IMAD

autumn forecast of economic trends 2009

Autumn forecast of economic trends 2009 (Jesenska napoved gospodarskih gibanj 2009)
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Summary

As a result of the negative impacts of the international economic and financial crisis, gross domestic product is expected to fall by 7.3% in real terms this year. Owing to the high integration of Slovenia's economy in international trade flows, the decline in economic activity in 2009 is largely the result of a significant drop in exports of goods and services, which are expected to contract by close to 18% this year. The drop in foreign orders and gradually also domestic orders was, with diminishing volumes of production and lower capacity utilisation, also followed by a decline in investment in machinery and equipment. Unfavourable business conditions were aggravated by tougher access to financial resources. Corporate and NFI borrowing from domestic banks was very low in the first seven months of this year. Due to insufficient demand, the loan potential under the state guarantee scheme for enterprises also remained untapped. With the cyclical slowdown in infrastructure investment, which was even deeper than expected due to difficulties in financing, the volume of gross fixed capital formation will drop by more than a fifth this year. The level of inventories also declined notably in the first half of the year, and is also expected to drop further, albeit less vigorously, in the second half of the year, contributing around 2.5 p.p. to the GDP decline.

The situation on the labour market is deteriorating with some delay. Wage growth in the private sector is slowing. The number of unemployed persons is on the rise; in August, it was up by as much as 45% compared with a year before. Private consumption is expected to fall by 2% this year, as households are responding to the higher risks of losing employment and consequently income from labour by increasing precautionary saving and cutting back on expenditure, particularly when purchasing durables. Government consumption is the only consumption aggregate to increase this year, amid strong growth in the compensation of employees and as a result of fiscal policy measures taken in 2008 and 2009. In view of the current expectations for movements in the international environment, according to which the significant decline in economic activity will be followed by a gradual upturn in the second half of the year, economic activity is also expected to increase somewhat in Slovenia by the end of the year. The first signs of economic stabilisation, albeit weak, were already seen in the second quarter, when GDP rose by 0.7% relative to the previous quarter. Taking into account the dynamics in the third and fourth quarters of 2008, the slight pick-up of activity by the end of the year signifies that GDP will still be much lower y-o-y in the second half of this year; however, the rates of decline will not be as high as in the first half of the year.

In the first half of 2009, the decline in the number of persons in employment was much slower than predicted in the spring, which signifies a different-than-expected adjustment of the labour market to the crisis. The average drop in the number of persons in employment was relatively modest compared with the first half of the last year (-1.2%). It was largest in manufacturing, given the steep decline in production, while also being sizeable in agriculture and mining, the sectors where restructuring has already been underway for several years. In numerous market activities that were less severely hit by the crisis than manufacturing, the number of employed persons remained at a similar or higher level on average than in the first half of 2008. In construction, it was even 3% higher than last year, despite a great decline in value added. The number of persons employed in mainly public services was increasing further. The relatively small overall decline in employment compared with the strong activity decline is partly a consequence of how enterprises responded to the slowdown (by reducing overtime work and shortening working hours rather than cutting jobs), while it is also partly attributable to the interventive Partial Subsidising of Full-Time Work Act passed in January, and higher participation of the unemployed in active policy programmes. In the second half of the year, the number of persons in employment should be falling at a slower pace, given that the activity decline is expected to be slower and due to an additional interventive act aimed at preserving jobs. Given the significant declines in production and productivity, we expect that some sectors will still undergo adjustment in the number of employed persons by the end of this year and in 2010. The overall employment decline will thus average 2.5% this year. The reduction in employment is accompanied by an increase in unemployment, which is to a certain extent mitigated by the measures taken to preserve jobs and by an active employment policy. The number of registered unemployed topped 88,000 this August, 45% higher than in August last year; it is also expected to increase in the autumn months, climbing to around 96,000 by the end of the year. The average annual registered unemployment rate will total 9.1% this year, and the survey unemployment rate 5.7%.

Inflation is easing this year, partly due to lower inflationary pressures on prices of goods and services as a result of declining economic activity and demand, and partly, as in other euro area countries, due to the "base effect" in prices of liquid fuels and, to a lesser extent, food. After the consumer price level dropped y-o-y in July due to these effects, y-o-y inflation is projected to rise gradually until the end of 2009, reaching 1.9% in December and averaging 1.0% for the year as a whole. With actual price movements in oil and excise duties being somewhat different from what was expected at the time when the spring forecast was made, the autumn forecast of inflation is approximately half a percentage point higher from what was projected in the spring. The process of disinflation was slowed by government tax policy measures, which had a more notable impact on consumer price growth in this year than in previous years.

With strong productivity declines, further wage growth increases unit labour costs. This year, the nominal growth of the total gross wage will be far below that in 2008, despite high wage rises in the public sector, while the real increase will not be substantially lower. The gap between wage rises in the private and public sectors will be very high, as the average gross wage in the private sector will increase by a nominal 0.8%, given the significant economic activity decline, while in the public sector nominal growth will be at 7.0%, largely due to the two quarters of funds to eliminate wage disparities that have already been disbursed. With strong productivity declines, further wage rises affect unit labour cost growth. Cost competitiveness is deteriorating both in manufacturing and in the economy as a whole, and Slovenia has been ranked among the EU countries with the greatest deteriorations in cost competitiveness since the third quarter last year.

In view of the expected slow recovery in Slovenia's main trading partners, which was this year strongly influenced by the temporary measures to offset the impacts of the economic crisis, economic growth is projected to be modest in the next year, not exceeding 1%. Assuming a gradual pick-up of foreign demand and Slovenia keeping its market shares, exports will increase by around 4%. These movements will influence the dynamics of value added growth in manufacturing and market services, while the slow rebound in manufacturing will also be partly structural in nature, as we expect that production programmes in low-technology-intensive industries will continue to shrink. The decline in investment will slow down, and investment is not yet expected to increase next year. According to the data on issued building permits, investment in residential and non-residential buildings and infrastructure will drop compared with this year, while investment in machinery and equipment will strengthen somewhat with a gradual capacity utilisation increase. Next year, investment will also be positively influenced by the foreseen general government expenditure on investment, particularly investment transfers, which are to be almost 30% higher. The labour market situation will not yet improve. Employment is expected to decline further, but less than this year. Adjusting to this year's productivity slump, the labour market will continue to cut jobs, given that economic activity is not expected to accelerate strongly yet. With modest economic growth, wage rises will be low as well. Our wage forecasts are based on the assumptions of the draft budget memorandum for 2010–2011 and the position of Slovenia's government for negotiations with the public sector trade unions; we also do not yet expect any additional upward pressures on private sector wage growth. Amid these labour market movements, household consumption is not yet expected to increase in 2010. Government consumption is also projected to be lower than this year, given the restrictions on government spending, which will be necessary with regard to the expected low level of revenue inflows. Assuming that global economic activity will gradually rebound, upward pressures on price growth are expected to increase somewhat in the entire euro area; y-o-y inflation is thus expected to rise to 2.0% and average inflation to 1.5%. Amid the assumed developments in the international environment, economic growth will only accelerate in 2011 (to 2.5%), in addition to the upturn in the international business cycle also due to stronger domestic demand, as investment and private consumption are both expected to increase. With economic growth still modest, employment is not expected to grow.

Risks to the realisation of the central scenario of the economic activity forecast remain exceptionally high and are distributed asymmetrically towards lower-than-predicted economic growth, particularly for 2010. The greatest risks are still associated with uncertainty regarding the dimensions of the international economic crisis and varying estimates of the consequences it might have for individual economies. Additional risks arise from uncertainty regarding the efficacy of stimulus packages and the possibility of their premature withdrawal. If the recovery in the international environment proves to be slower, Slovenia's GDP will also continue to decline next year, while in 2011, the increase in all consumption aggregates and consequently GDP will be lower than assumed in the baseline scenario. There is also a risk that macroeconomic relationships will deteriorate in the coming years if public sector wages and social transfers prove to be higher in 2010 than according to the baseline scenario. The realisation of this risk might lead to further measures to curb other general government expenditure, which would have a pro-cyclical effect in times of weak economic growth, or to a further increase in general government debt. Higher borrowing would gradually result in increased country risk premiums, contributing greatly to higher public debt servicing costs and crowding out the private sector. As a result of higher wage rises, the cost competitiveness of Slovenia's economy would deteriorate as well, for the second year in a row, which might, in the medium term, jeopardise the position of Slovenian enterprises on foreign markets and consequently Slovenia's medium-term potential for achieving higher rates of economic growth. Due to the unsustainable relationship between general government revenue and expenditure, the realisation of such a scenario would increase the need to secure new public finance sources, which would additionally weigh down the economy, while also increasing inflationary pressures in the medium term.

Autumn forecast of the main macroeconomic aggregates and a comparison with spring forecast

Real growth rates in % (unless otherwise indicated)

	2008 (Sept. 2009)	2009		2010		2011	
		Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)
GROSS DOMESTIC PRODUCT	**3.5**	**-4.0**	**-7.3**	**1.0**	**0.9**	**2.7**	**2.5**
GDP in EUR m (current prices)	37,135	36,598	35,870	37,427	36,386	39,266	38,058
INFLATION (Dec/Dec of the preceding year, %)	2.1	1.4	1.9	2.2	2.0	3.0	2.7
INFLATION (Jan-Dec/Jan-Dec annual average, %)	5.7	0.4	1.0	1.6	1.5	2.6	2.5
GDP deflator, %	3.8	2.7	4.2	1.2	0.6	2.1	2.0
USD/EUR exchange rate	1.47	1.27	1.38	1.27	1.43	1.27	1.43
EMPLOYMENT according to the SNA, % growth	2.8	-5.4	-2.4	-1.7	-1.6	-0.4	-0.9
REGISTERED UNEMPLOYMENT RATE (%)	6.7	8.9	9.1	10.3	10.6	10.2	10.9
ILO UNEMPLOYMENT RATE (%)	4.4	6.0	5.7	7.0	6.7	7.0	7.3
PRODUCTIVITY (GDP per employee), % growth	0.7	1.5	-5.0	2.8	2.5	3.1	3.4
GROSS WAGE PER EMPLOYEE	**2.5**	**2.2**	**1.9**	**2.6**	**0.6**	**1.6**	**1.4**
EXPORTS OF GOODS AND SERVICES	2.9	-8.6	-17.9	1.7	4.1	5.4	6.8
- exports of goods	0.0	-10.2	-19.0	1.0	3.6	4.9	6.5
- exports of services	16.2	-2.1	-13.5	4.4	6.1	7.0	7.8
IMPORTS OF GOODS AND SERVICES	2.9	-10.3	-19.8	1.6	1.8	5.2	4.9
- imports of goods	2.6	-11.5	-21.9	1.1	1.3	5.0	4.8
- imports of services	4.6	-2.6	-6.1	4.3	4.4	6.1	5.6
CURRENT ACCOUNT BALANCE (EUR m)	-2,287	-809	-82	-1,311	10	-1,528	29
- as % of GDP	-6.2	-2.2	-0.2	-3.5	0.0	-3.9	0.1
GROSS FIXED CAPITAL FORMATION	7.7	-12.0	-21.0	1.0	-2.0	4.0	3.0
- as % of GDP	28.9	25.0	23.7	25.1	23.2	25.5	23.3
PRIVATE CONSUMPTION	2.0	-0.6	-2.0	1.0	0.0	2.0	1.0
- as % of GDP	52.8	53.2	53.7	53.4	53.8	53.3	53.2
GOVERNMENT CONSUMPTION	6.2	3.2	3.2	3.8	-1.5	3.2	0.0
- as % of GDP	18.1	19.6	20.1	20.8	19.7	21.1	19.4

Source: SORS, BS, forecast by IMAD.

Background documents and data for the Spring Forecast of Economic Trends 2009–2011

The Autumn Forecast of Economic Trends is based on IMAD's expert estimates using the following source data: (i) data on gross domestic product, main aggregates of national accounts and employment, released on 31 August 2009 (SORS), and balance of payments according to data by 31 August 2009; (ii) available statistical data on current economic trends; (iii) data on GDP growth in the international environment in the first half of 2009; (iv) autumn forecasts of international institutions on economic trends in Slovenia's main trading partners; (v) prevailing expectations of international institutions regarding the price dynamics of oil and other commodities and the euro/dollar exchange rate; (vi) results of the dynamic factor model and other econometric models used in forecasting; (vii) consultations with other organisations preparing the forecasts for Slovenia.

The Autumn Forecast is based on implemented or adopted economic policy measures. It takes into account the effects of the measures adopted in response to the financial and economic crisis and the enacted changes in excise duties on oil derivatives and tobacco and alcohol products. The forecasts of general government current and investment consumption in 2009 take into account the second supplementary budget for 2009 and the realisation for the first half of the year, while the forecasts for 2010 and 2011 are based on public finance policy guidelines from the Draft Budget Memorandum for 2010–2011. The forecasts of public sector wages for 2009 take into account the current realisation and already adopted wage agreements, while the forecasts for 2010 and 2011 are based on the position of Slovenia's government for negotiations with the public sector trade unions and the Draft Budget Memorandum for 2010–2011.

The report takes account of figures and information available at the time of finalising the document (18 September 2009).

autumn forecast
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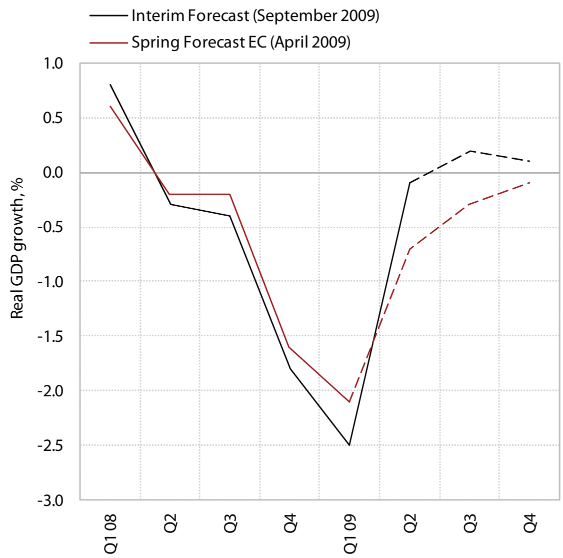
Assumptions of the Autumn Forecast

The stabilisation of the economic situation in some major advanced economies in the second quarter of this year suggests that the recession is coming to an end, though the recovery will be gradual, according to prevailing predictions. One year since the onset of the international economic and financial crisis, the extremely negative movements that had marked the end of last year and the first quarter of 2009 were brought to a halt, in the second quarter, in many economies across the world (China, Japan, the US, euro area). This was largely a consequence of massive fiscal and monetary packages implemented by governments and central banks, which proved successful in stabilising the situation on financial markets and in the real sector. International institutions estimate that the crisis, which most of them had underestimated in the spring forecasts, bottomed out in the first half of 2009, and expect the situation to improve in the second half of the year. The decline in world trade, which was particularly underestimated in the spring, is predicted to total more than 10% in real terms this year, affecting especially the countries that are relatively more strongly integrated in international trade flows.

In the second quarter of this year, GDP developments in the euro area countries exceeded expectations, thus improving prospects particularly for the second half of the year. GDP in the euro area declined in the second quarter of 2009 relative to the previous quarter, for the fifth time in a row, but this time by a mere 0.1% (seasonally adjusted). These movements were above expectations and stemmed largely from the slight growth in Germany and France (0.3%). GDP nevertheless dropped

Figure 1: **Quarterly GDP growth in euro area countries by quarter**



Source: Eurostat, European Commission Spring Forecast (April 2009), European Commission Interim Forecast (September 2009).

Table 1: **IMAD's assumptions on economic growth in Slovenia's main trading partners in 2009–2011 and comparison with spring forecasts**

	2007	2008	2009		2010		2011	
			Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)
EU	2.9	0.9	-3.9	-4.2	-0.3	0.2	1.9	1.6
Euro area	2.7	0.7	-4.1	-3.9	-0.3	0.4	1.8	1.6
Germany	2.5	1.3	-5.1	-4.8	0.1	0.9	1.6	1.5
Italy	1.6	-1.0	-4.2	-5.2	-0.4	-0.2	1.2	0.9
Austria	3.5	2.0	-3.5	-3.5	-0.3	0.0	1.8	1.6
France	2.3	0.4	-3.3	-2.1	0.0	0.6	1.7	1.7
UK	2.6	0.7	-3.5	-4.7	-0.2	-0.3	2.1	1.8
Czech Republic	6.1	2.6	-1.8	-3.2	1.7	1.2	3.8	3.2
Hungary	1.2	0.4	-4.0	-6.0	0.7	-1.0	3.0	2.0
Poland	6.8	4.9	0.2	1.0	2.3	1.5	3.8	3.0
Croatia	5.5	2.4	-3.0	-5.0	1.0	0.3	4.0	1.5
Bosnia and Herzegovina	6.8	5.0	-2.0	-3.0	-1.0	0.0	0.0	1.0
Serbia	6.9	5.4	-3.0	-4.0	0.0	0.3	2.0	1.5
Macedonia	5.9	5.0	-2.0	-2.2	0.0	0.5	2.0	1.5
USA	2.1	0.4	-4.0	-2.8	0.0	0.9	3.3	3.0
Russia	8.1	5.6	-4.0	-7.0	2.5	2.0	4.6	3.5

Source: Eurostat; Consensus Forecasts, August 2009; Eastern Europe Consensus Forecasts, August 2009; European Commission, DG Ecfin – Interim Forecast, September 2009; ECB staff macroeconomic projections for the euro area, September 2009; Economist Intelligence Unit Country Reports (for Bosnia and Herzegovina, Serbia, Macedonia), August 2009, September 2009; OECD Economic Outlook – An Interim Assessment, september 2009; WIIW Current Analysis and Forecasts, July 2009; IMAD estimates.

sizeably y-o-y in the euro area (-4.8%). The recovery of the economy in both the euro area and other European countries has been buoyed by discretionary measures implemented by governments to stimulate domestic consumption, such as subsidies for new car purchases and automatic fiscal stabilisers. Trade and business investment recorded the most notable declines, both globally and in the EU. The second-quarter stabilisation of the economic environment was also reflected in upward revisions of GDP forecasts until the end of 2009, published in international institutions' interim reports (OECD, European Commission; see Figure 1) and by mainly private sector institutions (Consensus Forecasts). According to the prevailing estimate for this year, the relatively sharp decline in the first half of the year (due to the extremely negative first quarter) will be followed by a stronger upturn in the second half of the year than predicted by institutions in the spring, as a consequence of further effects of measures, a slight recovery in trade flows, and a halt in inventory contraction that had a strong negative impact on the economy in the first half of the year.

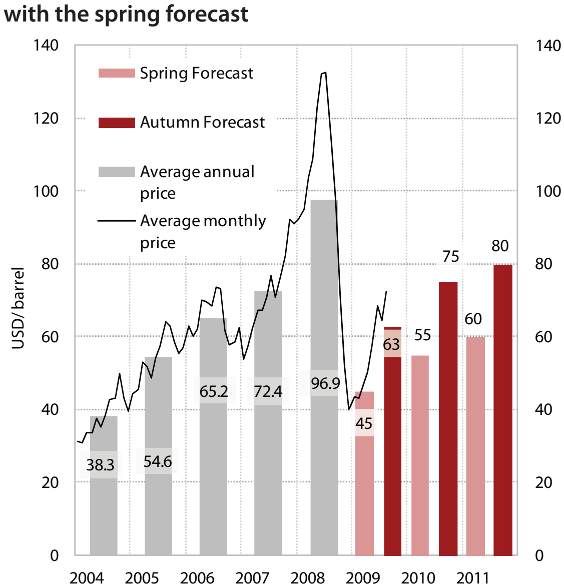
Given the temporary nature of some measures adopted to offset the crisis and with a labour market adjustment expected to follow with a lag, economic growth is still projected to be fairly modest in the euro area next year. Numerous EU countries have posted lower-than-expected contractions in employment this year, also due to the measures aimed at keeping jobs, which will most probably be wound down, at least to some extent, in the following year. Unemployment can therefore still be expected to increase next year, which will hamper private consumption growth. Low capacity utilisation will affect business investment, while the drop of real estate prices will impair construction investment growth. Amid the expected slight recovery of global trade flows, exports will pick up gradually, but their growth will remain weak. In 2011, economic growth is set to accelerate slightly according to the prevailing forecasts by international institutions, largely due to a further strengthening of global trade flows, anticipated improvement on the labour market and rebound in investment growth.

Autumn assumptions for GDP growth in Slovenia's main partners in Central, Southern and Eastern Europe are lower than what was assumed in the spring forecast, due to a greater-than-expected negative effect of the global crisis. These countries' steep GDP decline in the first half of the year was chiefly driven by lower foreign trade flows, dependency on external financing and financial assistance, as well as the slump in the prices of commodities, which are the basis of some countries' exports. The expected gradual improvement in these areas will also contribute to a gradual revival of economic activities in these countries.

Oil prices are assumed to remain around USD 75/barrel in the coming two years. Optimistic signals of a possible economic rebound have been the main driver of oil price rises since May this year. Between the end of last December and the end of August 2009, oil prices increased from USD 35 to USD 69 per barrel, which is a 96% rise. At the time of the autumn forecast, oil prices hovered around USD 75/barrel. The technical oil price assumption thus anticipates stabilisation at the level of USD 75/barrel by the end of this year and next year, and a rise to USD 80/barrel in 2011.

The assumption for the euro exchange rate is based on the euro/dollar rate in August. In the first eight months of the year, the average euro exchange rate was USD 1.35 to EUR 1, up 0.7% on December 2008 and 7.8% down from the 2008 average. Based on the average euro exchange rate between 3 and 31 August, the technical assumption for the euro exchange rate until the end of this year and in the coming two years is set at USD 1.427 to EUR 1.

Figure 2: **Prices of Brent crude – actual movements, assumption of the autumn forecast and comparison with the spring forecast**



Source: EIA, assumptions for 2009–2011 by IMAD.

Table 2: **Autumn forecast assumptions of Brent crude prices in 2009–2011 and comparison with spring forecasts, USD/barrel**

	2007	2008	2009		2010		2011	
			Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)
Average oil price	72.4	96.9	45.0	63.0	55.0	75.0	60.0	80.0

Source: EIA, assumptions for 2009–2011 by IMAD

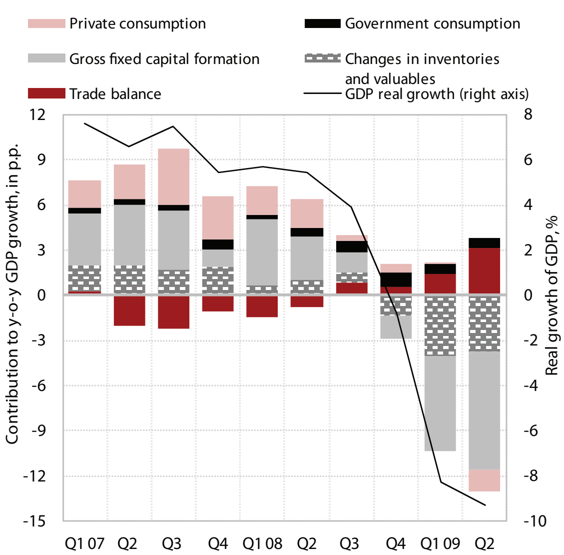
Economic growth – main demand aggregates

The international financial and economic crisis and, to a lesser extent, the expected cooling of the business cycle in infrastructure investment notably reduced the overall level of economic activity in the first half of the year. Gross domestic product in Slovenia was down 8.8% from the same period last year. While having accounted for almost as much as 70% of GDP in 2008, the volume of Slovenian trade has contracted more than one fifth due to the global economic crisis, which will shrink global trade in goods and services by more than a tenth this year, according to the IMF estimate. With imports contracting even somewhat more than exports, also due to lower domestic consumption, the contribution of international trade to GDP growth remained positive. Low capacity utilisation and tougher loan conditions resulted in a 25% drop in business investment, while the slowdown in construction investment was even deeper than anticipated, due to the crisis in the international environment. Households also cut back on consumption, by almost one-and-a-half percent, particularly when buying durable goods. All these consumption aggregates recorded a greater drop in the first half of the year than projected in the spring. As expected, only government consumption posted growth (4%), given the functioning of automatic fiscal stabilisers, high growth in the compensation of employees and last year's and this year's impacts of fiscal policy measures. Almost half of the GDP drop in the first half of the year is attributable to lower inventories.

The autumn projections for 2009 predict a 7.3% decline in GDP, a significantly greater figure than expected in the spring. In 2010 and 2011, economic growth is set to rebound gradually to 0.9% and 2.5%, respectively, which is the level of the spring forecast. In view of the prevailing expectations for movements in the international environment (EMU countries, in particular) that economic activity should gradually recover in the second half of the year, Slovenia is also expected to post smaller GDP declines y-o-y (taking into account the last year's dynamics in Q3 and Q4), and a 7.3% decline for the year 2009 as a whole. Next year, when economic activity is set to be only slightly higher than at the end of this year according to the forecasts for the international environment (see Assumptions of the Autumn Forecast), Slovenia will post low economic growth (0.9%, in the spring 1.0%) by our estimates, given its strong integration in international trade flows. This will also be a consequence of domestic consumption – stagnation in private consumption amid a further deterioration on the labour market, diminishing construction investment and a decline in government consumption. Economic growth is only set to accelerate in 2011 (to 2.5%), under the impact of stronger domestic demand, in addition to the economic upturn in the international environment.

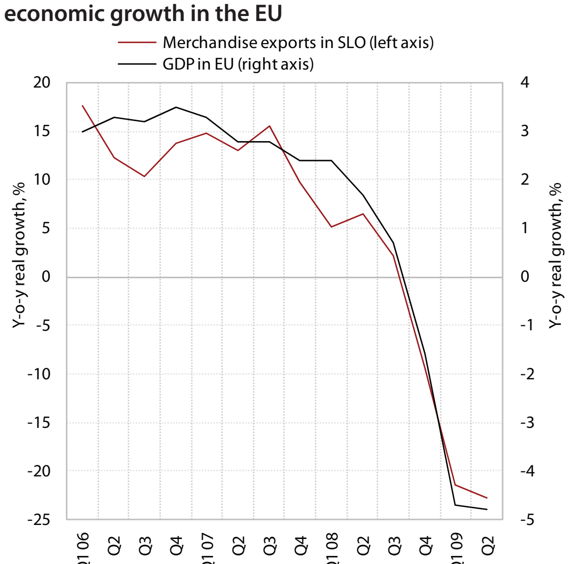
Slovenia's exports of goods and services declined by 20.8% in real terms in the first half of this year. Exports of goods dropped significantly (see Figure 4), amid the economic recession in the EU, followed, with a lag of three months, by a decline in economic activity in non-EU countries. We estimate that, owing to Slovenia's high integration in international trade flows, lower goods exports are attributable to the slump in global trade, to the structure of the GDP decline in the euro area as Slovenia's main export market, also posting a notable decline in trade,[1] and in part to the structure of Slovenia's exports, which is mainly based on exports of low- and

Figure 3: **Expenditure structure of GDP growth**



Source: SORS.

Figure 4: **Growth of Slovenian merchandise exports and economic growth in the EU**



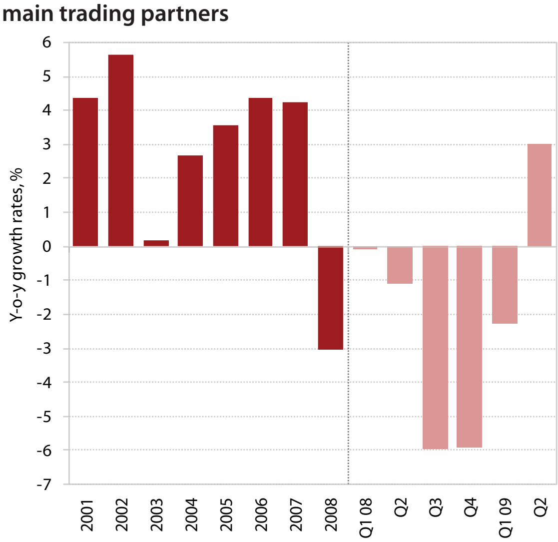
Source: SORS, Eurostat.

[1]Exports of euro area countries dropped by 16.9% y-o-y in the first half of the year, imports by 13.7%.

medium-technology-intensive products. Meanwhile, demand for Slovenian products from the countries of the former Yugoslavia and Russia also witnessed a major decline, with recession in the EU and commodity price drops having a stronger impact on their economic activity than estimated in the spring. Exports of services dropped y-o-y by a real 16% in the first half of the year. According to the nominal data of the balance of payments statistics, this was mainly a consequence of the decline in exports of transport services (particularly road, maritime and rail transport services), which are strongly dependent on exports of goods. Exports of construction and travel services (foreign visitors' spending in Slovenia) fell notably as well.

Trends in the market shares of Slovenian goods improved in the first half of this year. After falling at a slower pace in the first quarter, Slovenia's market share in its main trading partners increased y-o-y in the second (see Figure 5). The increase in Slovenia's aggregate market share (by 3% y-o-y in the second quarter, by 0.4% in the first half of the year) mainly came from higher market shares on the French and German markets, by our estimate largely owing to road vehicle exports, as road vehicle purchases increased notably in this period with the stimulus packages adopted by both governments. Slovenia's market share also increased on the Croatian, Czech and Hungarian markets, albeit to a lesser extent. In the first half of the year, Slovenia was also in a relatively smaller group of (ten) EU countries posting market share increases on the internal market.

Figure 5: **Movements of Slovenia's market share in its 15 main trading partners**



SORS, Eurostat, WIIW, US Census Bureau; calculations by IMAD.

Imports of goods and services declined even more than exports in the first half of the year (by 24.6%), due lower domestic consumption, particularly investment consumption. The strong y-o-y drop in goods imports (-25.3%) was a result of the shrinking volume of domestic industrial production and domestic demand. Imports of services also declined in real terms (-10.5%). According to the nominal data of the balance of payments statistics, the most pronounced declines were posted for imports of transport, various business, professional, technical and construction services. In construction services, the decline is closely linked to slowing investment in domestic infrastructure. Increases were only posted for Slovenian household expenditure related to travel abroad (imports of travel services).

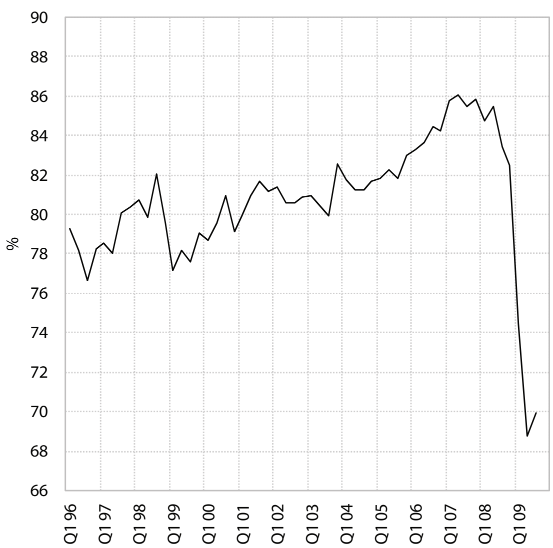
The real drop in goods and services trade flows in 2009 will be much more pronounced than predicted in the spring, with imports dropping even more than exports and a somewhat higher contribution of international trade to economic growth. In the second half of the year, exports of goods and services are expected to post a somewhat smaller y-o-y drop than in the first. Despite this improvement, in 2009, exports will decline more in real terms than foreseen in the spring (by 17.9% or 9.3 p.p. more) due to unfavourable movements in the first half of the year as a consequence of the above-mentioned factors. The share of exports in GDP will thus be notably lower, dropping to 57% in 2009, while it was rising at a rapid pace due to the above-average increases in exports especially since Slovenia's accession to the EU (reaching almost 70% of GDP[2] in 2008). Greater real declines with thus be posted both for exports of goods (-19.0%, in the spring -10.2%) and for exports of services (-13.5%, in the spring -2.1%). Within services exports, all main groups of services are expected to post a sizeable decline (transport, travel and other business services related to economic activity, and construction services). Imports of goods and services will decline even more in real terms than exports in 2009: -19.8%, 9.5 p.p. more than projected in the spring, with a significantly greater drop in imports of goods (-21.9%) than of services (-6.1%). The strong drop in import flows will largely be a consequence of declining exports and domestic investment activity. In 2009, the share of imports in GDP will thus total 55%. The international trade balance will have a positive impact on economic growth: 1.8 p.p. (1.4 p.p. in the spring).

Gross fixed capital formation dropped by 25% y-o-y in the first half of the year due to lower investment in buildings and structures and, even more, in machinery and equipment. The q-o-q investment activity decline, first seen in the third quarter last year, deepened[3] notably in the first quarter this year, while slowing in the second. At the y-o-y level, the second quarter otherwise saw a greater decline, which is related to the investment dynamics in 2008. Investment in buildings and structures was down 21% y-o-y, while investment in machinery and equipment dropped by as much as 33%. The reduction in residential investment is linked to the very high levels of

[2] Exports of goods and services as a share of GDP, in current prices.
[3] An annualised activity decline of more than 50% in the first quarter.

construction in recent years and an increase in inventories in the last period. As expected, infrastructure investment (mainly investment in motorways) also declined. Lower investments in machinery and equipment and in business buildings are related to the pronounced drop of activity, particularly in manufacturing, where capacity utilisation fell to the lowest level since these data have been available (see Figure 6). In addition to low demand, investment activity is also hampered by the unfavourable situation on financial markets (see Box 3).

Figure 6: **Capacity utilisation in manufacturing**

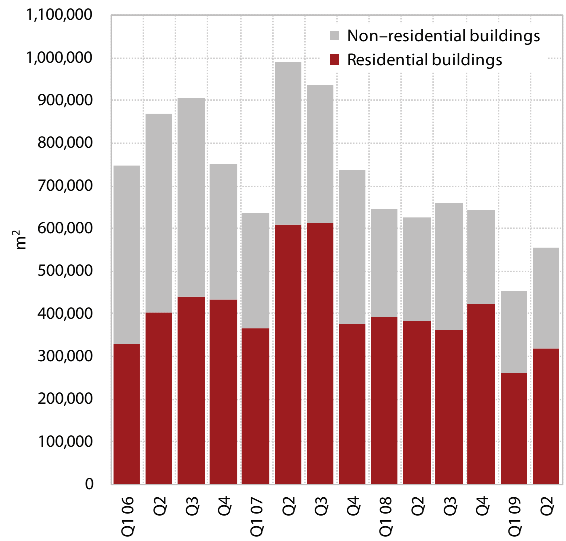


Source: SORS.

We estimate that low investment activity is continuing in the second half of the year and expect a 21.0% real decline in investment in 2009. Low capacity utilisation in a still unfavourable international environment and difficulties in financing remain the key factors in the expected low level of private sector investment, also in the second half of the year.[4] Data on building permits issued for new flats indicate that the level of investment in new flats will decline further compared with the first half of the year. Likewise, investment in other buildings and structures will, judging from the data on new orders and issued building permits, also continue to be much lower than in the same period last year (see Figure 7).

Almost half of the GDP decline came from lower inventories in the first six months of the year, while in the year as a whole, the negative contribution of inventories is expected to be smaller. In the first half of the year, the negative contribution of inventory changes to GDP growth reached as much as 3.9 p.p. Inventories of manufactured goods declined by 3.0% in the first half of this year, while having increased by 5.3% in the same period last year. Other current data on inventories are not available, but we estimate that inventories also declined in distributive trades and construction.[5] At the annual level, the negative contribution of inventories is expected to be less pronounced (-2.5 p.p.) than at the end of the first six months.

Figure 7: **Total floor area planned by building permits issued**



Source: SORS.

Uncertain economic conditions and a notable deterioration on the labour market contributed to a drop in private consumption, the first in nine years. In the first half of this year, household consumption declined by a real 1.3% compared with the same period last year. Households mainly cut back on their spending on durable goods,[6] which is indicated by data on turnover in retail trade,[7] being down most notably in real terms in stores selling furniture, household equipment and construction material (by as much as a fifth), while the number of first passenger car registrations made by natural persons

[4] This is also corroborated by some of the data. According to the AJPES data, investment payments continued to decline in July; activity in construction also dropped and the number of first freight vehicle registrations posted similar drops in July and August as in the first half of the year.

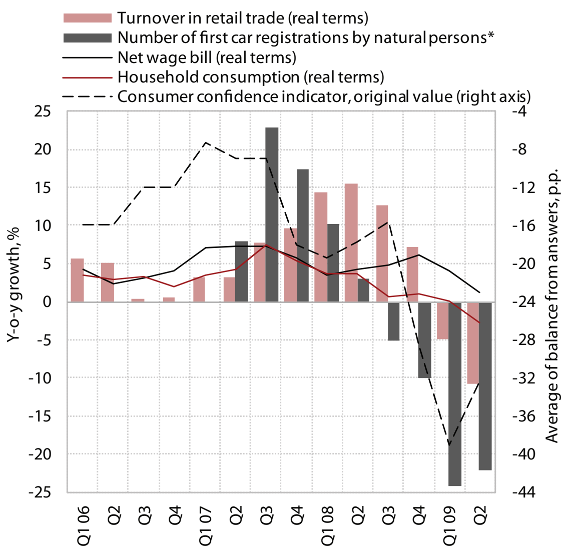
[5] In interpreting data on inventories as a contribution to growth, it should be noted that this is the statistical category that is hardest to measure and which is changed substantially with subsequent revisions. In 2002–2008, the difference between the first estimate of the contribution of changes in inventories to economic growth, which is published by SORS in March, and the second estimate, published in September, totalled as much as 0.7 p.p., thus being the category that underwent the greatest change in this comparison.

[6] The national accounts methodology monitors data on spending on durable goods within household consumption on the domestic market (while resident household consumption is part of GDP). Household consumption on the domestic market dropped by 2.4% in real terms in the first half of the year; household consumption of durables declined by as much as 12.5%.

[7] The total turnover in retail trade was 7.9% lower y-o-y at the end of the first half of the year.

dropped by more than 23.5%. Increased caution in spending on durable goods, which had been rising steadily over the previous few years, also contributed to low flows of consumer loans, which households repaid in net in the first six months of the year (in the amount of EUR 21 m; however, the net flow was negative only in the first quarter; see Box 3).

Figure 8: **Short-term consumption indicators and household consumption in 2006–2009, growth in %**



Source: SORS, MI–IAAD.
Note: *data from March 2006 onward.

Household consumption expenditure is expected to drop by 2.0% this year. Households respond to the higher risk of losing employment and consequently income from work by increasing precautionary saving and cutting back on spending. The propensity to consume will thus decline relative to the last few years, with disposable income projected to drop by a real 0.5% this year, while as recently as in the spring it was still expected to slightly increase. Amid the tougher economic situation, the estimate of disposable income mainly deteriorated due to a lower estimated increase in household income arising from entrepreneurial activity,[8] and partly also due to stronger growth in social security contributions paid by individuals, as a result of higher wage rises than predicted in the spring. According to the autumn estimate, disposable income is therefore expected to fall, despite a slightly higher gross wage increase (1.9%) and a smaller drop in the number of employees (-2.6%) than predicted in the spring. The available data for the third quarter already indicate that private consumption continues to decline, as the increase in consumer optimism (which nevertheless remains very low) suggested by June surveys is not yet reflected in retail trade turnover of July and August. With regard to the higher-than-expected drop in the first half of the year and the lower estimate of disposable income, private consumption is projected to drop by 2% in 2009 (by 1.4 p.p. more than in the spring).

Government consumption is the only consumption aggregate to increase in real terms this year. In the first half of the year, government final consumption expenditure was 4% higher in real terms y-o-y. Government consumption growth largely resulted from the enhanced operation of automatic fiscal stabilisers amid the deteriorated social conditions and from some other fiscal policy measures adopted this year and in 2008,[9] which is reflected in social benefits in kind increasing the most within government expenditure (particularly expenditure on other transfers to households). The number of employees in the government sector also increased by 1.4%, due to growing demand, particularly in health and social work, and education. Growth in government intermediate consumption was weak. Judging from movements in the first half of the year and according to the supplementary state budget for 2009, government consumption is projected to record 3.2% growth in 2009, the same as in the spring.

Amid a sluggish recovery in Slovenia's main trading partners and weak impulses from domestic demand, economic growth will be modest in 2010. GDP is forecast to increase by 0.9%, under a strong impact of the assumed modest rebound in the international environment. Deteriorated conditions on the labour market will continue to affect household consumption, which is therefore not yet expected to increase next year, while owing to the low level of revenue inflows, government consumption is facing restrictions as well. Due to the expected decline in construction investment, gross fixed capital formation will also decline next year, albeit less notably than in 2009.

Exports of goods and services are projected to grow at 4.1% in 2010. Assuming a gradual pick-up of the EU economies and Slovenia keeping its market shares in the main trading partners (see assumptions about the international environment), exports of goods are predicted to increase by a real 3.6%, with the recovery being faster in the second part of the year. Exports to EU countries will be higher than exports to non-EU countries, contributing more than half to total merchandise export growth. Export of services will increase by 6.1% in real terms, largely due to further growth in exports of transport, travel and other business services related to stronger economic activity.

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[8] According to the national accounts methodology, sole proprietors and farmers belong in the household sector. Their income along with the gross operating surplus from dwelling activities of households represents approximately a quarter of disposable income.

[9] Such as meals for pupils (newly introduced last year), higher child allowances, co-financing of kindergarten payments to parents who have more than one child in a kindergarten at the same time, and some other measures. General government expenditure growth was also impacted by certain fiscal policy measures adopted to mitigate the consequences of the economic crisis, but to a lesser extent, given that these measures mainly influence other consumption aggregates.

Gross fixed capital formation is projected to decline by 2.0%. Investment in buildings and structures will continue to decline next year. Investors' stocks will have an unfavourable effect on non-residential investment, with the number of new flats foreseen by the building permits remaining relatively low. Judging from building permits issued for non-residential buildings, investment in non-residential building is also expected to decline. On the other hand, after the slump in 2009, investment in machinery and equipment is set to strengthen somewhat with a gradual capacity utilisation increase. Next year, investment will also be positively influenced by general government expenditure on investment, particularly investment transfers, which are to be 29.8 % higher.

In 2010, household consumption is projected to remain at its real level of 2009. Assuming almost 1% lower disposable income, particularly due to the wage bill decline (-1.4%) along with the anticipated stagnation of social transfers and entrepreneurial income, households are also expected to finance consumption by drawing on previously accumulated savings.

After two years of relatively strong growth, government final consumption will drop by a real 1.5% in 2010. The forecast assumes notably slower growth in the compensation of employees and a drop of some 3% in government intermediate consumption, the latter largely due to public expenditure rationalisation in all general government accounts. According to the Draft Budget Memorandum, certain programmes will only be limited to socially vulnerable groups; moreover, an even more rational use of medicines is also supposed to reduce real social benefits in kind, which posted strong growth in 2009.

Import flows will grow less vigorously than export flows. Real growth in imports is expected to be at 1.8% in 2010, based exclusively on the increase in the import component of export flows, amid the expected drop in investment consumption and stagnant household consumption. With a 4.1% increase in exports, this signifies a high positive contribution of net exports to GDP growth (1.4 p.p.).

Assuming a global rebound, economic growth is projected to increase again somewhat in 2011. Economic growth is set to accelerate to 2.5% under the influence of domestic and international factors. Growth of *trade in goods and services* will strengthen further, with exports still growing faster than imports. Amid the anticipated pick-up of GDP growth in the EU, exports of goods and services are expected to increase by a real 6.8%. Both exports and imports of services are expected to see the fastest growth in trade in the group of other services (particularly various business, professional and technical services). The recovery of *private consumption* will be more gradual. After dropping for two years, disposable income should see mildly positive growth, mainly on account of the wage bill set to increase once again after having declined in 2010, while entrepreneurial income is also expected to gradually pick up. Private consumption, within which consumption of durables is expected to resume growth, should thus increase by 1%. After declining for two years in a row, *investment* is also projected to rise, mainly as a result of investment growth in the private sector, assuming that the situation in the international environment will improve. Residential investment is also expected to gain momentum after two years of intense decline, while infrastructure investment, largely in motorways, will continue to decline. *Government consumption* will remain at the real level of 2010. With domestic demand again being higher and due to more vigorous activity in the manufacturing sector, imports will also see higher growth (4.9%) than in the previous year, by our estimate.

Risks for the realisation of the central forecast of economic activity therefore remain extremely high and are distributed asymmetrically toward lower-than-predicted economic growth. For risks and assessment of the impact of their realisation on Slovenia's economic growth see the Risk Assessment section.

Real gross domestic income is expected to post a lesser decline than real gross domestic product this year, while reaching a relatively weaker growth in the coming two years. Real gross domestic income, which in addition to real GDP movements also measures changes in the purchasing power of residents' income, i.e. relative fluctuations in export and import prices, will drop by 3.8% this year, as a result of a higher decline (by 5.1. p.p.) in import than export prices. In 2004–2008 (except for 2007), the situation was just the opposite, with domestic producers facing deteriorating external terms of trade, which is expected to happen again in 2010 and 2011, according to the assumed movements of commodity prices, and real GDP growth will again surpass real gross income growth.

In the whole forecast period, the negative investment-saving gap should be significantly narrower than in previous years. With the drop in gross capital formation exceeding the drop in gross savings, the negative gap between savings and investment (balance of current external transactions) will narrow to 0.4% of GDP this year (from 6.1% of GDP in 2008), and to 0.2% and 0.1%

Table 3: **Main aggregates of national accounts in 2008–2011**

Real growth, in %	2008	2009	2010	2011
		forecast		
Gross domestic product	3.5	-7.3	0.9	2.5
Real gross domestic income	2.1	-3.8	0.0	2.2
Gross national income	1.8	-3.3	-0.6	1.7
Gross national disposable income	1.7	-3.0	-0.4	1.4

Source: SORS; forecasts by IMAD.

Table 4: **Autumn forecasts of GDP growth and consumption aggregates for 2009-2011, and a comparison with the spring forecasts**

Real growth rastes in %	**2008**	**2009**		**2010**		**2011**	
		Spring forecast (Mar. 2009)	**Autumn forecast (Sept. 2009)**	**Spring forecast (Mar. 2009)**	**Autumn forecast (Sept. 2009)**	**Spring forecast (Mar. 2009)**	**Autumn forecast (Sept. 2009)**
GROSS DOMESTIC PRODUCT	**3.5**	**-4.0**	**-7.3**	**1.0**	**0.9**	**2.7**	**2.5**
Exports of goods and services	2.9	-8.6	-17.9	1.7	4.1	5.4	6.8
Imports of goods and services	2.9	-10.3	-19.8	1.6	1.8	5.2	4.9
Net exports, contribution to growth in p.p.	*-0.1*	*1.4*	*1.8*	*0.1*	*1.4*	*0.1*	*1.2*
Private consumption	2.0	-0.6	-2.0	1.0	0.0	2.0	1.0
Government consumption	6.2	3.2	3.2	3.8	-1.5	3.2	0.0
Gross fixed capital formation	7.7	-12.0	-21.0	1.0	-2.0	4.0	3.0
Inventories, contribution to growth in p.p.	*-0.7*	*-2.2*	*-2.5*	*-0.5*	*0.2*	*-0.1*	*0.0*

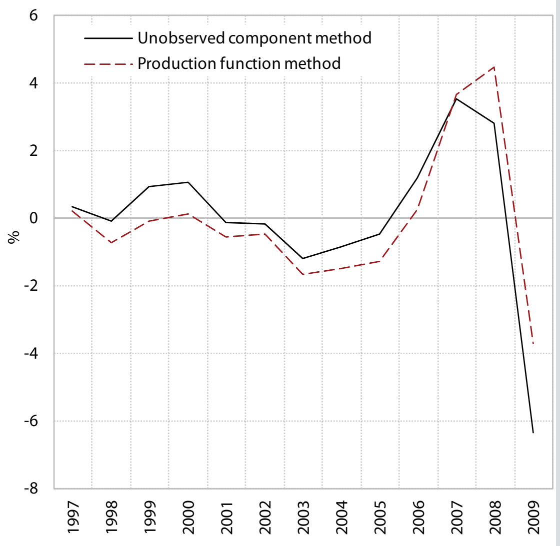
Source: SORS; forecasts by IMAD.

of GDP in 2010 and 2011, respectively.[10] There have also been changes in how the deficit in current transactions with the rest of the world has been generated by sectors. While in the period from Slovenia's accession to the EU to 2008, the widening of the deficit in current transactions was largely attributable to the private sector deficit (see

Box 1: **Movements of the output gap and potential GDP**

The output gap is the difference between the actual and potential GDP. The latter is based on the Solow equation of growth, in which the supply potential of an economy is expressed as the sum of labour, capital and human capital inputs, and total factor productivity.[1] Figure 10 shows output gaps estimated using the production function (PF) and unobserved component (UC) approaches. Since 2003, the production function method has also been the official method of the European Commission and ECOFIN. The PF model is estimated on the basis of annual data; from 2009 onwards, IMAD's autumn forecasts of GDP growth are taken into account. The unobserved component approach (UC) entails the decomposition of GDP into a trend and a cycle. The trend component follows a random walk with drift, while the cycle component (the unobserved output gap measure) is modelled as an invertible AR(2) process. This model is estimated based on the quarterly data for the period 1996:q1–2009:q2.

Figure 10: **Output gap as a share of potential GDP**



Source: calculations by IMAD.

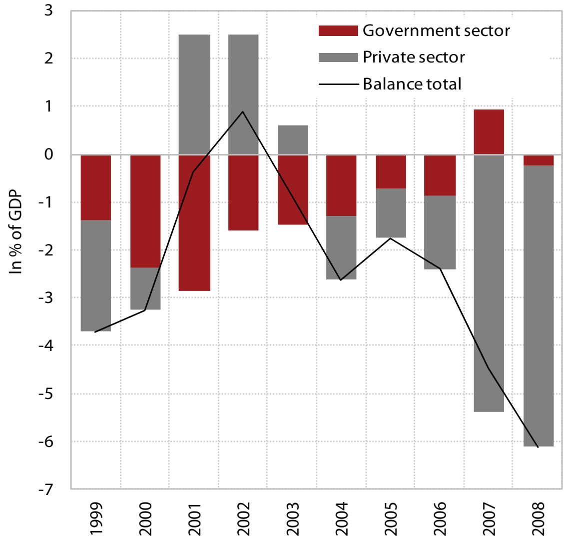
Both methods show similar periodic dynamics in the output gap. The negative output gap of 2001–2005 turns into a sizeable positive gap in 2006–2008, with a precipitous drop following in 2009. The UC method forecasts and the PF method shows, with regard to GDP movement forecasts, the closing of the output gap in the medium term. The closing of the output gap is closely linked to the movements of potential output, the level of which dropped as a result of the crisis. Two scenarios are hence possible: in the long run, potential output growth may remain the same or it may drop. In the first case, the potential output loss will be constant, while in the second, the loss will widen with time. However, there is still a slight chance of a third, more optimistic scenario, i.e., that in the long term the potential output level will not drop at all.

These simulations suggest that the present economic crisis will have medium-term consequences for the Slovenian economy. Specifically, it seems that the economy may only reach its potential output level in a few (between two and five) years, and that this level will be lower than projected.

[1] For a more detailed description of the methodology applied, see the IMAD Working Paper: E.L.W. Jongen, 2004.

[10] Balance of current external transactions according to the national accounts.

Figure 9: **Balance of current external transactions by sector, in % of GDP**



Source: SORS, National Accounts; calculations by IMAD.

Figure 9), as a result of strong investment growth, the deficit in the first half of this year (-0.8% of GDP) mainly came from the general government deficit (-5.8% of GDP), while the balance of private sector transactions was positive (5% of GDP).

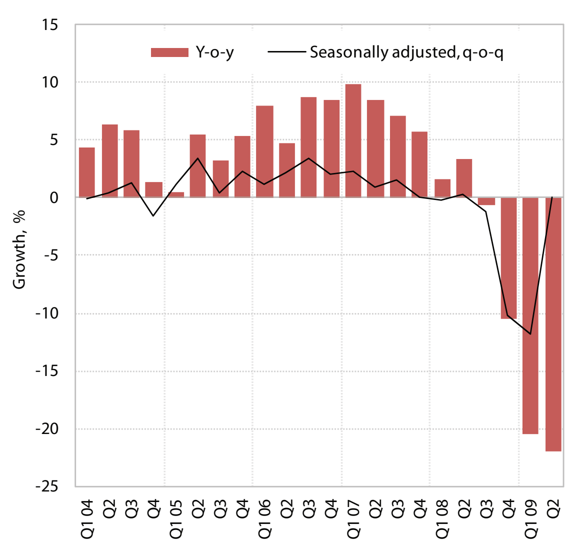
Dynamics of value added by activity

In the first half of this year, value added declined by a real 8.8 % compared with the same period last year. In the first and second quarters, value added saw approximately the same y-o-y declines (8.6% and 9.0%, respectively) and similar dynamics by activity. In the first half of the year, value added dropped most notably compared with the same period last year in manufacturing, construction and distributive trades, being also lower than last year in most other market services. This year, value added thus continued to grow only in public services and financial intermediation.

Value added in manufacturing, the sector hit hardest by the international economic crisis due to lower foreign demand, dropped in the first half of this year by more than a fifth in real terms compared with the same period of last year, but most short-term indicators of economic activity show that the extremely negative movements abated at the end of the first half of the year. After three quarters of decline, value added in manufacturing ceased to fall in the second quarter of this year (0.1% compared with the previous quarter, seasonally adjusted), with the volume of production and turnover from sales diminishing at a much more moderate pace compared to the previous quarter (-2.9% and -0.9%, respectively, seasonally adjusted). Inventories in manufacturing also dropped in the second quarter (by 4.0%, seasonally adjusted), for the first time after a long period of accumulation. In the first half of the year, turnover from sales dropped relative to the same period last year, largely due to the decline on foreign markets, which is related to the high dependency of manufacturing on foreign demand, which shrank substantially during the crisis. It is therefore encouraging that turnover from sales on foreign markets in the second quarter was already somewhat higher than in the first (seasonally adjusted). The y-o-y drop in turnover from sales on foreign markets was thus smaller in the second quarter than in the first, while the drop in turnover on the domestic market was deeper. Looking at individual manufacturing industries, in the first half of the year, the worst results were posted in mainly export-oriented and low-technology-intensive industries (the manufacture of textiles, furniture, clothing, the leather and metal industries), which reflects the negative impact that the unfavourable technology structure of the Slovenian industry has upon economic results. In the second quarter, production declines deepened further year-on-year in most of these industries. Outstanding among the industries improving their positions is the manufacture of transport equipment, which posted a smaller y-o-y production decline, in the second quarter, for the second time in a row; this is associated with the impact of measures to stimulate car purchases in certain countries of the EU. In the first half of the year, the smallest y-o-y production decline was recorded in the food-processing and pharmaceutical industries.

Negative movements in construction (value added having dropped by 12.9% y-o-y in the first half of the year) reflect the expected cyclical movements, which were additionally aggravated by the economic crisis. After several years of economic boom in construction, mainly on account of the construction of roads and buildings, the value of construction put in place has been

Figure 11: **Real growth of value added in manufacturing, in %**



Source: SORS; calculations by IMAD.

gradually declining since the beginning of 2008, being almost one fifth lower y-o-y in the first two quarters of this year than a year earlier. Activity dropped in all construction sectors compared with last year, by our estimate most notably in the construction of non-residential buildings and motorways.

At the beginning of this year, the economic crisis also started to show more notably in market services (G–K), so that all activities except financial intermediation recorded a y-o-y decline in value added in the first half of the year (-5.5%, on average). The international economic crisis thus spilt over into market service activities directly through the decline in foreign demand and indirectly through lower domestic demand. The decline of economic activity in manufacturing and construction also crucially impacted performance of business services, wholesale trade and freight transport. Value added in wholesale and retail trade (activity G) was strongly affected by lower demand for cars and durable goods (sale of motor vehicles, turnover in stores selling furniture, household equipment, construction material etc.), while among market services lower foreign demand was most directly felt in hotels and restaurants (through lower exports of travel services) and road freight transport (through exports of transport services). In the first half of the year, total value added in all market services was 5.5% below that in the same period last year. The largest y-o-y drop was posted in distributive trades (-12.1%), while financial intermediation was the only market service activity to post higher value added this year than in the same period last year. Despite a y-o-y decline in net interest income in the first half of the year, real growth in value added in financial intermediation was still relatively high (8.4%), due to a sizeable decline in interest rates (causing the deflator to decline).

Y-o-y growth in value added in other, predominantly public, services (L–P) remained at the high level of 2008 in the first half of 2009 (2.8%), amid increased activity in health and social care (N), and education (M). The highest growth was seen in health and social care (N), mainly on account of new capacities in the care of older and disabled persons, but also to employment growth recorded in the health sector. In education (M), economic activity picked up most notably in kindergartens. To be specific, the number of children in kindergarten[11] rose significantly due to a higher number of births in recent years and the co-financing of kindergarten payments to parents having more than one child in a kindergarten at the same time (introduced in 2008). In the first half of the year, employment also increased significantly in the field of other education and training, which is related to increased participation of the unemployed in active employment policy programmes and their inclusion in training programmes co-financed by the government.

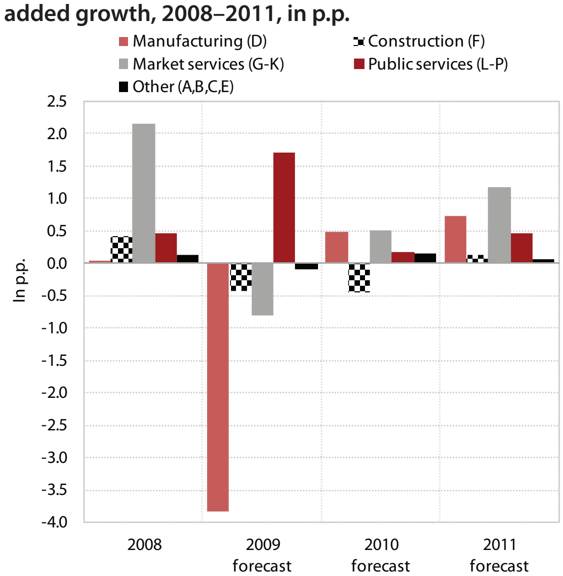
[11] In the school year 2008/2009, 4,607 more children were enrolled in kindergarten than in the previous year, of whom as many as 3,023 in the first age group.

Table 5: **Autumn forecasts of value added by activity, 2009–2011, real growth rates in %**

		2008	Forecast		
			2009	2010	2011
A	Agriculture, forestry, hunting	0.2	-7.0	6.0	1.0
B	Fishing	-5.6	0.0	0.0	0.5
C	Mining	1.4	-9.0	-4.0	-2.0
D	Manufacturing	0.1	-18.0	2.5	3.7
E	Electricity, gas and water supply	4.5	-5.5	1.0	2.0
F	Construction	5.5	-12.0	-5.5	2.0
G	Distributive trades	5.0	-10.0	1.0	2.5
H	Hotels and restaurants	-2.8	-4.0	1.0	1.5
I	Transport, storage and communications	6.5	-6.5	0.0	3.0
J	Financial intermediation	7.1	7.0	4.0	5.0
K	Real estate, renting and business activities	4.5	-5.0	1.0	2.0
L	Public administration, defence and social security	3.0	2.5	0.5	2.0
M	Education	1.0	2.5	1.0	2.0
N	Health and social work	3.8	4.0	2.5	3.5
O	Other community, social and personal services	2.3	0.5	-1.0	1.5
P	Private households with employed persons	2.0	5.0	1.0	1.0
VALUE ADDED		**3.2**	**-7.3**	**0.9**	**2.6**
a) Taxes on products and services		4.9	-8.0	0.4	1.8
b) Subsidies on products and services		-4.3	-8.0	-5.0	0.0
GROSS DOMESTIC PRODUCT		**3.5**	**-7.3**	**0.9**	**2.5**

Source: SORS; forecasts by IMAD.

Figure 12: **Contributions of individual activities to value-added growth, 2008–2011, in p.p.**



Source: SORS; forecasts by IMAD.

In public administration (L), y-o-y growth in value added slowed somewhat in the first half of the year, while the number of employees continued to increase in both the civil part, and the armed forces and police. In other community, social and personal services (O), value-added growth was modest, arising only from cultural activities, while in entertainment activities value added declined, particularly in gambling.

In the second half of the year, we expect a somewhat smaller y-o-y decline in value added than in the first, while in 2009 as a whole, value added in the economy will be, on average, 7.3% lower in real terms than in 2008. In *the private sector*, the situation is expected to be somewhat more stable in the second half of the year than at the end of 2008 and the beginning of 2009. Taking into account the movements of 2008, when economic activity had already notably declined by the end of the year, this means that in the second half of the year, the y-o-y decline in value added in the private sector will be smaller than in the first. In *manufacturing*, economic activity is expected to strengthen slightly in the third and fourth quarters, after the situation stabilises at the end of the first half of the year. Positive movements will arise from the expected gradual strengthening in foreign demand and are also suggested by data on business trends, particularly

Box 2: **Revision of the main national accounts aggregates, taken into account in the autumn forecast and an international comparison of previous revisions**

In September 2009, the Statistical Office of the RS (SORS) published its routine annual revision of data on gross domestic product (GDP), the main national accounts aggregates and employment for the 2005–2007 period, and the first annual estimate for 2008. The new value of GDP for 2005–2008 at current prices is only slightly higher than the previous figure, while GDP growth estimates were revised for 2005 and 2006. Substantial revisions were made to expenditure, production and cost components of the GDP structure, particularly for 2008, the year for which the first annual data were released. The new data on national accounts also include correction of the classification of debt cancellation (now regarded as a capital transfer to/from the rest of the world), made in the balance of payments statistics by the BS and in the national accounts for the period since 2002. The revised deficit with the rest of the world with regard to GDP is thus on average about 0.4 p.p. higher (4.6% of GDP in 2007, before revision, 3.5%; 6.0% of GDP in 2008, before revision, 5.6%).

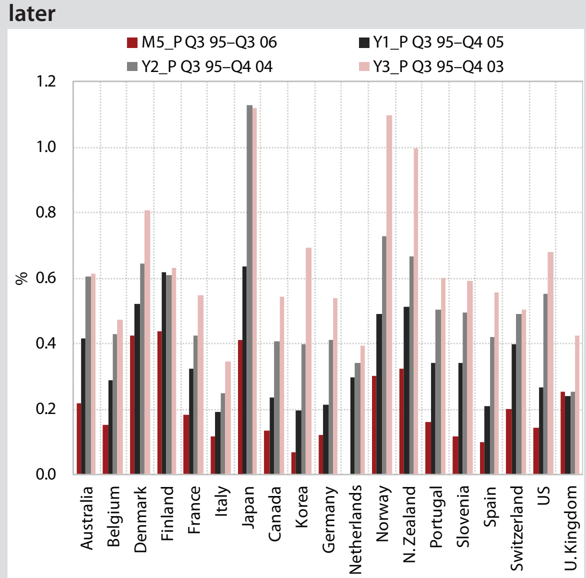
Using the OECD methodology, we analysed revisions of quarterly GDP growth rates for Slovenia, prepared by the OECD for 18 selected Member States. One of the statistical data quality dimensions is, besides accuracy and timeliness, the reliability of the first published estimate, which is measured by assessing the size of later corrections (revisions). The analysis made by IMAD shows that the revisions of the quarterly data on y-o-y GDP growth rates in Slovenia, despite the transitional period, do not diverge significantly from the average revisions in the selected OECD countries. However, there are differences, if different measures of individual revisions are compared. The reliability of the first published estimate can be expressed by different indicators, including the mean absolute revision. The analysis has shown notably higher mean absolute revisions in certain countries than in others. The highest mean absolute revisions are posted by Japan, Norway and New Zealand, while Slovenia is below the average in terms of this indicator (except for the revision of the first published estimate one year later, according to which it is 0.06% above the average). In terms of the standardised accuracy measure (standard deviation), Slovenia is ranked lower, scoring 6th among the compared countries with the highest deviation. Revisions show that the first estimates were gradually revised upwards for most countries and also for Slovenia.

Table 6: **Effects of the revision on GDP growth and level for the 2005–2008 period**

	2005	2006	2007	2008
1. Nominal increase in GDP level relative to previous data release, in % of GDP	0.2	0.1	0.3	0.0
2. GDP growth rates after the last revision	4.5	5.8	6.8	3.5
3. GDP growth rates before the last revision	4.3	5.9	6.8	3.5
4. Differences in GDP growth rates (4=2–3)	0.2	-0.1	0.0	0.0

Source: SORS.

Figure 13: **Mean absolute revision between the first estimates of y-o-y GDP growth rates by country and those published five months, one, two and three years later**



Source: OECD Revision Database; for Slovenia calculations by IMAD.
Note: M5_P = revision of data five months after the first release of the quarterly data estimate (year/year).
Y1_P, Y2_P, Y3_P = revisions of data, published 1, 2 and 3 years after the first release of the estimate.

by an improvement in export orders. In view of the strong declines in previous quarters, value added will nevertheless drop steeply in real terms in 2009, by 18%. Economic activity in *construction* will, given the expected orders, continue to decline by the end of the year, but less intensely than in the first half of the year. Value added will thus drop by 12% in real terms in the year as a whole, compared with 2008. Economic activity in *market services* is not yet expected to increase significantly by the end of the year, as the recovery in market services is likely to follow the movements in manufacturing and construction (wholesale trade, freight transport, business and financial services) and private consumption (retail trade, hotels and restaurants). Y-o-y drops in value added will nevertheless diminish at the end of the year, given the low level of economic activity at the end of 2008, except in the group of transport, storage and communications, as road freight transport – a sector, most strongly dependent on the favourable business cycle – recorded strong growth in the volume of transport services also in the last quarter of 2008. Value added in market services will thus drop by 5.4%, in total, in 2009. In other, predominantly *public services*, value-added growth will slow by the end of the year, given the adopted government decision on limiting employment growth, averaging 2.6% for the year as a whole.

Value added is projected to increase gradually in 2010 and 2011 (0.9% and 2.6%, respectively), but at a relatively slow pace, despite the sizeable

Box 3: **Borrowing in 2009**

Even though interbank interest rates have been declining in the euro area since the end of last year, a noticeable revival on the interbank market has yet to be seen. Slovenian banks are thus making net repayments of loans, in June alone in the amount of EUR 1.3 bn, and in the first half of this year, the net outflow has already exceeded EUR 2 bn. As loan maturity has declined significantly on these markets in the last year and a half, we expect that, given state guarantees, major banks will also be issuing bonds in the following years to improve the maturity structure of liabilities.

Corporate and NFI borrowing from domestic banks was very low in the first seven months of this year. Net flows of this type of loans reached EUR 283.7 m, less than a tenth of what was recorded in the comparable period last year, when the slowdown in lending activity was less pronounced. The situation was toughest in the second quarter of 2009, when enterprises and NFI even net repaid loans taken out at domestic banks. In the first seven months of the year, the bulk of borrowing came from working capital loans, which nevertheless only reached slightly over one fifth of the figure recorded in the comparable period last year. An even greater slowdown (to one tenth of what was posted in the same period last year) was posted in net borrowing for investment. Loans for other purposes, including loans to finance takeover activity, were net repaid in this period.

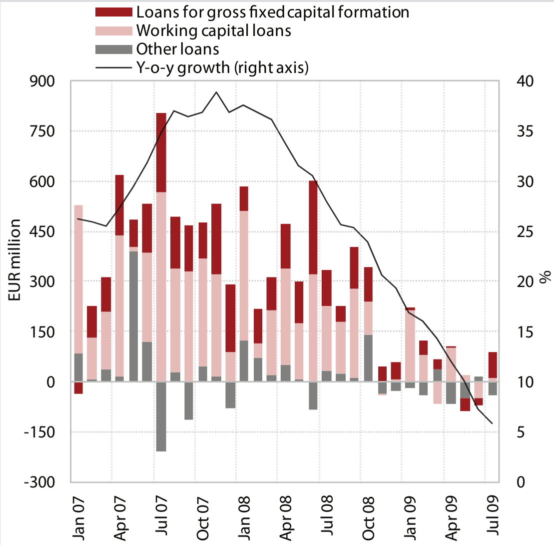
In contrast, enterprises and NFI stepped up net borrowing abroad in the first half of the year. Borrowing abroad totalled EUR 264.0 m, almost one sixth more than in the comparable period last year. With long-term loans accounting for the total volume of net flows, the maturity structure of borrowing is favourable as well. Borrowing from the rest of the world is rising, despite the significantly tighter economic environment (enterprises and NFI net repaid loans in EMU in the first seven months of the year). This may be attributable to lending interest rates in Slovenia, which are fairly high; as a result, certain enterprises with good credit standing are also taking loans abroad. Corporate and NFI borrowing from the rest of the world thus exceeded net flows of loans taken out at domestic banks in the first half of the year, accounting for as much as 53.1% of total corporate and NFI net borrowing (compared with an average of less than 15% in 2005–2008).

The loan potential under the state guarantee scheme for enterprises remains untapped. Since the adoption of the Republic of Slovenia Guarantee Scheme Act, the SID Bank has carried out as many as four auctions in the period to 10 September, approving a total of EUR 305.8 m in guarantees, according to Ministry of Finance data. At the first three auctions, the state assumed more than 30% of risk on average, yet not more than 40% in each respective case, which is less than half than made possible by the Act. According to the MF data, more than EUR 860 m was offered in loans at these three auctions by the beginning of September. Despite this credit potential being relatively high, only slightly over EUR 250 m worth of loans was approved under the first three schemes, according to the available data, which is far below expectations.

Household borrowing was modest in the first seven months of the year. At EUR 227.6 m, it only amounted to a third of net flows from the same period last year. Households net repaid consumer loans (in the amount of EUR 15 m), while they raised 45% less in net of housing loans (EUR 242 m) than in the same period last year, and only EUR 1.1 m in other loans.

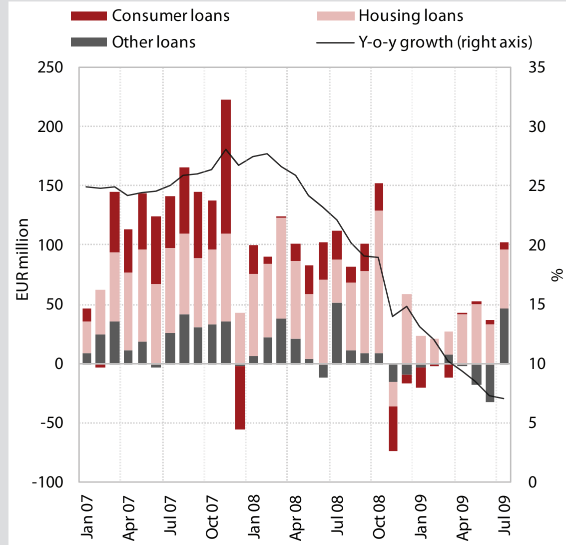
Households will also be able to obtain loans under the guarantee scheme for natural persons, presumably starting this October. The scheme allowing individuals to take out loans until the end of 2010 is intended for people buying their first homes and for loans for other purposes (in which case, these loans can only be granted to certain population groups). The guarantee quota of EUR 350 m translates into a credit potential of a minimum of EUR 650 m, which is more than a half of total net flows of household loans in the past three years as a whole.

Figure 14: **Net flows of corporate and NFI borrowing**



Source: BS; calculations by IMAD.

Figure 15: **Net flows of household loans**



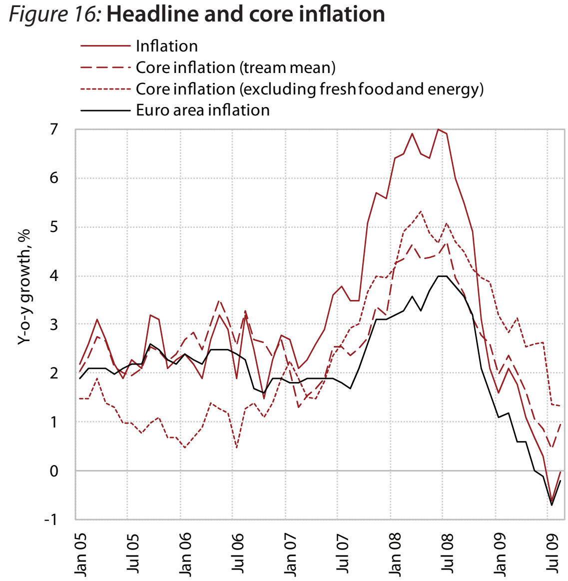
Source: BS; calculations by IMAD.

value-added decline this year. Amid the anticipated gradual recovery in the international environment (see Assumptions of the Autumn Forecast) and consequently domestic merchandise exports, the quarterly growth in value added in *manufacturing*, which will be recorded in the second half of this year, is expected to continue next year, but will remain modest. Meanwhile, in domestic demand, the production activity in the manufacturing sector will still be negatively affected by a further shrinkage in construction. The slow rebound in manufacturing will also be partly structural in nature, with a further contraction in production programmes expected in low-technology-intensive industries. Real growth of value added in manufacturing will thus average 2.5% in the next year as a whole, and 3.7% in 2011, assuming a further recovery in international trade. Real value added in *construction* will be, on average, even lower next year (-5.5%) than this year. After increasing strongly in previous years, motorway construction is expected to see a further decline, and given the rather low capacity utilisation and a relatively high level of inventories, so is construction of buildings (non-residential and residential). For 2011, we predict 2% real value-added growth, mainly due to a further rebound in the construction of buildings. *Market services* will improve somewhat next year (1.1% real growth in value added), after the strengthening of foreign demand (exports of services) and pick-up in manufacturing activities. In 2011, when private consumption (and thus mainly the sale of durable goods) and construction activity are also set to rebound, value-added growth in market services will be even somewhat higher: 2.6%. In *other, predominantly public services,* value added growth will slow notably (to 0.8%) next year, due to anticipated further restrictions on employment (to 0.8%), while in 2011 it is expected to rise somewhat again (2.3%).

Inflation

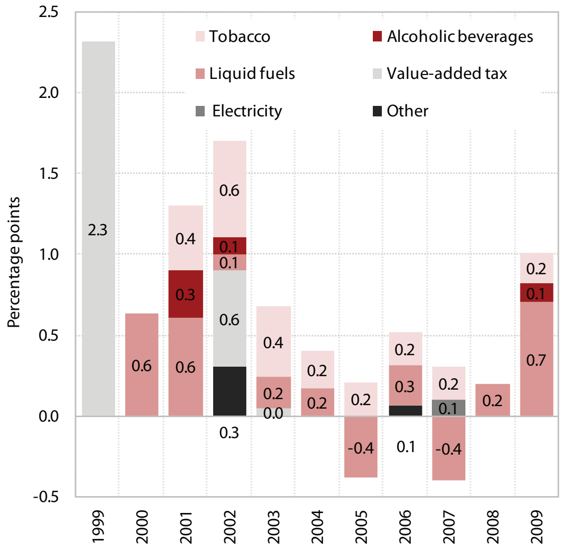
Inflation in Slovenia continued to slow down in the first eight months of the year in comparison to last year. The key reasons for the easing of y-o-y inflation in Slovenia were the same as in the euro area. Since the second half of last year, inflation has been abating at a rapid pace mainly due to the "base effect" in prices of liquid fuels and to a lesser extent food (see Box 4). In the absence of commodity price shocks, relatively weak economic activity also played a part in the softening of price pressures in other products and services. Nine out of twelve main consumer price groups thus posted lower price rises than last year. The easing of inflationary

Figure 16: **Headline and core inflation**



Source: SORS; calculations by IMAD.

Figure 17: **Impact of increased taxes and excise duties on inflation**



Source: SORS; calculations and forecast by IMAD.

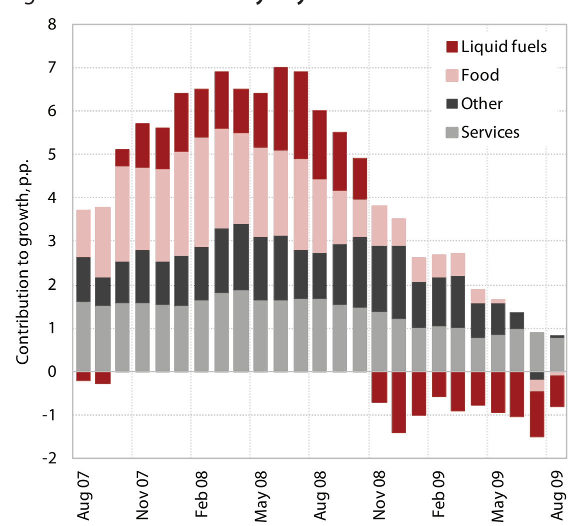
pressures is also indicated by core inflation measures[12] (see Figure 16).

Government tax policy measures had a more noticeable impact on consumer prices this year than in previous years. The contribution of tax changes to inflation was this year the highest since 2002 (see Figure 17). Amid subdued economic activity, the government was also mitigating shortfalls in general government revenue by rising duties on excise products (see Public Finance). Consumer prices rose by 1.4% in the first eight months of the year, with total excise duty rises contributing approximately 1 p.p. to this growth (0.7 p.p. came from excise duties on liquid fuels, 0.2 p.p. from excise duties on tobacco and 0.1 p.p. from excise duties on alcohol).

The share of prices under various regimes of regulation in the consumer price index is diminishing; in some cases, their growth diverges from the Administered Prices Adjustment Plan in force. In the first eight months of the year, administered prices rose by 8.7%, largely owing to rises in prices of liquid fuels for transport and heating. Other administered prices increased by 2.2% in this period, among other reasons also as a result of unplanned increases of the radio and television (RTV) contribution and the prices of vignettes,[13] and a rise in passenger railway transport prices, which was also somewhat higher than planned. The share of administered prices in the consumer price index is otherwise gradually diminishing; price liberalisation was last seen this August, when the government transferred the responsibility for setting municipal service prices to local communities. The prices of these services otherwise increased by a mere 0.1% in the first eight months, compared with an average of 1.7% in 2008.[14] Electricity prices for households, having been liberalised in the summer of 2007, rose by 16.1% this year, contributing 0.5 p.p. to inflation.

Y-o-y inflation is projected to rise gradually until the end of 2009 to 1.9% in December and will average 1.0%. With price movements in oil and excise duties somewhat different from what was expected at the time when the

Figure 18: **Breakdown of y-o-y inflation**



Source: SORS; calculations by IMAD.

Table 7: **Autumn forecasts of inflation for 2009–2011 and a comparison with spring forecasts**

	2008	2009 Spring forecast (Mar. 2009)	2009 Autumn forecast (Sept. 2009)	2010 Spring forecast (Mar. 2009)	2010 Autumn forecast (Sept. 2009)	2011 Spring forecast (Mar. 2009)	2011 Autumn forecast (Sept. 2009)
Inflation (annual average, %)	5.7	0.4	1.0	1.6	1.5	2.6	2.5
Inflation (Dec/Dec, %)	2.1	1.4	1.9	2.2	2.0	3.0	2.7

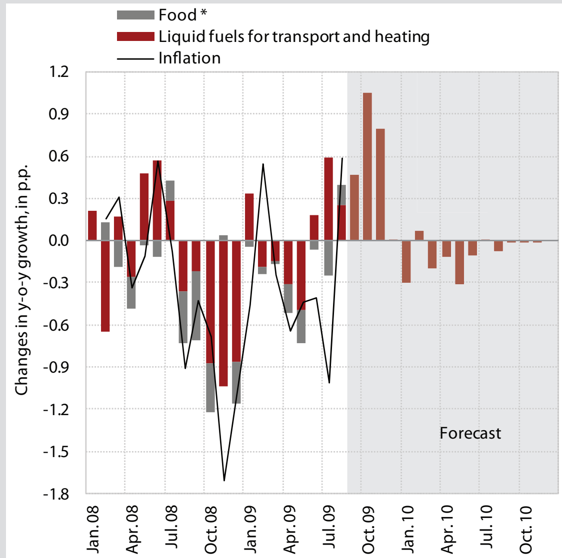
Source: SORS; forecasts by IMAD.

[12] The measures of core inflation exclude high one-off monthly price swings or prices of certain items facing the most volatile price movements (oil, seasonal food).
[13] The calculation takes into account that toll payment changes were made in this period.
[14] The actual rises in prices of municipal services have a limited impact on inflation, as due to the price movement control methodology, the consumer price index does not include price changes in all municipalities.

Box 4: **The base effect and its influence on the dynamics of y-o-y inflation**

In the previous two years, in addition to food price movements, the movements in oil prices crucially impacted the dynamics of consumer price rises in both Slovenia and the euro area. In July 2008, oil prices, being at their historical highs (around USD 140/barrel), contributed close to 2 p.p. to y-o-y inflation through higher prices of liquid fuels for transport and heating. With global economic activity abating, oil prices dropped considerably in the second half of the year, to around USD 40/barrel, which was first reflected in a lower positive contribution to inflation, which turned negative in December 2008, hitting its low this July (-1.0 p.p.). In August, the impact had already been reversed – the negative contribution of the movements in prices of liquid fuels for transport and heating to inflation declined to -0.7 p.p.; the deflation seen in July and the zero consumer price growth recorded in August are therefore short-lived, in our estimation. With the assumed oil price by the end of this year and the next year (USD 75/barrel), the negative contribution will continue to decline, turning positive at the end of the year, which will be reflected in higher y-o-y consumer price rises throughout to July 2010, when the "base effect" will be largest with regard to the assumed prices of oil.

Figure 19: **Impact of changes in y-o-y contributions of food and liquid fuel price rises on changes in y-o-y inflation**



Source: SORS; estimates and forecast by IMAD.
Note: *The contribution of food prices is only shown for the actual data by August 2009.

spring forecast was made, the autumn forecast of inflation is around half a percentage point higher than projected in the spring. The price of oil on global markets rose gradually from USD 45/barrel (spring assumption by the end of the year) to USD 70–75/barrel, thus contributing another 0.3 p.p. to inflation. Excise duties (on tobacco and liquid fuels) also increased more than could be anticipated based on the documents in force when the spring forecast was made, which also added an additional 0.3 p.p. to inflation in the first eight months of the year. Considering the excise duty policy measures adopted thus far, taxation and excise duties are not expected to change until the end of the year. The oil price assumption for this period remains at the level of USD 75/barrel, as at the end of August. Judging from the latest forecasts by international institutions regarding food price dynamics on the global market, we assume that food price rises in Slovenia will also remain moderate this year and will not accelerate inflation. Due to relatively weak economic activity, there should also be no inflationary pressures until the end of the year, similar to what we predicted in the spring.

In view of the expected recovery of economic activity, y-o-y inflation is expected to increase to 2.0% in 2010 and average inflation to 1.5%. Assuming a gradual global rebound in economic activity, upward pressures on price growth are set to increase somewhat in the entire euro area. In view of the oil price assumption (USD 75/barrel), the contribution of the increase in prices of liquid fuels for transport and heating to y-o-y inflation will be negligible at the end of the year, but will still be present in the first half of the year, given that the assumed oil price is significantly higher than prices in the first half of 2009 (see Box 4). Assuming continued modest growth in oil (to USD 80/barrel) and non-oil commodity prices on global markets accompanying a further pickup in economic activity in the international and domestic environments, y-o-y inflation will rise somewhat further in 2011, to 2.7% by the end of the year, with average inflation increasing to 2.5%. Prices rises in services will be higher than merchandise price rises in both years, thus catching up with the price level in the euro area.

Risks for the realisation of the inflation forecast are distributed symmetrically and explained further in the Risk Assessment section.

Wages

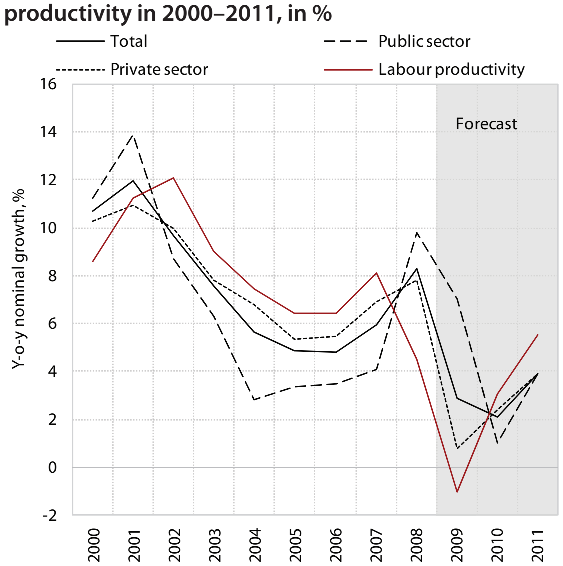
This year, the nominal growth of the total gross wage will be far below that posted in 2008, despite high wage rises in the public sector; however, the real increase will not be substantially lower. Given the movements in the first six months, when the nominal growth of the average gross wage per employee totalled 5.0% y-o-y, and with the gross wage projected to increase by a mere 0.8% in the second half of the year, the total gross wage will increase by 2.9% in nominal terms this year, 5.4 p.p. less than last year (0.3 p.p. more than forecast in the spring). The gap between the average annual gross wage rises in the private and public sectors (6.2 p.p.) will be very wide, largely due to strong wage growth in the public sector as a result of the already disbursed two quarters of funds to eliminate wage disparities. The total gross wage will post a 1.9% real increase this year, 0.6 p.p. lower than the comparable figure last year (2.5%).

Amid a significant decline in economic activity, the average gross wage in the private sector will increase by less than one percent in nominal terms this year. In the first half of the year, the gross wage per employee in the private sector increased by a nominal 2.2% and a real 0.9%, somewhat more than what we forecast in the spring. The increase mainly came from payments based on companies' business results in the previous year and higher basic wages. The share of payments for overtime work in the structure of this year's gross earnings per employee dropped by half in comparison to last year. Predicted to decline by a nominal 0.5% y-o-y in the second half of the year, the gross wage will rise by 0.8% in nominal terms this year, while in real terms it will decline (-0.2%). Slower wage growth in the second half of the year will be due to this year's adjustment of starting-level and minimum basic wages,[15] which is foreseen to be somewhat lower this year, and to the expected significant decline in Christmas bonuses and 13th month wages compared with previous years. Two subsidy schemes (regulating subsidies for shorter working hours and temporary layoffs) have also been put into force, both mainly aimed at preserving jobs; the latter – under which the first subsidised wage compensations are to be paid in September this year[16] – will also have a certain impact on the level of gross earnings.[17] However, even though the measures are aimed at preserving jobs and companies are prohibited from laying off workers while under the subsidy schemes, the number of employees (lower-skilled workers, in particular) will continue to drop until the end of the year, which will contribute to a higher average gross wage per employee in this sector. The share of employees included in both subsidy schemes is the highest in industry, where wages are projected to stagnate this year. In nominal terms, the y-o-y gross wage increase in the private sector will only reach 0.6% by the end of the year, while in real terms it will be negative (-1.2%).

The public sector will see high wage growth this year, even somewhat higher than forecast in the spring. In the first half of the year, the gross wage per employee in the public sector increased by 11.7% in nominal terms (half a percentage point more than predicted in the spring) and 10.3% in real terms, mainly due to January's disbursement of the second quarter of funds to eliminate wage disparities, the impact of the high wage rises in the second half of last year,[18] but also due to the regular promotions in April. Given that the February agreement[19] abolished this year's regular adjustment of wages in July and limited disbursement of payments based on individual work performance to public employees (from April onwards), this sector's gross wage will increase by 2.5% in nominal terms y-o-y in the second half of the year. Under these assumptions, the gross wage per employee in the public sector will this year increase on average by a nominal 7.0% and a real 5.9% (0.4 p.p. more, in nominal terms, than what was forecast in the spring). The y-o-y wage growth in this sector will gradually decline, reaching 2.0% in nominal and 0.1% in real terms by the end of the year.

The relationship between wage growth and labour productivity growth will deteriorate significantly this year. In nominal terms, total wage growth will exceed productivity growth measured by GDP per employee by 3.9 p.p. and by 6.9 p.p. in real terms. In the private sector, this gap will be smaller (by 1.8 p.p. in nominal and 4.8 p.p. in real terms), while in the public sector it will be wider, given that wage growth in the public sector will exceed nominal total labour productivity growth by 8.0 p.p. (10.9 p.p. in real terms).

Figure 20: **Gross wage per employee and labour productivity in 2000–2011, in %**



Source: SORS; calculations and forecasts by IMAD.
Note: Labour productivity growth is measured by GDP growth per employee.

[15] According to the *Collective Agreement on the Wage Adjustment Mechanism*, *Reimbursement of Work-related Costs*, and *Holiday Allowances for 2008 and 2009*, the starting-level and minimum basic wage levels should be adjusted by 2.3% in August (last year by 3.9%). Given the strong deterioration in economic conditions, the impact of this year's expected adjustment on wage growth will be even lower.

[16] According to the *Partial Reimbursement of Payment Compensation Act,* passed this June, covering 85% of a worker's average monthly wage for full working time in the last three months.

[17] As compensations should not be lower than the minimum wage and given that, according to the data available by 11 September, only 268 enterprises concluded contracts with the government for this type of subsidy (for 11,568 employees), we estimate that the average gross wage will not decline significantly because of this measure.

[18] Disbursement of the first quarter of funds to eliminate wage disparities.

[19] *Agreement on measures regarding public sector salaries for the 2009–2010 period due to the changed macroeconomic situation.*

Table 8: **Autumn forecasts of wage and productivity movements for 2009–2011 and a comparison with the spring forecasts**

		2008	2009		2010		2011	
			Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)
Nominal growth, %	Gross wage per employee	8.3	2.6	2.9	4.2	2.1	4.2	3.9
	Private sector	7.8	0.5	0.8	2.0	2.4	4.1	3.9
	Public sector	9.8	6.6	7.0	8.5	1.0	4.4	3.9
	Labour productivity	4.5	4.2	-1.0	4.0	3.1	5.3	5.5
Real growth, %	Gross wage per employee	2.5	2.2	1.9	2.6	0.6	1.6	1.4
	Private sector	2.0	0.1	-0.2	0.4	0.9	1.5	1.4
	Public sector	3.9	6.2	5.9	6.8	-0.5	1.8	1.4
	Labour productivity	0.7	1.5	-5.0	2.8	2.5	3.1	3.4

Source: SORS, forecasts by IMAD.
Note: Productivity growth is measured by the growth in GDP per employee.

The forecast for wage growth in 2010–2011 is based on the Draft Budget Memorandum for 2010–2011 and the position of Slovenia's government for negotiations with the public sector trade unions.

Assuming a pronounced slowdown in the nominal growth of public sector wages to 1.0% and a slight strengthening of the wage growth in the private sector to 2.4%, the growth of the total gross wage (2.1%) will lag behind labour productivity growth in 2010. Wage policy for the next year has yet to be agreed for both the private and the public sectors. Taking into account the Budget Memorandum for 2010–2011 and the position of Slovenia's government for negotiations with the public sector trade unions, the gross wage in *the public sector* will be 1.0% higher in nominal terms in 2010, while being lower than in 2009 by a real 0.5%. This is a much lower growth than what was foreseen in the spring[20] (8.5%). Even though the two variants of wage policy measures for the public sector presented in the negotiating positions differ significantly in contents, both will have the same effect on gross earnings in 2010. Both allow for the implementation of April's promotions of public employees, but do not foresee any wage adjustment in July nor payments based on individual work performance.[21] In the private sector, we do not yet expect any further pressures on wage growth from the labour market next year; with a slight rebound in economic activity and one working day more, the gross wage will increase by a nominal 2.4% and by a real 0.9%. The total gross wage per employee will thus increase by a nominal 2.1% and a real 0.6% in 2010 (lagging behind labour productivity growth by 1.0 p.p. in nominal and 1.9 p.p. in real terms).

In 2011, wage rises in the private and public sectors will be the same, lagging behind labour productivity growth. Private sector wages are predicted to increase by 3.9% in nominal terms, in view of a further improvement in the economic environment in a year that will otherwise be three working days shorter than the year before. In the public sector, the same forecast of wage rises includes promotions and a gradual introduction of wage components that were temporarily abolished by the proposed package of wage policy measures for the public sector. The nominal growth of the total gross wage per employee (3.9%) will lag by 1.6 p.p. behind nominal labour productivity growth, while the real lag will even be greater (with 1.4% wage growth and 3.4% labour productivity growth).

If these measures in the area of public sector wages were not carried out, wage growth in the public sector would be much higher, particularly next year, which would also be reflected in total gross wage growth. In ***2009***, the total gross wage would increase as predicted in the baseline scenario, but wage growth in the public sector would be by 0.1 p.p. higher, as according to the agreement reached in February,[22] from December onwards, public employees would again be entitled to part of the payments based on regular work performance. Were the measures not implemented, nominal wage growth in the public sector wages would reach as much as 10.3% (8.7% in real terms) ***in 2010***, more than 9.0 p.p. higher than according to the baseline scenario. The forecast is based on a higher transfer of the increase from the previous year (with payments based on work performance being disbursed again), regular promotions, disbursement of the last two quarters in the agreed term (January and March 2010), July's full adjustment for y-o-y inflation according to the Autumn Forecast, and January's additional increase in basic wages by the difference between the foreseen and actual inflation in 2009. The total gross wage would thus

[20] The forecast included the January and March adjustments eliminating disparities, regular promotions, and disbursement of payments based on work performance and July's adjustment of wages for inflation.

[21] According to the agreement reached in February, employees would be again entitled to part of the payments for regular work performance from December 2009 onwards.

[22] *Agreement on measures regarding public sector salaries for the 2009–2010 period due to the changed macroeconomic situation.*

Table 9: **Wage growth if the measures in the field of public sector wages are not carried out**

		2008	2009	2010	2011
			Wage growth without measures in the public sector		
Nominal growth, %	Gross wage per employee	8.3	2.9	5.0	4.5
	Private sector	7.8	0.8	2.4	3.9
	Public sector	9.8	7.1	10.3	5.6
Real growth, %	Gross wage per employee	2.5	1.9	3.4	2.0
	Private sector	2.0	-0.2	0.9	1.4
	Public sector	3.9	6.0	8.7	3.0

Source: SORS, 2009–2011 forecasts by IMAD.

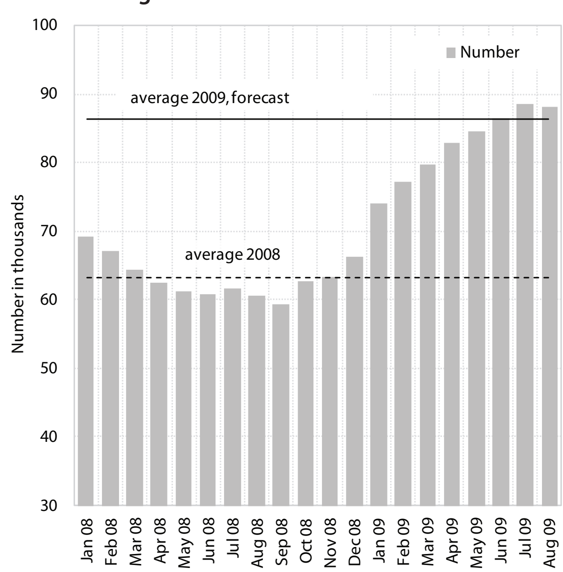
increase by 5.0% in nominal terms (3.4% in real terms), 2.9 p.p. more than according to the baseline scenario. ***In 2011***, the gross wage in the public sector would increase by 5.6% in nominal terms (3.0% in real terms), 1.7 p.p. more than if the above-mentioned measures were introduced, and would be based on a significantly higher transfer of the increase from the previous year, regular promotions and July's full adjustment of wages for inflation. The total gross wage would thus be 4.5% higher in nominal terms relative to the previous year, which is 0.6 p.p. more than according to the baseline scenario.

Employment and unemployment

In the first half of 2009, the number of persons in employment declined at a much slower pace than foreseen in the spring. The mechanism of labour market adjustment to the changing economic conditions was significantly different in the first half of the year from what we expected in the spring, when we predicted a larger drop in employment and hence a smaller decline in productivity measured by GDP per employee, as (contrary to expectations), enterprises responded to slowing economic activity by reducing overtime work and shortening working hours rather than cutting jobs. The average drop in the number of persons in employment was thus relatively small (-1.2%) in the first half of 2009 compared with the first half of last year. The largest drop was recorded in manufacturing (by 8.3%), as a result of a significant production decline. The greatest job losses were seen in the manufacture of metal products, other machinery and equipment, in wood-processing and in the manufacture of electrical appliances and clothing and textiles. The number of employed persons was also much lower than in the first half of last year in agriculture (by 6%) and mining (by 7.5%), where restructuring has already been underway for several years. In numerous market activities that were less severely hit by the crisis than manufacturing, the number of employed persons remained on average at a similar or higher level than in the first half of 2008. In construction, this number was even 3% higher than last year, despite value added being 12.9% lower. The number of persons employed in mainly public services continued to increase (see Table 10).

These movements of persons in employment (employed and self-employed) are more favourable than what we projected in the spring, which is also reflected in a smaller decline in the year as a whole. This more favourable development is partly a consequence (in addition to the different-than-expected response of enterprises to the decline in economic activity) of the interventive Partial Subsidising of Full-Time Work Act[23] passed in January, and higher participation of the unemployed in active employment policy programmes, particularly those promoting employment and self-employment. In the second half of the year, the number of persons in employment is expected to fall more slowly, due to the foreseen slower decline in activity and as a result of an additional interventive act aimed at preserving jobs.[24] Demand for workers was diminishing less notably than expected in the spring, particularly in construction, where lower activity has already resulted in a decline in overtime work, while the number of employed persons will most likely be adjusted with a larger delay than anticipated in the spring. The number of persons in formal employment is hence expected to drop by 2.5% in the year as a whole (-4.2% in the spring).

Figure 21: **Number of registered unemployed by month and on average in 2008 and 2009**



Source: Employment Service of Slovenia; forecast by IMAD.

[23] By 11 September 2009, as many as 708 enterprises with 59,591 employees were included in the short-time working scheme (having concluded a contract with the Employment Service of Slovenia), which accounts for 6.9% of persons in employment in June (the latest data).

[24] The Partial Reimbursement of Payment Compensation Act, which was passed at the end of May and regulates the co-financing of reimbursement of wage compensation for workers on temporary layoff ("waiting" at home). By 11 September, 11,568 employees were included in this scheme.

Table 10: **Persons in formal employment by activity, in the first halves of 2008 and 2009**

	Average number		Change in number	Change in %
	I–VI 2008	I–VI 2009		
TOTAL	875,133	865,018	-10,116	-1.2
A Agriculture, forestry, hunting, fishing	40,320	37,894	-2426	-6.0
B Mining	3,660	3,387	-273	-7.5
C Manufacturing	223,987	205,409	-18,578	-8.3
D Electricity, gas, steam and air conditioning supply	7,662	7,855	193	2.5
E Water supply sewerage, waste management and remediation activities	8,753	8,986	234	2.7
F Construction	85,108	87,717	2,609	3.1
G Wholesale and retail trade, repair of motor vehicles and motorcycles	115,191	115,358	167	0.1
H Transportation and storage	50,845	50,363	-482	-0.9
I Accommodation and food service activities	33,591	34,027	436	1.3
J Information and communication	21,617	22,522	905	4.2
K Financial and insurance activities	24,013	24,719	706	2.9
L Real estate activities	4,062	4,362	301	7.4
M Professional, scientific and technical activities	42,057	44,269	2,212	5.3
N Administrative and support service activities	25,613	25,372	-241	-0.9
O Public administration and defence, compulsory social security	50,888	51,338	450	0.9
P Education	59,996	61,608	1,612	2.7
Q Human health and social work activities	50,873	52,057	1,184	2.3
R Arts, entertainment and recreation	13,807	14,072	265	1.9
S Other service activities	12,604	13,166	562	4.5
T Activities of households as employers	488	538	50	10.2

Source: SORS; calculations by IMAD.

The decline in employment is accompanied by growing unemployment. The number of registered unemployed persons has been increasing since September last year (59,303), when it was the lowest since 1990. It rose to 88,101 by this August, being 45.2% higher y-o-y. In the first half of the year, unemployment according to the labour force survey was 18.9% higher than in 2008. Unemployment rates were higher as well: the registered unemployment rate increased to 9.4% by July (2.9 p.p. more than a year ago); the survey unemployment rate rose to 5.6% in Q2 2009 (a 1.4 p.p. higher figure than a year ago).

The number of the unemployed and unemployment rates will be significantly higher this year than in 2008 and similar to those in the spring. In the period from April to August 2009, unemployment was rising at a slower-than-expected pace due to increased participation in active employment policy programmes and a smaller drop in employment. In autumn, the registered unemployment flows are expected to be similar as last year (high inflow of first-job seekers), with the number of the registered unemployed increasing to about 96,000 by the end of the year. The average annual number of the registered unemployed will total approximately 86,000 this year

Table 11: **Autumn forecasts of labour market flows for 2009–2011 and a comparison with the spring forecasts**

	2008	2009		2010		2011	
		Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)
Persons in formal employment (growth in %)	3.0	-4.2	-2.5	-1.7	-1.9	-0.4	-0.8
Employment according to national accounts (increase in %)	2.8	-5.4	-2.4	-1.7	-1.6	-0.4	-0.9
Registered unemployment rate (%)	6.7	8.9	9.1	10.3	10.6	10.2	10.9
ILO unemployment rate (%)	4.4	6.0	5.7	7.0	6.7	7.0	7.3

Source: SORS, forecasts by IMAD.

(last year 63,200), while the average annual registered unemployment rate will be 9.1 % (last year 6.7%). The survey unemployment rate will climb to 5.7% (last year 4.4%).

Employment is expected to drop further in 2010 and 2011, but less notably than this year. With value added dropping much more steeply than employment this year, the labour market is expected to see further adjustment in the next two years, by reducing the number of persons in employment, given that we do not yet expect a significant acceleration in economic activity. We estimate that employment will decline most notably in activities which posted large value added drops in 2009, which have not yet been followed by job cuts, and in activities where the number of employed persons has already been declining for several years (agriculture, mining and certain manufacturing sectors). The number of formally employed foreigners may post a more notable decline in the coming two years, given that in the first half of 2009, it dropped significantly less than expected in the spring. The number of persons in employment will diminish by 1.9% in 2010 and by a further 0.8% in 2011, by our estimate.

Figure 22: **Registered unemployment rates by month in the January 2007 to July 2009 period**

Source: SORS.

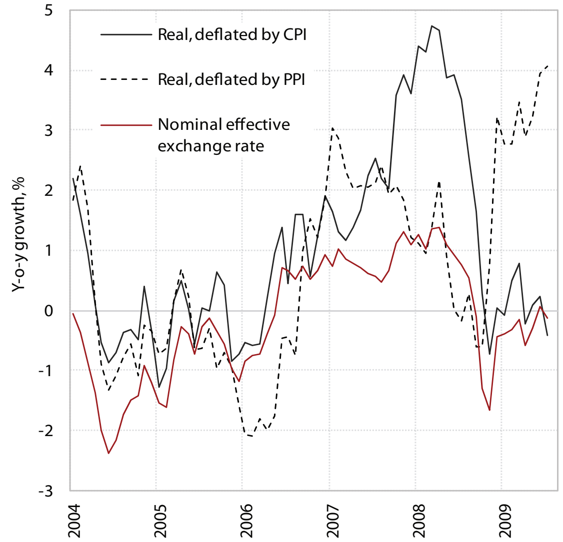
Unemployment is expected to increase further, yet much less than in 2009. Unemployment will increase somewhat more in the following years, given the described employment trends. The average number of the registered unemployed is expected to rise to around 102 thousand in 2010, in large part as a result of the movements (strong growth) of unemployment in 2009; the registered unemployment rate will thus climb to 10.6%. In 2011, when the subsidy scheme for shorter working hours is set to expire according to the regulations now in force, unemployment is expected to rise somewhat again, to 10.9%.

Price and cost competitiveness

The movements in price competitiveness in Slovenia were this year relatively less favourable than in other euro area countries. In most euro area countries, price competitiveness improved y-o-y in the first seven months of 2009 over the same period last year, as the real effective exchange rate measured by relative consumer price growth declined, unlike in Slovenia where it was 0.1% higher.[25] The relatively less favourable movement of Slovenia's price competitiveness compared with the euro area was partly due to the decline (or weaker growth) of consumer prices in most of the other countries in the euro area. To a certain extent it also resulted from the structure of Slovenia's foreign trade, characterised by an above-average share of trade with the EU. Slovenia's price competitiveness was therefore greatly affected by the appreciation of the euro against other EU currencies, while the influence of the euro's depreciation against the currencies outside the EU was less pronounced.

Price competitiveness of manufacturing deteriorated sharply y-o-y. This deterioration is attributable to a lower y-o-y decline of producer prices in Slovenia compared with its trading partners. The real effective exchange rate deflated by relative producer prices in manufacturing was much higher on average in the first seven months (3.3%) than in the same period last year. The movement of producer prices in Slovenia namely tends to adjust to price movements in Slovenia's trading partners with a time-lag, which is already suggested by the current data for 2009, as in July 2009, price competitiveness had already improved somewhat (by 0.7%) relative to December 2008.

Figure 23: **Nominal and real effective exchange rates**

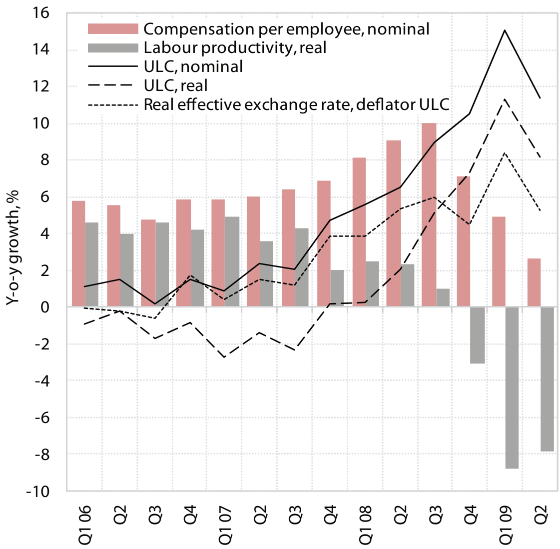


Source: ECB, SORS, EUROSTAT, OECD; calculations by IMAD.

[25] The real effective exchange rate otherwise strengthened in the first seven months of the year (by 1.3% in July 2009 compared with December 2008).

Slovenia also posts notably worse cost competitiveness movements than other euro area countries for quite some quarters in a row. According to the data until the first quarter of 2009, Slovenia had already been among the EU countries with the greatest deterioration in cost competitiveness since the third quarter last year. In the second quarter of this year, Slovenia's cost competitiveness started to deteriorate more moderately due to slower growth in the compensation of employees per employee (see Figure 24), but the deterioration was still pronounced (by 5.3%) due to a significant labour productivity decline.[26]

Figure 24: **Cost competitiveness of the Slovenian economy and its components in Q1 2006–Q2 2009**



Source: ECB, SORS, EUROSTAT, OECD; calculations by IMAD.

Until the end of this year and next year, price competitiveness is expected to remain at approximately the same level as last year. Price competitiveness is not expected to be a significant limiting factor to business operations in this period. Despite the strengthening of the euro predicted for the second half of the year and a higher increase in relative prices than assumed in the spring, the real effective exchange rate will remain relatively stable this year and the next (expected to reach 0.5% and 0.3% growth, respectively).

The slowdown in cost competitiveness deterioration, which started in the second quarter of the year, is set to continue, which is, given the openness of the economy, the key to maintaining Slovenia's position on export markets and, consequently, its economic growth. Cost competitiveness deterioration should slow this year and the next due to a further moderation in the growth of the compensation of employees per employee. Moreover, we expect this year's gradual labour productivity decline to be again followed by productivity growth next year. The growth of the real effective exchange rate deflated by relative unit labour costs will thus drop to 4.3% by the end of this year and to around 1% next year. However, if cost competitiveness continues to deteriorate as a result of less favourable labour cost or productivity movements than foreseen, this deterioration may lead to worsening business results in Slovenia's economy, particularly in its export-oriented part, in the long term also jeopardising market share growth.

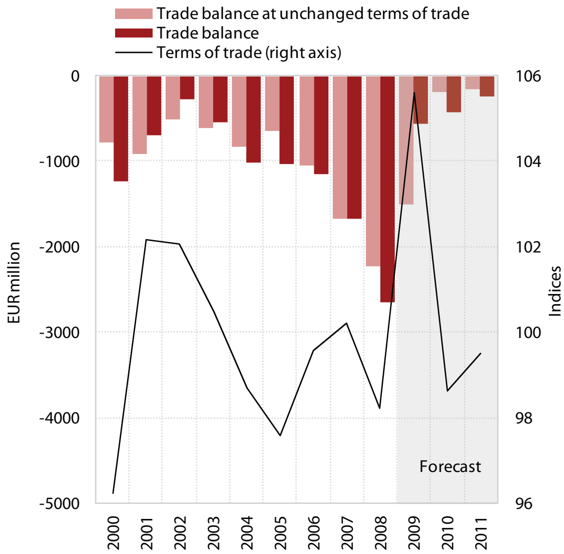
Current account of the balance of payments

The movements of the current account of the balance of payments are this year significantly different from what was recorded in previous years. In previous years, coupled with commodity price rises on global markets, vigorous economic growth and the structure of growth marked by particularly strong investment demand considerably increased the current account deficit, which narrowed notably this year in the absence of these factors. The current account of the balance of payments recorded a surplus (EUR 55.5 m) in the first half of this year, compared with a high deficit of EUR 911.0 m in the same period last year. The surplus in current transactions was largely a consequence of a lower deficit in merchandise trade. To a lesser extent the improvement in the current account balance was also due to lower net interest payments on foreign loans and better absorption of EU funds. In 2009, the surplus in the services balance ceased to increase for the first time since 2003, due to a lower trade surplus in transport services.

The substantial narrowing of merchandise trade deficit is attributable to volume and price movements. The deficit reached a mere EUR 85.4 m in the first half of the year, while posting EUR 1,156.9 m in the same period last year. The low deficit reflects a larger real drop in imports than exports (-26.2% compared with -21.6%) and notably better terms of trade (by 5.9%; see Figure 25). Due to lower global demand, oil and other primary commodity prices expressed in USD declined significantly y-o-y (by 52.5% and 29.8%, respectively). Slovenian producer prices on foreign markets were only slightly lower (-0.9%). Looking at merchandise trade by end-use products according to the Standard International Trade Classification, the merchandise trade deficit dynamics were mainly affected by lower net imports of road vehicles and oil and oil products. The regional composition shows that the merchandise trade deficit narrowed y-o-y largely due to a lower deficit in trade with the EU; the surplus in trade with non-EU countries was also somewhat lower.

[26] Slower growth in the compensation of employees per employee, particularly due to lower y-o-y wage rises in the private sector, contributed to slower growth of unit labour costs, which was nevertheless still high (11.3% in nominal terms, compared with 15% in Q1, and 8.2% in real terms, compared with 11.3%). The labour productivity decline was, at the same time, still pronounced (-7.8%, -8.8% in Q1). The real growth of the effective exchange rate deflated by relative growth of nominal unit labour costs was, consequently, also lower (in Q2 5.3%, by our estimate, compared with 8.4% in Q1).

Figure 25: **Impact of the terms of trade on the merchandise trade balance in 2000–2011**



Source: BS; calculations and forecasts by IMAD.

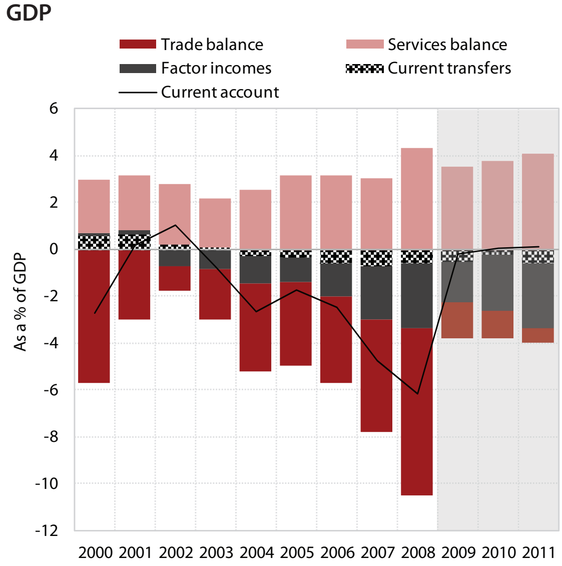
The surplus in the services balance dropped by EUR 177.3 m y-o-y, to EUR 631.0 m. The highest decline was recorded for the surplus in trade of road transport services, which coincided with a decline in the value of merchandise trade. Net inflows of travel services were also lower, due to a higher resident outflow (by 4.6%) and a lower foreign tourist inflow (-4.5%). Trade in the group of other services posted a higher deficit in the first half of this year. The latter was mainly a consequence of a lower trade surplus in merchanting and construction services and a higher trade deficit in licenses, patents and copyrights.

The deficit in factor income balance dropped y-o-y in the first half of this year mainly as a consequence of lower net interest payments to the rest of the world. Amid diminishing interest rates on international financial markets, the largest decline was posted for net interest payments on foreign loans. This decline was mainly a result of lower net interest payments by domestic commercial banks, and to some extent also by the BS, general government and enterprises. Net interest receipts from investment in securities also diminished y-o-y. Direct investment recorded a drop in net expenditures on dividends and distributed profits. The balance of payments data on reinvested profits are still estimates, based on the three-year monthly average of the actual profits in 2006–2008. The deficit in the equity capital item for the first half of the year is therefore overestimated, in our view.

The lower deficit in the balance of current transfers was mostly a result of a better absorption of funds from the EU budget. Amid a relatively high inflow in Q2, Slovenia's net budgetary position relative to the EU budget thus recorded a surplus of EUR 3.5 m in the first half of the year (a deficit of EUR 61.1 m in the same period of last year). Receipts increased by a nominal 57.3% y-o-y and payments by 11.9%. The bulk of the increase in receipts came from the funds under the Common Agricultural Policy and Cohesion Policy, which can be partly attributed to the measures adopted to simplify administrative procedures for absorption. Among contributions, GNI-based payments accounted for the largest increase. The deficit in the private sector's net transfers was also lower, with net payments of non-life insurance premiums being lower and net receipts on other transfers higher than last year.

This year the deficit in current transactions will be notably lower than last year. The current transaction flows for the first half of the year also indicate movements expected for the year as a whole. The surplus from the first half of the year will, mainly due to expected seasonal movements in merchandise trade and a smaller improvement in the terms of trade, turn into a deficit in the second half of the year, though this deficit will be, at EUR 82 m (0.2% of GDP), significantly lower than last year (-EUR 2,287 m or 6.2% of GDP). This development will be largely due to a lower deficit in merchandise trade. The surplus in the services balance will narrow y-o-y largely on account of a smaller surplus in trade in transport services and a wider deficit in trade in the group of other services. With net external debt remaining at the same level as last year and implicit interest rates on gross external debt falling faster than those on gross external assets in debt instruments, net interest payments to the rest of the world will decline. The factor income deficit will thus be lower than last year. This narrowing will also be a result of lower net outflows of dividends and reinvested profits. The deficit in the balance of current transfers will also be lower than last year. Assuming 65% capacity of absorption from the EU budget, the state budget will post a surplus against the EU budget this year, but this surplus will be lower than planned.

Figure 26: **Components of the current account of the balance of payments in Slovenia in 2000-2011, in % of GDP**



Source: SORS; calculations and forecasts by IMAD.

Table 12: **Autumn forecasts of the current account of the balance of payments for 2009–2011 and comparison with spring forecasts**

	2008	2009		2010		2011	
		Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)	Spring forecast (Mar. 2009)	Autumn forecast (Sept. 2009)
Current account of the balance of payments, EUR m	-2,287	-809	-82	-1,311	10	-1,528	29
Current account of the balance of payments, % GDP	-6.2	-2.2	-0.2	-3.5	0.0	-3.9	0.1

Source: BS, SORS, forecasts by IMAD.

Public finance

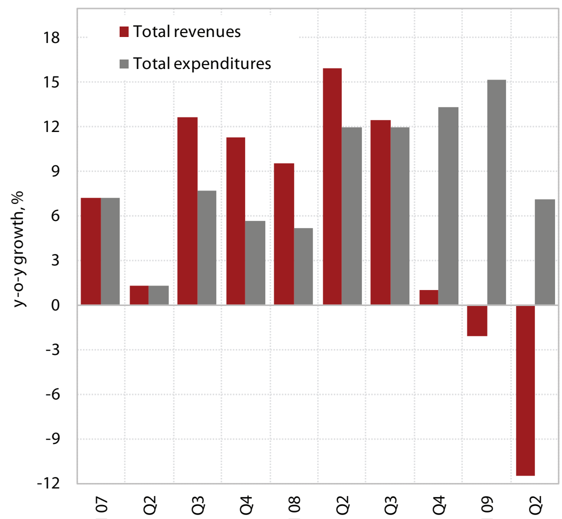
Diminishing general government revenue with a concurrent substantial increase in general government expenditure results in a significant imbalance of public finances, which has been deteriorating gradually throughout the year. According to the consolidated balance[27] data by the MF, general government revenue declined by 7.4% y-o-y in the first six months of the year, while expenditure rose by as much as 10.6% in the same period. All revenues linked to economic activity are on the decline, while expenditures are rising at a rapid pace, except for expenditure on goods and services. Due to the widening revenue/expenditure gap, the government has already stepped in two times this year, adopting a supplementary budget (see Table 13). According to the consolidated balance data by the MF, the general government deficit will total EUR 2.1 bn in 2009 or around 5.6% of GDP.

Most categories of general government revenue are on the decline. With increased duties on all excise products, revenue from excise duties and revenue from social security contributions were the only categories of general government revenue to increase y-o-y in the first half of the year (by 18.2% and 4.4%, respectively). Social security contributions follow the wage bill dynamics, and their growth is slowing from month to month. Revenue from personal income tax declined by 6.4% largely due to higher tax refunds based on final personal income tax assessment for 2008 and significantly lower inflows of income from entrepreneurial profits and income from capital gains. Prepayments of corporate income tax are also gradually falling; in the first six months of the year they only reached 45% of what was recorded in the same period last year, for taxpayers can, through a special procedure, request a prepayment reduction based proven deterioration of business performance in the current year and this year's (lower) statutory tax rate (21%). Revenue from value added tax dropped by nearly 12%.

The supplementary budgets made the deepest cuts in expenditure on goods and services, while other general government expenditure is rising at a rapid pace. In terms of economic structure of expenditures, in the first half of the year the greatest y-o-y increase was seen in expenditure on investment (22.5%), and wages and other personnel expenditures (14.2%). Growth of transfers to individuals and households is also strengthening (10.8%); expenditure on transfers to the unemployed is increasing (69.0%), in particular, due to rising unemployment, and so is expenditure on other transfers to individuals and households (34.4%), within which free meals for secondary school students were introduced last September and free kindergarten care for the second child in a family. Following the valorisations of pensions in November 2008 and February this year, pension expenditure saw 9.1% y-o-y growth in the first six months of the year. Growth in expenditure on goods and services (4.6%) is slowing.

The consolidated balance of public financing reported a deficit of EUR 1,116 m at the end of the first six months. The largest deficit (EUR 946) was recorded by the state budget; the health fund ended the first half of the year with a deficit of close to EUR 83 m, while local budgets faced a combined deficit of EUR 59 m. The pension fund was balanced given the transfer from the state budget in the amount of EUR 728 m.

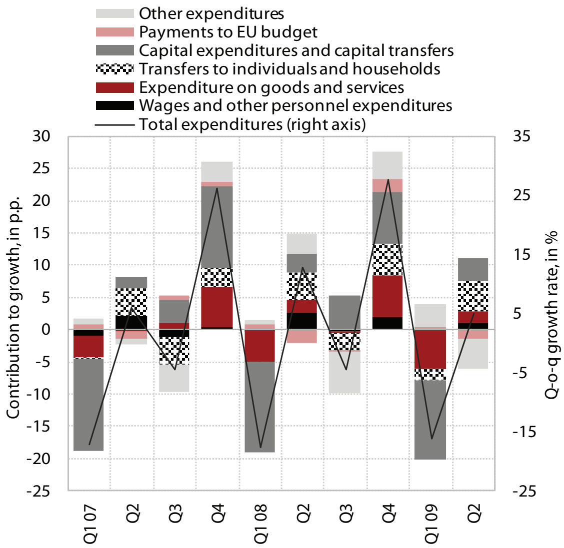
Figure 27: **Consolidated general government revenue and expenditure**



Source: MF; calculations by IMAD.

[27] The consolidated balance (according to the GFS–IMF cash flow methodology) includes revenues and expenditures of state and local government budgets, as well as revenues and expenditures of the pension and health funds.

Figure 28: **Contributions of individual categories of general government expenditure to total nominal growth in general government expenditure, q-o-q**



Source: MF; calculations by IMAD.

The supplementary budgets adjusted revenue and expenditure with regard to the deteriorated macroeconomic conditions and increased the state budget deficit. *Revenue* as planned in the original budget, adopted at the end of 2007, narrowed by around EUR 200 m according to the first supplementary budget, and by another EUR 863 m according to the second, totalling EUR 7.9 bn, which is 7.2% less than in 2008. According to the second supplementary budget, *state budget expenditure* totals EUR 9.8 m, a 15.2% higher figure than a year before. It is about EUR 150 m lower compared with what was envisaged in the first supplementary budget. The second supplementary budget provided funding to address the crisis and allocated additional resources for social security and transfers to the pension fund, cutting expenditure on goods and services through saving and lower expenditure on defence. Fewer funds are also earmarked for subsidies and investment and investment transfers, which will nevertheless be notably higher than in 2008 (subsidies by 53.2%, investment and investment transfers by 23.8%).

The health fund and local government budgets will also record deficits this year. In view of the gap between the *health fund* revenue and expenditure, the Health Insurance Institute of Slovenia also adopted a revised financial plan including measures to ensure a sustainable compulsory health insurance system. Revenue will remain approximately at the same nominal level in 2009 as in the year before and expenditure will rise by 5.9%, with the deficit amounting to EUR 125 m. The *pension fund* will be more or less balanced at the end of the year, with transfers from the state budget adjusted according to the movement of social security contributions. Higher expenditure than revenue will also be posted by the *total balance of local government budgets*.

In the Draft Budget Memorandum, the government defined the main economic and fiscal policy goals for 2010 and 2011 as the basis for drafting the state budgets for these two years. After the deterioration of the public finance position in 2009 amid a higher general government deficit and debt, the fiscal policy will be torn between two goals in the following years: achieving macroeconomic stability and supporting long-term economic growth. The key fiscal policy challenge in the following years will be reducing the volume of public financing and choosing the right programmes/policies for allocation of the available public finance funds. The government therefore determined the maximum level of state budget expenditure for 2010 and 2011 to be financed from domestic fiscal sources (without EU funds). Moreover, the state budgets will also be drafted according to the new principles of "result-oriented budgeting"[28] to promote productivity and effective programme implementation, with programme structure consistent with development policies and development priorities.[29] Besides the already adopted economic policy measures to offset the crisis by supporting the financial sector, the economy and the population, the Memorandum also envisages other steps mainly focussed on a gradual reduction of general government expenditure, but also, in the long term, on its restructuring.

Table 13: **State budget revenue and expenditure, 2007-2009**

In EUR m	2007	2008	2009		
			Original budget	1st supple-mentary budget	2nd supple-mentary budget
REVENUE	7,799	8,535	8,986	8,782	7,920
- share of GDP	22.6	23.0	25.1	24.5	22.1
EXPENDITURE	7,762	8,470	9,112	9,916	9,759
- share of GDP	22.5	22.8	25.4	27.7	27.2
SURPLUS / DEFICIT	37	65	-125	-1,133	-1,839
- share of GDP	0.1	0.2	-0.3	-3.2	-5.1

Source: MF, calculations by IMAD.

Risk assessment

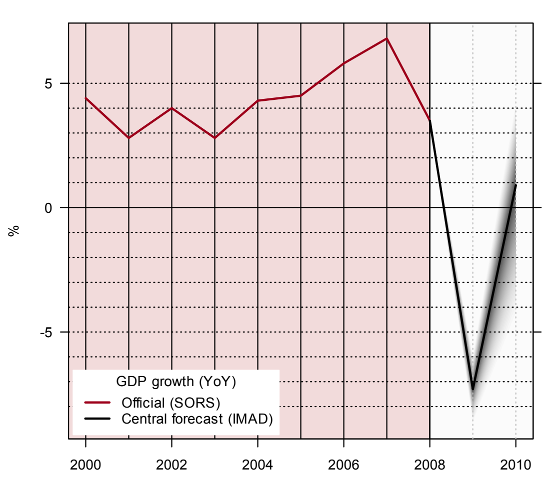
The risks for the realisation of the central forecast of economic activity remain extremely high and are distributed asymmetrically towards lower-than-predicted economic growth. The greatest risks are still associated with uncertainty regarding the dimensions

[28] This approach involves setting clear goals and purposes of spending public finance funds, as well as indicators measuring realisation of goals and performance in public service provision. This means that expenditure planning should be goal-based and directly related to actions necessary to secure the goals.
[29] Consistent with the programme classification, budget expenditure will be divided among 16 development policies.

of the global financial and economic crisis, and varying estimates of its consequences for individual economies. Additional risks arise from uncertainty about the efficacy of stimulus packages and the possibility of their premature withdrawal. In the second quarter, programmes aimed at stabilising the financial markets and reviving the economies managed to break, in certain countries, the extremely negative movements characteristic of the end of the previous year and the beginning of this year. Given that such massive fiscal and monetary packages are unsustainable in the long run, there is a risk they will be rolled back, at least to some extent, before an autonomous recovery sets in. That the uncertainty regarding the dept and duration of the global economic crisis remains exceptionally high is also suggested by the frequent changes in predicting the situation in the international environment and the great differences between consecutive forecasts, which are narrowing for 2009, and increasing for 2010 and 2011. Estimates on how strongly the crisis has affected the supply potential of the economies are uncertain as well, but this will mainly impact economic activity in the long term. If the recovery in the international environment proves to be slower due to the materialisation of these risks, Slovenia's GDP will also continue to decline next year (-1.3%), while in 2011, the increase in all consumption aggregates and consequently GDP growth (1.5%) will be lower than according to the baseline scenario (see Table 14).

Among the great range of forecasts for economic growth and trade flows, there are some predicting a faster recovery than that taken into account when the baseline scenario was made. A faster rebound in international trade flows, a higher efficacy of measures to offset the consequences of the economic crisis and keeping a great range of these measures in place also in the future (which would accelerate improvement in the business climate and the situation on the labour market in Slovenia's trading partners) could translate into a more

Figure 29: **Central forecast of GDP growth and expected deviations**



Source: SORS; for 2009–2010 forecasts by IMAD.

significant pick-up in export orders in 2010–2011 and to a lesser extent, already in the second half of this year. Through higher capacity utilisation, this would have a positive impact especially on business investment growth, while the labour market and, consequently, private consumption growth would follow the improvement with a lag (i.e., after 2011).

Table 14: **Alternative scenarios of economic movements in Slovenia, assuming a slower or faster recovery in the international environment**

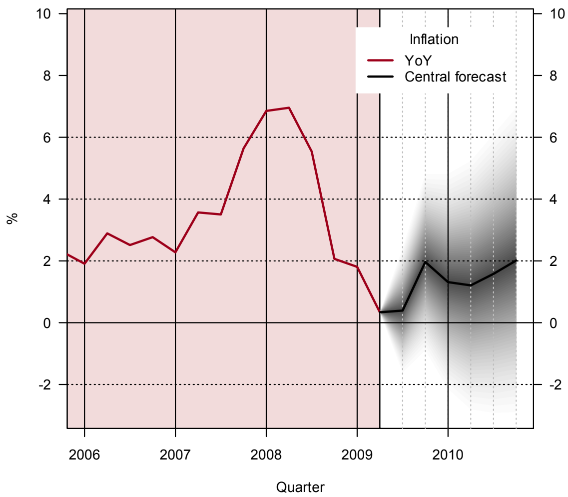
Real growth in %	Slower recovery scenario			Faster recovery scenario		
	2009	2010	2011	2009	2010	2011
Gross domestic product	-	-1.3	1.5	-6.8	1.5	2.5
Exports of goods & services	-	-2.6	4.3	-16.1	5.9	6.8
Imports of goods & services	-	-3.4	3.0	-18.4	3.4	4.9
Private consumption	-	-1.0	0.5	-1.9	0.2	1.0
Gross fixed capital formation	-	-4.9	1.9	-20.4	-0.2	3.0
Current account balance, in EUR m	-	-343	-480	42	180	219

Source: forecast by IMAD.
Note: GDP aggregates according to the national accounts and current account balance according to the balance of payments statistics.

The risks of inflation diverging from what was expected are symmetrically distributed, according to our estimate. We estimate that the risks for the realisation of the central forecast are distributed symmetrically and that the risk of inflation exceeding our central forecast by 0.5 p.p. is equal to the probability that it will be 0.5 p.p. lower (see Figure 30). The greatest risk for the realisation of the central forecast is still related to the uncertainty regarding the duration of the recession in the international environment. A longer period of low economic activity may also mean that inflation will be lower than the central forecast. The duration of the economic crisis is also to a great extent related to the risks associated with future movements of energy prices and prices of other raw materials on global markets. There is also a risk of possible premature withdrawals of monetary packages accepted in the last year by the ECB to ensure the stability of financial and interbank markets. Moreover, inflationary pressures might also increase due to certain factors arising from the domestic environment and relating to tax policy measures that might be taken by the government to reduce the general government deficit, and from the liberalisation of public utility services.

A risk that macroeconomic relationships might deteriorate in the coming years also arises from public sector wages and social transfers being higher in 2010 than forecast in the baseline scenario. The materialisation of this risk might add to general government debt or lead to further restrictions on general government expenditures (on investment, and goods and services), which would have a pro-cyclical effect in a year of weak economic growth. Higher borrowing would gradually

Figure 30: **Central inflation forecast and expected deviations**



Source: SORS; forecasts for 2009–2010 by IMAD.

impair Slovenia's credit rating and result in higher country risk premiums, which would have a significant impact on public debt services costs and crowding out the private sector, while higher spreads might also translate into higher costs in private sector borrowing on international financial markets. With stronger wage growth in the public sector, total wage growth (see Table 9) would again significantly exceed productivity growth in 2010, which would lead to further unit labour cost growth. The cost competitiveness of Slovenia's economy would thus deteriorate noticeably for the second year in a row, which might, in the medium term, jeopardise the position of Slovenian enterprises on foreign markets and, consequently, Slovenia's potential for achieving higher rates of economic growth. Specifically, the materialisation of this scenario would – due to the unsustainable relationship between general government revenue and expenditure – gradually increase the need to secure new public finance revenues, thus adding to the tax burden, while also increasing inflationary pressures in the medium term.

Assessing the validity of the IMAD forecasts

The following section contains the forecast accuracy assessment that was published in the Spring Forecast of Economic Trends 2009. As the accuracy of GDP forecasts is analysed on the basis of the first release of the quarterly statistical data and not on later annual data or their revisions, these calculations represent the latest accuracy assessment. A new accuracy assessment will thus be made in the spring of 2010 (for 2009 and for the 1997–2009 period).

Regular analysis of the accuracy of forecasts has shown slightly higher values of errors in the forecasts for the last two years, which affected the accuracy of statements in the 1997-2008 period. In view of the uncertainty of future economic trends, individual forecasts can never be entirely accurate; it is important, however, that their mean error is as small as possible over a longer period of time. A mean error deviating from the value "zero" may indicate a systematic underestimation or overestimation of future economic trends. If the analysed period is relatively short, every error, whether in a positive or negative direction, may significantly affect the conclusions from the previous forecast accuracy analyses. It is also the case with our latest analysis, which is conducted to assess the validity of the forecasts of main macroeconomic aggregates. The analysis includes a comparison of the validity of the forecasts by various domestic and international institutions in the period from 1997 onward. In the forecasts for the last two years, the errors were somewhat higher and have significantly affected the calculation of the average errors in the whole period.

Similar to other institutions, IMAD also overestimated real economic growth for 2008 in its forecasts. In autumn 2007, most institutions overestimated their forecasts of real economic growth for 2008 by around 1 p.p. Spring forecasts 2008 came closer to the realisation and the errors were lower (on average, the analysed institutions missed the actual growth by 0.8 p.p.). In autumn 2008, all institutions revised their forecasts upward again and thus overestimated economic growth by 0.8 p.p. to 1.4 p.p. IMAD made larger errors in the nominal GDP growth forecast (which is only published by IMAD) than in the real GDP growth forecast in the 2008 autumn forecast for the current year. In contrast, in the spring and autumn forecasts for the next year, its error in the nominal GDP growth was lower than the error in the real GDP growth.[30]

Amid external price shocks in the first half of the year, all institutions underestimated average inflation for 2008 until the autumn. While all institutions significantly underestimated inflation in their autumn 2007 and

[30] Forecasts of nominal GDP growth have been less accurate so far, given that for the nominal forecast it is also necessary to forecast the value of implicit deflators.

Table 15: **Errors in forecasts for real economic growth and average inflation***

	Real GDP growth						Average inflation					
	Autumn forecast for the year ahead		Spring forecast for the current year		Autumn forecast for the current year		Autumn forecast for the year ahead		Spring forecast for the current year		Autumn forecast for the current year	
	MAE	RMSE	MAE	RMSE	MAE	RMSE	MAE	RMSE	MAE	RMSE	MAE	RMSE
IMAD (1997–2008)[1]	0.90	1.03	0.71	0.89	0.49	0.63	0.93	1.24	0.51	0.67	0.19	0.28
SKEP (1997–2008)[2]	1.00	1.19	0.76	0.92	0.68	0.86	1.11	1.46	0.62	0.74	0.19	0.31
BS (2002–2008)[3]	1.03	1.19	0.79	0.96	0.50	0.59	0.77[6]	1.08[6]	0.33[6]	0.47[6]	0.36[6]	0.39[6]
IMF (1998–2008)[4]	1.06	1.21	0.88	0.99	0.73	0.92	1.77	2.21	0.98	1.46	0.48	0.71
EC (2002–2008)[5]	1.06	1.21	0.89	1.05	0.41	0.50	1.04	1.17	0.27	0.47	0.23	0.31

Sources of data: [1] Spring Forecast of Economic Trends, Autumn Forecast of Economic Trends, various issues. IMAD; [2] Economic trends, various issues. CCIS, SKEP. [3] Monetary Policy Framework, 2001; Monetary Policy Implementation Report, 2002–2004; Monetary Policy Report, 2005–2007; Price Stability Report, 2008 Ljubljana: BS. [4] World Economic Outlook, IMF. [5] Economic Forecasts for the Candidate Countries, 2001; Economic Forecasts, 2002-2008. EC. [6] The errors in the BS inflation forecasts partly refer to inflation at the end of the year and partly to average inflation and can therefore not be directly compared with the errors by other institutions.

Notes*:* *The shaded fields represent the forecast with the smallest error.
The European Commission forecasts inflation based on the harmonised index of consumer prices. Upon Slovenia's entry to the euro area, the BS also started to forecast inflation based on the harmonised index of consumer prices. The calculated accuracy measures are adjusted to the changes.
MAE - Mean Absolute Error
RMSE - Root Mean Square Error

spring 2008 forecasts, all institutions overestimated average inflation for 2008 in their latest autumn forecasts. Last autumn, IMAD overestimated the average inflation forecast by 0.5 p.p.

The analysis shows the accuracy of IMAD forecasts for economic growth and inflation. For the period since 1997, the mean error of the forecasts of *real GDP growth* totals -0.19 in the autumn forecasts p.p. for the year ahead and -0.10 p.p. in the spring forecasts for the current year. The corresponding mean errors in the *forecasts of nominal GDP growth* total -0.22 p.p. and -0.16 p.p., respectively.[31] The mean errors in the *forecasts of average inflation* amount to a respective -0.45 p.p. and -0.28 p.p. The mean error in the spring *forecasts of year-on-year inflation* for the current year amounts to -0.25 p.p. and, in the autumn forecasts for the year ahead, to -0.62 p.p. The negative values of the absolute measures, which show a tendency of underestimation of the analysed categories, mainly reflect the fact that negative errors (underestimations) are higher than positive errors (overestimations) in absolute terms. As in most analysed variables, the forecasts after 1997 have been overestimated or underestimated in the same number of cases, we estimate that this does not indicate a systematic deviation of our forecasts.

The most accurate forecasts of GDP growth were made by IMAD, whereas the Bank of Slovenia and the European Commission were more accurate regarding inflation forecasts. The mean absolute errors (MAE)[32] in the forecasts of real and nominal economic growth ranged between 0.49 p.p. and 1.37 p.p. in 1997(8)–2008. The root mean square errors (RMSE), which assign greater weight to larger errors, were slightly higher (between 0.63 p.p. and 1.79 p.p.). In forecasts of average inflation for the current year, the mean absolute errors totalled 0.19 in the autumn forecasts and 0.51 p.p. the spring forecasts, whereas in the forecasts for the year ahead they totalled 0.93 in the autumn forecasts and 1.34 p.p. in the spring forecasts. The errors in year-on-year inflation are somewhat higher.[33] A comparison of absolute accuracy measures shows that the IMAD forecasts of GDP growth exhibit the lowest absolute accuracy measures among Slovenian forecasters, whereas the BS and the European Commission achieve slightly better results in inflation forecasts. The same results are found if we compare the standardised values of accuracy measures (stdMAE and stdRMSE), which take into account the variability of the forecast phenomenon.[34]

[31] The spring forecasts of nominal GDP growth for the year ahead are especially important from the aspect of budget planning, since they provide the macroeconomic basis for budget preparation for the coming year. The mean error of these forecasts for the period after 2002 totals -0.02 p.p.

[32] For methodological explanations, see Ferjančič, M. (2005): "Analysis of the accuracy of IMAD forecasts," Working Paper 2005/13, Ljubljana.

[33] Accuracy measures are presented in detail in the Statistical Appendix, Table 14.

[34] Compared to the European Commission's forecasts for the old EU Member States, the absolute accuracy measures are slightly worse, whereas in the relative accuracy measures no significant differences were found.
These findings generally apply to all new EU Member States (see e.g. Keereman, F. (2005): "Economic forecasts and fiscal policy in the recently acceded Member States," European Commission, Economic Paper, No. 234, November 2005.).

statistical appendix

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Table 1: **Main macroeconomic indicators of Slovenia**

Real growth rates in %, unless otherwise indicated

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast	
GROSS DOMESTIC PRODUCT	4.4	2.8	4.0	2.8	4.3	4.5	5.8	6.8	3.5	-7.3	0.9	2.5
GDP in EUR m (at current prices and at current exchange rate)	21,600	22,790	24,500	25,752	27,162	28,750	31,055	34,568				
GDP in EUR m (at current prices and at fixed exchange rate EUR=239.64)	18,481	20,654	23,128	25,114	27,073	28,750	31,050	34,568	37,135	35,870	36,386	38,058
GDP per capita in EUR (at current prices and at current exchange rate)	10,858	11,441	12,281	12,900	13,599	14,369	15,467	17,123	18,367	17,657	17,866	18,647
GDP per capita in USD (at current prices and at current exchange rate)	9,997	10,236	11,564	14,556	16,885	17,869	19,400	23,467	27,014	24,332	25,495	26,609
GDP per capita (PPS)[1]	15,200	15,800	16,800	17,300	18,700	19,600	20,700	22,200	23.100			
GDP per capita (PPS EU27=100)[1]	79.8	79.7	82.3	83.4	86.4	87.4	87.6	89.2	92.1			
POPULATION, EMPLOYMENT, WAGES AND PRODUCTIVITY												
Population, as on 30. June, in thousand	1,990.3	1,992.0	1,995.7	1,996.8	1,997.0	2,001.1	2,008.5	2,019.4	2,039.4	2,031.5	2,036.6	2,041.0
Employment according to SNA	1.3	0.5	-0.1	-0.4	0.3	-0.2	1.5	3.0	2.8	-2.4	-1.6	-0.9
Registered unemployed (annual average in thousand)	106.6	101.9	102.8	97.7	92.8	91.9	85.8	71.3	63.2	86.4	102.2	108.4
Rate of registered unemployment in %	11.8	11.2	11.3	10.9	10.3	10.2	9.4	7.7	6.7	9.1	10.6	10.9
Rate of unemployment by ILO in %	7.0	6.4	6.4	6.7	6.3	6.5	6.0	4.9	4.4	5.7	6.7	7.3
Gross wage per employee	1.6	3.2	2.0	1.8	2.0	2.2	2.2	2.2	2.5	1.9	0.6	1.4
- private sector	1.3	2.3	2.3	2.1	3.1	2.8	2.8	3.2	2.0	-0.2	0.9	1.4
- public sector	2.1	5.1	1.1	1.0	-0.8	0.9	1.0	0.5	3.9	5.9	-0.5	1.4
Labour productivity (GDP/employee)	3.1	2.4	4.0	3.2	4.0	4.7	4.2	3.7	0.7	-5.0	2.5	3.4
INTERNATIONAL TRADE - BALANCE OF PAYMENTS STATISTICS												
Exports of goods and services[2]	13.1	6.4	6.8	3.1	12.4	10.6	12.5	13.7	2.9	-17.9	4.1	6.8
Exports of goods	13.2	7.0	6.4	4.4	12.8	10.3	13.4	13.8	0.0	-19.0	3.6	6.5
Exports of services	12.9	3.5	8.2	-2.5	10.9	12.0	8.6	13.2	16.2	-13.5	6.1	7.8
Imports of goods and services[2]	7.1	3.1	4.9	6.7	13.3	6.6	12.2	16.3	2.9	-19.8	1.8	4.9
Imports of goods	7.4	3.2	4.4	7.3	14.6	6.8	12.7	15.8	2.6	-21.9	1.3	4.8
Imports of services	5.8	2.3	8.4	2.8	5.6	5.5	8.8	19.7	4.9	-6.1	4.4	5.6
Current account balance in EUR m	-583	38	247	-196	-720	-498	-771	-1.646	-2.287	-82	10	29
- As a per cent share relative to GDP	-2.7	0.2	1.0	-0.8	-2.6	-1.7	-2.5	-4.8	-6.2	-0.2	0.0	0.1
Balance of goods and services in EUR m	-738	-149	355	-3	-322	-106	-158	-619	-1.041	723	955	1.304
- As a per cent share relative to GDP	-3.4	-0.7	1.4	0.0	-1.2	-0.4	-0.5	-1.8	-2.8	2.0	2.6	3.4
FINAL DOMESTIC DEMAND - NATIONAL ACCOUNTS STATISTICS												
Final consumption	1.6	2.8	2.7	3.0	2.9	2.8	3.2	5.1	3.0	-0.7	-0.4	0.7
As a % of GDP *	76.2	76.1	75.0	75.0	73.9	73.2	71.6	70.0	70.9	73.8	73.5	72.6
in which:												
Private consumption	1.2	2.5	2.5	3.3	2.7	2.6	2.9	6.7	2.0	-2.0	0.0	1.0
As a % of GDP *	57.4	56.7	55.9	56.0	55.0	54.2	52.8	52.7	52.7	53.7	53.8	53.2
Government consumption	3.1	3.8	3.3	2.2	3.4	3.4	4.0	0.7	6.2	3.2	-1.5	0.0
As a % of GDP *	18.8	19.4	19.1	19.0	18.9	19.0	18.8	17.3	18.1	20.1	19.7	19.4
Gross fixed capital formation	2.2	0.7	0.7	8.1	5.6	3.7	9.9	11.7	7.7	-21.0	-2.0	3.0
As a % of GDP *	26.1	24.7	23.1	24.0	24.9	25.5	26.5	27.7	28.9	23.7	23.2	23.3
EXCHANGE RATE AND PRICES												
Average exchange rate SIT/USD, BS	222.7	242.7	240.2	207.1	192.4	192.7	191.0	174.8				
Average exchange rate SIT/EUR, BS	205.0	217.2	226.2	233.7	238.9	239.6	239.6	239.6				
Ratio of USD to EUR	0.92	0.89	0.94	1.13	1.24	1.24	1.25	1.37	1.47	1.38	1.43	1.43
Real effective exchange rate - deflated by CPI[3]	-2.2	-0.3	1.7	3.3	0.1	-0.2	0.7	2.3	2.8	0.5	0.3	0.4
Inflation (end of the year)[4]	8.9	7.0	7.2	4.6	3.2	2.3	2.8	5.6	2.1	1.9	2.0	2.7
Inflation (year average)[4]	8.9	8.4	7.5	5.6	3.6	2.5	2.5	3.6	5.7	1.0	1.5	2.5
Brent Crude Oil Price USD / barrel	28.7	24.5	25.0	28.9	38.3	54.6	65.2	72.4	96.9	63.0	75.0	80.0

Source: SORS, BS, ECB, Ministry of Finance, Eurostat-New Cronos, calculations and forecast by IMAD.
Notes: [1]Measured in purchasing power standard; for 2008 Eurostat estimate; [2]Balance of payments statistics (exports F.O.B., imports F.O.B.); real growth rates are adjusted for inter-currency changes and changes in prices on foreign markets; [3]Growth in value denotes real appreciation of national currency and vice versa; [4]Consumer price index; * Shares in GDP are calculated for GDP in current prices and at fixed exchange rate (EUR=239.64).

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

EUR million, current prices (fixed 2007 exchange rate)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
A	Agriculture, hunting, forestry	530.9	547.8	665.1	545.2	634.8	679.5	645.9	757.3	763.3	710.4	710.7	697.5
B	Fishing	2.3	2.4	3.1	3.9	3.3	3.7	3.6	3.3	3.1	3.1	2.8	2.7
C	Mining and quarrying	102.0	93.7	92.1	109.1	127.1	127.0	132.9	135.6	137.4	124.3	111.8	105.8
D	Manufacturing	4,158.9	4,682.2	5,100.1	5,612.8	5.858,5	6,018.5	6,454.1	7,112.0	7,213.3	5,957.1	6,459.0	6,679.2
E	Electricity, gas and water supply	425.1	512.2	602.2	621.4	714.5	760.9	817.5	853.9	977.4	1,007.0	1,045.9	1,129.4
F	Construction	1,077.7	1,124.0	1,210.2	1,357.9	1,480.8	1,681.3	1,957.4	2,393.5	2,720.4	2,493.0	2,420.1	2,569.5
G	Wholesale and retail trade, motor vehicle repair	1,790.9	2.059,3	2,317.0	2,543.8	2,737.1	3,012.7	3,207.7	3,713.4	4,130.1	3,917.2	3,932.3	4,124.6
H	Hotels and restaurants	371.4	414.8	455.1	495.7	524.7	554.2	603.2	703.6	753.4	793.0	828.4	895.3
I	Transport, storage, communications	1,142.8	1,285.0	1,411.0	1,576.9	1,734.6	1,856.0	2,044.4	2,339.5	2,488.9	2,403.3	2,146.8	2,245.4
J	Financial intermediation	758.1	760.8	903.0	967.8	1,031.4	1,087.8	1,328.4	1,404.4	1,446.7	1,524.5	1,601.0	1,712.6
K	Real estate, renting and business activities	2,502.8	2,881.6	3,362.3	3,669.1	4,025.4	4,274.8	4,638.4	5,269.9	5,803.6	5,721.3	5,752.3	5,976.2
L	Public administration and comp. soc. sec.	911.2	1,064.4	1,178.8	1,335.2	1,435.2	1,512.1	1,599.5	1,682.6	1,856.0	2,027.9	2,049.1	2,143.5
M	Education	865.0	1,004.0	1,105.7	1,208.9	1,326.5	1,424.4	1,499.9	1,567.9	1,672.7	1,802.1	1,804.5	1,918.7
N	Health and social work	845.6	953,9	1,037.1	1,116.8	1,190.4	1,279.8	1,330.6	1,383.5	1,558.8	1,751.5	1,829.5	1,947.6
O	Other community, social and personal services	593.5	660.4	686.5	738.6	841.2	913.3	947.5	1,000.0	1,064.1	1,106.0	1,068.6	1,089.9
P	Private households with employed persons	13.6	15.8	16.6	16.5	18.7	18.7	19.3	21.0	23.0	25.8	26.3	27.6
	1. VALUE ADDED	16,091.7	18,062.4	20,145.9	21,919.8	23,684.4	25,204.7	27,230.4	30,341.5	32,612.2	31,367.5	31,789.0	33,265.6
	2. CORRECTIONS (a-b)	2,388.9	2,591.9	2,982.5	3,194.2	3,389.0	3,544.9	3,820.0	4,226.8	4,523.3	4,502.9	4,597.5	4,792.5
	a) taxes on products and services	2,491.7	2,695.7	3,078.7	3,318.8	3,520.2	3,697.3	3,953.5	4,420.4	4,733.5	4,698.1	4.785,8	4,985.6
	b) subsidies on products and services	102.8	103.8	96.2	124.6	131.2	152.4	133.5	193.7	210.2	195.2	188.3	193.1
	3. GROSS DOMESTIC PRODUCT (3=1+2)	18,480.7	20,654.3	23,128.5	25,114.0	27,073.4	28,749.6	31,050.4	34,568.2	37,135.4	35,870.4	36,386.4	38,058.1

Source: SORS, calculations and forecast by IMAD.

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

structure in %, current prices

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
A	Agriculture, hunting, forestry	2.9	2.7	2.9	2.2	2.3	2.4	2.1	2.2	2.1	2.0	2.0	1.8
B	Fishing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C	Mining and quarrying	0.6	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3
D	Manufacturing	22.5	22.7	22.1	22.3	21.6	20.9	20.8	20.6	19.4	16.6	17.8	17.5
E	Electricity, gas and water supply	2.3	2.5	2.6	2.5	2.6	2.6	2.6	2.5	2.6	2.8	2.9	3.0
F	Construction	5.8	5.4	5.2	5.4	5.5	5.8	6.3	6.9	7.3	6.9	6.7	6.8
G	Wholesale and retail trade, motor vehicle repair	9.7	10.0	10.0	10.1	10.1	10.5	10.3	10.7	11.1	10.9	10.8	10.8
H	Hotels and restaurants	2.0	2.0	2.0	2.0	1.9	1.9	1.9	2.0	2.0	2.2	2.3	2.4
I	Transport, storage, communications	6.2	6.2	6.1	6.3	6.4	6.5	6.6	6.8	6.7	6.7	5.9	5.9
J	Financial intermediation	4.1	3.7	3.9	3.9	3.8	3.8	4.3	4.1	3.9	4.3	4.4	4.5
K	Real estate, renting and business activities	13.5	14.0	14.5	14.6	14.9	14.9	14.9	15.2	15.6	15.9	15.8	15.7
L	Public administration and comp. soc. sec.	4.9	5.2	5.1	5.3	5.3	5.3	5.2	4.9	5.0	5.7	5.6	5.6
M	Education	4.7	4.9	4.8	4.8	4.9	5.0	4.8	4.5	4.5	5.0	5.0	5.0
N	Health and social work	4.6	4.6	4.5	4.4	4.4	4.5	4.3	4.0	4.2	4.9	5.0	5.1
O	Other community, social and personal services	3.2	3.2	3.0	2.9	3.1	3.2	3.1	2.9	2.9	3.1	2.9	2.9
P	Private households with employed persons	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	1. VALUE ADDED	87.1	87.5	87.1	87.3	87.5	87.7	87.7	87.8	87.8	87.4	87.4	87.4
	2. CORRECTIONS (a-b)	12.9	12.5	12.9	12.7	12.5	12.3	12.3	12.2	12.2	12.6	12.6	12.6
	a) taxes on products and services	13.5	13.1	13.3	13.2	13.0	12.9	12.7	12.8	12.7	13.1	13.2	13.1
	b) subsidies on products and services	0.6	0.5	0.4	0.5	0.5	0.5	0.4	0.6	0.6	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**	**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**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
	in which:												
	1. Agriculture, forestry, fishing (A+B)	2.9	2.7	2.9	2.2	2.4	2.4	2.1	2.2	2.1	2.0	2.0	1.8
	2. Industry and construction (C+D+E+F)	31.2	31.0	30.3	30.7	30.2	29.9	30.2	30.4	29.8	26.7	27.6	27.5
	- Industry (C+D+E)	25.4	25.6	25.1	25.3	24.7	24.0	23.8	23.4	22.4	19.8	20.9	20.8
	- Construction F	5.8	5.4	5.2	5.4	5.5	5.8	6.3	6.9	7.3	6.9	6.7	6.8
	3. Services (G…P)	53.0	53.7	53.9	54.4	54.9	55.4	55.5	55.2	56.0	58.7	57.8	58.0
	4. Corrections	12.9	12.5	12.9	12.7	12.5	12.3	12.3	12.2	12.2	12.6	12.6	12.6
													as a share in total value added in %
	TOTAL VALUE ADDED	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
	in which:												
	1. Agriculture, forestry, fishing (A+B)	3.3	3.0	3.3	2.5	2.7	2.7	2.4	2.5	2.4	2.3	2.2	2.1
	2. Industry and construction (C+D+E+F)	35.8	35.5	34.8	35.1	34.5	34.1	34.4	34.6	33.9	30.5	31.6	31.5
	- Industry (C+D+E)	29.1	29.3	28.8	28.9	28.3	27.4	27.2	26.7	25.5	22.6	24.0	23.8
	- Construction F	6.7	6.2	6.0	6.2	6.3	6.7	7.2	7.9	8.3	7.9	7.6	7.7
	3. Services (G…P)	60.9	61.5	61.9	62.4	62.8	63.2	63.2	62.9	63.8	67.2	66.2	66.4

Source: SORS, calculations and forecast by IMAD.

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

EUR million (fixed 2007 exchange rate)

		constant previous year prices									constant 2008 prices		
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
A	Agriculture, hunting, forestry	489.5	527.0	630.7	531.8	605.2	630.5	649.3	660.3	759.0	710.2	752.5	759.7
B	Fishing	1.7	2.7	2.5	3.3	3.5	3.8	3.2	3.7	3.1	3.1	3.1	3.1
C	Mining and quarrying	100.3	97.6	94.3	102.5	117.0	128.0	134.3	131.6	137.5	125.1	120.0	117.5
D	Manufacturing	4,073.3	4,332.9	4,927.5	5,381.2	5,864.3	6,108.9	6,452.5	6,950.6	7,122.5	5,918.4	6,063.5	6,287.5
E	Electricity, gas and water supply	386.3	424.8	557.3	607.9	682.8	750.4	797.1	829.5	892.1	924.2	932.9	951.1
F	Construction	1,022.0	1,066.2	1,156.6	1,246.4	1,381.3	1,558.5	1,935.1	2,285.6	2,525.3	2,395.3	2,262.3	2,306.5
G	Wholesale and retail trade, motor vehicle repair	1,688.4	1,895.8	2,167.9	2,377.6	2,645.1	2,863.2	3,200.4	3,467.6	3,899.9	3,719.1	3,754.5	3,846.5
H	Hotels and restaurants	355.5	395.5	425.0	464.5	480.8	539.4	562.1	637.0	683.7	723.6	730.5	741.1
I	Transport, storage, communications	1,067.1	1,186.5	1,269.7	1,475.7	1,673.8	1,833.7	2,037.2	2,258.7	2,492.7	2,328.4	2,328.4	2,397.1
J	Financial intermediation	680.8	789.4	861.7	963.2	1,073.2	1,143.4	1,193.1	1,520.7	1,504.7	1,548.7	1,609.9	1,689.6
K	Real estate, renting and business activities	2,359.9	2,603.3	2,951.6	3,440.5	3,748.9	4,163.6	4,523.6	4,946.3	5,505.7	5,516.3	5,568.8	5,677.4
L	Public administration and comp. soc. sec.	852.6	958.7	1,099.5	1,244.5	1,398.4	1,474.4	1,556.1	1,622.5	1,732.4	1,903.3	1,911.9	1,949.2
M	Education	775.8	884.4	1,035.2	1,144.6	1,256.5	1,381.1	1,441.7	1,527.4	1,583.5	1,715.4	1,731.7	1,765.5
N	Health and social work	744.1	849.7	1,004.1	1,060.3	1,151.7	1,252.0	1,304.2	1,339.8	1,435.6	1,621.9	1,661.7	1,719.0
O	Other community, social and personal services	542.8	614.5	666.1	692.1	760.1	880.8	920.3	924.4	1,023.2	1,069.4	1,058.2	1,073.6
P	Private households with employed persons	15.4	15.3	14.2	10.9	15.2	19.8	18.1	19.4	21.4	24.2	24.4	24.6
	1. VALUE ADDED	15,155.6	16,644.4	18,863.9	20,747.0	22,857.9	24,731.5	26,728.3	29,124.9	31,322.3	30,246.6	30,514.2	31,309.0
	2. CORRECTIONS (a-b)	2,388.8	2,362.8	2,611.1	3,037.2	3,332.6	3,558.2	3,691.5	4,035.8	4,453.2	4,163.8	4,188.7	4,265.3
	a) taxes on products and services	2,483.4	2,466.5	2,710.3	3,135.6	3,454.7	3,688.4	3,842.7	4,171.2	4,638.6	4,357.1	4,372.4	4,449.0
	b) subsidies on products and services	94.6	103.7	99.2	98.4	122.1	130.2	151.2	135.5	185.4	193.3	183.7	183.7
	3. GROSS DOMESTIC PRODUCT (3=1+2)	17,544.4	19,007.2	21,475.0	23,784.2	26,190.6	28,289.7	30,419.8	33,160.7	35,775.5	34,410.4	34,702.9	35,574.2

Source: SORS, calculations and forecast by IMAD.

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

real growth rates in %

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
A	Agriculture, hunting, forestry	1.5	-0.7	15.1	-20.0	11.0	-0.7	-4.4	2.2	0.2	-7.0	6.0	1.0
B	Fishing	-32.5	17.0	2.9	4.8	-10.3	14.0	-13.9	1.3	-5.6	0.0	0.0	0.5
C	Mining and quarrying	-3.5	-4.3	0.6	11.2	7.2	0.7	5.7	-1.0	1.4	-9.0	-4.0	-2.0
D	Manufacturing	9.7	4.2	5.2	5.5	4.5	4.3	7.2	7.7	0.1	-18.0	2.5	3.7
E	Electricity, gas and water supply	4.5	-0.1	8.8	0.9	9.9	5.0	4.8	1.5	4.5	-5.5	1.0	2.0
F	Construction	-1.2	-1.1	2.9	3.0	1.7	5.2	15.1	16.8	5.5	-12.0	-5.5	2.0
G	Wholesale and retail trade, motor vehicle repair	4.3	5.9	5.3	2.6	4.0	4.6	6.2	8.1	5.0	-10.0	1.0	2.5
H	Hotels and restaurants	6.6	6.5	2.5	2.1	-3.0	2.8	1.4	5.6	-2.8	-4.0	1.0	1.5
I	Transport, storage, communications	3.7	3.8	-1.2	4.6	6.1	5.7	9.8	10.5	6.5	-6.5	0.0	3.0
J	Financial intermediation	3.2	4.1	13.2	6.7	10.9	10.9	9.7	14.5	7.1	7.0	4.0	5.0
K	Real estate, renting and business activities	5.7	4.0	2.4	2.3	2.2	3.4	5.8	6.6	4.5	-5.0	1.0	2.0
L	Public administration and comp. soc. sec.	4.5	5.2	3.3	5.6	4.7	2.7	2.9	1.4	3.0	2.5	0.5	2.0
M	Education	4.0	2.2	3.1	3.5	3.9	4.1	1.2	1.8	1.0	2.5	1.0	2.0
N	Health and social work	5.1	0.5	5.3	2.2	3.1	5.2	1.9	0.7	3.8	4.0	2.5	3.5
O	Other community, social and personal services	-6.7	3.5	0.9	0.8	2.9	4.7	0.8	-2.4	2.3	0.5	-1.0	1.5
P	Private households with employed persons	20.5	12.3	-10.0	-34.1	-8.1	5.9	-3.5	0.6	2.0	5.0	1.0	1.0
	1. VALUE ADDED	4.9	3.4	4.4	3.0	4.3	4.4	6.0	7.0	3.2	-7.3	0.9	2.6
	2. CORRECTIONS (a-b)	1.1	-1.1	0.7	1.8	4.3	5.0	4.1	5.6	5.7	-7.9	0.6	1.8
	a) taxes on products and services	1.2	-1.0	0.5	1.8	4.1	4.8	3.9	5.5	4.9	-8.0	0.4	1.8
	b) subsidies on products and services	4.4	0.9	-4.4	2.3	-2.0	-0.8	-0.8	1.5	-4.3	-8.0	-5.0	0.0
	3. GROSS DOMESTIC PRODUCT (3=1+2)	**4.4**	**2.8**	**4.0**	**2.8**	**4.3**	**4.5**	**5.8**	**6.8**	**3.5**	**-7.3**	**0.9**	**2.5**

Source: SORS, calculations and forecast by IMAD.

Table 4: **Gross domestic product and primary incomes**

EUR million, current prices (fixed 2007 exchange rate)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
1.	**Compensation of employees**	9,517.9	10,751.1	11,854.7	12,800.2	13,850.4	14,650.9	15,672.6	17,211.6	18,954.9	18,958.0	18,965.9	19,554.8
	Wages and salaries	8,297.4	9,375.3	10,266.6	11,044.8	11,889.9	12,569.4	13,443.0	14,782.4	16,313.9	16,337.1	16,372.0	16,909.9
	Employers' social contributions	1,220.5	1,375.8	1,588.1	1,755.4	1,960.5	2,081.5	2,229.6	2,429.2	2,641.0	2,620.9	2,593.9	2,644.9
2.	**Taxes on production and imports**	2,923.8	3,221.1	3,667.8	4,019.0	4,288.7	4,527.2	4,725.2	5,154.3	5,327.5	5,093.1	5,187.5	5,407.6
	Taxes on products and services	2,491.7	2,695.7	3,078.7	3,318.8	3,520.2	3,697.3	3,953.5	4,420.4	4,733.5	4,698.1	4,785.8	4,985.6
	Other taxes on production	432.1	525.3	589.0	700.2	768.5	829.9	771.7	733.9	594.0	395.0	401.7	422.0
3.	**Subsidies**	349.9	378.3	421.4	503.5	521.6	590.2	669.5	753.6	800.2	940.1	1.019.9	875.0
	Subsidies on products and services	102.8	103.8	96.2	124.6	131.2	152.4	133.5	193.7	210.2	195.2	188.3	193.1
	Other subsidies on production	247.1	274.5	325.2	378.9	390.5	437.8	536.0	560.0	590.0	744.8	831.6	681.9
4.	**Gross operating surplus**	4,488.3	5,046.4	5,674.4	6,406.9	6,848.5	7,157.9	8,057.5	9,265.1	9,848.0	9,245.2	9,613.1	10,135.2
	Consumption of fixed capital	2,831.7	3,127.6	3,361.8	3,468.8	3,724.1	3,935.4	4,134.2	4,505.4	4,780.4	4,591.4	4,657.5	4,869.4
	Net operating surplus	1,656.6	1,918.8	2,312.7	2,938.0	3,124.4	3,222.6	3,923.2	4,759.6	5,067.7	4,653.8	4,955.7	5,265.7
5.	**Gross mixed income**	1,900.5	2,014.0	2,353.0	2,391.3	2,607.4	3,003.7	3,264.6	3,690.9	3,805.1	3,514.1	3,639.9	3,835.5
	Consumption of fixed capital	345.8	377.6	406.6	415.7	434.2	455.6	478.9	514.5	538.2	419.8	425.9	447.4
	Net mixed income	1,554.7	1,636.5	1,946.4	1,975.7	2,173.2	2,548.2	2,785.7	3,176.3	3,266.9	3,094.3	3,214.0	3,388.0
6.	**GDP (6=1+2-3+4+5)**	18,480.7	20,654.3	23,128.5	25,114.0	27,073.4	28,749.6	31,050.4	34,568.2	37,135.4	35,870.4	36,386.4	38,058.1
													structure in %
1.	**Compensation of employees**	51.5	52.1	51.3	51.0	51.2	51.0	50.5	49.8	51.0	52.9	52.1	51.4
	Wages and salaries	44.9	45.4	44.4	44.0	43.9	43.7	43.3	42.8	43.9	45.5	45.0	44.4
	Employers' social contributions	6.6	6.7	6.9	7.0	7.2	7.2	7.2	7.0	7.1	7.3	7.1	6.9
2.	**Taxes on production and imports**	15.8	15.6	15.9	16.0	15.8	15.7	15.2	14.9	14.3	14.2	14.3	14.2
	Taxes on products and services	13.5	13.1	13.3	13.2	13.0	12.9	12.7	12.8	12.7	13.1	13.2	13.1
	Other taxes on production	2.3	2.5	2.5	2.8	2.8	2.9	2.5	2.1	1.6	1.1	1.1	1.1
3.	**Subsidies**	1.9	1.8	1.8	2.0	1.9	2.1	2.2	2.2	2.2	2.6	2.8	2.3
	Subsidies on products and services	0.6	0.5	0.4	0.5	0.5	0.5	0.4	0.6	0.6	0.5	0.5	0.5
	Other subsidies on production	1.3	1.3	1.4	1.5	1.4	1.5	1.7	1.6	1.6	2.1	2.3	1.8
4.	**Gross operating surplus**	24.3	24.4	24.5	25.5	25.3	24.9	25.9	26.8	26.5	25.8	26.4	26.6
	Consumption of fixed capital	15.3	15.1	14.5	13.8	13.8	13.7	13.3	13.0	12.9	12.8	12.8	12.8
	Net operating surplus	9.0	9.3	10.0	11.7	11.5	11.2	12.6	13.8	13.6	13.0	13.6	13.8
5.	**Gross mixed income**	10.3	9.8	10.2	9.5	9.6	10.4	10.5	10.7	10.2	9.8	10.0	10.1
	Consumption of fixed capital	1.9	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.4	1.2	1.2	1.2
	Net mixed income	8.4	7.9	8.4	7.9	8.0	8.9	9.0	9.2	8.8	8.6	8.8	8.9
6.	**GDP (6=1+2-3+4+5)**	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: SORS, calculations and forecast by IMAD.

Table 5a: **Expenditure structure of gross domestic product**

EUR million, current prices (fixed 2007 exchange rate)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	18,480.7	20,654.3	23,128.5	25,114.0	27,073.4	28,749.6	31,050.4	34,568.2	37,135.4	35,870.4	36,386.4	38,058.1
2	EXPORTS OF GOODS AND SERVICES	9,969.6	11,458.5	12,775.2	13,554.4	15,703.6	17,858.9	20,657.3	24,040.7	25,134.3	20,467.3	21,531.8	23,179.5
3	IMPORTS OF GOODS AND SERVICES	10,613.8	11,629.7	12,504.2	13,612.2	16,054.3	17,976.2	20,818.1	24,635.9	26,258.0	19,818.5	20,654.4	21,958.9
4	SURPLUS WITH THE REST OF THE WORLD (4=2-3)	-644.3	-171.2	271.0	-57.8	-350.7	-117.2	-160.8	-595.2	-1.123.7	648.8	877.4	1.220.5
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	19,124.9	20,825.5	22,857.4	25,171.8	27,424.0	28,866.8	31,211.1	35,163.4	38,259.1	35,221.6	35,509.0	36,837.6
6	FINAL CONSUMPTION (6=7+8)	14,081.0	15,712.8	17,357.4	18,845.3	19,996.4	21,039.2	22,226.3	24,207.7	26,315.7	26,485.0	26,729.6	27,635.6
7	PRIVATE CONSUMPTION	10,609.8	11,708.7	12,935.7	14,066.4	14,879.3	15,586.8	16,401.6	18,218.1	19,580.3	19,276.4	19,571.1	20,262.9
	- households	10,390.6	11,456.7	12,644.6	13,754.5	14,582.1	15,331.2	16,156.1	17,944.2	19,296.9	19,001.7	19,296.3	19,979.9
	- NPISH's	219.2	252.0	291.1	311.9	297.1	255.7	245.5	274.0	283.3	274.7	274.8	283.0
8	GOVERNMENT CON-SUMPTION (individual and collective)	3,471.2	4,004.1	4,421.7	4,778.9	5,117.2	5,452.3	5,824.7	5,989.6	6,735.4	7,208.6	7,158.5	7,372.7
9	GROSS CAPITAL FOR-MATION(9=10+11)	5,043.9	5,112.7	5,500.0	6,326.5	7,427.6	7,827.7	8,984.8	10,955.7	11,943.4	8,736.6	8,779.4	9,202.0
10	GROSS FIXED CAPITAL FORMATION	4,821.6	5,107.6	5,332.2	6,015.4	6,752.1	7,321.3	8,242.1	9,571.3	10,742.4	8,499.2	8,458.3	8,864.5
11	CHANGES IN INVENTORIES AND VALUABLES	222.3	5.1	167.8	311.1	675.5	506.4	742.7	1,384.4	1,201.0	237.4	321.1	337.4

Source: SORS, BS, forecast by IMAD.

Table 5b: **Expenditure structure of gross domestic product**

structure in %, current prices

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	EXPORTS OF GOODS AND SERVICES	53.9	55.5	55.2	54.0	58.0	62.1	66.5	69.5	67.7	57.1	59.2	60.9
3	IMPORTS OF GOODS AND SERVICES	57.4	56.3	54.1	54.2	59.3	62.5	67.0	71.3	70.7	55.3	56.8	57.7
4	SURPLUS WITH THE REST OF THE WORLD (4=2-3)	-3.5	-0.8	1.2	-0.2	-1.3	-0.4	-0.5	-1.7	-3.0	1.8	2.4	3.2
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	103.5	100.8	98.8	100.2	101.3	100.4	100.5	101.7	103.0	98.2	97.6	96.8
6	FINAL CONSUMPTION (6=7+8)	76.2	76.1	75.0	75.0	73.9	73.2	71.6	70.0	70.9	73.8	73.5	72.6
7	PRIVATE CONSUMPTION	57.4	56.7	55.9	56.0	55.0	54.2	52.8	52.7	52.7	53.7	53.8	53.2
	- households	56.2	55.5	54.7	54.8	53.9	53.3	52.0	51.9	52.0	53.0	53.0	52.5
	- NPISH's	1.2	1.2	1.3	1.2	1.1	0.9	0.8	0.8	0.8	0.8	0.8	0.7
8	GOVERNMENT CONSUMPTION (individual and collective)	18.8	19.4	19.1	19.0	18.9	19.0	18.8	17.3	18.1	20.1	19.7	19.4
9	GROSS CAPITAL FORMATION (9=10+11)	27.3	24.8	23.8	25.2	27.4	27.2	28.9	31.7	32.2	24.4	24.1	24.2
10	GROSS FIXED CAPITAL FORMATION	26.1	24.7	23.1	24.0	24.9	25.5	26.5	27.7	28.9	23.7	23.2	23.3
11	CHANGES IN INVENTORIES AND VALUABLES	1.2	0.0	0.7	1.2	2.5	1.8	2.4	4.0	3.2	0.7	0.9	0.9

Source: SORS, BS, forecast by IMAD.

Table 6a: **Expenditure structure of gross domestic product**

EUR million (fixed 2007 exchange rate)

		constant previous year prices									constant 2008 prices		
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	17,544.4	19,007.2	21,475.0	23,784.2	26,190.6	28,289.7	30,419.8	33,160.7	35,775.5	34,410.4	34,702.9	35,574.2
2	EXPORTS OF GOODS AND SERVICES	9,041.0	10,603.5	12,232.3	13,174.8	15,241.4	17,362.4	20,097.2	23,480.3	24,733.2	20,626.2	21,479.1	22,948.4
3	IMPORTS OF GOODS AND SERVICES	9,322.6	10,942.5	12,199.9	13,336.6	15,424.7	17,119.9	20,160.9	24,206.3	25,345.8	21,065.5	21,447.3	22,507.8
4	SURPLUS WITH THE REST OF THE WORLD (4=2-3)	-281.5	-339.0	32.4	-161.8	-183.2	242.5	-63.7	-726.0	-612.5	-439.3	31.8	440.6
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	17,826.0	19,346.2	21,442.6	23,946.0	26,373.8	28,047.2	30,483.5	33,886.7	36,388.1	34,849.7	34,671.2	35,133.6
6	FINAL CONSUMPTION (6=7+8)	13,055.5	14,481.6	16,140.3	17,877.2	19,388.9	20,563.3	21,716.8	23,361.6	24,945.3	26,130.1	26,033.4	26,225.8
7	PRIVATE CONSUMPTION	9,897.7	10,878.7	12,002.5	13,359.2	14,447.7	15,273.1	16,046.0	17,496.3	18,586.1	19,179.1	19,183.3	19,375.7
	- households	9,674.1	10,648.8	11,737.5	13,065.6	14,133.1	14,997.1	15,778.9	17,239.4	18,314.2	18,907.1	18,916.6	19,109.0
	- NPISH's	223.6	229.8	265.0	293.7	314.6	276.1	267.1	256.9	272.0	272.0	266.7	266.7
8	GOVERNMENT CONSUMPTION (individual and collective)	3,157.8	3,602.9	4,137.7	4,518.0	4,941.2	5,290.2	5,670.8	5,865.3	6,359.2	6,950.9	6,850.1	6,850.1
9	GROSS CAPITAL FORMATION (9=10+11)	4,770.5	4,864.6	5,302.3	6,068.8	6,984.9	7,483.9	8,766.7	10,525.1	11,442.8	8,719.6	8,637.8	8,907.8
10	GROSS FIXED CAPITAL FORMATION	4,568.0	4,855.2	5,143.3	5,761.5	6,353.5	7,003.4	8,045.7	9,204.0	10,308.4	8,482.2	8,316.7	8,570.4
11	CHANGES IN INVENTORIES AND VALUABLES	202.5	9.5	159.0	307.3	631.4	480.5	721.0	1,321.2	1,134.4	237.4	321.1	337.4

Source: SORS, forecast by IMAD.

Table 6b: **Expenditure structure of gross domestic product**

real growth rates in %

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
1	**GROSS DOMESTIC PRODUCT (1=4+5)**	**4.4**	**2.8**	**4.0**	**2.8**	**4.3**	**4.5**	**5.8**	**6.8**	**3.5**	**-7.3**	**0.9**	**2.5**
2	EXPORTS OF GOODS AND SERVICES	13.1	6.4	6.8	3.1	12.4	10.6	12.5	13.7	2.9	-17.9	4.1	6.8
3	IMPORTS OF GOODS AND SERVICES	7.1	3.1	4.9	6.7	13.3	6.6	12.2	16.3	2.9	-19.8	1.8	4.9
4	*SURPLUS WITH THE REST OF THE WORLD* [1]	*2.5*	*1.7*	*1.0*	*-1.9*	*-0.5*	*2.2*	*0.2*	*-1.8*	*-0.1*	*1.8*	*1.4*	*1.2*
5	TOTAL DOMESTIC CONSUMPTION (5=6+9)	1.8	1.2	3.0	4.8	4.8	2.3	5.6	8.6	3.5	-8.9	-0.5	1.3
6	FINAL CONSUMPTION (6=7+8)	1.6	2.8	2.7	3.0	2.9	2.8	3.2	5.1	3.0	-0.7	-0.4	0.7
7	PRIVATE CONSUMPTION	1.2	2.5	2.5	3.3	2.7	2.6	2.9	6.7	2.0	-2.0	0.0	1.0
	- households	1.1	2.5	2.5	3.3	2.8	2.8	2.9	6.7	2.1	-2.0	0.0	1.0
	- NPISH's	3.1	4.8	5.2	0.9	0.9	-7.1	4.5	4.6	-0.7	-4.0	-2.0	0.0
8	GOVERNMENT CONSUMPTION (individual and collective)	3.1	3.8	3.3	2.2	3.4	3.4	4.0	0.7	6.2	3.2	-1.5	0.0
9	GROSS CAPITAL FORMATION	2.2	-3.6	3.7	10.3	10.4	0.8	12.0	17.1	4.4	-27.0	-0.9	3.1
10	GROSS FIXED CAPITAL FORMATION	2.2	0.7	0.7	8.1	5.6	3.7	9.9	11.7	7.7	-21.0	-2.0	3.0
11	*CHANGES IN INVENTORIES AND VALUABLES* [1]	*0.0*	*-1.2*	*0.7*	*0.6*	*1.3*	*-0.7*	*0.7*	*1.9*	*-0.7*	*-2.5*	*0.2*	*0.0*

Source: SORS, BS, forecast by IMAD.
Note: [1] Contribution to real GDP growth (percentage points).

Table 7a: **Main aggregates of national accounts**

EUR million (fixed 2007 exchange rate)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
												forecast	
1	**GROSS DOMESTIC PRODUCT**	18,480.7	20,654.3	23,128.5	25,114.0	27,073.4	28.749.6	31,050.4	34,568.2	37,135.4	35,870.4	36,386.4	38,058.1
2	Net primary incomes with the rest of the world (a-b)	11.6	44.2	-128.6	-193.7	-313.1	-243.6	-367.7	-714.7	-857.3	-626.7	-859.3	-1,054.0
	a) primary incomes receivable from the ROW	385.4	449.3	450.1	482.0	563.3	765.4	1,032.5	1,353.2	1,432.9	925.2	969.7	1,069.0
	b) primary incomes payable to the ROW	373.8	405.0	578.7	675.7	876.3	1.009.0	1,400.3	2,068.0	2,290.2	1,551.9	1,829.0	2,123.0
3	GROSS NATIONAL INCOME (3=1+2)	18,492.3	20,698.5	22,999.9	24,920.3	26,760.3	28.506.0	30,682.7	33,853.5	36,278.1	35,243.6	35,527.1	37,004.1
4	Net current transfers with the rest of the world (c-d)	33.7	47.3	61.8	29.2	-44.0	-144.0	-215.5	-227.0	-284.8	-178.4	-85.7	-220.9
	c) current transfers receivable from the ROW	355.9	419.6	470.3	463.1	546.1	629.7	672.0	818.7	462.1	840.3	1,055.0	1,037.4
	d) current transfers payable to the ROW	322.3	372.3	408.5	433.9	590.1	773.7	887.4	1,045.6	746.9	1,018.7	1,140.7	1,258.3
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	18,525.9	20,745.8	23,061.7	24,949.5	26,716.3	28.362.0	30,467.2	33,626.6	35,993.3	35,065.3	35,441.4	36,783.2
6	FINAL CONSUMPTION EXPENDITURE (e+f)	14,081.0	15,712.8	17,356.9	18,845.3	19,996.4	21.039.2	22,226.3	24,207.7	26,315.7	26,485.0	26,729.6	27,635.6
	e) Private consumption	10.609.8	11,708.7	12,936.2	14,066.4	14,879.3	15.586.8	16,401.6	18,218.1	19,580.3	19,276.4	19,571.1	20,262.9
	f) Government consumption	3,471.2	4,004.1	4,421.7	4,778.9	5,117.2	5.452.3	5,824.7	5,989.6	6,735.4	7,208.6	7,158.5	7,372.7
7	GROSS SAVING (7=5-6)	4,444.9	5,033.0	5,704.8	6,104.1	6,719.8	7.322.8	8,240.9	9,418.9	9,677.7	8,580.3	8,711.8	9,147.6
8	GROSS CAPITAL FORMATION	5,043.9	5,112.7	5,500.0	6,326.5	7,427.6	7.827.7	8,984.8	10,955.7	11,943.4	8,736.6	8,779.4	9,202.0
	- Gross fixed capital formation	4,821.6	5,107.6	5,332.2	6,015.4	6,752.1	7.321.3	8,242.1	9,571.3	10,742.4	8,499.2	8,458.3	8,864.5
	- Changes in inventories and valuables	222.3	5.1	167.8	311.1	675.5	506.4	742.7	1,384.4	1,201.0	237.4	321.1	337.4
9	SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-599.0	-79.7	204.3	-222.3	-707.8	-504.9	-744.0	-1,536.9	-2.265.8	-156.3	-67.6	-54.4

Source: SORS, BS, forecast by IMAD.

Table 7b: **Main aggregates of national accounts**

structure in %, current prices

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast		
1	**GROSS DOMESTIC PRODUCT**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
2	Net primary incomes with the rest of the world (a-b)	0.1	0.2	-0.6	-0.8	-1.2	-0.8	-1.2	-2.1	-2.3	-1.7	-2.4	-2.8
	a) primary incomes receivable from the ROW	2.1	2.2	1.9	1.9	2.1	2.7	3.3	3.9	3.9	2.6	2.7	2.8
	b) primary incomes payable to the ROW	2.0	2.0	2.5	2.7	3.2	3.5	4.5	6.0	6.2	4.3	5.0	5.6
3	GROSS NATIONAL INCOME (3=1+2)	100.1	100.2	99.4	99.2	98.8	99.2	98.8	97.9	97.7	98.3	97.6	97.2
4	Net current transfers with the rest of the world (c-d)	0.2	0.2	0.3	0.1	-0.2	-0.5	-0.7	-0.7	-0.8	-0.5	-0.2	-0.6
	c) current transfers receivable from the ROW	1.9	2.0	2.0	1.8	2.0	2.2	2.2	2.4	1.2	2.3	2.9	2.7
	d) current transfers payable to the ROW	1.7	1.8	1.8	1.7	2.2	2.7	2.9	3.0	2.0	2.8	3.1	3.3
5	GROSS NATIONAL DISPOSABLE INCOME (5=3+4)	100.2	100.4	99.7	99.3	98.7	98.7	98.1	97.3	96.9	97.8	97.4	96.7
6	FINAL CONSUMPTION EXPENDITURE (e+f)	76.2	76.1	75.0	75.0	73.9	73.2	71.6	70.0	70.9	73.8	73.5	72.6
	e) Private consumption	57.4	56.7	55.9	56.0	55.0	54.2	52.8	52.7	52.7	53.7	53.8	53.2
	f) Government consumption	18.8	19.4	19.1	19.0	18.9	19.0	18.8	17.3	18.1	20.1	19.7	19.4
7	GROSS SAVING (7=5-6)	24.1	24.4	24.7	24.3	24.8	25.5	26.5	27.2	26.1	23.9	23.9	24.0
8	GROSS CAPITAL FORMATION	27.3	24.8	23.8	25.2	27.4	27.2	28.9	31.7	32.2	24.4	24.1	24.2
	- Gross fixed capital formation	26.1	24.7	23.1	24.0	24.9	25.5	26.5	27.7	28.9	23.7	23.2	23.3
	- Changes in inventories and valuables	1.2	0.0	0.7	1.2	2.5	1.8	2.4	4.0	3.2	0.7	0.9	0.9
9	SURPLUS ON THE CURRENT ACCOUNT WITH THE ROW (9=7-8)	-3.2	-0.4	0.9	-0.9	-2.6	-1.8	-2.4	-4.4	-6.1	-0.4	-0.2	-0.1

Source: SORS, BS, forecast by IMAD.

Table 8: **Population and labour market**

Numbers in thousands, indicators in %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
											forecast	
POPULATION (thousands)	1990.3	1992.0	1995.7	1996.8	1997.0	2001.1	2008.5	2019.4	2039.4	2031.5	2036.6	2041.0
Age structure (in perc.): 0-14 y. of age	15.9	15.6	15.2	14.8	14.5	14.2	14.0	13.9	13.8	13.8	13.9	13.9
15-64 years of age	70.1	70.1	70.2	70.4	70.4	70.3	70.2	70.1	70.0	69.7	69.5	69.4
65 years and more	14.0	14.3	14.6	14.9	15.2	15.5	15.7	16.0	16.2	16.5	16.6	16.7
Yearly growth rate of population (in perc.)												
- Total	0.2	0.1	0.2	0.1	0.0	0.2	0.4	0.5	1.0	-0.4	0.3	0.2
- 15-64 years of age	0.5	0.1	0.3	0.3	0.0	0.1	0.3	0.3	0.8	-0.8	0.1	0.1
- 65 years and more	2.2	2.4	2.5	1.7	2.0	2.2	2.2	2.3	2.1	1.4	1.0	0.7
Components of demographic development												
Life expectancy: - men	71.9	72.1	72.3	73.2	73.5	74.1	74.8	74.6	75.4	74.9	75.1	75.3
- women	79.1	79.6	79.9	80.7	81.1	81.3	81.9	81.8	82.3	82.1	82.2	82.4
Fertility rate	1.3	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.5	1.3	1.3	1.3
Net migration (per thousand)	1.3	1.5	0.9	1.7	1.0	3.2	3.1	7.1	13.9	2.7	2.5	2.5
LABOUR SUPPLY												
Participation rate (15-64)	67.8	68.3	67.8	67.1	69.8	70.7	70.9	71.3	72.1	71.3	71.5	71.4
- 15-24 years of age	38.5	37.4	36.7	35.3	40.6	40.6	40.6	42.0	42.9	41.3	41.5	41.7
- 25-54 years of age	88.0	87.6	87.3	87.0	88.2	88.9	89.0	89.0	89.8	89.0	89.1	89.2
- 55-64 years of age	22.9	26.8	25.5	23.9	29.4	32.2	33.4	34.6	34.9	35.9	36.8	37.6
Participation rate (65 years and more)	7.9	8.7	7.3	6.5	8.7	6.9	6.8	8.2	4.2	6.0	4.3	3.9
Labour force (LFS concept)	968.0	979.0	971.0	962.0	1007.0	1016.0	1022.0	1036.0	1042.3	1029.2	1026.2	1025.3
- Yearly changes (%)	0.9	1.1	-0.8	-0.9	4.7	0.9	0.6	1.4	0.6	-1.3	-0.3	-0.1
LABOUR DEMAND												
Yearly changes (%)												
GDP	4.4	2.8	4.0	2.8	4.3	4.5	5.8	6.8	3.5	-7.3	0.9	2.5
Productivity	3.1	2.4	4.0	3.2	4.0	4.7	4.2	3.7	0.7	-5.0	2.5	3.4
Persons in employment (National accounts concept)	1.3	0.5	-0.1	-0.4	0.3	-0.2	1.5	3.0	2.8	-2.4	-1.6	-0.9
Persons in employment (LFS concept)	1.7	1.7	-0.7	-1.4	5.1	0.6	1.3	2.5	1.1	-2.5	-1.4	-0.7
Persons in formal employment * (statistical register)	5.5	0.7	0.3	-0.9	0.8	0.7	1.4	3.5	3.0	-2.5	-1.9	-0.8
-persons in paid employment *	6.6	0.9	-0.1	0.1	0.3	1.0	1.4	3.3	3.1	-2.6	-1.9	-0.7
Numbers (in thousand)												
Persons in employment (National accounts concept) (000)	904.7	908.9	922.8	919.2	922.1	920.3	934.2	962.3	988.9	964.9	949.1	941.0
Persons in formal employment (statistical register)	800.5	806.3	808.7	801.4	807.5	813.1	824.8	854.0	879.3	857.3	840.8	834.1
- persons in paid employment*	715.4	722.1	721.4	722.1	724.4	731.6	741.6	766.0	789.9	769.6	754.8	749.7
- selfemployed	85.1	84.2	87.3	79.2	83.1	81.5	83.3	87.9	89.4	87.7	86.0	84.5
Persons in employment (LFS concept)	901.0	916.0	910.0	897.0	943.0	949.0	961.0	985.0	996.3	971.0	957.1	950.6
- employment rate (15-64 y. of age, %)	62.9	63.9	63.4	62.6	65.3	66.0	66.6	67.8	68.8	67.2	66.6	66.2
Economic atructure of employment (LFS concept) in %												
agriculture	10.2	9.9	10.3	9.1	8.4	9.8	9.1	9.5	9.8	8.5	8.5	8.6
industry and construction	38.2	37.7	38.1	38.4	37.5	36.4	36.9	35.3	34.8	34.6	33.3	31.7
services	51.6	52.4	51.6	52.4	54.2	53.9	54.0	55.1	55.4	56.8	58.2	59.7
UNEMPLOYMENT												
ILO concept	68.0	63.0	62.0	64.0	64.0	67.0	61.0	50.0	46.0	58.2	69.1	74.7
registered	106.6	101.9	102.8	97.7	92.8	91.9	85.8	71.3	63.2	86.4	102.2	108.4
Rate of unemployment (ILO concept)	7.0	6.4	6.4	6.7	6.3	6.5	6.0	4.9	4.4	5.7	6.7	7.3
Rate of registered unemployment	11.8	11.2	11.3	10.9	10.3	10.2	9.4	7.7	6.7	9.1	10.6	10.9

Source of data: SORS, ESS, forecasts by IMAD and Eurostat (Population projection for 2009–2011).
Note: * As in statistical register of persons in employment.

Table 9: **Balance of payments - balance of payments statistics**

EUR million

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
										forecast		
I. CURRENT ACCOUNT	-583	38	247	-196	-720	-498	-771	-1,646	-2,287	-82	10	29
1. GOODS	-1,227	-684	-265	-543	-1,009	-1,026	-1,151	-1,666	-2,650	-548	-424	-243
1.1. Exports of goods	9,574	10,454	11,082	11,417	12,933	14,599	17,028	19,798	20,048	15,921	16,676	17,875
1.2. Imports of goods	10,801	11,139	11,347	11,960	13,942	15,625	18,179	21,464	22,698	16,469	17,100	18,118
2. SERVICES	489	536	620	540	688	920	993	1,047	1,609	1,271	1,379	1,547
2.1. Exports	2,052	2,178	2,440	2,465	2,783	3,214	3,572	4,145	5,040	4,506	4,812	5,257
Transport	534	559	635	680	809	923	1,058	1,259	1,437	1,046	1,089	1,176
Travel	1,045	1,105	1,143	1,186	1,312	1,451	1,555	1,665	1,932	1,897	1,987	2,133
Other	473	514	662	599	662	840	959	1,221	1,672	1,563	1,736	1,948
2.2. Imports	1,562	1,642	1,820	1,925	2,095	2,293	2,580	3,098	3,431	3,235	3,433	3,710
Transport	385	356	385	420	485	525	601	734	846	639	659	705
Travel	556	601	635	664	703	707	772	831	894	886	917	959
Other	621	685	800	841	906	1,061	1,206	1,533	1,691	1,710	1,857	2,046
1., 2. BALANCE OF GOODS AND SERVICES	-738	-149	355	-3	-322	-106	-158	-619	-1,041	723	955	1,304
Exports of goods and services	11,626	12,632	13,521	13,882	15,715	17,813	20,601	23,944	25,089	20,426	21,488	23,132
Imports of goods and services	12,364	12,781	13,166	13,885	16,037	17,918	20,759	24,562	26,130	19,704	20,533	21,828
3. INCOME	29	43	-168	-219	-322	-295	-440	-789	-1,039	-627	-859	-1,054
3.1. Receipts	471	511	490	510	530	647	872	1,169	1,264	925	970	1,069
Compensation of employees	204	197	207	192	201	205	218	229	235	200	205	210
Investment	268	314	282	318	329	442	654	940	1,029	725	765	859
3.2. Expenditures	442	468	657	728	852	942	1,312	1,957	2,303	1,552	1,829	2,123
Compensation of employees	29	30	47	57	63	77	110	179	239	210	215	220
Investment	413	438	610	671	789	866	1,202	1,778	2,064	1,342	1,614	1,903
4. CURRENT TRANSFERS	125	144	60	26	-76	-97	-173	-239	-206	-178	-86	-221
4.1. In Slovenia	371	436	500	474	561	738	785	941	783	840	1,055	1,037
4.2. Abroad	245	293	439	449	638	835	958	1,180	989	1,019	1,141	1,258
II. CAPITAL AND FINANCIAL ACCOUNT	542	-148	3	46	698	970	1,092	1,920	2,395			
A CAPITAL ACCOUNT	4	-4	-164	-165	-96	-114	-131	-52	-43			
1. Capital transfers	1	1	-163	-164	-96	-109	-126	-51	-44			
2. Non-produced non-financial assets	3	-5	-1	-2	0	-5	-5	-1	1			
B FINANCIAL ACCOUNT	538	-144	167	211	794	1,084	1,223	1,972	2,438			
1. Direct investment	77	251	1,556	-151	224	-43	-174	-210	381			
Abroad	-72	-161	-166	-421	-441	-516	-687	-1,317	-932			
In Slovenia	149	412	1,722	270	665	473	513	1,106	1,313			
2. Portfolio investment	185	80	-69	-223	-637	-1,313	-1,442	-2,255	575			
3. Financial derivatives	0	0	0	0	6	-10	-13	-15	46			
4. Other investment	462	964	565	849	945	2,639	1,571	4,313	1,415			
4.1. Assets	-576	248	-538	-730	-1,308	-1,459	-1,939	-4,741	-562			
4.2. Liabilities	1,038	716	1,104	1,579	2,252	4,098	3,510	9,054	1,977			
5. Reserve assets	-187	-1,439	-1,885	-264	256	-189	1,281	140	21			
III. NET ERRORS AND OMISSIONS	41	110	-250	150	22	-473	-321	-273	-108			

Source: BS, forecasts by IMAD.
Note: Balance of payments statistics.

Table 10: **Indicators of international competitiveness**

Annual growth rates in %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
										forecast	
Effective exchange rate [1]											
Nominal	-8.0	-5.7	-3.6	-0.5	-1.3	-0.7	0.2	0.8	0.5	0.2	0.0
Real - based on consumer prices	-2.2	-0.3	1.7	3.3	0.1	-0.2	0.7	2.3	2.8	0.5	0.3
Real - based on ULC in economy as a whole	-3.1	0.3	0.6	2.5	1.6	-0.9	0.3	1.9	3.5	4.3	1.0
Unit labour costs components											
Nominal unit labour costs	7.0	9.2	6.1	4.5	3.7	0.9	1.0	2.6	6.2	8.1	-0.5
Compensation of employees per employee [2]	10.2	11.8	10.4	7.9	7.8	5.6	5.3	6.4	7.0	2.7	2.0
Labour productivity, real [3]	3.1	2.4	4.1	3.2	4.0	4.7	4.2	3.7	0.7	-5.0	2.5
Real unit labour costs	1.5	0.5	-1.5	-1.0	0.3	-0.7	-1.0	-1.5	2.3	3.7	-1.1
Labour productivity, nominal [4]	8.6	11.2	12.1	9.0	7.5	6.4	6.4	8.1	4.5	-1.0	3.1

Sources: SORS national accounts statistics, BS, ECB, OECD, calculations and forecasts by IMAD.
Notes: [1]Weighted geometric currency average of 17 trading partners. Weights are shares of trading partners in Slovenia's exports (double-weighted) and imports of goods in manufacturing in 2001-2003 (on averege). A rise in the value indicates appreciation of national currency and vice versa.; [2] Nominal; [3] GDP per employee (in constant prices); [4] GDP per employee (in current prices).

Table 11a: **Consolidated general government revenues; GFS - IMF Methodology**

EUR million (fixed exchange rate), current prices

CONSOLIDATED GENERAL GOVERNMENT REVENUES	2000	2001	2002	2003	2004	2005	2006	2007	2008
I. **TOTAL GENERAL GOVERNMENT REVENUES**	**7,484**	**8,547**	**9,082**	**10,338**	**11,196**	**11,976**	**12,959**	**14,006**	**15,338**
TAX REVENUES	**6,954**	**7,840**	**8,355**	**9,560**	**10,211**	**10,884**	**11,762**	**12,758**	**13,937**
TAXES ON INCOME AND PROFIT	1,300	1,493	1,648	1,922	2,115	2,242	2,735	2,918	3,442
Personal income tax	1,083	1,206	1,335	1,474	1,596	1,648	1,793	1,805	2,185
Corporate income tax	216	287	314	448	519	594	942	1,113	1,257
SOCIAL SECURITY CONTRIBUTIONS	2,584	2,927	3,231	3,502	3,753	3,988	4,231	4,598	5,095
TAXSES ON PAYROLL AND WORKFORCE	284	348	392	448	491	526	473	418	258
Payroll tax	266	330	371	430	472	506	450	392	230
Tax on work contracts	18	18	20	19	19	20	23	27	28
TAXES ON PROPERTY	111	138	144	144	165	170	189	206	215
DOMESTIC TAXES ON GOODS AND SERVICES	2,516	2,810	2,807	3,399	3,575	3,915	4,077	4,498	4,805
TAXES ON INTERN. TRADE AND TRANSACTIONS	159	124	131	145	81	39	51	117	120
OTHER TAXES	1	1	2	1	31	4	5	2	2
NON-TAX REVENUES	**398**	**580**	**559**	**623**	**677**	**633**	**633**	**709**	**855**
CAPITAL REVENUES	40	43	63	66	87	113	167	136	117
GRANTS	**31**	**45**	**59**	**56**	**8**	**9**	**5**	**12**	**10**
TRANSFERS REVENUES	**61**	**39**	**46**	**33**	**31**	**34**	**43**	**43**	**54**
RECEIPTS FROM THE EU BUDGET	**0**	**0**	**0**	**0**	**183**	**302**	**348**	**348**	**365**

Source: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia.

Table 11b: **Consolidated general government revenues; GFS - IMF Methodology**

per cent share relative to GDP

CONSOLIDATED GENERAL GOVERNMENT REVENUES	2000	2001	2002	2003	2004	2005	2006	2007	2008
I. **TOTAL GENERAL GOVERNMENT REVENUES**	**40.5**	**41.4**	**39.3**	**41.2**	**41.4**	**41.7**	**41.7**	**40.5**	**41.3**
TAX REVENUES	**37.6**	**38.0**	**36.1**	**38.1**	**37.7**	**37.9**	**37.9**	**36.9**	**37.5**
TAXES ON INCOME AND PROFIT	7.0	7.2	7.1	7.7	7.8	7.8	8.8	8.4	9.3
Personal income tax	5.9	5.8	5.8	5.9	5.9	5.7	5.8	5.2	5.9
Corporate income tax	1.2	1.4	1.4	1.8	1.9	2.1	3.0	3.2	3.4
SOCIAL SECURITY CONTRIBUTIONS	14.0	14.2	14.0	13.9	13.9	13.9	13.6	13.3	13.7
TAXSES ON PAYROLL AND WORKFORCE	1.5	1.7	1.7	1.8	1.8	1.8	1.5	1.2	0.7
Payroll tax	1.4	1.6	1.6	1.7	1.7	1.8	1.4	1.1	0.6
Tax on work contracts	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
TAXES ON PROPERTY	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
DOMESTIC TAXES ON GOODS AND SERVICES	13.6	13.6	12.1	13.5	13.2	13.6	13.1	13.0	12.9
TAXES ON INTERN. TRADE AND TRANSACTIONS	0.9	0.6	0.6	0.6	0.3	0.1	0.2	0.3	0.3
OTHER TAXES	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
NON-TAX REVENUES	**2.2**	**2.8**	**2.4**	**2.5**	**2.5**	**2.2**	**2.0**	**2.1**	**2.3**
CAPITAL REVENUES	0.2	0.2	0.3	0.3	0.3	0.4	0.5	0.4	0.3
GRANTS	**0.2**	**0.2**	**0.3**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
TRANSFERS REVENUES	**0.3**	**0.2**	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
RECEIPTS FROM THE EU BUDGET	**0.0**	**0.0**	**0.0**	**0.0**	**0.7**	**1.1**	**1.1**	**1.0**	**1.0**

Source: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia.

Table 12a: **Consolidated general government expenditure; GFS - IMF Methodology**

EUR million (fixed exchange rate), current prices

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	2000	2001	2002	2003	2004	2005	2006	2007	2008
II.	**TOTAL EXPENDITURE**	**7,713**	**8,811**	**9,733**	**10,666**	**11,552**	**12,276**	**13,209**	**13,915**	**15,442**
	CURRENT EXPENDITURE	**3,605**	**4,191**	**4,668**	**5,114**	**5,150**	**5,354**	**5,689**	**5,951**	**6,557**
	WAGES AND OTHER PERSONNEL EXPENDITURE	1,617	1,905	2,149	2,342	2,456	2,521	2,671	2,761	3,037
	SOCIAL SECURITY CONTRIBUTIONS	279	336	386	424	466	495	509	515	542
	PURCHASES OF GOODS AND SERVICES	1,402	1,610	1,743	1,884	1,794	1,911	2,073	2,212	2,527
	INTEREST PAYMENTS	254	304	349	387	384	372	376	357	335
	BUDGETARY RESERVES	53	38	41	78	50	55	59	105	116
	CURRENT TRANSFERS	**3,395**	**3,789**	**4,202**	**4,579**	**5,216**	**5,599**	**5,926**	**6,144**	**6,743**
	SUBSIDIES	246	264	252	290	324	381	403	423	477
	TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	3,051	3,427	3,799	4,115	4,396	4,629	4,871	5,093	5,619
	OTHER CURRENT DOMESTIC TRANSFERS	98	98	151	174	496	589	651	628	647
	CAPITAL EXPENDITURE TOTAL	**713**	**830**	**863**	**972**	**1,017**	**1,038**	**1,306**	**1,464**	**1,714**
	CAPITAL EXPENDITURE	463	534	537	593	631	654	901	1.130	1.256
	CAPITAL TRANSFERS	250	296	326	379	386	383	405	334	459
	PAYMENTS TO THE EU BUDGET	**0**	**0**	**0**	**0**	**170**	**286**	**288**	**356**	**428**
III.	**GENERAL GOVERNMENT BUDGETARY SURPLUS / DEFICIT (I. - II.)**	**-228**	**-264**	**-651**	**-327**	**-356**	**-300**	**-250**	**91**	**-103**

Source: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia.

Table 12b: **Consolidated general government expenditure; GFS - IMF Methodology**

per cent share relative to GDP

	CONSOLIDATED GENERAL GOVERNMENT EXPENDITURE	2000	2001	2002	2003	2004	2005	2006	2007	2008
II.	**TOTAL EXPENDITURE**	**41.7**	**42.7**	**42.1**	**42.5**	**42.7**	**42.7**	**42.5**	**40.3**	**41.6**
	CURRENT EXPENDITURE	**19.5**	**20.3**	**20.2**	**20.4**	**19.0**	**18.6**	**18.3**	**17.2**	**17.7**
	WAGES AND OTHER PERSONNEL EXPENDITURE	8.7	9.2	9.3	9.3	9.1	8.8	8.6	8.0	8.2
	SOCIAL SECURITY CONTRIBUTIONS	1.5	1.6	1.7	1.7	1.7	1.7	1.6	1.5	1.5
	PURCHASES OF GOODS AND SERVICES	7.6	7.8	7.5	7.5	6.6	6.6	6.7	6.4	6.8
	INTEREST PAYMENTS	1.4	1.5	1.5	1.5	1.4	1.3	1.2	1.0	0.9
	BUDGETARY RESERVES	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.3	0.3
	CURRENT TRANSFERS	**18.4**	**18.3**	**18.2**	**18.2**	**19.3**	**19.5**	**19.1**	**17.8**	**18.2**
	SUBSIDIES	1.3	1.3	1.1	1.2	1.2	1.3	1.3	1.2	1.3
	TRANSFERS TO INDIVIDUALS AND HOUSEHOLDS	16.5	16.6	16.4	16.4	16.2	16.1	15.7	14.7	15.1
	OTHER CURRENT DOMESTIC TRANSFERS	0.5	0.5	0.7	0.7	1.8	2.0	2.1	1.8	1.7
	CAPITAL EXPENDITURE TOTAL	**3.9**	**4.0**	**3.7**	**3.9**	**3.8**	**3.6**	**4.2**	**4.2**	**4.6**
	CAPITAL EXPENDITURE	2.5	2.6	2.3	2.4	2.3	2.3	2.9	3.3	3.4
	CAPITAL TRANSFERS	1.4	1.4	1.4	1.5	1.4	1.3	1.3	1.0	1.2
	PAYMENTS TO THE EU BUDGET	**0.0**	**0.0**	**0.0**	**0.0**	**0.6**	**1.0**	**0.9**	**1.0**	**1.2**
III.	**GENERAL GOVERNMENT BUDGETARY SURPLUS / DEFICIT (I. - II.)**	**-1.2**	**-1.3**	**-2.8**	**-1.3**	**-1.3**	**-1.0**	**-0.8**	**0.3**	**-0.3**

Source: MF, Ministry of Finance Bulletin and Government Finance Accounts of the Republic of Slovenia.

Table 14: **Comparison of forecasters' erros in GDP growth and inflation forecasts***

PNt - Spring Forecast for the current year

PNt+1 - Spring Forecast for the year ahaed

JNT - Autumn Forecast for the current year

JNt+1 - Autumn Forecast for the year ahaed

Negative values indicate an overestimation, while positive values indicate an underestimation.

IMAD (from 1997 /1998 to 2008)

	Economic growth - real				Economic growth - nominal			
	PNt	JNt+1	JNt	PNt+1	PNt	JNt+1	JNt	PNt+1
ME:	-0.10	-0.19	-0.09	0.01	-0.16	-0.22	-0.10	-0.34
MAE:	0.71	0.90	0.49	1.08	1.09	1.11	1.05	1.37
RMSE:	0.89	1.03	0.63	1.21	1.32	1.33	1.14	1.79
stdMAE:	0.68	0.82	0.46	0.98	0.40	0.44	0.38	0.54
stdRMSE:	0.84	0.94	0.60	1.10	0.48	0.52	0.42	0.71

IMAD (from 1997 /1998 to 2008)

	Inflation - end of the year				Inflation - year average			
	PNt	JNt+1	JNt	PNt+1	PNt	JNt+1	JNt	PNt+1
ME:	-0.25	-0.62	0.45	-0.89	-0.28	-0.45	0.14	-0.97
MAE:	1.20	1.47	0.75	1.65	0.51	0.93	0.19	1.34
RMSE:	1.56	2.01	1.10	2.15	0.67	1.24	0.28	1.78
stdMAE:	0.46	0.61	0.29	0.68	0.21	0.40	0.08	0.57
stdRMSE:	0.60	0.83	0.42	0.89	0.27	0.53	0.11	0.76

IMAD (from 2002 /2002 to 2008)

	Economic growth - real				Economic growth - nominal			
	PNt	JNt+1	JNt	PNt+1	PNt	JNt+1	JNt	PNt+1
ME:	-0.24	-0.17	0.03	-0.03	-0.50	-0.08	0.05	-0.02
MAE:	0.76	1.00	0.43	1.14	1.15	1.39	1.00	1.32
RMSE:	0.88	1.14	0.60	1.31	1.40	1.58	1.10	1.73
stdMAE:	0.59	0.78	0.33	0.89	0.54	0.65	0.47	0.62
stdRMSE:	0.69	0.88	0.46	1.02	0.66	0.74	0.52	0.82

IMAD (from 2002 /2002 to 2008)

	Inflation - end of the year				Inflation - year average			
	PNt	JNt+1	JNt	PNt+1	PNt	JNt+1	JNt	PNt+1
ME:	-0.31	-0.24	0.47	-0.40	-0.47	-0.36	0.11	-0.76
MAE:	1.09	1.16	0.99	1.17	0.47	0.87	0.17	1.10
RMSE:	1.47	1.41	1.38	1.55	0.64	1.12	0.23	1.45
stdMAE:	0.57	0.61	0.52	0.62	0.25	0.46	0.09	0.58
stdRMSE:	0.77	0.74	0.73	0.81	0.34	0.60	0.12	0.77

BS (from 2002 /2002 to 2008)

	Economic growth - real				Inflation - end of the year°			
	PNt	JNt+1	JNt	PNt+1	PNt	JNt+1	JNt	PNt+1
ME:	-0.39	-0.43	-0.10	-0.11	-0.10	-0.57		0.21
MAE:	0.79	1.03	0.50	1.06	0.33	0.77		0.36
RMSE:	0.96	1.19	0.59	1.19	0.47	1.08		0.39
stdMAE:	0.61	0.80	0.39	0.82	0.19	0.44		0.21
stdRMSE:	0.75	0.92	0.46	0.93	0.27	0.62		0.22

Note: °Inflation at the end of the year is calculated as Q_t/Q_t-1. The accuracy measures of the autumn forecast of inflation for the current year are not calculated due to the missing forecast in 2002.

Table 14: **Comparison of forecasters' erros in GDP growth and inflation forecasts*** - *continue*

SKEP (from 1997/1998 to 2008)

	Economic growth - real				Inflation - end of the year			
	PNt	JNt+1	JNt	PNt+1	PNt	JNt+1	JNt	PNt+1
ME:	-0.26	-0.14	0.10	-0.18	-0.32	-0.71	0.09	-0.99
MAE:	0.76	1.00	0.68	0.95	0.62	1.11	0.19	1.61
RMSE:	0.92	1.19	0.86	1.08	0.74	1.46	0.31	1.98
stdME:	-0.25	-0.13	0.10	-0.17	-0.13	-0.30	0.04	-0.42
stdRMSE:	0.87	1.09	0.82	0.98	0.30	0.62	0.13	0.84

EC (from 2002/2002 to 2008)

	Economic growth - real				Inflation - end of the year			
	PNt	JNt+1	JNt	PNt+1	PNt	JNt+1	JNt	PNt+1
ME:	-0.37	-0.34	-0.16	-0.23	-0.16	-0.13	0.14	-0.39
MAE:	0.89	1.06	0.41	1.03	0.27	1.04	0.23	1.41
RMSE:	1.05	1.21	0.50	1.19	0.47	1.17	0.31	1.65
stdMAE:	0.69	0.82	0.32	0.80	0.15	0.56	0.12	0.76
stdRMSE:	0.82	0.94	0.39	0.92	0.26	0.63	0.17	0.89

IMF (from 1998/2000 to 2008)

	Economic growth - real				Inflation - end of the year			
	PNt	JNt+1	JNt	PNt+1	PNt	JNt+1	JNt	PNt+1
ME:	-0.26	-0.21	-0.22	-0.01	-0.76	-1.30	-0.30	-1.21
MAE:	0.88	1.06	0.73	0.99	0.98	1.77	0.48	1.72
RMSE:	0.99	1.21	0.92	1.15	1.46	2.21	0.71	2.12
stdMAE:	0.80	0.89	0.66	0.83	0.42	0.71	0.21	0.70
stdRMSE:	0.90	1.02	0.83	0.96	0.62	0.89	0.30	0.86

Note: *This is the assessment of forecast accuracy that was published in the Spring Forecast of Economic Trends 2009. As the accuracy of GDP forecasts is analysed on the basis of the first release of the quarterly statistical data and not on later, annual data or their revisions, these calculations represent the latest accuracy assessment. A new assessment will thus be made in the spring of 2010 (for 2009 or 1997–2009).

Abbreviations:

- ME ... Mean Error
- MAE ... Mean Absolute Error
- RMSE ... Root Mean Square Error)
- stdMAE ... Standardised Mean Absolute Error
- stdRMSE ... Standardised Root Mean Square Error)

Sources of data:

[1] Spring Report, 1997–2008. Ljubljana: IMAD.
[2] Economic Trends, 1997-2008. Ljubljana: SKEP.
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