Finance-investment-growth nexus in Slovenia

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Summary of main findings:

• Since 2006, Slovenia experienced a boom-bust investment cycle, which led from overheating to deep recession and left the economy with a very low share of investment in GDP.

• The upward part of the cycle was spurred by excessive debt financing, high confidence and profitability of the corporate sector. Excessive debt financing severely impaired NFCs' balance sheets which required substantial deleveraging and banking system recapitalization.

• With debt-to-equity ratio now at 2006-2007 level, NFCs have on average decreased the level of indebtedness and are in a position to accelerate investment activity, supported by debt financing. Whether they are more resilient to potential financial shocks as they were before the crisis, should remain subject to close scrutiny.

• Despite favourable economic outlook, lessons from the past crisis must not be forgotten. As the situation enables NFCs' to debt finance future growth in investment, it should be accompanied by NFCs' capital strengthening.
Excessive investment was a predominant factor behind overheating in 2007-2008 period and deep recession that followed. Lately, investment shows signs of recovery, but its share in GDP is low for a catching-up economy.

Source: SORS, Bank of Slovenia calculations.

Contributions of investment to GDP growth in Slovenia

Source: Eurostat, Bank of Slovenia calculations.

Gross fixed capital formation – international comparison

Source: SORS, Bank of Slovenia calculations.

Gross fixed capital formation – international comparison
Investment dynamics has been strongly influenced by a boom-bust cycle in construction. Investment in machinery and equipment has been recovering since 2015, while construction investment has been predominantly influenced by the government’s ability to absorb EU funds.

Contributions to volume growth in total fixed assets – Slovenia

Sectoral contributions to nominal growth in total fixed assets – Slovenia

Source: SORS, Bank of Slovenia calculations.
NFCs' investment boom-bust cycle goes in line with changes in confidence and corporate profits. With both elements becoming supportive since 2014, NFCs investment began to recover. But one major element has been missing ...

Source: European Commission.

Note: NFCs excluding SPs.

Source: AJPES, Bank of Slovenia calculations.
... bank credit! Prior to the crisis, investment boom was spurred by excessive debt financing, which severely impaired NFCs' balance sheets. In 2012, strong deleveraging process started which has now brought NFCs in shape for acceleration in investment activity, supported by debt financing.

**Notes:** * Gross loans by domestic banking sector based on statistical definition. ** Impaired domestic and foreign loans, foreign investment in Slovene debentures, transfers to BAMC.

Source: ECB, Bank of Slovenia.
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