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Slovenia: net FDI exporter

Economic growth was dampened noticeably by a decline in foreign demand in 2003. GDP grew by 2.2% (compared with an average rate of 3.8% over the past five years) backed by household consumption and investments. Industrial production rose by a mere 1.4%: only a few sub-sectors recorded an output increase, such as manufacture of electrical and optical equipment, chemicals, transport equipment and coke and nuclear fuels. Activity was particularly depressed in a number of labour-intensive branches such as the leather and textile industries and the wood industry. Employment fell in most branches, facilitating a modest productivity increase.

Inflation was reduced by about 2 percentage points as against a year earlier: in 2003 consumer prices rose by 5.6% on average, the December-to-December inflation rate was 4.6%. In line with the recently adopted programme for the (early) entry into ERM II, the government has decided that the rise in administered prices – their share in the CPI was 16% in 2003 – may not exceed 3.4% in 2004 and 2.3% in 2005 (rates relate to December/December values). These price increases are below the recently announced inflation forecasts of 3.6% in 2004 and 2.9% in 2005.

The labour market trends prevailing in the first months of 2003 continued for the rest of the year. In November the number of registered job seekers was about 4% lower than in December 2002, but that resulted mainly from methodological changes in the coverage of unemployed. After years of moderate growth, employment reported a slight overall decrease, with the decline of self-employed and farmers contributing most to this result.

Although declining gradually, nominal (lending) interest rates remained high and stood at 10.7% in December for long-term loans. Therefore it is no surprise that foreign currency loans soared significantly (by 31.7% in real terms) in the first ten months of the year whereas tolar loans were up by only 4.1%. A further reduction of nominal interest rates is the declared target of the Bank of Slovenia in order to stabilize the exchange rate by the end of 2004 – the date of the envisaged entry into ERM II.

In contrast to preceding years when export growth exceeded import growth, in 2003 imports, measured in current euro terms, grew at a higher rate (5%) than exports (3%). In the first eleven months the trade deficit widened substantially, by about 70%, as against the same period in 2002. Stagnating exports to the European Union as a whole and the contraction of exports to Germany (-4%) and France (-16%) in particular could only partly be offset by increasing deliveries to CEFTA countries and Russia. Furthermore, services trade reported a smaller surplus than a year earlier, mainly caused by the deteriorating

balance in construction and other business services. Based on these results, wiiw expects the current account to end up balanced or slightly negative in 2003 as a whole (2002: EUR 330 million surplus). The existing free trade agreements between Slovenia and other successor states of former Yugoslavia (Croatia, Bosnia and Herzegovina and Macedonia) will lose validity after EU accession. Slovenia's authorities have expressed fears that this might entail some disadvantages for Slovenia as agreements between the EU and these countries are less favourable.

After inward FDI had reached an all-time record level in 2002, Slovenia became a net exporter of FDI in 2003. In the period January-November investments abroad, in particular in the successor states of Yugoslavia, were reported at some EUR 234 million whereas inward FDI stood at a meagre EUR 132 million. By the end of December Renault acquired the remaining shares (one third) of Revoz and became the sole owner of the country's only car producer and biggest exporting company. Foreign debt increased continuously: in November it was about EUR 1.5 billion higher than at the end of 2002, mainly due to long-term international borrowing by commercial banks abroad.

The consolidated general government deficit for 2003 is in line with the anticipated 1.5% of the GDP. In December Slovenia's parliament approved the amended budget for 2004 and the budget bill for 2005, envisaging deficit to GDP ratios of 1.5% and 1.7% respectively. Both budgets foresee a cut in expenditures on public sector salaries and goods and services and an increase in subsidies and investments (e.g. to attract foreign investors).

In November 2003 the government and the Bank of Slovenia presented a 'Joint Programme for the ERM II Entry and Adoption of the Euro'. Accordingly Slovenia wants to enter the ERM II as soon as possible, i.e. by the end of 2004, which would allow to adopt the euro in 2007. In order to bring down inflation – still high by acceding countries' standards – the Bank of Slovenia will pursue a policy that will gradually cut interest rates. The Bank is confident that stabilizing the tolar exchange rate will be possible despite the interest rate cuts. The government, on the other hand, committed itself to gradually reducing the structural deficit in public finance and reducing the cost pressures in administered prices and tax increases. In addition a further de-indexation of wages in the public sector is envisaged.

GDP may grow by 3.4% in 2004, supported by investments (motorway construction programme) and the release of funds from a government-sponsored savings scheme for the purchase of new housing. This will however depend on an improvement in the business cycle in the European Union (in particular Germany). Inflation will continue to slow down and reach some 4% on average in 2004 and 3.5% in 2005. Due to the envisaged changes in the exchange rate policy the current account might slightly deteriorate.

Table SI

Slovenia: Selected Economic Indicators

	1997	1998	1999	2000	2001	2002	2003 ¹⁾	2004 forecast	2005 forecast
Population, th pers., mid-year	1986.8	1982.6	1985.6	1990.3	1992.0	1995.7	1996.8	.	.
Gross domestic product, SIT bn, nom.	2907.3	3253.8	3648.4	4222.4	4740.1	5275.8	5700	6150	6600
annual change in % (real)	4.6	3.8	5.2	4.6	2.9	2.9	2.2	3.4	3.5
GDP/capita (EUR at exchange rate)	8111	8811	9490	10352	10957	11690	12400	.	.
GDP/capita (EUR at PPP - wiiw)	11780	12480	13490	15040	15840	16600	16870	.	.
Gross industrial production									
annual change in % (real)	1.0	3.7	-0.5	6.2	2.9	2.4	1.4	2	2.5
Gross agricultural production									
annual change in % (real)	0.0	2.2	-1.3	2.4	.	.	.	.	.
Goods transport, mn t-kms ²⁾	37859	36733	40041	37003	41317	36287	29775 ^{I-X}	.	.
annual change in %	0.1	-3.0	9.0	-7.6	2.9	-12.2	-2.0 ^{I-X}	.	.
Gross fixed capital form., SIT bn, nom.	679.5	800.6	999.2	1085.9	1136.8	1193.2	.	.	.
annual change in % (real)	11.6	11.3	19.1	0.2	-0.4	1.3	5.5	6	6
Construction output, in effect. working time									
annual change in % (real)	-5.2	1.7	10.2	-1.2	-2.1	-3.4	-1.7 ^{I-X}	.	.
Dwellings completed, units	6085	6518	5142	6460	6421	.	.	.	.
annual change in %	-2.3	7.1	-21.1	25.6	-0.6	.	.	.	.
Employment total, th pers., average	743.4	745.2	758.5	768.2	779.0	783.5	777.5 ^{I-XI}	.	.
annual change in %	0.2	0.2	1.8	1.3	1.4	0.6	-0.8 ^{I-XI}	.	.
Employees in industry, th pers., average	248.5	246.2	242.8	241.6	243.5	246.1	242.3 ^{I-X}	.	.
annual change in %	-2.1	-0.9	-1.4	-0.5	0.8	1.1	-1.6 ^{I-X}	.	.
Reg. unemployed, th pers, end of period	128.6	126.6	114.3	104.6	104.3	99.6	96.0	.	.
Reg. unemployment rate in %, end of period	14.8	14.6	13.0	12.0	11.8	11.3	11.0	10	9.8
LFS - unemployment rate in %, average	7.4	7.9	7.6	7.0	6.4	6.4	6.7	6.3	6
Average gross monthly wages, SIT	144251	158069	173245	191669	214561	235436	250943 ^{I-XI}	.	.
annual change in % (real, net)	2.9	1.5	3.0	1.4	3.1	2.1	1.9 ^{I-XI}	.	.
Retail trade turnover, SIT bn ³⁾	1290.0	1346.7	1555.0	1557.4	1684.8	.	.	.	.
annual change in % (real) ⁴⁾	1.0	2.1	2.9	7.4	7.8	4.7	5.0 ^{I-X}	.	.
Consumer prices, % p.a.	8.4	7.9	6.1	8.9	8.4	7.5	5.6	4	3.5
Producer prices in industry, % p.a.	6.1	6.0	2.1	7.6	8.9	5.1	2.5	.	.
General government budget, SIT bn									
Revenues	1222.6	1397.9	1590.0	1726.7	1967.8	2083.9	1927.1 ^{I-X}	.	.
Expenditures	1256.7	1423.5	1613.3	1781.4	2031.0	2239.9	1974.1 ^{I-X}	.	.
Deficit (-) / surplus (+)	-34.1	-25.6	-23.3	-54.7	-63.2	-156.0	-47.0 ^{I-X}	.	.
Deficit (-) / surplus (+), % GDP	-1.2	-0.8	-0.6	-1.3	-1.3	-3.0	.	.	.
Money supply, SIT bn, end of period									
M1, Money	347.4	428.2	507.8	549.8	648.1	720.1	768.8 ^{Nov}	.	.
Broad money	1547.8	1832.7	2055.7	2370.6	3040.6	3600.7	3777.7 ^{Nov}	.	.
Discount rate % p.a., end of period ⁵⁾	10.0	10.0	8.0	10.0	7.8	7.3	5.0	.	.
Current account, EUR mn	43.1	-107.9	-664.2	-583.0	38.0	329.7	50	50	-100
Current account in % of GDP	0.3	-0.6	-3.5	-2.8	0.2	1.4	0.2	0.2	-0.4
Gross reserves of NB excl. gold, EUR mn	3003.0	3104.5	3159.2	3435.8	4907.5	6701.5	6798.2	.	.
Gross external debt, EUR mn	6165	6459	8012	9490	10403	11482	12988 ^{Nov}	.	.
Exports total, fob, EUR mn ⁶⁾	7413.4	8051.9	8037.0	9505.1	10348.7	10965.9	11250	11800	12400
annual growth rate in %	11.6	8.6	-0.2	18.3	8.9	6.0	3	5	5
Imports total, cif, EUR mn ⁶⁾	8289.7	8999.4	9482.0	10995.7	11345.4	11577.8	12200	12900	13400
annual growth rate in %	10.0	8.6	5.4	16.0	3.2	2.0	5	6	4
Average exchange rate SIT/USD	159.69	166.13	181.77	222.68	242.75	240.24	207.11	.	.
Average exchange rate SIT/EUR (ECU)	180.40	186.27	193.63	205.03	217.19	226.22	233.70	238	242
Purchasing power parity SIT/USD, wiiw	112.09	119.33	124.62	130.79	138.65	148.37	157.51	.	.
Purchasing power parity SIT/EUR, wiiw	124.21	131.47	136.17	141.02	150.20	159.28	171.75	.	.

Notes: 1) Preliminary. - 2) From 2001 new methodology in road transport. - 3) Including turnover tax; goods transport services, maintenance and repair of motor vehicles are not covered. - 4) Excluding turnover tax; maintenance and repair of motor vehicles are included. - 5) From 2001 main refinancing rate. - 6) Converted from the national currency to EUR at the official exchange rate.

Source wiiw Database incorporating national statistics; wiiw forecasts.