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Slovenia: GDP growth cooling down

After an unexpectedly high 4.6% increase in 2004, Slovenia's GDP growth lost momentum during the first quarter of 2005, amounting to a modest 2.6%. The slowdown was primarily due to a fall in investments, particularly those in transport equipment and construction. The latter stagnated, on an aggregate level, in the first quarter, with building construction increasing by 7.5% and civil engineering down by 8%. At the same time both household and government consumption rose by 2.7%. The revival of the external sector starting in the final quarter of 2004 continued, contributing some 1.3% to overall GDP growth in the first quarter of 2005.

Industrial output declined by 1.1% during the first four months of the year, of which manufacturing accounted for 0.7%. As in the past few years, output fell significantly in labour-intensive industries such as textiles and leather as well as in the food and beverages industries. The latter has come under severe pressure after the country's accession to the EU. The most outstanding result, an output increase of nearly 17%, was reported for the manufacturing of transport equipment (cars by Revoz); this translated into high export growth, particularly to France. As a result of the production decline that was not matched by equivalent employment cuts, labour productivity growth turned negative during the first quarter of 2005.

Based on labour force survey (LFS) results, employment grew by 1.3% in the first quarter of the year, almost double the rate obtained from registration data. The latter point to continued job creation in the services sector, particularly business activities, financial intermediation and education. By contrast, employment declines were registered in industry and agriculture, the latter reporting a 7% drop; exceptions were electricity as well as gas and water supply. According to the Slovenian Employment Service, enterprises expect these trends to continue. LFS unemployment was at the same level, 6.9%, as in the first quarter of 2004, while the registration rate was 1 percentage point lower than in the corresponding period a year earlier.

Since the entry of the Slovenian tolar into the ERM II by the end of June 2004, the exchange rate has remained close to the central band. The disinflation process has continued, with consumer price inflation averaging 2.6% during the first five months of the year or 2.2% May on May. Real wage growth, up 3.8% during the first quarter of the year, exceeded productivity growth at least for that period, thus going beyond the limits set in the Convergence Programme 2004-2007 (according to which wage growth should lag behind labour productivity growth by at least one percentage point).

Given the poor performance of industry, foreign trade developed surprisingly well. Expressed in euro terms, both exports and imports rose by 11% and 6.5% respectively during the first four months of 2005. As a result the foreign trade deficit was nearly EUR 150 million lower than in the same 2004 period. Exports to the EU-25 reported above-average growth of close to 14% in the period January-April (with exports to France nearly doubling), while deliveries to non-member states rose by 5% only. On the import side the development was quite the opposite: imports from non-member countries were twice as high as the average rate. The improved trade balance translated into a slight current account surplus in the first four months of the year (versus a EUR 40 million deficit in the same period of 2004). As in the past two years, Slovenia witnessed higher outward than inward FDI flows during the first four months of 2005, resulting in a net outflow of about EUR 170 million. Most of outward FDI was directed towards the successor states of the former Yugoslavia, particularly Serbia and Montenegro as well as Bosnia and Herzegovina. After several failed attempts, the privatization of Slovenia's second largest bank Nova Kreditna Banka Maribor (NKBM) is taking shape. The current model envisages a fresh capital injection by the EBRD and privatization thereafter. A quarter of the shares will be offered on the stock exchange, primarily – but not exclusively – for domestic investors. The exact date of the listing has not yet been decided. The state, however, is to retain control over the bank.

Slovenia's foreign debt has been growing steadily over the past several years and reached EUR 16.5 billion (of which 20% of short-term debt) by the end of April. This represents 63.8% of the 2004 GDP. Most of the debt (close to 45%) is owed by enterprises (other sectors), followed by banks (34%) and the government (about 15%); foreign direct investment accounts for the remainder. Servicing the debt seems to be manageable.

In May the Slovenian government adopted a supplementary state budget for 2005, setting the deficit to GDP ratio at 1.4%, down from the 1.7% anticipated in the original document that was passed in December 2003. Final data for 2004 indicate a 1.9% general government deficit, somewhat lower than originally expected.

Recently the Strategic Council for Economic Development presented the results of a feasibility study on the introduction of a flat tax. Accordingly a 20% rate would be optimal. The Council recommends the new regulation to be introduced after the adoption of the euro, planned for the beginning of 2007, 'in order to avoid major economic shocks that could derail the adoption process'.

As for 2005, GDP growth will be less encouraging than anticipated at the beginning of the year and will amount to 3.4%, backed both by domestic and foreign demand. The situation on the labour market may improve, if at all, only slightly. Inflation may continue its downward trend and could fall to below 3% already in 2005. The budget is well under control and the current account will not cause any problems in the near future.

Table SI

Slovenia: Selected Economic Indicators

	2000	2001	2002	2003	2004 ¹⁾	2004 1st quarter	2005 1st quarter	2005 forecast	2006 forecast
Population, th pers., mid-year	1990.3	1992.0	1995.7	1996.8	1997.0	.	.	.	.
Gross domestic product, SIT bn, nom.	4252.3	4761.8	5314.5	5747.2	6191.2	1449.4	1516.0	6600	7000
annual change in % (real)	3.9	2.7	3.3	2.5	4.6	4.1	2.6	3.4	3.4
GDP/capita (EUR at exchange rate)	10421	11006	11771	12316	12979	.	.	.	.
GDP/capita (EUR at PPP - wiiw)	14410	15230	15870	16340	17420	.	.	.	.
Gross industrial production									
annual change in % (real)	6.2	2.9	2.4	1.4	4.8	4.2	-2.6	1	2
Construction output, in effect. working time									
annual change in % (real) ²⁾	-1.2	-2.1	-3.4	-1.7	2.5	9.0	-3.6	.	.
Consumption of households, SIT bn, nom.	2373.6	2621.8	2830.4	3053.9	3261.3	738.7	772.8	.	.
annual change in % (real)	0.3	2.3	0.2	2.8	3.5	4.0	2.7	3.5	3
Gross fixed capital form., SIT bn, nom.	1066.8	1164.4	1239.2	1373.3	1529.1	352.4	366.6	.	.
annual change in % (real)	0.6	4.1	3.1	6.3	6.8	8.0	-0.5	2	3
LFS - employed persons, th, avg.	901	916	910	897	943 ³⁾	922	934	.	.
annual change in %	1.7	1.7	-0.7	-1.4	5.2 ³⁾	4.2	1.3	.	.
Reg. employees in industry, th pers., avg. ⁴⁾	241.6	243.5	246.1	242.2	239.7	239.7	240.9 ⁴⁾	.	.
annual change in %	-0.5	0.8	1.1	-1.6	-1.0	-1.5	.	.	.
LFS - unemployed, th pers., average	68.0	63.0	62.0	64.8	64.0	68	69	.	.
LFS - unemployment rate in %, average	7.0	6.4	6.4	6.7	6.3	6.8	6.9	6.5	6
Reg. unemployment rate in %, end of period	12.0	11.8	11.3	11.0	10.1	11.1	10.2	10	9.5
Average gross monthly wages, SIT	191669	214561	235436	253200	284281	258118	270994	.	.
annual change in % (real, net)	1.4	3.1	2.1	1.8	2.1	1.8	3.1	.	.
Consumer prices, % p.a.	8.9	8.4	7.5	5.6	3.6	3.7	2.6	2.7	2.5
Producer prices in industry, % p.a.	7.6	8.9	5.1	2.5	4.3	3.2	4.3	3	.
General governm.budget, EU-def., % GDP ⁵⁾									
Revenues	44.7	45.1	45.7	46.2	45.8	.	.	.	.
Expenditures	48.2	47.8	48.1	48.2	47.7	.	.	.	.
Deficit (-) / surplus (+), % GDP	-3.5	-2.7	-2.3	-2.0	-1.9	.	.	-2.2	-2.1
Public debt in % of GDP ⁴⁾	27.4	28.1	29.5	29.4	29.4	.	.	30.2	30.4
Discount rate % p.a., end of period ⁶⁾	10.0	7.8	7.3	5.0	3.3	4.5	3.3	.	.
Current account, EUR mn	-583.0	38.0	335.4	-91.2	-238.3	34.4	12.9	-170	-170
Current account in % of GDP	-2.8	0.2	1.4	-0.4	-0.9	0.6	0.2	-0.6	-0.6
Gross reserves of NB excl. gold, EUR mn	3435.8	4907.5	6701.5	6798.2	6464.0	6791.4	6515.2	.	.
Gross external debt, EUR mn	9490	10403	11455	13305	15397	13812	16313	.	.
FDI inflow, EUR mn	149.1	412.4	1750.4	298.8	421.6	24.8	-99.7	.	.
FDI outflow, EUR mn	71.7	161.2	168.1	413.7	400.7	134.9	126.0	.	.
Exports of goods, BOP, EUR mn	9574.2	10454.3	11081.6	11414.0	12736.1	2991.0	3310.8	13700	14400
annual growth rate in %	18.2	9.2	6.0	3.0	11.6	8.3	10.7	8	5
Imports of goods, BOP, EUR mn	10801.2	11138.7	11351.0	11959.8	13576.0	3088.7	3383.0	14500	15400
annual growth rate in %	16.6	3.1	1.9	5.4	13.5	5.9	9.5	7	6
Exports of services, BOP, EUR mn	2051.5	2177.6	2440.0	2468.6	2792.8	552.6	593.6	.	.
annual growth rate in %	16.3	6.1	12.0	1.2	13.1	7.8	7.4	.	.
Imports of services, BOP, EUR mn	1562.3	1642.1	1823.5	1930.3	2120.9	413.0	441.7	.	.
annual growth rate in %	8.9	5.1	11.0	5.9	9.9	12.3	6.9	.	.
Average exchange rate SIT/USD	222.68	242.75	240.24	207.11	192.38	189.84	182.73	.	.
Average exchange rate SIT/EUR (ECU)	205.03	217.19	226.22	233.70	238.86	237.39	239.75	239.5	240
Purchasing power parity SIT/USD	130.38	137.35	147.93	152.75	154.36	.	.	.	.
Purchasing power parity SIT/EUR	148.28	156.95	167.82	176.15	178.01	.	.	.	.

Notes: 1) Preliminary. - 2) From 2004 construction put in place; units with at least 20 employees. - 3) Registration data show a growth of 0.6% only. - 4) From January 2005 data from Statistical Register of Employment, years before from Monthly Report on Earnings. - 5) According to ESA'95, excessive deficit procedure. - 6) From 2001 main refinancing rate.

Source: wiiw Database incorporating national statistics; Eurostat; EU Economic Forecasts, Spring 2005; wiiw forecasts.