

Before and After Maastricht: The Case of Slovenia

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Views expressed are not necessarily views of the Bank of Slovenia.

Inflation Determinants in Slovenia

Equilibrium process of Balassa-Samuelson effect

Growth in Slovenia more than twice as growth in Eurozone

Credit demand induced by lower real interest rates

Global surge of energy and food prices

Higher weight of energy and food prices in Slovenian CPI

Lack of competition

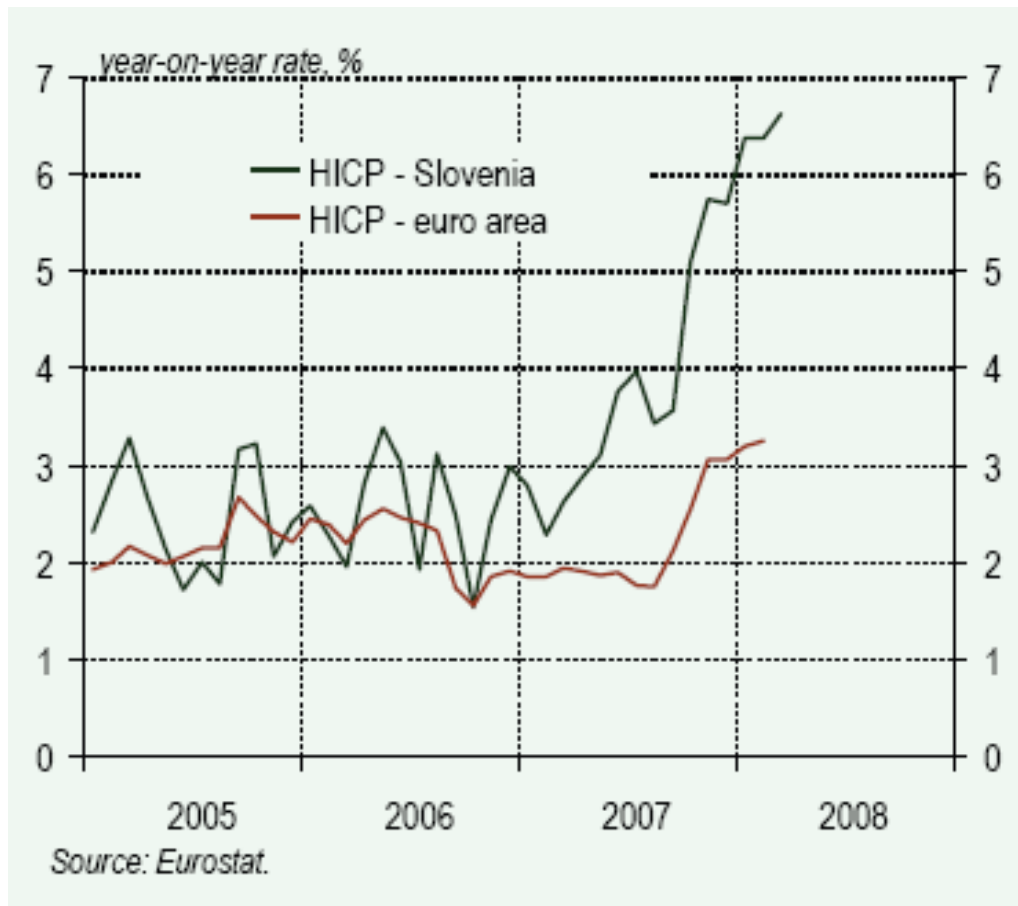
The Case of Slovenia

May 2004: Entry to EU

June 2004: Entry to ERM2

January 2007: Adoption of Euro

Is this Balassa-Samuelson Effect?



Where Do We Stand Today?

		Projections										
		2003	2004	2005	2006	2007	2008		2009		2010	
							April	Δ	April	Δ	April	Δ
Activity, employment, wages		<i>real growth, %</i>										
Real GDP		2.0	4.4	4.1	5.7	6.1	4.2	-0.2	3.9	0.0	4.1	...
Employment		-0.2	0.4	0.7	1.2	2.7	0.9	0.4	0.6	0.3	0.5	...
Average net wages (nominal)		7.5	4.4	6.2	5.1	7.9	7.8	1.2	6.9	1.0	5.5	...
Disposable income*		1.7	4.2	1.7	5.2	6.6	3.0	-0.7	3.9	0.7	3.3	...
Average gross wages (nominal)		7.6	4.6	4.9	4.8	5.9	7.4	0.8	7.0	1.1	5.6	...
Productivity		3.0	4.0	3.4	4.5	3.3	3.3	-0.6	3.3	-0.3	3.6	...
ULC (nominal)		3.6	2.2	-1.4	1.2	2.0	4.0	1.4	3.6	1.4	1.9	...
Domestic demand		<i>real growth, %</i>										
Domestic demand		4.8	4.9	2.2	5.7	6.9	4.2	0.2	3.5	0.1	3.7	...
Household expenditure		3.5	3.0	2.9	4.0	3.1	3.2	-0.8	3.0	-0.4	3.3	...
Government spending		1.9	3.1	3.2	4.4	1.4	2.6	0.7	1.9	0.4	1.8	...
Gross investment		10.2	10.5	0.4	9.9	17.8	7.2	1.7	5.4	0.6	5.6	...
Balance of payments		<i>real growth, %</i>										
Exports of goods and services		3.1	12.5	10.1	12.3	13.0	9.5	-2.1	8.2	-0.3	8.3	...
Imports of goods and services		6.7	13.3	6.7	12.2	14.1	9.3	-1.6	7.7	-0.3	7.8	...
Current account (EUR billion)		-0.2	-0.7	-0.6	-0.9	-1.6	-2.2	-1.3	-2.2	-1.4	-2.1	...
as % of GDP		-0.5	-2.8	-2.0	-2.9	-4.9	-6.1	-3.1	-5.5	-3.3	-5.0	...
Terms of trade**		0.8	-1.0	-2.0	-0.6	0.0	-2.2	-2.2	0.4	0.1	0.4	...
Prices		<i>average annual growth, %</i>										
Consumer prices (HICP)		5.7	3.7	2.5	2.5	3.8	5.6	2.3	3.5	0.6	2.6	...
Non-administered prices		5.9	3.0	1.2	1.9	4.1	5.5	2.0	3.6	0.3	3.0	...
Administered prices		4.4	6.1	7.4	4.8	2.1	5.9	3.5	3.2	2.2	0.9	...
International environment		<i>annual growth, %</i>										
Foreign demand***		6.0	7.4	4.6	9.0	6.6	5.5	-1.7	6.3	-0.2	6.4	...
Oil (USD per barrel)		28.8	38.3	34.2	64.9	72.7	100	27	98	25	97	...
Non-oil commodities		11.3	16.0	6.0	27.7	17.5	12.5	7.5	5.0	0.0	5.0	...
EMJ inflation		2.1	2.1	2.2	2.2	2.1	2.9	0.9	2.1	0.2	1.9	...
PPI Germany		1.7	1.6	4.6	5.5	2.0	2.3	0.4	1.8	-0.1	1.8	...

* Net wages, other earnings from employment and social benefits; HICP deflated

** Based on national accounts deflators.

*** Basket of foreign partners import volumes.

Δ : The difference between April 2008 and October 2007 projections.

Source: Bank of Slovenia, Eurostat, Consensus Forecasts, JP Morgan, OECD Outlook, IMF World Economic Outlook.

Activity, Employment and Wages

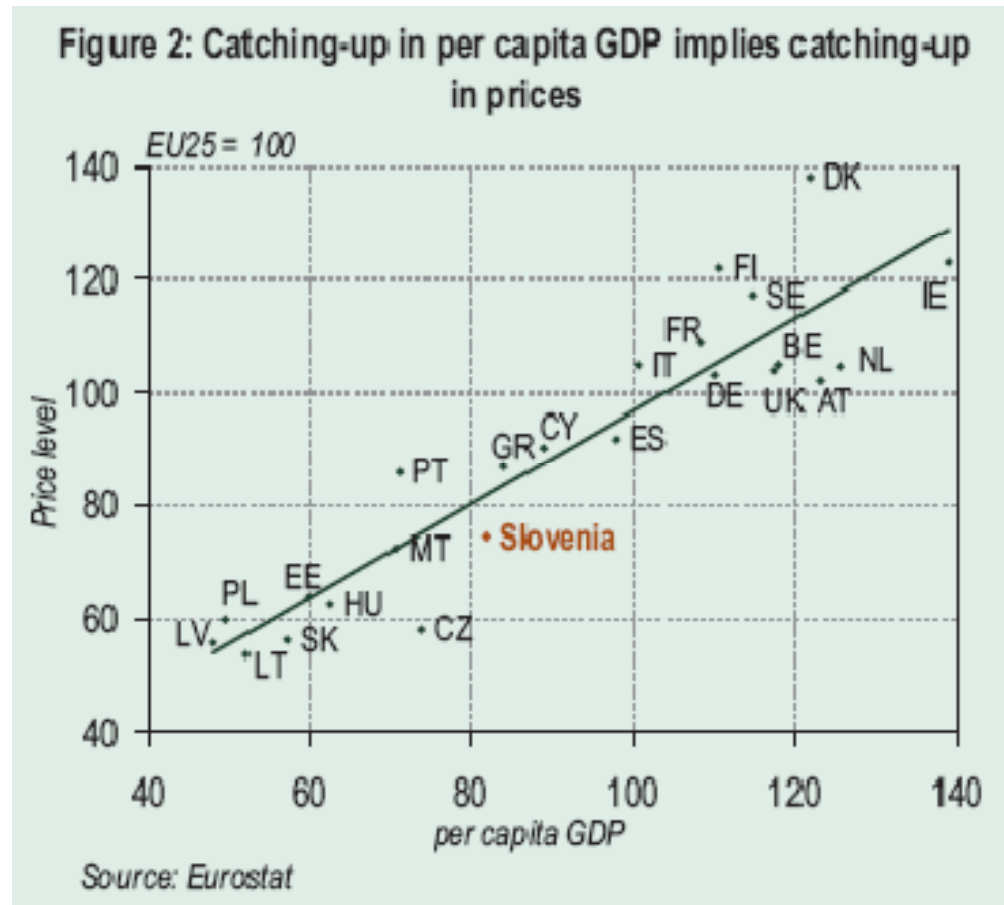
	2003	2004	2005	2006	2007	Projections					
						2008		2009		2010	
						April	Δ	April	Δ	April	Δ
	<i>real growth, %</i>										
Real GDP	2.8	4.4	4.1	5.7	6.1	4.2	-0.2	3.9	0.0	4.1	...
Employment	-0.2	0.1	0.7	1.2	2.7	0.9	0.1	0.6	0.3	0.5	...
Average net wages (nominal)	7.5	4.4	6.2	5.1	7.9	7.8	1.2	6.9	1.0	5.5	...
Disposable income*	1.7	4.2	1.7	5.2	6.6	3.0	-0.7	3.9	0.7	3.3	...
Average gross wages (nominal)	7.6	4.6	4.9	4.8	5.9	7.4	0.8	7.0	1.1	5.6	...
Productivity	3.0	4.0	3.4	4.5	3.3	3.3	-0.6	3.3	-0.3	3.6	...
ULC (nominal)	3.6	2.2	-1.4	1.2	2.0	4.0	1.4	3.6	1.4	1.9	...

Δ: The difference between current projections and projections in the Price Stability Report, October 2007.

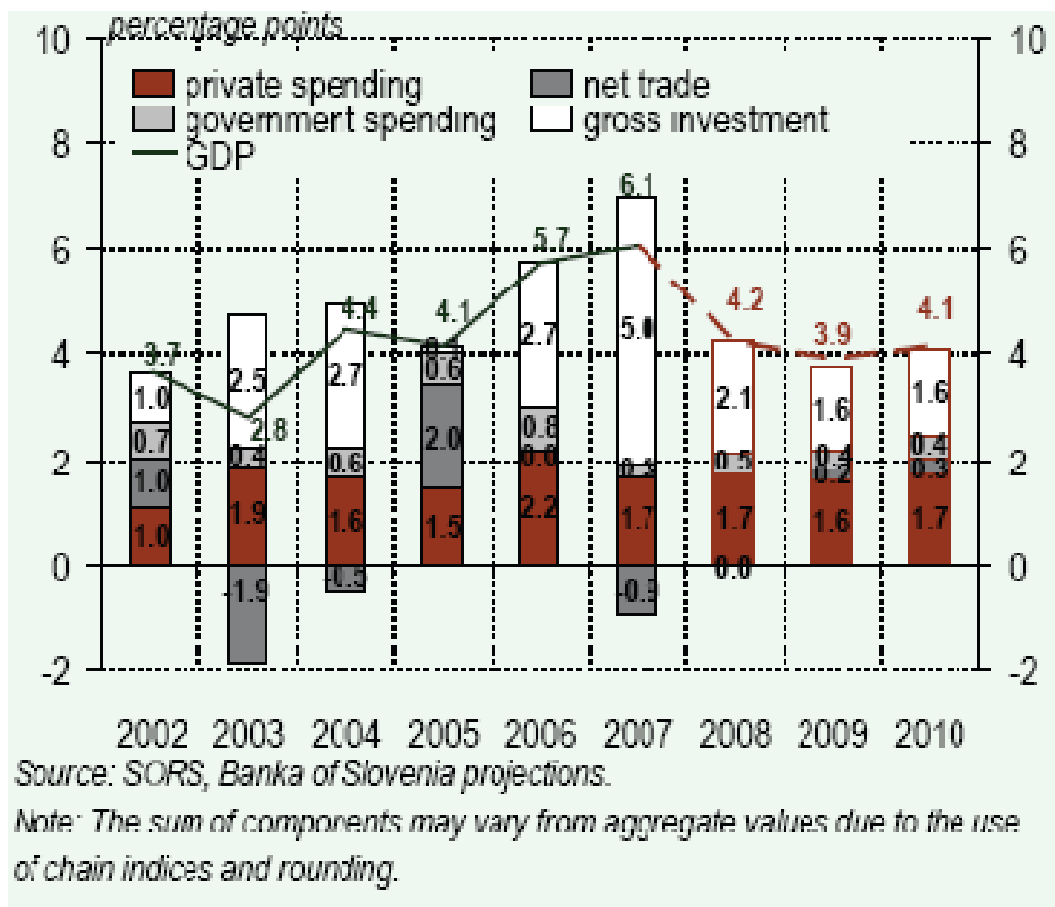
* Net wages, other earnings from employment and social benefits; HICP deflated

Source: SORS, Bank of Slovenia calculations

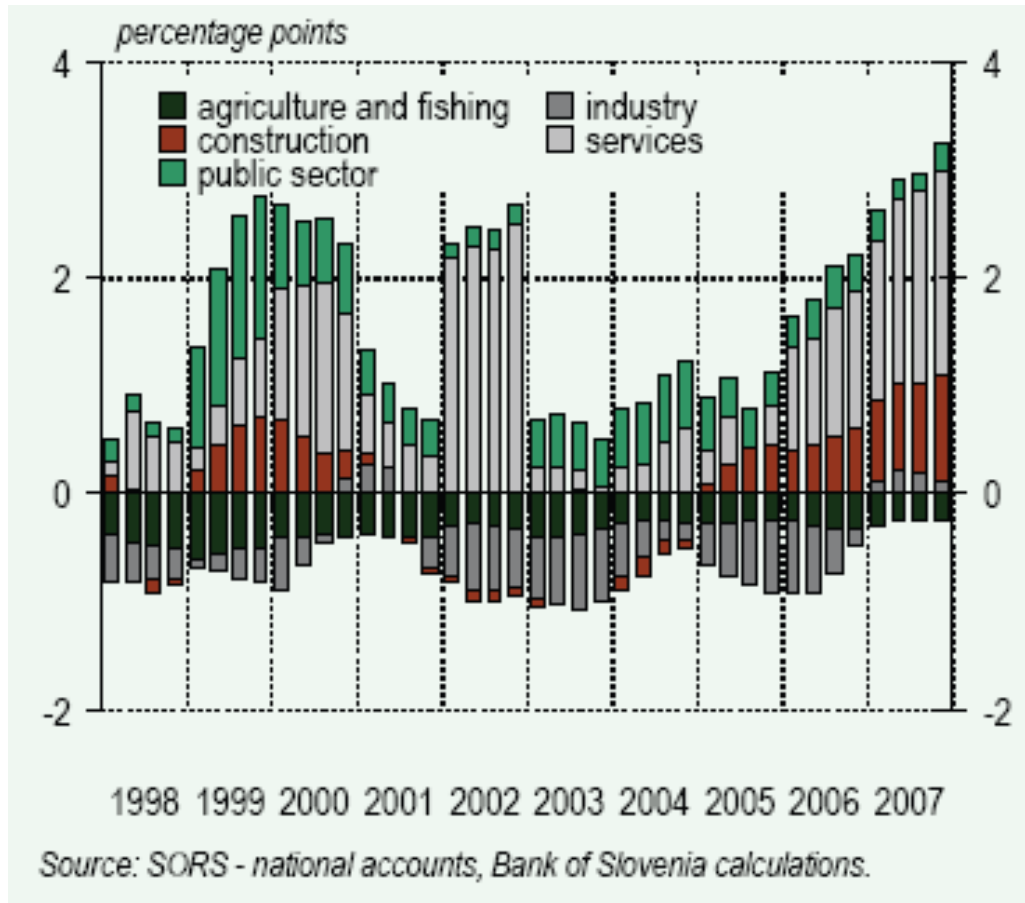
Catching-up Process



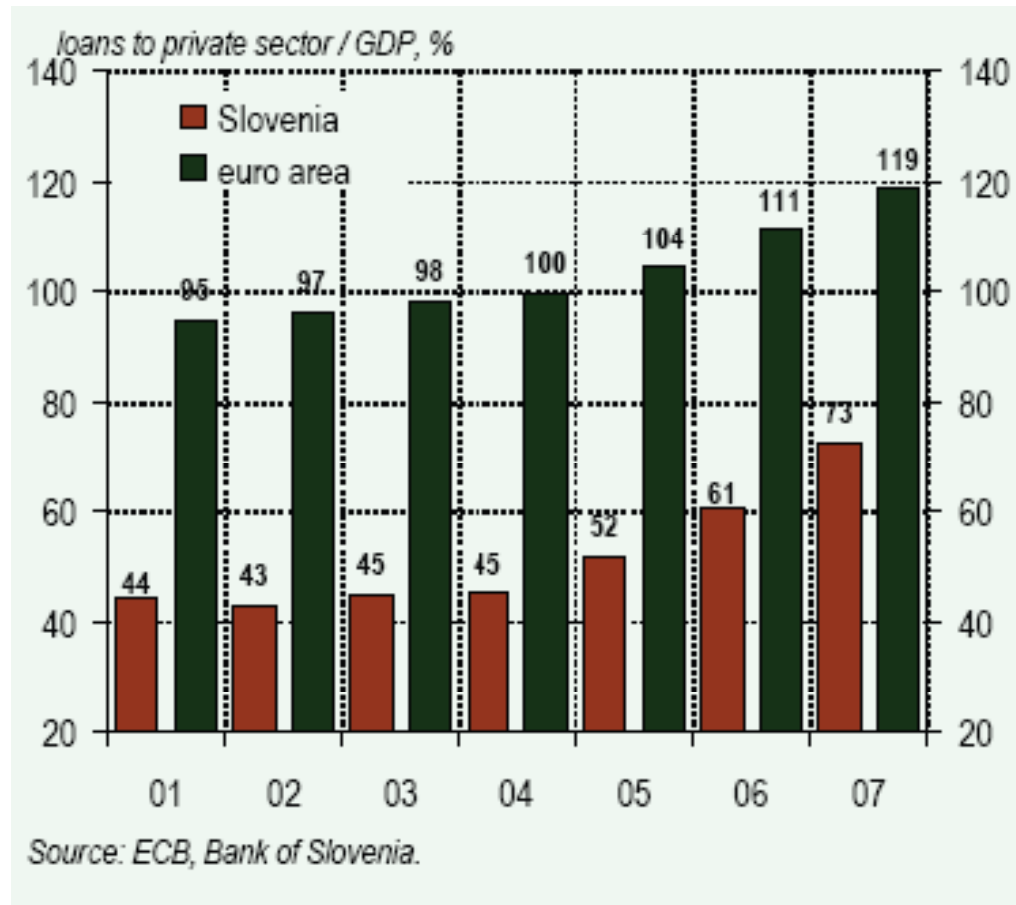
GDP Growth by Components of Expenditure



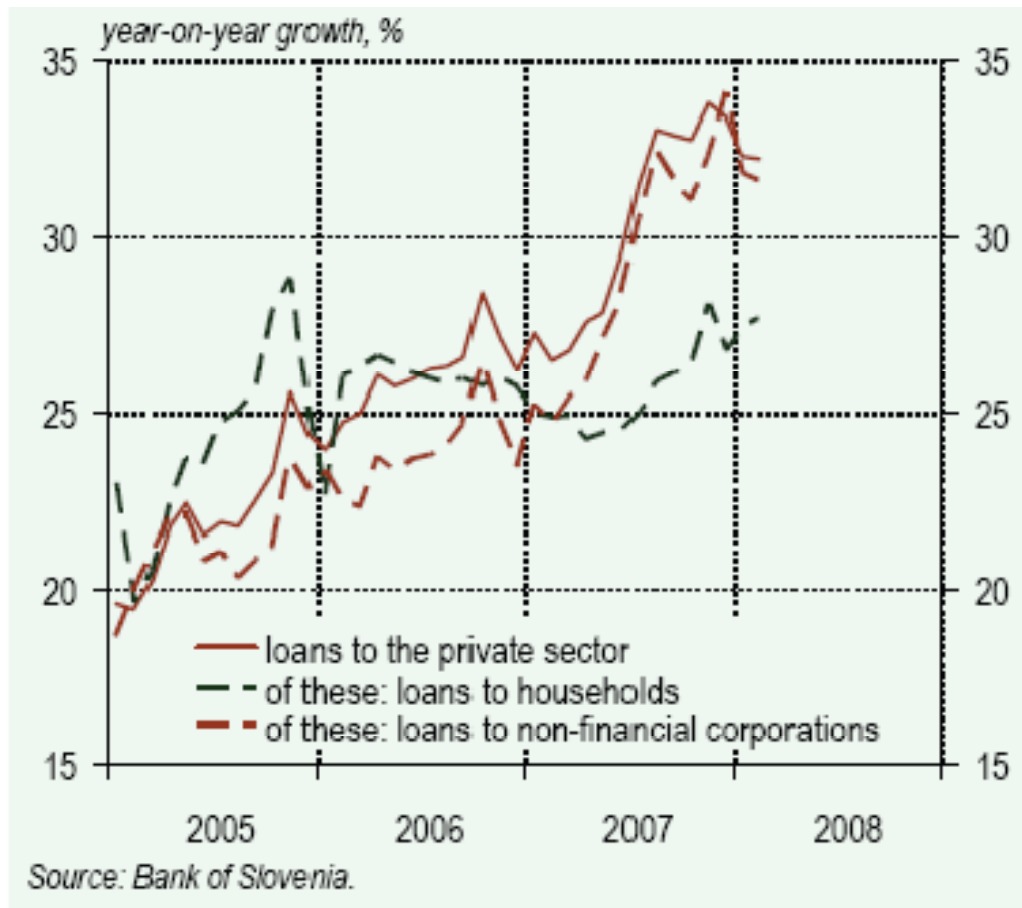
Contributions to Employment Growth



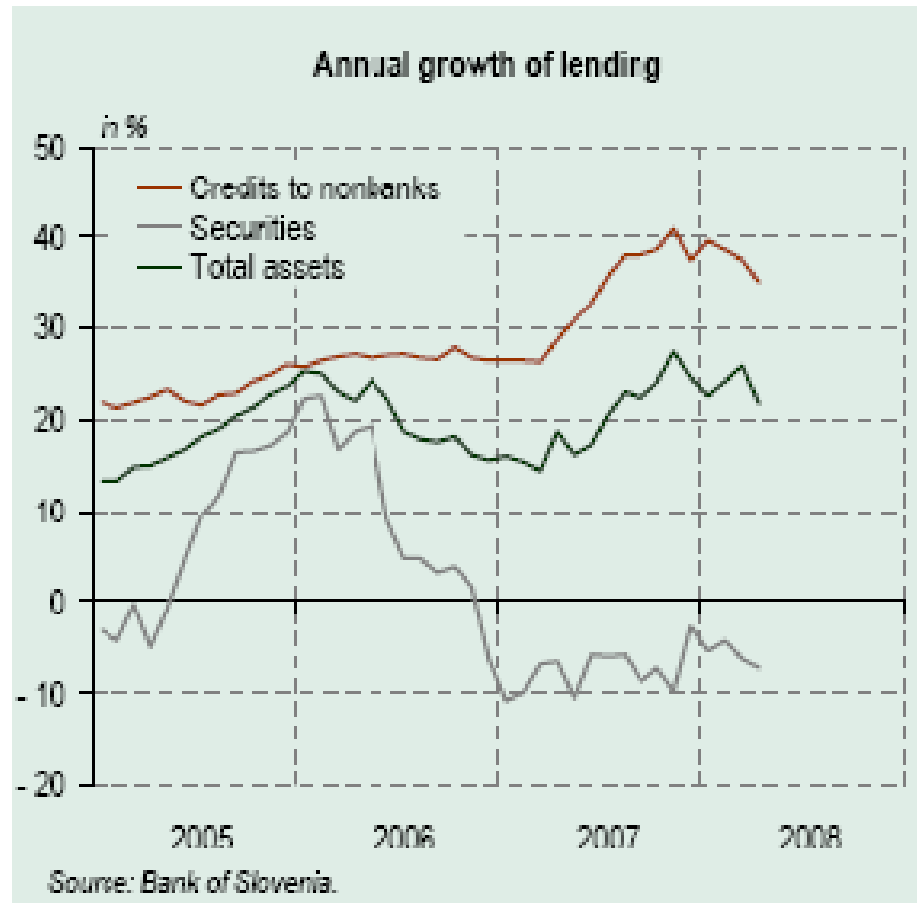
Financial Deepening



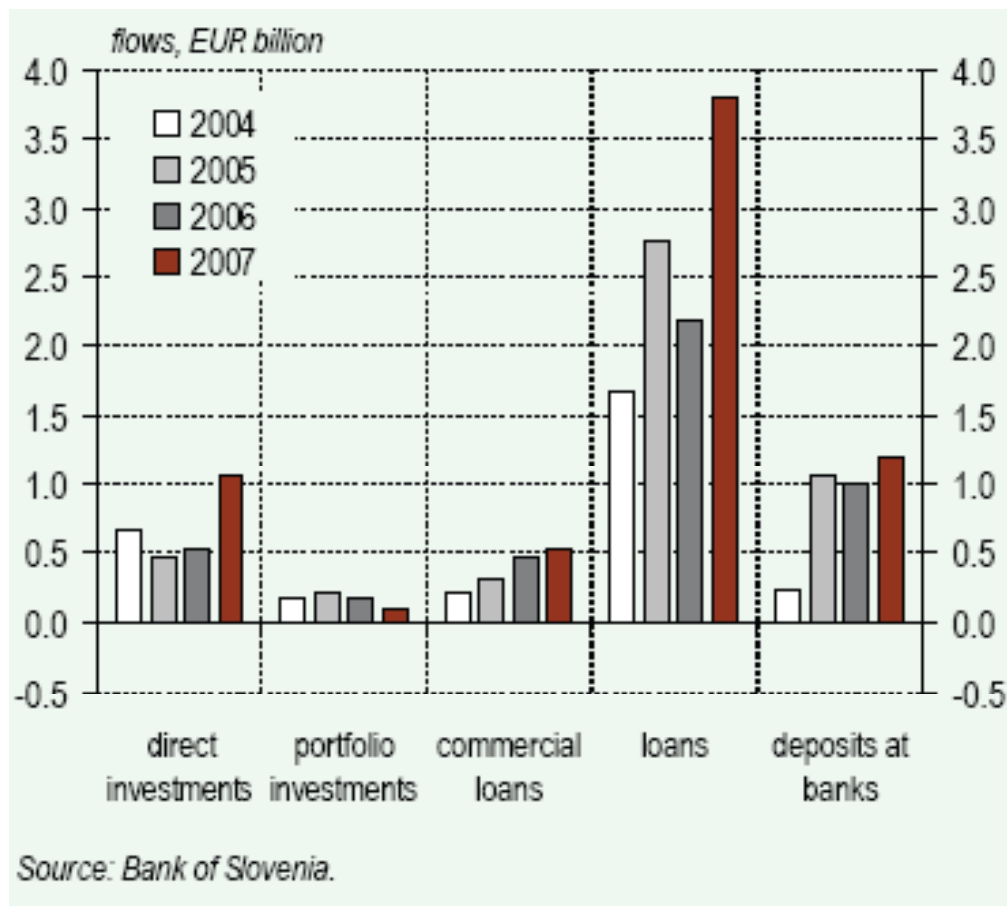
Lending to Domestic Private Sector



Banking Sector

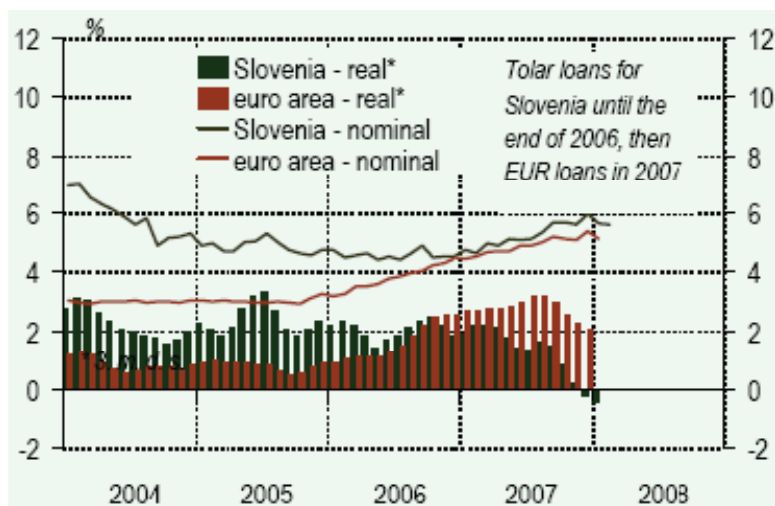


Financial Inflows



Interest Rates in Slovenia

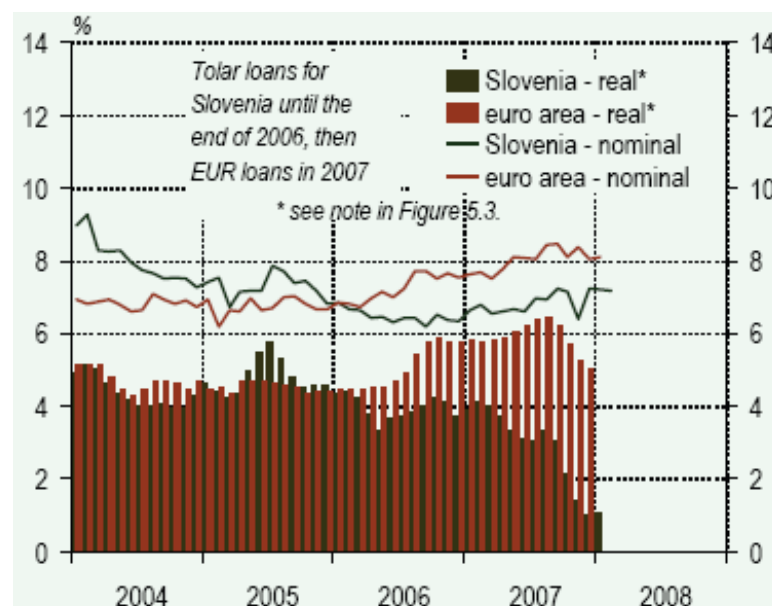
Loans to Non-financial Corporations



* In terms of methodology, the real interest rate is calculated taking into account expected inflation. Due to the unavailability of expected inflation indicators, we calculate the real interest rate taking into account current inflation. 3-month moving average.

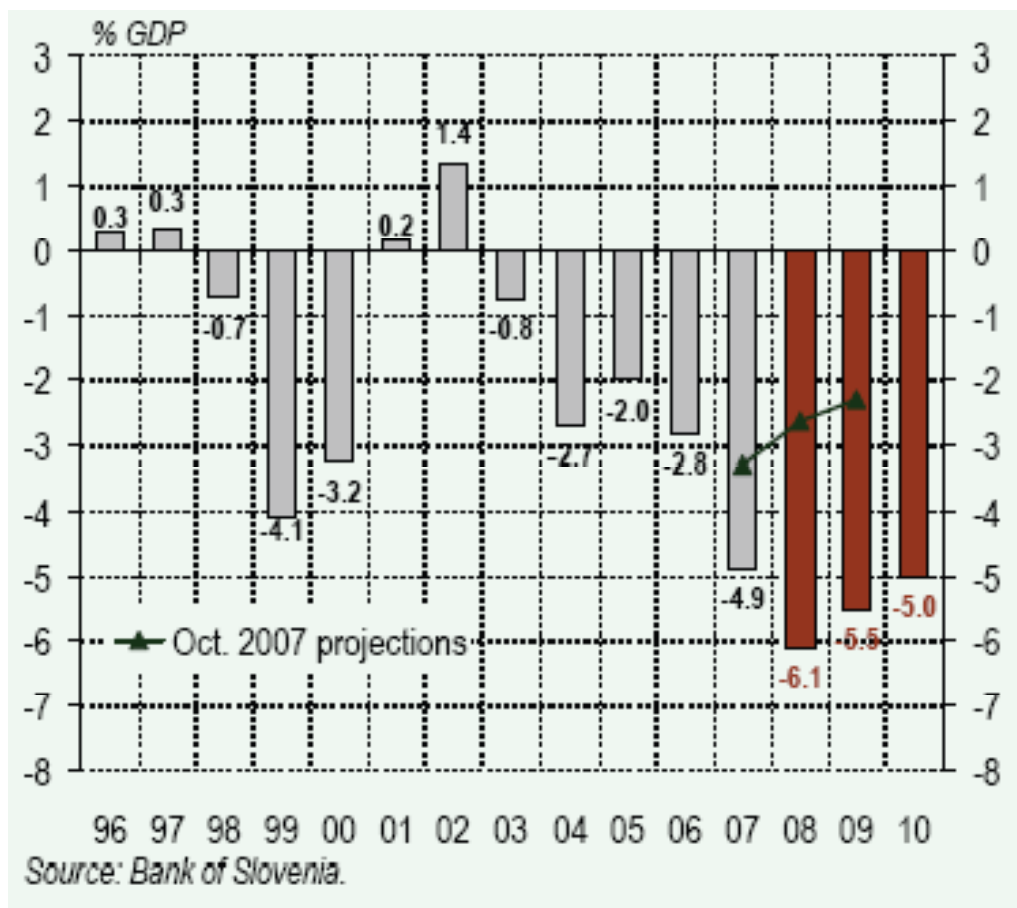
Source: ECB, Bank of Slovenia.

Loans to Households

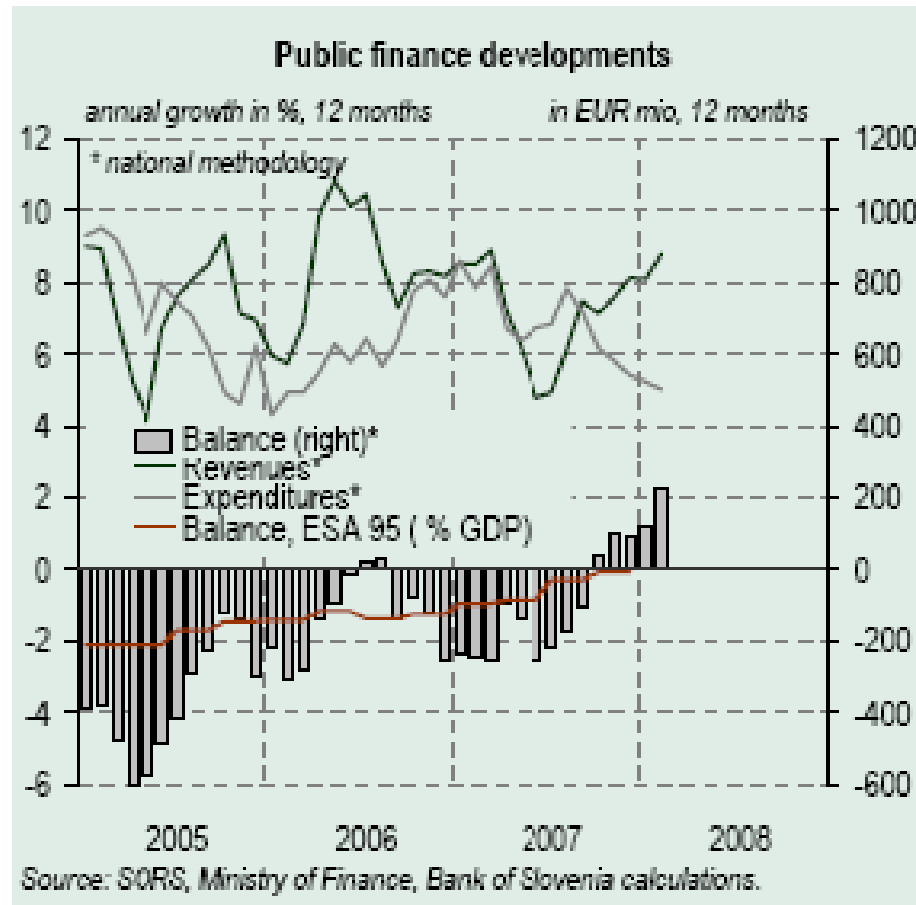


Source: ECB, Bank of Slovenia.

Current Account Development



Public Finance Developments



Food Prices in Slovenia and EMU



Structure of HICP

	weighting	average annual growth, %					year-on-year growth in quarter, %				
		2003	2004	2005	2006	2007	06Q4	07Q1	07Q2	07Q3	07Q4
HICP	100.0%	5.7	3.7	2.5	2.5	3.8	2.3	2.6	3.2	3.7	5.5
Breakdown of HICP:											
Energy	12.8%	3.4	7.0	11.9	8.5	3.4	2.3	0.6	3.3	1.1	8.6
Food	22.1%	6.1	1.3	0.2	2.7	7.1	3.9	4.0	6.1	7.5	10.7
processed	14.7%	7.3	2.7	0.6	2.5	6.3	3.5	3.4	3.9	7.1	10.6
unprocessed	7.4%	3.8	-1.4	-0.8	3.1	8.7	4.7	5.2	10.4	8.3	10.8
Other goods	31.1%	4.8	1.8	-0.3	-0.9	0.3	-0.4	0.1	0.0	0.4	0.9
Services	34.0%	7.1	5.8	3.3	3.5	4.9	3.8	4.6	4.4	5.2	5.3
Core inflation indicators											
HICP excluding energy, seasonal food and tax effects	83.3%	6.0	3.0	0.7	1.2	3.2	1.7	2.4	2.4	3.5	4.5
HICP excluding energy and unprocessed food	79.8%	6.3	3.7	1.3	1.5	3.4	2.1	2.6	2.6	3.7	4.5
HICP excluding energy, food, alcohol and tobacco	65.1%	6.0	3.9	1.5	1.3	2.7	1.8	2.5	2.3	2.9	3.2
Administered and non-administered prices:¹											
Administered prices	21.5%	4.4	6.1	7.4	4.8	2.1	1.1	0.5	2.0	0.7	5.4
Non-administered prices	78.5%	5.9	3.0	1.2	1.9	4.1	2.6	3.1	3.5	4.4	5.5
Other price indicators:											
Industrial producer prices on the domestic market		2.6	4.3	2.7	2.4	5.4	2.7	4.4	5.0	5.3	6.4
GDP deflator		5.6	3.3	1.7	2.0	3.9	1.8	4.0	3.5	4.2	3.8
Import prices ²		2.1	4.1	5.0	3.3	3.3	3.4	3.7	4.6	2.0	3.1
Macroeconomic indicators:											
Output gap (HP trend)		-0.9	-0.6	-1.0	0.1	1.5	0.7	1.3	1.8	1.6	1.1
Unit labour costs ³		4.2	0.5	0.9	0.3	2.5	0.6	0.6	2.3	2.1	5.0
Labour costs per employee ³		7.6	4.6	4.9	4.8	5.9	5.1	5.4	5.6	5.8	6.8
Productivity ³		3.2	4.1	4.0	4.5	3.3	4.4	4.7	3.3	3.6	1.7
Profit indicator ⁴		1.3	2.9	0.8	1.7	1.4	1.1	3.4	1.2	2.0	-1.2

Notes: ¹ ECB methodology, ² National accounts data, ³ Gross wages only, ⁴ Calculated as difference between the GDP deflator and unit labour costs.

Source: SORS, Eurostat, ARC calculations.

Conclusions

Benefits of Euro Adoption

Unfavorable global developments of energy and food prices

At least we cannot have exchange rate and B-o-P crises

www.bsi.si

Price Stability Report

Financial Stability Report

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