



As a result of the crisis, an over 7% decline in GDP this year and modest, 0.9% growth next year

Ljubljana, 30 September 2009 – The Institute of Macroeconomic Analysis and Development expects a 7.3% decline in GDP this year, as a result of the crisis. The decline in economic activity will mainly come from a significant drop in exports and gross fixed capital formation. In view of the expected slow recovery in Slovenia's main trading partners, economic growth is expected to be modest next year (0.9%). The situation on the labour market deteriorated less than expected at the beginning of the year, but unfavourable movements will also continue next year.

According to the **Autumn Forecast of Economic Trends 2009** prepared by IMAD, exports of goods and services will shrink by close to 18% this year. The drop in foreign and gradually also domestic orders was followed by a decline in investment in machinery and equipment. Unfavourable business conditions were aggravated by tougher access to financial resources. Corporate and NFI borrowing from domestic banks was very low in the first seven months of this year. The loan potential under the state guarantee scheme for enterprises also remains untapped. With the cyclical slowdown in infrastructure investment, which was even deeper than expected due to difficulties in financing, the volume of gross fixed capital formation will drop by more than 20% this year. The level of inventories also declined notably in the first half of the year, and is expected to drop further, albeit less vigorously, in the second half of the year, contributing around 2.5 p.p. to the economic activity decline.

"In view of the current expectations for movements in the international environment, according to which the significant decline in economic activity in the first months of this year will be followed by a gradual upturn in the second half of the year, economic activity is also expected to increase somewhat in Slovenia by the end of the year," said **Boštjan Vasle**, Director of IMAD. The first signs of economic stabilisation, albeit weak, were already seen in the second quarter, when GDP rose by 0.7% relative to the previous quarter.

The situation on the labour market is deteriorating with some delay. In the first half of 2009, the average drop in the number of persons in employment was relatively modest (-1.2%) compared with the first half of the last year. It was largest in manufacturing, given the steep decline in production, while also being sizeable in agriculture and mining, i.e. sectors where restructuring has already been underway for several years. In numerous market activities that were less severely hit by the crisis than manufacturing, the number of employed persons remained, on average, at a similar or higher level than in the first half of 2008. The number of persons employed in mainly public services was increasing. The relatively small overall decline in employment compared with the strong activity decline is partly a consequence of how enterprises responded to the slowdown (by reducing overtime work and shortening working hours rather than cutting jobs), while it is also partly attributable to the interventive Partial Subsidising of Full-Time Work Act passed in January, and higher participation of the unemployed in active policy programmes. IMAD also predicts that *"in the second half of the year, the number of persons in employment should be falling at a slower pace in most sectors, given that the activity decline is expected to be slower and due to an additional interventive act aimed at preserving jobs."* The overall employment decline will thus average 2.5% this year. The reduction in employment is accompanied by an increase in unemployment, which is expected to climb to approximately 96,000 by the end of the year. The average annual registered unemployment rate will be 9.1% this year, and the survey unemployment rate 5.7%.

"Private consumption is expected to fall by 2% this year, as households are responding to the higher risks of losing employment and consequently income from labour by increasing precautionary saving and cutting back on expenditure, particularly when purchasing durables," Vasle pointed out, adding that *"the decline in private consumption was last recorded nine years ago."*

This year, the nominal growth of the total gross wage will be far below that posted in 2008, despite high wage rises in the public sector, while the real increase will not be substantially lower. The gap between average annual wage rises in the private and public sectors will be very high, as the average gross wage in the private sector will increase by a nominal 0.8%, given the significant economic activity decline, while in the public sector nominal growth will be at 7.0%, largely due to the two quarters of funds to eliminate wage disparities that have already been disbursed.

“Further wage rises amid a strong decline in labour productivity affect unit labour cost growth. Cost competitiveness is deteriorating both in manufacturing and in the economy as a whole, and Slovenia has been ranked among the EU countries with the greatest deteriorations in cost competitiveness since the third quarter last year,” the director of IMAD stated.

Inflation is easing this year. With the consumer price level having dropped y-o-y in July, inflation will be rising gradually y-o-y until the end of 2009, reaching 1.9% in December and averaging 1.0% for the year as a whole.

In view of the expected slow recovery in Slovenia's main trading partners, IMAD expects modest economic growth in 2010 (0.9%). Exports will increase by 4%. Investment will decline at a slower pace, but is not yet expected to increase next year. The labour market situation will not improve yet, as employment will continue to decline, albeit less notably than this year. Adjusting to this year's productivity slump, the labour market will continue to cut jobs, given that economic activity is not yet expected to accelerate strongly. With modest economic growth, wage rises will also be low. Assuming that global economic activity will gradually rebound, upward pressures on price growth are expected to increase somewhat in the entire euro area; y-o-y inflation is thus expected to rise to 2.0% and average inflation to 1.5%.

Risks to the realisation of the central scenario of the autumn forecast of economic trends remain exceptionally high and are distributed asymmetrically towards lower-than-predicted economic growth, particularly for **2010**. The greatest risks are still associated with uncertainty regarding the dimensions of the economic crisis and varying estimates of the consequences it might have for individual economies. Additional risks in the broader European area arise from uncertainty about the efficacy of stimulus packages and the possibility of their premature withdrawal. In the domestic environment, a risk that macroeconomic balances will deteriorate also arises from public sector wages and social transfers being higher in 2010 than forecast in the baseline scenario.

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Autumn forecast of the main macroeconomic aggregates and a comparison with spring forecast

Real growth rates in % (unless otherwise indicated)

	2008 (Sept. 2009)	2009		2010		2011	
		Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)
GROSS DOMESTIC PRODUCT	3.5	-4.0	-7.3	1.0	0.9	2.7	2.5
GDP in EUR m (current prices)	37,135	36,598	35,870	37,427	36,386	39,266	38,058
INFLATION (Dec/Dec of the preceding year, %)	2.1	1.4	1.9	2.2	2.0	3.0	2.7
INFLATION (Jan-Dec/Jan-Dec annual average, %)	5.7	0.4	1.0	1.6	1.5	2.6	2.5
GDP deflator, %	3.8	2.7	4.2	1.2	0.6	2.1	2.0
USD/EUR exchange rate	1.47	1.27	1.38	1.27	1.43	1.27	1.43
EMPLOYMENT according to the SNA, % growth	2.8	-5.4	-2.4	-1.7	-1.6	-0.4	-0.9
REGISTERED UNEMPLOYMENT RATE (%)	6.7	8.9	9.1	10.3	10.6	10.2	10.9
ILO UNEMPLOYMENT RATE (%)	4.4	6.0	5.7	7.0	6.7	7.0	7.3
PRODUCTIVITY (GDP per employee), % growth	0.7	1.5	-5.0	2.8	2.5	3.1	3.4
GROSS WAGE PER EMPLOYEE	2.5	2.2	1.9	2.6	0.6	1.6	1.4
EXPORTS OF GOODS AND SERVICES	2.9	-8.6	-17.9	1.7	4.1	5.4	6.8
- exports of goods	0.0	-10.2	-19.0	1.0	3.6	4.9	6.5
- exports of services	16.2	-2.1	-13.5	4.4	6.1	7.0	7.8
IMPORTS OF GOODS AND SERVICES	2.9	-10.3	-19.8	1.6	1.8	5.2	4.9
- imports of goods	2.6	-11.5	-21.9	1.1	1.3	5.0	4.8
- imports of services	4.6	-2.6	-6.1	4.3	4.4	6.1	5.6
CURRENT ACCOUNT BALANCE (EUR m)	-2,287	-809	-82	-1,311	10	-1,528	29
- as % of GDP	-6.2	-2.2	-0.2	-3.5	0.0	-3.9	0.1
GROSS FIXED CAPITAL FORMATION	7.7	-12.0	-21.0	1.0	-2.0	4.0	3.0
- as % of GDP	28.9	25.0	23.7	25.1	23.2	25.5	23.3
PRIVATE CONSUMPTION	2.0	-0.6	-2.0	1.0	0.0	2.0	1.0
- as % of GDP	52.8	53.2	53.7	53.4	53.8	53.3	53.2
GOVERNMENT CONSUMPTION	6.2	3.2	3.2	3.8	-1.5	3.2	0.0
- as % of GDP	18.1	19.6	20.1	20.8	19.7	21.1	19.4

Source: SORS, BS, forecast by IMAD.