SLOVENIA: Bailout avoided

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Slovenia could avert a bailout in 2013 but will have to continue the restructuring of its banking and corporate sectors to create the basis for sustainable growth. In addition, further fiscal consolidation can be expected. Owing to corporate deleveraging and dampened household consumption as a consequence of rising unemployment, the economy will remain in recession in 2014 and should rebound only in 2015.

Having dropped or stagnated since 2008, Slovenia's GDP continued to shrink in 2013 by 1.1%, which was less than expected at the beginning of the year. This result was mainly made possible through a slight increase in gross fixed capital formation (after four years of steady decline). By contrast, both household and government consumption continued to decline by close to 3% and 2% respectively. As in the years before, also foreign trade contributed positively to GDP growth thanks to low import growth. In the construction sector – contracting by almost 60% since the outbreak of the crisis – the output decline slowed down, showing early signs of bottoming out in the autumn months.

Industrial production continued to decline in 2013. Again the automotive sector, one of Slovenia's major export industries, was heavily affected by output contractions. Revoz, the subsidiary of car producer Renault, assembled only 93,700 cars in 2013, down from 131,000 a year earlier (record output in 2009: 200,000 cars). Only six out of 21 reporting industrial branches recorded an increase in production, the most remarkable of which in the manufacture of basic metals.

Foreign trade performed weakly in 2013, with exports of goods up by a mere 2% and imports further stagnating. As a result the trade balance turned positive for the first time since the country's gaining independence. Along with a rising surplus in services trade – services exports and imports increased by 5% and 1% respectively – the current account surplus was EUR 1.1 billion higher than in 2012. With regard to FDI, an outflow of about EUR 500 million was recorded. The majority of capital outflows resulted from the requalification of liabilities (inter-company loans) from foreign direct investment into loans from other sectors and does not indicate withdrawals from the country.

The labour market situation continued to deteriorate in 2013. Based on labour force survey (LFS) data, employment fell by 2% in 2013: employment losses were strongest in public administration, financial services and in manufacturing, while a noticeable number of jobs were created in the trade sector. The LFS unemployment rate soared to 10%, almost double the rate reported in 2008 and very high by Slovenian standards. Unemployment based on registration data increased to 13.5%, with labour offices registering strong inflows of temporary workers and first-time job seekers. Outflows of registers were mainly due to active labour market policy measures, e.g. promoting self-employment, on-the-job training and public works programmes.

In 2013 the Slovenian banks posted losses for the fourth consecutive year, amounting to over EUR 1 billion. In November 2013 the share of non-performing loans in total loans increased to 19% (from 14% in November 2012); 28% out of loans provided to the enterprise sector fell under this category. Both, loans to households and to the non-financial corporate sector declined compared to 2012, by 4% and 21% respectively.

At the beginning of December 2013 the Bank of Slovenia and the Slovenian government announced the results of the long-awaited stress tests and the asset quality review of the country's banking sector carried out by international consultants.[1] Accordingly, the shortfall at the banks reviewed was given at EUR 4.8 billion (or close to 14% of the GDP) under an adverse macroeconomic scenario; capital requirements for the largest banks (NLB, NKMB and Abanka) were put at around EUR 3 billion. As a result both the Slovenian government and the European Commission confirmed that no bailout was needed, because Slovenia was in a position to cover the capital requirements by its own.

In mid-December – immediately after the approval by the European Commission – the Slovenian government injected EUR 2.8 billion into the three banks as well as EUR 445 million into Factor banka and Probanka, the two banks in an ordinary winding-down process. Five other banks will have to provide around EUR 1 billion by the end of the first half of 2014 through a combination of asset sales and capital injections. Transfers of the first package of bad loans to the Bad Assets Management Company (BAMC) started in late December. As an immediate consequence of the stress tests and the subsequent recapitalisation of banks, the yield of ten-year government bonds slowed down from 6.8% in autumn 2013 to 4.6% in mid-January 2014. Already at the beginning of February Slovenia (through the Ministry of Finance) has raised USD 3.5 billion through a two-part US dollar bond issue. It issued a USD 1.5 billion five-year bond with a yield of 4.275% and a USD 2 billion ten-year tranche with a yield of 5.48%. Most of the borrowing will be used for the repayment of principal (EUR 3.5 billion) due in 2014. Immediately after the successful bond issue the Minister of Finance announced preparations for a fresh borrowing (possibly EUR 4.2 billion to pre-finance a portion of financing requirements in 2015 and 2016).[2]

The finally approved plans of bank restructuring also envisage the sale of NKBM by the end of 2016 and of a 75% stake of NLB by the end of 2017. The Bank of Slovenia expects the number of banks to decline from currently 20 to 15 or 16 by the end of 2015, with the size of the banking assets remaining at 140% of the GDP.

Owing to the recapitalisation of banks the general government deficit jumped to 15% of GDP in 2013 and public debt increased from 55% in 2012 to 75% of GDP. In mid-November 2013 Slovenian Prime Minister Alenka Bratušek won a vote of confidence which was linked to the adoption of the amended

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[1] The asset quality review included ten banks or 70% of the assets of the banking system: NLB, NKMB, Abanka Vipa, Banka Celje, Gorenjska Banka, Probanka, Factor banka, Raiffeisen banka, Hypo-Alpe-Adria-Bank and UniCredit banka. The stress tests included all these banks excluding Factor banka and Probanka, which have been undergoing an orderly wind-down process since autumn 2013.

[2] See also Financing Programme of the Republic of Slovenia, Central Government Budget for the Fiscal Year 2014, 9 January 2014.

budget for 2014. Accordingly the fiscal deficit is set to decline to 3.5% of the GDP (excluding bank restructuring and recapitalisation costs).[3] Revenues are expected to come from tax increases – introduction of a property tax, suspension of the gradual reduction of the corporate income tax – and combating the grey economy. On the expenditure side, spending on goods and services in ministries will be cut across the board by 11% and on subsidies by 12%.

The short-term outlook for the country's economy remains poor. In 2014 a further contraction of GDP is expected as a consequence of the continued drop in domestic demand. The corporate sector will carry on deleveraging, and the restructuring of the banking sector and (state-owned) enterprises will have to speed up. The continuation of recession will result in a further increase in unemployment. Consequently, growth of household consumption will remain suppressed owing to the expected decline in disposable income. GDP growth may start to recover only in 2015 driven by foreign demand and continue in 2016 but at a slow pace.

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[3] Data on the general government are based on IMF Country Report No. 14/11, p. 17. Official Slovenian sources refer only to the state budget (deficit 2014: 2.9% and 2015: 2.4% of the GDP).

Table 1 / Slovenia: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015 Forecast	2016
Population, th pers., average 2)	2039.7	2048.6	2052.8	2057.2	2058.8	2058	2058	2058
Gross domestic product, EUR mn, nom.	35420	35485	36150	35319	35275	35410	36080	37100
annual change in % (real)	-7.9	1.3	0.7	-2.5	-1.1	-0.5	0.5	1.4
GDP/capita (EUR at exchange rate)	17300	17300	17600	17200	17100	17200	17500	18000
GDP/capita (EUR at PPP)	20200	20600	21200	21400	21300	.	.	.
Consumption of households, EUR mn, nom.	19411	20004	20534	19873	19524	.	.	.
annual change in % (real)	-0.2	1.6	0.9	-4.7	-2.7	-2.0	0.0	0.5
Gross fixed capital form., EUR mn, nom.	8167	6993	6719	6274	6304	.	.	.
annual change in % (real)	-23.8	-15.3	-5.4	-8.2	0.2	0.0	1.0	2.0
Gross industrial production								
annual change in % (real)	-17.3	7.2	1.3	-1.1	-0.5	1.5	2.0	2.0
Gross agricultural production								
annual change in % (real)	0.0	0.1	0.3	-10.5	-3.2	.	.	.
Construction industry 3)								
annual change in % (real)	-20.9	-16.9	-24.9	-16.9	-3.0	.	.	.
Employed persons, LFS, th, average	981	966	936	924	906	880	870	870
annual change in %	-1.5	-1.5	-3.1	-1.3	-1.9	-2.0	-1.0	0.0
Unemployed persons, LFS, th, average	61	75	83	90	102	.	.	.
Unemployment rate, LFS, in %, average	5.9	7.3	8.2	8.9	10.1	11.5	11.5	11.0
Unemployment rate, reg., in %, end of period	10.3	11.8	12.1	13.0	13.5	14.0	14.0	13.5
Average monthly gross wages, EUR	1439	1495	1525	1525	1523	.	.	.
annual change in % (real, gross)	2.5	2.1	0.2	-2.4	-1.9	.	.	.
Average monthly net wages, EUR	930	967	987	991	997	.	.	.
annual change in % (real, net)	2.5	2.1	0.3	-2.1	-1.2	.	.	.
Consumer prices (HICP), % p.a.	0.9	2.1	2.1	2.8	1.9	1.9	1.9	1.8
Producer prices in industry, % p.a.	-1.4	2.0	4.6	0.9	0.0	0.5	0.5	1.0
General governm.budget, EU-def., % of GDP								
Revenues	42.3	43.6	43.6	44.2	43.0	.	.	.
Expenditures	48.7	49.4	49.9	48.1	58.0	.	.	.
Net lending (+) / net borrowing (-)	-6.3	-5.9	-6.3	-3.8	-15.0	-6.0	-4.5	-3.5
Public debt, EU-def., % of GDP	35.2	38.7	47.1	54.4	75.0	79.0	81.5	83.0
Central bank policy rate, % p.a., end of period 4)	1.00	1.00	1.00	0.75	0.25	.	.	.
Current account, EUR mn	-173	-50	145	1159	2279	1900	1800	1700
Current account, % of GDP	-0.5	-0.1	0.4	3.3	6.5	5.4	5.0	4.6
Exports of goods, BOP, EUR mn	16585	18973	21450	21631	22080	22600	23200	24000
annual change in %	-19.2	14.4	13.1	0.8	2.1	2.5	2.5	3.5
Imports of goods, BOP, EUR mn	17025	19803	22406	21741	21426	21900	22300	23000
annual change in %	-24.9	16.3	13.1	-3.0	-1.4	2.0	2.0	3.0
Exports of services, BOP, EUR mn	4333	4593	4842	5166	5423	5700	6000	6400
annual change in %	-12.5	6.0	5.4	6.7	5.0	6.0	6.0	6.0
Imports of services, BOP, EUR mn	3169	3313	3366	3363	3411	3500	3600	3700
annual change in %	-10.1	4.5	1.6	-0.1	1.4	2.0	3.0	3.0
FDI inflow, EUR mn	-474	272	718	-46	-491	.	.	.
FDI outflow, EUR mn	189	-156	84	-212	54	.	.	.
Gross reserves of NB excl. gold, EUR mn	671	695	642	593	580	.	.	.
Gross external debt, EUR mn	40294	40723	40100	40849	39551	.	.	.
Gross external debt, % of GDP	113.8	114.8	110.9	115.7	112.1	.	.	.
Purchasing power parity EUR/EUR	0.8575	0.8412	0.8315	0.8029	0.8058	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 according to register-based census 2011. - 3) Enterprises with 20 and more employees and output of some non-construction enterprises. - 4) Official refinancing operation rates for euro area (ECB).

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.