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Slovenia economy briefing:

The fourth wave threatens businesses and the national budget

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The fourth wave threatens businesses and the national budget

Summary

The gap in vaccination coverage in Slovenia is widening compared to the European Union average. A possible fourth wave of the epidemic and a renewed shutdown of the economy, which is increasingly being expected, would further hit businesses and public finances. We have examined how a possible fourth wave and renewed closure of the economy would affect businesses and public finances, also taking into account the Slovenian Recovery and Resilience Facility just approved by the European Commission.

Increased risk of reintroduction of containment measures

The European economy is recovering faster than expected. However, in some countries they are thinking about closing again in fear of the fourth wave and Slovenia is among them. A possible new closure of the Slovenian economy would reduce revenues by 1.7 billion euros, lose 400 million euros of added value and 2,500 jobs. In the last quarter, the state would have around 800 million euros in additional costs or 400 euros per capita with the help of the economy, especially services, and measures in the public sector.

The National Assembly has just passed an intervention law to support the economy and tourism, the main measures of which are new vouchers, the extension of subsidies for part-time work and help with the payment of holiday pay. But new measures will be needed as fall approaches.

Vaccination coverage among the population has recently increased less than expected in Slovenia and Europe, which increases the risk of reintroducing containment measures in the autumn and winter months. Vaccination coverage in Slovenia is growing much more slowly than the European average. While in European Union just over 52 percent of the population is vaccinated with at least one dose, in Slovenia the figure is just under 40 percent, and the gap is widening.

As a result, there could be greater differences in the impact of the autumn wave between European countries, as there are significant differences in vaccination coverage rates between them. Thus, a possible autumn wave could slow down Slovenia's economic recovery and worsen the situation of public finances more than would be the case on average in Europe. This will also depend on the government's actions.

Incentives for individual companies could also help increase vaccination coverage. Some companies have already motivated employees and established collaborations with vaccination centres and mobile units. Elsewhere, such practices are not yet in place.

A possible renewed closure of the economy would cause the greatest damage in the sectors of catering and tourism, sport, culture and entertainment, organization of major business events, personal services, education, public transport and trade in durable goods.

The renewed closure could also affect some activities that are in a worse financial position despite government assistance. This includes, for example, catering. Sales in this sector shrank by more than a third last year compared with the previous year, cash flow fell by more than 70 percent, while financial liabilities rose by more than a fifth. This, in turn, has significantly increased the industry's debt.

Right now, some caterers seem to have as much work as they did before the epidemic, while others have none. Above all, there is a lack of guests from abroad.

Another danger is a rapid increase in indebtedness

A possible severe fourth wave of the epidemic will hit public finances even harder. Indeed, the government is financing the cost of the health crisis by borrowing, so much so that its gross debt rose to 40.15 billion euros, or 86 percent of GDP, at the end of the first quarter. It is set to rise nominally this year as the country continues to operate with a large budget deficit. In the first quarter, it accounted for nearly one billion euros or 8.3 percent of GDP.

An epidemic is an extraordinary event when the limits of the fiscal rule do not apply to the parts of the budget directly related to limiting its consequences. However, measures such as activity closures reduce public revenues and, on the other hand, efforts to neutralize the economic and health impacts require high public expenditures. This could lead to serious problems for the sustainability of public finances. Government measures must therefore be targeted and effective, and they must preserve the economic potential in the field. However, in the past Slovenia has not always implemented these principles, as a comparison of the structure of the measures with other countries shows.

The scope for increasing debt also depends on the duration of the expansionary monetary policy, which is supported by European programs that facilitate the position of Slovenia and other countries on the financial markets in the short term. It is also important that Slovenia does not stand out in comparison with other countries, neither in the idleness nor in the dynamics of debt, because any deviation can significantly worsen the country's position on financial markets, on which it will be increasingly dependent due to higher debt. Slovenia's debt to GDP ratio is still below the EU average, but Slovenia is one of the countries where debt is growing faster, although this is at least partly related to the high pre-financing of future liabilities.

Slovenia to receive up to 231 million euros from the recovery plan this year

The European Commission has recently approved the Slovenian National Plan for Recovery and Resilience, so Slovenia is expected to receive a provisional payment of 231 million euros in three months.

The approval of the National Recovery and Resilience Facility is another step on the way for the country to start drawing €1.8 billion in grants and €705 million in loans. With this, Slovenia will finance 33 reforms and 50 investments. The financing will support the implementation of key investments and reforms from Slovenian Recovery and Resilience Facility. The state will receive 13 percent of all funds upfront, after which it will receive European funds according to the targets and milestones achieved.

During the review, the European Commission found that 42 percent of the funds in the Slovenian plan are earmarked for climate targets and 21 percent for digital transformation, which means that the country meets the European criteria. In the area of green transformation, the commission points to € 230 million for increased energy efficiency of buildings, €292 million for decarbonisation of transport with investments in rail infrastructure and €54 million for improved water supply. In the area of digitalisation, it lists the strengthening of digital literacy, better connectivity and the digitalisation of healthcare and other parts of the public service and the economy.

Brussels also noted that the planned reforms and investments address the 2019 and 2020 recommendations from the European Semester. They mention reforms in long-term care, health, pension system, labor market, education, research, development and innovation, business environment and public procurement.

For smart investment, more is needed through cohesion

It is good that Slovenia can finally use development instruments again, which did not exist before, but the composition of funding is not development-oriented enough, according to some experts.

On the development side, Slovenia is already weak, for example, in 2016 Slovenia announced a EUR 55 million tender for development investment funding that supported nine programs, but now only EUR 20 million is planned for four projects. If we combine the current planned figures for all development purposes (research, development, innovation, digitalisation, entrepreneurship and retraining) in the Recovery and Resilience Facility and in the Cohesion Funds, Slovenia does not even cover a gap compared to the countries it competes with, let alone compared to the leading countries it wants to catch up with. In order to cover the gap with countries such as Czech Republic, Estonia and also Croatia, these funds would have to be increased by a hundred million per year, and in order to catch up with the developed countries, by EUR 180 million.

The key at this point is that the Recovery and Resilience Facility is approved, which is good because Slovenia can now use these instruments. At the same time, more needs to be done in the cohesion policy – i.e. a significant increase in funds for development. Experts estimate that the share of funds should be at least double – now 16 percent – in order to catch up with countries like Czech Republic or Estonia and remain at least roughly competitive.

Conclusions

As Slovenia lags behind the European average in vaccination coverage, it is also more at risk of a new wave and renewed foreclosure of the economy and public life. Despite the approved national Recovery and Resilience Facility Slovenia submitted to the European Commission, it is far from covering all financial deficits, but will continue to increase public debt. Indeed, Slovenia is one of the countries where debt is growing faster, but this is at least partly related to the high pre-funding of future liabilities. The national recovery plan, which allows Slovenia to draw 1.8 billion euros in grants and 705 million euros in loans, otherwise meets the minimum criteria by earmarking at least 35 percent of the money for green goals and 20 percent for digital transformation. Nevertheless, experts are critical, claiming that the document does not envisage or contain priorities that would help Slovenia's development take off.