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Slovenia: stimulus package to mitigate economic hardship

After a relatively good performance in the first half of the year (+5%), GDP growth slowed in the third quarter and probably continued to do so in the final quarter of 2008, ending up with 4.5% growth for the year as a whole. The deceleration of economic activities became particularly marked as of November; it was accompanied by a slowdown in the domestic banks' lending activities. Thanks to high investment being sustained in construction activities, that sector remained strong – up by 11%. After a hike in 2007, household consumption in 2008 returned to its average level of the past few years, but a slowdown in retail trade turnover (durable consumer goods) over the final quarter of the year points to further deceleration in the months to come. The contribution of foreign demand to GDP growth was negative. Inflationary pressures tapered off from July when inflation peaked (6.9%); in December consumer price inflation stood at 2.1%.

Industrial production growth slowed down from month to month and even turned negative for 2008 as a whole. Within manufacturing, production fell sharply in the leather and textiles sectors, as well as in the manufacture of food and wood products. Production in the car industry, Slovenia's largest exporter, decelerated from month to month owing to declining export demand. Some suppliers to the car industry have already been seriously affected by the crisis, for instance. Sava Tires (Goodyear) suspended production four times in the course of 2008.

The impact of the economic slowdown on the labour market has been moderate to date. National accounts data put the increase in employment at 3%, with particularly high growth in construction, business services, transport and communication. By contrast, LFS data indicate employment growth of a mere 0.5%. In 2008 unemployment reached an all-time record low: 4.5%; the registered unemployment rate stood at 6.9%. The Public Employment Service expects the number of unemployed to increase by 15,000 to 20,000 by the end of 2009. In response to growing unemployment in Slovenia, the government reduced the work permit quotas for foreigners in 2008.

Foreign trade dynamics decreased significantly, particularly in the last quarter of the year. However, imports grew at a much faster rate than exports, resulting in a widening of the trade deficit. Despite a rising surplus in the services trade, the current account deficit has doubled compared to a year earlier. This deterioration can be attributed to the higher prices of imported goods (food and energy), but also to a weakening of competitiveness following the introduction of the euro (prior to introducing the euro, the Slovene National Bank pursued a policy of steady exchange rate depreciation). As opposed to the past few years when Slovenia was a net exporter of FDI, the country's inward FDI slightly exceeded outward FDI in 2008. Gross foreign indebtedness continued to grow and

amounted to EUR 40 billion by the end of October: EUR 5.3 billion more than at the end of 2007. In order to enhance bank liquidity, Slovenia issued a three-year eurobond worth 1 EUR billion in late January. About 80% came from foreign and 20% from domestic investors.

In December 2008 the government announced a stimulus package worth EUR 858 million to counteract the overall economic crisis. The package represents more than 2% of Slovenia's GDP. Accordingly the general government deficit is forecast to widen to 3-4% of the GDP in 2009 (from 0.1% in 2008), but should narrow again in 2010. One of its centrepieces is the provision of subsidies to enterprises that shorten weekly working to below 40 hours in order to prevent lay offs amid falling demand. Subsidies are granted for a six-month period during which time the companies involved in the programme are not allowed to lay off workers and pay out bonuses to management. The measure came into effect as of February. According to the Slovene Employment Service about 70 companies employing around 35,000 workers have already expressed interest in to participating in programme. The keenest interest has been expressed by companies from the automotive and transport sectors and the timber and steel industries.

In addition, the Slovene government aims at improving liquidity by offering tax breaks for investments in small firms. According to the amendments to the corporate tax act, companies may claim a reduction of the tax base equal to 30% of investments made in equipment and non-tangible assets. However, the amendment limits the absolute tax break to EUR 30,000. In mid-November 2008, the Slovene parliament had already adopted an amendment to the Banking Act introducing unlimited state guarantees on deposits.

Economic activity is expected to slow down substantially in 2009 owing to weaker domestic and foreign demand. In particular, investment growth, which has been a key driving force over the past few years, will turn negative. Given the poor economic prospects for Slovenia's main export partners, export growth will cool down substantially. This will affect most manufacturing and some services sectors, such as transport and tourism. wiiw expects GDP growth to stagnate at best in 2009, before rebounding somewhat in 2010. Construction may suffer heavily from the restricted access to credits, since strong growth over the past few years was primarily credit-financed. Inflation – a major problem up until mid-2008 – should diminish still further. Along with the downturn in the production sector and to a lesser extent in the services sector, we expect a decline in employment over the coming two years; at the same time, LFS unemployment will rise to 6%. Consequently, we expect a slowdown in household consumption; this assumption is also supported by the most recent consumer confidence indicators, which point to an all-time low in January, underscoring the fact that households are tending to postpone their purchasing decisions. Assuming a drop in investment growth, the import growth rate should taper off; hence, both the trade and current account deficits may diminish somewhat.

Table SI

Slovenia: Selected Economic Indicators

	2003	2004	2005	2006	2007	2008 ¹⁾	2009	2010 Forecast	2011 Forecast
Population, th pers., average	1995.7	1997.0	2000.5	2006.9	2018.1	2039.6	.	.	.
Gross domestic product, EUR mn, nom. ²⁾	25114.0	27073.4	28703.6	31008.0	34470.9	37980	38930	40700	43170
annual change in % (real) ²⁾	2.8	4.3	4.4	5.9	6.8	4.4	0	2	4
GDP/capita (EUR at exchange rate)	12900	13600	14400	15400	17100	18600	.	.	.
GDP/capita (EUR at PPP)	17300	18700	19600	20700	22200	23300	.	.	.
Consumption of households, EUR mn, nom. ²⁾	13754.5	14582.1	15323.8	16135.1	17691.4	19230	.	.	.
annual change in % (real) ²⁾	3.3	2.8	2.8	2.8	5.3	3	2	2.5	3
Gross fixed capital form., EUR mn, nom. ²⁾	6015.4	6752.1	7263.2	8161.5	9477.5	10700	.	.	.
annual change in % (real) ²⁾	8.0	5.6	3.8	10.3	11.9	7	-3	4	7
Gross industrial production annual change in % (real) ³⁾	1.4	5.5	3.3	6.1	6.2	-1.5	-2	2	3
Gross agricultural production annual change in % (real)	-13.0	19.0	-1.2	-7.4	2.6	-4.5	.	.	.
Construction industry (build.& civil engin.) annual change in % (real) ⁴⁾	8.0	2.5	3.0	15.3	18.4	15.1	.	.	.
Employed persons - LFS, th, average	897	943	949	961	985	995	.	.	.
annual change in %	-1.4	5.1	0.7	1.3	2.5	1.0	.	.	.
Unemployed persons - LFS, th, average	65	64	66	61	50	46	.	.	.
Unemployment rate - LFS, in %, average	6.7	6.3	6.5	6.0	4.8	4.5	5.5	5	4.5
Reg. unemployment rate, in %, end of period	11.0	10.1	10.2	8.6	7.3	6.9	6.9	6.8	6.8
Average gross monthly wages, EUR ⁵⁾	1057	1117	1157	1213	1285	1391	.	.	.
annual change in % (real, net) ⁵⁾	1.8	2.1	3.5	2.5	4.2	2.0	.	.	.
Consumer prices (HICP), % p.a.	5.7	3.7	2.5	2.5	3.8	5.5	2.5	2.5	2
Producer prices in industry, % p.a.	1.3	2.6	1.9	2.3	4.1	3.9	3	2.3	2
General governm.budget, EU-def., % GDP ⁶⁾									
Revenues	43.7	43.6	43.8	43.3	42.9	42.2	.	.	.
Expenditures	46.4	45.8	45.3	44.5	42.4	42.7	.	.	.
Net lending (+) / net borrowing (-)	-2.7	-2.2	-1.4	-1.2	0.5	-0.5	-3.5	-2.0	-1.5
Public debt, EU-def., in % of GDP ⁶⁾	27.5	27.2	27.0	26.7	23.4	21.8	.	.	.
Discount rate of NB, % p.a., end of period ⁷⁾	5.0	3.3	3.8	3.8	4.0	2.5	.	.	.
Current account, EUR mn	-195.7	-719.7	-497.6	-772.0	-1455.0	-2400	-2270	-1980	-2000
Current account in % of GDP	-0.8	-2.6	-1.7	-2.5	-4.2	-6.3	-5.8	-4.9	-4.6
Exports of goods, BOP, EUR mn	11417.1	12932.8	14599.2	17028.0	19799.0	20390	20400	21400	23100
annual growth rate in %	3.0	13.3	12.9	16.6	16.3	3.0	0	5	8
Imports of goods, BOP, EUR mn	11959.9	13941.6	15625.0	18179.0	21465.0	23180	23400	24200	25700
annual growth rate in %	5.4	16.6	12.1	16.3	18.1	8.0	1	3.5	6
Exports of services, BOP, EUR mn	2464.9	2782.6	3213.5	3573.0	4291.0	5060	5200	5500	6100
annual growth rate in %	1.0	12.9	15.5	11.2	20.1	17.9	2	5	10
Imports of services, BOP, EUR mn	1924.7	2095.0	2293.5	2580.0	3098.0	3350	3500	3700	4100
annual growth rate in %	5.8	8.8	9.5	12.5	20.1	8.1	4	7	10
FDI inflow, EUR mn	270.5	665.2	472.6	514.0	1050.0	1100	.	.	.
FDI outflow, EUR mn	421.3	441.0	515.6	687.0	1318.0	1000	.	.	.
Gross reserves of NB excl. gold, EUR mn ⁸⁾	6798.2	6464.0	6824.1	5341.7	669.7	623.7	.	.	.
Gross external debt, EUR mn	13225	15343	20496	24067	34752	39550	.	.	.
Gross external debt in % of GDP	52.7	56.7	71.4	77.6	100.8	104.1	.	.	.
Average exchange rate EUR/EUR	0.975	0.997	1.000	1.000
Purchasing power parity EUR/EUR	0.728	0.725	0.730	0.745	0.768	0.799	.	.	.

Note: The term 'industry' refers to NACE classification C+D+E.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM adjusted and real change based on previous year prices). - 3) From 2004 new methodology. - 4) Enterprises with at least 20 employees. - 5) From January 2005 including legal persons with 1 or 2 employees in private sector. - 6) According to ESA'95, excessive deficit procedure. - 7) Main refinancing rate, from 2007 for euro area. - 8) From January 2007 (euro introduction) only the foreign currency reserves nominated in non-euro currency are included.

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