The Slovenian economy is bouncing back

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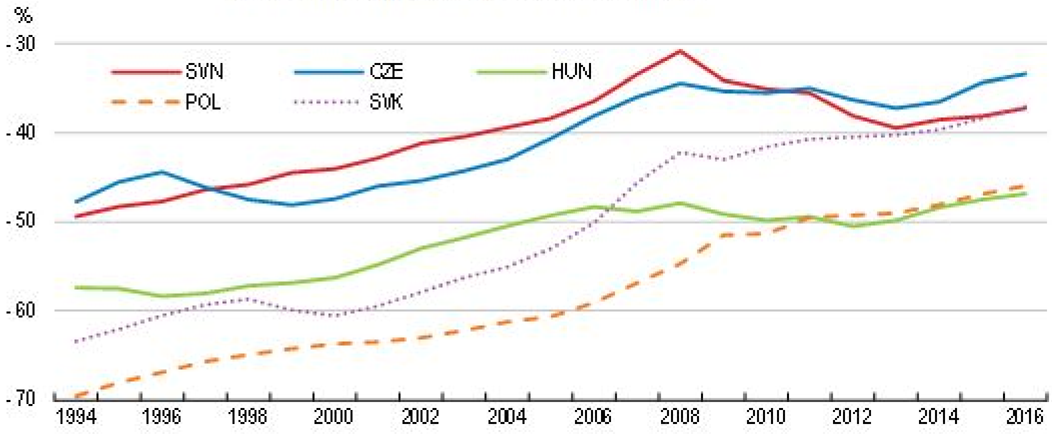
Slovenia would do well if its economy performed as well as its ski-jumpers. In 2015, Slovenian Peter Prevc became the first ski-jumper in history to jump 250 metres. As impressive has been his ability to land successfully, being among the few jumpers to receive a perfect 20 points for style. While the Slovenian economy has been successful in bounding forward, it has taken hard falls in the past, and a lack of resilience means it has taken a long time to recover.

Prior to the international crisis, the bounding Slovenian economy converged with advanced OECD economies, before suffering a double hard landing with the onset of the international financial crisis and a subsequent domestic banking crisis. However, thanks to recent structural reforms, business restructuring, supportive monetary conditions and improved export markets, Slovenia is leaping forward again. GDP growth is accelerating and broadening, unemployment is down, and both consumer confidence and the trade balance are reaching record highs. The government may need to step in early with tighter fiscal policy to ensure a controlled landing.

Convergence in GDP per capita has faltered, unlike other countries in the region

Gap to the upper half of OECD countries[1]



1. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita (in constant 2010 PPPs).
Source: OECD, National Accounts and Productivity Databases.

However, unlike its agile youthful ski-jumpers, Slovenia is not breaking any records in terms of productivity. Indeed, its growth has lagged that of regional peers. Labour productivity is low compared to the OECD average, in part due to large numbers of workers employed in relatively low-productivity small firms, and this has yet to show a strong improvement. Productivity gains were also held back by low investment, as the crisis-afflicted banking sector was unable to lend to domestic firms, and Slovenia has been less succcesful in attracting foreign direct investment than other countries in the region. In addition, a lack of competitive pressure, due to heavy regulation and ineffective competition policies and enforcement, has inhibited Slovenian firms from developing the efficiency needed to drive productivity forward.

The nimbleness of the Slovenian economy is also being reduced by a rapidly ageing population. Older workers with obsolete skills have tended to take early retirement rather than retrain, and a poor reallocation of labour is leading to labour shortages. In the past such shortages were filled by training young Slovenians, but a shrinking youth population means this is no longer possible. In addition, public spending pressures due to ageing (in terms of health and pensions) are mounting.

However, with an improving economy Slovenia is in a good position to move ahead with reforms that will boost long-term growth. As with any ambitious endeavour, occasional mishaps are inevitable. The just released OECD Economic Survey of Slovenia highlights the need to maintain a fiscal cushion to soften future landings as well as the reforms needed to create a more agile economy to sustain incomes and well-being.

Find out more:

OECD (2017), *OECD Economic Surveys: Slovenia 2017*, OECD Publishing, Paris.