

Slovenia



Prime Minister: Janez JANSKA	Population (2007 est.): 2,010,377
Finance Minister: Andrej BAJUK	GDP (2007): €33.5 billion
Central Bank Governor: Marko KRANJEC	GDP/capita: €17,100
Joined the EU: 2004	GDP by sector:
Adopted the Euro: 2007	Agriculture 2.0%
Currency prior to Euro: Slovenia Tolar	Industry 34.4%
	Services 63.5%
	Life Expectancy (women / men): 82 / 75
	2005 2006 2007 2008*
Real GDP growth rate	4.3% 5.9% 6.8% 4.4%
Inflation	2.5% 2.5% 3.8% 6.2%
Unemployment Rate	6.5% 6.0% 4.9% 4.5%

* forecast

Slovenia in the EU and the Euro Area

Slovenia became a member of the EU on May 1, 2004, and adopted the Euro on January 1, 2007, with a notably swift and smooth transition. For the past 8 years, Slovenia has enjoyed rapid economic growth and in 2007 GDP grew about 6.8%. Since becoming a member of the EU, Slovenia's trade with other EU members has dramatically expanded and now represents two thirds of the country's trade as a whole.

Economic Overview of Slovenia

Today, Slovenia is one of the best economic performers in eastern and central Europe. Before its independence in 1991, Slovenia was already the most productive of the Yugoslav Republics. Since then, it has pursued integration into western institutions and an expansion in its service sector industry, which now constitutes more than 63% of GDP. Slovenia has also been successful in diversification of trade with the West, in particular the EU-15. However, a high level of dependency on trade renders Slovenia very sensitive to economic conditions within its main trading partners, and also to changes in its international price competitiveness. Furthermore, the labor market is often seen as inflexible, and legacy industries are losing sales to more competitive firms in China, India, and elsewhere. As a result of the current global economic downturn, growth in Slovenia is expected to slow down to 4.4% in 2008 and 2.9% in 2009 driven by a sharp deceleration in foreign investment.

Strong economic growth in recent years boosted job creation and capacity utilization reached record high levels in 2007. Prudent income policies helped contain wage pressures and keep inflation relatively low. Slovenia has taken important steps towards further liberalizing its financial markets, in particular through changes in legislation. Most barriers were removed on 1

May 2004, following which point the larger banks were increasingly privatized. Despite its economic success, foreign direct investment (FDI) in Slovenia has lagged behind the region average, and taxes remain relatively high.

The Executive Board of the IMF¹ considered that the current favorable environment should be used to reduce structural rigidities, boost productivity and competitiveness, and further reform the labor markets and the business environment to tap the full potential for long-term growth.

Some Economic Challenges Facing Slovenia

Increasing Foreign Investment

Foreign direct investment is very important for Slovenia's economic future. Government reforms designed to attract foreign direct investment (FDI) have proven somewhat successful. However, for FDI to be possible, privatization needs to increase in its pace and become more open to international interests. The nature of privatization in Slovenia still tends to favor domestic rather than foreign investors, much of which is a reflection of domestic cultural wariness of being "bought up by foreigners."

Ageing Population

Slovenia is likely in the future to face problems associated with a rapidly aging population and consequently the European Commission has recommended that it immediately make reforms to its pension system to accommodate this. As the population ages and birth rates fall, the base of people paying taxes will decrease, thus making it financially unsustainable for the state to continue funding those in need of pensions at the current rate. Conversely though, Slovenia has relatively low public debt and some of the imminent expenditure could be facilitated through greater borrowing, thus moderating the need for pension reform. In addition, the European Commission has recommended encouraging greater immigration of foreign workers as a means of increasing the tax base.

Making Banks More Profitable and Competitive

While the Slovene banking system is fairly sound, the individual banks themselves are far less profitable and efficient than their EU counterparts, in particular owing to declining interest margins, high costs, and state dominance. Consequently the IMF Executive Board has encouraged the Slovene government to look to engage in measures to enhance bank competition, including privatizing more of the large state banks and increasing co-operation and information sharing with foreign bank supervisors.

Increasing Competitiveness

Increased competitiveness is very important for Slovenia's long term growth potential given its dependence on trade. Further reforms are needed in the labor markets and business environment to enhance competitiveness and encourage foreign investment. Removing administrative barriers to businesses would be particularly beneficial in this respect.

¹ International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2007/pn0757.htm> 05/23/2007