

Slovenia



Slovenia is governed by a centre-left coalition, elected in November 2008 and led by the Slovenian Social Democrats (SD) in partnership with the Liberal Democratic Party (LDS), Zares and the Democratic Party of Pensioners of Slovenia (DeSUS). Relations are good with the non-aligned President Danilo Tuerk who was elected in November 2007 with 68.2% majority. Slovenia was the first of the new member states to hold the rotating EU presidency, in the first half of 2008.

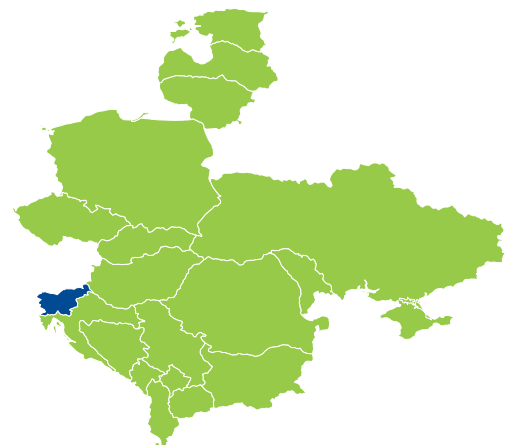
The country has an unsolved territorial conflict with Croatia, which has been running since independence 18 years ago. The Slovenian government has taken a hardened stance and wishes to resolve the issue before Croatia's entry into the EU.

Slovenia's population of 2 million is ageing, creating pressure on the national budget, and the pension system in particular. It is, however, among the countries with the lowest poverty level in the EU; in 2007 approximately 11.5% of the population lived below the at-risk-of-poverty threshold. Due to rapid economic growth, unemployment reached a record post-independence low of 4.3% in 2008. It began to rise in late 2008; later than other impacts of the financial crisis thanks to government job-creation schemes. It continued to rise in the first quarter of 2009, with the greatest increase in manufacturing, construction and agriculture.

In the autumn of 2008, the government started several measures to alleviate the impact of the unfavourable economic environment, including guarantees for banks, issuing government bonds, a EUR 1.2 billion guarantee scheme for company loans and a revised national budget and stability programme.

These measures are expected to temporarily increase gross government debt above the Maastricht euro-entry criteria.

As a small, deregulated economy, Slovenia has been greatly affected by the current crisis. Record post-independence GDP growth in 2007 and relatively high growth in the first half of 2008 was followed by a slowdown and fall in the second half and into 2009, driven by reduced gross investments, export/import activities and government spending alongside a stagnation of household consumption. The slowdown resulted in a 0.5% decrease in nominal GDP during 2008 to EUR 37.1 billion, a downward trend that is expected to continue throughout 2009 with an estimated 4.6% decrease in nominal GDP. A marginal recovery is expected in 2010, with a 3.7% year-on-year increase in nominal GDP.



Maastricht criteria for Euro-adoption set a maximum inflation level for each year from 2002, which decreased annually to reach 2.5% during the period before Slovenia entered the Euro zone in 2007. There was a sharp rise in 2007, exceeding Maastricht criteria, driven by high food and oil prices, high economic activity in the previous period and growth in labour costs. It then dropped significantly in the second half of 2008, which resulted in an average CPI of 2.1% for the whole of 2008. In 2009, CPI is expected to drop to 1.7%.

Slovenia's economy is highly dependent on foreign trade, some 70% of which is with the EU. During 2008 exports, which totaled EUR 25.5 billion, and imports totaling EUR 26.5 billion, both recorded a fall of nearly 0.8%. The decrease in exports was most apparent in the last quarter of 2008 mainly as a result of decline in demand from the EU. The decrease in foreign trade continued in the first quarter of 2009, with a sharp decline in exports to those non-EU (ex-Yugoslavian) countries which were affected by the crisis later. Growth of exports and imports is expected to increase gradually, once more reaching 2008 levels in 2011.

Slovenia's current account deficit has been increasing since 2003, reaching a record post-independence high of 5.5% of GDP in 2009 when, in the first quarter, it rose to EUR 154.9 million. On the positive side, the trade deficit which had been increasing since 2005, decreased noticeably in the first quarter of 2009, mainly as a result of more favourable terms of exchange and a decrease in imports, among other factors. It is expected that the trend towards an increased current account deficit will temporarily stall in 2009, narrowing to around 3% of GDP, before picking up again in 2010.

During rapid economic growth, credit conditions were favourable with falling real interest rates, but the financial crisis ended this. Although nominal interest rates for loans decreased significantly in late 2008, margins increased for new loans on the key Euro Interbank Offered Rate (Euribor).

Since then, credit activity has shrunk considerably. Growth of loans both to non-financial institutions and to households more than halved in the first quarter of 2009 compared to 2007. Due to the limited availability

of external financing, banks inflows became increasingly dependent on household deposits, which grew in the second half of 2008 and the first quarter of 2009. This growth stopped in April, when state deposits became an important savings option following the issue of government bonds in March.

Slovenia's accession into the EU had significant long and short-term consequences for Slovenian companies. Competition increased, both from the EU and other Central European countries, which put pressure on price competition due to lower production costs. Since duties (taxes) were quite low even before Slovenia joined the EU, there were no significant cost decreases that would improve the position of Slovenian exporters. One factor strengthening its competitiveness is its favourable geographic location and existing links to western markets arising from the time of the former Yugoslavia, when Slovenia acted as its trading arm.

One of the greatest disadvantages for those wishing to invest in Slovenia used to be the time and number of procedures associated with opening a company there. Following reforms, the number of days needed to establish a business has fallen to 19 and procedures required to 5, placing Slovenia at 54 in the World Bank index 2009 for the ease of doing business.

All industries were affected, directly and indirectly, by global market conditions in 2008. Fluctuations in the price of oil and metals, which reached record values in July before a rapid fall, impacted on manufacturers, along with the unfavourable exchange rate of the Euro against the USD and Chinese Yuan in the second half of the year. Some manufacturers responded to these conditions by introducing a shortened working week to save on the costs of labour, materials and logistics.

In addition, the financial crisis made it difficult for Slovenia's banks to raise money on international markets, forcing them into more conservative lending strategies and the need to increase their provisions against bad debts. While the resulting credit squeeze caused all retail businesses to report decreased sales volumes, the impact was hardest felt in those sectors dealing in high-value goods, such as automotive and construction.

Slovenia	2005/2007 Average Values	2007-2008	2008
	Change (%)	Change (%)	
Population (mil.)	0.0	-0.1	2.0
Average monthly gross wage (EUR)	6.4	8.5	1457.6
EUR Exchange rate vis-à-vis	0.0	0.0	1.0
USD Exchange rate vis-à-vis	1.5	4.4	0.7
	Real change (%)	Real change (%)	EUR mil.
GDP	0.2	-0.5	37,125
Private consumption	0.3	-0.6	19,244
Public consumption	-0.1	0.5	6,661
Gross fixed capital investments	0.5	-0.5	10,405
Exports (goods and services)	0.0	-0.8	25,455
Imports (goods and services)	0.2	-0.8	26,523
	Nominal change (EUR mil.)	Nominal change (EUR mil.)	EUR mil.
Trade balance	-33	-619	-1,068
Current account balance	-245	-600	-2,055
General government balance	256	-506	-334
General government gross debt	180	399	8,465
External debt	253	697	3,723
Foreign currency reserves	-1,909	-58	582
	Percentage point change	Percentage point change	%
Economic activity rate	0.8	0.9	67.1
Unemployment rate	-0.6	-0.4	4.3
CPI rate (previous year = 100%)	0.8	-3.5	2.1
Central bank interest rate	0.8	-2.5	3.6
1-year yield on Treasury Bill	0.0	0.0	3.7
10-year yield on Treasury Bond	n/a	0.7	5.1

Sources used: Reuters EcoWin Pro

Contacts

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Office Managing Partner

Milos Macura
+381 11 3812 111
mmacura@deloittece.com

Function Leaders

Yuri Sidorovich
Audit
+386 1 3072 999
ysidorovich@deloittece.com

Attila Kovesdy
Tax
+36 1 428 6728
akovesdy@deloittece.com

Paul Trinder
Consulting
+ 36 1 428 6659
ptrinder@deloittece.com

Vladimir Milosevic
Financial Advisory
+385 1 2351 934
vmilosevic@deloittece.com

Paul Trinder
Enterprise Risk Services
+36 1 428 6659
ptrinder@deloittece.com

Industry Leaders

Mike Jennings
Financial Services
+420 246 042 576
mijennings@deloittece.com

Vladimir Vanek
Energy & Resources
+420 246 042 361
wanek@deloittece.com

Dariusz Nachyla
Technology, Media & Telecommunications
+48 22 511 0631
dnachyla@deloittece.com

Diana Rogerova
Real Estate
+420 246 042 572
drogerova@deloittece.com

Martin Buransky
Public Sector
+420 246 042 351
mburansky@deloittece.com

Country Review Analysts

Tomasz Ochrymowicz
+48 22 511 0456
tochrymowicz@deloittece.com

Rafal Antczak
+48 22 511 0043
rantczak@deloittece.com

Clients & Markets

Matthew Howell
+420 234 078 558
mathowell@deloittece.com

Aleksandra Kolaric
+385 1 2352 123
akolaric@deloittece.com

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