Analysis, Research and Development, ISSN 1580-1888
Development Report: ISSN 1581-6907

SLOVENIA: DEVELOPMENT REPORT 2008

Publisher:
Institute of Macroeconomic Analysis and Development
Boštjan Vasle, director

Tel: (+386) 1 478 1012
Fax: (+386) 1 478 1070
E-mail: publicistika.umar@gov.si
http://www.umar.gov.si

Editor in Chief: Rotija Kmet Zupančič

Translation: Amidas, Marija Kavčič, Tina Potrato
Language Editing: Amidas
Figures: Marjeta Žigman
Data preparation for the calculation of the model-based development estimate: Marko Glažar
Technical Editor: Ema Bertina Kopitar
Distribution: Katja Perme

Print: Tiskarna Solos, Ljubljana
Layout: Sandi Radovan
Circulation: 300

Ljubljana, September 2008

Development Report
2008

Authors ot the Development Report 2008

Rotija Kmet Zupančič (project leader, editor, Introductory remarks, Main findings, A competitive economy and faster economic growth, Increasing competitiveness and promoting entrepreneurial activity, Increasing the competitiveness of services, Internet use)
Lidija Apohal Vučkovič (Modern welfare state and higher employment, Increasing labour market flexibility, Modernising the social protection systems, Living conditions and reduction of social exclusion and social risks, Access to services of general interest)
Marijana Bednaš (Macroeconomic stability)
Tanja Čelebič (Education and training, Access to services of general interest, Ratio of students to teaching staff, Science and technology graduates, Share of the population with a tertiary education, Participation in education)
Andrej A. Chiaiutta (Institutional competitiveness, Aggregate competitiveness indices)
Lejla Fajić (Makroeconomic stability, Real growth of gross domestic product)
Marjan Hafner (Financial services, Total assets of banks, Insurance premiums, Market capitalisation)
Katarina Ivas (Increasing competitiveness and promoting entrepreneurial activity)
Jana Javornik (Human development index, Living conditions and reduction of social exclusion and social risks)
Slavica Jurančič (Market share, Unit labour costs)
Alenka Kajzer (Efficient use of knowledge for economic development and high-quality jobs, Education and training, Increasing labour market flexibility, Long-term unemployment, Temporary employment, Part-time employment)
Maja Kersnik (Modernising the social protection systems, Living conditions and reduction of social exclusion and social risks, Social protection expenditure, At-risk-of-poverty rate)
Dušan Kidrič (Modernising the social protection systems, Average exit age from the labour force)
Jasna Kondža (General government sector balance, Expenditure by institutional sector – general government, Economic structure of taxes and contributions)
Mojca Koprivnikar Šušteršič (Increasing the competitiveness of services, Non-financial market services)
Mateja Kovač (Integrating environmental criteria with sectoral policies, Agricultural intensity, Intensity of tree fellings)
Saša Kovačič (Living conditions and reduction of social exclusion and social risks, Wages and productivity)
Tomaž Kraigher (Sustained population growth, Labour productivity, Average years of schooling, Employment rate, Unemployment rate, Life expectancy and infant mortality, Old age dependency ratio, Fertility rate, Migration coefficient)
Janez Kušar (Issued building permits)
Ivo Lavrač (Improving spatial management)
Brigita Lipovšek (Culture as a factor of identity and development, Household expenditure on culture)
Jože Markič (Balance of payments, Gross external debt, Exports and imports as a share of GDP)
Slaven Mićković (General government debt)
Ana Murn (An efficient and more economical state, Quality of public finance, Institutional competitiveness, State aid, Public expenditure according to the Classification of the Functions of Government)
Janja Pečar (More balanced regional development, Regional variation in GDP, Regional variation in unemployment)
Jure Povšnar (Increasing competitiveness and promoting entrepreneurial development, Energy intensity, Renewable energy sources, Share of road transport in total goods transport)
Matija Rojec (Increasing competitiveness and promoting entrepreneurial activity, Institutional competitiveness, Foreign direct investment)
Metka Stare (Non-financial market services, Efficient use of knowledge for economic development and high-quality jobs, Research, development, innovation and use of ICT)
Branka Tavčar (An efficient and more economical state)
Miha Trošt (Inflation)
Boštjan Vasle (Cyclically adjusted general government balance)
Mojca Vendramin (Integration of measures to achieve sustainable development, Integrating environmental criteria with sectoral policies, Municipal waste)
Ana Vidrih (Gross domestic expenditure on research & development, Innovation active enterprises)
Ivanka Zakotnik (Emission-intensive industries, Structure of merchandise exports according to factor intensity, Gross domestic product per capita)
Eva Zver (Modernising the social protection systems, Access to services of general interest, public expenditure on education, Expenditure on educational institutions per student, Health expenditure, Health care resources)
Luka Žakelj (Increasing competitiveness and promoting entrepreneurial activity, Entrepreneurial activity)

Contents

Introductory remarks

The Development Report 2008 is a document that monitors the realisation of Slovenia's Development Strategy, which was adopted by the Slovenian Government in June 2005. SDS sets out the vision and objectives of Slovenia's development until 2013, including five development priorities with action plans. This year, the report presents an overview and an estimate of the implementation of the strategy in the period from the adoption of SDS up to 2007, except in cases where the latest data are only available for earlier years (2006, and rarely, 2005). Given that this is an annual report, the emphasis has been placed on changes that occurred in the last year, for which data were available.

The development report is divided into two parts: part I presents an overview of SDS' implementation in the five development areas; part II documents the progress by means of indicators of Slovenia's development. The findings in the report are mostly based on results obtained through a set of indicators that were designed to monitor development. We have also consulted other sources (national and international research, reports on the implementation of sectoral strategies and programmes), particularly in areas where no relevant indicators were available due to data shortage. The analysis in the report is based on the official statistical data of domestic and foreign institutions that were available by 24 June 2008 (for Slovenia) or by the beginning of June 2008 (for international data). In the analysis, Slovenia was mostly compared with the 27 countries of the EU. In some rare cases where data for the last new EU Member States, Bulgaria and Romania, were not yet available, we used the EU-25 average. The terms "European average" or "EU average" thus refer to the group of the EU-27 countries; the term "old Member States" refers to the EU-15 group, whereas the EU-12 countries (or EU-10) that joined the European Union after the latest enlargement rounds in 2004 and 2007 are referred to as the "new Member States".

Main findings

SDS guidelines: Slovenia's Development Strategy (SDS) defines the country's four key development objectives: (i) the economic development objective – to achieve the average level of economic development in the EU in 10 years; (ii) the social development objective – to improve the quality of living and the welfare of Slovenia's inhabitants; (iii) the intergenerational and sustainable development objective – to apply the principles of sustainability in all areas of development, including sustained population growth; and (iv) Slovenia's development objective in the international environment – to become an internationally distinctive and established country.

Slovenia's pace of catching up with the more advanced EU countries has so far been favourable in terms of achieving the central ***economic objective*** *of Slovenia's Development Strategy – to reach the average development level of the EU countries by 2013.* According to Eurostat's preliminary estimate, gross domestic product per capita in purchasing power parity totalled 89% of the EU average in 2007, 1 p.p. more than the year before and 7 p.p. more than in 2003.[1] The average annual rate of economic growth accelerated in 2004–2007, which was on one hand due to the strong international environment and related increases in exports and investment in machinery and equipment and, especially in the first years, to the stabilisation of the macroeconomic environment before Slovenia's entry into the EU. In the past two years, economic growth additionally accelerated as a result of increased investment in infrastructure. On the other hand, structural changes as a consequence of the implementation of reform measures also had a positive influence on economic progress, which was reflected in growing competitiveness, measured by market share growth abroad, and by increased productivity. Positive shifts in competitiveness of the economy are also indicated by the latest report of the international institute IMD, ranking Slovenia 32nd among 55 countries on the national competitiveness scale, which is eight places higher than the year before. Over the last few years, Slovenia has made structural shifts in research and development and innovation activities, entrepreneurship, educational level of the population and broadband Internet access. Important results have also been achieved in public finances recording significant drops in expenditure, general government deficit and debt, and labour taxation. Continuing favourable trends in all these areas may in the future encourage faster restructuring of the economy towards high-technology and knowledge-based activities, where, considering the notable lag behind the developed countries, the changes have hitherto still been slow. Given that the international economic trends, which were a significant factor of economic growth particularly in the last two years (2006–2007), are expected to slow in the next two years, changes in the economic structure towards activities creating high value added per employee are necessary for Slovenia to further catch up with the average development level in the EU. Besides further implementation of the already set structural changes, higher internationalisation of the economy through foreign direct investment, continuing privatisation processes, improving quality and efficiency of tertiary education and research and development investment, further deepening of the financial sector and development-oriented restructuring of general government expenditure, and effective conduct of the competition policy will also

[1] When SDS was adopted in 2005, the latest figures for gross domestic product per capita in purchasing power parity were available for 2003 (Bednaš, M. [ed], Kajzer, A. [ed], 2005).

be highly important to achieve this goal. Maintaining macroeconomic stability remains an important objective of economic policies in the future – in the short run, mainly in the area of ensuring price stability and maintaining a stable fiscal position, and in the medium run, ensuring the long-term viability of public finances.

The area of the quality of living and the welfare of Slovenian inhabitants, which is the main ***social objective*** *of Slovenia's Development Strategy, is characterised by very favourable employment and unemployment trends and maintenance of high social cohesion compared to other EU countries.* Amid the strong economic activity, employment growth strengthened even further in 2007 and unemployment decreased. Consequently, the number of recipients of social transfers dropped as well. The long-term unemployment rate also fell, but it remains a structural problem. Labour market flexibility increased again in 2007. The country's future challenge is development towards flexicurity. The maintenance of relatively good living conditions is evidenced by data on poverty and income inequality, which were among the lowest in the EU again according to the latest figures for 2006; however, Slovenia was ranked among the third of countries with the highest at-risk-of poverty rates for the elderly population. Real wage growth per employee remained somewhat above the average of the previous three-year period in the last three years (2005–2007), while there was no significant increase in gross wage inequality. The ratio of the minimum wage to the average wage decreased in the last two years (2006–2007), but was still relatively high compared to other countries in the EU. Regarding the accessibility of services of general interest, favourable trends were observed in access to pre-school education and training. Gradual changes were seen in health and social care as well. To ensure long-term public finance and social sustainability, the already planned adjustments of the pension and health insurance system and of long-term care to demographic changes and to increasingly diverse forms of activity will need to be carried out.

Gradual changes have been observed in the application of the principle of sustainability, the ***intergenerational and sustainable goal of Slovenia's Development Strategy***. Reversing the rising trend of environmental pressures from transport is a major challenge in this area. Pressures on the environment in 2006 reduced (the latest available data) mainly as a result of the accelerated decline in energy intensity. The most significant decline in energy intensity in manufacturing was observed in industries which spend the most energy per unit of value added. However, these are mainly emission-intensive industries, whose growth accelerated at an above-average pace in the last two years (2006–2007). According to the latest data, greenhouse gas emission growth decelerated in 2006, though high growth of emissions from transport continues, mainly on account of road transport, which is increasing at a rapid pace. Compared to the EU average, Slovenia has an above-average share of renewable energy resources, though it has decreased over the last years (data available until 2006). Increasing the share of renewable energy resources therefore represents a challenge, particularly in light of the ambitious EU targets in this field. Municipal waste management, which otherwise accounts for a relatively small proportion of all waste, is also an environmental policy challenge, while development in the field of industrial waste and packaging waste management meets the target. Regarding sustained population growth, fertility increased slightly in 2005–2006, but since 2005 the rise in the number of inhabitants in Slovenia has been mainly due to increased immigration. Given the low fertility rate and increased life expectancy, the share of the elderly population continues to climb. Although this

process is still slower than in the EU for now, it is projected to speed up in the future. In regional development, favourable changes were observed in less developed regions, especially in unemployment and employment and dependency on social assistance. Data on interregional disparities in development, measured by gross domestic product per capita, are only available until 2005 and suggest a gradual continuation of the growth trend, though disparities in Slovenia are moderate compared with those in the EU.

The realisation of Slovenia's ***development objective in the international environment*** *– to become an internationally distinctive and established country – is linked mainly with Slovenia's integration into international associations over the last years.* Due to the lack of appropriate internationally comparable indicators, the realisation of this objective cannot be measured in the same way as the other three objectives. We estimate, however, that Slovenia's international distinctiveness has increased through its integration into international associations and its assuming an active role there. In 2004, Slovenia became a member of the EU and NATO. Three years after its accession to the EU, Slovenia joined the Economic and Monetary Union (EMU) and adopted the common currency of the Union, the euro, as the first country among the new Member States which entered the EU after the latest two enlargement rounds. In 2007, Slovenia was also invited to become a member of the Organisation for Economic Cooperation and Development (OECD). Active cooperation in international associations has had a positive impact on Slovenia's distinctiveness and reputation around the world. In 2005, Slovenia thus chaired the Organisation for Security and Cooperation in Europe (OSCE), while in the first half of 2008, it presided over the EU Council.

I.

Development by the Priorities of Slovenia's Development Strategy

1. A competitive economy and faster economic growth

SDS guidelines: A competitive economy and faster economic growth are the foremost development priority of SDS, which encompasses the following objectives: ensuring macroeconomic stability,[2] promoting entrepreneurial development and increasing competitiveness, and increasing the competitiveness of services. The first SDS objective, *ensuring macroeconomic stability*, focuses on three core tasks: to increase the adaptability of fiscal and income policies, ensure the long-term sustainability of public finances, and maintain price stability. The second SDS objective, *increasing competitiveness and promoting entrepreneurial development*, focuses on the development of areas where Slovenia has a competitive advantage, entrepreneurship and the development of SMEs, the promotion and development of an innovative environment and innovativeness, and internationalisation and competition in the network industries market. The third objective, *increasing the competitiveness of services*, prioritises the need to boost the factors of effectiveness in services and simplify the administrative framework for their provision. A special emphasis is placed on those services most closely linked to business operations (business, financial, distributive, infrastructural services) because they have the greatest impact on the economy's productivity and competitiveness.

1.1. Macroeconomic stability

The first year after the adoption of the euro was marked by strong economic and employment growth and an improvement in the public finances, but also by increased inflation and a deterioration of the external position. Due to favourable conditions in the international environment, implementation of some reforms and a high level of investment, Slovenia recorded the highest economic growth (6.1%) and the highest growth of employment (2.7%) since 1991, when it became an independent state. In the climate of accelerated economic growth, the general government balance narrowed to its lowest level since Slovenia's independence, though the current account deficit and gross external debt increased. Both are also partially related to the high level of economic growth. The price stability achieved in the period ahead of the euro's adoption was jeopardised by external price shocks, the impact of which, given the structural rigidity of certain economic sectors, was greater in Slovenia than anywhere else.

Economic growth *in 2007 accelerated as a result of intense domestic investment activity and exports.* Given the favourable international climate and implementation of certain structural reforms, GDP growth was approximately twice as high as in the euro area for the second consecutive year. Growth in foreign trade increased further compared to the previous year and was close to its highest year-long rates. Despite a slight slowdown in economic growth in EU countries, growth in exports of goods strengthened in the second half of the year, mainly on account of increased growth in road vehicle exports. Their contribution to the total growth in exports was

[2] Concrete SDS objectives in this area are successful participation in ERM II and adoption of the euro, which was achieved by Slovenia in 2007. Since Slovenia's entry to EMU, it is therefore more sensible to set the preservation of macroeconomic stability as our goal.

enhanced during the year, as well as the contribution provided by exports of medical and pharmaceutical products, while the export growth of other products began to moderate at the end of the year. On the import side, the high growth was underpinned by imports of intermediate goods and machinery and equipment, both associated with export and investment growth, and by imports of road vehicles (motor vehicles and automotive industry parts). Investment activity was at its most intense over the last few years, strengthened by increased construction of infrastructure, and enhanced investment in buildings and facilities. Favourable business expectations continued to stimulate the growth of investment in equipment and machinery and the expansion of production capacities. All segments of investment save for housing investment were marked by increased activity through the first three quarters and a fall in activity at the end of the year. The growth of private and government consumption stagnated compared to 2006, being especially low in the first half of the year and then slightly rising, which in the area of household spending was already suggested by some short-term indicators (increased purchasing of durable and semi-durable goods, high growth in registration of new motor vehicles). Looking at individual activities, the greatest share in economic growth was contributed by manufacturing and construction, and the climate in both had a favourable impact on growth in certain market services.

Given the accelerated economic growth,[3] increased production capacities and employment growth mitigated the restrictions on the supply side. The capacity utilisation rate, which was at a historic high in the first months of 2007, gradually declined with the increase in production capacities. Against the background of rapid economic growth, conditions in the labour market began to improve as well. Increased employment thus additionally mitigated potential restrictions on the supply side. The year 2007 saw the largest increase in employment since independence, and unemployment[4] was on a downward trend. Given the intense activity in construction and manufacturing, the largest decline was seen in the number of unemployed with a primary and secondary education.

The deficit of the current account of the ***balance of payments*** *rose sharply mainly due to the wider trade deficit and higher interest payments.* The current account deficit rose from 2.8% of GDP in 2006 to 4.9% of GDP in 2007. Given the significant investment in machinery and equipment, including a major purchase of transport equipment abroad, and a larger volume of imported intermediate goods on account of accelerated manufacturing production growth, imports of goods increased more than exports, which was reflected in a trade deficit increase. From the savings-investment gap standpoint, the greater deficit was thus the result of increased investment and not the lower share of gross savings, as the savings share in GDP increased from 25.6% of GDP in 2006 to 26.6% of GDP in 2007. From the regional structure viewpoint, the higher deficit in merchandise trade occurred due to a lower surplus in trading with non-EU countries. Given the international climate, exports to EU countries increased at a higher rate than exports to non-EU countries for the fourth consecutive year, which indicates continued positive impacts of Slovenia's entry into the EU. Slovenian industry continued to increase its market share in Slovenia's most important trade partners.[5] Upon entry into the EU, exports

[3] In 2006, economic growth was 5.7%.
[4] For more details on the labour market, see Section 4.1.
[5] Refer to Section 1.2.

to non-EU countries, mainly to the countries of the former Yugoslavia, increased moderately under the influence of the abolition of duty-free agreements and the increase of direct investment in production on these markets. Imports from other countries have risen more than imports from the EU for the third consecutive year, which is largely associated with rising prices of oil, natural gas and metals. Imports from countries of South Eastern Europe, which are subject to almost no quotas and customs duties, have also increased since Slovenia's entry into the EU. Furthermore, a slight structural shift was recorded in 2007 in trade in services, marked by a strong surge in exports of some services with higher value added.[6] Growth in exports of travel, transport and construction services additionally boosted the surplus in trade in services, mainly on account of the surplus in travel. In addition to merchandise trade, the widening of the current account deficit was mainly due to increased liabilities for interest payments arising from increased domestic commercial banks' borrowing abroad and increased interest rates. Interest paid increased more than interest received, even though financing abroad via loans and investment in debt securities rose as well.

Despite its increase, the current account deficit was not the main factor contributing to the growth of ***gross external debt****, as the private sector's borrowing increased at a faster pace; upon Slovenia's entry into EMU, liabilities towards the Eurosystem increased considerably as well.* A significant increase in gross external debt in 2007 (by EUR 10.3 billion, from 78.9% of GDP in 2006 to 102.4% of GDP in 2007) was, similar to previous years, due to private sector borrowing, though in 2007 also to increased liabilities of the Bank of Slovenia (BS) toward the Eurosystem, arising from the change in monetary policy instruments upon Slovenia's entry into the euro zone. The latter contributed around 35% to the rise in gross external debt and was the main reason for the increase in short-term debt from 17.1% of GDP at the end of 2006 to 35.1% of GDP at the end of 2007, and the rise in public and publicly guaranteed debt from 14.2% to 23.5% of GDP. Last year's strengthened growth in commercial bank borrowing abroad, related mainly to increased demand by enterprises and households for domestic bank loans, had only a slightly lesser impact on the gross external debt increase than the BS liabilities.[7] At the same time, direct indebtedness of enterprises abroad dropped slightly in comparison with 2006 in uniform conditions for borrowing at home and abroad.[8] The rapid growth of the private sector's indebtedness in the past years is to a great extent the result of financial deepening and is an expected part of the process of catching up with the most developed countries of the euro zone, where average gross external debt stood at 191.8% of GDP at the end of 2007. Slovenia is still the least indebted member of the euro zone and has moved gradually towards this level of indebtedness due to its rapid economic growth. According to the simulations, the share of debt could rise rapidly in the case of stronger or long-term deceleration in economic growth, while a rise in interest rates would result in a fast increase in debt servicing burden and a deterioration in the current account deficit. On the other hand, exposure to exchange-rate risk is very low, as the currency structure of gross external debt and within that also of the public and publicly guaranteed debt is dominated by the euro, which accounts for more than 90%. Besides debt liabilities (gross external debt),

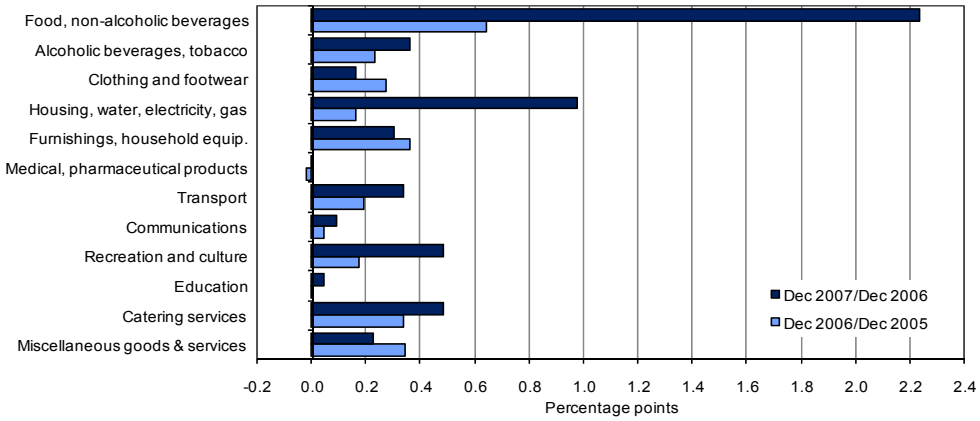
[6] See indicator *Exports and imports as a share of GDP*.
[7] In the first quarter, banks partially covered this demand with funds released when BS bills fell due, while in April and November they also obtained funds on foreign financial markets with larger syndicated loans.
[8] The published average 11-month interest rates in 2007 exceeded the euro area average by 0.6 p.p., on average.

Slovenia's gross external assets in debt instruments continued to rise in 2007, yet at a slower pace, which resulted in a net external debt increase from 11% to 18.9% of GDP from December 2006 to December 2007.

*The stable **growth of prices** during 2005–2006, achieved as a result of coordinated economic policies, accelerated in 2007 largely due to external factors.* Due to the measures implemented to prevent unjustified price increases, the adoption of the euro had a relatively small impact on inflation.[9] The pressure on consumer price growth began to increase strongly in the middle of the year, mainly due to significant increases in oil prices and prices of primary commodities and food on global markets, which resulted in a great surge in prices in two consumer price index groups. Prices in other groups rose more steadily and at a similar pace as in the previous year, which means that, excluding food and liquid fuel prices, the inflation rate last year was similar to that of 2006 (2.5%). External price shocks contributed four fifths to the increase in the general price level in 2007, especially in the aforementioned two groups. These trends, to which all global economies were exposed, were manifested to a greater extent in Slovenia, as the impacts of external factors were compounded by certain internal structural factors. Given the high concentration in retail trade, low efficiency of the food-processing industry and insufficient activity of regulatory bodies in the area of competition in the previous years, participants in the processing-sales chain mostly transferred the price increases to the end consumers. The measures of key macroeconomic policies remained directed towards limiting inflationary pressures in 2007. The regulated price policy, according to which administered prices rose more slowly than the general level of prices, contributed to curbing inflation. During the autumn months, the policy of counter-cyclical adjustment of excise duties mitigated the influence of increasing oil prices, although to the rather limited extent still allowed by the EU regulations. The relatively modest increase in government spending and the moderate increase in gross wages in the public sector did not generate additional pressures on public finances. With high tax revenues mainly linked to favourable economic growth and continuing reduction of public expenditure, the actual and the structural deficits of the general government sector dropped significantly in 2007. The growth of gross wages in the private sector also remained within sustainable limits below productivity growth. Amendments to income tax legislation resulted in a more than 2 p.p. higher growth in net wages compared to gross wages, though we estimate that the majority of this increase, which was concentrated in higher income brackets, was diverted into savings and not final consumption. Considering the strong growth in the number of persons in paid employment, the growth of the wage bill accelerated at a relatively faster pace in 2007, though it did not exceed the productivity growth and thus had no inflationary effect.

[9] According to IMAD's estimate, the introduction of the euro did not impact inflation by more than 0.3 p.p.

Figure 1: **Rise in consumer prices, contributions according to the CPI index in percentage points**



Source: SI-Stat data portal – Prices – Consumer price indices (SORS), 2008, IMAD calculations.

Against the background of strong economic growth, the ***general government position*** *continued to improve in 2007: the deficit of the general government sector narrowed substantially and achieved its lowest level since independence.* The general government debt ratio relative to GDP was at its lowest as well. In the favourable economic climate, with the growth of government revenues exceeding the growth in expenditure, the deficit fell to 0.1% of GDP. On the revenue side, tax inflows were substantially greater than expected. High growth was largely driven by favourable macroeconomic trends. The increase in employment thus mitigated the decreases in income tax revenue due to the amended income tax legislation, and in revenue from payroll tax due to the continued reduction of its rates, and strengthened the revenue from social security contributions. The higher-than-forecast inflation also influenced the nominal value of all general government revenues, and the tax inflows in 2007 were therefore higher than projected. The expenditure side saw a decline especially in the share of social transfers, which was – in addition to favourable developments on the labour market – also attributed to the indexation of social transfers (excluding pensions) tied solely to consumer price rises rather than to both inflation and average wage growth, and a decline in the share of interest payment. With the public finance consolidation, Slovenia has gradually moved away in the past few years from the deficit and government debt threshold set by the Stability and Growth Pact, to which Slovenia is bound as a member of the EU. Given that the improvement in the public finances in 2007 was also due to cyclical factors, it is vital for Slovenia to maintain a stable public finance position by the use of automatic fiscal stabilisers even in the changed conditions of slower growth anticipated in the years ahead. This means that the gradual reduction of the structural deficit should continue, as economic policy is subject to the provisions of the Stability and Growth Pact to implement structural reforms. With these reforms, it will smooth out internal imbalances and mitigate the deterioration of the public finance position during the turnaround in the economic cycle, and thus also contribute to the sustainability of public finances in the long term. The general government sector debt, which was reduced to 24.1% of the GDP (the majority is long-term) at the end of 2007, is relatively small and unproblematic. With the reduction of the liabilities arising from interest payments, the debt remains within sustainable macroeconomic limits also in the medium term. Assuming unchanged

system parameters, the key risk factor is represented by rising expenditure associated with population ageing, which could already after 2015 have a significant influence on the general government debt and its acceleration towards the allowed limit of 60%.

1.2. Increasing competitiveness and promoting entrepreneurial activity

In an open economy such as Slovenia's, the competitiveness of the business sector is significantly determined by the results achieved in foreign markets. Performance in foreign markets is measured by the growth of a country's market shares. Among the factors with a short-term effect on competitiveness, this chapter analyses the trend of unit labour costs, while among those with long-term and more indirect effects we observe the technological intensity of production and exports, the development of entrepreneurship, internationalisation of Slovenia's economy and liberalisation of network industries[10] according to the SDS guidelines.

The market share *in trade in goods increased for the seventh year in a row in 2007, and from the aspect of market share growth, Slovenia's position relative to the EU countries improved.* After Slovenia was ranked only 10th according to market share growth in the period 2001–2003 among EU countries, it improved to 8th during 2004–2006, while rising to 3rd in 2007. A more accurate analysis shows that more than a third of the market share growth was attributable to a one-off factor, i.e. the high growth in road vehicle exports, which, in line with the investment cycle in the automotive industry, followed the decrease in the previous year. Among the more important exported goods, chemical products also maintained the market share's dynamic growth in 2007, while the market share growth of other industrial products was modest or, in some technologically less intensive products, even negative again.[11] The regional structure indicates that in 2007, as in the entire period since Slovenia's accession to the EU, exporters again improved their market position on the EU markets the most.

Following a slight improvement in ***cost competitiveness*** *of Slovenia's economy in 2006, the first 2007 estimates indicate a partial continuation of favourable trends.* While real unit labour costs continued to decline at an even slightly faster pace, real effective exchange rate growth shows a deterioration in cost competitiveness of Slovenia's economy in 2007. Given the stable foreign exchange rate and the lag of labour cost growth behind productivity, unit labour costs, with minor fluctuations, ensured fairly stable cost competitiveness since Slovenia's entry into ERM II. In 2006 the Slovenian economy, with increased growth in productivity and almost unchanged growth in labour costs compared to the previous year, slightly improved the level of cost competitiveness relative to its trading partners or EU countries. The real effective exchange rate, deflated by unit labour costs, appreciated only slightly (by 0.1%) due to the strengthening of the euro, while real unit labour costs fell by 1%, somewhat more than in the EU on average. According to both indicators, the

[10] Competitiveness is also affected by a number of other factors, mostly by knowledge, investment in R&D, innovation and government efficiency, which are analysed in other sections of the Development Report.
[11] For more details, see the indicator *Market shares*.

year 2006 saw a significant improvement in cost competitiveness in manufacturing activities. After two years of a slight deterioration of cost trends, mainly due to the impact of less favourable terms of trade, this is a positive shift, especially in light of the high export orientation of Slovenia's manufacturing sectors and dominant position of the manufacturing sector in exports. The first estimates for 2007 indicate a slightly higher decline in real unit labour costs than in the previous year. The real effective exchange rate appreciated by 1.6% as a result of the higher nominal rise in unit labour costs on one hand and the stronger euro on the other; the appreciation of the real effective exchange rate was among the lowest in EMU. In order to maintain the positive tendencies on export markets, it will be important to maintain cost competitiveness also in the future, which, besides assuring sustainable growth of labour costs, must be achieved mainly through further implementation of reforms to increase productivity.

Relatively favourable market share and cost competitiveness trends, especially in manufacturing, were only marginally underpinned by ***structural shifts****, which are important for a sustainable increase in productivity and competitiveness and long-term stable growth.* Restructuring in terms of more productive and technology-intensive industries has so far been relatively slow. The high productivity growth in manufacturing in 2006 and 2007 (10.4% and 7.5%, respectively) was mainly due to the favourable economic climate in the manufacturing industry associated with enhanced activity in construction and foreign demand. Its breakdown thus demonstrates that until 2006 (the latest available data) it was almost entirely a result of productivity growth within individual activities (intrasectoral effect), while the contribution of intersectoral structural changes was still low in 2006 and at the level of the past five-year average (see Table 1). The gradual restructuring is evidenced by changes in the technological intensity of merchandise exports, which increased somewhat again in 2006 and 2007, following a deterioration in 2004–2005, though it was still below the highest level recorded in 2003.[12] In order to catch up with the more advanced countries, intra-industry growth in productivity is vital as well, where Slovenia holds the greatest potential with regard to its substantial lag behind the EU, especially for growth in high-technology-intensive industries.[13]

[12] See the indicator *Structure of merchandise exports according to factor intensity.*

[13] The chemical industry is an exception, of which the bulk is represented by the pharmaceutical industry, which is by far the most technology- intensive industry in Slovenia. In 2005 (most recent available data for the EU) the chemical industry achieved 60.7% of the average EU productivity (manufacturing sector – 53.5%). The electrical industry is ranked at the bottom among medium- and high-tech industries, achieving 47.4% of the productivity of this sector in the EU in 2005.

Table 1: **Breakdown of productivity growth in manufacturing sectors in Slovenia**

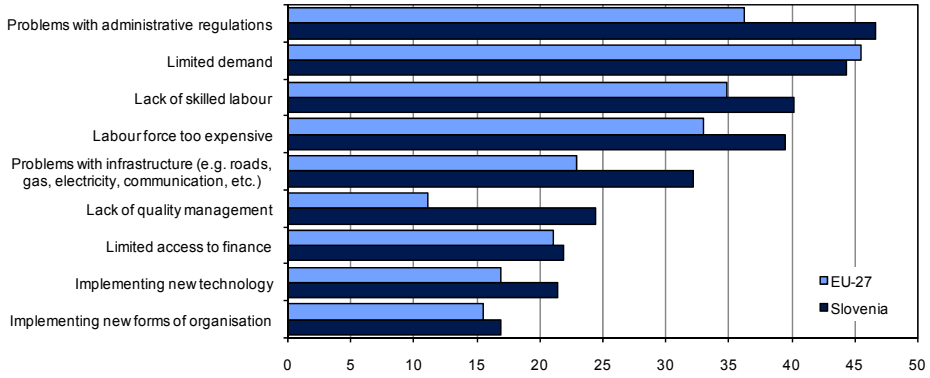
	1996–2000	2001–2005	2006
Real productivity growth, in %	8.0	6.0	10.1****
Intrasectoral (non-structural) effect*, in p.p.	7.8	5.3	9.3
Intersectoral (static structural) effect**, in p.p.	0.4	0.7	0.7
Interaction (dynamic struct.) effect***, in p.p.	-0.2	0.0	0.0

Source: IMAD calculations based on SORS data (National Accounts, 2007).
Notes: *increase in productivity which would have been achieved if the employment structure had remained at the level of the baseline year; ** increase in productivity due to the shift of production resources from low- to high-level productivity sectors; *** increase in productivity due to the reallocation of resources to sectors with rapid productivity growth; **** the figure arrived at by adding all three components differs slightly from the actual productivity growth in this year (10.4%).

In the area of ***entrepreneurship,*** *positive shifts have continued.* In comparison with the EU, the potential for removing obstacles to entrepreneurship has not been entirely utilised yet. Early-stage entrepreneurial activity increased for the third consecutive year in 2007,[14] achieving its highest level (4.8%) since 2002, when it was first measured. It is still slightly below the weighted average of the 17 EU countries (5.2%) for which data are available. Among them Slovenia is ranked 11th.[15] Both the participation of the population in established businesses and the total entrepreneurial activity have risen, following the decline in 2006. The fact that the ratio of opportunity- to necessity-driven entrepreneurs continues to increase is favourable as well. The growth in the share of those who start a business to pursue a perceived business opportunity, and thus the strengthening of the entire early-stage entrepreneurial activity, were therefore attributable to favourable economic trends in the past few years,[16] as well as to the adopted measures to promote entrepreneurship.[17] According to the study of the Observatory of European SMEs (2007), the obstacles to entrepreneurship in Slovenia are higher than in the EU on average, especially those associated with the labour market, bureaucracy and infrastructure (see Figure 2).

[14] The early-stage entrepreneurial activity rate is calculated as the share of the population (aged 18 to 64) that plans to start a business or has been running a business for less than 42 months (Rebernik et al, 2006).
[15] For more details, see the indicator *Entrepreneurial activity*.
[16] The largest increases in the number of new companies were recorded in construction, characterised by favourable developments in 2006 and 2007, and in the sector providing business and financial services, where the activity was also greatly boosted by the favourable economic trends in this period.
[17] For example, successful performance of the e-VEM project for private entrepreneurs, increasing the financial aid to micro, small and medium-sized companies, business consultancy and various promotional activities (see the Report on the Realisation of the Reform Programme for Achieving the Lisbon Strategy Goals, 2007, p. 51–53).

Figure 2: **Obstacles to entrepreneurship in Slovenia and the EU, 2005–2006**



Source: Flash Eurobarometer 196 – Observatory of European SMEs, 2007.
Note: *The shares of affirmative responses to a question asking whether the company had faced the aforementioned obstacles in the past two years. All size classes of companies have been included. The survey was carried out in November and December 2006.

The years 2006 and 2007 were marked by continued ***internationalisation of Slovenia's economy****, which is, with gradual shifts in foreign direct investment, mostly accomplished through foreign trade flows.* The openness to foreign trade of Slovenia's economy (exports and imports as a share in GDP) achieved a record-breaking 72.3% in 2007. With minor fluctuations it has been rising since 1995 (by 20 p.p.), especially after 2003, which is mainly due to Slovenia's entry into the EU in 2004, improved foreign trade competitiveness of Slovenia's economy and, in the past two years, also the favourable global market climate. In 2006 and 2007, direct investment of Slovenian companies abroad continued to increase as well. After several years of fluctuation at very low levels, we also recorded positive shifts regarding FDI inflows in 2007, which doubled compared to the previous year and achieved almost the same level as outflows. Given the significant original gap with the EU, inward FDI is nevertheless still at a very low level in relative terms. Slovenia is an exception with regard to the ratio of inflows to outflows of FDI among the new EU Member States, which are large net FDI importers.[18] This is also evident from a comparison of Slovenia to other EU countries, showing an above-average export-import intensity of Slovenia's economy on one hand, with the gap widening in Slovenia's favour,[19] while on the other hand Slovenia lags behind in internationalisation through direct foreign investment, with the gap relating to inward FDI additionally increasing.[20] Higher FDI inflows would result in increased incentives for restructuring the economy towards high-technology-intensive industries to faster catch up with the more advanced countries in terms of productivity, which is a key factor in economic competitiveness.

[18] In 2006, only Austria, Denmark, France, Germany, Ireland, Italy, the Netherlands, Spain and Sweden were net direct investors abroad among EU Member States besides Slovenia, i.e. no other new EU Member States.
[19] The average foreign trade openness of the EU-27 average was exceeded by 20.5 p.p. in 2000, by 24.1 p.p. in 2004 and already by 31.9 p.p. in 2007.
[20] During 2000–2006, Slovenia's gap regarding the share of inward FDI in GDP behind the EU-25 average increased constantly and reached as much as 15.8 p.p. in 2006. The gap in the share of outward FDI exceeds 30 p.p., but has stopped increasing.

In network industries *competition continues to rise gradually in telecommunications, while market changes in the energy sector have been slower.* In telecommunications, especially the broadband Internet access market has developed rapidly in the past two years, which was still highly concentrated in the xDSL connections segment until 2005, when the ISDN–ADSL loop was unbundled.[21] The market share of fixed telephony for national calls of the dominant operator fell from 99% in the first quarter of 2006 to 96% in the final quarter of 2007,[22] although it is still considered one of the largest in the EU, which is a result of the slow elimination of obstacles to competition in the past and associated late entry of alternative providers on the market (in 2006). After a few years of fairly gradual changes, greater progress was also noted in mobile telephony,[23] where the concentration is also significantly higher compared to the EU average.[24] Within the energy sector, changes in the market structure are slower. The major changes in the past year entail the establishment of the second pillar[25] in electricity production, as well as the introduction of a market-oriented auction method of assigning cross-border transmission capacities. The market share of the largest electricity producer is still slightly above 50%,[26] while in the EU it is even somewhat higher (around 60%). The share of the main provider on the natural gas wholesale market still stands at almost 100%. Competition is stronger[27] on the retail market of supply to eligible electricity consumers and on the market of medium-sized gas consumers. The structure of these markets has remained almost unchanged in the past few years.

The effect of increased competition on the reduction of service prices is mainly evident in telecommunications, while in the energy sector other factors prevail. The fall of the relative[28] prices of telecommunication services, characteristic of the period after 2002, continued in 2007. In the past few years (after 2004) these developments were mainly due to the drop in prices in mobile telephony and fixed telephony for international calls, while in 2007 they resulted from a decrease in broadband Internet access prices, which can be attributed to a great increase in competition on these markets in the past years. Household electricity prices were administered by the government until mid-2007 and fluctuated according to inflation in the past few years. Slightly different trends were noticed in the price of electricity for industrial consumers, where the market has been liberalised since April 2001.[29]

[21] In the first quarter of 2006, the market share of the largest provider of broadband Internet access through the xDSL connection was at 88%. It dropped to 74% in the first quarter of 2007 and to 69% at the end of the year 2007 (Report on the development of the electronic communications market for the second quarter of 2007, APEK, 2008). See the indicator *Internet use* regarding the movement in the share of users utilising broadband Internet access.

[22] Report on the development of the electronic communications market for the final quarter of 2007 – APEK, 2008.

[23] After the market share of the largest provider fluctuated between 71% and 74% during 2002–2006 (Semi-annual report on the development of the electronic communications market in Slovenia in 2006, APEK, 2006), it dropped in the previous year from 70% (4th quarter of 2006) to 66% (4th quarter of 2007) (Report on the development of electronic communications market for the final quarter of 2007 – APEK, 2008).

[24] The share of the largest provider in 2006 stood at 39% in the EU-25 average (in 2004, 49%).

[25] Within electricity production in Slovenia, the first production pillar includes producers integrated within the HSE group (Dravske elektrarne Maribor, Soške elektrarne Nova Gorica, Termoelektrarna Šoštanj, Premogovnik Velenje and Termoelektrarna Trbovlje), while the second pillar is made up of producers of the GEN group (Nuklearna elektrarna Krško, Savske elektrarne Ljubljana and Termoelektrarna Brestanica).

[26] Report on the situation in the energy sector in Slovenia in 2006 (AGEN-RS), 2007.

[27] No provider holds a dominant position.

[28] Compared to CPI.

[29] Save for smaller consumers with a network capacity of less than 41kW.

After the liberalisation, the relative prices have been declining for several years, partly as a result of stronger competition on the market, including a free choice of supplier. During the past few years, however, domestic relative prices of electricity have been increasing under the influence of the growth of these prices in the EU.

1.3. Increasing the competitiveness of services

The competitiveness and efficiency of the services sector is an important factor of economic growth. Apart from the direct effects of services on the expansion of the economy due to their high and rapidly growing share in gross domestic product, their indirect impact on efficiency and competitiveness through the intermediate consumption of services in the manufacture of products and other services is becoming increasingly important. This pertains especially to financial, business, communication and information services, the availability and quality of which also provides the basis for the competitiveness of manufacturing activities that intensively use services and thus advance in terms of greater added value per employee (The impact of services …, 2007). Financial services are dealt with separately in this chapter due to their specificity and their special role in the economy.[30]

1.3.1 Non-financial market services

In 2006, Slovenia's gap with the EU average in terms of the ***share of non-financial market services***[31] *in the structure of economy widened again, after closing significantly in 2005, but the data for 2007, which are available for total market services only (including financial services) indicate further gradual catching up with the more advanced countries.* The widest gap between Slovenia and the EU average in terms of non-financial market services as a share of value added was recorded in 2000 (6.5 p.p.). It narrowed to 4.2 p.p. by 2005, but widened to 4.6 p.p. in 2006. Given the available data, the shifts in 2007 can only be estimated for total market services (including financial services), where the gap with the EU average narrowed again in 2007 (by 0.1 p.p.). In the past few years, the closing of the gap was mainly driven by rapid increases in the shares of transport (I) and distributive trades (G), which already possess higher shares in the value-added structure of the Slovenian economy relative to the EU. The catching-up process in the area of knowledge-based non-financial market services (telecommunications and business services)[32] has been slower, especially in business services, whose share in value added stopped at 9.6% in 2005 and 2006.[33] According to the SDS scenario, this segment of knowledge-based services is expected to create around 12% of value added in 2013.[34] Also in terms of productivity, the slowest pace of convergence to the level of the average EU productivity in all non-financial market services (see Figure 3) in

[30] See Competition, productivity and prices in the euro area services sector, 2006.
[31] Standard Classification of Activities (SKD): wholesale and retail trade and the repair of motor vehicles (G), hotels and restaurants (H), storage and communications (I), and real estate, renting and business services (K).
[32] Standard Classification of Activities (SKD): renting of machinery and equipment without operator (71), computer and related activities (72), research and development (73), other business activities (74), and post and telecommunications (64). SKD 71–74 activities are classified under business services.
[33] Detailed information on the structure of value added in 2007 by activity is not yet available.
[34] See Bednaš (ed), Kajzer (ed), 2005.

the last few years was recorded in real estate, renting and business services (Koprivnikar Šušteršič et al., 2008).

The competitiveness of non-financial market services on foreign markets *is the weakest in the area of services with high value added, though gradual positive shifts have been made to this end.* Comparative advantages in exports of transport services and travel are characteristic for the external trade competitiveness of the services sector compared to the EU. In terms of exports of the group of other services, mainly including services with higher added value, Slovenia comparatively lags behind. Its gap with the EU reduced slightly in the period 2004–2006, after having widened for a number of years before. More accurate insight into the competitiveness of Slovenia's service exports is enabled by data on the movement of Slovenia's market shares in the imports of EU countries, which indicate that in the period 2004–2006, the market share of Slovenia's services on markets of four EU countries[35] increased more (particularly transport[36] and other services) than the average market share of the new EU Member States.[37] However, the favourable trends failed to fully continue through the last year of this period (2006), as Slovenia's market share in services imports into the four aforementioned EU countries remained almost unchanged,[38] while it declined in the group of other services.[39] This additionally confirms the weak competitiveness of Slovenia's exporters of other services. Transport services, which are to a great extent associated with trade in goods and also greatly increased their market share in the past year, remain the bright spot regarding the increase in competitiveness of Slovenia's services in EU markets.

Innovation activity in services *is on the rise, which is also important in terms of improving competitiveness in services.*[40] According to the latest data[41] for 2004–2006, Slovenia significantly increased the share of service enterprises with innovation activity (26.8%) compared to 2002–2004 (16%). The progress is encouraging also in the light of international comparisons with the latest figures available for 2002–2004 only, when Slovenia was ranked among the countries with the lowest innovation activity in services.[42] A particularly low innovation activity rate was recorded in business services. The progress in this area is important, as knowledge-based business services in general are both the promoter and catalyst for innovation processes in the economy (Stare, Bučar, 2007).

[35] Data on services imports of the EU-25 and EU-27 from Slovenia classified in three main groups of services were not available at the time of preparing the report, so we used data on imports for the four EU countries which, besides Germany, import the majority of services from Slovenia (Austria, Italy, France, United Kingdom) as an estimate. No data are available for Germany.

[36] An additional incentive for growth in the transport services' market share was probably provided by the possibility of performing cabotage in the EU countries (Slovenia was the only new Member State to successfully gain this right in accession negotiations with the EU).

[37] The EU-10 group, excluding Romania and Bulgaria.

[38] By 13%, while the EU-10 countries' share increased by 3%.

[39] In 2006, the market share of Slovenia's other services dropped by 14%, while EU-10 countries increased the share of other services by 23%.

[40] See Van Ark et al, 2003, Howells and Tether, 2004, Innovation and KIS Activities, 2006.

[41] First release, SORS, 28 April 2008, data for other EU countries are not yet available.

[42] See also the indicator *Innovation active enterprises* and Section 2.2.

Trends in various indicators of competitiveness suggest that the competitiveness of non-financial market services is improving and approaching the EU standards. Slovenia still has a significant potential for growth and improvement of the competitiveness of the entire economy, especially in further development of knowledge-based services. A similar development pattern, i.e. a considerably faster process of catching up with the more advanced countries in traditional services (mainly in transport and distributive trades) compared with services with high value added, is also characteristic for other new EU Member States, which lag behind Slovenia with regard to the structure of non-financial market services.[43] The latter reveals that the catching-up process in the area of knowledge-based services is more complex than with traditional services and demands even more radical changes regarding research and development, innovation and education, as well as highly coordinated policies in all these areas. In order to increase competitiveness, it is also vital to carry out efficient supervision of competition through the relevant institutions, where many deficiencies related to the overly passive role of regulators have been observed in Slovenia so far.

1.3.2 Financial services

According to the ***indicators of the financial sector's level of development,***[44] *Slovenia still lags significantly behind the EU average, but the gap has been closing somewhat faster during the last few years.* The biggest progress in 2006 and 2007 was made in the banking sector and on the capital market. The largest development gap with the EU is nevertheless shown by the indicator of banks' total assets relative to GDP, as it reaches a third of the EMU average only. Slightly faster progress in the banking sector, which is one of the more concentrated sectors in the EU,[45] has only been noticed in the last few years, when interest rates dropped significantly due to Slovenia's entry into EMU and currency risk was significantly reduced. Until 2006, the largest development gap was recorded in the capital market. With the high growth in stock values listed on the Ljubljana Stock Exchange, the indicator demonstrating the market capitalisation of shares relative to GDP achieved approximately two fifths of the EU average in 2006 and almost two thirds in 2007. In the area of insurance, Slovenia was at 60% of the EU average according to the latest data for 2006. In the area of financial services, the structure of insurance premiums is gradually improving in favour of more developed financial services (life insurance). According to the latest data, insurance premiums account for almost a third of all premiums, or approximately half of the EU average. In relative terms, the volume of total insurance premiums relative to GDP did not increase in 2005 and 2006 compared with the EU average.

Bank loans *still remain the most important* ***source*** *of external* ***corporate sector financing***. In 2007, the volume of loans increased to as much as 80% of GDP,

[43] The EU-12 countries (the countries which entered the EU in 2004 and 2007) are generally characterised by a higher share of transport and trade and a lower share of real estate activities and business services than Slovenia (see Koprivnikar Šušteršič et al, 2008).
[44] See also the indicators *Total assets of banks, Market capitalisation* and *Insurance premiums*.
[45] According to ECB data, only five Member States (among them also the Netherlands, Belgium and Finland) had a higher degree of concentration than Slovenia, measured with the Herfindahl index. All these countries have a far more developed banking sector than Slovenia.

which is approximately two thirds of the average value in the EU. The development gap thus decreased significantly in 2007, as Slovenia had achieved a good half of the EU average (56%) only a year before.[46] The growth of loans in Slovenia strengthened even more with intense economic activity in 2007 and was at its 10-year high (32.4%), significantly higher than the average value in the EU, which also rapidly increased.[47] Loans to enterprises account for the largest share, achieving a good 50% of GDP, which already exceeds the EU average. The reason behind the relatively high significance of bank loans is probably attributable to the fact that Slovenia's financial system is based on the banking sector, as well as to the poor development of the financial sector, as other possibilities for financing enterprises are extremely limited. This represents an additional barrier in obtaining financial resources for small enterprises, as banks do not wish to expose themselves to excessive risks. These financing problems will continue to increase in the future, as banks are expected to additionally tighten the borrowing terms in 2008 due to the international financial crisis. It should be noted that by adopting the Law on Venture Capital Companies in 2007, encouraging legislative changes came into effect with regard to the possibility of financing smaller promising enterprises,[48] which enjoy additional support also in terms of the tax legislation with a zero tax rate foreseen for venture capital companies.[49]

The start of privatisation of the second-largest bank in Slovenia in 2007 is likely to provide an additional incentive for the development of the financial sector. In addition to the anticipated positive impact of privatisation on the efficiency and development of the bank, it is necessary to emphasise the significance of the privatisation method for further development of Slovenia's capital market. In the first phase, the sale was carried out through public offers of securities, the first of this kind in Slovenia. Given the strong interest of investors, this could be an incentive for other potential issuers of securities of this type to obtain financial resources, which would contribute to a more rapid development of the capital market in Slovenia.[50] The greater volume of offers of promising investment securities would also increase trading on the Ljubljana Stock Exchange and improve the liquidity of the capital market, which remains low and does not even achieve a third of the liquidity level in developed countries.

Financial services, which were particularly poorly developed in the past, obtained an additional development incentive with the euro adoption, which was reflected in a somewhat faster catching up with the more advanced EU Member States. Given the sharp rise in savings and loans and other financial investment, stimulated by strong economic activity along with the favourable impacts associated with the adoption of the euro, Slovenia's lag behind the EU average decreased at a somewhat faster pace in the last year, though it is still wide given the significant original gap.

[46] Data for the EU do not include data for the United Kingdom.
[47] The volume of loans rose by 11.9% in the EU average and by 11.3% in EMU, which is up 1.9 p.p. on the previous year.
[48] The Venture Capital Companies Act (Official Gazette of the RS, No. 92/2007) ensures that the main activity of such companies shall be investment of venture capital in promising small and medium-sized businesses which are not capable of attaining sufficient resources for their development on the financial market.
[49] According to the Corporate Income Tax Act, the zero tax rate applies to venture capital companies associated with venture capital investment activity.
[50] However, the present situation on capital markets is not highly supportive of this type of financing.

2. Efficient use of knowledge for economic development and high-quality jobs

SDS guidelines: The SDS priorities aimed at efficient creation, two-way flow and application of knowledge for economic development and high-quality jobs are: improving the quality of tertiary education, promoting lifelong learning, and increasing the effectiveness and the level of investment in research and technological development.

2.1. Education and training

The trend of improvement in the ***education structure of the adult population***[51] *continued in 2007.* The share of the population with a tertiary education increased in particular last year, so that Slovenia almost closed the gap relative to the EU average. The average number of years of schooling in the adult population is increasing as well, although it is still lower than the average of the OECD countries. The improvement in the education structure has been the result of greater enrolment in education[52] and an increase in the number of higher education graduates.

In line with the objective of Slovenia's Development Strategy, ***participation of youth in tertiary education*** *is also on the increase.* In 2002–2006, the number of students enrolled in tertiary education relative to the number of the population aged 20–29 increased at a faster pace than in most other European countries and faster than the European average.[53] Furthermore, the participation of the generation at enrolment age is gradually approaching the SDS target (at least 55%).[54] The high participation rate may reflect the postponement of entering the labour market, which increases the employment prospects of individuals.[55] The high share of tertiary education students in Slovenia is probably also linked to other factors, such as the absence of tuition fees for full-time students, the possibility of subsidised meals and work through student job agencies. In our estimate, all these factors reduce the efficiency of studying to some extent, since knowledge acquisition is not the only motive for participation in education.

The ratio of students to teaching staff[56] *is high and reduces the possibility of a greater* ***quality of studies.*** The rapid increase in the number of students enrolled in tertiary education in Slovenia was also followed by an increase in the number of

[51] See the indicators *Share of the population with a tertiary education* and *Average years of schooling of the adult population.*
[52] The share of young people aged 20–24 enrolled in tertiary education increased by 12.9 p.p. in 2000–2006 to total 45.1% in 2006, whereas the corresponding share in the EU-27 increased by 4.2 p.p. on average and totalled 28.2% in 2005.
[53] In Slovenia, the number of students enrolled in tertiary education relative to the number of the population aged 20–29 increased by 11.2 p.p. in 2002–2006 and reached 39.5% in 2006, compared with the 4.7 p.p. increase and 28.1% share in the EU-27.
[54] According to IMAD's calculations, the share of 20-year-olds enrolled in tertiary education in the academic year 2007/2008 was 54.8%.
[55] The employment rates for persons with higher education are higher than the rates of those with secondary or lower education.
[56] The ratio of students to teaching staff is one of the indicators of quality in tertiary education; a lower ratio implies a higher quality.

teaching staff. However, the number of students per teaching staff has not changed significantly over the past few years and still falls significantly short of the comparable ratios of most European countries.[57] Greater international mobility of students[58] and university teachers, which is currently still modest, would also contribute to higher quality of tertiary education. Given the importance of the quality of education for economic development, the implementation of changes regarding the quality of study programmes will have to be continued in the future.[59]

The poor possibilities for a quality teaching process and other motives for participation in education affect the ***efficiency of studies****, which remains low.* The share of undergraduate university graduates who needed more than five years from enrolment to graduation increased to 79.2% in 2006.[60] The total share of repeat students at university undergraduate courses is declining,[61] but percentages of repeat students in the first year of study in some higher education institutions are still high. Compared with other European countries, the average duration of study in Slovenia is among the highest, while survival rates[62] are lower than in most other European countries. In view of the fact that Bologna study programmes are currently being introduced, the duration of study is expected to shorten over the coming years. At present, the number of graduates from Bologna programmes is still small and their impact on the average duration of university undergraduate programmes negligible.[63]

Participation in lifelong learning*, which is important for the employability and productivity of individuals, is relatively high in Slovenia.* However, participation of the elderly and less educated is more modest. According to the labour force survey, participation in lifelong learning[64] declined for the third consecutive year in 2007 to 14.8%, which is nevertheless still well above the EU-27 average (9.7% in 2007) and also higher than in 2003. The modest participation of the less educated and elderly presents a challenge with respect to economic development and population ageing.

Slovenia's ***education expenditure*** *is relatively high, owing to the high participation of young people in education.* Total public expenditure on education, expressed as a percentage of GDP, has not changed significantly over the past few years. It is well above the average EU level but falls short of Scandinavian countries. Transfers to households make up a major share of total public expenditure, although they have been contracting year by year.[65] Slovenia also ranks high according to the

[57] For details, see the indicator *Ratio of students to teaching staff.*
[58] The share of foreign students in the total number of students in Slovenia was 1.3% in 2006/2007, one of the lowest in comparison with other European countries.
[59] As proved by Hanussek, Wossman, 2007, for example.
[60] 77.7% in 2005.
[61] Dropouts amounted to 12.4% in the academic year 2006/2007.
[62] The ratio between the number of graduates in a given tertiary education course and the number of freshmen enrolled *N* years ago, expressed as a percentage.
[63] In the academic year 2007/2008, the share of students enrolled in Bologna courses was 24.8%.
[64] The indicator measures the participation of the population aged 25–64 in education and training in the four weeks preceding the survey. The indicator is calculated on the basis of the annual average and does not refer to just one quarter of the year. This change in the calculation was introduced in October 2006. The European Commission has called attention to the methodological faults of the indicator. The measurement of participation in education and training in the final weeks preceding the survey is particularly problematic, which means that results strongly depend on the time of surveying.
[65] See the indicator *Total public expenditure on education.*

percentage of total expenditure on educational institutions. Within that, the share of private expenditure is falling, yet at the tertiary level it is still among the highest in the EU.[66] The tertiary level shows a less favourable picture regarding the level of expenditure per student, which has declined further in recent years, notwithstanding the considerable lag behind the EU average. The gap between the high total expenditure on educational institutions and the low annual expenditure per student in comparison with other European countries is closely linked to the high participation rates in tertiary education.

The rising participation rates in tertiary education go hand in hand with ***the employment problem for young graduates****.* Kramberger (2007, p. 129) believes that the "matching problem"[67] could explain the reasons for the difficulties of young people in their transition from school to work. An international comparison of the success rates in the increasingly difficult breakthrough of young graduates to safer jobs for 2000 found that the problem was not acute in Slovenia if we compare the employment rate of all first-time job seekers. However, Kramberger (2007) estimates that the situation deteriorated from 2000 to 2005. On balance, demand for workers with a tertiary education is rising at a slower pace than the number of graduates. The absorption capacity of the economy[68] was low in the period 1999–2003, but is estimated to have increased for university graduates since 2004 and to have exceeded 100%. The mismatch between supply and demand, which causes difficulties in the hiring of young graduates and increases the number of registered unemployed with a tertiary education, is thus turning into a largely structural problem. The issue of youth employment is also related to the high share of social science graduates, where supply exceeds demand. The number of registered unemployed with a tertiary education decreased somewhat in 2007, although not as much as total unemployment, and it still remains 50.1% higher than in 2000 on average.

Structural problems on the labour market *are related to the structure of enrolment in secondary schools and tertiary education, although in tertiary education positive shifts have already been observed.* In the structure of students enrolled in secondary schools, the share of those enrolled in grammar schools recorded the largest increase in the period 2000/2001–2007/2008. The share of students enrolled in four- or five-year technical programmes and other technical schools, which has been gradually increasing since the academic year 2001/2002, was also somewhat higher, whereas the percentage of students enrolled in two- and three-year secondary vocational programmes dropped significantly in 2000/2001–2007/2008.[69] These developments have translated into a deficit of certain occupation profiles on the labour market. The structure of enrolment at the level of tertiary education reveals the persistence of the long-term problem regarding insufficient interest in the study of science and

[66] See the indicator *Public and private expenditure on educational institutions.*

[67] According to Kramberger (2007, p. 128), the "matching problem" arises when people with similar skills begin to spread across very different occupations. In case of excessive spreading, the original knowledge gets lost rapidly. Conversely, if the dispersion is too low (specific knowledge predominates in jobs), the hiring of new employees may stall.

[68] Defined as the ratio of the number of replacement posts and new jobs with the required level of education to the number of graduates with the same level of education in a calendar year.

[69] The percentage of grammar school students increased by 7.4 p.p. to 39.8%, of students enrolled in four- and five-year programmes by 2.1 p.p., while the share of students in two- and three- year programmes fell by 10.4 p.p. to 17.1%.

technology subjects,[70] where the percentage of enrolled students totalled 22.5% in the academic year 2000/2001, increased to 24.1% in 2007/2008, and at 21.1% fell short of the EU average (24.0%) in 2006 (the latest comparable data for the EU). The positive side is, however, that the number of students enrolled in these programmes is increasing. These problems were also identified in the Resolution on the National Programme of Higher Education adopted in 2007, which foresees certain policies and measures to further increase interest in science and technology programmes.[71]

Over the last few years, Slovenia has already made certain steps to improve the quality of education in line with SDS. The Resolution on the National Programme of Higher Education of the Republic of Slovenia 2007–2010 was adopted in November 2007. A reform of vocational college programmes was carried out as well, and the credit point system introduced. Decentralisation of higher education is already underway. The network of higher education institutions is expanding, yet for now most new universities specialise in social sciences rather than natural and physical sciences, as was envisaged in SDS. Changes in the financing of higher education, aimed at rewarding research work that has a link to the users of research results, were also foreseen for 2006 according to the SDS action plan, although they have not been implemented yet.

2.2. Research, development, innovation and use of information-communication technologies

Developments in research and development (R&D) in the last two years (2005–2006) indicate several positive shifts, given that Slovenia has been reducing the development gap in this area. **Gross domestic expenditure on R&D** as a share of GDP has been increasing since 2004. The greatest progress was made in 2006, when the share reached 1.59% of GDP. Since 2003, the growth of R&D spending in Slovenia has exceeded GDP growth, which has been relatively high, while the expenditure on R&D as a share of GDP in the OECD and EU countries stagnated. Consequently, Slovenia reduced its lag behind the EU-27 average to 0.25 p.p., which is the smallest gap thus far. As in previous years, Slovenia allocated the highest percentage of GDP for R&D among the new Member States and also outperformed some old Member States.[72] Notwithstanding these favourable trends, Slovenia, like the EU as a whole, will probably need a longer period than originally planned in development programmes to achieve the Barcelona target of 3% of GDP.[73]

[70] The science and technology field comprises enrolment in the fields of science, mathematics, computing, engineering, and manufacturing and construction technologies.
[71] The Resolution (Official Gazette No. 94/2007) foresees a differentiated scholarship policy (scholarship supplements for the field of education have already been foreseen in the new Scholarship Act, which will be implemented in autumn 2008), appropriate criteria for financing higher education institutions aimed at encouraging enrolment in science and technology studies and health programmes, and measures to increase the interest of young people in natural science and to encourage young researchers to take up research and teaching positions in the higher education institutions and the business sector.
[72] See the indicator *Gross domestic expenditure on research and development.*
[73] Investment in R&D should reach 2% of GDP in the business sector and 1% of GDP in the public sector.

Positive changes were also recorded in the ***structure of R&D funding*** *in favour of the business sector, partly as a result of economic policy measures.* The business sector posted the largest real increase in R&D expenditure in 2006 (22.6%), after its R&D spending largely stagnated in 2003–2005 (on average, in real terms). The business sector also provides the major share of funding in total expenditure on R&D (59.3%). However, in the most advanced EU countries, where total R&D expenditure is also much higher than in Slovenia, the business sector finances a much greater proportion of investment in R&D.[74] Along with the increase in the business sector expenditure on R&D, the relative share of researchers employed in that sector is gradually growing as well.[75] Nonetheless, the structure of researchers still diverges considerably from the EU average, where the share of researchers in the business sector is almost 50%. As in other developed countries, although relatively late, the support policy promoting investment in R&D in Slovenia is partly refocusing from direct R&D support in the business sector to tax relief schemes and the reinforcement of links between the research sphere and the enterprise sector. Thus, the large increase in the business sector expenditure on R&D in 2006 is partly attributable to the introduction of higher tax relief for R&D through the extension of eligible costs for this relief, which increased more than 20-fold in 2006 relative to 2005.[76]

The number of Slovenian ***patent applications*** *at the European Patent Office (EPO) is increasing, thereby narrowing the gap relative to the EU average.* In 2000–2004,[77] Slovenia increased the number of patent applications per million inhabitants from 25.5 to 53.8 and holds 13th place in the EU-27. Slovenia is ahead of all new and some old Member States, which is understandable, given that countries with higher R&D expenditure also have more patent applications (Key Figures, 2007). Although Slovenia's gaps behind the EU-27 average (112 applications per million inhabitants) as well as the most developed countries are enormous (e.g. Germany: 282), the fact that this gap was halved in Slovenia in the analysed period should be highlighted as a notable achievement.

Innovation activity of companies *increased significantly in 2004–2006 compared to the previous period, particularly in services.* The latest available data for 2004–2006 show that 35.1% of Slovenian companies were innovation-active. According to the latest figures for the EU, which are available for the period 2002–2004, the share of innovation-active companies averaged 39.5%. The greatest progress regarding innovation activity was recorded in services, where the share of innovation-active companies rose from 16% in 2002–2004 to 26.8% in 2004–2006. The progress is encouraging especially in light of the data for the previous period, which indicate a

[74] E.g. in Germany and Finland (2005: 67.6% and 66.9%, respectively).
[75] 38.8% of all researchers in 2006.
[76] According to the Ministry of Finance, the level of tax relief in 2006 amounted to as much as SIT 13.9 bn, compared with just SIT 0.6 bn in 2005. This surge was the result of the extension of eligible costs for claiming relief. Pursuant to the Corporate Income Tax Act, which entered into force on 1 January 2006, eligible costs comprise not only purchases of equipment for R&D but also outsourcing of R&D services and costs of intramural R&D activities. In 2007, the positive effects of tax relief for investment in R&D continued, as it totalled EUR 60.6 m or SIT 14.5 bn according to the preliminary data. In addition, regional tax relief for R&D also has to be taken into account, which totalled EUR 5.7 m or SIT 1.3 bn (Preliminary data of the Ministry of Finance on incentives for R&D in 2007, 2008).
[77] Data for 2004 are provisional.

significant gap with the EU particularly in innovation activity in services.[78] However, there is still considerable room for improvement in this area, as the understanding of innovation in Slovenia is primarily focused on technological changes, whereas innovation processes in the service sector are less known. An overview of the existing innovation-supporting measures and mechanisms shows that they do not promote innovations in services, which are mostly organisational in nature or refer to changes in marketing models. Furthermore, the tender documentation which has to be submitted by the applicants, as well as the evaluation criteria are largely oriented at technological innovation, which makes it more difficult for service companies to apply (Stare, Bučar, 2007a).

In order to improve results in R&D, patents and innovation activity, a sufficient number of ***science and technology graduates*** *is particularly critical.* The situation in this area has been improving in Slovenia, albeit relatively slowly. The number of science and technology graduates increased in 2000–2007,[79] but the increase was smaller than in most other European countries.[80] Slovenia is lagging behind the EU averages in terms of both the number of science and technology graduates per 1,000 inhabitants and the proportion of these graduates to the total number of graduates.[81] The main problem in providing sufficient supply of these graduates to the labour market is the slow increase in their number, since their share contracted considerably in 2000–2007, when the total number of graduates in tertiary education rose rapidly. Therefore, both the enrolment levels and the quality of study in science and technology programmes should be raised further in the future. The response of policy makers (adoption of measures to increase enrolment in science and technology programmes) is reflected in the new Scholarship Act, which will to a certain extent promote enrolment in undersubscribed study fields. Companies that need science and technology graduates should also assume a more active role in encouraging young people to study these fields.

In the area of ***information and communication technologies*** *(ICT), broadband Internet access of households increased significantly, whereas the spread of Internet use slowed somewhat.* In the first quarter of 2007, 53% of people in Slovenia aged 16–74 were using the Internet, 2 p.p. more than the year before. However, Internet use in the EU spread even faster and climbed to 57% in 2007. As a result, Slovenia's lag behind the EU increased for the first time.[82] The slowdown in the spread of Internet use in Slovenia is also evidenced by the fact that in 2007 three new Member States overtook Slovenia in terms of the Internet penetration rate, whereas only Estonia did better in 2006. One of the reasons for such trends is the composition of Internet users. In Slovenia, less educated and elderly people use the Internet to a much lesser extent than in the EU, whereas Internet use among the

[78] The figures for 2002–2004 show that Slovenian service companies lag behind all EU Member States except Bulgaria according to this indicator. Business services that intensively use information and communication technologies and knowledge show the highest innovation activity among all types of services. In other EU countries, companies in this sector reach at least the same level of innovation activity as manufacturing companies; Slovenia and Cyprus are the only exceptions (see also Section 1.3.1.).

[79] The number of graduates in these fields increased in 2007 compared to 2006.

[80] Meanwhile, Slovenia ranges among the top half of European countries according to the increase in the number of students in these fields.

[81] See the indicator *Science and technology graduates.*

[82] Internet use also rose in all EU countries except Denmark and Sweden, which had the highest shares of Internet users (over 80%) in 2006.

young and highly educated is above the EU average. On the other hand, Slovenia tops the EU average as regards Internet access of households. It is also encouraging that Internet access is rising largely on account of the increasing broadband Internet access.[83] As many as 44% of Slovenian households had broadband access in 2007, slightly more than households in the EU. This will provide a good starting point for greater ICT use, as global trends increasingly favour broadband Internet access that enables the use of a wide range of e-services. Internet use provides the basis for progress in various areas, from science, business organisation, environmental monitoring and transport control to education, health care[84] and e-government, among others. These are also the areas which will in the future attract the widest possible circle of new service users. Although Slovenia has made some progress in introducing e-government and provides a wide range of e-services, the number of users of these services, with the exception of business customers, did not increase in the last year.[85]

Slovenia has in the last years made progress in the area of investment in research and development activity, while its future challenge is to achieve the highest efficiency of funds allocated for investment in knowledge. Slovenia has already adopted a number of measures for the effective creation and transfer of knowledge to the enterprise sector, but the implementation of these measures has so far been rather slow. This was also pointed out in the European Commission's 2007 report on implementation of the Lisbon Strategy, urging Slovenia to develop a research and innovation strategy and to strengthen its efficient implementation.[86] To promote this process, the Competitiveness Council was set up at the beginning of 2008 (Official Gazette, No. 14/08) aimed at improving cooperation between the business sector, research institutions and government in the area of formulating and implementing policies to promote technological development. Ten development groups were set up to formulate programmes in specific fields for the allocation of public funds. Further progress in the efficiency of research and development investment can also be achieved through the evaluation of impacts of the adopted measures and formulation of a comprehensive and stable innovation policy framework with a clear delineation of competences among various ministries and agencies, and their coordination[87] (INNO-Policy TrendChart Report on Slovenia, 2007).

[83] This is partly linked to major investments in communication infrastructure, as confirmed by Eurostat data: in 2004–2006, Slovenia increased its investment in communications as a share of GDP from 3.2% to 3.6%, while total expenditure on investment in ICT increased from 5.3% to 5.8%, which ranks Slovenia above the EU average.
[84] With regard to future developments and given the population ageing, it should be taken into account that searching for health-related information has become one of the most frequent uses of the Internet by the adult population (OECD Science, Technology and Industry Scoreboard, 2007).
[85] See the indicator *Internet use.*
[86] Recommendation of the Council of Europe on the 2008 update of the broad economic policy guidelines of the Member States and the Community and on the implementation of the employment policies of the Member States, March 2008.
[87] For example, there are considerable differences in the public calls of different ministries regarding the required documentation and criteria to be fulfilled by applicants, as well as regarding the evaluation procedures and selection of applicants.

3. An efficient and more economical state

SDS guidelines for the third priority cover three areas. First, structural reform of public finance comprising the reduction of general government expenditure as a share of GDP by at least two percentage points, restructuring expenditure in line with the priorities of the strategy and absorption of EU funds, and comprehensive tax reform aimed at disburdening labour, promoting competitiveness and employment, and simplifying the system. Second, increasing the institutional competitiveness and efficiency of the government, which includes the reduction of state ownership in the economy, improvement of the quality of regulations and cutting of red tape, introduction of public-private partnerships in infrastructural investment and public utilities, and increasing the efficiency of civil service. And third, improving the functioning of the judiciary by making the system more effective and reducing court backlogs.

3.1. Quality of public finance

General government expenditure *relative to GDP has been decreasing since 2001.*[88] In the last two years, the decline was even stronger than in previous years and reached the SDS target of lowering expenditure by 2 p.p. by 2008. General government expenditure contracted to 45.3% of GDP in 2006, down 2.9 p.p. from 2001, when it started to decrease. It fell by a further 2 p.p. to 43.3% of GDP in 2007. Expenditure as a share of GDP in 2007 was below the EU average, and the cutback in 2006 was greater than in the EU.[89]

The ***economic structure of expenditure*** *shows a decrease in the two largest items of expenditure – social benefits and compensation of employees.* The contraction of social benefits in cash and in kind was due to decreases in pensions and other transfers.[90] A declining trend in social benefits has been present since 2002, reflecting the effects of pension reform and, after 2004, particularly in 2007, due to the introduction of a uniform mechanism for their adjustment with inflation and changes in the payment of other transfers. The decline in the compensation of employees expressed as a share of GDP is attributable to the weak growth of wages per employee[91] and has been present since 2004, as a given percentage of earnings has not been disbursed but collected in a special reserve fund allocated to redress wage disparities. Capital transfers also posted a substantial decline (2000–2007), since this expenditure initially included all war compensation based on issued bonds, debt takeovers from the Slovenian Railways and expenditure on the net payments of due government guarantees for corporate loans. On the other hand, other current transfers increased in 2000–2007, mainly owing to obligatory payments to the EU budget since 2004. Gross capital formation has been increasing as well as a result of the co-financing of the EU budget for implementation of structural and cohesion policies. Taking into account the cutback in the share of

[88] Data for the general government are shown according to the methodology of the European System of Accounts (ESA), which enables comparison with other EU countries.
[89] See the indicator *General Government expenditure according to the Economic Classification*
[90] Family benefits and parental allowances, social security transfers, transfers to the war-disabled, veterans and victims of war, and scholarships.
[91] Compared with 2005, they increased by 1.5%, while the number of employees increased by 1.3%.

capital transfers, the share of publicly financed investments relative to GDP actually decreased.

A major part of the contraction in ***general government expenditure according to the Classification of the Functions of Government*** *relative to GDP in 2001–2006 (the latest available data) is attributable to cutbacks in expenditure on general public services, followed by expenditure on health and social protection.* Expenditure on general public services decreased throughout the period, most notably in 2002 and 2006. A decline in health spending was observed in 2003–2005, whereas the level of this expenditure remained unchanged from 2005 to 2006. Social protection expenditure contracted in the last two years, mostly in 2006. A slight decrease was also recorded in other functions, except expenditure on defence and on recreation, culture and religion, where a slight increase was observed in the last few years, as well as housing and community amenities and education, where expenditure as a share of GDP remained unchanged in 2001–2006. Compared with other EU countries, Slovenia was ranked third in 2005[92] regarding expenditure on education, while it spent less than the average on housing and community amenities and environmental protection.

Until and including 2006 (the latest available changes), ***changes in the structure of general government expenditure*** *aimed at achieving the SDS objectives and absorbing EU funds were minimal,* partly due to the fact that some activities were redirected from the general government sector to other institutions and other general government instruments (tax relief schemes, loans, guarantees, etc.) not covered by general government expenditure. More significant changes can be expected in the coming years, as the proposed and partially adopted development programmes spanning up to 2009 provide for an increase in the proportion of development-oriented expenditure in the structure of total expenditure.[93] No major public-private investment projects have been carried out thus far, but the institutional bases for the implementation of such projects have already been adopted. Implementation of certain projects in public-private partnership is also foreseen in the Resolution on National Development Projects for the Period 2007–2013.[94]

In the area of ***industrial policy****, subsidies are again on the increase.*[95] *The subsidies for agriculture are growing at the fastest pace.* In 2007, subsidies in Slovenia were more than a third (36.4%) higher than the EU-27 average,[96] and agricultural subsidies rose to more than half of all subsidies. Non-agricultural subsidies are gradually undergoing positive shifts – subsidies regarded as effective boosters of economic growth and development are gaining in importance in the national budget (subsidies for technological development and small and medium-sized enterprises). The allocation of subsidies to recipients[97] (especially for companies) remains

[92] For 2006, complete data are not yet available.
[93] National Development Programme of the Republic of Slovenia 2007–2013, 2008.
[94] The foreseen projects from the Resolution are already included in the plan of development programmes in the budgets of the RS for 2008 and 2009.
[95] Official data on subsidies show highly varied trends. According to the national accounts, subsidies declined from 2000 to 2005, increased somewhat in 2006 and decreased again in 2007 (Main Aggregates of the General Government, 2008). However, according to financial statistics, they have been rising since 2002 (The Balance of Public Financing in Slovenia, 2008).
[96] Slovenia: 1.5% of GDP; EU-27: 1.1% of GDP (Subsidies paid by general government, Eurostat, 2008).
[97] The analysis was done for 2003–2005 on the basis of data on business subsidies reported by companies in their

problematic. On the one hand, concentration is increasing (10% of recipients receive more than 90% of all subsidies), while on the other, subsidies are highly fragmented (many recipients are granted merely symbolic amounts). Moreover, the recipients of large subsidies increasingly include companies that have potential market power in their area of activity,[98] and the effectiveness of subsidies is unclear, since they are largely granted to companies whose performance falls short of that of unsubsidised companies (Murn, 2007). Subsidies to a great extent still serve as a survival mechanism for declining industries, rather than a mechanism for promoting the development of promising firms. Similarly, those agricultural subsidies that are classified as state aid[99] in Slovenia are largely used to subsidise current activities and to repair damage, while they are generally intended for investment in the European Union, particularly in some Member States (State Aid Scoreboard, 2008).

Estimates regarding the ***burden of taxes and contributions*** *for 2006 and 2007 indicate the first effects of tax reform.* In 2006 and 2007, on the basis of the guidelines set out in Slovenia's Development Strategy, the government adopted a number of amendments to tax regulations (regarding personal income tax, payroll tax, corporate income tax and tax procedures), aimed at reducing taxes on labour and simplifying procedures. Data for 2005 (the latest official figures)[100] do not yet reflect any changes in the tax burden,[101] but IMAD's preliminary estimates for 2006 and 2007 show that the total tax burden remained roughly the same but that the economic structure of taxes and contributions changed. Taxes on labour decreased owing to the gradual phasing out of the payroll tax and the first effects of amendments in the area of personal income tax. Taxes on consumption increased slightly, mainly due to changes in excise duties, while taxes on capital rose as a result of the changed regulations and higher taxable income from corporate tax.[102]

3.2. Institutional competitiveness

In the area of ***privatisation,*** *the gradual withdrawal of the state from company ownership continues, but the state remains one of the main direct and indirect* ***owners in Slovenian enterprises****.*[103] Following the guidelines of Slovenia's Development Strategy, in July 2006 the government adopted a programme of ownership withdrawal from companies in which it is an indirect owner. The plan foresees the withdrawal of KAD (Kapitalska družba – Pension Fund Management) and SOD (Slovenska odškodninska družba – Slovenian Restitution Fund) from active ownership management of companies. Specifically, KAD and SOD are to withdraw from investments in non-listed companies within 30 months and from investments in listed companies within 24 months, while there is no deadline for strategic investments (18 companies). Advisory panels were also appointed to

annual accounts.
[98] At least a 40% share in their area.
[99] The evolution and structure of state aid are shown in the indicator with the same title.
[100] Calculations of the European Commission on the economic structure of taxes and social security contributions for all EU members according to a uniform methodology. The latest data are available for 2005 (Taxation trends in the European Union — Main results; European Commission for taxation and customs, Eurostat, European Commission, 2007).
[101] See the indicator *Economic structure of taxes and contributions.*
[102] See also Slovenian Economic Mirror – General Government Revenue, 1/2008.
[103] See also Development Report 2007, p. 43, Table 1.

prepare privatisation programmes for four leading Slovenian companies (Telekom, Triglav Insurance Company, NLB bank and NKBM bank). The withdrawal of the state from company ownership takes place at a faster pace in the case of KAD and SOD portfolios (see Tables 2 and 3), while in the case of direct state ownership shares in enterprises the first moves have been made. Both the state as the owner and KAD and SOD have mainly been selling investments in non-listed and listed companies,[104] whereas the withdrawal of the state from the largest companies has been slower[105] and some of the privatisations of these companies already begun are being postponed.[106]

Table 2: **Pension Fund Management: Overview of cumulative sales and stock (as on 31 December) in 1999–2007**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Fully sold companies – cumulative	553	862	945	997	1043	1093	1127	1181	1226
No. of companies in the year-end balance sheet*	735	458	385	353	312	265	210	160	112

Source: Pension Fund Management.
Note: * The decrease in the number of companies in year-end balance sheets may differ from the number of sold companies in the same year due to free transfers, swaps, purchases or removals from the company register.

Table 3: **Slovenian Restitution Fund: Overview of the stock of capital investments and sales in 2004–2007**

STOCK			SALES		
	No. of investments	No. of active investments*		No. of sold** investments	Sale value of investments (EUR m)
31. 12. 2004	227	179	2004	43	76.1
31. 12. 2005	194	151	2005	37	111.7
31. 12. 2006	134	102	2006	57	85.2
31. 12. 2007	86	56	2007	47	225.8

Source: Slovenian Restitution Fund.
Notes: *Capital investments in companies that are not involved in a bankruptcy procedure, and capital investments in which no sales contract was signed. ** A sales contract was signed.

Activities under ***better regulation policy,***[107] *launched in 2006, continued in 2007* (Development Report 2007). A permanent government interministerial group for the preparation of better regulations and reduction of the administrative burden was established.[108] At the end of 2007, a concept of a new methodology for the

[104] In 2005–2007, the number of companies owned by KAD and SOD declined from 210 to 112 (65 investments in non-listed companies, 31 in listed companies and 16 strategic investments) in KAD and from 151 to 56 (active investments) in SOD.
[105] On 17 February 2007, the state was a direct shareholder in 107 companies. In 2006, it sold its ownership shares in 27 companies in a total value of EUR 27,187.06. In 2007, it sold its shares in 19 companies in an amount of EUR 105,035,979.87. Within that, the sale of the 55.35% share in Slovenska industrija jekla (Slovenian Steel Group) alone was worth EUR 105 m. Another major deal was the sale of the 49% state share in the NKBM (Nova kreditna banka Maribor) at the end of 2007, which brought in EUR 309 m. In the last two years, there were therefore only two major deals in which direct ownership shares of the state were sold.
[106] The sales procedures for 20 direct and five indirect investments, whose acquisition price is not revenue of the national budget, are currently underway. The sales of direct investments include Telekom, Nafta Lendava and NKBM, while state ownership shares in the remaining companies are less than 1%. In all of the planned sales of indirect investments, the state is a major shareholder (Ministry of Finance, 2008).
[107] The assessment of the situation in Slovenia and of development guidelines of better regulation policy was also included in the OECD SIGMA Report 2006.
[108] This area was handed over from the permanent group from the interministerial working group for industrial

assessment of regulatory impacts and harmonisation of regulations with the interested public was proposed. Among other activities, the new methodology is foreseen to be used for initial and final assessment of regulatory impacts on the economy, the environment, welfare and the budget, and for harmonisation of government documents with the interested public. Following the recommendations of the European Commission and the OECD, Slovenia should also separate its policy-making procedures from bill-drafting procedures and set up a central institution responsible for better regulation in the future.

Improvements regarding the ***reduction of the administrative burden and costs*** *in 2007 included the development of methodology for their measurement and the adoption of a package of measures.* In 2007 the methodology for measuring administrative costs (SCM)[109] was confirmed, and the first evaluations of the measures and legislative changes were carried out.[110] Implementation of the pilot project aimed at reducing occupational safety costs started as well. A programme aimed at the reduction of the administrative burden by 2010 was adopted at the end of 2007. It consists of three parts: the first comprises 44 measures for the reduction of the administrative burden, the second refers to the reduction of obligations in the area of collecting statistical data and various reports, while the third is a programme aimed at cutting administrative costs in priority areas by 25% by 2012.

In the area of ***e-government and registers****, the first analyses[111] of the performance of e-government and the monthly quality barometer, as well as the necessary changes that will increase customer orientation and the implementation of the e-government strategy adopted in 2006, were carried out in 2007.* Since 2006, citizens have been able to use an electronic portal for e-government services, while all institutions in the public sector can use the system for electronic delivery of documents to citizens free of charge. The payment of administrative fees and other costs of online services is also electronically supported. The validity of documents can be extended online through e-extension, which is linked to the online renewal of car insurance. The use and exchange of electronic data between registers has increased. The registers (the business register and the company register) are to be merged, and a register of property is planned to be set up. These extensive activities are already showing results – Slovenia is ranked third among all Member States in terms of available e-government services.[112]

policy and competitiveness, which was organised at the Ministry of the Economy.

[109] The common methodology for measuring administrative costs – Standard Cost Model – was developed in the Netherlands. The model is already successfully being applied in several European countries, and the European Commission is developing its own methodology, modelled on the SCM.

[110] More than 1000 regulations were reviewed; measures for simplifying the process of granting various permits and other procedures by way of information technology were carried out. According to the Ministry's estimate, the amendments to the Personal Data Protection Act aimed at reducing the administrative burden created EUR 36 m of savings for business entities, while the average cost of awarding one-off large public procurement contracts declined by a factor of 11, from EUR 59 to EUR 5.4. Through the simplification and changes in the legislation governing the employment and work of foreigners, the administrative burden decreased by EUR 2.1 m at the annual level.

[111] A prototype for computer-supported measuring of e-government performance was developed.

[112] E-government availability – supply side (Eurostat), 2008.

On the other hand, changes in the areas of better regulation and reduction of the administrative burden have not yet been indicated in the aggregate ***indexes of institutional competitiveness (government efficiency)***. Even though Slovenia's competitiveness increased significantly according to the latest IMAD estimate, the estimate of government efficiency,[113] measured by the aggregate indices of the *IMD* and *WEF*, has not changed yet. The *World Bank,* in its *"Doing Business" report on the ease of doing business*, which monitors the efficiency of business regulations for limited liability companies and protection of property rights, shows stagnation in Slovenia in 2007 in comparison with the EU-27, and a lack of changes. As at the beginning of 2008, the "one-stop-shop" (e-VEM) approach was also introduced for limited liability companies,[114] we nevertheless expect that Slovenia will achieve better results next year.

3.3. Efficiency of the judiciary

The ***court backlog*** *is being reduced gradually and shows satisfactory shifts towards the realisation of the Lukenda Project goals by 2010.* The backlog (excluding misdemeanour cases) as defined by Article 50 of the Court Rules,[115] contracted by 1.6% in 2007 compared to 2006, at higher courts by 37.4%, at district courts by 4.5% and at county courts by 1.2%.[116] All courts together reduced the court backlog of major cases excluding misdemeanour cases by 11.1%. In all, 57.6% of courts reduced the court backlog including misdemeanour cases in 2007, and the backlog of major cases by as much as 54.6%. The number of pending cases has been declining as well and decreased in 2007 by 11% in major cases including misdemeanour cases (by 8.7%, excluding misdemeanour cases). The project of eliminating court backlogs (Lukenda Project) was fully realised by all four higher courts, all eleven district courts, thirteen county courts and two labour courts, which amounts to 30 out of all 66 courts. This means that as many as 45% of all Slovenian courts already realised the Lukenda Project goal in 2007.

Looking at all cases including misdemeanour cases, the courts settled somewhat fewer cases in 2007, while the number of settled major cases including misdemeanour cases increased. In 2007, the courts thus settled 3.1% fewer cases out of the total number of cases including misdemeanour cases, but the number of settled major cases increased by 6%. The decline in the number of settled cases per judge may be attributed to the courts' decision to eliminate court backlogs and settle older cases at a more intense pace. This is also expected to reduce the number of claims for payment of compensation for infringement of the right to trial within a reasonable period of time.

[113] Indices that define institutional competitiveness are: government efficiency – institutional framework, business legislation, social framework.
[114] The one-stop-shop portal e-VEM for sole proprietors was set up in mid-2005.
[115] Sodni red (Court Rules), Official Gazette of the Republic of Slovenia, No. 17/1995 and further amendments.
[116] In the period 2005–2007, higher courts reduced the court backlog by 60%, district courts by 15.3% and country courts by 6.3%.

4. A modern welfare state and higher employment

SDS guidelines: Maintaining and improving the achieved level of social security and the quality of living and health is an important social value endorsed by SDS. The transition from a welfare state to a welfare society requires a more efficient welfare state, greater responsibility of citizens themselves, promotion of the activities of individuals, stronger public-private partnerships, and a more diverse and partly competitive range of social services. At the same time, it also calls for stronger social cohesion, improved access to social protection systems, healthcare, education, culture and housing, and special care for the most vulnerable groups of the population. Social protection systems must be adapted to the needs of the long-living society. At the same time, it is necessary to reduce social risks, poverty and social exclusion. The sustainable increase in welfare and quality of life appears to be strongly underpinned by a higher employment rate, which will be achieved mainly through economic growth and investment in knowledge.

4.1. Increasing labour market flexibility

Employment and unemployment trends were very favourable in 2007. According to the Labour Force Survey, the number of people in formal employment rose by 2.5% in 2007. Employment growth was largely related to the acceleration of economic growth. The employent rate (population aged 15–64) increased to 67.8% in 2007. The employment rate of the elderly (55–64 years) is still low and among the lowest in the EU. The number of registered unemployed in 2007 was 16.9% lower, on average, than in 2006. The long-term unemployment rate continues to decrease (after achieving its 10-year high, 4.1%, in 2000, it dropped to 2.2% by 2007), but the share of long-term unemployed is still high and exceeded 50% of registered unemployed persons as late as at the end of December 2007.

The position of ***women in the labour market*** *ceased to worsen in 2007.* The gap between the surveyed unemployment rates of women and men, which widened from 0.5 p.p. in 2000 to 2.3 p.p. in 2006, narrowed to 1.8 p.p.[117] in 2007. Similarly, the long-term unemployment rate of women, which in 2006 even increased, declined again in 2007.

Labour market flexibility *measured by the prevalence of part-time and temporary employment in total employment is increasing*, but mainly among the young. Against the background of accelerated economic growth, flexible forms of employment increased markedly after 2003. In the area of part-time employment, the increase is also a result of the possibility of enforcing the right to part-time employment, provided to parents by the Parental Protection and Family Benefit Act for easier reconciliation of work and family life. The highest share of flexible forms of employment was recorded in the age group 15–19 and decreases gradually with age. To a certain extent, the high share of flexible forms of employment among young people is also a result of the employer-friendly system of student work. This has resulted in a notable age segregation of the labour market, which is much more flexible for the young. Young people thus face higher uncertainty with regard to

[117] Eurostat data (Eurostat portal page – Population and social conditions, 2008)

employment stability, which can impact their life decisions, including the decision to start a family.

Box: **Flexicurity concept**

For a long time the Danish concept has been regarded as a model for the flexicurity approach. It is usually presented in the form of a so-called "golden triangle", combining: a) non-restrictive employment protection legislation, b) a high level of expenditure on active employment policy with a strong activation role, and c) a generous system of unemployment benefits.

The success of the Danish concept has led to the formulation of a definition of the flexicurity concept[118] in EU policies, according to which flexicurity is a combination of four components that through interaction provide a dynamic labour market as well as security for each individual:
1) contractual arrangements based on modern labour laws, which are flexible from the perspective of both the employer and employee, and which reduce labour market segmentation and illegal work; wages tied to productivity;
2) effective active employment policy, which helps people cope with unemployment and eases transitions to new jobs;
3) reliable and flexible lifelong learning strategies to ensure adaptability and employability of workers;
4) modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility.

*Development towards **flexicurity**, which is also one of the SDS goals, requires a comprehensive approach based on a combination of all four components (see box).* The amendments to the Employment Relationship Act (ERA) adopted in 2007 place special emphasis on the component of ensuring flexible contractual arrangements. In the area of lifelong education, Slovenia has adopted a strategy of lifelong learning, and we also expect the adoption of the operational programme for its implementation. The participation of the elderly and less educated persons in lifelong learning in terms of the adaptability and employability of workers is still low. The share of unemployed persons participating in Active Employment Policy Programmes almost halved in 2007.[119] The active employment policy's challenges are to increase its role in activating the unemployed and providing targeted measures from the perspective of both the employer and employee, and at the same time to increasingly focus on the prevention of unemployment (education and training of those still employed), which is also foreseen in the amendments to the ERA. In the recent period, the social security system saw changes that tightened the conditions for receiving unemployment benefits and social assistance, while the anticipated changes to encourage employment of inactive people and staying in employment longer were not carried out.[120] Certain positive changes have been observed in balancing work and family obligations, mainly through the possibility of paid (as well as unpaid) absence from work after the birth of a child and for childcare,[121] and

[118] Towards Common Principles of Flexicurity – Council Conclusions, 6 December 2007
[119] To increase transparency of the active employment policy, the plan of its implementation should also include the foreseen number and share of the unemployed and not only the amount of funds.
[120] See Section 4.2.
[121] In all, 17,534 parents used one of the forms of parental compensation in 2005 (3.3% more than the year before). According to SORS data, more than 30% of children younger than 15 years stayed in kindergartens, in afterschool day care or were looked after by nannies while their parents were at work; 25% of children were looked after by

as a result of a parenthood-friendly climate and flexible forms of employment provided in some companies.[122] In line with the principles of the flexicurity model,[123] greater progress will have to be made as regards equal access of men and women to employment.

4.2. Modernising social protection systems

*In 2007, **social protection systems** did not change in terms of further adjustment to demographic changes and the increasingly diverse forms of activities.* According to the Framework of Economic and Social Reforms for Increasing the Welfare in Slovenia, changes were foreseen in pension, healthcare and long-term care systems to ensure the long-term fiscal and social sustainability of these systems and more efficient management of public sources, and to improve the accessibility and quality of services. Numerous professional preparations and coordination with social partners have taken place over the past few years, as well as in 2007, in all three areas, but the changes have not yet been implemented.

***Expenditure on social protection**[124] increased somewhat according to the most recent available data for 2005,[125] although it decreased again as a share of GDP.* In comparison with the year before, it rose by 3.9% in nominal and 1.4% in real terms. The relatively low real growth is attributable to expenditure in the two largest categories of social protection, which remained at the same level in real terms. These categories are old age and sickness/healthcare, which constitute almost three quarters of the total social protection expenditure. The social protection expenditure as a share of GDP accounted for 23.4% of GDP, which is less than in the entire period since 2000. The share decreased as a result of faster GDP growth and certain systemic changes (pension reform), as well as for other reasons (streamlining healthcare expenditure, reducing unemployment), which was reflected in slower social protection expenditure growth.

*The results of **pension reform** in 2000 are still positive, but further adjustments of the system appear to be more and more necessary.* The average exit age from the labour force in Slovenia is 1.4 years below the EU average. Incentives for staying active longer provided in pension legislation are low. The average age of new pensioners is not increasing significantly any longer and is even decreasing in men.[126] The average period of receiving pensions is rising faster than the

one of the parents, a good 20 % by relatives, neighbours or friends, whereas almost 18% of children of that age were left unattended. In 2004, 5% of persons aged 15 to 46 years were absent from work at least once due to the absence of other form of child care. Almost 20% of persons taking care of a sick, disabled adult or elderly person would opt for part-time work to be able to provide appropriate care of adult members of their families that need help. In 2005, 80% of employed persons were able to get a day off to attend to family obligations; the same number of persons were able to come to work later or leave earlier.

[122] In 2007, 33 Family-Friendly Enterprise certificates were granted for this purpose under the Equal Initiative Programme in Slovenia, while another 80 companies are in line to receive a certificate of this kind.

[123] Towards Common Principles of Flexicurity – Council Conclusions, 6 December 2007.

[124] According to the ESSPROS methodology.

[125] Expenditure and Receipts of Social Protection Schemes, Slovenia, 2005 – preliminary data (SORS), 2007.

[126] From 2000 to 2004, the average age of old-age pension recipients, granted the right to old-age pension for the first time, increased steadily under the general rules (by 1 year and 2 months for women and 1 year and 6 months for men). In 2005 and 2006 the rise stopped at 57 years and 3 (4) months for women, and 61 years and 9 (8)

retirement age.[127] The share of pension expenditure in GDP[128] continues to decline, which (in addition to GDP growth) is due to parameters determining new and old pension receipts and, consequently, decreasing the ratio of the average old-age pension to the average wage (net replacement rate). The pension expenditure and its share of GDP are also dependent on the method of pension indexation. In Slovenia, pensions are tied to the growth of wages by an adjustment mechanism. According to the regulations through 2005, the adjustment of pensions was lower than the growth of wages, while since 2006 pensions have been adjusted at the same growth rate as wages.[129] The decline in pension expenditure as a share of GDP was therefore attributable to the growth of wages, which was slower than productivity or GDP growth.[130] If wages increased faster than productivity or GDP, the rise in pension expenditure would, under the given regulations, result in its GDP share increase.

The share of people included in supplementary pension insurance schemes, as well as the level of premiums and achieved yield, are still too low to ensure social sustainability of the pension system in combination with pensions from the compulsory insurance scheme. A total of 54.65% of persons insured under the compulsory pension and disability insurance scheme are included in voluntary supplementary pension insurance. This figure has been increasing through 2005; since then the number of new insurance policies has grown at a very modest pace. The premiums[131] of the insured are too low to obtain appropriate supplementary pensions to offset the gap which will occur due to the relative decrease in pensions from the compulsory pension insurance scheme. The problem is compounded by low yield in supplementary insurance funds, mainly as a result of rigid and restrictive regulations leading to conservative investment policies, as managers of pension funds with guaranteed minimum yield are not stimulated to aim for high returns.

The healthcare system *has been partially adjusted to demographic changes; in the implementation of programmes, the main emphasis has been on streamlining expenditure.* The structure of programmes financed by public funds has undergone certain changes over the last few years. The years 2006 and 2007 saw increases in funds earmarked for programmes where waiting times have been prolonged over the last few years and in funds covering needs arising from changes in the health condition of the population.[132] The ageing of the population

months for men. Besides the general rule, which increases the age requirements for men and women, the effects of additional requirements, which reduce the basic requirement, are already visible.

[127] The average pension-drawing period for women was 17 years and 1 month in 2000, and 19 years and 3 months in 2006. The average pension-drawing period for men was 14 years and 9 months in 2000, and 16 years in 2006.

[128] In 2000–2006, from 11.24% to 10.37% of GDP.

[129] EU countries use various pension adjustment formulas. Some take account of price growth, others a combination of price growth and wages, whereas some countries consider other parameters (GDP growth) as well.

[130] Growth of wages fell short of productivity growth in 2000–2006, except in 2001.

[131] The average monthly premium per insured person is EUR 34.97 in insurance companies (gross premium), EUR 40.60 in pension companies (gross premium) and EUR 35.76 in mutual funds (net premium).

[132] It involves a substantial increase in funds for the system of non-acute hospital treatment that was introduced in 2004. According to the study (Ceglar et al., 2007), the number of patients in acute treatment increased by 10.6% in 2003–2006 and the scope of the realised programme in non-acute treatment by as much as 256%. Non-acute hospital treatment is a continuation of acute treatment and involves extended hospitalisation, healthcare and palliative care.

calls for an even more balanced treatment of acute and non-acute state of health and chronic diseases, and a greater focus on prevention and rehabilitation. The new payment model for acute hospital treatment on the basis of groups of comparable cases (introduced in 2003) has enabled a more appropriate distribution of funds within the acute hospital treatment programme, changes in definitions of programmes and their restructuring, as well as constant monitoring of financial savings by programmes. The cost effectiveness of providers also improved.[133] Streamlining expenditure on medicines and medical devices, which was one of priorities in 2007, dropped that expenditure by 6.7% in real terms compared to 2006. Total expenditure on healthcare as a share of GDP (8.5% of GDP in 2005) has not changed significantly over the last few years, thanks to the streamlining measures coupled with the low growth of employees' wages (characteristic of the whole public sector); amid low public expenditure growth, the share of private expenditure in the structure of total expenditure on healthcare has been increasing and achieved 27.6% in 2005, which is around the average level in the EU-27 in 2004 (27.4%).[134] Also in 2006 and 2007, public expenditure on healthcare in 2006 fell short of GDP growth.

The increase in ***expenditure on long-term care*** *(LTC) in 2003–2005 was driven mainly by public sources.* According to the most recent data for 2005, total expenditure on long-term care in Slovenia amounted to 1.10% of GDP, which is above the average of 19 European countries (1.01% of GDP) for which comparable data are available. In 2003–2005, total expenditure on long-term care in Slovenia increased by close to 10% in real terms. Public expenditure recorded the fastest growth (12.5%), largely due to increased demand for health services, which are mainly (94%) financed from public sources. Expenditure from private sources increased only by 1.9% in real terms, which is indicative of a reverse trend compared to other EU members.

In the field of healthcare, *granting concessions in the public health service network increased at a faster pace in the last two years. The number of private providers without concessions is low.* According to the data provided by the Medical Chamber, the number of concessionaries increased by 14% in 2007 and thus recorded almost three-fold growth in comparison with 2005 and 2006.[135] In 2007 the increase in the number of private specialist physicians, in particular, was much greater than in previous years (by 21%). The number of private providers without concessions remains low (most of them are in dental care). The share of private providers in public funds earmarked for healthcare programmes totalled 13.1% in 2007 and has been rising ever since 2002; the share of private providers in funds has been much lower compared to the share in the total number of all physicians at all times.

In the system of social transfers, *the effects of regulatory changes adopted in 2006 started to show in 2007, while the foreseen changes to create a social system making*

[133] The share of hospital losses decreased from 0.73% to 0.67% of total revenues (by 8.2%).
[134] See the indicator *Health expenditure*.
[135] The share of all private healthcare providers increased to 24.1% or by 2.1 p.p. in 2007 (22.0% in 2006; 20.3% in 2002), which is more than in the entire period 2002–2006, by 1.7 p.p.). In the last two years, the share of private general practitioners (excluding paediatricians) increased the most, by as much as 6.4 p.p. (from 18.7% in 2005 to 25.1% in 2007).

work pay[136] *were not carried out.* The falling trend in the number of persons entitled to unemployment benefits, unemployment assistance and financial social assistance continued, partly due to the rapid decline in the number of unemployed and partly also to tightened entitlement criteria for these transfers. The number of persons entitled to unemployment benefits fell by 7.3% between December 2006 and December 2007, the number of persons entitled to unemployment assistance by 87.7%[137] and the number of persons entitled to financial social assistance by 18.2%. The system of social transfer indexation was unified thanks to the new regulations. The new system is more transparent and has also contributed to a decline in expenditure for these purposes.

4.3. Living conditions and reduction of social exclusion and social risks

The value of the ***human development index****, which measures the welfare of countries by their achievements in the areas of health, knowledge and income and is published in the Human Development Report – UNDP,*[138] *is still improving.* The figure rose to 0.917 in 2007[139] (compared to 0.910 in 2006),[140] so that Slovenia was still ranked 27th among the 177 countries included in the analysis. The human development index and Slovenia's ranking have been improving steadily since the first calculation for 1990, mainly as a result of the rising gross enrolment ratio and growth of GDP in purchasing power parity per capita.

Satisfaction with life *also improved in 2006,*[141] *whereas* ***trust*** *in others and institutions remained extremely low.* According to the data of the European Social Survey, Slovenians rated their lives with a score of 6.97 on an 11-point scale in 2006, which was somewhat better compared to previous years. The 2006/07 measurements also indicated that Slovenians had the highest trust in the police[142] and the lowest trust in politicians and political parties.

According to the most recent data, ***the structural indicators of social cohesion***[143] *for 2006 in Slovenia still show a favourable picture in comparison with the EU.* The long-term unemployment rate is decreasing and is lower than in the EU. The share of children aged 18 to 24 who left school[144] and the share of adults in

[136] In the area of employment of non-active or unemployed persons in low-wage jobs, Slovenia has one of the least stimulating systems in the EU, with high poverty and non-activity traps (calculations of the marginal effective tax rates indicate that the income situation of the recipients of unemployment benefits or social assistance who return to employment and work in low-wage jobs remains unchanged or is even deteriorating).
[137] After the adoption of legal changes in 2006, claimants can claim social assistance at centres for social work and no longer at the Employment Service of Slovenia; persons who had already been granted entitlement to social assistance before the changes were adopted keep it until the expiry date of the term for which it was granted.
[138] Human Development Report (United Nations Development Programme – UNDP), 2002–2007
[139] Data taken into account in the calculation of the index for 2007 refer to 2005.
[140] See the indicator *Human development index*.
[141] Latest data from the European Social Survey.
[142] Although the trust has never been rated higher than 5.0 (2004: 4.7; 2002: 4.9).
[143] Five of the seven indicators are available in Slovenia, of which the at-risk-of-poverty rate and income inequality in the EU-SILC survey were calculated from incomes in 2005.
[144] From 7.5% in 2001 to 5.2% in 2006 (according to SORS, the data are not reliable).

jobless households[145] are decreasing. Both shares are also much below the EU average.[146] Income inequality measured by the 80/20 ratio[147] and the at-risk-of-poverty rate are also lower than in the EU. They did not change significantly over the last year, although they did rise somewhat in 2000–2006.[148] The poverty rate among the elderly (aged 65 and more) is still high; according to these data, Slovenia is ranked in the third of countries with the highest at-risk-of-poverty rates for the elderly.

*The increase in **disposable income** was higher in 2006 than in previous years, mostly due to the real growth of wages.* Disposable income increased by 3.1% in real terms; per capita disposable income rose by 2.7% and thus achieved 62.2% of per capita disposable income[149] in the EU (compared to 49% in 2000). The increase in the average real gross wage totalled 2.2% in 2006. The gross wage increased by the same percentage in 2007. The net wage rose by two percentage points, more as a result of changes in personal income tax legislation, which had a greater impact on wage rises in higher income brackets.

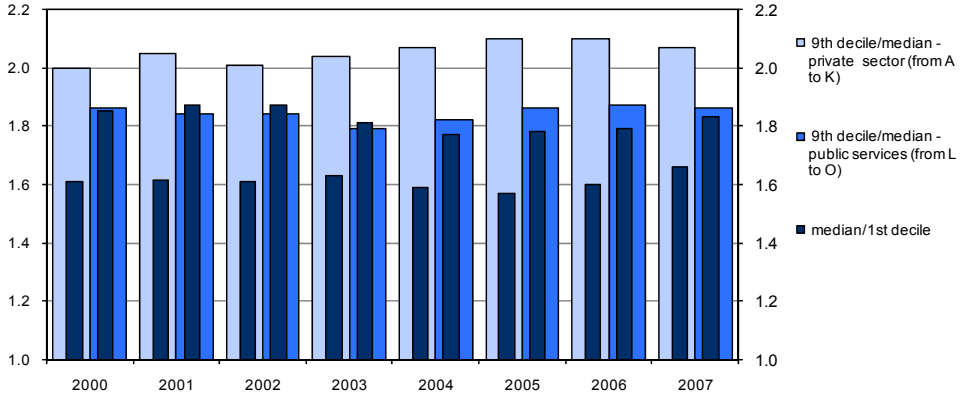
The minimum wage declined by 1.1% in real terms in 2007 as a consequence of adjustment mechanism changes, while it increased by 2.4% per year on average in the period 2000–2007.[150] The minimum gross wage lagged behind the average gross wage growth in the last two years. Its level compared to the average gross wage thus declined by two percentage points (to 41.2%), though it was still higher than in 2000 (40.3%). Regarding the achieved level of the minimum gross wage relative to the average gross wage in the private sector in comparison with the countries whose data for 2007 have been published, Slovenia still ranks in the top third of the countries in the EU. The share of minimum wage recipients in the total number of all employees has been around 2.5% in the last few years.

***Gross wage disparities** are gradually increasing.* Measured by the interdecile ratio (9decile/1decile), they increased slightly in the private sector in 2007 (from 3.36 in 2006 to 3.44 in 2007).[151] The rising trend of inequality was observed in the total period from 2000 to 2007 (in 2000: 3.22). The disparities were increasing as a consequence of faster growth of high wages (9decile/5decile), which slowed in 2006 and 2007; at the lower end of the wage distribution (5decile/1decile), no significant changes were observed until 2006, which was

[145] From 9% in 2000 to 6% in 2007.
[146] In the EU, the share of children who left school was 15.3% in 2006; the share of adults in jobless households accounted for 9.3% in 2007.
[147] The ratio between average equivalent household incomes in the top and bottom quintiles.
[148] Income inequality rose from 3.2% in 2000 to 3.4% in 2006; in the EU-25 it was at 4.8% in 2006. The at-risk-of-poverty rate increased somewhat, also on account of changes in methodology and different presentation of data. The figures for 2006 are based on the calculation of the at-risk-of-poverty rate taking account of income in kind, whereas in the calculation of figures for 2006 income in kind was not used (in Slovenia published as data for 2005 – see the indicator *At-risk-of-poverty rate*).
[149] Disposable household income represents household income without social security contributions and taxes and other expenditure.
[150] Such trends result from adjustment mechanism changes. Up to 2004, the minimum gross wage was adjusted to inflation and, additionally, with regard to real GDP growth. Although 2004 and 2005 saw no additional adjustments to GDP growth, the minimum wage was nevertheless adjusted by more than the growth of inflation; since 2006, the minimum wage has been only partially adjusted to inflation.
[151] According to the most recent data for the EU countries for 2002, the interdecile ratio was 3.

mainly a result of the enacted minimum wage. In 2007, inequality increased largely on account of changes in the minimum wage adjustment mechanism. The highest wages were observed in financial intermediation, where a rising trend was recorded in the whole period.[152] The lowest wages, with a falling trend, were reported in hotels and restaurants.[153] In the public sector, the interdecile ratio (9decile/1decile) climbed to 3.39 in 2007 and was somewhat greater than in 2006 (3.36). The rising inequality has been observed since 2003[154] and was also due to the faster growth of high wages, which decreased in 2006 and 2007 in this sector as well. Equality is also deteriorating in low wages. The distribution of employees by the level of gross earnings in the public sector is more even (see Figure 5), mainly owing to their structure of educational attainment.[155]

Figure 3: **Gross wage disparities, measured by the interdecile ratio** (9decile/5decile and 5decile/1decile) **for the private and public sectors in 2000–2007**



Source: SORS; calculations by IMAD.

*The **average pension** also increased in real terms in 2007.* The average gross pension rose by a nominal 5.3%[156] and a real 1.6%, and the net pension by a nominal 5.7% and a real 2.1%. Since the beginning of implementation of pension reform, the net replacement rate declined from 75.3% in 2000 to 67.1% in 2007. Until 2006, the net replacement rate declined as a consequence of pension reform measures. In 2006, the decline slowed due to the latest changes in the pension adjustment method, while the effects of the new personal income tax legislation on net wage growth in 2007 contributed to the fact that in 2007 the decrease in the net replacement rate and, consequently, a deterioration of the relative situation of pensioners were among the greatest in the whole period of implementing

[152] In 2006 it was by 63% higher than the average gross wage in the private sector and by 57% in 2000.
[153] In 2006 it reached only 78% of the average gross wage in the private sector, compared with 85% in 2000.
[154] Due to methodological changes the period until 2002 is not comparable with the following years. Up to 2002, SORS included all sheltered workshops in health and social work. Low wages in these workshops (around 60% of the average wage in the public sector) together with a considerable number of employees (more than 10,000) therefore contributed to a different distribution of wages in the public sector.
[155] The private sector includes around 15% of highly educated employees (relative to 45% in the public sector), 60% of employees with a secondary education (compared to 45% in the public sector) and 25% with a lower level of education (compared to 10% in the public sector).
[156] Data collected by PDII.

pension reform.[157]

The housing fund *is still increasing along with the achieved* ***housing standards****, but the stock of tenant flats remains modest.* The number of new dwellings has been increasing steadily over the last three years,[158] along with average floor area per person (which increased by as much as 20% since the last housing survey). The share of new non-profit flats in total new flats remains at only 5%.[159] The stock of tenant flats remains modest. Less than 10% of households live in a rented dwelling, which is still a result of the vast privatisation of flats in the early 1990s on one hand, and of the low taxation of real estate on the other. Young people start living independently in their own dwellings late, which is, among other reasons, attributable to the limited supply of non-profit flats, and, additionally, to high rents in tenant flats and high prices of proprietary flats.[160] In Slovenia, 48% of men and 39% of women aged 18–34 live with their parents.[161] Low accessibility of dwellings is probably one of the factors behind the low birth rate and increased age at first childbirth. Furthermore, it also has a negative effect on the spatial mobility of the labour force (Mandič, 2007).

The increases in the prices of dwellings moderated in 2007, while the total housing cost burden of households remains approximately the same. In 2007, the average price per m^2 in Slovenia increased by 6% for flats, which is notably less than the year before, while the average price per m^2 of houses with adherent land increased by the same percentage as in 2006, slightly more than 10%.[162] The vigorous price rises started in 2004. In 2007, prices of flats began to slow,[163] while no changes have yet been observed in the movement of prices of houses.[164] The demand for flats and houses is increasingly shifting from urban centres to the broader surroundings with lower prices, which has already resulted in higher prices in those areas, accelerated urbanisation and changes in daily migration flows and the lifestyle of the population. Slovenian households spent 18.8% of their income on housing costs (housing, water, electricity, heating) in 2006, which is less than in the total period since 2000 and slightly below the EU average (21.9%).

[157] The net replacement rate fell from 68.6% in 2006 to 67.1% in 2007. According to current regulations, the pension increase percentage is calculated from gross wages. In 2007, disparities in gross and net wage rises increased due to changes in the personal income tax legislation. Growth of gross wages in 2007 was 5.9%, growth of net wages 7.9%.

[158] The housing stock included 812,370 dwellings at the end of 2006, 4% more than according to the survey in 2002 and 1% more than in 2005.

[159] 3,642 new non-profit flats in total were acquired since 2000, within that, 401 in 2007, which is below the average of the whole period.

[160] The problem of young families is expected to be alleviated by the amendment adopted in 2007 introducing subsidies for leasing dwellings in addition to subsidies helping to resolve the first housing problem by purchase or construction.

[161] Among the new EU members, Slovenia has recorded the second highest percentage of young people living in the household of their parents (see Mandič, 2007).

[162] Statistical report on the Slovenian real estate market for 2005 and 2006 (2007).

[163] Particularly in large cities, increasing price disparities with regard to the location, age and other elements of the quality of living have been observed.

[164] In the period 2003–2007, prices of flats increased by around 80% and prices of houses by around 100%.

4.3.1. Access to services of general interest

Participation in all levels of formal education is high and according to the latest figures for 2006 even improved.[165] The participation rate of young people aged 15–24 is rising, while the participation rate of adults (aged 25–64) remained at the level of 2005. Participation differs by gender and is higher in women. Among adults, the participation rates in secondary and tertiary education are decreasing rapidly with age. While the number of post-secondary vocational colleges and higher education institutions increased further in the school year 2006/2007, the number of enrolled students decreased in 2007/2008 for the first time in the period 2000/2001–2007/2008. The share of young people who completed programmes enabling enrolment in tertiary education is increasing, but the surplus of applications with regard to available places in undergraduate programmes[166] is decreasing. In 2007/2008, it was the lowest since 2000. The number of young people aged 15 to 19 enrolled in secondary school is falling, given the smaller size of the generation for secondary school enrolment, while the share of the generation enrolled in secondary school remained high in 2000–2006.

The percentage of children attending kindergartens is approaching the European average, and the number of kindergartens is increasing. A total of 40.6% of children aged below three attended kindergartens in 2007/2008 and 82.6% of children aged three to five. In both age groups, the share of children increased compared to 2006/2007, but the increase in the first age group was larger. The share of children aged 3–5 attending kindergartens was somewhat below the European average[167] in 2006,[168] though the gap narrowed substantially in comparison with 2000.[169] Even though the network of kindergartens is expanding (the number of kindergartens in Slovenia has been rising for several consecutive years) and kindergarten participation increases, access to kindergartens is sometimes limited by a lack of available places.[170] The financial burden on parents, which is relatively high with regard to parents' incomes especially in the middle income brackets, also has a negative impact on access to kindergartens, but will start to decrease gradually in 2008 on the basis of the ammended Kindergarten Act (first for families with more than one child attending kindergarten, later also for families with children in the age group 3–5 years).

Changes in certain indicators have shown improved ***access to health services****; in certain areas, however, the changes have been slower.* Participation in the compulsory health insurance system increased in 2007, while the problem of co-payment for insured persons who are not included in supplementary health insurance schemes due to their low incomes has remained unsolved, which makes

[165] See the indicator *Participation in Education*.
[166] Taking into account the first registration term.
[167] Slovenia: 77.6%; EU: 77.8%.
[168] School year 2005/2006.
[169] From 7.8 p.p. in 2000 to 0.2 p.p. in 2006.
[170] Among its recommendations, the international OECD study (Starting Strong II: Early childhood education and care, 2006) also specifies broadening of access to preschool education for all children whose parents so desire. International studies indicate that inclusion of children in organised forms of early childhood education has a positive effect on learning later in life, learning achievements in primary school and the functional literacy rate, and promotes equal opportunities for participation in higher levels of education.

access to healthcare services more difficult for this group. Provision of the health system with medical personnel is low compared to other European countries. Regarding the number of practising physicians per inhabitant, the gap with the EU average narrowed somewhat in 2000–2005, but growth in the number of physicians slowed down in 2006. The problem lies mainly in the lack of physicians and paediatricians at the primary level in certain regions of the country, although the demand for health services at all healthcare levels is expected to increase.[171] It can thus be inferred that the fast expansion of private providers offers users a wider choice; at the same time, access seems to be to a certain extent conditional on self-payment, as the share of private expenditure on healthcare is growing and households' out-of-pocket payments on health increase faster than expenditure under voluntary health insurance schemes. Access at primary and secondary levels may be negatively affected by granting concessions without previously determining the network of public service providers. Access to health services in hospital treatment has improved over the last few years. The number of people waiting for acute treatment declined by 18.5%,[172] and the hospitalisation rate (the number of patients in acute treatment per 1000 inhabitants) increased. The average length of inpatient stay continued to shorten. In acute and non-acute hospital treatment combined, it fell from 8.6 to 7.1 days in 2000–2005, which is much less than the EU average (9.25 days in 2004).

Accessibility of social services *measured by the public network of institutions and in terms of capacities improved slightly in 2007.* The network grew rapidly from 2000 through 2005. The year 2006 saw a standstill, while in 2007 a slight increase in capacities[173] was again recorded. In homes for the elderly, the number of persons in care increased by 1%, while the network expanded by five new locations. In homes for the elderly, 4.4 places are available per 100 inhabitants aged 65 and over. The rising number of the elderly has resulted in increasing requirements for care, and homes for the elderly are therefore reporting an increasing number of rejected applicants.[174] Within that, the share of the elderly aged 80 or more is increasing (56%). In special social welfare institutions providing institutional care for adult care-dependent persons with special needs, the number of users dropped in 2006, while in 2007 it slightly increased. The reduction since 2000[175] has been a result of the planned policy of deinstitutionalisation. In protection and training centres for day care of this population, the number of users increased by 4% in 2007; since 2000, their number increased at a rapid pace, while in 2006 it slightly declined.[176]

[171] See the indicator *Healthcare resources.*
[172] In 2006, it accounted for only 7% of all patients in acute treatment in the calendar year (compared to 9.6% in 2003).
[173]SORS data on the capacity and the number of users of social welfare services are available for the period through 2006, while data for 2007 were provided by the Ministry of Labour, Family and Social Affairs.
[174] In all, 12,470 applicants were rejected; only 18.8% of applications were accepted.
[175] Care-dependent people living in separate units providing special care for adults within homes for the elderly were registered under homes for the elderly through 2003. Since 2004, SORS allocates them to special social welfare institutions. Consequently, the number of care-dependent people in these institutions increased exceptionally in 2004, whereas the number of care-dependent people in homes for the elderly decreased.
[176] 150 applicants were rejected.

5. Integration of measures to achieve sustainable development

SDS guidelines: The fifth priority covers development in the areas of the environment, sustained population growth, regional and spatial development, and culture. *The environmental objectives of SDS* involve reducing energy intensity and increasing the use of renewable energy resources, improving resource intensity and promoting waste recycling. Promoting development and environmental technologies will contribute to the achievement of these objectives. In the area of transport, the aim is to promote sustainable modes of mobility and boost the use of public passenger transport. Another goal is to protect nature, halt the decline in biodiversity and enforce Slovenia's natural spatial quality as a quality for the entire EU. The objective of *sustained population growth* involves ensuring better conditions for greater inclusion of the working-age population, creating suitable working and societal conditions for elderly active citizens, and providing appropriate conditions for starting families. *More balanced regional development* extends to a wide range of activities – from establishing regions, making the system more polycentric and regional development programming to preserving population density, maintaining transport networks and boosting local economies. The planned measures are mostly aimed at strengthening the local economies, the higher education network, development aid and local self-government, which would enable municipalities and regions to develop endogenously. The key priorities in the area of better *spatial management* focus on improving spatial management, with an emphasis on providing building plots and creating the conditions for improved operation of the housing market. The development of the *national identity and culture* calls for establishing the ethical, social, economic and political aspects of culture.

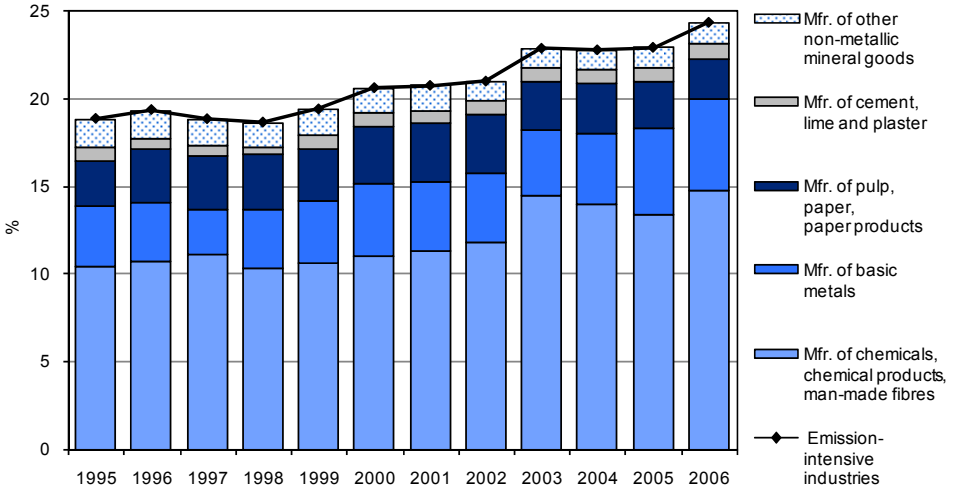
5.1. Integrating environmental criteria with sectoral policies

In 2006, the reduction of ***energy intensity*** *accelerated.* Energy intensity, which had been decreasing annually by 1.7% on average in the period 2002 – 2005, dropped by 4.9% in 2006.[177] This progress was mainly due to a significant improvement in energy intensity in manufacturing and a further reduction in household consumption, which can also be attributed to the mild winter that year.[178] Following a significant deterioration in the previous year, energy intensity in manufacturing improved significantly in all four industries that spend the most energy per unit of value added (the manufacture of non-metal mineral products, and the metal, pulp and paper and chemical industries).[179] In transport, strong energy consumption growth continued in 2006 and even exceeded the average growth recorded in the previous five years. Such developments are a consequence of economic growth, improved traffic routes, suburbanisation and transit traffic growth.

[177] According to Eurostat data (used to ensure international comparability), which differ somewhat from SORS data, according to which the average annual reduction was 1.5% in 2002–2005 and 4.8% in 2006.
[178] The consumption of oil resources, natural gas and heat decreased, probably mainly due to the temperature deficit in the period from 1 July 2006 to 30 June 2007, which was more than 20% below the average of the last 15 years, and to the 6.5% shorter heating season compared to the year-long average. The increase in electricity consumption, in contrast, was above average last year.
[179] In the previous year, energy intensity deteriorated substantially in all industries, except in the chemical industry.

The growth of production in ***emission-intensive industries*** *in 2006 and 2007 was among the highest in the manufacturing sector.* The production of emission-intensive activities, representing about half of the aforementioned energy-intensive industries[180] in value added, has been growing faster than the average of the manufacturing activities for the whole period since 2000. The faster growth of production in these industries, characteristic of 2003, repeated itself in 2006 and 2007 (in 2006, on account of the metal and chemical industries, whereas in 2007, only the chemical industry still recorded outstanding results in terms of growth). With regard to the implementation of the European Directive on Integral Pollution Prevention and Control (IPPC Directive), the best available environmental protection techniques had to be applied in industrial production by 2007, which will result in the reduction of energy consumption per unit by 20% on average in the future.

Graph 4: **Share of value added of emission-intensive industries, in % of manufacturing's total value added**



Source: SI-Stat, Production and primary income accounts 1995–2006, 2007; Statistical data from company balance sheets and profit and loss accounts (AJPES), different years.

The share of ***renewable resources*** *in Slovenia is much larger than in the EU on average, but has been on a downward trend since 2000 and also declined somewhat in 2006 according to the latest data.* The shares of renewable energy sources (RES) in primary energy consumption, as well as in electricity production, fluctuate mainly on the basis of hydro-electric output and water levels.[181] In the period 2000–2006, exploitation of renewable resources declined by 0.4% annually,[182] on average, which means that, given the 2.2% average energy consumption growth, the share of renewable resources in the overall energy balance decreased. The electricity sector,

[180] The entire chemical and paper industries; within the manufacture of metal products, only the manufacture of metals; within the non-metal mineral industry, only the manufacture of cement, lime and plaster, and the manufacture of other non-metal mineral goods.
[181] See the indicator *Renewable energy sources.*
[182] According to Eurostat data (used to ensure international comparability), which differ somewhat from SORS data, according to which the use of RES increased by 0.5% annually, on average, in 2002–2006, while energy consumption growth totalled 2.4%.

where the average annual reduction in electricity production from renewable resources was even slightly greater (by 0.9% annually, on average) amid the high electricity consumption in the period 2000–2006 (3.6% annually on average), recorded a rise in electricity production in 2006.[183] Electricity production increased mainly thanks to higher water levels in rivers, since the production of hydro-electric power plants accounts for the major part of electricity production from renewable resources.[184] The use of renewable energy sources can to a certain extent be influenced by the system of feed-in prices for electricity production from renewable resources. Electricity production from solar energy, as well as from biogas, thus rose substantially in 2006 after the increase in premiums for qualified producers for major solar plants and production from wood biomass; however, they account only for a small portion of the entire production. The production of certain qualified producers was also influenced by the electricity market price (i.e. purchase price) trends, which were encouraging in 2006.

The promotion of projects for efficient energy use (EEU) and use of renewable energy sources (RES) did not increase in 2007, while somewhat higher public funds are allocated for these purposes in 2008 and 2009. The modest budgetary funds earmarked for the promotion of investment in EEU and RES, which had hovered between EUR 3.5 and 3.8 million since 2003, even fell below this level according to the figures of the Ministry of the Environment and Spatial Planning for 2007. After increasing in 2006, mainly for investment in the use of RES, the volume of funds according to the environmental investment credit scheme of the Ecological Fund[185] decreased in 2007 as well (to EUR 16 m). The promotion of such projects will increase significantly in 2008 and 2009, given the loan granted by the European Investment Bank and inflow of additional funds in 2008 from the surplus of financing preferential dispatching generated in the previous years (EUR 7.5 m), while the level of the budgetary funds remains roughly the same.

The use of ***biofuels*** *increased in 2007, but it nevertheless fell short of the target levels.* A new decree on promotion of the use of biofuels[186] was adopted in 2007, which is more binding on automotive fuel distributors and with regard to the use of fuel in public road passenger transport and in the public sector than the previous rules. The target value for 2007 of the share of biofuels in total automotive fuels placed on the market was 2% of the energy value, compared to 0.829% achieved. The quantity of biofuel sales was thus threefold compared to that in 2006 (0.275% in total automotive fuels sold), while the area sown with oilseed rape, representing the basic raw material for biofuel production in Slovenia, doubled as well.

The increase in total ***greenhouse gas emissions*** *slowed in 2006. Transport emissions increased significantly for the second year in a row.* Growth of greenhouse gas emissions (GHG) was the lowest in the last few years (apart from 2003, when greenhouse gas emissions decreased), as according to the provisional data, greenhouse gas (GHG) emissions increased by 0.7% in 2006 and were 0.6%

[183] Letni energetski pregled za leto 2006, IJS, 2008 (Annual Energy Review for 2006, IJS, 2008).
[184] 97% in 2006.
[185] Public fund for the promotion of environmental investment in Slovenia.
[186] Decree on the Promotion of the Use of Biofuels and Other Renewable Fuels for the Propulsion of Motor Vehicles (Official Gazette, No. 103/07). The target share of biofuel sales in 2007 is 2% and will be gradually increased to 7.5% of total automotive fuel sales in 2015.

above the base year (1986) emissions. Growth of industrial emissions slowed in 2006 on account of improved energy intensity; furthermore, emissions from household use of fuels decreased more rapidly in 2006. For the first time since 1992, emissions from waste contracted as well, while emissions from agriculture, which vary across the years, increased. Transport emissions increased at an accelerated pace for the second year in a row, while emissions in the energy sector stagnated, given the significant growth of electricity use and lesser use of heat (probably as a consequence of the mild winter that year). In 2007 Slovenia adopted the National Plan for the Allocation of Emission Allowances for 2008–2012. It is based on the Operational Programme for the Reduction of Greenhouse Gas Emissions, according to which a significant share of the reduction in compliance with the Kyoto targets is expected to be achieved through trading with GHG emission allowances. In line with the ambitious long-term EU objectives in this area, an even greater emphasis will have to be placed on measures for efficient energy use, which is the most cost-effective way of reducing emissions.

The rising trend of road freight transport and the falling trend of public passenger transport have continued in the last years. According to the statistical data, the decline in road transport and weak growth of rail transport in public passenger transport continued in 2006 and 2007, along with accelerated air transport growth. In freight transport, growth of road freight transport[187] has moderated since 2004, but it was still high, whereas the growth of rail freight transport remained low. High investment in road infrastructure continued in 2006,[188] and by IMAD's estimates also in 2007, whereas investment in railway infrastructure was weak. In 2007, the number of road vehicles increased more notably than the year before, particularly the number of lorries.

Indirect transit traffic costs are increasing. The analysis of traffic at border crossings[189] shows a sharp increase in freight transport at border crossings after accession to the EU, with transit traffic accounting for almost two thirds. This estimate shows that the increased transit traffic also contributed to the accelerated growth of the use of energy in transport, as well as the increase in greenhouse gas emissions in 2005 and 2006. Besides the geographical position and economic development in Central and Eastern Europe, transit transport is also attributable to the relatively lower prices of automotive fuels in Slovenia.[190] In the future, the economic benefits of transit transport will therefore have to be weighed against its external costs and costs arising from increased greenhouse gas emissions.

Management of industrial ***waste*** *is in line with the targets, while municipal waste management still represents a challenge to the environmental policy.* Management of industrial waste, which otherwise accounts for the largest part of all waste,[191] is in line with the targets, since 76% of industrial waste was recycled in 2006. Developments in the field of packaging waste management meet the target as

[187] See the indicator *Share of road transport in total freight transport*.
[188] In 2006, 1.8% of GDP in road and 0.1% of GDP in railway infrastructure.
[189] Analysis of transit traffic through the Republic of Slovenia and estimate of possible transport policy measures for its reduction (University of Maribor, Faculty of Civil Engineering), 2006
[190] The lowest among the neighbouring countries.
[191] 86% in 2006.

well[192]; 47% of all packaging waste was recycled in 2005. The quantity of separately collected municipal waste is also increasing, albeit slowly; only a quarter of packaging waste potential and around 15% of biodegradable waste were collected separately in 2006. This is also one of the reasons why landfilling is still the prevailing mode of municipal waste management. The share of landfilled waste even increased for the second consecutive year in 2006 (to 83.3%), whereas in the EU-15 this share has been declining steadily and totalled 34.3% in 2006.

*The impact of **agriculture** on the environment increased somewhat according to the latest figures if measured by the use of fertilisers and intensity of livestock breeding, and decreased if measured by the use of pesticides and the growth of organic farming.* This is also a result of the agricultural policy focusing on environmental issues, as producers must meet the prescribed standards in order to be eligible for subsidies. Pesticide sales dropped again in 2006, while NPP fertiliser use per unit of agricultural area sown increased in 2006 for the first time since 2000. The impact of livestock on the environment increased, but this is not problematic relative to the EU average. Production intensity of the two most important crops with regard to the EU average differs: wheat production is below and maize production above the EU average. Organic farming in Slovenia continues to increase as well, although at a slower pace than over the last three years. The share of controlled areas for organic farming increased more notably again in 2007, from 5.5% to 5.9%, which is above the average EU level; in view of the strategic targets and natural endowments, there is still high potential for improvement in this area.[193]

Forests are an important source of raw materials for Slovenia, which does not have many other natural resources; however, forests are still underutilised, even though the use of wood has increased. **Tree removal** continued to rise in 2006, but its intensity was still relatively low compared to the wood increment and growing stock and lagged behind the intensity foreseen in the national forestry plans.[194] In our estimate the removal of small wood, as the most important source of extracting wood for energy purposes, falls short of the target levels the most.[195] Faster development of exploitation of wood biomass for energy purposes is hampered mainly by strong fragmentation of forest property, inappropriate equipment, insufficient skills and lack of cooperation between private forest owners, as well as the non-market orientation of forest production. The year 2006 saw the beginning of preparation of the Operating Programme for Wood Biomass Energy Exploitation. The widely unexploited wood mass potential still offers considerable room for improvement in terms of the targets set for increasing the use of renewable energy sources.

5.2. Sustained population growth

***The population** of Slovenia is still growing, largely as a result of the rising net migration, though the number of births is increasing as well.* In 2005 the population topped two million, reaching 2,025,866 persons by December 2007 (including

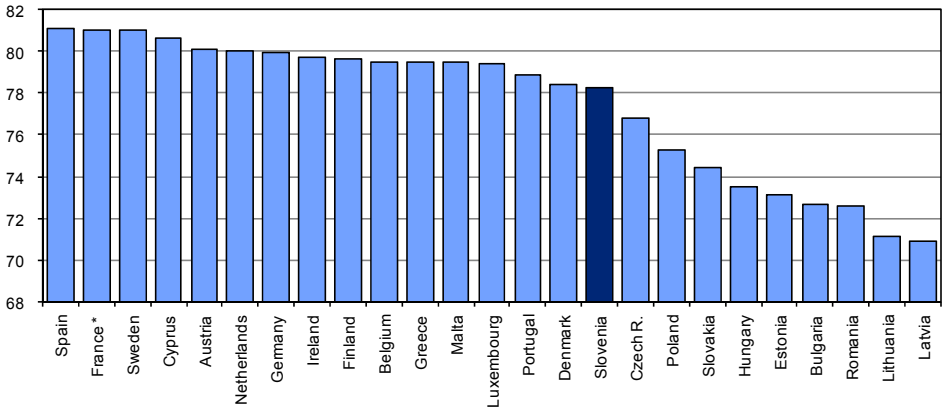
[192] According to the Packaging Directive (94/62/EC), 50% of the total amount of packaging waste must be recycled by the end of 2007
[193] See the indicator *Agricultural intensity.*
[194] See the indicator *Intensity of tree felling.*
[195] According to the 2002 survey, wood was the main heating source in as much as 43% of dwellings.

temporary immigrants). The number of births and the total fertility rate have started to increase again in recent years. Until 2006, the number of births increased to 18,932, while the total fertility rate rose to 1.31. The number of births continued to increase in 2007. The number of deaths has exceeded the number of live births since 1997 (except in 2006). Thus, the population size, which has been growing slowly since 1998, has increased largely owing to positive net migration, which has been higher than the natural increase. In 2005, net migration surged in comparison with the past decade. Both the number of immigrations as well as the number of emigrations increased substantially; such trends also continued in 2006 and 2007. Increased immigration in the last two years was largely linked to strong economic growth, notably the boom in the construction sector, and the shortage of certain occupation profiles, particularly in construction.[196]

Due to the decline in births in the past and the rising life expectancy, the share of ***the old age population*** *is increasing.* By 2006, life expectancy had increased to 74.8 for men and to 81.9 for women. Thus, with the insufficient number of births, the population of Slovenia is ageing. The share of children, and slowly the share of the working age population as well, are contracting, whereas the proportion of the old age population is growing. Since this process is currently still slow, Slovenia still lags behind the EU average regarding the share of old age population and the old age dependency ratio. In most EU countries, life expectancy is higher than in Slovenia, and the proportion of the elderly to the total population is accordingly higher than in Slovenia. However, the problems of low fertility and hence the falling share of children are similar. Projections show that the process of population ageing will speed up further in the future. This calls for systematic and concerted action in the areas of demographic and employment policies, as well as public finance policy, in order to soften the decline in the available labour force and the ballooning of general government expenditure towards the end of the next decade.[197]

[196] As a result, the number of work permits for foreigners increased sharply at that time (from 38,500, recorded on average in 2000–2004, to more than 63,000 in September 2007).
[197] More in Chapter 4.2.

Figure 5: **Life expectancy in Slovenia and in the EU**



Source: Population and social conditions – Population (Eurostat)

5.3. More balanced regional development

Regional variation in gross domestic product per capita *increased somewhat, according to the most recent data for 2005, though most regions improved their positions with regard to the EU average.* GDP per capita recorded the sharpest drop relative to the Slovenian average in the Pomurska region, which already has the lowest GDP per capita in Slovenia, and remained at the 2004 level in the Osrednjeslovenska region. Differences in this indicator have also been widening slowly but steadily over a longer period.[198] The coefficient of variation was 4.3 p.p. higher in 2005 than in 2000. Only the Osrednjeslovenska region and Jugovzhodna Slovenia enjoyed an increase in GDP per capita relative to the national average in this period, whereas all other regions posted a decline. The largest drop was observed in the Zasavska region, which also witnessed the largest decrease in the number of jobs over the same period. All regions except the Zasavska region have nevertheless improved their figures in 2000–2005 with respect to the average GDP per capita in the EU.

In our estimate, regional differences regarding ***the risk of poverty*** *also decreased somewhat in 2007.* We do not have firsthand data about the prevalence of poverty across the regions, but we can infer it indirectly from unemployment figures as one of the main factors of poverty, and from data on the claimants of financial social assistance. Following a four-year decline, the coefficient of variation in registered unemployment rebounded somewhat in 2007.[199] The coefficient of variation in the number of financial social assistance claimants per 1,000 inhabitants was likewise higher than in 2005, when it reached its lowest level. Nevertheless, the registered unemployment rate, as well as the number of financial social assistance claimants, has been declining in all regions, most notably in the most disadvantaged ones.

[198] See the indicator *Regional variation in gross domestic product.*
[199] See the indicator *Regional variation in unemployment.*

*The **network of higher education** and in particular of vocational colleges is growing, which has contributed to the narrowing of gaps in the number of students across regions.* Regional differences, measured by the coefficient of variation in the number of students per 1,000 inhabitants, have been narrowing gradually since 2002, although they were not large even before that.[200] Since 2001, the largest increases in the number of students have been recorded precisely in those regions where the number of students enrolled in tertiary education was below the Slovenian average (Notranjsko-kraška, Jugovzhodna Slovenia and Zasavska regions), so that in 2006 Notranjsko-kraška and Jugovzhodna Slovenia already exceeded the Slovenian average.

***Demographic disparities** between regions have been decreasing, though largely due to the deterioration of the situation in regions which used to enjoy more favourable demographic trends.* The population is mainly growing in the regions of the western part of the country. A fourth of Slovenia's population lives in the Osrednjeslovenska region, where the concentration has been increasing steadily over time. The decline in population is particularly problematic in the peripheral regions of Slovenia, which does not contribute to a more even population density and weakens regional economies. Owing to the low natural increase and lower mortality of the population, the ratio of the elderly to the young population is increasing, as is the ageing index. Since this process is also increasingly present in the regions that used to have a more favourable population structure, regional disparities are narrowing.

***Urban development** in the largest cities has been characterised by the process of suburbanisation and deurbanisation, which does not support the development of regional hubs.* The Slovenian urban system consists of a large number of small cities, and the urbanisation rate is relatively low.[201] Nevertheless, this rate has declined slightly further since 2003 (49.1% in 2007), largely as a result of migrations from major cities (Ljubljana, Maribor, Celje) to suburbanised areas and the countryside, which runs counter to polycentric development and reinforcement of regional hubs.

5.4. Improving spatial management

*Spatial management has continued to record an increase in **construction**, which has contributed to the achievement of economic development goals.* The total floor area of buildings planned with the issued building permits increased in 2007 for the sixth consecutive year.[202] There has been a notable increase in the share of foreseen residential construction; within that, a rising trend has been observed particularly in multi-residential buildings and, looking at regions, in the share of the Osrednjeslovenska region. Data on building permits issued suggest some easing in the planned construction of non-residential buildings after the boom in 2006, though it remains high; an acceleration in construction activity is expected especially in Ljubljana. Motorway construction has also kept up a vigorous pace. However, while the construction boom has strengthened the economy, it has also increased the

[200] The coefficient of variation in 2005 was 9.2%.
[201] From 1981 to 2002, it increased from 46.7% to 50.8%.
[202] See the indicator *Issued building permits.*

environmental burden.[203] Amendments to the housing act from May 2008 will encourage development, as the consent of owners with 75% shares will only have to be sought to conclude contracts on mutual relations and to perform certain renovations of buildings.

The system of spatial planning saw legislative changes in 2007 and the adoption of the Spatial Planning Act. This simplified the adoption of municipal spatial planning documents and allowed for the amendment of old spatial plans again. Nevertheless, the system of spatial planning is not sufficiently well managed yet, since the setting up of IT support has started only recently, and spatial measures are not yet effective. The evaluation and approval of new municipal spatial plans remains the main instrument of the national spatial policy.

The ***housing market*** *has become safer and more transparent. Prices were higher, but their growth moderated in 2007.* In the past year, the safety of home buyers, the quality of real estate brokerage, and the transparency and efficiency of the market have increased as a result of legislative changes. A real estate census was carried out in 2007, and public access to the housing market record, i.e. data on transactions and actual prices of sold old homes, became operable. Over the last few years, the real estate market was characterised by high price rises, which moderated according to the latest data in 2007. According to the figures of the Statistical Office,[204] the average annual increase in housing prices in 2004–2006 was almost 14%.[205] These trends reflected the still high cost pressures on the supply side and the high demand, boosted also by a decrease in interest rates in this period. However, the latest report of the Surveying and Mapping Authority of the Republic of Slovenia based on the real estate market register for 2007[206] shows a significant moderation of this trend.[207]

5.5. Culture as a factor of identity and development

The public interest in culture is mainly realised through ensuring conditions for cultural creativity, accessibility of cultural goods, cultural diversity, Slovenian cultural identity and common Slovenian cultural space. One of the main dilemmas the EU is faced with is related to the development of culture, seeking a balance between the instrumentalisation of culture, i.e. its use to achieve goals aimed at strengthening of social cohesion, competitiveness of the economy, international exchange, etc., and the development of culture as a value per se.

General government expenditure on culture *in Slovenia has been increasing slightly in the last years.[208] The government has strengthened its activities especially in the field of non-institutional culture and in the field of literature,*

[203] See also chapters 5.1 and 5.3.
[204] Price Indices of Second-Hand Flats, Ljubljana and the Rest of the Country, SORS, 2007.
[205] The calculation of the price increase is controlled for the impact of higher quality on prices by means of the hedonic approach.
[206] Report on the Slovenian Housing Market for 2007, Surveying and Mapping Authority of the Republic of Slovenia, 2008.
[207] According to the Surveying and Mapping Authority of the Republic Slovenia, prices of flats increased by 6% in 2007.
[208] The latest available data refer to 2006.

while its care for institutional culture remains important as well. The general government expenditure for culture[209] accounted for 0.86% of GDP in 2006, and 0.80% of GDP in 2003. According to the data of the Ministry of Culture, approximately EUR 1 m more funds were earmarked for expenditure on investment and transfers (investment in the renovation of monuments and public cultural infrastructure) in 2007 than in 2006, mainly on account of means from the European Structural Funds. According to the Eurostat data,[210] 22,200 persons or 2.3% of the active population[211] were employed in culture in 2005, which is approximately at the level of the EU average (2.4%). According to the national statistics data,[212] 24,082 persons or 2.8% of the active population were employed in culture in 2007. In addition to culture in professional institutions, non-institutional culture has also been supported since 2004 through the implementation of a three-year programme for co-financing independent cultural production. The number of work scholarships granted by professional associations from the area of culture is also increasing. The number of recipients of partial remuneration awarded to authors (authors from the field of literature, illustrators, photographers and authors from the field of music and film) for the lending of their works by public libraries is rising as well. In the field of literature, the government has in recent years actively intervened in some of the most critical areas of the book chain, such as the activity of bookstores and multi-year publishing projects. The effects have already been seen in improved activity of co-financed bookstores,[213] which are becoming increasingly important cultural centres of local communities. After the separate Public Use of the Slovene Language Act was adopted after almost a decade in 2004, the Resolution on the National Programme for Language Policy 2007–2011 was passed in 2007 as well.

Household expenditure on culture *in Slovenia is approximately at the level of the EU average.* A decrease in the share of funds used for purchasing books (literature) has been observed for several years. The largest increase has been recorded in the share of household spending for radio and television, also due to increasing supply.[214]

[209] Expenditures of the Ministry of Culture and municipalities.
[210] Source: the publication Cultural Statistics, Eurostat Pocketbooks, 2007 edition
[211] According to the Statistical Office of the Republic of Slovenia (Statistical Register of Employment/SRE), 2.8% of total employment.
[212] Source: Statistical Office of the Republic of Slovenia, Statistical Register of Employment (SRE): 92.110 Motion picture and video production; 92.120 Motion picture and video distribution; 92.130 Motion picture projection; 92.200 Radio and television activities; 92.310 Artistic, literary creation and interpretation; 92.320 Operation of arts facilities; 92.330 Fair and amusement park activities; 92.340 Other entertainment activities; 92.400 News agency activities; 92.511 Library activity; 92.512 Archives activity; 92.521 Museums activities; 92.522 Preservation of historic heritage; 92.530 Botanical, zoological gardens and nature reserve activities; 22.110 Publishing of books; 22.120 Publishing of newspapers; 22.130 Publishing of journals and periodicals; 22.140 Publishing of sound recordings; 22.150 Other publishing; 52.471 Retail sale of books; 74.201 Geo-measuring and mapping; 74.202 Urban and landscape planning; 74.203 Architectural and engineering activities; 74.400 Advertising; 74.810 Photographic activities; 74.851 Translation activities.
[213] From 12 bookstores in 2003, the number of co-financed bookstores increased to 27 co-financed bookstores in 2006.
[214] See also the indicator *Household expenditure for culture.*

II.

Indicators of Slovenia' s Development

The first priority

A competitive economy and faster economic growth

- Gross domestic product per capita in PPS
- Real growth of gross domestic product
- Inflation
- Wages and productivity
- General government balance
- Cyclically adjusted general government balance
- General government debt
- Balance of payments
- Gross external debt
- Labour productivity
- Market share
- Unit labour costs
- Structure of merchandise exports according to factor intensity
- Exports and imports as a share of GDP
- Foreign direct investment
- Entrepreneurial activity
- Share of non-financial market services in GDP
- Total assets of banks
- Insurance premiums
- Market capitalisation of shares

Gross domestic product per capita in PPS

According to Eurostat's preliminary estimate,[215] Slovenia achieved 89% of the average GDP per capita in purchasing power standards (PPS)[216] in the EU-27 in 2007. Lower development rates, as measured by this indicator, were recorded in all new EU Member States, except Cyprus, and among the old Member States, in Portugal. Slovenia's GDP per capita in PPS in 2007 was 86% of the EU-25 average.

Slovenia continues to reduce its lag behind the EU average in GDP per capita in PPS. In 2007, Slovenia approached the EU-27 average by 1 percentage point. Having increased their GDP per capita in PPS by more than 1 percentage point relative to the EU average, 9 countries (within that, 7 with lower levels of development) made greater progress than Slovenia (the largest increase, by 5 p.p., was recorded in Slovakia). In the past ten years Slovenia has advanced by 11 p.p. compared to the EU average, and by 4 p.p. in the period 2004–2007. Six new Member States – Estonia, Latvia, Slovakia, Lithuania, Romania and the Czech Republic – were more successful in narrowing their economic development gaps than Slovenia. One country made as much progress as Slovenia (Bulgaria), while in the other new countries the convergence pace after entry into the EU was slower than in Slovenia.

[215] Eurostat's estimates are based on the latest GDP data for 2007 and the latest purchasing power standards available (June 2008). The revised estimates will be released in December 2008.

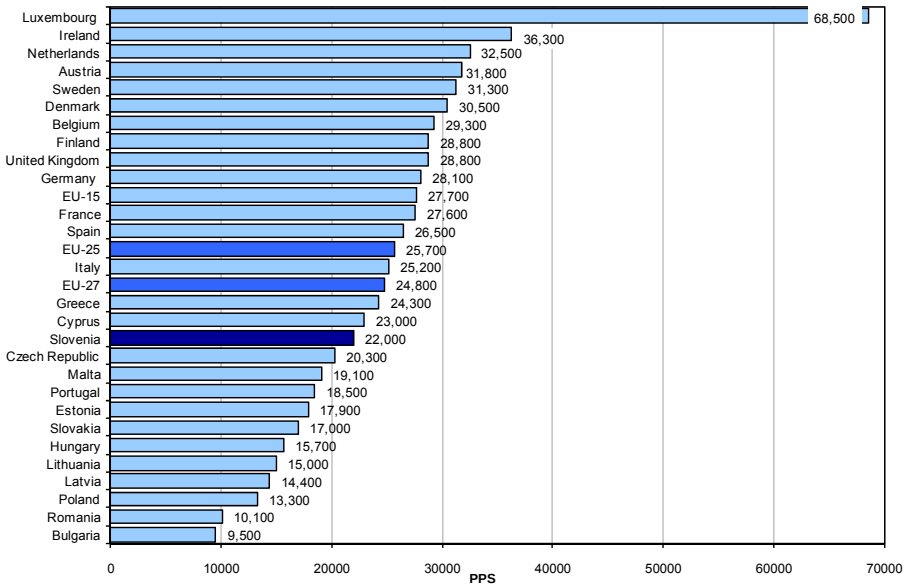
[216] The Purchasing Power Standard (PPS) is an artificial reference currency unit that eliminates price level differences between countries. Thus one PPS buys the same volume of goods and services in all countries. This unit allows meaningful volume comparisons of economic indicators across countries. Aggregates expressed in PPS are derived by dividing aggregates in current prices and national currency by the respective Purchasing Power Parity (PPP). The level of uncertainty associated with the basic price and national accounts data, and the methods used for compiling PPPs imply that differences between countries that have indices within a close range should not be over-interpreted.

Table: **GDP per capita in PPS, EU-27=100**

	1995	2001	2002	2003	2004	2005	2006	2007[1]
EU-25	**105**	**105**	**105**	**104**	**104**	**104**	**104**	**104**
EU-15	**116**	**115**	**114**	**114**	**113**	**113**	**112**	**112**
Austria	136	127	128	129	129	129	127	128
Belgium	129	124	125	123	121	121	120	118
Bulgaria	32	29	31	33	34	35	37	38
Cyprus	89	91	89	89	91	93	92	93
Czech Republic	74	70	71	74	75	76	79	82
Denmark	132	128	129	124	126	127	126	123
Estonia	36	46	50	55	57	63	68	72
Finland	108	116	116	113	117	115	117	116
France	116	116	116	112	110	112	112	111
Greece	N/A	87	91	92	94	96	97	98
Irland	103	133	138	141	142	144	145	146
Italy	121	118	112	111	107	105	103	101
Latvia	31	39	41	43	46	50	54	58
Lithuania	34	42	44	49	50	53	56	60
Luxembourg	223	235	241	247	253	264	279	276
Hungary	51	59	62	63	63	64	65	63
Malta	87	78	80	79	77	77	77	77
Germany	129	117	115	117	117	115	114	113
Netherland	124	134	134	130	129	131	130	131
Poland	43	48	48	49	51	51	52	54
Portugal	75	78	77	77	75	75	74	75
Romania	N/A	28	29	31	34	35	39	41
Slovakia	48	52	54	56	57	60	64	69
Slovenia	**74**	**79**	**81**	**82**	**85**	**87**	**88**	**89**
Spain	92	98	101	101	101	103	105	107
Sweden	126	122	121	123	125	124	124	126
United Kingdom	112	118	119	120	122	119	118	116

Source: Eurostat Portal page – National Accounts, 2008.
Note: [1] Eurostat's preliminary estimate; N/A – not available.

Figure: **GDP per capita in PPS in 2007[1] by individual EU Member State**



Source: Eurostat Portal page – National Accounts, 2008.
Note: [1]Eurostat's preliminary estimate.

Real growth of gross domestic product

Economic growth, which was already high in 2006, accelerated further in 2007 and reached its highest level since Slovenia gained independence. Exports and investment remained the main factors of growth. Real GDP growth stood at 6.1% in 2007 and was mainly the result of favourable economic trends in trading partners and of investment activities, which were at their highest level in recent years. On the supply side, GDP growth was mainly due to the growth of value added in manufacturing and construction, as well as to the high contribution of market services (mostly in distributive trades). Real GDP growth, which was at 6.5% in the first three quarters of 2007 (year-on-year), slowed considerably in the last quarter (by 4.7%), as expected, though it remained above the long-term average.

Domestic consumption growth was stimulated by high investment activities based on investment in infrastructure and machinery and equipment, while private and government consumption growth was more moderate and weaker than in the previous year. The growth of gross fixed capital formation rose from 8.4% in 2006 to 17.2%, mostly due to the accelerated growth of investment in infrastructure. Strong growth was also recorded in investment in machinery and equipment, in the second quarter particularly in transport equipment (purchase of airplanes), and in investment in residential and other buildings. The accelerated growth of investment in machinery and equipment (from 8.6% in 2006 to 13.3%) resulted in the expansion of production capacity and a gradual drop in its utilisation, which was at the highest level since 1996 (since such figures have been available) in the first months of 2007. In line with expectations, all investment segments (with the exception of residential construction) witnessed slower growth in the last quarter of 2007. The contribution of changes in stocks to economic growth was positive and equal to that in 2006 (0.6 p.p.). Government consumption growth stood at 1.4% and strengthened somewhat in the last quarter. Private consumption growth also strengthening gradually throughout the year, rising by 3.1% in 2007 in real terms but remaining lower than in 2006 (4%), which, given the higher growth of net wages and employment, indicates a relative increase in the saving tendency last year.

The growth rates of exports and imports of goods and services in 2007 were also close to the highest rates in many years. In addition to favourable global trends, the high growth in exports of goods, which stood at 13.0% last year (13.4% in 2006), also resulted from a substantial increase in the output of the automotive industry, which enabled the expansion of production capacities in past years. The impact of road vehicle exports on the total growth in exports of goods increased over the course of the year, as well as the impact of exports of chemical products, while in other groups of goods, the effects of the gradual slowing of activity in the main trading partners could already be seen in the second half of the year. Given the strong growth of exports, value added in manufacturing activities also witnessed a sharp increase. In contrast to previous years, manufacturing industries also recorded an increase in revenues from sales in the domestic market, which was related to vigorous construction activity. The growth in exports of goods and the growth of value added in manufacturing activities

slowed considerably in the last quarter, given the slowdown in global activity. The growth in exports of services, which was lower than the growth in exports of goods in the past four years, was stronger in 2007 (15.5%). Of particular note was the high increase in the exports of merchanting and various business, professional, technical and financial services.[217] The growth in imports of goods also remained at a high level throughout the year (13.8%), which is linked to higher imports of intermediary products, and machinery and equipment, as a consequence of the high growth of exports and investment, as well as notable imports of road vehicles, both cars and parts for the domestic automotive industry. Imports of services increased more (16.6%) than in any other previous year, which is mostly due to the high growth rates of imports of business, professional and technical services.

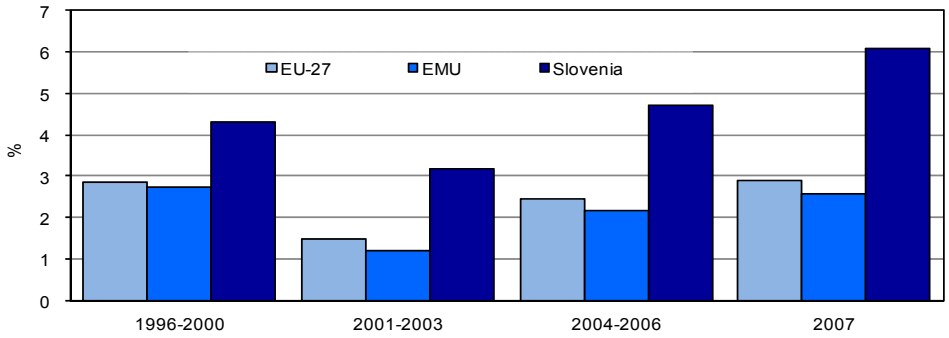
Since 2004, economic growth in Slovenia remained above the long-term average at all times and the gap between average economic growth rates in Slovenia and the EMU and EU countries widened as well. Economic growth in Slovenia was 4.7% on average in 2004–2006, while economic growth in the euro area was 2.6 p.p. lower. In 2007, this gap widened even further (to 3.5 p.p.). This indicates that during the economically favourable years (2004–2007), Slovenia managed to increase its economic growth more than the EMU countries on average.

Table: **Contribution of expenditure components to gross domestic product (GDP) growth in Slovenia in 1995 and 2000–2007, percentage points**

	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP growth, %	4.1	3.1	3.7	2.8	4.4	4.1	5.7	6.1
Contribution of individual components to GDP growth, percentage points								
Trade balance of goods and services (exports-imports)	2.6	1.7	1.0	-1.9	-0.5	2.0	0.0	-0.9
- Exports of goods and services	6.5	3.5	3.8	1.8	6.8	6.0	7.8	8.8
- Imports of goods and services	3.9	1.8	2.8	3.7	7.3	4.0	7.7	9.7
Domestic consumption, total	1.5	1.4	2.7	4.7	4.9	2.2	5.7	7.0
- Private consumption	0.4	1.5	1.0	1.9	1.6	1.5	2.2	1.6
- Government consumption	0.5	0.7	0.7	0.4	0.6	0.6	0.8	0.3
- Gross fixed capital formation	0.5	0.4	0.2	1.7	1.8	0.6	2.1	4.5
- Changes in inventories	0.1	-1.2	0.7	0.7	0.9	-0.5	0.6	0.6

Source: SI-stat data portal – National Accounts. Gross domestic product, annual data, Gross domestic product by quarter, 2008; calculations by IMAD.

Figure: **Average economic growth in Slovenia, the EMU and the EU in different periods**



Source: Structural Indicators – General Economic Background (Eurostat), 2008.

[217] See also the indicators *Balance of Payments* and *Share of exports and imports in GDP*.

Inflation

In 2007, inflation accelerated considerably as a result of the faster rise in prices of food and liquid fuel. Annual inflation rose from 2.8% in December 2006 to 5.6% in December 2007. Figures indicate that the two key reasons for the increasing inflation were the rapid price rises of food and liquid fuel for transport and heating, which was largely due to global price trends in 2007 (the high increase in prices of various types of agricultural products and oil, as well as metals and other types of primary commodities). After food prices in Slovenia were relatively stable or even dropped in 2004 and 2005 due to various factors, they began to rise in 2006. In 2007, the growth of food prices in Slovenia further accelerated, reaching 13.7%, contributing 2.1 p.p. to the inflation rate of 5.6%. The prices of both unprocessed and processed foods increased. The rise in liquid fuel prices added 0.9 p.p. to inflation last year, even though the government reduced excise duties on liquid fuels to the minimum permitted level in September. The pass-through of the high rises in oil prices, which reached as much as USD 100 per barrel for a short time last year, was softened by the appreciation of the euro against the US dollar, resulting in a rise in Brent crude oil prices of 32.4% expressed in euros and 44.4% expressed in dollars.

Prices of other groups of products and prices of services rose on average at similar rates as in the previous year. Prices of services rose by 4.3% in 2006 and by 4.8% last year and contributed 1.5 p.p. to inflation. The acceleration of the growth in prices of services was quite mild last year, but this growth gradually increased after 2005, when it was at its lowest (3%). It accelerated to 4% at the end of 2006, which was partly related to the introduction of the euro, when higher-than-usual increases were observed, particularly in hotel and restaurant services and in certain other services. Prices of holiday package tours also rose more than in 2006. On the other hand, in comparison with price trends in previous years, no significant differences were observed in other groups of prices of goods, with the exception of prices of food and liquid fuels for transport and heating.

The change of currency had a moderate effect but of limited duration. Given the well-planned measures to prevent unjustified price increases implemented by the government, the Bank of Slovenia and NGOs during the introduction of the euro, only a few price rises were seen to differ from the dynamics of increases in such prices in the past, mainly in certain types of services. The total contribution of these price increases to inflation did not exceed 0.3 p.p, by our estimate.

Prices under various forms of regulation rose in accordance with guidelines from the plan for the management of regulated prices. In 2007, prices that were under various forms of regulation increased by a total of 7.2%, and by 1.4% excluding the growth in prices of liquid fuels for transport and heating. The rise in regulated prices excluding liquid fuel thus fell behind the rise in free prices as planned. Of particular note among the significant increases were the 4.9% increase in the price of electricity in April 2007, which had not been foreseen under the plan, and the 2.3% increase in prices of municipal services.

In 2007, inflation also accelerated in the countries of the euro area, where it rose from 1.9% in December 2006 to 3.1% in December 2007 (from 2.2 to 3.2% in the

EU-27), the highest increase since May 2001. The acceleration of price rises was also largely affected by higher prices of food and liquid fuel. The pass-through of the rise in prices of raw materials from world markets to individual countries differed in speed and strength. This was due to differences in price levels from country to country, differences in market structure and competitive conditions in the retail and other sectors, the level of self-sufficiency and reliance on imports and the current economic activity in individual countries. The rise in food prices was the highest in the new EU Member States, where it sometimes exceeded the rise in Slovenia (13.7%), while in the other countries of the euro area, where the average increase stood at 4.9%, it was highest in Austria (7.5%) and Spain (6.8%), and lowest in France (3.3%) and Portugal (1.7%).

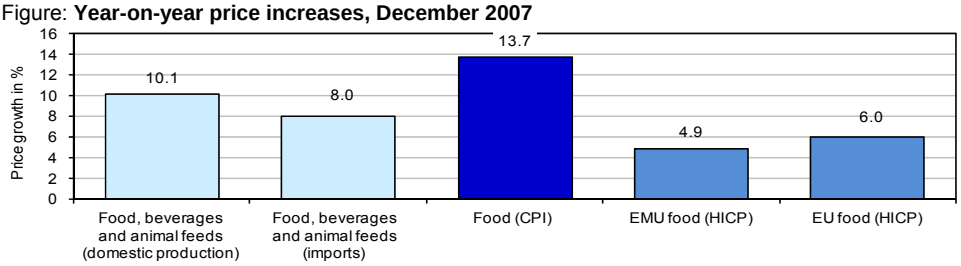
The increase in the difference between inflation in the euro area and Slovenia at the end of 2007 was especially affected by the higher contribution of the rise in prices of food and liquid fuel. The difference between inflation in Slovenia and the average level for the countries in the euro area increased from approximately 1 p.p. at the beginning of 2007 to 2.5 p.p. at the end of 2007. Even though all global economies were exposed to external price shocks, the effects of external factors in Slovenia were stronger, as they were compounded by certain internal structural factors, such as low competition in the retail sector, inefficiencies in the food processing industry and inadequate operation of regulatory bodies in the area of competition policy. The difference between the rise in prices in Slovenia and the average for the euro area, which was registered before the rise in inflation in 2007, was the result of the process of real convergence reflected in higher inflation via the Balassa-Samuelson effect. As this real convergence catching-up will last for a few more years, we expect that this difference will also be preserved in the future.

Table: **Year-on-year rises in consumer prices in Slovenia and the euro area, %**

	1995	2000	2001	2002	2003	2004	2005	2006	2007
Slovenia									
Consumer prices	9.0	8.9	7.0	7.2	4.6	3.2	2.3	2.8	5.6
Goods	7.1	8.8	6.2	6.4	3.9	2.5	2.0	2.1	6.0
Services	15.9	9.2	9.6	9.4	6.5	4.9	3.0	4.3	4.8
Administered prices	10.0	16.0	10.5	9.2	4.0	9.0	7.7	2.1	7.2
Energy	8.2	18.9	6.7	5.5	3.5	10.3	9.8	3.7	9.6
Other	11.4	12.0	17.0	14.7	4.8	6.1	3.0	-2.1	1.5
Core inflation[1]	N/A	6.9	7.4	6.9	4.2	2.7	2.4	2.7	3.2
European Union									
Consumer prices	2.5	2.5	2.0	2.4	2.0	2.3	2.2	1.9	3.1

Source: SI-stat data portal – Prices – Index of consumer prices, annual data (SORS), 2008, calculations by IMAD. Economy and Finance – Prices – Harmonised index of consumer prices (Eurostat), 2008.
Notes: [1] Trimmean; N/A – not available.

Figure: **Year-on-year price increases, December 2007**



Source: *SI-stat data portal – Economic area – Prices – Index of consumer prices, index of producer prices of manufactured goods* (SORS), 2008.

Wages and productivity

The relation between wages and productivity is one of the key issues of economic policy. It is important both in terms of cost-competitiveness and price stability, and in terms of employment and investment and distribution ratios. That is why the relation between wages and productivity is one of the key goals to be achieved by wage policy. In the period before Slovenia entered the EMU, wage policy envisaged that real growth of wages should lag behind real growth in labour productivity by at least one percentage point. Its purpose was, in addition to a positive contribution to price stability, the creation of new jobs and accelerated investment in technologically more demanding production. Upon Slovenia's admission to the EMU, when Slovenia gave up its national monetary policy, wage policy became even more important for the implementation of economic policy goals than before. It should be formulated on the basis of the framework guidelines which determine the relation between wages and productivity and are part of integrated European guidelines for the implementation of the Lisbon Strategy.

In 2007, the real gross wage per employee rose by 2.2% and lagged behind the rise in labour productivity (3.3%). In the private sector, the real rise in gross wages per employee lagged behind the rise in productivity by only 0.1 p.p., and in the public sector, by 1.8 p.p. due to only partial adjustment for inflation. Similar relations were characteristic of the entire 2001–2007 period, when the real rise in gross wages lagged behind the rise in labour productivity by 1.4 p.p. The only exception was in 2001, when the rise in the average wage exceeded the rise in labour productivity by 0.6 p.p., which was the result of accelerated growth in the average real wage in the public sector. In the subsequent years of that period, the lag of the rise in wages behind the rise in productivity was to a large degree due to slower growth of the real gross wage in the public sector.

The available figures on the rise in wages in the EU-25 through 2004 indicate that the rise in wages was, on average, lower than the rise in productivity in that period. Figures collected by the European Foundation for Improving Living and Working Conditions for the members of the EU-25 for the 2000–2004 period indicate that the gap between the rise in real gross wages and the rise in average labour productivity in the EU-25 stood at 1.0 p.p. In relative terms, the rise in real wages lagged the most behind the rise in productivity in France, Germany, Ireland, Latvia, Lithuania, Poland and Slovakia, while in Hungary, Portugal and the United Kingdom it was higher.

Table: **GDP, labour productivity and gross wage per employee growth rates in the 1996–2007 period**

	Real growth, %		Real growth of gross wage per employee, %					
	Gross domestic product	Labour productivity	Total wage growth	Difference between wage growth and productivity growth	Wage growth (private sector)	Difference between wage growth and productivity growth	Wage growth (public sector)	Difference between wage growth and productivity growth
	1	2	3=5+7	4=3-2	5	6=5-2	7	8=7-2
2001-2007	4.3	3.6	2.2	-1.4	2.7	-1.0	1.3	-2.4
1996-2007	4.3	4.1	2.5	-1.6	2.6	-1.5	2.2	-1.9
1996-2000	4.4	4.6	2.8	-1.8	2.4	-2.1	3.2	-1.3
1996	3.7	5.9	5.1	-0.8	4.0	-1.9	6.8	0.9
1997	4.8	6.9	2.4	-4.5	1.5	-5.4	3.8	-3.1
1998	3.9	4.1	1.6	-2.5	2.2	-1.9	-0.2	-4.3
1999	5.4	3.9	3.3	-0.6	3.2	-0.7	3.7	-0.2
2000	4.1	2.1	1.6	-0.5	1.3	-0.8	2.1	0.0
2001	3.1	2.6	3.2	0.6	2.3	-0.3	5.1	2.5
2002	3.7	3.7	2.0	-1.7	2.3	-1.4	1.1	-2.6
2003	2.8	3.2	1.8	-1.4	2.1	-1.1	1.0	-2.2
2004	4.4	4.1	2.0	-2.1	3.1	-1.0	-0.7	-4.8
2005	4.1	4.0	2.2	-1.8	2.8	-1.2	0.9	-3.1
2006	5.7	4.5	2.2	-2.3	2.8	-1.7	1.0	-3.5
2007	6.1	3.3	2.2	-1.1	3.2	-0.1	0.5	-2.8

Source: SORS, calculations by IMAD for labour productivity and gross wages for the private and public sectors.

Figure: **Average gross wage per employee and labour productivity, nominal growth rates, Slovenia, 1996–2007**

Source: SORS, IMAD calculations for labour productivity.

General government balance

Strong economic growth in 2007 led to an improvement in the general government fiscal position. The general government deficit[218] for 2007 was estimated at 0.1% of GDP and was 1.1 p.p. lower than the 2006 deficit. Total general government revenue increased significantly (8.1%) more than general government expenditure (5.3%). The growth in general government revenue was facilitated by favourable macroeconomic trends. Its nominal growth was, however, also affected by a higher-than-forecast inflation rate. The increase in the number of employed persons strengthened revenue from social security contributions (8.7%), which mitigated the decline in personal income tax revenue following changes in personal income tax legislation. Among the major revenue categories, revenue from taxes on production and imports increased faster (8.3%) than the overall rate. The faster-growing revenue from taxes on production and imports was from excise duties, while VAT revenue grew a little more slowly. Revenue from payroll tax was down due to further reduction in rates. On the general government expenditure side, the major contribution to the lower growth in spending came from lower growth in employee compensation, which only increased by 4.6% in 2007, and the slow growth in expenditure on social benefits in cash and in kind, which only increased by 4.3% due to the introduction of a standardised mechanism to harmonise these expenditures with inflation (except pensions). Growth in interest payments was also low (2.0%), while expenditure on subsidies was actually down (-2.7%).

The general government deficit as a proportion of GDP has gradually narrowed since 2001. The reduction in the deficit over the 2000–2007 period was primarily due to the reduction in general government expenditure as a proportion of GDP by 4.1 p.p., while general government revenue was also down as a proportion of GDP by 0.4 p.p. In 2001, the general government deficit stood at 4% of GDP, with expenditure increasing faster than revenue; both grew faster than GDP. Since that year the general government's fiscal position has improved, significantly in 2002 and 2005, and most of all in 2007. In 2005, the deficit was 1.5% of GDP, as general government revenue grew faster than expenditure and economic growth – primarily due to increased revenue from corporate income tax. In 2007, the deficit was 0.1% of GDP, when, due to high economic growth, growth in general government aggregates lagged furthest behind economic growth, and the growth lag in general government expenditure was greater than the lag in revenue growth. Over the entire period from 2000 to 2007, the largest decreases in expenditure as a proportion of GDP were for social benefits (1.6 p.p.), capital transfers (0.8 p.p.) and property income, which largely comprised interest on outstanding debt, while the proportions of expenditure for intermediate consumption and employee compensation, and the proportion of expenditure for subsidies also decreased. The largest increase in revenue categories was in the proportion from current taxes on income and wealth, while the largest decrease was in the proportion from taxes on production and imports. Over the period, the deficit was largely generated by the central government and represented over 90% of the total deficit in individual years. The exception was in 2005, when the debt takeover for the social security funds (HIIS, PDII) within the national budget increased the central general government deficit by

[218] ESA methodology.

0.7 p.p. to 2.2% of GDP, while the social security funds disclosed a surplus of 0.8% of GDP in that year.

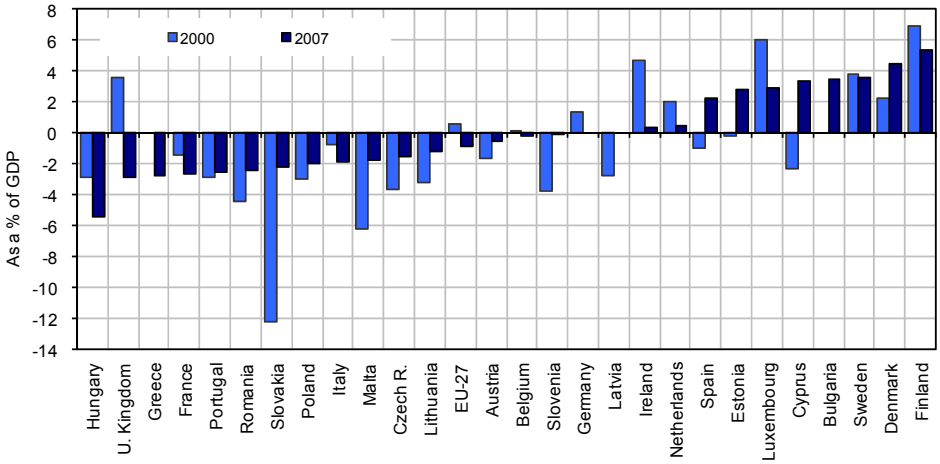
In 2007, the general government's fiscal position improved in other EU Member States as well, but Slovenia was still ranked among the countries recording the lowest deficits. The general government deficit at the EU-27 level fell by 0.5 p.p. to 0.9% of GDP in 2007, and even slightly more at the EMU level, by 0.7 p.p. to 0.6 p.p. of GDP. This improvement was largely due to the increase in the proportion of tax revenue against a backdrop of a positive economic climate. Fourteen EU Member States had a higher deficit than Slovenia, two had a balanced account, while ten recorded a surplus. In 2007, only the deficit in Hungary (-5.5%) exceeded the permitted 3%.[219]

Table: **General government revenues, expenditures and deficits in 2000–2007 (ESA–1995 methodology), as a % od GDP**

	2000	2001	2002	2003	2004	2005	2006	2007
General government revenue	43.6	44.1	44.6	44.4	44.2	44.5	44.1	43.2
General government expenditure	47.4	48.1	47.1	47.1	46.5	46.0	45.3	43.3
General government deficit	**-3.8**	**-4.0**	**-2.5**	**-2.7**	**-2.3**	**-1.5**	**-1.2**	**-0.1**
Central government	-3.3	-3.8	-2.2	-2.5	-2.1	-2.2	-1.2	-0.3
Local government	0.0	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Social insurance funds	-0.5	-0.2	-0.1	-0.1	-0.1	0.8	0.1	0.2

Source: SI-stat data portal – Economy – National Accounts – Main aggregates of the general government sector, 2008 (for 2004–2007). Non-financial sector accounts: General government (S13), calculations by IMAD (for 2000–2003).

Figure: **General government balance in EU countries, 2000 and 2007, as a % of GDP**



Source: *Euro*-Indicators – National Accounts – Public Finance – Excessive deficit procedure statistics (Eurostat), 2008.

[219] Following EU entry, the Stability and Growth Pact also applies to Slovenia, according to which the annual government deficit cannot exceed 3% of GDP. In order to monitor their fiscal position and identify excessive deficit and debt, Member States must submit a "Report on Government Deficit and Debt" to the European Commission twice a year. The report is drawn up in line with the single methodology of the European System of Accounts of 1995 (ESA-95) that all Member States are obliged to respect.

Cyclically adjusted general government balance

Over the past decade Slovenia has recorded a cyclically adjusted general government deficit, which has been narrowing gradually since 2000. The cyclically adjusted deficit, which indicates the fiscal balance that would be achieved by fiscal policy measures alone, i.e. excluding the impact of cyclical factors, has been narrowing gradually since 2000. The reduction, which followed the narrowing of the relative deficit as a share of GDP observed since 2000, shows that the narrowing of the relative total general government deficit as a % of GDP in the last few years has largely been due to the structural adjustments of public finance. The cyclically adjusted deficit reached its high of 4.0% of GDP in 2000, and then gradually declined, standing at 0.5% of GDP in 2006. The largest (positive) contribution of cyclical trends to the fiscal balance was recorded in 2007, when it amounted to 0.4 p.p., while in 2001–2006, the cyclical balance was negative. In 2007, the cyclically adjusted deficit exceeded the actual deficit, but it decreased relative to 2006.

Fiscal policy in 2007 was restrictive. Changes in the cyclically adjusted balance over consecutive years indicate the orientation of fiscal policy. If we compare it with changes in the output gap[220] over the same period, we can estimate the fiscal position or, in other words, the cyclicality of fiscal policy. Over the 2000–2006 period, when the main task of fiscal policy was maintaining the general government deficit below the Maastricht reference value, fiscal policy was restrictive (except in 2001 and 2006), yet cyclical. Fiscal policy also remained restrictively oriented in the years when actual GDP growth was below potential, and thus kept the general government deficit below the Maastricht reference value. After 2006, when fiscal policy was somewhat expansive and cyclical at the same time, the cyclically adjusted deficit fell in 2007, which – against the background of an increased output gap – indicated a restrictive and counter-cyclical orientation of fiscal policy.

As the nominal deficit improved, the cyclically adjusted general government deficit also narrowed, both in the euro area and in the entire EU. This indicates that the reduction in the nominal deficit of the general government sector is structural; however, the figures should be interpreted with certain caution, given that few countries adopted measures aimed at increasing revenues in 2006, which means that the estimated improvement in cyclically adjusted balances is likely to be, at least in part, transitory.

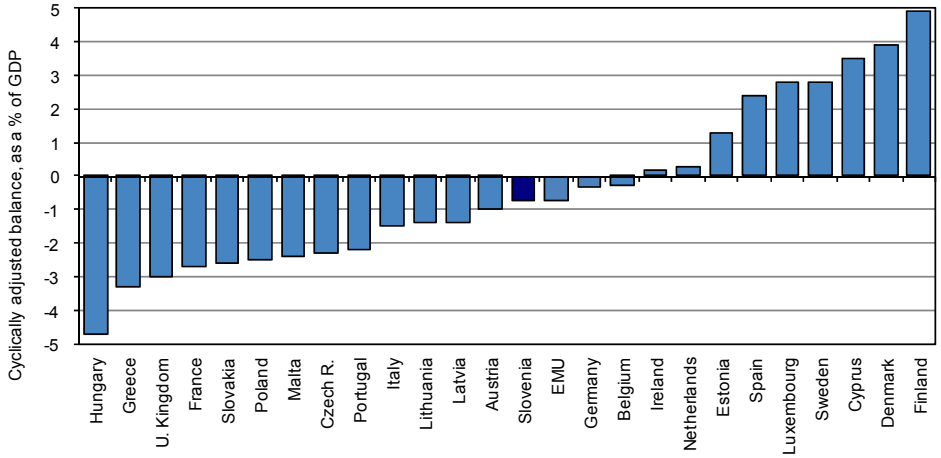
[220] Output gap is estimated with the methodology of the European Commission, which uses the production function method for its estimation.

Table: **Actual, cyclical and cyclically adjusted general government balance in Slovenia, 2000–2007**

% of GDP	Actual balance	Cyclical balance	Cyclically adjusted balance	Change in cyclically adjusted balance[1]
2000	-3.8	0.2	-4.0	
2001	-4.0	-0.2	-3.9	0.1
2002	-2.5	-0.3	-2.2	1.7
2003	2.7	-0.8	-1.9	0.3
2004	-2.3	-0.7	-1.5	0.4
2005	-1.5	-0.8	-0.6	0.9
2006	-1.2	-0.2	-1.0	-0.4
2007	-0.1	0.4	-0.5	0.5

Source: SI-stat data portal – Economy – National Accounts – Main aggregates of the general government sector, 2008; estimate by the Ministry of Finance.
Note: [1] A positive change means an improvement in the balance.The numbers do not always add up due to rounding. The cyclically adjusted balance is calculated using the production function method. Potential GDP growth, estimated after the release of SORS data on GDP growth in 2007, and the latest realisation of general government revenue and expenditure are taken into account. Changes in the cyclically adjusted balance indicate the fiscal impulse or orientation of fiscal policy.

Figure: **Cyclically adjusted balances in EU Member States – 2007**



Source: Economic Forecast, Spring 2008, European Commission, 2008.

General government debt

General government debt as a share of GDP fell by 3.1 p.p. in 2007 to 24.1% of GDP at the end of the year. Last year, general government debt also fell in nominal terms, by EUR 217.6 m, and totalled EUR 8,071.1 m at the end of 2007. General government debt as a share of GDP has been decreasing steadily since 2003. The highest decline was recorded in 2007.

The nominal reduction in general government debt was largely due to the decline in central government debt. Central government units' debt dropped by EUR 200 m in 2007 and amounted to EUR 8,009 m at the end of the year. Despite the transfer of the total debt of the social insurance funds (HIIS and PDII) in the amount of SIT 49.4 billion (around EUR 206 m) to the national budget,[221] central government units' debt decreased from 27.1% of GDP in 2003 to 23.9% of GDP by the end of 2007. In addition to the early repayment of the RS06 bond covered by assets from the sale of NLB d.d., the main contribution to the nominal reduction came from the purchase of bonds in the past year. However, general government debt as a share of GDP also decreased due to the strong economic growth seen over the last few years.

The debt of social insurance funds remained negligible after the transfer to the national budget in 2005, while local government debt also fell relative to GDP. In 2005, the total debt of social insurance funds was transferred to the national budget. The debt of social insurance funds in 2006 and 2007 was thus solely due to the short-term debt of the national capital fund (KAD). The total local government units' debt, including financial leasing, fell from 0.8% of GDP at the end of 2003 to 0.7% of GDP at the end of 2007.

In terms of maturity, the structure of general government debt is primarily long-term. The share of long-term debt increased from 93.9% of total general government debt at the end of 2003 to 96.2% of total general government debt. Broken down by borrowing instrument, the proportion of securities predominated. It has remained steady in recent years at just under 88% of total general government sector debt.

Compared to other EU countries, Slovenia's levels of debt and interest payments relative to GDP are among the lowest. Slovenia was ranked 8th among EU countries by debt volume and 11th according to the criterion of the proportion of interest in GDP.

[221] In 2005, the debt of the HIIS and PDII funds was transferred to the national budget.

Table 1: **Position of general government debt by sub-sector**

	EUR m	2003	2004	2005	2006	2007
1	**General government, total**	**6,900.94**	**7,355.94**	**7,754.71**	**8,288.70**	**8,071.12**
1.1	Central government	6,703.07	7,285.22	7,652.99	8,208.56	8,008.51
1.2	Local government	152.91	180.97	210.50	235.71	241.33
1.3	Social security funds	187.98	194.34	20.32	3.13	2.79
	% of GDP	**2003**	**2004**	**2005**	**2006**	**2007**
1	**General government, total**	**27.9**	**27.6**	**27.5**	**27.2**	**24.1**
1.1	Central government	27.1	27.3	27.1	27.0	23.9
1.2	Local government	0.6	0.7	0.7	0.8	0.7
1.3	Social security funds	0.8	0.7	0.1	0.0	0.0

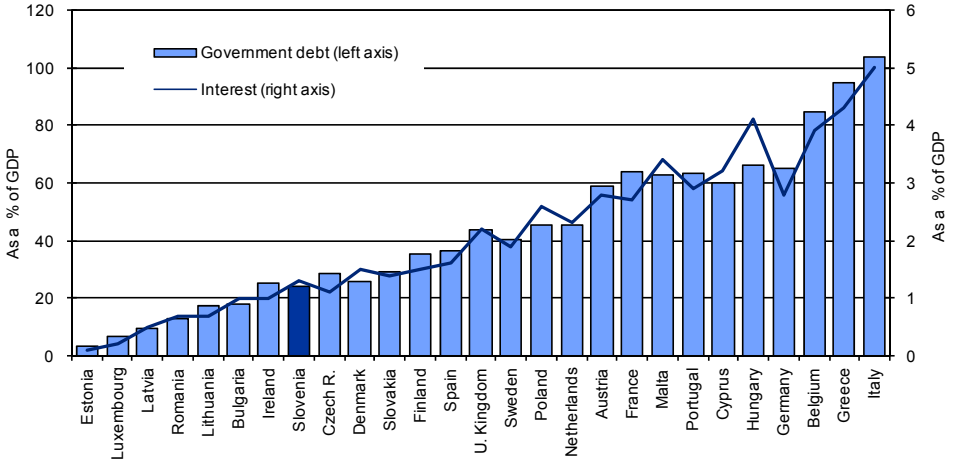
Source: MF.

Table 2: **Position of general government debt by instrument and maturity, EUR m**

		2003	2004	2005	2006	2007
1	Currency and deposits	7.8	11.6	14.5	15.0	39.7
2	Securities excluding shares, less financial derivatives	5,832.9	6,446.2	6,601.1	7,270.3	7,100.9
2.1	short-term	302.1	378.2	259.1	295.8	133.5
2.2	long-term	5,530.8	6,068.0	6,342.0	6,974.5	6,967.3
3	Loans	1,060.2	898.1	1,139.1	1,003.4	930.6
3.1	short-term	111.6	10.2	91.4	120.3	137.5
3.2	long-term	948.6	887.9	1.047.8	883.1	793.1
	General government, total	**6.900.9**	**7.355.9**	**7.754.7**	**8.288.7**	**8.071.1**

Source: MF.

Figure: **General government debt in Slovenia and the EU countries in 2007, as a % of GDP**



Source: *Eurostat Portal Page – Economy and Finance*, 2008.

Balance of payments

The current account deficit increased considerably in 2007. It stood at EUR 1,641.41 m, or 4.9% of GDP, which is 2.1 structural points more than in the previous year. The bulk of the deficit in 2007, just as in previous years, was created through trade in goods, and its increase after 2004 was partly related to the deterioration of terms of trade in that period and partly also to the increase in the import component both in exports and in domestic consumption, which has further accelerated especially in recent years. Exports of goods in the 2004–2007 period increased on average in real terms at a rate of 12.2% a year (7.7% in the 2000–2003 period), while domestic consumption rose at a rate of 4.9% a year (2.5% in the 2003–2007 period). Given such trends, the average annual real growth in imports of goods rose from 5.6% in the 2000–2003 period to 11.9% in the 2004–2007 period. The increase in the current account deficit is also linked to the increased volume of borrowing abroad and the associated interest payments, which further increased last year due to higher interest rates. The balance of current transfers also changed from surplus to deficit in 2004. On the other hand, the surplus in trade in services is rising gradually, for the most part also expressed as a share of GDP.

The rise in the current account deficit in 2007 was largely the consequence of the rising trade balance deficit. Slovenia reached a high rate of growth of exports in 2007 for the fourth consecutive year after joining the EU, with exports to EU Member States rising faster than exports to non-EU countries throughout that period. In 2007, exports of goods increased by 15.7% year-on-year in nominal terms (by 19.4% to EU Member States and by 7.7% to non-EU countries). In addition to road vehicles (34.9% growth), the biggest contributions to growth in exports of goods came from: exports of general industrial machinery, medical and pharmaceutical products, electrical appliances and machinery, metal products, and iron and steel. The growth in imports of goods was even higher (17.2%), rising for the third year in a row more rapidly from non-EU countries (24.5%) than from EU Member States (15.3%). The structure of the growth in imports, in terms of contributions by individual groups of industrial products, was very similar to the structure of exports, which indicates a high rate of intra-industry trading. In regional terms, the trade balance deficit largely increased due to the lower surplus in trade with non-EU countries, and partly due to the somewhat higher deficit with EU Member States (altogether by EUR 513.0 m to EUR 1,664.1 m).

The year 2007 saw a relatively sharp rise in the surplus in trade in services. The nominal growth rates in the exports and imports of services in 2007 were approximately the same as in 2006 (19.3% and 19.0%, respectively), and both considerably exceeded the increases from 2006. The high growth in exports of services was mostly due to exports of some types of knowledge-based services and higher value added (business, professional and technical services, and financial services). Exports of construction services also recorded a significant increase. The growth in imports was also mainly due to business, professional and technical services, while the increase in imports of construction services (134.8%) exceeded the growth in exports of those services. While the growth in trade in goods recorded high levels, the growth in trade in transport services was also high last year and its surplus even slightly increased. Most of the increase in the surplus in services trade, which stood at EUR 1,040.1 m, or EUR 174.5 m more

than in 2006, came from the trade in travel services, where the increase in foreign exchange inflow substantially exceeded the increase in outflow.[222]

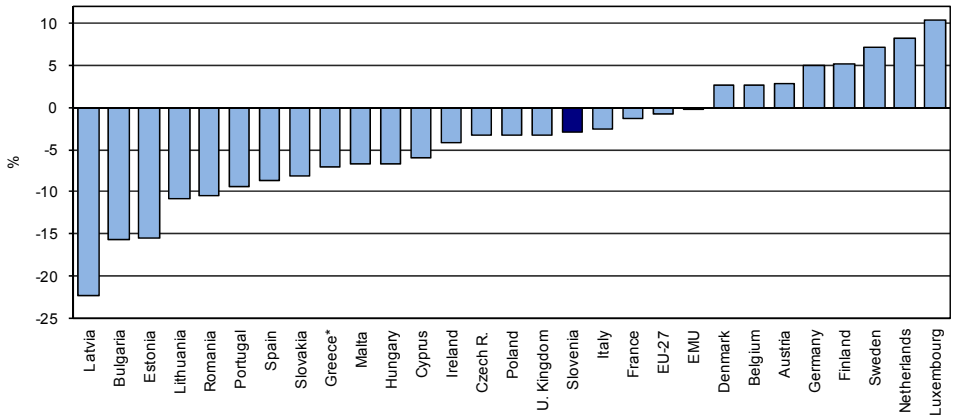
The increase in the current account deficit was also significantly influenced by higher deficits in the factor income balance and current transfers, which were the highest yet. The increase in the factor income balance (by EUR 326.9 m to EUR 725.5 m) was mostly due to the rise in net interest payments, with payments by domestic commercial banks accounting for the largest part, or 61.1% of total net paid interest on foreign loans (57.6% in the same period of 2006). The increased deficit in the balance of current transfers was largely due to the higher deficit in the government sector, which for the first time after Slovenia's admission to the EU was also due to the net outflow from the RS budget to the EU budget (in the amount of EUR 8.7 m).

Table: **Current account of the balance of payments (% of GDP), real growth rates of trade in goods and services (%) and terms of trade**

	1995	2000	2001	2002	2003	2004	2005	2006	2007
Current account, % of GDP	-0.3	-2.7	0.2	1.0	-0.8	-2.7	-2.0	-2.8	-4.9
Trade balance	-4.7	-5.8	-3.0	-1.1	-2.1	-3.8	-3.6	-3.8	-5.0
Services balance	2.9	2.3	2.4	2.6	2.1	2.6	3.0	2.8	3.1
Labour and investment income balance	1.0	0.1	0.2	-0.7	-0.9	-1.2	-1.0	-1.3	-2.2
Current transfers balance	0.5	0.6	0.6	0.2	0.1	-0.3	-0.3	-0.6	-0.9
Real growth rates of trade in goods and services, %									
Exports of goods and services	1.1	13.2	6.4	6.8	3.1	12.5	10.1	12.3	13.0
Imports of goods and services	11.3	7.3	3.1	4.9	6.7	13.3	6.7	12.2	14.1
Terms of trade									
Goods	103.1	96.0	102.1	102.0	100.5	98.8	97.6	99.6	99.6
Services	100.6	102.2	98.5	100.0	101.6	99.7	100.0	98.8	102.4

Source: *SI-stat data portal – National accounts* (SORS), 2008; *Financial accounts, External economic relations* (Bank of Slovenia), 2008; calculations by IMAD.

Figure: **Current account balance in EU Member States in 2007, % of GDP**



Source: *Eurostat – Balance of payments – International transactions – Balance of the current account*, 2008.
Note: * figures for Greece for 2005.

[222] Upon the admission of the Bank of Slovenia to the Eurosystem on 1 January 2007, within the balance of payments statistics some methodological changes in acquiring data in trade in services were introduced which could have influenced the value or growth of individual components of trade in services.

Gross external debt

In 2007, gross external debt increased considerably, which in addition to increased borrowing by banks, was also due to the debt of the Bank of Slovenia (BS) created upon its admission to the Eurosystem. Gross external debt totalled EUR 34,358 m at the end of 2007 and was EUR 10,324 m higher than in December 2006. Borrowing by domestic commercial banks, whose growth increased again last year, contributed EUR 5,197 m, or 50.3%, to gross external debt. The share of commercial banks' debt increased continuously after 2001, representing 47.2% of gross external debt and 48.3% of GDP at the end of 2007 (36.2% of GDP at the end of 2006). After a huge rise in the banking sector's borrowing abroad in 2005, growth slowed somewhat in 2006 as the increased domestic demand for bank credit was partly covered by matured BS notes.[223] Banks placed part of these released liquid funds on the domestic loan market in 2007, while investing most of them in foreign bonds, debentures and money market instruments (EUR 2,224.4 m in total in 2007). Claims on the Bank of Slovenia by commercial banks in respect of bills and long-term deposits decreased. These BS liabilities are compensated for by liabilities to the Eurosystem, through which the BS ensures unhindered access to liquid funds. As a result, its short-term liabilities to the Eurosystem increased substantially (to EUR 3,588 m by the end of 2007 compared to only EUR 16 m in 2006), especially in the first five months (by EUR 3,522.5 m). BS liabilities to the Eurosystem thus contributed 34.6% to gross external debt.

The gross external debt of the general government sector increased in 2007 as well. It was also higher in entities with capital ties, where the increase was due to methodological changes, which at the same time reduced the debt of other sectors. The debt of the general government sector increased due to the release of Slobond bonds in the amount of EUR 1 billion, and totalled EUR 3,026 m at the end of 2007, slightly less than one tenth of total gross external debt. Connected clients[224] borrowed the least of all sectors until 2007, when their debt increased somewhat more, although mainly due to the broader inclusion of debts from direct investors,[225] previously included as debts from companies in another sector. The gross external debt of connected clients thus increased by EUR 2,859 m compared to December 2006 (of which EUR 2,035 m due to the new methodology), to EUR 3,977 m, or 11.9% of gross external debt. The gross external debt of other sectors thus decreased (to EUR 7,551 m), mainly due to the aforementioned reclassification of part of the loans in other sectors (where companies predominate) as loans to companies tied by capital.

Long-term and non-guaranteed private debts accounted for the bulk of gross external debt in 2007 as well. At the end of 2007, long-term debts accounted for 64.9% and short-term debts for 35.1% of gross external debt, not taking account of liabilities to connected clients for which classification by maturity was not published. This debt maturity situation has so far ensured that Slovenia has not

[223] The last bill which is not used as an ECB monetary policy instrument matured in May 2007.
[224] Legal entities tied by capital to non-residents who own 10% or more of the capital.
[225] Under the new reporting system, direct investments include, in addition to the liabilities of a company with a direct foreign owner, liabilities to all non-resident companies that belong to its category.

yet had any liquidity or solvency problems. At the end of 2006, this relation was somewhat more in favour of long-term debt (77.3% against 22.7%). The year 2007 saw an increase in short-term debt, mostly owing to the aforementioned changes in monetary policy instruments. This was also the main factor in increasing public and publicly guaranteed debt, which at the end of 2007 climbed to EUR 8,087 m, or 23.5% of gross external debt. The guarantees of the Republic of Slovenia for external debt totalled EUR 2,555.7 m at the end of December 2007, or EUR 597 m more than at the end of 2006 (EUR 1,260 m in the 2000–2006 period). The majority of gross external debt, in the amount of EUR 26,272 m, or 76.5%, was unguaranteed private debt, which had risen by EUR 6,561 m since the end of 2006. The prevailing external debt currency is the euro, accounting for more than 90%.

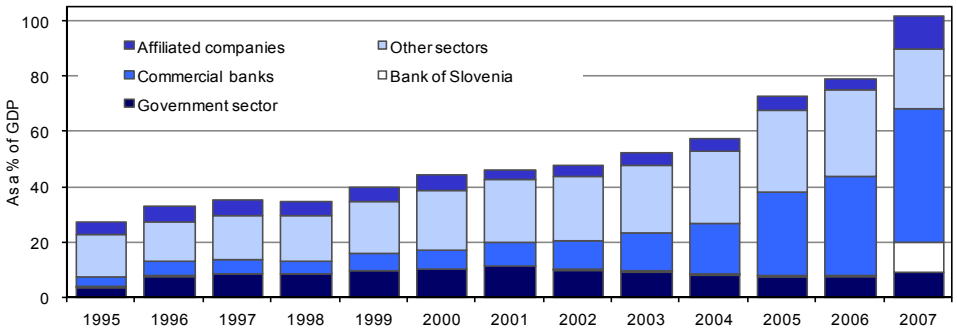
Slovenia has the least debt of all the countries of the euro area. The share of gross external debt at the end of 2007 represented 102.4% of GDP, which was much below the average for the euro area in 2007 (191.8% of GDP). In the 2003–2007 period, for which figures for the euro area are available, the nominal growth of external debt in Slovenia was higher than the average for the euro area (Slovenia 24.9%, euro area 14.2%). A higher increase in external debt than in Slovenia was only reported by Ireland (28.7%). Due to the approximately twofold GDP growth in Slovenia, the share of external debt in GDP nevertheless increased less than in the EMU (from 52.2% to 102.4.9% of GDP, compared to 129.0% to 191.8% of GDP in the EMU).

Table: **Slovenia's gross external debt position, EUR m**

	2000	2001	2002	2003	2004	2005	2006	2007
Total gross external debt	9,490	10,386	11,524	13,225	15,343	20,508	24,034	34,358
Short-term debt	2,283	2,213	2,327	2,475	2,659	4,543	5,206	10,673
Public & publicly-guaranteed debt	0	15	99	70	57	40	48	3,588
Private non-guaranteed debt	2,283	2,198	2,227	2,405	2,603	4,503	5,158	7,086
Long-term debt	5,895	7,369	8,229	9.590	11,552	14,551	17,709	19,708
Public & publicly-guaranteed debt	2,883	3,095	3,142	3.461	3,689	3,771	4,275	4,499
Private non-guaranteed debt	3,012	4,274	5,087	6,129	7,863	10,780	13,435	15,209
Liabilities to affiliated entities	1,312	804	969	1,160	1,132	1,415	1,118	3,977
Public & publicly-guaranteed debt	0	0	0	0	0	0	0	0
Private non-guaranteed debt	1,312	804	969	1,160	1,132	1,415	1,118	3,977

Source: *Bulletin of the Bank of Slovenia*, 2008.

Figure: **Structure of gross external debt by sector, as a % of GDP**



Source: *Bulletin of the Bank of Slovenia*, 2008, calculations by Imad.

Labour productivity

Labour productivity growth in 2007 was lower than in the previous year, as employment increased notably against the background of strong economic growth. Expressed as real growth in GDP per employed person according to the national accounts methodology, it stood at 3.3% in 2007, while in 2006 it stood at 4.5% according to the latest revised national accounts statistics. Productivity growth in 2007 was lower than in the 2000–2006 period (3.5%) and lower than average annual growth in the second half of the previous century (4.8%). In 2007, high productivity growth continued in financial intermediation (8.7%), construction (7.2%), manufacturing (8.3%) and mining (8.8%), while most services recorded low or even negative productivity growth (hotels and restaurants, transport, real estate, renting and business services and other public, collective and personal services).

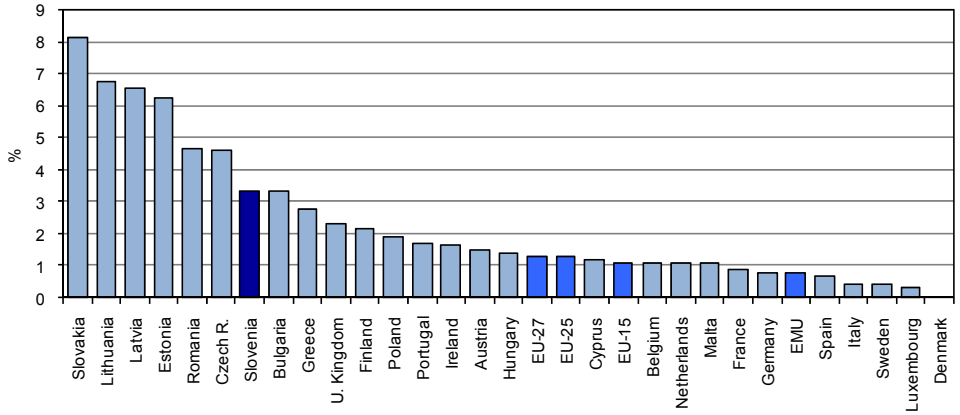
Slovenia's lagging behind the average level of labour productivity in the European Union has continued to improve. In 2007, average labour productivity in Slovenia achieved EUR 34,956 of GDP per employed person, which equals 85.9% in PPS of the EU-27 average (77.8% of the average for the euro area) according to Eurostat's estimate. Owing to the considerably stronger growth of labour productivity in Slovenia compared to most of the more advanced EU countries, the gap between Slovenia's productivity and the EU average is closing. It narrowed by 10.8 p.p. in PPS until 2006 compared to 2000. According to Eurostat's estimate, average productivity growth in the EU in 2007 was low (1.3%) as well.

Table: **Labour productivity in PPS in Slovenia and in EU member states, %, EU-27=100**

	1997	2000	2001	2002	2003	2004	2005	2006	2007 [3]
EU-27	100.0	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
EMU-13	116.2	**113.8**	**113.0**	**112.1**	**111.4**	**110.4**	**110.6**	**110.3**	**109.5**
Austria	121.7	123.1	118.1	119.1	120.3	120.7	120.4	120.2	120.6
Belgium	137.4	137.1	133.9	136.6	134.8	132.2[2]	132.1	131.5	131.4
Bulgaria	29.2[1]	30.4	31.4	33.1	33.5	33.8	34.3	34.9	35.6
Cyprus	80.6 [1]	85.0	86.8	84.6	82.6	82.9	84.3	84.9	84.9
Czech Rep.	60.5 [1]	61.9	63.3	63.1	66.6	68.1	69.1	70.7	73.2
Denmark	109.9	110.6	107.7	108.6	106.4	108.8	109.3	108.5	107.3
Estonia	39.8 [1]	46.5	47.8	50.9	54.5	56.8	61.7	64.3	67.6
Finland	110.9	114.9	112.8	111.6	109.6	112.8	110.8	112.4	113.6
France	125.7	125.2	125.1	125.6	121.8	120.8[2]	123.7	124.2	124.1
Greece	93.2 [1]	93.7	97.2	100.4	100.3	101.8	103.6	103.9	105.4
Irland	125.4	127.2	128.1	133.4	135.4	134.8	133.9	134.9	135.6
Italy	128.8	126.1	125.6	117.8	115.7	112.2	111.1	109.0	108.2
Latvia	35.5 [1]	40.1	41.4	43.1	44.3	46.0	49.2	50.9	53.7
Lithuania	38.0 [1]	42.7	46.9	48.0	51.9	53.3	54.7	57.1	60.3
Luxemburg	166.2	176.1	162.5	163.5	166.8	169.8	175.7	184.2	184.6
Hungary	61.5 [1]	64.7	68.1	71.0	71.9	72.2	73.4	74.6	74.8
Malta	N/A	96.8	90.0	92.1	90.4	89.7	90.0	90.3	90.3
Germany	114.1	108.1	106.9	106.5	108.8	108.3	107.5	107.1	106.8
Netherland	110.2	114.5	113.4	113.4	111.0	112.4	114.3	113.3	113.4
Poland	46.7 [1]	50.9	52.2	54.1	62.5 [2]	65.0	65.3	66.3	66.9
Portugal	68.1	68.9	68.0	67.9	68.5	67.2	68.7	68.4 [3]	68.8
Romania	N/A	N/A	N/A	29.2	31.2	34.4	36.3	39.2 [3]	40.6
Slovakia	54.3 [1]	58.0	60.5	62.6	63.4	65.6	68.8	71.8	76.7
Slovenia	**72.3 [1]**	**75.1**	**75.5**	**76.7**	**78.1**	**80.9**	**82.8**	**84.0**	**85.9**
Spain	108.3	103.8	103.3	104.9	103.9	102.2	102.0	103.1	102.7
Sweden	113.2	113.6	107.7	107.8	110.2	113.5	113.0	113.9	113.0
U. Kingdom	107.1	108.9	109.8	110.2	110.6	112.2	109.8	109.6	110.9

Source: Eurostat Portal page – Economy and Finance — National Accounts, 2008.
Notes: N/A – not available, [1] Eurostat's estimate, [2] a break in the series, [3] Eurostat's forecast.

Figure: **Real annual productivity growth in the EU Member States in 2007, %**



Source: Eurostat Portal page – Economy and Finance – National Accounts, 2008.

Market share

Slovenia's aggregate market share continued to grow in 2007. Its otherwise moderate growth (slowing from 4.6% to 3.9% in 2006 and to 3.5% in 2005), as a result of the fall in market shares outside the EU area, indicates that the high real growth of Slovenia's exports of goods in recent years (by an annual average of 12% in the 2005–2007 period) was also due to the improved competitiveness of the Slovenian economy. As market share growth continued to increase rapidly in the Italian market, Slovenia's market share rose again in the German market after a four-year decline, as well as in the French market after a one-year drop, but was much smaller compared to the vigorous growth in 2004–2005. Of all the major EU markets, Slovenia's market share only dropped in Austria, after increasing for seven years in a row. As for other EU markets, the growth of Slovenia's market share was especially high in Hungary, the UK and the Netherlands. Outside the EU, Slovenia's market share continued to decline in Croatia, and, after one year, it dropped again in the US and Russia.

In 2007, Slovenia ranked third among EU Member States in terms of market share growth in the EU (13.1%), which was a significant improvement over previous years. On average, Slovenia ranked eighth in 2004–2006 and tenth in 2001–2003. In comparison to Slovenia, only the market shares of Slovakia and Latvia expanded more rapidly in 2007. They were followed by the remaining new members, with the exception of Malta and Cyprus, which reported a drop in their market shares in the EU. In comparison to previous years, the shares of a large number of old Member States (seven) also increased in 2007; within that, the market share of Germany increased the most.

Within the standard trade classification (SITC) sectors, the Slovenian EU market share recorded strengthened year-on-year growth in manufactured products (5–8) in the first nine months of 2007 and a slowdown in food and beverages (0,1) to a still high level, while the market share in raw materials (2–4) dropped. The growth in the market share of manufactured products (12.9%) was largely stimulated by growth in the market share of machinery and transport equipment (24.9%), under the influence of renewed strong growth in exports of road vehicles, while vigorous growth in the market share of chemical products (9.6%) continued. Growth of the market share of manufactures classified by material (leather, rubber, paper, wood, textile and metal) was relatively modest (2.8%), and the market share of miscellaneous manufactured articles (prefabricated buildings, furniture, clothing, footwear and other manufactured articles) dropped (-2%) for the second year in a row. The still high (30%) growth of the otherwise much smaller market share of food and beverages slowed down owing to the decelerated growth in the market share of food and live animals. The drop of what is also a relatively less important market share of raw materials (-6.7%) was due to a decline in the market share of mineral fuels.

In 2006, the position of Slovenian exporters in the EU market compared to other markets continued to improve considerably. Throughout the period following EU accession (2004–2006), the average annual growth of Slovenia's market share in EU

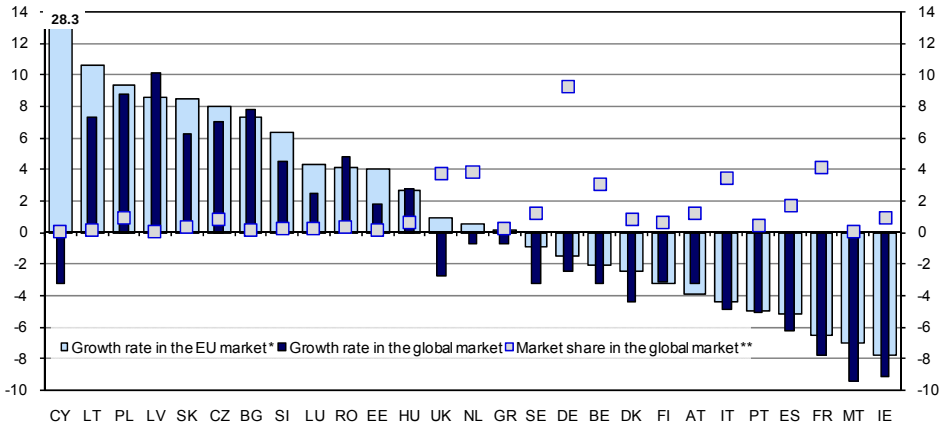
markets was higher (6.3%, in 2006 5.5%) than in the global market (4.6%, in 2006 4.7%), which was also observed in the majority of the new EU Member States.[226]

Table: **Slovenia's market shares[1] in the main trading partners, %**

	1996	2001	2002	2003	2004	2005	2006	2007
Total (15 countries)	0.583	0.499	0.527	0.528	0.542	0.561	0.587	0.610
Austria	0.816	0.928	0.935	0.940	0.991	1.133	1.328	1.278
Belgium	0.046	0.056	0.046	0.045	0.061	0.062	0.066	0.061
Czech Republic	0.536	0.464	0.467	0.448	0.435	0.521	0.526	0.568
France	0.206	0.191	0.211	0.181	0.217	0.292	0.263	0.282
Croatia	10.980	8.741	8.428	8.025	8.744	8.740	8.561	8.008
Italy	0.537	0.489	0.506	0.562	0.583	0.588	0.619	0.696
Hungary	0.665	0.466	0.490	0.527	0.511	0.531	0.618	0.936
Germany	0.562	0.500	0.523	0.488	0.480	0.458	0.456	0.473
Netherland	0.067	0.074	0.079	0.084	0.074	0.071	0.071	0.088
Poland	0.386	0.484	0.521	0.515	0.477	0.446	0.482	0.525
Russia	0.443	0.526	0.495	0.517	0.536	0.464	0.546	0.466
Slovakia	0.621	0.565	0.753	0.813	0.724	0.750	0.762	0.709
Spain	0.037	0.058	0.066	0.089	0.094	0.111	0.123	0.128
United Kingdom	0.057	0.075	0.070	0.071	0.076	0.087	0.098	0.116
USA	0.031	0.021	0.024	0.037	0.034	0.022	0.026	0.023

Source: SI-stat data portal – Economy (SORS), 2008; Eurostat portal page — External trade, 2008, The Vienna Institute Monthly Reports, 2008; Foreign Trade Statistics (U.S. Census Bureau), 2008.
Note: [1]Market shares are calculated as the weighted average of Slovenia's merchandise exports in the imports of its main trading partners determined by the size of their shares in Slovenia's exports. The shares of individual trading partners in Slovenia's merchandise exports are also used as weights in calculating the weighted avarage (using Fisher's formula).

Figure: **Market shares of EU Member States and their average annual growth in 2004–2006**



Source: WTO Statistics Database, 2008; Eurostat external trade, 2008; IMAD's calculations.
Notes: *a Member State's export shares in EU imports (intra and extra); ** in 2006.

[226] By contrast, prior to Slovenia's entry into the EU, in the 2001–2003 period the market position of Slovenian exporters in other markets strengthened faster compared to the EU market. (The average annual growth of Slovenia's market share in the EU was 3.4%, compared to 7.4% in the global market.)

Unit labour costs

Estimates for 2007 show that the downward trend relating to real unit labour costs in Slovenia's economy continued. Given the somewhat stronger lag of the compensation of employees per employee behind labour productivity, real unit labour costs fell significantly in 2007 (by 1.4%, in 2006 by 1%). Since data on manufacturing's unit labour costs are still unavailable for 2007, a detailed analysis of this indicator is only possible through 2006.

In 2006, the ratio of labour costs per employee to GDP per employee in the Slovenian economy improved mainly as a result of stronger labour productivity growth. After a slight drop of 0.3% in 2005, real unit labour costs decreased by 1% in 2006. The nominal growth of the compensation of employees per employee was similar to that in 2005 (5.5%, in 2005 5.3%), while labour productivity, measured by the nominal growth of GDP per employee, recorded a more significant rise (6.5% against 5.7%).

The ratio of labour costs per employee to value added per employee in Slovenian manufacturing improved in 2006 appreciably more than in the Slovenian economy as a whole. After two years of considerable growth (3.2% in 2004 and 1.9% in 2005), real unit labour costs fell by 3.3% in manufacturing in 2006, and by 1.1% in the total economy. The improvement stemmed from the notably accelerated 9.7% labour productivity growth, as measured by the nominal growth of value added per employee (compared to 6.6% in the economy as a whole). Given a drop in employment (by 1.7% in 2006, compared to 2% in 2005), the growth of value added in manufacturing accelerated considerably (7.9%, from 1.9%), which was also a result of a smaller deterioration of the terms of trade than in the previous two years.[227] On the other hand, the nominal growth of compensation per employee deviated less from that in the total economy (6.1% against 5.5%).

Compared to the EU average, the competitiveness of the Slovenian economy improved somewhat in 2006. Estimates for 2007 show similar trends. In both years, the decline in real unit labour costs in the Slovenian economy was slightly larger than the average for the EU-27 and the average for the euro area (see table). After deteriorating for two years, the upward trend in the competitiveness of the Slovenian economy thus resumed. In 2006, Slovenia improved its competitive position in comparison with about half the members for which data are available (see figure).

In 2006, the ratio of labour costs to GDP[228] in the Slovenian economy (71.8%) was still notably higher than the averages for the EU (65.4%) and the euro area (63.7%). The deviations from the EU average in 2006 were the lowest to date (6.4 p.p.), following the halving of differences in the second half of the 1990s (to 7 p.p.), after which they more or less hovered above the already achieved level from the late

[227] The deterioration in the terms of marchandise trade stood at 1.2% in 2004, 2.4% in 2005 and 0.4% in 2006. Slovenia's manufacturing sector is relatively highly sensitive to changes in terms of trade as, with its considerable dependency on imports, its products constitute the bulk of Slovenia's exports of goods.

[228] The ratio between compensation per employee and GDP per employee in factor prices, also called the wage share.

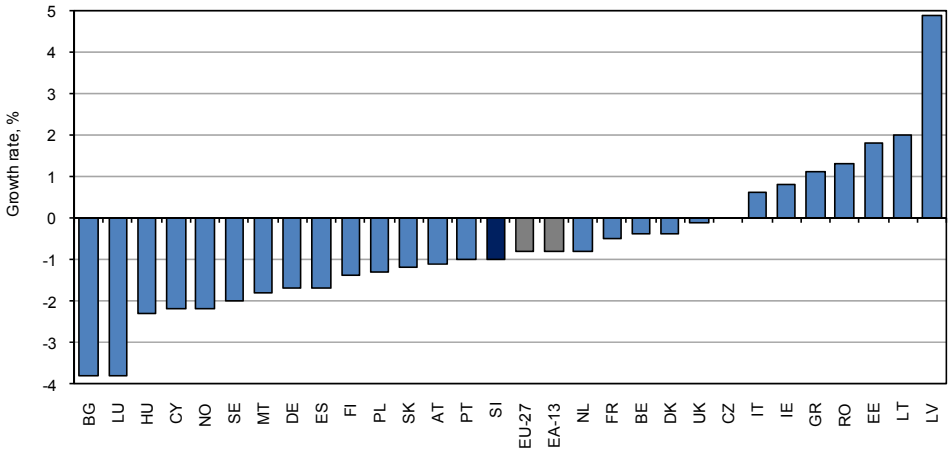
1990s. Of all the EU Member States, only Romania, Portugal and the United Kingdom reached higher levels of this ratio than Slovenia in 2006. In addition to the specificity of the Slovenian agricultural sector, divergences from the EU and euro areas were also due to the different structure of the Slovenian economy, as well as higher labour taxation in Slovenia.[229] As evident from the estimates for 2006 and 2007, labour taxation declined, as the first effects of personal income tax changes and gradual phasing out of the payroll tax have already started to show.[230]

Table: **Unit labour costs in Slovenia and the EU in 1996–2007**

Real annual growth rates, %	1996–1999	2001	2002	2003	2004	2005	2006	2007[3]
Unit labour costs per unit of GDP[1]								
Slovenia	-2.5	0.3	-1.5	-1.1	0.2	-0.3	-1.0	-1.4
EU-27	-0.6	0.2	-0.4	-0.2	-1.5	-0.5	-0.8	-0.9
EU-13 (euro area)	-0.8	-0.2	-0.2	-0.2	-1.1	-0.8	-0.8	-0.7
Unit labour costs[2] – Slovenia								
Total	-2.6	-0.1	-1.1	-1.3	-0.1	-0.5	-1.1	-1.2
Manufacturing	-50	-0.9	-1.1	-3.8	3.2	1.9	-3.3	N/A

Source: SI-stat data portal, Economy (SORS), 2008; Economy and finance (Eurostat), 2008; Eurostat Structural Indicators, General Economic Background, 2008.
Notes: [1]compensations per employee in current prices divided by GDP per employee in current prices; [2]compensations per employee in current prices divided by value added per employee in current prices; [3]estimate, N/A – not available.

Figure: **Real growth of labour costs per unit of GDP in Slovenia and the EU in 2006, %**



Source: Eurostat Structural Indicators, General Economic Background, 2008.

[229] For more on this, see Economic Issues 2007 (IMAD), 2007.
[230] See Chapter 3.1.

Structure of merchandise exports according to factor intensity

The structure of Slovenia's merchandise exports according to the technological intensity of products[231] improved somewhat in 2006 and 2007. After declining for two years, the *share of high-tech products* in merchandise exports rose by 1.1 p.p. in 2006 and by 0.3 p.p. in 2007, although it was still below the record level achieved in 2003. The share of high-tech products in merchandise exports is much lower than the EU average and lower than the average of the new EU Member States (EU-12). In 2006, for which the latest data are available, the gap between the EU and Slovenia narrowed slightly, while the gap between the EU-12 and Slovenia remained almost unchanged. The number of new members who surpassed Slovenia in this area increased in 2006.[232] The main reason for the increase in the share of high-tech products in Slovenia's merchandise exports in 2006 was once again the rising share of pharmaceutical products, after having fallen in the preceding two years. Besides pharmaceutical products, the increase in the share of high-tech products in 2007 was also due to stronger exports of airplanes. Despite the increase in the share of high-tech products, the *total share of high-tech and medium-tech products* in 2006 remained at the level of the previous year, while it increased significantly again in 2007 (by 2.p.p.). This trend is related to fluctuations in exports of vehicles, which are classified as medium-tech products.[233]

The fall in the total share of low-tech and labour-intensive products[234] in merchandise exports accelerated after Slovenia joined the EU. The share of these products has been contracting steadily since 2000, mainly due to the lower share of exports of textile products, furniture, and paper and cardboard. In 2006, these products made up 24.4% of Slovenia's merchandise exports (15.3% in the EU-15 and 23.1% in the EU-12). Their share has decreased by 7.1 p.p. since 2000, and by 4.2 p.p. in the years since Slovenia's entry into the EU. Compared to the averages for the EU and the new Member States, Slovenia has a high share of labour-intensive products in its merchandise exports. In 2006, Lithuania, Bulgaria and Romania were the only new members which recorded higher shares than Slovenia. The share of low-tech products is also somewhat higher than in the EU (and lower than in the EU-12). The data for 2007 show that the share of low-tech and labour-intensive products continued to decline at an accelerated pace. The share of labour-intensive products contracted by 1.6 p.p. and the share of low-tech products by 0.7 p.p.

---

[231] The classification of products into individual groups is based on UN methodology (Trade and Development Report, 2002).

[232] Technological competitiveness in comparison with Malta, Hungary and Estonia deteriorated as early as in the second half of the 1990s, with the Czech Republic in 2002, with Cyprus in 2003, and with Slovakia in 2006.

[233] Exports of this group fluctuated notably in the past years due to factors linked to road vehicle exports in Slovenia. It increased significantly in 2005, declined in 2006 and rose markedly again in 2007.

[234] The groups of low-tech and labour-intensive products include products with the lowest value added per employee, such as clothing, textile products, footwear, furniture, glass, glass products, flat and rolled iron products and base metal products.

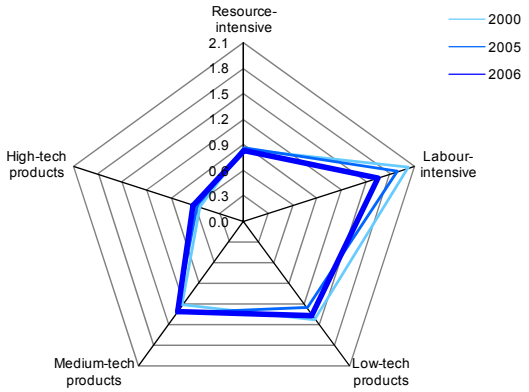
The downward tendency in natural-resource-intensive products,[235] characteristic of 1995–2004, which came to a halt in 2005 and 2006, resumed in 2007. The proportion of these goods in merchandise exports rose by 2.1 in total in 2005 and 2006. Data for 2007 show that the share of exports of natural-resource-intensive products in the structure of merchandise exports returned to the level of 2005.

Table: **Structure of merchandise exports by factor intensity[1] in Slovenia and the EU in 2000–2006**

		2000	2001	2002	2003	2004	2005	2006
Resource-intensive	EU-27	18.2	17.7	17.7	17.7	18.2	17.9	19.4
	EU-15	18.0	17.5	17.7	17.6	18.2	17.8	19.4
	EU-12	20.7	19.7	18.8	18.2	18.8	19.2	19.0
	Slovenia	15.3	15.1	14.6	14.6	14.0	15.4	16.1
Labour-intensive	EU-27	10.6	10.7	10.7	10.4	9.8	9.0	8.6
	EU-15	10.1	10.1	10.1	9.8	9.3	8.6	8.2
	EU-12	18.5	18.9	18.8	17.7	15.8	14.0	12.3
	Slovenia	21.6	21.3	20.0	18.7	17.8	17.0	14.2
Low-tech	EU-27	6.9	7.0	7.0	7.2	7.7	7.0	7.4
	EU-15	6.6	6.7	6.7	6.9	7.4	6.6	7.1
	EU-12	10.5	10.9	11.0	11.0	11.5	10.6	10.8
	Slovenia	9.9	9.9	9.9	10.1	10.8	8.8	10.2
Medium-tech	EU-27	29.8	30.4	30.5	30.9	31.0	30.1	29.9
	EU-15	29.8	30.3	30.5	30.7	30.8	29.8	29.5
	EU-12	30.1	30.6	31.5	33.1	33.3	33.3	34.3
	Slovenia	36.2	36.2	37.3	37.3	38.3	40.2	39.1
High-tech	EU-27	28.7	28.7	28.7	27.6	27.1	27.7	27.7
	EU-15	29.4	29.4	29.5	28.3	27.9	28.5	28.6
	EU-12	18.1	17.3	17.9	18.0	18.8	18.2	19.2
	Slovenia	15.5	16.0	16.7	17.9	17.2	16.0	17.1

Source: Handbook of Statistics 2006–2007 (United Nations), 2007; United Nations Commodity Trade Statistics Database, 2007; lastni preračuni. Note: [1]The classification of products into groups is based on the UN methodology (Trade and Development Report, 2002). This classification does not comprise all products, therefore the sum of five product groups does not necessarily equal 100.

Figure: **Relative export advantage index[1] of Slovenia's exports by factor structure**



Source: Handbook of Statistics 2006–2007 (United Nations), 2007; United Nations Commodity Trade Statistics Database, 2007; own calculations. Note: [1] Relative Export Advantage Index – RXA Balassa index or coefficient – compares the share of Slovenia's exports of a particular group of products to the share of exports of that group of products in the imports of the group of countries used as a standard of comparison (in our case, the EU-27).

[235] The most important groups of natural-resource-intensive products in Slovenia's merchandise exports are: aluminium, finished mineral products, electricity, rough and worked wood, veneer and other manufactured wood, wood manufactures. and non-alcoholic and alcoholic beverages.

Exports and imports as a share of GDP

The openness*[236] *of Slovenia's economy to foreign trade further increased in 2007. The average share of trade in goods and services relative to GDP expanded to 72.3%, up 4.4 p.p. from the previous year and 15.8 p.p. from 2000. As in previous years, the openness of the economy generally rose thanks to the increased integration of goods trade into international trade flows. The growth in the share of services trade in GDP was also somewhat higher than in the previous years, which indicates improved competitiveness of Slovenia's exports of services in international markets. The share of merchandise exports and share of merchandise imports increased by 3.0 and 4.2 p.p. in 2007, respectively, while the increases in the shares of both exports and imports of services were lower, by 1.0 and 0.7 p.p., respectively. In addition to increased quantities, an important contribution to the greater openness of the Slovenian economy in 2007 also came from higher export and import prices of goods and services.

In recent years, the level of trade integration increased faster in Slovenia than in the EU. After having increased in the 1995–2000 period, the openness of the economy in the EU Member States went down in 2002 and 2003, as it did in Slovenia. This was the result of the slowed growth of the European economy and partly of the dynamics of the euro exchange rate. In the 2003–2007 period, however, the EU Member States again saw an increase in the rate of trade integration, mostly as a result of the strong global economy, which had a favourable effect on the business cycle of the European economy. The share of foreign trade in GDP rose more slowly in the EU on average than in Slovenia, so that the gap between Slovenia and the EU increased further. Among the new EU members, the highest levels of trade integration in 2007 were recorded in Slovakia, Malta, Estonia, the Czech Republic, Hungary and Bulgaria, and among the old EU members Belgium, Luxembourg and Ireland.

After a decline in 2006, the year 2007 saw a slight rise in the share of technology-intensive industries in merchandise exports and a further increase in the export share of services based on knowledge and higher value added. Within merchandise exports, the strongest growth was seen in exports of high- and medium-high-tech industries,[237] which prevail in Slovenia's merchandise exports (from 54.4% in 2006 to 56.5 % in 2007). Their increase was solely due to the growth of exports of road vehicles, whose production is included in the production of transport equipment. The share of exports of the other three high-

[236] The openness of an economy depends on both external and internal conditions. The main external conditions, which belong to a foreign economic environment, comprise: the dynamics of foreign demand in export markets, changes in the prices of oil, other raw materials and producers' domicile prices, which in most cases determine the terms of trade and the dynamics of foreign interest rates. The main internal conditions affecting import openneess are the size of the economy, the trends in domestic economic growth and the dynamics of the real effective domestic currency exchange rate.

[237] Following the OECD methodology (Hatzichronoglou, 1997), low-tech industries include the following SCA activities: DA, DB, DC, DD, DE and DN; medium-low-tech industries include: DF, DH, DI and DJ; and medium-high- and high-tech industries include: DG, DK, DL and DM.

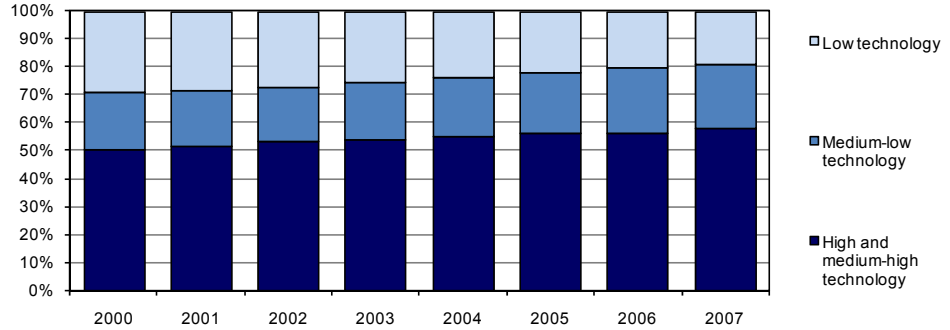
and medium-high-tech industries in total merchandise exports remained at the level from the previous year (machinery and chemical industries) or even fell somewhat (electrical industry). The share of exports in medium-low-tech industries remained the same as in 2006 (22.8%). The share of the metal industry increased slightly. This is by far the largest share of exports within medium-low-tech industries, and its proportion has been increasing ever since 2002. The share of low-tech industries continues to fall (from 19.5% in 2006 to 18.3% in 2007). In services exports, the largest increase in 2007 was again recorded in services, which are mainly based on knowledge (the group of other services) and include insurance, financial and other business services, licences, patents and copyrights and computer services. Their proportion (30.1%) in total services exports was nevertheless still considerably below the EU-27 average (59.0% in 2006). Despite the high growth in merchandise exports, the share of transport services shrank somewhat in 2007, as did the share of travel.

Table: **Average trade-to-GDP ratios (exports and imports)[1] in Slovenia and the EU, %**

	1995	2000	2002	2003	2004	2005	2006	2007
Trade-to-GDP ratio in Slovenia	52.1	56.5	55.5	55.0	59.5	63.3	67.9	72.3
Products	43.4	48.0	46.6	46.2	50.3	53.5	57.8	61.4
Services	8.7	8.5	8.9	8.8	9.3	9.8	10.0	10.9
Exports of goods and services	51.2	54.7	56.1	54.8	58.9	63.0	67.4	71.4
Products	41.0	45.0	46.0	45.1	48.3	51.7	55.9	58.9
Services	10.2	9.7	10.2	9.8	10.6	11.3	11.5	12.5
Imports of goods and services	53.0	58.3	54.9	55.1	60.2	63.6	68.4	73.2
Products	45.7	50.9	47.2	47.3	52.2	55.4	59.8	63.9
Services	7.3	7.4	7.7	7.7	8.0	8.2	8.6	9.2
Trade-to-GDP ratio in EU-27	28.9	36.0	34.7	34.1	35.4	37.1	39.5	39.94
Products	22.8	28.0	26.6	26.2	27.2	28.5	30.6	30.8
Services	6.1	8.0	8.1	8.0	8.2	8.6	8.9	9.1

Source: SI-Stat data portal – National accounts (SORS), 2008; Eurostat Portal Page – Economy and Finance, 2008; calculations by IMAD.
Note: [1]The ratio between the average value of total exports according to the balance of payments statistics and GDP in current prices.

Figure: **Structure of Slovenia's exports of goods by NACE activity, classified relative to their technological intensity[1]**



Source: SI-STAT data portal – Foreign trade (SORS), 2008.
Note: [1] Following the OECD methodology (Hatzichronoglou, 1997), low-tech industries include the following NACE activities: DA, DB, DC, DD, DE and DN; medium-low-tech industries include: DF, DH, DI and DJ; and medium-high- and high-tech industries include: DG, DK, DL and DM.

Foreign direct investment

Inflows of foreign direct investment increased markedly in 2007, while the favourable trends seen on the side of outflows in previous years continued. In 2000–2006, inward FDI stock in GDP rose from 14.8% to 22.2% of GDP, while outward FDI stock rose from 3.9% to 11.4% of GDP. In 2006, the inward and outward FDI stock to GDP ratios increased by a mere 0.5 and 1.5 p.p., respectively. The current level of FDI in Slovenia is largely the result of the increased inflows recorded since 2000, although they have been highly uneven. Following the record-high level seen in 2002 totalling EUR 1,721.7 m,[238] FDI inflows were at much lower levels in subsequent years (see table). The figures for 2007, when FDI inflows reached EUR 1,064.9 m, indicate a substantial improvement compared to the previous year. In 2007, FDI inflows were thus by far the largest since 2002. FDI outflows from Slovenia are increasing steadily and fast, from merely EUR 71.7 m in 2000 to as much as EUR 1,065 m in 2007. In contrast to the two preceding years, when Slovenia was a net exporter of FDI, inward and outward FDI flows were almost equal in 2007. Slovenia is thus an exception among the new EU Member States, which are all great net importers of FDI. Growth of outward direct investment in recent years is one of the most positive aspects of Slovenia's internationalisation. Inward investment is relatively low, which signifies that the development impulses which FDI might bring (restructuring in the direction of high-technology industries, effects of knowledge spillover, etc.) have not yet been sufficiently used.

Slovenia has the lowest inward FDI stock to GDP ratio among the new EU Member States. Among the old EU members, only Germany, Italy, Greece and Austria had lower ratios of inward FDI stock to GDP, while among the new members the lowest ratio was recorded in Slovenia. In the 2000–2006 period, most of the analysed countries significantly increased their FDI stock to GDP ratios; in the EU-25 as a whole this ratio rose by 12 p.p., and by 2.5 p.p. in 2006 alone; in the new member states by an average of 19.9 p.p., by 6.8% p.p. in 2006 alone; and in Slovenia only by 7.4 p.p., by 0.5 p.p. in 2006 alone (UNCTAD, 2007). Regarding outward FDI stock to GDP ratio, Slovenia achieved better results than other new EU Member States. According to that indicator, Slovenia (11.4%) was only surpassed by Cyprus (21.9%), Estonia (22.0%) and Malta (14.8%) in 2006. As expected, however, Slovenia was far behind the old EU members (except Greece).

The internationalisation of the Slovenian economy is mostly accomplished through trade flows and much less through FDI. The analysis of the Slovenian economy's rate of internationalisation also enables a look at Slovenia's shares in various global macroeconomic aggregates. In 2006, these shares were as follows: (i) global FDI inflows (2004–2006): 0.0685%, (ii) global inward FDI stock: 0.0708 %, (iii) global FDI outflows (2004–2006): 0.0703%, (iv) global outward FDI stock: 0.0345%, (v) global BDP: 0.0791%, (vi) global exports: 0.1822 %. Particularly notable is the large difference between Slovenia's high share in exports and its substantially lower share in inward and outward FDI. In addition, the shares in FDI

[238] The high FDI inflows in 2002 were underpinned by certain major foreign acquisitions, primarily that of Lek by the Swiss company Novartis, and the purchase of a 34% share in the NLB bank by the Belgian KBC.

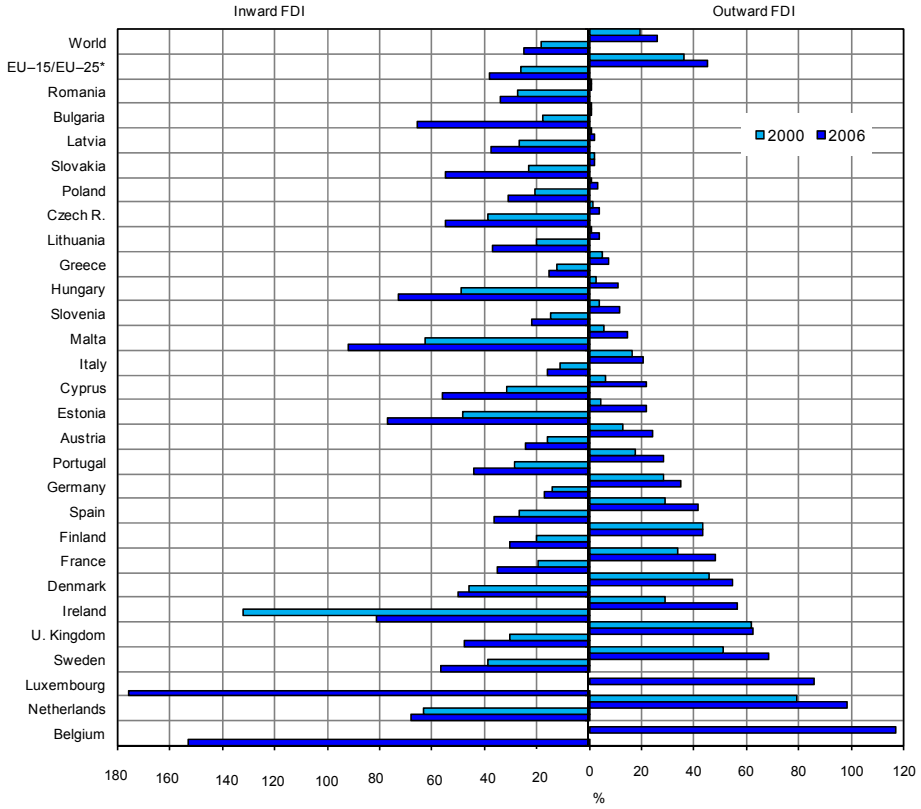
are also considerably lower than Slovenia's share in global GDP, which is unusual for a small country such as Slovenia.

Table: **Flows and stocks of inward and outward FDI[1] in Slovenia in 1995–2007[2], EUR m**

	1995	2000	2002	2003	2004	2005	2006	2007
Inward FDI								
Year-end stock	1,376.0	3,109.8	3,947.9	5,046.8	5,579.6	6,133.6	6.774,9	N/A
Annual inflow[3]	117.4	149.1	1.721.7	270.5	665.2	472.5	511.7	1.064.9
Stock as a % of GDP	9.5	14.8	16.7	20.3	21.3	21.7	22.2	N/A
Outward FDI								
Year-end stock	382.3	825.3	1,445.2	1,880.3	2,224.0	2,788.7	3,457.2	N/A
Annual outflow[4]	7.8	-71.7	-165.8	-421.3	-441.0	-515.6	-718.5	-1.065.4
Stock as a % of GDP	2.6	3.9	6.1	7.6	8.5	9.9	11.4	N/A

Source: Direct investment 2006 (Bank of Slovenia), 2007; www.bsi.si.
Notes: [1]FDI whereby a foreign investor holds a 10% or higher share in a company. [2]Since 1996 the foreign direct investment of companies in second affiliation is included. [3]Inflows are generally lower than changes in stock because international payment transactions cover only part of the changes in stock. The main difference is that inflows do not cover changes in net liabilities to a foreign investor, and also do not include data on companies in second affiliation. From 1995 onwards data on reinvested earnings are included in inflows and thus in the balance of payments. [4]A minus sign denotes an outflow. N/A – not available.

Figure: **Inward and outward FDI stock relative to GDP in the EU in 2000 and 2006, %**



Sources: (i) FDI stock: UNCTAD, WIR 2007 data; (ii) GDP: World Bank, http://ddp-ext.worldbank.org/ext/DDPQQ/showReport.do?method=showReport; (iii) for 1995: UNCTAD, World Investment Report 2004, (iv) for Slovenia: www.bsi.si. Note: [1] EU-15 for 1995 and EU-25 for 2006.

Entrepreneurial activity

According to the Global Entrepreneurship Monitor (GEM), the early-stage entrepreneurial activity rate improved for the third successive year in 2007, reaching its highest level since 2002, when it was first measured. After the notable rise in 2005, the rate of early-stage entrepreneurial activity (TEA-index[239]) gradually increased during the next two years as well, reaching 4.8% in 2007. In terms of its early-stage entrepreneurial activity, Slovenia still lagged behind the average of the 17 EU Member States[240] (5.2%) that participated in the GEM project in 2007 (see figure).

The structure of participants in early-stage entrepreneurial activity also improved again in 2007. As in the previous year, the share of early-stage entrepreneurs increased as a result of the increase in the share of the population engaged in entrepreneurial activity to exploit a business opportunity (by 0.2 p.p. to 4.2%), while necessity-driven early entrepreneurial activity continued to stagnate at the 2005 level (0.5%). People in Slovenia therefore participate in entrepreneurial activities primarily because of perceived business opportunities. Their predominance is indicated by the ratio of opportunity-driven entrepreneurs to necessity-driven entrepreneurs, which improved again and rose from 8.6 to 9.2 in 2007, which is the most favourable ratio to date (the lowest value reached was 2.4, in 2002). At the global level the ratio is favourable as well, as Slovenia ranks fifth among 17 EU Member States and also considerably exceeds their average (5.4).

The mortality rate of nascent companies in 2007 did not change significantly and is still somewhat higher than the EU average. After a fall in 2006, the mortality rate rose slightly in 2007 (from 1.6 to 1.7), but was still considerably lower than the highest level achieved (2.7 in 2003 and 2004). The average ratio for 17 EU Member States was more favourable and totalled 1.4.

After the fall in 2006, the overall entrepreneurial activity rose in 2007. In addition to greater participation in early-stage entrepreneurial activities, the number of people in established entrepreneurial activities was higher last year as well. The share of the population engaged in entrepreneurial activity thus increased. The share of established entrepreneurs rose by 0.2 p.p. compared to the previous year, reaching 4.6%, while the overall entrepreneurial activity rose by 0.3 p.p. to 9.3% (the average for 17 EU Member States was 5.0%, or 9.9%; see figure.) The number of entrepreneurially active people in Slovenia thus increased by about 4% to over 125,000.

Data from the structural statistics of companies also confirm the rebound in entrepreneurial activity. According to the figures from the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES), the number of companies (corporations, sole proprietorships and cooperatives) increased by 6.3% to 112,026 in 2007. Compared to 2003 (since comparable figures have been available), it was already a good fifth higher. Entrepreneurial activity increased in

[239] For a methodological explanation of indicators of entrepreneurial activity, see the table on the next page.
[240] The average values of indicators of entrepreneuiral activity for 17 EU Member States are weighted by the number of population aged 18–64.

all sectors (except fishing), most notably in construction, characterised by increased activity since 2006, health and social care, where the increase is attributable to granting of concessions, and in business and financial services, which, among all services, lag behind the European average the most (see also Chapter 1.3).

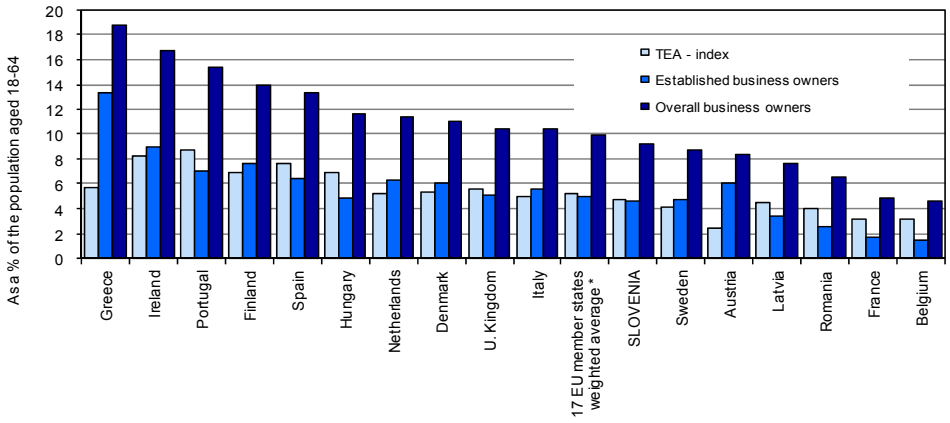
Eurobarometer figures indicate that the most frequent obstacles to entrepreneurs in Slovenia are excessive red tape, low purchasing power of consumers, the shortage of trained workers and expensive labour. In the 2005–2006 period, these obstacles were faced by at least 39% of Slovenian companies, and by at least 33% companies in the EU-27. According to a Europe-wide survey, the share of Slovenian companies' positive replies was higher than the EU-27 average in all areas, with the exception of replies related to the purchasing power of consumers. The biggest differences were seen with regard to the shortage of high-quality managers (24%; EU-27: 11%), excessive red tape (47%, 36%) and poor infrastructure (32%, 23%).

Table: **Selected indicators of entrepreneurial activity in Slovenia, 2002–2007**

In % of the population (aged 18–64)	2002	2003	2004	2005	2006	2007
TEA-index[1]	4.6	4.1	2.6	4.4	4.6	4.8
TEA-nascent entepreneurs[2]	3.3	3.0	1.9	3.0	2.9	3.0
TEA-new business owners/managers[3]	1.5	1.1	0.7	1.4	1.8	1.8
TEA-opportunity[4]	3.3	3.1	2.2	3.8	4.0	4.2
TEA-necessity[5]	1.4	0.8	0.4	0.5	0.5	0.5
Established business owners/managers[6]	N/A	N/A	N/A	6.3	4.4	4.6
Overall entrepreneurial activity rate[7]	N/A	N/A	N/A	10.1	9.0	9.3

Sources: Rebernik et al., 2003; Rebernik et al., 2004; Rebernik et al., 2005; Rebernik et al., 2006; Rebernik et al., 2007; Bosma et al., 2008.
Notes: [1]TEA index is the rate of total early entrepreneurial activity measuring the share of the population engaging in entrepreneurship. It comprises individuals that have started setting up new businesses or engaging in new business activities, including self-employment ([2]TEA – nascent entrepreneurs that have paid wages or salaries for no more than three months). In addition to that, it also includes individuals employed as owners/managers of new businesses who have been paying salaries for no longer than 42 months ([3]TEA new business owners/managers). [4]TEA opportunity measures the share of the population who engage in entrepreneurial activity to exploit a perceived business opportunity. [5]TEA necessity measures the share of the population who have set up a business out of necessity. [6]Established business owners/managers represent the share of people who own a firm that has been operating for more than 42 months. [7]The overall entrepreneurial activity rate includes the TEA index and the share of established business owners. N/A – not available.

Figure: **Selected indicators of entrepreneurial activity in Slovenia and other EU Member States included in the GEM project, 2007**



Source: Bosma et al., 2008.
Note: * Calculations by IMAD.

Share of non-financial market services

In 2006, the share of non-financial market services in value added of Slovenia's economy decreased slightly, after several years of growth and a sharp rise in 2005, but is set to strengthen further according to the figures for 2007, which are available only for total market services (including financial services). In 2006, non-financial market services[241] generated 38.8% of value added in Slovenia's economy and provided employment for 32.4% of all employees. Since 2000, their share in value added increased by 2.6 p.p. (in employment by 3.4 p.p.[242]), although it dropped slightly[243] in 2006, after a major shift in 2005 (by 0.8 p.p.). The 2006 decline was primarily due to the lower share (by 0.3 p.p.) of real estate, renting and business activities (K). The share of approximately half of this activity, i.e. real estate activity, continued to fall in 2006.[244] The share of knowledge-based business services,[245] which represents the remaining K activities, also stopped increasing in the last two years. This share increased by 1.9 p.p. in 2000–2004, to 9.6%, and then remained unchanged until 2006. Owing to the rapid growth of business services in 2000–2004, the K activity increased its share in value added of the economy more than other non-financial market services in the last six years (by 1.6 p.p. until 2005 and by 1.3 p.p. until 2006). In the six-year period, considerable increases were also recorded in the shares of wholesale and retail trade and repair of motor vehicles (G; by 0.7 p.p.), transport, storage and communications (I; by 0.5 p.p.) and, within the I activities, telecommunication and post services, which are classified as knowledge-intensive services (by 0.5 p.p.). The shares of all three groups recorded rapid growth until 2005, while in the last year this growth stopped. The share of hotels and restaurants (H) has remained almost unchanged since 2000 (2.3%).

In 2006, the gap between Slovenia and the EU average in the share of non-financial services in value added ceased to narrow, while data for 2007, available for total market services (including financial services), indicate further catching up. The share of non-financial market services in value added in the EU-27 average was 43.4% in 2006. According to this indicator, the gap between the European average and Slovenia was widest in 2000 (6.5 p.p.). It dropped to 4.2 p.p. by 2005, and rose again to 4.6 p.p. in 2006. The difference between Slovenia and the EU average in terms of all market services totalled 5.4 p.p. in 2006 and dropped to 5.3 p.p. in 2007. The closing of the gap with the EU in recent years has mainly been due to the increase in the share of value added for wholesale and retail trade and the

[241] NACE activities from G through K (without J): wholesale and retail trade, repair of motor vehicles and consumer goods (G), catering (H), transport, storage and communications (I) and real estate, renting and business services (K).

[242] Part of the increase is also due to a larger number of persons employed under the K activity, which since 2002 has also included employment on the basis of copyright contracts and contract work.

[243] The share of all market services (including financial services) in value added increased from 43% in 2005 to 43.8% in 2006 and to 44.1% in 2007.

[244] The share of real estate services in value added in the economy has been dropping year after year – from 7.8% in 2000 to 7.2% in 2006. Real estate business mostly consists of the estimated dwelling activities of households characterised by relatively low and constant value added growth rates. Housing activity acounted for 94% of value added in real estate business in 2000 and for 90% in 2006.

[245] According to the OECD definition, knowledge-intensive services, in addition to business services (leasing machinery and equipment (71), data processing and associated services (72), research and development (73) and other business services (74) also include post and telecommunication services (64).

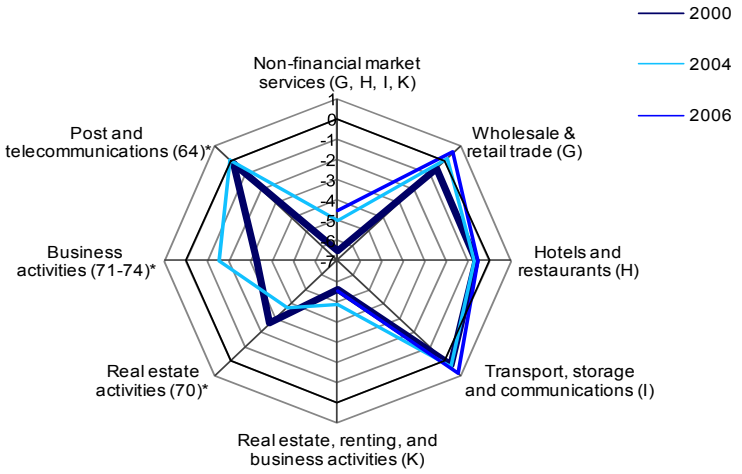
repair of motor vehicles (G) and transport, storage and communications (I), i.e. activities already recording higher shares than the EU in the structure of value added of the Slovenian economy.[246] The largest gap between Slovenia and the European average, observed in real estate, renting and business services (K), fell by 0.8 p.p. to 4.8 p.p. between 2000 and 2004, but increased again in 2005 and, especially in 2006, reaching 5.4 p.p. According to the latest figures, which are only available for the EU-15 through 2004 (STI Scoreboard, 2007), Slovenia lagged behind the EU-15 average both in business and real estate activities.[247] The main problem is the gap in the sector of knowledge-intensive services, which more than halved in 2000–2004 (falling from 3.3 to 1.5 p.p.), but the favourable trends most probably did not continue in 2005 and 2006, given the stagnation of the share of business services in the structure of the Slovenian economy. The share of telecommunication and post services, which together with business services comprise all non-financial knowledge-intensive services, slightly exceeded the EU-15 average in 2004.

Table: **Share of non-financial market services in value added in Slovenia and the EU (%)**

	1995	2000	2001	2002	2003	2004	2005	2006
Slovenia	35.6	36.2	36.8	37.7	38.1	38.3	39.1	38.8
EU-27	40.2	42.7	43.2	43.3	43.3	43.3	43.3	43.4
EU-15	40.3	42.8	43.4	43.4	43.5	43.5	43.5	43.6

Source: SI-Stat data portal — National accounts (SORS), 2008; Economy and Finance – National Accounts (Eurostat), 2008.

Figure: **Gap[1] between Slovenia and the EU in the share of non-financial market services in total value added in 2000, 2004 and 2006**



Sources: SI-stat data portal – National Accounts (SORS), 2008; Economy and Finance – National Accounts (Eurostat), 2008; STI Scoreboard, 2005; STI Scoreboard, 2007.
Notes: [1]A negative value means a gap between the EU-27 and Slovenia in p.p.; *Figures on the share of knowledge-intensive services are available for 2000 and 2004 and only for the EU-15.

[246] The share of Slovenia's trade in value added in 2005 and 2006 exceeded the share of the average for the EU-27 by 0.6 or 0.5 p.p., and the share of transport and communications by 0.7 p.p. in 2005 and by 0.9 p.p. in 2006.
[247] The gap with regard to real estate services increased in the 2000–2004 period (from 2.6 to 3.7 p.p.).

Total assets of banks

The growth of total assets of banks strengthened again in 2007, amounting to 25.1% and climbing to 125.8% relative to GDP. Borrowing by the domestic non-banking sector remains the main source of growth, as despite tighter lending terms the non-banking sector borrowed as much as EUR 6,522.3 m in 2007, which is the largest amount to date and up 60.5% from 2006. At the beginning of the year, banks financed lending activity with funds from matured Bank of Slovenia bills, and later on through borrowing abroad again, reaching EUR 3,354.5 m in total, which is 1.3 times more than in 2006. In the second half of the year, due to the international financial crisis, changes were observed in the maturity structure of foreign loans taken out by banks, as most of the funds were short-term in nature, while a large portion of banks' loans to non-banking sectors is long-term, by our estimate. This structure of bank assets may put pressure on the liquidity of the banking sector and thus lead to an additional tightening of conditions in the domestic financial market. In 2007, household deposits again became a somewhat more important source of financing than in the past. The interest rates for these savings increased somewhat, but were still more favourable for banks than financing via borrowing abroad.

The growth of total assets of banks moderated somewhat in 2006 despite increased lending activity. Total assets in 2006 rose by 15.6%, reaching 111.2% relative to GDP, up 7.5 p.p. from the previous year. The volume of loans increased by 25.2%, up nearly 10 p.p. from the previous year. About two thirds of this growth resulted from corporate borrowing and borrowing by NFI related to increased investment activity and a higher volume of operations that year.[248] The rest was due to household borrowing, mainly in the form of housing loans, which accounted for more than half of net household borrowing. Data indicate that in financing increased lending activity in 2006, banks relied somewhat less on external borrowing and foreign bank deposits, as total net flows in 2006 reached EUR 2,433.9 m, i.e. only slightly more than two thirds of the 2005 value. This was most probably due particularly to the change in monetary policy before Slovenia's entry into the EMU, as banks were able to redirect part of the liquidity released upon the maturity of Bank of Slovenia bills into lending activity, which was reflected in slower total asset growth.

The relative gap between the EU average and Slovenia in the indicator of total assets relative to GDP is narrowing slowly. In 2007, somewhat greater progress was achieved according to the estimate. In 2006, the indicator of total bank assets relative to GDP reached 35% of the EU average (34.7% in 2005). The reason for the slower narrowing of the gap between Slovenia and the European average was, on one hand, a smaller difference between the growth rates of total bank assets in Slovenia (15.6%) and the EU (12.0%) than in the previous year, and on the other, stronger GDP growth in Slovenia compared to the EU.[249] The average value of the indicator of total assets relative to GDP for EU Member States thus climbed to 317.5% in 2006. High lending activity also continued in other EU Member States, and the total volume of loans in the EU[250] rose by 10.3%, up 0.5 p.p. from the year

[248] See also the indicator *Real growth of GDP*.
[249] See also the indicator *Real growth of GDP*.
[250] Not including the United Kingdom.

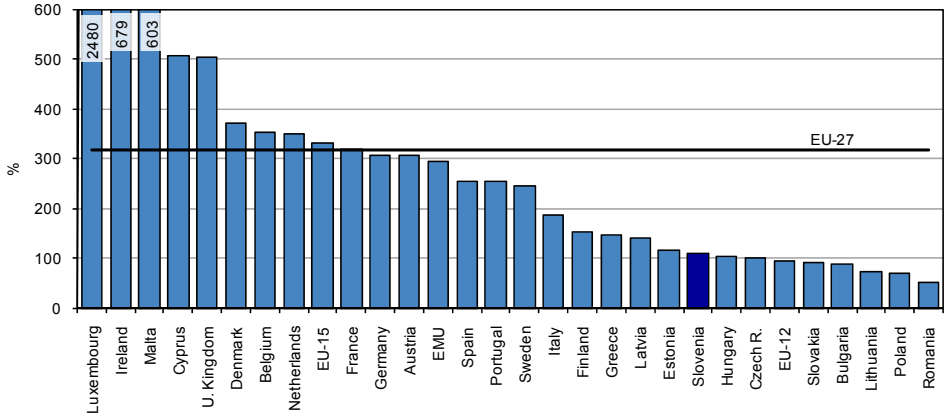
before. Slovenia still ranks in the last third of EU members in terms of the value of this indicator, but it moved up two places compared to the previous year as, in addition to Lithuania (73.1%), Poland (69.6%) and Hungary (104.3%), we were now also trailed by Slovakia (93.6%) and the Czech Republic (100.6%). In 2007, Slovenia approached the European average at a somewhat faster pace, as the volume of loans to non-banking sectors in the EU[251] rose by 11.9% (up 1.6 p.p. from the previous year), which is only one third of the growth reported by Slovenia.

Table: **Structure of banks' total assets, 1995–2006, EUR m**

	1995	2000	2002	2003	2004	2005	2006	2007
Assets	9,137.8	14,776.3	19,773.6	21,367.4	23,545.0	29,134.5	33,717.1	42,194.7
as a % of GDP	61.8	73.1	83.5	85.4	88.3	103.7	110.7	125.8
Loans to banking sector	1,570.5	1,722.8	1,620.5	1,458.3	2,086.2	2,848.8	3,057.6	4,066.3
Loans to non-banking sector	3,764.4	7,731.4	9,434.7	10,723.2	12,685.8	15,909.4	20,088.5	28,046.2
Other assets	3,802.9	5,322.1	8,718.4	9,185.9	8,772.9	10,376.4	10,596.0	10,082.2

Source: Bank of Slovenia's Annual Report (various volumes).

Figure: **Total assets of banks in selected EU Member States in 2006, as a % of GDP**



Source: Bank of Slovenia Annual Report, 2008; EU Banking Structures, 2008; National Accounts (SORS), 2008, Eurostat, 2007.

[251] Not including the United Kingdom.

Insurance premiums

In 2007, insurance premiums relative to GDP declined somewhat for the first time in eight years and dropped to 5.6% of GDP. The decline was mainly due to strong nominal GDP growth on one hand, and a slight lag in the growth of premiums behind last years' average on the other. Life insurance premiums also increased at a faster pace last year, though they still accounted for less than a third of all premiums in the structure. Life insurance thus rose by 12.7% in 2007, year-on-year, and achieved 1.8% of GDP, which is one of the lowest growth rates in recent years. Such a slowdown is mainly a result of the higher base. Practically all growth is due to the growth of life insurance premiums tied to investment funds, while the premiums of other life insurance are still mostly declining. Growth in non-life insurance premiums remained below the 10% level for the fifth consecutive year. After increasing in 2006, the share of non-life insurance decreased again by 0.1 p.p. to 3.8%.

The gradual increase in the volume of insurance premiums relative to GDP continued in 2006. The value of the indicator of insurance premiums[252] relative to GDP rose by 0.2 p.p., reaching 5.7% of GDP. The growth of insurance premiums nearly doubled (after the slowdown in the previous year), reaching 11.4%, which is a good 1.5 p.p. below the ten-year average. The growth rates of both non-life and life insurance increased. The former increased by almost one tenth. Almost half of this growth was due to increased growth in health insurance, which rose by 17.7%, most likely as a result of higher premiums for this type of insurance. In the life insurance sector (16.5% growth), the highest increases were recorded in insurance premiums tied to investment funds, as they recorded 39.5% growth, while the volume of other life insurance premiums fell for the first time in 2006, by 2.1%, according to figures from the Slovenian Insurance Association.

In the EU[253] the value of the indicator of the volume of insurance premiums relative to GDP increased in 2006 for the second consecutive year after stagnation in the 2002–2004 period. The figure reached 9.5 and exceeded the value from the previous year by 0.4 p.p. Growth in the total volume of insurance premiums was more than one percentage point weaker than in Slovenia. Even though the new EU Member States on average achieved the highest rate of premium growth (17.8%), their contribution to total growth was moderate given the 2.1% share. Total growth was boosted by the strong increase in the United Kingdom (17.4% of GDP), in particular, which represented more than 30% of total premiums in the EU, as the volume of premiums increased by nearly a quarter there. A much lower average growth rate was reported by EMU members (5.3%) and the value of the indicator thus rose by 0.1 p.p., to 8.4%.

The development gap between the EU and Slovenia in terms of the relative volume of insurance premiums did not decrease in 2006, while the structure of premiums gradually improved in favour of more advanced types of financial services. Slovenia thus attained almost 60% of the European average and recorded a

[252] Including institutions that do not yet operate under the Insurance Act (Capital Fund, Fund for Craftsmen and Entrepreneurs), reinsurance companies and one of the two branches of foreign insurance companies.
[253] The figures for Malta are not available.

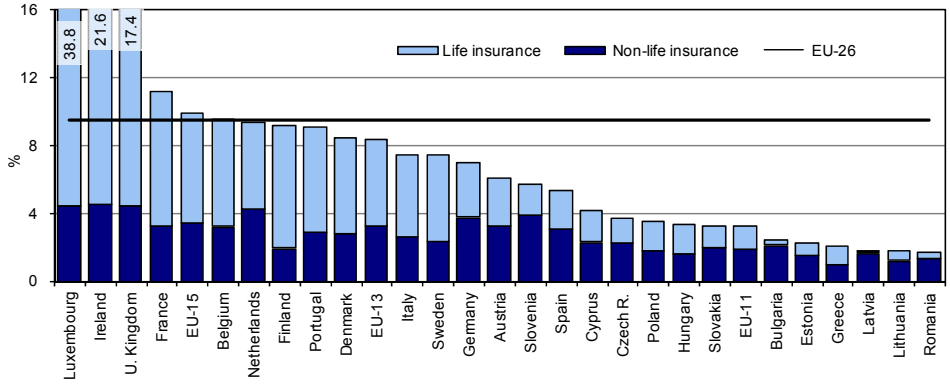
higher value than other new Member States, but also a higher value than Spain and Greece. Even though the gap between Slovenia and the European average did not narrow, the structure of premiums, which was problematic in Slovenia, improved somewhat again. The share of life insurance premiums, which include more advanced types of financial services, is thus gradually increasing. In 2006, they accounted for 31.4% of all premiums (1.8% of GDP), 1.4 p.p. more than in the previous year and 12.0 p.p. more than in 2000, although still much less than in the EU,[254] where they accounted for nearly 65% of total premiums (6.2% of GDP). In that respect, Slovenia still lags even behind the new Member States, where the share exceeded 40% on average, whereas the indicator of life insurance premiums relative to GDP reached only 1.3%. In the non-life insurance sector (3.9% of GDP), Slovenia still significantly exceeds the European average, which stood at 3.3% in 2006.

Table: **Insurance premiums by type of insurance in Slovenia in 1995–2007**

	1995	2000	2002	2003	2004	2005	2006	2007
As a % of GDP								
Insurance premiums, total	4.3	4.5	4.9	5.0	5.4	5.5	5.7	5.6
Life insurance	0.6	0.9	1.1	1.2	1.6	1.6	1.8	1.8
Non-life insurance	3.6	3.6	3.8	3.8	3.8	3.8	3.9	3.8
Structure %								
Insurance premiums, total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Life insurance	14.8	19.4	22.7	23.9	29.4	30.0	31.4	32.1
Non-life insurance	85.2	80.6	77.3	76.1	70.6	70.0	68.6	67.9
Year-on-year nominal growth rates %								
Insurance premiums, total	62.6	12.5	16.1	11.7	16.8	6.6	11.4	9.8
Life insurance	67.8	20.9	23.2	17.8	43.8	8.6	16.5	12.7
Non-life insurance	61.7	10.7	14.1	9.9	8.3	5.7	9.3	8.4

Source: Statistical Insurance Bulletin 2007 (Slovenian Insurance Association), 2007; http://www.zav-zdruzenje.si/.

Figure: **Total insurance premiums, life and non-life insurance premiums in the EU[1] in 2006, as a % of GDP**



Source: Statistical Insurance Bulletin 2007 (Slovenian Insurance Association), 2007; Sigma: World insurance in 2006: Premiums came back to "life", 2007; National Accounts (SORS); Eurostat, 2008
Note: [1]Not including Malta.

[254] Data for the EU pertain to 2006.

Market capitalisation of shares

Growth in the market capitalisation of shares relative to GDP in 2007 increased. It achieved as much as 58.9% of GDP and thus exceeded the level of 2006 by 21.1 p.p. The value of shares listed on the Ljubljana Stock Exchange was as much as 71.4% higher than at the end of 2006. In the first eight months of 2007, this trend was due to the general growth of share prices on the Ljubljana Stock Exchange; the market capitalisation of shares increased by as much as 72.0% in that period. In the last four months of 2007, the value of shares mainly decreased as a result of the international financial crisis. The growth in the market capitalisation of shares in 2007 was also favourably influenced by the listing of shares of one of the predominantly state-owned banks on the Ljubljana Stock Exchange after the first stage of privatisation, which resulted in an almost 10 p.p. increase. The turnover on the Ljubljana Stock Exchange in 2007 registered 7.0% growth, primarily as a consequence of the increased turnover in shares (the turnover in shares increased by a factor of 1.1), while the turnover in bonds fell by as much as 62.8%, which was due to the lower attractiveness of bonds in the period of growth of stock exchange indices and partially also to the migration of trading in these types of securities to EuroMTS.[255] The turnover ratio of shares, measured as the ratio between the turnover value and market capitalisation of shares, remained low in 2007 as well and reached 0.16.

The relative gap between Slovenia and the European average decreased considerably in 2007, as Slovenia already achieved almost two thirds of the indicator value (compared to a good 40% a year before). In the EU-27, the volume of the market capitalisation of shares increased by only 7% in 2007, while the indicator value rose to 89.9% of GDP and increased by only 1.1 p.p. compared with 2006. After being at the tail end of the EU Member States in previous years, Slovenia improved its position significantly in 2007. Among the new members, higher values were only achieved by Poland (168.9%), Cyprus (129.6%) and Malta (71.7%). Among the old members, higher values were achieved by Italy (47.8%) and Ireland (52.6%).

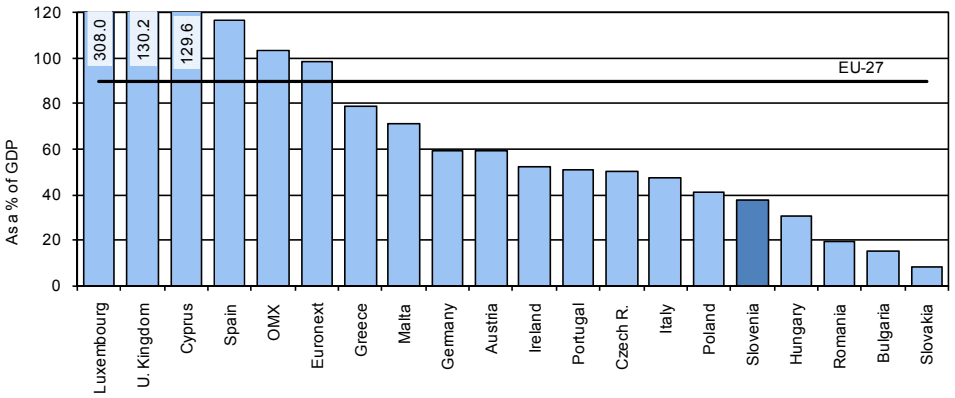
[255] Euro Market Trading Segment.

Table: **Selected capital market indicators in Slovenia, 1995–2007**

	1995	2000	2002	2003	2004	2005	2006	2007
Market capitalisation of shares, excluding investment funds, EUR m[1]	254.6	3,333.7	5,355.1	5,660.1	7,115.2	6,696.6	11,513.1	19,739.0
Market capitalisation of shares, excluding investment funds, as a % of GDP	1.7	16.2	22.6	22.6	26.7	23.7	37.8	58.9
SBI20	1.448	1.808	3.340	3.932	4.904	4.630	6.383	11.370
BIO	111	109	111	117	122	123	119	117
PIX	-	1,521	2,730	3,372	4,513	3.962	5.084	7.374
Number of securities	49	267	265	254	254	227	202	185
Shares	27	197	172	162	153	128	109	96
of which investment funds' shares	0	44	33	26	11	10	7	7
Bonds	22	68	92	92	101	99	93	89
Pension coupons	0	1	1	0	0	0	0	0

Sources: Annual Statistical Report (Ljubljana Stock Exchange), 2008; National Accounts (SORS), 2008, calculations by IMAD.
Notes: SBI – Slovenian stock exchange index, BIO – bond index, PIX – index of shares of authorised investment companies; [1]own calculations in EUR.

Figure: **Market capitalisation in selected EU Member States in 2007, as a % of GDP**



Source: Annual Statistical Report (Ljubljana Stock Exchange), 2008; First Release – National Accounts (SORS), 2008; Stock market capitalisation (Eurostat), 2008; calculations by IMAD.
Note: From January 2001 onwards, Euronext comprised the Stock Exchanges of Paris, Amsterdam and Brussels. In February 2002, the Lisbon Stock Exchange joined in. OMX comprises the Scandinavian (Denmark, Finland, Sweden) and Baltic Stock Exchanges (Estonia, Latvia, Lithuania) and the Stock Exchange in Iceland.

The second priority

Efficient use of knowledge for economic development and quality jobs

- Share of the population with a tertiary education
- Average years of schooling
- Ratio of students to teaching staff
- Total public expenditure on education
- Public and private expenditure on educational institutions
- Gross domestic expenditure on research & development
- Innovation active enterprises
- Science and technology graduates
- Internet use

Share of the population with a tertiary education

The share of the population with a tertiary education in Slovenia has been gradually increasing since 2001; at the same time, the lag behind the EU average has decreased considerably. In the second quarter of 2007, the share of the population having attained a tertiary education reached 22.9% and was 0.4 p.p. lower than the European average, while in 2000 the difference had amounted to 3.2 p.p. Slovenia now ranks 16th among European countries in view of the share of the population with a tertiary education. Between 2006 and 2007, the share of the population that has attained a tertiary education in Slovenia rose by 1.4 p.p., which is greater than in most other European countries (the figure for the EU-27 was 0.6 p.p.).

The share of women with a tertiary education is greater than the respective share of men and is also growing faster. In the second quarter of 2007, the share of women with a tertiary education stood at 26.5% in Slovenia and exceeded the European average (2007: 23.5%), while the share of men amounted to 19.3%, thus falling below the European average (23.2%). The share of women with a tertiary education in Slovenia is increasing faster than the share of men; in the period 2000–2007, the former rose by 9.2 p.p. and the latter by 5.2 p.p.

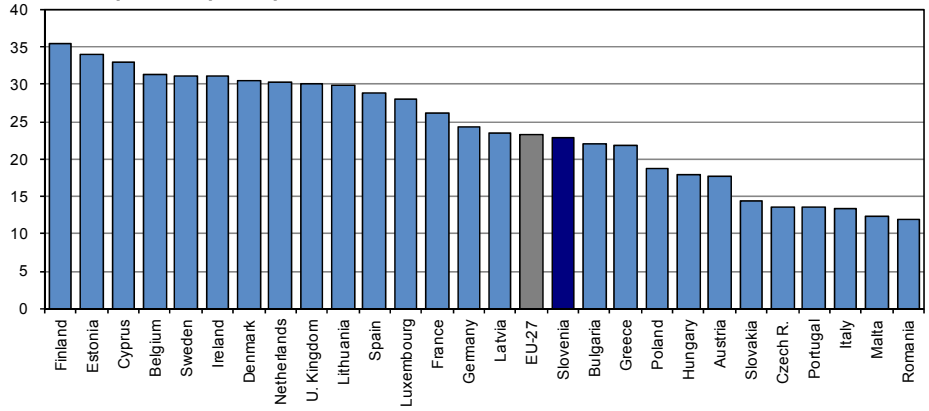
The rise in the share of the population with a tertiary education in Slovenia is a result of an increase in the participation of the population in tertiary education and an increase in the number of graduates. The participation of the young generation (aged 19–23) in the 2006/2007 academic year amounted to 48.2%, having increased by 10.6 p.p. in the period 2000/2001–2006/2007. The number of graduates reached 17,145 in 2006. The increase in the share of the population with a tertiary education has been relatively high with respect to the EU average in recent years; with greater study efficiency and better motivation it could have been even higher, given the high participation of the population in tertiary education.

Table: **Share of the population aged 25-64 having attained a tertiary education in Slovenia and the EU-27, 1995–2007 (second quarter), %**

	1995	2000	2001	2002	2003	2004	2005	2006	2007
EU-27	N/A	18.9	19.2	19.5	20.3	21.4	22.1	22.7	23.3
Belgium	23.3	27.1	27.8	27.9	28.2	29.8	30.7	31.0	31.4
Bulgaria	N/A	18.4	21.3	21.1	21.1	21.4	21.4	21.7	22.1
Czech Republic	N/A	11.5	11.5	11.8	11.9	12.3	13.1	13.5	13.7
Denmark	27.2	25.2	28.1	29.0	31.8	32.3	32.9	34.8	30.5
Germany	21.1	22.5	22.4	21.4	22.9	23.8	24.5	24.2	24.3
Estonia	N/A	28.9	29.8	29.6	30.4	31.5	33.6	32.9	34.0
Irland	19.9	21.2	22.9	24.4	26.2	27.8	28.3	29.9	31.1
Greece	14.3	16.9	17.2	17.9	18.6	20.6	20.5	21.3	21.9
Spain	16.4	22.5	23.6	24.6	25.0	26.4	28.2	28.4	28.9
France	N/A	N/A	N/A	N/A	23.6	23.9	24.6	25.4	26.2
Italy	7.4	9.4	10.0	10.4	10.8	11.4	11.9	12.7	13.5
Cyprus	N/A	25.1	26.8	29.1	29.5	29.4	27.8	29.9	33.0
Latvia	N/A	18.0	18.1	19.6	18.2	19.4	21.5	21.4	23.6
Lithuania	N/A	41.8	22.4	21.9	23.2	24.2	26.5	27.2	29.8
Luxembourg	15.4	17.9	17.7	18.3	14.3	23.7	26.5	24.0	28.1
Hungary	N/A	14.0	13.9	14.0	15.2	16.6	17.0	17.8	17.9
Malta	N/A	5.4	9.4	8.8	9.2	11.0	12.1	12.3	12.4
Netherland	N/A	24.0	23.8	24.7	27.1	29.0	29.9	29.8	30.3
Austria	N/A	14.5	15.2	15.1	14.2	18.4	17.6	17.7	17.7
Poland	N/A	11.4	11.7	12.2	13.9	15.3	16.5	17.8	18.8
Portugal	11.3	9.0	9.3	9.5	10.5	12.6	12.7	13.4	13.6
Romania	N/A	9.2	10.0	10.0	9.8	10.4	11.0	11.8	12.0
Slovenia	**14.2**	**15.7**	**13.8**	**14.5**	**17.7**	**18.8**	**20.0**	**21.5**	**22.9**
Slovakia	N/A	10.2	10.7	10.8	11.6	12.8	13.9	14.4	14.4
Finland	21.0	32.3	32.5	32.4	32.8	34.0	34.5	34.9	35.5
Sweden	26.1	29.5	25.4	26.2	27.0	27.9	29.3	30.3	31.2
United Kingdom	21.0	24.3	24.9	25.6	26.6	27.9	28.2	29.2	30.2

Source: Population and Social conditions (Eurostat), 2008.
Note: N/A – not available.

Figure: **Share of the population aged 25–64 having attained a tertiary education, Slovenia and the EU-27, 2007 (second quarter), in %**



Source: Population and Social Conditions (Eurostat), 2008.

Average years of schooling

The average number of schooling years of the adult population in Slovenia continues to rise but is still lower than the data recorded in other developed countries. According to the Labour Force Survey, in 2006 the population aged 25–64 had completed 11.7 years of schooling (0.1 years more than in the previous year, and 0.9 years more than in 1995).[256] The average number of years of schooling is increasing due to a rise in the share of generations completing secondary and tertiary education.[257] In comparison with the average of the OECD countries, which totalled 11.9 years of completed schooling according to the latest data available for 2004, the value of this indicator in Slovenia is somewhat lagging behind.[258]

The average number of schooling years attained by the working population increased as well, but is still falling behind other developed countries. According to the Labour Force Survey, people in employment in Slovenia in 2006 on average completed 12 years of schooling (0.1 years more than in the previous year, and 0.9 years more than in 1995). Younger generations with increasingly better levels of education are entering the market, while the considerably less educated older generations are withdrawing from it. Alongside this, the structural problems of how to provide adequate employment for the educated young generations remain.[259] According to the available data, the average number of schooling years attained by the working population in developed countries is even higher.[260]

Despite the significant increase in the employment rate in 2007, the educational structure of the employed population according to the Statistical Register has remained virtually unchanged. The average number of years of schooling attained by people in employment according to the Statistical Register of Employment did not change in 2007 and remains at 11.7 years,[261] as in 2006. It increased slightly in all areas of activity (notably in public administration as well as energy, gas and

[256] Calculations made by the IMAD taking into account the following assumptions on the average regulatory length of schooling: 5.5 years without completed primary school, 8.0 years with completed primary school, 9.5 years with lower vocational education, 11.0 years with secondary vocational education, 12.2 years with completed technical or general secondary school, 14.0 years with post-secondary vocational education, 16.2 years with a university education and 19.0 years with a postgraduate education.

[257] According to the IMAD assessment, in 2006 around 85% of the generation finished at least one secondary school level (compared to around 75% in 2000 and 73% in 1995), while more than 30% of the generation graduated at the post-secondary or university level (compared to around 22% in 2000 and around 18% in 1995).

[258] At that time, the average number of years of schooling attained by the adult population in Slovenia stood at 11.5. The highest value of this indicator among the OECD countries in 2004 was recorded in Norway (13.9), while within the EU-25 Denmark (13.4) and Luxembourg (13.3) attained the highest scores. See Development Report 2007.

[259] See the indicators *Employment Rate* and *Unemployment Rate*.

[260] The only available data on the average number of years of schooling in developed countries are from 2003 (OECD, Education at a Glance 2005). At that time, the OECD average stood at 12.7 years of schooling for employed men and 12.5 years of schooling for employed women, which was 0.9 years and 0.7 years higher than the Slovenian figures, respectively. In 2006, the average number of years of schooling in Slovenia stood at 11.8 for employed men and at 12.2 for employed women.

[261] According to the Labour Force Survey, this is 0.3 years less than in 2006. The difference in the value of this indicator according to both sources is attributable to the fact that the labour force also covers persons in informal employment, among whom there is a relatively large number of students, retired persons, registered unemployed, and other persons whose level of education is obviously higher than the average attained by employed and self-employed people.

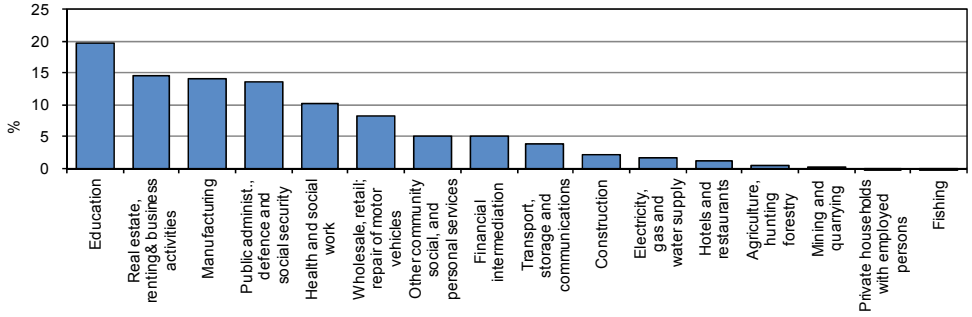
water supply), except in the construction sector, where it decreased by 0.14 years. Such trends are a result of the structure of last year's economic growth, which among other factors was based considerably on increased investment in the construction sector,[262] which in turn was reflected in a relatively significant increase in the number of persons employed in this sector, one that largely employs a labour force with lower qualifications.

Table: **Average years of schooling attained by persons in employment in Slovenia in 1995–2007**

		1995	2000	2001	2002	2003	2004	2005	2006	2007
Persons in employment according to the LFS[1]		**11.1**	**11.5**	**11.5**	**11.6**	**11.7**	**11.8**	**11.9**	**12.0**	**N/A**
Persons in employment according to the statistical register of employment		**11.0**	**11.3**	**11.3**	**11.4**	**11.5**	**11.6**	**11.6**	**11.7**	**11.7**
A	Agriculture, forestry, hunting	10.3	10.7	10.6	10.5	10.5	10.5	10.6	10.5	10.6
B	Fishery	10.1	10.4	10.5	10.6	10.8	10.4	10.4	10.3	10.6
C	Mining and quarrying	10.3	10.6	10.6	10.7	10.9	11.0	11.1	11.1	11.2
D	Manufacturing	10.1	10.3	10.4	10.4	10.5	10.5	10.6	10.6	10.7
E	Electricity, gas and water supply	11.2	11.6	11.6	11.6	11.7	11.8	11.9	12.0	12.1
F	Construction	10.2	9.9	9.9	10.0	10.0	10.0	10.0	10.0	10.0
G	Wholesale and retail trade; repair of motor vehicles	11.2	11.4	11.4	11.5	11.5	11.6	11.6	11.7	11.7
H	Hotels and restaurants	10.2	10.4	10.4	10.4	10.4	10.5	10.5	10.6	10.6
I	Transport, storage and communications	10.9	11.1	11.2	11.2	11.2	11.3	11.3	11.4	11.4
J	Financial intermediation	12.7	12.9	13.0	13.1	13.2	13.3	13.3	13.4	13.5
K	Real estate, renting and business activities	12.0	12.2	12.3	12.3	12.3	12.4	12.4	12.4	12.5
L	Public administration, defence & social insurance	12.9	13.3	13.4	13.4	13.5	13.5	13.6	13.7	13.8
M	Education	13.0	13.4	13.5	13.6	13.8	13.9	13.9	14.0	14.1
N	Health care and social assistance	11.9	11.8	11.9	12.5	12.6	12.6	12.7	12.8	12.9
O	Other community, social and personal services	11.8	11.9	12.0	12.1	12.2	12.3	12.3	12.3	12.4
P	Private households with employed personnel	10.1	10.2	10.3	10.2	10.2	10.3	10.5	10.5	10.6

Source: Statistical Register of Employment, 2007 (SORS); calculations by IMAD.
Notes: [1] Labour Force Survey; N/A – not available.

Figure: **Distribution of the employed population with higher and university education by area of activity, 2007 (% of all employed persons having acquired that level of education)**



Source: Statistical Register of Employment, 2007 (SORS).

[262] See the indicator *Real GDP Growth*.

Ratio of students to teaching staff

The ratio of students[263] to teaching staff[264] is an important indicator of the quality of tertiary education[265]. A lower ratio implies higher quality of the teaching process. A high-quality teaching process is a major factor in study efficiency, alongside study conditions and study motivation among students. It is anticipated that high-quality study will result in a lower share of repeaters and a lower drop-out rate, while the average duration of study will be shorter. A smaller number of students per teacher facilitates greater use of active teaching techniques, as well as enhanced communication among teachers and students, all of which positively influence study performance and students' progress.

The ratio of students to teaching staff in Slovenia is among the lowest in Europe and is improving at a slow pace. In the 2000/2001 academic year, the ratio of students to teaching staff was 22.5; in the 2006/2007 academic year, the ratio of students to teaching staff in tertiary education was 21.5, which is slightly more than the year before (2005/2006: 21.3) and the same as in the 2003/2004 academic year. The available international data show that Slovenia is significantly lagging behind other EU countries. According to OECD data (Education at a Glance 2007) available for 2005,[266] the respective ratio in Slovenia was 23.0, while in the 19 EU countries which are also OECD members (EU-19), it averaged 16.4. Of these 19 EU countries, only Greece had a lower ratio of students to teaching staff in 2005. The countries achieving the most favourable ratio, with close to or slightly more than 10 students per teacher, are Sweden, Spain and Iceland.

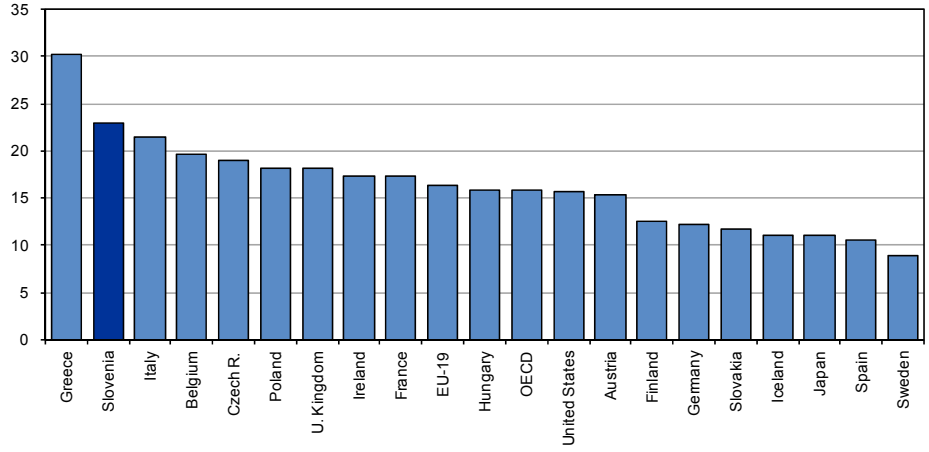
[263] All students participating in tertiary education are covered in the equivalent of full-time study = full-time students + 1/3 (part-time students + graduation candidates + postgraduate students). (Teaching staff at higher education institutions and post-secondary vocational colleges, Slovenia, SORS, 2006).
[264] The teaching staff includes instructional and professional support staff at vocational colleges (vocational college lecturers, exercise instructors and lab assistants) and teaching faculty (assistant professors, associate and full professors, lecturers and senior lecturers, and lectors); however, it does not include research faculty members and faculty assistants (assistants, librarians, specialist advisors, senior researchers, researchers and skills teachers).
[265] Tertiary education includes students enrolled, full-time or part-time, in post-secondary vocational studies, higher undergraduate studies and postgraduate studies.
[266] 2004/2005 academic year.

Table: **Ratio of students to teaching staff in tertiary education, Slovenia and OECD countries, 1998–2005**[1]

	1998	2000	2002	2003	2004	2005
OECD	**14.8**	**14.7**	**15.4**	**14.9**	**15.5**	**15.8**
EU-19[2]	**N/A**	**N/A**	**N/A**	**N/A**	**15.7**	**16.4**
Austria	N/A	N/A	13.0	12.9	14.8	15.3
Belgium	N/A	19.9	18.7	19.2	19.4	19.6
Czech Republic	13.5	13.5	16.1	17.3	17.9	19.0
Finland	N/A	N/A	12.6	12.3	12.4	12.5
France	N/A	18.3	17.9	17.6	17.8	17.3
Greece	26.3	26.8	32.2	29.6	28.1	30.2
Irland	16.6	17.4	16.3	15.0	13.7	17.4
Italy	N/A	22.8	23.1	21.9	21.6	21.4
Hungary	11.8	13.1	13.8	14.8	15.6	15.9
Germany	12.4	12.1	12.6	12.5	12.7	12.2
Poland	N/A	14.7	18	18.3	n.p.	18.2
Slovakia	N/A	10.2	10.5	10.8	10.9	11.7
Slovenia	**N/A**	**23.8**	**22.5**	**22.9**	**21.5**	**23.0**
Spain	17.2	15.9	13.0	11.8	11.7	10.6
Sweden	9.0	9.3	9.1	9.0	9.0	8.9
United Kingdom	17.7	17.6	18.3	18.2	17.8	18.2
Iceland	9.3	7.9	8.7	9.0	10.9	11.0
Japan	11.8	11.4	11.2	11.0	11.0	11.0
Norway	13.0	12.7	13.2	11.9	12.0	N/A
USA	14.6	13.5	17.1	15.2	15.8	15.7

Source: Education at a Glance (OECD), 2002–2007; Teaching staff at higher education institutions and post-secondary vocational colleges, Slovenia, 2006 (First release), Rapid Reports No. 37 – Students Enrolled in Tertiary Education (SORS), 2007; calculations by IMAD.
Notes: [1] Data for the year y pertain to the x/y academic year. [2] Data are only available for those EU countries that are also members of the OECD; N/A – not available.

Figure: **Ratio of students to teaching staff in tertiary education, Slovenia and OECD countries, 2005 (2004/2005 academic year)**



Source: Education at a Glance (OECD), 2007; Teaching staff at higher education institutions and post-secondary vocational colleges, Slovenia, 2006 (First publication), Quick Reports No. 37 – Education, (SORS), 2007, calculations by IMAD.

Total public expenditure on education

The percentage of total public expenditure on education[267] as a share in GDP in Slovenia[268] has not changed in recent years. According to SORS' first estimates, this figure stood at 5.83% of GDP in 2005 and 2006 (5.85% of GDP in 2004).[269] This share places Slovenia considerably above the EU-27 average (5.09% in 2004), which is to a great extent connected with a high level of participation in education. Still, Slovenia lags considerably behind certain Northern European countries where the share is 7–8% of GDP. The volume of total public expenditure on education is influenced by several factors, including demographic structure, rates of inclusion in education, level of teaching staff salaries, the organisation of the educational system and the financing system for education.

In recent years, the structure of total public expenditure on education saw an increase in the share of expenditure for pre-primary and secondary school education, and a decrease in the share of expenditure for primary school and tertiary education. In 2006, the real growth of public expenditure for formal education rose to 5.2% (in the period 2000–2005 average annual growth was 3.4%). The biggest increase was recorded in expenditure for pre-primary (13.5%) and secondary school education (8.3%), the increase at both levels being due to high investment growth. For tertiary education, real growth was 4.0% (in the period 2000–2005 average annual growth was 3.2%), while for primary education, expenditure growth in 2006 experienced a slowdown for the second year in a row (2.6% in 2006 and 3.0% in 2005; in the period 2000–2005 average annual growth was 4.5%).

Transfers to households (or financial assistance to secondary-school and university students) account for a relatively large share of public expenditure on education, particularly at the tertiary level characterised by a large proportion of grants. In 2006, transfers accounted for 8.5% of total public expenditure on education (6.1% in the EU-27 in 2004); since 2000 their share in total expenditure dropped by 4.9 p.p. The highest transfers were recorded at the tertiary level, where in 2006 the share of expenditure on grants and other forms of financial assistance fell to 23.4% (cf. 23.7% in 2005; 26.6% in 2000) but is nevertheless still well above the EU-27 average (16.0% in 2004). High transfers at the tertiary level are also characteristic of Scandinavian countries; however, in Sweden and Norway, as well as in the Netherlands, student loans account for more than a half of all transfers, whereas in Slovenia grants and other forms of direct financial assistance to students prevail. Compared with the OECD countries, only in Denmark is the share of

[267] Total public expenditure on education comprises the total budgetary expenditure on the formal education of youth and adults at national and municipal levels. This includes direct public expenditure on educational institutions (both instructional and non-instructional) and transfers to households (grants, training grants for the unemployed, subsidised tickets, subsidised textbooks, evaluation costs, etc.).

[268] Financial data for Slovenia are collected using an internationally comparable methodology based on the UOE questionnaire (the common questionnaire of UNESCO, OECD and Eurostat).

[269] Within this framework, the revised GDP according to the release in September 2007 (National Accounts – SORS, September 2007).

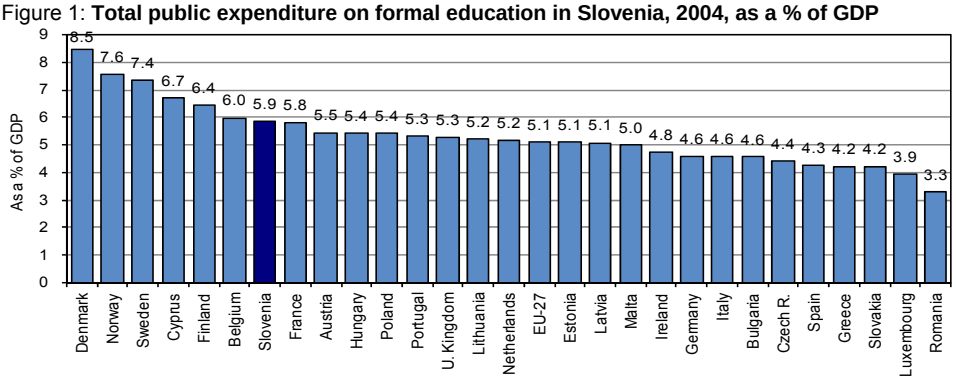
scholarships in total public expenditure on tertiary education higher than that of Slovenia (Education at a Glance, 2007).

Table: **Total public expenditure for formal education by level of education, Slovenia, 1995–2006**

Year	Shares in GDP[1], %						Structure, %			Breakdown by purpose in 2006, %	
	1995	2000	2003	2004	2005	2006	2000	2004	2006	Directly to educational institutions	Transfers to households and private institutions
Total	5.87	5.86	5.91	5.85	5.83	5.83	100	100	100	91.5	8.5
Pre-primary	0.56	0.47	0.55	0.48	0.48	0.52	8.0	8.2	8.9	100.0	0.0
Primary	2.42	2.54	2.61	2.68	2.67	2.60	43.3	45.8	44.6	100.0	0.0
Secondary	1.54	1.56	1.43	1.36	1.41	1.45	26.6	23.2	24.9	86.0	14.0
Terciary	1.34	1.29	1.32	1.32	1.27	1.26	22.0	22.6	21.6	76.6	23.4

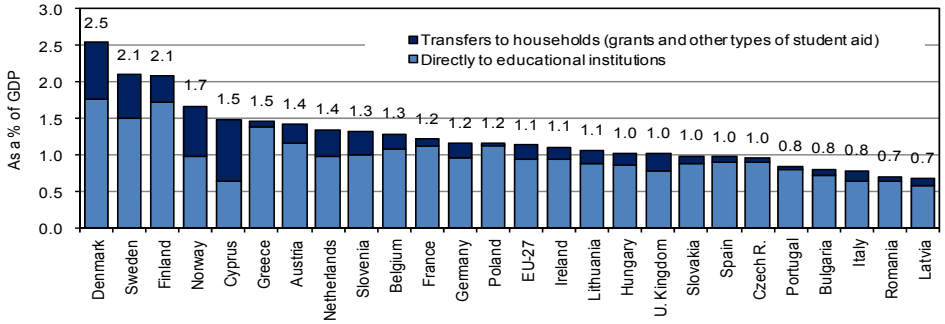
Source: Public expenditure for formal education, Slovenia, 2005, 2006 (provisional data) – SORS (2007); 2004 – SORS (2007); 1995–2003 – SORS (2006)
Notes: [1]The indicators are calculated on the basis of the latest GDP revision (September 2007); Pre-primary education – ISCED 0 (estimated share of expenditure for children older than three years enrolled in kindergartens in Slovenia); Primary education – ISCED 1; Secundary education – ISCED 2–4; Terciary education ISCED 5–6.

Figure 1: **Total public expenditure on formal education in Slovenia, 2004, as a % of GDP**



Source: Population and social condition – Eurostat Queen Tree (2008); for Slovenia: Expenditure on formal education, Slovenia – SORS (2007).

Figure 2: **Total public expenditure on formal tertiary education, as a % of GDP and by purpose, 2004**



Source: Population and social condition – Eurostat Queen Tree (2008); for Slovenia: Expenditure for formal education, Slovenia – SORS (2007).

Public and private expenditure on educational institutions

The share of total expenditure on educational institutions[270] in Slovenia is greater than in most EU countries. In 2006 this figure stood at 6.17% of GDP, having remained practically unchanged compared to previous years. Among EU countries, total expenditure on educational institutions is higher only in Sweden, Denmark and Cyprus. According to the latest statistics, the EU-27 average for 2004 was 5.43%.

The share of private expenditure on education is gradually decreasing. In the structure by source, the share of private expenditure[271] in Slovenia has decreased slightly in recent years (to 12.9% in 2006, or 0.8% of GDP), while it still exceeded the EU-27 average (11.5%). Since 2000 the share of private expenditure has been gradually decreasing at all education levels, with the exception of primary education, where for a number of years private expenditure has accounted for around 9.6% of total expenditure. The greatest decrease in the share of private expenditure was recorded for pre-primary education (from 26.1% in 2000 to 18.3% in 2006) and secondary education (from 13.0% in 2000 to 8.3% in 2006); in recent years, the decrease has mainly been due to high growth in public investment expenditure.

Slovenia also exceeds the EU-27 average in the share of total expenditure on institutions of tertiary education. In 2006 it accounted for 1.30% of GDP (cf. 1.2% of GDP for the EU-27).[272] In spite of the decrease in the recent years, Slovenia still ranks top among EU countries in the share of private expenditure on institutions of tertiary education (22.4%, compared with 16.7% for the EU-27), which is primarily due to high schooling fees for part-time university courses and high expenditure on accommodation in residence halls for university students.

Slovenia lags behind the EU average in the amount of expenditure per participant in tertiary education.[273] According to the latest data, in 2004 the total expenditure per participant in education, in terms of percentage of GDP per capita, amounted to 30.0% (29.5% in 2003), which places Slovenia well above the EU-27 average (24.6%) or second among EU countries after Cyprus (30.6%). The picture for the tertiary level is worse, as in 2004 expenditure per student as a percentage of GDP per capita amounted to 33.9%, which is less than the EU average (35.5%).

---

[270] According to the UOE (the common questionnaire of UNESCO, OECD and Eurostat) methodology, expenditure on educational institutions comprises all public and private expenditure on instructional and non-instructional educational institutions for formal education. This indicator, however, does not include transfers to individuals and households which otherwise are included in total public expenditure on education (see the indicator *Public expenditure on education*).

[271] Private expenditure includes expenditure by households and other private entities paid directly to educational institutions (for schooling fees, school lunches, school sports weeks, and accommodation in residence halls for secondary-school and university students).

[272] The expenditure on institutions of tertiary education includes expenditure intended for R&D in tertiary education, which however differs greatly among various countries. In Slovenia it accounts for 0.2% of GDP.

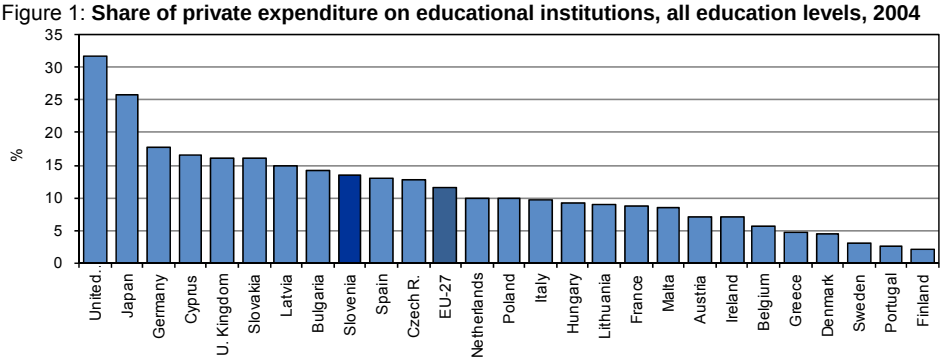
[273] For more details see Development Report 2006: Expenditure on educational institutions per student.

Table: **Public and private expenditure for educational institutions, Slovenia, 1995–2006, and EU-27, 2004**

	% of GDP						Structure by source of funds, %					
	Slovenia[1]					EU-27	Slovenija					EU-27
	1995	2000	2004	2005	2006	2004	1995	2000	2004	2005	2006	2004
All levels of education												
Total	6.16	5.96	6.18	6.16	6.17	5.43	100.0	100.0	100.0	100.0	100.0	100
Public	5.17	5.08	5.31	5.31	5.33	4.79	83.9	85.1	85.9	86.2	86.4	88.5
Private	0.99	0.89	0.84	0.81	0.80	0.64	16.1	14.9	13.6	13.2	12.9	11.5
Tertiary education												
Total	1.35	1.31	1.36	1.31	1.30	1.2	100.0	100.0	100.0	100.0	100.0	100.0
Public	1.09	0.95	1.01	0.97	0.96	1.0	80.7	72.4	74.2	74.4	74.4	83.3
Private	0.26	0.36	0.32	0.30	0.29	0.2	19.3	27.6	23.9	22.8	22.4	16.7

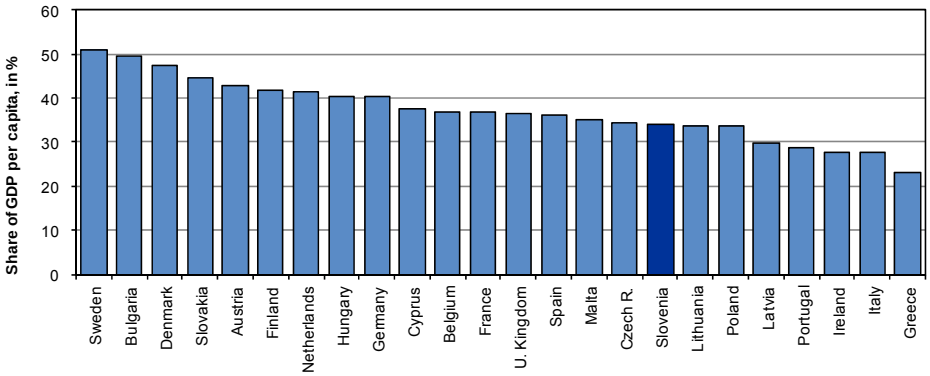
Source: Public expenditure for formal education, Slovenia, 2005, 2006 (provisional data) – SORS (2007); 2004 – SORS (2007); 1995–2003 – SORS (2006).
Note: [1]The indicators are calculated on the basis of the latest GDP revision (September 2007).

Figure 1: **Share of private expenditure on educational institutions, all education levels, 2004**



Source: Population and social condition – Eurostat Queen Tree (2008); for Slovenia: Expenditure on formal education, Slovenia – SORS (2007).

Figure 2: **Expenditure on educational institutions per participant in tertiary education, 2004, as a % of GDP per capita**



Source: Population and social condition – Eurostat Queen Tree (2008); for Slovenia: Expenditure on formal education, Slovenia – SORS (2007).

Gross domestic expenditure on research & development

After a period of stagnation in 2003, the share of gross domestic expenditure on research & development in GDP increased for the third year in a row. According to final data by SORS for 2006, it amounted to 1.59% of GDP, which is a considerable increase compared to the previous year (by 0.13 p.p.) and also the second greatest increase in the 2000–2006 period.[274] In real terms, gross domestic expenditure on research & development (GERD) was 14.3% higher in 2006, due to which Slovenia's lagging behind the share allocated for R&D by the EU-27 eased considerably in that year (to 0.25 p.p.; Slovenia's gap was greatest in 2003 – 0.58 p.p). In the value of this indicator, Slovenia continues to rank ahead of all new Member States, as well as ahead of Ireland and the Mediterranean countries (Spain, Italy, Portugal and Greece). However, in the seven-year period 2000–2006, some of the new EU-27 countries (Czech Republic, Hungary, Baltic states) increased their share of GERD in GDP much faster than Slovenia (the former by 6.5% per year, Slovenia by 2.0% per year).

The business sector, in particular, has been increasing the financing of R&D; in 2006 it contributed nearly 60% of all funds. In real terms, in 2006 the business sector increased its expenditure on investments in R&D by 22.6% compared to 2005. At the same time, it financed 59.3% of total GERD, which represented 0.95% of GDP (0.81% of GDP in 2005). Having already reached the greatest share in total GERD in 2002, Slovenia's business sector slightly exceeded the European average in 2005 (2005:[275] 54.6%; Slovenia 2005: 55.3 %). In some countries the business sector finances a much greater share of GERD, for example in Germany and Finland (2005: 67.6% and 66.9%, respectively), which is reflected in higher GERD in these countries. In spite of considerable improvement in 2006, Slovenia's business[276] sector lags far behind the Barcelona Process goal of investing 2% of GDP in R&D. The public sector, with its 0.58% of GDP, is also far from the goal of allocating 1% of GDP to R&D by 2010. In the *Report on the Implementation of the Reform Programme for Achieving the Lisbon Strategy Goals in Slovenia (2007)*, the Government of the Republic of Slovenia already referred to the possibility that the Barcelona goal would not be attained by 2010.

[274] GERD as a share of GDP increased by 0.13 p.p. in 2004.
[275] The latest available data for the EU are for 2005.
[276] In 2006, 442 taxpayers claimed tax relief on the basis of investment in R&D (Corporate Income Tax Act, OG RS, No. 33/06), which allowed them to reduce their tax base by 20% of the amount invested in R&D. In 2006, tax relief totalled SIT 13.9 billion, which is a major rise compared with 2005, when the respective amount was SIT 602 million. According to data from the Ministry of Finance on R&D tax relief in 2006, 30 taxpayers operating in the production of chemicals, chemical products, artificial fibres, motor vehicles, trailers and semi-trailers claimed more than half (55.1%) of all tax relief. At the end of 2007, the Decree Concerning Regional Tax Incentives for R&D (OG RS, No. 110/2007) took effect. On the basis of this Decree, taxpayers who meet specific conditions with regard to the level of development of the region where they have headquarters and where they perform their business may reduce their tax base further (by 10% if GDP per capita is 15% lower than the national average, or by 20% if GDP per capita is more than 15% lower than the national average). According to the preliminary data for 2007, tax relief for R&D investment totalled EUR 60.6 m, or SIT 14.5 bn, and the volume of regional tax relief for R&D amounted to EUR 5.7 m, or SIT 1.3 bn (Preliminary Data of the Ministry of Finance on R&D tax relief in 2007, 2008).

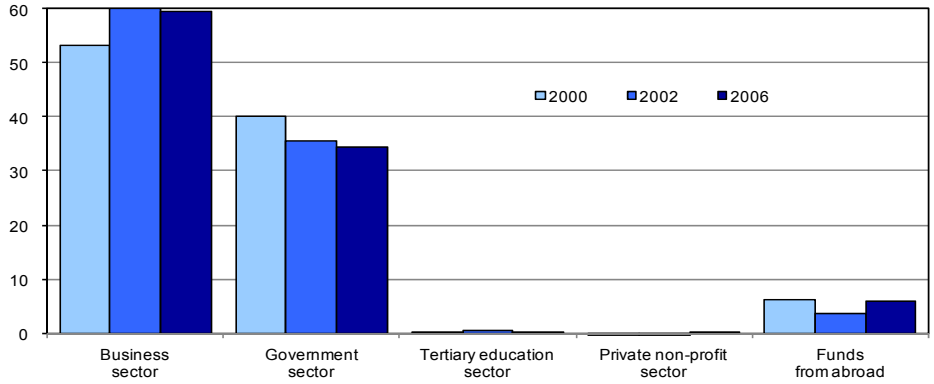
The structure of researchers in terms of the sector of employment is gradually changing in favour of the business sector. In 2006 the number of researchers[277] increased by 11.1% in comparison with the previous year, which was 6.0 p.p. higher than the average annual growth in the period 2000–2006. The largest share of researchers in 2006, 38.8%, operated in the business sector (compared with 31.8% in 2000), which represented 8.6% average annual growth in the period 2000–2006. The government sector employed somewhat fewer researchers (30.9%) and the average annual growth was 5.5 p.p. lower there. To sum up, the structure[278] of researchers in Slovenia in the period 2000–2006 changed in the direction of a gradual increase in the share of researchers in the business sector. However, in comparison to the EU average, this share is still low (2006: 49.3%).

Table: **Gross domestic expenditure on R&D in Slovenia and other EU-27 member states, in % of GDP**

	1996	2000	2001	2002	2003	2004	2005	2006[1]
EU-27	N/A	1.86	1.87	1.88	1.87	1.83	1.84	1.84
Bulgaria	0.52	0.52	0.47	0.49	0.50	0.50	0.49	0.48
Czech Republic	0.97	1.21	1.20	1.20	1.25	1.25	1.41	1.54
Estonia	N/A	0.61	0.71	0.72	0.77	0.86	0.93	1.14
Finland	2.52	3.34	3.30	3.36	3.43	3.45	3.48	3.45
Irland	1.30	1.12	1.10	1.10	1.17	1.24	1.26	1.32
Italy	0.99	1.05	1.09	1.13	1.11	1.10	1.09	N/A
Latvia	0.42	0.44	0.41	0.42	0.38	0.42	0.56	0.69
Lithuania	0.50	0.59	0.67	0.66	0.67	0.76	0.76	0.80
Hungary	0.65	0.78	0.92	1.00	0.93	0.88	0.94	1.00
Germany	2.19	2.45	2.46	2.49	2.52	2.49	2.48	2.51
Poland	0.65	0.64	0.62	0.56	0.54	0.56	0.57	0.56
Portugal	0.57	0.76	0.80	0.76	0.74	0.77	0.81	N/A
Slovenia	**1.33**	**1.41**	**1.52**	**1.49**	**1.29**	**1.42**	**1.46**	**1.59**
Spain	0.81	0.91	0.91	0.99	1.05	1.06	1.12	1.20

Source: Science and technology: Research and development (Eurostat), 2008.
Notes: [1] Data for Estonia and Germany are provisional. The EU-27 aggregate is an estimate by Eurostat; N/A – not available.

Figure: **Gross domestic expenditure on R&D in Slovenia by source of financing, in %**



Source: Research and development, Slovenia, (SORS), 2007, 2008.

[277] The number of researchers is expressed in the full-time equivalent, whereby only researchers are included in the analysis (without technicians and other personnel).
[278] The share of researchers employed in the higher education sector has remained stable at around 30%.

Innovation active enterprises

In the 2004–2006 period more than a third of enterprises were engaged in innovation activity, which is considerably more than in the previous 2-year period. According to the latest provisional SORS data,[279] 35.1% of enterprises in Slovenia were engaged in innovation activities in the period 2004–2006, which is 8.2 p.p. more than in 2002–2004. According to the latest Eurostat data for the EU for 2002–2004, the share of innovation active enterprises in the EU average was 39.5%. The greatest progress in terms of innovation activity in Slovenia was recorded in services,[280] where the share of innovation active enterprises increased from 16% in 2002–2004 to 26.8% in 2004–2006. In industry, the share of innovation active enterprises rose from 34.3% to 41.0%. The progress in services is particularly encouraging in the light of data from the previous period (2002–2004), which indicated a significant gap (lagging behind the EU by 21 p.p.),[281] while the lag in industry was considerably smaller (7.2 p.p.). Innovation activity in service enterprises in Slovenia was weak particularly due to a low share of innovation active enterprises in the area of knowledge-based business services. In most of the Member States, these enterprises were engaged in innovation to at least the same extent as enterprises in manufacturing (Stare, Bučar, 2007b), except in Slovenia (knowledge-based business services: 27.2%, manufacturing: 35.0%) and Cyprus.

In Slovenia as well as at the EU-27 level, the tendency to participate in innovation activities rises commensurately with company size. In the period 2004–2006, 27.7% of small enterprises, 51.3% of medium-sized enterprises and 76.9% of large enterprises in Slovenia were engaged in innovation activities. According to the data for 2002–2004, the lag behind the European average was the greatest for small and medium-sized service enterprises (by 21.4 p.p. and 19.8 p.p., respectively). Large industrial and service enterprises came closest to the European average; for these enterprises, the gap was 1.9 p.p. and 2.8 p.p., respectively. Small enterprises quoted a lack of financial resources as the greatest obstacle in pursuing innovation activities, as well as the situation in markets where established enterprises prevail. A shortage of qualified personnel in small enterprises is another impediment to innovation activities; it is, however, only the fifth most important factor, after excessive costs for innovation.

Organisational innovations are particularly important for services. This is reflected in the large share of service enterprises which introduced organisational innovations. Research confirms that innovations in services are more far-reaching and are often connected with organisational changes encompassing new concepts of service, new relations to customers and new methods of service distribution. Technical and non-technical (organisational) aspects of innovation complement each other, which is why the importance of either may differ with respect to the type of service (Van Ark et al., 2003; Howells, Tether, 2004). In its recent research on

[279] First release, SORS, 28 April 2008.
[280] Services: 51 – wholesale and commission trade, I – transport, storage and communications, J – financial intermediation, 72 – computer and related activities, 74.2 – architectural and engineering activities, 74.3 – technical testing and analysis (classification according to the Standard Classification of Activities, SKD or NACE). The last three activities are knowledge-based business services.
[281] Only Bulgaria lagged further behind the European average, by 24.2 p.p.

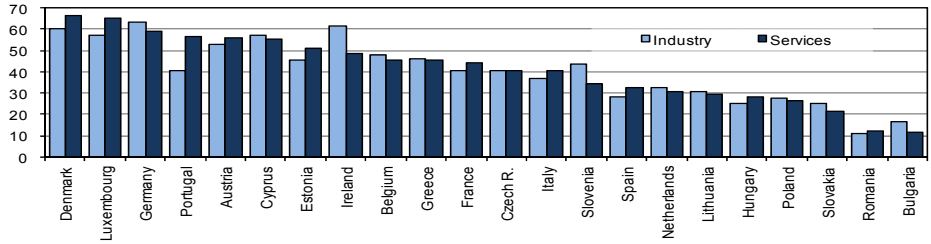
innovation activity in 2002–2004, SORS acquired, in accordance with the CIS4 methodology,[282] data on enterprises which introduced organisational innovations and/or innovations in the field of marketing.[283] In this field Slovenian service enterprises have not performed better than industrial enterprises: 34.6% of the former and 43.4% of the latter introduced organisational innovations. In ten EU Member States the share of service enterprises which introduced organisational innovations was higher than the share of industrial enterprises. Portugal recorded the greatest disparity in favour of services, while Slovenia recorded the greatest gap in favour of industrial enterprises, after Ireland. Among the major effects of organisational innovations, a third of Slovenian innovation active enterprises quoted a shorter time to respond to customer needs and better quality of goods or services.

Table: **Innovation active enterprises, 2002–2004, % of all enterprises**

	TOTAL	Small	Medium	Large	INDUSTRIJA	Small	Medium	Large	SERVICES	Small	Medium	Large
EU-27 [1]	39.5	34.9	52.8	70.8	41.5	35.3	56.8	74.5	37.0	34.6	45.6	63.3
Czech Rep.	38.3	32.3	50.2	69.8	41.1	33.3	52.6	71.0	33.9	31.0	44.2	63.5
Estonia	48.7	45.3	57.9	79.8	46.9	39.9	61.5	82.7	50.7	50.7	49.0	69.6
Finland	43.3	36.9	60.1	76.0	49.3	41.9	63.9	83.0	36.8	32.1	54.4	63.8
Greece	35.8	33.9	43.1	66.6	35.1	32.5	44.4	64.3	36.8	35.6	40.8	70.6
Irland	52.2	47.2	65.4	75.1	60.9	53.5	74.5	91.6	43.8	41.8	52.1	50.8
Latvia	17.5	14.1	27.2	53.5	17.4	12.5	28.9	50.8	17.6	15.6	24.2	58.5
Luxembourg	52.2	46.9	62.6	79.2	48.9	39.0	58.6	84.2	53.2	48.8	64.3	75.8
Germany	65.1	59.7	74.4	88.6	72.8	66.2	79.3	92.9	57.5	55.0	64.2	80.3
Poland	24.8	18.4	39.4	64.4	26.6	18.0	41.4	67.8	22.0	18.9	34.0	53.3
Portugal	40.9	35.9	60.4	72.0	39.1	32.9	60.0	72.3	44.3	41.1	61.7	71.4
Slovenia	**26.9**	**19.1**	**40.9**	**69.9**	**34.3**	**24.5**	**45.2**	**72.6**	**16.0**	**13.2**	**25.8**	**60.5**

Source: Science and technology: Community innovation survey – Eurostat, 2008.
Note: [1] Data for Slovenia have not been included due to the confidential nature of data on innovation activity in medium-sized and large manufacturing enterprises.

Figure: **Shares of enterprises which introduced an organisational innovation and/or innovation in the field of marketing in the 2002–2004 period, in % of all enterprises**



Source: Science and technology: Community innovation survey (Eurostat), 2008.
Note: Data for Finland, Latvia, Malta, Sweden, the UK, and also for the EU-27 as a whole are not available.

[282] Eurostat recommendations for the harmonised Fourth Community Innovation Survey for the period 2002–2004.
[283] Hereinafter, the term *organisational innovation* will be used for simplicity. The term encompasses the implementation of new or significant changes to firm structure or management methods with the purpose of improving the harnessing of know-how in the company, the quality of goods or services, and the efficiency of workflow. Innovation in marketing means the implementation of new or considerably improved designs or methods of sale with the purpose of increasing the attractiveness of services or goods or to enable a company to enter new markets (Rapid Reports No. 29/2007, SORS).

Science and technology graduates

In 2007, the number of science and technology graduates*[284] *increased. In 2007, there were 2,836 science and technology graduates, which is 2.4% more than in 2006. Contrary to the EU average, the number of science and technology graduates decreased in 2006, the year for which the latest data for the EU are available. In the whole period 2000–2006, the increase in the number of such graduates (5.7%) was much smaller than the EU average (25.4%), and lower than in most other European countries. In view of the rising number of science and technology graduates in Slovenia since 2000/2001 – having increased by 34.8% in the period 2000/2001–2007/2008 – a further increase in the number of graduates in the mentioned fields may be expected in the coming years. Growth in the number of graduates in the period 2003[285]–2006 was also followed by an increase in the number of employed persons aged 25–64 who are science and technology graduates. In 2006 the number reached 52,000, which is 8.3% more than in 2005 (15% in the EU-27); in the period 2003–2006 the number increased by 23.8% (72.0% in the EU-27).

The number of science and technology graduates per 1,000 inhabitants aged 20–29 also increased slightly in 2007. In Slovenia there were 9.8 science and technology graduates per 1,000 inhabitants aged 20–29 in 2007 (9.5 in 2006). In the value of the analysed indicator, Slovenia lagged behind the European average (13.0) and behind most old EU members in 2006, having thus ranked in the bottom half of European countries. In the period 2000–2006, Slovenia's lag behind the EU average increased, as did its lag behind most old EU-15 members, for which the latest data for the EU were available.

The share of science and technology graduates in the total number of graduates increased in 2007, though it is relatively low in comparison with international data. In 2007 it totalled 17.0%, which is much less than in 2000 (22.8%). The respective EU average is 22.4%; in the period 2000–2006 Slovenia's lag behind this figure increased from 2.0 p.p. to 6.2 p.p.

[284] Science and technology indicators according to ISCED 97 comprise two broader fields, i.e. the fields "science, mathematics and computing" (ISC 42, 44, 46 and 48) and "engineering, manufacturing and processing, and architecture and construction" (ISC 52, 54, 58). Within this framework, the International Standard Classification of Education ISCED 97 and the Eurostat Fields of Education and Training Manual 1999 were taken into consideration. The indicators comprise the total number of graduates of tertiary education in the fields of science and technology who completed their studies in the observed year.

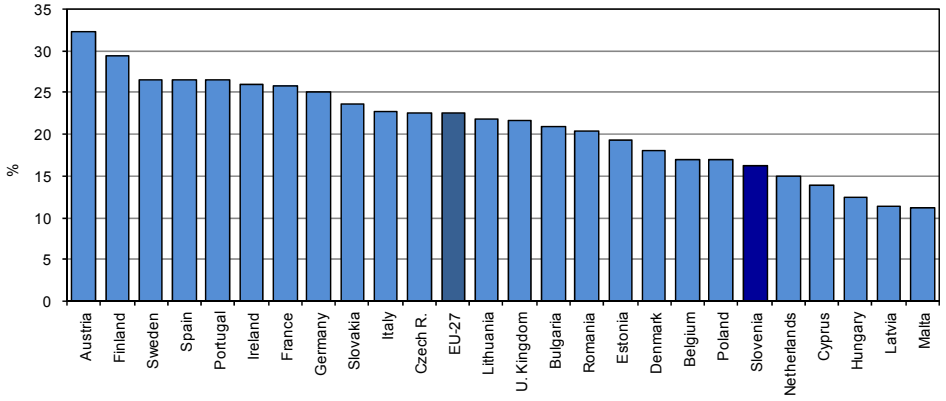
[285] Data on employed persons aged 25–64 years who graduated in science and technology have been available since 2003.

Table: **Number of science and technology graduates per 1,000 inhabitants aged 20–29**

	1998	2000	2001	2002	2003	2004	2005	2006
EU-27	N/A	10.2	10.8	11.3	12.3	12.5	13	13
Belgium	7.9	7.2	7.3	7.9	8.2	8.7	9.8	10.7
Bulgaria	N/A	9.7	10.1	10.5	11	11.2	10.9	10.6
Czech Republic	5.5	6.6	7.9	11.7	8.3	8.5	8.6	8.6
Denmark	N/A	3.4	3.7	3.8	3.6	4.2	3.6	4.2
Germany	4.6	5.5	5.6	6	6.4	7.4	8.2	10.1
Estonia	8.1	11.7	12.2	11.7	12.5	13.8	14.7	13.8
Irland	3.3	7	7.3	6.6	8.8	8.9	12.1	11.2
Greece	15.9	16	17.2	17.4	17.4	N/A	17.7	17.9
Spain	18.5	19.6	20.1	N/A	22	N/A	22.5	20.6
France	N/A	N/A	N/A	N/A	N/A	8	10.1	5.9
Italy	22.9	24.2	22.9	20.5	24.2	23.1	24.5	20.9
Cyprus	5.1	5.7	6.1	7.4	9.1	10.8	9.7	9.2
Latvia	6.1	7.4	7.6	8.1	8.6	9.4	9.8	8.9
Lithuania	9.3	13.5	14.8	14.6	16.3	17.5	18.9	19.3
Luxembourg	1.4	1.8	N/A	N/A	N/A	N/A	N/A	0
Hungary	5	4.5	3.7	4.8	4.8	5.1	5.1	5.9
Malta		3.4	2.7	3.1	3.6		3.4	5
Netherland	8.8	8.2	8	8.1	8.4	9	9.7	10.7
Austria	6	5.8	6.1	6.6	7.3	7.9	8.6	9
Poland	4.9	6.6	7.6	8.3	9	9.4	11.1	13.3
Portugal	5.2	6.3	6.6	7.4	8.2	11	12	12.7
Romania	4.5	4.9	5.3	5.8	9.4	9.8	10.3	10.5
Slovenia	4.3	5.3	7.5	7.8	8.3	9.2	10.2	10.3
Slovakia	8	8.9	8.2	9.5	8.7	9.3	9.8	9.5
Finland	8	9.9	11.2	11.9	12.6	12.5	11.8	11.6
Sweden	7.9	11.6	12.4	13.3	13.9	15.9	14.4	14.9
United Kingdom	15.5	18.5	20	20.3	21	18.1	18.4	17.5

Source: Population and social conditions – Education and training (Eurostat), 2008.
Note: N/A – not available.

Figure: **Share of science and technology graduates in the total number of graduates, Slovenia and EU-27 countries, 2006, in %**



Source: Population and social conditions – Education and training (Eurostat), 2008.

Internet Use

The use of the Internet slowed down in 2007, thus increasing the gap between Slovenia and the EU for the first time since comparable data have been available. The share of the population using the Internet in the first quarter of 2007 rose to 53% of the population aged 16–74 taken into account by the Eurostat methodology. In comparison with the year before, the share was 2 p.p. higher, which represents a slowdown in growth compared with previous years. In the EU average the share of Internet users rose by 4 p.p. to 57% in the same year, while in the countries of the EU-15 it rose by 5 p.p. to 61%.[286] The gap between Slovenia and the EU average, which decreased from 7 p.p. in 2004 to 1 p.p. in 2006, increased to 3 p.p. in 2007. The situation is similar in comparison with the EU-15 countries; however, the lag behind the average of those countries is greater and increased slightly more than compared with the EU-27 (to 8 p.p.). Comparisons with the new EU members also indicate a slowdown in Internet use in Slovenia. In 2006 only Estonia achieved better results among these countries. In 2007, in addition to Estonia, Slovenia was overtaken by Slovakia and Latvia, while Hungary came very close.

Comparisons with the EU demonstrate that the unevenness in Internet use relative to age and education increased in 2007. The use of the Internet among the less educated population in Slovenia is less common than in the EU. Also, Internet use in Slovenia decreases more rapidly with age, while among younger generations and highly educated people Internet use exceeds the European average. In Slovenia there is therefore considerable potential for growth with these population groups, which according to the data for 2007 increased in comparison with the previous year. The relatively low share of Internet users in the 55–74 age group thus remained unchanged (14%), while in the EU it rose by 5 p.p. to 28%. Progress in the educational structure of Internet users shows a similar picture. In some age groups the share of Internet users with a secondary education decreased, while the share of users with lower education levels rose less than the EU average, with the exception of the young population aged 16–24.

In 2007, the share of households with Internet access rose at a similar pace as in the EU and was again slightly greater than the European average and roughly equal to the average of the old EU members. In the first quarter of 2007, 58% of Slovenian households had Internet access (compared with 54% in 2006), which is 4 p.p. more than the EU-27 average and 1 p.p. less than the EU-15 average. As in the previous year, it was the rapid expansion of broadband Internet access that positively influenced the growth in the share of households with Internet access. Having nearly doubled in 2006, the share of households with Internet access increased by a further 10 p.p. to 44% in 2007, thus slightly exceeding the EU average and somewhat lagging behind the EU-15 average. Continued growth in the share of households with broadband Internet access is still associated with improved offerings and access to these service following the opening of the xDSL connections market in the autumn of 2005.[287, 288] International comparisons show that the

[286] Internet use increased in all EU Member States except Denmark and Sweden, which in 2006 were the countries with the highest share of Internet users (over 80%).
[287] The unbundling of the ISDN-ADSL loop in September 2005. It should be added here that only in 2007 did the Post and Electronic Communications Agency of the Republic of Slovenia (APEK) rule that the dominant operator

differences in Internet access among urban and rural areas in Slovenia are somewhat smaller than in the EU, as against the background of slightly greater access in densely populated areas, the share of households with Internet access in sparsely populated areas is considerably greater than the EU average (and approximately equal to the EU-15 average).

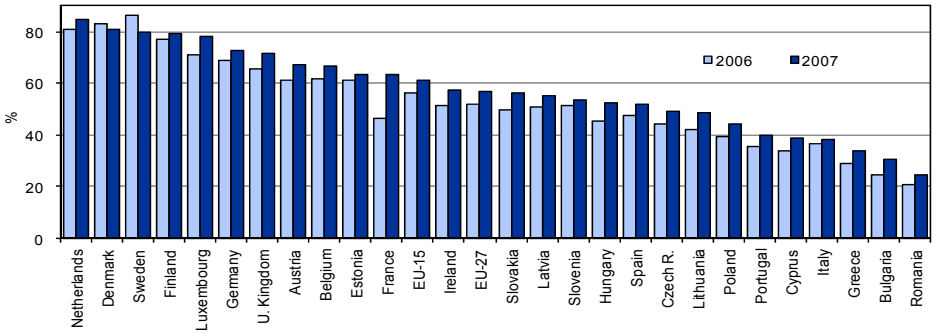
An important factor in the development of the Information Society is the introduction of e-government services, where in 2007 major progress was achieved as regards supply; however, it was only partially followed by a shift in the use of these services. The availability of e-government in Slovenia is among the highest in the EU, having risen from 65% in 2006 to 90% in 2007 (EU: 59%). As concerns demand, the data show continued rapid growth in the use of public administration e-services only for companies, while the growth of e-administration among the population came to a standstill. The share of people who visited the webpages of the public administration to acquire information and of those who used the full extent of public administration e-services remained at the same level as in previous years, while the share of people who used public administration e-services to acquire forms slightly decreased. With these results Slovenia now lags behind the EU average in all three methods of using e-administration services, but this lag is most obvious for the share of persons using only electronic means for dealing with government.

Table: **Internet use in Slovenia, 2004–2007**

	2004[1]	2005[1]	2006[1]	2007[1]
Internet users[2] (aged 16–74)	37	47	51	53
Older internet users[2] (aged 55–74)	8[4]	11[5]	14	14
Households with Internet access	47	48	54	58
Households with broadband Internet access	10	19	34	44

Source: Usage of ICT in households and by individuals - SORS (2005, 2006, 2007), Usage of ITC in enterprises with 10 or more employees - SORS (2005, 2006, 2007).
Notes: [1]Data refer to the first quarter of the year; [2]The share of users who used the Internet in the past three months; [3]Enterprises with 10 or more employees; [4] Inaccurate estimate - SORS. [5]Less accurate estimate - SORS.

Figure: **Internet users[1] in Slovenia and the EU countries in 2006[2] and 2007[2]**



Source: Industry, trade and services: Information society statistics – Eurostat (January 2008); Use of ICT in households and by individuals – SORS (November 2007); calculations by IMAD.
Notes: [1] The share of users who used the Internet in the past three months; [2] Data refer to the first quarter of the year.

in the fixed telephony market acted illegally by conditioning ADSL access with the ISDN system.
[288] Among the broadband Internet access types, the share of access through xDSL connections showed the greatest increase in 2007 (from 21% to 29%), thus becoming the most common type of broadband access in Slovenia in that year.

The Third Priority

An efficient and more economical state

- General government expenditure according to economic classification
- General government expenditure according to COFOG
- Economic structure of taxes and contributions
- State aid
- Aggregate competitiveness indices

General government expenditure according to economic classification

Total general government expenditure as a percentage of GDP was 43.3% in 2007, a decrease of 2 percentage points compared to 2006; there was also some change in its structure. Only gross capital formation increased as a percentage of GDP (0.2 p.p.), while all other expenditures (expressed as a % of GDP) decreased, most of all social benefits in cash and in kind (by 0.9 p.p.), and employee compensation (0.6 p.p.).

Between 2000 and 2007, social benefits in cash and in kind as a percentage of GDP decreased the most (2000: 18.3%; 2007: 16.7% of GDP). The gradual introduction of pension reform led to a decrease in pension expenditure as a percentage of GDP by 0.1 to 0.2 p.p. annually. Expenditure on transfers to individuals and households (excluding pensions) increased as a % of GDP between 2000 and 2004, and then started to fall slowly, most of all in 2007, due to implementation of the standardised mechanism to harmonise them with inflation. Expenditure on capital transfers (2000: 1.6%; 2007: 0.8% of GDP) was higher particularly at the beginning of the period, when in addition to other investment grants, certain other expenditures were included in this category. Lower interest rates and lower inflation also led to a gradual reduction of expenditure for payable property income (interest payment). Expenditure on intermediate consumption fell by 0.6 percentage points as a share of GDP, due to savings in expenditure on goods and services in government bodies and public agencies. Expenditure on compensation of employees was also down by 0.6 percentage points. At the start of the period, this figure increased (as a % of GDP), starting to fall after 2004, most of all in 2007, as a result of weak growth in the number of employees in the public sector (up 0.3%), as well as the wage per employee (up 0.5%). The proportion of some other expenditures increased as well. The most notable was the increase in expenditure on other current transfers, primarily due to mandatory contributions to the EU budget after Slovenia joined in 2004. Expenditure on gross capital formation increased by 0.5 percentage points.

Total general government expenditure[289] as a share of GDP in Slovenia in 2007 was 1.5 percentage points lower than the average for the EU-27 (Slovenia: 43.3%; EU-27: 45.8% of GDP). In 2007, general government expenditure as a percentage of GDP was higher than in Slovenia in 13 Member States, but there were major differences in expenditure levels, ranging by 18.9 percentage points between the highest, Sweden, and the lowest, Estonia (see Figure). In 2007, total expenditure as a % of GDP in Slovenia fell more than in the EU-27 members on average (by 2 percentage points in Slovenia; by 0.5 percentage points in the EU-27). The structure of expenditure broken down by economic purpose indicates that in 2007 Slovenia allocated fewer funds for expenditure on payable property income (interest

[289] Slovenia's general government expenditure according to the ESA-95 includes four general government budgets (the central government and municipal budgets, and the pension and health funds), public funds including the Pension Fund (KAD) and the Slovenian Restitution Fund (SOD), public institutes and public agencies.

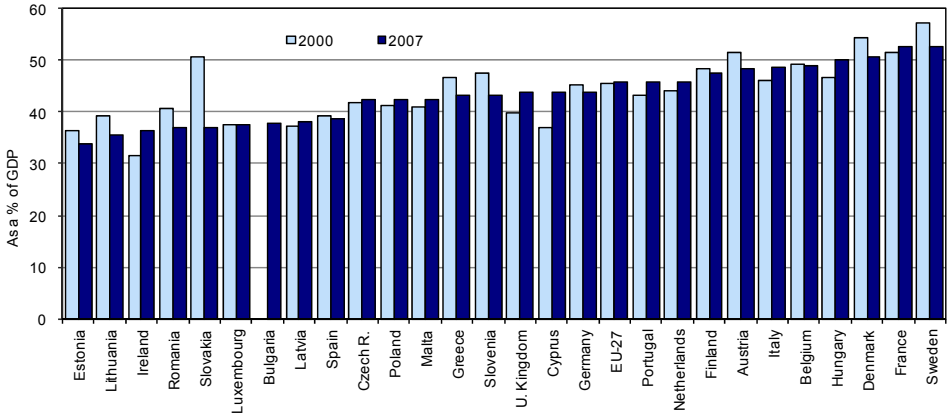
payments) and social benefits in cash and in kind compared to the EU-27 average, and more for subsidies and gross capital formation.

Table: **Breakdown of general government expenditure as a % of GDP in 2000–2007**

	2000	2001	2002	2003	2004	2005	2006	2007
Total general government expenditure	47.4	48.2	47.1	47.1	46.5	46.0	45.3	43.3
Intermediate consumption	6.7	6.7	6.9	6.4	6.2	6.3	6.4	6.1
Compensation of employees	11.5	11.9	11.8	11.9	11.8	11.7	11.4	10.9
Other taxes on production	0.5	0.5	0.5	0.5	0.5	0.6	0.4	0.3
Subsidies	1.9	1.8	1.9	2.0	1.8	1.6	1.7	1.5
Property income, payable	2.4	2.4	2.2	2.0	1.7	1.6	1.4	1.3
Social benefits in cash and in kind	18.3	18.3	18.3	18.3	18.1	18.0	17.6	16.7
Other current transfers	1.3	1.8	1.4	1.3	1.8	2.1	2.0	2.0
Capital transfers	1.6	1.9	1.1	1.4	1.2	1.0	0.8	0.8
Gross capital formation and acquisitions less disposals of non-produced, non-financial assets	3.2	2.8	3.0	3.3	3.4	3.1	3.5	3.7
Total general government revenues	43.6	44.1	44.6	44.4	44.2	44.5	44.1	43.2

Source: Main Aggregates of the General Government (SORS), 2008 (for the period 2004–2007); Non-financial sector accounts: S 13 (General government), calculations by IMAD (for the period 2000–2003).

Figure: **General government expenditure in the EU Member States, 2000 and 2007, as a % of GDP**



Source: Government Statistics (Eurostat), 2008.

General government expenditure according to COFOG

The reduction in general government expenditure relative to GDP continued in Slovenia in 2006. A falling trend in general government expenditure relative to GDP has been present since 2001, and it has become very pronounced in the past three years. General government expenditure in 2005 was thus 0.5 percentage points lower than in 2004, while in 2006 it was another 0.7 percentage points lower than in the previous year. From 2001 to 2006, general government expenditure in Slovenia fell by 2.9 percentage points (2001: 48.2%; 2006: 45.3% of GDP). Its accelerated decrease has been observed in the last three years, which complies with the policies of Slovenia's Development Strategy.

Public administration expenditure accounts for the bulk of the fall in general government expenditure in the 2001–2006 period relative to GDP, followed by health expenditure and social protection expenditure. Between 2001 and 2006, public administration expenditure fell by 1.5 percentage points, health expenditure by 0.6 percentage points and social protection expenditure by 0.5 percentage points. The fall in health expenditure occurred in the 2003–2005 period, while in 2006 it remained at the 2005 level. Social protection expenditure fell in the last two years, mostly in 2006. Public administration expenditure was falling throughout this period, most of all in 2002 and 2006. A small decrease was also present in expenditure for other functions, the only exceptions being defence, recreation, culture and religion, which have reported a slight increase in expenditure in recent years, as well as housing and community amenities and education, whose shares in GDP did not change over the 2001–2006 period. In 2007, housing expenditure gained 0.1 percentage points of GDP, while education expenditure lost as much.

General government expenditure in Slovenia in 2005[290] was lower than the average for the EU (Slovenia: 46.1%; EU-25: 46.9; EU-15: 47.2% of GDP), but the structure of expenditure was somewhat different. Expenditure on education and economic affairs was much higher than both averages for the EU, expenditure on social protection was lower, and there was not much deviation in expenditure for other functions.

Slovenia is still one of the nine EU members with the highest expenditure in terms of the ratio of general government expenditure to GDP. As to individual functions, Slovenia ranks third with regard to education expenditure and ninth with regard to expenditure for social protection, and it is at the bottom of the list of Member States with regard to housing and community amenities and close to the bottom of the list with regard to expenditure on environmental protection. As for expenditure for other functions, Slovenia ranks close to the middle relative to other Member States.

[290] According to the initial incomplete data for 2006, expenditure dropped by 0.7 p.p. in Slovenia (to 45.3% of GDP), which is not likely to change the fact that it has been ranked among the countries with high expenditures.

Table 1: **General government expenditure by function, Slovenia, as a % of GDP**

	2000	2001	2002	2003	2004	2005	2006
Total general government expenditure	**47.4**	**48.2**	**47.1**	**47.1**	**46.5**	**46.0**	**45.3**
General public services	6.8	7.7	6.7	6.7	6.6	6.5	6.2
Defence	1.1	1.3	1.3	1.3	1.3	1.4	1.4
Public order and safety	1.7	1.8	1.9	1.9	1.8	1.7	1.7
Economic affairs	5.3	4.3	4.9	4.9	4.2	4.1	4.1
Environmental protection	0.4	0.5	0.6	0.6	0.6	0.5	0.4
Housing and community amenities	0.6	0.6	0.5	0.5	0.5	0.5	0.6
Health	6.5	6.8	6.6	6.6	6.3	6.2	6.2
Recreation, culture and religion	1.1	1.1	1.1	1.1	1.1	1.1	1.2
Education	6.4	6.4	6.5	6.5	6.4	6.5	6.4
Social protection	17.5	17.6	17.2	17.2	17.7	17.6	17.1

Source: General government expenditure by function, Slovenia, 2000–2006 (SORS), 2007.

Table 2: **General government expenditure according to COFOG in EU member states[1], 2005, as a % of GDP**

General government	Total	General public services	Defence	Public order and safety	Economic affairs.	Environmental protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection
EU-25[2]	**46.9**	**6.6**	**1.6**	**1.8**	**3.7**	**0.7**	**1.0**	**6.5**	**1.0**	**5.2**	**18.8**
EU-15	**47.2**	**6.6**	**1.6**	**1.8**	**3.7**	**0.7**	**1.0**	**6.6**	**1.0**	**5.2**	**19.0**
Austria	49.9	7.0	0.9	1.4	5.0	0.4	0.6	7.0	0.9	5.9	20.8
Belgium	49.3	9.0	1.1	1.6	4.8	0.6	0.4	7.0	1.3	6.0	17.7
Cyprus	43.6	9.3	2.1	2.0	4.4	0.0	3.4	3.0	1.2	5.7	12.5
Czech Rep.	43.8	5.5	1.8	2.2	6.9	1.2	1.4	6.1	1.2	4.8	12.8
Denmark	53.1	6.8	1.5	1.0	3.6	0.6	0.6	6.9	1.6	7.9	22.6
Estonia	32.7	2.7	1.5	2.3	3.7	0.9	0.4	4.0	1.7	5.7	9.9
Finland	50.5	6.8	1.6	1.5	4.7	0.3	0.2	6.8	1.2	6.1	21.2
France	53.5	7.2	1.9	1.4	2.9	0.8	1.8	7.3	1.5	6.1	22.6
Greece	42.5	8.0	2.6	1.2	4.9	0.6	0.4	4.2	0.3	2.5	17.8
Irland	34.0	3.7	0.5	1.5	4.5	0.6	1.5	7.5	0.5	4.3	9.5
Italy	48.0	8.7	1.5	2.0	3.8	0.8	0.8	6.9	0.8	4.7	18.1
Latvia	35.5	5.1	1.2	2.0	4.7	0.8	0.7	3.8	1.2	6.1	9.8
Lithuania	33.5	4.4	1.4	1.8	3.6	0.6	0.3	4.3	1.0	5.5	10.5
Luxembourg	41.9	4.7	0.3	1.0	4.2	1.1	0.9	5.3	2.2	5.0	17.3
Hungary	49.9	9.4	1.2	2.1	5.7	0.6	0.9	5.5	1.6	5.8	17.0
Malta	45.1	7.5	0.9	1.6	6.2	1.0	1.1	6.6	0.8	5.7	13.7
Germany	46.7	6.1	1.1	1.6	3.5	0.5	1.0	6.2	0.6	4.1	21.9
Netherland	45.2	7.8	1.4	1.7	4.6	0.8	1.1	4.3	1.4	5.1	16.9
Poland	43.2	5.8	1.1	1.7	3.8	0.6	1.4	4.5	1.0	6.2	17.1
Portugal	47.3	6.9	1.4	2.0	4.3	0.6	0.6	7.2	1.1	7.4	15.8
Romania	38.1	3.4	1.7	2.4	6.7	0.2	2.1	5.8	0.9	4.1	10.9
Slovakia[2]	37.1	6.4	1.6	2.1	3.8	0.7	0.8	5.1	0.9	4.0	11.7
Slovenia	**46.1**	**6.7**	**1.3**	**1.7**	**4.3**	**0.5**	**0.3**	**6.4**	**1.1**	**6.4**	**17.4**
Spain	38.1	4.6	1.1	1.8	4.6	0.9	0.9	5.7	1.4	4.4	12.8
Sweden	56.4	7.7	1.7	1.3	5.1	0.4	0.9	7.0	1.1	7.3	23.8
U. Kingdom	44.3	4.9	2.5	2.6	2.8	1.0	0.9	7.1	0.9	5.8	15.9

Source: Government expenditure by function — COFOG (Eurostat), 2008.
Notes: [1]data for EU-27 and Bulgaria are not available; [2]data for EU-25 and Slovakia are Eurostat's estimates.

Economic structure of taxes and contributions

Estimates of the burden of taxes and contributions for 2006 and 2007 show the first effects of tax reform. In 2006 and 2007, the government adopted a series of tax regulation changes (on personal income tax, payroll tax, corporate income tax and tax procedures) to reduce taxes on labour and simplify procedures. The latest available data (for 2005)[291] do not yet include changes in the tax burden, but according to our initial estimates for 2006 and 2007, the total tax burden remained approximately the same, while the economic structure of taxes and contributions changed. Due to the gradual phasing out of the payroll tax and the first effects of personal income tax changes, taxes on labour decreased; taxes on consumption slightly increased, mainly as a result of changes in the area of excise duties, while taxes on capital increased due to legislative changes and higher taxable revenues from corporate income tax.[292]

According to the latest internationally comparable data, in 2005, Slovenia was in the top third of Member States ranked by their total burden of taxes and contributions expressed as a percentage of gross domestic product. In 2005, the tax burden stood at 39.6% of GDP, which is the average[293] for the EU-27 members. There are considerable differences among individual states: Sweden recorded the highest burden (51.3% of GDP) and Romania the lowest (28% of GDP). In 2000–2005, the burden of taxes and contributions in Slovenia increased, while in the EU it decreased (see Table).

Structural analysis of the tax systems of individual countries[294] indicates that the tax burden on labour in Slovenia was markedly above average, while the tax burden on capital was significantly below the EU average. In Slovenia, the share of taxes on consumption in total taxes and contributions amounted to 34.5% in 2005, which was 0.2 percentage points higher than in the EU-27 (34.3%). Higher shares were recorded in Ireland (37.1%) and Greece (34.9%) and in all the new Member States except the Czech Republic. The difference in the share of taxes on labour was even more significant (2005: 53.6%). It was 7.5% above the EU average (EU-27: 46.1%). Only Sweden (60.8%), Germany (57.4%) and Austria (55.4%) recorded a higher share. The share of taxes on capital in Slovenia was low. In 2005, it rose somewhat due to the increase in corporate income tax, but it was still just 12%, only 60% of the share recorded on average in the EU Member States (EU-27: 19.8%). Only Estonia, Latvia, Lithuania and Hungary recorded lower shares than Slovenia in 2005.

[291] The calculations of the European Commission on the economic structure of taxes and social security contributions for all EU Member States according to the uniform methodology. The most recent calculations are available for 2005.
[292] See also Slovenian Economic Mirror – General Government Revenue 1/2008.
[293] GDP-weighted average .
[294] For an explanation, see Section 3.

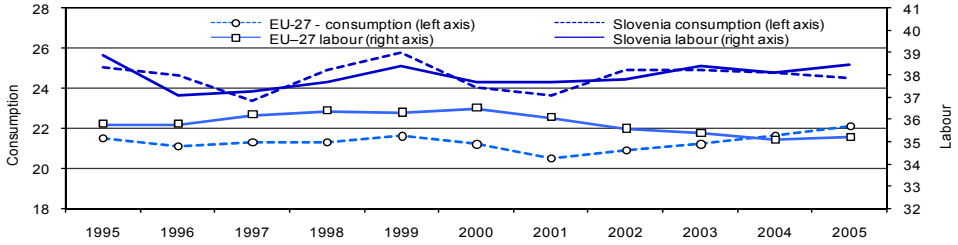
Calculations and comparisons of implicit tax rates[295] also confirm that the tax burden on both consumption and labour is above average in Slovenia. In 2005, the calculated implicit tax rate on consumption in Slovenia amounted to 24.4%, while the EU-27 average was 22.1%. Higher rates were reported by seven Member States, topped by all three Nordic states. After 2002 this rate dropped in Slovenia, while the average for European countries increased. The calculated implicit tax rate on labour in 2005 in Slovenia stood at 38.5% and was, due to relatively high social security contributions, 3.3 percentage points above the EU-27 average (35.2 %). Higher rates than Slovenia's were reported by ten Member States. In the 2000–2005 period, this rate was quite stable in Slovenia, while the average value for European countries decreased.

Table: **Economic structure of taxes and social contributions as a % of GDP**

	Total		Taxes on consumption		Taxes on labour		Taxes on capital	
	2000	2005	2000	2005	2000	2005	2000	2005
EU-27	**40.7**	**39.6**	**11.4**	**11.1**	**20.4**	**19.8**	**9.0**	**8.8**
Austria	42.8	42.0	12.1	12.1	23.7	23.3	6.9	6.7
Belgium	45.2	45.5	11.4	11.3	24.3	23.8	9.5	10.4
Bulgaria	33.1	35.9	14.4	18.4	13.5	11.8	5.3	5.7
Cyprus	30.0	35.6	10.2	14.7	9.8	11.3	10.0	9.5
Czech Republic	33.8	36.3	10.6	11.4	17.1	17.8	6.2	7.1
Denmark	49.4	50.3	15.7	16.1	26.6	24.8	7.2	9.6
Estonia	31.3	30.9	11.8	12.9	17.4	15.4	1.9	2.5
Finland	47.2	43.9	13.6	13.7	23.7	23.3	9.9	6.9
France	44.1	44.0	11.6	11.4	23.2	23.3	9.6	9.4
Greece	37.9	34.4	13.6	12.0	13.6	14.1	10.7	8.4
Irland	31.7	30.8	12.1	11.4	11.5	10.5	8.0	8.8
Italy	41.8	40.6	10.9	10.1	19.6	20.4	11.2	10.1
Latvia	29.5	29.4	11.3	10.9	15.3	14.2	2.9	2.8
Lithuania	30.1	28.9	11.8	10.9	16.3	14.6	2.3	3.3
Luxembourg	39.1	38.2	10.8	10.9	15.3	15.6	13.1	11.7
Hungary	38.5	38.5	15.3	14.6	19.1	19.6	4.1	4.5
Malta	28.2	35.3	11.9	14.4	9.7	11.1	6.7	9.8
Germany	41.9	38.8	10.5	10.1	24.3	22.3	7.0	6.4
Netherland	39.9	38.2	11.7	12.1	20.3	17.7	8.0	8.3
Poland	34.0	34.2	11.3	12.2	15.6	13.9	7.2	8.4
Portugal	34.3	35.3	12.4	12.8	14.1	14.7	7.8	6.6
Romania	N/A	28.0	N/A	12.4	N/A	11.0	N/A	4.6
Slovakia	32.9	29.3	12.3	12.5	16.0	12.6	5.7	4.8
Slovenia	**38.6**	**39.6**	**14.3**	**13.6**	**21.3**	**21.2**	**3.1**	**4.8**
Spain	33.9	35.6	9.9	9.8	15.7	16.1	9.0	10.2
Sweden	53.4	51.3	12.5	13.1	32.3	31.2	8.5	7.0
United Kingdom	37.6	37.0	12.1	11.4	14.3	14.4	11.2	11.1

Source: Taxation trends in the European Union (Eurostat), 2007; for Slovenia: Fiscal burden of taxable persons by taxes and social contributions (SORS), September 2007. Note: N/A – not available.

Figure: **Implicit tax rate on consumption and on labour (as a % of the tax base), 1995–2005**



Source: Taxation trends in the European Union (Eurostat), 2007.

[295] For an explanation of the implicit tax rate on consumption, see Section 3.

State aid

In 2006, the share of state aid in GDP dropped further. After a rapid decrease in the share of state aid in GDP in the 1998–2002 period and its renewed growth in 2003 and 2004, it dropped by as much as 0.66 percentage points in 2005 and by another 0.05 percentage points in 2006 (2005: 0.98; 2006: 0.93% of GDP; Ninth Report, 2007). There are two main reasons for this drop. The first is administrative in nature, which means that nearly half of all aid to agriculture represented measures implemented on the basis of the Common Agricultural Policy (CAP). These measures have not been treated as state aid since Slovenia's admission to the European Union (in 2005 and 2006). The second reason is the actual drop in aid to specific sectors, where aid earmarked for transport more than halved in 2005 and rose only marginally in 2006. Aid for rescue and restructuring almost completely dried up. On the other hand, aid for small and medium-sized enterprises and for regional objectives grew substantially.

State aid for specific sectors[296] is falling. In 2004, aid to agriculture, fishing and other specific sectors represented 1.25% of GDP, while in 2005, when the total aid granted was much lower, it represented only 0.56% of GDP. In 2006 aid to agriculture decreased further, while aid to other sectors (transport, coal industry) remained at nearly the same level as in 2005, with the result that aid to specific sectors dropped by 0.06 percentage points of GDP to 0.5% of GDP.

Aid for small and medium-sized enterprises and for regional objectives increased in 2005 and 2006. With the drastic structural changes in 2005 and 2006, Slovenia lowered its state aid and targeted it towards horizontal and regional objectives, which is in line with Slovenia's Development Strategy and the EU Lisbon Strategy. The reduction in aid to specific sectors was reflected in an increase in absolute amounts of aid for horizontal and regional objectives and their relative shares in the structure of state aid (2004: 23%; 2005: 42%; 2006: 43%). Aid to small and medium-sized enterprises increased considerably (2004: 0.8%; 2006: 10.6%), as did aid to culture (2004: 1.5%; 2006: 4%), while aid to employment increased moderately. Aid to environmental protection dropped in both absolute and relative terms. Aid to research and development fell in absolute terms, while its relative share fell in 2006 after an increase in 2005 (2004: 5.7%; 2005: 8.8%; 2006: 7.1%). The large absolute and relative rise in regional aid is the result of much more aid being allocated according to the programme of measures to promote entrepreneurship and competitiveness, while part of the rise reflects the contribution of European structural funds (2004: 2.7%, 2005: 15.4 and 2006: 16.6 %).

State aid (without railway transport)[297] in Slovenia exceeded the average level of state aid in the EU in 2006 (Slovenia: 0.8%, EU-25: 0.6% of GDP) and was somewhat below the average level in new Member States (EU-10: 0.9% GDP). Excluding total transport, agriculture and fishing, the difference between state aid in Slovenia and that in the EU was even greater (Slovenia: 0.5%, EU-25: 0.4% of

[296] The specific sectors include: agriculture, fishing, coal industry and transport, as defined by specific rules governing state aid at the level of the European Union.
[297] The European Commission publishes only data on state aid for Member States: (1) without railway transport and (2) without agriculture, fishing and transport.

GDP). The share of horizontally directed aid in Slovenia is higher than the EU average (Slovenia: 88%, EU-25: 85%), which indicates that Slovenia is implementing the Lisbon Strategy guidelines more consistently in this area and thus contributes to the strengthening of the single internal market of the European Union (State Aid Scoreboard, spring 2007).

Table 1: **Indicators of state aid in Slovenia, 2000–2006**

	2000	2001	2002	2003	2004	2005	2006
State aid in SIT m, current prices	83,494	92,898	75,288	91,854	102,439	64,285	66,203
Share of state aid in GDP (%)	2.07	1.96	1.42	1.58	1.64	0.98	0.93
Share of state aid in government expenditure (v %)	4.68	4.57	3.23	3.59	3.70	2.19	2.09
State aid per employee (in 000 SIT)	108.69	119.21	96.09	100.9	112.0	69.8	80.26
State aid per resident (in 000 SIT)	N/A	46.57	37.74	46.0	51.3	32.1	32.93

Sources: for 2000: Third Survey of State Aid in Slovenia, 2001; for 2001: Sixth Survey of State Aid in Slovenia, 2004; for 2002: Seventh Survey of State Aid in Slovenia, 2005; for 2003–2005; Eighth Survey of State Aid in Slovenia, 2006 and for 2006: Ninth Survey of State Aid in Slovenia, 2007.
Note: N/A — not available; data for 2006 are calculated from euro values.

Table 2: **State Aid (excluding rail transport), % of GDP**

	1995	2000	2001	2002	2003	2004	2005	2006
EU-25	**0.9**	**0.6**	**0.6**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
EU-15	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6
EU-10	N/A	1.2	1.0	1.2	2.2	1.1	1.0	0.9
Austria	1.1	0.7	0.7	0.6	0.7	0.7	0.7	0.9
Belgium	0.6	0.5	0.5	0.5	0.3	0.3	0.4	0.4
Cyprus	N/A	2.6	3.0	3.2	2.3	1.6	1.5	0.8
Czech Republic	N/A	2.4	1.9	3.9	2.9	0.6	0.6	0.7
Denmark	0.6	1.0	1.1	0.9	0.6	0.7	0.6	0.6
Estonia	N/A	0.1	0.1	0.1	0.1	0.5	0.4	0.4
Finland	2.8	1.4	1.5	1.5	1.6	1.5	1.6	1.5
France	0.8	0.6	0.6	0.6	0.5	0.6	0.6	0.6
Greece	1.4	0.6	0.5	0.2	0.4	0.3	0.2	0.3
Irland	0.7	1.1	1.1	0.9	0.7	0.6	0.6	0.6
Italy	1.2	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Latvia	N/A	0.6	0.6	0.4	0.5	0.6	2.2	1.8
Lithuania	N/A	0.3	0.2	0.4	0.3	0.6	0.5	0.5
Luxembourg	0.5	0.3	0.3	0.5	0.5	0.4	0.3	0.3
Hungary	N/A	1.1	1.0	1.0	1.3	1.3	2.0	1.6
Malta	N/A	3.2	4.0	4.2	2.1	3.0	3.0	2.3
Germany	1.4	0.8	0.9	1.1	0.8	0.9	0.9	0.9
Netherland	0.4	0.5	0.4	0.5	0.4	0.4	0.4	0.3
Poland	N/A	1.0	0.6	0.4	3.0	1.4	0.8	0.9
Portugal	0.9	0.8	1.1	0.9	0.9	0.8	1.0	0.9
Slovakia	N/A	0.6	0.5	0.4	0.5	0.7	0.7	0.5
Slovenia	**N/A**	**0.9**	**0.8**	**0.5**	**0.7**	**0.9**	**0.8**	**0.8**
Spain	1.0	0.9	0.9	0.6	0.5	0.5	0.5	0.5
Sweden	0.4	0.4	0.4	0.3	0.6	1.0	1.1	1.1
United Kingdom	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.2

Source: State Aid Scoreboard, spring 2008 update.
Note: Data for EU-27, Bulgaria and Romania are not available.

Aggregate competitiveness indices

The IMD and WEF global competitiveness reports[298] for 2007 described Slovenia's competitiveness on a global scale as unchanged, while the latest IMD report released in 2008 indicates that Slovenia's "static" competitiveness improved by as much as eight places on a global scale. According to the latest IMD report, Slovenia also significantly improved the value of the world competitiveness aggregate (by 2.73; to 57.90) and moved from 40th to 32nd place among the 55 countries observed. According to the WEF's "dynamic" competitiveness assessment, Slovenia in 2007 improved its ranking among 131 countries as measured by the global competitiveness index (by one place; to 39th), while its ranking slipped as measured by the business competitiveness index (by one place; to 35th). After the rise in 2005, the value of the WEF global competitiveness aggregate[299] in 2007 remained unchanged (4.48).

Slovenia is improving the values of the aggregates and is coming closer to the EU average, which, given the slower progress of other countries in the IMD report, was also reflected in a notable improvement in its ranking within the group of EU Member States. Slovenia improved its IMD static world competitiveness ranking by five places (from 20th to 15th place) in the EU-24 group;[300] the value of the aggregate improved for Slovenia and deteriorated for the EU-24 average. According to the WEF dynamic competitiveness for 2007, Slovenia's position improved by two places among the EU-27 countries as regards the global competitiveness index, reaching 16th place. The achieved value of the aggregate indicates that Slovenia's competitiveness has already come very close to the EU-27 average (by 1.44% to 95.44%). In terms of the business competitiveness index, Slovenia's ranking remains unchanged (15th place).

Both globally and on a European scale, Slovenia's competitiveness indices have been gradually improving over a longer period of time, while the fall in its ranking since 2003 slowed down in 2007, which could indicate a turnaround. In the 2003–2007 period, Slovenia's global ranking hovered around 36th place as measured by the WEF global competitiveness index, or around 32nd place as measured by the business competitiveness index. According to the IMD score, Slovenia was ranked around 38th place as measured by the world competitiveness index. On a European scale, in 2007 Slovenia considerably exceeded the average value of the WEF global competitiveness index for the new Member States, while in terms of the IMD world competitiveness aggregate, it surpassed the average of the nine new Member States included in the analysis only according to the most recent report.

Slovenia's competitiveness score is the result of various factors, which do not reflect competitiveness alone. Fluctuations and differences in Slovenia's ranking

[298] The aggregate competitiveness indices are synthetisised indicators of development, its interdisciplinary factors and stakeholders, complementary to GDP and other synthetised indicators of economic, social and sustained development (Chiaiutta, 2007).
[299] The IMD and WEF aggregate competitiveness indices for 2007 are calculated on the basis of data from the 2003–2006 period and surveys of managers in the first half of 2007 (Chiaiutta, 2007).
[300] IMD does not publish figures for Cyprus, Latvia and Malta.

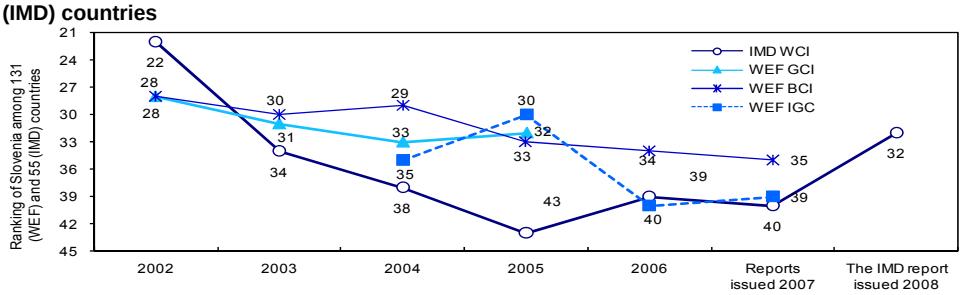
also reflect (in addition to internal competitiveness factors in individual countries) different theoretical definitions of competitiveness (two views of competitiveness – dynamic and static) and constant conceptual development, which results in changes in the methodology for assessing competitiveness.[301] This is why the evaluations by both institutions are only one of the aspects of determining the progress of Slovenia's development. Nevertheless, the results of both systems for measuring the competitiveness of countries show that gradual progress is being made in Slovenia in the direction of increased competitiveness, which was slow compared to other countries until 2007, but is already improving according to the latest IMD estimate.

Table: **Competitiveness indices for Slovenia according to WEF and IMD**

	2006[1]				2007[1]			
	Value[4]			Rank	Value[4]			Rank
	SLO	EU 15	EU 12 (9)[3]	In EU 27 (24)[3]	SLO	EU 15	EU 12 (9)[3]	In EU 27 (24)[3]
WEF Global competitiveness report								
Global competitiveness index - GCI[1]	4.5	5.1	4.4	18	4.48	5.1	4.3	16
Basic requirements for competitiveness	5.2	5.6	4.8	16	5.1	5.5	4.7	16
Efficiency enhancers	4.4	5.0	4.3	17	4.4	5.0	4.3	17
Innovation and sophistication factors[2]	4.1	4.9	3.8	14	4.2	4.9	3.8	13
Business competitiveness index – BCI (r)[5]	34	16.7	44.8	15	35	17.7	47.8	15
Company operations and strategy (r)[5]	30	17.1	44.2	14	29	18.0	46.3	14
Quality of the national business environment (r)[5]	34	16.6	49.1	14	34	17.9	54.9	14
IMD World competitiveness report								
World competitiveness index - WCI[1]	55.2	73.8	56.0	20	57.90	69.9	56.1	15
Economic performance	51.4	54.5	47.7	11	44.66	47.3	43.1	12
Government efficiency	34.4	57.1	40.5	21	29.62	46.2	36	18
Business efficiency	28.7	58.4	32.6	20	39.3	49.2	31.1	13
Infrastructure	43.7	62.8	40.8	18	39.82	58.4	35.8	16

Sources: The Global Competitiveness Report WEF 2007-2008 (WEF 2007-2008); IMD World Competitiveness Yearbook 2008 (IMD 2008); calculations by IMAD.
Notes: [1]WEF 2007-2008 for 2007 and 2006 rates 131 countries. For 2006, the WEF calculated the rankings of both indices using the 2007 methodology. When comparing country performance across the years, it is best to use the rankings. Due to the methodology, index values are not fully comparable across the years and are primarily intended to compare the relative differences between factors and countries in a given year. The IMD 2008 for 2007 assesses 55 countries. [2]Factors of innovation and sophistication of products and processes. [3]The IMD does not publish data for Cyprus, Latvia, and Malta; [4]Values of the WEF indices are between 1 and 7. Values of the IMD are between 1 and 100. [5]For BCI the WEF publishes only rankings of 127 countries.

Figure: **Slovenia's ranking in terms of its aggregate competitiveness among 125 (WEF) and 55 (IMD) countries**



Sources: WEF and IMD; calculations by IMAD.
Notes: WEF: IGC = indices of global competitiveness; BCI = business competitiveness index (BCI); IMD: WCI = world competitiveness index (WCI).

[301] The aggregate indices are not completely comparable across more than two (normalised) years, and they are especially not comparable across systems (Development Report 2007).

The fourth priority

A modern welfare state

- Employment rate
- Unemployment rate
- Long-term unemployment rate
- Temporary employment
- Part-time employment
- Social protection expenditure
- Health expenditure
- Average exit age from the labour force
- Human development index
- At-risk-of-poverty rate
- Healthcare resources
- Life expectancy and infant mortality
- Participation in education

Employment rate

The employment rate,[302] which exceeds the EU average, continues to rise. The figure stood at 67.8% in 2007 (1.2 p.p. higher than in 2006), while totalling as much as 69.0% in the third quarter of 2007. Until 2003 the employment rate in Slovenia hovered around 63%, which slightly exceeded the EU-27 average, then greatly increasing in 2004 and even exceeding the EU-15 average. Such a high rate is mainly due to the high rate of female employment, which exceeds the EU average, while the male employment rate is considerably lower than the EU average. Until 2003, the female employment rate had been around 58%, but has been rapidly increasing since 2004, although in the past two years at a slower pace than the male employment rate, which fluctuated around 67% until 2003. In 2007, the female employment rate stood at 62.6% (0.8 p.p. higher than in 2006), while the male employment rate was 72.7% (1.6 p.p. higher than the previous year).

Slovenia's employment rate was on a sharp rise in 2007 mainly due to the increase in the number of persons in formal employment, attributed mostly to aliens. The average number of persons in formal employment[303] climbed by 3.5%, or 29,160, in 2007, two fifths of which was due to the increased employment of aliens. The number of employees (persons in an employment relationship) and self-employed increased by 3.3% and 5.6%, respectively. The volume of various forms of informal employment, following the sharp rise upon Slovenia's entry into the EU in 2004, has been increasing more steadily from this point on. It is the third year running that the number of formally employed in the field of construction and business services has recorded the fastest growth. The number of work permits for aliens has also risen for the third consecutive year. In 2007, 58,715 work permits were issued to aliens, which is a rise of 31.7% over the previous year. By the end of 2007 the number of valid work permits had increased to 66,065, which is a 30.2% increase over December 2006. Almost half of the aliens work in construction, with the others in manufacturing, transport, trade activities and hotels and restaurants (catering). Around 6% of aliens are employed through job brokerage agencies.[304]

The employment rate of the elderly is slowly increasing, although it continues to be problematic as it is one of the lowest rates in the EU. The elderly employment rate (55–64 years) increased to 33.5% in 2007, which is still significantly lower than the EU average (44.7%) and the Lisbon goal (50% by 2010). The youth employment rate (15–24 years), which totalled around 30% in the 2001–2003 period in Slovenia, is also increasing. It rose to 37.6% (37.2% in the EU-27) by 2007, mainly due to the increased amount of student work, which on one hand enables and facilitates the living of students while on the other significantly extends the study period and thus negatively affects the efficiency of studies.[305] Student

[302] According to the Eurostat methodology, the employment rate is expressed as the percentage of employed persons aged 15–64 of the population of the same age. It is calculated using Labour Force Survey data which include among the employed population informally employed people (people who work either as unpaid family workers, on a contractual basis, or in the black economy).
[303] Persons in formal employment are considered to be persons who are in an employment relationship and self-employed persons, according to the statistical register of employment and SORS monthly data releases on the number of farmers.
[304] These are statistically classified among business services.
[305] See Chapter 2.1 for more.

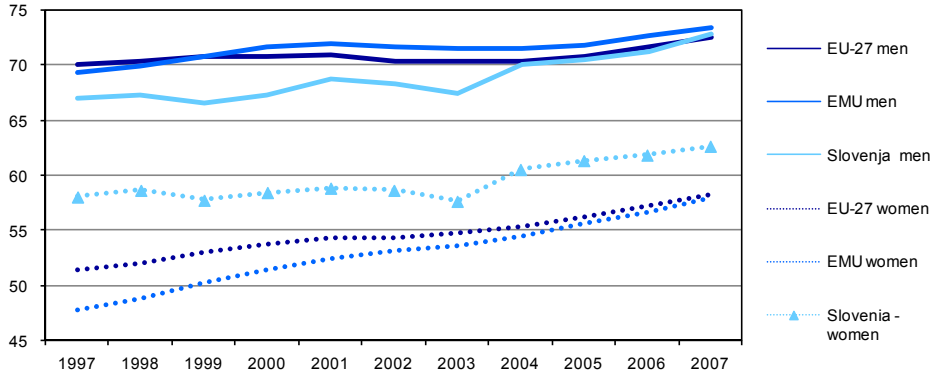
work can also negatively impact the labour market as it pushes other employment forms aside due to its favourable tax status.

Table: **Employment rates (15–64 age group) according to the labour force survey in Slovenia and the EU in 1995–2007, %**

	1995	2000	2001	2002	2003	2004	2005	2006	2007
EU-27	**N/A**	**62.1**	**62.5**	**62.4**	**62.7**	**62.8**	**63.5**	**64.5**	**65.4**
EMU-13	**N/A**	**61.3**	**62.1**	**62.4**	**62.7**	**62.9**	**63.8**	**64.8**	**65.7**
Austria	68.4	67.9	67.8	68.1	68.2	66.5	68.6	70.2	71.4
Belgium	56.3	60.9	59.7	59.7	59.3	60.5	61.1	61.0	62.0
Bulgaria	N/A	51.5	50.7	51.1	53.1	55.1	55.8	58.6	61.7
Cyprus	N/A	65.4	67.9	68.5	69.2	69.4	68.5	69.6	71.0
Czech Republic	N/A	64.9	65.0	65.5	64.9	64.1	64.8	65.3	66.1
Denmark	73.9	76.4	75.9	76.4	75.1	76.0	75.9	77.4	77.1
Estonia	N/A	60.3	60.8	61.7	62.3	62.9	64.4	68.1	69.4
Finland	59.7	68.1	69.1	69.1	68.7	68.3	68.4	69.3	70.3
France	59.6	61.7	62.7	62.9	64.0	63.4	63.9	63.8	64.6
Greece	54.5	56.6	56.5	57.7	58.9	59.6	60.1	61.0	61.4
Irland	54.1	64.5	65.2	65.1	65.1	65.5	67.6	68.6	69.1
Italy	50.8	53.4	54.5	55.4	56.1	57.7	57.6	58.4	58.7
Latvia	N/A	57.4	58.9	60.5	61.7	62.2	63.3	66.3	68.3
Lithuania	N/A	59.6	58.1	60.6	62.8	61.4	62.6	63.6	64.9
Luxembourg	58.5	62.7	63.0	63.6	62.2	62.5	63.6	63.6	64.2
Hungary	N/A	55.9	56.1	56.2	57.0	56.6	56.9	57.3	57.3
Malta	N/A	54.5	54.7	55.0	54.6	53.4	53.9	54.8	55.7
Germany	64.7	65.3	65.7	65.4	64.9	64.3	66.0	67.5	69.4
Netherland	64.2	72.9	74.1	74.5	73.8	73.1	73.2	74.3	76.0
Poland	N/A	55.1	53.7	51.7	51.4	51.4	52.8	54.5	57.0
Portugal	62.5	68.2	68.9	69.2	68.2	68.0	67.5	67.9	67.8
Romania	N/A	64.2	63.3	58.6	58.7	58.7	57.6	58.8	58.8
Slovakia	N/A	56.3	56.7	56.5	57.9	56.7	57.7	59.4	60.7
Slovenia	**62.9**	**62.9**	**63.9**	**63.4**	**62.6**	**65.3**	**66.0**	**66.6**	**67.8**
Spain	46.8	56.1	57.7	58.6	59.7	60.9	63.3	64.8	65.6
Sweden	70.7	71.1	74.4	74.0	73.6	72.4	72.5	73.1	74.2
United Kingdom	68.1	71.0	71.3	71.2	71.3	71.5	71.7	71.5	71.3

Source: Population and Social Conditions – Labour Market (Eurostat), 2008; Rapid Reports – Labour Market (SORS), 2008.
Note: N/A — not available.

Figure: **Employment rates by gender, EU-27, EMU-13 and Slovenia, 1997–2007, annual average values**



Source: Population and Social Conditions – *Labour Market* (Eurostat), 2008.

Unemployment rate

In 2007, the survey and registered unemployment rate in Slovenia declined significantly; the internationally comparable survey unemployment rate is still lower than the EU average. In the third quarter of 2007, the survey unemployment rate reached its lowest level (4.5%) ever since it started to be measured. In the fourth quarter it reached 4.7%, while the average annual survey unemployment of 2007 stood at 4.9%, which is a 1.1 p.p. drop on 2006. The registered unemployment rate also dropped significantly in 2007. In September, it dropped to its lowest level since March 1991, namely 7.2%, and reached 7.3% at the year's end; the average annual rate was 7.7%. Unemployment rates, which ranged from 7% to 8% (survey unemployment) and from 14% to 14.5% (registered unemployment) in 1995–2000, have been on a downward trend since 2001. In 2007, the survey unemployment rate was 2.3 p.p. lower than the EU-27 average.

The unemployment rates of the young, people with a lower education and women dropped in 2007, although they still remain at a high level. In 2006, the survey unemployment rate of the young stood at 13.9%, and of people with a lower education at 8.0%. Both rates had been on a slow downward trend until 2006. The survey unemployment rate of women has been fluctuating around 7% since 2001. It dropped to 5.9% in 2007. The registered unemployment rate of women, 11.5% on average in 2006 and 9.5% in 2007, is also on the decline. The survey unemployment rate among people with a secondary education has been fluctuating between 6% and 7% for several years, while the survey unemployment rate among people with a tertiary education has been hovering around 3%. The number of unemployed persons with a tertiary education, on an upward trend since 2000, reaching 5,283, or 6.2% of the total average number of registered unemployed persons in 2006, dropped to 5,046 in 2007, which represented a higher, 7.1% share in the total number of unemployed persons due to a more rapid decline in the total number of unemployed.

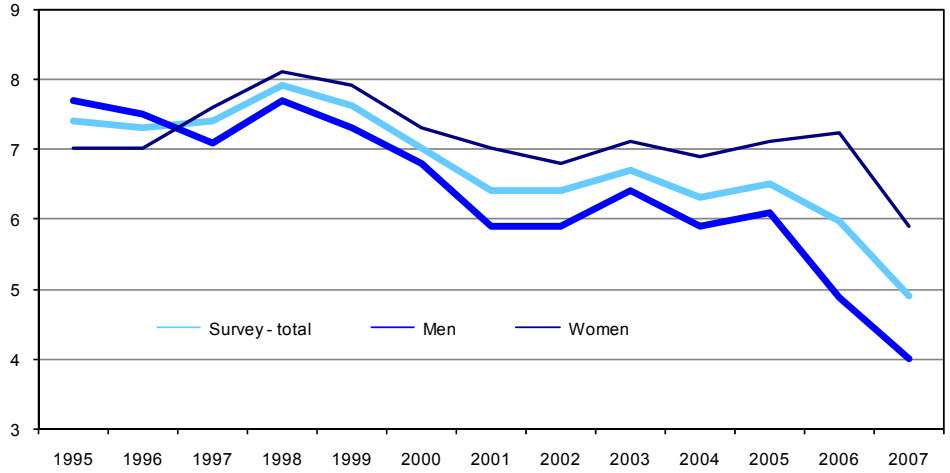
The number of unemployed decreased in 2007 mainly due to reduced inflows into unemployment. The unemployment register recorded 20.7% fewer first-time job seekers than in 2006 and 17.6% fewer persons who lost employment. There were also 14.5% fewer unemployed who found work than in 2006. Due to a number of administrative reasons, the number of unemployed dropped by 28,040, or 28.5% less than in 2006. The average annual numbers of unemployed persons (both survey and registered unemployment) decreased by 17% to 51,000 and 71,300, respectively. The former fluctuated around 70,000 in the period 1995–2000 and between 62,000 and 67,000 in 2001–2006. The latter has been on the decline since 1998, when it stood at 126,000.

Table: **Survey unemployment rates in Slovenia and the EU member states in 1995–2007, %**

	1995	2000	2001	2002	2003	2004	2005	2006	2007
EU-27	**N/A**	**9.2**	**8.6**	**8.9**	**9**	**9.2**	**8.9**	**8.2**	**7.1**
EMU-13	N/A	**9.1**	**8**	**8.4**	**8.8**	**9.1**	**8.9**	**8.3**	**7.4**
Austria	4.3	4.7	4	4.8	4.8	5.3	5.2	4.7	4.4
Belgium	9.3	6.6	6.2	6.9	7.7	7.4	8.4	8.2	7.5
Bulgaria	N/A	16.2	19.9	18.1	13.7	12.0	10.1	9.0	6.9
Cyprus	N/A	5	4	3.3	4.1	4.3	5.3	4.5	3.9
Czech Rep.	N/A	8.8	8	7	7.5	8.2	7.9	7.1	5.3
Denmark	7.0	4.5	4.2	4.3	5.4	5.2	4.8	3.9	3.8
Estonia	N/A	13.1	12.4	9.4	10.7	10.0	7.9	5.9	4.7
Finland	17.0	11.1	10.3	10.4	10.5	10.4	8.4	7.7	6.9
France	11.8	10.2	8.6	8.7	8.5	9.2	8.8	8.8	7.9
Greece	9.1	11.2	10.4	9.9	9.3	10.2	9.8	8.9	8.3
Irland	12.0	4.3	3.7	4.2	4.5	4.5	4.3	4.4	4.6
Italy	11.7	10.8	9.6	9.2	8.9	7.9	7.7	6.8	6.1
Latvia	N/A	14.2	13.1	13.2	10.6	9.9	8.9	6.8	6
Lithuania	N/A	15.9	16.8	13	12.9	11.3	8.3	5.6	4.3
Luxembourg	2.9	2.3	1.8	2.6	3.7	5.1	4.5	4.7	4.1
Hungary	N/A	6.6	5.7	5.6	5.8	5.8	7.2	7.5	7.4
Malta	N/A	6.3	7.1	6.9	7.5	7.3	7.3	7.3	6.5
Germany	8.2	7.9	7.8	8.5	9.8	10.7	11.1	10.2	8.6
Netherland	7.2	2.7	2.1	2.6	3.6	4.6	4.7	3.9	3.2
Poland	N/A	16.3	18.4	19.9	19.4	19.1	17.7	13.8	9.6
Portugal	7.1	3.8	3.8	4.5	6.1	6.3	7.6	7.7	8
Romania	N/A	7	6.6	8.1	6.9	7.7	7.2	7.3	6.4
Slovakia	N/A	19.1	19.4	18.7	17.1	18.6	16.3	13.4	11.1
Slovenia	**7.4**	**7.0**	**6.4**	**6.4**	**6.7**	**6.3**	**6.5**	**6.0**	**4.9**
Spain	22.7	13.8	10.3	11.2	11.3	11.1	9.2	8.5	8.3
Sweden	8.9	5.5	4.7	5	5.6	6.7	7.8	7.1	6.2
United Kingdom	8.7	5.5	4.7	5	4.8	4.6	4.7	5.3	5.2

Source: Population and Social Conditions – Labour Market (Eurostat), 2008; Rapid Reports — Labour Market (SORS), 1995–2008.
Note: N/A — not available.

Figure: **Survey unemployment rates in Slovenia by gender, 1995–2007**



Source: Labour Market (various publications), Statistical Office of the RS, 1995–2007.

Long-term unemployment rate

The long-term unemployment rate,[306] an indicator of problems in the labour market and social cohesion, has been gradually decreasing in Slovenia. Long-term unemployment often diminishes the work capabilities of the unemployed and their chances of getting another job. Therefore, the prevention of long-term unemployment is a vital element in labour market policy. The long-term unemployment rate dropped from 4.1% in 2000, the highest value in the past 10 years in Slovenia, to 2.2% in 2007. The decline by 0.7 p.p. in 2007 is lower than the decline in the unemployment rate, which dropped by 1.2 p.p.

The long-term unemployment rate of women decreased in 2007. It reached 2.7% and was 0.8 p.p. lower than in 2006. In most countries the long-term unemployment rate of women is higher than the long-term unemployment rate of men. In 2000–2007, the long-term unemployment rate in Slovenia declined by 1.9 p.p., 1.5 p.p. for women and 2.3 p.p. for men. The employment and unemployment issue for women is also evident from the increasing gap between the long-term unemployment rates of women and men (in 2000 the difference totalled 0.1 p.p., in 2007 0.4 p.p. and in 2007 0.9 p.p.). Similar trends have also been noticed in the unemployment rate, as the difference totalled 0.5% in 2000 and 1.8 p.p in 2007.

The share of long-term unemployed persons decreased in 2007, but still exceeds the EU average. The share of the long-term unemployed according to the Labour Force Survey in Slovenia dropped to 45.7% in the period 2000–2007, which is 3.6 p.p. less than in 2006. According to Eurostat data, the share of the long-term unemployed is somewhat above the EU average (42.8%), even though the unemployment and long-term unemployment rates are lower than the EU average. Data on registered unemployment in Slovenia indicate that in 2007 the share of the long-term unemployed increased.

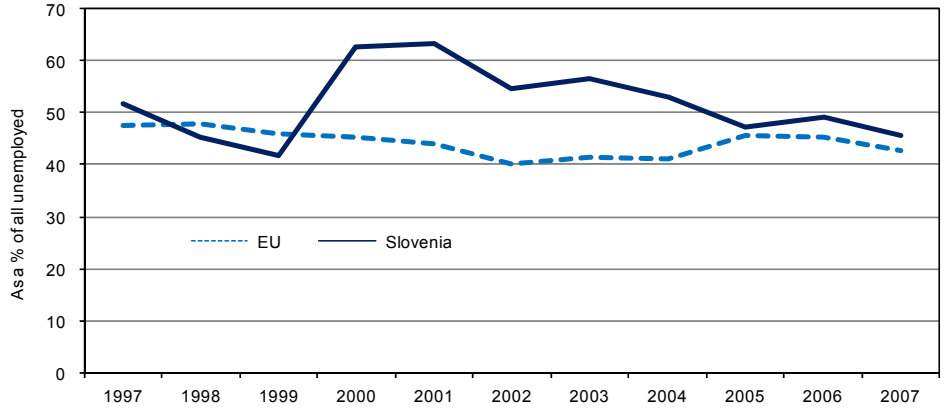
[306] The long-term unemployment rate is the ratio between long-term unemployed (people unemployed for over 1 year) and the size of the labour force. It is one of the Laeken indicators of social inclusion.

Table: **Long-term unemployment rates in EU countries, 1995–2007**

	1995	2000	2001	2002	2003	2004	2005	2006	2007
EU-27	**N/A**	**4.0**	**3.9**	**4.0**	**4.1**	**4.2**	**4.1 (p)**	**3.7 (p)**	**3.0**
EU-15	**4.9**	**3.4**	**3.1**	**3.1**	**3.3**	**3.4**	**3.4 (p)**	**3.3 (p)**	**3.0**
Austria	1.0	1.0	0.9	1.1	1.1	1.3 (b)	1.3	1.3	1.2
Belgium	5.8	3.7	3.2	3.7	3.7	4.1	4.4	4.2	3.8
Bulgaria	N/A	9.4	12.1	12.0	8.9	7.2	6.0	5.0	4.0
Cyprus	N/A	1.2	0.8	0.8	1.0	1.2	1.2	0.9	0.7
Czech Republic	N/A	4.2	4.2	3.7	3.8	4.2	4.2	3.9	2.8
Denmark	2.0	0.9	0.9	0.9	1.1	1.2	1.2	0.8	0.6
Estonia	N/A	5.9	6.0	5.4	4.6	5.0	4.2	2.8	2.3
Finland	N/A	2.8	2.5	2.3	2.3	2.1	2.2	1.9	1.6
France	4.4	3.5	3.0	3.0	3.7 (p)	3.9 (p)	4.0 (p)	3.9	3.3
Greece	4.6	6.1	5.5	5.3	5.3	5.6	5.1	4.8	4.1
Irland	7.6	1.6	1.3	1.3	1.5	1.6	1.5	1.4	1.4
Italy	7.1	6.3	5.7	5.1	4.9	4.0 (b)	3.9	3.4	2.9
Lithuania	N/A	8.0	9.3	7.2	6.0	5.8	4.3	2.5	1.6
Latvia	N/A	7.9	7.2	5.5	4.4	4.6	4.1	2.5	1.5
Luxembourg	0.7	0.6	0.6	0.7	0.9	1.1	1.2	1.4	1.3
Hungary	N/A	3.1	2.6	2.5	2.4	2.7	3.2	3.4	3.4
Malta	N/A	4.4	3.7	3.3	3.2	3.4	3.4	2.9	2.6
Germany	3.9	3.8	3.8	4.0	4.6	5.5	5.7 (p)	5.5 (p)	4.7
Netherland	3.1	0.8	0.6	0.7	1.0	1.6	1.9	1.7	1.3
Poland	N/A	7.4	9.2	10.9	11.0	10.3	10.2	7.8	4.9
Portugal	3.1	1.7	1.5	1.7	2.2	2.9	3.7	3.8	3.8
Romania	N/A	3.7	3.3	4.6 (b)	4.3	4.8	4.0	4.2	3.1
Slovenia	**N/A**	**4.1**	**3.7**	**3.5**	**3.5**	**3.2**	**3.1**	**2.9**	**2.2**
Slovakia	N/A	10.3	11.3	12.2	11.4	11.8	11.7	10.2	8.3
Spain	10.3	4.6	3.7	3.7	3.7	3.4	2.2 (b)	1.8	1.7
Sweden	2.3	1.4	1.0	1.0	1.0	1.2	1.4 (b)	1.1	0.8
United Kingdom	3.5	1.4 (b)	1.3	1.1	1.1	1.0	1.0	1.2	1.3

Source: Eurostat portal page – Social Cohesion (Eurostat), 2008.
Notes: (b) break in time series, (p) provisional figure, N/A – not available.

Figure: **Shares of the long-term unemployed in total unemployment in Slovenia and EU, 1997–2007, in %**



Source: Eurostat portal page – Social Cohesion (Eurostat), 2008.

Temporary employment

The prevalence of temporary employment (measured as the share in total employment) is one of the partial indicators of labour market flexibility. The use of this form of employment mainly enables employers to adjust to changes in the structure and volume of demand. The frequent use of temporary employment is generally enhanced by strict rules on dismissal of employees and the seasonal nature of production in certain activities.

The share of temporary employment has been constantly rising in Slovenia, and Slovenia is therefore ranked increasingly higher among EU members. In 2007, the share of temporary employment was 1.3 p.p. higher than in 2006. Over the past 10 years it has more than doubled, growing rapidly since 2003, in particular. Slovenia ranked fourth (behind Spain, Poland and Portugal) in the EU by its share of temporary employment in the 15–64 age group in 2007, and has overtaken the Netherlands, Sweden and Finland in the period since 2003. As the protection of regular employment diminished in 2003 as a result of the new Employment Relationship Act, the increase in the share of temporary employment can be attributed mainly to the accelerated economic growth recorded since 2003.

The prevalence of temporary employment is especially higher among young people (15–24 years). In the majority of countries the share of temporary employment among young people is higher than among other employees (see figure). As regards the prevalence of temporary employment among young people, Slovenia was ranked first among EU members in 2007, with 68.3% of young employees holding temporary employment (women 76.8% and men 62.5%). To a certain extent the wide prevalence of temporary employment among young people in Slovenia can be attributed to occasional work through student employment services, which is, given the current legislation, more favoured by employers, as it enables rapid adjustment of the number of working hours and personnel and because the tax burden on labour through student employment services is smaller compared to full-time employment.

Temporary employment is mainly used in seasonal activities. The largest share of temporary employment was recorded in hotels and restaurants, employing around 30% of employees in 2007. A large share of temporarily employed persons (more than 20%) can also be found in real estate, renting and business services and in other community, social and personal services. This type of employment was also shared by approximately one fifth of employees in education.

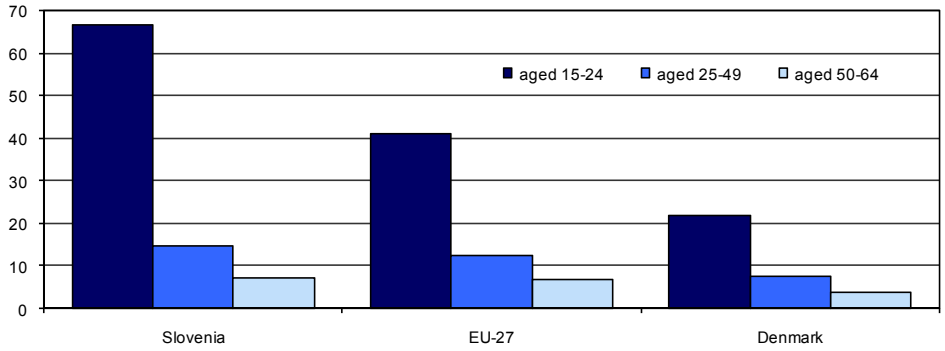
The majority of temporary jobs last up to one year. In Slovenia and the EU average, jobs for 7–12 months account for the major part of temporary employment. In Spain, where temporary employment is the most widespread, the temporary jobs mainly last 1–3 months (42.7%).

Table: **Share of temporary employment in EU countries, 2000–2007**

	2000	2001	2002	2003	2004	2005	2006	2007
EU-27	12.2	12.4	12.4	12.6	13.2	14	14.4	14.5
EU-25	13.7	13.5	13.2	13.1	13.5	14.4	14.8	14.8
EU-15	8.0	8.1	7.4	7.2	9.5	9.1	9.0	8.9
EU-10	9.0	8.8	7.6	8.5	8.7	8.8	8.7	8.6
Austria	N/A	6.8	6.0	6.3	8.0	6.3	6.1	5.1
Belgium	10.7	10.8	9.1	12.6	13.1	14	13.2	13.3
Bulgaria	7.2	7.3	7.5	8.5	8.8	7.9	8.0	7.8
Cyprus	10.2	9.4	8.9	9.5	9.8	9.8	8.9	8.6
Czech Republic	2.3	2.9	2.2	3.0	3.0	2.7	2.7	2.2
Denmark	17.7	17.9	17.2	17.9	17.1	16.5	16.3	15.9
Estonia	15.4	14.9	14.1	13.4	13	14.2	14.1	14.3
Finland	13.8	13.5	11.8	11.3	12.4	11.8	10.7	10.9
France	5.3	4.6	4.9	4.6	3.4	3.7	3.3	7.2
Greece	10.1	9.6	9.9	9.5	11.9	12.3	13.1	13.2
Irland	6.7	7.1	11.7	9.5	9.2	8.4	7.2	4.2
Italy	3.8	6.6	7.6	8.1	6.6	5.6	4.5	3.5
Latvia	3.4	4.3	4.3	3.1	4.8	5.3	6.1	6.8
Lithuania	6.8	7.5	7.3	7.6	6.9	7.0	6.7	7.3
Luxembourg	3.9	4.1	4.1	4.2	3.2	4.5	3.8	5.2
Hungary	12.8	12.4	12	12.2	12.5	14.2	14.5	14.6
Malta	13.8	14.3	14.2	14.4	14.4	15.4	16.4	17.9
Germany	5.6	11.9	15.4	18.9	22.5	25.6	27.3	28.2
Netherland	19.8	20	21.7	20.6	19.9	19.5	20.6	22.4
Poland	2.9	3.0	0.9	2.1	2.8	2.4	1.8	1.6
Portugal	4.0	4.9	4.6	4.7	5.3	4.9	5.0	5.0
Romania	12.8	13	14.6	13.5	17.8	17.2	17.1	18.4
Slovakia	32.4	32.1	32.1	31.8	32.1	33.4	34.1	31.7
Slovenia	**14.3**	**15.5**	**15.3**	**15.6**	**15.5**	**15.7**	**17**	**17.2**
Spain	6.6	6.6	6	5.7	5.6	5.6	5.6	5.7
Sweden	12.2	12.4	12.4	12.6	13.2	14	14.4	14.5
United Kingdom	13.7	13.5	13.2	13.1	13.5	14.4	14.8	14.8

Source: Population and Social Conditions — Labour Market (Eurostat), 2008.
Note: N/A – not available.

Figure: **Prevalence of temporary employment by age group in 2007**



Source: Population and Social Conditions – Labour Market (Eurostat), 2007.

Part-time employment

The share of part-time employment (employment with shorter working hours) in total employment in Slovenia is gradually rising, which can be interpreted as a positive trend towards increased labour market flexibility. Part-time employment in 2007 was 0.4 p.p. higher than in 2006. The increase in the share of part-time employment in Slovenia can be mostly attributed to the increase in part-time employment among youth (15–24 years) and older persons (50–64 years). The increase of this share among youth is probably due to the increase in the volume of student work. Slovenia ranks above the EU average in terms of the share of part-time employment among youth (33%). The increased figure among older people is probably the result of an increase in the number of unpaid family workers. A greater increase in the use of part-time employment has been recorded since 2003, which is probably associated with accelerated economic growth and mainly with the option provided to women to assert their right to work on a part-time basis, which was introduced by the Parental Protection and Family Benefits Act.

Part-time employment is more widespread among women. In 2007, 10.0% of women (aged 15–64) and 6.5% of men were in part-time employment. The share of part-time employment among women in Slovenia is below the EU average, amounting to 30.7% (6.9% for men) in 2007. In the Netherlands, where part-time employment is the most widespread in the EU, as much as 74.7% of women (and 22.7% of men) hold this form of employment. In Slovenia, the share of part-time employment among young women (15–24 years) is higher than in the EU, totalling 40.8% compared to the EU average of 34.5%. This is most likely attributable to the share of work through student employment services, as concluded above for the entire population of young people. Great potential for increasing the employment rate in Slovenia lies in the part-time employment of older women (aged 50–64), which is significantly lower in Slovenia (16.2%) than the EU average (33.9%).

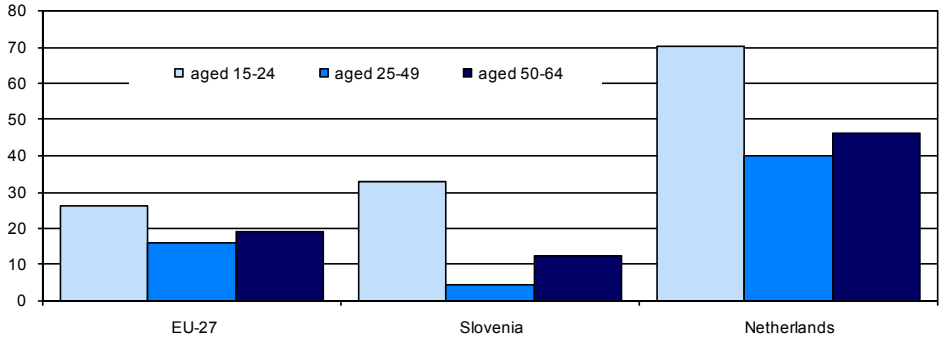
The share of part-time employment in Slovenia is no longer among the lowest in the EU. During 2000–2007, the share of part-time employment increased by 2.8% in Slovenia and 1.8% on average in the EU. In 2000, Slovenia was ranked among countries with the lowest share of this type of employment (fifth position). Given the increase in the observed period, Slovenia climbed to the middle of the scale (to 12th place). The gap between Slovenia and the EU-15 average, where part-time employment is more widespread than in the new Member States, closed somewhat during 2000–2007. In terms of the prevalence of part-time employment, Slovenia ranked ahead of all the new EU members except Malta in 2007.

Table: **Share of part-time employment in total employment in the 15-64 age group, %**

	2000	2001	2002	2003	2004	2005	2006	2007
EU-27	15.8	15.7	15.7	16.1	16.7	17.3	17.6	17.6
EU-15	17.5	17.6	17.7	18.2	19	19.7	20.2	20.3
Austria	16.7	16.9	18.7	18.3	20	20.8	21.3	21.8
Belgium	20.6	18.4	19.3	20.4	21.5	21.7	22	21.9
Bulgaria	N/A	3.3	2.7	2.1	2.7	1.9	1.8	1.5
Cyprus	7.6	7.4	6.3	7.6	7.5	7.6	6.6	6.4
Czech Rep.	4.8	4.4	4.3	4.5	4.4	4.4	4.4	4.4
Denmark	21.4	19.6	20	20.3	21.9	21.5	23	23.5
Estonia	6.3	6.8	6	6.7	6.9	6.6	6.7	7.2
Finland	11.9	11.6	12.1	12.5	12.8	13.3	13.5	13.4
France	16.8	16.3	16.1	16.6	16.5	16.9	17	17.1
Greece	4.4	3.9	4.2	3.9	4.5	4.8	5.5	5.4
Irland	16.6	16.4	16.3	16.7	16.6	16.8	np	17.6
Italy	8.7	8.9	8.5	8.5	12.4	12.7	13.1	13.4
Latvia	10.5	9.2	8.6	9.4	9.8	7.6	5.8	5.6
Lithuania	8.9	8.4	9.5	8.6	8.4	6.8	9.5	8.1
Luxembourg	11.2	11.3	11.6	13.4	16.3	17.4	17.1	17.8
Hungary	3.4	3.3	3.4	4.1	4.3	3.9	3.8	3.9
Malta	6.1	7.1	8.4	8.9	7.8	9.4	9.9	10.9
Germany	19.1	19.9	20.3	21.2	21.9	23.4	25.2	25.4
Netherland	41	41.9	43.4	44.6	45.2	45.7	45.8	46.3
Poland	9.3	9.2	9.6	9.3	9.6	9.8	8.9	8.5
Portugal	8.1	8.2	8.4	8.8	8.1	8.2	8.1	8.8
Romania	14	14.3	9.7	10.6	9.2	9.2	8.6	8.6
Slovakia	1.8	2.4	1.8	2.2	2.5	2.4	2.7	2.5
Slovenia	**5.3**	**5.3**	**5.8**	**5.8**	**8.3**	**7.8**	**8**	**8.1**
Spain	8	8	8	8.2	8.8	12.2	11.8	11.6
Sweden	21.8	20.2	20.4	22.2	23.1	24	24.3	24.2
United Kingdom	24.4	24.5	24.6	25.1	25.2	24.4	24.5	24.4

Source: Population and Social Conditions — Labour market; employment and unemployment, part-time employment (Eurostat), 2008.
Note: N/A – not available.

Figure: **Prevalence of part-time employment by age group, 2007**



Source: Population and Social Conditions – Labour market; employment and unemployment, part-time employment (Eurostat), 2008.

Social protection expenditure

According to the most recent data[307] collected from the ESSPROS survey, social protection expenditures in Slovenia totalled 23.4% GDP in 2005. The figure was nominally higher by 3.9% compared to the previous year, while in real terms it increased by 1.4%. The relatively low real growth in the last year is a result of maintaining the same volume of funds in real terms for two of the largest areas of social protection, the area of old age and sickness and the healthcare area, which cumulatively represent nearly three quarters of all funds earmarked for social protection. Social protection expenditures amounted to 24.6% of GDP in 2000, slightly rising in 2001 and 2002 (to 24.8%); since then these figures have fallen in comparison with GDP. The decline in the share is a result of more rapid GDP growth compared to the growth of funds earmarked for social protection and of pension reform impacts, including measures to rationalise health expenditures.

Expenditures for two of the largest areas of social protection, sickness and healthcare and old age, declined. In 2005, the expenditure for sickness and healthcare as a share of GDP fell to 7.4% of GDP (2004: 7.6% of GDP) and old age to 9.7% of GDP (2004: 10% of GDP). All other expenditures remained at the same levels as in 2004.

Old age, sickness and healthcare still account for the majority of funds in nominal terms. Slovenia, like other EU countries, allocates the bulk of the total expenditure on social protection to old age (2005: 42.5%, 2000: 43.3%) and to sickness and healthcare (2005: 32.3%, 2000: 30.7%), followed by expenditures on family and children (2005: 8.6%, 2000: 9.2%) and disability (2005: 8.5%, 2000: 9%). A smaller share in the structure of total social protection expenditure is reserved for expenditures for unemployment (2005: 3.3%, 2000: 4.3%), survivors (2005: 2%, 2000: 2%) and for other forms of social exclusion (2005: 2.8%, 2000: 1.6%).[308]

Slovenia is improving its situation compared to the EU in terms of social protection expenditure, expressed in purchasing power standards.[309] The average amount of social protection expenditure in EU countries accounted for 27.2% of GDP in 2005, which was 3.8 p.p. more than in Slovenia. From 1996 to 2001, the gap between Slovenia and the EU-15 was closing. In 2002, it began to widen again, mainly due to the more rapid growth of GDP in Slovenia compared to the EU-15 average. However, considering the real value of funds allocated for

[307] Expenditure and Receipts of Social Protection Schemes, Slovenia, 2005 (SORS), October 2007.
[308] Data on accommodation is available for 2005, for which Slovenia allocated SIT 938 million (0.06% of funds earmarked for social protection).
[309] In international comparisons of social protection expenditure, demonstration in purchasing power standards (PPS) rather than as a share of GDP is more appropriate, as in countries with extremely high levels of GDP the share of expenditure in GDP is significantly lower than expenditure in PPS. As evident from the table, Luxembourg holds by far the highest position (with 185%) in PPS per capita, despite its ranking in the bottom half in terms of its funding share (21.9% of GDP).

social protection per capita converted into purchasing power standards (PPS), we notice that Slovenia is improving its position, as it has reached 65% of the EU-15 average (2000: 60%) and is therefore ranked between Greece and Spain.

Table: **Social protection expenditure in Slovenia and EU member states as a % of GDP and in PPS per capita**

	Social protection expenditure									
	% of GDP							Per capita in PPS, EU-15=100		
	1995	2000	2001	2002	2003	2004	2005	1995	2000	2005
EU-27	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**27.2**[2]			
EU-25	**N/A**	**26.6**	**26.8**	**27.1**	**27.4**	**27.3**[1]	**27.4**[2]			
EU-15	**27.7**	**27.0**	**27.1**	**27.4**	**27.8**	**27.7**[1]	**27.8**[2]	**100**	**100**	**100**
Austria	28.8	28.1	28.4	29.0	29.3	29.0	28.8	122	121	118
Belgium	27.4	26.5	27.3	28.0	29.1	29.3	29.7	110	108	118
Bulgaria	N/A	N/A	N/A	N/A	N/A	N/A	16.1[1]	N/A	N/A	18
Cyprus	N/A	14.8	14.9	16.2	18.4	17.8	18.2[1]	N/A	42	54
Czech Rep.	17.5	19.5	19.5	20.2	20.2	19.3	19.1[1]	40	43	47
Denmark	31.9	28.9	29.2	29.7	30.9	30.9	30.1	131	123	121
Estonia	N/A	14.0	13.1	12.7	12.6	13.1	12.5	N/A	20	25
Finland	31.5	25.1	24.9	25.6	26.5	26.6	26.7	106	95	97
France	30.3	29.5	29.6	30.4	30.9	31.3	31.5[1]	110	110	115
Greece	19.9	23.5	24.1	23.8	23.6	23.6	24.2	52	64	73
Irland	14.8	14.1	15.0	17.3	17.8	18.2	18.2	47	59	84
Italy	24.2	24.7	24.9	25.3	25.8	26.0[1]	26.4[1]	91	93	89
Latvia	N/A	15.3	14.3	13.9	13.8	12.9	12.4[1]	N/A	18	20
Lithuani	N/A	15.8	14.7	14.1	13.6	13.3	13.2[1]	N/A	20	23
Luxembourg	20.7	19.6	20.9	21.6	22.2	22.3	21.9	145	155	185
Hungary	N/A	19.3	19.3	20.4	21.1	20.7	21.9	N/A	35	45
Malta	15.7	16.5	17.4	17.5	17.9	18.4	18.3	43	45	44
Germany	28.2	29.3	29.4	30.0	30.3	29.6	29.4[1]	114	112	107
Netherland	30.6	26.4	26.5	27.6	28.3	28.3	28.2[1]	118	114	119
Poland	N/A	19.7	21.0	21.1	21.0	20.1	19.6[1]	N/A	30	32
Portugal	21.0	21.7	22.7	23.7	24.1	24.7[1]	N/A	49	55	N/A
Romania	N/A	13.2[1]	13.2[1]	13.4[1]	12.6[1]	15.1[1]	14.2[1]	N/A	11	15
Slovakia	18.4	19.3	18.9	19.0	18.2	17.3[1]	16.9[1]	28	31	32
Slovenia	**24.1***	**24.6**	**24.8**	**24.8**	**24.1**	**23.7**	**23.4**	**55**	**62**	**65**
Spain	21.6	20.3	20.0	20.3	20.4	20.6[1]	20.8[1]	62	64	68
Sweden	34.3	30.7	31.2	32.2	33.2	32.7	32.0[1]	133	124	122
United Kingdom	28.0	26.9	27.3	26.2	26.2	26.3[1]	26.8[2]	98	102	102

Source: Total expenditure on social protection per head of population, PPS (Eurostat), 2007.
Notes: Except for 2005, the figures for Slovenia do not include housing data; PPS – purchasing power standards;
*data for 1996; N/A – not available; [1]preliminary data; [2]estimate.

Health expenditure

In Slovenia the total expenditure on health as a share of GDP has dropped in recent years, mainly due to very low real growth of public health expenditure. In 2006, the growth of public health expenditure strengthened slightly, according to the first estimates by 4.9% in real terms,[310] although it still lagged behind GDP growth (5.7%). During the 2000–2005 period, average annual real growth of total health expenditure in Slovenia totalled 3.7%, which was around the level of the average annual GDP growth for this period (3.6%), although in real terms the public health expenditure increased annually on average by only 1.7% (private expenditure, on the other hand, increased by 4.9%). In all other European countries for which data are available (OECD members), annual real growth of public health expenditure for the stated period exceeded GDP growth. In Slovenia, the slow growth of public health expenditure, especially after 2001, was partly linked to rationalising the implementation of certain healthcare programmes and measures to control expenditure on medications, although predominantly also to the slow growth in wages of all employees working in healthcare[311] and the slow growth of investment.[312] Personnel issues in Slovenian healthcare need to be pointed out as well, mainly the lack of physicians and, in certain places, also of medical personnel. Outdated medical equipment and lagging behind in terms of introducing new medical technologies and new medications pose a problem as well. The share of total health expenditure in GDP during 2004 and 2005 (the most recent available internationally comparable data) stood at 8.5%[313] (EU-27 average in 2004: 8.2%, EU-15 in 2005: 9.2%).

The private expenditure share, which accounts for a good quarter of total health expenditure, is increasing. In the structure of total health expenditure, the share of private expenditure was 27.6% in 2005, slightly up on 2004, when it totalled 26.5%, and above the EU-27 average, which stood at 27.4% in 2004. Ten EU countries had a higher share of private health expenditure than Slovenia in 2005. Within the EU-27 average, the share of private expenditure remained unchanged during 2000–2005, while falling by 0.9 p.p. within the EU-15 average due to increasing public expenditure growth. In Slovenia, expenditure arising from voluntary health insurance accounts for a 47.0% share in the structure of private expenditure.[314] Direct household expenditure in Slovenia compared to EU countries is low and accounts for 45.0% in the structure of private expenditure (in the EU-27 almost 80%), although it is increasing more rapidly than expenditure arising from voluntary health insurance.

---

[310] Source: General government expenditure by function (SORS), 28 December 2007. Data on expenditure of the Heath Insurance Institute (ZZZS), and of the state and municipalities (including investment) are classified by the COFOG methodology. Only public expenditure on health is monitored with this methodology; private expenditure is not. According to COFOG, public expenditure on health stood at 6.2% of GDP in 2005 and 2006.

[311] The wage growth was low in the entire public sector due to only partial wage adjustments for inflation. Part of these funds shall be used in the coming years to eliminate wage discrepancies.

[312] Compensation of employees in the 2000–2005 period increased in real terms by a mere 1.4% on average annually, while gross investments from public funding increased at an even lower rate of 0.6% (General government expenditure by function (SORS), 28 December 2007).

[313] Health expenditure and sources of funding (SORS), 21 December 2007. Data on health expenditure are collected under the internationally comparable methodology of the System of Health Accounts (SHA methodology, being introduced by Eurostat members, OECD and WHO).

[314] According to the OECD methodology, private expenditure also includes expenditure of companies accounting for 8% of total private expenditure in Slovenia (0.2% of GDP) and expenditure of non-profit institutions, which is, with its 0.1% share in the structure of total private expenditure, probably still somewhat underestimated.

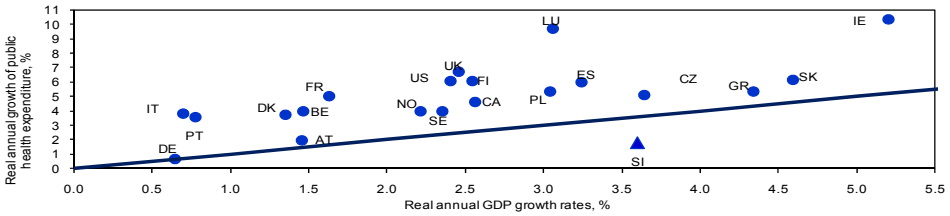
A calculation of per capita health expenditure shows that Slovenia is lagging significantly behind the more developed European countries. Slovenia spent USD 1,939 PPS per capita in 2005 (USD 1,746 PPS in 2004), which is more than any other new EU Member State, although still below the EU average.

Table: **Health expenditure in Slovenia, EU-27 member states**

	Total health expenditure, in % of GDP [3]				Public expenditure on health, in % of GDP [3]		Private expenditure on health as a share of total expenditure, in %		Total expenditure per capita in US dollars PPS
	2000	2003	2004	2005	2000	2005	2000	2005	2005
EU-27	**7.3**	**8.0**	**8.2**	**np**	**5.3**	**6.3**	**27.5**	**27.4[1]**	**2093[1]**
EU-15	**8.2**	**9.0**	**9.1**	**9.2**	**6.3**	**7.1**	**25.4**	**24.5**	**3070**
Austria	10.0	10.2	10.3	10.2	7.6	7.7	24.1	24.3	3519
Belgium	8.6	10.1	10.2	10.3	6.5	7.4	24	27.0	3389
Bulgaria	6.2	7.6	7.4	N/A	3.7	4.2	40.6	42.4[1]	671[1]
Cyprus	5.7	5.7	5.5	N/A	2.4	2.5	58.4	55.7[1]	1128[1]
Czech Rep.	6.5	7.4	7.3	7.2	5.9	6.4	9.7	11.4	1479
Denmark	8.3	9.1	9.2	9.1	6.8	7.7	17.6	15.9	3108
Estonia	5.3	5.1	5.3	N/A	4.1	4.0	22.5	24.0[1]	752[1]
Finland	6.6	7.3	7.4	7.5	5.0	5.8	24.9	22.2	2331
France	9.6	10.9	11.0	11.1	7.5	8.9	21.7	20.2	3374
Greece	9.3	10.0	9.6	10.1	4.1	4.3	55.8	57.2	2981
Irland	6.3	7.3	7.5	7.5	4.6	5.9	27.1	22.0	2926
Italy	8.1	8.3	8.7	8.9	5.9	6.8	27.5	23.4	2532
Latvia	5.9	6.1	7.1	N/A	3.2	4.0	46.1	43.4[1]	852[1]
Lithuania	6.5	6.5	6.5	N/A	4.5	4.9	30.3	25.0[1]	843[1]
Luxembourg	5.8	7.6	7.9	7.9	5.2	7.2	10.7	9.3	5563
Hungary	6.9	8.3	8.1	N/A	4.9	5.7	29.3	29.5[1]	1337[1]
Malta	7.5	8.8	9.2	N/A	5.6	7.0	25.8	23.9	1733[1]
Germany	10.3	10.8	10.6	10.7	8.2	8.2	20.3	23.1	3287
Netherland	8.0	9.1	9.2	N/A	5.0	5.7	36.9	37.6	3094[1]
Poland	5.5	6.2	6.2	6.2	3.9	4.3	30	30.6	867
Portugal	8.8	9.7	10.0	10.2	6.4	7.4	27.5	27.7	2041
Romania	5.1	4.9	5.0	N/A	3.4	3.3	32.7	33.9[1]	433[1]
Slovakia	5.5	5.9	7.2	7.1	4.9	5.3	10.6	25.6	1137
Slovenia[3]	**8.4**	**8.8**	**8.5**	**8.5**	**6.2**	**6.2**	**26**	**27.6**	**1939**
Spain	7.2	7.8	8.1	8.3	5.2	5.9	28.4	28.6	2261
Sweden	8.4	9.3	9.1	9.1	7.1	7.7	15.1	15.4	2918
United Kingdom	7.3	7.8	8.1	8.3	5.9	7.2	19.1	12.9	2724

Source: *OECD Health Data* 2007 for all countries except Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta and Romania; data for these countries are taken from *WHO The World Health Report*, 2007; for Slovenia for 2002–2005: Health Expenditure (SORS) 21 December 2007 and for 2000 data by SORS calculated according to the OECD methodology based on data from the national and local budgets, PDII, HII and SORS; the EU-27 and EU-15 averages calculated by IMAD. Notes: [1]2004; [2]Data collected by the new international methodology SHA (A System of Health Accounts – OECD, 2000); [3]Takinga account of the revision of GDP in September 2007; N/A – not available.

Figure: **Average annual real growth of public expenditure on health and of GDP for the period 2000–2005**



Source: *OECD Health Data* 2007; for Slovenia for 2002–2005 Health expenditure (SORS), 21 December 2007, and for 2000 SORS estimate according to the OECD methodology based on data collected from the Health Insurance Institute, Pension and Disability Insurance and SORS. Note: The line in the figure indicates the equal values of the average annual growth of health expenditures and GDP for the period 2000–2005.

Average exit age from the labour force

The average exit age from the labour force defines the attitude of people in formal employment and their employers towards activity at an older age. The sooner people opt to exit employment, the greater the contingent of people receiving pensions. Given the rules for calculating the pension amount, the pension system's expenditures are linearly dependent on the size of the generation of pensioners.

In Slovenia the average age of exit from the labour force is still low compared to the EU. In 2006 the average age stood at 59.8 years in Slovenia as opposed to 61.2 years on average in the EU, according to Eurostat estimates. Generally, women exit their employment sooner than men. Data classified by gender are not available for all countries. In countries where they are available, women are one year younger on average than men when exiting the labour force. The difference is generally smaller for older EU countries, while it is still greater in certain new EU member states. Slovenia does not possess data on the average exit age from the labour force classified by gender; however, it does have data on the age of retirement, which represents a good estimate, at its disposal. According to data collected from the Pension and Disability Insurance Institute, men retire at 60 years and 4 months on average, while women at 57 years and 2 months. The low retirement age is a result of the low required age upon completing the full length of pensionable service.[315] Even though retirement before the fulfilment of the full retirement age – if the employment period (length of service) is shorter than the pensionable service – is penalised with a permanent reduction of pension, many insured persons opt for retirement when choosing between extra time acquired upon retirement and a non-reduced pension. Furthermore, people whose pension is otherwise not reduced do not decide to prolong their employment either, although postponing retirement would be rewarded with a bonus of a permanent pension increase (Ahčan, Polanec, 2007).

The statutory retirement age in Slovenia started to increase in 1992. In 1999, with the introduction of the pension system reform, tightening of retirement age conditions continued. The effective retirement age thus increased during the entire period 2000–2007. Compared to 2000, the 2007 figure was higher by a year and a half for men and two years for women. In 2005 and 2006, the increase in the effective retirement age slowed down, which can be attributed to the influence of criteria which, taking into account children, tertiary education and/or service in the armed forces, reduce the otherwise generally required retirement age.

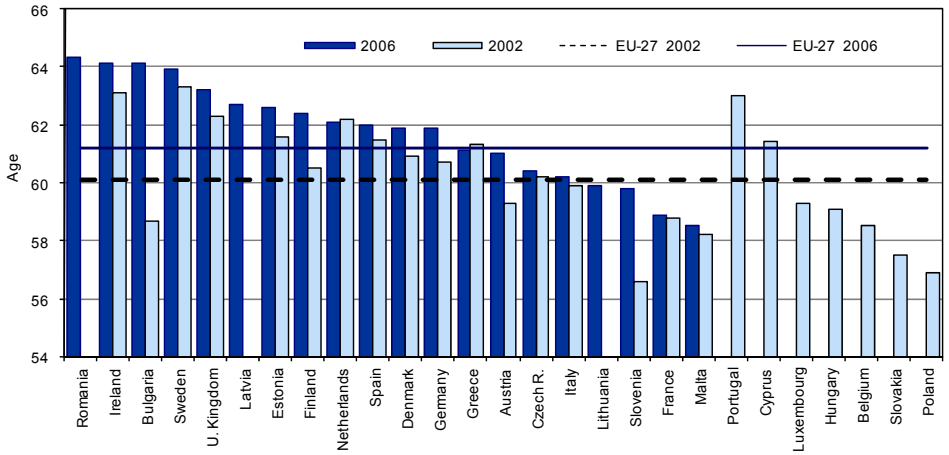
[315] For men this is 58 years, provided that they complete 40 years of pensionable service.

Table: **Average exit age from the labour force in Slovenia and EU countries, 2001–2006**

	2001	2002	2003	2004	2005	2006
EU-27	**59.9**	**60.1**	**61**	**60.5**	**61**	**61.2**[1]
Austria	59.2	59.3	58.8	N/A	59.9	61
Belgium	56.8	58.5	58.7	59.4	60.6	N/A
Bulgaria	N/A	58.7	58.7	60.7	60.2	64.1
Cyprus	62.3	61.4	62.7	62.7	N/A	N/A
Czech Republic	58.9	60.2	60.1	60	60.6	60.4
Denmark	61.6	60.9	62.2	62.1	61	61.9
Estonia	61.1	61.6	60.8	62.3	61.7	62.6
Finland	61.4	60.5	60.4	60.5	61.7	62.4
France	58.1	58.8	59.8	59	59	58.9
Greece	N/A	61.3	62.7	N/A	61.7	61.1
Irland	63.2	63.1	62.9	62.8	64.1	64.1
Italy	59.8	59.9	61	N/A	59.7	60.2
Latvia	62.4	N/A	N/A	62.9	62.1	62.7
Lithuania	58.9	N/A	N/A	60.8	60	59.9
Luxembourg	56.8	59.3	57.4	58.3	59.4	N/A
Hungary	57.6	59.1	61.6	60.5	59.8	N/A
Malta	57.6	58.2	58.8	58	58.8	58.5
Germany	60.6	60.7	61.6	61.3	N/A	61.9
Netherland	60.9	62.2	60.5	61.1	61.5	62.1
Poland	56.6	56.9	57.9	57.7	59.5	N/A
Portugal	61.9	63	62.1	62.2	63.1	N/A
Romania	59.8	np	62.7	59.5	63	64.3
Slovakia	57.5	57.5	57.8	58.5	59.2	N/A
Slovenia	**N/A**	**56.6**	**56.2**	**N/A**	**58.5**	**59.8**
Spain	60.3	61.5	61.5	62.2	62.4	62
Sweden	62.1	63.3	63.1	62.8	63.6	63.9
United Kingdom	62	62.3	63	62.1	62.6	63.2

Source: Population and social conditions – Labour Market (Eurostat), 2007.
Notes: [1]Estimated values, N/A – not available.

Figure: **Average exit age from the labour force in Slovenia and EU countries in 2002 and 2006 (men and women together)**



Source: Population and Social Conditions – *Labour Market* (Eurostat), 2007.

Human development index

The human development index (HDI) is a significant indicator of the complexity of the correlation between income and well-being and the interaction of economic and social policies. HDI demonstrates well-being through three areas of social development, while indicators used for their operationalisation demonstrate the achievements of countries at different development levels: *health* (life expectancy at birth), *income* or access to resources providing a decent standard of living (GDP per capita at purchasing power parity), and *education and knowledge* (gross enrolment and literacy rates).[316] Together with other indicators, it demonstrates one of the underlying objectives of Slovenia's Development Strategy – sustainable growth of the population's well-being.

According to HDI calculations for 2007 (data from 2005), the value of the index rose to 0.917 (2006: 0.910), placing Slovenia again in 27th place among 177 countries. According to the most recent calculations, the life expectancy index (now 0.874) and the gross domestic product index (now 0.902) rose by 0.01, while the education index slipped from 0.98 to 0.974 due to the slight drop in the gross enrolment rate in all three levels of education.

The HDI value and the ranking of Slovenia have been gradually but constantly improving since the first calculation for 1990. Rapid growth can be attributed mainly to growth in the gross enrolment rate in education and the per capita gross domestic product at purchasing power parity. The life expectancy index has had the lowest values from the start. According to the latest calculations it is 0.08 points lower than the highest index recorded in Japan (0.954 with life expectancy at birth standing at 82.3 years) and 0.051 lower than in Spain and Sweden, which according to UNDP data possess the highest life expectancy at birth (80.5 years) and the highest index (0.925) among the EU-27.

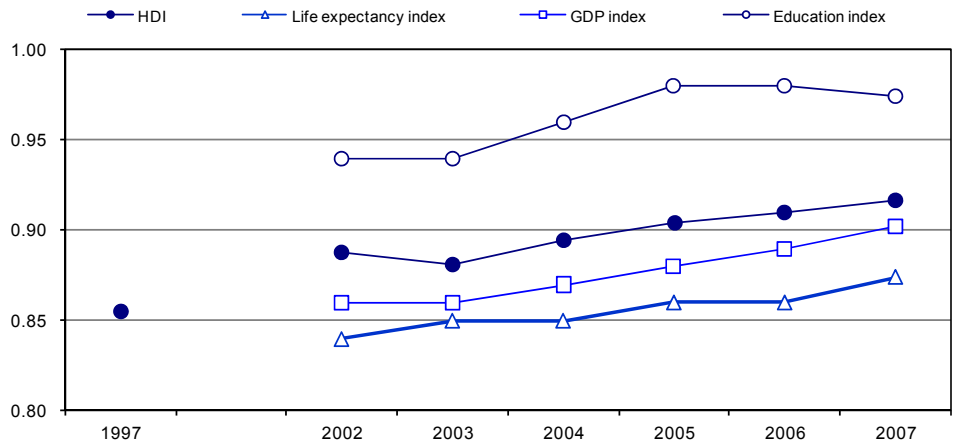
[316] *The education index* is somewhat methodologically questionable from the viewpoint of countries possessing a high human development index. Its methodological outline conceals important differences between countries, mainly between the most developed countries. Given the availability of data, enrolment in education is demonstrated in gross rates (the numerator is *all* enrolled, disregarding their age), instead of net rates which only account for regularly enrolled (full-time). From the viewpoint of the most developed countries, even the methodology measuring literacy is unsuitable, especially because the literacy rate accounts for 2/3 of the education index value. In countries with a high human development index it is at almost 100%. Due to the fact that various (other) forms of literacy, such as reading, numerical, functional, etc., which are significant development factors, are excluded, the education index fails to demonstrate the actual (il)literacy of the population of developed countries, which certainly does not signify a lack of problems in this area. HDI therefore cannot and should not be a comprehensive indicator of development. Its authors never had this intention, as the index does not integrate a number of significant indicators. In spite of this, HDI importantly supplements GDP, as well as a number of other development indicators.

Table: **Human development index, EU member states, calculations 1997–2007**[1]

	1997	2002	2003	2004	2005	2006	2007
EU-27[2]	**0.869**[3]	**0.892**[3]	**0.885**	**0.892**	**0.899**	**0.905**	**0.910**
Austria	0.914	0.933	0.929	0.934	0.936	0.944	0.948
Belgium	0.929	0.949	0.937	0.942	0.945	0.945	0.946
Bulgaria	0.785	0.800	0.795	0.796	0.808	0.816	0.824
Cyprus	0.858	0.883	0.891	0.883	0.891	0.903	0.903
Czech Rep.	0.843	0.857	0.861	0.868	0.874	0.885	0.891
Denmark	0.913	0.932	0.930	0.932	0.941	0.943	0.949
Estonia	0.795	0.833	0.833	0.853	0.853	0.858	0.860
Finland	0.914	0.940	0.930	0.935	0.941	0.947	0.952
France	0.921	0.932	0.925	0.932	0.938	0.942	0.952
Greece	0.876	0.895	0.892	0.902	0.912	0.921	0.926
Irland	0.894	0.929	0.930	0.936	0.946	0.956	0.959
Italy	0.907	0.921	0.916	0.920	0.934	0.940	0.941
Latvia	0.765	0.812	0.811	0.823	0.836	0.845	0.855
Lithuania	0.787	0.828	0.824	0.842	0.852	0.857	0.862
Luxembourg	0.911	0.929	0.930	0.933	0.949	0.945	0.944
Hungary	0.812	0.843	0.837	0.848	0.862	0.869	0.874
Malta	0.852	0.874	0.856	0.875	0.867	0.875	0.878
Germany	0.913	0.927	0.921	0.925	0.930	0.932	0.935
Netherland	0.928	0.939	0.938	0.942	0.943	0.947	0.953
Poland	0.816	0.845	0.841	0.850	0.858	0.862	0.870
Portugal	0.878	0.898	0.896	0.897	0.904	0.904	0.897
Romania	0.772	0.780	0.773	0.778	0.792	0.805	0.813
Slovakia	N/A	N/A	0.836	0.842	0.849	0.856	0.863
Slovenia	**0.853**	**0.884**	**0.881**	**0.895**	**0.904**	**0.910**	**0.917**
Spain	0.904	0.918	0.918	0.922	0.928	0.938	0.949
Sweden	0.929	0.958	0.941	0.946	0.949	0.951	0.956
United Kingdom	0.921	0.948	0.930	0.936	0.939	0.940	0.946

Source: *Human Development Report* 2002–2007 (UNDP).
Notes: [1]United Nations Development Programme measures the HDI annually, using data with a two-year time lag due to data availability. The table shows HDI values by calculation year; the data for calculating the HDI 2007 therefore rely on data for 2005 and HDI 2006 on data for 2004, etc. The index comprises values in the range between 0 and 1. [2]Non-weighted average. [3]Value excluding data for Slovakia. N/A – not available.

Figure: **Trends of HDI and sub-indices, Slovenia, calculations 1997–2007**



Source: *Human Development Report* (UNDP), 1997–2007.
Note: Sub-indices for 1995 are not comparable due to different methodologies; therefore we only show HDI

At-risk-of-poverty rate

The at-risk-of-poverty rate, which is a significant indicator of social cohesion, stood at 11.7% according to the latest available data and remained around the level of the previous year (12.1%).[317] Compared to the EU-25 average[318] (16%), Slovenia posted significantly better results, as it had a 4 p.p. lower at-risk-of-poverty rate compared to the average in 2006 and ranks among the EU countries with the lowest at-risk-of-poverty rate (see table). The at-risk-of-poverty rate of 11.7% indicates that in 2006 around 234,000 people had a monthly disposable income that was lower than the poverty threshold. The poverty threshold for individuals stood at EUR 466, while for a family of four with two children it was EUR 978. If income in kind is included besides monetary income, the at-risk-of-poverty rate for 2006 is even slightly lower (11.1%).

Social transfers in Slovenia significantly reduce the risk of poverty and positively impact social cohesion in society. The basic at-risk-of-poverty rate is a rate after social transfers, with all social transfers (social and family benefits, including pensions) included in the income. If people were not receiving social and family benefits, the at-risk-of-poverty rate would double (24.2% in 2006). The most recent data indicate that Slovenia is 2 p.p. below the EU-25 average according to the at-risk-of-poverty rate before social transfers. Including social transfers, the at-risk-of-poverty rate is 4 p.p. lower than the EU-25 average. This indicates that Slovenia is ranked among countries in which social transfers significantly reduce the risk of poverty.[319]

According to the most recent data, the risk of poverty was the highest among households with dependent children, in which no one held a job. Data indicate that jobless households were exposed to the highest poverty risk, mainly those households with dependent children (59.4% at-risk-of-poverty rate). One-person households (42.5%), single-parent households with at least one dependent child (22.1%) and couples with three or more dependent children (15%) were exposed to poverty risk the most, regardless of activity. Among households and also individuals, poverty mostly threatened the inactive population, predominantly the unemployed (33.4%). The at-risk-of-poverty rate of people aged over 65 years, mostly women (24.9%), stood out as well. The at-risk-of-poverty rate of people over 65 years of age is above the EU average in Slovenia (Slovenia 20%, EU-25 19%).[320]

---

[317] The figure for the at-risk-of-poverty rate for Slovenia stands at 11.7% and was released by the Statistical Office of the RS for 2005, while Eurostat released the figure for 2006 with the explanation that data is derived from the EU-SILC 2006 survey, although the data on income from this survey actually relates to 2005. So for the majority of countries data is released for 2004 or 2005 with the corresponding note – "break in data series" or "not available", while the data is moved one year forward. The same applies to Slovenia.

[318] Data on the EU-27 average has not been released.

[319] In Slovenia the at-risk-of-poverty rate before social transfers has increased since 2003 due to methodological reasons. Up to that year, the figure was determined based on the Household Expenditure Survey; since then it has been determined on the basis of the EU-SIL Survey, which is performed on a greater sample size and assures more realistic results, as it acquires data on income from administrative sources and, unlike the previous survey, includes disability pensions among social transfers.

[320] The differences between countries are significant, with Slovenia classified third among the countries with the highest elderly at-risk-of-poverty rate. The Czech Republic and the Netherlands (6%) have the lowest and Cyprus (52%) the highest rate.

Compared to the past year,[321] the at-risk-of-poverty rate among the most threatened households and individuals remained practically unchanged.

Income inequality in Slovenia remained relatively low also in 2006. The Gini coefficient (23.8) and the quintile share ratio (3.4) did not change significantly in 2006. According to the Gini coefficient, Slovenia ranks first among the EU-25 group of countries, sharing the top spot with Denmark and Sweden. According to the quintile share ratio, it shares first place with Denmark (the ratio between the lowest and highest quintile class: 80/20). In 2006, the EU-25 average had a Gini coefficient of 30 and a quintile share ratio of 4.8.

The share of the population aged 18–59 living in jobless households continues to drop. In 2007, the share of this population was 6% (9% in 2000), a good 3 p.p. below the EU-27 average (9.3%). Even better results were recorded in regard to the share of children living in such households. In 2007, only 2.5% of children lived in jobless households in Slovenia compared to 9.4% of children on average in EU-27 countries.

Table: **At-risk-of-poverty rates after and before social transfers in Slovenia and EU member states for 2000–2005 (excluding income in kind); %**

	At-risk-of-poverty rate after social transfers							At-risk-of-poverty rate before social transfers (pensions included in income)						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
EU-25	16[1]	16[1]	N/A	15[1]	16[1]	16[1]	16[1]	23[1]	24[1]	N/A	25[1]	26[1]	26[1]	26[1]
EU-15	15[1]	15[1]	N/A	15[1]	17[1]	16[1]	16[1]	23[1]	24[1]	N/A	25[1]	26[1]	25[1]	26[1]
Austria	12	12	N/A	13[3]	13	12	13	22	22	N/A	25[3]	25[2]	24	25
Belgium	13	13	N/A	15[3]	15[2]	15	15	22	23	N/A	24[3]	25	24	25
Bulgaria	14	16	14	14	15	14	14	18	19	17	N/A	18	17	17
Cyprus	N/A	N/A	N/A	15	N/A	16[3]	16	N/A	N/A	N/A	20	N/A	22[3]	22
Czech Rep.	N/A	8	N/A	N/A	N/A	10[3]	10	N/A	18	N/A	N/A	N/A	21[3]	22
Denmark	N/A	10	N/A	12[3]	11	12	12	N/A	29	N/A	32[3]	30	30	28
Estonia	18	18	18	18	20[3]	18	18	26	25	25	25	26[3]	24	25
Finland	11	11[3]	11	11	11[3]	12	13	19	29[3]	28	28	29[3]	28	29
France	16	13[3]	12	12	13[3]	13	13	24	26[3]	26	24	26[3]	26	25
Greece	20	20	N/A	21[3]	20	20	21	22	23	N/A	24[3]	23	23	23
Irland	20	21	N/A	20[3]	21	20	18	31	30	N/A	31[3]	33	32	33
Italy	18	19	N/A	N/A	19[3]	19	20	21	22	N/A	N/A	24[3]	23	24
Latvia	16	N/A	N/A	N/A	N/A	19[3]	23	22	N/A	N/A	N/A	N/A	26[3]	28
Lithuania	17	17	N/A	N/A	N/A	21[3]	20	23	24	N/A	N/A	N/A	26[3]	27
Luxembourg	12	12	N/A	11[3]	12	13	14	23	23	N/A	23[3]	22	23	24
Hungary	11	11	10	12	N/A	13[3]	16	17	17	15	17	N/A	29[3]	30
Malta	15	N/A	N/A	N/A	N/A	15[3]	14	19	N/A	N/A	N/A	N/A	21[3]	22
Germany	10	11	N/A	N/A	N/A	12[3]	13	20	21	N/A	N/A	N/A	23[3]	26
Netherland	11	11[2]	11[2]	12[2]	N/A	11[3]	10	22[2]	22[2]	22[2]	23[2]	N/A	22[3]	21
Poland	16	16	N/A	N/A	N/A	21[3]	19	30	31	N/A	N/A	N/A	30[3]	29
Portugal	21	20	20[2]	19[2]	20[3]	19	18[2]	27	24	26[2]	26[2]	27[3]	26	25[2]
Romania	17	17	18	17	18	18	19	21	22	23	22	23	24	24
Slovakia	N/A	N/A	N/A	N/A	N/A	13[3]	12	N/A	N/A	N/A	N/A	N/A	22[3]	20
Slovenia	**11**	**11**	**10**	**10**	**N/A**	**12[3]**	**12**	**18**	**17**	**16**	**16**	**N/A**	**26[3]**	**24[4]**
Spaind	18	19	19[3]	19	20[3]	20	20	22	23	22[3]	22	25[3]	24	24
Sweden	N/A	9	11	N/A	11[3]	9	12	N/A	17	29[3]	N/A	30[3]	29	29
U. Kingdom	19[3]	18	18	18	N/A	19[3]	19	29[3]	28	28	29	N/A	31[3]	30

Sources: At-risk-of-poverty rate after social transfers — total in At risk-of-poverty rate before social transfers — total (Eurostat EU-SILC), January 2008; Indicators of Social Cohesion, Slovenia, 2005 – provisional data (SORS), December 2007.
Notes: [1]Eurostat estimate, [2]preliminary data, [3]break in the series, [4]data for 2005, N/A — not available.

[321] For methodological reasons, the new statistical survey (EU-SILC) providing the basis for calculating the at-risk-of-poverty rate only allows comparisons for the previous year.

Healthcare resources

Indicators of health personnel and other human resources in healthcare demonstrate the capacity and accessibility of the healthcare system. Amid the growing demand for health services closely related to the growth in income per capita, development of medicine and medical technology, health awareness and population ageing, most European countries have been faced with a growing shortage of doctors, dentists and nurses. According to most indicators, Slovenia lags far behind the European average.

In 2006, the growth in the number of practicing physicians was at the lowest level in the last five years. In 2006, there were 244.4 practicing physicians (243.5 in 2005)[322] per 100,000 inhabitants in Slovenia. This ratio was significantly worse than in the EU average (317.8 in 2005). In the period 2000–2005, the lag of Slovenia behind the European average slightly diminished (the number of physicians increased by 13.9%, or by 2.6% annually, on average), although the growth in the number of physicians decreased again to a mere 0.7% in 2006. The Institute of Public Health warns mainly of the shortage of physicians and paediatricians in their primary activity in some parts of the country.[323] According to human resource projections,[324] the number of physicians is expected to increase by 11.4% in the period 2008–2013, which signifies slower growth than in the previous six-year period (2000–2006: 14.7%). Slovenia is slightly above the EU-27 average in terms of the number of dentists per 100,000 inhabitants, but this ratio should increase further given the needs. A good fifth of insured persons does not have a selected dentist at this time, while human resource projections to the year 2013 indicate that due to retirement and an insufficient inflow of graduates, the situation will even get worse.[325]

In recent years the number of graduated medical nurses has been increasing more rapidly. In 2006 there were 768.0 nurses per 100,000 inhabitants in Slovenia, which is relatively favourable compared to other European countries (EU in 2007: 699.7). The share of nurses with a completed tertiary education is significantly lower than in other European countries, although it has been rising rapidly in the last few years.

The number of hospital beds per capita significantly dropped in Slovenia in 2006, even though the comparison with other European countries indicates that the capacities are already relatively low. The decrease in the number of hospital beds has for years been correlated with the reduction of the average inpatient length of stay and the introduction of day care in hospitals. Slovenia recorded a 15.6% reduction in the number of hospital beds per 100,000 inhabitants during the period

[322] According to data collected from the Institute of Public Health, there were 4,908 practicing physicians in Slovenia in 2006 (including trainee specialists, doctors in secondary training and other trainees).
[323] Estimate by the Institute of Public Health (IPH) based on Health Insurance Institute data on declared persons at individual selected personal physicians (IPH 2006).
[324] Resolution on the National Healthcare Plan for 2008–2013 (Ministry of Health, proposal 2008). The projections take account of demographical characteristics of the population of physicians (graduation, retirement, migration, mortality and retrospective trends).
[325] Resolution on the National Healthcare Plan for 2008–2013 (Ministry of Health, proposal 2008).

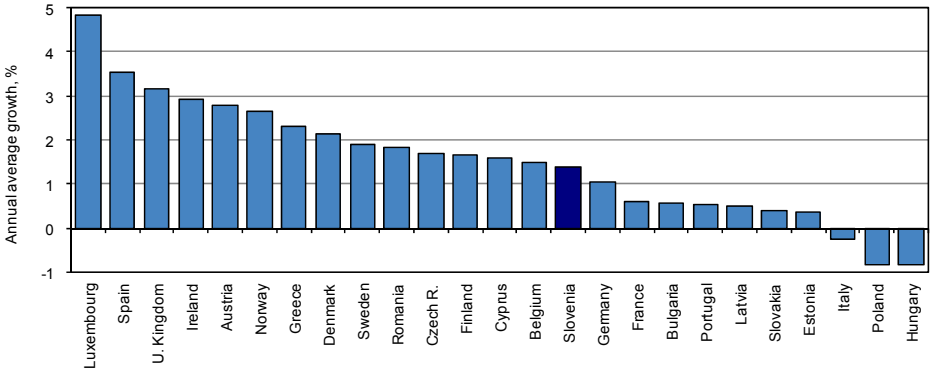
2000–2006 (down to 476.3 in 2006), while in the EU that number decreased by only 9.5% (down to 590.4 in 2005) on average in the period 2000–2005.

Table: **Human resources in the health system in Slovenia[1] and selected EU member states**

	Practicing physicians per 100,000 inhabitants			Practicing dentists per 100,000 inhabitants		No. of hospital beds per 100,000 inhabitants	
	2000	2004	2005	2000	2005	2000	2005
EU-27	**308.2**	**320.9**	**317.8**	**58.2**	**61.0**	**652.6**	**590.4**
Austria	312.6	346.7	350.0	44.2	N/A	698.7	770.9
Belgium	378.6	398.8	399.5	81.3	82.9	777.8	744.8
Bulgaria	336.1	351.5	365.3	82.8	84.1	739.3	N/A
Cyprus	238.5	269	257.8	82	95	416.9	380
Czech Rep.	337.1	351.3	354.9	64.9	67.4	867.5	850.3
Denmark	270.1	298.5	308.4	84.2	83.9	425.1	N/A
Estonia	308.5	319.2	319.3	75.9	89.4	682.9	548.4
Finland	258.2	288.2	244.5	85.5	86.6	753.4	704.2
France	330.0	340.0	340.0	70.0	70.0	817.1	734.8
Greece	447.7	490.0	N/A	110.0	120.0	495.2	473.8
Irland	220.0	280.0	280.0	50.0	60.0	628.9	559.6
Italy	410.0	420.0	380.0	60.0	60.0	470.9	400.9
Latvia	286.5	284.7	291.9	52	62.1	855.1	766.4
Lithuania	379.4	N/A	N/A	N/A	N/A	923.2	814.7
Luxembourg	235.7	327.7	N/A	64.6	N/A	657.1	N/A
Hungary	272.7	333.4	278.4	32.3	44.7	839.1	786.2
Malta	N/A	N/A	N/A	N/A	np	544.2	743.7
Germany	326.1	338.9	341.2	73.5	75.8	912.2	846.4
Netherland	320.0	360.0	370.0	N/A	N/A	492.1	437.2
Poljand	220	229	213.6	30.4	32.1	718.7	652.2
Portugal	263.5	267.8	np	3.7	N/A	381.6	N/A
Romania	197.4	207.5	217.4	36.4	47.3	762.7	661.8
Slovakia	334.8	331.8	303.7	44.3	N/A	785.5	677.1
Slovenia	**215.3**	**229.9**	**243.5**	**58.3**	**61.5**	**540.6**	**483.9**
Spain	332.6	340.1	379.9	40.0	50.0	372.7	339
Sweden	307.6	341.7	348.1	80.5	81.9	358.5	N/A
U. Kingdom	197.8	233.6	235.6	42.8	47.1	413.1	388.7

Sources: Eurostat Queen Tree (2008) and WHO Database 2007; for Slovenia: (Public Health Institute).
Notes: [1]For 2006, the indicators for Slovenia are stated in the text, while the table includes data for 2005, which are the latest available figures for EU countries; the EU-27 averages for physicians, dentists and nurses were provided by WHO; the hospital bed average was provided by Eurostat. N/A – not available.

Figure: **Average annual growth in the number of practicing physicians per 1,000 inhabitants in the period 1995–2005, in %**



Source: Eurostat Queen Tree (2008) and WHO Database 2007; for Slovenia: Institute of Public Health of the RS.

Life expectancy and infant mortality

Life expectancy in Slovenia continued to rise in 2006. It reached 74.8 years for men (0.7 years more than in 2005, or 4.5 years more than in 1995) and 81.9 years for women (0.6 years more than in 2005, and 4.1 years more than in 1995).[326] The gap between the genders has been closing for the second year running, but still remains quite large (7.1 years compared to the period 1995–2004, when it fluctuated around 7.5 years). The mortality rate of men aged 60 years and more has been dropping more rapidly than the mortality rate of women in the same age group, but the mortality of women aged 30–59 is dropping more rapidly compared to men of the same age. Following brief stagnation in the initial period of transition, life expectancy has been continuously increasing since 1994. In 2006, life expectancy also increased in the majority of EU Member States. According to this indicator, Slovenia is still lagging behind the old EU members and Cyprus and Malta.

In 2006, the infant mortality rate in Slovenia dropped again and is still among the lowest in the EU. In 2006, the rate was 3.4 dead babies aged less than one year per 1,000 live-born children, which was 0.3% less than in 2004, when it reached the lowest level ever. From 1980, when it still stood at 15.3 per 1,000 live-born children, the infant mortality rate dropped to a fifth of the 1980 figure by 2006. As in other developed countries, infant mortality levels are on a downward trend in Slovenia primarily due to specific preventive measures taken in the area of prenatal and neonatal healthcare, and due to the common well-being of society.

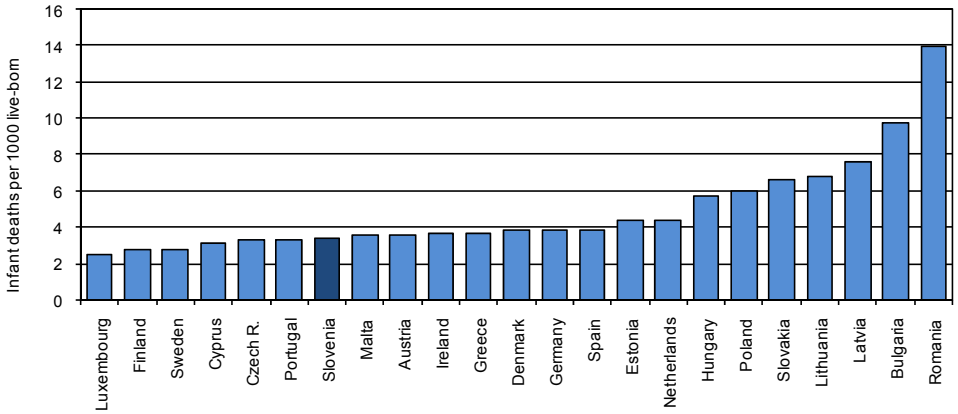
[326] According to Eurostat calculations, the average life expectancy (for both genders) in Slovenia reached 78.3 years in 2006, which is 0.8 years more than in 2005 or 3.6 years more than in 1995 (see table).

Table: **Life expectancy in Slovenia and in EU member states**

	1995	2000	2001	2002	2003	2004	2005	2006
EMU-13	**77.5**	**N/A**	**79.1**	**79.1**	**79.1**	**79.8**	**N/A**	**N/A**
Austria	76.9	78.4	78.8	78.9	78.8	79.4	79.6	80.1
Belgium	77.0	77.9	78.1	78.2	78.3	78.9	79.1	79.5
Bulgaria	71.0	71.6	71.9	72.1	72.3	72.3	72.5	72.7
Cyprus	N/A	N/A	N/A	78.7	79.5	79.4	79.0	80.6
Czech Rep.	73.3	75.1	75.4	75.4	75.3	75.9	76.1	76.8
Denmark	75.3	76.9	77.0	77.1	77.4	77.8	78.3	78.4
Estonia	67.8	70.9	70.7	71.2	71.7	72.2	72.9	73.1
Finland	76.7	77.8	78.2	78.3	78.6	79.0	79.1	79.6
France	78.1	79.2	79.3	79.4	79.3	80.4	80.4	81.0
Greece	77.5	78.0	78.5	78.7	78.8	78.9	79.2	79.6
Irland	75.5	76.6	77.2	77.9	78.4	78.9	79.5	79.7
Italy	78.4	80.0	80.3	80.4	80.0	81.0	N/A	N/A
Latvia	N/A	N/A	N/A	70.4	70.9	71.2	71.0	70.9
Lithuania	69.1	72.2	71.8	71.9	72.1	72.0	71.3	71.1
Luxembourg	76.8	78.1	78.0	78.1	77.9	79.2	79.6	79.4
Madžarska	70.0	71.9	72.5	72.6	72.6	73.0	73.0	73.5
Malta	77.2	78.4	78.9	78.8	78.7	79.4	79.4	79.5
Germany	76.7	78.3	78.6	78.6	78.6	79.3	79.4	79.9
Netherland	77.6	78.4	78.5	78.7	78.7	79.3	79.6	80.0
Poland	72.0	73.8	74.2	74.5	74.7	74.9	75.1	75.3
Portugal	75.4	76.7	77.0	77.3	77.4	78.3	78.1	78.9
Romania	69.3	71.2	71.1	70.9	71.3	71.8	72.1	72.6
Slovakia	72.4	73.3	73.6	73.8	73.8	74.2	74.1	74.5
Slovenia	**74.7**	**76.2**	**76.4**	**76.6**	**76.4**	**77.3**	**77.5**	**78.3**
Spain	78.1	79.4	79.7	79.8	79.6	80.3	80.3	81.1
Sweden	79.0	79.8	79.9	80.0	80.3	80.7	80.7	81.0
United Kingdom	76.7	78.0	78.2	78.3	78.4	78.9	79.1	N/A

Source: Population and Social Conditions – Population (Eurostat), 2008.
Note: N/A – not available.

Figure: **Infant mortality per 1,000 live-born children in selected European countries, 2006**



Source: Population and Social Conditions – Population (Eurostat), 2008.

Participation in education

The participation of the adult population in formal education[327] in 2006 remained at the level of the previous year. In 2006, the participation of the population aged 24–64 in all levels of formal education reached 4.4%, and Slovenia thereby exceeded the European average for the second time in a row. Unlike in other EU countries, the participation of the adult population in education in Slovenia did not increase in 2004 and 2005, while it increased more than in the EU on average in the period 2000–2006.

The enrolment of adults in secondary education dropped in 2006. The share of people who have completed secondary school decreases with age. The rate of enrolment in secondary education declines rapidly in higher age groups. As in approximately half of other countries, the participation of the population aged 20–29 in secondary education diminished in Slovenia in 2005 and 2006. Within the 20–29 age group, the relatively low share of participation in secondary schools can be attributed to a high rate of young people aged 15–19 in secondary education (in terms of participation in secondary education, Slovenia was the leading European country in 2006) and a low share of younger people 18–24 years of age with completed or uncompleted primary school or lacking any school education[328] who were not enrolled in any type of education or training. Contrary to most other EU countries, the participation of adults aged 30–39 in secondary education also declined in Slovenia in 2005 and 2006. In 2000–2006, participation in secondary education increased the most in younger age groups and the least in the oldest age group, 40–64 years;[329] the share of the latter in secondary education remained at a very low level for the whole period.

Participation in tertiary education in Slovenia is high and is increasing more rapidly than the EU average. In 2006, the participation of the population in tertiary education was above the European average for all age groups. In the period 2000–2005, as well as in the last year (2006), it increased at a more rapid rate than in the EU. In 2006, the enrolment of the population aged 20–29[330] in tertiary education was above the European average by quite a margin and was among the highest in the EU. The participation of higher age groups in tertiary education is significantly lower, but is still above the EU average; however, Slovenia is behind some developed countries as regards the participation of the 30–39 and 40–64 age groups in tertiary education. In 2006/2007 and 2007/2008, participation in tertiary education increased the most in the youngest age group, similar to the increase in the period 2000/2001–2007/2008.

---

[327] Taking account of regular and part-time students enrolled in all levels of formal education (primary, secondary and tertiary education).

[328] The indicator is also called early school leavers.

[329] The denominator includes people aged 40–64, while the numerator includes people aged 40 years and over, as these statistical data are available only for the population aged 40 years and over.

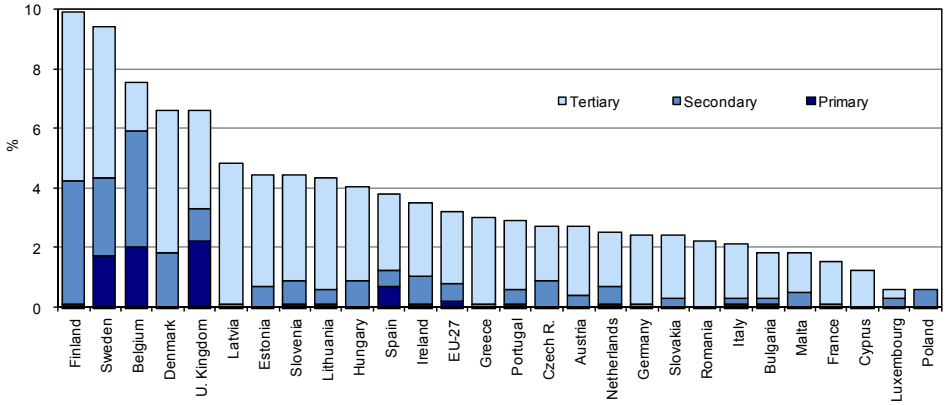
[330] The high level of participation in tertiary education in Slovenia can also be attributed to the fact that part of the population is only enrolled to reap benefits arising from full-time student status (student meal vouchers, possibility of work through student employment services, etc.) and not for the purpose of gaining an education.

Table: **Population aged 15–24 participating in all levels of formal education, Slovenia and EU-27 member states, %**

	1998	2000	2001	2002	2003	2004	2005	2006[1]
EU-27	**N/A**	**3.3**	**3.5**	**4.0**	**4.0**	**4.1**	**4.2**	**3.1**
Belgium	N/A	5.1	6.3	6.7	7.3	6.7	7.4	7.5
Bulgaria	N/A	1.5	1.5	1.5	1.5	1.5	1.7	1.8
Czech Rep.	N/A	1.1	1.3	1.5	2.1	2.5	2.7	2.7
Denmark	N/A	5.0	5.1	5.0	5.1	6.5	6.7	6.6
Germany	N/A	2.4	2.3	2.4	2.4	2.5	2.3	2.4
Estonia	N/A	N/A	N/A	N/A	N/A	N/A	4.4	4.4
Irland	N/A	2.0	2.0	N/A	N/A	N/A	2.8	3.4
Greece	N/A	0.6	1.7	2.0	2.1	2.2	3.0	3.1
Spain	N/A	2.5	2.6	2.7	2.8	3.5	3.7	3.8
France	N/A	N/A	N/A	N/A	N/A	N/A	1.5	N/A
Italy	1.7	1.9	N/A	2.1	2.1	N/A	2.2	2.2
Cyprus	N/A	0.3	0.4	0.5	0.6	0.9	1.0	1.2
Latvia	1.5	2.9	3.5	3.7	4.1	4.5	4.8	4.8
Lithuania	0.9	1.6	2.0	2.6	3.2	3.8	4.2	4.3
Luxembourg	N/A	0.3	0.2	0.3	0.3	0.4	0.4	0.6
Hungary	1.5	2.3	2.8	3.1	3.5	3.9	4.0	4.0
Malta	N/A	0.8	N/A	0.8		1.8	1.9	1.8
Netherland	2.9	2.6	2.8	2.6	2.7	2.7	2.5	2.5
Austria	3.2	3.3	3.3	2.5	2.5	2.5	2.6	2.6
Poland	N/A	2.0	2.3	N/A	N/A	N/A	N/A	N/A
Portugal	2.8	3.3	3.0	3.1	3.5	3.5	3.3	2.9
Romania	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Slovenia	**1.5**	**2.5**	**3.4**	**3.7**	**3.8**	**4.0**	**4.4**	**4.4**
Slovakia	N/A	N/A	1.2	1.3	1.5	1.8	2.1	2.4
Finland	5.6	6.9	7.5	7.7	7.9	8.3	9.4	9.8
Sweden	N/A	10.3	10.3	10.1	9.8	9.6	9.4	9.3
U. Kingdom	7.1	11.0	11.1	14.7	13.7	13.7	13.9	4.4

Source: Population and Social Conditions – Education and Training (Eurostat), 2008.
Note: [1] Data for 2006 are provisional; N/A – not available.

Figure: **Participation of the population aged 25–64 in individual levels of formal education, 2005, in %**



Source: Population and Social Conditions – Education and Training (Eurostat), 2007.

The fifth priority

Integration of measures to achieve sustainable development

- Energy intensity
- Renewable sources of energy
- Emission-intensive industries
- Share of road transport in total goods transport
- Agricultural intensity
- Intensity of tree felling
- Municipal waste
- Old age dependency ratio
- Fertility rate
- Migration ratio
- Regional variation in GDP
- Regional variation in unemployment
- Issued building permits
- Household expenditure on culture

Energy intensity

Slovenia has a relatively high energy intensity that is slowly diminishing, recording a more notable decline in 2006. In 2006, Slovenia consumed 275.1 toe[331] (tonnes of oil equivalent) of primary energy to produce EUR 1 million of GDP expressed in constant 2000 prices, while in the EU as a whole 176.6 toe were consumed to produce EUR 1 million of GDP. The EU countries hence produced one unit of GDP with 35.8% less energy consumed. The disparities in the EU countries' energy intensity are very large: energy intensity in Bulgaria is nearly 10 times higher than in Denmark. In the EU, only the Eastern European countries reported higher energy consumption per unit of GDP than Slovenia. In 2006, Slovenia recorded a somewhat larger energy intensity decline (by 4.9%).[332]

High energy intensity is also related to the increasingly industry-based economic structure. The intensity of energy consumption is also a result of the economic structure, as a greater share of heavy industry, which consumes more energy than service activities, increases a country's energy intensity. Among the EU Member States, Slovenia had almost the highest share of manufacturing industries in 2006 (24.0%; EU: 17.1%), especially paper, chemical, non-metal and metal industries, i.e. activities which use an above-average amount of energy. These four industries together generated 43.8% of value added generated by manufacturing industries in 2006 (EU: 37.6%), while the share of energy consumed by these industries was as much as 70.0%.[333]

Slovenia's energy consumption per capita is equal to the EU average, while its economic development is more than a third lower. In 2006, Slovenia consumed approximately the same amount of energy per capita as the EU countries on average (by 1.0% less).[334] Given that Slovenia's GDP per capita lagged behind the EU average by 36.4%, its energy consumption divided by its smaller GDP per capita was much higher than in the EU.

The relatively high decline in energy intensity in Slovenia in 2006 was achieved with high GDP growth and very weak growth in energy consumption. In that year Slovenia's economic growth was as much as 5.7%, whereas primary energy consumption in the country increased by only 0.6%.[335] This means that energy intensity improved (declined) by 4.9%. The relatively low energy consumption was the consequence of a reduced consumption of nuclear energy and natural gas (by 5.7% and 3.2%, respectively) and lower growth in the consumption of solid and partially in the consumption of liquid fuels (1.7% and 4.1%, respectively).[336] Reduced sales of natural gas and, within the scope of liquid fuels, a 6.2% lower sale of fuel oil, was primarily the consequence of a milder winter in 2006.[337]

[331] According to Eurostat data (used to ensure international comparability), which differ somewhat from the SORS data, based on which energy intensity in 2006 totalled 280 toe/EUR million of GDP.
[332] Environment and energy (Eurostat), 2008; calculations by IMAD; according to SORS data, the decline was at 4.8%.
[333] SI-STAT, National Accounts and Energy (SORS), 2007; calculations by IMAD.
[334] Population and Social Conditions in Environment and Energy (Eurostat), 2007; calculations by IMAD.
[335] Environment and energy (Eurostat), 2008; calculations by IMAD. According to SORS data: 0.2%.
[336] Environment and energy (Eurostat), 2008; calculations by IMAD. According to SORS data: 2.4% and 2.6%.
[337] Energy (SORS), 2007; calculations by IMAD.

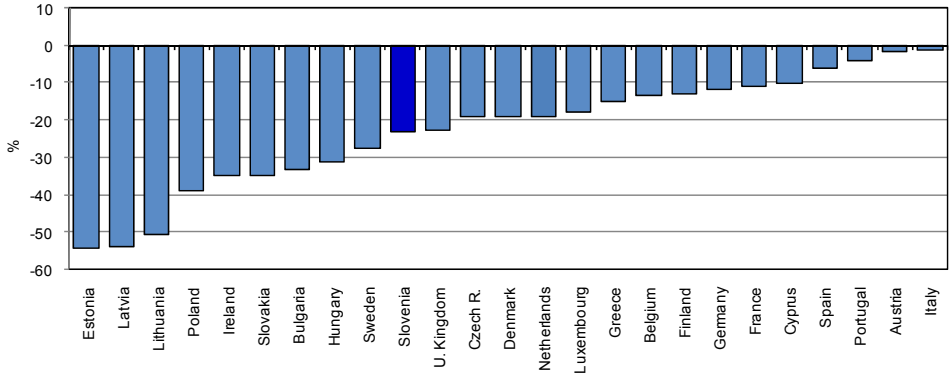
Energy intensity is decreasing at a relatively rapid pace, also in countries which have already pursued more energy-saving policies than Slovenia. In the period 1995–2006, energy intensity in Slovenia decreased by 23.0%. In nine EU countries the reduction was even higher than in Slovenia, including in some countries where it had already been very low (such as Ireland). Reduced energy intensity is a consequence of technological development and a restructured economy in terms of greater value added of services, that is, of policies promoting these goals. In some countries the reduction is primarily the consequence of a decrease in the share of heavy (metal) industry.

Table: **Energy intensity (primary energy consumption per unit of GDP), toe/m EUR$_{2000}$**

	1995	2000	2001	2002	2003	2004	2005	2006
EU-27	**208.5**	**187.8**	**188.4**	**185.6**	**187.8**	**185.4**	**182.1**	**176.6**
Austria	148.4	138.0	145.5	145.4	151.9	149.9	150.9	146.0
Belgium	249.2	243.8	237.4	226.5	236.4	229.2	224.5	215.7
Bulgaria	1631.9	1360.7	1359.6	1275.0	1249.4	1137.6	1127.0	1089.9
Cyprus	236.4	237.1	230.9	227.9	243.4	215.6	208.8	212.3
Czech Republic	728.3	658.6	658.8	654.6	685.8	660.2	613.0	588.1
Denmark	134.5	112.5	115.4	112.6	117.9	111.8	106.6	108.9
Estonia	1174.7	769.5	778.6	704.2	718.0	684.9	612.5	537.1
Finland	277.4	246.0	244.3	255.1	265.1	257.4	231.4	240.8
France	192.3	180.2	181.9	180.2	181.1	179.3	176.6	170.7
Greece	208.1	204.6	201.6	199.4	192.7	187.1	183.6	177.1
Irland	165.1	137.0	134.8	129.1	121.3	122.6	110.6	107.3
Italy	149.1	145.2	143.2	143.0	150.6	149.9	150.6	147.0
Latvia	709.1	440.8	445.7	411.4	409.3	387.0	356.7	327.3
Lithuania	881.7	572.0	617.1	613.0	577.8	548.2	478.4	434.8
Luxembourg	204.6	165.3	167.4	169.9	175.5	183.8	178.5	168.1
Hungary	606.0	480.8	470.9	459.0	459.6	430.5	436.1	416.0
Malta	N/A	183.1	175.1	206.3	206.9	211.1	217.6	197.0
Germany	181.8	165.4	169.1	165.6	167.3	166.4	163.6	159.9
Netherland	217.4	184.3	185.7	187.0	191.5	191.5	185.8	176.1
Poland	702.0	489.5	483.9	469.8	464.4	443.0	434.2	427.9
Portugal	204.5	205.1	200.9	209.0	205.9	208.7	211.7	195.8
Romania	N/A	920.3	864.6	858.1	852.5	773.0	735.9	711.1
Slovakia	951.6	797.1	846.0	810.4	769.9	727.8	680.5	619.4
Slovenia	**357.3**	**304.2**	**309.7**	**304.7**	**298.3**	**294.1**	**289.1**	**275.1**
Spain	199.7	196.2	194.8	195.0	195.6	198.1	195.4	187.2
Sweden	222.9	179.8	190.8	185.2	179.7	179.9	171.0	161.6
United Kingdom	162.6	147.4	144.5	138.0	136.8	133.3	131.3	125.5

Source: Structural indicators (Eurostat), 2008; calculations by IMAD.
Note: N/A – not available.

Figure: **Change in energy intensity between 1995 and 2006 in EU countries**



Source: Environment and Energy and Economy and Finance (Eurostat), 2008.

Renewable energy sources

The share of the use of renewable sources is relatively high in Slovenia, but has been on a declining trend since 2000, also dropping somewhat in 2006. According to the latest data for 2006, the share of renewable sources accounted for 10.5% of total energy consumption in Slovenia, while the average share in the EU totalled 7.1%. Seven EU countries have recorded even higher shares of renewable sources than Slovenia. Having risen in both Slovenia and the EU in the period 1995–2000, the share of renewable sources in the EU increased by a further 1.3 p.p. in the period 2000–2006, while it decreased by 1.8 p.p. in Slovenia. Namely, energy consumption in Slovenia increased by 14.2% in the last six years, while the consumption of renewable sources even decreased (by 2.5%).[338] The reduction in the use of renewable sources and occasional fluctuations are primarily the consequence of lower hydro energy production due to a greater frequency of droughts.

Biomass and waste account for more than two thirds of renewable sources in the EU, while Slovenia also has a sizeable amount of hydro energy. In 2006, the structure of renewable energy sources in the EU was as follows: biomass and waste 68.9%, hydro energy 20.5%, wind energy 5.5%, geothermal energy 4.3%, and solar energy 0.8%. The share of biomass and waste in Slovenia was 59.8%. The share of hydro energy, which amounted to 40.2%, was relatively higher than in the EU. Slovenia currently uses no other renewable sources or these have not been appropriately included in statistical data yet. Only two EU countries recorded higher shares of hydro energy than Slovenia in 2006: Slovakia and Austria. As for biomass and waste, Slovenia primarily used wood and wood waste. In addition to wood, municipal waste represents an important share in the EU (12% of total biomass and waste), as well as biofuels and biogas (8% and 5%, respectively).

The consumption of renewable sources in the EU increased significantly in 2006 (by 7.1%). In the EU as a whole, the use of wood and wood waste increased the most (by 3.6 Mtoe), while the steepest increase was recorded in the use of biofuels (62.5% growth, by 2.4 Mtoe). The use of municipal waste and the use of biogas rose by approximately the same amount (by 0.5 Mtoe). While the use of hydro energy recorded only a slight increase (by 0.1 Mtoe), the use of wind energy increased 10 times as much (by 1.0 Mtoe). Nevertheless, only in a small number of EU members does the use of wind, geothermal and solar energy account for a significant share in the energy balance (see figure).

The use of renewable sources in Slovenia decreased slightly in 2006 (by 0.8%). While the use of hydro energy increased by 3.7%, the use of biomass and waste fell by 3.6%. The total use of renewable sources thus decreased by 0.8%, but given the 0.6% growth[339] in total energy use, the share of renewable resources slipped by 0.1 p.p. in 2006 (to 10.5%).

The EU set ambitious goals with regard to the increase in the share of renewable energy sources. To achieve the Kyoto objectives, the EU as a whole is thus set to increase its 6.7% share in primary energy to 12% by 2010, and its share in final energy to 20% by 2020. Within the proposed energy-climate package, Slovenia was assigned to

[338] According to Eurostat data (used to ensure international comparability), which differ somewhat from the SORS data, based on which energy consumption increased by 15% and the consumption of RES by 3%.
[339] According to the SORS data, the use of RES dropped by 0.3%, while total energy use recorded 0.2% growth.

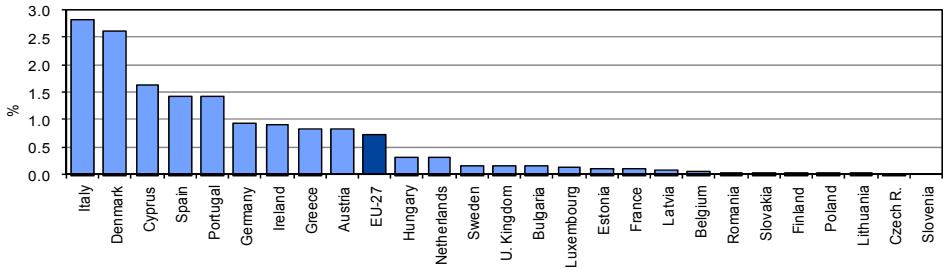
increase the use of renewable sources from the present 16% to 25% of final energy consumption in 2020, which it will try to achieve by building hydroelectric power plants in the lower Sava stream and increasing the use of other renewable sources. These ambitious goals will, however, call for even more active policies promoting the use of all potential renewable energy sources. At the global level, solar and geothermal energy constitute by far the greatest renewable energy potential. Estimates regarding the economical availability of renewable energy potential vary. According to analyses,[340] Slovenia has already exploited almost 60% of the economic potential in water power and slightly less than 80% of the ecologically acceptable potential.

Table: **Renewable energy sources relative to total primary energy consumption, %**

	1995	2000	2001	2002	2003	2004	2005	2006
EU-27	**5.1**	**5.8**	**5.8**	**5.7**	**6.0**	**6.4**	**6.6**	**7.1**
Austria	21.8	22.9	22.1	21.8	19.1	20.5	20.2	21.4
Belgium	1.2	1.2	1.4	1.4	1.7	1.9	2.4	2.9
Bulgaria	1.6	4.2	3.6	4.4	4.8	5.2	5.6	5.5
Cyprus	2.1	1.8	1.8	1.8	1.8	2.0	1.9	1.9
Czech Republic	1.4	1.5	1.7	2.0	3.3	3.9	4.0	4.3
Denmark	7.6	10.9	11.4	12.4	13.5	15.1	16.6	15.6
Estonia	9.0	10.9	10.6	11.0	10.6	10.6	10.6	9.8
Finland	21.1	23.8	22.4	21.8	20.9	23.0	23.1	22.7
France	7.7	7.0	6.9	6.3	6.3	6.3	6.1	6.3
Greece	5.3	5.0	4.5	4.7	5.1	5.0	5.2	5.7
Irland	1.4	1.6	1.6	1.7	1.6	1.8	2.4	2.7
Italy	4.8	5.2	5.5	5.3	5.8	6.8	6.5	7.0
Latvia	27.2	31.8	31.7	31.3	30.9	33.1	33.0	31.0
Lithuania	5.7	9.2	8.4	8.1	7.9	8.0	8.8	9.3
Luxembourg	1.4	1.6	1.3	1.4	1.4	1.6	1.6	1.7
Hungary	2.4	2.1	1.9	3.4	3.4	3.6	4.2	4.6
Malta	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Germany	1.9	2.8	3.0	3.4	3.8	4.4	5.0	6.0
Netherland	1.5	2.4	2.4	2.6	2.5	2.8	3.4	3.6
Poland	3.9	4.2	4.5	4.6	4.5	4.7	4.8	5.1
Portugal	16.2	15.3	15.5	13.9	16.9	14.7	13.2	17.0
Romania	5.9	10.9	9.3	9.7	9.9	11.5	12.6	11.7
Slovakia	2.8	2.8	4.0	3.7	3.3	3.9	4.3	4.6
Slovenia	**9.3**	**12.3**	**11.5**	**10.9**	**10.3**	**11.5**	**10.6**	**10.5**
Spain	5.4	5.7	6.5	5.4	6.9	6.3	6.0	6.6
Sweden	25.9	31.4	28.3	26.3	25.3	25.7	29.6	29.1
United Kingdom	0.9	1.1	1.1	1.2	1.3	1.5	1.7	1.9

Source: Environment and energy (Eurostat), 2008; calculations by IMAD. Note: N/A – not available.

Figure: **Shares of wind, geothermal and solar energy in total primary energy consumption in the EU Member States in 2005**



Source: Environment and Energy (Eurostat), 2008; calculations by IMAD.

[340] Report on the payment of concessions (Ministry of the Environment and Spatial Planning), 2007.

Emission-intensive industries

In 2006 and 2007, emission-intensive industries experienced faster growth than the average of all manufacturing industries. In the 1999–2004 period, Slovenia's total output of emission-intensive industries, i.e. those sectors that have the highest emission intensity (into air, water and earth) per unit of output,[341] was growing on average by almost twice as much annually (5.6%) as the output of manufacturing industries as a whole (3.0%). The difference had been increasing until 2003, when it was the biggest in the analysed period (6 p.p.). In 2004 it decreased to 0.3 p.p., and in 2005 to 0.5 p.p. The data for 2006 and 2007 again show much higher growth of output of emission-intensive industries than the average of manufacturing industries (by 5.6 or 6.0 p.p., respectively). As a result, the share of emission-intensive industries in the total value added (VA) of manufacturing industries, which has been rising since 1995, again considerably increased in 2006[342] (to 24.4% of VA of manufacturing industries). This is 1.4 p.p. more than in 2005 and the highest figure since 1995. The increase was greater only in 2003 (by 1.9 p.p.). In 2006, the structure of value added (VA) in emission-intensive industries changed as well. The share of the manufacture of chemicals and chemical products rose by 1.3 p.p. in comparison with 2005, the share of the manufacture of metals by 0.3 p.p., and the shares of the manufacture of cement and the manufacture of other non-metal mineral products by 0.1 p.p. each, while the share of paper production decreased by 0.4 p.p.

A favourable result is that the reduction in energy intensity in manufacturing industries strengthened in 2006 after a five-year period of stagnation. The consumption of final energy[343] (energy consumption in TJ) per unit of VA in manufacturing industries, the main indicator of qualitative changes in the energy sector, fell at an average annual rate of 6.7% in 1995–2000, while in 2001–2004 the average annual rate was only 1.0%. The year 2005 saw even stronger deterioration: the consumption of final energy per unit of VA in manufacturing industries even increased by 2.5%. However, a favourable reversal occurred in 2006 as the consumption of final energy per unit of VA fell by 5.5%. This development is mainly attributable to lower energy consumption in the manufacture of pulp and paper (both due to qualitative changes, such as lower energy intensity, and due to smaller production volumes) and a considerable improvement in the energy intensity of the chemical and metal industries.

A major part of the industry participates in emissions trading and the remainder in a system of CO_2 taxes. The two measures promote greater energy efficiency. Trading in rights to greenhouse gas emissions was introduced in 2005. On the basis of the national plan for the allocation of emission allowances for the period 2005–2007, the liable parties received an emission allowance quota, which slightly exceeded actual emissions in that period. A similar measure was applied

[341] According to the World Bank methodology and groups of the Slovenian Standard Classification of Activities, emission-intensive industries include: manufacture of chemicals, chemical products and man-made fibres; manufacture of pulp, paper and paper products; manufacture of basic metals; manufacture of cement, lime and plaster; and manufacture of other non-metal mineral products.
[342] The latest available data on value added by individual manufacturing industries are for 2006.
[343] Energy consumption by activity, in TJ (SORS).

in other EU countries, which resulted in a very low price for these allowances. In 2007, Slovenia adopted the national plan for the allocation of emission allowances for the period 2008–2012. The plan is based on the Operational Plan for the Reduction of Greenhouse Gas Emissions (TGP), adopted in December 2006. The combustion and process industry emissions included in the trading in rights to greenhouse gas emissions account for 66% and 84% of industrial target emissions, respectively.

The Directive on Integrated Pollution Prevention and Control (IPPC) stipulates uniform procedures for permitting the operation of industrial sources of pollution. In Slovenia (on the basis of permit applications), there are 203 industrial plants (or landfills), which, according to the IPPC Directive, must have integrated permits for environmental pollution. The granting of permits according to the IPPC Directive is based on the principle that the best available techniques must be applied in industrial production to prevent environmental pollution. It is estimated that by the 2007 deadline (exceptions by 2011) most of these plants will comply with the standards of the best available techniques. As a result, the specific consumption of energy per unit of output should decline by an average of 20%. Due to the adjustment of production to the IPPC Directive, the production of primary aluminium should decrease by a quarter in 2008; instead of the current 12%, this production branch is expected to consume 9% of the total electric power used in Slovenia (a reduction from 1.7 TWh annually to 1.2 TWh annually). The volume of reduction in electric power consumption in this production branch is comparable to the annual production in the Zlatoličje hydroelectric power plant and in block 5 of the Šoštanj thermal power plant.

Table: **Indices of growth in production volumes and value added in manufacturing and emission-intensive industries**

	2000	2001	2002	2003	2004	2005	2006	2007
Manufacturing, real value added growth, indices	108.9	104.2	105.0	105.3	103.7	103.6	108.5	108.3
Manufacturing, real growth of production volume, indices	107.0	102.8	102.0	101.6	104.7	103.7	106.5	108.4
Emission-intensive industries, real growth of production volumes, indices	108.2	105.4	104.8	107.6	105.0	104.2	112.1	114.4
Pulp, paper, and paper products	104.7	99.0	108.1	94.0	102.7	102.9	99.8	99.8
Chemicals. chemical products, man-made fibres	110.4	108.1	105.9	111.8	115.3	107.6	113.0	121.6
Other non-metal mineral products	96.4	100.1	100.8	100.7	83.2	93.1	106.2	105.3
Manufacture of metals	111.9	104.5	102.9	106.8	92.2	103.1	119.6	107.0
Manufacturing (excluding emission-intensive ind.), real growth of prod. volume, indices	106.7	102.2	101.3	100.2	104.6	103.6	105.2	107.0

Source: SI-stat data portal – National accounts and Mining and manufacturing (SORS), 2008; calculations by IMAD.
Note: Through 2004, industrial production indices were calculated from quantity data, from 2005 on from value data.

Share of road transport in total goods transport

The share of road freight transport, which is growing faster in Slovenia than in the EU, continued to increase in 2007. While in 2000 the share of road freight transport[344] in total goods transport (roads, railway and inland waterways) in Slovenia was still 2 p.p. lower than in the EU, it increased faster than in the EU in the following years. In 2005, the share of road goods transport thus already exceeded the EU average; in 2006 it climbed to 78.2%, while in 2007 it increased by a further percentage point to 79.2%.[345] Major increases in the shares of road goods transport, which even surpassed the figure registered in Slovenia, were recorded in most Eastern European countries in the period 1995–2006. In other EU countries the increases were more moderate; in three countries the shares of road goods transport even decreased.

In Slovenia the strong rise in transport is a result of the country's geographic location and the openness of its economy; in recent years, the rise has been further boosted by extensive international trade in goods. The volume of road goods transport per capita is among the highest in the EU, ranking second only to Luxembourg. Per capita, 6,030 tkm were logged in road goods transport in Slovenia in 2006, which is 58.9% more than the EU average.[346] This again is a result of the country's favourable location at the crossing of Trans-European corridors V and X, where transport increased significantly upon the last two enlargements of the EU. In addition, several administrative obstacles for Slovenia's transporters with regard to transport in EU countries were removed after Slovenia's entry into the EU (above all, the need for acquisition of a limited number of permits). Slovenia also negotiated the right to cabotage in the countries of the EU-15, which other countries that entered the EU together with Slovenia will only be allowed after the expiry of a five-year transition period. Since Slovenia is a small Central European country, the share of international goods transport is expectedly high and the share of national goods traffic low. Also in the last year, the rapid growth of both road goods transport and the transport of goods by rail were further boosted by high economic growth at home and abroad, particularly in Eastern Europe.

In the last three years, the growth in road goods transport in Slovenia exceeded economic growth as well as the growth in railway goods transport at a much greater rate than in the EU. The growth in goods transport in Slovenia was four times higher than economic growth: in the period 2003–2006 average annual GDP growth was 4.8%, and growth in road goods transport accounted for 19.8%, while railway transport rose by 0.9% per year.[347] In the EU the disparity between GDP growth and growth in road goods transport was two times smaller. Another important difference is that in the EU road goods transport and transport of goods by rail saw much more balanced growth, with 4.5% and 3.7% per year, respectively.

[344] The data on road goods transport refer solely to road freight vehicles registered in Slovenia.
[345] SI-STAT, Transport (SORS), 2008; calculations by IMAD.
[346] Population and Social Conditions in Transport (Eurostat), 2007; calculations by IMAD.
[347] Economy and Finance in Transport (Eurostat), 2007; calculations by IMAD.

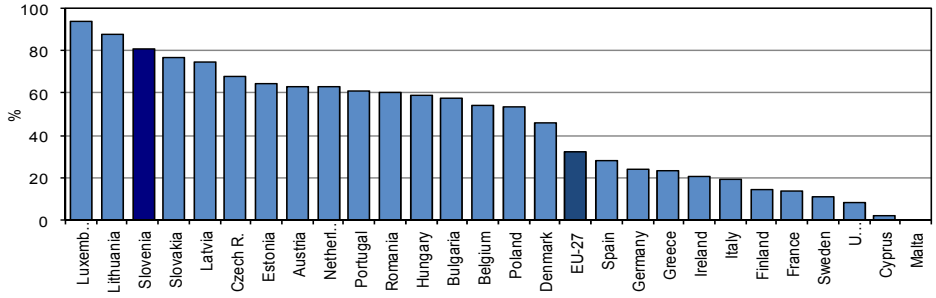
From the viewpoint of sustainable development, transport of goods by rail and transport of goods by waterways are more acceptable than transport by lorry; it would therefore be sensible to encourage rail and waterway transport in order to stop the upward trend in road freight transport. This is a challenge for Slovenia, as well as for the EU as a whole. In Slovenia the observed indicator could be improved by further increasing transshipment through the Port of Koper, by transforming Slovenia's railway operator into a modern transport company and by modernising railway infrastructure, which will be a priority in the coming decade. Furthermore, it would also be sensible to include external transport costs in transport prices to the greatest possible extent.

Table: **Share of road transport in total goods transport (tkm), %**

	1995	2000	2001	2002	2003	2004	2005	2006
EU	**N/A**	**73.9**	**74.9**	**75.6**	**75.8**	**76.1**	**76.5**	**76.7**
Austria	63.5	64.8	65.9	65.8	67.4	65.6	64.4	63.2
Belgium	77.4	77.4	78.3	77.5	76.5	74.9	72.4	71.2
Bulgaria	N/A	52.3	60.2	62.9	61.7	66.9	70.8	69.0
Cyprus	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Czech Republic	57.5	68.0	69.7	73.3	74.5	75.2	74.5	76.1
Denmark	91.8	92.1	91.8	92.1	92.0	91.4	92.2	91.8
Estonia	28.7	37.3	31.2	30.3	29.1	32.7	35.4	34.7
Finland	72.3	75.8	75.4	76.6	75.3	76.0	76.5	72.7
France	76.5	76.0	77.9	77.8	78.8	79.9	80.5	80.9
Greece	97.7	N/A	N/A	N/A	97.7	N/A	97.4	98.1
Irland	90.1	96.2	96.0	97.1	97.5	97.7	98.3	98.8
Italy	88.2	89.0	89.4	90.4	89.5	89.5	90.3	90.1
Latvia	15.8	26.5	27.4	29.2	27.5	28.4	29.8	39.0
Lithuania	41.6	46.6	51.7	52.3	50.0	51.3	56.1	58.4
Luxembourg	85.9	87.8	89.6	91.5	92.0	90.9	92.5	91.5
Hungary	58.3	68.1	67.3	65.5	65.6	65.9	69.2	71.6
Malta	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Germany	63.9	66.1	67.2	67.0	67.8	66.9	66.0	65.9
Netherland	63.6	63.4	63.0	63.3	64.6	65.0	65.8	63.6
Poland	42.6	56.9	61.1	62.2	63.0	66.1	69.0	70.4
Portugal	90.3	92.5	93.3	93.1	93.0	94.7	94.7	94.9
Romania	42.0	42.9	49.6	57.3	62.4	63.7	67.3	70.5
Slovakia	63.7	53.0	53.6	58.7	62.1	65.4	70.3	68.8
Slovenia	**66.4**	**71.9**	**73.0**	**70.0**	**70.0**	**74.1**	**77.3**	**78.2**
Spain	90.3	92.8	93.2	94.1	94.3	94.9	95.2	95.4
Sweden	62.0	63.9	63.6	65.6	64.5	63.9	64.0	64.5
United Kingdom	92.3	90.0	89.3	89.7	89.8	88.1	88.0	88.1

Source: Structural indicators (Eurostat), 2008; Si-Stat (SURS), 2008. Note: N/A – not available.

Figure: **Share of international road transport in total road goods transport[1] (tkm) in 2006**



Source: Structural Indicators (Eurostat), 2007.
Note: [1] The data on road goods transport refer solely to road freight vehicles registered in Slovenia.

Agricultural intensity

The consumption of NPP fertilisers[348] per unit of utilised agricultural area, which is higher than the average of European countries, slightly increased in 2006 for the first time since 2000. In 2006, the quantity of NPP fertilisers used for agricultural production decreased by 0.1% compared to the previous year and by 21% compared to 2000. The calculation per unit of utilised agricultural area shows a nearly 4% increase relative to the previous year,[349] although the use was still lower than in the period 2000–2004. The latest comparable figures with other EU countries are available for 2002, when the consumption per unit of utilised agricultural area in Slovenia was as much as 31% higher than the EU average and 51% higher than the EU-27 average. Only agriculturally very intensive countries such as the Netherlands, Belgium and Germany had a higher consumption per unit of utilised agricultural area than Slovenia.

Sales of pesticides in Slovenia fell again in 2006. Total sales of pesticides in Slovenia, which, however, are not only used in agriculture, had varied until 2004, when they fell significantly. In 2006 sales were 7% lower than in 2005, and 16% lower than in 2004. Within the total sales of pesticides, only sales of fungicides decreased, while sales of herbicides and insecticides increased.[350] According to Eurostat data, consumption per unit of utilised agricultural area in Slovenia reaches only around half of the average of the EU-15, and is slightly lower than two thirds of the average use in the EU-25.

The average number of animals per unit of utilised agricultural area is slightly higher in Slovenia than in the EU, but has been slowly increasing in recent years. The average milk yield per animal is lower, but is increasing as well. Slovenia had 0.91 livestock units (LSU) per hectare of utilised agricultural area in 2007, which was slightly more than in 2005, when the penultimate research of agricultural holdings was performed. According to the latest comparable data for 2005, this is slightly more than the EU-27 average (in Slovenia 0.87, in the EU 0.80), but slightly less than the EU-15 average (0.88). The reason for the relatively high number of animals per unit of utilised agricultural area in Slovenia is primarily the high share of hilly areas and grasslands, which are more favourable for livestock farming. The average milk yield is still low, even though it has been increasing for several years. In 2007, it was almost 9% higher than in the previous year, when it totalled 5.2 t/animal. This was 12% less than in the EU-27 this year and 18% less than in the EU-15.

Average production levels per unit of area sown with the two most important crops in Slovenia, wheat and maize, differ with regard to the EU average: the level of wheat production is lower, while the level of maize production is higher. A low level of production is not optimal in terms of exploiting land as the primary natural resource. On the other hand, a very high level would also not be appropriate, as it brings about higher pressure on the environment. After favourable harvests in

[348] NPP fertilisers contain the three most important plant nutrients: nitrogen, phosphorus and potassium.
[349] The extent of utilised agricultural area in 2006 decreased by 3.6%.
[350] Fungicides are chemical agents used for plant disease control; herbicides are used for weed control and insecticides for pest control.

2004 and 2005, which were followed by a poorer harvest in 2006, the average yield of wheat remained the same in 2007, while the average yield of maize was, given the favourable weather conditions, around a tenth higher than the year before. The average yield of wheat in those years was considerably lower than the EU-27 and EU-15 averages (by 6% and 20% in 2007, respectively). On the other hand, the production intensity of maize in Slovenia is above the EU-27 average (by 18% according to the latest data for 2005), although it lags behind the EU-15 average by 7%.

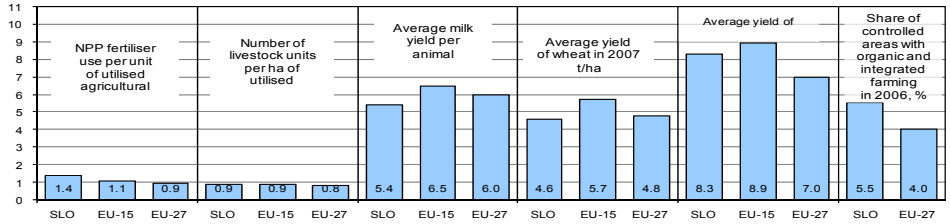
The share of agricultural areas under ecological control continued to increase in 2007, and will have to grow further in the future, given strategic objectives. Slovenian farms included in the control of organic and integrated farming cultivated more than 17% of all utilised agricultural areas in 2007. Compared to the year before, these areas again increased significantly: by almost 9% in organic farming and by 15% in integrated farming, while the share of organically farmed area in the total utilised agricultural area rose from 5.5% to 5.9%. With regard to the Action Plan for Organic Farming, 20% of utilised agricultural area should be organically controlled by 2015. In Slovenia the share of utilised agricultural area was higher than in the EU-27 on average (4%) in 2006, but significantly lower than in Austria (1.3%), which has the highest share in the EU and natural conditions for agricultural production, similar to Slovenia.

Table: **Agricultural intensity indicators for Slovenia, 1995–2007**

	unit	1995	2000	2001	2002	2003	2004	2005	2006	2007
NPP fertiliser use										
Use per unit of utilised agricultural area	kg/ha	131.3	146.6	141.8	138.0	137.0	129.4	115.3	119.6	N/A
Pesticide sales										
Pesticide sales - total, active substance	000 t	N/A	1.5	1.4	1.5	1.4	1.5	1.4	1.3	N/A
Production intensity										
Number of livestock units[1] per hectare of utilised agricultural area	no./ha	N/A	0.9	N/A	N/A	0.9	N/A	0.9	N/A	0.9
Average milk yield per animal	t/cow		4.5	4.5	5.2	4.6	4.8	4.8	5.2	5.6
Average yield of wheat	t/ha	4.2	4.2	4.6	4.9	3.5	4.5	4.7	4.2	4.2
Average yield of maize	t/ha	6.3	5.9	5.4	8.2	5.1	7.8	8.3	6.9	7.5
Inclusion in the control of environmental measures										
Controlled areas with organic farming	000 ha	N/A	5.4	10.8	13.8	20.0	23.0	23.6	26.8	29.2
Controlled organic farms	no. in 000	N/A	0.6	1.0	1.2	1.4	1.6	1.7	1.9	2.0
Controlled areas with integrated farming	000 ha	N/A	N/A	N/A	10.1	12.0	42.5	44.6	49.6	56.9
Controlled integrated farms	no. in 000	N/A	N/A	N/A	2.1	2.9	4.6	5.5	5.8	6.1

Source: SORS, MAFF, calculations by IMAD. Note: [1] A livestock unit (LSU) is the calculation of the number of animals by their average weigth (1 LSU = 500 kg); N/A – not available.

Figure: **Some agricultural intensity indicators for Slovenia and the EU[1]**



Source: SI-STAT data portal – Environment and Natural Resources – Agriculture and Fisheries (SORS), 2007; Agriculture and Fisheries – Agriculture (Eurostat), 2007; Long-term Indicators – Agriculture, Forestry and Fisheries – Agriculture (Eurostat), 2007; Archives – Fertilizer and Pesticides (Faostat), 2007; European Organic Farming Statistics – FiBL Survey: Farms, Hectares (Institute of Rural Sciences), 2007. Note: most recent year with available data.

Intensity of tree felling

Forest area, which covers over half of Slovenia's territory, is still expanding, even though this is not planned. Remote areas less suitable for agricultural production are overgrowing faster than forests are shrinking in suburban and intensive agriculture areas. At the end of 2006,[351] forest area totalled 1,174,000 hectares, which was 0.4 % more than the year before, 7% more than in 1995 and 3% more than projected in the forestry plans for 2001–2010 (Forest Programme of Slovenia, 1999).

The growing forest area is accompanied by a higher wood increment and growing stock, while tree-felling intensity[352] changes over the years; in 2006 it was again the highest in the past 15 years. In 2006, wood increment rose by 1% and growing stock by 2%. Removal, which amounted to 3.7 million m^3 (60% conifers and 40% non-conifers), was up 14% compared to the year before and 78% compared to 1995.[353] The removal for restoration and sanitation increased the most. Following a period of decrease, the former, which is indispensable for the development of forests and therefore more wide-ranging, increased for the second year in a row, and amounted to 61.5% of total removal (in 1995 its share was 28.6 p.p. higher). The latter is rapidly increasing each year due to increased attacks by insects and amounted to 32.9% of the total share (5.9 p.p. more than in 1995). With removal exceeding the growing stock, tree-felling intensity increased from 42.8% to 48.6%. Even though this is one of the highest results in recent years, it could still be improved significantly, as tree fellings represented only 82% of the possible tree fellings according to the forestry plans (75% in 2005). Last year, the maximum possible removal was carried out again in state-owned forests, while in privately owned forests, which cover almost three quarters of all forests in the country, this was not possible due to the fragmentation of property.[354] A simulation of forest development performed by the Slovenian Forest Service shows that, due to the growing annual increment, the quantity of wood that can be removed in the coming years will continue to increase. The allowed intensity of tree fellings could increase to approximately 90% by 2040, which is considerably more than was attained in 2006. Greater tree fellings would be sensible, as wood is one of the few renewable natural resources in Slovenia.

Total forest area in Slovenia is increasing at the same speed as the EU average, while the economic exploitation of forests is improving faster. Even though Slovenia is among those European countries that have the highest shares of forest in their total area, the total area of forests in the period 2000–2005 increased at the same speed as the EU average, which is 0.4% per year. The intensity of tree fellings is low in comparison with the intensities recorded in most other European countries

[351] According to the Report of the Slovenian Forest Service on Forests for 2007, which is still in the course of preparation, forest area and the annual wood increment increased also in 2007, while annual removal decreased. Tree-felling intensity consequently decreased in 2007.
[352] Tree-felling intensity is the ratio of annual removal levels to the annual wood increment.
[353] The increase in tree felling resulted in higher value added of forestry, by as much as 44.4% in nominal terms, according to the national accounts for forestry.
[354] On the other hand, analyses (Krajnc, Piškur, 2006) show that removal in privately owned forests is underestimated.

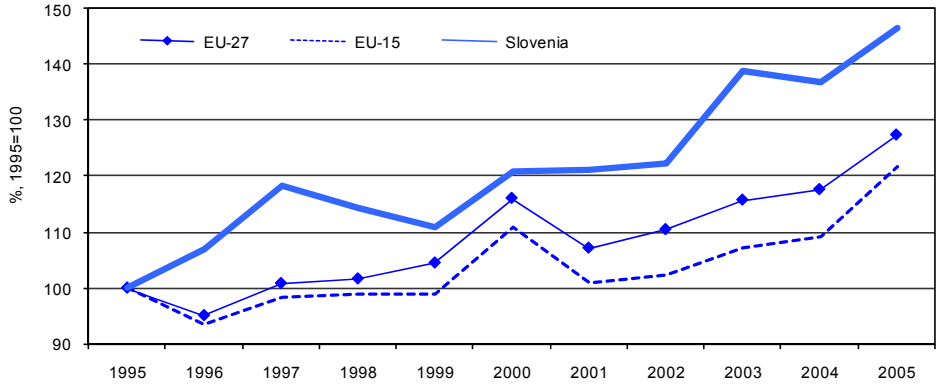
(the latest data for the EU are for the period 1995–2000; see Development Report 2002); however, improvements have been noticed with regard to the data on tree fellings. In the period 1995–2005, tree felling and the production of raw wood categories per unit of forest area, which fall slightly below the comparable average in the EU countries (see Development Report 2005), increased more than the EU average: by 27% in the EU-27, by 22% in the EU-15 and by as much as 46% in Slovenia. As regards the growth of this indicator, Slovenia was only overtaken by five EU countries in the 1995–2005 period: Estonia, Latvia, Slovakia, Poland and Sweden.

Table: **Intensity of tree fellings in Slovenia, 1995–2006**

	1995	2000	2001	2002	2003	2004	2005	2006	GGN[1] 2001-2010
Forest area, thousand hectares	1,098	1,134	1,143	1,150	1,158	1,164	1,169	1,174	1,142
Annual increment, thousand m^3	5,995	6,872	6,925	7,102	7,290	7,446	7,569	7,652	6,923
Growing stock, thousand m^3	228,493	262,795	267,912	276,574	285,735	293,532	300,795	307,689	266,704
Annual removal, thousand m^3	2,092	2,609	2,614	2,646	3,007	2,958	3,253	3,718	4,101
restoration	1,325	1,849	1,920	1,885	1,866	1,734	1,873	2,288	N/A
protection and sanitation	12	19	19	18	17	10	17	18	N/A
for infrastructure	589	553	505	566	976	1.055	1.212	1.224	N/A
clearing	15	40	48	45	45	43	48	50	N/A
no approval	35	53	52	66	47	71	65	86	N/A
other	113	91	68	63	54	42	35	49	N/A
restoration	2	3	3	4	3	2	2	1	N/A
Intensity of tree fellings[2], %	34.9	38.0	37.7	37.3	41.2	39.7	42.8	48.6	59.2

Source: Statistical Yearbook of the Republic of Slovenia 2005 (SORS), 2006; Report of the Slovenian Forest Service on forests in 2005, 2006.
Notes: [1] Forestry plans for 2001–2010; [2] The ratio of annual removal levels to the annual wood increment; N/A – not available.

Figure: **Increase in tree fellings in 1995–2005, in Slovenia, EU-27 and EU-15**



Source: Long-term Indicators – Agriculture, Forestry and Fisheries – Forestry (Eurostat), 2007.

Municipal waste

Sustainable development in the field of waste management primarily involves the reduction of waste generation, as waste creates pressure on the environment. However, it also represents a potential material and energy source. Therefore, the priority in waste management is the reuse of waste (recycling), followed by waste recovery (energy production by waste incineration), and only then by waste removal (landfills, incineration). Separate collection of waste is, therefore, a prerequisite for efficient waste management, as this is the only way to use waste for further procedures or recovery with regard to its usability.

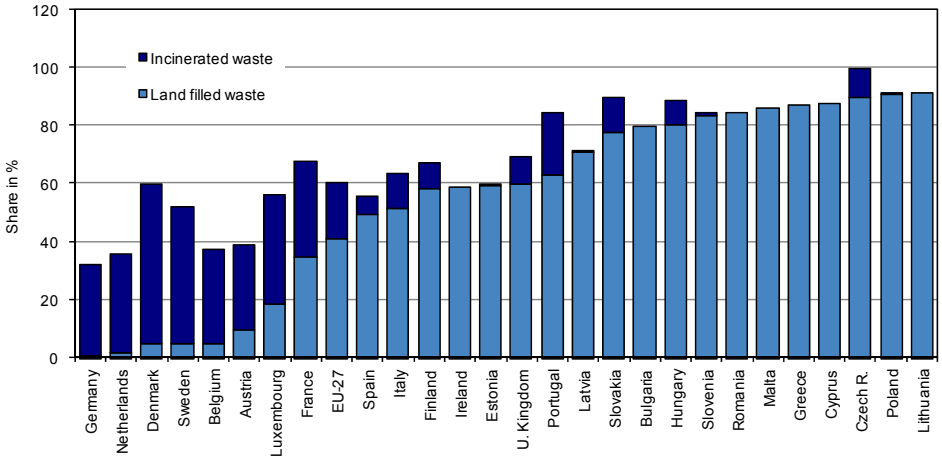
In Slovenia, the amount of separately collected waste is slowly increasing (latest available data for 2006). An average of 432 kg of municipal waste per person was generated in 2006. The quantity of this waste increased by 2.5%; against the background of high economic growth, the growth of waste generation lagged further behind (by 3.2 p.p.) GDP growth than in 2005. According to SORS data, the structure of waste shows a gradual increase in the share of collected packaging waste and other separately collected fractions, which in 2006 rose primarily due to the increase in collected packaging waste. The share of packaging waste in the total quantity of waste collected by public removal services increased from 3% in 2005 to 4%, primarily due to the doubling of the quantity of paper and cardboard packaging; the quantity of plastic and glass packaging waste also increased considerably. The quantity of other separately collected fractions increased as well, from 5.8% to 6.7% of total municipal waste collected by public removal services, primarily on account of the doubling of the quantity of organic kitchen waste. The gradually increasing total share of separately collected elements thus reached a value of 13.4% (compared to 11.7% in 2005).

In the last two years for which data have been available (2005–2006), unfavourable trends were observed in the field of waste treatment, where the share of municipal waste in landfills increased. Although separately collected fractions such as packaging waste and municipal waste consisting of wood and metal underwent practically full recovery and were handed over to a company for packaging waste treatment or other collectors, more than a third of organic kitchen waste was still landfilled. In 2006, the share of reused municipal waste collected by public removal services remained at 14.6%; the share of landfilled municipal waste, however, increased again. The share of landfilled municipal waste in total generated municipal waste, which has been slowly decreasing in recent years (in 2002 a new methodology of waste collection was introduced which resulted in a turn in the data series), increased again in 2005 and 2006. The quantity of landfilled waste was 362 kg per person in 2006, while the share of landfilled municipal waste again exceeded 80% and reached 83.3%. This is extremely unfavourable, as landfilled waste creates pressure on the environment and represents an inefficient use of both material and space. In the EU-15 the share of landfilled waste has been falling for a number of years; from 1995 to 2006 it dropped from 57.8% to 34.3%. These countries also achieve a low share of landfilled municipal waste through incineration. An average of 21.5% of generated municipal waste is incinerated in the EU-15.

Waste management is a major challenge for environmental policy, which should be primarily focused on increasing the quantity of separately collected fractions,

which is a prerequisite for further waste management oriented towards sustainable development. Given that biodegradable waste is estimated to make up around 40% and packaging around 15% of municipal waste, the quantities of these fractions according to SORS data show that only a quarter of packaging waste and only 15% of biodegradable waste were collected separately in 2006 and that nearly a fifth of biological waste was later landfilled again. Programmes for this field are ambitious, but the actual situation lags behind the goals, particularly as regards the reduction in landfilling biological waste.

Figure: **Percentage of incinerated (energy-producing) and landfilled municipal waste, 2006, in %**



Source: Environment – Long-term Indicators – Waste (Eurostat), 2007; calculations by IMAD.

Old age dependency ratio

The ageing of the population in Slovenia is continuing, accompanied by a rising old age dependency ratio.[355] The old age dependency ratio increased in 2007 by a further 0.4 of an index point, while the total age dependency ratio increased for the third consecutive year. In 2007, there were 22.9 persons aged 65 and over (2.9 more than in 2000 and 5.1 more than in 1995) and 19.9 children aged 0–14 (2.9 less than in 2000 and 6.7 less than in 1995) per 100 working age persons. The total age dependency ratio was 42.7 (0.3 more than in the previous year and 1.6 less than in 1995).

The total age dependency ratio is increasing due to the decrease in the share of working age population in the total population. The share of young people in the total population is diminishing more slowly than the share of the elderly population is increasing. The share of working age population increased until 2003 (from 69.2% in 1995 to 70.4%). Despite high positive net migration,[356] which resulted in an increase in this population group, the share of working age population began to decrease in 2005 and fell to 70.1% in 2007. The percentage of children decreased in the last twelve years from 18.4% in 1995 to 13.9% in 2007, while the percentage of elderly population increased from 12.3% in 1995 to 16.0% in 2007. In 2003, the number of people aged 65 or over exceeded the number of children for the first time. The ageing index, which is the ratio between these two population groups, exceeded 100. By 2007, it had risen to 115.1.

The old age dependency ratio in Slovenia continues to be lower than the EU average. In most EU Member States, life expectancy is longer than in Slovenia,[357] and the ratio of old people to the total population is consequently also higher than in Slovenia. However, all countries face similar problems regarding the decline in births and the fall in the share of children and working age population,[358] despite high positive net migration. The average old age dependency ratio in the EU is consequently higher than in Slovenia: in 2006 it was 25.0 in the EU-27, which is 2.5 more than in Slovenia. The highest old age dependency ratios were recorded in Italy (30.0), Germany and Greece, which also have the highest percentages of old people.

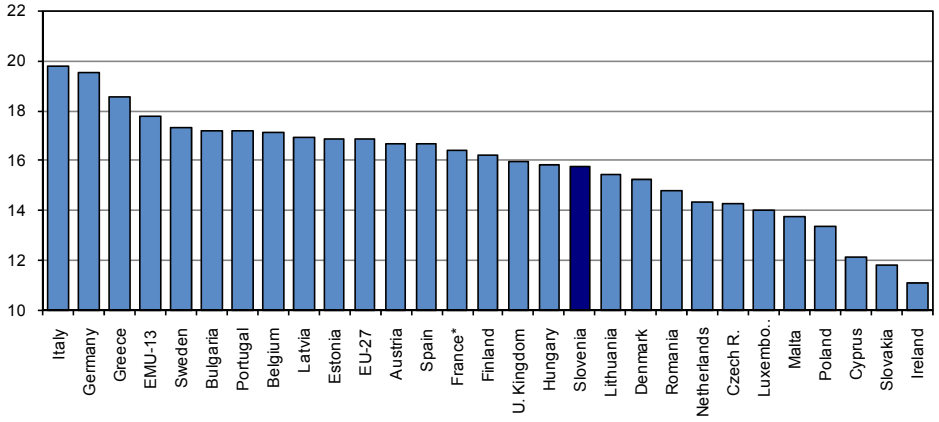
[355] The age dependency of the population is measured with three age dependency ratios: a) old age dependency ratio, which is the ratio of the population aged 65 or over to the working age population (which has an internationally comparable definition as the population aged 15–64); b) young age dependency ratio, which is the ratio of the population aged 0–14 to the working age population; and c) the total age dependency ratio, which is the ratio of both the old and young population to the working age population.
[356] See the indicator *Migration Coefficient*.
[357] See the indicator *Life Expectancy and Infant Mortality*.
[358] See the indicator *Migration Coefficient*.

Table: **Old age dependency ratio, %**

	1995	2000	2001	2002	2003	2004	2005	2006
EU-27	**22.1**	**23.4**	**23.7**	**23.9**	**24.2**	**24.5**	**24.8**	**25.0**
EMU13	22.8	24.5	24.8	25.2	25.5	25.9	26.3	26.7
Austria	22.6	22.8	22.8	22.8	22.8	23.2	23.9	24.7
Belgium	24.0	25.6	25.8	25.9	26.0	26.2	26.2	26.1
Bulgaria	22.4	23.9	24.4	24.9	24.9	24.9	24.9	24.9
Cyprus	17.2	17.0	17.2	17.5	17.5	17.4	17.3	17.5
Czech Republic	19.4	19.8	19.8	19.7	19.7	19.7	19.9	20.1
Denmark	22.6	22.2	22.2	22.3	22.4	22.6	22.8	23.1
Estonia	20.6	22.5	22.8	23.2	23.7	24.1	24.4	24.8
Finland	21.3	22.3	22.5	22.8	23.1	23.6	23.9	24.4
France	23.2	24.7	24.8	25.0	25.0	25.1	25.2	25.2
Greece	22.4	24.4	25.0	25.6	26.1	26.6	27.2	27.6
Irland	17.7	16.7	16.6	16.4	16.4	16.4	16.3	16.2
Italy	24.3	27.1	27.6	28.2	28.7	29.1	29.6	30.0
Latvia	20.7	22.3	22.7	23.1	23.5	23.9	24.2	24.6
Lithuania	18.7	21.0	21.5	21.8	22.2	22.3	22.4	22.6
Luxembourg	20.7	21.0	20.7	20.8	20.8	20.8	20.8	20.8
Hungary	21.0	22.1	22.2	22.4	22.5	22.7	22.8	23.1
Malta	16.6	18.0	18.3	18.6	18.9	19.1	19.5	19.8
Germany	22.7	24.2	24.9	25.6	26.3	27.3	28.4	29.4
Netherland	19.4	20.0	20.1	20.2	20.4	20.6	21.0	21.3
Poland	16.8	17.8	18.1	18.3	18.5	18.7	18.8	18.9
Portugal	22.1	23.9	24.3	24.6	24.8	25.1	25.3	25.5
Romania	17.8	19.5	20.0	20.5	20.8	21.0	21.2	21.3
Slovakia	16.3	16.5	16.4	16.3	16.3	16.3	16.3	16.4
Slovenia	**17.7**	**20.0**	**20.4**	**20.8**	**21.2**	**21.6**	**22.0**	**22.5**
Spain	22.5	24.6	24.7	24.7	24.6	24.5	24.4	24.2
Sweden	27.4	26.8	26.7	26.5	26.4	26.4	26.4	26.4
United Kingdom	24.5	24.3	24.3	24.3	24.3	24.3	24.2	24.1

Source: Population and Social Conditions – Demography (Eurostat), 2008; calculations by IMAD.

Figure: **Percentage of the population aged 65 and over in the EU Member States, 2006**



Source: Population and Social Conditions – Demography (Eurostat), 2008, calculations by IMAD.

Fertility rate

The fertility rate in Slovenia increased slightly in 2006, although it is still relatively low. In 2006, the total fertility rate, which is the ratio between the number of live births and the number of women of childbearing age in a calendar year, was 1.31 in Slovenia. The value of this ratio has been slowly increasing again since 2004, after falling to 1.20 in 2003, which is the lowest level ever. Except for 2000, the ratio has been constantly falling since 1980, when it was 2.11 and last exceeded the population replacement level. Nevertheless, Slovenia remains one of the countries with the lowest fertility rates in Europe. Among EU members in 2006, only Slovakia and Poland had lower total fertility rates than Slovenia, while the Czech Republic, Germany and Lithuania had similar rates. After having achieved the lowest levels in the second half of 1990s, fertility rates have been rising in most EU Member States for several years, even though they are below the population replacement level in all of them.

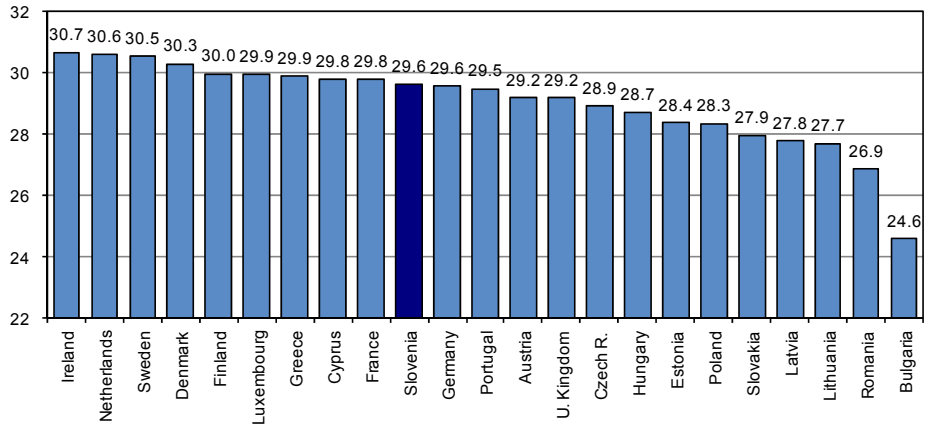
The fall in fertility rates of women aged up to 26 and the rise in fertility rates of women aged over 27 is continuing; consequently, the average age of women at the birth of their first child continues to rise as well. Fertility rates of women aged up to 26 have been falling for more than 25 years. In recent years the drop in the age group 15–19 has stopped, while in the age group 20–26 it has slowed down. Fertility rates of women aged 27 or more have been on an upward trend since 1990. Thus, the average age of women at childbirth and the average age of women at the birth of their first child continue to rise. By 2006, the former rose to 29.7 years, which is 1.5 years more than in 2000 and 2.5 years more than in 1995. The average age of women at the birth of their first child has risen to 28, which is 1.5 years more than in 2000 and 3.1 years more than in 1995. With these figures, Slovenia is nearing the level of countries with a high average age of women at childbirth.

Table: **Fertility rates in Slovenia and in the EU member states, 1995–2006**

	1995	2000	2001	2002	2003	2004	2005	2006
Austria	1.42	1.36	1.33	1.39	1.38	1.42	1.41	1.4
Belgium	1.56	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bulgaria	1.23	1.26	1.20	1.21	1.23	1.29	1.31	1.37
Cyprus	2.03	1.64	1.57	1.49	1.5	1.49	1.42	1.47
Czech Rep.	1.28	1.14	1.14	1.17	1.18	1.22	1.28	1.33
Denmark	1.8	1.78	1.76	1.72	1.76	1.78	1.8	1.83
Estonia	1.38	1.39	1.34	1.37	1.37	1.47	1.5	1.55
Finland	1.81	1.73	1.73	1.72	1.77	1.8	1.8	1.84
France	1.71	1.87	1.88	1.86	1.87	1.9	1.92	1.98
Greece	1.31	1.26	1.25	1.27	1.28	1.3	1.33	1.39
Irland	1.84	1.88	1.93	1.96	1.95	1.93	1.86	1.90
Italy	1.19	1.26	1.25	1.27	1.29	N/A	1.32	N/A
Latvia	1.27	1.24	1.21	1.23	1.29	1.24	1.31	1.35
Lithuania	1.55	1.39	1.30	1.24	1.26	1.26	1.27	1.31
Luxembourg	1.7	1.76	1.65	1.63	1.62	1.66	1.66	1.65
Hungary	1.57	1.32	1.31	1.3	1.27	1.28	1.31	1.34
Germany	1.25	1.38	1.35	1.34	1.34	1.36	1.34	1.32
Netherland	1.53	1.72	1.71	1.73	1.75	1.73	1.71	1.7
Poland	1.62	1.35	1.32	1.25	1.22	1.23	1.24	1.27
Portugal	1.41	1.55	1.45	1.47	1.44	1.4	1.4	1.35
Romania	1.41	1.39	1.31	1.26	1.27	1.29	1.32	1.31
Slovakia	1.52	1.29	1.2	1.18	1.2	1.24	1.25	1.24
Slovenia	**1.29**	**1.26**	**1.21**	**1.21**	**1.2**	**1.25**	**1.26**	**1.31**
Spain	1.17	1.23	1.24	1.26	1.31	1.33	1.35	1.38
Sweden	1.73	1.54	1.57	1.65	1.71	1.75	1.77	1.85
U. Kingdom	1.71	1.64	1.63	1.64	1.71	1.77	1.78	1.84

Source: Population and Social Conditions – Population (Eurostat) (2008); Rapid Reports - Population (SORS), 2007.
Note: N/A – not available.

Figure: **Average age of women at childbirth in selected EU Member States, 2006**



Source: Population and Social Conditions – Population (Eurostat), 2008.

Migration ratio

Slovenia's migration ratio, which was high in 2006 and 2007, increased significantly in 2007. According to Eurostat data, this figure was 7.0 per 1,000 inhabitants. The available SORS data also indicate such an increase, which is due to growing demand for foreign workers, as the number of work permits for aliens increased by an average of 24.7% in 2007.[359] In 2006, the number of immigrants increased to 20,016, which is 5,000 more than in the previous year. The number of immigrants averaged around 5,500 per year in the period 1993–2000 and has been rising continuously since 1999. Since seasonal employees are also included in the statistics of international migrations in Slovenia, the number of emigrants from Slovenia has risen since 2000 as well. In 2006 the number of emigrants totalled 13,749, compared to less than 3,400 per year in the period 1993–2000. The net migration in 2006 was thus 6,267 persons, or 3.12[360] per 1,000 inhabitants, which is approximately the same level as in the previous year and almost three times the average from the period 1993–2004, when it totalled around 2,000 persons per year, or 1.2 per 1,000 inhabitants. Through 2006, the migration ratio was nevertheless lower than the EU average, while in 2007 it was higher for the first time (see table).

Most immigrants come from other countries of the former Yugoslavia, and their education structure is poor. Foreign nationals predominate over citizens of the Republic of Slovenia both among immigrants and emigrants, and men predominate over women. As regards age, most immigrants and emigrants are 20 to 29 years old. Around 82% of male immigrants and 68% of female immigrants are 20 to 59 years old. The majority of immigrants come from Bosnia and Herzegovina. Immigrants from other EU Member States are few (1,339 in 2006). Persons with a lower level of education prevail among aliens working in Slovenia, although their percentage, which stood at around 60% in 2006, is decreasing in favour of those with a secondary education. Only around 5% of aliens who have employment in Slovenia or work there on the basis of work permits have a post-secondary vocational or university education.

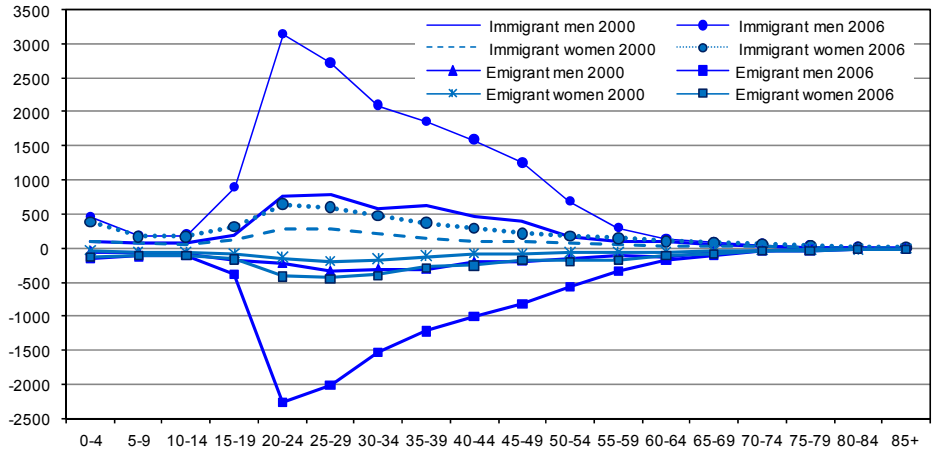
[359] See also the indicator *Employment Rate.*
[360] Calculated from the SORS data.

Table: **Net migration (with statistical corrections), per 1,000 inhabitants in EU member states, 1995–2007**

	1995	2000	2001	2002	2003	2004	2005	2006	2007
EU-27	**1.40**	**1.50**	**1.24**	**3.81**	**4.17**	**3.83**	**3.35**	**3.17**	**4.11**
EMU-13	**2.05**	**3.16**	**3.99**	**5.32**	**5.75**	**5.06**	**4.37**	**4.18**	**4.92**
Austria	0.26	2.16	5.41	4.30	4.71	7.55	6.85	3.55	3.77
Belgium	0.18	1.40	3.46	3.92	3.42	3.43	4.87	5.06	5.87
Bulgaria	0.00	0.00	-26.71	0.11	0.00	0.00	0.00	0.00	-0.18
Cyprus	9.22	5.71	6.63	9.69	17.08	21.26	19.03	11.16	16.25
Czech Republic	0.97	0.64	-4.21	1.20	2.53	1.82	3.54	3.38	8.12
Denmark	5.48	1.89	2.24	1.79	1.30	0.92	1.24	1.34	4.23
Estonia	-10.83	0.16	0.12	0.12	0.10	0.10	0.10	0.12	0.12
Finland	0.84	0.47	1.19	1.01	1.11	1.29	1.75	2.01	2.62
France	-0.25	2.64	2.87	3.02	3.08	1.73	1.55	1.55	1.13
Greece	7.27	2.69	3.45	3.46	3.21	3.74	3.60	3.66	3.66
Irland	1.64	8.36	10.15	8.31	7.85	11.71	15.93	15.67	14.75
Italy	0.50	0.87	0.88	6.03	10.62	9.57	5.53	6.40	8.33
Latvia	-5.52	-2.32	-2.19	-0.78	-0.36	-0.47	-0.25	-1.07	-0.28
Lithuania	-6.52	-5.80	-0.74	-0.57	-1.83	-2.80	-2.57	-1.43	-1.55
Luxembourg	10.59	7.86	7.50	5.94	11.98	9.60	-7.56	31.93	12.50
Hungary	1.73	1.63	0.95	0.35	1.54	1.80	1.71	2.12	1.40
Malta	0.16	25.31	5.53	4.40	4.18	4.79	2.36	6.88	4.92
Germany	4.88	2.04	3.34	2.65	1.72	0.99	0.99	0.33	0.58
Netherland	0.97	3.58	3.49	1.71	0.44	-0.61	-1.40	-1.59	-0.10
Poland	-0.47	-10.66	-0.44	-0.47	-0.36	-0.25	-0.34	-0.95	-0.54
Portugal	2.18	4.60	6.32	6.75	6.08	4.50	3.64	2.47	1.84
Romania	-0.94	-0.17	-25.20	-0.07	-0.34	-0.47	-0.33	-0.30	0.04
Slovakia	0.53	-4.14	0.19	0.17	0.26	0.53	0.63	0.72	1.26
Slovenia	**0.39**	**1.38**	**2.49**	**1.11**	**1.77**	**0.86**	**3.22**	**3.08**	**7.00**
Spain	1.79	9.68	10.84	15.72	14.87	14.29	14.78	13.86	15.64
Sweden	1.32	2.75	3.22	3.46	3.20	2.82	2.96	5.59	5.90
United Kingdom	1.12	2.44	2.55	2.66	2.98	3.79	3.21	N/A	N/A

Source: Population and Social Conditions – Demography (Eurostat), 2008.
Note: N/A – not available.

Figure: **International migration by age and sex, Slovenia, 2000 and 2006**



Source: Population Statistics (SORS), 2007; calculations by IMAD.

Regional variation in GDP

According to the latest available data on gross domestic product by region, regional disparities in development continued to increase in 2005. The Osrednjeslovenska region achieved the highest level of development, with its GDP per capita 2.2 times higher than that of Pomurska, which was the least developed region. In the period 2000–2005, the ratio increased from 1.9:1 to 2.2:1, which still ranks Slovenia among the countries with moderate regional differences (Regions, 2006). An even better indicator of regional differences than the comparison of extreme values is the coefficient of variation,[361] where all other regions are taken into account. Since 2000 this coefficient has been rising gradually and stood at 23.1% in 2005, an increase of 4.3 p.p. compared with 2000. A slight fall was recorded in 2004; in the following year, however, it again rose to the 2003 level. If the Osrednjeslovenska region with the highest GDP per capita is excluded from the analysis, the coefficient of variation in 2005 is 13.2%. This points to lesser regional differences among the remaining regions, which, however, increased slightly more in the past year. The difference between the value of the coefficient of variation with the Osrednjeslovenska region included and the value with that region excluded show that economic activities are concentrated in the capital city and its surroundings; the same trend is apparent in most EU countries.

The ranking of regions per level of development measured by GDP per capita remained unchanged in 2005. The Osrednjeslovenska region achieved the highest level of development and Pomurska the lowest; the differences among the other regions are not very large. Only the Osrednjeslovenska and Obalno-kraška regions have an above-average GDP per capita. Osrednjeslovenska is also the only region in Slovenia to exceed the EU average (by 25.6% in 2005). In the entire period, Pomurska had the lowest GDP per capita, having reached 66.6% of the Slovenian average, or 58% of the EU average. The differences among other regions are not large and can be divided into three groups. The first group includes Zasavska, Notranjsko-kraška, Koroška and Spodnjeposavska, with values between 70% and 81% of the Slovenian average; the second includes Podravska, Gorenjska and Savinjska, with values between 82% and 90% of the Slovenian average; and the third comprises Jugovzhodna Slovenija and Goriška, with values over 90% of the Slovenian average. Most regions that rank below Slovenia's average reduced their lag compared to the previous year, with the Koroška region achieving the best results in this respect. On the other hand, the Pomurska and Notranjsko-kraška regions increased their lag behind Slovenia's average the most. The two have throughout ranked lowest among Slovenia's regions according to this indicator. Only the Zasavska region increased its lag behind the EU average (by 3.2 p.p.).

No major changes were recorded in 2005 as regards the regional distribution of generated gross value added (see table). Osrednjeslovenska, Obalno-kraška, Savinjska and Koroška increased their shares in gross value added by 0.1 p.p. in 2005, while Gorenjska, Pomurska and Podravska reduced their shares – the latter by -0.2 p.p.

[361] The coefficient of variation is defined as the ratio of standard deviation from the average.

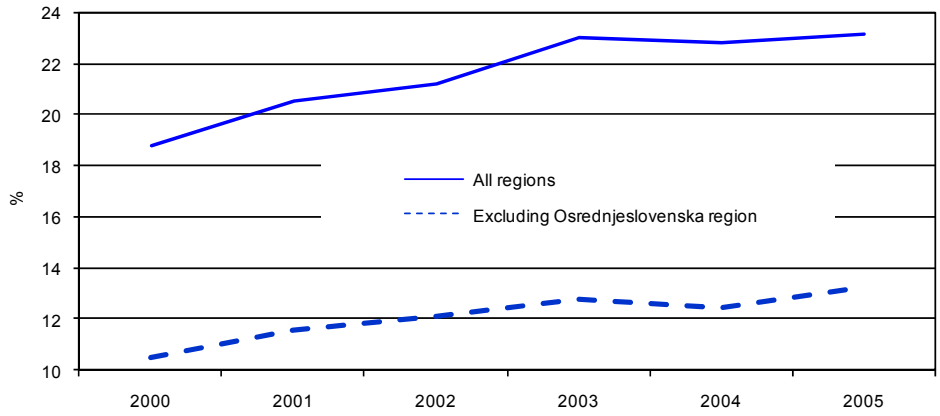
The structure of gross value added within individual regions changed slightly more in 2005 than it did in previous years. In 2005, the shares of manufacturing and the energy supply industry decreased and the share of service activities increased in all regions. The trend of the strengthening of the services sector and to a large extent also the building sector was observed in all regions except Koroška. The biggest rise in the service sector's share was recorded in Zasavska (by 6.2 p.p.), which at the same time recorded the greatest decline in manufacturing and mining and quarrying (by -5.1 p.p.). In the same period Notranjsko-kraška, Gorenjska, Jugovzhodna Slovenija and Osrednjeslovenska recorded an above-average increase in the share of the services sector. The shares in the structure of generated value added differ among regions: in 2005, almost three quarters of the Osrednjeslovenska region's GVA came from the service sector, while the figure for Obalno-kraška was even higher. Jugovzhodna Slovenija and Koroška generated the largest shares of GVA in manufacturing and mining and quarrying, Spodnjeposavska and Zasavska in the energy supply industry, Pomurska and Savinjska in the building sector, and Pomurska in agriculture.

Table: **Gross domestic product per capita, indices, Slovenia = 100**

Statistical region	2000	2001	2002	2003	2004	2005	GVA Structure 2005, %
Slovenia	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Osrednjeslovenska	137.8	140.9	141.3	144.8	144.2	144.3	35.9
Obalno-Kraška	103.8	103.9	104.5	103.9	102.6	103.5	5.4
Gorenjska	87.2	88.6	88.0	86.5	85.7	85.1	8.5
Goriška	99.2	98.1	96.4	95.0	94.7	95.6	5.7
Savinjska	90.3	88.3	89.3	88.5	88.4	88.9	11.4
Jugovzhodna Slovenija	90.5	91.1	90.3	90.1	91.1	91.5	6.4
Pomurska	71.2	69.7	68.7	68.0	68.5	66.6	4.1
Notranjsko-Kraška	78.7	78.1	78.5	76.4	76.1	74.5	1.9
Podravska	84.4	83.4	84.3	83.6	84.7	83.8	13.4
Koroška	82.7	81.5	79.7	77.3	76.5	78.1	2.9
Spodnjeposavska	84.4	84.1	83.0	78.3	78.8	80.2	2.8
Zasavska	81.8	75.4	72.7	71.3	71.3	70.6	1.6

Source: National Accounts, Regional Gross Domestic Product (SORS), 2007.
Note: GVA – gross value added.

Figure: **Coefficients of variation of regional GDP per capita, 2000–2005**



Source: National Accounts, Regional Gross Domestic Product (SORS), 2007; calculations by IMAD.

Regional variation in unemployment

The registered unemployment rate continued to fall in all regions in 2007. Measured in percentage points, it fell the most in regions with the highest unemployment rate; nevertheless, some of these regions (Pomurska, Spodnjeposavska and Podravska) actually increased the relative difference from the Slovenian average. Given that the registered unemployment rates constantly decreased in all regions from 2000 onwards, the relationships between them did not change substantially. The greatest improvement in ranking was noted for the Notranjsko-kraška region, which climbed from sixth place in 2000 to third place in 2007. In 2007, above-average registered unemployment rates were recorded for Pomurska, which exceeds Slovenia's average by 74.1%, and furthermore for Podravska (by 34.6%), Zasavska (by 25.9%), Savinjska (by 22.0%), Spodnjeposavska (by 15.9%) and Koroška (by 5.3%). Traditionally, the Goriška region has had the lowest rate, although in 2007 it was slightly overtaken by Gorenjska. Goriška attained 63.4% and Gorenjska 63.3% of Slovenia's average.

Despite the slight increase in 2007, regional differences, measured by the coefficient of variation, are moderate in comparison with those in the EU. In the region with the highest registered unemployment rate, the registered unemployment rate was higher than in the region with the lowest rate by a factor of 2.8 in 2007, which is more than in 2006 (2.5) and less than in 2000 (3.1). The coefficient of variation also increased compared to 2006, by 1.6 p.p., or to 31.6%, which is slightly more than in 2000 (31.5%). The coefficient of variation rose until 2002, when it then began to fall, and achieved its lowest level in 2006 (30%). According to the IMAD estimate, these regional differences are relatively moderate compared to other EU members.[362] In 2006, Slovenia ranked ninth among the 21 countries which have regions at the NUTS 3 level. The coefficient of variation in the EU-27 average was 50.4%; Sweden had the lowest level (14.2%) and Italy the highest (61.6%). In most countries of the EU-27, regional differences diminished compared with 2000, most notably in Sweden and Italy. On the other end are Slovakia and Romania, where regional differences increased the most in that period.

Although registered unemployment rates are falling, structural unemployment remains a problem in all regions. In 2007, a characteristic feature in all regions in comparison with 2006 was the increase in the share of unemployed people with a tertiary education and the share of older unemployed people (over 40 years of age), and a decrease in the share of young unemployed people and first-time job seekers. The share of unemployed persons with a tertiary education is the highest in the Osrednjeslovenska region, where it stands at 14%, while the greatest increases have been recorded for Notranjsko-kraška and Koroška. The number of older unemployed is the highest in Gorenjska, where over 60% of the unemployed are aged over 40, and more than 42% are aged over 50. Older unemployed are often workers who were permanently laid off, which is also reflected in an above-average share of such workers in the Gorenjska region. An increase in the share of long-term

[362] The source for comparison of EU Member States is Eurostat statistics, which for the NUTS 3 level are based on data from the Labour Force Survey or from registers. Since the latest Eurostat data for 2006 do not include Slovenia, the comparison used IMAD calculations on the basis of data from register sources where the Eurostat methodology was applied.

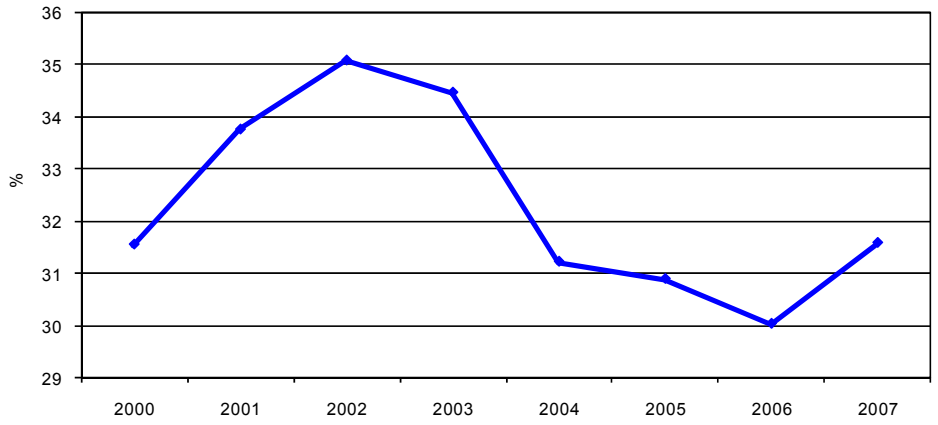
unemployed persons is discernible in most regions; it is the highest in Jugovzhodna Slovenija, the region with a below-average registered unemployment rate. Long-term unemployment is also above average in the Pomurska, Savinjska, Spodnjeposavska and Osrednjeslovenska regions. It is often connected with a low education structure of the unemployed. The highest numbers of the unemployed with a low education are recorded for Jugovzhodna Slovenija and Pomurska (over 50% of all unemployed), although the share of this profile of unemployed people is largely decreasing among regions. Young unemployed, whose share is falling in all regions, are often also first-time job seekers. Young unemployed prevail in the Zasavska region, while first-time job seekers prevail in Jugovzhodna Slovenija and Pomurska.

Table: **Registered unemployment rates by region, %**

	2000	2001	2002	2003	2004	2005	2006	2007
SLOVENIA	11.8	11.2	11.3	10.9	10.3	10.2	9.4	7.7
Osrednjeslovenska	8.8	8.0	7.7	7.5	7.5	7.6	7.2	5.9
Obalno-Kraška	8.8	8.7	8.3	8.0	7.9	7.5	7.2	6.3
Gorenjska	9.7	8.7	8.2	8.0	7.6	7.3	6.4	4.9
Goriška	5.9	5.6	6.1	6.3	6.7	6.5	6.2	4.9
Savinjska	13.1	13.1	13.6	13.1	12.5	12.7	11.6	9.4
Jugovzhodna Slovenija	10.4	9.6	9.7	8.4	8.2	8.8	8.6	7.0
Pomurska	16.7	16.3	17.7	17.6	16.8	17.1	15.7	13.4
Notranjsko-Kraška	10.4	9.4	8.8	8.6	8.1	7.9	7.0	5.4
Podravska	18.1	17.4	17.1	15.8	14.2	13.5	12.7	10.4
Koroška	9.9	9.9	11.3	12.2	11.4	10.6	10.1	8.1
Spodnjeposavska	13.4	13.9	14.1	14.6	12.7	11.5	10.5	8.9
Zasavska	14.9	14.3	14.8	15.6	14.4	13.8	12.0	9.7

Source: SORS; calculations by IMAD.

Figure: **Coefficients of variation of registered unemployment, 2000–2007**



Source: SORS, calculations by IMAD.

Issued building permits

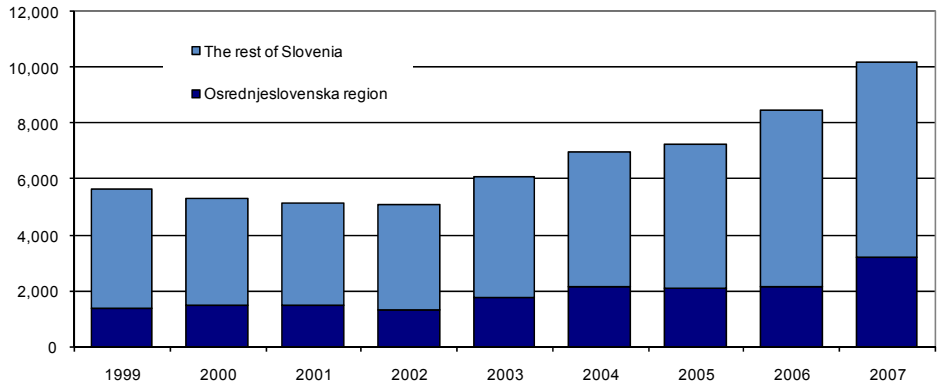
Following strong acceleration in 2006, the growth of the total floor area of buildings planned moderated in 2007. In 2006, the total floor area of buildings planned, measured by issued building permits, increased by as much as 33.4% compared to the previous year, while in 2007 it grew by a further 1.5%. The total floor area thus increased for the sixth consecutive year, exceeding the average of the period 1999–2006 by more than 45%.

The year 2007 saw an increase in the total floor area planned for residential buildings, while the total floor area planned for non-residential buildings decreased. The total floor area of residential buildings increased by 22.1%, the most since data collection began in 1999. It increased by 81.8% compared to 1999. The floor area planned for non-residential buildings diminished by 18.0%, which is not surprising given the significant increase in 2006 (by more than 50%). Otherwise, the total floor area in 2007 was greater than in previous years, exceeding the planned area in 1999 by nearly a quarter. Among non-residential buildings, the total floor area of hotels and similar buildings greatly increased in previous years, including 2007, while the floor area of non-residential agricultural and industrial buildings decreased.

The number of planned dwellings in 2007 increased primarily in buildings with three or more dwelling units. Construction of 10,204 dwellings was planned by issued building permits in 2007, an increase of 20.6% compared with the previous year. Between 2000 and 2002, the number of planned dwellings was declining (in total by 9.8%), while it rose sharply after 2002; in 2007, the number of planned dwellings was thus 112.2% greater than in 2002. In recent years, the largest increase has been seen in the number of dwellings in buildings with three or more dwelling units. Flats in buildings with three or more dwelling units represented 14.5% of all dwellings in 1999. In 2007, they already accounted for more than 50% of all dwellings planned.

More than half of the increase in the planned number of new dwellings is attributable to the Osrednjeslovenska region; in non-residential buildings, the greatest decreases were seen in regions which recorded high growth rates in the previous year. In 2007, the number of planned new dwellings in the Osrednjeslovenska region rose by 48.5%; this region thus posted a 31.3% share, the highest since data collection began. In 2007, as many as three regions (Pomurska, Koroška and Zasavska) recorded their lowest shares in the total period. In all three, the number of planned new dwellings also dropped compared to the previous year. The total floor area of planned non-residential buildings fell considerably in Jugovzhodna Slovenija (by 65.9%) and Podravska (by 50.4%), where it had risen notably in the previous year. On the other hand, a considerably greater total floor area of non-residential buildings was planned in the Koroška, Savinjska and Gorenjska regions.

Figure: **Number of dwellings planned, measured by issued building permits, 1999–2007**



Source: SI-STAT data portal – Building Permits (SORS), 2008.

Household expenditure on culture

In 2005 (latest available data), the share of household expenditure on culture[363] decreased slightly. The rise in human well-being in Slovenia is also reflected in the constantly increasing share of household expenditure on recreation and culture. In 2000, expenditure on culture represented 9.5% of total household expenditure on consumer goods, while in 2004 the share rose to 11.1%. A slight decline to 10.9% was recorded in 2005. Approximately 40% of this expenditure is spent on cultural goods and services. Having been falling since 2001, their share accounted for 4.34% of total household expenditure on consumer goods in 2005. About 60% of expenditure is intended for the printed, television and radio media. As a result of the growing supply, the share of expenditure on television and radio has grown considerably in the last three years. In 2005, the slight trend of growing expenditure on cinema, theatre and concert tickets continued: from 3.4% in 2000 to 3.6% of household expenditure. On the other hand, data on the purchase of books, and picture and sound recording media (records, cassettes, videocassettes, DVDs, CDs, CD-ROMs, filmstrips, photo films, etc.) are less favourable; the share of household expenditure on buying scientific books and literature has been falling since 2002. The share of household expenditure on culture and recreation[364] in 2006 was slightly greater than the EU average.

[363] Based on the SORS Household Budget Survey. The methodology is harmonised with the Eurostat methodology (Cultural Statistics, Eurostat Pocketbooks, 2007*)* and includes two further columns: Data Processing Equipment and Writing and Drawing Tools (see figure).

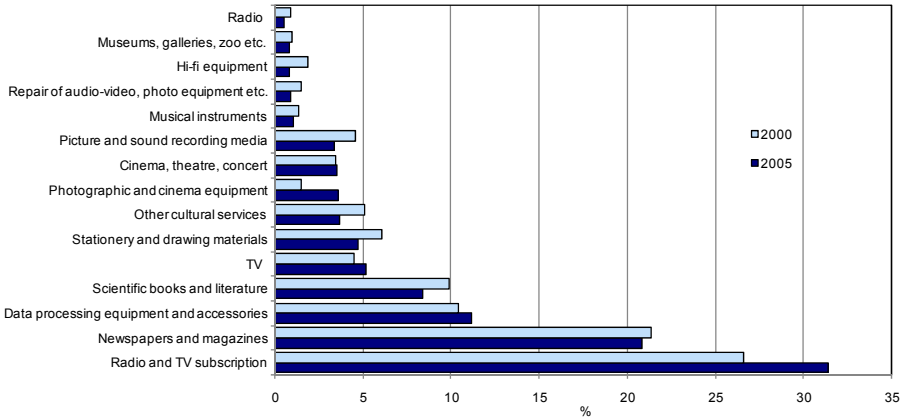
[364] Data on household consumption from Eurostat national calculations are used for comparison with other countries, which, however, are available only at the aggregate level and do not provide as good a basis for detailed analysis of **t**he structure of expenditure on culture **a**s the SORS survey, which is used to analyse development in Slovenia.

Table: **Recreation and culture, percentage of total household expenditure, %**

	1995	2000	2001	2002	2003	2004	2005	2006
EU-27	**9.0**	**9.7**	**9.6**	**9.6**	**9.5**	**9.6**	**9.5**	**9.5**
Austria	11.2	12.2	12.1	12.1	11.9	11.7	11.6	11.6
Belgium	9.1	10.1	9.8	9.3	9.3	9.3	9.3	9.4
Bulgaria	N/A	4.8	N/A	N/A	N/A	N/A	N/A	N/A
Czech Republic	10.6	11.1	11.5	11.5	11.7	11.6	11.6	11.1
Denmark	10.2	11.0	10.9	10.8	11.3	10.6	N/A	N/A
Germany	9.3	10.1	9.9	9.7	9.5	9.5	9.4	9.3
Estonia	5.0	8.2	8.3	8.5	8.4	8.5	8.3	8.6
Irland	7.7	7.4	7.7	7.3	7.2	7.6	7.8	7.4
Greece	5.1	5.6	5.7	5.8	5.8	6.0	N/A	N/A
Spain	8.3	9.1	9.1	9.1	9.2	9.1	9.1	N/A
France	8.6	9.1	9.1	9.3	9.3	9.4	9.3	9.2
Italy	7.1	7.3	7.2	7.2	7.0	7.2	6.9	6.9
Cyprus	7.4	7.6	7.7	7.8	7.9	8.1	8.0	8.1
Latvia	3.8	6.7	7.5	7.4	7.8	8.3	7.6	N/A
Lithuania	3.0	5.7	6.7	6.5	6.6	6.7	6.4	6.7
Luxembourg	8.2	7.8	8.1	8.2	8.0	7.9	7.9	8.0
Hungary	8.0	7.4	7.5	7.5	7.6	7.7	7.9	7.9
Malta	10.3	10.4	11.0	10.6	10.4	10.7	10.7	11.0
Netherland	10.8	11.1	11.0	10.9	10.5	10.3	10.0	10.4
Poland	8.0	8.9	7.7	7.3	7.7	7.8	7.6	7.3
Portugal	5.6	6.4	6.3	6.5	6.4	6.5	N/A	N/A
Romania	N/A	5.0	4.4	4.3	4.6	5.0	N/A	N/A
Slovenia	**8.0**	**9.3**	**9.4**	**9.4**	**9.5**	**9.8**	**9.8**	**9.9**
Slovakia	7.4	8.7	9.1	8.8	8.7	8.7	8.9	8.8
Finland	10.6	11.3	11.2	11.0	11.0	11.2	11.4	11.6
Sweden	10.4	11.9	12.1	11.8	11.9	11.9	11.8	N/A
Unitd Kingdom	11.2	11.8	11.8	12.1	12.3	12.6	12.6	12.5

Source: Eurostat – National Accounts, 2007.
Note: N/A — not available.

Figure: **Household expenditure on culture by type of goods, Slovenia, 2000 and 2005**



Source: Survey on Household Expenditure on Culture (SORS), 2007, calculations by the Ministry of Culture, harmonised with Eurostat methodology, Cultural Statistics, Eurostat Pocketbooks, 2007.
Notes: Data for 1999–2001 are calculated using 2000 as the reference year. Data for 2004–2005 are calculated using 2005 as the reference year.

Bibliography and sources

Ahčan, A., Polanec, S., *Vpliv opcijske vrednosti na odločitev o upokojitvi v Sloveniji; zaključno poročilo projekta. (Unreviewed issue)*(2007). *Ljubljana:* Bank of Slovenia.

Akcijski načrt razvoja ekološkega kmetijstva v Sloveniji do leta 2015. (2005). Ljubljana: Ministry of Agriculture, Forestry and Food.

Andrejasič, I. (2007). *Zakon o davku od dohodkov pravnih oseb (Corporate Income Tax Act)*. Register of regulations with comments. Ljubljana: OG of RS.

Annual Report and Statistics. (2007). World Federation of Exchanges.

Annual Reports 1995-2006. Ljubljana: Bank of Slovenia.

Annual Statistical Report. (2008). Ljubljana: Ljubljana Stock Exchange.

Autumn economics forecasts 2007–2009. (2007). Brussels: European Commission. Obtained at http://ec.europa.eu/.

Autumn Forecast of Economic Trends 2007. (2007). Ljubljana: Institute of Macroeconomic Analysis and Development.

Bednaš, M. (ed.), Kajzer, A. (ed.). (2005). *Izhodišča za ciljni razvojni scenarij Strategije razvoja Slovenije (Grounds for the Target Development Scenario of Slovenia's Development Strategy)*. Working Paper No. 12/2005. Ljubljana: Institute of Macroeconomic Analysis and Development.

Bosma, N. et al. (2008). *Global Entrepreneurship Monitor: 2007 Executive Report.* Babson College and London Business School.

Božičnik S., Letnik T., Cvahte J. (2006). Analiza tranzitnega prometa skozi Republiko Slovenijo in ocena možnih prometno političnih ukrepov za zmanjšanje le-tega. Final report. Maribor: University of Maribor, Faculty of Civil Engineering.

Bulletin (2008). Ljubljana: Bank of Slovenia, 1991-. ISSN 1318-0762.

Ceglar, J., Marušič, D., Yazbeck, AM. (2007). *SPP – orodje za povečanje dostopnosti do zdravstvenih storitev in stroškovne učinkovitosti izvajalcev*. Ljubljana: Conference Od podatkov do informacij v zdravstvu, November 2007.

Chiaiutta, A. (2007). *Paradigma konkurenčnosti držav in analiza Slovenije po sistemih WEF in IMD za leto 2006 (The Paradigm of State Competitiveness and an Analysis of Slovenia for 2006 According to the WEF and IMD Systems)*. Working Paper No. 7/2007. Ljubljana: Institute of Macroeconomic Analysis and Development.

Cirman, A. (2007). *Dosegljivost stanovanj v Sloveniji se slabša: kako ukrepamo?* Poslovanje z nepremičninami. 18th traditional expert conference, Portorož, 2007. Ljubljana: Real Estate Institute, 2007.

Commission of the European Communities. (2006). *The demographic future of Europe – from challenge to opportunity*. Brussels: Commission Communication, 12.10.2006, COM(2006) 571 final.

Common Principles of Flexicurity – Council Conclusions. (2007). Brussels: European Commission, 6 December 2007.

Community Innovation Statistics. Is Europe growing more innovative? (2007). Statistics in focus. Science and technology. 61/2007. Luxembourg: European Communities. Obtained in November 2007 at http://epp.eurostat.ec.europa.eu.

Community Innovation Survey (CIS4), Eurostat, obtained at http://epp.eurostat.cec.eu.int.

Competition, Productivity and Prices in the Euro Area Services Sector. (2006). Occasional Paper series No. 44. Frankfurt: European Central Bank.

Coricelli F., Jazbec B., Masten I. (2004). Sources of obstacles for growth in transition countries: The role of credit.

Development Report 2007. (2007). Ljubljana: Institute of Macroeconomic Analysis and Development.

Direct Investment 2006. (2007). Ljubljana: Bank of Slovenia.

Dodatno pokojninsko zavarovanje. (2008). Ministry of Labour, Family and social Affairs. Obtained at: http://www.mddsz.gov.si.

Doing Business (2008). Washington: The International Bank for Reconstruction and Development/The World Bank.

Education at a glance 2002. OECD Indicators. (2002). Paris: OECD.

Education at a glance 2003. OECD Indicators. (2003). Paris: OECD.

Education at a glance 2004. OECD Indicators. (2004). Paris: OECD.

Education at a glance 2005. OECD Indicators. (2005). Paris: OECD.

Education at a glance 2006. OECD Indicators. (2006). Paris: OECD.

Education at a glance 2007. OECD Indicators. (2007). Paris: OECD.

Eight Annual Survey on State Aid in Slovenia (for 2003, 2004 and 2005). (2006). Ljubljana: Ministry of Finance.

EU Banking structures. (2007). Frankfurt am Main: ECB. ISSN 1830-1878.

EU KLEMS database. Obtained at http://www.euklems.net/.

European Innovation Scoreboard 2007 – EIS 2007. (2008). Comparative analysis of innovation performance. Obtained in February 2008 at http://www.proinno-europe.eu/.

European Social Survey 2006/2007. London: Centre for Comparative Social Surveys, City University.

Eurostat news release. GDP per inhabitant in purchasing power standards. (2007). Luxembourg: Eurostat. Obtained at http://epp.eurostat.cec.eu.int/.

Eurostat Portal Page – Environment and Energy. (2008). Luksembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Agriculture and fisheries. (2008). Luxemburg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat portal page – At risk-of-poverty rate after social transfers – total in At risk-of-poverty rate before social transfers – total. (2008). Luksembourg: Eurostat. Obtained at http://ec.europa.eu/.

Eurostat Portal Page – Economy and Finance – Balance of payments – International transactions – Balance of the current account. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.cec.eu.int/.

Eurostat Portal Page – Economy and finance – External trade. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Economy and finance – Main economic indicators – Structural indicators. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal page – Economy and Finance – Monetary and other financial statistics. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Economy and Finance – National Accounts – GDP and main aggregates. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.cec.eu.int/.

Eurostat Portal Page – Economy and finance – National Accounts. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.cec.eu.int/.

Eurostat Portal Page – Economy and Finance – Prices. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.cec.eu.int/.

Eurostat Portal Page – Economy and Finance. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.cec.eu.int.

Eurostat portal page – E-government availability – supply side (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Environment – Long-term Indicators – Waste. 2008. Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Euro Indicators – National Accounts – Public Finance – Excessive deficit procedure statistics. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – General and Regional Statistics – Regional statistics (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Government statistics (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.cec.eu.int.

Eurostat Portal page – Population and social condition. (2008). Luxemburg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal page – Science and technology. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat portal page – Social Cohesion. (2008). Luxemburg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Structural indicators – Energy intensity of the economy. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Structural Indicators – General Economic Background – Real GDP growth rate. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.cec.eu.int.

Eurostat Portal Page – Structural indicators – Road share of inland freight transport. (2008). Luxembourg: Eurostat. Obtained at: http://epp.eurostat.ec.europa.eu.

Eurostat Portal Page – Transport. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Expenditure and Receipts of Social Protection Schemes, Slovenia, 2005. (2007). Ljubljana: Statistical Office of RS.

Expenditure for formal education, Slovenia, 2005, 2006 – provisional data. Released on December 4, 2007. Ljubljana: Statistical Office of RS.

Faostat Portal page. (2008). Obtained at http://faostat.fao.org/.

Financial Accounts – Balance of Payments – Balance. (2008). Ljubljana: Bank of Slovenia. Obtained at http://www.bsi.si/.

Fiscal burden of taxable persons by taxes and social contributions. (2007). Ljubljana: Statistical Office of RS.

Flash EB N 196 – Observatory of European SMEs. (2007). The Gallup Organization. Obtained at http://ec.europa.eu.

Foreign Trade Statistics. (2008). U.S. Census Bureau. Obtained at http://www.census.gov.

Fourth Report on Economic and Social Cohesion. (2007). Brussels: European Commission. Obtained at http://ec.europa.eu.

General Government Expenditure by Function, Slovenia, 2000–2006. (2007). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si.

Government expenditure by function (COFOG). (2008). Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Handbook of Statistics 2006–2007. (2007). New York and Geneva: United Nations.

Hanusek, Wossman (2007): *Education quality and economic growth.* V Hanusek, Wossman (2007): The role of school improvement in economic development.

Hatzichronoglou, T. (1997). *Revision of the High-Technology and Product Classification.* STI Working Papers. Paris: OECD.

Health at a glance – OECD Indicators 2007. (2007). Paris: OECD. Obtained at http://www.oecd.org.

Howells, Jeremy, in Tether, Bruce. (2004). *Innovations in Services: Issues at Stake and Trends*, Final report, INNO-Studies 2001: Lot 3 (ENTRC/2001).

Human Development Report (1997–2007). UNDP.

Innovation activity in manufacturing and selected services, Slovenia, 2004–2006, provisional data. (2008). First Release, April 28, 2008. Ljubljana: SORS.

Innovation activity in manufacturing and selected services, Slovenia, 2002–2004. (2007). Rapid Reports, Nos. 29, 10. 5. 2007. Ljubljana: SORS. Obtained at http://www.stat.si.

Innovation activity in manufacturing and selected services, Slovenia, 2001–2002. (2004). Rapid Reports, Nos. 370, 30. 12. 2004. Ljubljana: SURS. Obtained at http://www.stat.si.

Innovation and Knowledge-Intensive Service Activities. (2006). Paris: OECD.

Innovative enterprises and the use of patents and other intellectual property rights. Patents and Community Innovation Survey (CIS) statistics. (2007). Statistics in focus. Science and technology. 91/2007. Luxembourg: European Communities. Obtained at http://epp.eurostat.ec.europa.eu.

Instructional and professional support at higher education institutions and vocational colleges, Slovenia, 2006. (2007). First Release, August 14, 2007. Ljubljana: SORS. Obtained at http://www.stat.si.

InterISPO. Decision support information system. Registered unemployment. Obtained at http://ispo.sigov.si.

Jakoš, Aleksander (2006). *Ljubljana – faze urbanega razvoja*. Urbani izziv No.1/2. Ljubljana: Urban Planning Institute of the Republic of Slovenia.

Jazbec B., Masten I. (2004). Razvoj slovenskega bančno-finančnega sektorja z vidika vstopanja v EMU: pričakovani učinki na makroekonomsko stabilnost in gospodarsko rast. *Razvojnoraziskovalna dejavnost ter inovacije, konkurenčnost in družbena odgovornost podjetij* (pp. 83-97). Ljubljana: newspaper Finance.

Judicial Statistics 2007 (2008). Ljubljana: Ministry of Justice.

Key Figures 2007. Towards a European Research Area. Science, Technology and Innovation. (2007). Luxembourg: European Communities. Obtained at http://bis-rtd.net.

Kmet Zupančič, R., Povšnar, J. (2007). *Strukturne spremembe v mrežnih dejavnostih – učinki liberalizacije (Structural Changes in Network Industries – Effects of Liberalisation)*. Working Paper No. 3, 2007. Ljubljana: Institute of Macroeconomic Analysis and Development.

Kmetijsko okoljski kazalci v Sloveniji. (2007). Project Priprava kazalcev s področja kmetijstva in okolja. Ljubljana: Ministry of the Environment and Spatial Planning, Environmental Agency of the Republic of Slovenia. Obtained at http://nfp-si.eionet.eu.int/.

Kondža, J. (2008). *General government revenue*. Economic Mirror, No. 1/2008 Ljubljana: Institute of Macroeconomic Analysis and Development.

Konsolidirana globalna bilanca javnega financiranja (Consolidated general government revenue and expenditure). Ljubljana: Ministry of Finance. Obtained at http://www.mf.gov.si/.

Koprivnikar, M., Stare, M., Kmet Zupančič, R. (2008). *Razvitost in dejavniki konkurenčnosti nefinančnih tržnih storitev (Development Level and Competitiveness of Non-Financial Market Services)*. Working Paper No. 2, 2008. Ljubljana: Institute of Macroeconomic Analysis and Development.

Kraigher, T. (2005). *Srednjeročna in dolgoročna projekcija demografskega razvoja Slovenije in njegovih socio-ekonomskih component* (Medium-Term and Long-Term Projection of Slovenia's Demographic Development and its Socio-Economic components). Working Paper No.10/2005. Ljubljana: Institute of Macroeconomic Analysis and Development.

Krajnc, N., Piškur, M. (2006). *Tokovi okroglega lesa in lesnih ostankov v Sloveniji*. Ljubljana: Zbornik gozdarstva in lesarstva, No. 80.

Kramberger, A. (2007). *Ujemalni problem in prehod mladih v sfero dela.* In A. Kramberger and S: Pavlin (ed.), Zaposljivost v Sloveniji: analiza prehoda iz šol v zaposlitve: stanje, napovedi, primerjave. Ljubljana: Faculty of Social Sciences.

Krivic, M. (2007). *Kako iz krize ustavnega sodišča, preden pride do pogube*. Ljubljana: Delo, December 12, 2007.

Letni energetski pregled za leto 2006. (2008). Ljubljana: Jožef Stefan Institute, Energy Efficiency Centre.

Main Aggregates of the General Government. (2008). Ljubljana: Statistical Office of RS.

Mandelkern Report. (2001). Brussels: Mandelkern Group on Better Regulation, Final Report, November 13, 2001. Obtained at http://ec.europa.eu.

Mandič, S. (2007). *Odhod v prvo samostojno stanovanje: primerjalna analiza med državami EU*. Družboslovne razprave No. 54, 2007. Ljubljana: Slovenian Sociological Association, Faculty of Social Sciences.

Markič, J. (2007). *Dinamika zunanjega zadolževanje (Dynamics of external debt by sector)*. Working Paper No. 10. Ljubljana: Institute of Macroeconomic Analysis and Development.

Medved, M. (2003). *Posestne razmere in pridobivanje lesa v zasebnih gozdovih (Property conditions and forest operations in private forests)*. Scientific treatise. Gozdarski vestnik: Slovenian professional journal for forestry, Vol. 61. Ljubljana: Association of Slovenian Forest Societies.

Mićković, S., Rupnik, V., Zajc, A. (1991). *The Absolute multi-factor evaluation process* (Introducing the preference relation in vector space), XVIth SOR, Trier.

Minniti, M. et al. (2006). *Global Entrepreneurship Monitor: 2005 Executive Report.* Babson College and London Business School.

Murn, A. (2007). *Učinki subvencij na konkurenčnost, mednarodno trgovino in konkurenco v Sloveniji*. Maribor: Slovenian Economic Association and Naše gospodarstvo, scientific conference "Gospodarski razvoj – odprta vprašanja teorije in prakse".

Naravoslovni, bralni in matematični dosežki slovenskih učencev. Nacionalno poročilo. (Mathematics, science and reading skills of Slovenian pupils. National report). The programme for International Student Assessment – OECD PISA. (2007). Ljubljana: Educational Research Institute. Obtained at http://www2.arnes.si.

National Development Programme of the Republic of Slovenia for 2007–2013 (2008). Ljubljana: Government Office for Local Self-Government and Regional Policy.

Ninth Annual Survey on State Aid in Slovenia (for 2004, 2005 and 2006). (2007). Ljubljana: Ministry of Finance.

Odlok o državnem načrtu razdelitve emisijskih kuponov za obdobje od 2008 do 2012 (Ordinance on the national plan for the allocation of emission coupons for the period 2008–2012), OG of RS, No. 42/2007.

Odlok o ustanovitvi Sveta za konkurenčnost (Order establishing the Competitiveness Council of the Government of the Republic of Slovenia) (2008). OG of RS, No. 14/2008.

OECD Health Data 2007. (2007). Paris: OECD.

OECD Science, Technology and Industry Scoreboard 2007. (2007). Paris: OECD.

Organic farming in Europe. (2007). Research institute of Organic Agriculture. Obtained at http://www.organic-europe.net/.

Pečar, J. (2006). *Regije 2006 – izbrani socio-ekonomski kazalniki po regijah (Selected Regional Socio-Economic Indicators)*. Working Paper, No. 15, Ljubljana: Institute of Macroeconomic Analysis and Development.

Pečar, Janja (2007). *Brezposelnost po regijah (Regional Unemployment)*. Economic Mirror, Nos. 8-9/2007, p. 21, Ljubljana: Institute of Macroeconomic Analysis and Development.

Pečar, Janja (2007). *Demografska gibanja po regijah (Regional Demographic Trends)*. Economic Mirror, No. 11/2007, p. 20, Ljubljana: Institute of Macroeconomic Analysis and Development.

Podatki o R&R olajšavah v letu 2006 (2007). Ljubljana: Ministry of Finance.

Polletno poročilo o razvoju trga elektronskih komunikacij v Sloveniji v letu 2006. (2006). Ljubljana: APEK.

Population statistics (2006). Ljubljana: Statistical office of RS.

Population statistics (2007). Ljubljana: Statistical office of RS.

Poročilo o plačilih koncesij za proizvodnjo elektrike v malih hidroelektrarnah z analizo vpliva višine plačila za koncesijo na ta sektor proizvodnje električne energije in analizo vplivov drugih razmerij razdelitve plačila koncesij med državo in občino. (2007). Ljubljana: Ministry of the Environment and Spatial Planning.

Poročilo o primanjkljaju in dolgu države (Report on government Deficit and Debt). (2007). Ljubljana: Ministry of Finance.

Poročilo o razvoju trga elektronskih komunikacij za četrto četrtletje 2007. (2008). Ljubljana: APEK.

Poročilo o realizaciji nalog stalne medresorske delovne skupine za področje priprave boljših predpisov in odpravo administrativni ovir. (2008). Ljubljana: Ministry of Public Administration.

Poročilo o slovenskem trgu nepremičnin za leto 2007. (2008). Ljubljana: Surveying and Mapping Authority of the Republic of Slovenia. Obtained at: http://prostor.gov.si.

Poročilo o stanju na področju energetike v Sloveniji v letu 2006. (2007). Maribor: AGEN-RS, 2007.

Poročilo o uresničevanju Programa reform za izvajanje lizbonske strategije (Reform Programme for Achieving the Lisbon Strategy Goals – Implementation Report). (2007). Ljubljana: Government of the RS.

Poročilo o zdravstvenem stanju in zdravstvenem varstvu prebivalcev Slovenije. (2006). Contribution of the Social Overview 2006; restricted material. Ljubljana: Institute of Public Health.

Poročilo zavoda za gozdove Slovenije o gozdovih za leto 2006. (2007). Ljubljana: Slovenian Forest Service.

Poročilo zavoda za gozdove Slovenije o gozdovih za leto 2007. (2008). Material under preparation. Ljubljana: Slovenian Forest Service.

Poslovna poročila Zavoda za zdravstveno zavarovanje (2002 - 2006). Ljubljana: Health Insurance Institute of Slovenia. Obtained at http://www.zzzs.si/.

Pravilnik o uveljavljanju davčnih olajšav za vlaganja v raziskave in razvoj (Rules on claiming tax relief for investments in research and development). (2006). Ljubljana: OG of RS, No. 79/2006.

Pravilnik o vsebnosti biogoriv v gorivih za pogon motornih vozil (Rules on the content of biofuels in the motor vehicle fuels). (2005). Ljubljana: OG of RS, No. 83/05.

Predhodni podatki o R&R olajšavah v letu 2007. (2008). Ljubljana: Ministry of Finance.

Predlog Metodologije za pripravo ocene učinkov in usklajevanja predpisov z zainteresirano javnostjo – predlog za obravnavo. (2007). Ljubljana: Ministry of Public Administration.

Price indices of second hand flats, Ljubljana and rest of country, 2003-2006. (2007). Ljubljana: SORS. Obtained at http://www.stat.si.

Priporočilo Sveta EU o posodobitvah širših smernic ekonomskih politik držav članic in Skupnosti v letu 2008 ter o izvajanju politik zaposlovanja držav članic (Council Recommendation on the update of the broad guidelines of the economic policies of the Member States and of the Community in 2008 and on the implementation of employment policy in Member States). (2008). Brussels: European Council, March 4, 2008.

Program razvoja gozdov v Sloveniji. (1999). Ljubljana: Ministry of Agriculture, Forestry, and Food.

Program ukrepov za odpravo administrativnih ovir za leto 2008 in 2009. (2007). Ljubljana: Ministry of Public Administration.

Public Finance Bulletin. (2008). Ljubljana: Ministry of Finance.

Public Finances in EMU 2007. (2007). Brussels: European Commission.

Purchasing power parities and gross domestic product in purchasing power standards, 2007 – Now-cast (2008). Ljubljana: Statistical office of RS. Obtained at http://www.stat.si.

Raba biogoriv v transportnem sektorju v RS v letu 2007. (2008). Ljubljana: Ministry of the Environment and Spatial Planning.

Raising productivity growth. Key messages from the European Competitiveness Report 2007. (2007). Communication from the Commission, COM(2007) 666. Brussels: European Commission.

Rapid Reports: Graduates from vocational colleges and higher education institutions, 2007. (2008). Ljubljana: Statistical Office of RS.

Rapid Reports: Kindergartens, Slovenia, school year 2007/2008. (2008). Ljubljana: Statistical Office of RS.

Rapid Reports: Labour Market. (2008). Ljubljana: Statistical Office of RS.

Rapid Reports: Student enrolment in tertiary education in the school year 2007/2008. (2008). Ljubljana: Statistical Office of RS.

Rapid Reports: Upper secondary education for youth and adults, Slovenia, the end of the school year 2006/2007 and the beginning of the school year 2007/2008. (2008). Ljubljana: Statistical Office of RS.

Rebernik, M. et al. (2003). *Global Entrepreneurship Monitor Slovenija 2002: Kako podjetna je Slovenija.* Maribor: School of Business and Economics, Institute for Entrepreneurship and Small Business Management.

Rebernik, M. et al. (2004). *Global Entrepreneurship Monitor Slovenija 2003: Spodbujati in ohraniti razvojne ambicije.* Maribor: School of Business and Economics, Institute for Entrepreneurship and Small Business Management.

Rebernik, M. et al. (2005). *Global Entrepreneurship Monitor Slovenija 2004: Podjetništvo na prehodu.* Maribor: School of Business and Economics, Institute for Entrepreneurship and Small Business Management.

Rebernik, M. et al. (2006). *Global Entrepreneurship Monitor Slovenija 2005: Podjetništvo med željami in realnostjo.* Maribor: School of Business and Economics, Institute for Entrepreneurship and Small Business Management.

Rebernik, M. et al. (2007). *Počasne spremembe podjetniške stvarnosti v Sloveniji: GEM Slovenija 2006.* Maribor: School of Business and Economics, Institute for Entrepreneurship and Small Business Management.

Reconciliation between work and family life. Special Release. (2007), Ljubljana: Statistical Office of RS.

Regulating Better. A Government White Paper setting out six principles of Better Regulation. Dublin. Obtained at http://www.betterregulation.ie.

Report from the Commission. State aid Scoreboard (Spring 2008 Update). Brussels: Commission of the European Communities.

Report on Assessment of Regulatory Management Capacities of Slovenia. (2007). Paris: SIGMA.

RePUS final Report. (2007). Strategy for Regional Polycentric Urban System in Central Eastern Europe Integrating Zone (RePUS). Interreg III B project.

Research and development activity, Slovenia, 2006 – final data. (2008). First Release, February 19, 2008. Ljubljana: SORS. Obtained at http://www.stat.si.

Resolucija o nacionalnem planu zdravstvenega varstva 2008-2013 »Zadovoljni uporabniki in izvajalci zdravstvenih storitev« - predlog. (2008). Ljubljana: Ministry of Health.

Resolucija o nacionalnem programu visokega šolstva v RS 2007–2010. (2007). Ljubljana: OG of RS, No. 94/07.

Selected health indicators of the WHO for Slovenia and the EU. (2008). Ljubljana: Institute of Public Health. Obtained at http://www.ivz.si.

Seventh Annual Survey on State Aid in Slovenia (for 2002, 2003 in 2004). (2005). Ljubljana: Ministry of Finance.

SI – Stat data portal – Demography and social statistics – Education. (2008). Ljubljana: Statistical office of RS. Obtained at http://www.stat.si.

SI – Stat data portal – Economy – Transport. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si.

SI – Stat data portal – Economy – National Accounts. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si.

SI – Stat data portal – Environment and Natural Resources. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si.

Šircelj, M. (2006). *Rodnost v Sloveniji od 18. do 21. stoletja (Fertility in Slovenia from the 18th to the 21st Century)*. Ljubljana: Statistical Office of RS.

SI-Stat data portal – National Accounts. Gross domestic product, annual data. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si/.

Si-Stat data portal – Economy – External Trade. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si.

SI-Stat data portal – Economy – National Accounts. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si/.

SI-Stat data portal – Economy – Prices – Consumer Price Indices. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si/.

SI-Stat data portal – Economy – Prices – Import Price Indices. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si/.

SI-Stat data portal – Economy – Prices – Producer Price Indices. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si/.

SI-Stat data portal – Environment – Waste. (2007). Ljubljana: Statistical Office of RS. Obtained at: http://www.stat.si/.

Si-Stat data portal – Environment and Natural Resources – Agriculture and Fishing. (2008). Ljubljana: Statistical Office of RS. Obtained at http://www.stat.si/.

Sixth Annual Survey on State Aid in Slovenia (for 2001, 2002 in 2003). (2004). Ljubljana: Ministry of Finance.

Slovenia's Development Strategy. (2005). Ljubljana: Institute of Macroeconomic Analysis and Development.

Slovenian Insurance Association. http://www.zav-zdruzenje.si/.

Social Cohesion Indicators, Slovenia, 2005 – provisional data. (2007). Ljubljana: Statistical Office of RS.

Social Cohesion. (2007). Luxembourg: Eurostat.

Sodni red (Court Rules). OG of RS, No. 17/1995 and further amendments.

Stare Metka, Bučar Maja (2007b). *Inovacije v storitvah – možnosti slovenskih akterjev v EU?* IB Revija, volume XLI, No. 3–4: pp. 27–39.

Stare Metka, Bučar Maja, (2007a). *Service Innovation Policy Mapping Study, Slovenia, INNO NETS Project.* http://www.proinno-europe.eu.

Statistical Insurance Bulletin 2007. (2007). Ljubljana: Slovenian Insurance Association.

Statistical Yearbook 2007. (2007). Ljubljana: SORS. Obtained at http://www.stat.si.

Statistično poročilo o slovenskem trgu nepremičnin za leti 2005 in 2006. (2007). Ljubljana: Surveying and Mapping Authority of the Republic of Slovenia. Obtained in 2008 at

http://prostor.gov.si.

Statistics Database Times series. (2008). World Trade Organisation. Obtained at http://stat.wto.org/.

Statistika denarnih socialnih pomoči. (2008). Ljubljana: Ministry of Labour, Family and Social Affairs. Obtained at: http://www.mddsz.gov.si.

STI Scoreboard. (2005). Paris: OECD.

STI Scoreboard. (2007). Paris: OECD.

Subsidies paid by general government. (2008). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

Taxation trends in the European Union - Main results. (2007). Brussels: European Commission Taxation and Customs Union, Eurostat in European Commission. Obtained at http://epp.eurostat.ec.europa.eu.

Taxation trends in the European Union. (2007) Luxembourg: Eurostat.

The Global Competitiveness Report. Various issues. Geneva: World Economic Forum (WEF).

The Impact of Services Trade Liberalisation on Trade in Non-agricultural Products. (2007). TAD/TC/WP(2007)21, Paris: OECD.

The Use of Plant Protection Products in the European Union. Data 1992-2003. (2007). Luxembourg: Eurostat. Obtained at http://epp.eurostat.ec.europa.eu.

The Vienna Institute Monthly Reports. (2008). Vienna: The Vienna Institute for International Economic Studies.

The World Competitiveness Yearbook. Various issues. Lausanne: Institute for Management Development (IMD).

Third Annual Survey on State Aid in Slovenia (for 1998, 1999 in 2000). (2001). Ljubljana: Ministry of Economic Relations and Development.

Trade and Development Report 2002. (2002). Industrial dynamism and national policies: recent experiences. New York and Geneva: United Nations.

Transition Report. Various issues. Obtained at www.ebrd.com.

UNCTAD World Investment Report 2004. (2004). New York and Geneva: United Nations.

UNCTAD World Investment Report 2006. (2006). New York and Geneva: United Nations.

UNCTAD World Investment Report 2007. (2007). New York and Geneva: United Nations.

United Nations Commodity Trade Statistics Database. (2007). General Trade Data by Country and Product Group. New York and Geneva: United Nations.

Urban settlements in the Republic of Slovenia, 2003. (2004). Special Publications, No.3. Ljubljana: Statistical Office of RS.

Uredba o davčni regijski olajšavi za raziskave in razvoj (Decree concerning regional tax incentive for R&D). (2007). Ljubljana: OG of RS, No. 110/2007.

Uredba o pospeševanju uporabe biogoriv in drugih obnovljivih goriv za pogon motornih vozil (Decree on the promotion of the use of biofuels and other renewable fuels for the propulsion of motor vehicles). (2007). Ljubljana: Official Gazette No. 103/07.

Van Ark, Bart, Broersma, Jourens, in Hertog, den Pim. (2003). *Services Innovation, Performance and Policy: A Review, Synthesis Report*. Ministry of Economic Affairs.

WHO Data and Statistics (database) (2008). Geneva: WHO. Obtained on January 20, 2008 at: http://www.who.int/research/en/.

Zakon o davku od dohodkov pravnih oseb – uradno prečiščeno besedilo (Corporate Income Tax Act – official consolidated version) (2005). OG of RS, No. 17/2005.

Zakon o davku od dohodkov pravnih oseb – uradno prečiščeno besedilo (Corporate Income Tax Act - official consolidated version). (2006). OG of RS, No. 33/2006.

Zakon o davku od dohodkov pravnih oseb (Corporate Income Tax Act). (2006). OG of RS, No. 117/06.

Zakon o spremembah in dopolnitvah Zakona o davku od dohodkov pravnih oseb (Rules amending the Corporate Income Tax). OG of RS, No. 108/2005.

Zakon o vzpostavitvi etažne lastnine na predlog pridobitelja posameznega dela stavbe in o določanju pripadajočega zemljišča k stavbi (2008). OG of RS, No. 45/2008.

	Social Overview 2006, 2007
Forecasts of Economic Trends	**Spring Forecast of Economic Trends 2008**
Analysis, Research and Development	**Slovenia's Development Strategy (SDS 2006–2013)**, 2005
	Spring Report 2006 **Autumn Report 2006**
	Human Development Report Slovenia 2002–2003
	Development Report 2008, 2008
	Slovenia – On the Way to the Information Society, 2004
Working papers	• No. 6/2007. Innovation Cooperation and Innovation Activity of Slovenian Enterprises, Jaklič Andreja, Jože P. Damijan, Matija Rojec • No. 11/2006. Firm of Private Value: What is Behind the Creation of Multiple Blockholder Structure? A. Brezigar Masten, A. Gregorič, K. Zajc • No. 2/2006. Does Exporting Boost Capital Investments? The Evidence from Slovenian Manufacturing Firms' Balance Sheets, A. Burger, M. Ferjančič • No. 5/2004. On the possibility of negative effects of EU entry on output, employment, wages and inflation in Slovenia, A. Brezigar • 4/2004. Future GDP growth in Slovenia: Looking for room for improvement, E. L. W. Jongen • 3/2004. An analysis of past and future GDP growth in Slovenia, E. L. W. Jongen • 1/2004. Productivity growth and functional upgrading in foreign subsidiaries in the Slovenian manufacturing sector, M. Rojec, B. Majcen, A. Jaklič, S. Radošević More Working papers are available in Slovene.
Internet	**http://www.gov.si/umar**

Subscriber details

Natural – legal person (please encircle as appropriate)

Name and surname/Company name:

Street, number: Postal code, city:

E-mail:

Phone/fax no.: Subscription date:

ID for VAT _ _ _ _ _ _ _ _ Stamp and signature of the responsible person

VAT–liable taxpayer yes – no (please encircle as appropriate)

I irrevocably subscribe to

Yearly subscription*

Publication	Yearly subscription rate (in EUR)	Enter the number of yearly subscriptions
Ekonomsko ogledalo	66.77 (11 copies)	
Ekonomski izzivi	10.43	
Poročilo o razvoju	12.52	
IB Revija	41.73 (4 copies)	
Slovenian Economic Mirror	66.77 (11 copies)	
Development Report	12.52	

*Your subscription will be renewed automatically for the next year. Cancellation of the subscription takes effect at the end of your current subscription year. It should be submitted in writing not later than at the end of the calendar year.

Separate copies

Publication	Single copy rate (in EUR)	Enter the publication number and the number of copies
Ekonomsko ogledalo	6.26	
Ekonomski izzivi	10.43	
Poročilo o razvoju	12.52	
Socialni razgledi	16.00	
IB Revija	12,52 (16.69 double issue)	
Slovenian Economic Mirror	6.26	
Development Report	12.52	
Social Overview	26.00	

8.5% VAT is not included in the price.
Discounts are subject to agreement (bulk discounts up to 25% for larger quantities of one title).

Please fill in the form and send it to the e-mail address publicistika.umar@gov.si, fax 01/4781070 or to the Institute of Macroeconomic Analysis and Development, Gregorčičeva 27, 1000 Ljubljana. You will receive the ordered publications and the invoice by post.

Other publications in printed form are listed on our website www.umar.gov.si. For additional information please e-mail publicistika.umar@gov.si or call 01/478 10 43.