

Hermine Vidovic

Slovenia: smooth EU entry

Backed both by rising domestic demand and a recovery of external demand, GDP grew by about 4% in 2004, more than initially expected by the Slovenian authorities. Within domestic demand, private consumption growth gained momentum from quarter to quarter boosted by increasing credits to private households. Fixed capital formation grew at a slightly higher rate than in 2003 with investment activities directed to the construction sector lately.

Industrial production growth recorded the most favourable result since 2000 and was up by about 4.5% in 2004: capital goods and intermediate goods production increased by 8% and 7% respectively, while the production of consumer goods stagnated. Output of manufacturing mirrored the average industrial production growth. Within manufacturing, outstanding results were reported for electrical and optical equipment, transport equipment and chemicals. In contrast, output declines of nearly 10% were registered in the manufacturing of food and beverages, textiles and textile products as well as leather and leather products. The production of the country's textile industry has been on the decline since the early 1990s. According to the Slovenian Chamber of Commerce, the number of textile workers fell to 23 thousand in 2003, from nearly 41 thousand in 1993. Layoffs and bankruptcies continued in 2004. Similar tendencies are observed in the leather industry. As for food processing, Slovenian experts' fears that EU accession might create serious problems for the sector (first of all for meat processing, but also for dairy products and wine) seem to have been confirmed by the output decline by almost 10%, coupled with falling exports (exports of beverages even fell by one third) and rising imports. In the past, Slovenia's food production had enjoyed a high level of protection, with virtually no competition from abroad. But along with the country's accession to the EU, customs barriers were lifted and the favourable bilateral free trade agreements with the successor states of the former Yugoslavia cancelled; the latter had accounted for about two thirds of Slovenia's food exports. However, apart from exports of the food industry, deliveries to the region of the former Yugoslavia expanded significantly.

Available information on developments in employment differs substantially. Based on labour force survey data, employment grew remarkably in 2004, after only moderate increases or even slight declines in the years before. The estimated 4% rise was resulting from an increase of part-time workers and unpaid family members as well as workers in agriculture. (After two successive years of either heavy rains or drought, 2004 was a 'normal' year in agriculture.) Registration and national accounts data, however, point to a stagnation of employment. At the same time unemployment fell slightly based both on

survey and registration data, but structural problems remained, such as low employment levels of older workers and the high share of long-term unemployed.

Since the entry of the Slovenian tolar into the ERM II as of end of June 2004, the exchange rate has remained close to the central band. The disinflation process has continued, however, inflation is still higher than required by the Maastricht criterion. Consumer price increases averaged 3.6% in 2004, by two percentage points less than a year earlier. Real wage increases remained within the limits set in the Convergence Programme 2004-2007, according to which wage growth should lag behind labour productivity growth by at least one percentage point.

Against the advice of the newly established Strategic Council for Economic Development, a new tax legislation – which had been subject to protracted discussions in the former government – became effective from January 2005. The main goal of the reform is a reduction of labour-related taxes; accordingly more than 60% of taxable persons will have to pay a lower average effective tax rate. The Council had argued that implementing the new legislation could endanger the meeting of the nominal convergence criteria for introducing the euro, cause a certain loss of the anticipated 2005 budget revenues and would provide an inconsistent and non-transparent legislative framework. As a consequence the government appointed an expert group to draft a new comprehensive tax reform aimed at a simplification of the tax legislation. The 2004 general government closed with an estimated 2.1% deficit to GDP – a result higher than anticipated and mainly due to the inclusion of two extra-budgetary funds (Capital Fund KAD and the Slovene Restitution Fund SOD) in the general government, lower VAT revenues than anticipated and less withdrawals from EU funds than originally expected. Based on the revised revenue forecasts the government will present a supplementary budget for 2005 which should be adopted in March. According to preliminary calculations the deficits should be 2.1% of GDP in 2005 and 1.8% in 2006.

Fears that exports might suffer from the (stable) exchange rate have not materialized. Both exports and imports developed dynamically in 2004, expanding by 11% and 13% respectively. As in the recent past, exports to non-EU Member States (particularly to the successors of the former Yugoslavia and to Russia) showed above-average increases (by close to 17%), while deliveries to the EU rose by 12%. The higher trade deficit has to a large part been offset by a rising surplus in services trade, and the current account ended up slightly negative (-0.7% of GDP) in 2004. EU entry has not triggered any substantial rise in FDI inflows. As for Slovenian investments abroad, they were slightly lower than a year earlier and mainly targeting the successor states of the former Yugoslavia, but also some of the 'old' EU Member States such as Austria and the Netherlands.

The parliamentary elections held in October 2004 brought about major changes in Slovenia's political landscape. The Slovenian Democratic Party gained a clear victory over the Liberal Democratic Party (LDS) which had been the main political power for more than ten years. Slovenia's new centre-right government came into office on 3 December. It is based on a coalition of the Slovenian Democratic Party (SDS), New Slovenia (NSi), Slovenian Peoples Party (SLS) and DeSUS, the pensioners' party, and controls 49 of the 90 seats in parliament. It is headed by Janez Janša, who was already defence minister in the coalition DEMOS at the beginning of the 1990s. As far as economic goals are concerned, the new government committed itself (as did the outgoing) to introducing the euro in 2007. More generally it is aiming at the reduction of state involvement in the economy, the promotion of entrepreneurship and FDI and easier business conditions for SMEs. Regarding the privatization of state-owned banks, the government intends to find strategic partners which will support entrepreneurship in the country.

On 1 February 2005 the Slovenian parliament ratified the EU constitutional treaty, backed by a vast majority of its members. In general, the provisions of the constitution are seen as 'very favourable for Slovenia'.

Prospects for the years to come are encouraging. Supported by export expansion and buoyant domestic demand, GDP growth of close to 4% will be feasible in both 2005 and 2006. Inflation may drop to 3% this year and somewhat below that level in 2006. wiiw expects the central bank to adhere to its policy of a stable exchange rate, allowing only minor fluctuations. The fiscal balance and the current account will not cause any serious problems in the years to come.

Table SI

Slovenia: Selected Economic Indicators

	1998	1999	2000	2001	2002	2003	2004 ¹⁾	2005	2006
									forecast
Population, th pers., mid-year	1982.6	1985.6	1990.3	1992.0	1995.7	1996.8	1997.0	.	.
Gross domestic product, SIT bn, nom.	3464.9	3874.7	4252.3	4761.8	5314.5	5747.2	6200	6600	7100
annual change in % (real)	3.6	5.6	3.9	2.7	3.3	2.5	4.2	3.9	3.9
GDP/capita (EUR at exchange rate)	9383	10078	10421	11006	11771	12316	13000	.	.
GDP/capita (EUR at PPP - wiiw)	12700	13690	14460	15290	15940	16400	17350	.	.
Gross industrial production									
annual change in % (real)	3.7	-0.5	6.2	2.9	2.4	1.4	4.8	3.5	3
Gross agricultural production									
annual change in % (real)	2.2	-1.3	2.4
Construction output, in effect. working time									
annual change in % (real) ²⁾	1.7	10.2	-1.2	-2.1	-3.4	-1.7	3.9 ^{-IX}	.	.
Consumption of households, SIT bn, nom.	1944.5	2185.1	2373.6	2621.8	2830.4	3053.9	2410.9 ^{-IX}	.	.
annual change in % (real)	3.0	5.9	0.3	2.3	0.2	2.8	3.6	3.5	3
Gross fixed capital form., SIT bn, nom.	823.2	1019.5	1066.8	1164.4	1239.2	1373.3	1127.5 ^{-IX}	.	.
annual change in % (real)	9.9	21.0	0.6	4.1	3.1	6.3	6.9	6.5	6
LFS - employed persons, th, avg.	901	886	901	916	910	897	933 ³⁾	.	.
annual change in %	-0.6	-1.7	1.7	1.7	-0.7	-1.4	4 ³⁾	.	.
Reg. employees in industry, th pers., avg.	246.2	242.8	241.6	243.5	246.1	242.2	239.8 ^{-IX}	.	.
annual change in %	-0.9	-1.4	-0.5	0.8	1.1	-1.6	-1.0 ^{-IX}	.	.
LFS - unemployed, th pers., average	77.0	73.0	68.0	63.0	62.0	64.8	63	.	.
LFS - unemployment rate in %, average	7.9	7.6	7.0	6.4	6.4	6.7	6.3	6	6
Reg. unemployment rate in %, end of period	14.6	13.0	12.0	11.8	11.3	11.0	10.4	10	9.5
Average gross monthly wages, SIT	158069	173245	191669	214561	235436	253200	267571	.	.
annual change in % (real, net)	1.5	3.0	1.4	3.1	2.1	1.8	2.1	.	.
Consumer prices, % p.a.	7.9	6.1	8.9	8.4	7.5	5.6	3.6	3	2.7
Producer prices in industry, % p.a.	6.0	2.1	7.6	8.9	5.1	2.5	3.1	3	.
General governm.budget, EU-def., % GDP ⁴⁾									
Revenues	.	.	44.7	45.1	45.7	46.2	45.3	.	.
Expenditures	.	.	48.2	47.9	48.1	48.2	47.5	.	.
Deficit (-) / surplus (+), % GDP	.	.	-3.5	-2.8	-2.3	-2.0	-2.1	-2.1	-1.8
Public debt in % of GDP ³⁾	.	25.1	27.4	28.1	29.5	29.4	30.9	30.7	30.9
Discount rate % p.a., end of period ⁵⁾	10.0	8.0	10.0	7.8	7.3	5.0	3.3	.	.
Current account, EUR mn	-107.9	-664.2	-583.0	38.0	335.4	-91.2	-179.1	-150	-150
Current account in % of GDP	-0.6	-3.3	-2.8	0.2	1.4	-0.4	-0.7	-0.5	-0.5
Gross reserves of NB excl. gold, EUR mn	3104.5	3159.2	3435.8	4907.5	6701.5	6798.1	6456.8	.	.
Gross external debt, EUR mn	6459	8012	9490	10403	11455	13305	15355	.	.
FDI inflow, EUR mn	194.3	99.2	149.1	412.4	1750.4	298.8	419.9	.	.
FDI outflow, EUR mn	-4.9	44.7	71.7	161.2	168.1	413.7	368.1	.	.
Exports of goods, BOP, EUR mn	8088.3	8103.2	9574.2	10454.3	11081.6	11414.0	12700.1	13700	14400
annual growth rate in %	8.7	0.2	18.2	9.2	6.0	3.0	11.3	8	5
Imports of goods, BOP, EUR mn	8796.5	9267.3	10801.2	11138.7	11351.0	11959.8	13475.1	14500	15400
annual growth rate in %	8.3	5.4	16.6	3.1	1.9	5.4	12.7	8	6
Exports of services, BOP, EUR mn	1804.2	1763.5	2051.5	2177.6	2440.0	2468.6	2790.0	.	.
annual growth rate in %	-0.3	-2.3	16.3	6.1	12.0	1.2	13.0	.	.
Imports of services, BOP, EUR mn	1357.3	1434.0	1562.3	1642.1	1823.5	1930.3	2120.8	.	.
annual growth rate in %	8.7	5.7	8.9	5.1	11.0	5.9	9.9	.	.
Average exchange rate SIT/USD	166.13	181.77	222.68	242.75	240.24	207.11	192.38	.	.
Average exchange rate SIT/EUR (ECU)	186.27	193.63	205.03	217.19	226.22	233.70	238.86	239	240
Purchasing power parity SIT/USD, wiiw	119.40	124.66	130.38	137.35	147.93	152.75	159.05	.	.
Purchasing power parity SIT/EUR, wiiw	137.57	142.60	147.72	156.30	167.10	175.46	179.08	.	.

Notes: 1) Preliminary. - 2) From 2004 construction put in place; units with at least 20 employees. - 3) wiiw estimate; registration data show a growth of 0.6% only. - 4) According to ESA'95, excessive deficit procedure. - 5) From 2001 main refinancing rate.

Source: wiiw Database incorporating national statistics; AMECO Database; wiiw forecasts.