edited by: Maja Bednaš

SLOVENIA: Analysis of economic developments in 2000,
prospects for 2001 and 2002 and projections up until 2005
2000 AUTUMN REPORT

Institute of Macroeconomic Analysis and Development

ISBN 961-6031-44-9
ISBN 961-6031-09-0 (series)

SLOVENIA

ANALYSIS OF ECONOMIC DEVELOPMENTS IN 2000, PROSPECTS FOR 2001 AND 2002 AND PROJECTIONS UP UNTIL 2005

(2000 AUTUMN REPORT)

IMAD

Analysis, Research and Development

SLOVENIA: Analysis of economic developments in 2000,
prospects for 2001 and 2002 and projections up until 2005
2000 AUTUMN REPORT

Institute of Macroeconomic Analysis and Development
Janez Potočnik, director

http://www.gov.si/zmar/

editor: Maja BEDNAŠ
translation: Marko GERMOVŠEK
LINGO d.o.o, podjetje za jezikovne in računalniške komunikacije
A3 Agencija za prevajanje
Eva Horvat, Nina Barlič, Roman Šimec
language editor: Murray BALES
LINGO d.o.o, podjetje za jezikovne in računalniške komunikacije
layout and DTP: Boštjan PLEŠEC
printed by: JA Grafika

Ljubljana, December 2000

CIP - Kataložni zapis o publikaciji
Narodna in univerzitetna knjižnica, Ljubljana
338 (497.4) "2000"
338.27 (497.4) "2001/2005"

SLOVENIA. Analysis of economic developments in 2000, prospects for 2001 and 2002 and projections up until 2005: (2000 Autumn Report) [editor Maja Bednaš; translation Marko Germovšek]. - Ljubljana : Institute of Macroeconomic Analysis and Development, 2001. - (Analysis, research and development)

ISBN 961-6031-44-9
ISBN 961-6031-09-0 (series)
1. Bednaš, Maja
110938880

Table of contents

Kazalo

List of tables

List of figures

List of boxes

Acronyms in the text have the following meanings: **AP** Agency of the Republic of Slovenia for Payments, **BS** Bank of Slovenia, **ELES** Electro Slovenia, **IER** Institute for Economic Research, **IMAD** Institute of Macroeconomic Analysis and Development, **MF** Ministry of Finance, **SORS** Statistical Office of the Republic of Slovenia, **Ur.l. RS** Uradni list Republike Slovenije (Official Journal of the Republic of Slovenia)

FOREWORD

The 2000 Autumn Report provides an overview of the economic developments and factors of growth underlying the Slovenian economy in 2000, prospects for 2001 and 2002, and the strategy for economic development up until 2005. The Autumn Report has been made and published by the Institute of Macroeconomic Analysis and Development (IMAD) in the Slovenian and English languages. The Government of the Republic of Slovenia draws on the Report in drawing up economic policy measures and drafting the state budget. The Report has used data provided by information services (mainly the Statistical Office of the Republic of Slovenia (SORS), the Bank of Slovenia (BS), and the Agency for Payments (AP)), assessments of foreign and domestic experts, and international institutions.

The 2000 Autumn Report has been made by: Maja Bednaš (editor, head of the project, summary, international environment, international economic relations policy), Branka Tavčar (national accounts), Tanja Česen (construction), Pavle Gmeiner (competitiveness of nations, technological development), Slavica Jurančič (international competitiveness), Alenka Kajzer and Štefan Skledar (labour market policy), Andreij A. Chiaiutta (competition policy), Rotija Kmet (production structure of gross domestic product, manufacturing), Jasna Kondža (public finance), Mateja Kovač (agriculture), Saša Kovačič (incomes policy), Tomaž Kraigher (employment and unemployment), Janez Kušar (trade, hotels and restaurants), Ivo Lavrač (draft scenario for economic development), Jože Markič (balance of payments, external debt), Ana Murn (state aid), Jure Povšnar (electricity, gas and water supply, mining, transport and communications), Matija Rojec (foreign direct investment), Janez Šušteršič (introduction), Ana Tršelič (private consumption, life assurance), Boštjan Vasle (prices and price policy, monetary policy), Luka Vesnaver (financial intermediation, household and corporate borrowings and savings), Ivanka Zakotnik (national accounts, expenditure and cost structure of gross domestic product), Eva Zver (real estate, renting and business services, public administration, defence, compulsory social insurance, education, health and social work, other public and personal services). Technical support (charts, statistical appendix): Bibijana Cirman Naglič, Marjeta Žigman, Dragica Kovač.

The 2000 Autumn Report is based on data available up until 30th November 2000.

1. INTRODUCTION

As projected in the Spring Report, the main **lever of economic growth** in 2000 was foreign demand. This forecast was based on favourable economic conditions in the main European trading partners and a slowdown in domestic final consumption following significant increase in anticipation of the introduction of value-added tax in 1999. The forecast is being fulfilled, with domestic final consumption rising even more slowly and foreign demand increasing more strongly than expected. The main divergence from the projections involved oil prices and the US dollar's exchange rate, whose rises came to a halt later and at higher levels than anticipated in spring. This has influenced the estimates of the main macroeconomic aggregates.

It was domestic prices that were most significantly affected by the rising import prices. The core inflation has revealed a strengthening of the spillover effect of oil and commodity prices on to other prices in the second half of the year, suggesting that the forecasts of inflation are uncertain and higher levels might be expected. Average inflation in 2000 will therefore climb to 8.9%, 1.3 percentage points higher than projected in spring. Like most foreign forecasts, we anticipate a slight drop in oil prices and a weakening of the US dollar in 2001, however, average inflation is likely to go down only slightly because of the high rates of inflation in the final months of 2000, the rigidity of downward price adjustments, uncertainty and higher inflationary expectations, and the continuation of the spillover effect. With projections of world prices being more optimistic and year-on-year rates of inflation falling gradually, the average inflation rate could drop to 7.8%.

The high inflation is the main reason that all components of domestic final consumption recorded a weaker real increase than forecast in spring, even though the nominal state budget remained at the same level and nominal wages rose at an expected rate. The modest rise in private consumption was further due to indebtedness of the population and increased saving. Weaker investment activity was brought about by the expected cyclical downturn following strong growth in 1999 as well as greater uncertainty resulting from unpredictable inflationary movements, the election year, and the curbing of variable budget expenditure items. The total general government deficit is expected to be higher than projected despite the unchanged nominal level of the state budget and the reduction of expenditure, totalling about 1.7% of gross domestic product. The deficit increased because of lower general government revenue relative to gross domestic product (mainly lower revenues from value-added tax resulting from high exports,

which are tax-free, and low imports and final domestic consumption) and because of high inflation, which triggered an early wage adjustment and the related raising of pensions.

The rising oil prices and the US dollar's exchange rate are causing the terms of trade to deteriorate; in 2000 they are expected to fall by 4%. As a result, the **current account deficit** will be only slightly lower than in 1999 despite the strong foreign demand and improved price and cost competitiveness, totalling around 4% of gross domestic product. If the terms of trade had stayed the same, Slovenia would have recorded half of the actual deficit. Some of the reasons for the deficit defined as external (recession in the trading partners, war in the Balkans) or temporary (domestic spending before the introduction of value-added tax, accelerated investment activity) no longer exist. However, the worsening of the relationship between costs and the export prices of goods compared to the main trading partners, and imports of capital goods and services with higher value added, continue to play an important role. No further deterioration in the terms of trade is expected in 2001, but the difference between the rates of export and import growth will be lower than in 2000, so the deficit relative to gross domestic product will only fall by around half of a percentage point.

Despite the large external deficit and high inflation, current economic conditions remain favourable, particularly for exporters in manufacturing, construction, and some service industries (hotels and restaurants, transport and communications, financial intermediation), so overall value added is likely to surge by approximately 5% in real terms in 2000. Economic growth, i.e. a percentage increase in real gross domestic product, will reach 41% in 2000. The main reasons causing the downward correction of the spring forecast (43%) are lower estimates of domestic consumption growth, lower purchasing power due to worsened terms of trade, and lower estimates of revenues from indirect taxes, which are one of the categories in calculating gross domestic product.

Crucial factors underlying economic performance in 2001 will be appropriate incomes and fiscal policies. If the current model of adjusting wages to inflation and pensions to wages remains in force, wage increases would exceed the projected gross domestic product growth, while the general government deficit would exceed 2% of gross domestic product. Consumption stimulated in this way would lead to a substantially wider current account deficit and a leap in inflation above the levels of 2000. This would require a period of several years to bring macroeconomic aggregates back into balance. The Government, in co-operation with other social partners, should therefore take appropriate and

timely income policy measures aimed at keeping wages below the forecast level of productivity growth and preventing pensions from rising faster than wages. Estimates for 2001 have been made on the assumption that such measures will be introduced, leading to an expected modest rise in final domestic consumption. Particularly in the first six months, domestic consumption will be further reduced by lower government and investment consumption in the period of provisional financing of the budget. With domestic demand rising modestly and foreign demand decelerating slightly, economic growth is expected to slow down further in 2001 to around 4%.

Upon drawing up **economic policy** measures aimed at reducing general government and current account deficits, we need to distinguish between short-term, urgent and feasible measures on the one hand, and measures required to maintain the balance in the long run. In the field of public finance, a further drop in general government revenue relative to gross domestic product should be prevented and maintained at the current level of 42%, while the budget should be drafted with the aim of keeping general government expenditure below gross domestic product growth already in 2001, thus enabling the general government deficit to fall. In order to reduce the deficit and strengthen the role of public finance in development efforts, we need to change the structure of revenue sources in the next few years, a reduction in the tax burden on labour in particular, increase the efficiency of public spending, and change the expenditure structure by transferring some of the state's functions to the private sector and giving importance to functions that contribute to the development of human resources and know-how, the key factors of development.

With the persistence of the current account deficit, the Government and the corporate sector continue to borrow abroad. Even though debt is increasing and the current pace of borrowing is not sustainable in the long term, debt service indicators are still favourable, so measures to cut import consumption need not be tightened for the present, such as rapid devaluation of the exchange rate, a tightening of monetary policy, or a further raising of interest rates. This, and the last measure in particular, would hinder economic activity and stimulate borrowing abroad. Borrowing could to some extent be curbed by stepping up the privatisation of the financial sector, which would raise its capacity to cope with foreign competition, by the faster opening-up to investments in securities, and a more active policy of attracting foreign direct investment. The latter produced unsatisfactory results in 2000 despite the government programme of attracting foreign direct investment so Slovenia will have to intensify its efforts to lift administrative barriers, particularly those concerning the establishment of companies, acquiring land, and employment. Foreign investors could become

important partners in the privatisation of infrastructural sectors and outward investment of Slovenian companies, particularly in South-eastern Europe. At the same time, industrial policy should become more co-ordinated and oriented towards strengthening the competitiveness of the economy, the development of small and medium-sized enterprises, and the introduction and development of modern technology. Those measures would raise the economy's competitiveness, leading to a gradual minimisation of external disequilibrium and the reduction of foreign borrowing used to finance the deficit, the latter of which would be impossible to sustain in the long run.

2. SUMMARY

2

The ongoing **narrowing of the development gap behind advanced economies** measured by gross domestic product per capita at purchasing power parities, which characterised the period from 1995 onwards[1], **continued in 1999**. According to Eurostat, Slovenia is in the lead among the 13 candidate-countries: throughout the five-year period it was the second-most developed country (right behind Cyprus), achieving 64% of the EU average in 1995 and 71% in 1999. No other candidate-country climbed beyond 60% of the EU average. Measured in this way, Slovenia has already overtaken Greece, the least developed EU member-state (67% of the EU average in 1999) and has drawn closer to Portugal (76% of the EU average in 1999).

The **2000 Progress Report** issued by the European Commission early in November positively assesses Slovenia's macroeconomic achievements and the adoption of pension reform which is to help reduce problems in this area in the medium-term. As regards meeting the Copenhagen criteria, the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the EU, Slovenia has been assessed as a country with a functioning market economy and capable of coping with competition in the single EU market provided that it accelerates the adoption of other reforms which could raise its competitiveness. The meeting of the second criteria, even if with some reservation, represents significant progress in comparison to 1999. The European Commission has positively assessed the progress made in taking on EU legislation since the last report, in particular in the areas of the environment, agriculture, free movement of goods and services, and energy, but has warned that harmonisation with the *acquis* is slow in the free movement of persons, telecommunications, and audio-visual policy. The European Commission remains critical of the state's considerable influence in certain areas of the economy, particularly as regards its ownership of two of the largest banks, which holds back development and competition. The Commission has also been critical of the slow privatisation process and the pace of structural reforms and has raised the issue of rigid business conditions, which is one of the main reasons for modest foreign direct investment inflows. Judicial reform has been met with approval even though the measures aimed at reducing the backlog of pending court cases have not yet been assessed, while reforms in public administration have made little progress since the last report, according

[1] Eurostat first published figures on gross domestic product per capita at purchasing power parities for candidate-countries for accession to the EU for 1995. A composite currency called Purchasing Power Standards (PPS) has been used as a measure of purchasing power.

to the Commission, and the passing of laws providing a basis for the reform is urgent. Some warning has been given to accelerate the process of denationalisation and to meet the obligations to close duty-free shops.

2.1. ECONOMIC DEVELOPMENTS IN 2000 – Strong impact of the international environment

Economic developments in 2000 have been strongly influenced by the international environment. The strengthening of economic activity in Slovenia's main trading partners has helped exports and manufacturing to grow. Economic growth in the EU, representing around 65% of Slovenia's merchandise exports, is set to accelerate by around 1 percentage point to 3.4%, according to the European Commission. Gross domestic product growth is gaining pace the most in those EU member-states that represent the largest shares in Slovenia's external trade, namely Germany, Italy, and Austria. Economic growth forecasts for 2000 for other trading partners are equally optimistic: in CEFTA countries, Russia and particularly in Croatia, where real economic growth is to reach around 3% after suffering a recession in 1999, as well as in the countries of former Yugoslavia with which trade is increasing and more sophisticated forms of co-operation are being developed. On the other hand, the rising oil prices, higher inflation in the main trading partners, and a strong US dollar are pushing import prices up, causing the current account deficit to persist at high levels and reducing the purchasing power through lower terms of trade. At the same time, inflationary pressures became stronger and, unlike in 1999, they mainly came from external factors.

The strong economic growth in 1999, 5% according to the corrected data from the SORS, was mainly driven by internal factors such as strong domestic consumption before the introduction of VAT. **Economic activity in 2000** is somewhat **less dynamic**, in part due to the cyclical effect of the strong growth in 1999. Another significant factor hindering economic growth in 2000 despite strong exports is the terms of trade. They have worsened owing to the rising oil prices, a strong US dollar and higher import prices, all of which has reduced real income in the country (residents' lower purchasing power). The structure of gross domestic product growth has changed considerably compared to 1999, the year which deviates significantly from the average of several years as regards growth structure and trends in individual components due to the one-off impact of the tax reform. Foreign demand has gained strength, real exports of goods and services are to rise by 8.7% (by a mere 1.7% in 1999), while domestic demand is expected to slow down in real terms compared to 1999 (3.8% as

against 6.6% in 1999). **All domestic demand components will suffer a significant slowdown**, except intermediate consumption (up 5% in real terms) related to the pick-up in manufacturing's production. After surging by 17% in real terms in 1999, investment demand is to rise at about the same rate as gross domestic product in 2000. Private and government consumption are estimated to increase by 1.4% and 2.1% in real terms, respectively. The slowdown in private consumption has been due to the high indebtedness of the population as spending in 1999 was largely financed by bank loans and leasing arrangements. At the same time, household savings have increased strongly in 2000 as a result of rising interest and exchange rates. In the first half of 2000, gross domestic product growth was 4.9% year-on-year, while in the second half of the year growth is expected to slow down, assuming from the expected foreign and domestic demand trends until the end of the year (mainly because of the negative effect of worsened terms of trade on the structure of consumption). **In 2000 as a whole, real gross domestic product growth will be around 4%.**

The favourable effect of strong export demand, pushing up value added in manufacturing (up 7%), and acceleration in certain services sectors (hotels and restaurants, transport and communications, financial intermediation) are factors that will help **overall value added to rise strongly (up 4.8%).** The difference between the rates of increase for gross domestic product and value added emerged as a result of lower net taxes on products (one of the categories in calculating gross domestic product) caused by changes in the spending structure. Domestic demand, which is taxed, rose at low rates, while exports, the main driving force behind growth in 2000, are exempt from paying VAT-output tax. Broken down by activities, the rise was the strongest where the positive contribution of the upturn in the main trading partners was most pronounced (manufacturing, transport), where the rise was indirectly induced by the relatively high inflation (financial intermediation; inflation caused bank profits to rise through revaluation mechanisms, while other indicators show no marked progress made by banks), and in activities strongly influenced by the 1999 changes in the tax system. The latter mainly applies to hotels and restaurants, an activity further supported by a better tourism season.

Exports of goods have increased significantly in 2000 (in 1999 they were up by 2.7%); in 2000 as a whole they are expected to rise by around 9%, while import growth will be weaker than in 1999 (up by 5.1% as against 8.8% in 1999). As regards the regional orientation of trade flows, the decline in trade with the countries of former Yugoslavia has been brought to a halt, trade with CEFTA countries and Russia has strengthened and Slovenia's market shares are increasing. In 2000, trade with the main trading partners (the EU) has risen in

real terms (exports faster than imports), but the shares of those countries relative to total external trade have shrunk slightly (66.9% of total exports and 69.5% of total imports in 1999 compared to 64.7% and 67.8% in the first eight months of 2000). Even though real exports of goods are rising more strongly than imports, trade balance in 2000 will not differ much from 1999's as export prices expressed in dollars have experienced much bigger falls than import prices. With the surplus from services being slightly higher due to positive trends in business services, a slight increase in investment expenditures, and expected stronger inflow of transfers, **current account deficit in 2000 will be slightly lower than in 1999. However, it will amount to over USD 700 million, representing about 4% of gross domestic product**, with the effect of exchange rates fluctutations in 2000 taken into account.

Certain structural reasons for the wide current account deficit, causing its formation in 1999, continue to persist in 2000 (worsening of the ratio of costs to export prices of goods compared to CEFTA countries and the EU, imports of investment goods and services with higher value added). Other factors that **keep the deficit at the 1999 levels** despite the strong real export growth are primarily external and outside Slovenia's influence. They include the high oil prices, accelerating in the second half of 1999 and reaching record highs of the last decade in 2000, the strong US dollar, and price rises in the main supplying countries, all of which had an impact on the terms of trade. They have worsened significantly, raising the cost of intermediate consumption and reducing real domestic income. The high current account deficit is also due to changes in the methodology of recording reinvested earnings of foreign investors, which are included in capital expenditures (added at the end of the year). In 1999, reinvested earnings totalled around USD 100 million; at least the same amount is expected in 2000 given the fact that foreign direct investment stock has for many years now mainly increased through the strengthening of positions of the existing investors.

The **low inflow of new foreign direct investment remains a burning issue** (USD 83.4 million in 1999, USD 61.5 million in the first nine months of 2000) not only from the viewpoint of financing the current account deficit and the sustainability of the external disequilibrium, but also as regards the importance of the transfer of knowledge, technology, and managerial skills which could contribute to the strengthening of competitiveness, further economic restructuring, stronger investment activity, and a rise in market shares in the main trading partners. The measures taken to attract foreign direct investment adopted early in 2000 are a step in the right direction, but unfortunately remain under-ambitious in their aim to bring in a significant amount of strategic foreign

capital. The main obstacles to foreign direct investment are the postponement of the privatisation of infrastructural and financial companies, administrative barriers, and a poor supply of land. Slovenian companies could become more involved in the international environment through investments of Slovenian companies abroad, especially in the countries of former Yugoslavia and other countries in transition where small companies are in particular need of the state's active involvement.

Given the high current account deficit and modest foreign direct and portfolio investment, the **borrowing of public and private sectors abroad has increased substantially.** This could undermine the sustainability of the balance of payments deficit in the following few years. The external debt is likely to exceed USD 6 billion before the end of the year; the private sector's borrowing abroad is increasing faster, that of companies in particular, owing to more favourable lending conditions and the underdeveloped banking sector in Slovenia. The external indebtedness indicators suggest that Slovenia might join the group of countries with a medium level of indebtedness as early as next year should the current trends of borrowing abroad continue. The ratio of foreign exchange reserves to external debt would in this case drop further; the ratio was 96.4% in 1998, it dropped to 74.7% in 1999 and to 69.1% in the first eight months of 2000. The actual inflows from external borrowing have in fact been stronger as there have been substantial negative exchange rate differentials[2] in recording debt stock because of the strong US dollar and borrowing mainly in European currencies.

In 2000, inflation has been strongly influenced by international factors. After price rises in 1999 due to the introduction of VAT, weaker monthly rises have been expected in 2000, which would gradually bring down year-on-year rates of consumer price inflation, particularly in the second half of the year, and maintain the average inflation rate at the 1999 levels. However, the strong rises of oil and primary commodity prices, coupled with the spillover of higher import prices on to the domestic producer and consumer prices and the strong US dollar, caused the year-on-year rate of inflation in September to rise again. This pushed the average inflation rate above both the 1999 levels (6.1%) and the levels forecast in spring (7.6%). The **average inflation rate in 2000 will be around 8.9%.** The strong impact of external factors has also been revealed by

[2] According to the BS, exchange rate changes lowered the debt formulated in USD by USD 578 million in the first eight months, or two-thirds of the total inflow of loans in eight months.

[3] In the first ten months of 2000, the tolar appreciated slightly in real terms against the German mark compared to the same period last year.

the core inflation, which excludes one-off and short-term effects and noises. The year-on-year core inflation (December 2000/December 1999) is estimated to reach 6.9% at the end of 2000, 0.3 of a percentage point higher than at end-1999. This points to the spillover effect of high oil and commodity prices, which started in the third quarter of 2000.

The **price and cost competitiveness of Slovenian manufacturing** are estimated to **improve in 2000**. The tolar will lose a great deal of its value against the basket of currencies, mainly because of the strong US dollar[3]. The effective exchange rate of the tolar is expected to depreciate by 2% in real terms on average in 2000 based on relative consumer prices (1999 saw 0.7% real depreciation against the basket of currencies). The tolar has depreciated in real terms against the Croatian kuna and CEFTA currencies as well. The improvement in cost competitiveness in 2000 will mainly be due to a strong rise in labour productivity triggered by the pick-up in manufacturing's production. Compensation per employee growth will continue to lag markedly behind labour productivity growth despite the deceleration of the rise in labour productivity expected towards the end of the year and a halt in the downward trend of compensation per employee. Relative unit labour costs against the basket of currencies are to fall by around 2.5% in 2000.

The nominal gross wage per employee is moving in line with the spring forecast, however, the real rise will be lower than that projected because, contrary to expectations, there has been no slowdown in consumer prices in the second half of the year (particularly in summer). Based on projections of nominal wage rises in the private and public sectors and expectations of a moderate rise in consumer prices towards the end of the year, the **gross wage per employee will rise by no more than 2% in real terms in 2000.** The underlying orientation of incomes policy aimed at keeping wage rises below labour productivity growth will thus be maintained..

The **positive developments in the labour market are continuing** in 2000, in particular the rise in persons in employment in the services sector, furthermore, the trend showing the number of employees in manufacturing has turned upwards. Employment growth was the strongest in the small business sector, while enterprises and organisations also recorded a steady increase in employment. The labour force survey also shows a rise in the number of persons in employment. **Employment in full-time equivalent is estimated to rise by around 1% in 2000**. The number of registered unemployed continued to fall in 2000, albeit at a weaker rate than in 1999, with the main reason being deletions from unemployment records. The average registered unemployment rate in 2000

will be 12.2% (13.6% in 1999) and the survey unemployment rate will be lower than in 1999 as well (7.2% as against 7.6% in 1999). Despite the positive trends in the labour market, **efforts in the field of active employment policy will have to be intensified**, particularly as regards measures to address the burning issue of structural problems in unemployment.

The consolidated general government revenue is estimated to fall by 1.5% in real terms in 2000[4]. General government revenue relative to gross domestic product is estimated to come to 41.9%, 1.8 percentage points lower than in 1999. This fall will mainly be due to revenue from value-added tax being lower than planned in the budget as a result of subdued domestic spending and stronger exports causing higher VAT-input tax refunds. A **curbing of general government expenditure** will therefore be inevitable given the **slower rise in general government revenue** and upward pressure on expenditure on wages and pensions due to accelerated price rises. Central government expenditure is estimated to be 2% lower in real terms than in 1999 and 3% lower than planned in the adopted budget for 2000 (SIT 1,060 billion) because of curbed state budget expenditure in late 2000. The consolidated general government expenditure is to increase by 1.1% in real terms and is estimated to amount to 43.6% of gross domestic product. As the share of general government revenue relative to gross domestic product will shrink more than that of expenditure, the **general government deficit**, as shown by consolidated general government revenue and expenditure, is projected to be a solid 1 percentage point more than in 1999, amounting to 1.7% of gross domestic product.

2.2. FORECASTS FOR 2001 AND 2002 – A slowdown in international economic activity, the crucial role of incomes and fiscal policies

Real **gross domestic product growth** is expected to decelerate **to around 4% in 2001.** This will be primarily due to a slowdown in foreign demand resulting from anticipated developments in the international environment. After a strong slowdown in 2000, domestic demand will gain little strength in 2001, as it will be curbed by restrictive fiscal policy and will reach an estimated rise of 3.8%. Final consumption will nevertheless grow more strongly than the year before

[4] Pursuant to the Act on the Implementation of the Budget of the Republic of Slovenia for 2000, revenues for 2000 include revenues from value-added tax and excise duties paid in January 2001 but charged on sales made in December 2000. Revenues from value-added tax and excise duties paid in January 2000 and levied on the sales of December 1999 were included in general government revenues for 1999.

(2.9% as against 1.6% in 2000), while intermediate consumption will slow down in line with decelerated production in manufacturing. Real gross fixed capital formation is projected to rise only slightly above the 2000 level (up by an estimated 5%), but still above the rate of gross domestic product growth. A slightly more dynamic rise in certain domestic demand components in 2001 will be due to the strong slowdown in investment and final consumption in 2000, as well as due to the expected improvement in terms of trade (oil prices are to drop after winter and the euro is to recover gradually against the US dollar). The latter will raise domestic purchasing power, particularly in the second half of the year. On the other hand, domestic demand, government and to some extent investment demand will be restrained by restrictive fiscal policy measures, particularly in the period of provisional financing of the budget. Taking into account the estimated wage and employment growth, real private consumption growth is expected to strengthen to 2.9% in 2001. The slight slowdown in economic activity in the EU expected in 2001 and strong exports in 2000, making the level of comparison high, will somewhat dampen export growth in 2001 (6.9%). However, real exports of goods and services will continue to rise much faster than gross domestic product. Relatively favourable export trends will be sustained in 2001 by the further strengthening of economic activity in Croatia, other countries of former Yugoslavia, and most countries in transition. Co-operation with these countries will be further boosted through the internationalisation of Slovenian companies. With foreign demand continuing to grow by around 7% in real terms and domestic demand strengthening (the contribution of both components is to be more balanced), **economic growth in 2002 will strengthen to 4%.** Even though private and investment demand are projected to rise more strongly (3.2% and 5.4%, respectively), foreign demand is set to remain the main lever of economic growth in 2002.

As export demand is likely to slow down slightly in 2001 and 2002 (exports of goods are expected to go up by 7.2% and 7.3% in real terms) and imports of goods are forecast to be stronger (up 5.8% and 6.3% in real terms), net taxes on products will rise faster in these two years. As a result, the **growth rates of value added and gross domestic product will be about the same.** Overall value added is expected to rise by 4.1% in 2001: a slowdown will be seen mainly in manufacturing (4%), electricity, gas and water supply (1.5%), construction (4.5%), and hotels and restaurants (5.5%), while agriculture will record a strong rise of 7% after an estimated real fall in 2000. Most service sectors are to maintain the rates seen in 2000. The rise in total value added is forecast to intensify again in 2002 (4.5%) primarily due to the bolstering of manufacturing, which will translate into transport, and financial intermediation

(provided that the banking sector is consolidated and the privatisation process in banking and insurance is brought to an end).

The trade-services deficit will persist at high levels in 2001 and 2002. Despite a relative slowdown in exports of goods and services (6.9%) and stronger imports (5.6%), the deficit is to narrow by around USD 90 million in 2001 to USD 750 million, in part due to a weaker US dollar, a drop in oil prices and, consequently, more favourable terms of trade, but also due a slightly bigger surplus from services. The trade-services deficit will remain at similar levels in 2002, when exports are forecast to rise by 7% and imports by 6.2% in real terms, the latter being driven by brisk investment and private consumption. The **current account deficit will gradually fall to 3% of gross domestic product in 2001 and 2002**, a projection based on estimates of future trade in goods and services, expectations of a slightly higher inflow of EU structural funds, and the deficit from factor incomes reaching a slightly higher level than in 2000.

That part of the current account deficit accounted for by development efforts will remain at the current level or even increase in 2001 and 2002 as imports of capital goods are expected to rise quickly. The **relatively wide savings-investment gap will cause no problems if the imported capital goods do in fact improve the efficiency of investment.** As infrastructural investment predominates, the positive effects of increased investment efficiency and, as a consequence, higher and more competitive exports will only take effect in the medium term. This is why it is of utmost importance for Slovenia to open its economy up to foreign capital, in particular to foreign strategic investors.

If there are no major oil price increases in the following months, or if world oil prices start to fall gradually after winter, and the euro regains some strength against the US dollar, the direct external pressure pushing domestic consumer prices up will weaken substantially in 2001 compared to the year before. However, the spillover on to other prices will continue to be felt for at least two quarters after oil prices have stopped rising; as a result, a marked fall in year-on-year rates of inflation can only be expected in the second half of the year. This and the high monthly inflation rates in the second half of 2000 will **sustain the average inflation rate at relatively high levels in 2001.** Taking the above assumptions into account, the **average inflation rate is estimated to reach around 7.8%.** With the expected easing of inflationary pressures and the continuation of favourable trends in 2002, the **average annual rise in prices will gradually approach 5% in 2002.**

As the current mechanism of adjusting wages to consumer price rises exerts pressure on general government expenditure, **an outline of a new incomes policy for the period after 2001 should be drawn up before the end of 2000.** The social partners have already held talks about this issue, but the negotiations have been seriously stalled by changes in the government and elections. The main elements the new incomes policy will have to lay down are an adjustment mechanism that takes into account future consumer price trends and a way of bringing basic wage closer to the minimum wage. **Wage estimates for 2001 have been made on the assumption that a new wage agreement will be concluded.** The same assumption has underlined the assessment of general government expenditure. Wage estimates for the public sector have taken into account wage supplements already adopted, which have in part been paid in 2000 and will be paid in full in 2001. Wage movements in the public and private sectors will lead to **a 2%-2.5% real rise in the gross wage per employee in 2001.** Wages will thus continue to lag behind labour productivity growth.

If labour costs are kept below the rate of increase in productivity, economic growth continues to be relatively robust, and if comprehensive employment policy is implemented with vigour, **favourable trends in the labour market are set to continue in 2001 and 2002.** The number of employees in full-time equivalent will rise by about 1% in the next two years and, given the estimated gross domestic product growth, labour productivity could strengthen slightly in the same period. The fall in registered unemployment will be maintained, but the rate of decline is forecast to be weaker due to the persistent structural problems and expectations of a stronger influx of first-time job-seekers. The average registered unemployment rate could be around 11.7% in 2001 and 11.3% in 2002. The survey unemployment rate, which is internationally comparable, is likely to be around 7% in next two years (7.2% in 2000).

Should the taxation system remain unchanged, projections of general government revenue for 2001 point to a further decrease of general government revenue relative to gross domestic product. In order to **bring the general government deficit below the 2000 level**, the proportion of general government revenue in gross domestic product in 2001 should be maintained roughly at the 2000 level (42%). Upon drawing up the central government budget, it should be ensured that the proportion of central government expenditure to gross domestic product is in line with the estimated revenue.

Table 1: Selected macroeconomic indicators for 1996-2002

	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
GROSS DOMESTIC PRODUCT (% real growth)	3.5	4.6	3.8	5.0	4 1/4	4.0	4 1/4
Current account balance in USD million	32.0	12.0	147.0	782.0	730.0	648.0	676.0
as % of GDP	0.2	0.1	-0.8	-3.9	-4.0	-3.3	-3.2
Employment, national accounts method (% growth)	-0.9	-0.5	0.0	1.0	1.0	1.0	1.0
Unemployment rate by ILO, %	7.3	7.4	7.9	7.6	7.2	7.0	7.0
Gross wage per employee (% real growth)	5.1	2.4	1.6	3.3	2.0	2.5	2.5
Inflation (annual average)[1], %	9.7	9.1	7.9	6.1	8.9	7.8	5.2
Effective exchange rate - real terms[2], %	-2.9	0.7	4.0	-0.7	-2.1	-0.3	-0.3
CONSOLIDATED GENERAL GOVERNMENT REVENUE AND EXPENDITURE BY GFS-IMF METHOD							
General government revenue[3] as % of GDP	42.7	42.0	43.0	43.7	41.9	41.3	
General government expenditure as % of GDP	42.4	43.2	43.8	44.3	43.6	42.6	
Surplus/deficit as % of GDP	0.3	-1.2	-0.8	-0.6	-1.7	-1.3	

Notes: [1]retail prices as a measure of inflation up to 1998, after 1998 consumer prices are used; [2]a rise means appreciation of the tolar and vice versa; measured by relative consumer prices; [3]the budget for 2001 has not yet been drafted. Preliminary assessments of the sources of general government revenue, with the taxation system remaining the same, point to a further drop in general government revenue relative to gross domestic product down to 41.3%.
Sources: SORS, BS, estimates by IMAD.

2.3. MACROECONOMIC PROJECTIONS FOR THE PERIOD UP TO 2005 – Transition to a new development pattern

Macroeconomic projections for the period up to 2005 are based on a new development paradigm required by Slovenia's accession to the EU rather than on the current economic trends. Discussion of the strategy for Slovenia's economic development must be concluded by a consensus on the goals of development and provide guidelines for drawing up the National Development Programme up to 2006. The amount of funds Slovenia is to receive from EU structural funds as a full member will depend on that Programme.

Developmental goals laid down in the new strategy must be based upon the definition of sustainable development and the equal treatment of welfare components, i.e. economic, social, and environmental dimensions. The main developmental goal is to increase welfare, including the non-material components such as personal development and self-realisation, social inclusion and security, co-operation, and development of individual and cultural identity. In the field of economic development, the goal of increasing welfare incorporates (i) the strengthening of the country's and economy's competitiveness, (ii) development of human capital and social integration, (iii) improvement of economic

infrastructure and infrastructural services, including local public environmental protection services, and (iv) balanced regional development. The effectiveness of development will largely depend on the ability to adapt to new challenges (globalisation, the information society, accession to the EU), the seizing of opportunities, and the ability to create an efficient social dialogue and development partnership. Furthermore, Slovenia needs to become more open, reinforcing its capacity to seize development opportunities at the same time (improving competitiveness and the adaptability of economic agents and the state), improve conditions for life-long learning, and try to find the most appropriate adjustments, with the overall goal being the development of human resources. Know-how, adaptability, and openness are becoming the key factors of economic development.

The introduction of the new development pattern, coupled with the conclusion of pending transitional reforms, is projected to lead to a moderate acceleration of economic growth (up by an average of 1 percentage point in the next five years compared to the previous five years). Services should contribute a larger share to total value added thanks to the rapid development of business services. Even though the role of macroeconomic policies is gradually diminishing and microeconomic policies aimed at stimulating development are gaining in importance, macroeconomic stability and sufficient economic and social cohesion remain significant prerequisites for successful economic development. In the next few years, the external disequilibrium should be gradually reduced (from around 4% of gross domestic product to around 2% of gross domestic product) and financed by foreign investment inflows (direct and portfolio investments), government finance should be put into a long-term balance, and inflation should be brought down to the levels seen in the EU.

Conditions in the labour market will to a large extent depend on the effectiveness of implementation of the new employment policy. This policy is based on the need to increase the employability of the population, foster entrepreneurship, stimulate the adaptability of companies and individuals, and to provide the equality of opportunities for women and men. With effective implementation of wide-ranging employment and incomes policies, employment is set to grow in the oncoming period. Employment is projected to rise by an average of more than 1% a year, while unemployment is to drop below 6% (measured by the labour force survey). Unfavourable demographic developments and the potential mismatch between supply and demand in the labour market will call for a more active migration policy that encourages selective immigration on the one hand, and provides conditions for the circulation of local qualified workers (work outside Slovenia and returning home) on the other.

3. INTERNATIONAL ECONOMIC ENVIRONMENT – High global economic growth in 2000 is anticipated to gradually level off in 2001

An upward trend in **global economic growth** began in the second half of 1999 and continued more pronouncedly in 2000. This year's growth of global gross domestic product is expected to exceed the 1999 figure (3.4%; IMF 2000b) by at least 0.7 of a percentage point. It is even more likely, however, that last year's growth will be surpassed by more than one percentage point. According to the latest estimates, global economic activity in 2000 will be more pronounced than previously predicted by international institutions in spring. According to the latest forecasts of the **International Monetary Fund** the global economic growth rate in 2000 will average 4.7%, or 0.5 of a percentage point above the spring prediction. On the other hand, LINK's[5] estimates for 2000 are a bit more cautious, predicting a 4.1% rise in global economic activity. However, it also significantly increased its spring prognosis, namely by 0.6 of a percentage point. Among the factors which most boosted economic growth and resulted in the revised estimates for 2000 are favourable economic trends, particularly in countries which were already the major drivers of global economic growth in the second half of 1999: the USA economy continued to boom, stimulated by domestic consumption and the positive influence of information technology developments on labour productivity; south-eastern Asian and Latin-American economies took off after financial crises in 1998 and at the beginning of 1999; economic growth was more rapid and stronger in the EU as well as in oil exporting countries. More pronounced in 2000 are particularly the influence of accelerated economic growth in the USA, which continued at an unabated rate in the first half of the year, as well as the influence of higher oil prices, which in mid September reached their highest level in ten years. gross domestic product growth is expected to grow faster in all regions around the world this year, particularly in central and eastern European countries in transition (from 2.9% in 1999 to 4.9% in 2000 on average; IMF 2000b) as well as in oil producing countries (in Arabic countries of the near East by 2 percentage points on average, and by 3.8 percentage points in Russia; IMF 2000b).

Growing oil prices have positively impacted on this year's global economic growth through high gross domestic product growth rates in oil-exporting countries. At the same time, however, more expensive oil intensifies inflationary pressures, deteriorates the terms of trade, creates imbalances in the global balance

[5] Non governmental research consortium

of payments and stimulates more restrictive monetary policies, which will have crucial impact on global economic growth in 2001. Owing to higher oil prices on international markets, **inflation in the advanced economies** in 2000 will be, on average, at least 0.9 of a percentage point higher compared to 1999 (1.4%) and by at least 0.4 of a percentage point above the spring forecasts (1.9%). As estimated by the IMF in September, inflation in the USA will reach at least 3.2% and in the Euro Area (EU-11) it will be no less than 2.1%. Given autumns' international oil price movements and the monthly inflation in the abovementioned countries their inflation rates may be even higher by some tenths of a percentage point at the end of the year. The latest price movements show a slightly higher level of core inflation in the USA and the EU (calculated using IMF methodology, which excludes the impact of energy products and fresh food price rises). This points to an indirect impact of oil price growth and, in the case of EU-11, also to the additional influence of the weak euro.

Besides the abovementioned restrictive monetary policies' impact on slowing down economic activity, particularly in developed countries, **global economic growth in 2001** will also be affected by some other factors. These are: further changes in international oil prices, a more moderate economic growth rate in the USA, the pace of restructuring in some countries affected by the 1998 financial crisis, solving the problem of the global imbalance of payments (all-time-high deficit on the balance of payments current account in the USA, the emergence of deficit in most of the EU Member States, surpluses in Japan and in oil-exporting countries) as well as exchange rate fluctuations, which for now do not realistically reflect the economic trends of the world's major currencies. Assuming that the US economy will gradually cool down, that the economic policies of the triad (the USA, the EU and Japan) will be better co-ordinated, and that the average annual oil price will drop to 25 US dollars per barrel (IMF 2000b), global gross domestic product growth in 2001 will range between 3.6 and 4.2% (LINK 2000, IMF 2000b). According to this scenario, slower global economic growth will mainly result from slower gross domestic product growth in the USA (a drop from 5.2% to 3.2% or 3.7%; IMF 2000b, LINK 2000) and in Russia (from 6.5%-7% in 2000 to 4% in 2001). If abovementioned assumptions prove correct, economic growth in the EU (3.3%), China (7.3%) and India (6.5%) will, on average, stay at the same level as this year. On the other hand, economic growth in countries in transition (except Russia; from 3.1% to 4.2%), in the south-eastern Asian countries (from 1.4% to 1.8%), Japan (from 1.4% to 1.8%), Africa and South America is expected to strengthen further.

International institutions forecast that global economic growth in the next medium term (by 2004) could stabilise between 3% and 3.5% (LINK 2000), assuming

that US economic growth gradually slows down, the euro continues to strengthen and that oil prices are reduced to between 22 and 28 US dollars per barrel. In addition to the above, the dynamics of the future economic growth will strongly depend on the development of information technology combined with the volume and cyclical movements of investment in the "new economy", not only in the USA, but also globally.

Along with dynamic economic growth the **volume of international trade** has been rapidly increasing. It is expected that the volume of global trade is going

Box 1: Alternative global economic trends in 2001

If one or several of the abovementioned assumptions on which the IMF predicts a 4.2% global economic growth in 2001, prove wrong, this would negatively affect global economic activity: it would slowdown substantially and faster, thus falling bellow current estimates by one percentage point (IMF 2000b). The factors that could additionally slowdown global economic growth in 2001 are eventual rises in oil prices, further weakening of the euro against the US dollar, and a rapid cooling down of the US economy.

A further increase in oil prices or their maintenance at above USD 30 per barrel would - through stronger inflationary pressures - make the monetary policies of the oil importing countries even more restrictive, which would consequently have a strong adverse impact on their economic growth.

Further strengthening of the US dollar against the euro would negatively affect US export competitiveness and economic growth. It would also encourage even higher level of capital outflows from Europe to the USA, additionally increasing balance of payments discrepancies. Taking into account the reasons why the euro is undervalued (economic growth in the EU-11 is relatively slower than that in the USA; differences in interest rates stimulate the outflow of capital to the USA, brighter mid-term estimates of economic growth in the USA due to the expected stronger impact of information technology development on labour productivity; the insufficient credibility of the European Central Bank and the consequent poor confidence in the euro; IMF 2000b) the prediction of its value in 2001 are quite uncertain. In order to decrease global balance of payments discrepancies, monetary authorities in the regions of the three major currencies should take more decisive actions to help strengthen the euro, at least to the extent that the average EUR/USD exchange rate in 2001 stays the same as this year and thus approximates inter-currency rates to real economic bases. A third possibility, i.e the "hard landing" of the US economy (rapidly eroded confidence in the US dollar, a plunge in US domestic demand and a sharp decrease in share prices) is for the time being quite unlikely judging by US economic trends in the third quarter (slower economic growth, a still favourable movements in the unemployment rate, and falling stock market prices, especially those of the "new economy"). Should this scenario be realised, the US's economic growth in 2001 is likely to fall to 1.3% according to the IMF estimates. In this case global economic growth will decrease by 1.1 percentage points, whereas in EU-11 by 1.3 percentage points.

to increase by 10% in 2000 and by 7% to 8% in 2001, which goes in step with the trends of the past ten years when international trade rose at a rate approximately two times faster than global economic activity. In this framework,

Table 2: Economic growth, volume of global trade and movements in the prices of oil and raw materials (real growth in %)

	1998	1999	2000	2001
World output	2.6	3.4	4.7	4.2
World trade volume	4.3	5.1	10.0	7.8
World oil prices	-31.2	36.5	52.0	-13.0
World commodity prices*	-13.5	-7.8	6.4	4.8

Note: *average, based on world commodity export weights
Source: IMF, September 2000

mainly trade flows within regions and among the countries of the triad are expected to improve, as well as intra-industry trade. In 1999, in the global market **oil prices** rose on average by 36.4% (averaging USD 17.19 per barrel in 1999). According to their current and anticipated movements, they will rise by 60% to 70% in 2000.,. It is forecast that the average price of oil in 2000 will be around USD 29. Estimates predict that in 2001, more precisely towards the end of the winter season, the price of oil should start to fall, resulting in the year's average price below USD 25. According to estimates, the prices of **raw materials** will, on average, rise by 4.5% to 6.4% in 2000 (in relative terms the prices of metals are expected grow faster; LINK 2000, IMF 2000b) and by 4.8% in 2001. As regards **exchange rate fluctuations**, the IMF and LINK forecast that the EUR/USD ratio in 2001 will be around 0.9, which is, according to inter-currency ratios recorded in October and at the beginning of November, very unlikely, and could only be achieved by a substantial strengthening of the euro against the US dollar by the end of 2000.

Table 3: Economic growth, inflation and growth in imports of Slovenia's major trading partners (in %)

	Real GDP growth			Real growth in imports of goods and services			Inflation		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
EU	2.4	3.4	3.1	1.4*	5.9*	12.4*	1.4	2.1	1.9
Germany	1.6	2.9	2.9	7.1	9.0	8.6	0.7	1.7	1.5
Italy	1.4	2.7	2.7	3.8	7.3	8.0	1.7	2.5	1.6
Croatia	-0.3	3.0	3.3	4.0*	8.1*	-1.0*	4.4	6.3	4.0
Austria	2.2	3.2	3.0	3.2	7.9	6.1	0.5	1.9	2.1
France	2.8	3.7	3.2	3.0	5.0	5.0	0.6	1.5	1.1
Bosnia and Herzegovina	10.0	9.0	8.0	n/a	n/a	n/a	-0.3	2.0**	2.0**
USA	4.2	5.2	3.2	10.7	12.8	7.6	2.2	3.2	2.6
Poland*	4.1	5.0	5.0	4.0	7.3	9.2	7.3	9.8	8.0

Notes: *real growth in the imports of goods **estimates mostly relate to the Federation of Bosnia and Herzegovina.
Source: GDP: IMF 2000b; Hrvaška - Croatian Economic Forecast (CEF) 7/2000, B&H -EIU, Poland - WIIW 2000b; growth in imports of goods and services: LINK, October 2000, Institute of Economics Zagreb, September 2000, inflation: IMF 2000b, CEF, EIU.

During 2000, gross domestic product growth in **the United States of America** has continued to increase rapidly. According to the latest estimates, it will reach 5.2% (IMF 2000b, LINK 2000), which is 0.8 of a percentage point above the spring prediction. Similar to 1999, private consumption and investments (domestic and foreign) in the US capital market, especially in the companies of the "new" economy, have been two major economic growth drivers. The abovementioned trends combined with a strong US dollar have considerably increased imports of goods and capital, which resulted in an enormous balance of payments current account deficit. The latter is estimated to reach at least 4.2% of gross domestic product in 2000. Growing disparities and the overheating of the US economy point to the necessity of a gradual slowdown in economic growth, which will notably be facilitated by a restrictive monetary policy. US economic trends observed during the summer and autumn months already show that economic activity has started to slow down (decreasing private consumption; unemployment is no longer on the decrease and is is at 4%, close to a "natural rate", since its further decline would start off pressure on payments and prices). This is more in line with the US economy "soft" landing scenario, according to which economic growth in 2001 is expected to slow down to between 3.2% and 3.7%, and the value of the US dollar to decrease gradually. As a consequence, exports are forecast to rise, which could, to a certain extent, compensate for the fall-out of the positive influence of imports and private consumption on economic growth.

Estimates for 2000 predict that economic growth in the **EU Member States** surged in comparison to 1999 (2.3%) and average at around 3.4% (IMF 2000b, LINK 2000, EC 2000a). This is higher than anticipated by most of the spring forecasts. In 2000, foreign demand has taken over the role of the main economic growth driver. It was encouraged by the weak euro and the recuperating global economy. Compared to 1999, investment consumption has also been rising. Average inflation in 2000 is forecast to increase to 2.1% (1.4% in 1999), primarily due to higher oil prices. In 2001, only moderately lower price growth is anticipated (1.9%), which will be mainly stimulated by the expected slight relaxation of monetary policy. In 2001 average economic growth in the EU should slow down to 3.1% (EC 2000a) or stay at the 2000 level (IMF 2000b). A possible more pronounced plunge in economic growth in 2001 would require a more relaxed monetary policy and a more expansive fiscal policy. The room for manoeuvre for the former will chiefly depend on further increases in inflationary pressure. Thanks to a significantly smaller general government deficit in 1999 (0.6% of gross domestic product in the EU on average) and probably also in 2000 (0.4% of gross domestic product), there still remains enough

room for a more expansive fiscal policy, without causing notable macroeconomic disparities.

An economic growth rate of around 3% is estimated in **Germany** in 2000 which is a substantial improvement compared to 1999 (1.5%). In 2000, exports represented the main driver of economic growth, which will be stimulated by the recovery of export markets and the weak euro. When compared to 1999, the influence of private and investment consumption has been increasing. Strong foreign demand favourably affects industrial production growth, which however started to slow down this summer, following an upsurge in the second half of 1999 and the first half of 2000. This is consistent with the expected slowdown in foreign demand and the prediction that domestic demand will become the key economic growth driver in 2001, when it should range between 2.9% (EC, 2000a) and 3.3% (LINK 2000, IMF 2000b).

This year, **Italy** should also witness considerably stronger economic growth than in 1999. It is anticipated that it will range between 2.8% and 3.1% or approximately 0.4 of a percentage point above the spring prediction. gross domestic product growth in 2000 will not only be positively affected by exports, but also by stronger investment activity, which is considered to be among the main economic growth drivers in 2001 (stimulated also by tax relief introduced in 1999). In 2001, a slightly more moderate rate of economic growth is predicted, ranging between 2.7% and 3% (EC 2000a, LINK 2000; IMF 2000b). According to estimates for 2000, gross domestic product growth in **Austria** will be between 3.2% and 3.4% (EC 2000a, IMF 2000b, LINK 2000) or 0.3 of a percentage point above the spring prediction. Similarly to 1999, it will be based primarily on export and investment demand. International institutions forecast that in 2001 gross domestic product growth will somewhat abate, though still remaining above 3%. In 2000 economic growth in **France** is predicted to be between 3.5% and 3.7% (IMF 2000b, EC 2000a) (as approximately in spring forecast) arising from exports and investment demand. Private demand, which already in 1999 contributed to a relatively high rate of economic growth compared to other EU Member States, will retain a relatively strong influence. According to some estimates, economic growth in 2001 will be more moderate (3.2% EC 2000a) or remain at the same level as this year (around 3.5%; IMF 2000b), with a somewhat greater influence of domestic consumption.

In 2000, gross domestic product growth in the **CEFTA countries (excluding Slovenia)** will average between 3.6% (WIIW 2000b) and 4.1% (IMF 2000b) or approximately 0.5 of a percentage point above the spring prediction, and at least 1.6 percentage points above the 1999 estimates. As in 1999, Hungary,

Poland and Bulgaria should also post the highest gross domestic product growth rates in 2000. The recessions in the Czech Republic and Romania are also expected to end. In 2001, average economic growth in the CEFTA countries is predicted to further improve, ranging between 4.2% (WIIW 2000b) and 4.6% (IMF 2000b). According to estimates, it will strengthen the most, compared to 2000, in Romania, Slovakia, and the Czech Republic. These are the countries that were either in recession or recorded low rates of economic growth in 1999. In 2001, Poland and Hungary are likely to experience the highest growth rates among CEFTA countries.

The recovery of the **Croatian economy** which started in the last quarter of 1999 has continued at an even faster rate this year. In the first half of 2000,

Table 4: Economic growth, inflation and external imbalances in the CEFTA countries (in %)

(in %)

	Real GDP growth*			Inflation			Current account balance, as % of GDP			Government finance surplus/deficit, as % of GDP**		
	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001
Bulgaria	2.4	4.3	4.6	2.1	7.9	4.5	-5.4	-4.6	-3.9	-1.8	-1.2	-0.8
Czech Republic	-0.2	2.1	3.1	2.1	4.1	3.4	-2.6	-2.3	-2.1	-5.1	-4.8	-4.3
Hungary	4.5	5.2	5.2	10.0	9.3	7.5	-4.3	-4.5	-4.4	-3.3	-3.0	-3.1
Poland	4.1	4.9	5.3	7.3	9.8	8.0	-7.5	-7.4	-7.0	-3.1	-2.8	-2.8
Romania	-3.2	0.2	2.3	45.8	40.2	19.4	-3.8	-3.9	-3.8	-3.8	-4.1	-4.0
Slovakia	1.9	2.2	3.3	10.5	13.0	10.0	-5.7	-4.7	-3.9	-5.2	-5.5	-4.0

Note: *average of WIIW, IMF and the European Commission estimations, **European Commission Report (November 2000)
Source: WIIW 2000b, IMF 2000b, EC 2000a

gross domestic product increased by 4% compared to the same period last year, caused by dynamic exports and private consumption. A pick-up in Croatian export markets (EU and CEFTA) was favourable to the further growth of value added in industrial production. In 1999, the record foreign direct investment inflows (FDI) to Croatia amounted to USD 1.4 billion, thanks to the stabilized political situation, governmental FDI incentive programmes as well as the privatisation of large public enterprises and banks. These favourable trends have continued in 2000 (FDI inflow of USD 371 million recorded in the first quarter of 2000). High FDI inflows not only have a positive impact on economic activity, but also help to stabilise the Croatian Kuna (HRK), despite the slightly higher inflation caused by oil prices and the increase in excise duties in the middle of the year. Inflation is forecast to reach some 6.3% at the end of the year (4.2% in 1999). On the basis of trends observed in the first half of the year, economic growth in 2000 is anticipated to be between 3% and 3.5% (EIZ, Miljenović) and slightly higher in 2001.

After recording high growth rates in the first years after the war, economic activity in **Bosnia and Herzegovina (B&H)** is gradually levelling out. However, as the basis for comparison is relatively low, annual economic growth is still relatively high and is expected to reach around 9% in 2000 and 2001. Even though B&H has exhausted the major part of the foreign aid raised through donation conferences (USD 5.1 billion in the last 5 years), foreign funds available under the Stability Pact for South-Eastern Europe together with loans from international monetary institutions still remain the main driver of economic growth. A more stable Balkan region and privatisation in B&H make the country more interesting for foreign investors (also from Slovenia, see chapter 4.3.2.) It is forecast that in the future, private foreign capital will become the main source of investment. Taking into account that B&H's industrial production is based primarily on the energy sector (electricity supply, mining, forestry and food processing industry), economic growth based on exports is not very likely in the years to come. Future international aid and foreign loans will also depend on the implementation of economic reforms and the speed of economic restructuring.

According to estimates, economic growth in **Macedonia** will reach 4% in 2000 and 5% in 2001 (WIIW, 2000). It should primarily stem from the expected bigger inflow of foreign capital and improved economic cooperation with its neighbouring countries, particularly with the Federal Republic of Yugoslavia, which should favourably affect the rate of industrial production growth. The extent of loans by international financial institutions will largely depend on further economic restructuring, whereas the pace of further economic revival will be significantly determined by the the solving of accumulated structural problems (unemployment, a growing budgetary deficit as well as deficit in the current account of the balance of payments, a large number of lossmakers). Economic trends in Macedonia will also be favourably influenced by the expected further political stabilisation of the **Federal Republic of Yugoslavia (FRY)**. The FRY's reintegration into international economic and financial flows will bring about greater possibilities also for Slovenia to improve on its level of economic cooperation, which in the past few years was fairly modest and based only on the trade in goods. Taking into account the expected foreign financial aid and aid in kind and considering an extremely low starting level[6], the Yugoslav economy is predicted to achieve high rates of economic growth in the years to come,

[6] In 1999 alone GDP in the FRY decrease by almost one quarter. In the 1990-98 period it was falling by around 7% annually on average (Gligorov 2000) so that in 1998 it was estimated to be just one half of 1989's level.

whereas economic activity will mainly be based on the rebuilding of demolished business premises and infrastructure facilities.

At the end of November 2000, **new estimates of economic trends in the EU Member States in 2000 and 2001** were made by the **European Commission** which do not significantly differ from the previous ones, taken into account in this Autumn Report's estimations. The estimated average economic growth rate for the EU in 2000 (3.4%) remained unchanged, whilst the expected gross domestic product growth rates in 2000 in Germany, Italy and Austria are somewhat higher (3.1%, 2.9% and 3.5%). In France, however, it is slightly lower compared to the spring estimates (3.3%). The forecast average economic growth in the EU for 2001 also remains unchanged at 3.1%. The assessed gross domestic product growth rates for all major foreign trading partners of Slovenia except Italy (2.8%) were by 0.1 of a percentage point lower (Germany 2.8%, Austria 2.9%, France 3.1%), but this does not affect our predictions regarding Slovenian export-import flows in 2001.

4. ANALYSIS OF CURRENT ECONOMIC TRENDS AND SHORT - TERM PROJECTIONS

4.1 GROSS DOMESTIC PRODUCT – SORS published new data on expenditure structure of gross domestic product for the 1995-1999 period

Due to the revision of the balance of payments data for the 1995-99 period (see Chapter 4.2.2.1), the SORS published new figures on the expenditure structure of gross domestic product at current 1995 prices. The adjustment of the expenditure structure of gross domestic product to the new balance of payments data has not influenced previously published gross domestic product figures at current and at constant prices for the 1995-98 period. However, growth structure in the years between 1995 and 1998 (with the exception of 1995[7]) and the value

Table 5: Revised balance of payments and national accounts figures, 1995-99

growth rates in %

	GDP	Domestic demand	Private consumption	Government consumption	Gross fixed capital formation	Exports of good and services	Imports of good and services
1995 old m.	4.1	10.8	9.1	2.5	16.8	1.1	11.3
1995 new m.	**4.1**	**10.8**	**9.1**	**2.5**	**16.8**	**1.1**	**11.3**
Difference	-	-	-	-	-	-	-
1996 old m.	3.5	3.0	2.4	3.6	9.2	3.3	2.4
1996 new m.	**3.5**	**2.7**	**2.0**	**3.4**	**8.9**	**3.6**	**2.1**
Difference	-	*-0.3*	*-0.4*	*-0.2*	*-0.3*	*0.3*	*-0.3*
1997 old m.	4.6	5.1	3.3	4.3	11.3	11.3	12.2
1997 new m.	**4.6**	**4.8**	**2.8**	**4.3**	**11.6**	**11.6**	**11.9**
Difference	-	*-0.3*	*-0.5*	-	*0.3*	*0.3*	*-0.3*
1998 old m.	3.8	5.7	2.9	5.9	11.1	7.2	10.4
1998 new m.	**3.8**	**6.0**	**3.3**	**5.8**	**11.3**	**6.7**	**10.4**
Difference	-	*0.3*	*0.4*	*-0.1*	*0.2*	*-0.5*	-
1999 old m.	4.9	8.2	5.3	5.7	16.1	1.8	7.3
1999 new m.	**5.0**	**8.9**	**6.2**	**5.8**	**17.0**	**1.7**	**8.2**
Difference	*0.1*	*0.7*	*0.9*	*0.1*	*0.9*	*-0.1*	*0.9*

Note: calculated on the basis of revised balance of payments data (BS, 7 September 2000) and revised national accounts estimates for the 1995-99 period (SORS, 27 October 2000).
Source: SORS.

[7] Reconciliation is done according to the new figures on exports and imports of goods, services and travel. The adjustment of GDP by type of expenditure to the new balance of payments required certain revisions of previous estimates by the SORS related to private household consumption, government consumption, and gross capital formation, given that GDP at current and constant prices nominally remained the same.

of gross domestic product in 1999 have changed. Due to changes in the figures on imports of goods in 1999 according to customs declarations and the improved estimates of expenditure categories, gross domestic product in 1999 at constant 1995 prices exceeded the preliminary estimate by SIT 3.2 billion and amounted to SIT 2,621.4 billion. Thus, estimated economic growth in 1999 increased by 0.1 of a percentage point (from 4.9% to 5.0%).

The new estimate of private consumption is based on the balance of payments data on travel expenditures of residents abroad and non-residents' expenditure in Slovenia, while the estimate of domestic household consumption (resident and non-resident consumption expenditure in Slovenia) remained unchanged. In the new estimate, general government expenditure and imports of services are reduced for health services which are financed and reimbursed by general government to households. These transactions are now posted under current income transfers. The final reconciliation of gross domestic product expenditure categories with the revised balance of payments and the previously published gross domestic product figures at constant and at current prices in the 1995-99 period has been done within a minor correction in gross capital formation.

As the data on the balance of payments were revised, reinvested earnings resulting from foreign direct investment were included in the current account balance. This inclusion and minor revisions of other items under primary incomes from the rest of the world caused the share of net primary income from the rest of the world in gross domestic product to considerably drop in this period compared to the previous estimate. In 1999, the net primary income was negative for the first time and, therefore, last year's gross national income in terms of market prices (SIT 3,631.2 billion) was for the first time lower than gross domestic

Table 6: Revised balance of payments and national accounts figures, 1995-99

	Net lending (+) net borrowing (-) in billions of SIT	Gross national income in market prices, in billions of SIT	GDP in current prices in billions of SIT
1995 old m.	-2.9	2,246.2	2,221.5
1995 new m.	-13.5	2,242.5	2,221.5
1996 old m.	+3.8	2,576.1	2,555.4
1996 new m.	+2.3	2,572.9	2,555.4
1997 old m.	+2.2	2,928.0	2,907.3
1997 new m.	+1.4	2,913.0	2,907.3
1998 old m.	-2.6	3,277.9	3,253.8
1998 new m.	-24.2	3,258.8	3,253.8
1999 old m.	-104.9	3,653,8	3,637.4
1999 new m.	-144.8	3,631.2	3,637.4

Source: SORS

product (by 0.2%). The revision of the balance of payments for the entire period and a substantial increase in imports of goods in 1999 by customs declarations data revision, have altered the previous estimate of total surplus (deficit) in terms of current and capital international transactions.

4.1.1 PRODUCTION STRUCTURE OF GROSS DOMESTIC PRODUCT – In 2000 value added grew faster than gross domestic product

In the first half of 2000, gross domestic product was by 4.9% higher in real terms than in the respective period in 1999. The dynamics of the quarterly growth rates were, to a great extent, influenced by the dynamics of growth rates recorded in the first half of 1999, especially by a relatively marked increase in the second quarter, which was 7.4% year-on-year (triggered by the anticipated introduction of VAT). After recording 6.3% real growth in the first quarter of 2000, gross domestic product growth slowed down to 3.6% in the second quarter (year-on-year). However, if seasonal effects are disregarded, the data show that compared to the first quarter of the year, gross domestic product further increased in the second quarter (by 1%). In the first six months of 2000 value added exceeded the figure posted for the same period last year by 5.8% (by 6.3% and by 5.4% in the first and second quarters respectively). Value added grew faster than gross domestic product, as a result of slowly growing net taxes on production and imports in the first half of the year (primarily due to a drop in the second quarter), which was caused by the altered consumption structure in 2000. Imports, which are taxable, have been increasing at a much slower rate than last year, whereas on the other hand, a large part of domestic production has been exported (see Chapter 4.2.2 on growth in exports) and has, therefore, not been subject to taxation.

This year foreign demand is the main driver of value added growth, which is also reflected in the structure of value added by sector. The total rise in value added in the first half of the year was largely due to manufacturing (58% directly), which, as the most export-oriented sector of the Slovenian economy, recorded a 10.6% real increase in value added. The most dynamic growth in value added in the first six months of 2000 was posted by hotels and restaurants, i.e. 12.6%. This rapid growth in this sector coincides with favourable indicators in tourism, but it is also partly the result of the reduced companies' expenses – the one-off effect of 1999's tax reform. Booming domestic production and exports in the first half of the year were also accompanied by a dynamic growth in the value

added generated by the transport, storage and communication sectors (7.3%) as well as in electricity, gas and water supply (5.9%).

In the second half of 2000, the increase in total value added is estimated to slow down slightly, primarily as a result of the expected subdued growth of value added in manufacturing. Besides trends recorded in 1999 (strengthening towards the end of the year), this slowdown will also be influenced by the anticipated gradual levelling off of exports towards the end of 2000 and increasing companies' expenses due to less favourable price movements (both in Slovenia and abroad). Thus, **in 2000 real value added is expected to rise by 4.8% and gross domestic product by 4%. In 2001** economic growth is expected to be slightly lower, **gross domestic product** is forecast **to go up by 4% in real terms**. Following the dynamic rise in 2000, growth is expected to decelerate the most in industry, primarily in manufacturing, and electricity, gas and water supply. A slight slowdown is also possible in construction, while most services industries will retain a pace similar to that in 2000. Value added is likely to gain momentum

Table 7: Value added by sectors and gross domestic product

	Real growth rates in %, constant 1995 prices				Structure in %, current prices			
	1999	2000 estimate	2001 estimate	2002 estimate	1999	2000 estimate	2001 estimate	2002 estimate
A Agriculture, forestry, hunting	2.3	-5.0	7.0	2.0	3.2	2.9	3.0	2.9
B Fishing	-7.5	5.0	2.0	2.0	0.0	0.0	0.0	0.0
C Mining and quarrying	-0.7	-1.0	-0.5	-2.0	1.0	0.9	0.9	0.8
D Manufacturing	4.0	7.0	4.0	4.5	23.8	24.3	23.8	23.7
E Electricity, gas and water supply	-2.5	3.0	1.5	1.5	2.6	2.6	2.5	2.4
F Construction	14.4	5.0	4.5	6.0	5.3	5.3	5.2	5.3
G Wholesale & retail trade, motor vehicle repair	7.7	4.0	4.0	4.0	10.0	10.0	10.1	10.1
H Hotels and restaurants	1.5	9.0	5.5	5.5	2.6	2.7	2.7	2.8
I Transport, storage and communication	3.2	5.0	4.5	5.0	7.0	7.1	7.2	7.3
J Financial intermediation	2.8	5.0	5.0	5.5	3.7	3.8	3.8	3.9
K Real estate and business activities	5.2	4.0	4.0	5.0	10.5	10.4	10.5	10.6
L Public administration and compulsory social security	4.0	4.0	3.5	4.0	5.0	4.9	5.0	5.0
M Education	3.5	3.5	3.0	4.3	4.9	4.8	4.8	4.8
N Health and social work	4.2	3.5	3.5	4.0	4.7	4.6	4.7	4.7
O Other community social and personal services	4.8	4.7	4.5	4.5	3.1	3.1	3.1	3.2
FISIM	0.3	1.0	1.5	1.0	-2.1	-2.0	-2.0	-2.0
1. VALUE ADDED (A ... O + FISIM) in basic prices	4.8	4.8	4.1	4.5	85.3	85.5	85.4	85.4
2. Corrections (taxes on products and services - subsidies)	6.3	1.2	3.7	2.9	14.7	14.5	14.6	14.6
3. GROSS DOMESTIC PRODUCT (3=1+2)	**5.0**	**4 1/4**	**4.0**	**4 1/4**	**100.0**	**100.0**	**100.0**	**100.0**

Source: SORS; IMAD estimates

again **in 2002**, in both industry and services sectors, while **gross domestic product** could grow by 4% in real terms.

In 2000, the **sector of agriculture, forestry and hunting** is likely to record a decline in value added, the main reason being the severe drought which afflicted most of Slovenia in the summer. According to preliminary estimates by the Agricultural Extention Service of the Republic of Slovenia it caused great damage, though this varied considerably between regions and soil types (final estimate of the influence on agricultural production has not yet been made). The data available from SORS refer to the period when only minor consequences of the drought were evident. In the first eight months of 2000 the total purchase of agricultural products decreased in value by 2.1% in real terms compared to the respective period in 1999. From January to August 2000, more eggs, milk, apples and wine but less potatoes, cattle and poultry for slaughter were purchased than in the same period in 1999. According to the preliminary data acquired in the census of farms in June 2000, the number of animals at family farms and agricultural enterprises increased by 1% (cattle) and 6% (pigs) compared to the sample census carried out in December 1999.

In the first eight months of 2000, given a much stronger US dollar, the value of Slovenia's trade in agricultural products and foodstuffs with other countries, expressed in USD, was by 3% lower than in the respective period last year. The structure of trade in agricultural products in particular shows an increase in the share of the CEFTA countries (from 12% in the first eight months of 1999 to 13% in the same period in 2000), as a result of 3% growth in trade volume with the CEFTA, whilst trade with the EU fell by 8%. The rise in trade with the CEFTA countries was caused by liberalisation of trade in agricultural products in 2000 as stipulated by the Central European Free-Trade Agreement.

Although it is estimated that in 2000 production volumes would decrease due to the drought, higher prices of agricultural products and the subsidies to agricultural producers (pursuant to the adopted Agricultural Policy Reform, see Spring Report 2000), will slightly diminish **real fall in value added, which is expected to reach 5% in 2000. In 2001 real growth in value added** in agriculture is projected at **7%, whilst in 2002** it will drop to the average of previous years **(about 2%).**

Most of value added in **mining** is accounted for by the extraction of lignite and brown coal (representing 85% of value added of coal mining enterprises, the latter contributing approximately four fifths of value added in the mining

Box 2: Agricultural census and financial intervention in agriculture

In Slovenia an agricultural census was carried out in June 2000, in line with the FAO and Eurostat recommendations. As the number of farms with over 10 ha of agricultural land increased and those with under 10 ha of land in use decreased (compared with the 1997 census), it can be concluded that land-concentration has already started.
On the basis of the Decree on the Introduction of Financial Intervention for the Preservation and Development of Agriculture and Food Production, two thirds of registered farms (62,000), applied for government subsidies in 2000, which have this year, for the first time, been distributed via the Agency for Agricultural Markets and Rural Development. The implementation of measures laid down in the Agricultural Policy Reform, which in some fields had already begun in 1999, strengthened and expanded in 2000, with direct payments gaining importance. The measure introducing direct payments per ha of produce was complemented so that the number of producers entitled to subsidies increased and the premiums to cattle-breeders and ecological payments to winegrowers were broadened. Moreover, the system of financial support to producers in areas with difficult growing conditions was changed. By allocating more budgetary resources Agricultural Policy attempts to alleviate the increasingly difficult economic conditions faced by agriculture, which are to a great extent influenced by the opening up of the Slovenian economy. Since this is not enough, it is necessary to stimulate speedier structural changes and to boost Slovenian agriculture productivity.

sector). In 2000, coal mining enterprises plan to increase the extraction of lignite by 1.2%, whilst that of brown coal is expected to fall by 2.4%. In the following years the production of lignite is estimated to stagnate (at about 4 million tonnes per year), whereas brown coal output is forecast to drop further (710,000 tonnes in 2001, after 2002 the production is projected to level off at 600,000 tonnes per year). Approximately this quantity should cover the needs of the Trbovlje thermal power plant until 2008, when the plant is planned to gradually close down, whilst by 2002 Ljubljana's thermal power-heating plant intends to start using only imported brown coal which is less damaging to the environment. Based on projected coal mining production and a year-on-year decrease of 7.5% in the mining of non-energy materials in the first nine months of 2000 (SORS), it is forecast that **this year value added** in **mining will fall by around 1% in real terms**. In **2001 and 2002 value added** in **mining** is expected to drop further, i.e. **by 0.5% and 2%**, respectively, as a result of the gradual closing down of the Trbovlje-Hrastnik coal mine.

Real growth in value added in **manufacturing** levelled off at 4.0% in 1999 (4.6% in 1998), as a result of decreased foreign demand and, consequently, reduced Slovenian exports. But, in the first half of 2000 it reached as much as 10.6% year-on-year (10.3% in the first and 10.8% in the second quarter). A relatively high growth in the first six months of the year can only partly be

explained by the extremely stunted growth in the respective period in 1999, since the high growth rate primarily results from dynamic growth in the exports of goods (see Chapter 4.2.2). This is also confirmed by the data on increased manufacturing production between January and September 2000, when total production volume grew by 8% over the respective period of 1999 and production volume of export-oriented companies[8] rose by 10.9% (compared to an average fall of 0.3% in 1999). The production of domestic-oriented companies declined by 1.9% (compared to last year's 0.4% growth on average). Trends within the group of mainly export-oriented companies are similar to those recorded in previous years. The main production boosters in this sector are characterised principally by above average value added per employee and returns on assets and sales. The poorest results among the predominantly export-oriented subsectors were recorded in work-intensive industries with relatively low value added per employee and an above average share of labour costs in sales income[9] (textile and leather industries). Thanks to favourable international trends all mainly export-oriented companies increased their output in the first nine months of 2000 compared to the respective period in 1999. In January-September 2000, within total manufacturing only three domestic market oriented subsectors recorded a drop in production over the first nine months of 1999, namely the production of coke, oil derivatives and nuclear fuel (by 15.6%), the production of other non-metallic mineral products (by 5.0%) and the production of furniture, other manufacturing and recycling (by 3.1%).

In 2000, dynamic growth in production and value added in manufacturing has been accompanied by a slower decrease in the number of employees compared to 1999. Thus, in comparison to the respective period in 1999, the first nine months of the year saw a 2.4% decline in the number of employees (a 3.5% decrease in 1999 on average) according to SORS monthly data. Similarly to 1999, the biggest falls in the number of employees were recorded

[8] Manufacturing subsectors, which according to the statistical data from balance sheets and profit and loss accounts, create more than half of their operating income in foreign markets (the manufacture of textiles and textile products, the manufacture of leather and leather products, wood processing and the manufacture of wood products, the manufacture of chemicals, chemical products and man-made fibres, the production of rubber and plastic materials, the production of metals and fabricated metal products, the production of machinery and equipment, the manufacture of electrical and optical equipment and manufacture of transport equipment).

[9] Compared to the respective period in 1999, in the first nine months of 2000 the highest rise was recorded in the production of electrical and optical equipment, metals and metal products, rubber and plastic materials, transport equipment and the production of chemicals. With the exception of metals and metal products and transport equipment, above average results in value added per employee as well as in returns on assets and sales were achieved in all subsectors.

in the work-intensive industries: textiles and textile products (by 7.3% compared to 6.5% in 1999), and leather and leather products (by 5.9% compared to 12.0% last year). In the first three quarters of 2000 the number of employees experienced a considerable decline also in the production of transport equipment (by 6.5%). In the same period the number of employees only rose in the production of electrical and optical equipment (by 4.9%), whilst in the production of rubber and plastic materials it stayed at the same level as in 1999.

Relatively high real growth of value added in manufacturing in the first half of the year is estimated to somewhat abate in the second half, a fact already indicated by the data on the manufacturing production volumes for the third quarter of 2000. Due to higher growth in the same period last year and the estimated slight decline in the growth of goods exports, slower growth is expected to persist until the end of the year (see Chapter 4.2.2). The October survey on business trends in manufacturing also anticipates a gradual slowdown in the growth in exports and total orders as well as in the volume of production. In addition to reduced production growth, higher companies' expenses, resulting from unfavourable price movements (domestic and foreign), will slow down value added growth in the second half of the year. **In 2000 value added** in manufacturing is, therefore, estimated to rise by approximately **7% in real terms. In 2001** foreign demand and consequently exports of goods from Slovenia (see Chapter 4.2.2) are planned to grow a bit slower than this year. This will reflect in the slower growing value added in manufacturing. Average value added growth in 2001 will be further unfavourably impacted by the dynamics of growth recorded in 2000 (slowing down towards the end of the year). In view of the above, in 2001 value added in manufacturing is expected to **rise by 4% in real terms** and **in 2002** it is forecast to **improve** again **slightly**.

The largest share of value added in the **electricity, gas and water supply** sector is created by energy providers[10] supplying electricity, gas, steam and hot water (mostly electricity). As calculated by ELES, electricity output in the first nine months of 2000 increased by 2.5% compared to the respective period last year and according to SORS data, the output of electricity, gas, steam and hot water supply rose by 6.5%. A slightly increased electricity output was made possible by somewhat improved capacities (new steam generators in the Krško nuclear power plant, new gas turbine units in the

[10] These companies create four fifths of value added created by commercial companies in the electricity, gas and water supply sector, which in turn creates 87% of value added in the sector.

Brestanica thermal power plant and the renovation of some hydro-electric power plants). Despite the encouraging data for the first three quarters of the year, growth is expected to slow down in the last quarter, resulting in an estimated **3% real increase in value added in electricity, gas and water supply in 2000**. It is forecast that in 2001 an internal electricity market, planned to be established in mid 2001 according to the Energy Act, will not negatively impact domestic electricity output. The Act also provides for assistance to Slovenian suppliers in solving the problem of stranded investments, where concrete solutions may be already expected in 2001. **In the next two years**, given the expected slightly less dynamic production activity, the **growth of value added** in electricity, gas and water supply is estimated to **somewhat slow down** (average annual growth **around 1.5%**).

Having experienced extremely high growth in 1999 (14.4%), positive trends in **construction** continued in 2000, however, at a more moderate pace. In the first six months value added in real terms exceeded the respective previous year's figure by 5.2%. Its growth slowed down, especially in the second quarter (dropping from 6.6% in the first to 3.8% in the second quarter), which was to a great extent a result of surging value added in the second quarter of 1999 (26.2% in real terms year-on-year), when construction activity greatly intensified prior to the introduction of value added tax. Somewhat less favourable trends in construction in 2000 are also revealed by the statistical data on the value of construction works, which in the first eight months fell behind the respective previous year's figure by 2.6% in real terms. This decline in construction activity is due to building construction (the value of construction works in real terms fell by 11.1%, of which residential building construction, representing 19% of total building construction, shot up by 40% in real terms). Value added resulting from civil engineering works increased by 10% in real terms. The slowdown in value added is expected to continue in the second half of **2000**, so the overall rise in 2000 should be **5% in real terms**. Construction activity is likely to keep decelerating in **2001** (around 4.5%-rise in value added), which will be primarily due to a lower volume of construction works financed from the budget in the period of provisional financing of the budget. Real value added is expected to gain strength in **2002**, going up by **around 6%**.

In the first six months of 2000 value added in **wholesale and retail trade and motor vehicles repair rose** by 0.3% over the respective period last year. In the first quarter value added increased by 5.1% year-on-year, whilst in the second quarter it fell by 3.8%, which was to a great extent due to the 1999 cycle (higher spending prior to the introduction of value-added tax). The TRG-10[11] monthly survey shows that in the first half of 2000 revenues in

retail and sale of motor vehicles improved by 5.7% in real terms. The relatively quickly rising revenues as compared to growth in value added have primarily resulted from the changed methodology: namely, since 1 July 1999 excise duty has been included in revenues which otherwise exclude other taxes. Although value added and revenues did not rise rapidly, trends in wholesale and retail trade and motor vehicles repair in the first half of the year may be estimated as being quite favourable, considering the extremely high rates recorded last year (11.7% real growth in value added at an annual level in the first half of 1999). This is also confirmed by the data on the number of employees in this sector, which in the first eight months of 2000 exceeded the number recorded in the respective period of 1999 by 4.2%. 1999's growth dynamics in wholesale and retail trade also influenced their growth in the second half of the year 2000. Booming revenues in retail and the sale of motor vehicles in July and August 2000 (14.2% and 9.7% real year-on-year growth respectively) were thus, to a large extent, caused by last year's decrease in revenues after the introduction of value added tax. Taking into account a slight upturn towards the end of 1999 it is estimated that by the end of 2000 growth in revenues and value added will once again slow down, so that real growth in value added in **wholesale and retail trade and motor vehicles repair** would **average 4% in 2000.** Similar trends are expected to continue **in the next two years**, meaning that real growth in value added would remain **4% annually**.

In comparison to the respective periods of 1999, value added in the **hotels and restaurants** industry rose by 14.2% in the first quarter and by 11% in the second quarter of 2000. Relatively high growth in value added in the first six months of 2000 (12.5%) is on the one hand due to the tax reform in mid 1999, which helped reduce the expenses of hotels and restaurants sector in the first half of 2000 compared to the first half of 1999[12]. On the other hand, the good tourism season this year raised growth in revenues (4.3% real growth in the first eight months year-on-year) and value added in this industry. In the first three quarters of 2000 overnight stays in Slovenia were 11% and 5.4% higher than in the respective periods of 1999 and 1998, respectively (comparison with 1998 is reasonable because of the very slack tourism season in 1999). Overnight stays of foreign tourists rose by 26.4% over the same period last year, whilst those of domestic tourists decreased by 1.4%. Favourable trends in the hotels and restaurants industry in 2000 are evidenced by data on the number of

[11] Data on revenues of companies whose core activities are retail, sale of fuels and motor vehicles as well as motor vehicles maintenance and repairs.

[12] Prior to tax reform, hotels, restaurants and other companies in the sector paid sales tax on intermediate consumption. After the taxation system changed, they have been charged value added tax on intermediate consumption, which is then recovered to them as input tax.

employees, overshooting the respective 1999 figure by 3.9% in the first eight months. Nevertheless, growth in value added is estimated to slow down in the second half of the year, since in this period there will be no one-off impact of the changed taxation system felt in the first half. **The assessed real growth in value added in 2000 is expected** to be **9%**. **In 2001 and 2002** the positive trends in hotels and restaurants are forecast to continue. The number of overnight stays should primarily increase outside the high tourist season, resulting in **real value added growth** of around **5.5%** in the next two years.

In 1999 the **transport, storage and communications sector** saw smaller volumes of business in all types of passenger and freight land transport. This year only the volume of freight and passenger road transport, along with urban passenger transport, has been on the decline. In the first nine months of the year urban passenger transport and passenger road transport fell by 12.7% and 5.4%, respectively, compared to the same period of 1999. However, railway passenger transport improved by 8.3% as did airport and air passenger transport (by 14.4% and 14.8% respectively). The volume of road freight transport dropped by 7.1% measured in tonnes, but this figure excludes private hauliers and own account traffic. Therefore this figure is not a reliable indicator of the total road freight transport sector. In the first three quarters of 2000 railway freight transport rose by 7.1% over the respective period of 1999, so that the nine-month results were better than those projected by the business plan of the Slovenian Railways for 2000. At least 90% of transit freight going through the Luka Koper port is transported by railways, whereas only about 20% to 30% of goods imported through Luka Koper go by railway (road hauliers are more competitive for short distances). Improved results for railway freight transport in 2000 are probably related to the diminishing recession in ferrous metallurgy. Compared to the same period in 1999 the volume of cargo handled in ports increased by 1.3% in the first nine months of the year, whereas in total cargo handling (including ports) it rose by 3.5%. In the same period, the volume of transport relatively most improved in sea freight transport (by 20.3%, measured in tonnes). Similarly to last year, the increase of mail processed by postal service was substantial (by 16.5%), whilst in telecommunications the number of users of mobile telephony and the number of Internet and ISDN connections have continued to rapidly increase. However, the number of new fixed telephony users has been growing slower. Based on those trends and estimates, **value added** in 2000 in the **transport, storage and communications sector** is expected to grow by around **5% in real terms**. This is slightly more moderate when compared to the 7.3% growth at an annual level recorded in the first half of the year, but consistent with the levelling out of production activity and exports.

Expectations of stiff competition in the telecommunications sector and its planned privatisation will favourably influence value added growth over the coming years. However, due to slackened international trade, a more moderate growth is forecast for **2001 (4.5% in real terms)**, whilst **in 2002** it is estimated to rise again to **about 5%**.

In the first half of the year 2000, value added in **financial intermediation** increased by 4.4% in real terms at an annual level, which is above the respective figure for 1999 (2.8%). The better results largely reflect trends in the banking sector, which accounts for more than two-thirds of value added of the whole sector. In the first six months of 2000 nearly all banks recorded real growth in the volume of operations with profits, the banking industry increased by 13.1% in real terms over the same period of 1999. This growth was for the most part the result of the higher net interest income, which, however, did not result from the improved quality of operations, but chiefly from the impact of higher inflation on tolar indexation clause and, consequently, on interest margin. Net financial operations (securities trading income) in the first six months of 2000 were poorer, owing to the fact that the banks incurred higher expenses than in the year before, a result of unfavourable trends on the capital market. In September 2000 corporate accounts started being transferred from the Agency for Payments to the banks, which are projected to maintain about 4,000 corporate clients by the end of the year. This should have a positive impact on **the growth of value added in financial intermediation, which is forecast to reach approximately 5.3% in 2000**. Continued liberalisation of financial and capital flows, as well as the entry of foreign competition on the Slovenian financial market, will further consolidate and streamline the banking sector. Moreover, the implementation of the pension reform will boost the business of pension funds and insurance companies. With continuing positive economic trends and assuming that upward trends will also persist in banking, insurance, pension funds, and activities auxiliary to financial intermediation, the real **growth of value added** in the financial intermediation sector will **level off at approximately 5% also in 2001**. However, much steeper growth in this sector will, to a great extent, depend on further restructuring of the financial sector and the privatisation of banks and insurance companies.

In the first half of 2000, value added in **real-estate, renting and business activities** was 3.2% higher in real terms than in the respective period of 1999, meaning that it grew at a slower pace than in 1999, when its annual real growth was 5.2%. Employment trends are similar. In 1999 the number of persons in employment rose by 6.3% on average, whereas from January to August 2000 the year-on-year rise was merely 3.3%. Housing activity or estimated gross

rent account for much of the total value added in this sector (46% in 1999). Given the lively housing construction, it is estimated that in 2000 and 2001 the dwelling stock will increase more than in the past years, which will help raise gross rent and value added in the housing activity. As regards other activities in this sector (the fast-growing business and real-estate activities represented 54% of the activity's total value added in 1999), there is significant growth in the shares of computer and related activities in value added. In addition, the share of value added of real-estate activities is also experiencing an upward trend; it rose from 4.7% in 1997 to as much as 6.2% in 1999. The largest share of the value added generated by commercial companies in this activity, i.e. 76.6% of total value added in 1999, is accounted for by companies performing other business activities, especially various consultancy activities (legal, tax, business and management, and information consultancy). A dynamic growth in real-estate activities is estimated to continue in 2000 and 2001. In this, an important role is played by the rapidly increasing housing construction, which also impacts the growth in spatial planning, and architectural and engineering activities. Mergers and acquisitions among companies providing IT, computers, telecommunications and other new economy services should influence the growth of value added in computer activities, engineering activities, and technical consultancy, which includes IT system design. These estimates are supported by data on the number of persons in employment: the first eight months of 2000 saw a 7.4% year-on-year increase in real-estate activities and a 17.9% rise in computer activities, despite considerably lower growth recorded in the activity as a whole. Taking into account 1999's pace of growth and trends in 2000, it is forecast that the **real growth of value added** in the real-estate, renting and business activities will reach **4% in 2000**. **In 2001** the real growth in value added is estimated to remain at a similar level, whereas **in 2002** it is forecast to **somewhat improve**.

In the first six months of the year value added in **public administration, defence and compulsory social security** in real terms grew by 3.9% over the same period in 1999. The number of persons in employment, which rose by 3.1% in the first eight months of the year 2000 in comparison to the respective period of 1999, is increasing at a faster rate than in 1999 (a 2.7% growth). It is estimated that the upward trend in employment will be sustained in 2001 as well, since the implementation of the regional development policy and activities related to the EU accession will require additional recruitment. In 2000 real growth in value added in this sector is projected to be **about 4% and** is estimated to be **at this level also in 2002**, after a **slight slow down in 2001 (3.5%)**.

In the first half of 2000 value added in **education** exceeded the respective previous year's figure by 3.1%. Growth in average gross wage per employee in this sector is estimated to be as high as in the January-August period (compared to the respective period of 1999) when it reached 4.1% in real terms (the other half of an increased bonus on wages in education was paid). In this period the number of persons in employment rose by 1.6% (equalling last year's average annual growth), mostly in adult and other education (by 5%). Strong employment over the first eight months was also recorded in higher education (3.4% at an annual level). Employment trends are in line with the expected steep growth in both subsectors, which create approximately one fourth of total value added in education (higher education accounts for slightly less than 20% and adult and other education about 5%). The majority of market-oriented public and private companies in the sector of education operate in the abovementioned subsectors, but the bulk of value added in the whole sector of education (about 95%) is still created by nonmarket-oriented institutions (kindergartens, primary and secondary schools, colleges and universities). Taking into account the growth of value added in the first half of the year and trends in employment and wages, which have been more or less the same as in 1999, it is estimated that **real growth in value added** in this sector will reach **3.5% in 2000**. **In the next two years** the above stated rapidly increasing activities are forecast to strengthen and real growth in value added is expected to be around **3% in 2001** and slightly over **4% in 2002**.

In the first half of 2000, value added recorded in the activity of **health and social work** was 3.7% higher in real terms than in the same period of 1999. From January to August 2000 average gross wage per employee decreased by 0.7% in real terms when compared to the same period of 1999. Despite this fall, which is to a large extent a reflection of the 1999 wage upsurge in this sector (4.9%), the average gross wage per employee in this sector is expected to continue growing until the end of the year, taking into account the October rise in doctors' salaries and the anticipated rise in wages of other health-service staff and social workers. In the first eight months of 2000, the number of people in employment rose by 3.1% over the same period of 1999, whilst total employment growth in 2000 is estimated to be only one third of the 1999 figure (the average annual rate was 9.4%, primarily resulting from the fact that a large share of the unemployed participated in social care public works). Similarly to 1999, it was the number of persons in employment in social work that increased the most in 2000. Based on the movements in wages and employment, real **value added** in health and social work is estimated to **grow by 3.5% in 2000**

and it is expected to move at similar or slightly higher levels **in 2001 and 2002 (3.5% and 4% respectively)**.

In the first half of 2000, the value added in **other community, social and personal services** increased by 4.3% at an annual level in real terms. In the first eight months, the number of persons in employment rose by 3.8% year-on-year; in 2000 as a whole employment growth is estimated to be half of that in 1999, when it was 8.1%. Even though close to two thirds of total value added in this sector is generated by commercial companies, the share of market services in the sector is much bigger, which shows that institutions and public utilities in the sector are strongly market-oriented. The anticipated further transition from public to private operators will be increasingly reflected in higher efficiency and a gradual growth in the value added of the entire sector. Based on those movements, **this year's value added** in other community, social and personal services **is estimated to rise by 4.7% in real terms and similar growth rates are expected in the next two years**.

4.1.2 EXPENDITURE STRUCTURE OF GROSS DOMESTIC PRODUCT – Foreign demand again the key factor of economic growth

In contrast to 1999, when the key factor of economic growth was domestic demand, economic growth in 2000 is stimulated by a strong revival in export demand, mostly by continuous favourable economic trends in the EU. Despite high exports, growth in total aggregate demand in 2000 (4.7%) is estimated to be lower than in 1999 (5.6%), which is due to a considerable slowdown in domestic demand. In the following two years, with domestic demand rising slightly faster and foreign demand more slowly, a further slight decrease in aggregate demand is anticipated (4.6% on average).

Table 8: Growth in aggregate demand components

	Real growth rates in percent						
	1996	1997	1998	1999	2000	2001	2002
Total aggregate demand	3.6	6.2	5.0	5.6	4.7	4.4	4.8
of which:							
Foreign demand (exports)	3.6	11.6	6.7	1.7	8.7	6.8	7.0
Domestic demand	3.6	4.8	4.5	6.6	3.6	3.8	4.2
- intermediate consumption	3.4	4.6	3.6	4.8	4.8	4.1	4.5
- private consumption	2.0	2.8	3.3	6.2	1.4	2.8	3.2
- government consumption	3.4	4.3	5.8	5.8	2.1	3.0	3.8
- gross fixed capital formation	8.9	11.6	11.3	17.0	4.2	5.0	5.4

Source: SORS, National Accounts estimates IMAD.

The structure of aggregate demand changed in 2000. Much more rapid growth in foreign demand is expected (8.7%) in 2000 compared to 1999, whilst domestic demand growth should slow down (3.6%). Therefore, the share of exports in gross domestic product, accounting for 55.5% in the past five years, should increase to 57.9% in 2000. With regard to domestic demand the fastest growth in 2000 is recorded in intermediate consumption (4.8%), whilst domestic consumption rises sluggishly (1.4%) in comparison to previous years. Growth in gross fixed capital formation decelerated considerably (4.2%). **gross domestic product** is estimated to grow **by 4 % in 2000,** which is less than value added (4.8%; see Chapter 4.1.1.)**. In 2001 and 2002** the rise in domestic demand is forecast to be closer to gross domestic product growth (by **4% and 4 %**, respectively) and reach 3.8% and 4.2% respectively. Final consumption is expected to improve (by 2.9% and 3.3% respectively), whilst intermediate consumption growth should temporarily slow down a little (4.1% and 4.5%, respectively).

Real growth rates of gross domestic product show the changes in the volume of output and serve as a measure for economic growth. gross domestic product also includes taxes on imported products and other taxes on products and services that are excluded from the gross value added of resident producers (see Chapter 4.1.1). VAT revenues in 2000 are expected to be lower and VAT refunds higher than previously predicted, owing to a slower rise in private consumption and a steeper increase in exports, as well as to the dynamics of refunding collected taxes and a lower increase in imports. The upward trend in foreign demand will cause the share of demand allowing the refunding of VAT on purchases to increase. Therefore, total net taxes on goods (accounting for about 15% of gross domestic product) will stagnate in real terms in 2000. The real income of residents does not only depend on the rise in domestic production, but also on relative movements in export and import prices. If resident producers' export prices grow faster than their import prices, their terms of trade improve, which in turn increases the purchasing power of their real income and of the national income as a whole when compared to the rest of the world. In 2000 the opposite was the case, as terms of trade deteriorated, with import prices rising more strongly than export prices. According to estimates, import prices in 2000 are set to exceed export prices by about 4 percentage points (primarily due to the impact of high world oil prices and the stronger US dollar against the basket of currencies of Slovenia's major trading partners; moreover, the accelerated upward trend in oil prices was followed by the rise in the prices of other primary commodities and producer prices in major supplying countries). Income earned with the given volume of domestic production can purchase less

foreign products than in the period before the terms of trade deteriorated. This is one of the reasons for the lower growth in imports this year. In 2000 imports of goods and services should only rise by 4.9% in real terms over 1999, whilst in the 1993-99 period they grew at an average annual rate of 10.8%.
Given an economic growth of 4% in 2000, real gross domestic income (measuring changes in the volume of gross domestic product as well as changes in the purchasing power of income caused by changes in terms of trade) is

Table 9: Main aggregates of national accounts

constant 1995 prices

	Real growth rates in %						
	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
GROSS DOMESTIC PRODUCT	3.5	4.6	3.8	5.0	4 1/4	4.0	4 1/4
REAL GROSS DOMESTIC INCOME	3.7	5.0	5.2	5.5	2.3	4.1	4.0
REAL GROSS NATIONAL INCOME	3.4	4.5	5.1	5.1	2.3	4.0	4.1
REAL GROSS NATIONAL DISPOSABLE INCOME	3.4	4.7	5.1	5.1	2.5	4.1	4.1
Total domestic demand	2.7	4.8	6.0	8.9	2.3	3.4	3.9
Final consumption	2.3	3.2	3.9	6.1	1.6	2.9	3.3
Private consumption	2.0	2.8	3.3	6.2	1.4	2.8	3.2
Government consumption	3.4	4.3	5.8	5.8	2.1	3.0	3.8
Gross capital formation	3.9	10.4	12.4	17.0	4.0	4.7	5.4
Gross fixed capital formation	8.9	11.6	11.3	17.0	4.2	5.0	5.4
REAL GROSS SAVINGS	7.0	10.0	8.8	2.4	5.2	7.5	6.2

Source: IMAD estimates.

estimated to rise by 2.3%. A considerable disparity in the growth of the two aggregates shows that current changes in terms of trade and, consequently, the purchasing power of the national economy can significantly affect factor incomes and the behaviour of economic agents. This is particularly obvious in the Slovenian economy, due to its smallness, integration in international trade, and the structure of its imports and exports. This also explains the great disparity between the expected inflation rate in 2000 (8.9%) and the implicit gross domestic product deflator (7.4%). In 2000, with deteriorating terms of trade, all main aggregates of domestic consumption have been increasing at a slower rate than the estimated growth in gross domestic product. In 2000, owing to a substantially slower rise in domestic consumption, the investment-savings gap expressed at 1995 constant prices should shrink by 2.6% when compared to 1999, but the current account deficit (at current prices) relative to gross domestic product will remain at 1999's level (4% of gross domestic product).
In 2000, total domestic consumption is estimated to increase by 2.3% in real terms, almost 2 percentage points below the estimated real gross domestic product growth. From the developmental point of view, the structure of domestic consumption is favourable, as gross fixed capital formation (up by 4.2%) is

rising substantially faster than final consumption (up by 1.6%). In 2000, the share of gross fixed capital formation in gross domestic product is thus expected to increase to 27.8% (27.2% in 1999). A more rapid growth in gross fixed capital formation when compared to final consumption is expected in the following two years as well. The share of final consumption in gross domestic product in 2000 should drop (from 76.2% in 1999) to the 1998 level (75.9%). After considerable growth in 1999 (6.2%) in anticipation of the introduction of VAT, private consumption growth is expected to slow down in 2000, as the population is still burdened by loans raised in 1999. Moreover, higher interest rates in 2000 encourage people to set aside part of their disposable income as savings. Regarding that the consequences of the decreased purchasing power of the income cannot be completely eliminated in the short run, only a moderate growth in private consumption is expected also in 2001 (2.9%).

Expenditure on domestic consumption has exceeded gross domestic product since 1995. The trade deficit (goods and services) substantially increased in 1999 and accounted for as much as 4.4% of gross domestic product, according to the revised balance of payments data (the respective figure in 1998 was 1.5%). In 2000, despite slow real growth during the year, total domestic

Table 10: Expenditure on gross domestic product

	Structure in %, current prices						
	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0
External balance of goods and services (exports-imports)	-1.0	-0.8	-1.5	-4.4	-4.6	-3.9	-3.8
Total domestic demand	101.0	100.8	101.5	104.4	104.6	103.9	103.8
- Private consumption	57.5	56.4	55.7	55.7	55.4	55.1	54.9
- Government consumption	20.1	20.4	20.3	20.6	20.4	20.2	20.1
- Gross fixed capital formation	22.5	23.4	24.6	27.2	27.8	27.6	27.8
- Changes in inventories and valuables	0.9	0.7	1.0	1.1	1.0	1.0	1.0

Source: SORS; IMAD estimates.

consumption in current prices should be 4.6% higher than gross domestic product. Owing to deterioration in terms of trade, trade deficit in goods and services in 2000 is expected to increase by an additional 0.2 of a percentage point over 1999. Trade deficit, which in 1999 rose as a result of both structural and long-term factors is expected to persist at relatively high levels in the following years.

Owing to the inclusion of reinvested earnings on foreign direct investments and minor revisions of other primary income, net primary income from the rest of the world (labour and property income) was negative for the first time in 1999, accounting for 0.2% of gross domestic product and it is expected to

remain unchanged over the next two years. As slightly higher foreign current transfers are expected in 2000, also as a result of pre-accession assistance funds,

Table 11: Main aggregates of national accounts

	Structure in %, current prices					
	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0
Net primary income from the rest of the world	0.2	0.2	-0.2	-0.2	-0.3	-0.2
GROSS NATIONAL INCOME	100.2	100.2	99.8	99.8	99.7	99.8
Net current transfers from the rest of the world	0.7	0.6	0.6	0.8	0.8	0.8
GROSS NATIONAL DISPOSABLE INCOME	100.9	100.8	100.5	100.6	100.5	100.6
Final consumption	76.7	75.9	76.2	75.8	75.3	75.0
GROSS SAVINGS	24.1	24.9	24.2	24.8	25.3	25.6
Surplus of the nation on current transaction	0.0	-0.7	-4.0	-4.0	-3.3	-3.2
GROSS CAPITAL FORMATION	24.1	25.6	28.2	28.6	28.6	28.8
of which: gross fixed capital formation	23.4	24.6	27.2	27.8	27.6	27.8
NET CAPITAL FORMATION	6.1	7.7	10.8	11.4	11.0	10.8

Source: SORS; IMAD estimates.

the gross national disposable income is estimated to exceed gross domestic product by 0.6 of a percentage point. Similar ratios between these two aggregates are also expected in the following two years. According to estimates, gross savings in 2000 should increase in real terms by 5.2%, whilst in the next two years their real growth should be even higher (reaching 7.5% in 2001 and 6.2% in 2002). In 2000 the share of gross savings in gross domestic product is expected to improve by 0.6 of a percentage point (to 24.8%), of which 0.4 owing to lower final consumption expenditure and 0.2 due to increased net current transfers with the rest of the world. The level of national savings achieved in 2000 will again be insufficient to finance gross capital formation. As a result there will be a deficit on the balance of payments accounting for 4% of gross domestic product or USD 730 million, which will predominantly be covered by international borrowings. The need for imports of capital will be slightly weaker in 2001 and 2002 (3.3% of gross domestic product or USD 648 million and 3.2% of gross domestic product or USD 676 million respectively), because in these two years gross savings are anticipated to grow.

Box 3: Impact of deterioration in the international environment on economic growth

Deterioration in the international environment in 2001, which could be caused by a rapid slowdown in the US economy, a further rise in world oil prices or their persistence at high levels, or a further weakening of the euro, would cause **domestic economic growth to decelerate** because of the small size and openness of the Slovenian economy. Should the US economy suffer a significant deceleration in 2001 and 2002 (1.8% and 1.2%; IMF, 2000a), and the EU record lower growth rates as a result (down by around 1.3 percentage points in the euro area in the two years), gross domestic product growth in Slovenia would be up to 1 percentage point lower in 2001 and 2002 because of lower volume of external trade and the impact on domestic consumption and production.

4.1.3 COST STRUCTURE OF GROSS DOMESTIC PRODUCT – A slight fall expected in the share of gross operating surplus

In 2000, the real growth in the compensation of employees (3.4%) is expected to be below gross domestic product growth (4%). Nevertheless, the share of labour costs in gross domestic product is estimated to temporarily increase (by 0.3 of a percentage point over 1999), owing to a considerable lagging of the implicit gross domestic product deflator behind the general indicator of domestic inflation (primarily due to deteriorated terms of trade) and the current wage adjustment mechanism. In 2001 the compensation of employees should increase by 3.7% in real terms. As the nominal growth in total compensation of employees is expected to be slower than gross domestic product growth and given the improved terms of trade and wage adjustment mechanism changes, the share of compensation of employees in gross domestic product should decrease to 52% in 2001. A substantial fall in subsidies from the state budget owing to restrictions in budget expenditure in late 2000 will lead to a lower share of gross operating surplus in gross domestic product compared to 1999; the same trend is likely to continue in 2001. Subsidies will account for 1.9% of gross domestic product, 0.3 of a percentage point lower than in 1999 and the lowest since 1992. A similar drop in subsidies relative to gross domestic product is expected in 2001 as a result of the provisional financing of the budget.

The estimated total of taxes charged on production and imports in 2000 are 2.5% (around SIT 19 billion) below the spring estimate. There are several reasons for this. Private consumption rose more slowly than expected, resulting from the lower purchasing power of income in 2000. In spring 2000, it was

impossible to accurately predict the fall in the tax base, which occurred because of the deterioration in terms of trade (higher growth in exports and slower growth in imports than originally planned). Moreover, at the beginning of 2000, excise duties were anticipated to rise, which did not happen. Therefore, annual revenues from excise duties in 2000 will be approximately SIT 11 billion lower than previously expected. After the introduction of VAT in the middle of 1999, the share of taxes on goods and services in gross domestic product rose (from 14.3% in 1998 to 15% in 1999), mostly arising from increased private consumption (in 1999 it rose at a higher rate than gross domestic product) and the reduction in tax evasion achieved through the introduction of VAT. In 2000, the share of taxes on goods and services is estimated to fall slightly below that of 1999's level (by 0.2 of a percentage point) and account for 14.8% of gross domestic product. Taking into account the estimations of the consumption structure in 2001, the share of taxes on goods and services in gross domestic product is expected to remain roughly at the same level. With declining customs tariffs and import duties due to the implementation of the Europe Agreement, other free-trade agreements and the adoption of World Trade Organisation rules, their share in gross domestic product should drop to 1% in 2000. In 2001 it is estimated to drop further by 0.1 of a percentage point, while and in 2002 the share of customs tariffs and import duties in gross domestic product is estimated to remain unchanged compared to 2001.

Table 12: Cost structure of gross domestic product

	Structure in %, current prices						
	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
1. COMPENSATION OF EMPLOYEES	54.8	53.6	52.3	51.9	52.2	52.0	51.8
2. TAXES ON PRODUCTION AND IMPORTS	17.4	17.0	17.6	18.3	18.0	17.9	17.9
2a. taxes on products	13.4	13.3	14.3	15.0	14.8	14.8	14.7
2b. import duties and taxes	3.0	2.0	1.4	1.2	1.0	0.9	0.9
2c. other taxes on production	1.0	1.7	1.9	2.1	2.2	2.3	2.3
3. SUBSIDIES	2.1	2.1	2.2	2.2	1.9	1.6	1.6
4. GROSS OPERATING SURPLUS AND GROSS MIXED INCOME (4=5+6)	29.9	31.5	32.4	32.0	31.7	31.7	31.9
5. Consumption of fixed capital	18.1	18.0	17.9	17.4	17.4	17.6	17.9
6. Net operating surplus and mixed income	11.7	13.5	14.5	14.6	14.2	14.1	13.9
7. GROSS DOMESTIC PRODUCT (7=1+2-3+4)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: SORS; IMAD estimates.

4.2. INTERNATIONAL ECONOMIC RELATIONS

4.2.1. INTERNATIONAL COMPETITIVENESS - Manufacturing's price and cost competitiveness is improving in 2000

The improvement in the price and cost competitiveness of Slovenian manufacturing in 2000 is due to depreciation of the tolar and strong labour productivity growth driven by a pick-up in production. Real compensation per employee will go up modestly in comparison to the rise in labour productivity. Slovenia's market shares in the main trading partners from Central and East Europe will increase, to some extent making up for the narrowing seen in 1999, while market shares in advanced OECD countries are not likely to be maintained at last year's levels.

In the first ten months, the **tolar's effective exchange rate** depreciated by 8.3% in nominal and 3.7% in real terms if measured by relative consumer prices, or 5% on the basis of relative producer prices. Nominal depreciation against the basket of the seven main OECD currencies[13] was 7.8% compared to the same period last year, while real depreciation was 1.9% or 4.7%. July's intervention of the BS aimed at slowing down the fall of the tolar against the euro did not affect the nominal effective exchange rate as the US dollar strengthened rapidly in foreign exchange markets at the same time. The fall in the real effective exchange rate nevertheless eased off in the middle of the year and even came to halt because of a quicker rise in domestic prices.

In the first nine months, the price competitiveness of Slovenian goods particularly improved in the US dollar currency area. The tolar lost 15.4% of its value against the dollar in real terms compared to December 1999 on the basis of relative consumer prices, and 12.9% on average in the first nine months. This year's exchange rate movements have also put Slovenia's manufacturing industries in a much better position against CEFTA-4. The tolar depreciated against the Czech koruna, Hungarian forint, Polish zloty, and Slovakian koruna by 7% or 6.7% in real terms on average. Against the Croatian kuna, the tolar depreciated by 8.9% in real terms from December last year to September. Compared to the first nine months of 1999, Slovenia's manufacturing industries were on average 2.1% more competitive than Croatia's. The price competitiveness against the EU-15, accounting for 66% to 68% of total Slovenia's trade over the last five

[13] The German mark, Austrian schilling, Italian lira, French franc, US dollar, pound sterling, and Swiss franc.

years, improved in September over December by 2.1%, while the average of the first nine months remained roughly at last year's level.

In the first nine months, the **improvement in the cost competitiveness of Slovenian manufacturing** was decisively driven by labour productivity growth, itself triggered by a rise in production accompanied by a slight increase in the number of employees. While the trend of rising labour productivity slowed down gradually (from the first-quarter average of 2.5% to 1.2% on average in the third quarter), the pressure from real compensation per employee on manufacturing's competitiveness strengthened (from 0.1% in the first to 0.6% in the third quarter). As a result, the trend of falling unit labour costs in the basket of currencies slowed down from 3% in the first to 0.2% in the third quarter. Even though the fall in unit labour costs became weaker also in year-on-year terms, an improvement in the average cost competitiveness remained strong in the first nine months. The year-on-year rises in real compensation per employee (2.1%) were up to 6.4 percentage points lower than labour productivity growth (8.5%). In the first nine months, unit labour costs in the basket of currencies were thus 5.4% lower than a year ago. An improvement in cost competitiveness against CEFTA-4 was slightly weaker (2.6%), according to figures for the first six months, and was almost exclusively due to depreciation of the tolar. The year-on-year rise in productivity of Slovenian manufacturing was 4.7% lower compared to the average of the Czech republic, Hungary, Poland and Slovakia, while the rise in Slovenia's gross wage per employee was only 0.7% weaker than the average of CEFTA-4.

Slovenia's **market shares** in the main OECD trading partners[14] shrank from an average of 0.368% in 1999 to 0.353% in the first eight months (from 0.422% to 0.412% in the EU-7), while the market share in trading partners from Central and East Europe[15] increased from 1.997% to 2.054% (the most in Russian Federation, but less in CEFTA-4 and Croatia). The marked drop in the aggregate share of Slovenia's exports in the imports of all 15 trading partners (from 0.525% to 0.495%) was, as a result of calculation effect, due to last year's changes in the structure of Slovenia's exports. Last year's export shares in OECD countries, used as weights in calculating this year's aggregate shares, increased, while the shares in Central and Eastern European countries decreased. What also needs to be taken into account is that the high import growth in trading partners has

[14] Germany, Austria, Italy, France, the UK, Belgium, and the Netherlands (EU-7), and the USA and Switzerland.

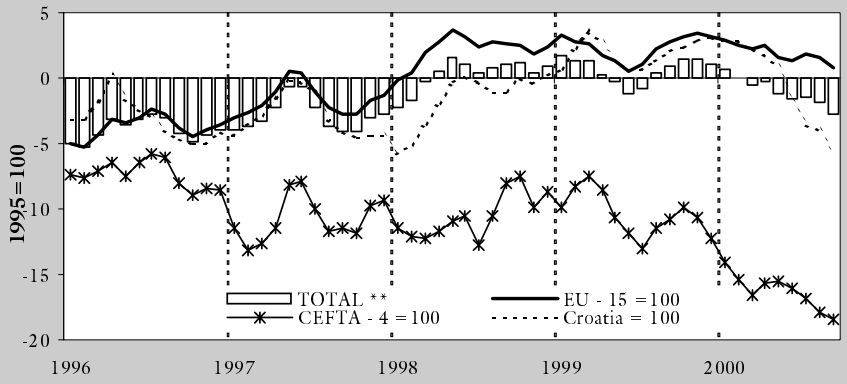
[15] Czech Republic, Hungary, Poland, Slovakia (CEFTA-4), Croatia, and the Russian Federation.

been induced by strong economic growth as well as big rises in the prices of oil and primary commodities.

The slow depreciation of the tolar against the euro is estimated to continue until the end of 2000. With the likely strengthening in real terms in the last few months, the tolar will depreciate by 8.0% in nominal and 2.1% in real terms in 2000 on average based on relative consumer prices. As labour productivity is estimated to decelerate to around 6.6% compared to the year before, the average improvement in manufacturing's cost competitiveness in 2000 is set to be less strong, as suggested by the figures for the first nine months. With real compensation per employee rising by 2.8%, relative unit labour costs in the basket of currencies are to fall by around 2.5% in 2000.

The trend of rising cost competitiveness in Slovenian manufacturing is less likely to continue in **2001**. Labour productivity growth will decelerate to around

Figure 1: Real effective exchange rate of the tolar relative to the main groups of trading partners*



Note: *deflator CPI; **including USA and Switzerland.
Sources of data: OECD, WIIW, SORS, IMAD calculations.

[16] The International Monetary Fund (IMF) designed a system of International Financial Statistics, which enable a unified collection and processing of statistical data concerning EU Member States. Between the publication of the Fourth Edition of the *Manual* (1977) and the Fifth Edition (1993) there were many developments in the field of international trade and finance (increased trade in services, widespread abolition of capital controls, innovations in new financial instruments and new approaches to restructuring external debt). As a result, the methodology for recording transactions in the Manual had to be adjusted to accommodate these changes.

4% because production will continue to rise more slowly and employment will stop falling in year-on-year terms. Even if real compensation per employee slows down to 2.2%, relative unit labour costs in the basket of currencies will be about the same as this year given the estimated rise in labour productivity and projected slight depreciation of the tolar (0.3%).

4.2.2 BALANCE OF PAYMENTS AND EXTERNAL DEBT

4.2.2.1 EXPORT-IMPORT FLOWS AND BALANCE OF PAYMENTS – Despite dynamic export growth in 2000, the deficit on the balance of payments current account is remaining relatively high

In August 2000 the Bank of Slovenia revised Slovenia's balance of payments for the 1994-99 period in compliance with the IMF's balance-of-payments manual (Fifth Edition, 1993)[16], with which it improved the quality of statistically collected balance of payments data. The changes which reduced statistical errors and which better reflect balance of payments flows with non-residents were: (i) the inclusion of reinvested earnings as increasingly important components of direct

Table 13: Changes in balance of payment methodology in the 1994-99 period (balances according to old and new methods)

	Goods	Services	Labour and investment income	Current transfers	Current account[1], in millions of USD	Current account[1], as % of GDP
1994 old m.	-337.5	675.8	169.6	92.2	600.1	4.2
1994 new m.	**-336.4**	**643.0**	**169.8**	**96.6**	**573.0**	**4.0**
Difference	*1.1*	*-32.8*	*0.2*	*4.4*	*-27.1*	*-0.2*
1995 old m.	-954.3	631.1	209.5	90.8	-22.8	-0.1
1995 new m.	**-953.0**	**578.2**	**179.4**	**96.2**	**-99.4**	**-0.6**
Difference	*1.3*	*-52.9*	*-30.1*	*5.4*	*-76.6*	*-0.5*
1996 old m.	-881.7	704.2	154.9	61.6	39.0	0.2
1996 new m.	**-824.9**	**633.4**	**132.2**	**90.6**	**31.4**	**0.1**
Difference	*56.8*	*-70.8*	*-22.7*	*29.0*	*-7.6*	*-0.1*
1997 old m.	-771.6	590.0	130.6	87.6	36.6	0.2
1997 new m.	**-776.3**	**630.3**	**39.4**	**118.1**	**11.4**	**0.0**
Difference	*-4.7*	*40.3*	*-91.2*	*30.5*	*-25.2*	*-0.2*
1998 old m.	-774.9	513.7	145.5	111.9	-3.8	-0.1
1998 new m.	**-789.3**	**492.5**	**27.9**	**121.8**	**-147.2**	**-0.7**
Difference	*-14.4*	*-21.2*	*-117.6*	*9.9*	*-143.4*	*-0.6*
1999 old m.	-1,156.7	365.6	90.1	119.6	-581.4	-2.9[2]
1999 new m.	**-1,245.2**	**364.1**	**-24.5**	**123.0**	**-782.6**	**-4.0[2]**
Difference	*-88.5*	*-1.5*	*-114.6*	*3.4*	*-201.2*	*-1.1[2]*

Note: [1]Balance of payments current account. [2]Calculation based on revised balance-of-payments data (BS, 7 Sept., 2000) and national accounts estimate of 1995-99 (SORS, 27 October, 2000).
Source: BS.

investments, (ii) the methodological improvement of recording export and import of travel services in the framework of existing sources, (iii) the inclusion of final data on trade with substantial revisions for 1999, (iv) some other minor additions (labour income, insurance services, the inclusion of data from single administrative documents). These changes mostly impacted on current account balances for 1998 and 1999 as the deficit on the current account measured as a share of gross domestic product (according to national accounts statistics), increased by 0.6 and 1.1 percentage points respectively (see Table 13).

In 2000, foreign demand or export **became the main economic growth driver.** In the first eight months of 2000, the exports of goods rose by 11.5% in real terms over the same period of 1999 and imports of goods grew by 3.9% in real terms. Accelerated export growth rates primarily resulted from a stronger demand by industrial producers in the EU Member States, most interested in Slovenian intermediate and investment goods. Compared to the same period last year, the exports of these goods rose by 13.3% in real terms, whilst their contribution to the growth of total real exports of goods was 82%. As part of total imports the highest growth was recorded in imports of intermediate goods (10.0% compared to the same period of 1999), arising from increased activity in manufacturing. In the first eight months imports of investment goods were 5.8% higher in real terms over the same period in 1999. At the annual level, imports of investment goods considerably rose in July (by 43%) and August (by 35.5%), which is above all the consequence of low imports in 1999 following the introduction of VAT. Import dynamics of investment goods were predominantly influenced by 1999's trends, in particular the high level of imports in the second quarter of 1999 before the introduction of VAT, and partly by the moderate investment trends in 2000. The impact of the introduction of VAT in 1999 was also felt in import dynamics of consumer goods in 2000. In the first eight months, imports of consumer goods dropped by 7.4% in real terms over the same period of 1999, the drop resulting from the high comparison level, the easing down of the private consumption and the real depreciation of tolar.

The regional composition of trade flows shows that the downward trend in trade with the countries of former Yugoslavia has stopped. The decline started in 1997 and particularly intensified after Slovenia's electricity supply to Croatia was discontinued in the middle of 1998. However, exports of goods from Slovenia to Bosnia and Herzegovina, Macedonia and the Federal Republic of Yugoslavia increased considerably in 2000 thanks to a gradual stabilisation of trouble spots in the Balkans, Slovenia's first-hand knowledge of these markets and its efforts to maintain or strengthen its market share in these countries. Also, Croatia

retained the position of Slovenia's third most important trading partner (following Germany and Italy). In the first eight months of 2000, the exports of goods to countries that emerged from the former Yugoslavia increased by 17.4% in real terms compared to the same period of 1999, whilst imports of goods rose by 4.4%. Compared to the 1999 average, Slovenia's market shares in Russia and the CEFTA countries also grew in this period. Slovenia's most important trading partners remained the EU Member States, to which the exports of goods grew by 7.9% in real terms compared to the same period of 1999 (influence of the stronger EU's economic growth), whilst imports of goods from the EU Member States rose by only 1.6% in real terms. In the same period, the EU Member States accounted for 64.7% of Slovenian total exports of goods (the respective figure in 1999 was 66.9%), whereas their share in imports of goods was 67.8% of the total (69.5% in the same period of 1999).

In the first eight months of 2000, the total **trade deficit** according to balance-of-payments statistics was USD 777.2 million or 9.6% lower than in the same period of 1999. Slovenia's trade surplus with the countries of former Yugoslavia increased by USD 63.7 million (to USD 529.6 million), whilst its trade deficit with EU Member States fell by USD 36.5 million (to USD 706.4 million). The trade deficit with other countries rose by USD 17.2 million (to USD 600.4 million). A drop in the total trade deficit is primarily due to the positive income effect (measured in export market growth), which more than compensated for the worsened price effect (measured in terms of trade). From January to August 2000, the terms of trade deteriorated by 5.2 percentage points over the same period in 1999, due to a faster decline in export prices compared to import prices (both expressed in US dollars). This is also one of the main reasons for the relatively high trade deficit, even though exports grew substantially faster than imports (in real terms).

The real growth in **trade in services in the first eight months** of 2000 was more favourable than in the same period of 1999, but it was still slower than the real growth in trade in goods. Exports and imports of services increased by 8.2% and 4.5% in real terms respectively. Driven by the strong growth in exports of goods, exports of transport services rose by 6.6% in real terms. The weakest growth in real terms was recorded in receipts from travel (6.2%), which is somewhat surprising in view of the slack tourism season in 1999 (negative effects of the crisis in Kosovo) and upward trends in tourism in 2000. This may be partly due to the lower income from duty-free shops and casinos. In line with modern trends in services in Europe, Slovenia's exports of other services increased by 14.6% in real terms. These are primarily other business services (intermediation, various business, professional and technical services)

with high value added where quality is more important than price. In terms of imports of services, the highest growth was recorded in travel and transport, whilst imports of other services stagnated. The rise in the surplus from services, expressed in current US dollars, was primarily triggered by USD 28.7 million lower deficit in other business services; the deficit in construction services also slightly fell. When compared to the same period of 1999, the factor income surplus decreased by USD 18.9 million (to USD 26.4 million), owing to the fact that interest repayments on international borrowings exceeded interest income from foreign exchange reserves. In nominal terms, the current transfer balance remained at approximately the level recorded in the same period in 1999. Increased inflows to the government sector (including pre-accession assistance to Slovenia) were reduced by higher outflows of transfers from other sectors. **In the first eight months of 2000, the current account deficit** decreased by 16.4% over the same period of 1999 to USD 415.6 million, which was primarily due to the lower trade deficit.

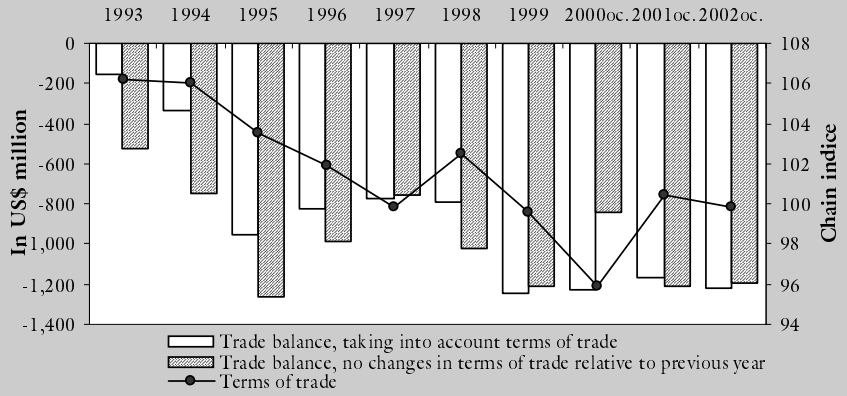
In the same period, a surplus of USD 407.2 million was recorded in the **capital and financial accounts of the balance of payments**. The main source of capital inflows in 2000 was loans raised abroad in the amount of USD 514.7 by the banks, the government and other sectors. The borrowing structure showed that corporate sector accounted for 63.1% of funds borrowed from abroad (49.4% in the same period of 1999). Growth in Slovenian corporate international borrowing was additionally encouraged by lower interest rates abroad and better accessibility to large credit needed for financing the imports of capital goods (intermediate goods and equipment). From January to August 2000 capital outflows were primarily characterised by net short-term trade credits totalling USD 120.2 million. However, these credits were quite lower than in the respective period of 1999 (USD 259.6 million). The current account deficit was thus primarily financed through international borrowing, whilst inward foreign direct and portfolio investment (excluding an issue of euro-bonds at the amount of USD 400 million) remained at a low level.

Based on the forecast economic conditions up to the end of 2000, both in Slovenia (changed consumption structure, increased volume of production in manufacturing) and abroad (high foreign demand and deteriorated terms of trade caused by prices of oil and other primary commodities, domicile prices abroad, and exchange rates), it is estimated that export flows will continue to grow substantially faster than import flows until the end of the year 2000. Total exports in 2000 are expected to increase by 8.7% in real terms (exports of goods and services by 9.0% and 7.1% respectively) and total imports by 4.9% (imports of goods and services up by 5.1% and 3.9% respectively). Due to a

forecast deterioration in the terms of trade by approximately 4 percentage points in 2000, the deficit in goods and services trade, expressed in current US dollars, is not expected to decrease substantially and is estimated to reach USD 840 million by the end of 2000 (USD 881 million in 1999). The trade deficit would then be around USD 1,230 million (USD 1,245 million in 1999), whilst the surplus in service trade would amount to USD 390 million, covering approximately one third of the trade deficit. Factor incomes will record a deficit of USD 35 million (USD 24.5 million in 1999), primarily because reinvested earnings from foreign direct investments are included in investment expenditures, in accordance with the changed methodology. Unrequited transfers are expected to grow slightly when compared to the 1999 figure (to USD 145 million; USD 123 million in 1999). Thus, 2000's **current account balance** is forecast to show a **USD 730 million deficit with the same share of gross domestic product as in 1999 (4%).**

Relatively favourable trends in the Slovenian and international environments are expected to continue in 2001, which should boost the goods and service trade despite a slight slowdown in the economic growth of the EU Member States (the demand for imports in Slovenia's seven most important trading partners is predicted to rise by 7.3%). The exports of goods and services are predicted to rise by 6.9% in real terms (they should increase by 7.2% and 5.5% in real terms respectively). Imports of goods and services are expected to grow by 5.6% in real terms, of which imports of goods by 5.8% (a relatively faster growth in imports of capital goods is expected to continue) and imports of

Figure 2: The impact of terms of trade (external price effect) on trade balance in 1993-2000



Source of data: SORS, BS, calculations and estimation IMAD.

services by 4.5%, primarily resulting from a higher development level of the economy. Despite a relative slowdown in exports and an upward trend in imports in 2001 the deficit in goods and services trade is expected to be lower than in 2000 and amount to USD 750 million, as the terms of trade should improve by approximately 0.5%, under the assumption that oil prices will gradually fall, growth in the US dollar exchange rate slow down and the Euro recuperate. If this happens, Slovenian producers of goods and services will charge higher export prices in US dollars (index 102.4) than import prices (index 102.0). Consequently, the purchasing power of their real income in 2001 will slightly increase over 2000. Given a lower trade deficit, a somewhat higher surplus in services (USD 400 million), a slightly larger factor income deficit (USD 50 million, mainly due to an increase in interest repayments and anticipated growth in reinvested earning from foreign investors) and a further slight increase in the current transfer surplus (USD 155 million), the **current account deficit is likely to remain high in 2001: USD 650 million or 3.3% of gross domestic product.** If it continues to be mostly financed by international borrowing, its sustainability could be threatened already in 2001 (see Chapter 4.2.2.2).

In 2002 the exports of goods are expected to firm up (by 7.3% in real terms), assuming that export competitiveness improves and the international environmental climate remains favourable. Relatively high imports of capital goods (intermediate and investment products) are expected to continue, therefore the growth in the imports of goods is estimated to exceed 6% in real terms. In this case, the share of investment goods (equipment and technology) in total imports would increase, whilst that of consumer goods would drop. The trade deficit, expressed in US dollars, would stagnate approximately at the levels of 2000 and 2001, whilst, given the estimated economic growth, its share in gross domestic product would gradually decrease to some 5.7% in 2002. The surplus from services will level off at about 2% of gross domestic product, so that the **current account deficit** will gradually **drop to around 3% of gross domestic product.**

4.2.2.2 EXTERNAL DEBT – External debt indicators are worsening, but are still below the critical level

In the first eight months of 2000, Slovenia's external debt increased by USD 293 million to USD 5,784 million at the end of August. The share of long-term debt in total external debt slightly grew when compared to 1999 and it was 98.3% at the end of August (97.8% at the end of 1999). The shares of public and publicly-guaranteed debt (48%) and private debt (52%) stayed at

approximately the same level as at the end of 1999. In 2000 the **external debt stock** was very strongly affected by exchange rate changes. According to the Bank of Slovenia, net international borrowing totalled USD 871 million in the first eight months, but external debt, expressed in US dollars, increased much less, owing to the fact that borrowing was predominantly in euros (negative exchange rate differentials totalled as much as USD 578 million, as estimated by the BS). From January to August, net long-term loans taken by the private sector amounted to USD 461 million (USD 455 million in the same period of 1999). Around 70% of these loans was raised through foreign commercial banks. In the first eight months of 2000 (similarly to 1999), corporate borrowing was higher than bank borrowing. However, this ratio might substantially change by the end of the year, presuming that Slovenian banks increase their borrowing abroad. Nevertheless, 2000 witnessed strong growth in international corporate borrowing, as in the January-August period, the volume of foreign loans taken by companies (expressed in US dollars) increased by approximately one fourth over the same period in 1999. The net borrowing of the public sector, comprising public and publicly-guaranteed debt, totalled USD 435 million in the same period, which was primarily due to an issue of euro-bonds at the amount of USD 400 million in March 2000.

In the first eight months of 20000, the stronger US dollar against the basket of currencies contributed to a decrease in **total foreign exchange reserves**, expressed in current USD, even though the net inflows from abroad in the first eight months were positive (USD 254 million). At the end of August, foreign exchange reserves totalled USD 3,998 million, which is USD 117 million less than at the end of 1999. Foreign exchange reserves to external debt ratio, which at the end of 1998 stood at 96.4%, dropped to a mere 74.7% at the end of 1999 and, on average, further decreased in the first eight months of 2000 (69.1% at the end of August). Total foreign exchange reserves in 1998 covered 4.9-months

Table 14: External debt in the period from 1995 to August 2000, in millions of USD

	1995	1996	1997	1998	1999	31st August, 2000
TOTAL DEBT	2,970	4,010	4,176	4,959	5,491	5,784
Long-term debt	2,916	3,960	4,041	4,849	5,374	5,687
Public and publicly-guaranteed	1,437	2,025	2,067	2,370	2,542	2,730
Private not guaranteed	1,479	1,935	1,974	2,479	2,832	2,957
Use of IMF credit	4	1	-	-	-	-
Short-term debt	50	49	135	110	117	97
TOTAL DEBT SERVICE	739	936	921	1,536	846	658

Source: Bulletins of the Bank of Slovenia.

of imports of goods and services and in 1999 they sufficed for just 4.2-months of imports of goods and services. Judging by import flows and foreign exchange reserves in the first eight months, the foreign exchange reserves to imports ratio in this period stagnated at approximately the 1999 level.

Slovenia is still classified among countries with a low level of indebtedness, according to all debt indicators, which are consistent with the World Bank criteria, but their value is deteriorating. In 1999 the debt-service ratio (the ratio between total debt service obligation and total export income in a certain period) decreased by 5.6 percentage points on 1998. However, the high percentage in 1998 was primarily a consequence of early repayments of some expensive loans. Otherwise, the debt-service ratio fluctuated between 5.3% and 8.5% in the 1994-97 period.

In view of increasing international borrowing, a question arises about the upper limit of external debt within which the solvency of the state or its capacity of regularly servicing debts is not jeopardised. In 2000, the current account deficit is expected to fluctuate around USD 730 million and will mostly be covered by international borrowing by the public and private sectors, as was estimated on the grounds of the eight-month movements in the financial account of the balance of payments as well as low direct foreign and portfolio investments. Under these assumptions, the share of external debt in gross domestic product will increase by 3.1 percentage points over 1999 (to 30.5%) at the end of 2000 and would, according to this indicator, place Slovenia on the verge of becoming one of the countries with a medium level indebtedness. However, according to the other three indicators its indebtedness would still remain well below critical levels. A synthesised estimate of the four debt indicators thus shows that 2000's current account deficit is sustainable. The question is how sustainable it will be in the years to come, if the current account deficit continues to be predominantly covered by international borrowing.

Table 15: Debt indicators according to World Bank criteria, Slovenia's indebtedness in 1998 and 1999, and estimate for 2000 in %

Indicators	Low	Medium	Critical	1998	1999	Estimate for 2000
EDT/GDP	30	30-50	50	25.3	27.4	30.5
EDT/XGS	165	165-275	275	42.9	52.2	55.7
TDS/XGS	18	18-30	30	13.3	7.7	9.1
INT/XGS	12	12-20	20	2.1	2.3	2.4

Note: The first two indicators (EDT/GDP, EDT/XGS) show the comparisons between total external debt (EDT) and gross domestic product (GDP) and between exports of goods and services (XGS). The other two indicators (TDS/XGS, INT/XGS) show (credit) flows, comparing the exports of goods and services (XGS) with debt servicing (TDS) or interest on external debt (INT).
Source: SORS, BS, IMAD calculations and estimates.

4.2.3 FOREIGN DIRECT INVESTMENT –The trend of falling FDI inflows in Slovenia continues, Slovenia's FDI abroad rises

In 1999, FDI inflows in the countries of Central and Eastern Europe (including the countries of former Yugoslavia) increased by USD 1,775 billion, from USD 21,149 billion in 1998 to USD 22,924 billion in 1999 (UNCTAD 2000). Apparently, countries in transition are increasing their involvement in international flows of foreign direct investment. This is particularly true of the Czech Republic and Poland, accounting for the largest part of the increased FDI inflows in the region, while Hungary maintained the high levels seen before.

Table 16: FDI in selected countries in transition

	Inflows in 1998 (USD mln)	Stock in 1998 (USD mln)	Inflows in 1999 (USD mln)	Stock in 1999 (USD mln)	FDI stock as % of GDP (1998)
Czech Rep.	2,720	14,375	5,108	16,246	26.1
Estonia	581	1,822	306	2,441	35.6
Hungary	2,036	15,862	1,944	19,095	33.2
Poland	6,365	22,479	7,500	29,979	15.1
Slovenia	248	2,904	181	2,684	14.8

Source: UNCTAD 2000; BS.

Table 16 shows that Slovenia is far behind candidate-countries of the Luxembourg group for accession to the EU in terms of inward FDI in both absolute and relative terms (FDI in gross domestic product). FDI stock in Slovenia totalled USD 2,683.6 million at the end of 1999, USD 219.9 million less than at end-1998. Even though the fall in stock expressed in US dollars was mainly due to strengthening of the US dollar against the euro and FDI stock measured in euros actually increased by EUR 198.7 million, FDI inflows in Slovenia have been consistently falling since 1997. In 1999 they fell annually to almost negligible amounts. This becomes particularly evident if inflows are divided into actual FDI inflows and reinvested earnings of the existing investors in Slovenia. Reinvested earnings have been on the increase so far, but they have been too low to make up for the persistent and strong fall in new FDI inflows.

The trend of falling FDI inflows continues in 2000, even when compared to the low figures of 1999. From January to August, FDI inflows only amounted to USD 42.8 million compared to USD 58.9 million in the same period of 1999. In 2000, the modest FDI inflows warn that foreign investors keep avoiding Slovenia and that the legislative liberalisation (Foreign Exchange Act) introduced by the Government in 1999 and certain steps taken to attract FDI in 2000 were

insufficient. The latter measures were of a too temporary character to attract foreign investors or even turn around the negative trends in inward FDI. The number and value of new investment projects remains negligible, while the rising reinvested earnings point to the strengthening of activity of the existing foreign investors in Slovenia. This is further proof that the policy aimed at attracting FDI should be based on creating additional capacity rather than distinguishing between greenfield FDI and acquisitions, as has been the case so far.

Table 17: Flows, stock, and changes in stock of inward FDI[1] in Slovenia in 1993-99

	1993	1994	1995	1996	1997	1998	1999
VALUES, USD million							
Year-end stock, total[2]	954.3	1,325.9	1,763.4	2,062.8	2,447.7	2,903.5	2,683.6
Equity and reinvested earnings	709.7	966.5	1,203.5	1,339.7	1,812.7	2,158.7	2,000.5
Net liabilities to foreign inv.	244.4	359.4	559.8	723.1	635.0	744.8	683.0
Changes in stock - total value[2]	n/a	371.6	437.5	299.4	384.9	455.8	-219.9
Annual inflow - total	112.6	128.1	177.4	194.0	375.2	247.9	181.2
Inflows from abroad	112.6	128.1	176.0	185.5	320.8	165.4	83.4
Reinvested earnings	n/a	n/a	1.4	8.5	54.4	82.5	97.8
growth rates, %							
Year-end stock - total[2]	n/a.	38.9	33.0	17.0	18.7	18.6	-7.6
Annual inflow - total	1.4	13.7	38.5	9.4	93.4	-33.9	-26.9
Year-end stock - Total value in EUR	**n/a**	**1,080.8**	**1,376.0**	**1,663.8**	**2,217.6**	**2,477.4**	**2,676.1**

Notes: [1]companies with 10% or higher foreign equity share; [2]equity + liabilities to a foreign investor - claims on a foreign investor.
Source: BS.

4

The 2000 Spring Report stated that the Government of Slovenia has taken steps in the right direction by adopting the Scheme for Attracting Inward Foreign Direct Investment in 2000 and commissioning the Foreign Investment Advisory Service (FIAS) to make a report on administrative barriers to investment in Slovenia. Six months later, the programme seems to have been under-ambitious, while the FIAS report has not been officially presented. A great deal more is required to make any significant progress in the field of FDI, mainly (i) make the privatisation of state assets open and transparent to foreign investors and step up the privatisation process at the same time; (ii) immediately abolish legal barriers that reduce the effectiveness of investment incentives and adopt an attractive and transparent programme of promoting FDI; and (iii) begin to develop industrial estates with all facilities right away. In order to provide a better supply of land for industrial use, Slovenia should not only improve the administrative framework but also intervene in the market of building sites to increase their supply; and (iv) adopt an ambitious programme of lifting

administrative barriers to investment. Parallel to this, Slovenia should be aggressively promoted as an investment location.

The investment activity of Slovenian companies abroad, which almost came to an end after gaining independence, has been growing again recently, particularly in the countries of former Yugoslavia. In 1993-99, the stock of Slovenia's outward investment increased from USD 280.6 million to USD 621.1 million. Significant outward FDI was only recorded in 1997 (USD 35.6 million) and 1999 (USD 37.5 million). From January to August 2000, FDI outflows totalled USD 24.4 million (USD 31.4 million in the same period of 1999). An increase in stock, which was particularly strong in 1995 and 1998, was more due to the higher net claims of Slovenian investors on their companies abroad and reinvestment than to FDI outflows. Activities that accounted for the main part of Slovenia's outward investment were chemicals and chemical products (20.8% of Slovenia's FDI stock abroad at end-1999), financial intermediation (12.1%), food, beverages and fodder (11%), other business activities (10.6%), electricity and gas supply (7.5%), and machinery and equipment (6.9%).

Table 18: Flows, stock, and changes in stock of outward FDI[1] in Slovenia in 1993-99

Values in USD mln	1993	1994	1995	1996	1997	1998	1999
Net annual outflow (+)/inflow (-)	**1.3**	**-2.9**	**-5.1**	**6.3**	**35.6**	**-1.7**	**37.5**
Year-end stock - total[2]	**280.6**	**354.0**	**489.9**	**478.4**	**452.4**	**599.7**	**621.1**
Equity and reinvested earnings	241.7	342.4	366.2	361.9	331.7	377.7	351.4
Net claims on companies abroad	38.9	11.7	123.7	116.5	120.7	222.0	269.6
Changes in stock - total	**n/a**	**73.4**	**135.9**	**-11.5**	**-26.0**	**147.3**	**21.4**
Equity and reinvested earnings	n/a	100.7	23.8	-4.3	-30.2	46.0	-26.3
Net claims on companies abroad	n/a	-27.2	112.0	-7.2	4.2	101.3	47.6

Notes: [1]companies abroad with 10% or higher foreign equity share; [2]total = equity + liabilities to a foreign investor - claims on a foreign investor.
Source: BS.

While inward FDI in Slovenia is getting particularly strong from Austria (41.8% of FDI stock in Slovenia at end-1999), Slovenia's outward FDI is even more concentrated on Croatia. At the end of 1999, Croatia accounted for up to 51.7% of all Slovenia's outward FDI, while the same proportion in 1993 was 24.9%. In addition to Croatia, countries that are increasingly attractive for Slovenia's FDI are Macedonia, Bosnia, FR Yugoslavia, Poland, and Ukraine. Since independence, the stock of Slovenia's FDI has decreased sharply in Germany and Austria. The strong investment activity in the countries of former Yugoslavia and countries in transition has been anticipated and is in line with companies' plans and economic theory. What is worrying is the withdrawal of Slovenian companies from Germany and Austria, or stagnation at modest levels, and

concentration on a single country (Croatia), particularly in times when the role of direct presence abroad in penetrating foreign markets is becoming increasingly significant.

Box 4: Survey on Slovenia's outward FDI

According to a survey conducted in 1999 in Slovenian companies (Svetličič, Rojec, Trtnik, 1999), maintaining or expanding markets, local markets in recipient countries in particular, are by far the most important **motives for investing abroad.** In addition to the market factor, motives driving foreign investment are strategic and performance-related. Cost-related motives (cheaper or more accessible production factors), whereby the only relevant element is labour costs, has been shown as the least important in the survey. Respondents singled out the following **barriers to outward foreign investment:** the lack of know-how, information, human resources, and capital, risks, difficulties in controlling and managing companies abroad, low-profile brands of the investor, high marketing costs, difficulty in breaking through, unfriendly tax, legal and administrative environments, inadequate Slovenia's relations with a particular country, and distance.

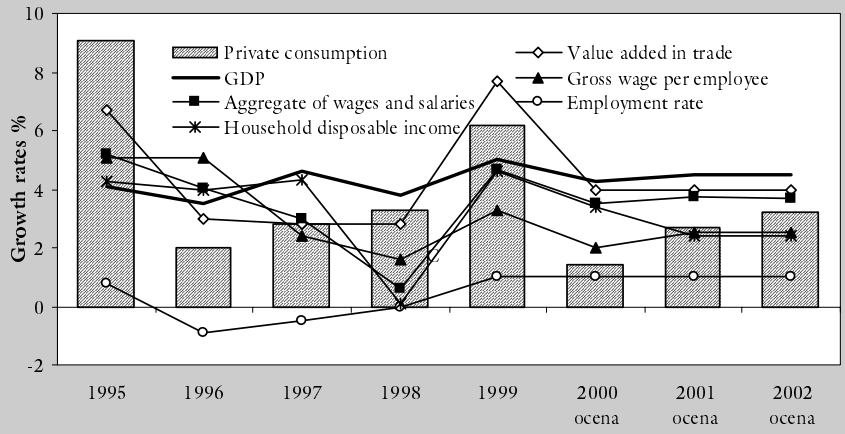
According to the survey, **outward FDI flows are set to strengthen in the future.** Regions most frequently stated as locations for new outward FDI were the countries of former Yugoslavia. At present, Bosnia is the most attractive location, a country where a solid one-quarter of the surveyed investors plan to invest in the future, followed by Yugoslavia (18.5%), Croatia (11%), and Macedonia (7.4%). Countries of Central and Eastern Europe are mentioned more frequently than countries of Western Europe or the EU as an investment destination. Poland has been brought up most often. In the next three years, 53% of the biggest exporters and fast-growing companies in Slovenia so far not engaged in this activity plan to make an investment abroad.

These efforts to internationalise business will require **appropriate support from economic policy, or the state** (Svetličič, Rojec, Trtnik, 1999). The list of barriers to outward FDI mentioned above could serve as a guideline in laying down measures to promote Slovenia's outward FDI. Internationalisation is a gradual process and even large companies cannot accomplish this task simply with a switch from exports to simpler forms of internationalisation and further to sophisticated forms of co-operation. Large companies with a big human resource potential could manage such a process on their own through a longer period of time, while small companies need support from the state. The lifting of barriers to outward internationalisation therefore needs to be upgraded by an active policy aimed at promoting the internationalisation of business. According to the survey, Slovenian companies investing abroad believe that state help should consist of the following: (i) collecting and providing information about the opportunities for investing abroad and concrete projects; (ii) making initial contacts with potential foreign investors; (iii) improving the climate and regulatory framework in Slovenia for outward FDI; (iv) co-financing of certain activities related to outward FDI; (v) help in raising capital and/or facilitating access to commercial financial resources, (vi) help in training staff; (vii) providing insurance for investment projects abroad, thereby reducing risk; (viii) lobbying in recipient countries in order to improve conditions for investment; and (ix) more help offered by diplomatic or consular representatives. However, investors should bear in mind that the state will not be able to carry out all the desired forms of intervention, as it will be restricted by the EU's rules on competition and state aid planned to be implemented in 2001 and afterwards.

4.3. PRIVATE CONSUMPTION – Moderation of private consumption after 1999's high growth

In 1999, household consumption was, in real terms, 6.2% higher than in 1998, and thus for the first time since 1995 exceeded the growth level of gross domestic product. It was stimulated by the high spending prior to the introduction of value-added tax, with the purchases of durable goods going up most strongly. Although household income only grew by 4.3% in 1999, part of the funds supporting that increased spending was drawn from savings, and especially from loans and leasing. After 1999's high growth and due to the burden of loans taken out in 1999 (see chapter 4.7.), in 2000 and in the following few years household consumption is expected to be more moderate. A gradual rise in the share of services in consumption[17] is also expected, primarily in personal services and services in the areas of health care and education, with a simultaneous decrease in the share of semi-durable and durable goods. Macroeconomic aggregates displaying the greatest correlation to household consumption, namely the gross wage per employee, employment rate, imports of consumer goods, the movement of value-added and the level of retail sales (especially car sales) show that private consumption is moderating in 2000. With the slowdown in

Figure 3: Private consumption set against selected aggregates, 1995-2002



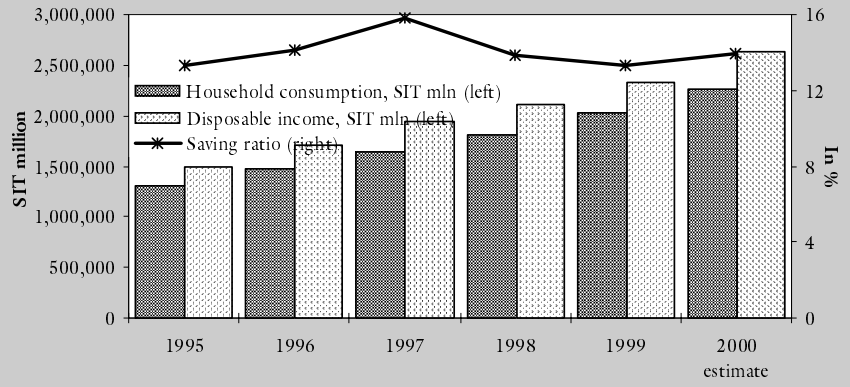
Source: SORS, estimate by IMAD.

[17] According to the structure of spending in 1997 (the latest information available), services account for only 38% of consumption, which is less than their share in developed European countries (around 43%).

household disposable income (see Box 5) and the expected stronger tendency to save, it is assessed that the **real private consumption will grow by 1.4% in real terms in 2000**.

If the currently planned income and social policies are implemented, household income growth will continue to be moderate in the next two years as it will, despite the considerable number of other sources of household income, mostly depend on movements in the employment rate, gross wage per employee and social benefits. According to the national accounts statistics, the employment rate is expected to rise by 1% annually, while the real growth in gross wage per employee is to move by some 2.5% annually, which would suffice for an around 2.7%-increase in household income in the next two years. Taking into account the envisaged volume of household savings, especially in the form of life and additional pension insurance, and considering other factors above, it is assessed that **in 2001** private consumption will **grow by 2.9% in real terms**, and by **3.2% in 2002**.

Figure 4: Household disposable income, consumption and savings ratio



Source: SORS, estimates by IMAD

Box 5: Household disposable income

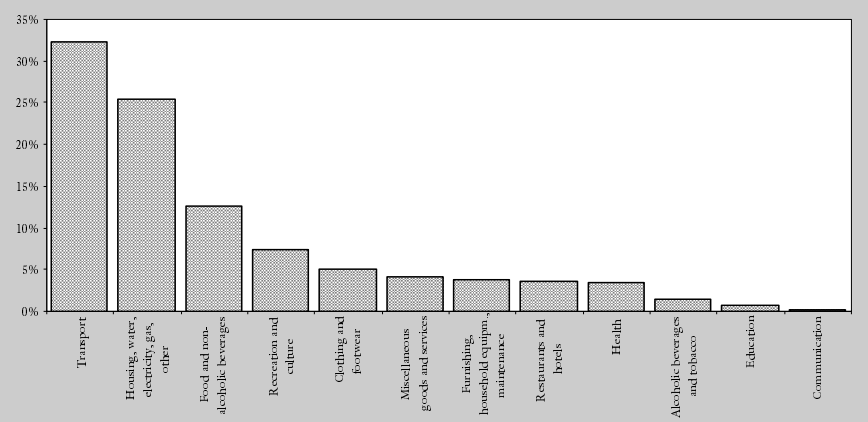
grew in 1999 by 4.6% in real terms, which is the most in the last five years; however, it is assessed that in 2000 its growth is slowing down. In 2000, the employment rate is continuing to grow, as is the gross wage per employee. However, the latter is increasing at a considerably slower pace than in 1999. There will be no major changes in the structure of household income in 2000. Wages and salaries with a 50-percent share still represent the largest source of household income (in 2000, the aggregate of wages and salaries will, primarily due to the employment growth, rise by 3.5% in real terms). Pensions, which are also an important source of household income (around one-quarter of inhabitants are retired), will be 2.2% higher in real terms in 2000. The latter is partly the consequence of the envisaged 0.7-percent increase in the number of those who retired since last December, and partly of the pensions being harmonised with the growth of wages twice in 2000. Immediately after pensions, family benefits and parental leave benefits have the highest share within social security benefits (9.1%), while in the structure of all income they only have a 1.8% share. For the third year in a row, unemployment benefits will decrease in real terms as a consequence of a lower number of recipients. On the contrary, interest is up to 51% higher, mostly due to higher interest rates and partially because of the greater household savings (see chapter 4.7.). On the other hand, interest paid increased even more (by 57%) which is, given the high long-term borrowing of the past year, a consequence of the growth in interest due. Net non-life premiums and non-life insurance claims have been recording high growth for several years; in 2000, the premiums are to rise by 0.6% in real terms, while insurance claims are to grow by as much as 6.6%. Taxes on income are expected to go up by 3.8% in real terms, while various current transfers, including different administrative, legal and communal fees, penalties, membership fees and similar transfers, are to rise by 18.3%. Taking into account all of the above movements, the **household disposable income is assessed to grow by around 3.4% in real terms in 2000**.

4.4. PRICES AND PRICE POLICY – In 2000, external factors are pushing up consumer and producer prices

In the first ten months of 2000, **consumer prices** went up by **7.6%**, which is 1 percentage point more than in the same period of 1999, while the average inflation rate in October was 8.6%. Besides the price level, the volatility of prices also increased in 2000; the monthly growth levels were between 0.3% and 1.4%. The movements in consumer prices in 2000 were marked significantly by increases in the prices of oil and other primary commodities, which have directly influenced energy prices in Slovenia, while in the third quarter of the year their indirect influence strengthened. In the first ten months of 2000, the increase in consumer prices was mostly due to goods and services from the housing group which on average increased by 16.7% (of this mostly fuels and energy, by 22.1%), and goods and services from the transport group, whose prices went up by 12.9% (fuels and lubricants by 25.5%). The summer months

were characterised by a lack of the seasonal decrease of the non-processed food product prices. The higher prices of oil and primary commodities caused prices to rise in Slovenia's major trading partners which, through more expensive imports, additionally influenced the growth of domestic prices. The above-average growth in the prices of goods and services from the health care group also continued, especially those of medicines and medical products, which went up by 12.9% in 2000, and goods and services from the recreation and culture group, which on average increased by 6.6% in 2000.

Figure 5: Contribution to inflation by product groups



Source: SORS, calculations by IMAD

4

Despite the different monthly growth dynamics, the prices of **goods and services** climbed by 7.8% and 7.1%, respectively, in October over December 1999. This is primarily due to the increased prices of raw materials and thus the input prices of the prevailingly trading sector. In the services group, it was the prices of financial and insurance services that increased the most. Taking into account the relatively smaller share of services in the consumer prices index, their contribution to total inflation was 24.1%, while the rest came from the prices of goods.

The share of goods and services under various forms of **price control** has gradually fallen in recent years and covered, at the beginning of the year, 13.7% of all goods and services included in the consumer prices index. At the end of March, the Government changed the regime of controlling the prices of automotive petrol types by introducing a pricing model, and in October it did the same regarding diesel fuel and light fuel oil. According to the model formed in co-operation with the sellers of these products, the sale prices of these products

in the domestic market are now formed in line with the oil prices on the global market, USD exchange rate, and the agreed sales margin. October also saw the adoption of a decree on forming the average sales price of natural gas from the transport network, tied to movements of the prices of light fuel oil and Brent oil as well as movements in the US dollar and the euro. The priority task in the area of price control for 2001 remains the final regulation of prices in the area of energy, primarily in goods and services where models for their formulation have not yet been prepared, while liberalisation has not yet been envisaged. The main criterion in the further liberalisation of prices remains the relative price level of administered goods and services achieved, and the level of competitiveness in their supply.

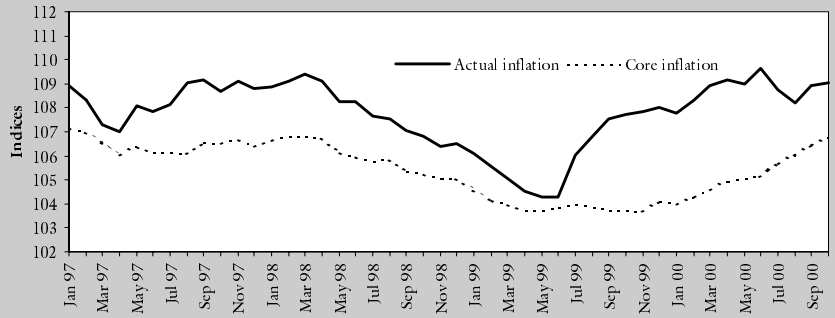
In the first ten months of 2000, administered prices increased by 14.5%, and again overtook the growth in consumer prices. Apart from adopting the mechanisms for formulating energy prices and the consequent changes in prices, in the first ten months of 2000 the Government increased the prices of postal services, radio and television subscriptions and railway passenger transport. In the second half of 2000, formulation of the prices of communal services was transferred to the local government level; municipalities now formulate prices in line with the instructions on the methodology of formulating the prices of compulsory local public services. In the first ten months of 2000, the **influence of administered prices to inflation** was **strong** mostly **due to increases in the prices of automotive petrol types**. In the first ten months, the administered prices contributed 28% to the growth in consumer prices, over 60% of which was due to the increased prices of automotive petrol types. If automotive petrol types are excluded, the administered prices contributed between 4.3% and 30.4% to the rise in consumer prices by individual months.

In 2000, **growth in the prices of agricultural products** is not lagging considerably behind growth in the prices of consumer goods, which was characteristic of previous years, primarily due to the drought and the considerably reduced agricultural production, not only in Slovenia, but also in the most important supplying countries, and also due to the indirect influence of the increasing energy prices. Because of lower domestic supply, continued growth of prices and more expensive imports can also be expected up until the end of the year. Within the framework of direct control of the prices of agricultural products, the state is currently only controlling the purchase price of cow milk and defining the market organisation for wheat and rye, within which intervention prices are determined. Retail prices of milk and bread are formed freely in the market. The state, in the previous years the main buyer of cereals, in 2000, through the definitions of the market organisation, also withdrew from this

market and thereby lost its influence on the formation of purchase prices. In return, it provided direct payments to market producers of wheat and rye, like in the previous year. The higher import prices of wheat and the higher domestic purchase prices of cereals (by around 30% compared to the average 1999) caused retail prices of cereal products in the first nine months of the year to increase by 14% on average compared to the same period of 1999. Apart from the higher prices of flour, this was also indirectly influenced by the higher prices of electricity, oil and packaging materials, as well as higher labour costs. Following enforcement of the Decree on Defining the Elements of the Purchase Price of Cow Milk, its base price increased by 7.5% on 1 July, which primarily influenced the rise in the retail milk price.

In the first ten months of 2000, **industrial producer prices** rose by 7.9%, while their year-on-year growth was 9.1% in October. A larger increase in prices was accompanied by stronger volatility between individual months. Broken down by activities, price increases were the strongest in the group of coke, oil products and nuclear fuel, going up by 54.8% or around 9 times more than the average rise in producer prices.

Figure 6: Actual and core inflation (CPI)



Source: SORS, IMAD

In 1998, when the price of oil (and consequently the market price of oil products) was decreasing, the pre-tax sales prices of all oil products were falling, as elsewhere in Europe. The Government took advantage of these developments and, in line with the strategic guidelines on approaching European prices, increased the amount of total taxation in automotive petrol types and gas oil by over SIT 20, and in light fuel oil by over SIT 10 per litre (in the EU, the tax fell by a few tolars). In 1998, thus the retail prices of derivatives rose in Slovenia while in the EU they were falling. In 1999, when oil prices were already growing, the

Box 6: Core Inflation

The consumer price index, used in Slovenia to measure inflation for the last four years, includes changes in the prices of goods and services that, in line with the SORS survey, represent the average consumption habits of average households. Therefore, it also includes the prices of goods and services that are highly dependant on short-term influences (like current seasons), one-off factors (like changes in prices due to a supply shock) and noise, all of which increases volatility of the overall index especially in the short-term. Although those influences play an important role in price changes, they cannot be influenced by the instruments of macroeconomic policy. Therefore, it is sensible to estimate core inflation, which excludes these influences.

Estimating core inflation with the **method of optimal trimmean,** groups with extreme price changes are defined for each individual month; these groups are then left out of the calculation of the weighted average of what remains. The share of trimmed products is defined in the process of minimising the difference between the values of centred moving average and the values of the trimmean. At optimal trimmean, around 12% of goods and services are excluded; in 78.7% of all cases the non-processed food products; and in 22.2% of all cases the energy products are excluded.

The movement of core inflation assessed on the basis of the method of the optimal trimmean is shown in Picture 6. After excluding the influence of value-added tax and the highest and lowest prices in individual months, core inflation itself started to increase in 2000. In October, the year-to-year rise in core inflation reached 6.7%, and was 2.6 percentage points higher than the core inflation in last December. The difference between the actual and core inflation decreased to 2.3 percentage points in October which, in our assessments, reflects the accelerated transfer of the higher prices of primary commodities to other prices. We expect **core inflation** at the annual level to **reach 7.1% at the end of 2000**, **and the average core inflation to be 5.6%.** In 2001, the difference between the core and actual inflation is forecast to shrink further and to amount somewhat over 1 percentage point at the end of the year.

differences between the domestic and average European taxation of oil products again increased greatly, both measured in tolars and in percent, and these differences have mostly remained the same up until today. However, it is also true that in certain derivatives some EU members (especially smaller and less developed ones) are also largely lagging behind the EU average in this sense. In 1999 in Slovenia part of the burden of the deteriorated conditions in the oil market was also carried by the domestic distributors of oil products, which is shown by a wider gap behind the EU in the pre-tax prices in 1999. In 2000, following the introduction of the model for setting prices for gasoline products, first for automotive petrol and later for gas oil and light fuel oil, the situation in this area was regulated so that at the beginning of November 2000 the pre-tax prices of oil products were practically level with the average prices in the EU.

The movement in prices up until the end of 2000 is expected to be marked by the same factors as in previous months. **The average inflation rate in 2000**

Table 19: Comparison of the pre-tax prices of selected oil products, retail prices and the taxes on oil products between Slovenia and the EU average, in SIT/litre

v SIT/liter

	5. I. 1998	4. I. 1999	3. I. 2000	6. XI. 2000
Pre-tax prices of selected oil products				
Lead-free 95-octane automotive petrol				
Slovenia	42.98	31.13	45.01	79.23
EU	44.19	34.90	59.79	79.66[1]
SLO / EU, in %	-3	-11	-25	-1
Gas oil				
Slovenia	39.02	30.52	51.40	86.06
EU	42,75	34.11	60.85	85.41[1]
SLO / EU, in %	-9	-11	-16	1
Light fuel oil				
Slovenia	37.35[2]	28.00[2]	44.60	79.05[2]
EU	35.35	26.41	50.19	77.02[1]
SLO / EU, in %	6	6	-11	3
Retail prices of selected oil products				
Lead-free 95-octane automotive petrol				
Slovenia	94.40	103.50	119.70	162.60
EU	158.11	148.05	185.56	217.68
SLO / EU, in %	-40	-30	-36	-25
Gas oil				
Slovenia	86.20	100.50	128.70	163.20
EU	124.16	114.08	152.68	186.73
SLO / EU, in %	-31	-12	-16	-13
Light fuel oil				
Slovenia	47.60[2]	48.40[2]	68.30	109.30[2]
EU	65.12	54.82	84.46	117.39
SLO / EU, in %	-27	-12	-19	-7
Taxes on selected oil products				
Lead-free 95-octane automotive petrol				
Slovenia	51.42	72.37	74.69	83.37
EU	113.91	113.15	125.77	138.02
SLO / EU, in %	-55	-36	-41	-40
Gas oil				
Slovenia	47.18	69.98	77.30	77.14
EU	81.41	79.96	91.83	101.32
SLO / EU, in %	-42	-13	-16	-24
Light fuel oil				
Slovenia	10.25[2]	20.40[2]	23.71	30.25[2]
EU	29.77	28.41	34.28	40.37
SLO / EU, in %	-66	-28	-31	-25

Notes: [1]EU average excluding Portugal, which subsidises oil companies. [2]Domestic prices without quantity discount because Petrol charges transport costs separately (50%).
Source: EC, Oil Bulletin nos. 899, 948, 997, 1040; Ur.l.RS 75/97, 82/98, information and prices from Petrol.

will thus **increase to 8.9%** and will exceed the average inflation rate of 1999 by 2.8 percentage points.

According to the estimates of foreign analysts, prices of oil are expected to fall in 2001 as the winter season ends. However, a decrease in oil prices will have a less significant influence on prices in Slovenia than previous rises. Besides, the transfer of higher foreign prices will continue via the trading sector for at least some time. The internal factors that will significantly influence inflationary movements primarily include the strengthened transfer of the higher prices of primary commodities to other prices, and the related increased inflationary expectations. The inertia effect of higher inflation in 2000 will still exist in at least two quarters after oil prices stop increasing. On the other hand, the decreased government spending in the period of provisional financing of the budget will at least somewhat help moderate inflationary expectations. Drawing on the estimated rise in consumer prices in 2001 and the expected effect of external and one-off influences and their transfer to other prices, the difference between the actual and core inflation in 2001 could gradually decrease. In the second half of the year, the year-to-year rate of inflation could also start to fall faster and thus come down from 2000's high level (assessed at 9.5%) to around six percent; taking into account the most restrictive assumptions, even somewhat below this level. **The average inflation rate in 2001 would thus amount to approximately 7.8%.** On the basis of the expected slowdown in inflation and continuation of the favourable trend in 2001, the **average annual rise in prices in 2002 is to gradually near 5%, with the year-to-year level also expected to move close to this level.**

4.5. SAVINGS AND THE CAPITAL MARKET - Retail savings are strengthening, companies are increasingly borrowing abroad; the domestic capital market urgently needs stimulation.

The savings habits of the inhabitants are changing along with the development of the Slovenian financial market. Apart from the traditional forms of saving (bank deposits and life assurance) and investments in real estate, alternative possibilities of investing savings have been increasing in recent years, especially investments in domestic and foreign securities and new forms of saving (housing savings scheme, voluntary pension insurance). According to a survey on the savings habits of Slovenian households from 1999 (Simoneti, 1999), changes in the savings habits of Slovenian households are relatively slow. They do not even follow changes in the Slovenian financial system in terms of providing new savings opportunities, which are themselves happening slowly. According to this survey, investments in securities (purchases of shares, mutual funds, bonds of domestic and foreign investors) still attract a very small share of the population,

especially if those who bought shares through an internal buyout and cannot be considered typical investors are not taken into account. Because of incomplete information on retail investments in real estate and securities, we present movements of retail savings in banks and insurance companies (life assurance) which, in IMAD's assessment, represented approximately half of gross retail savings in 1999. Our assessment is that the share of this type of saving in gross national savings in the period since 1995 has followed a slow decreasing trend, with the share of savings invested in insurance companies slightly increasing.

Retail savings in banks in the first nine months of 2000 **increased relatively faster than in the same period of 1999** (up 11.3% compared to 6.4% in real terms) when growth in retail deposits in banks, especially in the first half of the year, was hindered by the higher spending and borrowing of residents prior to introduction of VAT, as well as by the relatively lower real deposit interest rates compared to 1998. The currency and maturity structure of retail deposits in banks changed considerably in 2000, which was influenced by changes of the tolar indexation clause and exchange rates. In the first nine months of 2000, tolar savings (excluding deposits in giro and current accounts) recorded 8.9% real growth with the increase in short-term savings (9.8% in real terms) substantially exceeding that of long-term savings (3.5% in real terms). By the end of September 2000, the share of long-term tolar deposits, which had been decreasing throughout the year, thus fell by 0.9 of a percentage point compared to December 1999, and amounted to 17.8%. Partially, the reason for this is the rebooking of around 10% of long-term retail deposits into short-term deposits, due to the altered methodology of the Bank of Slovenia in calculating the mandatory reserves at the beginning of the year; besides, to a great extent the growth in short-term tolar deposits was influenced by 2000's relatively high tolar indexation clause. In the same period, real foreign currency savings rose faster than tolar savings (13.5%; in the same period of 1999 tolar and foreign currency savings rose at approximately the same rates in real terms). This resulted in a slight fall in tolar savings (excluding deposits in giro and current accounts) relative to total retail deposits (at the end of September 2000 49%; in December 1999 49.8%). In 2000, it was long-term savings (46.7-percent real growth) that increased substantially in total foreign currency savings, so that their share rose from 10.1% at the end of 1999 to 13.1% at the end of September. Such changes in the savings structure probably reflect the expectation that, in the long term, the nominal exchange rate will rise faster than domestic inflation, or the tolar indexation clause.

In recent years, **life assurance has become increasingly significant**. Since 1991, the range of life assurance schemes has become considerably more diverse[18]. They recorded a distinct increase in both the gross premiums written and in the structure of insurance deals, especially after 1994. Between 1990 and 1999, the share of life assurance premiums[19] in gross domestic product increased from 0.09% to 0.8% of gross domestic product; in 2000 this share is to draw close to 0.9%[20]. With the gross premiums written amounting to SIT 31 billion and an 18%-share among all premiums, in 1999 life assurance ranked second among all insurance types, immediately following voluntary health insurance (in 1998, it was still in third place). However, the percentage is still modest compared to EU member-states, where the comparable share is around 58%.

The structure of insurance schemes in Slovenia is expected to change to the benefit of life assurance, as the new insurance[21] and pension legislation[22] will provide new stimulus and opportunities to life assurance. Thus, those insured for life with an insurance period longer than 10 years will not have to pay taxes on insurance premiums (6.5% of a premium). Considering that the new Pension and Disability Insurance Act envisages a reduction of old-age pension from the current 85% to 72.5% of the pension base, voluntary additional pension insurance will increasingly gain significance, being above all intended to compensate for the decreased social security which has so far been fully provided through compulsory pension insurance. Besides, voluntary pension insurance also enables tax relief, which will in future bring more clients. We therefore expect in the following few years that persons in employment will gradually join the additional pension insurance scheme; this will make life and pension insurance an increasingly important alternative form of long-term household savings.

[18] The most frequent insurance types offered by the majority of Slovenian insurance companies are death and endowment and additional accident insurance. Besides, the portfolio of life assurance includes: annuity assurance, insurance to be paid out on marriage or birth, life, endowment or annuity assurance for which an investment risk is assumed, insurance with one-off or instalment payments and agreed-value insurance, voluntary pension and disability insurance, and other types of life assurance.

[19] The information includes both insurance of natural (households) and legal persons, however, the share of the latter both in the structure of gross premiums written (in 1998 it amounted to 0.2%) and claims incurred (3.3%) is negligible (SORS, 1999).

[20] With regard to the dynamics of the premiums collected in the first half of 2000 (compared to the same period of 1999, they grew by 9.2% in real terms), we assess that the real growth of gross premiums from life assurance in 2000 will amount to around 10%; their share in GDP could, according to assessments, reach 0.89%.

[21] Act Regulating the Ownership Transformation of Insurance Companies and the Insurance Act. Ur.l. RS no. 13/2000.

[22] Pension and Disability Insurance Act. Ur.l. RS no. 106/1999, effective 1 January 2000.

After 1999, when the **ratio between retail loans by commercial banks and the average registered monthly personal income** (including net wages and salaries, other receipts from employment and transfer receipts) increased strongly, growth in retail loans was more moderate in 2000. The trend of increasing retail borrowings was brought to a halt after February 2000, when the ratio between retail borrowings and average registered monthly personal income was 3.01, and by August the ratio decreased to 2.87.

Table 20: Retail loans / registered monthly personal income, 1995 – August 2000

Period	Average monthly retail loans by commercial banks (in billions of SIT)	Average registered monthly personal income (in billions of SIT),	Loans / income
1995	123.9	88.9	1.39
1996	192.9	106.4	1.81
1997	224.6	119.8	1.87
1998	272.7	131.8	2.07
1999	390.2	148.8	2.62
2000 (avg)	478.3	166.5	2.87

Source: Bulletin of the Bank of Slovenia BS, recalculations by IMAD

Growth in short-term loans, amounting to 8% in real terms in the first nine months of 2000 compared to the same period of 1999, represented the bulk of the total increase in bank **loans to the corporate sector**. This was mostly due to February's enforcement of the Act Amending the Financial Operations of Companies Act, which does not allow the presence of non-liquid companies in the market for a longer period of time. Companies are thus raising short-term liquidity loans in order to avoid debt enforcement. Borrowing was further influenced by the increased liquidity needs since the introduction of value added tax (it is paid on accrual rather than cash basis) as well as by growth in the exchange rates which, in the short term, aggravated the conditions of borrowing abroad. On the other hand, as regards long-term loans to companies, foreign banks are increasingly ousting domestic banks. The net flow of long-term loans from domestic banks to companies and other financial organisations in the first eight months of 2000 only amounted to SIT 344 million (in the same period of 1999 SIT 20,983 million). However, in the same period the inflow of foreign loans raised by companies increased significantly (from SIT 45,990 million in the first eight months of 1999 to SIT 69,584 million in the same period of 2000 or by over 40% in real terms).

In the first eight months of 2000, foreign indebtedness of Slovenian companies rose even more strongly than in 1999 despite the relative worsening of the

lending terms in the international market compared to 1999 (higher interest rates, faster growth of foreign exchange rates). However, they were still substantially more favourable than at home. The accessibility to foreign loans improved for Slovenian companies, as foreign banks lowered the risk ratings for Slovenian borrowers due to Slovenia's better general rating. Furthermore, as the demand for long-term loans increased, domestic banks turned out to be insufficiently liquid. Also, in granting large loans to individual borrowers, they are limited by the regulations on credit exposure. Even if banks raise syndicated loans abroad in order to provide funds for loans to domestic companies, the problem of the insufficient liquidity of the banking system remains a burning issue in the long run. The price of these loans is higher than the price of domestic deposits, furthermore, the direction of financial flows across the border remains unchanged and the problem of increasing foreign indebtedness unresolved.

In 2000, **interest rates** were highly volatile for various reasons. The level of nominal interest rates on loans and deposits depended on the movements of the tolar revaluation clause; measures of the restrictive monetary policy and movements in the money market additionally influenced the real part of the interest rate over tolar revaluation clause. In the first nine months of 2000, the average real interest rate on short-term loans rose from 6.2% to 6.5%, while the average real interest rate on long-term loans remained at the level of 8%. However, from January to September real interest rates on long-term retail loans increased by 0.2 of a percentage point. Up until August, real deposit interest rates did not change considerably. In August, the new recommendation of the Bank Association of Slovenia on increasing deposit interest rates on tied deposits took effect, which again induced the rise in interest rates on deposits tied for a period of more than 91 days.

In the first nine months of 2000, the Slovenian **capital market** was marked by the fall in share prices: the value of all ten share indices published by the Ljubljana Stock Exchange dropped. The main reason for the large fall in share prices should not be sought in macroeconomic conditions or business results of the issuers. Despite the relative closeness of the Slovenian capital market, the decrease in 2000 can in part be ascribed to negative developments in foreign capital markets[23], but also to the lack of domestic demand. In 1999, there was no

[23] In the first nine months of 2000, share prices on most capital markets around the world dropped. In this period, the value of the global stock exchange index, calculated by the MSCI, decreased by 3.7%, while general share prices in European capital markets fell by 0.7%. The share prices in the Central European capital markets, exerting the largest influence on developments on the Ljubljana Stock Exchange, dropped even more. The stock exchange index of MSCI measuring the profitability of shares in the capital markets of the Czech Republic, Hungary and Poland fell by almost 9% in the first nine months of 2000.

significant development of domestic institutional investors (pension funds, which should be the most stable source of demand for domestic securities, are still not active in the market), nor any major changes in the savings habits of Slovenian households (Kleindienst, 2000). Also, the activities of foreign investors on the Ljubljana Stock Exchange did not have any major influence on share prices in 2000, as the share of foreign investors in total turnover remained small (oscillating between 2% and 8%). The fall in the prices of shares of authorised investment companies is primarily the result of the state's insufficient activity to fill the privatisation gap[24]. Developments in the Slovenian capital market were thus to the greatest extent marked by the consolidation activities of share issuers in the summer and autumn months.

In the first nine months, **securities turnover** practically stagnated compared to the same period of 1999 (0.6-percent growth); which is expected to continue up until the end of 2000. Another indicator of market liquidity, the number of transactions, shows a further decrease in the liquidity of the Slovenian capital market. In the first nine months, the **number of transactions** only reached 62% of transactions in 1999, and it is very likely that the total number of transactions made in 2000 will be 5% to 15% lower than in 1999. Despite the general fall in the share prices, **market capitalisation** of shares rose by 8.9% from the end of 1999 up until end-September, market capitalisation of bonds and shares of authorised investment companies grew by 14.6% and 11.3%, respectively, while the total market capitalisation of long-term securities increased by 10.4%. The rise in market capitalisation is mostly due to the fact that 18 new share issues were quoted in the official market in the first nine months of 2000, while the number of bond issues increased by 11. All new quotations originate from the process of ownership restructuring, while there were no genuine offers for sale of shares in this period.

Table 21: Market capitalisation of long-term securities on the Ljubljana Stock Exchange (in millions of SIT)

Day	Shares	Bonds	Authorised investment companies	Pension vouchers	Total
31.12.96	124,990.4	52,192.0	0.0	0.0	177,182.4
31.12.97	315,944.6	83,399.9	0.0	0.0	399,344.5
31.12.98	483,037.3	145,108.4	82,106.0	0.0	710,251.7
31.12.99	566,461.5	221,058.6	125,358.7	7,109.1	919,987.8
30.09.00	616,678.5	253,237.5	139,568.5	5,331.6	1,014,816.2

Source: Ljubljana Stock Exchange

[24] At the end of June 2000, the value of non-used ownership certificates still accounted for 31% of the accounting value of all investments of authorised investment companies.

The proportion of market capitalisation of foreign-owned shares dropped by another percentage point in the first nine months of 2000, and amounted to 7% at the end of September 2000. This is substantially lower than in comparable Central European countries. In the same period, foreign investors in the official market continued to sell securities (the value of net sales reached SIT 81 million), however, this was considerably lower than in 1999 (SIT 2,269 million). The easing of the custody accounts regime by reducing their costs at the annual level from 2% to 1.6% in the last quarter of 2000 will not be sufficient to attract foreign investors, as the regime still creates an image of the closed capital market in Slovenia.

The situation in the capital market in 2001 will depend on the speed of the privatisation process, i.e. on the listing of the shares of Telekom and both state-owned commercial banks on the stock exchange. The former could, at least in the short term, give boost to the market. Developments in the capital market in 2001 will also be influenced by the manner of addressing the privatisation gap and transforming the authorised investment companies. As regards **further development of the Slovenian capital market**, its role will gradually decrease if there are no major systemic changes. The domestic demand for securities, even if pension funds perform well, will not be sufficient for market liquidity to increase to an acceptable level. Although demand of domestic private and institutional investors for shares and other securities is expected to gradually rise, an increasingly large part of this demand will be oriented to foreign securities. Market liquidity is likely to decrease further because of the greater consolidation of ownership in Slovenian companies and authorised investment companies, as well as due to the consolidation of the issuers of securities themselves. Some sources will probably move gradually to foreign capital markets in the form of global depository receipts. Major growth in the liquidity of the Slovenian capital market could be boosted by the stronger role of foreign investors, which is so far limited due to the smallness of the market, delays in the privatisation of the financial sector and infrastructure, as well as by the existing custody accounts regime.

4.6. EMPLOYMENT AND UNEMPLOYMENT – Continuation of favourable trends in 2000 and in the oncoming years

The positive trends in the labour market are continuing in 2000. Employment growth (according to the monthly information from SORS), which started in 1999 after several years of falling, and stagnation in 1997 and 1998, **was 1.6%**

in the first nine months of 2000. After the substantial January decrease, when fixed-term work ended for more than 4,000 persons and the number of farmers also dropped, the number of people in employment grew from February until June at an average monthly rate of 0.3%. The number of those employed in enterprises and organisations was increasing with the same dynamics. The strongest growth was seen in the number of those employed in the small business sector (on average by 1.1% per month). An upward trend was also recorded in the number of own-account workers, which had been falling or stagnating since January 1998, and the number of individual private entrepreneurs, which had been decreasing since October 1997. Movements in the number of people in employment are strongly influenced by the assessment of the number of farmers on the basis of the quarterly labour force surveys, characterised by considerable oscillation[25]. The substantial fall in the number of farmers was the main reason for the drop in the number of people in employment in July. In the summer months, the number of employees in enterprises and organisations alsoslightly decreased which was more of a seasonal character. This was also confirmed by the September figures.

In 2000, the **number of people in employment is also increasing according to the results of labour force surveys**, as opposed to 1999 when, due to the reduction in the volume of informal employment, it fell despite the increase in the number of those formally employed. In the second quarter of 2000, the activity rate (measured in inhabitants aged 15 and over, according to SORS' method) was 53.6%, somewhat lower than in the same period of 1999, but slightly higher than 1999's average (53.6%)[26]. The activity rate of women (47.9%) improved in the second quarter of 2000 compared to the same period in 1999 and 1999's average. The activity rate of men (59.5%) decreased compared to all of 1999's levels (quarterly and yearly). This leads to the conclusion

[25] In the monthly reports on persons in employment, the SORS takes into account, as the number of farmers, the figures from the labour force survey for the previous three quarters (average). The number of farmers in the monthly reports is thus shown with a three-month delay. Furthermore, it oscillates strongly from quarter to quarter, which points to the methodology deficiency of the survey information rather than to the actual dynamics in the number of farmers. It is true that the number of farmers is probably falling in 2000, due to changes in the price and fiscal policies in the area of private farming, however, the question is whether the large fall presented by the monthly records of the SORS is realistic.

[26] In the first quarter of 2000, the activity rate measured amongst inhabitants aged 15-64 (which is comparable to Eurostat's methodology) was 64.2% (1999's average was 64.1%). The activity rate of women in the second quarter of 2000, according to the Eurostat method, was 60.2% (1999's average was 59.4%), while with men it was 68.2% (1999's average was 68.5%).

that the informal employment of women is somewhat increasing, while the informal employment of men is shrinking.

The nine-month figures on persons in employment by activity show that the number only decreased in the agricultural sector (primarily because of the fall in the number of farmers). The number of persons in employment in industry and construction grew by 1.2% from December 1999 until September 2000 (despite the slight fall in summer), while in manufacturing it went up by 1.3%. In the January-September period, the number was thus 0.2% higher than in the same period of 1999: in construction it rose by 5.4%, while in mining, electricity, gas and water supply, and in manufacturing it fell. Until June, the number of persons in employment was increasing in all service activities (in total by 1.6%), however, in the summer months it dropped again in certain activities. From December 1999 until September 2000, it thus mostly increased in other service activities, public administration, health care and social work, and financial intermediation; and compared to the same period of 1999 also in trade and hotels and restaurants. Among manufacturing industries, from December 1999 until September 2000 the number of persons in employment fell in transport equipment manufacturing (-4.8%), the textiles industry (-3.0%), paper industry

Table 22: Structure and trends in the number of people in employment by activity

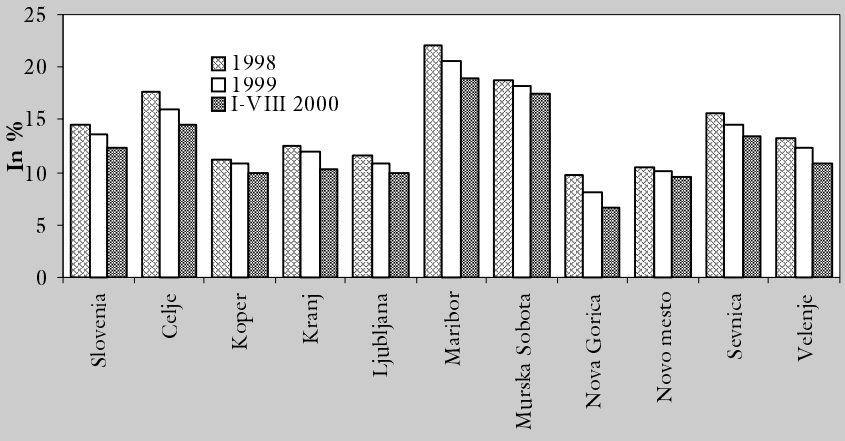
		Annual growth (in %)			Structure (in %)	
		1999 / 1998	I-IX 2000 /I-IX 1999	IX 2000 / XII 1999	1999	I-IX 2000
	TOTAL	**1.8**	**1.6**	**0.9**	**100.0**	**100.0**
A	Agriculture, hunting, forestry	-8.8	-1.6	-8.4	6.0	5.7
B	Fishing	-1.8	-15.7	-4.4	0.0	0.0
C	Mining and quarrying	-5.6	-18.6	-14.4	0.9	0.8
D	Manufacturing	-1.6	-0.3	1.3	30.9	30.4
E	Electricity, gas, water supply	0.6	-2.3	-0.7	1.5	1.5
F	Construction	4.1	5.4	3.0	7.3	7.5
G	Wholesale & retail trade, repair of motor vehicles	3.4	4.0	1.4	12.4	12.7
H	Hotels and restaurants	7.0	3.7	0.9	3.7	3.8
I	Transport, storage, communications	4.8	1.2	0.8	6.2	6.2
J	Financial intermediation	9.0	3.5	2.2	2.5	2.5
K	Real estate, renting, business services	6.3	3.3	1.4	5.9	6.0
L	Public administration, compulsory social securitiy	2.7	3.1	3.2	5.6	5.7
M	Education	1.6	1.6	1.1	6.9	6.9
N	Health care, social work	9.5	3.1	2.6	6.9	7.0
O	Other community, social, personal services	8.1	3.7	3.2	3.2	3.3
P	Private households	7.2	9.5	15.9	0.1	0.1
A+B	**Agriculture**	**-8.8**	**-1.6**	**-8.4**	**6.0**	**5.7**
C-F	**Industry and construction**	**-0.6**	**0.2**	**1.2**	**40.6**	**40.2**
G-P	**Services**	**5.1**	**3.0**	**1.7**	**53.4**	**54.1**

Source: SORS, calculations by IMAD

and publishing (-1.3%), and production of coke and oil products (-1.0%), while it grew in all other industries, mostly in the manufacture of electrical equipment (5.1%), leather and leather products (4.9%), and metal industry (4.5%).

Assuming that employment trends up until the end of the year 2000 will be similar to the dynamics seen in the last few years (a rise in the autumn months and a fall in December), 2000's growth in the number of persons in employment will be around 1.5%. **The growth in employment in full-time equivalent is assessed to be around 1% in 2000** and will be, due to the fall in informal employment, lower than the growth in the number of people in employment recorded by SORS. Taking into account the assessed gross domestic product growth (4 %), this would mean around a 3.3%-increase in total labour productivity in 2000, which is somewhat less than in 1999. **Given somewhat higher gross domestic product growth up to 2002, and the rise in employment in full-time equivalent by around 1%, labour productivity growth could slightly strengthen in the next two years.** The increase in the number of employees by monthly sources would still somewhat exceed the rise in the number of employees in full-time equivalent; in both years by around 0.2 of a percentage point.

Figure 7: Registered unemployment rate by regional Employment Service Offices



Source: SORS

In the first ten months of 2000, the **number of registered unemployed continued to fall**, as had in the whole of 1999. The fall in 1999 was largely due

to the revision of records, and in part due to the statistical re-categorisation of persons involved in public works from being unemployed to employed (the consequence of amended legislation in autumn 1998). In 1999 the inflow of persons losing work was larger than in 1998, while the outflow of the unemployed to employment was lower. This trend also continued in 2000. From January until the end of October, 51,000 people lost their jobs, 5.2% more than in the same period of 1999. In the same period, more than 52,000 unemployed people obtained work (together with those involved in public works), which is 2.2% less than in the same period of 1999. The **main reason** for the drop in unemployment is, also in 2000, **extensive deletions from the records**. From January until October, almost 26,000 persons were deleted from the records, which is 13.3% more than in the same period of 1999. Until the end of October 2000, the inflow of first-time job seekers was 5.2% higher than in the same period of 1999.

In the January-September period, the number of registered unemployed was falling in all months, except in January and July, so that from December 1999 until September 2000 it had decreased from 114,348 to 102,198. In October, it again rose to almost 105,000 because of the usual seasonal inflow from schools. The registered unemployment rate dropped from 13% in December 1999 to 11.7% in September 2000, with the level of registered unemployment of women remaining much higher (in September 13.1%) than the level of registered unemployment of men (10.5%; in 1999 the average registered unemployment rate was 13.6%: 12.4 for men and 15% for women). Despite the fall in the number of unemployed and the extension of the programmes of active employment policy, the structural problems of unemployment have not been reduced. The share of unemployed over 40 years of age has already exceeded half of all unemployed, the share of unemployed over 50 amounts to more than one-quarter of all the unemployed, while the structural share of long-term unemployed is over 60%. The proportion of the unemployed without education remains at the level of around 47%; it includes approximately 70% of those who have been unemployed for more than one year (in 1999 72%). In more than half of the cases, the unemployed are women. Taking into account the usual seasonal dynamics of unemployment movements up until the end of the year, at the end of **2000** there will be around 104,000 **registered unemployed** or 11.8% of the registered labour force, while **on average** the figure will be 106,600 or **12.2% of the registered labour force**. Considering the expected growth in employment, **unemployment will continue to drop in 2001 and 2002** (102,700 or 11.7% of the registered labour force, and 100,600 or 11.3%, respectively), with the activity rate continuing to slowly increase again.

The figures for the first eight months show that there were no major changes in the **regional distribution of unemployment**. The registered unemployment rate remains very high in Maribor and Murska Sobota (20.6% and 18.2%, respectively), where it has only decreased slowly. In Celje and Sevnica (16% and 14.6%, respectively) it is also higher than the national average. Unemployment has dropped the fastest in Nova Gorica, where the registered unemployment rate already fell below 7% in 2000.

The year 2000 also saw a **drop in the number of unemployed according to the labour force survey**. In the first quarter, the rate of surveyed unemployment was 7.5%, and in the second quarter it was 7.2% (1999's average was 7.6%, while in the last quarter of 1999 it was 7.7%). In the first quarter of 2000, the rate of surveyed unemployment of women (7.4%) was lower than the unemployment rate for men (7.5%) for the first time since 1996, however, in the second quarter the surveyed unemployment of men fell (to 7.0%), while that of women remained unchanged. Surveyed unemployment still does not include over 50,000 persons who are otherwise included in the registered unemployed, mostly because in the preceding 4 weeks they had not sought work. According to the survey, youth unemployment remains high and is even increasing (19% in the first quarter of 2000; 1999's average was 18.1%), with the unemployment of young women increasing strongly (21.1% in the first quarter of 2000).

The number of job vacancies in 2000 remains on average approximately the same as in 1999 while, due to the falling unemployment, the **ratio between the unemployed and job vacancies continues to improve**. In 2000, for every one job vacancy there were 8.5 unemployed (in 1999 the ratio was 9.6). The ratios with regard to education level are also improving for all education levels; however, the unemployed with low education levels are in the most critical position, pointing to the problem of their employability and thus to the structural problems of unemployment. There are on average around 2.5 registered unemployed persons with higher education per one vacancy with the same educational requirement (in 1999 2.6), a vacancy with secondary education attracts 7.8 unemployed with such education (in 1999 8.8), while non-qualified and semi-qualified vacancies attract 12.9 unemployed without education (in 1999 14.4).

5. MAIN ORIENTATIONS OF ECONOMIC POLICY

5.1. MONETARY POLICY – Continuation of restrictive monetary policy

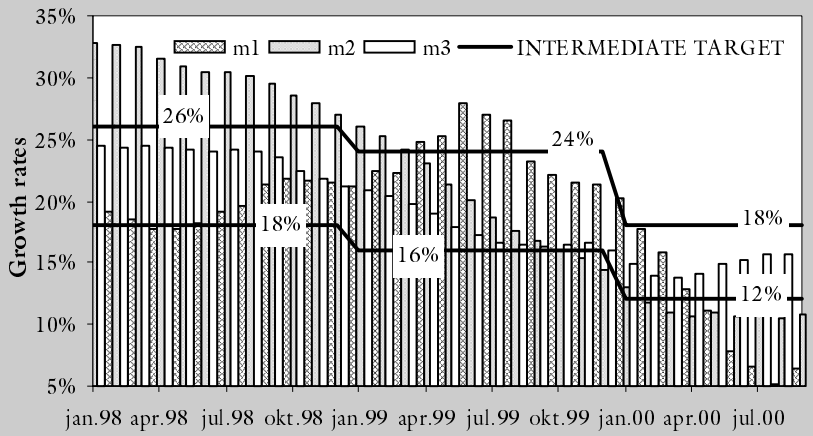
Reducing inflation to EU levels, the main objective set by the Bank of Slovenia upon its establishment, was unchanged in 2000. Setting **the band of 12%-18% for the growth of M3 as an intermediate target for 2000**, the Bank of Slovenia intervened in the foreign exchange market to eliminate imbalances and to ensure low volatility of the exchange rate, taking into account the constraints of the monetary target (movements in the M3 money aggregate). The year 2000 saw no major change in monetary policy, with the Bank of Slovenia pursuing a moderate restrictive policy, despite the fact that external factors, primarily rises in world oil prices, fuelled inflation in 2000.

To achieve its goals, the Bank of Slovenia used several instruments of the monetary and the exchange rate policies. The current account deficit and stronger financial flows into Slovenia prompted the Bank of Slovenia as early as 1999 to adjust its instruments to the changed situation, which was carried on in the first nine months of 2000. Loans to banks, tolar bills, and the purchase of foreign exchange from banks were the most important tolar instruments applied in 2000. To manage the exchange rate, the central bank used the instruments of temporary and definite purchases and sales of foreign exchange, and repo deals in foreign currency bills, in addition to changing the foreign exchange minimum and, in agreement with banks, limiting exchange rate rises. The Bank of Slovenia's main orientation of monetary policy was unchanged in 2000 and is not expected to change in **2001**. Given the macroeconomic situation, it is unlikely to expect the Bank of Slovenia to alter its short-term goals or the range of instruments employed for their achievement.

The Bank of Slovenia raised its key lending and deposit **interest rates** in the first half of 2000. Primarily encouraged by a rise in prices, the central bank increase the main interest rates by one percentage point (the discount rate to 9% and the Lombard rate to 10%) in June. The rise in basic interest rates, effected in the following month, was followed by a rise in interest rates of key Bank of Slovenia instruments of monetary policy (7-day repo deals, tolar bills) taking place at the beginning of September and mid-November, a move followed up in December by another rise in the discount rate to 10% and in the Lombard rate to 11%. While inflation trends were taken into account in setting interest

rates on tolar bills, trends in interest rates on the euro market had a major impact on changing interest rates on foreign currency bills. Changes to the interest rate on the inter-bank money market were primarily determined by the movements of tolar indexation clauses and liquidity in the money market. The inter-bank interest rate stood at 6.9% at the onset of 2000, increased to 8.1% by May, but dropped to 5.3% in August. The rise in interest rates on the Bank of Slovenia's bills and liquidity loans dating from September led to an increase in the inter-bank interest rate to an average of 6.3%. Nevertheless, the September inter-bank interest rate was still among the lowest average monthly rates in 2000, revealing that banks had a solid level of liquidity. Banks' solid liquidity resulted from low demand for loans and seasonally-fuelled increases in inflows into foreign exchange markets as well as the possibility of their monetisation.

Figure 8: Trends in money aggregates (quarter average / last quarter average from the previous year)



Source: BS, calculations by IMAD

5

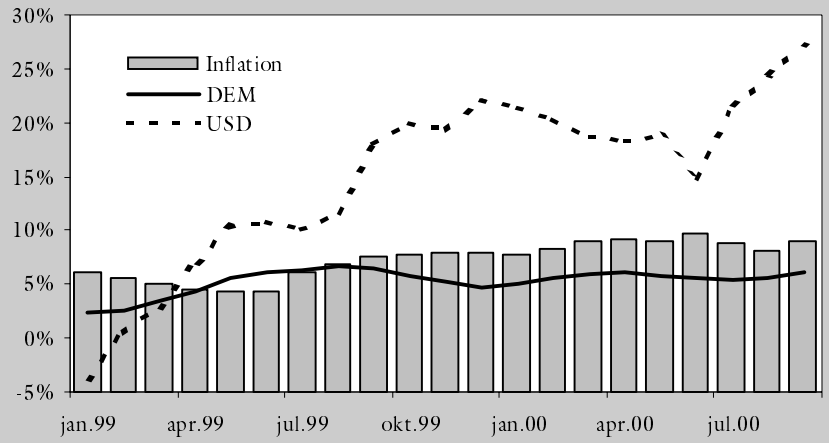
In the first half of 2000, the Bank of Slovenia issued base money mostly through tolar transactions, whereas in the third quarter net foreign currency assets were increasingly used to issue base money due to a rise in foreign currency deposits and the conversion of foreign exchange of the Ministry of Finance with the Bank of Slovenia. **The growth of the M3 money aggregate** ranges within the target range in 2000. The lowest growth was recorded in the first quarter (13.8% year-on-year), it sped up in the second quarter (15.2% year-on-year), further strengthened in the third quarter (the average monthly growth rate stood at 1.6% as compared to 1.1% in the first half of 2000), and reached 15.7% at

the annual level. Should the M3 money aggregate continue to grow at the rate seen in the third quarter, it would overshoot the upper limit of the target range by the end of 2000. IMAD's projections thus anticipate that the growth should slow down in the last quarter of 2000. The first quarter of the year saw the growth rate of M2 money aggregate decelerate from 11.2% year-on-year to 11% in March, with only a slight further drop up until September. The January-to-September period saw the sharpest slowdown in the growth rate of the M1 money aggregate, whose annual rate stood at 18.5% in January, but plunged to 6.9% by September. **Money aggregates grew at different rates** largely due to the changed structure of bank deposits and their maturity. Foreign currency deposits began to rise at the end of 1999 and in the first half of 2000 as a result of relatively faster exchange rate rise and a fall in the tolar indexation clause. Moreover, changes to the legislation pertaining to companies' foreign currency transactions which took effect in September 1999 enabled companies to open foreign currency accounts. Thus, foreign currency deposits were the fastest growing element of the M3 money aggregate, increasing by 25.2% in the first nine months of 2000, and reaching 31.1% in September compared to the same period last year. The fact that the structure of deposits has such a major impact on achievement of the monetary policy objective reveals the weakness of the transmission mechanism between the achievement of a short-term goal and the stability of prices as the final goal of monetary policy.

After the surplus of foreign exchange in the **foreign exchange market** was gradually reduced over the past few years, **demand exceeded supply** for the first time in 1999. Generally, this trend also continued in 2000, mainly due to the current account deficit and the changed structure of deposits to the benefit of foreign currency deposits. The first nine months of 2000 saw the demand for foreign exchange exceeding the supply by DEM 406 million, of which 86.9% was in the foreign exchange market and the rest in foreign exchange offices. Taking into account projections of the current account deficit for the last few months of 2000, the situation in the foreign exchange market will not change significantly by the end of 2000. The Bank of Slovenia conducts in 2000 an exchange rate policy determined by its monetary goal as well as by trends in the foreign exchange market. Consequently, the central bank slowed exchange rate growth down by selling foreign exchange to banks in the first quarter of 2000. The German mark increased by 2.2% in nominal terms in that period. The Bank of Slovenia and commercial banks signed agreements in the second quarter of 2000 to co-operate during interventions in the foreign exchange market, pursuant to which the central bank changed the form of interventions and in July set the upward limit for the buy rate in the foreign exchange market. This measure was in force for two months, during which time the German mark

increased by 0.6% a month on average. Once the measure ceased to be in effect, the exchange rate further calmed down, standing at 0.3% in September.

Figure 9: Year-on-Year Rates of Inflation and Selected Exchange Rates



Source: BS, SORS

In the January-to-September period the exchange rate of the German mark fluctuated between 5.1% to 6.2% on a year-on-year basis, lagging behind inflation by 2.6 to 4.1 percentage points. The US dollar increased by 20.6% in the first nine months, with its growth rate in September standing at 27.3% on a year-on-year basis. The US dollar exchange rate volatility was also relatively higher.

5.2. FISCAL POLICY

5

Several laws regulating public finance and adopted in 1999 as part of a comprehensive reform of public finance came into force in **2000**. Full effects of the value-added tax and excise duties introduced in the middle of 1999 were only felt throughout the year in 2000. The adoption of the Pension and Disability Insurance Act in January 2000 completed a several-year reform of the pension and disability system. Efforts were made during the whole of 1999 to comprehensively regulate public finance through the reform of public finance management. As a result, the Accountancy Act took effect on 1 January 2000. That Act regulates bookkeeping, the preparation of annual reports for the budget and the recipients of budget funds as well as legal entities subject to public or private law whose bookkeeping is not governed by the Companies Act, the

Public Utilities Act nor the Societies Act. September 1999 saw the passing of the Public Finance Act, a piece of legislation forming a comprehensive and consistent legal basis for streamlining the public finance system. The Act regulates the composition, preparation and implementation of state and municipal budgets, the management of state and municipal assets, their borrowing, guarantees, debt management, accountancy, and budgetary control.

5.2.1. GENERAL GOVERNMENT REVENUE IN 2000 AND 2001 - Continuation of the tax reform also encompassing direct taxes will be required in 2001

In 2000, general government revenue was calculated and paid in under the fiscal legislation and the tax system already in force at the end of 1999. Only some minor changes were introduced which, however, did not essentially interfere with the volume and structure of 2000's general government revenue. The system of value-added tax and excise duties implemented in mid-1999 fully applied for the first time throughout 2000. Social security contributions were paid in at the same contribution rate as a year earlier, namely 38%. The Act on the Manner of Settlement of Overdue Liabilities, designed to facilitate the collection of taxes, especially of contributions, failed to bring the desired results. The payroll tax was another of the tax sources in 2000. The planned change to the scale of payroll tax did not take place. The Exceptional Reduction of Tax Liability Act was adopted in agreement with the social partners in a bid to relieve pressure on private individuals in the lowest tax brackets defined in the Income Tax Act. The Law implied a fall in general government revenues from income tax. February saw the entering into force of a new Administrative Fees Act, a piece of legislation that changed and increased the number of points of individual administrative tasks. The Law also changed the relationship between individual fees and abolished some exemptions, at the same time boosting general government revenue. When the state budget was passed, excise duties on mineral oil and gas were expected to rise at the beginning of 2000, which however did not occur due to the situation in the world oil markets and consequent oil price rises. Customs rates of some products fell in 2000 as a result of trade and association agreements.

Overall general government revenue is estimated to drop by 1.5% in real terms in **2000**, a development chiefly propelled by revenues from the VAT, excise duties and outstanding sales taxes, which together make up around 35% of all sources of general government revenue. The estimates of revenues from individual sources for 2000 are hardly comparable to those of 1999 after the sales tax

system was replaced by the VAT and excise duties in the middle of 1999. Yet, if compared as a whole, the estimated revenues from the value-added tax, excise duties and sales taxes are 8% lower in real terms in 2000 compared to 1999. Due to low domestic consumption and the altered structure of domestic consumption to the benefit of investment, VAT payments are modest in 2000. However, rapidly growing exports caused conspicuous refunds of VAT-input tax. Consequently, revenues from the value-added tax are expected to be substantially below the amount anticipated when the budget was being drafted. On the other hand, with imports growing faster than expected, the value-added tax on imports gives more reason for optimism and is expected to fill the 2000 state budget to a greater extent than planned. Excise duties will make up a smaller part of the budget than expected because, contrary to plans, they have not been raised. Revenues from due sales taxes, value-added tax and excise duties are estimated to total in 2000 around 13.3% of gross domestic product (together with the revenues from the VAT and excise duties paid in January 2001 but charged on sales made in December 2000, which under the Act on Implementation of the 2000 Budget of the Republic of Slovenia are part of the revenues from 2000), down 1.3 percentage points from what was planned when drafting the budget. Despite growing imports, customs and import duties will fall by a considerable 13% in real terms in 2000 as a result of signed trade agreements, which entail a cut in customs rates for some products. Among the general government revenue collected on the basis of wages and salaries, social security contributions will go up 2.7% in real terms in 2000 from 1999. Due to its progressive scale, the payroll tax will increase by 14% in real terms. Income tax revenues will go up by just 1.6% in real terms in comparison with 1999. Final tax assessments have a major impact on the marginal growth in income tax revenues in 2000. Regular tax refunds have in fact been joined by the refunds stipulated by the Exceptional Reduction of Tax Liability Act.

Once consolidated (in line with the Finance Ministry's methodology under which employer-paid social security contributions coming from the state, municipalities, Pension and Disability Insurance Institute and Health Insurance Institute are also consolidated), general government revenue will make up 41.9% of gross domestic product in 2000, a fall of 1.8 percentage points from 1999. Given this decrease, the share of general government revenues in gross domestic product should not fall further in 2001. However, projections of general government revenue for **2001** based on an unchanged fiscal system and instruments show a further drop in the share of general government revenue as a percentage of gross domestic product. Overall general government revenue is to grow at a slower rate than gross domestic product in 2001, reaching a mere 41.3% of gross domestic product, down 0.6% of a percentage point from 2000. With the

anticipated general government expenditure, such a level of general government revenue will exert significant pressure on the general government deficit. Thus, the possibilities of finding fresh sources of general government revenue will probably have to be looked at in 2001, one of them being a rise in excise duties or an increase in the VAT rate. Yet, any decision here will have to take into consideration the potential consequences for inflation, particularly given price trends in the world's oil markets, as well as the desired impact of prices on the structure of consumption. The state budget might also be topped up by foreign grants emerging from Slovenia's accession to the EU, as well as by capital revenues and revenues from licenses granted.

In 2001 the tax reform will have to be further progressed by also reforming direct taxes. Reform of income tax will enable expansion of the tax base to all tax sources. The income tax system will be supplemented by a rise in non-taxable income, chiefly for those socially deprived, and with the introduction of income tax relief to encourage saving for old-age plus investments in health and knowledge. The reform of corporate income tax will expand the tax base, regulate the treatment of different statuses of legal entities and transform the system of tax relief, also taking EU directives into account. Taxes on property will also be reformed. The Real Estate Act will impose taxes on buildings and land, a move which will bring about the more efficient use of land intended for construction and agricultural land. However, the tax reform will not be introduced before 2002.

5.2.2. GENERAL GOVERNMENT EXPENDITURE IN 2000 AND 2001 - Restrictions on increases in general government expenditure at the end of 2000

The **State Budget** adopted for 2000 anticipated central government expenditure of SIT 1,060 billion. No supplementary budget was passed in 2000 despite significant pressure to increase central government expenditure. However, some economising measures were adopted in the middle of the year to cut central government expenditure, but were not fully implemented. In line with the Public Finance Act, the Minister of Finance issued in October a special instruction on the completion of implementation of state and municipal budgets, a move which restricted expenditure at the end of the year. It has been estimated that central government expenditure will total around SIT 1,029 billion in 2000, a drop of 2% from 1999 and a fall of more than 3% from what was anticipated in the State Budget. Thus, central government expenditure will make up 25.2% of the estimated gross domestic product.

Interest payments abroad will be the fastest growing item in central government expenditure in 2000 (around 26% in real terms). An increase of 3.1% in real terms can be expected in the state administration's purchases of goods and services, and in expenditure on wages, contributions and other personnel allowances (3.3% in real terms). Expenditure on wages, contributions and other personnel allowances in other government institutions will increase by 2.6% in real terms, expenditure on other government institutions' purchases of goods and services and expenditure of other providers of public services will be slightly below the 1999 level in real terms. The year 2000 will see a real drop of 25% in subsidies from the budget in addition to a fall of 8.5% in capital expenditure and capital transfers. Transfers from the budget to the Pension and Disability Insurance Institute will decrease by 5.6% in real terms, making up around 15% of central government expenditure, or 3.8% of the estimated gross domestic product. The funds earmarked in the budget for transfers to individuals and households will drop by 1% in real terms.

Table 23: Share of central government expenditure in GDP, %

	1996	1997	1998	1999 Real.	2000 Estimate
Current expenditure	**7.0**	**7.0**	**7.3**	**7.6**	**7.7**
Of which:					
Wages, contributions, other employee allowances	3.4	3.4	3.2	3.3	3.3
State administration's purchases of goods and services	2.4	2.4	2.5	2.7	2.7
Domestic interest payments and interest payments abroad	1.2	1.1	1.3	1.4	1.5
Current transfers	**13.6**	**15.9**	**16.0**	**15.9**	**14.9**
Of which :					
Subsidies	1.2	1.3	1.4	1.6	1.2
Transfers to individuals and households	3.5	4.0	3.9	3.8	3.7
Transfers to the Pension and Disability Insurance Institute	2.6	3.8	4.1	4.1	3.8
Capital expenditure and capital transfers	**2.7**	**2.6**	**2.8**	**3.0**	**2.7**

Source: Ministry of Finance, calculations and estimates by IMAD

With a tendency to minimise the budget deficit and with the same fiscal system and instruments in place, the estimated revenues will crucially limit the possibility of increasing central government expenditure in 2001. When drafting the 2001 state budget, it will have to be ensured that the share of central government expenditure in gross domestic product does not go up. The pressure to increase expenditure on wages and transfers to the Pension and Disability Insurance Institute will ease along with changes to the indexation of public sector salaries and payments to the pension and disability system, which however should be made before the beginning of 2001. When drafting the 2001 state budget, priorities will have to be chosen very selectively, and even then these could be financed from the budget very restrictively.

Expenditure of **municipal budgets** has been estimated to increase by 6.9% in real terms in 2000. Its share in gross domestic product has been estimated at 5.4%, up 0.2 of a percentage point from 1999.

To enforce the rights emerging from the new **Pension and Disability Insurance Act** (health insurance contributions for the retired excluded), expenditure is likely to increase by 2.4% in real terms in 2000 from 1999, representing 13.3% of gross domestic product, 0.1 of a percentage point less than in 1999. The number of beneficiaries is to go up slightly by over one percent in 2000, as intensive retirement has been motivated by the expectation of further changes, and uncertainty amongst the insured. The slowdown in expenditure for pension and disability insurance in the aftermath of implementation of the Pension and Disability Insurance Act was also fuelled by the system of reduced accrual rates resulting from accrual base harmonisation. Pensions and other payments from the pension and disability insurance are adjusted to movements in average wages, taking into account the indexation mechanism provided by law. Two rises in pensions took place in 2000 on that basis.

In 2001, the number of beneficiaries to a pension is estimated to increase by a further 1.1%. The system of lowering (or harmonisation) accrual rates as well as the new indexation method for pensions and other payments planned to be changed slightly before the end of 2000, will work towards the reduction of pressure on expenditure. Pensions and other payments will still be harmonised with wage increases, while the method of indexation ensuring a balance between wage and pension increases will be changed. As for 2001, expenditures on pension and disability insurance (excluding health insurance contributions for the retired), with changes in the indexation mechanism taking place, will require 12.9% of the estimated gross domestic product, representing a drop of 0.4 of a percentage point from 2000.

Expenditure for **compulsory health insurance** will be only 2.1% higher in real terms in 2000 than in 1999, thus making up 6.5% of the gross domestic product, roughly representing the same level as in 1999. Rights provided by law regarding compulsory health insurance were not changed in 2000. Numerous activities as to the control of expenditure on medicines, the limitation of sick leave compensations, and rationalisation of implementation of health programmes were undertaken. Within all the funds of compulsory health insurance, expenditures on health services will increase by 4.5% in real terms. Expenditures on purchases of goods and services will increase by a modest 0.4% in real terms, with most of the increase being due to higher wages with contributions, increasing by 7.2% in real terms in 2000. The funding for medicines and

orthopaedic instruments will fall by 3.5% in real terms. Within the structure of all expenditures for compulsory health insurance, the share of wages with contributions is on the increase, up by 2 percentage points in 2000, whereas the share of purchases of goods and services and medicines is on a decline. Despite measures geared at reducing sick leave compensations, they are estimated to see a 5.9%-increase in real terms in 2000.

2001 will see the continuation of activities to rationalise the implementation of health programmes. In 2001, it is estimated that around 6.5% of gross domestic product will be used on compulsory health insurance, which is the same as in 2000. Because limited funds within compulsory health insurance require further rationalisation of the health system itself and because their limited nature critically worsens accessibility to health services, reform of the health system is needed to systematically bring order to this area.

After the consolidation of **general government expenditure**, total general government expenditures are estimated to increase by only 1.1% in real terms in 2000 and represent 43.6% of gross domestic product, a drop of 0.8% from 1999. According to the estimates for 2001, (consolidated) general government expenditure will also increase at a slower rate than the gross domestic product. Only in this way will it be possible to achieve a fall in the general government deficit relative to gross domestic product.

5.2.3 GENERAL GOVERNMENT DEFICIT - Cutting the general government deficit in 2001 will require maintaining the share of general government revenue at some 42% of gross domestic product

With general government revenue and general government expenditure consolidated according to the methodology of the International Monetary Fund, the consolidated general government revenue and expenditure in the period from 1994 to 1996 was balanced. The balance of public finances played a positive role in the consolidation of the economy as it did not create any further pressures on interest rates and the exchange rate through borrowing.

The equilibrium in public finances was lost in 1997 when the consequences of reduced social security contributions and lower customs revenue became evident and when these shortfalls were not replaced by any other tax sources. On the other hand, pressures on general government expenditure strengthened, primarily because of the increase in expenditure on wages which followed the growth of

wages and employment in the public sector and because of increased expenditures for social transfers resulting from the introduction of new rights and new regulations applicable to social security. Additional pressure was also put on budget expenditures transferred to the Pension and Disability Insurance Institute, these compensating for the funds missing in the system of pension and disability insurance due to the lowered contribution rates for social security as well as the increase in expenditure on pension and disability insurance.

Table 24: Consolidated general government revenue and expenditure, by GFS-IMF methodology (% of GDP)

	1995	1996	1997	1998	1999	2000 estimate	2001 proj.
General government revenue	43.1	42.7	42.0	43.0	43.7	41.9	41.3
General government expenditure	43.1	42.4	43.2	43.8	44.3	43.6	42.6
Surplus/deficit	0.0	0.3	-1.2	-0.8	-0.6	-1.7	-1.3

Source: Ministry of Finance, calculations, estimates and projections by IMAD

Economic policy measures did relieve the pressures on general government expenditure and attempts were also made to secure stable sources of finance; despite this, the general government deficit represented 1.2% of gross domestic product in 1997, and this receded somewhat to 0.8% of gross domestic product in 1998. In 1999, general government revenue once again grew more quickly than gross domestic product and more rapidly than general government expenditure, mainly due to an exceptional inflow of domestic taxes on goods and services. Because of this, the **general government deficit** fell to 0.6% of gross domestic product. As for **2000**, general government expenditure was expected to grow at a somewhat slower rate, and a fall of general government revenue in real terms was also anticipated. The shares of general government revenue and general government expenditure within gross domestic product will fall compared to 1999, while the public deficit as revealed by the consolidated balance of public finances is forecast to stand at about 1.7% of gross domestic product. With the same tax system in place, projections concerning the sources of public finance for 2001 reveal a further reduction in the share of general government revenue to gross domestic product. For **2001, reducing the public deficit to below the level of 2000** requires maintaining the share of general government revenue in gross domestic product at around the level reached in 2000 (42%). The drafting of the budget will require an appropriate adjustment of the share of state budget expenditure in gross domestic product to the estimated revenues.

5.2.4. CENTRAL GOVERNMENT DEBT - By the end of 2000 it is forecast to be around 26.6% compared to the estimated gross domestic product.

Central government debt saw a nominal increase of SIT 123.8 billion and stood at SIT 1,017.1 billion by the end of June 2000. Disbursements of the debt stood at SIT 156.3 billion, and debt repayments at SIT 77 billion. The changes in values (added revaluation and exchange rate changes) increased the debt by SIT 44.5 billion. By the end of June 2000, the debt denominated in tolars represented 42.5% of total debt, while the debt in euros and US dollars stood at 42.9% and 14.5%, respectively. In terms of the interest structure, the "indexed" debt (the principle is increased by the indexation factor before the payment of interest) represents 41.1%; the debt with a variable interest rate 13.4%; and the debt with a fixed interest rate 45.5% of total debt.

Table 25: Stock and changes in Slovenia's debt in the first six months of 2000 in SIT billion

	31 Dec.1999 Stock	Disburse-ments	Repayments	Net disburse-ments	Revaluation exchange rate changes	Changes in debt	30 Jun. 2000 Stock
DEBT	**893.3**	**156.3**	**77.0**	**79.3**	**44.5**	**123.8**	**1,017.1**
I. Internal debt	498.5	63.1	61.9	1.2	19.5	20.7	519.2
II. External debt	394.8	93.2	15.1	78.1	25.0	103.1	497.9

Source: MF.

In accordance with the calendar of long-term borrowing, in the second quarter of 2000 the Republic of Slovenia issued a new 10-year RS-18 bond denominated in euros and necessary for financing the budget and repaying principle. The state also continued with its issue of the 3-year RS-16 bond (disbursements totalled SIT 4.04 billion) and the 5-year RS-17 bond (disbursements totalled SIT 2.28 billion). In the second quarter of 2000, the Republic of Slovenia introduced a new short-term instrument - the twelve-month treasury bill (TMTB) with an interest rate of 12.82%. Along with this, it continued with regular monthly issues of three-month (TTB) and six-month treasury bills (STB). Thus, the period from April to June 2000 saw six issues of treasury bills totalling SIT 18,291.2 million. The average interest rate for the three-month treasury bills was 11.56% in the second quarter, and for the six-month treasury bills 11.88%. Taking into consideration the level of borrowing in the first half of 2000, planned borrowing until the end of the year as well as the taking over of the SIT 47.7 billion debt of Slovenian Railways, the central government debt at end-2000

will probably stand at SIT 1,081.7 billion, or 26.55% of the estimated gross domestic product.

Box 7: Exposure to interest and currency risks of debt of the Republic of Slovenia

The basic measure of risk in managing the central government debt is a modified duration which represents the weighted average of debt maturity. The modified duration tells us the changes in market value of the portfolio for a given change in return (the interest rate). The longer the modified duration, the more the debt or the payment of interest is sensitive to changes in the interest rate. At the end of June 2000, the modified duration of the debt of the Republic of Slovenia stood at 4.61. If the return rate increased by 1 basis point (1 bp = 1/100%), the market value of the portfolio would fall by 0.046% (SIT 469 million) and budget expenditures on payment of interest would accordingly increase. Information about the risk of refinancing can also be acquired through an examination of **due principal** in the **period under question**. An even distribution of the principal across the months reduce the risk of refinancing in periods of eventually high interest rates. The most risky months are October and December as well as May and June. August will be exceptionally burdened in 2001 (more than SIT 80 billion) when the USD bond is due (Mićković, 2000).
The risk of central government debt management is also measured through the value-at-risk of the portfolio of the external debt of the central government[1], which comes to SIT **2.034 billion** for 1 day at a 95% probability. This means that there is less than a 5% chance that, due to the fluctuation of exchange and interest rates, the value of the portfolio will increase by more than SIT 2.034 billion in one day (Mićković, 2000).

[1] Value-at-risk is the measure of the potential maximum change in the value of the portfolio with a given probability and in a given period of time (for every financial instrument it translates risk into potential loss under certain conditions).

5.3. INCOMES POLICY – Need to reach an agreement on a new incomes policy for the period after 2001

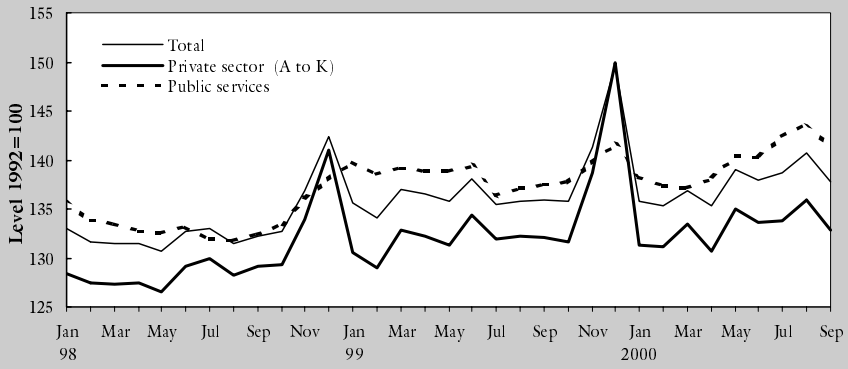
Using the instruments at its disposal, incomes policy creates macroeconomic conditions that ensure economic growth and boost employment, at the same time it seeks to reduce inequalities in the distribution of income and address the poverty issue.

In 2000, basic wages defined in the collective agreements and the basis for wage settings are adjusted to consumer price growth in accordance with the mechanism laid down in the Agreement on Incomes Policy for the 1999-2001 period, included in the Act on Minimum Wage, Wage Adjustment Mechanism and Holiday Allowance for 1999-2001. Pursuant to this Act, in January 2001 wages are to be adjusted by 85% of the rise in consumer prices in 2000. The "safety valve" (early adjustment in the event of prices rising faster than expected)

for 2000 has been set at the 4%-rise in consumer prices compared to December 1999. In the first four months of 1999, when the Agreement was drawn up, the expected inflation for 2000 (from December 1999 to December 2000) was 4% since it was then impossible to predict the substantial rises in oil world prices and their indirect and direct impacts on inflation. Moreover, the Agreement envisaged that once a 5%-rise in prices compared to December 1999 had occurred, wages would be adjusted by 100% for the price rise above the 5% by the end of 2000. Given that consumer prices rose substantially faster than expected, the "safety valve" was already triggered in the middle of 2000, since consumer prices in June rose by 4.3% compared to the previous December. The basic wage and minimum wage for July were adjusted by 3.7%. In July, the 5%-rise threshold in consumer prices was also exceeded, and the basic wage should thereafter be adjusted in January 2001 to reflect those price rises.

Although in nominal terms the gross wage per employee in 2000 remains at the levels planned for in the 2000 Spring Report (IMAD), the real gross wage per employee in 2000 is not expected to reach the level necessary to achieve 2.5%-yearly growth due to consumer prices rising substantially faster than expected.

Figure 10: Real gross wage per employee



Source: SORS, calculations IMAD

In the **private sector**, growth in the gross wage per employee depends more on the number of working hours per month than on the adjustment mechanism. In 2000, the private sector recorded the biggest nominal fall in the gross wage per employee in April (-1.4%), being the shortest working month of the year, and the highest rise in May (3.7%), being the longest working month of the year. Gross wages rose by 1% in July when the basic wage was increased by 3.7% due to an early adjustment. In August, when the minimum wage was increased

by 4.9% (the then estimated growth of gross domestic product in the previous year), gross wages rose by 1.9%. In September, being a shorter working month, gross wages again recorded a fall of approximately 1%. Given the estimated accelerated rise of wages at the end of the year and the moderate rise in consumer prices, the gross wage per employee in the private sector will rise by 2% in real terms in 2000 compared to the previous year.

On the other hand, growth in the gross wage per employee in the **public sector** depends mainly on the adjustment mechanism as well as on regular and extraordinary promotions in accordance with the Act on Wage Ratios in Public Institutions, Government Bodies and Local Community Bodies. Moreover, when the Act on Wage Ratios was passed in 1994, the basic wage in the public sector was approximately 70% of the basic wage defined in the collective agreement for the private sector (general collective agreement for the commercial sector). As a consequence, there are continuous pressures from different activities to increase wages in the form of wage supplements. At the beginning of 2000, the agreed wage supplement was paid in education on the basis of amendments to the branch collective agreement, meaning a 7%-rise in wages; the second quarter of the supplement was paid in January (the first quarter was paid in November 1999) and the remaining half in April. In May, the first third of the wage supplement in public administration was paid on the basis of the adopted decree (the second and third parts will be paid in January and December 2001), which as a whole leads to a 7%-rise in wages. In health and social work, in August nurses were paid the first half of the wage supplement defined in the annex to the branch collective agreement for those employed in health care (generating an 8%-rise in wages), and were even retrospectively paid the difference from May. The second half of the supplement is due in December 2000. In October, doctors are to be paid the first half of the supplement defined in the annex to the branch collective agreement for doctors and dentists, meaning a 12.4%-rise in wages, including the retrospective difference from January. The other half, generating another 11.1%-rise in wages, will be paid in July 2001 under certain conditions. The remaining staff of health and social care will receive a higher wage supplement on the basis of amendments to the collective agreement for health and social care in December's wage, which will rise by 6%. Wages in the cultural sector will rise by 4.5% in November, thanks to an increased wage supplement for those employed in culture, defined in the amendments to the collective agreement for cultural activities. Taking into account wage movements in the public sector hitherto, the expected rise in wage supplements by the end of the year and the increase of the basic wage by 1% in December, the gross wage per employee in the public sector will rise by 2% in real terms in 2000 compared to the previous year.

In 2000, on the basis of the expected nominal wage growth in the private and public sectors and taking into account the expected moderate consumer price rise up until the end of the year, the gross wage per employee will increase by no more than 2% in real terms and will lag behind the expected 3.3%-rise in labour productivity by more than one percentage point.

Discussions among the social partners about the new incomes policy for the period after 2001 have already taken place in 2000, but the negotiations have slowed down due to changes in the Government and the ensuing elections. The main elements to agree on are as follows: the adjustment mechanism, taking into account future movements of consumer prices, a method to bring the basic and minimum wages closer together, and changes in tax policy. The agreement among the social partners should be reached as soon as possible, at best by the end of 2000.

In the event that an appropriate agreement is not reached, wages in 2001 would be adjusted in line with the mechanism already in force. Current trends of wage supplements in the public sector have been taken into account. Given the estimated inflation, a more than 4%-rise in the gross wage per employee in real terms is expected in 2001 compared to 2000. In the public sector, a more than 7%-rise in real terms is expected. To avoid this scenario, efforts will have to be made to reach an agreement as soon as possible that combines the interests

Box 8: Minimum wage

is determined by the Act on the Minimum Wage, Wage Adjustment Mechanism and Holiday Allowance for 1999-2001 and is adjusted in the same way as wages. It is additionally adjusted once a year in August by the rise in gross domestic product for the previous year. The above Act provides that an additional adjustment should occur in the current year if the average minimum wage in the previous year does not reach 58% of the average gross wage per employee set in the collective agreement for manufacturing. From 1997 to 1999 the annual average minimum wage reached 53% of the average gross wage per employee set in the collective agreement for manufacturing and the additional adjustment therefore still occurs. The institution of the minimum wage with the existing adjustment mechanism has a positive effect on containing wage dispersion. Statistical data on wage distribution show that the inter-decile ratio, according to data from March 2000, has not changed and remains at around 3.4, as in 1999. The inter-decile ratio indicates the relationship between the gross wage of the ninth decile (10% of employees having the highest wages) and the gross wage of the first decile (10% of employees having the lowest wages). The incomes policy with its institution of the minimum wage has successfully stabilised wage distribution. It is therefore necessary to maintain such a system of setting the minimum wage in the next incomes policy.

of employees, employers and the Government, and will optimise the requests of the individual social partners with regard to incomes policy for the next period.

The estimates of wage movements for **2001** have been made on the assumption that the agreement on wages is reached in order to allow for maintenance of the basic macroeconomic equilibrium. The wage movement in the private sector takes into account the wage adjustment to price rises; part of the expected price rise is to be incorporated January's wages, and the rest on the basis of agreements at the level of activities. The introduction of partial decentralisation into the adjustment mechanism has been supported in the negotiations by all social partners. In the public sector, estimates of wage movements take into account all adopted supplements, part of which were already paid in 2000 and the other part is to be paid in 2001. Moreover, we have taken account of the wage supplement in education and science defined in the amendments to the collective agreement in education and research, meaning a 7%-rise of the gross wage in these activities to be paid in two parts in 2001, half in January and half in December. The type of adjustment mechanism to be adopted in the public sector from 2001 onwards depends on the success of the negotiations between employees in the public sector and the Government. Given the discussed wage movements in both sectors, the real gross wage per employee will rise by 2%-2.5% and will thus enable the lagging behind productivity growth.

The estimates for 2001 do not take into account the introduction of a new wages system for the public sector. The previous substantial lack of co-ordination in adopting wage supplements through the amendments to branch collective agreements caused deformations in the relationship between wages of individual activities. As a consequence, pressures arise for further wage increases. Those demands are sometimes justified and sometimes they are not in the sense of reaching the appropriate relationship between wages. The introduction of professional collective agreements caused additional deformations in health care. The new Civil Servants Wages Act will therefore be very important for the stabilisation of public finance expenditure as well as for the normal operation of activities in the public sector.

Work-related allowances and other remuneration, and payments based on contracts for work and author's fees in 2000 are rising in line with the wages bill and remain for the third year running at around 43% of the total wages bill.

5.4. LABOUR MARKET POLICY – the Collective Agreements Act and the Employment Relationship Act should be passed together and as soon as possible

In 2000, Slovenia started to implement the programme of employment policy which follows the EU employment guidelines of 1998. The four basic pillars of the employment policy are: improving employability (first pillar), promotion of entrepreneurship (second pillar), encouraging the adaptability of businesses and employees (third pillar), and equal employment opportunities (fourth pillar). Implementation of the programme requires co-operation and co-ordination among the ministries, governmental and non-governmental institutions and the social partners. For this purpose, the Government and the social partners have established a group for monitoring and implementing the National Employment Action Plan for 2000 and 2001, which comprises the representatives of the ministries and the social partners.

Although the registered unemployment rate in 2000 continues to decrease and the employment rate is rising (see Chapter 4.6) and while it is still too early to assess the success or failure of the new approach, **implementation of the employment policy in 2000 is slightly lagging behind the expectations and plans**. The new integrated approach is still at its beginning, and the traditional programmes of the active employment policy (e.g. public works, education and training of the unemployed), given the number of participants, are failing to keep up with the plans. In the first eight months of the year, the measures for improving employability (first pillar) covered 3.1% fewer unemployed people participating in public works programmes than in the same period last year. The number of those performing public works per month is around 10% lower than expected. Since the National Employment Action Plan covers a period of two years, it will need to be implemented more intensively in 2001.

The continuing substantial share of the long-term unemployed reveals the serious problem of employing those unemployed for more than 3 years. There have been around 35,000 of them for three consecutive years. Given that public works programmes most frequently involve more educated persons[27] (with more than 4 years of secondary education) and those aged under 40, it is necessary to prepare several programmes suitable for older and less qualified persons, who

[27] The share of the unemployed of the 5th educational level and above participating in public works exceeds their share among the unemployed.

are less capable of undergoing retraining and education than younger categories. There have already been some attempts to meet this goal, but they need to be strengthened.

In view of the introduction of lifelong learning and the objective to increase the number of unemployed participating in active employment policy programmes, the effectiveness of the active employment policy is undoubtedly weakened by the fact that the number of unemployed people participating in training programmes fell by more than 25% compared to the first eight months of 1999. In 2000, a fall in the number of unemployment benefits and an increase in the number of unemployment assistance recipients, due to a shorter period of entitlement to unemployment benefit and prolonging of the period of entitlement to unemployment assistance (the amendments to the Employment and Unemployment Insurance Act of 1998 have come into force), continues. The number of beneficiaries of unemployment benefit and assistance, compared to the total number of unemployed, shrank from 30.2% in December 1999 to 28.8% in August 2000. The ratio between those participating in active programmes and the assistance beneficiaries has improved, but that was because of reductions in the number of beneficiaries and of participants in active programmes, which is not the best way to obtain this goal.

Programmes and measures to promote entrepreneurship (second pillar) do not produce immediate results. Of course, it will be possible to **assess the success of programmes aimed at stimulating a corporate culture among the young only on a medium- or even a long-term basis**. The programme of eliminating administrative barriers to the establishment and development of small- and medium-sized enterprises (the anti-bureaucratic programme) is still being prepared. The main problems hindering the implementation of the planned measures lie in the co-ordination and co-operation among individual ministries. This drawback also appears in the financing of programmes intended to explain the risks and opportunities of entrepreneurship to young people, women and the rural population.

The development of an effective network to promote entrepreneurship is a long-running task and should be connected to the development of regional guarantee schemes. A further three labour funds were added in 2000 to the existing ten. The state's investment in human resources was limited to concrete programmes or public tenders for co-financing the projects of workforce rebuilding and the promotion of technological development. The number of self-employed (including farmers) in the first eight months of 2000 has shrunk on average by 0.2% compared to the same period in 1999; the number of

unemployed persons who opted for self-employment in the first eight months of 2000 has risen by 0.7%. The share of self-employed in the total persons in employment in Slovenia (around 11% of all employed) remains below the EU average (14.4%).

The fiscal situation does not allow a reduction of labour tax burdens in the sense of reducing the level of social security contributions, because the collected contributions are still insufficient to cover all of the disability and health deficit (see Chapter 5.2). The Exceptional Reduction of Tax Liability Act, adopted in January 2000, indirectly reduced the taxes for people in lower income brackets retrospectively. In order to promote employment, Slovenia has returned part of the social security contributions to around 6000 employees under the conditions provided by law.

The implementation of guidelines and measures to increase the adaptability of businesses and employees is heavily dependant on the co-operation of the social partners. The proposed new labour legislation is still awaiting its second reading in Parliament. The labour legislation currently in force in Slovenia stems from the former Yugoslavia (from 1989, amended in 1991) and is today insufficient to regulate all dimensions of labour relations. Changes in the labour market, the development of industrial relations and the emergence of atypical employment relations in the nineties, made it necessary to adopt new labour legislation as soon as possible. Due to long-running debates on the preparation of the new labour legislation, the situation now requires the necessary changes, together with an altered socio-economic system, as well as the harmonisation of the law and its basis with the relevant legislation in other European countries. The legislation currently in force does not comply with a number of ILO conventions, e.g. on the freedom of collective negotiations, on the freedom of workers' and employers' association etc., nor does it comply with certain basic EU acts. The Employment Relationship Act and the Collective Agreements Act have to be adopted together and as soon as possible, because they complete each other and eliminate certain dilemmas and discrepancies that recently appeared during debates between the employers and employees on the draft Employment Relationship Act. The main issue is the relationship between the level of rights and duties defined in the collective agreements and in the draft Employment Relationship Act.

According to existing European practice, a minimum is set regarding certain rights of the employees, which may be upgraded or finally fixed at the highest level by collective agreements. Since, according to the new legislation, the conclusion of collective agreements is voluntary, Slovenian trade unions fear

that in the future employers will not be willing to conclude collective agreements in which those rights may be upgraded.[28] If this is the case, employees would only be guaranteed a minimum of rights provided by law, which is low in Europe, and they require that the hitherto volume of guaranteed rights in the collective agreements and laws be reflected in the Employment Relationship Act. The employers of course disagree because the practice in Europe is different, and warn that the existing level of rights is relatively high; in collective negotiations the trade unions would, however, require a further raising of the level of rights to be defined by law. If the Employment Relationship Act and Collective Agreements Act are discussed and adopted together, employees will not need to worry. In fact, the transitional provisions of the new Collective Agreements Act, currently in the parliamentary procedure, provide that even after the termination of its validity, a collective agreement remains valid until a new one is concluded. In the event that the new collective agreement applies only to employers (or workers employed by them), who are members of employers' associations, signatories to the collective agreements, the Minister of Labour would in certain conditions have the power to expand the validity of such a collective agreement to include all employers or employees. Such a mechanism (erga omnes) is also known, for example, in Germany.

Activities relating to those measures and programmes guaranteeing equal employment opportunities include programmes to improve employment possibilities for the disabled (programmes of preparing for work, training and employment with co-financing of new jobs and sheltered workshops, a pilot project of developing integration enterprises). Together with improving these programmes, a system of quotas for employing the disabled will have to be formulated and adopted. The employment programme introduces gender differentiation into the employment policy with special programmes for promoting women's entrepreneurship. Given women's high level of working activity in Slovenia, the programmes will have to be directed towards raising the quality of female employment (working conditions and management, employment in top positions), supervising the provision of equality and special women's rights (maternity) will have to be strengthened, and the measures in the area of women's equality will have to be linked to social and family policy.

[28] The ILO reports indicate the modest development of collective negotiations in the transition countries. The number of collective agreements and employees covered by them in Hungary, Romania, Bulgaria and anywhere else where freedom of collective negotiations is established is low.

5.5. NATIONAL COMPETITIVENESS AND ITS FACTORS – Promotion of competitiveness through industrial policy and competition policy

Among other renowned institutions, national competitiveness is assessed by the International Institute for Management and Development (IMD). It uses 290 indicators divided into eight groups to give the business world an insight into business opportunities within national environments, assesses the effectiveness of economic policy, gives the civil society an opportunity to monitor changes in international legal security and the development of democracy, and the social partners information about the level of social inclusion through the criteria of the standard of living and sustainable development.

Table 26: IMD's competitiveness rankings of 46 (47) countries in 1998-2000

	Domestic economy			Internatio-nalisation			Govern-ment			Finance			Infra-structure			Manage-ment			Science, techno-logy			People			Synthesi-sed rank		
	1			2			3			4			5			6			7			8			9 (1-8)		
Year	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00
No. of criteria	28	30	30	40	45	45	43	48	46	20	27	27	30	32	37	34	36	36	20	26	26	44	44	43	259	288	290
Finland	20	4	5	11	11	8	15	10	9	8	8	7	3	2	2	5	3	4	6	6	6	3	1	2	5	3	3
Netherlands	13	7	7	6	6	4	17	18	7	2	3	3	8	7	6	3	2	2	11	8	8	9	12	14	4	5	4
Ireland	6	2	2	7	8	7	6	5	3	15	16	14	23	23	19	10	7	8	8	11	17	19	21	16	11	11	7
Denmark	14	10	14	12	12	15	20	22	21	4	5	2	5	9	10	8	11	7	14	9	10	2	2	11	8	8	12
Austria	37	14	15	25	22	12	32	24	25	20	20	17	12	11	12	25	22	17	22	21	21	12	8	9	22	19	18
Spain	31	24	23	18	14	14	23	13	18	21	14	20	25	22	23	28	23	30	30	26	26	27	22	25	27	23	24
Hungary	42	17	29	26	17	25	26	26	30	30	28	28	20	26	25	35	30	27	27	27	24	30	26	23	28	26	27
Portugal	35	21	22	13	19	22	29	25	34	22	21	24	32	27	29	39	34	36	38	38	36	31	25	26	29	28	29
Greece	33	25	28	35	32	31	43	36	37	34	31	30	37	35	34	36	31	34	33	31	39	29	30	33	36	31	32
SLOVENIA		**34**	**25**		**46**	**45**		**47**	**45**		**44**	**41**		**29**	**28**		**38**	**31**		**36**	**40**		**28**	**28**		**40**	**35**
Czech Republic	43	44	39	29	35	26	40	42	42	36	42	44	27	32	27	42	45	45	37	41	38	28	34	32	38	41	37
Poland	41	37	34	43	45	39	46	44	43	43	37	37	36	38	36	43	44	42	44	43	33	41	38	36	45	44	40

Source: The World Competitiveness Yearbook, IMD, Lausanne 1998, 1999, 2000

An overall assessment of Slovenia's competitiveness (synthesised rank) reveals that Slovenia, among all the reference countries, made progress in 2000 compared to 1999: it overtook five countries in one year and ranked 35th among 47 countries (40th in 1999). However, individual sub-groups diverge substantially from the average of national competitiveness, in some cases downwards compared to the 1999 report. The indicators ranked below 40th place among the 47 countries are underlined by a common weakness – lack of synergy and social consensus about development, insufficient adaptation to globalisation and customer-

orientation, orientation towards short-term results to the detriment of sustainable development, inefficient state administration, and the persistence of strong national protectionism. Improvements and innovations in the organisation of businesses and state administration would, in particular, have a decisive impact on the more pronounced progress of Slovenia in its overall assessment of national competitiveness.

There are several reasons for Slovenia lagging behind the developed countries, one of the most important being the **gap in technical and technological development**, where Slovenia continues to see a worsening of the already poor results achieved over the past few years, as shown by the science and technology group of indicators (see Table 27). Among 47 countries, Slovenia ranked 40th (36th in the previous year) and was overtaken by the Czech Republic and Poland, which had been at the bottom in 1999. Without improving the environment for science and technology management, indicators under the science and technology group, Slovenia will not achieve any progress in national competitiveness. In particular because there is a strong correlation between global (national) competitiveness and technology management (0.95), and the environment for science (0.84).

Similar consequences of the widening technological gap between Slovenia and advanced countries are reflected in the pace of changing the production programmes in manufacturing. The pace of substituting the existing products with new ones distinguished by different raw materials, production technologies, or important new characteristics is far too slow. According to the SORS' data for August 2000, only one product is discontinued for every 2.16 new products introduced in manufacturing. The SORS' data also reveal that four manufacturing subsectors (production of electrical and optical equipment, production of metal and metal products, production of transport equipment, and production of chemicals and chemical products), increasing the volume of production the most (from January to October) and accounting for 32.9% of the total manufacturing, record only a 26.6%-share in new products. Moreover, these subsectors play a major role in Slovenia's manufactured exports. As a result, the trend of slow growth in value added per employee and a further increase in the technological gap behind the EU (lagging behind by 3.5 - 4 times) will continue due to the low technological complexity of programmes. Furthermore, it will be difficult to increase the market shares in the advanced markets.

The technological gap is not due to the amount of funds earmarked for research and development, but is due to their actual allocation. In 1999, the European Commission published the results of a study on the impact of EU enlargement

Table 27: Summary of technological complexity of manufacturing programmes in Slovenia in 1997, per technological levels (from 1 to 15)

Level of technological complexity	% of employed	% of gross value added	gross value added per employee in SIT '000
Low (levels 2, 3, 4)	34.0	25.2	2,239
Low and intermediate (levels 5, 6)	53.9	53.1	2,921
Upper intermediate (level 7, 8)	9.6	15.2	4,755
High (levels 9 and higher)	2.5	6.5	7,844
Total	100.0	100.0	3,010

Source: M.Gliha, Tehnološko poročilo, 2000

on the policy of research and technological development, innovations and structural policy, and assessed that total investments in research and development in Slovenia (1.4% of gross domestic product) are relatively high, but there is a far too strong emphasis on basic research; the European Commission therefore recommends more of a focus on applied research. Furthermore, it found out that the system of research and development is inefficient and that applied research should be better promoted. Co-operation between enterprises should be reinforced, as well as co-operation between enterprises and academic circles. The latter is weak; therefore the research work performed within research institutions does not have the necessary value for enterprises.

As a result, the Government will have to conduct a more appropriate industrial policy through macroeconomic and especially microeconomic measures to promote technological development. At the same time, it will have to conform to state aid rules related to research and development and set objectives that will help reduce Slovenia's technical and technological lagging behind the EU.

During Slovenia's preparation for EU accession, there are various **analyses showing the development gaps of Slovenia's industry behind the corresponding industries in the EU internal market**. At the same time, the Government is taking measures to raise the competitiveness of Slovenia's industry in general and to increase individual competitiveness factors in order to attain a higher level of competitiveness in the pre-accession time.

Different assessments of Slovenia's lagging behind the EU in terms of gross value added per employee and income per employee in manufacturing have been proposed (2.5-times: Dimovski, 2000, and 3.5-times: Petrin, 2000). Individual industries record different gaps, the biggest being in the electronic and shoe manufacturing industries and the metal industry (Dimovski, 2000). What raises more concern is the fact that the gross value added per employee has been stagnating since Slovenia's independence.

The reasons for Slovenia's manufacturing lagging behind the EU average and gross value added per employee stagnating are interrelated and both external and internal. The internal ones derive from the shortcomings in business operations and management, which is the result of privatisation failing to achieve actual restructuring and ownership consolidation (the problem is a large share of state ownership and a large number of small owners deriving from internal buy-outs). The external reasons stem from the inadequate role of the state in promoting the competitiveness of Slovenia's industry. The state, which can stimulate industry's competitiveness through macroeconomic and microeconomic measures, applied the macroeconomic measures to the benefit of export competitiveness, while its institutional building of the allocation of state aid was way behind schedule.

Slovenia had not exercised supervision over the allocation of **state aids** before 1999. It could monitor the volume of state intervention in the corporate sector only through public finance statistics on subsidies. In 1992, subsidies amounted to 2.93% of gross domestic product; in 1996, they fell to 1.35% of gross domestic product, and they gradually rose afterwards to reach 1.73% of gross domestic product in 1999.

According to the second survey on state aid conducted in 2000, state aids at the state level (the municipal level is not included) shrank relative to gross domestic product in 1999 compared to the previous year, but the proportion was still higher than in the EU. State aids per employee rose by 2% and were 19.8% lower than in the EU, excluding agriculture and fisheries (see Table 28).

Table 28: State aids in Slovenia in 1998 and 1999 and annual EU averages in 1996-98

in %	Slovenia 1998	Slovenia 1999	Yearly EU average 1996-98
Total state aids in GDP	2.53	2.44	1.12*
Total state aids per employee (in EUR)	593.00	605.00	526.00*
State aids in state expenditure	5.79	5.52	2.35*
State aids structure	100.00	100.00	100.00
- Agriculture and fisheries	20.88	30.28	14.60
- Transport	16.55	12.35	34.56
- Coal industry	4.10	5.43	8.08
- Manufacturing and other sectors	58.47	51.94	42.76

Note: *agriculture and fisheries excluded
Source: Annual Survey on State Aid in Slovenia for 1998 and 1999, Ministry of Economic Relations and Development, June 2000.

Within the overall structure, state aids increased the most in agriculture, representing 23.4% of value added in agriculture in 1999 (only 13.7% in 1998). Aids in transport shrank, whereas those in the coal industry slightly increased. A substantial reduction was recorded in manufacturing and other services, where 93.4% of the state aids were allocated to horizontal objectives, 5.4% to individual sectors (particularly the steel industry) and only 1.2% to regional objectives. The state aids in Slovenia still differ greatly from those in the EU in terms of distribution by objectives.

In its allocation of state aids in 1999, Slovenia continued to use budgetary instruments (83.7%), but it increased the tax instruments compared to the previous year (in 1998, only 7.6% of state aids were allocated from tax instruments, whereas in 1999 the figure rose to 16.3%) and thus caused the allocation of state aids to be less transparent.

No substantive changes were recorded with regard to microeconomic measures aimed at the corporate sector in 2000. The Government continued to allocate state aids in accordance with the budget and other development programmes, while the number of autonomous state aid allocators was too high for industrial policy objectives to be adhered to. Changes in the supervision over state aids were more evident; the relevant regulatory framework was adopted in 2000, and the preliminary legal supervision over state aid allocation was introduced.

Given the relatively large amount of internal potential within enterprises, the competitiveness of Slovenia's industry could be improved by **integrations and mergers**. In efficiently organised enterprise networks incorporating both small and large enterprises, the quality of business relations is much more important than the size of an enterprise. The key unit of production is no longer the individual enterprise, but a decentralised enterprise network, big and efficient enough to compete in international markets. The world market has in fact become so intertwined with different relations among enterprises that it is difficult to distinguish between co-operation and competition. These networks do not exclusively mean co-operation; they also create competition between enterprises, and even though competition is one of the main factors stimulating economic growth (Jakli, 2000), it often fails to lead to rational decisions.

A better competitive position achieved through the different forms of integration is therefore subject to restrictions laid down in **competition policy**. The Government intervenes in competition through the measures of regulation and guidelines. There are several reasons for the Government's active role here: the creation and regulation of the market, particularly in areas where market

mechanisms have proven to be inadequate. The competition law regulates the operation of monopolies and cartels, as well as vertical restrictions and mergers. It also covers the prevention of unfair competition, dumping and subsidised imports, prohibited speculations, and the restriction to business operations through various Government decisions. The competition law should create an environment where competition stimulates enterprises to increase efficiency and performance.

Slovenia, being a small and open economy, needs to formulate and implement its own competition policy. In the process of EU integration, such policy should be harmonised with the EU's competition policy. Slovenia should also regulate the business and legal environments which incorporate the implementation of institutional practices, makes use of empirical methodologies of economic analysis in the application of competition law, and transparently monitors activities in the market in order to reduce unpredictability and the risk factor.

The privatisation of enterprises in Slovenia offers the basis for the transformation and establishment of appropriate relations in the market. The process of transformation of Slovenia's economy is being and will continue to be implemented in the form of mergers and acquisitions of enterprises with the aim of increasing efficiency (one study has revealed that 25.8% of Slovenian enterprises intend to acquire another enterprise; Lahovnik, 2000). Short-term efforts to provide competition in the national market using the traditional criteria of restrictions on competition might have a negative effect on the international competitiveness of enterprises; there is therefore **a need to harmonise industrial policy and competition policy**. The objective of such harmonisation should be to attain the international competitiveness of Slovenia's enterprises. At the same time, foreign and Slovenian enterprises must be prevented from abusing their power in the domestic market.

5.6. INTERNATIONAL ECONOMIC RELATIONS POLICY – More than 85% of Slovenia's foreign trade takes place under free-trade agreements

Being an open and export-oriented economy, **Slovenia has considerably liberalised its trade policy since 1991**. The Foreign Trade Act of 1993 liberalised and simplified foreign trade procedures, abolished the registration of business activity dealing in foreign trade and reduced the quantity and value restrictions for imports. In 1996, the Customs Act and the Customs Tariff Act were adopted, modernising customs duties and adjusting them to the standards of developed

countries. Slovenia uses the EU Combined Tariff and Statistical Nomenclature and is fulfilling its obligations deriving from the Europe Agreement. The new combined customs tariff gradually reduces the official rate of customs duties and liberalises foreign trade in accordance with the international obligations assumed by Slovenia as a member of the World Trade Organisation (WTO) and under signed free-trade agreements.

Slovenia has been a member of the WTO since July 1995, and in the middle of June 1999 it ratified the 5th Protocol to the General Agreement on Trade in Services including the results of negotiations on the further liberalisation of financial services concluded in 1997. Up until 2000, Slovenia had signed 32 free-trade agreements (with EU member-states under the Europe Agreement, with the EFTA and CEFTA member-countries, with the Baltic states, with Croatia, Macedonia, Turkey and Israel). The above agreements reveal the strong economic connection between Slovenia and Europe, since all the partners except Israel are European countries. **More than 85% of Slovenia's foreign trade takes place under free-trade agreements** (in 1999, the share of these markets in Slovenia's exports amounted to 85.8%, and in imports to 85.7%, and in the first eight months of 2000 these shares amounted to 85.2% and 84.6%, respectively).

The agreements with the EFTA countries and the Europe Agreement are asymmetrical in favour of Slovenia, meaning that the Slovenian market is opening more slowly to products originating in those countries than the markets of the latter are opening to Slovenian products. Except for certain agricultural products those markets have been fully opened to Slovenian goods. Under the agreements with other countries, markets for industrial products are opening gradually on both sides and have a different dynamic for each country, in accordance with the sensitivity of certain productions in individual countries. A market that is opening most slowly in Slovenia is the market for products of the chemical and rubber industry, the metal industry, the energy sector, the cellulose industry, and the paper and paper processing industry. Agricultural and fisheries products are largely regarded as sensitive and subject to special agreements, usually in the form of customs concessions on a bilateral basis. The transitional periods of market opening under all free-trade agreements will have ended by 31 December 2001.

Around 75% of all of Slovenia's foreign trade is absolutely free, with no import or export restrictions at all, excluding trade in agricultural and food products and partly textile and steel products, the liberalisation of which is not or not

entirely subject to free-trade agreements[29]. In trade with the EU, Slovenia liberalised 41% of imports from the EU immediately, 26.6% by 2000 and the remaining 32.4% is expected to be liberalised by 2001. The effect of trade liberalisation is seen in the average customs rates for manufactured products. They have fallen from 6.46% in 1992 (for the EU and CEFTA together) to 2.28% in 1999. Due to a protection policy, the liberalisation of trade in agricultural and food products has not followed the same path; import duties (taking into account imports from the EU and CEFTA countries) in the same period have increased in both categories (from 6.12% to 7.18% in agriculture, and from 9.49% to 13.25% in the production of food, beverages and tobacco products; Damijan, 2000).

Prior to accession to the EU Slovenia will have to adopt the *acquis communautaire* in the areas of international economic relations and international development assistance (various trade agreements and the customs tariff) and denounce its contractual obligations with third countries[30]. Agreements regulating trade with Croatia, Macedonia, and Bosnia and Herzegovina are an exception. **Slovenia has required a ten-year transitional period** during which it will have a more favourable trade regime with those countries than the EU. Given the possibility that during the transitional period co-operation between the EU and those countries might be strengthened and expanded in the form of a more favourable trade regime, there would be less negative impacts of adoption of the *acquis* for Slovenia in this area if the transitional period were implemented.

Given the high concentration of Slovenia's foreign trade in the EU countries (66.4% in the first eight months of 2000) and the strategic importance of the countries of the former Yugoslavia for Slovenian foreign trade, Slovenia is trying to strengthen its presence in the territory of former Yugoslav republics and other South-Eastern European countries (Romania, Bulgaria, Albania) in the framework of **foreign trade diversification.** Those countries accounted for 11% of Slovenia's foreign trade in 1999 and 16% of exports (more than 90% of which with former Yugoslav republics). In addition to the free-trade agreements with Croatia, Macedonia, Bulgaria and Romania under the Central European Free Trade Agreement (CEFTA), the stronger investment activities of Slovenian enterprises and the entering of Slovenian financial agents to this area, Slovenia's

[29] The Europe Agreement gradually increases the customs ceilings on textiles and steel products for free imports from Slovenia.

[30] Slovenia will harmonise its obligations with the obligations of the EU within the WTO and accede to the Agreement on Public Procurement, the Agreement on Civil Aviation and the Agreement on Information Technology Products.

efforts are also seen in its active **participation in the Stability Pact for South-Eastern Europe** where it acts as a donor.

There are several economic motives for Slovenia's participation in the Stability Pact, above all the expansion of the economic space through increasing shares in the markets of former Yugoslavia, where Slovenian enterprises have certain comparative advantages such as knowledge of the markets, historical, cultural and political circumstances, the recognition of Slovenian trademarks, still existing business relations from the past etc. In addition, there are increasing possibilities to boost economic co-operation with Romania, Bulgaria and Albania. Given the limited financial and human resources capacities, Slovenia's co-operation is less focused on direct donations and more on assistance for education (scholarships, technical assistance) and participation in projects of the reconstruction of buildings and infrastructure where incentives for Slovenian foreign direct investment will play an important role. Slovenia's projects under the Stability Pact also include: a training programme for managers, an offer to set up a TV network, the building of institutions, effective administration and efficient management, the development of support institutions for small- and medium-sized enterprises, the promotion of employment in rural areas, the establishment of a university for South-Eastern Europe, the transmission of know-how in employment and social security policies, the establishment of institutions in the corporate sector and the setting up of a business centre in Bosnia and Herzegovina and in Montenegro with the purpose of co-operating with small- and medium-sized enterprises in Slovenia (Strategy of Slovenia's Participation in the Economic Reconstruction of South-Eastern Europe, 1999). These projects are being implemented by the individual ministries and other institutions, in particular the Chamber of Commerce and Industry of Slovenia and the Chamber of Craft of Slovenia, as well as the Slovenian Export Corporation in the area of insurance against commercial and non-commercial risks.

In addition to providing an institutional framework for the international economic relations policy and the diversification of Slovenia's foreign trade, **improvement of international competitiveness is very important for further internationalisation of the economy**, by promoting technological development and innovation activity (see Chapter 5.5) and emphasising the non-price factors (marketing, quality standards), as well as by promoting new and more complex forms of international co-operation (see Chapter 4.2.3) where the possibilities of Slovenia are rather limited due to its small size.

6. MACROECONOMIC PROJECTIONS FOR THE PERIOD UP TO 2005

6.1. A NEW STRATEGY FOR THE ECONOMIC DEVELOPMENT OF SLOVENIA: SLOVENIA IN THE EUROPEAN UNION

This year's Autumn Report overlaps with the final phase of formulating a new Strategy for the Economic Development of Slovenia. The Strategy brought together a large number of specialists and experts in this field, with the IMAD playing the role of co-ordinator. Work on the Strategy was initiated by a decision taken by the Government in 1998. The next significant step was adoption of a New Development Paradigm in July 2000, which served as a basis for the Strategy. The Paradigm was endorsed by the majority of participating experts. A draft text was discussed at the 3rd Conference on the Strategy at Bled on 4-5 December 2000 and is available on IMAD's home page (http://www.gov.si/ZMAR/SGRS).

Medium-term projections for the period up to 2005 differ from those presented in previous IMAD analyses as they are not so much based on current economic trends but prefer to put forward a consistent economic policy aimed at restructuring the economy and society, as envisaged by the Strategy. If this proposal were based on current economic trends, it would in some ways be less optimistic because it would fall victim to unpredictable circumstances; however, the Strategy offers a consistent vision of the economic development of Slovenia, which requires a strong political commitment to carry it out. It is difficult to predict to what extent Slovenia will in fact be successful in achieving the set goals. The Strategy's ambition is not only to guide the concrete actions to be taken by the Government and the National Assembly, but also to be accepted as a national and political consensus, the reaching of which is crucial for development. This is why the Strategy has avoided radical solutions which are not likely to reach consensus, so it prefers to stay within what is possible to achieve. As a result, the given projections may be seen as too modest. They may seem to soften the main orientations of the Strategy, which was an inevitable result of weighing up priorities against macroeconomic possibilities and restrictions. From the point of view of Slovenia's needs, these macroeconomic projections appear too modest, but they do reflect the content of the Strategy and the direction the restructuring process should take in order to put Slovenia on a higher level of development required for its integration into the EU.

The draft Strategy incorporates those projections, but they have been extended to cover the period up to 2006. The National Development Programme, a concrete realisation of the Strategy and a basis for obtaining EU funds, will be based on the same projections, unless they evolve in the course of making the document. Not only may certain external circumstances change the Strategy, the document itself will undergo further changes and is awaiting social approval, so new orientations may be added to the existing ones. However, the Strategy in its present form provides the most appropriate path for headway at the moment, so it may serve as an orientation for the Government to take concrete steps and for companies to make decisions.

The projected changes in the structure and growth of macroeconomic aggregates reflect all of the main orientations of the Strategy, which also lays down the measures necessary to achieve this. The underlying goal is to slightly accelerate the currently dynamic economic growth in order to enable Slovenia to draw closer to the average level of development in the EU and to integrate into the Union as an equal partner. Growth must be founded on qualitative changes that are reflected in bigger shares of investment, education, telecommunications, external trade, and foreign direct investment. They are a concrete realisation of the new development paradigm, representing the core of the Strategy, which replaces the challenges of transition with improvement in the economy's competitiveness driven by know-how and openness. As development must be sustainable, it is based on increased savings, environmental protection, and maintaining the welfare state, all of which is reflected in the projected balance between macroeconomic aggregates. Development must not be jeopardised by macroeconomic instability, hence the goals of bringing inflation down to EU levels, the gradual elimination of the general government deficit, and the narrowing of the current account deficit down to its sustainable level. This means that external debt relative to gross domestic product should not rise further, and increased foreign direct investment should boost the investment cycle by bringing in foreign capital.

Slovenia is expected to accede to the EU in the period covered by the Strategy. It is difficult to pinpoint the exact year of accession, but this will not affect the projections significantly as the accession year will be just another step in the ongoing process of macroeconomic adjustments to the EU.

Table 29: Main macroeconomic indicators

Real growth rates in %

	2000	2001	2002	2003	2004	2005
Gross domestic product	**4 1/4**	**4.0**	**4 1/4**	**4 3/4**	**5.0**	**5 1**
GDP in SIT mln. (current prices)	4,074,000	4,567,400	5,009,000	5,467,200	5,952,900	6,487,500
Inflation (Jan.-Dec. / Jan.-Dec. annual average)	8.9	7.8	5.2	4.2	3.7	3.3
Employment	**1.0**	**1.0**	**1.0**	**1.1**	**1.1**	**1.5**
Rate of registered unemployment in %	12.2	11.7	11.3	10.0	10.2	9.0
Rate of unemployment by ILO in %	7.2	7.0	7.0	6.9	6.6	5.9
Labour productivity	**3.3**	**3.0**	**3.3**	**3.7**	**3.9**	**4.0**
Population, as at 30 June	1,990.3	1,987.5	1,987.5	1,987.2	1,986.8	1,986.0
Gross wage per employee	**2.0**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**
Exports of goods and services- real	**8.7**	**6.9**	**7.0**	**7.1**	**7.4**	**7.5**
- As a % of GDP	57.9	59.2	60.5	62.1	63.8	64.0
Imports of goods and services- real	**4.9**	**5.6**	**6.2**	**6.6**	**6.7**	**7.0**
- As a % of GDP	62.5	63.1	64.3	65.7	67.5	67.3
Current account balance in mil. US$	**-730.0**	**-648.0**	**-676.0**	**-686.0**	**-674.0**	**-581.0**
Private consumption	**1.4**	**2.8**	**3.2**	**3.9**	**4.0**	**5.0**
- As a % of GDP	55.4	55.1	54.9	54.8	54.8	54.6
Government consumption	**2.1**	**3.0**	**3.8**	**4.0**	**4.1**	**4.2**
- As a % of GDP	20.4	20.2	20.1	20.0	19.8	19.5
Gross fixed capital formation	**4.2**	**5.0**	**5.5**	**6.0**	**6.0**	**6.5**
- As a % of GDP	27.8	27.6	27.8	27.9	28.1	28.2

Source: IMAD estimates.

6.2 ECONOMIC GROWTH – THE EXPENDITURE STRUCTURE OF GROSS DOMESTIC PRODUCT

According to projections, having averaged 4.2% annually in the previous 7 years economic growth will gradually increase to reach the average level of 4.7% in the period 2001-2005. In this process, the influence of foreign demand will be especially important. In future years, private and government expenditures will contribute less to economic growth because income and public finance policies will have to - by limiting both kinds of expenditure - support higher export competitiveness and the necessary level of national savings to finance investments without causing an excessive deficit in the current account of the balance of payments as well as in public finance. Upon implementation of the structural reforms necessary for Slovenia's full incorporation into the European economic area, investments in technological development will create possibilities for the further growth of labour productivity. Economic growth will be more directly connected to new business investments. In a few years, gross fixed capital formation should already reach the appropriate long-term level at around 28% of gross domestic product.

The projections anticipate approximately 7.2% average annual growth of goods exports in the period 2001-2005 which is also supposed to be achieved through the increased foreign competitiveness of production, while the approximately 6.4% growth in goods imports should assure a sufficient import component in domestic production (importing intermediate goods) and increasing investments (importing of equipment and technology). Lively investment activity and a better supply of high-quality materials from imports would enable the production of new, more competitive products in world markets. Brand new production programmes and new products are necessary for the growth of exports and production. Only an increase in the share of value added per unit of exported goods (also due to environmental limitations) would enable higher goods exports in real terms. By itself, an extensive increase in goods exports (in quantity terms) in the framework of existing production programmes has its spatial and environmental limitations, as well as limitations in the area of foreign demand. For Slovenia, this would be an inappropriate development orientation. The next condition to be fulfilled for the investment cycle and long-term sustainable economic growth is the financial market's liberalisation and development that must ensure the inexpensive and efficient transfer of capital from savers to investors.

Table 30: Expenditure structure of gross domestic product

Structure in %, current prices

	2000	2001	2002	2003	2004	2005
1. Gross domestic product (1=2-3+4)	100.0	100.0	100.0	100.0	100.0	100.0
2. Exports of goods and services	57.9	59.2	60.5	62.1	63.8	64.0
3. Imports of goods and services	62.5	63.1	64.3	65.7	67.5	67.3
4. Total domestic demand (4=5+6+7)	104.6	103.9	103.8	103.6	103.6	103.3
5. Final consumption	75.8	75.3	75.0	74.7	74.6	74.1
- private consumption	55.4	55.1	54.9	54.8	54.8	54.6
- government consumption	20.4	20.2	20.1	20.0	19.8	19.5
6. Gross fixed capital formation	27.8	27.6	27.8	27.9	28.1	28.2
7. Changes in inventories and valuables	1.0	1.0	1.0	1.0	1.0	1.0

Source: IMAD estimates.

According to current trends, average real investment growth in the period 2001-2005 will be slightly above the real growth of gross domestic product - it will reach 5.8% compared to the 4.7% average growth of gross domestic product. According to the projections, substantial gross savings growth is anticipated - it is supposed to increase from 24.2% of gross domestic product in 1999 to 26.9% in 2005, filling the investment-savings gap, so that the deficit in the current account of the balance of payments would be reduced from 4% to 2.3% of gross domestic product, i.e. between USD 600 - 700 million. Apart from the increased level of national savings, the projections also anticipate a net influx of capital from abroad. Financing of the 'development deficit' should be carried

out through direct capital flows to the greatest extent possible. The net influx of foreign accumulation is expected to increase disposable domestic funds for investments and facilitate restructuring of the economy. Projections also anticipate that investment activity will become livelier with the help of financial resources from the EU's structural funds.

Supporting economic growth, which is investment-stimulated, while achieving stabilisation goals at the same time will only be possible with a consistent policy of reducing all kinds of expenses. According to the projections, incomes policy will be successful in preserving the current positive trends of gross wage per employee increasing within the framework of total labour productivity growth. This goal could be achieved through development of the social partnership system in the direction of better representation and professional support, through improvement of formulas that link wage growth to inflation (by shifting to indexation on the basis of expected inflation), and by the development of schemes of employees' financial participation in generated profit. More centralisation is also predicted in negotiations on the system of collective agreements in the public sector which will be supported by a more uniformly defined position of civil servants and the defining of more appropriate wage ratios between different professions. Shaping the incomes policy in the private sector will be the subject of social dialogue between the Government, trade unions, and employers. Technological development is expected to stimulate labour productivity growth - in the entire period, employees' compensation could grow at an annual average of 3.9%, with their share falling from 51.9% of gross domestic product in 1999 to 50.0% in 2005.

In the area of public finance, the processes of tax system reform and approximation of the tax burden structure to the systems of developed market economies is planned to continue. The required financial resources from taxes are also planned to be provided with the introduction of new taxes (real estate tax). At the same time, reduction of subsidies to a level comparable with Europe should be implemented; according to this scenario, their share in 2005 should amount to 1.43% of gross domestic product (2.24% in 1999). The projections take into account that subsidies will also have to be structurally adapted to the EU's rules on state aid, which means that the share of subsidies for products will be reduced within the structure of subsidies.

6.3 PRODUCTION STRUCTURE OF GROSS DOMESTIC PRODUCT

Projections for the structure of gross domestic product up until 2005 take into account the processes of globalisation, integration of European markets, intensive technological progress and the transition to an information society. These are processes that are modifying the production structure in all countries, especially those that are economically open and well integrated into the global economy.

Apart from these general circumstances, a modification of domestic economic policy towards stimulating technological changes and innovation in the economy is taken into account as well. This will cause further growth in the share of service activities within the structure of value added. The increase of services directly supporting growth in industrial sector production is expected.

Table 31: Value added by NACE Rev. 1 activities and gross domestic product

Structure in %, current prices

	2000	2001	2002	2003	2004	2005
1. Total value added (basic prices)	**85.5**	**85.4**	**85.4**	**85.5**	**85.6**	**85.7**
Total value added	100.0	100.0	100.0	100.0	100.0	100.0
- Agriculture, forestry, fishing (A+B)	3.4	3.5	3.5	3.4	3.3	3.1
- Industry and construction (C+D+E+F)	38.8	38.0	37.6	37.3	37.0	36.8
- Services (G...O)	60.2	60.8	61.2	61.5	61.8	62.1
- FISIM	-2.4	-2.4	-2.3	-2.2	-2.1	-2.0
2. Corrections	**14.5**	**14.6**	**14.6**	**14.5**	**14.4**	**14.3**
3. Gross domestic product (3=1+2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: IMAD estimates.

Up until 2005 we estimate that real growth of value added in agriculture, forestry and fisheries would be steady at a rate of 3%. Because other activities will grow faster on average, the share of these three activities will drop from 3.5% of value added in 2001 to 3.1% in 2005.

The share of industry and construction in gross domestic product will gradually fall, however, it will remain high (around 37% of value added) especially thanks to high estimates for the growth of construction and export-oriented manufacturing activities.

The estimated average growth of service activities in the period 2001-2005 will be 5.1% (which is 0.4 of a percentage point above the average growth of gross domestic product). Their share in value added will increase (from 60.2% in

2001 to 62.1% in 2005), mostly due to the expected strong growth of business services, personal services and education.

6.4 DEMOGRAPHIC TRENDS, EMPLOYMENT AND UNEMPLOYMENT

Due to the persistently low birth rate and the relatively low net migration, Slovenia's population will continue to be stagnant in the oncoming years. The population is becoming older: the share of children is falling rapidly, while the share of older people is increasing. Unemployment of young people, especially young women, is still high and is again on the increase. Temporary employment continues to be a prevailing form of new recruitment and, together with an inappropriate housing policy, does not allow young families to decide to have more children. Slovenia needs more active migration policy, especially regarding the encouraging of selective immigration. On the other hand, such a development policy that would discourage the potential emigration of young and educated people.

If no greater migration surpluses are achieved in the following few years, the potentially active population (aged 15-64) will be more or less stagnant as well. The formal activity of this population is still low as a consequence of past excessive outflows from the labour market due to retirement and the increased enrolment numbers of students. However, growth in the formal activity rate, which was interrupted in 2000, is expected to growth further, while the rate of informal activity is expected to drop slightly. Therefore, labour force supply could increase according to the estimates. This will be largely due to a higher number of graduates, while the influx of young people without vocational or college education will decrease. To reduce the unemployment rate to the level stated in the strategic goals for labour market development, the demand for the active population should increase at an average annual rate above 1%.

The age structure of the active population still does not point to the considerable annual increase of new retirements. The total number of pensioners will therefore increase at an annual rate slightly over 1% in the next period. Their number is anticipated to exceed 500,000 in 2004, which will be more than one-quarter of the entire population.

The further development of employment and unemployment will largely depend on the success of economic policy in stimulating economic growth and investments in knowledge and in improving production efficiency. Demographic

Table 32: Population and Labour Force

	2000	2001	2002	2003	2004	2005
POPULATION, as at 30 June in thousand	**1990.3**	**1987.5**	**1987.5**	**1987.2**	**1986.8**	**1986.0**
% of total: aged 0 - 14	15.9	15.8	15.5	15.1	14.8	14.6
aged 15 - 64	70.0	70.0	70.1	70.2	70.2	70.2
aged 65 and over	14.0	14.2	14.4	14.7	15.0	15.2
LABOUR FORCE (by Labour Force Survey) in thousand	**963.0**	**969.0**	**977.0**	**985.0**	**991.0**	**996.0**
- Participation rate (% of working age population - 15-64)	69.0	69.6	70.1	70.6	71.0	71.5
- Employment rate (% of working age population - 15-64)	64.1	64.7	65.2	65.7	66.3	67.3
- Rate of unemployment by ILO standard (%)	7.2	7.0	7.0	6.9	6.6	5.9
Employment in full-time equivalent in thousand	834.7	843.1	851.5	860.7	870.2	883.2
- Annual growth rate (%)	1.0	1.0	1.0	1.1	1.1	1.5
Registered unemployed persons in thousand	106.6	102.7	100.6	98.1	92.0	81.3
- Registered unemployment rate (%)	12.2	11.7	11.3	11.0	10.2	9.0
RETIRED PERSONS of IPDIS in thousand	**482.1**	**487.9**	**493.4**	**498.8**	**504.3**	**509.9**
- Insured persons per retired person	1.6	1.6	1.6	1.6	1.6	1.6
- % of total population	24.2	24.5	24.8	25.1	25.4	25.7
ANNUAL GROWTH RATES (%)						
- Population	0.2	-0.1	0.0	0.0	0.0	0.0
- Working age population (aged 15 - 64)	0.5	-0.2	0.1	0.1	0.0	-0.1
- Labour force	0.4	0.6	0.8	0.8	0.9	1.0
- Retired persons of IPDIS	1.2	1.2	1.1	1.1	1.1	1.1

Source: IMAD estimates.

trends and the necessary growth of labour productivity will not allow any rapid fall in unemployment. The expected increase in the employment rate will only be achieved with an active incomes policy that ensures the moderate lagging of wage growth behind labour productivity growth and a well-prepared and applied employment policy. Namely, the new integral approach to solving the unemployment problem, which will also be established in Slovenia according to the EU's example, is not only based on traditional active employment programmes – instead, it regards employment policy as a web of measures in the areas of enhancing management and personnel recruiting flexibility, fiscal stimulation, promoting entrepreneurship, improving the skills of the labour force including the upgrading of the labour force's formal education level and measures to ensure various social groups have equal access to job opportunities.

6.5 INTERNATIONAL ECONOMIC RELATIONS

Projections for the 2001-2005 period anticipate 7.2% real growth in exports of goods and services which is expected to be achieved through Slovenia's higher

international competitiveness. Export-driven economic growth is also planned to be accelerated by the multiplier effect of exports. According to the estimates, the deficit in the trade balance would gradually increase and reach approximately USD 1.341 billion in 2005. However, the share of the trade deficit in gross domestic product is expected to fall gradually from 6.7% in 2000 to 5.7% in 2005.

The increased exports of goods in real terms will also be possible with greater geographical diversification. The share of goods exports to EU countries in total goods exports should fall, although the exports are expected to grow in real terms, while the share of exports to CEFTA countries and countries in the territory of former Yugoslavia are expected to increase. A partial re-orientation of Slovenian goods exports would be in accordance with the gradual stabilisation of the economic and political situation in South-eastern Europe.

The bolstered activity of the domestic service sector in the period 2001-2005 will also be reflected in a faster exchange of services with foreign countries. Considering Slovenia's future economic development and the increasing demands of the economy and public administration during transition to an information society, the fastest growth on both the imports and exports sides will be especially recorded in other services (computer, information, communications, various business, professional and technical services). The surplus from services will settle at the level of 2% of gross domestic product.

The influx of financial resources from pre-accession assistance to Slovenia through Phare, Ispa and Sapard programmes is supposed to increase the current transfers surplus. Due to the expected increase in foreign direct investments, reinvested earnings will increase. Through higher investment expenditure, they will increase the deficit on the current account of the balance of payments.

According to the estimates, the current account deficit in the balance of payments will amount to 2.2% of gross domestic product in 2005. A gradual reduction in the current account deficit in the period 2001-2005 will be accompanied by influxes of foreign equity, especially of foreign direct investments, and lower borrowing. With the increase in foreign direct investments, higher export efficiency will be achieved, as well as faster dynamics of export flows compared to import flows, which will enable a gradual drop in the goods-services deficit after 2004. Accordingly, Slovenia's foreign indebtedness (measured as the share of foreign debt in gross domestic product) would not increase further, while the sustainability of the current account deficit would at the same time be ensured.

In the long run, the balanced current account of the balance of payments will not be necessary for Slovenia as a region in the unified European monetary area. Inflows or outflows of capital will depend on changes in competitiveness. Thus, Slovenia's efforts for stability will not be reflected in its monetary policy but instead in its incomes and fiscal policies, and especially in shifting the focus from macroeconomic to microeconomic or structural policies which stimulate the productivity and competitiveness of the economy. In particular, employment and education policies have to ensure sufficient mobility and flexibility of the labour force and thus restructuring of the economy. That will prevent micro problems of competitiveness in individual segments of the economy from becoming a macro problem for Slovenia as a whole.

Table 33: Exports and imports of goods and services

Real growth rates in %

	2000	2001	2002	2003	2004	2005
Exports of goods and services	8.7	6.9	7.0	7.1	7.4	7.5
- exports of goods	9.0	7.2	7.3	7.4	7.6	7.7
- exports of services	7.1	5.5	5.7	5.8	6.2	6.4
Imports of goods and services	4.9	5.6	6.2	6.6	6.7	7.0
- imports of goods	5.1	5.8	6.3	6.7	6.8	7.0
- imports of services	3.9	4.5	5.1	5.8	6.3	6.6
Current account balance in mil. US$	-730	-648	-676	-786	-674	-581

Source: IMAD estimates.

6.6 INFLATION

The goal of macroeconomic policy is to cut the inflation rate to a level comparable with EU member-states, which will ensure more stable macroeconomic conditions. Therefore, we expect inflation to fall gradually in the following few years. The lowering of inflation to a level comparable with EU countries cannot exclusively be the result of monetary policy measures if this were to negatively impact on economic growth. However, this policy has to be credible and conservative. Fiscal and incomes policies can have a stronger influence on cutting the inflation rate, especially in our conditions of a predominantly cost-driven inflation, as well as structural or micro-policies. The latter are aimed at boosting the economy's efficiency and at supporting its 'normalisation' so that it functions like other market economies in the EU. This would also lead to an inflation rate that is normal by European standards. However, there are two spheres where Slovenia can have more direct influence on cutting the inflation rate: indexation regulations and the sphere of relative prices or prices under direct state control. As long as interests are formally indexed, Slovenia will not be comparable with Europe. Therefore, such indexation will have to be abolished, which can only happen gradually, otherwise business entities will merely replace the official

mechanisms with improvised ones. The abolition of revaluation would eventually even slightly push-up the prices at first, however in the medium term it would additionally stimulate further falls in inflation. In the case of interest rates, gradualism will be related to monetary policy measures directed at the establishment of a reference interest rate that could replace tolar revaluation clause provided that the reference rate results from the development of open market operations. This interest rate would move towards the European level in accordance with the liberalisation of capital flows and the adjustment of exchange rate policy, while the array of bank interest rates related to it would also decrease in line with the increased competitiveness of the financial sector. As for indexation of wages and pensions, which does exist in the EU, it will be necessary to reduce inflationary pressure especially through the transition from ex-post indexation to indexation with the estimated future price growth.

When harmonising domestic relative prices with prices in the EU one should distinguish between discrepancies that are normal and result from Slovenia's level of development which is below the EU average. Lower wages generally bring about relatively lower prices in the service sector, as well as lower administered prices. The prices in energy supply, transport and public utility sectors that are still controlled should be liberalised within the boundaries of the more active policy of privatisation, liberalisation and increased competition that is necessary in these activities. One should bear in mind that this not only causes price indexes to go up but it can also have a deflationary effect when these activities rely on self-financing more than on budget support. Less controlled and more balanced relative prices reduce inflationary pressures in the long run.

A

STATISTICAL APPENDIX

A

TABLE CONTENTS

A

A

Table 1: Main macroeconomic indicators of Slovenia

real growth rates in %

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
GROSS DOMESTIC PRODUCT	**4.1**	**3.5**	**4.6**	**3.8**	**5.0**	**4 1/4**	**4.0**	**4 1/4**
Structure in value added in %[1]								
Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.2	3.7	3.4	3.5	3.5
Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.5	38.4	38.8	38.0	37.6
- Industry (C+D+E)	33.4	32.8	32.5	32.8	32.2	32.6	31.9	31.5
- Construction (F)	5.1	5.7	5.7	5.7	6.2	6.2	6.1	6.2
Services (G...O)	59.2	59.5	59.8	59.7	60.3	60.2	60.8	61.2
FISIM	-2.3	-2.5	-2.3	-2.4	-2.5	-2.4	-2.4	-2.3
GDP in mil. SIT (current prices)	2,221,459	2,555,369	2,907,277	3,253,751	3,637,437	4,074,000	4,567,400	5,009,000
GDP in mil. US$	18,744	18,878	18,206	19,585	20,011	18,302	19,353	21,180
GDP per capita in US$	9,431	9,481	9,163	9,878	10,078	9,196	9,737	10,657
GDP per capita purchasing power in US$	12,500	13,200	14,100	14,800				
GDP per capita (PPS)	11,300	12,200	13,000	13,800				
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS								
Exports of goods and services-real[2]	6.9	3.6	11.6	6.7	1.7	8.7	6.9	7.0
- Exports of goods	8.1	2.4	13.3	9.2	2.7	9.0	7.2	7.3
- Exports of services	1.7	8.7	4.9	-3.6	-2.7	7.1	5.5	5.7
Imports of goods and services-real[2]	15.1	2.1	11.9	10.4	8.2	4.9	5.6	6.2
- Imports of goods	15.6	1.8	13.3	10.9	8.8	5.1	5.8	6.3
- Imports of services	11.6	3.6	3.1	7.0	3.6	3.9	4.5	5.1
Exports of goods and serv. in mil. US$	10,373	10,488	10,455	11,118	10,522	10,590	11,463	12,813
As a % of GDP	55.3	55.6	57.4	56.8	52.6	57.9	59.2	60.5
Imports of goods and serv. in mil. US$	10,696	10,679	10,601	11,415	11,403	11,430	12,215	13,610
As a % of GDP	57.1	56.6	58.2	58.3	57.0	62.5	63.1	64.3
Trade balance in mil. US$	-954.3	-825	-776	-789	-1,245	-1,230	-1,153	-1,216
As a % of GDP	-5.1	-4.4	-4.3	-4.0	-6.2	-6.7	-6.0	-5.7

(continue on next page)

A

Table 1: Main macroeconomic indicators of Slovenia - continue

real growth rates in %

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
Current account balance in mil. US$	-22.8	32	12	-147	-782	-730	-648	-676
As a % of GDP	-0.1	0.2	0.1	-0.8	-3.9	-4.0	-3.3	-3.2
Foreign exchange reserves in mil. US$	3,426	4,124	4,377	4,781	4,115	3,937		
External debt in mil. US$	2,970	4,010	4,176	4,959	5,491	5,800		
EMPLOYMENT, WAGES AND PRODUCTIVITY								
Employment in full - time equivalant	0.8	-0.9	-0.5	0.0	1.0	1.0	1.0	1.0
Registered unemployed (annual average in thousand)	121.5	119.8	125.2	126.1	119.0	106.6	102.7	100.6
Rate of registered unemployment in %	13.9	13.9	14.4	14.5	13.6	12.2	11.7	11.3
Rate of unemployment by ILO in %	7.4	7.3	7.4	7.9	7.6	7.2	7.0	7.0
Gross wage per employee	5.1	5.1	2.4	1.6	3.3	2.0	2.5	2.5
Labour productivity	3.3	4.4	5.1	3.8	4.0	3.3	3.0	3.3
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS								
Final consumption	7.4	2.3	3.2	3.9	6.1	1.6	2.9	3.3
As a % of GDP	78.3	77.6	76.7	75.9	76.2	75.8	75.3	75.0
in which:								
Private consumption	9.1	2.0	2.8	3.3	6.2	1.4	2.8	3.2
As a % of GDP	58.1	57.5	56.4	55.7	55.7	55.4	55.1	54.9
Government consumption	2.5	3.4	4.3	5.8	5.8	2.1	3.0	3.8
As a % of GDP	20.2	20.1	20.4	20.3	20.6	20.4	20.2	20.1
Gross fixed capital formation	16.8	8.9	11.6	11.3	17.0	4.2	5.0	5.5
As a % of GDP	21.4	22.5	23.4	24.6	27.2	27.8	27.8	27.8

(continue on next page)

Table 1: Main macroeconomic indicators of Slovenia - continue

real growth rates in %

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY								
General government revenue as a % of GDP	43.1	42.7	42.0	43.0	43.7	41.9	41.3	
General government expenditure as a % of GDP	43.1	42.4	43.2	43.8	44.3	43.6	42.6	
Surplus/deficit as a % of GDP	0.0	0.3	-1.2	-0.8	-0.6	-1.7	-1.3	
EXCHANGE RATE AND PRICES								
Average exchange rate SIT/US$		135.4	159.7	166.1	181.8	222.6*	236.0*	236.5*
Average exchange rate SIT/EUR		169.5	180.4	186.3	193.6	205.0	217.3	226.4
Effective exchange rate[3]		-2.9	0.7	4.0	-0.7	-2.1	-0.3	-0.3
Inflation (annual average)[4]		9.7	9.1	7.9	6.1	8.9	7.8	5.2

Note:
[1]Letters in brackets refer to NACE Rev. 1, Classification of Economic Activities
[2]Balance of payments statistics (exports F.O.B., imports F.O.B.); real growth rates are adjusted for inter-currency changes and changes in prices on foreign markets
[3]Growth in index denotes appreciation of tolar and vice versa
[4]Retail prices as a measure of inflation until 1998, after 1998 consumer price index
*exchange rate used in calculation of GDP
Source of data: SORS, BS, Ministry of Finance, IMAD estimates.

A

Table 2a: Value added by activities and gross domestic product

current prices, SIT million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
A Agriculture, hunting, forestry	87,072	98,260	107,700	116,215	114,975	119,010	137,209	147,231
B Fishing	386	439	484	519	509	582	640	687
C Mining and quarrying	26,006	30,683	33,908	36,023	36,503	38,570	40,606	41,449
D Manufacturing	545,730	616,410	706,266	782,651	866,778	989,822	1,089,112	1,185,468
E Electricity, gas and water supply	56,693	65,032	73,492	96,503	96,060	105,597	113,396	119,885
F Construction	96,588	123,827	143,158	159,312	193,157	216,353	239,200	264,100
G Wholesale, retail, trade, repair	232,286	257,269	294,293	326,778	364,250	406,482	459,988	504,605
H Hotels and restaurants	57,164	68,467	77,314	84,124	93,370	109,202	125,360	139,569
I Transport, storage, communications	148,746	169,275	204,827	233,079	256,337	288,806	328,394	363,885
J Financial intermediation	77,067	93,185	108,916	119,023	135,797	152,925	174,720	194,432
K Real estate, renting and business activities	224,830	263,568	291,572	334,244	381,483	425,508	481,519	533,304
L Public administration and com. soc. sec.	102,937	121,447	149,612	161,704	180,101	200,886	226,235	248,179
M Education	108,002	123,881	146,689	157,736	177,073	196,559	220,292	242,450
N Health and social work	101,172	118,454	134,589	148,882	170,275	189,077	212,936	233,702
O Other community and personal activities	63,580	77,431	88,243	100,448	112,321	126,174	143,469	158,172
FISIM	-43,947	-55,127	-58,554	-66,343	-77,087	-83,462	-92,231	-98,210
1 TOTAL VALUE ADDED (basic prices)	**1,884,312**	**2,172,501**	**2,502,509**	**2,790,898**	**3,101,902**	**3,482,092**	**3,900,844**	**4,278,908**
2 CORRECTIONS (a-b)	337,147	382,868	404,768	462,853	535,536	591,908	666,556	730,093
a) Taxes on products	368,833	418,577	444,275	511,757	590,376	643,208	715,426	780,990
b) Subsidies	31,686	35,709	39,507	48,904	54,840	51,300	48,870	50,897
3 GROSS DOMESTIC PRODUCT (3=1+2)	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,637,437**	**4,074,000**	**4,567,400**	**5,009,000**
TOTAL VALUE ADDED (basic prices)	1,884,312	2,172,501	2,502,509	2,790,898	3,101,902	3,482,092	3,900,844	4,278,908
in which:								
1 Agriculture, forestry, fishing (A+B)	87,458	98,699	108,184	116,734	115,484	119,592	137,849	147,918
2 Industry and construction (C+D+E+F)	725,017	835,952	956,824	1,074,489	1,192,498	1,350,342	1,482,313	1,610,901
Industry (C+D+E)	628,429	712,125	813,666	915,177	999,341	1,133,989	1,243,113	1,346,801
Construction (F)	96,588	123,827	143,158	159,312	193,157	216,353	239,200	264,100
3 Services (G...O)	1,115,784	1,292,977	1,496,055	1,666,018	1,871,007	2,095,619	2,372,913	2,618,298
4 FISIM	-43,947	-55,127	-58,554	-66,343	-77,087	-83,462	-92,231	-98,210

Source of data: SORS, IMAD's estimates.

Table 2b: Value added by activities and gross domestic product

shares in GDP in %, current prices

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
A Agriculture, hunting, forestry	3.9	3.8	3.7	3.6	3.2	2.9	3.0	2.9
B Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C Mining and quarrying	1.2	1.2	1.2	1.1	1.0	0.9	0.9	0.8
D Manufacturing	24.6	24.1	24.3	24.1	23.8	24.3	23.8	23.7
E Electricity, gas and water supply	2.6	2.5	2.5	3.0	2.6	2.6	2.5	2.4
F Construction	4.3	4.8	4.9	4.9	5.3	5.3	5.2	5.3
G Wholesale, retail, trade, repair	10.5	10.1	10.1	10.0	10.0	10.0	10.1	10.1
H Hotels and restaurants	2.6	2.7	2.7	2.6	2.6	2.7	2.7	2.8
I Transport, storage, communications	6.7	6.6	7.0	7.2	7.0	7.1	7.2	7.3
J Financial intermediation	3.5	3.6	3.7	3.7	3.7	3.8	3.8	3.9
K Real estate, renting and business activities	10.1	10.3	10.0	10.3	10.5	10.4	10.5	10.6
L Public administration and com. soc. sec.	4.6	4.8	5.1	5.0	5.0	4.9	5.0	5.0
M Education	4.9	4.8	5.0	4.8	4.9	4.8	4.8	4.8
N Health and social work	4.6	4.6	4.6	4.6	4.7	4.6	4.7	4.7
O Other community and personal activities	2.9	3.0	3.0	3.1	3.1	3.1	3.1	3.2
FISIM	-2.0	-2.2	-2.0	-2.0	-2.1	-2.0	-2.0	-2.0
1 TOTAL VALUE ADDED (basic prices)	**84.8**	**85.0**	**86.1**	**85.8**	**85.3**	**85.5**	**85.4**	**85.4**
2 CORRECTIONS (a-b)	15.2	15.0	13.9	14.2	14.7	14.5	14.6	14.6
a) Taxes on products	16.6	16.4	15.3	15.7	16.2	15.8	15.7	15.6
b) Subsidies	1.4	1.4	1.4	1.5	1.5	1.3	1.1	1.0
3 GROSS DOMESTIC PRODUCT (3=1+2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(continue on next page)

A

Table 2b: Value added by activities and gross domestic product - continue

share in GDP in %, current prices

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
GROSS DOMESTIC PRODUCT	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:								
1 Agriculture, forestry, fishing (A+B)	3.9	3.9	3.7	3.6	3.2	2.9	3.0	3.0
2 Industry and construction (C+D+E+F)	32.6	32.7	32.9	33.0	32.8	33.1	32.5	32.2
Industry (C+D+E)	28.3	27.9	28.0	28.1	27.5	27.8	27.2	26.9
Construction (F)	4.3	4.8	4.9	4.9	5.3	5.3	5.2	5.3
3 Services (G...O)	50.2	50.6	51.5	51.2	51.4	51.4	52.0	52.3
4 FISIM	-2.0	-2.2	-2.0	-2.0	-2.1	-2.0	-2.0	-2.0
5 Corrections	15.2	15.0	13.9	14.2	14.7	14.5	14.6	14.6
shares in value added %								
TOTAL VALUE ADDED (basic prices)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
in which:								
1 Agriculture, forestry, fishing (A+B)	4.6	4.5	4.3	4.2	3.7	3.4	3.5	3.5
2 Industry and construction (C+D+E+F)	38.5	38.5	38.2	38.5	38.4	38.8	38.0	37.6
Industry (C+D+E)	33.4	32.8	32.5	32.8	32.2	32.6	31.9	31.5
Construction (F)	5.1	5.7	5.7	5.7	6.2	6.2	6.1	6.2
3 Services (G...O)	59.2	59.5	59.8	59.7	60.3	60.2	60.8	61.2
4 FISIM	-2.3	-2.5	-2.3	-2.4	-2.5	-2.4	-2.4	-2.3

Source of data: SORS, IMAD's estimates.

A

Table 3a: Value added by activities and gross domestic product

prices 1995, SIT million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
A Agriculture, hunting, forestry	87,072	87,956	85,362	88,028	90,091	85,631	91,583	93,415
B Fishing	386	423	430	411	380	399	407	415
C Mining and quarrying	26,006	26,495	27,328	27,348	27,168	26,910	26,765	26,229
D Manufacturing	545,730	554,260	590,671	618,131	642,922	688,248	715,434	747,628
E Electricity, gas and water supply	56,693	57,365	59,750	60,303	58,792	60,585	61,464	62,386
F Construction	96,588	109,382	117,792	123,199	140,987	148,036	154,624	163,901
G Wholesale, retail, trade, repair	232,286	239,175	245,870	252,793	272,370	283,401	294,595	306,379
H Hotels and restaurants	57,164	59,680	61,826	62,404	63,331	69,062	72,826	76,868
I Transport, storage, communications	148,746	152,612	159,052	167,272	172,593	181,309	189,377	198,941
J Financial intermediation	77,067	85,509	85,555	88,733	91,250	95,813	100,555	106,086
K Real estate, renting and business activities	224,830	234,121	240,033	245,682	258,509	268,849	279,469	293,442
L Public administration and com. sec. sec.	102,937	108,438	119,592	123,792	128,786	133,937	138,558	144,101
M Education	108,002	109,175	114,476	118,048	122,121	126,395	130,124	135,771
N Health and social work	101,172	107,685	111,035	112,901	117,635	121,781	125,979	131,077
O Other community and personal activities	63,580	66,671	69,373	73,375	76,899	80,544	84,129	87,933
FISIM	-43,947	-50,253	-48,924	-50,330	-50,476	-50,956	-51,725	-52,216
1. TOTAL VALUE ADDED, (basic prices)	1,884,312	1,948,694	2,039,221	2,112,090	2,213,358	2,319,947	2,414,164	2,522,356
2. CORRECTIONS (a-b)	337,147	351,206	365,543	383,866	408,068	412,853	427,936	440,444
a) Taxes on products	368,833	383,191	397,843	416,794	442,003	442,003	453,716	465,966
b) Subsidies	31,686	31,985	32,300	32,928	33,935	29,150	25,780	25,523
3. GROSS DOMESTIC PRODUCT (3=1+2)	**2,221,459**	**2,299,900**	**2,404,764**	**2,495,956**	**2,621,426**	**2,732,800**	**2,842,100**	**2,962,800**

(continue on next page)

A

Table 3a: Value added by activities and gross domestic product - continue

prices 1995, SIT million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
TOTAL VALUE ADDED, (basic prices)	1,884,312	1,948,694	2,039,221	2,112,090	2,213,358	2,319,947	2,414,164	2,522,356
in which:								
1. Agriculture, forestry, fishing (A+B)	87,458	88,379	85,792	88,439	90,471	86,031	91,990	93,830
2. Industry and construction (C+D+E+F)	725,017	747,502	795,541	828,981	869,869	923,779	958,286	1,000,145
Industry (C+D+E)	628,429	638,120	677,749	705,782	728,882	775,743	803,662	836,243
Construction (F)	96,588	109,382	117,792	123,199	140,987	148,036	154,624	163,901
3. Services (G...O)	1,115,784	1,163,066	1,206,812	1,245,000	1,303,494	1,361,092	1,415,613	1,480,598
4. FISIM	-43,947	-50,253	-48,924	-50,330	-50,476	-50,956	-51,725	-52,216

Sources of data: SORS, IMAD's estimates.

Table 3b : Value added by activities and gross domestic product

real growth rates in %

	1995	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
A Agriculture, hunting, forestry	1.0	-2.9	3.1	2.3	-5.0	7.0	2.0
B Fishing	9.6	1.7	-4.4	-7.5	5.0	2.0	2.0
C Mining and quarrying	1.9	3.1	0.1	-0.7	-1.0	-0.5	-2.0
D Manufacturing	1.6	6.6	4.6	4.0	7.0	4.0	4.5
E Electricity, gas and water supply	1.2	4.2	0.9	-2.5	3.0	1.5	1.5
F Construction	13.2	7.7	4.6	14.4	5.0	4.5	6.0
G Wholesale, retail, trade, repair	3.0	2.8	2.8	7.7	4.0	4.0	4.0
H Hotels and restaurants	4.4	3.6	0.9	1.5	9.0	5.5	5.5
I Transport, storage, communications	2.6	4.2	5.2	3.2	5.0	4.5	5.0
J Financial intermediation	11.0	0.1	3.7	2.8	5.0	5.0	5.5
K Real estate, renting and business activities	4.1	2.5	2.4	5.2	4.0	4.0	5.0
L Public administration and com. sec. sec.	5.3	10.3	3.5	4.0	4.0	3.5	4.0
M Education	1.1	4.9	3.1	3.5	3.5	3.0	4.3
N Health and social work	6.4	3.1	1.7	4.2	3.5	3.5	4.0
O Other community and personal activities	4.9	4.1	5.8	4.8	4.7	4.5	4.5
FISIM	14.3	-2.6	2.9	0.3	1.0	1.5	1.0
1. TOTAL VALUE ADDED, (basic prices)	3.4	4.6	3.6	4.8	4.8	4.1	4.5
2. CORRECTIONS (a-b)	4.2	4.1	5.0	6.3	1.2	3.7	2.9
a) Taxes on products	3.9	3.8	4.8	6.0	0.0	2.7	2.7
b) Subsidies	0.9	1.0	1.9	3.1	-14.1	-11.6	-1.0
3. GROSS DOMESTIC PRODUCT (3=1+2)	**3.5**	**4.6**	**3.8**	**5.0**	**4 1/4**	**4.0**	**4 1/4**
TOTAL VALUE ADDED, (basic prices)	3.4	4.6	3.6	4.8	4.8	4.1	4.5
in which:							
1. Agriculture, forestry, fishing (A+B)	1.1	-2.9	3.1	2.3	-4.9	6.9	2.0
2. Industry and construction (C+D+E+F)	3.1	6.4	4.2	4.9	6.2	3.7	4.4
Industry (C+D+E)	1.5	6.2	4.1	3.3	6.4	3.6	4.1
Construction (F)	13.2	7.7	4.6	14.4	5.0	4.5	6.0
3. Services (G...O)	4.2	3.8	3.2	4.7	4.4	4.0	4.6
4. FISIM	14.3	-2.6	2.9	0.3	1.0	1.5	0.9

Note: As the SORS has not published new GDP figures by kind of activity, IMAD has put the difference between the previous and latest GDP estimates (4.9% and 5.0% respectively) into activity G.
Sources of data: SORS, IMAD's estimates.

A

Table 4: Gross domestic product and primary incomes

current prices, SIT million

		1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
1	GROSS DOMESTIC PRODUCT (1=2+3-4+5)	2,221,459	2,555,369	2,907,277	3,253,751	3,637,437	4,074,000	4,567,400	5,009,000
2	Compensation of employees	1,271,699	1,400,005	1,558,696	1,700,324	1,888,962	2,126,563	2,376,481	2,592,979
	Wages and salaries	1,070,010	1,213,825	1,363,936	1,482,608	1,646,230	1,855,431	2,073,387	2,262,326
	Employees' actual soc. cont.	201,689	186,180	194,760	217,716	242,732	271,132	303,094	330,653
3	Taxes on production and imports	377,964	444,708	493,398	572,126	665,588	733,828	819,168	896,687
	Taxes on products	290,463	341,798	385,850	464,598	545,305	604,240	674,144	737,520
	Import duties	78,371	76,779	58,425	47,159	45,072	38,968	41,282	43,470
	Other taxes on production	9,130	26,131	49,123	60,369	75,211	90,620	103,742	115,697
4	Subsidies	48,001	52,873	59,868	71,771	81,651	76,360	73,990	77,500
	Subsidies on products	31,686	35,709	39,507	48,904	54,840	51,300	48,870	50,897
	Other subsidies	16,315	17,164	20,361	22,867	26,811	25,060	25,120	26,603
5	Gross operating surplus and gross mixed income (5=6+7)	619,797	763,529	915,051	1,053,072	1,164,538	1,289,969	1,445,741	1,596,834
6	Consumption of fixed capital	390,891	463,466	522,945	580,989	632,327	710,616	802,944	898,290
7	Net operating surplus and mixed income	228,906	300,063	392,106	472,083	532,211	579,353	642,797	698,544
		As share in GDP in %							
1	GROSS DOMESTIC PRODUCT (1=2+3-4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2	Compensation of employees	57.2	54.8	53.6	52.3	51.9	52.2	52.0	51.8
	Wages and salaries	48.2	47.5	46.9	45.6	45.3	45.5	45.4	45.2
	Employees' actual soc. cont.	9.1	7.3	6.7	6.7	6.7	6.7	6.6	6.6
3	Taxes on production and imports	17.0	17.4	17.0	17.6	18.3	18.0	17.9	17.9
	Taxes on products	13.1	13.4	13.3	14.3	15.0	14.8	14.8	14.7
	Import duties	3.5	3.0	2.0	1.4	1.2	1.0	0.9	0.9
	Other taxes on production	0.4	1.0	1.7	1.9	2.1	2.2	2.3	2.3
4	Subsidies	2.2	2.1	2.1	2.2	2.2	1.9	1.6	1.6
	Subsidies on products	1.4	1.4	1.4	1.5	1.5	1.3	1.1	1.0
	Other subsidies	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5
5	Gross operating surplus and gross mixed income (5=6+7)	27.9	29.9	31.5	32.4	32.0	31.7	31.7	31.9
6	Consumption of fixed capital	17.6	18.1	18.0	17.9	17.4	17.4	17.6	17.9
7	Net operating surplus and mixed income	10.3	11.7	13.5	14.5	14.6	14.2	14.1	13.9

Sources of data: SORS, IMAD's estimates.

Table 5a : Expenditure on gross domestic product

current prices, SIT million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
1 GROSS DOMESTIC PRODUCT (1=4+5)	2,221,459	2,555,369	2,907,277	3,253,751	3,637,437	4,074,000	4,567,400	5,009,000
2 EXPORTS OF GOODS AND SERVICES	1,226,101	1,424,628	1,669,985	1,842,906	1,916,217	2,357,334	2,705,268	3,030,275
3 IMPORT OF GOODS AND SERVICES	1,271,088	1,451,273	1,693,895	1,892,614	2,077,530	2,544,318	2,882,740	3,218,765
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-26,645	-23,910	-49,708	-161,313	-186,984	-177,472	-188,491
5 TOTAL DOMESTIC DEMAND (5=6+9)	2,266,445	2,582,013	2,931,187	3,303,459	3,798,750	4,260,984	4,744,872	5,197,490
6 FINAL CONSUMPTION (6=7+8)	1,747,843	1,983,660	2,231,217	2,470,719	2,772,203	3,087,948	3,438,775	3,755,801
7 PRIVATE CONSUMPTION	1,300,324	1,469,142	1,638,682	1,811,730	2,024,269	2,256,070	2,515,556	2,748,154
- households	1,275,971	1,443,649	1,609,667	1,780,915	1,991,266	2,219,627	2,475,151	2,704,308
- non-profit institutions	24,353	25,493	29,015	30,815	33,003	36,443	40,406	43,846
8 GOVERNMENT CONSUMPTION	447,519	514,518	592,535	658,989	747,934	831,878	923,219	1,007,647
9 GROSS CAPITAL FORMATION (9=10+11)	518,602	598,353	699,970	832,740	1,026,547	1,173,036	1,306,096	1,441,689
10 GROSS FIXED CAPITAL FORMATION	474,626	574,631	679,465	800,629	987,867	1,130,772	1,261,401	1,392,319
11 CHANGES IN INVENTORIES AND VALUABLES	43,976	23,722	20,505	32,111	38,680	42,264	44,695	49,370

(continue on next page)

A

Table 5a : Expenditure on gross domestic product - continue

current prices, SIT million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
As share in GDP in %								
1 GROSS DOMESTIC PRODUCT (1=4+5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 EXPORTS OF GOODS AND SERVICES	55.2	55.8	57.4	56.6	52.7	57.9	59.2	60.5
3 IMPORT OF GOODS AND SERVICES	57.2	56.8	58.3	58.2	57.1	62.5	63.1	64.3
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-2.0	-1.0	-0.8	-1.5	-4.4	-4.6	-3.9	-3.8
5 TOTAL DOMESTIC DEMAND (5=6+9)	102.0	101.0	100.8	101.5	104.4	104.6	103.9	103.8
6 FINAL CONSUMPTION (6=7+8)	78.7	77.6	76.7	75.9	76.2	75.8	75.3	75.0
7 PRIVATE CONSUMPTION	58.5	57.5	56.4	55.7	55.7	55.4	55.1	54.9
- households	57.4	56.5	55.4	54.7	54.7	54.5	54.2	54.0
- non-profit institutions	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9
8 GOVERNMENT CONSUMPTION	20.1	20.1	20.4	20.3	20.6	20.4	20.2	20.1
9 GROSS CAPITAL FORMATION (9=10+11)	23.3	23.4	24.1	25.6	28.2	28.8	28.6	28.8
10 GROSS FIXED CAPITAL FORMATION	21.4	22.5	23.4	24.6	27.2	27.8	27.6	27.8
11 CHANGES IN INVENTORIES AND VALUABLES	2.0	0.9	0.7	1.0	1.1	1.0	1.0	1.0

Sources of data: SORS, BS, IMAD's estimates.

Table 5b : Expenditure on gross domestic product

prices 1995, SIT million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
1 GROSS DOMESTIC PRODUCT (1=4+5)	2,221,459	2,299,900	2,404,765	2,495,956	2,621,426	2,732,800	2,842,100	2,962,800
2 EXPORTS OF GOODS AND SERVICES	1,226,101	1,270,085	1,416,863	1,512,395	1,538,789	1,671,971	1,786,501	1,910,663
3 IMPORT OF GOODS AND SERVICES	1,271,088	1,297,490	1,451,977	1,602,804	1,733,995	1,819,741	1,922,556	2,042,716
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-44,987	-27,405	-35,114	-90,409	-195,206	-147,770	-136,055	-132,053
5 TOTAL DOMESTIC DEMAND (5=6+9)	2,266,445	2,327,305	2,439,879	2,586,365	2,816,632	2,880,569	2,978,155	3,094,853
6 FINAL CONSUMPTION (6=7+8)	1,747,843	1,788,413	1,845,160	1,917,730	2,034,096	2,066,354	2,125,797	2,196,166
7 PRIVATE CONSUMPTION	1,300,324	1,325,902	1,362,595	1,407,115	1,493,937	1,514,852	1,558,025	1,607,103
- households	1,275,971	1,302,942	1,338,965	1,383,268	1,469,814	1,490,391	1,532,868	1,581,153
- non-profit institutions	24,353	22,960	23,630	23,847	24,123	24,461	25,158	25,950
8 GOVERNMENT CONSUMPTION	447,519	462,511	482,565	510,615	540,159	551,502	567,772	589,063
9 GROSS CAPITAL FORMATION (9=10+11)	518,602	538,892	594,719	668,635	782,536	814,215	852,358	898,687
10 GROSS FIXED CAPITAL FORMATION	474,626	516,828	576,673	642,086	751,348	782,922	821,677	866,458
11 CHANGES IN INVENTORIES AND VALUABLES	43,976	22,064	18,046	26,549	31,188	31,293	30,681	32,229

(continue on next page)

A

Table 5b; Expenditure on gross domestic product - continue

prices 1995, real growth rates in %

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
1 GROSS DOMESTIC PRODUCT (1=4+5)		3.5	4.6	3.8	5.0	4 1/4	4.0	4 1/4
2 EXPORTS OF GOODS AND SERVICES		3.6	11.6	6.7	1.7	8.7	6.9	7.0
3 IMPORT OF GOODS AND SERVICES		2.1	11.9	10.4	8.2	4.9	5.6	6.2
4 EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)								
5 TOTAL DOMESTIC DEMAND (5=6+9)		2.7	4.8	6.0	8.9	2.3	3.4	3.9
6 FINAL CONSUMPTION (6=7+8)		2.3	3.2	3.9	6.1	1.6	2.9	3.3
7 PRIVATE CONSUMPTION		2.0	2.8	3.3	6.2	1.4	2.8	3.2
- households		2.1	2.8	3.3	6.3	1.4	2.9	3.2
- non-profit institutions		-5.7	2.9	0.9	1.2	1.4	2.9	3.2
8 GOVERNMENT CONSUMPTION		3.4	4.3	5.8	5.8	2.1	3.0	3.8
9 GROSS CAPITAL FORMATION		3.9	10.4	12.4	17.0	4.0	4.7	5.4
10 GROSS FIXED CAPITAL FORMATION		8.9	11.6	11.3	17.0	4.2	5.0	5.5

Sources of data: SORS, BS, IMAD's estimates.

A

Table 6a: Main aggregates of national accounts

current prices, SIT million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
1 GROSS DOMESTIC PRODUCT	**2,221,459**	**2,555,369**	**2,907,277**	**3,253,751**	**3,637,437**	**4,074,000**	**4,567,400**	**5,009,000**
2 Net primary income from the rest of the world	21,023	17,528	5,680	5,048	-6,250	-7,791	-11,800	-11,825
3 GROSS NATIONAL INCOME (3=1+2)	2,242,482	2,572,897	2,912,957	3,258,799	3,631,187	4,066,209	4,555,600	4,997,175
4 Net current transfers from the rest of the world	11,273	11,625	19,472	20,701	22,889	32,277	36,580	40,205
5 GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	2,253,754	2,584,522	2,932,429	3,279,500	3,654,076	4,098,486	4,592,180	5,037,380
6 FINAL CONSUMPTION EXPENDITURE	1,747,843	1,983,660	2,231,217	2,470,719	2,772,203	3,087,948	3,438,775	3,755,801
- private consumption	1,300,324	1,469,142	1,638,682	1,811,730	2,024,269	2,256,070	2,515,556	2,748,154
- government consumption	447,519	514,518	592,535	658,989	747,934	831,878	923,219	1,007,647
7 GROSS SAVING (7=5-6)	505,911	600,862	701,212	808,781	881,873	1,010,538	1,153,404	1,281,578
8 SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-12,692	2,508	1,241	-23,959	-144,674	-162,498	-152,692	-160,111
9 GROSS CAPITAL FORMATION (9=7-8)	518,602	598,353	699,970	832,740	1,026,547	1,173,036	1,306,096	1,441,689
in which:								
- gross fixed capital formation	474,626	574,631	679,465	800,629	987,867	1,130,772	1,261,401	1,392,319
- changes in inventories and valuables	43,976	23,722	20,505	32,111	38,680	42,264	44,695	49,370
10 CONSUMPTION OF FIXED CAPITAL	390,891	463,466	522,945	580,989	632,327	710,616	802,944	898,290
11 NET CAPITAL FORMATION (11=9-10)	127,711	134,887	177,025	251,751	394,220	462,420	503,152	543,399

(continue on next page)

A

Table 6a: Main aggregates of national accounts - continue

As share in GDP in %

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
1 GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2 Net primary income from the rest of the world	0.9	0.7	0.2	0.2	-0.2	-0.2	-0.3	-0.2
3 GROSS NATIONAL INCOME (3=1+2)	100.9	100.7	100.2	100.2	99.8	99.8	99.7	99.8
4 Net current transfers from the rest of the world	0.5	0.5	0.7	0.6	0.6	0.8	0.8	0.8
5 GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	101.5	101.1	100.9	100.8	100.5	100.6	100.5	100.6
6 FINAL CONSUMPTION EXPENDITURE	78.7	77.6	76.7	75.9	76.2	75.8	75.3	75.0
- private consumption	58.5	57.5	56.4	55.7	55.7	55.4	55.1	54.9
- government consumption	20.1	20.1	20.4	20.3	20.6	20.4	20.2	20.1
7 GROSS SAVING (7=5-6)	22.8	23.5	24.1	24.9	24.2	24.8	25.3	25.6
8 SURPLUS OF THE NATION ON CURRENT TRANSACTIONS	-0.6	0.1	0.0	-0.7	-4.0	-4.0	-3.3	-3.2
9 GROSS CAPITAL FORMATION (9=7-8)	23.3	23.4	24.1	25.6	28.2	28.8	28.6	28.8
in which:								
- gross fixed capital formation	21.4	22.5	23.4	24.6	27.2	27.8	27.6	27.8
- changes in inventories and valuables	2.0	0.9	0.7	1.0	1.1	1.0	1.0	1.0
10 CONSUMPTION OF FIXED CAPITAL	17.6	18.1	18.0	17.9	17.4	17.4	17.6	17.9
11 NET CAPITAL FORMATION (11=9-10)	5.7	5.3	6.1	7.7	10.8	11.4	11.0	10.8

Sources of data: SORS, BS, IMAD's estimates.

Table 6b: Main aggregates of national accounts

prices 1995, SIT million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
1. GROSS DOMESTIC PRODUCT	2,221,459	2,299,900	2,404,765	2,495,956	2,621,426	2,732,800	2,842,100	2,962,800
2. The trading gain and loss resulting from changes in the terms oh trade (T)	0	3,617	14,724	48,974	63,166	14,595	18,279	12,820
3. REAL GROSS DOMESTIC INCOME (3=1+2)	2,221,458	2,303,517	2,419,489	2,544,930	2,684,592	2,747,395	2,860,379	2,975,620
4. Net real primary incomes from the rest of the world	21,022	15,799	4,728	3,952	-4,634	-5,267	-7,406	-7,041
5. REAL GROSS NATIONAL INCOME (5=3+4)	2,242,480	2,319,316	2,424,217	2,548,883	2,679,958	2,742,128	2,852,973	2,968,579
6. Net current transfers from the rest of the world	11,273	10,478	16,207	16,207	16,971	21,820	22,960	23,940
7. REAL GROSS NATIONAL DISPOSABLE INCOME (7=5+6 = 8+9)	2,253,753	2,329,794	2,440,424	2,565,090	2,696,929	2,763,948	2,875,933	2,992,519
8. Total domestic demand	2,266,445	2,327,305	2,439,879	2,586,365	2,816,632	2,880,569	2,978,155	3,094,853
9. SURPLUS OF THE NATION ON CURRENT TRANSACTIONS (9=7-8=13-16)	-12,692	2,489	545	-21,275	-119,703	-116,622	-102,223	-102,334
10. Final total consumption (10=11+12)	1,747,843	1,788,413	1,845,160	1,917,730	2,034,096	2,066,354	2,125,797	2,196,166
11. Private consumption	1,300,324	1,325,902	1,362,595	1,407,115	1,493,937	1,514,852	1,558,025	1,607,103
12. Government consumption	447,519	462,511	482,565	510,615	540,159	551,502	567,772	589,063
13. Gross capital formation (13=14+15)	518,602	538,892	594,719	668,635	782,536	814,215	852,358	898,687
14. Gross fixed capital formation	474,626	516,828	576,673	642,086	751,348	782,922	821,677	866,458
15. Changes in inventories and valuables	43,976	22,064	18,046	26,549	31,188	31,293	30,681	32,229
16. REAL GROSS SAVING (16=7-10)	505,910	541,381	595,264	647,360	662,833	697,593	750,135	796,352

(continue on next page)

A

Table 6b: Main aggregates of national accounts - continue

prices 1995, real growth rates in %

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
GROSS DOMESTIC PRODUCT		**3.5**	**4.6**	**3.8**	**5.0**	**4 1/4**	**4.0**	**4 1/4**
REAL GROSS DOMESTIC INCOME		3.7	5.0	5.2	5.5	2.3	4.1	4.0
REAL GROSS NATIONAL INCOME		3.4	4.5	5.1	5.1	2.3	4.0	4.1
REAL GROSS NATIONAL DISPOSABLE INCOME		3.4	4.7	5.1	5.1	2.5	4.1	4.1
Total domestic demand		2.7	4.8	6.0	8.9	2.3	3.4	3.9
Final total consumption		2.3	3.2	3.9	6.1	1.6	2.9	3.3
Private consumption		2.0	2.8	3.3	6.2	1.4	2.8	3.2
Government consumption		3.4	4.3	5.8	5.8	2.1	3.0	3.8
Gross capital formation		3.9	10.4	12.4	17.0	4.0	4.7	5.4
Gross fixed capital formation		8.9	11.6	11.3	17.0	4.2	5.0	5.4
REAL GROSS SAVING		7.0	10.0	8.8	2.4	5.2	7.5	6.2

Sources of data: SORS, BS, IMAD's estimates.

A

Table 7: Balance of payments

US$ million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
I. CURRENT ACCOUNT	-99	32	12	-147	-782	-730	-648	-676
1. TRADE BALANCE	-953	-825	-776	-789	-1,245	-1,230	-1,153	-1,216
1.1. Exports fob	8,350	8,353	8,408	9,091	8,623	8,710	9,543	10,823
1.2. Imports fob	9,303	9,178	9,184	9,880	9,868	9,940	10,695	12,040
2. SERVICES	578	634	630	493	364	390	400	420
2.1. Receipts	2,028	2,135	2,048	2,028	1,899	1,880	1,920	1,990
Transport	505	481	465	540	521	505	510	525
Travel	1,084	1,240	1,187	1,088	954	935	955	990
Other	438	414	396	399	424	440	455	475
2.2. Expenditure	1,449	1,502	1,417	1,535	1,535	1,490	1,520	1,570
Transport	436	408	367	409	378	370	375	385
Travel	573	602	518	558	539	530	540	555
Other	440	493	532	568	618	590	605	630
1., 2. GOODS AND SERVICES	-375	-191	-146	-297	-881	-840	-753	-796
Exports	10,378	10,488	10,455	11,118	10,522	10,590	11,463	12,813
Imports	10,753	10,679	10,601	11,415	11,403	11,430	12,215	13,610
3. FACTOR SERVICES	179	132	40	28	-24	-35	-50	-50
3.1. Receipts	411	413	397	417	410	420	440	455
Labour income	216	234	206	206	199	205	210	220
Investment income	195	179	191	211	211	215	230	235
3.2. Expenditure	231	280	357	389	435	455	490	505
Profits from direct investment	25	24	26	27	25	25	25	25
Interest	206	256	331	362	410	430	465	480
4. UNREQUITED TRANSFERS	96	91	118	122	123	145	155	170
4.1. Receipts	248	251	260	300	334	365	390	415
4.2. Expenditure	152	160	142	178	211	220	235	245

(continue on next page)

A

Table 7: Balance of payments - continue

US$ million

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
II. CAPITAL AND FINANCIAL ACCOUNT	294	-26	-89	85	755			
A CAPITAL ACCOUNT	-7	-2	1	-2	-1			
1. Capital transfers	-5	1	2	0	0			
2. Non-produced non-financial assets	-2	-3	-1	-1	-1			
B FINANCIAL ACCOUNT	301	-24	-90	86	756			
1. Direct investment	183	188	340	250	144			
1.1. Foreign in Slovenia	177	194	375	248	181			
1.2. Domestic abroad	5	-6	-36	2	-38			
2. Portfolio investment	-14	637	236	90	354			
3. Other long-term capital	368	-261	622	-95	178			
3.1. Assets	-240	-432	261	-459	-575			
3.2. Liabilities	609	171	361	364	753			
4. International reserves	-237	-588	-1,287	-158	81			
III. STATISTICAL ERRORS	-76	-145	8	66	171			

Note: Exports & imports of goods by f.o.b. parity.
Source of data: SORS, BS, IMAD's estimates.

A

Table 8: Exports and imports of goods and services by end-use of products

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
MILLION US $; CURRENT EXCHANGE RATES								
1 Exports of goods	8,350	8,353	8,408	9,091	8,623	8,710	9,543	10,823
investment goods	944	1,002	1,069	1,174	1,089	1,100	1,213	1,397
intermediate goods	3,941	3,767	3,825	4,123	4,052	4,310	4,657	5,305
consumer goods	3,465	3,584	3,514	3,794	3,482	3,300	3,673	4,121
2 Exports of services	2,028	2,135	2,048	2,028	1,899	1,880	1,920	1,990
3 EXPORTS TOTAL	10,378	10,488	10,455	11,118	10,522	10,590	11,463	12,813
4 Imports of goods	9,303	9,178	9,184	9,880	9,868	9,940	10,695	12,040
investment goods	1,572	1,478	1,480	1,764	1,895	1,780	2,033	2,335
intermediate goods	5,627	5,259	5,354	5,643	5,427	5,915	6,299	7,102
consumer goods	2,104	2,441	2,350	2,474	2,546	2,245	2,363	2,603
5 Imports of services	1,449	1,502	1,417	1,535	1,535	1,490	1,520	1,570
6 IMPORTS TOTAL	10,753	10,679	10,601	11,415	11,403	11,430	12,215	13,610
7 BALANCE	-375	-191	-146	-297	-881	-840	-753	-796
Services	578	634	630	493	364	390	400	420
Goods	-953	-825	-776	-789	-1,245	-1,230	-1,153	-1,216
8 Exports to imports ratio (in %)	90	91	92	92	87	88	89	90
PERCENTAGE CHANGE AT ANNUAL RATE (IN %)								
1 Exports of goods	22.2	0.0	0.7	8.1	-5.1	1.0	9.6	13.4
investment goods	23.2	6.1	6.7	9.8	-7.2	1.0	10.3	15.2
intermediate goods	29.0	-4.4	1.5	7.8	-1.7	6.4	8.0	13.9
consumer goods	15.1	3.4	-1.9	8.0	-8.2	-5.2	11.3	12.2
2 Exports of services	12.1	5.3	-4.1	-1.0	-6.3	-1.0	2.1	3.6
3 EXPORTS TOTAL	20.1	1.1	-0.3	6.3	-5.4	0.6	8.2	11.8
4 Imports of goods	29.8	-1.3	0.1	7.6	-0.1	0.7	7.6	12.6
investment goods	37.4	-6.0	0.1	19.2	7.4	-6.1	14.2	14.8
intermediate goods	27.7	-6.5	1.8	5.4	-3.8	9.0	6.5	12.7
consumer goods	30.0	16.0	-3.7	5.2	2.9	-11.8	5.3	10.2
5 Imports of services	24.3	3.6	-5.6	8.3	0.0	-2.9	2.0	3.3
6 IMPORTS TOTAL	29.0	-0.7	-0.7	7.7	-0.1	0.2	7.2	10.0

Note: Exports and imports of goods based on f.o.b. parity.
Source of data: SORS, BS, IMAD's estimates.

A

Table 9a: Foreign trade by geographical area

	EXPORTS (f.o.b.) in US$ million						IMPORTS (c.i.f.) in US$ million					
	1995	1996	1997	1998	1999	2000 I-VIII	1995	1996	1997	1998	1999	2000 I-VIII
TOTAL	8,316	8,310	8,369	9,051	8,546	5,742	9,492	9,421	9,366	10,111	10,083	6,722
DEVELOPED INDUSTRIAL COUNTRIES	6,086	5,842	5,796	6,453	6,199	4,099	7,423	7,325	7,205	7,963	8,043	5,284
EUROPEAN UNION	5,575	5,367	5,320	5,928	5,650	3,716	6,532	6,360	6,312	7,017	6,945	4,560
Germany	2,508	2,545	2,460	2,572	2,626	1,619	2,206	2,044	1,936	2,089	2,072	1,282
Italy	1,212	1,103	1,248	1,255	1,176	776	1,611	1,593	1,558	1,697	1,686	1,146
France	682	598	463	748	491	401	798	925	980	1,258	1,100	706
United Kingdom	229	162	150	161	170	124	190	208	241	233	307	199
Netherlands	117	125	123	142	144	100	207	194	200	225	208	135
Belgium	71	76	85	158	134	64	144	145	149	155	149	99
Spain	42	44	53	69	76	54	225	170	199	233	234	199
Denmark	42	47	54	75	79	53	46	42	46	55	53	33
Greece	32	23	24	23	24	16	11	13	15	19	24	16
Ireland	17	4	5	5	9	10	20	29	26	35	38	25
Portugal	9	13	14	12	12	11	5	5	11	14	11	7
Luxembourg	2	2	1	3	10	3	10	8	10	17	18	13
Austria	535	551	565	621	623	429	919	835	789	802	805	548
Finland	18	20	18	19	17	15	39	39	41	43	53	36
Sweden	58	54	56	65	61	41	101	111	110	143	185	117
EFTA	87	83	87	98	112	78	237	249	194	208	239	149
Austria												
Swiss	71	68	70	78	89	64	199	178	162	172	215	113
Sweden												
Norway	12	12	14	16	18	10	34	68	30	36	22	35
Liechtenstein	3	3	2	3	3	4	4	2	1	1	1	1
Finland												
Island	0	0	0	1	2	1	0	1	1	0	0	0
OTHER OECD	361	340	340	382	387	267	549	585	546	737	717	468
of which:												
United States of America	261	245	243	252	258	177	291	325	287	296	293	204
Other countries	100	95	97	130	129	90	258	260	259	441	424	264
OTHER DEVELOPED COUNTRIES	64	53	50	45	50	38	105	132	153	135	142	107

(continue on next page)

Table 9a: Foreign trade by geographical area - continue

	EXPORTS (f.o.b.) in US$ million						IMPORTS (c.i.f.) in US$ million					
	1995	1996	1997	1998	1999	2000 I-VIII	1995	1996	1997	1998	1999	2000 I-VIII
DEVELOPING COUNTRIES	2,462	2,568	2,592	2,343	1,642	2,095	2,160	2,148	2,160	2,148	2,039	1,437
COUNTRIES OF EX-YUGOSLAVIA	1,385	1,387	1,397	1,296	889	709	594	593	594	593	572	374
Croatia	855	837	815	671	453	590	466	432	466	432	444	294
Macedonia	170	149	161	177	105	72	56	47	56	47	37	20
Bosnia and Hercegovina	264	288	319	363	239	15	30	47	30	47	55	34
FR Yugoslavia	96	112	103	85	92	32	42	68	42	68	36	25
FORMER USSR COUNTRIES	390	432	330	213	161	236	284	216	284	216	202	170
of which: Russian Federation	298	326	235	129	109	209	250	178	250	178	159	150
OTHER EUROPE	495	525	614	628	459	664	723	779	723	779	854	623
of which:												
Czech Republic	147	147	150	159	97	237	234	264	234	264	281	172
Slovakia	57	56	73	62	43	92	103	90	103	90	91	87
Hungary	105	120	141	145	110	239	293	244	293	244	267	191
Poland	142	155	181	190	156	48	58	78	58	78	111	90
Other countries	44	45	69	73	53	48	35	103	35	103	105	84
OTHER COUNTRIES	193	225	251	207	133	485	559	423	559	423	411	270
Unclassified	6	4	6	4	1	1	1	0	1	0	1	1

Note: Exports by country of destination, imports by country of origin.
Source of data: SORS.

A

Table 9b: Foreign trade by geographical area

	EXPORTS (f.o.b.) in US$ million						IMPORTS (c.i.f.) in US$ million					
	1995	1996	1997	1998	1999	2000 I-VIII	1995	1996	1997	1998	1999	2000 I-VIII
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEVELOPED INDUSTRIAL COUNTRIES	73.2	70.3	69.3	71.3	72.5	71.4	78.2	77.8	76.9	78.8	79.8	78.6
EUROPEAN UNION	67.0	64.6	63.6	65.5	66.1	64.7	68.8	67.5	67.4	69.4	68.9	67.8
Germany	30.2	30.6	29.4	28.4	30.7	28.2	23.2	21.7	20.7	20.7	20.5	19.1
Italy	14.6	13.3	14.9	13.9	13.8	13.5	17.0	16.9	16.6	16.8	16.7	17.0
France	8.2	7.2	5.5	8.3	5.7	7.0	8.4	9.8	10.5	12.4	10.9	10.5
United Kingdom	2.8	1.9	1.8	1.8	2.0	2.2	2.0	2.2	2.6	2.3	3.0	3.0
Netherlands	1.4	1.5	1.5	1.6	1.7	1.7	2.2	2.1	2.1	2.2	2.1	2.0
Belgium	0.9	0.9	1.0	1.7	1.6	1.1	1.5	1.5	1.6	1.5	1.5	1.5
Spain	0.5	0.5	0.6	0.8	0.9	0.9	2.4	1.8	2.1	2.3	2.3	3.0
Denmark	0.5	0.6	0.7	0.8	0.9	0.9	0.5	0.4	0.5	0.5	0.5	0.5
Greece	0.4	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.2
Ireland	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.4	0.4
Portugal	0.1	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Luxembourg	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Austria	6.4	6.6	6.8	6.9	7.3	7.5	9.7	8.9	8.4	7.9	8.0	8.2
Finland	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.5	0.5
Sweden	0.7	0.7	0.7	0.7	0.7	0.7	1.1	1.2	1.2	1.4	1.8	1.7
EFTA	1.0	1.0	1.0	1.1	1.3	1.4	2.5	2.6	2.1	2.1	2.4	2.2
Austria												
Swiss	0.9	0.8	0.8	0.9	1.0	1.1	2.1	1.9	1.7	1.7	2.1	1.7
Sweden												
Norway	0.1	0.1	0.2	0.2	0.2	0.2	0.4	0.7	0.3	0.4	0.2	0.5
Liechtenstein	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Finland												
Island	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
OTHER OECD	4.3	4.1	4.1	4.2	4.5	4.6	5.8	6.2	5.8	7.3	7.1	7.0
of which:												
United States of America	3.1	3.0	2.9	2.8	3.0	3.1	3.1	3.4	3.0	2.9	2.9	3.0
Other countries	1.2	1.1	1.2	1.4	1.5	1.5	2.7	2.8	2.8	4.4	4.2	4.0
OTHER DEVELOPED COUNTRIES	0.8	0.6	0.6	0.5	0.6	0.7	1.1	1.4	1.6	1.3	1.4	1.6

(continue on next page)

Table 9b: Foreign trade by geographical area - continue

	EXPORTS (f.o.b.) in US$ million						IMPORTS (c.i.f.) in US$ million					
	1995	1996	1997	1998	1999	2000 I-VIII	1995	1996	1997	1998	1999	2000 I-VIII
DEVELOPING COUNTRIES	26.8	29.6	30.7	28.6	27.4	28.6	21.8	22.2	23.1	21.2	20.2	21.4
COUNTRIES OF EX-YUGOSLAVIA	14.5	16.7	16.6	15.4	15.2	15.5	7.1	7.5	6.3	5.9	5.7	5.6
Croatia	10.7	10.3	10.0	9.0	7.9	7.9	6.1	6.3	5.0	4.3	4.4	4.4
Macedonia	2.3	2.1	1.8	1.8	2.1	1.8	0.9	0.8	0.6	0.5	0.4	0.3
Bosnia and Hercegovina	1.4	3.2	3.4	3.5	4.2	4.2	0.1	0.2	0.3	0.5	0.5	0.5
FR Yugoslavia	0.1	1.2	1.3	1.1	1.0	1.6	0.0	0.3	0.4	0.7	0.4	0.4
FORMER USSR COUNTRIES	4.5	4.7	5.2	3.6	2.5	2.8	2.9	2.5	3.0	2.1	2.0	2.5
of which: Russian Federation	3.7	3.6	3.9	2.6	1.5	1.9	2.5	2.2	2.7	1.8	1.6	2.2
OTHER EUROPE	5.4	5.9	6.3	6.8	7.4	8.0	7.4	7.0	7.7	7.7	8.5	9.3
of which:												
Czech Republic	1.6	1.8	1.8	1.7	1.9	1.7	2.6	2.5	2.5	2.6	2.8	2.6
Slovakia	0.6	0.7	0.7	0.8	0.7	0.8	0.9	1.0	1.1	0.9	0.9	1.3
Hungary	1.4	1.3	1.4	1.6	1.7	1.9	2.8	2.5	3.1	2.4	2.6	2.8
Poland	1.3	1.7	1.9	2.0	2.2	2.7	0.4	0.5	0.6	0.8	1.1	1.3
Other countries	0.5	0.4	0.5	0.8	0.9	0.9	0.8	0.5	0.4	1.0	1.1	1.3
OTHER COUNTRIES	2.4	2.3	2.7	2.8	2.4	2.3	4.4	5.1	6.0	4.2	4.1	4.0
Unclassified	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Exports by country of destination, imports by country of origin..
Source of data: SORS.

A

Table 10: Consolidated general government revenues; GFS - IMF Methodology

	CONSOLIDATED GENERAL GOVERNMENT REVENUES	1995	1996	1997	1998	1999	2000 estimate	1995	1996	1997	1998	1999	2000 estimate
		ACTUAL											
		CURREN PRICES, SIT MILLION						per cent of GDP					
I.	TOTAL GENERAL GOVERNMENT REVENUES (70+71+72+73+74)	958,186	1,091,815	1,222,587	1,397,903	1,590,017	1,706,220	43.1	42.7	42.0	43.0	43.7	41.9
	CURRENT REVENUES (70+71)	955,790	1,089,017	1,217,023	1,390,982	1,579,255	1,691,877	43.0	42.6	41.9	42.8	43.4	41.5
70	TAX REVENUES	916,328	1,032,285	1,156,099	1,302,752	1,499,430	1,600,826	41.2	40.4	39.8	40.0	41.2	39.3
	TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	273,818	307,712	7.2	7.7	7.8	7.8	7.5	7.6
	Personal income tax	147,429	174,639	194,062	213,342	231,641	256,388	6.6	6.8	6.7	6.6	6.4	6.3
	Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,324	0.6	0.9	1.2	1.2	1.2	1.3
	SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	496,371	555,039	16.3	14.7	13.8	13.8	13.6	13.6
	Employees contributions	195,413	221,929	247,519	276,805	305,649	341,410	8.8	8.7	8.5	8.5	8.4	8.4
	Employer's contributions	151,504	134,112	127,472	142,649	157,206	175,756	6.8	5.2	4.4	4.4	4.3	4.3
	Self-employed contributions	13,096	17,167	20,657	25,492	30,626	34,240	0.6	0.7	0.7	0.8	0.8	0.8
	Other unallocable social security contributions	2,987	2,976	4,982	3,452	2,889	3,633	0.1	0.1	0.2	0.1	0.1	0.1
	TAXSES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,077	0.2	0.7	1.3	1.4	1.5	1.7
	Payroll tax	809	14,943	33,994	42,058	51,454	63,867	0.0	0.6	1.2	1.3	1.4	1.6
	Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,210	0.1	0.1	0.1	0.1	0.1	0.1
	TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	27,747	0.6	0.6	0.7	0.9	0.7	0.7
	DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	603,752	13.4	13.7	14.2	14.7	16.5	14.8
	TAXES ON INTERN. TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,278	3.5	3.0	2.0	1.5	1.3	0.9
	OTHER TAXES	451	241	208	787	100	220	0.0	0.0	0.0	0.0	0.0	0.0
71	NON-TAX REVENUES	39,462	56,732	60,924	88,230	79,825	91,050	1.8	2.2	2.1	2.7	2.2	2.2
	ENTERPRENEURIAL AND PROPERTY INCOME	6,628	8,301	9,792	24,186	23,522	27,989	0.3	0.3	0.3	0.7	0.6	0.7
	FEES AND CHARGES	8,291	8,813	10,452	11,903	13,624	20,348	0.4	0.3	0.4	0.4	0.4	0.5
	FINES AND FORFEITS	2,784	3,690	3,921	5,576	6,793	7,655	0.1	0.1	0.1	0.2	0.2	0.2
	SALES OF GOODS AND SERVICES	5,166	4,996	6,800	8,608	5,830	8,136	0.2	0.2	0.2	0.3	0.2	0.2
	OTHER NON-TAX REVENUES	16,592	30,932	29,959	37,956	30,055	26,922	0.7	1.2	1.0	1.2	0.8	0.7
72	CAPITAL REVENUES	1,824	1,738	3,805	4,471	6,430	5,897	0.1	0.1	0.1	0.1	0.2	0.1
73	VOLONTARY DONATIONS	470	940	1,760	2,449	4,332	8,446	0.0	0.0	0.1	0.1	0.1	0.2
74	GRANTS	102	119	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY	42,687	43,894	47,491	52,723	59,212	66,199	1.9	1.7	1.6	1.6	1.6	1.6
	(they are consolidated)												

Source of data: Ministry of finance, calculations of percentage in GDP by IMAD.

A

Table 11: Consolidated general government expenditure; GFS - IMF Methodology

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	1995	1996	1997	1998	1999	2000 estimate	1995	1996	1997	1998	1999	2000 estimate
		ACTUAL											
		CURREN PRICES, SIT MILLION						per cent of GDP					
II.	TOTAL EXPENDITURE (40+41+42+43)	957,273	1,083,586	1,256,668	1,423,494	1,613,314	1,775,649	43.1	42.4	43.2	43.8	44.3	43.6
40	CURRENT EXPENDITURE	169,751	192,816	223,184	262,658	309,000	349,539	7.6	7.5	7.7	8.1	8.5	8.6
400	WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	66,826	81,983	96,725	104,147	116,560	131,584	3.0	3.2	3.3	3.2	3.2	3.2
402	PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	130,943	145,475	3.4	3.0	3.1	3.3	3.6	3.6
403	INTEREST PAYMENTS	25,598	31,121	34,686	41,721	50,945	61,658	1.2	1.2	1.2	1.3	1.4	1.5
409	RESERVES	1,225	1,783	1,736	10,713	10,552	10,821	0.1	0.1	0.1	0.3	0.3	0.3
41	CURRENT TRANSFERS	694,218	783,390	912,303	1,020,473	1,136,544	1,235,723	31.3	30.7	31.4	31.4	31.2	30.3
410	SUBSIDIES	41,747	34,547	39,961	49,239	63,088	52,935	1.9	1.4	1.4	1.5	1.7	1.3
411	CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	722,253	17.6	17.4	17.9	17.6	17.8	17.7
	of which:												
	Transfers to unemployed	13,498	12,657	18,861	19,875	20,374	17,960	0.6	0.5	0.6	0.6	0.6	0.4
	Child allowances	32,322	41,100	49,487	53,151	61,314	73,686	1.5	1.6	1.7	1.6	1.7	1.8
	Social allowances	23,777	27,544	31,798	34,294	34,523	38,157	1.1	1.1	1.1	1.1	0.9	0.9
	War invalids, war veterans, war victims allowances	7,146	6,085	10,434	14,941	14,876	15,769	0.3	0.2	0.4	0.5	0.4	0.4
	Pensions	273,892	310,075	352,534	391,921	441,027	490,001	12.3	12.1	12.1	12.0	12.1	12.0
	Wage compensation	7,895	10,338	12,344	14,850	18,262	22,362	0.4	0.4	0.4	0.5	0.5	0.5
	Sick leave compensation	15,905	17,239	19,093	20,483	20,552	22,069	0.7	0.7	0.7	0.6	0.6	0.5
	Scholarship	9,549	10,884	14,066	13,926	15,038	15,928	0.4	0.4	0.5	0.4	0.4	0.4
	Other transfers to individuals	7,802	8,262	10,492	10,380	22,105	26,322	0.4	0.3	0.4	0.3	0.6	0.6
412	CURRENT TRANSFERS TO NON-PROFIT INSTITUTIONS	5,501	5,980	7,368	8,489	14,598	16,824	0.2	0.2	0.3	0.3	0.4	0.4
413	OTHER CURRENT DOMESTIC TRANSFERS	252,406	294,851	341,932	383,889	405,573	439,990	11.4	11.5	11.8	11.8	11.1	10.8
	Current transfers to extrabudgetary funds	809	719	775	4,569	6,648	1,919	0.0	0.0	0.0	0.1	0.2	0.0
	Current transfers to public institutions and public utilities	251,597	294,132	341,157	379,320	398,925	438,071	11.3	11.5	11.7	11.7	11.0	10.8
	- Wages, salaries and other personnel expenditure	126,861	152,469	188,044	208,458	234,079	256,901	5.7	6.0	6.5	6.4	6.4	6.3
	- Purchases of goods and services	124,736	141,663	153,113	170,862	164,846	181,170	5.6	5.5	5.3	5.3	4.5	4.4
414	CURRENT TRANSFERS	2,780	3,829	3,934	5,035	5,214	3,721	0.1	0.1	0.1	0.2	0.1	0.1
42	CAPITAL EXPENDITURE	57,376	63,643	67,637	82,206	109,476	121,214	2.6	2.5	2.3	2.5	2.5	2.5
43	CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	69,173	1.6	1.7	1.8	1.8	2.5	2.5
III.	SURPLUS / DEFICIT (I. - II.)	913	8,230	-34,081	-25,591	-23,297	-69,429	0.0	0.3	-1.2	-0.8	-0.6	-1.7
	EMPLOYER'S CONTRIBUTIONS FOR SOCIAL SECURITY	42,687	43,894	47,491	52,723	58,751	66,199	1.9	1.7	1.6	1.6	1.6	1.6
	(they are consolidated)												

Source of data: Ministry of finance, calculations of percentage in GDP by IMAD.

A

Table 12: Indicators of international competitiveness

annual growth in %

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate
Effective exchange rate[1]							
Nominal	-0.5	-9.7	-5.4	-2.6	-5.5	-8.0	-5.9
Real[2]	10.2	-2.9	0.7	4.0	-0.7	-2.1	-0.3
Unit labour cost in total economy							
In SIT nominal	13.7	6.4	6.4	5.1	5.8	8.0	8.0
In the basket of currencies - relative[5]	11.2	-5.0	0.5	2.3	-1.1	-1.1	0.9
Unit labour cost in manufacturing[3]							
In SIT nominal	9.8	6.9	7.2	5.9	7.3	5.0	6.0
In the basket of currencies[4]	9.3	-3.5	1.5	3.2	1.4	-3.4	-0.2
In the basket of currencies - relative[5]	9.0	-4.9	4.0	5.6	1.2	-2.5	0.0
Components[4]:							
Compensation of employees - real[6]	4.9	3.9	3.4	3.4	2.8	2.8	2.2
Net wages and other remunerations	6.8	7.7	4.3	3.1	2.4	2.2	1.7
Tax burden on wages[7]	-0.6	-2.6	-0.5	0.6	0.4	0.4	0.3
Labour productivity	8.4	6.7	4.5	5.3	1.8	6.6	4.2
Prices / effective exchange rate	12.9	-0.8	2.5	5.1	0.3	0.2	1.8

Note:
[1]Growth in index value denotes appreciation of tolar and vice versa
[2]Measured by relative inflation
[3]For enterprises and companies with 3 or more employees
[4]Only domestic factors
[5]Relative to growth in unit labour costs in 7 main OECD trading partners
[6]Deflated by consumer prices
[7]The ratio of gross wages and employers' contributions to net wages
Sources of data: APP, BS, SORS, EC, OECD, calculations IMAD.

A

Table 13: Population and Labour Force

in thousand

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
POPULATION, as at 30 June	**1987.5**	**1991.2**	**1986.8**	**1982.6**	**1985.6**	**1990.3**	**1987.5**	**1987.5**
% of total: aged 0 - 14	18.4	17.8	17.2	16.8	16.4	15.9	15.8	15.5
aged 15 - 64	69.3	69.5	69.7	69.8	69.9	70	70	70.1
aged 65 and over	12.3	12.7	13	13.4	13.7	14	14.2	14.4
Fertility rate*	1.29	1.28	1.25	1.23	1.19	1.21	1.23	1.25
Life expectancy*: men	70.8	71	71.1	71.2	71.2	71.3	71.5	71.8
women	78.3	78.6	78.7	78.8	78.9	79	79.1	79.3
Infant mortality (per 1000)*	5.6	4.8	5.1	5.7	4.5	5.5	4.9	4.8
LABOUR FORCE (by Labour Force Survey)	**952**	**943**	**978**	**978**	**959**	**963**	**969**	**977**
PERSONS IN EMPLOYMENT	882	874	906	901	886	894	901	909
Of whom (%):								
Agriculture	10.2	12.1	12.7	11.5	10.2	10	9.7	9.5
Industry and construction	42.3	40.7	40.2	39.4	38.3	37.7	37.1	36.5
Services	47.5	47.3	47	49.1	51.5	52.3	53.1	54
UNEMPLOYED JOB-SEEKERS (by ILO standards)	70	69	72	77	73	69	68	68
FORMAL LABOUR FORCE (by current statistics)	**871.1**	**864.1**	**868.6**	**871.2**	**877.4**	**876.1**	**881.2**	**888.1**
PERSONS IN FORMAL EMPLOYMENT	749.7	744.3	743.4	745.2	758.5	769.5	778.5	787.5
Persons in paid employment**	642	634.7	651.2	652.5	671	683.5	691.8	700.3
Self-employed persons (the main source of income)	107.7	109.6	92.2	92.7	87.5	86	86.6	87.2
REGISTERED UNEMPLOYED PERSONS	121.5	119.8	125.2	126.1	119	106.6	102.7	100.6
EMPLOYMENT in full-time equivalent	**829.2**	**822**	**818.3**	**818.3**	**826.5**	**834.7**	**843.1**	**851.5**
ANNUAL GROWTH RATES (%)								
Employment in full-time equivalent	***0.8***	***-0.9***	***-0.5***	***0.0***	***1.0***	***1.0***	***1.0***	***1.0***
Labour productivity	***3.3***	***4.4***	***5.1***	***3.8***	***4.0***	***3.3***	***3.0***	***3.3***
Persons in formal employment	*-0.4*	*-0.7*	*-0.1*	*0.2*	*1.8*	*1.5*	*1.2*	*1.2*
Persons in paid employment**	*-0.8*	*-1.1*	*2.6*	*0.2*	*2.8*	*1.9*	*1.2*	*1.2*
Persons in employment by survey	*3.6*	*-0.9*	*3.7*	*-0.6*	*-1.7*	*0.9*	*0.8*	*0.9*
Registered unemployed persons	*-4.4*	*-1.4*	*4.5*	*0.7*	*-5.7*	*-10.4*	*-3.6*	*-2.1*
Formal labour force	*-1.0*	*-0.8*	*0.5*	*0.3*	*0.7*	*-0.2*	*0.6*	*0.8*
Working age population	*-0.1*	*0.5*	*0.1*	*-0.1*	*0.3*	*0.5*	*-0.2*	*0.1*
Population	*-0.1*	*0.2*	*-0.2*	*-0.2*	*0.1*	*0.2*	*-0.1*	*0.0*

Notes: *1999: estimate by IMAD;
**up to and including 1996, excluding companies with 1-2 employees; since 1999; including unemployed working in public works.
Source: SORS, IPDIS, estimates by IMAD

A

Table 13a: Participation rates, employment rates, and unemployment rates

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
WORKING AGE POPULATION (15-64 years old)	**1377.2**	**1383.9**	**1385.3**	**1384.0**	**1388.1**	**1395.1**	**1392.1**	**1393.2**
of whom: women	685.4	686.7	684.9	684.3	685.8	687.3	687.6	688.2
Paricipation rates (% of working age pop.)								
Survey participation rate	**69.1**	**68.1**	**70.6**	**70.7**	**69.1**	**69.0**	**69.6**	**70.1**
men	*74.0*	*71.9*	*75.0*	*75.3*	*73.8*	*73.0*	*73.8*	*74.4*
women	*64.2*	*64.4*	*66.1*	*65.9*	*64.3*	*64.9*	*65.3*	*65.7*
Formal participation rate	**63.3**	**62.4**	**62.7**	**63.0**	**63.2**	**62.8**	**63.3**	**63.7**
men	*65.9*	*64.9*	*67.2*	*67.4*	*67.6*	*67.1*	*68.1*	*68.9*
women	*60.6*	*59.9*	*58.1*	*58.4*	*58.7*	*58.3*	*58.4*	*58.4*
Employment rates (% of working age population)								
Survey employment rate	***64.0***	***63.2***	***65.4***	***65.1***	***63.8***	***64.1***	***64.7***	***65.2***
men	*68.4*	*66.5*	*69.7*	*69.6*	*68.3*	*68.0*	*68.8*	*69.4*
women	*59.7*	*59.7*	*61.0*	*60.5*	*59.2*	*60.1*	*60.5*	*61.0*
Agriculture	*6.5*	*7.6*	*8.3*	*7.5*	*6.5*	*6.4*	*6.3*	*6.2*
Industry and construction	*27.1*	*25.7*	*26.3*	*25.6*	*24.5*	*24.2*	*24.0*	*23.8*
Services	*30.4*	*29.8*	*30.7*	*32.0*	*32.9*	*33.5*	*34.4*	*35.2*
Formal employment rate	***54.4***	***53.8***	***53.7***	***53.8***	***54.6***	***55.2***	***55.9***	***56.5***
Informal employment rate (difference)	*9.6*	*9.4*	*11.7*	*11.3*	*9.2*	*8.9*	*8.8*	*8.7*
LFS unemployment rate (% of survey labour force)								
total	***7.4***	***7.3***	***7.4***	***7.9***	***7.6***	***7.2***	***7.0***	***7.0***
men	*7.7*	*7.5*	*7.1*	*7.7*	*7.3*	*7.0*	*6.8*	*6.8*
women	*7.0*	*7.0*	*7.6*	*8.1*	*7.9*	*7.4*	*7.3*	*7.2*
Registered unemployment rate (% of formal labour force)								
total	***13.9***	***13.9***	***14.4***	***14.5***	***13.6***	***12.2***	***11.7***	***11.3***
men	*14.2*	*13.8*	*13.6*	*13.4*	*12.4*	*11.0*	*10.7*	*10.4*
women	*13.7*	*14.0*	*15.3*	*15.7*	*15.0*	*13.6*	*12.8*	*12.5*
Registered unemployment rate, year end	***14.5***	***14.4***	***14.8***	***14.6***	***13.0***	***11.8***	***11.4***	***11.1***

Source: SORS, ESS, estimations by IMAD

A

Table 14: Labour force flows during the year

in thousand

	1995	1996	1997	1998	1999	2000 estimate	2001 estimate	2002 estimate
Inflows into formal labour force (net)	**1.7**	**-6.2**	**4.1**	**-2.8**	**12.2**	**-3.9**	**6.3**	**8.4**
New first-time job seekers	25.2	25.1	25.4	22.4	25.1	23.9	23.9	24.1
- without primary education	3.2	2.9	3.1	2.3	2.2	2.1	1.9	1.8
- finished primary education	2.5	0.8	1.3	1.3	1.3	1.2	1.2	1.2
- finished secondary education	14.6	15.6	15.0	12.9	15.1	13.7	13.2	12.6
- finished tertiary education	5.1	5.8	5.9	5.9	6.5	6.9	7.7	8.5
Change in number of work permits for foreigners	2.6	0.2	-2.9	-0.5	2.6	3.8	0.0	0.0
- as % of formal labour force	0.3	0.0	-0.3	-0.1	0.3	0.4	0.0	0.0
Retirements (-)	11.5	14.8	15.1	14.8	15.0	16.9	16.7	16.0
- as % of formal labour force	1.3	1.7	1.7	1.7	1.7	1.9	1.9	1.8
Deaths (-)	3.2	3.1	3.1	3.0	3.0	3.0	3.1	3.1
- as ‰ of formal labour force	3.7	3.6	3.6	3.5	3.5	3.5	3.5	3.5
Other net inflows into formal labour force	-11.4	-13.7	-0.2	-6.8	2.6	-11.7	2.2	3.3
Change in registered unemployment (net)	**3.2**	**-2.3**	**4.1**	**-1.9**	**-12.3**	**-10.5**	**-3.0**	**-2.3**
Redundancies	57.5	65.4	60.6	58.4	61.1	61.6	60.7	61.5
- as % of formal employment	7.7	8.8	8.1	7.8	8.1	8.0	7.8	7.8
New unemployed first-time job seekers	22.1	21.1	17.9	18.6	19.6	20.6	19.2	19.3
- as % of the generation	87.7	83.9	70.6	83.1	78.3	86.1	80.0	80.0
Reg. unemployed who found employment (-)	60.0	54.6	56.1	55.4	62.4	58.2	62.3	63.0
- as % of formal employment	8.0	7.3	7.5	7.4	8.2	7.6	8.0	8.0
Unemployed struck off the register (-)	16.4	34.1	18.3	23.5	30.7	34.5	20.6	20.1
- as % of registered unemployment	13.5	28.5	14.6	18.7	25.8	32.4	20.0	20.0
of whom: deaths and retirements	4.0	4.1	4.8	5.3	5.4	5.8	6.5	7.4
Change in formal employment (net)	**-1.5**	**-3.9**	**0.0**	**-0.8**	**24.5**	**6.6**	**9.3**	**10.6**
Net inflow from registered unemployment	2.5	-10.7	-4.5	-3.0	1.2	-3.4	1.6	1.5
Net inflow of foreigners	2.6	0.2	-2.9	-0.5	2.6	3.8	0.0	0.0
Deaths and retirements (-)	10.8	13.7	13.4	12.5	12.7	14.1	13.3	11.6
Others who found employment (net)	4.2	20.3	20.8	15.2	33.4	20.3	21.0	20.8
- as % of formal employment	0.6	2.7	2.8	2.0	4.4	2.6	2.7	2.6
FORMAL LABOUR FORCE, year-end	**873.1**	**867.0**	**871.1**	**868.3**	**880.5**	**876.6**	**882.9**	**891.3**
- formal employment	746.4	742.5	742.5	741.7	766.2	772.8	782.1	792.7
- registered unemployment	126.8	124.5	128.6	126.6	114.3	103.8	100.8	98.5

Source: SORS, ESS, IPDIS estimations by IMAD

A

BIBLIOGRAPHY

AP (1999): Statistični podatki iz bilance stanja in bilance uspeha za leto 1999. Ljubljana

BS (2000a): Monthly Bulletin, Bank of Slovenia, several issues

BS (2000b): Denarni pregled - mesečna informacija, Analitsko raziskovalni center - Bank of Slovenia, several issues

Croatian Bureau of Statistics (2000) . First releases, Zagreb, several issues

Damijan. J (2000). Liberalizacija slovenske zunanje trgovine, Ljubljana, April

Dimovski, V. (2000). Slovenska industrija v pogojih notranjega trga EU. Končno poročilo, delovna verzija, Center za mednarodno konkurenčnost, Ljubljana, August

EC (2000a): European Economy, Supplement A, Economic Trends. DG for Economic and Financial Affairs, April

EC (2000b): European Economy, Supplement A, Economic Trends. DG for Economic and Financial Affairs, November

EIU (2000): Country Report Bosnia and Herzegovina, 3rd quarter 2000, Economist Intelligence Unit, London, August

EIZ (2000). Country Report: Croatia. Project LINK Meeting, Oslo, October.

EUROSTAT (2000): News releases, several issues

Gligorov,V (2000): WIIW Research Reports - Economic Strategy for South Eastern Europe.The Vienna Monthly Report. The Vienna Institute for Comparative Economic Studies, Dunaj, September.

IMAD (2000): Analysis of economic developments in 1999 and prospects for 2000 and 2001. 2000 Spring Report, Institute of Macroeconomic Analysis and Development, July

A

IMF (2000a): IMF World Economic Outlook. International Monetary Fund, Washington, April

IMF (2000b): IMF World Economic Outlook. International Monetary Fund, Washington, September

Kleindienst, R (2000): Trg vrednostnih papirjev. Ljubljana, November, typescript

LINK (2000): World Economic Outlook: Cross-Country Tables. Project LINK Meeting, Oslo, October

Letno poročilo o državnih pomočeh v Sloveniji za leti 1998 in 1999 (2000). Ministrstvo za ekonomske odnose in razvoj, Ljubljana, June

Markovič, M. (2000). Sporazumi o prosti trgovini. Ljubljana, October, typescript

MDDSZ (1999). Akcijski program zaposlovanja v Sloveniji za leti 2000 in 2001 (1999), November

MEOR (1996). Strategija ekonomskih odnosov s tujino. Ljubljana, November

MEOR (1999). Strategija vključevanja Republike Slovenije v gospodarsko obnovo Jugovzhodne Evrope. Ljubljana, November.

MF (2000a). Prikazi odhodkov državnega proračuna po funkcionalno-programski strukturi v letih 1994-2000 in projekcije za obdobje 2001-2004 (Priloga k makrofiskalnemu scenariju in proračunskim izhodiščem 2001-2004), May 2000.

MF (2000b). Bilančne priloge k makrofiskalnemu scenariju in proračunskim izhodiščem Republike Slovenije za obdobje 2001-2004. May 2000.

MF (2000c). Makrofiskalni scenarij in proračunska izhodišča Republike Slovenije za obdobje 2001-2004. May 2000.

Mićković, S. (2000). Projekcija dolga ožje opredeljene države. Ljubljana, October, typescript

Miljenović, Ž. (2000). Croatian Economic Forecast. Zagreb: Zagrebačka banka, July.

A

Mrak M., Potočnik J., Rojec M. (1998). Strategy of the Republic of Slovenia for Accession to the European Union: Economic and Social Part. Ljubljana: Institute of Macroeconomic Analysis and Development, 270 p.

Petrin T., Dmitrovi T. (2000). Izboljšanje konkurenčne sposobnosti slovenskih proizvodnih podjetij, povzetek. Ministrstvo za gospodarske dejavnosti, Ljubljana, March, p. 12-13

Poročilo o nadzoru bančnega poslovanja v letu 1999 in v prvi polovici leta 2000. Poročevalec Državnega zbora RS, št. 93/2000

Simoneti, M., Kleindienst, R. (1999). Razvoj trga kapitala v Sloveniji: Varčevalne navade in mnenja gospodinjstev. C.E.E.P.N, Ljubljana, 100 p.

Strateški cilji razvoja trga dela do leta 2006 (1999), politika zaposlovanja in programi za njeno uresničevanje, Vlada Republike Slovenije, November

Svetličič, M., Matija Rojec & Andreja Trtnik. 1999. Strategija pospeševanja slovenskih neposrednih investicij v tujino. Center za mednarodne odnose, Fakulteta za družbene vede, Ljubljana.

SZZ, Statistični zavarovalniški bilten 2000

The Federal Reserve Board (2000). Monetary Policy Report: Monetary policy and The Economic Outlook, Washington, July.
http://www.bog.frb.fed.us/boarddocs/hh/2000/July/ReportSection1.htm

UNCTAD. 2000. World Investment Report 2000. New York and Geneva: United Nations.

WIIW (2000a): Research Reports - The Transition Countries in Early 2000. The Vienna Institute for Comparative Economic Studies, Vienna, June.

WIIW (2000b): The Vienna Monthly Report. The Vienna Institute for Comparative Economic Studies, Vienna, October.

World Bank (1999). Word Development Indicators 1999, March

Zakon o deviznem poslovanju (1999). Uradni list R Slovenije, št. 23/99, April

Zakon o javnih financah (1999). Uradni list R Slovenije, št. 79/99, September

Zakon o javnih naročilih (2000). Uradni list R Slovenije, št. 39/2000, May

Zakon o javnih skladih (2000). Uradni list R Slovenije, št. 22/2000, March

Zakon o lastninskem preoblikovanju zavarovalnic. Uradni list R Slovenije št. 13/2000, February.

Zakon o nadzoru državnih pomoči (2000). Uradni list R Slovenije, št. 1/2000, January

Zakon o nematerializiranih vrednostnih papirjih (1999). Uradni list R Slovenije, št. 23/99, April

Zakon o pokojninskem in invalidskem zavarovanju (1999). Uradni list R Slovenije, št. 106/99, December

Zakon o ratifikaciji Evropskega sporazuma o pridružitvi med Republiko Slovenijo na eni strani in Evropskimi skupnostmi in njihovimi državami članicami, ki delujejo v okviru Evropske unije na drugi strani s sklepno listino ter Protokola, s katerim se spreminja Evropski sporazum o pridružitvi med Republiko Slovenijo na eni strani in Evropskimi skupnostmi in njihovimi državami članicami, ki delujejo v okviru Evropske unije na drugi strani (1997). Uradni list R Slovenije, št. 44/97, July

Zakon o zavarovalništvu (2000). Uradni list R Slovenije št. 13/2000, February

ZRSZ (2000): Letno poročilo 1999, Zavod Republike Slovenije za zaposlovanje, April

ZRSZ (1999): "Program 5000" - program izobraževanja brezposelnih v šolskem letu 1998/1999 - Poročilo, Zavod Republike Slovenije za zaposlovanje, Ljubljana, December

UNCTAD. 2000. World Investment Report 2000. New Yor and Geneva: United Nations.