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Slovenia:
hit hard despite recovery package

Slovenia's economy has slipped into its deepest crisis since the country's gaining independence. During the first quarter of 2009 the GDP contracted by 8.5% owing primarily to shrinking domestic demand, investments in particular. Gross fixed capital formation fell by nearly 24%, affecting all types of investment: the strongest decline, by 28%, occurred in machinery and equipment, investment in construction fell by 22%. The investment slump was probably a consequence of the sharp decline in export orders along with a running down of stocks built up in the past couple of years. Final consumption rose by 1%, mainly due to rising government consumption while household consumption remained stagnant. Though shrinking significantly, the contribution of foreign trade to GDP growth remained positive. Industrial production slowed down from month to month and dropped by 21% during the first four months of the year, in manufacturing even by 22.4%. Manufacturing output declined in all branches, particularly in the wood, leather and textile industries (by over 30%). In the car industry, Slovenia's main exporting sector, production was down by 20%.

The impact of the economic downturn on the labour market is becoming increasingly visible, although the implementation of short-time work has apparently helped keeping people in employment. So far more than 650 companies have decided to cut labour hours due to shrinking demand. Depending on the source used, labour market results differ considerably. Information obtained from registration data shows a steady increase in unemployment since September 2008, putting the unemployment rate at close to 9% in May. Based on Labour Force Survey data the number of employed fell by a mere 0.9% in the first quarter of the year and the unemployment rate, at 5.4%, was only slightly higher than in the same period a year earlier. National account data on the other hand show that employment even slightly increased in the first quarter of the year. In order to relieve the labour market, the government approved a decree on limiting the work of foreign citizens (mostly from the Western Balkan countries) by reducing quotas in June this year.

Merchandise trade contracted significantly, with goods exports down by 23% and imports showing an even stronger decline, by 28%, in the first quarter of the year, thus resulting in a substantial narrowing of the trade deficit. In contrast to goods trade, exports of services fell faster than imports resulting in a reduction of the services trade surplus. Owing to the sharp decline in the trade deficit, the current account deficit fell to EUR 155 million, from EUR 470 million in the first quarter of 2008. Like in most years of the recent past Slovenia was a FDI net exporter during the first months of the year. Gross foreign indebtedness fell by EUR 1.6 billion compared to December last year and amounted to EUR 37.5 billion by the end of March 2009. In order to boost liquidity Slovenia raised a three-year Eurobond worth EUR 1 billion in January and EUR 1.5 billion in March. According to the Minister of Finance, Slovenia may issue another Eurobond later this year to strengthen the financial system.

In order to counter the effects of the global financial and economic crisis, the government established a crisis group consisting of key ministers in November 2008. So far this group has elaborated two anti-crisis packages which were adopted by the government in November and December 2008 and in February 2009. The initial fiscal stimulus package worth EUR 800 million (an estimated 2.1% of the GDP) was launched at the end of 2008, out of which most will be spent in 2009. These measures include support for stabilizing the financial sector by injecting liquidity, wage subsidies to companies for shorter working time, the elimination of payroll tax and reduction of corporate taxation. In order to partially offset declining budgetary revenues, excise duties on fuels, tobacco and alcohol were increased. Public funds have been earmarked for the protection of some endangered industrial sectors, e.g. for SMEs and R&D in technologically advanced industries. Along with the second package the government introduced a series of saving measures, of which lower than initially agreed wage increases in the public sector were the most important one. Coupled with the full operation of automatic stabilizers and a significant decline in GDP, these measures may lead to a widening of the general government deficit to 5-6% of the GDP in 2009 (from 0.9% in 2008), but that deficit should narrow again in 2010. Owing to the rising deficit the public debt to GDP ratio will rise from about 23% in 2008 to about 30% in 2010. Figures for the first quarter of the year point to a substantial deterioration of the general government deficit, owing to a sharp decline in (tax) revenues coupled with rising expenditures, particularly for transfers and public sector wages. A first supplementary budget was passed in March 2009, a second revision is envisaged for the end of June.

Owing to the deterioration of the economic situation, a third package is under discussion. Measures will also include plans for medium- and long-term structural reforms (such as modernization of the pension system, changes in social expenditures). The government has also proposed to establish an emergency fund which should provide funds for temporarily laid-off workers: Firms should re-hire those workers after the crisis is over, in the meantime the government should provide the unemployment benefits.

wiiw expects GDP to contract by 4% in 2009 owing to weaker domestic and foreign demand. Particularly investment growth, which has been a key driving force over the past few years, will shrink considerably. The poor economic prospects for Slovenia’s main export partners such as Germany and Italy will govern the country’s export performance. This affects most manufacturing and some services sectors, such as transport and tourism. Construction as well will be hit hard by credit restrictions – the strong expansion over the past few years has been mainly credit-financed. Considering the usual lag between changes in production and employment, the latter is expected to contract over the coming two years; at the same time, LFS unemployment will increase to some 8.5% in 2010. These developments may also lead to a slowdown in household consumption as households are tending to postpone their purchasing decisions. Following the strong contraction in investment growth, imports will decline faster than exports. Hence, both the trade and the current account deficits will diminish considerably.

Table SI

Slovenia: Selected Economic Indicators

	2005	2006	2007	2008 [1]	2008	2009	2009	2010	2011
					1st quarter			Forecast	
Population, th pers., average	2000.5	2006.9	2018.1	2039.6	.	.	.	.	.
Gross domestic product, EUR mn, nom. [2]	28703.6	31008.0	34470.9	37126.0	8725.7	8249.8	36180	37270	39160
annual change in % (real) [2]	4.4	5.9	6.8	3.5	5.7	-8.5	-4	1	3
GDP/capita (EUR at exchange rate)	14400	15400	17100	18200	.	.	.	.	.
GDP/capita (EUR at PPP)	19600	20700	22200	22800	.	.	.	.	.
Consumption of households, EUR mn, nom. [2]	15323.8	16135.1	17691.4	19244.3	4390.5	4380.3	.	.	.
annual change in % (real) [2]	2.8	2.8	5.3	2.2	3.7	0.1	-2	1	3
Gross fixed capital form., EUR mn, nom. [2]	7263.2	8161.5	9477.5	10404.8	2451.1	1917.5	.	.	.
annual change in % (real) [2]	3.8	10.3	11.9	6.2	16.9	-23.6	-15	1	4
Gross industrial production									
annual change in % (real) [3]	3.3	6.1	6.2	-1.5	2.2	-18.9	-10	2	3
Gross agricultural production									
annual change in % (real)	-1.2	-7.4	2.6	-4.5	.	.	.	.	.
Construction industry (build.& civil engin.)									
annual change in % (real) [3][4]	3.0	15.3	18.4	15.1	32.5	-20.6	.	.	.
Employed persons - LFS, th, average	949	961	985	996	971	962	.	.	.
annual change in %	0.7	1.3	2.5	1.1	1.4	-0.9	.	.	.
Unemployed persons - LFS, th, average	66	61	50	46	52	55	.	.	.
Unemployment rate - LFS, in %, average	6.5	6.0	4.8	4.4	5.1	5.4	7	7.5	7
Reg. unemployment rate, in %, end of period	10.2	8.6	7.3	7.0	6.9	8.4	8	8	7
Average gross monthly wages, EUR [5]	1157	1213	1285	1391	1335	1408	.	.	.
annual change in % (real, net) [5]	3.5	2.5	4.2	2.0	0.9	3.1	.	.	.
Consumer prices (HICP), % p.a.	2.5	2.5	3.8	5.5	6.6	1.7	1.5	2	2
Producer prices in industry, % p.a. [3]	1.9	2.3	4.1	3.9	3.4	1.1	2	2.3	2
General governm.budget, EU-def., % GDP [6]									
Revenues	43.8	43.3	42.9	42.7	40.8	43.4	.	.	.
Expenditures	45.3	44.6	42.4	43.6	42.1	49.4	.	.	.
Net lending (+) / net borrowing (-)	-1.4	-1.3	0.5	-0.9	-1.3	-6.0	-5.5	-6	-4.5
Public debt, EU-def., in % of GDP [6]	27.0	26.7	23.4	22.8	.	.	.	.	.
Discount rate of NB, % p.a., end of period [7]	3.8	3.8	4.0	2.5	4.0	1.5	.	.	.
Current account, EUR mn	-497.6	-772.0	-1455.0	-2054.6	-467.8	-154.9	-1000	-1200	-1600
Current account in % of GDP	-1.7	-2.5	-4.2	-5.5	-5.4	-1.9	-2.8	-3.2	-4.1
Exports of goods, BOP, EUR mn	14599.2	17028.0	19799.0	20033.2	5082.8	3916.9	17000	17700	19100
annual growth rate in %	12.9	16.6	16.3	1.2	6.3	-22.9	-15	4	8
Imports of goods, BOP, EUR mn	15625.0	18179.0	21465.0	22655.2	5567.5	4017.5	18100	19000	20500
annual growth rate in %	12.1	16.3	18.1	5.5	10.8	-27.8	-20	5	8
Exports of services, BOP, EUR mn	3213.5	3573.0	4291.0	5181.7	1086.7	947.2	4700	4900	5300
annual growth rate in %	15.5	11.2	20.1	20.8	21.1	-12.8	-9	4	8
Imports of services, BOP, EUR mn	2293.5	2580.0	3098.0	3400.0	719.0	678.7	3200	3500	3850
annual growth rate in %	9.5	12.5	20.1	9.7	15.6	-5.6	-6	9	10
FDI inflow, EUR mn	472.6	514.0	1050.0	1239.0	306.4	-48.1	.	.	.
FDI outflow, EUR mn	515.6	687.0	1318.0	983.0	158.5	114.1	.	.	.
Gross reserves of NB excl. gold, EUR mn [8]	6824.1	5341.7	665.6	623.6	710.9	531.6	.	.	.
Gross external debt, EUR mn	20496	24067	34752	39096	37037	37495	.	.	.
Gross external debt in % of GDP	71.4	77.6	100.8	105.3	99.8	103.6	.	.	.
Average exchange rate EUR/EUR	1.000	1.000	.	.	.	.	.	.	.
Purchasing power parity EUR/EUR	0.730	0.745	0.768	0.798	.	.	.	.	.

1) Preliminary. - 2) According to ESA'95 (FISIM adjusted and real change based on previous year prices). - 3) Quarterly data and forecasts according to NACE Rev. 2. - 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 foreign currency reserves denominated in non-euro currencies.

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