

## SCENARIO OF ECONOMIC TRENDS, TAKING INTO ACCOUNT ADDITIONAL ECONOMIC POLICY MEASURES

*In addition to the scenario of economic trends based on the adopted budget documents and valid regulations, IMAD's Spring Forecast of Economic Trends 2011 also includes a scenario of economic trends, which takes into account the foreseen additional economic policy measures presented in the Stability Programme – 2011 Update.*

**In view of the necessary fiscal consolidation and weakened potential for growth in the medium-term period, the government has prepared a set of measures to improve Slovenia's public finance position.** Meeting the objectives of structural reforms and reducing the public finance deficit and debt will play a crucial role in preserving lenders' favourable perception and trust, and, consequently, stable sources of financing government and private sector expenditures. Slovenia is also bound to reduce its deficit in line with the provisions of the Stability and Growth Pact, the main instrument of EU fiscal policy coordination and control, which will become even stricter in the future. Slovenia's medium-term recovery will be highly dependent on lending terms for the private sector, which are tightening with regard to the situation in the domestic banking sector and the expected less expansionary monetary policy in the euro area.

**In the following paragraphs, we present a scenario of economic trends, taking into account the effects of measures aimed at accelerating the consolidation of public finances.** In addition to those that were already taken into account in the baseline forecast (as they were already adopted in previous months), this scenario covers a set of measures determined in the Medium-Term Fiscal Framework, and a number of additional proposals for action in the area of employment and wage bill stabilisation in the public sector and the adjustment of transfers underlying the Stability Programme 2011.

**These measures aim at limiting growth in expenditures on compensation of employees, investment and subsidies, and increasing the efficiency of the general government sector.** The 3% savings foreseen for the wage bill this year and keeping this expenditure at such level during the consolidation period can be achieved with measures that were already taken by the government last year, and, partly through the redistribution of funds within the budgets of individual ministries. We have assumed redistribution in expenditure on investment, goods and services, and subsidies, while in the area of employment, this scenario takes into account restrictions on new and substitute jobs during the consolidation period. All this could curb total government expenditure by an amount equal to the foreseen 3% reduction of the wage bill in this year. In the period after 2012, the wage bill is assumed to remain at the same level as this year, with redistributions within individual ministries still being possible in 2012, while the year 2013 should already see first results of measures streamlining the number of employees in the public sector. In line with the goals set in the Medium-

*Table 1: Comparison of certain macroeconomic indicators of the baseline scenario of the spring forecast and the scenario taking into account additional economic-policy measures, in short and medium terms*

	Baseline scenario of the spring forecast		Scenario with additional economic-policy measures	
	2011-2013	2014-2016	2011-2013	2014-2016
Gross domestic product, real growth in %	2.3	2.2	2.1	2.8
Exports of goods and services	6.6	5.9	6.9	7.2
Imports of goods and services	5.4	4.7	5.5	6.3
Private consumption	0.8	1.1	0.7	1.5
Government consumption	0.7	0.4	-1.2	-0.3
Gross fixed capital formation	3.5	2.0	3.8	4.5
Employment according to the SNA, growth in %	-0.6	0.0	-1.0	0.3
Registered unemployment rate, in %	12.2	12.0	12.9	12.6
Survey unemployment rate, in %	8.0	7.8	8.5	8.2
Average number of registered unemployed, in '000	115.0	111.1	121.1	116.5
Inflation, annual average	2.5	2.2	2.5	2.4

Source: IMAD.

Term Fiscal Framework, these measures will result in the planned fiscal consolidation, which will prevent further deterioration in relative lending conditions for Slovenia and contribute to relatively more favourable terms for private sector borrowing.

**In the short term, the consolidation may result in somewhat weaker economic growth, but the medium-term prospects would improve relative to the baseline scenario of the spring forecast.**

By restricting government expenditure on investment and consumption, the anticipated measures will, with lower household consumption as well, reduce economic growth by 0.4 p.p. in 2011 and 2012 compared with the baseline scenario. For 2013 (when additional fiscal effort will be necessary to reach the target deficit, which will be reflected in a further fall in government consumption and government expenditure on investment), we already predict, due to relatively better conditions of financing, faster growth in exports and investments of the private sector, which will be somewhat higher than if public-finance consolidation and the foreseen measures are postponed. Successful consolidation and, consequently, a lower borrowing requirement would also mean relatively lower interest payments and thus a smaller crowding-out effect of government expenditure than if, as a result of delayed consolidation, Slovenia's debt and borrowing costs increased due to a deteriorated perception by lenders.

**The labour-market situation would, similarly, also deteriorate in the short term due to the implementation of measures in the area of employment, but in the medium term, new possibilities for hiring would open up with faster economic growth than anticipated in the baseline scenario of the Spring Forecast.**

As the government was previously a reliable source of new jobs, restrictions on employment during the consolidation period will result in a larger decline in total employment than in the baseline scenario. Restrictions on public sector employment in the next two years will also increase the total number of unemployed persons to a much higher figure than in the baseline scenario, and despite the expected decline, we also project higher unemployment than in the baseline scenario of the Spring Forecast for the period after 2013. As such a policy is not sustainable in the long term, the scenario for the period after 2012 takes into account systemic measures in this area, particularly activities for the rationalisation of certain services to decrease demand for new jobs.

Table 2: Scenario of economic trends taking account of additional economic-policy measures

	2010	2011	2012
		SCENARIO WITH ADDITIONAL MEASURES	
GROSS DOMESTIC PRODUCT, real	1.2	1.8	2.2
GDP in EUR m (current prices)	36,061	36,743	38,509
GDP per capita in EUR (current prices)	17,597	18,003	18,831
GDP per capita in USD (current prices)	23,351	24,520	25,704
POPULATION, EMPLOYMENT, WAGES AND PRODUCTIVITY			
Population on 30 June, in '000	2,049.3	2,041.0	2,045.0
Employment according to the SNA, growth in %	-2.2	-1.6	-0.9
Number of registered unemployed (annual average, in '000)	100.5	115.0	124.2
Registered unemployment rate, in %	10.7	12.3	13.2
ILO unemployment rate, in %	7.2	8.0	8.6
Gross wage per employee, real	2.1	0.2	0.8
- private sector	3.3	1.1	1.3
- public sector	-1.8	-1.9	-0.5
Labour productivity (GDP per employee), real	3.4	3.4	3.1
INTERNATIONAL TRADE			
Exports of goods and services, real	7.8	6.9	6.7
Exports of goods	10.2	7.7	7.4
Exports of services	-1.1	3.4	3.3
Imports of goods and services, real	6.6	4.7	6.0
Imports of goods	7.7	4.7	6.0
Imports of services	1.1	4.7	6.0
Current account BALANCE, in EUR m	-409	-773	-824
- as a % of GDP	-1.1	-2.1	-2.1
International trade balance, in EUR m	84	2	169
- as a % of GDP	0.2	0.0	0.4
DOMESTIC DEMAND, real			
Final consumption	0.6	0.3	0.1
of which:			
Private consumption	0.5	0.6	0.6
Government consumption	0.8	-0.8	-1.3
Gross fixed capital formation	-6.7	1.9	4.5
EXCHANGE RATES AND PRICES			
USD/EUR exchange rate	1.327	1.362	1.365
Real effective exchange rate – CPI deflator	-1.4	-0.2	1.1
Inflation, year-end stock	1.9	3.0	2.7
Inflation rate (annual average)	1.8	2.2	3.0
Oil price (Brent crude, USD/barrel)	79.6	110.0	115.0

Source: up to 2010 SORS, BS; 2010–2012 forecasts by IMAD.

Note: \* A rise in the value indicates real appreciation of national currency and vice versa.