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Slovenia:
Impact of the recession still strongly felt

Slovenia's GDP started growing modestly in the second quarter of 2010 – after six quarters of steady and extremely deep decline – and ended up in a moderate 1.2% rise for the whole year. The modest increase was due to expanding foreign demand and rising inventories, while domestic demand – both consumption and particularly investment – continued to decline. Gross fixed capital formation fell by about 7%, affecting primarily construction. Households are cautious and are postponing purchases: due to declining disposable income as well as tight credit conditions consumption growth was only slightly positive. Also, government consumption reported a modest increase. The popularity of the government of Prime Minister Borut Pahor has slumped considerably over time; in the last opinion poll it was supported by only 18% of the population.

After a dramatic fall in 2009, industrial production growth gained momentum from month to month in the course of the year, rising by almost 7% in 2010. More than half of all industrial branches within manufacturing increased their output, most notably the export-oriented production of electrical equipment (24%) and cars (15%). In construction, where output had contracted significantly in 2009, the negative tendencies continued, with output down by 17% in 2010. Reasons behind this drop are the saturation of residential buildings due to the huge number of unsold flats and shrinking public works in the fields of transport and infrastructure and, finally the drying up of credit markets. As a consequence a number of building companies are in trouble, the most prominent being Slovenia's largest construction company SCT. In external trade, the positive tendencies prevailing in the first quarter of the year strengthened, with both commodity exports and imports up by 14% and 15%. A breakdown of exports by industrial branches shows that car exports and exports of electrical appliances contributed most to the overall increase, but car exports slowed towards the end of the year due to the expiration of measures to boost the purchases of cars in certain EU countries. Though rising somewhat, the trade deficit remained low. In services trade, exports and imports grew only moderately by 1% and 3.5% respectively; hence, the services trade surplus narrowed slightly. Owing to the decreasing trade deficit, the reduced income and current transfers' deficits, the current account ended up only with a small minus in 2010. As opposed to the pre-crisis years, when Slovenia was a net exporter of FDI, foreign investments in the form of debt financing between affiliated companies exceeded Slovenian investments abroad during 2010.

Labour Force Survey data indicate that the number of employed continued to decrease in 2010, while the LFS unemployment rate rose to 7.5%, which is still below the EU-27 average, but high by Slovenian standards. Conversely, unemployment based on registration data has shown a steady increase since September 2008, putting the unemployment rate at 11.6% by the end of December. Unemployment may further increase in the coming months due to the possible closing-downs of large enterprises, for example in the construction and trade sectors.

Slovenia's banks' lending activities have been sluggish in 2010. The two largest banks, Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKMB), will need capital increases in the coming months. In 2010 Slovenia's banking sector posted close to EUR 50 million losses, which was mainly due to the past takeover policy, the poor financial situation of the clients as well as the global financial crisis. However, compared to other EU member states the share of bad loans is very low in Slovenia. According to the governor of the Bank of Slovenia, bad loans rose from 1.7% of the total portfolio in 2007 to 3.2% by the end of October 2010. The manufacturing sector is accounting for the biggest share of non-performing loans, while growth of non-performing loans was most striking in the construction sector.

In response to the demographic, economic and financial challenges the Slovenian parliament has recently approved a new Pension and Disability Insurance Act. The law envisages the maintenance of the solidarity principle, a gradual extension of working years and a rise of the retirement age to 65 years for both men and women. However, male and female manual workers with 40 and 38 years of service will still be allowed to retire at the age of 60 and 58 years on full benefit. However, the law is pending since opposition parties and trade unions want to hold a referendum on the issue. The government on the other hand is supporting a motion filed by a group of lawmakers to the constitutional court to reject a referendum on the issue.

The changing economic environment and reduced tax revenues prompted the Slovenian government to adopt a supplementary budget in July 2010 (the budget bills for 2010 and 2011 were initially passed in December 2009). Accordingly, the general government deficit was raised to an estimated 5.7% in 2010 and 4.2% in 2011. However, given the only slow economic recovery in 2010 and the moderate prospects for 2011 (2%), these targets were and will be difficult to achieve. First available results for 2010 are pointing to a deficit exceeding the 6% mark. Expenditures rose the most for interest payments, but also for social transfers – unemployment benefits in particular. Borrowing requirements to bridge the budgetary gap in 2011 and to enable the pre-financing of dept principal due in 2012 and 2013, are estimated at EUR 3 billion.

wiiw is sticking to its earlier GDP forecast of 2% in 2011 which should be driven mainly by foreign demand. More pronounced growth (2.5%) can be expected only in 2012, provided a recovery of investment and private consumption. Given the moderate growth prospects employment might stagnate in 2011 and increase slightly only from 2012 onwards. The unemployment rate (LFS) is expected to come down only gradually. Given fiscal consolidation, public investment will need some time to recover and will regain strength only in 2012. Key to a sustained improvement of Slovenia's economy will be the developments in the European Union – Germany in particular – as the country's main trading area. An export recovery to the countries of the former Yugoslavia, absorbing about 17% of total exports before the crisis, seems rather unlikely. In addition, the already high and rising unit labour costs may reduce Slovenia's export competitiveness. An improvement on the labour market is the main precondition for the recovery of household consumption.

Table SI

Slovenia: Selected Economic Indicators

	2005	2006	2007	2008	2009	2010 1)	2011	2012 Forecast	2013
Population, th pers., average	2000.5	2006.9	2018.1	2021.3	2039.7	2047.0	2050	2050	2050
Gross domestic product, EUR mn, nom.	28749.6	31050.4	34568.2	37304.7	35384.4	36560	38340	40280	42530
annual change in % (real)	4.5	5.8	6.9	3.7	-8.1	1.2	2	2.5	3
GDP/capita (EUR at exchange rate)	14400	15500	17100	18400	17300	17900	18600	19600	20700
GDP/capita (EUR at PPP)	19700	20700	22100	22800	20800	21200	.	.	.
Consumption of households, EUR mn, nom.	15331.2	16156.1	17944.2	19477.5	19355.9	19860	.	.	.
annual change in % (real)	2.8	2.9	6.7	2.9	-0.5	0.5	1	1.5	2
Gross fixed capital form., EUR mn, nom.	7321.3	8242.1	9571.3	10743.4	8471.6	8070	.	.	.
annual change in % (real)	3.7	9.9	13.0	8.5	-21.6	-6.7	2	3	5
Gross industrial production									
annual change in % (real)	3.5	5.7	7.1	2.4	-17.3	6.7	4	4	4.5
Gross agricultural production									
annual change in % (real)	-1.2	-7.4	3.9	-1.3	-1.3	1.9	.	.	.
Construction industry									
annual change in % (real)	2.0	15.7	18.5	15.5	-20.9	-17	.	.	.
Employed persons - LFS, th, average	949	961	985	996	981	966	966	976	985
annual change in %	0.7	1.3	2.5	1.1	-1.5	-1.5	0	1	1
Unemployed persons - LFS, th, average	66	61	50	46	61	78	.	.	.
Unemployment rate - LFS, in %, average	6.5	6.0	4.8	4.4	5.9	7.5	7.5	7	6.5
Reg. unemployment rate, in %, end of period	10.2	8.6	7.3	7.0	10.5	11.6	11	10.5	10
Average gross monthly wages, EUR	1157	1213	1285	1391	1439	1500	.	.	.
annual change in % (real, net)	3.5	2.5	4.2	2.0	2.5	2	.	.	.
Consumer prices (HICP), % p.a.	2.5	2.5	3.8	5.5	0.9	2.1	2.8	2.5	2.5
Producer prices in industry, % p.a.	1.9	2.3	4.4	3.9	-1.4	2.0	2.5	2.5	2
General governm.budget, EU-def., % GDP									
Revenues	43.8	43.2	42.4	42.3	43.2	43.7	43.5	43.5	43.0
Expenditures	45.2	44.5	42.4	44.1	49.0	49.7	49.0	48.3	47.5
Net lending (+) / net borrowing (-)	-1.4	-1.3	0.0	-1.8	-5.8	-6.0	-5.5	-5	-4.5
Public debt, EU-def., in % of GDP	27.0	26.7	23.4	22.5	35.4	38.5	44	48	50
Central bank policy rate, % p.a., end of period 2)	3.8	3.8	4.0	2.5	1.0	1.0	.	.	.
Current account, EUR mn	-498	-772	-1646	-2490	-526	-419	-600	-700	-720
Current account in % of GDP	-1.7	-2.5	-4.8	-6.7	-1.5	-1.1	-1.6	-1.7	-1.7
Exports of goods, BOP, EUR mn	14599	17028	19799	20048	16167	18362	20600	23300	26300
annual growth rate in %	12.9	16.6	16.3	1.3	-19.4	13.6	12	13	13
Imports of goods, BOP, EUR mn	15625	18179	21465	22699	16866	19326	21500	24100	27100
annual growth rate in %	12.1	16.3	18.1	5.7	-25.7	14.6	11	12	12.5
Exports of services, BOP, EUR mn	3214	3573	4146	5043	4300	4352	4600	5000	5500
annual growth rate in %	15.5	11.2	16.0	21.6	-14.7	1.2	6	8	10
Imports of services, BOP, EUR mn	2294	2580	3098	3549	3187	3297	3500	3800	4200
annual growth rate in %	9.5	12.5	20.1	14.6	-10.2	3.5	7	9	11
FDI inflow, EUR mn	473	514	1106	1330	-419	630	800	800	900
FDI outflow, EUR mn	516	687	1316	948	121	114	.	.	.
Gross reserves of NB excl. gold, EUR mn 3)	6826.2	5341.7	666.0	623.0	671.0	695.2	.	.	.
Gross external debt, EUR mn	20496	24067	34783	39234	40276	40851	.	.	.
Gross external debt in % of GDP	71.2	77.5	100.6	105.2	113.8	111.7	.	.	.
Average exchange rate EUR/EUR	0.9997	0.9998	1.0000	1.0000	1.0000	1.0000	1	1	1
Purchasing power parity EUR/EUR	0.7304	0.7462	0.7749	0.8086	0.8353	0.8443	.	.	.

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

1) Preliminary and wiiw estimates. - 2) From 2007 official refinancing operation rates for euro area (ECB), main refinancing rate of NB before - 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.