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Slovenia:
Worsening recession

In Slovenia the economy will remain in recession in 2013 and only bounce back slowly in the years to come. Household consumption will remain subdued on account of rising unemployment. Restructuring of the banking sector, fiscal consolidation and, ultimately, the implementation of the long overdue reform measures recently adopted will remain the most challenging tasks for the Slovenian authorities.

Slovenia's GDP continued to shrink in the first quarter of 2013 year-on-year, down by 4.8% owing to a substantial drop in domestic demand. Both household and government consumption declined, by 5.4% and 2% respectively. Gross fixed capital formation contracted by 2%. Only foreign trade did contribute positively to GDP growth. The construction sector is still in dire straits; output continued to decline dramatically (24%). Since the outbreak of the crisis construction has contracted by almost 60%, many large companies of the sector went bankrupt and a recovery is not in sight yet.

Industrial production continued to decline in the first quarter of 2013. Output decreased in almost all branches and the fall was particularly strong (minus 20%) in the automotive sector, one of Slovenia's major export industries. Only five out of 21 reporting industrial branches recorded an increase in production, the most remarkable of which in the manufacture of computers and optical products. Also energy-related industries registered output increases.

In foreign trade the weak performance prevailing in 2012 carried on, with exports of goods up by a mere 1% and imports contracting. As a result the trade deficit was almost eliminated. Along with a rising surplus in the trade of services, the current account closed with a remarkably higher surplus than in the first three months of 2012. The inflow of FDI was significantly lower than in the corresponding quarter a year earlier.

The labour market situation deteriorated significantly in the first quarter of 2013. Based on labour force survey data, employment fell by 4% in the first quarter of 2013; the unemployment rate soared to 11.1%, the highest rate ever reported. In terms of age, unemployment grew most for the age group 34 and over, while youth unemployment even decreased slightly during the first months of 2013. Inactivity was on the rise as well, indicating the highest level ever since LFS conducting began. Unemployment based on registration data soared to 13.4%. Following protracted negotiations the Slovenian parliament adopted a labour market reform which became effective from April 2013. In order to reduce the segmentation of the labour market, the new law envisages making temporary fixed-term contracts – which are very common particularly in the case of young people – less attractive. The law caps the allowed number of temporary agency workers in companies to 25% and employers have to pay higher contributions for unemployment benefit insurance for employees with fixed-term contracts. In addition, the law foresees a simplification of hiring and firing procedures: notice periods for permanent employees will be reduced from 120 to 80 days, severance pay is reduced depending on the years of service, and the obligation to register every job vacancy at the employment agency has been removed. Retirement allowances, special payments employees are entitled to when they retire, will be restricted to those who have worked in a company for at least five years. Contrary to initial announcements, unemployment benefits have remained unchanged. Moreover, the new law regulates the employment of pensioners, who may work up to 60 hours per month and earn up to EUR 6300 per year.

In 2012 the Slovenian banks posted losses for the third consecutive year, amounting to EUR 770 million; according to the central bank this trend will continue also in 2013. In March 2013 the share of non-performing loans in total loans stood at 14.6% (similarly as in December 2012); 24.3% out of loans provided to the enterprise sector fell under this category.

Following allegations of corruption, Slovenia’s parliament dismissed Prime Minister Janez Janša’s government by a vote of no-confidence by the end of February. He was replaced by Alenka Bratušek, the interim leader of the centre-left Positive Slovenia party, who formed a coalition government with the Civic List (Gregor Virant), the Pensioners party DeSUS and the Social Democrats which took over in late March.

In May 2013 the new Slovenian government adopted a new austerity package outlined in the Stability Programme 2013 and the National Reform Programme which was sent to the European Commission for approval as part of the excessive deficit procedure. Some of the proposed measures have already been approved by the parliament such as the permanent increase of the VAT from 20% to 22% and of the reduced rate from 8.5% to 9.5% (effective from 1 July 2013) as well as the further reduction of public sector wages agreed upon with the trade unions. The new regulation, which affects 155 thousand public sector employees and envisages wage cuts between 0.5% and 5%, came into force at the beginning of June 2013. Moreover, the Slovenian parliament approved constitutional amendments capping government budget spending (fiscal rule) and tightening rules on holding referenda. The fiscal rule will become effective from the beginning of 2015, against the initial plan of the Prime Minister to postpone it until 2017. Regarding referenda – which have been used by political parties and trade unions to block reforms in the past (only in 2011 four laws including the pension reform were rejected by a referendum) – laws on taxes, customs duties and other levies or legislation needed to implement the budget cannot be subject to a referendum. A request for a referendum can only be submitted by 40,000 citizens eligible to vote, and no longer by (a third of) MPs and state councillors.

In addition, the government announced the privatisation of 15 companies including Telekom Slovenija, Nova Kreditna Banka Maribor, the country's second largest bank, the national airline Adria Airways and the Ljubljana airport. According to the Minister of Finance, the state will completely withdraw from all these companies and not maintain a controlling share in any of them. The bad bank, a major issue during coalition negotiations, should become operational in June, when first assets are to be transferred to the bank. The initial idea to impose a general crisis tax on all incomes was abandoned.

After reviewing both the national reform and the stability programmes, the European Commission recommended extending the deadline for Slovenia by two years to reduce its budget deficit to below 3%. This step was explained by the fact that Slovenia has sped up the pace of reforms and made additional commitments for getting its finances in order (such as working closely with the Commission and ECB to ensure asset quality reviews as well as the readiness of the Slovenian government to cover any additional capital shortfalls revealed in the process of asset transfers to the bad bank).

According to the final figures, the general government deficit in 2012 stood at 4% of GDP. The dynamics of public debt growth, although still lower than in a number of other euro area countries, has become a matter of major concern over the past few years, having risen from 22% in 2008 to 54% in 2012. Considering the further need of bank recapitalisation (at an estimated EUR 900 million by the end of July) the general government deficit is expected by the government to increase to 7.9% of GDP in the current year and should gradually decrease in the coming years. Thus, public debt as a percentage of the GDP will exceed the 60% mark already in 2013 and should be gradually reduced to below 55% through the sale or liquidation of assets acquired by the bad bank. In response to the high budget deficit during the first four months of the year, the government decided to adopt a supplementary budget which should be passed in mid-

July. In April 2012, the yield of a ten-year Slovenian government bond was close to the psychological barrier of 7%. A successful USD 3.5 billion bond issue in late April has helped cooling off slightly with the yield on Slovenian government bonds returning to 5.8% in May and has also temporarily staved off the risk of bailout. Only two days prior to the issuance Moody's downgraded Slovenia's sovereign rating to junk, a downgrade by Fitch followed in mid-May.

Given the need of fiscal consolidation and the economic downturn among Slovenia's most important trading partners, Slovenia's economy will remain in recession in 2013. wiiw expects the GDP to decline by about 3% in 2013 (more than double the contraction we forecasted previously). Stagnation or even further contraction is likely in 2014 as a consequence of the continued drop in domestic demand. The corporate and household sectors will carry on deleveraging, and restructuring of the banking sector will have to speed up. The continuation of recession will exert further upward pressure on the unemployment rate, not only in 2013 but probably in 2014 as well. Consequently, growth of household consumption will remain subdued owing to the expected decline in disposable income.

Table SI

Slovenia: Selected Economic Indicators

	2009	2010	2011	2012 [1)]	2012	2013	2013	2014	2015
					1st quarter			Forecast	
Population, th pers., average [2)]	2039.7	2048.6	2052.8	2056.4	2055.5	2058.8	2055	2055	2055
Gross domestic product, EUR mn, nom.	35556	35607	36172	35466	8529	8340	35150	35710	36790
annual change in % (real)	-7.8	1.2	0.6	-2.3	0.0	-4.8	-3.3	-0.4	1.0
GDP/capita (EUR at exchange rate)	17400	17400	17600	17200	.	.	17100	17400	17900
GDP/capita (EUR at PPP)	20300	20500	21000	20900	.	.	.	.	.
Consumption of households, EUR mn, nom.	19547	20112	20675	20452	4793	4660	.	.	.
annual change in % (real)	0.2	1.4	1.0	-2.9	0.7	-5.4	-5.0	-2.0	1.0
Gross fixed capital form., EUR mn, nom.	8225	7169	6694	6157	1416	1420	.	.	.
annual change in % (real)	-23.2	-13.7	-8.1	-9.2	-10.3	-2.0	-2.0	0.0	2.0
Gross industrial production									
annual change in % (real)	-17.3	7.2	1.3	-1.2	-0.3	-2.0	-1.5	2.0	2.0
Gross agricultural production (EAA)									
annual change in % (real)	0.0	0.1	-0.5	-9.9	.	.	.	.	.
Construction industry [3)]									
annual change in % (real)	-20.9	-16.9	-24.9	-16.9	-15.3	-24.0	.	.	.
Employed persons, LFS, th, average	981	966	936	924	927	888	880	860	860
annual change in %	-1.5	-1.5	-3.1	-1.3	-0.2	-4.2	-4.5	-2.0	0.0
Unemployed persons, LFS, th, average	61	75	83	90	87	111	.	.	.
Unemployment rate, LFS, in %, average	5.9	7.3	8.2	8.9	8.6	11.1	11.5	11.5	10.0
Reg. unemployment rate, in %, end of period	10.3	11.8	12.1	12.8	12.0	13.4	13.5	14.0	13.5
Average gross monthly wages, EUR	1439	1495	1525	1525	1529	1514	.	.	.
annual change in % (real, net)	2.5	2.1	0.3	-2.1	-0.8	-2.4	.	.	.
Consumer prices (HICP), % p.a.	0.9	2.1	2.1	2.8	2.5	2.7	2.5	2.0	2.0
Producer prices in industry, % p.a.	-1.4	2.0	4.6	0.9	1.3	0.7	2.0	2.5	2.5
General governm.budget, EU-def., % of GDP									
Revenues	43.1	44.5	44.4	45.0	.	.	.	.	.
Expenditures	49.3	50.4	50.8	49.0	.	.	.	.	.
Net lending (+) / net borrowing (-)	-6.2	-5.9	-6.4	-4.0	.	.	-8.0	-3.5	-3.0
Public debt, EU-def., % of GDP	35.0	38.6	46.9	54.1	.	.	62.0	64.0	66.0
Central bank policy rate, % p.a., end of period [4)]	1.00	1.00	1.00	0.75	1.00	0.75	.	.	.
Current account, EUR mn	-246	-210	1	817	28	221	600	300	200
Current account, % of GDP	-0.7	-0.6	0.0	2.3	0.3	2.7	1.7	0.8	0.5
Exports of goods, BOP, EUR mn	16410	18762	21264	21454	5329	5382	21800	22300	22900
annual change in %	-19.1	14.3	13.3	0.9	2.9	1.0	1.5	2.5	2.5
Imports of goods, BOP, EUR mn	16909	19760	22307	21788	5495	5426	21800	22500	23100
annual change in %	-25.4	16.9	12.9	-2.3	1.6	-1.3	0.0	3.0	2.5
Exports of services, BOP, EUR mn	4347	4616	4838	5095	1113	1211	5500	5900	6300
annual change in %	-12.3	6.2	4.8	5.3	5.8	8.8	7.0	7.0	7.0
Imports of services, BOP, EUR mn	3182	3331	3395	3395	709	727	3500	3600	3700
annual change in %	-9.9	4.7	1.9	0.0	-3.7	2.4	2.0	3.0	4.0
FDI inflow, EUR mn	-470	271	719	112	197	70	.	.	.
FDI outflow, EUR mn	187	-160	81	-73	8	83	.	.	.
Gross reserves of NB excl. gold, EUR mn	671	695	642	593	583	528	.	.	.
Gross external debt, EUR mn	40294	40723	40241	40838	42386	40517	.	.	.
Gross external debt, % of GDP	113.3	114.4	111.2	114.6	119.5	115.3	.	.	.
Purchasing power parity EUR/EUR	0.8561	0.8467	0.8387	0.8261	.	.	.	.	.

Note: Gross industrial production, construction output and producer prices refer to NACE Rev. 2. Gross agricultural production refers to Economic Accounts for Agriculture (EAA).

1) Preliminary. - 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 Database incorporating Eurostat and national statistics. Forecasts by wiiw.