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Slovenia: smooth entry into the eurozone

Slovenia's economic performance in 2006 turned out much stronger than expected at the beginning of the year. GDP expanded by close to 5%, the best result since 1999. In the third quarter growth even accelerated to 5.6%, primarily driven by domestic demand. Following a year of near-stagnation, gross fixed capital formation expanded by 10.5% mostly due to rising investment – backed by strong enterprise lending. Private and government consumption grew by slightly more than 3% each. While adding positively to GDP growth in the first two quarters, the contribution of foreign trade turned negative in the third quarter of the year.

On 1 January 2007 Slovenia adopted the euro as the first of the new member states joining the EU in 2004. Although the introduction of the euro is broadly accepted by the population, a recent survey found that about 40% of Slovenians are concerned about inflation. In order to make price hikes in the course of euro adoption visible, the Slovenian Statistical Office has compared monthly price rises over the past five years since April 2006 and found 'unusual fluctuations' especially in December. These were registered in particular for prices of services in restaurants and coffee shops, up 3.2% in December alone, while the reference values for the years 2002-2005 ranged between zero and 0.3%. Unusual price rises and upward rounding of prices was also recorded for personal services, furniture and furnishings, toilet articles and cosmetic products, household textiles, computer equipment, etc. The average annual consumer price inflation stood at 2.5% in 2006.

Industrial output expanded significantly and was up 7% in 2006. Capital goods production increased the most (12%), while the production of intermediate and consumer goods performed below average. Output growth of manufacturing slightly exceeded the average industrial growth, with the most favourable results achieved for the manufacture of electrical and optical equipment, chemicals and basic metals. On the negative side, output of transport equipment declined and the production of the food and textile industries continued its downward trend.

The labour market impact of GDP growth was still limited. Employment grew by 1%, with strong rises in construction, real estate and business activities, financial services and other community and social services. In manufacturing, however, job losses continued. The unemployment rate obtained from the Labour Force Survey fell slightly again and ranges among the lowest in the EU-25. The decline of registered unemployment to a historical low was to a large part caused by the deletion of a growing number of people from the register.

Foreign trade was buoyant in 2006: both exports and imports rose by 16% each, and the trade deficit widened as compared to 2005. A regional breakdown obtained from the

customs statistics for the period January to September indicates an above-average export expansion to the EU, particularly to Austria but also to the new EU member states. As in 2005, exports to the successor states of the former Yugoslavia grew below average and even fell in trade with Bosnia and Herzegovina and Macedonia. The current account deteriorated as against 2005 and the deficit to GDP ratio stood at 2.6%; this deterioration is primarily the result of the higher trade deficit as well as the worsening of the income balance due to growing payments of dividends, profits and interests as well as a deterioration of the current transfer balance. In addition, changes in the statistics have contributed to this result: following a methodological change in the data compilation, substantial revisions were made for factor incomes and current transfers for the period 2002 to 2005; this had substantial implications for the current account as a whole since both items were underestimated. Hence, the current account deficit for the whole period under consideration has deteriorated, e.g. in 2005 from an earlier EUR 300 million to EUR 550 million. Outward FDI developed dynamically; as in the past few years, Slovenia has remained a net exporter of FDI.

In anticipation of the euro introduction the Slovenian government had adopted its first Stability Programme for the period 2006-2009 (replacing the Convergence Programme) in accordance with the provisions of the Stability and Growth Pact in December 2006. Accordingly the estimated general government deficit – based on the ESA 95 methodology – is 1.5% of the GDP in 2007, 1.6% in 2008 and 1% in 2009. Priorities of the programme are, among other things, substantial investments into infrastructure, railways in particular, and investments into the information infrastructure and education. Budgetary expenditures for active labour market policy measures are envisaged to significantly increase employment, upgrade the educational level of the active population and reduce structural disparities on the labour market. In addition privatization should speed up. In the framework of a comprehensive tax reform initiated in late 2005 the Slovenian parliament approved a package of seven tax laws in autumn 2006, providing fewer personal income tax rates and a gradual reduction of the corporate income tax rate from 25% to 20% by 2010. The original idea of introducing a flat tax has been given up. Slovenian officials expect that the country will remain a net recipient of EU funds over the programme period. Slovenia's net budgetary position vis-à-vis the EU budget is anticipated to stand at plus 0.43 percentage points.

Economic prospects for the coming years are promising. Robust domestic demand, particularly housing and motorway investments, will keep GDP growth at close to 4.5% in 2007. Thereafter some impetus may also come from stronger export growth. Together with maintaining a moderate level of the trade deficit and with rising inflows of EU structural funds, the current account should gradually improve over the coming years. However, a slowdown in the EU-15 would probably restrict growth in terms of exports and GDP.

Table SI

Slovenia: Selected Economic Indicators

	2000	2001	2002	2003	2004	2005	2006 ¹⁾	2007	2008
	forecast								
Population, th pers., mid-year	1990.3	1992.0	1995.7	1996.8	1997.0	2001.1	2008.5	.	.
Gross domestic product, EUR-SIT mn, nom. ²⁾	17945.0	20028.2	22347.9	24259.5	26171.7	27625.4	29700	31800	33900
annual change in % (real) ²⁾	4.1	2.7	3.4	2.7	4.4	4.0	5	4.5	4.4
GDP/capita (EUR at exchange rate) ²⁾	10538	11094	11862	12458	13148	13805	14795	.	.
GDP/capita (EUR at PPP - wiiw) ²⁾	14610	15400	16040	16840	18150	19220	20670	.	.
Gross industrial production									
annual change in % (real) ³⁾	6.2	2.9	2.4	1.4	4.8	3.3	7	5	4.5
Gross agricultural production									
annual change in % (real)	1.0	-4.3	13.4	-12.7	19.3
Construction output, in effect. working time									
annual change in % (real) ⁴⁾	-1.2	-2.1	-3.4	-1.7	2.5	3.0	13.8 ^{I-XI}	.	.
Consumption of households, EUR-SIT mn, nom. ²⁾	10078.0	11090.9	12115.9	13217.9	14034.5	14854.3	15682.4	.	.
annual change in % (real) ²⁾	0.7	2.3	1.3	3.5	2.8	3.6	3	3	3
Gross fixed capital form., EUR-SIT mn, nom. ²⁾	4585.6	4835.1	5055.6	5646.2	6412.7	6748.7	7643.9	.	.
annual change in % (real) ²⁾	1.8	0.4	0.9	7.0	7.9	1.5	10.5	7	7
LFS - employed persons, th, avg.	901	916	910	897	943	949	960	.	.
annual change in %	1.7	1.7	-0.7	-1.4	5.1	0.6	1.2	.	.
Reg. employees in industry, th pers., avg. ⁵⁾	241.6	243.5	246.1	242.2	239.7	239.3	235.3 ^{I-X}	.	.
annual change in %	-0.5	0.8	1.1	-1.6	-1.0	-1.7	-1.9 ^{I-X}	.	.
LFS - unemployed, th pers., average	68.0	63.0	62.0	64.8	64.0	67.0	64.0	.	.
LFS - unemployment rate in %, average	7.0	6.4	6.4	6.7	6.3	6.6	6.3	6	6
Reg. unemployment rate in %, end of period	12.0	11.8	11.3	11.0	10.1	10.2	8.6 ^{XI}	8.5	8.1
Average gross monthly wages, EUR-SIT ⁶⁾	800	895	982	1057	1117	1157	1208 ^{I-XI}	.	.
annual change in % (real, net) ⁶⁾	1.4	3.1	2.1	1.8	2.1	3.5	2.5 ^{I-XI}	.	.
Consumer prices, % p.a.	8.9	8.4	7.5	5.6	3.6	2.5	2.5	2.6	2.3
Producer prices in industry, % p.a.	7.6	8.9	5.1	2.5	4.3	2.7	2.3	2.2	2
General governm. budget, EU-def., % GDP ⁷⁾									
Revenues	44.3	44.8	45.5	45.3	45.1	45.8	46.4	45.4	44.8
Expenditures	48.2	49.1	48.0	48.0	47.4	47.2	48.0	47.0	46.4
Deficit (-) / surplus (+), % GDP	-3.9	-4.3	-2.5	-2.8	-2.3	-1.4	-1.6	-1.6	-1.5
Public debt in % of GDP ⁷⁾	27.6	28.3	29.1	28.5	28.7	28.0	28.4	28.0	27.6
Discount rate % p.a., end of period ⁸⁾	10.0	7.8	7.3	5.0	3.3	3.8	3.8	.	.
Current account, EUR mn	-583.0	38.0	247.2	-195.7	-719.7	-547.5	-772.8	-700	-500
Current account in % of GDP	-2.8	0.2	1.0	-0.8	-2.7	-2.0	-2.6	-2.2	-1.5
Gross reserves of NB excl. gold, EUR mn	3435.8	4907.5	6701.5	6798.2	6464.0	6824.1	5341.6	.	.
Gross external debt, EUR mn	9490	10386	11524	13225	15343	19614	22518.3 ^{XI}	.	.
Gross external debt in % of GDP	45.2	47.0	48.7	53.2	58.4	71.0	.	.	.
FDI inflow, EUR mn	149.1	412.4	1721.7	270.5	665.2	444.9	264.2	.	.
FDI outflow, EUR mn	71.7	161.2	165.8	421.3	441.0	503.4	567.8	.	.
Exports of goods, BOP, EUR mn	9574.2	10454.3	11081.6	11417.1	12932.8	14599.2	16991.4	19000	20800
annual growth rate in %	18.2	9.2	6.0	3.0	13.3	12.9	16.4	12	9
Imports of goods, BOP, EUR mn	10801.2	11138.7	11346.6	11959.9	13941.6	15625.1	18102.7	20000	22000
annual growth rate in %	16.6	3.1	1.9	5.4	16.6	12.1	15.9	10	10
Exports of services, BOP, EUR mn	2051.5	2177.6	2439.5	2464.9	2782.6	3209.7	3508.5	.	.
annual growth rate in %	16.3	6.1	12.0	1.0	12.9	15.3	9.3	.	.
Imports of services, BOP, EUR mn	1562.3	1642.1	1819.7	1924.7	2095.0	2354.1	2651.5	.	.
annual growth rate in %	8.9	5.1	10.8	5.8	8.8	12.4	12.6	.	.
Average exchange rate EUR-SIT/USD	0.929	1.013	1.003	0.864	0.803	0.804	0.797	.	.
Average exchange rate EUR-SIT/EUR	0.856	0.906	0.944	0.975	0.997	1.000	1.000	1.000	1.000
Purchasing power parity EUR-SIT/USD	0.542	0.569	0.602	0.610	0.609	0.603	0.593	.	.
Purchasing power parity EUR-SIT/EUR	0.617	0.653	0.698	0.721	0.722	0.718	0.716	.	.

Nota: Slovenia has introduced the euro from 1 January 2007. For statistical purposes all time series in SIT as well as the exchange rates and PPP rates have been divided by the conversion factor 239.64 (SIT per EUR) to EUR-SIT. - The term 'industry' refers to NACE classification C+D+E.

- 1) Preliminary. - 2) According to ESA95 (FISIM-adjusted and real change based on previous year prices). - 3) From July 2005 new methodology. - 4) From 2004 construction put in place; units with at least 20 employees. - 5) From January 2005 data from Statistical Register of Employment, years before from Monthly Report on Earnings. - 6) From January 2005 including legal persons with 1 or 2 employees in private sector. - 7) According to ESA95, excessive deficit procedure. - 8) From 2001 main refinancing rate.

Source: wiiw Database incorporating national statistics; Eurostat; European Commission (Autumn 2006); wiiw forecasts.