

# **Slovenia within the enlarged EMU**

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Andrej Rant

## Issues

- Growth
- Competitiveness
- Financial stability

## Growth prospectives for 2007

*Slovenia:* 4,2%

- growth around twice as high as in Euro area
- decisive role of export growth but also strong domestic demand (investments, financing conditions of the Eurozone)
- inflation under Maastricht criterion

*Euro area* 2,1%

- somewhat moderating but robust expansion of economic activity
- main driver: domestic demand (dynamic investment, favorable financing conditions)
- medium term outlook: favorable, with conditions for growth rates around potential
- inflation in line with medium term price stability objective

*Global* 4,9%

- balanced growth across regions
- robustness underpinned by lower oil prices
- moderate inflation

<i>MACROECONOMIC INDICATORS</i>	<i>GDP</i>		<i>Employment</i>		<i>Labour costs</i>		<i>Productivity</i>		<i>Inflation</i>	
	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>
Euro area	2,1	2,2	1,2	1,1	2,2	2,5	0,9	1,1	2,1	1,9
Slovenia	4,2	3,9	0,6	0,5	5,3	5,6	3,6	3,4	2,5	2,7
World	4,9	...	...	...	...	...	...	...	3,6	...
Sources: European Commission (Euro area), Bank of Slovenia (Slovenia), IMF World Economic Outlook and OECD Economic Outlook (World)										

## Risks for price stability

### *Slovenia*

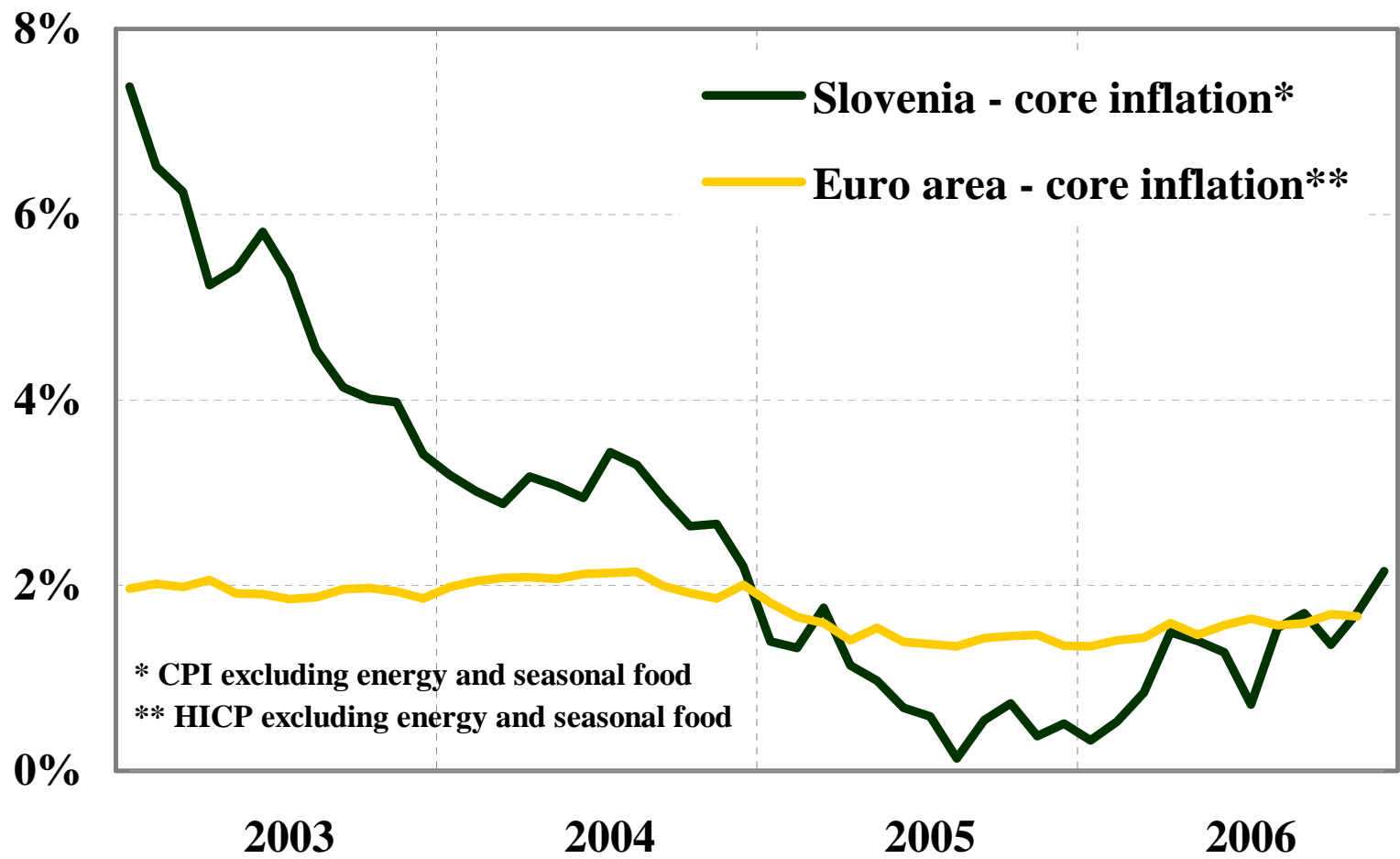
- growth around the potential
- potential for wage increases
- administrative price increases
- uncertainty of further oil price developments

### *Euro area*

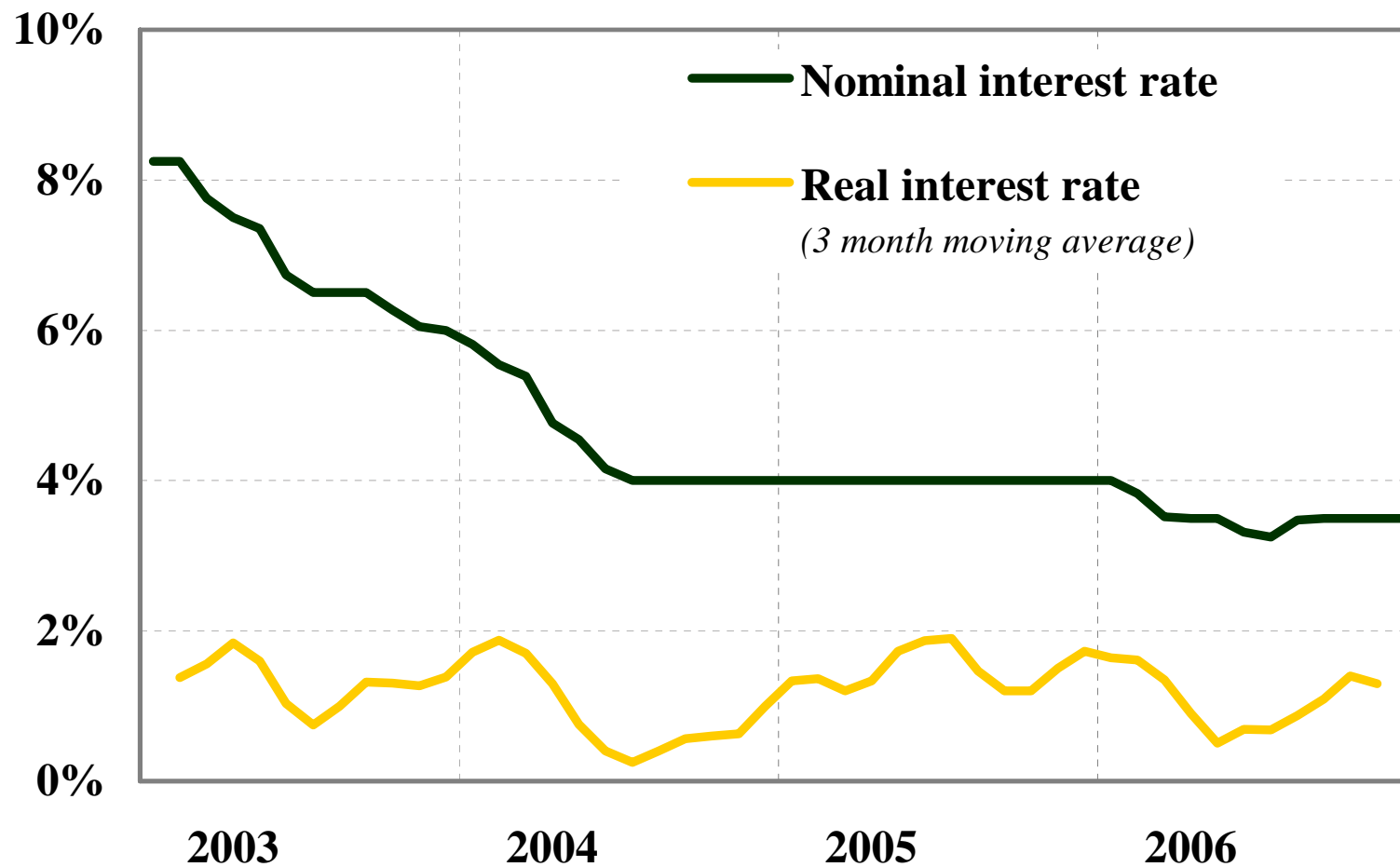
- stronger pass through of previous oil price increase
- uncertainty of further oil price developments
- administrative price increases and indirect taxes
- potential for stronger wage increases

### *Global*

- global imbalances
- oil and other commodity prices



Bank of Slovenia interest rates (60-day tolar bills)



## Competitiveness

### *Slovenia*

- solid productivity growth expected
- wages lagging behind productivity growth by around 1 p.p.
- labor market reform in discussion

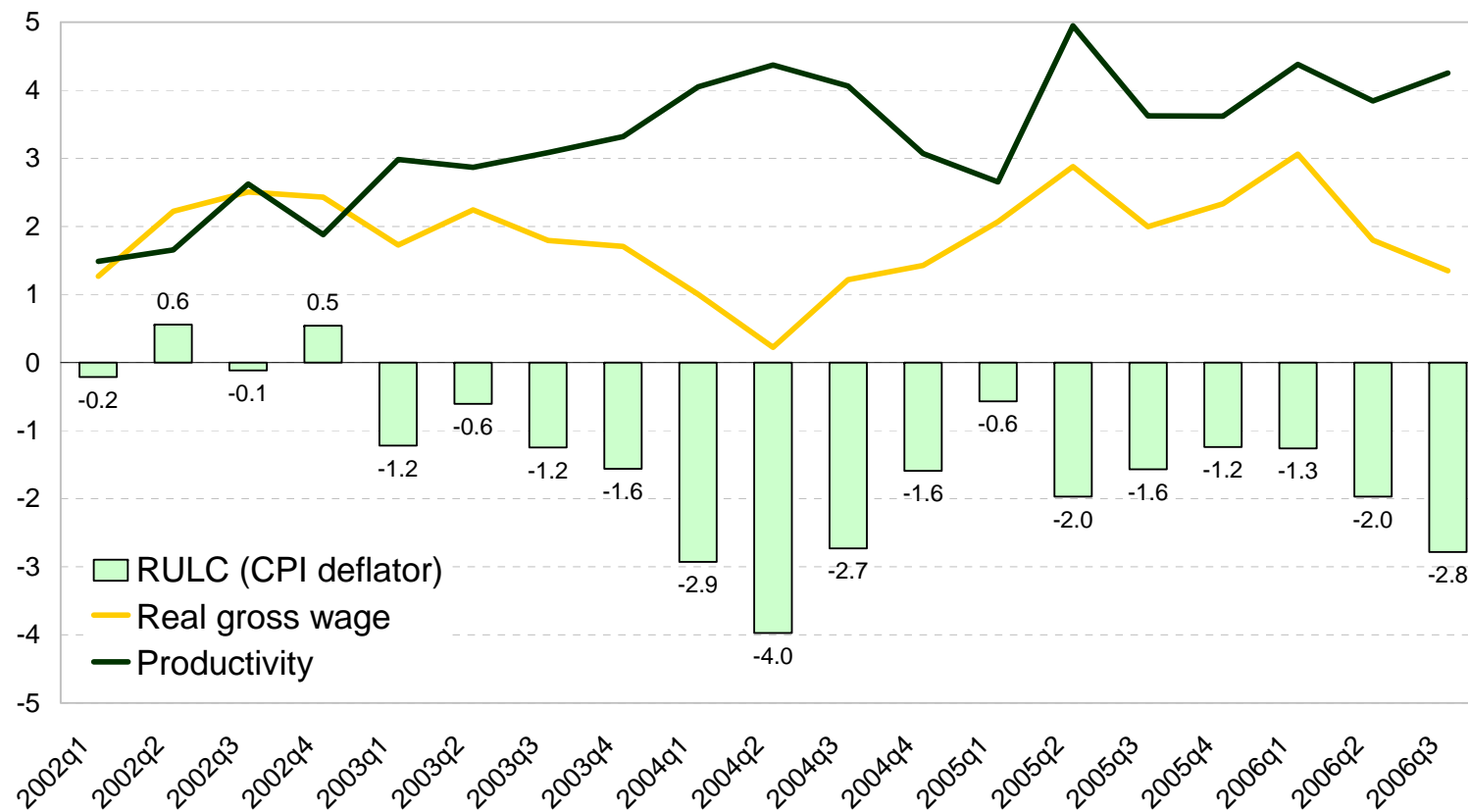
### *Euro area*

- effective economic policy coordination (key: well balanced fiscal policies)
- financial market integration process
- structural flexibility (Lisbon agenda)

### *Global*

- productivity developments

Slovenia – wages and productivity



## Financial Stability

### *Slovenia*

- favorable effects of "good times" on public sector position
- implementation of Council recommendations to be checked by the assessment of first stability programme
- solid financial position of the banking sector
- changing structure of bank's funding in the process of market consolidation, integration and internationalization
- new challenges from changing regulatory framework

### *Eurosystem*

- improvements in public sector finances due to "good times"
- Eurosystem Members States on the way from excessive deficit procedures
- improved profitability for all banking groups with vulnerabilities considerably diminished
- solvency levels of EU banks remaining strong
- new contagion risks associated with cross border activities
- near term outlook: solid performance

## Financial Stability

### *Global*

- risks from global imbalances present, but contained
- international coordination on financial issues strengthening
- IMF reforms improving global surveillance of financial stability

To conclude with business sentiment ...

