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Slovenia:
Strenuous recovery after severe recession

Slovenia's economic downturn continued during the first quarter of 2010 but at a slower pace than in 2009. GDP fell by 1.2% resulting from a further shrinkage of investment and stagnating household consumption; gross fixed capital formation dropped by 10%, of which investments in construction were affected most. Contrary to other eurozone countries where inventories are being rebuilt after having been cut significantly in 2009, they still contribute negatively to GDP growth in Slovenia. Government consumption increased slightly. The contribution of foreign trade to GDP growth was positive for the fifth quarter in a row as exports growth exceeded that of imports.

Industrial production stagnated during the first months of the year, but a gradual recovery has been under way in export-oriented sectors: for instance, car production and production of electrical equipment rose by 28-30% compared to the same period a year earlier. Other branches are heavily affected by high indebtedness (reporting the highest shares of non-performing assets) such as food and wood processing, the paper and metal industries and the manufacture of machinery. In construction, one of the main drivers of GDP growth in the period prior to the crisis, output dropped by 19%. Currently there are no signs of recovery in construction, particularly in residential building, as there is still a high number of unsold apartments on the market. Civil engineering, particularly the construction of road infrastructure, will be limited due to fiscal constraints. As a consequence several construction companies and supplier companies are reported to be in severe financial difficulties.

Slovenia's labour market is continuing to deteriorate at a moderate pace. Labour Force Survey data indicate employment stagnation, while national account data point to a 3.5% rate of decline during the first quarter of 2010. Employment cuts were largest in manufacturing, mining and construction. This trend is likely to continue throughout 2010 and will affect migrant workers in particular as they account for about half of the total workforce in construction. Two acts passed by the parliament in 2009 in order to combat the rapidly rising unemployment – one envisaging subsidies in the case of short-time work, the other one foreseeing up to 85% wage compensation of average earnings of the last three months for those laid off temporarily – will partly remain in force in 2010. In the first quarter the LFS unemployment rate stood at 7%, with men more affected than women. Information obtained from registration data shows a steady increase in unemployment since September 2008, putting the unemployment rate at close to 11% at the end of March 2010. At the same time inactivity has been rising as well.

In an attempt to boost liquidity and help companies squeezed by the credit crunch to acquire loans the Slovenian government passed a law providing EUR 1 billion state guarantees for companies registered in Slovenia. Accordingly the government will take 75% of the risk, while the remaining 25% are borne by the banks. Banks will be able to use these loans as collateral for loans from the ECB. Individual loans will range from EUR 500,000 to EUR 20 million with a maturity between one and ten years. Already in 2009 the Slovenian parliament adopted a state guarantee scheme for physical persons which will be in force until the end of 2010. The latter has earmarked EUR 350 million for bank guarantees in case temporarily employed and young families cannot repay their loans. In addition the state will take over the risk for consumer loans taken by those who lost their job due to the financial and economic crisis. Bank net lending during the first quarter of 2010 was still lower than in the same pre-year period but regained momentum in March. This was primarily due to rising household borrowing, housing loans in particular, while corporate borrowing fell significantly.

According to final results Slovenia's general government deficit stood at 5.5% of the GDP in 2009 and public debt rose by more than 13 percentage points to 35.9% of the GDP, which is still low if compared with the euro area average (78%). Estimates of the Ministry of Finance suggest that anti-crisis measures, such as partially subsidising full time work, raised the general government deficit by the equivalent of the 0.7% of the GDP. The deficit and part of the debt repayment was mainly financed through the issuance of government bonds in 2009 and early 2010. Following the poor economic results during the beginning of 2010, the lower than expected tax revenues and the financial assistance for Greece the Slovenian government decided in May on a supplementary budget for 2010 and amended budgets for 2011 and 2012. The budget supplement, envisaging a deficit below 5% instead of 5.7% adopted initially should be introduced by the end of summer. The originally enacted budget documents envisage the withdrawal of the fiscal stimulus and support measures by the end of 2010. Following the expenditure based fiscal consolidation plan, the Slovenian government adopted measures including a postponement of public sector wage increases, shifting investment financing towards EU funds and a less generous indexation of social benefit rates. According to the guidelines for the supplementary 2010 budget expenditures should be cut by an additional EUR 500 million, which will affect new investments most.

At a referendum held on 6 June Slovenian voters backed a border treaty calling for an arbitration panel to settle an almost 20 year old border dispute with Croatia. According to an agreement between the prime ministers of the two countries the finding of the arbitration panel about the maritime border (Piran Bay) and some smaller border disputes will be binding. After two years of negotiations Slovenia became an OECD member at the beginning of June.

wiiw expects GDP to be slightly positive in 2010 owing to moderately rising foreign demand. In addition, first results owing to the measures set by government to encourage lending to the private sector should become visible. Given fiscal consolidation public investment will need some time to recover and will regain strength only in 2012. Private consumption will rise only gradually as disposable income is held back by further job reductions this year and probably stagnation in 2011; at the same time unemployment will continue to rise. 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, while domestic demand will recover only at a moderate pace.

Table SI

Slovenia: Selected Economic Indicators

	2006	2007	2008	2009 1)	2009	2010	2010	2011	2012
					1st quarter			Forecast	
Population, th pers., average	2006.9	2018.1	2021.3	2043.2	.	.	2045	2045	2045
Gross domestic product, EUR mn, nom.	31050.4	34568.2	37135.4	34893.9	8287.1	8234.8	35590	37030	38710
annual change in % (real)	5.8	6.8	3.5	-7.8	-8.2	-1.2	0.5	2	2.5
GDP/capita (EUR at exchange rate)	15500	17100	18400	17100	.	.	17400	18100	18900
GDP/capita (EUR at PPP)	20700	22100	22800	20500	.	.	.	.	.
Consumption of households, EUR mn, nom.	16156.1	17944.2	19296.9	18851.5	4406.9	4421.5	.	.	.
annual change in % (real)	2.9	6.7	2.1	-1.4	-1.1	0.0	0.5	1.5	2
Gross fixed capital form., EUR mn, nom.	8242.1	9571.3	10742.4	8369.0	1995.3	1766.6	.	.	.
annual change in % (real)	9.9	11.7	7.7	-21.6	-22.2	-10.1	-7	4	4
Gross industrial production									
annual change in % (real)	5.7	7.1	2.4	-17.1	-17.9	-0.1	1	3	3
Gross agricultural production									
annual change in % (real)	-7.4	3.9	-0.8	-1.7	.	.	.	.	.
Construction industry									
annual change in % (real)	15.7	18.5	15.5	-21.5	-19.2	-18.9	.	.	.
Employed persons - LFS, th, average	961	985	996	981	962	965	966	966	976
annual change in %	1.3	2.5	1.1	-1.5	-0.9	0.3	-1.5	0	1
Unemployed persons - LFS, th, average	61	50	46	61	54	74	.	.	.
Unemployment rate - LFS, in %, average	6.0	4.8	4.4	5.9	5.3	7.1	8	7.5	7
Reg. unemployment rate, in %, end of period	8.6	7.3	7.0	10.5	8.4	10.6	11	11	10.5
Average gross monthly wages, EUR	1213	1285	1391	1439	1408	1460	.	.	.
annual change in % (real, net)	2.5	4.2	2.0	2.5	3.2	1.8	.	.	.
Consumer prices (HICP), % p.a.	2.5	3.8	5.5	0.9	1.7	1.7	1.5	2	2
Producer prices in industry, % p.a.	2.3	4.4	3.9	-1.4	1.1	-1.2	-1	2	2
General governm.budget, EU-def., % GDP									
Revenues	43.2	42.4	42.6	44.4	.	.	.	.	.
Expenditures	44.5	42.4	44.3	49.9	.	.	.	.	.
Net lending (+) / net borrowing (-)	-1.3	0.0	-1.7	-5.5	.	.	-6	-4.5	-4.5
Public debt, EU-def., in % of GDP	26.7	23.4	22.6	35.9	.	.	40	42	43
Discount rate of NB, % p.a., end of period 2)	3.8	4.0	2.5	1.0	1.5	1.0	.	.	.
Current account, EUR mn	-772.0	-1646.0	-2286.0	-340.0	-267.4	-60.2	-300	-600	-900
Current account in % of GDP	-2.5	-4.8	-6.2	-1.0	-3.2	-0.7	-0.8	-1.6	-2.3
Exports of goods, BOP, EUR mn	17028.0	19799.0	20048.0	16203.0	3940.2	4213.1	17250	18100	19200
annual growth rate in %	16.6	16.3	1.3	-19.2	-22.5	6.9	6.5	5	6
Imports of goods, BOP, EUR mn	18179.0	21465.0	22699.0	16825.0	4089.6	4284.7	17650	18700	20000
annual growth rate in %	16.3	18.1	5.7	-25.9	-26.6	4.8	5	6	7
Exports of services, BOP, EUR mn	3573.0	4146.0	5041.0	4318.0	927.4	915.5	4300	4550	4900
annual growth rate in %	11.2	16.0	21.6	-14.3	-11.9	-1.3	0	6	8
Imports of services, BOP, EUR mn	2580.0	3098.0	3431.0	3298.0	691.7	694.0	3330	3560	3880
annual growth rate in %	12.5	20.1	10.7	-3.9	-3.8	0.3	1	7	9
FDI inflow, EUR mn	514.0	1106.0	1313.0	-48.0	-5.1	-16.8	0	.	.
FDI outflow, EUR mn	687.0	1316.0	933.0	624.0	134.3	140.4	.	.	.
Gross reserves of NB excl. gold, EUR mn 3)	5341.7	666.0	623.0	670.8	531.6	639.0	.	.	.
Gross external debt, EUR mn	24067	34783	39238	40112	37510	40688	.	.	.
Gross external debt in % of GDP	77.5	100.6	105.7	115.0	107.5	114.3	.	.	.
Average exchange rate EUR/EUR	1.000	1.000	1.000	1.000	1.000	1.000	1	1	1
Purchasing power parity EUR/EUR	0.746	0.776	0.806	0.834	.	.	.	.	.

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

1) Preliminary . - 2) Main refinancing rate, from 2007 official refinancing operation rates for euro area (ECB). - 3) 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.