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Janez Šušteršič, director

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Editor in Chief: Mojca VENDRAMIN

Technical Editor: Ema Bertina KOPITAR

Translation: Tina POTRATO, Nataša ZAJEC HERCEG, Eva HORVAT, Igor HARB

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Editor in Chief:

Mojca VENDRAMIN

The Autumn Report 2004 has been prepared by:

Mojca Vendramin (*editor, medium-term projections of economic growth*),

Maja Bednaš (*main findings, risk to realisation of the autumn forecasts*),

Branka Tavčar (*national accounts, statistical appendix*),

Lejla Fajić (*international environment*),

Barbara Ferik (*private consumption*)

Marjan Hafner (*financial flows and the capital market*),

Slavica Jurančič (*international competitiveness*),

Jasna Kondža (*government consumption, public finances*),

Mojca Koprivnikar Šušteršič (*wholesale and retail trade, hotels and restaurants*)

Mateja Kovač (*agriculture*),

Gorazd Kovačič (*manufacturing*),

Saša Kovačič (*wages policy*),

Tomaž Kraigher (*employment and unemployment*),

Janez Kušar (*investment, construction, production structure of gross domestic product*),

Jože Markič (*export-import flows, balance of payments, external debt*),

Jure Povšnar (*electricity, gas and water supply, mining, transport and communications*),

Janez Šušteršič (*main findings, medium-term projections of economic growth*)

Boštjan Vasle (*prices, monetary developments*),

Ivanka Zakotnik (*national accounts, expenditure and cost structure of gross domestic product*),

Eva Zver (*real estate, renting and business services, public administration, defence and compulsory social insurance, education, health and social work, other public, personal and community services*).

External collaborator: Slaven Mičković (central government debt).

Technical support (figures, statistical appendix, tables, data processing):

Bibijana Cirman Naglič, Marjeta Žigman.

Acronyms in the text have the following meanings:

AP Agency of the Republic of Slovenia for Payments,

BS Bank of Slovenia,

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).

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Foreword

The Autumn Report is an analytical explication of the autumn economic forecasts for the current and the next two years. It represents the basis for framing economic policy measures. In 2003 the concept of the Autumn Report was changed slightly, and it is now mainly intended as a verification and revision of the spring forecast based on current economic developments. Hence, its focus is on potential deviations from the forecasts of economic developments made in spring.

In the Autumn Report 2004, macroeconomic aggregates are calculated on the basis of the first annual estimate of gross domestic product for 2003 and the second annual estimate for 2002 released by the Statistical Office of the Republic of Slovenia (SORS) on 22 September 2004. These figures provide a slightly different basis for calculations compared to spring when the forecasts were made using the SORS' revised estimates of gross domestic product for the 1995-2002 period and the first estimate for 2003 based on quarterly accounts. Short-term indicators referring to the current year, on the other hand, are calculated on the basis of quarterly estimates of gross domestic product for the first and second quarters of 2004 and other current data prepared by the SORS. Since quarterly and annual data have not been harmonised yet, the autumn forecasts also take account of the anticipated effects of these adjustments.

The Autumn Report 2004 was prepared on the basis of figures released by 20 October 2003, while the forecasts were made using figures released by 23 September 2004.

Main findings of the Autumn Report 2004

This year, economic activity has started to accelerate robustly again following its relatively subdued growth seen in the last few years that was accompanied by less favourable economic conditions of the international environment. A renewed impetus for economic growth was already expected in spring but not to the extent actually seen: growth exceeded 4% in the first half of 2004. The key elements underpinning this revival were the following: more favourable economic trends in the main trading partners than expected, a further strengthening of domestic consumption (especially gross investment), and the one-off effect of EU accession on economic developments (also exceeding expectations) which was strongly reflected in the dynamics of export-import flows due to changes introduced to tax and external trade regimes.

The impact of these favourable economic trends was reflected in Slovenia's accelerated exports to the EU-25 recording higher volumes in both sales to its main trading partners (Germany, Italy, Austria, France, Poland and other former CEFTA members) and to some 'untraditional' countries (Belgium, Spain, Greece, Denmark) where Slovenia's market shares also began to increase. Further, high oil prices in the global market enabled the vigorous growth of Russia's import demand which boosted Slovenia's exports to this market. Supported by a stronger recovery than expected in the country's trading partners, domestic trends were also positive (strong growth was recorded especially in manufacturing). The Slovenian economy was additionally stimulated by favourable expectations due to EU accession, falling interest rates and the anticipated effects of the termination of the first national housing savings scheme enabling the continued robust growth of domestic demand (in both private consumption and investment) that already began last year. Investment recorded accelerated growth mainly in machinery, equipment and housing, while civil engineering (motorways) sustained its high level.

The direct one-off impact of Slovenia's entry to the EU on its economic activity surpassed the expectations and caused considerable albeit short-lasting changes in the structure of economic growth that will strongly influence its dynamics in 2004 and also 2005 (due to the calculation effect). Economic growth was strongly enhanced by entry to the EU especially in the second quarter and was largely generated by the pronounced growth of exports and imports. On the one hand, exports to the countries of former Yugoslavia picked up strongly prior to EU entry, especially to those countries with which free-trade agreements expired on 1 May 2004 (Macedonia, Bosnia and Herzegovina, but also Croatia where the year-on-year export dynamics were additionally influenced by Slovenia's renewed exports of half of the electricity produced in the Krško Nuclear Power Plant to Croatia reintroduced in July 2003). The higher customs duty rates on imports of certain raw materials enforced upon EU entry, on the other hand, were the reason for the surge in these imports (notably of aluminium from Russia) in the months before May. Imports from the EU, however, eased over the same period in anticipation of the more favourable value-added tax regulations. After accession, these imports boomed. The robust level of imports stimulated by the changes in external trade and tax regimes in turn accelerated the growth of stocks whose contribution to economic growth in the second quarter was around 40%. Most probably the high growth of stocks seen in the first half of this

year can also partly be attributed to the positive expectations in domestic and international business environments and the expected stronger growth of residential construction.

Based on the high real growth of gross domestic product seen in the first half-year and the upward revisions of the 2004 forecasts for the international environment, the IMAD's 2004 autumn forecast of economic growth has been revised upwards for the first time in four years (from 3.6% to 4% for 2004 and from 3.7% to 3.8% for 2005). The corrections also indicate some changes in the expected growth dynamics, as economic growth is projected to soften slightly in 2005 or roughly retain the level seen in this year's second half of the year rather than continue strengthening.

The favourable economic developments described above occurred against the background of stable macroeconomic conditions largely underpinned by the co-ordinated operation of macroeconomic policies in accordance with the orientations set out in the Programme for Entering the ERM II and Introducing the Euro adopted by the Government and the Bank of Slovenia in November 2003. The stable macroeconomic environment and credible economic policy orientations set out in the programme enabled Slovenia's early entry to the European Exchange Rate Mechanism ERM II (first round, end of June 2004), together with Estonia and Lithuania.

The ongoing reduction of inflation which already began in 2003 has been pivotal among the macroeconomic policy achievements. Co-ordinated measures of restricted price, income and fiscal policies along with the tolar's stabilisation following entry to the ERM II have all contributed to the lowering of inflation. Further, entries to the EU and ERM II have helped ease inflationary expectations, while the lower food prices induced by the abolition of customs duties upon EU accession similarly had a positive impact which was even higher than expected. External factors, especially the rocketing oil prices in the global market, operated in the reverse direction. The government buffered their effects through the counter-cyclical adjustments of excise duties, hence the contribution of petroleum products prices to inflation was relatively smaller than it would have otherwise been. This contribution, amounting to about 40% of the consumer price rises recorded in the first nine months of the year, was at the same time the main reason behind the upward revision of the inflation forecast for 2004 (from 3.3% to 3.5% at the end of the year) since other factors adding to the easing of inflation were in line with or even above the spring expectations. The continued co-ordinated application of macroeconomic policies will lay the grounds for a further gradual deceleration of inflation which should fall to below 3% in 2005, thereby meeting the Maastricht inflation criterion for the reference period set for adoption of the euro at the beginning of 2007.

The recovery of the economy gave rise to a rebound in employment and a decline in the number of the unemployed in 2004. This improvement was additionally strongly supported by active employment policy measures aimed at helping especially jobless people with poor employment prospects, which brought about positive changes to the structure of unemployment. The shares of the older and long-term unemployed fell along with the share of job-seekers without a secondary education, the latter on

account of the so-called 10,000 Programme which enables people to attain secondary education. Nevertheless, these groups still account for more than 40% of registered unemployment. The strongest growth in employment has been recorded in some public and business services and in construction this year, while industry and transport have seen an ongoing decline. Manufacturing registered a downturn mainly in those labour-intensive industries that were most affected by changes brought about by EU accession (textile, metal, food and wood-processing industries). On the other hand, a rise was generally seen in those manufacturing industries which are, according to preliminary data, estimated to have recorded robust growth in sales to foreign markets (manufacture of machinery, rubber and plastic products, vehicles, chemicals and chemical products, and electrical and optical equipment).

Favourable economic trends are set to continue in 2005. In the economic growth structure, the relative contribution of domestic demand should strengthen slightly, but this will not aggravate the external trade balance substantially. In line with the international economic environment outlooks of foreign institutions, the IMAD's forecast of economic growth for 2005 assumes a slight softening of growth in the main export markets. High oil prices are regarded as the main factor hampering any further acceleration of global economic growth. The rampant oil prices, which rose by 60% (in USD) from January to end-September of 2004 (the dollar's exchange rate gained 3% over the same period), nevertheless did not put a brake on global economic growth in the nine months to September, and most countries have revised their spring economic growth expectations upwards even though oil prices went up by around USD 10 per barrel relative to spring expectations. The reason behind this development may be that other factors of economic growth were stronger or that the effect of oil prices on economic activity has been delayed. However that may be, this year's economic trends show that the results of calculation models determining the effect of oil prices on economic activity should be interpreted with caution since they assume that other circumstances will remain unchanged. This fact should also be taken into account when interpreting the alternative 'oil' scenario of economic growth for 2005 which assumes a longer lasting ten-dollar per barrel rise above the present level due to the uncertainty related to oil price developments in global markets. The realisation of this risk would result in about 0.3 of a percentage point lower economic growth relative to the baseline scenario and approximately 0.8 of a percentage point higher inflation at the end of 2005. In view of the symmetrical effect of oil prices on consumer prices in both Slovenia and the EU, we estimate that the Maastricht inflation criterion would be achievable even in these circumstances.

In addition to the alternative oil scenario, the autumn forecast also assesses potential outcomes of the realisation of risks associated with Slovenia's entries to the EU and ERM II. There are two such risks, which have already been pointed out in the Spring Report: first, the rapid deterioration of competitiveness in labour-intensive industries following EU accession caused by the poor structural adaptation of these industries; and, second, the accelerated growth of domestic consumption induced by lower nominal interest rates enforced upon entry to the ERM II. The available figures indicate that employment in labour-intensive industries has been in decline this year and domestic consumption has been strengthening; these trends, however, are still within the baseline scenario expectations. For the time being, the potential

risks identified in spring have not materialised. Nevertheless, they still cannot be entirely ruled out as too little time has passed since Slovenia's entries to the EU and ERM II. We have therefore decided to re-examine the potential effects of a faster-than-expected deterioration of competitiveness in labour-intensive industries and rapid domestic consumption growth boosted by favourable lending conditions.

Were the risk of lower competitiveness to come true this and mainly next year, it would result in the slower growth of imports and production in labour-intensive industries which would, in turn, cause economic growth to decelerate by 0.2 of a percentage point this year and 0.4 of a percentage point in 2005. The number of unemployed people would rise by around 4,200 over the two-year period relative to the baseline scenario, and the general government deficit would expand slightly (by about 0.2 of a percentage point). Economic policy should respond to the potential realisation of such a scenario by adopting long-term measures to restructure the economy. In the short run, it should additionally take active employment policy measures, pursue a restrictive incomes policy and lower tax burden on labour while cutting general government expenditure to prevent any widening of the general government deficit.

Accelerated growth of domestic consumption in response to lower interest rates could come about in the last quarter of this year and in the first half of 2005. The realisation of this risk is still seen as possible but less likely than in the baseline scenario. The faster growth of private consumption and even more so of investment consumption reacting more rapidly to interest rate changes would accelerate economic growth by approximately one-third of a percentage point in 2004 and half of a percentage point in 2005 compared to the baseline scenario. Stronger domestic spending would, particularly in 2005, slow down the lowering of inflation so that it would exceed the baseline scenario forecast by 0.4 of a percentage point. Robust growth of both domestic consumption and imports would also result in a higher deficit of the current account of the balance of payments which would, however, remain sustainable and not represent any serious downward pressure on the tolar. Conversely, the government's financial situation would improve moderately as the deficit would be around 0.4 of a percentage point lower than foreseen in the baseline scenario provided that the other circumstances remained the same. Potential deviations from the baseline scenario forecasts resulting from the risk of high domestic consumption being realised could be managed by the fiscal and incomes policy measures set out in the Programme for Entering the ERM II and Adopting the Euro. The goals of this programme would thus still be achievable by applying the proper economic policy instruments.

Among the mentioned scenarios, the baseline scenario of the autumn forecasts is the most favourable with regard to achieving economic policy's basic objective in the next two years, i.e. provide the macroeconomic conditions for Slovenia to join the EMU. Realisation of any of the alternative scenarios would undermine the basic macroeconomic balances, either in the field of unemployment and public finances or in the field of inflation and external balance, and would require additional economic policy measures to be taken. Even with such risks being realised, however, the broad range of available economic policy instruments focusing primarily on fiscal and incomes policies should still make it possible for Slovenia to adopt the

euro in 2007. The firm commitment of the government and the Bank of Slovenia will be crucial in achieving this goal since any relaxation of the current rules could threaten its realisation.

Table 1: Autumn forecasts of the main macroeconomic aggregates

	2003	2004		2005		2006
	SORS	Spring forecast	Autumn forecast	Spring forecast	Autumn forecast	
GDP – real growth rates, %	2.5	3.6	4.0	3.7	3.8	3.9
GDP in SIT million (current prices)	5,747,168	6,137,000	6,194,500	6,552,000	6,626,000	7,066,400
GDP in SIT million (constant 2000 prices)	4,625,302	4,784,000	4,811,000	4,962,400	4,993,300	5,190,300
INFLATION (Dec/Dec of the previous year, %)	4.6	3.3	3.5	2.9	2.9	2.7
INFLATION (Jan-Dec/Jan-Dec annual aver. %)	5.6	3.3	3.6	3.0	3.0	2.7
GDP deflator (%)	5.5	3.5	3.6	2.9	3.1	2.6
EXCHANGE RATE USD (BS)	207.1	194.5	195.1	196.6	196.3	196.3
EXCHANGE RATE EUR (BS)	233.7	238.7	238.8	239.8	239.6	239.6
EUR/USD exchange rate	1.13	1.23	1.22	1.22	1.22	1.22
EMPLOYMENT according to the SNA (% growth)	-0.3	0.4	0.4	0.6	0.3	0.4
REGISTERED UNEMPLOYMENT RATE (%)	11.2	11.0	10.7	10.6	10.2	9.7
UNEMPLOYMENT RATE BY ILO (%)	6.7	6.6	6.4	6.3	6.1	5.9
PRODUCTIVITY (GDP per employee)	2.8	3.2	3.6	3.1	3.5	3.5
GROSS WAGE PER EMPLOYEE	1.8	2.0	2.2	2.2	2.2	2.4
EXPORTS OF GOODS AND SERVICES	3.2	5.5	8.5	6.0	5.8	6.6
- exports of goods	4.4	6.0	8.6	6.2	6.0	6.8
- exports of services	-2.4	3.4	8.1	5.0	5.0	5.8
IMPORTS OF GOODS AND SERVICES	6.8	6.8	9.2	6.6	6.5	6.5
- imports of goods	7.3	7.1	9.7	6.6	6.5	6.4
- imports of services	3.3	5.0	5.7	6.7	6.7	7.0
Current account BALANCE (EUR million)	-91	-39	-60	-103	-100	-125
- as % of GDP	-0.4	-0.2	-0.2	-0.4	-0.4	-0.4
GROSS FIXED CAPITAL FORMATION	6.3	7.6	7.4	7.0	7.0	5.5
- as % of GDP	23.9	24.4	24.6	25.0	25.2	25.6
PRIVATE CONSUMPTION	2.7	3.5	3.5	3.4	3.4	3.1
- as % of GDP	54.4	54.6	54.2	54.4	53.9	53.6
GOVERNMENT CONSUMPTION	2.6	3.0	2.7	2.6	2.9	2.9
- as % of GDP	20.3	20.2	20.0	19.9	19.8	19.7

Sources of data: SORS, Bank of Slovenia (BS), estimates and forecasts by IMAD.

1. International environment

Global economic growth was above the expectations in the first half of 2004; it should reach 5% at the annual level, the highest rate seen in the past thirty years. Although economic activity is expected to slow down in the second half of the year, the spring forecasts of global economic growth have been revised upwards for 2004 while remaining largely unchanged for 2005. The assumptions of international economic developments used in the IMAD's autumn forecast are taken from forecasts that were available by mid-September (Consensus, WIIW, WIFO). These figures are presented in Tables 3 and 5, while the textual analyses also take into account the later IMF forecasts and the next Consensus release (for this reason, figures are presented as a range). The estimates made by the international institutes do not significantly differ one from another; discrepancies are mainly in the outlooks for certain Southern, Central and Eastern European countries¹.

In the first six months, the countries of the European Union and Latin America recovered more than expected. China, the USA and Japan also recorded high growth rates. China's economic growth, which is expected to be higher than anticipated in spring (9.0%-9.2% in 2004; 7.5%-8.5% in 2005), in turn boosted Japan's economy (its growth this year will be more than one percentage point higher than projected in spring, reaching 4.2%-4.4%, after which it will ease to around 2.3% in 2005). The Russian economy, helped by high oil prices and robust investment activity, will similarly perform better than forecast in spring (growing by 7.3%-7.6% in 2004 and 5.6%-6.6% in 2005). The same goes for the countries of Central and Southern America whose economies were sluggish in the past few years for various reasons (the growth forecast for 2004 is over 4.5%). The forecasts of US economic growth have seen a downward revision (compared to spring) for both this and the coming year (4.3% and 3.5%, respectively), while the forecasts for Slovenia's main EU trading partners have been revised upwards for 2004 (1.8%-2.2% for the euro area) given the economic upswing seen there in the first half-year, and slightly downwards

Table 2: Forecast of global economic movements

	2002	2003	2004		2005	
			April 2004	Oct. 2004	April 2004	Oct. 2004
Global economic growth (real growth in %)	3.0	3.9	4.6	5.0	4.4	4.3
Volume of global trade (real growth in %)	3.1	4.5	6.8	8.8	6.6	7.2
Global oil price*, USD per barrel	24.96	28.89	30.00	37.25	27.00	37.25
Global commodity prices excluding fuels** (growth in %)	0.5	7.1	7.6	16.8	-0.8	-3.9
6-month LIBOR*** interest rates on USD deposits (%)	1.9	1.2	1.3	1.6	3.5	3.4
6-month LIBOR*** interest rates on EUR deposits (%)	3.3	2.3	2.1	2.2	2.6	2.8

Source: IMF World Economic Outlook (April, October 2004).

Notes: * average oil price of Brent, Dubai and West Texas Intermediate, ** weighted average relative to shares in global exports. *** LIBOR - London interbank offered rate.

¹ The forecasts for these countries differ more from one another than the forecasts for EU countries due to the different time in which they were prepared and due to the greater economic instability of the area and also poorer data quality.

for 2005 (2.0-2.2%) by reason of the growing risks with regard to oil prices and the uncertainty about the long-term recovery of these economies. These forecasts are treated more in depth later on (also see Table 3).

Although global economic growth outlook for 2004 has been revised upwards, international forecasting institutions estimate that risks have increased since spring, particularly with respect to global economic activity in 2005. Despite projecting stronger growth of international trade, the 2005 forecast anticipates a slight deceleration of the world economy's growth compared to this year because of global risks. The main risks include rising oil prices which, contrary to the spring expectations, are not recording any easing, as well as imbalances in the balance of payments and public finances (particularly in the USA, which could lead to stronger fluctuations in the dollar's exchange rate).

In 2006, global economic growth will presumably maintain the high level of 2005 (4.2%-4.3%). It should reach 2.0%-2.3% in the euro area, while forecasts for the USA have a broader span, ranging between 2.9% and 3.6%.

The persistence of oil prices at a high level throughout the year has pushed up oil price forecasts for this and the coming year. This upward revision also represents the biggest deviation from the spring forecast which projected a nearly 10 USD lower price per barrel in both 2004 and 2005. In contrast to expectations that oil prices (of Brent crude) would fall or at least remain at the level seen in this year's first quarter (31.9 USD per barrel), prices kept going up. They averaged USD 36.3 per barrel in the first nine months, 26% more than the annual average of 2003. According to the IMF's estimate, the factors contributing to the high oil prices (strong demand, geopolitical tensions in the manufacturing states, speculative purchases) will continue to operate until the end of the year and in 2005, thereby preserving the oil price at the high level of USD 37 per barrel. This estimate was also taken into account as one of the IMAD's assumptions for the autumn forecast.

There have been no changes in the autumn forecast of the euro/dollar ratio compared to spring: 1.22 dollars for one euro. This rate is set on the basis of movements seen in the last few months (February-August average) and represents the so-called technical assumption: an unchanged euro/dollar exchange rate for the entire period covered by the forecast. The euro saw sustained strengthening from October 2003 until February 2004 (1.26), after which its value fell slightly against the dollar (1.21). The same ratio is projected for this year by the IMF and the European Commission. In 2005 the IMF forecasts a slight appreciation of the dollar (1.21) while the EC expects a mild strengthening of the euro (1.23).

As expected in spring, the leading interest rates of the US central bank have started to rise this year while remaining unchanged in the euro area. In 2005, this trend should continue in the USA; the movements of interest rates in the euro area, on the other hand, is less predictable. The American Federal Reserve raised the leading interest rate for the first time (in almost four years²) in June, and then again in August and September when it reached 1.75%. The gradual raising is expected to

² From January 2001 to June 2003, the FED reduced the leading interest rate 13 times, cutting it from 6.25% to 1%.

continue until the end of this year and in 2005. The European Central Bank's leading interest rate has been 2% since June 2003 and should stay at this level until the end of this year. In the opinion of financial analysts, any changes of the interest rate in 2005 will depend on the impact of oil prices on economic activity and on inflation in the euro area countries.

1.1. Review of economic trends by individual countries

United States of America

The economic growth forecast for 2004 remains largely unchanged since spring. In the first half of 2004, economic growth strengthened slightly above the expectations (almost 5% growth year on year), but it is expected to slow down in the second half of the year, largely owing to the slower rise in private consumption because of the wearing off of the effect of tax cuts, higher interest rates and oil prices, which resulted in the weaker purchasing power of households. Although unemployment was down slightly, employment failed to rise in line with the expectations substantiated by the three years of steady economic growth. Accelerated investment, which started at the end of 2003, has continued. This year, economic growth is thus expected to be the highest since 1999: 4.2% to 4.3%. Economic growth in 2005 will run at 3.5%, which is somewhat lower than in 2004 and lower than forecast in spring. Apart from private consumption, investment demand is also set to ease, whereas international trade is to contribute more significantly to growth.

Table 3: **IMAD's assumptions on economic growth in Slovenia's main trading partners in the EU and the USA**

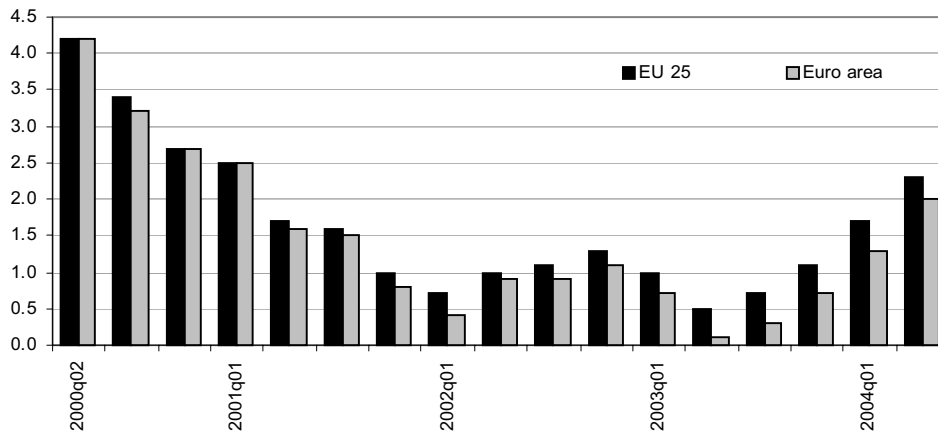
	Gross domestic product, real growth in %				
	2003	Forecast 2004		Forecast 2005	
		Spring	Autumn	Spring	Autumn
Euro area	0.5	1.7	1.8	2.1	2.0
Germany	-0.1	1.5	1.8	1.8	1.6
Italy	0.3	1.4	1.2	2.0	1.8
Austria	0.8	1.6	1.7	2.3	2.3
France	0.5	1.7	2.3	2.1	2.2
UK	2.2	2.8	3.0	2.6	2.6
USA	3.1	4.2	4.2	3.7	3.5

Source: IMAD's estimate based on: Eastern Europe Consensus Forecast, July 2004, Consensus Forecasts, September 2004, WIW Research Report July 2004; WIFO, Austrian Quarterly 2/2004, 3/2004, Eurostat.

European Union

The EU member states recorded a somewhat more marked recovery of economic growth in the first half of the year, although this was not expected before the second half of the year, according to the spring forecast. GDP in the EU25 picked up by

Figure 1: Year-on-year GDP growth rates by quarters in the EU 25 and in the euro area, in %



Source of data: Eurostat.

1.7% in the first quarter, and by 2.4% in the second quarter; the euro area countries recorded 1.4% and 2.0% growth, respectively (see Figure 1). Growth in the euro area in the first half of the year was driven largely by exports (notably, in Sweden, Germany, Austria and Italy, to mention only the large members) and private consumption (in France and Spain). Despite positive signs, the private consumption trend did not rebound in the first half of the year according to EC estimates. The consumer confidence indicator has been stagnating below the long-lasting average for over a year (last year, it was still rising) and the unemployment rate stayed at 9%. Moreover, despite the low interest rates, higher profitability of companies and greater production capacity utilisation, investment consumption has revived but below the expectations.

As economic growth in the euro area was above the spring expectations in the first half of the year, the economic forecasts for 2004 were also corrected upwards. Forecasts for 2005 are nevertheless somewhat lower largely owing to an expected slowdown in growth in the world and the higher oil prices. Prices of oil remain the main factor of risk, which may threaten domestic demand even before it could become the main generator of growth. The investment consumption forecasts were corrected the most significantly (a downward correction for 2004 and also for 2005) (see Table 4). Of Slovenia's main trading partners, forecasts of private consumption growth were corrected in Germany and Austria, whereas the downward correction was less pronounced for the euro area at large. General government consumption is to climb up more modestly than in the past four-year period (between 1.4% and 1.5%)³. According to the EC⁴, a rise in oil prices is not expected to markedly affect the economic growth in the euro area countries in 2004: a 25% rise in oil prices at the beginning of the year could, for example, bring GDP growth down by 0.3 of a

³ In the 2000-2003 period, government consumption was rising at an average annual rate of 2.5%. At the same time, the general government surplus of 0.2% of GDP in 2000 turned into a deficit totalling -2.7% of GDP in 2003.

⁴ Quarterly Report on Euro Area, July 2004; also see Slovenian Economic Mirror 7/2004, p. 19.

Table 4: Expenditure structure of gross domestic product in the euro area, changes in forecasts

	2003	Forecast 2004		Forecast 2005	
		Consensus			
		March	September	March	September
Gross domestic product	0.5	1.7	1.8	2.1	2.0
Private consumption	1.0	1.4	1.3	2.0	1.8
Government consumption	1.7	1.5	1.4	1.2	1.4
Gross fixed capital formation	-0.5	2.1	1.4	3.3	3.0
Exports of goods and services	0.3	4.1	5.8	5.1	5.5
Imports of goods and services	2.2	4.7	5.2	5.6	5.7

Sources of data: Consensus Forecasts (Consensus Economics Inc., March, September 2004).

percentage point in one year. However, should these prices also remain so high over the next two years, the negative effects would also be stronger (0.4 of a percentage point per year).

Germany

In the first half of the year, Germany saw an end to a two-year period of economic stagnation with an improved economic growth forecast for 2004. The real GDP growth (in the first quarter 0.8% in the second 1.5%, year on year) was generated exclusively by accelerated exports, largely of investment goods, whereas domestic demand even dropped (by 0.6% and 0.7%, respectively, year on year). Exports are estimated to be driven by high demand from German subsidiaries in Central and Eastern European countries and Asia, which this year recorded high economic growth and investment. **In 2004**, high exports are foreseen to more than compensate for the still weak domestic demand and thus contribute to higher economic growth (ranging from 1.8%-2.0%) than expected this spring. **In 2005**, economic growth is expected to be somewhat lower than this year (1.6%-1.8%) and also lower than predicted in spring. Growth in private consumption and investment is to strengthen, although less than anticipated in spring. In addition, the September business climate indicator of the IFO Institute indicates a continuation of economic recovery. Although business entities assessed the current situation more favourably in autumn than in spring, the future expectations are less favourable. Companies predict a slowdown in export demand in the coming months.

France

*Even more than in Germany, France's economic recovery in the first half of the year surpassed the spring expectations, which was also reflected in the considerably improved economic growth forecasts for **this year**, up from 1.7% to 2.3%-2.5%.* Unlike in other euro area countries, particularly Germany, the recovery was spurred on by domestic demand. The rise in private consumption, however, was accompanied

Box 1: Autumn forecast of the European Commission

Just before the final edition of the Autumn Report, the European Commission published its new forecasts of economic trends in EU countries for the 2004-2006 period, which do not differ greatly from the figures which the IMAD took into account in its calculations. Thus, the Commission's forecast of the average economic growth in the euro area for 2004 is slightly higher: 2.1%, whilst the estimates for 2005 and 2006 do not differ from the IMAD's figures (2.0% and 2.2% respectively). Forecasts of economic growth in the USA, however, are more different as the EC foresees a somewhat more pronounced slowdown (3.0% growth) than other forecasting institutions (3.5%, IMF, Consensus, IMAD). On the other hand, the Commission is more optimistic about economic growth in some new EU member states, in particular the Czech Republic and Hungary, to mention only Slovenia's main trading partners from this group. The Commission's autumn forecasts were based on somewhat higher oil prices (Brent), namely 39.3 USD per barrel in 2004, 45.1 USD per barrel in 2005 and 40.1 USD per barrel in 2006.

by a huge drop in savings. Mostly purchases of durables and cars soared. Along with favourable trends in domestic demand and in the international environment, investment also picked up after two years of stagnation, notably investment in the manufacture of transport equipment, whereas investment in infrastructure and services stagnated. Domestic consumption growth is expected to slow down by the end of the year, whilst exports growth is set to accelerate. *2005 is to see slightly lower economic growth, ranging from 2.2% to 2.3%.* In the structure of domestic demand, only investment consumption is to rise more than in 2004, spurred on largely by lower taxes on greenfield investment.

Italy

Of all Slovenia's main trading partners, Italy is set to record the lowest economic growth, ranging from 1.2% to 1.4%. In the first half of the year, economic growth was around 0.7 of a percentage point lower than in the euro area (1.7%) and was driven by the almost balanced contributions of domestic consumption and foreign trade. Investment consumption rose the most, which is expected to continue also by the end of the year. Also exports climbed after two years of decline, although still at a slower pace than on average in the euro area. This is due to exports being specialised largely in the textile and footwear industries, which face fierce competition from the Far East. *In 2005, economic growth is to catch up with the average economic growth in the euro area, and is to average at 1.8% to 1.9%.* Economic growth will rely largely on the boosted domestic demand, notably private consumption, whilst the Italian exports sector is set to face further problems of price competitiveness.

Austria

Economic growth is expected to reach 1.9% and is to be driven largely by the expected strengthening of domestic demand in the second half of this year, and also accelerated

growth in exports. In particular in the second quarter of the year, exports to Germany, new EU member states and South-Eastern European countries soared, mostly exports of machinery equipment and motor vehicles. Investment consumption is to record somewhat slower growth than expected, as a great deal of investment was carried out last year when the partial subsidising of private investment was available. *Expectations of higher economic growth in 2005, at 2.4%-2.5%, are founded on an expected additional push of domestic demand.* Private consumption will be spurred on by cuts in personal income taxes and a rise in household disposable income. Investment activity is also expected to intensify.

New EU Member States

As for the new EU member states, economic growth in all of Slovenia's main trading partners (Czech Republic, Poland, Hungary) in the first half of the year exceeded the spring expectations, which led to improved forecasts for this and next year. Like in Slovenia, also in the Czech Republic and Hungary economic growth in the first half of the year stood at around 4%. It was driven by exports and domestic demand, notably investment demand, while imports growth was even higher than in Slovenia. Although most import-export flows between these countries and the EU were liberalised even before 1 May 2004, accession to the EU in the case of Czech Republic and Poland, as well as Slovenia, further pushed up growth in international trade (largely trade in agro-food products, which was until then not fully liberalised). In Poland, growth in GDP was even higher: 6.5%, and was driven by exports and investment consumption, which recovered after three years of decline. By the end of the year, economic growth in these countries is to slightly decelerate. **In 2004** it is expected to run at 3.2%-3.3% in the Czech Republic 3.5%-4.0% in Hungary, and 5.0%-5.8% in Poland. **In 2005** Czech Republic and Hungary are set to record even slightly higher growth, whilst growth in Poland is to slow down.

Table 5: **IMAD's assumptions on economic growth in Slovenia's main trading partners from Central, Southern and Eastern Europe**

	Gross domestic product, real growth in %				
	2003	Forecast 2004		Forecast 2005	
		Spring	Autumn	Spring	Autumn
Croatia	4.3	3.5	3.2	4.0	3.5
Bosnia and Herzegovina	3.5	4.5	4.5	5.0	4.5
FYR of Macedonia	3.2	4.0	3.0	4.0	3.0
Serbia and Montenegro	2.0	1.5	3.0	2.8	3.0
Czech Republic	3.1	3.0	3.2	3.8	3.4
Hungary	3.0	3.0	3.5	3.6	3.6
Poland	3.8	4.0	5.0	4.0	4.5
Russia	7.3	5.0	7.0	4.9	5.5

Source: IMAD's estimates based on: Eastern Europe Consensus Forecasts, July 2004, WIMW Research Report July 2004, IMF World Economic Outlook September 2004, Eurostat.

South-Eastern European Countries

Economic development in Croatia in the first half of the year slightly surpassed the spring expectations. A rise in investment consumption contributed the most to economic growth (4% year on year), although it was considerably lower than last year. As expected, growth in private consumption and international trade lagged behind the rates seen the year before. In August, Croatia concluded a new stand-by agreement with the IMF, which foresees the taking of additional austerity measures in the public finance area in order to stabilise foreign debt growth and reduce the general government deficit. This programme is set to contribute to the reduced borrowing by the largest state-owned companies and to shrinking expenditures on motorway construction, which will be translated into a further slowdown in investment consumption in the second half of 2004 and in 2005⁵. In turn, investment growth will become based on private sector investment to a larger extent. The relatively high economic growth seen over the last four years (4.6%), driven largely by accelerated motorway construction, will thus be down to 3.2%-3.7% in 2004 and is expected to average at 3.5%-4.1% in 2005.

Despite political instability related to the change of government and the presidential elections, the economic prospects in Serbia and Montenegro have improved. Economic trends in 2004 are considerably more favourable than last year's, with industrial production rising by 7.5% in the first five months year on year. It is also to further strengthen in the second half of the year (in Serbia in the first nine months, it was up by 6.9% year on year). At the same time, this year's weather conditions were favourable for agricultural production⁶. The expenditure structure of GDP reveals that in the first half of the year growth rested largely on private and government consumption, whilst the available international trade data reveal further negative trends, with growth in imports strongly exceeding growth in exports. In the first seven months, the export-import coverage ratio was a record low, at just 31.7% (exports of goods expressed in EUR rose by 6.6% year on year and imports by 26.8% in Serbia).

The forecasts for Bosnia and Herzegovina remain optimistic. In 2004 and 2005, economic growth is to rise by 4.5%-5% (last year 3.5%). Compared to the spring forecasts, the figures for 2004 remain almost unchanged whilst they are slightly lower for 2005. The current data confirm that the economic situation has improved since last year (last year, slow economic growth was a consequence of a drought and the slow growth in industrial production). This year, agricultural conditions have been more favourable and the data for industry show a 13.8% rise in industrial production in the first seven months year on year. In the first five months, exports of goods (in nominal terms in EUR) were up by 18% year on year, whilst imports grew at a much slower rate (8%), which is to contribute to a narrowing of the current account deficit of the balance of payments. This deficit, however, remains the largest of all Southern European countries (in 2004 it is set to reach around 28.6% of GDP).

⁵ The drop in investment expenditures for motorway construction is largely a consequence of the end of the national motorway construction project and less of the commitments undertaken in the IMF agreement.

⁶ This year, wheat crops in Serbia are set to soar by 105% and maize crops by 65%.

*Economic growth in **Macedonia** in 2004 and 2005 is expected to remain roughly unchanged from 2003, at 3.2%. Nevertheless, not all the current economic data are as promising. The volume of industrial production slumped by 16% in the first eight months year-on-year. This year's 3% economic growth will thus be driven largely by agriculture (good crops) and the strengthening of services. On the other hand, growth in imports and exports has been more balanced than in Serbia and Montenegro and in Bosnia and Herzegovina. In the first eight months, the exports of goods (in nominal terms in USD) were up by 16.7% compared to last year and imports rose by 20.7%.*

2. Economic growth

2.1. Expenditure structure of gross domestic product

Economic growth started to pick up at the end of 2003 and continued to be robust in the first half of this year, partly due to the one-off effect of Slovenia's entry to the EU as well as the somewhat faster recovery of EU economies. After rising to 2.5% year on year in the fourth quarter of 2003 mainly thanks to the recovery of exports to EU countries and Russia seen at the end of 2003⁷, the real growth of gross domestic product reached 3.8% and 4.6%, respectively, in the first and second quarters of this year. This strengthening was higher than expected and largely generated by the high growth of exports and inventories, and partly by the slightly faster growth of gross fixed capital formation. The vigorous real growth of exports (11.5% in the first six months year on year) was, on one hand, the result of the one-off effect of Slovenia's accession to the EU and the consequent strong acceleration of export growth to the countries of former Yugoslavia prior to 1 May. These markets along with Russia represent the main deviation from the spring forecast. Similarly, already in the first half of the year, exports to Slovenia's main trading partners and to 'untraditional' EU15 partners also strengthened considerably on the back of the stronger and earlier recovery of these economies than expected in spring. The growth of exports to the new EU members remained robust (see Chap. 3.1).

The first six months also saw sustained buoyant growth of domestic consumption. Against the background of a rise in (especially informal) employment, faster real wage growth seen in the private sector and an increase in the mostly long-term household borrowing from banks, the real growth of private consumption strengthened slightly over the year before (reaching 3.5% in the first six months year on year; 2.7% in 2003). The real growth of investments was higher than last year (7.3% in the first half year; 6.3% in 2003) mainly owing, in our estimate, to the rise in investment in machinery and equipment. Investment in civil engineering was

Table 6: Autumn forecasts of GDP growth and consumption aggregates and a comparison with the spring forecasts

	Real growth rates (in %)				
	2003	2004		2005	
	SORS	Spring forecast (April 2004)	Autumn forecast (Oct. 2004)	Spring forecast (April 2004)	Autumn forecast (Oct. 2004)
Gross domestic product	2.5	3.6	4.0	3.7	3.8
Exports of goods and services	3.2	5.5	8.5	6.0	5.8
Imports of goods and services	6.8	6.8	9.2	6.6	6.5
Private consumption	2.7	3.5	3.5	3.4	3.4
Government consumption	2.6	3.0	2.7	2.6	2.9
Gross fixed capital formation	6.3	7.6	7.4	7.0	7.0

Source: SORS, forecasts by IMAD.

⁷ In the first three quarters of 2003 GDP growth was between 2.1%-2.3% at the year-on-year level.

still at a high level (although it fell slightly over the same period last year), while housing investment saw sustained growth. Inventories surged, particularly in the second quarter; their contribution to growth in the first half-year was 1.3 percentage points (see Chap. 3.3). The real growth of government consumption was low in the first six months (0.8%). As domestic consumption and exports recorded strong growth, imports also went up robustly (12.9%; see Chap. 3.1). The negative contribution of international trade to economic growth decreased (to -1.1 percentage points compared to the -2.2 percentage points seen in 2003).

*The autumn economic growth forecast has been revised upwards to **4.0% for the current year** and to **3.8% for 2005**. The increase (from 3.6% and 3.7%, respectively, projected in the spring forecast), given the small changes in the forecasts for the international environment (see Chap. 1) and the essentially unchanged growth of domestic consumption, mainly derives from export growth being higher this year than expected in spring. In 2006, economic growth should sustain a similar level (3.9%).*

*The forecast of **export** growth for this year has been revised upwards compared to spring. The high export growth recorded in the first six months will decelerate in the second half of the year, nevertheless it should come in at relatively high 8.5% real growth for the year as a whole. The main deviation from the spring forecast, predicting lower export growth (5.5%), was seen in exports to the markets of former Yugoslavia⁸ (primarily BIH and Macedonia) and Russia (see Chap. 3.1). As in other consumption aggregates, the calculations for exports also take into account the expected effect of harmonising quarterly and annual real growth data. A moderate deceleration in exports growth is expected in 2005 (5.8%), mainly because of the lower growth of exports to the countries of former Yugoslavia and Russia, but also due to the somewhat smaller growth of exports to the EU countries where high oil*

Table 7: **Growth in demand components**

	Real growth rates, in %					
	2001	2002	2003	2004	2005	2006
				Forecast		
Total aggregate demand	3.7	3.4	3.1	5.2	4.5	4.5
Foreign demand (exports)	6.3	6.7	3.2	8.5	5.8	6.6
Domestic demand	3.1	2.6	3.0	4.3	4.1	3.9
- intermediate consumption	3.1	3.7	2.5	4.3	4.0	3.9
- private consumption	2.3	0.3	2.7	3.5	3.4	3.1
- government consumption	3.9	1.7	2.6	2.7	2.9	2.9
- gross fixed capital formation	4.1	3.1	6.3	7.4	7.0	5.5

Source: SORS, forecasts by IMAD.

⁸ After the significant slowdown in exports to the countries of former Yugoslavia in 2003, which followed the strong expansion to these markets that had begun in 2001, the spring forecast projected a further easing in the growth of exports to these markets.

Table 8: Contributions to growth

	In percentage points					
	2001	2002	2003	2004	2005	2006
				Forecast		
GROSS DOMESTIC PRODUCT (real growth, in %)	2.7	3.3	2.5	4.0	3.8	3.9
Goods and services balance (exports-imports)	1.7	1.0	-2.2	-0.7	-0.7	-0.1
Domestic consumption, total	1.0	2.3	4.7	4.7	4.5	4.1
- Private consumption	1.3	0.2	1.5	1.9	1.9	1.7
- Government consumption	0.8	0.3	0.5	0.5	0.6	0.6
- Gross fixed capital formation	1.0	0.8	1.6	1.9	1.9	1.6
- Changes in inventories	-2.2	1.0	1.1	0.3	0.1	0.2

Source: SORS, forecast by IMAD.

prices will weaken economic growth slightly compared to the spring forecast, notably in Germany and Italy (see Chap. 1). In 2006, assuming a stable situation in the international environment, exports growth should strengthen slightly again (to 6.6%).

The forecast of growth and structure of domestic consumption for 2004 and 2005 remains practically identical to the spring forecast. In 2004, the only noticeable deviation from the spring forecast is expected in the growth of intermediate consumption which will be higher than forecast in spring due to the faster growth of exports (4.3% instead of 3.8%; see Tables 6 and 7). The stronger growth of domestic spending commenced last year on the back of stronger private and investment

Table 9: Formation and distribution of gross national disposable income

	Share in GDP, in %					
	2001	2002	2003	2004	2005	2006
				Forecast		
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	-0.6	-0.7	-0.4	-0.5	-0.6
GROSS NATIONAL INCOME	100.2	99.4	99.3	99.6	99.5	99.4
Net current transfers from the rest of the world	0.7	0.6	0.4	0.5	0.7	0.6
GROSS NATIONAL DISPOSABLE INCOME	100.9	100.0	99.7	100.0	100.2	100.1
Final consumption	76.8	74.8	74.7	74.1	73.8	73.3
GROSS SAVINGS	24.1	25.2	24.9	25.9	26.4	26.8
Current account balance	0.2	1.4	-0.4	-0.2	-0.4	-0.4
GROSS CAPITAL FORMATION	23.9	23.8	25.3	26.1	26.8	27.2
of which: investment in gross fixed capital formation	24.5	23.3	23.9	24.6	25.2	25.6
Consumption of fixed capital	17.3	16.4	15.6	16.1	16.5	16.7
NET CAPITAL FORMATION	6.8	8.8	9.3	9.7	9.9	10.0

Source: SORS, forecast by IMAD.

consumption will continue (see Chap. 3). The forecast of government consumption growth is in line with the adopted budget for 2004 and the draft budget for 2005; given the higher inflation in 2004 than projected in spring and the real drop in public sector wages, government consumption growth is estimated to be somewhat lower in 2004 and higher in 2005 compared to the spring projections. In 2006, a mild deceleration of growth is expected in both investment (to 5.5%) and private consumption (3.1%). The contribution of domestic consumption to GDP growth will decrease gradually (see Table 8).

The stronger growth of exports and domestic consumption also influenced this year's higher growth of imports (9.2%) compared to the spring forecast. In 2005 and 2006 the growth of imports is expected to decelerate to 6.5%. The net contribution of international trade will remain negative this year, although slightly less than forecast in spring (-0.7 of a percentage point compared to the spring projection of -1.0 percentage point). It will stay at the same level in 2005; in 2006, however, it is expected to edge down to -0.1 of a percentage point. The current account of the balance of payments is expected to remain close to equilibrium in these three years (a deficit of 0.2% of GDP in 2004 and 0.4% in the next two years).

The share of gross savings in GDP will keep rising. It is projected to climb by 1.0 percentage point this year (to 25.9%; see Table 9); 0.6 of which will come from the smaller share of final consumption and 0.3 from the lower anticipated net outflows of primary income abroad⁹. This year's rise in savings is linked to the projected increase in the business sector's gross operating surplus (see Chap. 2.3), further elaboration of institutional saving mechanisms (pension and life insurance) and development of non-banking financial markets. The Act on the Collective Supplementary Pension Insurance for Civil Servants has been passed this year. At the same time, investment in mutual funds has been on the increase (see Chap. 8.2). Like in 2003, the national savings level achieved this year will not suffice to finance the accelerated growth of gross domestic investments seen in 2004. Due to the more balanced growth of both categories, however, the current account of the balance of payments will run a lower deficit (0.2% of GDP or EUR 60 million). The share of national savings in GDP should rise again in 2005 and 2006 (by 0.5 and 0.3 of a percentage point, respectively). This level of savings would make it possible to finance the investment in fixed assets which should rise by 7.0% and 5.5%, assuming that net borrowing abroad would amount to 0.4 % of GDP (EUR 100 and 125 million).

2.2. Production structure of gross domestic product

In the first six months of this year, notably in the second quarter, value-added growth surpassed the level expected in spring. It totalled 4.2% at the year-on-year level, the highest figure seen in the past three years. This acceleration was mainly generated by the value-added growth of manufacturing industries and partly also of transport, storage and communications, financial intermediation and health services. We estimate that growth will sustain its relatively high levels in the second half of

⁹ Larger current transfers will contribute the rest.

the year, thereby pushing this year's real value-added growth forecast up to 4.3% (3.8% in the spring forecast; see Statistical Appendix).

*The 2004 forecast for value-added growth in **manufacturing** has been revised upwards compared to spring.* This rise is linked to the higher growth of exports this year than forecast in spring (see Chaps. 2 and 3.1) and the related increased industrial production. In the first eight months of the year, the volume of industrial production in manufacturing was thus by 6.1% higher than in the same period last year (the comparable figures for 2002 and 2003 were 1.3% and -0.3%, respectively). This expansion was particularly robust in the second quarter¹⁰. The vigorous growth of production volumes was accompanied by a rise in inventories (up 18.4% year on year in August). Considering the high level of inventories, two working days more (year on year) and the estimated effect of harmonising the SORS' quarterly and annual data, the growth of manufacturing's production volume is projected to ease slightly until the end of the year¹¹ and total 4.7% at the annualised level, while the annual growth of value-added in these industries should come in at 6.4% (4.7% forecast in spring).

Among **other primary activities**, the forecast has also been revised upwards for agriculture (from 6.0% to 10.0%) largely on account of the altered estimate of value-added growth in 2003; otherwise an average agricultural production volume is expected this year. The spring forecasts of growth in mining and quarrying as well as electricity, gas and water supply remain unchanged¹², while the forecasts of value-added growth in construction and fishing have been lowered. The downturn in construction is linked to the softened activity seen in non-residential building, while fishing declined due to a drop in marine catches (in spring, an upturn was expected in this activity).

*The value-added growth forecast has generally been revised upwards in mainly market-oriented **service sectors**.* Financial intermediation is thus projected to record even higher value-added growth this year (9.0%), primarily thanks to the high growth rate of life insurance and the build-up of employment in financial leasing and in ancillary activities to financial intermediation. The forecasts have also seen slight upward revisions in transport, storage and communications as well as in real estate, renting and business activities¹³, while being revised slightly downwards in trade (owing to the relatively weak retail trade growth) and hotels and restaurants (mainly due to the sluggish growth of overnight stays seen in the second quarter). In public services, value-added growth is expected to be 2.9% or 0.5 of a percentage point less than forecast in spring. Value-added growth eased in public administration,

¹⁰ The year-on-year production volume growth in manufacturing was 4.1% in the first quarter and a high 7.6% in the second quarter, the biggest increase seen in the past three years.

¹¹ Similar results were obtained via the non-linear econometric model developed at the School of Business and Economics in Maribor.

¹² Lower year-on-year growth of industrial production and value added is expected in electricity, gas and water supply, largely due to the regular overhaul of the nuclear power plant which was carried out in the second half of the year in 2004.

¹³ In the first six months, the year-on-year nominal growth of revenues totalled 10.8% in telecommunications, 8.7% in some ancillary transport services and 26.0% in other business services.

defence and compulsory social insurance on the back of the lower than anticipated employment growth and the real drop in gross wage per employee seen in these activities (see Chap. 6.2). The forecast is also lower than in spring in education and other community and personal services, which is largely the consequence of the altered value-added growth estimate for 2003.

The forecast for value-added growth in 2005 remains essentially the same compared to the spring expectations, 4% (3.9% in spring). Slightly higher growth is forecast for market-oriented services: transport, storage and communications as well as real estate, renting and business services. The projected growth in primary activities has seen no revisions; in manufacturing, growth is forecast to decelerate slightly relative to this year, chiefly as a result of lower exports growth and expectations for the international environment¹⁴ (3.2% growth of industrial production and 5.1% value-added growth). The forecast of value-added growth in construction has been revised downwards slightly compared to spring (we expect that higher commodity prices will have a negative impact on the growth in construction). In public services, value-added growth remains the same as in spring, i.e. slightly above the forecast for this year, mainly as a result of the expected rise in employment (see Chap. 3.4).

In 2006, value-added growth should stay at the same level (3.9%) and preserve a similar structure as in the year before. Growth is anticipated to soften mildly in manufacturing (to 4.9%) and strengthen slightly in market-oriented services on the back of stronger demand, thereby bringing the structure of value added close to the structure of the most advanced economies. Lower growth is forecast in public services, chiefly due to the smaller rise in employment in public administration.

2.3. Cost structure of gross domestic product

The downward trend in the compensation of employees continues. In accordance with wage rises (see Chap. 6.2) and assuming that employment will grow as projected (see Chap. 6.1), the compensation of employees will climb in real terms by 2.5% in 2004 and by 2.8% in 2005. In 2005, the lagging of growth of the compensation of employees behind GDP growth will thus be somewhat smaller than this year (1.0 percentage point; 1.5 percentage points in 2004). In 2006, the compensation of employees is estimated to be 3.1% (2.4% real growth of wages), reflecting a further cutting of the share of these costs in GDP.

The share of taxes on production and imports in GDP is in decline. Taking into account the lowering of customs duties and import taxes (which since EU accession only apply to imports from non-EU countries and are largely a revenue for the EU budget – only a quarter of the collected customs duties goes to the member-state to cover the costs of collection) and the expected faster growth of both exports and imports stimulated by the projected strengthening of private and investment consumption, we estimate that taxes on production and imports will record a slight lowering in relative terms in 2004 over 2003 (16.5% of GDP). With the somewhat slower growth of the key macroeconomic categories that have an impact on the

¹⁴ We also take into account the distribution of working days: 2005 has four working days less than 2004.

Table 10: Cost structure of gross domestic product

	Structure in % of GDP					
	2001	2002	2003	2004	2005	2006
				Forecast		
1. COMPENSATION OF EMPLOYEES	53.9	53.0	52.9	52.1	51.6	51.3
2. TAXES ON PRODUCTION AND IMPORTS	16.2	16.5	16.8	16.5	16.2	16.2
3. SUBSIDIES	1.4	1.2	1.5	1.5	1.5	1.5
4. GROSS OPERATING SURPLUS AND GROSS MIXED INCOME (4=5+6)	31.4	31.6	31.8	32.9	33.7	34.0
5. Consumption of fixed capital	17.3	16.4	15.6	16.1	16.5	16.7
6. Net operating surplus	14.1	15.2	16.2	16.8	17.2	17.3
7. GROSS DOMESTIC PRODUCT (7 = 1+2-3+4)	100.0	100.0	100.0	100.0	100.0	100.0

Source: SORS, forecast by IMAD.

volume and amount of these taxes and the level of GDP, the share of these taxes should decrease further in the next two years (to 16.2% of GDP).

Subsidies will remain at the level of 1.5% of GDP this year and in the next two years, but their structure will continue changing. Subsidies for products will be gradually reduced, while those for production will increase. After receiving subsidies from the EU funds, a transformation of national subsidies will follow: a gradual reduction of subsidies for agriculture is to be expected along with an increase in subsidies for regional development and horizontal purposes, with the exception of subsidies intended for rescue and restructuring.

The upward trend in gross operating surplus share carries on. This year, larger production volumes spurred on by the bigger common market will presumably also be reflected in a higher increase in the gross operating surplus on the back of a better utilisation of economies of scale and the positive effects of trade creation. Its share in GDP will climb by 0.8 of a percentage point this year over 2003 (see Statistical Appendix). Assuming that other positive effects of membership in the EU (bolstered competitive capacity and cost efficiency of economic agents) will gradually take effect, we expect the gross operating surplus to further increase in the next two years (by 0.6 and 0.3 of a percentage point in 2005 and 2006, respectively). This expectation is also the consequence of the low wages growth and the related reduction of the compensation of employees.

3. Consumption aggregates

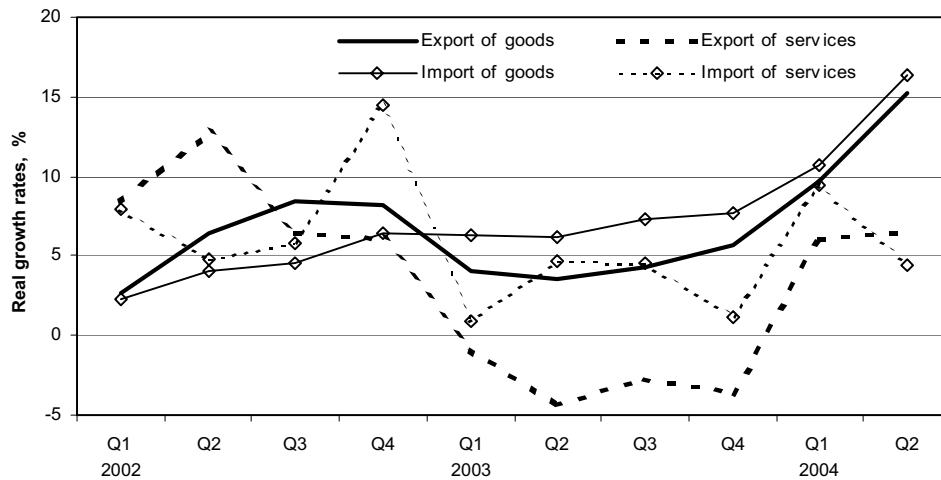
3.1. Exports - imports

In addition to gross investment, exports were the main generator of economic growth in the first half of the year. According to the National Accounts data, exports of goods and services rose in real terms by 11.5% (goods by 12.5% and services by 6.3%), and the imports of goods and services were up by 12.9% (goods by 13.7% and services by 6.7%) **in the first half of the year** compared to the same period last year. Despite the high growth seen in exports, import growth was too high to allow the foreign trade balance to contribute anything other than negatively to economic growth (- 1.1 percentage points).

As expected, Slovenia's exports to EU markets strengthened in the first half of the year and, quite unexpectedly, exports to the markets of former Yugoslavia and Russia rose as well. According to the foreign trade statistics (measured in EUR), year-on-year **growth in exports** in the first half of the year reached 9.5% (last year 2.4%). Exports growth to the EU15 member states rose to 6.6% (last year by a mere 1.6%), notably the exports of machinery and equipment. The growth in exports to the »new EU member states« preserved the high levels achieved in the past few years (14.9%). Exports to the countries of former Yugoslavia were above the expectations, largely in the run-up to the expiry of free-trade agreements with these countries upon Slovenia's entry to the EU. Thus, in the first four months they were up 16.6% year-on-year (last year this figure was 0.9% lower). Growth in exports to these countries started to rise at the beginning of the year to peak just before Slovenia's entry to the EU, in particular exports to BiH (in April this year by 63.9%) and Macedonia (by 85.6%). Since in these countries import duties on Slovenian products were due to rise upon Slovenia's accession to the EU, Slovenian companies most likely exported heavily to stock up. Since April exports to these two countries have eased, whilst the level of exports to Serbia and Montenegro have remained high, as the foreign trade regime with these two countries remains unchanged. Growth in exports to Croatia was also high in the first half of the year, however, this was largely thanks to exports of electricity which were renewed in the second half of 2003¹⁵. Excluding electricity, growth in exports to Croatia remained at the same level as recorded in the first half of the previous year. Exports to Russia rose beyond all expectations. The high growth recorded in the second half of 2003 further accelerated to reach 21.7% (last year, this figure was 0.3%), mostly on account of exports of medical and pharmaceutical products. The first half of the year also saw higher than expected growth in **exports of services**: 9.5% year-on-year (last year 1.6%). The increase was largely a result of the high growth seen in exports of transport services (17.4%, compared to 4.7% a year ago), which is closely related to goods exports, as well as travel (7.5% and 1.5%, respectively). Owing to their continuing low competitiveness levels, other knowledge-based services recorded the lowest export growth of all services, although it was still higher than in the comparable period last year (4.8%, last year -1.5%).

¹⁵ A lower benchmark from last year.

Figure 2: Real growth in exports of goods and services (compared to the same quarter a year before)



Source: SORS.

Given the high growth seen in domestic and intermediate demand, import growth also reached high levels in the first half-year. Compared to the same period last year (measured in EUR), **imports of goods** were up 10.7% (in the comparable period last year 5.2%). This rise was largely generated by high imports from Russia in April (up by 149.3% year-on-year), in particular imports of aluminium, for which the zero customs rate rose to 6% upon Slovenia's accession to the EU. On the contrary, imports from EU 25 member states soared after accession, notably the imports of road vehicles, electrical appliances and plastic materials. These imports were postponed until after April in expectation of more favourable liquidity terms for the payment of value-added tax after accession. This also affected the dynamics of tax inflows to the general government account. Growth in **imports of services** was also high. Compared to the same period last year it was 9.9% (measured in EUR; in the comparable period last year it was 5.6%). As a consequence of the accelerated imports of goods (by 11.2%), imports of transport services also soared (by 22.6%) along with imports of travel (up 11.2%), with imports of other services recording only modest growth (3.4%).

The data for **July** indicate that the nominal growth rates for trade in goods and services remained at the same level as seen in the first half of the year. Taking into account the effect of foreign trade prices, the real growth in international trade has been gradually slowing down.

This year foreign trade is expected to prosper more than forecast in spring. In the Spring Report, the IMAD forecast a rise in the foreign trade of goods and services from the year before (exports 5.5%, imports 6.8%). According to the latest available data and the estimated impact of a reconciliation of the SORS' quarterly data with the annual data, the rates are expected to be even much higher. With the foreseen slow down in the second half of the year, **exports of goods and services** are expected

Box 2: Changed recording of foreign trade flows upon Slovenia's entry to the EU

Slovenia's accession to the EU significantly affected the foreign trade results of companies as well as the way balance of payments flows are statistically recorded. On 1 May 2004 the revised customs legislation which brought along considerable changes in customs procedures and in submitting customs declarations entered into force along with other novelties in the customs information system. Data on external trade statistics are acquired from two different systems: i) Intrastat – statistics of goods trade with EU countries (monthly statistical research); and ii) Extrastat – statistics of goods trade with EU non-member states (data from customs declarations). The companies liable to report for Intrastat in the given year are those companies which report only for trade flows (arrivals and dispatches) whose value exceeds the threshold, which in 2004 stands at SIT 22,600,000. The transactions are included in the month of observation according to the date of issue of the invoice or the date of actual arrival or dispatch of goods. Extrastat covers all transactions of goods and they are included in the month of observation according to the date of submission of the customs declaration or any other date stated in the implementing customs regulation.

The release dates for external trade statistics are harmonised with the European legislation for Intrastat and Extrastat and are as follows:

- short-term indicators (aggregate data for Intrastat – estimate and Extrastat – actual data) are released within “T + 42” days (as of 1.1.2005 “T + 40” days);
- detailed data for Extrastat are released within “T + 42” days; and
- detailed data for Intrastat are released within “T + 70” days.
- Detailed data on external trade statistics of Slovenia are thus available within 70 days of the end of the period of observation.

The introduction of Intrastat and adjustment of automatic data processing in line with the amended customs legislation temporarily deteriorated the quality of goods trade data. The “old” member states also experienced similar difficulties when they joined the EU. Given the high share of goods (exports and imports accounting for around 80% of the inflows and outflows of current transactions), this lower quality will also be reflected in the data on the current account of the balance of payments. As assured by the Bank of Slovenia, the quality of reporting on other sources of data (other sub-accounts of the current account, capital and financial account of the balance of payments) will be maintained.

to increase in real terms by 8.5% and **imports of goods and services** will be up 9.2%. Thus, the negative contribution of the **foreign trade balance** to economic growth will also be less pronounced (-0.7 of a percentage point) than forecast in the Spring Report (-1 percentage point).

The main reasons why the volume of foreign goods trade is higher than forecast in the Spring Report are: the one-off effect of Slovenia's accession to the EU and the

increased demand from Russia. The Spring Report also forecast only a modest increase in goods exports to the markets of former Yugoslavia (1% in real terms)¹⁶, whereas the current trends (see the beginning of the chapter) and the expected slow down in growth in the second half of the year indicate that real growth in exports to these markets will be much higher than expected (7%). The growth in goods exports to the Russian market will also be higher than forecast in spring, as the estimate of economic growth of this market was corrected from 5% in spring to 7% due to the high prices of oil. Slovenia's goods exports to Russia are thus expected to increase in real terms by 10% (spring forecast 6%). Although EU countries generated higher than expected economic growth already in the first half of the year, the estimate of exports of goods to EU 25 markets (around 70% of total goods exports) remains unchanged compared to the spring estimate. Goods exports to »old« member states (EU 15) are foreseen to rise in real terms by 6.3%, which is above the rise recorded last year when economic activity in these countries was low. Growth in goods exports to the »new« member states (EU10) will, however, preserve the high levels recorded over the last three years (around 15% growth in real terms).

The export and import growth forecasts for 2005 are practically unchanged from spring. In comparison with 2004, a slow down in the growth of exports to 5.8% (Spring Report 6%) is expected, largely due to lower growth of exports to the countries of former Yugoslavia and Russia, and somewhat slower export growth to the EU. Imports of goods and services are set to be up in real terms by 6.5% (Spring Report 6.6%). The negative contribution of foreign trade to economic growth is thus expected to remain at this year's level (-0.7 of a percentage point). Also in 2006 similar dynamics of foreign trade are expected if the favourable trends seen in the international environment continue: a 6.6% rise in the exports of goods and services and a 6.5% rise in imports of goods and services. The negative contribution of foreign trade will be less pronounced (-0.1 of a percentage point).

3.2. Private consumption

The strengthening of private consumption recorded at the end of last year continued in the first half of this year, in line with our spring forecasts. In the first quarter, it was up 3.8% in real terms year-on-year, and in the second quarter by 3.2% (in the last quarter of last year by 3.6%). In the first half of the year, private consumption thus increased by one percentage point more (by 3.5%) than in the same period last year, thereby contributing 1.9 percentage points to GDP growth (44.4%).

*This year, growth in household consumption has largely been generated by a further boost in the **consumption of durable goods**, which started last year.* This went hand in hand with households' increased borrowing¹⁷ from banks (see Chap. 8.2), which

¹⁶ After a strong rise in exports of goods to the countries of former Yugoslavia in the 2000-2002 period, they have slowed down markedly last year. Given the high benchmark and expected expiry of free-trade agreements, it was virtually impossible to foresee any further growth in exports to these markets.

¹⁷ At the end of the first half of the year, household bank loans rose in real terms by 10.6% year-on-year, 8.2 percentage points more than in the same period last year. Long-term loans recorded the fastest growth (which are not fully turned into consumption, but are partly released as investments), followed by overdrafts and advances (in the personal accounts of individuals).

was also partly a consequence of interest rate cuts (see Chap. 8.1) and the release of funds from the National Housing Savings Scheme (NHSS) in mid-2004. Interest rate cuts also led to a drop in savings¹⁸ with banks, which households compensated for by investing more in mutual funds¹⁹. Households' indebtedness with banks (the ratio of the average amount of loans to savings) increased slightly in the first half of the year compared to the same period last year (from 0.29 to 0.30). However, it remains below the level recorded in the 1999-2000 period (0.40) when the consumption of durable goods accelerated out of proportion in the run-up to VAT's introduction. The level from this period²⁰ was, however, preserved by the bank loan burden of households²¹, which has picked up from 2.66 in the first half of last year to 2.76 this year. The rise in this indicator has been eased by the relatively high growth in income (see below).

The accelerated consumption of durable goods is usually manifested in greater car purchases. Despite the record growth (23%) perceived in the second quarter of last year, the number of new car registrations in the same period this year even exceeded last year's figure (estimations based on data from the Internal Administrative Affairs Directorate of the Ministry of the Interior; the figure may also include registrations of vehicles for only a few days, which most likely does not belong to household consumption). In the first half of the year, there were 9.8% more new car registrations than in the same period last year, whilst March and April saw record monthly figures for the last four years.

As anticipated in spring, consumer optimism has grown after accession to the EU. Consumers are optimistic about the future economic and financial conditions of households, but are less satisfied with the past results in both areas. The total value of the consumer confidence indicator reached its highest point in October (11 percentage points above the average recorded for many years) since March 1996 when this indicator was first calculated.

Growth in real household income was boosted in the first half of the year, as was growth in other short-term indicators affecting consumption, which further justifies the expected trends of private consumption. Real growth of household income was up by 4 percentage points (5.3%) in the first half of the year against the same period last year. All three components of income rose, with the greatest contribution coming from other remuneration, which after a real drop last year soared again in real terms²². Moreover, VAT charged to final consumers recorded faster growth this year (7.4%

¹⁸ The monthly year-on-year real growth rates of savings in banks have been the lowest ever. Last year, real year-on-year growth in savings in the first half-year was still 7.6%, only to be more than halved (to 3.3%) in the same period this year (also see Chapter 8.2).

¹⁹ In the first half of the year, investment in mutual funds increased almost five-fold against the same period last year (also see Chapter 8.2).

²⁰ In 1999: 2.66 and in 2000: 2.87.

²¹ The ratio of the average stock of loans to incomes.

²² Net wages (4.1%) and other remuneration (11.0%) according to data from the Agency for Public and Legal Records and Services and transfers to individuals and households (3.9%) according to data from the consolidated general government accounts of the Ministry of Finance.

in real terms, whilst last year in the comparable period it even dropped in real terms), whereas the growth in retail trade turnover remained at last year's level²³ (5.3%). Household spending abroad also rose²⁴: in the first half-year as against the same period last year resident households' spending abroad picked up in nominal terms by 3.1 percentage points more than the expenditures of foreigners in Slovenia (8.1%) according to data from the Bank of Slovenia.

*As the data available for the **third quarter** tell us, household spending grew at the same rate as in the first half of the year.* The real growth of the total wage bill continued to strengthen (in the third quarter it was 4.8% compared to the year before) as did the VAT collected from final consumers (in July and August together up by 9.4%; after March this indicator recorded the highest monthly year-on-year levels since September 2002). Growth in other remuneration was also still high in the third quarter (7.8%). The end of September saw a new rise in household loans (year-on-year by 14.4%, also see Chap. 8.2), in particular long-term loans (17.1%). The number of new car registrations was higher than in the same period last year (by 2.7%), however, a slow down in quarterly growth was also perceived.

*The spring forecast of growth in private consumption **this year** remains unchanged (3.5%).* The estimated real growth in disposable income is 0.1 of a percentage point lower (3.3%) than that forecast in spring (largely because of the average annual inflation forecast being corrected upwards and the lower real growth in the total gross wage bill, see Chap. 5 and 6.2), the 2003 benchmark, on the other hand, seems to be slightly lower according to the first SORS estimate of the annual figure. As a result of the slightly higher rise in the number of employees (0.3%) and the real gross wage per employee (2.2%, see Chap. 6.2) compared to last year, the total wage bill is expected to be up in real terms by 2.5% (last year by 2.0%). Currently, there is no data available indicating any massive borrowing that would result from the release of funds from the NHSS which will turn into consumption, which could potentially pose a threat to reaching the forecast growth of private consumption. Besides, the assumption that part of the savings coming from the NHSS will be turned directly into consumption in the second half of the year is already incorporated in the forecast.

*Also in **2005** the estimated private consumption remains well within the spring forecasts (3.4%).* The estimated real growth in disposable income stands at 3.3%. Given the expected rise in the number of employees (0.6%) and unchanged real growth in the gross wage compared to 2004, the real growth in total gross wage bill is set to be up by 2.8%. Households are expected to continue borrowing, and part of the savings collected within the NHSS is also expected to be turned into consumption, not only the savings from the first scheme released in 2004 but also those from the second one released in the second half of 2005. Thus, consumption is expected to

²³ Retail trade turnover in sales of motor vehicles and their maintenance, trade in motor fuels according to the SORS' monthly survey (TRG/M).

²⁴ Expenditures of residence households for final consumption = expenditures for the final consumption of households in the domestic market + direct purchases of residence households abroad - direct purchases of non-resident households in the domestic market. In comparable periods last year residents spent less abroad (0.5%) than non-residents spent in Slovenia (0.9%).

increase mostly due to the purchases of housing equipment or better durable and semi-durable goods. Moreover, a new personal income tax act is to enter into force in 2005²⁵, which will reduce the effective tax rate for lower income bracket taxpayers. Given such growth rates, the propensity to spend²⁶ is likely to increase slightly.

In 2006, private consumption is expected to go up in real terms by 3.1%. Given the estimated 3 % real growth in disposable income (3.1% real growth of the total wage bill), the propensity to spend is likely to remain at the 2005 level.

3.3. Gross investment

In the first half of this year, the growth of gross fixed capital formation continued. After having strengthened already last year (6.3%), growth accelerated to 7.3% in the first half of the year on a year-on-year basis. According to the IMAD's estimations, investment in equipment and machinery increased the most. According to the SORS' data, imports of investment goods increased by 19.6% (measured in SIT) in the first four months against the same period last year. Although data for the next few months are still not available²⁷, the IMAD estimates indicate that the growth of imports of investment goods has continued. High investment growth is closely related to a boost in exports. Gross investment in construction was, according to the IMAD's estimations, roughly at the same level in the first half of this year as in the same period last year²⁸. Of this, investment in residential buildings increased and investment in civil-engineering construction decreased. Investment in non-residential buildings remained at approximately the same level as last year, which was contrary to the IMAD's spring forecast, which anticipated strengthening. Given the 5.6% (nominal) growth in investment expenditures of the consolidated general government accounts (Ministry of Finance), the growth of investment in the first half of the year apparently rested on private investment.

Dynamic investment activity is expected to continue in the second half of the year: growth in investment in construction is to accelerate while the growth of investment in equipment and machinery is expected to decelerate. On the basis of issued building permits, further growth in investment in residential buildings is expected²⁹, as well as an improvement in non-residential building investment. Civil-engineering construction is expected to pick up slightly, also on account of the reduced investment in this area in the second half of last year and therefore a lower benchmark. Growth in investment in equipment and machinery is expected to slow down but remain positive in the second half of the year. Low interest rates and higher general

²⁵ Uradni list RS 54/2004.

²⁶ The ratio of private consumption to disposable income; in 2004 this ratio is 0.848, in 2005 it is estimated at 0.849.

²⁷ Slovenia's accession to the EU and the transition to the new system of foreign-trade statistics caused a certain delay in data collection (see Box: Exports-imports, p. 35).

²⁸ The value of construction works in large construction companies picked up in real terms by 0.1% compared to the first half of last year.

²⁹ The building permits that were granted last year foresaw the construction of 5,726 new apartments or apartment expansions on a total area of 678,760 m²; which was up 23.5% and 17.8% respectively from the year before and the most in the last five years, for which data are available.

government investment expenditures are expected to contribute positively to overall investment activity. **In 2004**, gross fixed capital formation is thus anticipated to rise in real terms by 7.4%.

In 2005 investment activity is expected to continue with a similar intensity (7.0 % real growth in gross fixed capital formation), but it will probably slow down slightly in 2006. Growth in investment in residential buildings is set to continue, investment in other buildings is to accelerate and investment in civil engineering is to stagnate. Growth in investment in equipment and machinery will remain high, which will also be affected by the changed taxation legislation considerably reducing the level of investment relief the year after (although the Corporate Income Tax Act enters into force on 1 January 2005, the new system of investment relief will not come into effect before 2006). Also for this reason 2006 will most likely see slightly lower real growth in fixed capital formation (5.5%) in both investment in construction as well as in equipment and machinery.

The contribution of inventories to economic growth is estimated to ease in the second half of the year. Last year a change in stock levels and valuables contributed 1.1 percentage points to growth. According to provisional data, this contribution further strengthened to 1.3 percentage points in the first half of the year. The IMAD estimates that part of the stock increase³⁰ is related to a change in the foreign-trade regime (e.g. imports of aluminium from Russia – see Chap. 3.1). In the first quarter of the year, stock levels increased largely in industry (by 17.5%, using indices of stock levels of industrial products); in the second quarter the rise was highest in wholesale trade (18.6%). Part of these inventories is expected to be released by the end of the year. At the same time, a considerable change is expected in inventories in construction (given the expected increase in residential construction³¹). The second half of the year is expected to see the negative contribution of inventories, and the year is expected to wind up with 0.3 of a percentage point contribution to GDP growth. In the next two years, the contribution of inventories to growth is foreseen to be down to 0.1 and 0.2 percentage points, respectively.

3.4. General government consumption

Real growth in general government consumption in 2004 is estimated at 2.7%, down 0.3 of a percentage point from our spring forecast. Whilst the spring forecast was based on the applicable 2004 national budget, the new estimate takes into account the reallocations of national budget expenditures decided on by the government in the course of the year, and an assessment of the realisation of national budget expenditures dictating the level of general government consumption by the end of the year. Given the adopted national budget, the state administration's expenditures on goods and services and transfers to non-profit organisations will be somewhat

³⁰ Only stock changes are relevant for GDP growth.

³¹ The category of inventories also comprises, among others, all unfinished apartments and business buildings constructed as investments of households. This means that the fixed capital formation category includes only the value of apartments and business buildings as households' investments which have been finished in the current year.

lower, but expenditure on wages, contributions and other allowances of staff employed in government and public institutions, and current transfers to public institutions, will increase. Also reassessed were local government expenditures, almost half of which belong to general government consumption. The latest general government consumption forecast also takes into account the new estimates of health insurance expenditures for 2004. According to the adopted financial plan of the Health Insurance Institute, these are – in the part belonging to general government consumption – slightly lower, in particular expenditure on goods and services of public health care institutions. The downward adjustment of the spring forecast of the real growth of general government consumption is also a consequence of the slightly higher forecast of the rise in prices this year (see Chap. 5). Growth in general government consumption is estimated to lag 1.3 percentage points behind growth in gross domestic product in 2004; in turn, its share in the estimated gross domestic product will shrink by 0.3 of a percentage point to 20% compared to the year before. Growth in general government consumption will contribute 0.5 of a percentage point to economic growth.

Growth in individual general government consumption will be slightly higher than growth in collective consumption in 2004 (see the table below). Growth in individual government consumption (for non-market services in the areas of education, health care, social care, culture, sports and for market products and services, such as medical and pharmaceutical products, concession rights for the private sector, services in health resorts) will improve as a result of the forecast rise in employment in the health care (2.5%) and education industries (1.7%), as well as due to expected pressures on intermediate consumption, in particular in health care (material costs in services, medical and pharmaceutical products). Growth in collective general government consumption (for administrative, defence, economic, research and development and other common non-market government services) is to a large extent a consequence of Slovenia's integration with international organisations: professionalisation of the army and establishing of the Schengen border. These are tasks which call for new employment despite plans for rationalising public sector employment and staffing plans calling for not only an unchanged but an even lower

Table 11: **General government consumption (individual and collective)**

	2000	2001	2002	2003	2004	2005	2006
					Forecast		
Annual real growth (in %)							
General government consumption - total	2.3	3.9	1.7	2.6	2.7	2.9	2.9
Individual consumption	1.3	3.1	2.6	2.4	2.8	3.0	2.9
Collective consumption	3.7	5.1	0.4	2.7	2.6	2.7	2.9
As a % of GDP							
General government consumption	19.8	20.5	20.2	20.3	20.0	19.8	19.7
Individual consumption	11.6	12.0	11.9	11.9	11.8	11.7	11.6
Collective consumption	8.2	8.5	8.3	8.4	8.2	8.1	8.1

Source: SORS, estimates and forecasts by the IMAD.

number of employees in public institutions. The expenditures on special materials and services for the needs of the army will also grow, in particular due to professionalisation of the army and obligations stemming from Slovenia's membership of NATO. Further, Slovenia's entry to the EU will also bring about a rise in material costs of the national administration (a rise in travel expenses for business trips).

In 2005, real growth in general government consumption will stand at 2.9% and will again lag behind economic growth (by 0.9 of a percentage point). In turn, its share in the forecast gross domestic product will also be down to 19.8%. The estimates of general government consumption for 2005, in the part relating to expenditure on wages, contributions and other allowances of staff employed in government and public institutions, take into account the implementation of the Public Sector Wage System Act, as well as other austerity measures in paying out remuneration and allowances to employees of the public sector. The number of employees in the public sector will continue to rise (by 2.1%), notably in health-care (2.2%) and education (1.8%). The number of employees in the public administration and defence is expected to fall (by 1%), except in the army and police where the number will continue to go up due to the gradual professionalisation of the army and protection of the external EU border. The real growth in intermediate consumption is expected to be modest (2.5%), exceeding GDP growth only in the health care (material costs in services, pharmaceuticals). A rise in expenditures for special materials and services for the needs of the Slovenian army is also expected. This forecast is based on the expenditures set out in the 2005 budget, projections of compulsory health insurance expenditure and projections of local government expenditure.

In 2006, real growth in general government consumption will reach 2.9%; it will lag behind the foreseen GDP growth by one percentage point, which will contribute to further reducing the share of government consumption in gross domestic product to 19.7%. In both 2005 and 2006 growth in general government consumption will contribute 0.6 of a percentage point to the growth of gross domestic product.

4. International economic relations

4.1. International competitiveness

According to the available figures, Slovenian manufacturing's price and cost competitiveness has improved in 2004, while its year-on-year decline has seen a significant easing. Similarly, Slovenia has increased its shares in the markets of its main trading partners.

*The improved **price competitiveness** recorded in the first eight months in the currency area of advanced OECD members was generated by the US dollar's strengthening against the euro and the slowdown in relative prices. The tolar registered a real-term fall against the basket of OECD currencies³² in August over December (down 1% when measured by relative consumer prices and 0.7% when measured by relative industrial producer prices), while its real year-on-year appreciation against the basket of OECD currencies slowed down considerably (to 1% and 1.3%, respectively on average in the first eight months). The tolar also edged down against the euro this year (by 0.3% or 0.6% in real terms in August over December, and by 0.5% or 0% in the first eight months over the same period last year). The tolar's nominal depreciation had been easing gradually before entry to the exchange rate mechanism ERM II³³, after which its nominal value stabilised just below the central parity level. The tolar's real appreciation against the US dollar has slowed down markedly in year-on-year terms (to 9.2% or 8.2%) owing to the drop in the tolar's real value against the US dollar seen this year (down 2.2% or 2.8%).*

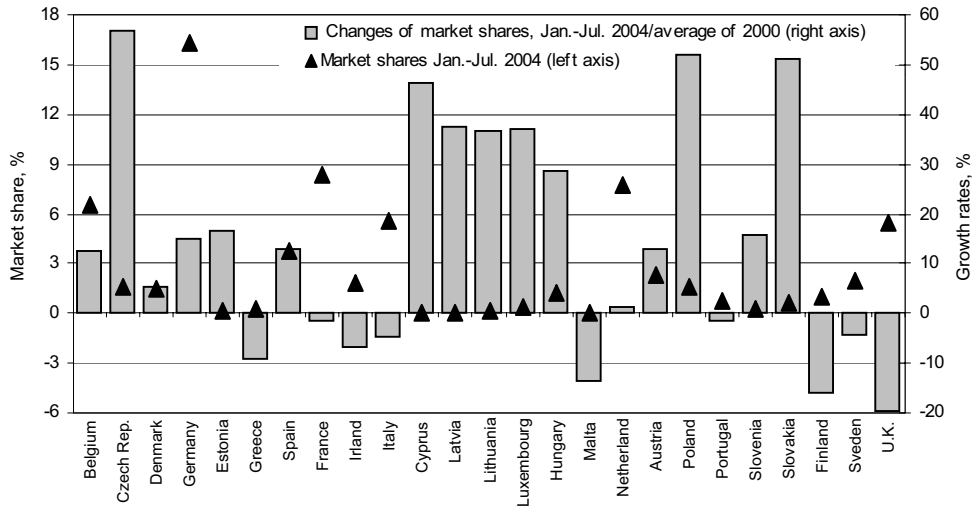
After its notable deterioration in 2003, Slovenia's price competitiveness improved in the first eight months of this year compared to Croatia and the averages of the Czech Republic, Slovakia, Hungary and Poland also at the year-on-year level. Influenced by stronger nominal depreciation and a fall in relative consumer prices, the tolar lost 3.8% in real terms against the Croatian kuna in August over December and 5.8% against the average of the Czech and Slovak korunas, the Hungarian forint and the Polish zloty. In the first eight months, the tolar fell 1.7% in real terms against the kuna and 1.2% against the other currencies in comparison with the same period last year.

*Slovenian manufacturing's **cost competitiveness** improved in the currency area of advanced OECD trading partners in the first seven months, chiefly on account of high labour productivity growth. Relative unit labour costs fell by 0.9% against the basket of OECD currencies in July over December, achieving the 0.8% level in the first seven months over the same period of 2003. Labour productivity growth (3% in July over December according to seasonally adjusted data and 6.4% in the first seven months year on year) was underpinned by stronger productivity growth (2.4% and 5.9%, respectively), while employment continued to decline slightly. The real compensation of employees rose relatively modestly in the first seven months (up 0.7% when deflated by consumer prices and 1.8% when deflated by the exchange*

³² Euro, US dollar, Swiss franc and pound sterling.

³³ On 28 June 2004.

Figure 3: Market shares in the EU 25 and their growth relative to 2000



Source: Eurostat (New Cronos).
Note: Calculated as market shares of goods exports in total EU25 imports.

rate). Its year-on-year rise, however, was high (up 4.1% and 7.1%), partly due to the 2003 dynamics (a fall in the first half and a rise in the second half of last year). This increase derived from a rise in real wages and other remuneration (the latter picked up after having declined for three years).

The trend of improving competitiveness measured by a rise in Slovenia's market share in its main international markets³⁴ continued in the second half of 2004 for the fourth year in a row. The increase in Slovenia's aggregate market share (from the 0.538% average of 2003 to the 0.551% average of the first half of 2004) was largely the result of the renewed growth of Slovenia's market share in the German and Croatian markets following the drop seen in these markets last year, and of continued growth in the Austrian and Russian markets. Slovenia's market share in its main EU trading partners outside the euro area (Poland, Hungary and the Czech Republic) shrank in the first six months of the year, following the strong growth seen in these markets in 2003.

In 2000-2004, Slovenia was ranked in the upper half of EU members in terms of its market share growth in the EU25 market. Slovenia's market share grew faster than the share of most euro-area countries while markedly lagging behind the growth of most other countries, especially the new EU members (see figure).

The average deterioration of price competitiveness will be somewhat less strong in 2004 than projected in the spring forecast, while cost competitiveness will edge down slightly more. According to the latest estimates, the tolar will appreciate by

³⁴ Germany, Austria, Italy, France, Belgium, the Netherlands, Spain, UK, the Czech Republic, Hungary, Poland, Slovakia, the USA, Croatia and Russia.

0.8% in real terms against the OECD basket of currencies (1.1% projected in spring). Assuming the tolar's basically unchanged nominal depreciation against the euro (2.2% over 2.1% projected in spring) and the euro/dollar exchange rate³⁵ (1.22 dollars for 1 euro over 1.23), relative consumer prices will record slightly lower growth (1.7% instead of 1.9%). Slovenian manufacturing's cost competitiveness will go down by 0.6% (the spring forecast was 0.3%). Labour productivity growth spurred on by faster production growth is expected to be much stronger than projected in spring (5.9% instead of 4.1%); it will, however, also be accompanied by a higher rise in the real compensation of employees (3.6% instead of 2.4%) on account of the bigger increase in wages and other remuneration. Despite the relatively lower rise in the real compensation of employees compared to labour productivity, relative unit labour costs against the basket of OECD currencies will be slightly higher, since recent estimates project that unit labour costs will edge down 0.2% in Slovenia's trading partners (a 0.5% rise was expected in spring). As forecast in spring, Slovenian manufacturing's cost competitiveness is not expected to deteriorate against competitors from the euro currency area (according to the latest estimates, it should improve by 0.7%).

In 2005, the price and cost competitiveness of Slovenian manufacturing are projected to continue deteriorating. The tolar's real appreciation against the basket of OECD currencies will reach 1% assuming a stable tolar/euro exchange rate and a further slowdown in the growth of relative consumer prices (to 1.4%). Relative unit labour costs measured against the basket of OECD currencies will rise by 1.3% due to the somewhat stronger slackening of labour productivity growth (4.3%) despite a modest real rise in the compensation of employees (2.6%). The lagging of the exchange rate growth behind the domestic inflation (the expected gap is 2.7 percentage points) and the decrease in trading partners' unit labour costs (projected at 0.3%) will remain close to the 2004 level.

4.2. Balance of payments

In the context of a slightly higher trade deficit and a larger surplus in services, the current account ran the same deficit as last year in the first half of 2004. This year, the deficit amounted to EUR 93.9 million and was thus essentially the same as in the same period of 2003 (EUR 91.6 million) but the structure of the current transactions was different. Due to stronger import than export flows, the **trade balance** deficit widened year on year (from EUR 284.9 million to EUR 383.4 million). Although trade with non-EU members recorded a surplus, the latter was lower than the trade deficit with the EU25 (also see Ch. 3.1). At the same time, the **services balance** registered a bigger surplus (from EUR 308.9 million to EUR 335 million), largely thanks to the higher net exports of transport and travel services. The narrowing of the deficit seen in **factor incomes** (from EUR 143.1 million to EUR 78.8 million) was caused by lower estimated reinvested earnings and by lower interest payments on debt securities, while the **balance of current transfers** rose year on year (from EUR 27.5 million to EUR 33.3 million) chiefly due to the bigger

³⁵ Based on the technical assumption that the US dollar will hover against the euro around the 1.22 rate from September onwards.

net inflows from the EU budget. Thanks to **July's** surpluses recorded in all sub-balances, the current account ran a surplus for two months in a row which reduced the cumulative deficit slightly more (to EUR 51.9 million).

***International financial transactions** (excluding international monetary reserves) recorded a net capital outflow in the first six months of the year (of EUR 205.1 million; while the first half of 2003 saw a net inflow of EUR 163.3 million).* Both the inflow and outflow of **foreign direct investment** fell moderately compared to the first six months of 2003 (to EUR 119.5 million and EUR 206.4 million, respectively). According to the Bank of Slovenia, the outward investment structure is changing: investment in the countries of former Yugoslavia is in decline, while its share in the EU25 is increasing. Among capital flows, **investment** in foreign **securities** saw the strongest growth (up EUR 226.3 million): households and enterprises invested in foreign shares and bonds, domestic insurance companies invested in foreign bonds. Although the investments of non-residents in domestic banks' bonds rose, the overall non-residents' investments in Slovenian securities shrank by EUR 155.5 million in the first half of 2004 as a result of the government sector having paid out its RS eurobonds in the amount of SIT 204.5 million in June. In **other types of investment**, the largest increase in claims was recorded in commercial banks' loans to foreign enterprises, especially in the area of former Yugoslavia. Household foreign currency and deposit outflows rose even more than the year before, partly due to the uncertainty preceding entry to the ERM II. As a result of increased merchandise trade volumes, short-term commercial credits strengthened (up EUR 273.9 million). According to the Bank of Slovenia, external claims from short-term credits amounted to EUR 3,134.2 million, half of which were to EU countries and a third to the countries of former Yugoslavia. Similarly, the rise in liabilities from short-term commercial credits was higher than in the same period last year (EUR 172.8 million), totalling EUR 2,333.7 million at the end of June of which the bulk was to EU countries. On the liabilities side, an increase was also seen in domestic commercial banks' short-term borrowing abroad, while liabilities from corporate borrowing abroad fell due to the extensive borrowing of enterprises in the domestic market triggered by the relatively uniform domestic and foreign interest rates on foreign exchange loans (see Ch. 8.2).

The **flows** seen in the **balance of payments** this year (current account deficit and net capital outflow) have been lowering the total net foreign assets of the Bank of Slovenia and commercial banks. As a result, the monetary aggregate M3 has recorded weak growth this year despite the robust lending activity (see Ch. 8.1).

In 2004, the current account is expected to run a slightly higher deficit than forecast in spring. The trade deficit will be slightly higher than last year and also compared to our spring projection (EUR 713 million; spring forecast EUR 649 million). Since real export and import flows have strengthened almost proportionally compared to the spring forecast (import flows rose faster than export flows), the expansion of the deficit is mainly the result of foreign trade prices. The terms of trade will deteriorate in the second half of 2004 due to high oil prices. At the annual level, however, considering their improvement seen in the first half of the year, they should stay in line with the spring forecast (a slight improvement; index 100.3). The surplus in services, on the other hand, should be higher than projected (EUR 652 million,

spring forecast EUR 548 million), with the trade in transport and travel services achieving a higher surplus as other services run a lower deficit. No deviations are expected in factor incomes while the current transfers balance will be lower than anticipated in spring (EUR 117 million). Assuming the above changes, the **current account** of the balance of payments will record a deficit of EUR 60 million which is slightly above the spring forecast (EUR 39 million) but still at the same level when expressed as a share of GDP (0.2%).

There are practically no changes in the current account forecast for 2005 compared to spring. The deficit in goods and services trade will widen in 2005 (to EUR 153 million) as a result of imports still rising slightly faster than exports (see Ch. 3.1), while the terms of trade should be the same as forecast in spring (a slight improvement compared to 2004). Estimates of factor incomes and current transfers remain unchanged. Factor incomes should record higher external debt interest outflows and greater reinvested earnings of foreign investors compared to 2004 while estimates of current transfers take into account the anticipated net inflows from the EU budget (see Ch. 7). **The current account** is thus expected to record a deficit of EUR 100 million or 0.4% of GDP. In **2006**, no significant changes are anticipated in the balance of payments: with the nearly balanced growth of exports and imports, the deficit in goods trade will grow slightly, as will the surplus in services trade. The current account will record a deficit of EUR 125 million or 0.4% of GDP.

4.3. External debt and foreign exchange reserves

Slovenia's gross external debt increased in the first seven months mainly due to commercial banks' increased borrowing abroad. Enterprises borrowed less, while the government sector continued to reduce its indebtedness.

Slovenia's gross external debt increased by EUR 995 million to EUR 14,299 million in the first seven months. This rise was largely the result of commercial banks' borrowing abroad to meet the growing domestic demand for foreign exchange loans, while corporate borrowing was in decline for the second consecutive year. Foreign currency borrowing by enterprises in the domestic market strengthened thanks to the relatively uniform domestic and foreign interest rates (see Ch. 8.2). The government sector continued to reduce its indebtedness, having repaid more foreign loans than it took out (see Ch. 7.2.1). The repayment of matured eurobonds of the Republic of Slovenia issued in 1997, totalling EUR 204.5 million, represented the bulk of government loan repayments.

Compared to end-2003, the structure of external debt recorded a higher share of commercial banks (up 3.1 percentage points to 28.8%) and a lower share of the government sector (down from 18.9% to 16.4%) and other sectors including enterprises (47.1% to 46.6%). The share of affiliated enterprises also shrank marginally (8.4% to 8.1%).

International monetary reserves dropped by EUR 448.7 million in the first seven months of the year on account of the deficit generated in both the current account and in financial transactions (see Ch. 4.2). At the end of July, international reserves

Table 12: Dynamic debt indicators, position at the end of each period (in EUR million)

	1999	2000	2001	2002	2003	31 July 2004
A. Short-term debt by remaining maturity ¹	3,374	4,382	4,569	4,448	4,555	5,291
B. International monetary reserves	3,159	3,436	4,984	6,781	6,879	6,466
C. Foreign exchange	4,104	4,705	6,513	7,842	7,703	7,264
D. Gross external assets in debt instruments ²	7,697	8,700	10,825	12,580	12,848	13,368
E. Gross external liabilities in debt instruments (gross external debt) ³	8,012	9,490	10,403	11,455	13,305	14,299
Debt indicators						
- international reserves to short-term debt (B/A)	0.94	0.78	1.09	1.52	1.51	1.22
- foreign exchange to short-term debt (C/A)	1.22	1.07	1.43	1.76	1.69	1.37
- gross external assets in debt instruments/gross external debt (D/E)	0.96	0.92	1.04	1.10	0.97	0.93

Source: Bank of Slovenia.

Notes: ¹ short-term debt includes short-term debt and part of long-term debt falling due within one year. ² gross external assets in debt instruments include all claims from Slovenia's balance of assets, except equity. ³ gross external liabilities in debt instruments include all debt liabilities from Slovenia's balance of assets (gross external debt).

amounted to EUR 6,466.1 million, while commercial banks' foreign exchange reserves totalled EUR 992 million. International monetary reserves were sufficient to cover 5.1 months' worth of average imports of goods and services at the end of July (5.9 months' worth at the end of 2003).

Dynamic indicators of external indebtedness have been falling for the second consecutive year. International monetary reserves and total foreign exchange reserves still suffice to cover short-term debt by remaining maturity, which is important with regard to the economy's liquidity and solvency. However, gross external claims no longer cover gross external liabilities (gross external debt). **Net external debt** (net external liabilities) thus climbed to EUR 931 million from end-2003 till end-July 2004, reducing the ratio of external assets to gross external debt to 0.93 (see table).

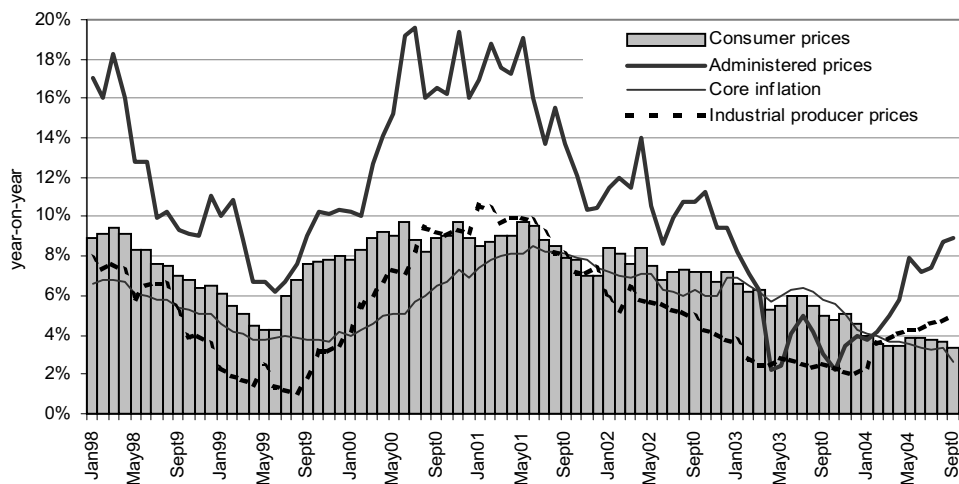
5. Price trends and policy

Following the gradual easing of consumer price rises seen in 2003, inflation continues to slow down **this year**. It again decreased most rapidly in the first quarter (down 1.1 percentage points). After rising in the second quarter it began falling again to reach 3.3% at the end of September year on year, which was 1.3 percentage points less than in December 2003. Among the price groups contributing to this year's inflation, the contribution of food and non-alcoholic beverages dropped most significantly (down 1.2 percentage points year on year) due to the abolition of customs duties, and due to other changes in business operations linked to entry to the EU. On the other hand, prices have been rising faster than a year ago in housing and transport primarily as a result of increasing liquid fuel prices.

The easing of inflation has been underpinned by the combined application of several macroeconomic policy measures, even though the soaring oil prices have prevented inflation from decreasing even faster. Core inflation has been on a gradual decline this year and totalled 2.6% at the end of September or 1.6 percentage points less than in December 2003. The gap between the rises in core inflation and consumer prices was mainly generated by the high oil prices which ballooned by 57% in the nine months to September (in USD), and the consequently higher prices of liquid fuels for transport and heating that contributed 1.0 percentage point to inflation and accounted for close to one-third of the total price rises in the first nine months of 2004.

The Bank of Slovenia continued to gradually slow down the tolar's depreciation until entry to the ERM II upon which it stabilised the tolar exchange rate. The year-on-year growth of the exchange rate totalled 2.3% in June (3.3% in June 2003) and contributed 1.0 percentage point less to inflation than in the same period last year

Figure 4: Dynamics of consumer prices inflation, core inflation and industrial producer prices



Source: SORS, calculations and estimates by IMAD.

due to the almost complete pass-through of the exchange rate to prices. The end-of-June stabilisation of the tolar will help to further reduce inflation, and the year-on-year growth of the exchange rate is expected to fall to 1.3% by the end of the year.

At the same time, the government maintained its main macroeconomic policy orientations in administered prices, fiscal and wage policies. In line with the Administered Prices Rise Plan for 2004 and 2005 adopted last year, the total growth of administered prices in the two-year period should not exceed the growth of market-determined prices. In the first nine months of this year, administered prices rose by 8.2% and contributed 1.3 percentage points to inflation, of which 1.0 percentage point came from higher liquid fuel prices, while other administered prices were roughly within the planned movements. As oil prices kept rising, the government continued its counter-cyclical adjustment of excise duties on liquid fuels for transport and heating already applied in 2003 to buffer oil price volatility and its second-round effects on prices. With these adjustments, inflation was 0.3 of a percentage point lower than it would have been otherwise. The government also continued to harmonise excise duties on tobacco and tobacco products which added 0.2 of a percentage point to inflation. Excise duties adjustments on the whole thus reduced inflation by 0.1 of a percentage point. Through incomes policy based on an agreement between the social partners, the government succeeded to prevent wages from growing faster than productivity and thus from putting pressure on price rises through higher demand.

In contrast to consumer prices, the growth of industrial producer prices accelerated by 2.9 percentage points in the first nine months, reaching 5.0% at the end of September. Following last year's relatively faster slowdown of industrial producer prices compared to consumer prices, their growth this year has mainly been generated by higher prices of fuels and other commodities passing through to domestic prices from abroad both directly and indirectly. Among individual groups of products, the highest rise in prices was seen in intermediate goods (up 7.0%), while investment goods prices registered the highest growth rate seen in the first nine months (up 4.8 percentage points to 3.7%).

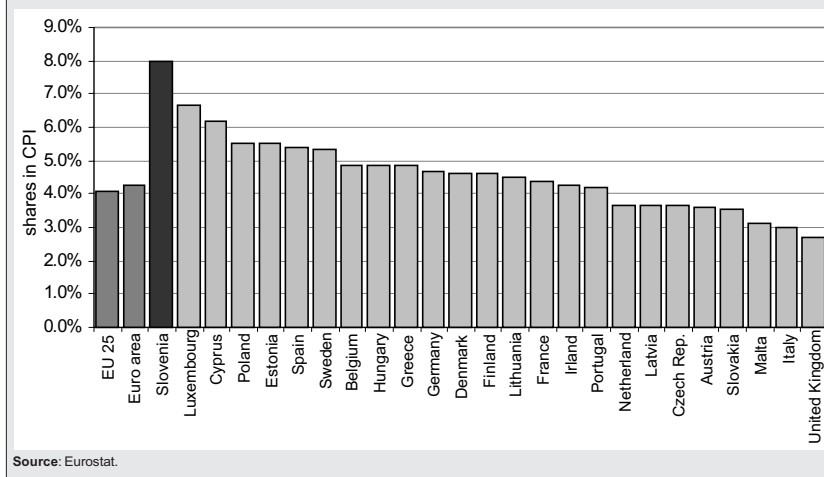
Box 3: **Impact of oil price changes on inflation**

The changes of oil prices have a direct and an indirect impact on consumer prices. Their direct impact is reflected in higher prices of fuels for transport and heating, while they indirectly induce higher costs of those enterprises using liquid fuels as input commodities. Within the consumer price index, transport and heating prices are most strongly affected by indirect impacts which add to the downward rigidity of prices.

Oil prices have a varying impact on inflation across countries. The structures of consumer price indexes, used as the most common inflation indicators, differ from country to country due to the disparate structures of their economies and consumptions. Hence the varying direct impact of oil prices, which are exogenous for most countries. We see in the figure below that the share of liquid fuels for transport and heating in the HICP ranges between 2.7% and 8.0% in EU countries.

Since Slovenia's share is the highest, direct contribution of oil prices to inflation is correspondingly larger compared to other EU countries. Oil and consequently liquid fuel prices thus contributed 1.0 percentage point to Slovenia's inflation in the first nine months of this year. Their contribution would have been even higher (by 0.4 of a percentage point) had the government not reduced excise duties on liquid fuels for transport and heating. However, this is only a short-term effect since in the long run oil prices will affect inflation similarly as in other EU countries due to a higher opposite-direction contribution.

Figure 5: Shares of liquid fuels for transport and heating in HICPs of EU member states



5.1. Inflation forecast

No further easing of prices is expected in the last quarter of *this year*. Their growth is estimated to be 3.5% at the end of the year. Due to the changed structure of factors that affected price dynamics in the first nine months of the year, and since the relatively substantial seasonal price falls seen in the last two months are expected to have a stronger seasonal impact on price rises in the last quarter, we project that inflation at the end of the year will slightly exceed both the present level and the

Table 13: Autumn inflation forecasts and a comparison with the spring forecasts for 2004 and 2005

	2004		2005		2006
	Spring forecast	Autumn forecast	Spring forecast	Autumn forecast	Autumn forecast
Inflation rate (annual average, %)	3.3	3.6	3.0	3.0	2.7
Inflation rate (Dec/Dec, %)	3.3	3.5	2.9	2.9	2.7

Source: IMAD.

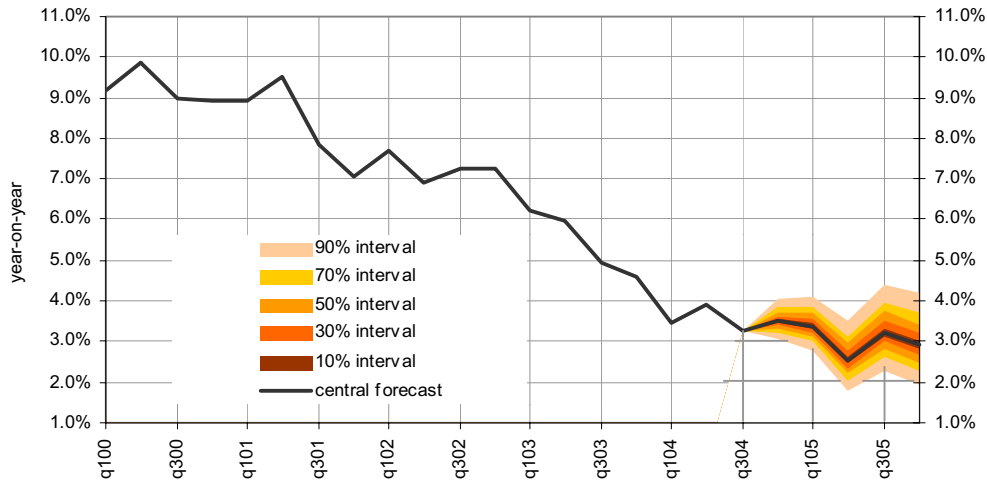
level forecast in the Spring Report and total 3.5% year on year. However, no changes are expected in the key orientations of monetary (exchange rate), administered prices and tax policies.

In 2005, inflation should gradually decline further, falling to below 3%. In the absence of any major shocks from the international environment, implementation of the adopted economic policy measures is expected to help further reduce inflation. The monetary policy orientations will continue to play the key role in this process. It is assumed that the Bank of Slovenia will continue to keep the tolar exchange rate stable. Although 15% fluctuations of the exchange rate around the central parity are allowed, we expect the Bank of Slovenia to keep the fluctuations broadly within the much narrower band already achieved in the first few months after the entry to the ERM II until the end of this year and in 2005. With regard to the administered prices policy, we assume that the government will further pursue the orientations set out in the Administered Prices Rise Plan for 2004 and 2005. According to this plan, the growth of prices under various regimes of regulation should not exceed the growth of market-determined prices, thereby contributing no more than 0.4 of a percentage point to inflation. As in the past two years, co-ordination between the government and independent regulators involved in price determining in telecommunications, post and broadcasting, and electricity distribution should be instrumental in keeping the growth of these and other prices in line. The plan also includes tax rises which should not exceed the anticipated growth of the euro exchange rate in 2005. In addition, the government will continue to harmonise excise duties on tobacco products with the rates that apply in other EU countries. Apart from that, the forecast assumes that the government will continue to adjust excise duties on liquid fuels counter-cyclically to buffer the high volatility of oil price changes and their second-round effects. Thus, the overall contribution of tax and excise duty rates adjustments should not exceed 0.3 of a percentage point in 2005. According to the adopted Social Agreement, we do not expect any pressure on price rises from personal income rises. Provided that macroeconomic policies are implemented consistently and price rises are not affected by any unexpected external factors, the year-on-year price growth is expected to reach 2.9% in 2005, with the average inflation level coming in at 3.0%.

In 2006 we expect the lowering of inflation to continue. The implementation of macroeconomic policies that were presented upon Slovenia's entry to the ERM II will enable inflation to fall to 2.7% in 2006, meaning that it will not exceed the average of the three lowest-inflation member states by more than 1.5 percentage points.

As long as the mentioned measures are carried out consistently in the coming years, structural imbalances would be the main reason for inflation persisting at a level above the EU average. In our estimate, inflation in Slovenia will remain 1.0 to 1.5 percentage points above the EU average in the next two years as a result of these imbalances creating constant upward pressure on prices especially in the non-tradable sector, and also due to the faster productivity growth in the Slovenian economy compared to its main trading partners (the Balassa-Samuelson effect). Hence, to achieve a sustainable reduction of inflation it will be necessary to conclude structural reforms particularly in those sectors where prices are regulated by the government, and in the area of financial and labour markets.

Figure 6: Expected discrepancies from the central inflation forecast



Source of data: SORS, IMAD's forecast.

The risks of inflation diverging from the central forecast in 2005 are still evenly distributed. The greatest risk for a disparity emerging between the actual inflation level and the forecast, assuming that the described economic policy measures are strictly applied, lies in the altered assumptions for the international environment, especially with regard to oil prices. The potential upward divergence of inflation could also result from a greater response of consumption to cuts in interest rates than was expected during preparation of the central forecast (see Box and Ch. 9).

6. Labour market

6.1. Employment and unemployment

The labour force survey data indicate a considerable improvement in trends in the labour market in the first half of 2004. On the other hand, the national accounts methodology reveals the opposite picture. According to the labour force survey, the number of people in employment increased by as much as 4.9% in the first half of the year compared to the same period in 2003, and by 3.4% in comparison with the second half of 2003. With the modest year-on-year rise in the number of people in formal employment seen in the first six months of this year (employees and the self-employed as indicated by the SORS' monthly statistics; up by 0.1 over the first half of 2003 and by 0.3 over the second half of 2003), the increase was largely fuelled by the hefty rises (38.3% and 22.1%, respectively) in the number of people in informal employment (i.e. unpaid family workers, people working under contracts or in the grey economy)³⁶. This trend was corroborated by the rapid growth of other remuneration according to data provided by Slovenia's Agency for Public Legal Records and Related Services (AJPES). After falling in 2002, the category of the informally employed began to go up in the second half of 2003, when it rose by 13.3% over the first half. What is more, this year's push was much bigger than anticipated in spring. It has therefore been concluded that the rise in informal employment as revealed by the difference in employment according to the labour force survey and the monthly statistics of formal employment, was relatively unlikely to have been included in the first quarterly estimates of employment according to the national accounts methodology, as the number of people in employment according to this methodology was lower in the first half of 2004 than in the first half of 2003 (by 0.3%, and by 0.6% over the second half of 2003). These data show that labour productivity growth stood at 4.5% in the first half of 2004, which is more than the IMAD anticipated in spring³⁷.

Employment continued to rise in the first half of 2004 in some public and business services as well as in the construction industry, whereas manufacturing and transport witnessed a falling trend. The number of self-employed farmers began to rise again, but nevertheless remained below the average of the same period in 2003. Compared to December 2003, in the period up until June the greatest rises in employment were recorded in agriculture (+2,901), public administration (+1,233), health care and social security (+1,195) and in the construction industry (+1,058), with four sectors experiencing a fall in employment: transport (-929), mining (-313), retail and wholesale trade (-166) and manufacturing (-155). Manufacturing witnessed falls in employment in several sectors, namely the textile industry (-920), basic metals (-876), food-processing industry (-237) and wood-processing industry (-174); meanwhile, some of its sectors recorded a rise in employment, including the manufacturing of machinery and equipment (+946), rubber and plastic products (+396), transport equipment (+355), chemicals and chemical products (+268) and

³⁶ Estimated as the difference between employment according to the survey and formal employment.

³⁷ If the number of people in employment will be corrected in the quarterly national accounts in line with the trends revealed by other statistical sources, the labour productivity rate would prove to be lower than calculated now.

Table 14: Annual growth rates per employment category

	2002	2003	Jan-June 04/ Jan-June 03	2004	2005	2006
				Forecast		
Persons in employment according to labour force survey	-0.7	-1.4	4.9	4.1	0.3	0.4
Employment according to national accounts methodology	-0.4	-0.3	-0.3	0.4	0.3	0.4
Formal employment (SORS monthly statistics)	0.6	-0.8	0.1	0.3	0.3	0.4
Employees	0.4	0.2	0.3	0.3	0.6	0.7
- in enterprises and organisations	0.7	0.3	0.4	0.6	0.8	0.9
- activities A:K	0.3	-0.3	0.3	0.1	0.3	0.4
- activities L:O	1.8	2.0	2.4	2.2	2.1	2.1
- working for the self-employed	-2.3	-0.9	-0.9	-3.3	-2.0	-1.5
Formal self-employment	1.7	-8.8	-1.6	1.0	-1.6	-1.4
- small business sector	-1.0	-2.0	-1.5	-1.1	-0.4	-0.4
- own-account workers	4.0	3.4	2.1	1.5	1.8	2.2
- farmers	4.9	-19.5	-2.6	4.1	-4.1	-3.8
Persons in informal employment (estimate)	-7.6	-5.3	38.3	28.6	0.0	0.4

Source of data: SORS; IMAD's calculations.

electrical and optical equipment (+100). Employment stagnated in all the other sub-sectors of manufacturing.

The current trends and the anticipated continuation of a favourable economic outlook have led the IMAD to forecast that employment will grow in 2004 and in the next two years. The forecast of employment growth for 2004 according to the national accounts methodology made in spring remains unchanged at 0.4% but, given the current productivity growth rate, it is expected to fall to 0.3% in 2005 (forecast at 0.6% in the Spring Report). A similar growth rate of 0.4% is anticipated for 2006 (0.4%). On the whole, employment growth is expected to remain low and increase only slowly in the long run, which will enable the catching up with the EU's productivity rates.

*Unemployment has been falling again in 2004 after being deadlocked in 2003. Moreover, its structure has been changing due to the deletions from unemployment registers and the targeted measures of active employment policy. The **number of registered unemployed** decreased by 6,837 or 7.7% until the end of June over December 2003 and by 3.3% over the same period last year. It stagnated in the third quarter, in July as a result of major terminations of a fixed-term employment contract, and in September due to the usual seasonal inflow from schools, which was however cushioned by a major outflow of people into employment. The **registered unemployment rate** fell to 10.2% in June (from 11.0% at the end of 2003 and 11.3% in January 2004), but went up again to 10.3% in July and August, with women being the most affected. The **survey unemployment rate** also shrank to 6.1% in the period until the second quarter, being lower than was expected in line*

with seasonal factors, chiefly as a result of the rise in informal employment (see above). The average number of the survey unemployed in the first half of 2004 was by 0.8% lower than in the same period last year. The share of women is also bigger than that of men among the survey unemployed.

With the number of workers losing their job falling, and the number of the unemployed finding a job climbing, the trends of registered unemployment are more favourable this year than they were over the past few years. While the number of people losing a job in the first half of 2004 was only 0.4% above the same period last year, it was 1.1% below the same period in 2003 in the period until September. A job was moreover found by 9.4% more people by the end of September than in the same period last year, of which 14% were subsidised jobs as part of active employment policy measures. These were 36.7% higher in the January-to-September period year on year. The inflow of first-time job-seekers is also higher than last year (by 7.0% in the first half of the year and 5.7% in the first nine months), and so are the deletions from unemployment registers for reasons unrelated to unemployment (0.4% and 2.1%). The **structure of registered unemployment** is changing as well. The share of older, long-term unemployed people fell due to the measures of active employment policy targeted at people with low employment prospects and partly because of the further accelerated deletions from employment registers. The strengthened enrolment of the unemployed in schools (Programme 10,000), moreover, has encouraged a fall in the number of the unemployed without a secondary school education. While these shares are falling, although they are still above 40%, the share of young unemployed people with a secondary, higher or university education is increasing. The share of women among the unemployed remained almost the same in the first half of 2004 compared to the same period last year, but rose to above 54% in the third quarter.

Unemployment is falling in all statistical regions this year, and the differences in unemployment among regions are narrowing. Goriška continues to have the lowest registered unemployment rate (6.9% on average in the first six months), whereas Pomurska has the highest (17.1%). Zasavska, Podravska, Spodnje-posavska, Savinjska and Koroška have unemployment rates that are above average. The inter-regional differences, however, are narrowing primarily because unemployment in the regions with the above-average rates is falling faster than elsewhere, which is probably largely due to the goal-oriented measures of the active employment policy. On the other hand, all regions witnessed the growing share of the unemployed with a higher or university education in the first six months; the highest share was found in those regions with a relatively high educational structure (Osrednjeslovenska, Obalno-kraška and Goriška), representing more than 10% of all registered unemployed.

The number of unemployed and unemployment rates will be somewhat lower in 2004 and 2005 than anticipated in spring. In view of the current deletions from unemployment registers and recruitment of the unemployed (which was higher than forecast in the spring) and the expected usual seasonal trends in autumn, the annual number of registered unemployed is expected to stand at around 93,000 in 2004 (5% less than in 2003), with the average annual registered unemployment rate coming in at 10.6% (11% in the Spring Report). The survey unemployment rate will be

6.4% (6.6% in the Spring Report). As a result of a slightly lower unemployment rate in 2004 than anticipated in the Spring Report, the projected unemployment rates for 2005 were also revised downwards: registered unemployment to 10.1% and survey unemployment to 6.1%. Moreover, a falling trend is also expected in 2006, with registered unemployment anticipated to drop to 9.6% and survey unemployment to 5.9%. However, a further rise in employment and the implementation of the measures of the active employment policy remain a prerequisite for such a trend.

6.2. Wages policy

Wages policy has recently been successful as it has guaranteed a modest growth of the real wage in the private and public sectors; consequently, it did not fuel inflation, and at the same time it facilitated the improvement of competitive position of the Slovenian economy and restrained labour costs in the public sector. Moreover, the long-term goal of the real gross wage per employee lagging behind labour productivity growth by one percentage point, as set down in the Social Agreement for 2003-2005, is being implemented. The goal was set in order to accelerate investment in development with a higher growth rate than is allowed by the very labour productivity growth so as to create new jobs and increase social security.

The real gross wage per employee will rise by around 2.2% **in 2004**, at the same time lagging behind the anticipated 3.6% labour productivity growth by more than one percentage point. The real gross wage will go up somewhat faster in the private sector and in the public sector somewhat slower than forecast in spring.

*The gross wage per employee in the **private sector** is anticipated to increase in 2004 by around 3.2%, which is 0.7 of a percentage point more than anticipated in the Spring Report.* The reason involves the improved economic outlook, which enabled this sector to have greater wage growth. Besides, gross wages were adjusted to inflation by 3.2% in August at that higher level, as set out in the 'The Wage Policy Agreement for the Private Sector 2004-2005', meaning that the adjustment will affect wage growth in this sector more than was anticipated in the Spring Report.

Under the Agreement every gross wage per employee must increase by a minimum amount of SIT 5,000 in the form of a wage supplement which is an integral part of the salary. The sum varies in line with the average gross wage in individual sectors; for instance, it is SIT 5,500 in the textile industry and SIT 13,220 in the chemical industry-3. However, the parties to the sectoral collective agreements can opt for a different way of adjusting wages. For instance, in the collective agreement of the pulp, paper and paper-processing industry, the social partners have agreed to increase the base wage for regular work by the adjustment percentage corresponding to the amount of at least SIT 6,647. In addition to the adjustment amount, wages can increase due to a rise in labour productivity. However, the basic guideline of the real gross wage growth lagging behind labour productivity growth by at least one percentage point should be taken into account. Although a third of collective agreements were signed in the August-to-October period, the adjustment amount will be accounted for in wage calculations from August onwards. Given that the

wage supplement will in many cases be paid out later than August, wages in the private sector did not increase by 3.2% in the private sector but merely by 1.9%. What is more, badly-performing companies have the option of reaching an agreement with their employees to pay them the wage supplement in two instalments.

*The real gross wages per employee in the **public sector** in 2004 will be by around 0.4% below the level achieved last year.* The gross wages in real terms will fall in all sectors. The only exception will be education, where wages increased by around 3% in July as was set down in the Annex to the collective agreement for education. As a result, gross wages in this segment of the public sector will increase by around 1% in real terms.

The new forecast of wage growth in the public sector for 2004 differs from the spring forecast. The 0.5% real growth anticipated in the Spring Report was calculated on the basis of the slowly rising prices of consumer goods and took into account the full adjustment percentage of the base wage (3.1%) as set down in the 'Agreement on the Adjustment Mechanism for the Base Wage and Holiday Allowance for 2004 and 2005'. In setting the adjustment percentage, 52% of the anticipated 4.3% rise in the prices of consumer goods (alcohol and tobacco excluded) in Slovenia was taken into account, in addition to 38% of the anticipated 1.9% rise in consumer goods prices in the EU and 10% of the anticipated 1.7% rise in the euro exchange rate. (The Agreement was signed in July 2003 when the estimate for inflation in 2005 was higher and entry to the ERM II was foreseen for the middle of 2005.) Half of the adjustment percentage would go for all base wages in the public sector, with the rest to be used for eliminating wage differences in the sector. Given that the new wage system failed to be introduced in the public sector in July, the social partners agreed on the Act amending the Public Sector Wage System Act, which will be used until the new system is implemented. This act sets out the adjustment percentage at 2.5% of the collectively agreed basic wage in the public sector for July 2004. While this percentage is lower than agreed upon in the Agreement, it applies to the wages of all public sector employees. On the other hand, the difference as against 3.1% should be used eliminate wage imbalances resulting from the new act. The Agreement also envisages that if a difference emerges at the end of the year between the anticipated and the actual adjustment percentage, the difference would be accounted for in the base wage for January 2005. The Act amending the Public Sector Wage System Act lays down the adjustment mechanism only for July 2004, which means that the social partners will need to agree on adjustment for January 2005. The available data and estimates indicate that the actual adjustment percentage will be below 3.1%, namely around 2.8%. If the social partners reach a relevant agreement, that part of the adjustment percentage intended for eliminating wage imbalances could be lowered by this very difference.

Wages policies in 2005 will keep pursuing the objective met in the Social Agreement whereby the real gross wage rises should lag behind labour productivity growth. The real gross wage per employee will rise by 2.2%, thus lagging behind the anticipated 3.5% labour productivity growth. The **private sector** will witness an around 2.5% real gross wage growth; three facts have been taken into account here: a 2.7% August wage adjustment as set down in the 'Wage Policy Agreement for the Private Sector 2004-2005', somewhat slower economic activity and four working

days less in 2005 than in 2004. The gross wage per employee in the **public sector** will rise by around 1.2%. The Act Amending the Public Sector Wage System Act stipulates that wages will begin to be paid under this act three months after all the necessary documents are adopted, yet no timetable was set for adoption of the documents. The wage growth in the public sector is forecast on the presumptions that negotiations on a new wages system will be finished in the first half of 2005 and that wages will be paid out under the new system as from July 2005. A 3.0% adjustment of the base wage as stipulated in the 'Agreement on the Adjustment Mechanism for Base Wages and Holiday Allowance for 2004 and 2005' is also taken into account. The Agreement also says that at the end of October 2004 the social partners would review the anticipated growth of different elements on which the adjustment percentage of the base wage in the public sector in 2005 depends³⁸. Further, an around 3% July wage increase in education, as stipulated by the Annex to the collective agreement for education, is also taken into account. The Annex also sets out an annual July wage increase for 2006.

*The real gross wage per employee in 2006 will increase by 2.4%, lagging behind the 3.3% growth in labour productivity by around one percentage point. A better economic environment will speed up the gross wage growth in the **private sector**. The wages policy agreed on for the private sector is in force till the end of 2005, and a new agreement will be needed for 2006. Nevertheless, the basic idea of the existing wages policy is unlikely to change radically. The real gross wage is thus expected to increase by around 2.6%. The social partners in the **public sector** will also have to reach a new agreement on wages policy for 2006. The gross wage per employee is anticipated to rise by around 1.7%, chiefly because the expected public finance would not allow any major wage increase in the public sector since the wage bill and other income-related remuneration represent around 25% of all general government expenditure.*

Box 4: Minimum wage and collectively agreed basic wage

The new adjustment mechanism that was prescribed in the 'Wage Policy Agreement for the Private Sector 2004-2005' introduces a supplement to the gross wage, thereby stimulating social dialogue at the sectoral level and meeting at least two goals. Firstly, the adjustment supplement is equal for all workers, also for those from low wage brackets who are the most sensitive to inflation rises; with their wage they can buy only the most necessary items for living. Such a system of wage supplement is also known in other wage policies, for instance in Ireland and Finland. Secondly, and applying only to Slovenia, every single employee would be entitled to the adjustment amount, a measure aimed at reaching one of the long-term goals of the Social Agreement 2003-2005, namely resolving the problem of the difference between the minimum wage and collectively agreed basic wage which is presented below.

³⁸ The adjustment mechanism for 2005 agreed upon by the social partners took into account 52% of the estimated 4% rise in consumer goods prices (alcohol and tobacco excluded) in Slovenia and 48% of the estimated 2% rise in consumer goods prices in the EU. The current estimates of the price rises of consumer goods in both Slovenia and the EU indicate that the adjustment mechanism should be reduced by around 0.5 of a percentage point.

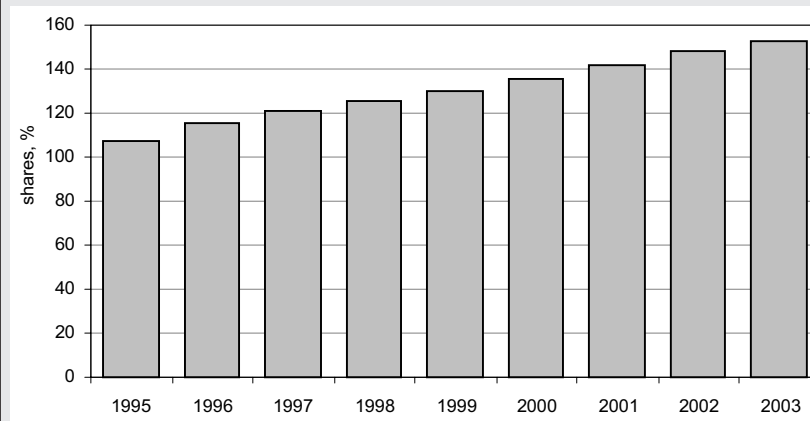
Under the old system of wages policy, there was no guarantee that those employed by companies where they had higher collectively agreed basic wages than the minimum set out by a relevant sectoral collective agreement would have their gross wages adjusted by the agreed adjustment percentage. To ensure those with the lowest wages a minimum level of security, a system of minimum wage was introduced in 1995. The minimum wage did not increase in line with the valid adjustment mechanism. In 1997 a mechanism was introduced whereby the minimum wage was additionally adjusted once a year by the growth of gross domestic product. Consequently, the ratio between the collectively agreed basic wage and the minimum wage was improving to the benefit of the minimum wage: in 2003 the minimum wage was about 45% above the collectively agreed basic wage for the simplest work. (see the figure below).

Similarly, the ratio of the minimum wage to the gross wage is improving to the benefit of the minimum wage, with the improvement being much smaller than in relation to the collectively agreed basic wage. The minimum wage is currently about 55% of the average gross wage per employee, whereas by collective agreements for manufacturing in 1997 it amounted to about 53% of the average gross wage (see the figure below).

However, in some sectors of manufacturing (textile, clothing and leather industries, wood-processing, and non-metallic mineral products) collectively agreed basic wages in sectoral collective agreements are at the level of the collectively agreed basic wage as set out by the general collective agreement for the private sector. This could in fact lead, when wages in a company are at the level of the collectively agreed basic wage from the sectoral collective agreement, to a major gap in the collectively agreed basic wage for simple work to the minimum wage. The workers from the lowest wage groups, including the fifth one, receive a minimum wage because it exceeds the collectively agreed basic wage of the fifth wage group. This means that an employer can pay an employee only the minimum wage and no performance bonus, as the bonus 'gets lost' in the difference between the collectively agreed basic wage and minimum wage.

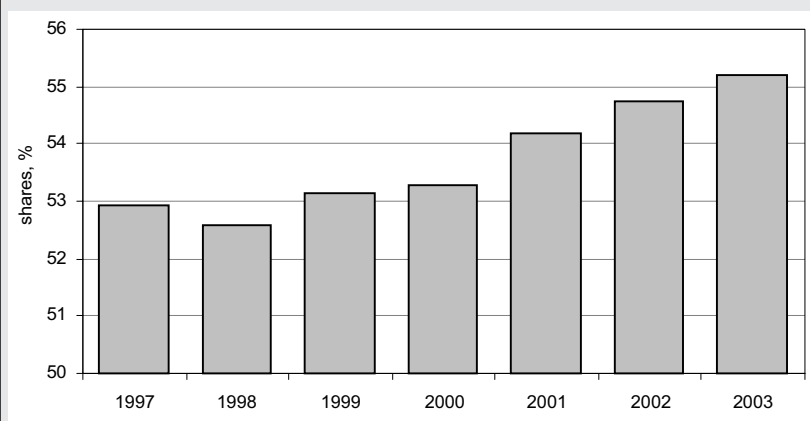
Similarly, the branch collective agreements for the other sectors of manufacturing set the collectively agreed basic wage only slightly higher than the collectively agreed basic wage prescribed by the general collective agreement, meaning that the minimum wage is usually higher than the collectively agreed basic wage of the fourth wage group; this could be the levelling of wages among those in the lower wage groups if wages in a company are pegged to the wages of wage groups of a relevant sectoral collective agreement. Yet since no wage system which does not reward work performance is effective in the long run, companies have resorted to a number of ways of rewarding their employees. Data on wages in manufacturing reveal a considerable share of supplements to collectively agreed basic wages which, taken together, form the base wage. As a result, wages are highly flexible, which however weakens the position of workers: if, for instance, the collectively agreed basic wage in a sectoral collective agreement increases by the adjustment percentage, the collectively agreed basic wage per employee in a company will not necessarily go up correspondingly because any supplements to the wage could fall. Such a course of events has now been prevented by the mechanism of the

Figure 7: The ratio of the minimum wage to the collectively agreed basic wage for simplest work



Source: SORS, calculations by IMAD.

Figure 8: The ratio of the minimum wage to the average gross wage in the collective agreement for manufacturing



Source: SORS, calculations by IMAD.

adjustment amount to collectively agreed basic wage as agreed upon in the Agreement for the private sector, which at the same time sheds light on the problem of collectively agreed basic wages being set too low in sectoral collective agreements.

The social partners gathered in the Economic and Social Council have already discussed a new wage system according to which a collectively agreed basic wage increased by supplements would be taken as the base wage, instead of the current collectively agreed basic wage. A very similar solution has already been adopted in the new wage system for the public sector.

7. Public finances

7.1. General government revenues

*2004 saw some changes in the tax system and instruments which, together with the general macroeconomic environment, affected the volume and structure of general government revenues. The harmonisation of the taxation legislation with the *acquis* continued at an accelerated pace. Several acts were already amended and complemented in line with the *acquis* before Slovenia's accession to the EU, in particular those regulating indirect taxes (Value Added Tax Act, Excise Duties Act, Tax on Motor Vehicles Act, Tax Procedure Act, Tax Administration Act and Customs Administration Act). In the area of direct taxes, the Personal Income Tax Act and the Corporate Income Tax Act were adopted in 2004, which will both enter into force in 2005 except for some articles of the latter which have already been in force since EU accession. Excise duties on tobacco and tobacco products rose in January and July, in line with the commitments to the EU. The government, however, adjusted the excise duties on mineral oils several times throughout the year, which helped it meet its anti-inflationary goals. The proportion of social security contribution rates in the total wage bill remained the same as the year before (38.2%). According to amendments to the Payroll Tax Act (adopted in September 2004) the threshold of gross wage taxation rose from SIT 130,000 to SIT 165,000, which contributed to the disburdening of labour costs.*

In 2004, the proportion of estimated general government revenues in GDP will shrink by around 0.5 of a percentage point compared to the forecasts in the revised national budget.

In 2004, total compulsory levies are expected to pick up in real terms by 1.8%. Any higher rise in these levies has been held back largely on account of the revenues from **value-added tax**, which are forecast to drop by 2.5% in 2004 compared to the year before. The drop in revenues from this source has been of a liquidity nature and came as a result of the changed method of calculating VAT because of EU accession. VAT revenues are to range from SIT 25 to 30 billion, which is less than foreseen in the 2004 budget. VAT revenues are thus expected to account for 8.6% of GDP in 2004, down by 0.5 of a percentage point from the year before.

Revenues from **excise duties** are estimated to climb by 5% in real terms in 2004 from the previous year. The revenues from excise duties on mineral oils are expected to go up in real terms by 3.8%, revenues from excise duties on alcohol and alcoholic beverages by 0.8%, and revenues from excise duties on tobacco and tobacco products by as much as 10.1%, largely as a result of a rise in specific and proportionate excise duties on tobacco and its products in January and July 2004. In the excise duties' structure by products, the proportion of excise duties on mineral oils is anticipated to narrow (from 69.5% in 2003 to 68.7% in 2004) as is the proportion of excise duties on alcohol and alcoholic beverages (from 7.4% in 2003 to 7.1%), whereas the proportion of excise duties on tobacco and its products is expected to rise (from 23.1% in 2003 to 24.3%). In 2004, the share of revenues from excise duties in GDP is thus expected to reach 3.5%, up by 0.1 of a percentage point from the year before.

Wage-based taxes and contributions, which account for around 55% of total compulsory levies, are forecast to climb in real terms by 3.7% in 2004 compared to the year before. Of these, revenues from payroll tax are expected to rise above the average (4.2%), revenues from taxes on wages (representing an estimated 94% of personal income tax revenues in 2004) are set to rise at the same rate as total revenues from this source (3.7%), whilst social security contributions are to grow somewhat more slowly (2.6%). In 2004, wage-based taxes and contributions are thus anticipated to contribute around 21.9% of GDP to the national budget and the pension and health funds, down by 0.1 of a percentage point compared to the previous year.

In 2004, revenues from **corporate income tax** are expected to soar by 12.4% in real terms compared to 2003 due to the final assessment of tax on the basis of companies' business results for 2003, which were better than the year before. The proportion of these revenues in GDP is expected to pick up from 1.9% in 2003 to 2% in 2004.

Revenues from **customs duties and import taxes** are expected to slump in 2004 because they have only applied to imports from third countries since Slovenia's accession to the EU. They are set to reach a mere 0.3% of GDP, down by a half compared to last year.

Revenues from **other fees** (for specific services, motor vehicles) **and charges** (environmental, registration, communal, administrative, court) are estimated to move in line with GDP growth in 2004 and represent the same proportion of GDP as in 2003 (2.2%).

Having become a EU member Slovenia is now entitled to draw funds from the **European funds**. These funds are also regarded as budget revenues (apart from pre-accession aid, also lump sum payments and funds from the Cohesion and Structural Funds). In 2004, the foreseen EU funds are expected to account for around 1.3% of GDP according to the agreement reached with the EU. However, given the potential limited absorption capacity and potential time delay in drawing these funds, only a solid half of these funds is anticipated to be actually drawn in 2004.

According to the consolidated **general government account** (comprising the state budget, local budgets and pension and health funds, according to the methodology of the GFS-IMF and the Ministry of Finance), general government revenues are estimated to account for around 40.5% of the estimated GDP in 2004 (down by 0.8 of a structural point on 2003) excluding the EU funds, and around 41.3% of GDP including the EU funds.

2005 is to see a continuation of the tax reform, in particular in the area of property taxes, as well as the entering into force of the new Personal Income Tax Act and the Corporate Income Tax Act. Consequently, the structure of general government revenues is to change, too. In the area of direct taxes, revenues from corporate income tax are to rise on account of reduced tax relief and the newly defined expenses taken into account when determining the tax base. On the other hand, revenues from personal income tax are anticipated to drop (higher relief, changed personal income tax scale and tax base). Excise duties on tobacco and its products are expected to further rise as a result of alignment with the EU directives.

Given the anticipated macroeconomic environment, the current tax system and instruments and all the foreseen changes, **compulsory levies** are expected to range between 40% and 39.5% of GDP in **2005 and 2006**. Provided that the contribution rates remain unchanged, social security contributions are set to rise in line with the total wage bill growth. The latter will, however, lag behind GDP growth owing to the growth in gross wage per employee lagging behind the growth in productivity as well as the modest rise in the number of employees. Their proportion in the GDP is thus expected to drop from 14.2% in 2004 to 14% in 2005 and further to 13.9% in 2006. Revenues from personal income tax are – due to its progressive scale – expected to rise even faster than the total wage bill in 2004, but are to drop as a result of the new Personal Income Tax Act from 6.1% of GDP in 2004 to around 5.7% in 2005 and 2006. A change in the threshold of payroll taxation will contribute to the unchanged proportion of these revenues at 1.8% of GDP in 2004 and 2005, only to see it slightly increase to 1.9% of GDP in 2006 as a result of the progressive scale of this tax. Revenues from VAT and excise duties are to rise in line with the anticipated GDP growth and will preserve their share in GDP at 12.4% in 2005 and 2006. As customs duties will continue to apply only to those countries outside the EU, the share of revenues from this source in GDP will go down from 0.3% of GDP in 2004 to 0.2% of GDP in 2005 and 2006.

In 2005, revenues from corporate income tax will rise somewhat faster than economic growth. Pursuant to the new Act, revenues from this tax will further grow because of lower tax relief and an unchanged tax rate (25%). The effective tax rate is thus estimated to increase from the current 13% to around 19%. The proportion of revenues from corporate income tax in GDP will rise from 2.0% in 2004 to 2.5% of GDP in 2005 and 2006.

Box 5: General government finance according to the European System of Accounts

In 2004, for the first time the Statistical Office published data on the basic aggregates of the government sector (S. 13) for the period 2000-2003 in line with the methodology of the European System of Accounts from 1995 (ESA 1995). The published data and aggregates are identical to the aggregates from the Report on the Government Deficit and Debt which Slovenia, like other EU member states, is obliged to prepare in line with the ESA 1995 standards and submit to the European Commission twice a year. The Commission uses this report to check the member states' compliance with the Maastricht criteria in the area of the government deficit

Table 15: Government revenues and expenditures as a % of GDP, using ESA 95 methodology

	2000	2001	2002	2003
General government revenues	44.7	45.1	45.7	46.3
General government expenditures	48.2	47.9	48.1	48.4
Revenues minus expenditures (deficit)	-3.4	-2.8	-2.4	-2.0

Source: SORS, National Accounts, First statistical information No. 128, 31. Aug. 2004.

and debt. This year, Slovenia – following its commitment made to Eurostat – further developed the methodology which was used for reporting on the government deficit and debt even before EU accession. Changes in the institutional coverage of the government sector are the main methodological novelty as this sector now also includes public funds, e.g. Capital Fund, Slovenian Indemnity Fund.

The methodological differences between the national methodology³⁹ and the ESA-95 are reflected in a considerably higher level of general government revenues and expenditures in calculations made according to the ESA 95. The share of revenues in GDP has thus been 4.9 percentage points higher and the share of expenditures 6.1 percentage points higher on average in the last four years. Differences also exist in the government deficit as a % of GDP. Calculated according to the ESA 95 methodology, the deficit is around 1 percentage point more than that calculated using the national methodology on average in the last four years.

Given the revenue capacity provided by the current system and instruments of compulsory levies and the forecast macroeconomic situation in 2005 and 2006, measures will have to be taken aimed at the more consistent calculation, collection and recovery of taxes and contributions. Also other, in particular non-tax, revenues, i.e. from other capital and concession revenues and from domestic and foreign donations, will have to increase. Only in this manner will the public finance goals aimed at narrowing or even levelling off the general government deficit potentially be achieved along with the goal of disburdening the economy and thereby preserving its competitiveness.

7.2. General government expenditures

The 2004 budget foresaw national budget expenditures amounting to SIT 1,647.6 billion, which was – including the contributions to the EU Budget –7.4% higher, and excluding these contributions 4.7% higher, in real terms than the expenditures in the revised 2003 national budget. In 2004, they accounted for 26.6% of the foreseen GDP, up by 1.2 of a structural point from 2003. Given the lower than anticipated revenues of the national budget (cuts in revenues from VAT, smaller than anticipated actual absorption capacity of the EU funds) and despite the possibility of applying the instrument of the fiscal stabiliser, some of the national budget expenditures will not be fully realised in 2004. By reallocating expenditures, the government managed to undertake some minor structural changes in the national budget expenditures already in the course of the year. As a result of these reallocations, the funds for interest rates, subsidies, transfers to public institutions and to individuals and households increased, whereas transfers to the pension fund, investment and

³⁹ The national methodology is based on the GFS-IMF methodology which has a narrower coverage. It includes only the national and local budgets, pension and health fund. In the process of consolidation, the contributions of employers, i.e. the government, are also consolidated which reduces the level of general government revenues and expenditures as a % of GDP by around 2 percentage points on average per year. The government finance statistics are based on monetary flows, whilst the ESA 95 statistics are based on the categories of calculation.

investment transfers and funds for expenditure on goods and services in government bodies decreased. The share of national budget expenditures in GDP is thus expected to be around 0.8 of a percentage point lower than the share anticipated in the 2004 budget. It is set to account for 25.8% of GDP, up by 0.4 of a percentage point from 2003.

Pursuant to the **2005 budget**, national budget expenditures are to amount to SIT 1,731.2 billion and represent 26.1% of the estimated GDP. The 2005 budget was adopted at the end of 2003 on the basis of the forecasts of economic developments and other relevant macroeconomic forecasts available at that time. The government is obliged to propose to the National Assembly by May 2005 at the latest the revised 2005 budget and also the 2006 budget on the basis of the current economic trends and updated forecasts.

In 2004, **local government** expenditures are estimated to rise in real terms by 3.9% and are to account for 4.9% of the foreseen GDP, down by 0.2 of a percentage point from 2003. In 2005 and 2006, local government expenditures are expected to rise at a somewhat slower pace, also slower than the GDP growth. They are expected to account for slightly below 5% of the anticipated GDP.

Pension and disability insurance expenditures (excluding the payments of health insurance contributions of pensioners) are estimated to amount to around SIT 776 billion in 2004, up 3.9% in real terms compared to the year before. They are expected to represent around 12.5% of the foreseen GDP. Taking into account the rights arising from the Pension and Disability Insurance Act, the necessary funds should account for around 12.4% of GDP **in 2005** and around 12.3% of GDP **in 2006**, based on projections of the growth in the number of beneficiaries, further effects of the reform and the existing method of pension adjustment.

The **compulsory health insurance** expenditures financed from public funds rose in real terms by 4.1% in 2004 and will reach 6.6% of the anticipated GDP. Also in **2005 and 2006** these funds will rise somewhat faster than GDP and are set to represent close to 7% of GDP.

Since its accession to the EU, Slovenia has regularly paid its contributions to the EU Budget and is expected to meet its commitments for 2004 according to the financial package agreement with the EU. The funds paid to the EU Budget are to account for 0.7% of the anticipated GDP.

Table 16: **Consolidated general government revenues and expenditure, using GFS-IMF (MF) methodology**

	As a % of GDP									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 Estimate
General government revenues	40.4	40.0	39.3	40.3	41.0	40.6	41.3	39.2	41.3	41.3
General government expenditures	40.4	39.7	40.4	41.1	41.6	41.9	42.6	42.1	42.7	43.1
Surplus/deficit	0.0	0.3	-1.2	-0.8	-0.6	-1.3	-1.3	-2.9	-1.4	-1.8

Source: MF, Bulletin of Government Finance, estimates and calculations of shares as a % of GDP forecasts, IMAD.

According to the consolidated general government account for **2004** (following the GFS- IMF methodology which takes into account the national budget, local government budgets, pension and health funds), total **general government expenditures** are expected to increase in real terms by 4.5% and account for 43.1% of the anticipated GDP, up by 0.4 of a percentage point compared to 2003.

In **2004 general government deficit** is estimated to stand at 1.8% of GDP, up by 0.4 of a percentage point compared to 2003. According to the Report on the Government Deficit and Debt (using the ESR methodology, see the Box above) the general government deficit in Slovenia is estimated to stand at 2.1% of GDP.

The forecasts of general government indicators for **2005 and 2006** depend not only on the macroeconomic situation but also on the outcome of discussions on potential changes to the fiscal and health systems. The structure and amounts of compulsory levies and the general government expenditures will depend on the adopted solutions as well as the potential revised 2005 budget and the 2006 budget. All this together will affect the macroeconomic accounts; the public-to-private consumption ratios may also change as well as the fiscal burdens on individual sectors.

7.2.1. Central government debt

The central government debt increased by SIT 77.7 billion in nominal terms in the first half of 2004, amounting to SIT 1,568.5 billion on 30 June 2004. Loan disbursements totalled SIT 590.0 billion, while debt repayments amounted to SIT 526.8 billion. Revaluation and exchange rate changes pushed the debt up by SIT 14.5 billion.

In the first half of 2004 the government kept providing financing for the budget and debt repayment in the domestic market. With the government disbursing abroad only SIT 0.38 billion in IBRD loans, and it repaid loans in net terms, practically all borrowing was carried out in the domestic market. As a result, domestic debt accounted for 66.2% of the entire central government debt at the end of June (as opposed to 61.2% at the end of 2003). Tolar-denominated debt represented 53.1% of the total central government debt or 79.6% of domestic debt at the end of June 2004. Euro-denominated debt, on the other hand, accounted for 45.4% of the entire central government debt or 96.0% of the total external debt on 30 June 2004. Dollar-denominated debt represented a mere 1.1% of the total debt at the end of the first six

Table 17: **Stock and changes in the debt of the Republic of Slovenia in the first half of 2004 (in SIT billion)**

	Stock on 31 Dec. 2003	Disburse- ment	Repayment	Net disburse- ment	Revaluation and changes	Changes in debt	Stock on 30 June 2004
SLOVENIA'S DEBT	1,490.80	590.0	526.8	63.2	14.5	77.7	1,568.5
I. Internal debt	912.5	589.6	471.9	117.7	7.9	125.6	1,038.1
II. External debt	578.3	0.4	54.9	-54.5	6.6	-47.9	530.4

Source: Bulletin of Government Finance (MF).

months of the year.

In the first half of 2004 the Ministry of Finance continued to issue tolar-denominated nominal government bonds. The Ministry issued three- and five-year bonds in February: RS55 with a fixed 5.0% annual interest rate and RS56 with a fixed 4.88% annual interest rate. In March a ten-year tolar-denominated nominal government bond RS57 was issued with a fixed 4.88% annual interest rate, a measure enabling to monitor the reference long-term interest rate in line with the Maastricht criteria. Until 30 June 2004, the Ministry of Finance had borrowed a total of SIT 120 billion through long-term securities, of which SIT 101.0 billion was used to finance the budget, while SIT 19.0 billion went to early debt repayment.

At the end of June 2004, debt carrying a fixed interest rate made up 59.1% of the entire debt, and debt with a flexible interest rate and an indexed rate represented 15.3% and 25.6% of the entire debt, respectively. The share of debt indexed by inflation shrank the most, representing 9.6% of the total debt at the end of June 2004 (16% at the end of 2003).

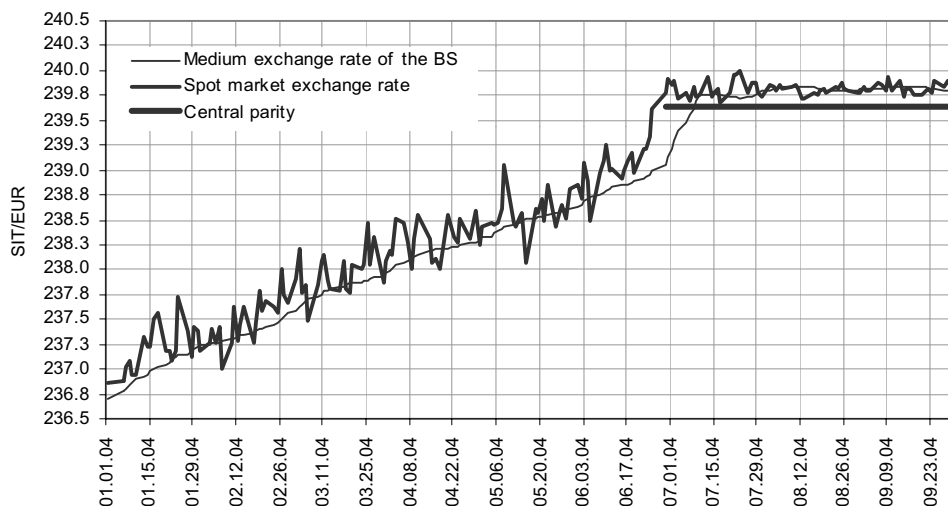
8. Monetary developments and the capital market

8.1. Monetary developments and policy

In the first half of 2004 the monetary policy of the Bank of Slovenia was oriented towards entering the exchange rate mechanism ERM II. In the first six months of the year, in line with cutting inflation the Bank of Slovenia continued to gradually lower interest rates on its key instruments. By the end of June they were 2.0 percentage points lower (60-day tolar bills, temporary purchases of foreign currency, i.e. interest rates for swaps), 2.25 percentage points (Lombard) and 2.5 percentage points (270-day tolar bills) less than at the beginning of the year. These lower interest rates, especially interest rates on temporary purchases of foreign currency (down 2.0 percentage points to 1.0%) and tolar bills of the Bank of Slovenia also enabled a further deceleration of the tolar's depreciation in the first half of the year. The slower growth of the exchange rate contributed to a further gradual lowering of inflation, considering the practically complete pass-through of exchange rate growth to price growth; it also enabled a non-problematic stabilisation of the tolar's exchange rate.

After less than two months of EU membership, Slovenia joined the exchange rate mechanism ERM II at the end of June 2004. Entry to the ERM II has brought changes in the way monetary and exchange rate policies are managed. Namely, (managed) floating exchange rate regime was replaced by a policy of ensuring a stable exchange rate around the agreed central parity. In co-operation with EU institutions, the Bank of Slovenia took the view that the euro market exchange rate before entry to the ERM II represented the equilibrium exchange rate, and thus set the central parity of the tolar at 239.64 for 1 euro. In accordance with the current rules, the actual exchange

Figure 9: The euro's exchange rate dynamics



Source: Bank of Slovenia.

should not vary around the central parity by more than 15% in either direction. In the first six months of the year, similar to previous years, the tolar gradually depreciated (by 1.3% over the nine months). In the first three months of membership in the ERM II the Bank of Slovenia managed to keep its fluctuations within a significantly narrower band. Namely, the market tolar exchange rate fluctuated below the central parity, and the fluctuations did not exceed 0.15% till the end of September. With further US dollar exchange rate fluctuations, the tolar real effective exchange rate measured by the index of consumer prices was 0.6% lower in the first nine months of this year, and 0.5% higher compared to September 2003.

Entry to the ERM II limited the Bank of Slovenia's autonomy to conducting monetary policies and thereby its response to asymmetric shocks. With its care for a stable exchange rate after integration into the ERM II, monetary policy is now more dependent on the aims of the European Central Bank and is subject to the common interest of member-countries, which reduces the ability of the Bank of Slovenia to intervene in the event of asymmetric shocks. Even though the likelihood of their realisation is relatively small, due to the high level of the Slovenian economy's convergence with the economies of other EU member states and the successful co-ordination of economic policies, we can still identify some risks connected with the ERM II membership; especially the risks of an unsuitable central exchange rate, excessive capital inflows, excessive loan expansion and its influence on spending⁴⁰.

Increased differences between growth levels of monetary aggregates is also typical of this year. While the year-on-year growth of the narrow money aggregate M1 increased by 8.4 percentage points to 19.1% in the first nine months of the year, the growth of the broad money aggregates is decelerating; between September and December, the year-on-year growth of M2 was 3.5 lower, while M3 was down by 0.3 of a percentage point. This was the result of changed circumstances in the foreign exchange market because the net outflow of capital reached EUR 601 million in the first seven months⁴¹ (while the net inflow of capital in the first seven months of 2003 was EUR 206 million), and changes in the structure of bank deposits. At the same time, the Bank of Slovenia reduced the stock of swaps which decreased by around 43% to total SIT 302 billion at the end of September which was, however, still more than the volume of base money in circulation.

Box 6: Fulfilment of the Maastricht criteria

Two years of successful participation in the ERM II is, along with meeting the other Maastricht criteria, the condition for adoption of the euro and hence the use of the benefits offered by inclusion in the monetary union. A quick entry to the ERM II gives the opportunity to adopt the euro already at the beginning of 2007, whereby the main task of macroeconomic policies would be to ensure the fulfilment of the Maastricht criteria.

⁴⁰ The risk associated with excessive loan expansion and its consequential influence on consumption is explained in detail in Chapter 9.

⁴¹ Latest available data.

Among the Maastricht criteria, the foremost task will be to further lower inflation. Along with ensuring stability of the exchange rate, which must not deviate from the central parity of currency by more than 15% in either direction during the period of membership in the ERM II, inflation will have to be lowered to a level that is not more than 1.5 percentage points above the three lowest levels of price growth in EU countries. The criteria for long-term interest rates demand that the average long-term interest rate in the year before verification of fulfilment of the criteria must not exceed by more than two percentage points the referential interest rate, which is the twelve-month average of interest rates in the three countries with the best results in the area of price stability. In practice, the yields on the maturity of ten-year government bonds are most commonly viewed as long-term interest rates because they have an important share of capital market traffic. Slovenia currently fulfils the interest rates criteria because in August the twelve-month average yield on the maturity of ten-year government bonds was 1 percentage point lower than the Maastricht criteria requirement.

In the fiscal area, the balances already achieved will have to be maintained during the period of inclusion. Slovenia currently meets both of the formal criteria which relate to fiscal policies.

Table 18: Fulfilment of the Maastricht criteria

	Inflation (in %)*	Long-term interest rate (in %)*	Budget deficit (in % GDP)**	Public debt (in % GDP)**
EMU	2.1	4.2	-2.7	70.4
Convergence criterion	2.5	6.2	-3.0	60
Slovenia	4.1	5.2	-2.0	29.4

Source: SORS, Eurostat, calculations by IMAD.
Notes: *Data for August 2004, **Data for 2003.

8.2. Financial flows and the capital market

The growth deceleration of the volume of household bank savings continues this year. The growth of tolar savings reached its lowest level ever this year (see Table 18). At the beginning of the third quarter the release of savings in the National Housing Savings Scheme (NHSS) increased the outflow of long-term tolar deposits, which has been gaining ground for the whole year due to the lower differences in interest rates of a different maturity. The volume of long-term tolar deposits thus dropped by 34.3% in real terms this year. Growth has only been noted in demand deposits and deposits with a maturity of 90 days or less. On the other side, this year saw a gain in the growth of foreign currency savings, which is most likely the result of insecurity prior to Slovenia's entry to the ERM II and, consequently, the exchange of some tolar savings into euros. As a result of that, foreign currency deposits gained 40.7% in the currency structure, which is 1.2 percentage points more than at the end of last year. The net flow of all household bank savings was 27% lower in real terms

Table 19: Household bank savings: stock and real growth rates until September compared to December a year before

	Stock on 30 Sept. 2004 (in SIT billion)	Growth in real terms until September (in %)					
		1999	2000	2001	2002	2003	2004
Total savings	2,226.7	5.6	9.5	11.4	2.1	3.3	2.2
Tolar savings	1,320.9	8.2	8.8	12.1	5.3	4.6	-0.5
Demand deposits	561.8	22.9	7.9	6.0	9.3	8.7	17.4
Short-term deposits	611.0	-0.1	13.0	12.9	-6.4	3.2	-2.1
Long-term deposits	147.3	-4.1	-5.4	30.5	41.5	0.7	-34.3
Foreign currency savings	905.8	2.7	10.4	10.5	-1.4	1.6	5.5
Short-term and demand deposits	822.3	3.0	6.9	9.5	-1.6	4.0	5.7
Long-term deposits	83.5	0.3	42.1	16.6	0.5	-16.5	4.3

Source: Bank of Slovenia, calculations by IMAD.

during the first nine months of this year compared to the year before (SIT 88.2 billion), while without the tolar demand deposits a net outflow was noted (SIT 7.4 billion).

*A part of household savings is being transferred to **mutual fund investments**, which have recorded their highest inflows yet this year. They reached SIT 62.1 billion in the first nine months, which is 4.6 times more than during the same period last year. The number of local mutual funds increased to 30 by the end of September, while foreign mutual funds also began enhanced marketing activities. The value of funds managed by local mutual funds reached SIT 185.3 billion at the end of September, nearly twice the value seen at the end of 2003. The largest share (nearly 70%) was managed by balanced mutual funds, which invest evenly in bonds and stocks, while the smallest share was held by bond funds (4%). The average year-on-year yield reached 24.3% at the end of September (the average yield of time deposits with a maturity of more than a year was 4.1%).*

Household tolar borrowing is strengthening this year, while the growth of foreign currency corporate borrowing remains high. In real terms, the volume of tolar loans to companies and OFOs, household and government has mainly risen this year (see Table 19), mostly due to the larger growth seen in long-term household borrowing. According to our estimates, borrowing within the NHSS has partly contributed to this result⁴². Due to liquidity balancing the share of short-term government borrowing has also increased. The volume of loans to companies and OFOs in real terms actually showed no growth in real terms in the first nine months, in spite of September's high growth, which is most likely the result of replacing tolar loans with the more favourable foreign currency loans, which still increased at an accelerated pace. Their net flows for this period amounted to SIT 207.8 billion if converted to tolar, 63.3% in real terms more than in the same period last year. Companies borrowed abroad somewhat less than in previous years, with net flows of loans for the first eight

⁴² The volume of savings in the first five-year NHSS scheme has passed the SIT 40 billion mark, which represents more than SIT 80 billion in loan potential which, according to estimates, is still largely untapped.

Table 20: **Domestic lending to enterprises, OFOs, households and the government: stock and September's real growth rates compared to December a year before**

	Stock on 30 Sept. 2004 (in SIT billion)	Loan growth in real terms until September (in %)					
		1999	2000	2001	2002	2003	2004
Total tolar loans	1,981.3	10.3	3.1	4.9	-1.8	2.3	5.4
Loans to enterprises & OFOs	1,092.2	2.4	3.3	7.5	-6.5	0.6	0.1
Overdrafts & advances, short-term	588.3	4.0	7.7	9.6	-5.3	-1.0	3.6
Long-term	503.9	0.5	-1.8	4.8	-8.1	2.4	-3.6
Foreign currency loans	833.5	31.6	21.7	21.4	25.8	27.5	31.2
Household loans	731.6	31.7	3.7	0.9	0.4	3.8	11.8
Overdrafts & advances, short-term	132.1	36.3	2.4	4.9	-2.9	0.0	0.9
Long-term	599.5	30.7	4.0	-0.1	1.3	4.8	14.6
Government loans	157.6	-15.0	-3.7	2.6	36.2	9.3	17.5
Overdrafts & advances, short-term	36.2	16.3	-45.2	27.7	42.5	47.3	51.6
Long-term	121.4	-23.0	10.7	-11.8	33.5	-1.9	10.1
Foreign currency loans	61.8	-34.5	-3.0	-78.0	204.1	-29.0	370.3

Source: Bank of Slovenia, calculations by IMAD.

months of this year reaching SIT 86.2 billion (more than a quarter of this occurred in August), which is 6.4% less than in the same period last year.

The lowering of deposit and lending interest rates is continuing this year: While the deposit interest rates were lowered faster than lending rates last year, the difference was smaller in the first nine months of 2004: lending rates were on average 1.6 percentage points lower, while deposit interest rates were down 1.7 percentage points (in the comparable period of last year they were lowered by 1.8 percentage points and 2.8 percentage points respectively). At the beginning of this year long-term interest rates were falling faster since they are mostly still tied to the value of the tolar indexation clause, as its value fell by 1.2 percentage points in the first quarter of this year, then kept steady at a level between 3.6% and 3.7%. In the second quarter short-term interest rates dropped faster. In the third quarter the lowering of interest rates slowed down somewhat. In September interest rates on demand deposits were at the level of 0.5%, time deposits with a maturity of 31 days to one year were approximately 3.2%, and time deposits with a maturity of over one year were 4.1%. Interest rates on household loans were at the 8.1% level for consumer loans and at the 7.3% level for housing loans. Short-term interest rates on corporate loans were 8.1%, while long-term interest rates on loans to enterprises were 8.6%.

The rise of Ljubljana Stock Exchange indexes grew again, compared with last year: The value of the main index SBI20 rose by 23.1% in the first three quarters of this year, which is more than a half less than the highest growth seen in 2002, but is still more than 10 percentage points above the average for the 1994-2002 period. Market capitalisation (SIT 2,896.5 billion) seen at the end of September was 18.6% higher than at the end of last year, mostly the result of growth in prices of stocks (up by 22.9%) which represent somewhat more than half of overall market capitalisation.

Ljubljana Stock Exchange turnover (SIT 285 billion) was 21.8% higher in the first three quarters of this year than in the same period of last year, although it still lags behind the 2002 values. The small difference in growth between market capitalisation and turnover of the Ljubljana Stock Exchange shows that the share turnover ratio remains at a low level. The trend of a lowering share of non-residents in market capitalisation is also continuing, and by September it reached its lowest level of the past few years (4.3%). This indicates that securities on the Ljubljana Stock Exchange are no longer as attractive to foreign portfolio investors. With the possible acquisition of one of the larger companies on the stock market, this share could reach more than 10% (until the eventual withdrawal of shares from the stock market).

9. Risks to realisation of the autumn forecasts

In the Spring Report 2004 we designed two alternative scenarios to assess the main risks to realisation of the baseline forecast. The first scenario was based on the assumption that after joining the EU the Slovenian economy's competitiveness would prove to be lower than estimated, which would result in lower domestic output growth and higher unemployment in labour-intensive industries. The second risk scenario assumed that cuts in nominal interest rates upon entry to the ERM II would further accelerate domestic consumption and hence intensify the macroeconomic imbalances in international trade and inflation.

Our prediction in spring was that these risks were not very likely to come true. The available figures on economic movements seen in the period after EU accession confirm these estimates. With regard to economic trends linked to the lower competitiveness scenario, the only available data are figures on production volumes and numbers of workers in individual manufacturing industries⁴³. In the first seven months of the year, textile and leather production volumes dropped by 9.4% and 9.6% over the same period last year, which is in line with the spring forecast's baseline scenario. Similarly, the fall seen over the same period in the number of people in employment in both industries (down 7.3% in the textile and 5.4% in the leather industries) does not deviate from the assumptions used in the baseline spring scenario. As for the demand boom scenario, the available data and expectations until year-end do not indicate any significant discrepancies from the spring baseline scenario in which a pick-up of domestic consumption was already anticipated. Private consumption rose 3.5% in real terms in the first six months year on year and gross fixed capital formation went up 7.3% which is in line with the spring expectations. The growth of household loans has strengthened this year, which could be a harbinger of prospective stronger consumption growth; nevertheless, considering the real growth rate of household loans recorded in the first nine months of the year (11.8%; see Chap. 8.2)⁴⁴, the forecast for private consumption's real growth for 2004 remains unchanged relative to spring.

With regard to the risks presented above we can thus infer from the figures at hand that the Spring Report baseline scenario is presently being realised; nevertheless, the risks cannot be entirely excluded as yet. In the autumn forecast we hence reconsider potential consequences of their realisation that would mainly surface in 2005.

In the event of a rapid deterioration of competitiveness in labour-intensive industries, a softening in their exports and production would result in lower economic growth and higher unemployment compared to the baseline scenario. Our assumption for this risk scenario was that export growth in labour-intensive industries would decrease

⁴³ Figures on exports in individual industries are only available for the period until entry to the EU due to changes in the foreign trade statistics (see Box in Ch. 3.1).

⁴⁴ By comparison, the real growth of household borrowing reached the high 33.4% rate in 1999 when private consumption surged prior to the introducing of VAT. If a rate this high were to be achieved in 2004, household loans would have to rise in real terms at a 6.1% monthly rate in the fourth quarter. This, however, is not very likely since the monthly growth rate averaged 2.3% in the third quarter when loans were already rising rapidly.

by 3 percentage points in 2004 and 2005 compared to the baseline scenario in which a considerable easing of exports growth was already projected for these industries. In this case, the real growth of total exports would decelerate by about 0.4 of a percentage point each year which would, in turn, slow down value-added growth in manufacturing and imports growth of intermediate goods. The deterioration of competitive conditions in labour-intensive industries would consequently put a brake on the growth of employment and increase unemployment. Already in the baseline scenario, we projected a downward trend in exports and employment in these industries (the latter is forecast to contract by 3,000 this year and by over 2,000 in 2005) on account of the structural problems seen in these sectors and hence their lower cost efficiency. Were the lower competitiveness scenario to materialise, these problems would be even more pronounced. Employment would decline further, primarily in the textile industry (by 2,000 in 2004 and 2,200 in 2005). Compared to the baseline scenario, this would in turn reduce employment growth by 0.2 of a percentage point (to 0.2%) in 2004 and by 0.3 of a percentage point (to 0.0%) in 2005. Consequently, unemployment rates would also be higher: registered unemployment would total 10.9% in 2004 and 10.7% in 2005, while survey unemployment would amount to 6.6% and 6.5%, respectively (up 0.2 and 0.4 of a percentage point relative to the baseline scenario). Worsened economic conditions, on the other hand, would be manifested in reduced investment activity and lower growth of private consumption along with the consequently lower level of imports. This effect would have a stronger impact in 2005, even if the risk of worsened competitiveness already began to be materialised in 2004. The overall effect of all the mentioned impacts would result in about 0.2 and 0.4 of a percentage point lower economic growth in 2004 and 2005, respectively, compared to the baseline scenario. Our estimate is that such trends would not affect price rises, hence inflation would remain the same as anticipated in the baseline scenario.

In the event of faster growth of domestic consumption relative to the baseline scenario (where its strengthening was already assumed) coupled with stronger economic growth, the external balance would be undermined and inflationary pressures would increase. Any greater response of domestic consumption to lower interest rates, which is still regarded as possible but less likely than assumed in the baseline scenario, could push up the real growth of gross fixed capital formation by over two percentage points in 2004 and up to 3.5 percentage points in 2005, while the growth of private consumption could go up by around 0.5 and 1.0 percentage point this year and next year. Faster growth of domestic demand along with increased imports would boost economic growth by around 0.3 of a percentage point in 2004 and approximately 0.5 of a percentage point in 2005. The current account deficit would hence expand

Table 21: **Comparison of the autumn forecast with alternative scenarios resulting from risk realisation in 2004 and 2005; changes in percentage points**

	Baseline scenario		Lower competitiveness scenario		Demand boom scenario	
	2004	2005	2004	2005	2004	2005
Real GDP growth, %	4.0	3.8	-0.2	-0.4	+0.3	+0.5
Inflation (year-end, %)	3.5	2.9	-	-	-	+0.4

Box 7: The impact of oil prices on economic growth

Considering the global oil price dynamics in the autumn months, their trends over the next few months and in 2005 represent a risk to realisation of the autumn forecast. Any longer-lasting oil price rise in the global market would manifest itself in slower economic growth and the faster growth of consumer prices. Given the uncertainty in oil price trends, we have made a model calculation of the sensitivity of trends in macroeconomic aggregates to oil price changes. This calculation is based on the assumption that oil prices will rise by USD 10 per barrel relative to the baseline scenario and maintain a higher level throughout the year. Taking into account its negative impact on the world economy, such a development would slow down foreign demand by around 0.5 of a percentage point⁴⁵, which would in turn decelerate the real growth of exports by 0.2 of a percentage point. Weaker export demand and higher costs of intermediate goods would have a negative effect on value-added growth in manufacturing. Higher oil prices would accelerate consumer price rises by around 0.8 of a percentage point which would in turn, coupled with less favourable terms of international trade, have a negative impact on the real growth of domestic consumption aggregates (primarily of investment and slightly less of private consumption). The overall result of these influences would be about 0.3 of a percentage point lower economic growth in a year when oil prices were to increase relative to the baseline scenario assumption. By contrast, any longer lasting ten-dollar oil price rise above the baseline scenario, assuming all the above influences and no changes in other conditions, would have a relatively marginal impact on the general government deficit which would expand by a mere 0.1 of a percentage point.

Table 22: Comparison of the autumn forecast with a higher oil price scenario for 2005

	2005	
	Baseline scenario	Scenario of USD 10 higher oil price
Real GDP growth, %	3.8	3.5
Inflation (year-end, %)	2.9	3.7

by about 0.5% of GDP in 2004 and 1.3% of GDP in 2005. At the same time, increased domestic consumption would slow down the declining of inflation by around 0.4 of a percentage point; this effect would be seen in 2005.

Using our own model, we also estimate the effects of potential realisation of the alternative scenarios on the government's financial situation assuming that other conditions remain unchanged. This estimate is a novelty in our reports. The model is not intended for any detailed budgetary forecasting; rather, it enables us to roughly

⁴⁵ This estimate takes into account the IMF's model calculation (World Economic Outlook, October 2000).

estimate the effects of realisation of different risks on the general government deficit. Hence, if the lower competitiveness scenario were to materialise the general government deficit would expand by around 0.2 of a percentage point in 2005 due to the changed assumptions for economic growth, employment and wages and consequently also for private consumption and the projected growth of gross operating surplus. On the other hand, realisation of the demand boom scenario, assuming higher economic growth and the consequently changed domestic consumption and gross operating surplus assumptions coupled with higher inflation, would result in an improved financial situation of the government. In this case, the general government deficit would be around 0.4 of a percentage point lower in 2005.

10. Medium-term projections until 2009

In the 2007-2009 period we expect economic growth to stay at the 4% level, which is achievable provided that the present economic policies and quality of production factors are preserved. In addition to domestic developments, a stable and supportive international environment will be a prerequisite for achieving this growth since Slovenia as a small and open economy and an EU member is strongly integrated into international economic flows. In order to achieve a higher growth rate, however, it is imperative to consistently and actively implement the measures set out in the draft Strategy of Slovenia's Development which is currently undergoing public debate.

In view of the projected steady economic growth, we expect the robust growth of investment activity to continue, especially in the areas of private investment, machinery and equipment as well as in residential construction. Better equipped production facilities would raise the Slovenian economy's competitiveness and foster its productivity growth which would then retain the 3.5% level. This would, in turn, enable a slightly faster wage growth whose lagging behind the growth of labour productivity should be smaller than in the past few years (0.7 of a percentage point). To improve competitiveness, it is also necessary to raise the share of high-technology production which would require increased investment in human capital in the private sector as a whole and not only a higher share of highly qualified experts in the best-performing enterprises. As the share of highly qualified employees is already large in the public sector, the real wage per employee will consequently grow by 1.0 percentage point faster in the private than in the public sector.

Inflation will go down gradually. By preserving the existing economic policy orientations (in the fields of wages, administered prices, taxes and de-indexation of financial markets) and keeping the tolar exchange rate stable, it will be possible to further reduce inflation to about 2.7% in 2006. The Maastricht criteria would thereby

Table 23: Forecasts of the main macroeconomic indicators

	Real growth rates (in %)		
	2007	2008	2009
Gross domestic product	4.0	4.0	4.0
Labour productivity (% growth)	3.5	3.5	3.5
Gross wage per employee	2.8	2.8	2.8
Exports of goods and services	6.6	6.8	6.8
Imports of goods and services	6.3	6.2	6.3
Final consumption (government and private)	3.3	3.3	3.4
- private consumption	3.4	3.4	3.4
- government consumption	2.8	2.8	3.1
Gross fixed capital formation	6.0	5.5	5.5
Current account deficit (as a % of GDP)	-0.5	-0.1	0.1
Inflation rate (annual average, %)	2.6	2.5	2.5
Unemployment rate by ILO (%)	5.8	5.7	5.6

Source: IMAD forecasts.

be fulfilled and Slovenia could adopt the euro in 2007. Gaps in productivity growth between the tradable and non-tradable sectors⁴⁶ resulting from structural imbalances will maintain the upward pressure on prices, hence inflation will continue to exceed the EU average. To further lower inflation it is necessary to eliminate these imbalances, primarily in those sectors where prices are regulated by the government, and in the financial and labour markets.

⁴⁶The so-called Balassa-Samuelson effect, estimated at around 1.0-1.5 percentage points. Estimates for other transitional countries are similar.

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The background features large, light gray, stylized letters 'A', 'R', and 'D' arranged in a grid-like fashion. The 'A' and 'R' are positioned in the upper half, while the 'D' is in the lower half. The letters are semi-transparent, allowing the text 'Statistical Appendix' to be clearly visible over them.

Statistical Appendix

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Table 1: Main macroeconomic indicators of Slovenia

	- Real growth rates in %											
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 estimate	2005 forecast	2006 forecast
GROSS DOMESTIC PRODUCT	4.1	3.6	4.8	3.6	5.6	3.9	2.7	3.3	2.5	4.0	3.8	3.9
Structure in value added in % ¹												
Agriculture, forestry, fishing (A+B)	4.3	4.0	4.2	3.9	3.3	4.3	4.0	4.2	3.9	3.3	3.2	3.0
Industry and construction (C+D+E+F)	36.8	37.5	37.1	37.5	37.4	36.8	37.5	37.1	37.5	37.4	37.5	37.2
- Industry (C+D+E)	31.3	31.4	31.0	31.4	30.7	31.3	31.4	31.0	31.4	30.7	31.1	31.2
- Construction F	5.5	6.1	6.1	6.1	6.7	5.5	6.1	6.1	6.1	6.7	6.4	6.0
Services (G...P)	61.3	61.4	61.3	61.0	61.9	61.3	61.4	61.3	61.0	61.9	62.1	62.3
FISIM	-2.4	-2.9	-2.5	-2.5	-2.6	-2.4	-2.9	-2.5	-2.5	-2.6	-2.9	-2.4
GDP in SIT million (current prices)	2,372,657	2,728,199	3,110,075	3,464,889	3,874,720	4,252,315	4,761,815	5,314,494	5,747,168	6,194,500	6,626,000	7,066,400
GDP in EUR million	15,496	16,093	17,240	18,602	20,011	20,740	21,925	23,492	24,592	25,940	27,654	29,492
GDP in US\$ million	20,019	20,154	19,476	20,856	21,317	19,096	19,616	22,121	27,749	31,750	33,754	35,998
GDP per capita in EUR	7,797	8,082	8,677	9,383	10,088	10,425	11,007	11,775	12,319	12,990	13,854	14,777
GDP per capita in US\$	10,073	10,122	9,802	10,519	10,746	9,599	9,848	11,088	13,900	15,899	16,910	18,037
GDP per capita (PPS)*	10,400	11,200	12,000	12,700	13,700	14,500	15,300	16,000	16,400	-	-	-

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Table 1: Main macroeconomic indicators of Slovenia

-Real growth rates in %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
										estimate	forecast	forecast
INTERNATIONAL TRADE - BALANCE OF PAYMENT STATISTICS												
Exports of goods and services ²	1.1	2.8	11.3	7.4	1.6	13.0	6.3	6.7	3.2	8.5	5.8	6.6
Exports of goods	3.0	2.4	13.1	9.4	2.7	12.9	7.0	6.5	4.4	8.6	6.0	6.8
Exports of services	-6.3	4.4	3.8	-1.9	-3.7	13.6	3.1	7.9	-2.4	8.1	5.0	5.8
Imports of goods and services- real ²	11.3	2.3	11.5	10.3	8.0	7.6	3.0	4.9	6.8	9.2	6.5	6.5
Imports of goods	13.1	2.1	13.0	10.8	8.6	7.7	3.2	4.4	7.3	9.7	6.5	6.4
Imports of services	-1.2	3.5	1.9	6.5	4.2	6.9	1.9	8.1	3.3	5.7	6.7	7.0
Exports of goods and services in mil. EUR	8,021	8,375	9,248	9,893	9,867	11,626	12,632	13,522	13,883	15,312	16,438	17,804
As a % of GDP	51.8	52.0	53.6	53.2	49.3	56.1	57.6	57.6	56.5	59.0	59.4	60.4
Imports of goods and services in mil. EUR	8,302	8,534	9,372	10,154	10,701	12,364	12,781	13,174	13,890	15,373	16,592	17,947
As a % of GDP	53.6	53.0	54.4	54.6	53.5	59.7	58.3	56.1	56.5	59.3	60.0	60.9
Trade balance in mil. EUR	-281	-160	-123	-261	-835	-738	-149	347	-7	-61	-153	-144
As a % of GDP	-1.8	-1.0	-0.7	-1.4	-4.2	-3.6	-0.7	1.5	0.0	-0.2	-0.6	-0.5
Current account balance in mil. EUR	-52	32	43	-108	-664	-583	38	335	-91	-60	-100	-125
As a % of GDP	-0.3	0.2	0.3	-0.6	-3.3	-2.8	0.2	1.4	-0.4	-0.2	-0.4	-0.4
Foreign exchange reserves in mil. EUR	2,703	3,326	3,865	4,080	4,104	4,705	6,514	7,842	7,703	7,382 ³	-	-
External debt in mil. EUR	4,275	5,381	6,165	6,459	8,012	9,490	10,403	11,455	13,305	14,610 ⁴	-	-
As a % of GDP	27.6	33.4	35.8	34.7	40.0	45.8	47.4	48.8	54.1	-	-	-

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Table 1: Main macroeconomic indicators of Slovenia

	- Real growth rates in %											
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 estimate	2005 forecast	2006 forecast
EMPLOYMENT, WAGES AND PRODUCTIVITY												
Employment in full-time equivalent	1.0	-2.0	-2.1	0.0	1.4	0.8	0.5	-0.4	-0.3	0.4	0.3	0.4
Registered unemployed (annual average in thousand)	121.5	119.8	125.2	126.1	119.0	106.6	101.9	102.6	97.7	92.8	87.9	83.4
Rate of registered unemployment in %	13.9	13.9	14.4	14.5	13.6	12.2	11.6	11.6	11.2	10.6	10.1	9.6
Rate of unemployment by LO in %	7.4	7.3	7.4	7.9	7.6	7.0	6.4	6.4	6.7	6.4	6.1	5.9
Gross wage per employee	5.1	5.1	2.4	1.6	3.3	1.6	3.2	2.0	1.8	2.2	2.2	2.4
Labour productivity (GDP per capita)	3.0	5.8	7.0	3.6	4.1	3.1	2.2	3.7	2.8	3.6	3.5	3.5
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS												
Final consumption	7.4	2.8	2.5	3.6	5.2	0.9	2.7	0.7	2.7	3.3	3.3	3.1
As a % of GDP	79.3	78.6	77.0	76.7	76.9	76.9	76.8	74.8	74.7	74.1	73.8	73.3
in which:												
Private consumption	9.1	2.6	2.5	3.0	5.9	0.4	2.3	0.3	2.7	3.5	3.4	3.1
As a % of GDP	59.6	58.9	57.7	57.3	57.6	57.1	56.3	54.6	54.4	54.2	53.9	53.6
Government consumption	2.5	3.4	2.4	5.4	2.9	2.3	3.9	1.7	2.6	2.7	2.9	2.9
As a % of GDP	19.7	19.7	19.4	19.4	19.3	19.8	20.5	20.2	20.3	20.0	19.8	19.7
Gross fixed capital formation	16.8	11.3	13.5	9.9	21.0	0.6	4.1	3.1	6.3	7.4	7.0	5.5
As a % of GDP	20.6	21.7	22.8	23.8	26.3	25.1	24.5	23.3	23.9	24.6	25.2	25.6

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Table 1: Main macroeconomic indicators of Slovenia

- Real growth rates in %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
										estimate	forecast	
CONSOLIDATED GENERAL GOVERNMENT REVENUES, EXPENDITURES AND FINANCING; GFS - IMF METHODOLOGY												
General government revenue, share in %, relative to GDP	40.4	40.0	39.3	40.3	41.0	40.6	41.3	39.2	41.3	41.3	-	-
General government expenditure, share in %, relative to GDP	40.4	39.7	40.4	41.1	41.6	41.9	42.6	42.1	42.7	43.1	-	-
Surplus/deficit, share in %, relative to GDP	0.0	0.3	-1.1	-0.8	-0.6	-1.3	-1.3	-2.9	-1.4	-1.8	-	-
EXCHANGE RATE AND PRICES												
Average exchange rate SIT/US\$	118.5	135.4	159.7	166.1	181.8	222.7	242.7	240.2	207.1	195.1	196.3	196.3
Average exchange rate SIT/EUR	153.1	169.5	180.4	186.3	193.6	205.0	217.2	226.2	233.7	238.8	239.6	239.6
Effective exchange rate ⁵	10.3	-2.9	0.7	4.0	-0.7	-1.9	-0.1	2.7	3.8	0.8	1.0	1.1
Inflation (end of the year) ⁶	8.6	8.8	9.4	6.5	8.0	8.9	7.0	7.2	4.6	3.5	2.9	2.7
Inflation (annual average) ⁶	12.6	9.7	9.1	7.9	6.1	8.9	8.4	7.5	5.6	3.6	3.0	2.7

Sources of data: SORS, BS, Ministry of Finance, "Eurostat-New Cronos, October 2004", IMAD estimates and forecasts.

Notes:

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 End of September 2004

⁴ End of August 2004

⁵ Growth in index denotes appreciation of tolar and vice versa

⁶ Retail prices as a measure of inflation until 1998, after 1998 consumer price index

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

- Current prices, SIT million

		2000	2001	2002	2003	2004	2005	2006
						estimate	forecast	
A.	Agriculture, hunting, forestry	118,746	121,903	148,032	131,773	150,133	147,162	152,420
B.	Fishing	732	751	884	1,115	866	892	916
C.	Mining and quarrying	25,567	23,490	22,844	27,048	27,117	27,657	28,391
D.	Manufacturing	1,013,226	1,139,198	1,242,106	1,365,106	1,499,069	1,600,178	1,699,469
E.	Electricity, gas and water supply	105,521	127,026	144,532	148,407	158,072	165,272	172,231
F.	Construction	237,291	248,368	264,720	290,819	309,910	335,310	358,083
G.	Wholesale, retail, trade, repair	421,961	484,756	541,123	593,885	639,354	691,755	738,023
H.	Hotels and restaurants	87,811	98,293	104,081	113,909	121,919	131,912	142,232
I.	Transport, storage, communications	264,215	295,821	327,641	363,183	390,612	424,658	460,075
J.	Financial intermediation	186,798	184,639	242,554	232,701	263,581	289,298	316,412
K.	Real estate, renting and business activities	559,948	634,955	736,673	798,186	855,977	926,133	996,681
L.	Public administration and com. soc. sec.	230,632	269,095	298,935	333,153	356,928	386,182	410,416
M.	Education	206,452	239,831	263,782	287,896	306,795	327,153	345,994
N.	Health and social work	191,869	217,892	234,368	251,688	270,697	292,742	314,135
O.	Other community and personal activities	134,172	149,631	154,863	168,537	179,513	194,226	208,426
P.	Private households with employed persons	1,369	1,789	1,728	1,336	1,361	1,423	1,476
	FISIM	-106,919	-98,989	-128,748	-128,792	-145,070	-164,193	-181,344
1. TOTAL VALUE ADDED (A ... P + FISIM)		3,679,390	4,138,450	4,600,119	4,979,950	5,386,834	5,777,760	6,164,035
2. CORRECTIONS (a-b)								
	a) Taxes on products and services	597,109	646,009	737,489	795,366	838,638	881,370	937,697
	b) Subsidies	24,185	22,644	23,115	28,148	30,972	33,130	35,332
3. GROSS DOMESTIC PRODUCT (3=1+2)		4,252,315	4,761,815	5,314,494	5,747,168	6,194,500	6,626,000	7,066,400

Source of data: SORS, IMAD estimates and forecasts.

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

- Structure in %, current prices

	2000	2001	2002	2003	2004	2005	2006
					estimate	forecast	
A. Agriculture, hunting, forestry	2.8	2.6	2.8	2.3	2.4	2.2	2.2
B. Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Mining and quarrying	0.6	0.5	0.4	0.5	0.4	0.4	0.4
D. Manufacturing	23.8	23.9	23.4	23.8	24.2	24.1	24.0
E. Electricity, gas and water supply	2.5	2.7	2.7	2.6	2.6	2.5	2.4
F. Construction	5.6	5.2	5.0	5.1	5.0	5.1	5.1
G. Wholesale, retail, trade, repair	9.9	10.2	10.2	10.3	10.3	10.4	10.4
H. Hotels and restaurants	2.1	2.1	2.0	2.0	2.0	2.0	2.0
I. Transport, storage, communications	6.2	6.2	6.2	6.3	6.3	6.4	6.5
J. Financial intermediation	4.4	3.9	4.6	4.0	4.3	4.4	4.5
K. Real estate, renting and business activities	13.2	13.3	13.9	13.9	13.8	14.0	14.1
L. Public administration and com. soc. sec.	5.4	5.7	5.6	5.8	5.8	5.8	5.8
M. Education	4.9	5.0	5.0	5.0	5.0	4.9	4.9
N. Health and social work	4.5	4.6	4.4	4.4	4.4	4.4	4.4
O. Other community and personal activities	3.2	3.1	2.9	2.9	2.9	2.9	2.9
P. Private households with employed persons	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FISIM	-2.5	-2.1	-2.4	-2.2	-2.3	-2.5	-2.6
1. TOTAL VALUE ADDED (A ... P + FISIM)	86.5	86.9	86.6	86.7	87.0	87.2	87.2
2. CORRECTIONS (a-b)	13.5	13.1	13.4	13.3	13.0	12.8	12.8
a) Taxes on products and services	14.0	13.6	13.9	13.8	13.5	13.3	13.3
b) Subsidies	0.6	0.5	0.4	0.5	0.5	0.5	0.5
3. GROSS DOMESTIC PRODUCT (3=1+2)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:							
1. Agriculture, forestry, fishing (A+B)	2.8	2.6	2.8	2.3	2.4	2.2	2.2
2. Industry and construction (C+D+E+F)	32.5	32.3	31.5	31.9	32.2	32.1	32.0
- Industry (C+D+E)	26.9	27.1	26.5	26.8	27.2	27.1	26.9
- Construction F	5.6	5.2	5.0	5.1	5.0	5.1	5.1
3. Services (G...P)	53.7	54.1	54.7	54.7	54.7	55.3	55.7
4. FISIM	-2.5	-2.1	-2.4	-2.2	-2.3	-2.5	-2.6
5. Corrections	13.5	13.1	13.4	13.3	13.0	12.8	12.8
shares in value added in %							
TOTAL VALUE ADDED (basic prices)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
in which:							
1. Agriculture, forestry, fishing (A+B)	4.3	4.0	4.2	3.9	3.3	3.2	3.0
2. Industry and construction (C+D+E+F)	36.8	37.5	37.1	37.5	37.4	37.5	37.2
- Industry (C+D+E)	31.3	31.4	31.0	31.4	30.7	31.1	31.2
- Construction F	5.5	6.1	6.1	6.1	6.7	6.4	6.0
3. Services (G...P)	61.3	61.4	61.3	61.0	61.9	62.1	62.3
4. FISIM	-2.4	-2.9	-2.5	-2.5	-2.6	-2.9	-2.4

Sources of data: SORS, IMAD estimates and forecasts.

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

- Prices 2000, SIT million

		2000	2001	2002	2003	2004	2005	2006
						estimate	forecast	
A.	Agriculture, hunting, forestry	118,746	104,272	120,446	101,842	111,975	113,095	114,169
B.	Fishing	732	743	712	748	561	561	561
C.	Mining and quarrying	25,567	24,172	22,145	23,429	22,949	22,949	23,167
D.	Manufacturing	1,013,226	1,064,428	1,115,848	1,159,400	1,233,022	1,295,906	1,358,757
E.	Electricity, gas and water supply	105,521	112,897	119,751	116,032	118,875	119,469	120,604
F.	Construction	237,291	232,127	233,595	241,492	247,530	257,431	266,312
G.	Wholesale, retail, trade, repair	421,961	431,909	447,215	460,104	476,437	495,495	512,094
H.	Hotels and restaurants	87,811	93,518	96,735	100,168	103,123	107,247	112,020
I.	Transport, storage, communications	264,215	277,298	285,786	295,508	305,703	319,460	335,273
J.	Financial intermediation	186,798	198,686	210,216	222,939	242,892	256,251	271,498
K.	Real estate, renting and business activities	559,948	582,945	602,379	624,736	644,415	670,192	698,675
L.	Public administration and com. soc. sec.	230,632	242,794	250,784	261,763	269,747	280,537	288,813
M.	Education	206,452	210,929	216,427	221,514	227,052	232,728	238,430
N.	Health and social work	191,869	196,781	204,589	210,867	218,142	226,758	235,715
O.	Other community and personal activities	134,172	137,986	134,936	136,968	140,323	145,936	151,705
P.	Private households with employed persons	1,369	1,540	1,388	915	896	901	905
	FISIM	-106,919	-119,970	-128,382	-144,202	-156,232	-169,969	-181,849
1. TOTAL VALUE ADDED (A...P + FISIM)		3,679,390	3,793,055	3,934,570	4,034,223	4,207,410	4,374,947	4,546,849
2. CORRECTIONS (a-b)		572,924	573,166	576,845	591,080	603,590	618,353	643,451
	a) Taxes on products and services	597,109	596,482	601,697	615,785	629,024	644,435	670,107
	b) Subsidies	24,185	23,315	24,853	24,705	25,434	26,083	26,656
3. GROSS DOMESTIC PRODUCT (3=1+2)		4,252,315	4,366,221	4,511,414	4,625,302	4,811,000	4,993,300	5,190,300
TOTAL VALUE ADDED (basic prices)		3,679,390	3,793,055	3,934,570	4,034,223	4,207,410	4,374,947	4,546,849
in which:								
1.	Agriculture, forestry, fishing (A + B)	119,478	105,016	121,158	102,590	112,536	113,656	114,730
2.	Industry and construction (C + D + E + F)	1,381,604	1,433,625	1,491,339	1,540,354	1,622,376	1,695,755	1,768,840
	- Industry (C + D + E)	1,144,313	1,201,498	1,257,744	1,298,862	1,374,846	1,438,325	1,502,528
	- Construction F	237,291	232,127	233,595	241,492	247,530	257,431	266,312
3.	Services (G...P)	2,285,227	2,374,384	2,450,455	2,535,480	2,628,730	2,735,505	2,845,127
4.	FISIM	-106,919	-119,970	-128,382	-144,202	-156,232	-169,969	-181,849

Source of data: SORS, IMAD estimates and forecasts..

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

- Real growth rates in % (prices 2000)

		2001	2002	2003	2004	2005	2006
					estimate	forecast	
A.	Agriculture, hunting, forestry	-12.2	15.5	-15.4	10.0	1.0	1.0
B.	Fishing	1.6	-4.2	5.1	-25.0	0.0	0.0
C.	Mining and quarrying	-5.5	-8.4	5.8	-2.0	0.0	1.0
D.	Manufacturing	5.1	4.8	3.9	6.4	5.1	4.9
E.	Electricity, gas and water supply	7.0	6.1	-3.1	2.5	0.5	1.0
F.	Construction	-2.2	0.6	3.4	2.5	4.0	3.5
G.	Wholesale, retail, trade, repair	2.4	3.5	2.9	3.6	4.0	3.4
H.	Hotels and restaurants	6.5	3.4	3.5	3.0	4.0	4.5
I.	Transport, storage, communications	5.0	3.1	3.4	3.5	4.5	5.0
J.	Financial intermediation	6.4	5.8	6.1	9.0	5.5	6.0
K.	Real estate, renting and business activities	4.1	3.3	3.7	3.2	4.0	4.3
L.	Public administration and com. soc. sec.	5.3	3.3	4.4	3.1	4.0	3.0
M.	Education	2.2	2.6	2.4	2.5	2.5	2.5
N.	Health and social work	2.6	4.0	3.1	3.5	4.0	4.0
O.	Other community and personal activities	2.8	-2.2	1.5	2.5	4.0	4.0
P.	Private households with employed persons	12.5	-9.8	-34.1	-2.0	0.5	0.5
FISIM		12.2	7.0	12.3	8.3	8.8	7.0
1. TOTAL VALUE ADDED (A...P + FISIM)		3.1	3.7	2.5	4.3	4.0	3.9
2. CORRECTIONS (a-b)		0.0	0.6	2.5	2.1	2.4	4.1
a) Taxes on products and services		-0.1	0.9	2.3	2.2	2.5	4.0
b) Subsidies		-3.6	6.6	-0.6	3.0	2.5	2.2
3. GROSS DOMESTIC PRODUCT (3=1+2)		2.7	3.3	2.5	4.0	3.8	3.9
TOTAL VALUE ADDED		3.1	3.7	2.5	4.3	4.0	3.9
in which:							
1. Agriculture, forestry, fishing (A + B)		-12.1	15.4	-15.3	9.7	1.0	0.9
2. Industry and construction (C + D + E + F)		3.8	4.0	3.3	5.3	4.5	4.3
- Industry (C + D + E)		5.0	4.7	3.3	5.9	4.6	4.5
- Construction F		-2.2	0.6	3.4	2.5	4.0	3.5
3. Services (G...P)		3.9	3.2	3.5	3.7	4.1	4.0
4. FISIM		12.2	7.0	12.3	8.3	8.8	7.0

Sources of data: SORS, IMAD estimates and forecasts.

Table 4: Gross domestic product and primary incomes

- Current prices, SIT million

	2000	2001	2002	2003	2004	2005	2006
					estimate	forecast	
Compensation of employees	2,275,737	2,564,414	2,818,596	3,040,177	3,229,400	3,420,564	3,622,717
Wages and salaries	2,033,162	2,293,557	2,517,718	2,715,231	2,884,318	3,055,130	3,235,719
Employers' social contributions	242,575	270,857	300,879	324,946	345,082	365,434	386,998
Taxes on production and imports	700,668	771,895	878,945	963,120	1,021,327	1,072,855	1,143,073
Taxes on products and services	597,109	646,009	737,489	795,366	838,638	881,370	937,697
Taxes on production	103,559	125,886	141,455	167,754	182,689	191,485	205,376
Subsidies	63,205	67,993	64,517	83,900	92,917	99,390	105,996
Subsidies on products and services	24,185	22,644	23,115	28,148	30,972	33,130	35,332
Other subsidies	39,021	45,348	41,402	55,752	61,945	66,260	70,664
Gross operating surplus and gross mixed income	998,654	1,132,256	1,253,900	1,394,191	1,553,551	1,702,507	1,835,716
Consumption of fixed capital	661,803	732,241	780,514	800,835	892,372	977,934	1,054,450
Net operatin surplus	336,851	400,016	473,386	593,356	661,178	724,573	781,266
Gross mixed income	340,461	361,241	427,570	433,580	483,139	529,464	570,890
Consumption of fixed capital	83,202	90,891	92,596	95,803	106,754	116,990	126,143
Net mixed income	257,259	270,351	334,974	337,777	376,386	412,474	444,747
GROSS DOMESTIC PRODUCT	4,252,315	4,761,815	5,314,494	5,747,168	6,194,500	6,626,000	7,066,400
structure in %							
Compensation of employees	53.5	53.9	53.0	52.9	52.1	51.6	51.3
Wages and salaries	47.8	48.2	47.4	47.2	46.6	46.1	45.8
Employers' social contributions	5.7	5.7	5.7	5.7	5.6	5.5	5.5
Taxes on production and imports	16.5	16.2	16.5	16.8	16.5	16.2	16.2
Taxes on products and services	14.0	13.6	13.9	13.8	13.5	13.3	13.3
Taxes on production	2.4	2.6	2.7	2.9	2.9	2.9	2.9
Subsidies	1.5	1.4	1.2	1.5	1.5	1.5	1.5
Subsidies on products and services	0.6	0.5	0.4	0.5	0.5	0.5	0.5
Other subsidies	0.9	1.0	0.8	1.0	1.0	1.0	1.0
Gross operating surplus and gross mixed income	23.5	23.8	23.6	24.3	25.1	25.7	26.0
Consumption of fixed capital	15.6	15.4	14.7	13.9	14.4	14.8	14.9
Net operatin surplus	7.9	8.4	8.9	10.3	10.7	10.9	11.1
Gross mixed income	8.0	7.6	8.0	7.5	7.8	8.0	8.1
Consumption of fixed capital	2.0	1.9	1.7	1.7	1.7	1.8	1.8
Net mixed income	6.0	5.7	6.3	5.9	6.1	6.2	6.3
GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source of data: SORS, IMAD estimates and forecasts.

Table 5: Expenditure on gross domestic product

- Current prices, SIT million

		2000	2001	2002	2003	2004	2005	2006
						estimate	forecast	
1	GROSS DOMESTIC PRODUCT (1 = 4 + 5)	4,252,315	4,761,815	5,314,494	5,747,168	6,194,500	6,626,000	7,066,400
2	EXPORTS OF GOODS AND SERVICES	2,387,289	2,744,468	3,060,345	3,245,428	3,656,435	3,938,614	4,265,800
3	IMPORT OF GOODS AND SERVICES	2,538,115	2,776,503	2,981,749	3,247,262	3,671,064	3,975,345	4,300,200
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-150,826	-32,035	78,596	-1,834	-14,628	-36,730	-34,399
5	TOTAL DOMESTIC DEMAND (5=6+9)	4,403,141	4,793,849	5,235,897	5,749,003	6,209,128	6,662,730	7,100,800
6	FINAL CONSUMPTION (6=7+8)	3,269,505	3,656,738	3,973,047	4,293,961	4,593,198	4,888,603	5,180,603
7	PRIVATE CONSUMPTION	2,426,039	2,682,049	2,900,011	3,127,977	3,354,772	3,573,807	3,787,089
	- households	2,373,578	2,621,790	2,830,439	3,053,907	3,274,582	3,487,495	3,694,413
	- non-profit institutions	52,461	60,259	69,572	74,070	80,190	86,312	92,676
8	GOVERNMENT CONSUMPTION (individual and collective)	843,466	974,689	1,073,036	1,165,984	1,238,426	1,314,796	1,393,514
9	GROSS CAPITAL FORMATION (9=10+11)	1,133,636	1,137,111	1,262,851	1,455,041	1,615,930	1,774,127	1,920,197
10	GROSS FIXED CAPITAL FORMATION	1,066,779	1,164,431	1,239,153	1,373,343	1,522,053	1,672,534	1,806,845
11	CHANGES IN INVENTORIES AND VALUABLES	66,857	-27,320	23,698	81,698	93,877	101,593	113,352
Structure in %								
1	GROSS DOMESTIC PRODUCT (1 = 4 + 5)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2	EXPORTS OF GOODS AND SERVICES	56.1	57.6	57.6	56.5	59.0	59.4	60.4
3	IMPORT OF GOODS AND SERVICES	59.7	58.3	56.1	56.5	59.3	60.0	60.9
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4=2-3)	-3.5	-0.7	1.5	0.0	-0.2	-0.6	-0.5
5	TOTAL DOMESTIC DEMAND (5=6+9)	103.5	100.7	98.5	100.0	100.2	100.6	100.5
6	FINAL CONSUMPTION (6=7+8)	76.9	76.8	74.8	74.7	74.1	73.8	73.3
7	PRIVATE CONSUMPTION	57.1	56.3	54.6	54.4	54.2	53.9	53.6
	- households	55.8	55.1	53.3	53.1	52.9	52.6	52.3
	- non-profit institutions	1.2	1.3	1.3	1.3	1.3	1.3	1.3
8	GOVERNMENT CONSUMPTION (individual and collective)	19.8	20.5	20.2	20.3	20.0	19.8	19.7
9	GROSS CAPITAL FORMATION (9=10+11)	26.7	23.9	23.8	25.3	26.1	26.8	27.2
10	GROSS FIXED CAPITAL FORMATION	25.1	24.5	23.3	23.9	24.6	25.2	25.6
11	CHANGES IN INVENTORIES AND VALUABLES	1.6	-0.6	0.4	1.4	1.5	1.5	1.6

Source of data: SORS, BS, IMAD estimates and forecasts.

Table 6: Expenditure on gross domestic product

- Prices 2000, SIT million

		2000	2001	2002	2003	2004	2005	2006
						estimate	forecast	
1	GROSS DOMESTIC PRODUCT (1 = 4 + 5)	4,252,315	4,366,221	4,511,414	4,625,302	4,811,000	4,993,300	5,190,300
2	EXPORTS OF GOODS AND SERVICES	2,387,289	2,537,244	2,707,409	2,794,195	3,032,819	3,208,722	3,422,102
3	IMPORTS OF GOODS AND SERVICES	2,538,115	2,614,934	2,742,110	2,927,676	3,197,023	3,404,829	3,624,441
4	EXTERNAL BALANCE OF GOODS AND SERVICES (4 = 2 - 3)	-150,826	-77,690	-34,701	-133,482	-164,204	-196,107	-202,339
5	TOTAL DOMESTIC DEMAND (5 = 6 + 9)	4,403,141	4,443,912	4,546,115	4,758,784	4,975,203	5,189,407	5,392,639
6	FINAL CONSUMPTION (6 = 7 + 8)	3,269,505	3,358,774	3,381,022	3,471,855	3,586,642	3,704,566	3,818,882
7	PRIVATE CONSUMPTION	2,426,039	2,482,266	2,489,914	2,557,919	2,648,030	2,738,734	2,824,558
	- households	2,373,578	2,427,231	2,431,984	2,499,588	2,587,073	2,675,034	2,757,960
	- non-profit institutions	52,461	55,035	57,931	58,332	60,957	63,700	66,598
8	GOVERNMENT CONSUMPTION (individual and collective)	843,466	876,508	891,107	913,936	938,612	965,832	994,324
9	GROSS CAPITAL FORMATION (9 = 10 + 11)	1,133,636	1,085,138	1,165,093	1,286,929	1,388,561	1,484,841	1,573,757
10	GROSS FIXED CAPITAL FORMATION	1,066,779	1,110,612	1,144,797	1,216,528	1,306,551	1,398,663	1,476,289
11	CHANGES IN INVENTORIES AND VALUABLES	66,857	-25,474	20,296	70,401	82,010	86,178	97,468
real growth rates in %								
1	GROSS DOMESTIC PRODUCT (1 = 4 + 5)	-	2.7	3.3	2.5	4.0	3.8	3.9
2	EXPORTS OF GOODS AND SERVICES	-	6.3	6.7	3.2	8.5	5.8	6.6
3	IMPORT OF GOODS AND SERVICES	-	3.0	4.9	6.8	9.2	6.5	6.5
4	EXTERNAL BALANCE OF GOODS AND SERVICES ¹	-	1.7	1.0	-2.2	-0.7	-0.7	-0.1
5	TOTAL DOMESTIC DEMAND (5 = 6 + 9)	-	0.9	2.3	4.7	4.5	4.3	3.9
6	FINAL CONSUMPTION (6 = 7 + 8)	-	2.7	0.7	2.7	3.3	3.3	3.1
7	PRIVATE CONSUMPTION	-	2.3	0.3	2.7	3.5	3.4	3.1
	- households	-	2.3	0.2	2.8	3.5	3.4	3.1
	- non-profit institutions	-	4.9	5.3	0.7	4.5	4.5	4.5
8	GOVERNMENT CONSUMPTION (individual and collective)	-	3.9	1.7	2.6	2.7	2.9	2.9
9	GROSS CAPITAL FORMATION	-	-4.3	7.4	10.5	7.9	6.9	6.0
	in which:							
	GROSS FIXED CAPITAL FORMATION	-	4.1	3.1	6.3	7.4	7.0	5.5
	CHANGES IN INVENTORIES AND VALUABLES ¹	-	-2.2	1.0	1.1	0.3	0.1	0.2

Source of data: SORS, BS, IMAD's forecasts.

Note: ¹ contribution to real GDP growth (percentage points)

Table 7: Main aggregates of national accounts

- Current prices, SIT million

		2000	2001	2002	2003	2004	2005	2006
						estimate	forecast	
1	GROSS DOMESTIC PRODUCT	4,252,315	4,761,815	5,314,494	5,747,168	6,194,500	6,626,000	7,066,400
2	Net primary incomes from the rest of the world	6,008	9,333	-34,427	-41,152	-27,701	-30,669	-39,774
3	GROSS NATIONAL INCOME (3=1+2)	4,258,323	4,771,148	5,280,067	5,706,016	6,166,799	6,595,331	7,026,626
4	Net current transfers from the rest of the world	25,746	31,166	32,267	21,739	27,940	43,368	44,326
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	4,284,069	4,802,314	5,312,334	5,727,755	6,194,738	6,638,699	7,070,953
6	FINAL CONSUMPTION EXPENDITURE	3,269,505	3,656,738	3,973,046	4,293,961	4,593,198	4,888,603	5,180,603
	- private consumption	2,426,039	2,682,049	2,900,011	3,127,977	3,354,772	3,573,807	3,787,089
	- government consumption	843,466	974,689	1,073,036	1,165,984	1,238,426	1,314,796	1,393,514
7	GROSS SAVING (7=5-6)	1,014,565	1,145,576	1,339,288	1,433,794	1,601,541	1,750,096	1,890,350
8	GROSS CAPITAL FORMATION	1,133,636	1,137,111	1,262,852	1,455,041	1,615,930	1,774,127	1,920,197
	in which:							
	- gross fixed capital formation	1,066,779	1,164,431	1,239,153	1,373,343	1,522,053	1,672,534	1,806,845
	- changes in inventories and valuables	66,857	-27,320	23,698	81,698	93,877	101,593	113,352
9	SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-119,072	8,464	76,436	-21,247	-14,390	-24,031	-29,847
structure in %								
1	GROSS DOMESTIC PRODUCT	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2	Net primary incomes from the rest of the world	0.1	0.2	-0.6	-0.7	-0.4	-0.5	-0.6
3	GROSS NATIONAL INCOME (3=1+2)	100.1	100.2	99.4	99.3	99.6	99.5	99.4
4	Net current transfers from the rest of the world	0.6	0.7	0.6	0.4	0.5	0.7	0.6
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	100.7	100.9	100.0	99.7	100.0	100.2	100.1
6	FINAL CONSUMPTION EXPENDITURE	76.9	76.8	74.8	74.7	74.1	73.8	73.3
	- private consumption	57.1	56.3	54.6	54.4	54.2	53.9	53.6
	- government consumption	19.8	20.5	20.2	20.3	20.0	19.8	19.7
7	GROSS SAVING (7=5-6)	23.9	24.1	25.2	24.9	25.9	26.4	26.8
8	GROSS CAPITAL FORMATION	26.7	23.9	23.8	25.3	26.1	26.8	27.2
	in which:							
	- gross fixed capital formation	25.1	24.5	23.3	23.9	24.6	25.2	25.6
	- changes in inventories and valuables	1.6	-0.6	0.4	1.4	1.5	1.5	1.6
9	SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-2.8	0.2	1.4	-0.4	-0.2	-0.4	-0.4

Source of data: SORS, IMAD estimates and forecasts.

Table 8: Balance of payments

- EUR million

	1996	1997	1998	1999	2000	2001	2002	2003	2004		2005		2006
									estimate	forecast	estimate	forecast	
I. CURRENT ACCOUNT	32	43	-108	-664	-563	38	335	-91	-60	-100	-125		
1. TRADE BALANCE	-671	-684	-708	-1,164	-1,227	-684	-269	-546	-713	-819	-831		
1.1. Exports fob	6,671	7,438	8,088	8,103	9,574	10,454	11,082	11,414	12,544	13,483	14,630		
1.2. Imports fob	7,342	8,122	8,796	9,267	10,801	11,139	11,351	11,960	13,257	14,302	15,461		
2. SERVICES	511	561	447	330	489	536	616	538	652	666	687		
2.1. Receipts	1,704	1,810	1,804	1,763	2,052	2,178	2,440	2,469	2,767	2,955	3,173		
- Transport	384	412	481	490	534	559	635	680	812	880	950		
- Travel	989	1,048	971	900	1,045	1,105	1,143	1,186	1,289	1,363	1,462		
- Other	331	350	352	373	473	514	663	603	666	712	760		
2.2. Expenditure	1,193	1,249	1,357	1,434	1,562	1,642	1,823	1,930	2,116	2,289	2,486		
- Transport	327	327	366	357	385	356	385	418	512	553	597		
- Travel	481	463	501	512	556	601	635	667	741	778	818		
- Other	385	459	490	565	621	685	804	845	863	958	1,072		
1-2. BALANCE OF GOODS & SERVICES	-160	-123	-261	-835	-738	-149	347	-7	-61	-153	-144		
Exports	8,375	9,248	9,893	9,867	11,626	12,632	13,522	13,883	15,312	16,438	17,804		
Imports	8,534	9,372	10,154	10,701	12,364	12,781	13,174	13,890	15,373	16,592	17,947		
3. FACTOR SERVICES	122	66	49	58	29	43	-154	-178	-116	-128	-166		
3.1. Receipts	330	346	368	400	471	511	480	517	530	547	559		
- Labour income	187	182	183	194	204	197	206	207	205	211	215		
- Investment income	143	165	184	206	268	314	274	310	325	336	344		
3.2. Expenditure	208	281	319	342	442	468	634	695	646	675	725		
- Profits from direct investment	19	23	24	23	29	30	36	43	45	50	50		
- Interest	189	257	294	319	413	438	597	652	601	625	675		
4. UNREQUITED TRANSFERS	70	101	104	112	125	144	142	94	117	181	185		
4.1. Receipts	200	230	266	316	371	436	478	448	580	736	762		
4.2. Expenditure	130	129	162	203	245	293	336	354	463	555	578		

Cont. on the next page.

Table 8: Balance of payments

- EUR million

	1996	1997	1998	1999	2000	2001	2002	2003
II. CAPITAL AND FINANCIAL ACCOUNT								
	-34	-111	53	625	542	-148	-142	26
A. CAPITAL ACCOUNT	-1	1	-1	-1	4	-4	-164	-165
1. Capital transfers	1	2	0	0	1	1	-163	-164
2. Non-produced non-financial assets	-2	-1	-1	-1	3	-5	-1	-2
B. FINANCIAL ACCOUNT	-32	-112	54	625	538	-144	21	192
1. Direct investment	133	267	199	55	77	251	1,582	-115
- Foreign in Slovenia	138	295	194	99	149	412	1,750	299
- Domestic abroad	-6	-28	5	-45	-72	-161	-168	-414
2. Portfolio investment	508	212	82	324	185	80	-69	-218
3. Financial derivatives	0	0	0	0	0	0	0	0
4. Other long-term capital	-209	549	-81	159	462	964	393	788
4.1. Assets	-344	230	-405	-540	-576	248	-703	-836
4.2. Liabilities	134	319	324	699	1,038	716	1,097	1,624
5. International reserves	-463	-1,141	-146	88	-187	-1,439	-1,885	-264
III. STATISTICAL ERRORS	2	68	55	40	41	110	-193	65

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

Table 9: Consolidated general government revenues; GFS - IMF methodology

- Current prices, SIT million

	1995	1996	1997	1998	1999	2000	2001	2002	2003
I. CONSOLIDATED GENERAL GOVERNMENT REVENUES									
I. TOTAL GENERAL GOVERNMENT REVENUES	988,186	1,091,815	1,222,587	1,397,903	1,590,017	1,726,724	1,967,786	2,083,860	2,375,840
TAX REVENUES	916,328	1,032,285	1,156,099	1,302,752	1,499,430	1,599,594	1,796,344	1,909,595	2,189,486
TAXES ON INCOME AND PROFIT	160,370	196,930	227,624	252,936	273,818	311,429	357,877	395,045	460,520
Personal income tax	147,429	174,639	194,062	213,342	231,641	259,634	289,102	319,822	353,126
Corporate income tax	12,941	22,291	33,562	39,593	42,177	51,795	68,775	75,223	107,394
SOCIAL SECURITY CONTRIBUTIONS	363,000	376,184	400,630	448,398	496,371	552,574	620,908	681,816	737,632
TAXES ON PAYROLL AND WORKFORCE	3,829	18,259	37,491	45,905	55,416	68,071	83,369	93,897	107,424
Payroll tax	809	14,943	33,994	42,058	51,454	63,849	79,031	88,994	102,968
Tax on contracting work	3,020	3,316	3,497	3,847	3,962	4,222	4,338	4,903	4,456
TAXES ON PROPERTY	12,343	14,628	19,589	27,722	26,597	26,513	32,965	34,428	34,419
DOMESTIC TAXES ON GOODS AND SERVICES	298,159	349,451	412,094	479,713	601,470	602,895	673,380	672,703	814,577
TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS	78,176	76,593	58,463	47,291	45,657	38,089	29,607	31,341	34,653
OTHER TAXES	451	241	208	787	100	23	238	365	261
NON-TAX REVENUES	39,564	56,851	60,924	88,230	79,825	110,035	148,455	144,877	157,113
CAPITAL REVENUES, VOLUNTARY DONATIONS	2,294	2,678	5,565	6,920	10,762	17,095	20,987	29,388	29,241

Cont. on the next page.

Table 9: Consolidated general government revenues; GFS - IMF methodology

- in %, relative to GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003
I. CONSOLIDATED GENERAL GOVERNMENT REVENUES	40.4	40.0	39.3	40.3	41.0	40.6	41.3	39.2	41.3
TOTAL GENERAL GOVERNMENT REVENUES									
TAX REVENUES	38.6	37.8	37.2	37.6	38.7	37.6	37.8	35.9	38.1
TAXES ON INCOME AND PROFIT	6.8	7.2	7.3	7.3	7.1	7.3	7.5	7.4	8.0
Personal income tax	6.2	6.4	6.2	6.2	6.0	6.1	6.1	6.0	6.1
Corporate income tax	0.5	0.8	1.1	1.1	1.1	1.2	1.4	1.4	1.9
SOCIAL SECURITY CONTRIBUTIONS	15.3	13.8	12.9	12.9	12.8	13.0	13.0	12.8	12.8
TAXES ON PAYROLL AND WORKFORCE	0.2	0.7	1.2	1.3	1.4	1.6	1.8	1.8	1.9
Payroll tax	0.0	0.5	1.1	1.2	1.3	1.5	1.7	1.7	1.8
Tax on contracting work	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TAXES ON PROPERTY	0.5	0.5	0.6	0.8	0.7	0.6	0.7	0.6	0.6
DOMESTIC TAXES ON GOODS AND SERVICES	12.6	12.8	13.3	13.8	15.5	14.2	14.1	12.7	14.2
TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS	3.3	2.8	1.9	1.4	1.2	0.9	0.6	0.6	0.6
OTHER TAXES	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NON-TAX REVENUES	1.7	2.1	2.0	2.5	2.1	2.6	3.1	2.7	2.7
CAPITAL REVENUES, VOLONTARY DONATIONS	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.6	0.5

Source of data: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia, calculations by the IMAD.

Table 10: Consolidated general government expenditure; GFS - IMF methodology

- Current prices, SIT million

	1995	1996	1997	1998	1999	2000	2001	2002	2003
CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE									
II. TOTAL EXPENDITURE	957,273	1,083,586	1,256,668	1,423,494	1,613,314	1,781,444	2,030,977	2,239,883	2,454,309
CURRENT EXPENDITURE	169,751	192,816	223,184	262,658	298,448	342,767	406,656	449,259	491,297
WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	66,826	81,983	96,725	104,147	116,560	131,911	155,275	174,026	195,541
PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	76,102	77,928	90,037	106,076	130,943	149,900	178,612	191,705	203,095
INTEREST PAYMENTS	25,598	31,121	34,666	41,721	50,945	60,956	72,809	83,528	92,661
CURRENT TRANSFERS	694,218	783,390	914,039	1,031,185	1,147,096	1,267,732	1,425,336	1,583,717	1,730,010
SUBSIDIES	41,747	34,547	39,961	49,239	63,088	58,951	63,161	60,435	69,470
CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	391,785	444,184	519,109	573,820	648,071	731,077	821,358	910,392	986,100
Current transfers to public institutions and public utilities	251,597	294,132	341,157	379,320	398,925	441,645	508,292	566,881	613,995
OTHER CURRENT DOMESTIC TRANSFERS	10,315	12,311	13,813	28,806	37,012	36,059	32,525	46,009	60,445
CAPITAL EXPENDITURE TOTAL	93,304	107,379	121,181	140,364	167,770	170,945	198,945	206,907	233,002
CAPITAL EXPENDITURE TOTAL	57,376	63,643	67,637	82,206	109,476	111,003	127,996	128,733	142,131
CAPITAL TRANSFERS	35,928	43,736	53,545	58,158	58,294	59,942	70,949	78,174	90,871
III. SURPLUS / DEFICIT (I. - II.)	913	8,230	-34,081	-25,591	-23,297	-54,720	-63,191	-156,023	-78,469

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Table 10: Consolidated general government expenditure; GFS - IMF methodology

	- in %, relative to GDP									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2003
II. CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE										
TOTAL EXPENDITURE	40.4	39.7	40.4	41.1	41.6	41.9	42.6	42.1	42.7	42.7
CURRENT EXPENDITURE	7.2	7.1	7.2	7.6	7.7	8.1	8.5	8.5	8.5	8.5
WAGES, SALARIES AND OTHER PERSONNEL EXPENDITURE IN GOVERNMENT AGENCIES AND LOCAL COMMUNITIES	2.8	3.0	3.1	3.0	3.0	3.1	3.3	3.3	3.4	3.4
PURCHASES OF GOODS AND SERVICES IN STATE BODIES AND LOCAL COMMUNITIES	3.2	2.9	2.9	3.1	3.4	3.5	3.8	3.6	3.5	3.5
INTEREST PAYMENTS	1.1	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.6	1.6
CURRENT TRANSFERS	29.3	28.7	29.4	29.8	29.6	29.6	29.9	29.8	30.1	30.1
SUBSIDIES	1.8	1.3	1.3	1.4	1.6	1.4	1.3	1.1	1.2	1.2
CURRENT TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	16.5	16.3	16.7	16.6	16.7	17.2	17.2	17.1	17.2	17.2
Current transfers to public institutions and public utilities	10.6	10.8	11.0	10.9	10.3	10.4	10.7	10.7	10.7	10.7
OTHER CURRENT DOMESTIC TRANSFERS	0.4	0.5	0.4	0.8	1.0	0.8	0.7	0.9	1.1	1.1
CAPITAL EXPENDITURE TOTAL	3.9	3.9	3.9	4.1	4.3	4.0	4.2	3.9	4.1	4.1
CAPITAL EXPENDITURE TOTAL	2.4	2.3	2.2	2.4	2.8	2.6	2.7	2.4	2.5	2.5
CAPITAL TRANSFERS	1.5	1.6	1.7	1.7	1.5	1.4	1.5	1.5	1.6	1.6
III. SURPLUS / DEFICIT (I. - II.)	0.0	0.3	-1.1	-0.8	-0.6	-1.3	-1.3	-2.9	-1.4	-1.4

Source of data: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia, calculations by the IMAD.

Table 11: Indicators of international competitiveness

	- Annual growth in %										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 estimate	2005 forecast
Effective exchange rate ¹											
Nominal	-0.5	-9.8	-5.4	-2.6	-5.5	-8.1	-5.8	-2.9	-0.2	-0.9	-0.3
Real ²	10.3	-2.9	0.7	4.0	-0.7	-1.9	-0.1	2.7	3.8	0.8	1.0
Unit labour costs in manufacturing ³											
In SIT nominal	10.0	7.1	7.4	5.9	7.4	4.2	8.5	6.3	3.4	1.3	1.3
In the basket of currencies ⁴	9.5	-3.4	1.6	3.2	1.5	-4.2	2.2	3.2	3.2	0.4	1.0
In the basket of currencies - relative ⁵	10.1	-5.2	4.3	4.5	0.9	-3.5	-0.1	2.8	2.5	0.6	1.3
Components ⁴											
Compensation of employees - real ⁶	4.9	3.9	3.4	3.4	2.9	2.6	1.8	2.3	1.2	3.6	2.6
Net wages and other remunerations	6.8	7.7	4.3	3.1	2.5	1.9	0.8	1.6	0.3	3.4	2.8
Tax burden on wages ⁷	-0.6	-2.6	-0.5	0.6	0.4	0.6	0.6	0.4	0.3	0.3	-0.2
Labour productivity	8.2	6.6	4.3	5.4	1.7	7.2	1.8	3.4	3.4	5.9	4.3
Prices / effective exchange rate	12.9	-0.8	2.5	5.1	0.3	0.1	2.1	4.3	5.4	2.7	2.7

Sources of data: APP, BS, SORS, EC, OECD, calculations, estimates and forecasts IMAD.

Notes:

- ¹ Growth in index value denotes appreciation of tolar and vice versa.
- ² Measured by relative consumer prices.
- 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.

Table 12: Population and labour force

- Numbers in thousands, indicators in %

	2000	2001	2002	2003	2004	2005	2006
					estimate	forecast	
POPULATION, as at 30 June (in thousand)	1990.3	1992.0	1995.7	1996.8	1997.0	1996.1	1995.8
Age structure (in perc.s): 0-14 years	15.9	15.6	15.2	14.8	14.5	14.2	14.0
15-64 years	70.1	70.1	70.2	70.4	70.4	70.4	70.4
65 years and more	14.0	14.3	14.6	14.9	15.1	15.4	15.6
LABOUR FORCE (A=B+C1.)	968.0	979.0	971.0	962.0	997.2	997.4	999.7
Persons in employment (B)	901.0	916.0	910.0	897.0	933.7	936.4	940.6
Persons in paid employment (B1)*	683.0	694.8	697.9	699.1	700.9	704.8	709.4
Formally self-employed persons (B2)	85.1	84.2	85.6	78.1	78.9	77.6	76.5
Unformally employed (B3=B-B1-B2)	132.8	137.0	126.5	119.8	153.9	154.0	154.7
Survey unemployed -ILO standard (C1)	68.0	63.0	62.0	64.0	63.4	60.9	59.1
Registered unemployed persons (C2)	106.6	101.9	102.6	97.7	92.8	87.9	83.4
LABOUR MARKET INDICATORS (in perc.s)							
Participation rate (15-64 years)	67.8	68.3	67.8	67.1	69.3	69.3	69.5
men	72.2	73.1	72.5	72.0	74.0	73.6	73.9
women	63.2	63.5	63.0	62.1	64.3	64.9	65.1
Participation rate (65 years and more)	8.3	8.2	7.2	6.2	7.9	7.7	7.4
Participation rate (65 years and more)	62.9	63.9	63.4	62.6	64.7	65.0	65.3
men	67.2	68.7	68.2	67.4	71.0	70.7	71.1
women	58.5	58.9	58.6	57.6	60.1	60.8	61.1
Employment rate (55-64 years)	22.5	25.0	24.4	23.5	27.0	28.8	30.4
Unemployment rate - ILO definition (C1/A)	7.0	6.4	6.4	6.7	6.4	6.1	5.9
men	6.8	5.9	5.9	6.4	6.0	5.7	5.5
women	7.3	7.0	6.8	7.1	6.8	6.6	6.4
young people (15-24 years)	16.8	18.1	16.7	17.4	16.5	15.9	15.3
Registered unemployed rate (C2/(B1+B2+C2))	12.2	11.6	11.6	11.2	10.6	10.1	9.6
men	11.1	10.4	10.4	9.7	9.1	8.8	8.5
women	13.5	12.9	13.1	13.0	12.4	11.7	10.9
Structure of persons in employment according to survey							
in agriculture	9.8	10.2	9.1	8.3	8.0	7.7	7.6
in industry and construction	37.4	37.9	38.2	37.3	34.5	34.5	34.0
in services	50.9	50.2	51.4	53.0	49.8	50.4	51.1
ANNUAL GROWTH RATES (%)							
Persons in employment	1.7	1.7	-0.7	-1.4	4.1	0.3	0.4
Persons in paid employment*	1.8	1.7	0.4	0.2	0.3	0.6	0.7
Formally self-employed persons	-2.7	-1.1	1.7	-8.8	1.0	-1.6	-1.4
Unformally employed	4.1	3.1	-7.6	-5.3	28.6	0.0	0.4
Registered unemployed	-10.4	-4.5	0.8	-4.8	-5.0	-5.3	-5.1
Labour force	0.9	1.1	-0.8	-0.9	3.7	0.0	0.2
Working age population	0.5	0.1	0.3	0.3	0.0	0.0	-0.1
Population	0.2	0.1	0.2	0.1	0.0	0.0	0.0
Population, 65 years and more	2.2	2.4	2.5	1.7	1.6	1.7	1.7

Source of data: SORS, IPDIS, IMAD estimates and forecasts.

Table 13: Labour force flows

- Numbers in thousand, indicators in %

	2000	2001	2002	2003	2004	2005	2006
					estimate	forecast	
FORMAL LABOUR FORCE, year-end (in thousand)	873.1	886.4	881.5	870.7	872.0	871.6	873.3
Formal employment	768.5	782.1	781.9	774.7	783.0	786.6	793.3
Registered unemployment	104.6	104.3	99.6	96.0	89.0	85.0	80.0
Registered unemployment rate, end of year (%)	12.0	11.8	11.3	11.0	10.2	9.8	9.2
New first-time job seekers	24.9	21.3	24.3	23.9	26.3	25.4	23.5
of whom became unemployed	20.5	21.9	21.4	25.4	26.9	23.8	20.4
- in % of the generation	82.4	102.6	88.1	106.3	102.2	93.4	86.9
Additional number of work permits for foreigners	2.9	-6.4	2.1	3.5	0.8	0.6	0.6
- share of foreigners in formally active population	4.6	4.3	4.0	4.5	4.6	4.7	4.8
Employed having lost their jobs	61.8	65.8	66.0	68.8	68.1	65.3	63.2
- on 100 persons in formal employment	8.1	8.4	8.4	8.9	8.7	8.3	8.0
Registered unemployed having found a job	60.2	52.7	52.2	50.5	55.3	56.8	58.1
- on 100 persons in formal employment	7.8	6.8	6.7	6.5	7.1	7.3	7.4
Retirements (-)	14.8	14.6	14.8	15.1	15.4	15.8	16.3
of which: registered unemployed persons	7.0	7.6	6.9	5.0	4.3	4.1	3.9
Deaths (-)	2.5	2.6	2.5	2.4	2.4	2.4	2.4
Drugi prilivi v formalno aktivnost (neto)	-17.9	15.5	-14.0	-20.7	-8.1	-8.2	-3.7
of which: other persons who found a job (net)	6.7	42.9	18.8	21.4	34.0	23.7	22.7
other deleted from unemployment registers (-)	24.6	27.4	32.8	42.1	42.1	31.9	26.4
- on 100 registered unemployed	23.1	26.9	31.9	43.1	45.4	36.3	31.7

Source of data: SORS, IMAD's estimates, forecasts and calculations.

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