



Weekly Briefing

Slovenia economy briefing:
The catastrophic flooding in August 2023 and its effects on the
already weakened Slovenian economic growth
Gašper Pirc

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Ju Weiwei

Kiadásért felelős személy: Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

The catastrophic flooding in August 2023 and its effects on the already weakened Slovenian economic growth

Summary

The Slovenian economy appeared to be on its way to recovery after the setbacks due to the global COVID-19 pandemic and the crisis due to price increases when it was struck with the economic, social, and humanitarian disaster at the beginning of August 2023 when the catastrophic floods devastated large parts of Slovenia making a large amount of damage on the public and private property, and municipal and state infrastructure.

While the government's and the EU's response to the disaster was prompt and many immediate financial measures have already taken place, the recovery will likely take quite some time and increase the already high public spending, thus impeding the process of general economic recovery.

Background: the high state spending and the vision of Slovenia as a social state

While Slovenia has done comparatively well in its transition from a planned economy of socialist Yugoslavia to an independent factor of (global) market economy,[\[1\]](#) it has not been averted to both human-made and natural crises. After the consequences of the 2008 global financial crisis set in, Slovenia found itself in a difficult position, with its GDP shrinking and national debt rising.[\[2\]](#) While it eventually successfully overcame this crisis, the years 2020-2023 have not been kind to the general state of health of the Slovenian economy with the succession of different outside impulses that caused economic difficulties: first the global COVID-19 pandemic from 2020-2022, then the start of the economic and energy crisis due to the high prices of energy and food and the subsequent high inflation.

Just as the recovery plan[\[3\]](#) seems to have started to show results and the rise of general inflation and prices of elementary existential products appeared to be neutralized,[\[4\]](#) a new and even more immediately devastating disaster occurred after a brief period of unusually heavy rainfall on August 3, 2023, which caused many rivers in Slovenia and Austrian Carinthia to flood, and several landslides took place. The catastrophic floods caused immense destruction in many Slovenian areas, with the town of Črna na Koroškem being noted to be particularly affected.[\[5\]](#)

While I noted the government's response to be swift and decisive, the flooding has already had heavy economic consequences for the economy that has already been beset by the effects of high inflation.

The immediate economic consequences of the catastrophe and the future recovery measures

When the president of the European Commission Ursula von der Leyen visited the affected areas days after the flooding took place, it was already clear that the cost of recovery after such a disaster would be high and likely impede other economic sectors and general economic growth. On the invitation of the head of the Slovenian government, Prime Minister Robert Golob, von der Leyen visited Slovenia on August 10, 2023, and promised the country the maximum amount of available financial aid from the European Union. Given the currently available data, this amounts to EUR 400 million allocated from the EU solidarity fund to Slovenia in 2023 and 2024, of which EUR 100 million will be already available in 2023, alongside the funds from the EU civil protection mechanism. [6] However, given that the full costs of the after-flood recovery will be much higher – the government currently assesses the immediate damage to be in the value of EUR 4,7 billion, and at least further EUR 2 billion will need to be allocated for the additional measures to improve flood safety – [7] there will need to be several other mechanisms and singular measures to fund the recovery, some of which are already in place.

Soon after the catastrophe took place, the 15th Slovenian government amended the Natural Disaster Recovery Act allowing for the allocation of financial resources to the disaster-affected municipalities, accelerated in the form of an advance payment which would be possible even before the final assessment of the damage, [8] and later drafted a Act Determining Intervention Measures for Flood and Landslide Recovery of August 2023 which stipulated the measures which accelerated the process of aid distribution after the floods. [9] The act, which among others devises measures that aim at urgent intervention, rehabilitation, and preventive measures for flood and landslide recovery, allocates additional funds for the recovery of the affected areas, a remedial municipal detailed spatial plan, energy sector solutions, and incorporates possibility for the affected citizens of a deferral of the loan payment due to the property damage caused by the August floods for a period of up to 24 months, was confirmed by the National Assembly at the beginning of 2023. [10]

The government introduced further measures including the setting up of the Solidarity Day public holiday on August 14, 2023, which was intended for people to offer aid to the

affected citizens,[\[11\]](#) and mandatory solidarity contribution for natural and legal persons whereas the employees will pay it in the amount of 0,3 percent of their calculated income tax and some other income, while companies will contribute 0,8 % of the basis for calculating corporate income tax in 2024 and 2025. [\[12\]](#)

While those immediate measures have been generally approved of by the public, and I already mentioned them in my previous briefing, there has been a further development of the economic situation since the flooding took place.

In the first half of September 2023, based on the Natural Disaster Recovery Act, the Ministry of Natural Resources and Spatial Planning prepared information on the preliminary setup for the elimination of direct damage to (public) property due to floods and landslides on August 4, 2023, which refers to the provision of advance payment funds to local communities up to 40 percent of the preliminary assessment damages. Based on the proposal, the ministry will allocate recovery funds to the local communities based on a preliminary assessment of the damage that relates to facilities owned by municipalities or to facilities owned by public law entities whose founder or co-founder is the municipality, as well as the funds needed to carry out geotechnical measures. As of now, 123 Slovenian municipalities applied for the recovery funding. The government also decided that 51 municipalities will be reimbursed for the justified intervention costs of previous storms which took place before August 3, 2023. Based on the preliminary assessment, the total amount of damage to the municipal infrastructure in 123 affected localities amounts to EUR 1,01 billion. [\[13\]](#)

Along with providing financial aid to affected households and municipalities, the government also created a register of empty apartments and other facilities, where we could house the affected people who were left without a home. The government officials also promised that the government would eventually change the legislation and start building replacement houses together with the municipalities. [\[14\]](#) The government also intended to regulate the of prices replacement houses and the restoration of houses after floods but so far, that has not been settled. [\[15\]](#)

While there has already been a lot of effort put into recovery after the devastating floods, many measures may still need to be taken as a lot of people are still critically affected by the consequences of the floods. [\[16\]](#) It is clear that many important infrastructural projects that are amidst construction will likely need to be put aside until the after-flood recovery is at least partly over, and there will likely also be a need for cuts in some of the relevant (social) expenses. The Slovenian companies will likely also feel the consequences of the disaster. [\[17\]](#) This,

however, may also negatively affect the already weak growth of the Slovenian economy which has not yet shaken off the effects of the high inflation from 2022 on.

The new forecast of Slovenian economic growth and the further issues in regard to economic growth and the ongoing crisis due to high inflation

The devastating floods may hardly come at a less opportune time as the Slovenian economy, both on the state level and the level of households and companies, is still under the effects of the crisis of economic development due to the increases in prices of food and energy and subsequent high inflation. Given the recent announcements, the Slovenian economy may be in further trouble as Germany, one of the most important Slovenian trading partners, may be sliding into economic recession. [\[18\]](#) As Slovenia depends upon the economic stability of Germany and the EU at large, any kind of longer-lasting growth decrease may affect its economic performance. According to the European Central Bank, the costs of living in Slovenia and Germany rose by more than 6 percent in August 2023 compared to the same period in 2022 while the core inflation remains high. [\[19\]](#)

The Office for Macroeconomic Analysis and Development (Umar) has also recently been the bearer of (relatively) bad news as it lowered the forecast of economic growth for 2023 from 1,8 % to 1,6% while it increased the forecast for next year from 2,5 % to 2,8 %. In 2025, growth should reach 2,5 percent. [\[20\]](#) Those forecasts are disappointing, especially given the new increase in public spending after the devastating floods in August 2023.

Conclusion

While it appeared that the Slovenian economy is on the way to economic recovery after the pan-EU crisis due to the heavy increases in food and energy products, it has been beset by natural disasters the consequences of which will likely further impede the competitiveness of the Slovenian economy and increase the already high state spending at least for some time. Nevertheless, given the history of Slovenian economic growth and recovery after crises (such as the financial crisis of 2007-2008), one may be hopeful that setbacks are only temporary and Slovenia continue to produce quality economic performance after the effects of unlikely disaster(s) are shaken off.

[1] For example, among the post-socialist countries of Eastern and Central Europe Slovenia has traditionally placed in the top three (along with Czechia and Estonia) in most economic categories, including e.g. gross domestic product per capita (see “GDP per capita (current US\$) - European Union”, The World Bank, accessed September 15, 2023, https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=EU&most_recent_value_desc=true).

[2] See e.g. “The downfall of Slovenia, and why it matters for Europe,” The Conversation, accessed September 15, 2023, <https://theconversation.com/the-downfall-of-slovenia-and-why-it-matters-for-europe-19180>; or Marko Hočevar, “The Crisis of 2008 and the Rise of the Slovenian Consolidation State,” *Teorija in praksa* 58, no. 2 (2021): 305–321, <https://www.fdv.uni-lj.si/docs/default-source/tip/kriza-2008-in-vzpon-slovenske-konsolidirajo%C4%8De-se-dr%C5%BEave.pdf?sfvrsn=0>.

[3] Consider the measures taken to combat the increase in food and energy prices and its consequences from 2022-2024: “Measures to mitigate price increases,” Portal GOV.SI, accessed September 15, 2023, <https://www.gov.si/en/registries/projects/measures-to-mitigate-price-increases/>.

[4] At the beginning of August 2023, for example, a basket of basic food products in Slovenian stores reached its lowest average value since price monitoring began in 2022 at the height of crisis due to the price increases: Al. Ma., “Košarici osnovnih živil dosegli najnižjo povprečno vrednost od začetka spremljanja cen,” *MMC Radiotelevizije Slovenija*, August 3, 2023, <https://www.rtv slo.si/gospodarstvo/kosarici-osnovnih-zivil-dosegli-najnizjo-povprečno-vrednost-od-zacetka-spremljanja-cen/676994>.

[5] Among many other sources, see K. T., A. S., A. K. K., “Najobsežnejše poplave v zgodovini Slovenije,” *MMC Radiotelevizije Slovenija*, August 4, 2023, <https://www.rtv slo.si/okolje/najobsežnejše-poplave-v-zgodovini-slovenije/677033>; Matic Tomšič, Aleksander Kolednik, Na. R., STA, “Nočna mora: Savinja v Celju prestopila bregove, poteka evakuacija #video,” *SiolNET*, August 4, 2023, <https://siol.net/novice/slovenija/vse-te-cestes-so-zaradi-posledic-neurja-zaprte-612667T>; T.H. / Maja Pavlin, “Prebili smo se v izolirano Črno na Koroškem, evakuacija prebivalcev ob Meži,” *24.com*, August 5, 2023, <https://www.24ur.com/novice/slovenija/prvi-posnetki-iz-odrezane-crne-kamor-se-je-koncno-prebila-pomoc.html>.

[6] Source: “Predsednica Evropske komisije Ursula von der Leyen na delovnem obisku v Sloveniji,” Portal GOV.SI, accessed September 15, 2023, <https://www.gov.si/novice/2023-08-10-predsednica-evropske-komisije-ursula-von-der-leyen-na-delovnem-obisku-v-sloveniji/>.

[7] See La. Da., “Kako se bo financirala obnova po poplavah?” *MMC Radiotelevizije Slovenija*, September 15, 2023, <https://www.rtv slo.si/slovenija/kako-se-bo-financirala-obnova-po-poplalah/680668>.

[8] See M. Z., “DZ: Vseh 79 navzočih poslancev je glasovalo za novelo zakona o odpravljanju naravnih nesreč,” *MMC Radiotelevizije Slovenija*, August 9, 2023, <https://www.rtv slo.si/slovenija/dz-vseh-79-navzocih-poslancev-je-glasovalo-za-novelo-zakona-o-odpravljanju-naravnih-nesrec/677529>.

[9] Consider “Draft Act Determining Intervention Measures for Flood and Landslide Recovery of August 2023,” Portal GOV.SI, accessed September 15, 2023, <https://www.gov.si/en/news/2023-08-24-draft-act-determining-intervention-measures-for-flood-and-landslide-recovery-of-august-2023/>.

[10] K. T., “Veljati je začel interventni zakon z ukrepi za pomoč po uničujoči ujmi,” *MMC Radiotelevizije Slovenija*, September 2, 2023, <https://www.rtv slo.si/lokalne-novice/poplave/veljati-je-zacel-interventni-zakon-z-ukrepi-za-pomoc-po-unicujoci-ujmi/679999>.

[11] See “14. avgust – dan solidarnosti,” Portal GOV.SI, accessed September 15, 2023, <https://www.gov.si/novice/2023-08-10-14-avgust-dan-solidarnosti/>.

[12] Given the stipulations of the corresponding act, the employees and their employers can alternatively choose to organize two solidarity working Saturdays, one this year and one next year when

both workers and employers give up their earnings to the aid fund. Source: La. Da., "Vsak zaposleni bo s sobotnim delom prispeval okoli 68 evrov," *MMC Radiotelevizije Slovenija*, September 4, 2023, <https://www.rtv slo.si/slovenija/vsak-zaposleni-bo-s-sobotnim-delom-prispeval-okoli-68-evrov/680204>.

[13] Source: Al. Ma., "Predhodna ocena: na infrastrukturi 123 občin je za dobro milijardo evrov škode," *MMC Radiotelevizije Slovenija*, September 13, 2023, <https://www.rtv slo.si/lokalne-novice/poplave/predhodna-ocena-na-infrastrukturi-123-obcin-je-za-dobro-milijardo-evrov-skode/681311>.

[14] See Andreja Lončar, "Kako bo vlada prizadetim v poplavah pomagala najti streho nad glavo," *NI*, August 8, 2023, <https://n1info.si/novice/slovenija/kako-bo-vlada-prizadetim-v-poplavah-pomagala-najti-streho-nad-glavo/>.

[15] Source: Tanja Smrekar, "Nova regulacija: Golob je želel določati cene obnove in gradnje stanovanj po poplavi. Jih bo in kaj to pomeni?," *Finance*, August 30, 2023, <https://www.finance.si/nova-regulacija-golob-je-zelel-dolocati-cene-obnove-in-gradnje-stanovanj-po-poplavi-jih-bo-in-kaj-to-pomeni/a/9016279>.

[16] Consider e.g. the plight of the 13 families left without a home: Ksenja Tratnik, "Mesec dni po poplavah: `Vsi se trudijo, a gre vse počasi, zima pa bo hitro tu`," *MMC Radiotelevizije Slovenija*, September 13, 2023, <https://www.rtv slo.si/lokalne-novice/poplave/mesec-dni-po-poplavah-vsi-se-trudijo-a-gre-vse-pocasi-zima-pa-bo-hitro-tu/681321>.

[17] Consider e.g. Žiga Bonča, "Financiranje obnove po poplavah je prioriteta," *24ur.com*, September 13, 2023, <https://www.24ur.com/novice/slovenija/financiranje-obnove-po-poplavah-je-prioriteta.html>.

[18] See R. K., STA, "Nemška gospodarska združenja svarijo pred globoko krizo," *SiolNET*, August 1, 2023, <https://siol.net/posel-danes/novice/nemska-gospodarska-zdruzenja-svarijo-pred-globoko-krizo-612467>.

[19] Source: A. P. J., "Evropska centralna banka desetič zapored dvignila obrestno mero," *MMC Radiotelevizije Slovenija*, September 14, 2023, <https://www.rtv slo.si/gospodarstvo/evropska-centralna-banka-desetic-zapored-dvignila-obrestno-mero/681333>.

[20] Source: STA, "Gospodarska rast se bo letos znižala, naslednje leto pa zvišala," *24ur.com*, September 13, 2023, <https://www.24ur.com/novice/gospodarstvo/gospodarska-rast-se-bo-letos-znizala-naslednje-leto-pa-zvisala.html>.