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Slovenia:
Unprecedented drop followed by mild recovery

Slovenia's sharp economic downturn eased somewhat in the final quarter of 2009, but on an annual average GDP still dropped by unprecedented 8%. The slippage into the deepest crisis since gaining independence was mainly the result of a dramatic decline in investment; gross fixed capital formation fell by nearly one quarter, affecting all types of investment. The investment slump was a consequence of the sharp decline in export orders along with a running down of stocks built up in the past couple of years. Household consumption fell for the first time in nine years; by contrast government consumption reported an increase. Though falling significantly, the contribution of foreign demand to GDP growth was positive as exports dropped less than imports.

Owing to the strong contraction of both merchandise exports and imports (dropping by 19% and 26% respectively in nominal terms) the foreign trade deficit shrank significantly. In services trade exports fell faster than imports due to a significant drop in transport but also construction services, while the decline in tourism was less pronounced. Thus, the traditional services trade surplus narrowed by about one third compared to 2008. The current account closed with a small deficit equal to 0.6% of GDP in 2009. Similar to previous years, Slovenia has remained an FDI net exporter. Gross foreign indebtedness reached EUR 40 billion by the end of 2009, representing 116% of GDP.

Industrial production, after months of declining, started to grow slightly in July as compared to previous months, but dropped by 17% in 2009 as a whole, in manufacturing even by 19%. Manufacturing output fell in all branches, most notably in the production of textiles (by 50%) and manufacture of furniture and basic metals (by nearly one third each). In the car industry, Slovenia's main exporting sector, production was down by 5%. In mid-January 2010 the management of Renault, owner of the car manufacturer Revoz, announced the stop of production of the 'Clio' model in Slovenia, while the production of 'Twingo' cars will not be affected by this decision. In construction, one of the drivers of GDP growth in the past couple of years, output fell by 22%.

The impact of the economic downturn on the labour market is becoming increasingly visible, although the implementation of short-time work, reducing overtime work, increasing participation of unemployed in active labour market policies and other measures have apparently helped to keep people in employment. Employment cuts were largest in manufacturing, agriculture and mining, sectors that have been under restructuring pressure for several years. Information obtained from registration data shows a steady increase in unemployment since September 2008, putting the unemployment rate at over 10% at the end of December 2009. Labour Force Survey data indicate a 1.5% employment decline and an unemployment rate of about 6%. Informal sector employment increased most probably. In order to mitigate the impact of the economic downturn on the labour market the government approved amendments to the Plan of the Active Employment Policy Programme for 2010 and 2011 by providing additional funds to implement active labour market policy measures. The programme envisages, among other things, subsidy schemes for employment, self-employment and public works.

The general government deficit deteriorated significantly in 2009, to 5.9% of GDP. This was mainly due to a strong decline in tax revenues coupled with rising expenditures, such as for social transfers, measures counteracting the crisis as well as increased expenditures for public sector wages (due to an agreement on a gradual elimination of wage disparities in the public sector reached with the social partners in 2008). As of 2 December 2009 the EU Economic and Fiscal Affairs Council opened an excessive deficit procedure against Slovenia (along with eight other countries). Accordingly the Council called on Slovenia to reduce its deficit below the 3% of GDP threshold by 2013. In doing so the Slovenian government has decided in its policy objectives for 2010-2013: (i) a gradual withdrawal of fiscal stimuli by the end of 2010 and a gradual phasing out of financial support measures; (ii) to rely on an expenditure-based fiscal consolidation strategy instead of increasing taxes; and (iii) ensuring long-term fiscal consolidation by implementing structural reforms. The latter should concentrate on the reforms of the pension system (change of the indexation formula) and the health system (widening the tax base for social security contributions for health). The budgets for 2010 and 2011 foresee deficits at 5.7% and 4.2% of GDP respectively. This should be made possible by reducing current expenditure growth, e.g. in the area of social transfers and public sector wages. Having reported relatively low levels in the past (22.5% of GDP in 2008, 34% in 2009), public debt will rise in the years to come, up to 43% in 2012. After issuing three Eurobonds worth EUR 4 billion in 2009, Slovenia issued a new ten-year maturity EUR 1.5 billion syndicated bond on 18 January 2010.

wiiw expects GDP to grow slightly in 2010 owing to moderately rising foreign demand. In addition, first results owing to the government's loan guarantee programme launched in 2009 should become visible. Investment will need some time to recover and will regain strength only in 2011. Considering the usual lag between changes in production and employment, we expect a further job decline this year and probably stagnation in 2011. These developments will also negatively affect household decisions on consumption. The general government deficit may be even higher than in 2009 and decrease only slightly thereafter. Key to a potential recovery will be the developments in Slovenia's main trading partners, Germany and Italy in particular. More robust growth can be expected in 2011 and 2012 under the assumption of stronger export demand than in 2010 as well as a mild recovery in domestic demand (investments in particular).

Table SI

Slovenia: Selected Economic Indicators

	2004	2005	2006	2007	2008	2009 1)	2010	2011 Forecast	2012
Population, th pers., average	1997.0	2000.5	2006.9	2018.1	2021.3	2043.2	2045	2045	2045
Gross domestic product, EUR mn, nom.	27073.4	28749.6	31050.4	34568.2	37135.4	34460	35330	36760	38430
annual change in % (real)	4.3	4.5	5.8	6.8	3.5	-8	1	2	2.5
GDP/capita (EUR at exchange rate)	13600	14400	15500	17100	18400	16900	17300	18000	18800
GDP/capita (EUR at PPP)	18700	19700	20700	22100	22800	21100	.	.	.
Consumption of households, EUR mn, nom.	14582.1	15331.2	16156.1	17944.2	19296.9	18980	.	.	.
annual change in % (real)	2.8	2.8	2.9	6.7	2.1	-2.5	1	2	2.5
Gross fixed capital form., EUR mn, nom.	6752.1	7321.3	8242.1	9571.3	10742.4	8290	.	.	.
annual change in % (real)	5.6	3.7	9.9	11.7	7.7	-23.5	1	4	5
Gross industrial production									
annual change in % (real)	4.9	3.5	5.7	7.1	2.4	-17.1	2	3	3
Gross agricultural production									
annual change in % (real)	19.0	-1.2	-7.4	3.9	-0.8	-1.7	.	.	.
Construction industry 2)									
annual change in % (real)	0.7	2.0	15.7	18.5	15.5	-22	.	.	.
Employed persons - LFS, th, average	943	949	961	985	996	981	966	966	976
annual change in %	5.1	0.7	1.3	2.5	1.1	-1.5	-1.5	0	1
Unemployed persons - LFS, th, average	64	66	61	50	46	63	.	.	.
Unemployment rate - LFS, in %, average	6.3	6.5	6.0	4.8	4.4	6	7	7	6.5
Reg. unemployment rate, in %, end of period	10.1	10.2	8.6	7.3	7.0	10.5	11.5	11	10.5
Average gross monthly wages, EUR 3)	1117	1157	1213	1285	1391	1435	.	.	.
annual change in % (real, net) 3)	2.1	3.5	2.5	4.2	2.0	2.7	.	.	.
Consumer prices (HICP), % p.a.	3.7	2.5	2.5	3.8	5.5	0.9	1.5	2	2
Producer prices in industry, % p.a.	2.6	1.9	2.3	4.4	3.9	-1.4	-1	2	2
General governm.budget, EU-def., % GDP									
Revenues	43.6	43.8	43.2	42.4	42.4	43.2	.	.	.
Expenditures	45.8	45.2	44.5	42.4	44.2	49.1	.	.	.
Net lending (+) / net borrowing (-)	-2.2	-1.4	-1.3	0.0	-1.8	-5.9	-6	-4.5	-4.5
Public debt, EU-def., in % of GDP	27.2	27.0	26.7	23.3	22.5	34.4	40	42	43
Discount rate of NB, % p.a., end of period 4)	3.3	3.8	3.8	4.0	2.5	1.0	.	.	.
Current account, EUR mn	-719.7	-497.6	-772.0	-1646.0	-2286.0	-207.3	-400	-700	-900
Current account in % of GDP	-2.6	-1.7	-2.5	-4.8	-6.2	-0.6	-1.1	-2	-2.3
Exports of goods, BOP, EUR mn	12932.8	14599.2	17028.0	19799.0	20048.0	16190.0	16700	17500	18500
annual growth rate in %	13.3	12.9	16.6	16.3	1.3	-19.2	3	5	6
Imports of goods, BOP, EUR mn	13941.6	15625.0	18179.0	21465.0	22699.0	16719.0	17400	18400	19600
annual growth rate in %	16.6	12.1	16.3	18.1	5.7	-26.3	4	6	7
Exports of services, BOP, EUR mn	2782.6	3213.5	3573.0	4146.0	5041.0	4287.0	4550	4840	5250
annual growth rate in %	12.9	15.5	11.2	16.0	21.6	-15.0	6	6	8
Imports of services, BOP, EUR mn	2095.0	2293.5	2580.0	3098.0	3431.0	3234.0	3260	3500	3800
annual growth rate in %	8.8	9.5	12.5	20.1	10.7	-5.7	1	7	9
FDI inflow, EUR mn	665.2	472.6	514.0	1106.0	1313.0	-79.5	500	.	.
FDI outflow, EUR mn	441.0	515.6	687.0	1316.0	933.0	609.7	.	.	.
Gross reserves of NB excl. gold, EUR mn 5)	6466.8	6822.2	5341.7	666.0	623.0	670.8	.	.	.
Gross external debt, EUR mn	15343	20496	24067	34752	39096	40008	.	.	.
Gross external debt in % of GDP	56.7	71.3	77.5	100.5	105.3	116.1	.	.	.
Average exchange rate EUR/EUR	0.997	1.000	1.000	1.000	1.000	1.000	1	1	1
Purchasing power parity EUR/EUR	0.725	0.730	0.746	0.776	0.806	0.800	.	.	.

Note: Gross industrial production, construction output and producer price index refer to NACE Rev. 2.

1) Preliminary and wiiw estimates. - 2) Enterprises with at least 20 employees. - 3) From January 2005 including legal persons with 1 or 2 employees in the private sector. - 4) Main refinancing rate, from 2007 for euro area. - 5) From January 2007 (euro introduction) only foreign currency reserves denominated in non-euro currencies.

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