

## **Slovenia: suffering from poor business climate in the EU**

The information available for the first months of the year 2003 points to just a moderate overall economic performance. GDP grew by a mere 2.3% in the first quarter of the year, the lowest quarterly growth rate reported since 1995. The relatively poor result was mainly due to the sluggish export performance, while investment continued to grow. Industrial production remained below expectations, reporting even a slight decline in the first four months of the year. Manufacturing output was almost stagnant, only a few sub-sectors reported an increase in output, such as manufacture of coke, petroleum and nuclear fuel, electrical and optical equipment and chemicals. Labour-intensive industries such as the leather and textile industry, but also the wood industry saw substantial drops in their production activity.

The positive trends prevailing in construction during 2002 continued in the first quarter of 2003, with the volume of construction put in place up 8.5% in real terms. The rise resulted first of all from a marked increase in civil engineering, while (residential) building construction recorded a substantial decline. Retail trade turnover grew by just 1.7% in real terms in the first quarter of 2003, real net wages by 1.8%. During the first months of the year, intense corporate cross-border borrowing was recorded. In April foreign currency loans to the enterprise sector and other financial organizations were 30% higher than in April 2002.

Inflation is still very high compared to other accession countries. In the period January to May, consumer prices rose by 6.1% on average, the May-to-May inflation was 5.5%. The central bank and the government continued and intensified their cooperation in combating inflation. The Bank of Slovenia has announced to further pursue its moderately restrictive monetary policy, with emphasis put on the control of monetary aggregates and restrictions on consumption. The exchange rate policy resembles more or less the crawling band arrangement, where the exchange rate is strongly related to the interest rate. As announced, the Bank will in the near future continue the managed floating regime, which is seen as the best choice in the current circumstances. The government decided on a freeze of most administered prices until the end of April, thereafter price rises are not allowed to exceed the target inflation rate of 5% for 2003. By the end of May, the parliament passed a bill on the abolition of the indexation of interest rates (TOM); it was additionally decided to abolish the revaluation clause in all contracts concluded by the public sector.

After years of slight but steady increase, total employment fell by 0.5% during the first quarter of 2003; however, employment started to rise from February. Employment declines continued in manufacturing, in particular in the textile industry, the manufacture of coke and

petroleum products and in electrical machinery and equipment. Registered unemployment decreased from February, mainly due to deletions from the register, but the registered unemployment rate remained at around 11%. The Labour Force Survey unemployment rate, traditionally much lower, increased from 6.5% in the last quarter of 2002 to 7% in the first quarter of 2003 – affecting first of all males.

The current account deteriorated slightly during the first quarter of 2003. This was largely the result of an increasing trade deficit, with imports growing faster than exports. In contrast to 2002, when Slovenia reported substantial growth rates in trade with the successor states of former Yugoslavia, in the first quarter of 2003 exports to that region fell by 1.2% whereas imports grew by 11%. Trade with Russia has been contracting as well. Trade with the EU performed below average: in particular exports to Germany (absorbing about one quarter of total exports) fell by 4%, those to France by 14%. The FDI inflow was less impressive than a year before when bank privatizations and several enterprise takeovers had resulted in a record inflow of foreign capital. In the first quarter of 2003 FDI worth EUR 74 million flew into the country, as against EUR 327 million in the same period a year earlier. External debt totalled USD 9.3 billion at the end of March, an increase by about 6% over the end of 2002, which is largely the result of the strengthening of the euro vis-à-vis the US dollar (most of Slovenia's foreign debt is denominated in euros).

The second monitoring report of the EU Commission (published in May 2003) stated that Slovenia and Lithuania were the only two accession countries having fulfilled all their commitments, but both 'need to continue with intense preparations'. By the end of May, Slovenia and the EU signed an agreement on the further liberalization of trade in agricultural products. The arrangement, taking effect on 1 July, foresees the liberalization of 90% of Slovenian agricultural exports to the EU, whereas the respective share on the import side is 75%.

Owing to the weak external environment, especially in Germany, and the relatively slow recovery of domestic demand, a revision of economic forecasts made earlier became necessary. The central bank and the government revised their target rates for GDP growth from 3.5-3.7% down to 3-3.1%. Assuming that the current trends will continue, a GDP growth rate below 3% cannot be excluded. Inflation will slow down to about 5.5% in 2003 and 4% in 2004. The current account might close with a slight surplus in both 2003 and 2004.

Table SI

## Slovenia: Selected Economic Indicators

	1998	1999	2000	2001	2002 <sup>1)</sup>	2002 1st quarter	2003	2003 forecast	2004
Population, th pers., mid-year	1982.6	1985.6	1990.3	1992.0	1995.7	.	.	.	.
Gross domestic product, SIT bn, nom.	3253.8	3648.4	4222.4	4741.0	5284.5	.	.	5710	6180
annual change in % (real)	3.8	5.2	4.6	2.9	3.2	2.5	2.3	2.5	3.5
GDP/capita (USD at exchange rate)	9878	10109	9527	9804	11022	.	.	.	.
GDP/capita (USD at PPP - wiiw)	14840	15810	16850	17730	18460	.	.	.	.
Gross industrial production									
annual change in % (real)	3.7	-0.5	6.2	2.9	2.4	1.7	0.8	1.5	2
Gross agricultural production									
annual change in % (real)	2.2	-1.3	2.4	.	.	.	.	.	.
Goods transport, mn t-kms <sup>2)</sup>	36733	40041	37003	41505	36312	9585	9313	.	.
annual change in %	-3.0	9.0	-7.6	5.6	-12.5	-9.0	-2.8	.	.
Gross fixed capital form., SIT bn, nom.	800.6	999.2	1085.9	1132.0	1209.1	.	.	.	.
annual change in % (real)	11.3	19.1	0.2	-0.8	3.1	2.5	5.6	5.5	5.5
Construction output, in effect. working time									
annual change in % (real)	1.7	10.2	-1.2	-2.1	-3.4	-7.1	.	.	.
Dwellings completed, units <sup>3)</sup>	6518	5142	6460	5475	4757	1267	.	.	.
annual change in %	7.1	-21.1	25.6	-5.8	-13.1	-15.8	.	.	.
Employment total, th pers., average	745.2	758.5	768.2	779.0	783.5	781.2	777.1	.	.
annual change in %	0.2	1.8	1.3	1.4	0.6	1.2	-0.5	.	.
Employees in industry, th pers., average	246.2	242.8	241.6	243.5	246.1	245.5	.	.	.
annual change in %	-0.9	-1.4	-0.5	0.8	1.1	1.0	.	.	.
Reg. unemployed, th pers, end of period	126.6	114.3	104.6	104.3	99.6	103.5	98.8	.	.
Reg. unemployment rate in %, end of period	14.6	13.0	12.0	11.8	11.3	11.7	11.3	10.5	10
LFS - unemployment rate in %, average	7.9	7.6	7.0	6.4	6.4	6.9	7.0	6.5	6
Average gross monthly wages, SIT	158069	173245	191669	214561	235436	225557	244095	.	.
annual change in % (real, net)	1.5	3.0	1.4	3.1	2.1	1.2	1.8	.	.
Retail trade turnover, SIT bn <sup>4)</sup>	1346.7	1555.0	1557.4	1684.8	.	.	.	.	.
annual change in % (real) <sup>5)</sup>	2.1	2.9	7.4	7.8	4.7	3.8	.	.	.
Consumer prices, % p.a.	7.9	6.1	8.9	8.4	7.5	8.1	6.3	5.5	4.5
Producer prices in industry, % p.a.	6.0	2.1	7.6	8.9	5.1	5.8	3.0	.	.
General government budget, SIT bn									
Revenues	1397.9	1590.0	1726.7	1967.8	2083.9	392.1	.	.	.
Expenditures	1423.5	1613.3	1781.4	2031.0	2241.5	520.8	.	.	.
Deficit (-) / surplus (+)	-25.6	-23.3	-54.7	-63.2	-157.6	-128.7	.	.	.
Deficit (-) / surplus (+), % GDP	-0.8	-0.6	-1.4	-1.4	-3.0	.	.	.	.
Money supply, SIT bn, end of period									
M1, Money	332.7	399.8	424.0	502.2	563.4	485.2	.	.	.
Broad money	1690.3	1912.9	2206.4	2877.4	3371.9	2970.7	.	.	.
Discount rate % p.a., end of period <sup>6)</sup>	10.0	8.0	10.0	11.0	7.3	7.8	6.5	.	.
Current account, USD mn	-118.0	-698.4	-547.6	30.9	375.0	64.6	-30.2	100	100
Current account in % of GDP	-0.6	-3.5	-2.9	0.2	1.7	.	.	0.4	0.4
Gross reserves of NB excl. gold, USD mn	3638.5	3168.0	3196.0	4329.9	6980.2	4521.0	7114.5	.	.
Gross external debt, USD mn	4915	5400	6217	6717	8799	6680	.	.	.
Exports total, fob, EUR mn <sup>7)</sup>	8051.9	8037.0	9505.1	10348.7	10965.8	2653.2	2741.5	11300	11800
annual growth rate in %	8.6	-0.2	18.3	8.9	6.0	1.6	3.3	3	4
Imports total, cif, EUR mn <sup>7)</sup>	8999.4	9482.0	10995.7	11345.4	11574.2	2818.9	2990.1	12000	12400
annual growth rate in %	8.6	5.4	16.0	3.2	2.0	0.1	6.1	4	3
Average exchange rate SIT/USD	166.13	181.77	222.68	242.75	240.24	254.57	215.64	213	218
Average exchange rate SIT/EUR (ECU)	186.27	193.63	205.03	217.19	226.22	222.92	231.30	234	240
Purchasing power parity SIT/USD, wiiw	110.56	116.20	125.91	134.23	143.43	.	.	.	.
Purchasing power parity SIT/EUR, wiiw	120.39	126.58	137.94	147.10	155.08	.	.	.	.

Notes: 1) Preliminary. - 2) From 2001 new methodology in road transport. - 3) From 2001 dwellings for which building permits were issued. - 4) Including turnover tax; goods transport services, maintenance and repair of motor vehicles are not covered. - 5) Excluding turnover tax; maintenance and repair of motor vehicles are included. - 6) From 2002 main refinancing rate. - 7) Converted from the national currency to EUR at the official exchange rate.

Source: wiiw Database incorporating national statistics; wiiw forecasts.