



## **Weekly Briefing**

**Slovenia economy briefing:**  
**Because of the coronavirus, Slovenia's economic growth forecast**  
**halved this year to 1.5 percent**

**Helena Motoh**


### **China-CEE Institute**

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 [office@china-cee.eu](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

## **Because of the coronavirus, Slovenia's economic growth forecast halved this year to 1.5 percent**

### **Summary**

*With the announcement by the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD) that economic growth for Slovenia will fall from 3 to 1.5 percent due to the spread of the coronavirus, Slovenia also became politically unsure due to the sudden resignation of Prime Minister Marjan Šarec. The new government, led by the long-time president of the Slovenian Democratic Party, Janez Janša, promises stability and sustainability of public finances, although he gives priority to the fight against the Covid 19 virus.*

### **Assessment of the economic situation in view of the spread of the Covid-19 epidemic**

IMAD this week issued a spring forecast of economic growth for Slovenia and lowered it from three to 1.5 percent for this year and from 2.7 to 2.2 percent next year due to uncertainty about the spread of the new coronavirus. This is of course assuming that the situation calms down in the second half of the year.

Economic growth this year will be significantly lower than in the autumn forecast, and the forecast depends crucially on how quickly the spread of the coronavirus can be contained and other government's measures. The spring forecast was prepared by IMAD at a time of considerable uncertainty about the further spread and duration of the coronavirus in neighboring countries and Slovenia. If the spread of the virus is gradually contained and the situation stabilizes in the second half of this year, economic growth would slow down this year to about one and a half percent and would be slightly higher again in the next two years. The slowdown in economic growth this year, following the noticeable slowdown in the last quarter of last year, is driven in particular by lower growth in foreign demand, which is increasingly affected by the high level of uncertainty regarding the impact of the spread of the coronavirus. Domestic consumption is also slowing down. Although growth in household consumption will be lower than last year, it should remain relatively robust. Investment is unlikely to exceed last year's level. Economic growth in 2021 and 2022 could again be slightly higher than this year, which

is largely based on the assumption that the situation will stabilize in the second half of this year. A longer-term coronavirus epidemic and accompanying measures would significantly alter the overall outlook, and economic growth could be much lower than projected. The economic situation in Slovenia and in the world is changing rapidly, and IMAD may even need to update the forecast.

The timing of the spring forecast coincided with the spread of coronavirus in many countries, and the confirmation of the first cases of infection in Slovenia. The economic impact of the virus is difficult to predict for the time being due to the uncertainty about its further spread and the reactions from various stakeholders. In the central forecasting scenario, IMAD assumed, due to many unknown factors, that the spread of the coronavirus in China and European countries would peak in the first half of this year and gradually stabilize in the second half of the year.

If the spread of coronavirus is gradually restricted and contained in the second half of the year, economic growth will slow to 1.5% this year. When presenting the spring economic growth forecast, Maja Bednaš, Director of IMAD, stressed that the slowdown in real GDP growth for the third consecutive year was influenced by several factors. Already in the last quarter there had been a noticeable slowdown in exports and, in particular, investment activity, which would have affected the forecast in any case without the outbreak of the coronavirus. In particular, a noticeably lower forecast for this year's GDP growth than was predicted in the autumn is the result of lower growth in foreign demand. Assuming that the spread of the virus in Slovenia and around the world is restricted and contained, exports and imports will be halved this year. The level is lower than last year, and domestic consumption is expected to increase from autumn onwards. Households are expected to increase their consumption this year, but their growth will be lower than last year due to lower employment and wage growth and greater uncertainty. However, investment is unlikely to exceed last year's level.

In 2021 and 2022, economic growth in the baseline scenario would again be higher than this year, which depends crucially on the stabilization of the situation in Slovenia and other European Union countries in the second half of this year. In this case, if projected foreign demand were to rise again, exports and imports would slightly balance out and investment would increase again in view of the uncertainty. Private and public consumption will continue to contribute to GDP growth. Household consumption is projected to decline as employment

growth slows down, mainly due to the influence of demographic factors and the resulting disposable household income. The current account surplus will remain high (just over 6%).

IMAD's forecast states that economic growth this year and in 2021 will be lower than forecasted. This could be exacerbated by the realization of any of the following risks: (i) possible new US protectionist measures that could (also) increase customs duties on imports of cars and car parts into the US, (ii) an increase in Chinese imports from the US at the expense of imports from other partners, (iii) a significant increase in the economic barriers between the EU and the UK from 2021 when the transition period expires, assuming unchanged conditions of economic cooperation, and (iv) climate and related environmental measures that could hamper growth in individual sectors in the short term. One such sector is the automotive industry.

### **In the midst of the crisis caused by the spread of the coronavirus, the downfall of the government**

The rapid spread of coronavirus in Slovenia also coincided with the early change in the leadership. After Prime Minister Marjan Šarec's abrupt resignation, a new government with a new team of ministers was sworn in on 13 March, which was successfully formed by the new Prime Minister, Slovene Democratic Party (SDS) leader, Janez Janša.

Andrej Šircelj, the confirmed candidate for the post of Finance Minister, who is also a member of the SDS party, set the stability and sustainability of public finances and the fight against the Covid 19 virus as his first priority in a presentation before the Finance Committee, where he successfully completed a hearing. According to the figures for last year and this January, the situation of public finances is still favorable, but due to the virus crisis, the situation in the world, in Slovenia and in Europe has changed significantly. Therefore, a rebalancing of the state budget will be necessary before the summer, said Šircelj and announced additional funds for the fight against the virus.

The economic shock of the virus shows that the world and Europe are in recession for at least a few quarters. The Ministry of Finance and the Bank of Slovenia will therefore have to take action. Although the budgets for 2020 and 2021 are expected to show a surplus, they do not include all the agreed spending. Mr Šircelj's first task will therefore be to check that all the budget figures are correct, as expenditure is expected to increase by EUR 350 million in 2020,

including EUR 130 million for social security, EUR 100 million for salaries in the Ministry of Education other expenditure present the contingency margin and payments to the EU budget.

The new minister also announced an immediate economic assessment of what the consequences of the virus mean for the financial system and its operation. In doing so, he promised to provide additional sources of resources to fight the virus and also to provide money for the purchase of the most urgent health equipment. Liquidity money is enough, but it is necessary to hurry, as prices are always higher.

Minister Šircelj also expects the Governing Council of the ECB to reduce the key interest rate from minus 0.5 percent to minus 0.7 percent or even minus one percent on Thursday, targeted loans to help the economy are also being announced.

As far as state property is concerned, the government will set up a pension demographic fund to which all state property will be transferred, which will be a source of income for pensioners. It will be managed through investments and the dividends will cover part of the pensions.

The coalition agreement signed by the parties of the new coalition does not envisage tax cuts, except for awards and benefits for pensioners. He announced that a working group would be set up at the Ministry of Finance to come up with proposals for new tax legislation on corporate income tax and taxation, excise policy, green taxes, etc. Taxes will be payable in 24 installments, which is already the case, but will provide guarantees for tax payments so that unpaid taxes will not increase.

He is also aiming to get Slovenia back into AA rating, which in his view can be guaranteed by the government with sustainable and stable public finances. Public debt is projected to decline and is expected to come under the Maastricht criterion in two years, but it will depend on the crisis we are in.

## **Conclusions**

With the IMAD's economic growth forecast for Slovenia published this week and an early change in government following Prime Minister Marjan Šarec's resignation, Slovenia faces uncertain times. In addition to the uncertainty about the spread of the new coronavirus and the possibilities of containing it, IMAD's spring forecast reduced economic growth from 3 to 1.5 percent for this year and from 2.7 to 2.2 percent for next year. Since the forecast was made at a time of considerable uncertainty about the further spread and duration of the coronavirus, the figures could be even lower in the future.