD projection for 2019 was 2.8%. This is remarkably less than the 2018 growth rate which was 4.1%. The growth is especially slowing down in export, while it is rising in private consumption. Consumer confidence indicators, on the other hand, have decreased considerably since 2018. Despite a slight rise in the last month of 2019, the indicator of consumer confidence is still 10 percentage points lower compared to December 2018 and even 12 percentage points lower than the average value of 2018. The drop was mostly due to the indicators of the expectations about the unemployment rates (went down by 19 percentage points) and the expectations about the financial situation in the country (went down by 15 percentage points). The survey also showed a decrease in optimism about the financial situation in the household, which went down by 4 percentage points. According to the analysts a lot of this insecurity might be due to the external factors that influence Slovenian economy. In the EU, a lot of uncertainty is related to the outcome of Brexit and its potential effect for the euro area. Additional sources of insecurity are the implementation of protectionist measures in big economies, geopolitical tensions, and a global slowing of economy. The export markets Slovenia is mostly oriented on, Germany and Italy, are experiencing a slowing down as well. This resulted in significantly weaker growth in exports of intermediate goods and vehicles. This additionally negatively affected the optimism about the economic situation within the country.

According to the IMAD analysis, in the first three months of 2019, service activities strengthened. After a good beginning, the construction activity declined, but further growth was seen in trade and most market services. High technology industries also strengthened their production. The medium technology industries, however, saw a halt in growth due to the situation in foreign demand. There was a decline in exports of intermediate goods. Partly due to weather conditions, the beginning of the year in construction was strong, but then slowly declined, while the values of the stock of contracts and new contracts are still on the rise. In households, the consumption is increasing, and the disposable income is also growing.

This is partly related to good conditions in the labour market, where the number of employed persons is growing, and the unemployed rates are significantly lower than in the previous years. Compared to 2018 (the third quarter) the employed rates grew by 1.1 %, while the unemployment rates decreased by 5.4 % compared to the same time in 2018 - while the unemployment actually went up by 5.8 % for men and down by 15 % for women. The rate of self-employed persons went down by 6.1 % which also indicates that employment strategies of companies changed. Subcontracting instead of employing was a semi-legal cost-reducing strategy of many companies during the financial crisis and its aftermath. Another significant trend can be observed in employment contracts, namely, a 2% increase (third quarter of 2019) in full time employment compared to the same time a year before. Effectively, this means that only 8 % of people are employed part time, while out of these approximately half for reasons of illness, disability or partial retirement.

Growth of wages in the first three quarters of 2019 also surpassed the comparable rates of 2018 by approximately 4 %, partly a result of wages growth in the public sector (more than 5 % compared to below 4 % for private sector). This was accompanied by higher growth in social transfers. Household spending factors varied according to the type of purchased goods, displaying growth in non-durable goods and moderation in durable goods, doubtlessly related to the consumer confidence indicators, mentioned above. The moderation in spending along with the growing wages resulted in additional growth in household saving.

The government of Marjan Šarec recently proposed a partial strategy for a needed tax reform, a task that previous governments failed to fully complete (a so-called mini tax reform was adopted in 2016). Despite disagreements, in late October the government successfully passed changes of four acts in tax legislation through the parliament. The two main elements in this tax reform are the relief in the taxation of wages and a higher taxation of capital. Income tax scale was moved upwards, and rates were lowered especially in the middle-income range,

with the explanation that it is this part of population which is the most crucial for the economic growth of the country. On the other hand, the income tax rate was increased for the revenue from capital. Both measures were criticized, the income tax scale modifications especially from the side of The Left, while the tax on the revenue from capital mostly from the political right and representatives of the companies.

Challenges for Slovenian economy – 2019 and further

Along with the growing employment rates and a stable economic growth, the problem of the lack of qualified workforce is growing as well. Especially in the border regions with Austria, many companies find it difficult to get the workforce because of the very common strategies of finding better paid jobs on the other side of the national border. Many young people decide to leave to other EU countries as well. There is also lack of qualified workforce in high-tech industries, making it progressively difficult for some sectors to get and keep their employees. Specialized segments of the public sector (especially research and innovation sector) also struggle to keep the qualified employees because of the limitations of the public sector wage system. The same problem – but for other reasons, primarily related to work conditions and low wages – is present in the building, processing and service industry. Proposed measures, where different shareholders still struggle for consensus, are to allow controlled migration of highly qualified workforce, to shorten the education time and to prevent double status employment (especially in students) to promote early entrance into the job market.

The issue of limitations for consumer loans also remains an open debate. In November 2019, the Bank of Slovenia made its regulations for consumer loans stricter by applying two additional measures. They put caps on the maturity of consumer loans and for the consumer and housing loans they limited the ratio of the annual debt servicing costs to the net income. On one hand, this measure might prevent many poorer households from getting a housing loan and many warn against its long-term effects. On the other hand, however, the Bank of Slovenia position is that the intention of this measure is to limit the unfair practices by the banks, where individuals are approved loans which surpass their realistic repayment potential.

The most acute problem that continued to be exposed in 2019, however, is of a more systemic nature, namely, the strategy, methods and long-term vision of managing state-owned companies. These issues were especially brought forward by several cases of poor decision making and management in state owned companies or those that were previously state-owned. Two most telling examples were the collapse of the Slovenia-based airline company Adria

Airways. In 2016 the decision was made to sell the national airline to the German fund 4K Invest. Under the new ownership the company which had problems previously went into an even worse situation. A series of problematic business decisions brought Adria Airways to the loss of licence and finally declaration of bankruptcy in early October. The other example the background of which is still unclear is the recent change of the management board of Petrol, the leading energy company in Slovenia, of which a third is owned by the state. This late October decision, allegedly in agreement between the supervisory board and the management board was a great surprise, especially because the resigned management had exceptionally successful results. Criticisms that followed mostly pointed at a political pressure to replace the management board. The two examples among many similar ones provoked a debate about the strategic management of the state-owned companies, whether by keeping them successful in partial state ownership and preventing interference by the changing political factors, or by being smart in the strategies of selling the state owned companies, not only about the reached price, but also about the medium and long term consequences of this decision and the correct choice of the buyer.