

Slovenia: sizeable current account surplus

Real GDP is estimated to have grown by 3% in 2002. Growth was mainly supported by foreign demand, especially by expanding exports of goods and services that gained momentum from the second quarter of the year. Having dropped by 2% in 2001, investment growth accelerated from quarter to quarter in 2002 and rose by about 3% in the year as a whole. The rise in investment growth had a positive impact on construction activities, which resumed growth in the second quarter, after several quarters of contraction.

The annual growth of industrial output decelerated to 2.4% in 2002, while an increase of 2% was reported for manufacturing. Within the latter, the fastest growth rates were recorded for strongly export-oriented branches (industries that realize more than 70% of their revenues abroad) such as machinery and equipment, chemicals, and transport equipment. In contrast, export-oriented labour-intensive industries (net revenues from sales abroad 50-70%) such as textiles, leather and leather products suffered from the strongest declines.

Consumer price inflation remained stubbornly high, at 7.5% year on year. Several factors can be pointed at for this development: at the beginning of the year inflation was pushed upwards by raising the VAT rate from 19% to 20% and by the increase of excise duties on tobacco and alcohol as well by surges in administered prices, e.g. telecom and public utilities. Later in the year prices were affected by the jump in oil prices, which translated into higher prices of petrol. In order to bring inflation down the Bank of Slovenia and the government agreed upon joint efforts: consequently 'rises in administered prices – considered as one of the major sources of inflation – should not exceed the targeted level of inflation' and changes on the fiscal side are to be examined for their impact on inflation. According to the monetary guidelines the M3 growth target will remain the main instrument, and apart from other indicators a medium-term inflation target of 3-4% has been set. As far as the exchange rate is concerned, the Bank of Slovenia will pursue a policy of continuous gradual depreciation, keeping the real exchange rate more or less stable.

Employment creation continued, albeit at a weak pace, while the number of registered unemployed remained almost stagnant; the unemployment rate was 11.7% in December 2002. The Active Employment Policy Programme for 2003, adopted in November 2002, should help to improve the employability of disadvantaged groups on the labour market such as long-term unemployed over 45 years with a low educational level. The programme

is also envisaged to counteract the announced layoffs in the textiles, clothing and footwear industries. Real net wage growth slowed down to 1.9% during the first eleven months of 2002.

In late December the Slovenian parliament adopted the central budgets for 2003 and 2004, with the deficits for both years expected to remain below 1% each of the projected GDP (as for the general government the respective ratios are 1.2% and 0.9%). At the same time the programme for the sale of state-owned property was adopted, offering a comprehensive list of enterprises in the manufacturing, banking and infrastructure sectors: e.g., 80% of the Slovenian steelworks group, the footwear makers Peko and Planika, the oil company Nafta Lendava, the aluminium producer Talum and the leather manufacturer IUV; within the banking sector stakes are offered in Slovenia's second largest bank Nova Kreditna Banka Maribor (NKBM) and Poštna Banka; other companies to be sold are the Port of Koper, the Aerodrom Ljubljana and Telekom Slovenija.

Export activities gained momentum in the second quarter of the year. Measured in current euro terms, exports expanded by 5.5% and imports by 1% in 2002. The poor export performance to the European Union was largely compensated by a further increase in sales to the Yugoslav successor states, to CEFTA and Russia. As a result the foreign trade deficit was substantially lower than in 2001, which translated into a remarkable current account surplus in 2002, at close to 2% of the GDP.

The high level of FDI inflows witnessed in 2001 continued during 2002 and reached USD 1.9 billion in the first eleven months of the year. These investments were mainly due to takeovers in the trade, manufacturing and banking sectors (for instance, the pharmaceutical company Lek was sold to Novartis, a stake of Nova Ljubljanska Banka to the Belgian KBC and EBRD). Following these large foreign investments, monetary and exchange rate policies were conducted towards sterilizing foreign exchange inflows, with currency swap operations being the most important instruments. In parallel the Bank of Slovenia withdrew money through tolar transactions, using bills which were introduced in November and offered to the banks by the end of 2002.¹

In December prime minister Janez Drnovšek was elected Slovenian president, following Milan Kučan, who had held this office since 1991. The hitherto minister of finance, Anton Rop, was appointed prime minister and his post was taken over by Dušan Mramor, a university professor of economics.

¹ Part of the inflow of the partial sale of NLB was deposited by the government with the Bank of Slovenia as a time deposit, while the earnings from Lek were dispersed between legal and natural persons and paid in both tolar and foreign currency. See *Slovenian Economic Mirror*, 12/2002.

Assuming that the European economy will not lift off any time soon, expectations for the Slovenian economy are moderate for 2003. Real GDP might grow by about 3-3.5%, while a more pronounced upswing may occur only in 2004. Investment activities may lend impetus to economic growth in 2003, coupled with a moderate increase in exports. The rate of inflation will continue its downward path provided there is no major change in oil prices.

Table SI

Slovenia: Selected economic indicators

	1996	1997	1998	1999	2000	2001	2002 ¹⁾	2003	2004
	forecast								
Population, th pers., mid-year	1991.2	1986.8	1982.6	1985.6	1990.3	1992.0	1995.7	.	.
Gross domestic product, SIT bn, nom.	2555.4	2907.3	3253.8	3648.4	4035.5	4566.2	5056	5540	6080
annual change in % (real)	3.5	4.6	3.8	5.2	4.6	3.0	3	3.3	4
GDP/capita (USD at exchange rate)	9481	9163	9878	10109	9105	9443	10550	.	.
GDP/capita (USD at PPP - wiiw)	13220	14100	14840	15810	16880	17760	18530	.	.
Gross industrial production									
annual change in % (real)	1.0	1.0	3.7	-0.5	6.2	2.9	2.4	3	3
Gross agricultural production									
annual change in % (real)	1.0	0.0	2.2	-1.3	2.4
Goods transport, mn t-kms ²⁾	37820	37859	36733	40041	37003	41505	33302 ^{I-XI}	.	.
annual change in %	0.2	0.1	-3.0	9.0	-7.6	5.6	-12.5 ^{I-XI}	.	.
Gross fixed capital form., SIT bn, nom.	574.6	679.5	800.6	999.2	1076.8	1138.7	.	.	.
annual change in % (real)	8.9	11.6	11.3	19.1	0.2	-1.9	3.5	4	5
Construction output, in effect. working time									
annual change in % (real)	-2.5	-5.2	1.7	10.2	-1.2	-2.1	-3.4 ^{I-XI}	.	.
Dwellings completed, units ³⁾	6228	6085	6518	5142	6460	5475	3796 ^{I-X}	.	.
annual change in %	9.0	-2.3	7.1	-21.1	25.6	-5.8	-14.5 ^{I-X}	.	.
Employment total, th pers., average	741.7	743.4	745.2	758.5	768.2	779.0	783.6 ^{I-XI}	.	.
annual change in %	-0.5	0.2	0.2	1.8	1.3	1.4	0.6 ^{I-XI}	.	.
Employees in industry, th pers., average ⁴⁾	239.2	248.5	246.2	242.8	241.6	243.5	246.3 ^{I-X}	.	.
annual change in %	-5.2	-2.1	-0.9	-1.4	-0.5	0.8	1.0 ^{I-X}	.	.
Reg. unemployed, th pers., end of period	124.5	128.6	126.6	114.3	104.6	104.3	103.0	.	.
Reg. unemployment rate in %, end of period	14.4	14.8	14.6	13.0	12.0	11.8	11.7	10	10
LFS - unemployment rate in %, average	7.3	7.4	7.9	7.6	7.0	6.4	6.4	5.5	5.5
Average gross monthly wages, SIT	129125	144251	158069	173245	191669	214561	233004 ^{I-XI}	.	.
annual change in % (real, net)	4.4	2.9	1.5	3.0	1.4	3.1	1.9 ^{I-XI}	.	.
Retail trade turnover, SIT bn ⁵⁾	871.3	1290.0	1346.7	1555.0	1557.4	1684.8	.	.	.
annual change in % (real) ⁶⁾	2.9	1.0	2.1	2.9	7.4	7.8	4.5 ^{I-XI}	.	.
Consumer prices, % p.a.	9.9	8.4	7.9	6.1	8.9	8.4	7.5	6	5.5
Producer prices in industry, % p.a.	6.8	6.1	6.0	2.1	7.6	8.9	5.1	.	.
General government budget, SIT bn									
Revenues	1091.8	1222.6	1397.9	1590.0	1726.7	1967.8	1653.2 ^{I-X}	.	.
Expenditures	1083.6	1256.7	1423.5	1613.3	1781.4	2031.0	1812.6 ^{I-X}	.	.
Deficit (-) / surplus (+)	8.2	-34.1	-25.6	-23.3	-54.7	-63.2	-159.4 ^{I-X}	.	.
Deficit (-) / surplus (+), % GDP	0.3	-1.2	-0.8	-0.6	-1.4	-1.4	.	.	.
Money supply, SIT bn, end of period									
M1, Money	235.1	270.5	332.7	399.8	424.0	502.2	565.8	.	.
Broad money	1135.3	1411.3	1690.3	1912.9	2206.4	2877.4	3374.3	.	.
Discount rate % p.a., end of period	10.0	10.0	10.0	8.0	10.0	11.0	10.0	.	.
Current account, USD mn	55.5	50.5	-118.0	-698.4	-547.6	30.9	350	100	100
Current account in % of GDP	0.3	0.3	-0.6	-3.5	-3.0	0.2	1.7	0.4	0.4
Gross reserves of NB excl. gold, USD mn	2297.4	3314.7	3638.5	3168.0	3196.0	4329.9	6980.2	.	.
Gross external debt, USD mn	3981	4123	4915	5400	6217	6717	8231 ^{Nov}	.	.
Exports total, fob, EUR mn ⁷⁾	6640.8	7413.4	8051.9	8037.0	9505.1	10348.7	10920	11470	12160
annual growth rate in %	3.3	11.6	8.6	-0.2	18.3	8.9	5.5	5	6
Imports total, cif, EUR mn ⁷⁾	7536.3	8289.7	8999.4	9482.0	10995.7	11345.4	11460	11800	12150
annual growth rate in %	2.9	10.0	8.6	5.4	16.0	3.2	1	3	3
Average exchange rate SIT/USD	135.37	159.69	166.13	181.77	222.68	242.75	240.24	.	.
Average exchange rate SIT/EUR (ECU)	169.51	180.40	186.27	193.63	205.03	217.19	226.22	234	240
Purchasing power parity SIT/USD, wiiw	97.08	103.76	110.56	116.20	120.11	129.10	136.74	.	.
Purchasing power parity SIT/EUR, wiiw	105.26	113.81	121.15	126.58	130.33	140.09	147.64	.	.

Notes: 1) Preliminary. - 2) From 2001 new methodology in road transport. - 3) From 2001 dwellings for which building permits were issued. - 4) In 1996 enterprises with 3 and more employees and excluding persons employed by self-employed. - 5) Including turnover tax; goods transport services, maintenance and repair of motor vehicles are not covered. - 6) Excluding turnover tax; maintenance and repair of motor vehicles are included. - 7) Converted from the national currency to EUR at the official exchange rate.

Source: wiiw Database incorporating national statistics; wiiw forecasts.