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Slovenia: introduction of the euro approved

After a positive assessment of Slovenia in its Convergence Report, on 16 May 2006 the European Commission proposed that the country adopts the euro as of 1 January 2007. Thus, Slovenia will be the first new member – among the ten countries that acceded the European Union in May 2004 – to join the euro-zone. The final decision on the enlargement of the euro area will be made at the Ecofin meeting on 11 July.

Economic developments were favourable in the first quarter of 2006. Backed by strong domestic demand and a moderate contribution of foreign trade, Slovenia's GDP grew by 5.1%. Domestic demand was mainly supported by sustained investment growth, particularly in transport equipment, other machinery equipment and residential building. Along with continued household lending, private consumption grew at a similar rate as a year earlier, by 3%. Consumer prices have been on the rise for three months in a row, with inflation averaging 2.4% in the first five months of 2006 or 3.2% in May year-on-year. The current price rises are seen as a seasonal phenomenon by the Slovenian authorities, however, a continuation of these trends would question the price stability as required by the Maastricht criterion. Since the entry of the Slovenian tolar into the ERM II as of end of June 2004, the exchange rate of the tolar against the euro has remained close to the central band. Generally it is assumed that the exchange rate, which will be fixed at the Ecofin meeting in July, will not deviate much from, or remain at the existing parity of SIT 239.64 per EUR 1.

Industrial output growth fluctuated significantly from month to month; over the period January-April it increased by 5.8%. Growth was mainly impacted by strong foreign demand; the steepest output increases were observed in export-oriented industries such as manufacture of chemicals, machinery and equipment, electrical and optical equipment, and basic metals. On the negative side, the country's textile industry continued its downward trend, with production contracting by another 6%. Industrial productivity rose by 10% in the first quarter of the year. Overall, business expectations remain high both with respect to the improvement of the business climate in general and the growing export demand in particular.

Similar to previous years, the high GDP growth had only a limited impact on employment growth. Based on data obtained from the Labour Force Survey (LFS), employment rose by 1.3%, while national account data indicate a rise of less than 1%. Jobs increased first of all in the small business sector and in construction, whereas the textile industry was hit hardest by employment losses. Unemployment, according to LFS data, remained at 6.9% in the first quarter; based on registration data (traditionally higher than the LFS data)

unemployment declined in January-May, to 9.6% – the lowest rate since 1991. However, that decline may have been the result of people being deleted from the register ‘for reasons other than employment’ rather than of a movement from unemployment to employment.

On the external side, the export expansion continued: export soared by an unexpected 19% in the first quarter of the year, while imports rose strongly as well, by 18%. Exports and imports of goods developed especially dynamically in trade with non-EU member countries, in particular with Serbia, Croatia and Russia. The increased surplus in services trade could offset the trade deficit, but was not sufficient to compensate for the growing deficits in the transfer and, to a lesser extent, the income balances (rising interest payments). Overall, the current account recorded a similar deficit as in the first quarter of 2005. FDI inflows to and outflows from Slovenia were only moderate in the first months of 2006, but Slovenia remained a net exporter of FDI; as in previous years, the Slovenian outflow of FDI was mainly targeting the successor states of the former Yugoslavia.

The ambitious economic reforms announced by the end of last year seem to have lost momentum after reform minister Jože Damijan resigned from his post after only three months in office. In an attempt to continue the reform project and in order to reach a broad consensus on the envisaged reform measures, a Partnership for Development Agreement was signed by the presidents of six parliamentary parties, except the one from the biggest opposition party (LDS), in mid-April. The Agreement basically relies on the heavily discussed economic and social reform package announced in late 2005, calling for an increase in competitiveness which should be achieved, among other things, through a simplification of the tax system, promoting SMEs, restructuring public expenditures in order to support the development priorities, and speeding up privatization and liberalization in the area of public utilities. The issue of introducing a flat tax, which has been subject to fierce debates in the public, has not yet been decided. A good deal of the envisaged reforms will depend on the assessment of the reform impact, which is currently prepared by the Institute of Economic Research and will be presented by the end of June/beginning of July this year.

As regards the planned privatizations, some progress has been made recently. By mid-May the government gave its approval to the privatization of Nova Kreditna Banka Maribor (NKMB) and adopted a plan for selling the state’s share in the country’s telecom company. In the case of NKBM, the privatization will be carried out in two stages, with the state keeping 25% plus one share in the end. The privatization plan for Telekom envisages the sale of the state’s entire stake (currently over 70%) in the company and its subsidiaries. A different case is that of Nova Ljubljanska Banka, 34%-owned by the Belgian KBC Bank since 2002. After protracted and in the end unsuccessful discussions on raising its stake in Nova Ljubljanska Banka, KBC has recently decided to withdraw from the bank altogether.

The general growth pattern in 2006 and 2007 will not change significantly from that observed in the recent past. Based on results for the first months of the year, GDP growth will be mainly driven by domestic demand (increasing investment in infrastructure projects such as motorways and housing) and will be somewhat higher than originally expected by wiiw, at about 4% in 2006. The current account deficit may exceed the 2005 level, but remain in the range of 1% to 1.5% of the respective GDP this year and the next. Keeping inflation low may be jeopardized by rising oil prices.

Table SI

Slovenia: Selected economic indicators

	2001	2002	2003	2004	2005 ¹⁾	2005 1st quarter	2006	2006 forecast	2007
Population, th pers., mid-year	1992.0	1995.7	1996.8	1997.0	2001.1	1998.1 ^{Mar}	.	.	.
Gross domestic product, SIT bn, nom. ²⁾	4799.6	5355.4	5813.5	6251.2	6557.7	1526.9	1623.2	7000	7470
annual change in % (real) ²⁾	2.7	3.5	2.7	4.2	3.9	2.8	5.1	4	4
GDP/capita (EUR at exchange rate) ²⁾	11094	11862	12458	13105	13675	3187	.	.	.
GDP/capita (EUR at PPP - wiiw) ²⁾	15400	16040	16510	17930	18720	.	.	.	.
Gross industrial production									
annual change in % (real) ³⁾	2.9	2.4	1.4	4.8	3.4	-0.2	8.2	5.5	5
Gross agricultural production									
annual change in % (real)	-4.3	13.4	-12.7	19.3	.	.	.	.	.
Construction output, in effect. working time									
annual change in % (real) ⁴⁾	-2.1	-3.4	-1.7	2.5	3.0	-3.6	1.6	.	.
Consumption of households, SIT bn, nom. ²⁾	2657.8	2903.4	3167.4	3386.2	3555.8	807.0	848.6	.	.
annual change in % (real) ²⁾	2.3	1.3	3.5	3.3	3.3	3.0	3.3	3	3
Gross fixed capital form., SIT bn, nom. ²⁾	1158.7	1211.5	1353.1	1506.0	1625.8	357.3	393.7	.	.
annual change in % (real) ²⁾	0.4	0.9	7.1	5.9	3.7	0.6	8.9	7	7
LFS - employed persons, th, avg.	916	910	897	943	949	934	946	.	.
annual change in %	1.7	-0.7	-1.4	5.1	0.6	1.3	1.3	.	.
Reg. employees in industry, th pers., avg. ⁵⁾	243.5	246.1	242.2	239.7	239.4	240.9	235.1 ^{Jan}	.	.
annual change in %	0.8	1.1	-1.6	-1.0	.	.	-2.5 ^{Jan}	.	.
LFS - unemployed, th pers., average	63	62	65	64	67	69	70	.	.
LFS - unemployment rate in %, average	6.4	6.4	6.7	6.3	6.6	6.9	6.9	6.5	6
Reg. unemployment rate in %, end of period	11.8	11.3	11.0	10.4	10.2	10.2	10.3	10	9.5
Average gross monthly wages, SIT ⁶⁾	214561	235436	253200	267571	277279	267391	281562	.	.
annual change in % (real, net) ⁶⁾	3.1	2.1	1.8	2.1	3.5	3.4	3.1	.	.
Consumer prices, % p.a.	8.4	7.5	5.6	3.6	2.5	2.6	2.2	2.6	2.4
Producer prices in industry, % p.a.	8.9	5.1	2.5	4.3	2.7	4.3	1.6	2.5	2.4
General governm. budget, EU-def., % GDP ⁷⁾									
Revenues	44.7	45.4	45.2	45.3	45.5	43.6	43.5	45.5	45.3
Expenditures	49.0	48.0	48.1	47.6	47.3	47.9	47.0	47.3	47.0
Deficit (-) / surplus (+), % GDP	-4.3	-2.7	-2.8	-2.3	-1.8	-4.3	-3.5	-1.9	-1.6
Public debt in % of GDP ⁷⁾	28.4	29.7	29.1	29.5	29.1	.	.	29.9	29.7
Discount rate % p.a., end of period	7.8	7.3	5.0	3.3	3.8	3.3	3.3	.	.
Current account, EUR mn	38.0	343.8	-81.2	-543.7	-301.1	-125.2	-157.0	-350	-300
Current account in % of GDP	0.2	1.5	-0.3	-2.1	-1.1	-2.0	-2.3	-1.2	-1.0
Gross reserves of NB excl. gold, EUR mn	4907.5	6701.5	6798.2	6464.0	6824.1	6515.2	6840.4	.	.
Gross external debt, EUR mn	10403	11484	13259	15278	19566	16313	20404	.	.
FDI inflow, EUR mn	412.4	1700.2	300.3	662.1	426.6	51.2	17.0	.	.
FDI outflow, EUR mn	161.2	162.1	418.0	441.5	453.3	125.6	99.7	.	.
Exports of goods, BOP, EUR mn	10454.3	11081.6	11417.1	12932.8	14516.6	3350.0	3989.3	16800	18900
annual growth rate in %	9.2	6.0	3.0	13.3	12.2	12.0	19.1	16	13
Imports of goods, BOP, EUR mn	11138.7	11346.6	11959.9	13941.6	15550.7	3534.1	4180.0	17900	19900
annual growth rate in %	3.1	1.9	5.4	16.6	11.5	13.4	18.3	15	11
Exports of services, BOP, EUR mn	2177.6	2440.0	2464.8	2782.2	3223.8	609.7	712.1	.	.
annual growth rate in %	6.1	12.0	1.0	12.9	15.9	10.6	16.8	.	.
Imports of services, BOP, EUR mn	1642.1	1819.9	1924.0	2096.2	2325.5	440.9	514.2	.	.
annual growth rate in %	5.1	10.8	5.7	9.0	10.9	8.1	16.6	.	.
Average exchange rate SIT/USD	242.75	240.24	207.11	192.38	192.70	182.73	199.30	.	.
Average exchange rate SIT/EUR (ECU)	217.19	226.22	233.70	238.86	239.64	239.75	239.58	239.7	239.7
Purchasing power parity SIT/USD	136.39	144.24	150.37	149.15	145.57	.	.	.	.
Purchasing power parity SIT/EUR	156.42	167.32	176.31	174.64	175.05	.	.	.	.

Notes: 1) Preliminary. - 2) Revised data (FISIM adjustment and previous year price introduction). - 3) From July 2005 new methodology. - 4) From 2004 construction put in place; units with at least 20 employees. - 5) From January 2005 data from Statistical Register of Employment, years before from Monthly Report on Earnings. - 6) From January 2005 legal persons with 1 or 2 employees in the private sector are included. - 7) According to ESA95, excessive deficit procedure.

Source: wiiw Database incorporating national statistics; Eurostat; wiiw forecasts and European Commission (Spring 2006).