Real GDP growth

Driven by increased export demand and a relatively high contribution of inventory changes, GDP rose by 1.2% in 2010. Positive signals of an upswing of economic activity started to appear in the second half of 2009, when foreign demand picked up, and strengthened through 2010. The nature of the upswing was emphasised during the year, as the recovery was limited largely to export-oriented and technologically stronger industries, while domestic factors held it back. Domestic consumption exceeded the level of 2009 by only 0.4%; only change in inventories had a significant contribution to growth, whereas other key aggregates were still lower than in the previous year (gross fixed capital formation) or saw only moderate growth (household and government consumption).

The economic environment in EU countries was conducive to Slovenian exports, whereas growth of exports to non-EU countries was much more subdued. Following a plunge in 2009, goods exports rose 10.2% in real terms in 2010. The recovery was driven by the recovery in Slovenia's main trading partners in the EU, but the surge subsided in the second half of the year as global trade slowed down, temporary incentives tailed off and austerity measures kicked in to curb general government deficits. In the second half of the year, the contribution of the other group of countries accounting for a substantial portion of Slovenia's exports – the countries of the former Yugoslavia – turned positive. Exports of road and rail transport services saw the biggest rise in services exports, in line with the increase in goods exports, but overall services exports dropped 1.1% in real terms.

Domestic consumption exceeded the 2009 level by only 0.4%, with construction investment recording the biggest drop compared with 2009. Household consumption inched up (0.5%), but the current balance of payments for 2009 (in particular in the segment of the household travel trade) does not yet represent a real basis for the calculation as the figures are not yet final. We estimate that the positive rates of household consumption in 2010 do not mirror an actual strengthening of the expenditure of Slovenian households.[1] Growth in general government consumption, meanwhile, slowed further (to 0.8%) due to austerity measures. On the other hand, there were positive signals from business investment figures, as foreign demand and capacity utilisation increased. Investment in machinery and equipment exceeded the 2009 level by 6.8%. Our assessment, however, is that the situation on financial markets started to exert an excessive drag on this segment of investment as the year progressed.[2] After net borrowing with banks in the first half of the year, companies deleveraged in the second half of the year. At the same time, banks extended a significant proportion of credit to refinancing existing loans and to the construction sector; allocations for write-downs and provisions surged by one half over the year before. The decline in construction investment (15.7%) was slightly lower than in 2009 (19.2%). Residential construction recorded the biggest fall from the peak of construction activity in October 2008, followed by civil-engineering projects and non-residential construction. Apart from investment in machinery and equipment, economic growth was also driven by changes in inventory (1.6 p.p.), which rose after a steep decline in 2009. Given the weak domestic demand, export growth outpaced import growth last year. Goods imports rose 7.7% in real terms. The structure of economic growth, largely based on exports, which have a high import component, meant that intermediary goods were the fastest growing segment of imports. Services imports exceeded the 2009 level by only 1.1%.

Differences in the pace of recovery of foreign and domestic demand were also evident in sectoral results. Manufacturing (8%) and transport (5.7%) recorded the fastest growth in value added as exports rose. The adverse situation in construction and the labour market, on the other hand, held back recovery in retail and wholesale trade, and led to a further decline in hotels and restaurants, and in the architectural activities segment of business services. In public services, one of the few activities in which the number of employees grew last year, growth in value added plummeted in health and social care (from 4.9% to 0.5%), while it remained at a similar rate as in the previous year in public administration, defence, social protection and education.

The economic recovery was slower than in the euro area and the EU. In the euro area, economic growth averaged 1.7% last year (EU: 1.8%). After a deeper fall than in the EU in 2009, the decline in gross fixed capital formation in 2010 was again more pronounced than on average in the EU due to the continued severe decrease in construction investment. For the two years taken together, the severity of the decline in construction was second only to Bulgaria in the EU. The growth in household consumption was also somewhat lower than in the EU. The contribution of external trade to economic growth was similar, but export growth in the euro area outpaced Slovenia's, which we deem to be a consequence of the technologically less favourable structure of Slovenia's exports and the significant importance of the markets of the former Yugoslavia among non-EU markets, for which the recovery was slow last year. Change in inventories, however, made a significantly bigger contribution to GDP growth than in the euro area.

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[1] This is also indicated by labour-market data on employment and wages, revenue in retail and wholesale trade and other household expenditure indicators for last year.

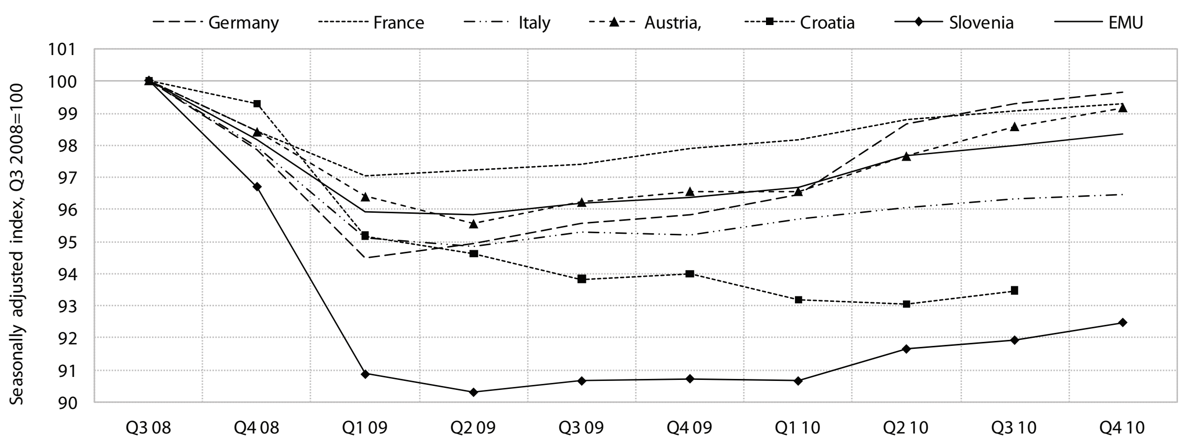
[2] This is also indicated by the Results of the Survey of Demand for Loans by Nonfinancial Companies by Activities, which was released in October 2010 by the Bank of Slovenia.

Table: **Contribution of individual expenditure components to GDP growth in Slovenia**

	1996	2000	2005	2006	2007	2008	2009	2010
Real GDP growth, in %	3.6	4.4	4.5	5.9	6.9	3.7	-8.1	1.2
Contribution to GDP growth, in p.p.								
External trade balance (export–import of goods and services)	0.3	2.5	2.2	0.2	-2.0	-0.4	2.0	0.8
- Exports of goods and services	1.4	6.2	6.1	7.8	9.1	2.3	-11.9	4.5
- Imports of goods and services	1.1	3.7	4.0	7.6	11.2	2.7	-13.9	3.8
Total domestic consumption	3.3	1.8	2.3	5.7	8.9	4.2	-10.1	0.4
- Household consumption	1.9	0.7	1.5	1.6	3.5	1.5	-0.4	0.3
- General government expenditure	0.5	0.6	0.6	0.8	0.1	1.1	0.5	0.2
- Gross fixed capital formation	1.8	0.6	0.9	2.6	3.4	2.3	-6.2	-1.6
- Change in inventories	-1.0	0.0	-0.7	0.7	1.8	-0.8	-4.0	1.6

Source: SI-TAT Data Portal – National Accounts. Gross domestic product, annual data, Gross domestic product by quarters, 2011; IMAD calculations..

Figure: **Recovery of GDP in Slovenia and its key trading partners**



Source: Eurostat Portal Page – Economy and Finance – National Accounts, 2011.